

Supplemental Information Financial Results For FY 2023 4Q

2023/2/9

SHIKOKU KASEI HOLDINGS CORPORATION
(Tokyo Stock Exchange Prime Market 4099)

1. Consolidated Financial Results

Increased sales but decreased profits year on year (January – December)

Million yen

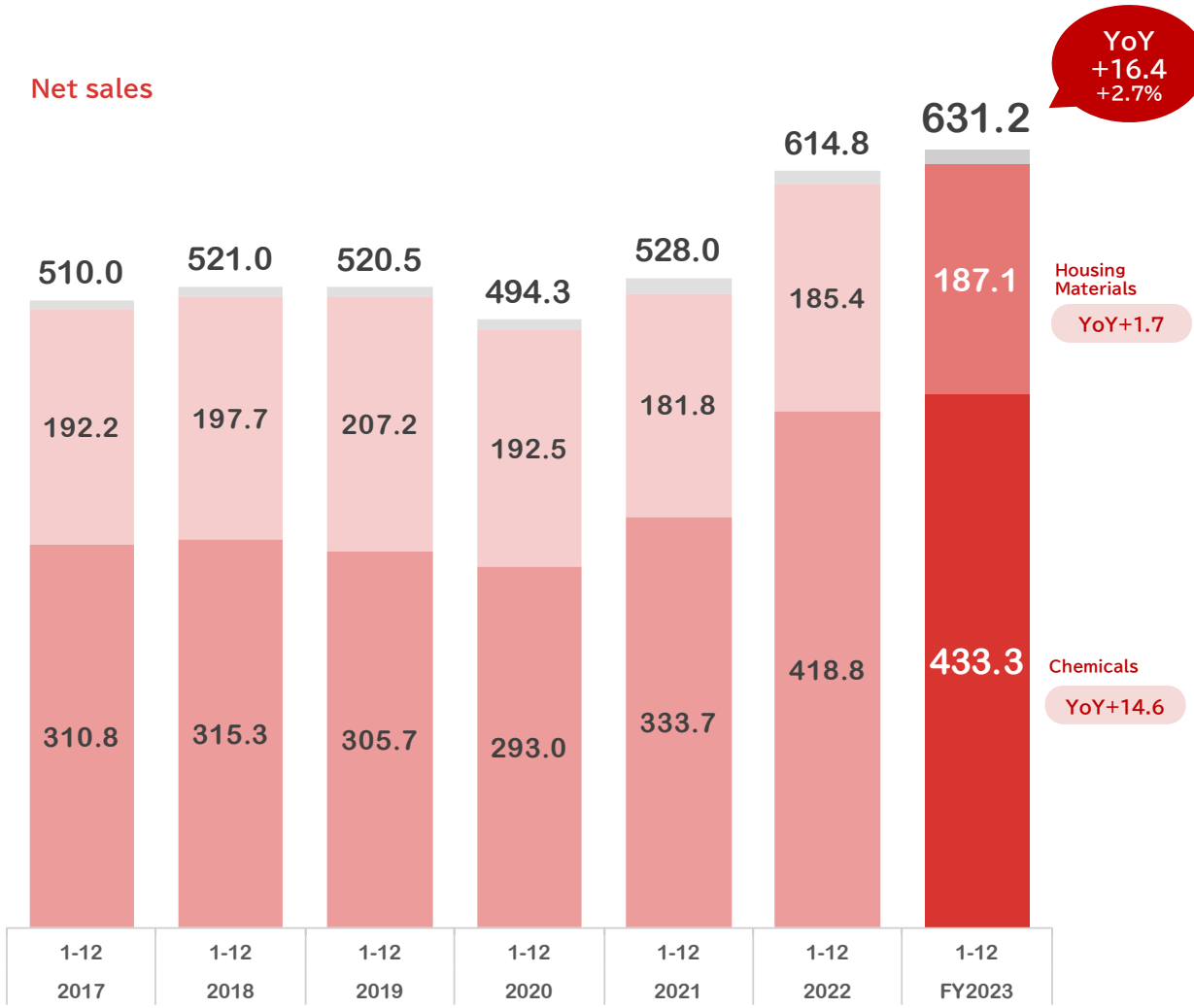
	Previous year※ CY2022 January to December	FY2023	Change / Rate	Remarks
Net sales	61,475	63,117	+1,642 +2.7%	<ul style="list-style-type: none"> Chemicals operations increased due to the recovery in the second half and the depreciation in the yen Housing Materials operations decreased due to deteriorating market conditions in the housing area
Operating profit	8,703	8,019	▲684 ▲7.9%	<ul style="list-style-type: none"> Profit decreased due to higher raw material costs, labor, and depreciation cost
Ordinary profit	9,840	9,280	▲560 ▲5.7%	<ul style="list-style-type: none"> Foreign exchange gains 549 (YoY ▲34)
Profit attributable to owners of parent	7,081	7,853	+772 +10.9%	<ul style="list-style-type: none"> Gain on sale of investment securities 2,071 (YoY +1,203) Impairment losses ▲41 (YoY +795)
Exchange rate	1USD = 130 JPY 1EUR = 135 JPY 1RMB = 19.4JPY	1USD = 140 JPY 1EUR = 148JPY 1RMB = 19.8JPY	Net sales+18 billion yen OperatingProfit+7 billion yen	<ul style="list-style-type: none"> Foreign exchange impact on PL included in change from the previous year (total of Chemicals and Housing Materials) Only the impact of exchange rate fluctuations on foreign currency transactions is showed. Many yen-denominated transactions are also substantially affected by changes in foreign exchange rates, but they are not included.

* Since the Company has changed the fiscal year-end from March 31 to December 31 in the previous year, for comparison with the previous year, the twelve-month period from January to December 2022 is compared with the "same period previous year," as a reference.

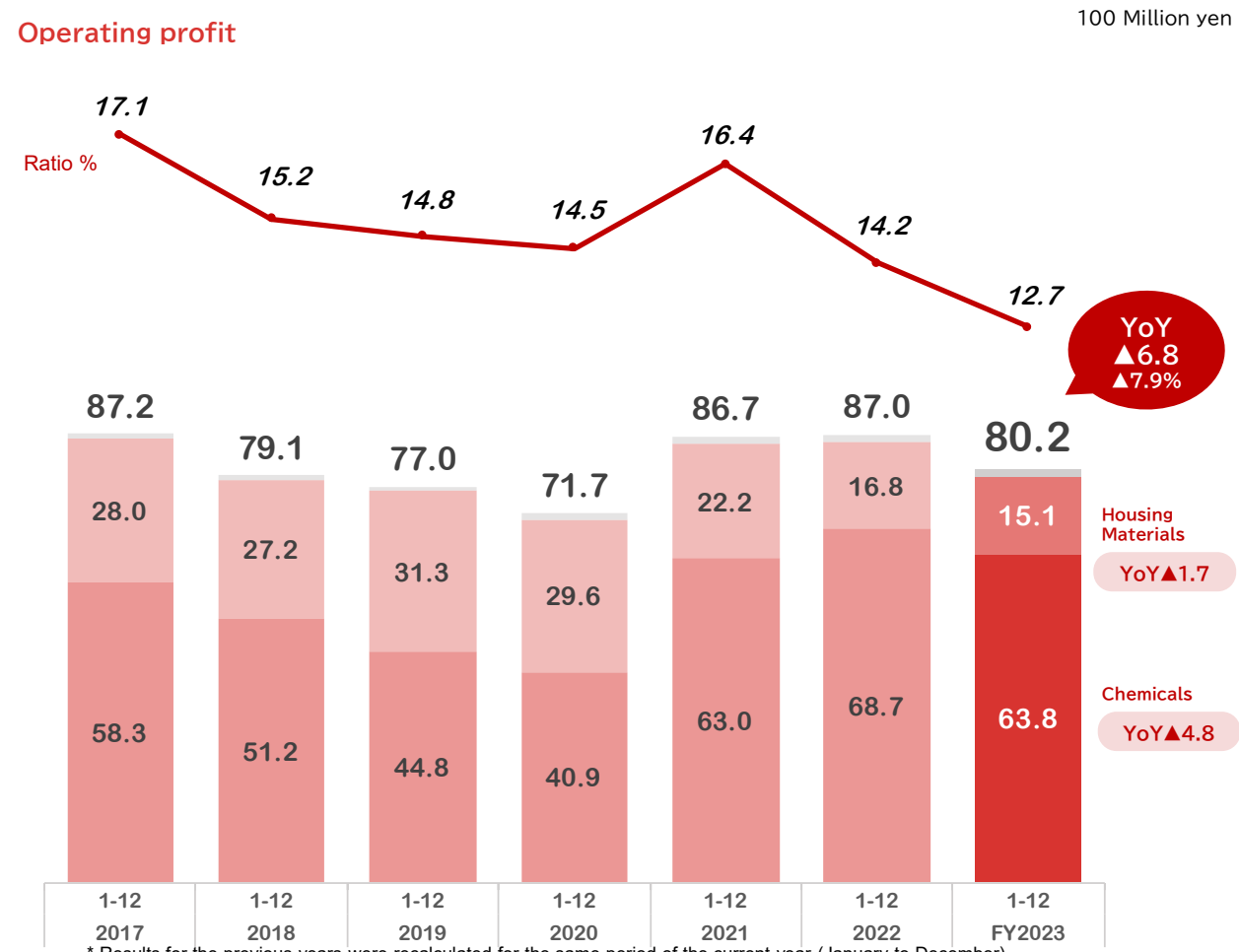
Trends in Net sales and Operating profit (YTD)

Net sales increased in both Chemicals (+14.6) and Housing Materials (+1.7), resulting in a companywide increase in sales (+16.4 in total)
 Operating profit decreased companywide (-6.8 in total) due to lower profit margins and lower profits in both Chemicals (-4.8) and Housing Materials (-1.7)

Net sales



Operating profit

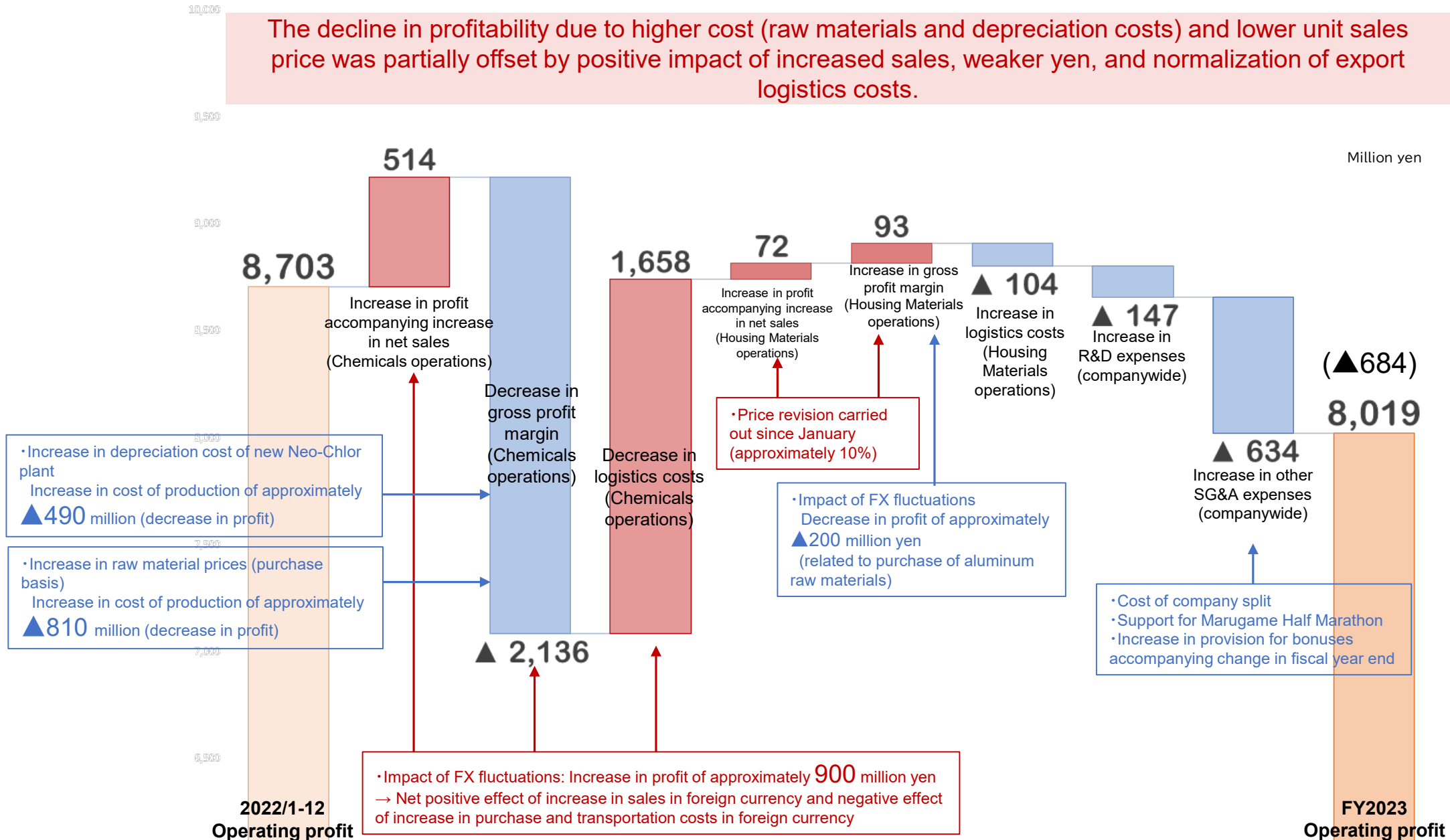


* Results for the previous years were recalculated for the same period of the current year (January to December).

* From FY2023, accompanying changes to the management framework, corporate expenses, which were previously not allocated to each segment, are now allocated to each segment based on reasonable criteria. In addition, results for the previous years are also compared by using the revised measurement method.

YoY Changes in Operating profit

The decline in profitability due to higher cost (raw materials and depreciation costs) and lower unit sales price was partially offset by positive impact of increased sales, weaker yen, and normalization of export logistics costs.

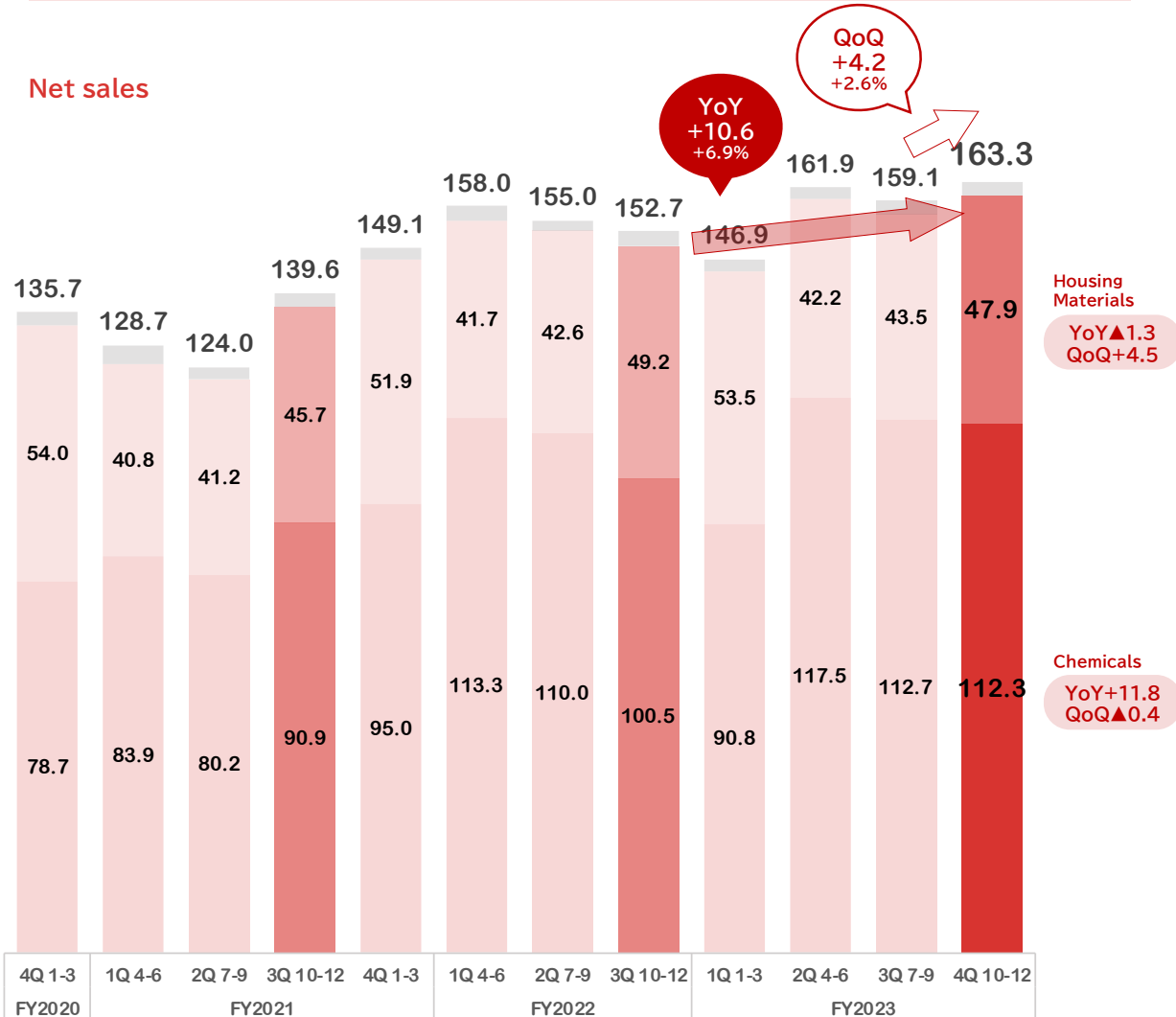


Trends in Net sales and Operating profit (QTD)

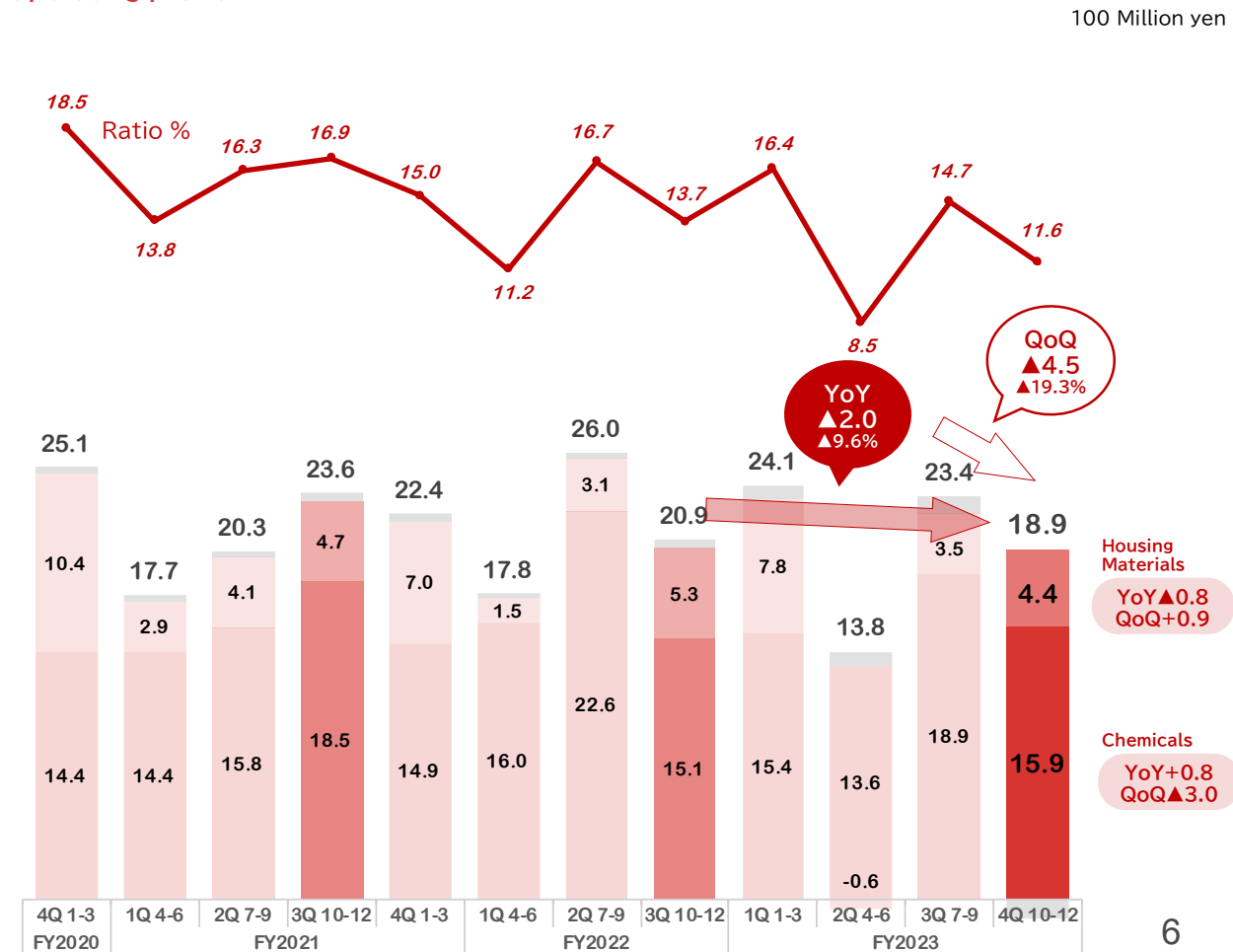
- Total sales increased by 1.06 billion yen YoY. Chemicals operations achieved significant growth of 1.18 billion due a reactive increase from sluggish performance in the previous year and bottoming out of the market conditions. Housing Materials operations decreased slightly by 130 million yen due to volume declines affected by deteriorating market condition, offset by price revisions.
- Sales increased by 420 million yen QoQ. Chemicals operations decreased by 40 million yen due to a seasonal decline in organic products. Housing Materials operations increased by 450 million yen due to a seasonal rise in demand for housing, despite lower level of cargo movement.

- Total operating profit decreased by 200 million yen YoY. Chemicals operations slightly increased by 80 million yen as positive factors such as increased sales and lower logistics costs were offset by a decline in unit sales price and higher raw material costs. Housing Materials operations slightly decreased by 80 million yen due to increased cost.
- Operating profit decreased by 450 million yen QoQ. Chemicals operations decreased by 300 million yen due to a decrease in organic products sales and lower profit margins. Housing Materials operations recovered, up 90 million yen, due to a rise in the ratio of landscape exteriors affected by a recovery of demand for properties (seasonal rise).

Net sales



Operating profit

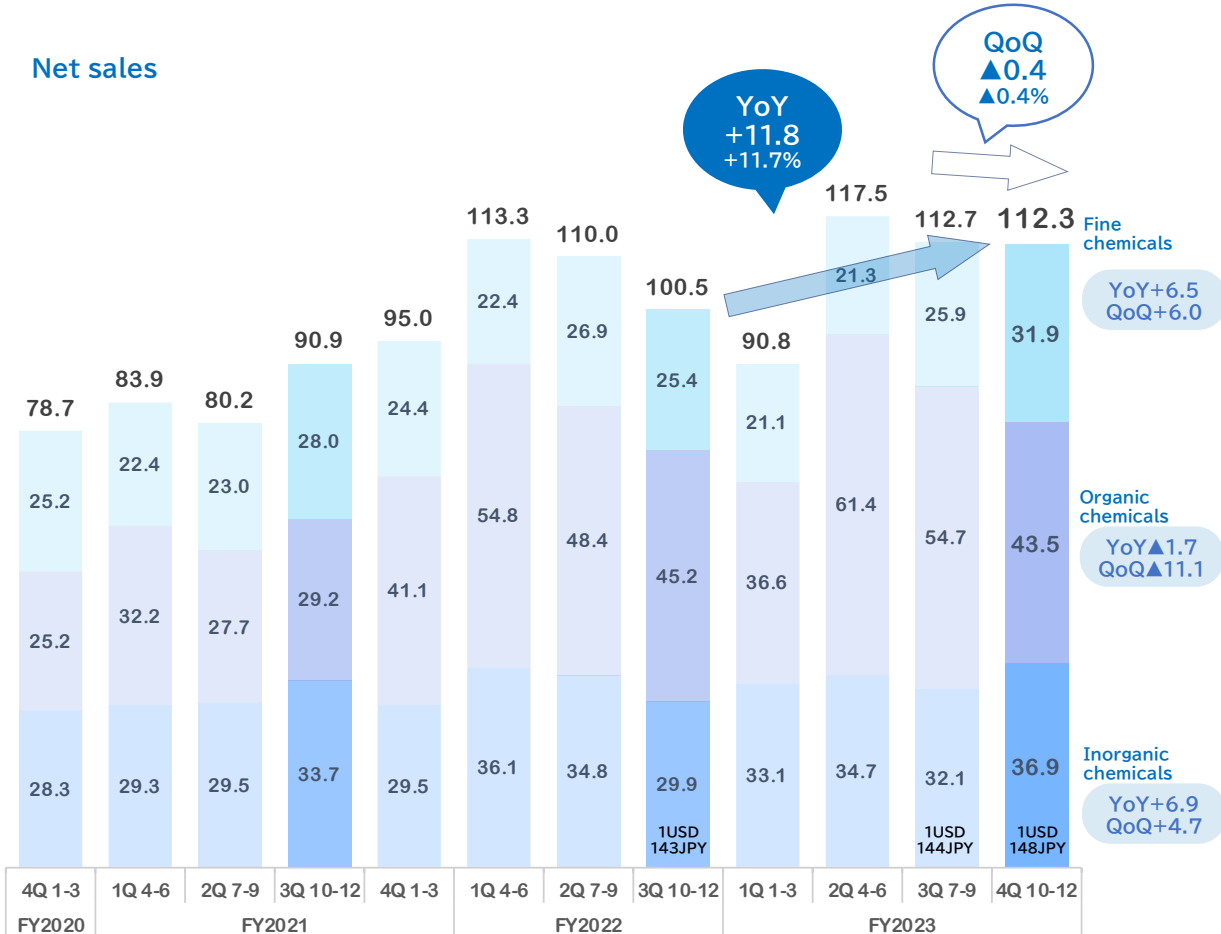


Operating results by segment: Chemicals (QTD)

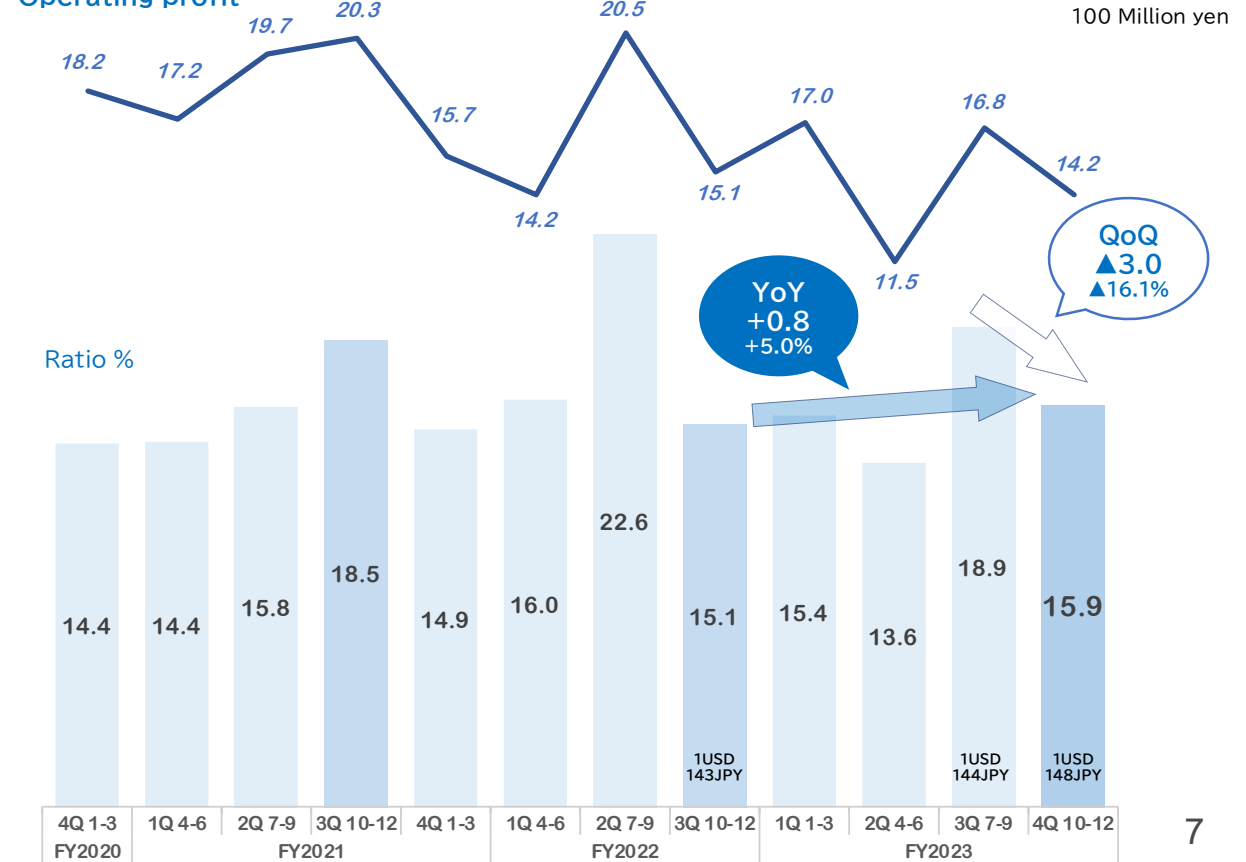
- Inorganic chemical products bottomed out and showed recovery signs, with increases of 690 million yen YoY and 470 million yen QoQ. Orders for insoluble sulfur increased as the weaker yen restored price competitiveness in the Chinese market. Sales to North America expanded.
- Organic chemical products (Neo-Chlor) were weak, with decreases of 170 million yen YoY and 1,110 million yen QoQ. In the North American market, special demand due to our competitor's supply ended and demand was fulfilled, resulting in prolonged inventory adjustments and restrained purchasing.
- Fine chemicals showed a clear recovery trend, with increases of 650 million yen YoY and 600 million yen QoQ. While the cargo movement of imidazoles (electronics) recovered, the market conditions of electronic chemicals (Glicot-SMA) remained unchanged. In the new field, resin modifiers showed an upward trend due to the end of inventory adjustments and demand for semiconductor process materials are expanding for prototype production.
- The impact of foreign exchange was about +200 million yen (JPY/USD: 143→148) YoY and +200 million yen (JPY/USD: 144→148) QoQ.

- Operating profit increased by 80 million yen YoY. The weaker yen contributed to an increase in profit of about 100 million yen. Sales of insoluble sulfur and fine chemicals increased, but unit sales price of export of insoluble sulfur and Neo-Chlor lowered due to supply and demand conditions, resulting in worsening of profitability (rate of return). The cost of various raw materials mainly in organic products continues to rise, and we are working on revising prices for domestic products. Depreciation expenses of the new Neo-Chlor plant increased slightly in 4Q (depreciation will gradually decline based on the declining-balance method in the next year).
- Operating profit decreased by 300 million yen QoQ due to a drop in sales of organic chemicals (Neo-Chlor) affected by both seasonal and market factors.

Net sales



Operating profit

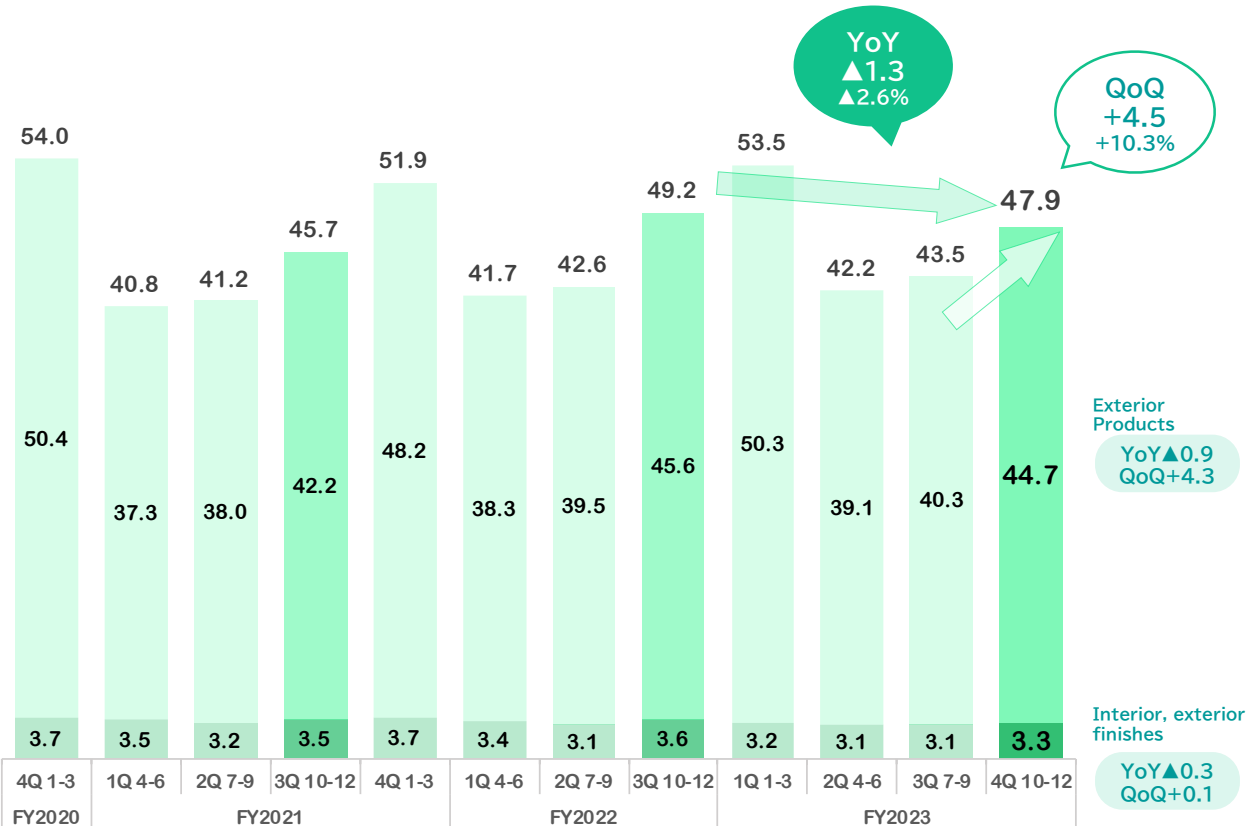


Operating results by segment: Housing Materials (QTD)

- Housing Materials operations as a whole decreased by 130 million yen or 2.6% YoY. Sales of interior, exterior finished and paving materials, and housing exteriors were weak due to sluggish new housing starts (detached house).
- Sales of interior, exterior finished and paving materials remained weak, with a decrease of 30 million yen YoY and an increase of 10 million yen QoQ.
- Sales of exterior products decreased by 90 million yen YoY as the effect of price revisions (10%) offset by a decrease in volume. While the housing business was weak, the landscape business increased from the previous year due to recovery of demand.
- Sales increased by 450 million yen QoQ, including a seasonable rise of a natural increase in demand for landscape exteriors, which, as usual, bottoms out in the April-June period.

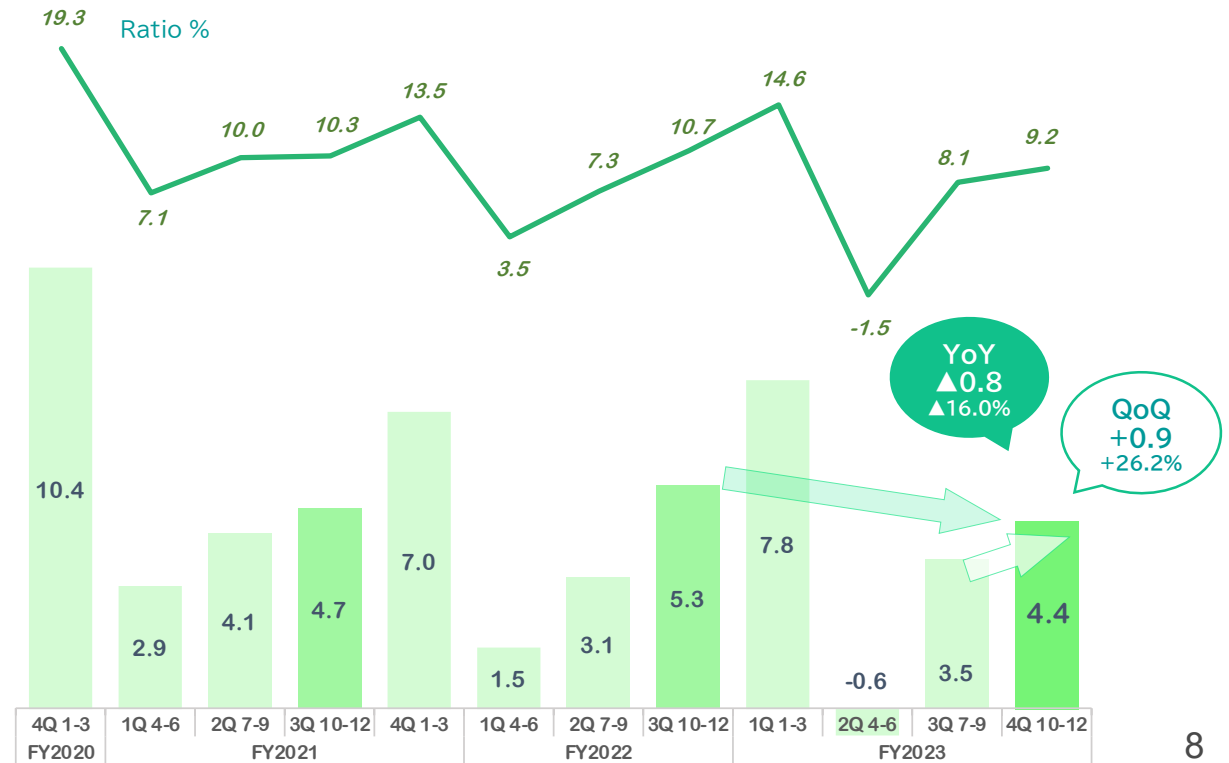
- Housing Materials operations as a whole decreased by 80 million yen YoY.
- Profitability of exterior products recovered after two price revisions, but it was not enough to offset the decline in volume, mainly in landscape exteriors. Costs increased mainly due to an increase in personnel expenses, rise in sales expenses in line with full-scale sales activities, and a decline of profitability in production sites due to weak sales.
- Raw material prices including aluminum ingot remained stable at high prices, resulting in limiting improvement of profitability by price revisions.
- Operating profit increased by 90 million yen QoQ as the ratio of high profitable landscape exteriors grew due to a seasonal rise.

Net sales



Operating profit

100 Million yen



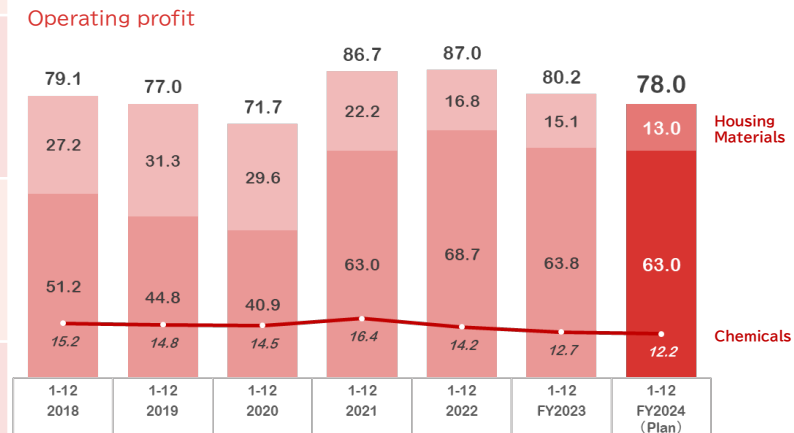
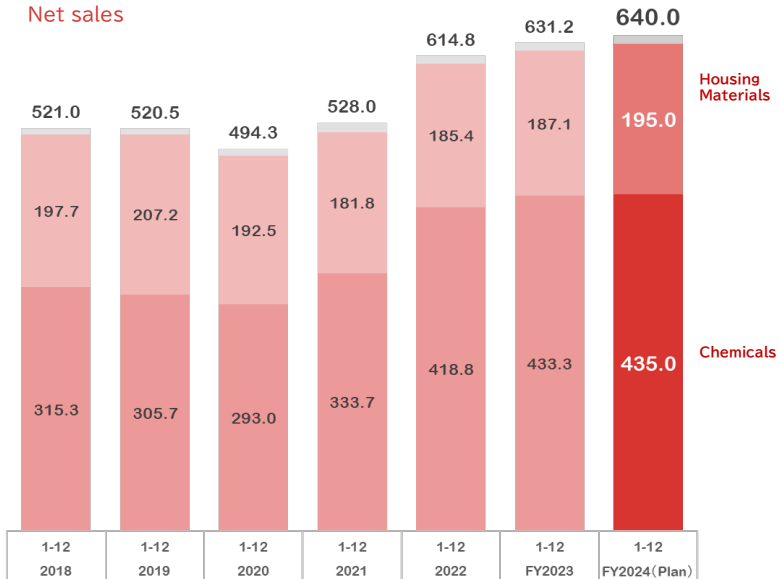
2. Financial Forecast for the Fiscal Year Ending 2024

Forecast of Consolidated Financial Results

100 Million yen

	FY2023	FY2024	Change / Rate	Remark
Net sales	63,117 (Chemicals)43,332 (Housing Materials) 18,712	64,000 (Chemicals)43,500 (Housing Materials) 19,500	+883 +1.4%	<ul style="list-style-type: none"> • Sales of Chemicals operations are expected to increase due to sales expansion of insoluble sulfur and recovery of the fine chemicals market. • Sales of Housing Materials operations are expected to increase due to recovery of the housing market.
Operating profit	8,019 (Chemicals)6,381 (Housing Materials) 1,508	7,800 (Chemicals)6,300 (Housing Materials) 1,300	▲219 ▲2.7%	<ul style="list-style-type: none"> • Operating profit of Chemicals operations is expected to be stable due to lower unit sales price and an increase in fixed costs (repair costs of plants). • Operating profit of Housing Materials operations is expected to decrease due to an increase in fixed costs associated with various sales promotion initiatives.
Ordinary profit	9,280	8,200	▲1,080 ▲11.6%	• Ordinary profit is expected to decrease further due to the non-recurrence of foreign exchange gain recorded in FY2023 (Foreign exchange gain in FY2023: 549 million yen)
Profit attributable to owners of parent	7,853	5,500	▲2,353 ▲30.0%	• Profit is expected to decrease considerably due to the non-recurrence of gain on sale of investment securities recorded in FY2023 (Gain on sale of investment securities recorded in FY2023: 2,088 million yen)
Exchange rate	1USD = 140 JPY 1EUR = 148 JPY 1RMB = 19.8 JPY	1USD = 140 JPY 1EUR = 150 JPY 1RMB = 19.0 JPY		• One yen change against US dollar has a positive impact of approximately 180 million yen in sales and 70 million yen in operating profit.

Million yen



Capital investment and Depreciation

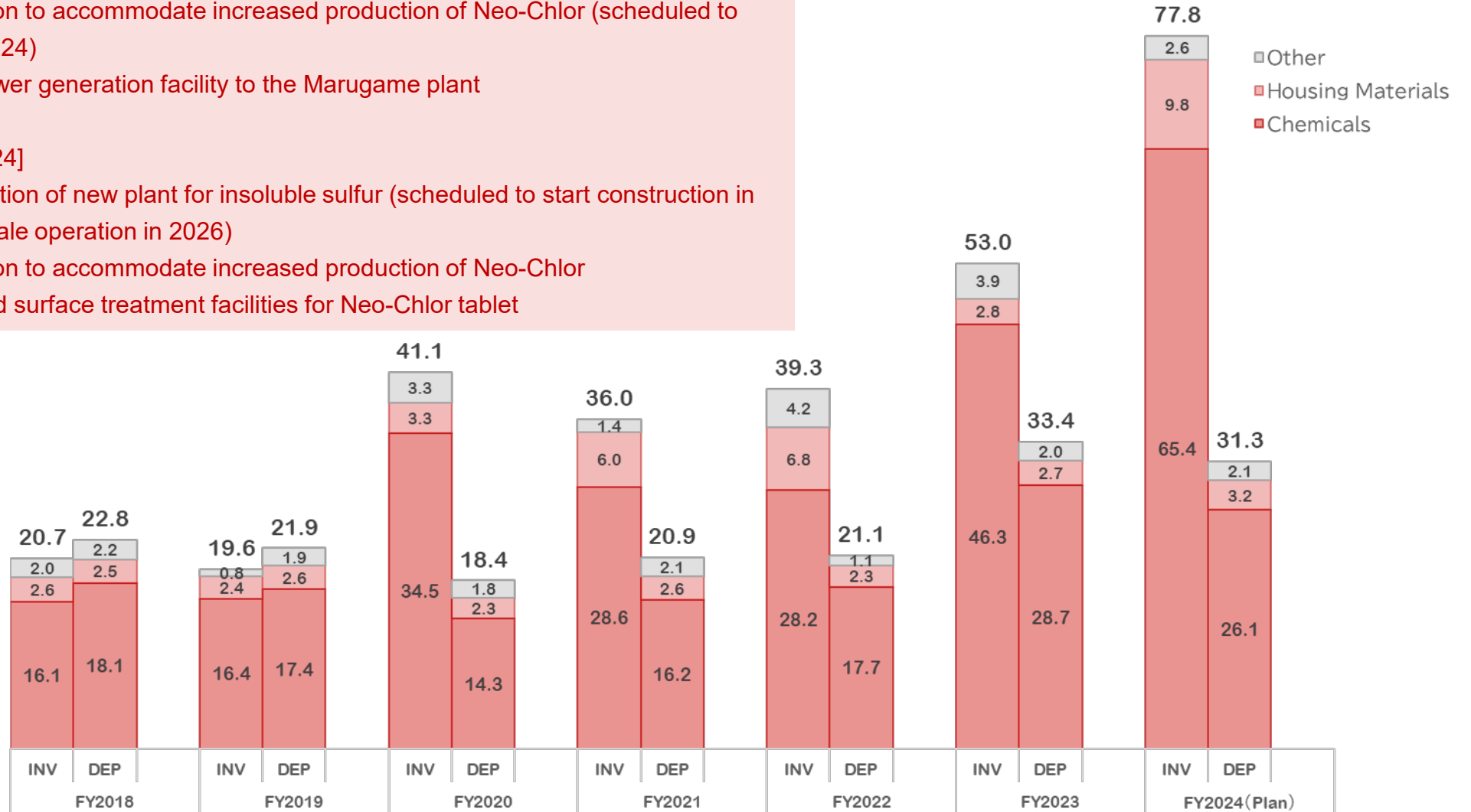
[Major capital investment in FY2023]

- 2,230 million yen for the construction of new plant for insoluble sulfur
- 800 million yen for the construction to accommodate increased production of Neo-Chlor (scheduled to start operation in the autumn of 2024)
- 180 million yen to add a solar power generation facility to the Marugame plant

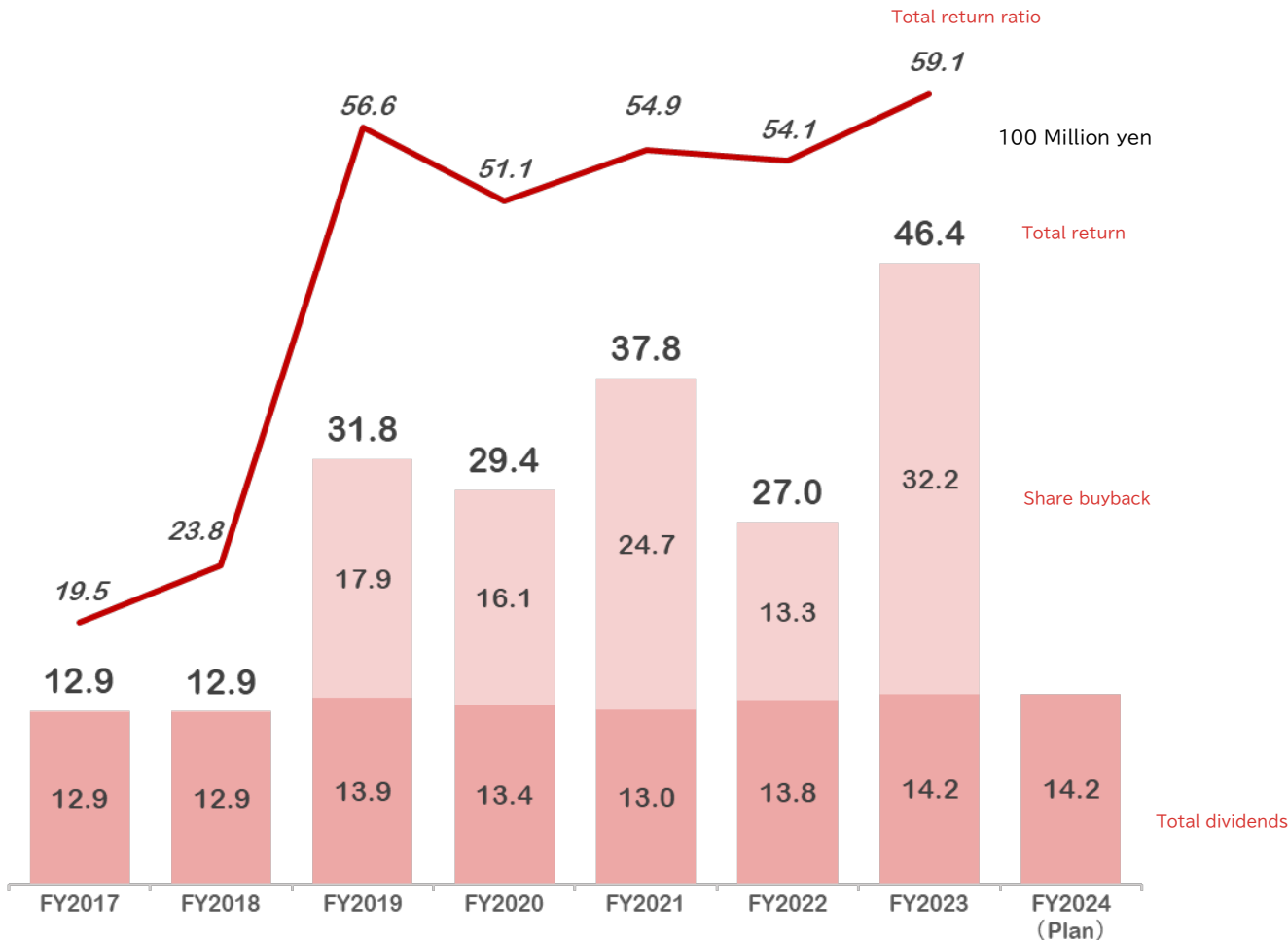
[Major capital investment in FY2024]

- 2,550 million yen for the construction of new plant for insoluble sulfur (scheduled to start construction in the winter of 2024 and start full-scale operation in 2026)
- 380 million yen for the construction to accommodate increased production of Neo-Chlor
- 540 million yen for production and surface treatment facilities for Neo-Chlor tablet

100 Million yen



Dividend and Share buyback Trends



[Shareholder Return Policy]

• The Company aims to achieve “a dividend payout ratio of 30% and a total payout ratio of 50% based on consolidated financial results” under the “Challenge 1000” long-term vision for 2030.

[FY2023 Shareholder Return Policy]

• Annual dividends were 28 yen per share (interim dividend of 14 yen and year-end dividend of 14 yen)
 • Repurchased the Company shares of 3,220 million yen in total in June and November 2023 through TosTNet-3. Total shareholder returns including dividends of 1,420 million yen are 4,640 million yen, with a total payout ratio of 59.1%.

[FY2024 Shareholder Return Policy (plan)]

• Plans to maintain dividends of 28 yen per share (interim dividend of 14 yen and year-end dividend of 14 yen).
 • In addition, premised upon the shareholder return policy, the Company will repurchase its shares in a flexible manner and promote the reduction of excess capital and cross-shareholdings to improve the value of shares.

**3. Action to Implement Management
that is Conscious of Cost of Capital
and Stock Price**

Analysis of current situation and policies for the present

Since the ROIC of the business is high enough at present, we can achieve an ROE level that exceeds the cost of shareholders' equity by reducing excess capital.

To accelerate in the current direction, we plan to consider and carry out various capital policies.

Consolidated Balance Sheets (as of 12/31/2023)

[Financial assets]

Cash and deposits
Securities (short-term bonds)
Investment securities (long-term bonds)
Investment securities (cross-shareholdings)

Approx. **¥69.8** bn
(+¥8.6 bn from the beginning of the year)

[Excess capital]

(Risk buffer retention policy)
Retain 1/3 of annual net sales (Allocable funds)
Consider shareholder returns, with the amount excluding risk buffers as the capital that can be reduced if there is no urgent demand for funds.
In particular, the reduction of cross-shareholdings is prioritized while working on creating business synergies with companies of cross-shareholdings.

[Business assets]

Trade receivables
Inventories
Property, plant, and equipment/
Intangible assets

Chemicals operations

Approx. ¥43.1 bn

Housing Materials operations

Approx. ¥14.4 bn

Approx. **¥61.1** bn

[Investment capital]

(Profit indicators to be compared)
Operating profit after tax by business
→ **ROIC by business**
Chemicals operations
Approx. ¥30.1 bn (+¥1.5 bn from the beginning of the year)
ROIC 15.2%
Housing Materials operations
Approx. ¥8.1 bn (▲¥1.4 bn from the beginning of the year)
ROIC 12.0%
Approx. **¥39.2** bn

[Business liabilities]

Trade payable
Labor liabilities and provisions

[Group capital invested]

(Profit indicators to be compared)
Profit after tax (operating profit + financial revenue)
→ **Group ROIC** (Target ROIC)
Set to WACC as a hurdle rate of ROIC, and aim to achieve WACC of 6% or less by reducing the cost of equity through leverage.

(Current status)

There is a gap between business ROIC and Group ROIC, and the return on invested capital as a whole is declining due to excess capital with low yields.
Aims to improve the return on Group ROIC by reducing excess capital to an appropriate amount.

Approx. **¥109.0** bn
(+¥7.1 bn from the beginning of the year)
ROIC 5.8%

[Future earnings to be acquired (FCF)]

(Shareholder return)
Carry out promptly, targeting 50% of profit

(Internal reserve)
Prioritize investments in growth and human capital as risk capital

[Net assets in carrying amount]

(Profit indicators to be compared)
Profit → **ROE**
(Assumed cost of shareholders' equity)
6-8%
(Target ROE)
Set to 8% as a hurdle rate in the short term, and aim to exceed 10% in the future by capital reduction

Approx. **¥86.1** bn
(+¥4.8 bn from the beginning of the year)
ROE 9.4%

[Interest-bearing debt]

(Basic policy on leverage)
• Actively utilize low-cost funds to the extent that the credit rating can be maintained
• Set D/E ratio to the 30% level

Approx. **¥22.2** bn
(+¥2.0 bn from the beginning of the year)

[Future net assets]

Maintain ROE and net asset levels that exceed the cost of capital at all times through balance sheet management to secure both aggressive growth strategies and capital efficiency.

In addition, consider capital policies that enhance the attractiveness of share value from perspectives other than profitability (increased liquidity and preferential treatment) and incentive plans that make employees and management more aware of share value.

[FY2023 Financial and CF Summary]

- Profit temporarily increased to ¥7.8 billion, with ROE at a high level of 9.4%, due to the recording of gain on sale of cross-shareholding in an extraordinary income.
- Shareholder returns decreased by ¥4.6 billion in total of dividends and repurchase of own shares.
→ As a result, shareholders' equity increased by ¥3.2 billion.
(Combined with comprehensive income, net assets increased by ¥4.8 billion.)
- The Company raised approximately ¥2 billion in additional interest-bearing debt.
→ The total of group capital invested increased by ¥7.1 billion.
- This capital increased was invested in capital expenditures of ▲¥5.3 billion (*up ¥3.3 billion in depreciation), and financial assets increased by ¥8.6 billion from the previous year to ¥69.8 billion.
- Assets increased temporary mainly due to an increase in valuation of listed shares (approximately ¥4 billion) and an increase in income taxes payable (approximately ¥2.5 billion) associated with a change in the fiscal year-end.
→ Accelerate discussions on reduction measures of assets and capital.

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