Financial Strategy

Basic Policy

Sumitomo Chemical is aiming to reliably achieve its targets for ROE, ROI, and other financial indicators, and continuously improve corporate value. By controlling the balance of interest-bearing liabilities and the D/E ratio through rationalization, cost cutting, and shortening of the cash conversion cycle (CCC), we will continue to expand and strengthen our business through active growth investments with an awareness of green transformation (GX) while maintaining the soundness of our financial base.

Financial KPI targets

ROE	ROI	D/E Ratio	Dividend payout ratio
Over 10%	Over 7%	Approx. 0.7 times	Approx. 30%

Key Financial Performance Indicators

Since 1999, we have been working to improve capital efficiency, including both ROE and ROI, from an early stage, taking measures such as considering capital costs in our performance results for each business sector as part of our management accounting system. This Corporate Business Plan also calls for ROI-oriented management. We set a target of 10% for ROE, a key financial performance indicator, with a view toward creating a sustainable society through our business activities, based on a policy of implementing projects that we believe can make an important contribution to the solution of societal issues, as long as they are expected to be profitable. We set a target of 7% for ROI, in order to exceed our weighted average capital cost (WACC).

Furthermore, as part of the ongoing structural reforms, we are reviewing the management of ROI alongside the reorganization of business divisions. We have decided to shift from a uniform target of 7% across all divisions to setting specific targets for each business division, aiming to further enhance capital efficiency.

Our target D/E ratio is approximately 0.7 times, with a view to maintaining our current credit rating, which enables flexible financing. For new capital expenditures or M&A, we have decided to take into consideration economic indicators in each individual investment decision, including net present value (NPV), internal revenue rate (IRR), and the payback period. Since FY2019, in order to contribute to the creation of a sustainable society, we have been calculating an economic indicator that reflects our internal carbon pricing (10,000 yen per ton) for any project that is expected to increase or decrease CO_2 emissions, which is used in our investment decision-making. In addition, we also regularly follow up on the results of investments, including both capital investments and acquisitions.

Towards a V-shaped Recovery in Performance and Improvement of Financial Standing

In FY2023, we recorded the largest loss in our company's history due to deteriorating performance in Essential Chemicals & Plastics and Pharmaceuticals, as well as significant impairment losses. In light of this situation, we are accelerating the immediate-term, concentrated measures to improve business performance, which we have been implementing since autumn 2023, to enhance the certainty of a V-shaped recovery in FY2024 and to strengthen our financial standing in preparation for a fundamental structural reform. For FY2024, we aim for a V-shaped recovery in core operating income to 100 billion yen, supported by contributions from immediate-term, concentrated measures to improve business performance such as business divestitures, rigorous cost reductions and expanded sales of three key products in the Pharmaceuticals, and the effects of prior investments in areas such as agrochemicals and semiconductor materials.

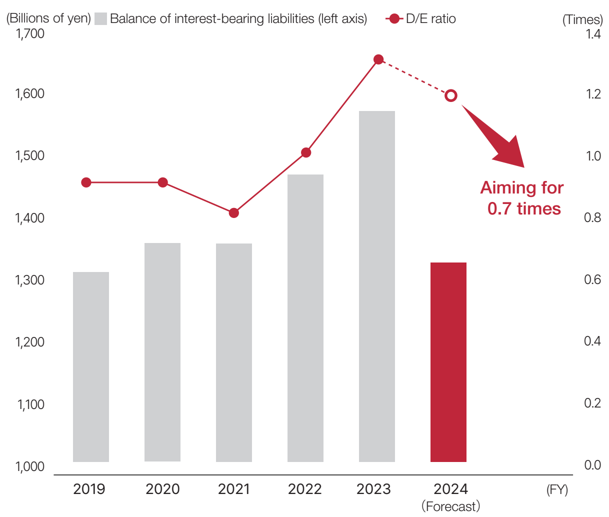
To improve our financial standing, we initially set a target to generate 500 billion yen in cash by the end of FY2024. However, with a forecast of generating 400 billion yen in cash by the end of FY2023, we have revised our target upward to 600 billion yen and are aiming to further increase this amount. The cash generated will be allocated to reducing our interest-bearing liabilities, thereby improving our financial standing, which has been weakened by large-scale strategic investments during the previous corporate business plan and the recent deterioration in performance.

Looking ahead, with anticipated interest rate increases due to potential shifts in monetary policy, we believe it is crucial to manage our interest-bearing liabilities to improve our financial balance. Therefore, in the near term, we will restrain investment within the limits of depreciation expenses to strengthen our financial standing. However, once our performance is back on a recovery track, we plan to increase investments under a long-term strategic framework. We will also actively allocate resources to agriculture-related and ICT-related areas, which we identify as key growth drivers for the immediate future.

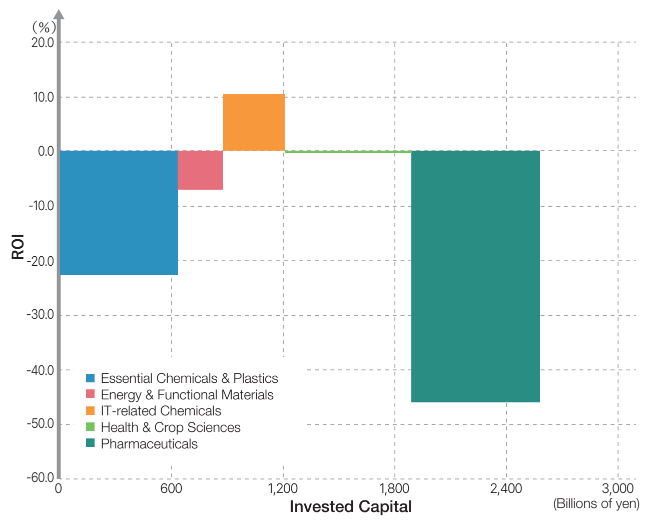
Shareholder Return

We consider shareholder return as one of our priority management issues. We have made it a policy to maintain stable dividend payments, giving due consideration to our business performance, the dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors. We aim to maintain a dividend payout ratio of around 30% over the medium- to long-term. In FY2023, we regret to report that we experienced the largest deficit in our history, leading to a reduction in dividends to 9 yen per share. We sincerely apologize to our shareholders and investors for this outcome. For the FY2024 dividend forecast, while we anticipate a V-shaped recovery in our performance, our priority remains strengthening our weakened financial structure. Therefore, we have decided to maintain the dividend at 9 yen per share, the same as in FY2023. We consider 12 yen per share per year to be the minimum stable dividend line that should be maintained, and our target is 24 yen or more per year, assuming a payout ratio of 30% at the 200-billion-yen level of core operating income. We will continue to sustainably improve corporate value by improving capital efficiency and strengthening our financial structures, thereby meeting the expectations of our shareholders.

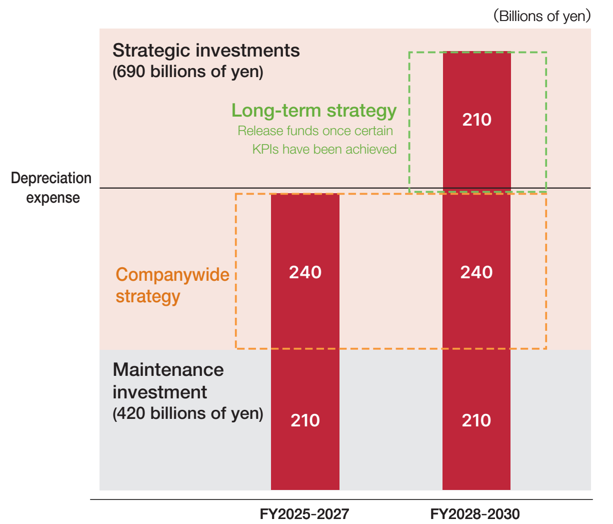
Interest-bearing Liabilities, D/E Ratio



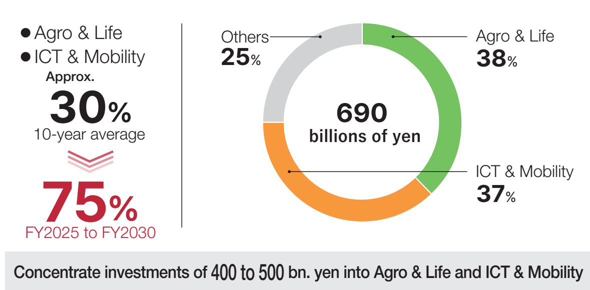
Invested capital by business segment, ROI (FY2023 results)



Future investment plans and investment allocation framework



6-year allocation to strategic investments



Shareholder return