4Q FY2019 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: May 15, 2020 (Friday) 11:00 – 12:00

Participants:

Hiroshi Yokota, President and Representative Director

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

1. Questions regarding FY2020 operating forecasts

Q1: How have you factored in the impact of COVID-19 into operating forecasts for FY2020?

A1: While operations during the 1Q are currently feeling the effects of COVID-19, we are anticipating a gradual recovery during the 2Q. Looking further ahead, business conditions expected to return to normal from the 3Q. In the Chemicals segment, sales in the 1H are projected to come in at around ¥40 billion. This represents a shortfall of between ¥8 and ¥9 billion. This shortfall is attributable to the stagnation in chlor-alkali trade, especially during April to June quarter, triggered by the lockdown in India. In the 2H, sales are projected to return to usual levels, totaling roughly ¥48 billion. The same can be said for the Cement segment, where we are seeing many delays in the construction of hotels and other facilities in urban areas particularly in the April to June quarter. In addition to the postponement of construction that was previously based on trends with respect to inbound tourism and demand, work has been halted as a result of COVID-19. Accounting for each of these factors, we are projecting a substantial downturn of 10% or more in the April to June quarter. On this basis, we are looking at a drop of revenue of around ¥6 billion in the 1H. Reflecting the drop in dental and eyeglass materials, which make up a large portion of exports to Europe and the U.S., earnings are forecast to decrease roughly ¥1 billion.

Q2: How do you set assumed prices for raw materials?

A2: Despite setting our forecast for naphtha in Japan at ¥43,000 at the start of this fiscal year, the price is currently trending in the ¥20,000 range. While lowering our assumptions in line with market conditions up to July, we have not factored in any major boost to earnings due to movements in the price of naphtha. As far as the cost of coal is concerned, we are looking at around US$75 per tonne.

Q3: What are your reasons for forecasting an increase in earnings in the Life & Amenity segment despite the impact of COVID-19?

A3: In addition to active pharmaceutical ingredient (API) intermediates for which we plan to launch new supplements, earnings are forecast to increase thanks to contributions from ASTOM Corporation in China, where demand is increasing for the recovery of valuables from wastewater, and Excel Shanon Corporation, which is increasing sales through a partnership with Panasonic Corporation. As far as new supplements are concerned, we have successfully developed a process for the manufacture of biotin, which is a type of vitamin that is especially needed by infants and toddlers and is added to formulas. This process enables inexpensive and high-quality production in the face of extremely high demand for safety.

Q4: What are the reasons behind the decline in operating income in the Others segment? Also, the level of net income seems to be low. What are your thoughts on extraordinary income and loss as well as tax rates?

A4: The downturn in earnings in the Others segment is mainly due to lower profits from sales volumes of electricity. Long-term repairs to boilers are scheduled for the summer and fall. Due to a drop in the volume of electricity sold, we are projecting a decline in earnings of approximately ¥2.5 billion. This expense will be posted in a pro-rata basis for each month.

2. Questions regarding investments

Q5: While in favor of investing in factory renewal and maintenance, which was held in abeyance due to the difficult period during Malaysia projects, to what degree will investments lower utility costs?

A5: Lowering the level of energy intensity is a major factor in undertaking investments in maintenance and renewal. While unable to provide specific details, each investment lowers the level of intensity by several percentage points. In overall terms, investment has a significant impact.

Q6: Which of the investments listed on page 14 of the presentation materials will contribute to the Group's performance in the current fiscal year?

A6: Investments in IC chemicals in Taiwan and China last year were aimed at increasing production of semiconductor-related products. Taiwan, in particular, is expected to operate at a high level at such an early stage that there will not be enough time to make the next round of investments. Customer certification for enhancing aluminum nitride capacity is also virtually complete. As a result, the expanded portion will shortly come online. We hold high hopes for the semiconductor production equipment field. As far as healthcare in concerned, increased production of supplements (biotin) will start. We have also fielded requests for increased production of existing APIs. From a port infrastructure perspective, the entire port of Tokuyama can now be utilized with the inclusion of TOKUYAMA KAIRIKI UNSO K.K. in the Group. Once completed, we anticipate substantial reductions in costs by employing a bulk system to items that were previously transported by truck. Turning to the development of new thermal management materials, we are looking at products that target the mobility field. With an eye to launching new products from 2022 to 2023, we expect it will be around two years before we see a contribution to earnings.