Toray Industries, Inc.

Announcement of Business Results
For the 2Q and Six Months Ended
September 30, 2019

Transcript

November 7, 2019
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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 details of the expected increase in operating income from the first half to the second half.

A. In July, we assumed August forecast will be roughly in line with the budget and the first half estimate of 70 billion yen will be almost certainly achieved. This has been shared in the announcement of 1Q business results in early August. Then, punitive duties were announced which were to be imposed on China, in late August, which significantly deteriorated the August and September market condition. Given the situation, we have undergone extensive cost reduction, which reduced sales, but enabled us to meet the initially forecasted operating income of 70 billion yen.

As a result of revising the second half forecast, we have incorporated a decrease in sales but no significant revision has been made to the cost side despite our anticipation to take various measures. We will firmly continue with our cost reduction similar to those implemented in August and September and will keep our guards up to ensure cost reduction given that we experienced substantial decline in sales and profit in the 4Q of FY2018.

Q. What do you have in mind for the next medium-term management program?

A. While we will continue to proactively expand the business, we will also have to clearly define the targeted capital efficiency before addressing any challenges. Not all capital investments we made during the past 3 years have achieved profitability. We position the next 3 years of the new medium-term management program to reap the result of these investments. On the other hand, there are those businesses that we will actively make investments in accordance with market growth. We are creating the medium-term management program so as to maintain the overall balance. We will also continue to extensively strengthen cost competitiveness.

<Fibers & Textiles>

Q. Understanding that the overall demand for Fibers & Textiles business is weak, please explain how you have incorporated major products such as garments, airbags, and PP spunbond into the first half and the full year forecast.

A. In the garment business, shipment of autumn/winter products was significantly frontloaded especially during the 2Q of last fiscal year due to the severe winter a year earlier. In reaction to this, however, the shipments significantly decreased compared to the same period a year earlier since we experienced a warm winter last year. In regards to airbags, despite the current steady expansion, there are concerns on the outlook as the growth of automobile production is slowing down. In regards to PP spunbond, sales expanded steadily up until the first half of FY2018, but the growth has slowed down due to economic downturn in China and the competition becoming more severe. The increased capacity has not been in full utilization either. Inventory adjustment is finally near completion; we have been continuing production adjustment since the second half of FY2018.

<Performance Chemicals>

Q. How was the increase in operating income and trend of shipment volume in the first half for battery separator films in the Performance Chemicals segment? Also, understanding that slowdown in the battery separator films sales has contributed to the revision of the full year forecast, is the delay in major customers' launching of factories in Europe causing this revision? Furthermore, what is your expectation on the demand growth rate of battery separator films in 2020 and onwards?

A. The delivery volume of battery separator films in the first half of FY2019 increased approximately 20% compared with the same period a year earlier. There is no significant change in price between 1Q and 2Q. The growth rate of battery separator films shipment volume for automotive application turned sluggish compared to what was expected, due to a slowdown in growth of EV unit sales mainly in China. The growth of automotive application has slowed down than expected, as the demand for automobiles such as EV deteriorated, due to trade friction between U.S. and China and worsening of China's economic climate. Consequently, this has led to inventory adjustment in LiB manufacturers. Shipments for consumer applications is also suffering due to trade friction between U.S. and China. Despite increase in shipment volume, temporary inventory adjustment is being made as a result of slowdown in growth for battery separator films. Although we forecasted at the beginning of this term 30% increase in sales volume for the full year compared to the same period a year earlier, this could drop down to around 10% depending on circumstances. There is no doubt that the effect of trade friction between U.S. and China and whether China's economic climate will recover are of great importance, but we do not expect these to recuperate any time soon.

<Carbon Fiber Composite Materials>

Q. It was announced that the production rate of Boeing 787 will be reduced to12 aircrafts per month from the current 14 aircrafts per month beginning in late 2020. What is your view on the impact that will have on Toray's performance and/or supplying of materials?

A. We have not been officially informed about the 787, so we will not be able to comment, but there should be no impact on Toray's FY2019 performance. If the production rate will be reduced in late 2020, this should start to impact our supplying of materials about 6 months prior to the actual reduction. We expect that the biggest impact will be seen in 2021 to 2022, which falls in the next medium-term management program period.

During the next medium-term management program period, we are committed to work on the following themes: realize synergy with TAC, further expand its business and improve production efficiency, expand sales and profits by improving quality and production efficiency of ZOLTEK's large tow. In a way, Toray has been solely dependent on the sales of aircraft applications until now, but by taking in ZOLTEK's large tow and TAC's thermoplastics, we will be able to expand all applications moving forward. We have undertaken M&A or capital investments in order to carry forward the plant to significantly expand the business utilizing customers, applications, and supply chain of both companies. We feel that we will be able to take a massive step forward in expanding the business by completing these measures during the next medium-term management program period. The impact of production rate reduction may not be small, but we feel that the level of impact can be reduced if we start acting now.

Q. Please explain the improvement in operating income of the German composite subsidiary.

A. The German composite subsidiary has successfully achieved a stable production composed of mainly local employees enabling prompt product delivery since April 2019. In terms of operating income, we are forecasting significant decrease in loss compared to the same period a year earlier as cost reduction through self-help efforts such as streamlining of personnel has been underway.

Q. Please tell us about Toray Advanced Composites (TAC).

A. We are expecting significant increase in sales of TAC due to realization of synergy between Toray and new customer acquisition as mentioned earlier. We are expecting positive operating income after amortization of goodwill, etc. for the second half, but forecasting a deficit in the single-digit billion yen range for the full year. However, the overall result is expected to reach profitability in FY2019 as a result of replacing carbon fiber composite and resin materials to Toray products.

<Life Science>

<u>Q. What is your plan in regards to the business model and global roll-out of DNA chip?</u>

A. DNA chip inspection kit for pancreatic and biliary tract cancer has been approved on April 2019, for Health, Labour and Welfare Ministry’s Sakigake Designation System and is currently being developed in aim to apply for drug application as soon as possible. This is a high impact technology gaining much attention, as it enables high accuracy in the 90th percentile with a drop of blood to detect cancer. However, the technology needs to be established in full including method of handling diagnostic reagents and blood samples as the detection is highly sensitive. In order to establish an inspection with high accuracy, we are ready to slightly extend the development period to reach higher perfection level before applying for drug application.