MITSUBISHI CHEMICAL GROUP | Science. Value. Life.

July 24th, 2023
Mitsubishi Chemical Group Corporation

The 18th Ordinary General Meeting of Shareholders: Summary of Questions and Answers on the Day and Answers to Pre-submitted Questions

1. Summary of Questions and Answers on the Day (including the pre-submitted questions answered during the meeting)

Q1 Status of our actions to improve P/B Ratio (Price-to-Book Ratio)

A1 Our ROE for the last fiscal year was 6.4%, and our P/B Ratio is about 0.75x, based on the current share price, which means that we must improve the situation in light of the Tokyo Stock Exchange's requirements.

We are committed to improving our market valuation from four perspectives: growth, profitability, debt reduction, and clarity.

Our first task is to put the three businesses of Specialty Materials, MMA, and Healthcare, in addition to Industrial Gases, on a growth trajectory.

Secondly, we will improve profitability by continuing to reduce costs while adding higher value to our products. We are currently working on implementing a value-based pricing structure as we raise prices, which allows us to increase confidence in our ability to deliver higher value products.

We are also addressing the Group's high level of debt, which is negatively impacting shareholder value. We will continue to reduce our debt by strictly allocating resources.

Finally, we aim to clarify our business portfolio and eliminate the conglomerate discount. To achieve this, we will divest and withdraw from the petrochemical and carbon businesses. We have also identified our focus markets which we will prioritize and allocate resources to. We will further examine ways to build a more selective and targeted portfolio and hope to share a refocused policy by the end of this fiscal year.

Q2 Reason for discontinuation of development of regenerative medical products using Muse cells

A2 We had been conducting clinical trials of CL2020, a regenerative medicine product using Muse cells for stroke since 2018, but in February of this year, we made the decision to discontinue development, considering the timeline for commercialization, the scale of future investment, and our overall strategy for our healthcare business. The license for Muse cells will be returned to the licensor in accordance with the agreement.

It is very unfortunate that we could not meet the expectations of those who cooperated in the clinical trial.

We will refocus on our own R&D efforts in areas where we have a strong track record of successful product sales and competitive advantages. By advancing developments in these areas, we aim to expand our pipeline and rebuild our healthcare business.

Specifically, we will focus on (1) central nervous system, (2) immuno-inflammation, (3) diabetes and renal diseases, and therapeutic agents for the treatment of rare cancers.

Q3 Progress toward achieving carbon neutrality and the status of efforts to recycle plastics

A3 With the expected investment of 1,000 oku yen by FY2030 to reduce greenhouse gas (GHG) emissions, the company will take steps to achieve emissions reduction in the manufacturing process, develop businesses contributing to GHG emissions reduction and promote the use of recyclable resources.

I am pleased to report that we are ahead of our plan in reducing GHG emissions in manufacturing through fuel conversion of boilers from coal to LNG and renewable energy.

As for businesses that contribute to carbon neutrality, we are strengthening our hydrogen business development, including plans to start the supply of green hydrogen in the United States. Additionally, we are focusing on expanding our presence in crucial areas such as electrolyte and anode materials for EV batteries, carbon fiber for lightweight car bodies, and gallium nitride, a high-efficient semiconductor material.

Regarding plastic recycling, our efforts encompass not only the expansion of sales for DURABIO™, a plant-derived bio-based engineering plastic, and BioPBS™, a biodegradable plastic, but also on-going initiatives in plastic recycling. We plan to start the operation of a plant that turns plastic waste into petrochemical feedstock by the end of FY 2023*. Furthermore, we are developing chemical recycling technologies for acrylic resins and studying the social implementation of recycling systems.

*Under joint operation with ENEOS Corporation, the plant is expected to process 20,000 tons/year of plastic waste, the largest of its kind in Japan.

Q4 Assumed exchange rate for the current fiscal year

A4 For the current fiscal year, we have assumed exchange rates of 130 yen to the dollar and 140 yen to the euro.

*In terms of exchange rate sensitivity, a depreciation of 10 yen against the dollar would increase core operating income by 130 oku yen, and a depreciation of 10 yen against the euro would result in a 50 oku yen increase in core operating income.

Q5 Business policy in East Asia in light of China Risk

A5 We are proactively preparing for potential risks by formulating contingency plans, including expatriate protection measures and asset preservation plans among others.

China is an important market for our Group, with sales revenue in China reaching approximately 3,000 oku yen. Even after considering associated risks, in cases where we identify viable business opportunities, we will make growth investments, as evidenced by our decision to expand the anode material production capacity in China.

Q6 Strengthening product development and production technology

A6 Strengthening product development and increasing the ratio of newly commercialized products is our challenge. While realigning R&D resource allocation with business priorities, we are reorganizing overall R&D structure so that the Business Groups can take the lead in late-stage development projects, which are closer to commercialization. Our objective is to permeate market-oriented mindset across the organization and create more new products.

We remain focused on improving productivity at our manufacturing sites, which is the cornerstone of the manufacturing industry. We will formulate globally uniform indicators and foster a culture of constant improvement.

Q7 Restructuring of petrochemical business

A7 Our goal is to restructure the basic petrochemical industry, which is crucial to Japan's infrastructure, in order to make it vibrant, robust, and sustainable. I cannot say more, but we are continuing discussions with like-minded players to find the optimal answer for both profitability and sustainability. We believe the probability of announcing something by the end of this year is pretty good.

Q8 Reasons for discontinuation of COVID-19 vaccine development

A8 Although our subsidiary Medicago Inc. was developing a vaccine for novel coronavirus infection and received approval in Canada in February 2022, we have decided not to pursue the commercialization of the COVID-19 vaccine and liquidate Medicago Inc. due to Medicago's inability to transition to a stable commercial-scale production.

We will refocus on our own R&D efforts in areas where we have a proven track record of successful product sales and can leverage our advantages.

Specifically, we will focus on (1) central nervous system, (2) immuno-inflammation, (3) diabetes and renal diseases, and therapeutic agents for the treatment of rare cancers.

Q9 Status of price increases

A9 Last fiscal year, we successfully managed to offset a significant portion of the cost increases through price pass-through. However, we were not able to address wage and other cost increases driven by inflation.

In the current fiscal year, we will continue to take pricing actions not only in the specialty materials business, but also in the petrochemicals business, where demand is expected to decline. We have already raised wages in our Group, and we hope that the improved corporate earnings from the price revisions will be reflected in employee salary increases, leading to a virtuous growth cycle for the overall economy, in line with the Japanese government's objective.

Q10 Retirement age for executives

A10 There is no mandatory retirement age for directors and corporate executive officers. The Nominating Committee is responsible for discussing and deciding nominations and appointments of directors and corporate executive officers. These decisions are made in accordance with the Nomination and Appointment Policy.

2. Answers to Pre-submitted Questions (limited to key questions)

Q1 Share repurchase policy

A1 In terms of shareholder returns, our primary focus is on increasing shareholder value through the enhancement of corporate value. We aim to raise dividends year-on-year based on our mid-term management policy, "Forging the future," and target a payout ratio of 35% for the fiscal year ending March 31, 2026.

Over the three-year period from FY2023 to FY2025, we are planning to allocate 2,500 oku yen as an uncommitted capital which includes funds for potential M&A opportunities. While share buybacks are also under consideration, our immediate priority is to reduce debt and strengthen our financial position.

Q2 Policy for Nippon Sanso Holdings Corporation, a listed subsidiary

A2 Despite the challenging business environment, the industrial gases business continues to generate stable earnings. However, there still remains a gap in profitability between us and the world's leading industrial gases companies. To close the gap, we strive to grow the business and further improve profitability within our existing structure. By achieving the same level of profitability as our global peers, we expect to significantly improve our corporate value.

Q3 Human capital management

A3 We firmly believe that human resources are the driving force behind all value creation and maximizing the potential of our employees is essential to enhancing corporate value. We are focused on creating an environment that empowers motivated employees to thrive and fostering a culture in which employees with different ideas and characteristics can leverage their diverse thinking, embracing brave challenges and diverse co-creation to solve problems. To achieve this, we have established a comprehensive human resource strategy, which is aligned with our Group Concept (Purpose, Slogan, Our Way) and shared by all employees.

We will continue to implement key initiatives such as the development of next-generation leaders, transformation of our corporate culture, promotion of diversity, and establishment of a globally standardized human resource system.

Q4 Product quality check

A4 The Group places a strong emphasis on maintaining a robust quality management system represented by ISO9001 and GMP. To continually reinforce our quality assurance, we actively engage in the PDCA cycle based on the system and conduct regular audits by external parties.

We have also separated the organization in charge of quality inspection and assurance from the manufacturing process to ensure independence. Furthermore, we are committed to eliminating opportunities for fraud by driving digital transformation, such as implementing an inspection outcome management system, automating and digitizing inspections.

In addition, we recognize that the foundation of maintaining proper quality lies in securing employee adherence to systems and rules, in other words, a culture of compliance deeply ingrained within the organization.

Our Way, a code of conduct, was established with input from many employees, and it prioritizes integrity as its first part. The entire Group is committed to "doing the right thing and doing work we are proud of," as stated in the code of conduct. As part of our efforts, our executives consistently emphasize the significance of compliance, and we conduct regular compliance education for all employees.

Q5 Ratio of female executives and employees and gender diversity & inclusion policy

A5 Currently, out of 15 corporate executive officers and executive officers, 2 are women. The representation of women within our organization is 17% of the total workforce, with female managers accounting for 5.6%*.

From the perspective of promoting diversity, we are working to foster an inclusive culture that encourages diverse talents to play an active role, not only limited to women. We will increase the ratio of women in our recruitment activities and improve the overall environment and relevant systems.

*The above percentage is based on the aggregated data of Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, Taiyo Nippon Sanso Corporation, and Life Science Institute Inc. The ratio of female managers stands at 4.5% based on the combined total of consolidated subsidiaries that have more than 300 employees.

Q6 Ratio and employment policy of people with disability

A6 Mitsubishi Chemical Corporation, Mitsubishi Tanabe Pharma Corporation, and Taiyo Nippon Sanso Corporation, which are the main companies obligated to employ people with disabilities within our Group, have achieved employment ratios of 2.49%, 2.69%, and 2.53%, respectively, meeting the government's statutory employment ratio of 2.3% for FY2022 (the figure remains the same for FY2023).

However, some of our group companies have not made progress in hiring people with disabilities. This is particularly crucial as the statutory employment rate is scheduled to increase to 2.5% in 2024 and 2.7% in 2026. We will continue to implement various measures to expand job opportunities, enhance recruitment efforts, and improve retention.