

## **TOYOBO Co., Ltd. Q&A Summary for the Presentation Regarding 2025 Medium-Term Management Plan**

**Date and Time:** Friday, May 12, 2023 at 10:45 - 11:30 a.m. (Japan Standard Time)

**Place:** WEB Conference, Station Conference Tokyo

**Presenter:** Ikuo Takeuchi, President & Representative Director

**Future earnings forecasts and other forward-looking statements in this release are based on data currently available to manage and cannot be guaranteed by the Company. Actual business performance, etc. may differ from the forecasts due to various factors.**

**Q: In terms of the preparations for the future, what kind of product can Toyobo launch at an early stage that blends polymer technology with bio/medical technology? I want to know if such technologies will lead to earnings growth.**

A: One product we plan to launch as soon as possible is PEF, or polyethylene furanoate. We are currently working on this product with a Dutch company. The monomer is based on the Dutch company's catalytic technology and we are handling the polymerization and film formation processes. We plan to conduct test marketing in 2024. Also, in the chemical recycling field we have established a consortium in an effort to recycle used plastics. We use a similar technology to refine wood chips into a raw material, which is then polymerized and formed into a film. We have our sights set on the commercialization of polyester film made entirely from biomass in 2030. Other than this, we have already brought to market cell-free and concentrated ascites reinfusion therapy (CART) and biocompatible polymers, and we are currently working to expand their applications and improve performance.

**Q: Roughly how many employees from Mitsubishi Corporation (MC) have come across to TOYOBO MC Corporation (TMC)? Where in TMC's organization do they work? Also, how have they been integrated with employees from Toyobo (TC)?**

A: Employees from MC taking up a position at TMC include COO, CSO, CFO, the head of sales division, and a dozen or so people that report to them. There is also a TMC back office team at MC that can obtain information from MC when needed. In the past, we sometimes struggled to smoothly transfer personnel between business departments owing to the nature of our divisional structure, but we have made it easy to move people around in three larger divisions, namely, sales, production, and R&D. Accordingly, this setup has made it easier for us to combine products and generate synergies.

**Q: With TMC having been launched a little over a month ago, have you encountered any surprises or other concerns involving issues not previously apparent such as cultural differences?**

A: Encountering the fast-paced nature of a trading company has been both stimulating and fascinating. We want our employees to engage in work with a sense of fascination, knowing that they will be operating in a different culture and framework operating as TMC. We have already held forums for dialogue between TMC management and employees.

C: The prospect of greater momentum warrants optimism given TOYOBO's existing lineup of products with significant potential.

**Q: The Environment and Functional Materials segment is projected to achieve higher operating profit in FY 3/24 compared to the previous fiscal year, which can be attributed to subpar performance in FY 3/23. I understand that this segment is primarily associated with TMC, so I would think that it will essentially be subject to cost increases initially, upon launch of TMC's operations. That said, what is the anticipated level of cost increase for FY 3/24? Also, around when might we expect synergies to outpace the cost increases?**

A: The ownership distribution stands at 51% for TC and 49% for MC, with MC's stake accounting for 49% of the profit. Meanwhile, the establishment of TMC entails certain additional costs. We project that these additional costs will be offset and surpassed in FY 3/26 and beyond. While it may take time, the creation of this joint venture will give rise to more options beginning in FY 3/26, including inorganic initiatives.

**Q: What is the basis for calculating MC's amount of investment in TMC? What is the net asset value of TMC? Also, with TMC's management team predominantly consisting of individuals from the MC side from the COO level and below, is there equal say for both companies in decision-making?**

A: Due to confidentiality obligations between us and MC, we cannot provide detailed explanations regarding the basis for calculating MC's investment in TMC. However, the amount was essentially determined based on asset value and projected cash flow generated by the business, and determined through negotiations. TMC's net asset value is slightly over ¥60.0 billion. In terms of decision-making, the Board of Directors comprises four members from TC and three members from MC, with TC having the majority. TC is not at a disadvantage when it comes to decision-making.

**Q: The FY 3/31 operating profit target for the films business of ¥18.0 billion does not seem ambitious relative to the amount of slightly less than ¥15.0 billion in FY 3/22. What is the background for this?**

A: We have a significant number of film production equipment, thereby necessitating scrap & build (S&B). We intend to proceed with such initiatives through to FY3/31. We set the operating profit target at ¥18.0 billion under the assumption of higher construction expenditure. However, we are actually aiming for operating profit of at least ¥20.0 billion and will forge ahead with that in mind.

**Q: In the films business, what approach will you enlist in generating higher volume going forward?**

A: Although we have been facing challenges in setting up new equipment with respect to biaxially oriented polypropylene film (OPP), we plan to establish a proprietary production line to supply film that our competitors are unable to manufacture. We are also considering the possibility bringing in more equipment going forward. For industrial film, we aim to upgrade our equipment to produce higher-quality film. Our overall plan calls for qualitative improvement rather than merely quantitative gains in volume.

**Q: In the films business, do you intend to mainly head in the direction of mono-material recycling or biomass going forward?**

A: Both trajectories. While various companies are considering polypropylene (PP) biomass, it is not yet commercially viable. We developed highly heat-resistant OPP film and is focusing on reducing film thickness (volume reduction) and shifting to mono-material solutions. We are at the forefront when it comes to using biomass materials with respect to polyethylene terephthalate (PET) plastic. We also intend to transition over to biomass in terms of OPP when suitable materials become available. We see biomass, recycling, and the shift to thinner films as interconnected trends.

**Q: By how much will the films business have ramped up its ratio of recycling and biomass in FY 3/26 and FY 3/31? Also, what is the status of aluminum catalyst for polyester?**

A: We have set a target for a 60% ratio of green film by FY 3/31 (biomass, recycling and volume reduction). We anticipate an approximately 30% ratio of green film in the films business by FY 3/26 since many industrial films need high-purity polyester. However, demand for recycled PET is increasing even when it comes to industrial film, and some products already address that need. With respect to “TOYOBO GS Catalyst” of aluminum that does not require heavy metals, we have increased production volume working with Indorama Ventures. We will extend this globally going forward.

**Q: In the airbag fabrics business, do you think it will be difficult to ensure adequate profit margins going forward? Also, taking a long-term perspective, do you intend to stick with the airbag fabrics business as you proceed with business portfolio reform?**

A: First and foremost, we will proceed with structural reforms as planned.

**Q: What is the situation with “Nerbridge”? What can we expect going forward?**

A: We are putting significant effort into achieving expansion in North America, but it is taking longer than anticipated. While we consider the North American market as a primary target, it will take some more time until we achieve growth in volume.

**Q: Your price book-value ratio (PBR) is below 0.5 currently. What is your analysis and assessment of this? Also, how do you intend to address directives from the Tokyo Stock Exchange in terms of specific actions, announcements and other such measures?**

A: We recognize the importance of improving asset efficiency and raising growth expectations. Given the need for us to increase ROE, we will initially implement measures to address businesses requiring improvement, then seek to increase profit levels while simultaneously streamlining assets. This will boost our ROE. To raise growth expectations, we will achieve tangible results by executing specific measures. That said, you should be aware that we have no plans at this point in time to disclose information specifically related to PBR.

**Q: Matters related to safety, disaster prevention, quality assurance and compliance are difficult to quantify yet extremely important. In what ways are you ensuring rigorous action, assessment of practices, and actually providing for transparency in this regard?**

A: In terms of safety and disaster prevention, we establish quantitative benchmarks in terms of targets and results, including metrics such as the number of serious incidents and lost time incident rates. On the procedural front, we are redoubling efforts when it comes to training and other aspects of our system of instruction. In terms of quality assurance, in pharmaceuticals we have been taking steps to get the Warning Letter from the FDA lifted. In engineering plastics, we have been working toward regaining ISO certification. We recognize that quality is a key aspect of our company-wide culture and are accordingly making headway with professional development particularly when it comes to education and training related to quality assurance.