

Q&A Summary

Presentation of Financial Results for the 3Q of FY2021

Date: January 31, 2022

About the HPP Company

*HPP Company: High Performance Plastics Company

Q: Your assumption is that net sales in the Mobility field will recover in the 4Q. Is this because of an improvement in automobile production or because the delivery of products will be brought forward ahead of production?

A: While not as much as initially anticipated, automobile production in the 4Q is projected to recover slightly compared with the 3Q. Despite the overall downturn in production, the application of high-performance interlayer films, especially those for head-up displays, is steadily increasing. As such, we believe that net sales in the 4Q will exceed the 3Q, mainly due to improvements in the product mix.

Q: There is also a view that orders and the manufacture of small aircraft are returning in the Aircraft field. What are your thoughts of a recovery in the future?

A: Demand for small aircrafts is in line with or slightly in excess of plans. While SEKISUI AEROSPACE CORPORATION maintains a high ratio of large aircrafts, mainly for international flights, we are yet to see signs of recovery in large aircraft demand. On this basis, results continue to be affected. Turning to the UIEP Company and sheet business, interior materials mainly for small aircrafts are exhibiting a modest recovery. Despite this positive trend, conditions are yet to reach pre-COVID-19 levels.

Q: What is the status of demand and net sales in the Electronics field from the 2Q and over the 2H?

A: While trends in the Liquid Crystal field have also become firm in the 3Q, there are signs of a slight weakness in the number of smartphones manufactured in certain areas owing to the shortage of semiconductor supply. Trends in the Non-LCD field have also been strong since 3Q. In particular, binder resins for MLCCs and processing materials for semiconductors have been extremely robust. We anticipate trends in the Non-LCD field will underpin results in the 4Q.

Q: What has been the impact of high raw material costs and what is the status of price increases?

A: All three strategic fields are being affected. While the impact is especially large on the Building and Infrastructure as well as Mobility fields, improvements in selling prices are progressing steadily in relative terms amid growing demand in the Building and Infrastructure field. In the Mobility field, improvements in selling prices are currently limited, which we see as a future issue. We will continue to engage in tenacious negotiations in the next fiscal year and beyond.

Q: What are your thoughts on trends in areas other than the three strategic fields?

A: In the Industry field, which covers such products as tapes and adhesives, home nesting demand is strong and distribution is brisk. Here, we are seeing an improvement in selling prices.

About the Housing Company

Q: The forecast number of orders has been set at essentially the same level as the previous year. What is your outlook for ready-built houses and subdivision housing sales for the current fiscal year and the order balance for the next fiscal year?

A: While carrying over to the next fiscal year can be a negative factor given their quick turnover, we will be able to expand ready-built houses by steadily securing land. Steady progress is being made to this end. Meanwhile, the plan has also been set to enter the next fiscal year with a year-on-year increase in order balance for housing/rebuilding.

Q: Is the upward trend in prices attributable to price increases?

A: The upward trend in prices is mainly due to an increase in the ratio of zero energy houses equipped with solar (PV) power generation systems and storage batteries. In light of the surge in raw material prices, we recognize the need to consider raising prices in the next fiscal year and beyond.

About the UIEP Company

*UIEP Company: Urban Infrastructure & Environmental Products Company

Q: What is the status of product price increases in light of soaring raw material prices?

A: The price of raw materials has already increased several times this fiscal year. Currently, we are making strong efforts to improve selling prices by an equivalent amount. Continuing these efforts in the 4Q will be a major challenge for the UIEP Company.

Q: Is the business environment conducive to an increase in prices?

A: Virtually all raw materials have seen an increase in price. We recognize that conditions are such that the market has no choice but to accept higher prices.

About the Medical Business

Q: How much COVID-19 diagnostics kits in the US contributed to the current fiscal year? Can we assume this contribution will continue in the 4Q and beyond?

A: COVID-19 diagnostics kits in the US are expected to contribute roughly ¥10 billion in sales this fiscal year with the ratio increasing. The next fiscal year and beyond is unpredictable. The Company is working to replace its COVID-19 diagnostics kits, which are currently sold as an introductory product, with a product developed in-house. In the event of a downturn in volume next fiscal year, we believe we can provide some coverage through high profit replacement proprietary products.

About the decrease in retirement benefit expenses

Q: What is the background behind the decrease in retirement benefit expenses? What is the forecast impact on the next fiscal year and beyond?

A: The reversal of retirement benefit expenses reflects the termination of special contribution payments to the pension fund. In adopting the retirement benefit accounting simplified method, a Group entity (effectively a subsidiary) applied a special accounting method in which contributions to the pension fund were posted as expenses. Failing to meet the requirements of special accounting method following the termination of special contribution payments, the entity resolved to transition to the ordinary simplified method. As a result, an amount equivalent to the excess portion posted as expenses on a past contribution basis will be reversed in the current fiscal year. Based on the aforementioned, the decrease in retirement benefit expenses represents the reversal of a temporary expense that we intend to post in full in the 4Q. There will be no such reversal in the next fiscal year and beyond.