UBE Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024

August 4, 2023

Event Summary

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[Venue]	Webcast
[Number of Speakers]	1 Hirotaka Ishikawa Director, Executive Officer, CFO

Presentation

Moderator: Good evening, investors. Thank you all for participating in the financial results briefing of Ube Corporation today despite your busy schedules.

Hirotaka Ishikawa, Director, Executive Officer, and CFO, will now give a 25-minute presentation on the consolidated financial results for Q1 FY2023, followed by a question and answer session. The entire briefing is scheduled for 45 minutes.

Before we start the briefing, I'd like to mention this first. This briefing may contain forward-looking statements based on current expectations, all of which are subject to risks and uncertainties. Please note that the actual results may differ from the outlook.

We will now move on to the presentation. Please go ahead, Mr. Ishikawa.

1st Quarter of the FY2023

Scope of Consolidation

Item	End of FY2022 (A)	End of FY2023 1Q (B)	Difference (B) - (A)	Notes
Number of consolidated subsidiaries	36	36	-	
Number of equity method affiliates	15	15	-	
Total	51	51	-	

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Ishikawa: Good evening, everyone. I am Ishikawa, CFO. Thank you for taking time out of your busy schedules today. Let me begin with the presentation. Now, I will explain according to the material.

First, page three. The number of consolidated companies, at the end of this Q1, totaled 51, including 36 consolidated subsidiaries and 15 companies accounted for by the equity method. There has been no change since the end of FY2022.

Environmental Factors

Item			FY2022 1Q (A)	FY2023 1Q (B)	Difference (B) - (A)
Exchange Rate		Yen/$	129.6	137.4	7.8
Material Price	Naphtha CIF	$/ t	949	693	(256)
	Naphtha Domestic	Yen/KL	86,100	67,300	(18,800)
	Benzene (ACP)	$/ t	1,227	938	(289)
	Australian Coal (CIF)	$/ t	393.8	216.5	(177.3)
		Yen/t	51,018	29,741	(21,277)

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Continuing on to page four. Environmental factors.

In this Q1 FY2023, the exchange rate was JPY137.4, a depreciation of JPY7.8. As for material prices, naphtha was USD693 on a CIF basis and fell by USD256 YoY. Benzene in ACP was USD938 and fell by USD289. Australian coal in CIF was USD216.5 and fell by USD177.3.

Please note that these are only indices and differs from the actual cost of raw materials we use.

Major P/L Items

(Billions of yen)

Item	FY2022 1Q (A)	FY2023 1Q (B)	Difference (B) - (A)	Percentage change
Net sales	116.2	109.2	(7.0)	(6.0)%
Operating profit	4.4	2.6	(1.7)	(39.8)%
Ordinary profit	1.5	5.3	3.8	252.0%
Profit attributable to owners of parent	5.0	3.7	(1.3)	(26.3)%

Note: The Company Group determined the provisional accounting treatment related to the business combination of the cement-related business in FY2022 4Q. The finalized accounting treatment is being applied in each reported figure for FY2022 1Q.

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Next is page five, about main items.

In this Q1, sales were JPY109.2 billion, down JPY7 billion or 6% YoY. Operating profit was JPY2.6 billion, down JPY1.7 billion or 39.8% YoY. Ordinary income was JPY5.3 billion, up JPY3.8 billion or 252% YoY.

Profit attributable to owners of parent was JPY3.7 billion, down JPY1.3 billion or 26.3% YoY.

1st Quarter of the FY2023

UBE /UBE Corporation

Net Sales and Operating Profit by Segment

(Billions of yen)

	Segment	FY2022 1Q (A)	FY2023 1Q (B)	Difference (B) - (A)	Percentage change
Net sales	Specialty Products	15.3	15.8	0.5	3.5%
	Polymers & Chemicals	71.4	60.3	(11.1)	(15.6)%
	Machinery	20.3	20.6	0.2	1.2%
	Others	15.6	18.9	3.3	21.4%
	Adjustment	(6.5)	(6.4)	0.0	-
	Total	116.2	109.2	(7.0)	(6.0)%
Operating profit	Specialty Products	2.8	3.0	0.2	7.8%
	Polymers & Chemicals	1.9	(1.6)	(3.5)	-
	Machinery	0.4	0.9	0.5	150.3%
	Others	0.7	0.9	0.2	36.9%
	Adjustment	(1.4)	(0.6)	0.8	-
	Total	4.4	2.6	(1.7)	(39.8)%

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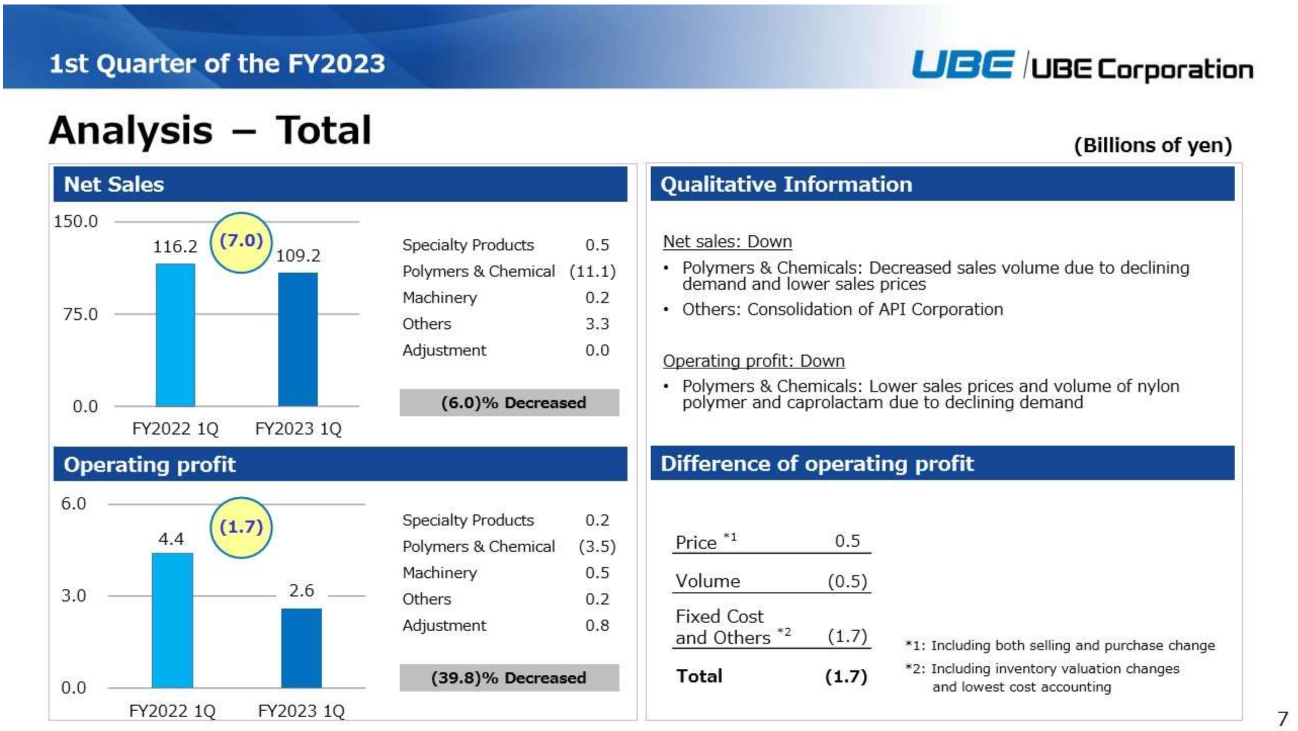
Continuing on to page six. Net sales and operating profit by segment. We will explain by segment.

In the specialty products segment, sales were JPY15.8 billion, up JPY0.5 billion or 3.5% YoY. Operating profit was JPY3 billion, up JPY0.2 billion or 7.8% YoY. In this segment, our main products are polyimides, separation membranes, and ceramics, all of which performed well.

Next is the polymers & chemicals segment. Sales were JPY60.3 billion, down JPY11.1 billion or 15.6% YoY. Operating profit was negative JPY1.6 billion, down JPY3.5 billion. In this segment, the decline in sales and profits was due to the poor performance of caprolactam and nylon polymers in particular. Elastomers performed well, contributing to the increase in sales and profit, but the deterioration of caprolactam and nylon polymers had a major impact.

In the machinery segment, sales were JPY20.6 billion, up JPY0.2 billion or 1.2% YoY. Operating profit was JPY0.9 billion, up JPY0.5 billion or 150.3% YoY. The increase in these products was due to an improvement in margins in the steelmaking products, reflecting a decline in scrap prices.

For the others segment, sales were JPY18.9 billion, up JPY3.3 billion or 21.4% YoY. Operating profit was JPY0.9 billion, up JPY0.2 billion or 36.9% YoY. The main factor here is the effect of the acquisition of API Corporation last December.



Continuing on to page seven. Starting this page, we will discuss the analysis of differences. First is page seven, for the entire company.

Net sales decreased JPY7 billion, and operating profit decreased JPY1.7 billion.

Per-segment sales are the same as on the previous page, so we will skip that.

Regarding the qualitative information, let's discuss sales first. Looking at the company as a whole, as noted in the others segment, the factor for the increase in revenue was due to the consolidation of API Corporation as a subsidiary. However, net sales decreased due to a decline in sales volumes and sales prices of nylon polymers and caprolactam reflecting a drop in demand in the polymers & chemicals segment.

The main factor for a decrease in operating profit is the polymers & chemicals segment, which is the same as the factor I just mentioned.

Regarding the analysis of difference in operating profit, the price difference for the entire company was an increase of JPY0.5 billion, the volume difference was a decrease of JPY0.5 billion, and the difference in fixed cost and others was a decrease of JPY1.7 billion. The main segment of negative JPY1.7 billion for fixed cost and others was the polymers & chemicals segment.

Analysis – Specialty Products

(Billions of yen)

Net Sales

Operating profit

Qualitative Information

Net sales: Up

- Polyimides: Strong sales of varnish for organic EL panels
- Separation membranes: Strong demand mainly for biogas-related applications

Operating profit: Up

- Strong sales for polyimides and separation membranes

Difference of operating profit

Price *1	0.4
Volume	(0.3)
Fixed Cost and Others *2	0.2
Total	**0.2**

*1: Including both selling and purchase change
*2: Including inventory valuation changes and lowest cost accounting

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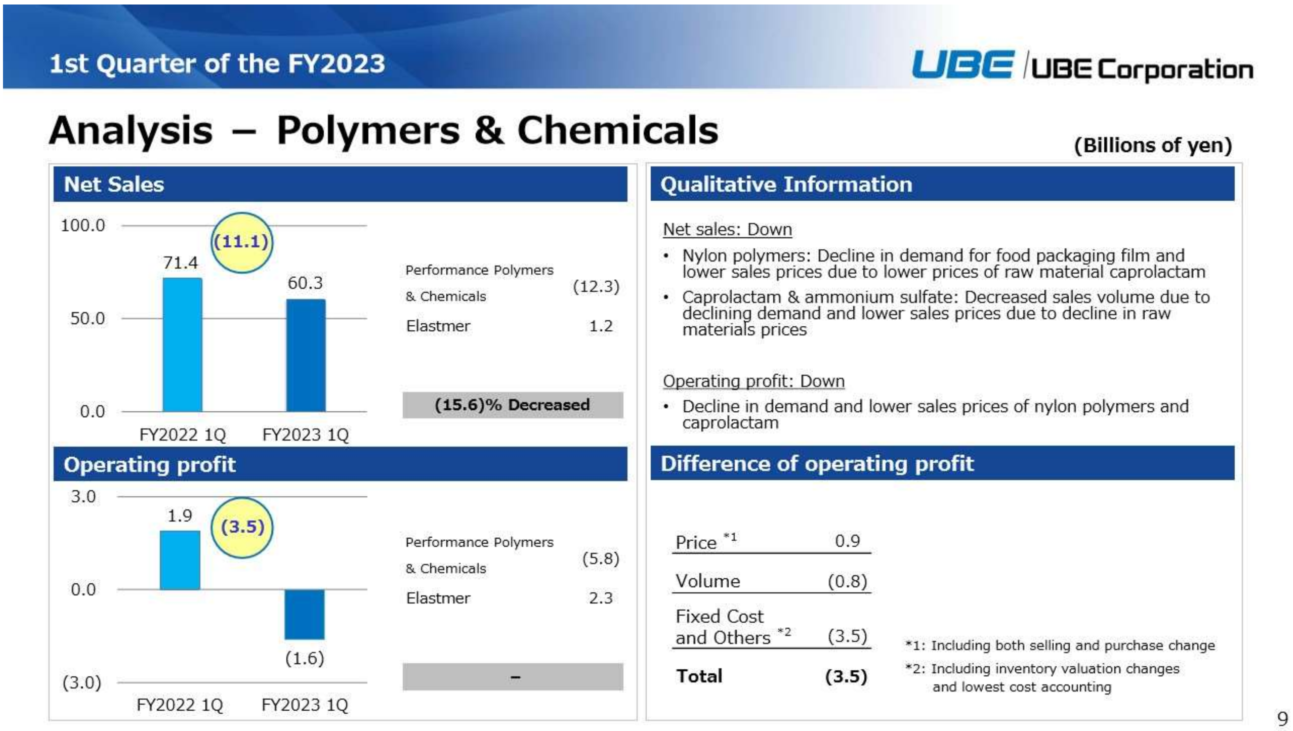
Next is page eight, for the specialty products segment.

Net sales increased by JPY0.5 billion and operating profit increased by JPY0.2 billion.

As for qualitative information, sales of polyimide varnish for OLED panels were strong. Also, for separation membranes, the main factor was the strong demand especially for biogas-related applications.

The increase in operating profit was due to strong sales of polyimide and separation membranes, which were the same factors as sales.

As for the analysis of differences in operating profit, the price difference was an increase of JPY0.4 billion, the volume difference was a decrease of JPY0.3 billion, and the difference in fixed costs and others was JPY0.2 billion.



Continuing on to page nine for the polymers & chemicals segment.

Sales decreased by JPY11.1 billion and operating profit decreased by JPY3.5 billion.

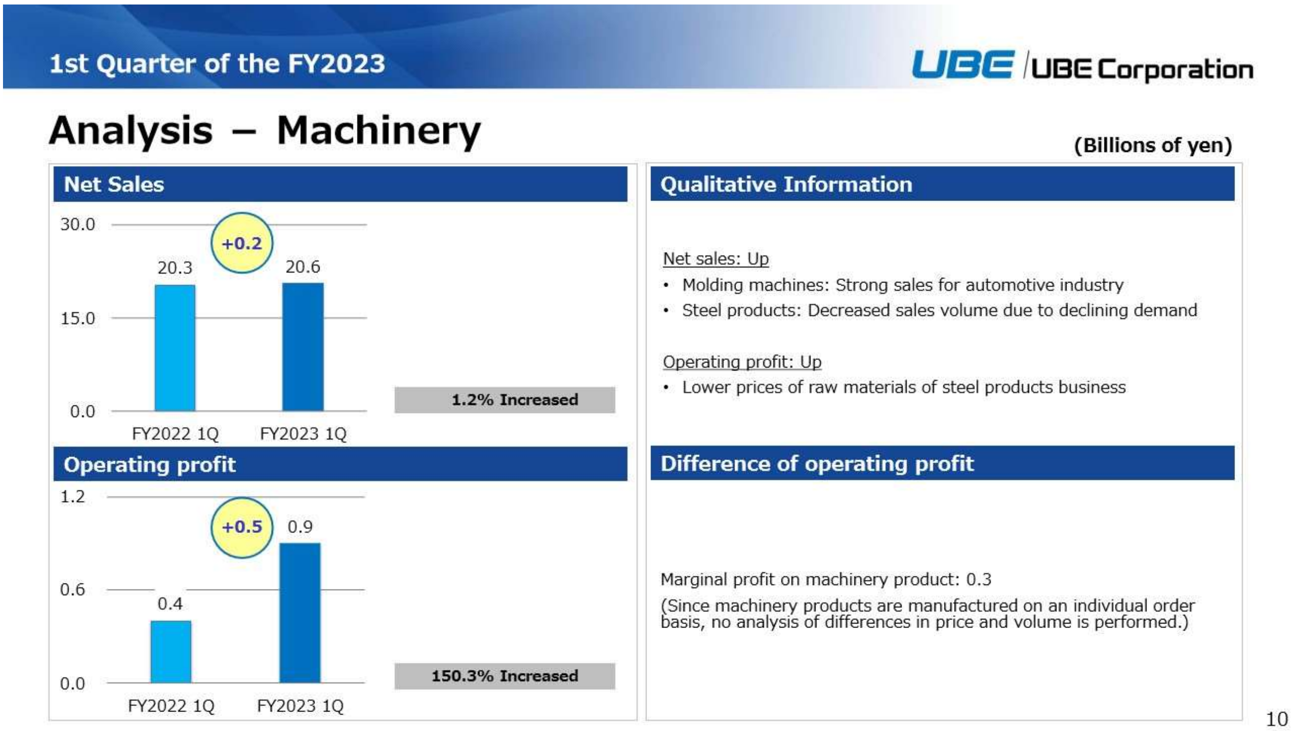
Looking at the sub-segments, the performance polymers & chemicals were a factor for a JPY12.3 billion decrease in sales, and the elastomers were a factor for a JPY1.2 billion increase in sales.

As for operating profit, the performance polymers & chemicals were a factor for a JPY5.8 billion decrease, and the elastomers were a factor for a JPY2.3 billion increase.

For the qualitative information, as a factor of sales decline, the demand for nylon polymers declined for food packaging film applications due to price hikes of food products. In addition, the sales price also declined due to a drop in market prices of caprolactam as a raw material. Also, the sales volume of caprolactam and ammonium sulfate also decreased due to a decline in demand, and the sales price also fell due to a drop in the raw materials market.

The main reasons for the decrease in operating profit were the declining demand for nylon polymers and caprolactam and their lower sales prices.

The difference in operating profit was an increase of JPY0.9 billion due to price differences. In detail, the difference was negative for caprolactam and nylon polymers. It was an increase for the elastomers. The difference in volume is a decrease of JPY0.8 billion. It was a decrease for nylon polymers and an increase for industrial chemicals. The difference in fixed costs and others was a decrease of JPY3.5 billion, almost all of which is due to inventory valuation.



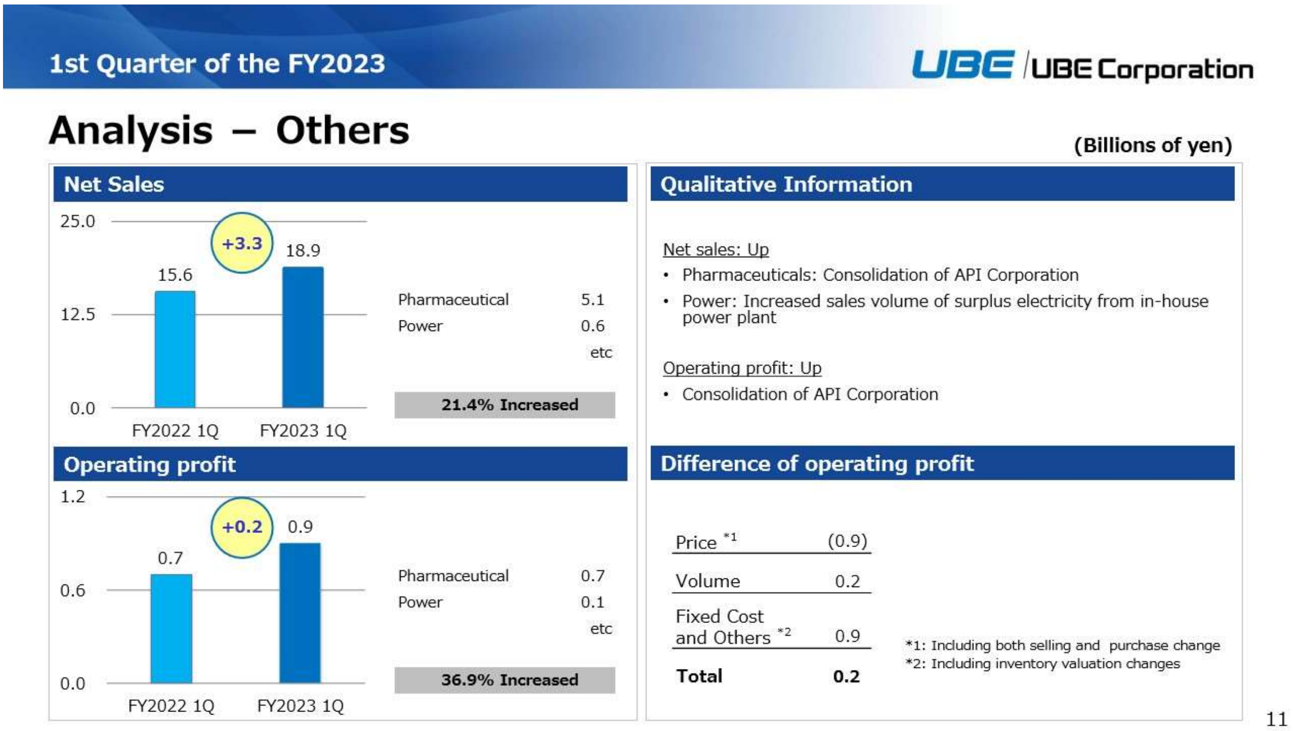
Next is the machinery segment.

This segment had an increase of JPY0.2 billion in sales and a decrease of JPY0.5 billion in operating profit.

For the qualitative information, sales growth was due to strong sales of molding machines to the automotive industry. For steel products, iron for electric furnaces, sales volume declined due to a drop in demand.

Operating profit increased. This is about raw material prices, scrap, in the steelmaking products, which declined resulting in an improvement in margins.

For the difference in operating profit, only the marginal profit of JPY0.3 billion for the machinery products was stated. The machinery products are listed in this manner because they are manufactured on an individual order basis and therefore are not analyzed for differences in prices and quantities.



Continuing on to page 11 for the others segment.

Sales increased by JPY3.3 billion and operating profit increased by JPY0.2 billion.

Looking at the sub-segments, sales increased JPY5.1 billion in pharmaceuticals and JPY0.6 billion in power. Operating profit increased JPY0.7 billion in pharmaceuticals and JPY0.1 billion in power.

As for qualitative information, the factor that contributed to the increase in sales was the conversion of API Corporation into a consolidated subsidiary for pharmaceuticals. This company was acquired last December, so it was not consolidated in Q1 of the last fiscal year. This time, it was consolidated for three months.

Next is power. The amount of surplus electricity sold by our power plants increased. In the previous fiscal year, there was a period of plant shutdowns due to a regular inspection in the Ube area in Q1. As a result, surplus electricity increased this fiscal year and the amount of electricity sold increased.

The increase in operating profit was due to the consolidation of API Corporation as a subsidiary.

Next is the difference in operating profit. The price difference was a decrease of JPY0.9 billion, with power accounting for most of the difference here. It means that electricity prices fell. The difference in volume was an increase for power, as explained earlier. The difference in fixed costs and others was an increase of JPY0.9 billion. There were positive factors for both pharmaceuticals and power.

Operating Profit – Profit attributable to owners of parent

(Billions of yen)

Item	FY2022 1Q (A)	FY2023 1Q (B)	Difference (B) - (A)
Operating profit	4.4	2.6	(1.7)
Non-operating income (expenses)	(2.8)	2.7	5.5
Net interests expenses	0.8	0.2	(0.6)
Share of profit (loss) of entities accounted for using equtiy method	(3.9)	2.3	6.2
Share of profit (loss) of entities accounted for using equtiy method related to Mitsubishi UBE Cement Corporation	(4.2)	2.4	6.6
Foreign exchange gains	1.0	0.8	(0.2)
Others	(0.7)	(0.6)	0.1
Ordinary profit	1.5	5.3	3.8
Extraordinary income (losses)	7.3	(0.3)	(7.6)
Profit before income taxes	8.8	5.1	(3.8)
Income taxes and profit (loss) attributable to non-controlling interests	(3.9)	(1.4)	2.5
Profit attributable to owners of parent	5.0	3.7	(1.3)
Net income per share	51.17 yen	37.66 yen	(13.51) yen

Note: The Company Group determined the provisional accounting treatment related to the business combination of the cement-related business in FY2022 4Q. The finalized accounting treatment is being applied in each reported figure for FY2022 1Q.

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Continuing on to page 12, I will explain from operating profit to net income.

Operating profit was JPY2.6 billion. Non-operating income was JPY2.7 billion. This is an increase of JPY5.5 billion YoY.

Looking at the main breakdown, the net interest expenses were JPY0.2 billion, or negative JPY0.6 billion YoY. This was mainly due to a decrease in dividend income.

Equity in earnings of affiliates was JPY2.3 billion and was a factor of an increase of JPY6.2 billion. The breakdown is as shown here. Equity in earnings of affiliates related to Mitsubishi Ube Cement Corporation was JPY2.4 billion in this quarter, up JPY6.6 billion YoY. This is described in later pages, and I would like to explain a little about it there.

Reference: 1st Quarter of the FY2023

UBE /UBE Corporation

Mitsubishi UBE Cement

(Billions of yen)

■Major P/L Items
Mitsubishi UBE Cement Corporation and Consolidated Subsidiaries

Item	FY2022 1Q	FY2023 1Q
Net Sales	129.7	147.9
Operating profit (loss)	(7.9)	9.4
Ordinary profit (loss)	(7.4)	9.8
Profit (loss) attributable to owners of parent	(9.7)	4.5

■Share of profit (loss) of entities accounted for using equity method in UBE's Consolidated Statements of Income

Share of profit (loss) of entities accounted for using equity method	(4.2)	2.4

- In the domestic cement business, sales volume declined in FY2023 1Q, but the company raised prices additionally, which it has been working on since last fiscal year and promoted profit improvement measures such as business structure improvement and increased use of low-cost thermal energy. The company aims to return to profitability in FY2023.
- In the U.S. business, ready-mixed concrete sales volume increased significantly in FY2023 1Q due to the resumption of construction work that had been delayed by bad weather in FY2022 4Q. Combined with the effect of price hikes, this led to a significant increase in both sales and profit.
- The full-year forecast is left unchanged from the initial projection.

■Quantitative information

Item		FY2022 1Q	FY2023 1Q
Total demand for cement in Japan	(million tons)	9.18	8.58
Cement sales volumes in Japan	(million tons)	2.26	2.06
Cement sales volumes in the U.S.	(million tons)	0.50	0.49
Ready-mixed concrete sales volumes in the U.S.	(million cy)	1.84	2.02
Thermal coal price (reference)	($/t)	373	161
Exchange rate	(Yen/$)	130	137

* The above thermal coal prices are reference indices and differ from actual procurement prices.

(Reference) Consolidated Balance Sheet as of June 30, 2023

Total assets	779.2	Interest-bearing debt	203.1	Shareholder's equity	332.5
Shareholder's equity ratio	42.7%	D/E ratio	0.61 times		

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Please refer to page 22. Here is a summary of Q1 financial results of Mitsubishi Ube Cement Corporation. Only the main points will be explained.

This Q1, sales amounted to JPY147.9 billion. Operating profit was JPY9.4 billion, up JPY17.3 billion YoY. Ordinary income was JPY9.8 billion, up JPY17.2 billion YoY. Profit attributable to owners of parent was JPY4.5 billion, up JPY14.1 billion YoY.

The main factors are listed in the lower left corner of this page. As for the domestic cement business, sales volume declined in Q1. However, additional price increases implemented since last fiscal year, business structure improvements, and the promotion of measures to improve profitability, such as expanding the use of low-cost thermal energy in the coal business showed effects.

As for the overseas US business, the sales volume of ready-mixed concrete increased significantly in this Q1 due to the resumption of construction work that had been delayed in Q4 of the previous year due to bad weather.

This was the main reason for the large YoY increase in profit.

On the right side, the sales volume and coal prices are listed. I would like to make a few comments in this context. The above thermal coal prices are reference indices and differ from actual procurement prices, as stated with asterisk. Please note that the USD373 and USD161 listed as this thermal coal prices are only indicative and not actual costs.

Now, I would like you to return to the original page. Page 12.

These factors resulted in an increase in ordinary income of JPY5.3 billion, up JPY3.8 billion YoY.

Extraordinary loss was JPY0.3 billion. Profit decreased by JPY7.6 billion YoY. Gain on change in equity was JPY8.3 billion due to the divestiture of cement-related business in the same period of the previous year. As a result, extraordinary profit for the same period of the previous year was JPY7.3 billion. Due to this special factor, extraordinary loss was a major factor in the decrease in profits.

As a result of the above, profit attributable to owners of parent was JPY3.7 billion, down JPY1.3 billion YoY.

1st Quarter of the FY2023 UBE /UBE Corporation

Consolidated Balance Sheet

(Billions of yen)

Item	End of FY2022 (A)	End of FY2023 1Q (B)	Difference (B) - (A)
Current assets	283.1	276.8	(6.3)
Fixed assets	449.4	457.1	7.7
Total assets	732.7	734.1	1.4
Interest-bearing debt	218.1	219.2	1.0
Other liabilities	132.9	122.5	(10.4)
Total liabilities	351.1	341.7	(9.4)
Shareholders' equity *	361.6	372.0	10.4
Non-controlling interests and others	20.0	20.4	0.4
Total net assets	381.6	392.4	10.8
Total liabilities and net assets	732.7	734.1	1.4

*: Shareholders' equity = Net assets – Share acquisition rights – Non-controlling interests

Note: The Company Group determined the provisional accounting treatment related to the business combination of a contract drag development and manufacturing organization in FY2023 1Q. The finalized accounting treatment is being applied in each reported figure for the end of FY2022.

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Continuing on to page 13, we will discuss the balance sheet.

Total assets amounted to JPY734.1 billion, up JPY1.4 billion from the end of FY 2022. I do not think that any major changes have occurred in the past three months.

In net assets, shareholders' equity increased by JPY10.4 billion. The increase was mainly due to net income for the quarter and foreign currency translation adjustments resulting from the depreciation of the yen.

1st Quarter of the FY2023 UBE /UBE Corporation

Consolidated Statements of Cash Flows

(Billions of yen)

Item	FY2022 1Q	FY2023 1Q	
A.Cash flows from operating activities	16.2	7.1	Profit before income taxes 5.1 Depreciation and amortization 6.4 Increase in working capital (4.1) etc.
B.Cash flows from investing activities	0.2	(8.1)	Acquisition of PP&E (8.1) etc.
Free cash flows (A+B)	16.4	(1.0)	
C.Cash flows from financing activities	(14.4)	(4.0)	Increase in interest-bearing debts 0.5 Dividends paid (4.5) etc.
D.Net increase/decrease in cash and cash equivalents	(38.1)	(4.1)	
E.Cash and cash equivalents at end of the quarter	40.6	26.6	

Note: The Company Group determined the provisional accounting treatment related to the business combination of the cement-related business in FY2022 4Q. The finalized accounting treatment is being applied in each reported figure for FY2022 1Q.

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Page 14 is the statement of cash flows.

Operating cash flow was JPY7.1 billion. Since cash inflow for the same period last year was JPY16.2 billion, cash inflow decreased by JPY9.2 billion. We believe the main reason was the decrease in profits.

As for investment cash flow, there was a cash outflow of JPY8.1 billion. Since it was positive JPY0.2 billion in the same period last year, this represents an increase of JPY8.3 billion in cash outflow. Regarding the positive JPY0.2 billion in the same period last year, we had collected loans from several group companies when the cement-related business was split off and transferred to Mitsubishi Ube Cement Corporation in April last year. This amount was JPY8.3 billion, and for this reason, in Q1 of the previous fiscal year, it was positive JPY0.2 billion. Without this, the cash outflow would have been about the same as the current fiscal year.

As a result, free cash flow was negative JPY1 billion in this Q1.

Finally, cash and cash equivalents totaled JPY26.6 billion. We have strictly managed our cash reserves, which are normally targeted at about JPY30 billion, but in the current fiscal year they were a little less than JPY30 billion.

That is all for Q1. Despite these results, the H1 forecast and the full-year forecast remain unchanged.

This is all from me.

Question & Answer

[Specialty Products]

Q1: You have explained that the main products such as polyimide, separation membrane and ceramics are doing well. What is the factor for the volume difference, a decrease of JPY0.3 billion?

A1: It is because there are some products that decreased from the previous fiscal year in terms of volume alone.

Q2: Why did both net sales and operating profit increase by about 1 billion yen from Q4 of the previous fiscal year to Q1 of this fiscal year?

A2: Polyimide business bottomed out in Q4 of the previous fiscal year and has been recovering. For films, the operation of the panel manufacturer has recovered in terms. For varnish, the flexible OLED ratio of smartphones has increased. The separation membrane has continued to perform well. Ceramics is also strong, but the growth rate is small compared to the above two because it is currently operating at almost full capacity. Sales of separators also declined slightly due to the impact of reduced automobile production and sluggish demand for non-automotive applications.

[Polymers & Chemicals]

Q3: What is the breakdown of the volume difference, a decrease of JPY0.8 billion? In addition, what is the cause of the increase in profits of elastomers?

A3: The difference in volume of a decrease of JPY0.8 billion was mainly derived from Performance Polymers & Chemicals. The increase in profits of elastomers was mainly due to improved spreads.

Q4: What is the outlook for Q1 to Q2 and for the whole fiscal year?

A4: Caprolactam will see a recovery in demand for textiles through this fall and winter. Nylon polymer exports to India are increasing these days, and this will also enter the demand season. If car production recovers in the second half of the fiscal year, automotive-related businesses are expected to recover gradually.

[Machinery and Others]

Q5: You said the molding machine business performed well. Is it correct to understand that industrial machines were at the same level as the same period of the last fiscal year?

A5: Exactly.

[Mitsubishi UBE Cement]

Q6: Operating profit (9.4 billion yen) of Q1 has already progressed about 40% on the full-year forecast (25 billion yen). What are the factors behind this? In addition, what is the forecast for the fiscal year?

A6: In the North American business, a major factor was the resumption in Q1 of shipments of ready-mixed concrete, which had been delayed due to bad weather in Q4 of the previous fiscal year. Cost reductions in the domestic business also made some effects. On the other hand, as domestic demand is slightly weak, logistics costs are soaring, and the aforementioned profit increase in North America is temporary, the annual forecast remains unchanged.

Q7: Was the resumption of ready-mixed concrete shipments in the North American business not factored into the full-year forecast?

A7: It was not factored in.

Q8: Could you tell how we can split the profit increase in Q1 into domestic and North American businesses?

A8: Both domestic and North American businesses improved. Coal-mining-related business in Australia also contributed.

Q9: What is the progress of cement’s price improvement in the domestic business?

A9: As of July, almost all users have agreed at full price, and it is generally on schedule.

Q10: What is the future outlook for the domestic business and the North American business?

A10: The domestic business will continue to make efforts to raise prices as planned. In the North American business, the profits due to the resolution of bad weather are not expected from Q2.