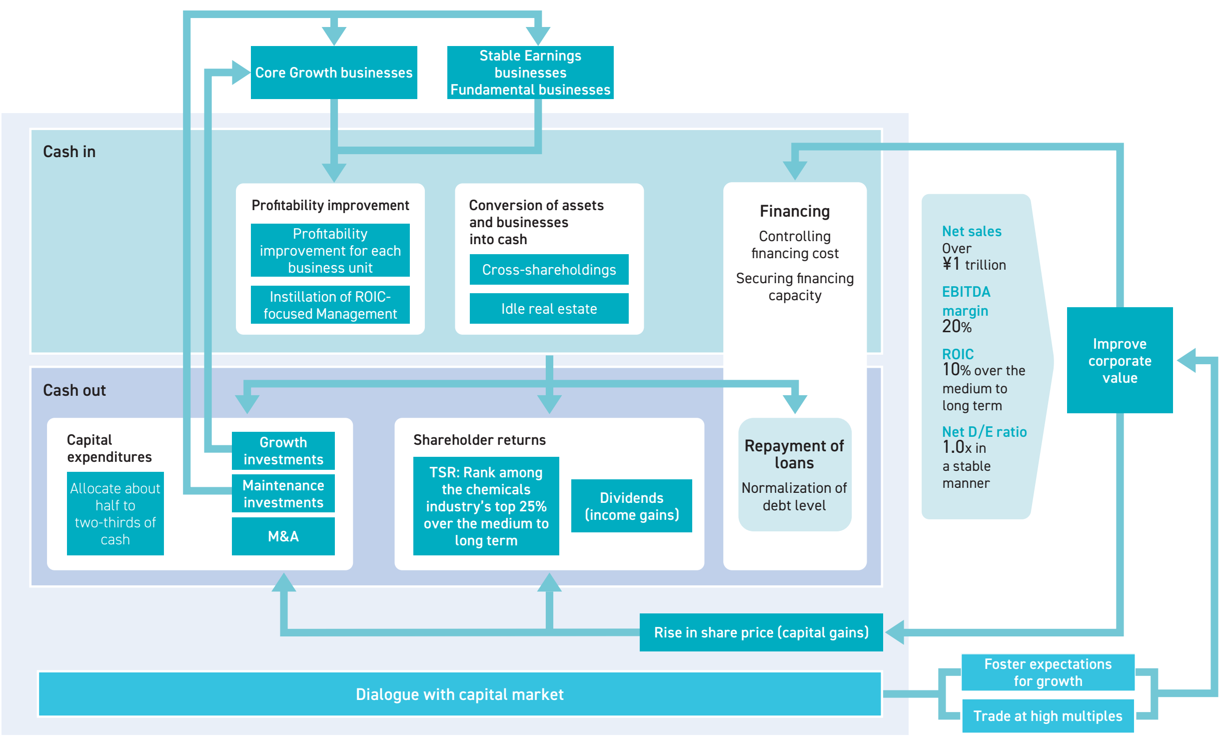
Financial and Capital Strategies

Please also read the "For Investors" page on our website.

In order to realize our long-term vision, which calls for the realization of our growth strategy by concentrating management resources on the semiconductor materials business, we will continue to pursue capital efficiency to solidify our profitability and cash generation foundations, allocate cash to growth investments, raise funds with an eye to controlling financial costs and securing financial flexibility, and improving the quality of dialogue to ensure the capital market has an appropriate understanding of these measures.

Financial and capital strategies overview



Pursuit of Capital Efficiency

Until now, our management hasn't focused enough on generating cash flow, and our efforts to maximize profits through efficient use of capital have been insufficient. Following the integration of the two companies, we changed our financial target from ROE to ROIC. At the same time, we have been pursuing capital efficiency in order to further strengthen our profitability and cash generation foundations.

Conversion of assets and businesses into cash

Amid efforts to convert assets with low return on capital into cash, since 2020 we have been working to reduce cross-shareholdings to reduce debt inflated by the integration. In 2021, we agreed on a policy to sell all of our cross-shareholdings, in principle. In the process of reducing cross-shareholdings, we interviewed each business unit about their reasons for holding them, and worked together to assess the appropriateness and necessity of these shareholdings. As part of these efforts, the CFO suggested conducting dialogue with business partners himself as an option. We accelerated companywide activities by veering away from the mindset of business units that we cannot successfully do business without cross-shareholdings. As a result, while we previously held cross-shareholdings with a market value in excess of ¥50.0 billion, by the end of 2023, we were able to sell almost all of these shares.

With regard to the sale of businesses and converting them into cash, we sold a total of nine businesses for approximately ¥200.0 billion as part of our portfolio reform efforts following the integration. These businesses were sold to the best owners in a manner that fully utilized existing technologies, customer relationships, and other strengths. Amid our portfolio reform efforts, we still have several businesses that do not conform with our policy but are difficult to sell. We will implement appropriate turnaround measures for these businesses with an aim of maximizing their business value, and then work diligently to find the best owners.

In addition, with regard to sale of idle real estates, we transferred part of the land of Yokohama Plant in 2022, and land and building of former Daimon Head Office in 2024 after the consolidation of our Head Office, etc., which generated cash of approximately ¥50 billion in total.

Improving profitability to achieve EBITDA margin of 20%

We aim to achieve a companywide EBITDA margin of 20%, and have set EBITDA margin targets for each business. To achieve these targets, we are taking measures to expand sales and improve profitability.

In the semiconductor materials business, we will make aggressive capital investments in the advanced materials field, which is poised for high growth and high profitability, to expand sales and lead the improvement of the EBITDA margin on a companywide basis.

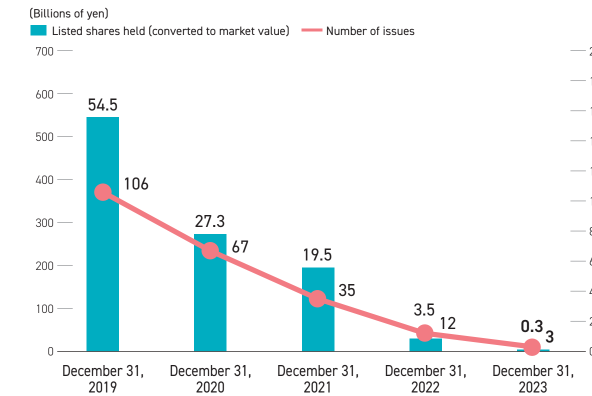
P33 / Roundtable Conversation "Earning Power"

In other businesses, we aim to reach EBITDA margin targets for each segment by concentrating resources on high-profit products and improving profitability and returns on capital rather than scale expansion. Specifically, each business unit calculates the maximum profit margin for each customer and product and implements specific action plans, such as negotiating price increase for low-margin products, withdrawal from products for which price increases are difficult, review of raw material suppliers, and cost and staff reduction through improved production efficiency. The progress of these initiatives is managed quarterly and by the end of 2023, 75% of all measures were already completed.

In addition, we are carrying out individual business revitalization projects for several businesses that urgently required profitability improvement. In 2023, we optimized capacity and reduced fixed costs in the HD media business by closing our Taiwan site and significantly lowering the break-even point. In the Mobility segment, we tenaciously continued negotiations with customers for 48 unprofitable products subject to emergency measures, which led to 80% of negotiations being successful. As a result, we achieved a total improvement in profitability of ¥3.4 billion, which helped move the segment back into profit.

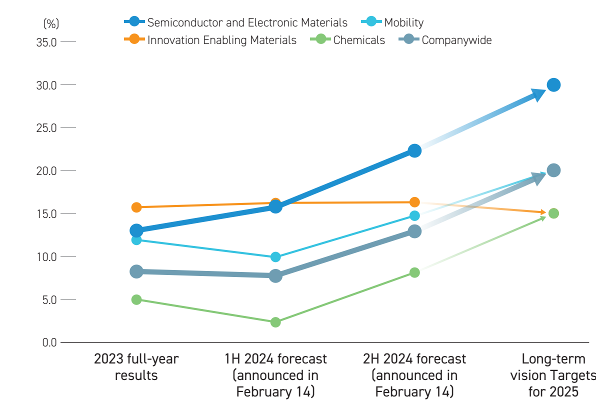
In order to improve the companywide EBITDA margin through business portfolio reform, we will continue to steadily consider business sales, including difficult projects. We are also considering a partial spin-off of the Olefins and Derivatives business under the Chemicals segment. We plan to clarify the schedule and business strategy for this going forward, and disclose the progress as appropriate.

Cross-shareholdings (listed shares)

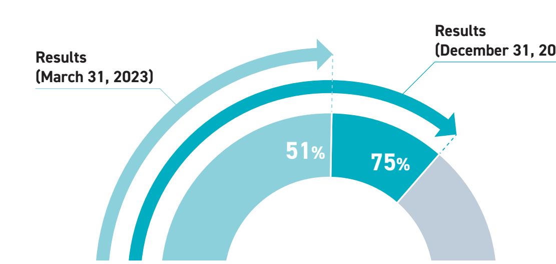


*Listed shares held by Group companies are included. The figure as of December 31, 2019 includes shares held by former Hitachi Chemical.

Improvement of EBITDA margin



Status of completion of the measures to improve profit



*The Mobility Segment, and the Olefins and Derivatives business which is largely affected by market conditions, are excluded.
*Completion of measures and their impact on revenue are not necessarily simultaneous.

Cash Allocation to Support Growth Investments

In order to realize growth investments, we have set a cash allocation policy in which half to two-thirds of operating cash flow is allocated to capital expenditure as a priority, with the remainder allocated to shareholder returns and debt repayments. As for the results for fiscal 2022 and 2023, we compensated for the decrease in operating cash flow caused by deterioration in market conditions and earnings performance by converting businesses and assets into cash. While avoiding excessive upfront investments, we have steadily made step-by-step investments to keep up with the increase in demand with an eye to the next peak of the semiconductor cycle.

We have introduced rules for investment policies based on the portfolio attributes of each business to concentrate management resources on the semiconductor materials business, which seeks to realize high profit margins in the future.

P27 / Overview of Resonac's Business

For Stable Earnings businesses, in which we focus on stable cash generation, we will, in principle, limit investment for maintenance (including investments for BCP and profit improvement) within the scope of depreciation, and allocate surplus cash to investments geared toward expanding growth businesses. At the internal Investment Committee, CFO will serve as the chairman and members from a management strategy perspective (CSO), engineering perspective (CMEO), risk management perspective (CRO), and technical strategy perspective (CTO) also participate, and have in-depth discussions at each meeting. We ask the owners of each investment project to make a commitment to ensuring returns, in addition to verifying the appropriateness of investments via numerical analysis.

As for investment discount rates (hurdle rates), whereas previously we used the same discount rate throughout the Company, in 2023 we introduced hurdle rates based on risk premiums for each business segment and investee country in an effort to appropriately assess investment risk, improve investment efficiency, and to improve portfolio management. Moreover, in order to identify risks at an early stage and maximize the benefits of capital expenditure, we monitor progress after investment decisions have been made. Before facilities come on stream, we check whether we are exceeding our budget and if there are any delays with receiving orders, construction completion, or the start of operations. After facilities come on stream, we check whether there are any discrepancies between actual earnings and our business plan. We have made investments in the past that resulted in impairment losses due to returns that did not exceed the cost of capital. By reflecting on these mistakes, we will continuously review and improve the effectiveness of our operations so that similar situations do not occur in post-integration projects in the future.

Focusing on TSR for Shareholder Returns

We place importance on total shareholder return (TSR), and as such, have adopted a shareholder returns policy that takes into account the balance between capital gains from medium- to long-term improvement in corporate value and growth in our stock price, and income gains from dividend payments. For TSR, we aim to achieve a yield that exceeds those of industry rivals, and have set a medium- to long-term target of being ranked at mid-range or higher, which would mean being in the top 25% of 22 domestic chemical companies (we selected 22 companies in the chemical and other materials industries of the same size or larger that have close business models to ours and have competing businesses). In 2023, due to the rise in our stock price and the payout of dividends, we achieved a TSR of 142.3% over the past year, which places us in the top 20% of the 22 domestic chemical companies. Going forward, we aim to achieve our TSR target over an even longer span. As such, in addition to maintaining stable dividends, we will link business growth achieved through growth investments to capital gains, and reduce the conglomerate discount to ensure an appropriate stock price and corporate value. To this end, we will engage in attentive dialogue with investors.

Total shareholder return (TSR)

TSR	Past year	Past 3 years	Past 5 years	Past 10 years
Resonac Holdings	142.3%	136.8%	97.9%	232.2%
TOPIX	128.3%	141.1%	178.9%	227.8%

*As of the end of 2023
*TSR: Total shareholder return. The total rate of return on investments, consisting of capital gains and dividend payouts.
*TSR for Resonac is calculated based on accumulated dividends and stock price fluctuations. TSR for TOPIX is calculated based on dividend included stock index (see Japan Exchange Group's monthly statistics report data).

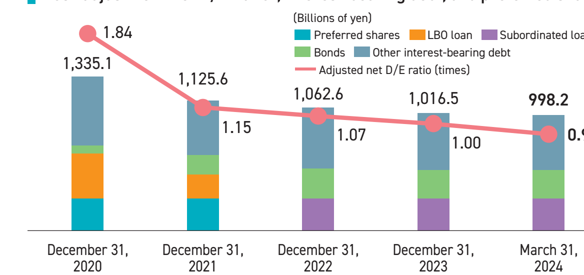
P138 / Stock Information

Financing with a View to Curbing Financial Costs and Securing Financial Flexibility

Our interest-bearing debt increased to ¥1,335.1 billion (including preferred shares) as of December 31, 2020 due to acquisition financing in 2020. In order to respond to the increase in financing costs associated with higher interest-bearing debt, we have been working to reduce total debt from 2021 onward, implementing measures such as the early repayment of LBO loans by issuing large-scale corporate bonds, switching from preferred shares, which are more costly than other funding sources, to subordinated loans, and converting loans to fixed interest rates. In doing so, we have diversified maturity dates, reduced financial costs, and prepared for possible future interest rate increases down the line. We have also taken measures to improve our capital structure, including equity procurement, with an awareness of the cost of equity, such as raising ¥83.2 billion through a public offering in 2021, and issuing zero-coupon convertible bonds worth ¥100.0 billion in 2024.

We have set a net D/E ratio target of 1.0 as part of our fiscal discipline efforts in financing activities. In 2023, even amid the weak financial performance, we sold businesses and assets such as the diagnostic reagent business and reduced working capital and inventories at each business headquarter/unit to secure funds to repay borrowings. As a result, we reduced interest-bearing debt to ¥1,016.5 billion by the end of December 2023. The net D/E ratio improved to 1.0, owing partly to an increase in shareholders' equity and an increase in foreign currency translation adjustments resulting from yen depreciation. Going forward, alongside moves to prepare for future investment opportunities, we will continue our efforts to reduce interest-bearing debt and improve our financial structure in order to maintain a stable net D/E ratio of 1.0.

Post-adjustment Net D/E Ratio*, interest-bearing debt, and preferred shares



*December 31, 2020 and 2021: {(Loans payable + Commercial papers + Bonds payable + Lease liabilities) - Cash and deposits + 50% of preferred shares} / (Total shareholders' equity + 50% of preferred shares)
December 31, 2022 and later: {(Loans payable + Commercial papers + Bonds payable + Lease liabilities) - Cash and deposits - 50% of subordinated loan} / (Total shareholders' equity + 50% of subordinated loan)
50% of preferred shares and 50% of subordinated loan (included in loans payable) are evaluated as equity capital based on the credit rating by Japan Credit Rating Agency, Ltd. on April 21, 2020 and April 27, 2020, respectively.

Communication with Shareholders and Investors

Our management team proactively creates opportunities for direct communication with shareholders and investors, and utilizes the feedback we receive in management. In terms of direct communication, we resumed overseas IR activities by the CEO and CFO in 2022. And also, our managemnt have engaged in numerous discussions on sustainability (ESG). We are also actively engaged in non-financial information disclosure and dialogue aimed at enhancing corporate value. In 2023, we held our first sustainability meeting (a hybrid in-person/online meeting).

P31 / Co-creation with Stakeholders

In order to have a place to conduct dialogue with as many people as possible, we are increasing the number of speakers on the IR team, establishing a system that allows for consistent information provision, and working to increase opportunities for small-group meetings with investors. As part of these efforts, we have repeatedly communicated our focus on the Semiconductor and Electronic Materials segment, the key to our growth story, and revised our disclosure content in an effort to raise awareness as a player in the semiconductor industry and minimize the conglomerate discount applied to our shares, including making changes to our disclosure segments in 2022.

Opinions and requests from shareholders and investors, and topics related to the stock price, are continuously addressed and quarterly discussed at Management Committee meetings attended by CXOs and business unit heads. They are also addressed and discussed at biannual forums for exchange of opinions with executives including outside executives. In the discussion, we also consider the difference between the theoretical stock price and the market price based on the results of correlation analysis with other company stocks and SOTP (sum of the parts) analysis, which incorporates the perspectives of shareholders and investors.

We will continue to disclose the Group's vision, strategies, and corporate information in an easy-to-understand, timely, and appropriate manner, have proactive dialogues with shareholders and investors, and reflect their feedback in management in order to further enhance corporate value.

The reforms we have implemented to date have been at the stage of steadily implementing necessary measures, such as converting low-return assets into cash, adjusting product pricing that does not match the value provided, and replacing high-cost funds. The current stage involves implementing more difficult measures, such as the revitalization and termination of non-core businesses that are hard to sell, the withdrawal from customer relationships with constraints, the complete overhaul of the capital structure, which is used to deal with emergency situations arising from leveraged buyouts, and the partial spin-off of the Olefins and Derivatives business. Overcoming these challenges is a prerequisite for Resonac to become a company that can compete on the world stage. I am determined and ready to complete this stage.

And people are the foundation of our business. As such, the CFO organization, which supports our financial and capital strategies, also promotes the mobility of human resources based on its own human resource development policy. CFO organization actively implements department-wide job rotation, and in 2023, transferred approximately 25 finance and accounting employees. Meanwhile, there were many cases where it was difficult for the employee's original department to make decisions on the matter. As such, we will continue to address personnel allocation challenges, including measures to fill the gaps in the original departments that arise due to job rotations. In addition, we will improve the motivation and engagement of members by sharing career trees in the CFO area, encourage proactive career interviews and one-on-one meetings with superiors, holding the in-house MBA program "Some Lab" for three consecutive years (2022-2024), and creating communication opportunities across departments through the launch of the mentor-mentee system. Going forward, we will continue to give it our all in these endeavors.

Hideki Somemiya
CFO