SEKISUI

Q&A Summary
Presentation of Financial Results and the FY2024 Management Plan

Date: April 26, 2024

* HPP Company: High Performance Plastics Company

* UIEP Company: Urban Infrastructure & Environmental Products Company

About the HPP Company

Q: As far as the Electronics field is concerned, there is little or no growth outside advanced semiconductors in the semiconductor-related sector. What products do you plan to expand?

A: (Shimizu) High adhesion releasable tapes boast demonstrable strengths as a process material for advanced semiconductors and are also actively used in power semiconductors. In addition, MLCC inventory adjustments have largely run their course, and the pace of binder resin trends for both smartphone and automotive applications is essentially returning to normal. These products will drive growth in the non-LCD field.

Q: What can you tell us about other products in the non-LCD field?

A: (Shimizu) Biotape sales grew roughly 10-15% from FY2022 and over FY2023. We will also work to secure growth in FY2024. While build-up dielectric film sales struggled in FY2023 owing to the extremely modest recovery in semiconductors, we will focus on coordinating closely with multiple customers and will endeavor to steadfastly expand sales in the future.

Q: Turning to the Mobility field, can you elaborate on the revised definition for N-HPP?

A: (Shimizu) Sound insulation films are excluded from conventional high-performance interlayer films and going forward, new high-performance products will comprise all other HUD, heat insulation, and colored/designed films.

Q: While substantial in FY2023, HUD film growth in FY2024 is expected to be small. Is it safe to assume that this simply reflects sales trends in models equipped with HUDs and not weak growth potential over the medium to long term?

A: (Kato) Exactly. We see no change in medium- to long-term growth potential. Compared with our original medium- to long-term forecasts, while we are seeing a partial shift in EVs to hybrid vehicles, demand for the same design features as EVs is strong. Accordingly, we expect little or no impact in overall terms.

Q: Are there any regional characteristics to this growth?

A: (Shimizu) While all regions are growing, we believe that China, with its large number of EVs, and Europe will be the mainstay markets for the foreseeable future.

Q: There are reports that China and Europe are struggling a little in the short term. What sense do you get as you go about your business activities?

A: (Shimizu) While there were just over 9 million to 9.5 million EVs produced globally in FY2022, this level has surpassed 12 million in FY2023. Although there is talk of a slowdown in the EV market, we recognize that production levels have dropped by just under 1 million from the original forecast of 13 million. As the specifications for glass expand to prevent excessive roof pressure, we are witnessing a substantial jump in the use of the Company's interlayer films.

Q: Regarding the increase in fixed costs, can you provide us with specific details of expenditures in connection preparation for growth and efforts to strengthen the business foundation outside the human capital investment outlined in the presentation materials.

A: (Shimizu) The incremental increase attributable to the upswing in personnel is approximately ¥1.5 billion, in addition to the ¥4.4 billion in salary and wages growth. The incremental depreciation and amortization expense is approximately ¥1 billion. Outlays related to preparations for growth total ¥2.5 to ¥3 billion to bolster development and marketing. To strengthen its business foundation, the Company plans to spend about ¥2 billion for the maintenance of facilities, including disaster prevention and safety. This breakdown totals approximately ¥7 billion and is outside our human capital investment. However, this incremental growth in expenditure will be handled firmly in line with profits.

About the Housing Company

Q: As far as plans for the number of orders by type of construction in FY2024 are concerned, what is the relationship between the 105% year-on-year increase in new construction (land client arrangement), recovery in the number of visitors, and the introduction of new products, and the degree of certainty?

A: (Yoshida) Although 105% may seem high, it is still low compared with FY2022. This is an achievable plan if trends remain at the same level as the 4Q of FY2023. A portion of the profits generated by measures aimed at strengthening profitability will be allocated to product and sales strategies. For example, allocations will be directed toward the development of products and price measures that meet the demand in each area. This includes single-story homes and apartment buildings in suburban areas, and such high-end products as three-story homes and apartment buildings in urban areas, where there is strong demand, especially in the Tokyo metropolitan area. Allocations will also be made in the form of sales promotion investment, including exhibition renovation, with the aim of increasing housing orders. The number of exhibition visitors has recovered to 106% of the previous year's level in the 4Q of FY2023. We believe this will directly lead to orders in FY2024.

Q: Under the Medium-term Management Plan, you are targeting operating profit target of ¥40 billion in FY2025. Are current measures online? Will additional measures still be needed next year?

A: (Yoshida) Currently, efforts to implement measures aimed at strengthening profitability are underway. There is still some distance to the ¥40 billion operating profit Medium-term Management Plan target. At this point, we are aiming for ¥40 billion with a one-year delay.

About Group-wide Profit Plans, Capital Allocation, etc.

Q: How accurate is the FY2024 plan?

A: (Kato) In light of the slightly stricter view adopted toward our own market forecasts, the Plan is conservative in overall terms. We are factoring in a buffer with respect to the risk of the yen's appreciation.

Q: Looking at progress under the Medium-term Management Plan, strategic investments came in at ¥22.0 billion in FY2022. This appears low compared with the limit set under the Plan. Can you tell us how investments are progressing?

A: (Kato) There has been little progress against the M&A etc. limit of ¥300 billion. Despite plans to undertake an annual average of ¥50 billion over the three years of plan for total capital expenditures of ¥150 billion, several projects have been postponed until FY2024 and beyond due to the slow recovery in market conditions. We expect the market to exhibit a gradual recovery especially from the second half of FY2024 and intend to engage steadily in several projects, encompassing various endeavors, including growth projects and capacity expansion.

Q: Where will you allocate fund not applied to strategic investments?

A: (Nishida) In the event that a substantial amount of the investment limit remains unused as of the end of the Medium-term Management Plan, we will consider various options, including additional returns to shareholders, depending on such wide-ranging factors as the share price at that time.

Q: Plans are in place for the Company to increase its dividend for FY2024 by ¥1 per share. Is there any room to strengthen returns to shareholders while the current level of profits continues?

A: (Nishida) As far as dividends are concerned, the Company has committed to a dividend payout ratio of 40% or higher. In the event of an upside swing in its bottom line, the Company will take steps to definitively increase its dividend equivalent to a 40% ratio and ensure a total return ratio of 50% or higher. Our policy is to also provide additional returns, including the acquisition of treasury shares, taking into account the Company’s cash position and stock price.