Financial Results for FY2022
Manuscript of Presentation (Including Q&A Session)
Toagosei Co., Ltd.

1. Toagosei's operating income decreased. However, our net sales were up 2.9% year-on-year. We will aim to accelerate the pace of our growth by expanding high-value-added products.
2. Toagosei has been affected by disruptions to our supply chain. Nevertheless, we are responding with price revisions and aggressively investing to stimulate the development of new products.

Date:	Friday, February 17, 2023
Presenter:	Mikishi Takamura, President and Representative Director
Briefing document:	Financial Results for FY2022 https://www.toagosei.co.jp/english/ir/library/presentations/

The following is the manuscript for Toagosei's financial results briefing for FY2022 released on February 17, 2023.

Slide 1: Table of Contents
Mikishi Takamura (below, "Takamura"): Thank you for your continued support. My name is Mikishi Takamura, President of Toagosei Co., Ltd. Today, we have set up this opportunity to explain our financial results for FY2022.

As stated in the table of contents, I will talk in order about our financial results for FY2022, our earnings forecast for FY2023 and our Medium-Term Management Plan for three years from 2023 which we have newly formulated.

Slide 3: Overview of Results for 2022
I will now give an overview of our results for FY2022. Our net sales were 160,825 million yen. That is an increase of 2.9% from the previous year which is partly due to the effect of price increases. Our operating income was 14,382 million yen. Unfortunately, that is a decrease of 18.6% from the previous year.

Our net income per share was 101.31 yen. We plan to pay an annual dividend of 36 yen the same as in the previous year. This will give us a dividend payout ratio of 35.5%.

Please check the slide for the other items.

Slide 4: Analysis of Changes in Operating Income
This slide gives an analysis of the changes in our operating income. Our volume was down. Raw material and fuel prices rose sharply. Nevertheless, we have proceeded smoothly with price increases. Accordingly, our unit price was up by about 1 billion yen.

Our fixed costs were down due to repair and labor costs. Our operating income in 2022 was 14.3 billion yen. That was down compared to the previous year.

We were impacted by foreign exchange rates. We were down approximately 2.2 billion yen on the operating income side and up 750 million yen on the non-operating side. The rise in naphtha prices pushed down our operating income by about 5.6 billion yen.

Slide 5: Summary of Financial Results for FY2022

Let's look at a summary of our financial results for FY2022. I would like to talk about our business environment. The increase in the number of people infected with COVID-19 and Russia's invasion of Ukraine in February 2022 caused resource and food prices to rise significantly. We were not spared from the impact of that. We worked hard to apply a brake to the downturn in our results in 2022. For example, we strived to revise sales prices and to expand our high-value-added products.

In terms of sales, there was a slight increase in the shipment volume of products for semiconductors. However, the sales volume of products for automobiles and smartphones decreased.

On the other hand, we aggressively bought back treasury stock in FY2022. We bought back about 4 million shares at 4.3 billion yen. We believe this was a period in which we proactively worked on shareholder return initiatives.

Slide 6: Consolidated Results (by Segment)

The table at the top of this slide shows our net sales while the table at the bottom shows our operating income in our consolidated results by segment. Our volume was down for net sales with the exception of our performance chemicals business. Our adhesive material business posted an operating loss of 255 million yen.

We have taken various measures in Japan and overseas to revamp our adhesive material business. Nevertheless, the segment's profit/loss was in the red partly due to advertising costs and depreciation expenses for an adhesives plant we have newly established in our Takaoka Plant.

Our operating income in the commodity chemicals, polymer & oligomer and performance chemicals segments decreased year-on-year. We strived to revise prices and to sell high-value-added products in our plastics segment. As a result, our operating income increased year-on-year in that segment.

Slide 7: Consolidated State of Income (Non-operating Income/Expenses and Extraordinary Income/Losses)

I will now talk about non-operating income/expenses and extraordinary income/losses. As I mentioned earlier, the major figure here is foreign currency exchange gains. In addition, gain on sales of investment securities continued on from the previous year in extraordinary income/losses. The other sections are given on this slide, so I will omit them from my explanation.

Slide 8: Consolidated Balance Sheet

The impact of the increase in net sales and the acquisition of assets brought about a change in cash and deposits and securities on our balance sheet. In the assets section, inventories increased due to a rising evaluation of our stock because of the sharp rise in raw material prices. In the liabilities section, there was a rise in raw material prices in the same way. That led to an increase in payment obligations.

As a result, net assets, especially our shareholders' equity ratio, remained virtually unchanged from the end of the previous year at 77.7%.

Slide 9: Consolidated Cash Flow Statements

Let's take a look at our consolidated cash flow statements. Cash flows from operating activities greatly decreased compared to the previous year. That decrease was due to the increase in inventories which I explained about earlier and the increase in the amount we paid in corporate taxes.

Our expenditures also increased for cash flows from investment activities due to capital investment and the acquisition of land. However, we have reduced the negative margin by reducing our operation of term deposits.

Our expenditures also increased for cash flows from financial activities compared to the previous year. That increase arose from an increase in dividend payments and an increase in spending to buy back treasury stock.

Slide 10: Overview of Consolidated Subsidiaries (Results for FY2022)

This slide shows our net sales and operating income by affiliated company. The biggest change was the decline in income at Toa Techno-Gas. The company was late to revise its sales prices in response to the rising cost of purchasing gas. It also suffered from a decrease in sales volume. Therefore, its operating income decreased significantly.

Toagosei Singapore also experienced a slight drop in income due to a softening of the market conditions for acrylic esters in East Asia.

The sales volume at MT AquaPolymer increased partly due to taking over business from another company. That led to an increase in sales and income.

We were able to actively engage in sales activities for semiconductors in Taiwan in particular overseas. Accordingly, we saw an increase in income as well. The shipment volume of polymers for automobiles failed to increase as expected at Toagosei (Thailand). That meant income was squeezed.

Toagosei America began sales activities for UV-curable resin and expanded advertising for oligomer products and instant glues. The company also launched adhesives other than instant glues, and tapes onto the market. As a result, its advertising costs increased. That led to a slight increase in operating losses. Nevertheless, please consider that to be within the range of our control.

That concludes my explanation of our results for FY2022.

Slide 12: Challenges in FY2023

I will talk about the outlook for the business environment this year before explaining our earnings forecast for FY2023.

Looking at figures from the IMF and the World Bank, we believe that the global economic growth rate will slow down compared to the previous year. Moreover, interest rate trends are unclear due to the situation in Ukraine and inflation. We also cannot overlook changes in the supply chain due to antagonism between the U.S. and China. We think there is a possibility that this antagonism will actually intensify.

In such an environment, we have hopes for business from new products which we have been aggressively investing in and developing for the past few years based on our Medium-Term Management Plan. On the other hand, we would like to continue increasing our R&D investment to further stimulate new product development. We will also strive to be able to increase shareholder returns more than ever before through dividends and share buybacks.

Slide 13: Consolidated Results Forecast for FY2023

We give here our results forecast for FY2023 on this slide. We expect net sales of 178.8 billion yen and operating income of 14.0 billion yen for the year. That will be on a par with 2022. We forecast net income attributable to owners of parent to be 10.6 billion yen. That will be a little less than the previous year. However, we plan to pay a dividend of 36 yen again this year as we have promised to pay a stable dividend.

Slide 14: Analysis of the Forecasted Changes in Operating Income

This is an analysis of the forecasted changes in our operating income.

Slide 15: Consolidated Results Forecast for FY2023 (by Segment)

The table at the top of this slide shows our net sales forecast by segment while the table at the bottom shows our operating income forecast by segment.

We expect net sales to increase in all segments. We plan to be able to promote sales of products for cosmetics and semiconductors in the polymer & oligomer business. However, we are not able to forecast a complete recovery in products for automobiles in our polymer & oligomer business. Accordingly, we expect there to be a decline in income in total.

In our adhesive material business, where we have unresolved concerns, we believe we will be able to steadily expand sales of products for household use. We will also incur R&D expenses when it comes to performance chemicals. However, we expect our functional adhesives business to recover and are aiming for an increase, albeit a slight one, in its sales compared to the previous year.

We anticipate an increase in income in our semiconductor-related performance chemicals business. We expect the volume of silicon wafers, especially those for memories, to decline up to about the middle of this year. Nevertheless, we predict strong shipments of materials for semiconductors other than high-purity liquid hydrogen chloride. We are targeting an increase in income for this segment as a whole.

We believe that plastics will be on a par with the previous year.

Slide 16: Overview of Consolidated Subsidiaries (FY2023 Forecast)
We indicate here our forecast for our affiliated companies including those overseas. We expect an increase in income at Toa Techno Gas by revising prices. On the other hand, we think market conditions for acrylic esters will weaken further in Asia. Accordingly, we expect a significant slump in income at Toagosei Singapore.

Slide 17: Trends in Consolidated Results
This graph shows the trends in our consolidated results. It gives the trends for EBITDA, operating income, net income attributable to owners of parent and net income per share for the past five years including the forecast for this year.

Slide 18: Reference for Consolidated Performance
This slide gives the trends in capital investment, depreciation and amortization, research and development expenses and overseas sales. The upper row of capital investment shows the figures stated in the securities report on an acceptance basis.

The approval basis in the row below is the amount of approved investment. These figures are used when making investment planning decisions in-house. There is a time lag with the acceptance basis, so we give these figures divided into two rows. In terms of the approval basis, we are planning for extremely active capital investment again this year.

Research and development expenses have also risen significantly over the past few years. In particular, we plan to establish and open a research base in Kawasaki City in 2023. Accordingly, we expect our research and development expenses to rise.

Slide 19: Consolidated Performance Reference Figure Trends
This is a graph of trends in the shareholder’s equity, interest-bearing debt and shareholders’ equity ratio. The figures are as stated. We expect them to remain almost completely flat this year.

Slide 20: EBITDA/PP&E Ratio Trends
This slide shows the figures we obtained by calculating the ratio of EBITDA and PP&E. We will control whether or not we are recovering our investment while looking at the EBITDA ratio figures in PPE&E. We expect it to be 26.6% this year. That will make it on par with the previous year.

Slide 21: Shareholder Return Trends
These graphs indicate shareholder return trends and our forecast for this year. The line graph at the top of this slide indicates the trends in the total payout ratio including our purchase of treasury stock in addition to dividends. The bar graph at the bottom gives the total dividend or share buybacks. The line graph shows the dividend per share.

We plan to pay a dividend of 36 yen this year. That will be the same as the previous year.

Slide 22: ESG Initiatives
We have summarized the main items of ESG-related events in particular as trends over the past few years. This slide is a list of initiatives related to the environment and society.

Slide 23: ESG Initiatives
This slide is a list of initiatives to strengthen our governance.

Slide 25: Summary of the Previous Medium-Term Management Plan (2020 to 2022)
Next, I would like to explain about our 2025 Medium-Term Management Plan for 2023 to 2025 which we announced at the end of January. First, I will give a summary of the previous Medium-Term Management Plan from 2020 to 2022. I will then describe our new Medium-Term Management Plan after that.

This slide gives an overview of our previous Medium-Term Management Plan. We looked to expand our lineup of high-value-added products, to create a fourth pillar of business which will support us in the future and to strengthen our core business.

The bar graphs at the bottom of this slide show the results for our net sales and operating income. We were able to temporarily exceed the operating income target in our 2022 Medium-Term Management Plan partly due to a rapid recovery from COVID-19 in 2021. However, the significant impact of high raw material prices and the exchange rate meant that we were not able to achieve the operating income target in our Medium-Term Management Plan in 2022.

Slide 26: Review of the Quantitative Targets in the Previous Medium-Term Management Plan (2020 to 2022)
These are the quantitative targets in our previous Medium-Term Management Plan. Net sales and operating income are as I spoke about earlier. We were thinking of 27.0

billion yen when we were in the stage of setting our target for EBITDA. However, we fell short of our target in 2022 at 24.9 billion yen.

The amount of our capital investment, whose figures we control on an approval basis, greatly exceeded our target figure in 2022. Unfortunately, we did not achieve our target figures for earnings per share or ROA.

Slide 27: Review of Actions in the Previous Medium-Term Management Plan (2020 to 2022)

Let's review the actions we took during the period of the previous Medium-Term Management Plan. We have summarized what measures we took separate to the figures for capital investment, R&D, overseas expansion and capital policy.

We reinforced our biggest earner of high-purity liquid hydrogen chloride-related equipment, polymer for LIB batteries equipment and functional adhesive manufacturing equipment to expand our high-value-added products with capital investment.

In terms of enhancing our R&D capabilities, we opened the Takaoka Creation Laboratory and the Technology Development Laboratory II in the Nagoya R&D Center. We opened a hydrogen station in Tokushima Prefecture in relation to ESG to realize a sustainable society.

In R&D, although it has yet to clearly generate income, we developed NUCLEROLARON suitable for drug delivery systems (DDS) which we expect to lead to new business. We are also collaborating with various customers for cellulose nanofibers.

We are proactively working on overseas expansion with instant glue and polymer-related products mainly in China and Thailand. We started arranging a lineup of adhesives other than instant glues and developing acrylic oligomers in the U.S.

As I mentioned earlier, our capital policy is to maintain a dividend payout ratio of 30% or more. We expect our dividend payout ratio to be 35.5% in 2022. Moreover, although we started with a target of buying back 10.0 billion yen in treasury stock, we have purchase 12.2 billion yen in shares over the past three years.

Slide 28: Overview of the 2025 Medium-Term Management Plan

We formulated our new 2025 Medium-Term Management Plan based on the situation I have just described. There are a number of highlights. Above all, we need to enhance our R&D capabilities to beef up our fourth pillar. We are planning to establish a new research base in the Tokyo metropolitan area. We are also considering the commercialization of NUCLEROLARON and cellulose nanofibers.

The production volume of automobiles is expected to recover. Against this background, we plan to enhance our polymer & oligomer-related, adhesive-related and semiconductor-related high-value-added products in our high-value-added products business. The graphs on the right side of this slide provides a comparison between our previous and new Medium-Term Management Plans in regards to R&D costs and amount of capital investment.

Slide 29: Basic Policies and Key Initiatives in the 2025 Medium-Term Management Plan

This slide lists the basic policies and key initiatives in our Medium-Term Management Plan. We plan to increase our R&D costs by 20% compared to 2022 and to increase our ratio of high-value-added products in net sales. In addition, we are aiming to increase our overseas net sales by 30% compared to 2022.

We have set a target for 2030 of reducing our GHG emissions by 50% compared to 2013. We expect to be able to achieve this with ease at the present time. We are looking to reduce emissions by 35% in 2025.

Slide 30: Materiality – Operations

This is our plan for net sales, operating income and EBITDA in the final fiscal year of our 2025 Medium-Term Management Plan. Please check with this slide for the figures.

Slide 31: Materiality – Business Foundation

In addition to quantitative targets related to net sales and income, we are setting and promoting targets for the important factors relating to business operations of a reduction in GHG emissions and the advancement and training of diverse personnel.

Besides that, we have set an ROE of 7.3% as a management indicator. However, we recognize that 8% is generally regarded as the minimum level. We do not expect to reach 8% in this new Medium-Term Management Plan. However, we intend to work to achieve a level that is above 7.3% as soon as possible.

Slide 32: Net Sales and Operating Income in 2025

This is a breakdown of our net sales and income by segment in 2025. We believe that income in our polymer & oligomer and adhesive material businesses will grow significantly. The other segments are as in the figures given.

Slide 33: Medium-Term Management Plan (2023 to 2025): Action Plan

We give here the action plan we will undertake over the three years of the 2025 Medium-Term Management Plan as backing for our figures. We have set targets for capital investment, R&D, overseas expansion, DX and capital policy. We will strive to achieve those targets.

We will continue to proactively engage in capital investment and to further expand that compared to our previous Medium-Term Management Plan. We will attempt to enhance our R&D above all.

Moreover, we plan to increase overseas net sales in 2025 by 30% compared to 2022.

In regards to our capital policy, as I mentioned earlier, we think that our target for return on equity will have to remain at 7.3%. Nevertheless, we will continue to work hard in management with the aim of exceeding that target.

We will also introduce return on invested capital (ROIC) by business segment as soon as possible. We will strive to ensure it is included as an indicator when we make management decisions.

Slide 34: Medium-Term Management Plan (2023 to 25): Balance of Funds

This is a graph which summarizes our balance of funds over the three years of our new Medium-Term Management Plan. Our net cash at the end of 2022 is 43.7 billion yen. Our operating flow is over 70.0 billion yen. We are also considering selling assets. However, we plan to spend significantly on shareholder returns and capital investment. As a result, we expect our net cash to be reduced to about 25.0 billion yen in 2025.

That concludes my explanation of our financial results for FY2022, our earnings forecast for FY2023 and our new three-year Medium-Term Management Plan. Thank you.

Question 1: Drop below a PBR of x1

Moderator: The question is as follows: “I appreciate the progress you have made with your returns policy. However, you are only aiming for an ROE in your new Medium-Term Management Plan in the 7% range. That level pales in comparison to an average in the 8% range in Ito Review and TOPIX. I believe that 7% is also an insufficient level when looking at it in terms of capital costs. Therefore, the targets in the Medium-Term Management Plan you have announced have not been well-received in capital markets. That has meant your stock price has not risen.

Meanwhile, companies on the Prime market with a PBR below x1 have started to be viewed as a problem. I believe that these changes in the external environment and your still low ROE target have ultimately led to the shareholder proposals. I would like to once again ask the President how you perceive the fact your new Medium-Term Management Plan has not been well-received since you announced it and the fact your PBR is below x1.”

Takamura: We are working on our returns policy even more carefully than in our previous Medium-Term Management Plan. Our ROE will not reach the general level of 8% in 2025 which is the final year of our new Medium-Term Management Plan. Therefore, we will attempt to raise it higher as soon as possible.

I think it is unavoidable to have a time lag of several years until generating returns after engaging in capital investment. The biggest investments we have made so far are, for example, the construction of a new plant in Thailand and the reinforcement of high-purity liquid hydrogen chloride-related equipment. Those projects are steadily generating income. We expect to recover our investment in them. Therefore, we believe it is necessary to further increase that income and to aim for an even higher ROE. Moreover, we strongly believe that our current situation in which our PBR is below x1 must be resolved as soon as possible. We are considering how to mobilize all our management resources to improve our income even more efficiently.

Question 2: Investment Results and ROIC

Moderator: The question is as follows: “It is good that you are actively investing. However, it is not really possible to see the results of that. How do you perceive this situation? Furthermore, you touch upon the fact you are starting to become conscious of ROIC in your Medium-Term Management Plan. Can you please explain how you will utilize it more specifically?”

Takamura: I think returns on investment are extremely important. We are working hard to ensure results can be seen as soon as possible. The year 2022 was a period in which we increased the amount we invested. However, we allocated some of that investment to the cost of purchasing the leasehold land for Kawasaki Plant. As a result, it may look like that we have not been able to sufficiently increase returns on investment.

On the other hand, the capital investment we are thinking of in the period of this new Medium-Term Management Plan will all be in our fastest-growing businesses. For example, we will invest in materials for semiconductors. We are fully aware that there is a cycle to semiconductor-related business. Nonetheless, we believe it will grow in the medium-term. Therefore, we are not too worried about returns.

Of course, we manage ROIC calculating it for our company as a whole. In addition, we also check the status of cash flow collection for each individual piece of equipment in-house. We are operating while thoroughly checking whether we are quickly recovering our investment for each individual piece of equipment in addition to checking whether we have reached a certain level in total.

Question 3: Overview of Initiatives in Our Adhesive Material Business and Future Strategies

Moderator: The question is as follows: “The slump in your adhesive material business is continuing. Can you give an overview of your initiatives in this business up to now and an explanation of your strategies for recovery in the future?”

Takamura: Our adhesive material business consists of B-to-C adhesives for household use and B-to-B functional adhesives. We used to sell instant glues for household use in only some countries such as the U.S. However, we are currently expanding our sales bases to China, Thailand and the Philippines for those products. This has led to a steady increase in net sales. However, sales have not yet reached the level of entering the black in East Asia.

We are currently investing in advertising costs as upfront investment. We have been receiving an increasing number of orders as a result of that. Accordingly, we plan to continue advertising for the next two to three years based on that policy. We think that we will be able to put the businesses in each country into the black by doing that.

Newspapers have also reported on our B-to-B adhesives. They have stated that they are being used as battery materials for new fuel cell vehicles and electric vehicles. However, although the sales volume has been increasing little-by-little, the growth rate is still not high.

On the other hand, sales of adhesives for smartphones dropped even more than that in 2022. Therefore, we were down over the whole of our adhesive material business. Nevertheless, we are responding with a well-balanced approach. For instance, we will discontinue products with a low-profit margin among our functional adhesives.

We are working to narrow down products whose sales we can grow and to develop new products with a focus on electronic material-related adhesives in mobility-related applications and smartphones. I hope you will continue to watch out for our results there.

Question 4: Capital Investment Plan in the Medium-Term Management Plan

Moderator: The question is as follows: “This is a question about your capital investment plan in your Medium-Term Management Plan. You will invest 68.0 billion yen over the three years in total. Even if it is in rough terms, can you tell us the amount you will allocate to the reinforcement of high-value-added product manufacturing equipment, the expansion of research equipment, logistics facility infrastructure development and sustainability-related initiatives? Please also tell us the specific products which will apply to the reinforcement of high-value-added product manufacturing equipment.”

Takamura: I have not been able to examine the plan down to the allocation ratio level. Therefore, I would like to answer again at a later date. Capital investment for high-value-added products can roughly be divided into equipment for products for semiconductors and equipment for products for automobile-related applications. Moreover, I would like to explain about the establishment of new research institutes upon examining the details including the equipment ratio.

Question 5: Breakdown of Operating Income

Moderator: The question is as follows: “You expect your operating income in FY2023 to decrease by 400 million yen year-on-year. Can you please break that down by volume, sales price and fixed assets?

Takamura: Please refer to slide 14.

Question 6: Implementation of ROIC

Moderator: The question is as follows: “I take it positively that you said you want to add ROIC to your management decisions. However, you shouldn’t just calculate the ROIC and do no more. It needs to lead to actions. You also mentioned the sale of assets, but, for example, the plastics business leads to heavy capital investment and produces a low ROIC. Please tell us what kind of actions you will take based on what in relation to your business portfolio after introducing ROIC.”

Takamura: Calculating ROIC will make it clear in the future whether that figure is low or high. At the same time, I think we need to take a closer look at around how many years we can maintain the income level of the product groups in that business. Even if that figure is high, we believe it is very important to ascertain whether there is a risk of it quickly falling down looking at the medium-term due to fierce competition.

For example, we have surmised that the ROIC figure itself is maybe low in plastics. However, we have also been involved in that business for a long period of time. If we can continue to beef it up by streamlining equipment in the future, we think we will be able to maintain the minimum ROIC figure.

Therefore, we would like to make management decisions comprehensively also taking into account the time factor. We believe that each business will require a separate approach so that we can secure income over an even longer period of time instead of it coming to an end when we feel there is no other choice because the figure is low. I hope I can explain about the ROIC we have calculated if there is the opportunity to do so.

Question 7: Capital Policy

Moderator: The question is as follows: "I think your capital policy of returning net cash and allocating it to R&D and capital investment is rational. On the other hand, it looks like your new Medium-Term Management Plan will be a period in which it is difficult to achieve income growth. That is because capital investment, depreciation and amortization expenses and R&D costs will increase. What are the factors which will lead to an increase in income that outweigh such a rise in costs? Please provide specific items and a quantitative explanation."

Takamura: As you say, capital investment will increase. It is important to ascertain whether that is commensurate with the growth in income. We want to add to our product lineup and focus on capital investment in fields where we expect business to grow. Those fields include semi-conductor-related products, medical care-related products including NUCLEROLARON, and automobile-related products.

We have not yet finished sorting out the finer details in our investment plan. Therefore, I am unable to provide quantitative figures. I hope to be able to arrange a separate opportunity to give an explanation on them.

Question 8: Balance Sheet and Leverage Level

Moderator: The question is as follows: "Please tell us what you think your company's balance sheet should look like. I'm especially interested in your leverage level."

Takamura: Before I talk about what we think our balance should look like, I would like to say that we can divide our business into the relatively traditional commodity products business and the high-value-added products business.

The fact is that, until now, our desire to expand our net worth for capital investment to a certain level has taken precedent over making use of our leverage. We believe that if we expand our net worth, we will also produce the leeway to make use of our leverage. However, I feel it is difficult to give a general answer in regards to what level of net worth is appropriate and to what extent we can make use of our leverage without problems.

The reality is that many of our capital investments are at the level of several billion yen such as with high-purity liquid hydrogen chloride, battery materials and automobile-related polymer products. There are capital investments we made in commodity chemicals in the past which exceeded 10 billion yen for one plant among our large projects.

It may be possible to make use of our leverage by increasing the number of small capital investments we make. However, I think it is best not to take so many risks. Taking into account this situation as well, we plan to maintain our leverage level as it is now or attempt to reduce it a little. We are thinking of reducing our cash and deposits to 25 billion yen by the end of 2025.

We see no problem in maintaining our net worth at this level for the time being. We would like to continue considering an even more appropriate balance between our net worth and leverage.

Question 9: Binders for Lithium-Ion Batteries (LIB)

Moderator: The question is as follows: “Please tell us about the trends in the size of sales, the situation concerning customer adoption and the situation concerning your competition.”

Takamura: We are developing negative electrode material-related binders. Our binders will be necessary to increase the capacity of batteries. We are developing this product together with our customers. However, we are not yet sure what kind of batteries electric vehicle batteries will become.

It is said that the liquid LIBs used now will one day become all-solid-state batteries. However, there are an increasing number of cases in which cheaper batteries are being used in electric vehicles such as lithium-ion phosphate batteries in China.

Therefore, sales of binders for LIBs are growing. Nonetheless, we are developing new materials as well. We are also developing binders for negative electrodes and positive electrodes which can be used for different batteries.

Question 10: Optimal Capital Structure for Each Business

Moderator: The question is as follows: “I think it is the right decision to consider the possibility of maintaining income. In that case, if plastics are judged to be a stable segment, it is necessary to manage it with a low capital cost. Do you intend to also configure the right side of the balance sheet for each business segment to realize the optimal capital structure for each business?”

Takamura: We have a general structure in mind to a certain extent. Nevertheless, it is somewhat difficult to build a balance sheet for each business.

We find differences when we compare the balance sheet structure of extremely traditional product groups like the plastics you gave as an example and the structure of the high-purity liquid hydrogen chloride and acrylic polymers experiencing a period of rapid growth which we are now working on anew.

Therefore, I am now sure whether a capital structure in a form which recognizes the status quo is optimal or not. However, I think it will be important to obtain a firm understanding of this in-house in the future. As a result, I think it is necessary to also think of aiming for a capital structure which is a little nimbler depending on the business. Accordingly, we are thinking about how we will proceed with that at the current moment in time.

Message from Mikishi Takamura

Thank you very much for participating in our financial results briefing over a long period of time today. As I talked about in my presentation and in my answers to your questions, our new Medium-Term Management Plan is not intended to just expand our core business; we formulated it in a more refined manner in relation to our capital policies such as shareholder returns which we have been strongly aware of since the stage of our previous Medium-Term Management Plan.

Our main policies are for shareholder returns with a dividend payout ratio of 30% or more and a consolidated total shareholder return ratio of 50% or more. We plan to buy back 20 billion yen in treasury stock over three years. We expect our average consolidated total shareholder return ratio to be significantly beyond 50% at about 75%.

We plan to pay an annual dividend in 2023 of 36 yen. That will give us a dividend payout ratio of 40%. When combined with our intention to buy back 6.0 billion yen in treasury stock as we have announced, we assume our consolidated total shareholder return ratio will be 96%. We will continue to strive to be able to return more income than we are aiming for based on performance trends from 2024 onward.

We will focus on R&D investment in this Medium-Term Management Plan to achieve results with our new business and to produce new products on a sustained basis. Above all, we are especially aware of the need to increase operating income which serves as the source of returns. Accordingly, we promise to solidify a cycle which creates a virtuous cycle of new investments and then improved shareholder returns.

Furthermore, we will establish a management technique which uses return on invested capital (ROIC) to ensure our ROE is in the 7% range in the final year of our Medium-

Term Management Plan. However, we would like to strengthen our initiatives to achieve a ROE of 8% or more and a PBR of x1 or more as soon as possible.

I appreciate your continued support, advice and guidance. Thank you very much for accompanying me over a long time today.