

Message from the President

Akinori Higuchi

Representative Director,
President and CEO



Fiscal year 2022 (ended March 31, 2023) was my second year as president. While on the one hand I felt one year was very short, I think I could have done more. In May 2022, we formulated the management policy “WakuWaku Explosion 2030,” and as part of that, I interviewed many employees and other stakeholders. Toward the achievement of the New Medium-Term Management Plan 2025, I would like to continue to communicate with them this year as well while further deepening discussions throughout the company.

Fatal accident at the Nagoya Factory in January 2022

In January 2022, a fatal accident occurred on the premises of the Nagoya Factory. We sincerely pray for the repose of the employee’s soul and extend our heartfelt sympathy to the family of the deceased. We would also like to deeply apologize for the aggravation and distress we have caused to all those concerned. In response to reports from the Accident Response Committee,* which examined the accident, we have established the Safety Promotion Department. For details of our initiatives, please refer to the “Occupational Safety and Health/Accident Prevention” section on pages 39 and 40 of this report. We are currently taking a variety of short-term and long-term measures. Although I often visit factories without prior notice, I feel that the Sanyo Chemical Group is now more conscious of safety. To prevent such an accident from happening again in the future, the management team and all employees will work together to implement recurrence prevention measures and to foster a culture of safety.

* The Accident Response Committee consists of a total of 13 members, including factory managers and the executive chairperson of the labor union, with the Executive Officer in charge of production serving as the chairperson and the Responsible Care Division General Manager serving as the execution manager. As of August 2022, the cause of the accident had been analyzed 15 times, and recommendations for permanent measures had been presented.

FY2022 performance increased in sales but decreased in profit

As for performance for FY2022, we fell short of our initial plan with net sales of 174.9 billion yen, operating profit of 8.4 billion yen, and profit attributable to owners of parent of 5.6 billion yen. This is because we were greatly affected by various environmental changes, such as China’s lockdown due to COVID-19, soaring energy costs, automobile production cut-backs, and sharp yen depreciation. Consequently, we were unable to avoid delays in the progress of our business strategy based on the management policy “WakuWaku Explosion 2030,” and we revised our targets in the New Medium-Term Management Plan 2025.

New Medium-Term Management Plan 2025

At the core of the Group's strategy are sustainable management and material issues. We aim to achieve long-term growth by engaging in sustainable management, with businesses in the following two fields placed at the center of the strategy: the Environment field aimed at achieving carbon neutrality, and the Life field aimed at improving QOL. Our Vision 2030 also envisions a future image in line with sustainable management, and the recently announced New Medium-Term Management Plan 2025 is positioned as the first step toward achieving our vision.

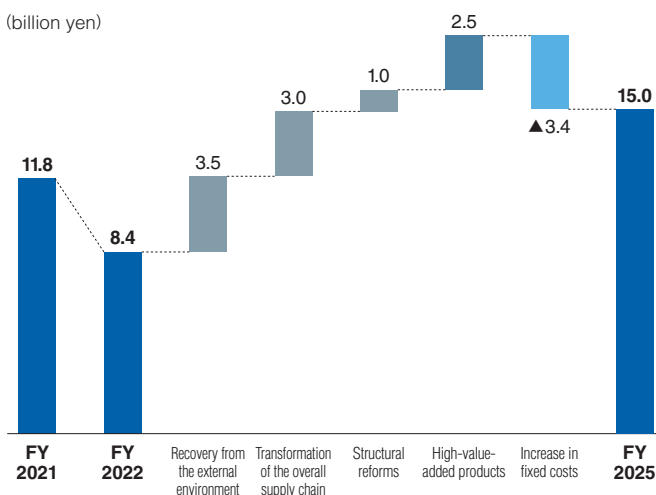
Although we have so far been able to gradually align the vectors of the entire company, we need to speed up further to move ourselves forward.

Overview of the New Medium-Term Management Plan 2025

The New Medium-Term Management Plan 2025 consists of two pillars: "Business Strategy" to be implemented now, and "Toward the Future Beyond 2025." Moreover, "Business Strategy" consists of three components: "Growth from Core Business," "Reformation of Existing Business," and "Global Deployment." As one of the initiatives for the "Reformation of Existing Business," we aim to increase efficiency throughout the supply chain to improve profitability through Monozukuri Transformation (Manufacturing Innovation). We believe this is the activity that will contribute to the highest profit increase over the next three years (see the figures below).

▶ Operating profit change chart

(billion yen)



Reformation of Existing Business	
Recovery from the external environment	Recovery of domestic automobile production / Demand growth from China's post-COVID-19 situation
Transformation of the overall supply chain	Price optimization linked to naphtha prices / Improvement of efficiency and profitability through Monozukuri Transformation
Structural reforms	Polyurethane (PPG) and superabsorbent polymer (SAP) businesses undertake drastic reforms
Growth from Core Business	
High-value-added products	Accelerate investment in five focus product groups and expand overseas sales
Increase in fixed costs	
ERP system update / Increase in depreciation and repair costs associated with renovation investments / Rising labor costs	

Monozukuri Transformation (Manufacturing Innovation)

Until now, the company has sometimes been unable to do what it should do as a manufacturer as a result of being caught up in old customs. Accordingly, in the New Medium-Term Management Plan, we will work to increase efficiency throughout the supply chain to improve profitability. Regarding factories, we will improve the work environment by reviewing and automating the manufacturing process to improve the non-defective product rate, thereby reducing the manufacturing lead time and trimming the inventory, which are directly linked to cash generation.

Currently, Japan is facing a declining working population, and it is expected that the number of female and foreign employees will increase in the future, in addition to the aging of the workforce. Making our factories safe workplaces where anyone can work with ease will not only enable us to hire such people without difficulty, but will also have a positive impact on the retention rate of new employees.

We also plan to thoroughly overhaul old practices, from procurement to R&D, logistics, and marketing. We are confident that this initiative will form the foundation for our highly profitable structure in the future.

Structural reforms

As another initiative for "Reformation of Existing Business," we have included structural reforms to boldly carry out reforms in the polyurethane (PPG) and superabsorbent polymers (SAP) businesses. Through these efforts, we will improve the profitability of basic products and realize a highly profitable structure.

Prioritization of investment in five high-value-added products categories

In terms of growth investment, we will prioritize capital investment in five product groups with high profitability, and then invest in the globalization of these five high-value-added product categories and new businesses through M&A. We will also actively invest in factory safety and automation.

The amount of strategic investment over three years will be five billion yen for the five high-value-added products categories, 35 billion yen for investment in facility renewal, incorporated with process optimization and automation, and 10 billion yen for M&A, totaling approximately 50 billion yen.

Funds are primarily raised through cash generation initiatives incorporated into the strategy. If we need a large amount of funds temporarily, such as for M&A, we may consider borrowing. However, we currently believe that cash generated and internal reserves will be the main sources of funding.

Capital policy

In the New Medium-Term Management Plan 2025, we have set targets with the cost of capital in mind. In the long term, we aim to achieve an ROE of 8% or higher and an ROIC of 10% or higher, and we believe that PBR will also approach 1.0 due to our awareness of the spread between ROE/ROIC and the cost of capital.

We are also proceeding with the sale of cross-shareholdings, and in FY2022 we sold a substantial amount of shareholdings. We will not rule out share buybacks, considering them as an option, and will consider flexibly implementing share buybacks within the scope of the cash generated.

Dividend policy

We consider returning profits to shareholders to be one of the important management issues. We aim to improve our dividend payout in the medium to long term, targeting a consolidated payout ratio of 30% or higher, while comprehensively considering the allocation of resources necessary for sustainable growth, including investing in employees and safe facilities and reinforcing the corporate base for the future. The dividend payout ratio for FY2022 was 66%, and the annual dividend per share was 170 yen.

We publish the Integrated Report 2023 to allow our stakeholders to understand the medium- to long-term strategies that the Group is aiming for, in particular, the New Medium-Term Management Plan 2025. We would appreciate it if you could read it and provide feedback.

September 2023

Representative Director, President and CEO

