

3Q FY 2018 Financial Results Conference Call Q&A Session Summary

Date: Friday, February 8, 2019, 4:30 p.m. to 5:30 p.m.

Answer by: Junichi Miyazaki, Director, Senior Executive Vice President & CFO

■ Overall

Q1: Although the operating income of 38.1 billion yen forecast for the full year was retained, the result for the 3Q (Oct – Dec) was the above outlook. Please explain the upward/downward swing from the full-year outlook by segments.

A1: As for Agrochemicals and Pharmaceuticals, there was a front-loaded shipment in the 3Q. The result for the 4Q (Jan – Mar), therefore, is expected to be below the outlook because of the rebound, so we are expecting that the full-year result will be as forecast. The result for Chemicals is expected to largely fall in the 4Q. As for Performance Materials, we don't know as of this time how much of a decrease we will see. Overall, we can't read very well as of this time whether we can reach the forecast business results. We don't know how much of an upward swing in the 3Q will remain.

■ Chemicals Segment

Q2: The external environment has been deteriorating because of the decelerated Chinese economy. Please tell us about its impact on Chemicals.

A2: Because of the slowdown in Chinese domestic demand, products from Chinese manufacturers have come to be exported overseas from around December, worsening the market conditions and sales volume of major products, such as TEPIC and melamine.

■ Performance Materials Segment

Q3: Please tell us the reason that the sales of SUNEVER's IPS and VA in the 3Q were above the outlook. Especially about IPS, let us know the situation by region, as well as by rubbing IPS and photo-alignment IPS.

A3: In terms of sales, those of photo-alignment IPS were most significantly above the outlook. Those of rubbing IPS and VA were also above the outlook, but not by very much compared with photo-alignment IPS. The upward swing of photo-alignment IPS occurred generally in China, Japan, and Taiwan. Rubbing IPS continues to be shifted to photo-alignment IPS, resulting generally in a downward trend, but sales in the 3Q were above the outlook because those used for monitors and low-price mobiles sold well. VA also saw above the outlook because its market share increased more than the forecast.

Q4: Please explain the reason that the sales of SUNEVER in Q3 turned out to be above the outlook although the smartphone market is harsh. Also, tell us the future outlook in light of the deterioration of the external environment.

A4: We are enjoying the benefit of the shift from rubbing IPS to photo-alignment IPS, which is higher than rubbing IPS in unit price, and we saw its strength in the 3Q. We expect it to decelerate partly due to a special factor of filing for court protection of CPT. Although our production stoppage of CPT will be absorbed by other manufacturers' production in the long run, we expect there will be a negative impact during the 4Q.

Q5: Please explain the market-share trend of SUNEVER, especially in relation to VA and rubbing IPS.

A5: We are currently focusing on the expansion of the market share of VA. Rubbing IPS has retained its market share thanks to its use for monitors and computers. We are also making efforts to win back some part of the share taken by our competitors.

Q6: Let me ask you about Semiconductors Materials. Did DRAM and others for South Korea sell as well as in the first half of the year? Will there be any changes in and after the 4Q?

A6: As of this moment, we haven't seen any changes in Semiconductors Materials, and prospects for the 4Q remain as forecast. We expect that the impact of the decreased production of smartphones will appear in and after FY 2019.

Q7: Let us know about the adoption of EUV under layer.

A7: Currently, EUV under layer has been adopted by one company.

Q8: Please explain the reason that sales of Oilfield Materials turned out to be below the outlook in the 3Q and their future outlook.

A8: One of the reasons is decreased crude-oil prices. And the other is that clients in the US ran short of expense budgets before the financial settlement in December; therefore, their adoption of our materials was postponed. However, because the market response is good, we are expecting recovery after from January to March. Additionally, we expect that they will be further adopted if crude-oil prices increase.

Q9: Please tell us the results/trend in the 3Q of the fixed costs of Performance Materials in light of the forecast for November, as well as the outlook for the second

half of the year.

A9: Although the fixed costs of Performance Materials were above outlook in the 3Q by 200 million yen than forecast, we expect they will be as forecast in the entire second half of the year. We understand that the above outlook in the 3Q was due to the increase by frontloading from the 4Q.

■ Agrochemicals Segment

Q10: Let us know the reason that ROUNDUP, which was weak in the first half of the year, turned out to be above the outlook in the 3Q.

A10: In the first half of the year, sales of ROUNDUP were below the outlook because of the abnormal weather in Japan, such as extreme heat and typhoons. Such factors disappeared in the 3Q, and sales of ROUNDUP were above the outlook by a small amount both in ROUNDUP ML and AL. We have no worries for the future as well.

Q11: Please tell me the reason that sales of Fluralaner were below the outlook in the 3Q.

A11: We made some frontloaded shipments of Fluralaner in the 2Q, which became a downward swing in the 3Q. It's just a difference in the shipment timing.

Q12: What do you expect as the rate of increase of Fluralaner for the next fiscal year?

A12: Because Fluralaner has grown at a high rate of increase, there may be inventory accumulation. Therefore, I think it's difficult to maintain this fiscal year's growth level in the next fiscal year as well, although it would keep on growing in the medium to long run.

Q13: Please let us know if there is any expansion of sales areas of BRAVECTO Plus (ecto/endo-parasite drug for cats).

A13: BRAVECTO Plus is sold mainly in Europe, and recently, we only added small countries, so I think the impact on sales is small.

Q14: How is GRACIA (new insecticide) doing in the 3Q?

A14: Sales of GRACIA were above the outlook due to the frontloaded shipment in the 3Q from the 4Q in South Korea. We are expecting sales below the outlook in the 4Q because of the rebound. However, GRACIA has been enjoying an excellent reputation in the market.

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