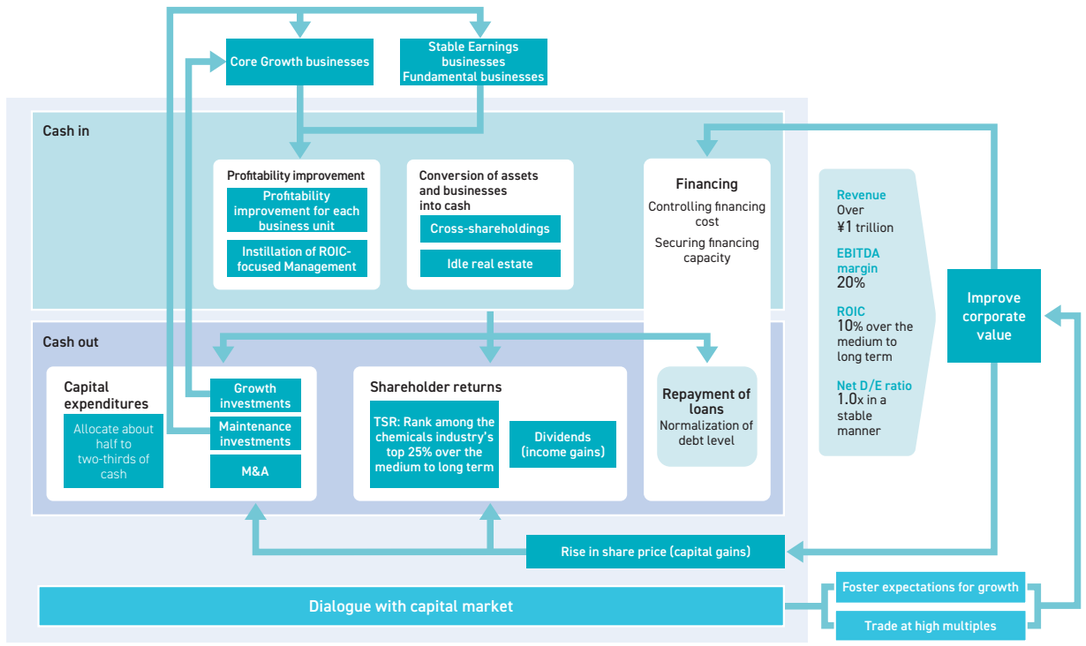
Financial and Capital Strategies

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

We believe that the Financial and Capital strategies which is the basic policy for mean of use cash are backbones that support our growth strategy. Financial condition, which temporarily deteriorated due to the acquisition of Hitachi Chemical, has successfully been normalized to a significant degree over the four years following the acquisition. Currently, we are preparing to build a corporate structure capable of taking the offensive foreseeing the silicon cycle and the next action for growth.

Financial and capital strategies overview



1. Capital Allocation Prioritizing Growth Investments

Companies prioritize spending based on their growth stage. Our company is still in a growth phase, so investing in growth is our top priority. Next, our basic policy is to allocate funds to reduce debt, which improves financial health and prepares us for the future. This is followed by paying dividends as part of shareholder returns.

To drive growth in the semiconductor materials field, we have consistently allocated 50% to 70% of our operating cash flow to capital investments, even during downturns in the silicon cycle. The semiconductor market goes through boom-and-bust cycles as a consequence of companies trying to capture strong demand amid ongoing technological innovation. Only companies that invest during downturns can reap the benefits in the next boom. During the downturn, we pinpointed when demand would recover and kept a close eye on customer inventory and forecasts. This allowed us to adjust and respond to rapid market growth, particularly in areas like AI semiconductors. In our investment decisions, we focus on capital efficiency. We allocate half of our capital expenditure to semiconductors and electronic materials, which we consider our growth drivers.

Over the past four years, as described above, we generated approximately ¥500.0 billion in operating cash flow, with ¥330.0 billion directed towards capital expenditures. This means we allocated two-thirds of our operating cash flow to capital investments. For investing cash flow other than capital expenditures, selling non-core businesses, idle assets, and cross-share holdings brought in about ¥200.0 billion, resulting in a total free cash flow of approximately ¥360.0 billion. This allowed us to reduce interest-bearing liabilities and preferred shares by about ¥300.0 billion, while distributing dividends.

In the cyclical semiconductor market, there are often times when business conditions do not align with investment levels. However, looking at multi-year averages, we believe that, in due course, we will reach a financial position where we can consistently secure at least an annual operating cash flow of ¥200.0 billion, an investing cash flow of ¥(100.0) billion, and a free cash flow of ¥100.0 billion. At this level, we can effectively invest in growth while quickly reducing debt, thereby broadening our strategic options including shareholder returns.

Summary of statements of cash flows

(Billions of yen)	2021	2022	2023	2024	Four-year total
Operating cash flow	115.3	99.4	118.7	163.7	497.0
Investing cash flow	28.6	(54.7)	(55.2)	(52.3)	(133.5)
Capital expenditures	(67.7)	(87.9)	(85.6)	(88.3)	(329.5)
Other Investing cash flow	96.3	33.2	30.4	36.0	195.9
Free cash flow	143.9	44.7	63.6	111.3	363.5
Capital expenditures/Operating cash flow	59%	88%	72%	54%	66%

*The figures for 2021 to 2023 are based on Japanese Generally Accepted Accounting Principles (JGAAP), while those for 2024 are based on IFRS.

2. Sale of Non-Core Businesses and Monetization of Non-Operating Assets

Operating cash flow is the main source of cash inflow. However, to improve capital efficiency, it is crucial to sell non-core businesses to the best-suited owners and dispose of non- operating assets. This approach generates cash for investments with higher expected returns.

Over four years since 2021, we sold 11 non-core businesses, generating proceeds of approximately ¥120.0 billion. Among non-operating assets, we have sold idle assets, such as a former plant site in Yokohama City, Kanagawa Prefecture, land and buildings of the former head office in Minato Ward, Tokyo, and a former hard disk media site in Taiwan, generating over ¥60.0 billion in cash. We advanced the sale of cross-shareholdings, completing most of these sales by the end of 2023. As of the end of March 2025, only one listed stock remains.

Over the past four years, we have largely streamlined non-operating assets, resulting in a much cleaner current position. We will continue to assess our business using three criteria: profitability and capital efficiency, fitness for strategy, and whether Resonac is the best owner.

Key inflows in investing cash flow

(Billions of yen)	2021	2022	2023	2024	Four-year total
Proceeds from sale of businesses	84.1	0	31.7	0.7	116.6
Proceeds from sale of non-current assets	2.2	21.0	5.5	32.4	61.1
Proceeds from sale of investment securities	9.3	22.0	3.3	0.6	35.2
Total major investment inflows	95.6	43.0	40.5	33.7	212.9

*The figures for 2021 to 2023 are based on Japanese Generally Accepted Accounting Principles (JGAAP), while those for 2024 are based on IFRS.

3. Reducing Debt and Improving Capital Structure

Our financial health temporarily weakened due to a major acquisition, which was a concern for potential investors. However, we believe it has now largely stabilized through liabilities repayment. We not only reduced the balance of interest-bearing debt but also made significant qualitative improvements. These include refinancing at lower financial costs and securing fixed interest rates to manage the risk of rising rates. To enhance our financial credibility with international investors, we have switched our accounting standard to the International Financial Reporting Standards (IFRS), which are recognized globally.

Key financial improvements (comparison between the end of 2020 and the end of March 2025)

- The Net D/E ratio decreased from 1.8x to 0.8x * but rose to about 1.1x in April 2025 due to the repayment of a subordinated loan.
- Net interest-bearing liabilities and preferred shares decreased from ¥1,136.1 billion to ¥735.0 billion.

*The figures as of the end of 2020 are based on JGAAP, while those as of the end of March 2025 are based on IFRS.

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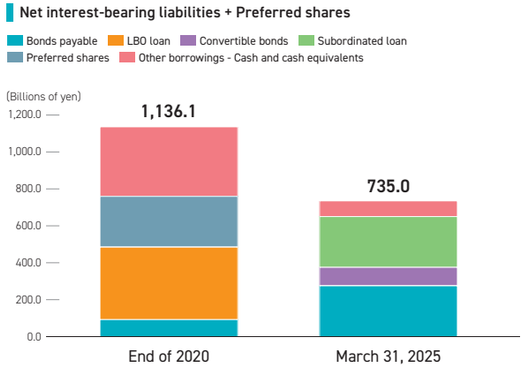
Net interest-bearing liabilities + Preferred shares



*In April 2025, the repayment of a subordinated loan reduced the balance from ¥275.0 billion to ¥137.5 billion.

As we position growth as a principal strategy, we aim to maintain a balance sheet that allows us to raise the necessary funds from capital markets when needed to effectively navigate the fluctuations of the silicon cycle, while using financial leverage to some extent. We aim not only to consistently maintain a Net D/E ratio below 1x but also to improve our financial structure to achieve this without relying on the equity component of subordinated loans. We will focus on monitoring the Net Debt/EBITDA ratio to ensure a balanced approach between borrowing and cash management. Our current Net Debt/EBITDA ratio is just under 4x, which is somewhat high, but we believe it can reach the 3x or even 2x range within the next few years. If a Net Debt/EBITDA ratio below 3x comes into view, we will be ready to pursue strategic investments and industry consolidation.

4. Focusing on TSR for Shareholder Returns

We prioritize total shareholder return (TSR), which includes capital gains, as a way to reward shareholders through growth. In 2024, annual TSR was 145%, significantly outperforming the TOPIX including dividends of 121%. With regard to income gains, despite a net loss in 2023, we maintained a dividend of ¥65 per share, ensuring stable payouts to uphold its track record. We are mindful of existing shareholders' interests and plan to avoid capital raising that would dilute shares for the foreseeable future.

We remain committed to rewarding shareholders through stock price appreciation by enhancing corporate value, while also maintaining stable dividends. We are planning a partial spin-off of Crasus Chemical (olefins and derivatives business), to not only address the conglomerate discount on our stock price but also to provide shareholder returns through in-kind dividends of Crasus Chemical stock. As our growth investments pay off over the medium to long term and our financial health improves, we might consider share buybacks as a way to return value to shareholders.

P45 / Dialogue: Choosing to Execute a Partial Spin-off

5. Valuation

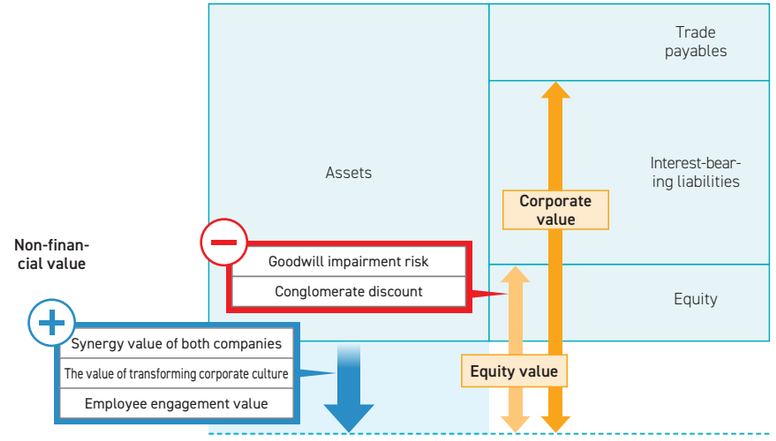
We see our stock market valuation as a direct reflection of our performance, including our financial and capital strategies, and we confront it head-on. Our stock price is still significantly below what we believe is its fair value. To bridge this gap, we need to improve our execution capacity and practical feasibility while communicating clearly and convincingly. To ensure investor confidence in our stock, CEO Takahashi and CFO Somemiya take a hands-on approach in investor relations, presenting our growth strategy and equity story and discussing their credibility with investors. This involvement is crucial to our financial and capital strategies.

After a major acquisition, we restructured our business portfolio by selling 15 businesses to the best-suited owners. The market acknowledges our strong execution capabilities to some extent in this area. Despite a downturn, we continued investing, leading to growth in advanced applications, including AI semiconductors. Through this effort, we are confident that our growth strategy in semiconductor materials, a core area for us, has proven to be right and plausible to some extent. Based on these achievements, as part of our growth story, we will continue to emphasize our transition from a general chemical manufacturer to a functional materials company centered on semiconductor materials. In 2025, by adopting IFRS, we enhanced our appeal to global investors and resolved the issue of profit reduction caused by goodwill amortization. We were also able to advance toward our selection into the SX index to attract investors who prioritize sustainability.

In corporate valuation, resolving the issue of our PBR falling below 1x was merely the starting line. The real challenge begins now. We will continue efforts to eliminate the significant conglomerate discount and ensure the market recognizes our growth potential. The key to eliminating the discount is likely the partial spin-off of the olefins and derivatives business, which is central to the business portfolio reform. We will dedicate ourselves to making the spin-off listing successful by establishing Crasus Chemical as a competitive and attractive investment entity.

To drive growth, it is important to not only strengthen our presence in advanced semiconductor materials but also to minimize non-recurring items, particularly impairments, that reduce profits in Resonac's growth businesses. To increase the probability and feasibility, we recognize that strong leadership from our management and execution capabilities as a company driven by high engagement are crucial. Although these non-financial values do not directly appear in financial statements, we view them as notional assets that increase the likelihood of achieving our growth strategy and, in turn, enhance corporate value.

Diagram of non-financial value and corporate value enhancement



6. Toward a ¥10,000 Stock Price

Our immediate performance target is to achieve revenue of ¥1 trillion with a 20% EBITDA margin, leading to an EBITDA of ¥200.0 billion. Applying an EV/EBITDA multiple of 15x gives the Company a valuation of ¥3 trillion. Assuming Net Debt at a conservative ¥1 trillion, the market capitalization would be ¥2 trillion. Considering the increase in the number of shares issued due to the conversion of convertible bonds and setting the total shares outstanding at 200 million, the stock price would be ¥10,000.

Achieving the targets of ¥1 trillion in revenue and a 20% EBITDA margin is possible if the semiconductor materials business remains strong and the restructuring of the graphite electrode business and the spin-off of the olefins and derivatives business are successfully completed. Our current EV/EBITDA multiple is significantly lower. However, global semiconductor material companies, including our benchmark DuPont, achieve around 15x. We believe that eliminating the conglomerate discount and gaining recognition as a high-growth potential semiconductor stock could help us reach this level.

Reframing the perspective, if the stock price is ¥10,000 and the current P/E ratio remains at 20x, the required EPS would be ¥500. To boost EPS to the desired level, it is essential to achieve "¥1 trillion in revenue × 20% EBITDA margin." Additionally, increasing revenue in growth fields and completing structural reforms are crucial to reducing profit declines from non-recurring items.

Both approaches face significant challenges, but by focusing on growth businesses and with resulting growth, we aim to enhance profit margins and increase corporate value through higher multiples. If the stock price reaches ¥10,000, it will not only boost shareholder returns through capital gains but also position the Company's stock as a strategic asset for future major initiatives.

▶ See here to learn about our communication with shareholders and Investors P33 / Co-creation with Stakeholders