TOYOBO Co., Ltd. Q&A Summary for the Presentation Regarding Financial Results for FY 3/23

Date and Time: Friday, May 12, 2023 at 10:00 - 10:45 a.m. (Japan Standard Time)
Place: WEB Conference, Station Conference Tokyo
Presenter: Ikuo Takeuchi, President & Representative Director

Q: How did sales of "COSMOSHINE SRF" fare in FY 3/23 and what is the forecast for FY 3/24? And what share of the market do you currently command?

A: In Q3 we were expecting Q4 sales to be less than 90% of the Q1 level, but ultimately they exceeded 100%. For FY 3/24 we forecast sales growth of around 15%. We estimate that our market share increased to roughly 55% in FY 3/23.

Q: How did sales of the mold releasing film for MLCC fare in FY 3/23 and what is the forecast for FY 3/24?

A: They remained weak from Q2 onwards. Going by information received from business partners, we expect to see a recovery from Q3 FY 3/24 onwards. Once high-end products of MLCC manufacturers, such as those for smartphone applications, start to recover, we can expect our shipments to also increase.

Q: It looks like a year-on-year operating profit improvement of ¥5.0 billion in FY 3/24 will not be enough to get operating profit back to the ¥20.0 – ¥25.0 billion level seen a few years earlier. How will the recovery be allocated in H1 and H2? I think TOYOBO's earnings are skewed more towards H2 than H1, but do you think operating profit can recover to the ¥20.0 – ¥25.0 billion level in FY 3/25 based on the level you expect to book in H2 FY 3/24?

A: For FY 3/24 we forecast approximately ¥5.0 billion in H1 and approximately ¥10.0 billion in H2. Taking into account reduced losses and lower costs for mainly quality inspection, we think we can return to ¥20.0 billion level in FY 3/25.

Q: In terms of trade, you were able to recover somewhat from the surge in raw material and fuel prices, despite there being a bit of a time lag in passing on prices. Now, however, in addition to raw material prices, and coupled with the sky-high fuel prices, it is very likely that permanent changes are afoot as companies press ahead with measures to address carbon neutrality, which also involves the conversion to other fuel sources. In this new operating environment, I think you will have no option but to passing on prices to your customers in order to ensure profitability, but will that be possible? If not, how do you intend to return profits to shareholders?

A: In addition to the naphtha-linked price, manufacturers of raw materials are demanding higher prices, including for fuel. We will continue to pass on prices by explaining these circumstances to our customers. Our competitors too must pass on fuel prices, and other companies also have no choice but to raise their prices. In some cases, this might result in lower sales volume, but sales will rebound if we can successfully leverage our competitive advantage. We will give top priority to prices and thoroughly implement in raising them as a matter for management instead of leaving it up to each department to decide on passing on prices.

That said, even though it is pretty easy to gain the understanding of customers with respect to a product only we can provide, we have struggled to win over customers when it comes to other products. In this situation, it is possible that businesses organized under past cost structures might struggle to continue, which is why we will not only reexamine those businesses, but also focus on bringing to market products of high added value in order to guarantee profits for shareholders.

Q: I certainly hope to see earnings in the Mobility segment swing to profitability. Would it be safe to assume that operating profit will move into the black in FY 3/25 or FY 3/26? What steps will you take to achieve profitability in this segment?

A: We expect profit in the engineering plastics business to return to levels seen in the past with the dropout of temporary costs, provided we can reacquire ISO certification. In the airbag fabrics business, we have reviewed the terms of business with our customers and we expect to be able to halve the deficit in FY 3/24. Also, we will aim to get it into the black by bringing new equipment online.

Q: In the analysis in changes in operating profit for FY 3/24, you are forecasting a volume increase of ¥2.3 billion. If you are anticipating a ¥4.0 billion decline in Life Science, most of which will be a decrease in reagents for PCR testing, where will a volume increase of ¥6.3 billion come from?

A: We are forecasting volume increases of just over ¥2.0 billion for industrial film and just under ¥2.0 billion for packaging film, as well as increases for engineering plastics and airbag fabrics, among other products.

<u>Q: In the Functional Textiles and Trading business segment, will the deficit narrow for both textiles and airbag fabrics? Or will it be lopsided towards either of those businesses?</u>

A: We plan to narrow the losses in both businesses. Earnings in the textiles business will move into positive territory in FY 3/24 because the benefits of structural reforms are materializing. For the airbag fabrics business, we plan to reduce the deficit by reviewing the terms of business with our customers.