02 Refining Our Capital

Here we outline our strengths in technology, human resources, and financial and capital strategies.

35 Dialogue: CFO and Investors Dialogue
41 Financial and Capital Strategies
45 Dialogue: Choosing to Execute a Partial Spin-off
51 Resonac's R&D
59 Human Resource Strategies

CFO and Investors Dialogue

Resonac's portfolio management: our journey so far and the path forward

We held a dialogue to gather firsthand insights and objective opinions from long-term investors, aiming to improve our management practices and information disclosure. We invited our substantial top three domestic shareholders, who are leading institutional investors in Japan. CFO Somemiya spoke directly with them.

Reflecting on the second founding phase

Somemiya: We sincerely thank our shareholders for their patience and support. I first met our shareholders, including all of you, when I joined the former Showa Denko at the end of 2021. Ahead of today's discussion, I looked back at my meeting notes from that time. "Can't trust management. Too many business lines. Performance and stock prices influenced by volatile graphite electrode market. Bottom line heavily impacted by extraordinary losses. Can't evaluate Showa Denko." There was a stack of harsh criticism. But those were fair points and I clearly remember saying, "We take this seriously and will do everything we can to earn your trust."

Uesako: I remember feeling positive about the meeting with Somemiya-san. Hearing about the management structure and business strategy increased my expectations for medium- to long-term growth. We use the MBIS® framework to evaluate non-financial information, and after the meeting, we significantly increased the scores.

Noguchi: I remember our first meeting too. I recall saying we would closely watch if the externally recruited executives could properly boost employee engagement as the Company shifted its focus to semiconductor materials.

Somemiya: Honestly, I was initially unsure if employees would accept what we in management were trying to achieve. CEO Takahashi believes that boosting employee engagement is crucial. From the start, he stated that he would delegate financial and portfolio management to me, the CFO, and Maoka, the CSO, so he could devote his time to our employees.

Noguchi: Engagement seems to have increased over time, going from the integrated report.

Somemiya: Since becoming CEO, Takahashi has visited our business sites around the world. In his first year, he focused on personally conveying the new company's direction to employees in his own words. In the second year, he took a more interactive approach, visiting sites again to hear employees' thoughts on the Company's direction. I doubt many CEOs visit their business locations as often as he does. Our leadership's focused on driving transformation and embedding a new culture and our Purpose and Values has been key to improving our engagement.

Noguchi: As the focus has shifted to semiconductor materials business, I guess that management has communicated that mobility and graphite electrodes are not central priorities. How did employees involved in those businesses respond?

Somemiya: Some might see everything but semiconductor materials as non-core. However, our real aim is portfolio management. Each business has its own unique role. I want any business that contributes to achieving a 10% ROIC target to be part of the portfolio, whether or not it has synergy with semiconductor materials. I also communicate this internally.

KPIs for assessing business and management

Uesako: You referred to ROIC as a KPI just now, but using uniform KPIs—like growth—to evaluate all businesses could result in areas other than semiconductor materials being seen as inferior and undervalued internally. How are you adjusting the evaluation system for different businesses, especially in setting KPIs?

Somemiya: Currently, we use the same KPIs to evaluate each business, but the target levels, like the EBITDA margin rate, vary depending on their positioning in the business portfolio. We evaluate business unit performance by comparing it to the budget, differentiating based on how effectively the budget is stretched.

Uesako: So being in a particular business does not negatively impact the evaluation for now.

Somemiya: That is what we strive to avoid. We aim to refine our evaluation system for our growth businesses by focusing more on growth metrics to better define their positioning.

Ichihara: Chemical manufacturers are expected to deliver both growth and reliability. Creating a medium- to long-term evaluation system that balances these demands is challenging. How do you think reliability should be evaluated?

Uesako: By reliability, do you mean reliability for customers?

CFO and Investors Dialogue

Ichihara: More for shareholders.
Somemiya: In that context, we are discussing internally whether we can evaluate businesses with high market volatility, like graphite electrodes, based on their ability to control volatility and stabilize performance over the long term. Foreign investors want more focus on EPS and Net Debt/EBITDA, so we have incorporated these KPIs into our disclosures. What do you all think?
Ichihara: This is not essential, but I think it would be nice to have.
Noguchi: For EPS, in your case, it might be the same as asking when the extraordinary losses will end.

Semiconductor materials industry restructuring and scope

Somemiya: Recently, the media widely covered Takahashi's comments on restructuring in semiconductor materials. The point he was making is that industry restructuring involves other parties, so while the timing is uncertain, we definitely want to be involved when the opportunity arises. That is to say, if a company decides they want to collaborate with others instead of going it alone, we want to be the first potential partner they think of.
Uesako: I would like to see Resonac lead the industry restructuring to grow the semiconductor materials business, including inorganic options.
Ichihara: What is the scope of your restructuring in semiconductor materials? Take Shin-Etsu Chemical, for example. I believe it is Japan's top integrated manufacturer of semiconductor materials. Their strength lies in their ability to integrate lithography and specifications with wafers for cross-selling as advanced semiconductor designs grow increasingly complex. How far is Resonac considering going in that direction?
Somemiya: In that sense, we aim to have a strong lineup of front-end products. Lithography is crucial for device manufacturers. The first step in their development roadmap is to envision that process and consider what kind of circuit and device configuration they will need. Building relationships with client designers during the review process can influence back-end material choices over the following years. For restructuring, we could start by bolstering collaborations similar to those now underway with JOINT P75.
Ichihara: In joint research and development, especially in advanced materials, different companies each have their own agendas. So it is often the case that they cannot conduct evaluation they want.
Somemiya: If a company wants to delve deeper but finds it impossible within the current joint research and development framework, I believe that could trigger restructuring.

Chemical manufacturers are expected to deliver both growth and reliability. Creating a medium- to long-term evaluation system that balances these demands is challenging. [Mr. Ichihara]

If a company decides they want to collaborate with others instead of going it alone, we want to be the first potential partner they think of. [Somemiya]

Preparing to list the olefins and derivatives business

Ichihara: As you prepare to list the olefins and derivatives business, what dividend policy will you implement to increase the likelihood of the price-to-book ratio (PBR) exceeding x1? What support will the head office provide?
Somemiya: The key point as we see it is that even as the domestic petrochemical market matures or contracts, Crasus Chemical can still generate enough profit to maintain steady dividends. We will help build its equity story based on this and set up a shareholder base in Japan.
Ichihara: The Oita Petrochemical Complex as a whole appears to be weaker in midstream and downstream operations compared to other regional complexes.
Somemiya: While much of that is true, there are strong products in the current lineup of derivatives. We aim to showcase the strengths of that business and help you understand them better.
Uesako: They seem to be distancing themselves from the ongoing reorganization of domestic ethylene plants. How will Crasus Chemical navigate the restructuring?
Somemiya: Both east and west Japan are undergoing restructuring, but Oita is geographically isolated from these changes. In my view, regardless of whether a merger happens, a future possibility is collaborating with other regional complexes through maritime transport of ethylene and similar products.
Uesako: The restructuring of other complexes might cause derivative product manufacturers to lose their raw material supply. Could such companies move to Oita?
Somemiya: If there are any companies interested in Oita, we would certainly welcome them.

P45 / Discussion: Choosing to Execute a Partial Spin-off
Crasus Chemical Business Briefing (Video)

Graphite electrode business and structural reform

Noguchi: China's production capacity exceeds global demand for products like lithium-ion batteries, solar panels, and EVs. Graphite electrodes now also fall into this category. It seems that your company might not need to continue offering this product in the future. What are your thoughts?
Somemiya: The current business environment for graphite electrodes is indeed tough. We face a critical management decision: Should we sell the business and accept substantial losses, or should we drive structural reforms to responsibly restore cash flow? Due to the pressing market conditions, we are urgently pushing forward with structural reforms.
Uesako: I believe that mobility needs structural reforms similar to those for graphite electrodes.
Somemiya: Our current fundamental strategy is to select and focus, based on the belief that access to mobility is essential for application of functional materials. Specifically, we will keep functional materials that are competitive and stop those that aren't.

CFO and Investors Dialogue

Breaking out of a low multiple

Somemiya: Our valuation improved beyond the integrated chemicals sector's multiples, bringing the PBR above 1x. However, the Deepseek shock earlier this year and market shifts from the Trump tariffs have pushed our stock price back to the level when I joined, as of April 2025.

Uesako: Multiples correlate with ROE. Increasing ROE should boost multiples, enhancing certainty and credibility.

Noguchi: Valuations are still not improving, much like when former Hitachi Chemical's multiples weren't high enough in the past. Fund managers often point out that the former Hitachi Chemical didn't have a high valuation in the past.

Ichihara: We also receive similar feedback from fund managers.

Noguchi: If you can clearly show and explain how your semiconductor materials portfolio and profitability have changed since then, you might secure higher multiples than Hitachi Chemical had back then.

Somemiya: Although we have already communicated this as part of our company narrative, we believe it needs to be more widely understood. A major change since the days when Hitachi Chemical was publicly listed is the clearer definition of the "More Than Moore" semiconductor landscape and the significant expansion in advanced packaging. The focus has shifted from enhancing value through front-end miniaturization to increasing it via back-end packaging. This shift has increased the added value captured in back-end processes, which is a major change from the Hitachi Chemical era.

Noguchi: Compared to the Hitachi Chemical era, other businesses have shrunk, so expecting higher multiples now is reasonable. Expanding into front-end materials could open up new business opportunities and potentially transform the company into a comprehensive semiconductor materials manufacturer.

Capital allocation

Somemiya: As our performance improves, we are getting more questions about our current capital allocation, particularly regarding our approach to shareholder returns. What do you think about our current capital allocation policy and its disclosure?

Ichihara: Compared to other companies, the disclosure is extensive and clear, so I find it satisfactory.

Uesako: I think your disclosure is quite detailed. It includes setting a target stock price of ¥10,000, avoiding actions that dilute shares for now, and so on. The capital allocation disclosure is more detailed and deliberate compared to other companies. Regarding the policy, your company lacks financial flexibility and needs growth investment, so I personally don't think further returns are necessary.

Noguchi: I agree on the capital allocation. I don't think enhancing returns is necessary at this stage. Many companies increase returns to improve their PBR, often because they have excess net cash. However, your company does not fall into this category. With growth fields, investment should naturally be the priority.

I would like to see Resonac lead the industry restructuring to grow the semiconductor materials business, including inorganic options. [Mr. Uesako]

Achieving clear interim results helps employees understand and align with the strategy, creating a best practice example to share with other companies. [Mr. Noguchi]

Expectations for Resonac

Somemiya: Finally, what are your expectations for our company moving forward?

Noguchi: We hope Resonac becomes a successful example of management change in Japan, encouraging similar practices to spread. Achieving clear interim results helps employees understand and align with the strategy, creating a best practice example to share with other companies. We will continue to watch this closely.

Ichihara: I come from a chemical manufacturing background. In the 1990s, Europe's chemical industry restructuring saw BASF, focused on petrochemicals, become the market leader by market capitalization. Meanwhile, ICI (Imperial Chemical Industries) aggressively restructured but ultimately collapsed, while Bayer, including its spinoff companies, resulted in a lower corporate value than BASF, an integrated chemicals company. However, I believe different times would yield different results, and I expect your company, actively pursuing restructuring, to outperform in this industry.

Uesako: If your current goals are achieved, I think the stock market will recognize your company's value. This is what I expect to see. To boost employee engagement, you should increase stock compensation, aligning employees' interests with those of the company. I'd like to see employees actively hold company shares and work to boost corporate value, benefiting not just investors but themselves as well.

Somemiya: We will continue striving to meet your expectations. Thank you for your time today.

• About this dialogue

Participants: Our effective top three domestic institutional shareholders and CFO Hideki Somemiya

Aim: Listen to investors' opinions on our portfolio management and utilize them in management and information disclosure

• Keywords of the dialogue

Portfolio management issue	Formulation of business evaluation criteria and mechanisms, KPIs from a shareholder perspective
Challenges in industry restructuring	The importance of front-end processes, clues for restructuring, and the equity story of our petrochemical business
Restructuring underperforming businesses	Sell or rebuild? Can they compete as functional materials?
Improving valuation and prioritizing investment	Improvement of our valuation beyond the integrated chemicals sector's multiples, and prioritization of investment in growth fields