

4Q FY2020 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: April 28, 2021 (Wednesday) 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 PVC and caustic soda for chlor-alkali. The market in Asia has been quite active in Asia. Have you been able to benefit in exports from January to March? Is the positive impact of this being incorporated into the new fiscal year as well?

A1: Caustic soda has not been a major positive factor in the January-March period. We want to actively supply products to overseas markets in a timely manner. However, we have already received strong inquiries in the domestic market, so we expect to increase our domestic sales and the export ratio would decrease slightly in the current fiscal year.

Regarding PVC, We have benefited from the rising market conditions from January to March. Then we would like to export as much as possible in the current fiscal year.

Q2: I would like to know your thoughts on the use of fixed costs in the medium to long term. In the past, including this new fiscal year, the operating profit has decreased for 4 consecutive fiscal years due to the increase in fixed costs. In the Mid-Term Plan, the cost of environmental investment will increase in the latter half of the period until FY2025, so if you don't stop the current increase in fixed costs at some point, it will be difficult to achieve the JPY40 billion mark in the mid-term plan.

Will it be increased and then stopped? Will fixed costs still increase next year because depreciation will still increase because of the large investment this year? Fixed costs, when will they peak out? Can you give us your thoughts on this?

A2: In terms of fixed costs, depreciation and amortization expenses will increase gradually in FY2021, FY2022, and FY2023, within the range of our current forecast. I think the situation will flatten out to some extent after FY2024.

Mr. Azuma, Jefferies Securities

Q3: The first is your prediction for Life Science. This year, I think dental materials, plastic lens-related materials, and diagnostic reagents will improve, but considering the fact that you spent a lot of money on advertising last year, is this the only way to increase profits?

A3: We actually stopped advertising dental materials in North America last year. This is because the market is in such a state. In FY2021, we plan to use it to increase our market share, which will put a

little pressure on our revenue growth. However, the response has been quite positive, and we believe that we will be able to recover this amount even with the use of advertising.

Also, plastics lens-related materials are now in very strong demand for the products we are currently developing. These products are being treated as a development product, so it is now recognized as non-operating income. When we are able to launch these products, profits will increase by several hundred million yen, and we have a variety of materials to prepare, so we believe that there are still upside factors to be considered.

Q4: What about A&T?

A4: A&T expects a slight increase in profit. A&T is currently working with Tokuyama to integrate research and development, but we expect the effects of these efforts to become apparent in the second half of the mid-term business plan. In this sense, we are gradually improving over a year or 2, toward the second half of the mid-term business plan.

Q5: The second thing is the thermal power generation, which was mentioned in the presentation. I think the government's policy is still unclear here, but what do you feel about it?

A5: As you say, the government's policy on coal working is a bit vague and hard to see. In any case, power generation for self-consumption, which is what we are doing, is the third most inefficient power generation method of 3 categories.

However, including the use of steam, so-called cogeneration, the energy efficiency is much higher than the state-of-the-art ultra-supercritical pressure coal-fired power plant level, so we believe that our power generation could still survive.

However, over the long term, I think that there will be increasingly strong global pressure against coal-fired power generation and fossil fuel power generation. I believe that we must continue to take such measures without loosening our grip.

As for specific measures by FY2030, considering the competitiveness and the fact that the technology has not yet been established, I think that CO2 emissions need to be offset by using biomass, rather than introducing new energy sources. By FY2025, one of the 4 boilers will be exclusively fired by biomass, and the other will be converted to co-firing. We are now considering white pellets. The price of white pellets, however, is on an upward trend if we look at the longer term. As I mentioned at the time of the announcement of the mid-term management plan, our basic policy is to establish a scheme to produce biomass by ourselves rather than procuring biomass, and to create a system to secure the quantity at low cost.

Mr. Nakahara, Tokai Tokyo Research Institute

Q6: I would like to know about the results of the new segment, Electronic Materials, for the fiscal year under review and the forecast for the current fiscal year.

A6: First of all, in terms of polysilicon, as we have said in the past, we are still in a situation where polysilicon is a little insufficient compared to wafer. As we have been saying for a long time, we are still asking for a price increase, especially for high-end customers. In addition, in emerging markets, there is a strong demand for cutting-edge products, and there are many companies that offer us high

prices. While taking into account the total volume we can sell, we will consider supplying some of our products to such profitable customers in some cases.

Fumed silica has actually been doing very well from January to March. For one thing, demand for silicones in China is very strong, and the price of another polysilicon for solar cells is also rising sharply. As a result, the market price of silicon tetrachloride, a raw material, has risen significantly, and the fumed silica market has risen significantly, and the business performance of our subsidiary in China is now slightly better than expected. As for fumed silica in Japan, there was some inventory adjustment in the CMP area last year, but since the beginning of the year, demand has been very strong there as well. So, the inventory adjustment is over, and we think that fumed silica demand will be stronger than expected in 2021.

Regarding the thermal management materials, this is a result of the fact that the upfront investment in thermal management materials has been made and the revenue has not been as high as expected. In particular, the investment we are currently making “the center for commercialization of advanced technology” in Yanai-city, Yamaguchi, Japan is mainly for automotive applications, so we are mainly working on providing samples and getting them approved. We have to wait for the next year or year and a half. If so, we will have to treat of it in that period as research and development for accounting rules. As R&D depreciation, the depreciation is much larger than usual, about twice. We now see that we will be able to earn a lot of revenue when products actually start to come out. This is why it doesn't look well.

As for IC chemicals, we have received so much demand from the customers, that we cannot supply enough. We will supply the products through the JV with Formosa Plastics. Since the counterparty is a high-end customer, we are now thinking that it will take at least 6 months for certification. Therefore, it will not really contribute to the current year's earnings. Although it is still in the sample stage, we plan to start full-scale depreciation in the second half of the fiscal year.

In this sense, the cost of the project in Taiwan will have to be paid in advance for this fiscal year, but from next fiscal year onward, we expect that the certification by customers will be completed, and full-scale shipments will start, so the investment will actually begin to be recovered from next fiscal year.

I think profit will be at its lowest point due to upfront investments in this year. That's it for the overview.

Mr. Yoshida, Mizuho Securities

Q7: I would also like to know how to look at fixed costs. The forecast for research and development expenses for this fiscal year is JPY14.2 billion, which is probably the highest level ever for your company. Please tell us the content of the JPY3.3 billion increase. For example, the cost of sample shipment of thermal management materials, which was mentioned earlier, is also included in these costs? Please tell us about the contents of this research and development, including such things.

A7: Let me explain. Research and development will increase by JPY3.3 billion to JPY14.2 billion this time. The sample shipments are also included in the R&D expenses, and in this sense, the increase is a little bit higher because of the inclusion of the pure development part and the so-called manufacturing part. I think that the actual increase will be about half of that.

Q8: I would like to know how you view the revenue from polycrystalline silicon. Let me first check

whether the sales for the fiscal year ended March 31, 2021 grew by almost 10% as planned. I feel variable and fixed costs are quite heavy. I would like to know if it is actually quite difficult to pass on the cost burden of quality improvement to prices.

- A8: The volume has increased by 10% as planned. Prices are also close to the previous year's levels, so sales are increasing. The demand for wafers is strong, however the polysilicon demand is not tight yet. When more of wafers shipped in the future, there will be a further increase in demand for polysilicon and more advanced products will be released, which will benefit us. From the standpoint of marginal profit ratio, it is already contributing fully. As for whether or not it will be able to really increase its profit, I think it will be in 2023 or 2024. We believe that the timing of the expansion of major wafer companies will be such timing, so we think that this is an opportunity for us.