



堺化学工業株式会社

**New Mid-Term Management Plan
“Transformation: BEYOND2030”
(FY 2024–FY 2026)**

May 13, 2024

Top Message

Sakai Chemical's image of the future: "An excellent company capable of contributing to society with Smart Material"

The Company imagined what life in 2050 would be like, and what chemistry can do to create it. For the three fields of environment & energy, electronics, and life sciences & healthcare, the Company aims to transform into "an excellent company capable of contributing to society with Smart Material."

The new Mid-Term Management Plan "Transformation: BEYOND2030" is the transformation stage for the future

The new Mid-Term Plan has been positioned on the transformation stage to realize the transformation to our desired future. By growing through the dual pillars of inorganic and organic chemistry and shifting to businesses that contribute to a society looking to the future, the Company will transform into a highly profitable company.

Complete the transformation for the future with determination

- (1) Business portfolio restructuring aimed at shifting to high-value-added products
- (2) Achieving ROE that exceeds the cost of capital and improving PBR
- (3) Rebuilding the management foundation via materiality promotion and accelerating non-financial initiatives

These three key areas will be focused on to complete the transformation for the future with determination.



Sakai Chemical Industry Co., Ltd.
President and Representative Director
Toshiyuki Yagura

Future Direction of Sakai Chemical (BEYOND2030)

Life of 2050 as envisioned by the Company

Coexistence of Virtual and Real Spaces

A Society Based on Human Involvement

Interaction and communication between people do not disappear

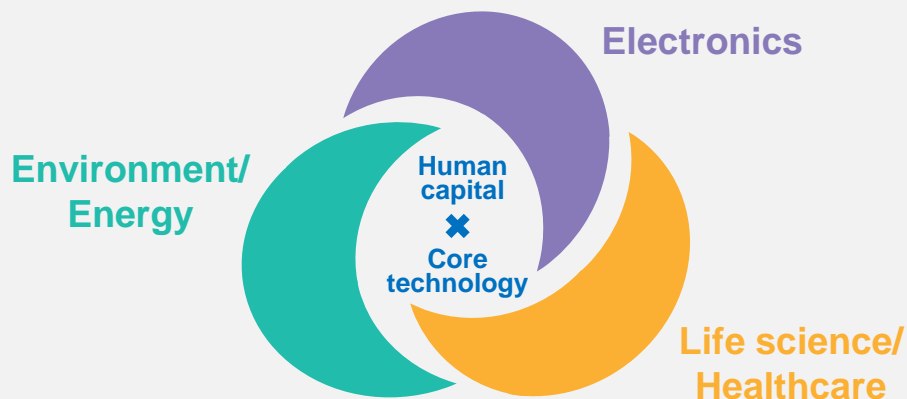
Furthered Diversification of Lifestyles

Compact cities and interaction with nature

Communications via Remote and In-person

Ways of connecting with people may differ, but the need for beauty and health always remains

What chemistry can do to create the lifestyle of 2050



① **Protect nature**
(protect the global environment)

② **Support the development of an advanced information society**
(for a more equal society)

③ **Support People's Health**

Becoming “an excellent company capable of contributing to society with Smart Material” for the three fields

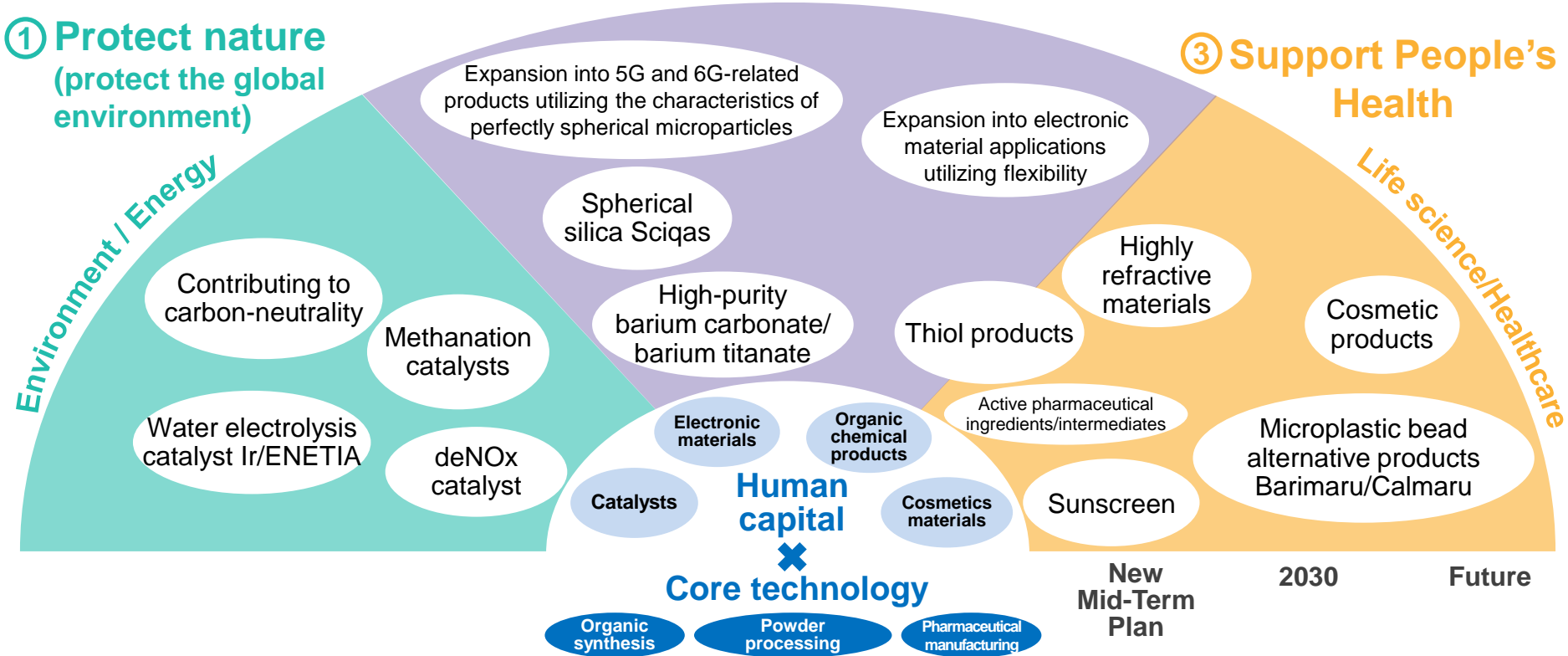
Road-Map to the Future (BEYOND2030)

Actively invest management resources in the "seeds" of highly profitable businesses that can contribute to the future in the three fields

② Support the development of an advanced information society (for a more equal society)
Electronics

③ Support People's Health
Life science/Healthcare

① Protect nature
(protect the global environment)



Corporate concept

Management mission

Chemistry for a Friendly Future

Creating materials that support the comfort and security of society through compassion and technological innovation

Organizational vision

Exciting Company

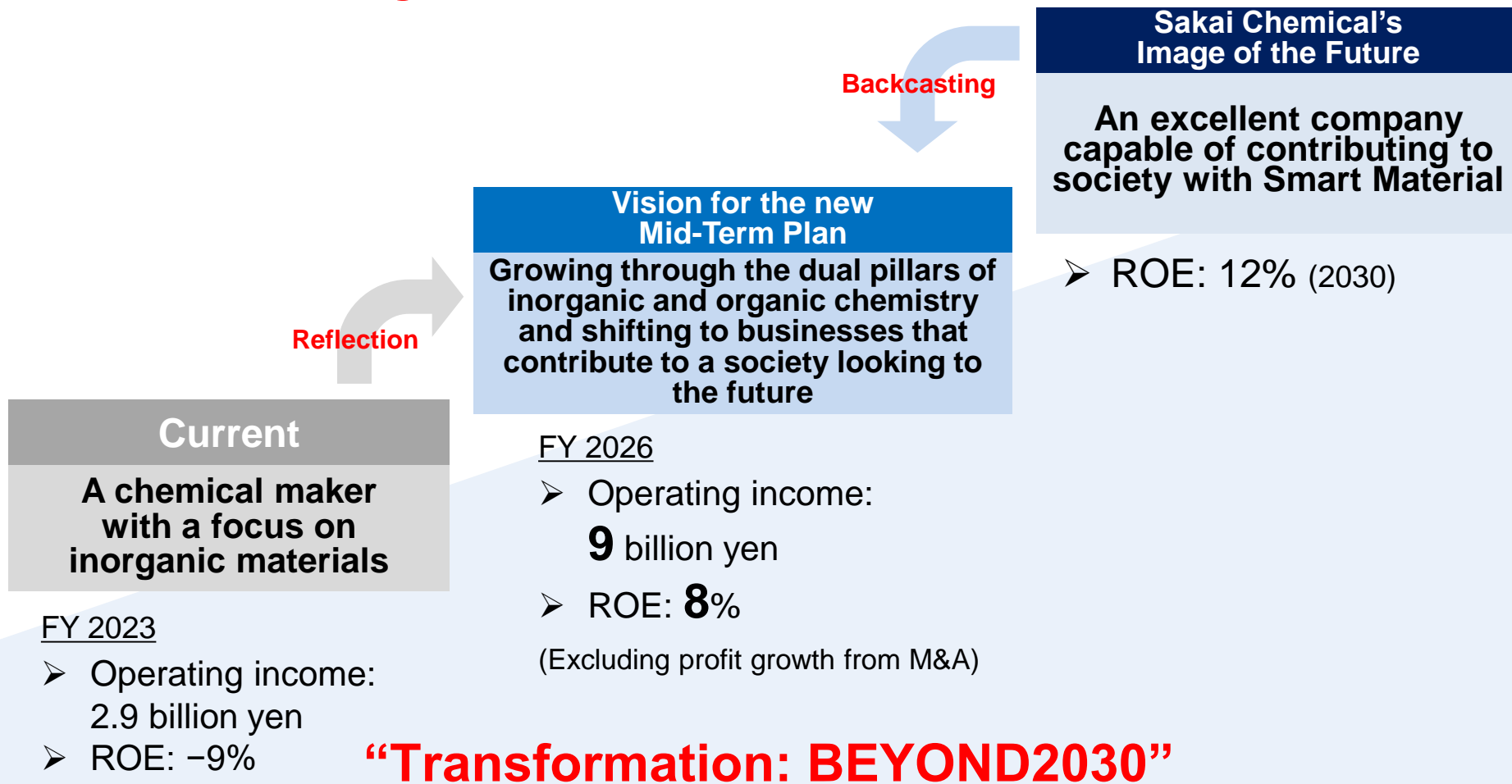
We will build an exciting company together



Positioning for the New Mid-Term Management Plan

“Transformation: BEYOND2030”

Focusing intensively on shifting to high-value-added products as the transformation stage to the future



Looking Back on Previous Mid-Term Plan Periods (FY 2019 - FY 2023)

Started engagement in business portfolio management amid rapid changes in the external environment

Results

Initiating **business portfolio management**

- Classification of each sub-segment for growth, stability, and efficiency considerations, along with the absorption merger of SC Organic Chemical Co., Ltd.
- Unprofitable product price correction/discontinuation

Reworking corporate governance

- Appointment of external directors with extensive management experience in critical areas such as GMP management and diversity promotion
- Reduction of cross-shareholdings and elimination of parent-subsidary dual listings by making Sakai Trading Co. Ltd. a wholly-owned subsidiary

Promotion of people and environment-friendly manufacturing

- Development of microplastic bead substitutes and methanation catalysts

Issues

Quality/Safety issue recurrence prevention

- Administrative disposition of Kaigen Pharma Co., Ltd. for violation of the PMD Act
- Yumoto Factory explosion and Onahama Manufacturing Site fire accidents

Improvement from **current poor performance**

- Poor performance of growth businesses (impairment related to electronic and cosmetics materials, etc. for FY 2020)
- Fundamental measures for underperforming businesses (impairment related to titanium dioxide and inorganic materials for FY 2023)

Improvement of CCC and cash flow and overcoming the **stagnation of ROE and PBR**

Accelerate achievements and steadily address challenges for the new Mid-Term Plan

Complete Quality/Safety Issue Recurrence Prevention

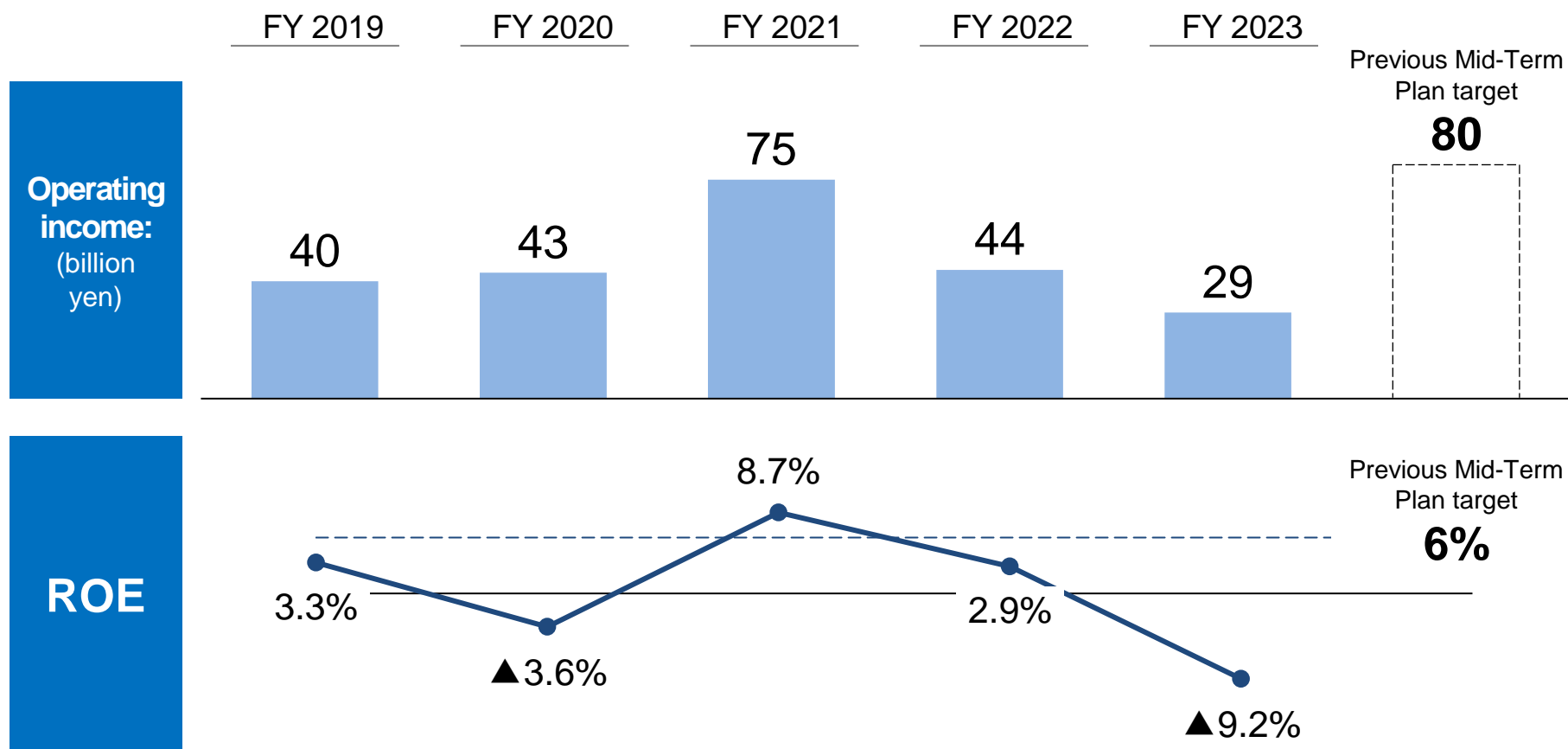
Rebuild quality and safety management system, strengthen group governance

	Kaigen Pharma Order to suspend business (violation of PMD ¹ Act)	Yumoto Factory zinc dust plant Explosion and fire accident	Onahama Manufacturing Site Titanium dioxide plant fire accident
Date of occurrence	December 22, 2023 (administrative disposition)	May 11, 2021	March 30, 2023
Cause	<ul style="list-style-type: none"> ➤ Inadequate management and supervision system ➤ Closed organizational culture (Kaigen Pharma) 	<ul style="list-style-type: none"> ➤ Accumulation of deposited particles ➤ Damage to rotor 	<ul style="list-style-type: none"> ➤ Malfunction of special equipment
Individual measures	Kaigen Pharma: <ul style="list-style-type: none"> ➤ Management structure reform ➤ Reorganization of the entire company structure and system establishment ➤ Resource management and job rotation ➤ Strengthening education for executives and employees ➤ Establishment of a compliance management system 	<ul style="list-style-type: none"> ➤ Removal of dust accumulated during processing ➤ Improvement of dust removal frequency 	<ul style="list-style-type: none"> ➤ Improvement of similar equipment for defect resolution
Entire company measures	(Clarification of responsibilities and scope of duties of directors, internal reporting system promotion, and fostering a quality culture) Sakai Chemical: <ul style="list-style-type: none"> ➤ Promotion and supervision of improvement plans (Increase the number of external directors dispatched to Kaigen Pharma to two for strengthened monitoring)	<p>(1) Thorough safety awareness: Thoroughly instilling awareness that "just because something hasn't happened yet doesn't mean it's safe"</p> <ul style="list-style-type: none"> ➤ Regular communication of top messages (not letting accidents be forgotten) <p>(2) Safety measures: Implementation of safety and health activities by everyone from management to site workers</p> <ul style="list-style-type: none"> ➤ Resolution of issues identified in external risk assessments ➤ Conducting training to demonstrate more effective risk management ➤ Continuously review safety and health standards 	

*1 PMD Act: Law concerning the assurance of quality, efficacy, and safety of pharmaceuticals and medical devices, etc.

Results against Numerical Targets of the Previous Mid-Term Plan

ROE target was achieved in FY 2021, but in the last fiscal year, neither operating income nor ROE were



Issue of revenue structure not consistently exceeding the cost of shareholders' equity

Initiating Business Portfolio Management (FY 2022 on)

Defining the Portfolio Management Policy

	Portfolio Management Policy	Sub-segment	Operating income	
			FY 2023 results	Reference: previous Mid-Term Plan annual average
Chemical Business	Growth businesses Accelerate the capture of market needs as a business driving medium to long-term profit growth	Electronic materials	300 million yen	600 million yen
		Cosmetics materials	-100 million yen	300 million yen
	Stable businesses Maintain as a stable revenue-generating business to the future	Hygienic products	400 million yen	300 million yen
		Organic chemicals	1.4 billion yen	1.5 billion yen
		Contract processing	500 million yen	700 million yen
	Businesses considered for efficiency improvement Implement fundamental measures based on the business structure and performance levels; aim to shift towards stable and growth businesses	Titanium dioxide and zinc	-400 million yen	100 million yen
		Plastic additives	600 million yen	500 million yen
		Catalysts	100 million yen	100 million yen
	Medical Business Shift to products not affected by drug price revisions		100 million yen	400 million yen

Note: Excluding "Other" from the chemical business

Important Initiatives for the New Mid-Term Plan, “Transformation: BEYOND2030”

Transformation

01

Business portfolio restructuring aimed at shifting to high-value-added products

- In addition to electronic and cosmetics materials, improve the profitability of growth businesses through investments in organic chemicals, expand business through M&A, and identify the best owners
- Future investments for the next Mid-Term Plan (cosmetics materials, etc.)
- Pigment-grade titanium dioxide business termination

Transformation

02

Achieving ROE that exceeds the cost of capital and improving PBR

- Cash flow management, asset compression through sales of ineffectively utilized fixed assets
- Capital efficiency improvement via active investment in growth businesses, including M&A, and shareholder returns

Transformation

03

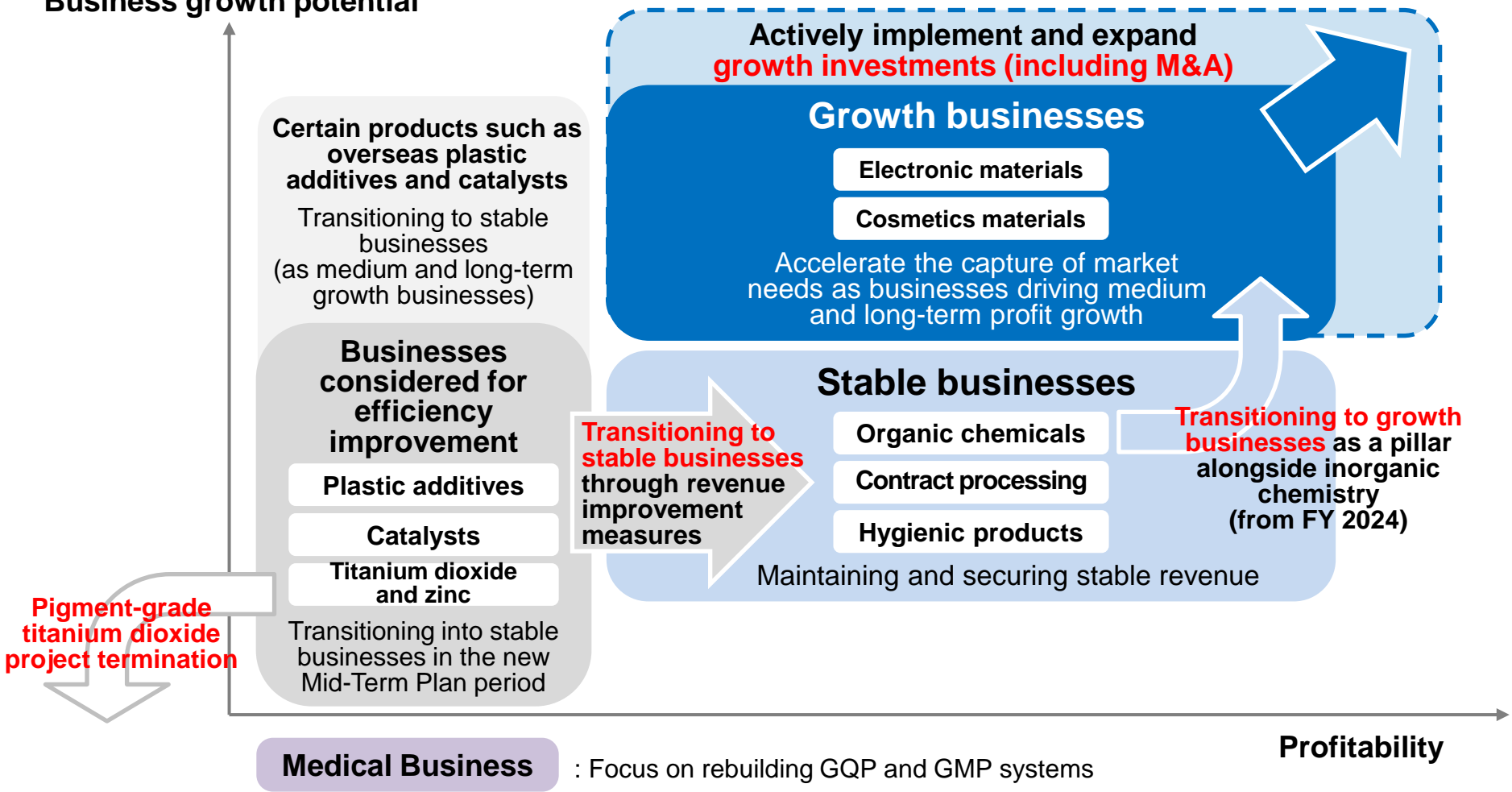
Rebuilding the management foundation via materiality promotion and accelerating non-financial initiatives

- Complete quality/safety issue recurrence prevention measures
- Initiatives for human capital management, the source of growth

Business Portfolio Transformation Policy

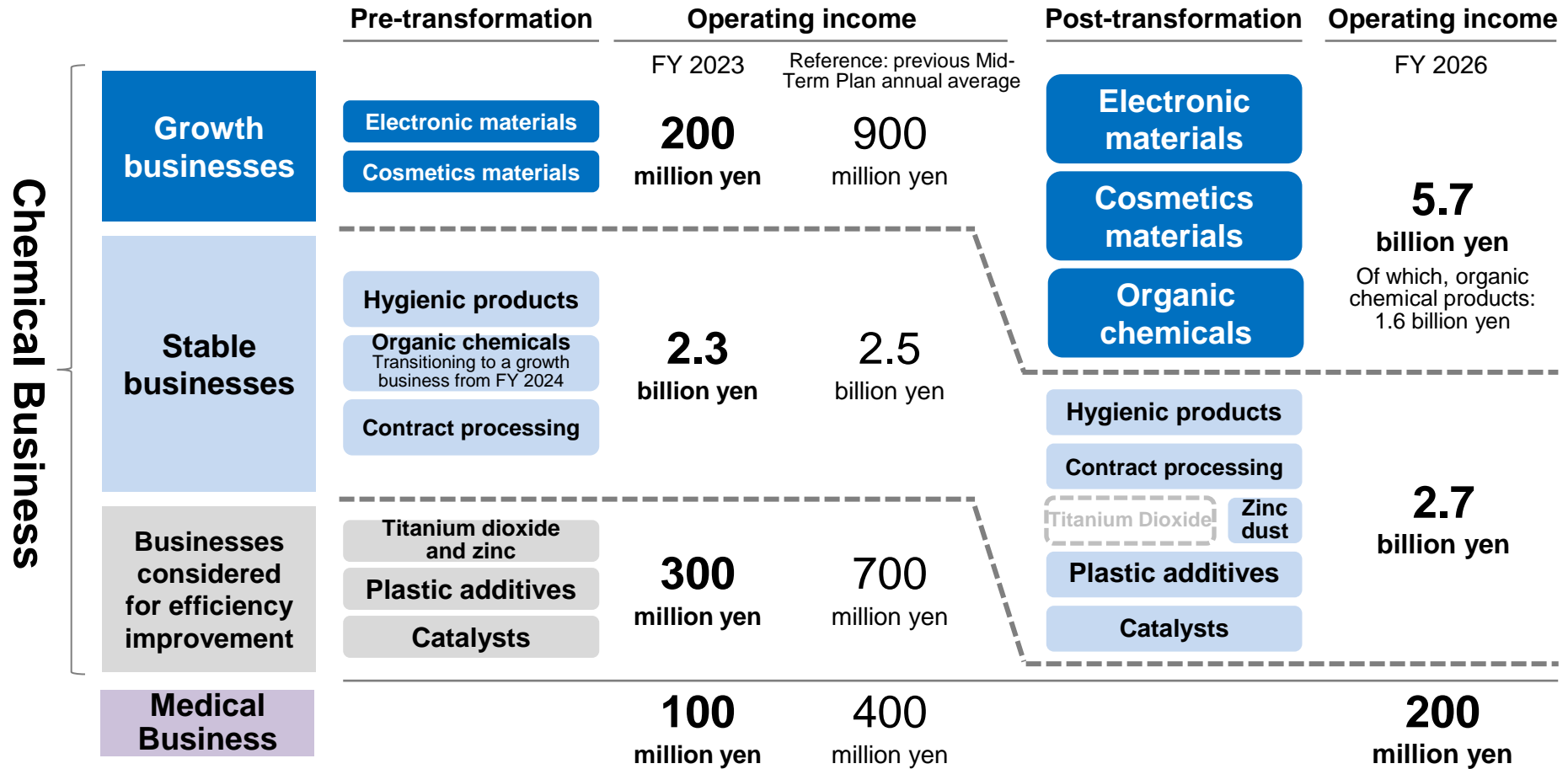
Accelerate the transformation of business portfolio management initiated in the previous Mid-Term Plan

Business growth potential



Profit Growth via the Business Portfolio Transformation Policy

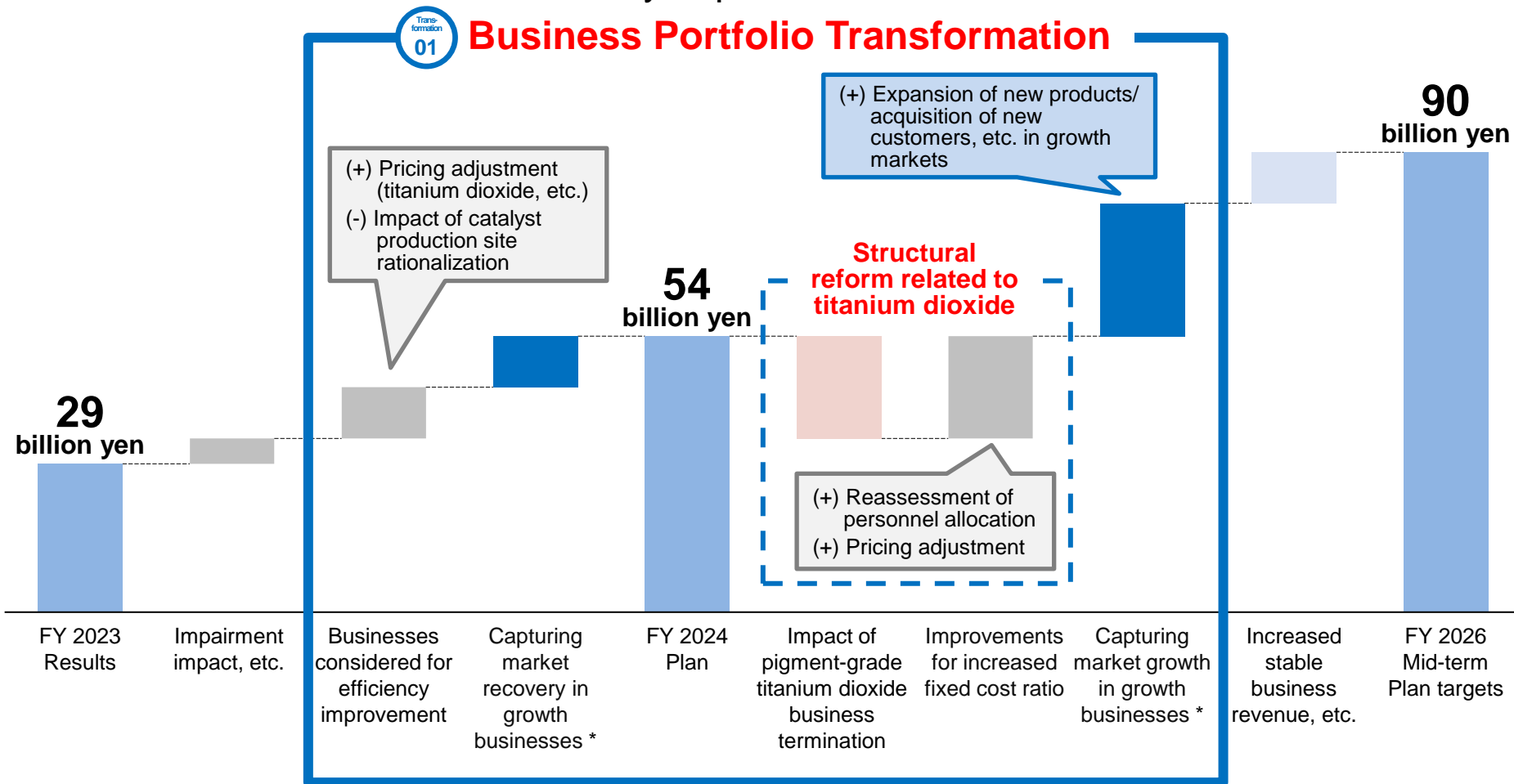
For businesses considered for efficiency improvement, streamline operations by focusing on businesses and products that can continuously contribute to revenue, transforming into stable businesses. Expand profitability of growth businesses through investments in electronics materials, cosmetics materials, and organic chemicals.



Note: Excluding "Other" from the chemical business

Overall Plan for Achieving Operating Income Targets

Shift to high-value-added products through business portfolio transformation by working on the recovery and growth of growth businesses while enhancing businesses considered for efficiency improvement



* Electronic materials/cosmetics materials/organic chemicals

Business Strategy for Growth Businesses

In addition to electronic and cosmetics materials, position organic chemicals as a new growth driver and work on further profit growth through growth investments in existing businesses and the utilization of M&A

Electronic materials

- Dielectrics: **Capture the high-end/mid-end markets with new products**, correct the pricing of unprofitable products
- Dielectric materials: Product portfolio review (actively expand sales of high-profit products and correct pricing of unprofitable products)

Target areas: **Electronics**

Cosmetics materials

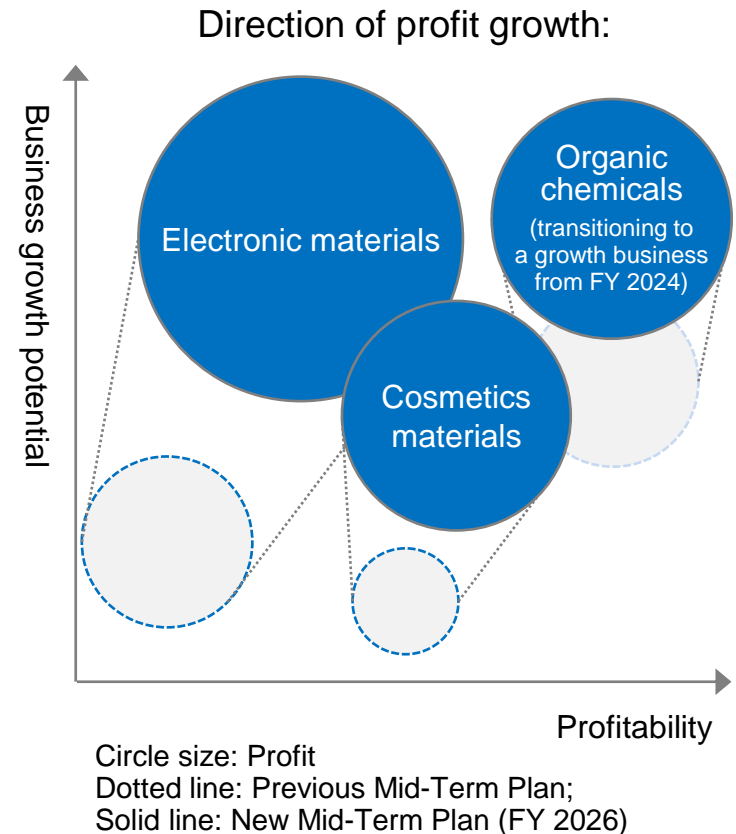
- Sunscreen: **Expand sales to overseas cosmetics manufacturers** through the proposal of surface treatment technology and formulation (performance evaluation cleared, production system established)
- Cosmetic products: Upfront investments for contributing to revenue in the next Mid-Term Plan period

Target areas: **Life science/Healthcare**

Organic chemicals

- Eyeglass lens materials: **Allocate resources aimed at maintaining and expanding the top market share for high-growth, high-refractive-index products**
- Active pharmaceutical ingredients/intermediates: Expand existing contracted products further through facility expansion and progress in CDMO

Target areas: **Electronics**
Life science/Healthcare



Growth Strategy: 1. Electronic Materials

Target areas:

Electronics

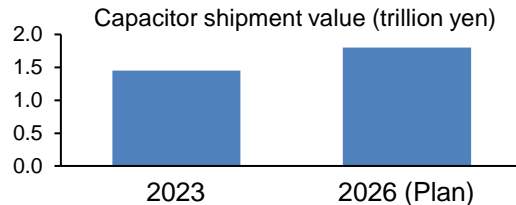
Develop and expand sales of high and mid-end dielectrics and dielectric materials matching multilayer ceramic capacitors (MLCC) trends, achieving growth that exceeds market growth

Market growth potential

MLCC
8%/year
Company estimate



MLCC market expansion driven by digitalization, transition to EVs, and advancements in generative AI



(Company estimate based on the World Semiconductor Trade Statistics and JEITA statistical data)

- Steady MLCC market growth driven by **increasing demand for more advanced and smaller electronic devices**
- As the market grows, the demand for miniaturization, increased capacity, and higher reliability of MLCCs expands

Dielectrics/
dielectric materials
High value-added

High and mid-end demand expansion based on MLCC trends

- As the market grows, **demand for high and mid-end dielectrics and dielectric materials is expanding based on the need for miniaturization, high purity, and high uniformity**

Strengths and initiatives

Technological strength
Powder processing

Product development flexibility and speed

- **Development/deployment of barium titanate and high-purity barium carbonate matching MLCC trends, utilizing the expertise and know-how accumulated over many years in powder processing technology**
- **Development and expansion of new electronic materials (Sciqas and multithiols)**



Supply chain

Integrated approach to procurement, manufacturing, and sales

- **Build a robust supply chain capable of integrated response from raw material procurement to manufacturing and sales (BCP compatible)**
- **Diversification of procurement sources**

Growth Strategy: 2. Cosmetics Materials

Target areas: Life science/Healthcare

Realize growth beyond that of the market with **high-functioning and uniquely competitive products**

Market growth potential

Sunscreen

5%/year
Company estimate

Market growth x inorganic shift

- Increased awareness of sun protection and skin lightening overseas
- Progress in replacing high-environmental-impact organic absorbers with **low-environmental-impact inorganic scatterers**

→ Growth prospects surpassing traditional growth rate

Strengths and initiatives

Technological strength
Powder processing

Enhancement via surface treatment and micronization

- **Functionality enhancement using powder processing technology** with zinc oxide and titanium, the foundational materials of our original business
 - Transparency through ultrafine particleization
 - Granting high dispersibility with surface treatment
- **Expand sales to overseas cosmetics manufacturers** (performance evaluation cleared, production system established)
- Accelerate expansion of overseas markets, focusing on highly profitable zinc oxide-based products

Cosmetic products

5%/year
Company estimate

Market growth x MPB alternative shift

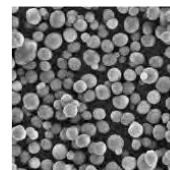
- Progress in replacing materials of concern for negative impacts on ecosystems, such as microplastic beads (MPB), **with materials that have less impact on the ecosystem**

→ High growth prospects within cosmetics market

Product development capability

Unique material lineup

- **Accelerate development/expansion of cosmetics materials**
 - MPB alternatives: Barimaru/Calmaru
 - Unique cosmetics materials: plate-like barium sulfate, hexagonal plate-like zinc oxide, and phosphors for cosmetics
- Implementing **upfront investments (capital investments)** aimed at contributing to profits in the next Mid-Term Plan



Electron microscope photograph of Calmaru (particle diameter: 5μm)

Growth Strategy: 3. Organic Chemicals

Electronics

Target areas:

Life science/Healthcare

Promote a **niche top strategy leveraging technology/quality as strengths**, transitioning to a pillar business alongside inorganic chemistry

Eyeglass lens materials (high refractive index type)

Market growth potential

6%/year

Company estimate

Eyeglass lens market growth x high refractive index demand expansion

- Global myopia population reached 2.6 billion in 2020, an increase of 30% over ten years. Estimated to reach 4.8 billion by 2050 (International Myopia Institute)
- Eyeglass lenses are projected to grow at an annual rate of 3%, with high refractive index type, which is the end-use, expected to grow at an annual rate of 6% (company estimate)

→ High growth prospects within eyeglass lens market

Active pharmaceutical ingredients/ intermediates

Strengthening manufacturing capacity

- Implementation of **production expansion investment** (revenue contribution is expected from the next Mid-Term Plan period)
 - Further expansion of existing products, acquisition of new projects
 - Capture future pharmaceutical market growth

Contracted quantity increase

Strengths and initiatives

Technological strength

High quality thiol products

Top position in niche markets

- Continuation of stable high-quality raw material **supply to top-tier domestic companies in Japan**
 - Limited companies capable of supplying high-grade thiol products, and **in the high-barrier niche market, our company has established its technology and know-how**
- Inputting resources for strengthening a top share position

→ Securing stable revenue + capturing market growth

Strengths and initiatives

Extensive contracting experience

- **Establish manufacturing know-how** through extensive contracting experience, including with major clients over a long period
- **Evolution from CMO to CDMO**
- Lineup expansion through **development of diverse synthesis processes**

Business Strategy for Businesses Considered for Efficiency Improvement

Focus on businesses and products that can continuously contribute to revenue, transforming into stable businesses

Titanium dioxide and zinc

- Elimination of deficits through price corrections, etc. (FY 2024)
- **Termination of pigment-grade titanium dioxide business (FY 2025)**, which has low capital investment efficiency and high environmental impact in the production process, and **implementation of structural reforms**, including improvements for fixed cost ratio reduction
- Zinc dust, etc. products transitioning to stable businesses

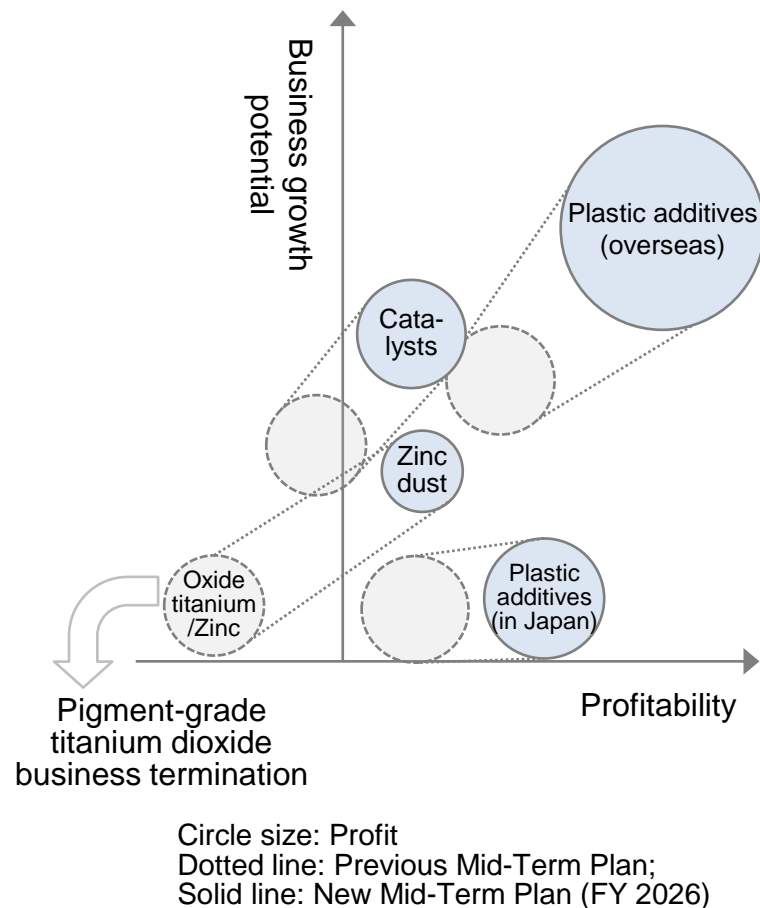
Plastic additives

- Domestic: Withdrawal from contract-manufactured lead-based stabilizers (FY 2025)
- Overseas: Shift to non-lead stabilizers (implementing production increase investments) and expand sales in the ASEAN region
- **Transition to stable businesses** from an overseas shift

Catalysts

- Efficiency via consolidation of production bases (FY 2024), cost reduction through yield improvement
- Revenue improvement via low-profit product price corrections
- **Transition to stable businesses** via consolidation of production bases and price corrections

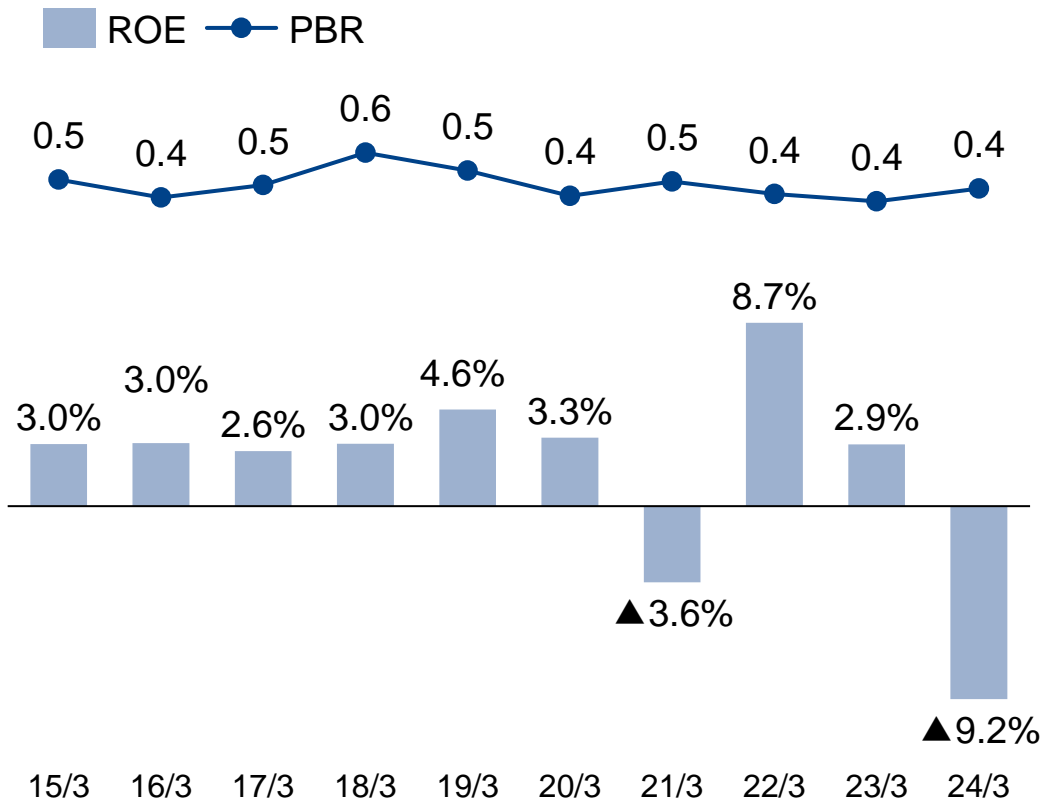
Direction of profit improvement/growth:



Achieving ROE that Exceeds the Cost of Capital and Improving PBR

Promote efforts strongly focused on capital efficiency to achieve the ROE target of 8% for FY 2026

ROE and PBR performance trend

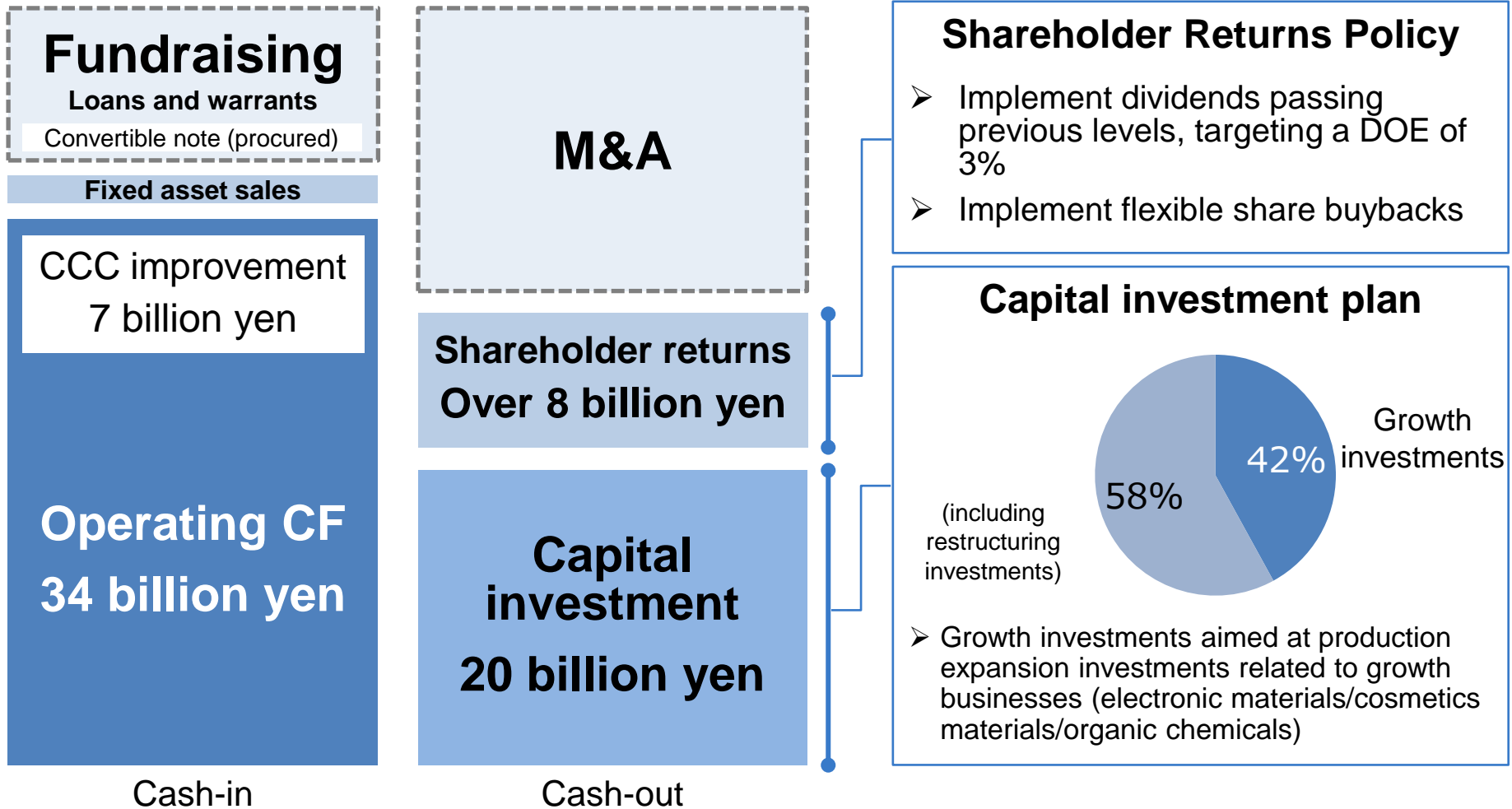


Detailed initiatives

- 1 Shift to high-value-added products via business portfolio transformation**
 - Development acceleration of growth businesses
 - Pigment-grade titanium dioxide business termination
- 2 Asset compression**
 - CCC improvement
 - Sale of underutilized fixed assets
- 3 Capital efficiency improvement**
 - Active investment in growth businesses, including M&A
 - Implementation of shareholder returns

Capital Allocation (Three-Year Cumulative)

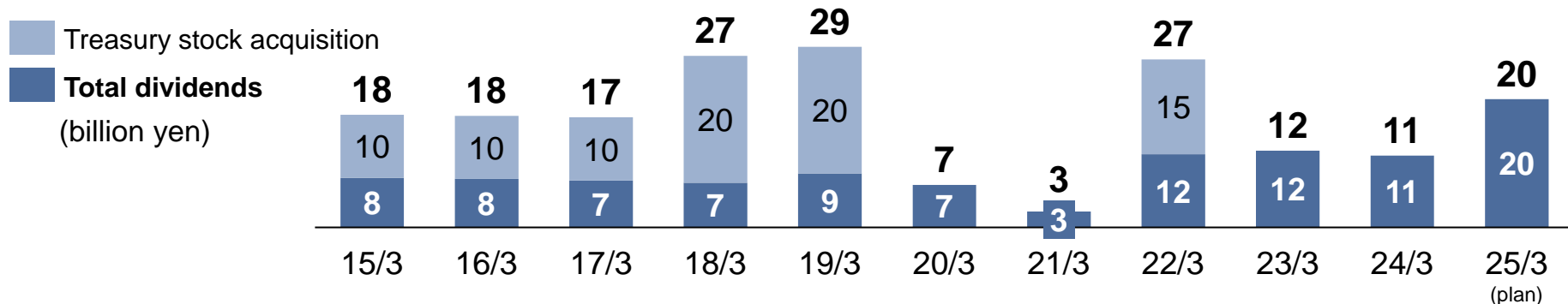
Allocate cash gained from profit generation, CCC improvement, and fixed asset sales to capital investment, shareholder returns, and M&A



Shareholder Returns Policy

Shift guideline for shareholder returns **from dividend payout ratio to DOE**

Total return trend



Shareholder's equity (billion yen)	73.4	74.0	74.3	73.9	74.7	76.6	73.2	77.8	78.9	71.2	-
DOE	1.0%	1.0%	1.0%	0.9%	1.1%	0.9%	0.3%	1.5%	1.5%	1.5%	3%
Net income for current fiscal year (billion yen)	2.3	2.3	2.0	2.3	3.6	2.5	(2.8)	6.7	2.3	(7.1)	43
Dividend payout ratio	35%	33%	37%	31%	24%	27%	-	17%	52%	-	47%
Dividend per share (yen)	8	8	8	24*	50	40	15	70	75	70	125

* A reverse stock split was implemented in FY 2017

Shareholder Return Policy for FY 2024 - FY 2026

Implement dividends passing previous levels, targeting a DOE of 3%.
Implement flexible share buybacks

Consider additional shareholder returns if profit plans are exceeded



Materiality Promotion and Accelerating Non-Financial Initiatives

Incorporate into executive evaluations, ensuring management to site workers is involved

1. Make people happy

KPI	Initiatives
Serious labor accident occurrences: 0	Implementation of safety and health activities by everyone from management to site workers
Engagement improvement: FY 2025 Above average third-party evaluation score	Establishment of a Human Capital Committee, engagement improvement
	Dialogue opportunities between management and employees (increase opportunities for dialogue, such as holding town meetings, etc.)
Promotion of diversity: By FY 2030, achieve 20% employment rate of women in core positions and 10% in managerial positions	Mid-career recruitment promotion for women
	Conduct empowerment training and operate subcommittees creating work environment for women to thrive

2. Protect the global environment

KPI	Initiatives
CO2 emissions reduction: Reduction of 30% in FY 2030 in comparison to FY 2013	Termination of business involving high environmental impact products (pigment-grade titanium dioxide)
	Shift towards more compact and efficient manufacturing
	Implementing renewable energy
Environmental accident occurrence: 0	Implement monitoring system for preventing environmental accidents

3. Solve social issues through manufacturing

KPI	Initiatives
Smart Material certified products and services: Five products on the market by FY 2030	Cosmetics materials Barimaru/Calmaru (MPB alternative products), plate-like barium sulfate, hexagonal plate-like zinc oxide, and phosphors for cosmetics
	Spherical silica Sciqas: Leveraging the characteristics of true spherical and fine particles for expansion into 5G and 6G-related products
	Water electrolysis catalyst IR/ENETIA: contributing to carbon-neutrality
	Multithiols: Expansion into electronic material applications utilizing thiols' flexibility

4. Build a strong, transparent management system

KPI	Initiatives
Number of serious compliance violations: 0	Review of information sharing, including with affiliated companies (review of group meetings, communication frequency improvement, etc.)
	Improve effectiveness of the Board of Directors (utilization of evaluation surveys, etc.)

Other initiatives in 3.: Conduct and implement CSR procurement surveys and improvements based on the human rights due diligence plan

Human Capital Management Policy

Our Company aims to become a strong organization where employees take initiative in solving individual and organizational challenges, trust themselves and their colleagues, and can grow sustainably



KGI and KPI List

Financial objectives (FY 2026)

Operating income: **9 billion yen**

- ◆ Growth businesses: Operating profit composition of 60% or more
- ◆ Businesses considered for efficiency improvement: Focusing on businesses able to contribute to revenue, transforming into stable businesses

ROE: **8%**

- ◆ CCC: No more than 180 days

KGI

Non-financial objectives

1. Make people happy

- ◆ Serious labor accident occurrences: 0
- ◆ Engagement improvement: FY 2025 Above average third-party evaluation score
- ◆ Promotion of diversity: Achieve 20% employment rate of women in core positions and 10% in managerial positions by FY 2030

2. Protect the global environment

- ◆ CO2 emissions reduction: Reduction of 30% in FY 2030 in comparison to FY 2013
- ◆ Environmental accident occurrence: 0

KPIs

3. Solve social issues through manufacturing

- ◆ Smart Material certified products and services: 5 products on the market by FY 2030

4. Build a strong, transparent management system

- ◆ Number of serious compliance violations: 0

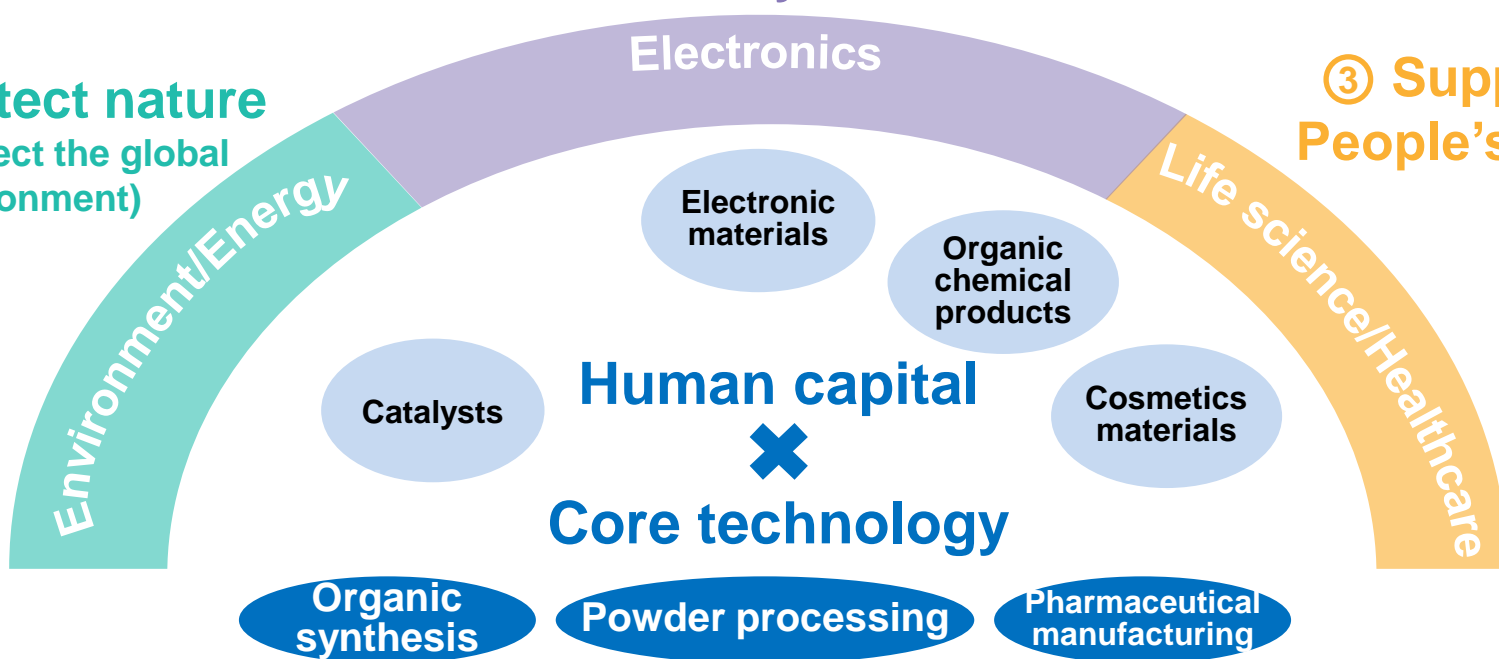
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② Support the development of an advanced information society (for a more equal society)

① Protect nature
(protect the global environment)

③ Support People's Health



Corporate concept

Management mission

Chemistry for a Friendly Future

Creating materials that support the comfort and security of society through compassion and technological innovation

Organizational vision

Exciting Company

We will build an exciting company together



Cautionary Notes Regarding Forecasts

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