

## 4Q FY2018 Tokuyama Corporation Investor Meeting

### Q&A (Excerpts)

Date and time: April 26, 2019 (Friday) 12:00 – 13:00

Participants:

Hiroshi Yokota, President and Representative Director

Akihiro Hamada, Director

#### 1. Question regarding FY2018 operating profit.

Q1: Your operating profit was lower than the Company's forecasts. Please tell me the reasons behind not having achieved your forecasts for operating profit in Specialty Products and Chemicals, as well as for the overall slowdown in the 4Q.

A1: Overall, there were unforeseen problems at power generation plants and other factors, and production volume of products fell companywide. At the start of the fiscal year we had planned for about a 10% increase in Specialty Products' polycrystalline silicon volumes compared to the previous fiscal year. Actually, though, we could not get there. Having been impacted by the device slowdown in the January to March period, delivery of high-purity chemicals for electronic manufacturing did not rise to expectations. In Chemicals, the mild winter was behind sales volume of calcium chloride, a mainstay product in the second half, significantly underperforming against expectations.

#### 2. Questions regarding FY2019 operating profit forecasts

Q2: Isn't your operating profit on the low side? Aren't you being conservative in setting your sales prices and raw materials and fuel costs?

A2: Export prices in FY2018 for caustic soda fell dramatically on the impact of India's import regulations for chemical products, but as the certification process between the Indian authorities and Japan's makers is proceeding, we see a recovery within the first half. Demand continues to be strong, and going forward we see a recovery to about the \$450/ton range. The price of caustic soda in Japan is basically holding steady at the previous fiscal year's level. Despite gaining the acceptance of price hikes for last year's top product, unfortunately, we were not able to sufficiently reflect that increase for polycrystalline silicon prices to earnings due to higher costs that resulted from higher metal

silicon prices and the trouble at power generation plants. In FY2019 we plan for that price rise portion to contribute to earnings, but the range won't be a dramatic increase, such as with wafers.

As for the setting of raw materials and fuel prices, we set the price for naphtha at ¥44,000. The bottom of the coal market has fallen out, but from FY2018 we are setting coal at a high price. Moreover, raw salt is rising in FY2019 compared to last year.

Q3: Please tell me about the increases in operating profit for each division.

A3: In Chemicals, we see several hundreds of millions of yen with calcium chloride, and having made tweaks to the chlor-alkali products it should be an increase to the ¥1 billion range, providing we can return to running at full capacity. In Specialty Products, we project it to be positive given silica and thermal management materials, and these two areas should account for 70% to 80% of ¥1 billion in increased profit. The Life & Amenity segment contributes 75% of the healthcare-related (plastic lens-related materials, pharmaceutical ingredients and intermediates, dental materials, and medical diagnostic systems) sales increase. In terms of revenue, for healthcare-related products and films used to package foods (Sun • Tox Co., Ltd.), we have a good feeling to revise selling prices and increase volumes, and these are being factored in.

Q4: Why is it that recovery in the Others segment has slowed in FY2019?

A4: Given that plants are kept running at full capacity, we see that electricity sales volumes do not grow. Figures for electricity sales are projected to be on par with the previous fiscal year.

### 3. Questions regarding polycrystalline silicon

Q5: Please tell me about the current demand situation.

A5: As it is right now it hasn't changed significantly from a half year ago. However, demand will tighten when 5G gets rolling. Although semiconductor wafer makers are treading water, their stance is very positive, and they are listening to what we have to say. It is for reasons such as these that going forward, we think that demand will tighten.

Q6: Please tell me about your FY2019 plans for polysilicon shipping volumes.

A6: We plan for an increase of sales that is roughly 10% higher than FY2018 levels. (Figure is not disclosed.)

Q7: Given Tokuyama's investments for polycrystalline silicon quality, to what extent can Tokuyama's quality go beyond that of other companies in the same industry?

Q7: Well, that doesn't mean we are going to jump far out ahead. There are makers in Germany that are also striving to raise quality through very aggressive investments. Our investments into quality will not necessarily widen the difference, and we are aware that we are competing against other companies. Consequently, there is the possibility that if we stopped making investments into quality, we would fall behind other companies. First, so as not to lose, our understanding is that this is a situation of fierce competition.

Q8: Including this fiscal year, what is the trend with the amount of investment into quality?

A8: I am not sure if it goes into the billions of yen every year, but we see that it will be necessary to make annual investments in the range of hundreds of millions of yen.

Q9: You haven't mentioned investments to boost production, but is that because your price hikes were insufficient?

A9: We foresee that demand will grow. While making gaining the understanding of our customers about pricing as a prerequisite, basically we are considering expansion, but have not yet made any decisions.

#### 4. Questions regarding the Life & Amenity segment

Q10: Net sales of healthcare products (eye glasses, pharmaceutical ingredients and intermediates, dental materials, and medical diagnostics) are currently at ¥23 billion, but to what extent do you see that expanding by in FY2025? And within that, please tell me your thoughts on your sense of scale with regard to new products for dental materials.

A10: In FY2025 we would like to aim for a ¥60 billion figure. It is still in the future, so there is risk, but because we have been able to obtain a ground-breaking product relating to dental materials, we received top accolades a recent exhibition in America. Every week we receive an increasing volume of orders, and the situation is such that production can't keep up and we run out of stock. The supply of raw materials is falling behind so we are currently this fiscal year making investments into the Kashima Factory, and we have also started to consider a second round of investments. Regarding dental materials, we are thinking that we would like to triple scale in the near future. For other fields, particularly pharmaceutical ingredients and intermediate peripherals, we have focused on generics, but going forward we would like to bring the business to the ¥10 billion level with drug discovery

and development of supplements, animal-related products and others.

Q11: You've said that pharmaceutical ingredients and intermediates would enter fields such as drug discovery, supplements, cosmetics and others, but would these be with your company on a stand-alone basis? Or would they be expanded upon while leveraging external capabilities gained through business tie-ups, M&As or other means?

A11: Basically, we are considering a variety of steps, including tie-ups with external partners. There is one possibility in particular to consider, and that is supplements, the making of combinations with products from fields of technology that we don't possess. There's also manufacturing. As we will shortly be at maximum production capacity at the Kashima Factory, when we take into consideration enhancing GMP facilities in accordance with production capacity and lineups, we believe it will be necessary for us to move forward on considerations with an eye toward collaborating with other companies.

#### 5. Question regarding the cement segment

Q12: Please let me know about your FY2018 results with regard to the cement price hike, and your outlook for the future.

A12: We were dissatisfied with our push for an over ¥1,000 per ton price increase. Actually, it turned out to be nothing more than a few ¥100 coins. The situation is that we continue to petition for a more substantial additional rise in the future. The budget hardly factors in any price hike, so if we can achieve that it will be a positive factor.

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