Toray Industries, Inc.

Announcement of Business Results
for the Fiscal Year Ended March 2024

Transcript

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Mitsuo Ohya
President and Representative Member of the Board

<General>

Q. Please let us know the reason why the Company has decided to enhance shareholder returns including share buybacks using proceeds from the sales of cross-shareholdings.

A． Under the Medium-Term Management Program, Project AP-G 2025, as one of our major management challenges, we are aiming for the improvement of ROIC, ROE, and asset efficiency by increasing profitability. As we are a manufacturer, the main objective is to make profit out of products from our manufacturing facilities and increase asset efficiency. At the same time, in order to improve asset efficiency, our senior management team is working together and thoroughly reviewing all aspects of our business. As part of the initiative, we have reviewed the amount of the cross-shareholdings, and decided to reduce it by half. To reduce the ratio to total equity to approximately 5%, we will reduce our cross-shareholdings about 100 billion yen at current share prices. We also decided that all the proceeds from the sales will be used for share buybacks, the process will be completed in 3 years.

Q. The timing of share buybacks can be considered close to the timing of sales of cross-shareholdings? Are you going to have the discussion on the 100 billion yen, which is the remainder after the 50% reduction of cross-shareholdings 3 years later?

A. The timing of share buybacks will be determined in the future, but it will be carried out immediately when we can have the prospect of sales for the cross-shareholdings. As for the remainder of 100 billion yen, we believe that it will be discussed in the next medium-term management program. Please understand that this reduction of 100 billion yen within 3 years is a change in our shareholder return policy and an addition to the current medium-term management program.

<Fibers & Textiles>

Q．In Fibers & Textiles segment, core operating income is expected to significantly increase in FY 2024. Please explain the factors of the increase.

A．We expect a 10.3 billion yen increase in core operating income of the segment for FY 2024, from 54.7 billion yen to 65.0 billion yen. We expect increase in profit through strategic pricing and promotion of high-added-value products, etc., and expect a significant effect from the profitability improvement projects which work on business structure reform of the companies making loss.

Q. Please explain the Company’s assumption about trend in the demand of fibers and textiles for apparel.

A. In Japan, demand is expected to be strong, mainly from inbound tourists. In Europe, demand is still weak, while in the U.S., we steadily received orders for outdoor applications. The Fibers & Textiles business in China is performing quite well. Slowdown was seen in export mainly for the U.S., but we are capturing demand for high-added-value products in Japan and steadily expanding, securing the positioning of our products. This trend is expected to remain unchanged.

<Performance Chemicals>

Q. Core operating income significantly increased from the 3Q to 4Q. Please let us know the background of this improvement by the three subsegments. The Company also expects significant improvement in core operating income in FY 2024. Please explain the main reasons and factors by subsegment.

A. In the Performance Chemicals segment, core operating income increased to 12.8 billion yen in the 4Q of FY 2023, from 9.8 billion yen in the 3Q.

In the resins business, ABS resins was affected by the sluggish domestic demand in China and demand decrease from Chinese New Year. However, profitability was on an improving trend due to improvement in product mix through increased ratio of high-added-value products and reduction in fixed costs, etc. In the chemicals business, core operating income increased because of the depreciation of the yen. In the film business, we saw positive effects from the profitability improvement projects. Specifically, significant improvement in profitability was seen in the film subsidiaries in the U.S. and Europe by thorough reduction in fixed assets. In the battery separator film business, the consumer applications were slow, but automobile applications expanded by capturing significant demand for the U.S., and consequently contributed to the increase in core operating income. As for the electronic & information materials business, core operating income in the 4Q slightly decreased compared with the 3Q, due to the frontloaded sales to the 3Q. Please note that the major contributor in this segment was improvement in the film and resins business.

In the Performance Chemicals segment in FY 2024, effect of the business structure reform is expected to be quite substantial. Core operating income in FY 2024 is forecasted to be 59.5 billion yen, a 22.8 billion yen increase from 36.7 billion yen of actual results in FY 2023. About half of this increase is caused by the effects of the business structure reform. In ABS resins of the resins business, reduction was implemented mainly in the fixed cost, and strategic pricing was proceeded as a leading company of the transparent ABS of which we have the high market share. These initiatives were quite effective. These businesses are expected to significantly expand in this fiscal year. As for the chemical business, spread is expected to improve due to improvement in the raw material and fuel prices, etc. In the film business, effect of the business structure reform is expected, and demand in capacitor applications are strong. Films for electronic parts in FY 2023, adjustment in Japan persisted, but sales volume are on a recovery trend in this fiscal year. Contribution from battery separator film is expected to be significant, as it is expected to restore profitability from factors including decrease in depreciation and amortization. In the electronic & information material business, there was a slight inventory adjustment in the 4Q, but we will pursue profitability improvement through sales expansion of OLED-related materials and high-added-value products.

<Carbon Fiber Composite Materials>

Q．Core operating income in this segment in FY 2023 decreased compared to the forecast at the beginning of the fiscal year. Was the reason of the decrease the effect of the reduction of inventory, not a decrease in sales? Furthermore, please let us know the demand situation for the wind turbine blade application. Also, what is your plan for large tow carbon fiber utilization rate?

A．Factor of the decrease in core operating income was explained in page 20 of the presentation material. Demand for commercial aircrafts has been recovering. I cannot say for sure how much the demand will recover, but it will certainly increase in FY 2024. In large tow carbon fiber, operation adjustment was implemented, owing to changes in government policy related to wind power generation in each country and sales decrease in China caused by the decrease in domestic demand. The largest factor for the downward revision at the announcement of 3Q results was that in industrial applications of the regular tow carbon fiber, demand for pressure vessels declined and caused inventory adjustment in supply chains, so we decided to decrease production volume in the 4Q to reduce our inventory. Looking at our sales volume, after bottoming out in the 3Q, both sales of regular tow and large tow expanded in the 4Q, including sports application, pressure vessels application, and other industrial applications. Therefore, the major factor for decrease in core operating income was the adjustment of production volume.

<Environment & Engineering>

Q．The Environment & Engineering segment has been on an increasing trend in core operating income, but in FY 2024, the pace of increase is expected to be slow. In the presentation material, it could be read that the water treatment business is forecasted to be challenging in China. Does this imply that although business in the U.S. continues to be strong, intensifying competition in China could slow the pace in increase of profit? Is the assumed exchange rate of 140 yen/US$ also a factor?

A．From a global point of view, the water treatment business is steadily growing. Reverse osmosis (RO) membrane manufacturing and sales company in China is steadily increasing the core operating income, but at the subsidiary of South Korea, the pace of profit growth in the business of RO membrane for residential use for Chinese market is becoming slow, due to intensified competition with local Chinese companies. In terms of expanding revenue and core operating income from a broader perspective, RO membrane for industrial applications, which is the mainstay of the Middle East, the Americas and China, keep on an expansion trend, so there is no problem. As pointed out, there was also the impact of the assumed exchange rate.