

Toray Industries, Inc.

Announcement of Business Results
For the 3Q and Nine Months Ended
December 31, 2018

Transcript

February 8, 2019
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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. Operating income was adjusted downwards this time by 20 billion yen mainly due to slowing down of China and this seem to be impacting Fibers & Textiles and Performance Chemicals segments. When did this slowdown start affecting the segments and to what extent and by when can the recovery be expected?

A. One of the segment most affected by the slowdown of Chinese market has been the Malaysian subsidiary's ABS resin. As a result of trade war between U.S. and China, our customers are reducing their businesses in China. This movement started in 3Q and is continuing in 4Q.

The slowdown also lead to decrease in smartphone sales. In the November result briefing, I explained that sales of new models released in October would affect the results going forward. In addition to such factor, smartphone sales in the Chinese market has significantly declined. In particular, high-functional models that use our materials such as OLED saw a sharp decline in sales, which resulted in suspension of orders to the materials manufacturers. I also explained there are signs apparent in the market, but the situation is still continuing.

<Fibers & Textiles >

Q. In addition to the full-year forecast of Fibers & Textiles segment being adjusted downwards this time, operating income, which had continued to grow in an upward trend, has now decreased in 3Q compared with the same period a year earlier. The reason for this was explained as the impact of the slowdown in China and the economy but could you explain in more detail?

A. Sales was anticipated to progress steadily in the previous forecast, but as the economy in China, Europe, etc. showed signs of slowdown, we determined that sales volume would decrease compared to the initial forecast. Textile business for airbag applications also was expected to grow significantly as the plant in Mexico started its production, but due to automotive related materials being slightly stagnating, the result was not as much as anticipated.

Sales growth of PP spunbond for disposable diapers with the newly added capacity in the Republic of Korea also was less than what was anticipated despite the large potential in demand.

Airbags and PP spunbond both increased their sales and operating profit but demands for many of the products are rather stagnant. Forecast for operating income this time has been adjusted downwards by 6 billion yen.

<Performance Chemicals>

Q. Understanding that full-year operating income forecast for Performance Chemicals was adjusted downwards by 10 billion yen, which do you feel contributed more to this adjustment, ABS resins or smartphone related materials?

A. Electronic and information materials significantly downturned from the forecast. Sharp decline in OLED materials and high-performance electric circuit materials adopted by high-functional smartphone models were the main cause of the downturn.

In films, battery separator films performed well. Films for smartphone applications were slightly affected but since other applications are recovering, this will not be a significant contributing factor to the decrease in operating income.

ABS resins suffered from the effect of economic slowdown in China.

Out of the operating income forecast adjustment, I would say that approximately 50% is from the electronic and information materials, and approximately 30% is from resins & chemicals.

Q. Please explain the trend of Performance Chemicals operating income when 3Q result and 4Q forecast are compared. What is the status of resins, films, electronic and information materials?

A. In resins, a Malaysian subsidiary and a Chinese compound subsidiary have been affected due especially to sharp decline in demand in China. It will depend on how the U.S. and China trade friction will develop during the second-half of March 2019, but at this time the demand seems to be shrinking. We have been focusing on expanding sales of value-added products for ASEAN since the second half of FY2018 and these efforts should start taking effect going forward.

It may seem that profitability is improving as raw material's prices are decreasing but these effects can only be observed from 1Q of FY2019.

In films, drop in smartphone related materials is significant. The effect became apparent in the middle of 3Q FY2018 and is continuing in 4Q. In battery separator films, demand for EV continues to remain brisk, so sales are expanding steadily. In the previous result briefing, I explained that the sales volume increased by approximately 20% in the first half of FY2018. Our forecast is that there will be an approximately 30% increase for the full year.

Also, in electronic and information materials, OLED materials and high-performance circuit materials for high-functional smartphone models sharply declined since the middle of 3Q FY2018 and this trend is forecasted to continue on to 4Q. However, as 5G smartphones will be released in 2020, if the sales of related materials starts from the second half of FY2019, this should contribute to the operating income.

<Carbon Fiber Composite Materials>

Q. For Carbon Fiber Composite Materials segment, please explain the status of the German composite subsidiary and newly consolidated TenCate.

A. It was reported in the previous result briefing that the German composite subsidiary finally reached its target production volume thanks to the technical team that was dispatched. We were able to confirm in December that the production of the maximum production volume to be anticipated has been achieved. All that is left is to seek further stability and efficiency from January to March 2019 and make sure that local personnel alone will be able to undertake the production.

TenCate's aircraft applications compose approximately 80% of its sales. TenCate is currently working to preset its specifications into various themes. This work may not fruit in FY2019 but is anticipated to steadily expand as the materials will be adopted in the future models in 2020 and thereafter.

Q. I would like to confirm the trend of Carbon Fiber Composite Materials segment from 3Q to 4Q. The forecast is; increase in sales, but decrease in operating income. Would delivery of 14 Boeing 787 units per month contribute to increasing sales?

A. Final demand for aircraft application has been steadily increasing, but no significant change will be observed from 3Q to 4Q. For Industrial applications, ramp-up of machines that have been launched sequentially from the end of FY2017 at Zoltek will contribute fully in 4Q of FY2018. In terms of profitability, German subsidiary's cost from 3Q to 4Q is forecasted to increase. Taking this into account, operating income is forecasted to slightly decrease despite increase in sales.