

Toray Industries, Inc.

Announcement of Business Results for the
Third Quarter Ended December 31, 2023
(Teleconference)

Transcript

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Descriptions of predicted business results, projections, and business plans 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.

<Fibers & Textiles>

Q. Please let us know about the trend in apparel applications, airbag textiles, and microfiber fabric with a suede texture.

A. In the apparel applications, for 2023 spring/summer, sports, fashion, and casual applications were strong, as demand recovered from the COVID-19 pandemic. However, apparel companies are careful about making orders for 2024 spring/summer. As for markets outside Japan, in Europe, sales at stores continue to be sluggish due to the prolonged conflict between Russia and Ukraine and rise in prices. In North America, some apparel brands are strong, but generally, apparel applications continue to be in an adjustment phase. Regarding the sales of textiles outside Japan, sales for 2024 fall/winter has already started. Sales to North America is on a recovery trend, but sales to Europe remains slow. Garment-related operations are steady. In the 3Q, sales of outdoor and casual wear increased in Japan, therefore, we expect sales of outdoor applications to the U.S. and Europe will also increase in the 4Q.

Sales of airbag textiles in the 3Q increased compared with the same period of the previous fiscal year, due to alleviation of semiconductor shortages. We also expect an sales increase in the 4Q year on year.

Sales of microfiber fabric with a suede texture was strong in the first half of this fiscal year, but EV applications was slightly slow in the 3Q. Eventually, it resulted in a small decrease year on year. For the 4Q, we forecast that sales of microfiber fabric with a suede texture will be the same as the 3Q, stemming from uncertainty caused by inflation in the U.S. and Europe, as well as real estate recession in China.

<Performance Chemicals>

Q. What is the reason for the 2.7 billion yen increase in core operating income from 2Q to 3Q?

A. In the resins business, shipment from Toray increased due to the recovery of automobile production rate in Japan. In the chemicals business, fine chemicals remain strong, although demand in basic chemicals business continued to be slow.

In the film business, demand in PET films for electronic parts are moving slowly toward recovery. Inventory adjustments at major customers in Japan, which continued through the first half, has almost finished in the 3Q, and our shipments are on a recovery trend in line with the demand increase. Meanwhile, our PET film subsidiaries in the U.S. and Europe were affected, especially by worsened market conditions of industrial materials. In the battery separator film business, sales of automobile applications decreased in the 3Q, as production of some models which use our products ended ahead of schedule.

In the electronic & information material business, sales of OLED materials expanded, against the backdrop of production increase of small and mid-size OLED panels for smartphones. Circuit materials at our subsidiary in South Korea were in slightly difficult situation, as it was affected by the delay in recovery of demand for large LCDs for TV.

Q. Please let us know about the forecast from 3Q to 4Q.

A. We forecast a 2.3 billion yen increase in core operating income from the 3Q to 4Q.

In the resins business, automobile applications are expected to remain strong. In the chemicals business, fine chemicals are expected to be softened compared with the 3Q.

In the Film business, we expect to see further recovery in the 4Q, as inventory adjustment of PET film at customers has completed in the 3Q. Our film subsidiaries in the U.S. and Europe, which were sluggish in the 3Q, also expect recovery of demand from some customers. In addition, we expect increase in profit for these subsidiaries from the progress in the profitability improvement project. As for battery separator films, the consumer applications are slow, but in automobile applications, although production of some models that use our products have ended in the 3Q, we expect sales for new models in the 4Q.

Regarding the electronic & information material business, OLED materials is forecasted to be slightly weak as some orders were frontloaded in the 3Q. As for the circuit materials at our subsidiary in South Korea, we expect a low operating rate at our customers (panel manufactures) will continue in the 4Q.

<Carbon Fiber Composite Materials>

Q. Regarding aerospace applications, please let us know about the change in the production rate of a major customer and the impact of the problem seen in the customer's small aircraft model.

A. In the aerospace applications, there is no significant difference from our assumption in the 2Q and the production rate is on a recovery trend. The major customer announced in its financial results of the 4Q of FY 2023, that the plan to raise the production rate is unchanged.

As for the problem in the small aircrafts, although some of our carbon fiber is used in the model, since the model is small and carbon fiber has only a limited number of application areas, the impact on our business performance is small.

Q. What is the background of increase in revenue but decrease in core operating income from the 3Q to 4Q?

A. We expect increase of 12.5 billion yen in revenue and decrease of 0.6 billion yen in core operating income from the 3Q to 4Q. In the 3Q, demand in industrial applications was slow and the inventory level reached high. Therefore, we plan to decrease production in the 4Q. The cost increase from the decrease in production is expected to cause the decrease in core operating income.

Q. Please let us know about the business climate of the industrial application.

A. As for wind turbine blade applications, offshore wind power generation projects are still sluggish, and currently, it seems that it is not on the expansion trend. Full-fledged

recovery is expected to come in FY 2025 or beyond.

Regarding industrial applications other than wind turbine blade, demand significantly declined in the Chinese and other Asian markets in the 3Q. As for pressure vessels in the U.S. and Europe, which were strong in the first half, demand softened due to inventory adjustment in the supply chain. We believe that the inventory adjustment of pressure vessels is temporary, and we expect demand recovery in the 4Q. Our expectation is that inventory adjustment for the industrial applications will be completed within FY 2024 and that demand will gradually increase.

<Environment & Engineering>

Q. Please explain the forecast of this segment in the 4Q.

A. In the Environment & Engineering segment, domestic engineering subsidiaries, construction subsidiary, and water treatment engineering company progress construction toward the end of the period, so profits tend to be concentrated in the 4Q.

As for the water treatment business, reverse osmosis (RO) membrane for the U.S. and the Middle East is expected to remain strong. The engineering subsidiaries expect progress of plant and factory automation (FA) construction projects as well as expansion of shipment in electronics-related equipment.