



堺化学工業株式会社

Sakai Chemical Industry Co., Ltd.

New Medium-Term Management Plan Briefing Session

May 28, 2024

Event Summary

[Company Name]	Sakai Chemical Industry Co., Ltd.	
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[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Toshiyuki Yagura	President, Representative Director
	Shinji Ogama	Executive Officer

Presentation

Moderator: We would like to continue with the explanation of the new mid-term management plan. President Yagura, please start.



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New Mid-Term Management Plan “Transformation: BEYOND2030” (FY 2024–FY 2026)

May 13, 2024

Yagura: Once again, I am President Yagura. Thank you.

I will now explain our new mid-term management plan, "Transformation: BEYOND 2030."

First, please take a look at this title. We have set a three-year plan, "Transformation: BEYOND 2030," for the period from the fiscal year ending March 31, 2025, to the fiscal year ending March 31, 2027.

Unlike previous plans, this mid-term management plan is a plan to create a vision for people's lives, society, and the Company in the future, while continuing to make changes, with a clear distinction between businesses that will grow toward that vision and businesses that will shrink or withdraw from the market. The title reflects this concept.

Top Message

Sakai Chemical's image of the future: "An excellent company capable of contributing to society with Smart Material"

The Company imagined what life in 2050 would be like, and what chemistry can do to create it. For the three fields of environment & energy, electronics, and life sciences & healthcare, the Company aims to transform into "an excellent company capable of contributing to society with Smart Material."

The new Mid-Term Management Plan "Transformation: BEYOND2030" is the transformation stage for the future

The new Mid-Term Plan has been positioned on the transformation stage to realize the transformation to our desired future. By growing through the dual pillars of inorganic and organic chemistry and shifting to businesses that contribute to a society looking to the future, the Company will transform into a highly profitable company.

Complete the transformation for the future with determination

- (1) Business portfolio restructuring aimed at shifting to high-value-added products
- (2) Achieving ROE that exceeds the cost of capital and improving PBR
- (3) Rebuilding the management foundation via materiality promotion and accelerating non-financial initiatives

These three key areas will be focused on to complete the transformation for the future with determination.



Sakai Chemical Industry Co., Ltd.
President and Representative Director
Toshiyuki Yagura



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Please look at the first page. This is the key slide among all pages.

I am pleased to present the entirety of this plan and express my determination to complete this transformation with my commitment.

As the future vision of Sakai Chemical Industry, we will transform ourselves into an excellent company capable of contributing to society with Smart Material. In order to move toward this vision, we have positioned "Transformation: BEYOND 2030" as a stage of change for the future. And with determination, we intend to complete these three transformations. I would like to ask for your continued support.

Future Direction of Sakai Chemical (BEYOND2030)

Life of 2050 as envisioned by the Company

Coexistence of Virtual and Real Spaces

A Society Based on Human Involvement

Interaction and communication between people do not disappear

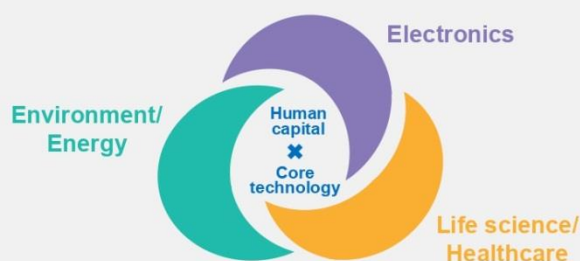
Furthered Diversification of Lifestyles

Compact cities and interaction with nature

Communications via Remote and In-person

Ways of connecting with people may differ, but the need for beauty and health always remains

What chemistry can do to create the lifestyle of 2050



① **Protect nature**
(protect the global environment)

② **Support the development of an advanced information society**
(for a more equal society)

③ **Support People's Health**

Becoming “an excellent company capable of contributing to society with Smart Material” for the three fields



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I would now like to explain the future direction of Sakai Chemical Industry, or BEYOND 2030.

We have imagined life in the year 2050, a future beyond 2030.

As a result, we have four major images. One is a society where virtual space and real coexist. Even in such a world, human contact and communication will not disappear but will continue, based on the premise of a society in which people intervene. I also imagine that lifestyles will continue to diversify, and that communication will be both remote and real.

With this lifestyle in mind, we, as a chemical company, thoroughly discussed what we could do with chemistry, and came to the following three conclusions.

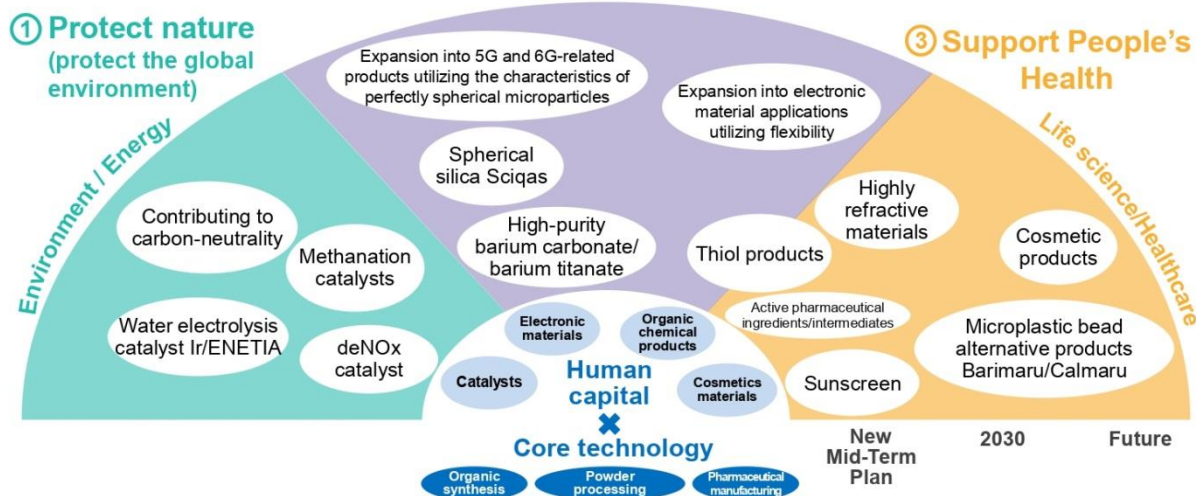
The first is to protect nature, the second is to support the development of an advanced information society, and the third is to support people's health. In other words, we want to be a company that can contribute to society in the three business areas of environment/energy, electronics, and life science/healthcare.

Then, how exactly will we contribute to society in the three business areas? It is shown on the next page.

Road-Map to the Future (BEYOND2030)

Actively invest management resources in the "seeds" of highly profitable businesses that can contribute to the future in the three fields

② Support the development of an advanced information society (for a more equal society)
Electronics



Corporate concept	Management mission Creating materials that support the comfort and security of society through compassion and technological innovation	Chemistry for a Friendly Future	Organizational vision We will build an exciting company together	Exciting Company	わくわくカンパニー
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In fact, this page is one of my favorites.

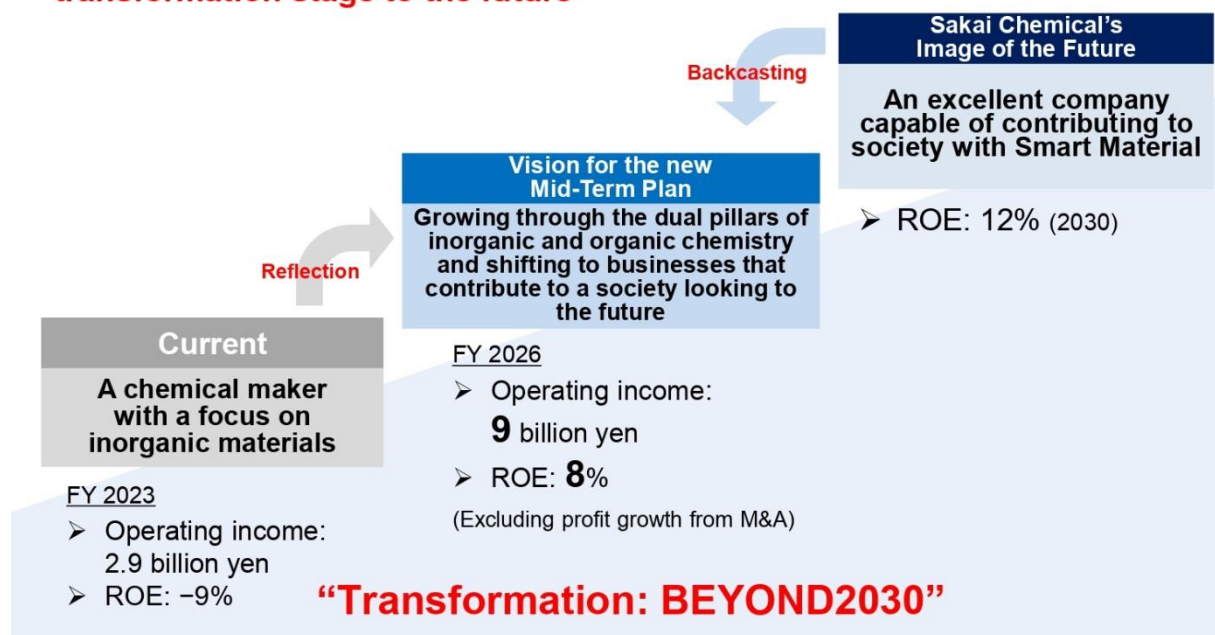
While exchanging various opinions with young engineers and researchers, we came up with various themes that we are working on, want to work on, or need to work on. Here is a pictorial representation of it. The center in the foreground is the present, and the outward direction is toward the future.

Our management mission is Chemistry for a Friendly Future, or creating materials that support the comfort and security of society, and we are a company with many such seeds. The items listed here are representative, and there are many smaller items, some of which are still under confidentiality agreements and cannot be written about, and many more to come. Additionally, if we gather the power of the group, we can process it and distribute it from right to left.

We intend to actively invest management resources in highly profitable business seeds that can contribute to the future.

Positioning for the New Mid-Term Management Plan “Transformation: BEYOND2030”

Focusing intensively on shifting to high-value-added products as the transformation stage to the future



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In order to do so, we must first liquidate the businesses that are currently unprofitable.

Therefore, we have positioned the mid-term management plan "Transformation: BEYOND 2030" as a three-year period to move toward the ideal state of Sakai Chemical Industry. While reorganizing our businesses, we will grow through the dual pillars of inorganic and organic chemistry, and shift to businesses that are useful to society with an eye on the future.

Our numerical targets for the fiscal year ending March 31, 2027, are operating income of JPY9 billion and ROE of 8%. And we will aim to achieve ROE of 12% by 2030.

To return to the original topic, we had initially planned to announce the new mid-term management plan by the end of 2023. When we announced our financial results a year ago last year, we also promised that we would announce it by the end of the year.

However, due to the poor performance and the large deviation from the plan, we were told by various investors and also harshly told by outside directors at the Board of Directors' meeting that we must first thoroughly reflect on the previous mid-term plan, SAKAINNOVATION 2023.

Therefore, we have reflected on the previous mid-term plan carefully.

Looking Back on Previous Mid-Term Plan Periods (FY 2019 - FY 2023)

Started engagement in business portfolio management amid rapid changes in the external environment

Results	<p>Initiating business portfolio management</p> <ul style="list-style-type: none">➤ Classification of each sub-segment for growth, stability, and efficiency considerations, along with the absorption merger of SC Organic Chemical Co., Ltd.➤ Unprofitable product price correction/discontinuation <p>Reworking corporate governance</p> <ul style="list-style-type: none">➤ Appointment of external directors with extensive management experience in critical areas such as GMP management and diversity promotion➤ Reduction of cross-shareholdings and elimination of parent-subsidiary dual listings by making Sakai Trading Co. Ltd. a wholly-owned subsidiary <p>Promotion of people and environment-friendly manufacturing</p> <ul style="list-style-type: none">➤ Development of microplastic bead substitutes and methanation catalysts
Issues	<p>Quality/Safety issue recurrence prevention</p> <ul style="list-style-type: none">➤ Administrative disposition of Kaigen Pharma Co., Ltd. for violation of the PMD Act➤ Yumoto Factory explosion and Onahama Manufacturing Site fire accidents <p>Improvement from current poor performance</p> <ul style="list-style-type: none">➤ Poor performance of growth businesses (impairment related to electronic and cosmetics materials, etc. for FY 2020)➤ Fundamental measures for underperforming businesses (impairment related to titanium dioxide and inorganic materials for FY 2023) <p>Improvement of CCC and cash flow and overcoming the stagnation of ROE and PBR</p>

Accelerate achievements and steadily address challenges for the new Mid-Term Plan



This page shows how we have looked back, dividing into the results and issues. In this new mid-term plan, we will accelerate the results and steadily address the issues.

In the following pages and beyond, we would like to explain the issues we face.

Complete Quality/Safety Issue Recurrence Prevention

Rebuild quality and safety management system, strengthen group governance

	Kaigen Pharma Order to suspend business (violation of PMD ¹ Act)	Yumoto Factory zinc dust plant Explosion and fire accident	Onahama Manufacturing Site Titanium dioxide plant fire accident
Date of occurrence	December 22, 2023 (administrative disposition)	May 11, 2021	March 30, 2023
Cause	<ul style="list-style-type: none"> ➢ Inadequate management and supervision system ➢ Closed organizational culture (Kaigen Pharma) 	<ul style="list-style-type: none"> ➢ Accumulation of deposited particles ➢ Damage to rotor 	<ul style="list-style-type: none"> ➢ Malfunction of special equipment
Individual measures	Kaigen Pharma: <ul style="list-style-type: none"> ➢ Management structure reform ➢ Reorganization of the entire company structure and system establishment ➢ Resource management and job rotation ➢ Strengthening education for executives and employees ➢ Establishment of a compliance management system (Clarification of responsibilities and scope of duties of directors, internal reporting system promotion, and fostering a quality culture)	<ul style="list-style-type: none"> ➢ Removal of dust accumulated during processing ➢ Improvement of dust removal frequency 	<ul style="list-style-type: none"> ➢ Improvement of similar equipment for defect resolution
Entire company measures	Sakai Chemical: <ul style="list-style-type: none"> ➢ Promotion and supervision of improvement plans (Increase the number of external directors dispatched to Kaigen Pharma to two for strengthened monitoring)	<p>(1) Thorough safety awareness: Thoroughly instilling awareness that "just because something hasn't happened yet doesn't mean it's safe"</p> <ul style="list-style-type: none"> ➢ Regular communication of top messages (not letting accidents be forgotten) <p>(2) Safety measures: Implementation of safety and health activities by everyone from management to site workers</p> <ul style="list-style-type: none"> ➢ Resolution of issues identified in external risk assessments ➢ Conducting training to demonstrate more effective risk management ➢ Continuously review safety and health standards 	

*1 PMD Act: Law concerning the assurance of quality, efficacy, and safety of pharmaceuticals and medical devices, etc.



First of all, I would like to talk about quality and safety.

As for the quality issue, at the end of last year, Kaigen Pharma received an administrative sanction for violating the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices. In response, we have announced and implemented an improvement plan. We will disclose our progress as appropriate. We will not make the same mistake again.

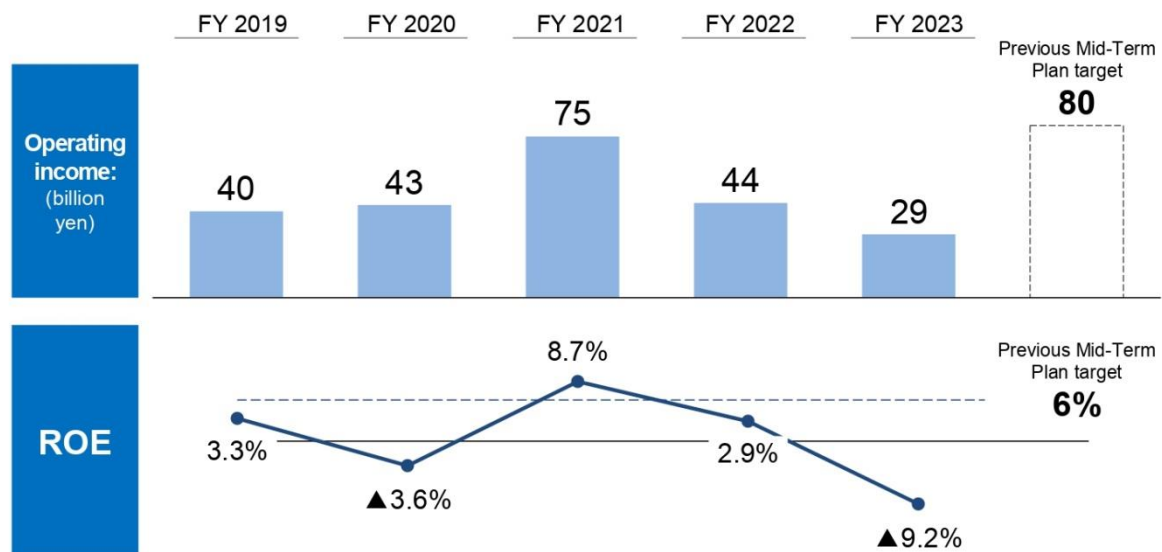
At the end of last year, I also visited the Okusawa Plant, where the improper act at Kaigen Pharma took place, and discussed it at length with the employees. I am also planning to visit the Nagano Plant this July. I will continue on-site visits and employee dialogue not only with Kaigen Pharma but also with our other affiliates.

Two fire accidents also occurred. Giving the highest priority to safety, not only I, but also the executives and safety personnel have taken the initiative to walk around the plants and have dialogue with employees, and we will continue to do so.

Individual measures are as described here. We would like you to take a look at them later.

Results against Numerical Targets of the Previous Mid-Term Plan

ROE target was achieved in FY 2021, but in the last fiscal year, neither operating income nor ROE were



Issue of revenue structure not consistently exceeding the cost of shareholders' equity



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Next are the results against the numerical targets.

In the previous mid-term plan, the targets for the final year that ended March 31, 2024, were an operating income of JPY8 billion and an ROE of 6%. In the fiscal year ended March 2020, we have achieved a reasonable level of performance, but there was no continuity. The previous fiscal year ended in a significant underachievement. We need to continue to improve our performance.

Initiating Business Portfolio Management (FY 2022 on)

Defining the Portfolio Management Policy

Chemical Business	Portfolio Management Policy	Sub-segment	Operating income	
			FY 2023 results	Reference: previous Mid-Term Plan annual average
Chemical Business	Growth businesses Accelerate the capture of market needs as a business driving medium to long-term profit growth	Electronic materials	300 million yen	600 million yen
		Cosmetics materials	-100 million yen	300 million yen
	Stable businesses Maintain as a stable revenue-generating business to the future	Hygienic products	400 million yen	300 million yen
		Organic chemicals	1.4 billion yen	1.5 billion yen
		Contract processing	500 million yen	700 million yen
	Businesses considered for efficiency improvement Implement fundamental measures based on the business structure and performance levels; aim to shift towards stable and growth businesses	Titanium dioxide and zinc	-400 million yen	100 million yen
		Plastic additives	600 million yen	500 million yen
		Catalysts	100 million yen	100 million yen
	Medical Business Shift to products not affected by drug price revisions		100 million yen	400 million yen

Note: Excluding "Other" from the chemical business



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Next page shows the initiation and results of portfolio management.

After assuming the position of president, I divided the chemical business into three types of businesses and began to work on them. These are the growth businesses, the stable businesses, and the businesses considered for efficiency improvement. However, in the previous fiscal year, we fell far short of our goal.

There were two major factors. In other words, the growth businesses did not grow, and the titanium dioxide segment, which is under businesses considered for efficiency improvement, reduced performance.

These are our reflections.

Important Initiatives for the New Mid-Term Plan, “Transformation: BEYOND2030”



Business portfolio restructuring aimed at shifting to high-value-added products

- In addition to electronic and cosmetics materials, improve the profitability of growth businesses through investments in organic chemicals, expand business through M&A, and identify the best owners
- Future investments for the next Mid-Term Plan (cosmetics materials, etc.)
- Pigment-grade titanium dioxide business termination



Achieving ROE that exceeds the cost of capital and improving PBR

- Cash flow management, asset compression through sales of ineffectively utilized fixed assets
- Capital efficiency improvement via active investment in growth businesses, including M&A, and shareholder returns



Rebuilding the management foundation via materiality promotion and accelerating non-financial initiatives

- Complete quality/safety issue recurrence prevention measures
- Initiatives for human capital management, the source of growth



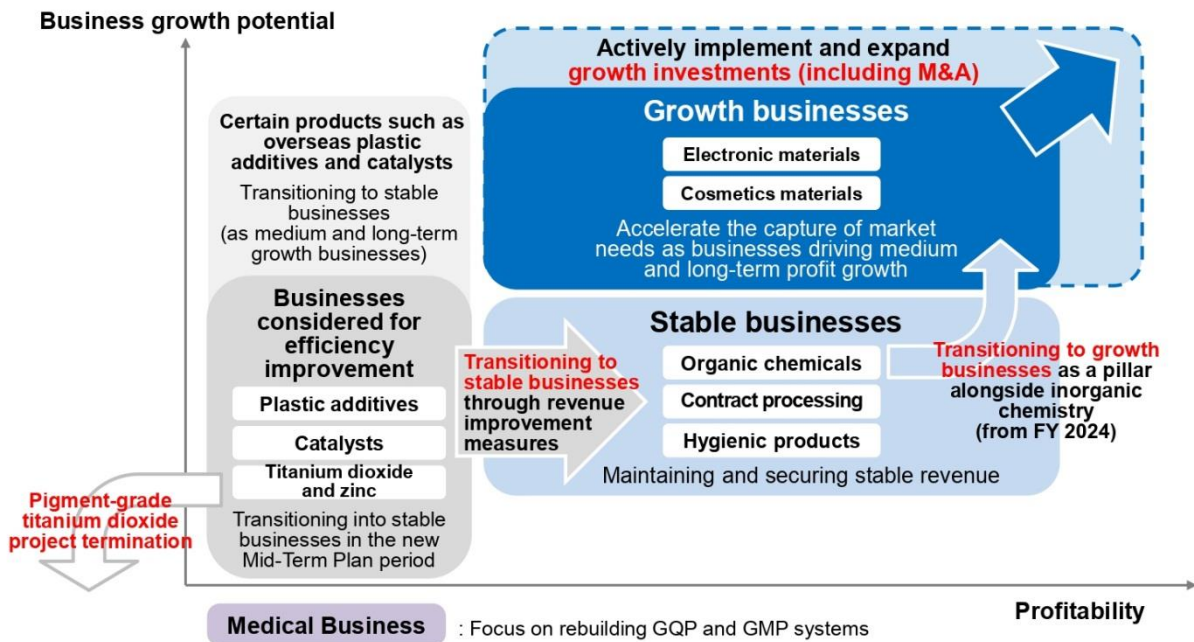
Based on these reflections, "Transformation: BEYOND 2030" will focus on the following three areas.

Transformation one is a business portfolio shift to high-value-added products. Transformation two is achieving ROE that exceeds the cost of capital and improving PBR. Transformation three is rebuilding the management foundation via materiality promotion and accelerating non-financial initiatives. These are the three transformations.

I will explain in detail on the next page and beyond.

Business Portfolio Transformation Policy

Accelerate the transformation of business portfolio management initiated in the previous Mid-Term Plan



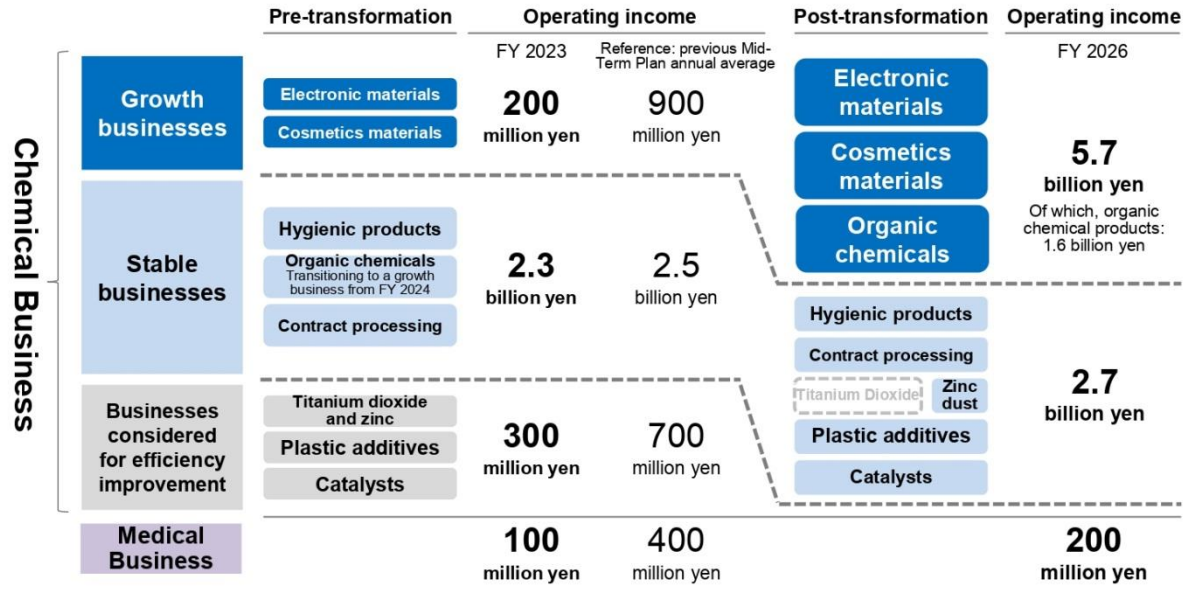
A graphical image of business portfolio transformation looks like this.

The plastic additives segment and catalysts segment, which are under businesses considered for efficiency improvement, will be shifted to the stable businesses through profit improvement measures. And in the titanium dioxide segment, the pigment-grade titanium dioxide project will be terminated. The profitable zinc segment will move directly into the category of stable businesses.

Among the stable businesses, organic chemicals will be brought into the growth businesses, and the growth businesses will be expanded with both inorganic and organic products.

Profit Growth via the Business Portfolio Transformation Policy

For businesses considered for efficiency improvement, streamline operations by focusing on businesses and products that can continuously contribute to revenue, transforming into stable businesses. Expand profitability of growth businesses through investments in electronics materials, cosmetics materials, and organic chemicals.



Note: Excluding "Other" from the chemical business



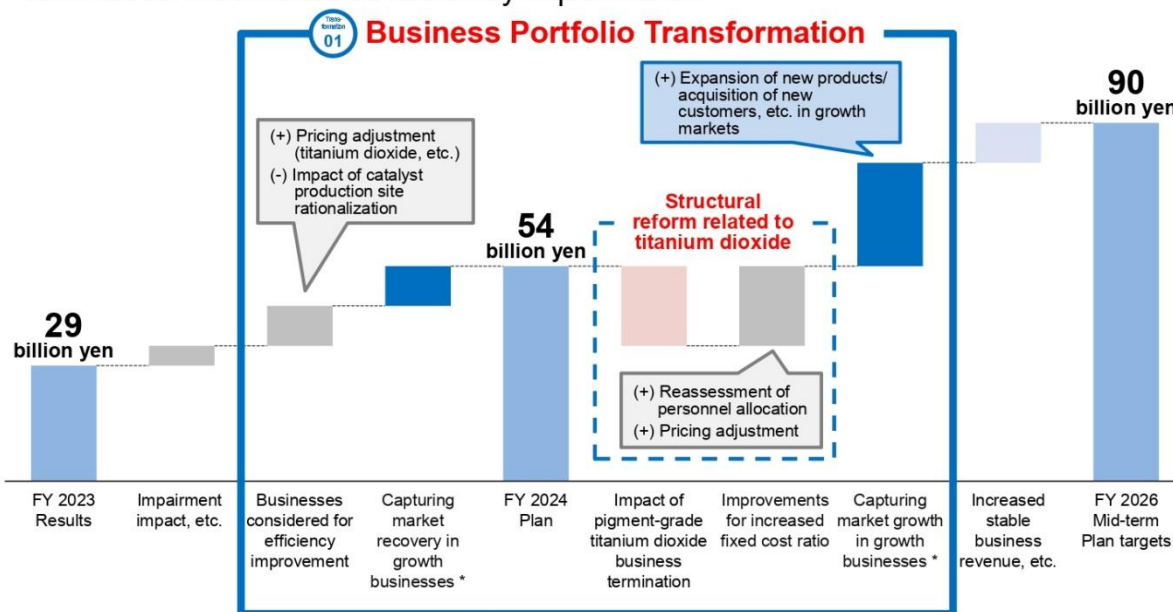
The next page shows the image of the figures in terms of operating income.

We will greatly expand the growth businesses, and withdraw from the businesses considered for efficiency improvement or reallocate them to the stable businesses. The growth businesses will drive profits so that it earns 63% of operating income.

We will reconfigure our businesses.

Overall Plan for Achieving Operating Income Targets

Shift to high-value-added products through business portfolio transformation by working on the recovery and growth of growth businesses while enhancing businesses considered for efficiency improvement



* Electronic materials/cosmetics materials/organic chemicals



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The overall picture and image for achieving the operating income target are on the next page.

We will increase operating income not only through the growth of businesses but also through the improvement of the businesses considered for efficiency improvement. The entire group will achieve JPY9 billion by reviewing personnel assignments to eliminate the increase in fixed costs due to the termination of the titanium dioxide segment, and by continuing the ongoing price correction toward appropriate prices.

We will pursue efficiency not only in the group companies, but also in the corporate and R&D divisions, and aim to increase profits across the Company.

This is the main objective of the structural reform.

Business Strategy for Growth Businesses

In addition to electronic and cosmetics materials, position organic chemicals as a new growth driver and work on further profit growth through growth investments in existing businesses and the utilization of M&A

Electronic materials

- Dielectrics: **Capture the high-end/mid-end markets with new products**, correct the pricing of unprofitable products
- Dielectric materials: Product portfolio review (actively expand sales of high-profit products and correct pricing of unprofitable products)

Target areas: **Electronics**

Cosmetics materials

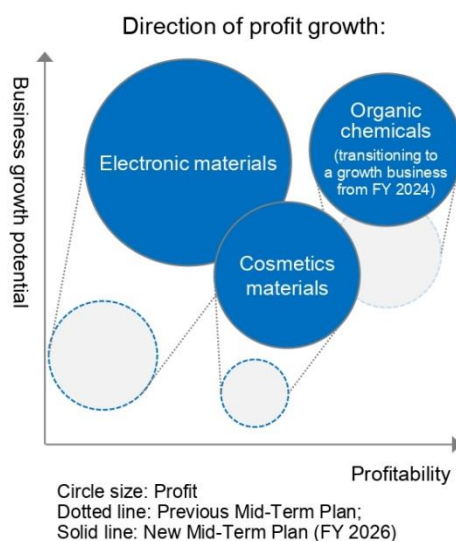
- Sunscreen: **Expand sales to overseas cosmetics manufacturers** through the proposal of surface treatment technology and formulation (performance evaluation cleared, production system established)
- Cosmetic products: Upfront investments for contributing to revenue in the next Mid-Term Plan period

Target areas: **Life science/Healthcare**

Organic chemicals

- Eyeglass lens materials: **Allocate resources aimed at maintaining and expanding the top market share** for high-growth, high-refractive-index products
- Active pharmaceutical ingredients/intermediates: Expand existing contracted products further through facility expansion and progress in CDMO

Target areas: **Electronics**
Life science/Healthcare



Next, I will explain the business strategy for the growth businesses.

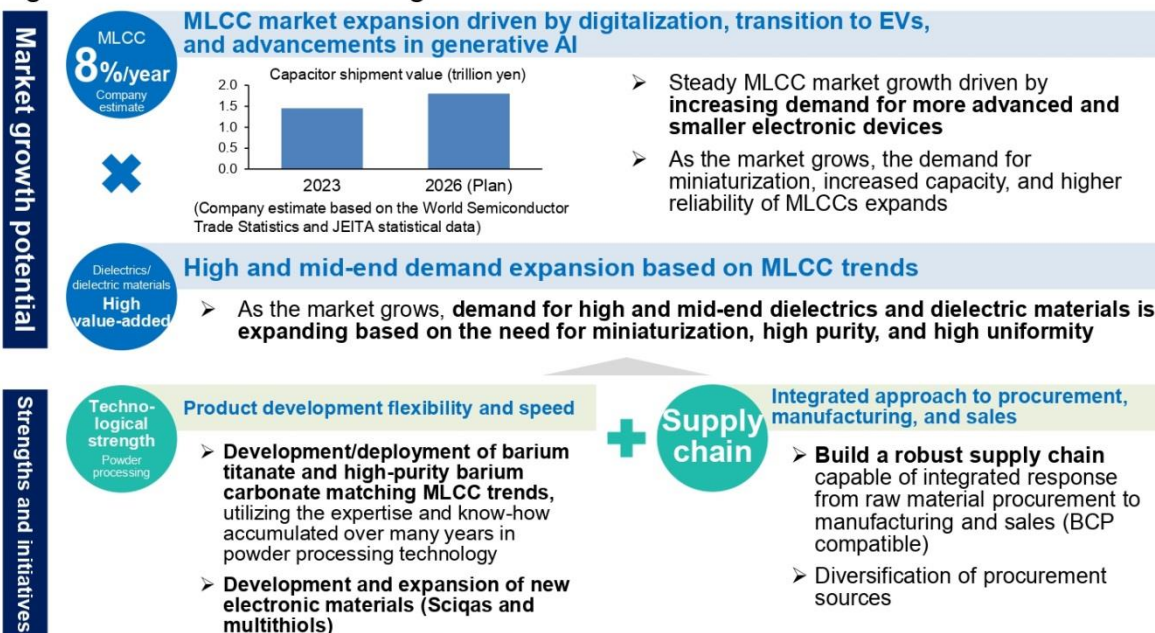
In addition to the electronic materials segment and cosmetics materials segment, we will position the organic chemicals segment as a growth business. We intend to achieve profit growth by investing in the growth of existing businesses and utilizing M&A.

The following pages and beyond describe each sub-segment in detail, and I will explain them along with the descriptions.

Growth Strategy: 1. Electronic Materials

Target areas: **Electronics**

Develop and expand sales of high and mid-end dielectrics and dielectric materials matching multilayer ceramic capacitors (MLCC) trends, achieving growth that exceeds market growth



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First is the electronic materials segment.

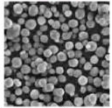
Based on semiconductor market statistics and other information, we estimate that the market will grow at 8% per year. Based on the MLCC trend, we expect the demand for high-end and middle-end products to expand, and we will accelerate R&D targeting this demand.

Another strength is the integrated supply chain approach with SAKAI TRADING, which has become a wholly owned subsidiary. We have strengthened our supply chain from raw material procurement to manufacturing and sales, and have gained considerable trust from our customers.

In addition to MLCC, we will continue to expand sales of new electronic materials, such as spherical silica Sciqas and multithiols, while expanding the trunk of materials for electronic material applications, in order to make them bloom in the next mid-term management plan.

Growth Strategy: 2. Cosmetics Materials Target areas: Life science/Healthcare

Realize growth beyond that of the market with **high-functioning and uniquely competitive products**

	Sunscreen	Cosmetic products
Market growth potential	<p>5%/year Company estimate</p> <p>Market growth x inorganic shift</p> <ul style="list-style-type: none"> ➢ Increased awareness of sun protection and skin lightening overseas ➢ Progress in replacing high-environmental-impact organic absorbers with low-environmental-impact inorganic scatterers <p>→ Growth prospects surpassing traditional growth rate</p>	<p>5%/year Company estimate</p> <p>Market growth x MPB alternative shift</p> <ul style="list-style-type: none"> ➢ Progress in replacing materials of concern for negative impacts on ecosystems, such as microplastic beads (MPB), with materials that have less impact on the ecosystem <p>→ High growth prospects within cosmetics market</p>
Strengths and initiatives	<p>Technological strength Powder processing</p> <p>Enhancement via surface treatment and micronization</p> <ul style="list-style-type: none"> ➢ Functionality enhancement using powder processing technology with zinc oxide and titanium, the foundational materials of our original business <ul style="list-style-type: none"> ➢ Transparency through ultrafine particleization ➢ Granting high dispersibility with surface treatment ➢ Expand sales to overseas cosmetics manufacturers (performance evaluation cleared, production system established) ➢ Accelerate expansion of overseas markets, focusing on highly profitable zinc oxide-based products 	<p>Product development capability</p> <p>Unique material lineup</p> <ul style="list-style-type: none"> ➢ Accelerate development/expansion of cosmetics materials <ul style="list-style-type: none"> ➢ MPB alternatives: Barimaru/Calmaru ➢ Unique cosmetics materials: plate-like barium sulfate, hexagonal plate-like zinc oxide, and phosphors for cosmetics ➢ Implementing upfront investments (capital investments) aimed at contributing to profits in the next Mid-Term Plan  <p>Electron microscope photograph of Calmaru (particle diameter: 5µm)</p>



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In cosmetics materials, we estimate that sunscreen agents will grow at 5% per year, and we will strive to enhance functionality through surface treatment and micronization. In addition, we will aggressively expand sales to overseas cosmetics manufacturers.

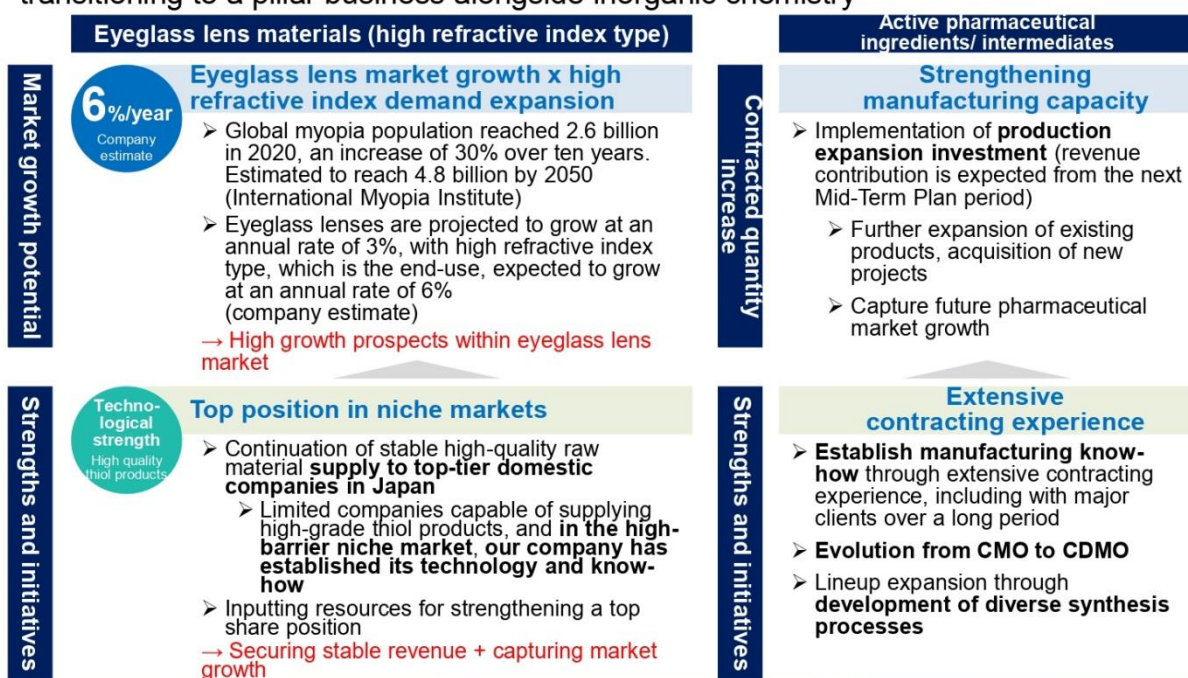
Our FINEX has been fully adopted by the world's number-one cosmetics manufacturer. The actual use of the product will start in the second year of the mid-term plan, and the sales volume will surely increase. We will aggressively promote sales expansion overseas since the brand will be attached to our products.

We are also focusing on cosmetic products in preparation for the next mid-term management plan. A new cosmetics plant at the Otsurugi Factory will be completed in H2 of the mid-term plan. The press release was issued yesterday. We will accelerate development and sales expansion. I think it will be the next flower.

Growth Strategy: 3. Organic Chemicals

Target areas: **Electronics**
Life science/Healthcare

Promote a **niche top strategy leveraging technology/quality as strengths**, transitioning to a pillar business alongside inorganic chemistry



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This is the organic chemicals segment.

Worldwide, myopia in children has become a social problem. The eyeglass lens market will grow. In particular, we expect growth of 6% per year for the high refractive index type, in which our thiol products are used. Only two companies in the world are capable of producing thiol products for this application. Sakai Chemical Industry is the only company in Asia. We will secure a leading position in the niche market.

As for the active pharmaceutical ingredients and intermediates, we have been investing in KATAYAMA SEIYAKUSYO for the conversion to CDMO since last fiscal year. We will continue to build a growing structure based on our extensive contracting experience.

Business Strategy for Businesses Considered for Efficiency Improvement

Focus on businesses and products that can continuously contribute to revenue, transforming into stable businesses

Titanium dioxide and zinc

- Elimination of deficits through price corrections, etc. (FY 2024)
- **Termination of pigment-grade titanium dioxide business (FY 2025)**, which has low capital investment efficiency and high environmental impact in the production process, and **implementation of structural reforms**, including improvements for fixed cost ratio reduction
- Zinc dust, etc. products transitioning to stable businesses

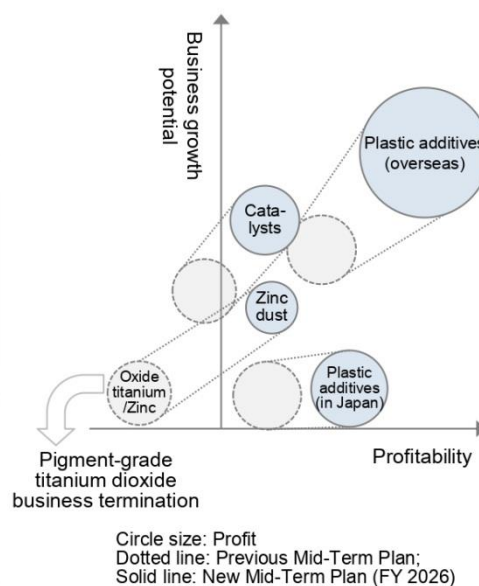
Plastic additives

- Domestic: Withdrawal from contract-manufactured lead-based stabilizers (FY 2025)
- Overseas: Shift to non-lead stabilizers (implementing production increase investments) and expand sales in the ASEAN region
- **Transition to stable businesses** from an overseas shift

Catalysts

- Efficiency via consolidation of production bases (FY 2024), cost reduction through yield improvement
- Revenue improvement via low-profit product price corrections
- **Transition to stable businesses** via consolidation of production bases and price corrections

Direction of profit improvement/growth:



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Next, I will discuss the business strategy for the businesses considered for efficiency improvement.

First, in the titanium dioxide segment, we have been working to eliminate losses by correcting prices and other measures. However, we have decided to discontinue the project of pigment-grade titanium dioxide products in the fiscal year ending March 2026. In line with this, we will implement structural reforms throughout the Company.

In the plastic additives segment, we will withdraw from domestic stabilizers with low profitability in the fiscal year ending March 2026. We will shift this segment to a stable business by concentrating on non-lead stabilizers and profitable overseas operations, especially in ASEAN.

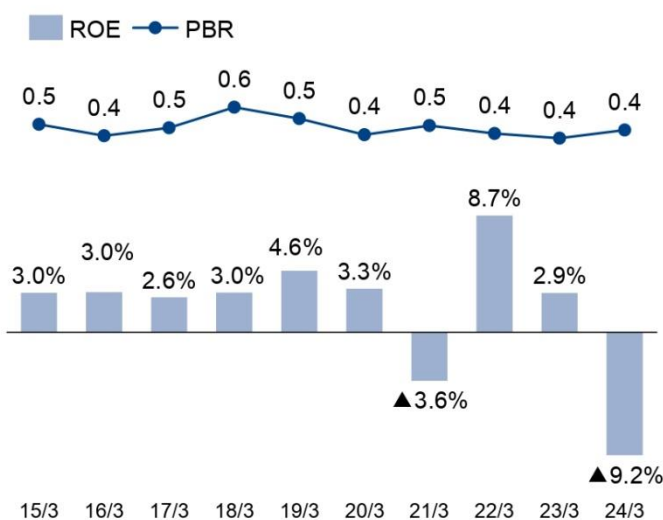
The catalysts segment will be shifted to a stable business by consolidating production bases and correcting prices. For the next mid-term management plan and beyond, we will also work on catalysts that contribute to carbon neutrality in the environmental energy area as part of the development of next-generation catalysts.

Through these strategies, we will eliminate the businesses considered for efficiency improvement in three years.

Achieving ROE that Exceeds the Cost of Capital and Improving PBR

Promote efforts strongly focused on capital efficiency to achieve the ROE target of 8% for FY 2026

ROE and PBR performance trend



Detailed initiatives

- 1 **Shift to high-value-added products via business portfolio transformation**
 - Development acceleration of growth businesses
 - Pigment-grade titanium dioxide business termination
- 2 **Asset compression**
 - CCC improvement
 - Sale of underutilized fixed assets
- 3 **Capital efficiency improvement**
 - Active investment in growth businesses, including M&A
 - Implementation of shareholder returns



Next, I will explain the achievement of ROE that exceeds the cost of capital and the improvement of PBR.

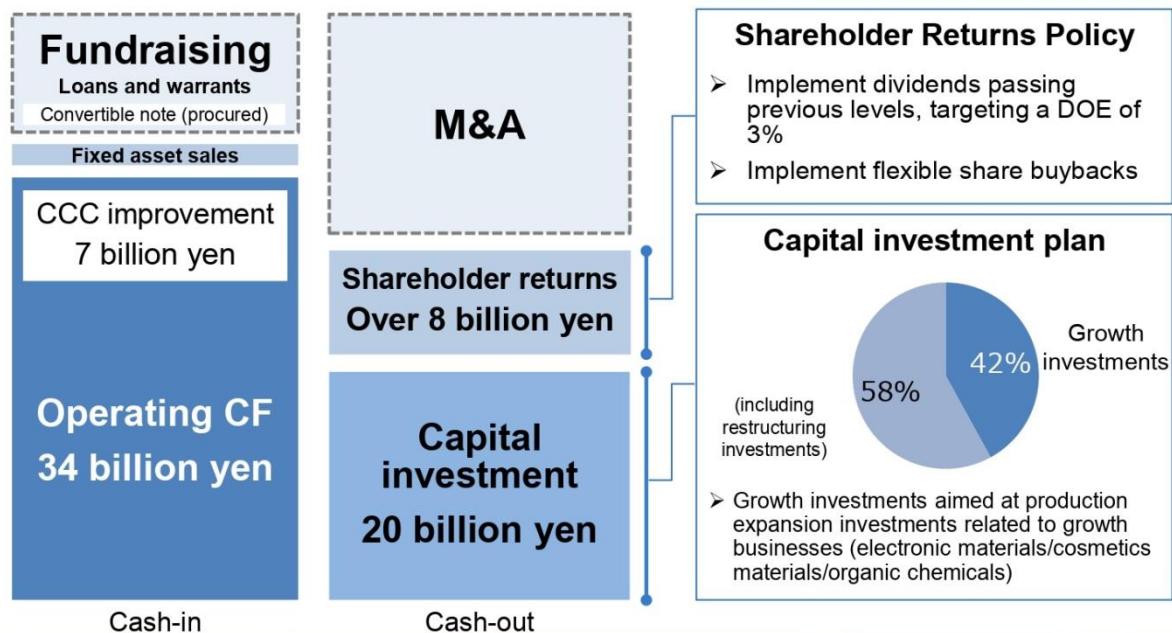
We will promote initiatives with a strong awareness of capital efficiency in order to achieve our ROE target of 8% for the fiscal year ending March 2027. These are three detailed initiatives.

Through business portfolio transformation, we will shift to a highly profitable business. We will increase the efficiency of money by reducing assets. And we will improve capital efficiency.

We would like to carry out what we have written here.

Capital Allocation (Three-Year Cumulative)

Allocate cash gained from profit generation, CCC improvement, and fixed asset sales to capital investment, shareholder returns, and M&A



Next is capital allocation.

We will earn JPY34 billion in operating cash flow. Of that JPY34 billion, we plan to generate JPY7 billion by improving the cash conversion cycle. We plan to use the cash obtained for capital investment of JPY20 billion and shareholder returns of at least JPY8 billion. Of the JPY20 billion in capital investment, 42% will be allocated to growth investment.

Shareholder Returns Policy

Shift guideline for shareholder returns **from dividend payout ratio to DOE**



* A reverse stock split was implemented in FY 2017

Shareholder Return Policy for FY 2024 - FY 2026

Implement dividends passing previous levels, targeting a DOE of 3%.
Implement flexible share buybacks

Consider additional shareholder returns if profit plans are exceeded



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The next page shows our shareholder return policy.

This was explained earlier by Ogama. We have a track record of returning a stable total dividend to shareholders as our target dividend payout ratio was 30%. In the past, the dividend payout ratio used to be close to 30%, but recently, a dividend payout ratio of 30% has become meaningless.

In the meantime, we decided to introduce DOE based on our track record of consistently paying stable dividends.

Materiality Promotion and Accelerating Non-Financial Initiatives

Incorporate into executive evaluations, ensuring management to site workers is involved

1. Make people happy		2. Protect the global environment	
KPI	Initiatives	KPI	Initiatives
Serious labor accident occurrences: 0	Implementation of safety and health activities by everyone from management to site workers	CO2 emissions reduction: Reduction of 30% in FY 2030 in comparison to FY 2013	Termination of business involving high environmental impact products (pigment-grade titanium dioxide)
Engagement improvement: FY 2025 Above average third-party evaluation score	Establishment of a Human Capital Committee, engagement improvement Dialogue opportunities between management and employees (increase opportunities for dialogue, such as holding town meetings, etc.)		Shift towards more compact and efficient manufacturing
Promotion of diversity: By FY 2030, achieve 20% employment rate of women in core positions and 10% in managerial positions	Mid-career recruitment promotion for women Conduct empowerment training and operate subcommittees creating work environment for women to thrive		Implementing renewable energy
3. Solve social issues through manufacturing		4. Build a strong, transparent management system	
KPI	Initiatives	KPI	Initiatives
Smart Material certified products and services: Five products on the market by FY 2030	Cosmetics materials Barimaru/Calmaru (MPB alternative products), plate-like barium sulfate, hexagonal plate-like zinc oxide, and phosphors for cosmetics	Number of serious compliance violations: 0	Review of information sharing, including with affiliated companies (review of group meetings, communication frequency improvement, etc.)
	Spherical silica SciQas: Leveraging the characteristics of true spherical and fine particles for expansion into 5G and 6G-related products		Improve effectiveness of the Board of Directors (utilization of evaluation surveys, etc.)
	Water electrolysis catalyst IR/ENETIA: contributing to carbon-neutrality		
	Multithiols: Expansion into electronic material applications utilizing thiols' flexibility		

Other initiatives in 3.: Conduct and implement CSR procurement surveys and improvements based on the human rights due diligence plan

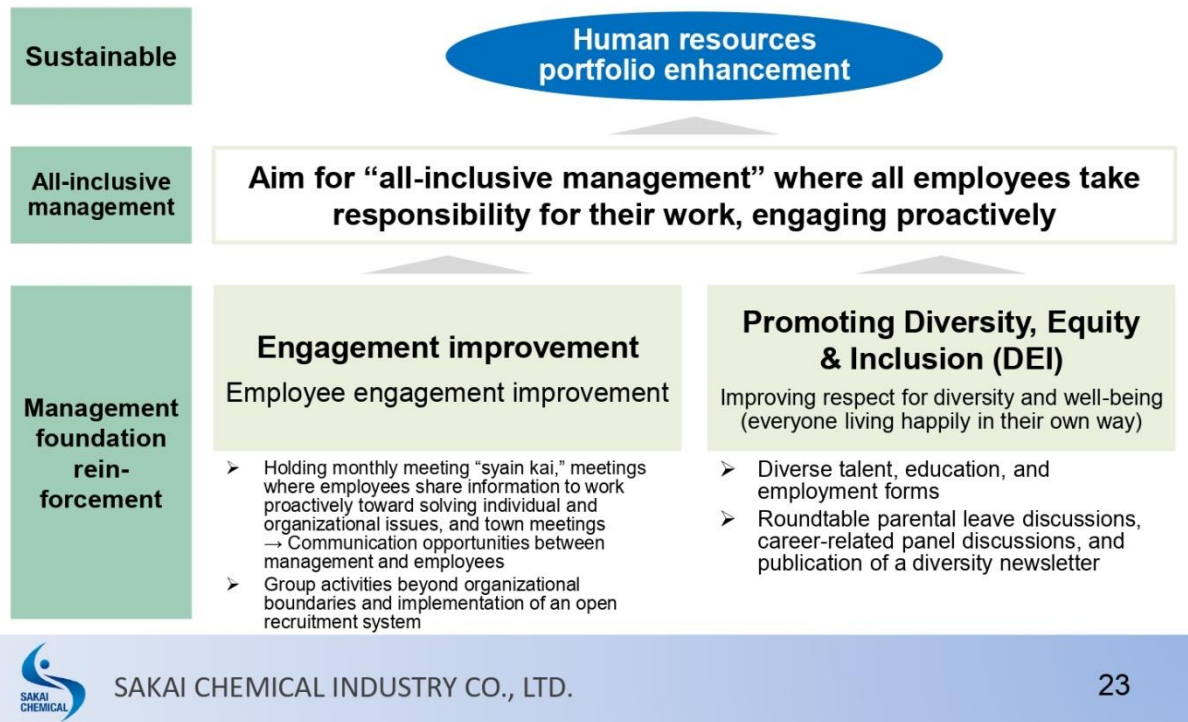


Lastly, I will talk about materiality promotion and non-financial initiatives.

We have already identified four materiality themes as important issues to be addressed: making people happy, protecting the global environment, solving social issues through manufacturing, and building a strong, transparent management system. In each of these areas, specific initiatives will be defined and addressed.

Human Capital Management Policy

Our Company aims to become a strong organization where employees take initiative in solving individual and organizational challenges, trust themselves and their colleagues, and can grow sustainably



Next is the human capital management policy.

This is aimed at becoming a strong organization where employees take initiative in solving individual and organizational challenges, trust themselves and their colleagues, and can grow sustainably.

To this end, management will disseminate information, continue dialogue with employees and bring them closer to us, help each employee understand the meaning and purpose of work, and promote systems that enable employees to work in a variety of ways and design their future careers.

Above all, I believe that it is important to change the mindset of employees to move proactively. In April of this year, employees voluntarily formed a Human Capital Subcommittee. Management will work together to promote these measures.

KGI and KPI List

Financial objectives (FY 2026)	Operating income: 9 billion yen <ul style="list-style-type: none"> ◆ Growth businesses: Operating profit composition of 60% or more ◆ Businesses considered for efficiency improvement: Focusing on businesses able to contribute to revenue, transforming into stable businesses 	ROE: 8% <ul style="list-style-type: none"> ◆ CCC: No more than 180 days 	KGI
	Non-financial objectives	1. Make people happy <ul style="list-style-type: none"> ◆ Serious labor accident occurrences: 0 ◆ Engagement improvement: FY 2025 Above average third-party evaluation score ◆ Promotion of diversity: Achieve 20% employment rate of women in core positions and 10% in managerial positions by FY 2030 	
3. Solve social issues through manufacturing <ul style="list-style-type: none"> ◆ Smart Material certified products and services: 5 products on the market by FY 2030 		4. Build a strong, transparent management system <ul style="list-style-type: none"> ◆ Number of serious compliance violations: 0 	



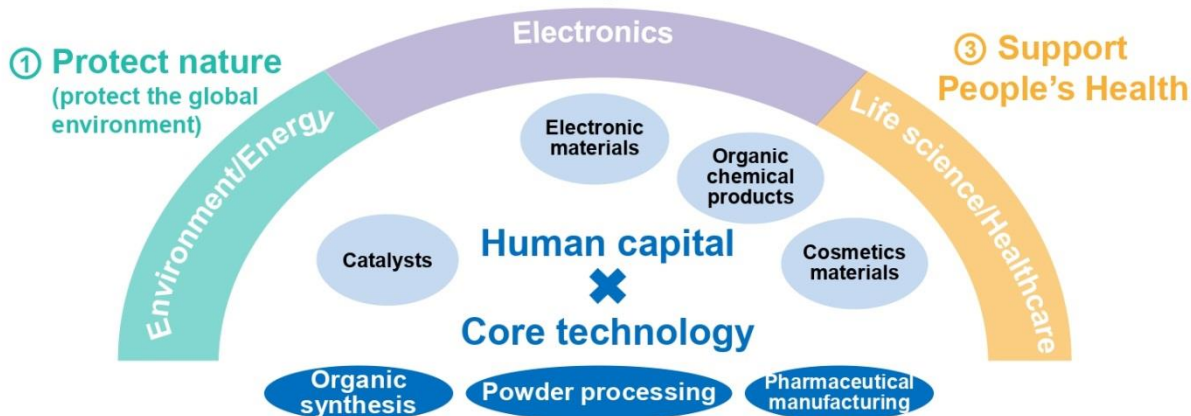
The next page summarizes the KGI and KPIs for the financial and non-financial goals we have discussed.

PDCA management of KPIs will be thoroughly implemented to achieve KGI.

What chemistry can do to create the lifestyle of 2050

Becoming “an excellent company capable of contributing to society with Smart Material”

② Support the development of an advanced information society (for a more equal society)



Corporate concept

Management mission

Chemistry for a Friendly Future

Creating materials that support the comfort and security of society through compassion and technological innovation

Organizational vision

Exciting Company

We will build an exciting company together

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And finally, we once again show what chemistry can do to create the lifestyle of 2050.

This mid-term management plan is a stage of change to realize this goal. We will move forward with unprecedented plans or measures, including business portfolio transformation, with determination, and complete the transformation for the future. The current management team would very much like to implement this mid-term management plan.

Thank you for your attention. This concludes my presentation.

Question & Answer

Moderator [M]: Now we would like to take questions as before. First, we would like to take questions from the audience.

Participant [Q]: Thank you. You have a capital investment plan of JPY20 billion over three years. 42% of this is for investment in growth. Where will you invest in particular? I think it could mean a production increase in the growth of businesses, and I wonder if there are any new projects as well. I would like to know more details about that. That is all.

Yagura [A]: Your question is what exactly the breakdown of growth investment is. Now, as for the cosmetics materials and electronic materials, capital investment here is over. Therefore, it is not immediately necessary, but if new products are developed in the course of future development and mass production becomes necessary, we will make a new capital investment. We have no particular figures or areas. However, we are estimating that if the volume increases for high-end and middle-end products, we will probably need to make this type of investment, so we will make a plan of 42% investment based on that.

As for the organic chemicals, we are reaching a full production capacity. If we receive requests from customers to increase our supply capacity, we will make capital investments as long as we can obtain prices that are commensurate with such investments. On the other hand, we will not easily make an investment just because the volume will grow.

Participant [Q]: Is it correct to say that you have enough capacity for electronic materials with your existing facilities for the next three years?

Yagura [A]: We may need to invest in equipment when we make some modifications or improvements, but all major capital investments are complete.

Participant [Q]: Also, in the area of electronic materials, can you tell me if there are any new products or new technologies on the roadmap that will emerge in the next three years, or if there is timing for the switchover?

Yagura [A]: Regarding the high-end of very fine particles, some of them have already been adopted by our customers, and we expect that they will probably grow in the second or third year. Since this is where the most profit can be made, I think the key point is to steadily and properly capture this part of the market so as not to miss anything.

Participant [Q]: Do you mean that you will increase production if you receive a request from the customer?

Yagura [A]: Yes. Perhaps we will.

Participant [M]: I understand very well. Thank you very much.

Moderator [M]: Thank you very much. Now I would like to hand over the baton to participants via the web.

Moderator [M]: We would like to take questions via the web then.

Participant [Q]: I would like to ask two or three questions. First, in the growth businesses, you said operating income of JPY5.7 billion in the third year, but could you divide it into three segments? Organic is JPY1.6 billion, and then from the size of the circle on page 14, it looks like cosmetics is about JPY1.4 to 1.5 billion and electronics is the rest. Could you give me a breakdown of these figures or JPY5.7 billion for the third year?

Also, in order to achieve a profit of JPY5.7 billion in the growth businesses, how many hundreds of millions of yen in sales do you need to increase with respect to the growth businesses? Please let me know, while you can make the same assumption about the exchange rate. If you have numbers, please tell me how much you plan to increase in each of the three.

Yagura [A]: As you pointed out, we will have JPY1.6 billion from organics, roughly JPY1.5 billion from cosmetics, and the rest from electronic materials.

Participant [Q]: How much do you plan to increase sales?

Yagura [A]: I can only give you an overall sales figure. Please wait a moment.

Participant [Q]: Yes. A total of three will be fine. In the first place, is most of the profit due to volume growth? I think that in the new fiscal year, price correction effects will probably appear in electronic materials, but if you look at the next fiscal year and beyond, for example, is it correct to say that the focus is on volume effects and not on cost reductions?

Yagura [A]: For some electronic materials, we have already been negotiating prices to be more appropriate since the end of the previous fiscal year, and we expect that effect. Therefore, in our plan, profit increase is not only by volume effects. In the case of organic chemicals, we have reached a certain level of capacity at present, and if new equipment is introduced, the volume will naturally increase, so we plan to invest in equipment under the condition that prices will be revised accordingly. For cosmetics materials, the main activity is to expand sales without much price correction.

Participant [Q]: How much sales increase do you expect?

Yagura [A]: Sales of the growth businesses will increase by about 30%.

Participant [Q]: I see. If we calculate, I think we will be able to figure it out, but how much would that be? Anyway, it is a 30% increase, right?

Yagura [A]: Yes.

Participant [Q]: Is it correct that this is the amount of sales of electronic materials, cosmetics materials, and organic for the last fiscal year multiplied by 30%?

Yagura [A]: Yes, it is.

Participant [Q]: I understand. As a supplementary question, for example, in the area of electronic materials, you mentioned that the MLCC market is expected to grow by 8%. Does your company expect growth more than that? In other words, you will aim to increase your market share, but where will you take your market share from as a background for increasing your market share?

In terms of dielectric materials, I think that perhaps your competitors would be company A and others. Would you take it from those sources? Regarding dielectrics, I know your competitors would be I company B and some in China. Could you please tell me where you are going to take your market share from, or if you are going to grow beyond 8% of MLCC, for example, by increasing the amount of materials used per unit?

Ogama [A]: I am Ogama. Ogama will answer this question. With regard to sales growth, our strategy for electronic materials is to capture a share of the market, which is expected to grow by 8%.

It is very difficult to answer from which company, but basically, we will focus on high-end and middle-end products with high profitability and high sales price per unit. We are aware that there are products from leading manufacturers and there are areas of the market that are not yet developed.

Naturally, there will be market share gains and losses, and we can only speculate on this, it is very difficult to say. In the case of dielectric materials, there are already overseas manufacturers and one major domestic competitor, but we would like to proceed in such a way that we can capture a share of the market.

As for dielectrics, there are many in-house manufacturers, it is difficult to say which area is the target. Only we can say is that, as you mentioned, there will be an increase in the amount of materials used per unit.

This is because, after all, we are talking about slowing the growth of EVs, but in the broad context of so-called "automotive applications," we believe that MLCC for automotive applications will increase. We do not expect much downsizing to occur in terms of size for the automotive market, and we believe that the increase in volume in this area will lead to an increase in our sales volume. Therefore, we believe that there are two effects. One is from taking the market share and the other is from not downsizing.

Participant [Q]: I understand very well. Thank you very much. Excuse me. The other question is about the 8% ROE. The target to be achieved in the mid-term plan is an operating income of JPY9 billion, it would be roughly about JPY6 billion after taxes. If you are to achieve an ROE of 8% with JPY6 billion, I believe that your equity capital will be less than JPY75 billion, although this is a rough estimate. For the fiscal year that just ended, your equity capital was about JPY75 billion, I think you will not increase from here. How will this be achieved?

Since you are not currently setting the dividend payout ratio at 100%, you could conceivably buy back your own shares or take an extraordinary loss. Please explain how you plan to achieve an ROE of 8% on an operating income of JPY9 billion, including the equity capital.

Yagura [A]: While we were putting together this mid-term plan, we were very conscious of ROE. If we set a ROE target, it is necessary not only to look at the numerator, which is the increase in profit, but also to control the denominator. Therefore, we need to return some profits to shareholders while not increasing the numerator in order to achieve the target of 8% ROE. This is why we introduced a DOE of 3% and created this scenario.

Naturally, profits will increase or decrease and we will consider where specifically to apply the profits earned at that time, based on the situation at that time and the next mid-term management plan. We will first make the achievement of 8% ROE our basic premise, and then consider how to distribute the profits.

Participant [Q]: Okay. However, if the current dividend policy remains unchanged, equity capital will probably increase, so it is possible that ROE will not be achieved even if earnings are achieved. On the other hand, this time, within three years, you are still going to do a lot of structural reforms, I am wondering if something is coming up through such reforms, and I would like to see more specifics.

Yagura [A]: In fact, we cannot say for sure that there will be no extraordinary losses due to structural reforms, so we will have to deal with them when they occur. I hope you will understand that we have included a little bit of that in our calculations.

Participant [M]: Conversely, since the assets were impaired last fiscal year, I thought that it would be better to lower the valuation of the assets that are valued higher than they actually are.

Yagura [M]: Yes. Thank you very much.

Participant [M]: That is all. Thank you very much.

Moderator [M]: Since there seem to be no questions, we will conclude today's briefing. Thank you very much for your attendance today. We look forward to your continued support. Please be careful on your way home. Thank you also to those who attended via the web.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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