

Q2 FY2018 - Apr 1, 2018 to Sep 30, 2018 -

# Presentation for IR Meeting

**Tokuyama Corporation**

**Oct 31, 2018**



## Key points of the second quarter of fiscal 2018

- Results are currently in line with forecasts as of the beginning of the period despite a decrease in operating profit YoY.
- Steps taken to implement various measures including the revision of selling prices to address the impacts of soaring raw material and fuel prices.
- From an ICT-related product investment perspective, decision made to boost production capacity of thermal management materials following on from the decision to bolster facilities for the manufacture of a photoresist developer, in the 1Q of FY2018.
- Undertook the refinancing of a subordinated loan.

# CONTENTS

- 1** Financial Results for Q2 FY2018
- 2** Performance Forecasts for FY2018
- 3** Progress of Medium-Term Management Plan
- 4** Supplementary Data

# **1** Financial Results for Q2 FY2018

- 1. Financial Highlights**
- 2. Net Sales / Operating Profit by Business Segment**
- 3. Changes in Operating Profit**
- 4. Changes in Net Sales / Operating Profit by Business Segment**
- 5. Steps aimed at improving profitability**
- 6. Progress of BRIGHT- II**

# 1. Financial Highlights

(Billions of yen)

|   | Q2 FY2017 | Q2 FY2018 | Difference |      | Main changing factors  |
|---|-----------|-----------|------------|------|--|
|   |           |           | Amount     | %    |  |
| Net sales                               | 146.1     | 152.6     | +6.5       | +4   | Upward revision in selling prices of caustic soda<br>Increase in sales volumes of semiconductor-related products |
| Operating profit                        | 18.8      | 17.0      | (1.8)      | (10) | Upward revision in selling prices of caustic soda<br>Rise in raw material and fuel costs                         |
| Ordinary profit                         | 15.6      | 15.4      | (0.2)      | (1)  | Decrease in operating profit<br>Improvements in non-operating income/expenses                                    |
| Profit attributable to owners of parent | 0.1       | 12.8      | +12.6      | -    | Improvements in extraordinary income/losses  |
| Basic earnings per share (yen)          | (20.87)   | 184.55    | -          |      | -  |
| Exchange rate (yen/USD)                 | 111       | 110       | -          |      | -  |
| Domestic naphtha price (yen/kl)         | 37,700    | 51,100    | -          |      | -  |

# 1. Financial Highlights

(Billions of yen)

|                            | As of Mar 31,2018 | As of Sep 30,2018 | Difference | Main changing factors   |
|----------------------------|-------------------|-------------------|------------|---|
| Total assets               | 361.9             | 367.2             | +5.2       | 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             | 136.2             | +10.5      | Posting profit attributable to owners of parent   |
| Shareholders' equity ratio | 34.7%             | 37.1%             | +2.4pts    | -   |
| Interest-bearing debt      | 139.9             | 136.3             | (3.5)      | Decrease in long-term loans payable   |
| D/E ratio                  | 1.11              | 1.00              | (0.11)     | -   |
| Net D/E ratio*             | 0.58              | 0.48              | (0.10)     | -   |
| Net assets per share (yen) | 1,806.56          | 1,961.21          | -          | -   |

\*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)

|  | Q2 FY2017    |                  | Q2 FY2018    |                  | Difference  |           |                  |             |
|--|--------------|------------------|--------------|------------------|-------------|-----------|------------------|-------------|
|  | Net Sales    | Operating Profit | Net Sales    | Operating Profit | Net Sales   | %         | Operating Profit | %           |
| Chemicals  | 43.3         | 6.9              | 48.1         | 8.7              | +4.8        | +11       | +1.8             | +26         |
| Specialty Products   | 27.2         | 4.3              | 26.8         | 4.3              | (0.4)       | (2)       | +0.0             | (1)         |
| Cement   | 42.5         | 2.2              | 43.9         | 1.4              | +1.3        | +3        | (0.8)            | (38)        |
| Life & Amenity   | 25.3         | 1.4              | 25.6         | 1.6              | +0.2        | +1        | +0.1             | +13         |
| Others   | 26.6         | 3.1              | 28.7         | 1.7              | +2.1        | +8        | (1.4)            | (45)        |
| <b>Total</b>   | <b>165.1</b> | <b>18.2</b>      | <b>173.2</b> | <b>17.9</b>      | <b>+8.1</b> | <b>+5</b> | <b>(0.2)</b>     | <b>(2)</b>  |
| Inter-segment eliminations<br>and corporate-wide<br>expenses | (18.9)       | 0.6              | (20.5)       | (0.9)            | (1.6)       | -         | (1.5)            | -           |
| <b>Consolidated results</b>                                  | <b>146.1</b> | <b>18.8</b>      | <b>152.6</b> | <b>17.0</b>      | <b>+6.5</b> | <b>+4</b> | <b>(1.8)</b>     | <b>(10)</b> |

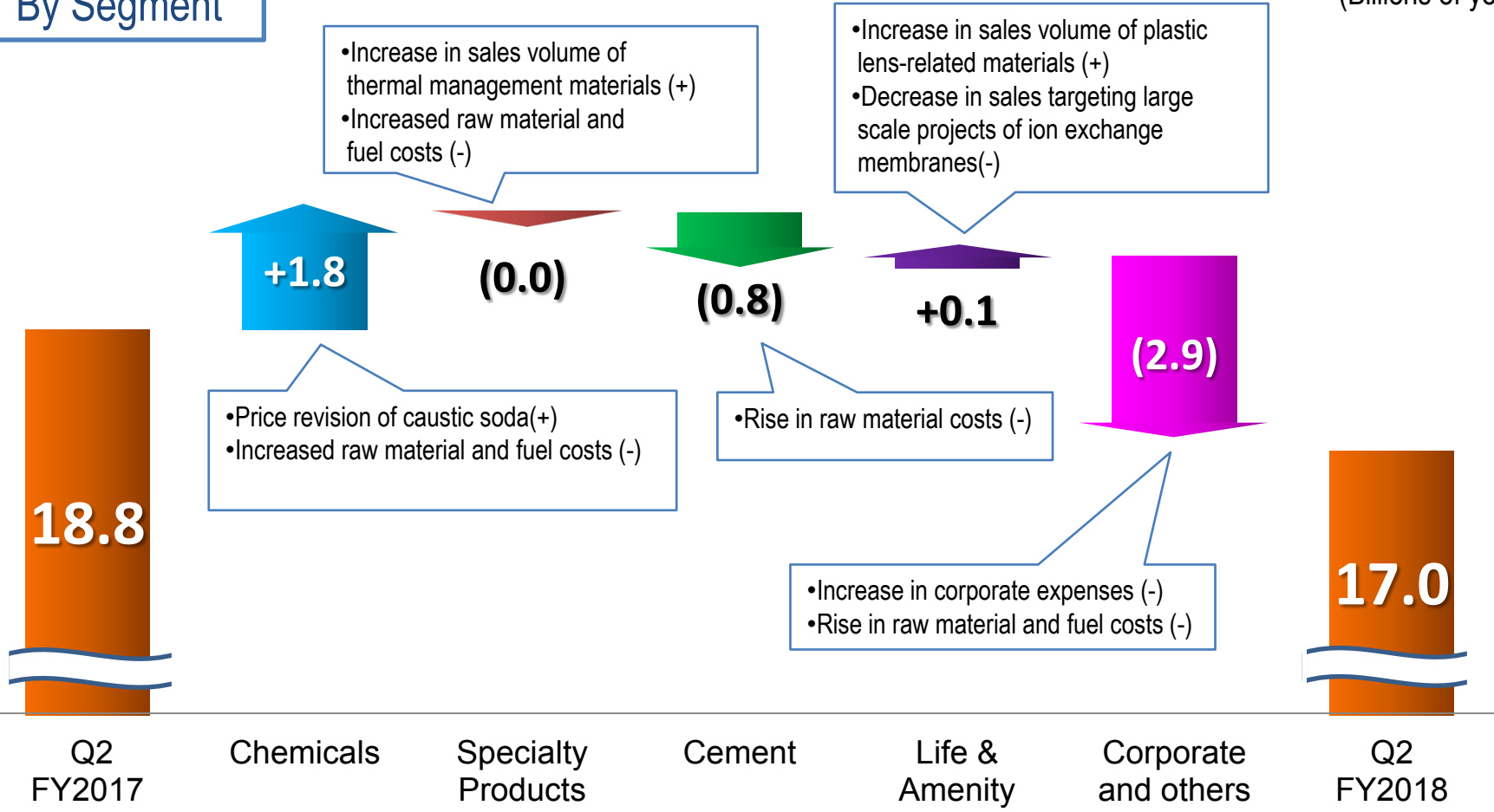
(Note) Sales and operating profit shown above include inter-segment transactions.

# 3. Changes in Operating Profit

(Year-on-year change)

(Billions of yen)

By Segment



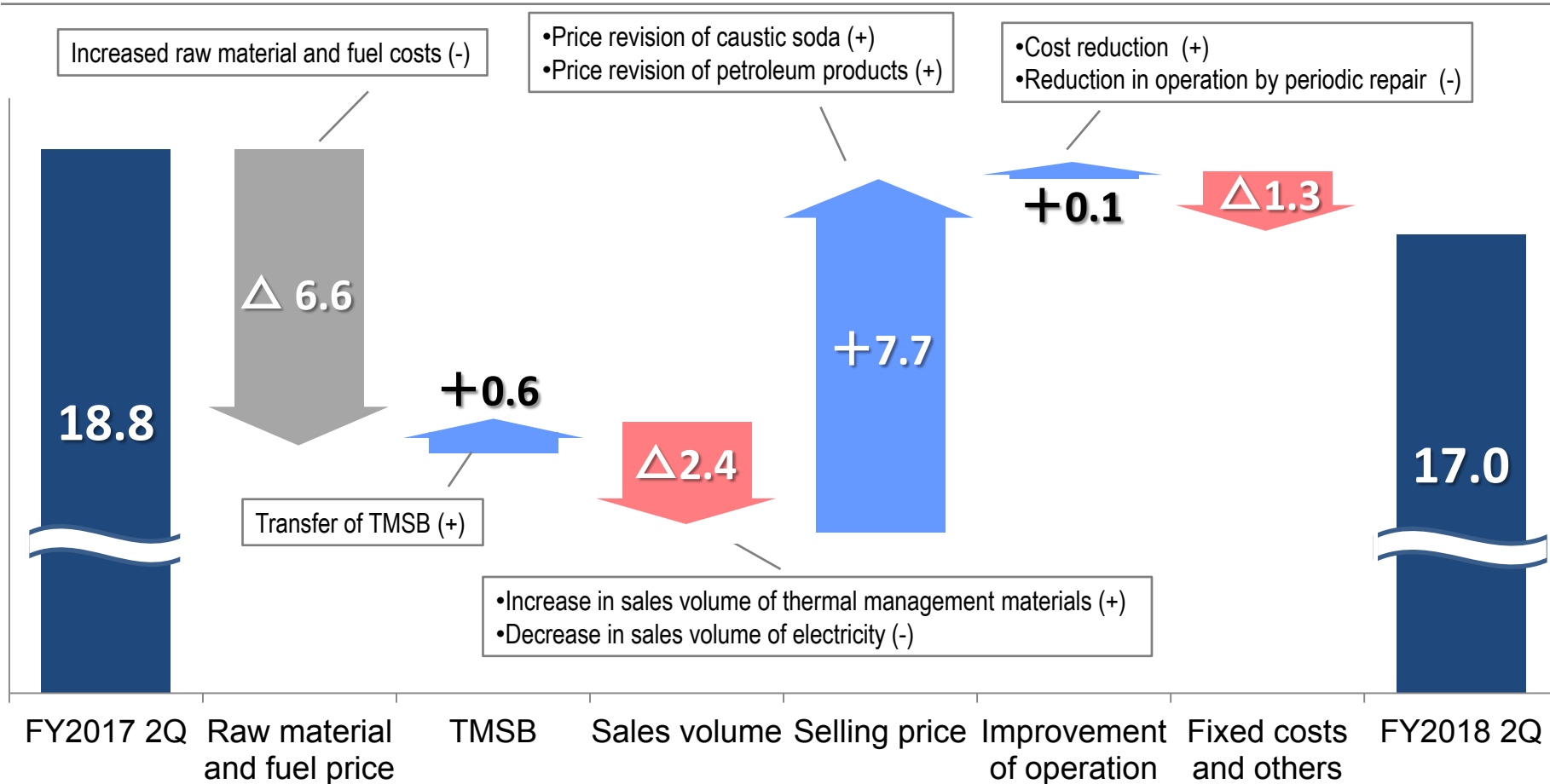


# 3. Changes in Operating Profit

(Year-on-year change)

By Factor

(Billions of yen)



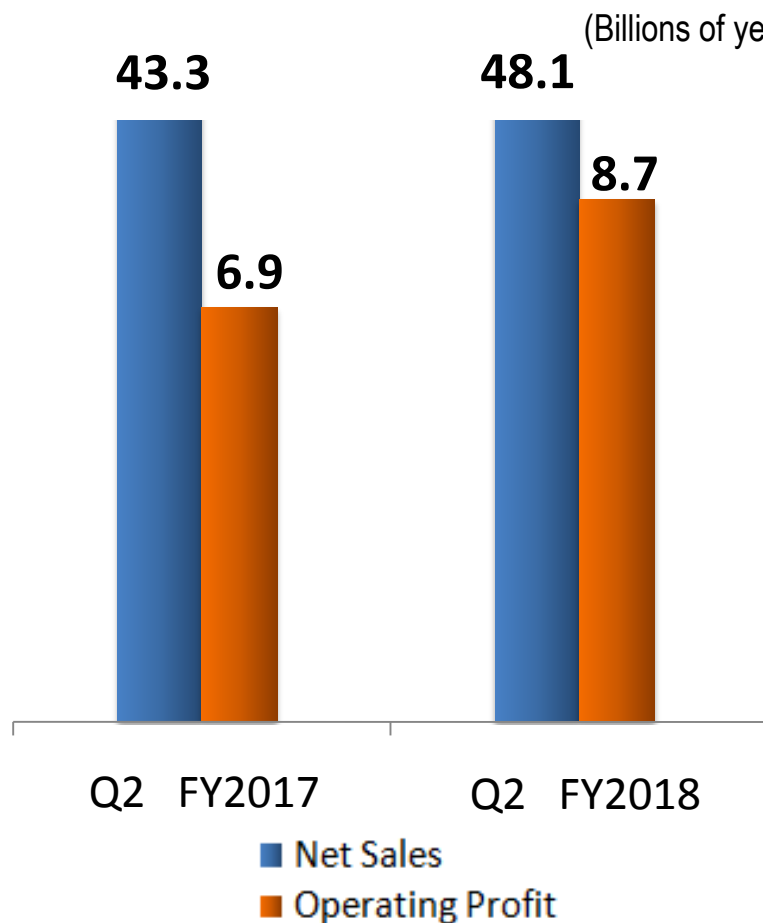
\*TMSB: Tokuyama Malaysia

## 4. Changes in Net Sales / Operating Profit by Business Segment

(Year-on-year change)

### Chemicals

*Higher earnings on higher sales*



Qualitative information

(Caustic soda)

- Sales volume was steady mainly due to exports to Asia and the revision of selling prices was also progressed. As a result, its operating profit increased greatly.

(Vinyl chloride resin)

- 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.

## 4. Changes in Net Sales / Operating Profit by Business Segment

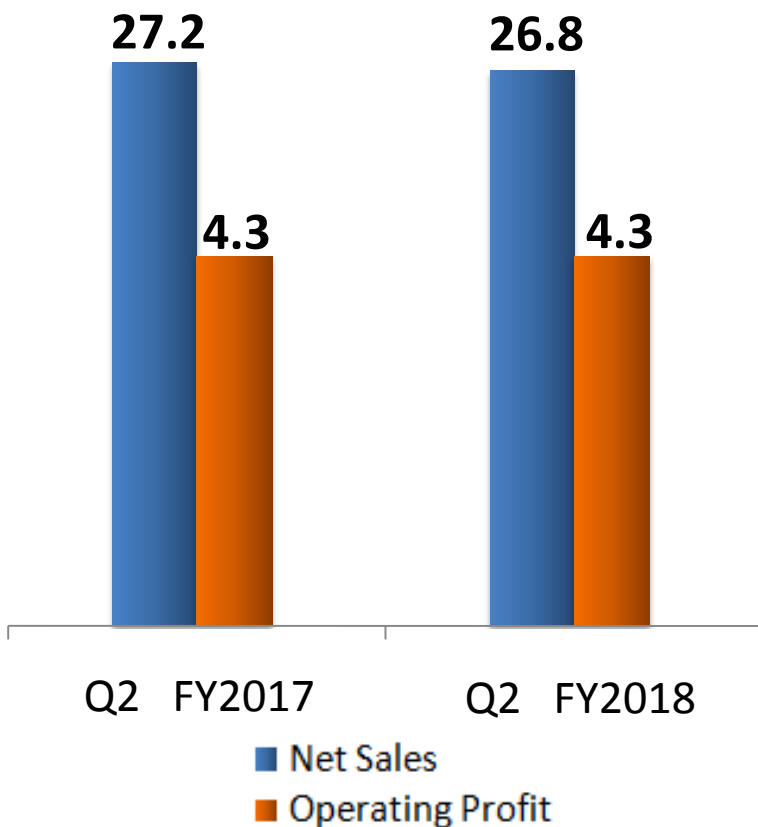
(Year-on-year change)

### Specialty Products

*Lower earnings on lower sales*

(Billions of yen)

Qualitative information



(Semiconductor-grade 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.

(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 material)

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

\*The decrease in sales due to removal of Tokuyama Malaysia Sdn. Bhd. from the Company's scope of consolidation in May 2017 was 1.6 billion.

## 4. Changes in Net Sales / Operating Profit by Business Segment

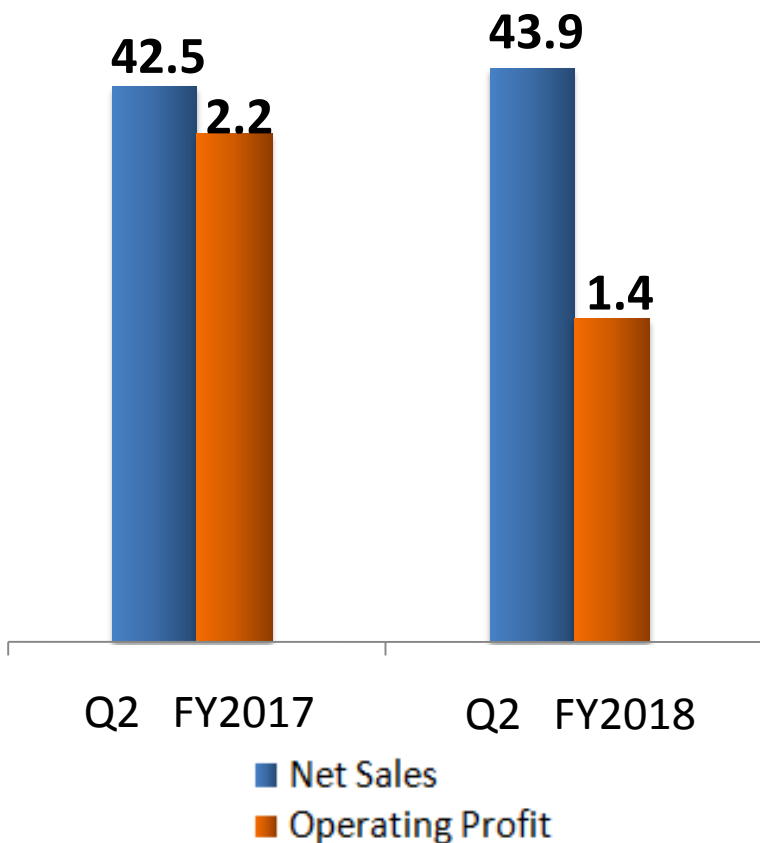
(Year-on-year change)

### Cement

*Lower earnings on higher sales*

(Billions of yen)

Qualitative information



(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 corresponding period of the previous year.

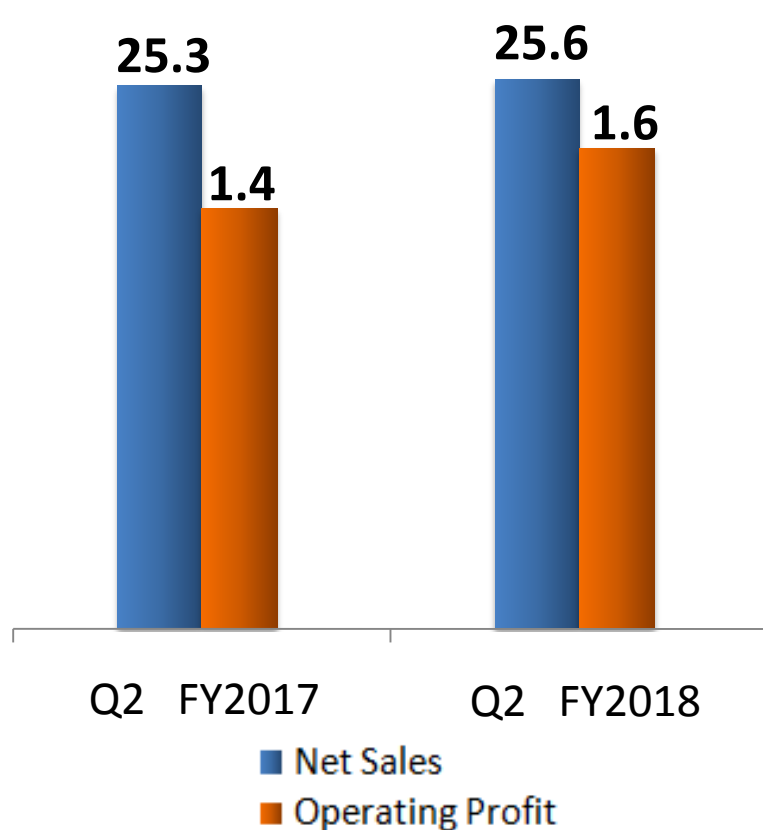
## 4. Changes in Net Sales / Operating Profit by Business Segment

(Year-on-year change)

### Life & Amenity

*Higher earnings on Higher sales*

(Billions of yen)      Qualitative information



(Plastic lens-related materials)

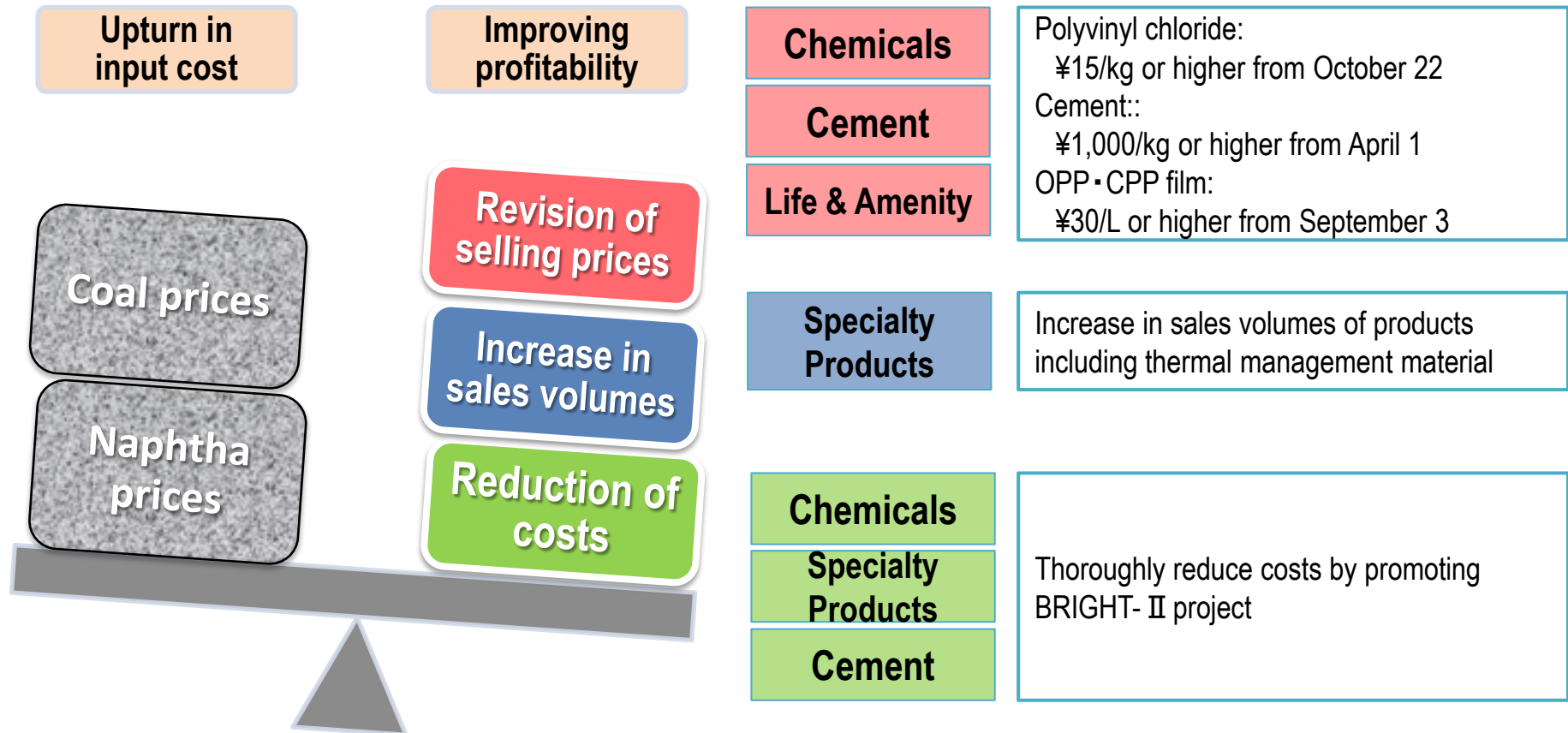
- Sales volume of photochromic dye materials for eyeglass lenses increased.

(Ion exchange membranes)

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

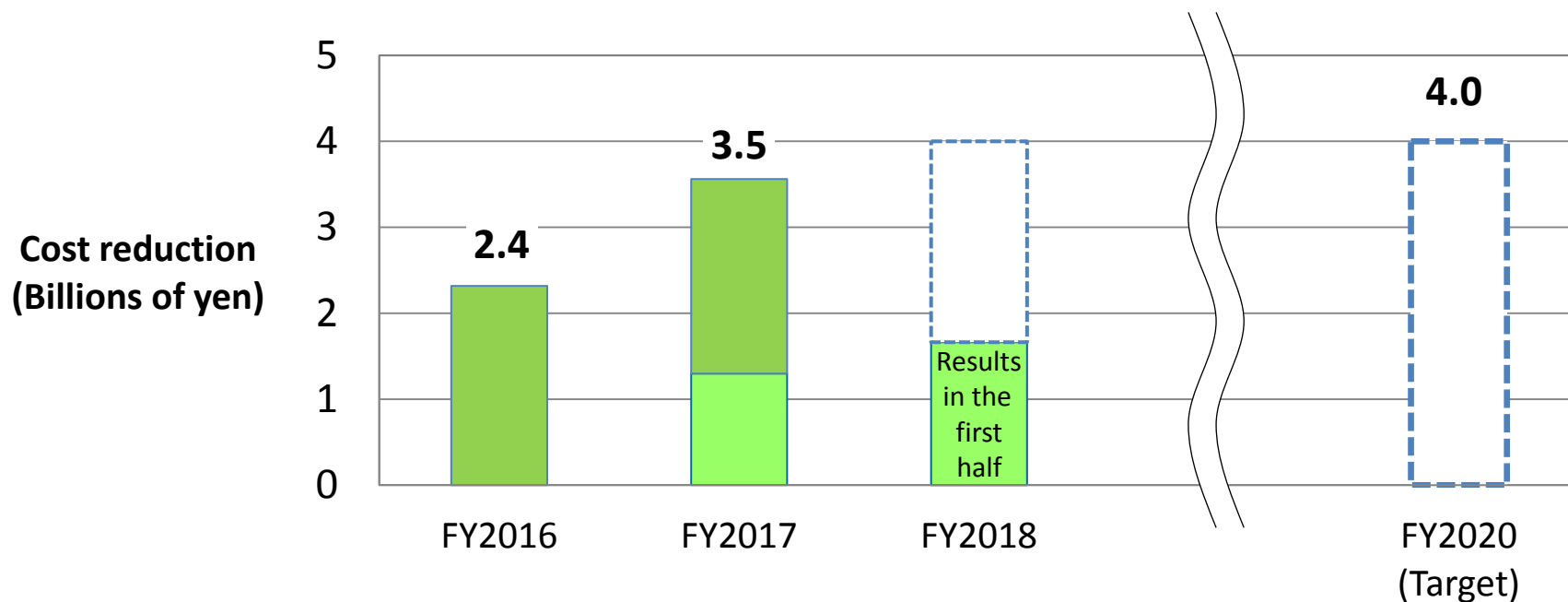
## 5. Steps aimed at improving profitability

In the process of implementing an increase in selling prices in an effort to manage the pressure placed on profitability as a result of the upswing in raw material and fuel prices. Continued steady increase in sales volumes; work toward improving profitability through increases in both selling price and sales volumes.



## 6. Progress of BRIGHT- II

- Cost reduction in the first half of fiscal 2018 exceeds results in the first half of fiscal 2017.
- Work to post further accomplishment by stating up of new themes for cost reduction.





## **2** Performance Forecasts for FY2018

- 1. Performance Forecasts**
- 2. Performance Forecasts by Business Segment**



# 1. Performance Forecasts

(Billions of yen)

|  | FY2017 | FY2018                       | Difference |     | Main changing factors  |
|--|--------|------------------------------|------------|-----|--|
|  |        |                              | Amount     | %   |  |
| Net sales                                  | 308.0  | 328.0                        | +19.9      | +6  | Upward revision in selling prices and increase in sales volumes of caustic soda and petrochemicals |
| Operating profit                           | 41.2   | 38.0                         | (3.2)      | (8) | Upward revision in selling prices of cement, caustic soda and petrochemicals                       |
| Ordinary profit                            | 36.1   | 34.0                         | (2.1)      | (6) | Decrease in operating profit   |
| Profit<br>attributable to owners of parent | 19.6   | 27.0                         | +7.3       | +37 | Revision in extraordinary income/losses  |
| Basic earnings per share<br>(yen)          | 259.81 | 388.15                       | -          |     | -  |
| Exchange rate (yen/USD)                    | 111    | First-half results: 110      | -          |     | -  |
|  |        | Second-half forecast: 110    |            |     |  |
| Domestic naphtha price<br>(yen/kl)         | 41,900 | First-half results: 51,100   | -          |     | -  |
|  |        | Second-half forecast: 54,000 |            |     |  |

Despite certain uncertainties surrounding such factors as future movements in foreign currency rates and increases in raw material and fuel prices, as well as the business environment in general, definitive steps, including the revision of product prices, being taken to improve profitability.

## 2. Performance Forecasts by Business Segment

(Year-on-year change based on FY2018 forecasts)

(Billions of yen)

|  | FY2017 Results |                  | FY2018 Forecasts |                  | Difference   |           |                  |            |
|--|----------------|------------------|------------------|------------------|--------------|-----------|------------------|------------|
|  | Net sales      | Operating profit | Net sales        | Operating profit | Net sales    | %         | Operating profit | %          |
| Chemicals  | 93.5           | 16.1             | 102.0            | 18.0             | +8.4         | +9        | +1.8             | +11        |
| Specialty Products                                     | 58.6           | 11.0             | 63.0             | 11.0             | +4.3         | +7        | (0.0)            | (0)        |
| Cement   | 87.3           | 4.5              | 93.0             | 4.5              | +5.6         | +6        | (0.0)            | (1)        |
| Life & Amenity   | 51.5           | 3.7              | 56.0             | 3.0              | +4.4         | +9        | (0.7)            | (20)       |
| Others   | 54.5           | 6.2              | 54.0             | 3.5              | (0.5)        | (1)       | (2.7)            | (44)       |
| <b>Total</b>   | <b>345.6</b>   | <b>41.6</b>      | <b>368.0</b>     | <b>40.0</b>      | <b>+22.3</b> | <b>+6</b> | <b>(1.6)</b>     | <b>(4)</b> |
| Inter-segment eliminations and corporate-wide expenses | (37.6)         | (0.4)            | (40.0)           | (2.0)            | (2.3)        | -         | (1.5)            | -          |
| <b>Consolidated Results</b>                            | <b>308.0</b>   | <b>41.2</b>      | <b>328.0</b>     | <b>38.0</b>      | <b>+19.9</b> | <b>+6</b> | <b>(3.2)</b>     | <b>(8)</b> |

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

### **3** Progress of Medium-Term Management Plan

- 1. Growth strategy**
- 2. Financial strategy**



# 1. Growth strategy (ICT-related product activities)

## Regarding business environment

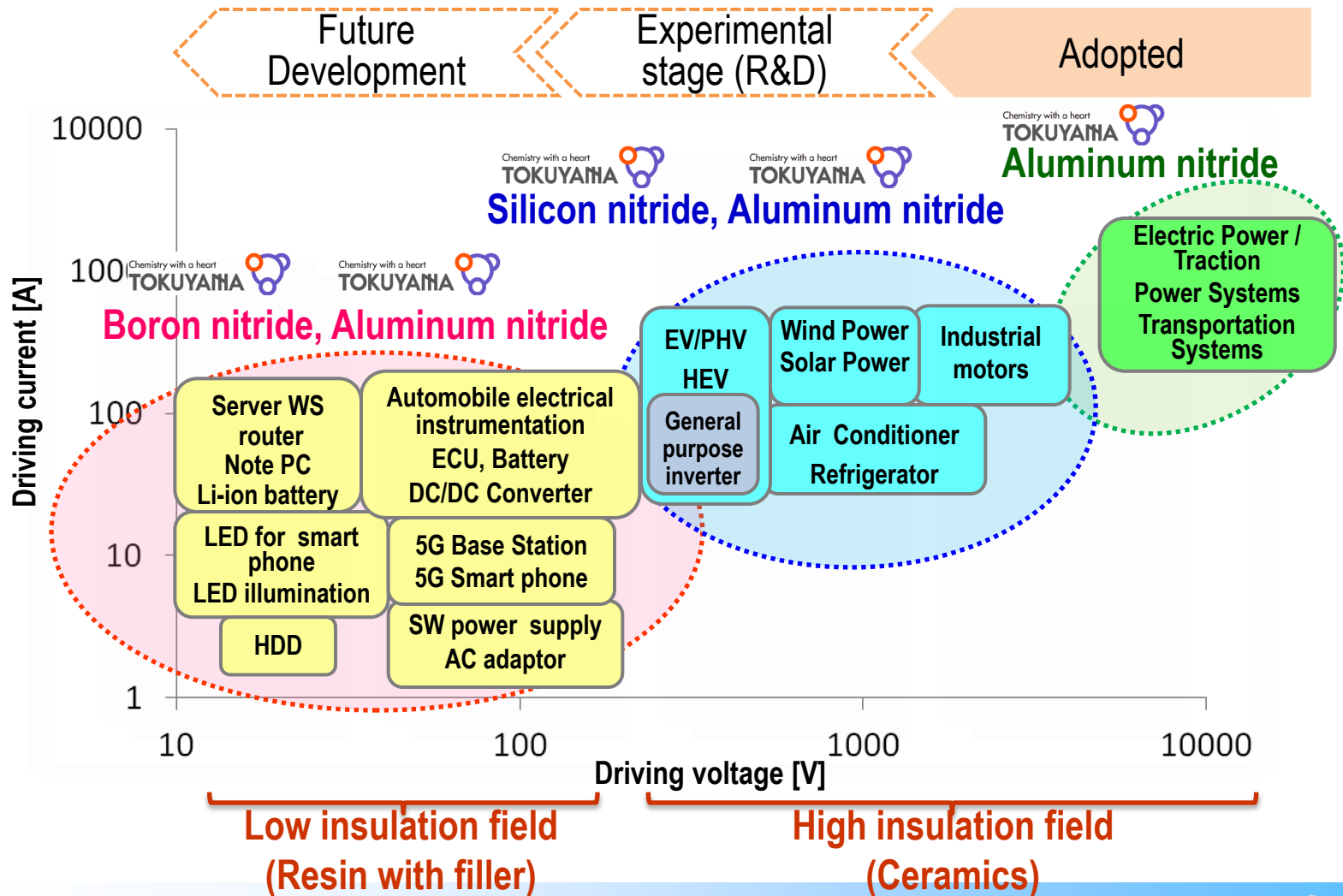
Although there are uncertainties regarding the outlook for postponement of semiconductor manufacturer's capital investment and slowdown in orders for semiconductor manufacturing equipment, demand for ICT related materials has continued to be strong.

|                                     | Current measures   | Measures for the future growth   |
|-------------------------------------|--|--|
| <b>Polycrystalline silicon</b>      | <ul style="list-style-type: none"> <li>■ Maintain full capacity</li> </ul>   | <p>Differentiate products from those of other companies by further increasing quality</p> <p>Seek out new development themes and collaborate with local semiconductor manufacturers, research institutes, and other organizations in the development of next-generation products through the Taiwan Research Laboratory as a base</p> <p>Expand the product lineup</p> |
| <b>Photoresist developer TMAH</b>   | <ul style="list-style-type: none"> <li>■ Increase production capacity<br/>In April 2020, production capacity will increase 50%.</li> </ul>   |  |
| <b>High-purity IPA for cleaning</b> | <ul style="list-style-type: none"> <li>■ Strengthen the supply structure by constructing a second factory in Taiwan (commence shipments from February 2019)</li> </ul>   |  |
| <b>Fumed silica</b>                 | <ul style="list-style-type: none"> <li>■ Increase in sales volume of products for CMP application; revise the selling prices</li> <li>■ Expand the lineup of electronics industry-related silica products (toner, LCD panel components, etc.)</li> </ul> |  |
| <b>Thermal management material</b>  | <ul style="list-style-type: none"> <li>■ Increase production capacity<br/>In April 2018, 480 tonnes/year → 600 tonnes/year<br/>In April 2020, 600 tonnes/year → 840 tonnes/year</li> </ul>   |  |

# 1. Growth strategy (Potential of Thermal Management Materials)

Effective heat management is indispensable for EV / HEV and various power devices

⇒ Expansion of fields where our heat dissipation material is adopted



## 2. Financial strategy (Refinancing of subordinated loans)

- Undertook the refinancing of subordinated loans totaling ¥60 billion on September 20, 2018.
- Able to repay prior to maturity using cash on hand without resorting to equity finance in the event that certain criteria\* are met after a period of five years following the refinancing of existing debt through the reduction of financial expenses and new contract terms and conditions.

\* (1) Shareholders' equity of ¥179.2 billion or more (increase of ¥60 billion or more from the balance as of March 31, 2018

(2) D/E ratio of 0.9 times or more

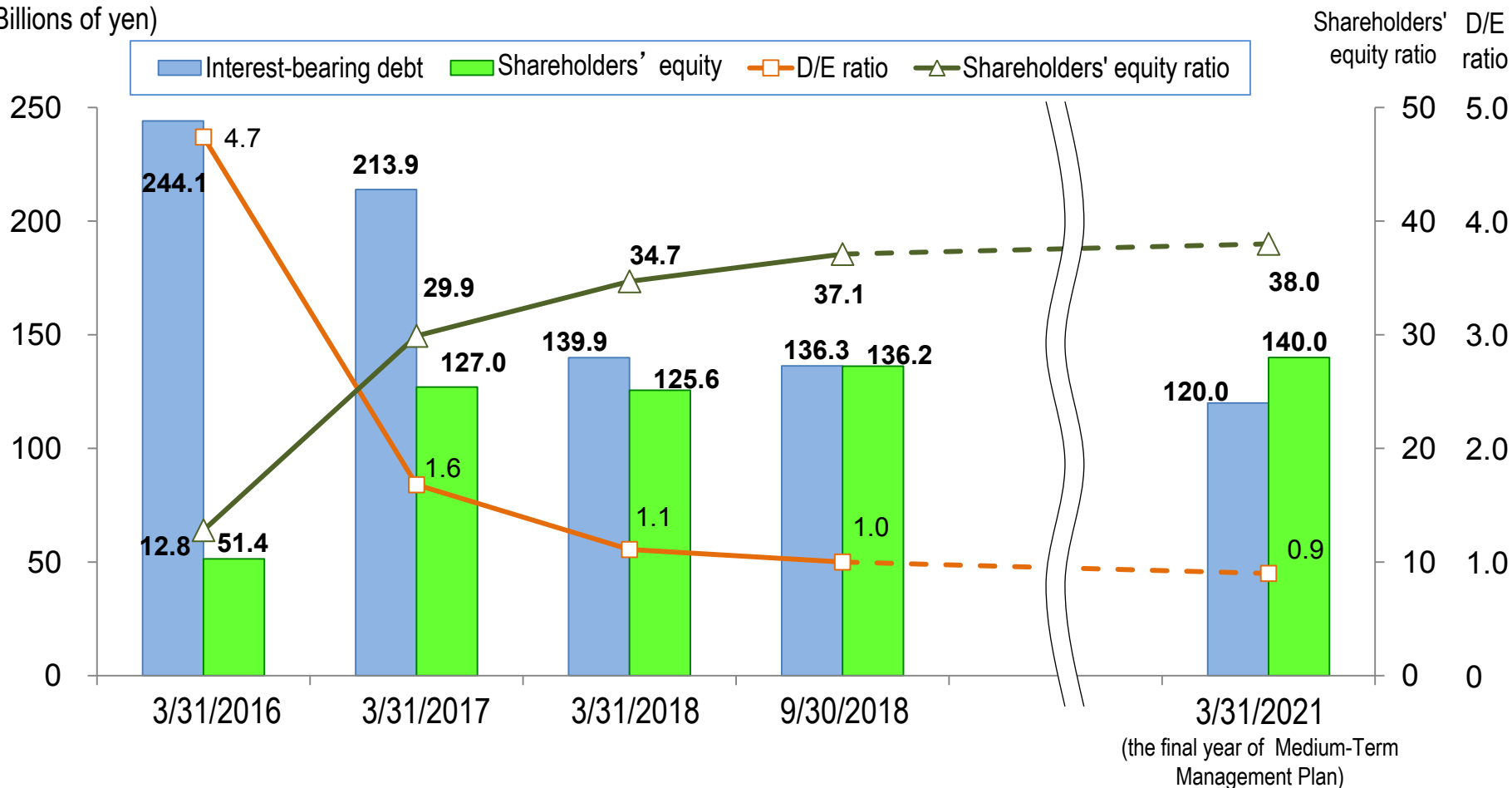


While the need to increase shareholders' equity remain, it is still possible to meet the aforementioned criteria should current interest rate levels continue unchanged. As a result, there is no impact of the order of funds application priority.

## 2. Financial strategy (Reduce interest-bearing debt)

Financial index expected to progress in line with the target in the final year of Medium-Term Management Plan before the end of fiscal 2018.

(Billions of yen)



Chemistry with a heart

**TOKUYAMA**





## **4** Supplementary Data

1. Consolidated Financial Statements
2. Non-Operating Income/Expenses, Extraordinary Gains/Losses and Financial Cost
3. Investment Results/Plan
4. Performance Trend
5. CAPEX and Depreciation Trend
6. Interest-Bearing Debts Trend
7. Cash Flow Plan

# 1. Consolidated Financial Statements

## Income Statements

(Billions of yen)

|  | Q2 FY2017 | Q2 FY2018 | Changes |      |
|--|-----------|-----------|---------|------|
|  |           |           | Amount  | %    |
| Net sales                                    | 146.1     | 152.6     | +6.5    | +4   |
| Cost of sales                                | 98.2      | 105.2     | (6.9)   | (7)  |
| Selling, general and administrative expenses | 29.0      | 30.4      | (1.3)   | (5)  |
| Operating profit                             | 18.8      | 17.0      | (1.8)   | (10) |
| Non-operating income/expenses                | (3.1)     | (1.5)     | +1.6    | -    |
| Ordinary profit                              | 15.6      | 15.4      | (0.2)   | (1)  |
| Extraordinary income/losses                  | (1.7)     | 0.4       | +2.1    | -    |
| Profit/loss before income taxes              | 13.9      | 15.9      | +1.9    | +14  |
| Income taxes                                 | 8.6       | 2.7       | +5.8    | +68  |
| Non-controlling interests                    | 5.1       | 0.3       | +4.8    | +94  |
| Profit attributable to owners of parent      | 0.1       | 12.8      | +12.6   | -    |

\*Regarding changes, income or profit is shown as positive and expenses or losses are shown as negative amount.

# 1. Consolidated Financial Statements

## Balance Sheets

(Billions of yen)

|                              | 3/31/2018 | 9/30/2018 | Changes |      |
|------------------------------|-----------|-----------|---------|------|
|                              |           |           | Amount  | %    |
| Total assets                 | 361.9     | 367.2     | +5.2    | +1   |
| Current assets               | 191.0     | 191.0     | (0)     | (0)  |
| Tangible fixed assets        | 110.2     | 115.4     | +5.2    | +5   |
| Intangible fixed assets      | 2.7       | 2.0       | (0.6)   | (25) |
| Investments and other assets | 57.9      | 58.6      | +0.7    | +1   |

|                       | 3/31/2018 | 9/30/2018 | Changes |     |
|-----------------------|-----------|-----------|---------|-----|
|                       |           |           | Amount  | %   |
| Total liabilities     | 225.3     | 220.5     | (4.8)   | (2) |
| Current liabilities   | 93.0      | 90.9      | (2.0)   | (2) |
| Long-term liabilities | 132.3     | 129.5     | (2.7)   | (2) |
| Total net assets      | 136.5     | 146.6     | +10.0   | +7  |

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

Consolidated (year-on-year change)

(Billions of yen)

|                                      |                              | Q2 FY2017    | Q2 FY2018    | Changes     |
|--------------------------------------|------------------------------|--------------|--------------|-------------|
| Non-operating income                 | Interest and dividend income | 0.2          | 0.2          | +0.0        |
|                                      | Other income                 | 1.9          | 2.6          | +0.6        |
|                                      | <b>Total</b>                 | <b>2.2</b>   | <b>2.9</b>   | <b>+0.6</b> |
| Non-operating expenses               | Interest expenses            | 2.0          | 1.5          | +0.4        |
|                                      | Other expenses               | 3.4          | 2.8          | +0.5        |
|                                      | <b>Total</b>                 | <b>5.4</b>   | <b>4.4</b>   | <b>+0.9</b> |
| <b>Non-operating income/expenses</b> |                              | <b>(3.1)</b> | <b>(1.5)</b> | <b>+1.6</b> |

|                                   |              |            |             |
|-----------------------------------|--------------|------------|-------------|
| Extraordinary gains               | 8.3          | 1.0        | (7.2)       |
| Extraordinary losses              | 10.1         | 0.6        | +9.4        |
| <b>Extraordinary gains/losses</b> | <b>(1.7)</b> | <b>0.4</b> | <b>+2.1</b> |

|                                      |              |              |             |
|--------------------------------------|--------------|--------------|-------------|
| <b>Financial income and expenses</b> | <b>(1.7)</b> | <b>(1.2)</b> | <b>+0.4</b> |
|--------------------------------------|--------------|--------------|-------------|

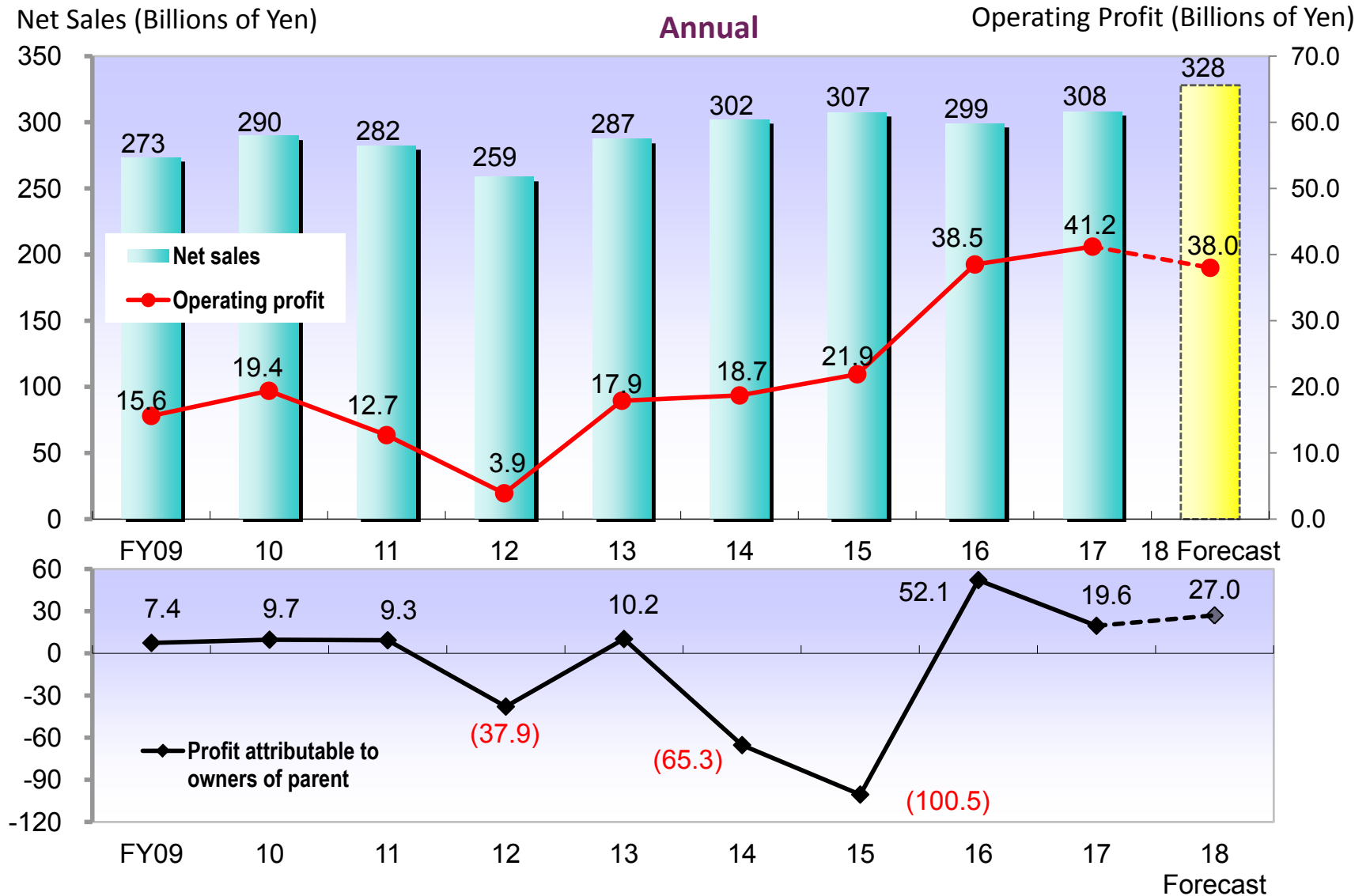
\*Regarding changes, income or profit is shown as positive and expenses or losses are shown as negative amount.

### 3. Investment Results/Plan Consolidated

(Billions of yen)

|                               | FY2017             |                     | FY2018             |                      | Changes    |             |
|-------------------------------|--------------------|---------------------|--------------------|----------------------|------------|-------------|
|                               | First half Results | Fiscal year Results | First half Results | Fiscal year Forecast | First half | Fiscal year |
| Capital expenditures          | 8.6                | 15.9                | 8.9                | 19.7                 | +0.2       | +3.8        |
| Depreciation and amortization | 6.6                | 13.9                | 7.0                | 15.1                 | +0.3       | +1.1        |
| R&D expenses                  | 3.8                | 7.9                 | 3.8                | 8.4                  | (0.0)      | +0.5        |

# 4. Performance Trend

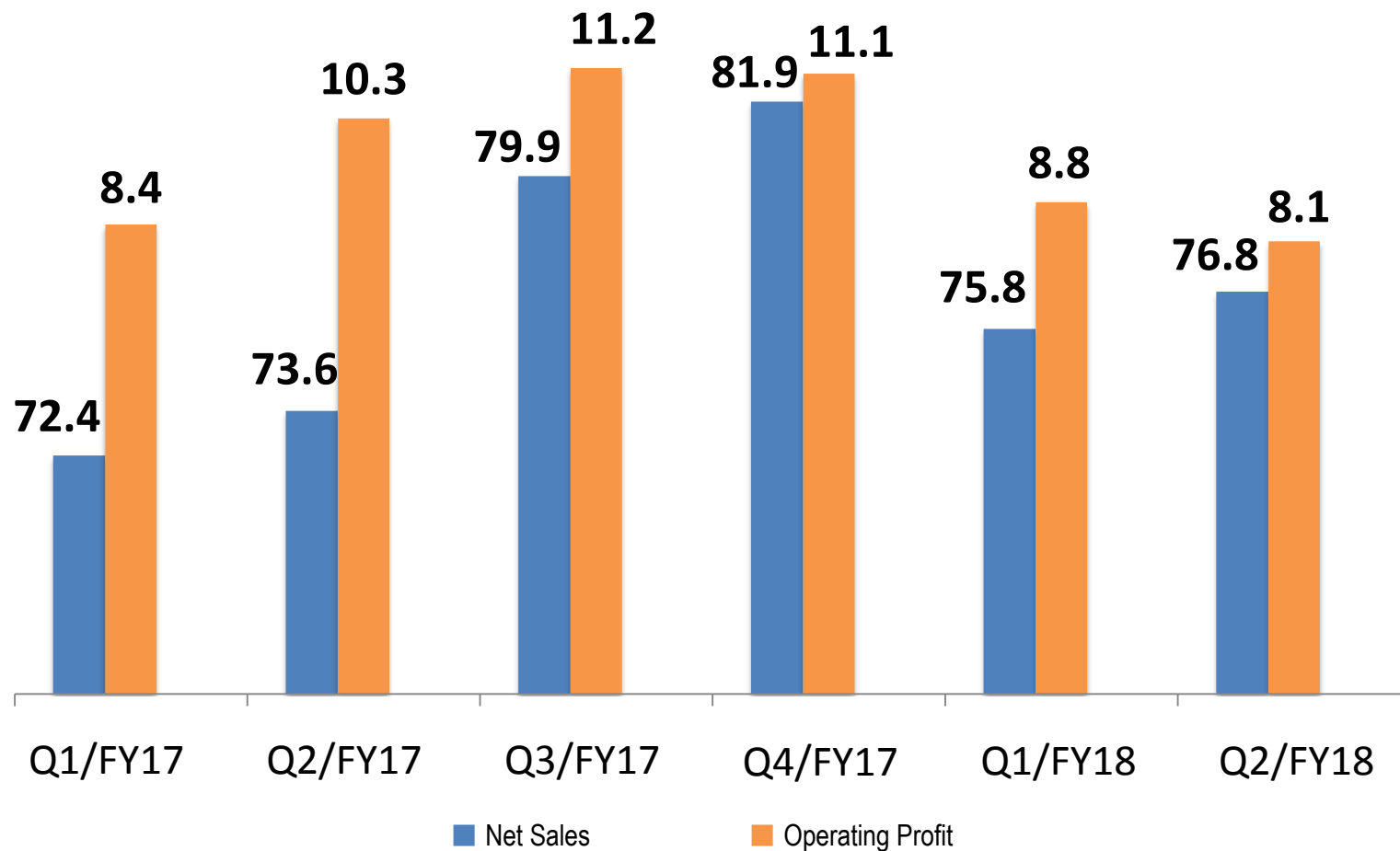


# 4. Performance Trend

(Quarter)

Consolidated

(Billions of yen)

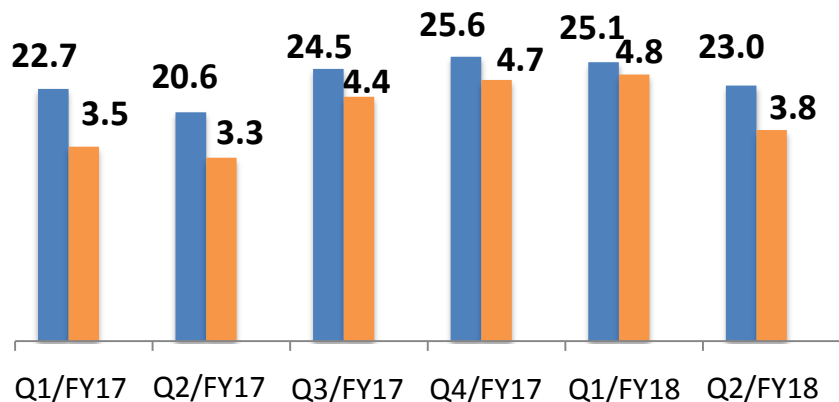


# 4. Performance Trend

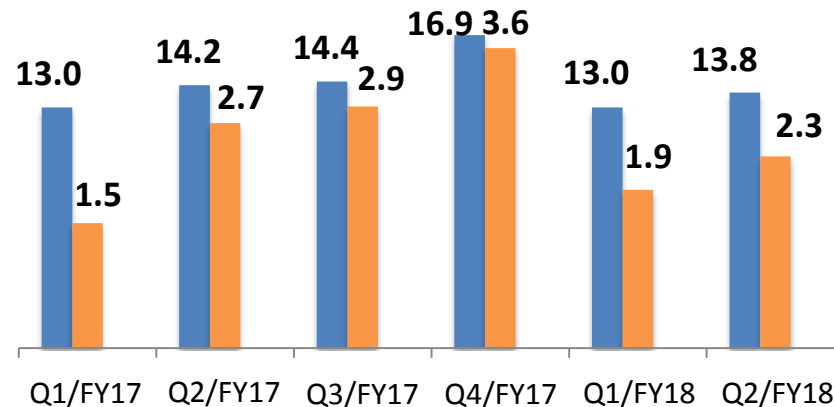
(Billions of yen)

Quarter

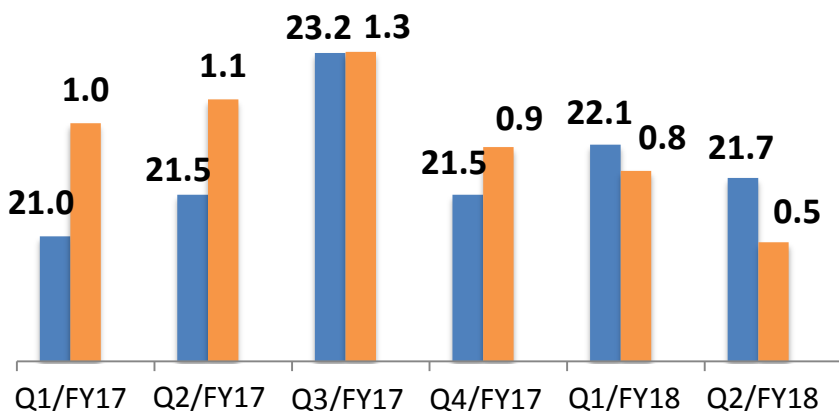
## Chemicals



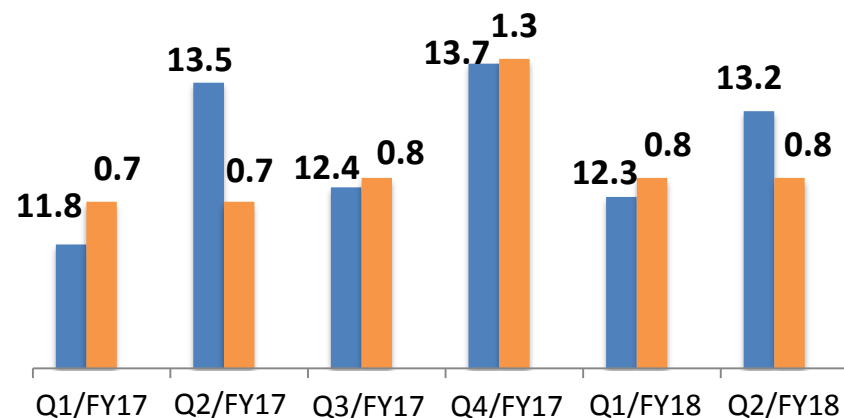
## Specialty Products



## Cement



## Life & Amenity

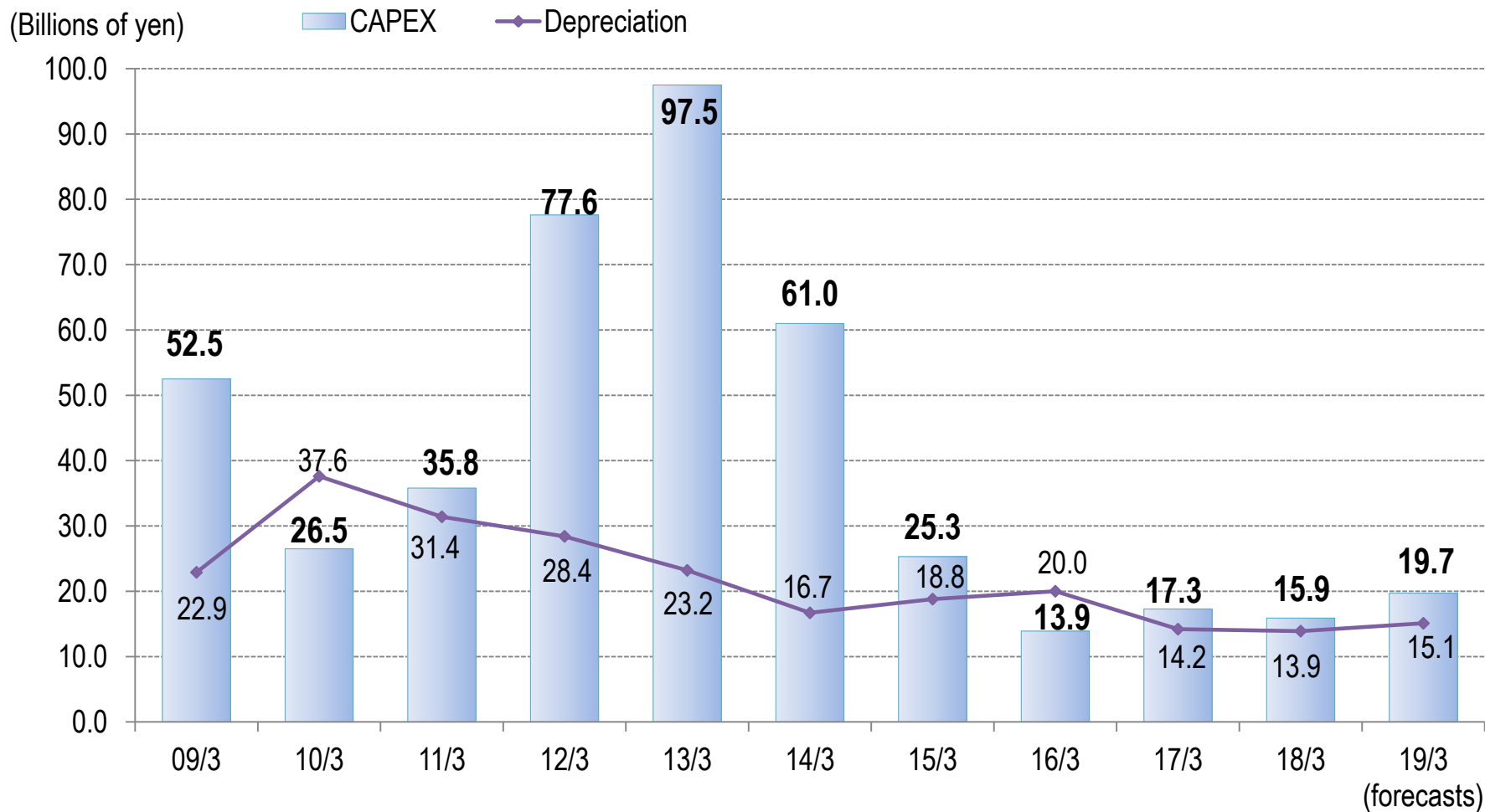


■ Net Sales

■ Operating Profit

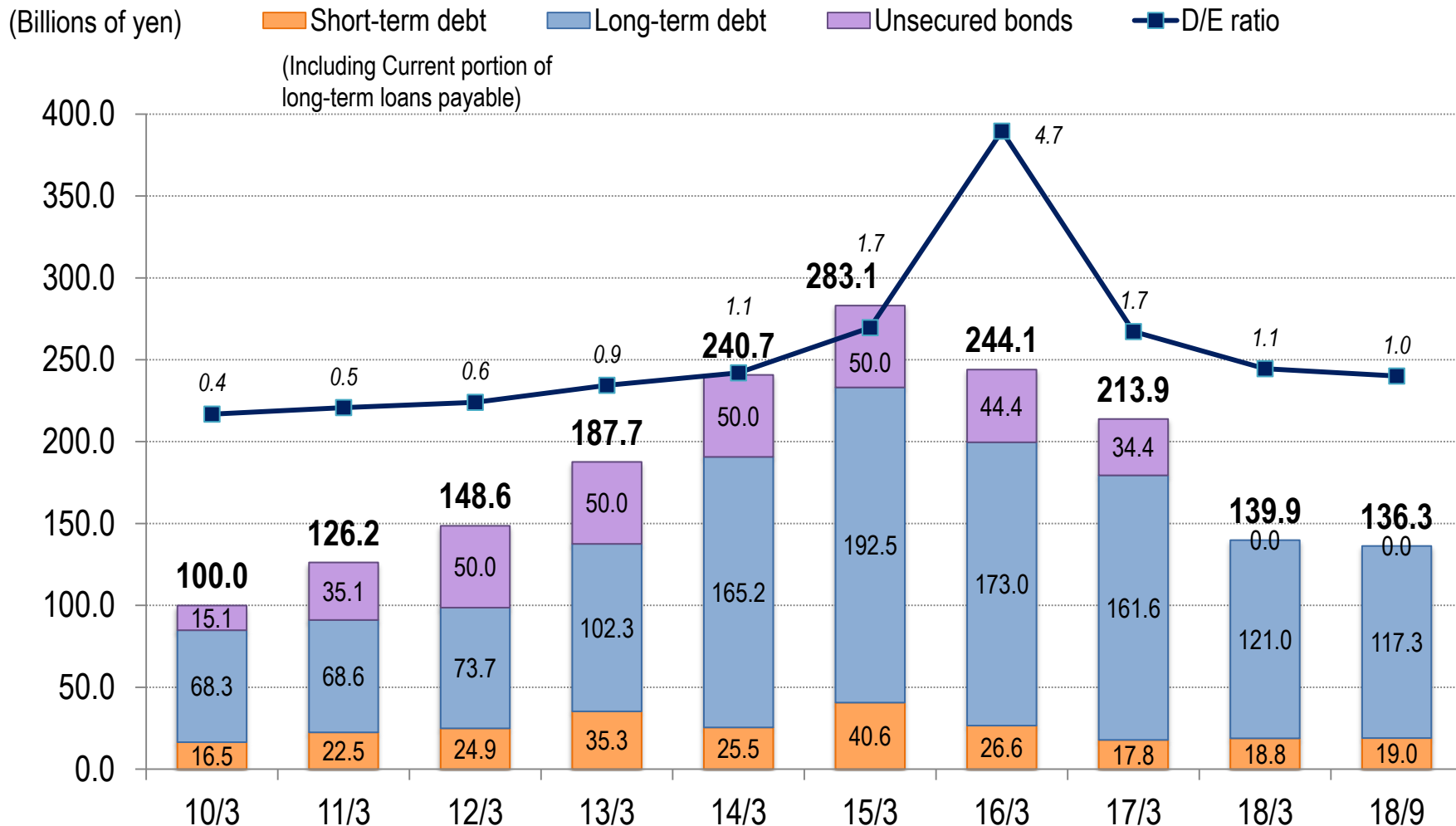


# 5. CAPEX and Depreciation Trend



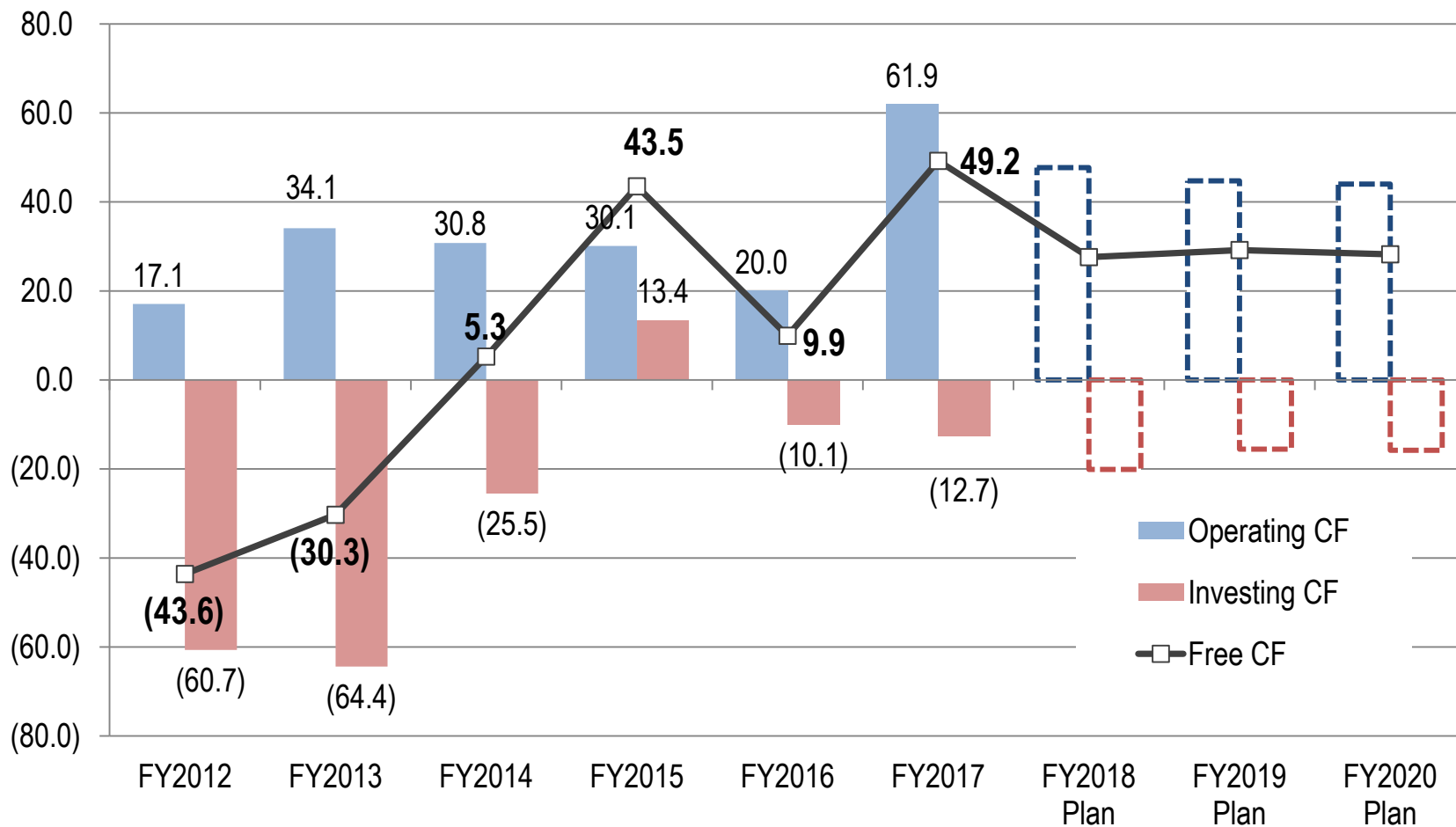
# 6. Interest-Bearing Debts Trend

Consolidated



# 7. Cash Flow Plan

(Billions of yen)



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Chemistry with a heart

**TOKUYAMA**

