Condensed Transcript of Q&A Session at MGC's FY2025 1Q Results Briefing

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Presenter:

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(Note about this transcript)
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Q1: Can you give us your views on the Specialty Chemicals segment in 2Q and 2H? How much monetary impact do you expect from the customer inventory buildup in BT materials? In optical materials, do you expect growth in smartphone camera lenses or the expansion of new applications such as sensors? Roughly how much improvement do you expect in 2Q associated with the application of the lower of cost or market valuation method in the engineering plastics business? Lastly, you project strong demand for EL chemicals over the full year. But if you anticipate this demand to slump in any quarter, can you tell us which one?
A1: In BT materials, despite strong demand for general-purpose products and low thermal expansion products in 1Q, since the results seem excessive in comparison to survey institutes' estimated semiconductor growth rates, we believe this reflects a movement toward inventory accumulation by customers. We expect this trend to continue to some degree in 2Q and 3Q, but it may result in a backlash in 4Q. Still, we expect BT materials sales to grow at a pace faster than the projected annual growth of 10–12% in the semiconductor market. While sales of optical materials in April and May were down slightly due to a rebound from strong sales through March, we expect strong sales in 2Q when new smartphone models go into production. Regarding applications, while demand for smartphones continues to play a central role, there is strong demand for our high-refraction materials for laptop computer cameras used for web conferencing. Forecasts for engineering plastics reflect improvements associated with using the lower of cost or market valuation method at overseas polycarbonate plants from 1Q through 2Q. While their monetary impact is not negligible, this is a temporary fluctuation in profit and loss associated with accounting methods rather than a change in business conditions. We are confident that demand for EL chemicals has bottomed out, but growth is lower than expected due to various factors, including failure to benefit from AI-related demand at plants other than South Korea and slow

demand recovery at major U.S. customers. At the same time, since demand for semiconductors as a whole shows gentle recovery, forecasts for 2Q and 2H are level with the previous forecasts.

Q2: Page 23 of the presentation shows a forecast of 2.5 billion yen growth in profit in Specialty Chemicals from 1Q to 2Q. Am I correct in understanding this to be due to the improvements you mentioned earlier in profit and loss associated the lower of cost or market valuation method for polycarbonate?

A2: That’s correct. Another factor behind the improvements compared to 1Q is the decrease in prices of BPA, a raw material.

Q3: What are your expectations for BT and OPE™ in 2Q and beyond? Can you tell us about new initiatives for next fiscal year and progress with use, if any, for FC-BGA and AI servers?

A3: OPE™ demand is growing for AI servers and telecommunications infrastructure overall, and we expect sales to remain strong. We expect annual net sales to show sharp growth year on year as well. Sales of BT materials will also grow along with booming demand, but higher costs associated with strengthening quality measures is suppressing profit growth. One of new movements is that customer evaluations of BT materials for use in server BGA components are in progress. We believe that we can expect full-fledged adoption in this application to begin in one or two years. Use in laptops is growing too. We would like to expand use to applications such as servers, GPUs, and AI servers based on the track record in laptops.

Q4: I believe that products from competitors are used as core materials for AI servers. What advantages do BT materials offer? And what new products do you expect to contribute to sales in the next fiscal year and beyond?

A4: I cannot comment on specifics, but we believe BT materials are recognized for their well-known low-warpage and low thermal expansion properties as well as their strong track record. While glass cloth supply restrictions remain an issue, we expect to secure the glass cloth we need based on strong relationships with the materials makers. As we expect contributions of new products to sales to build up gradually, there is little prospect of a sudden sharp jump in figures in this fiscal year or the next.

Q5: You commented that you expect the growth rate of BT materials this year to exceed that of the semiconductor market as a whole. Is your market share growing due to use in BGA substrates and similar applications?

A5: We expect the growth rate for the semiconductor substrate materials market to surpass the rate of growth of the semiconductor market as a whole. I am unable to comment on trends in market share. We have long sought to demonstrate our presence in BGA substrate materials in addition to CSP substrate materials, in which we have demonstrated our strengths through now. We would like to use BGA substrate materials for semiconductors for laptops, where their use is growing, as a foothold to achieve continued market share growth by expanding sales for servers and other applications.

Q6: The high-speed printed circuit board market is growing. What are your thoughts on the OPE™ market share?

A6: OPE™ maintains a high annual growth rate. The low dielectric materials market is in a growth trend, and OPE™ has quite a strong reputation in certain fields. But competing materials exist. I cannot comment on OPE™'s specific market position. Since the business model differs somewhat from the market for BT materials, we are looking to expand joint efforts with customers in the value chain.

Q7: What factors explain the slow performance of the MXDA business?

A7: New competing products from Chinese makers are gradually eroding our share of the market for MXDA and its derivative 1,3-BAC. Regarding MXDA in particular, a new plant is under construction in Europe. Some price measures made to secure share have also contributed to lower earnings.

Q8: Am I right to expect difficult conditions to continue in the MXDA business?

A8: The MXDA business is being affected by the cooling European market, chiefly for applications in which it serves as a raw material in paints and coatings for infrastructure. Earnings are also being affected by various factors, including delays in the construction of the new plant in Europe and the recording of costs associated with opening preparations. The 1,3-BAC business, mainly for sealing material applications, has been affected by the Chinese real estate market slump. The business environments for both businesses are deteriorating.

Q9: You are making aggressive capital investments in super-pure hydrogen peroxide. Can you describe what specific steps you are taking to minimize the burdens associated with these fixed costs? For example, how are you approaching potential customers other than existing major customers?

A9: Rising construction costs are one impediment in addition to the rising cost of raw materials and logistics. For this reason, we are proceeding with efforts at each plant to obtain understanding from customers for the price pass-through. As efforts to diversify the customer base are also important, we are making efforts in that direction too. We are also proceeding with efforts to improve both raw-material costs and logistics costs.

Q10: Although your full-year forecasts call for an increase in sales of Information and Advanced Materials of 4.8 billion yen, the projected increase in operating profit is just 1.6 billion yen. My guess is that rising BT costs are squeezing profits. Can you describe this in detail? Is there any room for price hikes given the tight supply of BT materials?

A10: BT products are relatively sensitive to exchange rates. While net sales increased with yen depreciation and higher sales volumes, other factors, including the higher costs associated with efforts to strengthen quality measures and worsening yields, applied downward pressures on profit. Given issues attributable to the glass cloth situation, we are considering raising sales prices on products to shift costs.

Q11: While sales forecasts for the former aromatic chemicals segment remain unchanged, how have initial expectations for sales volumes, prices, and costs changed given the impact of various factors, including low demand and downward pressure on prices?

A11: Projections for the former aromatic chemicals segment call for net sales to remain unchanged. But operating profit has been revised downward by about 2 billion yen. While aromatic aldehydes are performing well, we expect lower profits for various reasons, including price measures for MXDA and 1,3-BAC.

Q12: Roughly when do you expect the costs associated with quality measures and worsening of yields to end with respect to BT materials? Also, when do you expect the development of low-warpage products, or evaluations on the customer side, to end?

A12: Regarding your second question, we generally expect full-fledged adoption in one or two years. Customer evaluations are underway, and we have begun shipment of samples. I would like you to understand that I am unable to give an overview because we are targeting multiple customers and fields. On the question of rising costs, we expect the trend to continue for part of the second half. Annual costs are projected to rise somewhat from the May forecasts.