Mitsubishi Chemical Group Investor Day 2023

Transcript

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Held as a hybrid event utilizing both in-person and online meeting

The term "the Mitsubishi Chemical Group" refers to Mitsubishi Chemical Group Corporation and its group companies.

Mitsubishi Chemical Group
Investor Day 2023

Attendees:

Jean-Marc Gilson

Representative Corporate Executive Officer, President & Chief Executive Officer

Yuko Nakahira

Executive Vice President, Chief Financial Officer

Presentation
President & CEO Gilson

Good afternoon everyone and welcome to our Investor Day. It has been quite a while since our last presentation in December 2021. I am glad to be able to see you all today.

P2 **What you will hear today**

Today, I would like to give you an update on our management policy “Forging the future.” Fourteen months have passed since our presentation in December 2021. In this presentation, I will talk about what we have achieved, our progress so far and our future outlook. We have been focused on the implementation of our Forging the future strategy. First of all, we will increase EBITDA by 70 billion yen through organic growth based on the five key pillars under our Forging the future strategy. At the same time, we will deliver 135 billion yen cost improvements by FY2025. This target has been increased from the 100 billion yen announced in December 2021. We remain committed to exiting from the petrochemicals and carbon products businesses and have been making steady progress. Fundamental changes are happening in the chemical industry. In the midst of such changes, it is essential for our company to become leaner and more digital. The power of employees is necessary to achieve this innovation. Empowerment of employees is a key to promoting innovation. We have invested for the future and will continue to do so in the future. We will also improve our financial position and increase returns to shareholders. Our long-term Purpose has been clarified. We will continue to implement measures to realize KAITEKI, which is the pursuit of the well-being of people, society and our planet Earth.

P3 **Chapters**

I will talk about four subjects. Firstly, I will talk about the New Mitsubishi Chemical Group (MCG). Our company is undergoing significant changes. Next, I will give you an update on the five key pillars (measures) under our Forging the future strategy. After that, I will talk about our business growth plans and vision for the future. To our stakeholders, I would like to reiterate our commitment to driving this transformation tirelessly, even in the face of significant headwinds.

P5 **Purpose – Our North Star –**

This page is about the New Mitsubishi Chemical Group (MCG). Our company is in the midst of transformation. It is a journey toward becoming a specialty materials group. We are transforming ourselves from a conventional commodity company to a specialty materials group. We have set a new Purpose for our company. “We lead with innovative solutions” means that innovation is at the core of our Purpose. This is a direct and explicit slogan. We are aiming to contribute to Life in various ways by delivering Value enabled by Science. We are responsible for creating value for all stakeholders including shareholders, employees, customers and society.

P6 **Our focus markets are aligned to key trends that are shaping the world as we know it**

I am optimistic about our business transformation going well. There are three reasons for this. The first is that our focus markets are aligned with key global trends. The second is that sustainability is a key element across all focus markets. And third, MCG has strong capabilities to execute and is assured of success.

P7 **We remain committed to our transformative Forging the future targets**

We are committed to achieving both our financial and non-financial targets. In terms of our financial targets, we expect that our profitability will improve despite the assumption that we will exit from the petrochemicals business and that our 50% stake in a JV will be excluded from the scope of consolidation. As all of COI , EBITDA, ROIC and EPS will improve and profitability will reach the levels indicated on this page by FY2025, MCG will be on its way to becoming a specialty materials group. As for non-financial targets, we have clear targets related to sustainability, customers and employees. In the chemical industry, GHG reduction is a must, and we uphold the target of a 30% reduction by FY2025. We have also updated our target on waste reduction. Our previous efforts have not been sufficient, and we will work more intensively. Our customer satisfaction has already reached a high level, but we will continue to improve it. As for employee engagement, we have set around 80% as the target level. It is important that each and every employee understands the direction that MCG aims for and helps drive the transformation process. At the same time, diversity is extremely important. We have set our target of diversity among management at 40%.

P8 **Forging the future update**

Now, let me explain the targets based on our Forging the future strategy.

P9 **Our Forging the future strategy aims at creating value across 5 key pillars**

Our Forging the future strategy aims at creating value across five key pillars. We have put 100% of our effort into the implementation of these measures since 2021. The first is a portfolio focused on market growth, performance and sustainability.

It is important for companies to return to organic growth, not just growth through M&A, and it is necessary to achieve growth through innovation, marketing and sales expansion. At the same time, companies need to become more selective, more global and more profitable. The second is strategic cost transformation. Cost management is everything in the chemical industry. I have worked in the chemical industry for 33 years and have been conscious of cost management on a daily basis. I want such a culture to truly take root within MCG. We will only spend where is absolutely necessary and eliminate all unnecessary costs. The third is the exit from the petrochemicals and carbon products businesses as announced in December 2021. The fourth is the shift to a leaner organization and faster decision-making. It is necessary for us to create a leaner management team and promote digitization. This will require significant investment, and I will explain this in detail later in this presentation. Employee empowerment is also important. The last is strategic capital allocation. We will pursue the right balance between investment aimed at future growth and the enhancement of shareholder returns.

P10 **Three primary pillars will drive the EBITDA margin from 13% to 18%**

Of the five primary pillars, three of them are focused on for the improvement of profitability and contribution to reducing revenue volatility at the same time. We will expand EBIDTA by about 70 billion yen through these three pillars. Cost savings through strategic cost transformation under the original Forging the future commitment of 100 billion yen to approximately 135 billion yen. While EBITDA is expected to decrease by about 110 billion yen compared to FY2021 as a result of the exit from the petrochemicals and carbon products businesses, I believe that MCG will transform itself into a company which is more profitable, more focused, and more resilient to revenue volatility by FY2025.

P11 **Our business growth and key performance drivers**

All businesses are expected to contribute to the expansion of earnings. We will develop strategies for each segment and achieve our targets. Our strategy for Performance Products is clear. It is geographic expansion and market expansion. And we will transfer authority to our global bases. Business decisions should be made close to the market. We aim to provide a range of products to more markets. It is necessary for Industrial Gases to keep on growing, and we are acquiring large-scale projects on a global basis. At the same time, it is required to continue to grow by maintaining very high profitability in the U.S., Europe and Asia Pacific. In Japan, we need to restructure underperforming businesses. In Health Care, we have strong performance mainly in Japan and the U.S., and it is necessary to maintain this. In addition, we will narrow down targets and focus on a small number of indications. We should avoid expanding our businesses too much. We have already decided to exit from non-core businesses. In MMA, we will need to strengthen our global #1 position and promote the shift to Alpha technology.

P12 **We will grow supported by sustainability trends while becoming more sustainable in our operations**

I will explain about our sustainability-related targets. Both emission reduction and waste and water management are important. We are also expanding sustainability-related products. We are confident that we will not only increase profitability but also achieve our sustainability-related targets.

P13 **Innovation underpins MCG's growth performance and sustainability**

In order to sustain long-term growth, robust innovation is required. For the past 14 months, we have reviewed our R&D system, external collaboration and venture funds, thus developing a structure to concentrate on focus markets. We will set short-term, medium-term, and long-term goals in each platform so that we will be able to stay ahead of global competition. We are also making ongoing investment in digital technologies, infrastructures and recruitment in order to acquire new capabilities. This page shows the roadmap on electrolytes for EV/mobility applications as an example of our initiatives related to focus markets. MCG is one of the world's leading companies in electrolytes with unique capabilities and has invested in next-generation technologies. One of such efforts is a transition to gel electrolytes. We have also been working on novel solid electrolytes. This is an example of our efforts aligned with market trends from short-term, medium-term, and long-term perspectives.

P14 **Cost transformation will exceed the original target and be mostly achieved by FY2023**

In terms of cost transformation, the chemical industry is undergoing a massive transformation.

Energy costs are soaring, and the pace of digitization has been accelerating. We cannot sit on our hands as a company. Our costs should be reduced to global industry standards. We are accelerating our cost transformation efforts and restructuring the Health Care segment. In addition, we are exiting from non-profitable businesses. We have announced our plans to close manufacturing plants in the U.S., U.K. and Japan. We are also consolidating our procurement processes across all businesses. Through such processes, we are leveraging MCG's economies of scale and promoting the consolidation of our group companies. In the U.S., we are working on end-to-end process automation and planning to expand it to Europe. We are also outsourcing some of our business operations. By combining the impact of these efforts, we have raised our cost transformation target to 135 billion yen. It is expected that the impact of savings will exceed 80 billion yen by the end of FY2023. This will likely contribute to significant improvement in profitability.

P15 **We are committed to and making progress in exiting businesses that do not match our growth and sustainability expectations**

We are committed to exiting our petrochemicals and carbon products businesses. We have already communicated repeatedly why industry restructuring is necessary in the petrochemicals business. The direction we had announced is underpinned by the global trends since December 2021. Our discussions have been accelerating. In FY2022, we formulated our detailed plan. In FY2023, we will financially carve out our petrochemicals business for stand-alone reporting. There are no changes in our plan for FY2024. We will establish a JV and aim for early independence. Progress has been made steadily as scheduled. While there is a rumor that we will postpone the plan, this is not true. There have been a number of discussions and negotiations on the divestment of our carbon products business, and there are multiple potential candidates. Our target is to complete the divestment by the end of FY2023.

P16 **MCG has established a LEANER organizational structure**

The fourth pillar is the realization of a leaner organizational structure, digitization and empowerment. MCG's structural reforms have been accelerating as a result of our organizational structure changes. We are reducing the number of management levels and improving the speed of management decisions. We are also transferring the responsibility for business expansion to each region. In an effort to simplify the organization, we are reducing the number of the Group's legal entities. Having a large number of legal entities means higher costs. By FY2025, we will reduce the number of Group companies by 25% globally. In addition, we will reduce headcount. It is expected that our headcount will fall by

10% by FY2025, given natural attrition, outsourcing and downsizing measures announced in the U.S.

P17 **MCG will become more DIGITAL including technology, data, and digital business models**

Now, I would like to talk about how MCG will become more DIGITAL. This is a key to our future. I believe that the chemical industry will cease to exist and there will only be the digital chemical industry in the future. We will push forward with digitization in all steps including order-taking, shipping, R&D and human resources. It is necessary to automate processes wherever possible and reduce costs. We will implement four measures by spending about 70 billion yen over the next three years. First, we will standardize our business processes across the Group. Second, we will consolidate our systems into a small number and transfer data into the cloud. Third, we will develop an internal data management system, thereby supporting fast decision-making in business. Fourth, we will develop and recruit the necessary human resources. This means developing and hiring talents who can thrive in the digital age.

P18 **We will EMPOWER our employees for this journey**

In order to empower our employees to drive this transformation journey in a proactive way, we are promoting the development of the next generation of leaders. We have established three different leadership training programs to develop talents who can play an active role on a global scale. We have also reformed our personnel system to ensure that promotions are based solely on performance, and we are moving away from the seniority system. We are also accelerating diversity in leadership. Without this, we cannot become a true global leader in the chemical industry. We are also pushing forward with cultural change and are developing a corporate culture that promotes value creation. Each of us needs to understand the importance of creating value. For that purpose, we will need a safe and healthy workplace. Safety comes first in the chemical industry. When it comes to safety, we can never settle for just good enough. We continue to work on improvements.

P19 **Business growth plans**

Now, let me explain about our business growth plans.

P20 **The committed individuals leading the businesses as of April 1, 2023**

First, I would like to introduce our new team of business leaders. The following three words best describe this team: strong, experienced, and full of energy above all. We are fully committed to creating the future of MCG.

P21 **Our transformation is governed by a shift towards specialty materials**

Our transformation is governed by a shift towards specialty materials. We will promote this shift through improvement in profitability, growth and cost reduction across all businesses. The Performance Products segment is expected to achieve sustainable growth and deliver a COI margin of 11% in FY2025. While MCG is the #4 global industrial gas player, it is necessary to close the gap with our competitors. We have huge potential and will be able to close the gap by increasing the value we offer. Improvement in profitability is also expected to lead to a higher evaluation in the stock market. We will also refocus on the Health Care segment. The core businesses have been performing well in Japan and the U.S. this fiscal year and this trend is expected to continue in the future. MMA is considered as a business in transition. It is necessary to promote a shift towards Alpha technology while maintaining sound profitability. We aim to further reduce operation costs. As for the petrochemicals business, we expect to recognize equity-method earnings of about 10 billion yen in FY2025 based on the assumption of establishing a 50/50 JV.

P22 **Performance Products business – MCG's engine for profitable growth**

Our targets for the Performance Products segment have not changed significantly from those presented at the IR Day held in September last year. The Performance Products business is ideally positioned towards achieving growth. We have a presence in major growing markets and we are strengthening such position. We will roll out thousands of our superior products globally. Our strategy is simple. We invest in a global sales infrastructure network and transfer authority related to business to each site. We are conducting a pilot in the U.S. this year, which has already led to positive results. It is also necessary to strengthen innovation in order to achieve sustainable growth.

P23 **Performance Products – becoming more market oriented**

The EV/mobility, digital and food markets are expected to continue to grow quickly. MCG's businesses are also projected to grow at a rate commensurate with market growth. Some of the products which are highlighted in the EV/mobility market include electrolytes, fiber reinforced plastics & composites. In the digital market, they include semiconductor cleaning services, epoxy resins, semiconductor equipment components, and films. Gelest, Inc. is planning to double its capacity for semiconductor cleaning services and supply completely new dry resist products to the market. We have also maintained a strong position in the food market. We boast a broad range of products including emulsifiers, packaging films and barrier materials. Looking at the EBITDA development of Performance Products, growth accounts for 30%. This increase is in line with market expansion. Meanwhile, performance accounts for 35%. This increase reflects margin management and product mix shift. The remaining 25% can be accounted for by cost transformation efforts across the Group.

P24 **Performance Products – making the entire portfolio available globally**

In order to make our products available globally, we will drastically change the way we do business. We will transfer significant authority to each region, promote key account management (one face to the customer), and develop locally-based activities by working closely with fast-growing customers. We will also introduce value-based pricing. In the past, we focused on cost-plus pricing in many cases, but we will change our pricing model across the Group. It is also necessary to promote innovation closely aligned with market needs. As a result, revenue share in Japan is expected to decline relatively. Global economic growth is happening outside Japan, and we will need to capitalize on market expansion in other parts of the world in order to achieve MCG's future growth.

P25 **Performance Products – further expanding our sustainability position**

Of particular note are our fast-growing sustainable brands. Recognized for their excellent physical properties and sustainability, their applications are expanding.

P26 **Industrial Gases business – strong profit contributor**

Our Industrial Gases business will continue to grow in the four global regions. The acquisition of large-scale projects is one of the elements that underpin growth. We have won a large-scale ASU (air separation unit) project and won another large-scale project related to HyCO plants for hydrogen in India in December 2022. In addition, we supply highly profitable specialty gas for medical and semiconductor applications. We will actively explore opportunities to gain more synergies between MCG and Nippon Sanso HD in the fields of R&D and digital technologies.

P27 **Health Care business – spearheaded by the pharma business**

Our pharma business is undergoing a major transformation. We will accelerate drug discovery by investing in the use of AI. In addition, we are focused on indications in the 3+1 core areas to be explained later in precision medicine. We are also working on digitization, and at ALS we aim to achieve precision medicine that meets the needs of ALS patients by utilizing real world data.

P28 **Health Care – focusing on three core areas and restructuring the business**

Currently, our Health Care business has two sides. Our performance in the core markets such as Japan and the U.S. has been robust, and in particular RADICAVA ORS, an oral suspension formulation, has been growing in the U.S. at a pace exceeding our expectations. STELARA, CANAGLU and other key products have been growing steadily in Japan. We have also been making continuous efforts to reduce costs and are optimistic about our short- and medium-term sales and pipeline. On the other hand, we regret that in the Health Care segment we have overstretched ourselves by entering areas where we do not have strengths. That has created significant losses, negating the strengths of our core businesses and generating losses over several years. After careful consideration, we have decided to restructure our Health Care business. We will focus on fewer indications and concentrate on areas where we can demonstrate our R&D and clinical strengths. The Health Care segment has about 400 billion yen in sales revenue, and it is necessary for us to carefully select where to spend money on. We will increase R&D expenses mainly in Japan with a focus on indications in the core areas including the central nervous system, immune-inflammation, diabetes and kidney, and oncology (rare cancers in particular). The profitability of our Health Care segment will change significantly from next fiscal year. We expect that our Health Care business will be revitalized again under the new leadership of EVP Tsujimura.

P29 **MMA business – cost-advantaged technology leader**

Cost advantage is a key point of our MMA business. How to protect our #1 position is crucial. MCG has the most cost-advantaged technology called Alpha technology and is equipped with the world's largest capacity. The MMA market has been expanding. MMA (MMA polymerized acrylic resin) has a high degree of transparency and is called the "Queen of plastics." It is used for a wide range of applications including cars, building materials, displays, transparent sheets and coatings.

P30 MMA – capacity shift towards lower-cost Alpha technology and expanding the sustainable MMA portfolio

It is also a fact that we are not the only one who is investing in this area. In order to maintain our position as the #1 player, it is necessary to consolidate capacity into cost-competitive Alpha technology plants. Alpha technology is extremely cost competitive and there is a cost difference of two to three times compared with the conventional technology. This is a competition for cost advantage, and the companies that win this competition become global leaders. In this management policy, we are planning a CAPEX of more than 200 billion yen for the construction of an Alpha technology plant in the U.S. In parallel, plants using the conventional technology will close. Over the past few years, we have been closing uncompetitive plants in the U.S. and the U.K. This means we will be going through a transition.

P31 **The performance of the businesses will deliver a strong financial position in FY2025**

By combining the effect of all the business growth and cost reduction efforts, EBITDA for FY2025 will reach record levels in terms of absolute value and the ratio to sales revenue. MCG's businesses are expected to undergo major transformation through FY2025. This means that new strategic options will be available to us.

P32 **The generated capital will fund organic growth, increase shareholder return, and provide a healthier balance sheet**

The fifth pillar under our Forging the future strategy is strategic capital allocation. The profitability of our businesses will improve and a significant amount of capital will be generated. Generated capital of about 2,150 billion yen will be allocated as shown on this page. Almost half of the capital will be allocated to CAPEX. As for the breakdown of CAPEX, about the same amount will be allocated to Industrial Gases and Performance Products, while more than 200 billion yen will be allocated to MMA. Following CAPEX,18% of the capital will be used for R&D, the majority of which will be for Health Care. MCG was faced by two major issues in 2021 when the Forging the future strategy was announced. The issues were low profitability and the amount of debt. We are now taking measures to improve profitability and repay debt. As for debt repayment, 270 billion yen of the capital will be allocated to that. We aim to achieve a net debt-to-EBITDA ratio of less than 3.0 times and a net debt-to-equity ratio of less than 1.0 times. We would like to increase the payout ratio from the current level of 30% to 35% by 2025. Meanwhile, the amount of uncommitted capital will be increased to 250 billion yen.

By implementing our Forging the future strategy, three key financial targets will be achieved. First, we will go back to a growth path, increase profitability and enhance productivity. Second, we will improve the soundness of our balance sheet. Third, we will ensure the availability of leverage for growth towards FY2025. We will need to secure capital and leverage available for options including M&A and share buybacks. It is mandatory to improve profitability and repay debt in order to have more options.

P34 **Our vision for the future**

Our vision for the future is to become "a leading specialty materials group that delivers innovative solutions globally, delivering superior value to our customers, shareholders, and society.” We value all our stakeholders, including our customers, shareholders, employees and society.

P35 **Forging the future will be a transformative journey and pave the way to success beyond 2025**

“Forging the future” is a key strategy towards achieving our future vision. We commenced the implementation of this strategy in December 2021 and have been accelerating our efforts. We will increase the speed of implementing and strengthening the five key initiatives (pillars). By focusing on our four powerful businesses including Performance Products, Industrial Gases, Health Care and MMA, the achievement of a healthier balance sheet and many strategic options, we will pave the way to success beyond 2025.

P36 **Major highlights from today’s presentation**

Since the announcement of our Forging the future strategy in December 2021, we have made significant progress. We are creating value for our shareholders by remaining committed to growth and cost reduction, increasing internal awareness of cost management and productivity, pushing forward with the exit from the petrochemicals and carbon products businesses, and becoming a more digital and leaner organization. We will continue to pursue KAITEKI as our guiding principle.

Q&A

Q&A 1

Q1

Do you regard MMA as a specialty product? MMA seems to have become a commodity product, but will you make investment in the U.S. as a specialty product? Also, please explain if MCG’s profitability will increase by closing ACH plants. Röhm has obtained a license in the U.S. to construct a plant with a new technology using ethylene. It looks like Röhm is going ahead of MCG, but what is your view? Please also tell us about the future vision of your MMA business including the forecast on the improvement in the demand-supply balance after FY2025.

A1 (President & CEO Gilson)

We will not continue our MMA business as is. We had a dismal third quarter. The major factor is that the supply-demand balance in China has collapsed. MMA is a commodity product, not a specialty product, but at the same time it is a valuable business with a jewel-like sparkle. The only Japanese chemicals company that remains as a global leader in general-purpose products is Shin-Etsu Chemical Co., Ltd. with its polyvinyl chloride (PVC) products. MCG's MMA business has a comparable technological advantage. We have large Alpha technology plants in Singapore and Saudi Arabia and have proven leadership potential. In the U.S., plants using the conventional technology are reaching the end of their life in terms of cost. In the U.S., we will take bold steps to promote scrap-and-build. You have to be bold to win in the U.S. However, in order for us to make big investment decisions, the market needs to be stabilized. While many people ask us why we are not selling our MMA business, MMA is still a good business. If we manage it well, MMA will be profitable. I don't think Röhm is ahead of us. Demand in the U.S. is supported by the supply capacity of multiple companies, and I think there is a room for us. There's no need for us to rush. The timing is the key – ROI must be high so that we can expect a good return on investment. It's about economics as well as strategy.

Q2

While you said that MCG is aiming to increase EBITDA for Performance Products by about 100 billion yen over three years, I think it will be very difficult to achieve this target. Specifically, which products are you focused on to achieve growth? Can you also tell us about your view on M&A?

A2 (President & CEO Gilson)

Performance Products are based on a market-driven strategy. We will achieve rapid growth by concentrating on focused markets and winning the markets with multiple products. The EV market, to which we are selling our electrolytes, is growing rapidly and is expected to grow further in the future. We will increase our production capability. In the semiconductor market, sales of Gelest’s products are expected to grow as well. Semiconductor cleaning services have seen tremendous growth, with capacity expansion unable to keep up with demand. Earnings of the Performance Products segment in the current fiscal year have been higher than those in the previous fiscal year (excluding the effect of the transfer of the alumina fiber business). Earnings have been growing despite the negative economic environment, and it would have been in an ideal position if the circumstances had been normal. I believe that we are in a good position in growing markets such as the EV/mobility, digital and food markets. We are constructing two new polyester film plants. The one in Indonesia was recently completed and commenced operations. In Germany, a new plant is scheduled to commence operations at the end of 2024. In addition, we are increasing capacity for epoxy resins. We have also decided to increase capacity for SoarnoL in the U.K. In Europe, there is a huge demand for food packaging film. As just explained, there are a number of growth opportunities for the Performance Products segment.

Q&A 2

Q1

You mentioned that the Health Care segment's ROIC target for FY2025 is 3%. I don't think this is sufficient. Short-term profit is not everything, but can you explain this point? How will you increase the value of the Health Care business? Why is it necessary to keep the Health Care business within the Group?

A1 (President & CEO Gilson)

As I mentioned in December 2021, we will continue to take measures to turn around the Health Care business. We will have a number of options in FY2025. There are two measures to turn this business around. The first one is refocusing. We will eliminate businesses that have been entered but are not profitable. The other measure is to narrow down the number of indications to focus on. This doesn't mean that we don't have a pipeline for pharmaceutical products. Our pipeline includes products to be launched after FY2025, and I believe their value will exceed about 400 billion yen, which is our current sales revenue. We have generated significant value in the past. Some of the businesses had a negative impact such as the case of Medicago, Inc, but we will continue to have a pipeline and expand our businesses. We also have a strong licensing business. We have strengths in commercial business in Japan. We will introduce a license for Mounjaro, a major blockbuster in overseas markets, to Japan and commercialize it. We will need to reinvest. We should not forget what our core businesses are. As for R&D, we will reinvest mainly in Japan.

Q1-2

The pipeline seems to have deteriorated compared to a year ago. You have withdrawn from COVID-19 vaccinations and discontinued the development of muse cells. There is no mention of ND0612 in this presentation. Has the development been delayed? Also, medical practitioners involved in the muse cell trials have complained about MCG's stance. Please give us your views, including the implications for open innovation in the future.

A1-2 (President & CEO Gilson)

We are aware of the positions of those involved in this matter. We have always put patients first and take this matter seriously. We would like to refrain from commenting specifically on the clinical trials, but we will publish the results of the trials at an appropriate time. Our position is as stated in the press release issued on February 14. MCG has been developing

products using muse cells since 2015, but after a comprehensive and careful review of the latest clinical development status, timelines for commercialization, and future pharmaceutical business strategy, we decided to discontinue development.
As for COVID-19 vaccine, we are looking at the level of NPV (net present value). We have invested more than 100 billion yen in Medicago in total. We consider the future prospects, the costs necessary to achieve results, and the potential value to shareholders. If the NPV is negative, we cannot continue to invest.

Q2
As for capital allocation, you mentioned that it will be funded by 2,145 billion yen of capital in total for the three years from FY2023. Can you tell us about the order of priority in capital allocation if you fail to generate this amount of cash?

A2 (President & CEO Gilson)
It is most important not to spend too much capital. We are committed to this. While we cannot accurately predict the outlook of the global economy, our strength is to be able to take actions in response to changes. We will curb investment as required, while avoiding excessive restraint. We will adjust our spending according to the economic situation.

Q&A 3
Q1
Please tell us about your policy on the exit from the petrochemicals business. I believe you originally said that you were considering consolidating it with a petrochemical company, but I would like to know if you are considering possible consolidation with a petroleum refining company as well. Could you clarify this point to the extent possible? You mentioned that the generated capital includes proceeds from divestments. How much is that portion? Is the petrochemicals business included in this? Will no cash be generated from a JV? I think that a 50-50 JV will not lead to the reduction of exposure to the petrochemicals business and the lowering of volatility. Do you have a policy to divest from it completely after FY2025?

A1 (President & CEO Gilson)
We will exit from the petrochemicals business in phases. We will establish and operate a JV first, but we will withdraw from the JV eventually. As we have a NDA (non-disclosure agreement), we cannot talk in detail.

Q2

Can I confirm that you have no intention to aggressively restructure your business portfolio for Performance Products? You have already announced the withdrawal from acrylic fiber and melt-spun fiber, but isn't there a need to sell high-value businesses such as alumina fiber and invest in high-growth businesses such as semiconductor materials using the cash generated from such sale? Could you explain about your portfolio restructuring for Performance Products?

A2 (President & CEO Gilson)
As you just said, we are always considering exit from businesses whose targets are not our focused markets and which are non-profitable businesses. We do not consider M&A until we are convinced that they are profitable businesses and that we will be able to reduce debt in the future. If we achieve our targets for FY2025, we will have capacity to have more options in capital allocation. In other words, if we have significant capital and leverage available, we will be able to push forward with M&A in our focused markets.

Q&A 4
Q1
I would like to know about EBITDA development for Performance Products towards FY2025. What is the balance between growth, performance and cost transformation? I believe that growth will be happening more in the future, but what are the prospects for performance and cost transformation? Also, can you explain the specific contents of performance and cost transformation? You mentioned that you will exit from businesses with sales revenue of 100 billion yen towards FY2025, but where will the effect be?

A1 (President & CEO Gilson)
We do not disclose cost transformation by business segment. Our cost reduction efforts are on track and we will continue to take further actions. We cannot disclose details on performance, either, but we will continue to take steady steps. FY2022 was a difficult year for Performance Products. We could say that it was the most difficult year for the chemical industry, but the market will rebound and return to normal eventually. That will be when MCG will be able to grow profits significantly. Profits from display-related products, which had driven profits, were virtually zero in this fiscal year, but I am sure that they will recover in the future. We have confidence in the outlook for our businesses.

A1 (CFO Nakahira)
Of 135 billion yen, which is the target of value creation through cost transformation, the

portion related to Health Care restructuring is included in the Health Care segment, but other applicable items are included in each segment.

A1 (President & CEO Gilson)
Our management team is committed to the target of achieving an EBITDA margin of 16% for Performance Products in FY2025. We have superior product groups. We will take measures for all strategies in order to achieve this target. Our target is not 35%. Our target of 16% is a lower level for specialty products. The key is how we will manage it.

Q2
Amid soaring raw material and fuel prices, cost pass-through measures seem to have contributed to your performance. Can we expect the same after FY2023? What are your thoughts on the results of the measures?

A2 (President & CEO Gilson)
It means that the focus of our mentality will change from general-purpose products to specialty products. There are two commercial strategies, marketing and price management. Companies with commodity products usually do not manage prices well. Therefore, we conducted an employee seminar on price management at the beginning of this year. We told them that it is necessary to set prices on a value basis by looking at each item and considering whether to raise prices for each customer. This is an area which we have not been sufficiently focused on and where we have potential as a company. We have a lot of high value-added products.

Q3
The current amount of dividend is 30 yen, but will you increase the amount in FY2023? Please let us know if we have to wait until 2025 before the payout ratio reaches 35%. As for the uncommitted capital of about 250 billion yen, can you explain the order of priority among M&A, share buybacks and other measures?

A3 (President & CEO Gilson)
We will increase the payout ratio to 35% in phases. We plan to increase the ratio by 1-2% each year and when the ratio reaches 35%, we will think about the next steps. Dividends paid by Japanese companies tend to be relatively low. As we are a mature company, our dividends could be higher but we will increase the payout ratio in phases in accordance with profit growth and the realization of a healthier balance sheet. We cannot comment on the

order of priority among M&A, share buybacks and other measures.

A3 (CFO Nakahira)
As for dividends, we have a plan to increase the absolute value a little each year.

Q&A 5
Q1
In term of simplifying the organization, does cutting headcount by 10% mean reducing the number of employees by about 7,000? As you have already reduced headcount by 600-700 as a result of the closure of Medicago, will you reduce headcount further through the exit from the petrochemicals business? Is my understanding correct?

A1 (President & CEO Gilson)
Since this does not include Nippon Sanso Holdings entities, the base headcount is about 50,000 and the 10% net reduction means about 5,000. This does not include the headcount reduction through the exit from the petrochemicals business. As we have already announced, we have reduced headcount by more than 1,000 as a result of business closures. Specifically, we have reduced the number of employees by 600-700 at Medicago, 300 at MMA's Cassel Site and 200 as a result of headcount reduction in the U.S. In addition, our headcount decreases by 1,500-2,000 each year due to natural attrition. We have also implemented various programs. Including the reduction of several hundreds of employees due to the effect of outsourcing, we will be able to achieve a net headcount reduction of about 5,000.

Q2
If your petrochemicals business has equity-method earnings of about 10 billion yen, we assume the JV's profit will be 20 billion yen. I think this figure cannot be achieved unless COI is at least 30 billion yen. Do you assume the current profit level of MCG's petrochemicals business is 30 billion yen, or will it become 30 billion yen in total when combined with the JV partner?

A2 (President & CEO Gilson)
The figures are based on our assumptions. All we can confirm is that we assume to have a partner for our JV and that we have incorporated 50% of the expected profit.

Q&A 6
Q1

In December 2021, you mentioned Shin-Etsu Chemical Co., Ltd. as a “super specialty chemicals company.” I heard at today’s presentation that MCG has a policy of managing prices by customer, region and product. I think this policy is similar to that of Shin-Etsu Chemical Co., Ltd. In addition, digitization is a very effective cost reduction measure, and it is said that there will be significant transformation in this area. Amid such circumstances, I believe you are trying to reduce the hierarchy and allow top management to get involved in pricing and cross-selling. Can you tell us if there are any examples where such efforts have resulted in improving profitability?

A1 (President & CEO Gilson)
When I was with Dow Corning Corp., Shin-Etsu Chemical Co., Ltd. was both our #1 competitor and customer. It is the chemical company that I respect the most in the world, and I consider it the best managed company. Shin-Etsu Chemical keeps a close eye on prices and is conscious of costs. With a lean organizational structure, the company focuses efficiently on its customers. Some businesses are based on commodity products, but the company has been able to generate profits from many other sources.
You are right about the importance of digitization. I have worked on digitization in the past at another company and know what the outcome will be. Many companies are lagging behind when it comes to digitization and need to invest to accelerate such efforts. We will become more digital in terms of not only our business processes but also manufacturing. In this day and age, it's impossible not to have an online sales channel. We need to get there quickly. In the future, there will be no "chemical industry" only the "digital chemical industry" will survive. We cannot be the only ones falling behind. As a leader, we will pursue efficiency, productivity, and quality with a strong conviction to become more digital.

Q2
You are planning to invest 70 billion yen through FY2025 to become more digital. But I think 70 billion yen will not be sufficient to consolidate ERP and promote digitization. Do you have a special measure to successfully achieve digitization with this amount?

A2 (President & CEO Gilson)
This is the figure for the next three years, and it does not mean our efforts to become more digital will be completed. We are trying to catch up first. We have a plan to implement an ERP system that will be the backbone of all our operations. We have taken steps to become more digital since December 2021 and we are making Groupwide efforts to promote digitization by hiring outside personnel. Three years may not be enough and more costs may

be incurred. However, if we don’t take action now, we will lag behind our competitors.

End