Message from the Executive officer in Charge of Finance

Supporting the new Medium-Term Management Plan 2025 through financial policy and optimal resource allocation to increase corporate value

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Looking back on FY2024

In FY2024, the influx of Chinese-made chemical products into Japan and other Asian markets, driven by sluggish domestic demand and oversupply in China, has led to intensified price competition, creating an extremely tough business environment for the chemical industry in Japan. The Group also faced significant challenges in the polyurethane business, one of its core businesses, as the influx of low-cost raw materials for polyurethane foams led to intensified price competition and loss of commercial rights, while global automobile production also stagnated.

Meanwhile, our actions to restore profitability have steadily led to positive results, thanks to favorable conditions in the cutting-edge semiconductor field, expanded sales of high value-added products, improved profitability through structural reforms, and steady progress in cost reduction across the supply chain as part of Monozukuri Transformation.

As a result, although FY2024 sales decreased by 10.8% year on year to 142.258 billion yen, operating profit increased to 8.439 billion yen (up 72.7% year on year) and ordinary profit to 9.67 billion yen (up 18.1% year on year). Profit attributable to owners of parent was also positive, reaching 4.151 billion yen, although it recorded a loss on valuation of investments in capital and business structural reform costs.

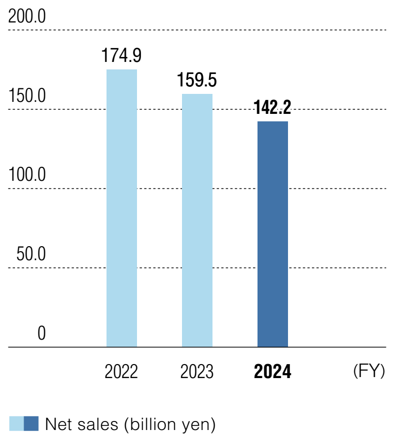
Extraordinary loss due to withdrawal from the superabsorbent polymer business

In FY2023, the Group decided to withdraw from the superabsorbent polymer business (“SAP business”) and the production business in China. We transferred our equity interests in San-Dia Polymers (Nantong) Co., Ltd. in FY2024 and plan to complete the liquidation procedures for SDP GLOBAL (MALAYSIA) SDN. BHD. and Sanyo Kasei (Nantong) Co., Ltd. in FY2026. We had initially estimated losses from these business structural reforms to be 20 billion yen in total, but we recorded losses of about 12 billion yen in FY2023 and about 1.2 billion yen in FY2024 (initial estimate: 4 billion yen), bringing the total to under 17 billion yen.

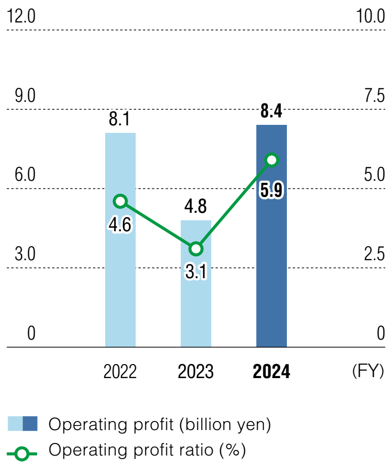
Free cash flow

Free cash flow for FY2024 was positive at 8.8 billion yen due to inventory and working capital reductions as a result of business structural reforms and Monozukuri Transformation as well as efficiency improvements at production sites. Going forward, strengthening cash generation capabilities will remain a key management priority and will serve as a driving force for sustainable growth.

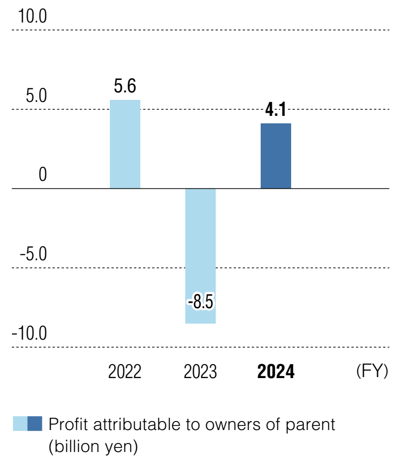
▶ Net sales



▶ Operating profit / Operating profit ratio



▶ Profit attributable to owners of parent



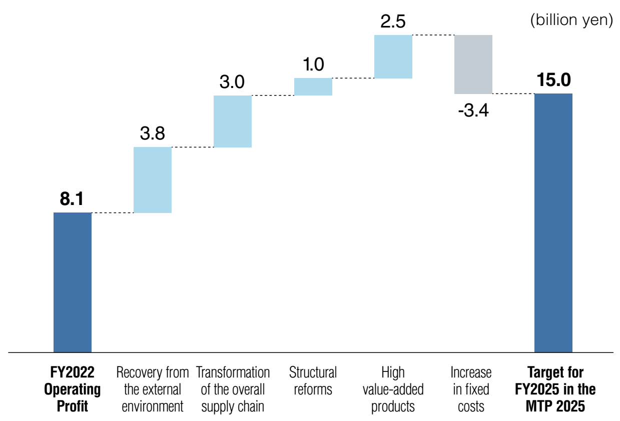
FY2025 forecast and next medium-term management plan

The business environment in FY2025 will remain unpredictable due to the irreversible trend of intensifying competition caused by overproduction of commodity petrochemicals in China and factors such as raw material prices and exchange rate trends. Despite this challenging environment, we will continue to work on expanding sales of high value-added products and reducing costs across the supply chain, and we have set our operating profit forecast for FY2025 to 10 billion yen, an increase of 18.5% from FY2024.

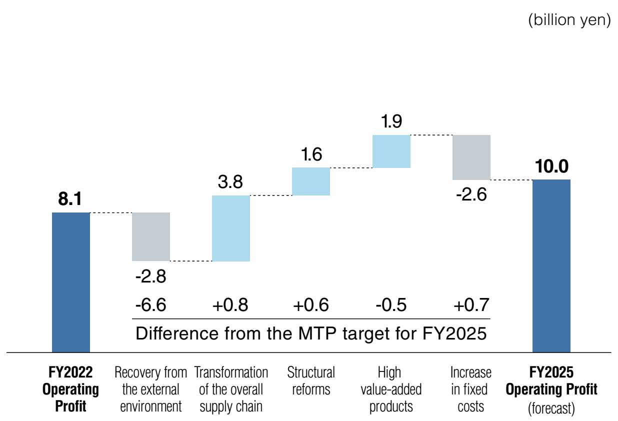
This fiscal year marks the final year of the MTP 2025, which was launched with an operating profit target of 15 billion yen. However, due to a significant deviation from the initial assumptions of the plan, we are reassessing the timing for achieving the target. With an eye toward further growth and value creation, we are discussing the timing for achieving target profit levels and the setting of appropriate management indicators for our next medium-term management plan, which will begin in FY2026.

▶ Factors behind changes in operating profit

FY2022 results vs. MTP target for FY2025



FY2022 results vs. FY2025 forecast



Investment and capital policies

Investment policy

Business investment

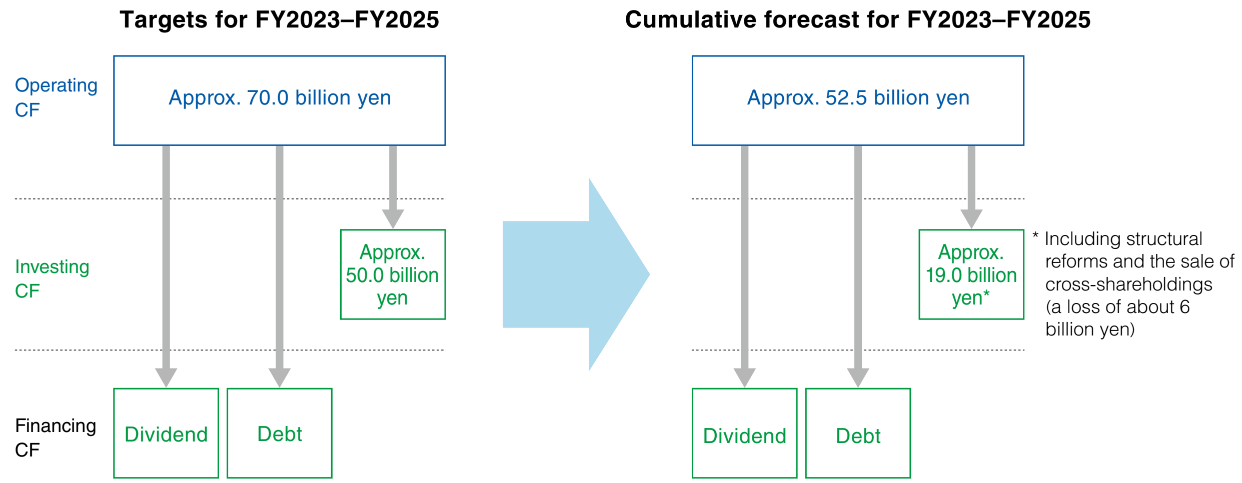
Having shifted the direction of the entire business toward two areas: contribution to carbon neutrality and improved QOL, we will concentrate our resources on products expected to provide high added value through our technological capabilities. Due to changes in the external environment, there is a significant discrepancy between the investment plan set out in the MTP 2025 and actual results. However, we are steadily investing in high value-added products as part of our “growth from core business,” contributing to improved operating profit.

As for new business investment as a “new growth path,” some businesses are already seeing results or are expected to generate a certain sales volume. We plan to develop these businesses into future profit drivers. In FY2025, we will make a capital investment in refining facilities for Silk-Elastin, which we hope will become a pillar of our business in the future.

Capital investment

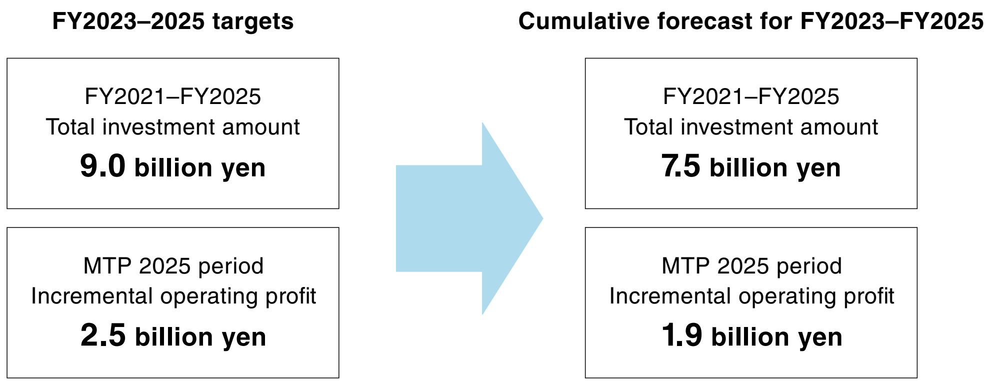
In addition to a focus on new businesses and high value-added products that will become new revenue sources, another important issue is improving production efficiency at existing factories and investing in facility upgrades to ensure the safe and stable production of high-quality products. Under a production facility reform project, we will invest in a production system that will lead to consolidation of facilities for labor saving and automation.

▶ Cash flow / Investment policy



▶ Capital investment in high value-added products (planned)

High value-added products: Chemicals for special fibers, chemicals for special electronic parts, lubricating oil additives, permanent antistatic agents, and medical and pharmaceutical products



Capital policy

Management with a focus on capital costs and the stock price

Our stock price at the end of FY2024 was 3,900 yen, with a PBR of 0.6x, meaning that the PBR remains below 1.0x. To achieve a PBR of 1.0x, we recognize the importance of focusing on capital efficiency such as ROIC and ROE and building a business structure that can steadily generate profits.

We estimate our cost of shareholders’ equity to be around 7% based on multiple indicators, such as values calculated using the CAPM and residual income model and the average value for the chemical sector. From this, we recalculate our weighted average cost of capital (WACC) and review the standard hurdle rate for investment profitability.

Cross-shareholdings

We review individual cross-shareholdings annually and are gradually selling shares that we have determined are no longer meaningful to hold. As of the end of FY2017, when the Corporate Governance Code required disclosure of reduction policies, we held 30 cross-shareholdings (listed shares), which decreased to 10 cross-shareholdings by the end of FY2024.

Dividend policy

One of our key management issues is returning profits to shareholders. We aim to increase dividend levels over the medium to long term, with a target consolidated payout ratio of over 30%, after considering the resource allocation necessary for sustainable growth, including investments in employees, safe facilities, and future growth and reinforcing the corporate base.

Although net profit for FY2024 was only 4.1 billion yen, we prioritized stable dividends and maintained the annual dividend per share at 170 yen, taking into account the cash flow generation that exceeded net profit and our expectation of further profit growth.

We will consider shareholder return measures, including an appropriate capital structure and share buybacks, in addition to medium- to long-term cash allocation based on our investment plan.

ROIC

The MTP 2025 has set ROIC as a KPI. The actual ROIC for FY2024 was 4.8%, and the initial forecast for FY2025 was only 5.6%. However, due to the recording of tax expenses (gains) following the merger of SDP Global Co., Ltd., which is a temporary factor, we expect ROIC for FY2025 to be 10.9%.

In addition to further deepening our efforts to improve profitability across the supply chain and to reduce inventory and improve the cash conversion cycle by visualizing inventory levels through digital transformation, we will continue to operate our business with a greater awareness of the entire balance sheet, rather than just profit and loss, through new initiatives such as facility consolidation.

To all investors

The Sanyo Chemical Group is working to reform its business portfolio and transition to a new business model. We hope to accelerate this transformation through dialogue with our stakeholders. As the Executive officer in charge of finance, I would like to increase opportunities for dialogue with you to explain our sustainable growth scenario and financial policy and to hear your requests and opinions. We greatly appreciate your continued support and guidance.