

Toray Industries, Inc.

Announcement of Business Results for the
First Quarter Ended June 30, 2019 (Teleconference)

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. In regard to improvement in the terms of trade, the net change in price in FY2018 was -15.9 billion yen. It finally seems to have started showing recovery in this 1Q. Do you think you can maintain the same spread in 2Q?

A. The terms of trade, or as we call it, spread, was negative last year as the rise in raw materials prices was faster than we could pass this price hike on to the selling prices. While we proceeded to pass on the increase to the selling prices, crude oil price came down during January to March 2019 period. Both of these effects brought about the result of 1Q. If the current level of demand continues, we assume the spread to be sustained to a certain extent. However, how much demand we have in 2Q and thereon will have significantly larger impact than the selling price itself.

<Fibers & Textiles >

Q. What is the background reasoning that PP spunbond market condition will recover in 2Q and what is its probability? Also, will the slowdown in shipments of airbags continue for a while? Please explain in detail the current trend of orders for these two products.

A. PP spunbond has undergone significant utilization adjustment since the second half of last year, but we anticipate the utilization rate to recover up to 90% in 2Q. The forecast, therefore, is that the significantly reduced utilization will recover to a state of minor utilization adjustment.

Our forecast is that the airbag market will be weak due to the deceleration in demand from the European and Chinese markets. So we expect production cutbacks to some extent will continue at least up to 2Q.

<Performance Chemicals>

Q. Please explain the trend of electronics related products in performance chemicals segment. Specifically, please explain the growth of battery separator films and the recovery level of optical films, MLCC release films, electronic components, etc. as these products seem to have performed weakly.

A. For battery separator films, we have been adding capacities in the Republic of Korea since FY2018, and these are starting production. The demand itself is expanding mainly around automotive applications. As explained in the beginning of the current term, we expect the shipment volume of battery separator films for this fiscal year to increase by more than 30% compared with the same period a year earlier, and the current growth is in line with this expectation.

With respect to electronic and information materials, MLCC release films is currently in an inventory adjustment phase. It is slightly weak or at the same level compared to what was expected. However, other applications such as electric circuit materials, etc. for LCD TVs and smartphones are performing well. With respect to OLED materials, despite overall demand for smartphones remain at the same level as compared to the same period last year, the switch from LCD to OLED including TVs is accelerating, and this trend has also pushed our sales of materials upward.

Q. Please explain the market forecast of performance chemicals segment for 1Q to 2Q.

A. In the resins business, the demands for mainstay automotive applications and home appliance applications have been sluggish including those aimed at the Chinese market. European demand for automotive applications is also becoming stagnant, belying optimism. On the other hand, the use of our electric circuit materials is increasing as TVs and smartphones move

toward a bezel-less design. As sales of OLED materials for China is also growing strong, we expect that electronic and information materials will maintain momentum as a whole to a certain extent.

Q. It was announced the other day that an additional production facility for battery separator films will be established in Hungary. What was the reason for choosing Hungary over Poland?

A. Regarding the additional capacity in Hungary for battery separator films, our view is that the European market is the focus of automobile-related battery separator films. Until now, China was under the spotlight, but EV conversion of European automotive manufacturers is accelerating as a result of tightening of environmental regulations in EU. Aligning to this, we have decided to establish a plant in Europe. We have production facilities in multiple locations in Europe such as France, Italy, etc. As a result of comparative studies from various aspects, we concluded that the optimal location would be the adjacent area to ZOLTEK Hungarian plant. We plan to start production in July 2021.

<Carbon Fiber Composite Materials>

Q. In carbon fiber composite materials segment for 1Q, how have the profitability of German composite subsidiary and Toray Advanced Composites (TAC, formerly called TenCate) improved? Also, what is the market condition of the raw material, acrylonitrile?

A. TAC is still making a loss in 1Q after amortization of goodwill, etc. This will continue through the first half, but we estimate that TAC will recover to reach close to break even in the second half. In that sense, TAC is on the projected course.

The German composite subsidiary struggled very much in FY2018, but we have assessed that its actual results have slightly improved over the initial forecast made in the beginning of the fiscal year as a result of further production improvement.

The price of the raw material, acrylonitrile, has gone down if you make a comparison to 1Q and 2Q of FY2018, but after a drop in price in January to March 2019, it has bounced back in 1Q of FY2019. We raise our selling price after the hike of acrylonitrile price in 2Q to 3Q of FY2018, and we assess that the result has started to show.

Q. It is understood that in 1Q of FY2018, the German composite subsidiary did not have a significant loss, and TAC was not yet consolidated. In that regard, is it correct to say that the profitability of carbon fiber composite materials business as a whole has improved as a net result of growth in existing aircraft application business and improvement in existing businesses, despite the negative impact on operating profit of TAC and German composite subsidiary?

A. It was from FY2018 2Q onwards that German composite subsidiary's profitability significantly deteriorated, but a slight loss was also recorded in 1Q. In that sense, if you compare 1Q of FY2018 to 1Q of FY2019, it can be said that there was a slight improvement in profitability. With respect to TAC, operating profit for 1Q this year is less if you compare to 1Q of FY2018 as you pointed out. However, the segment's operating profit turned to increase as a result of improvements in each applications: aerospace, industrial, and sports.

Q. The growth in demand for aircraft is understandable. However, demand for carbon fiber seems to remain strong while various industrial applications are weakening in macro conditions. Are there any carbon fiber specific factors such as arising of a particular demand for lighter weight product?

A. There was almost no growth in the carbon fiber market between 2015 and 2016. There was not much growth in 2017 either, but approximately 10% increase in market as a whole was observed between 2017 to 2018. In 2019, wind turbine blade applications that use large tow continued to be strong in addition to pressure vessel applications, which U.S. has a large market, have started to recover.

Q. Given that carbon fiber composite materials segment has been making steady progress in 1Q relative to the first half forecast, are there any risk factors or temporary negative factors that should be anticipated ahead of 2Q? Please explain how this might develop during 1Q to 2Q.

A. In the carbon fiber composite materials segment, there was a positive factor of partial frontloaded shipment of aircraft applications in 1Q. In light of this situation, we are keen to see how the aircraft applications will evolve in 2Q. Also, it is possible that foreign exchange fluctuation will impact profitability as majority of carbon fiber composite materials business is done in U.S. dollar.

Q. What is the major contributing factor for the 2.7 billion yen improvement in operating income of carbon fiber segment from 4Q to 1Q?

A. Of the 2.7 billion yen net improvement, 3.0 billion yen came from the overseas subsidiaries' improvement. European composite subsidiary's profitability improvement makes up most of this 3.0 billion yen.

<Life Science>

Q. There was a newspaper report stating that DNA Chip will aim for early drug application by the end of 2019. I understand that the chip is for pancreatic and biliary tract cancers for the time being. How convinced are you of the success of the chip? I understand that the chip will be able to detect thirteen types of cancers. What possibilities can we expect?

A. The strong point of our DNA Chip is that it has high detection sensitivity based on a proprietary technology. Due to this reason, our micro RNA analysis earns high evaluation. The pancreatic and biliary tract cancer inspection kit that uses the DNA Chip was designated as an item to be reviewed under Health, Labour and Welfare Ministry's Sakigake Designation System, on April 8, 2019. With the ministry's guidance, we are currently undergoing development with the aim to achieve early drug application. Although there was a news report of a test drug that detects 13 different cancers, this announcement was not made by Toray. We are basically developing a chip for pancreatic and biliary tract cancers.