

# Mitsubishi Chemical Group Corporate strategy meeting Transcript (Summary)

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Meeting Materials <https://www.mcgc.com/english/ir/pdf/02120/02415.pdf>

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Information about pharmaceuticals including products under development is not intended for advertising or medical advice.

The term "the Mitsubishi Chemical Group" refers to Mitsubishi Chemical Group Corporation and its group companies.

## **Mitsubishi Chemical Group Corporate strategy meeting**

### **Attendees:**

Manabu Chikumoto, Representative Corporate Executive Officer, President & Chief Executive Officer

Minoru Kida, Vice President, Chief Financial Officer

Naoto Yabe, Vice President, Chief Strategy Officer

Yasuo Shimodaira, Representative Corporate Executive Officer, Executive Vice President (Head of Basic Materials & Polymers)

Satoshi Kurokawa, Executive Vice President (Head of MMA & Derivatives)

Akihiro Tsujimura, Executive Vice President (Head of Pharma)

Yosuke Egawa, Vice President (Senior Director, Advanced Films & Polymers Domain, Specialty Materials)

Satoshi Wakabayashi, Vice President (Senior Director, Advanced Solutions Domain, Specialty Materials)

Franck Ruel, Vice President (Senior Director, Advanced Composites & Shapes Domain, Specialty Materials)

Ken Araki, Vice President (Supervising – Portfolio Transformation Promotion)

### **Presentation by President & CEO Chikumoto**

#### **P7 [Purpose]**

Our Purpose is to lead with innovative solutions to achieve KAITEKI, the well-being of people and the planet.

Toward the realization of our Purpose, we have now formulated "KAITEKI Vision 35," a management vision that depicts where we want to be in 2035, and "New Medium-Term Management Plan 2029," which covers five years from fiscal 2025 to fiscal 2029.

#### **P8 [Purpose]**

The world is becoming more complex, the pace of change is relentless, and our customers are expecting and demanding more. Our way forward is clear. As a "Green Specialty Company," we are committed to solving social problems and to delivering impressive results to customers with the power of materials.

#### **P9 [Context for developing KAITEKI Vision 35]**

After formulating KAITEKI Vision 30 (KV30), the world changed more quickly and

dynamically than we had anticipated. It is difficult for us to say that we have been able to fully implement focus on core that we explained at the time. Furthermore, management and employees have become estranged from each other due to the disruption of management that has taken place in the past few years. We thought that by setting a new vision and remaking and presenting our five-year plan, management and employees would be able to work together under a common vision to advance our business.

P10 [Societal challenges gaining a greater sense of urgency in the five years since KAITEKI Vision 30]

The five societal challenges gaining a greater sense of urgency in the five years since KAITEKI Vision 30 was formulated are: effective energy use and decarbonization, sustainable resource management, digital technology advancement, food and water resource optimization, and extension of healthy life expectancy.

P11 [Targeted business areas for KAITEKI Vision 35]

We considered what value we could provide as a business in response to these societal challenges and selected five targeted business areas for KAITEKI Vision 35. They are: Stable supply platform for green chemicals, Eco-conscious mobility, Enabling advanced data processing and telecommunications, Food quality preservation, and Technologies and equipment for new therapeutics.

P12 [Our Vision across the five business focus areas]

This diagram shows the value we provide in each business area. First, as a foundation, we will lead green transformation of the chemical industry globally. We want to realize a stable supply platform for green chemicals.

You may be wondering, "How do we generate profits from green chemicals?" Interest in carbon neutrality and the circular economy is growing, and consumers are gradually starting to pay recycling costs, such as those for PET bottles.

It is important to leverage materials to accelerate the shift to sustainable mobility, support the advancement of the semiconductor ecosystem, extend the shelf-life of food products to support distributing and processing, and enable new therapeutics through high-performance medical-grade materials based on the platform for green chemicals. We believe that without this platform for green chemicals, the world will change such that we will not be able to develop business in these areas.

[Five Business Focus Areas]

#### P14 [Stable supply platform for green chemicals]

In the stable supply platform for green chemicals, we would like to provide value by promoting and commercializing carbon and materials cycles and establishing reliability and traceability for environmental-related disclosure data.

We are currently conducting a feasibility study in Abu Dhabi with the aim of producing e-methanol, propylene, and even polypropylene from green hydrogen produced using solar power. At our Ibaraki plant, we are establishing a facility for plastic-to-oil chemical recycling, which is a new method for recycling used plastics. Construction was completed a few days ago, and trial operation is scheduled to begin soon. We are confident that this business will be profitable, and we are working with major customers with the support of the government.

#### P15 [Eco-conscious mobility]

The nature of eco-conscious mobility, as typified by EVs, is changing more and more. We will provide a range of products that meet new needs in response to the requests of each customer and changes in vehicle form. Furthermore, we supply the market with recycled materials and materials that contribute to carbon neutrality in order to comply with environmental regulations.

#### P16 [Enable advanced data processing and telecommunications]

In the semiconductor field, as data volumes increase, attention is being paid to issues such as measures to deal with rising power consumption and water recycling. On the materials side, we provide materials that support high purity and high resolution; and on the services side, we provide wastewater recycling and cleaning services for manufacturing equipment parts, in order to comprehensively run the semiconductor manufacturing industry ecosystem from both the materials and services side.

#### P17 [Food quality preservation]

Due to issues of climate change and population growth, uneven distribution of food and food loss are attracting attention. In response to these issues, in addition to food processing, we will strengthen our response to the entire food quality preservation system, not only by extending shelf-life with packaging materials such as barrier films, but also by designing packaging that considers recycling.

#### P18 [Technology and equipment for new therapeutics]

As healthy life expectancy increases, demand for new therapeutics, including biopharmaceuticals and high-performance materials that support them, is expected to

increase. Furthermore, we are studying recycling technologies that can also contribute to sustainability, which is increasingly being required in the medical world in recent years, in addition to supplying high-performance materials such as artificial bones that are actually used in current medical treatments, not to mention materials that support the production and distribution of biopharmaceuticals.

[Business structure and profit level]

P20 [Business structure and profit level toward 2035]

The profit level for FY2035 will be 900 billion yen. The biggest change is that the proportion of core operating income that the chemicals business accounts for in the total core operating income will increase significantly. Regarding group businesses, we will continue to search for the best partner for pharma. For industrial gases, we will continue to further expand areas of collaboration.

[Organization, processes, and resources]

P22 [Keyword]

Our keyword is "Connect." I will explain why we can achieve significant profit growth.

P23 [Organization, processes, and resources needed to become a Green Specialty Company]

We will boost added value by rapidly connecting and rotating customer needs and solutions. The key is to connect sales/regions, technology/R&D, manufacturing, and external open innovation partners. To this end, we will cultivate market-oriented human resources, technical translation human resources, and manufacturing human resources, and will also hire externally as necessary. We will also change our personnel system so that these human resources can receive accurate evaluations.

P24 [Resources: Manufacturing]

In terms of manufacturing, we already have the Technology, consisting of practical and wide-ranging production equipment technology; the Skills, consisting of on-site capabilities supported by highly skilled human resources; and the Process, consisting of end-to-end integration throughout the manufacturing process. Unfortunately, however, these elements have tended to become more sophisticated independently. By properly connecting them, we will not only commercialize critical materials that society needs through innovative processes with a sense of speed, but also realize further manufacturing sophistication by accumulating the skills of our highly talented personnel as explicit knowledge through constant mutual

learning with AI, without relying on the skills of specific individuals.

P25 [Resources: Technology/R&D]

We have a wide range of fundamental technology platforms, including scale up technology, material design technology, and analysis and simulation technology, and we are proud to be number one in Japan in terms of the number of technologies we can draw on. However, the problem is that these technologies have developed independently and are not connected to each other. This has made it difficult to create innovation and provide business solutions that lead to customer value. However, in recent years, there have been successful examples of solutions created by connecting our technologies beyond organizational boundaries.

P26 [Resources: Technology/R&D]

In the production of the lunar rover "YAOKI," our products were selected because our material design technology, analysis and simulation technology, and scale up technology were connected. This is an example of generating specific results by "connecting" our technologies.

P27 [Resources: Technology/R&D]

In the development of lightweight battery pack cover material, we were able to commercialize it by "connecting" four businesses that normally have little interaction with each other in order to solve customer problems.

P28 [Resources: Technology/R&D]

An example of "connecting" with our external partners is the co-development of green chemicals with Masdar in Abu Dhabi, INPEX, and JGC Global Corporation. We believe that through this initiative, it will be possible to manufacture a series of products in the future, including low-carbon polypropylene.

P29 [Resources: Sales/Region]

Our US organization is currently leading the way with a pilot marketing organization for specific markets and customer segments, which will be rolled out to each region in the future. As the face of Mitsubishi Chemical Group, they aim to create high added value by "connecting" all of our company's product groups to solve customer problems.

P30 [Regional growth strategies toward 2035]

It is important to consider geopolitical changes and adopt strategies appropriate to each

region. For example, the United States is currently experiencing a very high growth rate, but we will make decisions with an eye to the future, such as five or six years from now. In China, we will also grow our business while considering the characteristics of the region, and reinvest the fruit of our efforts in China to aim for further growth.

[Human Resources/Sustainability]

P32 [Human Resources]

Regarding human resources, we want to build a relationship where we select people and people select us. The type of people we are looking for are those who have distinctive skills and strengths, a strong sense of ownership, and who can collaborate with various departments, technologies, and external partners. From next year, we will start a personnel system that evaluates such human resources. We will provide a place where diverse human resources can work freely and connect with each other. By providing an environment where people can take on challenges, we aim to build a relationship where we select people and people select us, and to realize KAITEKI.

P33 [Sustainability]

Regarding sustainability, carbon neutrality by 2050 is a must-achieve goal for us. FY2035 will be an intermediate step toward our 2050 goal, and we will respond appropriately in accordance with the government's targets.

[New Medium-Term Management Plan]

P38 [Outline of the New Medium-Term Management Plan: Performance Review]

I would like to explain our action plan for the next five years to realize our vision 10 years from now. Looking back on our performance over the past three years, sales and profit growth have been stagnant. In particular, the chemicals business has been in a tough situation. We recognize that one of the reasons for this is a lack of discipline within the company, so we have created new discipline.

P39 [Outline of the New Medium-Term Management Plan: Basic Policy]

I will explain the three criteria for business selection. The first is consistency with our vision and Purpose. The second is competitive advantage, meaning whether it is profitable or not. The third is the potential for growth. It is important to foresee whether the market will grow and whether we can expand our market share if we continue our business in the future. We have decided to put businesses that do not meet these three criteria under close monitoring and consider their future direction.

Next, I will explain about the three disciplined approaches in business operation. The first is pricing policy. It is important that we ensure pricing that reflects the value we deliver. It is also important to consider whether there is a constant shift to high-added-value products in the product mix. For commodities, the key is whether formula-based pricing is ensured to minimize the risk of price volatility. For the second investment decision making, we will ensure rigorous screening and due diligence. The most important point is whether profits can be generated. Next, we will determine whether customer commitments are secured in terms of quantity and price. Rather than leaving project reviews and progress management to the business departments, management manages progress in the steering community every month. We will thoroughly enforce strict management, but when necessary, we will boldly take on challenges and make quick investment decisions. For the third point of asset optimization, we have already started rationalization of surplus equipment, but we will also take firm measures and implement optimization of business tasks and personnel in the future. We are already realizing synergy in terms of facilities/resources with other companies. Regarding intangible assets, including intellectual property, we will reevaluate them from the perspective that what we take for granted may actually have value, and utilize this in our business.

P40 [Outline of the New Medium-Term Management Plan: Business performance targets]

We are targeting to increase core operating income ratio to 12% and ROIC to 8% by growing expected core operating income of 290 billion yen in fiscal 2024 to 570 billion yen



by fiscal 2029.

P41 [Outline of the New Medium-Term Management Plan: Business portfolio reform]

We will achieve this goal by re-establishing the chemicals business as a growth driver, and by working to grow profits in specialty materials and improve profits in basic materials & polymers.

[Business portfolio management]

P44 [Focus on core: divestiture/closure of non-core businesses in Chemicals]

We already carried out 10 closures and divestitures between FY2021 and FY2023, with a total of 200 billion yen in sales revenue contribution. We aim to rationalize about 30 projects with sales revenue of 400 billion yen during this fiscal year and the period of this Medium-Term Management Plan. On top of our current plan, we will consider additional cases based on a regular business review process.

P45 [Focus on core: Cases of business closure/divestiture]

Many businesses related to our company's original business were the target for closure/divestiture, particularly in the first half of FY2024. We will thoroughly proceed with focus on core, without any sacred cows.

[Business Strategy and Rationalization]

P48 [Business Strategy: Profit Growth Outlook]

Based on the three principles of disciplined business operations, we expect to increase profits by 140 billion yen.

P49 [Business Strategy: Specialty Materials (Barrier Films and Resins)]

The barrier films market is already on a growth trajectory, and we are currently working on a project to increase production of the barrier resin "SoarnoL" in the UK.

P50 [Business Strategy: Specialty Materials (Polyester Films)]

We will continue our product mix shift to high value-added applications such as mobility and semiconductors. We recognize that in the display field, our polyester films account for nearly 90% of the market for OLEDs and the like. In particular, as higher functionality such as bending performance and low reflectivity is required, we believe that our technology will help increase added value for products.

P51 [Business Strategy: Specialty Materials (Semiconductor Materials & Solutions)]

Our semiconductor-related products hold the number one or number two position in many fields. We have also established the top position in Asia, including Japan, and Europe in the semiconductor manufacturing equipment cleaning business. We are also working on the wastewater recycling business and continue to work to expand our market share. We believe that we can support semiconductor manufacturing on both the materials and services sides.

P52 [Business Strategy: Specialty Materials (Food)]

We would like to promote branding by strengthening our product lineup and localization. We will strengthen our product lineup through strategic investments and increase our proposal capabilities. We will develop business that allows us to propose product combinations according to customer requests.

P53 [Business Strategy: Specialty Materials (Carbon Fibers & Composites)]

The problem is that the production capacity in the chain from carbon fiber to composite materials and composite parts is unbalanced. We will optimize our assets and manufacturing capacity and focus our strategic investments mainly on downstream reinforcement. We already have recycling facilities, and when it comes to mobility, we believe we are the only carbon fiber manufacturer that can handle everything from finished vehicles to recycling.

P54 [Business Strategy: Specialty Materials (High-performance Engineering Plastics)]

As a result of acquiring various companies, we currently have 25 manufacturing sites globally, but going forward, we will continue to consolidate and rationalize operations while simultaneously increasing our production capacity for high-value-added products.

P55 [Business Strategy: MMA & Derivatives]

Unfortunately, this five-year plan does not include investment in the United States. However, we remain the only MMA manufacturer in the world with three manufacturing processes, and the MMA manufacturer with the world's lowest CO<sub>2</sub>-emissions manufacturing process. We will operate globally and strengthen our No. 1 market share position.

P56 [Business Strategy: Basic Materials & Polymers]

We are working with Asahi Kasei and Mitsui Chemicals to create a joint platform for supplying basic raw materials. We will introduce green technology and receive product volumes commensurate with our investment. The chemical recycling plant we recently completed is scheduled to start commercial operation in about six months. We would like to

partner with major customers to improve profitability. We believe that chemical manufacturers who cannot secure basic raw materials will find it difficult to continue in the chemicals business. Therefore, we will continue to work on it without backing down.

P57 [Business Strategy: Pharma]

We have completed our discussion on our main product ND0612 with the FDA and it is expected to be launched in about a year and a half. Radicava continues to perform well, and the market for Tirzepatide as an obesity drug is expected to expand. We are also making solid progress in rationalization, and we believe the benefits will become apparent next year. As for R&D, we are already very strong in the areas of CNS diseases and immunology and have made considerable progress in cancer.

We have taken sufficient measures to protect patents for Radicava, but we need to further strengthen our pipeline. Considering the future of our pharma business, we strongly feel that we need a partner that is willing to invest more capital.

P58 [Rationalization]

Regarding rationalization, we are investing approximately 35 billion yen in the unification of ERP systems. We are also rationalizing our supply chain, and we believe that we will see approximately 50 billion yen in rationalization benefits by fiscal 2029.

[Social Value, Human Capital, Shareholder Value]

P60 [Social Value (Sustainability)]

We have set targets for reducing GHG emissions by 29% by fiscal 2030 compared to fiscal 2019 levels, reducing waste by 50%, and reducing water usage by 310 tons through reduction of COD levels.

P61 [Human capital (personnel strategy)]

Regarding human capital, we are promoting diversity and cultivating global management talent. In addition, based on the keyword "connect," we are considering incorporating a methodology into our personnel system to highly evaluate talent with the ability to connect, and changing the personnel system to one that emphasizes a points-based system. As for employee engagement, the current rate of favorable responses to our employee survey is 69%, and we have set a goal of raising this to 80%. For diversity at the decision-making level, we are currently at 29%, and we aim to increase it to 40%.

P62 [Shareholder Value: Capital Allocation]

We plan to allocate approximately 20% of cash inflow until fiscal 2029 to shareholder returns and debt repayment, and approximately 80% to capital and financial investment. We aim to achieve a dividend payout ratio of 35% and a D/E ratio of 0.8 or less. Strategic capital investment includes M&A, strengthening the food product lineup, and investing in the semiconductor and stock-and-shape fields.

P63 [Shareholder value: Enhancement of shareholder value]

As for enhancement of shareholder value, we have three main pillars: growth, ROIC, and shareholder return. We aim to expand and grow profits by making strategic investments in targeted areas. Our goal is to raise ROIC from the current 5% to 8%. Regarding shareholder return, we maintain our target dividend payout ratio at 35%, with a potential dividend increase based on further profit growth.

[Management Commitment]

P65 [Management Commitment]

We aim to instill management policies and maximize the contributions of all employees. We will operate with the best management team with experience, a proven track record, and the ability to execute, with mutual trust. I have talked about our five-year Medium-Term Management Plan, and we are proceeding with the plan to plant in the first year, grow in the second year, and harvest in the third year. In three years, we would like you to judge whether this management team has achieved solid results. We would like to secure the trust of shareholders with results by linking shareholder value with management team compensation.

## **[Q&A]**

### **[Q&A 1]**

#### **Q1**

Are you aiming to be the world's top chemical company in terms of market capitalization? Could you please tell us about your direction for fiscal 2029?

#### **A1 (Chikumoto)**

We won't get there in a single leap, but we want to make our company one where you can feel that way in three years.

#### **Q2**

Please comment on the likelihood of achieving a core operating income target of 570 billion yen by fiscal 2029. For Pharma, the patent for Radicava will expire in 2029, and Basic Materials & Polymers has never made that much of a profit before, so can it be achieved without special circumstances such as a sudden rise in product market prices? In addition, what will happen to MMA's investment plan in the United States?

#### **A2 (Shimodaira)**

Basic Materials & Polymers has committed to a core operating income of 44 billion yen in fiscal 2029. It is expected to be in the red in fiscal 2024, with a large inventory valuation loss in the carbon business. We believe that we can reduce the deficit in the carbon business by cutting down the number of coke ovens, controlling risk, and adopting a pricing system that can hedge the impact of market fluctuations. As for our petrochemical business, we need to build a new business model for general-purpose products that is in line with domestic demand, which includes downsizing of facilities. As growth areas, we will focus on compounds in the mobility area and new high-performance products for polyolefins. Furthermore, we will continue to promote rationalization and meet our commitments over the next three to five years.

#### **A2 (Kurokawa)**

I will explain about MMA. To increase the accuracy of the figures, the current Medium-Term Management Plan does not include any projects in the United States, but they are factored into growth from fiscal 2030 to fiscal 2035. We will produce MMA, which contributes the most to carbon neutrality, using the cheapest and most stable natural gas in the United States as a raw material. Since the investment amount has increased, we cannot recover it unless we sell our products at appropriate prices. Therefore, we need to firmly grasp the value of our

products, including the value of a low carbon footprint, for our customers. We are doing our best to communicate with customers as quickly as possible. Also, Asia remains the region with the greatest demand. We will work with customers with strong sales capabilities, have them utilize our technology, and create new demand.

A2 (Tsujimura)

Regarding Pharma, the exclusivity period granted by the authorities for Radicava is until May 2029. There are multiple patents, including formulations, some of which are longer-term, and measures are being taken to stave off generics. Since measures have already been taken, I am optimistic that the generic marketing exclusivity period for Radicava will be extended beyond May 2029.

[Q&A 2]

Q1

Regarding Basic Materials & Polymers on page 56, I believe it will take time for the value of green products to be accepted in the market. How do you ensure profitability that exceeds capital costs in the petrochemical industry?

A1 (Shimodaira)

Regarding the collaboration between the three companies in Western Japan, it is not included in the current Medium-Term Management Plan through fiscal 2029. We place importance on the production of green ethylene and propylene. With this, downstream products will also become green products. As we aim for carbon neutrality, we will need government assistance when making investments, but we cannot proceed with investments unless they add value. With the introduction of a carbon tax and other trends, we believe that this will add value. As for the 20,000-ton chemical recycling plant completed in Ibaraki, it is sufficiently profitable, and although the amount of profit is still small, it is also incorporated into the Medium-Term Management Plan through fiscal 2029.

Q2

The petrochemical industry is a highly public business, even from the perspective of economic security, so I think more government funds should be injected into it. METI's 1.3 trillion-yen budget mentions ethylene facilities, and I would like your opinion on whether they can be utilized in the context of industry restructuring.

A2 (Chikumoto)

We are working towards carbon neutrality and a circular economy, but we recognize that there is a limit to the level of consumer acceptance. As for our chemical recycling, the key point is that it is not as expensive as bio-naphtha. We have already had many discussions with brand owners about the business viability of our products and have decided to proceed with the business. Ensuring business viability also includes support from the government, and the most important point is to ensure profitability within that context. If profitability cannot be secured, Japan may not be able to achieve its carbon neutrality and circular economy goals. Therefore, we would like to deepen cooperation with the government and consider systems and other matters.

[Q&A 3]

Q1

I agree with the idea of solving social issues, but as a listed company, do you have to take on all these issues? For example, if the MMA business had been an independent company, it might have been able to make more focused investments. Could you please explain in more detail the benefits of having it as a whole?

A1 (Chikumoto)

Our technologies are very broad and numerous. In terms of the number of drawers of technologies, I think we are probably the largest, and number one in Japan. How to connect these technologies is becoming increasingly important. Recently, I met with the heads of various companies, and I feel that what our customers expect from us is comprehensive strength. The more complex the world becomes, the more the value of possessing a large number of technologies is recognized. To provide solutions, a wide range of technologies is necessary. There was an issue of not being able to narrow down business fields, but now we are focusing on the supply of green basic raw materials. We are promoting greening on our own and do not rely on outside sources for raw materials. In terms of specialties, we are concentrating our capital in four fields and focusing on areas in which we are particularly strong. In terms of industrial gases, we have synergies in fields such as food and semiconductors, and we will continue to work closely together. As for Pharma, we have very strong patents and it is a highly profitable area. I believe that we need to cooperate with partners to further grow in the future.

[Q&A 4]

Q1

I have been watching your company for the past 20 years, and although there are many

businesses that seem profitable, ample management resources are not being invested in them, and the amount of investment decided by the management often overruns. How do you plan to improve this point? In addition, since it is humans who make decisions, it is very important to know how to motivate people. What kind of organizational management, personnel system, and motivation do you intend to implement?

A1 (Chikumoto)

The basic principle is to maintain discipline. Even if we decide to make an investment, we do not leave it up to the business. Every month, the steering committee watches and checks whether there are any cost overruns and whether schedules are being met. If cost overruns or schedule delays occur, we have a company-wide support system in place. Currently, if a problem occurs, support is being provided from other departments. We have established a system that can quickly respond to personnel transfers and organizational restructuring.

Q2

We have been holding high hopes for gallium nitride (GaN) for 15 years, but we have not seen any results. How can you improve this situation?

A2 (Chikumoto)

What you said is exactly right. We are working on the development of GaN with Japan Steel Works, but we have an overwhelming shortage of development facilities. For example, if we only have one facility, it would take five years to develop, but if we had five facilities, we think it would only take one year. It may cost five times as much money, but it is more efficient to see results in one year. We plan to actively invest and advance our development. I cannot give you any details at this time, but I think we will be able to make various announcements in the near future.

A2 (Wakabayashi)

Although we are in the semiconductor-related business, we do not make chips. Synthetic quartz is used to coat the inner surface of the crucibles used to make silicon wafers. It is positioned upstream in the supply chain, but it plays an important role, without which the ecosystem would not be able to function. There is growing understanding within the company about our number one product, and it is becoming easier to invest in it. This is also true for GaN. Now, it is time to take an important step to bring to fruition the research we have been doing for many years, and we believe it is time to shift gears. We would like to invest in areas that we should focus on under our Medium-Term Management Plan.



Q3

Regarding capital allocation on Page 62, 34% of the cash outflow to group businesses is mostly allocated to Nippon Sanso Holdings, and it does not seem to include much acceleration of growth due to pipeline purchases in Pharma. Also, regarding shareholder returns, which account for approximately 20% including debt repayment, is it correct to understand that shareholder returns will basically be implemented through dividends?

A3 (Kida)

Regarding investment in group businesses, your understanding is generally correct. (Note: R&D expenses are deducted from operating cash flow. We expect R&D expenses of 680 billion yen for the entire group, including pharma, from fiscal 2025 to 2029.) Regarding shareholder returns, we basically consider our shareholder returns through dividends, and we plan to do the same for the next five years. We do not think that our dividend payout ratio of 35% is low, and we are aware that the current stock price is supported by dividend yields. Therefore, our basic policy is to maintain the current level of the dividend payout ratio and return profits to shareholders according to the profits we generate. We do not completely reject share buybacks, but we believe they should be done in a planned and long-term manner.

[Q&A 5]

Q1

Regarding focus on core on Page 44, you target a net sales revenue of approximately 400 billion yen by fiscal 2029 under your plan, but this time frame seems a little slow. What are your thoughts on this point?

A1 (Chikumoto)

We take the approach of starting where we can in everything we do. We would like to proceed quickly with investments and focus on core within one or two years. I think we need to go beyond the numbers raised here and continue with focus on core. It is very important to concentrate on our strengths, and one strength is our accumulated technologies. I believe that it is the job of our management team to quickly realize this.

Q2

I think the three disciplined approaches on Page 39 are very important, but I feel that previous managers have basically said the same thing. Earlier, you mentioned that you check

projects monthly, but I'd like to know what kind of discussions you have specifically.

A2 (Chikumoto)

We review projects that are over a certain size every month. Specifically, we review projects that have started to use funds, and make appropriate adjustments if necessary.

A2 (Kida)

Regarding the pricing policy, we have advocated increasing ROIC here as well, and we are currently implementing various measures at our company. Our company has a strong tendency to place importance on long-term, stable, good relationships with our customers, and there are many products whose prices are not appropriate. In our monthly business reviews, we include the names of our customers by item and discuss what kinds of business we do for what kinds of customers. We have also started to take authoritarian measures, such as directly asking each business leader, "Why don't you end it?" if necessary. This is certainly a method that has not been seen much in our company's management style up until now. However, by introducing such strict measures, we feel the change within our company.

[Q&A 6]

Q1

According to Page 74, as a reason for the increase in profits for Advanced Films & Polymers and Advanced Composites & Shapes, "measures based on the three disciplined approaches" are a greater factor than "sales increase." What specifically will be done?

A1 (Egawa)

For Advanced Films & Polymers, I think it is important to do the right thing quickly. We deal with products that we call "specialty," but to us, specialty means that our products are unique and one of a kind. In other words, it is about pursuing what we are good at and the value that only we can provide. However, even among products that are now called specialty, some are not. I think that profits will increase significantly by rationalizing the businesses, reducing costs, and operating in an asset-light manner. After that, it is important to allocate resources appropriately pursuing growth and concentrate resources such as funds and human resources in the right places. I believe that we can surely generate profits through these efforts.

A1 (Ruel)

For Advanced Composites & Shapes, we are working on 23 projects based on the three

disciplined approaches, and we plan to achieve 80% in the first two years. While we are promoting divestiture and organic growth, we are also considering M&A and exits. One of our main initiatives is addressing businesses that are not generating revenue. For example, for facilities, product lines, and businesses that are not generating revenue, we will make appropriate exits and reallocate resources. We are already doing this in Engineering Shapes & Solutions, for example.

Q2

Regarding your strategy for MMA, you have closed plants in Europe and the US, but do you think you can survive in this situation for the time being? If you were to set up a new plant in the US, will you need further closures of other manufacturing sites? In addition, why can't you become the price leader even though you have a 40% market share? I understand that each manufacturing site has different positioning, but I would like to know if there are any regions where you can take the lead in terms of prices.

A2 (Kurokawa)

As for facilities, we have operated them from the perspective of global asset management and have made decisions to close some of them. As the global situation continues to change rapidly, we need to determine the optimal way of doing business in each region. It is important not only to simply connect sites within the group, but to work with business partners in each region and build a business model that is optimized locally. We also have downstream technologies, so we will use them to stimulate demand and increase our presence in each region. For example, by working with partners who have efficient equipment, we can close our old sites or sites with low carbon footprints. There are no concrete plans for this now, but we are reviewing it as a future strategy.

Regarding price leadership, our strengths lie in the quality and stability of supply, and because we have earned the trust of our customers, we are sometimes chosen as a priority and are able to sell at higher prices than other companies. However, it is not easy to control prices across the entire market. In the new project in the United States, we believe that there is a possibility that we can secure an advantage by providing overwhelmingly low-cost and carbon-neutral products against the backdrop of a closed trade situation.

[Q&A 7]

Q1

I understood that the message was that in the first two years, you will increase profitability by raising prices and rationalizing unprofitable businesses, and then expand sales globally

once that system is in place. I think that just the rationalization in the first two years will significantly improve profits, but what level of profit do you expect for this fiscal year and the next fiscal year?

A1 (Chikumoto)

It's difficult to give specific figures, but one of our goals for this fiscal year is to make sure we achieve the figures we promised you. We want to continue that trend and be even more aggressive in the next fiscal year. Compared to this fiscal year, the number of businesses that are in the red should be significantly reduced.

Q2

Does the -50 billion-yen cost reduction on Page 58 refer to the reorganization of 30 businesses on Page 44? Is there anything else as big? Regarding the segment allocation, I think carbon has been decided, so I would like to know what impact it will have on segments such as petrochemicals and functional products.

A2 (Yabe)

As stated on Page 58, the impact of business divestiture is not included. We will properly complete the remaining PMI. We aim to reduce fixed costs by 50 billion yen in fiscal 2029 compared to fiscal 2024. Basically, this means making organic cost reductions.

End