

Toray Industries, Inc.

Announcement of Business Results for the
Fiscal Year Ended March 2019 and
Business Forecast for the Fiscal Year
Ending March 2020

Transcript

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Descriptions of predicted business results, projections, and business plans for the Fiscal Year Ending March 2020 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. Please explain the reasons behind increase in operating income from FY2018 to FY2019 by difference in quantity, net change in price, and cost variance.

A. For FY2019, increase in operating income of 14.5 billion yen is expected due to expansion of business of which 9 billion yen will be from newly added capacity. The net of differences between sales prices and raw materials and fuel prices is forecasted to be 2 billion yen in negative. Cost reduction such as decrease in variable costs as a result of corporate-structure reinforcement will generate 6 billion yen. In total, 18.5 billion yen improvement in operating income is estimated.

Q. Significant amount of impairment loss is reported for 4Q of FY2018. In the financial statements, over 13 billion yen is reported for Fibers & Textiles business. Please explain in more detail.

A. For the Fibers & Textiles segment, we have recorded impairment loss in 4Q for goodwill and intangible assets of former Toray Chemical Korea Inc. fibers & textiles business, i.e., polyester filament and staple fiber businesses. This constitutes major portion of the impairment loss. The businesses, mainly focusing on export, was in a favorable condition up until the first half of FY2018 but the profitability significantly downturned in the second half as the market condition of China deteriorated. As we could not anticipate significant improvement in profitability for the new fiscal year, we recorded the impairment loss at the end of 4Q.

<Fibers & Textiles>

Q. Fibers & Textiles business in FY2019 is expected to significantly increase its operating income from the first half to the second half. Considering that the change in price of acrylonitrile and other raw materials does not seem to impact operating income in a positive way, are we to expect industrial applications or apparel applications to grow, to contribute to this significant increase in operating income?

A. In apparel applications, transaction volume of the mainstay autumn/winter garments, etc. will grow during the first half to the second half of FY2019, but this corresponds with the past trend.

In the industrial applications, we expect the supply chain adjustment for polypropylene spunbond used for hygiene products will be completed and therefore expect demand to recover and that sales of new products will be expanded. As global automobile manufacturing including that of China is gradually recovering and the demand for airbag textiles is increasing, we will seek to expand sales by improving the utilization ratio of facilities in India that started its production in FY2017 and Mexico that started its production in FY2018. In regard to ultra-microfiber non-woven fabric with suede texture, added capacity for Alcantara[®], which started its production in February 2019, and added capacity of Ultrasuede[®], which started its production in September 2019, are to be leveraged to expand sales. We expect significant increase in sales and operating income from these business fields.

<Performance Chemicals>

Q. In the FY2019 forecast, Performance Chemicals is expected to significantly increase its operating income by 13.3 billion yen compared with the previous fiscal year. What is the reason behind the significant increase in operating income since significant improvement in

electronic and information materials, engineering plastics for automotive applications, ABS resins, etc. cannot be anticipated under the current business environment? Can we expect battery separator films to contribute substantially to this growth? Please explain your plans for Performance Chemicals in FY2019.

- A. In resins business, we will seek to expand sales of automotive applications by capturing the expanding resin demands for lighter weight and EVs as the global automobile manufacturing volume maintains a stable trend. Also, we will proceed to stabilize the operation of polyolefin foam facilities in the US which commenced its production in January 2018 and expand its sales.

In films business, we will leverage the global operation of polyester films to take in profit from added value products. We will also seek to expand the sales of high value-added products such as release films for electronic components, such as films used for production lines of multilayered ceramic capacitors, MLCC. Especially in regard to MLCC release films, we will seek to expand sales by utilizing the capacity of the modified facility in Japan which started its production in September 2018, and is gradually obtaining customer approval.

We will proceed to expand the battery separator films business, a large contributor, by leveraging the added capacity of Republic of Korea, which subsequently raised its production rate and obtained customer approval after the start of its production in 4Q of FY2017, and added coating capacity, which also subsequently raised its production rate and obtained customer approval after the start of its production in the second half of FY2018.

For electronic and information materials, we will seek to expand sales of OLED related materials that corresponds with the market growth.

Q. Please explain Toray's shipment volume of battery separator films for FY2018 actual and FY2019 forecast. Also, please explain the market outlook. I expect significant growth for FY2019, so please explain in detail.

- A. The shipment volume of battery separator films in FY2018 increased by 30% compared with the previous fiscal year. In FY2019, we are expecting an increase of more than 30% compared with FY2018 as a result of the new production line in the Republic of Korea to commence its production. Currently, there is a shortage of battery separator films. The current number of EVs manufactured is approximately 1 million, and assuming the overall automobile manufactured is 100 million, if 10% was to be converted to EVs, that would be 10 million cars. The demand for Lib and battery separator films, therefore, will likely grow for a while.

<Carbon Fiber Composite Materials>

Q. For carbon fiber composite materials, there was a recovery in the aircraft applications in the second half of FY2018. In FY2019, what is the forecast for the German composite subsidiary in which the profitability declined in FY2018, or the status of newly acquired TenCate? Please explain in detail along with the market environment of carbon fiber composite materials.

- A. The demand for carbon fiber composite materials is steadily increasing. Looking at the performance of carbon fiber composite materials segment for FY2018, it has increased both its sales and operating income compared with the previous fiscal year if the German composite subsidiary and TenCate acquired last year are excluded. Also, the capacity in Mexico has been newly added and began its production. 10% operating income margin is being secured despite increase in price of raw material, acrylonitrile, and approximately 4-billion-yen goodwill amortization of the acquired company.

In the 3Q business results announced in February 2019, we forecasted that FY2018 operating income will be 10 billion yen from FY2017's 20.8 billion yen. FY2018 actual has recovered slightly to 11.5 billion yen. This improvement is due to the stabilization of facilities

and the improvement of profitability at the German composite subsidiary that have progressed much earlier than planned. Presently, targets of major KPIs are being achieved and products continues to be delivered as planned. Assuming that the current level of improvement stays as is, we are budgeting for few billion-yen loss in FY2019 as some products reach profitability, but others will report losses. However, as stabilization of production and cost reduction will continue, we plan to have all products to reach profitability and minimize losses by the end of FY2019.

We estimate that both sales and operating income will increase and profitability to improve for FY2019 when compared to the previous fiscal year if TenCate and the German composite subsidiary is excluded. Forecasts for the operating income margin of overall Carbon Fiber Composite Materials business is 6.7% in the first half of FY2019, 10.8% in the second half, and 8.8% annually.

In regard to TenCate, a group-wide project has been established to realize synergy since the completion of acquisition in July 2018. As short-term focus, we are working to replace carbon fiber composite materials, resin, etc. to Toray products, produce some prepreg for our US subsidiary, and to make purchases jointly.

We are aiming to realize short-term synergy during FY2019. Although TenCate will report a loss of few billion for FY2019 when amortization of goodwill is included, the overall result will nearly reach profitability, when taking into account the operating income generated by the expansion of carbon fiber composite materials sales as a result of replacing carbon fiber composite and resin materials to Toray products. We anticipate TenCate alone will reach profitability from FY2020.

Also, in mid to long-term perspective, we think that the effect of business expansion through synergy of selling TenCate products to Toray Group customers can be expected. Specifically, we are working to obtain certification for thermoplastic and thermoset prepreg, but the acquiring certification and business expansion will probably require two to three years.

<Life Science>

Q. Operating income of Life Science segment is expected to be zero in FY2019. I would like to reconfirm the positioning of Life Science business within the business portfolio in a long-term perspective. How is Toray positioning its Life Science business and what is the strategy for recovery?

A. We see pharmaceutical and medical devices business as an area that requires strategic incubation. In the meantime, however, it is true we are currently struggling with drug price revisions and the advent of generic versions. As development of new products require cost and time, we expect that we will be in a very difficult position for some time.

The fundamental policy of our pharmaceutical business is so called drug-discovery oriented business which aims to create world-class pharmaceutical products based on Toray's core technology: synthetic organic chemistry and biotechnology. Also, our medical devices business will position emergency care, critical care, and blood purification as well as heart and blood vessel, as the areas of focus and will expand business by improving and expanding indications, and globally deploying existing products in addition to creating revolutionary medical equipment that supports unmet needs using Toray's advanced materials technology.

For example, SATAKE HotBalloonTM Catheter for atrial fibrillation treatment, which is already on the market, is a first-ever revolutionary therapeutic apparatus in Japan. We are currently working to improve its operability, and once that is complete, we think we can proactively expand sales to overseas where approximately 300-billion-yen market is

expected. We are currently working to improve the operability at a fast pace.

In pharmaceutical business, we are undergoing few trials in addition to the nucleic acid drug "TRK-250," which we are developing with Bonac Corporation. Among these trials, "TRK-950," a therapeutic drug for cancer, uses Toray's original antibody created using biotechnology. This antibody finds and attacks the antigens that exist exclusively on the surface of cancer cells. No adverse effect is expected unlike normal oncologic drugs since the antigens only exist on the surface of cancer cells only and not on the surface of normal cells. We have already undergone three years of trial, but no adverse effect is reported. It is truly a revolutionary therapeutic drug for cancer. If all goes smoothly, we hope to apply for approval in the 2020's. We are currently driving clinical development in the United States and France where the development of antibody drugs is most advanced.

We believe that the expansion of pharmaceutical and medical devices business through the expansion of these products will sure to fruit during the next long-term vision and contribute few hundred billion yen in sales and operating income. We hope to start realizing the effect prior to the next medium-term management program period ending 2022, if possible.