

2Q FY2021 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: October 28, 2021 (Thursday) 12:00 – 13:00

Participants:

Hiroshi Yokota, President and Representative Director

Hideo Sugimura, Representative Director, Senior Managing Executive Officer,
General Manager, Corporate Planning Div.

Mr. Nakada, Macquarie Capital Securities

Q1: The first point is a little detailed: how are the prices of raw materials and fuels factored in?

A1: First of all, costs for coal will increase by about JPY10 billion for the full year. In the first half of the fiscal year, it increased by about JPY1.6 billion. The amount for the second half is JPY8 billion. Some of them have already been contracted, and others will be secured after the new year, but the current forecast is roughly at that level. In the first half of the fiscal year, as you may have guessed, there was almost no increase in metal silicon price. From this fall onward, the price will soar. Although we can secure the quantity, there is a question of to what extent we purchase high-priced products. So, we are now making every effort to minimize the impact of the rise in metal silicon prices.

Q2: Regarding the polysilicon price hike, in past years the same price has been applied from January to December or from April to March, but this time is different because of the special way the raw materials are increasing. Is that correct?

A2: Yes. We are now in the process of negotiating. We have gained a certain level of understanding, and we are now in the process of finalizing the amount and timing.

Mr. Watanabe, Mitsubishi UFJ Morgan Stanley Securities.

Q3: I would like to ask you to introduce the factors behind the increase or decrease in operating profit in the form of a comparison with the previous forecast. How much do you expect the cost to increase compared to the previous forecast, and how much of a contribution do you think the caustic soda trouble will make?

A3: I will talk about the comparison between the annual forecasts. First of all, as for negative factors, we are looking at JPY1.6 billion for coal in the first half and JPY8 billion in the second half. In the second half of the fiscal year, we are forecasting JPY5 billion for metal silicon. As mentioned, there was a problem in the Chemicals business in the first half of the fiscal year, so we estimate a decrease in profit of about JPY2 billion to JPY2.5 billion in the first half, resulting in an overall decrease of about JPY16.5 billion to JPY17 billion from the initial forecast. In contrast, the revised announcement is JPY4 billion, so we are getting about JPY12 billion back through sales volume and price increases.

Q4: On page 18 of presentation material, there is a list of items for which price increases have been announced. Although cement, for example, has announced a price increase, it has not been factored in much. There is a possibility that the price of polysilicon, which is not listed here, can be increased more than what has been incorporated. Could you please introduce the difference?

A4: First of all, with regard to cement, we were among the first in the industry to announce the price increase. Currently, all the major companies have announced their plans. Each company is proposing a price increase range from JPY2,000 to more than JPY2,000, but we are requesting a price increase of more than JPY2,200 from December shipments.

As for chemicals, we expect that it will not take much time to raise the prices and that we will be able to gain the understanding of our customers. In addition, we are planning to announce another additional price increase for PVC in the near future.

With regard to polysilicon, although we have not practically announced the price increase, we are currently negotiating with major customers in particular. The customer is fully aware of the situation, so the only thing that remains is the timing and range. At the very least, we cannot accept if we cannot cover our variable costs or if we cannot maintain the range of metal silicon, so we are now asking for a price increase.

Mr. Azuma, Jefferies Securities

Q5: I imagine that the improvement of the Life Science business is probably due to the favorable performance of dental materials. I don't think it's normal to see a 5-fold increase in 2 years for something like this that is not a popular consumer product. What's going on?

A5: I analyze that it means that repeat orders have increased considerably. In particular, since the year before last, we have been selling OMNICHROMA, a composite resin that does not require color matching, and we have seen a significant increase in repeat orders from people who have used it once. I think that word of mouth among doctors has also spread. As you said, we also have discussions within the Company as to why sales have increased so much. We have been steadily visiting doctors, and as a result, I believe it has gradually become known that it is very easy to use.

Q6: Also in the Life Science business, A&T Corporation is probably struggling a little more than the dental material business. I think this is the area that the President is putting the most effort into, including adjusting the cost. What you are doing here, what progress you are making, it can't be helped that it takes time to appear in the numbers. Please tell us what you are doing.

A6: We are planning to divide the roles of Tokuyama and A&T so that there will be no overlap. In particular, the Tokuyama side should focus thoroughly on the development of reagents. A&T has always been strong in information systems and transportation systems. By collaborating with the many medical institutions that A&T has delivered products to so far, we would like to develop a system where AI uses uploaded medical data to support diagnosis. Therefore, A&T will make good use of such information. We will work on adding compatibility with A&T's machines to our lineup of reagents.

Mr. Yoshida, Mizuho Securities

- Q7: First of all, can you tell us a little bit about how you see the future of the coal price? I think it is very difficult to foresee, but at present, the price is already over USD200, and I am not sure if it will go up further in the future.
- A7: It's very difficult to foresee the situation of coal, but I think one of the major points is that the Chinese government has adopted a policy of suppressing the price of coal. Since then, futures prices have started to decline from the current fiscal year to the next fiscal year. Although this is the trend, I believe that the price will not be as low as it has been in the past. The prices of resources as a whole tend to rise in line with the prices of other resources, so if the price of natural gas stays at a very high level, the price of coal also tends to rise. We expect that the price will not be USD50 or USD60 as in the past, but will continue to be in the hundreds of US dollars.
- Q8: Secondly, could you explain the concept of others including fixed costs in the analysis of changes? At the beginning of the fiscal year, I believe you projected an increase in others of JPY8.2 billion, If that is the case, will the annual increase in others, including the unexpected portion, exceed JPY10 billion? Or will you be able to keep it at the initial forecast of JPY8 billion by holding down the costs in the second half of the fiscal year? Could you tell me about your approach to fixed costs? That's all.
- A8: Basically, in the first half of the fiscal year, there was an unexpected increase of more than JPY2 billion, but in the second half of the fiscal year, we will operate within the range of the others increase of more than JPY8 billion mentioned at the beginning of the fiscal year. We want to make sure that we are disciplined and do not overstep this level.

Mr. Nakahara, Tokai Tokyo Research Institute

- Q9: In the area of gains and losses in electronic materials, I would like you to explain separately what happened in the first half and will happen the second half in the areas of thermal management materials and IC chemicals, which are not often mentioned.
- A9: Sales of thermal management materials have been stronger than initially expected. We have built a new center to manufacture ceramics in Yanai city, which has increased our fixed costs by about JPY500 million, but this has been absorbed by the increase in sales. As a result, sales and profit of thermal management materials have increased. As for IC chemicals, the figures show a decrease in profit. This is because although the unit price of high-purity chemicals is set at a fairly high level, it is not linked to naphtha, so we have not been able to pass on the increase in naphtha prices. We are currently negotiating on the price for the next fiscal year, as the range of price increase is extraordinary.

Mr.Sano, JP Morgan Securities

Q10: Although ordinary profit has been revised downward, I think that profit attributable to owners of parent has not changed. I think it relates to extraordinary income, but could you briefly explain the factors behind it?

A10: We have not revised the initial plan for net profit for the current fiscal year, we are expecting to receive compensation and other payments that were not planned at the beginning of the fiscal year in the extraordinary profit section, so we have added these payments.