

1Q FY2021 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: July 28, 2021 (Wednesday) 12:00 – 13:00

Participants:

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

Mr. Nakada, Macquarie Capital Securities

Q1: First of all, I would like to ask you about cost of coal. I estimate that it would be about a USD30 increase in price. The price of coal from Newcastle in Australia is about USD150. Also, how much coal is in stock, or do you have it in stock?

A1: As you pointed out, we believe that the price will increase by about USD30 to USD40. We estimate that there will be an impact of JPY4.5 billion to JPY5 billion in the future. I think that USD150 be factored in the cost of sales around the second half of the year. I think we almost have purchased for Q2 already.

Q2: You mentioned about the cost increase. Do you have a plan to increase the price of cement?

A2: Yes, Naturally, we have been working on to raise our prices in the past two years when the price of coal temporarily rose, since we are highly dependent on it. However, although it may not be something we can do on our own, we would like to think about how we can respond in various ways. This is not limited to cement, but all energy costs are rising, so we would like to make various efforts to solve this problem.

Q3: The second point is about polycrystalline silicon. Some wafer manufacturers have decided to make large investments, so I was wondering if your company has already received any additional inquiries for this purpose. In response to this, I would like to ask you if you are starting to think about capacity building. At the same time, prices for solar cells have been rising, and the price gap with solar grade has narrowed considerably, so I wonder if there is a possibility of correcting the price of polycrystalline silicon. What are your thoughts on the wafer?

A3: We have heard from our customers that wafer manufacturers are very booming, but at this time we are not planning to immediately invest in capacity expansion or increase our capacity in response to this. We are always aware of this, but we are trying to be careful about it. However, there is a growing need for our products from various sources, so we will try to supply them to relatively good customers while monitoring prices. We see that the price is slightly rising.

Mr. Watanabe, Mitsubishi UFJ Morgan Stanley Securities

Q4: First, I would like to ask for some additional information on the thermal management materials. What is the current status of the Advanced Technology Commercialization Center? Also, what kind of sales increase of silicon nitride can we expect in the medium term? Can you give us some additional information about your outlook at this point?

A4: With regard to silicon nitride, the facilities for powder and bare substrate are proceeding as planned, so we are planning to start trial operation of the powder and bare substrate this fiscal year, and then ship samples. We are currently planning to start shipments in fiscal 2022, and we expect sales to grow in earnest in about 2023.

Q5: The second point is about the tax rate. You are using the statutory tax rate for this fiscal year. If there is any change in classification or if there is some additional information regarding deferred tax assets, please explain.

A5: When we calculated the deferred tax assets, we thought that the final tax expense would be a negative, so in order to make a reasonable calculation, we followed the accounting rule that the effective statutory tax rate should be used for Q1 of this fiscal year.

Mr. Yoshida, Mizuho Securities

Q6: There was a comment that the profit of IC chemicals did not increase much in Q1. I wonder if it is not possible to pass on the cost of raw materials. Also, the plant construction of the joint venture in Taiwan is scheduled to be completed at the end of September this year. I would like to know if this will be on schedule and if the shipment will be in the next year.

A6: The price of naphtha is rising, so we will try to pass on it to our customers. The price has been rising at a very high level, so we will continue to make price adjustments to deal with the rising cost of raw materials. The joint venture in Taiwan is proceeding as planned and will start operation next year.

Q7: Regarding fumed silica for CMP, it seems to have been losing ground to colloidal silica. Are you marketing to Foreign users since your products are matched to them?

A7: Yes. I've heard it's strong.

Q8: Also, one thing about caustic soda, please. Overseas market prices have been hovering around USD340 to USD350 at the moment, and I think they have risen considerably since the beginning of the year. I would like to know how you see the Asian market going forward.

A8: Overseas, as you mentioned, market conditions seem to have picked up considerably compared to last year. In Japan, we will basically maintain the current price level, but as I mentioned earlier, coal prices have risen considerably, so we will keep that in mind as well.

Q9: Regarding the shipment volume of cement for the full year, could you tell us the background behind the lowering of the forecasts for both domestic and exports?

A9: The domestic sales volume in general is declining right now, so that's why we lowered the full-year forecast. In terms of exports, the assignment of ships has become a little more difficult, so the overall forecast has been also lowered.

Mr. Azuma, Jefferies Securities

Q10: The first question is regarding fumed silica. The result has been improving very much. Is it correct that it is only since the beginning of this year that the sales volume has increased?

A10: It has been gradually improving since about Q4 of last fiscal year. We think it will continue. The applications for adhesives used in wind power generation have been growing very strongly recently, showing a very solid performance.

Q11: Regarding power generation, I don't think it will change a lot in three months, but if you have made any progress in the area of power generation, such as the use of wood pellets, please let me know.

A11: The carbon neutrality is a major theme for us, so in the future we will have to try a variety of products, including biomass and woody pellets. We are currently conducting research and study on various issues such as thermal efficiency, quality, delivery, storage, and operation technology.

Mr. Nakahara, Tokai Tokyo Research Institute

Q12: First of all, I am looking at the status of semiconductor-related products on the Topics page. In the area of polycrystalline silicon, domestic sales, which had been strong until now, it has dropped significantly in Q1, and while exports had increased considerably in each quarter. Could you explain in more detail what happened? Is this just a blip, or is this trend likely to continue for a while?

A12: This time, we received a particularly strong number of inquiries from overseas, but the volume of transactions continues to be the same as before for domestic customers. We want to increase sales by redirecting the volume of sales to the customers who are offering good prices.

Q13: What do you think the situation of VCM and caustic soda in Asia?

A13: I suspect it will continue for a while. We were somewhat conservative at the beginning of the period, but we believe now that VCM is stronger than expected. Caustic soda exports have recently exceeded USD300 per tons, so we have taken this into account in our forecast. In terms of both VCM and caustic soda, we have also made some improvements to our export facilities, so basically, we would like to expand the business.