

Fiscal 2018 - Apr 1, 2018 to Mar 31, 2019-

# Presentation for IR Meeting

**Tokuyama Corporation**

**April 26, 2019**



## Key points of fiscal 2018

- The sales volume of main products in the fourth quarter did not reach the planned amounts and operation profit falls below the full-year forecast
- Net sales and operation profit in fiscal 2019 are expected to increase due to recovery in sales volume
- Steady implementation of growth strategy for ICT-related businesses
- The direction of growth of healthcare-related businesses is solidifying. Focus on implementation of growth strategy such as R&D and development of sales channels

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# **1** Financial Results for FY2018

- 1. Financial Highlights**
- 2. Net Sales / Operating Profit by Business Segment**
- 3. Changes in Operating Profit**



# 1. Financial Highlights

(Billions of yen)

	FY2017	FY2018	Difference		Main changing factors
			Amount	%	
Net sales	308.0	324.6	+16.5	+5	Upward revision in selling prices of caustic soda
Operating profit	41.2	35.2	(6.0)	(15)	Upward revision in selling prices of caustic soda Rise in raw material and fuel costs
Ordinary profit	36.1	33.4	(2.7)	(8)	Decrease in operating profit Improvements in non-operating income/expenses
Profit attributable to owners of parent	19.6	34.2	+14.5	+74	Improvements in extraordinary income/losses
Basic earnings per share (yen)	259.81	493.26	-		-
Exchange rate (yen/USD)	111	111	-		-
Domestic naphtha price (yen/kl)	41,900	49,500	-		-

# 1. Financial Highlights

(Billions of yen)

	As of Mar 31,2018	As of Mar 31,2019	Difference	Main changing factors
Total assets	361.9	379.6	+17.6	Increase in fixed assets in line with such factors as the inclusion of a subsidiary in the Company's scope of consolidation
Shareholders' equity	125.6	152.7	+27.1	Posting profit attributable to owners of parent
Shareholders' equity ratio	34.7%	40.2%	+5.5pts	-
Interest-bearing debt	139.9	128.9	(10.9)	Decrease in long-term loans payable
D/E ratio	1.11	0.84	(0.27)	-
Net D/E ratio*	0.58	0.40	(0.18)	-
Net assets per share (yen)	1,806.56	2,199.83	-	-

\*Net D/E ratio: (Interest-bearing debt – Cash and deposits, Cash equivalents, Money in trust)/Shareholders' equity

## 2. Net Sales/Operating Profit by Business Segment

(Year-on-year change)

(Billions of yen)

	FY2017		FY2018		Difference			
	Net Sales	Operating Profit	Net Sales	Operating Profit	Net Sales	%	Operating Profit	%
Chemicals	93.5	16.1	98.3	16.8	+4.8	+5	+0.6	+4
Specialty Products	58.6	11.0	59.6	9.9	+0.9	+2	(1.0)	(10)
Cement	87.3	4.5	92.3	3.2	+5.0	+6	(1.3)	(30)
Life & Amenity	51.5	3.7	54.3	3.2	+2.8	+5	(0.4)	(13)
Others	54.5	6.2	62.3	4.3	+7.8	+14	(1.8)	(30)
<b>Total</b>	<b>345.6</b>	<b>41.6</b>	<b>367.1</b>	<b>37.5</b>	<b>+21.4</b>	<b>+6</b>	<b>(4.1)</b>	<b>(10)</b>
Inter-segment eliminations and corporate-wide expenses	(37.6)	(0.4)	(42.5)	(2.3)	(4.8)	-	(1.8)	-
<b>Consolidated results</b>	<b>308.0</b>	<b>41.2</b>	<b>324.6</b>	<b>35.2</b>	<b>+16.5</b>	<b>+5</b>	<b>(6.0)</b>	<b>(15)</b>

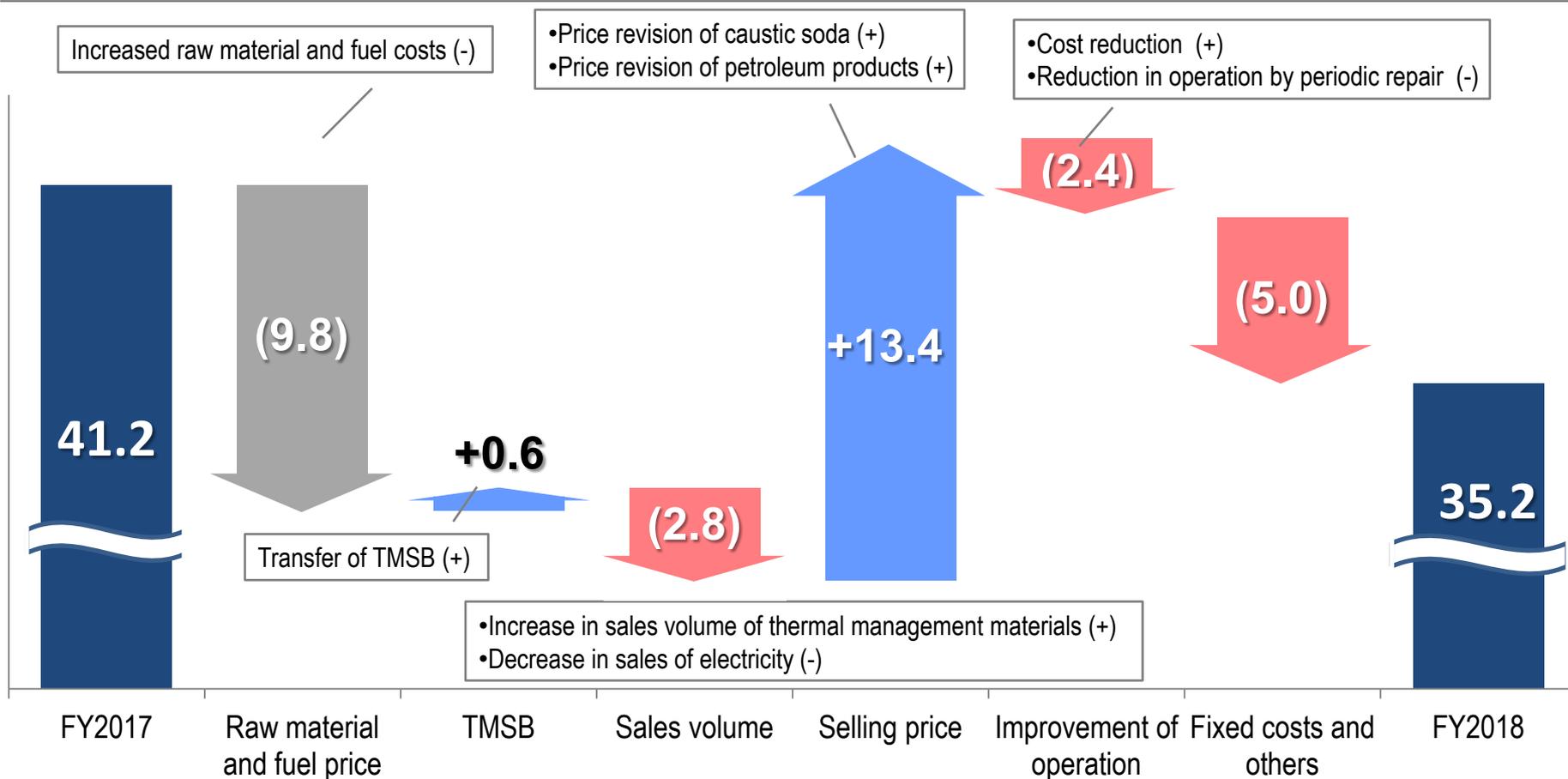
(Note) Sales and operating profit shown above include inter-segment transactions.

# 3. Changes in Operating Profit

(Year-on-year change)

By Factor

(Billions of yen)



\*TMSB: Tokuyama Malaysia

## **2** Performance Forecasts for FY2019

- 1. Performance Forecasts**
- 2. Performance Forecasts by Business Segment**
- 3. Changes in Operating Profit**
- 4. Investment Plan**



## 2 Performance Forecasts for FY2019

# 1. Performance Forecasts

(Billions of yen)

	FY2018	FY2019	Difference		Main changing factors
			Amount	%	
Net sales	324.6	343.0	+18.3	+6	Increase in sales volumes of major products
Operating profit	35.2	39.0	+3.7	+11	Increase in sales volumes
Ordinary profit	33.4	39.0	+5.6	+17	Increase in operating profit
Profit attributable to owners of parent	34.2	30.5	(3.7)	(11)	Decrease in extraordinary income
Basic earnings per share (yen)	493.26	438.88	-		-
Exchange rate (yen/USD)	111	110	-		-
Domestic naphtha price (yen/kl)	49,500	44,000	-		-

2 Performance Forecasts for FY2019

## 2. Performance Forecasts by Business Segment

(Year-on-year change based on FY2019 forecasts)

(Billions of yen)

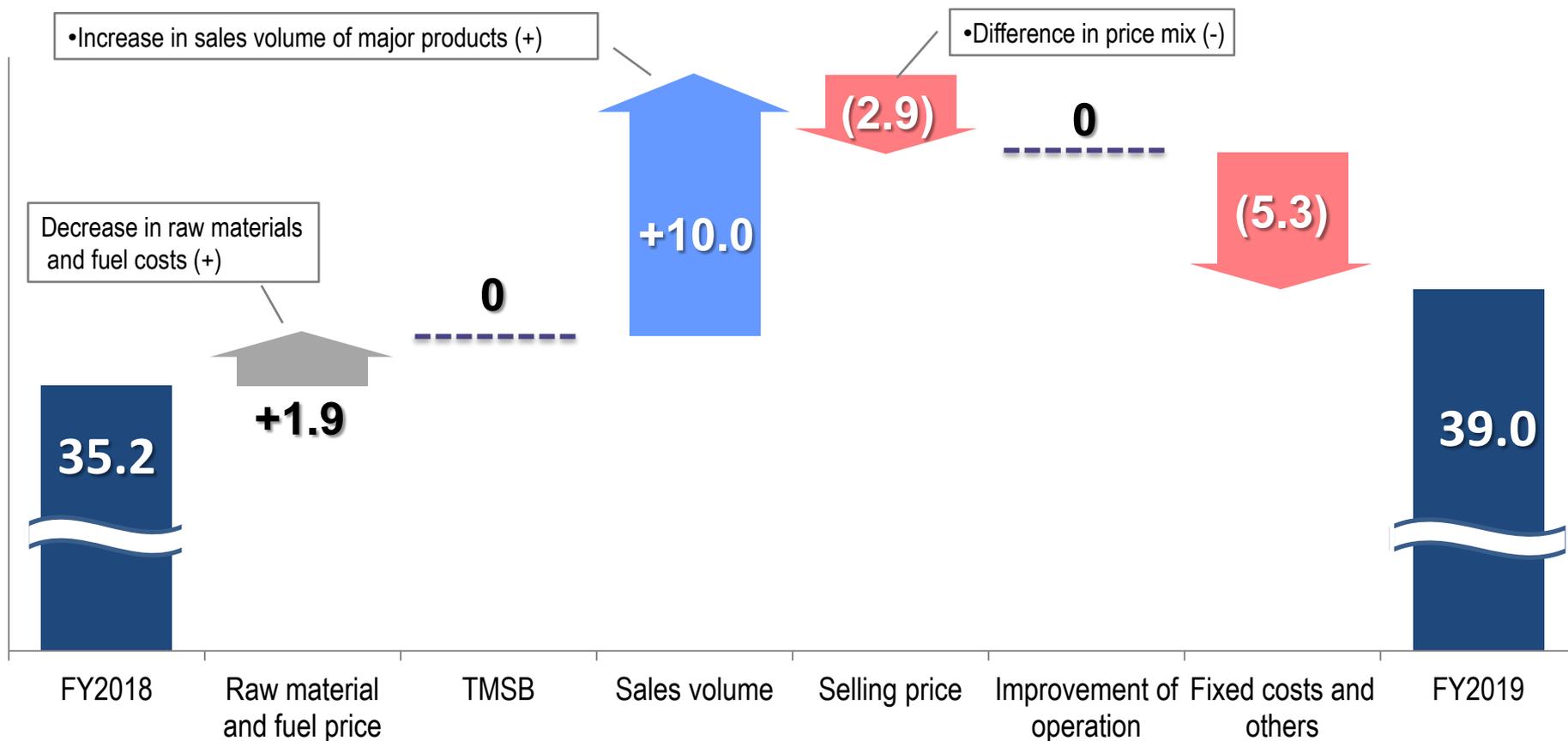
	FY2018 Results		FY2019 Forecasts		Difference			
	Net sales	Operating profit	Net sales	Operating profit	Net sales	%	Operating profit	%
Chemicals	98.3	16.8	103.0	18.5	+4.6	+5	+1.6	+10
Specialty Products	59.6	9.9	67.0	11.0	+7.3	+12	+1.0	+11
Cement	92.3	3.2	94.0	3.5	+1.6	+2	+0.2	+9
Life & Amenity	54.3	3.2	58.0	4.0	+3.6	+6	+0.7	+23
Others	62.3	4.3	64.0	4.5	+1.6	+3	+0.1	+4
<b>Total</b>	<b>367.1</b>	<b>37.5</b>	<b>386.0</b>	<b>41.5</b>	<b>+18.8</b>	<b>+5</b>	<b>+3.9</b>	<b>+10</b>
Inter-segment eliminations and corporate-wide expenses	(42.5)	(2.3)	(43.0)	(2.5)	(0.4)	-	(0.1)	-
<b>Consolidated Results</b>	<b>324.6</b>	<b>35.2</b>	<b>343.0</b>	<b>39.0</b>	<b>+18.3</b>	<b>+6</b>	<b>+3.7</b>	<b>+11</b>

(Note) Sales and operating profit in each segment shown above include inter-segment transactions.

# 3. Changes in Operating Profit

(Year-on-year change based on FY2019 forecasts)

(Billions of yen)



\*TMSB: Tokuyama Malaysia

## 4. Investment Plan

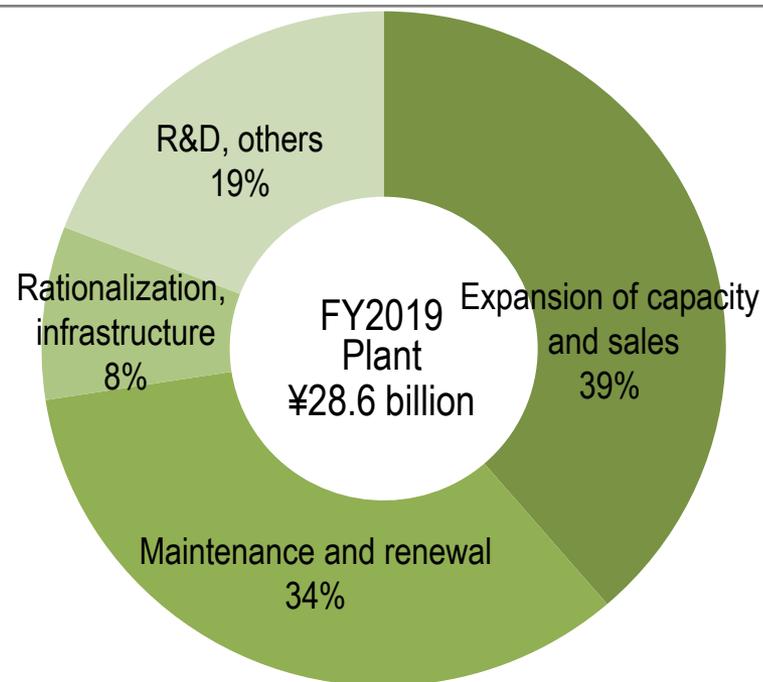
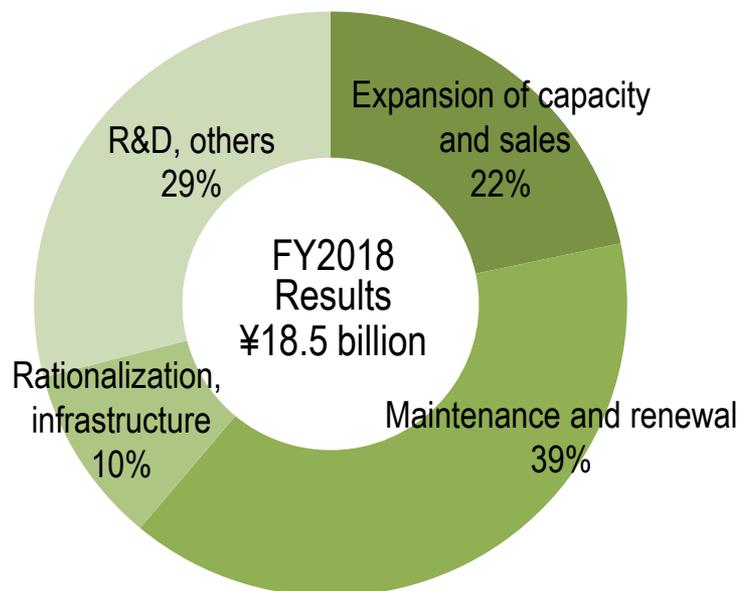
Consolidated

(Billions of yen)

	FY2018 Results	FY2019 Forecast	Changes
Capital expenditures	18.5	28.6	+10.1
Depreciation and amortization	15.0	17.1	+2.0
R&D expenses	8.0	9.4	+1.3

# 4. Investment Plan

## Breakdown of CAPEX



### Major Growth Investments

Increase production of aluminum nitride powder and granules
Expand capacity of tetramethylammonium hydroxide (TMAH)
Expand capacity of port in Tokuyama factory
Building a second plant in Taiwan

Increase production of aluminum nitride powder
Expand capacity of tetramethylammonium hydroxide (TMAH)
Building supply base for IC chemicals in China
Expand capacity of port in Tokuyama factory

## **3** Progress under the Medium-Term Management Plan

- 1. Progress in Achieving Numerical Targets**
- 2. Results after Addressing Priority Issues and Future Measures**
- 3. Growth Businesses**
- 4. Traditional Businesses**
- 5. Dividends**



### 3 Progress under the Medium-Term Management Plan

# 1. Progress in Achieving Numerical Targets

	<u>FY2015</u>	<u>FY2018</u>	<u>FY2020 Target</u>	<u>Progress evaluation</u>	
<b>Net sales</b>	¥307.1 billion	¥324.6 billion	¥335.0 billion	On track	
<b>Operating profit</b>	¥23.0 billion	¥35.2 billion	¥36.0 billion	Unable to absorb the rise in raw material and fuel costs, profit decreased, target not achieved	
<b>ROA</b>	5.7%	9.5%	10%	Although total asset turnover was improved, operating margin decreased due to the increase of input cost and target of ROA was not achieved.	
	Operating margin	7.5%	10.9%		10%
	Total asset turnover	0.77 times	0.88 times		1.0 times
<b>Financial indicators</b>	CCC	69 days	60 days	55 days	On track
	D/E ratio	4.7	0.8	1.0	Target achieved, continued
Exchange rate (¥/US\$)	120	111	110		
Domestic naphtha price (¥/kl)	42,800	49,500	58,000		

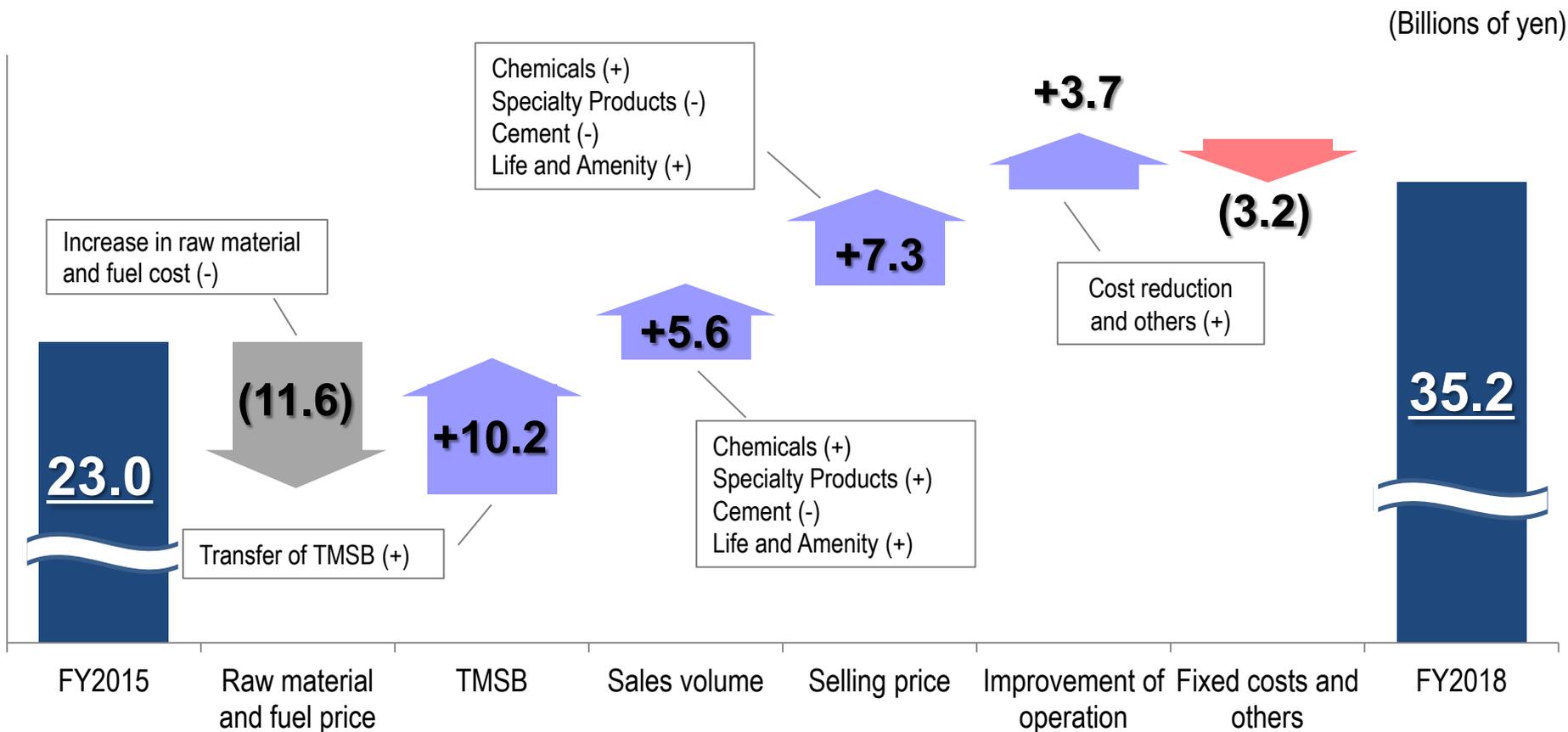
Note : Cash Conversion Cycle (CCC): Accounts receivable turnover period + Inventory turnover period – Accounts payable turnover period;

ROA: Operating profit / Total assets

3 Progress under the Medium-Term Management Plan

# 1. Progress in Achieving Numerical Targets

(Changes in Operating Profit for three years)



\*TMSB: Tokuyama Malaysia

## 2. Results after Addressing Priority Issues and Future Measures

	<u>FY2018 Results</u>	<u>FY2019 Measures</u>
<b>Change the Group's organizational culture and structure</b>	<ul style="list-style-type: none"> <li>■ Promotion of diversity in workplace</li> <li>■ Actively recruit outside personnel</li> <li>■ Operation of senior personnel systems</li> </ul>	<ul style="list-style-type: none"> <li>■ Revise general personnel systems</li> <li>■ Continue to actively recruit outside personnel</li> <li>■ Promote work style reform</li> </ul>
<b>Rebuild the Group's business strategies</b>	<ul style="list-style-type: none"> <li>■ Ensure that the semiconductor-grade polycrystalline silicon is distinguished by its high quality, price revision</li> <li>■ Expand the lineup of thermal management materials</li> <li>■ Expand the production capacity of thermal management materials and IC-chemicals</li> <li>■ Accelerate the pace of healthcare-related product overseas business development</li> <li>■ Bolster and improve the efficiency of logistics inside Tokuyama factory</li> </ul>	<ul style="list-style-type: none"> <li>■ Develop and expand healthcare-related business</li> <li>■ Work to increase operating efficiency utilizing IoT and AI; strive to increase the plant operating efficiency</li> <li>■ Strengthen environment-related businesses (related to the use of hydrogen, water treatment, and CO<sub>2</sub>)</li> </ul>
<b>Strengthen Group management</b>	<ul style="list-style-type: none"> <li>■ Improve profitability at the two microporous film companies in China as well as Excel Shanon Corporation</li> <li>■ Initiate new business evaluation management and activities</li> </ul>	<ul style="list-style-type: none"> <li>■ Enhance logistics efficiency and decrease the cost by strengthening coordination among logistics-related group companies</li> </ul>
<b>Improve the Company's financial position</b>	<ul style="list-style-type: none"> <li>■ Continue to reduce interest-bearing debt; decrease the Company's interest burden</li> <li>■ Refinanced subordinated loan</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase shareholders' equity with a view to the return to an "A" credit rating</li> </ul>

## 3. Growth Businesses

### ICT-Related Products

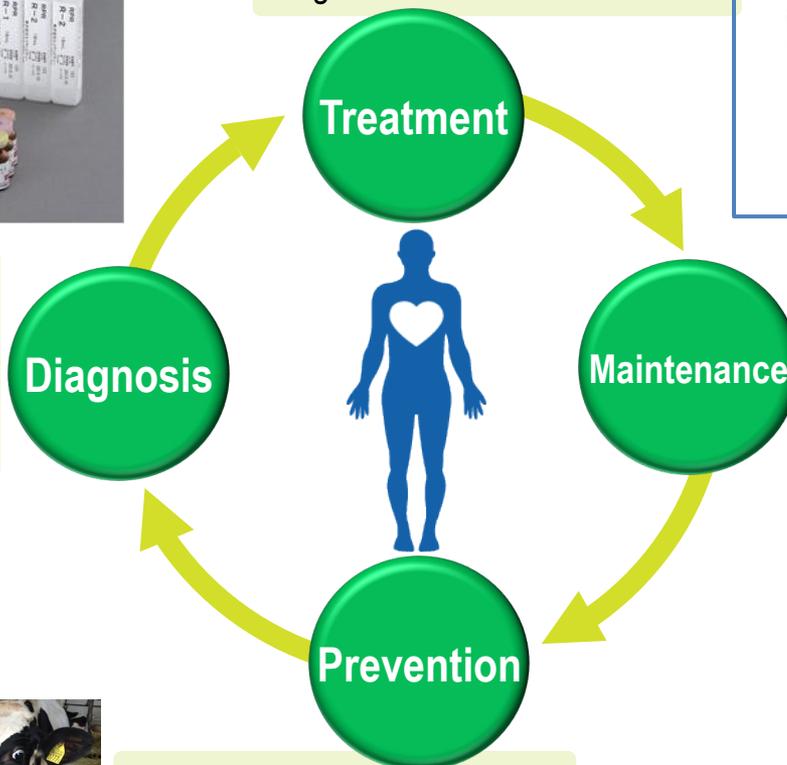
Raw materials for semiconductor wafer	<ul style="list-style-type: none"><li>■ Maintain full capacity</li><li>■ Pursuing higher quality to differentiate the competitors</li></ul>
Photoresist developer	<ul style="list-style-type: none"><li>■ Increase production capacity (Commercial operation from April 2020)</li></ul>
Precision cleaning	<ul style="list-style-type: none"><li>■ Strengthen the supply structure of high-purity IPA by building a second plant in Taiwan and supply base in China</li><li>■ Develop new etching solution</li></ul>
Raw materials for CMP	<ul style="list-style-type: none"><li>■ Increase in sales volume of fumed silica for CMP application</li></ul>
Thermal management material	<ul style="list-style-type: none"><li>■ Increase the production capacity (Commercial operation from April 2020)</li><li>■ Expand the product lineup</li></ul>

# 3. Growth Businesses

## Healthcare-Related Products



- Dental materials
- Active pharmaceutical ingredients and intermediates



- Polyolefin film (Food packaging materials)
- Microporous film (disposable diapers materials)



- Medical diagnosis systems
- Diagnostic reagents
- Neutron detection monitor materials
- Animal medical peripheral materials

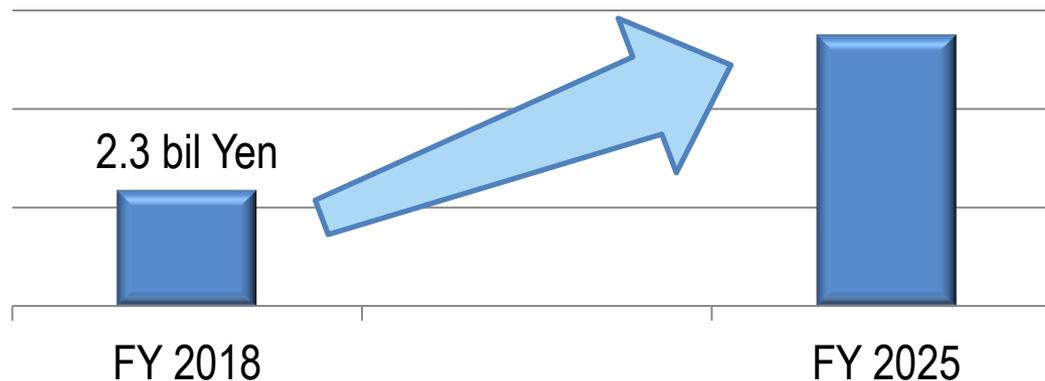


- Photochromic Dye Materials
- Supplements
- External Teat Sealant for cows

## 3. Growth Businesses

### Health Care-Related Products

<b>Active Pharmaceutical Ingredients and Intermediates</b>	<ul style="list-style-type: none"><li>■ Working to stabilize and expand the pharmaceutical business</li><li>■ Expanding the pharmaceutical peripherals business (cosmetics, supplements and veterinary products)</li></ul>
<b>Plastic lens-related Materials</b>	<ul style="list-style-type: none"><li>■ Expanding sales through collaboration with customers</li><li>■ Deploying the Group's unique technologies to other fields</li></ul>
<b>Dental Materials</b>	<ul style="list-style-type: none"><li>■ Launching new large-scale products (composite resin) in North America as a pioneer market; rolling out to Europe and Japan thereafter</li></ul>
<b>Medical diagnosis system</b>	<ul style="list-style-type: none"><li>■ Expanding sales markets by strengthening global business development</li></ul>



## 3. Growth Businesses

Active Pharmaceutical Ingredients and Intermediates

### ***Pharmaceutical Peripherals Business***

#### **Cosmetic materials**

- Developing proprietary products (inorganic chemicals)

#### **Pharmaceuticals Business**

- ✓ Upgrading and expanding the development pipeline (2-3 intermediates each year)
- ✓ Increasing the profitability of existing products
  - Expanding sales; revising selling prices, reducing manufacturing costs

#### **Supplements**

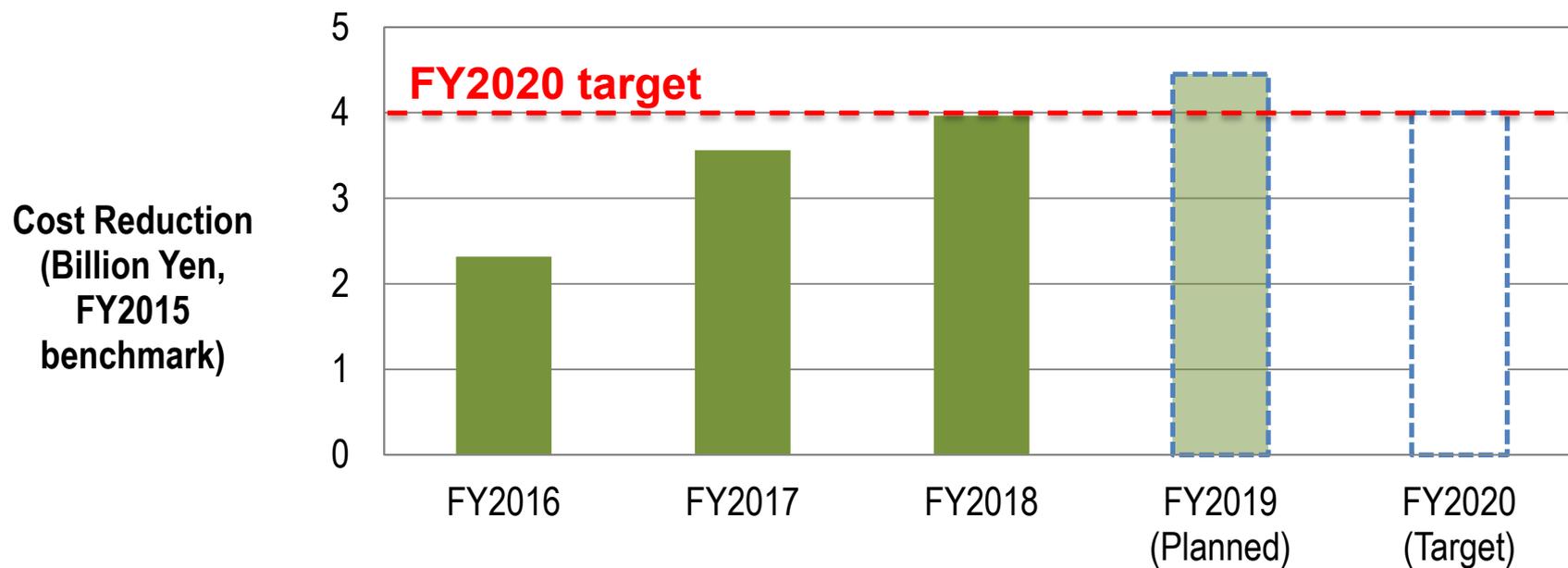
- Collaborating with other companies

#### **Veterinary care**

- Expanding sales of TEATNER® (cow nipple protection material) in Europe and the U.S.

## 4. Traditional Businesses

- Cost reduction in fiscal 2018 exceeds results in fiscal 2017 and almost reach the target for fiscal 2020
- Work to post further accomplishment by stating up of new themes for cost reduction to achieve the target for fiscal 2020.



## 5. Dividends

### ➤ FY 2019

Profit expected to progress in line with the Medium-Term Management Plan from the fiscal year ending March 31, 2020

Plan to pay both an interim and period-end dividend of 35 yen per share

Fiscal Year	2013	2014	2015	2016	2017	2018	2019
Interim Dividend (Yen)	15	0	0	0	10	25	(35)
Year-end Divident (Yen)	15	0	0	0	20	25	(35)
Payout ratio (%)	20.4	—	—	—	11.5	10.1	(15.9)

- 1) The Company consolidated its common shares at a ratio of one share for each five shares effective as of October 1, 2017. The dividends of the fiscal year 2013 and the interim dividend of the fiscal year 2017 are stated after taking into the account the impact of the share consolidation.
- 2) The dividend payout ratios for fiscal 2014-2016 are not stated as those are net losses.
- 3) The numbers in parentheses are planned numbers.
- 4) The year-end dividend of the fiscal year 2017 includes 10 yen of commemorative dividend for the Company's centenary anniversary.

Chemistry with a heart

**TOKUYAMA**



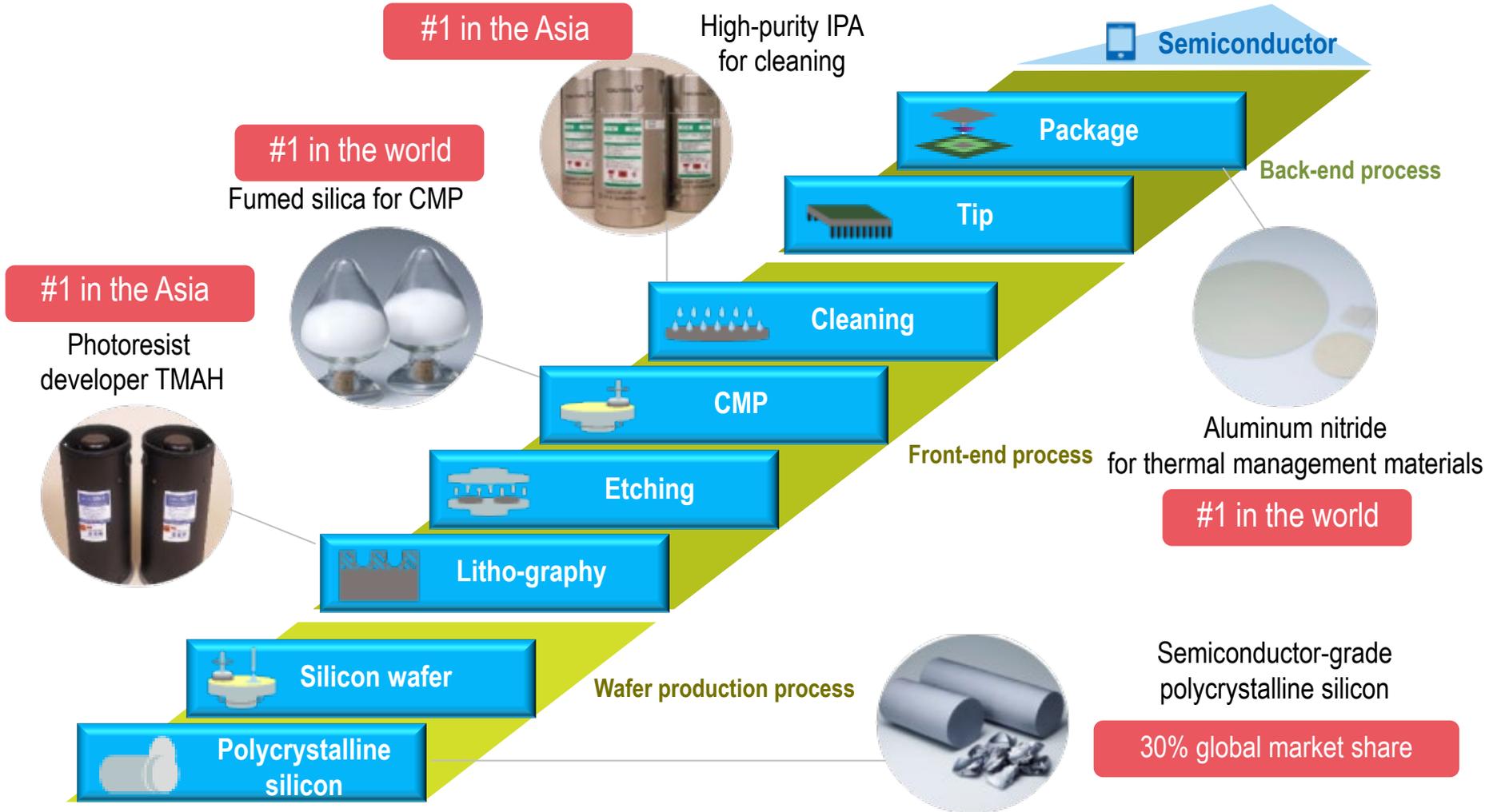


## **4** Supplementary Data

- 1. Growth Business**
- 2. Net Sales/Operating Profit by Business Segment**
- 3. Consolidated Financial Statements**
- 4. Reducing Interest-bearing Debts**
- 5. Non-Operating Income/Expenses, Extraordinary Gains/Losses and Financial Cost**
- 6. Performance Trend**
- 7. Changes in Operating Income**
- 8. CAPEX and Depreciation Trend**
- 9. Interest-bearing Debts Trend**
- 10. Cash Flow Plan**
- 11. Improvement of Financial Position**

# 1. Growth Businesses

## ICT-Related Products



## 2. Net Sales/Operating Profit by Business Segment (Chemicals Segment)

### Measures

- Increase the volume of major products
- Reduce manufacturing costs by improving unit consumption and implementing such measures as cutbacks in fixed costs
- Optimization of inventories by utilizing in-house warehouses

### FY2018 Results

#### Caustic soda

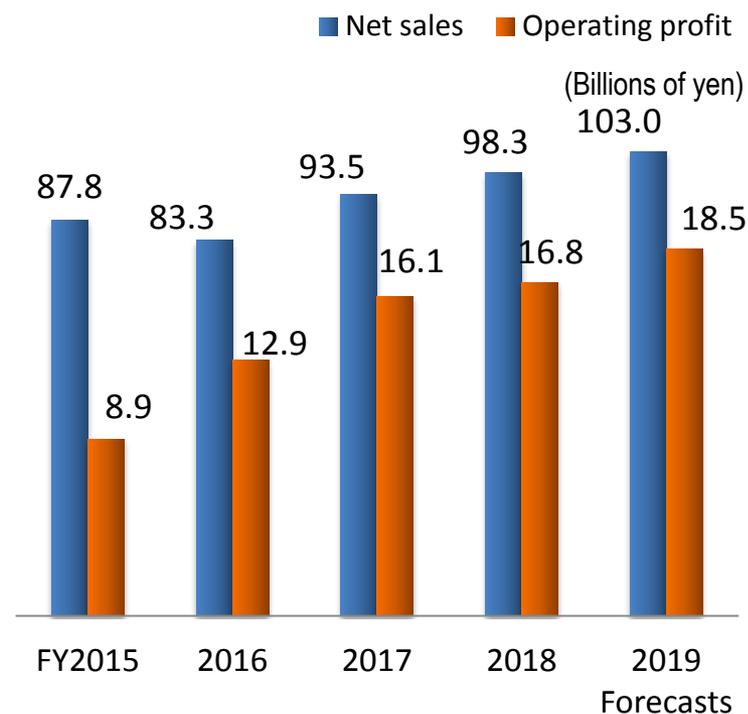
- The revision of selling prices was progressed. As a result, its operating profit increased greatly.

#### Vinyl chloride monomer

- Net sales increased. Meanwhile, manufacturing costs increased due to a rise in raw material prices such as domestic naphtha. As a result, its operating profit decreased.

#### Calcium chloride

- Sales volume for snow and ice remover application decreased due to the mild winter. As a result, its operating profit decreased.



\* The impact of the Cost of idle operation is not taken into account with respect to the operating profit for FY2015.

## 2. Net Sales/Operating Profit by Business Segment

### (Specialty Products Segment)

#### Measures

##### < Electronic Materials Business >

- Develop technologies that address customers' requirements for increased performance

##### < Thermal management material Business >

- Expand the production capacity and the product lineup

##### < IC Chemicals Business >

- Strengthen the production and supply structures in Asian region

#### FY2018 Results

##### **High-purity chemicals for electronics manufacturing**

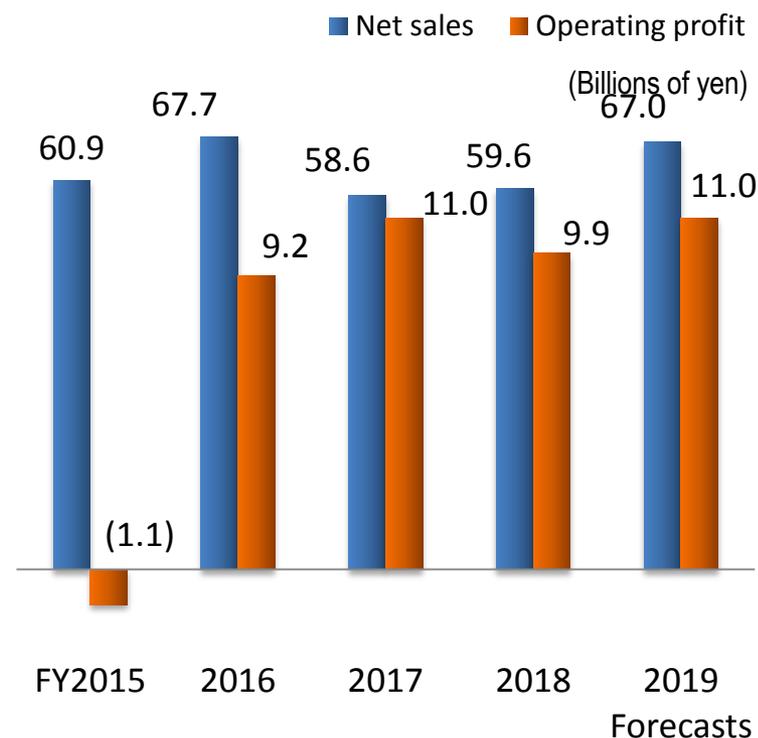
- Sales volume increased. Meanwhile, manufacturing costs increased due to a rise in raw material prices such as domestic naphtha. As a result, its operating profit decreased.

##### **Thermal management materials**

- Sales volume in such applications used for semiconductor manufacturing equipment increased and the business did well.

##### **Polycrystalline silicon**

- Sales volume was steady. Meanwhile, manufacturing costs increased due to a upturn in fuel and raw material costs. As a result, its operating profit decreased.



\* The impact of the Cost of idle operation is not taken into account with respect to the operating profit for FY2015.

## 2. Net Sales/Operating Profit by Business Segment (Cement Segment)

### Measures

- Transfer the increase in raw material costs to selling prices
- Reduce the unit consumption of coal by increasing the use/intake of waste plastic
- Increase the volume of waste accepted by stable operation of cement plant
- Thorough reduction of manufacturing cost

### FY2018 Results

#### Cement

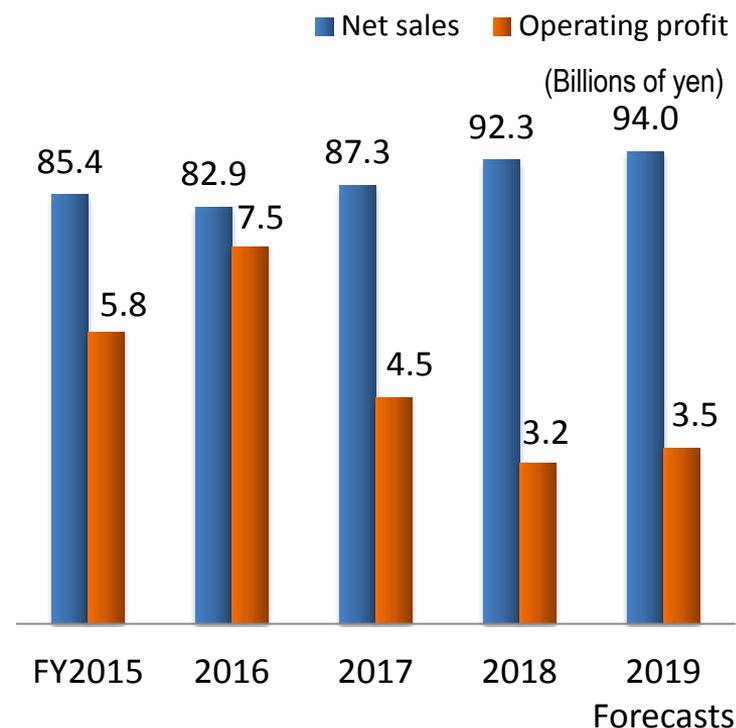
- Domestic sales volume was weak and manufacturing costs increased due to a rise in raw material prices such as coal. As a result, its operating profit decreased.

#### Resource recycling business

- Its business result was almost same as the previous year.

#### Consolidated subsidiary

- Net sales increased. This mainly reflected the robust shipping trends of cement-related products.



\* The impact of the Cost of idle operation is not taken into account with respect to the operating profit for FY2015.

## 2. Net Sales/Operating Profit by Business Segment

### (Life & Amenity Segment)

#### Measures

- Strengthen the pipeline from product development to market release
- Increase the number of items by steadily bringing developed products to the market
- Expand production and sales overseas
- Increase the volume of sales through close collaboration with sales partners

#### FY2018 Results

##### Plastic lens-related materials

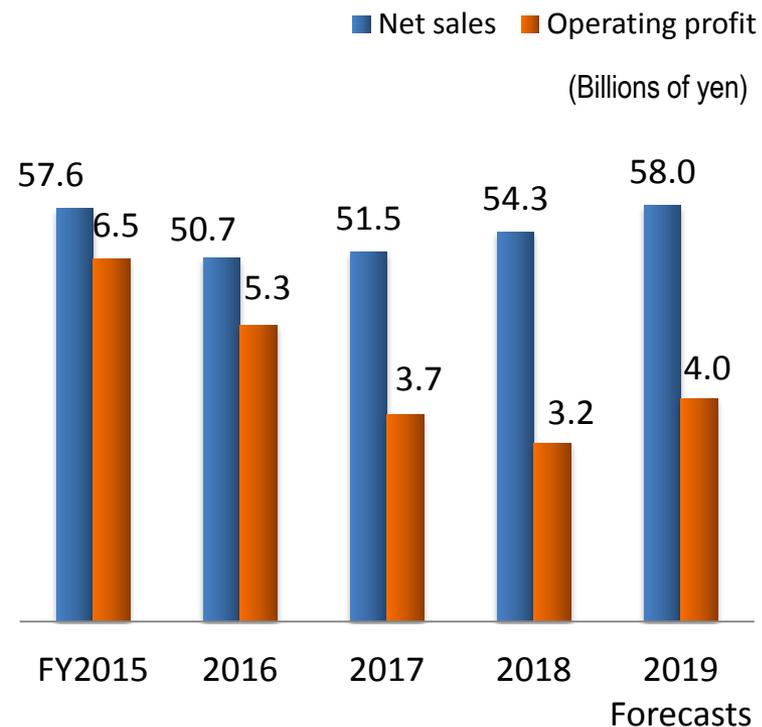
- Sales volume of photochromic dye materials for eyeglass lenses increased.

##### Ion exchange membranes

- Despite sales volume was steady, its operating profit decreased due to large-scale project recorded in the previous year.

##### Active pharmaceutical ingredients and intermediates, and Dental materials and equipment

- Sales volumes of each business increased and business performance is steady.



\* The impact of the Cost of idle operation is not taken into account with respect to the operating profit for FY2015.

# 3. Consolidated Financial Statements

## Income Statements

(Billions of yen)

	FY2017	FY2018	Difference	
			Amount	%
Net sales	308.0	324.6	+16.5	+5
Cost of sales	207.7	226.6	(18.9)	(9)
Selling, general and administrative expenses	59.0	62.7	(3.6)	(6)
Operating profit	41.2	35.2	(6.0)	(15)
Non-operating income/expenses	(5.0)	(1.8)	+3.2	-
Ordinary profit	36.1	33.4	(2.7)	(8)
Extraordinary income/expenses	(3.3)	4.6	+7.9	-
Profit/loss before income taxes	32.8	38.0	+5.1	+16
Income taxes	7.5	2.9	+4.5	+60
Non-controlling interests	5.6	0.7	+4.9	+87
Profit attributable to owners of parent	19.6	34.2	+14.5	+74

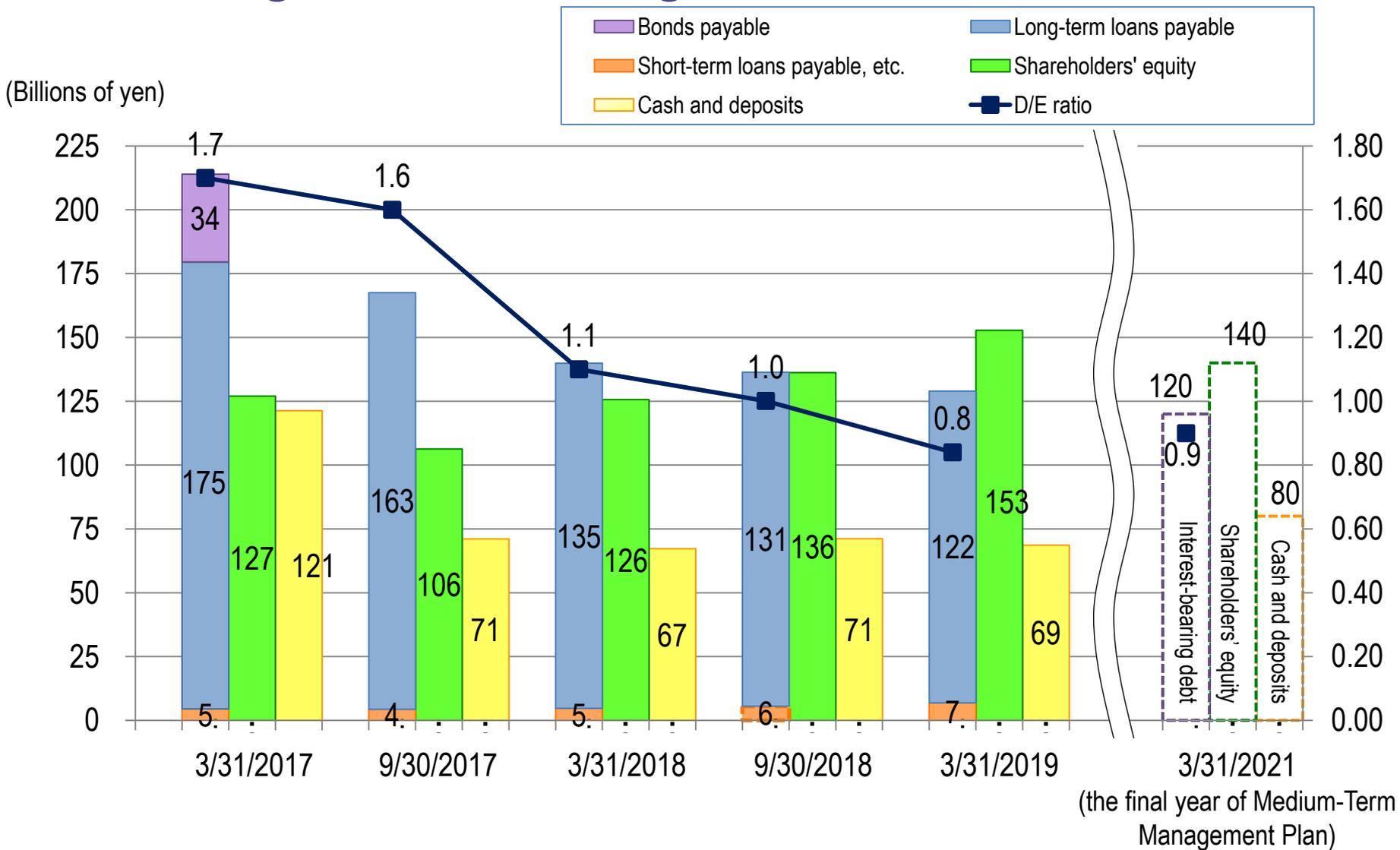
## 3. Consolidated Financial Statements Balance Sheets

(Billions of yen)

	3/31/2018	3/31/2019	Changes	
			Amount	%
Total assets	361.9	379.6	+17.6	+5
Current assets	191.0	202.9	+11.9	+6
Tangible fixed assets	110.2	116.1	+5.8	+5
Intangible fixed assets	2.7	1.9	(0.7)	(29)
Investments and other assets	57.9	58.6	+0.7	+1

	3/31/2018	3/31/2019	Changes	
			Amount	%
Total liabilities	225.3	216.1	(9.2)	(4)
Current liabilities	93.0	93.2	+0.2	+0
Long-term liabilities	132.3	122.8	(9.4)	(7)
Total net assets	136.5	163.5	+26.9	+20

# 4. Reducing interest-bearing debt

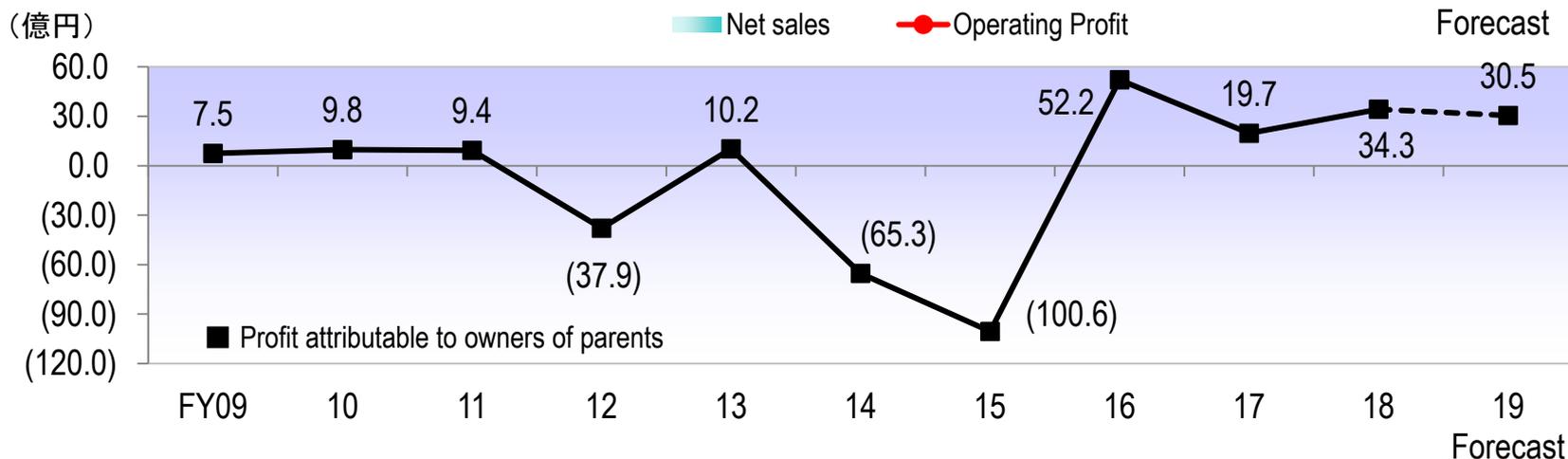
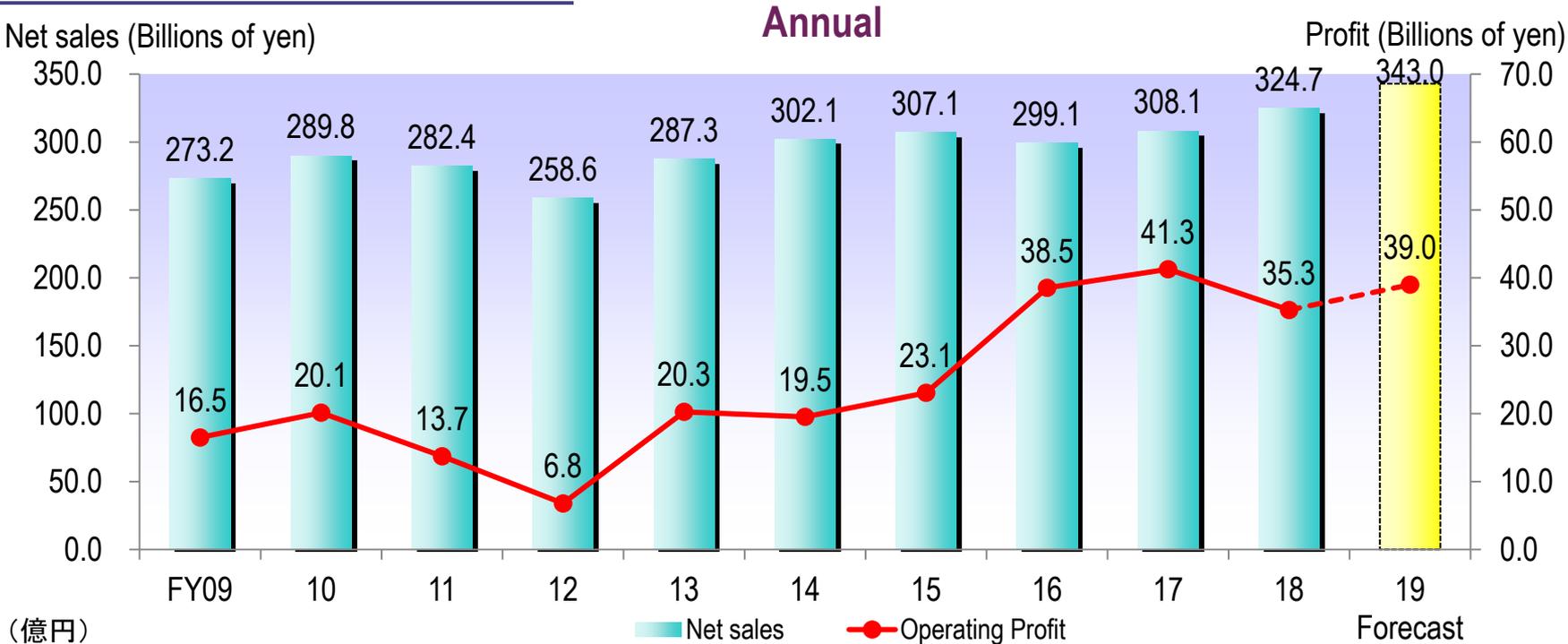


## 5. Non-Operating Income/Expenses, Extraordinary Gains /Losses and Financial Cost

Consolidated (year-on-year change)  
(Billions of yen)

		FY2017	FY2018	Changes
Non-operating income	Interest and dividend income	0.4	0.5	+0.0
	Other income	4.1	4.2	+0.1
	Total	4.6	4.8	+0.1
Non-operating expenses	Interest expenses	3.7	2.4	+1.2
	Other expenses	6.0	4.2	+1.7
	Total	9.7	6.6	+3.0
Non-operating income/expenses		(5.0)	(1.8)	+3.2
Extraordinary gains		8.5	7.3	(1.1)
Extraordinary losses		11.8	2.7	+9.0
Extraordinary gains/losses		(3.3)	4.6	+7.9
Financial income and expenses		(3.2)	(1.9)	+1.2

# 6. Performance Trend

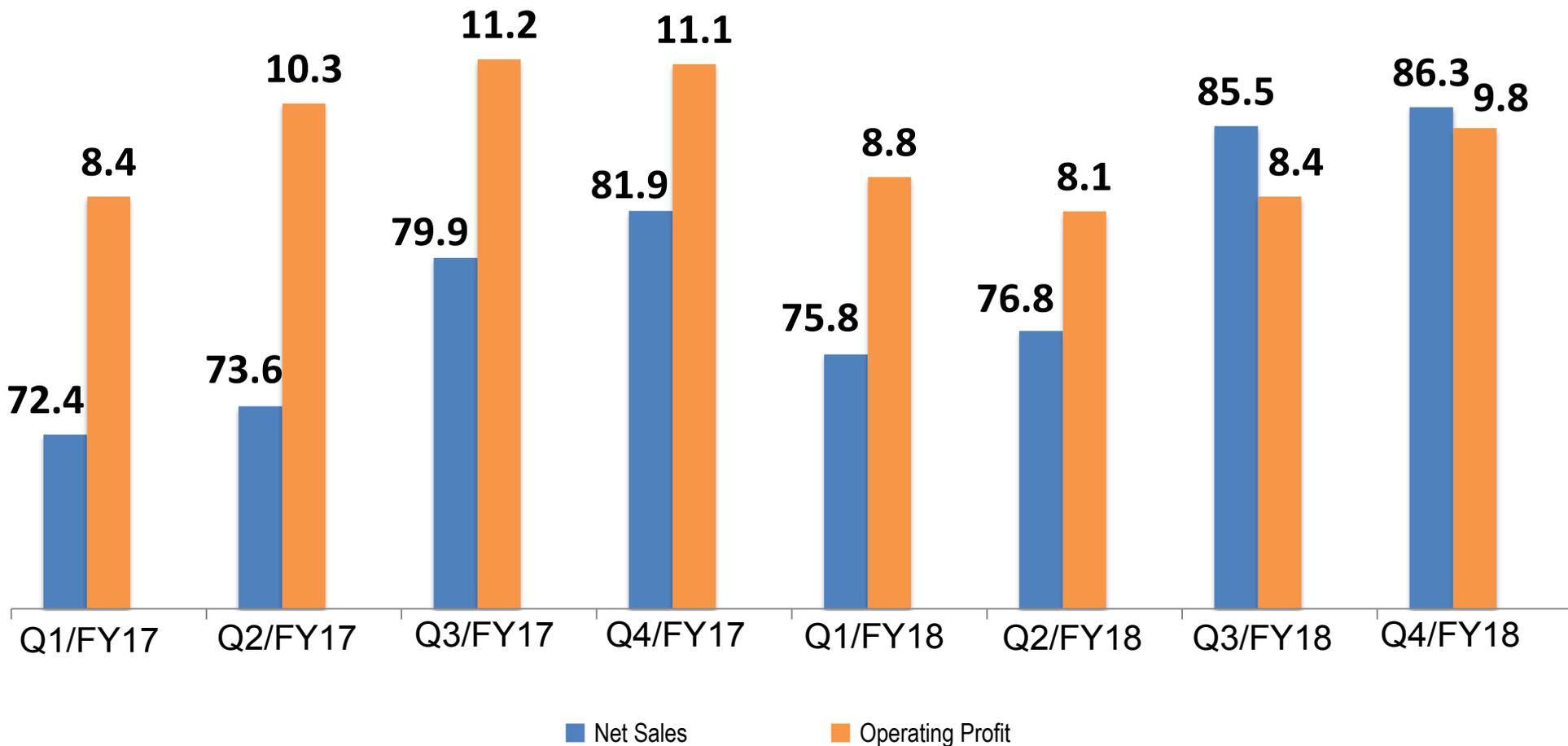


# 6. Performance Trend

(Quarter)

Consolidated

(Billions of yen)

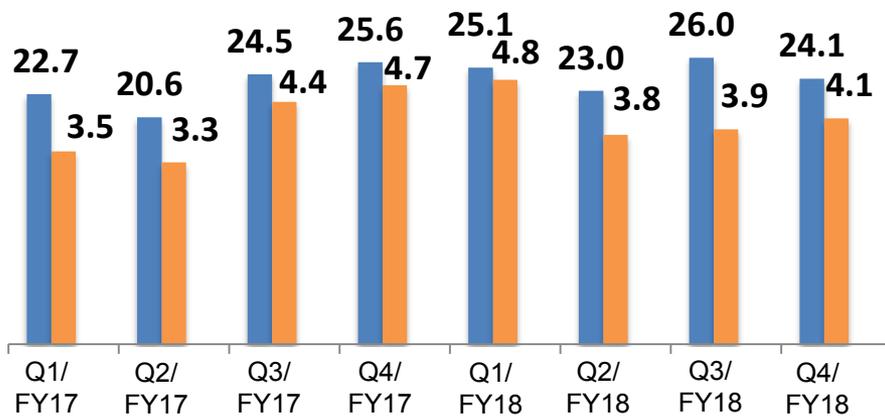


# 6. Performance Trend

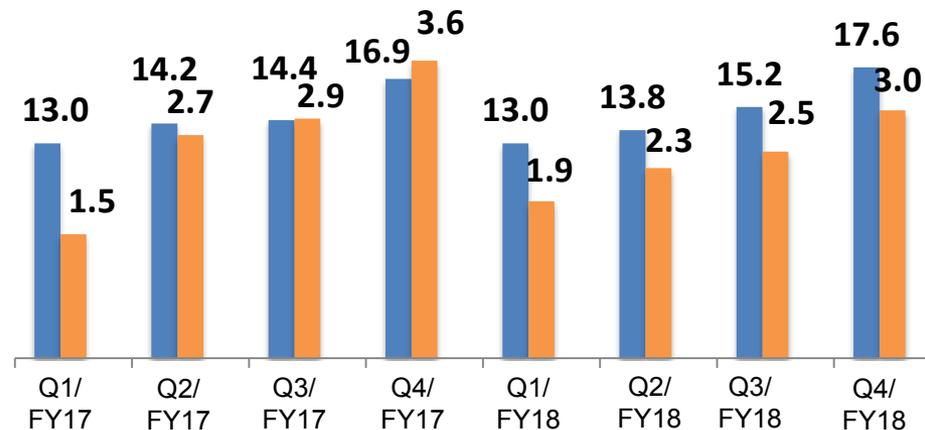
(Billions of yen)

Quarter

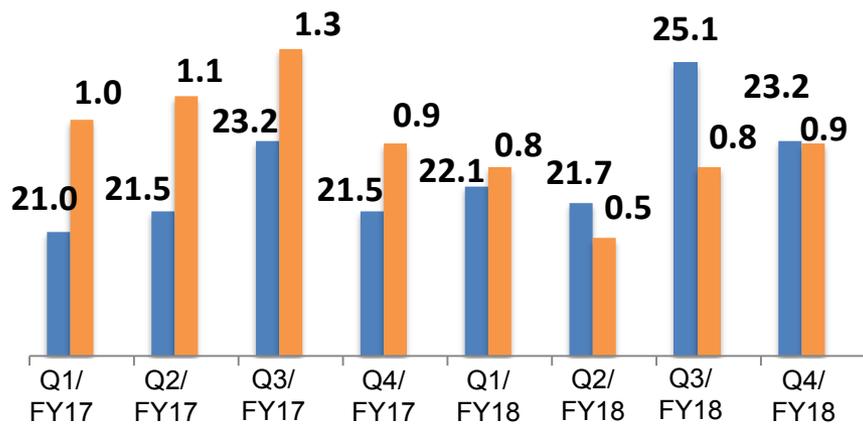
## Chemicals



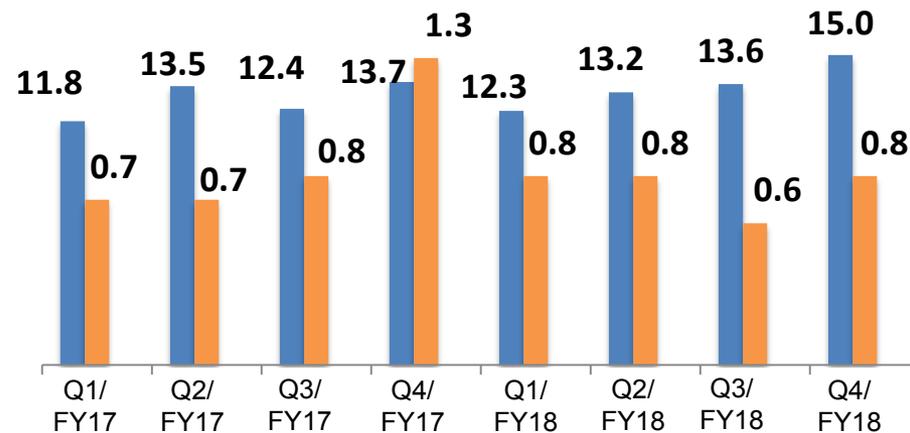
## Specialty Products



## Cement



## Life & Amenity



■ Net Sales

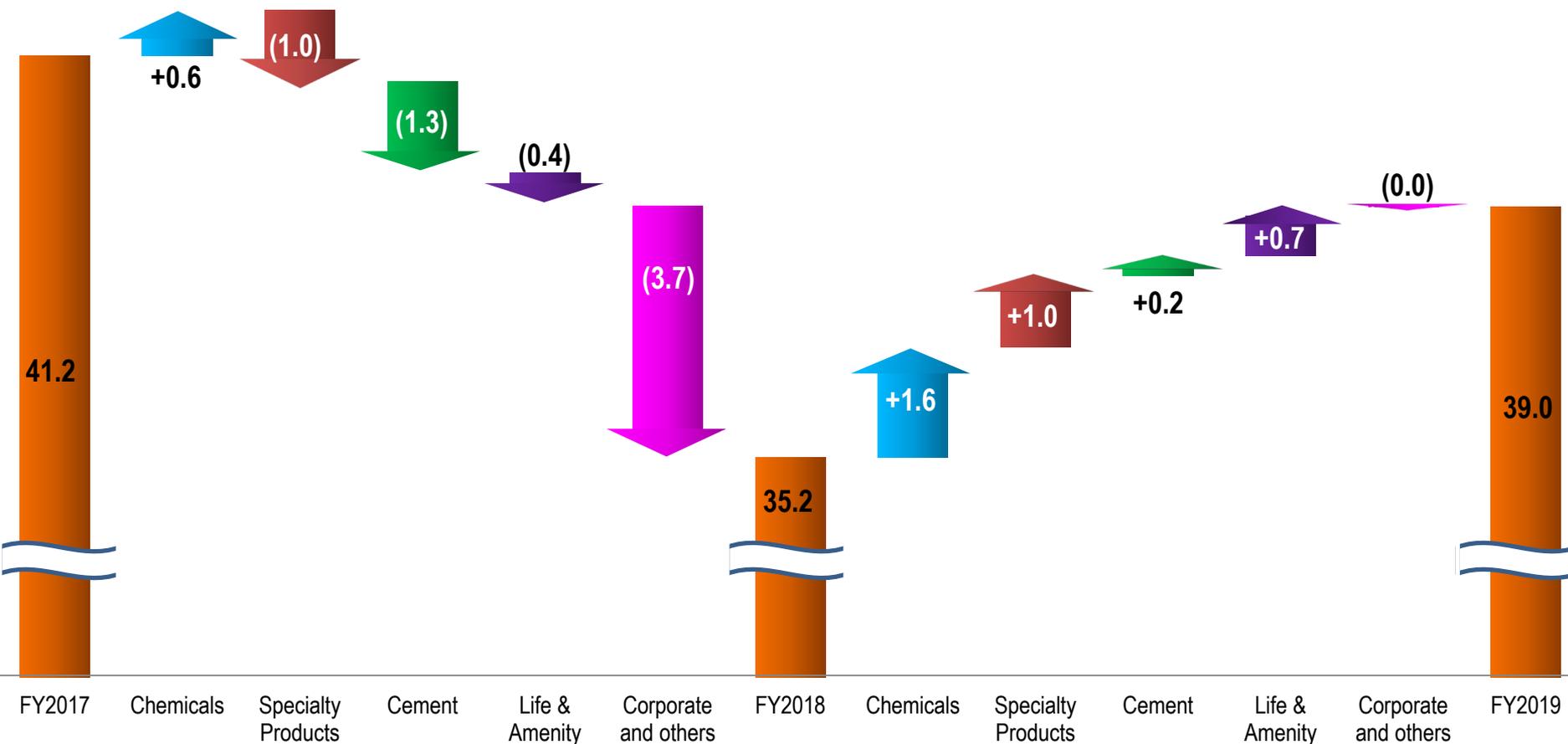
■ Operating Profit

# 7. Changes in Operating Profit

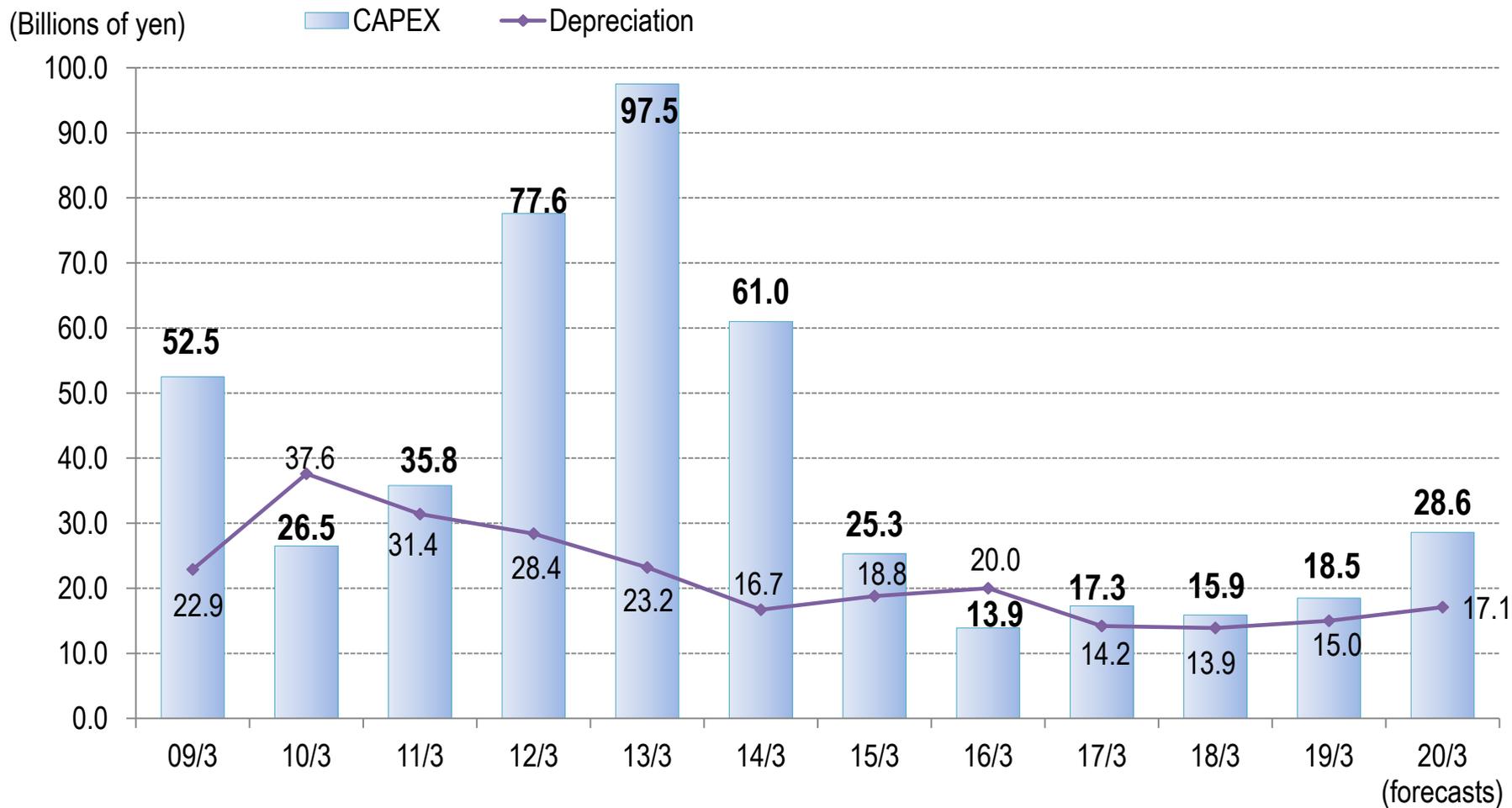
By Segment

Result of FY2018 and Forecast of FY2019

(Billions of yen)



# 8. CAPEX and Depreciation Trend

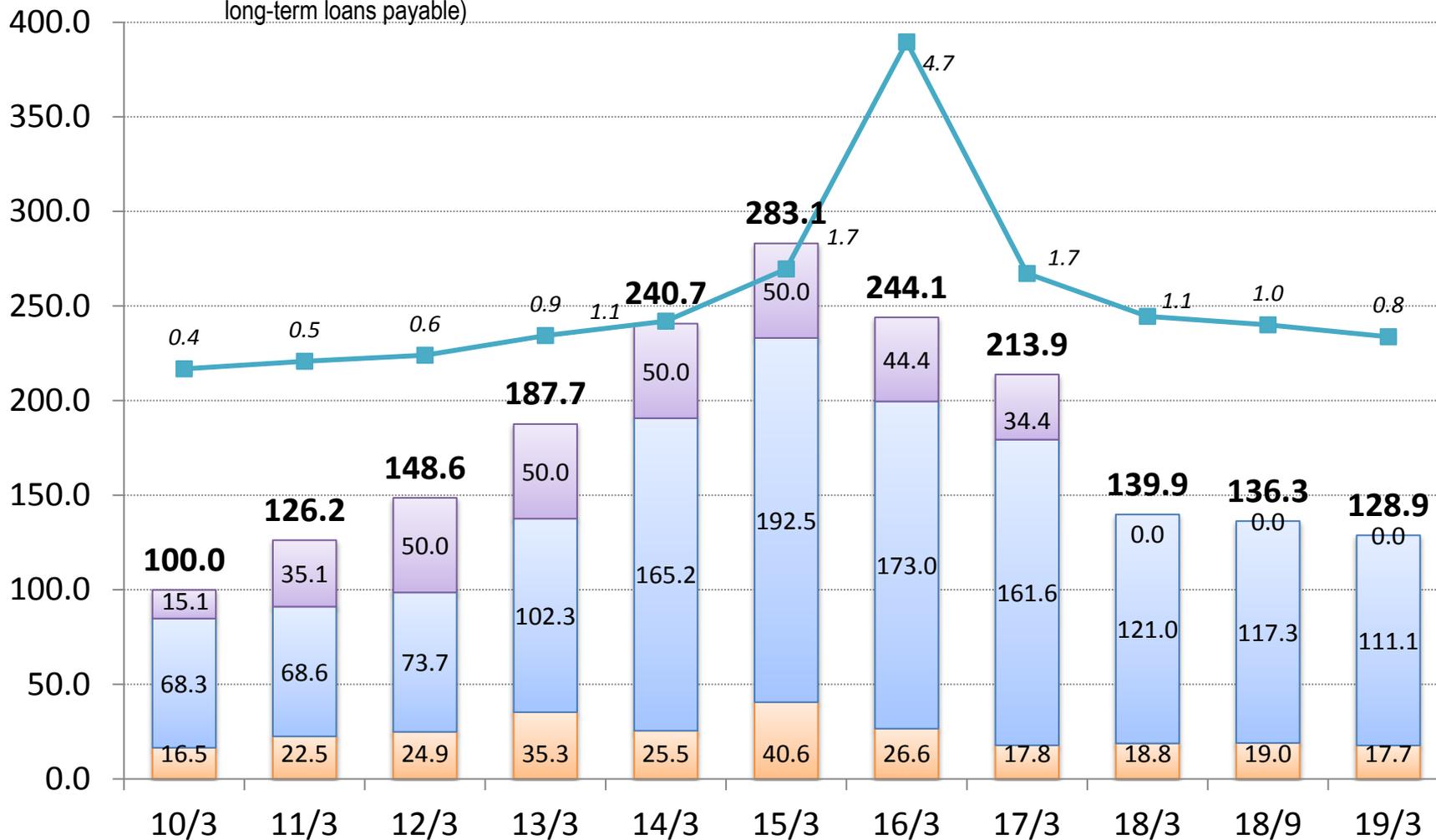


# 9. Interest-Bearing Debts Trend

Consolidated

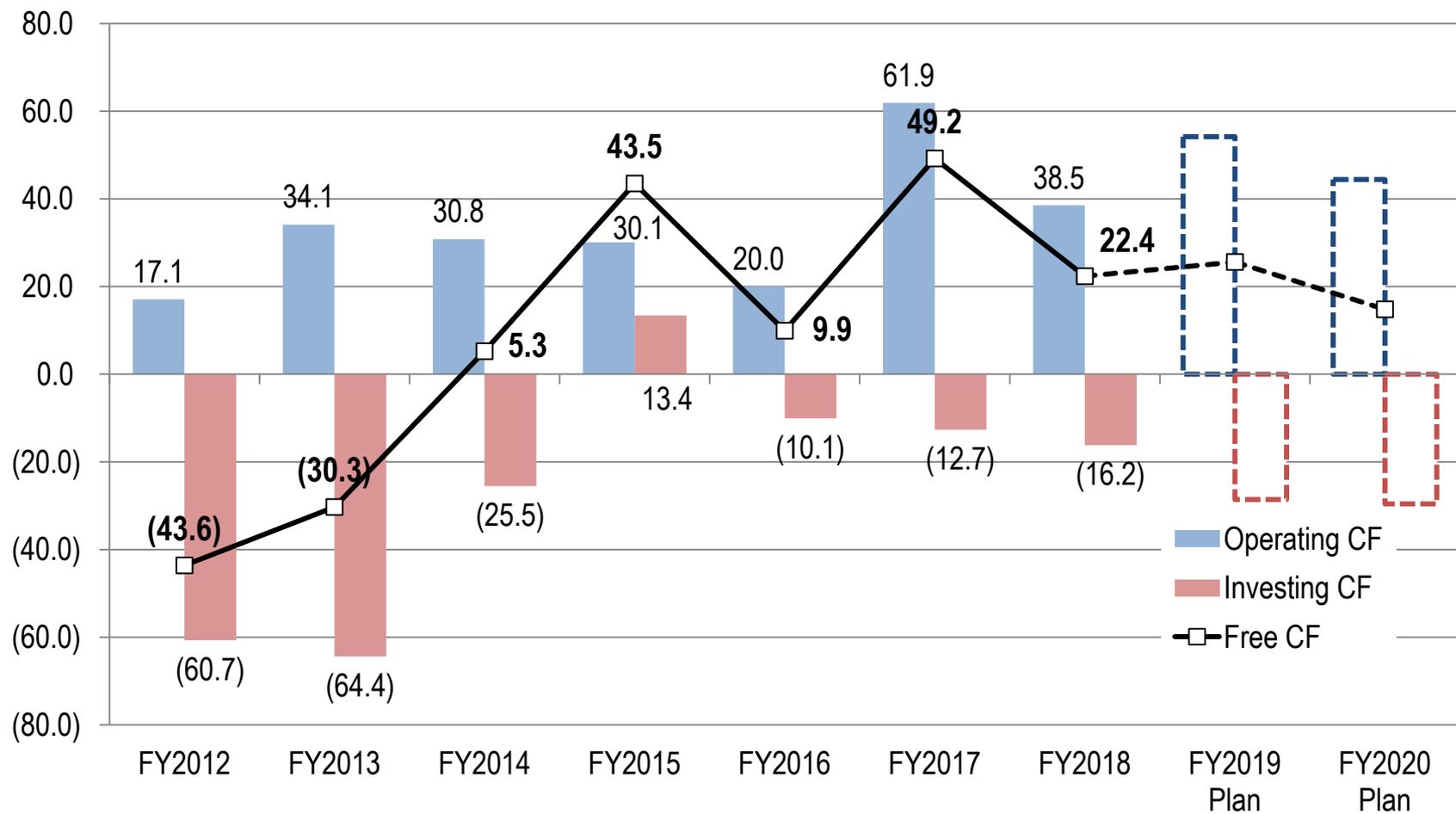
(Billions of yen)

■ Short-term debt  
■ Long-term debt  
■ Unsecured bonds  
■ D/E ratio  
 (Including Current portion of long-term loans payable)



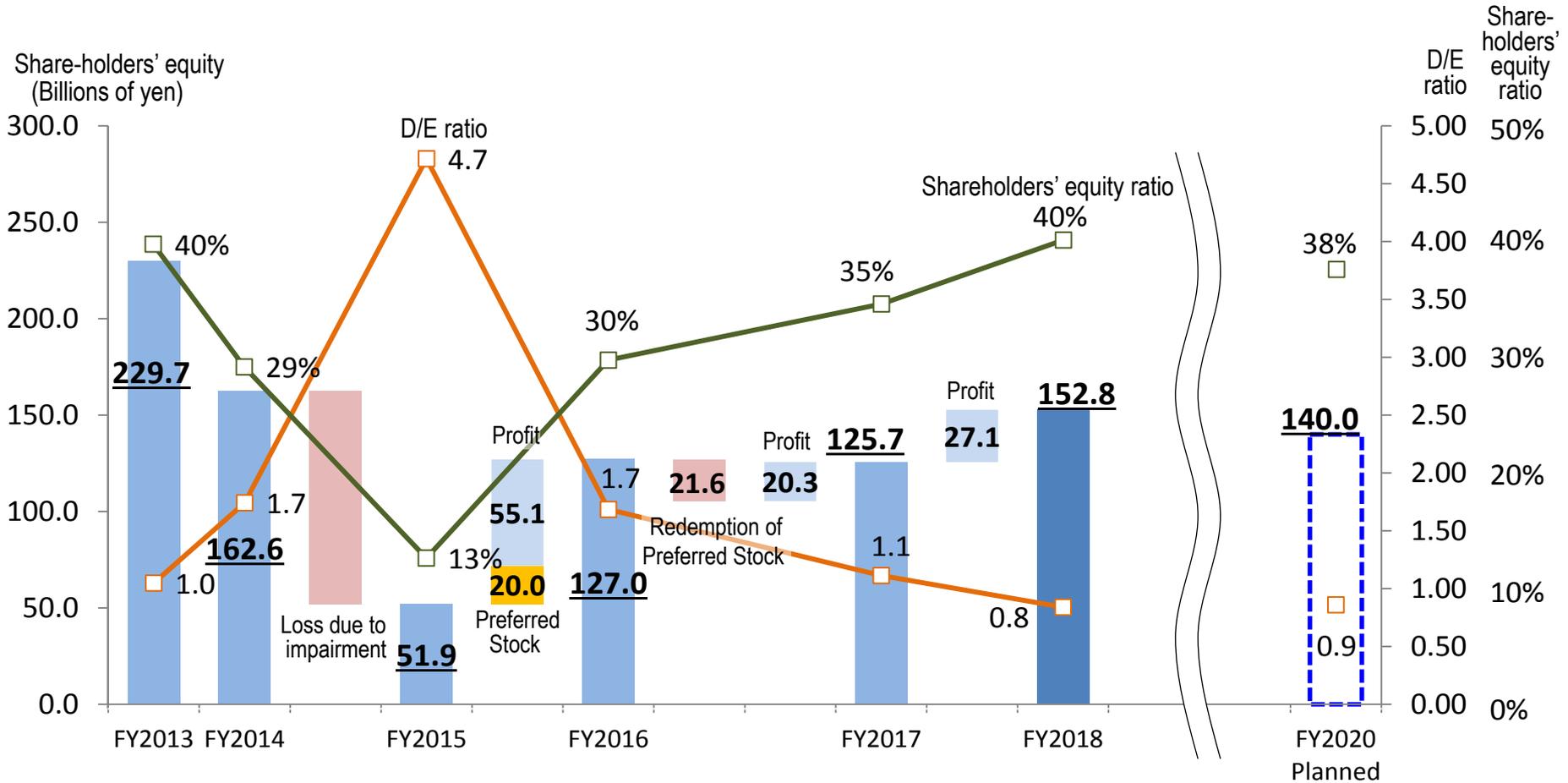
# 10. Cash Flow Plan

(Billions of yen)



# 11. Improvement of Financial Position

Shareholders' Equity and Financial Index Trend



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Chemistry with a heart

**TOKUYAMA**

