

Q&A Summary

Presentation of Financial Results for the 1Q of FY2021

Date: July 29, 2021

About the impact of an upswing in raw material costs

Q: Trends in raw material costs are expected to remain harsh in the 2Q. What kind of response and conditions are expected in each segment for the second half?

A: The HPP Company will look to increase selling prices, reduce costs mainly through supply chain innovation, and improve marginal profit by shifting to high-performance products. The thought here is to offset the upswing in raw material costs through these comprehensive measures. The UIEP Company will increase selling prices thereby securing a spread against raw material costs. Should raw material costs continue to rise in the 2H, steps will be taken to secure further spreads between selling prices and raw material costs, reduce costs, and improve marginal profit focusing on prioritized products. Despite the impact of price hikes in steel and lumber, the Housing Company's basic policy is to reduce costs through various measures including leveling out factory production and pushing forward existing initiatives such as the integration of production rather than first passing onto selling prices.

*HPP Company: High Performance Plastics Company

*UIEP Company: Urban Infrastructure & Environmental Products Company

Q: Is it difficult to fully pass on increases in raw material costs to selling prices in the Mobility field?

A: Basically, the idea is not to pass on the entire increase in raw material costs to selling prices, but to offset through a combination of measures including cost reductions and improving the product mix.

Q: Recognizing the difficulty in passing on increases in costs to selling prices, will the Housing Company adopt a product strategy or direction such as raising the average price?

A: The Housing Company is planning to release new Smart House products to commemorate its 50th anniversary. The Housing Company may also work toward increasing selling prices while at the same time providing new added value.

About the outlook for HPP demand in the three strategic fields and other matters

Q: The HPP Company has upwardly revised its operating income forecast ¥1.9 billion. Which of the three strategic fields will drive this improvement? Moreover, raw materials as well as sales volume and product mix are creating a negative effect. Which of the three strategic fields is the most affected?

A: Contributions from the Electronics as well as Building and Infrastructure fields toward the upward revision are expected to be high. High raw material costs are projected to have the greatest effect on the Mobility field. We also anticipate that the Mobility field will be significantly affected by shortages in semiconductor supply.

Q: In the Electronics field, non-LCD sales are expected to grow from the 1Q to the 2Q, while liquid crystal sales are exhibiting slight downward trend. Taking into consideration weak smartphone-related demand in China, what is your outlook for liquid crystal and non-LCD conditions?

A: While trends in liquid crystal panel demand are relatively firm, conditions are showing signs of slightly weakening especially in the China-related smartphone market. As a result, sales in the 2Q are not expected to be as strong as in the 1Q. In contrast, rather than experiencing a weak trend, results in the Non-LCD field were steady in the 1Q. In fact, we anticipate sales will further expand from the 2Q.

Q: What are your thoughts on semiconductor as well as 5G-related material trends?

A: Trends in processing and other materials are firm on the back of strong semiconductor demand. As far as 5G-related materials are concerned, we believe that robust liquid crystal results, especially in the 1Q, were due to relatively firm shipments for 5G-compatible smartphones.

Q: Has there been any downturn in demand as a result of such factors as lockdowns in India?

A: Although operating rates for Mobility-related components manufactured in India have declined slightly, trends in CPVC demand are relatively firm.

Q: Have you been able to maintain your share in the interlayer film market?

A: Yes, we have

Q: Regarding aircraft materials, domestic flights are making quite a comeback in for example China and Europe. It would appear that aircraft demand is recovering. However, your forecast for the 2Q remains harsh. Does this reflect your outlook on future demand?

A: Demand for domestic flights is indeed recovering. In the case of SEKISUI AEROSPACE CORPORATION, however, a large portion of the company's shipments are for international aircrafts. In this regard, international flights are yet to recover. Our business plans are based on the assumption that conditions will remain difficult. We intend to offset these ongoing difficult conditions through structural reforms and pioneering applications outside the aircraft field.

About the outlook for the housing market against the backdrop of the COVID-19 pandemic and the probability of achieving business plans

Q: As far as the housing market is concerned, do you expect to achieve plans despite the declaration of a state of emergency in Japan in the 2Q?

A: Although a state of emergency has been declared, we believe that demand for housing itself is steadily recovering. On this basis, we remain confident that 2Q forecasts are more than achievable. Last year's 2Q saw a recovery from the impact of COVID-19 in the 1Q. In fact, 1Q demand was pushed forward to the 2Q. For the same reasons, growth in the 2Q this year appears a little weaker than the 1Q. We anticipate housing demand itself will remain strong.

About the outlook for COVID-19 diagnostic kit demand in the Medical Business and other matters

Q: The Company released a new COVID-19 diagnostic kit in Japan in July. While the market expanded in the 3Q of FY2020, growth was limited in the 4Q. What is your outlook for future demand?

A: The antigen testing kit that we released to the market is distinguished by its short and simple operating method, which facilitates on-the-spot determination. We expect this new product will meet demand for testing at clinics and other medical facilities that do not have their own diagnostic capabilities, as well as testing for large crowds at events and other public gatherings. While demand for testing kits will decline as vaccination rates increase, we believe there is still room for increasing sales thanks to the product's distinguishing feature, namely the short time required for testing.