Toray Industries, Inc.

Announcement of Business Results for the
Fiscal Year Ended March 2020 and
Business Forecast for the Fiscal Year
Ending March 2021
(Teleconference)

Transcript

May 28, 2020
Akihiro Nikkaku, President

<General>

Q. Given that core operating income is expected to decrease in FY 2020 by 55 billion yen compared to the previous fiscal year, please indicate rough numbers by factors such as difference in quantity, net change in price, and cost variance.

A. The difference in quantity is significantly positive but the minus of the net change in price and cost variance is expected to cancel out the plus created by the difference in quantity. In addition to this, the impact of COVID-19 is a significant factor for the decrease in core operating income.

Q. In the mid-term management program briefing, it was mentioned that capital investment will be made from a long-term perspective and will not be suppressed. Do you intend to apply this idea from the start of FY 2020?

A. Some construction work is being delayed due to the impact of COVID-19. We will keep watch of the situation as the demand trends are changing so as to make the capital investments accordingly with optimization of cash flows in mind.

<Fibers & Textiles>

Q. What is the status of the mainstay integrated garment products, non-woven fabrics, and airbags in FY 2020?

A. The business format that integrates fibers to textiles to final products is under intensely difficult situation due to the impact of COVID-19 and the warm winter. We will commence production of airbags at a new location. We will also start production of PP spunbond at two locations. The demand for mask applications is growing.

<Performance Chemicals>

Q. Please explain the reason for forecasting an increase in core operating income despite decrease in revenue for FY 2020?

A. We forecast that a significant part of the increase in core operating income is mainly due to electronic and information materials. We will seek to expand sales of OLED related materials leveraging the wider adaptation of OLED in smart phones and TVs. The impact of COVID-19 is less in this area and therefore should contribute towards increasing core operating income.

Q. What is the volume growth rate of battery separator films in FY 2019 compared to the previous fiscal year? What is the expected growth this fiscal year?

A. We initially anticipated growth in FY 2019 but resulted in 5% decrease in volume compared to the previous fiscal year. Impact of COVID-19 is anticipated for FY 2020.

<Carbon Fiber Composite Materials>

Q. Is a significant loss for FY 2020 in this segment expected because of the decrease in production volume of the primary customer?

A. Prior to the impact of COVID-19, we anticipated decrease in operating income to the level of FY 2018 due to the combination of reduced production of our primary customer which was announced in January and stronger yen as well as optimization of stock, increase in development costs, etc.

We expect the impact of COVID-19 to be minus 20 billion yen. We have estimated shrinking of the carbon fiber market due to further reduced production among our primary customers which was announced in April and various COVID-19 impacts including sluggish economies, reduced production or grounded aircrafts of customers in Europe and the United States, reduced demand in industrial applications due to drop in crude oil price, and significantly reduced production of OEMs in Europe and the United States impacting automotive applications.

We have incorporated both the negative impact of crude oil price drop and COVID-19 related minus 20 billion yen as well as measures to counter these such as cost reduction, cutting of fixed costs, etc. to come up with a FY 2020 forecast of minus 12 billion yen in core operating income.

In the aircraft applications, we are looking to use this opportunity to thoroughly review the global production structure and to quickly compile an execution plan so that we can drive efficiency in the production system and strengthen the corporate structure by the end of this fiscal year.

Although we have largely incorporated into our forecast the shrinking carbon fiber market, the demand for large tow used in wind turbine blade applications is extremely strong. Especially with Zoltek, new capacities are sequentially being added since February of 2020 and these will be utilized to full capacity. Also, there is a demand to replace glass fiber to carbon fiber composite materials in offshore wind power generation. We will exhaustively seek to make up for the loss in other applications.

Q. Prior to being affected by COVID-19, it was explained that synergy with TAC will be pursued in FY 2020 and that roll-out to alternative applications will be sought for if the primary customer reduced its production. What is the current status?

A. We continue to cooperate with TAC to expand applications that utilize TAC's special heat resistant resin or thermoplastic compound technologies. In addition to this, we have launched a project team composed of CMA, Zoltek, and TAC this time to accelerate synergy realization. As the demand for aircraft applications can be foreseen to a certain extent, we will ensure to re-evaluate the utilization of each machine to match those demands. For some industrial applications, we will utilize the production lines for currently growing applications such as wind turbine blades. We will also forge ahead with what you might call an overall re-engineering. We wish to draw up individual plans by product types and proceed with establishing the necessary structure by the end of the fiscal year.