
2Q FY 2019 Financial Results Conference Call
Q&A Session Summary

Date: Friday, November 8, 2019: 4:00 p.m. to 5:00 p.m.

Presenter: Junichi Miyazaki, Director, Senior Executive Vice President & CFO,
Head of the Finance & Accounting Department

Presentation materials: https://www.nissanchem.co.jp/eng/ir_info/library/pdf/AM/am2019_09.pdf

■ Overall

Q1: For Chemicals and Performance Materials, both capital investment and R&D expenses have decreased more than expected in May. Are you moving toward reducing investments in the future?

A1: Regarding Performance Materials, we plan to review capital investments and other expenses centered mainly on semiconductors, and postpone some investments. Basically, the decrease is only temporary. For Chemicals as well, we delayed some investment plans in light of market conditions in the first half.

Q2: Nissan Chemical has continued to repurchase its own shares. In the event of a large-scale M&A, at the 300- or 400-billion-yen level, would you consider a capital increase instead of just loans alone?

A2: While we have told each business division to feel free to engage in M&As, there are limits on the amounts. Since we have only about 1,200 professional employees in total on an unconsolidated basis, we believe that even if we were to acquire a firm on the scale of 300 or 400 billion yen, we would not be able to manage it. Our limits on the scale of acquisitions are calculated based on the approach of tolerating loans up to a degree that would reduce our rating by one rank. We also have a surplus of cash. We expect to be able to acquire firms valued at tens of billions of yen through supplementing these surplus funds with the loan amount referred to earlier.

■ Chemicals Segment

Q3: Performance of Chemicals overall was considerably below expectations in the first half (April - September). Would you please describe what's behind your expectations of a recovery in the second half?

A3: While performance was stable through the first half of last year, it decreased rapidly in the second half due to the impact of U.S.-China trade friction and other factors. For this reason, we expect a relatively large increase in profits in the second half of this fiscal year. These plans also incorporate expectations of a recovery in the business environment for

our leading export products, such as TEPIC and melamine. With regard to other products, the first half was impacted strongly by factors such as lower utilization by main users, and we expect a recovery from that impact in the second half.

Q4: Conditions in the melamine market remain weak. Have you seen any signs of a recovery recently?

A4: The melamine price has decreased by about 30% compared to October of last year. While this trend remains unchanged, we do expect a small rebound in the second half.

■ Performance Materials Segment

Q5: Conditions in the LCD panel market are expected to be quite difficult in the second half. What about SUNEVER?

A5: We expect SUNEVER's performance in the third quarter to be roughly in line with its second quarter performance, probably followed by a slight decrease in the fourth quarter.

Q6: SUNEVER's VA mode sales in the first half appear to show very strong growth compared to competitors and market conditions. What's behind that? Also, what is the trend in prices?

A6: In addition to maintaining our share among existing customers, we also are securing a new customer for the VA mode. Since utilization by this new customer is stronger than expected, our sales have shown strong growth amid a bearish trend among competitors and in the market as a whole. The price trend has been largely as was expected in May.

Q7: SUNEVER's photo-alignment IPS mode sales are strong. Is this due to major contributions from smartphones?

A7: While sales for smartphone use are strong, a major factor behind this growth is the increasing penetration of photo-alignment IPS for applications other than smartphones, such as laptop computers and monitors. Smartphones account for about one-half of the expected increase in the full-year sales outlook this fiscal year, while other applications account for the remainder.

Q8: SUNEVER's photo-alignment IPS mode prices are higher than the outlook in May, for both actual first-half performance and second-half forecasts. What's behind this trend?

A8: We have been able to contain the downward trend in prices better than initially expected. The strongest factor behind this is the fact that our materials offer performance superior to

that of competing materials. We are ahead of the competition in development, and we believe that this leads to quick ascertaining of new needs and swift commencement of development activities.

■ Agrochemicals Segment

Q9: You've revised the sales outlook for Fluralaner slightly downward from the initial May forecast. What's behind this revision? Also, how are Bravecto inventory adjustments proceeding?

A9: This revision was due mainly to the high yen. Although our view is that the Bravecto inventory adjustments at MSD* probably are not completed because of numerous uncertainties, we project Fluralaner sales in the fourth quarter to grow compared to last year.

Q10: Zoetis plans to bring to market a triple compound called the Simparica Trio. Will that pose a competitive threat?

A10: While we do recognize it as a new competing product, since Bravecto has a large share of the global market, and the market as a whole continues to grow, we do not necessarily consider the Simparica Trio to be a threat. In addition, in its conference call on financial results the other day, MSD clearly stated that it is developing a similar triple compound. We have heard that MSD also believes that it is important to offer a wide-ranging lineup of veterinary medical products and is diligently advancing development efforts.

Q11: To what extent is the introduction of Bravecto to the China market incorporated in second-half projections as sales of Fluralaner?

A11: Since we have not spoken with MSD about its sales plans by country, sales to China are not included in company plans, including medium-term business plans.

Q12: What is the size of the veterinary medical product market for pets in China?

A12: Although we have heard that it is potentially very large, since we have not received solid information from MSD, we cannot provide you with quantitative information. According to our own survey, there are about 50 million dogs kept as pets in the country. We believe that we can expect a corresponding sales volume.

* MSD: MSD Animal Health, the global animal health business unit of Merck (US)