



For immediate release

February 7, 2022

Notice regarding Medium-Term Business Plan

Tokyo, February 7, 2022 – KH Neochem Co., Ltd (TSE: 4189, President and CEO: Michio Takahashi, “KH Neochem”) announced that KH Neochem Group has formulated the 4th Medium-Term Business Plan covering the three-year period from the fiscal year ending December 2022 to the fiscal year ending December 2024.

KH Neochem Group has been contributing to solving social issues by providing products that are useful for the environment and people’s lives. In the 4th Medium-Term Business Plan, we will further accelerate this movement by positioning “Driving sustainable management” as our basic policy and pursuing the following three basic strategies.

Basic Strategies

- I. Further Growth in the Strategic Domains
- II. Medium- to Long-Term Initiatives to Resolve Social Issues
- III. Improvement of business framework

In addition, we have set numerical management targets of achieving accumulated consolidated operating income of 48.6 billion yen, accumulated consolidated EBITDA of 63.5 billion yen, and ROE of 15% or higher for the three-year period.

For details, please refer to the attached document, “4th Medium-Term Business Plan: Driving Sustainable Management.”

Financial forecasts and other forward-looking statements included in this document are based on the information currently available to KH Neochem and certain assumptions deems reasonable, and KH Neochem makes no commitments regarding their achievability. Actual business results may differ materially from the forecast due to variety of factors.

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4th Medium-term Business Plan (2022 -2024)

Driving Sustainable Management

February 7, 2022
KH Neochem Co., Ltd.

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Strategy II ▶ Medium- to Long-Term Initiatives to Resolve Social Issues

Strategy III ▶ Improvement of business framework

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▶ Numerical Management Targets

A Leading Global Specialty Chemical Company

Ambitions

- 1 Providing specialty chemicals that contribute to the reduction of global warming and to a better quality of life
- 2 Expansion of products with the largest global share and new businesses in three strategic domains
- 3 Top-class profitability in the chemical industry (Operating income margin of 15%)

2030 CY
 Net Sales 180 bn yen
 Operating Income over 25 bn yen

2018 CY
 Net Sales 101.2 bn yen
 Operating Income 10.9 bn yen

**Taking on
 New Challenges**

3rd medium-term plan

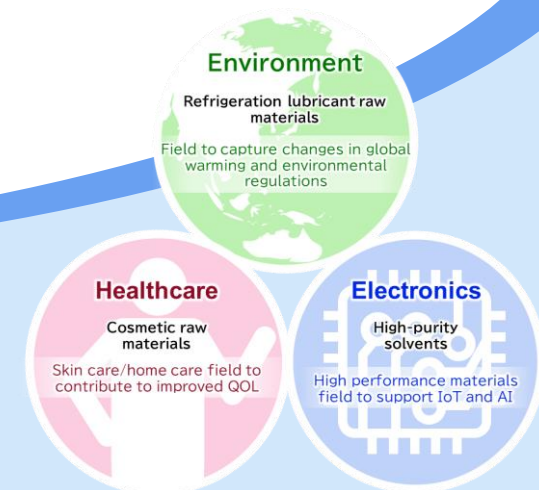
4th medium-term plan

5th medium-term plan

6th medium-term plan

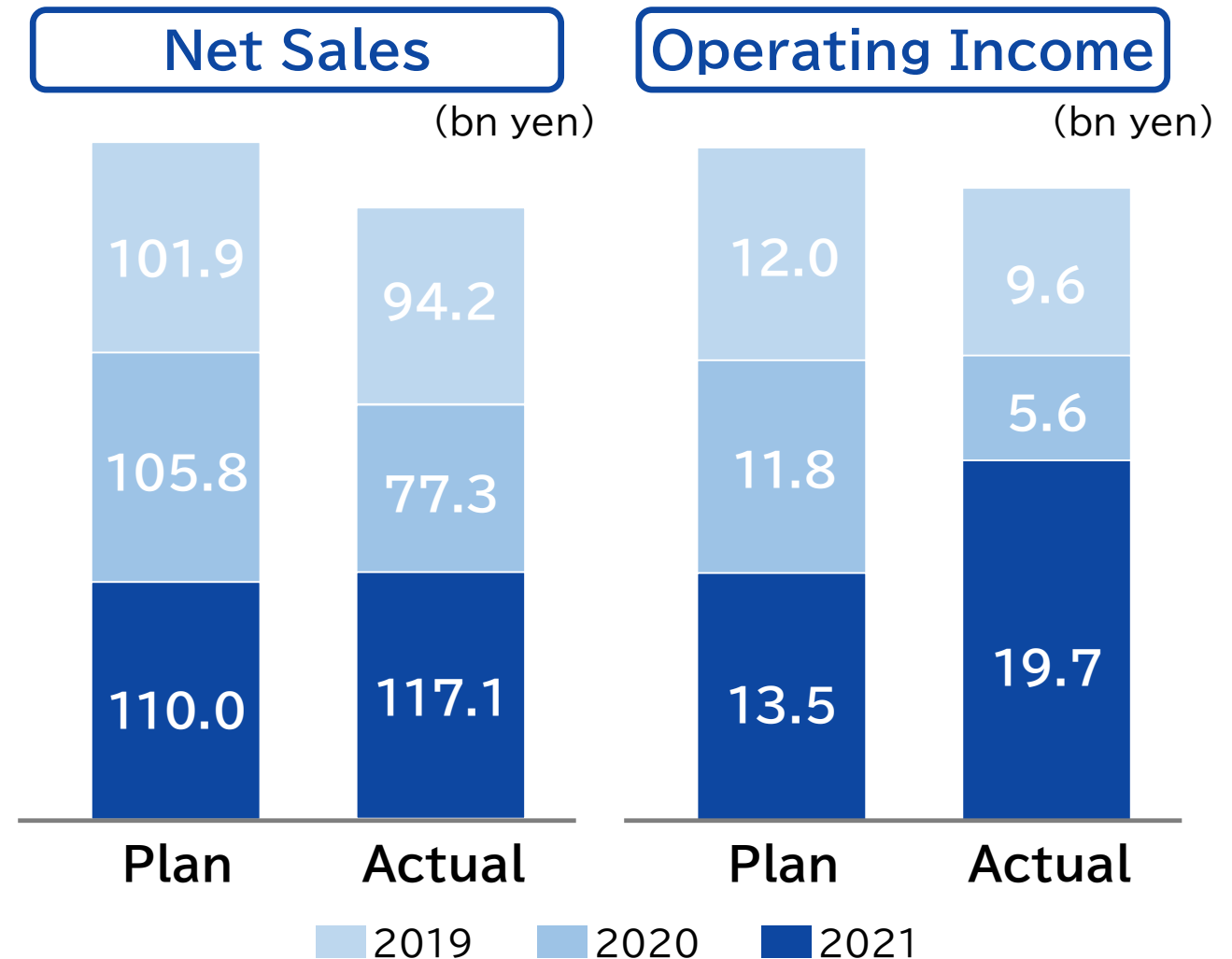
2019

2030



Even under coronavirus crisis, we achieved not only the management targets for the final year of the medium-term business plan but also record high earnings

	2021	
	(Plan)	(Actual)
Net Sales	110.0 bn yen	117.1 bn yen
Operating income	13.5 bn yen	19.7 bn yen
Return on Equity	18%	28%
Equity ratio	47%	45%



The business environment changed drastically, but we mainly executed strategies that will lead to medium- to long-term growth

	Strategy I Profit Increase by New Facilities	Strategy II Active Investment for the Expansion of Performance Chemical Business	Strategy III Improvement of business framework
Medium-term plan strategy	<ul style="list-style-type: none"> Start up of new facilities for refrigeration lubricant raw materials and marketing of new products Operate new facilities for the next generation semiconductor materials 	<ul style="list-style-type: none"> Further increase in production capacity for performance chemicals Creation of new business through the new research hub 	<ul style="list-style-type: none"> Further introduction of facility control system with latest technologies (AI and IoT) Improvement of work environment and encouragement of diverse work styles
Major achievements	<ul style="list-style-type: none"> Started operation of new facilities for refrigeration lubricants raw materials and started production of new products Started operation of equipment for next-generation semiconductor materials 	<ul style="list-style-type: none"> Decided to increase the production capacity of the entire Chiba Plant, mainly for refrigeration lubricants raw materials Started up new research hub (KH i-Lab) and accelerated activities to create new business through open innovation 	<ul style="list-style-type: none"> Introduction of advanced plant control systems as planned Introduction of new personnel system for managers (specified employment) Formulation and implementation of Business Continuity Plan (BCP) and issuance of integrated report



4th Medium-term Business Plan

Driving Sustainable Management

Expanded economic growth thanks to recovery from the coronavirus crisis, but also increased volatility and uncertainty

- Demand remained firm due to the recovery of the global economy from the coronavirus crisis
- Impact on the economy of prolonged inflation in the United States and risk of a slowdown in the Chinese economy

Recognition of the business environment for our company

Basic Chemicals

Solvents & plasticizer raw materials : Domestic demand is maturing, but demand is steadily expanding, mainly in Asia

Performance Chemicals

Refrigeration lubricant raw materials : Increase in demand, due to the expansion of the air conditioner market as a result of the economic recovery from the coronavirus disaster, and changes in refrigerants as a result of the Kigali Amendment and U.S. EPA regulations

Electronics materials : Continuing expansion of demand for semiconductors driven by spread of 5G, IoT and AI

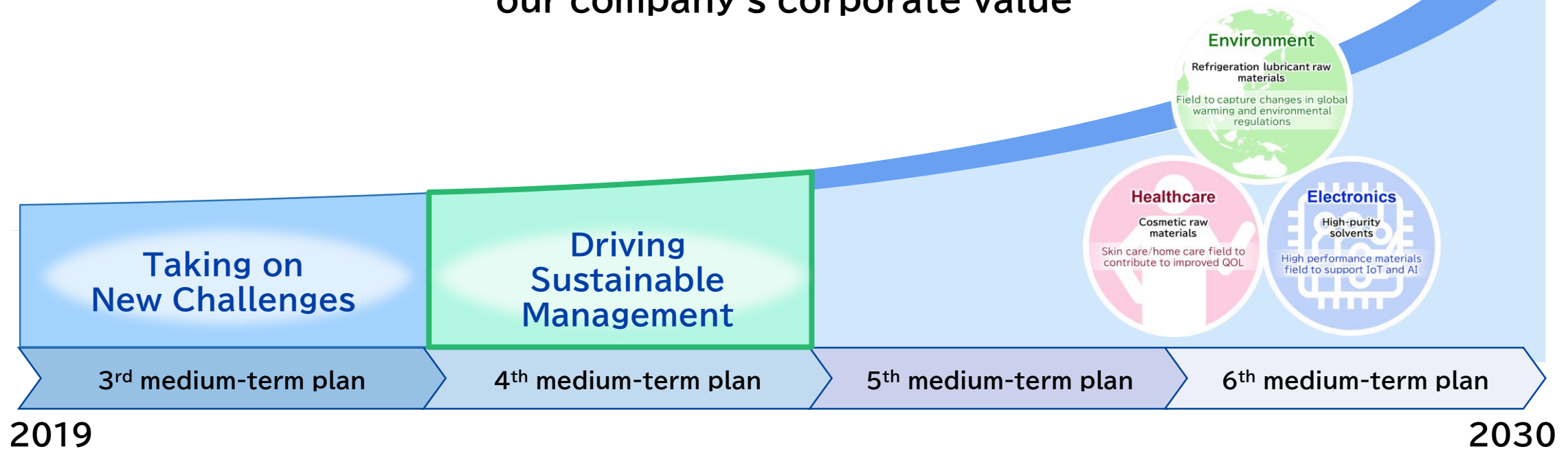
Cosmetic ingredients : Expanding demand in China, South Korea and elsewhere in Asia as the coronavirus crisis subsides

A Leading Global Specialty Chemical Company

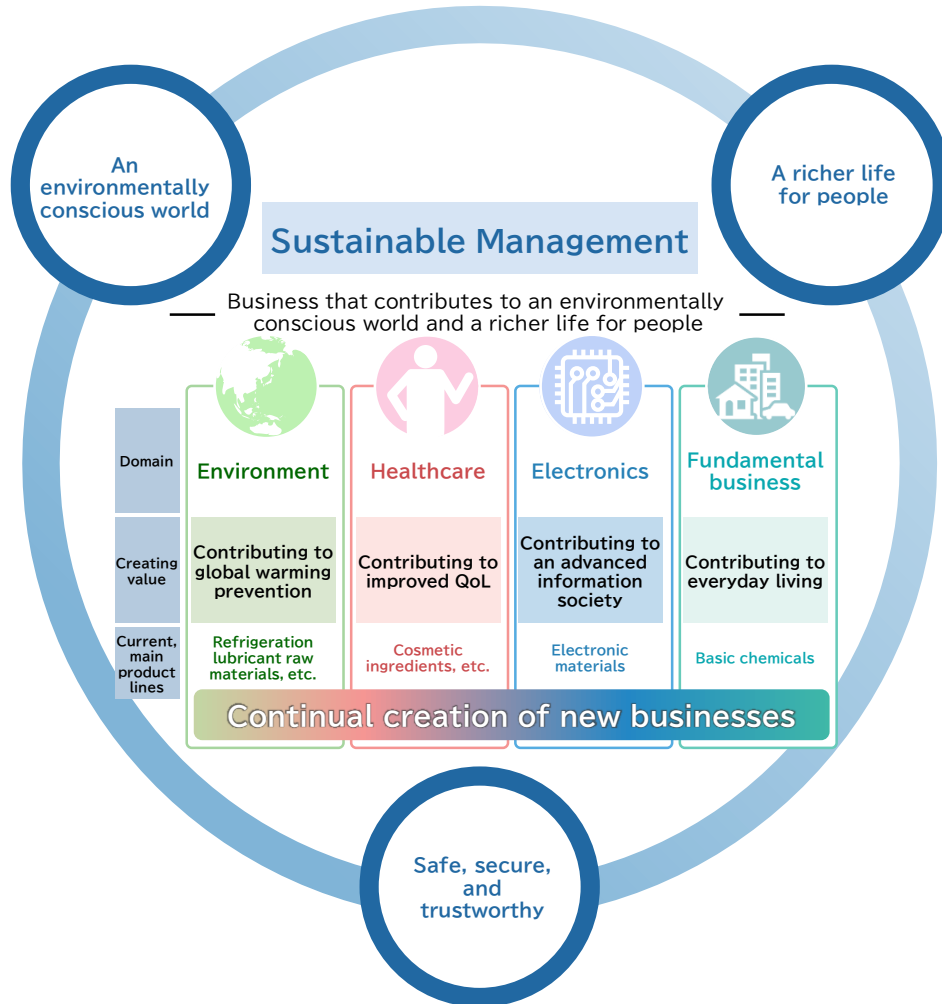
Basic Policy
Driving Sustainable Management

2030 CY
Net Sales 180 bn yen
Operating Income over 25 bn yen

Contributing to the realization of a sustainable society and increasing our company's corporate value



We declared Seven Promises to our stakeholders for the driving sustainable management



Seven Promises

1	We will develop businesses that help resolve social issues
2	We will conduct business conscious of reducing our impact on the environment
3	We will strive to secure trust through safe and stable operations
4	We will practice management transparency with high ethical standards
5	We will provide a lively work environment that motivates and rewards diverse human resources
6	We will promote responsible supply chain management
7	We will strengthen our earning power

Seven Promises		Materiality
1	We will develop businesses that help resolve social issues	①Expansion of social problem-solving businesses centered on strategic domains ②Promotion of innovation ③Strengthening of intellectual property strategies to strengthen the foundation for growth
2	We will conduct business conscious of reducing our impact on the environment	④Improving energy efficiency and reducing and managing CO ₂ and other emissions ⑤Proper management of chemical substances
3	We will strive to secure trust through safe and stable operations	⑥Safety and disaster prevention at plants with consideration of the local region ⑦Responsible and stable supply to customers
4	We will practice management transparency with high ethical standards	⑧Strengthening of corporate governance and risk management ⑨Compliance ⑩Transparent and responsible communication with stakeholders
5	We will provide a lively work environment that motivates and rewards diverse human resources	⑪Health and safety of employees ⑫Developing and recruiting human resources to support sustainable management ⑬Improved employee engagement and the creation of comfortable workplaces to improve productivity
6	We will promote responsible supply chain management	⑭Promotion of Corporate Social Responsibility (CSR) procurement
7	We will strengthen our earning power	⑮Optimization of business portfolio for stable profit generation ⑯Pursuit of higher productivity and efficiency at plants

Basic Policy

Driving Sustainable Management

Basic
Strategy**■ Strategy I. Further Growth in the Strategic Domains**

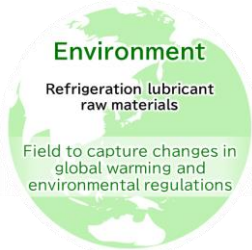
- Steady capture of demand for refrigeration lubricants raw materials through the large-scale expansion and reinforcement of facilities
- Responding to increasingly sophisticated customer needs in the electronics domain
- Expanding the lineup in the healthcare domain

■ Strategy II. Medium- to Long-Term Initiatives to Resolve Social Issues

- Accelerating efforts toward carbon neutrality
- Early creation of new business through open innovation and M&A, etc.

■ Strategy III. Improvement of business framework

- Improve productivity by utilizing the latest technologies, etc., as a driving force
- Create a corporate culture in which diverse human resources play an active role and maximize results
- Strengthening of governance to enhance management transparency



Increase profits through the large-scale expansion and Reinforcement of facilities as a leading supplier

〈Market Environment〉

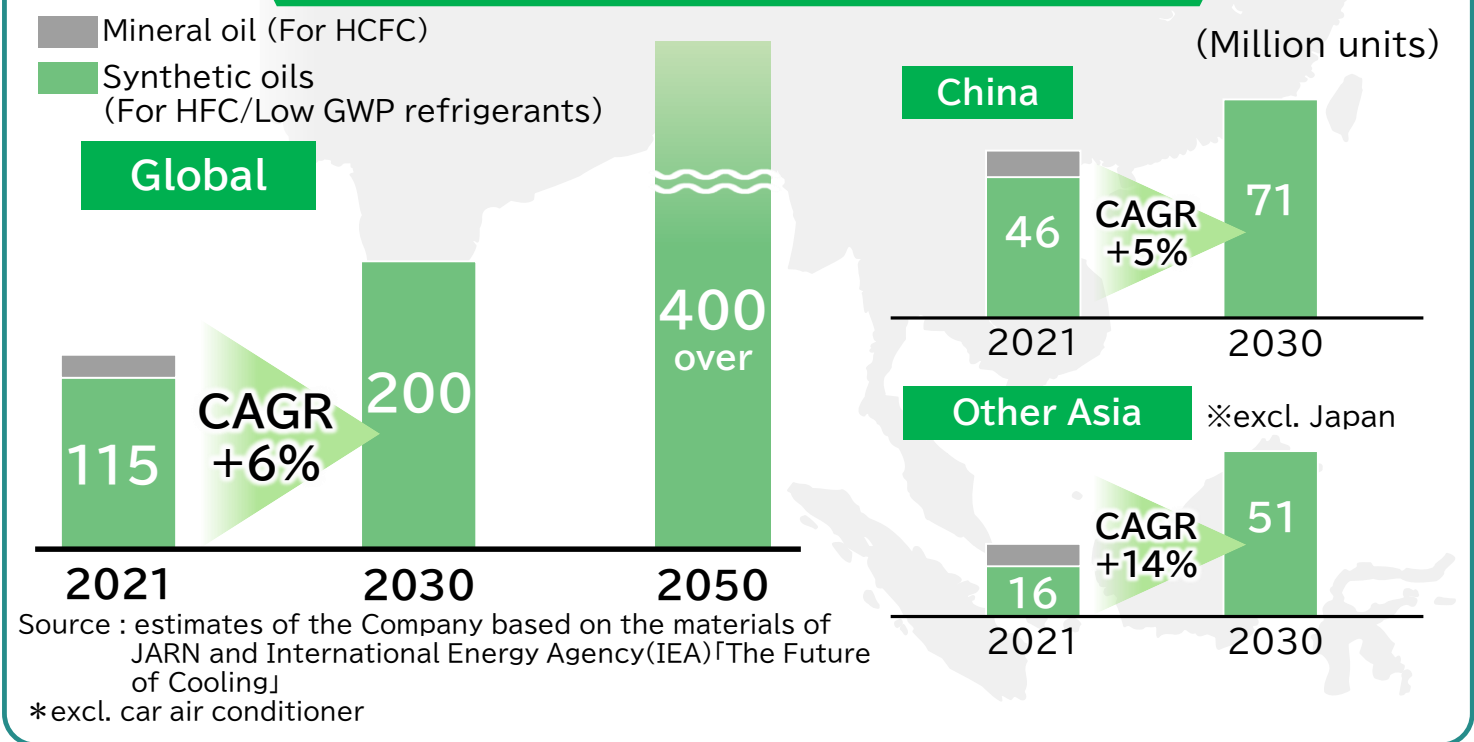
- Market expands mainly in Asia
- Shift to environmentally friendly refrigerants, low GWP refrigerants
- Expanding demand for synthetic oil miscible with low GWP refrigerants

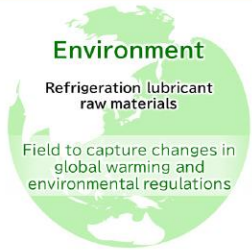


〈Our Company Initiatives〉

- ◆ Increase Isononanoic acid production capacity by more than 50% through the large-scale expansion reinforcement of facilities
- ◆ Expand, reinforce and optimize the production capacity of the entire plant

Air conditioner market*





Increase profits through the large-scale expansion and Reinforcement of facilities as a leading supplier

〈Market Environment〉

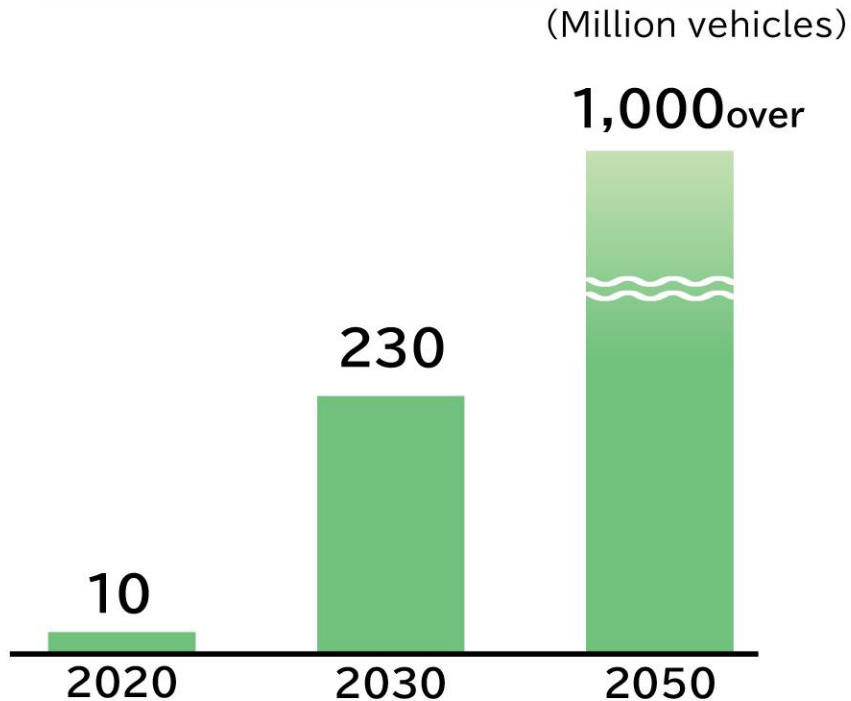
- Shift to electric vehicles (EVs) accelerates worldwide



〈Our Company Initiatives〉

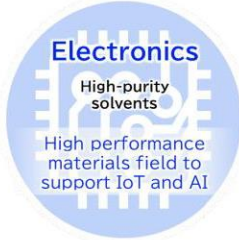
- ◆ Incorporate demand for refrigeration lubricants raw materials for EV car air conditioners

Global EV stock



Source : estimates of the Company based on the materials of IEA「Global EV Outlook 2021」





Aim to increase added value mainly in the growing semiconductor market

〈Market Environment〉

- Spread of 5G, IoT and AI
- Expansion of demand for EVs
- Progress in DX



〈Our Company Initiatives〉

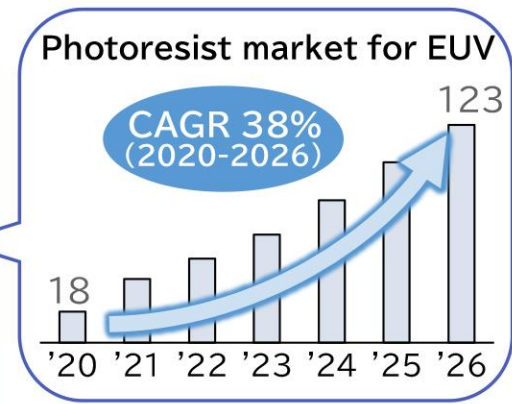
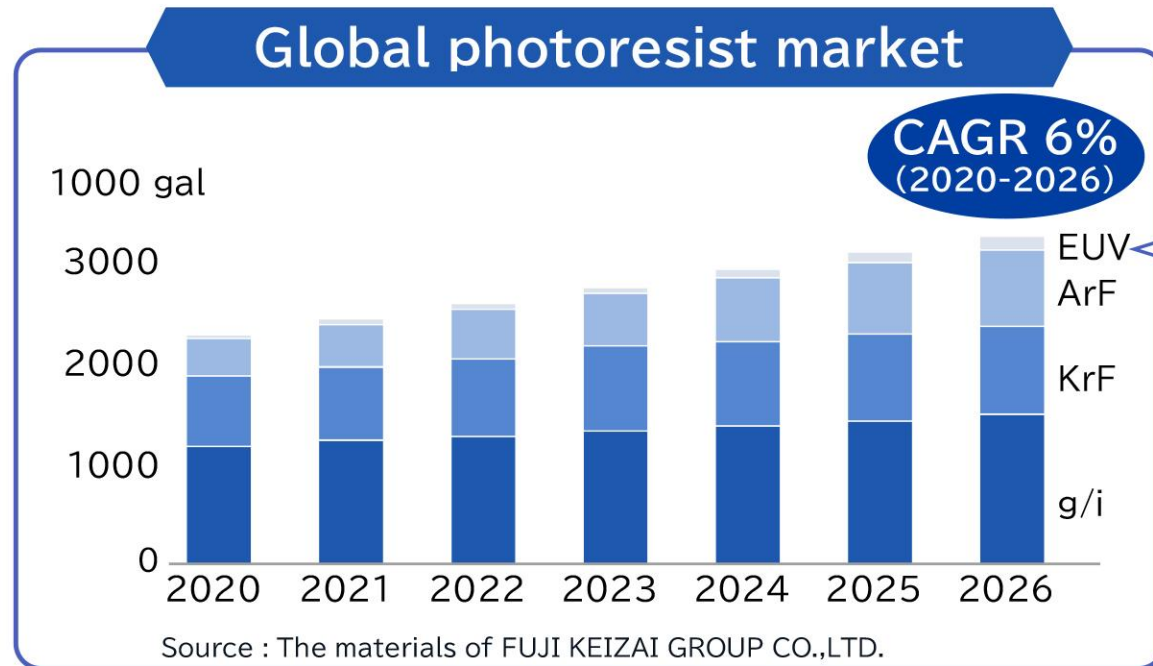
- ◆ Responding to increasingly sophisticated customer needs
 - Strengthening the quality control system by establishing a new quality control building
 - Expanding the supply infrastructure for high-purity solvents
- ◆ Increase added value by utilizing equipment for next-generation semiconductor materials



Clean room(image)



Equipment for next-generation semiconductor materials





Expanding demand in mainly emerging countries as the coronavirus crisis subsides

<Market Environment >

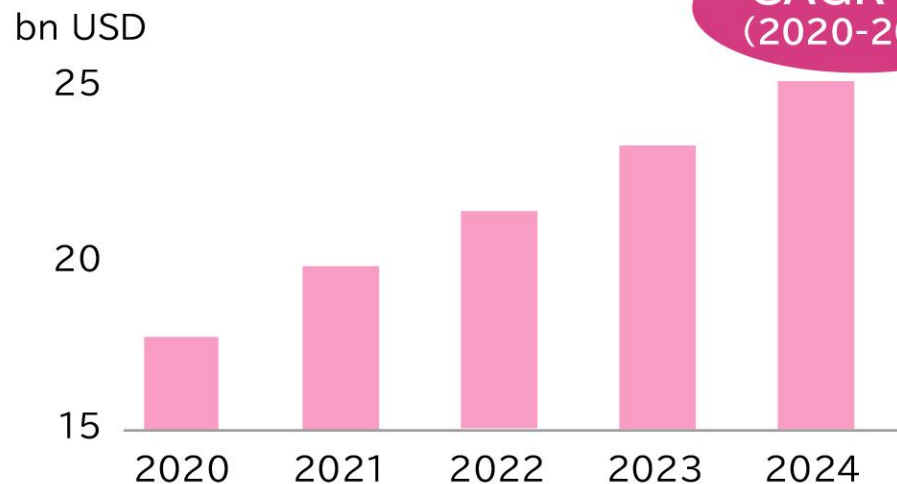
- Population growth and rising income levels in Southeast Asian countries
- Further expansion of e-commerce
- Increasing needs for high functionality and high quality



<Our Company Initiatives >

- ◆ Expanded sales of 1,3-BG for cosmetic applications
- ◆ Expansion of our lineup in the healthcare field through open innovation, etc.
 - Development of new products using natural raw materials

Asian cosmetics market



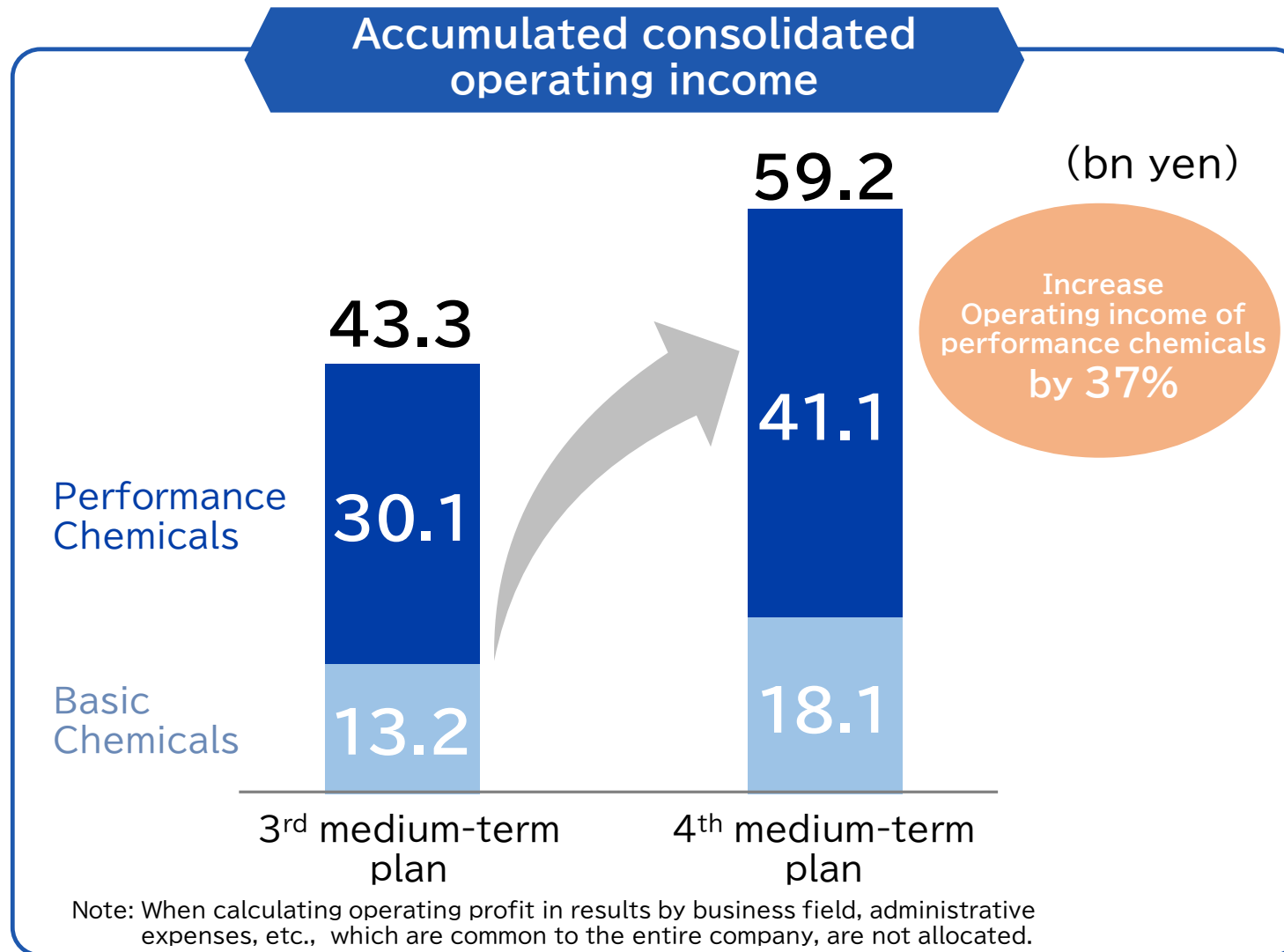
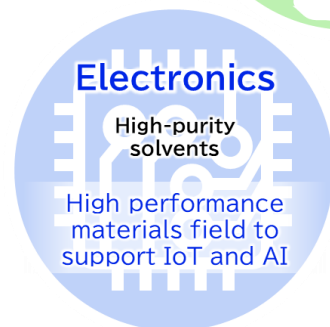
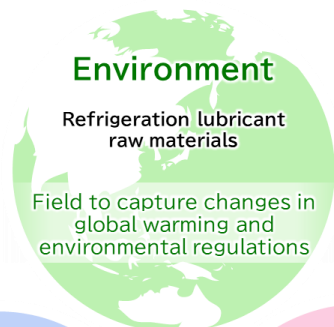
Source : Euromonitor International
「Beauty and Personal Care」 Market Sizes



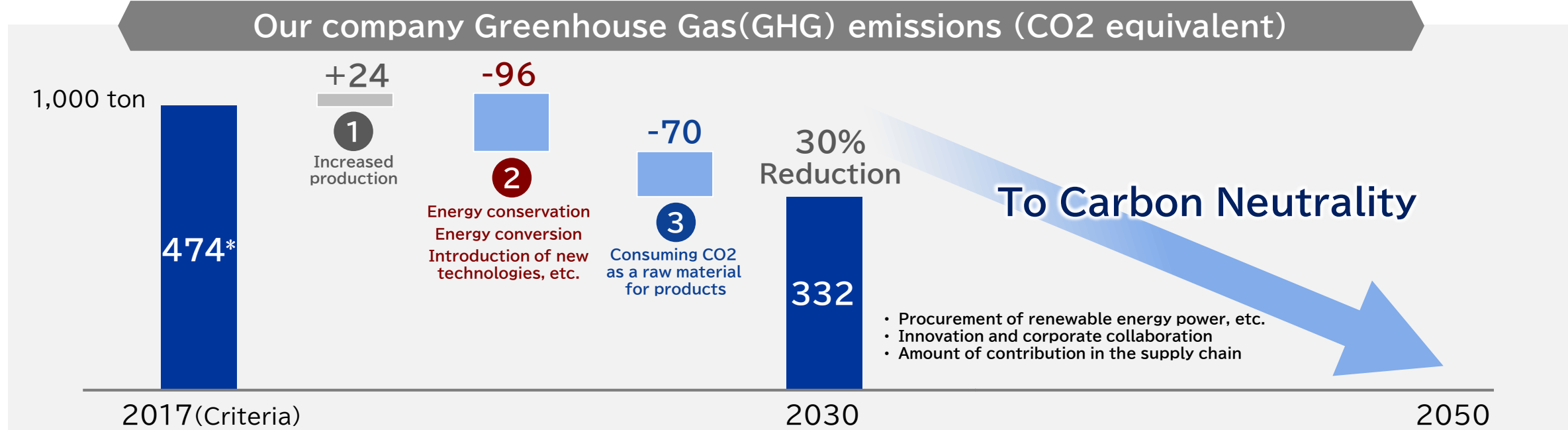
Further increase profits from performance chemicals by implementing various measures

Performance Chemicals

Refrigeration lubricant raw materials,
Electronics materials,
Cosmetic ingredients etc.

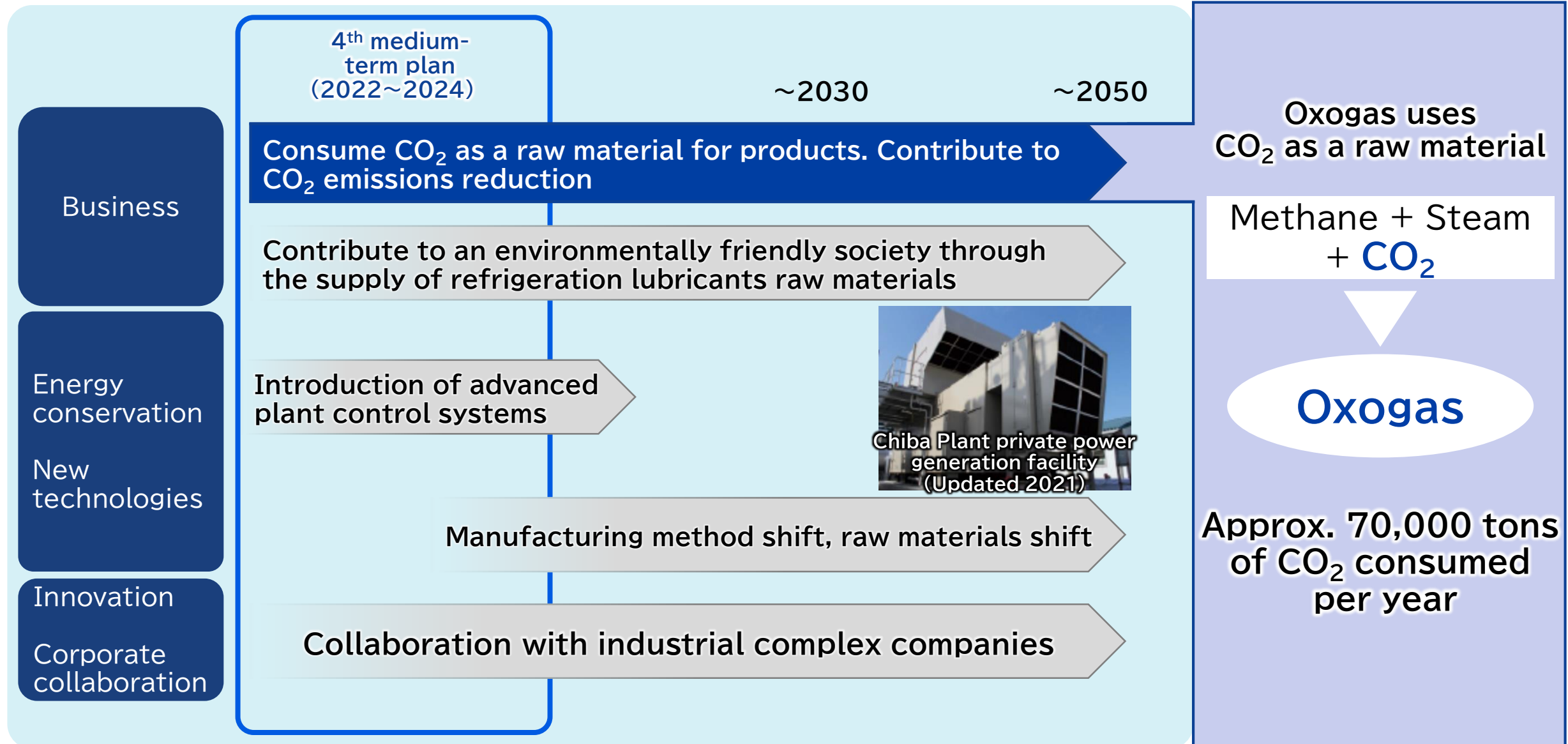


Aim for carbon neutrality by 2050 and 30% reduction by 2030 (compared to 2017 levels)

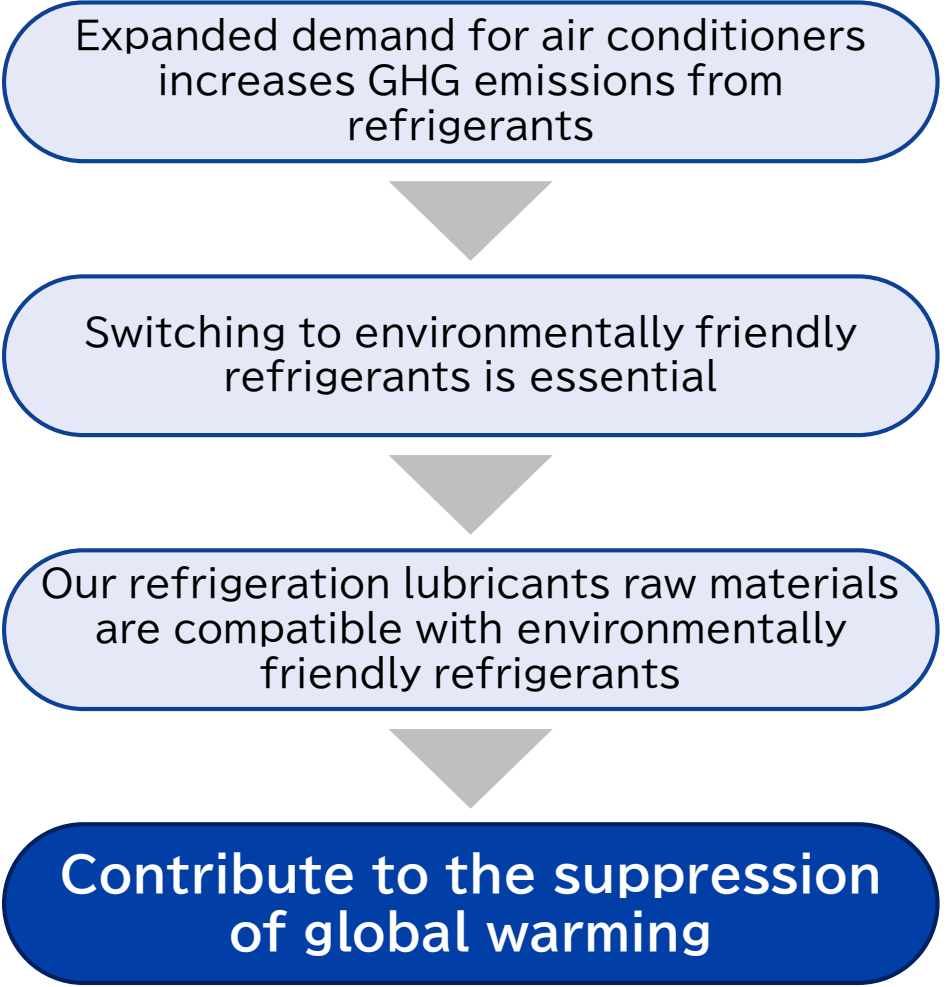
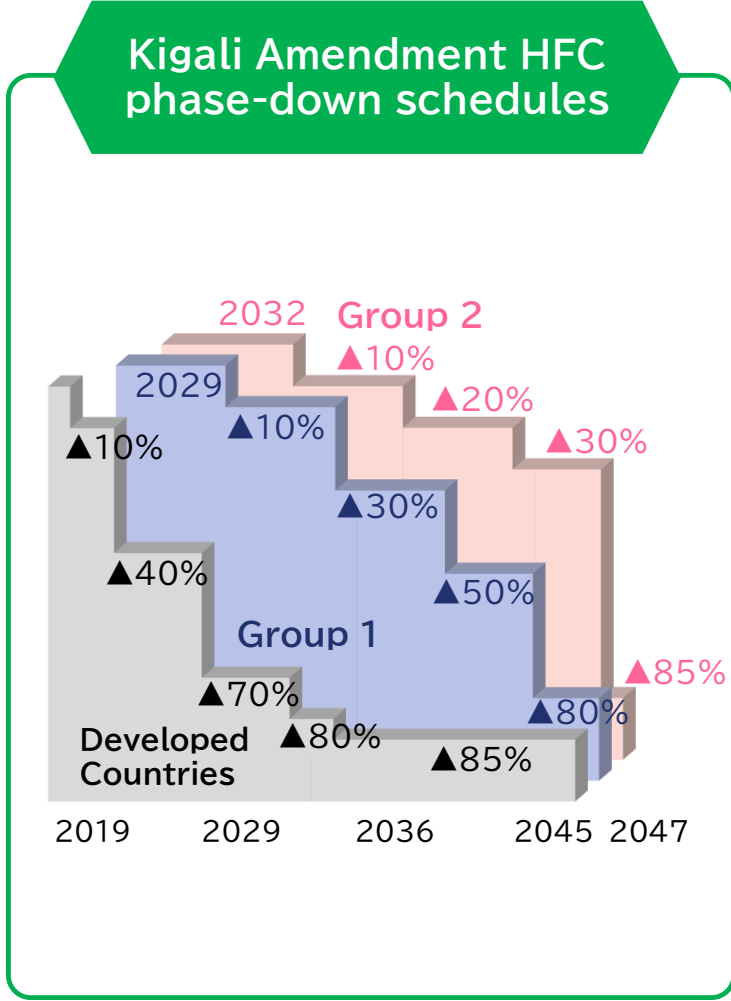
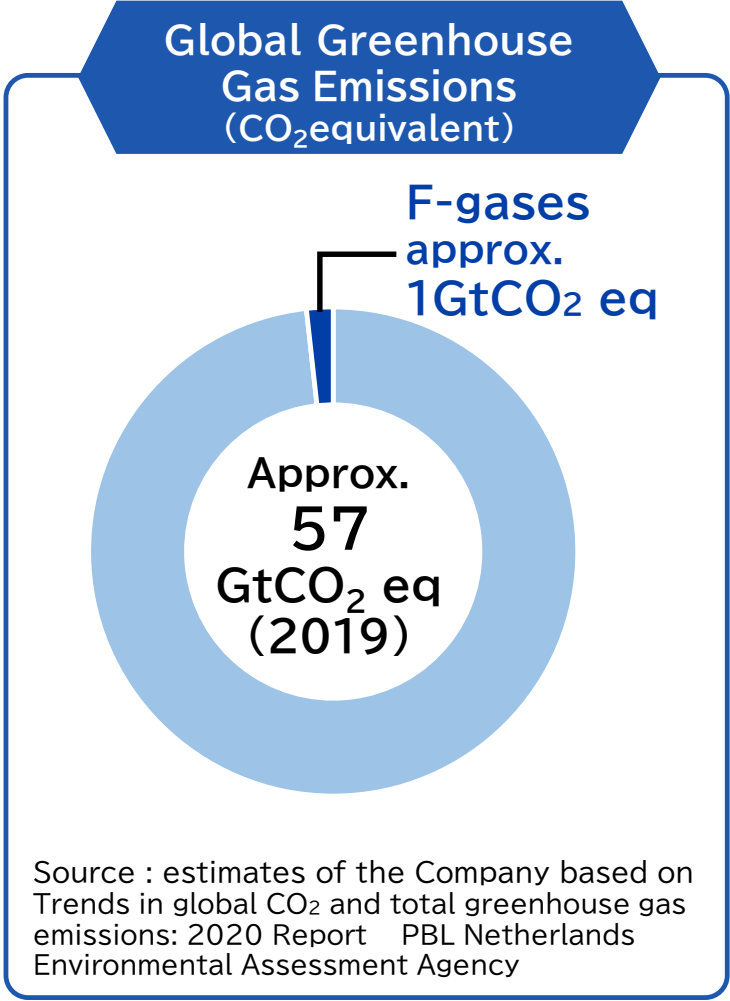


*reported quantity based on Act on the Rational Use of Energy

- 1 Increased production of refrigeration lubricants raw materials that contribute to the realization of an environmentally friendly society
- 2 Promotion of energy conservation by expanding the introduction of advanced plant control systems
Consideration of capital investment and introduction of new technologies that are expected to reduce GHG emissions
- 3 Consuming CO₂ as a raw material for products



Contributing to the suppression of global warming through the supply of refrigeration lubricants raw materials



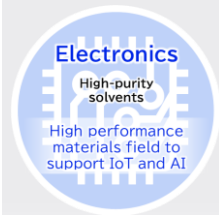
Note: hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulfur hexafluoride (SF₆), and nitrogen trifluoride (NF₃)

Aim for sustainable corporate value enhancement through Social Issues

Social Issues in strategic domains



- ▶ **Suppression of global warming**
- ▶ **Move away from fossil fuels**



▶ **Miniaturization of semiconductors**



▶ **Global improvement of quality of life**

Acceleration of new business creation through open innovation

- Co-creation of technology with external partners by utilizing open labs in KH i-Lab, etc.
- Investment in startups
- Alliances and M&A

Sustainable enhancement of corporate value

Environmentally friendly materials

- Development of marine degradable resin

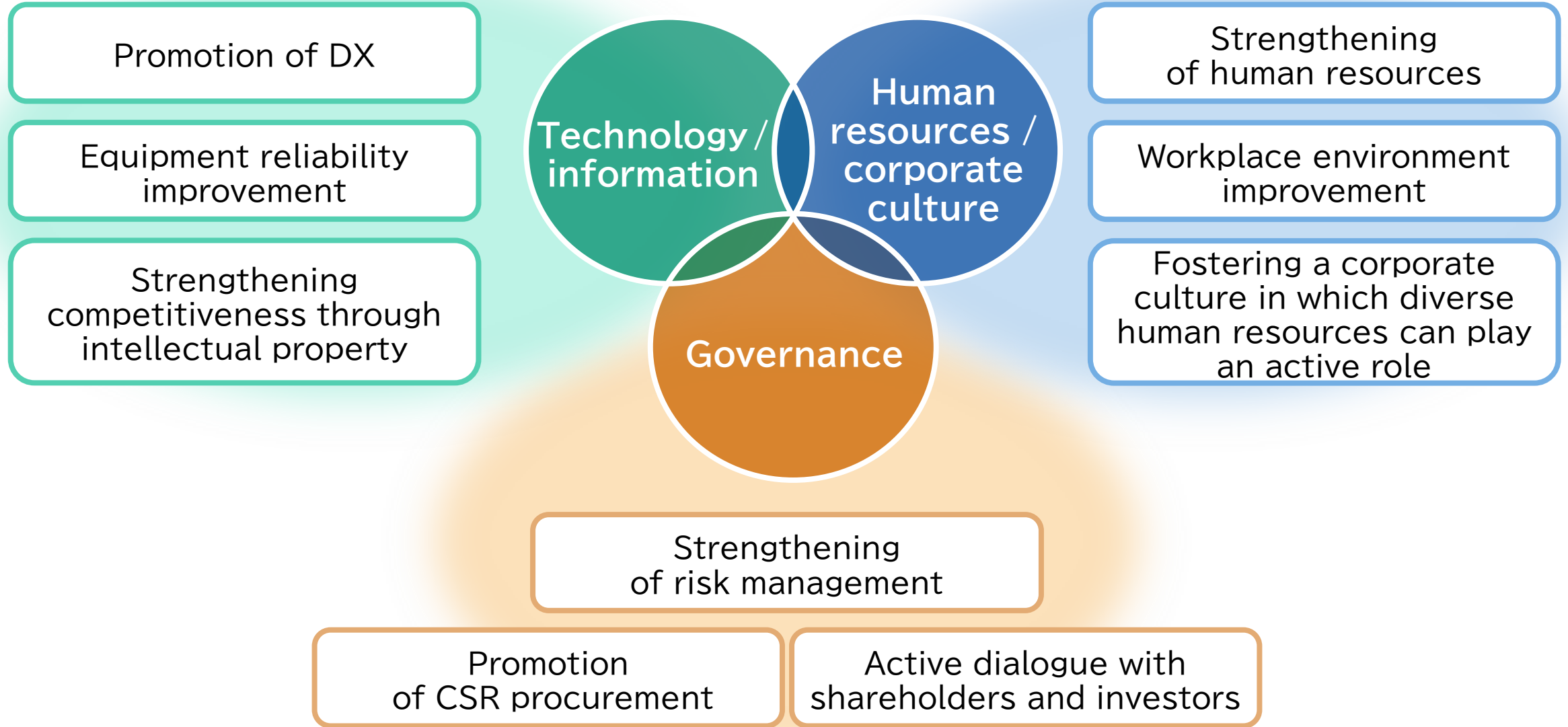
Electronic material

- Expanding businesses of new products for cutting-edge semiconductors

Healthcare materials

- Development of raw materials for pharmaceuticals

Strengthening the business foundations to drive sustainable management through the promotion of various measures



Technology /
information

Improve productivity by utilizing the latest technologies, etc., as a driving force

Promotion of DX

- ▶ Improved safety and productivity through Smart Industrial Safety
- ▶ Introduction of a predictive diagnosis system to detect faults due to plant apparatus aging before they occur
- ▶ Introduction of a shipping system



Equipment reliability improvement

- ▶ Reconstruction of preventive maintenance based on risk assessment

Human resources /
corporate culture

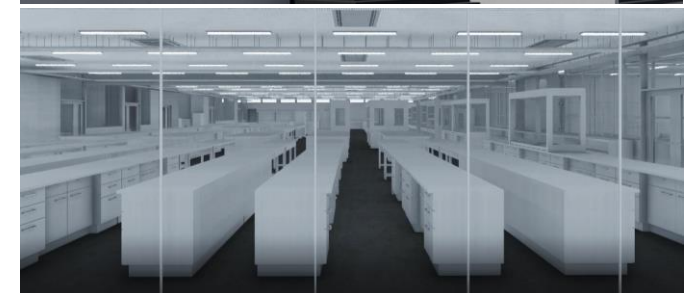
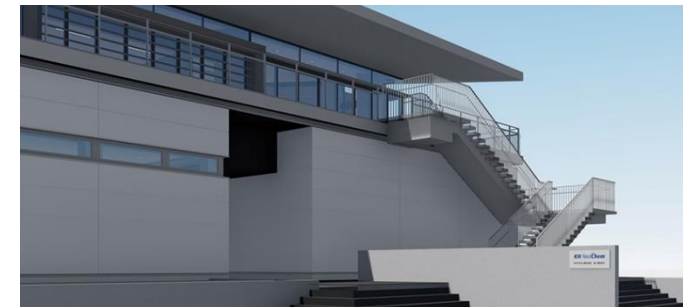
Create a corporate culture in which diverse human resources play an active role and maximize results

Strengthening of human resources

- ▶ Introduction of a new personnel system (specified employment) for non-managerial position employees
- ▶ Securing of diverse human resources and promotion of employees
- ▶ Improvement of employee engagement

Workplace environment improvement

- ▶ Establishment of new office building including quality control building
(Yokkaichi Plant: Scheduled for completion in March 2022)
- ▶ Improving occupational safety and productivity, and promotion of work style reform through systematic renewal of plant office buildings



Governance

Strengthening of governance to enhance management transparency

Strengthening of risk management

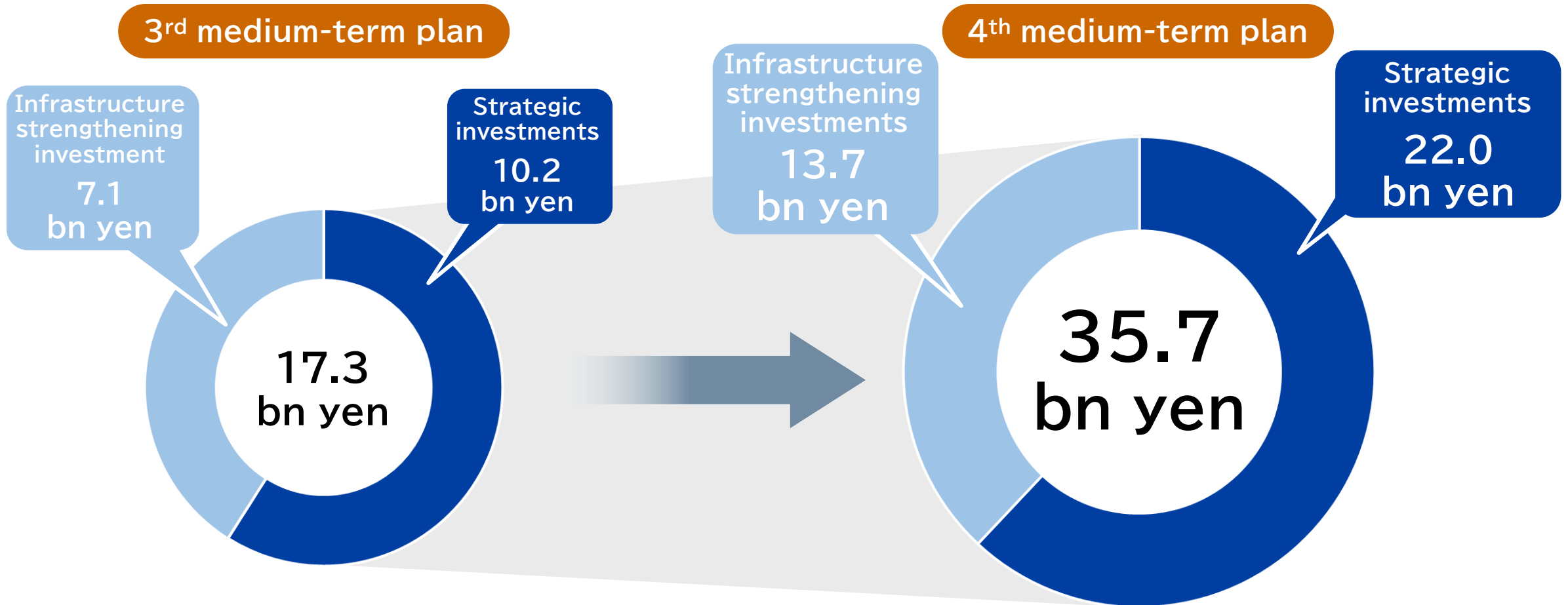
- ▶ Identification of important risks by using risk maps and implementation of countermeasures

Active dialogue with shareholders and investors

- ▶ Appropriate information disclosure as required in the Prime Market
- ▶ Promotion of IR and SR activities with expanded non-financial information, such as ESG-related information, in addition to business performance and strategies

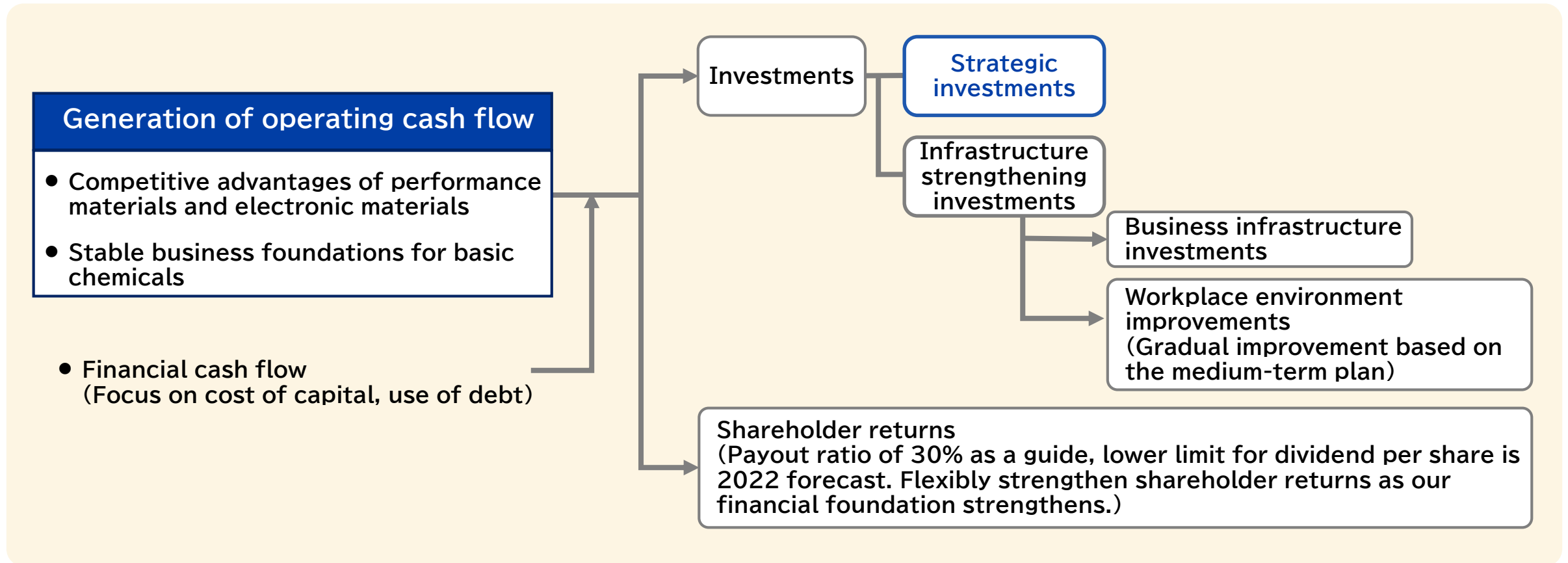


Expanding both strategic and infrastructure strengthening investments for sustainable growth



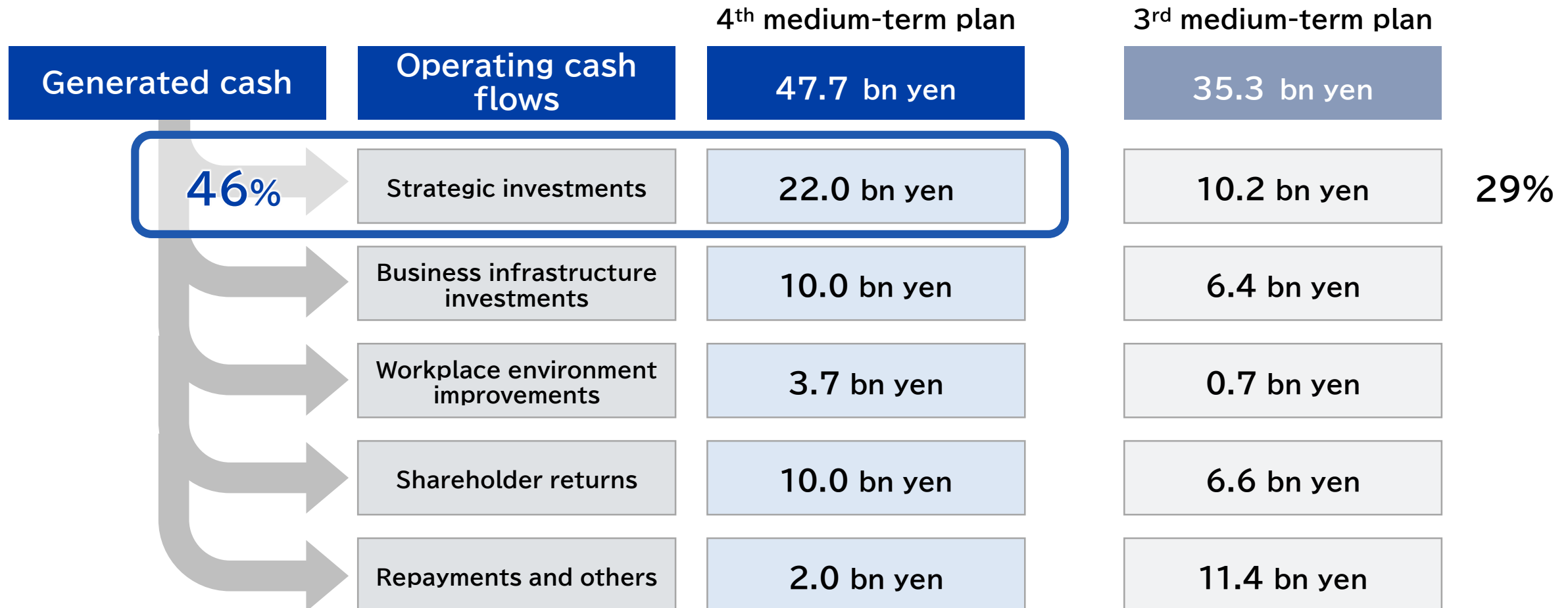
Basic Policy

- Further shift to strategic investments thanks to the improvement of financial soundness
- Stably implement shareholder returns based on medium- to long-term growth



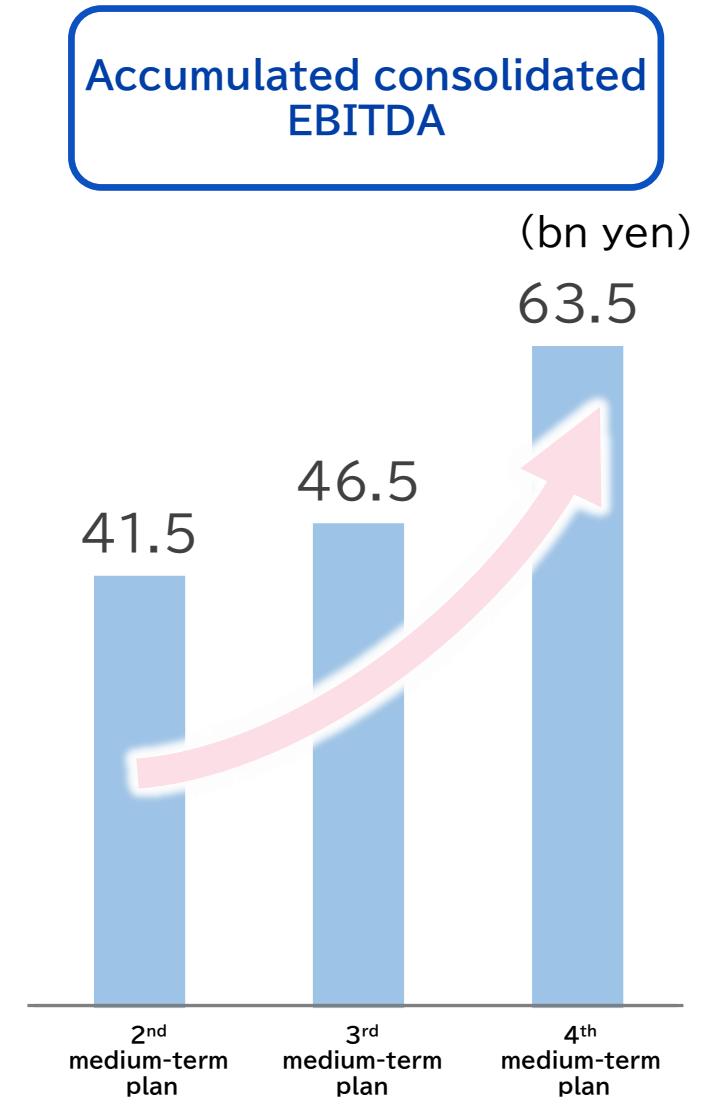
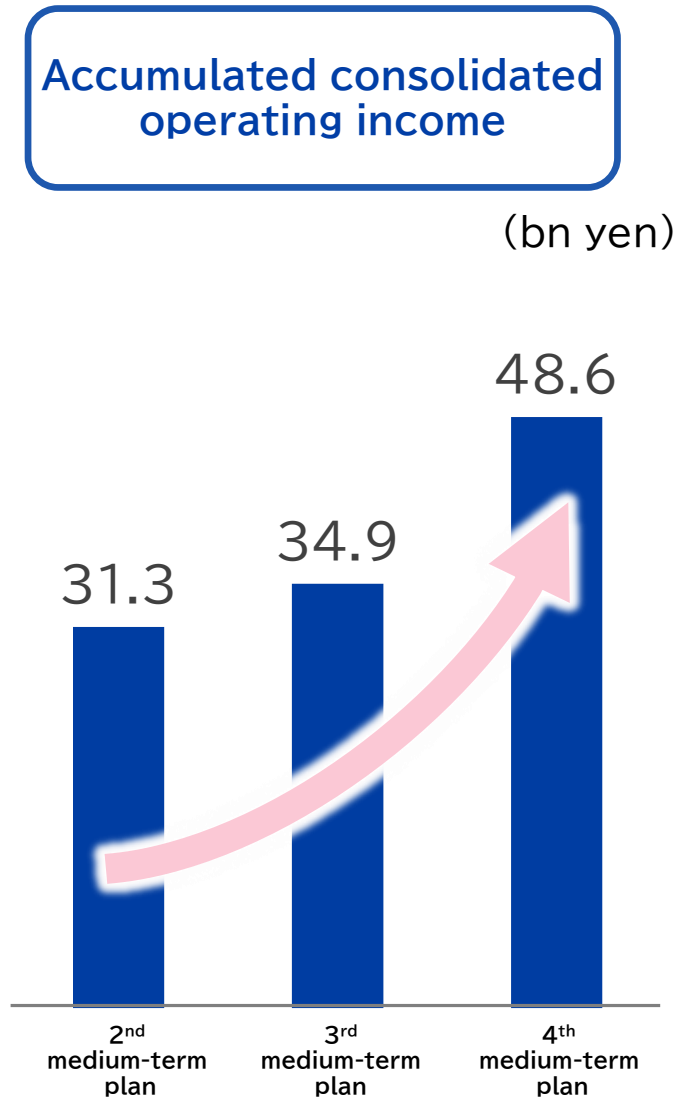
Capital Allocation

- Operating cash flow increased by 12.4 billion yen from the 3rd medium-term plan
- More aggressively allocate capital to strategic investments (3rd medium-term plan: 29%, 4th medium-term plan: 46%)



Accumulated consolidated operating income	48.6 bn yen
Accumulated consolidated EBITDA	63.5 bn yen
Return on Equity	Over 15%

Assumption: Domestic naphtha :60,000 yen/KL
Exchange rate:113yen/USD

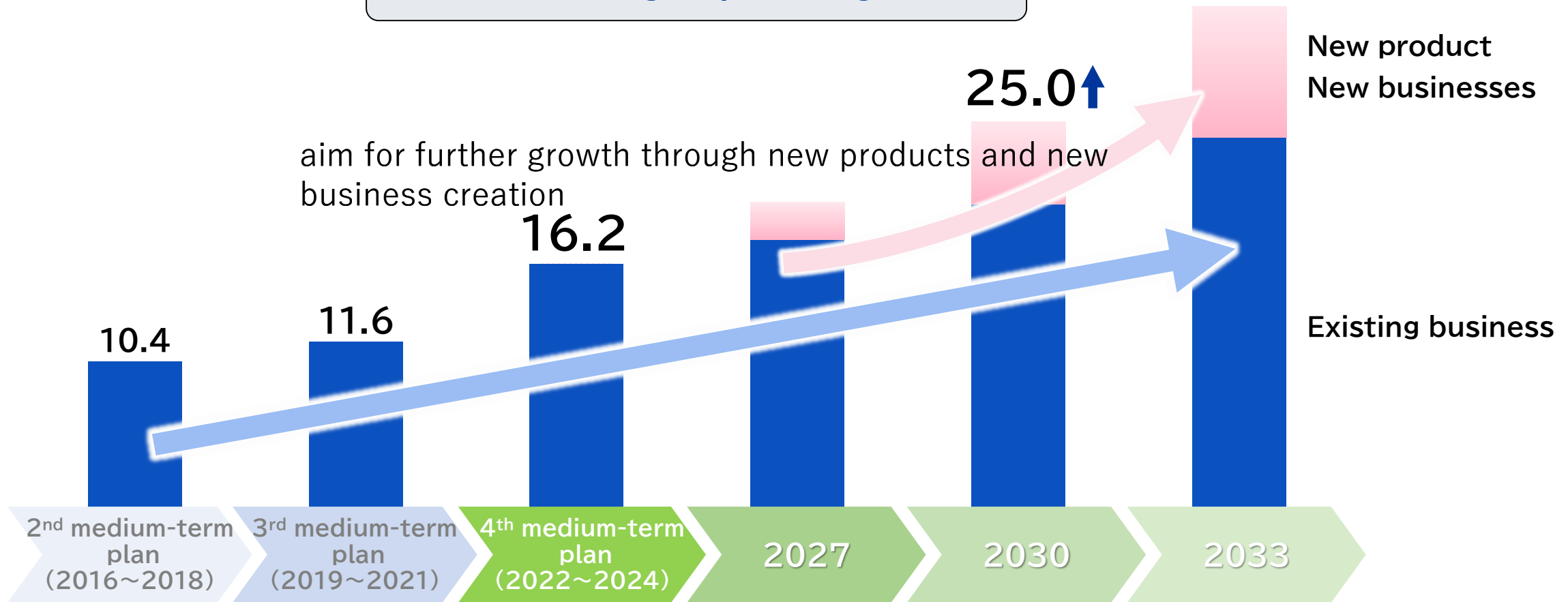


Note: EBITDA = Operating income + Depreciation + Amortization of goodwill

Aim for further growth through new products and new business creation in addition to achieve steady growth in existing business

Trend in average operating income

(bn yen)



Materiality No.,	Key performance indicator	Targets for 2024
①	Rate of increase in sales volume of refrigeration lubricants raw materials (compared to 2021)	over 17% increase
②③	Number of collaborations with external organizations in research and development	over 10 per year
④	Greenhouse Gas(GHG) emissions (CO ₂ equivalent)	30% reduction from FY2017 level (2030 target)
④	Energy intensity	1% or more improvement per year
⑤	Volume of final landfill disposal of industrial waste	1% or less of waste generated
⑥	Systematic introduction of Smart Industrial Safety	Production achieved as planned
⑦	Production plan achievement status	Implementation as planned
⑧	Identification of important risks by using risk maps and implementation of countermeasures	Implementation as planned
⑨	Number of compliance education and training sessions at all sites	over 5 times per year
⑩	Number of dialogues with investor	over 220 times per year
⑪	Number of employee accidents resulting in lost workdays	0
⑫	Ratio of female employees in managerial career track positions	over 15%
⑫	Rate of recruited personnel leaving work (in less than 3 years)	less than 10%
⑬	Engagement survey score	10% or more improvement
⑬	Rate of taking of annual paid leave	over 80%
⑭	Coverage ratio of Corporate Social Responsibility (CSR) questionnaire survey of main raw materials (based on purchase amount value)	over 70%
⑮	Operating income of core products (performance materials + electronic materials)	over 14.1 billion yen
⑮	ROE	over 15%
⑯	Improvement of productivity through introduction of advanced control systems	Introduced as planned and productivity increased
⑯	Status of progress in DX related introductions	Implementation as planned

Note: Materiality No.,:⑮consolidated :①~⑭、⑯:non-consolidated

When calculating operating profit in results by business field, administrative expenses, etc., which are common to the entire company, are not allocated

Notes

The purpose of the information in this material is not to solicit the purchase and sales of our shares. Forward-looking statements in this material, such as forecasts, include assumptions and estimates based on the information available at this time, and the company does not give assurance nor do they guarantee these statements. This material also includes unaudited figures for reference.

Therefore, please understand that actual results could largely differ from the forward-looking statements due to a variety of risks and uncertain factors. Also, please understand that the company and information providers are not responsible for any losses incurred from this information.

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