Capital policy

Achieving ROE that exceeds cost of capital

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Shift to management that emphasizes capital efficiency

Based on the Medium-Term Management Plan "Transformation: BEYOND 2030," we will promote initiatives with a strong focus on capital efficiency in order to achieve an ROE target of 8% for fiscal 2026. Although we achieved an ROE of 8.7% in fiscal 2021, we faced the challenge of being unable to build a revenue structure that stably exceeds our capital cost. To realize such a structure, we will focus on the following specific key initiatives in "Transformation: BEYOND 2030."

1. Shift to high value-added products through business portfolio transformation
   - Accelerate development of growth businesses
   - End pigment-grade titanium dioxide business, withdraw from domestic lead-based stabilizers (both by fiscal 2025)

2. Reduce assets
   - Manage cash flow, improve CCC
   - Sell non-current assets that are not being effectively utilized

3. Improve capital efficiency
   - Actively invest in growth businesses, including M&A
   - Enhance shareholder returns

1. Shift to high value-added products through business portfolio transformation

Unlike previous management plans that sought to grow all aspects of our business, the Medium-Term Management Plan "Transformation: BEYOND 2030" focuses on which businesses to expand and which to downsize or withdraw from. The plan calls for active investment of management resources in growth businesses and in the seeds (technology and know-how) of highly profitable businesses that can contribute to the future. To achieve these goals, we need to streamline our low-profit businesses. In fiscal 2025, we will exit our pigment-grade titanium dioxide and domestic lead-based stabilizer businesses, and proceed with structural reforms to create a high-profit structure.

The impact of these structural reforms on our full-year consolidated financial results has been incorporated into our Medium-Term Management Plan "Transformation: BEYOND 2030." Going forward, we will promptly announce any revisions that occur.

2. Reduce assets

In the past, we emphasized P/L (profit and loss statement) indicators such as net sales and profits. However, we will now also emphasize B/S (balance sheet) and C/F (cash flow statement) indicators such as capital efficiency and cash efficiency.

In regard to cash efficiency, the cash conversion cycle (CCC) for fiscal 2023 was over 210 days. Although the chemical materials industry tends to have a long CCC, 210 days is still long compared to other companies in the same industry. We are working to achieve our target of 180 days. We will also reduce assets and improve cash efficiency, by expanding the scope of financing between group companies and selling non-current assets that are not being effectively used.

3. Improve capital efficiency

In the future, we will make more individualized decisions on business investments. We will refrain from capital investments with low return on investment. Instead, we will actively invest mainly in growth businesses that will drive future profit growth. In addition to realizing organic growth in our existing business, this investment strategy will realize growth spurts through M&A focused on growth businesses.

The Group will also strengthen shareholder return. Specifically, we will strengthen shareholder return by introducing DOE (dividend on equity), which will be described below, and by flexibly acquiring treasury shares.

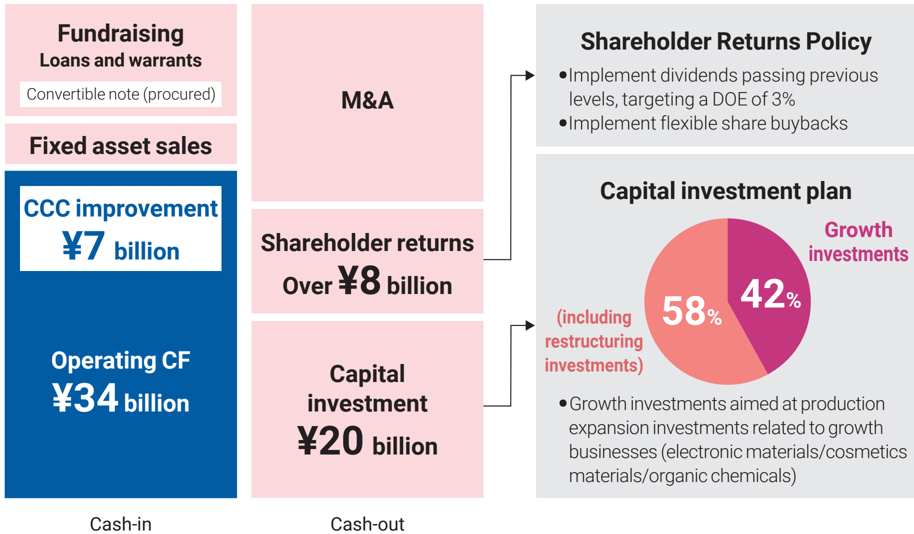
Capital allocation

Achieve well-balanced allocation of capital between growth and return

In terms of cash inflow, we expect to generate ¥34 billion in cash from operating activities. Of that amount, ¥7 billion will be generated by improving CCC. In terms of cash outflow, we will allocate ¥20 billion to capital investments. Of that amount, 42% (¥8.4 billion) will be allocated to growth investments.

We plan to allocate more than ¥8 billion to shareholder return. We also intend to allocate funds to M&A in growth businesses. However, we have yet to set a specific amount at this point in time. We will remain flexible in order to capture any good opportunities.

Capital Allocation (Three-Year Cumulative)

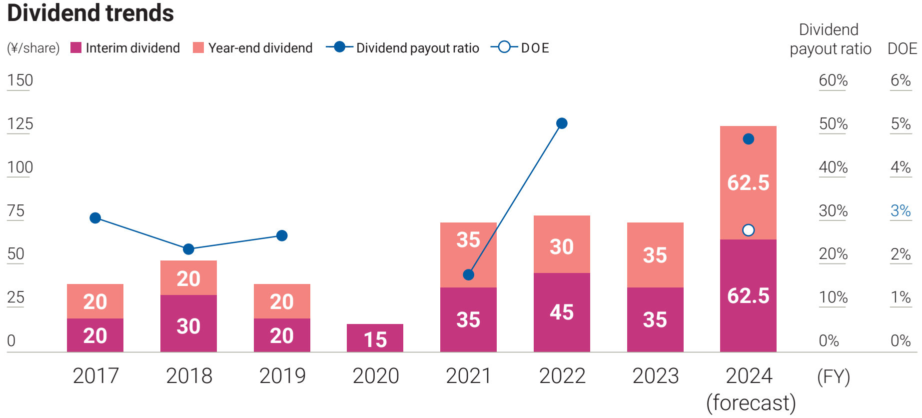


Shareholder return

Towards more stable and higher levels of shareholder return

Until now, the Group has returned profits to shareholders with a dividend payout ratio of 30% or higher as a guideline. Given our track record of returning a stable total dividend amount to shareholders, we have decided to introduce DOE from fiscal 2024. Amid a rapidly changing business environment, we aim to achieve a certain level of stable dividends by switching to a shareholder return policy based on DOE as a guideline. Our policy is to return profits to shareholders while improving ROE and capital efficiency. However, growth investments aimed at profit growth are also important, so we will pay higher dividends than before while maintaining a balance and targeting a DOE of 3%. If profits exceed our plan, we will consider additional shareholder return, such as flexible acquisition of treasury shares.

Dividend trends



[For fiscal 2023]
Annual dividend of **¥70 per share (interim ¥35, year-end ¥35)**

[Basic policy for dividends of surplus from fiscal 2024 to fiscal 2026]
Revised our target dividend payout ratio to 30% or more and implemented profit return with a target **DOE of 3% (biannual)**

About SAKAI
Value creation strategy
Value Created by the Sakai Chemical Group
Value creation method (business)
Source of value creation (capital)