

Q&A Summary

Presentation of Financial Results for FY2020 and the Management Plan for FY2021

Date: April 27, 2021

About results for FY2020 and FY2021 plan

Q: (Pages 29 and 30 of the presentation slides) Net sales of the HPP Company as a whole and in each of the three strategic fields in the 2H of FY2020 exceeded forecasts announced in January 2021. At the same time, operating income was in line with plans. Were there any fields or businesses that fell short of operating income plans?

A: We had to suspend operations at certain production bases due to the cold wave that hit North America in February. Owing to the shipment of inventories in response, fixed costs exceeded plans in line with the downturn in inventory. Turning to the three strategic fields, operating income from SEKISUI AEROSPACE CORPORATION in the Mobility field as well as in the Building and Infrastructure field fell slightly below plans.

*HPP Company : High Performance Plastics Company

Q: (Page 35 of the presentation slides) Are you contemplating passing on the impact of rising component expenses on Housing Company results to product prices? In addition, are you concerned that a shortage of timber will cause production to stall, even if temporarily?

A: Despite the impact of rising steel prices, which is especially large, we are not contemplating passing on to product prices. We will look to mitigate the effects through various measures including cost reductions. Timber prices are also rising, but there has been no shortage so far that has caused production to stall.

Q: (Page 41 of the presentation slides) As far as the UIEP Company's FY2021 plan is concerned, to what extent will you be able to offset upswings in the cost of PVC resin, a raw material, through adjustments to product prices and other measures?

A: We anticipate a slight time lag between upswings in raw material costs and increases in product prices fully taking effect over the full FY2021 period. While working swiftly to expand increases in product prices, we will look to offset high raw material costs through cost reductions at the same time.

*UIEP Company : Urban Infrastructure & Environmental Products Company

Q: (Page 9 of the presentation slides) What are the factors behind the decrease in profit in the Other and Eliminations and Unallocatable Accounts under the FY2021 plan?

A: In FY2020, fixed costs declined roughly ¥14 billion year on year owing to such factors as structural reforms and the containment of costs including impediments to conducting sales activities attributable to COVID-19. Of this total, approximately ¥6 billion was due the constant effects of reductions. Moving forward, we intend to use this amount for Group-wide growth investments in FY2021. In addition to such environment-related investments as energy conservation equipment as well as other investments in biorefinery commercialization and DX, the money saved through reductions will be used to strengthen efforts aimed at identifying M&A opportunities.

About demand forecasts in the three strategic fields of the HPP Company, etc.

Q: (Page 31 of the presentation slides) As far as the expansion of sales of high-performance interlayer films is concerned, sales volumes in both the 1H and 2H of FY2021 are projected to be lower than the 2H of FY2020. Isn't this a rather conservative forecast?

A: With the low level of automobile manufacturer inventories owing to such factors as production stoppages caused by COVID-19 in the 1H, sales volumes were quite high in the 3Q of FY2020. Moreover, sales of high-performance interlayer films were robust in the 4Q. This largely reflected the buildup of inventories across the entire automotive supply chain on the back of concerns surrounding semiconductor shortages. In addition to maintaining sales volumes in both the 1H and 2H of FY2021 at the same level as the 2H of FY2020, which was robust, we will focus especially on expanding sales of products for use in head-up display (HUD) systems and improve the product mix.

Q: (Page 30 of the presentation slides) How long do you expect the impact of semiconductor shortages on automobile production will last?

A: We anticipate the impact will continue through to around the 3Q of FY2021.

Q: (Page 30 of the presentation slides) What products other than interlayer films do you expect to expand sales in the Mobility field in FY2021?

A: We expect to expand sales of heat release materials for automotive use and plan to increase sales volumes by around 30% year on year in FY2021. We also plan to expand sales of exterior parts in India.

Q: (Page 30 of the presentation slides) To what extent will the downturn in automobile production attributable to the shortage of semiconductors impact results in the Mobility field?

A: The downturn in automobile production attributable to the shortage of semiconductors is estimated to come in at around 1.5 million unit globally in FY2021. We believe this will have a negative impact of roughly ¥1-1.5 billion on the Company's operating income.

Q: (Page 31 of the presentation slides) Which products are expected to exhibit especially large sales growth in FY2021 in the non-LCD Electronics field? In addition, what are the reasons for the forecast lack of sales growth from the 2H of FY2020 and over the 1H of FY2021?

A: Products that are expected to exhibit especially large sales growth in FY2021 include various products for semiconductors, PVB resins used in binders for multilayer ceramic capacitors (MLCCs), and heat release materials. Projecting a buildup of product inventories across the entire electronics-related product supply chain on the back of concerns surrounding a shortage of semiconductors in the 2H of FY2020, we are planning for certain amount of inventory adjustment in the 1H of FY2021.

About demand forecasts for business in the aircraft field

Q: (Pages 30 and 42 of the presentation slides) What is your outlook for businesses in the aircraft field in FY2021?

A: In formulating an earnings plan for SEKISUI AEROSPACE CORPORATION, a part of the HPP Company's operations, we have taken into account assumptions regarding demand that are slightly more conservative in the 1H and essentially in line with the production plan put forward by Boeing, a major customer in the 2H. Accordingly, we are anticipating an overall recovery from the 2H. In the aircraft sheet business of the UIEP Company, despite experiencing a substantial year-on-year decline in FY2020, we expect new aircraft demand in FY2021 will gradually recover over the 2H. However, existing aircraft interior renewal demand is projected to remain at the same level as FY2020.

About the outlook for the housing market and order plans

Q: (Page 36 of the presentation slides) Looking at new housing orders, plans call for a return in the number of orders to the level recorded in FY2019 in FY2021. How will you achieve this plan amid the less than full recovery customer numbers through visits to exhibition spaces?

A: There are two key aspects to achieving the plan. One aspect is that the number of visitors is exhibiting a recovery trend. Coupled with ongoing efforts to strengthen customer traffic via the WEB, we anticipate securing a year-on-year increase in the number of customers. The other aspect is our success in securing sufficient inventory of ready-built houses where we will focus especially on expanding sales.

About the outlook for UIEP Company domestic demand

Q: (Pages 40 and 42 of the presentation slides) What is your outlook for domestic construction-related demand in FY2021?

A: While expecting a slow recovery in demand for small and medium-scale non-residential renovations (stores, hotels, other), new demand related to large-scale construction projects is anticipated to emerge over the 2H of FY2021. In addition, demand trends in the public sector are estimated to remain firm focusing on the replacement of aging infrastructure.

About Other businesses

Q: The revised draft of the Corporate Governance Code, which stipulates in part that at least one-third of a company's board of directors must comprise independent outside directors, was released on April 6. SEKISUI CHEMICAL Group does not meet this requirement. How do you plan to address this issue in the future?

A: Currently, the Company's Board of Directors is comprised of 10 members, three of whom are independent outside directors. We recognize that this fiscal year is the result of placing the right people in the right places. We are considering our response from the next fiscal year and are in the process of searching for a suitable person to appoint as an independent outside director.