Overview of the Long-Term Vision

Financial and Capital Strategies

Scale and Profitability as “Entry Tickets” to Be a Company That Can Compete on the World Stage

Long-Term Numerical Targets

Showa Denko believes that strength in both quantitative and qualitative terms is essential to competing on the world stage. Quality means being able to contribute to society, and contributing in a sustainable manner is especially important. On the other hand, being strong in quantitative terms—that is, being a profitable company of a certain scale—is vital from the perspective of maximizing corporate value as well as from the perspective of contributing to society by implementing timely investments to secure earnings.

With regard to our long-term numerical targets, we aim to maximize corporate value by scrupulously achieving our numerical targets through the pursuit of scale and profitability to the tune of net sales of ¥1.6 trillion or more and an EBITDA margin of 20% or more as “entry tickets” to be a company that can compete on the world stage.

To more accurately highlight our strategic intent and our efforts to improve the management of our portfolio, we changed disclosure segments in December 2022. With the segment reclassifications, we will aim to more clearly show the effects of the strategic allocation of management resources and continuous revision and replacement of our business portfolio, of which the most obvious example is our focused investment on semiconductor materials.

Please see page 40 for details on segment reclassifications.

	2021 (results)	2025 (target)	2030 (target)
Net sales* (trillion yen)	¥1.4	¥1.6	¥1.8–1.9
EBITDA margin (%)	14.3	20	
ROIC (%)	4.3	10% over the medium term	
Net D/E ratio (times)	1.15	Aim to achieve 1.0	

* Figures do not reflect the impact of future M&As.

Change to New Segments for Disclosure in Line with the New Business Portfolio Strategy

New segments	Subsegments		EBITDA margin (2025 target)
Semiconductor and Electronic Materials	Semiconductor materials (front-end and back-end processes) Device solutions (HD)	Device solutions (SiC)	30% or more
Mobility	Automotive products	Lithium-ion battery materials	20% or more
Innovation Enabling Materials	Ceramics Aluminum specialty components	Functional chemicals (resins, etc.) Coating materials	15% or more
Chemicals	Petrochemicals Graphite electrodes	Basic chemicals and Industrial gases	15% or more
Others	Life science		Achieve critical mass

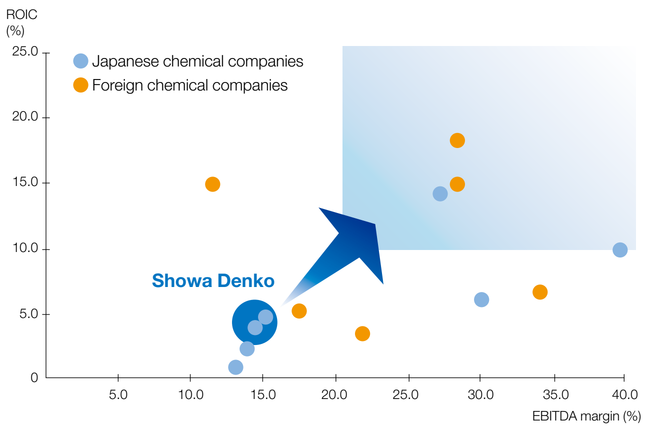
Attribute of the business portfolio
Core Growth / Fundamental Technologies/Materials / Stable Earnings / Next-Generation

Initiatives to Improve ROIC

Turning to our key performance indicators (KPIs), in a change from the KPI set forth in the long-term vision we announced in December 2020, we have introduced return on invested capital (ROIC) as a key numerical target from the perspective of emphasizing discipline.

We will promote awareness of ROIC-focused management among the heads of each business headquarters by measuring ROIC by each headquarters and the sub-business units that constitute the business headquarters and by ranking each sub-business unit by its ROIC components. In addition, we will instill ROIC-focused management and strive to improve portfolio management with the aim of achieving ROIC of 10% or more, by implementing both regular monitoring on a quarterly basis and a variety of measures, such as linking ROIC to management evaluations and bonuses.

Asset Efficiency and Profitability of Global Chemical Companies

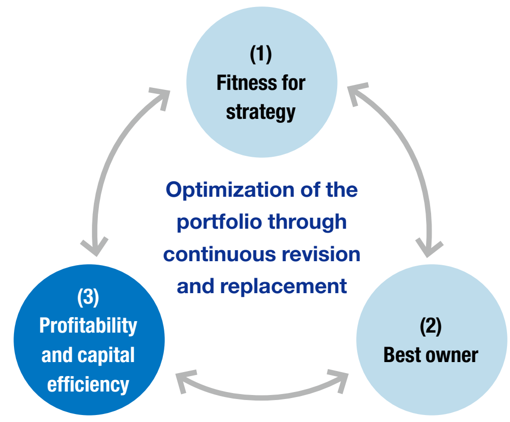


Source: Prepared by Showa Denko based on financial results and other disclosed materials.

Improvement in Portfolio Management

Portfolio companies incessantly strive to improve their portfolios. Showa Denko strives to further improve its portfolio management by continuously revising and replacing its business portfolio. The Company has adopted three criteria as its portfolio management policy, as follows. (1) Fitness for strategy: Whether a business matches the strategies of the Company’s overall strategies and the strategies reflecting the roles of each business unit in accordance with the attributes of the portfolio, with sustainability as a prerequisite. (2) Best owner: Who the best management authority is to maximize the value of a business. (3) Profitability and capital efficiency: Whether a business or investment will satisfy expectations in terms of profitability and capital efficiency. Using these criteria as management guidelines, we focus on ROIC and seek to maximize corporate value.

Portfolio Management Policy

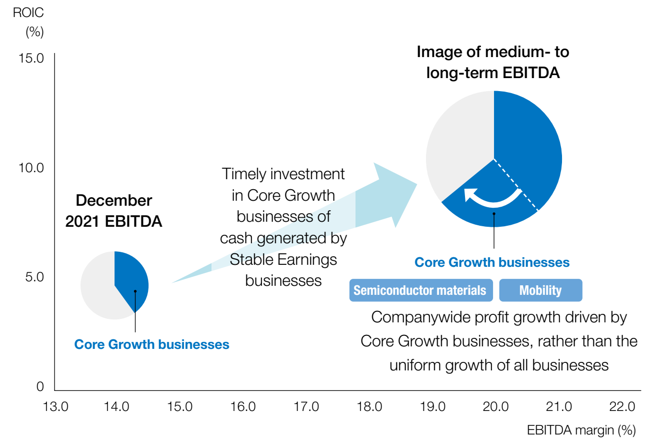


Strategic Allocation of Management Resources

Showa Denko is concentrating its management resources in semiconductor materials and mobility, its Core Growth businesses, while utilizing the funds it obtained through a public offering in 2021. We will aim to drive Companywide profit growth and to achieve profitability and capital efficiency that are high enough to compete on the world stage, through the focused allocation of management resources in Core Growth businesses.

Furthermore, we will increase the proportion of net sales accounted for by Core Growth businesses by growing such businesses. This strategy will see Companywide profit growth driven by Core Growth businesses, rather than the uniform growth of all businesses. As a result, we will raise the Companywide EBITDA margin—at a level equivalent to that of global chemical companies’ scale of business and profitability—which is the weighted average of the EBITDA margins of each business.

Image of Growth by Strategic Allocation of Management Resources to Core Growth Businesses



Progress in Portfolio Reform

In its long-term vision, Showa Denko launched targets for selling ¥200 billion worth of businesses in terms of business value. Subsequently, the Company promptly made decisions on business sales, such as announcing the sale of its aluminum can, aluminum rolled product, food wrap film, printed wiring board, and energy storage device businesses. To date, we have achieved approximately 80% of our target. We are working to optimize the allocation of management resources and restructure our business portfolio to realize continuous growth and spur innovation through the integration of the technologies of Showa Denko and Showa Denko Materials. In proceeding with such efforts, we have carefully examined each of the businesses for sale and transferred them to the best owners, who can fully utilize the technological capabilities and strengths of such businesses, including solid relationships with customers, to facilitate their further development.

As for businesses that we will continue to operate, those connected to the semiconductor industry—a Core Growth business—will require large-scale investment given the likelihood of high market growth. With this in mind, we will raise investment funds on a Companywide basis by earning stable profits through Stable Earnings businesses such as petrochemicals and carbon.

As there is no end point to portfolio management, we will continuously examine business portfolio replacement to continue improving growth and profitability on an ongoing basis.

Overview of the Long-Term Vision | Financial and Capital Strategies

Specific Roadmap for Achieving Our Targets

Measures to Improve Profit

With regard to cost reductions and improvements in the profit structure, we promoted initiatives to reduce costs and enhance the profit structure to create synergistic effects through the integration of Showa Denko and Showa Denko Materials in a variety of areas. These included sales, procurement, production, and business site integration, with the expectation of achieving profit improvement of ¥28 billion by the end of 2023. As a result of these efforts, we achieved an improvement of ¥20.8 billion in 2021, ahead of the planned schedule.

With improvement measures progressing steadily, we have increased our target for profit improvement by ¥2 billion to ¥30 billion by the end of 2022, a year ahead of schedule.

Policy	Effect (Billions of yen)		
	Under the long-term vision	Under the update of the long-term vision	
	2021 (forecast)	2021 (actual results)	2025 (forecast)
Improvement of profit from sales • Revision of sales policies for customers and agents, etc.	¥3.0	¥3.2	¥3.0
Reduction of purchasing and logistics costs • Use of common materials and consolidation of logistics-related suppliers • Sharing of transportation vehicles, warehouses, and personnel, etc.	3.0	2.6	3.0
Reduction of rents • Reduction through head office integration	1.0	1.0	1.0
Optimization of operations / improvement of productivity • Structural reforms through organizational integration and operational efficiency improvements, etc. • Improvement of productivity on manufacturing lines	14.0	7.3	15.0
Reduction of other costs • Reduction of common costs, SG&A expenses, etc.	7.0	6.7	8.0
Companywide total	¥28.0	¥20.8	¥30.0

Efforts to Streamline Our Assets

In our long-term vision, we adopted a plan to generate ¥50 billion in funds by 2021. Under this plan, we worked to boost working capital and sell cross-shareholdings and other assets. Thanks to these efforts, we raised ¥64.7 billion in 2021, far exceeding the original plan.

In addition, we determined a policy under which we will in principle sell all of our cross-shareholdings. Moreover, we will generate a further ¥65 billion by 2025 and reduce our assets by over approximately ¥130 billion on a cumulative basis by 2025, by advancing measures such as the sale of idle assets.

Initiatives	Effect (Billions of yen)		
	Under the long-term vision	Under the update of the long-term vision	
	2021 (forecast)	2021 (results)	2025 (forecast)
Improvement in working capital*1	¥25.0	¥25.3	¥30.0
Sale of strategically held shares*2	20.0	29.4	45.0
Sale of other assets2	5.0	10.0	55.0
Companywide total	¥50.0	¥64.7	¥130.0

*1 Calculated from working capital turnover days at the end of 2020, number of days of improvement in 2021 (actual) and 2025 (estimate), and sales figures of retained businesses.

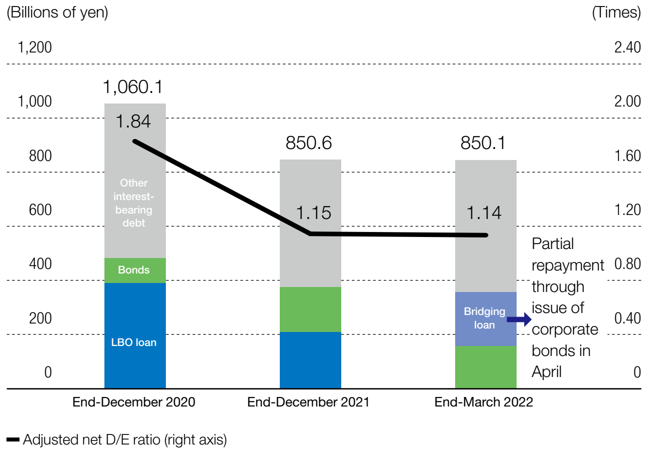
*2 Accumulated amount of the sale of shares since 2020, excluding sale of shares of affiliate companies and divested businesses.

Reduction of Interest-Bearing Debt

At the end of December 2021, our interest-bearing debt came to ¥850.6 billion, down ¥209.5 billion compared with the end of December 2020. This reduction reflected such factors as the sale of assets in conjunction with reform of our business portfolio and efforts to streamline assets. The net D/E ratio increased to 1.15, partly as a result of the public offering. In December 2021, meanwhile, we issued bonds (¥100 billion), the proceeds of which we used to partially repay a leveraged buyout (LBO) loan. In addition, we carried out the prepayment of the LBO loan at the end of March 2022 by converting it to a bridging loan to reduce finance costs. We also issued a further ¥113 billion of bonds in April 2022, which we used to partially repay the bridging loan.

We will continue to aim to stabilize finances and cut finance costs by reducing interest-bearing debt.

Changes in the Interest-Bearing Debt Balance



Capital Allocation

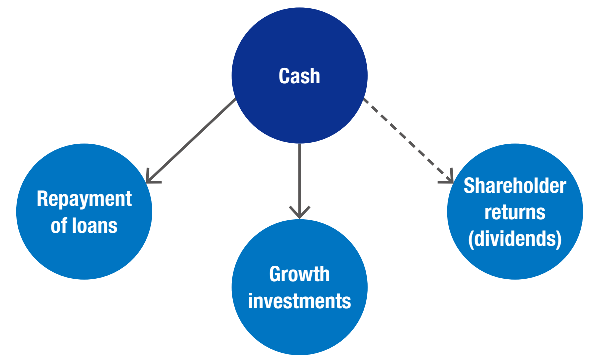
In view of the post-integration situation, we must allocate cash obtained through future business growth and business sales to implement growth investments aimed at expanding profits, while prioritizing to a certain degree the repayment of loans. While we aim to generate ¥1 trillion in cash flow from operating activities over the next five years on a consolidated basis, we plan to direct approximately a half to two-thirds of the cash flow generated to capital expenditures centered on Core Growth businesses, applying the remainder to maintaining stable dividends and reducing interest-bearing debt. If further strategic investments become necessary, we will raise funds through asset sales, portfolio replacement, and other means.

Shareholder Returns Policy

As for shareholder returns, Showa Denko aims to achieve total shareholder return—a comprehensive indicator for improving corporate value—at a level in the top 25% of the global chemical industry.

As previously mentioned, to improve our corporate value we will actively carry out capital expenditures centered on Core Growth businesses and reduce interest-bearing debt to bolster our financial standing. In addition, for the time being we will maintain a dividend policy of paying stable dividends.

Cash Allocation Priorities



In view of the post-integration situation, we must prioritize to a certain degree the repayment of loans and growth investments aimed at expanding profits.

Operating Results (Fiscal 2021)

The Group recorded consolidated net sales of ¥1,419,635 million in 2021, a substantial increase of 45.8% compared with the previous year. Sales in the Others segment decreased significantly due to the deconsolidation of SHOKO CO., LTD., resulting from the transfer of shares in the company. Sales were also down in the Aluminum segment as a result of the sale of the aluminum rolled products and aluminum can businesses. However, sales increased in the Petrochemicals segment thanks to market recovery. Sales were also up in the Chemicals, Electronics, and Inorganics segments due to a rise in sales volumes compared with fiscal 2020, when the impact of the COVID-19 pandemic led to a significant decline in sales. The increase in consolidated net sales also reflected the inclusion of the Showa Denko Materials segment in the consolidated results for the entire year.

The Group posted operating income of ¥87,198 million, a turnaround of ¥106,647 million from the operating loss in the previous year. Each segment was impacted by a decline in the production of automobiles and other vehicles consequent upon a shortage in the supply of semiconductors and by soaring raw materials prices. Despite such adverse conditions, operating income increased in the Petrochemicals segment due mainly to a significant improvement in the naphtha price factor, and in the Inorganics segment owing to a sizeable increase in sales volumes in conjunction with a recovery in demand for steel.

Operating income was also boosted by the inclusion of the Showa Denko Materials segment in the consolidated results for the entire year, although the deconsolidation of SHOKO CO., LTD., led to a decline in operating income in the Inorganics segment. The effects of various measures in the Chemicals, Electronics, and Aluminum segments also prompted an increase in operating income.

Although the Company recorded a net loss attributable to owners of the parent of ¥12,094 million, this represented an improvement of ¥64,210 million from the previous fiscal year. The loss was attributable to the recording of business restructuring expenses of ¥30.1 billion in connection with the transfer of the energy storage devices and systems businesses and the posting of environmental expenses of ¥9.0 billion for production sites in the Aluminum Specialty Components business.

Total assets at the end of the year amounted to ¥2,142,390 million, a decrease of ¥61,216 million from the level at December 31, 2020. Although cash and deposits increased largely as a result of a rise in funds received from a public offering, total assets declined due to a drop in tangible fixed assets and intangible fixed assets including goodwill. Despite an increase in accounts payable-trade, total liabilities came to ¥1,323,937 million, down ¥161,588 million from the level at December 31, 2020, as a result of a decline in interest-bearing debt.

Topics: Communication with Shareholders and Investors

Showa Denko provides disclosure on the Group's vision, strategies, and corporate information in an easy-to-understand, timely, and appropriate manner, engaging in investor relations (IR) activities to deepen trust and understanding of the Group through proactive dialogue with shareholders and investors.

Although the impact of COVID-19 has resulted in a shift to communication with shareholders and investors centered on online briefings and telephone conferences, the Company's management team held a small meeting with analysts after taking sufficient infection countermeasures. The meeting saw a lively discussion on the update of the long-term vision under the new management system. In addition, we held a Packaging Solution Center facility tour and business briefing in March 2022, holding the tour and briefing in a hybrid format with in-person and online participants. In addition, we held an online company briefing for individual investors in December 2021, with the participation of 556 individual investors from across Japan.

Packaging Solution Center facility tour and business briefing