

Briefing Session for Medium-Term Management Plan: Q&A Summary

Date/Time: Wednesday, May 22, 2019, 10:00–11:30 a.m.

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Presentation Material:

https://www.ube-ind.co.jp/ube/en/corporate/management/keiei_prime_phase_2019_en_19061410.pdf

General Management

- Q1. What is your assessment of the efforts of active growth businesses under the previous medium-term management plan?
- A1. It is my understanding that the active growth businesses generally executed what needed to be done despite various changes in business conditions, and achieved a certain amount of results. For example, the separators and nylon businesses have progressed according to schedule.
- Q2. What is the portfolio segmentation for the ¥10 billion increase in operating profits under the current medium-term management plan?
- A2. Roughly 60% is from active growth businesses, around 10% from developing businesses, and the rest from platform businesses.
- Q3. Regarding developing businesses, am I correct in understanding that rather than continuing to direct resources at these businesses, the basic approach is to have these businesses contribute some net sales and profits by the closing stages of the current medium-term management plan?
- A3. Developing businesses take some time. Accordingly, it is my understanding that these businesses will only generate a certain degree of profits during the current medium-term management plan, and that they will increase their profits during the next medium-term management plan.
- Q4. In the R&D expenditures, what are the platform businesses for chemicals?
- A4. In addition to pharmaceuticals (which are positioned as a platform business), there are also development expenditures for elemental technologies that are common to the businesses.
- Q5. For the capital investment and other investments, shouldn't more investment be reserved for active growth businesses?
- A5. The investment in active growth businesses has increased compared with the previous medium-term management plan. However, in order for the platform businesses to continue to anchor our business, we must invest in a certain amount of maintenance and upgrades, in order to realize stable operations and reduce avoidable losses.
- Q6. UBE's chemicals, construction materials, and machinery businesses each have different characteristics. When viewed from the perspective of maximizing value for shareholders and stakeholders, is this composition ideal?
- A6. The current composition was shaped by history events, rather than reflecting an ideal vision for the company that was formed at the time.

While we will continue to study the optimum business composition, the machinery business will need to operate independently in various facets of the business. This is because the machinery business is different from the chemicals and construction materials businesses, which are characterized by large-scale, continuous mass production.

Chemicals in General

- Q7. The operating profit projections call for modest growth in the first three years (¥24.6 billion in fiscal 2018, ¥26.5 billion in fiscal 2019, and ¥27.0 billion in fiscal 2020). This jumps to ¥32.0 billion in fiscal 2021. What is the reason for this?
- A7. From fiscal 2019–2020, we will increase the production capacity for separators and implement various other strategies. We expect to realize the benefits from these strategies in fiscal 2021.
- Q8. The fiscal 2018 earnings were held back by issues with the production platform including production issues at the ammonia plant. What future measures will you take, and what is your message both internally and to those outside the company?
- A8. We have formed a project to address and eliminate avoidable losses including production issues. We are also taking the improprieties in quality inspections and discovery of foreign materials in our products seriously, and are pursuing company-wide initiatives to rebuild our quality assurance systems.

Chemicals: Nylon, Caprolactam

- Q9. What is your approach to the supply and demand situation and spreads for caprolactam under the current medium-term management plan? I hear that Chinese producers of caprolactam faced shortages of raw material cyclohexanone that limited their caprolactam output, and that cyclohexanone producers are planning to increase their production capacity.
- A9. For fiscal 2019, we assumed spreads of \$1,100. We expect that spreads will remain at this level moving forward, due to ongoing government enforcement of environmental regulation. However, our view of the business conditions remains unchanged. We will continue to position caprolactam as a raw material for nylon and increase the captive consumption rate for caprolactam, in order to further stabilize revenues from the nylon chain as a whole.

Chemicals: Polyimides

- Q10. If varnishes grow more than films moving forward, will it improve revenues for the entire business?
- A10. We do not expect the profit margin to change significantly due to growth of varnishes.
- Q11. The projections call for little growth in net sales of films, yet UBE will invest in starting up a production line for films (page 34 of the briefing material). What is the reason for this?
- A11. We will start up facilities that were previously installed at the Sakai Factory. It does not involve building a new large-scale film plant.
- Q12. UBE has established an equity method joint venture with Samsung for OLED applications. Will the joint venture affect the growth of equity method investment profits under the current medium-term management plan?
- A12. Currently, the polyimide market for smartphone applications is slow, so we do not expect the joint venture to make a significant contribution to the investment gain on equity method. On the other hand, we are seeing a significant increase in inquiries for varnishes from Chinese companies, so we will try to increase operating profits by selling varnishes to Chinese companies.

Chemicals: Battery Materials

- Q13. UBE changed the framework of the joint venture with Maxell, by shifting its coated separators business to Ube Maxell Kyoto Co., Ltd., which is an equity method subsidiary. Am I correct in understanding that while this will cause operating profits to decrease slightly, ordinary profits will steadily increase?
- A13. While operating profits will temporarily decrease in fiscal 2019, ordinary profits including investment gain on equity method are projected to be consistent. We intend to resolve this by increasing profits in fiscal 2020 and beyond.
- Q14. With the capacity of automotive lithium-ion batteries (LiBs) increasing, the level of interest in UBE's dry process, three-layer separators must be increasing from a safety perspective. Are you receiving more inquiries?
- A14. Manufacturers of automotive LiBs continue to rate our dry separators highly for safety and high-rate performance. The forecasts that have been given to us by our customers indicate that volumes will steadily increase moving forward. We are increasing our production capacity accordingly.

Construction Materials

- Q15. Cement demand in Japan is declining, yet the projections call for profits to increase in the next three years (page 41 of the briefing material). Does this mean that UBE will realize benefits from implementing various strategies over the next three years, which will make up for the decline in cement demand in Japan? Or does it mean that UBE will maintain profits by raising cement prices, even as cement demand in Japan declines?
- A15. We expect to adjust cement prices to some degree. In addition, coal prices are stabilizing, and we will improve our profit levels through cost reductions and by increasing revenues from waste processing. We also think that Ube Material Industries, Ltd. will be able to expand its business centering on magnesia.

Shareholder Returns

- Q16. The balance sheet has improved considerably in the last three years. Will you work to further improve UBE's financial position over the next three years? Are there targets for the debt-equity ratio and shareholders' equity? Also, the consolidated total return ratio is set at 30% in the current medium-term management plan, but it seems like there is slightly more room for shareholder returns.
- A16. We achieved a debt-equity ratio of approximately 0.5 times and shareholders' equity in the 40th percentile range. We will not set out to further improve the financial position. We will need to make a choice between using the cash flow for capital investment and other investments, or use it for shareholder returns including the purchase of treasury stock.