

SEKISUI CHEMICAL CO., LTD.  
FY2017-FY2019

## Medium-term Management Plan Presentation

President  
Teiji Koge

12 April, 2017

Copyright© SEKISUI CHEMICAL CO., LTD. All Rights Reserved.

## Group-wide Business Plan

\*FY2016 forecast figures contained in this document are those disclosed at the time of the Company's FY2016 3Q consolidated financial results announcement.

# Review of the Previous Medium-term Management Plan "SHINKA!-Advance 2016"

- Despite operating income falling short of plans, achieved a fourth straight term of record high profit. Projected to achieve through higher net income and ROE
- Sales fell short of plans due mainly to insufficient growth in the growing 8 businesses and delays in the creation of new businesses

The Medium-term Management Plan "SHINKA!-Advance 2016" targets

FY2016 forecasts

| Operating results |  | Operating profit | 100 billion yen   | Operating profit | 96 billion yen    |
|-------------------|--|------------------|-------------------|------------------|-------------------|
|                   |  | Net Sales        | 1,250 billion yen | Net Sales        | 1,067 billion yen |
|                   |  | Net profit       | 56 billion yen    | Net profit       | 59 billion yen    |
|                   |  | ROE              | 10%               | ROE              | 11.2%             |

| Basic strategy | Three SHINKA Business Models |            | Core business | <ul style="list-style-type: none"> <li>• G8 10% growth/year</li> <li>• Business model change</li> </ul>                      | <ul style="list-style-type: none"> <li>• G8 4% growth/year</li> <li>• Structural reform progressed</li> <li>• Delay in commercialization and business establishment (Contribution to sales to be realized in the next fiscal term or later)</li> <li>• Overseas sales: 245.8 billion yen (Influence of structural reform could not be overcome)</li> <li>• Penetration and dissemination are under way</li> <li>• Enhancement of governance initiated</li> </ul> |
|----------------|------------------------------|------------|---------------|--|--|
|                |                              | Frontier   |               | <ul style="list-style-type: none"> <li>• Upgrading to growing business</li> <li>• Establishment of business model</li> </ul> |  |
|                |                              | Global     |               | <ul style="list-style-type: none"> <li>• Overseas sales: 330 billion yen</li> </ul>  |  |
|                |                              | CSR-SHINKA |               | <ul style="list-style-type: none"> <li>• Penetrate CSR management into throughout the group</li> </ul>                       |  |

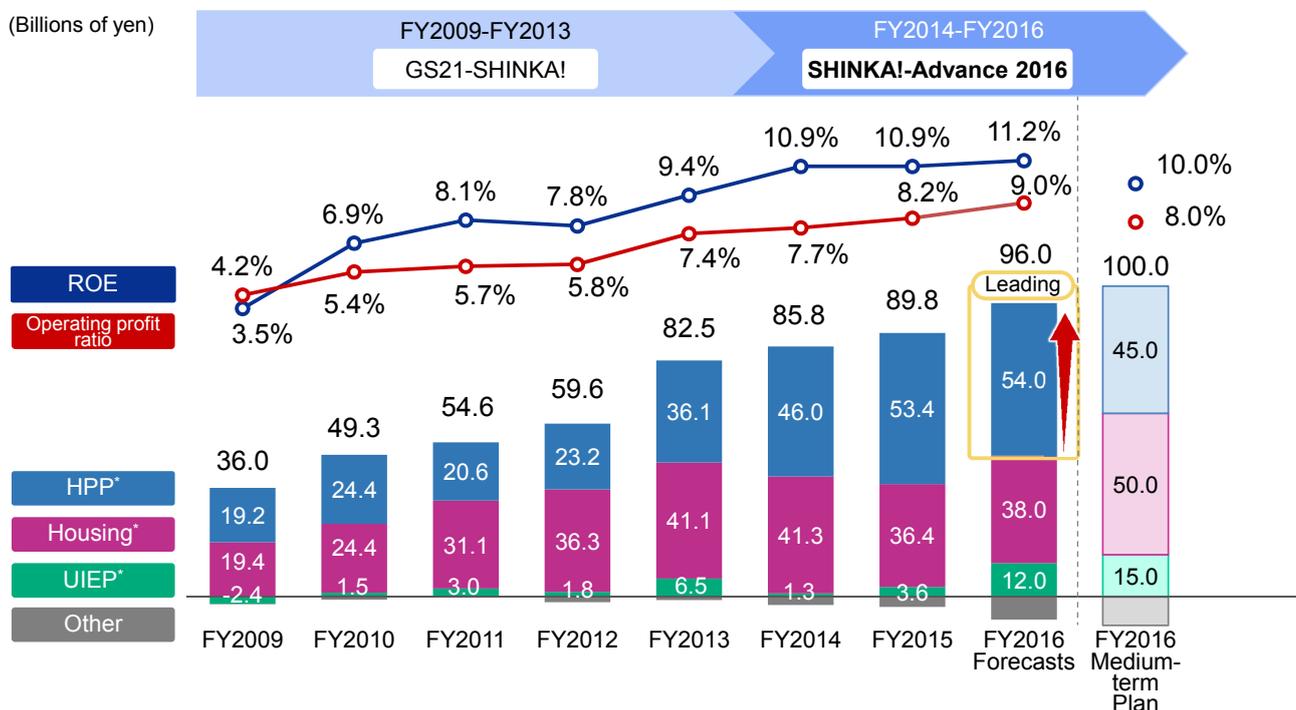
\* Growing 8 businesses (G8): Renovation and Home Assets Management (hereafter the Housing Company), Infrastructure Stock and Functional Materials (hereafter the Urban Infrastructure & Environmental Products (UIEP) Company), Functional Infrastructure Materials, Eco-Friendly Materials, Materials for Mobile Devices and Diagnostic Reagent Systems (hereafter the High Performance Plastics (HPP) Company)

# Review of the Previous Medium-term Management Plan "SHINKA!-Advance 2016" (Operating Income)

- Eight consecutive terms of profit growth, fourth straight term of record high profit; steady improvement in profitability

## Operating Income

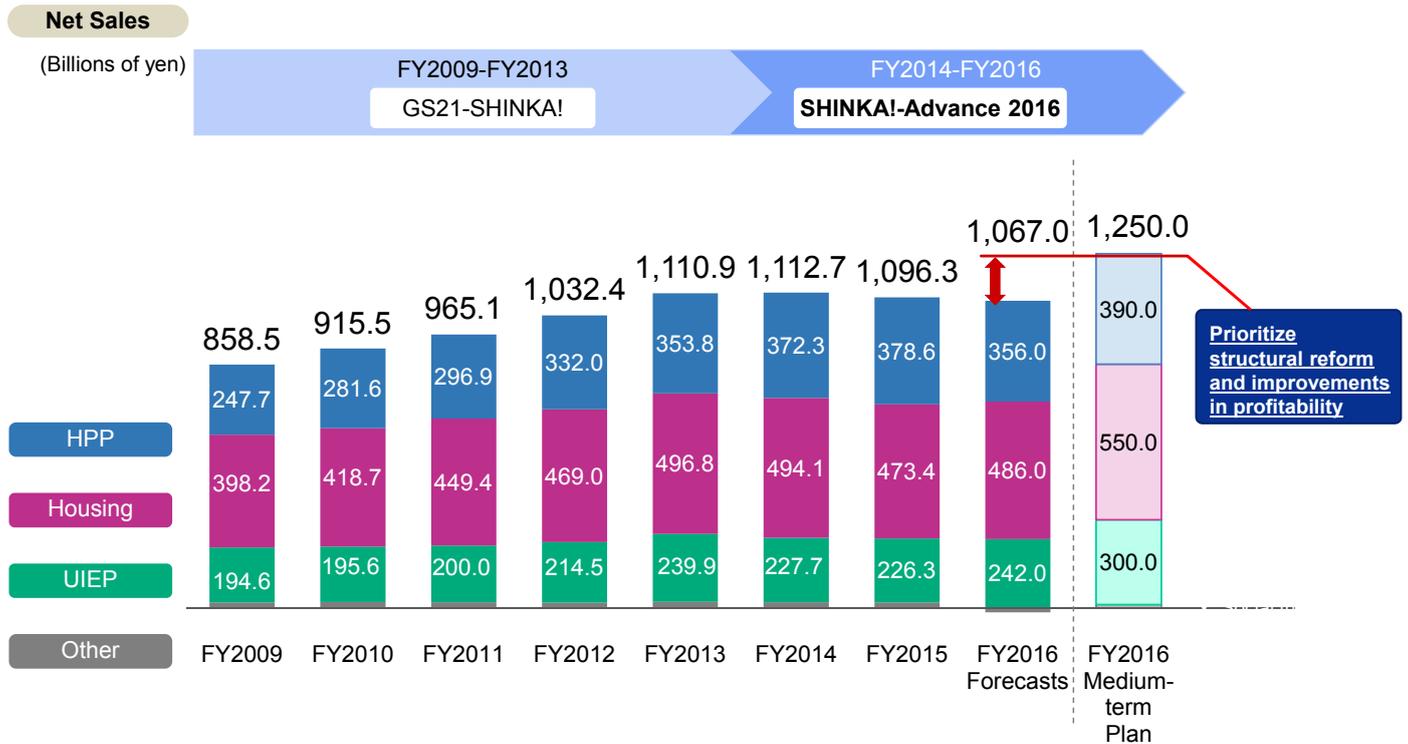
(Billions of yen)



\* HPP: High Performance Plastics Company; \* Housing: Housing Company; \* UIEP: Urban Infrastructure & Environmental Products Company

# Review of the Previous Medium-term Management Plan "SHINKAI!-Advance 2016" (Net Sales)

- Stagnant performance under the previous medium-term management plan; pending issue revolves mainly around securing a return to sales growth



## Recognition of Business Environments

### Unclear and uncertain fundamental business environments

Slowdown in emerging economies' growth

Frequent occurrence of regional conflicts and terrorist attacks

Rise of protectionism

Expanded fluctuation of exchange rate

Fluctuation before/after next consumption tax increase

Expansion of demand led by Tokyo Olympics and reduction in backlash

### Unchangeable megatrends

#### Demographics

Population growth/expansion of the middle class/aging society

#### Global environment

Climate change/devastated climate/resource issue

**There are many social issues to which our company can contribute**

## Our business opportunities

### Improvement in quality of living & environment

| Safety and security   | Comfort   | Health   | Urbanization  | Environment   |
|---|---|--|---|---|
| <ul style="list-style-type: none"> <li>• Semiconductor for in-vehicle, display materials</li> <li>• Reinforcement and renovation of structures</li> <li>• Flame-resistant and fire-retardant materials</li> </ul> | <ul style="list-style-type: none"> <li>• Construction and interior materials (sound insulation/heat shielding/heat insulation)</li> <li>• Organic EL materials</li> <li>• Automotive interior materials (molded product, tape, etc.)</li> </ul> | <ul style="list-style-type: none"> <li>• Contracted manufacturing of raw materials for medicines, intermediate</li> <li>• Diagnostic reagents and equipment</li> <li>• Hygiene materials</li> <li>• Health promotion reform</li> </ul> | <ul style="list-style-type: none"> <li>• Urban development, disaster protection/IoT</li> <li>• High-durability and long-life materials, rain water storage</li> <li>• Railway sleepers</li> <li>• Transportation equipment materials</li> </ul> | <ul style="list-style-type: none"> <li>• Smart house</li> <li>• Energy management</li> <li>• Utilization of thermal energy</li> <li>• Materials to save vehicle weight</li> </ul> |

**We have a chance to capture many opportunities (possibilities of growth) through development of various businesses.**

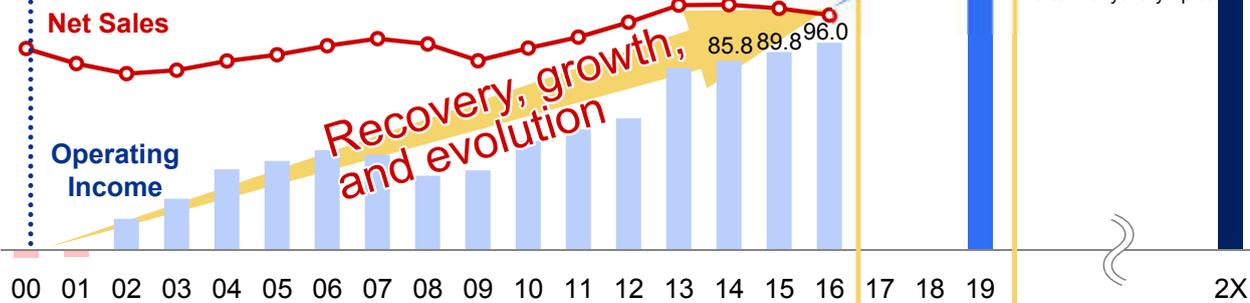
Maintaining our strong corporate presence for 100 years and beyond

2020s

Net Sales 2 trillion yen  
Operating Income 200 billion yen

Take one step forward toward "New phase of growth"

Adopted a Divisional Company system



From 2000 to the previous medium-term management plan

**GROWING SEKISUI 21 / SHINKA!**

From the new Medium-term Management Plan to the 2020s

New phase of growth

Quantitative growth

Aim to **grow sales with profitability** by grasping plenty of appropriate potentials for growth

+

Qualitative transition

Aim for **an operating income ratio of more than 10%** through ongoing improvements in profitability and by allocating resources to promising fields

Forward-looking investment

HPP Company

Strategic capital investments and M&As in four strategic fields

Housing Company

Launch new products to capture a share of volume zone markets

UIEP Company

Increase production capacity of high-value-added products; strengthen the overseas alliance strategy

etc.

and

Constant structural reform

HPP Company

Increase earnings power by reorganizing the structure of production

Housing Company

Promote cost innovation across the entire supply chain

UIEP Company

Optimize the structure of production

etc.

# Approach (Policy) Toward the New Medium-term Management Plan SHIFT 2019—Fusion—

■ Policy: Work toward a new phase of growth; “SHIFT” to a growth track by working in unison as a group

**SHIFT nature of growth**

- Make it compatible quantitative growth and qualitative transition
- Sustainable growth with social responsibility

- S** **Sustainable**  
Establish sustainable business base from E/S/G viewpoint
- H** **Human resources**  
Empowerment of diverse employees who support the business
- I** **Innovation**  
Create new products and new businesses with prominent technologies and quality
- F** **Frontier**  
Develop new fields, new area and new applications
- T** **Transformation**  
Promote transformation (strengthening earnings power) and establish strong business structure

Basic Strategy

**Strengthen the business base**

**3 actions**

Accelerate

"3 actions" with **"Fusion"**

- Technology **Fusion**
- Opportunity **Fusion**
- Resources **Fusion**

## New Medium-term Management Plan SHIFT 2019—Fusion— Targets

### Quantitative Plans

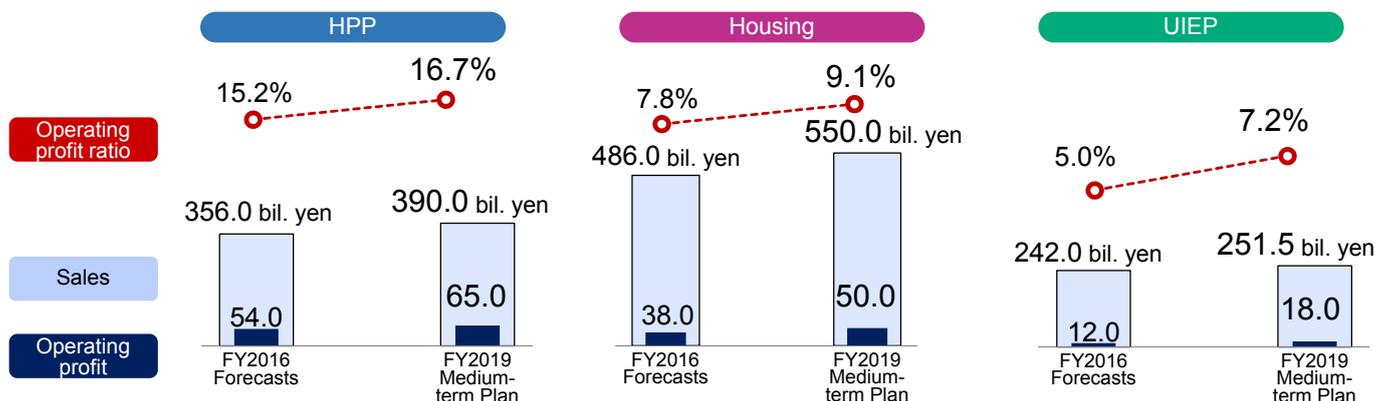
|                        | FY2016 Forecasts    | FY2019 Medium-term Plan |
|------------------------|---------------------|-------------------------|
| Net Sales              | 1,067.0 billion yen | 1,200.0 billion yen     |
| Operating profit       | 96.0 billion yen    | 120.0 billion yen       |
| Operation profit ratio | 9%                  | 10%                     |
| Net profit             | 59.0 billion yen    | 75.0 billion yen        |
| ROE                    | 11.2%               | 12%                     |
| Overseas Sales         | 245.8 billion yen   | 300.0 billion yen       |
| Domestic Sales         | 821.2 billion yen   | 900.0 billion yen       |

\*Assumed exchange rate

**US Dollar**  
**100 yen**

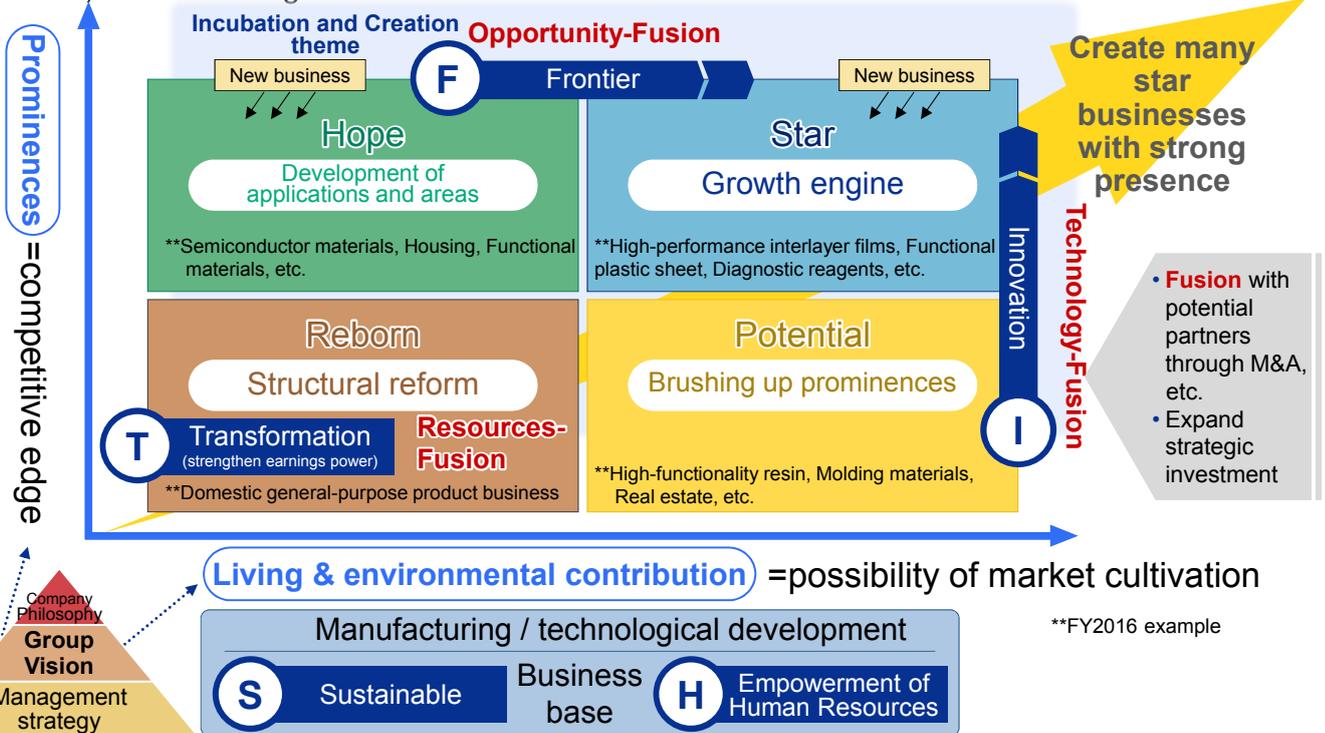
---

**Euro**  
**113 yen**



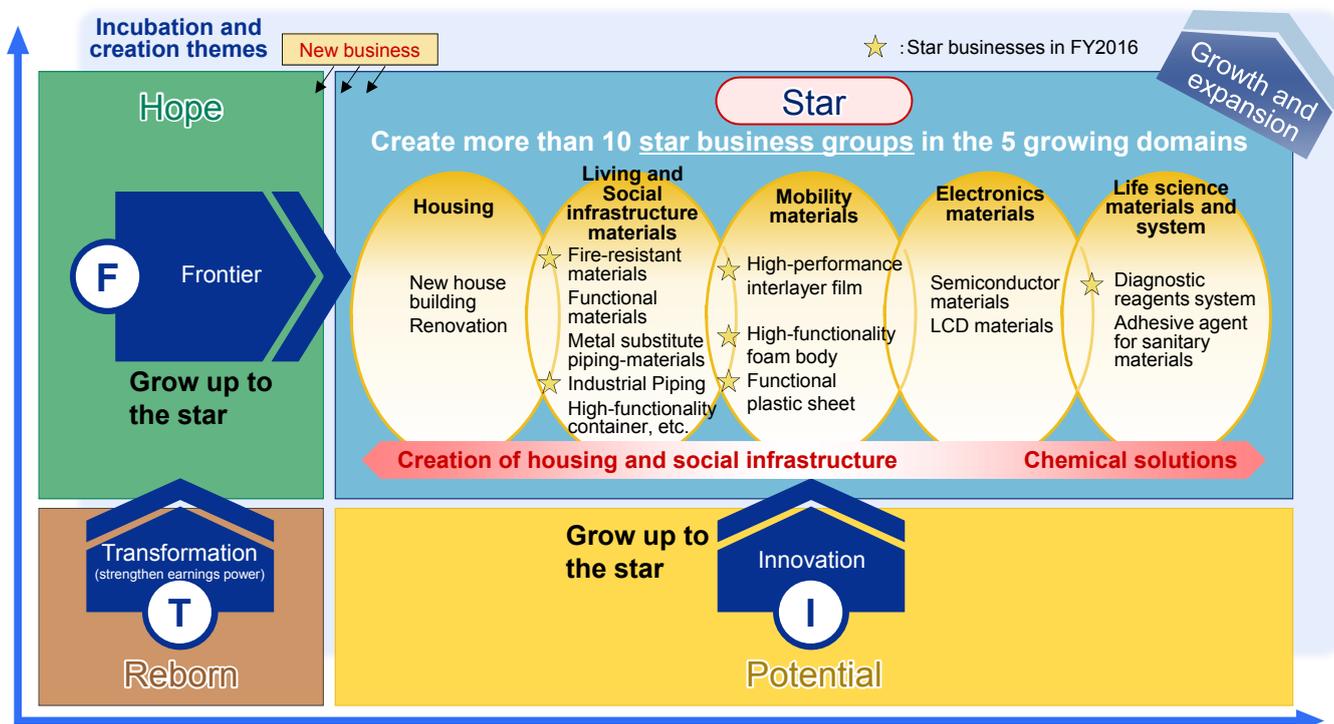
# Whole Picture of the New Medium-term Management Plan SHIFT 2019—Fusion— Strategy

- Set new business framework at the axis of Group vision\* (4 business groups, Incubation and Creation)
- \*Through **prominence in technology and quality**, Sekisui Chemical Group will contribute to **improving the lives of the people of the world and the Earth's environment**, by continuing to open up new frontiers in residential and social infrastructure creation and chemical solutions.
- Expand star businesses by implementing three initiatives: strengthening earnings power, promoting innovation, and cultivating frontier businesses



## Creation and Expansion of Star Business through 3 Actions

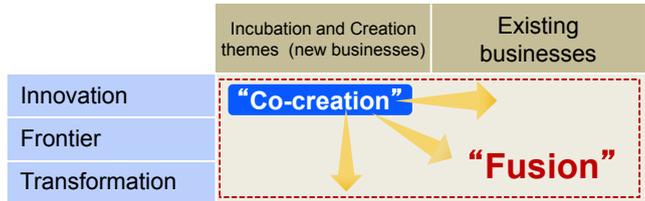
- Target image in 2019: Create more than 10 star business groups in 5 growing domains



# Acceleration through Fusion: Creating Incremental Increases in Existing Businesses

## Through fusion...

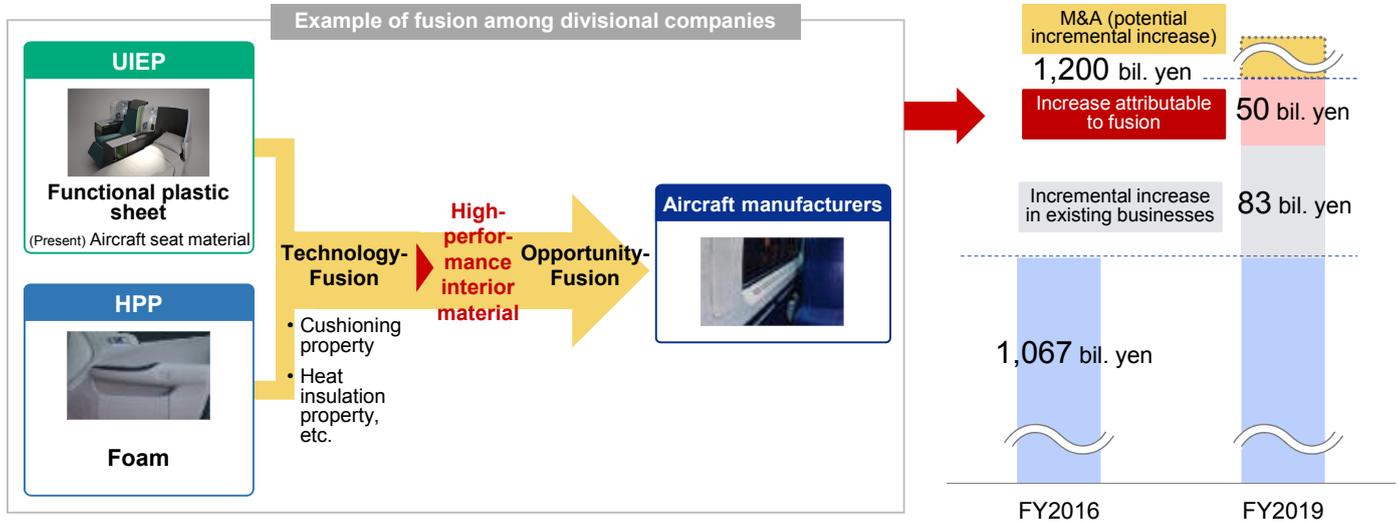
- 1 Create incremental increases in sales in existing businesses
- 2 Accelerate the commercialization of incubation and creation themes



## Examples of Fusion

## Details of Incremental Increases in Sales

### Addressed more than 20 fusion themes to create incremental increases



# Acceleration through Fusion: Commercialization of Incubation and Creation Themes

## ■ Creating new businesses in the housing society infrastructure, industrial materials innovation and environmental energy domains

- 1 Securing achievements in themes that have already been brought to the market
- 2 Verifying business model themes currently under development
- 3 Actively maximizing new theme creation opportunities

|               | FY2014-FY2016  | FY2017-FY2019   |
|---------------|----------------|-----------------|
| Corporate R&D | 96 billion yen | 120 billion yen |

| Typical Examples of Development Themes  | FY2016 | FY2017 | FY2018                | FY2019   | FY2020 and After                  |
|---|--------|--------|-----------------------|--|-----------------------------------|
| • Film-type lithium-ion battery<br>(Housing x Corporate R&D x External electronic manufacturer) |        |        | <b>Launch</b>         | ⇒ Stationary use: Enhance performance for housing<br>Automotive use: Improve performance; verify user    |                                   |
| • Urban development project<br>(Housing x UIEP x HPP x Corporate R&D)                           |        |        |                       |  | <b>Launch</b>                     |
| • Carbon fiber reinforced thermal plastic<br>(UIEP x Corporate R&D)                             |        |        | <b>Partial Launch</b> | Progressively roll out to the civil engineering, construction, transportation and other fields           |                                   |
| • Film-type solar cell (dye sensitized)<br>(Corporate R&D x Advanced User Candidates)           |        |        | <b>Partial Launch</b> | Improve performance and production technologies<br>Conduct user verification tests } Expand applications |                                   |
| • Town energy management system<br>(Housing x Corporate R&D)                                    |        |        |                       | Conduct virtual power plant verification tests   | <b>Commer-</b><br><b>-cialize</b> |
|   |        |        |                       | Consider and verify business models  |                                   |

## Forward-looking Investments

### ■ Double strategic investments and establish a new investment framework for M&As; Newly establish an energy saving investment framework

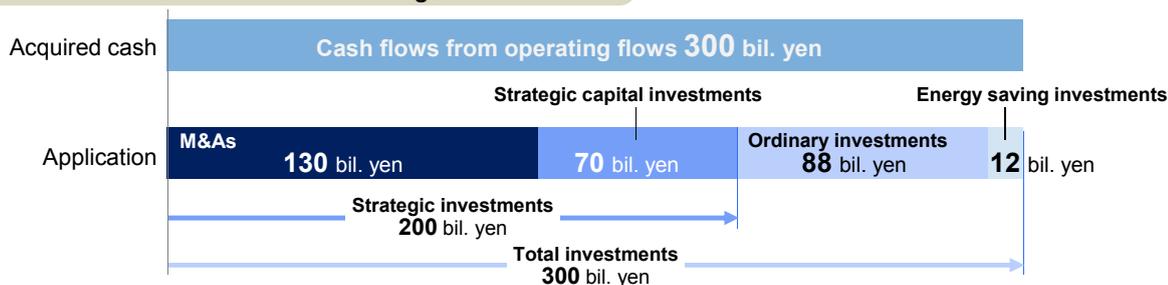
- Strategic investments: Concentrate on star, star candidate as well as incubation and creation businesses
- M&A: Focus on 5 growth domains
- Energy saving investments: Invest an amount equivalent to more than 0.3% of sales with the aim of addressing global warming while securing energy saving effects

#### FY2014-FY2016 Medium-term Management Plan Forecasts

\*The dotted line refers to the previous medium-term management plan (cash flows from operating activities 250 billion yen/strategic investments 100 billion yen, ordinary investments 80 billion yen)



#### FY2017-FY2019 Medium-term Management Plan

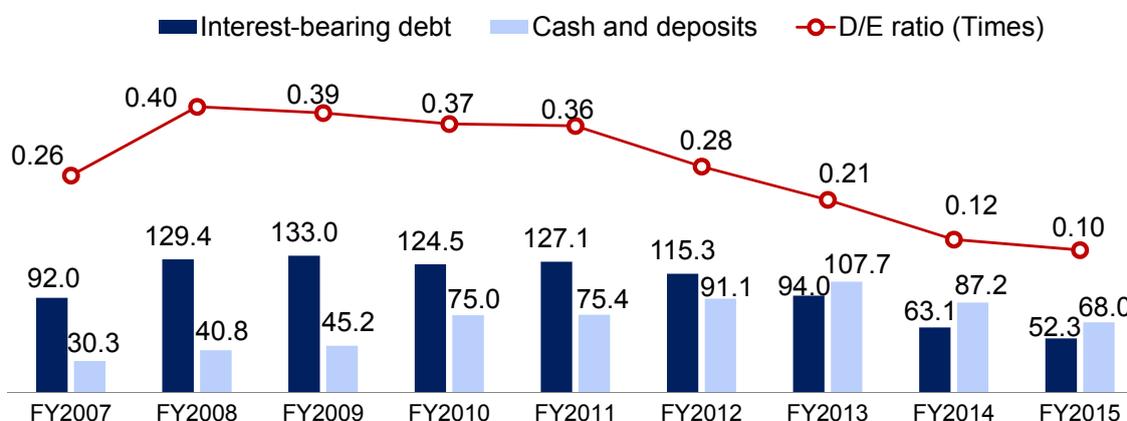


## Capital Policy Approach

### ■ Undertake aggressive investment activities and utilize borrowings in line with the demand for funds while maintaining a sound financial position

#### Trends in Cash and Deposits, Interest-bearing Debt, and D/E Ratio

(Billions of yen)



Existing

Future

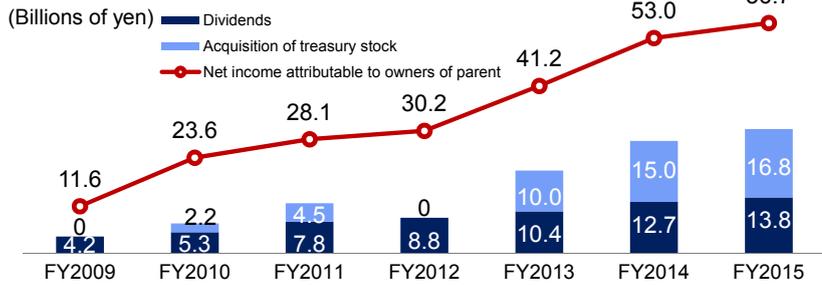
- Investment and the return of profits to shareholders within the scope of operating cash flows

- **Active investment utilizing borrowings**

## Returns to Shareholders

- Maintain vigorous and stable returns to shareholders also under the new Medium-term Management Plan

### Returns to Shareholders Track Record



| Fiscal Year   | 2009  | 2010  | 2011  | 2012  | 2013  | 2014   | 2015   |
|---|-------|-------|-------|-------|-------|--------|--------|
| Net income attributable to owners of parent per share (yen) | 22.13 | 44.92 | 53.96 | 58.53 | 80.13 | 104.73 | 115.08 |
| Cash dividends per share (yen)                              | 10    | 13    | 15    | 18    | 23    | 27     | 30     |
| Dividends payout ratio                                      | 45.2% | 28.9% | 27.8% | 30.8% | 28.7% | 25.8%  | 26.1%  |
| Acquisition of treasury stock (billions of yen)             | 0     | 2.2   | 4.5   | 0     | 10.0  | 15.0   | 16.8   |
| Total return ratio*   | 45.4% | 38.1% | 43.8% | 30.8% | 53.0% | 54.1%  | 55.5%  |
| ROE   | 3.5%  | 6.9%  | 8.1%  | 7.8%  | 9.4%  | 10.9%  | 10.9%  |
| DOE   | 1.6%  | 2.0%  | 2.3%  | 2.4%  | 2.7%  | 2.8%   | 2.9%   |
| Treasury stock retired (thousand of shares)                 |       |       |       | 7,000 |       | 12,000 | 10,000 |

\*Total return ratio = (Amount of treasury stock acquired + Total Dividends)/Net income attributable to owners of parent

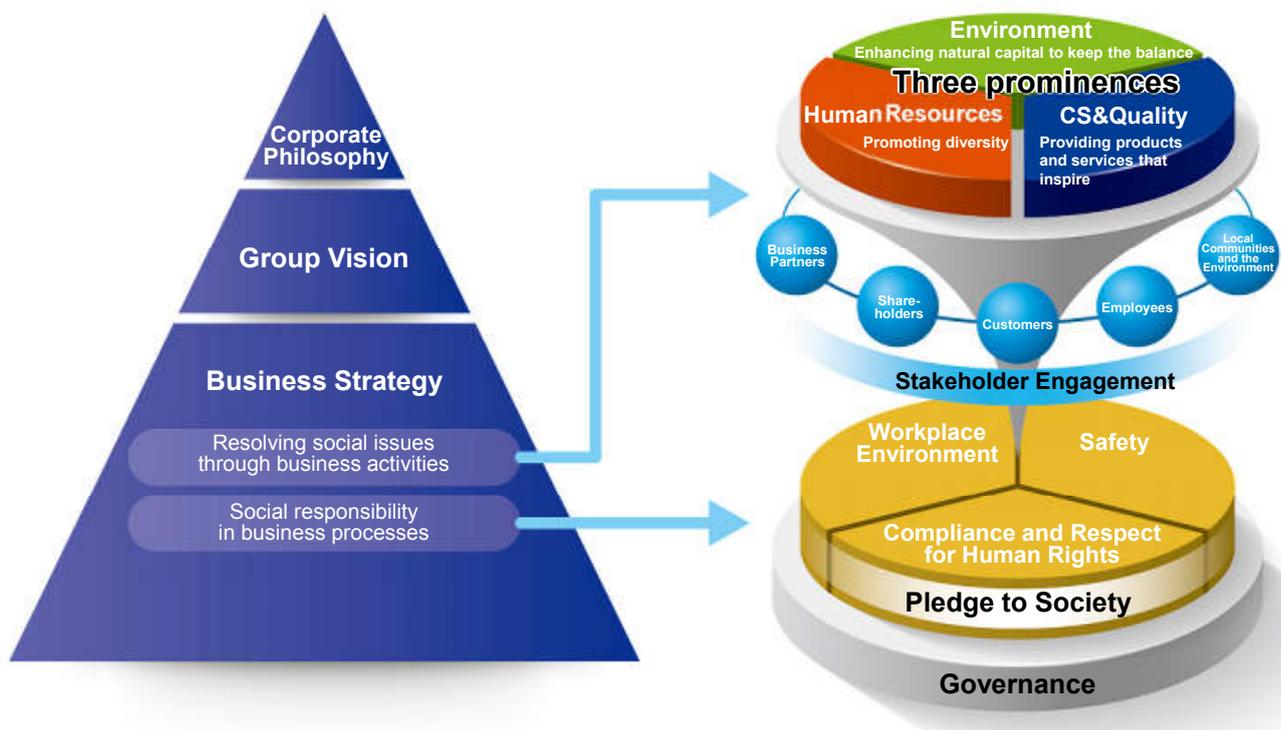
### Commitments under the New Medium-term Management Plan

- Targeting a dividend payout ratio of 30%
- Targeting DOE of 3%
- Flexible acquisition of treasury stock

## New CSR Concept

- Review CSR from the E/S/G viewpoints and promote actions integrated with the businesses

### New CSR Conceptual Scheme



### 3 Prominences

- Strengthen the foundation for sustainable growth by maintaining prominence in the “Environment,” prominence in “Customer Service (CS) Quality” and prominence in “Human Resources”

|                                 | Main themes to be carried out  | FY2016   | FY2019 Targets   |
|---------------------------------|--|--|--|
| Prominence in the “Environment” | <b>Enhancing natural capital to keep the balance</b> <ul style="list-style-type: none"> <li>Expand sales of environment-contributing products from an SDGs and other viewpoints</li> <li>Reduce CO<sub>2</sub> emissions utilizing environment-contributing (energy saving) investments</li> </ul> | Sales ratio 44%<br><br>Total amount maintained from FY2013             | <b>Sales ratio 60%</b><br><br><b>-6%</b><br>(compared with FY2013)                   |
| Prominence in “CS Quality”      | <b>Providing products and services that inspire</b> <ul style="list-style-type: none"> <li>Create attractive quality products (Star products)</li> <li>New product sales</li> </ul>  | 11 products (FY2014-FY2016)<br><br>130 billion yen (sales ratio 12.2%) | <b>20 products (FY2017-FY2019)</b><br><br><b>230 billion yen (sales ratio 19.2%)</b> |
| Prominence in “Human Resources” | <b>Promote diversity</b> <ul style="list-style-type: none"> <li>Ratio of female managers</li> <li>Ratio of women among newly hired employees</li> </ul>  | 111 persons (2.3%)<br><br>29%  | <b>200 persons (4.4%)</b><br><br><b>35%</b>  |

### Establishing a Sustainable Business Base

- Further strengthen E/S/G initiatives

|                     |   |
|---------------------|---|
| <b>E</b> nvironment | <ul style="list-style-type: none"> <li>Expand contributions to the environment through products</li> <li>Strengthen efforts to reduce environmental load</li> <li>Entrench natural environment protection activities</li> </ul> |
| <b>S</b> ocial      | <ul style="list-style-type: none"> <li>Continue to strengthen compliance management</li> <li>Promote work style innovation</li> <li>Avoid any complicity with human rights abuses (CSR procurement, etc.)</li> </ul>            |
| <b>G</b> overnance  | <ul style="list-style-type: none"> <li>Engage in constructive dialogue with stakeholders</li> <li>Enhance governance within Group companies</li> </ul>  |



An environment contribution event in New York



Recognized as a Nadeshiko brand in FY2016

# High Performance Plastics Company

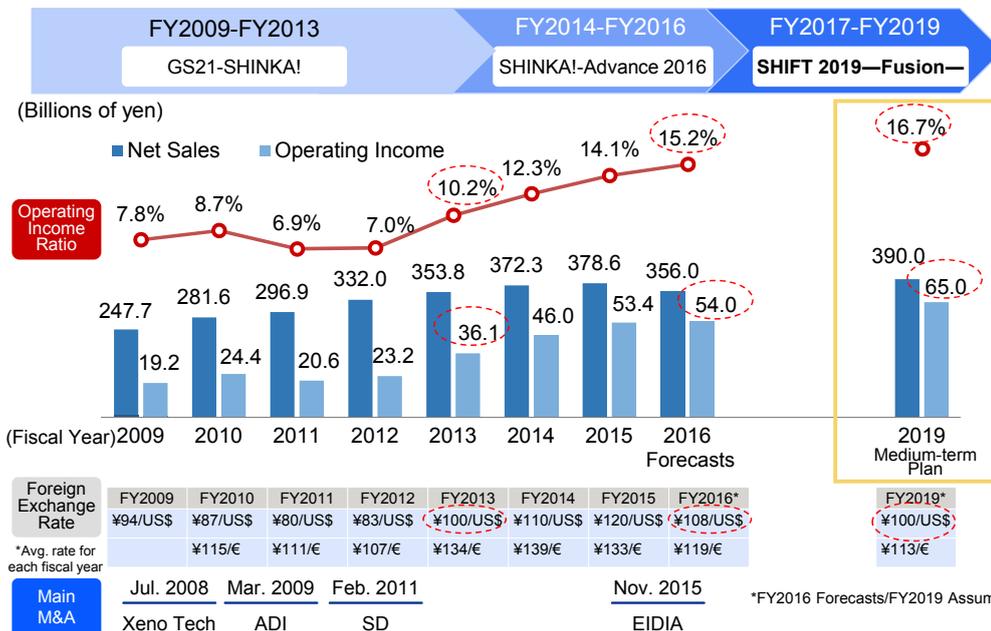
Company President  
Keita Kato

\*FY2016 forecast figures contained in this document are those disclosed at the time of the Company's FY2016 3Q consolidated financial results announcement.

## Performance Trends and FY2019 Targets

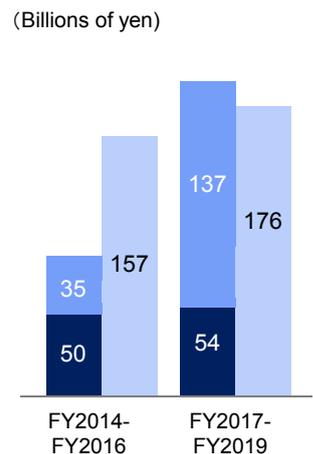
- Operating income increased 1.5 times under the previous medium-term management plan; profit ratio also improved substantially (+5%)
- Secured an ample return on investment under the previous medium-term management plan; scheduled to double the amount of investment under the new Medium-term Management Plan and to accelerate growth

### Performance Trends



### Investment and Return

- Ordinary Investment
- Strategic capital investments and M&As
- Operating income after tax + depreciation and amortization



## Analysis of Operating Income

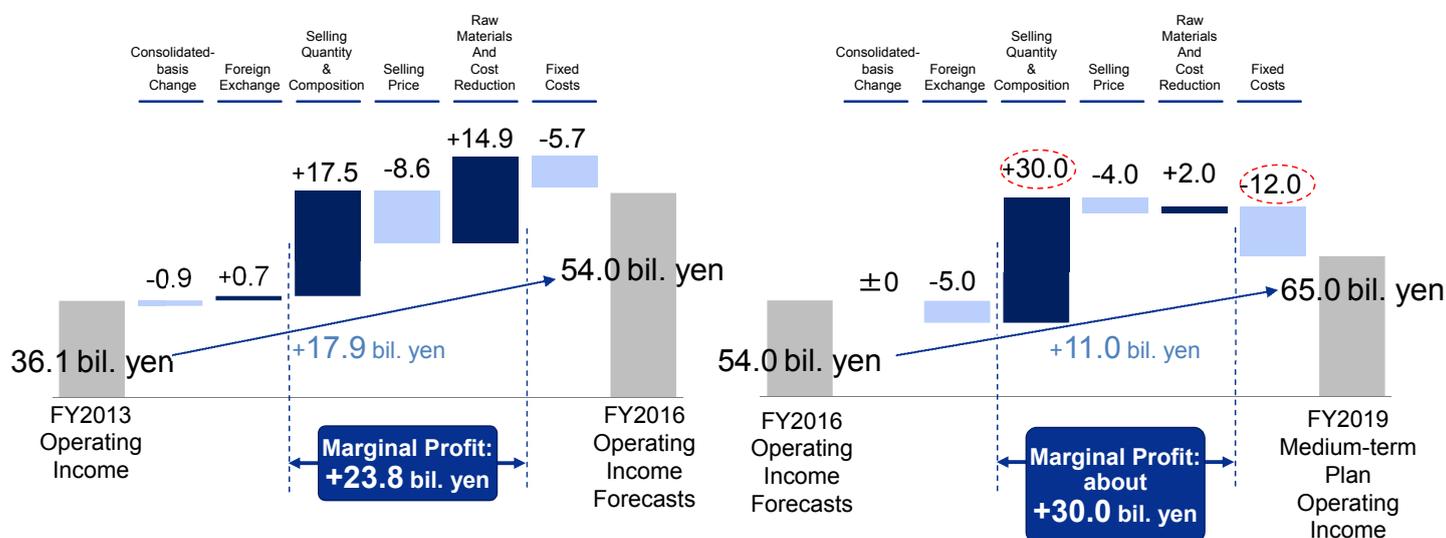
- Further accelerate expanding volume and improving the product mix while also increasing investment in order to secure continued growth under the new Medium-term Management Plan
  - Four strategic fields to continue driving profit growth
  - The impact of high raw material prices to be held to a minimum

### FY2016 Forecasts compared with FY2013 Results

### FY2019 Medium-term Plan compared with FY2016 Forecasts

#### Analysis of Operating Income

#### Analysis of Operating Income (Image)



## President's Policy

- Growth Engine: Realize sales and profit growth by undertaking portfolio reform
- Business Structural Reform: End of a round of low-profit business rationalization; aggressive structural reform aimed at further increasing profit ratios
- Solid Business Foundation: Solid business foundation that is capable of realizing I & II above

## "Fusion for New Values" "Resolution" & "Challenge"

### I. Growth Engine

- Four Strategic Fields
- Overseas Business
- New products and Businesses

### II. Business Structural Reform

### III. Solid Business Foundation

- Safety, Quality, Compliance
- (Overseas) Business Foundation

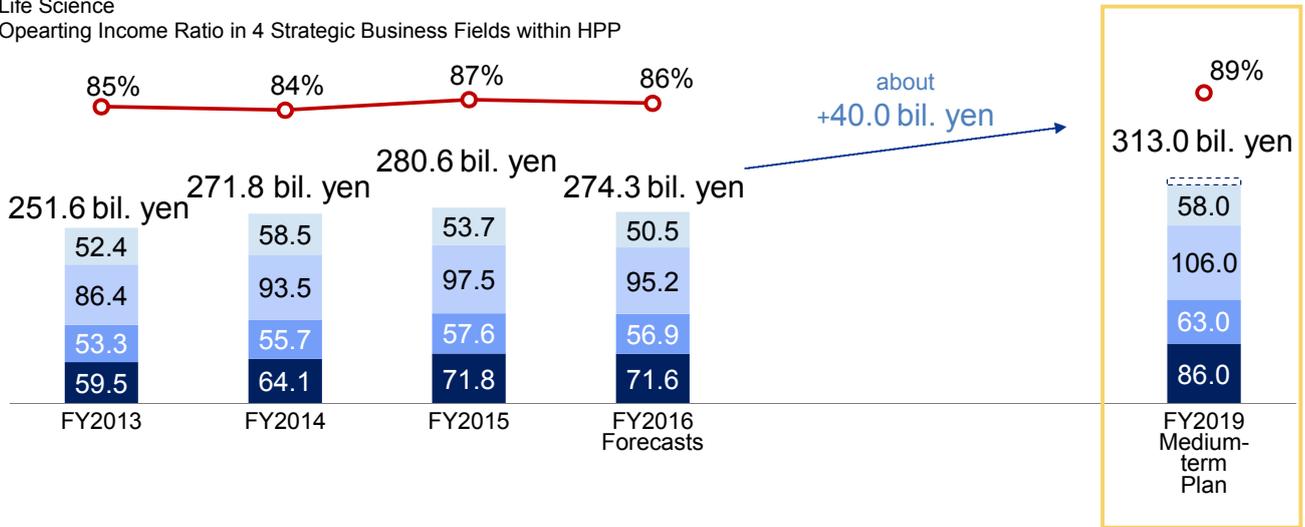
## Four Strategic Fields: Net Sales Trends and FY2019 Targets

- Steady increase in sales and profits especially in the Automobiles and Transportation field under the previous medium-term management plan
- Continue to target further growth in each of the four strategic fields under the new Medium-Term Management Plan

### Trends in Net Sales in the Four Strategic Fields

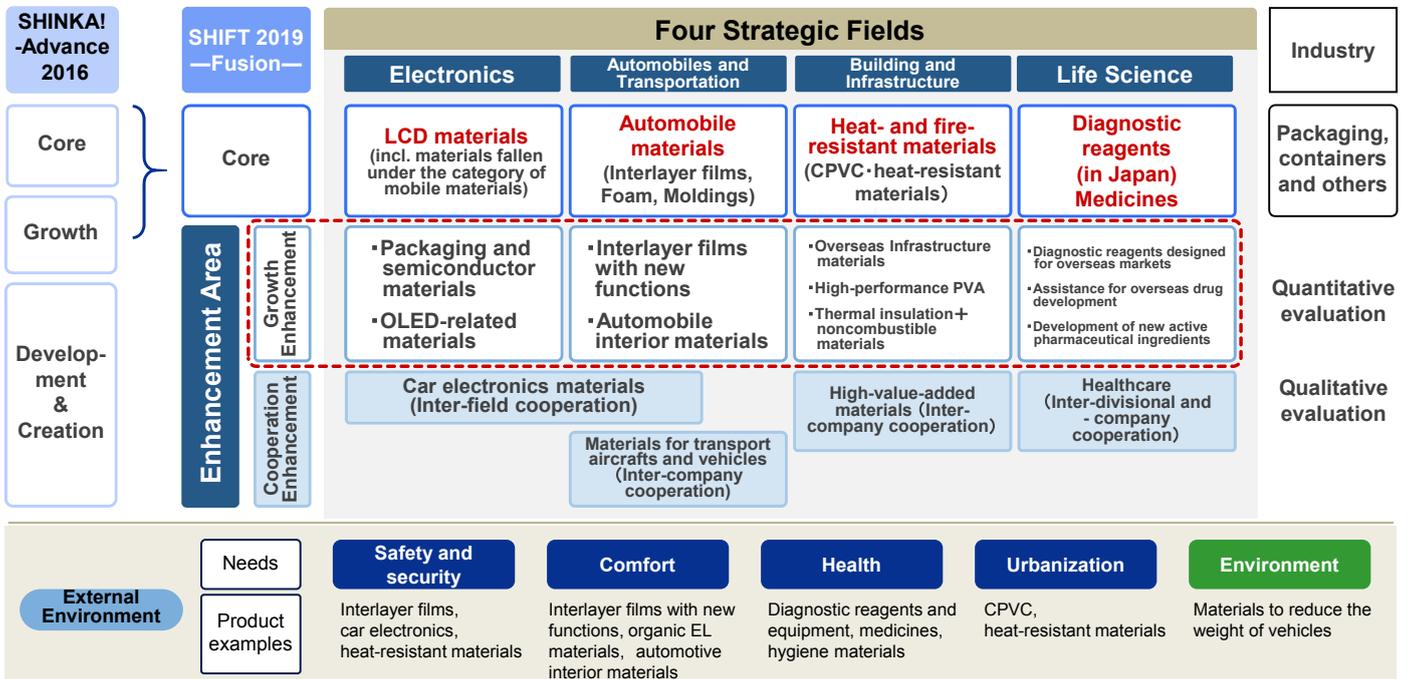
□ Impact of foreign currency exchange rate fluctuation (compared with FY2016)

- Electronics
- Automobiles and Transportation
- Building and Infrastructure
- Life Science
- Operating Income Ratio in 4 Strategic Business Fields within HPP



## Four Strategic Fields: Identify New Enhancement Areas

- Identify new enhancements areas in each of the four strategic fields and focus the allocation of management resources accordingly
  - Growth Enhancement: Target growth in excess of the market
  - Cooperation Enhancement: Cultivate a new source of earnings by coordinating efforts both within and outside the company



## Four Strategic Fields: Basic Strategy

- Target an increase in sales of 40 billion yen in the four strategic fields under the new Medium-term Management Plan

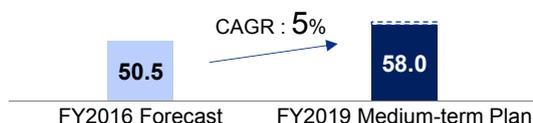
### Net Sales Target for the Four Strategic Fields and Business Policy

\* The dotted lines in each FY2019 bar graph depict the effects of fluctuations in foreign currency exchange rates compared with FY2016 forecasts.

#### Electronics

- Develop and expand sales of products for semiconductors and organic ELs
- Roll out to the car electronics field
- Step up global coordination activities

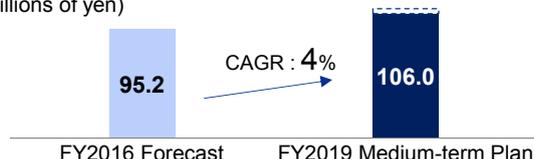
(Billions of yen)



#### Automobiles and Transportation

- Expand sales of high-performance interlayer films and interior materials or automobiles
- Develop interlayer films with new functions
- Enter the aircraft and other growth fields

(Billions of yen)



#### Building and Infrastructure

- Develop new products peripheral to core products (CPVC, heat-resistant materials, etc.)
- Strengthen global development

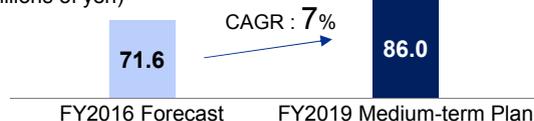
(Billions of yen)



#### Life Science

- Global management (expand synergies)
- Expand equipment businesses
- Expand drug development assistance and active ingredient businesses

(Billions of yen)



## Main Strategic Investments

- In addition to realizing the benefits of measures implemented under the previous medium-term management plan, undertake proactive strategic capital investment in a bid to secure continuous growth under the new Medium-term Management Plan

### Main Strategic Investments and Maturation Period

※ Light yellow: Begin realizing benefits; Yellow: Realize benefits in earnest

|                                | Main Areas of Investment   | Maturation Period (Image) |        |         |
|--------------------------------|--|---------------------------|--------|---------|
|                                |  | FY2017                    | FY2018 | FY2019~ |
| Electronics                    | To develop new products (for OLEDs, substrates and semiconductors)     | Light yellow              | Yellow | Yellow  |
|                                | To increase mainstay product production capacity                       | Light yellow              | Yellow | Yellow  |
| Automobiles and Transportation | To increase production of high-performance interlayer films in Mexico  | Light yellow              | Yellow | Yellow  |
|                                | New function interlayer films (luminous, etc.)                         | Light yellow              | Yellow | Yellow  |
|                                | To consider increasing interlayer film production capacity             | Light yellow              | Yellow | Yellow  |
| Building and Infrastructure    | New CPVC plant in Thailand   | Light yellow              | Yellow | Yellow  |
|                                | New foam plant in China  | Light yellow              | Yellow | Yellow  |
| Life Science                   | To purchase and integrate EIDIA  | Light yellow              | Yellow | Yellow  |
|                                | To establish a new diagnostic reagent company in China                 | Light yellow              | Yellow | Yellow  |
| Structural Reform              | General-purpose film business (Sumika Sekisui Film Holdings Co., Ltd.) | Light yellow              | Yellow | Yellow  |
|                                | Foam business (Europe, US)   | Light yellow              | Yellow | Yellow  |
|                                | ITO film business (withdraw from mobile applications)                  | Light yellow              | Yellow | Yellow  |
|                                | To reorganize the moldings business                                    | Light yellow              | Yellow | Yellow  |

# Strengthening Businesses through M&A, Overseas Business

## Strengthening Businesses through M&A

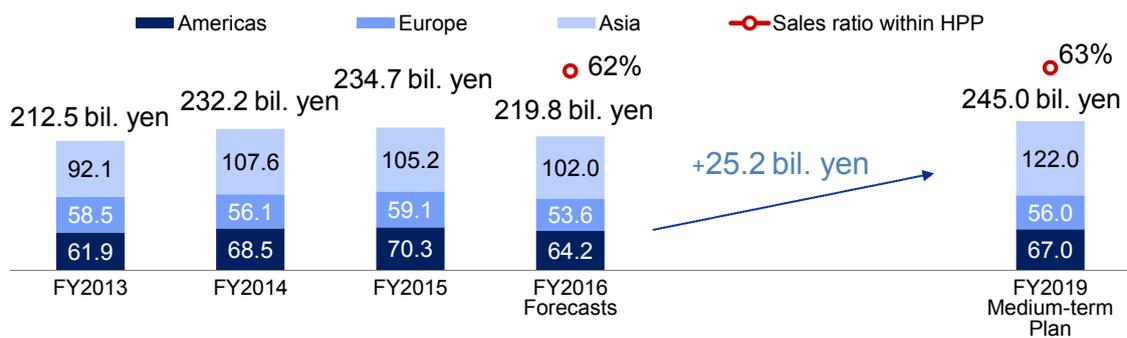
- Existing M&As: Maximize synergies through M&As
- New M&As: Collect proper information through the effective use of venture funds

|                       |                                |  |
|-----------------------|--------------------------------|--|
| Each field's policies | Electronics                    | Focusing mainly on functions and materials             |
|                       | Automobiles and Transportation | Car electronics, new materials, new areas              |
|                       | Building and Infrastructure    | High-value-added resins                                |
|                       | Life Science                   | Strengthen diagnostic businesses, search for new areas |

## Overseas Business

- Strengthen the marketing function → engage in field-centric marketing, bolster coordination activities
- Optimize sales company structure and organization (structural reform)

### Trends in Overseas Sales



# New Products and New Businesses

- Position new products and new businesses as major growth engines through intensive investment and consolidating work hours

## New products

- Expand new product sales led by the R&D Institute
- Enhance technology platforms as well as planning and development capacities
- Promote open innovation

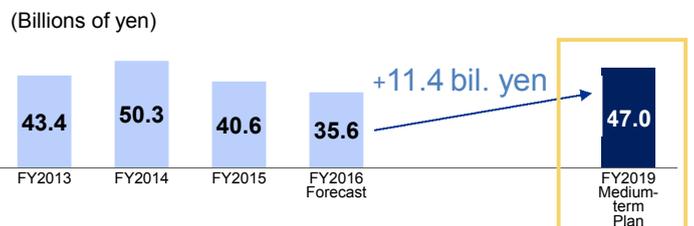


Luminous PVB films (planned release in 2018)

A new head-up display system that allows information to be displayed across the entire width of windshields

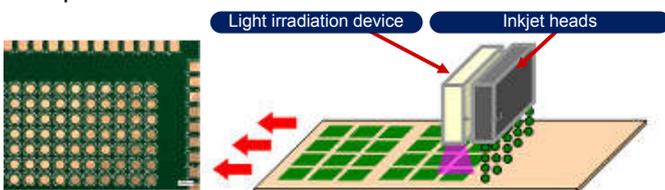
### Trends in New Product Sales

\* Definition of new product: up to 5 years after being placed on the market



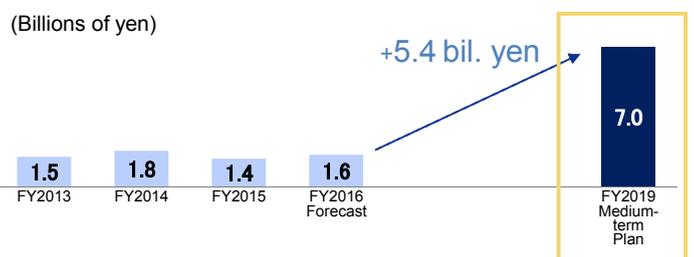
## New Businesses

- Quickly bring to market and secure contribution to earnings from each of inkjet, build-up film, heat dissipation and other materials



Schematic diagram of inkjet coating application (planned release in 2017)

### Trends in New Business Sales



# Housing Company

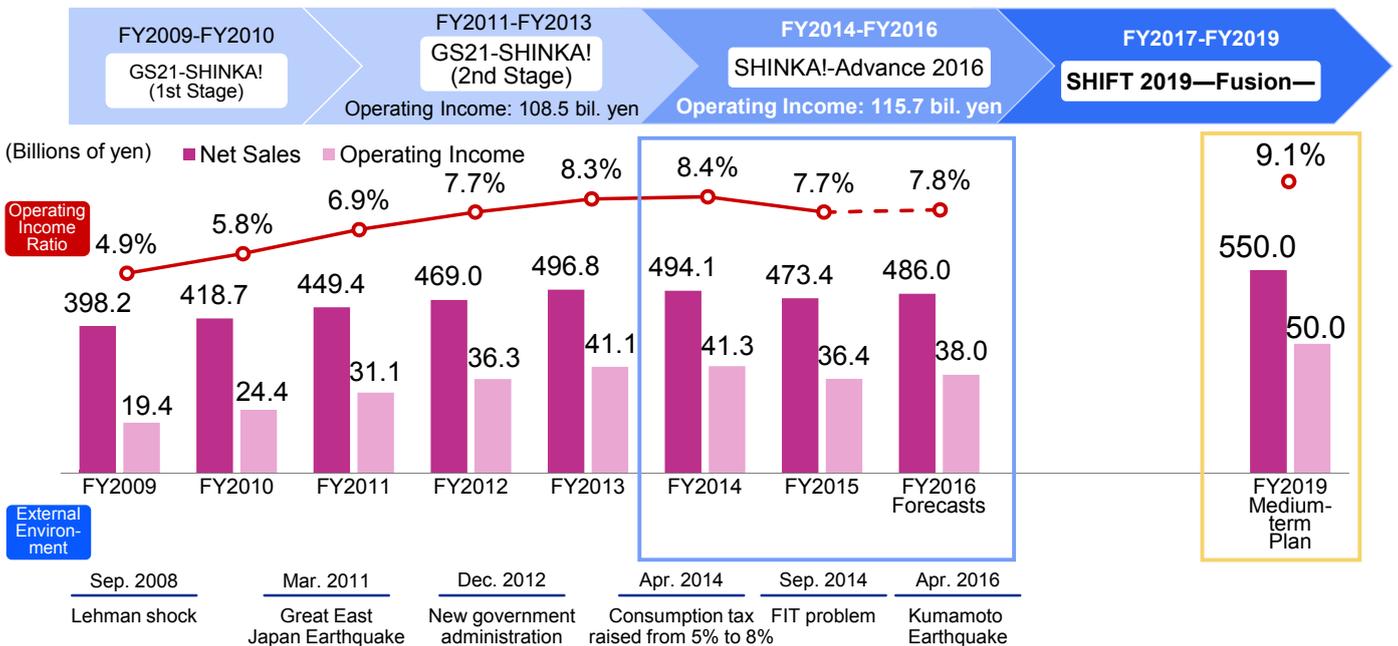
Company President  
Shunichi Sekiguchi

\*FY2016 forecast figures contained in this document are those disclosed at the time of the Company's FY2016 3Q consolidated financial results announcement.

## Performance Trends and FY2019 Targets

- In FY2016, return to a profit increase trajectory despite changes in the market environment (tax hike to 8%, FIT problem)
  - Making headway with investments aimed at increasing the production efficiency of the company's eight nationwide plants (total investment 17 bil. yen)
  - Upgrade and expand lineup of Smart House products

### Performance Trends



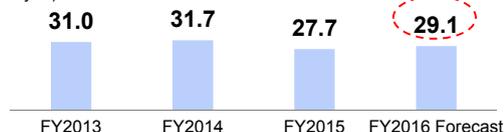
## Performance Trends by Business; Analysis of Operating Income

- Housing Business: Despite a downturn in earnings due to a hike in the consumption tax rate, return to a profit increase trajectory in FY2016
- Renovation Business: Delay in recovery from the consumption tax rate hike and FIT problem
- Domestic and Overseas Frontier Businesses: Challenges regarding the ability to achieve growth potential

### Trends in Operating Income by Business

#### Housing Business

(Billions of yen)



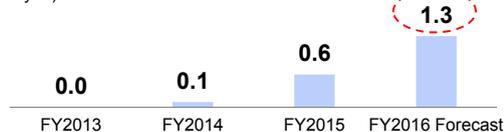
#### Renovation Business

(Billions of yen)



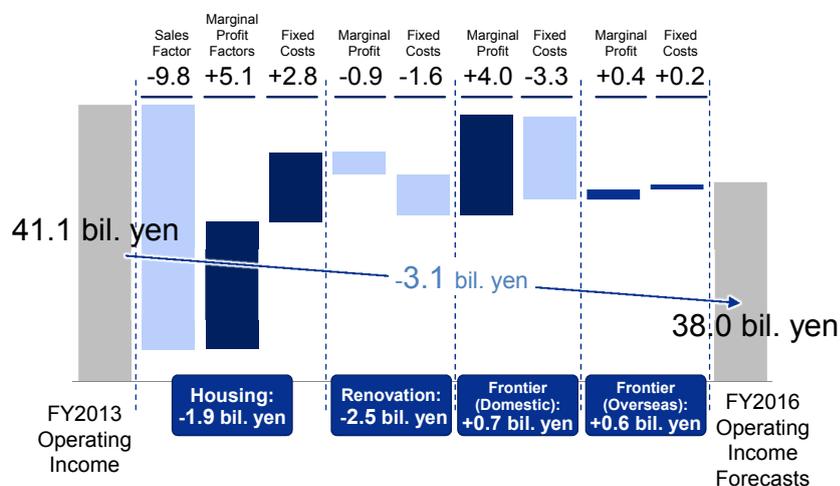
#### Domestic Frontier Businesses (Real Estate, Residential Services); Overseas Business

(Billions of yen)



### FY2016 forecasts compared with FY2013

#### Analysis of Operating Income



## Analysis by Business – Housing Business (New Housing Orders)

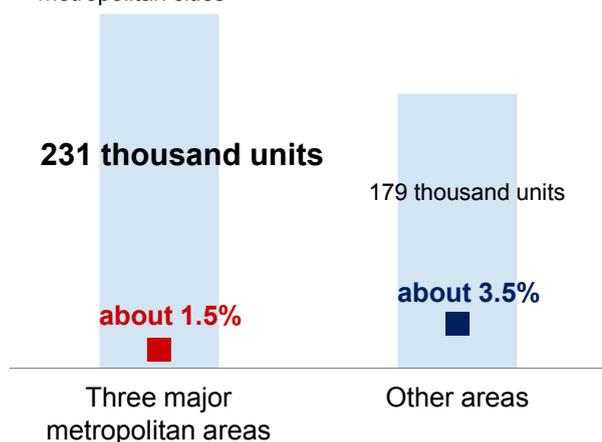
- Increasing our share in the major Tokyo, Nagoya, and Osaka markets a key issue

### Size and Our Share of the Detached House Market by Area

#### Number and Our Share of Housing Starts by Area

\* FY2015, Our estimate

- High share in areas outside the three major metropolitan cities
- Top class share in areas other than the three major metropolitan cities



#### Detached House Market Size

\*Our Estimate

- The impact of the consumption tax rate hike on the three major metropolitan cities, where the decrease in population is relatively small and the ratio of first-home buyers is high, is expected to be comparatively limited

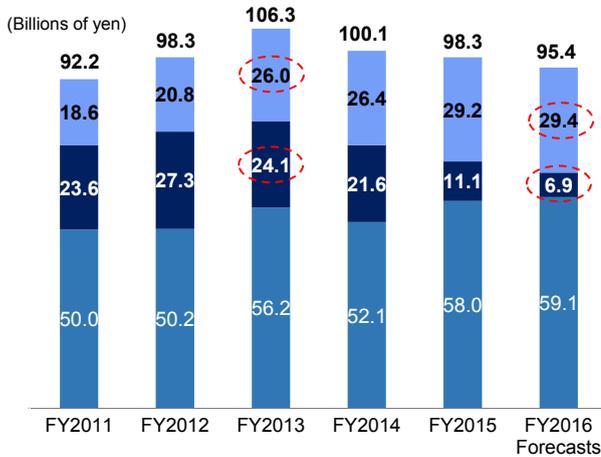
|                | Three major metropolitan areas | Other areas        |
|----------------|--------------------------------|--------------------|
| FY2013         | 276 thousand units             | 210 thousand units |
| FY2015         | 231 thousand units             | 179 thousand units |
| 2020s Estimate | 200 thousand units             | 100 thousand units |

- Need to transition to a proposal-type sales style, enhance customer satisfaction, and strengthen the primary stock business to generate repeat customers

## Orders by Products

- Drastic drop in PV owing mainly to the FIT problem
- Unable to cover the drop in PV despite strategic products growth

- Strategic products (for exterior areas, new external walls, bathrooms and kitchens, storage batteries, extensions)
- PV
- Maintenance, other (coatings, etc.)



## Repeaters and amount of orders



## Image of Capturing Repeat Orders

- Work to enhance customer satisfaction and increase repeat orders

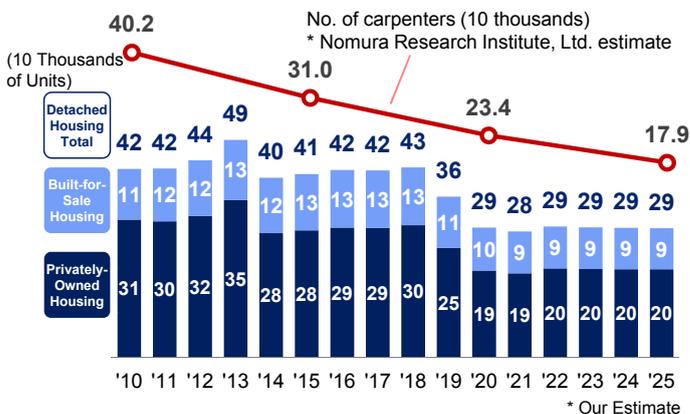


# Recognition of the External Environment

- Capture business opportunities by leveraging the competitive advantage of the unit construction method as well as the Smart House's No. 1 position

## Trends in the No. of Detached House Starts and the No. of Carpenters

- The shortage of carpenters is expected to increase in severity at a pace that exceeds the decline in detached house starts
- Opportunity exists to make the most of the unit construction method's competitive advantage



## The expansion of Smart House Market

- ZEH will be a standard in FY2020

| FY2013            | FY2020            |
|-------------------|-------------------|
| 2.07 trillion yen | 2.89 trillion yen |

\* Source: Fuji Keizai Marketing Research & Consulting Group

## Expanding Market

- Growing business opportunities on the back of existing stock and such factors as the aging population

### Acceleration of utilization of existing houses

Business opportunities would increase by vitalization of the secondhand market.

|                   | FY2013         | FY2025          |
|-------------------|----------------|-----------------|
| Renovation Market | 7 trillion yen | 12 trillion yen |
| Secondhand houses | 4 trillion yen | 8 trillion yen  |

\* Source: Japan's Ministry of Land, Infrastructure, Transport and Tourism

### Super Aging Society

Expand the business targeted to the elderly mainly in Tokyo, Nagoya and Osaka.

|   | FY2010        | FY2025        |
|---|---------------|---------------|
| Elderly aged 75 or above  | 14.19 million | 21.79 million |
| <b>Increase by 50% in FY2025 (+ 80% in the metropolitan area)</b> |               |               |

\* Source: Japan's Ministry of Land, Infrastructure, Transport and Tourism

Emphasize the uniqueness of SEKISUI HEIM and strive to transform the core businesses and develop the frontier businesses for sustainable growth.

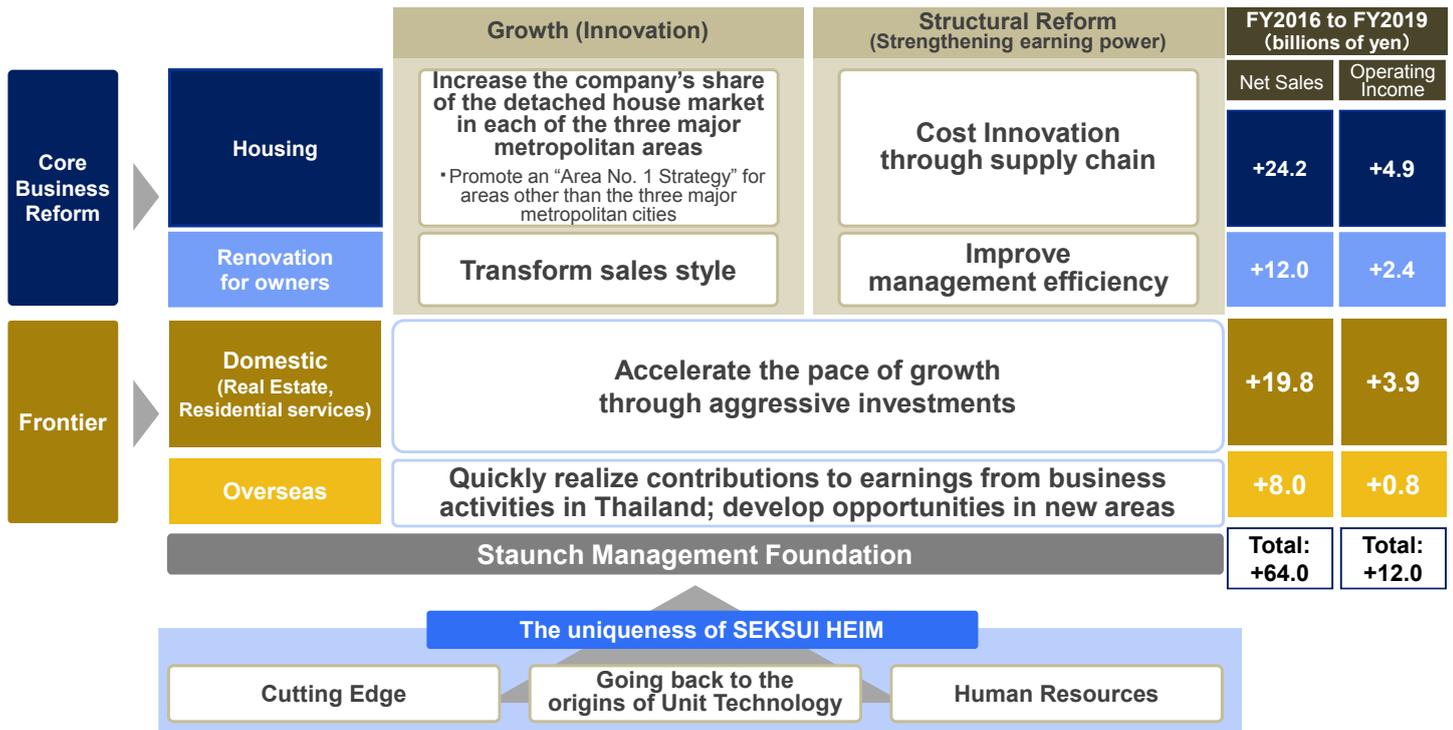
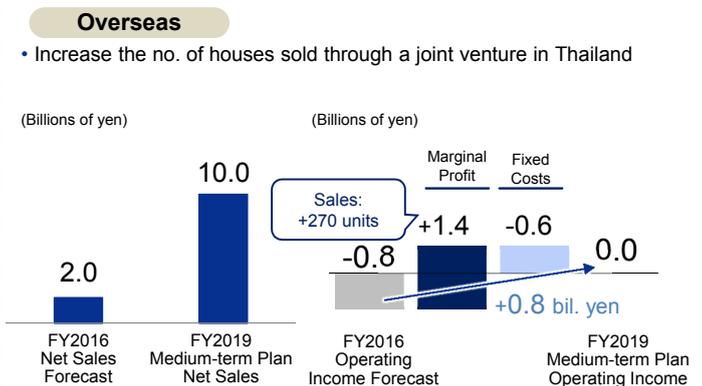
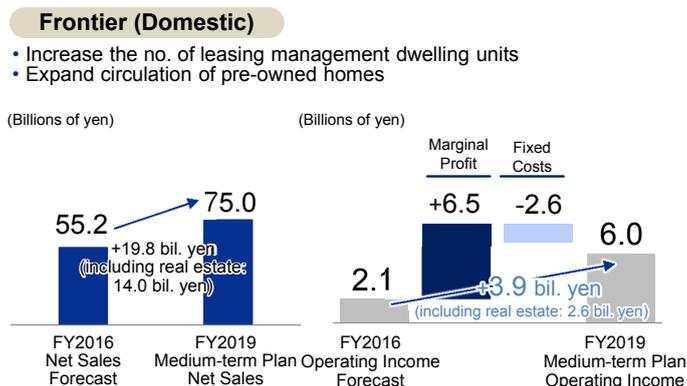
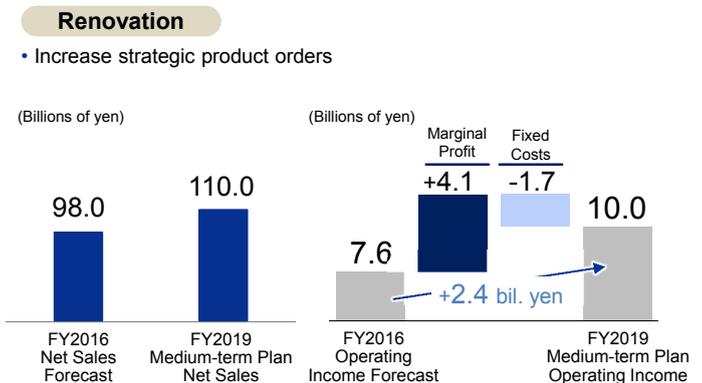
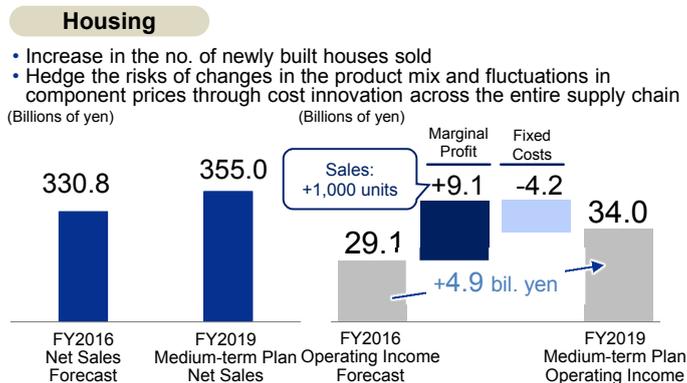


Image of Net Sales Targets and Increased Earnings in Each Business



# Housing Business: Strategies Aimed at Capturing Orders

- Toward the leading market share in detached houses through new hit-selling volume zone products, Smart Houses, land and built-for-sale housing

|        |                  |  |
|--------|------------------|--|
| FY2016 | Housing Business | Net Sales: +24.2 bil. Yen<br>Operating Income: +4.9 bil. yen |
| FY2019 |                  |  |

## Order Plan (YoY)

### Housing Order (Units basis)



## Market Environment

- Structural decrease in housing starts to emerge in earnest from FY2019
  - Market platform to experience a modest improvement owing mainly to a sense that interest rates and the cost of living are high (up to March 2019)
  - Incidence of a rush in demand in the lead up to the next consumption tax rate hike; expectations of a correction and decline in demand from April 2019
- Steady upswing the Smart House Market (ZEH standards to apply in FY2020)
- Firm trends in built-for-sale housing demand fueled by first buyers

| Price Range                                | Sales Composition (Current)  | FY2020 Estimated Market Size | FY2017 to FY2019 Measures  | FY2019 (compared with the current state) |
|--|--|------------------------------|--|--|
| A: Over 40 mil. yen                        | about 600 units  | about 20,000 units           | ▶ Strengthen 3-story in urban area and rebuilding activities   | +200 units                               |
| B: 20 mil. yen to 40 mil. yen              | about 8,300 units  | about 150,000 units          | ▶ Strengthen ZEH compliance; strengthen living style proposals (one-story houses, etc.)                                  | Maintain                                 |
| C: Under 20 mil. yen                       | about 500 units<br><i>Substantial room for development</i>   | about 120,000 units          | <b>Launch new products to capture a share of volume zone markets</b><br>▶ Introduce new products made from wood (FY2017) | +800 units                               |
| Strengthen Smart Houses                    | • Promote 3-item sets as the standard (large capacity PV + storage batteries + HEMS): FY2016 22% → FY2019 60%*<br>• Bolster options for energy self-sufficient models  |                              |  | * Share within detached house orders     |
| Strengthen land and built-for-sale housing | • Expand the introduction of Company-owned land by 1.5 times (FY2019 compared with FY2016)<br>• Housing with Company-owned land order composition ratio FY2013 13% → FY2016 16% → FY2019 21%*  |                              |  | * Share within of all orders             |
| Ares marketing and area management         | • Increase the number of sales personnel FY2016 1,000 → FY2019 1,200 (mainly in Tokyo, Nagoya, Osaka branch); optimally apply the sales force (sales personnel, model home galleries, etc.) mainly in the three major metropolitan area. |                              |  |  |

Note: The number of dwelling units refers to detached houses only (does not included housing complexes)

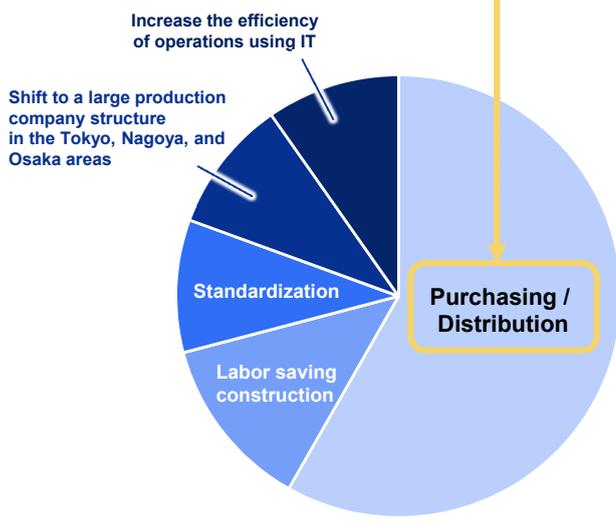
# Housing Business: Cost Innovation Across the Entire Supply Chain

- Pursue unit construction method productivity; strengthen earnings power (amount of cost improvement: three-year cumulative total of 10 bil. yen)

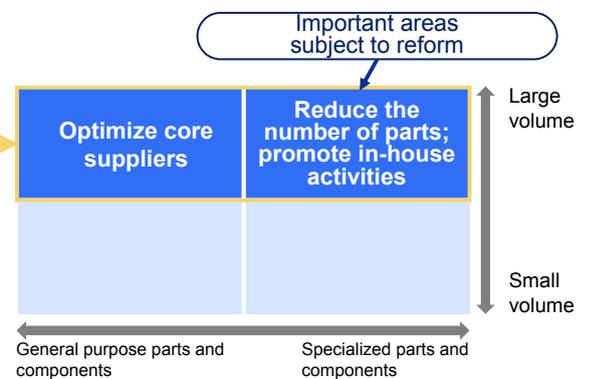
- Starting from the unification of the operations of production companies in the three major metropolitan areas, promote cost innovation across the entire supply chain

- Work to put in place best practices for purchasing and distribution → roll out to production companies in areas other than the three major metropolitan cities

### Breakdown of Cost Reform

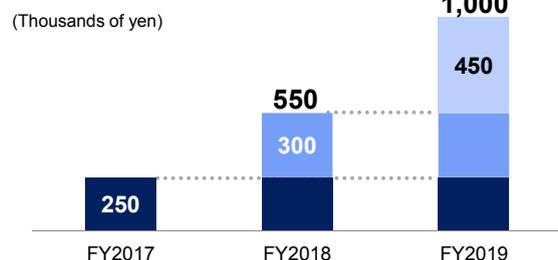


### Main Details of Purchasing Reform



### Cost Improvement Target per House

- Targeting a reduction of 1 mil. yen per house in FY2019



# Renovation Business

- Transition to a proposal-type business model by promoting a transformed approach to sales and strengthening strategic products; work to increase repeat orders

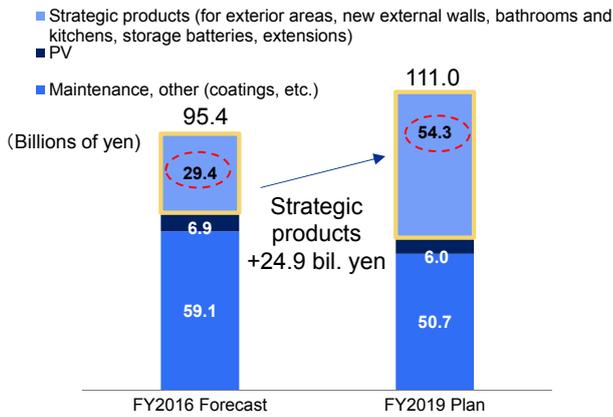
|        |                     |  |
|--------|---------------------|--|
| FY2016 | Renovation business | Net Sales: +12.0 bil. Yen<br>Operating Income: +2.4 bil. yen |
| FY2019 |                     |  |

## Transition to a Proposal-type Business Model

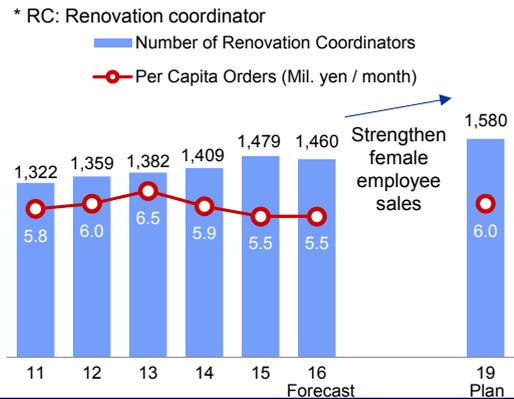
- Sales Transform**
  - Shift from a building age-based response approach to a proposal approach by life-stage
  - Divide basic (after-sales service, periodic check-up) and sales activities
- Strategic Products**
  - Focus on total external wall proposals (new external walls, exterior areas) bathrooms and kitchens, and large-scale renovation
  - Proposals aimed at promoting self-sufficiency utilizing lithium-ion batteries manufactured by the Company (end of the FIT system in 2019)

**Increase repeat orders**

### Orders by Product



### Number of Renovation Coordinators and Per Capita Orders



# Frontier (Real Estate, Residential Services, Overseas)

- Accelerate Frontier growth through aggressive investments and alliances

|        |                     |  |
|--------|---------------------|--|
| FY2016 | Frontier (Domestic) | Net Sales: +19.8 bil. yen<br>Operating Income: +3.9 bil. yen |
| FY2019 |                     |  |
|        | Frontier (Overseas) | Net Sales: +8.0 bil. yen<br>Operating Income: +0.8 bil. yen  |

## Real Estate

### Increase the number of dwelling units under management and roll out high profit models nationwide

- Integrate real estate companies in the three major metropolitan area → horizontally roll out the Company's know-how in the Tokyo area
- Increase the number of dwelling units under management
- Maintain occupancy rates at their current high level (nationwide leasing rate average: 90.9%\*)

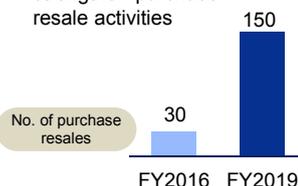
\* Japan Property Management Association



## Residential Services

### Create new markets for second-hand house circulation

- Reinforce resources and strengthen purchase resale activities



### Expand elderly housing with support service contracts

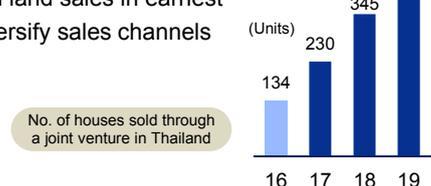
- Enhance the quality of services for the elderly; expand areas



## Overseas

### Cement unit housing business activities in Thailand; quickly realize contributions to earnings

- Engage in built-for-sale house with land sales in earnest
- Diversify sales channels



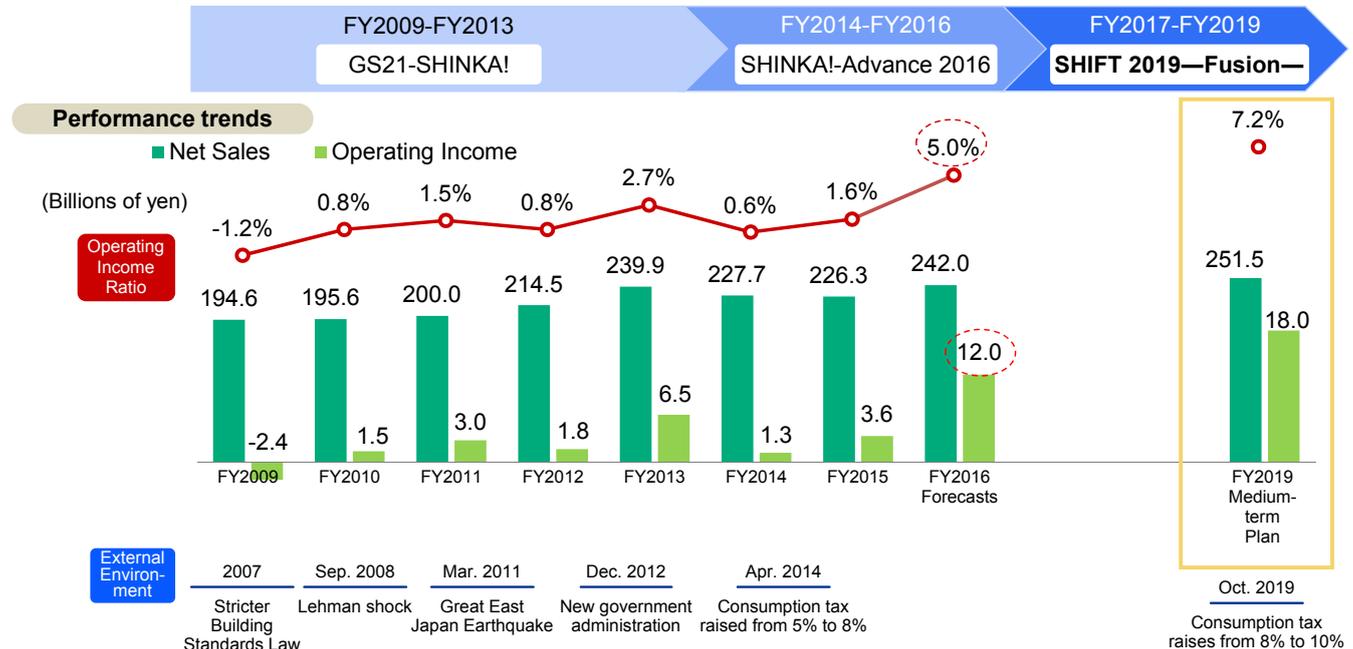
# Urban Infrastructure and Environmental Products Company

Company President  
Hajime Kubo

\*FY2016 forecast figures contained in this document are those disclosed at the time of the Company's FY2016 3Q consolidated financial results announcement.

## Performance Trends and FY2019 Targets

- Achieved record high profits from the effects of portfolio reform under the previous medium-term management plan  
Profit margins also recovered to record high levels
- Shift to a growth track under the new Medium-term Management Plan  
Identify a new strategic portfolio; expand sales of growth and high-value-added products on a priority basis

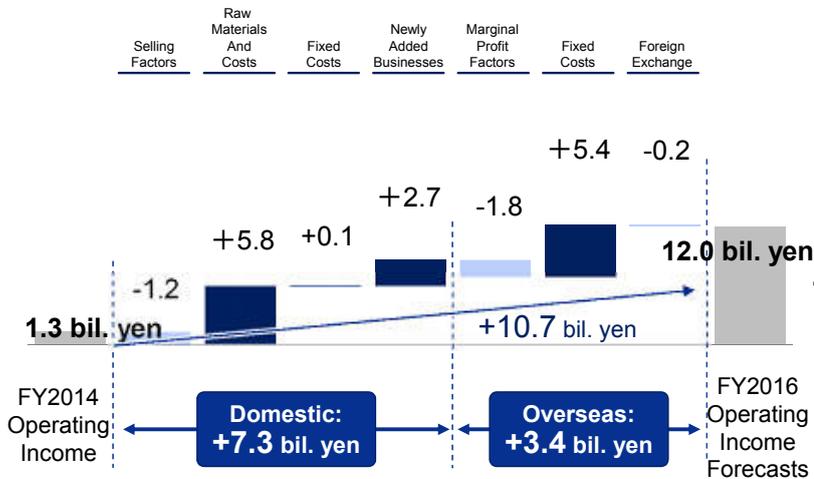


## Analysis of Operating Income

- Successful steps to secure improved spreads and reductions in costs in Japan as well as progress in overseas structural reforms under the previous medium-term management plan
- Aggressive investments in new domains (fields and areas) in Japan and overseas, together with a shift toward growth under the new Medium-term Management Plan

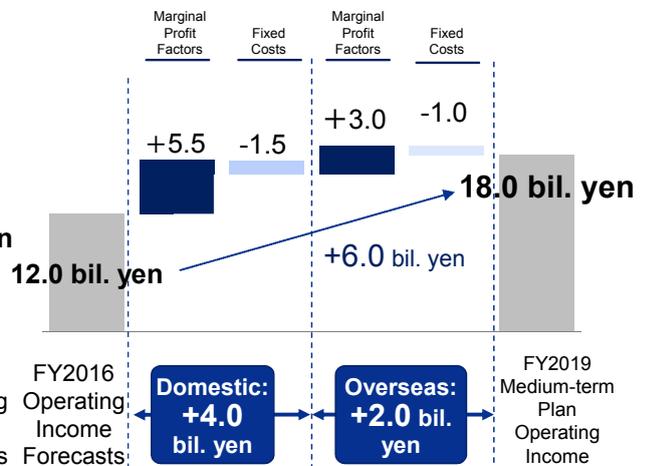
### FY2016 Forecasts compared with FY2014 Results

#### Analysis of Operating Income



### FY2019 Medium-term Plan compared with FY2016 Forecasts

#### Analysis of Operating Income (Image)

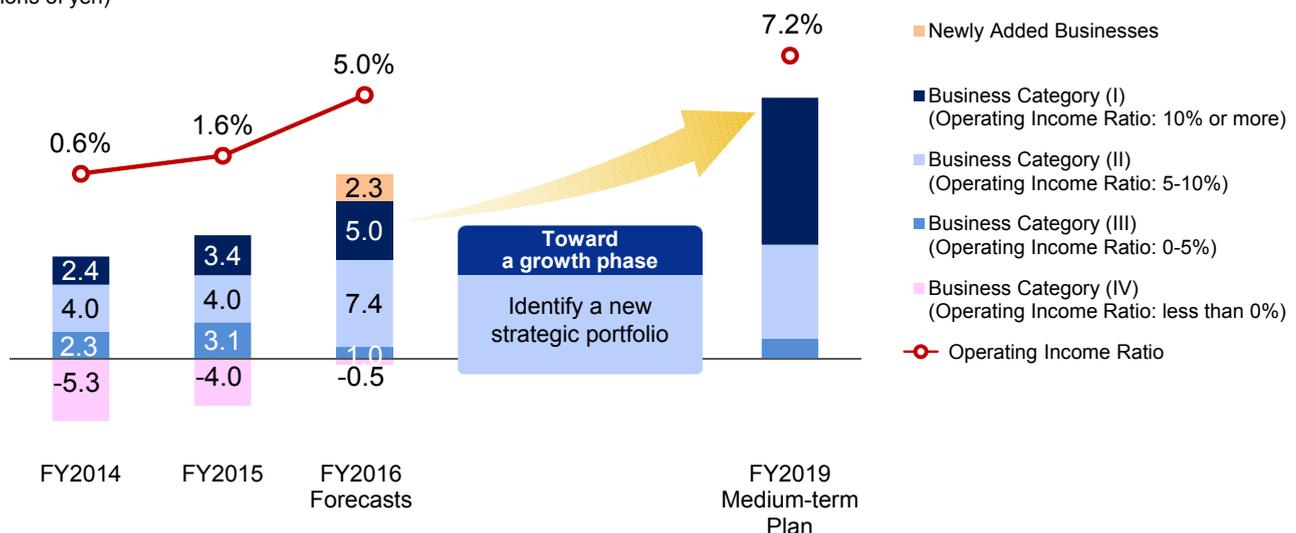


## Business Portfolio by Profits

- Carried out structural reforms and made progress in improving profitability under the previous medium-term management plan; all but eliminated businesses that incurred losses (completion of the structural reform phase)
- Establish a structure in which high profitability businesses account for the majority of operating income under the new Medium-term Management Plan

### Trends in Operating Income

(Billions of yen)



\* FY2015 results are revised to reflect the reorganization.

# “Get on the track for Growth” Expanding business Field with Competitive Technology and Products

- 1 Expand Sales of “Growth Products” (High Prioritized or New Products) by Concentrating Resources on R&D

Key word

... Metal Substitute, New Material, New Application

- 2 Expand Sales in Overseas Market by High-value-added Products – Promote New Strategy by Area -
- 3 Improve Profitability and Efficiency of Core Business - Production, Logistics, Sales -
- 4 Structural Reform of Low-profit Business
- 5 Improve Fundamental of CSR Management - Safety, Compliance, Human Resources -

~ Make Change, by Product Force ! ~

## New Strategic Portfolio

- Identify a new strategic portfolio; engage in management by field and strategic position

| Market<br>Category     | Piping and Infrastructure                                  | Building and Living Environment   | Advanced Materials  |   |                                 | FY2016 to FY2019 |               |
|------------------------|--|---|---|---|---------------------------------|------------------|---------------|
|                        |  |   | Aviation and Railroad   | New Field/<br>New Material                              |                                 | Sales            | OPI           |
| Overseas               | Asia<br>Industrial Piping                                  | Australia-Europe-US (SPR)<br>Asia (Catch Basin/Fittings)<br>MIGUSA (Resin Tatami) | Australia Europe<br>Interior decorative sheets<br>Soundproof Material | High Grade Plastic Sheet                                | Aggressive Investment<br>Fusion | +8.0 bil. yen    | +2.0 bil. yen |
| Growth                 | Piping for Building (Metal substitute)<br>Pipeline Renewal | Rain Gutter for Building<br>High grade Rain Gutter Equipment<br>Care              | FFU (SEW etc.)  | CFRTP<br>Blow mold Container Plastic Plate              |                                 | +9.0 bil. yen    | +2.5 bil. yen |
| Core                   | Piping<br>Piping for Building<br>PE pipe for Civil Eng.    | Rain Gutter for Housing<br>Exterior   | FFU Rail Sleeper<br>FFU (Water treatment)                             | Food Tray   | Improve Efficiency              | ±0 yen           | +1.0 bil. yen |
| Reform                 | Engineering<br>Panel Tank                                  | Unit Bath   |   | Agriculture   | Structural Reform               | -2.0 bil. yen    | +0.5 bil. yen |
| FY2016 to FY2019 Sales | 117.0 bil. yen<br>⇒122.0 bil. yen<br><b>+5.0 bil. yen</b>  | 60.0 bil. yen<br>⇒61.0 bil. yen<br><b>+1.0 bil. yen</b>                           | 24.0 bil. yen<br>⇒29.0 bil. yen<br><b>+5.0 bil. yen</b>               | 31.0 bil. yen<br>⇒35.0 bil. yen<br><b>+4.0 bil. yen</b> |                                 |                  |               |

# Growth Strategy

- Expand sales of growth products by concentrating resources into R&D

Develop metal substitutes, new materials, new applications

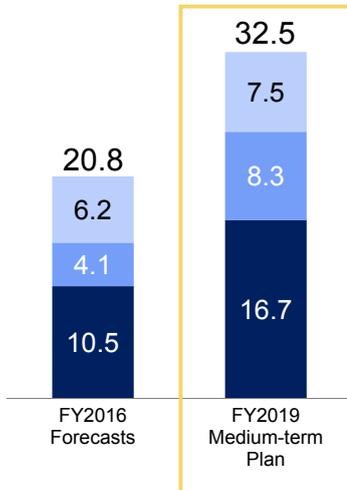
|        |                   |               |
|--------|-------------------|---------------|
| FY2016 | Net Sales:        | +9.0 bil. yen |
| FY2019 | Operating Income: | +2.5 bil. yen |

## New Product Sales

\* Including Core domain new products

(Billions of yen)

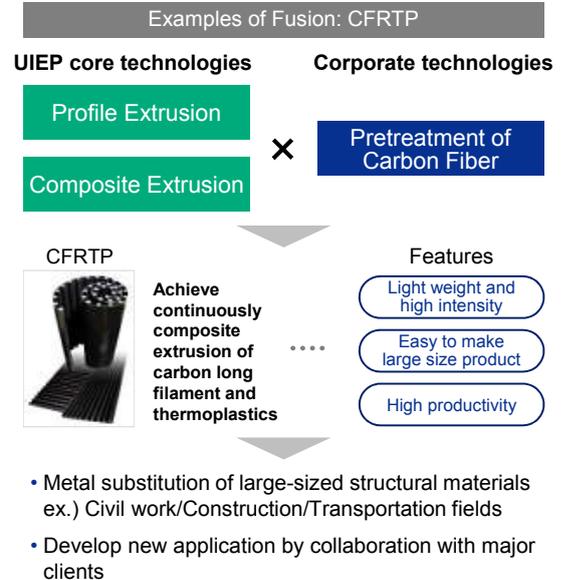
- Advanced Materials
- Building and Living Environment
- Piping and Infrastructure



### Specific Measures

- R&D**
  - Consolidate the structure of product development (within the Shiga Ritto Plant)
- Production**
  - Undertake large-scale investment in the Shiga Ritto Plant (increase FFU production / R&D base)
- Sales**
  - Set up new businesses that focus on BtoB for large enterprises → Establish a dedicated section
  - Assign to the engineering team of the sale section

### Develop New Materials and Cultivate New Application through Fusion



# Examples of High-Value-Added and New Products

- Cultivate new fields and domains through conventional material (metals, wood, glass) substitutes using plastic products

| Field           | Piping and Infrastructure  | Building and Living Environment  | Advanced Materials  |
|-----------------|--|--|---|
| <b>Product</b>  | Polyvinyl chloride pipes, construction piping materials, industrial piping materials, pipeline renewal, etc.   | Designer rain gutters, interior decorative sheets, nursing care equipment, etc.  | Sheets, FFU, blow-molded containers, CF RTP etc.  |
| <b>Roll out</b> | <ul style="list-style-type: none"> <li>Metal substitute: Lightweight, easy installation, corrosion-resistant</li> <li>Area: Japan; Expand application domains Overseas; Focus on Southeast Asia</li> </ul> | <ul style="list-style-type: none"> <li>Metal substitutes: Helping to reduce the weight and enhancing the easy installation of non-residential rain gutters</li> <li>Wood substitutes: Enhancing design through interior decorative sheets</li> </ul> | <ul style="list-style-type: none"> <li>Sheets: Increase production targeting the aviation field 3 expansion fields (railroad, medicine, construction)</li> <li>Glass substitutes (low elution sterilization container for medical use)</li> </ul> |

## Examples of products

Resin piping for hot and cold water



Rehabilitation method (New pipe making technology)



Interior decorative sheets



SEW



Railway Sleepers



Aviation sheets



Industrial piping



Fire-resistant drainage system



Designer rain gutters



Functional flooring



Plastic sheet for medical equipment



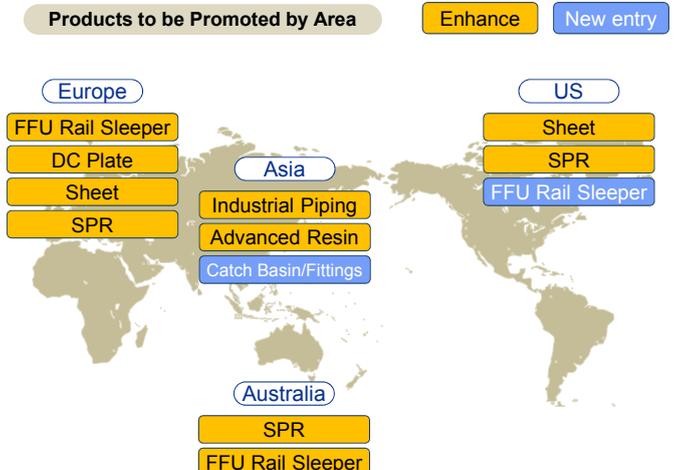
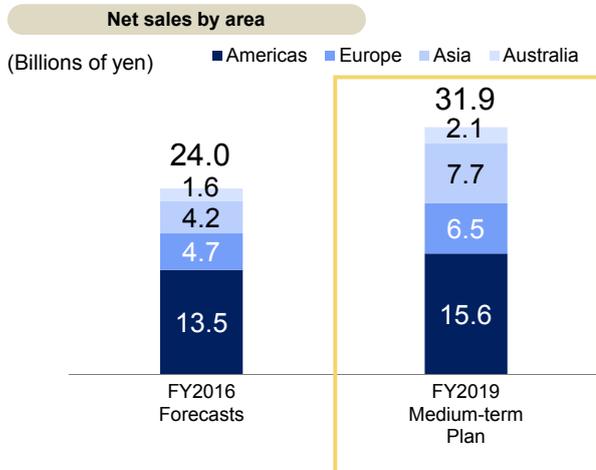
Low elution sterilization container for medical use



## Overseas Strategy

- Roll out alliance strategies by product and area
- Focus on expansion especially in Asia

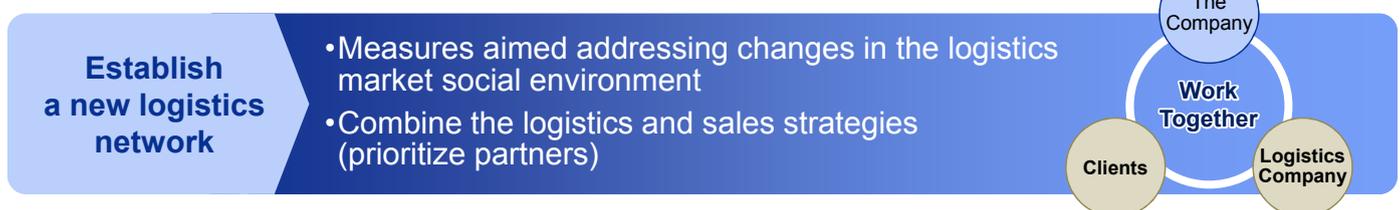
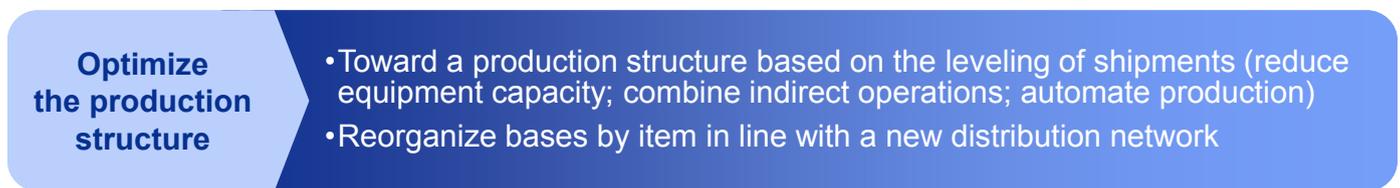
|        |                   |               |
|--------|-------------------|---------------|
| FY2016 | Net Sales:        | +8.0 bil. yen |
| FY2019 | Operating Income: | +2.0 bil. yen |



## Platform Efficiency

- Raise the level of earnings power by pursuing increased efficiency

|        |                   |               |
|--------|-------------------|---------------|
| FY2016 | Net Sales:        | ±0 yen        |
| FY2019 | Operating Income: | +1.0 bil. yen |



This slide presentation may contain forward-looking statements. Such forward-looking statements are based on current expectations and beliefs and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements due to changes in global economic, business, competitive market and regulatory factors.

