

Ube Industries, Ltd.
FY2020 Management Overview Briefing: Q&A Session

Date/Time: May 20, 2020, 10:00–11:30 a.m.

Presenter: Masato Izumihara, President and Representative Director

Presentation Material:

https://www.ube-ind.co.jp/ube/en/ir/ir_library/presentation/pdf/keiei_prime_phase_2020_en_200520.pdf

General Management

- Q1. The shortfall on the target values of the medium-term management plan has increased. While external business conditions are a major factor, are there any internal factors, areas where UBE has been slow in making progress to address issues and needs to change course?
- A1. Overall, we have been focused on adjusting to address shifting external factors, including changing our strategy in certain areas. For example, we changed our business strategy in the nylon business from seeking to increase the scale of the business by utilizing more caprolactam within the UBE Group, to pursuing profitability by optimizing our polymerizing capacity. We made these changes based on shifting external business conditions and to emphasize profitability.

Chemicals in General

- Q2. Demand for consumer durables is expected to decline, as travel continues to be restricted due to the impact of COVID-19. Many of UBE's specialty chemicals are used for consumer durables. How will UBE move forward with the specialty chemicals business under these conditions? What is your overall approach, including your approach to investment?
- A2. To begin with, we will fully communicate with our customers to assess their immediate circumstances and future production plans. Based on this information, our manufacturing, sales, and engineering departments will work together to support our customers. The key point is to respond as quickly as possible to our customers' situations, which is the only way to minimize negative impacts. We do not know what will happen beyond that, but we will focus on what the world will look like after the COVID-19 pandemic and examine the adjustments we will make in each business as well as the R&D strategy.
- Q3. In fiscal 2019, UBE actively restructured its businesses by pursuing mergers, acquisitions, and alliances. Will UBE continue to pursue this strategy in order to pursue further specialization in its businesses?
- A3. The various strategies we had been considering up to then came to fruition in fiscal 2019. We need to continue restructuring our businesses. However, the purpose of restructuring is to strengthen the business. The restructuring itself is not the purpose. The push for business restructuring in various ways is gaining momentum these days. UBE will continue to actively restructure its businesses by carefully weighing the benefits.
- Q4. Between the commodity and specialty chemicals business, which business does UBE wish to restructure?
- A4. We want to expand and strengthen the specialty chemicals business, more so than the commodity chemicals business. For example, moving forward we will target downstream businesses such as fine chemicals and nylon compounds. We will seek to develop relationships with other companies in these areas.

Construction Materials: Business Integration

- Q5. Why did UBE decide that this was the right time to integrate its construction materials business with Mitsubishi Materials?

- A5. In 1998, the year that Ube-Mitsubishi Cement Corporation was established, cement demand in Japan was at 71 million tonnes. It has been declining since, and in 2019, cement demand in Japan fell below 41 million tonnes. In the interim, we took steps to increase our revenues from waste processing and streamline production. However, faced with low demand and circumstances that made it difficult to raise prices, we thought it was necessary to integrate the manufacturing operations so that we could further streamline the business. Mitsubishi Materials shared this sentiment and so we decided to integrate the manufacturing operations.
- Q6. Why was the scope of integration expanded to encompass non-cement businesses?
- A6. UBE's Construction Materials Company encompasses the limestone-related business of Ube Material Industries, which is a unique business. Mitsubishi Materials has a cement and ready-mix concrete business in the U.S., which will continue to grow in the future. The businesses in Japan will be stronger as a result of the integration, while enabling us to effectively allocate business resources to growth areas, so that we can secure new growth. Over the next two years, we will lay the groundwork to enable the business to rapidly realize synergies and benefits from the integration.

Global Environmental Issues

- Q7. In its long-term environmental vision, UBE has set an ambitious target of achieving an 80% reduction of greenhouse gas (GHG) emissions including non-energy-derived CO₂ emissions, by 2050. I don't think emissions from industrial processes such as cement manufacturing can be reduced. Is UBE thinking of employing carbon capture and storage (CCS) technology? Or does the target exclude the cement business, because the construction materials business will no longer be included in the consolidated results?
- A7. The construction materials business is not excluded from the 80% reduction target. While it is a very ambitious target, the Japan Cement Association is also aiming for an 80% reduction. Since UBE also has the chemicals and other non-cement businesses, we believe that we should target an 80% reduction overall. Of course, we cannot achieve this just by continuing with our current efforts. We will need groundbreaking innovations, such as the development of new CCS and CO₂ utilization technology. By comparison, we calculated the fiscal 2030 target based on achieving further reductions on top of existing levels. First, we have to achieve the fiscal 2030 target and then, depending on circumstances, we will transform our business structure to achieve further emissions reductions.
- Q8. Ube Industries has indicated its support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). What kind of information will UBE disclose in the future? Should Japan adopt a carbon tax, it will become a major cost for UBE. Do you have a strategy for disclosure? For example, will you disclose the potential costs for the cement business in advance, in order to adjust cement prices to reflect costs?
- A8. We will carefully examine various scenarios while disclosing the financial impacts. Disclosing the potential costs is one way to go about it. However, right now we are preparing various case studies in which we are examining the impact of carbon tax increases including the changes required for our business structure. In the cement business, we do not have the option of turning to alternative manufacturing methods. As such, if the social value of cement were to be recognized, we will need to find ways to manufacture cement using the least energy and for the least cost. In the chemicals business, we have various options. We will take into account demands based on current global environmental issues, and thoroughly discuss the options while looking at various environmental scenarios, as we transform our business structure. For example, we will discuss ways of transitioning to the specialty business, which has a lower CO₂ burden.

Shareholder Returns

- Q9. Do you view the current financial position as being ideal for UBE for the time being? Or do you think UBE can better leverage its position from the perspective of ROE? Also, UBE has adopted a dividend policy based on DOE of 2.5% or above, with the forecast calling for a dividend of ¥90. Last year, it was divided into an interim dividend of ¥45 and year-end dividend of ¥45, but this time there is no breakdown. Why is that?
- A9. I think the current financial balance is about right. Right now, UBE needs to invest for future growth and deliver results from it. We will selectively invest to increase profits and secure growth, while capitalizing on our current financial position. Regarding the dividend, we have not announced the amount of the interim dividend because we do not yet know the extent of COVID-19's impact. We do intend to issue an interim dividend and pay a full-year dividend of ¥90.

Closing Comments from the President

I expect fiscal 2020 to be a year of perseverance. We will implement various emergency measures to minimize the negative factors of COVID-19. At the same time, we will continue moving forward with our initiatives to secure growth, even amid the current climate. This will enable us to get off to a running start when the pandemic comes under control.

Thank you for your continued support.