

New Medium-Term Management Plan 2025

- Accelerate Transformation to Realize
Our Vision -

Sanyo Chemical Industries, Ltd.

May 12, 2023



I. What Sanyo Chemical Group Shall Be

Corporate Identity, Management Policy: WakuWaku Explosion 2030,
Sustainable Management

II. Review

Message from the President, Financial Trends, Current Status

III. New Medium-Term Management Plan 2025

III-1. Revision of Financial Forecasts, Transformation of Business Portfolio

III-2. Basic Policy

- Business Strategy (2023~25) :

 - Growth from Core Business, Reformation of Existing Business,
Global Deployment

- Toward the Future Beyond 2025:

 - New Growth Path, Solutions to Social Issues, Initiatives to
Support Growth

III-3. Cash Flow and Investment Policy

III-4. Financial Policy

I. What Sanyo Chemical Group Shall Be

- Corporate Identity
- Management Policy:
WakuWaku Explosion 2030
- Sustainable Management



Company Mission

Mission

Establish a better society through our corporate activities



Vision 2030

Vision

Grow into a global, unique, and highly profitable company where every employee feels pride and satisfaction in his/her work

Values

- Inspire WakuWaku feeling from all the stakeholders
- Co-create environmental, social and economic values with the stakeholders
- Facilitate every employee's value creation



**Support
Environment**

Contribution to Carbon Neutrality

**Support People
and Their Lives**

Improvement of QOL

**Support
Diversity**

Improvement of Job Satisfaction

Transformation Toward the Vision

**New Growth
Path**

Contribution on resolving social and environmental issues through the innovation beyond the boundaries of chemistry

**Growth from
Core Business**

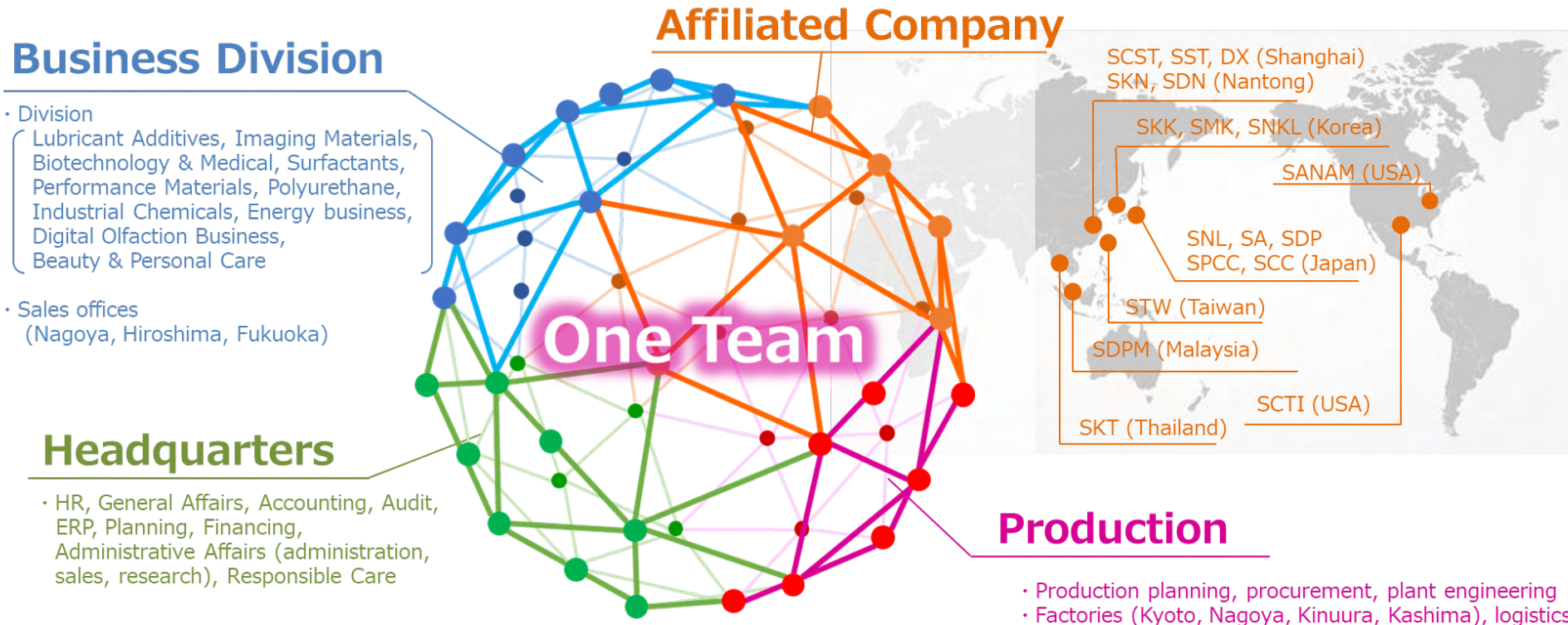
Growth through expansion and evolution of our core business domains

**Reformation
of Existing
Business**

Acceleration of structural reform and business transformation with an environmental perspective

Activities to support the transformation " Every department is a profit center "

- Every employee of the Sanyo Chemical Group plays a leading role.
- Promoting WakuWaku works by spotlighting everyone.



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What Sanyo Chemical Group Shall Be Sustainable Management

Basic Policy on Sustainability

Our mission is to establish a better society through our corporate activities since the foundation. Sanyo Chemical Group commits to realize sustainable growth towards future by enhancing both economic and social values in close cooperation with all the stakeholders.

Identification of Material Issues

Sanyo identifies material issues in aspect with our value creation in long term

Achieve **carbon neutrality** as Interface Innovator



Environment



Improve **QOL (quality of life)** by Performance Through Chemistry

Life

Create **innovations** by supporting value creation of industry, culture and education.



Social



Conduct the **risk management** thoroughly by strengthening the Guardian function

Six
Material Issues

Governance

Develop **human resources** and improve **work environment** by recognizing diversity



HC



TM

Implement **challenge-oriented** and **transparent management**

II. Review

- Message from the President
- Financial Trends
- Current Status



Message from the President

Sanyo Chemical Group implemented the "WakuWaku Explosion 2030" management policy in March 2022.

Based on the company mission since our foundation, "Establish a better society through our corporate activities", each and every employee has been working to create values toward becoming a "WakuWaku* company", where everyone can shine, with the three pillars of "Contribution to carbon neutrality", "Improvement of QOL" and "Improvement of job satisfaction" so that we can contribute to create sustainable societies.

On the other hand, in FY2022, negative factors such as China's lockdown due to COVID-19, soar of energy prices due to the turmoil in Ukraine, automobile production cutbacks due to semiconductor shortages, sharp yen depreciation, and other global environmental changes have had significant impacts on our business operations. Consequently, our approaches on "Reformation of existing business," "Growth from core business," and "New growth path" initiated based on the management policy fell slightly behind from initial expectations and the company's performance for the fiscal year ended March 31, 2023, fell short of its initial plan.

In order to realize the ideal status envisioned in our management policy, we have formulated a new medium-term management plan, a three-year plan in which we describe a roadmap and specific initiatives. Guided by this new medium-term management plan, Sanyo group as one team will pay efforts to enhance our values through entire supply chain and accelerate the creation of new values through innovation through the power of chemistry beyond the boundaries of chemistry. We will continue to work together with our stakeholders to realize a better society. We look forward to your further support and cooperation in our efforts to grow.

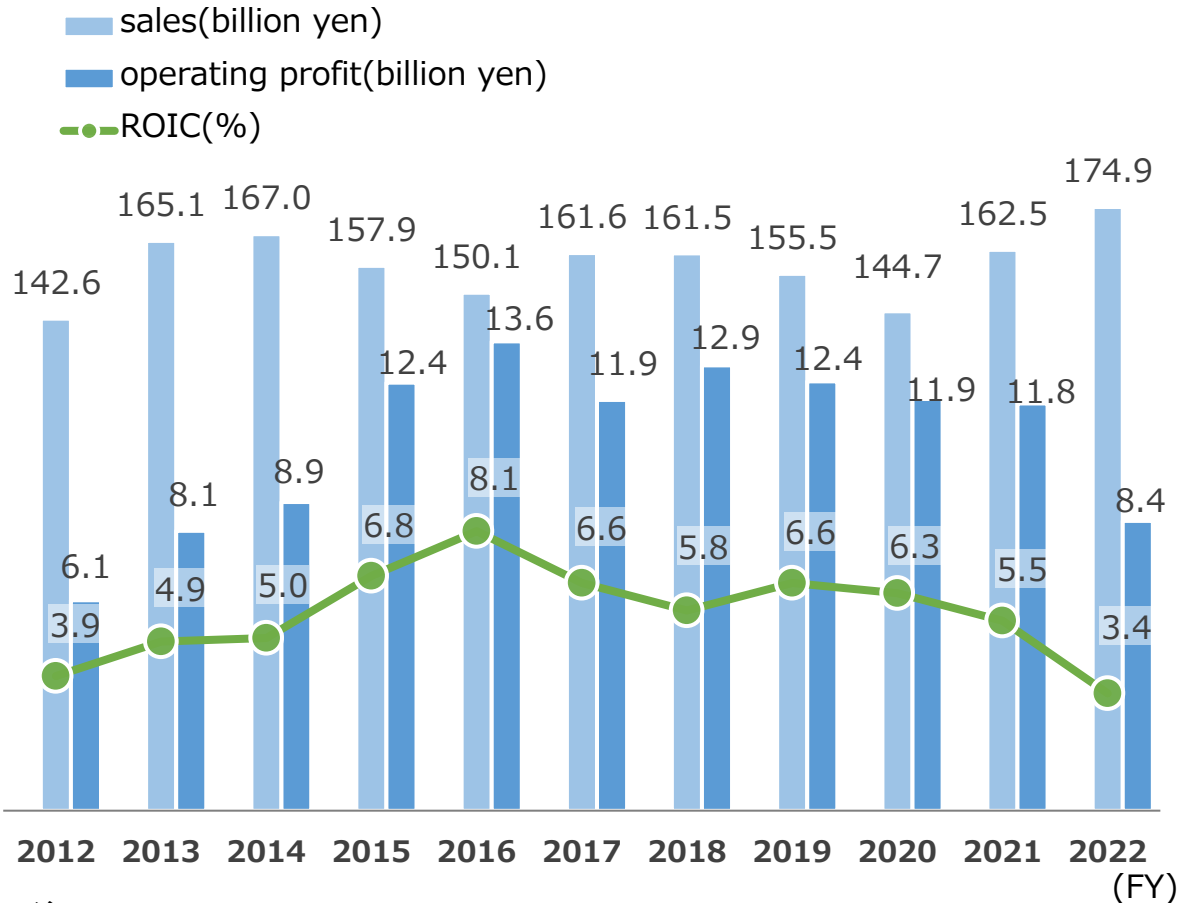
*"WakuWaku" is the Japanese word which express positive, bright, uplifting feeling inspired by inner motivations and/or own wills.

May 2023 Akinori Higuchi



Net Sales, Operating Profit, ROIC

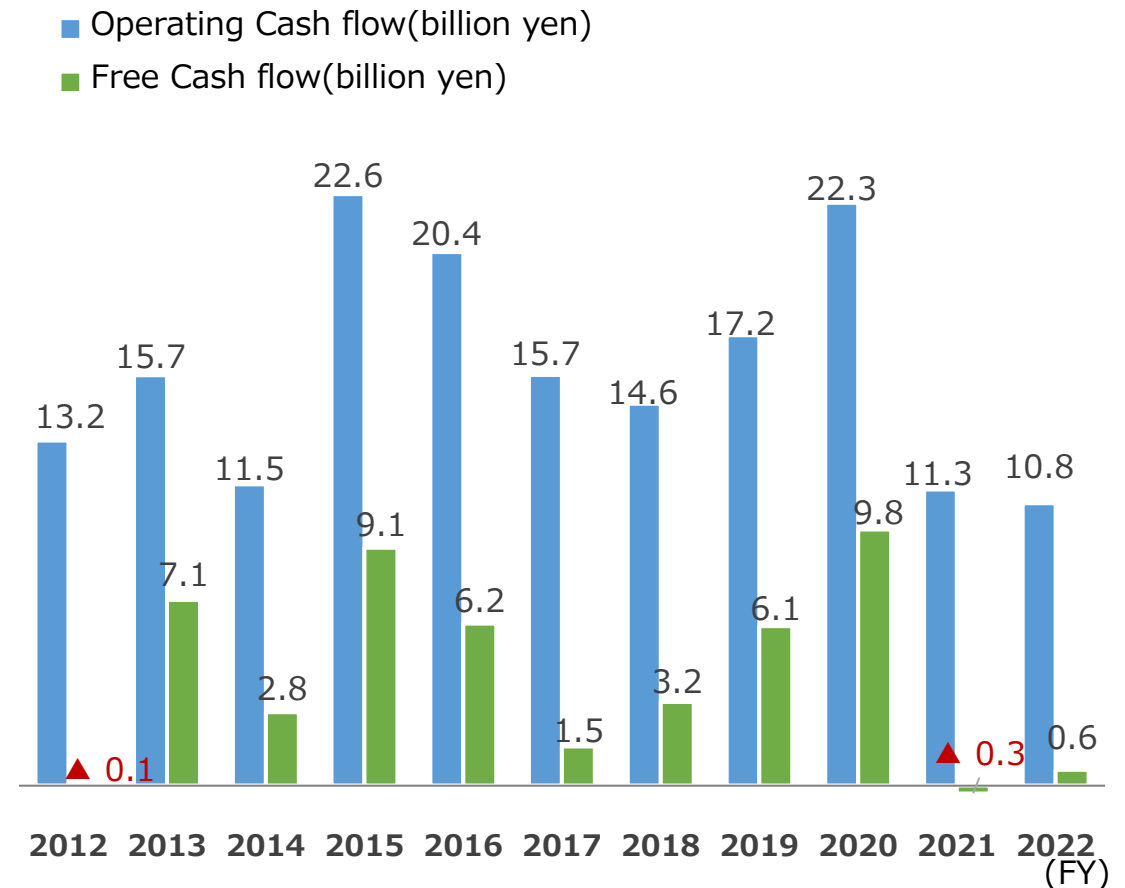
No growth in operating profit



(注) ROIC=(Operating profit—Corporate Tax)÷Average invested capital

Cash Flow

Decrease in cash flow generation capability



We are positioned in downstream of the chemical value chain closer to consumer goods. Our value is to provide solutions for diverse needs from customers of various industries through functional chemicals (performance chemicals) with applying our expertise in interface control technology.

In The 10th Medium-Term Management Plan (FY2018-2020), under the slogan "KAERU (Committed to Change)", we aimed to transform our corporate culture, shift to high-value products, reform existing businesses, and create new core businesses. While achieving great success in corporate culture transformation such as diverse work styles, we were unable to improve financial performance as progress on business reformation and new business creation were behind our expectations.

Under this situation, we had extensive internal discussions on what value proposition we can contribute to the society. Consequently, we formulated the new management policy, "WakuWaku Explosion 2030," in March 2022 as a compass towards our future.

In this new medium-term management plan, we have revised our financial targets set in our management policy, with the consideration on the changes in external environment and the progress of internal transformation. However, we made no change on our vision. We will pursue what we aim to be; focus our resources on growing area where we can contribute to carbon neutrality and improvement on QOL(quality of life), and realize sustainable growth in both existing businesses and creation of new cores.

Ⅲ. New Medium-Term Management Plan 2025

Ⅲ-1. Revision of Financial Forecasts and
Transformation of Business Portfolio

Ⅲ-2. Basic Policy

Ⅲ-3. Cash Flow and Investment Policy

Ⅲ-4. Financial Policy



Ⅲ. New Medium-Term Management Plan 2025

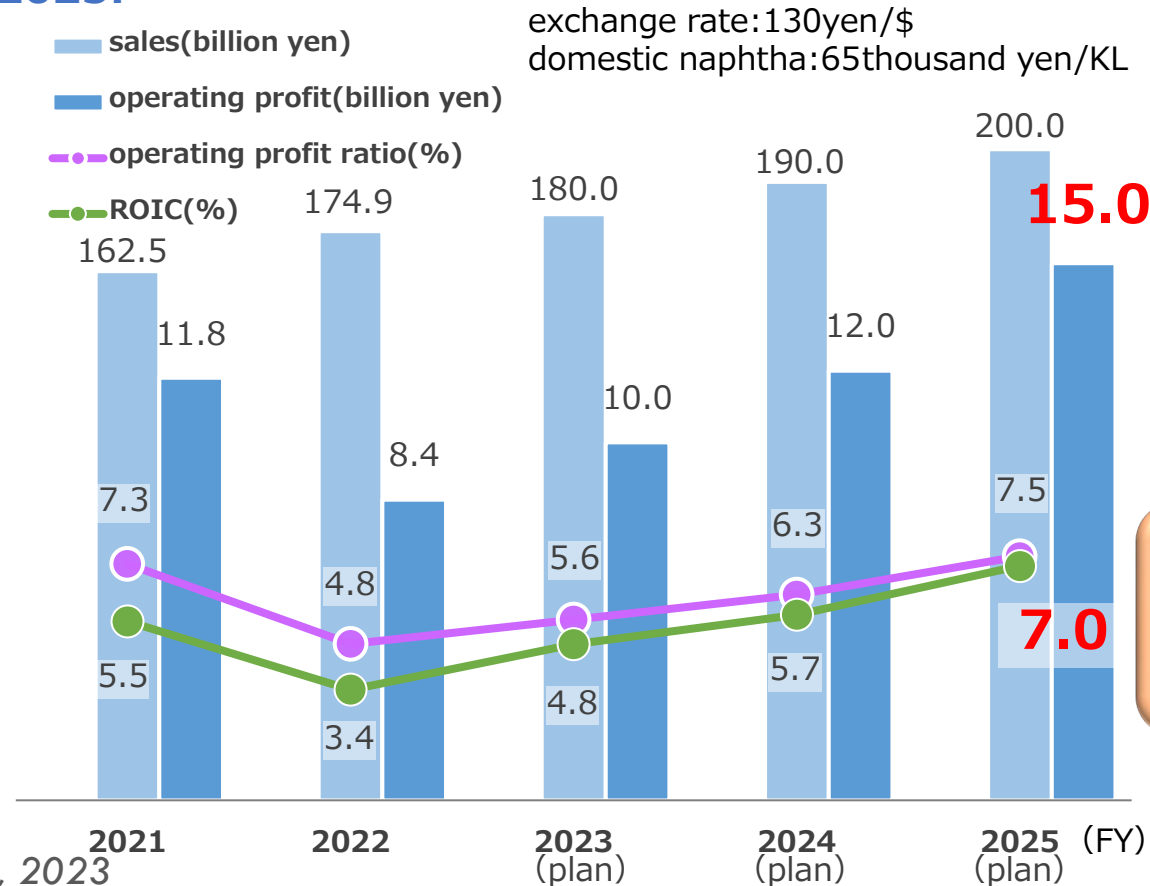
Ⅲ-1. Revision of Financial Forecasts and Transformation of Business Portfolio

Revision of Financial Forecasts

- Reflected on the external environment and the progress of internal transformation, we revise the target of "20 billion yen in operating profit in FY2024" set forth in the management policy.
- Nevertheless, we maintain the vision of management policy and commit to realize growth under the new medium-term management plan 2025.

**Initial target
(operating profit)
FY2024 20 billion yen**

**Revised target
(operating profit)
FY2025 15 billion yen**

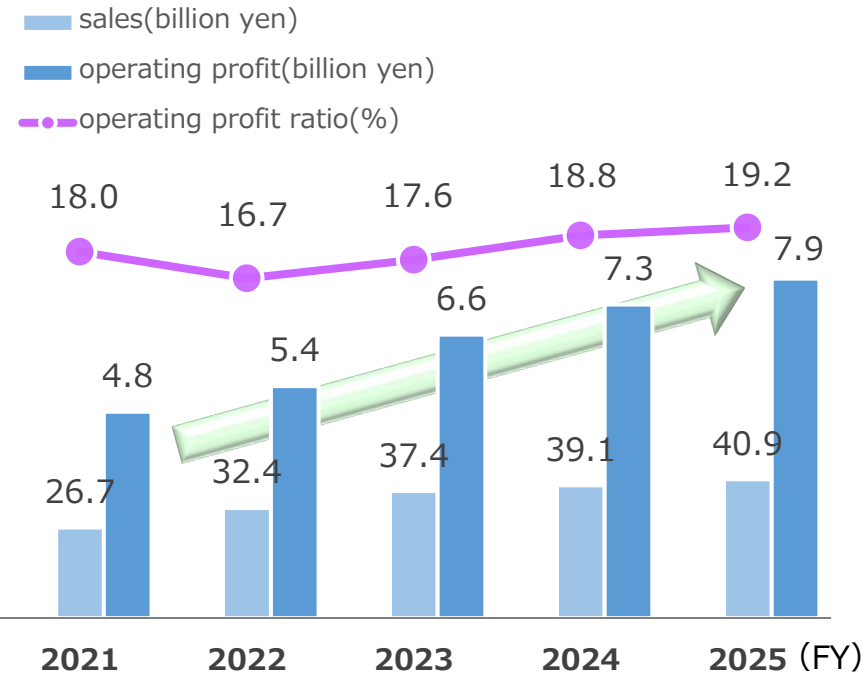


**ROIC target
10%
or more**

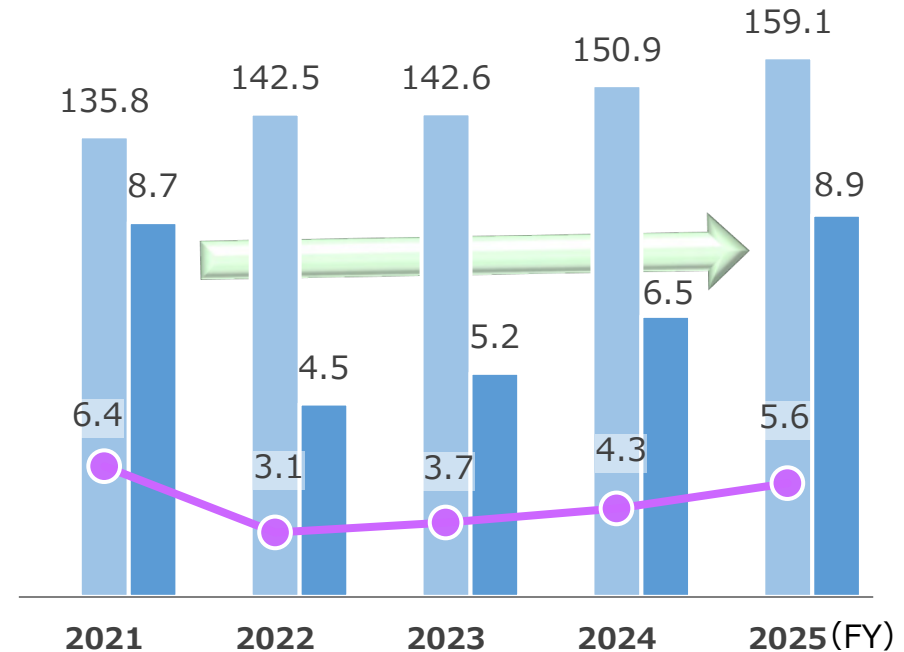
Financial Forecasts

- **High-value-added products category :**
Five products contributing to CN and QOL are identified in this category (Chemicals for Special fibers and electronics, Lubricant additives, Permanent antistatic agents, Medical and pharmaceutical products)
- **Basic products category :** Various products other than above are included in this category.

< High-value-added products >



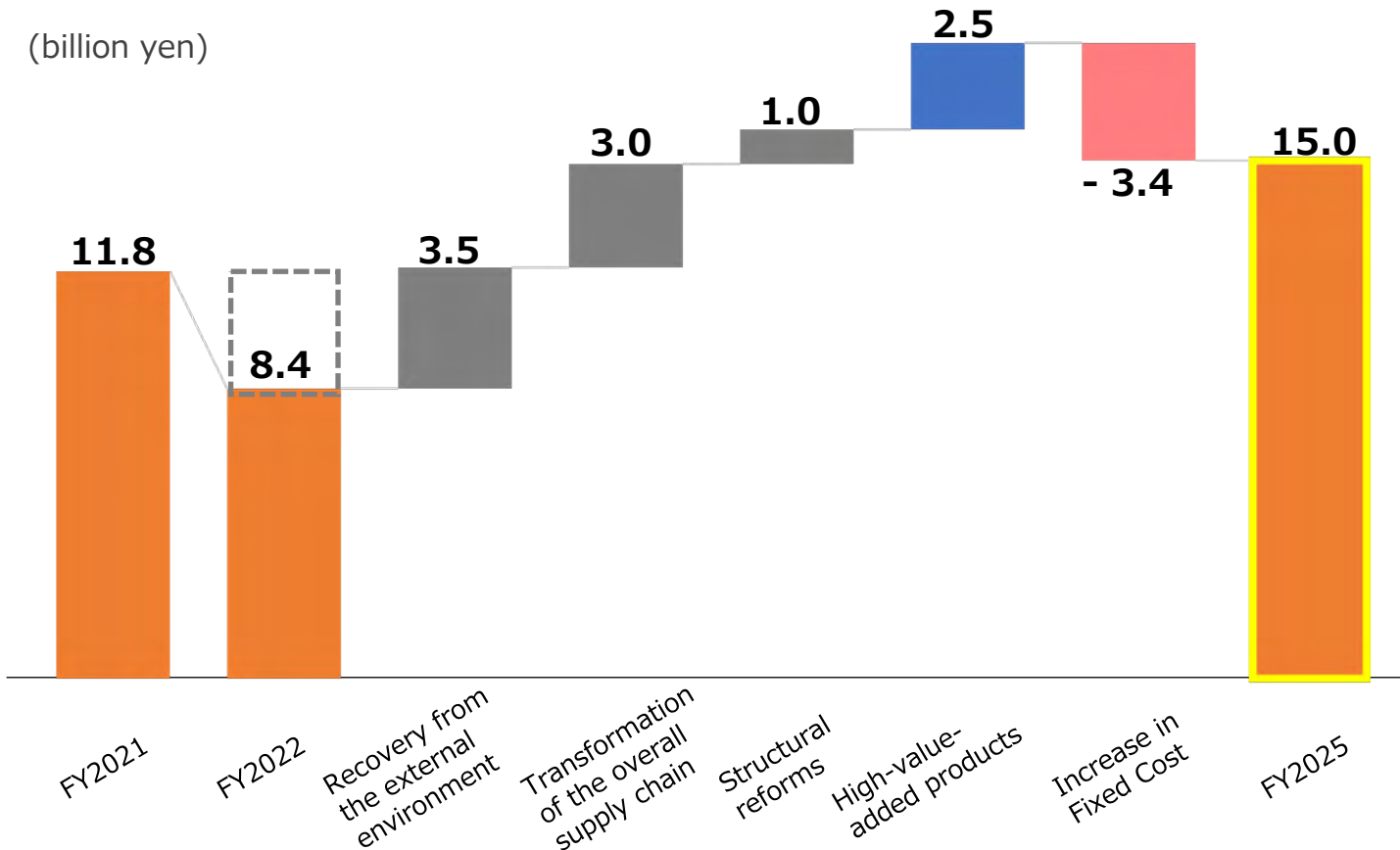
< Basic products >



(Note) Research and development expenses related to new businesses (approx. 2 billion yen per year) are not included in the above operating profit.

Steps Toward 15 Billion Yen

(billion yen)



Reformation of Existing Business

Recovery from the external environment	Recovery of domestic automobile production, demand growth by Post Covid-19 in China
Transformation of the overall supply chain	Price optimization linked to naphtha prices, Improvement of efficiency through "Monozukuri transformation"
Structural reforms	Urethane and Superabsorbent Polymers (SAP) businesses undertake drastic reforms

Growth from Core Business

High-value-added products	Accelerate investment in 5 focus products and expand overseas sales
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Increase in Fixed Cost

ERP system update, Increase in depreciation/repair costs associated with renovation investments, rising labor costs

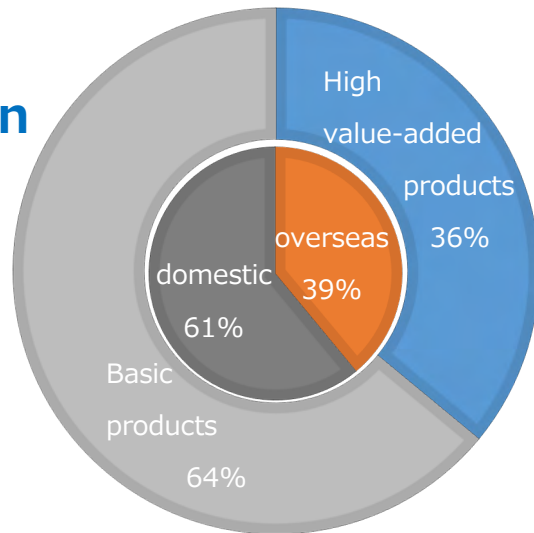
Transformation of Business Portfolio

- Increase the proportion of high value-added products category contributing to CN/QOL
- Promote the overseas sales

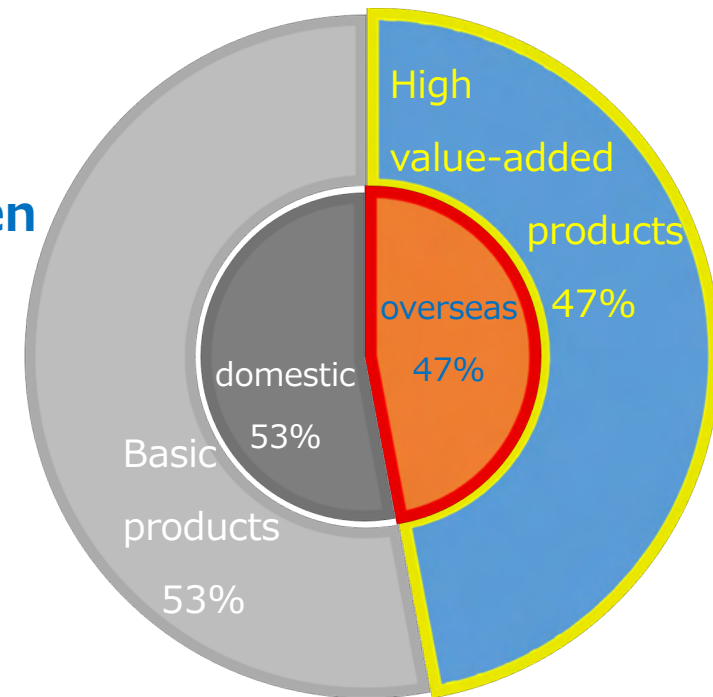
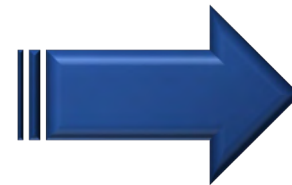
<Composition of operating profit>

<Composition of operating profit >

FY2021
11.8 billion yen

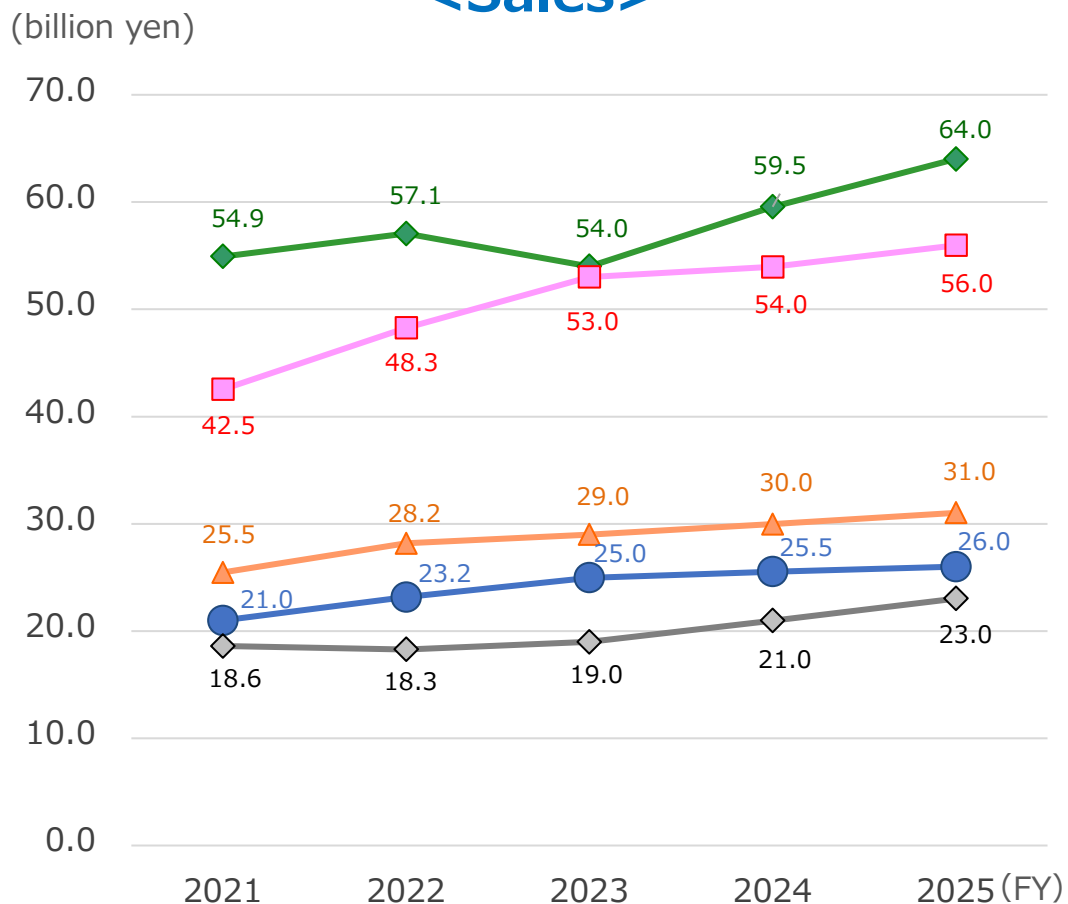


FY2025
15.0 billion yen

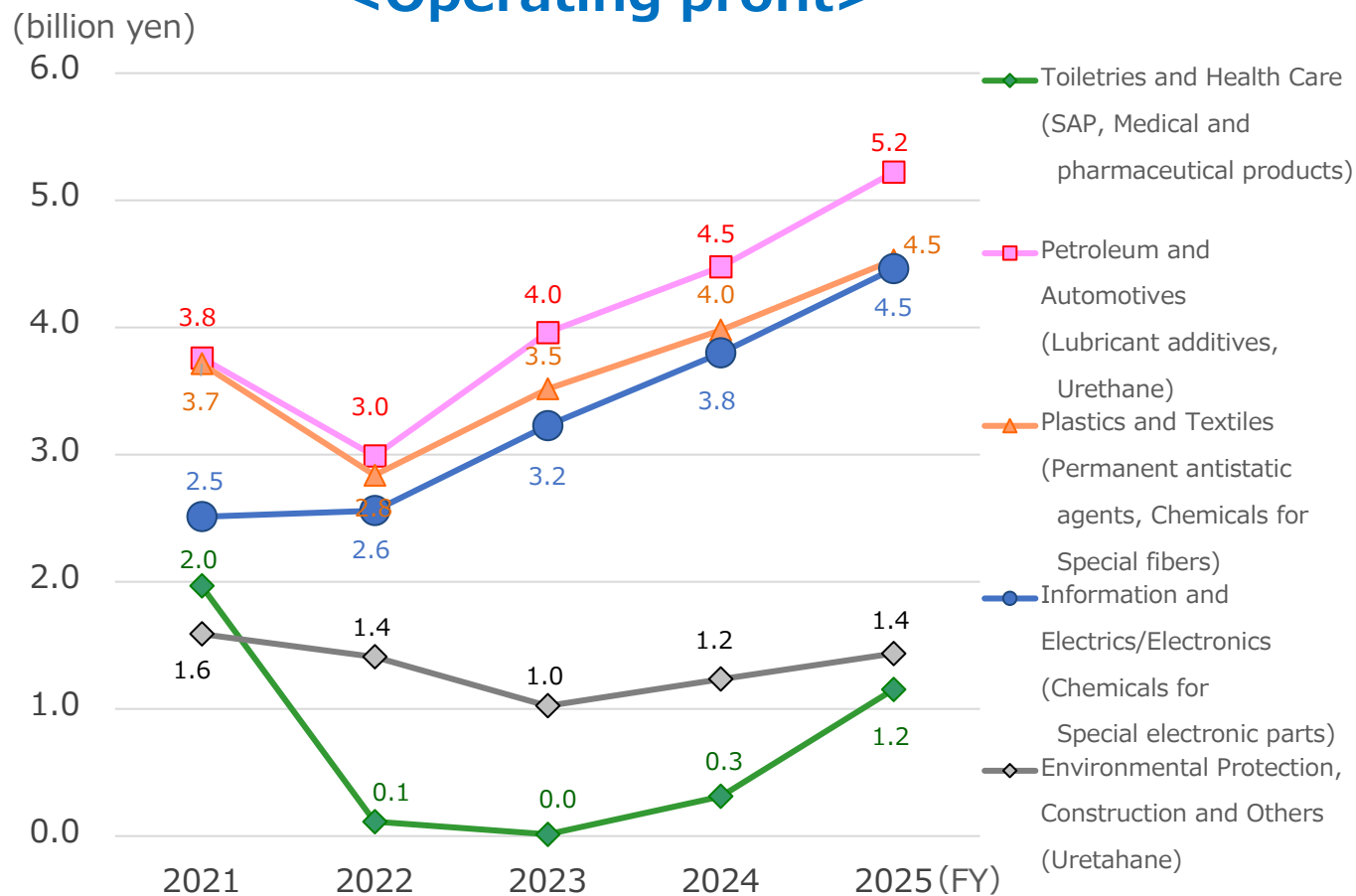


Trend of Financial Forecast by Industrial Segments

<Sales>



<Operating profit>



(Note) Research and development expenses (approx. 2 billion yen per year) related to new businesses are not included in the above operating profit.

Ⅲ. New Medium-Term Management Plan 2025

Ⅲ-2. Basic Policy

Ⅲ-2. Basic Policy

Business Strategy(2023~25)

Growth from
Core Business

- Injection of resources to the high-value-added products category (5 Focus Products)

Reformation of Existing
Business

- Profit improvement on Basic products category
- Improvement through the whole supply chain by "Monozukuri Transformation"
- Restructuring of Urethane and SAP business

Global Deployment

- Promotion of overseas sales

Toward the Future Beyond FY2025

New Growth Path

- New development related to CN
- New development related to QOL

Solutions to Social Issues

- CO2 emission reduction
- Initiatives to human rights issues

Initiatives to Support Growth

- Human resources training and improvement of workplace environment
- Safety-first management
- Management with the transparency

Ⅲ. New Medium-Term Management Plan 2025

Ⅲ-2. Basic Policy

Business Strategy (2023~25) :

**Growth from Core Business
Reformation of Existing Business
Global Deployment**

Accelerate Investment in High-value-added Products Category

- Accelerate capital investment in 5 focus products that contribute to CN/QOL
- Pursue additional investment opportunities

分類	Product groups	2021	2022	2023	2024	2025 (FY)		
CN	Chemicals for special fibers				Installation in Kashima (2024/0.7)		FY2021 to 2025 Amount of total investment 9.7 billion yen	
CN	Chemicals for special electronic parts			Expansion in Nagoya (2023/0.4, 2025/0.5)				
CN	Lubricant additives	Expansion in China(2021/0.3), Installation in Korea(2021/2.4) Planned expansion in Kashima and Kyoto(2025/0.8)						
QOL	Permanent antistatic agents		Installation in Thailand (2022/3.4)					
QOL	Medical and pharmaceutical products				Expansion in Nagoya(2024/0.1) Expansion in Kyoto(2024/0.3)			
							Incremental operating profit during this period 2.5 billion yen	

Profit Improvement

• **Improvement of decreased profit caused by the external environment change in 2022**

<Recovery of automobile production>

- Approx.40% of Sanyo products are related to the automobile industry
- Prepare sales & production for the expected demand recovery in and after 2023

<Post Covid-19 in China>

- Falloff in demand relating to diapers, construction paints etc in China caused by the lockdown in 2022
- Demand recovery in and after 2023 is expected

• **Transforming business processes throughout the supply chain**

- Transfer the cost increase of raw materials, utilities and others on the product prices
- Start-up of "Monozukuri Transformation"

Incremental
operating profit

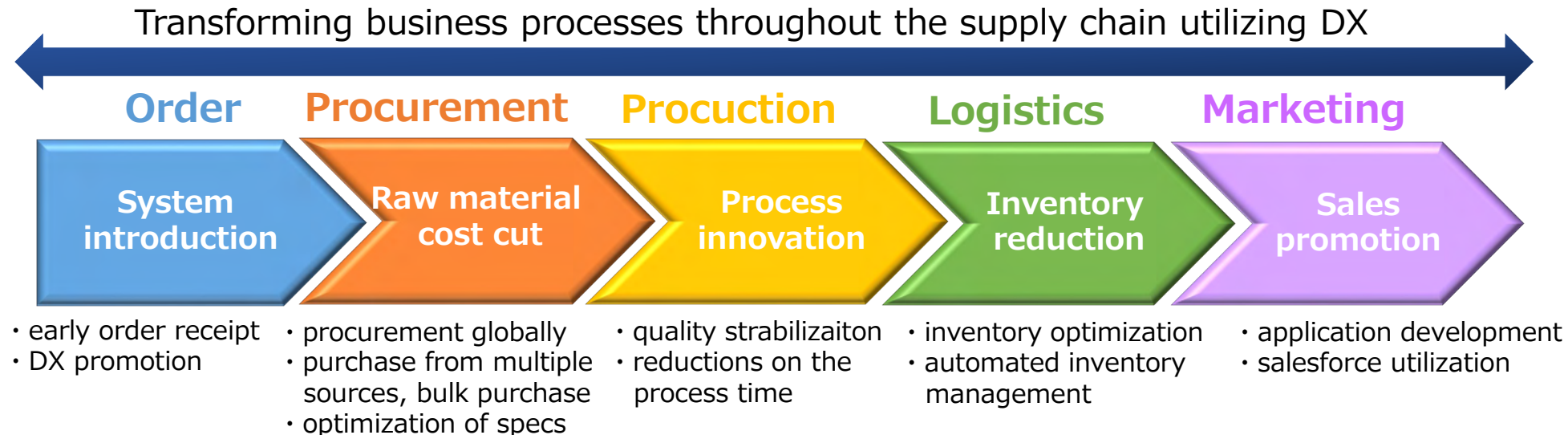
3.5 billion yen

Incremental
operating profit

3.0 billion yen

Monozukuri Transformation

- Visualize data through the overall supply chain by the ERP renewal and promotion of DX
- Establish new processes that enable smooth connection from order receipt to production planning
- Conduct fundamental process reformation by dispatching dozens of R&D staffs to production sites
- Promote investment of facilities renewal, incorporated with process optimization and automation
- Implement total costs analysis and overhaul of operations
- **Realize CF improvement by 5 billion yen through working capital reduction**



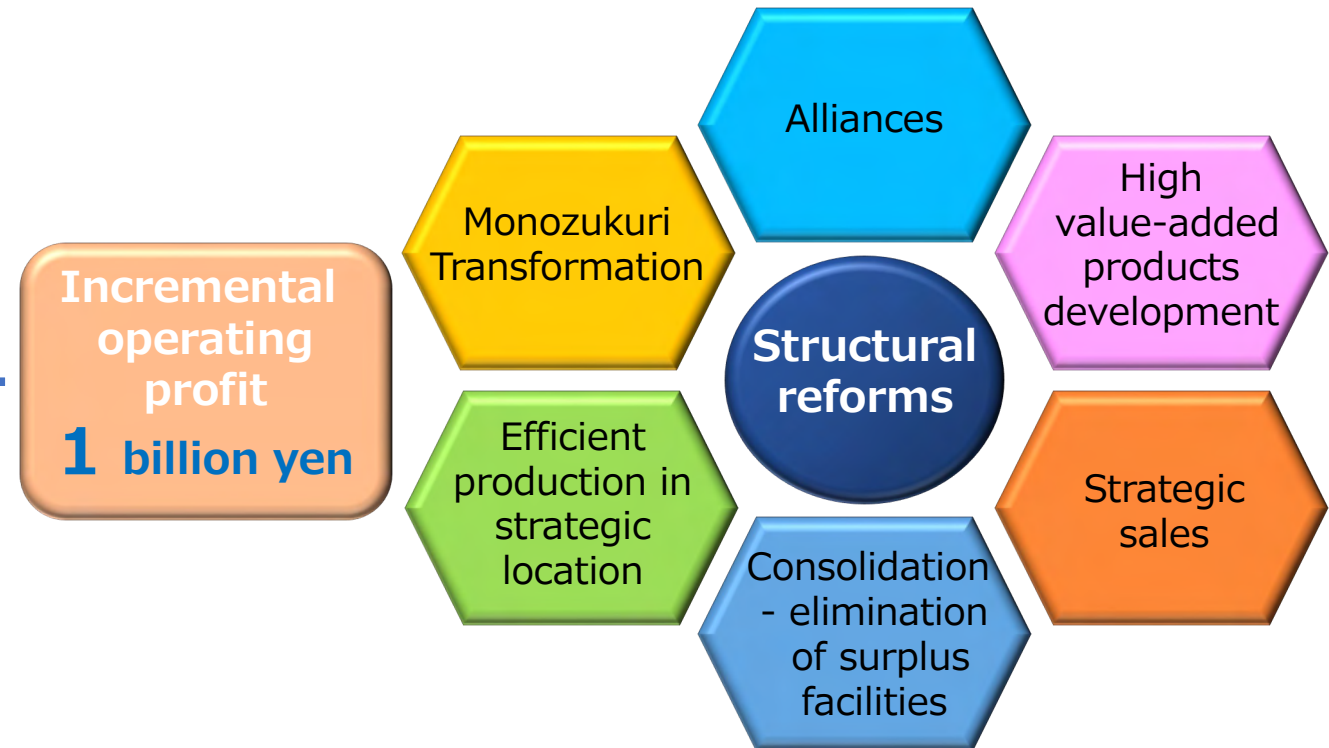
Structural Reforms

<Polyurethane resins business unit.>

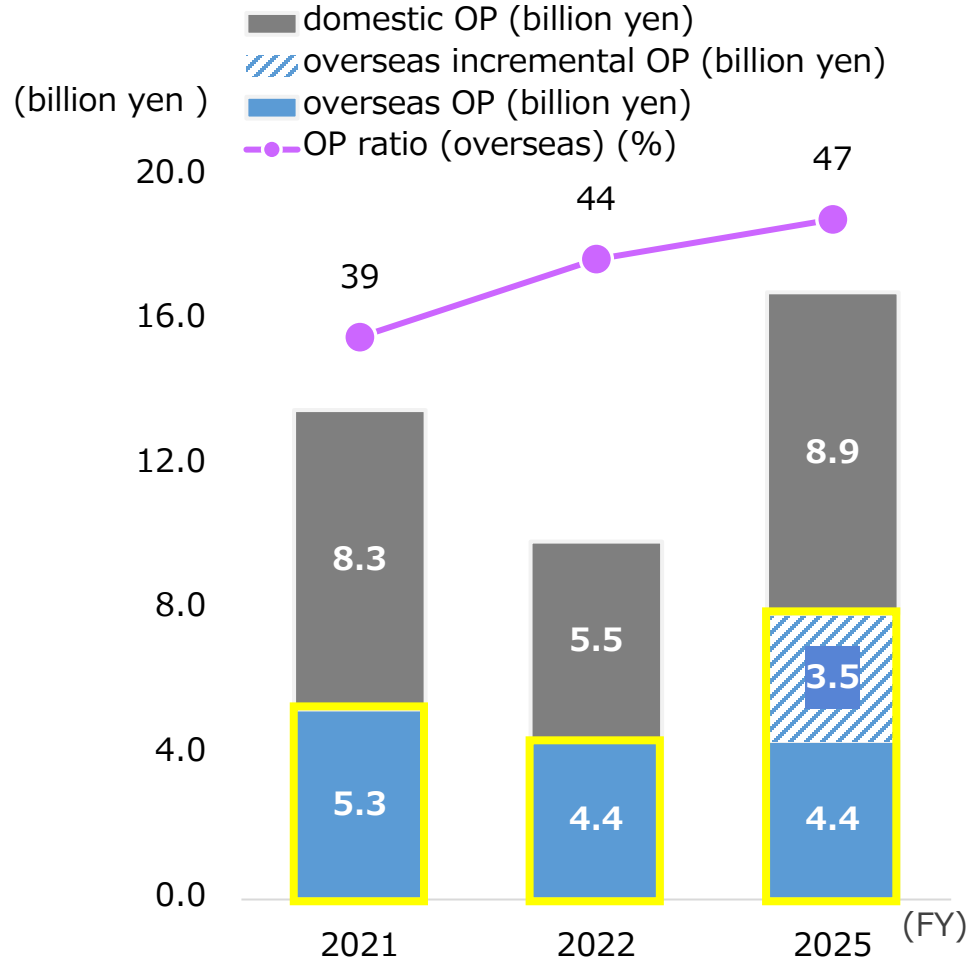
- Streamline production capacity through strategic alliances with other partners
- Process improvement and grade integration through Monozukuri Transformation
- Optimize production locations through collaboration with GC Polyols
- Shift to high value-added products

<Superabsorbent polymers business unit.>

- Consolidate and/or eliminate surplus facilities
- Process improvement and grade integration through Monozukuri Transformation
- Expand Chinese and South Asian sales with regional sales strategy
- Explore high value-added products other than hygienic applications
- Strategic alliances with other partners



Promote Overseas Sales



(Note) Research and development costs related to new businesses (approx. 2 billion yen/year) are not included in the operating profits above

<Expand facilities in overseas plants>

- Thailand : Permanent antistatic agents 1,500 m.t. (FY2022)
High functionality surfactants 1,800 m.t. (FY2024)
- Korea : Lubricant additives 11,000 m.t. (FY2021)
- China : Lubricant additives 2,000 m.t. (FY2021)

<Strengthen functions of overseas sales offices>

- Boost sales to non-Japanese companies by promoting local staffs to senior management positions
- Strengthen technical service functions through R&D staff involvement

<Design global strategic plan by the business unit.>

- Launch product websites, participation in overseas exhibitions, utilization of digital marketing tools
- Pull-marketing strategy to attract potential international users
- Expand sales of SAP in China and South Asia

Ⅲ. New Medium-Term Management Plan 2025

Ⅲ-2. Basic Policy

Toward the Future Beyond 2025:

**New Growth Path
Solutions to Social Issues
Initiatives to Support Growth**

Development Related to CN to be Achieved by FY2025

Reinforcement of innovative actions including opportunities on strategic alliances and M&A

Carbon Recycling (CCU*)

- Establish basic technology of CCU utilizing ionic liquid method
- Accomplish demonstrative trial through consortium with engineering partners and municipalities



*Carbon dioxide Capture and Utilization

Energy (organic cathode)

- Establish manufacturing method of organic cathodes which contributes to weight reduction
- Initiate demonstrative trials lightweight batteries using our organic cathode



Agriculture (Peptide Materials)

- Accomplish registration of fertilizers containing peptides naturally generated
- Initiate sales of fertilizers in Miyazaki Prefecture
- Establish mass production technology of fermentation-produced peptides



QOL

Development Related to QOL to be Achieved by FY2025

- Continuous resources injection into Bio and Medical fields.
- Exploration for new businesses through potential investment in start-ups and M&A opportunities.

Diagnostic and regenerative medical care (extracellular vesicles: EV)

- Create new diagnostic business using EV* high concentration purification technology
 - Establish technology and business model
- *Extracellular Vesicles



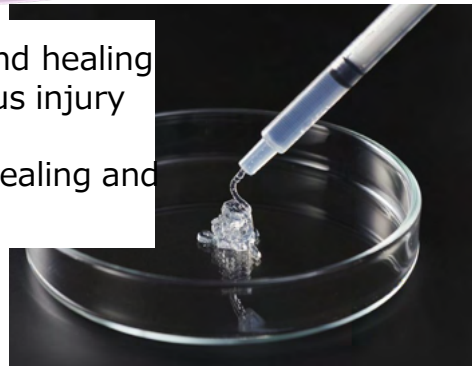
In vitro diagnostic medical products (Accuraseed)

- Improve production efficiency at Fujifilm Sanyo Chemical Healthcare Co. (FSHC), and promote sales through Fujifilm sales channels
 - Complete IVDR* support for overseas marketing
- *European In Vitro Diagnostic Medical Device Regulation



Wound healing materials and meniscus repair (Silk-elastin)

- Complete regulatory approval of wound healing application and clinical trial for meniscus injury applications
- Initiate licensing business of wound-healing and meniscus injury applications to medical device manufacturers and pharmaceutical companies



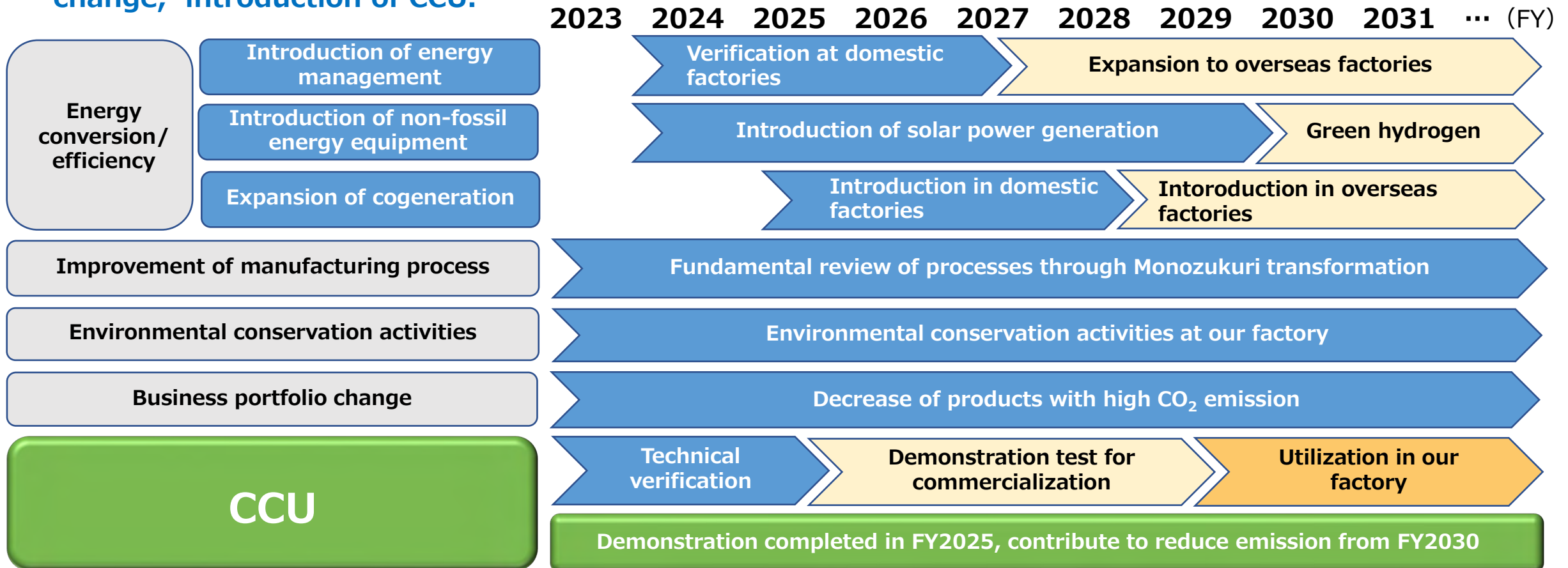
Digital olfaction (smell sensor)

- Initiate utilization in food industry and social implementation in the sanitation industry



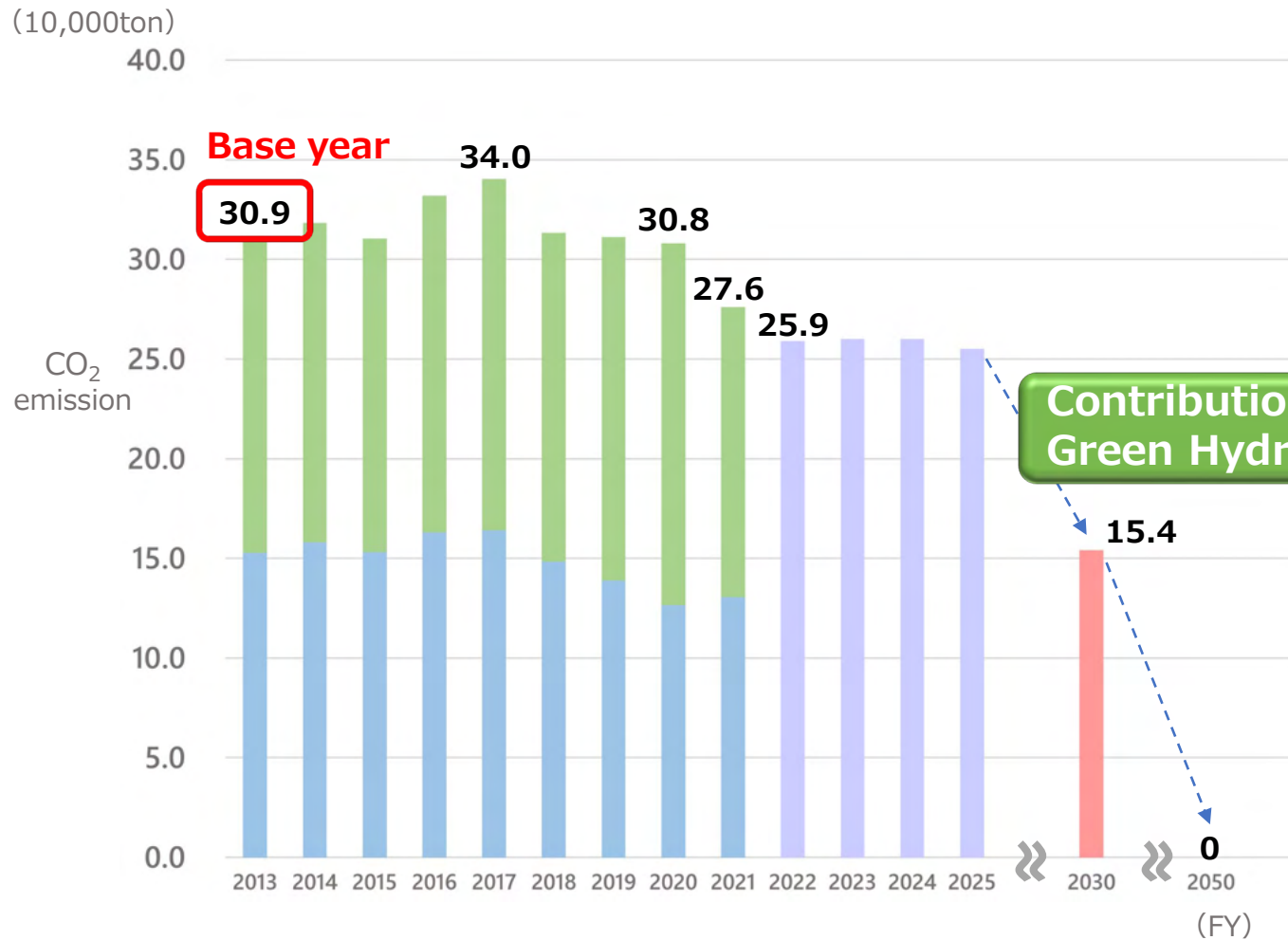
CN Initiatives to Reduce CO₂ Emission

We pursue significant reduction of CO₂ emission through our actions such as energy conversion, efficiency in energy consumption, review of manufacturing processes, product portfolio change, introduction of CCU.



CN

Target of CO₂ Emission Reduction



- Result of Emission (scope1)
- Result of Emission (scope2)
- Estimated emissions (scope1+2)*
- Target emissions (scope1+2)

*scope1:direct emissions from the plant, such as fuel use in the manufacturing process
 Scope2:indirect emissions from purchase of electricity and heat

Contribution from CCU and Green Hydrogen

- Emission in FY2022 are forecasted to be 259,000 tons (16% reduction from FY2013)
- During the period of FY2023-2025, higher emission is anticipated as production volume increases. On the other hand, implementation of manufacturing process improvement will contribute CO₂ emission reduction.
- Target to achieve a 50% reduction by FY2030 (compared to FY2013) has been set by introducing CCU and green hydrogen.

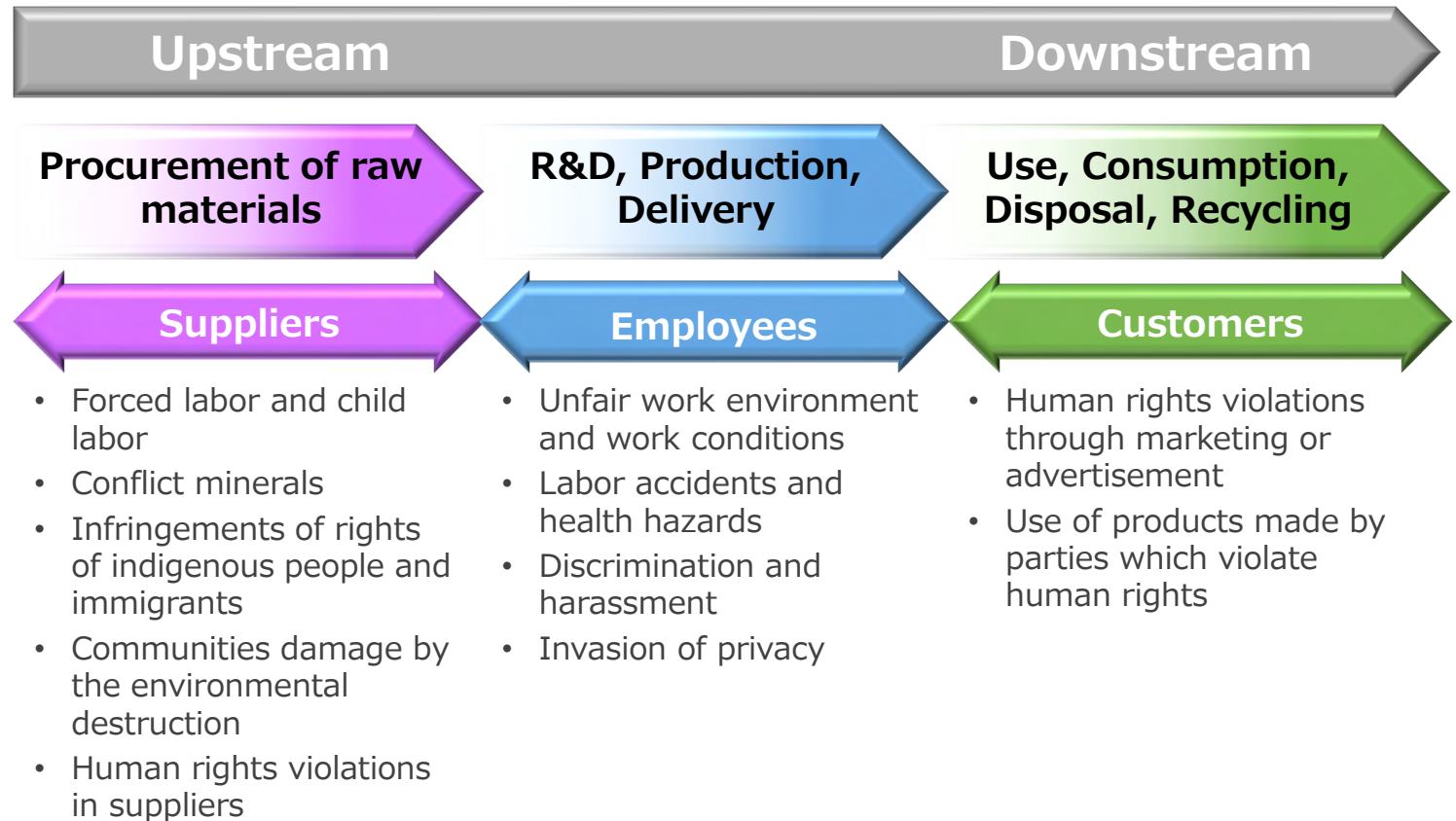
<Basic policy>

We proactively address human rights issues in the supply chain in accordance with newly formulated human rights policy in FY2023.

<Priority measures>

- Implement human rights due diligence in procurement activities
- Eliminate harassment thoroughly
- Promote DEI, educate LGBTQ, and create workplace where human rights are addressed
- Accept Ukrainian students

<Human rights issues in the supply chain>



HC

**Human Resource Development
and Work Environment Improvement**

<HR Development Policy>

Based on the principle of 「Each and every employee contribute to create new value」 and 「All departments are profit centers」, we promote WakuWaku works by spotlighting everyone.

<Work Environment Improvement Policy>

Aiming to be a company where all employees can work comfortably with peace mind while valuing their individuality, we promote to create a work environment where all human rights and diverse values can be respected, accepted, and all employees perform proactive roles.

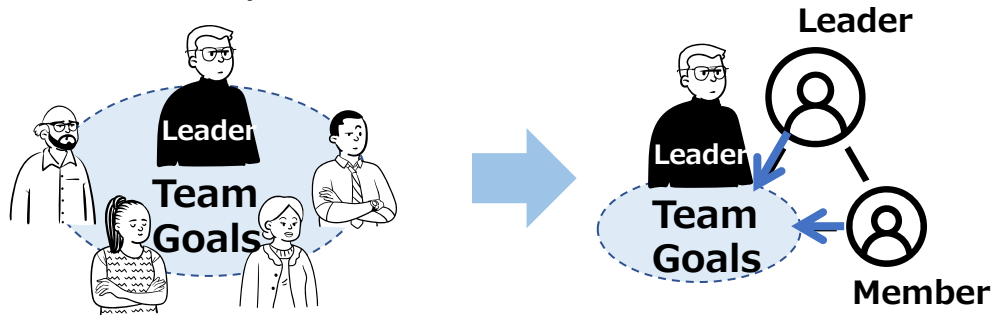
One Team



Becoming a Better Company

New HR System(2023~)

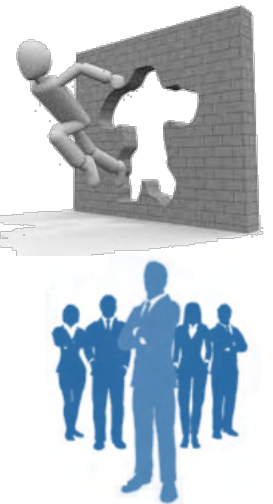
- Introduction of grade system that makes better use of capabilities
- Introduction of evaluation system based on competence and role
- Introduction of fair, transparent and balanced evaluation system
- Company-wide introduction of organizational evaluation system



Aiming to working together to achieve organizational goal with One Team
Aiming to evaluate with fair, transparent and balanced evaluation

HR Development

- Generalist, specialist→Unify into Associate grade
- New career training program
- Selection training program for potential leaders
- Expansion of training program by level
- Overseas study and training program
- Positive rotation
- In-house multiple jobs system
- Self improvement support
- Reskilling of middle and senior group



Creating a system where employee can learn proactive, take on challenges, and leaders grow naturally

Work Environment (DEI、Work Style Reform)

- Active recruitment of foreign nationals
- Create a comfortable work environment for people with handicap
- Promote understanding of LGBTQ and create an environment that respects diverse value
- “The challenge of getting to 30% by 2030” by Keidanren(Ratio of female executives)
- Ratio of female management positions 15% or more (Target for 2030)
- “IKUBOSU” declaration and membership
- Create a flexible work environment



Promote work style reform and diverse of employee

Work Environment (Health Management)

- Regular health promoting meeting
- Establishment of health promotion teams in each office or factory
- Set 5 action goals(Exercise, sleep, eating, drinking, smoking), including training etc.
- Health checkup follow-up and Health guidance
- Support for prevention of infectious disease
- Support for purchasing health support app and equipment



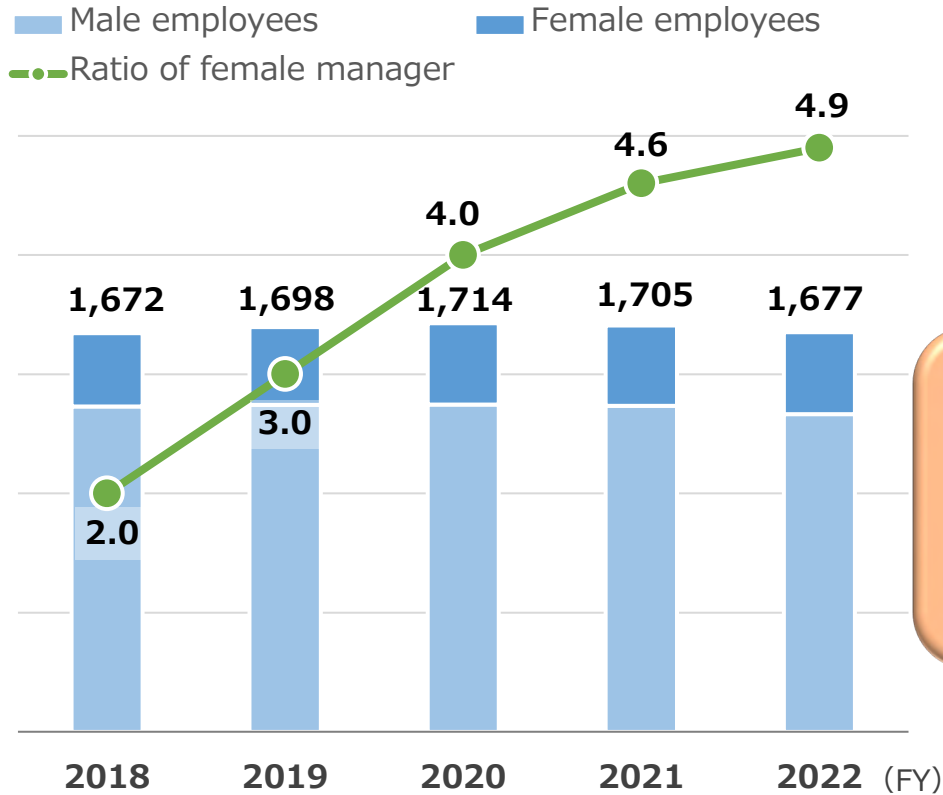
Aiming for a workplace where employee can work in good health forever

New Medium-Term Management Plan 2025

Toward the Future Beyond 2025: Initiatives to Support Growth

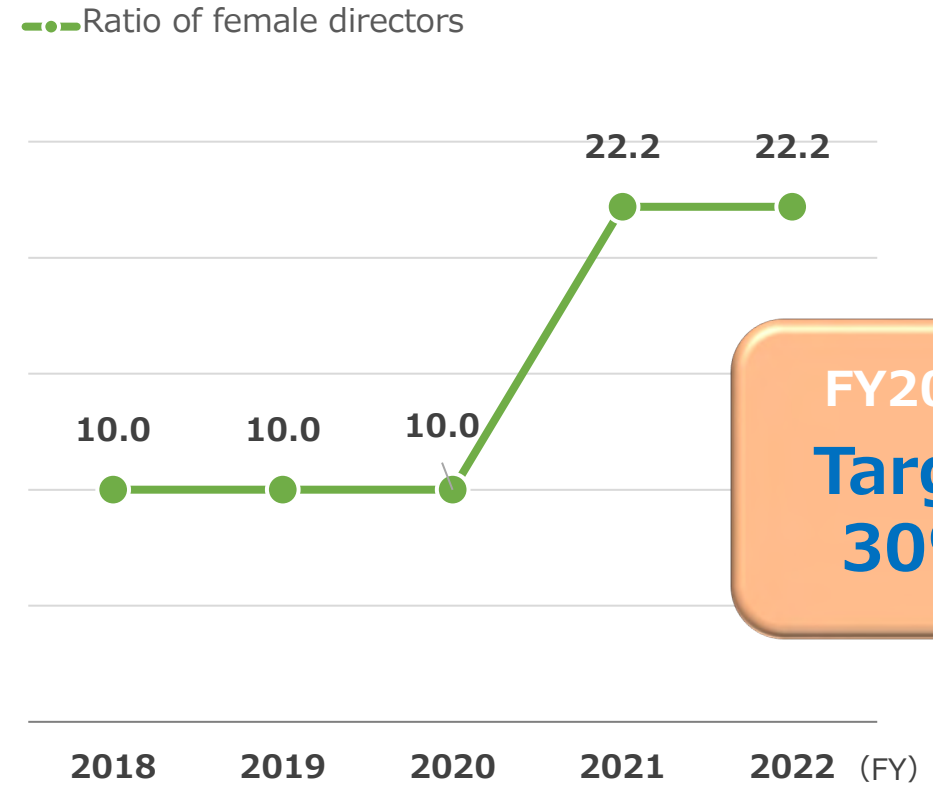


Number of Employees*1 /Ratio of Female Managers*2



**FY2030
Target
15%
or more**

Ratio of Female Directors



**FY2030
Target
30%**

*1 Sanyo chemical, secondment from Sanyo chemical
*2 Ratio of female employees in management position

RM

Safety-First Management

Safety and quality are top priorities in our management.

<Basic policy>

- To ensure safety first operation, “Safety philosophy and policies” is established. Behaviors accorded with philosophy are encouraged.
- Quality governance is strengthened by adapting independent Quality Assurance from Production Division.
- Supervisions by Directors are introduced.

Safety

<Safety philosophy>

We place the highest priority on Safety and Compliance in all our business activities.

<Safety policy>

Safety comes first.

<Priority measures>

- Foster a safety-first mind led by the Safety Promotion Department
- Strengthen risk assessment and develop human resources
- Expand safety education to employees including subcontractors
- Assessment of factory safety by an outside audits

Quality

<Priority measures>

- Clarification of responsibility by isolating quality assurance from production
- Creating a system that prevent falsification by introducing in-line analysis and LIMS* that do not require human intervention

* Laboratory Information Management System

<Basic policy>

- Commit to quantitative targets
- Strengthen investor relations activities by engagement with shareholders and investors through the transparent disclosure by the integrated report and the Medium-term management plan

<Priority measures>

- Enhance disclosure in the Integrated Report and renew the Sustainability Website
- Promote mutual understanding by increasing the frequency of communications with investors
- Engage the shareholders through laboratory tours, etc.
- Report on the progress of the Medium-term management plan to investors
- Increase investment return by introducing hurdle rates based on capital costs

<Laboratory tour for shareholders>

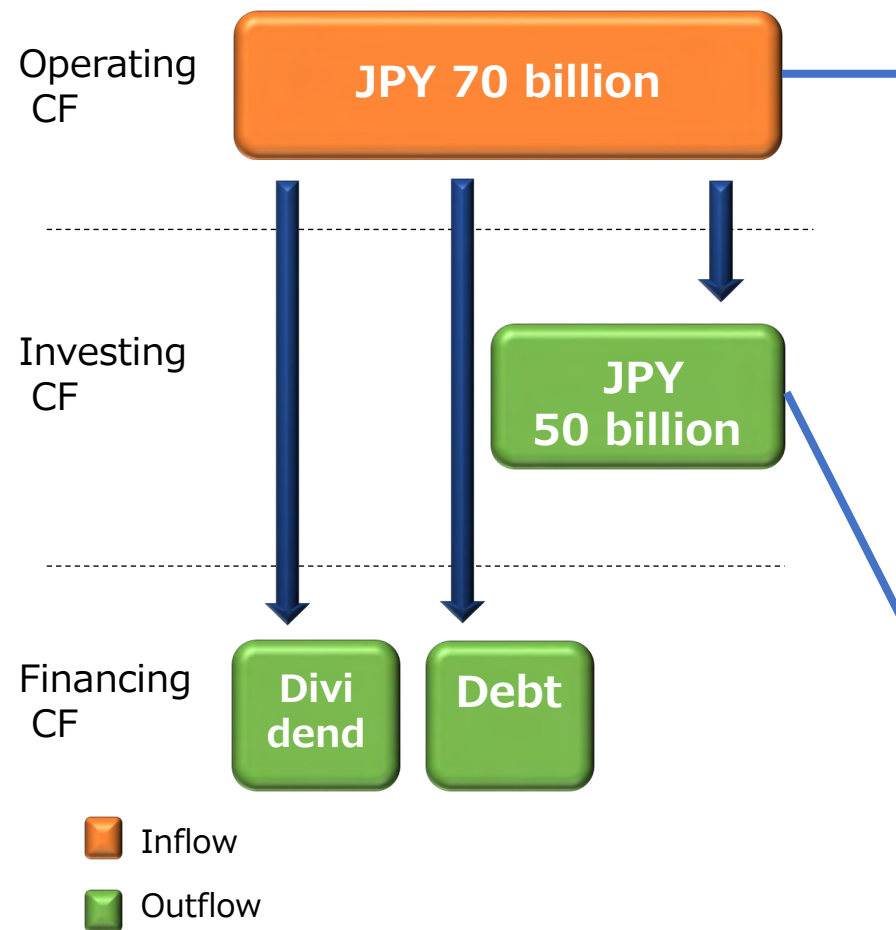


Ⅲ. New Medium-Term Management Plan 2025

Ⅲ-3. Cash Flow and Investment Policy

Ⅲ-4. Financial Policy

Targets for 2023-2025



Operating CF

<EBT : 37 billion>

Profit increase by High-value-added products and Basic products
 (Continue intensive expenditures in R&D : 17 billion)

<Depreciation : 34 billion>

ERP system renewal and CAPEX

<Working Capital reduction: 5 billion>

Cash generation by Monozukuri Transformation

<Miscellaneous including taxes : ▲6 billion>

Investing CF: Investment Plan of 50 Billion Decided by 2025

<Growth from core business(high-value added products) : 5 billion>

Production capacity increase in response to strong demands and emerging markets

<Reformation of existing business : 35 billion>

Process optimization in Monozukuri Transformation and facility renovation /automation

<New growth path (growing business) : 10 billion>

Strategic investment in M&A and commercialization of new products focusing on CN and QOL business

<Reduction of cross-holding : ▲several billion>

Financial Policy

<Basic Policy>

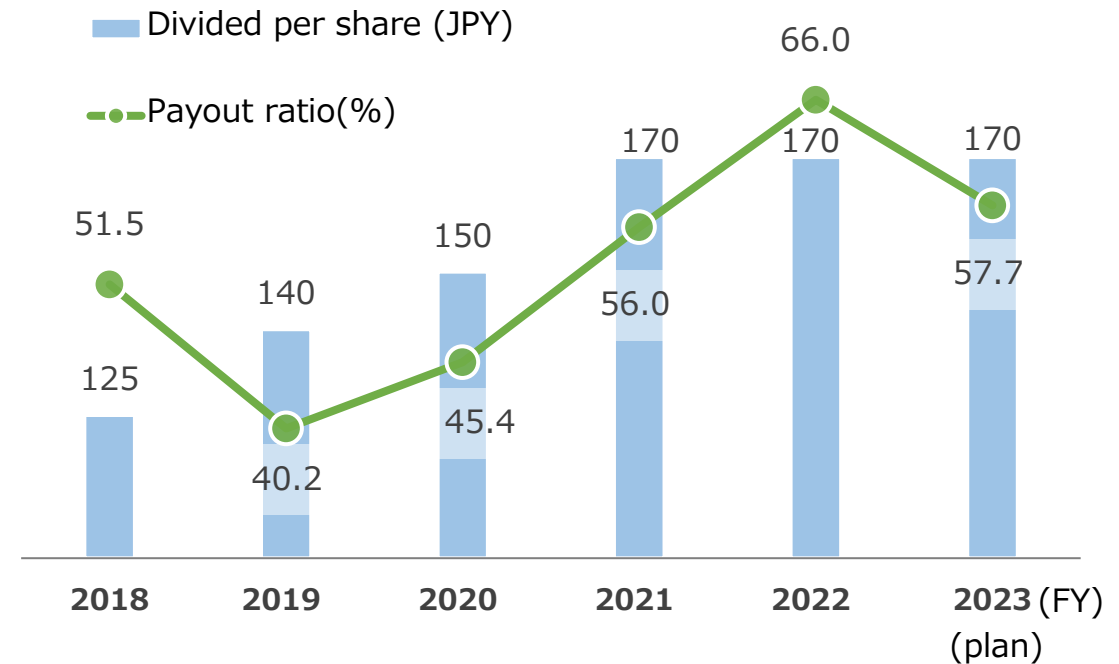
-Aiming for higher P/B ratio, we do acknowledge cost of capital and make strategic evaluation of share prices and market capitalization

<Financial Policy>

- Ensure sufficient cash for further investment by increasing operating CF (higher profit in combination with reduced WC)
- Manage assets by structural reform and cross-holdings minimization
- Ensure fair distribution for multiple stakeholders
- Make partial debt payments when available
- Manage cost of capital efficiently
- Increase the ratio of long-term shareholders for sustainable value creation
- Attract international investors with successful ESG scores

<Payout strategy>

- Dividend target higher than 30%
- More attractive shareholder return in the long run



<Note>

The amounts shown in this document are rounded down to the nearest unit, and other numbers, such as the proportional ratio, is rounded off to the nearest unit.

<Disclaimer>

This document contains forward-looking assumptions, statements and forecasts based on plans as of May 12, 2023.

Actual results may differ materially from these forecasts due to risks and uncertainties associated with the global economy, competitive conditions, exchange rate fluctuations, raw material price trends, and other factors.

<For IR inquiries >

Sanyo Chemical Industries, Ltd.

Public Relations Department, Corporate Planning Division

E-mail: pr-group@sanyo-chemical.group