Supplemental Information Financial Results For FY 2024 2Q

2024/7/30

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

1. Consolidated Financial Results

Financial highlights

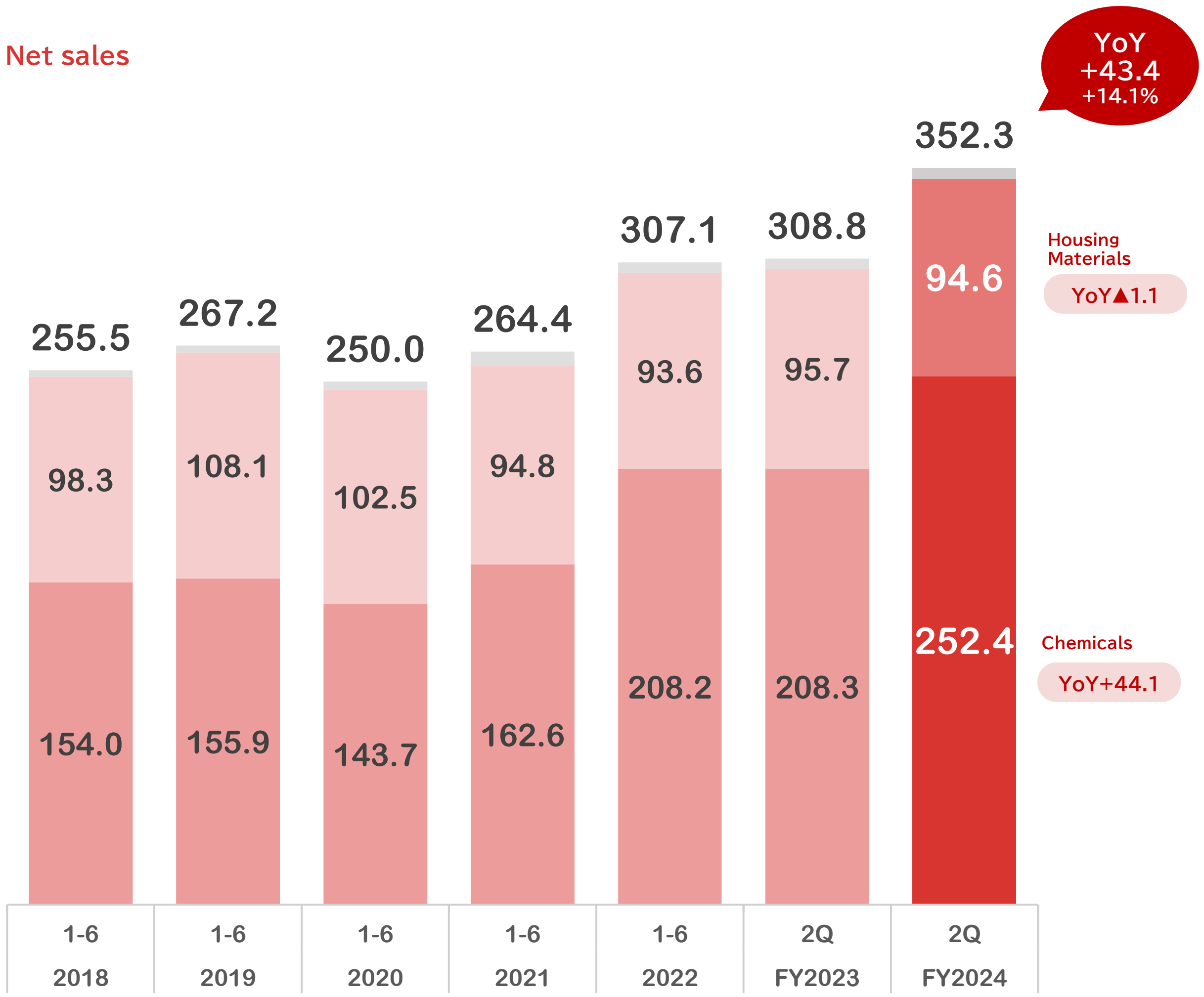
Both net sales and profits increased to record highs on the backs of strong sales overseas and the depreciation in the yen

Million yen

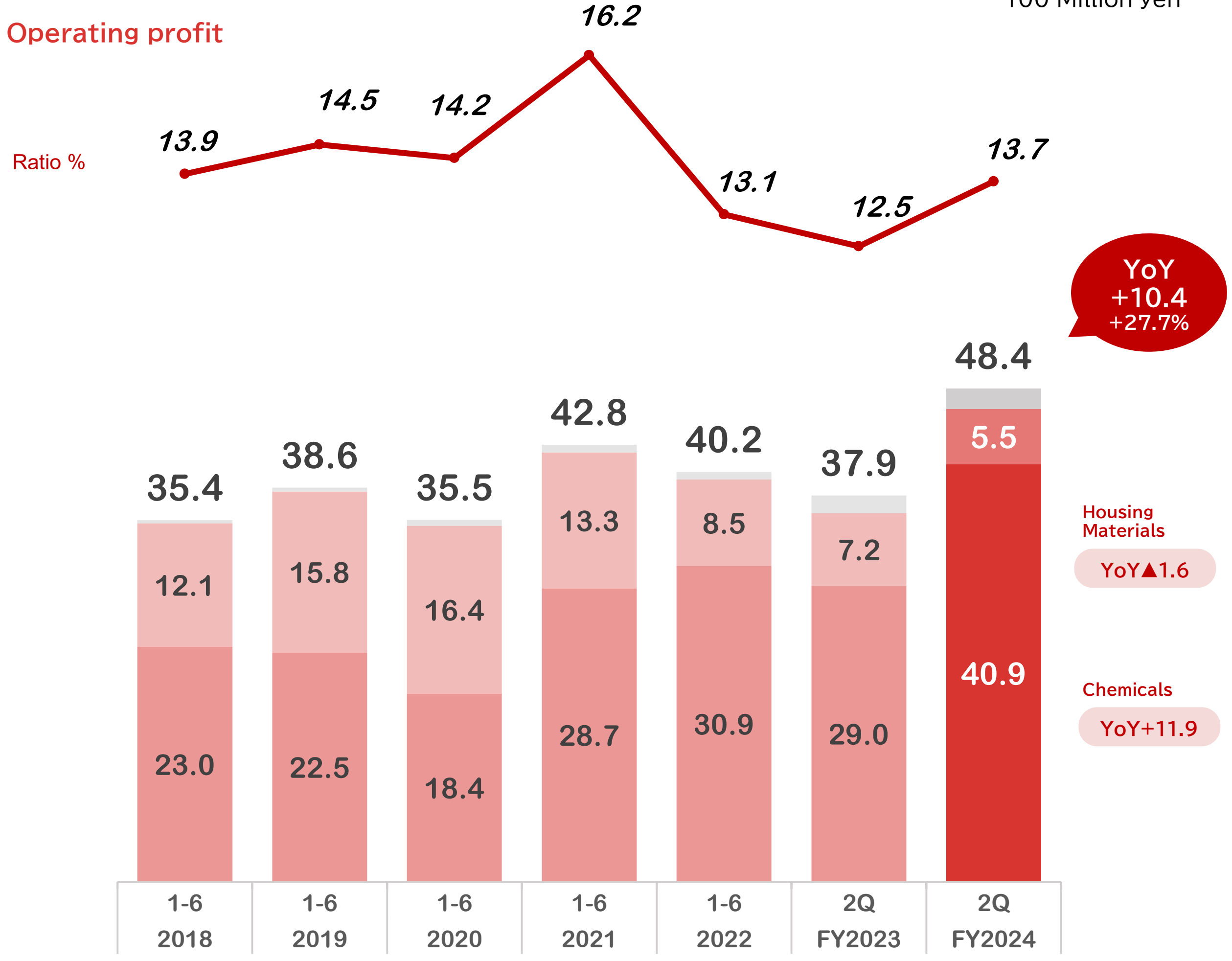
	FY2023 2Q	FY2024 2Q	Change／Rate	Remarks
Net Sales	30,880	35,225	+4,345 +14.1%	･Chemicals operations increased due to increased sales overseas and the depreciation in the yen ･Housing Materials operations decreased due to a deterioration in the detached houses market
Operating profit	3,786	4,835	+1,048 +27.7%	･Increased sales in Chemicals and a weaker yen absorbed the higher costs (transportation and SG&A costs), yielding higher profits
Ordinary profit	4,720	5,936	+1,216 +25.8%	･Foreign exchange gains 737 (YoY+182) ･Interest income 148 (YoY+44)
Profit attributable to owners of parent	3,212	4,032	+820 +25.5%	･Loss on sale of investment securities ▲47 (YoY+47) ･Loss on retirement of non-current assets ▲5 (YoY▲47)
Exchange rate	1USD 134 JPY 1EUR 144 JPY 1RMB 19.4 JPY	1USD 150 JPY 1EUR 164 JPY 1RMB 20.9 JPY	Net Sales +17 billion yen Operating Profit +10 billion yen	･Foreign exchange impact on PL included in the change from the previous year (total of Chemicals and Housing Materials) Only the impact of exchange rate fluctuations on foreign currency transactions is shown. Many yen-denominated transactions are also substantially affected by changes in foreign exchange rates; however, they are not included.

Trends in Net sales and Operating profit (YTD)

Net sales increased in Chemicals (+4.41B) but decreased in Housing Materials (-110M), resulting in a companywide increase in sales (+4.34B)
Total operating profit increased (+1.04B) due to increased profits in Chemicals (+1.19B) and decreased profits in Housing Materials (-160M)



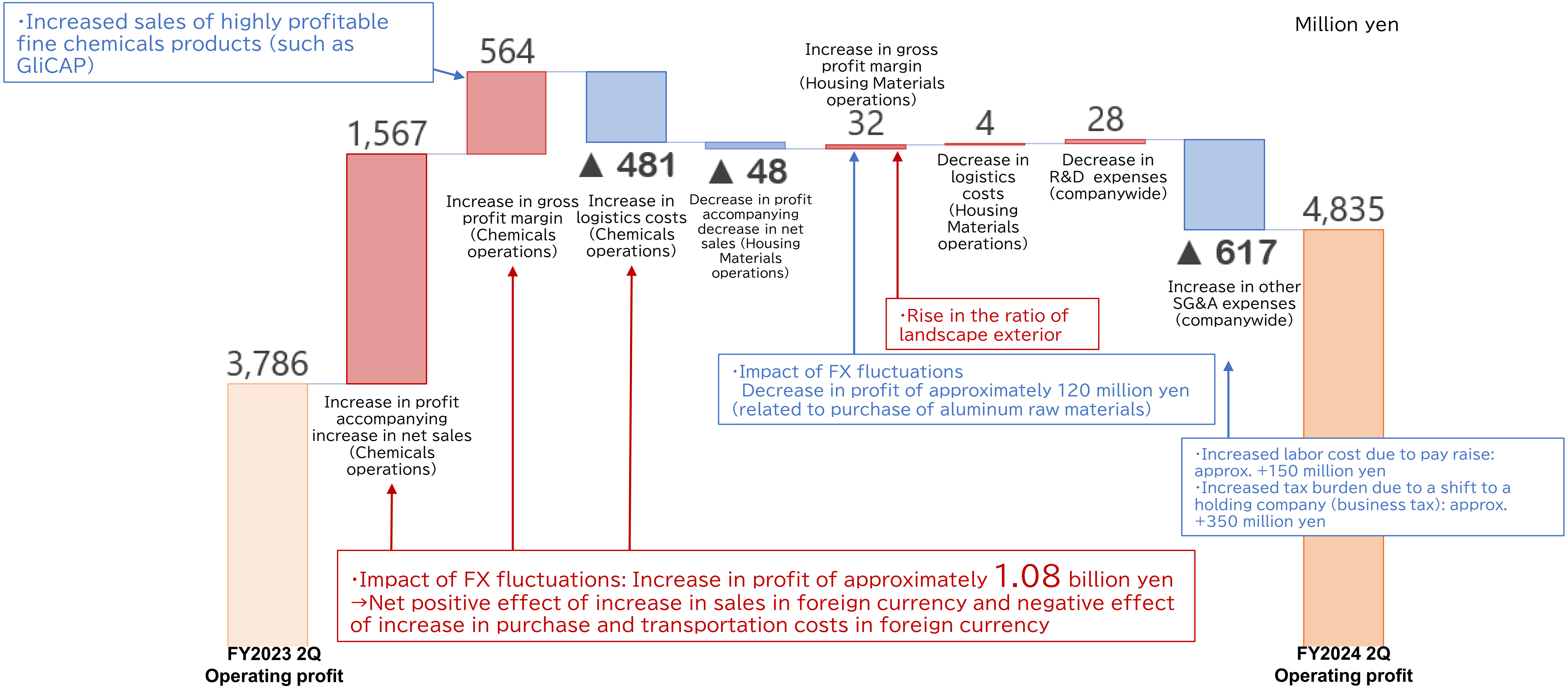
100 Million yen



* Results before FY2022 were recalculated for the same period of the current year (January to June).

YoY Changes in Operating profit

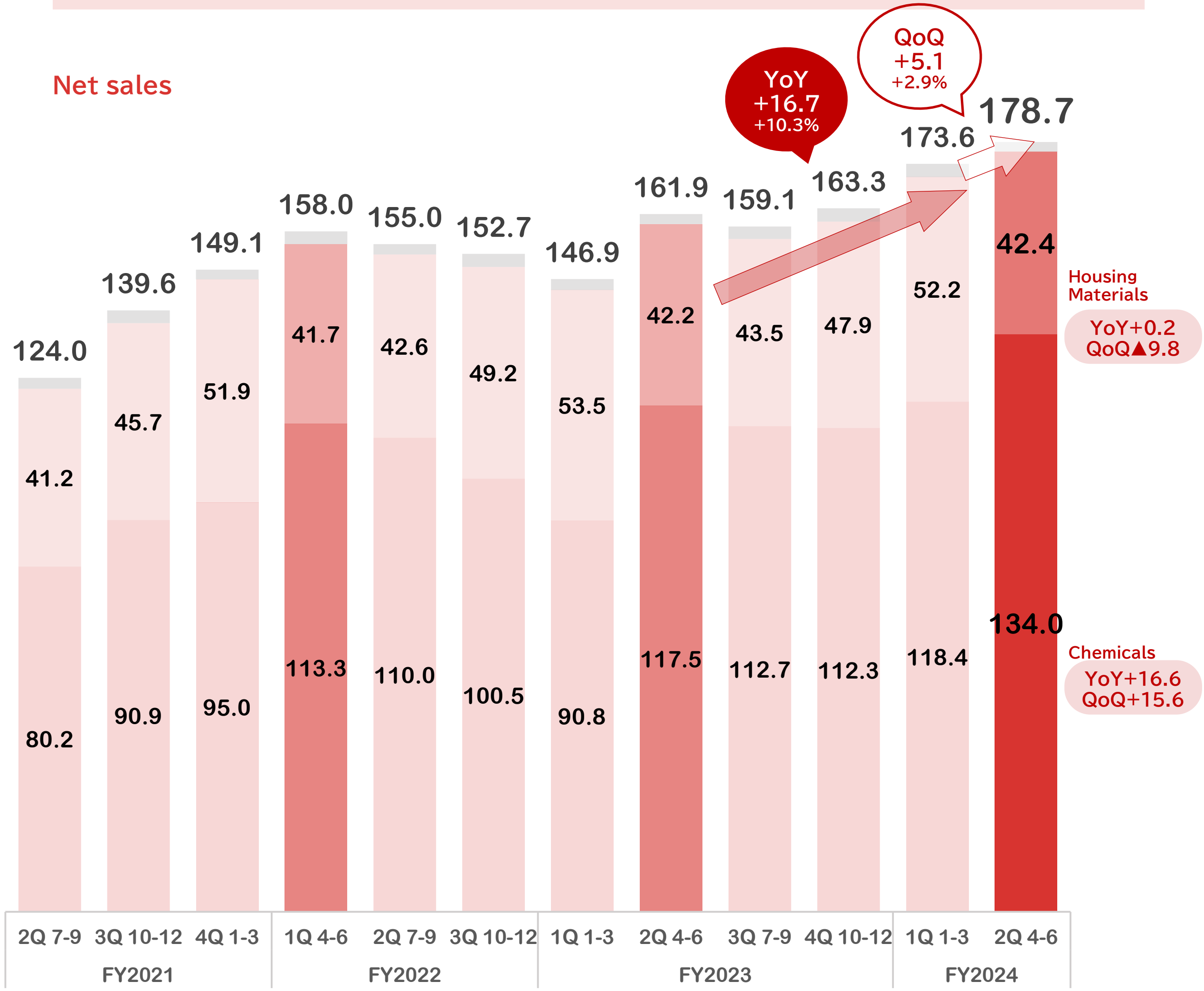
Increased sales in Chemicals and a weaker yen absorbed the increased costs in transportation, SG&A and other areas, yielding higher profits overall

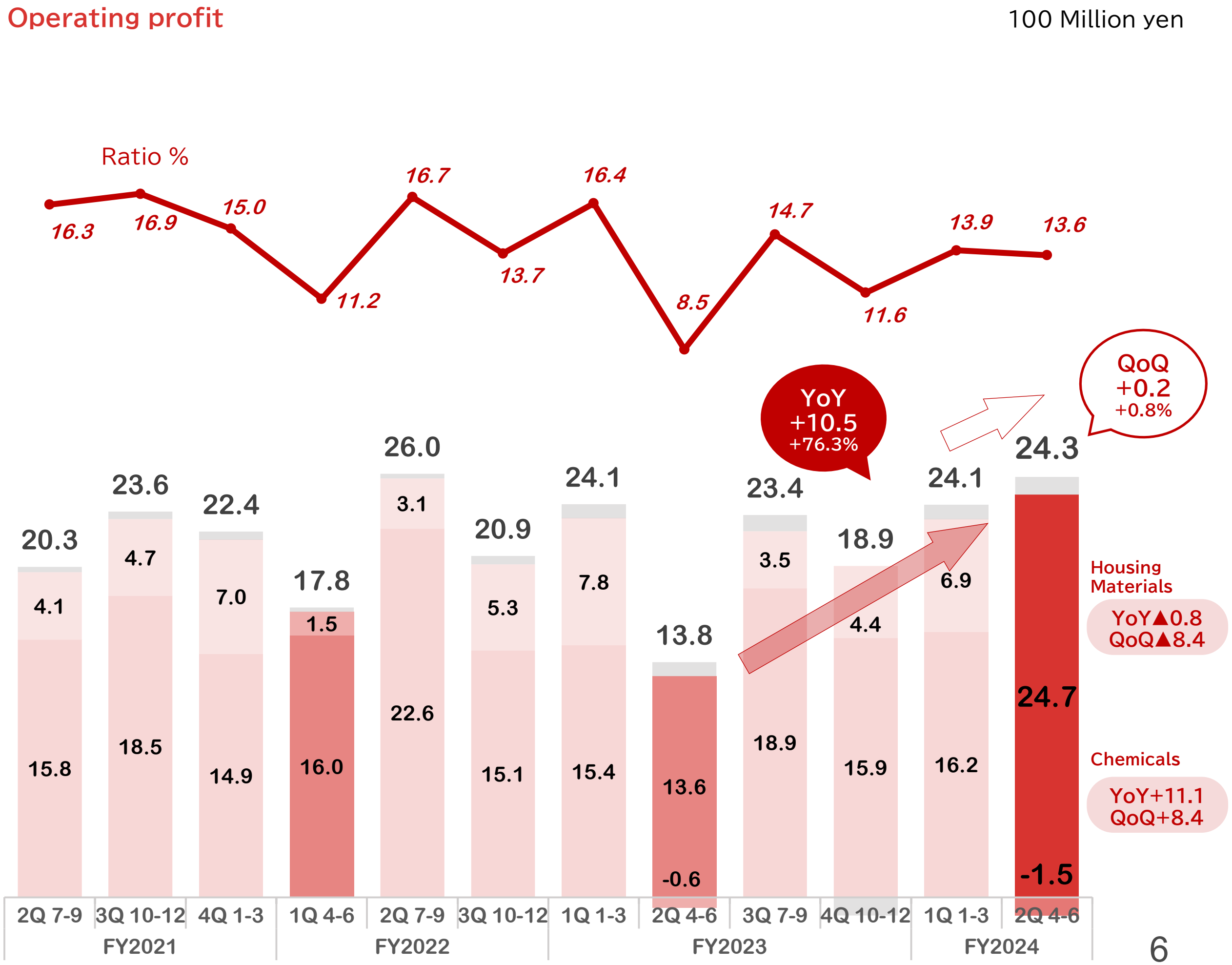


Trends in Net sales and Operating profit (QTD)

・Total sales increased by 1.67 billion yen YoY. Chemicals operations achieved growth of 1.66 billion yen due to increased sales of organic chemical products and fine chemicals and a weaker yen. Housing Materials operations remained unchanged (+20 million yen), with nonresidential fields covering for sluggish performance in the detached housing market.
・Sales increased by 510 million yen QoQ. In Chemicals operations, sales increased by 1.56 billion yen due to robust performance in organic chemical products (including seasonal factors). Sales of Housing Materials operations decreased by 980 million yen due to the absence of seasonal factors from 1Q.

・Total operating profit increased by 1.05 billion yen YoY. Chemicals operations increased significantly by 1.11 billion yen due to increased sales and a weaker yen. Housing Materials operations decreased by 80 million yen due to soaring prices of aluminum and other raw materials, as well as increased SG&A costs.
・Operating profit increased by 20 million yen QoQ. Chemicals operations increased by 840 million yen due to increased sales and the sales mix of organic chemical products (increasing proportion of products produced in-house). Housing Materials operations decreased by 840 million yen due to decreased sales and soaring prices of aluminum and other raw materials.





Operating results by segment: Chemicals (QTD)

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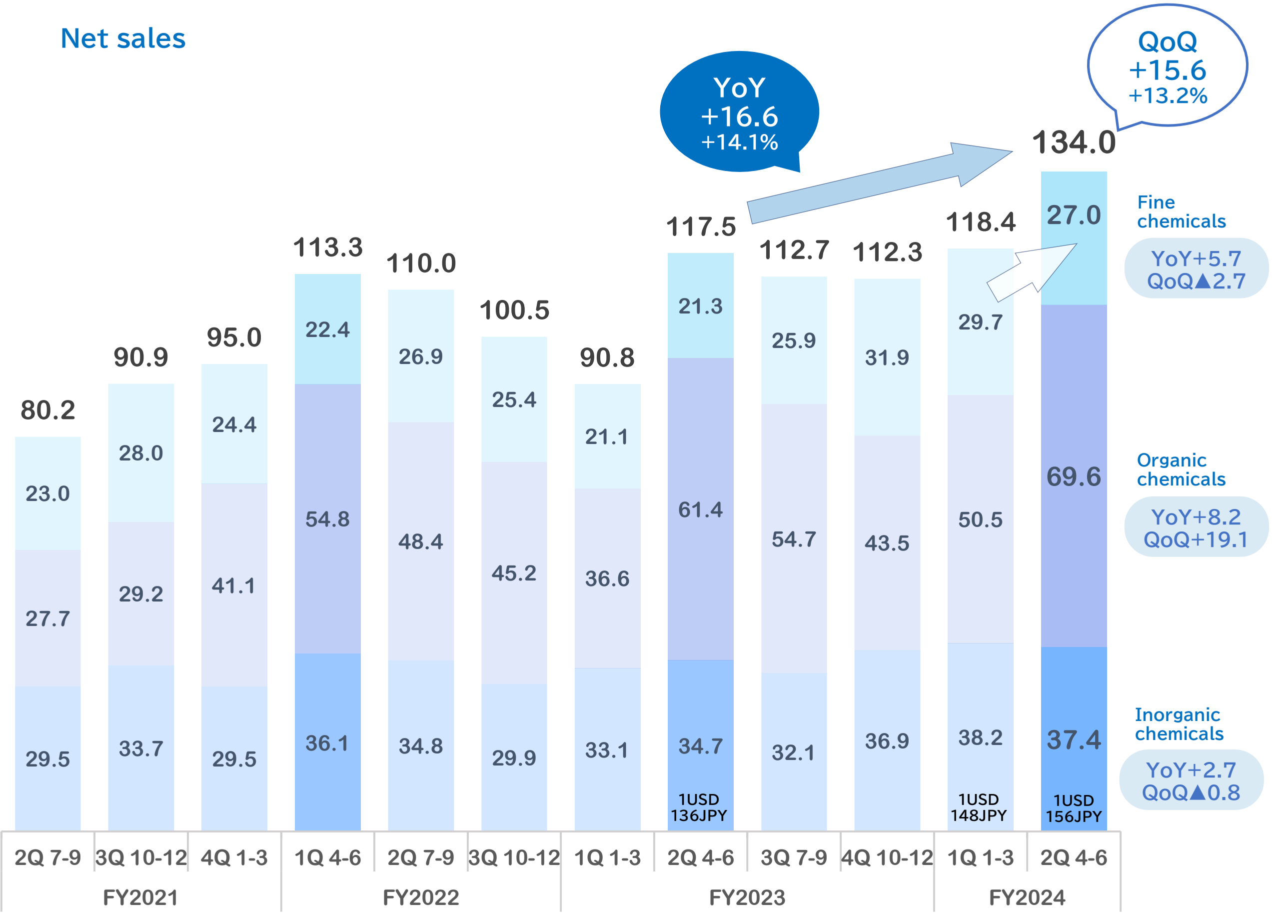
・Sales of inorganic chemicals increased by 270 million yen YoY while decreasing by 80 million yen QoQ. The YoY change was positive due to the progress of sales expansion of insoluble sulfur to North America, while the QoQ change was negative due to the impact of concentrated shipment (first-out) in 1Q.
・In terms of organic chemical products (Neo-Chlor), sales increased by 820 million yen YoY and 1.91 billion yen QoQ as the cargo movement showed a sign of recovery after inventory adjustment in the North American market, but the profit margin is trending downward due to slackening supply and demand.
・Fine chemicals sales increased by 570 million yen YoY while decreasing by 270 million yen QoQ. Sales of functional materials and electronic chemicals are showing a gradual recovery in market conditions, but the QoQ change was negative due to misalignments in the timing of production and shipping, among other factors. In addition, sales of the newly developed product GliCAP (for server boards) were launched.
・The impact of foreign exchange was +990 million yen YoY (JPY/USD: 136→156) and +390 million yen QoQ (148→156).

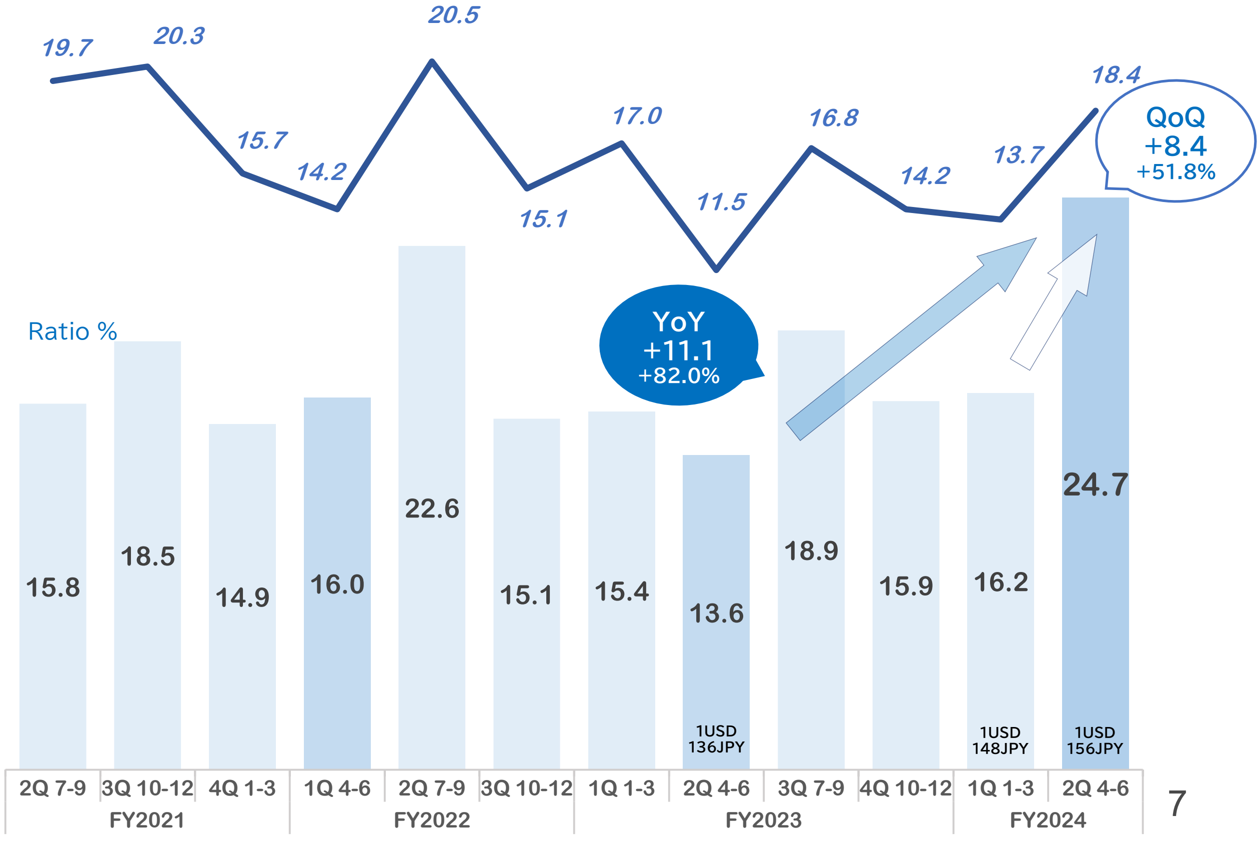
・Operating profit increased by 1.11 billion yen YoY. The weaker yen contributed to a profit increase of about 560 million yen.
Profits increased overall due to an increase in sales volume, mainly of highly profitable fine chemicals, and the weaker yen.
・QoQ profit increased by 840 million yen. The increase in sales volume of organic chemical products due to seasonal factors contributed to the higher profit.
In addition, although the profit margin of organic chemical products decreased in 1Q due to changes in the sales mix (decreasing proportion of products produced in-house), profits increased again in 2Q due to the normalization of the proportion of products produced in-house.

Net sales



Operating profit

100 Million yen

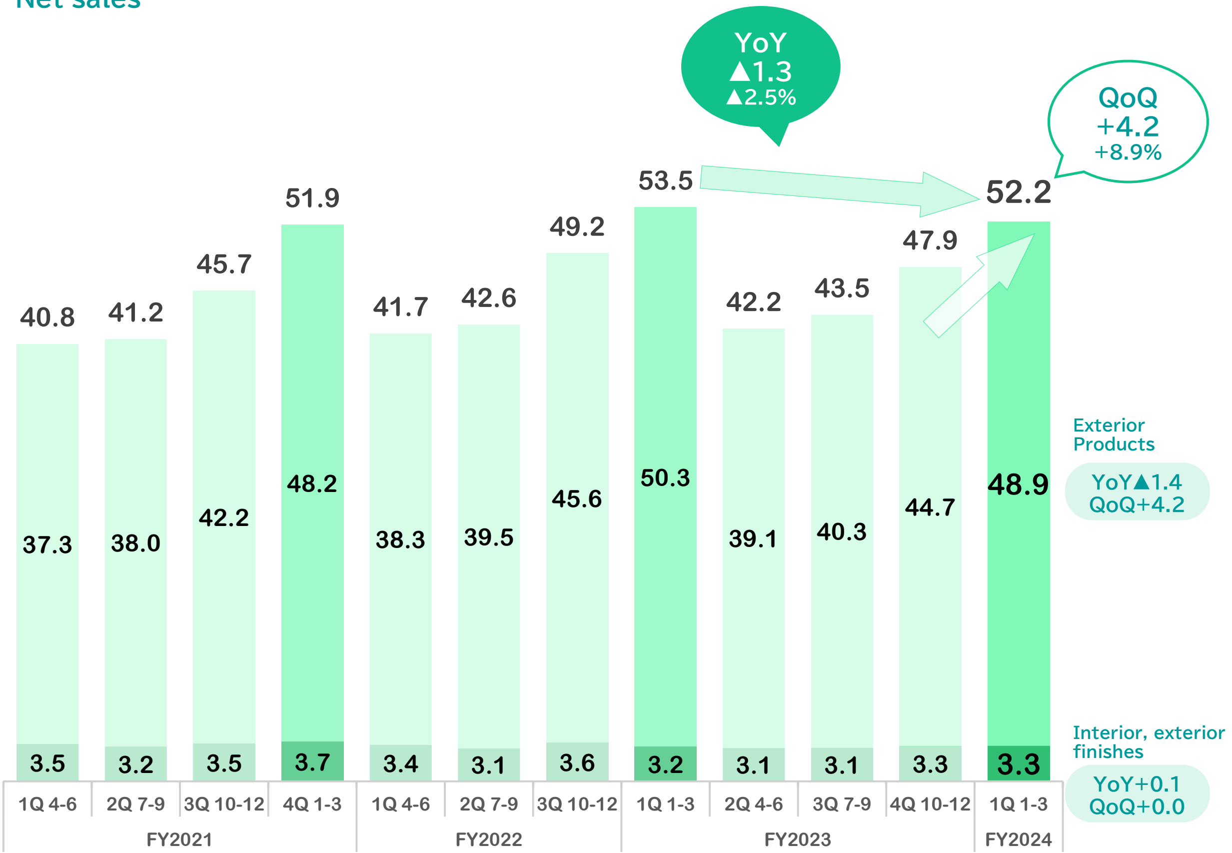


Operating results by segment: Housing Materials (QTD)

・Housing Materials operations total sales increased by 20 million yen YoY.
・Sales of interior, exterior finished, and paving materials remained weak, with decreases of 20 million yen YoY and 40 million yen QoQ.
・Sales of exterior products increased by 40 million yen YoY. Sales of housing exteriors were low due to sluggish performance in new housing styles (detached houses), but they were covered by increasing sales in landscape exteriors.
・Sales decreased by 980 million yen QoQ, including seasonal factors for landscape exteriors (reduction in end-March demand).

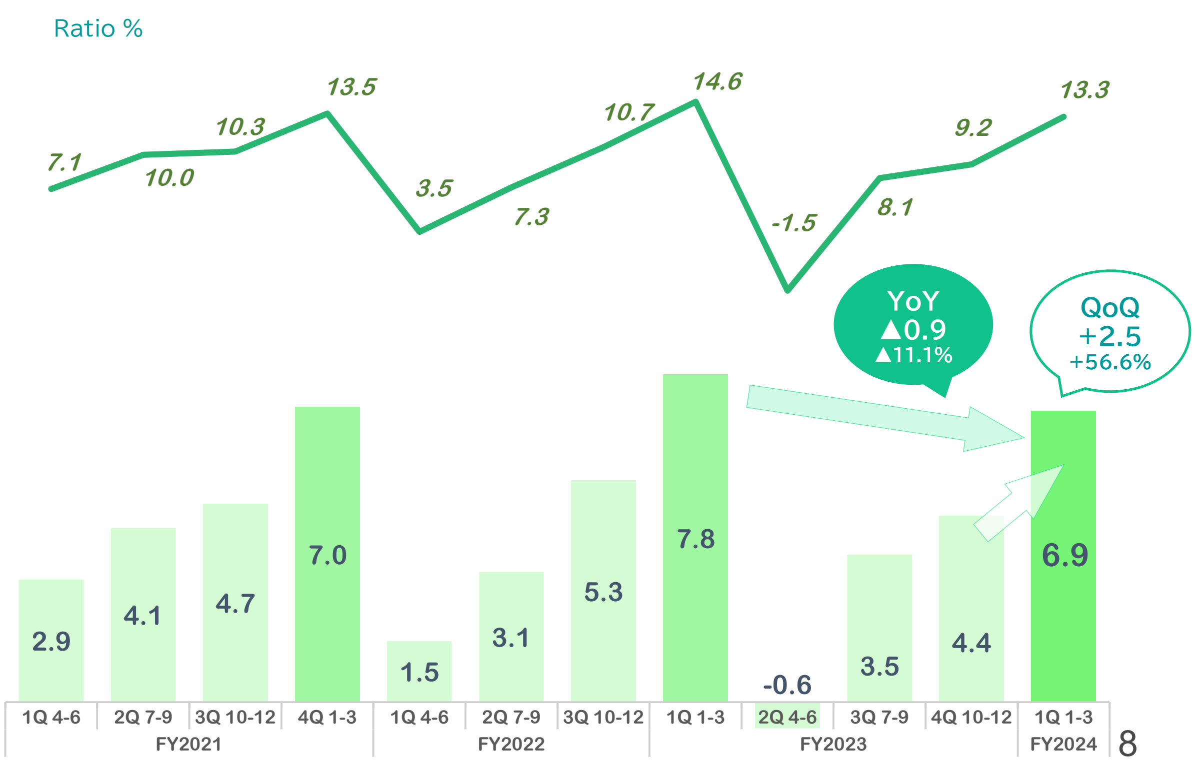
・In Housing Materials operations, total operating profit decreased by 80 million yen YoY.
・Sales of interior, exterior finished, and paving materials failed to recover, remaining sluggish.
・In exteriors, profitability came under pressure from both a decrease in the sales volume and the soaring costs of aluminum ingots.
・In addition, SG&A costs (personnel and operating expenses) increased, resulting in the expansion of operating losses.
・Operating profit decreased by 840 million yen QoQ due to seasonal factors in landscape exteriors.

Net sales



Operating profit

100 Million yen



2. Financial Forecast
for the Fiscal Year Ending 2024

Forecast of Consolidated Financial Results

The full-year financial forecast was revised upwards, as progress in the first half of the fiscal year exceeded initial forecasts

Comparison of initial and revised forecast

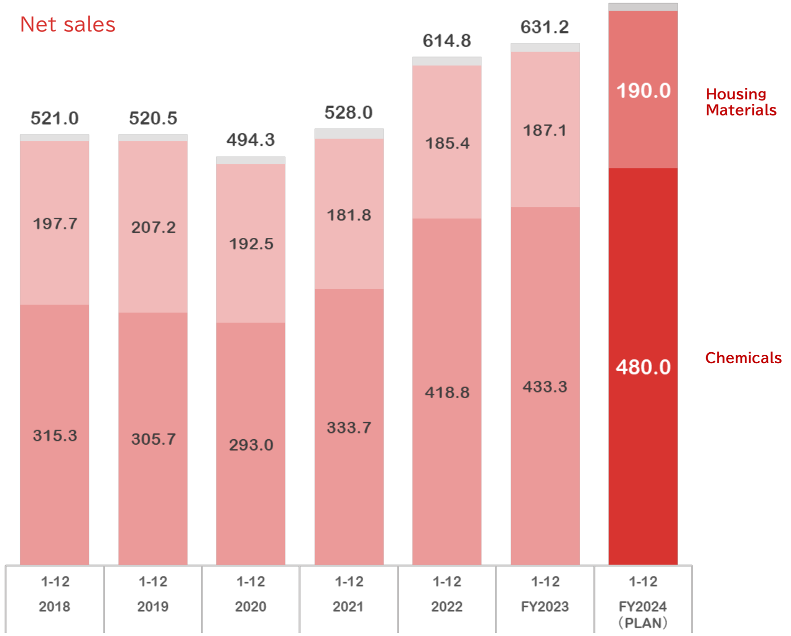
Million yen

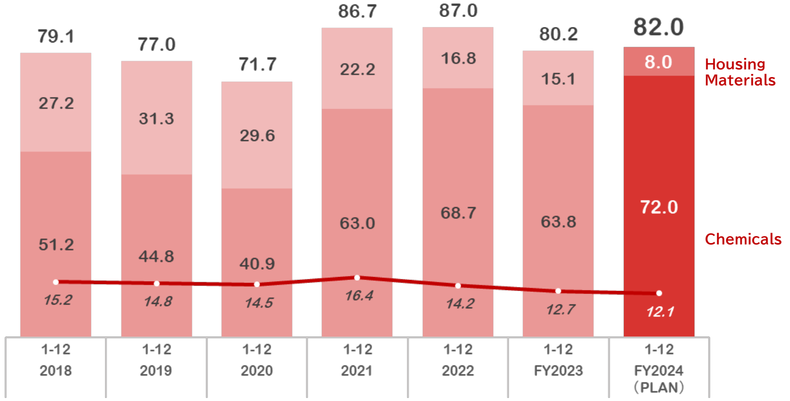
	Forecast of the beginning of period	Revisions of the forecast (released July 30, 2024)	Change / Rate	Remark
Net Sales	64,000 (Chemicals)43,500 (Housing Materials)19,500	68,000 (Chemicals)48,000 (Housing Materials)19,000	+4,000 +6.3%	･Sales of Chemicals operations are expected to increase due to the expansion of overseas sales in the first half of the fiscal year and a revision of the forecasted exchange rate (weaker yen) in the second half. ･Expected sales of Housing Materials operations are being revised downward due to weak market conditions.
Operating profit	7,800 (Chemicals)6,300 (Housing Materials)1,300	8,200 (Chemicals)7,200 (Housing Materials)800	+400 +5.1%	･Operating profit of Chemicals operations is being revised upwards, as the positive effects of the weak yen in the first half of the fiscal year will cover for the negative effects of rising raw materials costs in the second half. ･Operating profit of Housing Materials operations are being revised downward to reflect the recent sharp rise in aluminum ingot prices in the plan.
Ordinary profit	8,200	9,500	+1,300 +15.9%	･Ordinary profit is being revised upward due to foreign exchange gains, etc., accompanying the weak yen in the first half of the fiscal year (foreign exchange gains +737)
Profit attributable to owners of parent	5,500	7,900	+2,400 +43.6%	･Profit attributable to owners of parent is being revised upward due to expected gain on sale of investment securities in the second half of the fiscal year
Exchange rate	1USD 140JPY 1EUR 150JPY 1RMB 19.0JPY	1USD 150JPY 1EUR 160JPY 1RMB 20.0JPY		･One yen change against the US dollar has a positive impact of approximately 180 million yen in sales and 110 million yen in operating profit.

Comparison of previous year and revised forecast

	FY2023	Revisions of the forecast (released July 30, 2024)	Change / Rate	Remark
Net Sales	63,117 (Chemicals)43,332 (Housing Materials)18,712	68,000 (Chemicals)48,000 (Housing Materials)19,000	+4,883 +7.7%	･In Chemicals operations, net sales are expected to increase due to higher sales of organic chemical products and fine chemicals, as well as sustaining the positive growth in the first half of the fiscal year on the back of the weaker yen. ･In Housing Materials operations, the Company aims for increased sales amid weak market conditions.
Operating profit	8,019 (Chemicals)6,381 (Housing Materials)1,508	8,200 (Chemicals)7,200 (Housing Materials)800	+181 +2.2%	･Increased operating profit is expected in Chemicals operations due to increased sales and the impact of the weak yen. ･In Housing Materials operations, the profit margin is expected to decline due to the significant impact of soaring aluminum ingot prices.
Ordinary profit	9,280	9,500	+220 +2.4%	･Ordinary profit is expected to increase due to foreign exchange gains (+182).
Profit attributable to owners of parent	7,853	7,900	+47 +0.6%	
Exchange rate	1USD 140JPY 1EUR 148JPY 1RMB 19.8JPY	1USD 150JPY 1EUR 160JPY 1RMB 20.0JPY		･The yen is expected to depreciate by +10 yen/USD YoY.

100 Million yen



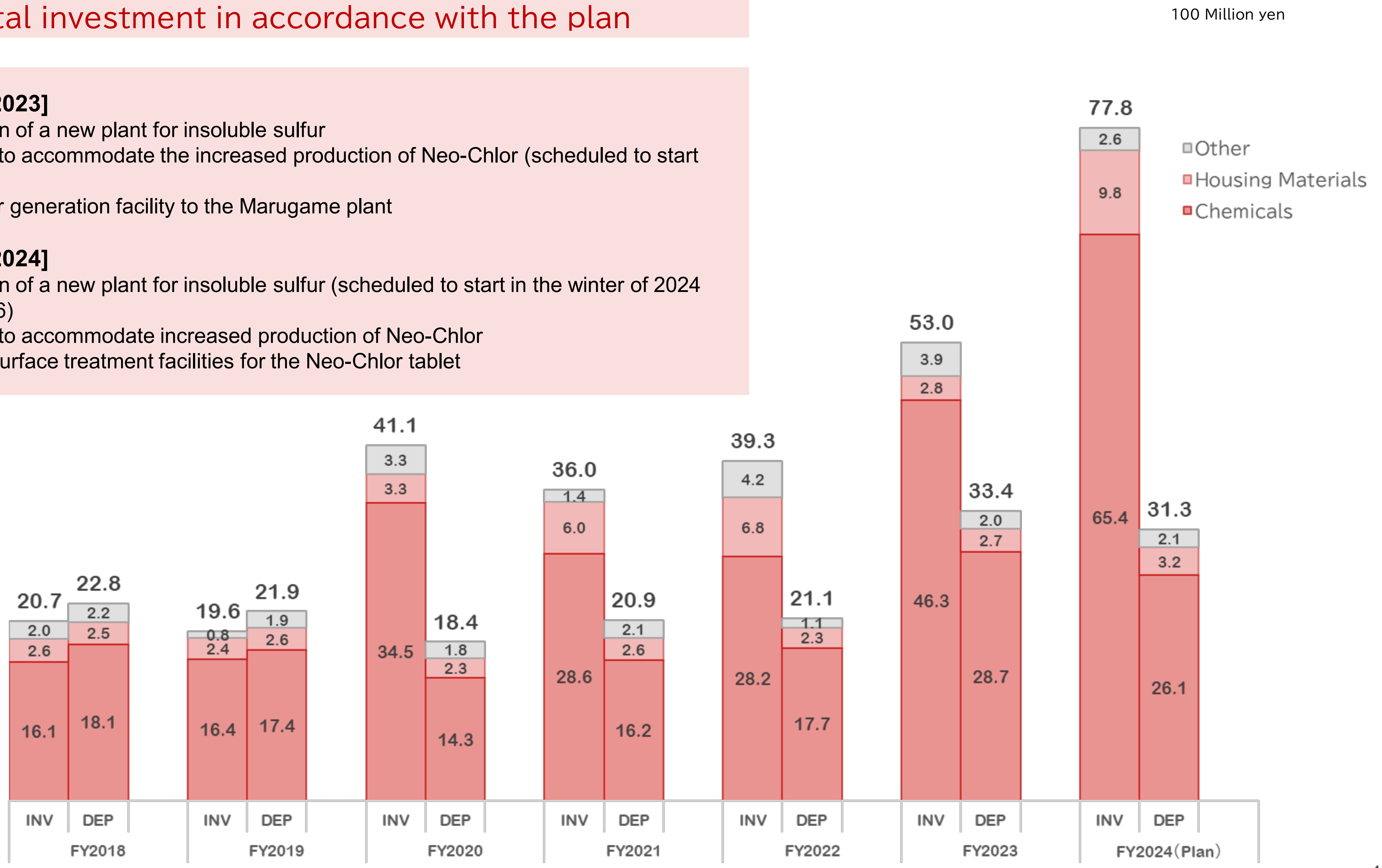


Capital investment and Depreciation

No significant changes from the plan at the beginning of the period; conducting capital investment in accordance with the plan

[Major capital investment in FY2023]
- 2,230 million yen for the construction of a new plant for insoluble sulfur
- 800 million yen for the construction to accommodate the increased production of Neo-Chlor (scheduled to start operating 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 a new plant for insoluble sulfur (scheduled to start 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 the Neo-Chlor tablet



Dividend and Share buyback Trends

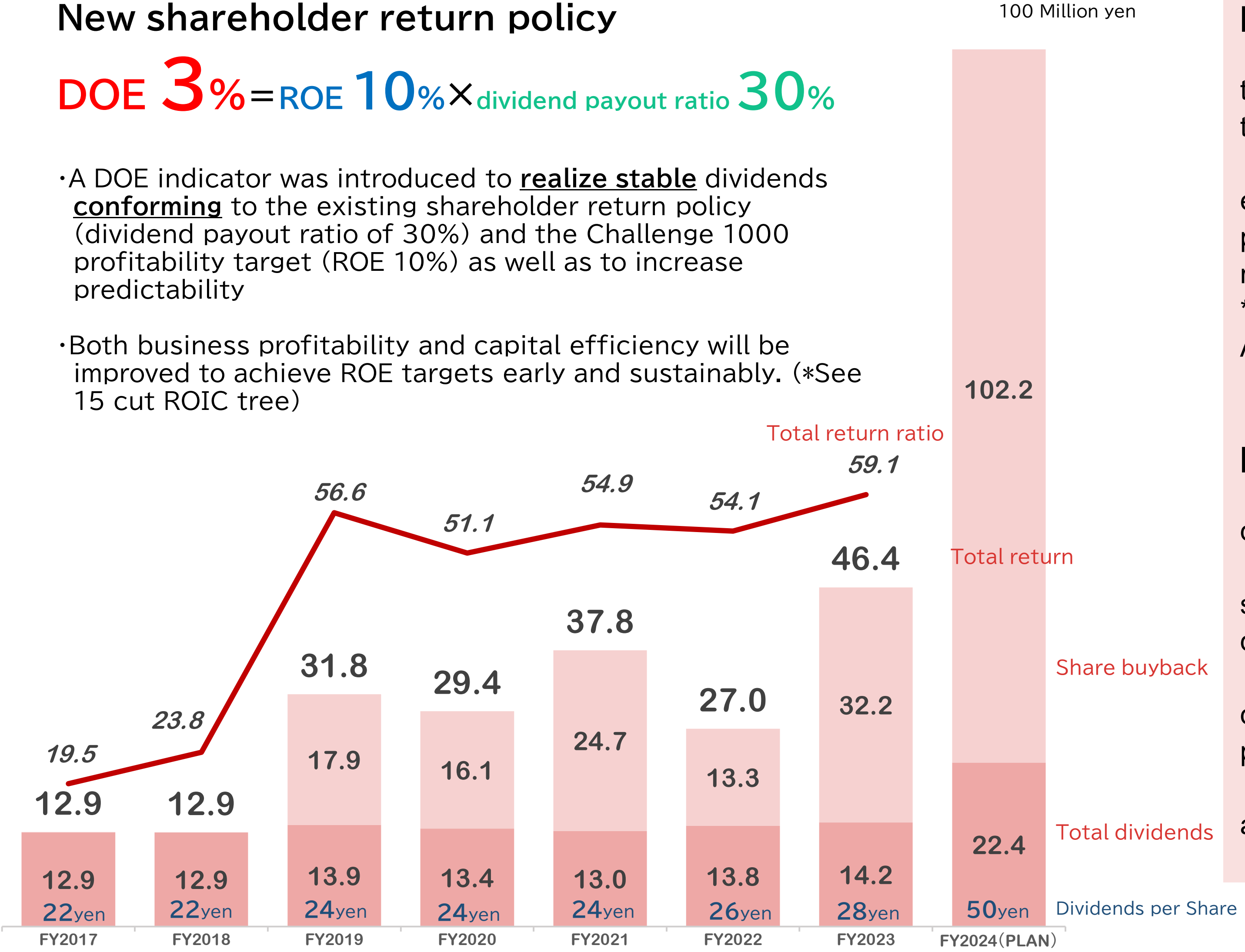
Added a shareholder return policy and introduced a DOE indicator to determine dividend amounts

New shareholder return policy

DOE 3% = ROE 10% × dividend payout ratio 30%

・A DOE indicator was introduced to **realize stable** dividends **conforming** to the existing shareholder return policy (dividend payout ratio of 30%) and the Challenge 1000 profitability target (ROE 10%) as well as to increase predictability

・Both business profitability and capital efficiency will be improved to achieve ROE targets early and sustainably. (*See 15 cut ROIC tree)



[New (added) shareholder return policy]

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

・In addition, a dividend on equity* (DOE) ratio of 3% has been established as an indicator for determining dividend amounts, and progressive dividends will be paid while taking both the dividend payout ratio and DOE indicators into consideration.

*Consolidated shareholders' equity (Consolidated net assets - Accumulated other comprehensive income)

・At the same time, special shareholder benefits will be abolished.

[FY2024 Shareholder Return Policy (incl. plan)]

・Dividend will be increased to 50 yen per share (25 for interim dividend, 25 for year-end dividend)

・Repurchased Company shares of 10,220 million yen (5,891,100 shares) in total in February 2024 through ToSTNet-3. It was done as a dissolution of cross-holdings with financial institutions.

・Dividends will be 2.24 billion yen including expected year-end dividends and total shareholder returns will be 12.46 billion yen at this point.

・The expected payout ratio against projected year-end earnings is around 29%. The total return ratio is expected to be around 158%.

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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While ROIC by business increased for Chemicals, it decreased for Housing Materials. ROIC/ROE increased companywide due to the reduction of net assets resulting from the share buyback carried out in February.

Consolidated Balance Sheets (as of 6/30/2024)

[Financial assets]

	FY2023末	FY2024 2Q
	69.8bn	**68.8bn** (▲0.98bn from the beginning of the year)
(内訳)		
Cash and deposits	29.9bn	**24.1bn**
Securities		
Investment grade bond scheduled to be redeemed within one year	17.5bn	**18.0bn**
Investment securities		
Investment grade bond	7.0bn	**11.2bn**
Cross-Shareholdings	15.3bn	**15.4bn**

[Excess capital]

Financial income	FY2023	FY2024 2Q
	0.69bn	**0.38bn**

(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.

[Business assets]

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

	FY2023	FY2024 2Q
【Chemicals】	43.1bn	**44.2bn** (+1.1bn from the beginning of the year)
【Housing Materials】	14.4bn	**14.8bn** (+0.4bn from the beginning of the year)
【Group】	61.1bn	**63.0bn** (+1.8bn from the beginning of the year)

[Investment capital]

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

	FY2023	FY2024 2Q
【Chemicals】	30.1bn	**32.2bn** (+2.1bn from the beginning of the year)
ROIC by business	15.2%	**18.4%**
【Housing Materials】	8.1bn	**8.4bn** (+0.3bn from the beginning of the year)
ROIC by business	12.0%	**9.2%**
【Group】	39.2bn	**41.6bn** (+2.4bn from the beginning of the year)

[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.

	FY2023	FY2024 2Q
	109.0bn	**110.5bn** (▲1.4 bn from the beginning of the year)
Group ROIC	5.8%	**6.7%**

[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

[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

	FY2023	FY2024 2Q
	86.1bn	**80.5bn** (▲5.6bn from the beginning of the year)
ROE	9.4%	**9.7%**

[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

	FY2023	FY2024 2Q
	22.2bn	**29.2bn** (+7.0bn from the beginning of the year)

[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.

* Quarterly ROIC・ROE is converted to the annual rate, and in 1Q, returns are divided by 2.

Analysis of ROIC Tree

Both Chemicals and Housing Materials operations maintained 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 a lower investment burden on production facilities.

Chemicals

ROIC 18.4% / 15.2%	Ratio of operating profit to sales 16.2% / 14.7%	Ratio of cost to sales 62.2% / 64.9%	
		Ratio of SG&A to sales 21.6% / 20.4%	Ratio of R&D to sales 2.5% / 3.2%
			Ratio of transportation cost to sales 9.3% / 8.3%
	Turnover of invested capital 1.56 / 1.44	Turnover of working capital 3.01 / 2.96	Receivables turnover 3.69 / 3.69
		Fixed asset turnover (tangible/intangible) 2.51 / 2.01	Inventory turnover 5.72 / 4.71
			Payables turnover 8.81 / 6.88

Housing Materials

ROIC 9.2% / 12.0%	Ratio of operating profit to sales 5.8% / 8.1%	Ratio of cost to sales 56.9% / 57.8%	
		Ratio of SG&A to sales 37.3% / 34.1%	Ratio of R&D to sales 2.1% / 1.9%
			Ratio of transportation cost to sales 9.6% / 9.8%
	Turnover of invested capital 2.24 / 2.31	Turnover of working capital 2.90 / 2.81	Receivables turnover 3.29 / 3.34
		Fixed asset turnover (tangible/intangible) 5.47 / 3.99	Inventory turnover 4.46 / 4.57
			Payables turnover 5.46 / 6.16

* Quarterly ROIC is converted to the annual rate, and in 1Q, returns are divided by 2.

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