SEKISUI

Q&A Summary

Presentation of Financial Results Progress under Management Plan for the 2Q of FY2021

Date: October 28, 2021

About SEKISUI AEROSPACE CORPORATION

Q: SEKISUI CHEMICAL Group is working to reduce its dependence on the aircraft application field and to diversify its revenue sources. What is your thoughts on a recovery in aircraft demand?

A: We recognize that conditions surrounding the production of aircrafts earmarked for international flights, our principal customer base, will remain difficult for some time, and are looking at a recovery around 2024.

Q: The Company's policy is to significantly reduce the percentage of products for aircraft application between 2020 and 2026. What are your thoughts on profit margins?

A: We believe that we can maintain the same profit margins in the engine and medical markets, where we are promoting other applications, as we do in the aircraft market.

Q: When do you expect SEKISUI AEROSPACE CORPORATION to return to a profit on an operating income basis?

A: While this will depend on trends in aircraft demand, especially for international flights, we are undertaking management reforms with the goal of returning to a profit in FY2024.

Q: Is there any further impairment as a result of this latest impairment?

A: As a result of this latest impairment, the remaining balance of goodwill stands at approximately ¥2 billion. There will be no further loss on impairment in the future.

About the outlook for HPP

*HPP Company: High Performance Plastics Company

Q: Looking at the Electronics field, what are your thoughts on conditions in each of the liquid crystal and Non-LCD fields?

A: We are taking a relatively conservative view toward liquid crystal market conditions compared to the industry consensus, which is looking at market conditions to remain roughly the same as the previous year. In the Non-LCD field, first of all, there is strong demand for products used in the production process of semiconductors, which has grown substantially compared with the previous year. While demand for products used in equipment that utilize semiconductors, such as base stations and data centers, is a little weak, we believe that overall demand will grow, especially in the Non-LCD field.

Q: Sales volumes of automotive interlayer film are projected to return from the 3Q in the Mobility field. What are your thoughts on such factors as cutbacks in automobile production?

A: We anticipate overall demand will remain sluggish until the middle of the 3Q. However, production of luxury cars, where the usage ratio of our high-performance interlayer films is high, is trending at existing levels to a certain extent. As a result, the downturn in high-performance interlayer films has not been as significant as the overall decline in automobile production compared with standard films. We believe that this trend will continue in the future.

Q: Raw material costs for automotive interlayer films are also rising. Is an increase in product prices possible?

A: We announced a price increase in June this year, which certain customers understood and accepted. We will continue to negotiate in a careful and persistent manner.

Q: As far as the Company's assumptions are concerned, naphtha and other raw materials are showing a further upswing of late. Is the business environment conducive to offsetting this upswing through increases in the prices of products and improvements in the product mix should raw material costs increase in excess of expectations during the period under review?

A: We will continue to focus on increasing selling prices, cost reductions including productivity improvements, and to control fixed costs in a bid to hedge against hikes in raw material costs.

Q: Sales in the Mobility field have been upwardly revised from the initial plan (April) of ¥58.4 billion to ¥63.9 billion. While the forecast number of automobiles manufactured has been lowered, sales plans for the Mobility field have been revised upward. Is there any change in such factors as market share?

A: On top of the additional impact of fluctuations in foreign currency exchange rates and the weaker yen, we are expanding sales volumes in the Mobility field in excess of plans, mainly in the area of high-performance interlayer films. This also includes such factors as the recovery in market conditions in India in the Molded Products Business. Another element is the indeed the increase in sales attributable to the upswing in market share.

Q: The high cost of raw materials and fuels is also significant in the Building and Infrastructure field. What are your thoughts on whether or not you will be able to maintain and improve profitability as efforts to adjust products prices progress?

A: Improvements in selling prices are progressing in the Building and Infrastructure field. Global demand is particularly strong for CPVC. We will also continue to improve the selling prices of building materials in Japan against the backdrop of such factors as strong housing market conditions.

About the Housing Company

Q: How did the number of 1H new houses sold in the Housing Business compare with plans?

A: Plans called for the number of new houses sold to increase by 290 as of July year on year. Thereafter, the increase came in at 170. This was largely due to delays in construction of 120 houses owing to long periods of rain mainly in western Japan and the impact of COVID-19.

Q: Looking at the Housing and Renovation businesses, we understand there are delays in the manufacture of housing and other equipment in Southeast Asia due to the shortage of semiconductors. Are there any problems with procurement and what is the impact on business?

A: Certain products including water heaters and kitchens have experienced a slight impact. We are minimizing this impact through discussions with suppliers and the procurement of substitute items. We will continue to share information closely with suppliers and sales departments to identify and address risks at an early stage.

Q: How have you factored in the positive effects of the government's decision to lift the state of emergency and the negative impact following termination of housing loan tax reduction measures in housing orders?

A: While there was a slight rush prior to the termination of housing loan tax measures, activity was less than the period prior to the consumption tax rate hike. For the 2H, we have adopted a stringent approach toward the 3Q in light of the wait-and-see attitude toward extension of the housing loan tax reduction and other factors, uncertainty surrounding the impact of COVID-19, and a drop in the number of visitors below expectations in the 2Q. Taking into account the aforementioned, we revised our order plans for the 2H from 108% to 106%. However, we are projecting a modest overall recovery in customers in the 4Q including the number of visitors and participants in onsite tours and seminars outside WEB-based channels. Orders for the full fiscal year are forecast to exceed the initial plan of 108%. Accordingly, we have upwardly revised to 109%.

Q: Housing orders on a single monthly basis were lower in September than a year ago. How accurate is your assumption that orders in the 2H will exceed the previous year?

A: September saw a YoY decline due to the high level of orders received in the previous year. As far as the 2H is concerned, while the level of orders received in the 3Q of the previous year was high, we expect orders in the 4Q to substantially exceed the previous year. This largely reflects the significant drop in customers from around the end of last year due to the impact of COVID-19.

About the UIEP Company

*UIEP Company: Urban Infrastructure & Environmental Products Company

Q: You are looking to essentially offset the high cost of raw materials in the UIEP Company through improvements in selling prices. How confident are you in achieving this goal and the leadup involved?

A: The impact of increases in raw material costs was felt on two occasions from the 1H. While we were able to offset virtually all of the increase in the first instance, we are working through steps to lift product prices in response to the second raw material cost hike in August and to secure an early conclusion. In light of newspaper reports that certain raw material manufacturers are looking to implement a substantial increase in costs, we will carefully examine all details and then consider an appropriate response.

Q: UIEP Company reports indicate a modest recovery in PVC sheets for aircraft application in the Advanced Materials field. What are the reasons for this recovery?

A: The UIEP Company has indeed reported a modest recovery compared with the previous year. However, the recovery in demand is less than half compared with the levels prior to COVID-19. The UIEP Company's Sheet Business mainly targets the aircraft interior market. We have seen a partial recovery mainly for domestic flight equipment.