

Initiatives for a Sustainable Increase in Corporate Value (FY 2024 Update)

May 14, 2025

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Forecast of business results and business plans included herein are based on the information available for us as of now and certain preconditions, and they provide no guarantee of our future business results.

Actual business results may depend on a wide variety of factors.

Action to Implement Management That Is Conscious of Cost of Capital and Stock Price



Recognition of current status and issues

- Our current **cost of shareholders' equity** is perceived to be **6–8%**.
- **ROE** was 2.0% in FY 2022, well below the cost of shareholders' equity, but recovered to **5.6%** in FY 2024 due to profit improvement measures.
- **P/B ratio** is currently **around 0.4**, which is recognized as very weak.
- The Company recognizes that key ongoing challenges include improving both the equity spread and P/B ratio by rapidly enhancing ROE, maintaining ROE at a stable level above the cost of shareholders' equity, and reducing the cost of shareholders' equity.

Policies

The Company will seek to realize its ideal for 2030 and sustainably increase corporate value.

- Target in Medium-Term Business Plan: operating profit of 3.3 billion yen, ROE of 6%
- Target for FY 2030: operating profit of 6.0 billion yen, ROE of 8%

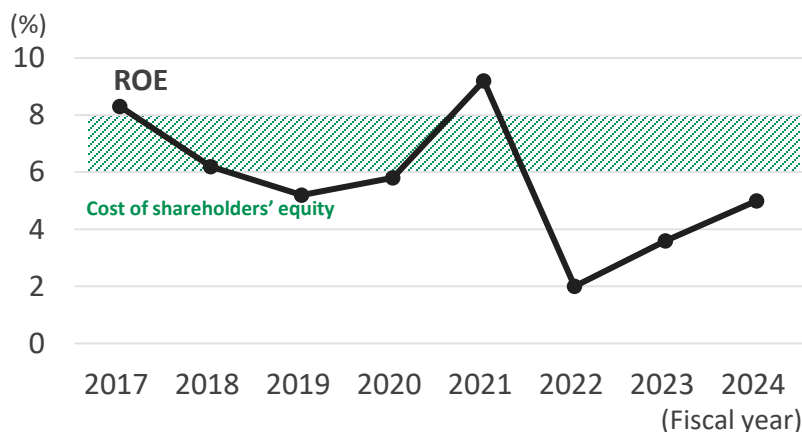
Initiatives

- Increase in ROE: execution of Medium-Term Business Plan (three measures) and implementation of capital policy
→ ROE targets: **6% for FY 2026, 8% for FY 2030**
- Flexible investments that balance market growth and financial health
- Explore additional ways to improve capital efficiency, including reviewing asset holdings and reducing cross-shareholdings
- Introduce DOE as the standard for dividend guidelines to bolster shareholder returns
- Reduce cost of shareholders' equity through aggressive non-financial measures

Recognition of Current Status and Issues

ROE has improved but is still below the cost of shareholders' equity. Improvement of equity spread (difference between ROE and cost of shareholders' equity) and P/B ratio remains a challenge.

ROE and cost of shareholders' equity



From CAPM model and shareholder/investor interviews

Cost of shareholders' equity

6-8%

<Current status>

ROE improves with higher profits but remains below the cost of shareholders' equity

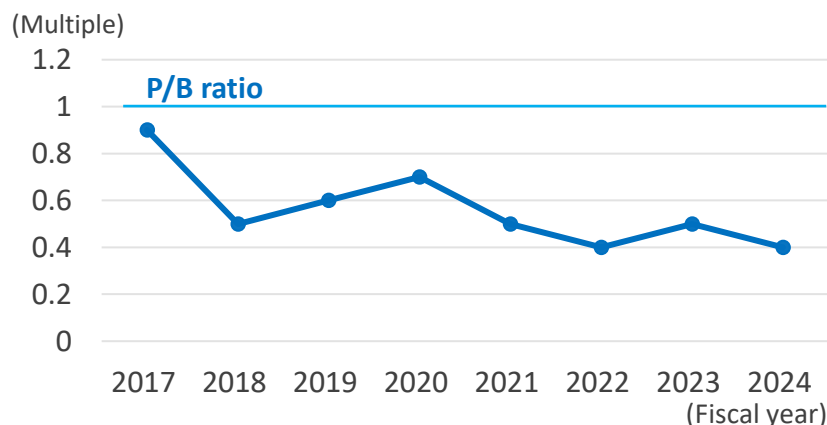


Future challenges

- Improvement and stabilization of ROE
- Reduction in cost of shareholders' equity
- Improved P/B ratio as a consequence



P/B ratio



As of March 31, 2025

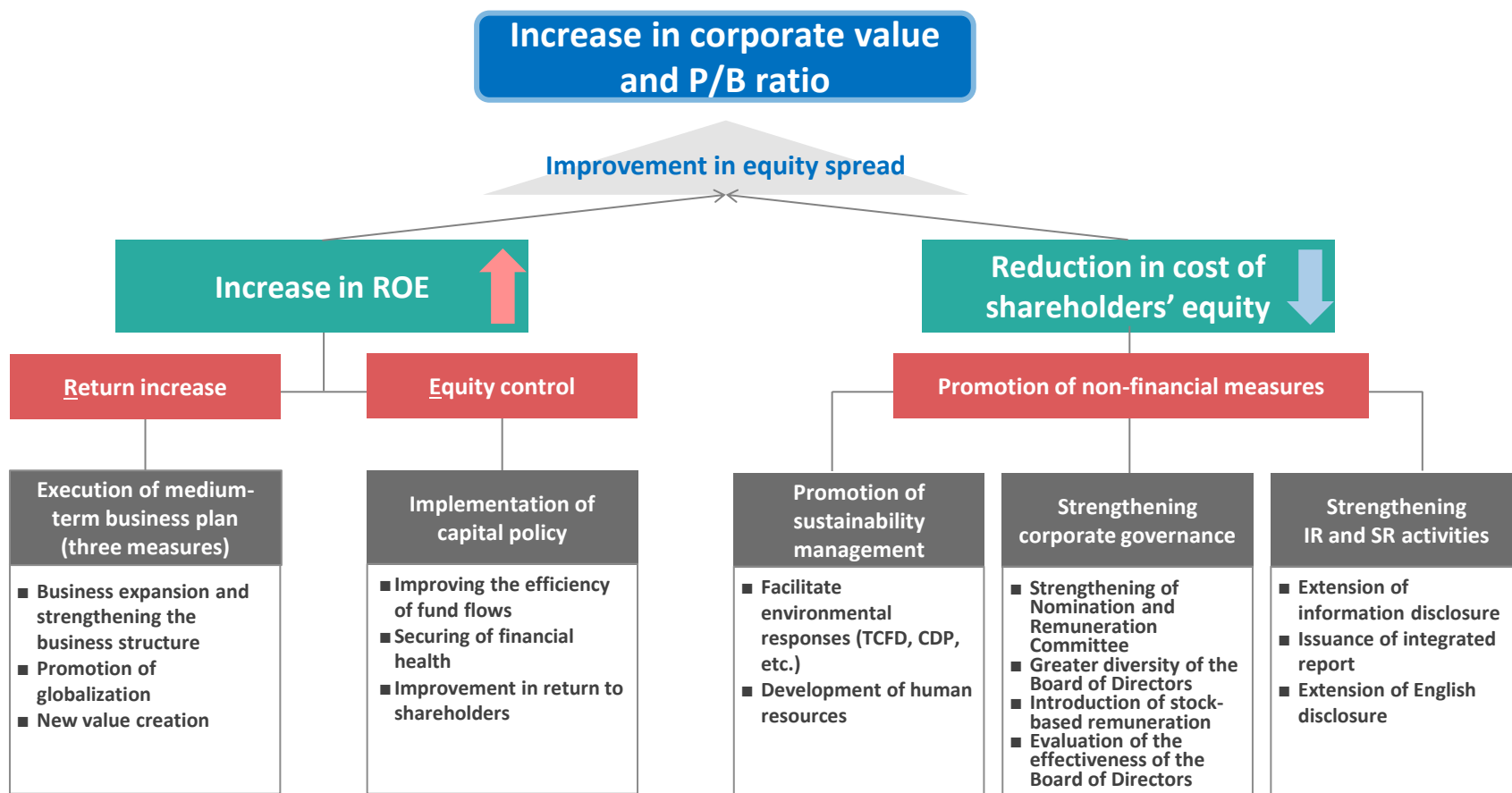
P/B ratio

Around 0.4

<Current status>

P/B ratio remains low, partly due to weak ROE

Improvement in equity spread through increase in ROE and reduction in the cost of shareholders' equity



Policies and Priority Measures in Medium-Term Business Plan

Policy for medium-term business plan

Promotion of the Growth Strategy and New Value Creation

Three measures based on sustainability management

Measure 1:

**Business expansion
and strengthening the business structure**

Measure 2:

Promotion of globalization

Measure 3:

New value creation

**Promotion of
Sustainability
Management**

FY 2026

FY 2030

Targets for FY 2030

Operating profit:
6.0 billion yen

EBITDA:
11.0 billion yen

ROE:
8%

- Expand the business in growth fields
- Strengthen the business structure of basic fields
- Pursue deepening and succession of production technology

- Increase overseas net sales
- Strengthen overseas organizations
- Pursue new opportunities

- Promote development of products with competitive advantage
- Achieve early research results

- Efficiently allocate managerial resources
- Strengthen supply-chain management
- Improve employee satisfaction
- Strengthen and ensure corporate governance and compliance
- Facilitate environmental responses
- Promote contribution to local communities and society

FY
2024

Trends in Net Sales and Operating Profit

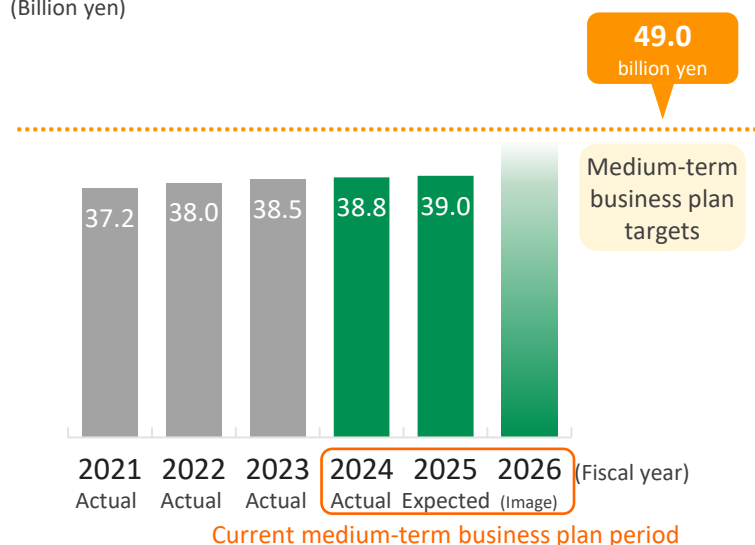
Net sales saw a moderate increase in FY 2024, while profits increased substantially due to price revisions and one-off factors. There is a sizable risk that the targets of the medium-term business plan will not be reached, so the Company will focus on boosting profitability further.

Progress of net sales and operating profit

- Despite slower-than-expected recovery in the multi-layer ceramic capacitor (MLCC) and semiconductor markets, net sales grew steadily, albeit moderately compared to medium-term business plan targets.
- Operating profit, on the other hand, increased substantially in FY 2024 due to price revisions and other one-off factors, but remains unstable due to aggressive investment in growth amid a weak external climate.
- We will focus on improving profitability by promoting efficiency and labor savings amid growing uncertainty in the global economy due mainly to trade friction and changing international conditions.

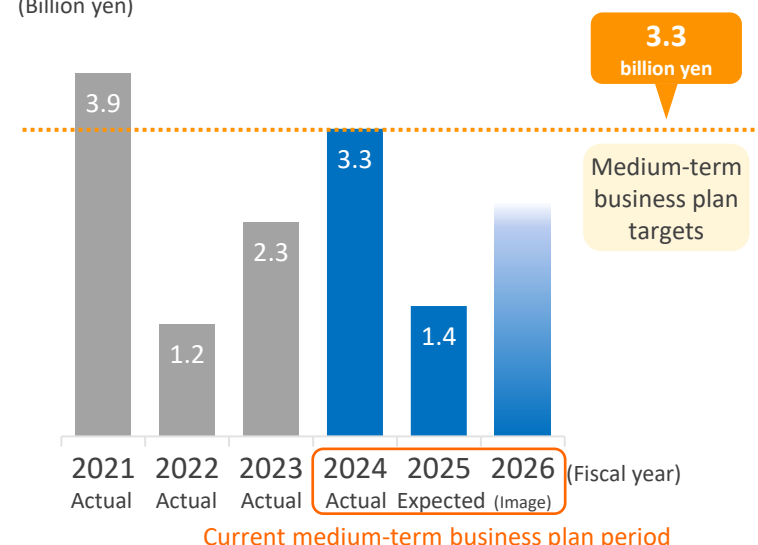
Net sales

(Billion yen)



Operating profit

(Billion yen)



Measure 1: Business Expansion and Strengthening the Business Structure - Basic Fields



In a market considered to be dominated by commodities, we are shifting to a structure that can generate stable profits through a review of its competitive product portfolio.

Current Climate

- Establish an unassailable position as the only manufacturer of chromium compounds in Japan
- Geopolitical risks lead to a reappraisal of domestic products, while the influx of cheap imports remains a concern

Status of Medium-Term Business Plan Initiatives

- Pricing in line with market trends
- Strengthening technology and quality
- Securing sustainable profitability

Challenges and Responses

- High quality control through domestic production and greater competitiveness through a robust supply chain
- Enhance product value by strengthening QDS (Quality, Delivery, Service)

<Products in basic fields>



Chromium compounds



Silicates and silica

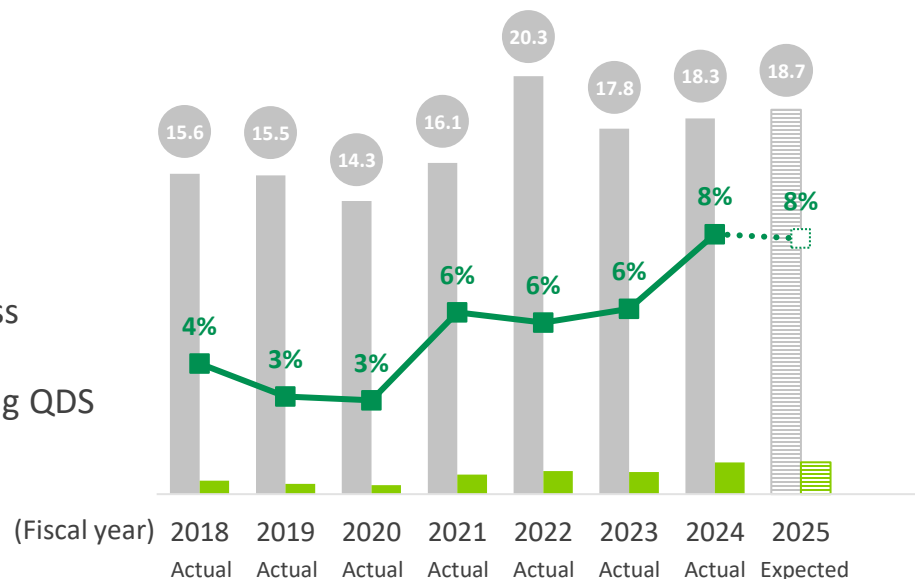


Inorganic phosphorus compounds

Net sales and operating profit in basic fields

(Billion yen)

- Net sales in inorganic chemicals
- Operating profit in inorganic chemicals
- Operating profit percentage in inorganic chemicals



Measure 1: Business Expansion and Strengthening the Business Structure - Growth Fields



Growth in demand slowed down temporarily against the medium-term business plan due to changes in the market environment.

Demand is expected to recover in the medium to long term, and we will continue pursuing our strategy for sustainable growth.

Current Climate

- Continued growth is expected for automotive and communications applications due to advancements in digitalization
- MLCC and semiconductor markets are currently in a phase of inventory adjustment due to decrease of demand
- Increasing investment cost due to rising material costs

Status of Medium-Term Business Plan Initiatives

- Investment in electronic ceramic materials (for MLCC) progressed steadily. Scheduled to be completed in first half of FY2025
- Investment plans for high-purity phosphine gas (for semiconductors) are under review due to slowing demand and rising material costs

Challenges and Responses

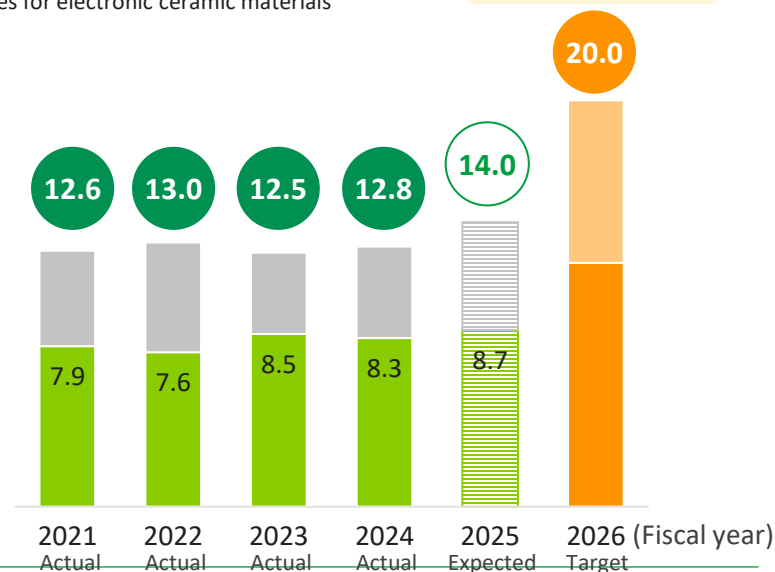
- Flexible investment planning by appropriate grasp of market trends
- Cultivate new markets by making use of overseas sales bases and step up marketing to global markets

Electronic ceramic materials	Dielectric for MLCC, Dielectric materials (Barium titanate ・ High-purity barium carbonate)
High purity electronic materials	Semiconductor materials, Organic electronic materials (High-purity phosphine gas, High-purity red phosphorus, etc.)
Phosphoric acid for liquid crystal/semiconductors	Etching agent (Phosphoric acid)
Phosphorus raw material for QD	Quantum Dot Display Materials (Phosphine derivatives as TMSP)

Net sales in growth fields

(Billion yen)

- Total net sales for growth fields
- Net sales for electronic ceramic materials



Measure 2: Promotion of Globalization

Geopolitical changes have increased the need for risk diversification and exploration of new markets.

We will focus on building sustainable supply chains and seizing new business opportunities.

Current Climate

- Geopolitical changes are producing trade barriers and economic stagnation, but they are also generating new market needs
- Greater consideration for the environment and society is called for, and a sustainable supply chain needs to be established

Status of Medium-Term Business Plan Initiatives

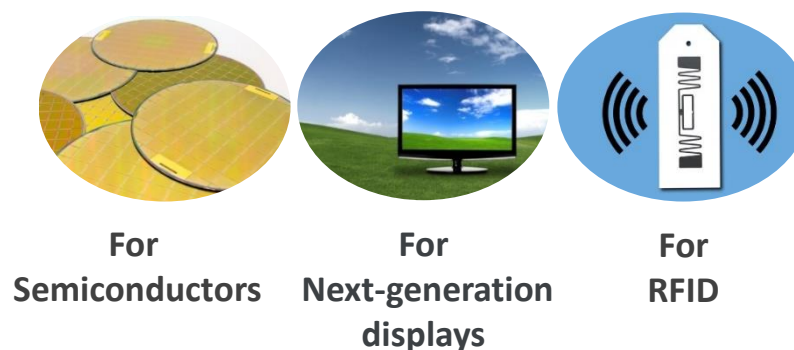
- Established a local subsidiary in Taiwan (June 2024). Focus on capturing the latest information and developing products that meet local needs
- Propose and offer differentiated services for industries with growth potential

Challenges and Responses

- Strengthening of manufacturing capacity to capture new markets
- Development of differentiated product portfolio
- Development of global human resources



< Example of a product with growing sales in overseas markets >



Measure 3: New Value Creation

Underpinned by our fundamental technologies and know-how, we will seek to create new value that will lead to solutions to increasingly diverse and complex social issues.

Current Climate

- Social issues are becoming more diverse and complex due to changes in industrial structure driven by rising awareness of sustainability, geopolitical risks, and digitalization

Status of Medium-Term Business Plan Initiatives

- Proactive use of open innovation for more efficient and faster R&D
- Establish environmental performance indicators in the selection of research themes and actively promote themes that contribute significantly to the environment

Challenges and Responses

- Early development of new products that benefit net sales and profits
- Optimal allocation of management resources

<R&D: direction for developing technology>



<Examples of recent development themes>



The Company is promoting strategic initiatives aimed at efficient management of capital and maximization of shareholder value. We are pursuing solid results amid slowing expansion of demand in growth fields.

Current Climate

- The slowdown in demand expansion in growth fields has delayed sales and profit generation
- ROE is weak and capital needs to be managed more efficiently

Status of Medium-Term Business Plan Initiatives

- Raising business efficiency
 - Dissolution and liquidation of Toho Ganryo Kogyo Co., Ltd. and transfer of main business to the Company (during FY 2025)
 - Withdrawal from bookstore business
- Increased the dividend per share and purchased treasury shares
- Strengthening reduction in cross-shareholdings

Challenges and Responses

- Optimization of cost of capital and maximization of shareholder value
- Improvement of ROE
- Effective utilization of assets

Capital policy: three directions

Inventory turnover period

3.0 to 3.5 months

Improving the efficiency of fund flows

- To avoid cash flow problems, we will optimize working capital by reducing inventory.

D/E ratio

Around 0.4

Securing of financial health

- We will use shareholders' equity effectively to build a strong financial foundation for steady growth investments.

Policy shareholdings to net asset ratio

10% or less

Reducing cross-shareholdings

- By reducing strategic shareholdings, we will generate cash to stabilize our management and invest in growth areas.

Return to Shareholders

In order to bolster shareholder returns and stabilize dividends, we have introduced “Dividend on Equity (DOE)” as a new dividend standard during the period of the medium-term business plan through FY 2026.

Dividend Policy

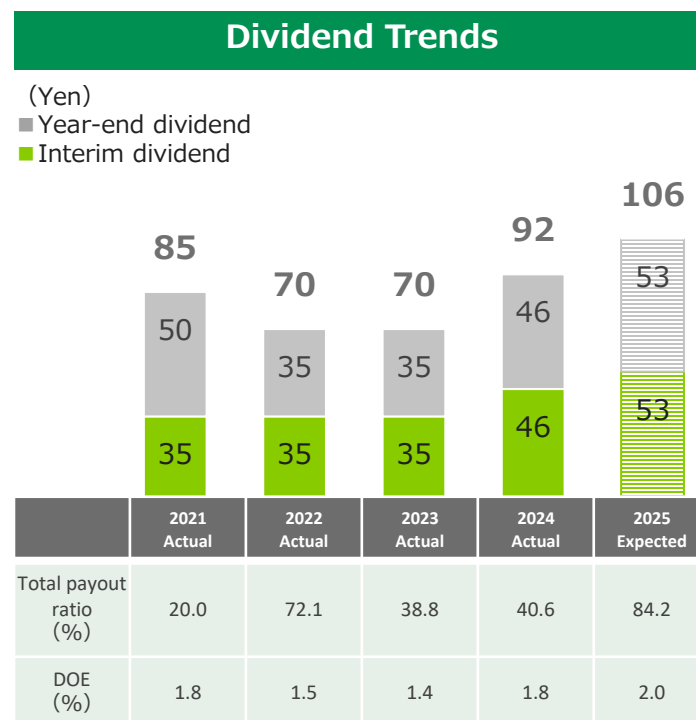
- Stable and continuous dividend payout is positioned as a key management policy
- Flexible investment in growth fields in line with demand, while continuing management efforts to increase dividends

Status of Medium-Term Business Plan Initiatives

- Raised dividend forecast for FY 2024 (92 yen per share)
- Purchase of treasury shares (235 million yen)

Review of Return to Shareholders

- More stable shareholder returns through the introduction of DOE
- Stable increase in dividends as the Company grows
- Providing reliable returns to shareholders



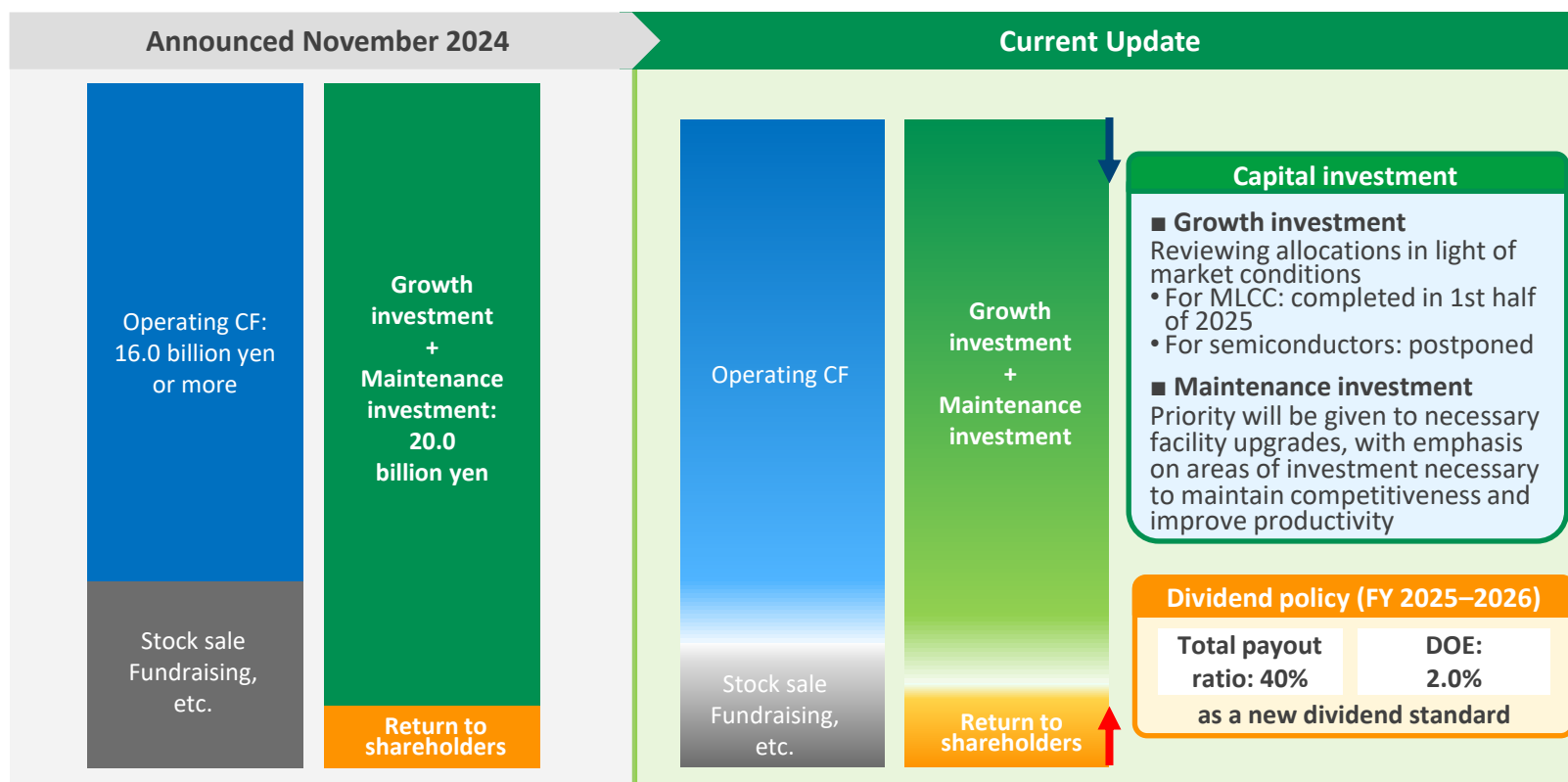
Dividend policy (FY 2025–2026)

Pay stable and continuous dividends with a target of
a total payout ratio of 40% or DOE of 2.0%, whichever is higher.

Cash Allocation (FY2024-2026)

As operating cash flow is expected to return to the original plan level, the Company has reviewed its investments in line with demand. We will also further strengthen shareholder returns.

- Operating cash flow is expected to remain at the same level as announced in November 2024
- The total investment amount is expected to decrease as a result of a review of capital investments to align with demand
- Improvement in return to shareholders



Promotion of Sustainability Management: Facilitating Environmental Responses



We view addressing climate change as a critical issue and are actively promoting a variety of initiatives, including the use of external evaluations and a certification system for environmental contribution products.

External Evaluations

- CDP (climate change and water security): “B” Score
- EcoVadis: Bronze medal

Initiatives

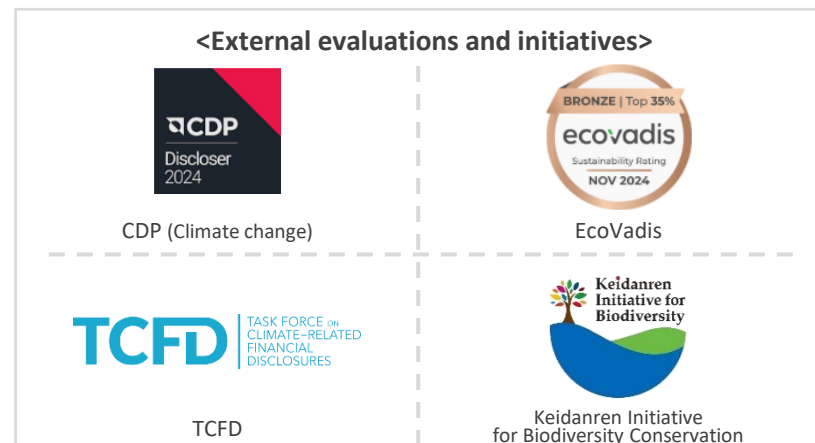
- Endorsement of the TCFD
 - Set emission reduction targets for Scopes 1 and 2
 - Calculated Scope 3 results

Circular Economy Initiatives

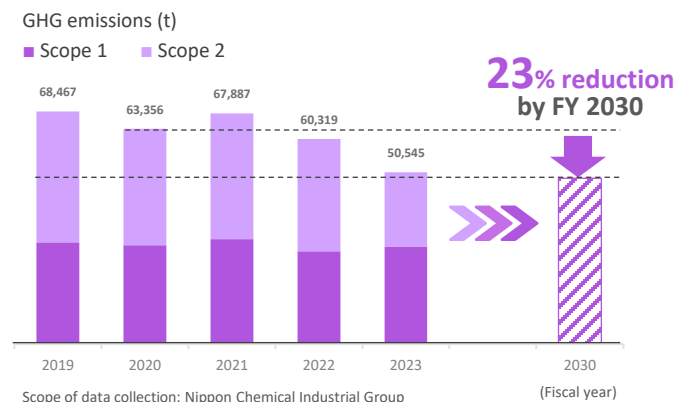
- Building a circular economy business model through collection, recycling, and reuse of chromium waste liquid

Environmental Contribution Products

- Promoting a system for certifying products contributing to solutions of environmental issues as environmental contribution products
- Aim to increase the ratio of environmental contribution products in net sales



GHG emissions (t)



Promotion of Sustainability Management: Human Resource Development



Through coaching, we are developing the entire organization, leading to corporate growth, and we are building a sustainable corporate structure by visualizing the effects.

Current Climate

- Rapidly changing business environment
- Competition to secure human resources

Status of Medium-Term Business Plan Initiatives

- Ongoing implementation of coaching program
 - Encouraging employees to act on their own initiative
 - Developing the organization as a whole
- Declared three human resource strategy policies and set KPIs for each of them

Challenges and Responses

- Visualization of effects
- Plans to introduce engagement surveys and regularly measure employee satisfaction and motivation levels



Human resource strategies



More diverse human resources

- (1) Promoting success of women in the workplace
- (2) Promoting recruitment of experienced staff
- (3) Promoting recruitment of foreign nationals



Development of human resources

- (1) Systematic education system
- (2) Coaching program



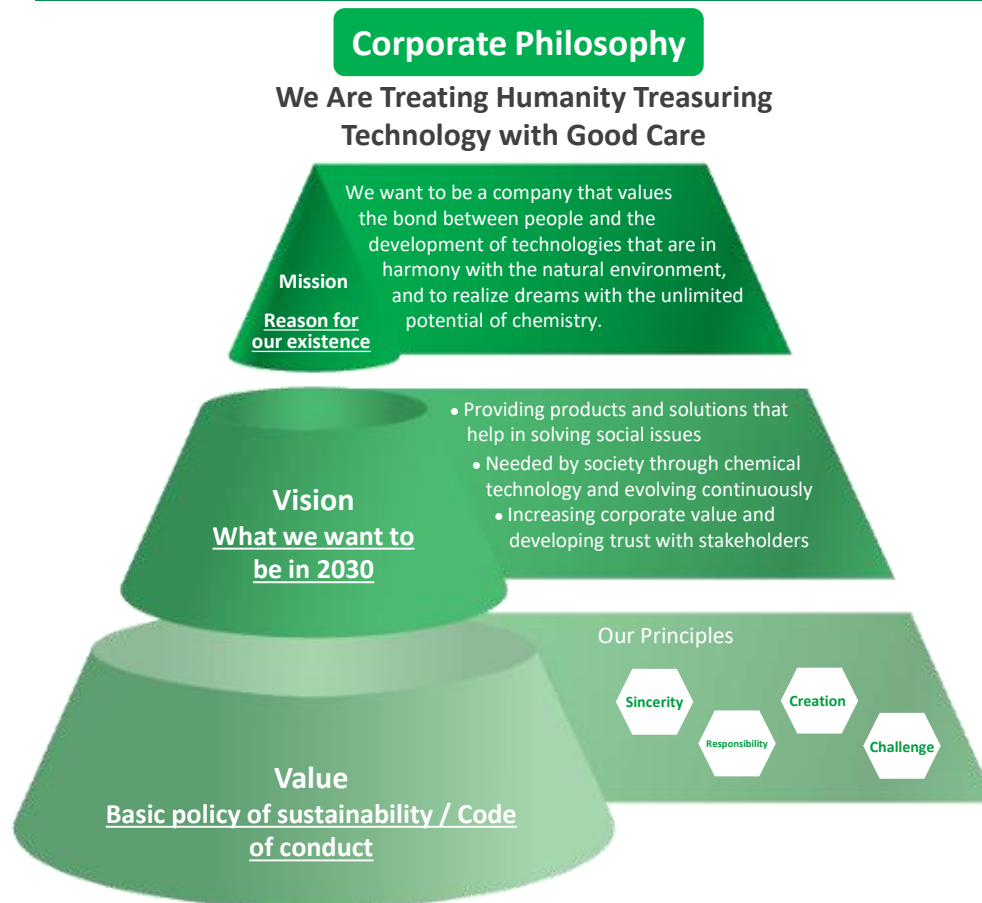
Improvement of work environment

- (1) Achieving a work-life balance
- (2) Promotion of health and productivity management
- (3) Promotion of occupational safety and health

Strengthening Corporate Governance

We are promoting the development of a corporate governance system to realize highly transparent management and appropriate decision-making, thereby laying the groundwork for sustainable growth.

Reorganization of the corporate philosophy chart (FY 2024)



Initiatives for strengthening corporate governance

■ Strengthening of the effectiveness of Nomination and Remuneration Committee

- Chairperson: selected from among members who are independent Outside Directors
- Activities (examples): selection of Representative Directors, details of remuneration for Directors and Executive Officers, etc.

■ Greater diversity of the Board of Directors

- Appointment of female Directors
- 3 Outside Directors
(Ratio of Outside Directors to all Directors: 50%)

■ Transfer-restricted shares remuneration

- Applicable persons: 2 Directors, 16 Executive Officers and administration officers
- Transfer restriction period: until resignation

■ Execution of effectiveness evaluation of the Board of Directors

- Recognizing the need to provide more information and opportunities for discussion to Outside Directors. Monthly Audit and Supervisory Committee meetings to report important matters from the Corporate Management Committee and to audit the factories

Strengthening IR and SR Activities

We are committed to reducing information asymmetries by stepping up efforts to disclose financial and non-financial information and deepen dialogue with shareholders and investors.

Issuance of integrated report

- Issuance of inaugural integrated report by Nippon Chemical Industrial
- Introduction of the value creation process and human capital management



Active implementation of IR/SR activities

- Taking a proactive approach to major shareholders and institutional investors
- Conducting constructive dialogue through IR/SR meetings

*The main points of the dialogue can be viewed on our website

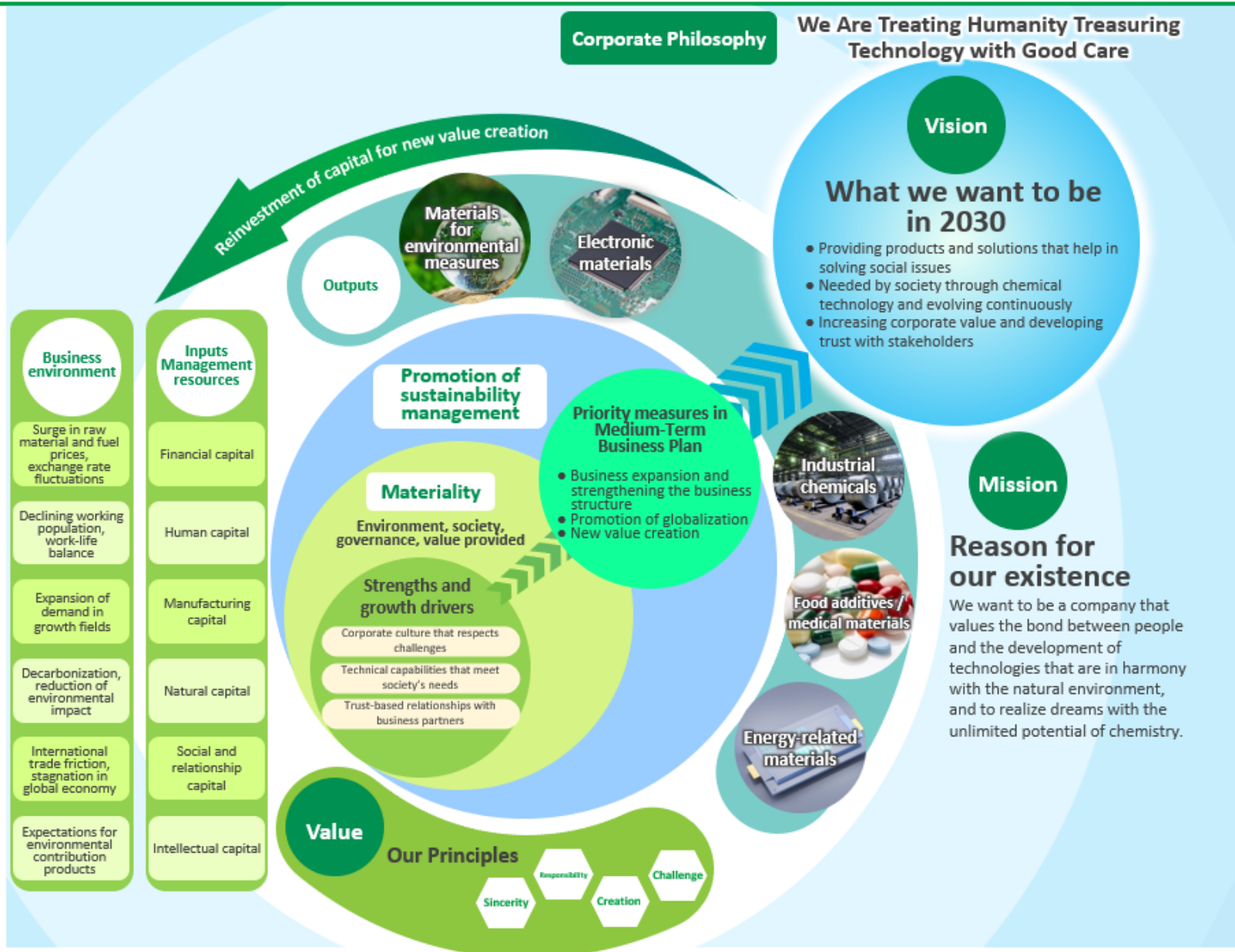
Extension of information disclosure

- Simultaneous disclosure of Japanese and English versions
 - Financial results
 - Timely disclosure information
- Strengthening communication of sustainability information
- Strengthening information disclosure by renewing the corporate website, including the IR site (Under update)

Strengthen internal feedback of IR/SR activities

- Providing effective feedback to management for application to management policies
- Reflecting the feedback in management strategies promptly and fittingly through dynamic communication among divisions

Value Creation Process





日本化学