

Toray Industries, Inc.

Announcement of Business Results
For the 2Q and Six Months Ended
September 30, 2018

Transcript

November 9, 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.

<Fibers & Textiles>

Q. In Fibers & Textiles segment, what are the approximate sales of garments and integrated businesses in the first half compared with the same period a year earlier and their growth? Also, why did the cost variance, etc. in Fibers & Textiles segment increase compared with the same period a year earlier when the other segments decreased?

A. With the strong sales of autumn/winter products last year, there was an increase in the frontloaded shipment of garments. As a result, the first half has seen double-digit increase in sales compared with the same period a year earlier and the volume has increased accordingly.

Because the garments are manufactured overseas in such countries as China and sold via trading subsidiaries, unrealized profits are being realized. These figures are shown in the cost variance, etc.

<Performance Chemicals>

Q. For lithium-ion battery separator films, 20% increase in shipment volume in the first half compared with the same period a year earlier is perceived as a small increase considering the status of competitors or battery manufacturers. Considering the strong demand, were there any issues with production?

A. Basically, it is growing steadily. However, we are in the midst of launching additional capacities in this first half. We are in the process of doubling our coating capacity. In that sense, we should see the numbers increase in the second half.

Q. For Performance Chemicals, it seems that operating income must significantly increase in order to reach the second half target. Is the target attainable? Please explain along with the status of passing on the rise in raw material prices to the sale price.

A. Performance Chemicals is one of the segments that was impacted most by the steep rise in raw material's prices. In the first half forecast released on the 6th of August, Performance Chemicals was the most downturned. To counter the rise of raw material's prices from April, we have been increasing price of each resin since around October. Raw materials for films saw a further steep rise from August. We are making a maximum effort to pass on the August to September increase in raw material's prices in October to November and the sales price is rising gradually.

Meeting the second half forecast is greatly dependent on how we are able to pass on the raw material price to the sale price. We will firmly progress with this and adding of values without setting a too optimistic forecast.

<Carbon Fiber Composite Materials>

Q. What is the situation of the German composite subsidiary that triggered the forecast for the current fiscal year to be adjusted downwards?

A. In regards to the German composite subsidiary that has led to our downward adjustment, we reported in the 1Q result briefing that we are struggling to have our German automotive parts subsidiary launch its production and that it will take 2 to 3 months or more to stabilize the production. With the production volume expansion, we are facing a very difficult situation but taking steps to improve the situation.

We have a track record of engaging in composites for racing cars and super cars through our subsidiary. However, the production volumes of these cars are in the hundreds or one thousand at most. The subsidiary has been established in 2011 and has worked to expand its business by exploring new items one by one. Recently, however, orders in the magnitude of tens of thousands of units have been coming in.

We have been preparing the production line for this model to go into full-scale production

this year. The present condition is that man-hours and costs beyond our expectation are being required in this process. Despite our efforts to improve the utilization rate and production yield, enormous cost is required to mass produce if the yield is poor. We are continuing our emergency support, but the forecast for the current fiscal year has been adjusted downwards as a result of large cost being incurred due to loss of raw materials, outsourced correction work, etc. during last 2 to 3 months.

By stabilizing the operation and optimizing personnel by the end of March, 2019, we believe we can achieve positive turnaround for FY2019. However, large loss is forecasted for this second half due to expanding costs.

What the composite subsidiary experienced is an issue that we will not be able to avoid in the process of transiting to mass-produced cars. By combining Zoltek's large tow, we foresee it as one of the main pillars of our business in the future.

Q. What are the synergies that can be expected from the newly acquired TenCate Advanced Composites Holding B.V.(TCAC) ?

A. Toray's strength is its delivery of regular tow carbon fiber combined with thermoset resins to the high-end fields such as aircraft applications. Although we did not have large tow, acquiring Zoltek has enabled us to add cost competitive carbon fibers to the product line-up. We have been supplying high performance products, mainly prepreg using epoxy resins, for aircraft applications. Thermoplastic resins are now added by the acquisition of TCAC. Also, over 60% of TCAC's current products are thermoset resins composite materials that use special heat resistance resins. Furthermore, the company's strength is in high value-added field in small lots. With the acquisition of TCAC, we look to expand the business together.

While Toray has focused on aircrafts, we believe we will be able to achieve synergies with TCAC going forward. In order to increase the production volume, capacity improvement will be required but we believe that significant synergies can be generated by involving our engineering and production technologies in the process.

In the short-term, our challenge is first to focus on the use of Toray's materials such as carbon fibers and PPS resins. Also, we will sell TCAC's thermoplastic resins composite materials using Toray's sales channel. Furthermore, we expect to supplement the production of U.S. CMA. We have already started to see the results and the short-term challenges are being firmly addressed. In addition, it will be possible for Toray Group to supply various products to the diverse customers that TCAC has developed. We believe that short-term accomplishments can be anticipated in these fields.

Selling thermoplastic resins composite material for aircraft application can lead to big business in the future, but because the certification for aircrafts will require time, we consider the adaptation to the next type as a mid-term challenge.

We will first work to achieve the short-term synergy effect with utmost effort, then will work to absorb the effect of goodwill and hope to turn positive in FY2019.

Q. Carbon Fiber Composite Materials' operating margin is forecasted to be around 5%, which seems to be at a low level. Are there measures that can be taken to improve this situation?

A. We have made a downward adjustment in Carbon Fiber Composite Materials for full FY2018 operating income to 10 billion yen. Since our result for the previous fiscal year was 20.8 billion yen, we are forecasting a decrease of 10.8 billion yen in operating income. There are two reasons to this: one is EACC related costs and the other is the effect of TCAC's goodwill. If these reasons are excluded, operating margin is over 10%. We should be able to achieve operating margin of 10% next fiscal year if we can turn operating income positive for EACC and TCAC (after amortization of goodwill).