

Mitsubishi Chemical Group

Transaction Overview (Transfer of Mitsubishi Tanabe Pharma Corporation)

Transcript (Summary)

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Mitsubishi Chemical Group

Transaction Overview (Transfer of Mitsubishi Tanabe Pharma Corporation)

➤ Attendees:

Manabu Chikumoto, Representative Corporate Executive Officer, President & Chief Executive Officer

Minoru Kida, Vice President, Chief Financial Officer

Ken Araki, Vice President Supervising – Portfolio Transformation Promotion

[Presentation]

P2 [Today's summary] (Chikumoto)

Today, Mitsubishi Chemical Group Corporation (MCG)'s Board of Directors resolved to sign a definitive agreement to transfer Mitsubishi Tanabe Pharma Corporation (Mitsubishi Tanabe Pharma) to Bain Capital for approximately 5,100 Oku yen.

The transaction enables Mitsubishi Tanabe Pharma to implement a future growth strategy under multifaceted support from a new owner with expertise in the pharmaceuticals business. We also plan to further advance the growth strategy centered on the chemicals business based on the "KAITEKI Vision 35" announced in November 2024. We expect to record an approximately 950 Oku yen gain in the second quarter of FY March 2026 in relation to the Transfer. The closing of this transaction is subject to a resolution at MCG's annual shareholders' meeting scheduled for late June 2025 and Bain Capital's obtainment of necessary clearance and approval from relevant authorities in Japan and overseas. For this reason, the closing of this transaction is scheduled for the second quarter of FY March 2026. We will explain the use of funds to be obtained from the transfer later.

P3 [Transaction overview] (Chikumoto)

This is an overview of the transaction. Let's begin with the background. As a core company in our pharmaceutical business, Mitsubishi Tanabe Pharma has contributed to society by creating and selling innovative drugs and to the stability and strengthening of our financial base. After becoming a wholly owned subsidiary in 2020, Mitsubishi Tanabe Pharma worked to create synergies between businesses through the mutual use of technology and human resources within our group. However, changes in the industry and business structure have reduced the affinity between chemicals and pharmaceuticals and the potential for synergies. In addition, large-scale R&D expenses and investment are essential for Mitsubishi Tanabe Pharma's further growth. It is true that such large-scale investment would not be a feasible option under our ownership. We carefully explored the best owners for Mitsubishi Tanabe Pharma to achieve future growth, and we have reached a conclusion that promoting a growth

strategy under Bain Capital, which has extensive investment experiences in healthcare, is the best option. I understand that even after the completion of this transfer, Mitsubishi Tanabe Pharma will continue to deal with its past drug problems under Bain Capital in a sincere manner while being close to patients. I hope you can rest assured of this. The structure of the transaction is currently under review, and we will announce once a decision is made following candid discussions with Bain Capital.

P4 [Strategic rationale of the transaction] (Chikumoto)

The strategic positioning of this transaction has already been explained. By considering the sustainable growth of the pharmaceuticals business in light of the three criteria for business selection under the “KAITEKI Vision 35” and the “New Medium-Term Management Plan 2029,” which are namely, being “consistent with Vision,” “competitive advantage,” and “potential for growth,” we have concluded that promoting the strategy under a new owner is the best option.

P5 [Strategic direction after the transfer] (Chikumoto)

Our FY2029 financial targets excluding Mitsubishi Tanabe Pharma are sales revenue of 45,060 Oku yen, COI margin of 10%, and ROIC of 7%. After the transfer of Mitsubishi Tanabe Pharma, we will further focus on the growth of the chemicals business. In other words, we will make the three segments, including Specialty Materials, MMA & Derivatives, and Basic Materials & Polymers, more profitable.

P6 [Use of proceeds from the transfer] (Kida)

Let me explain about finance. First, I will talk about the capital allocation of the proceeds from the transfer. The tables in this page show the cash-in of about 5,100 Oku yen from this transfer and the cash-out items including “capital and financial investment” in the lower column and “new growth investment,” “debt repayment” and “shareholder return” in the upper column. As for about 2,500 to 3,000 Oku yen shown in the lighter blue box below, we had a plan to allocate the cash to be generated by Mitsubishi Tanabe Pharma to the investment in the chemicals business under the current medium-term management plan. Therefore, we will continue to allocate that portion. With regard to the additional cash of about 2,000 to 2,500 Oku yen, we will use it for debt repayment and shareholder return as well as investment in new growth areas.

P7 [Capital allocation after the transfer] (Kida)

This figure is a revised version of the one shown in the medium-term management plan announced in November 2024. The cash in for five years from 2025 through 2029 was 30,400

Oku yen previously. However, it has increased slightly. Following the review of the cash-out side, including growth investment, debt repayment, and shareholder return, shareholder return and debt repayment will increase from 20% to 25%, while capital and financial investment will decrease from 80% to 75%. In terms of shareholder return, the dividend payment ratio of 35% and the D/E ratio target will remain unchanged in principle. We believe that it is our greatest responsibility to steadily grow our chemicals business by making new investments, improving our balance sheet, and devising ways to return profits to our shareholders through this sale.

P8 [Financial impact from the transfer] (Kida)

As for business segment impact, if the transfer is implemented as scheduled, the pharma business will be excluded from the scope of consolidation by early July. While it will be included in the first quarter, it will be excluded from the scope of consolidation from the second quarter of FY March 2026. We expect to record an approximately 950 Oku yen gain from the transfer in the second quarter of FY March 2026 immediately following the closure of the transaction. However, this is based on the current outlook, and the actual gain from the transfer is subject to change. Current credit ratings of “A” and “A+” are unlikely to be affected.

P9 [(Reference) FY2029 target after the transfer (by Segment)] (Kida)

This page shows FY 2029 targets by segment which were included in the medium-term management plan for your reference. The original figures are shown on the left side. The COI target of 5,700 Oku yen on a consolidated basis will decrease to 4,600 Oku yen as a result of the exclusion of Pharma. The topline will also diminish by about 10%. Although the COI margin and ROIC will also fall slightly to 7% if calculated mechanically, we will continue to grow the chemicals business while keeping in mind that we will achieve and exceed these targets.

(Chikumoto)

I would like to say a few words about this transfer. Mitsubishi Tanabe Pharma is our family member that has lived under the same roof for many years. It has also been a very dutiful child, and I am deeply grateful. We have parted ways to grow, but we need to work harder to realize our respective purposes. How we will expand our chemicals business in the future is a real challenge. Our management is determined to further promote our green specialty business. We look forward to your continued support and encouragement.

[Q&A]

[Q&A 1]

Q1

I heard earlier that you are planning to allocate 2,000 to 2,500 Oku yen to new growth investment, debt repayment, and shareholder return. I think it is necessary to quickly develop growth measures that will generate annual profits equivalent to the 600 to 700 Oku yen that are currently generated by Pharma. For example, are you thinking about M&A? Please tell us about your thoughts on the future plans and speed?

A1 (Chikumoto)

As for growth investments, we are steadily investing for growth, as we have announced investments in SoarnoL in the UK and the carbon fiber business through CPC in Italy, as well as investments in semiconductor-related and anode materials in Japan. At the same time, we are also accelerating business withdrawals and the rationalization of operational facilities. We are conducting various studies in Europe and Japan as well as in the United States. I think the most important thing will be how to increase this speed. As for the new funds to be obtained by this transfer, the deal itself was decided for the sake of our mutual growth, so we are thinking of allocating the funds to new growth investment first. There are some that are currently under consideration, so we will further advance the study of those. We will also consider debt repayment, since the net D/E ratio is not good compared to our competitors. We will carefully examine the amount, but we will also consider returning the proceeds to shareholders in the future, so your understanding will be appreciated.

Q2

My question is about Nippon Sanso Holdings Corporation. You have the problem of parent-child listing about the company. At the time of the medium-term management plan, you said there was no need to make any changes. Could you please tell us about your thoughts on that again?

A2 (Chikumoto)

It has not changed at all from the time of the medium-term management plan. We would like to continue operating the company as a Group Business.

[Q&A 2]

Q1

Regarding the capital allocation on page 7, if we compare it with the content announced in November 2024, it appears that the amount of capital and financial investment in the

chemicals business is almost unchanged. Is my understanding correct? In addition, I believe that the amount of shareholder return and debt repayment will increase by about 1,800 Oku yen. However, the target of the net D/E ratio is 0.8 times or less, and there is no change. Moreover, it is in the form of capital gains, so it is not a scheme that will damage equity. Does that mean the amount of debt repayment has not changed much? If so, can we assume that this 1,800 Oku yen portion will be used mostly for shareholder return? Could you explain more about that?

A1 (Kida)

I think you will certainly get the amount of 1,800 Oku yen in calculation. First, as for your question of whether the amount of capital and financial investment in the chemicals business will remain unchanged, the answer is basically yes. As you saw on page 6, we are considering investing in new growth areas with additional cash. However, we must carefully consider that earnings per share (EPS) will decline. Our basic policy of maintaining the dividend payout ratio of 35% remains unchanged, but we are aware that we will need to consider additional shareholder return. However, we are still discussing how much to pay and when to do so. While awareness of investment is important, we will also need to be mindful of shareholder return more than ever before.

Q2

You said that there will be a capital gain of 950 Oku yen from this transfer, but there was a view in the stock market that there might be a capital loss. I do not know the details of Mitsubishi Tanabe Pharma's balance sheet, but I think its balance sheet is slightly complicated with deposits and others. If possible, I would like to know the latest status of Mitsubishi Tanabe Pharma's balance sheet. I think its book value is probably more than 5,100 Oku yen. Could you please tell us what kind of scheme will be used to generate a capital gain?

A2 (Kida)

Unfortunately, I cannot discuss the details, but if you take a look at our consolidated balance sheet, you will see the size of Mitsubishi Tanabe Pharma's net assets. On the other hand, Mitsubishi Tanabe Pharma's book value includes cash. If we consider the transfer price on a cash-free and debt-free basis, we expect a gain of approximately 950 Oku yen from this transfer.

Q3

Regarding the gain on transfer, the note says that the 950 Oku yen gain is on a pre-tax

basis. Will it not change much after tax? Also, in the current scheme, will the cash held by Mitsubishi Tanabe Pharma be returned to the parent company before the sale?

A3 (Kida)

We are currently examining the after-tax gain, but I don't think it will change much. We are considering returning the cash before the sale.

[Q&A 3]

Q1

My question is about "Capital allocation after the transfer" on page 7. With regard to the "Working Capital Compression and Income from Business Sales (Divestiture) (4% => 20%)" under the cash-in, I believe that it has increased by about 5,100 Oku yen on a monetary basis compared to the figures announced in November 2024. Is it correct to understand that tax expenses will not be basically incurred in relation to the capital gain from this transfer?

Also, regarding the "Operating CF (96% => 80%)," I think that it has decreased by about 3,800 Oku yen on a monetary basis compared to the figures announced in November 2024. In other words, the cash that Mitsubishi Tanabe Pharma was expected to generate is about 3,800 Oku yen. On the other hand, the capital and financial investment for the chemicals business shown on page 6 are about 2,500 to 3,000 Oku yen, and there is a difference of about 1,000 Oku yen. I assume that approximately 1,000 Oku yen was meant to be used for Mitsubishi Tanabe Pharma. If this amount is no longer to be used, I think that approximately 1,000 Oku yen should be allocated to further growth of the chemicals business. What are your thoughts?

A1 (Kida)

First of all, Mitsubishi Tanabe Pharma's book value for tax purposes exceeds the sale price, so we do not anticipate any cash out due to taxes.

Furthermore, the reality is that much of the cash generated by Pharma has been used to invest in Chemicals. This time too, we will invest in Chemicals the portion that we originally expected to do so. However, as for the additional portion, we must carefully consider that EPS will decline as a result of the sale, and we must allocate it to growth investment, debt repayment, and shareholder return. We also need to accelerate the monetization of investments that we have made in the past and are currently making, such as CPC in Italy. It is not easy to recover our balance sheet in a short period of time through M&A, so it is important to speed up the process. In particular, it is urgent to quickly monetize the investments that we have made so far. Over the next one to two years, we will increase our debt capacity to prepare for the next round of investments, while also taking into account

shareholder return.

Q2

Regarding the response to patients, I have heard that Mitsubishi Tanabe Pharma will take responsibility in responding to them in a sincere manner under Bain Capital. As both Welfide International and Alpha Therapeutic are included in the scope of transfer, I understand that all contingent liability will be transferred to Bain Capital. Is it correct to understand that Mitsubishi Chemical Group will basically have no responsibility for this after the sale?

A2 (Araki)

Mitsubishi Tanabe Pharma will take over the primary liability. Mitsubishi Chemical Group will have no responsibility in the future.

Q3

Let me confirm the personnel and intellectual property rights. Regarding the personnel, my understanding is that the Pharma segment basically belongs to Mitsubishi Tanabe Pharma. Among the employees listed in the annual securities report to be issued in June of this year, is it correct to assume that the number of employees in the Pharma segment belongs to Mitsubishi Tanabe Pharma? Next, regarding intellectual property, I believe that the part attached to Mitsubishi Tanabe Pharma will naturally be transferred to Mitsubishi Tanabe Pharma. What is the current status of the intellectual property held by the former Life Science Institute? Has its intellectual property been absorbed by Mitsubishi Tanabe Pharma?

A3 (Kida)

As for personnel, the current employees in the Pharma segment will be transferred. All intellectual property currently held by the Pharma segment will be transferred in principle. API Corporation, the former subsidiary of Life Science Institute, has been sold to UBE Corporation, and the intellectual property rights held by those companies have been transferred to different owners.

[Q&A 4]

Q1

My question is about the sale price of 5,100 Oku yen. I think it was around the fall of last year when the news about the sale to Bain Capital was first reported. The sale was settled about 4 to 5 months after that, so I think it was a very speedy decision. During that time, there were negative stories about Mitsubishi Tanabe Pharma, such as the launch of ND0612 being delayed for a while, but there were also positive stories, such as the approval of Eli Lilly's

Zepbound at the end of the year, and that Mitsubishi Tanabe Pharma would sell it. However, the sale price of about 5,000 Oku yen has hardly changed since the initial report. Did these two stories have little impact on the sale price?

A1 (Kida)

I understand that Bain Capital has properly evaluated ND0612, as well as other positive factors. The amount of transfer price reported by media at the time was not disclosed by us, but I would like you to understand that Bain Capital has properly evaluated the positive points and included them in the valuation, and that an agreement was finally reached.

[Q&A 5]

Q1

Since Mitsubishi Tanabe Pharma will be excluded as a result of this transfer, the final targets of the medium-term management plan for fiscal 2029 have been revised. I would like to have a qualitative image of how the profit growth curve through fiscal 2029 will be changed by this sale. I think relatively linear growth was expected for Mitsubishi Tanabe Pharma toward fiscal 2029. On the other hand, if that is eliminated and that portion is allocated to other growth investment, I think profit will increase after recovering the investment burden. So I think the curve will be shifted toward the latter half.

Next, at the financial results presentation yesterday, you said that you place the greatest importance on ROIC. The ROIC target for fiscal 2029 after the sale is 7%. Can you please tell us if the business portfolio is OK with Mitsubishi Tanabe Pharma to be excluded but Nippon Sanso Holdings remaining, or if you need to review the business portfolio further in order to exceed the ROIC target?

A1 (Kida)

I would like to answer your question regarding the profit curve. Regarding the shape of the profit curve, based on our calculations on a stacked basis, there is no significant difference between Pharma and Chemicals. Therefore, we do not think that the profit curve will change significantly even if Mitsubishi Tanabe Pharma is excluded. Next, regarding the emphasis on ROIC, this will remain the same. It is important not only to increase the amount of profit, but also to improve capital efficiency. From the perspective of total shareholder returns, the emphasis on ROIC will remain the same in order to overcome the low stock price level. Next, regarding the question about the portfolio, we are constantly reforming our portfolio. We are considering adding new businesses to the portfolio through M&A and other measures, but it is important to first practice disciplined management to reduce costs and raise our earnings base. This will improve ROIC. I have always said that the first three years are an important

period, in particular. During this period, we will firmly establish a foundation and strive to improve ROIC.

[Q&A 6]

Q1

A new management structure was established in April last year, and the positioning of Pharma was clarified. And I think that the speedy process toward the transfer of Mitsubishi Tanabe Pharma brought about an enormous change. What do you think is the reason behind the speedy decision and execution?

A1 (Chikumoto)

As a team, we have discussions almost every week, so I think we have come to a clear direction. We hold meetings with the goal of making a decision. The performance of the existing businesses that will remain after the transfer of the Pharma business is not something we can be proud of. Therefore, it is very important to determine how to grow the chemicals business and achieve green specialty. We would like to invest aggressively, quickly determine the businesses to withdraw and implement the exit swiftly. Above all, we would like to move forward with a focus on speed.

[Q&A 7]

Q1

You mentioned earlier that you are currently considering a new growth investment. I would like to ask about SoarnoL, CPC in Italy, and semiconductor-related investments that you mentioned as specific examples. If your new investments are related to these, is there anything insufficient in your current resources? For example, regarding semiconductor-related investments, I have the impression that many of them are small, despite the leading market share. Do you feel that new large-scale investments are necessary to increase your presence in semiconductor-related business? Alternatively, could you tell us if you are focusing on any other areas such as food packaging and CPC-related investments?

A1 (Chikumoto)

As I mentioned in November last year, we have defined five business focus areas, and semiconductors, food, and composites including carbon fiber are among them. We would like to actively consider investment projects that align with the direction of green specialty chemicals. As for new growth investment, several specific projects are currently on the table, and we plan to further consider them.

End