



Contributing to the Improvement of the Performance of the Japanese Economy

When I entered the workforce, it was the end of the bubble era, precisely when the Nikkei average hit its peak. Over the next 30 years or so, Japan's economic competitiveness gradually declined. As a result of the deflationary economy, Japan became so inefficient that it fell to the bottom of the OECD countries in terms of GDP per capita. Very recently, even the Nikkei average, which is said to be at its highest post-bubble value, has yet to surpass its peak level at the end of 1989. In the past 20 years, the average annual salary of workers in major countries has approximately doubled, but the average annual salary of Japanese workers has decreased.

Overcoming a number of challenges, Resonac takes a leap forward

I strongly feel that our generation of Japanese people has a responsibility for causing such a decline in Japan. I am driven by a strong sense of responsibility and frustration to put all my effort into breaking through this situation as long as our generation is involved in industry. The Japanese workforce in the chemical industry has about 900,000 people. Let's say that Resonac, with our 26,000 employees, took actions to break the vicious cycle of Japanese industry and as a result, was able to significantly enhance our corporate value. I have a wild dream that if we achieve this, through the chemical industry, customers, suppliers, and other workers and their families, about 10% of Japanese households, or 5 million households, will become vibrant, which in turn will help invigorate the Japanese economy as a whole. Concepts sprout from a strong wild dream. Once a wild dream becomes a concept, it can be articulated as a vision and turned into an action plan. Once you have a plan, all that's left is to put it into practice. I believe that Resonac's core business in semiconductors and electronic materials is a global treasure, and our long-term vision is the concept of taking this business to the next level.

Under this long-term vision of Resonac, I see my role as CFO in realizing the enhancement of Resonac's profitability and corporate value. Through my past experiences at investment

banks, extensive experience in the technology sector, serving as the CFO of a semiconductor business at an electronics manufacturer, and launching new businesses, I've learned many things such as the importance of replacing business portfolios, cash flow management, and having in-house pricing power, which is the key to improving profitability. While I am aware that our company currently faces challenges in both financial and business efficiency, I believe that by fully utilizing my past experiences, insights, and personal networks, we can resolve these issues one by one.

I describe the source of motivation as adrenaline. Given the various challenges our company faces now, I feel that my adrenaline levels are at their peak in my own history. I am committed to working every day with the determination to accomplish the reformation of Resonac at any cost and maximize the corporate value of Resonac.

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Concentration of Resources on Resonac's Advanced Semiconductor Packaging Technology

The reason I believe our semiconductor materials business is a global treasure is that the semiconductor market is currently at a major turning point, and the next decade will be an era in which material manufacturers hold the key to further advancements in semiconductor performance. Until now, the improvement in the performance of semiconductor chips was based on the world of More Moore, in which miniaturization technology in semiconductor circuit formation (front-end process) has been the primary technology driver. In the world of More Moore, semiconductor equipment manufacturers and wafer manufacturers enjoyed the benefits. However, with the evident physical and cost limitations of miniaturization in the front-end process, it's said we have entered the era of More than Moore. In the world of More than Moore, we believe that our strong product lineup, which contributes to advanced packaging technology in the back-end process, will be essential for improving the added value of semiconductors. Resonac, as a material manufacturer, will not only provide the materials that semiconductor manufacturers, our customers, demand but will also draw and propose a roadmap for advanced packaging technology ourselves. In doing so, we can simultaneously further improve presence in our industry, strengthen our profitability, and enhance our corporate value. This is a clear growth story that only the Company can envision in the world. To realize this, the Company has decided to concentrate management resources on the semiconductor and electronic materials business.

To ensure the successful execution of Resonac's growth story, I have been moving forward with each measure by acting swiftly and with a strong will of my own since I became CFO. In our long-

term vision, we have set a medium- to long-term ROIC target of 10%. Capital efficiency improvement is also a significant theme, and bold initiatives are required. Within the Company, we have introduced rules that will serve as a discipline for investment policies based on the portfolio attributes of each business to concentrate management resources on the semiconductor and electronic materials business, which has the potential to realize high profit margins. We will limit investments in Stable Earnings businesses within the limits of depreciation and amortization, and actively expand investments in growth businesses. We have also reformed our internal Investment Committee, which asks the owners of each investment project to go beyond analyzing the appropriateness of the investment from a numerical standpoint, and to ask whether they are prepared to achieve a reliable return on their investment, and to request a thorough discussion of the issue. I am the chairman of the Investment Committee, and members from a strategic perspective (CSO), engineering perspective (CMEO), risk management perspective (CRO), and technical strategy perspective (CTO) also participate, and we have in-depth discussions at each meeting. In some cases, multiple rounds of debate have been held at the Investment Committee, and I feel that we have a system in place for meaningful and serious discussions.

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In addition, I felt a strong discomfort at the end of 2021, shortly after I joined the Company, about cross-shareholdings that only generate only a return significantly lower than the cost of capital and can be considered dormant assets from the standpoint of capital efficiency. In the process of confirming the validity and necessity of the reasons for holding cross-shareholdings in each business division, for example, when the business organization claims that transactions with its customers are made possible by cross-shareholdings, I ask, "Do you really need to own stock to have a business relationship with them? If you want, I can make an appointment and go talk to your business partner." As a result, the mindset of the parties involved was reset, and company-wide activities to eliminate these cross-shareholdings accelerated. And as a result of the diligent negotiations by the business division members, we were able to almost reach a point where we could sell all of our cross-shareholdings.

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Overcoming Immediate Challenges in Pursuit of Our 2025 Targets

In order to ensure that Resonac will make great strides in the future, we must quickly overcome the challenges at hand. As CFO, I take seriously the fact that the financial results for fiscal 2023 will be severe, and we intend to take this opportunity to clean up the negative legacy of the past by removing the “pus” that has become visible in the current challenging business environment. It is necessary to promptly reform our earnings structures and accelerate our portfolio reforms.

In our core semiconductor and electronic materials business, due to sluggish demand for semiconductors and data centers, we foresee a significant decline in profit for fiscal 2023. This is the flip side of our decision to concentrate management resources largely on the semiconductor and electronic materials businesses, and in this sense, we somewhat expected the influence of the semiconductor cycle on the business structure and prepared for such circumstances. However, the semiconductor industry, which is essentially our customer base, serves a wide range of sectors like consumer goods, automotive, industrial, and data centers. Accordingly, we believe that by diversifying our customer base and applications, we can transform our business structure to one that targets more stable, higher growth. In addition, in the Mobility segment, the parts business for internal combustion engines has been affected by the market shrinking faster than anticipated, affecting our profits.

To address this situation, Resonac's policy is to undertake radical, unconventional actions and structural reforms based on an accurate understanding of demand projections and changes in the business environment, and we are determined to secure a performance recovery from fiscal 2024 onwards at any cost.

Our top priority for all business domains is to ensure that we provide appropriate added value to our customers through products that enable us to secure our standard marginal profit ratio, and to improve our business structure so that we can generate solid profits. In other words, accelerating the elimination of unprofitable businesses is of utmost importance. Eliminating unprofitable businesses is also key to achieving a 20% EBITDA margin in fiscal 2025, which is the focus of our long-term vision. In the mobility segment, 30% of sales are from unprofitable businesses, and other segments also have a fair share of such businesses. For each unprofitable business division, we have set milestones for cost-cutting strategies such as substantial price increases, and we have defined policies and action plans to downsize or withdraw businesses that cannot improve profitability within the specified period and are monitoring them quarterly.

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It was also necessary to change the mindset of our business divisions' employees towards prioritizing profit margins, even at the cost of reduced sales. Accordingly, in our long-term vision set three years ago, we lowered the sales target for 2025 of 1.6 trillion yen, signaling our intent to prioritize the eradication of unprofitable businesses and enhancement of profitability, and we have revised our sights to maintaining sales of 1 trillion yen or more. While some measures require approval from our customers and can be time-consuming, we are already making progress, and the effects are gradually becoming apparent. In cases where it is difficult for a business division to reach an agreement with the customer alone, I personally step into negotiations with the customer.

On the other hand, in conversations with our shareholders, some express concerns that we might be allocating too much management resource to solving our businesses facing challenges. They point out that this could mean fewer resources for growth investments or considerations of alliances and acquisitions in the semiconductor materials field, potentially posing a significant risk. Certainly, it's true that we are currently investing a lot of resources into businesses facing challenges. However, as mentioned earlier, we are continuously monitoring and gathering information about potential alliance targets, including opportunities in the semiconductor material industry and capital expenditures in growth areas discussed in the Investment Committee, and this includes listing potential companies in long and short lists. While working on our businesses facing challenges, we also actively consider discontinuous growth and acquisition opportunities in collaboration with CSO Tomomitsu Maoka to consider them in a timely manner.

For the Development of the Future Generation Supporting Resonac and a Sustainable CFO Organization

Each of the initiatives to improve profitability and corporate value I am sharing with you, are by no means something that only I can think of, but rather measures and ideas that may not be common knowledge in our company or in the chemical industry, but are commonplace in other industries. We are currently in an intense period of change, and as someone who has come from outside, I'm leading the charge. However, in order for Resonac to continue to grow in the future, it is essential to build a stronger CFO organization, develop the generation that will lead the company in the future, and foster a culture in which people can demonstrate their values.

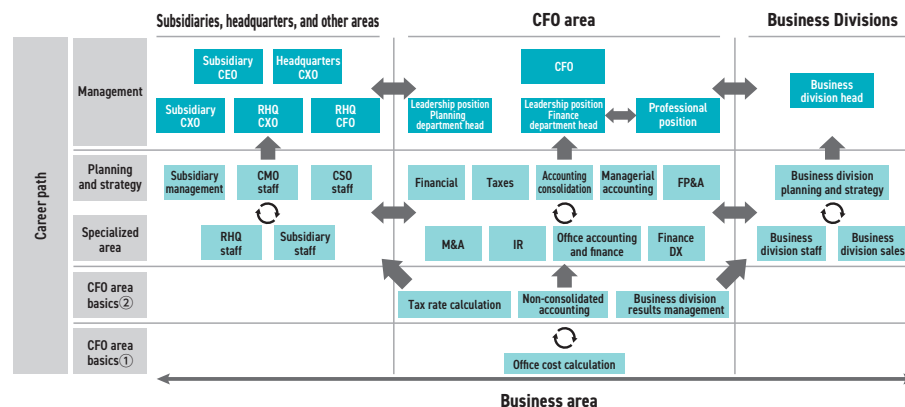
In terms of the organization, I have been transforming the way the CFO organization operates since taking my position. Firstly, I transferred teams responsible for budgeting, medium-term management planning, and M&A considerations, which were previously under Resonac's strategy divisions, to be under my direct control in the CFO organization. I have strongly advocated for a reform of the CFO organization mission and transformed our CFO organization, which

had previously focused on supporting strategy, into an organization that can also lead strategic decisions. Additionally, over 150 accounting members, who were affiliated with individual business units, were restructured to be under the CFO organization, rather than remaining affiliated with their respective business units. By doing this, we have been able to promote cross-divisional perspectives, and advance task standardization and human resource development from a Group-wide viewpoint rather than a strongly siloed mindset.

In terms of human resource development, I have placed a specialist dedicated to human resource development directly under me. We have introduced systems unique to the CFO organization, such as department-wide job rotations and career planning, and this includes accounting members from individual business units. While we have many promising young employees in our company, many had difficulty visualizing themselves as career owners, and it has become customary for them to work in the same department for long periods of time. I've been promoting a system where you create your own career in order to transform the mindset of each member of the CFO organization. At the end of last year, I personally explained using several career tree examples, and together we discussed possible future career plans for all members of the CFO organization. Following that, we conducted career interviews with all employees for each department at the beginning of this year, and the results show that each individual, especially younger employees, is becoming much more motivated.

In addition, last year we started an in-house MBA program called *Some Lab*. For this program, I myself served as a lecturer, and the program consisted of about half practical case studies based on my own experience and half lectures by university professors. In the end, each group was asked to formulate and present a strategic proposal to Resonac.

CFO area career tree



Following last year's first phase, in which participants were selected from the CFO organization, this fiscal year's second phase had participants from other CXO organizations and business divisions as well and even through the *Some Lab*, I strongly feel the motivation of our employees has increased. I will use my time generously so as not to let that fire of motivation die out, and I cannot wait to nurture the younger members.

To our stakeholders

I would like to reiterate that the Company has a clear story for future growth. Since last year, we have been focusing on IR activities to convey what kind of company we want Resonac to be seen as. As a result, global institutional investors with long-term holding (long-only) who empathize with our growth story and transformation story have been increasing as top shareholders.

However, at the same time, the current stock price and PBR of Resonac still show a small conglomerate discount. We are aware that the Company is not yet fully trusted by all investors. To gain further trust from our investors in the future, it's essential to ensure our scenarios are executed and promises with our investors are kept, and deliver solid results in terms of business performance. We are strongly aware of this part of our daily transformation.

Lastly, I want to mention three reasons why I believe Resonac will surely leap forward. The first is that the Company has the ability to develop semiconductors and electronic materials, which can be said to be the world's treasure, and above all, I personally have a passionate desire to achieve growth. As CFO, I want to take action myself and support the Company in continuing to be at the forefront of the semiconductor industry, focusing on the evolution of advanced packages. The second is the quality of CEO Hidehito Takahashi as a president. I believe that Mr. Takahashi will become a president that is representative of the Japanese manufacturing industry. As a key member of Team Takahashi, while committing to the complete execution of various management policies, I strongly hope that Team Takahashi can bring about a reformation in Japanese companies that will lead to improved performance not only at Resonac, but also in the Japanese economy as a whole, which has lost its vitality. The third is the power of human resources. We are committed to human resource development across the entire company, and within the CFO organization, we passionately focus on human resource development, striving to unlock individual awareness and potential in an aim to drive transformation into a Co-creative Chemical Company, ultimately enhancing corporate value.

We hope that you watch Resonac's growth, as a company genuinely dedicated to changing society through the power of chemistry.