Q&A at Fiscal 2019 Business Segment IR Meeting
(Industrial Materials Group)

Date	December 12, 2019 (Thu.) 16:00 to 17:30	
Presenters	Kotaro Tsukamoto	Group CEO
	Koji Ohno	General Manager, Group CEO Office
	Shingo Torii	General Manager, Group Administration Dept.
	Eisuke Shiozaki	Division COO, Carbon Div.
	Takao Ishiyama	Division COO, Steel Business Div.
	Ko Imamura	Division COO, Performance Materials Div.
	Hiroshi Takehisa	General Manager, Investor Relations Dept.

Questions and Answers

Q. What are the benefits of the recent reorganization, a move that led to the creation of the Industrial Materials Group via the consolidation of certain operations that were separate under the former four Group structure? Also, please tell us about challenges arising from this reorganization.

A.

- The Industrial Materials Group was established by concentrating operations that needed to be functionally updated. For example, most of our products are also available through online stores. It is obvious that we will no longer be able to survive if we remain dependent on simple trading. We will therefore reinforce our core functions, such as steel processing centers, needle coke manufacturing and logistics facilities, as well as shift our management resources from less functional trading operations to service sectors and downstream businesses, what we call the "L-shaped portion" of the MC portfolio, by taking full advantage of digital technologies.

Q. Trading business is where "Trading Company" sprang from. Although we suspect MC may lose something by decreasing its involvement in trading, what are your opinions?

A.

- We think our trading business have the universal functions, a trading company is typically expected to provide, like handling logistics, extending credit and conducting risk management, but our expertise in products and markets can be taken over by external intelligence firms. At the same time, we will retain those trading operations that require the unique functions we provide, as well as those that will position us to acquire significant intelligence, which, in turn, helps us identify "Potential Growth Sources."

Q. Could you give us actual examples of "New Core Businesses?"

A.

- Take Cape Flattery, for example. Unlike other MC mines held through joint ownership, MC's ownership of this mine is 100%. Cape Flattery has a significant presence in Asia, supplying 40% of silica sand seaborne market in the region. Following the reorganization, we place multiple employees, including a staff with experience at other mining companies, to Cape Flattery. We are confident that such investment of management resources ensure further revenue growth.
  Carbon fiber recycling is another example. Although it will be some time before we get this business on track, we expect to benefit from growing opportunities over the medium to long term.
- In sum, we think we have opportunities to create "new core businesses" contributing to our profit, in these operations which have yet to realize the full potential made possible by the allocation of management resources, or a new business area we've just entered into.

Q. Could you share your future outlook of the steel industries as it pertains to your initiatives aimed at achieving the Industrial Materials Group's "Vision" ?

A.

- First, we have seen that current growth in global steel supply, which reflects burgeoning demand in China, will peak out around in 2025. Second, although domestic construction demand is expected to remain robust even after the Tokyo Olympic games, a number of projects have been delayed due to severe labor shortages. Despite our projection that domestic demand will remain strong for another few years, we forecast that, overall demand will decline gradually from the current level of approximately 60 million tons. These are assumptions that we believe must be heeded in the course of our business operations and Metal One therefore needs to establish a more robust structure that is resilient against these changes in the business environment.

Q. Some time ago, we saw the market prices of electrodes and needle coke plunge in conjunction with stagnation in steel demand due to the lower utilization of electric furnaces, which are more expensive to run when processing scrap steel than blast furnaces making molten iron ore. We believe that, as you promote the shift to electric furnaces, you will have to tackle challenges arising from higher scrap steel costs due to logistics and other issues. However, we also think that the Industrial Materials Group may benefit from the new business opportunities that may arise in the course of taking on a challenge of this kind. What are your opinions?

A.

- First and foremost, we must not limit our focus to the pursuit of economic value when considering new businesses. We believe that we must be acutely aware of how we are contributing to the realization of societal value and environmental value. The Industrial Materials Group will therefore consider new businesses, such as recycling businesses, aimed at helping create a recycling-oriented society. For example, the recycling of carbon fiber, which had previously been disposed of as landfill, will greatly contribute to a recycling-oriented society. Moreover, if carbon fiber makers were to strive to expand their product markets from the current 100,000 tons to 1 million tons sold annually, they must incorporate the recycling process into product life cycles.

Q. Throughout the course of executing the next Midterm Corporate Strategy, the Industrial Materials Group plans to increase net income to ¥50 billion. Please give us detailed time frame and roadmap regarding how you will achieve this plan.

A.

- We intend to streamline some operations at the end of the life cycle over the Midterm Corporate Strategy period, aiming to provide "new core businesses" with additional management resources made available by the streamlining process. Given this time frame, the Industrial Materials Group is, of course, in no position to create new businesses immediately. Nevertheless, we are determined to strengthen our involvement in promising fields, where we will focus on developing and nurturing potentially profitable businesses even as we push ahead with the streamlining discussed above. We also expect that carbon fiber recycling and other operations classified as new businesses will get on a profitable track by the end of the upcoming Midterm Corporate Strategy period. Due to these projections, we believe that we will be able to achieve a net income of ¥50 billion within the same time frame.

Carbon Div.

Q. We have heard that the Industrial Materials Group aims to shift from a business model popular in the Showa period to a new business model expected to become mainstream in the Reiwa period. In this regard, what initiatives do you intend to implement to update the carbon business?

A.

- Even though the focus of a portion of our carbon-related operations has already shifted from trading to investing, the investment portfolio consists largely of minority investments. We are aware of risks specific to being minority investors and believe that, if we do penetrate the carbon-related product market, we should strive to secure a majority investor position that will allow us to take the initiative in business management. We will therefore take a proactive stance toward investment in promising business fields, as well as we continuously strengthen our trading functions.

Q. Do you expect the market prices of needle coke and electrodes to recover?

A.

- The market price hikes in 2017 through 2018 were attributable to panic buying, and thus unsustainable as a trend. Due to this phenomenon, a number of customers ended up holding an excessive quantity of inventory. However, based on our observations of the overall market situation, we are sure about the stability of the shift to electric furnaces in such markets as China, the world's largest steel producing country. In recent years, there have also been signs of industrial reorganization. Accordingly, we anticipate a turnaround in the market cycle. Although we remain unsure about the timing of such a turnaround, we believe that, just as it has served as a game changer contributing to previous price hikes, the status of the Chinese market will be a key factor.

Q. If needle coke demand were to grow in the future, is PMC Tech capable of seizing the resulting business opportunities?

A.

- In order to increase production volume, securing robust sources of raw material procurement is essential. Furthermore, the POSCO Group, one of MC's partners, operates multiple steelmaking facilities in addition to its Gwangyang Steelworks. We are therefore considering expanding the scope of raw material sources to secure the ability to address a possible hike in needle coke demand.

Steel Business Div.

Q. Although Metal One has seen a downward trend of profit in fiscal 2019, the presentation material includes an estimate suggesting profit growth in the next fiscal year. Could you specify the business fields in which Metal One has faced downturns in profit? Also, please provide us with the reasoning behind the aforementioned estimate.

A.

- Metal One is largely dependent on the automotive-related business in terms of profit. As a result, it has been significantly affected by the widespread downward trend in the automotive production and sales volumes, etc. in markets worldwide, except Vietnam.
- However, Plateplus, which we acquired in fiscal 2017, is poised to achieve a turnaround in the near future. We also anticipate recovery in the automotive demand while expecting domestic construction demand to remain steady in the next year. Based on these projections, we forecast rebound in Metal One's performance in fiscal 2020.

Q. What are your plans for raising the volume of steel handled by Metal One going forward? While a growing number of its competitors are leaning toward increasing their working capital, we think Metal One needs to meet customers' requirement of reducing inventories and extending credit periods to expand sales, and it may make it more difficult for them to maintain control of its balance sheet. Given these circumstances, what are your management policies for Metal One?

A.

- As we expect domestic demand to shrink gradually, we have positioned overseas markets as key targeted markets in terms of sales expansion initiatives. We are aware of the need to develop footholds in markets where demand is growing to ensure that we can position production sites near the place of consumption. As you have suggested, Metal One expects to see its balance sheet items inflating in the course of sale expansion initiatives. From the viewpoint of improving asset efficiency, the investee is striving to control these items by thoroughly reviewing its conditions for extending credit to its clients and other factors.

Performance Materials Div.

Q. Please explain the division's revenue structure.

A.

- In fiscal 2019, the performance of Cape Flattery and our U.S. cement business has been strong, while the performance of the PVC and performance materials businesses, which are prone to fluctuations in the supply-demand of automobiles, are affected by the slow-down in the automotive industry.

Q. Are you collaborating with other Mitsubishi Group companies to develop the performance materials business?

A.

- Yes, we are. For example, in our hydrogen peroxide business, we have a joint venture in Tomakomai, Hokkaido, with Mitsubishi Gas Chemical.

Q. Do you expect demand for carbon fiber to eventually total around 1 million tons going forward? Is it really such a promising business field?

A.

- It is difficult to foresee that total carbon fiber demand, which currently falls short of 100,000 tons a year, will reach 1 million tons in the next three to five years. Meanwhile, with future retirement of aircraft, and an increase in volume of carbon fiber end materials being used as cost-competitive recycled products in mass-production items such as automobiles, we can expect this business field to be promising with significant demand.