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Supplemental Information Financial Results For FY 2023 2Q

2023/7/26

SHIKOKU KASEI HOLDINGS CORPORATION
（Tokyo Stock Exchange Prime Market 4099）

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1. Consolidated Financial Results

Financial Highlights

Increased revenues and decreased profits year on year (January-June)

million yen

	Previous year* January to June 2022	FY2023 2Q	Change/Rate	Remarks
Net sales	30,705	30,880	+174 +0.6%	・The Chemicals business remained flat due to the yen's depreciation despite deteriorating market conditions ・The Housing Materials business increased its revenues due to the success of price hikes
Operating profit	4,016	3,786	▲229 ▲5.7%	・Decrease in profits due to higher costs for raw materials, labor, depreciation, etc.
Ordinary profit	5,130	4,720	▲410 ▲8.0%	・Foreign exchange gains 554 (YoY -283)
Profit attributable to owners of parent	3,663	3,212	▲450 ▲12.3%	・Gain on the sale of investment securities - (YoY -856) ・Impairment losses and loss on the valuation of investment securities - (YoY +760)
Exchange rate	**1 USD ＝ 122 JPY** 1 EUR ＝ 132 JPY 1 RMB ＝ 18.4 JPY	**1 USD ＝ 134 JPY** 1 EUR ＝ 144 JPY 1 RMB ＝ 19.4 JPY	Net sales **+1,100** Operating profit **+600**	・The impact of the yen's conversion of PL included in the YoY increase/decrease calculation. Only the impact of exchange rate fluctuations on foreign currency transactions are extracted. Many yen-denominated transactions are also substantially affected by exchange rate fluctuations but are not included.

＊ Since the Company has changed the fiscal year-end from March 31 to December 31 since the previous year, for comparison with the previous year, the six-month period from January to June 2022 is compared with the "same period previous year," as a reference.

Trends in Net Sales and Operating Profit (YTD)

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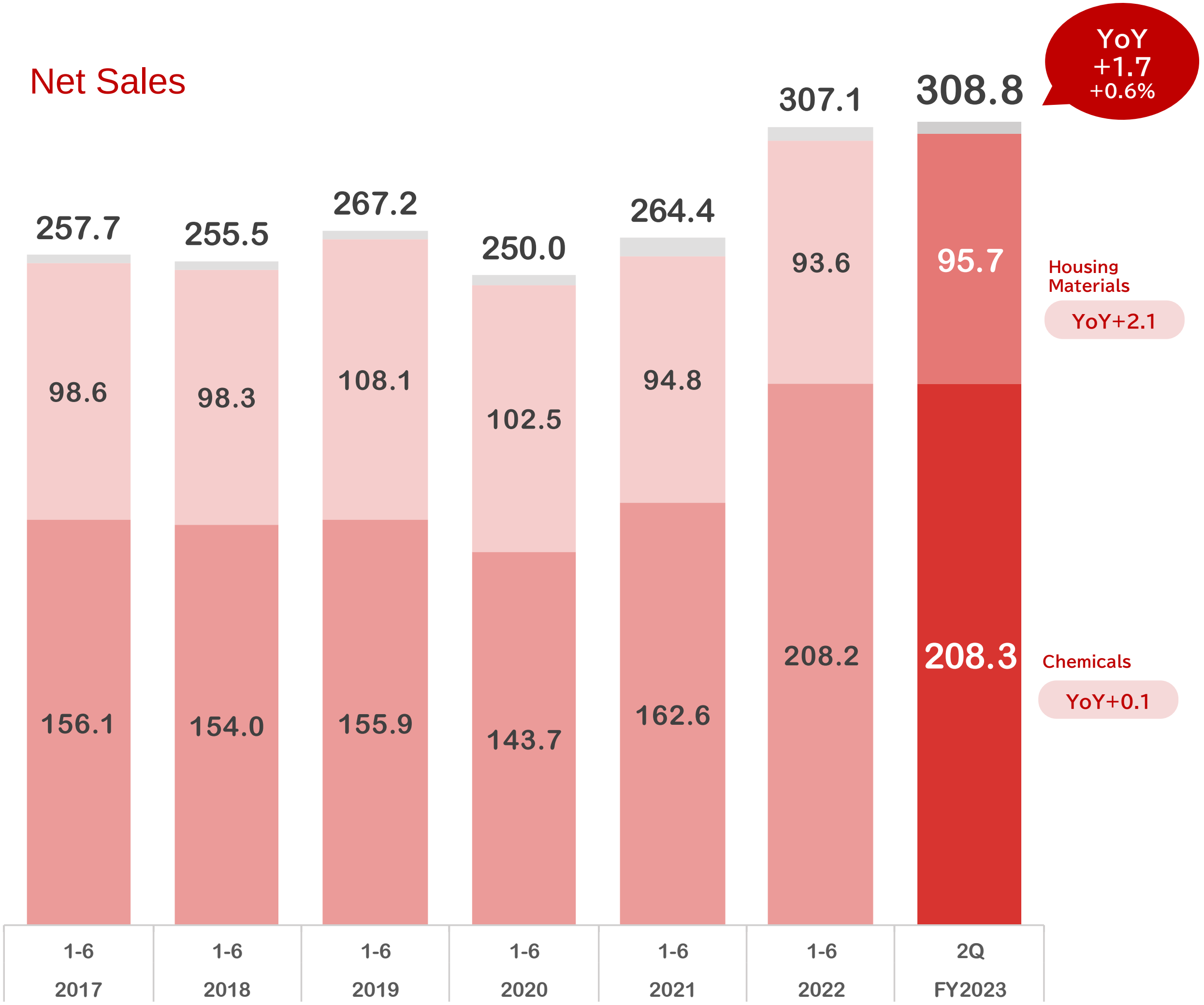
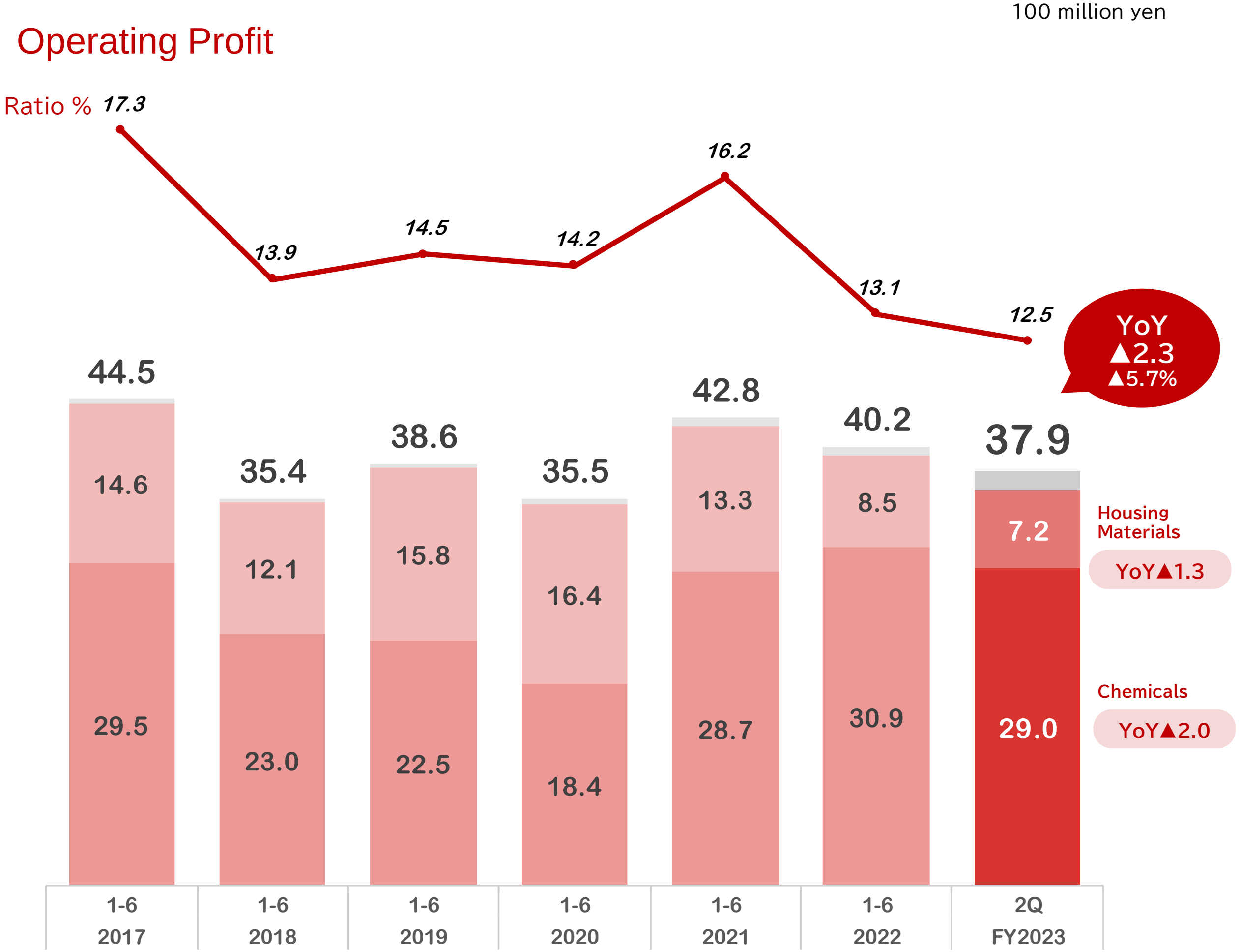
Net sales soared companywide (+1.7 in total), with Chemicals remaining flat year-over-year (+0.1) and with Housing Materials up (+2.1)
Operating profit decreased slightly for the Chemicals (-2.0) and Housing Materials (-1.3) segments due to a decline in profit margin and a companywide decline (-2.3 in total).

100 million yen

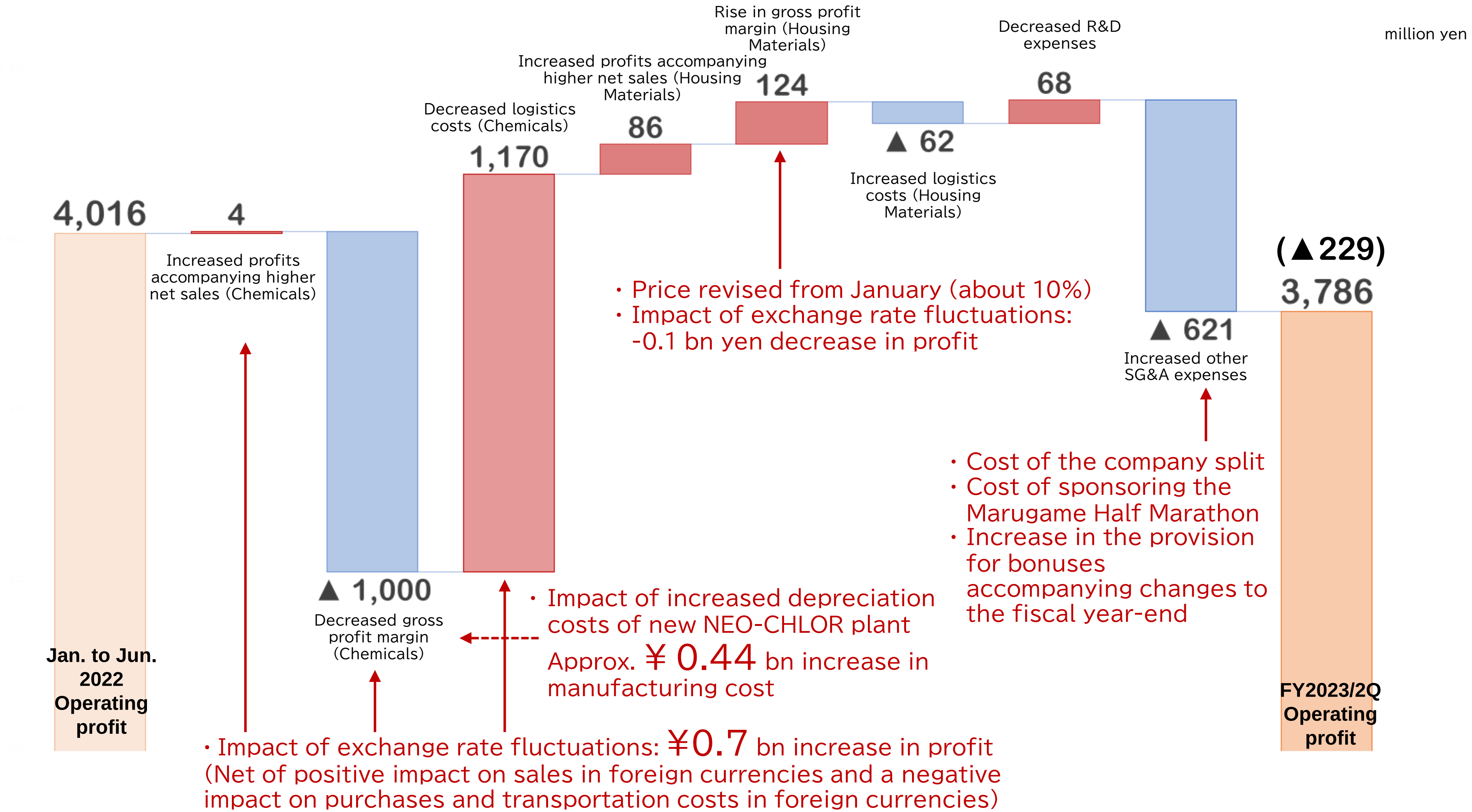




* Results for the previous year have been recalculated for the same period in the current year (January-June).
* From the current period, accompanying changes to the management framework, corporate expenses that were previously not allocated to each segment are now allocated to each segment based on reasonable criteria. In addition, the results before the previous year are also compared by using the revised measurement method.

YoY Changes in Operating Profit

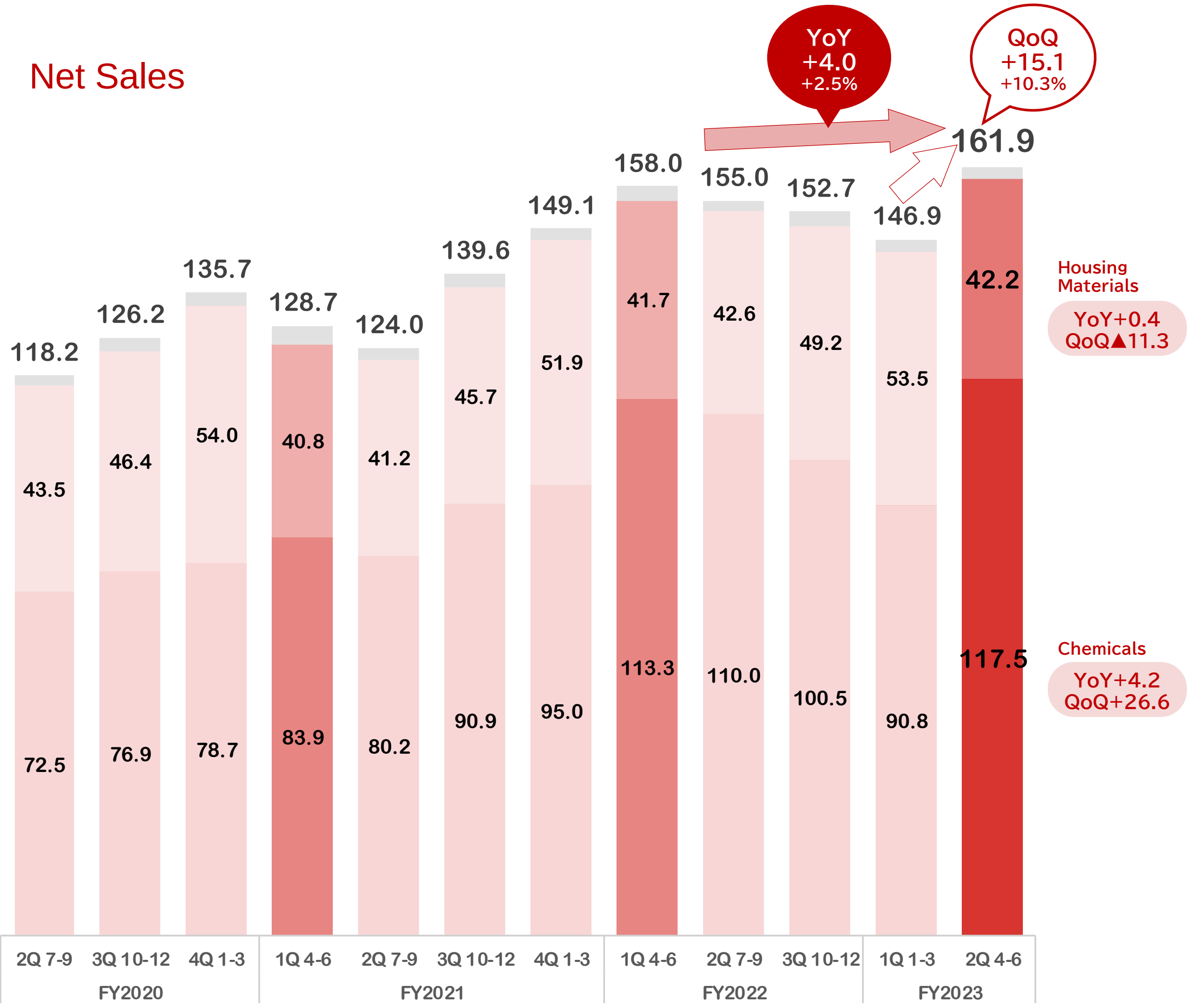
While profitability declined due to rising costs (raw material costs and depreciation), this was partially offset by the positive impact of the weaker yen in exchange rates and the normalization of export logistics costs.

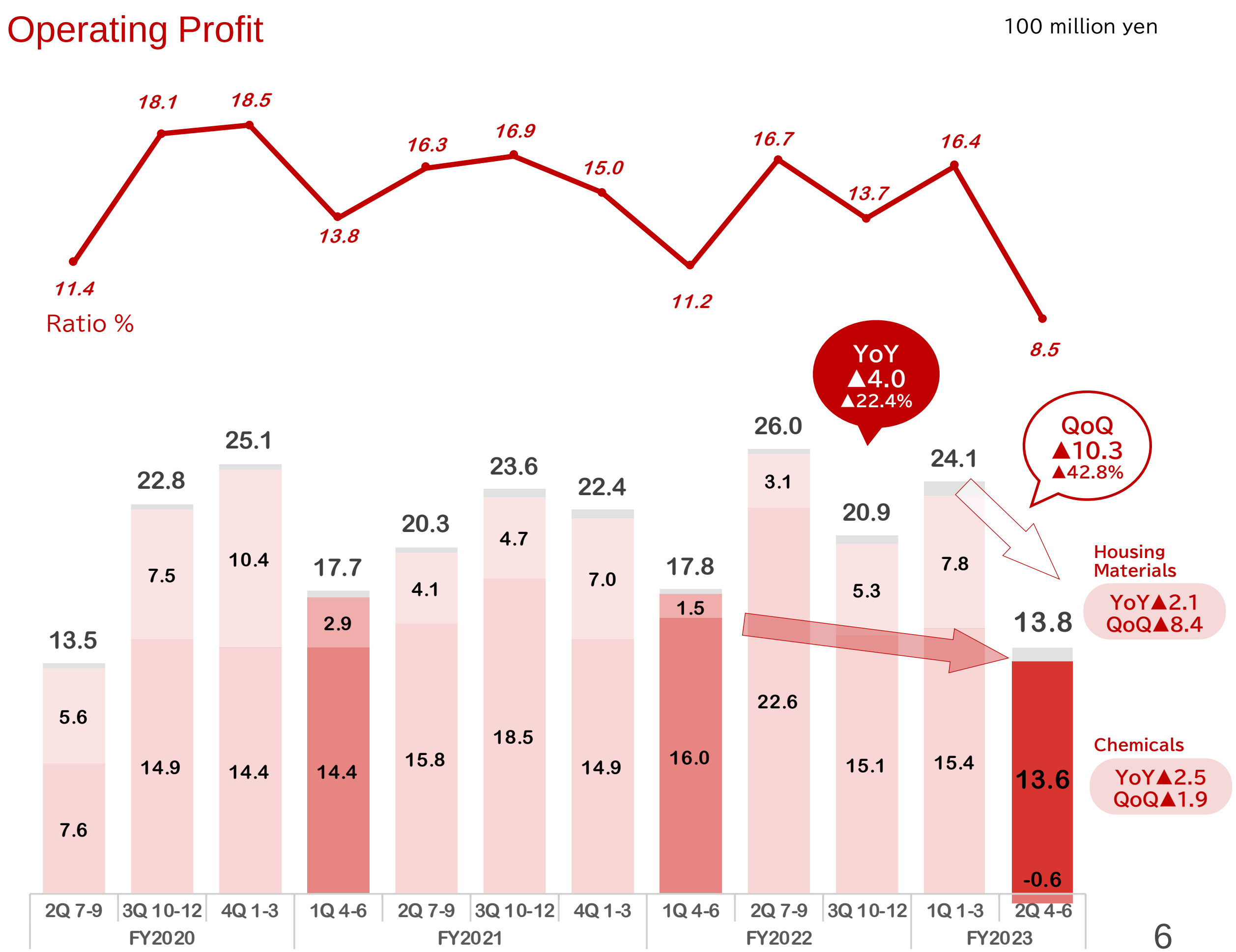


Trends in Net Sales and Operating Profit (QTD)

- Companywide, revenues increased by ¥0.4 bn YoY. The Chemicals business increased in revenue (+4.2) due to a tailwind from the yen's depreciation, although market conditions continued to deteriorate. The Housing Materials segment remained flat (+0.4) due to a reactionary decline after the January price revision.
- QoQ, revenues increased sharply by ¥ 1.51 bn. Revenue from Chemicals increased (+26.6) due to temporary supply and demand factors for organic chemical products, and that from Housing Materials declined (-11.3) due to seasonal factors (end-of-year demand) and a reactionary decline from price revisions.

- Companywide, profit decreased by ¥ 0.4 bn YoY. Chemicals posted a decline in profit (-2.5), as positive factors — such as higher sales, the yen's depreciation, and lower distribution costs were offset by higher costs for raw material, depreciation, and labor.
  Housing Materials posted an operating loss for the quarter due to sluggish sales, high raw material prices, and a year-over-year decline in profit (-2.1).
- QoQ, profit declined sharply (-10.3): profits from the Chemicals declined slightly (-1.9), but seasonal factors in Housing Materials added to the decline (-8.4).





Operating Results by Segment: Chemicals (QTD)

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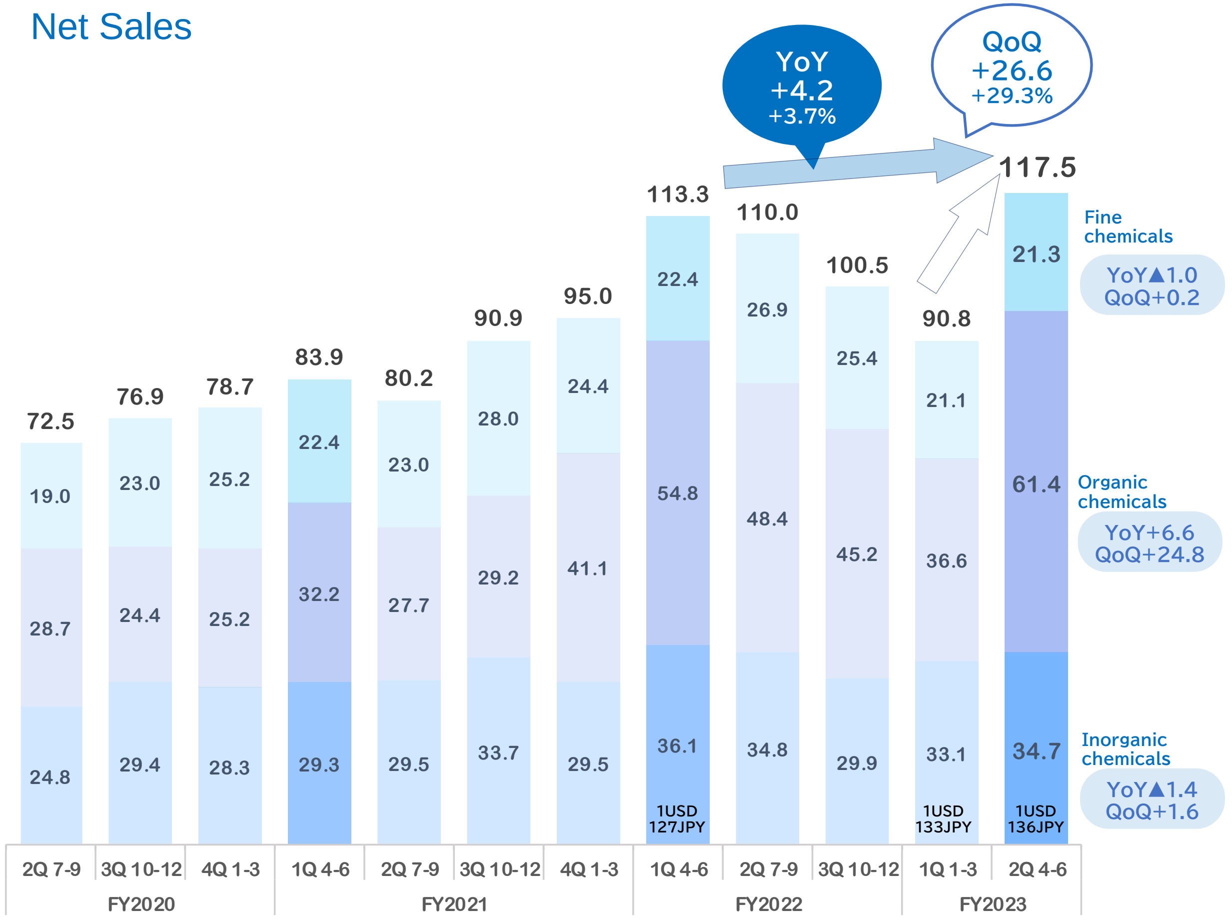
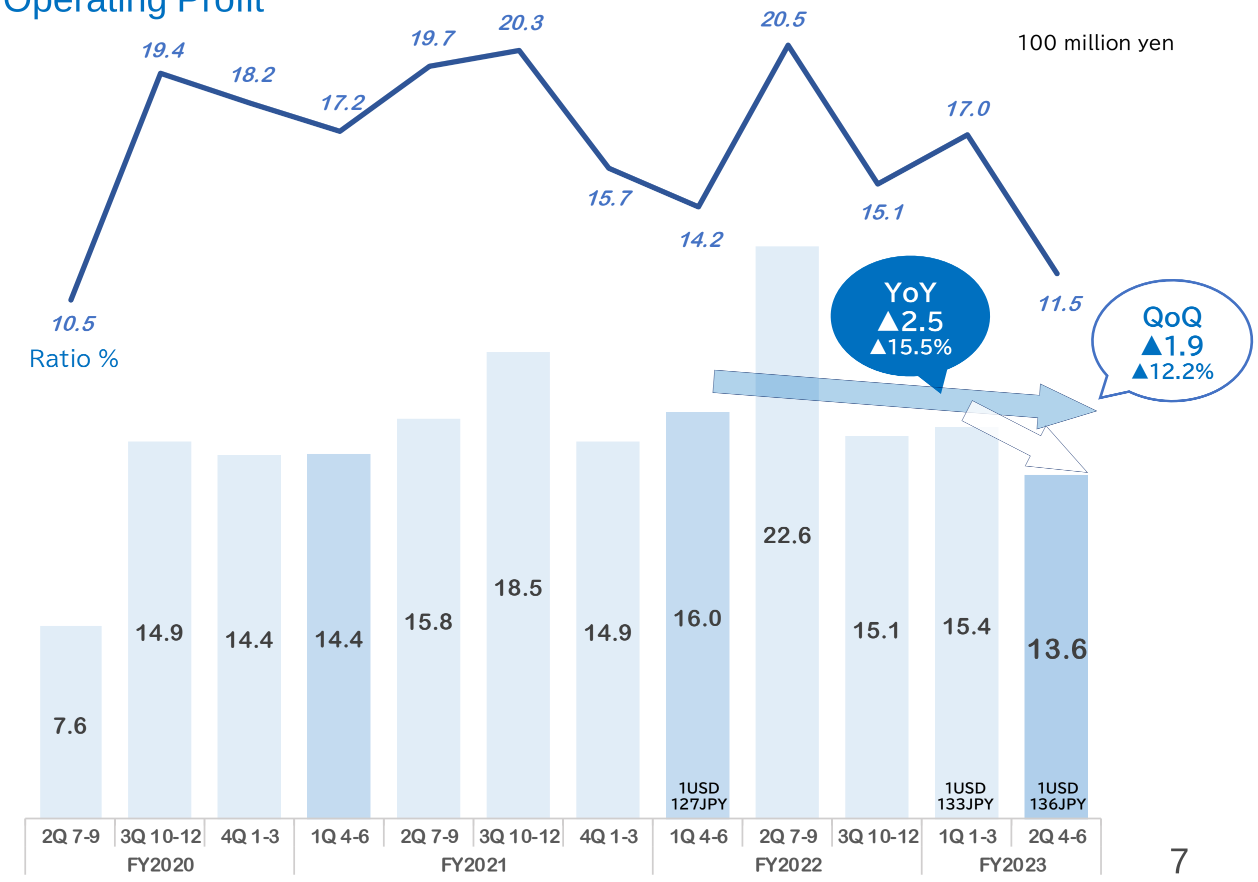
- Inorganic products registered a -1.4 YoY decline and growth of +1.6 QoQ. They are yet to break out of the slump considering the exchange rate.
  The insoluble sulfur business continued to face challenges as oversupply in the Chinese market prevented a recovery in selling prices, shrinking the room for sales expansion.
- Organic chemicals increased significantly both YoY +6.6 and QoQ +24.8. NEO-CHLOR entered the pool season, but the supply-demand balance in the North American market tightened again due to supply causes; unit sales prices remained in a high range, resulting in higher revenues.
- Fine Chemicals, with -1.0 YoY and +0.2 QoQ, show slow recovery. Glicoat-SMD's performance remained weak due to inventory adjustments in the supply chain in response to deteriorating semiconductor and electronics market conditions. However, newly developed advanced and speciality chemicals (semiconductor process materials) are steadily expanding.
- The impact of foreign exchange rate fluctuations was +0.5 bn yen (127->136) YoY and +0.2 bn yen (133->136) QoQ.

- With -2.5 YoY and -1.9 QoQ, profits declined due to lower profitability, despite an increase in sales of organic chemicals.
- A weak appreciation of the yen increased profit by ¥ +0.3 bn YoY, and lower export logistics costs were also a positive factor.
- However, the negative impact of cost factors, such as depreciation costs for the new NEO-CHLOR plant and soaring raw material costs, and the negative impact of sales factors, such as sluggish sales of the highly profitable Glicoat-SMD and declining profitability of insoluble sulfur in the Chinese market, outweighed the positive impact, resulting in lower earnings.
- Although the yen continued to depreciate QoQ, labor costs (provisions) increased due to a change in the period subject to bonus payments following a change in the fiscal year-end, resulting in a decrease in profit.

Net Sales



Operating Profit

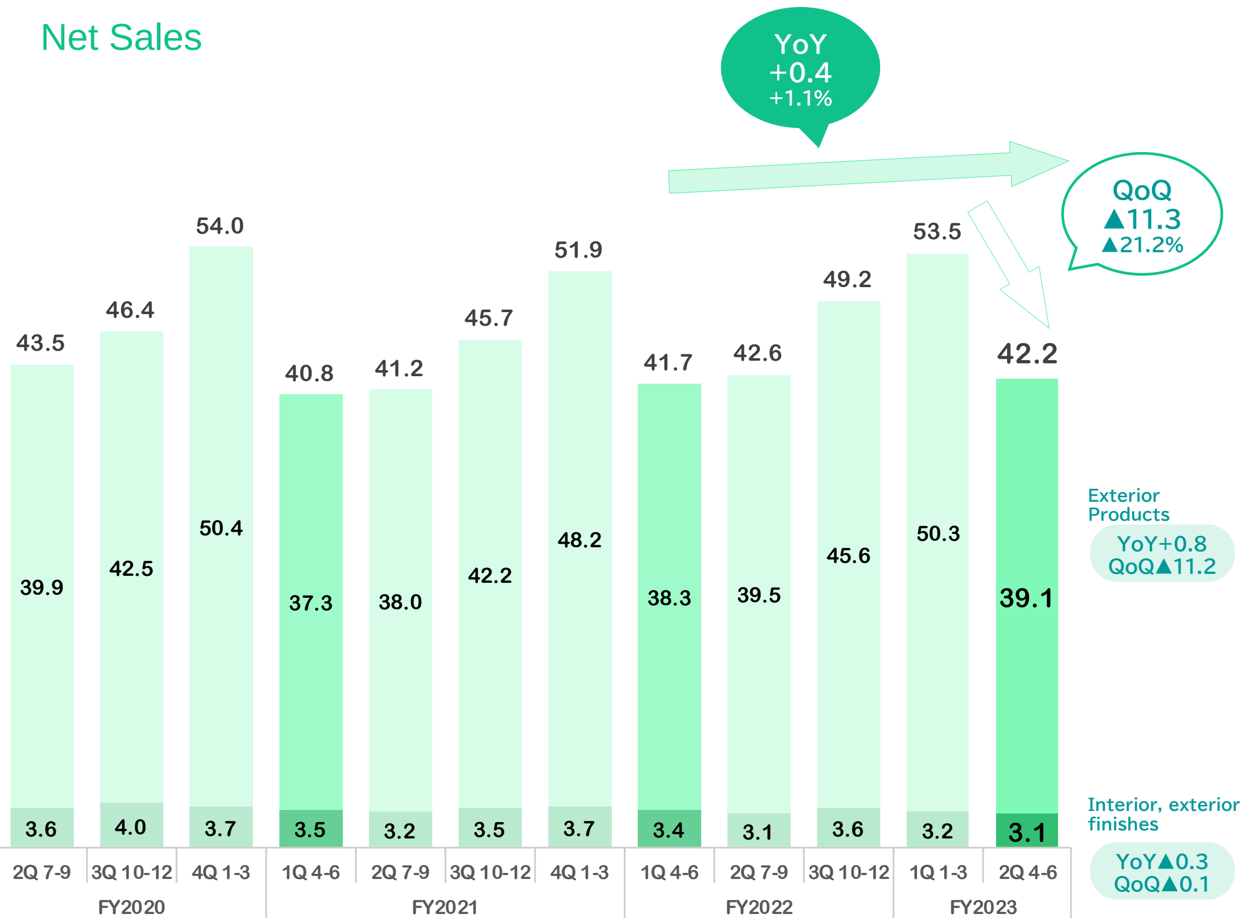


Operating Results by Segment: Housing Materials (QTD)

- Overall, the Housing Materials business achieved YoY revenue growth of ¥ 0.04 bn, or +1.1%.
- Revenues registered from interior, exterior finishes declined by -0.3 YoY. This decline from the previous year is due to a reactionary drop in rush orders (December sales) before the price hike.
- Exterior products: Revenues increased by +0.8 YoY. Revenue increased because of the effect of two price revisions in April 2022 and January 2023 (in response to soaring aluminum ingot prices).
- The QoQ decline in revenue was due to a reactionary drop from the end-of-year demand for landscape and exterior construction in 1Q.

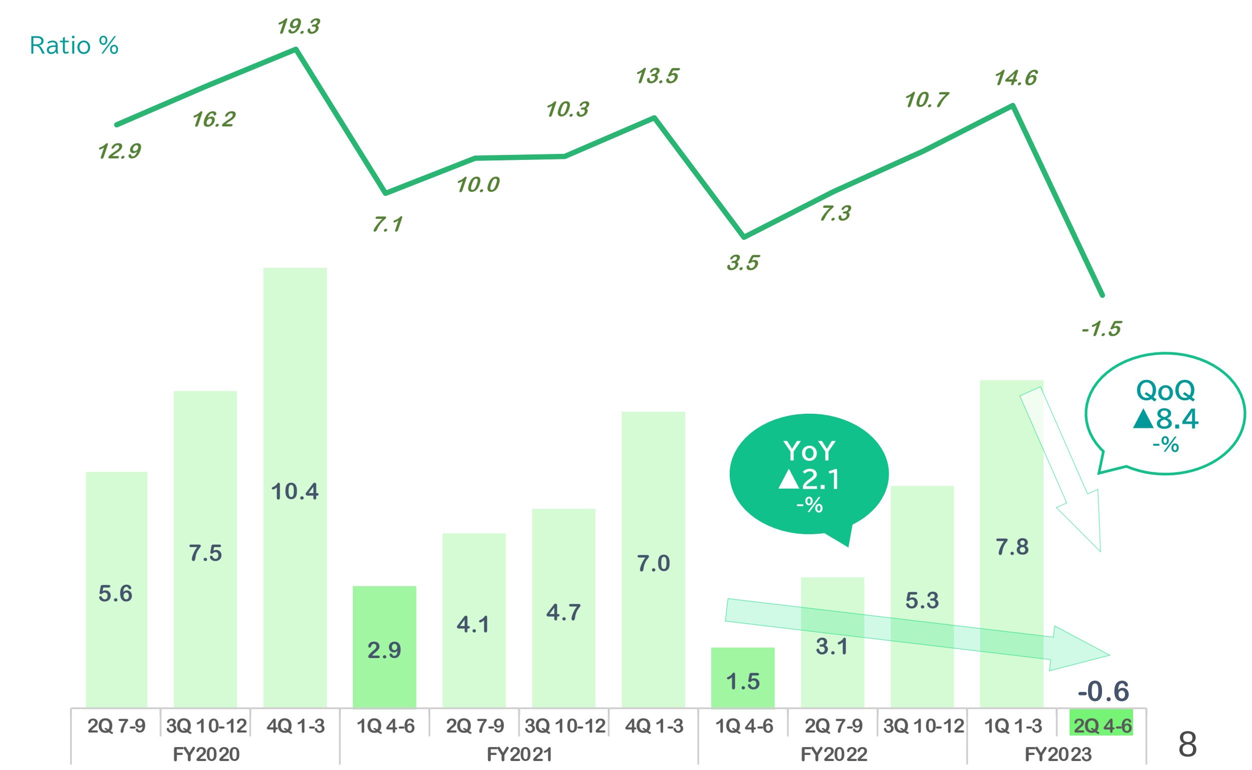
- The Housing Materials business, as a whole, posted an operating loss of ¥ -0.21 bn for the quarter, although profitability usually declines from April to June due to seasonal factors.
- The Exterior product business recovered profits after two price revisions; however, this was not enough to make up for the decline in volume, especially for landscaping exterior products. In addition, the shrinkage of the highly profitable wall materials also had an impact.
- In terms of raw material prices, there is significant pressure to raise the price of resin and other materials derived from crude oil; aluminum ingots continue to remain stable at high prices — therefore, the effects of the price revision in improving profitability remain limited.

Net Sales



Operating Profit

100 million yen



2. Financial Forecast for the Fiscal Year Ending 2023

Revision of Consolidated Earnings Forecast

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The full-year forecast has been revised due to profits exceeding the initial forecast.

Comparison of initial and revised forecast

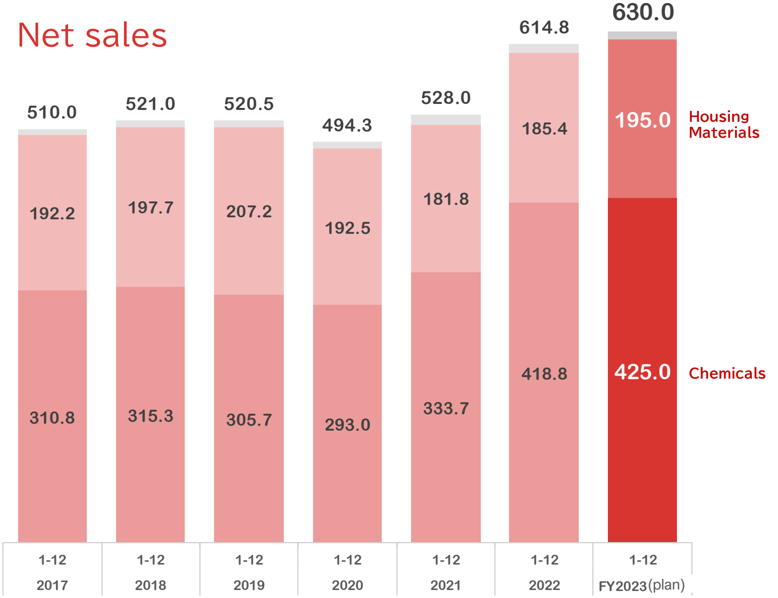
million yen

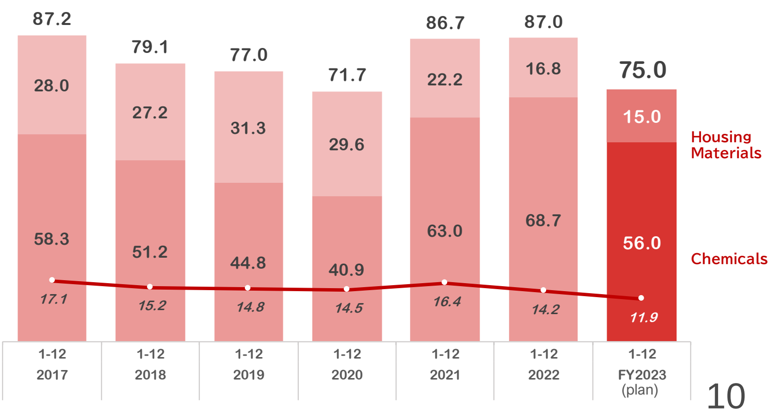
	Forecast of the beginning of period	Revisions of the forecast (released July 26, 2023)	Change/Rate	Remarks
Net sales	64,000 (Chemicals)41,500 (Housing Materials)21,000	63,000 (Chemicals)42,500 (Housing Materials)19,500	▲1,000 ▲1.6%	・In the Chemicals business, inventory adjustment of fine chemicals will continue; however, the yen is expected to weaken, and the supply-demand balance of organic chemicals in North America will remain temporarily tight in the second half, leading to an upward revision. ・The Housing Materials business was revised downward due to a worse-than-expected fall in sales following a price revision.
Operating profit	6,500 (Chemicals)4,800 (Housing Materials)1,500	7,500 (Chemicals)5,600 (Housing Materials)1,500	+1,000 +15.4%	・The Chemicals business was revised upward due to a weaker yen and a greater-than-expected fall in export freight rates. ・The Housing Materials business is expected to secure the initially assumed level of profit due to improved profitability, despite the decline in sales.
Ordinary profit	7,000	8,300	+1,300 +18.6%	・The upward revision was due to the large amount of unplanned foreign exchange gains recorded up to 2Q. (Foreign exchange gains in 2Q was +554)
Profit attributable to owners of parent company	4,900	6,800	+1,900 +38.8%	・The upward revision incorporates gains from the sale of cross-shareholdings to be implemented from 3Q onward.
Exchange rate	1 USD = 125 JPY 1 EUR = 135 JPY 1 RMB = 18 JPY	1 USD = 135 JPY 1 EUR = 150 JPY 1 RMB = 19 JPY		・Change in exchange rate assumptions: calculated at 1 USD for ¥135 for both the second half and the full year. ・1 yen change in the exchange rate positively impacts about ¥150 yen on net sales and about ¥70 million on operating profit for the full year.

Comparison of previous year and revised forecast

	Previous year* (January to December 2022)	Revisions of the forecast (released July 26, 2023)	Change/Rate	Remarks
Net sales	61,475 (Chemicals)41,876 (Housing Materials)18,543	63,000 (Chemicals)42,500 (Housing Materials)19,500	+1,525 +2.5%	・In the Chemicals business, a growth in the export of organic chemicals to North America is expected to continue throughout the current fiscal year, offsetting the deterioration in the market for other products. ・In the Housing Materials business, revenue is expected to increase from the previous year due to two price hikes.
Operating profit	8,703 (Chemicals)6,865 (Housing Materials)1,682	7,500 (Chemicals)5,600 (Housing Materials)1,500	▲1,203 ▲13.8%	・In Chemicals, revenue is expected to increase, and income is expected to decrease due to a significant impact of lower sales in Glicoat-SMD and lower profitability of insoluble sulfur. ・For the Housing Materials business, the profitability of the interior, exterior finishes is expected to decline.
Ordinary profit	9,840	8,300	▲1,540 ▲15.7%	・Foreign exchange gains, which were extremely large in the previous year, will be a factor in reduced profit.
Profit attributable to owners of parent company	7,081	6,800	▲281 ▲4.0%	・A decrease in profits was lessened by the gain from the sale of cross-shareholdings made in the current fiscal year.
Exchange rate	1 USD = 128 JPY 1 EUR = 135 JPY 1 RMB = 19.4 JPY	1 USD = 135 JPY 1 EUR = 150 JPY 1 RMB = 19 JPY		・1 yen change in the exchange rate has a positive impact of about ¥150 million on net sales and about ¥70 million on operating profit for the full year.

100 million yen





* In comparison and in the graphs, performance in prior years is adjusted to the same period in FY2022 (January to December).

Capital Investment and Depreciation

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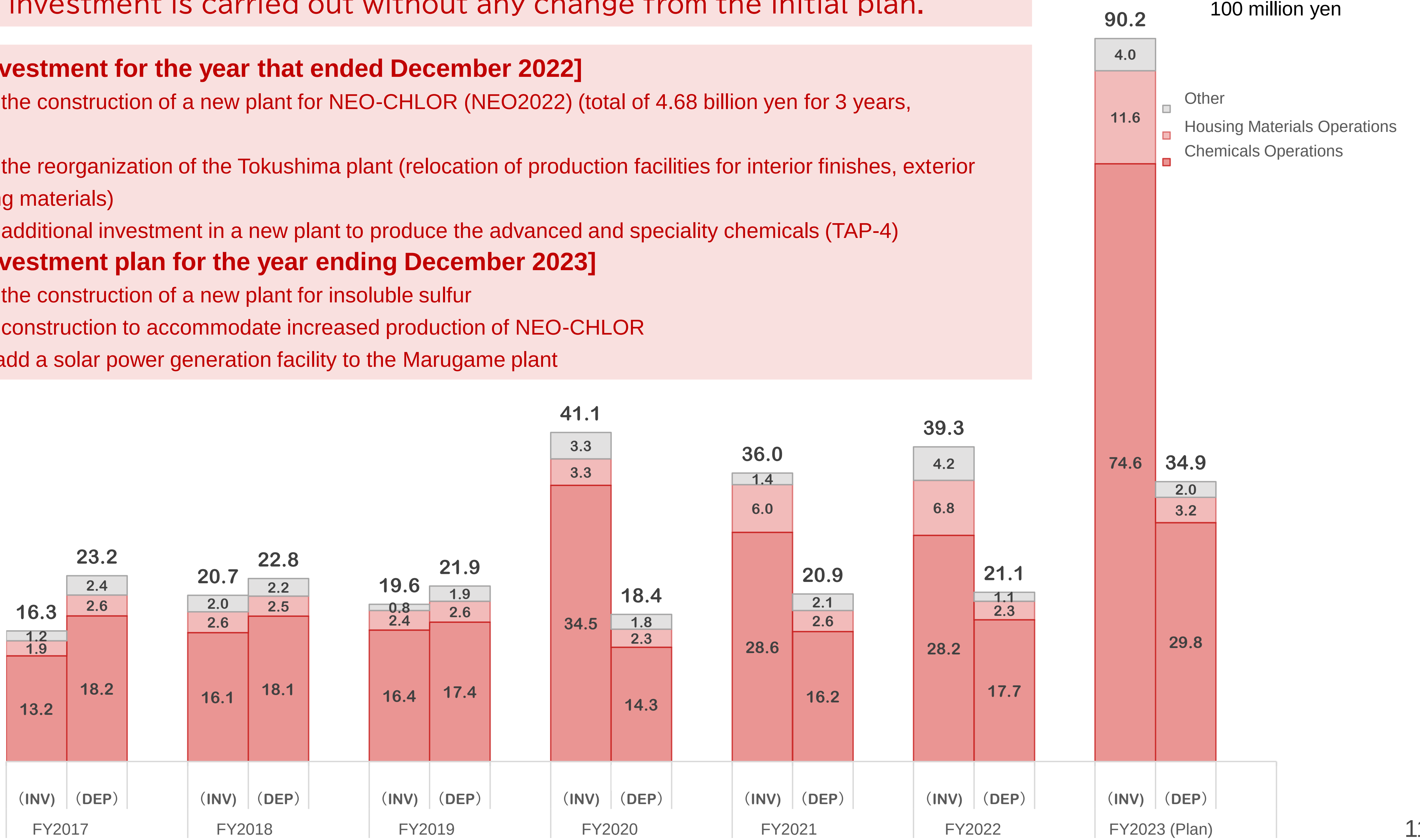
Capital investment is carried out without any change from the initial plan.

[Major capital investment for the year that ended December 2022]

- 1.23 billion yen for the construction of a new plant for NEO-CHLOR (NEO2022) (total of 4.68 billion yen for 3 years, completed)
- 500 million yen for the reorganization of the Tokushima plant (relocation of production facilities for interior finishes, exterior finishes, and paving materials)
- 140 million yen for additional investment in a new plant to produce the advanced and speciality chemicals (TAP-4)

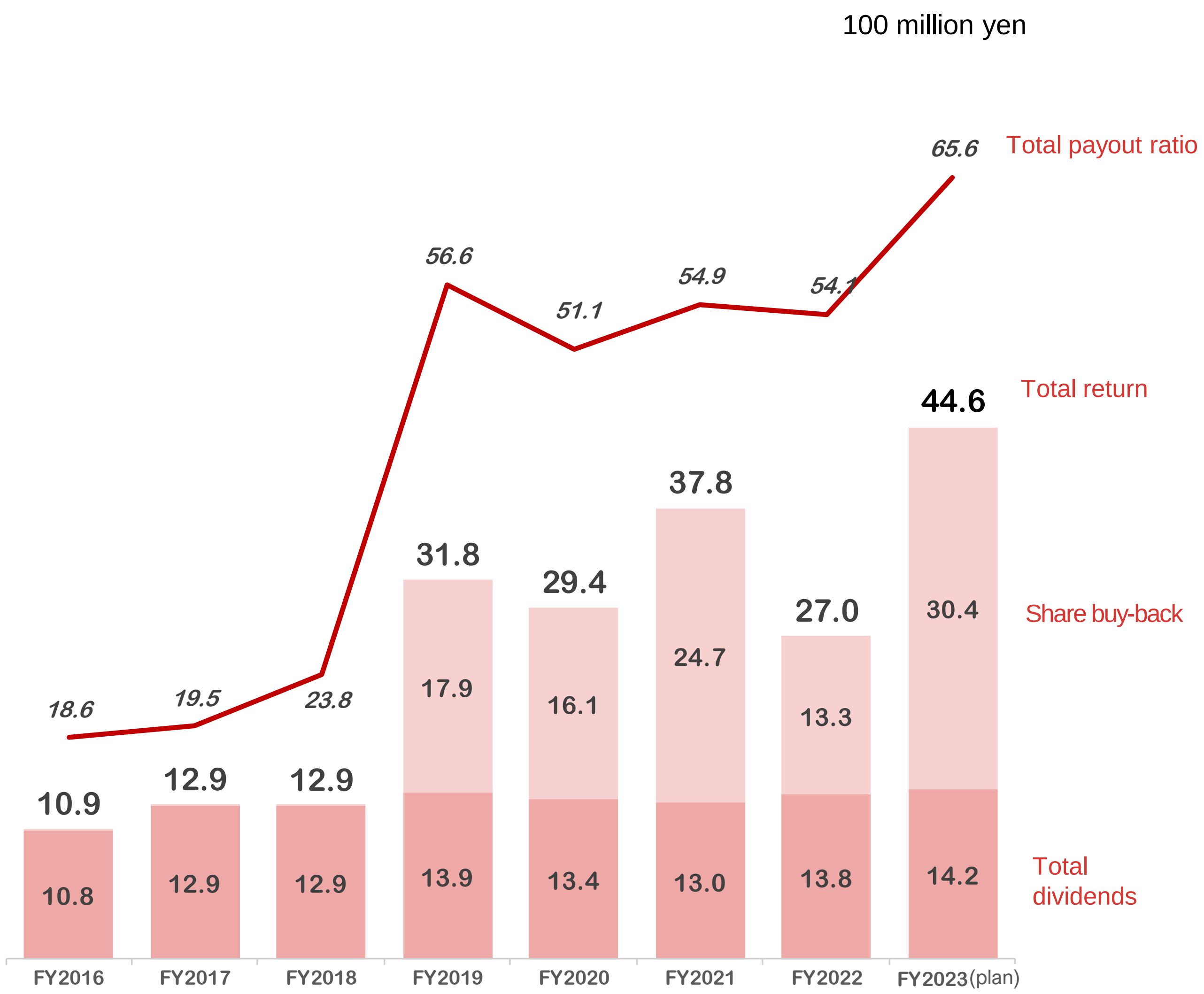
[Major capital investment plan for the year ending December 2023]

- 4.09 billion yen for the construction of a new plant for insoluble sulfur
- 1.25 billion yen for construction to accommodate increased production of NEO-CHLOR
- 190 million yen to add a solar power generation facility to the Marugame plant



Dividend and Share Buy-Back Trends

Enhancement of shareholder returns: We implemented a share buyback in May and decided to increase dividend by 2 yen.



[Shareholder Return Policy]

・The Company aims to achieve "a payout ratio of 30% and a total payout ratio of 50% based on consolidated financial results" under the "Challenge 1000" long-term vision for 2030.

[Shareholder Return Policy for the Fiscal Year Ending December 2023]

・Dividends equaled ¥28 per share (interim 14 yen, year-end 14 yen), an increase of 2 yen from the initial plan. This is the second consecutive year of increase in dividend payouts.
・On May 31, 2023, the Company repurchased 3.04 bn yen of its shares through ToSTNeT-3.
・A total return (estimated), including dividends (¥ 1.42 bn). is currently ¥ 4.46 bn, and the total payout ratio (estimated) is 65.6%, calculated based on projected financial results for the current fiscal year.

[Share buybacks]

・ As a top priority, the Company has been working with ten companies since FY2019 using ToSTNeT-3 to eliminate cross-shareholding relationships.
・This has resulted in a 13% decrease in outstanding shares — from 58,948 thousand to 50,870 thousand — and improved earnings per share.
・ Shares held by the Company (investment securities) will also be sold at an appropriate time, and the proceeds will be used to invest in growth and return profits to shareholders.

3. Action to Implement Management that is Conscious of Cost of Capital and Stock Price

Analysis of current situation and Policies for the present

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Since the ROIC of the business is high enough at present, we can achieve an ROE level that exceeds the cost of shareholders' equity by reducing excess capital.
In accelerating the current direction, consider and carry out various capital policies.

Consolidated Balance Sheet (estimated as of 6/30/2023)

[Financial assets]
Cash and deposits
Securities (short-term bonds)
Investment securities (long-term bonds)
Investment securities (cross-shareholdings)
Approx. ¥ 65 bn

[Excess capital]
(Risk buffer retention policy) Retain 1/3 of annual net sales

(Allocable funds)
Consider shareholder returns, with the amount excluding risk buffers as the capital that can be reduced.
In particular, the reduction in cross-shareholdings is prioritized.

[Business assets]
Trade receivables
Inventories
Property, plant, and equipment/Intangible assets

Chemicals: Approx. ¥ 45 bn
Housing Materials: Approx. ¥ 15 bn
Total approx. ¥ 60 bn

[Investment capital]
(Profit indicator to be compared) Operating profit after tax by business
-> ROIC by business
Chemicals business
Approx. ¥ 32 bn (ROIC 13% level)
Housing Materials business
Approx. ¥ 9 bn (ROIC 10% level)
Total approx. ¥ 41 bn

[Business liabilities]
Trade payable
Labor liabilities and provisions

[Group capital invested]
(Profit indicator to be compared)
After tax (operating profit + financial revenue)
-> Group ROIC

(Target WACC)
Aiming for 6% or less by leveraging

Approx. ¥ 106 bn
ROIC 6% level

[Future earnings to be acquired (FCF)]
(Shareholder return)
Cary out promptly, targeting 50% of Profit

(Internal reserves)
Prioritize investments in growth and human capital as risk capital

[Net assets in carrying amount]
(Profit indicator to be compared) Profit -> ROE

(Assumed cost of shareholders' equity) 6-8%

(Target ROE)
Set to 8% as a hurdle rate in the short term, and aim to exceed 10% in the future through a capital reduction

Approx. ¥ 83.6 bn
ROE 8% level

[Interest-bearing debt]
(Basic Policy on Leverage)
・Actively utilize low-cost funds to the extent that the credit rating can be maintained
・Set D/E ratio to the 30% level

Approx. ¥ 22.3 bn

[Future net assets]
Maintain ROE and net asset levels that exceed the cost of capital at all times through balance sheet management to secure both aggressive growth strategies and capital efficiency.

In addition, consider capital policies that enhance the attractiveness of share value from perspectives other than profitability (increased liquidity, preferential treatment) and incentive plans that make employees and management more aware of share value.

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- Among the Company's current plans, forecasts, and strategies as presented in this material, those that are not historical facts are forward-looking statements or projections based on the judgment of the Company's management according to the information that was available at the time of the relevant decision; hence, risks and uncertainties are involved. Actual performance and business results may differ greatly from these prospects due to various factors.

- If you understand the above and are interested in exploring investment opportunities, please peruse additional materials such as the Company's securities report and make your investment decision at your own discretion.

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