

## Q&A Summary

### Sustainability Meeting

Date: Jan. 7, 2025

**Q: Can you please provide any additional information on how you have increased revenue through the Products to Enhance Sustainability Premium Framework? Does organic growth, the certification of new products, products improvements, or M&As account for the greatest part?**

A: (Shimizu) A higher market share through organic growth, new product growth, and new applications account for the greatest part.

**Q: Do Premium Framework products face more or less competition when compared with regular products? As far as profitability is concerned, you have disclosed details regarding the gross marginal profit rate. Can we also assume that profitability is high from an operating profit margin perspective?**

A: (Shimizu) From a competitive perspective, many of these products naturally have high-added-value and do not compete through red ocean strategies. In short, those products that thrive in areas with little competition fall under the Premium Framework. You can therefore assume that the operating profit margin also increases in step with the gross marginal profit rate.

**Q: It seems that profitability will continue to increase going forward if there is room to further improve the utilization rate of Premium Framework products. At what stage are you at now? Also, is the utilization rate higher for regular or Premium Framework products?**

A: (Shimizu) It is hard to say in general, but we also foresee further increases in the utilization rate going forward since we are focused on expanding Premium Framework products. At the very least, we have not previously mentioned that the utilization rate is high for general-purpose products and low for those in the Premium Framework.

**Q: Specifically, what types of products do you primarily include in the Premium Framework? Although you have previously disclosed net sales, have the specific contents changed? It seems that ZEH housing was originally included, but is this still true? Although you have expanded the Premium Framework, is it also true that the details have changed because, in fact, the definition has changed?**

A: (Shimizu) For business purposes, I cannot answer your question about which specific product names fall within the Premium Framework. But as you pointed out, the Premium Framework has included more and more products such as ZEH housing over the years. We also include other products that are starting to find new applications, which are increasing in number.

**Q: Have you redefined the Premium Framework in any way? Can we assume that products enter and leave this framework?**

A: (Tada) We revise the Premium Framework every three years along with the Medium-term Management Plan. On the other hand, we also release new products over this period. Of the new products released during the period of the Medium-term Management Plan, those that fall under the Premium Framework are newly certified as such. I therefore feel there is continuity when seen on a medium-term basis.

**Q: What is your outlook for the growth potential of Premium Framework products? It seems that you can conceive new products that will contribute to society through various applications, for example biorefineries and next generation communications components. What will happen with these going forward, and how will they expand Premium Framework net sales?**

A: (Tada) Including biorefineries, any new products that we launch to the market in the future are basically assumed to fall within the Premium Framework. On the other hand, we have been conservative in calculating figures in the Medium-term Management Plan for biorefineries and other new businesses.

**Q: Can we assume that you believe sales in the Premium Framework as a whole will also grow significantly?**

A: (Tada) Those products that drive the Company's business and those that we will focus more resources on in the future, without question, fall under the Premium Framework, which will unquestionably grow sales in the Premium Framework going forward.

**Q: Net sales of Products to Enhance Sustainability in FY2022 grew ¥130 billion compared with the previous fiscal year. On the other hand, net sales for Premium Framework products similarly increased about ¥100 billion, meaning a major part of this growth was accounted for by an increase in the Premium Framework. You said that you revise the Premium Framework every three years, but can you provide some additional information on the changes this year?**

A: (Miura) As was explained a moment ago, this growth is due to expanding product applications. In FY2022, we formulated our resource recycling strategy, and reviewed our products in terms of how they contribute from this perspective. This is one of the reasons why growth has been so strong.

**Q: As far as the nearly ¥20-billion investment in DX included in the current Medium-term**

**Management Plan is concerned, do you expect the outcomes to be cost-related, or to grow sales?  
Do you have quantitative indicators?**

A: (Shimizu) One of our indicators for DX-driven outcomes are the improvements in direct and indirect department productivity. Sales growth, however, will for example arise from actual increases in sales as well as more efficient marketing activities resulting from DX-based sales innovation activities. We assume these two.

**Q: Are there DX outcomes that you can express in numbers?**

A: (Tada) We have not released any numbers. Internally, we use direct and indirect employee productivity as indicators. Specifically, we look at the degree that net sales increase when divided by the number of direct and indirect employees, as well as the resulting amount of productivity, performance, and added-value in conjunction with the gross marginal profit rate per person.

A: (Shimizu) The Integrated Report provides the numbers for productivity, and we aim to achieve a 30% increase in direct employee productivity in FY2030 compared to FY2019.

**Q: The biorefinery business might either increase or decrease the gross marginal profit rate depending on your approach. But it is hard to imagine just how costs are incurred. Although it seems that biorefineries will likely fall into Products to Enhance Sustainability when launched as a business, when seen from the outside, I feel it is unlikely they will fall under the Premium Framework. I know you might not be able to explain the business scheme, but can you provide us with some hints?**

A: (Kamiwaki) In all honesty, we are still looking into different business models, but seen more broadly, we feel that licensing and commercializing our technologies and know-how will serve as a high-added-value business pattern. On the other hand, another business pattern would be to actually distribute the ethanol produced from waste as plastic raw materials, and sell these with added-value by providing them with brand value. Although these are the two business models, generally speaking, we feel there is sufficient potential to transform either into a premium business if we appropriately highlight and add the value of resource recycling from our standpoint.

**Q: Although there is no question that increasing the number of Premium Framework products is a good idea, there are probably other products that will as a result lose competitiveness and decline in growth potential. Can you describe any internal standards you may have for withdrawing these products from the market? What is the weight of these products?**

A: (Shimizu) Any products or businesses that lose growth potential sound the alarm as soon as their cost of capital reaches 7 to 9% and their ROIC falls below this. Moreover, we also make judgements to

proceed or stop based on profitability. For example, as soon as products in the High Performance Plastics Company fall below an operating profit margin of 5%, this is the stage when we consider withdrawing them from the market.

**Q: What about the product portfolio? I feel that, primarily, many of the product groupings in your portfolio maintain a high market share and have competitive advantages in niche markets. However, when segmented into areas like High Performance Plastics and Urban Infrastructure & Environmental Products, for example, I still do not understand the synergistic outcomes. Would it not be more easily understandable if you segmented them by destination, for example automobiles or housing? Is it possible that you will improve your unique segmentations and different product-based matrixes, which are difficult to understand?**

A: (Shimizu) From an inter-segment synergy perspective, for example, perovskite solar cells use elemental technologies from the High Performance Plastics Company, whereas their installation falls under the strengths of the Urban Infrastructure & Environmental Products Company. One of the ideas we have for using these in different ways in the future, for example, might be to lay them over the solar panels currently installed on SEKISUI HEIM homes when their output falls after twenty or thirty years.

A: (Okano) We are also aware of issues with the product matrixes in terms of how to present them in the future. As you pointed out, we often describe products by segment, yet we do intend to change how we present them in the future, for example, by showing them to specific customers based on the synergy within these matrixes.

**Q: You explained that you will improve efficiency by investing ¥20 billion in DX. Can we assume that you believe this approach will contribute to sustainability by more quickly releasing products to the market so that customers can also reduce their environmental footprint, and by allowing you to appropriately capture business opportunities as a company?**

A: (Shimizu) In terms of MI, as you pointed out, one key point is that we use this to rapidly develop products and release them to the market more quickly. Another one is that by attaching sensors to various parts of our production processes, we can dramatically reduce the number of problems as we quickly recognize or even predict changes in quality and machine operations. In this way, we are also advancing these approaches as a part of DX in a way that allows us to consistently produce products with reliable quality.

**Q: I think that using MI to reduce what took five months to four hours is a remarkable outcome. Can I say that you have reached the level where you can almost completely skip test planning and extract the optimal outcome from the start using deep learning, and simply conduct a confirmation test before jumping right to setting the Company's specifications as the basis for customer needs? Achieving this level of deep learning must have required a lot of data to be input and standardized, and it is truly amazing that you realized this within the scope of ¥20 billion. Can**

**you tell us why you were able to reach such high, standardized productivity?**

A: (Shimizu) Our investment in MI falls outside the scope of ¥20 billion. We established a specialized team within the R&D divisions, in which we invested a fair amount of management resources along with human resources to ensure it functioned as a leading group, even within Japan. We successfully increased the speed of development by inputting various data that allowed for development to proceed almost entirely through simulations and by bringing the results to completion once final confirmation testing is finished. We focused quite a bit on this area in order to avoid falling behind in development.

**Q: Was the ability to improve productivity 900 times through MI and complete development almost entirely through simulations based in part on the Company's know-how? Should we assume that competitors and those without this know-how would not produce these results using the same approach?**

A: (Shimizu) This was not a solo effort, and instead relied in part on sharing those data that could be shared between multiple companies. The data that we must possess as know-how is handled internally. This approach increases the amount of data that can be differentiated and enables different simulations.

**Q: I believe it is extremely important to set appropriate prices without any unnecessary discounts if you are to steadily produce profits through Products to Enhance Sustainability, including the Premium Framework. Can we assume that, in your case, because most of the lineup you provide are specialty products aligned closely to the specifications of customers, meaning they are not commodities, that they attract an appropriate value through negotiations with your customers? Please tell us about the background that ensures a high price and appropriate value into the future.**

A: (Shimizu) Premium Framework products, in particular, stand alone, or have minimal competition. As far as we are concerned, we present a price that reflects their high market value, at which our customers purchase our products. Higher volume does to some extent result in a volume discount, but we feel it is important for customers to first understand the value of the product.

**Q: Outside Director Hatanaka, in the industry where you worked, I understand that prices are kept to an appropriate level based on those officially set by the government. When comparing that industry to the industries in which SEKISUI CHEMICAL operates, do you feel that their product groupings capture a similar level as the pharmaceutical industry in which you worked? Do you feel the Company has the capability to negotiate over prices and is there room for progress?**

A: (Hatanaka) In the pharmaceuticals industry, in which I was previously involved, Japan and some countries in Europe set official prices, whereas that is not the case in the US, where my company worked to steadily showcase the added-value we provided to that market, which offers the highest growth potential and high

profitability. Yet even the Japanese market possesses institutional structures that allow prices to drop, which is why I feel that each company acts to clearly promote the value of their drugs. SEKISUI CHEMICAL's growing products also maintain extremely high price competitiveness, including those Products to Enhance Sustainability in the Premium Framework, in particular. I am also aware that the Company's products maintain an advantageous position compared with the competition. Prices sometimes decline as products evolve into commodities, so I myself believe it is important to firmly secure profitability while products still offer value.

**Q: Your intellectual capital and patent assets have received strong recognition. Do you feel you are fully leveraging these intellectual property assets? Based on this level of recognition, I feel that your potential might be much higher than the current market capitalization of ¥1.2 trillion, but is there some kind of bottle-neck for realizing value? Please explain how you leverage intellectual property, your approach to realizing corporate value, and related issues.**

A: (Shimizu) To date, we have approached intellectual property by making targeted investments. Although we previously looked to output quantity, currently we are transitioning to quality. We are particularly focused on, and feel important about, whether these assets can be used to block market competition. Recently, for example, we have published incidents where competitors have infringed upon our patent rights for interlayer film for laminated glass. We will expand the number of patents that can block this kind of market competition. I am proud that third-party organizations have recognized us for the scale of our intellectual property, as well as our ability to restrain competitors.

**Q: Although figures for your patent asset scale cannot simply be converted to monetary value, can we assume these reflect the height of the barriers that protect your competitiveness?**

A: (Shimizu) I believe so.