

# Mitsubishi Chemical Group Corporation

## IR Day 2023

### Transcript

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# Mitsubishi Chemical Group

## IR Day 2023

### Attendees:

Jean-Marc Gilson

Representative Corporate Executive Officer, President & Chief Executive Officer

Yuko Nakahira

Executive Vice President, Chief Financial Officer

Frank Randall (Randy) Queen

Executive Vice President, Head of Specialty Materials

Manabu Chikumoto

Executive Vice President, Head of Basic Materials

### <Presentation>

#### **Gilson**

Hello everyone Thank you very much for participating in our October IR Day, today. Also, thank you very much to those of you who are joining us online. I understand that many people are joining us today.

#### P2 【What you will hear about today】

Today, I would like to give you an update on the status of our business. We would like to particularly focus on talking about our progress against the 2025 goal of the Mitsubishi Chemical Group and the growth strategy of Specialty Materials. First, I will briefly talk, and then Randy will update you on the strategy of Specialty Materials.

When you leave this room, I hope you will have a good understanding of the changes we are making and the initiatives that we started within MCG several years ago. Also, when you leave this room, I hope you will understand why we need to change our company.

It has been a tough year for the chemical industry. I believe that the chemical industry has no choice but to make deeper changes, both domestically and internationally. If we want to attract investment into the future, that's the only way.

#### P3 【Updates on MCG's ambition towards 2025】

Now, I would like to explain our outlook and progress toward our 2025 goals. We will cover all the major matters summarized in our management policy "Forging the future".

P4 【We remain committed to our financial targets ...】

First, we remain committed to achieving our financial goals. This is very important to us. We are committed to achieving an EBITDA of approximately 600 billion yen for fiscal 2025.

Our new strategy is to fix for growth. Sometimes we may have to temporarily shrink in order to grow, but that is a necessary step. This will allow us to grow our company into the future. In order for us to grow, first, we need to rebuild our business. Therefore, we will continue to advance our business based on our new growth strategies. For your reference, we have divided our financial targets for fiscal 2025 into two patterns. One is assuming that the petrochemical joint venture is established on a 50/50 basis as explained in February. The other one shows what the numbers would be like if nothing happened. This is just for your reference, but our goal is to promote industry integration of the petrochemicals business, and we hope to achieve this in the not-too-distant future.

P5 【... and we achieved significant progress on GHG emission reduction and other non-financial targets】

We are not only focusing on financial targets as a company. Achieving our financial targets depends on the results of many other tasks. In the current environment, there are many pressures particularly on the chemical industry. Especially, it is about sustainability. We are seeing good progress in GHG reduction. So far, there is a 14% reduction compared to FY2019. Everything is progressing according to plan, and we believe it is possible to achieve a 30% reduction in Scope 1 & 2 by FY2030. Customer satisfaction is at the core of who we are and we have made very good progress. As we transform our company, it's essential that we continue to serve our customers the right way, and it's important to us that we've made good progress. Similarly, employee engagement is extremely important. For a company to be successful, it needs employee engagement. Despite the company's ongoing transformation, employee engagement has improved by 3 points compared to FY2020.

The last point is diversity in management. As you know, our leadership team is extremely diverse, which makes us stand out among Japanese chemical companies. We are working on diversity throughout the company. We believe that diversity is essential. We think this is essential to transforming the way our business operates, increasing the value of our company, and delivering added value to our shareholders over the long term.

P6 【Industry headwinds require further resilience...】

Before I talk about our five key initiatives, I want to remind you why transforming ourselves is so important.

The chemical industry has been facing headwinds over the past year and a half, and this is

where the polarization occurred. Although the service industry has been doing very well, the manufacturing industry is not strong. Consumption of services was high. No matter where you went in Tokyo, consumption was high in businesses such as restaurants, tourism, and leisure. However, because consumption of goods was very low, polarization became extremely intense. The situation is similar not only in Japan but all over the world. The economy is in a difficult situation. Demand is also declining, and the global economy is slowing down. Real growth is also forecast to be weaker than expected. Against this backdrop, many chemical companies are revising their earnings forecasts downward. This means that there is a huge challenge. What is important is that we all understand this. That means the industry as a whole is finally starting to realize what's going on, and I think there will be huge waves in the future. In other words, the entire chemical industry is going to be reorganized. Staff reductions will also be significant. I think there will be many announcements regarding what I mentioned in the future. What is essential for us is to prepare as an industry and be prepared for that.

P7 【… MCG continues to accelerate its Forging the future transformation to counteract negative business impacts】

We started a fundamental transformation several years ago. And it was good for us. Because, thanks to this transformation, we are better prepared than any other company as we move forward with our "Forging the future" strategy.

It has been about two years since we established these five key pillars, and we are proceeding with each one diligently and strictly. So, I would like to talk about our initiatives for each key pillar. First, I would like to talk about leaner, digital, and empowered.

We have really simplified our organization. We have restructured our business through reorganization. We have also changed our operations outside of Japan. And we're seeing a real shift in the way we operate, which allows for faster decision-making. We are now able to see what is happening and take action based on the state of the economy more quickly than ever before. We are also making considerable progress in terms of digital initiatives. What we are currently aiming for is a common ERP system. It has been test-driven and is ready. We are starting to roll out that initiative. A new global human resources system will also be introduced from January. Financial reporting has also been revamped. This enables business leaders to make more intelligent business decisions. So, we have made considerable progress with digital tools. Lastly, there is a new HR policy. What we are focusing on now is female leadership. We are currently promoting women to a new generation of leadership positions. We are developing leaders who can see reality and deal with it. I think we have made about 70% progress toward our goals of leaner, digital, and empowered. We have

made huge progress.

Next, I would like to talk about strategic cost transformation. We initially announced a reduction of 100 billion yen, but it was revised upward to 135 billion yen. We are on track to achieve this year's goal for cost reduction. I think we are up to at least 70% of target. Everyone understands that we absolutely need to improve our productivity. Our previous cost structure was not sustainable given the current business and environment.

The third pillar is a project that separates, reorganizes, and exits some of our businesses. Progress is according to plan. I will announce the details of the petrochemicals and carbon products situation when the time comes. The petrochemicals carve-out is a complex deal. However, I can tell you that progress is being made. We also hope to announce a deal in the carbon business within this fiscal year. This is also what we are working on very diligently and making progress. It is very complex because of the commodity nature of the business and price fluctuations, but we're making very good progress.

On strategic capital allocation, I believe we are at 70% toward where we need to be in capital allocation. There's a lot of internal work going on for strategic capital allocation. One is to manage capital investment and expenditure in a much stricter manner. We are very conscious about how much return we are aiming for from which project. In other words, capital investment is a very important element of business, and it is only through capital investment that it is possible to pursue growth initiatives. With the exception of necessary maintenance, investing in growth means spending only in areas where growth is possible. We have very strict cash flow management. In difficult times, we consider delivering positive cash flow to be one of the most important KPIs. We place great emphasis on working capital management. In particular, we are trying to generate a lot of cash through inventory management.

We are also selling some businesses. I think Randy will mention some of the recent deals. We were able to set very good prices. These deals are also helping to strengthen our financial position. We have also announced a dividend increase for this year. We will also change our dividend policy in the future, and we would like to increase the payout ratio to 35% or higher. We have an increased ability to generate cash. It has become possible to carry out highly targeted M&A. Randy will talk about that. I am satisfied that we are disciplined in our current actions.

We have a much higher awareness of capital management. Each business and each person is participating in that. We are well on track in leaner, digital, empowered; strategic cost transformation; business to exit; and strategic capital allocation. We are well on track in all of these four initiatives.

This allows us to focus most of our future work on growth and performance improvements.

As I've said several times before, if we want our business to grow, we have to fix it. The four pillars are intended to fix our business structure and put it in a better shape. And as I explained earlier, once this is over, we will turn our attention to growth. We have now built a good foundation. In line with this, we are now at the stage of rebuilding and achieving growth.

**P8 【Specialty Materials and Industrial Gases are our growth drivers】**

We have set our target as 2025, and we are optimistic for the following reasons. One is that our fix and grow strategy is working well. Randy will explain Specialty Materials later. Regarding Industrial Gases, we are well on track toward our goals as planned. Health Care is another business that shows that the fix and grow strategy is working very well. I think you can see in this business that there is strong growth and that we are making a turnaround. Sales are also very good and cost cutting measures are also good. So far, our efforts in this business have been focused on things like rebuilding our pipeline, but we want to go beyond that and focus on further cost reductions from now on. When it comes to Health Care, I'm very optimistic and think we can achieve these goals. We went through some really tough times with MMA. However, looking at the current situation, our fix and grow strategy is working, allowing us to divest unprofitable assets and reduce costs. Additionally, the upward trend in prices should not be overlooked. Regarding MMA, I think we have already passed the point of break-even. Looking at all the numbers and indicators, I think MMA is on track to achieve its plans.

Our focus is first on fixing. And then it's about growth. And it's working very well. In the business I have talked about so far, I can confidently say that we can achieve our goals. However, it is different when events that cannot be controlled occur in the economy.

Basic Materials is listed on the far right, but EBITDA of 52.1 billion yen includes the amount of the carbon project, but not the 45 billion yen. This is because the carbon business is likely to be sold.

**P9 【We reconfirm our vision for the future】**

The transformation we started two years ago is now progressing toward our goal. The goal is to focus on products, specialties, and solutions. Have we completed it? No, it's not over yet. However, I don't think there will be any further portfolio reforms or changes in the future. That is unless there are any surprises with all the portfolios that we are currently rebuilding. This means that things are moving in a direction that is favorable to shareholders. We are making progress towards becoming a truly global company. We also have very strong local teams. Most decision-making and management have already been delegated to local teams and areas. We are ready to deliver even more value to our customers in all regions. The

same goes for society as a whole. In almost every case, we believe we are making the right decisions and will improve long-term shareholder value.

To achieve our goals, we must continue to apply the same approach to Specialty Materials. First, we need to fix Specialty Materials before we can grow. The growth of Specialty Materials is very important to us. That's why we have so many employees there and create so much intellectual property. We have invested in this area and have acquired various businesses over the past few years.

P10 【Specialty Materials is the core of MCG and will become even more important in the future】

Specialty Materials is also an area where we need to further improve value creation. Since Randy took the post, he has been working with our teams around the world to develop strategies. This is a strategy of fix and grow. We have a very strong position in the product lines that Randy will be talking about today. We hold first or second place in many product lines.

The Specialty Materials team focuses on this and implements the plans. And we are undergoing a deep transformation. Looking at this, I am optimistic that we will be able to achieve our 2025 target.

That includes a very large EBITDA margin improvement, and also a big rise in the EBITDA amount. This means that the amount will increase from approximately 110 billion yen to 225 billion yen by fiscal 2025. And that means significantly improving ROIC. I won't say any more about Specialty Materials. Now, I would like to hand it over to Randy. Randy will walk you through Specialty Materials in a lot more detail. He will talk about what is in the plan for Specialty Materials. Randy, please.

## **Queen**

P11 【2. Specialty Materials: Growth strategy】

Thank you, Jean-Marc.

My name is Randy Queen. I took over this job in April of this year. I am very happy to be able to give this kind of presentation to you for the first time. We are undergoing a transformation and would like to share it with you.

P13 【Specialty Materials is at the heart of our Forging the future transformation】

As Jean-Marc mentioned, Specialty Materials is central to our transformation. As with other business groups and other functions, we are implementing the five key pillars set out in this "Forging the future" and are moving forward with more specific changes and initiatives in

each of these areas.

Because Specialty Materials is so important, we are at the tip of the spear, piloting and driving many of these individual efforts. We are doing a lot in the cost transformation area driving operational excellence in many of the manufacturing operations that we have around the world. Our team is actively involved in whole area of leaner and digital, and empowerment with the digital team in almost all initiatives we have there. Especially, we are focused on customer-centric touchpoints.

Today, what I really want to focus on is the "portfolio focused on market growth, competitiveness, and sustainability" on the far left of this page. In most of today's presentation, what we are going to talk about is how we are going to grow. It's about growing and delivering more value from our Specialty Materials business. We will talk about how we are transforming our portfolios in each of our target markets. Specifically, I will talk about where in the value chain we operate, where we are developing our business, and our future positioning in the value chain. We will also spend a good bit of time talking about M&A. We can't be super specific about that, but we want to share with you our plans to the degree that we can, and I want to also touch on globalization. As Jean-Marc mentioned, we have done a lot of things organizationally within the company. We tried to decentralize in various ways. This allows us to also achieve further growth in markets outside of Japan.

**P14 【Our portfolio is well positioned across our core markets】**

I have been working in the Information Electronics business for 30 years. Being in the company I have seen a lot of things. We have a lot of products in the Specialty Materials business. We have an extremely wide portfolio. As Jean-Marc mentioned, for the last six months, we have been very intensely, very deeply looking into what products we have, and what products we need, to be able to address these markets that we have identified as our core markets. After a lot of time, energy, and effort, it really came down to four areas. In terms of product lines or product pillars, these are the areas of our business that we think we will build upon for the future. And first, it is the polymer & compounds area. And within our composite solutions, we also have our material business. Our material business is really an important piece of our business going forward. Because it's a little bit further downstream, than just being a polymer compounds or composite solutions provider. Specialty films is another area in which we are extremely strong, and we have a strong position in the world. We believe there are many market touchpoints in this space that we can build on. And finally, we have a business and product line called Custom Solutions. This specifically means we design solutions for individual applications, and for individual markets, so there are two areas. We cover two major markets: information electronics and food.



Before I leave product lines, I want to say that we are going to be absolutely market focused. We build our organization around the market, we are designing solutions around markets, and we produce products. The products have to be aligned, and aimed at these particular applications, growth applications in particular in individual markets. Our intention in these product lines is to be able to go much deeper, and add a lot more value in each of these areas. We have been fairly fragmented in the past. Too many, too far and too wide, we want to narrow and deepen our focus more from the product point of view in these areas.

**P15 【Our portfolio is well positioned across our core markets】**

We believe we can win with these appropriate product lineups. As has been presented in the past, the focus markets we are pursuing are EV/Mobility and Digital. We will do a deeper dive into each of these markets. And new for this discussion as compared with the past presentation, Medical has been raised as one of the core markets. This business is not new to us. We have already been involved in the medical market. Polymer compounds is one of them. I am going to share some of the applications later. Especially in the composite solutions area, where we produce a lot of materials that end up being used as implantable materials. So, the medical area is not a new area or market for us. It is not a major business today, but when we talk about portfolio reform, and when we talk about making our portfolio more resilient to swings in the market, an area like medical is super important. Especially when you look at what is happening in the market today, especially when you look at our competitors, the competitors that are not feeling as much pain in a downturn market have a substantially higher exposure to areas such as medical. We already operate in the medical space which is very resistant to economic fluctuations, and we think we can take advantage of that, and we will leverage the product line.

Food is also going to be a target market. Not only in the packaging area for food, but in water purification and also food ingredients. We will talk more about this later. As you can see, with these product lines, core product areas we built on, we touch each and every bit of the markets. These markets have not only been chosen because we operate in them today, but because they are also high-growth markets in which we think we can win. The estimated market growth numbers are at the top. These numbers exceed estimated GDP growth by a factor of two or three. So, again they are in high growth areas, and well aligned with the products that we have.

**P16 【Portfolio transformation within each market will enable growth and value generation】**

As we looked more deeply into our portfolio, there have been some changes made based on how we see achieving the targets we have set for FY2025. The total revenue has not

been changed. The EBITDA target has not been changed. We are still committed to those in FY2025. Certainly, it is a big jump that we have to make, but with the changes that we are talking about making in the portfolio, and also growth (internal growth and M&A), we still think they are realistic numbers for FY2025.

In the EV/Mobility area, you can see, we are expected to grow in the revenue area about 8%, but substantially in EBITDA. That's going to come from portfolio rationalization and revitalizing businesses that can produce higher value. I am going to give you a good example, later. When we talk about portfolio rationalization, this is not only going to be product lines and businesses that are outside of our core markets, but also certain products and categories inside the core markets. Just because they are categories that we operate in our core markets, they may not meet all of the criteria that we need for those products to stay. To sustain products, we expect growth in EV/Mobility, certainly improving margins. In the Digital area, again, high growth both in terms of revenue and EBITDA, and high margins and the Medical business will start to be a more substantial part of our strategy going forward. I want to touch on the Food business. You can see extremely low growth both in terms of margin, EBITDA and revenue. But food packaging is included in this area. Today, we have a whole gamut of food packaging related materials. While we plan to exit some of the consumer types of materials in food packaging, one of the strongest products in our portfolio is EVOH material, a gas barrier resin used in food packaging. Although it will be difficult to achieve growth from 2022 to 2025, we have a plan for capacity expansion, and we think we can expect strong growth from 2026 onward. We think the food industry will become an extremely high growth, high value-added market for us. We will talk more about this later.

**P17【We are progressing and deepening the reformation of the Specialty Materials portfolio】**

What we have been doing is progressing and we are also thinking what needs to be changed. The portfolio transformation of Specialty Materials. On IR day 2022, last year, around 100 billion yen revenue exit was identified within the Specialty Materials area. We have really dug into this over the course of the last 6 months. I think there will be 120 billion yen of additional portfolio reform we will be doing within the Specialty Materials area. And, of course, organic growth and M&A growth will be an important component.

**P18【We are progressing and deepening the reformation of the Specialty Materials portfolio】**

We have been thinking of exiting from non-core businesses. So, we have exited from those that do not align with our profile in Specialty Materials, for example, we have exited from the Qualicaps business, the agricultural film business, and the acrylic fiber business. Those three alone come to about the half of 100 billion yen in our original plan. We cannot talk specifics

but we need to do additional work in the space of the next 18 to 24 months. Just this week, we have announced the acquisition of the other half of the joint venture we entered into in 2017. We will become the owner of the CPC Group, subject to regulatory approval. I will talk more later about why this is a part of our strategy going forward. Before I leave this slide, the last points I want to make are portfolio synergy, what we are going to reform, and what we try to bring in with M&A. It is all about highly focused alignment within the portfolio, the product lines that we have. We will divest some of the businesses, but they are not necessarily bad businesses. As Jean-Marc mentioned, we have tightened up CAPEX. We cannot invest in all of the businesses. So, there are other owners who can do a better job than us and we have exited some of the businesses from that perspective. That's good for all the stakeholders and very good for the employees. And we want to re-invest.

**P19 【Specialty Materials is on track to reach ~70% sales in core markets by FY2025】**

As we move through our strategy, one thing that has already become noticeable is that the majority of our sales revenue and profits are now coming from our core markets. In FY2022, the EV/Mobility, Digital, Medical, and Food markets collectively accounted for 57% of sales. In the first quarter of this fiscal year, this increased to 60% of total sales revenue. I think personally that 70% in 2025 is a fairly conservative number. If we succeed in M&A, it will exceed that number. But we are showing 70% for today. So, we are very optimistic. Going forward, as we transform our portfolio, more value will come from these core markets.

**P20 【We focus on high growth sub-segments within our core markets】**

I think how we segment is super important. We talk about growth in food, medical, automotive, and EV, but what is important is in what segments we are operating in today. I won't be going through each of these, but what we are going to do is to drill into each one of these markets, look into more important sub-segments, and talk about where growth is coming from. And what is important is that each segment exceeds the overall category growth rate. We think not only the alignment in the broader category is important but also the alignment in sub-segments is important.

We are extremely focused on EV. So, too on batteries. Carbon fiber has also become a very high growth area with the acquisition of CPC. I want to dig into semiconductors. Our semiconductor business has a very strong portfolio and high potential. As I mentioned, we did not talk a lot about medical in the past, but when we look at the segment that we already operate in, it is pretty extensive. The food business is a combination of the three areas of food additives, packaging and water treatment. Again, we will look at them in more detail later.

P21 【We will have a portfolio of high value solutions that in total drive growth and deliver high operating margins】

Before we do the drill down, I want to talk about what are the growth drivers in Specialty Materials. We are always asked what are the business areas that are going to show the biggest growth. The specialty materials business is influenced by many areas, not just one area, a category, or a product. There are many unique products, each of which has high value in its application field. So, it's going to be the total of these businesses. Together they will be the growth drivers. As we look at our businesses going forward, I want to say, let's look at the range of the portfolio, the focus areas, we anticipate we are going to have a very wide portfolio. And each are going for high value applications.

P22 【EV/ Mobility: We have an extensive line-up of high-value EV and automotive solutions】

Now, I want to talk about a little bit of each of the core markets. I want to give you an idea of the breath of range and the areas in which we are participating in these markets. This is EV/Mobility. And this slide shows the overall picture of the products that we have commercialized for general applications. Each product we sell has this much general use. There are quite a lot of interior items. This applies not only to EV, but to all automobiles. We are actually moving into engines, as well. We are active in EV battery materials, and also in fuel cell areas, where we are providing carbon fibers and electrical components. And also, exterior areas, as well. All products have a very broad portfolio, and generally in high value-added areas.

P23 【E EV/ Mobility: We offer innovative material solutions throughout the value chain ...  
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We are looking at the value chain in this way. This is a very important part of our strategy. When we look at this, we have touch points, and in the value chain in many areas, especially in specialty materials, we are focused on automotive specialty parts. We are focused on material solutions using various materials, for example, carbon fiber, composite materials, battery materials, and coating, adhesive compounds, and films. We have a broad range but each is targeted. But, the area that I want to drill down on is a high growth area.

P24 【EV/ Mobility: ... and focus downstream on carbon fiber solutions to drive growth and value】

That is the area of carbon fiber composites. Especially with the acquisition of CPC, that's part of the new growth strategy going forward. I want to drill down on what that will enable us to do going forward.

P25【EV/ Mobility: We are a global leader in high-end carbon fiber (CF) and large part molding components】

We have been active in this space in the past. We are selling carbon fiber composite materials in this area. We have a wide lineup in this area. We cover everything from interior and exterior to high-performance structural parts. Having gone further in the value chain, we are now moving into complex, high performance large parts.

And even one step beyond that, with the acquisition of CPC, we will actually become a solution provider. Because, not only can we make the large parts, we can attach them and assemble them. And we can become a one-stop shop for many high end automakers. We are extremely excited about this. Because the margins in this business are very good. We see this as substantially adding to EBITDA. It is revenue from the growth point of view. And the other thing that is really exciting about this acquisition, it will move us into a new emerging mobility area. We have already seen a lot of things. The use of Mobility As a Service (MaaS), EV, and taxi services, most of these solutions want very light weight, and carbon fiber composite materials. And also, infrastructure and outside panels. CPC is one of the best in the world at making very large complex parts out of carbon fiber. We think this is a natural integration and will help us to monetize our carbon fiber business. When asked about EV, if someone asks what are the growth drivers, there are many products in this area, I want to send a message that it is not just one thing but there are many.

P26【Digital: Our products are integral to the entire electronics ecosystem】

We touch a lot in the digital area, starting with PCB manufacturing, we also have display materials. As you are aware, we are very active in the display area, we make many materials. Semiconductor manufacturing is a kind of core for us. We manufacture a lot of semiconductor materials. I want to talk about the semiconductor supply chain later. Because for us, semiconductors is a very important area.

P27【Digital: We innovate along the semiconductor value chain ...】

We have operated here for years. Most of our businesses today is as a Tier 2 material supplier in the semiconductor industry. As I talked about, we can expect synergy effects in the product line. As an example, our filters in the water treatment area are used in the semiconductor industry and in the component subsystems of semiconductor equipment makers. When we look at the supply chain, we touch many areas. We are number one or two in high functional cleaning solutions So, when we focus more on the targets in our portfolio, we can expect more synergy effects. We understand how to go into the market and

how to sell in this area. We want to focus on this area going forward.

P28 【Digital: ... with a clear plan to move further downstream】

What I like to do today is to drill down a little into some of the important strategies going forward.

P29 【Digital: We are the leading producer for high-value semiconductor materials】

We are already a leading producer of high value semiconductor materials. It may not be good to have a lot of exposure to the semiconductor market today. But this is a short-term thing and it is going to come back. When it comes back, it will probably come back at a faster pace than any company can respond to.

If we look at what we offer in specialty materials today, they are very substantial for us. We are a global supplier of synthetic quartz, and we are the number one supplier of silica for crucible lining. We are also very strong in epoxy resin, and photosensitive polymer is our core technology, when this market recovers, these will be the high growth areas. We know there will be growth in these areas. We are working on capacity expansion for these products. That alone will drive growth in that space.

It will move down the value chain one step. Now, for Tier 1, we have partnered with Lam Research in dry photo resist, and, that is going to push us into Tier 1 position going forward. In that position in the value chain, it will open up a lot of doors. By that, we will be able to sell a lot of precursors and a lot of other products in a direct mode. This is a big move. That is a very substantial part of our growth strategy going forward. We have new innovations. We are commercializing wafers and development is moving forward. This will put us in a stronger position.

P30 【Medical: We provide solutions across a broad spectrum of medical applications】

Next is about Medical. We are already doing business in medical. We do a lot of businesses in the implant area and specialty polymers. We also have single use type products. We provide a number of medical packaging applications.

P31 【Medical: We are a key player along the medical value chain ...】

In the value chain, we can see where we fit. We serve mainly as a material solution provider, and also do some component production.

P32 【Medical: ... with a key product category being implantable resins and shapes】

And also, we do a little bit of services. We do some assembling and some packaging. The

main businesses are material solutions and components production, which I will drill down on later, but they are showing growth. Even in the tough environment, we generated very good growth and margins out of this business.

**P33 【Medical: We provide leading long-term implantable resins and shapes transforming the medical industry】**

We are the leading company of implantable resins and shapes in the medical field. We offer customized long-term implantable resins that are used in catheters and other types of devices. We offer long-term implantable shapes, both in the area of knee and hip replacements as well as in spinal cage materials. We want to leverage our capabilities in each of these markets and deliver new innovations. One of such areas is single use culture bags. This is an area that requires multi-layer films and it requires unique coatings put on them. This is a high value segment.

We can leverage our assets such as food packaging and medical, and provide higher added value. I will now move to higher value applications. These are the type of application where we can find synergy.

**P34 【Food: We offer leading sustainable food solutions】**

In the food area, we segmented it into a few areas. We are active today in food additives, packaging films, and materials related packaging, for example the compound polymer area, and the food solutions area, which is mainly water treatment.

**P35 【Food: We are a globally leading supplier of high-value food additives and packaging solutions】**

This is a very good growth area for us. Especially, the food additives area, additives are going to expand. As we focus on the business going forward, one of the main areas that we are very strong in is the specialized food additive, sugar-ester. We are going to expand our facilities. One thing I would like to emphasize is that we have the know-how of sugar-ester formulation. As we utilize the know-how, it will open new markets for us. Sugar-ester is a perfect fit for non-dairy milk or plant-based meats. A lot of people do not understand how to formulate sugar-ester, and by using the know-how of sugar-ester that we have will open up new markets for us. In high-performance films, we are very strong in coating. As I mentioned earlier, especially in the Soarnol business, we will increase our capacity. That's for 2025, 2026. That will be a very good opportunity for us.

**P36 【On top of sustainability enabling materials, we offer breath of recyclable and bio-based**

products across our core markets】

That's the four markets. I just want to touch on one thing from the sustainability point of view. We look at sustainability in three areas. We have products that enable more sustainable solutions. Things like semiconductors and light-weight vehicles, those are all enabling technologies. These are among our core products. In addition to that, we have a fairly broad based line-up of recyclable bio-based products. As Jean-Marc mentioned, we have a new organization that is being put in place. With that, we want to provide sustainable solutions in many categories. These are some of the highlights. The main area is the bio-based, recyclable area.

P37 【Approach towards valued-based pricing unlocks significant EBITDA uplift while it cultivates value-oriented mindsets and behaviours】

I have talked about the focus markets and product lines that will be the growth drivers. In addition to that, we are proceeding with organizational structural reform. This is from a business process perspective. Our business historically has been made up of a lot of small fragmented businesses. We have started to consolidate and centralize our organizations, and organize in a different way. The main purpose for doing that is to drive best practices in sales and marketing. You can imagine how difficult it is from the examples in the past because it has been highly fragmented. We use many methods to change our organizations, especially on pricing. That is the way to improve our margins, and we are already starting to see some results. For example, we have realized a margin uplift of 5 billion yen. This is due to pricing initiatives.

With these improvements, we help people adopt a more data-driven approach, and our employees with that capability can add value. It requires a deep understanding. We must understand how our products will improve our customers' manufacturing processes. Until now, many of our small businesses didn't know the value of what we have been selling. But, with the cooperation of our employees, we can do that more efficiently in our better organization. Also, things like services, many of our competitors charge for services. They get paid for their services, this includes logistics, inventory, and technical services. And they segment their customer base, based on these types of thinking. We have not done a good job on that in the past, and there is upside in this area. We think it is possible to obtain more value by clarifying service-related drivers. We are starting to see financial results from that. Those things all enable people to be more efficient and more effective as they enter the market and try to compete.

P38 【We are growing our global customer base beyond Japan】



I said I will talk a little bit about growth and value delivery outside of Japan. There was a time when business in Japan was a very large part of overall sales revenue. If we look at Japan's contribution to total revenue in FY2021, it was 47%. It dropped to 42% in FY2022. And we think it will drop down to around 37% in FY2025. That's not to say that we are not focusing on the Japanese market. But, a lot of the growth in many of the segments is happening outside of Japan. I think Jean-Marc has also talked about this in past presentations as well. A lot of the re-focus that we are doing is to empower and better organize our organizations outside Japan at many of our subsidiaries. We have delegated much of the decision making in Specialty Materials to the regions, and try to support them in much stronger way from the strategy, product line point of view. We will continue to do that, and that is the big part of our growth strategy going forward.

**P39 【Specialty Materials is a key profit driver and contributor to Forging the future】**

This is the same slide that I started with. We sell products into these markets. We are trying our best to align these products in a much better way so we have synergy, and make them into a much more focused portfolio, and sell them to the markets. We are changing our organizational structure to be able to grow in all parts of the world. We have not changed our projections. They are aggressive but we think this is doable with the reform that we are trying to achieve, and with the targeted M&A for the future.

**P40 【Summary: Forging the future will be a transformative journey Specialty Materials is well on the way ...】**

The last slide is a summary of the growth areas. You can see a fairly deep focus on core markets. We are going to focus more on core markets. We have talked about growth outside of Japan, sales and marketing improvements, and we are in the middle of strategic cost transformation. We have spent a lot of time talking about portfolio transformation. Fully utilizing digital. We have not talked in specifics but there are a number of things that we are doing in this space. They are primarily aimed at growth and equipping our sales people with information on the spot and helping us to manage the opportunities that they are bringing in. We have flattened our structure over the past year. We have done so, especially in Specialty Materials. We apply rigor in our investments in the company overall. Certainly that rigor will apply to new M&A, financially, just as applied to our CPC acquisition. That concludes my presentation today. Thank you very much.

**Gilson**

**P41 【3 Key takeaways】**

Thank you, Randy, for the extensive review.

#### P42 【Summary of key messages】

As I said earlier, the industry is facing headwinds, but there are lots of opportunities. And we are slowly transforming the company. And we are trying to be a sustainable solution provider, especially in specialty materials.

We believe it is extremely important to position ourselves to become a winning company over the long term. We will change our cost structure so that we can cope with headwinds. We will grow by focusing on the right things. In doing so, we ensure that we have the appropriate discipline to grow.

We are frankly on track with every initiatives that we have started. The five key initiatives are progressing well. We are committed to achieving our financial and non-financial goals by 2025. The carve out of petrochemicals and carbon is progressing as planned.

As Randy said, the focus of this presentation was really on Specialty Materials. But, in February next year, we will talk about the rest of the company, about the whole company. But Specialty Materials is at the core. There is a lot of value in it. The way to extract the value and make that business grow is to transform it. We are a lot more focused in our operations. We are focused on four key product lines. For each and every one of them, we have tremendous competitive advantages. We are well positioned as one of the key players in the world in each and every one of these four.

We did not have time to really dig into innovations. But, we have realigned R&D to support innovation. R&D is completely embedded into the Specialty Materials business group. It was not completely embedded before, but it is now aligned with all of the initiatives that Randy talked about. We talked about this a little but, but this is to change our mindset in how we do business, and how we create value in Specialty Materials. Commercial excellence, the way we approach customers, the way we do pricing, we need to update our practices. This is ongoing.

We did not have much time, but needless to say, everything around supply chain management and operational excellence are receiving the same attention. Overall, this is a long-term transformation of the company. We knew it was not going to happen overnight. But, what I promise you is that we will be steady, focused and we will be delivering every step of the way.

I think with what we shared with you, it is clear that we are pretty confident business by business that we can achieve our goals. I can confidently say that we are committed to our fiscal year 2025 financial goals.

Thank you very much. I am looking forward to your questions.

## **[Question-and-answer session]**

[Q&A 1]

Q1

Today's stock price has fallen by about 3%, which is a very disappointing move, but perhaps that was because we didn't get the details about petrochemicals and carbon products that we were expecting, or there were doubts about your promise that the targets for fiscal 2025 will be achieved. First, regarding the petrochemicals/carbon products carve-out, there was talk that a 50/50 JV would be announced within this fiscal year. There was also talk that you are considering an exit and an IPO as an option. Please explain what kind of appeal you want petrochemicals to have on a stand-alone basis and how you are thinking about an IPO in the medium to long term.

A1 (Chikumoto)

My name is Chikumoto. I am in charge of petrochemicals and carbon products. We are currently making serious progress in reorganizing petrochemicals. As the president mentioned earlier, we understand that we are progressing on a schedule that is close to our goals. However, today we cannot make a clear statement such as "We will definitely do it by this particular date". For one thing, because much depends on the counterparty, and the other is that the content of the negotiations is at the heart of the matter, and there are many cases where it is not possible to reach an agreement easily due to various circumstances on both sides. We do not intend to reorganize in a way that would make it impossible to explain it to our shareholders and employees. We hope to improve the company and business, and ultimately lead to an IPO in a manner that will be approved by the market as a result of the reorganization. We really want to do that, and we think being able to draw pictures like that is an absolute prerequisite. In order to achieve this, we must consider consolidation and abolition including of the cracker business, we must reorganize businesses through consolidation and abolition while reviewing the growth potential of derivative products and shrinking of recycled products and artificial valves. The second is to optimally allocate people, money, and time, which is the main purpose of reorganization. Our current situation in R&D is that we are severely understaffed for carbon neutrality and circular economy. We would like to somehow remedy that. While South Korea, China, and the Middle East are investing large sums of money to increase production of petrochemical products in the traditional manner, the issue of the Japanese chemical industry as a whole is that it is necessary to reorganize and develop R&D in order to protect the Japanese market. We believe that it will be necessary to strengthen R&D and speed the function up, or actively invest in it. We hope

that we can achieve our goal of reorganization in this way.

Q2

I have a question about Specialty Materials. You said that the focus is on battery materials, but it seems like it is a red ocean. What is your view on this? For carbon fiber, I think the acquisition of CPC is going well, but there are many companies that are not doing well in molding materials. So how do you plan to grow carbon fiber as your company does not have an aircraft business? Also, I think that polyester film assets are very large. Please give us your thoughts on this.

A2 (Queen)

The battery materials business is a difficult business. However, our battery materials business has been providing electrolytes to the world for many years as a leading company. We have very solid technology. However, the question is whether they will be able to compete in that field at a high level in the future. At the moment, various things are changing in Europe and America regarding battery materials. We have a global footprint. Last year and again this year, we have invested in Europe and the United States to expand our local business. It is certainly a difficult field. As with the rest of our portfolio, we will continue to evaluate whether we can provide value in this area and whether other companies can offer better value. We are making investments in our battery materials business and are maintaining a very strong top-tier position. We're not competing at the low end. We believe that we are one of the top companies in this field.

Regarding carbon fiber, many competitors are competing with commodity type carbon fiber. CPC can also handle complex structures. In the automotive industry, CPC targets the high-end segment rather than the broader market. In Specialty Materials, we do not want to work on applications that do not have high added value. Regarding aircraft, I think it is certainly a good related field. Considering current technology, we believe that there is a possibility for expansion to include other aerospace areas in the future. This acquisition is not intended for Tier 2 mass production. We believe that by integrating our technology and know-how, we have an advantage in areas that other companies cannot handle due to their complexity. We have knowledge in materials and CPC has product manufacturing know-how. We believe that this very good combination will allow us to provide high-end applications.

Regarding polyester film, we want to become a top producer. This industry is consolidating and we believe it will continue to consolidate. We think we are in a position to win. We believe that we can expect continued growth in the future as we can create optically high-quality and extremely thin films. Displays are one application. We expect 4% per year growth over the

next few years. Polyester film can be used in a variety of ways. It's a versatile film, so we're already looking at what other applications we can find for it, and we think we'll find new uses for it. Looking back on polyester film, I have been in this industry for many years, and many things have evolved since we started making floppy disks using the film. I think something like this will happen with polyester film in the future, and new uses will be found. It is also important to surface-process the film to give it high functionality, which is also an important part of differentiating our products.

[Q&A 2]

Q1

The first question is regarding exit from petrochemicals and carbon products. The question is whether the outlook for this exit is lagging behind what you explained at the time of the briefing for the first quarter results. Second, there was no explanation of the content of petrochemicals/carbon products exit in your document. I would like to know the reason for this. Also, regarding material P8, the EBITDA of the petrochemicals business was NA in the previous time's material, but this time I would like to know why the EBITDA of Basic Materials is shown as 45 billion yen. At the first quarter financial results briefing in August, you said that you would be able to announce the transfer destination for carbon exit during the third quarter, that is, by the end of the year. Do you mean that the change will be made within the fiscal year?

A1 (Gilson)

I will answer them for you. As you can imagine, with regard to petrochemicals, as Chikumoto-san mentioned, negotiations are taking a long time, and various details have to be decided. Of course, progress is being made and many agreements have been made. But not all the details have been ironed out. We cannot make an announcement unless all agreements have been made. This means that not everything has been decided, such as the percentage of ownership. That's the only reason. I mentioned earlier that we have a lot of work in progress. December is still the target, but we don't know. It is important to proceed with the work, reach an agreement, and conclude the contract. It is important to form a JV and create value in the long term. There was a question at the beginning, but the goal is to create a JV and get it up and running. Once we launch it, the clock will start ticking and we will need three years of data before the IPO. No matter when it starts, it will take three years to get to IPO, but we are currently working towards a start date of fiscal 2024. The team is working together to rationalize assets in preparation for an IPO in three years. Get the business off the ground, find additional investors, and obtain government grants. This is

because Japan needs a petrochemical industry that can generate profits. It will probably be smaller than it is now. We do all the work step by step. We do it with commitment. It hurts that our stock price has fallen 3%, but we just have to do what we have to do. We will make an announcement when the time is right and will be committed to achieving our goals.

Regarding carbon exit, you are right. I said 3Q, but it takes time. There are various circumstances, and we have to work out the details. We are committed and want to achieve it as soon as possible. There are some necessary steps that are essential. Customers are involved, and employees also need long-term contracts. It takes time. I would like to revise the part of our previous announcement that we would do it by the 3rd quarter. We may have been pushed back by a quarter, but we want to do everything right. That's the goal. That's what we are doing everything for. It just takes time to solve the issues one by one.

Q2

I think EVOH is a potential growth area. At the previous briefing, you assumed a growth rate of around 5%, but has your view changed? You are expanding margins against the backdrop of tight supply and demand, but could you please explain the future growth outlook for EVOH? Additionally, the new plant in Europe was originally scheduled to start operating in July 2025, but I would like to know when you currently expect it to start operating.

A2 (Queen)

I think they are good questions. We have said in the past that the EVOH business would be a very tight market in 2021 and 2022, and that prices would soar. In the material I showed you today, the initial growth of EVOH is the main contributor. In the current market, from an economic point of view, the entire food business is in decline. As a result, some prices have fallen, but not by much. The forecast for 2025 is very conservative. It may not seem like there is much growth, but please understand that we are looking more conservatively than the reality. As for when the new plant will start operating, it is likely to be in 2026. The EVOH business is also a core part of our strategy, and while we do not expect further price declines, we do think it will be better than the forecast. I still think it's a good business.

[Q&A 3]

Q1

I have two questions regarding strategy. First, regarding Specialty Materials on P8, there is a difference between the total EBITDA of the four markets and the EBITDA of Specialty Materials. Why? Also, how did you treat equity income of 45 billion yen for Basic Materials? Is it correct to understand that the petrochemicals business you are exiting from is not

included in extraordinary losses?

A1 (Gilson)

No particular announcement has been made. Compared to FY2021, the market situation in the carbon business has changed. The value at that time was very high. Times have changed, but we don't sell things cheaply. As data becomes available, we will communicate it. We are considering selling the carbon business. I have no comment regarding extraordinary losses and cash flow.

A1 (Nakahira)

As you pointed out, even if you add up the four numbers, you will not get this number. There is another item called others in addition to the four. This includes general industrial use, construction materials, and sales through the product lines we talked about today. The numbers include those things, so I hope you can see the difference as the others.

Basic Materials' EBITDA of 45 billion yen is the portion of our operations. This figure is 100% of our portion after the establishment of the joint venture. Carbon is excluded. The total EBITDA of 600 billion yen on P4 is the same as the figure announced in February, but the assumption at that time was that the portion of petrochemicals was accounted for using the equity method. The figure on the right side is based on the assumption that 100% of the JV's portion is within us. I would like you to think that the final figure will be somewhere between these two.

A1 (Gilson)

I think you're looking at two things. I think we need to look at EBITDA of 45 billion yen. The COI line has operating income of 365 billion yen, which is 100% included. The right side contains 20 billion yen. We are processing it in an appropriate manner. There's a mix on profits, but the numbers are correct.

Q2

Regarding specialty chemicals, among the four growth areas, digital is expected to grow by 15% from FY2022 to FY2025, but the market growth forecast for semiconductor wafers is said to be around 4%. You are expecting higher growth than the market. I would like to know what kind of market share you expect to gain and what risks you assume. You also plan to expand into medical implants, but Shin-Etsu Chemical and other companies are avoiding that field because of the high risk of litigation. What do you think about risk management in this regard? Also, regarding geographical expansion, please tell us how you are confident

about expanding overseas.

A2 (Queen)

There are several different perceptions about semiconductors. Our growth forecast is not just in line with market growth, but as new applications come in. I mentioned that we are expanding downstream, and there are new areas that will be added as a result of the reorganization. There are prospects for M&A in this area, and I think there will be organic growth as well. We believe that M&A will create new growth drivers that do not currently exist.

When it comes to medical implants, we have been working with this material for a long time. We also recognize that there are many litigation risks. Therefore, we do not produce devices. This is because we fully understand the risks that are involved there. We are fully aware of how far we should and should not get involved.

In terms of geographic expansion, I think a lot of it has to do with what we do within the organization. I was in charge of the Americas region, and it was a very fragmented organization. However, by reorganizing and streamlining, we have been able to make the region more capable and better. Even simple things can make a difference, like how you manage your sales operations. We are also seeing a big difference in the capabilities of our sales force. We are also improving how we develop applications closer to our customers. Up until now, we had to ask Japan to make decisions each time, which took time and led to the loss of business opportunities. However, we are currently focusing on resolving issues quickly with specialty materials so that we can respond more quickly. I think we will be increasing our operational capabilities in each region.

[Q&A 4]

Q1

Regarding petrochemicals, I thought that the details of the petrochemical carbon exit would be announced in October after receiving information about the briefing session that was sent out in September. Is it correct to say that you are not in a situation where you can give us specific details? Also, am I correct to assume your plan to establish and announce a 50/50 JV by the end of this year? It's about the possibility, does this mean that it would be difficult to announce the timing of the establishment of the JV itself?

A1 (Gilson)

You're right. As I mentioned earlier, this is a difficult negotiation that will take a very long time. We have assembled a team and are doing our best for the sake of the industry as a whole, but we are not yet at the stage where we can make an announcement. But progress



is being made. I can't make it public until everything is signed. That's all I can say for now. The 50/50 JV is just our assumption. We do not know at this point whether this is possible. First, we establish the JV. And ultimately, we would like to lead to an IPO. The consolidation will continue for a while. We may take time to get to 50% and then, exit. I also cannot provide details regarding the timing of the establishment of the JV. We are currently finalizing the details, so we cannot make any announcements.

[Q&A 5]

Q1

First, as you are discussing progress toward fiscal 2025 today, please tell us how you envision your company after the exit in fiscal 2025. Will you be a collection of top niche players, or will you focus on critical materials and become like a layer master?

A1 (Gilson)

As I said clearly, today is not the day to talk about the company's entire portfolio. We will discuss that in February next year. We are currently in the stage of considering various aspects of our portfolio. As I have said many times, we would like to organize our portfolio, fix our businesses, and rebuild them before we can discuss this. We are currently undergoing a portfolio transformation. We will think about how we can generate profits in all businesses and how we develop our businesses in the long run. Today is not the time for such a discussion.

Q2

I would like to know whether you plan to expand your specialty materials business in a little more focused way. Shin-Etsu Chemical collects information from various angles in close contact with its customers. Your company is one step away from producing crucibles and epoxy resins. For example, I think it would be good to take measures such as using photosensitive materials or polymers to capture the markets. How do you think about it?

A2 (Queen)

In terms of electronics materials, Tier 2 materials were our strength. We would like to expand our portfolio while expanding Tier 2 materials. I think this will continue to be the sweet spot. In terms of our development, we believe that with the acquisition of Gelest, we will be able to move forward downstream. I think we can move on to Tier 1 materials. This will open up opportunities for us. I think the game will change in the future. We are gaining deeper core technology from Gelest and we can leverage it to expand our business areas. Although our

positioning may be different from what we have seen in the past, we believe that we will be able to create good synergy.

A2 (Gilson)

Synergies also exist in the specialty materials and industrial gases businesses. We have the same customers and many synergies can be expected from these two businesses.

Q3

Regarding the employee engagement numbers listed on page 5, I think they are a little low. What do you think about this background? Please explain what you will do to increase this number.

A3 (Gilson)

We conduct an employee engagement survey every year, and the results were not high even before our transformation. But even in times of transformation, the numbers are improving. Of course, we do not think that it is fine as it is. We hope to improve it further. I think employee engagement will improve if each company can narrow its focus and generate profits. In my experience, employee engagement and company performance are closely linked. When a company performs well, employee engagement is good, and vice versa. That is our goal.

As the company's performance improves, employee engagement also improves, but since we are undergoing major changes, there are some difficulties. But it's something we have to work on now. We will keep a close eye on employee engagement for the sustainability of this company.

[Q&A 6]

Q1

Regarding material P16, EV/Mobility sales decreased from 280 billion yen to 250 billion yen, while EBITDA increased from 31 billion yen to 34 billion yen. Does this mean that downsizing in the EV/Mobility business have been factored in? Does this mean that profits rose because of withdrawal from deficit making area or the addition of CPC-related profits? Similarly, Digital sales remain unchanged at 350 billion yen, but EBITDA has decreased from 77 billion yen in 1Q to 75 billion yen, so please explain this as well.

A1 (Queen)

Regarding EV/Mobility, after taking a deeper look at the portfolio, there was a business that

we wanted to exit and found a better owner. Regarding EBITDA, we believe that higher value can be achieved in other uses, and this is the same for CPC. One thing I would like to emphasize is that over the past six months we have taken a deep look at all of our core businesses. In order to become a winner in each business and make it a business that people want to invest in, we conducted a deep review of our portfolio by considering things like our competitive position. The chart on p28 reflects them. The same goes for Digital. There are specific areas for exiting in some businesses. Some may not involve selling the business and may simply be quitting. The change in EBITDA from 77 billion yen to 75 billion yen is not significant. This is due to the timing of adding new uses and reflecting updates in consideration of profitability. There weren't any particularly big changes.

Q2

Is it correct to understand that Medical's EBITDA does not generate much profit due to development costs and other costs?

A2 (Queen)

Regarding Medical, as I mentioned earlier, this is an area where business will grow organically. We will grow our business by expanding existing product lines into new high-value applications. It is also an area where M&A is expected, and all of these factors add up to the current forecast.

[Q&A 7]

Q1

I have a question for Chikumoto-san. I would like to ask you again to explain what is difficult about the restructuring of petrochemicals and carbon, in order of difficulty. I would appreciate it if you could let me know how far the discussions have gone, to the extent you can answer.

A1 (Chikumoto)

I will refrain from answering in too much detail as it would make the content obvious, but what we value most is fairness. I believe that if this is not guaranteed, shareholders and employees will be inconvenienced. I can't say anything more than that.

[Q&A 8]

Q1

At the previous briefing session, you explained that the composition of sales for each portfolio was as follows and that it would grow by this amount, but this time there were no

specifics. What is the composition of Medical's current sales revenue of 60 billion yen, and what will specifically grow? Please tell us again why you came up with Medical, which has been treated under other products, and what changes have made and how much you think it will grow.

A1 (Queen)

I think that's a good question. First of all, we did not elevate Medical out of others simply because it has growth potential. After examining our entire portfolio, as I mentioned earlier, in order for us to complete our specialty materials portfolio, we need something that can provide more stable performance even when the market goes up and down. Medical is one of them. Medical also has attractive profitability. Among the product lines that we would like to focus on, Medical is one that is extremely compatible. Until now, we have not been able to utilize it effectively. The implant business has already established a strong position and is a business that will continue to grow. We chose Medical for strategic reasons to increase the resilience of our portfolio. We believe that we can use the strengths of polymers and films to sell medical devices. We believe that this is important when looking at the relationship with all stakeholders. Among others, there are other growing industry channels as well. However, we did not make this selection solely on that basis; we looked at the entire portfolio and selected Medical consciously and with strategic intent.

Q2

How do you think sales will grow in each of the four markets? If implants are to grow, will it be by bringing Japan's strengths to Europe and America, or by being able to sell them together with other products? Please tell us what is the key product that is growing.

A2 (Queen)

Implants have become an important part of medical. When looking at culture bags, there are film-based ones as well as polymer-based ones. Implants can be made within that market. We manufacture those materials. We believe that we have the right to win wherever new innovations emerge. Implants are not a huge business, but they are a relatively large business. We expect growth and will use our knowledge to leverage our regulatory relationships and our portfolio of polymers, films and composites to grow. We have begun business development in areas such as space, and I think the product mix will change considerably by FY2025. We would like to expand into other types of materials as well.

Q3

The annual growth rate toward 2025 is over 30%, but does this mean that the further it goes, the bigger the growth is expected to be? Are you considering M&A?

A3 (Queen)

As I mentioned earlier, M&A is already a target area.

[Q&A 9]

Q1

I have the impression that the positioning of MMA and Healthcare is somewhat ambiguous. I think you are planning to explain it in February 2024. I understand that the Alpha technology is strong for MMA, but it is also difficult because it is linked to market conditions. The ACH method is also aging, so from the perspective of the best owner, please let us know how far the discussion has progressed and what time frame we should consider. Additionally, I would appreciate it if you could provide as much information as possible regarding your approach to industrial gas equity, as it is related to semiconductor M&A.

A1 (Gilson)

As you are aware, these discussions will take place in February next year. We are currently reconsidering everything, and are currently making fixes, rebuilding, and improving each business. Industrial Gases is now a very strong business. We are focusing a lot on specialty materials, and we hope to achieve higher profit growth. MMA is a commodity business, and we are considering various strategies. We are considering various restructuring options and are also considering additional investment in additional Alpha technology. There are a lot of things going on right now, and I think when all these businesses are doing well, there will be a discussion about who will be the best owner and which business to exit from. I think we can clarify such discussions next time. I believe that new options will emerge after the reorganization. Our premise is that we will continue to focus on specialty materials.

### **<Closing remarks>**

**Nakahira**

P44 [Enhancing corporate value]

Once again, thank you very much for participating in our IR Day, today. In closing, I would like to briefly outline Mitsubishi Chemical Group's approach to increasing corporate value.

Maximizing corporate value is our most important objective. Mitsubishi Chemical Group has developed into a corporate entity worth over 4 trillion yen with the aim of expanding its scale,

but from fiscal 2021 it has made a major shift in direction toward maximizing its corporate value. We have established a policy to expand shareholder returns, and have set a target payout ratio of 35% for fiscal 2025. In addition, we are making efforts to improve pricing, reduce costs, and improve our portfolio mix, with the most urgent priority being to improve profitability.

On the other hand, growth is essential to continuously improve corporate value. Today, we introduced the growth strategy of Specialty Materials, which we position as a growth driver.

We once again promise that we will steadily and swiftly move forward with these three goals: improvement of shareholder returns, enhancement of profitability, and growth. In addition, we place importance on the quality and quantity of dialogue with investors and will continue to improve them. We look forward to your continued support of Mitsubishi Chemical Group. Thank you very much.

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