



## Message from the President & CEO

### Steadfastly strengthening the Group's earning power even when faced with the pandemic through products and technologies that help solve social issues

SEKISUI CHEMICAL Group celebrated its 75th anniversary in 2022. On behalf of the Group, I would like to express my sincere gratitude for the support we have received from all stakeholders including shareholders.

With the aim of achieving both the realization of a sustainable society and the sustainable growth of the Group itself, we are proactively pursuing solutions to social issues while taking a more strategic approach and continuously promoting innovation. Solving social issues through products and technological innovation is also in the Group's DNA, which has been passed down from generation to generation since its foundation. Typical products that embody this DNA include automotive interlayer films that contribute to automobile safety, driving comfort, and weight reduction, and SEKISUI HEIM, homes that are distinguished by their high earthquake resistance and prominence in energy creation, conservation, and storage. Other products include piping and infrastructure materials that deliver essential resources including water and gas to every corner of the world even amid increasingly intense disasters, and diagnostic reagents that contribute to human health and longevity.

Through these products and services, we have successfully expanded our business to date. This track record continues to the current day and into the future.

Since assuming the position of president and CEO in March 2020, we have continued to confront the impact of the COVID-19 pandemic. To this day, the world as a whole continues to suffer, buffeted by the repeated spread of virus variants. Under these circumstances, we have worked diligently to minimize the impact on our business while protecting our employees, business partners, and customers. Even as signs of a recovery in economic activity began to emerge, we were confronted by a series of new challenges including shortages in the supply of semiconductors and a sharp rise in raw material prices.

Against the backdrop of a constantly changing environment and increasing uncertainty surrounding the future, we have pushed forward with a sound sense of crisis. Under these circumstances, we remain committed to improving profitability, restructuring underperforming businesses and creating markets through the development of high-value-added products. Despite the impact of the pandemic, which is now in its third year, I am convinced that the Group's earning power has been strengthened as a result of efforts to implement all appropriate measures in advance.

In addition, development themes and efforts to commercialize businesses are progressing as we prepare for future growth. I have always believed that addressing ESG concerns is SEKISUI CHEMICAL Group's business itself. With this in mind, Products to Enhance Sustainability continue to grow substantially as we engage in ESG management. We are also making steady progress with efforts to implement human resources and DX initiatives, which we have identified as key issues.

While the future business environment remains shrouded in uncertainty, we will first work to achieve targets in this final fiscal year of the Medium-term Management Plan, Drive 2022. Each and every member of the Group will also work in unison to continuously take on new challenges while securing sustainable growth into the future.

August 2022

President & CEO *Keita Kato*

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### Fiscal 2021: In the second year of the Medium-term Management Plan, sales and profit in the three divisional companies and the Medical Business recovered to the same levels recorded prior to COVID-19.

Looking back at fiscal 2021, the second year of our Medium-term Management Plan, in addition to the prolonged impact of COVID-19 on the business environment, conditions were exacerbated by a variety of factors including signs of production delays attributable to difficulties in the supply chain as a result of a shortage in the supply of semiconductors and sluggish logistics. Despite these difficulties, there were indications of a recovery in market conditions in the automobile-, electronics-, and construction-related sectors in Japan and overseas. Moreover, new housing starts in Japan increased for the first time in three years.

Against this backdrop, net sales grew 9.6% year on year to ¥1,157.9 billion, the second highest recorded after fiscal 1996. Although prices for raw materials and components rose significantly more than expected, from a profit perspective, operating profit climbed 32.1% to ¥88.9 billion and ordinary profit surged 54.6% to a record high of ¥97.0 billion owing to higher sales volumes, improving selling prices, and successful efforts to reduce costs.

In contrast, profit attributable to owners of parent decreased 10.8% year on year to ¥37.1 billion. This largely reflected the recording of impairment losses following the acquisition of SEKISUI AEROSPACE CORPORATION in 2019. SEKISUI AEROSPACE CORPORATION, a company based in the United States that handles such composite molded products as carbon fiber reinforced plastics (CFRP) for use in the manufacture of aircraft, was impacted by the substantial decline in aircraft demand as a result of the COVID-19 pandemic. Despite this harsh operating environment, the company is promoting the structural reform of its production systems to meet prevailing demand, and is diversifying its sources of revenue by developing applications outside the aircraft field including medical devices. Based on these endeavors and the anticipated recovery in aircraft demand, we remain convinced that this is a promising business domain.

Looking at each segment, net sales increased in the High Performance Plastics (HPP) Company on the back of a partial recovery in automobile and electronics market conditions. Despite the effects from prices for raw materials rising more than anticipated, the HPP Company was able to return to a growth trajectory by expanding sales volume, mainly of high-performance products, improving selling prices, and reducing costs. Notwithstanding the impact of a surge in component prices, the Housing Company reported record high net sales and an increase in earnings. In addition to efforts aimed at increasing the number of new houses sold and reducing costs, these results were attributable to the recovery in new construction and renovation orders as well as contributions from the Town and Community Development and Real Estate Business.

In the Urban Infrastructure & Environmental Products (UIEP) Company, there were indications that activities suffered under the prolonged impact of COVID-19 and the sharp rise in raw material prices. Buoyed by increases in sales volumes and improvements in selling prices due to firm domestic housing market conditions as well as robust capital investment demand in such areas as semiconductors in Japan and overseas, together with a recovery in overseas sales, the UIEP Company secured increases in sales and profit. In the Medical Business profits hit a record high. This was due to the recovery in

demand from outpatients suffering from lifestyle-related diseases in Japan and overseas, higher sales of COVID-19 test kits in the United States, and firm sales of new active pharmaceutical ingredients in the Pharmaceutical Sciences Business.

Accounting for each of these factors, SEKISUI CHEMICAL Group has decided to increase the cash dividend to shareholders by ¥2 per share for an annual cash dividend of ¥49 per share. This represents the 12th consecutive year of a cash dividend increase.

### Fiscal 2022: Targeting a new record high in profit by responding flexibly to change and strengthening our earning power

In fiscal 2022, the final year of our Medium-term Management Plan, we will accelerate the pace of measures aimed at generating growth. While the actions taken in Ukraine by Russia are expected to have little or no direct impact on the business environment, there are concerns surrounding the effects of subsequent shortages in the supply of resources, an extended period of increase in raw material and fuel prices, and other factors including the slump in automobile market conditions in Europe. Although these uncertainties are expected to linger, global demand for such items as automobiles and smartphones, as well as domestic demand including housing starts, is projected to exhibit a modest recovery in conjunction with the decrease in the impact of COVID-19.

In the HPP Company, we will promote further growth centered on the three strategic Electronics, Mobility, and Building and Infrastructure fields. In the Housing Company, we will work to expand net sales through efforts aimed at utilizing web-based marketing and enhancing smart and resilient functions. Turning to the UIEP Company, we will take steps to secure growth by expanding both sales of prioritized products that contribute to achieving the SDGs and the Group's overseas business. Looking at the Medical Business, we will focus on ensuring continuous growth through a variety of measures including efforts to increase sales of new blood coagulation analyzer devices and high-value-added products. Through these means, we will endeavor to expand high-value-added businesses and increase sales of high-value-added products that contribute to solving social issues in a bid to achieve record highs in operating profit, ordinary profit, and profit attributable to owners of parent.

SEKISUI CHEMICAL Group is confident that its ability to flexibly address change coupled with its earning power, cultivated against the backdrop of a harsh business environment, will serve as a major driving force that helps propel further growth as it concludes the final year of its Medium-term Management Plan.

### Working to achieve net sales of ¥2 trillion, a key component of our Long-term Vision, Vision 2030, we have formulated a strategic area map including the allocation of priority capital.

SEKISUI CHEMICAL Group formulated its Long-term Vision, Vision 2030, in 2020. Recognizing the critical need to bring about and realize change as a Group even amid uncertainties and an unpredictable future, putting in place a long-term vision helps set the direction for change thereby

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addressing the expectations of all stakeholders. Most recently, the business environment has continued to confront difficult conditions due to the further spread of COVID-19 resulting in a series of lockdowns, activities taken by Russia in Ukraine, and soaring raw material and fuel prices. Against the backdrop of this growing uncertainty, we are once again reminded that our thinking when formulating our Long-term Vision in 2020 was not mistaken.

Under the slogan "Innovation for the Earth," SEKISUI CHEMICAL Group has declared its commitment to support the basis of LIFE and create peace of mind for the future to realize a sustainable society in its Long-term Vision. This declaration embodies our strong will to continuously promote innovation and expand our contribution to solving social issues through business growth, reform, and creation centered on ESG management. Supporting the fundamental LIFE of individuals and society, encompassing the life science, residential, and infrastructure fields, our slogan and Long-term Vision highlight our determination to deliver the value of peace of mind for the future for current and future generations through products and services backed by technology.

With the goal of doubling our contributions to solving social issues, we expect as a result to achieve net sales of ¥2 trillion. With this in mind, we recognize the need to expand net sales in each domain to 1.5–3 times current levels. To this end, we will continue to refine and reform our diverse growth engines. As far as business areas are concerned, we will ramp up the pace of expansion with overseas sales as a growth driver with the goal of increasing overseas sales to ¥1 trillion by 2030 and the ratio of overseas sales to total sales to around 50%.

In fiscal 2021, we formulated a strategic map to pinpoint those areas on which to focus as part of

efforts to secure further growth. In addition to clarifying the social issues of importance in each domain, we took steps to undertake the key allocation of capital to expand enhancement areas. Moreover, we will strengthen the combination and integration of future innovation areas. Over and above these endeavors, we will pursue net sales and operating profit growth by contributing to the solution of social issues in each domain. At the same time, we will channel our contributions with a more sustainable society in mind based on operations that focus on the Group's management ability to sustain business.

### Adopting ROIC and promoting active investment in growth domains through the efficient use of capital

Under its Long-term Vision, SEKISUI CHEMICAL Group is looking to double its business volume by 2030. At the same time, the Group is targeting an operating profit margin of at least 10%. To achieve sustainable growth commensurate with this profit, we will not only work to secure organic growth but also actively invest management resources in expanding our business by creating and nurturing new products and businesses, and implementing M&As. Looking specifically at M&As, we will focus our considerations primarily on the Innovative Mobility and Life Science fields in line with the recently formulated strategic area map while keeping an eye on overseas business growth.

Under the current Medium-term Management Plan, Drive 2022, we have established a budget of ¥300 billion, which enables us to aggressively consider and implement M&As if viable proposals emerge. We will also flexibly invest in growth while considering the use of debt if required. Meanwhile, when it comes to the allocation of capital, we recognize our responsibility to strictly manage and disclose the degree of return generated. In this context, we have adopted the return on invested capital (ROIC) as a new key performance indicator under our current Medium-term Management Plan.

To increase ROIC, we must improve the profit margin while at the same time boosting the turnover rate. We will place considerable importance on improving the accuracy of returns as we vigorously implement M&As and strategic capital investments. We will also take into consideration the replacement of our ROIC-based business portfolio. We recognize that the scale and quality of invested capital required differs depending on the business. For example, the Town and Community Development Business being undertaken by the Housing Company has a tendency to experience a lower ROIC over the short term due to high initial investment levels. Our policy then is to thoroughly manage the turnover rate for purchased land while increasing the number of projects and expanding the marginal profit.

In regard to other businesses, the Group will first seek to expand marginal profit and control fixed costs as a means of expanding profits, which serve as the numerator for ROIC. We will also raise the profit margin and more efficiently utilize capital through capital investments, M&As, and inventory adjustments.

The ROIC Spread, which represents the difference between ROIC and the cost of capital, is defined as the SEKISUI Sustainable Spread. As an indicator of corporate value, the SEKISUI Sustainable Spread also incorporates SEKISUI CHEMICAL Group's unique non-financial costs into the cost of capital. In this respect, we consider the cost of capital in a broader sense. In addition to appropriate financial strategies and capital policies, we have categorized major incidents under each of the five

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domains—safety, quality, accounting, legal/ethics, and information management—which together help control the occurrence of events with the potential for devastating effects on corporate value. At the same time, we believe that investing for the future in the environment, human resources, digital transformation, and other ESG categories that are crucial to the Company will help control the cost of capital in a broader sense of the term.

### Generating innovation and creating new businesses that will lead to long-term growth through the Group's Process Creation and Adaptability capabilities

In working to secure sustainable growth, our strengths are derived from base technologies relating to Residential and Social Infrastructure Creation and Chemical Solutions. We refer to these base technologies as our 28 technology platforms. As a company that holds little or no raw materials, one of our unique strengths is the ability to provide solutions based on our Process Creation capabilities. This encompasses listening carefully to customer feedback, selecting and combining the right materials in response to requests, and imparting added value by leveraging any number of these 28 technologies that are felt to be the best for the job. Our ability to generate a sustainable stream of innovation is based on the trust we have built with our customers over the years and our strengths in responding to new requests.

Another of our strengths is our capacity for Adaptability. This entails the ability of management to foresee changes in the social and business environment, adapt to these changes, advance structural transformations of our business, and reform the business portfolio within each domain. We believe that the act of specializing in areas where these strengths allow us to triumph, as well as our stance of boldly undertaking challenges, has supported the growth of the Company thus far. Currently, we are working to maximize our inherent strengths. In addition to generating synergies between divisional companies, we are creating new businesses by accelerating the pace of open innovation through external alliances.

Steady progress is also being made in the commercialization of biorefinery technology in preparation for long-term growth. Construction of a demonstration plant, approximately 1/10th the size of a commercial plant, was successfully completed in April 2022. In parallel with testing at the demonstration plant, discussions are under way with local municipalities and private companies regarding the supply of waste material as well as ethanol users. In addition to advancing this project with the aim of bringing online the first commercial plant in 2025, we will look further ahead and pursue the realization of an ultimate resource-recycling society. Another example of preparation for long-term growth is the perovskite solar cell currently under development. In recognition of our past achievements in terms of durability and power generation efficiency, we have been selected for the Green Innovation Fund Project of the New Energy and Industrial Technology Development Organization (NEDO).

SEKISUI CHEMICAL Group is committed to commercializing renewable energy sources by 2025 by continuing to conduct demonstrations to make renewable energy a main source of power, which is indispensable for the realization of decarbonization.

### ESG Management (E): Raising its environmental target to 1.5°C to achieve its established goals in advance

Addressing ESG concerns is SEKISUI CHEMICAL Group's business itself. Climate change is also an important issue under our Long-term Vision. With this in mind, we are working to accelerate activities aimed at solving environmental issues through our business. With the aim of achieving zero greenhouse gas emissions and an earth with maintained biodiversity by 2050, we formulated the Environmental Medium-term Plan while identifying targets by backcasting from this ideal vision and are promoting initiatives in a bid to realize a sustainable society not only within the Group but also throughout the entire supply chain.

SEKISUI CHEMICAL Group is steering toward raising its targets for 2030, which provide the road map to 2050, with a view to their realization in advance. We reanalyzed the risks and opportunities based on the four scenario assumptions necessary to promote information disclosure in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). As a result, the Company's Board of Directors passed a resolution in July of this year to raise the environmental target assumption for 2030 from the previous 2°C (the target increase in global average temperature above pre-industrial levels) to 1.5°C. Moreover, we will pursue research and development by planning and proposing long-term strategies that help reduce risks and capture opportunities based on scenario analyses.

We believe that expanding our lineup of Products to Enhance Sustainability that contribute to solving a variety of social issues, including those related to the natural environmental as well as the SDGs, is an important part of the Group's efforts to address these issues including climate change and accelerating profit growth. Among Products to Enhance Sustainability, we have established and will continue to promote steady growth of a Premium Framework for products that are particularly profitable and strategically promoted for expansion.

### ESG Management (S): Working to further instill the Vision and build a workplace where each employee can shine through engagement with employees

Recognizing that employees are precious assets bestowed on us by society, we have implemented the shift to an HR system from fiscal 2022 to help further draw out the strengths of each and every one of our employees. Through backcasting and clarifying the various missions and roles that are necessary to achieve each individual's ideal form, we are supporting and assigning employees who will take on challenges and improve themselves regardless of their age or year of employment. We have also put in place a program to support the early acquisition of the knowledge, skills, and know-how required to sustainably develop the core human resources who will lead the Group and those who will take on challenges.

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I have been in direct dialogue with our employees since 2020, working to instill our Long-term Vision and the message that addressing ESG concerns is SEKISUI CHEMICAL Group's business itself. We will continue to deepen engagement by disclosing feedback comments on employees' opinions as well as internal information on existing case studies. As far as diversity is concerned, we established the Diversity Promotion Committee as an advisory body to the Board of Directors in June 2022. We will work to ensure and promote further diversity in our human resources.

### ESG Management (G): Strengthening corporate governance and returns to shareholders

Transparent, impartial governance is the foundation for advancing sound corporate management. In June 2022, the Company appointed five Independent Outside Directors, including three new appointees, to strengthen the supervisory function of the Board of Directors. As a result, the ratio of Outside Directors on the Board of Directors is 42%. Half of the Company's 12-member Board of Directors serve in a non-executive capacity. In addition, the Company's Chairperson is a non-executive director and chair of the Board of Directors. On top of the aforementioned, we established the Nomination and Remuneration Advisory Committee, which is composed of a majority of Independent Outside Directors. Steps have also been taken to put in place a mechanism to determine executive bonuses by linking the amount of remuneration to the ratio of Products to Enhance Sustainability sales as well as non-financial indicators, in addition to the Group's business performance.

Meanwhile, we have introduced a share-based compensation plan to increase our commitment to improving the Group's medium- and long-term business performance and enhancing shareholder value. In addition, we are working to reduce the number of shares that do not conform to our Cross-Shareholding Policy. Meanwhile, the Board of Directors periodically reviews whether its cross-shareholdings are consistent with its policy from the perspectives of the significance of ownership and the Group's capital policy.

In the current Medium-term Management Plan, we have been working to strengthen shareholder returns after further clarifying our policy. Although today's harsh business environment will continue into fiscal 2022, we intend to increase the annual dividend by ¥4 per share to ¥53 as a clear indication of the priority that we place on shareholders and in a bid to ensure a 13th consecutive period of dividend growth.

At the same time, we will also ensure a dividend payout ratio of 35% or higher on a consolidated basis, a dividend on equity (DOE) ratio of 3% or higher, and a total return ratio of 50% or higher given a D/E ratio of less than 0.5. We will continue to aggressively strengthen the return of profits to our shareholders by achieving sustainable growth.



### Continuing to be a company essential to society

Since our foundation, SEKISUI CHEMICAL Group has continued to grow by contributing to the solution of social issues, working in diverse areas that bring fulfillment and peace of mind to people's lives, ranging from water and the medical field to vehicle safety, residential construction, and social infrastructure. In this era of rapid change and increasing uncertainty, we are convinced that the way forward for the Group is to continue to realize a sustainable society by solving issues. We believe that by expanding our business in this manner, we are better placed to secure sustainable growth as a company.

To remain a company that is essential to society and that continues to provide peace of mind for the future through our products and services, we will do our utmost to promote the dual endeavors of offensive ESG management, which includes human resources who are prominent in their ability to create innovation, the technological skills to solve such social issues as climate change, and a corporate culture that embraces challenge, and defensive ESG management, which encompasses a variety of facets including the reduction of serious incidents and formulating BCPs.

We will continue to create opportunities to proactively engage with our stakeholders to ensure the sustainable growth of the Group and to enhance our corporate value over the medium to long term. As we work toward achieving our goals, we welcome your expectations and ask for the continued support and understanding of all our shareholders and stakeholders.