

Action to Implement Management that is Conscious of Capital Cost and Stock Price

June 20, 2024

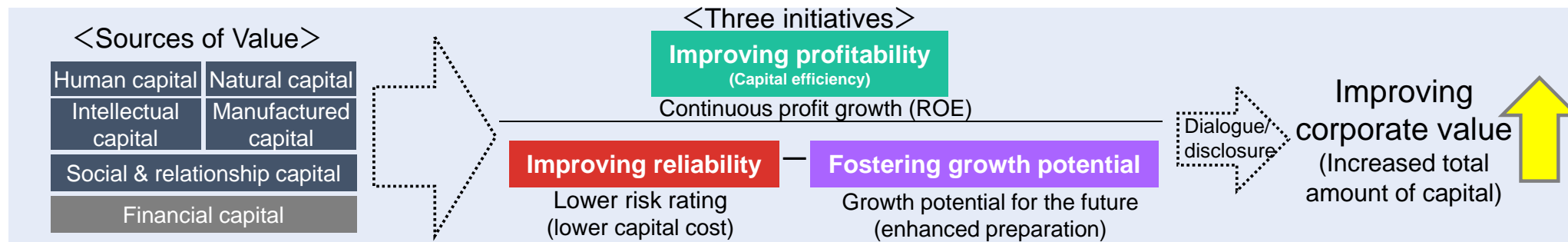
SEKISUI CHEMICAL CO., LTD.

1. Toward Enhancement of Corporate Value

- Since FY2023, we have been working on the Medium-term Management Plan, “Drive 2.0- The 2nd phase for 2030,” and are progressing with three initiatives to sustainably enhance corporate value.



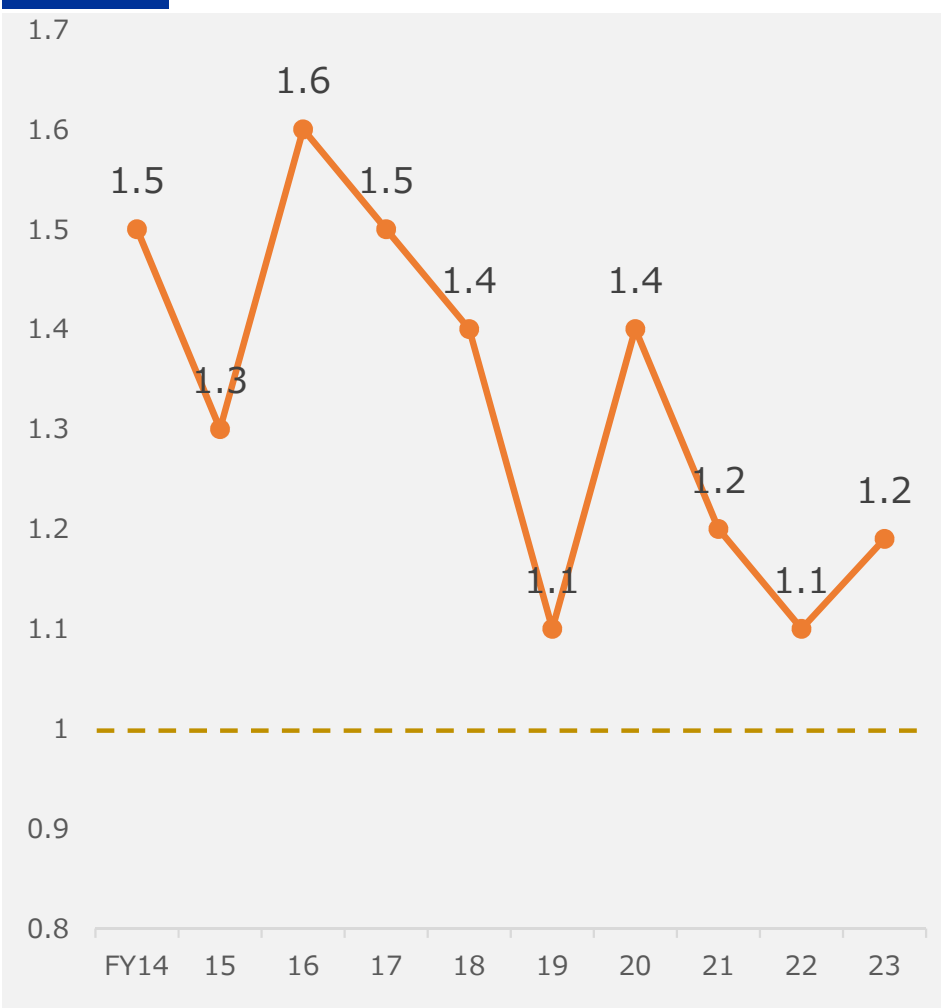
- The three initiatives are accelerating our initiatives to enhance corporate value as follows.



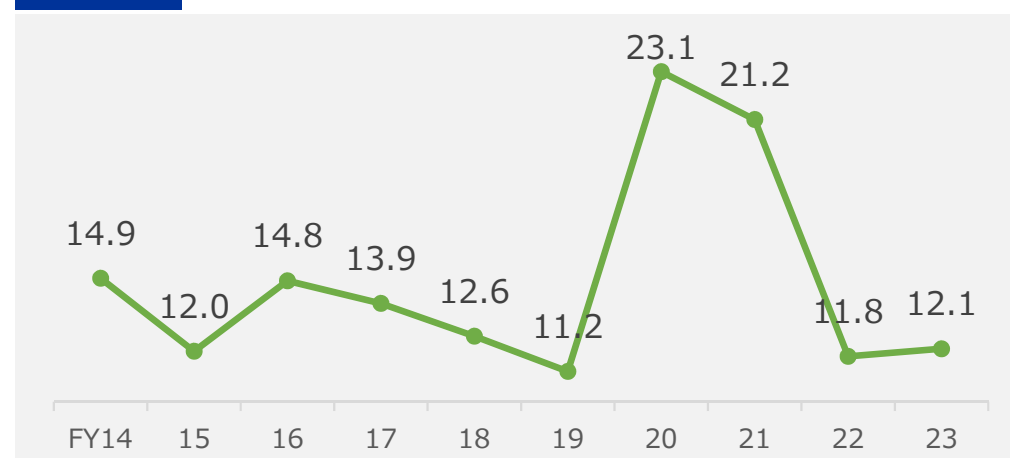
2. Current Situation Analysis

- Price-to-Book Ratio (PBR) has remained stable above one over the past 10 years.
- Price-to-Earnings Ratio (PER) skyrocketed in 2020-2021 due to rising short-term growth potential in response to the decline in capital efficiency caused by the COVID-19 pandemic. Since then, it has returned to its original level, and **fostering long-term growth potential is necessary**.

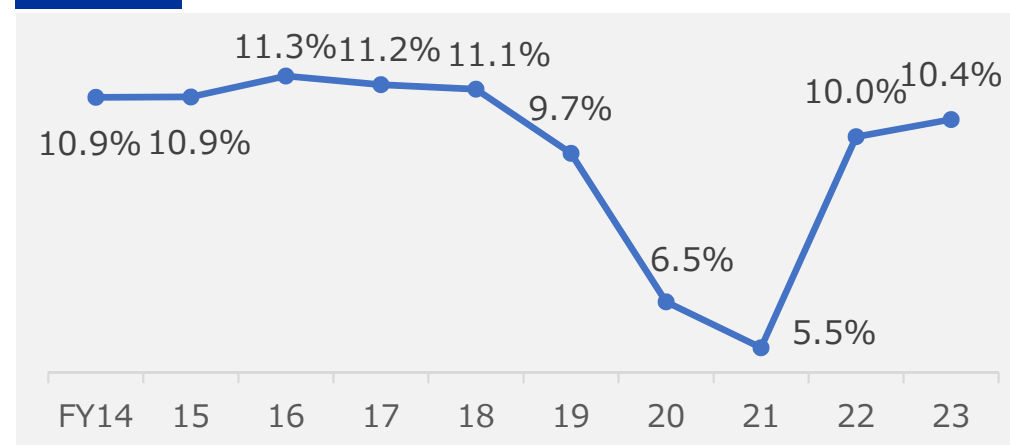
PBR (Price-to-Book Ratio: ROE × PER)



PER (Price-to-Earnings Ratio)



ROE (Return on Equity)



2. Current Situation Analysis

- Break down ROE and confirm each element
Total assets turnover and financial leverage maintain a certain level of efficiency and safety.
- On the other hand, a decline in the profit/net sales ratio directly leads to a decline in ROE.
Accelerating growth and improving profitability (capital efficiency) is necessary to ensure stable profitability in the future.

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>	<u>FY21</u>	<u>FY22</u>	<u>FY23</u>
ROE	11.1%	9.7%	6.5%	5.5%	10.0%	10.4%
Profit/Net Sales Ratio	5.8%	5.2%	3.9%	3.2%	5.6%	6.2%
×						
Total Assets Turnover Rate	1.13	1.06	0.94	0.99	1.02	0.98
×						
Financial Leverage	1.69	1.81	1.72	1.78	1.74	1.67

3. Capital Cost and Capital Profitability

- According to estimates based on CAPM (proprietary) and earnings yield, the **cost of equity is estimated to be 7-9%**.
 - ROE has been steadily rising above this level, and the medium-term plan **aims for 11%** by 2025.
- * In 2020 and 2021, ROE declined due to temporary impact from the COVID-19 pandemic.

Cost of Equity

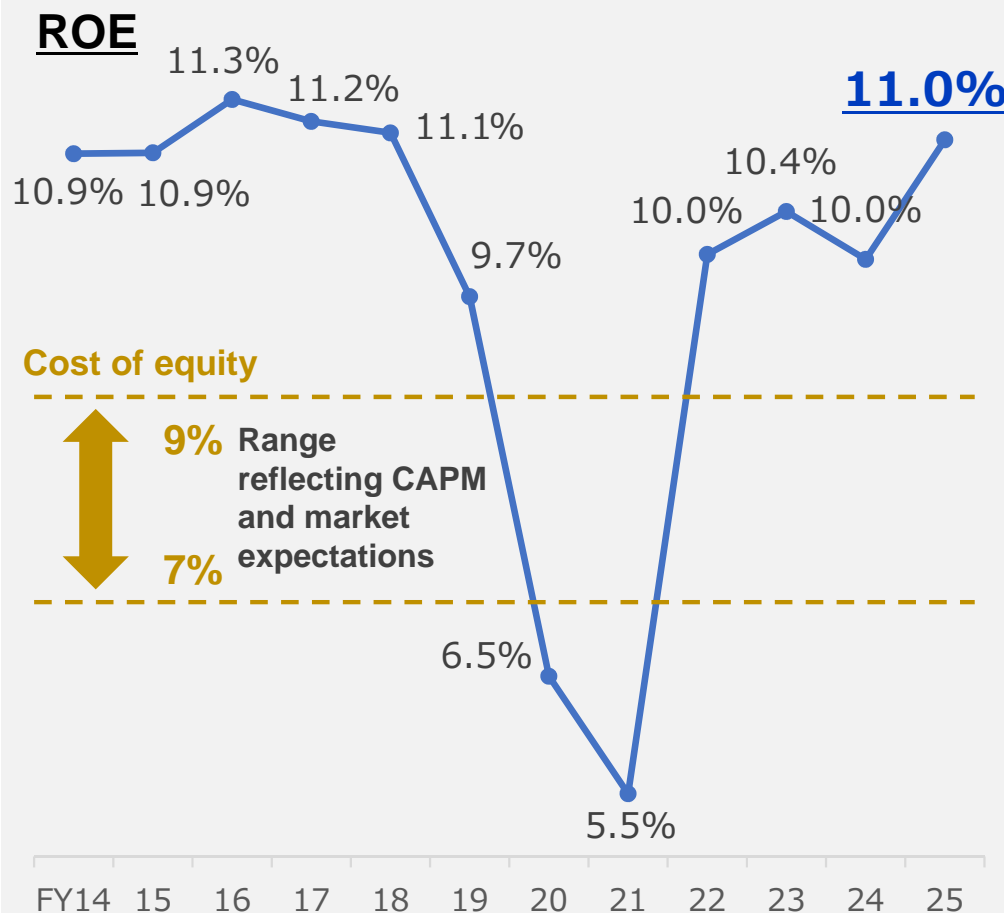
Estimates based on CAPM*

*Capital Asset Pricing Model

Risk-free rate Approx. 1%	+	β 1.2 Average in the last five years (Bloomberg)	×	Market risk premium 5%-6%	=	Cost of equity 7%~9%
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Estimates based on earnings yield

Assuming PER reciprocal and growth rate of 0%	=	Cost of equity 7%-9%
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4. Specific Initiatives: Three Initiatives in the Measures of the Medium-term Management Plan “Drive 2.0”

- Improve capital profitability and control the capital cost through the implementation of three basic strategies

Accelerate growth: Strategic innovation

■ Growth strategies based on Strategic Area Map

Using the “Strategic Area Map,” a compass to achieve the Long-term Vision, we will clarify the “enhancement areas,” areas of prioritized products to be expanded by extending from existing businesses, and “innovation areas,” areas where new innovations are created, and accelerate growth by investing capital as necessary.

Improving profitability (capital): Organic growth

■ Business portfolio management

All existing business are assigned four expected roles from the perspectives of finance, strategy, ESG, etc.

Execute optimal management resource allocation and strive to improve the profitability (capital) of organic businesses.

In particular, growth-driving and growth potential businesses will increase their earning power and aim to earn 90% of the company’s incremental EBITDA.

Improving reliability: Strengthening sustainability

■ Initiatives on materiality, etc.

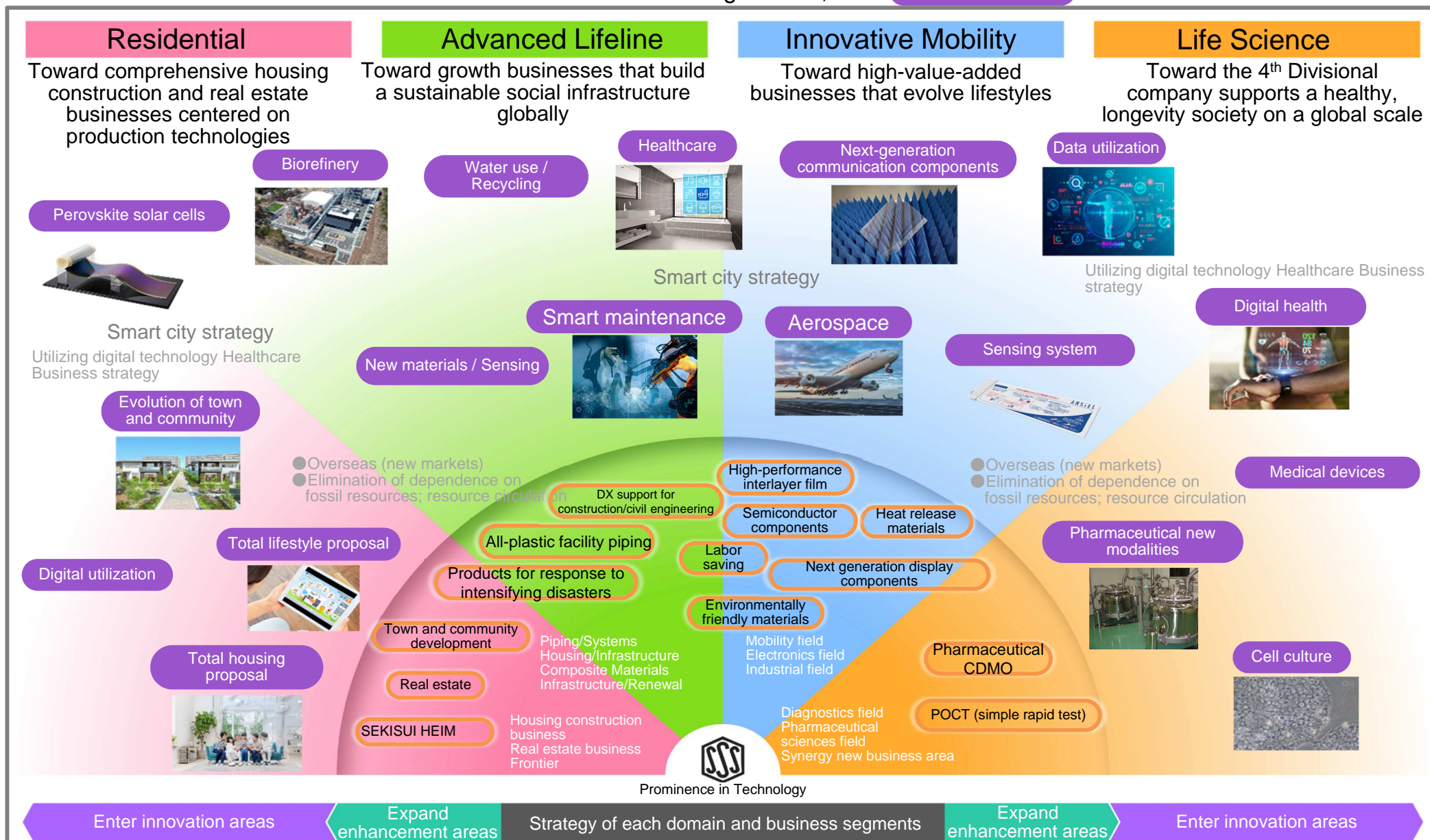
Strengthen our management foundation to achieve our long-term vision and mid-term management plan by pursuing the five materialities: products to enhance sustainability, governance, DX, environment, and human capital.

4. Specific Initiatives: Strategic Innovation –Growth Strategies Based on Strategic Area Map-

Strategic Area Map, a compass to achieve the Long-term Vision

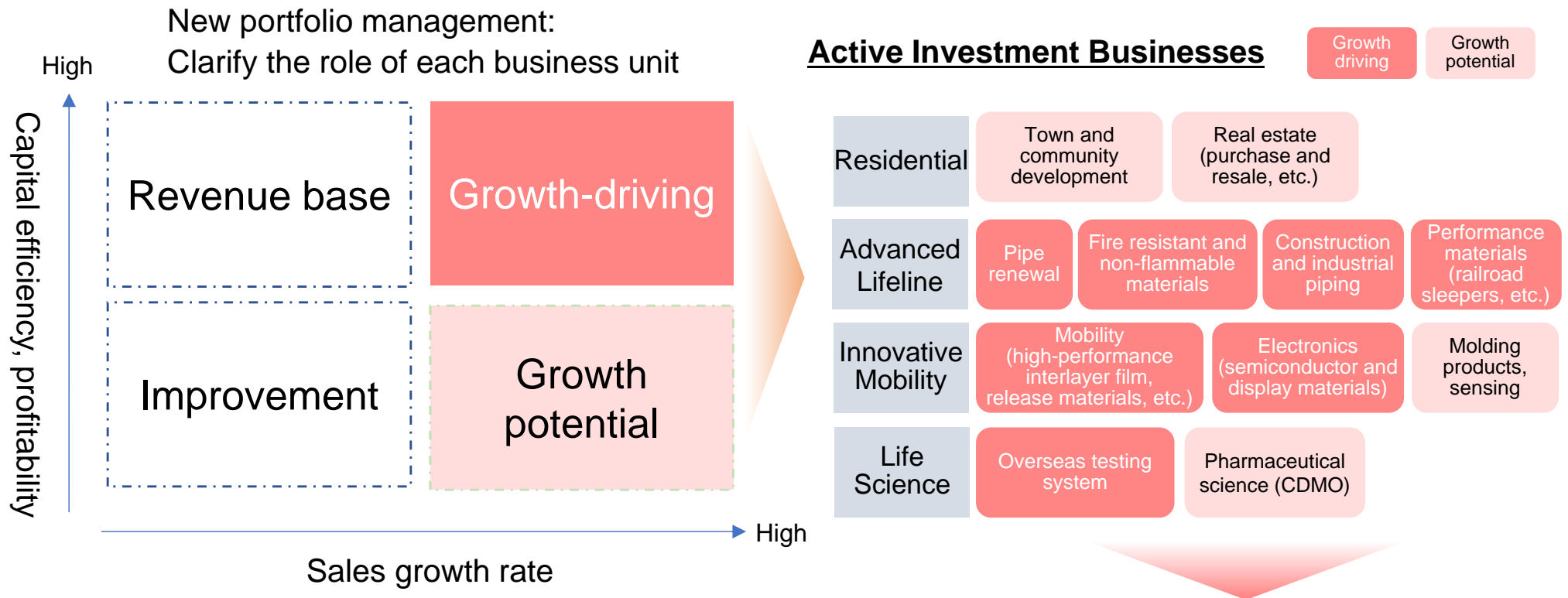
→Expand enhancement areas and enter innovation areas

- **Enhancement areas**: Areas of prioritized products to be expanded by extending from existing businesses
- **Innovation areas**: Areas where new innovations are created through fusion, etc.



4. Specific Initiatives: Organic Growth –Business Portfolio Management- **SEKISUI**

- Strengthen business portfolio management. Accelerate existing business growth driver expansion
- Allocate management resources to growth-driving and growth potential businesses on a priority basis



1. Analyze and evaluate existing businesses from multiple perspectives
 - Profitability (OPI margin), capital efficiency (ROIC), growth potential (sales growth rate)
 - Strategic positioning, position in the industry, future prospects, competitiveness from an ESG perspective
2. Clarify the role of each business → Appropriately allocate management resources

Achieve more than 90% of incremental profit (EBITDA) from growth-driving and growth potential businesses

4. Specific Initiatives: Strengthening Sustainability –Initiatives on Materiality, etc.-

- Identify issues of high importance to stakeholders and the Group's management.
- Move toward initiatives that will further contribute to sustainable Group-wide growth by further strengthening ESG management

Key issues	The Medium-term Plan policy	Proactive approach
Products to enhance sustainability	<ul style="list-style-type: none"> • Achieve sales growth through each Company and business expansion strategy • Create and expand products that solve issues by utilizing support programs and taskforce 	<p>Expand sales of products that drive improvement of social sustainability and our sustainable growth</p> <div> <p>Products to enhance sustainability Net sales <Of which Premium Framework> FY23 : 947.1 bil yen <501.4 bil. yen>※1 FY25 Targets :Over 1 trillion yen <540 bil. yen></p> </div>
Internal control	<p>Safety, quality, accounting, legal/ethical, information management</p> <ul style="list-style-type: none"> • Improve risk foresight and prediction ability • Strengthening the organizational self-purification ability (culture, and people) 	Reduce and control operational risks to support business risk-taking
DX	<ul style="list-style-type: none"> • Innovate global management base • Accelerate DX in core areas • Secure human resources for DX promotion 	Secure and develop human resources for DX to drive business transformation leveraging digital technology
Environment	<ul style="list-style-type: none"> • Contribute to solve climate change issues • Promote resource recycling • Minimize water risk and maintain water resources 	Focus on creating carbon-free and low-carbon products as well as products for raw material conversion by viewing environmental issues as opportunities
Human capital	<ul style="list-style-type: none"> • Realize assignment the right person to the right • Foster a culture of taking on challenges • Promote diversity 	Strategically reinforce business leaders and specialized human resources (for technology and DX) to drive growth

※1 Preliminary figures as of April 2024

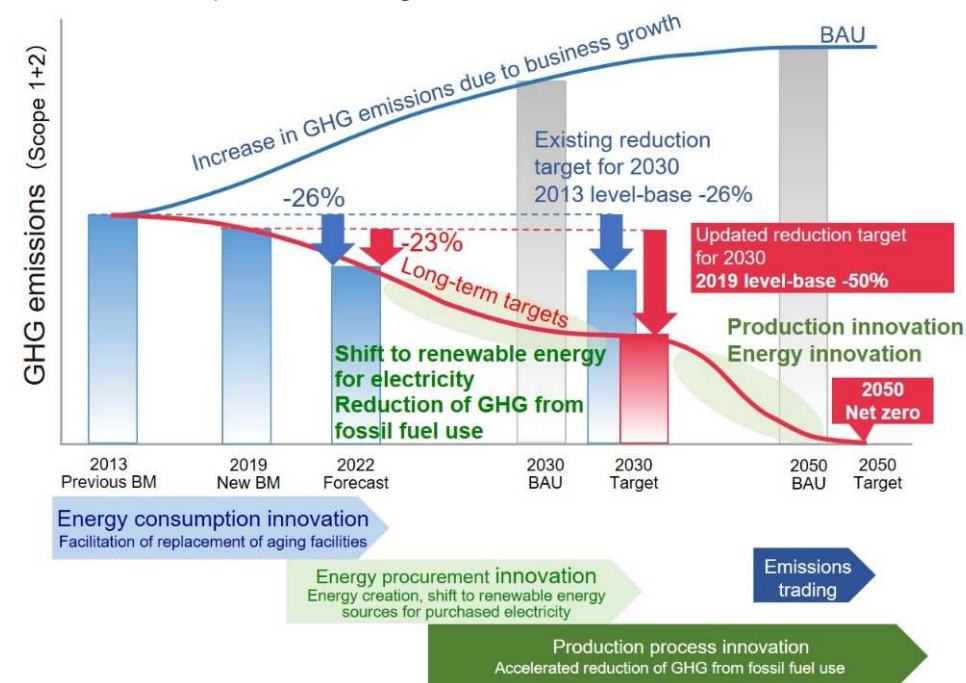
4. Specific Initiatives: Strengthening Sustainability –Initiatives on Materiality, etc.-

Environmental initiatives—2050 Earth with preserved biodiversity

Key initiatives	Climate change	Reduce fuel-derived GHG emissions; accelerate the conversion of purchased electricity to renewable energy GHG emission reduction rate (vs FY19): FY25 target -33%, FY30 target -50% (SBT certification reacquired for the 1.5°C target)
	Resource recycling	Improve material recycling rate of waste plastic Promote resource conversion of raw material Material recycling rate (in Japan): FY25 target 65%
	Water risks	Reduce water withdrawal and COD emissions Minimize business impact

Total investment amount to 2030
40 billion yen

Roadmap to reducing GHG emissions



Invest in human capital—Re-skilling/re-learning and career expansion of employees; returns to employees: 12 billion yen to 2025

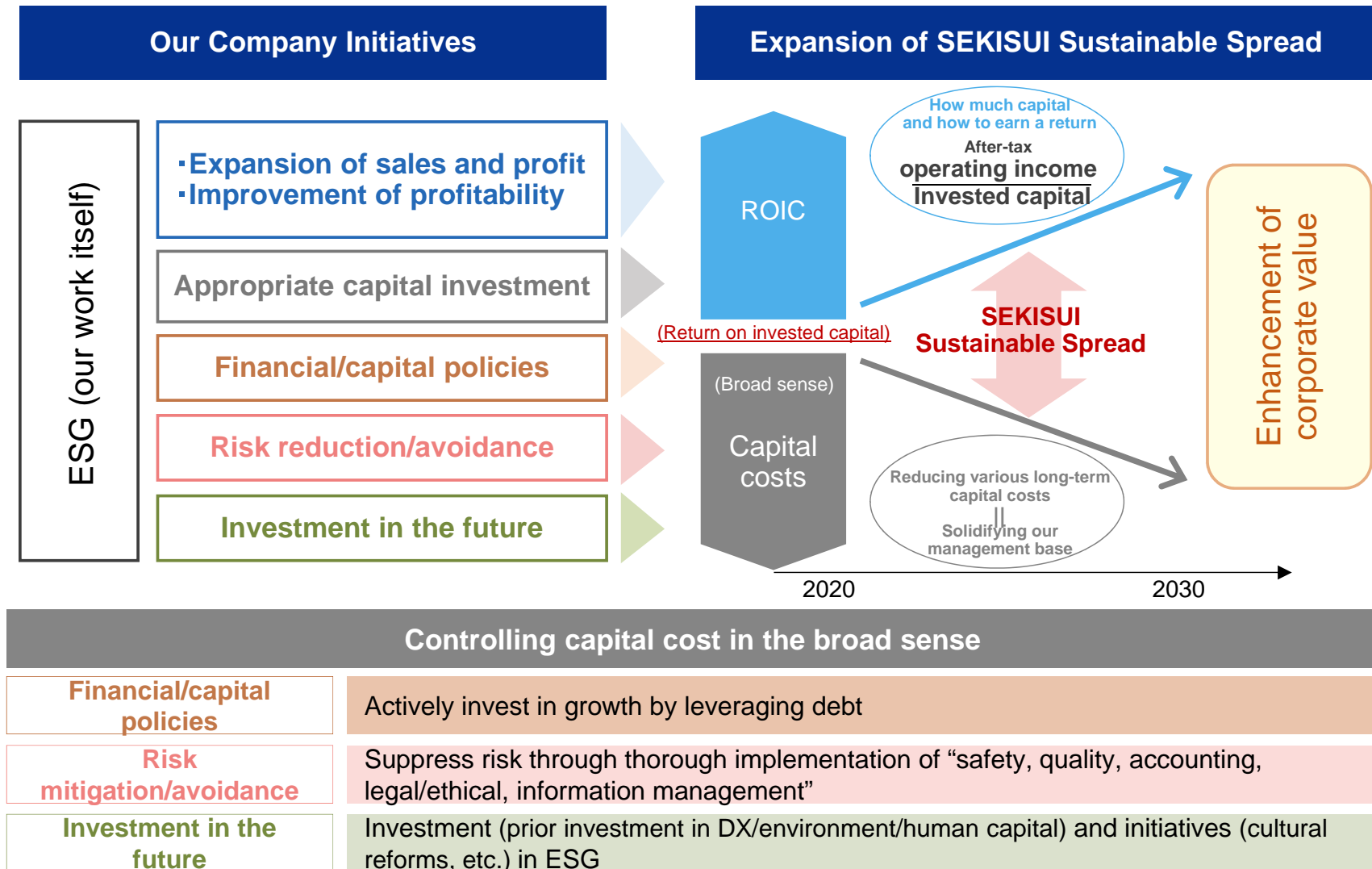
Policy	To achieve long-term vision to create an energized and engaged company where everyone wants to take on challenges, we will foster talents that can adapt to business growth and assign the right talent in the right position
Key initiatives	<ul style="list-style-type: none"> (1) Discovery and promotion of best employees <ul style="list-style-type: none"> • Realize nomination and selection of successors • Visualize internal careers (2) Acquisition and retention of diverse talents <ul style="list-style-type: none"> • Establish a base that can accommodate diverse human resources • Maintain and revitalize employees (3) Nurture employees who take on challenges to support the business <ul style="list-style-type: none"> • Develop the next generation of leaders

Human Rights Initiatives

Policy	Position respect for the human rights of all those people affected by the Group's business as an essential prerequisite for realizing our Long-term Vision
Key initiatives	<ul style="list-style-type: none"> (1) Foster and instill a culture of respect for human rights; (2) Implement human rights due diligence and mitigate risks; (3) Implement a grievance mechanism

4. Specific Initiatives: Strengthening of ESG Business Foundation – ROIC Spread Management- SEKISUI

- SEKISUI CHEMICAL Group defines the difference between ROIC and the capital cost in the broad sense* as “**SEKISUI Sustainable Spread**,” which measures the enhancement of our corporate value.
- In addition to expanding the ROIC-WACC spread, we will set and monitor initiatives and KPIs from the perspective of how much the capital cost can be controlled in a broad sense over the medium to long term.



5. Investment and Financial Strategies

- Expand strategic investment limits
- Allocate generated cash flows mainly to growth fields

Investment Plan and Capital Allocation (JPY billion)

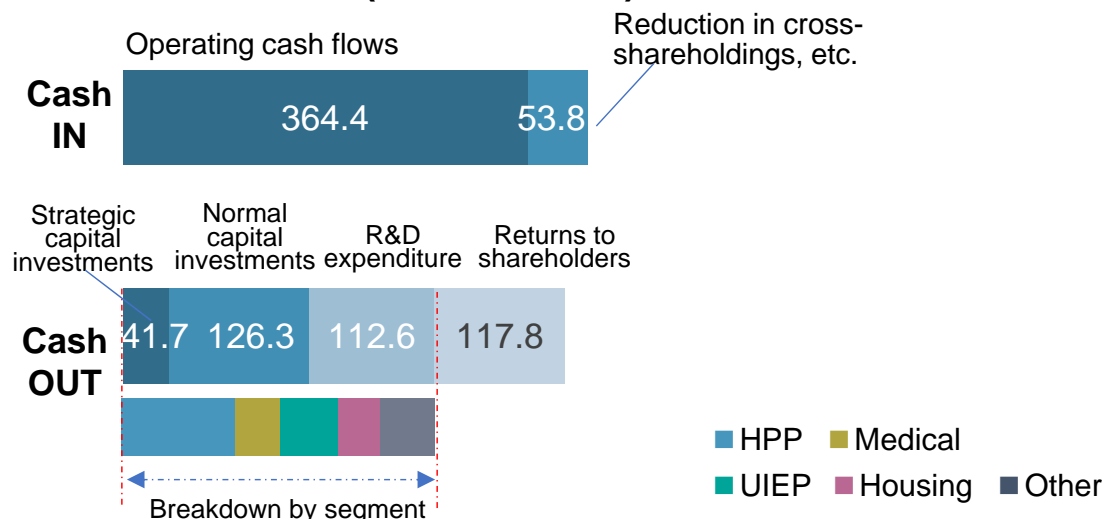
	FY20-22 Plan	FY20-22 Results	FY23-25 Plan
Strategic investments	Limit 400.0	41.7	Limit 450.0
M&A, etc.	Limit 300.0	0	Limit 300.0
Capital expenditures	100.0	41.7	150.0
ESG investment (including strategic and normal capital investments)	40.0	31.4	30.0
Normal investments	100.0	126.3	150.0
Total	500.0	168.0	600.0
R&D expenditure	130.0	112.6	140.0

Major strategic capital investments

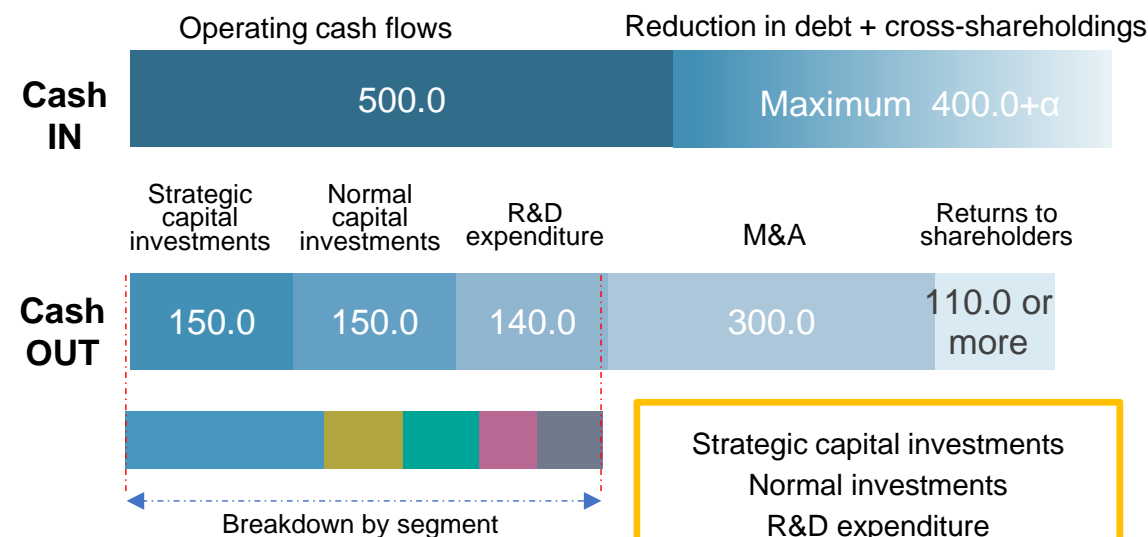
(FY2020-2022)

- Increase in heat release materials production (U.S.)
- Increase in foam material production (U.S.)
- Increase in pharmaceutical raw material production (Iwate, U.K.)
- Increase in FFU production for railway sleepers (the Netherlands)

—Drive 2022— (FY2020-2022) (JPY billion)



—Drive 2.0— (FY2023-2025) (JPY billion)



Strategic capital investments
Normal investments
R&D expenditure
More than 70% of investments in the HPP, Medical, and new businesses

6. Remuneration for Officers

- We are currently designing and operating an executive officer compensation system with an awareness of sustainable growth, enhancement of medium- and long-term corporate value, shareholder interests, and achievement of the management plan.

<Basic policy>

- The remuneration system for officers should contribute to sustainable growth and the medium- to long-term improvement of corporate value for the Group
- The remuneration system should make the officers of the Company share value with shareholders and increase their awareness of shareholder-focused management
- The remuneration system should be highly connected to business performance, providing motivation for officers of the Company to achieve management plan goals
- The remuneration system should provide a framework and baseline that enables the Company to acquire and keep on staff a diverse variety of management talent in order to increase the competitiveness of the Group

Ratio of performance-linked compensation to fixed compensation (FY2023)

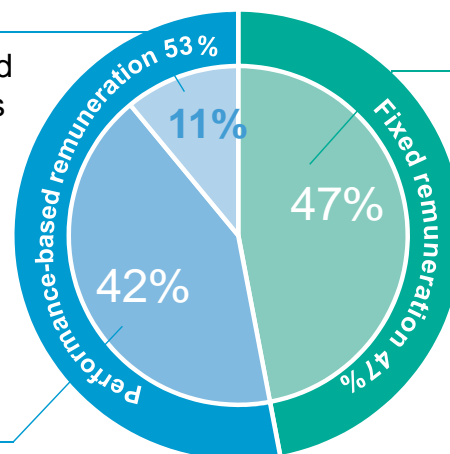
■ Medium- and long-term incentive (Share remuneration)

The incentive plan in which the number of shares to be granted is specified by officer responsibility in order to motivate officers to contribute to improving the Group's financial results and growing its corporate value in the medium to long term. Share remuneration is designed to more closely track the Group's medium- to long-term shareholder value, and is structured to give shares mirrored by share value at the time of the officer resigning as a reward for having contributed to improving the Group's corporate value in the medium to long term.

■ Short-term incentive (Bonuses)

Paid in accordance with the results for the fiscal year under review

1. Linked to financial results: operating profit, bottom line, ROE, ROIC, etc.
2. Linked to ESG-related non-financial indicators: KPI for key issues
(Sales ratio of Products to Enhance Sustainability, rate of renewable energy, etc.)



■ Basic Remuneration

Paid in a certain fixed amount corresponding to the roles and responsibilities of each Director within the limits on officers' remuneration. For executive directors, a portion of the basic remuneration is required to be used for the purpose of buying the Company's shares through the Officers Stock Ownership Plan, thereby raising their business awareness that attaches importance to the stock price.

7. Dialogue with Shareholders/Investors

- Recognize that the active engagement of management with investors is one of the key issues
- Strengthen initiatives such as holding various events and posting information on websites and increase dialogue

IR Events

- Quarterly Financial Results Presentation
- Management Presentation for Individual Shareholders (held December 16, 2023)
- President's Small Meeting for Sell-side Analysts (held June 27, 2023)
The President, Director in charge of the Business Strategy Department, and others attended and held a dialogue with sell-side analysts.
(Q&A : https://www.sekisuichemical.com/ir/presentations/event/1389514_39072.html)
- Tour of the MINASE Innovation Center for Sell-side Analysts (held August 29, 2023)
- Tour of Shiga - Minakuchi Plant and Shiga - Ritto Plant for Analysts and Institutional Investors (held March 7, 2024)

Web Content

- Release of reference materials for investors Our “Prominence”
(held November 13, 2023)
<https://www.sekisuichemical.com/ir/report/prominence/>



- Long-term Vision 「**Vision2030**」

<https://www.sekisuichemical.com/about/outline/vision/principles/vision/>

- Medium-term Management Plan “Drive2.0-The 2nd phase for 2030”

<https://www.sekisuichemical.com/about/outline/vision/principles/plan/>

- Integrated Report

<https://www.sekisuichemical.com/ir/report/annual/>

- Sustainability Report

https://www.sekisuichemical.com/sustainability_report/report/

Selected for DJSI “World Index”

Member of
**Dow Jones
Sustainability Indices**
Powered by the S&P Global CSA

Acquisition of A score in CDP “Climate Change” and “Water Security”



Re-acquisition of “SBT (Science Based Targets) Initiative” certification



Won the Silver Award in the Environmentally Sustainable Company category at the ESG Finance Awards Japan



SEKISUI