

Presentation

[Title]

Mitsubishi Chemical Group raises its full-year net income forecast due to strong performance in industrial gases and health care.

[Lead]

The following is a transcription of Mitsubishi Chemical Group Corporation's financial results presentation for Q2 of the fiscal year ending March 31, 2024, which was released on November 1, 2023.

[Speakers]

Jean-Marc Gilson, Representative Corporate Officer, President, and CEO

Yuko Nakahira, Executive Vice President and CFO

Akihiro Tsujimura, Executive Vice President (Head of Pharma)

[Text]

Explanation of financial results for Q2 of the fiscal year ending March 31, 2024

Jean-Marc Gilson (hereafter, Gilson): Good afternoon, everyone. Welcome to our FY2023 Q2 earnings presentation. My name is Jean-Marc Gilson, and I'm the CEO of Mitsubishi Chemical Group.

Like usual, I will make a few introductory comments before I hand it over to Nakahira, CFO, who will conduct a detailed review of our results for Q2.

Two years ago, we shared with you our Forging the future strategy. As I shared with you about two weeks ago, during our IR presentation, we can summarize this strategy through two words: first, fix, and then, grow.

I think this quarter and for H1, we could show the results of our relentless implementation of the strategy. As a result, our gas and health care businesses delivered very good results. This was achieved through a mix of cost savings, pricing actions, and business growth.

Our specialty materials and MMA businesses showed a positive core operating income despite extremely difficult business conditions. All of our attention is now directed at turning around these two businesses.

The H1 results showed signs that our petrochemical business is turning the corner. Overall, as a company, we beat our initial forecast by about 10%. Most encouraging is the fact that our discipline is bearing fruit. Our cost savings reached JPY54.2 billion in H1. We are largely on track to achieve cost cuts of JPY80 billion by year-end. Our free cash flow reached JPY80 billion. That is a result of solid results and high discipline in working capital management. Our net D/E ratio decreased by 0.11 points from the end of FY2022 to 1.22x.

We maintain our JPY250 billion guidance for core operating income for FY2023. We have left our initial forecast unchanged, even though the contribution of each business to the forecast will be

different than initially envisaged. It is important that we are expecting, in H2, to have all of our business segments remain in strong performance.

In summary, more than ever, our team is determined to create value through the implementation of our Forging the future strategy.

Summary of Financial Results

Summary



FY2023 2Q Actual

- While sales revenue decreased 5% year on year amid a severe business environment, core operating income fell only 2% year on year as a result of the promotion of price management activities and cost structure reforms. Core operating income outperformed the initial forecast for the first half (¥108.0 billion) by ¥11.6 billion or 11%.
- Sales volume declined significantly in Specialty Materials and Basic Materials impacted by factors including retreating demand in the semiconductor market and for broader industrial materials. In Basic Materials, inventory valuation loss of ¥7.2 billion was recorded owing to falling raw material prices, and among other factors. Its impact was a decrease of ¥33.0 billion in profits. Core operating income was boosted by significant growth in sales of RADICAVA in North America in Health Care as well as cost structure reforms implemented in the previous fiscal year, on top of the continued brisk performance of Industrial Gases.
- As a result of continued efforts to steadily implement cost structure reforms in FY2023, cost reduction of ¥54.2 billion was achieved in the first half, which accounted for 68% of Group-wide cost reduction target of ¥80.0 billion for FY2023.
- Although net income attributable to owners of the parent was down 9% in comparison with a year earlier, it exceeded the initial forecast for the first half (¥43.0 billion) by 56%.

FY2023 Forecast

- Core operating income in the first half outperformed the forecast. However, given the continued lack of strength in recovery from a weak business environment in the second half, core operating income forecast for FY2023 remains unchanged.
- FY2023 forecast for operating income, net income, and net income attributable to owners of the parent has been revised upward as special items related to business divestiture are expected to be recorded in the second half.
- The MCG Group plans to continue to steadily implement important measures to achieve financial goals in accordance with the action plan related to the management policy "Forging the future."

Yuko Nakahira (hereafter, Nakahira): This is Nakahira, CFO. Let me explain the H1 results for FY2023.

The severe business environment continued and sales revenue decreased 5% YoY. Amid that, core operating income fell only 2% YoY. The core operating income outperformed the initial forecast for H1, which was JPY108 billion, by JPY11.6 billion, or 11%.

As for business conditions by segment, sales volume declined significantly in special materials and basic materials. There was retreating demand in the semiconductor market and broader industrial materials.

For basic materials, we recorded an inventory valuation loss of JPY7.2 billion, mainly due to falling raw material prices. It pushed down the income figure by JPY33 billion on a YoY basis. Industrial gases continued to perform well.

Core operating income was also boosted by significant growth in sales of RADICAVA in North America in health care and cost structure reforms implemented in the previous fiscal year.

Cost structural reforms achieved a reduction of JPY54.2 billion in H1, which is already 68% of the Group-wide target of JPY80 billion for the full year.

Net income attributable to owners of the parent was down 9% YoY. However, it exceeded the initial forecast for H1 of JPY43 billion by 56%.

Going on to the forecast, core operating income in H1 exceeded the forecast. However, given that we expect continued lack of strength and recovery in H2, the full-year forecast remains unchanged. Meanwhile, we have upward-revised the forecast for operating income, net income, and net income

attributable to owners of the parent, as we expect to record special items in H2, mainly due to the promotion of business portfolio reform.

We plan to continue to steadily implement measures to achieve financial goals in line with the management policy, Forging the future, and associated action plans.

Consolidated Statements of Operations

Consolidated Statements of Operations



	135.3	142.6	7.3	5%
Exchange Rate (¥/\$)				
Naphtha Price (¥/kl)	83,700	65,500	(18,200)	(22%)
			(Billions of Yen)	
	FY2022 1H	FY2023 1H	Difference	%
Sales Revenue	2,269.8	2,149.9	(119.9)	(5%)
Core Operating Income *1	122.6	119.6	(3.0)	(2%)
Special Items	(4.2)	19.0	23.2	
Operating Income	118.4	138.6	20.2	17%
Income before Taxes	122.0	130.2	8.2	7%
Net Income	91.5	94.1	2.6	
Net Income Attributable to Owners of the Parent	73.9	67.2	(6.7)	(9%)
Net Income Attributable to Non-Controlling Interests	17.6	26.9	9.3	
*1 Share of profit of associates and joint ventures included	7.2	4.2	(3.0)	

Core operating income is calculated as operating income (loss) excluding certain gains and expenses attributable to non-recurring factors (losses incurred by business withdrawal and streamlining, etc.).

In H1, the exchange rate averaged JPY142.6 to USD1. The yen was weaker by 5% YoY. The price of naphtha was JPY65,500 per kiloliter, down 22%.

Sales revenue came to JPY2,149.9 billion. That was down 5% YoY. Core operating income came to JPY119.6 billion, down 2% YoY.

Compared with the H1 forecast that we announced on May 12, sales revenue fell short by JPY71.1 billion, but core operating income exceeded the figure by JPY11.6 billion.

Special items came to JPY19 billion and operating income came to JPY138.6 billion. That was up 17% YoY.

Financial expenses increased due to the higher interest rates on euro-based liabilities and income before taxes came to JPY130.2 billion. That was up 7% YoY.

Net income attributable to owners of parent came to JPY67.2 billion. That was down 9% YoY.

The initial forecast was JPY43 billion, so we actually exceeded that by JPY24.2 billion.

Sales Revenue and Core Operating Income by Business Segment

Sales Revenue and Core Operating Income by Business Segment



(Billions of Yen)

	FY2022 1H		FY2023 1H		Difference			
	Sales Revenue	Core Operating Income	Sales Revenue	Core Operating Income	Sales Revenue	%	Core Operating Income	%
Total Consolidated	2,269.8	122.6	2,149.9	119.6	(119.9)	(5%)	(3.0)	(2%)
Specialty Materials	627.1	43.6	582.7	17.1	(44.4)	(7%)	(26.5)	(61%)
Polymers & Compounds	170.6	16.4	160.6	12.9	(10.0)		(3.5)	
Films & Molding Materials	267.1	18.5	245.8	1.0	(21.3)		(17.5)	
Advanced Solutions	189.4	8.7	176.3	3.2	(13.1)		(5.5)	
Industrial Gases	569.3	54.3	608.2	80.3	38.9	7%	26.0	48%
Health Care	203.1	4.5	219.3	32.4	16.2	8%	27.9	620%
MMA	166.8	4.8	138.4	1.7	(28.4)	(17%)	(3.1)	(65%)
Basic Materials	576.1	17.4	491.3	(12.6)	(84.8)	(15%)	(30.0)	-
Petrochemicals	380.5	9.1	334.7	(2.5)	(45.8)		(11.6)	
Carbon Products	195.6	8.3	156.6	(10.1)	(39.0)		(18.4)	
Others	127.4	(2.0)	110.0	0.7	(17.4)	(14%)	2.7	-

(Inventory valuation gain/loss)	FY2022 1H	FY2023 1H	Difference
Polymers & Compounds	0.3	0.0	(0.3)
Petrochemicals	24.0	(5.1)	(29.1)
Carbon Products	1.8	(2.1)	(3.9)
Total	26.1	(7.2)	(33.3)

* From Q1 FY2023, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Health Care, MMA, Basic Materials, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2022.

* Breakdown figures of segment are approximation for reference purpose only.

Now, the breakdown of sales revenue and core operating income by business segment.

For specialty materials, revenue was down 7% YoY. Core operating income was down 61%.

The demand was slow and the business environment continued to be challenging, but in H1, all the three sub-segments were profitable. Industrial gases continued to be strong.

Revenue was up 7% and income was up 48%. In health care, RADICAVA [ORS] sales in North America continued to be strong one year after the launch and new adoptions out there further increased.

There was an additional contribution from cost structure improvement.

Revenue was up 8%, and core operating income was up 7.2 times. MMA revenue was down 17%.

Operating income was down 65%. MMA had been in a loss since Q3 of FY2022 but, in Q2 of the current year, turned profitable. H1 results were a positive income of JPY1.7 billion.

For basic materials, demand remained sluggish. This time, we had the recognition of inventory valuation loss in the amount of JPY7.2 billion. Operating income was a loss of JPY12.6 billion. That was down by JPY30 billion YoY and a 15% decline was seen in revenue.

For operating income, JPY33 billion was the impact of valuation of that inventory.

Analysis of Core Operating Income (Company-Wide)

Analysis of Core Operating Income



The following is the analysis of core operating income, which declined by JPY3 billion YoY.

Following figures YoY in Q1, the figure came down by JPY21.3 billion, but Q2 was up JPY18.3 billion, so we have closed the gap with the year-before H1 result.

The price differential had a positive impact of JPY34.5 billion. Price management activities are continuing Group-wide. There was a good contribution, particularly for specialty materials and industrial gases and the core operating income benefited from that.

For volume, because of slow demand continuing, there was a minus, or negative impact, of JPY26.9 billion.

Cost reduction contributed in H1 for JPY54.2 billion. In Q1, the figure was JPY23.6 billion. The Q2 figure was JPY30.6 billion.

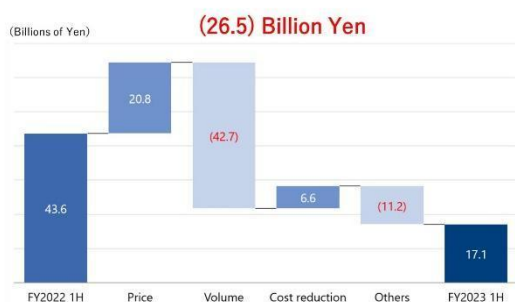
The full-year forecast or target is JPY80 billion, and we are already at 68%.

We will continue efforts in H2 so that we can go beyond the target figure.

Others include that JPY33.3 billion impact of inventory valuation difference.

Analysis of Core Operating Income-Specialty Materials Segment

Analysis of Core Operating Income Specialty Materials Segment



Polymers & Compounds (3.5)

Price (+) Improve price gap for each product by maintaining/improving selling prices

Volume (−) Sales declined due to retreating demand globally for coatings, ink, adhesives and barrier packaging

Others (※)

Films & Molding Materials (17.5)

Price (+) Improve price gap for each product by maintaining/improving selling prices

Volume (−) Sales dropped for high performance engineering plastic, carbon fibers and polyester films in tandem with a decline in global demand

Others (※)

Advanced Solutions (5.5)

Price (+) Progress in transferring prices for battery materials for EV/mobility applications

Volume (−) Sales declined in the semiconductor-related business, including precision cleaning and high performance chemicals, in tandem with an adjustment phase in the semiconductor market

Others (※)

(※)Others

(−) Increase in fixed costs in tandem with the ramp up of operations of a new manufacturing line and decline of profit of associates and joint ventures, etc.

For specialty materials, operating income fell by JPY26.5 billion YoY. The price factor was positive by JPY20.8 billion.

Demand was slow, but we conducted price management. For all the three sub-segments, we were able to minimize the impact on core operating income.

The biggest negative impact came from the volume, and that was because of the sluggish demand.

For polymers and compounds, the demand for additives widely for coatings, ink and adhesive remained slow. And then in Q2, the demand also slowed down for barrier material. But then there has been a recovery for use in automotive applications.

For films and molding materials, the applications for display, the demand was recovering, but still slow with regard to volume compared with H1 of the previous year.

High-performance engineering plastic for semiconductors or the label liners for Europe and North America, and carbon fiber demand for use in wind farms and sports, they were all slow in demand. However, we had some strength for use in medical and tanks for EV batteries.

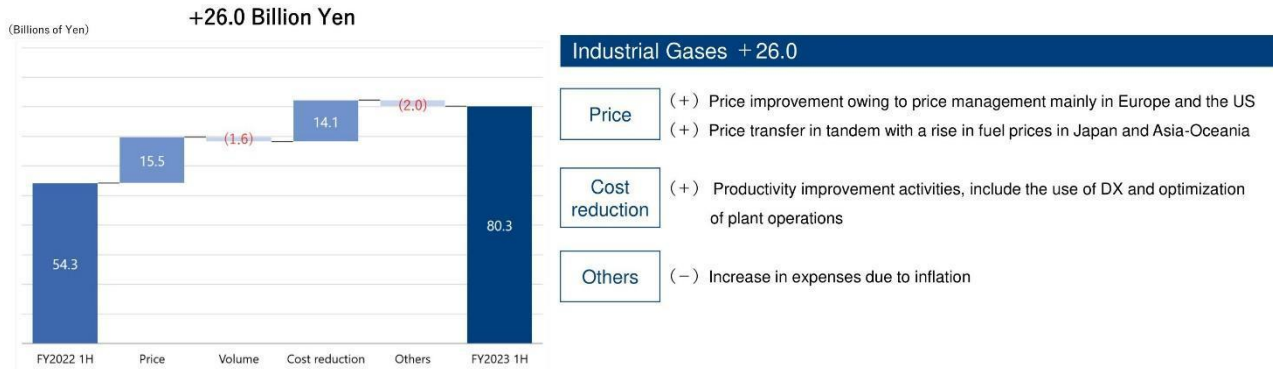
For advanced solutions, this was heavily impacted by the slow semiconductor market.

For all the three sub-segments, currently, we are trying to maintain margin and cash and prepare for demand recovery.

With regard to portfolio reform, we have already announced the transfer of Qualicaps and the additional acquisition of CPC shares, and we are trying to follow up with more.

Analysis of Core Operating Income-Industrial Gases Segment

Analysis of Core Operating Income Industrial Gases Segment

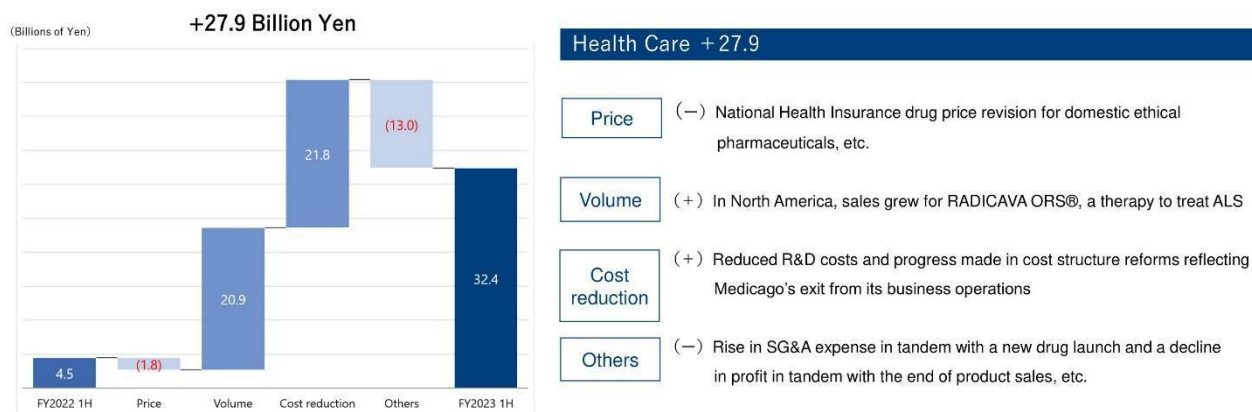


The industrial gases segment remained strong. Operating income increased YoY by JPY26 billion.

Because of the business environment, volume was not growing, but we were implementing price management and productivity improvement and all the regions have contributed to the core operating income increase.

Analysis of Core Operating Income-Health Care Segment

Analysis of Core Operating Income Health Care Segment



For health care, core operating income increased YoY by JPY27.9 billion.

In North America, RADICAVA ORS was greatly contributing to volume growth.

The decisions made in the previous year, such as the exit from Medicago and the review of development portfolio and the consolidation of locations, all those cost structural reform efforts were contributing significantly.

Analysis of Core Operating Income-MMA Segment

Analysis of Core Operating Income MMA Segment

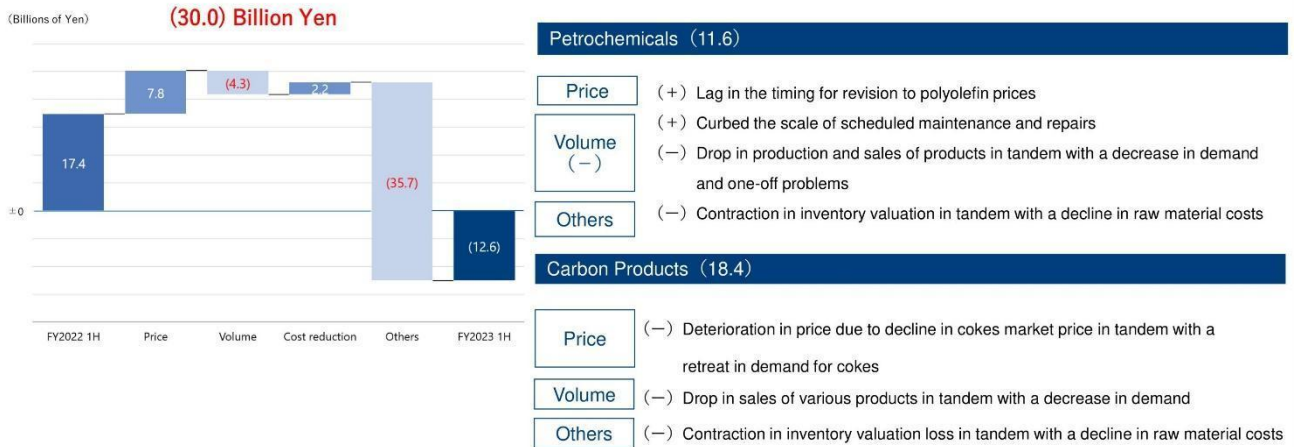


Operating income in MMA was down YoY by JPY3.1 billion.

The monomer market was down YoY, but volume was actually up YoY. Overall, the environment appears to have bottomed out, but the recovery going forward should still be gradual.

Analysis of Core Operating Income-Basic Materials Segment

Analysis of Core Operating Income Basic Materials Segment



For basic materials, operating income fell by JPY30 billion.

We were reflecting the cost increases to prices and the lag in timing for revision to polyolefin prices meant that the price factor was a positive. But because of slow demand and the inventory valuation loss of JPY33 billion, the core operating income had to go down sharply.

In H2, we only expect slow demand recovery, but the inventory valuation should not be that bad.

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]

Sales Revenue and Core Operating Income by Business Segment [Quarterly Data]



(Billions of Yen)

	FY2022					FY2023			
	1Q	2Q	3Q	4Q	Total	1Q	2Q	Total	
Total Consolidated	Sales Revenue	1,106.5	1,163.3	1,136.4	1,228.3	4,634.5	1,061.2	1,088.7	2,149.9
	Core Operating Income	72.1	50.5	55.3	147.7	325.6	50.8	68.8	119.6
Specialty Materials	Sales Revenue	316.7	310.4	305.6	301.0	1,233.7	290.9	291.8	582.7
	Core Operating Income	22.3	21.3	11.6	(3.7)	51.5	9.2	7.9	17.1
Polymers & Compounds	Sales Revenue	87.3	83.3	84.0	84.1	338.7	79.4	81.2	160.6
	Core Operating Income	7.2	9.2	5.4	4.4	26.2	7.1	5.8	12.9
Films & Molding Materials	Sales Revenue	136.1	131.0	128.5	122.1	517.7	124.2	121.6	245.8
	Core Operating Income	11.1	7.4	3.7	(4.2)	18.0	1.6	(0.6)	1.0
Advanced Solutions	Sales Revenue	93.3	96.1	93.1	94.8	377.3	87.3	89.0	176.3
	Core Operating Income	4.0	4.7	2.5	(3.9)	7.3	0.5	2.7	3.2
Industrial Gases	Sales Revenue	273.9	295.4	297.1	311.5	1,177.9	306.8	301.4	608.2
	Core Operating Income	29.5	24.8	30.0	36.7	121.0	39.8	40.5	80.3
Health Care	Sales Revenue	98.2	104.9	116.8	215.5	535.4	101.9	117.4	219.3
	Core Operating Income	4.0	0.5	15.5	124.2	144.2	10.0	22.4	32.4
MMA	Sales Revenue	87.8	79.0	69.3	69.1	305.2	69.0	69.4	138.4
	Core Operating Income	2.8	2.0	(4.6)	(4.2)	(4.0)	(0.9)	2.6	1.7
Basic Materials	Sales Revenue	269.1	307.0	286.2	259.5	1,121.8	242.7	248.6	491.3
	Core Operating Income	15.2	2.2	0.3	(5.6)	12.1	(8.0)	(4.6)	(12.6)
Petrochemicals	Sales Revenue	177.5	203.0	196.1	177.1	753.7	157.5	177.2	334.7
	Core Operating Income	5.8	3.3	(1.0)	(5.6)	2.5	(4.4)	1.9	(2.5)
Carbon Products	Sales Revenue	91.6	104.0	90.1	82.4	368.1	85.2	71.4	156.6
	Core Operating Income	9.4	(1.1)	1.3	0.0	9.6	(3.6)	(6.5)	(10.1)
Others	Sales Revenue	60.8	66.6	61.4	71.7	260.5	49.9	60.1	110.0
	Core Operating Income	(1.7)	(0.3)	2.5	0.3	0.8	0.7	0.0	0.7

* From Q1 FY2023, the current financial reporting segments has been reclassified into Specialty Materials, Industrial Gases, Health Care, MMA, Basic Materials, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2022.

* Breakdown figures of segment are approximation for reference purpose only.

Now, sales revenue and core operating income on a quarterly basis.

For core operating income in Q1, the figure was JPY50.8 billion. Q2 was JPY68.8 billion, so that's up JPY18 billion QoQ.

For specialty materials, the demand remained slow. Therefore, Q2 was down compared with Q1. For industrial gases, price management contributed and the results were solid.

For health care, the sales increase in North America from RADICAVA and the sales of the flu vaccine contributed. Q2 operating income increased by JPY12.4 billion from the previous quarter.

MMA benefited from the price factor because of the low feedstock prices and turned profitable. Basic materials did have an impact of inventory, but there was less impact of the maintenance turnaround and disruptions in petrochemicals.

Consolidated Special Items.

Consolidated Special Items



(Billions of Yen)

	FY2022 1H	FY2023 1H	Difference
Total Special Items	(4.2)	19.0	23.2
Gain on sales of shares of subsidiaries and associates	-	7.4	7.4
Gain on reversal of asset retirement obligations	-	2.6	2.6
Impairment loss	(1.9)	(3.2)	(1.3)
Loss on business liquidation	(0.1)	(2.7)	(2.6)
Loss on sale and disposal of fixed assets	(1.4)	(1.3)	0.1
Others	(0.8)	16.2	17.0

Special items resulted in an income of JPY19 billion. In Q2, we had income from divestiture and costs and expenses related to business exits. The net result was an income of approximately JPY100 million.

Consolidated Cash Flows

Consolidated Cash Flows



	FY2022 1H	FY2023 1H		FY2022 1H	FY2023 1H
Net cash provided by (used in) operating activities	93.2	195.7	Net cash provided by (used in) financing activities	15.6	6.5
Income before taxes	122.0	130.2	Interest bearing debts	50.3	35.5
Depreciation and amortization	133.8	135.6	Dividends, etc.	(34.7)	(29.0)
Change in operating receivables/payables	13.0	(7.3)	Net increase (decrease) in cash and cash equiv	(8.9)	86.6
Change in Inventories	(101.9)	0.3	Effect of exchange rate changes and changes in scope of consolidation	16.8	15.0
Others	(73.7)	(63.1)	Total	7.9	101.6
Net cash provided by (used in) investment activities	(117.7)	(115.6)			
Capital expenditure	(130.7)	(126.3)			
Sale of assets	12.9	27.0			
Investment and loans receivable, etc.	0.1	(16.3)			
Free cash flow	(24.5)	80.1			

Regarding cash flows, cash flow from operating activities was an income of JPY195.7 billion. Cash flow from investing activities was an expenditure of JPY115.6 billion. Free cash flow was an income of JPY80.1 billion.

A year earlier, free cash flow was negative-JPY24.5 billion.

Over the past year, we have made cash management a Company-wide priority issue and have been implementing disciplined management processes, developing tools and providing training.

As a result of our employees' sincere efforts, improvements are beginning to bear fruit. We will continue to promote this to achieve our target level.

Cash flow from financing activities was an income of JPY6.5 billion.

Consolidated Statements of Financial Positions

Consolidated Statements of Financial Positions



	(Billions of Yen)		
	Mar.31.2023	Sep.30.2023	Difference
Cash & cash equivalents	297.2	398.8	101.6
Trade receivables	808.8	825.2	16.4
Inventories	797.9	823.2	25.3
Others	245.7	293.7	48.0
Current assets	2,149.6	2,340.9	191.3
Fixed assets	2,367.1	2,460.6	93.5
Goodwill	727.7	760.6	32.9
Investments & Other	529.9	557.6	27.7
Non-current assets	3,624.7	3,778.8	154.1
Total assets	5,774.3	6,119.7	345.4

	(Billions of Yen)		
	Mar.31.2023	Sep.30.2023	Difference
Interest-bearing debt	2,375.8	2,498.2	122.4
Trade payables	476.3	487.2	10.9
Others	933.8	926.2	(7.6)
Liabilities	3,785.9	3,911.6	125.7
Share capitals, Retained earnings, etc.,	1,426.2	1,475.9	49.7
Other components of equity	138.4	247.1	108.7
Equity attributable to owners of the parent	1,564.6	1,723.0	158.4
Non-controlling interests	423.8	485.1	61.3
Equity	1,988.4	2,208.1	219.7
Total liabilities & equity	5,774.3	6,119.7	345.4
Net interest-bearing debt *1	2,078.6	2,099.4	20.8
Net D/E ratio	1.33	1.22	(0.11)
ROE *2	6.4%	-	-

*1 Net interest-bearing debt (End of Sep.30, 2023)
 = interest-bearing debt (2,498.2billion yen)
 - (cash and cash equivalents (398.8 billion yen) + investments of surplus funds)
 Note : Interest-bearing debt includes lease obligations.
 *2 Ratio of net income attributable to owners of the parent.

Total assets at the end of H1 were JPY6,119.7 billion, an increase of JPY345.4 billion from the end of the previous year, of which JPY270 billion was in relation to foreign exchange changes.

Total liabilities were JPY3,911.6 billion, an increase of JPY125.7 billion. Total equity was JPY2,208.1 billion. The net D/E ratio was 1.22x, an improvement from 1.33x at the end of the previous fiscal year.

Consolidated Statements of Operations

Consolidated Statements of Operations



	Exchange Rate (¥/\$)	142.6	145.0	143.8	130.0	13.8		136.0		
	Naphtha Price (¥/kl)	65,500	75,000	70,250	67,000	3,250		76,600		
		(Billions of Yen)						< Reference >		
		1H (Actual)	2H (Forecast)	FY2023 Forecast	FY2023 Forecast (Announced on May 12)	Difference	%	FY2022 Actual	%	
Sales Revenue		2,149.9	2,305.1	4,455.0	4,555.0	(100.0)	(2%)	4,634.5	(4%)	
Core Operating Income		119.6	130.4	250.0	250.0	0.0	0%	325.6	(23%)	
Special Items		19.0	26.0	45.0	(11.0)	56.0		(142.9)		
Operating Income		138.6	156.4	295.0	239.0	56.0	23%	182.7	61%	
Financial Income/Expenses		(8.4)	(23.6)	(32.0)	(38.0)	6.0		(14.7)		
Income before Taxes		130.2	132.8	263.0	201.0	62.0		168.0		
Income Taxes		(36.1)	(33.9)	(70.0)	(58.0)	(12.0)		(32.5)		
Net Income		94.1	98.9	193.0	143.0	50.0		135.5		
Net Income Attributable to Owners of the Parent		67.2	67.8	135.0	97.0	38.0	39%	96.4	40%	
Net Income Attributable to Non-Controlling Interests		26.9	31.1	58.0	46.0	12.0		39.1		

Next, full-year earnings forecast.

The forecast for H2 assumes the exchange rate of JPY145 to USD1 and a naphtha price of JPY75,000 per kiloliter. Full-year revenue is expected to be JPY4,455 billion, a 2% decrease compared to the initial forecast.

Core operating income remains at the initial forecast level of JPY250 billion.

Although our H1 performance exceeded our forecast, we continue to see no strength in the recovery from the sluggish business environment, and so we are keeping our full-year forecast in line with our initial forecast.

Special items are expected to be JPY45 billion. This is an improvement of JPY56 billion from the loss of JPY11 billion forecasted at the beginning of the fiscal year, due to a gain on the sale of Qualicaps and gains on step acquisitions related to the acquisition of CPC shares.

As a result, operating income has been revised upward to JPY295 billion, income before taxes to JPY263 billion, and net income attributable to owners of the parent to JPY135 billion.

Sales Revenue and Core Operating Income by Business Segment



Sales Revenue and Core Operating Income by Business Segment

		(Billions of Yen)					Reference
		1H (Actual)	2H (Forecast)	FY2023 Forecast	FY2023 Forecast (Announced on May 12)	Difference	FY2022 Actual
Total Consolidated	Sales Revenue	2,149.9	2,305.1	4,455.0	4,555.0	(100.0)	4,634.5
	Core Operating Income	119.6	130.4	250.0	250.0	0.0	325.6
Specialty Materials	Sales Revenue	582.7	638.3	1,221.0	1,238.0	(17.0)	1,233.7
	Core Operating Income	17.1	20.9	38.0	73.0	(35.0)	51.5
Polymers & Compounds	Sales Revenue	160.6	166.4	327.0	358.0	(31.0)	338.7
	Core Operating Income	12.9	8.1	21.0	27.0	(6.0)	26.2
Films & Molding Materials	Sales Revenue	245.8	280.2	526.0	515.0	11.0	517.7
	Core Operating Income	1.0	10.0	11.0	31.0	(20.0)	18.0
Advanced Solutions	Sales Revenue	176.3	191.7	368.0	365.0	3.0	377.3
	Core Operating Income	3.2	2.8	6.0	15.0	(9.0)	7.3
Industrial Gases	Sales Revenue	608.2	617.8	1,226.0	1,151.0	75.0	1,177.9
	Core Operating Income	80.3	72.7	153.0	125.0	28.0	121.0
Health Care	Sales Revenue	219.3	216.7	436.0	389.0	47.0	535.4
	Core Operating Income	32.4	25.6	58.0	20.0	38.0	144.2
MMA	Sales Revenue	138.4	148.6	287.0	319.0	(32.0)	305.2
	Core Operating Income	1.7	3.3	5.0	10.0	(5.0)	(4.0)
Basic Materials	Sales Revenue	491.3	546.7	1,038.0	1,199.0	(161.0)	1,121.8
	Core Operating Income	(12.6)	7.6	(5.0)	22.0	(27.0)	12.1
Petrochemicals	Sales Revenue	334.7	388.3	723.0	796.0	(73.0)	753.7
	Core Operating Income	(2.5)	7.5	5.0	16.0	(11.0)	2.5
Carbon Products	Sales Revenue	156.6	158.4	315.0	403.0	(88.0)	368.1
	Core Operating Income	(10.1)	0.1	(10.0)	6.0	(16.0)	9.6
Others	Sales Revenue	110.0	137.0	247.0	259.0	(12.0)	260.5
	Core Operating Income	0.7	0.3	1.0	0.0	1.0	0.8

* From Q1 FY2023, the current financial reporting segments will be reclassified into Specialty Materials, Industrial Gases, Health Care, MMA, Basic Materials, and Others. In addition, the company is reclassifying the managing segments for some of its businesses. Accordingly, for purposes of comparison, we are restated the results for FY2022.

* Breakdown figures of segment are approximation for reference purpose only.

This is the forecast by business segment.

The full-year forecast is compared to the initial forecast. Operating income in specialty materials is expected to be JPY35 billion lower than the initial forecast. The main factor is the recovery in the display and semiconductor markets in the three sub-segments being weaker than originally expected.

Industrial gases are expected to increase operating income by JPY28 billion from the initial forecast.

In the health care segment, operating income is expected to increase by JPY38 billion from the initial forecast, reflecting the continued strong performance of RADICAVA sales in North America.

Operating income in MMA is expected to decrease by JPY5 billion as the recovery in demand and market prices is weaker than expected.

For basic materials, although the recovery in demand is weak, return to profit is expected in H2 due to improved inventory valuation gains and losses and reduced impact of regular maintenance and irregular disruptions. However, for the full year, we expect a decrease of JPY27 billion in operating income from the initial forecast.

Dividend Forecast.

Dividend Forecast



- MCG's basic policy of returning profits to shareholders emphasizes enhancement of shareholder value by increasing the value of the company.
- While keeping an eye to increasing retained earnings that will fund its future business activities, MCG will aim for y-o-y dividend growth and payout ratio 35% in FY2025 in the action plan based on the management policy "Forging the future" for the period to FY2025.
- Based on this policy, MCG decided at its Board of Directors meeting held on November 1 to set its interim dividend for FY2023 at 16 yen, an increase of 1 yen from the year-end dividend for FY2022, the same as the previously announced forecast.
- And the year-end dividend forecast is 16 yen, the same as the previously announced forecast.



Finally, let me mention the dividends.

On November 1, 2023, the Board of Directors resolved that the forecasted interim dividend per share be raised to JPY16, a JPY1 increase from the year-end dividend for the fiscal year ended March 2023, as announced on May 1.

Additionally, the year-end dividend forecast will be JPY16, the same as the previously announced amount.

That concludes my presentation.

Question & Answer

Q&A: Factors behind the decline in revenue in the specialty materials sub-segments and forecast for H2.

Participant: On specialty materials, sales revenue in two sub-segments decreased QoQ. But then in H2, it appears that you are expecting a considerable recovery. Can you explain why the QoQ figures were down in the two sub-segments and why you're expecting a recovery in H2?

Nakahira: You said that the Q2 results declined from Q1, but if you look back before that, the results in Q4 of the previous fiscal year was actually the bottom. Compared to the numbers at that time, the performance in Q2 was on an upward trend.

Between Q1 and Q2, if you look at the core operating income, the specialty materials business, in reality, hasn't really changed. That's our view. The market, condition-wise, the automotive market is recovering, starting from Q1 and continuing into Q2. Semiconductors, are yet to show a turnaround from Q1 to Q2.

But displays, perhaps from Q1 until August of Q2, there was some recovery in the Chinese TV market and so the benefit was there, particularly in Q1. But basically, the difference between Q1 and Q2 isn't a major difference.

In such an environment, the outlook for H2 is not one in which we expect a recovery in demand. It's more about our efforts on pricing and cost management. Effectively, it's like gap filling, for the most part. But at the same time, towards H2, we do see some businesses improving.

For areas like barrier packaging materials and carbon fiber, we expect some recovery towards Q3 and Q4. But with regard to our outlook, we are not really expecting a big positive or uptick in H2.

Particularly for films and moldings, we do expect an improvement. But because, for example, for polyester film, the business was very weak for label liners, and that's recovering slightly.

But, overall, it's not that we are expecting a major difference or major improvement. The recovery we expect or we anticipate would be only weak, and we are proceeding with what we can.

Participant: But your inventory is now smaller. So, in Q2, maybe the utilization was down. But in H2, there will be recovery there?

Nakahira: We are continuing efforts to realize such and we're also working on pricing. Some of the feedstock prices are coming down, so there is some downward pressure on pricing, and we are trying to fight that and maintain margin.

Q&A: Current business environment for MMA.

Participant: Regarding the MMA segment's return to profitability in Q2, you talked about feedstock prices coming down. What about capacity utilization? What do you expect and assume for the market and overall business environment, please?

Nakahira: For MMA, the prices remain depressed, but the margin or price difference with the feedstock is more favorable for us. In addition, to be honest, last year, we decided on the closure of the Cassel, and we are now without those factory costs. That has been the case since Q1.

With regard to China, there are some household appliances recovering. We hear stories like that. But then, as with the case with specialty materials, we're not expecting that strong recovery.

With regard to pricing, we hope that the prices can be higher, maybe around USD1,650 in Q3, and USD1,700 in Q4, but then we don't really know. So for MMA, we are not really expecting a strong recovery.

Q&A: "RADICAVA" and "Mounjaro" in health care

Participant: In health care, RADICAVA is growing further and doing much better than expected. Why is that the case? Additionally, can you tell us what's happening with Mounjaro now?

Akihiro Tsujimura (hereafter, Tsujimura): On Mounjaro, it's been steady since its launch. New adoptions continue at hospitals as we expected, and so it is going very well.

As for RADICAVA in North America, RADICAVA ORS was launched in the US in June 2022. In the same year, in October, a competitor drug was also launched. We had anticipated the impact, and we were quite conservative in our assumptions.

The initial target was for surgeons specializing in ALS, but we expanded our breadth, and we are actually targeting the neurosurgeons more widely and have obtained prescriptions from them. That has proven positive.

Once the patient is diagnosed with ALS, we want them to be able to have access to RADICAVA as soon as possible, so we have been trying to educate and promote the drug to more people. Those activities have also borne fruit.

Q&A: Impact of limited shipment of Mounjaro.

Participant: Regarding Mounjaro, it's a limited shipment today. Going forward, with further supply capability, could you not sell more? Would that be a factor for the upward revision this time?

For RADICAVA, do you expect further momentum going forward? Initially, you recognized a problem related to the patents for the injection type. So can you talk about the projection for the next fiscal year?

Tsujimura: As for Mounjaro, the limited shipment impact on sales is limited. Currently, lifting the limited shipment is not yet clear. With Eli Lilly, in many ways, we are engaged in various consultations. We're hoping that we can shift to the normal shipment as quickly as possible.

As for RADICAVA, initially, we launched the injection type in August 2017. Then in June of 2022, the oral formulation was launched. That transition was very successful. Faster than we had expected, transition progressed.

ALS patients had to go to hospitals and get the intravenous injections, and that was too cumbersome, both for the patients and their families, whereas, with this RADICAVA ORS, taking 5-milliliters per dose orally at a time is enough. Patients and family are seeing the burden on them being relieved very much, and that is having a major impact. I think that is resulting in this quick transfer from the injection type to the oral formulation.

For the next fiscal year, through many different activities, we will be continuing our efforts to maximize the value of the product.

Participant: About Mounjaro, is it not a factor in your upward revision?

Tsujimura: Mounjaro is not the major factor for the upward revision.

Q&A: Factors behind the downward revision of the full-year forecast for specialty materials

Participant: For specialty materials, you have made a JPY35-billion downward revision for operating income on a full-year basis. You talked about the slow recovery in the display and semiconductor markets.

Sales Revenue and EBITDA by Market of Specialty Materials.

Sales Revenue and EBITDA by market of Specialty Materials



(Billions of Yen)

	FY2022 Actual		FY2023 1H Actual		FY2023 Forecast		FY2025 Target	
	Sales Revenue	EBITDA	Sales Revenue	EBITDA	Sales Revenue	EBITDA	Sales Revenue	EBITDA
Specialty Materials	1,230.0	111.0	585.0	50.0	1,220.0	100.0	1,370.0	225.0
EV / Mobility	200.0	11.0	105.0	7.0	220.0	14.0	250.0	34.0
Digital	230.0	35.0	115.0	15.0	240.0	28.0	350.0	75.0
Semiconductors	100.0	19.0	45.0	6.0	95.0	12.0	-	-
Electronics	130.0	16.0	70.0	9.0	145.0	16.0	-	-
Medical	60.0	7.0	30.0	4.0	65.0	8.0	160.0	30.0
Food	210.0	34.0	100.0	19.0	210.0	35.0	220.0	39.0
Industrial, Consumer goods, Building & Construction etc	530.0	24.0	235.0	5.0	485.0	15.0	390.0	47.0

* Breakdown figures by market are approximation for reference purpose only.

Participant: I'm looking at page 39 of the materials. Compared to the previous forecast, in addition to the display and chip markets, I'm afraid you are downward revising the industrial, consumer, and construction applications. You have also made a downward revision of JPY5 billion for EV and mobility on an EBITDA basis. Could you elaborate on that?

Nakahira: Industrial materials, consumer goods, and construction applications are rather broad, including items that are common to different segments, categorized like Others. That's part of the reason.

More practically, in Europe and North America, things that are related to consumer goods are weak, and construction as well. Paints and adhesive agents we are supplying to many different

applications, which are all weak. As for EV and mobility, overall, our business is steady in fact. We have many different business areas within specialty materials, and automotive-related products are doing generally well.

Participant: As for automotive applications, how about the impact of strikes, the labor disputes, with the United Auto Workers, UAW, union?

Nakahira: Yes, some impact, but much smaller than we had originally anticipated.

Q&A: Business strategy for MMA.

Participant: On the business strategy for MMA, maybe you will announce it in February next year. However, what is your current plan on strategic portfolio reform? How about the investment for expanded production in Louisiana in the US? Any updates for MMA since the previous announcement?

Nakahira: For MMA, the market situation is not strong right now. Therefore, in this environment, we want to be profitable as much as possible, and we are implementing various measures for that purpose. Last year, Cassel was closed. In addition, we will continue to implement structural reform so that, regardless of the environment, we will be profitable. We want to be in that game.

As for the investment in the US, we are continuing to look into that possibility. In the state of Louisiana, currently, there are many permission-related procedures that we are waiting for, for example, the environmental assessment and others. The timing for approval has not been finalized. Until there are permits, we can't really finalize our decision on this big investment. So the limiting factor is those administrative affairs, and we'll continue to address that.

Participant: In the industry journal, I think you made a comment that MMA would not be excluded from your business portfolio transformation. Will that also be updated in the announcement next February? So MMA could be a candidate for withdrawal or sale?

Nakahira: Our policy, fix and grow, is being applied to all areas. In MMA, we are working on that as well.

On broader terms, as a corporate entity going forward, what will be the optimal state to be is our starting point, looking at all business areas. Operation and the overall strategy I'm afraid are different. We're talking about different layers.

Q&A: H2 forecast for petrochemicals

Participant: With regard to petrochemicals, a sub-segment of basic materials, in H2, JPY7.5 billion is your forecast for core operating income, which is a recovery or improvement from H1.

The disruption at Kashima, the disruption impact will be lost. Then in H1, you had the valuation loss on inventory and that was expensive. But in H2, will that turn profitable or would there be other factors such as higher capacity utilization or improved market conditions? Could you explain that, please?

Nakahira: On the demand side, we don't expect a major improvement. For H2, the recovery or the improvement is due to two factors. One is about the inventory valuation difference. In H1, this was a negative factor but, in H2, that will be a positive impact. The naphtha prices are higher. Then the other factor is that the maintenance turnaround and the disruptions in H1, the impact of those would be gone in H2.

Obviously, we need to monitor the naphtha prices going forward, but we are actually taking a price-conservative view on our forecast. So the figures should be solid.

Q&A: Improvement of business performance in H2.

Participant: For carbon products, Q1 and Q2 were struggling, but then you are expecting the breakeven level or a profit of JPY100 million. Why is that? How is the market in your view? Why would H2 be better?

Nakahira: With regard to carbon products, for a while, our markets had been depressed and we had been seriously affected by that condition. Q3 will continue to be challenging with regard to the environment. But then, from Q4 and onwards, in China, we believe that the coking capacity would go down and the supply-demand balance would be improved. That's how we came up with this forecast.

Until recently, the coking coal prices had been quite high. So, our margins were squeezed. But that should be gone going forward on Q4. Those are all factored in our forecast.

Q&A: Difference between increase/decrease in health care SG&A and R&D expenses.

Participant: Now, on pharma.

Pharmaceuticals Business: Revised Forecasts of FY2023.

Pharmaceuticals Business: Revised Forecasts of FY2023



				(Billions of Yen)			<Reference>	
	1H Actual	2H Forecast	FY2023 Forecast	FY2023 Forecast (Announced on May 12)	Difference	%	FY2022 Actual	%
Revenue	219.4	216.6	436.0	389	47.5	12.2%	535.4	(18.6%)
Domestic	157.5	153.5	311.0	300	11.5	3.8%	319.1	(2.5%)
Overseas	61.9	63.1	125.0	89	36.0	40.5%	216.4	(42.2%)
Overseas sales ratio	24.5%	31.4%	28.2%	22.9%			40.4%	
Cost of sales	109.2	105.3	214.5	203	12.0	5.9%	205.9	4.2%
Sales cost ratio	52.5%	47.4%	49.8%	52.1%			38.5%	
Gross profit	110.2	111.3	221.5	186	35.5	19.1%	329.6	(32.8%)
SG&A expenses, etc.	77.7	85.8	163.5	166	(2.5)	-	185.3	(11.8%)
R&D expenses	29.9	35.6	65.5	63	3.0	4.8%	87.8	(25.4%)
Core operating profit	32.5	25.5	58.0	20	38.0	190.0%	144.2	(59.8%)
Non-recurring items	12.0	(2.0)	10.0	3	7.0	-	(60.0)	
Operating profit	44.5	23.5	68.0	23	45.0	195.7%	84.3	(19.3%)
Net profit attributable to owners of the Company	37.3	16.2	53.5	13	40.5	311.2%	85.3	(37.3%)

Participant: If you could go to slide 35. You are looking at the plans on SG&A and R&D expenses here. Compared with the previous forecast, the R&D expenses are slightly up, but the SG&A expenses overall are to go down. So there must be some SG&A expenses reduced other than R&D. Is that something that you did intentionally as part of your cost reduction initiative?

Tsujimura: Yes, as you mentioned, this is intentional. We are really working hard to contain SG&A.

Participant: So that would mean going forward, in future years, this could also happen?

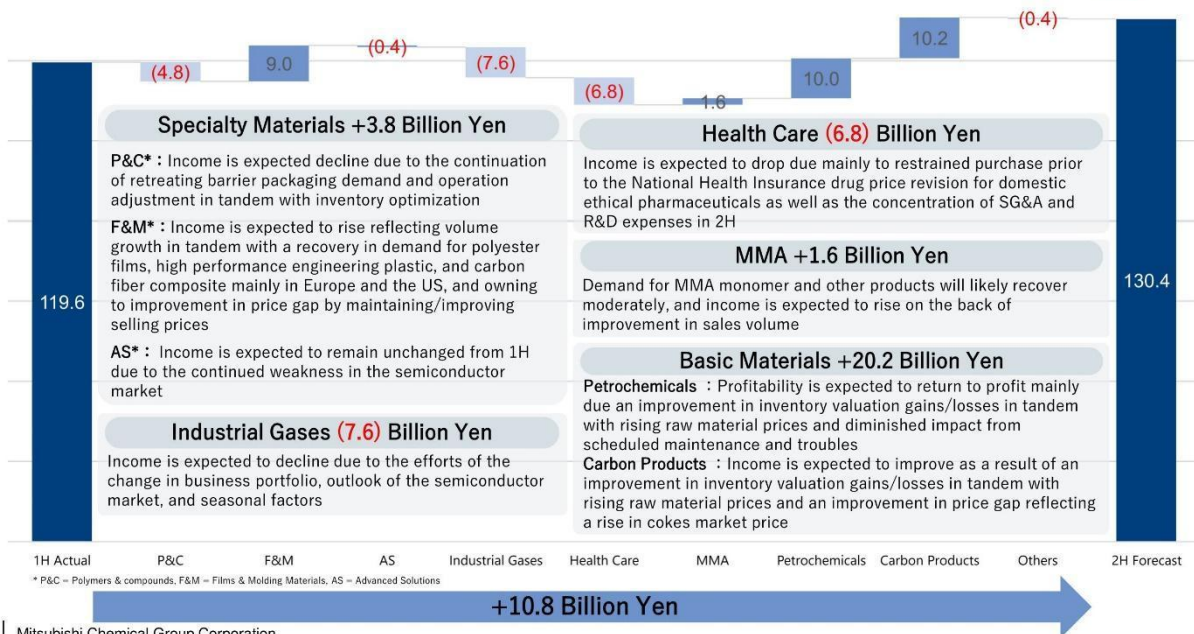
Tsujimura: If there's a new product about to be launched, there will be necessary SG&A, and we won't shy away from spending there. But there are other parts or there could be measures to optimize the expenses. It's not just Mitsubishi Tanabe Pharma Corporation, but the whole of the Mitsubishi Chemical Group is working on the issue and we would like to proceed with it further.

Q&A: Demand outlook for specialty materials.

Participant: Regarding what you think about specialty materials in H2, you talked about a recovery in the barrier packaging materials.

Analysis of Core Operating Income.

Analysis of Core Operating Income (FY23/1H→2H)



Participant: But on the slide, it mentioned “the continuation of retreating barrier packaging demand.” Can you explain that? You said LCD-related products were performing well until August. As for OPL film, for example, what are the assumptions for H2? Also in films and molding materials, you’re expecting a recovery in performance engineering plastics. How likely is that? I know automotive is strong, but for medical and maybe semiconductors, you’re not expecting recovery. So can you give us the details?

Nakahira: Packaging materials declined slightly in Q2. For Q3, we are expecting a slight recovery from that low Q2 level. For H1 versus H2, since Q1 was strong, maybe not much difference between H1 and H2.

Overall, packaging materials are pretty good, with a good margin. The demand has been strong, but in Q2, that came to a halt, so we are a bit worried about that. But compared to that, we are expecting some recovery for Q3. That’s for the packaging materials.

As for OPL film, since the beginning of this fiscal year, the large, flat TVs, LCD panels, had some movement. But since August, September, that has halted. For H2, in terms of sales volume, we don’t expect the same level as in H1.

As for performance engineering plastics, semiconductors are not likely to recover, so that is the basis of our projection. But for instance, in the US, in non-semiconductor areas, we expect Q3 to be the bottom. As for Europe, some recovery trend is continuing. Medical/pharma use and pressure tanks for batteries, these are strong. In Europe and the US, there are some signs of improvement, but not a strong recovery.

Participant: SoarnoL and OPL film, especially SoarnoL, it's been speculated that your competitor is encroaching on your market share. Is that a market factor or is it a competitive factor?

Nakahira: Overall, this is strong. But there are some effects of pricing to reflect higher material costs. In terms of overall demand and supply, the tight supply is still a macroscopic situation. So we're not feeling that we are losing market share.

Participant: Is the same true for OPL film?

Nakahira: Yes, the same. When LCD panels get momentum, we should see sales go up.

Q&A: RADICAVA status and EBITDA margin in health care

Participant: As for RADICAVA, the competitive products are on the market, and yet you expect the high level to continue next fiscal year. Would that be a fair statement?

EBITDA Margin by Business Segment

EBITDA Margin by Business Segment



	FY2022	FY2023	FY2023	FY2025 Target	
	Actual ^{*1}	1H Actual	Forecast	^{*2}	^{*3}
Total Consolidated	10.1%	11.7%	11.5%	18.0%	15.0%
Specialty Materials	9.0%	8.5%	8.6%	16.0%	16.0%
Industrial Gases	19.1%	22.2%	21.0%	24.0%	24.0%
Health Care	7.7%	17.8%	16.5%	15.0%	15.0%
MMA	6.4%	8.7%	9.4%	15.0%	15.0%
Basic Materials	4.6%	1.4%	3.5%	—	5.0%

EBITDA : Core Operating Income - Share of profit of associates and joint ventures (included in Core Operating Income)
+ Depreciation / Amortization

*1 EBITDA margin after deduction of an impact equivalent the result of the Gilenya arbitration award
(EBITDA margin before deduction is Total Consolidated 12.6%, Health Care 29.4%, respectively)

*2 Petrochemicals 50:50 JV share case

*3 Petrochemicals 100% owner case

Participant: Also, as for EBITDA margin, the target for the year ending March 2026 will be achieved this year. Is this thanks to the very strong performance of RADICAVA? For FY2024 and FY2025, what is your projection?

Tsujimura: As for RADICAVA, for next fiscal year, we expect the situation to continue since we are continuing the programs and the measures that we have been implementing. But there is competition and we will be keeping a close eye on that. We will be implementing various measures to maximize the product value.

We need to invest in R&D in the pharmaceutical business to manage the pipeline altogether. So investment and return, the balance between the two needs to be carefully looked at. As for the EBITDA margin target for FY2025, we'll be making every effort to achieve that.

Participant: In the initial forecast, maybe 15% EBITDA margin for FY2025 will be difficult was what you indicated. But now you are becoming more optimistic, correct?

Tsujimura: That's correct. However, we would not be complacent with that.

Q&A: Mounjaro status.

Participant: In the market, for example, people are talking about Ozempic for weight loss. What are you thinking about competition in GLP-1 receptor agonists and are there any actions that you are taking to gain market share?

Tsujimura: Regarding Mounjaro, we are seeing the product being ramped up as expected. Globally, as you said, demand for GLP-1 receptor agonists is growing sharply. For diabetics number two indication, we are promoting Mounjaro. So there is some impact of limited shipment but, including that factor, we would like to respond to the situation squarely together with Eli Lilly.

Q&A: R&D expenses in health care

Participant: Someone talked about R&D expenses increasing in SG&A expenses. In your case, spending on R&D should be bigger overseas than in Japan. If that's the case and if your yen to the US dollar rate has changed from JPY130 to JPY145, that would mean the R&D expenses are actually quite squeezed.

Usually, in the even quarters, you will have more R&D expenses. But even if you think about the exchange rate, the effective R&D expenses are actually not increasing. Obviously, you have to think about the progress in trial. You are done with NeuroDerm, and so the costly ones are gone. Therefore, this is only a short-term decrease and you are expecting an increase for H2.

For the next fiscal year and beyond, do you plan to properly build up with the expansion of MT-0551 or, particularly, MT-7117? Or is it possible for some structural reduction of R&D or pre-Phase I preclinical trial? Are you perhaps holding off on some such activities? Can you tell us about the R&D strategy in line with those figures?

Tsujimura: For the next fiscal year and onwards, depending on the pipeline progress, the R&D expenses will be spent as appropriate. As you rightly mentioned, this time, ND0612 development has passed a certain phase, so it's not that big now, and so the numbers are coming down there. But the largest factor is really Medicago that we decided to halt and exit, and that led to a lot of expense reduction.

With regard to pipelines, for the next financial year and onward, if you want to grow business in the US, you really need to have the right pipeline, and we are reviewing our current pipeline. With that, we are also thinking about resource reallocation. However, that probably shouldn't lead to a sudden increase in R&D expenses. We obviously need to manage the overall figure appropriately as well.

Participant: With regard to Medicago, as there were subsidies, the impact of withdrawal is about USD250 million. So on a quarterly basis, that would be like USD60 million or USD70 million. So that was my ballpark figure. Would that be correct? Then for preclinical and Phase I and licensing-in, how about the parts that were not shown in the materials?

Tsujimura: With regard to Medicago, I think your assumption is right. For preclinical activities, my view is that we do have something pretty good. Obviously, it's about pharmaceutical R&D. You have

to be mindful of the success probability. So we are actually trying to get more in the preclinical pipeline. And so, including business development activities, we have to think about various activities if you want to be successful in the US.

Participant: And so, area-wise, immunization and circulation, are those other focus areas?

Tsujimura: Our focus areas are the central nervous system, immuno-inflammation, and oncology. We will continue to focus on these three areas.

Participant: Does oncology remain as a focus area?

Tsujimura: There has been one progress, one step forward, with regard to our oncology activity. While looking at that result, we will also monitor the preclinical landscape to consider how to do the resource allocation.

As you are well aware, in the oncology field, we have new modalities coming one after another. And so if you want to be serious, you obviously need a lot of investment. We will obviously have to consider how to invest for the medium term.

Q&A: Segment percentages.

Participant: On specialty materials, I understand that the external environment is not so good. I do appreciate that. But at the same time, your specialty materials business is about food and medical, which should be relatively stable.

Sales Revenue and EBITDA by Market of Specialty Materials.

Sales Revenue and EBITDA by market of Specialty Materials



(Billions of Yen)

	FY2022 Actual		FY2023 1H Actual		FY2023 Forecast		FY2025 Target	
	Sales Revenue	EBITDA	Sales Revenue	EBITDA	Sales Revenue	EBITDA	Sales Revenue	EBITDA
Specialty Materials	1,230.0	111.0	585.0	50.0	1,220.0	100.0	1,370.0	225.0
EV / Mobility	200.0	11.0	105.0	7.0	220.0	14.0	250.0	34.0
Digital	230.0	35.0	115.0	15.0	240.0	28.0	350.0	75.0
Semiconductors	100.0	19.0	45.0	6.0	95.0	12.0	-	-
Electronics	130.0	16.0	70.0	9.0	145.0	16.0	-	-
Medical	60.0	7.0	30.0	4.0	65.0	8.0	160.0	30.0
Food	210.0	34.0	100.0	19.0	210.0	35.0	220.0	39.0
Industrial, Consumer goods, Building & Construction etc	530.0	24.0	235.0	5.0	485.0	15.0	390.0	47.0

* Breakdown figures by market are approximation for reference purpose only.

Participant: Nevertheless, if you look at the overall picture, there appears to be a major decline. You will come up with the drastic business portfolio reform next February. Is that why you are not concerned about the major decline? Or do you actually have some improvement measures under the sleeves that you are currently implementing? Which is right?

In your recent presentation, you mentioned that you are going forward with a lot of activities about M&A with medical and digital areas. But what about industrial materials, consumer goods, and construction materials or EV and mobility? Are you not thinking about exiting and adding new businesses, et cetera? Please provide a supplemental explanation of the strategic part of your business.

Nakahira: Obviously, we would want to focus on medical and food, which are less susceptible to cyclicity. That's what we mentioned the other day. The percentage of the stable areas now is much lower, so there has been the serious impact from the semiconductor and display markets. As of now, we are impacted heavily by those areas which are more susceptible to fluctuation and cyclical movements in the markets, such as EV and mobility or digital, are actually larger in scale.

We want to be more stable, and that's why we would want to increase the medical and food part in our portfolio. Obviously, we are trying to realize that. With all that, we talked about those four areas and where we are focusing on of our product lineup. So, we've been talking about fix and grow, and the specialty materials sector is in the fixing phase. Part of that fixing involves the portfolio adjustment to make sure that we have good earnings capability and growth capability.

Participant: When you think about the portfolio change, like digital, medical, you're buying something, so that would be expensive. Others will have to be sold off. But then what you're selling, you'll have to sell something that's attractive. Otherwise, you may lose money. As CFO, for the basic materials carve-out, that will be at a lot. And then, specialty materials, you will have ins and outs, and there will have an impact on intangibles. Financially, that won't be a problem?

Nakahira: For the H2 forecast, we have looked at that. The transfer of Qualicaps, that wasn't really about that business not being attractive and not performing and we sell at a fire sale. We just found the best owner, and they were willing to pay the right price. That was a positive that generated income for us. So, selling or divesting a business is not always at a loss and buying a business is not always at a loss either. We are trying to sell high and buy low.

Participant: In the case of Qualicaps, you've done impairments. So obviously, that should be beneficial. And you also have to enjoy gains on step acquisitions. But going forward, will that continue to be the case?

Nakahira: Yes, we will make utmost efforts in that regard.

Q&A: The sale of carbon products

Participant: On carbon products, against this backdrop, I don't feel like you can find buyers. But for H2, you said that you are confident about earnings recovery. Does that mean you have high confidence about potential buyers?

Nakahira: We are continuing the negotiations and discussions. Since this is a negotiation matter, if there is something that we can share with you, we will do so.

Participant: But aside from that, your forecast is that this business will turn profitable?

Nakahira: Yes, that's our forecast.

Greetings from Nakahira.

Nakahira: The environment that we're in is very difficult, but we had been anticipating this from the beginning. In this context, we are promoting activities for prices, costs, and cash, which are now showing effects reflected in our financial results as well. We will continue with these efforts. So Forging the future will continue to be driven. Thank you very much for your participation today.

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