

Q&A Summary

Presentation of Financial Results for the 1Q of FY2023

Date: July 28, 2023

* HPP Company: High Performance Plastics Company

* UIEP Company: Urban Infrastructure & Environmental Products Company

About the HPP Company

Q: What are the factors behind the substantial increase in net sales from the 1Q to the 2Q in the non-LCD Electronics field? Is this increase in line with initial plans?

A: (Kamiwaki) This substantial increase reflects the use of our products in smartphones to be released from the 2H as well as the gradual recovery in binder resins for MLCCs that have been weak for a while during a period of inventory adjustment. Trends are essentially in line with plans.

Q: What are the factors behind the increase in net sales from the 4Q of FY2022 to the 1Q of FY 2023 in the non-LCD field?

A: (Kamiwaki) This is largely due to successful efforts aimed at capturing new opportunities in which our products maintain strength, including such processing materials as protection films for semiconductors.

Q: What are your thoughts on trends in high-performance interlayer film sales by region?

A: (Okano) Trends in Japan and Europe are up YoY. In contrast, sales in China fell YoY, for a total decline of 2% in the 1Q. While anticipating a recovery in the 2Q, we expect YoY sales in China will remain weak compared with other regions.

Q: [Presentation materials P11] Net sales in the Mobility field are projected to increase significantly from the 1Q to the 2Q. What are the principal details?

A: (Kamiwaki) The forecast upswing in net sales factors in improvements in the product mix owing to an increase in the ratio of high-performance interlayer films such as HUD films and other use as well as a recovery in market conditions in China.

Q: Boeing's production rates are increasing and appear to be climbing slightly ahead of schedule. Will this help push up SEKISUI AEROSPACE CORPORATION's results?

A: (Kamiwaki) Production rates are increasing for models that have a major impact on SEKISUI AEROSPACE CORPORATION's business. On the other hand, this has necessitated the need to establish an appropriate production structure. Preparatory steps are being taken to put in place a production structure in the 1H in an effort to generate earnings commensurate with the increased production rate from the 2H.

Q: Heat release material shipments will commence from the 2Q. When can we expect to see the effects?

A: (Kamiwaki) Sales of heat release materials are expected to continue to expand owing to the increased demand for EVs. Taking into consideration the smooth startup of operations at a new plant in North America, the effects are projected to emerge from the 2H.

Q: [Presentation materials PP10-11] Looking at the “Analysis of Operating Profit,” ¥4.0 billion of the ¥4.7 YoY 1H forecast decline attributable to “Sales Volume & Product Mix” is associated with the “Industrial” field. What are the factors behind the substantial decline in operating profit?

A: (Kamiwaki) Foam materials, plastic materials made from foamed PE or PP, are used across a wide range of fields, including construction materials, tape base materials, and electronics materials. While these underpin earnings in the Industrial field, operating profit was significantly impacted by the downturn in demand particularly for general-purpose foam materials in Europe.

About the Housing Company

Q: [Presentation materials P4] What are the factors behind the substantial drop in exhibition visitors (85% YoY in the 1Q) and the recovery to 99% in the 2Q?

A: (Kamiwaki) I believe that customers adopted a wait-and-see approach toward purchasing a home in the 1Q owing to the impact of inflation. Turning to the 2Q, the number of visitors has increased since the Golden Week holidays in June. Should this pace continue, I expect the number of visitors will return to around the same level as the corresponding period of the previous year, which was not all that large.

Q: While earnings increased in the 1Q on the back of successful efforts to level out sales and reduce fixed costs, looking at the 1H, profits are projected to decrease owing to a downturn in the number of houses sold. How should we look at operating profit for the full year?

A: (Kamiwaki) Increases in unit prices are helping to partly offset the downturn in the number of houses sold. Efforts to strengthen profitability are also being made to compensate for the decline in the number of houses sold over the full fiscal year.

Q: [Presentation materials P12] Can you provide specific details of measures aimed at strengthening profitability in the Housing Company?

A: (Kamiwaki) We are shifting personnel from the indirect departments of the Housing Business to the Renovation Business and such Stock businesses as real estate brokering, where trends remain firm. Taking into consideration such factors as the volume of orders and production in each area, we will also look to optimize the production structure of our eight factories nationwide.

Q: What are the factors behind the increase in marginal profit in the Other segment?

A: (Kamiwaki) The Other segment is largely comprised of two businesses. One is the Real Estate Business, including rental apartment management and real estate brokering, which provide a relatively stable earnings base for generating profit. The other is the Town and Community Development Business, which is exhibiting steady business growth. In addition to the Renovation Business, these two businesses combined are driving growth compared with the previous year.

About the UIEP Company

Q: Will you be able to maintain margins in the Pipe Systems field in the face of slightly weaker demand in the Housing and other businesses going forward?

A: (Kamiwaki) Despite the slight weakness in demand, we believe we will be able to maintain margins in the 1H in line with plans. While raw materials have exhibited a slight decline since the 2H, we are confident in our ability to maintain adequate margins between raw materials and selling prices. Coupled with improvements in the product mix, including growth in high-value-added prioritized product sales, we will maintain marginal profits.

About Corporate Expenses and Other

Q: Foreign exchange gains made up a significant portion of ordinary profit in the 1Q. What are your reasons for not upwardly revising ordinary profit for the 1H?

A: (Nishida) After posting foreign exchange gains in the 1Q, we expect to incur foreign exchange losses in the 2Q. Non-operating foreign exchange gains and losses are calculated based on the risk that the value of the yen will return to an appreciation trend, unchanged from the end of March.

Q: Operating losses in Other and Eliminations are projected to increase YoY as a result of efforts to strengthen Group-wide development activities in the fiscal year under review. Are the Group's development activities progressing smoothly in line with initial plans?

A: (Kamiwaki) Development activities are progressing smoothly. Activities focus especially around bio refinery and perovskite solar cells. We are also promoting several other themes.