

## Dialogue between the President and An Investor



### Hitoshi Ochi

Representative Corporate Executive Officer, President and CEO  
Mitsubishi Chemical Holdings Corporation

# Aiming for continuous portfolio transformation and the establishment of new business models to achieve sustainable growth

**Responding to broadly diversifying marketing needs through rapid decision-making and the formulation/implementation of strategies.**

## 1. Results of FY2017

**Itani:** You have achieved the goals for FY2020 ahead of schedule (see pages 17 and 19), granting that the core operating income of ¥380.5 billion for FY2017 was attributable to strong market conditions. In hindsight, what do you think the contributing factors were?

**Ochi:** Our understanding is that three main factors, namely business structure/organizational reforms, improved market conditions and changes in market needs

worked in our favor in a synergistic fashion. The MCHC Group has been implementing portfolio transformation for many years to build foundations for growth. As a matter of fact, our management condition has changed since FY2015 (the final year of the previous medium-term management plan).

Concretely speaking, in the Industrial Materials domain, we increased profitability thanks to improved and stabilized global market conditions, as well as the separation of low-profit businesses that we have been

undertaking. In particular, the MMA business, in which the MCHC Group has a 40% market share worldwide, had previously been operated by each of multiple Group companies. Today, we have established a system in which optimization is achieved in the implementation of marketing strategies and the operation of facilities as one business on a global scale. As a result, the MMA business increased its profitability significantly in FY2017 on the back of favorable market conditions as well. In addition, in the Performance Products



## Masanobu Itani

Senior Vice President and Portfolio Manager, Total Return Equities Asia Pacific GIC Pte Ltd

domain, which includes films, high-performance engineering plastics and composites, among other products, we enhanced profitability by actively facilitating globalization and shifting to high value-added products to respond to market needs.

We feel that changes in market needs are working positively in terms of profitability. New social needs are being created because it is possible to store and analyze a large amount of information as a result of scientific and technological progress in a variety of areas. We are in an era in which markets for different products, rather than a market for a particular product, grow simultaneously.

We consider that this situation is a good opportunity for the Group, which, as a general chemical manufacturer, supplies materials to diverse markets including those related to mobility and electronics, creating a business environment in which we can leverage our strengths.

**Itani:** The petrochemical business, especially MMA, has seen strong growth in profit, and made a remarkable impact on the Group's profitability. That said, however,

how do you deal with the risk of market deterioration going forward?

**Ochi:** In our previous petrochemical business, we attached importance to the capacity and efficiency of production at the upstream stage. What is important today, though, is how we should create value-added products at the downstream stage. The maintenance of the production capacity of materials such as ethylene, propylene and butadiene at the upstream stage depends on the competitiveness of products made from the respective materials at the downstream stage. We had already consolidated naphtha cracking facilities during the period of the previous medium-term management plan. Accordingly, we do not expect profitability to fluctuate as significantly as it did before, even if market prices decline. We believe that MMA is well positioned to cope with market fluctuations because it has a 40% market share and we have a highly cost competitive proprietary production method called the New Ethylene Method used in the new plant in Saudi Arabia.

## 2. Measures to achieve targets in the current medium-term management plan (FY2020)

**Itani:** If you keep restructuring by shrinking capacities, upside potential cannot be fully captured if the market starts to pick up. However, it appears you have been able to enhance the earnings through a good mix of restructuring and growth investments. Given the excellent performance, you have increased the target of core operating income in the medium-term, which was ¥380 billion, by ¥50 billion to ¥430 billion. What measures are you going to take to achieve this target?

**Ochi:** For one thing, we expect that the existing businesses will achieve organic growth more strongly than they did previously thanks to the effects of the integration of the three chemical operating companies. Specifically, we believe that profitability will be enhanced through a faster decision-making process resulting from the consolidation of business units and the optimization of existing products/services. To facilitate

## Dialogue between the President and An Investor

**In addition to facilitating growth acceleration through M&As, we will make growth investments for the utilization of digital technologies and collaboration with start-ups, among other objectives, with an eye on the development of next-generation businesses and the improvement of the efficiency in core business such as manufacturing technologies, research and development, and human resource development.**

orchestration between the companies affiliated with MCHC, we have established a system in which the Industrial Gas and Performance Products domains can be operated collaboratively to capture business opportunities in as many areas as possible for when the market for semiconductor businesses is vitalized in, for example, China, among other countries.

Meanwhile, with respect to the development of overseas businesses, we aim to cultivate markets on an area-by-area basis.

This involves the establishment of regional headquarters (RHQ) and the implementation of M&As as important measures. Our RHQ, or organizations in which marketing and human resources functions are integrated to address the needs of the respective markets such as Europe, the United States and Asia, are functioning effectively to make decisions and implement strategies rapidly and also apply such strategies to one another among markets. In addition, from the perspective of responses to diversifying market needs that I touched on at the beginning, it is becoming more important strategically to ensure that different businesses, for example, those for high-performance engineering plastics and carbon fibers, are connected to each other to address customer needs. Moreover, we implement measures for streamlining operation and improving production efficiency to achieve cost savings of around ¥15 billion each year. We are aiming to hit the new target of ¥430 billion through these measures.

**Itani:** You expect to achieve your additional medium-term management target of ¥50 billion through the orchestration, growth and streamlining of the three chemical operating companies. What is the progress of these measures?

**Ochi:** Of ¥50 billion, approximately ¥20 billion is within reach in monetary terms. With regard to portfolio transformation,

we have almost completed the process of classifying businesses into core or non-core businesses. ROIC targets have been established in each domain, and they are being monitored. In addition, the operating companies are in the process of reducing the number of affiliate companies by 25%, from the original 750 to 760.

### 3. Domains for which investments are made for growth and research and development

**Itani:** In terms of your investment plan for the period of the medium-term management plan, you have increased the upper limits for investments and loans and capital expenditures by ¥200 billion compared to the initial plan, to ¥1.7 trillion, while at the same time increasing research and development expenses by ¥25 billion from the initially planned ¥700 billion. How do you allocate growth investments going forward? For example, as shown in the term “orchestration” that you have been using so far, you are successfully developing new business domains by connecting different product lines appropriately. From this perspective, how do you make the most of M&As going forward?

**Ochi:** We aim to accelerate growth investments mainly in the Performance Products domain. When Mitsubishi Chemical Corporation was established in 2017, we integrated the business units into 10 through restructuring. Still, we think it is difficult to achieve growth solely with the existing businesses. Accordingly, we will adopt M&As actively to acquire new markets and technologies. In the Healthcare domain, M&As can be used as means of adding new functions from the perspective of developing the healthcare business as a whole, not to mention the pharmaceutical business in which we have been accumulating expertise.

Incidentally, the acquisition of the European

business (acquisition price: 5.0 billion euro/ approx. ¥643.8 billion, stock transfer scheduled for November 2018) by the Industrial Gas business (Taiyo Nippon Sanso Corporation), which was announced on July 5, 2018, was a project that exceeded the initially expected limit. Even so, by acquiring a highly profitable business that enjoys a certain market share in Europe, an untapped market for our industrial gas business, we will move forward with the efforts to globalize our industrial gas business and increase profitability through the expansion of marketing functions, among other measures.

We also expect that synergies will be created through acquisitions in other businesses of MCHC besides the industrial gas business, such as initiatives for increasing sales of semiconductor-related products in the Performance Products domain by utilizing the sales channels of special gases and other resources.

**Itani:** In conjunction with the healthcare business, globally speaking, more chemical companies appear to be separating their pharmaceutical businesses. Considering these trends, I think you are taking a rather unique approach because you are developing a healthcare business centered around the pharmaceutical business.

**Ochi:** The MCHC Group's pharmaceutical business will address unmet medical needs with a focus on the central nervous and autoimmune systems, which are, in a sense, special disease areas. These areas will continue to be important from a business perspective going forward. Moreover, considering a range of health-related challenges including employees' workstyles, in addition to those related to the aging population and social welfare, we should enhance services for the prevention of diseases and the maintenance of health as well as those associated with the treatment of any diseases that develop. In the long term, we hope to create a health system that connects pharmaceuticals,



medical fronts, individuals and the organizations in which they work.

**Itani:** So, based on this concept, you have positioned healthcare solutions as a next-generation business. We have heard that you recently commenced an exploratory clinical test for Muse cells that are used in regenerative medicine.

**Ochi:** Regenerative medicine is an area in which we will facilitate research and development going forward. At this point in time, we aim to launch Muse cells, on which the Life Science Institute is working, onto the market in 2021 (see pages 15 and 16). In addition, with respect to the Performance Products domain, materials used in medical fronts fall under the category of future growth areas. We will promote medical materials such as capsules for pharmaceuticals, transfusion bags and

high-performance engineering plastics for artificial joints, among other items.

**Itani:** On the other hand, you are working to achieve growth investment through measures such as the utilization of digital technologies and alliances with start-up companies. How do you leverage these approaches?

**Ochi:** This area is led by the newly established Emerging Technology and Business Development Office, which has two main missions: playing the role as an accelerator for the development of next-generation businesses and streamlining corporate platforms for production technologies, research and development and human resources development. The utilization of digital technologies is actually a step that will lead to health management. We will be able to secure the safety of workers on the factory floor, reduce routine work such as monthly analyses, and improve workers' productivity. From the aspect of human resources development, we are considering the establishment of communication systems and knowledge-sharing systems. We consider these measures to be investments for the future, ensuring that the MCHC Group can establish new business models to sustain growth with society under the KAITEKI vision from a long-term perspective.

#### 4. Shareholder returns

**Itani:** Lastly, I would like to ask you about shareholder returns. Could you tell us about the future outlook for shareholder returns, including the purpose of the acquisition of treasury stock of approximately ¥20 billion that you implemented in May and June 2018?

**Ochi:** In conjunction with returns to shareholders, our basic stance is to pay dividends stably while aiming for a consolidated payout ratio of 30% on a medium-term basis, factoring in an appropriate balance between investment for growth and efforts to improve the financial position.

We continued to achieve favorable financial results in FY2016 and 2017. However, we must calmly ascertain the extent to which profitability increased as a result of the actual growth of businesses because such results were partly due to the impacts from a temporary decline in tax expenses, as well as the market prices of certain products including MMA that remained at such high levels that we had not seen over the past years. Taking these factors comprehensively into account, we have decided to increase the dividend per share for FY2017 by ¥12, to ¥32. In addition, we carried out the acquisition of treasury stock amounting to ¥20 billion. Through measures such as these, we are striving to enhance shareholder returns.

