

Toray Industries, Inc.

Announcement of Business Results
For the First Quarter Ended June 30, 2018

Transcript

August 6, 2018
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Descriptions of predicted business results, projections, and business plans for the Fiscal Year Ending March 2019 contained in this material are based on predictive forecasts of the future business environment made at the present time.

The material in this presentation is not a guarantee of the Company's future business performance.

<General>

Q. What is your impression towards the development of global issues such as trade-friction between U.S. and China and related currency fluctuations of emerging countries, since Toray is engaged in business on a global scale?

A. Despite all the talks about trade-friction between U.S. and China and especially tariff related issues and currency fluctuations, we do not think there will be a direct impact on our products at this time. However, in regards to these issues, our executive vice president in charge of marketing and sales will diligently collect relevant information from each of the location to take any necessary measures ahead of time.

Toray has taken the approach of so called “local production for local consumption” philosophy in promoting its business. Over many years, Toray has repeatedly decided on the location of production based on changing commercial terms so as to operate its business free from the impact of these changes. Our production sites are set up globally in order to deal with these changes in a timely manner, so there should be no major effect. To the contrary, we may even expect some advantages, but I would presume that the effect will be neutral as a whole at this time.

Q. Please explain the reason why a significant increase in operating income is forecasted from 1Q to 2Q?

A. Within the Fibers & Textiles business, in addition to the seasonal factor of increase in shipment of autumn/winter products in the domestic garments business, the customers’ distribution inventory was cleared out due to the harsh winter of the previous year, which caused an increase in the orders of autumn/winter products relative to the forecast in the beginning of the term, and accordingly the increase in shipment is anticipated. In the industrial application, we are forecasting sales growth in PP spunbond for hygiene products and air bags. The new production line in the Republic of Korea for PP spunbond has commenced its operation from early 2018 and our new factory in Mexico has started the production of air bags from April 2018. These should contribute to stable production and expansion of volume. On the other hand, both sales and operating income are forecasted to increase; provided, that we continue to pass on the increase in raw material’s prices to the selling price.

Within the Performance Chemicals business, we expect that demand as a whole including automobiles will remain strong, and we will focus to expand the sales of ABS resins and engineering plastics including PPS resins. In the films business, we will further our sales expansion by achieving stable production and full-scale operation by utilizing the newly built battery separator films production line that commenced its operation in 4Q of FY2017. In the electronic & information materials business, we expect the demand to recover as a result of smart phone manufacturing targeting the holiday shopping season. In OLED related materials and high-functional electric circuit materials, we saw a slowdown particularly in relation to smart phones from the end of 2017 and the shipment from January to March 2018 plummeted drastically. Not much growth was seen during April to June despite being on a recovery trend but we expect expansion of sales in full-scale in 2Q.

Within the Carbon Fiber Composite Materials business, shipment for aerospace application is forecasted to remain mostly strong and the overall demand for general industrial application also continues to be on a recovery trend particularly for environment

energy related products such as compressed natural gas tanks and wind turbine blades. However, the impact of increase in raw material's prices and intensifying competition are anticipated to become even more severe. Also, we are forecasting that the result will remain mostly flat due to costs related to TenCate acquisition which continues to be incurred as did in 1Q and to increased cost related to new projects launched by overseas subsidiaries.

In the environment and engineering business, we forecast that the shipment for industrial and electronics related equipment by our engineering subsidiaries will expand along with our efforts to expand sales of RO filters for replacement needs and UF/MBR for China and Asia in the water treatment business.

The life science business is forecasted to remain mostly flat. In the pharmaceutical business, we have incorporated the effect to a certain degree of the market entry of the generic version of Remitch but will actively promote sales expansion of OD tablets (Orally disintegrating tablet) that are competitive to generic products. We also plan to actively expand our sales further of Dorner in China. In the medical equipment business, we will further our sales expansion of dialysis related products including high-performance dialyzer domestically as well as have our Chinese subsidiary further its sales expansion of dialyzers within China.

From the above, we plan to have significant increase overall in both sales and operating income from 1Q to 2Q.

<Fibers & Textiles>

Q. Please explain about the business environment including the current situation of Fibers & Textiles for apparels, PP spunbond, and textiles for air bags given that the annual business forecast for the Fibers & Textiles business has been revised upwards.

A. As distribution inventory of garments were cleared out due to the harsh winter of the previous year, orders for autumn/winter products increased significantly compared to the forecast at the beginning of the term, and we expect increase in the shipment particularly in the first half. However, because this is subject to the sales situation of the first half to the end of the year, the effect of acceleration has been incorporated into the first half, but the forecast for the second half has been marginally reduced.

<Carbon Fiber Composite Materials>

Q. In the forecast of FY 2018, sales of Carbon Fiber Composite Materials business has been revised downward for the first half by 5 billion yen and operating income has been revised downward for the first half and upward for second half. What is the background for these revisions?

A. We have revised the sales downward due to the change in the timing of consolidating TenCate's sales. In regards to operating income, although the first half will be difficult due to continuing delay in passing on the rise in raw material's prices and to intensifying competition, the second half is expected to improve due to strengthening of measures to establish stable production in new projects launched by overseas subsidiaries. We have also made a downward revision for the first half due to the increase of unrealized profit from transactions between Group companies. This was the inventory that were prepared for the increased production of 787 materials forecasted in the second half, but this situation is forecasted to go back to normal as inventory shipped will be out of the group.

Q . Please explain, to the extent possible, when TenCate will be consolidated and approximately how much the goodwill will be. Also, when can we expect the synergy effect of the acquisition to take effect and when can we confirm the operating margin to recover?

A . Since the acquisition of TenCate has been completed on July 17th, we plan to consolidate the goodwill from 3Q. However, the details such as PPA (purchase price allocation) and the number of years to amortize goodwill are not yet firmly defined at this time, and thus we have incorporated into our forecast an estimated number based on certain assumptions. Therefore, at this time, we are not able to give any specific number other than to say that an estimated number based on certain assumptions is incorporated into the forecast.

Toray already holds regular tow carbon fiber and high-end thermoset resin composite material products and has acquired Zoltek for large tow carbon fiber (general purpose) 4 years ago. The purpose of TenCate acquisition this time is to acquire the missing piece in our product lineup, which is the thermoplastic resin composite material. By acquiring TenCate, a company which carries on a solid business in composite materials that uses thermoplastic for aircraft application, etc., we have successfully completed the portfolio.

When you look at TenCate's business, it does have higher ratio of composite materials with high thermal resistance and high-performance thermoset resins for aircrafts application compared to thermoplastic composite materials. We think that the sales of these products can be expanded by utilizing Toray's existing commercial distribution network. Moreover, a significant synergy effect for thermoplastic resin composite materials can also be realized by utilizing resin technologies and carbon fiber processing technologies that Toray retains.

Given that the cost including amortization of goodwill, despite the accurate amount not being decided yet, will be causing a downward pressure on operating income, the challenge for us is to improve the profitability by realizing the synergy effect.

We have already established a project team to engage together with TenCate in achieving this. We aim to have the effort taking effect during FY2019 and eventually turn positive absorbing amortization cost including the goodwill from FY2020.