

# Investor Briefing Shikoku Kasei HD Corp. For FY 2023

2023/2/9

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

I am Watanabe, President and CEO of Shikoku Kasei Holdings Corporation. Thank you very much for taking the time out of your busy schedule to attend the investor briefing on the financial results of the Group.

- 1. Consolidated Financial Results**
- 2. Financial Forecast for the Fiscal Year Ending 2024**
- 3. Action to Implement Management that is Conscious of Cost of Capital and Stock Price**
- 4. Review of the Fiscal Year Ending 2024**
- 5. Appendix**

As you can see, I will explain the results for the fiscal year ending December 2023, the forecast for the year ending December 2024, and the management policy while acknowledging the capital cost and stock price in line with the contents disclosed as supplemental information at the time of the announcement of the financial results. Subsequently, I will report on the progress of our long-term vision, “Challenge 1000,” which we are currently working on.

# 1. Consolidated Financial Results

First, I will explain the results for the fiscal year ending December 2023.

## Increased sales but decreased profits year on year (January – December)

Million yen

	Previous year※ CY2022 January to December	FY2023	Change/Rate	Remarks
Net sales	61,475	63,117	+1,642 +2.7%	<ul style="list-style-type: none"> <li>Chemicals operations increased due to the recovery in the second half and the depreciation in the yen</li> <li>Housing Materials operations decreased due to deteriorating market conditions in the housing area</li> </ul>
Operating profit	8,703	8,019	▲684 ▲7.9%	Profit decreased due to higher raw material costs, labor, and depreciation cost
Ordinary profit	9,840	9,280	▲560 ▲5.7%	Foreign exchange gains 549 (YoY ▲34)
Profit attributable to owners of parent	7,081	7,853	+772 +10.9%	<ul style="list-style-type: none"> <li>Gain on sale of investment securities 2,071 (YoY +1,203)</li> <li>Impairment losses ▲41 (YoY +795)</li> </ul>
Exchange rate	1USD = 130 JPY 1EUR = 135 JPY 1RMB = 19.4JPY	1USD = 140 JPY 1EUR = 148JPY 1RMB = 19.8JPY	Net sales+18 billion yen OperatingProfit+7 billion yen	<ul style="list-style-type: none"> <li>Foreign exchange impact on PL included in change from the previous year (total of Chemicals and Housing Materials)</li> <li>Only the impact of exchange rate fluctuations on foreign currency transactions is showed. Many yen-denominated transactions are also substantially affected by changes in foreign exchange rates, but they are not included.</li> </ul>

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

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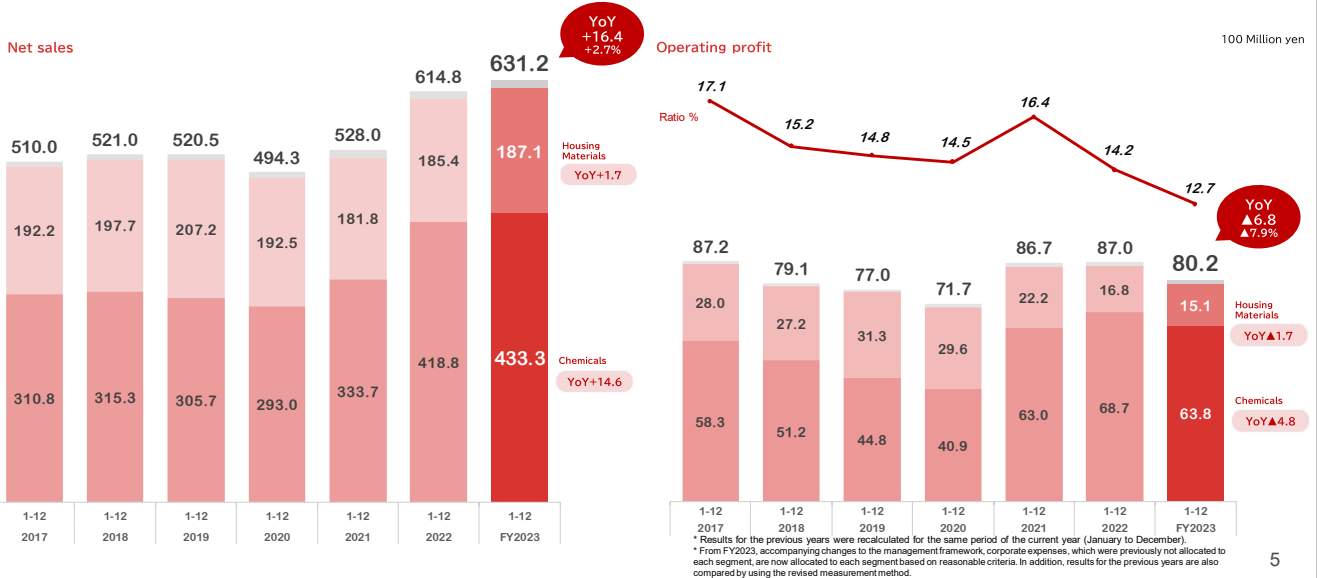
The Company changed its fiscal year-end from March 31 to December 31, 2023. For comparison with the previous year, the 12-month period from January to December 2022 is compared with the "same period, previous year," as a reference.

Regarding the consolidated financial results for the fiscal year ending December 2023, net sales increased by 2.7% YoY to ¥63,117 million, operating profits decreased by 7.9% YoY to ¥8,019 million, ordinary profits decreased by 5.7% YoY to ¥9,280 million, and profits attributable to the owners of a parent rose by 10.9% YoY to ¥7,853 million.

I will explain net sales and operating profits according to the segment later. A 10-yen depreciation of the yen against the dollar from a year earlier contributed to an increase of approximately ¥1.8 billion in sales and ¥700 million in operating profits.

Trends in Net sales and Operating profit (YTD)

Net sales increased in both Chemicals (+14.6) and Housing Materials (+1.7), resulting in a companywide increase in sales (+16.4 in total)  
 Operating profit decreased companywide (-6.8 in total) due to lower profit margins and lower profits in both Chemicals (-4.8) and Housing Materials (-1.7)



Let's look at each segment.

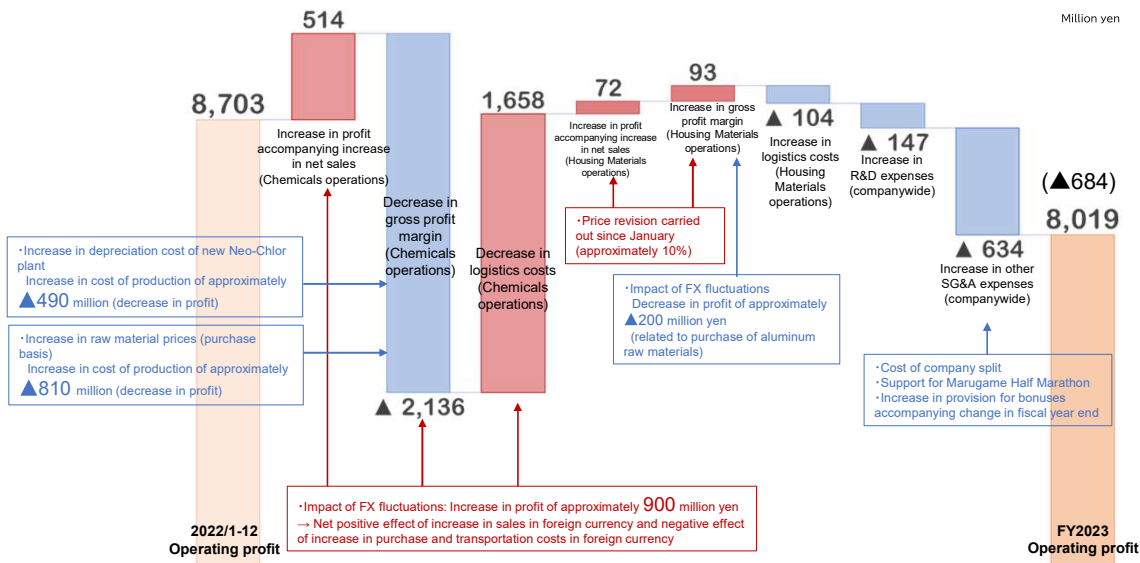
Now, I explain net sales on the left. In the chemical operations segment, net sales have increased by ¥1.4 billion to ¥43.3 billion as the sales of inorganic chemicals, organic chemicals, and fine chemicals exceeded that of the previous year. In the housing materials operation segment, net sales have increased by ¥170 million to ¥18,700 million because of our efforts to pass on rising costs through price revisions since January 2023.

Next, we examine the operating profit on the right side. Operating profit decreased by ¥480 million to ¥6.3 billion in the chemical operations segment and by ¥170 million to ¥1.5 billion in the housing materials operation segment. Next, operating profit is explained in detail.

## YoY Changes in Operating profit

The decline in profitability due to higher cost (raw materials and depreciation costs) and lower unit sales price was partially offset by positive impact of increased sales, weaker yen, and normalization of export logistics costs.

Million yen



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Now, let us discuss year-on-year changes in operating profits.

In the chemical operations segment, the gross margin fell because of the deterioration of profitability due to stagnant sales of electronics materials in the fine chemicals business, which is the most profitable in the company, a decline in the sales prices of insoluble sulfur in the Chinese market, and an increase in prices of various raw materials. This resulted in a profit reduction of approximately ¥2.1 billion. This includes the positive impact of a weaker yen of ¥900 million and the negative impact of ¥490 million due to an increase in depreciation costs associated with a new Neo-Chlor plant that started operation in this period. There was almost no negative impact on the 4Q. After the next fiscal year, it will be a factor to increase profits in the next year as depreciation will gradually decline based on the declining-balance method.

However, the marine freight costs associated with exports dropped sharply from those in the previous period. This resulted in a positive impact of over ¥1.6 billion after absorbing an increase in yen-denominated costs due to the weaker yen and offsetting a decrease in gross profit. In the housing material operations segment, net sales increased and gross margins improved in association with the January price revision. However, owing to a decrease in demand associated with the deterioration of market conditions, sales volume did not grow as expected and profit was lower than a 10% increase in sales price.

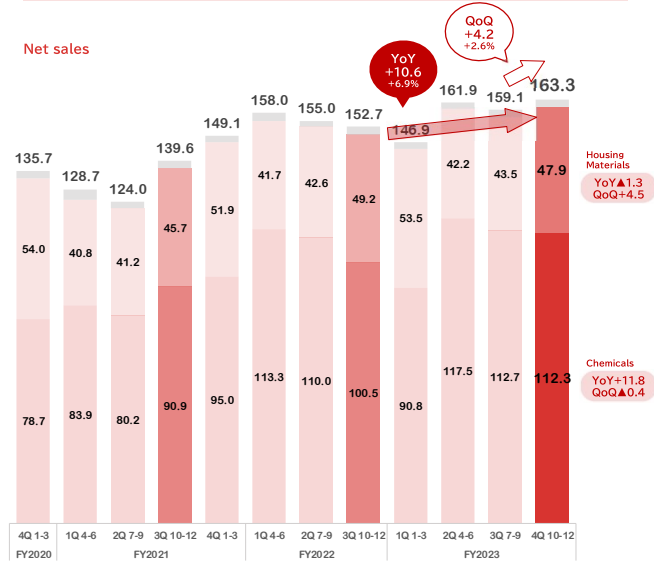
In terms of SG&A expenses, operating expenses in the housing material operations segment increased due to the resumption of face-to-face sales activities after COVID-19 and the holding of various exhibitions. Other temporary expenses increased and operating profits decreased.

Trends in Net sales and Operating profit (QTD)

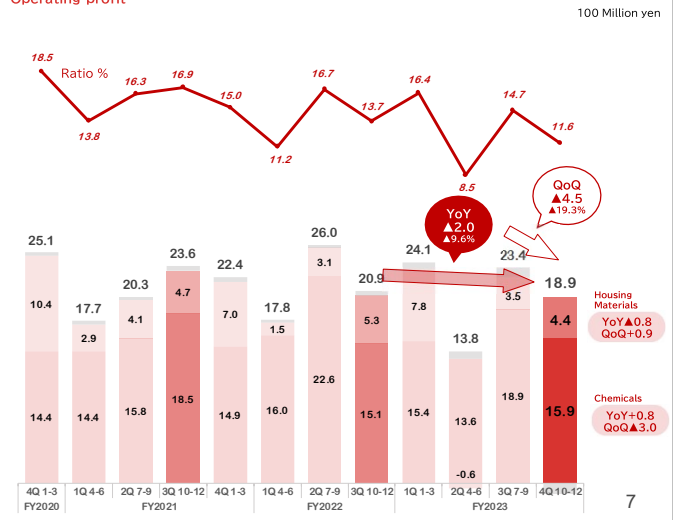
• Total sales increased by 1.06 billion yen YoY. Chemicals operations achieved significant growth of 1.18 billion due a reactive increase from sluggish performance in the previous year and bottoming out of the market conditions. Housing Materials operations decreased slightly by 130 million yen due to volume declines affected by deteriorating market condition, offset by price revisions.  
 • Sales increased by 420 million yen QoQ. Chemicals operations decreased by 40 million yen due to a seasonal decline in organic products. Housing Materials operations increased by 450 million yen due to a seasonal rise in demand for housing, despite lower level of cargo movement.

• Total operating profit decreased by 200 million yen YoY. Chemicals operations slightly increased by 80 million yen as positive factors such as increased sales and lower logistics costs were offset by a decline in unit sales price and higher raw material costs. Housing Materials operations slightly decreased by 80 million yen due to increased cost.  
 • Operating profit decreased by 450 million yen QoQ. Chemicals operations decreased by 300 million yen due to a decrease in organic products sales and lower profit margins. Housing Materials operations recovered, up 90 million yen, due to a rise in the ratio of landscape exteriors affected by a recovery of demand for properties (seasonal rise).

Net sales



Operating profit



Next, we discuss the quarterly comparison.

Let's consider the left graph of the net sales illustration. Total net sales increased by ¥1.06 billion YoY and ¥420 million QoQ. Net sales in the chemical operations segment increased significantly by ¥1.18 billion, which I will explain later.

However, although the price was revised in the housing material operations segment, shipments remained low and net sales decreased by ¥130 million YoY.

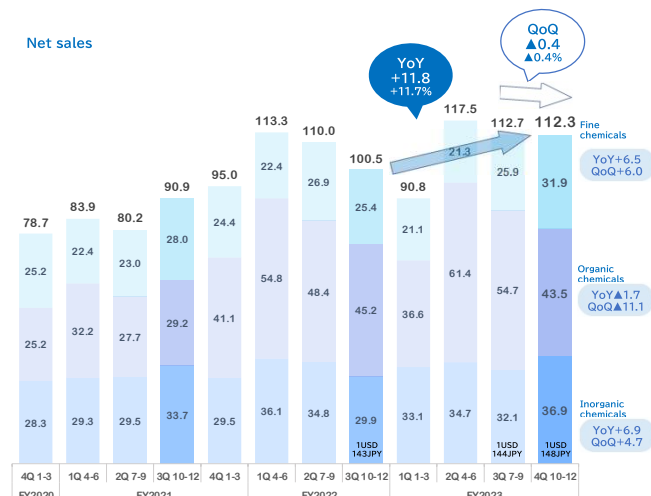
Let's focus on the right graph of operating profit illustration. The total operating profit decreased by ¥200 million in YoY and ¥450 million in QoQ. In both the chemical and housing material operations segments, profitability dropped slightly due to increased costs.

## Operating results by segment: Chemicals (QTD)

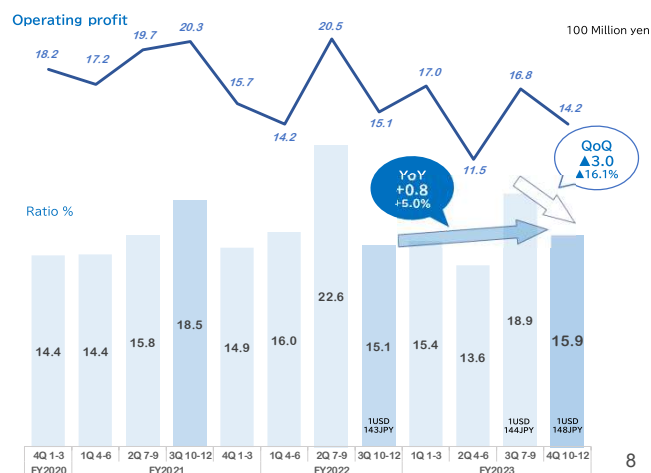
- Inorganic chemical products bottomed out and showed recovery signs, with increases of 690 million yen YoY and 470 million yen QoQ. Orders for insoluble sulfur increased as the weaker yen restored price competitiveness in the Chinese market. Sales to North America expanded.
- Organic chemical products (Neo-Chlor) were weak, with decreases of 170 million yen YoY and 1,110 million yen QoQ. In the North American market, special demand due to our competitor's supply ended and demand was fulfilled, resulting in prolonged inventory adjustments and restrained purchasing.
- Fine chemicals showed a clear recovery trend, with increases of 650 million yen YoY and 600 million yen QoQ. While the cargo movement of imidazoles (electronics) recovered, the market conditions of electronic chemicals (Glicost-SMA) remained unchanged.
- In the new field, resin modifiers showed an upward trend due to the end of inventory adjustments and demand for semiconductor process materials are expanding for prototype production.
- \*The impact of foreign exchange was about +200 million yen (JPY/USD: 143→148) YoY and +200 million yen (JPY/USD: 144→148) QoQ.

- Operating profit increased by 80 million yen YoY. The weaker yen contributed to an increase in profit of about 100 million yen. Sales of insoluble sulfur and fine chemicals increased, but unit sales price of export of insoluble sulfur and Neo-Chlor lowered due to supply and demand conditions, resulting in worsening of profitability (rate of return). The cost of various raw materials mainly in organic products continues to rise, and we are working on revising prices for domestic products.
- Depreciation expenses of the new Neo-Chlor plant increased slightly in 4Q (depreciation will gradually decline based on the declining-balance method in the next year).
- Operating profit decreased by 300 million yen QoQ due to a drop in sales of organic chemicals (Neo-Chlor) affected by both seasonal and market factors.

Net sales



Operating profit



First, I explain the details by segment from the chemical operations segment. Please see the graph on the left for net sales.

Net sales in the inorganic chemical business increased by ¥690 million YoY and ¥470 million QoQ. Orders for insoluble sulfur increased as the weaker yen restored price competitiveness in the Chinese market. Sales in North America have been increasing.

Net sales in the organic chemical business decreased by ¥170 million YoY and ¥1.101 billion QoQ, indicating stagnant performance. In the North American market, the temporary disruption of the supply-demand balance has normalized, resulting in prolonged inventory adjustments and restrained purchasing.

The fine chemical business showed a clear recovery trend, with increases of ¥650 million YoY and ¥600 million QoQ. While the cargo movement of imidazoles recovered, the market conditions for electronic chemicals remained unchanged. We expect full-scale recovery in the fiscal year 2024. In the new field, resin modifiers have shown an upward trend owing to the end of inventory adjustments, and the demand for semiconductor process materials is expanding for prototype production.

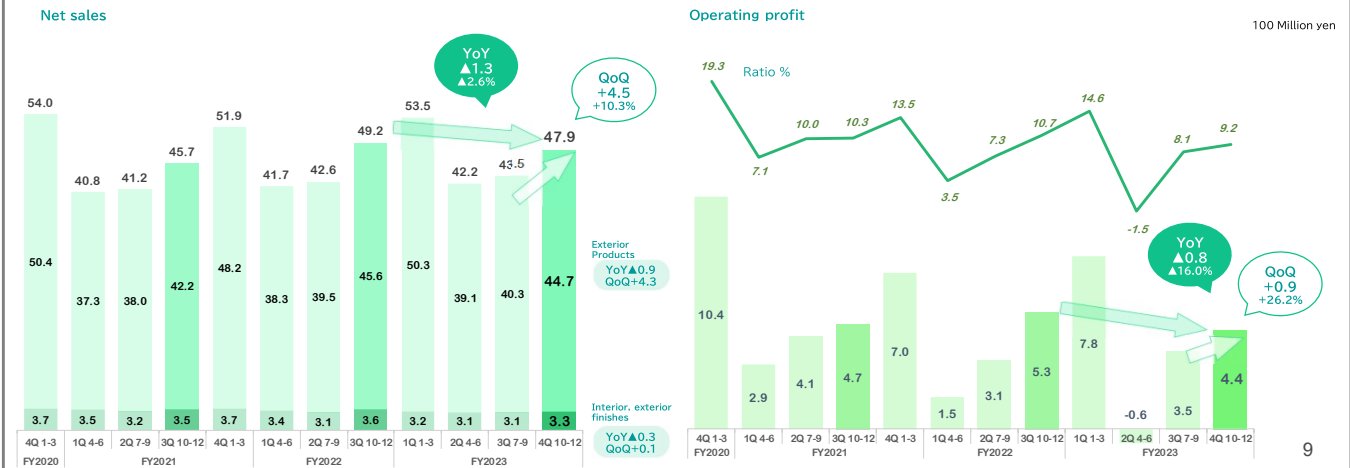
Please see the graph on the right side. The operating profit in the chemical operations segment increased by ¥80 million YoY but decreased by ¥300 million QoQ. This is because the sales volume of organic chemicals decreased owing to the normalization of the supply-demand balance, and the unit sales price declined in the new pool season after October.



Operating results by segment: Housing Materials (QTD)

- Housing Materials operations as a whole decreased by 130 million yen or 2.6% YoY. Sales of interior, exterior finished and paving materials, and housing exteriors were weak due to sluggish new housing starts (detached house).
- Sales of interior, exterior finished and paving materials remained weak, with a decrease of 30 million yen YoY and an increase of 10 million yen QoQ.
- Sales of exterior products decreased by 90 million yen YoY as the effect of price revisions (10%) offset by a decrease in volume.
- While the housing business was weak, the landscape business increased from the previous year due to recovery of demand.
- Sales increased by 450 million yen QoQ, including a seasonable rise of a natural increase in demand for landscape exteriors, which, as usual, bottoms out in the April-June period.

- Housing Materials operations as a whole decreased by 80 million yen YoY.
- Profitability of exterior products recovered after two price revisions, but it was not enough to offset the decline in volume, mainly in landscape exteriors. Costs increased mainly due to an increase in personnel expenses, rise in sales expenses in line with full-scale sales activities, and a decline of profitability in production sites due to weak sales.
- Raw material prices including aluminum ingot remained stable at high prices, resulting in limiting improvement of profitability by price revisions.
- Operating profit increased by 90 million yen QoQ as the ratio of high profitable landscape exteriors grew due to a seasonal rise.



Next, let's consider the housing material operations segment.

Net sales decreased by ¥130 million YoY but increased by ¥450 million QoQ. The sales of interior, exterior finished, paving materials, and housing exteriors were weak due to sluggish new housing starts (detached houses). However, the landscape business increased from the previous year due to the recovery of demand.

Operating profits decreased by ¥8 million YoY. While the recovery of highly profitable landscape exteriors contributed to profits, an increase in SG&A expenses in line with full-scale sales activities and a decline in profitability in production sites due to lower production slightly reduced profits.

## 2. Financial Forecast for the Fiscal Year Ending 2024

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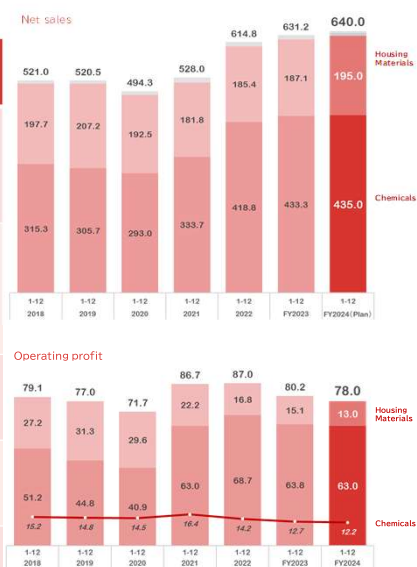
This is a summary of the consolidated financial results for the fiscal year ending in December 2023. Next, I explain the consolidated earnings forecast for the fiscal year ending in December 2024.

## Forecast of Consolidated Financial Results



100 Million yen

	FY2023	FY2024	Change / Rate	Remark
Net sales	63,117 (Chemicals)43,332 (Housing Materials) 18,712	64,000 (Chemicals)43,500 (Housing Materials) 19,500	+883 +1.4%	<ul style="list-style-type: none"> <li>Sales of Chemicals operations are expected to increase due to sales expansion of insoluble sulfur and recovery of the fine chemicals market.</li> <li>Sales of Housing Materials operations are expected to increase due to recovery of the housing market.</li> </ul>
Operating profit	8,019 (Chemicals)6,381 (Housing Materials) 1,508	7,800 (Chemicals)6,300 (Housing Materials) 1,300	▲219 ▲2.7%	<ul style="list-style-type: none"> <li>Operating profit of Chemicals operations is expected to be stable due to lower unit sales price and an increase in fixed cos's (repair costs of plants).</li> <li>Operating profit of Housing Materials operations is expected to decrease due to an increase in fixed costs associated with various sales promotion initiatives.</li> </ul>
Ordinary profit	9,280	8,200	▲1,080 ▲11.6%	<ul style="list-style-type: none"> <li>Ordinary profit is expected to decrease further due to the non-recurrence of foreign exchange gain recorded in FY2023 (Foreign exchange gain in FY2023: 549 million yen)</li> </ul>
Profit attributable to owners of parent	7,853	5,500	▲2,353 ▲30.0%	<ul style="list-style-type: none"> <li>Profit is expected to decrease considerably due to the non-recurrence of gain on sale of investment securities recorded in FY2023 (Gain on sale of investment securities recorded in FY2023: 2,088 million yen)</li> </ul>
Exchange rate	1USD = 140 JPY 1EUR = 148 JPY 1RMB = 19.8 JPY	1USD = 140 JPY 1EUR = 150 JPY 1RMB = 19.0 JPY		<ul style="list-style-type: none"> <li>One yen change against US dollar has a positive impact of approximately 180 million yen in sales and 70 million yen in operating profit.</li> </ul>



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First, we expect consolidated sales of ¥64 billion, an increase by 1.4% YoY. Net sales in the chemical operations segment are expected to increase owing to the sales expansion of insoluble sulfur in the North American market and the recovery of the fine chemicals market. Net sales in the housing material operations segment are also expected to increase, owing to the recovery of the housing market.

The operating profit was set at ¥7.8 billion, down by 2.7% YoY. The operating profit in the chemical operations segment is expected to decrease slightly, owing to a lower unit sales price and an increase in fixed costs, including repair costs and personnel expenses. The operating profit in the housing material operations segment is expected to decrease owing to an increase in SG&A expenses.

Ordinary profit was set at ¥8.2 billion, down by 11.6% YoY. Ordinary profits are expected to decrease further owing to the non-recurrence of foreign exchange gains recorded in fiscal year 2023.

The profit attributable to the owners of a parent is expected to decrease by 30% to ¥5.5 billion owing to the non-recurrence of gains on sale of investment securities recorded in fiscal year 2023.

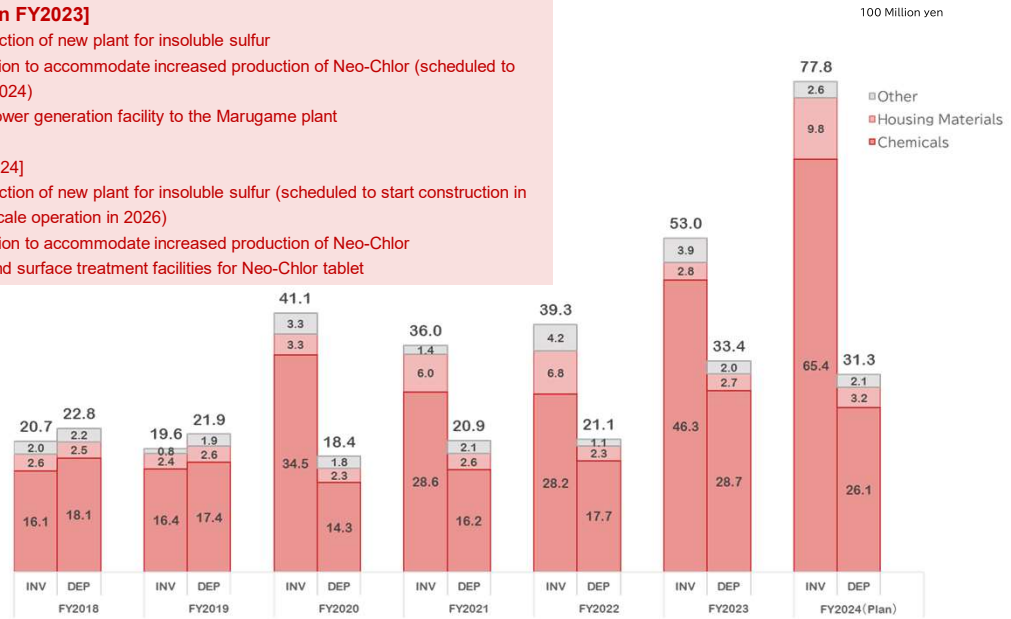
Capital investment and Depreciation

[Major capital investment in FY2023]

- 2,230 million yen for the construction of new plant for insoluble sulfur
- 800 million yen for the construction to accommodate increased production of Neo-Chlor (scheduled to start operation in the autumn of 2024)
- 180 million yen to add a solar power generation facility to the Marugame plant

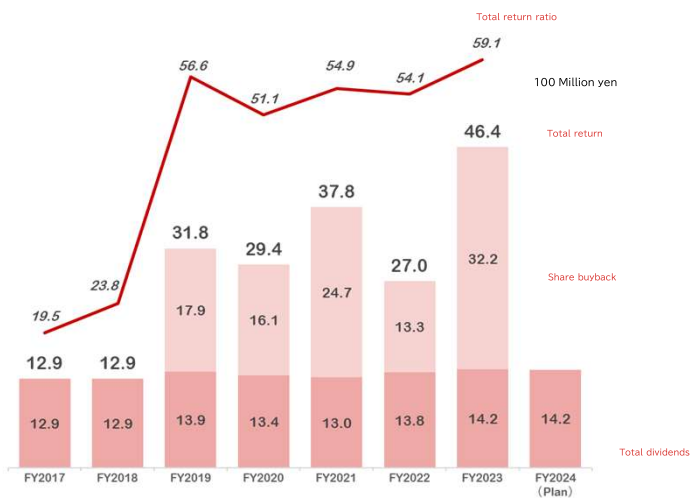
[Major capital investment in FY2024]

- 2,550 million yen for the construction of new plant for insoluble sulfur (scheduled to start construction in the winter of 2024 and start full-scale operation in 2026)
- 380 million yen for the construction to accommodate increased production of Neo-Chlor
- 540 million yen for production and surface treatment facilities for Neo-Chlor tablet



Next, we discuss capital investment plan and depreciation. Capital investment for the fiscal year ending in December 2024 is planned to be ¥7.78 billion in total. The construction of a new plant for insoluble sulfur and accommodating increased production of Neo-Chlor are progressing as scheduled. The amount shown above is scheduled to be recorded this year. However, depreciation costs will slightly decrease in fiscal year 2024 compared to the previous period because the full-scale operation of these plants will start after 2025.

## Dividend and Share buyback Trends

**[Shareholder Return Policy]**

• The Company aims to achieve “a dividend 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.

**[FY2023 Shareholder Return Policy]**

• Annual dividends were 28 yen per share (interim dividend of 14 yen and year-end dividend of 14 yen)  
 • Repurchased the Company shares of 3,220 million yen in total in June and November 2023 through TosTNet-3. Total shareholder returns including dividends of 1,420 million yen are 4,640 million yen, with a total payout ratio of 59.1%.

**[FY2024 Shareholder Return Policy (plan)]**

• Plans to maintain dividends of 28 yen per share (interim dividend of 14 yen and year-end dividend of 14 yen).  
 • In addition, premised upon the shareholder return policy, the Company will repurchase its shares in a flexible manner and promote the reduction of excess capital and cross-shareholdings to improve the value of shares.

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Next, we consider dividend forecasts and share buyback trends. In the fiscal year 2023, the annual dividend was ¥28 yen, and the dividend payout ratio was 18.4%. In the fiscal year 2023, we repurchased the Company shares exceeding ¥3.2 billion, with a total payout ratio of 59.1%. We invested ¥10.4 billion over five years to repurchase about 8 million shares of the company, with an average purchase price of about ¥1,300. Considering the current level of the company’s share price, this makes a significant and positive contribution to our current shareholders.

The dividend forecast for the fiscal year 2024 is ¥28, which is the same amount as in the fiscal year 2023. However, the company positions the dissolution of cross-shareholdings as the most important issue in corporate governance reform, and we will continue to repurchase our own shares in association with the dissolution. In the future, as soon as there is a prospect of the dissolution of cross-shareholdings, we will focus on shareholder returns through dividends.

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

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Next, I explain the management policy that considers capital costs and stock prices. While the company's share price recently exceeded the PBR of 1x, we recognize that the evaluation of the capital market remains low, given the company's potential.

## Analysis of current situation and policies for the present

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.  
To accelerate in the current direction, we plan to consider and carry out various capital policies.

### [Future earnings to be acquired (FCF)]

(Shareholder return)  
Carry out promptly, targeting 50% of profit

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

### [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 and preferential treatment) and incentive plans that make employees and management more aware of share value.

### Consolidated Balance Sheets (as of 12/31/2023)

#### [Financial assets]

Cash and deposits  
Securities (short-term bonds)  
Investment securities (long-term bonds)  
Investment securities (cross-shareholdings)

Approx. ¥69.8 bn  
(+¥8.6 bn from the beginning of the year)

#### [Business assets]

Trade receivables  
Inventories  
Property, plant, and equipment/ Intangible assets

**Chemicals operations**  
Approx. ¥43.1 bn  
**Housing Materials operations**  
Approx. ¥14.4 bn  
  
Approx. ¥61.1 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 if there is no urgent demand for funds. In particular, the reduction of cross-shareholdings is prioritized while working on creating business synergies with companies of cross-shareholdings.

#### [Investment capital]

(Profit indicators to be compared)  
Operating profit after tax by business

→ **ROIC by business**  
**Chemicals operations**  
Approx. ¥30.1 bn (+¥1.5 bn from the beginning of the year)  
**ROIC 15.2%**  
**Housing Materials operations**  
Approx. ¥8.1 bn (▲ ¥1.4 bn from the beginning of the year)  
**ROIC 12.0%**  
Approx. ¥39.2 bn

#### [Business liabilities]

Trade payable  
Labor liabilities and provisions

#### [Group capital invested]

(Profit indicators to be compared)  
Profit after tax (operating profit + financial revenue)

→ **Group ROIC**  
(Target ROIC)  
Set to WACC as a hurdle rate of ROIC, and aim to achieve WACC of 6% or less by reducing the cost of equity through leverage.

(Current status)  
There is a gap between business ROIC and Group ROIC, and the return on invested capital as a whole is declining due to excess capital with low yields. Aims to improve the return on Group ROIC by reducing excess capital to an appropriate amount.

Approx. ¥109.0 bn  
(+¥7.1 bn from the beginning of the year)  
**ROIC 5.8%**

#### [Net assets in carrying amount]

(Profit indicators 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 by capital reduction

Approx. ¥86.1 bn  
(+¥4.8 bn from the beginning of the year)  
**ROE 9.4%**

#### [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. ¥22.2 bn  
(+¥2.0 bn from the beginning of the year)

#### [FY2023 Financial and CF Summary]

- Profit temporarily increased to ¥7.8 billion, with ROE at a high level of 9.4%, due to the recording of gain on sale of cross-shareholding in an extraordinary income.
- Shareholder returns decreased by ¥4.6 billion in total of dividends and repurchase of own shares.
- As a result, shareholders' equity increased by ¥3.2 billion.
- (Combined with comprehensive income, net assets increased by ¥4.8 billion.)
- The Company raised approximately ¥2 billion in additional interest-bearing debt.
- The total of group capital invested increased by ¥7.1 billion.
- This capital increase was invested in capital expenditures of ▲ ¥5.3 billion (up ¥3.3 billion in depreciation), and financial assets increased by ¥8.6 billion from the previous year to ¥69.8 billion.
- Assets increased temporarily mainly due to an increase in valuation of listed shares (approximately ¥4 billion) and an increase in income taxes payable (approximately ¥2.5 billion) associated with a change in the fiscal year-end.
- Accelerate discussions on reduction measures of assets and capital.

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As shown in the balance sheet, as of December 31, 2023, the total assets invested in the business are approximately ¥39.2 billion, and ROIC by business, which is calculated from the operating profit after tax for each business, is 15.2% in the chemical operations segment and 12% in the housing material operations segment. This breakdown is explained in the ROIC tree analysis.

However, financial assets and excess capital supporting them reached ¥69.8 billion so that Group ROIC decreased to 5.8%, which is not a satisfactory level compared with WACC.

In the fiscal year 2023, we posted a large gain on the sale of investment securities, which boosted ROE on a profit basis to 9.4%. However, in the actual situation, excluding temporary factors, the ROE is approximately 8%, and we recognize a large gap with the Challenge 1000 target of 10%. However, given the ROIC of each business, we continue to recognize that we can achieve this target by reducing excess capital even within the current business structure.

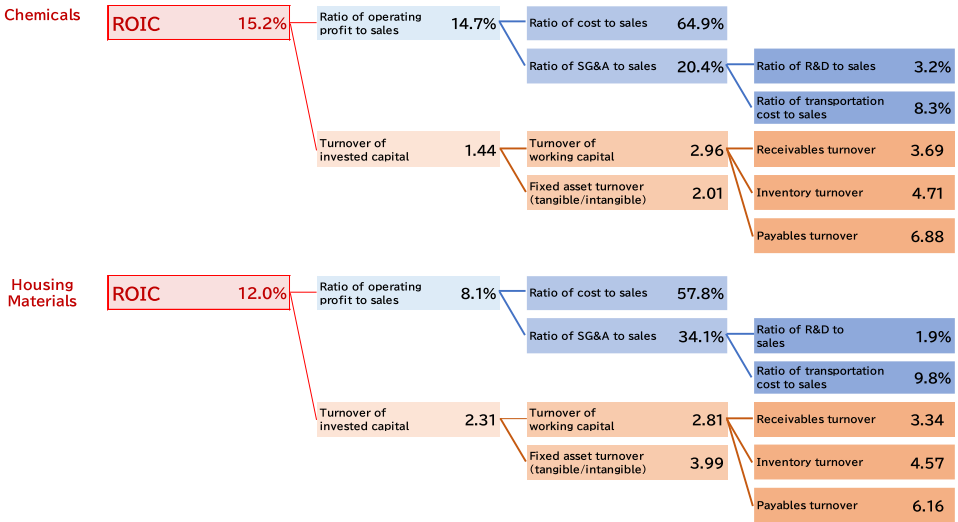
The blue part shows a general overview of the fiscal year 2023. Profit attributable to owners of a parent was high at ¥7.8 billion in the fiscal year 2023, and shareholders' equity increased ¥3.2 billion due to the distribution of ¥4.6 billion yen for return to shareholders. Group capital investment increased by ¥7.1 billion, including comprehensive income and financing through borrowing.

Regarding investment capital, we continued to invest more than depreciation expenses, but there was no significant overall change. On the contrary, financial assets increased by ¥8.6 billion from the previous year. This was mainly due to temporary factors, including an increase in valuation gains for listed shares and an increase in payable income taxes associated with a change in the fiscal year-end.

In any case, we are currently conducting inspection work for Challenge 1000, and in the process, we are reviewing financial demands of this period. In the future, we aim to present a plan to reduce capital that exceeds the demand and capital allocation strategies.

Analysis of ROIC Tree

Both Chemicals and Housing Materials operations maintain high capital turnover due to high added value based on low cost ratio and high ROS arising from their niche business areas and R&D capabilities as well as lower investment burden on production facilities.



The contents of this slide are not included in Supplemental Information. The above shows the ROIC tree of the chemical and housing material operation segments. One of the features of these two businesses is their high operating profit margins.

In the chemical operations segment, the profitability of the fine chemical business is outstanding; the higher the ratio of this business, the higher the profit margin. Profitability depends on the strength of a company's R&D. However, our R&D expenses are currently not high enough, considering the statistical data of the ratio of R&D expenses to sales in the industry, and we will continue to concentrate our management resources on R&D without reducing spending and investments.

The housing material operations segment also enjoys a higher operating profit margin in the industry because of the high profitability of landscape exteriors, in which the company has strengths.

The turnover of invested capital is also high in both segments; in particular, the housing material operations segment is characterized by small investments in fixed assets. The company purchases aluminum-shaped materials from competitors without a large aluminum extrusion facility, which enables our production facilities to operate flexibly. This improves capital turnover, and the high agility of the production site supports the response to customs orders, which is the strength of our landscape exterior operations.

We will continue to measure these indices as KPIs and share them with the shareholders.



## 4. Review of the Fiscal Year Ending 2023

Finally, I explain major activities in the fiscal year 2023 in our long-term vision, “Challenge 1000.”

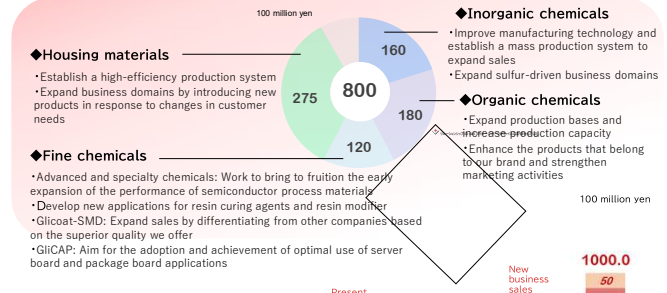
Progress of 'Challenge 1000'

Desired state in 2030

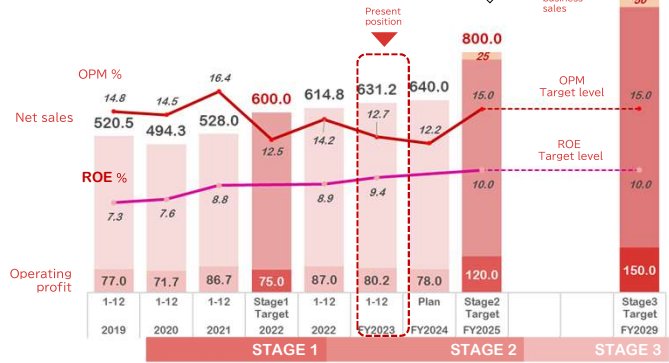
**Toward "one-step-ahead, proposal" company with Dokusouryoku (creativity)**

Solve social issues with creative ideas, leading the progress of the world

<b>Financial Goals</b>	<b>Net Sales</b> 100 billions of yen	<b>Operating Income</b> 15 billions of yen	<b>ROE</b> 10%
<b>Pillars for Strategy</b>	<b>Business Reform Policy</b>	<b>Companywide Reform Policy</b>	<b>Proactive Investment</b>
<b>YONPO- YOSHI</b> (Contributions to Shareholders)	<b>Customers</b>	<b>Employees</b>	<b>Shareholders</b>
	<b>Society</b>		



	「STAGE 2」 Target (FY2023~ FY2025)	FY2023	STAGE 2 FY 2023 Progress ratio
Net sales	80,000	63.117	78.9%
Operating profit	12,000	8,019	66.8%
ROE	10%	9.4%	—



\* In the graph, performance in prior years is adjusted to the same period in FY2023 (January to December). 18

The long-term vision "Challenge 1000" is a backcasting-type, long-term management plan that draws a desired state for the entire Group and each business in 2030, and schedules how to achieve such vision chronologically. "STAGE 2" of this plan started in the fiscal year 2023. The current progress against STAGE 2 final financial targets is described here, and I will briefly report our activities in the fiscal year 2023.

## Progress and Outlook

### Inorganic chemicals



- Construction of the new insoluble sulfur plant is progressing smoothly. Completion scheduled in December
- Due to a change (improvement) in the manufacturing method, which requires an authorization by a manufacturer, full-scale continuous operation and contribution to revenues will begin from FY2026.

- In the carbon disulfide business, we started overseas sales of hydrogen sulfide, a by-product.
- Target sales of 300 million yen due to high demand for the Company's high-quality products
- Continued search for new business based on sulfur



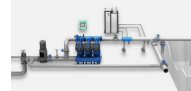
### Organic chemicals



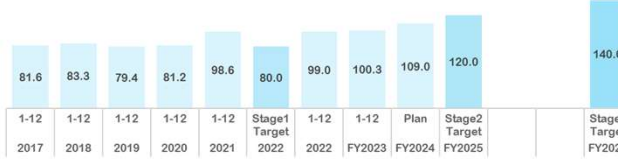
- The investment in facility enhancement of Neo-Chlor is scheduled to be completed in FY2024.
- It will contribute to profits by full-scale operation of three lines in FY2025.

- Continued investment in facilities for tablet products to become the largest supplier of solid chlorine agent in Japan
- In addition to Japan's only ODM production, which undertakes integrated operations from concept design to packaging, new B-to-C products (WASHMANIA series) that apply original basic technologies is also under development.

- Acquired "MICROFADE®" business, a ballast water management system, from Kuraray Co., Ltd.
- Challenge the expansion of the drug market through system selling.



### Fine chemicals



- For advanced & specialty chemicals, growth continues in the area of resin modifiers and semiconductor process materials

- For resin modifiers, new compounds in low dielectric and biomass materials areas are currently being evaluated by users in addition to the growth of the mainstay TS-G.

- In addition, acquired Masuda Chemical Industries Co., Ltd. as a subsidiary to establish a production system.

- For semiconductor process materials, several candidate compounds are being evaluated in the field of high-function films (BARC and resist) for the next and more advanced generations in line with the generation evolution of the semiconductor manufacturing process

- For electronic chemicals, sales of GLiCAP are expected to double from the previous year in FY2025.

- In the server substrate area, it was adopted in the manufacturing line and put into practice.

- In the semiconductor packaging area, manufacturing tests for the next-generation GPUs are in the final stage



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In the inorganic chemicals business, the construction of a new plant for insoluble sulfur has been progressing smoothly and is scheduled to be completed in December 2024. Although we plan to improve the quality of our products, we expect full-scale and continuous operation and profit contribution in the fiscal year 2026, because the approval of a manufacturer will be required in association with a change in the manufacturing method. In the carbon disulfide business, we started external sales of hydrogen sulfide, a byproduct. We expect to achieve a sales target of ¥300 million owing to the high demand for the company's high-quality products. In addition to hydrogen sulfide, we continue to search for new businesses using various sulfur-based substances.

Next, let us focus on the organic chemicals business. The investment to increase Neo-Chlor production is scheduled to be completed by the end of the fiscal year 2024, which will contribute to profits by the full-scale operation of the three lines in the fiscal year 2025. We continue to invest in various processing facilities, in addition to production facilities for the Neo-Chlor bulk, and we are shifting to the largest supplier of solid chlorine agents in Japan. In particular, the company supplies many chlorine agents to household water-sectioning equipment or sanitary areas. Taking advantage of the unique strength of ODM production, which involves integrated operations from concept design to packaging, we are currently involved in many development projects. In addition, we are developing new B-to-C products that apply the original basic technologies and will enhance the lineup of the WASHMANIA series. We acquired "MICROFADE®" business, a ballast water management system, from Kuraray Co., Ltd., and we will try to sell the system. Although the business stopped receiving new orders, it resumed receiving orders after the company's acquisition, and we have already received several inquiries. In the future, we will focus on contributing to profits.

Finally, there is the fine chemicals business. Resin modifiers and semiconductor processing materials are increasingly used in advanced and specialty chemicals. For resin modifiers, new compounds in low dielectric and biomass material areas are currently being evaluated by users, in addition to the growth of the mainstay Glycoluril Derivative. In addition, we acquired Masuda Chemical Industries Co., Ltd., as a subsidiary to establish a production system. For semiconductor process materials, several candidate compounds are being evaluated in the field of high-function films for the next and more advanced generations in line with the evolution of semiconductor manufacturing processes. Although these materials are currently in demand for prototyping, if they are adopted for commercial use, their demand may grow rapidly. For electronic chemicals, GLiCAP has been formally adopted as a manufacturing line in the serverboard area, proving its track record. This business is expected to grow more than twice from the previous year in the fiscal year 2024. Manufacturing tests for next-generation GPUs are underway in the field of semiconductor packaging, and we are currently performing final alignment work with users for adoption.

These are the initiatives in the chemical operations segment.

Progress and Outlook

Housing materials

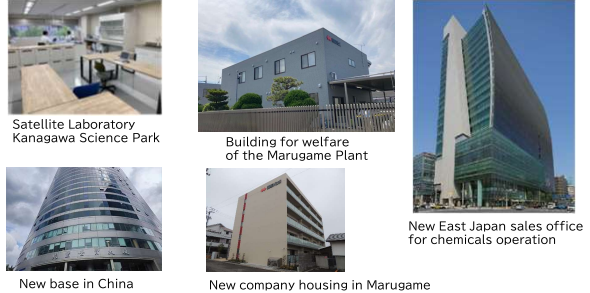


- Showed the feature product "Myport 7" at Osaka Mobility Show.
- Started the official account on "Pinterest"
- Reformed the organizational structure and newly established Overseas Sales Department and Special Sales Department.
  - Strengthening proposal of space for interior, exterior finished and paving materials, and overseas sales of exterior products.
- Acquired Ryouwa Kasei Kogyo Co., Ltd. as a subsidiary to ensure stable supply of exterior resin parts and a Business Continuity Plan (BCP).



Declaration on Improvement of Working Environment

- [Investment in a comfortable working environment]
- Construction of a building for welfare at the Marugame Plant
  - Renewal (new construction) of company housing in Marugame
  - Drafting a basic plan for constructing a new R&D center (target in FY2027)
  - Started considering reconstruction of an office building at the Tokushima Plant
- [Establishment of business sites]
- Transfer of East Japan sales office (branch office) for the Chemicals operations from Makuhari to Nihonbashi, Chuo-ku (2024/5)
  - Establishment of R&D Center Satellite Laboratory at Kanagawa Science Park
  - Expansion of sales offices for the Housing Materials operations (Tokyo, Kanagawa, East Kanto, and Okayama)
  - Transfer and functional enhancement of a subsidiary in China (Shikoku (Shanghai) Co., Ltd.)



Challenge 1000 in the 5th year, hitting the halfway point.  
 "Overall inspection" now underway to confirm the gap between the current status of each business and their desired state, and accordingly reconsider the appropriateness of strategies.

Sales in the housing material operations segment have been low in recent years. Following organizational change, we established the Overseas Sales Department and the Special Sales Department. We will strengthen our proposal of space for interior, exterior finished, and paving materials as well as overseas sales of exterior products and will break from the mature existing market to look for growth opportunities.

Please refer to the Declaration of Work Environment Improvement in the middle of the page. Thus far, we have postponed spending and investment in the work environment, as it does not directly contribute to profit. We recognize that this stance has gradually reduced the vitality of the company from various perspectives, such as work efficiency, safety, employee motivation, and recruitment activities. Therefore, this declaration was issued to all employees and a company-wide review is underway. Following this review, several projects have already been implemented, including the relocation of chemical sales offices to Tokyo. We will launch a large project to rebuild an R&D center. We believe that the successful launch of this center will be a key touchstone in determining the future of our R&D capabilities.

Finally, we discuss our ongoing initiatives. Challenge 1000 is now in its fifth year, reaching its halfway point. Presently, each business is working in line with the Stage 2 business plan, but its progress varies significantly. The business environment of the company has also changed significantly due to the pandemic. At this point, we understand that we must check the progress of each business comprehensively and reconsider and revise current strategies toward STAGE 3. Therefore, we currently promote inspection work for each business within the Group.

We hope that the results of the inspections, including midterm performance guidance and capital allocation strategy consistent with the results, will be presented as soon as the inspection work is completed.

**Thank you for your attention!**

Now, we conclude this discussion. Thank you for your continued understanding and cooperation. Thank you for your attention.

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**SHIKOKU KASEI HOLDINGS CORPORATION**  
**Q&A session on Investor Briefing for the fiscal year ending**  
**December 2023 (February 9, 2024)**

Q1. Last year, you revised the prices twice in the housing material operations. Did profitability recover because of the price revision?

A. We revised the prices twice, but the sales volume did not recover accordingly. If the sales volume returns to the level before the price increase, we expect profitability to recover to its previous level.

Q2. Sales volume of housing materials decreased. Is this because of the changes in sales activities due to the pandemic or because of a structural decrease in demand associated with price hike? What is your opinion?

A. We believe that the decrease in housing exteriors was largely due to a drop in demand. Landscape exteriors show slower progress in construction due to delays in construction work, labor shortages, and regulations on overtime work, because demand has not decreased.

Q3. What are the goals of Overseas Sales and Special Sales Departments newly established within the housing material operations?

A. Currently, small amounts of these products are sold in Europe. However, the Asian region remains underdeveloped in this context. We will strengthen overseas markets with growth potential to enter larger markets. The Special Sales Department is one of the leading sections dealing with competition. It conducts specialized sales activities, including design, which is our strength.

Q4. As for fine chemicals, have you expanded the development from epoxy to other resin modifiers?

A. Flame and heat resistance are issues associated with resins other than epoxy in low-dielectric materials. We are currently developing low-

dielectric materials with both flame and heat resistance.

Q5. Where is the planned construction site of the new R&D Center?

A. We plan to locate it next to the current R&D Center in Utazu-cho, Kagawa.

Q6. Regarding ROIC of each business, what is your opinion about the current level and how do you propose future improvements?

A. We recognize that the current ROIC level is high. As we plan to continue large capital investments in the future, ROS is expected to decrease because of an increase in depreciation. To compensate for this, businesses must grow, particularly fine chemicals with high profitability. Regarding asset turnover, we carefully observed the slow movement of inventories and trade receivables to prevent non-performing assets from increasing and maintaining high turnover. In addition, from the Holding Company's viewpoint, there is considerable room for improvement in the Group ROIC by reducing excess funds, as shown in the supplemental information.

Q7. Please tell us about your view on fine chemicals in the new fiscal year? What do you expect to grow compared to the previous year?

A. Fine chemicals have shown a recovery trend since the latter half of the previous fiscal year and this trend is expected to continue throughout this fiscal year. Net sales are expected to increase by 8.6% to ¥10.9 billion.

Q8. What is your opinion on insoluble sulfur revenues in the next few years?

A. A new plant is an investment that improves quality. We plan to replace the old plants in the future, and the operation of new plants will contribute to improving profitability. We have long been exporting our products to regions close to Japan; however, in recent years, we have



focused on the North American market and aim to increase profits by acquiring new positions.

Q9. What is the current status and future prospects of fine chemicals?

A. Several products had the highest global shares. The product itself has changed over the generations, but its current status has been maintained. As the demand for sustainable raw materials and manufacturing methods has increased, we are currently working on them.

Electronic chemicals and advanced and specialty chemicals showed a recovery trend from the end of summer. In contrast, we focus on state-of-the-art markets that have a certain level of demand without being affected by the economy. We will work to respond to the demand from such markets and formally adopt the demand for prototyping to expand our business performance.

Q 10. How is GliCAP used in GPU applications?

A. GliCAP is increasingly being adopted in GPU applications for package boards on which semiconductor chips are placed. The manufacturers of these boards are the customers.

Q 11. Regarding the ballast water management system, how has this business grown after the regulations came into effect? I would also like to ask about the effects of acquiring the system from Kuraray.

A. Currently, the installation of processing equipment for ships has been delayed. If equipment is not installed, the agents cannot be sold. Thus, this business cannot be covered by sales efforts. We aim to sell equipment to expand the sales of both equipment and agents.

Q 12. Why have you decided to sell hydrogen sulfide externally?

A. Hydrogen sulfide is a byproduct of carbon disulfide. As it is less competitive, we expect an increased demand for high-purity hydrogen sulfide. In addition, the demand for hydrogen sulfide has been increasing, and it has become a viable business.

End