Mitsubishi Chemical Group Corporation

Financial Results Briefing

for the First Half of Fiscal Year Ending March 31, 2023

Q&A Summary

November 8, 2022

- Respondents:
  - Jean-Marc Gilson
    - Representative Corporate Executive Officer, President & Chief Executive Officer
  - Yuko Nakahira
    - Executive Vice President, Chief Financial Officer
  - Yoshihiro Kobayashi
    - Director, Pharma Business Strategy Div., Pharma Business Group

[Q&A]

Q1.

My question is for President & CEO Gilson. The MCG Group posted in-line core operating income in the first half, amid a harsh operating environment. I believe this reflects a considerable passing on of cost to selling prices and cost reduction. Meanwhile, there were likely headwinds, including inflation, that were a challenge to progress of the new management policy, “Forging the future.” You mentioned plans to accelerate structural reforms. Can you explain which reforms in particular you plan to accelerate?

A1. (Gilson)

There are five key points in “Forging the future.” We are already taking action to simplify our organization. We are making progress with cost structure reforms, undertaking various considerations. Division and reorganization (businesses to exit) are also under consideration. Both are important initiatives. I believe we will be able to convey more details at the next meeting in February 2023 but today I am unable to share this information.

Q2.

In Performance Products, profits were flat from 1Q to 2Q likely due to the fairly favorable performance in the current environment. In each subsegment, what trends did you experience going from 1Q to 2Q and from 1H to 2H?

A2. (Nakahira)

Moving from 1Q to 2Q, the display materials business posted substantially negative performance. This was primarily due to impact from negative performance in Films & Molding Materials. Going from 1H to 2H, we estimate a recovery in the display market within this fiscal year will likely be difficult. Elsewhere, in comparison with our initial forecast, performance will be not negative. The negative impact to overall performance will be minimal.

Q3.

When will the new business plan for Medicago be ready? Also, can you clarify whether or not the full-fiscal year forecast released this time around includes any revenue contribution from the COVID-19 vaccine?

A3. (Nakahira)

In the full-fiscal year forecast we disclosed this time around, we do not expect to post revenue from Medicago's COVID-19 vaccine. There are issues with commercial scale production. We are currently conducting an inspection regarding the factors behind this issue. We will be able to discuss the new business plan of Medicago sometime in this fiscal year at the latest.

Q4.

In the MMA business segment, there was a delay in decision-making on investment in the US. However, I believe the introduction of the new ethylene method (Alpha method) in the US is significant as it implies a drastic improvement in competitiveness through a scrap-and-build program. Could you explain what reasons there are for strategic changes, including whether the MMA business segment is a carve-out target, and was the delay due to the fact that sufficient profitability was not expected?

A4. (Nakahira)

This was merely a delay in the timing of decision-making regarding investment by the MMA business segment in the US and was not a change in strategy. We believe the use of the Alpha method is essential for the MCG Group to lead the MMA market. Recent demand has been very weak. Given the supply-demand balance is very loose at present , we delayed the timing of investment. In light of the murky external environment, delaying the timing of investment gave management a higher degree of flexibility. We also included fiscal impact to the group overall into our considerations.

Q5.

In Carbon Products, there was negative impact from an inventory valuation gain/loss due to a decline in coking coal prices. However, the result in 2Q was a loss of 0.8 billion yen with a 6.4 billion yen loss on due to an inventory valuation loss. Even if there was no valuation loss impact, the ROA would be fairly low. Amid this situation, although Mitsubishi Chemical Group is discussing a carve-out, is this even feasible? Wouldn't deliberately delaying this also be one form of strategy?

A5. (Nakahira)

Our core operating income temporarily deteriorated due to a decline in the selling price for coking coal. In Carbon Products, we changed our strategic direction a few years ago. We have mainly shifted to exports and focus sales on specific customers. Carbon Products is changing into a business that is not easily swayed by market trends. The degree of competitiveness is sufficiently significant when considering a carve-out.

Q6.

The sales revenue forecast for RADICAVA was upwardly revised. Is it okay to understand that sales of the oral formulation are trending smoothly? Is it also correct to understand that the distribution stock is not building up? In and after FY2023, what level of growth rate do you forecast?

A6. (Nakahira)

The oral formulation of RADICAVA aims to contribute to an improvement in the quality of life (QOL) of patients. The degree of acceptance is trending smooth above plans. This oral formulation of RADICAVA addressed the needs of patients that had been waiting for an oral agent. This initial pace of sales will not continue going forward. However, overall this was a favorable start.

A6. (Kobayashi)

RADICAVA is available in both injection and oral formulations. The oral formulation is highly convenient and is able to secure new patients. We forecast sales revenue for the oral formulation alone of USD120 million in FY2022 and of USD200 million in FY2023. In comparison with 2021, sales of the injection formulations was flat. New growth comprised of the oral formulation. In the long term, we see demand for the injection formulation dropping slightly and the oral formulation rising. Total RADICAVA sales are increasing reflecting a rise in new administration of the oral formulation. We anticipate sales will continue to grow from FY2022 and going to FY2023.

Q7.

In pharmaceuticals, in comparison with the previous forecast, sales revenue was nearly unchanged but the outlook for core operating income was 8.0 billion yen lower. The forecast cites a 8.0 billion yen increase in R&D expense. This appears to detract from profit. However, the estimate includes a profit increase owing to RADICAVA, a profit decline due to the COVID-19 vaccine, and a rise in R&D expense. This nets a profit decrease of 8.0 billion yen. How does this contribute to a drop in profit. Can you straighten this out and provide an explanation?

A7. (Nakahira)

The estimated decline of 8.0 billion yen in core operating income cited in our recently announced forecast, versus the full-fiscal year earning forecast disclosed at the start of the fiscal year mainly reflects the removal of COVID-19 vaccine revenue from this latest forecast. The net decline in profit is estimated at 8.0 billion yen, but the expectations in the COVID-19 vaccine surpassed this by far. We aimed to offset this with growth in the sales of RADICAVA and priority pharmaceuticals. The rise in R&D expense reflects a surge in expenses driven by forex differences at group companies, such as NeuroDerm and Medicago, which are carrying out R&D overseas.

Q8.

In Polymers & Compounds, which is a Performance Products segment, core operating income trended smoothly, totaling 16.0 billion yen in 1H, but this is expected to be 10.0 billion yen in 2H. In 2Q on a standalone basis, It posted profit of 9.3 billion yen. However, you do not forecast profit growth in 2H. Why is this?

A8. (Nakahira)

In Polymers & Compounds, scheduled maintenance and repairs will be concentrated in 3Q and volume will head in a negative direction. In addition, we are estimating the spread on polycarbonates will shrink, making them a negative factor.

Q9.

Regarding the delay in decision-making on US investments in MMA, construction cost is rising owing in part to inflation but does this mean that costs are rising faster than expected? Also, given the rise in interest rates, there is a heavier burden when a loan is taken out. Is it correct to assume that this is also part of the reason for the delay in decision-making?

A9. (Nakahira)

Construction cost also includes impact from inflation. Looking at expenses on a yen basis, forex impact is swelling but we basically plan to procure funds locally. A key point in decision-making this time around is to maintain financial flexibility until we get a little better feel for recent supply-demand balance and the recovery forecast. It will become easier to investment in projects for which we expect a quick return.

Q10.

What was the market price and capacity utilization rate for MMA in 2Q and what is your forecast for MMA market price and capacity utilization rate in 2H? What factors upheld profit, which did not decline so much as far as the decrease in market price going from 1Q to 2Q? Also, please explain the trend from an actual core operating income of 1.8 billion yen in 2Q to a forecast of 600 million yen in 2H.

A10. (Nakahira)

The price for MMA in the Asia market was around USD2,100 in 1Q and has been slipping since July, and was approximately USD1,600 in September. The price is holding up owing in part to the entry into a demand period in early autumn. We believe the bottom is USD1,600. The average market price in 2Q was slightly below USD1,800. In 3Q, we expect the market price to be at the USD1,700 level and in 4Q recover to the USD1,800 level. Amid this, it is our goal to somehow secure profit. We are aiming to maximize our spread, mainly on exports to Europe from the SAMAC plant in the Middle East (which boasts a high degree of competitiveness). The overall capacity utilization rate at its lowest dropped to below 60%.

Conditions differ for each plant. For instance, the Cassel Plant in the UK has not yet resumed operations. In Saudi Arabia (SAMAC), the plant is operating near full capacity and securing a profit. The overall capacity utilization rate was 68% in 2Q and is expected to be 63% in 2H.

We are constantly considering the optimization of manufacturing sites overall, including investments in the US. Although not decisions were finalized, various matters are being laid out on the discussion table. As a major direction, we plan to shift from the ACH method to the Alpha method. We plan to make decisions amid this flow.

Q11.

In Petrochemicals, we anticipate core operating income of 15.5 billion yen in 2H, versus the 2.8 billion yen posted in 2Q. In 2H, although the inventory valuation gain/loss is expected to head in a negative direction, what factors do you see triggering a jump up in profit?

A11. (Nakahira)

Scheduled maintenance and repairs were carried out from 1Q to July of 2Q. This will be eliminated in 2H and volume is likely to expand. The inventory valuation gain largely shrank in 2Q and is expected to move in a slightly negative direction in 3Q. However, we anticipate the spread in polyolefins to improve and shore up profit.

Q12.

In Polymers & Compounds, profit grew from 1Q to 2Q and results in 1H outperformed the forecast disclosed at the start of the fiscal year. EVOH (Soarnol) appears to be improving. What is behind this? Also, what is your forecast for 2H?

A12. (Nakahira)

In Polymers & Compounds, we realized profit growth owing to an improvement in margins on performance polymers sales and in Soarnol, sales volume is recovering as there is no longer trouble in suppliers in North America, as seen in the previous fiscal year. Sales volume for Soarnol in 2Q rose 10%-plus year-on-year. We believe sales will continue to trend strongly in 2H.

Q13.

What are trends for mainstay products? What about for OPL film, carbon fibers and battery materials?

A13. (Nakahira)

The outlook is harsh for OPL film. In 2H, we anticipate a negative growth of 20% in comparison with the previous year. In carbon fibers, sales trended smoothly in 1H. We forecast a growth of nearly 20% in 2H year on year as well. In battery materials, we estimate sales will be on par with the previous year in 2Q and 2H.

End