

3Q FY2021 Tokuyama Corporation Investor Meeting Q&A

Date and time: January 31, 2022(Monday) 12:00 - 13:00

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

Regarding the cost of raw material / fuel and the revision of sales price

Q: With regard to the forecast of raw material and fuel cost, is there still some impact in the 4th quarter for the coal price and the silicon metal price?

A: We expect the 4th quarter of this fiscal year to be roughly in the range of USD190 to USD200. However, as for the actual impact on the manufacturing cost, we currently expect it to be about the same level as the one we reviewed in the 3rd quarter. We were able to purchase some of the products at a lower price, so we expect that there will not be a significant cost increase for the 3rd and 4th projects.

The price of silicon metal rose sharply in November, but has since come down, but the price of high-purity products for semiconductors has not actually fallen to that level.

Q: Handling the price increase of the metal silicon, I wonder what will happen to the price of polysilicon. Also, in terms of the coal market, when do you think the prices of cement and caustic soda will start to rise?

A: Polysilicon will be handled on a case-by-case basis, but we expect that it will not be fully developed until January.

With regard to cement, we are pushing with great determination, but although we have achieved some understandings in some areas, I think it will take some more time and start around next fiscal year.

We have already raised the price of caustic soda, and we are negotiating with them now, so we expect to see an impact or an effect from the 4th quarter.

Regarding the Fixed costs and others

Q: As for the progress and forecast of the Fixed costs and others, I would like to know how much the swap-related and tanker logistics costs were in the third quarter, and how much the other factors were significantly negative. What will happen to this other cost for the next fiscal year?

A: We have been trying to steer our company toward a value-creating portfolio, and we have been explaining that R&D, depreciation, and personnel expenses will increase considerably in fixed costs.

At the beginning of this fiscal year, we said that this would increase by about JPY8 billion, but as it turned out, the amount was JPY9.4 billion at the end of the 3rd quarter. The reason for the considerable increase is that we incurred about JPY2 billion in swap costs and logistics costs had a considerable impact. Logistics costs were planned to be around JPY1 billion at the beginning of the fiscal year, but in the 3rd quarter, they were around JPY2 billion.

As for how much the full year will be, we estimate that it will be a little over JPY10 billion, and the rest will be within this range.

Regarding performance forecast by business segment

Q: On page 16 of the presentation material, I would like to talk about Life Science, ECO business and Others. Please reiterate your comments on what factors have contributed to the revisions in these three categories compared to the previous forecast.

A: In the Life Sciences, the impact of COVID-19 has subsided, and people are able to go to the dentist and update their glasses, and it has led to significant growth in TS and dental equipment.

In the area of APIs and intermediates for generics, we have seen considerable growth in the sales of large products this year. I have changed my full-year forecast to an increase.

As for the ECO business, the collection of waste gypsum board and other materials has been steadily increasing, but Astom and Shanon are currently in a slightly difficult situation.

As for Shanon, housing starts have been delayed due to the impact of COVID-19, and the construction of detached houses has also been prolonged. In addition, most of costs, like raw materials and transportation costs, have all risen considerably.

As for the other items, we are selling electricity, but the cost of selling electricity has increased due to the high price of coal, and this is one of the main reasons for the negative figure.

Regarding the establishment of IPA Joint Venture Company in Korea

Q: Concerning the high-purity IPA Business, is it because the market itself is growing significantly, or is it because the needs for your process, which I believe is the direct hydration method, are increasing?

A: The semiconductor manufacturers are planning to increase their production capacity. The first base is that the market will grow steadily, and as for the manufacturing method, the direct hydration method has a higher purity, so I think it has an advantage in terms of quality.

Regarding the price revision for polysilicon

Q: I think the price revision will basically be in the form of passing on the price increase of silicon metal. If we are able to raise the price in the 4th quarter, will we have to lower the price in the 1st quarter of next year to compensate for the drop in the price of silicon metal?

A: Silicon metal had a big impact on us in terms of price, but it also consumes a lot of electricity, and given our electricity situation due to the high price of coal, the cost of electricity is also high. We have also invested in maintaining and improving the quality of our products, so we would like to take this opportunity to improve the total profitability of our business. We would like to maintain our prices.

Regarding Carbon Neutral

Q: In New Year's message, President commented that the business model of competitive advantage based on coal-fired power generation is no longer viable, and I felt that his tone was much stronger than usual. I was wondering whether you intended to make a specific statement about the reduction of coal-fired power generation or not, or whether you are going to go into something more in-depth. Can you please tell me the nuances of this area?

A: We are also aiming to reduce our energy-derived CO₂ emissions by 30% by FY2030, I think that we do not have much time before we make a decision on the future direction of coal-fired power generation. So, I think the president was aware of that.

Regarding the 2nd and 3rd quarters of the fiscal year

Q: I would like to ask you to focus on the 2nd and 3rd quarters of the fiscal year, and I would like to see a favorable contrast between the Chemicals and Electronic Materials segments. What was the difference?

A: In the 3rd quarter of the fiscal year under review, sales and profits of Chemical Products grew significantly, driven by the increasing of sales quantity and the rapid growth of the VCM market, especially overseas. Of course, the cost of electricity has gone up, but even after factoring that in, profits have increased significantly.

As for Electronic Materials, the price of silicon metal has risen significantly in the 3rd quarter, and the cost of electricity has also skyrocketed, resulting in a negative impact on profits.