

President's Small Meeting for Sell-side Analysts

■ Purpose

SEKISUI CHEMICAL Group announced details of its Long-term Vision, Vision 2030, in May 2020. The Company also launched its Medium-term Management Plan, an important second step toward realizing this Long-term Vision on May 23, 2023. This meeting was held to provide sell-side analysts with the opportunity to gain a broader and deeper understanding of the Company's management and business, including the direction of the Medium-term Management Plan and the president's thoughts.

■ Date and Location

Date: June 27, 2023 (Tuesday)

Location: Tokyo Headquarters, SEKISUI CHEMICAL CO., LTD.

■ Q&A Summary

About the Medium-term Management Plan Drive 2.0 and efforts to realize the Long-term Vision, Vision 2030

Q: How would you evaluate the previous Medium-term Management Plan? Can we assume that the Company is on track to realize its Long-term Vision under the current Medium-term Management Plan?

A: (Kato) When formulating the Long-term Vision, the assumption was that organic growth would generate sales of around ¥1.5 trillion, and that other activities including M&As would account for the remaining ¥0.5 trillion. We strongly believed that we would be able to achieve an operating profit margin of 10% by shifting to high-value-added products. At the same time, we did not factor in the impacts of COVID-19, the sharp rise in raw material prices, and the conflict between Russia and Ukraine, and yet were able to exceed our operating profit target in fiscal 2019, the second year of the previous Medium-term Management Plan. Having completed the previous Medium-term Management Plan, we have focused on strengthening existing businesses and developing new businesses and products. In this manner, we believe that the drive for growth has now reached the point where organic means alone can generate sales of ¥1.6 to ¥1.7 trillion. While failing to materialize M&As under the previous Medium-term Management Plan, we believe that the Group will be on track to realize its Long-term Vision if we achieve the current Medium-term Management Plan.

Q: Despite the lack of an M&A track record under the previous Medium-term Management Plan, the current Medium-term Management Plan has set an M&A limit of ¥0.3 trillion. Can you provide us with details of specific projects and the direction the Group plans to take?

A: (Kato) Over the past few years, we have looked closely at the market and individual opportunities, especially in the three Mobility, Electronics, and Life Science fields. We have identified extensive long and short lists. While a concrete deal has yet to materialize, a number of negotiations were undertaken. When considering an M&A, SEKISUI CHEMICAL Group looks beyond the simple combination of companies to scenarios that showcase mutual synergies. Taking into consideration the Company's financial capacity, we will engage in business activities within the limits of our leverage and in a manner that does not impact shareholder returns, which we have worked to strengthen.

Q: What do you believe are the major drivers of growth as the Group looks toward 2030?

A: (Kato) High performance plastics will continue to drive growth through to 2030. Recognizing the potential for growth, our efforts to expand overseas are also progressing steadily. Moreover, we believe there is still room for growth in the Electronics and Mobility fields. Meanwhile, we have pursued thoroughgoing structural reforms in our UIEP endeavors, while withdrawing from underperforming overseas businesses. As a result, the UIEP Company's operating profit margin improved significantly owing to the growth of prioritized products and progress in expanding FFU and SPR method products, which are anticipated to blossom, overseas. This has allowed us to lift the level of profitability in overall terms. The key point will be how to expand the Housing Company amid a decline in the number of construction starts, and how to promote Town and Community Development Business performance as well as the total combined value of HPP and UIEP Company products.

We are now able to raise the overall level of the company.

Q: What are your thoughts on operating profit by segment in 2030?

A: (Kato) Of the forecast ¥115 billion in 2025, more than half (¥61 billion) will come from the HPP Company. While the HPP Company will continue to drive growth, we will look to increase profit across all segments.

About the HPP Company

Q: What direction will the Group take in each of the Electronics, Mobility, and Industrial fields in the lead up to 2025?

A: (Kato) Conditions are irregular in the Electronics field. The impact of smartphone inventories has continued to linger throughout the first half of the year. We are projecting a positive turnaround from the second half, and anticipate a steady recovery through to 2025. In addition, trends in semiconductor applications and heat release materials are also steady. These are areas in which we have placed considerable emphasis on reducing our dependence on the liquid crystal field. Turning to the Mobility field, the focus of interlayer films is shifting to high-performance products rather than sales volume growth.

On top of HUD applications, heat insulation films for EV use are also exhibiting an upswing. Following on from Europe, construction of a plant is underway in the U.S., buoyed by robust EV application heat release grease results. In each case, we are confident that growth will continue through to 2025.

Q: Given steady progress in the shift of interlayer films to high-performance products and growth in HUD use, are there any plans for the new construction or expansion of factories and production lines under the current Medium-term Management Plan?

A: (Kato) No plans have been determined at this time. We will look at whether to build a new line or increase the capacity of existing lines should growth exceed plans while taking into consideration overall supply capacity and allocation.

Q: Can SEKISUI CHEMICAL Group's interlayer films accommodate the wide range of HUD applications? Is there any risk that the Company's products will become redundant should applications change?

A: (Kato) The cost associated with each of the wide range of HUD applications was a significant issue. We recognize that the current application has become mainstream. Employing essentially the same process used for standard interlayer films, the Company's interlayer film for HUD-use can be applied to windshields. In light of the aforementioned, we believe the current method will continue for the foreseeable future.

Q: Will you look to expand in the aircraft sector, which is considered a growth driver, through existing aircrafts? Do you see next generation projects? Can you provide specific details?

A: (Kato) The aircraft sector has been significantly affected by a variety of factors, including the COVID-19 pandemic, over the past few years. Finally, there are signs that the market is exhibiting a recovery. As we look toward 2025, we believe profits can be improved. SEKISUI AEROSPACE CORPORATION boasts strengths in CFRP molding technologies. We are projecting growth going forward through the use of these strengths in various areas, including engine parts that generate high heat and as a metal substitute in drones. SEKISUI CHEMICAL has taken an equity interest in Volocopter GmbH based in Germany. Looking ahead, we will explore the potential of further expanding into the Electric Vertical Takeoff and Landing (eVTOL) aircraft field.

About the Housing Company

Q: What are the possibilities of growing the Housing Business in the future through such measures as the acquisition of overseas housing manufacturers? Can you elaborate on the Group's plans to expand overseas?

A: (Kato) We will continue to monitor opportunities going forward. Since more than 80% of the Company's houses are built in factories, we need to find business partners who can utilize these technologies when expanding overseas.

Q: Please tell us about the Group's measure to strengthen the subdivision and ready-built housing business?

A: (Kato) Strengthening the subdivision and ready-built housing business will not only increase the overall number of houses sold, but also increase the production efficiency of factories. By utilizing ready-built houses, where the timing of production and construction can be easily adjusted, to level out factory operations, we can lower the fixed cost per housing unit, thereby helping to raise overall profits.

Q: Is the Company's factory production ratio high compared with other major prefab manufacturers?

A: (Kato) We believe our factory production ratio is high. Benefits include less on-site work and shorter on-site construction periods. Unit construction also ensures that our products are highly resistant to earthquakes.

Q: What can you tell us about the resale, buy-back, and recycling value of the Company's housing products?

A: (Kato) We launched the BeHeim brand purchase and resale business in fiscal 2020. When customers outgrow their homes due to such factors as changes in life stages, the Company purchases, renovates, and resells these homes to new customers. This business is expanding steadily.

Q: The content of securities reports has changes to include information on the ratio of women in management positions and measures to address climate change. What are your thoughts on having more women in management positions in the Housing Business? Would this contribute to growing the business in a different manner compared with the past?

A: (Kato) The number of women in management positions in the Group's Housing companies is relatively high. I believe that women are contributing substantially to the Housing Business. This is especially true in our renovation activities, where a woman's perspective is important. Key female managers are also excelling at the Group's exhibition halls. While companies are now required to disclose a wide range of information in their securities reports, particularly from this fiscal year, SEKISUI CHEMICAL Group is committed to the proactive disclosure of information over and above mandatory items.

Q: What climate change scenarios do you see as impacting the Company's Housing Business?

A: (Kato) As far as the severity of disasters is concerned, the Company's houses have always been resistant to earthquakes. With the need to address power outages as well as rising electricity costs attributable to the surge in raw materials and fuel prices, our Zero Energy Houses equipped with solar panels and storage batteries have been extremely well received of late. Currently, 90% of the Company's newly built houses are equipped with solar panels. In a bid to address flooding and other damage, the Group's Town and Community Development Business has received high praise for its competitive advantage from an urban resilience perspective. This high praise extends beyond the Housing Business to the UIEP Company's high drainage piping and gutters as well as the rainwater storage systems installed under parks and garage spaces. In this regard, Town and Community Development projects are progressing steadily.

About DX

Q: Can you provide us with details of the Company's DX initiatives? The chemical sector is considered an industry that is easy to standardize. In contrast, there are many areas in the housing sector that have not been standardized. What are your thoughts on the suitability or otherwise of introducing a system that requires the use of standardized data management tables?

A: (Kato) We have been using a proprietary, pre-existing system to date, but are in the process of converting our core ERP to an SAP system. This takes into account our thoughts on standardization and strengthening efforts to prevent accounting fraud. We will also account for procurement- and purchasing-related matters under this SAP system. Over the past three years, we have working toward thoroughgoing standardization to adapt our work itself to a standard data management table. We will initiate introduction trials in certain departments this fiscal year.

Q: What can you tell us about DX in the Housing Business? Please elaborate on the level and type of progress across such functions as procurement, production, and sales.

A: (Kamiwaki) We are promoting the introduction of a proprietary SCOPE system in the Housing Business in concert with the rest of the Group. While personnel were placed at each factory throughout our nationwide network to undertake various functions including the procurement of component parts, we will work toward integration and increased efficiency through the use of this system.

About Investments in Human Capital

Q: During a recent briefing session, the Company explained that ¥2 billion will be allocated to career formation and around ¥10 billion to improve working conditions for a total ¥12 billion investment in human capital. Can you provide us with specific details.

A: (Kato) High employee motivation is essential to achieving the Medium-term Management Plan and by extension the Long-term Vision. With this in mind, SEKISUI CHEMICAL Group measures the employee challenge action rate, one of the Company's internal KPIs, through engagement surveys. Under the current Medium-term Management Plans, we have strengthened returns to investors by, for example, raising the dividend payout ratio to 40%. In taking into consideration all interest of all stakeholders, we also decided to increase employees' wages. The initial decision to raise wages was designed not only to reward the drive generated under the previous Medium-term Management Plan, but also in anticipation of employee challenge action under the current Medium-term Management Plan. At the same time, we are considering investments in work style reform and the reskilling of employees. In this manner, we are looking to increase productivity per employee and per hour.

Q: As the value of the yen continues to depreciate, the salaries of various professionals in Japan including engineers deteriorate on a U.S. dollar basis. SEKISUI CHEMICAL Group does not hire many overseas engineers. On this basis, I suspect the weak yen is not an issue. What are your thoughts on the level of wages in Japan?

A: (Kato) SEKISUI CHEMICAL Group conducts marketing overseas to capture the wide array of customer requests. In contrast, development is for the most part undertaken in Japan in light of such wide-ranging risks as the outflow of technologies. We pay close attention to market compensation levels and starting salaries in each area to ensure that talented people remain active within the Company. We are cognizant of the need to hire factory production engineers locally overseas on a local currency basis that is comparable to other companies.

About Environment-related Investments

Q: Can you comment on the Group's environment-related investment of ¥40 billion up to 2030?

A:(Kato) SEKISUI CHEMICAL Group was the first chemical company in the world to obtain SBT certification. This certification was under a 2°C scenario. In this instance, the Company acquired SBT recertification under a 1.5°C scenario. This reflects our successful efforts to exceed and achieve in advance GHG reduction targets under the previous Medium-term Management Plan. In concert with the shift to renewable energy, the issue at hand will be how to tackle the need to reduce GHG emissions generated through the consumption of energy at chemical factories in the future. SEKISUI CHEMICAL Group has allocated budgets to each and will bring forward efforts to achieve carbon neutrality by 2050.

About Perovskite Solar Cells

Q: Can you provide us with an update on the Company's perovskite solar cells?

A: (Kato) Taking advantage of the durability strengths of our perovskite solar cells, we are conducting

outdoor demonstration tests for now. Our perovskite solar cells draw on the Group's encapsulation technologies applied, for example, to the sealing materials that are used to protect the LCDs in smartphones in the Electronics field. Based on the 10-year durability achieved at the laboratory promotion level, we recognize that SEKISUI CHEMICAL Group leads the industry in this field. In the leadup to commercialization, we are accelerating development with the help of NEDO's Green Innovation Fund Project with the aim of establishing a 1m-wide manufacturing process and further improving durability and power generation efficiency.