

Financial Strategy

By FY2024, We will Improve Our Financial Structure, which has Deteriorated due to Conducting Large-scale Investments, through Returns on the Results of Our Investments and through Cash Generation Measures.

佐々木啓吾

Keigo Sasaki
Managing Executive Officer



Basic Policy

Sumitomo Chemical is aiming to reliably achieve its targets for ROE, ROI, and other financial indicators, and continuously improve corporate value. By controlling the balance of interest-bearing liabilities and the D/E ratio through rationalization, cost cutting, and shortening of the cash conversion cycle (CCC), we will continue to expand and strengthen our business through active growth investments while maintaining the soundness of our financial base.

Key Financial Performance Indicators

Since 1999, we have been working to improve capital efficiency, including both ROE and ROI, from an early stage, taking measures such as considering capital costs in our performance results for each business sector as part of our management accounting system. Currently, ROI for each sector is an important financial performance indicator.

We set a target of 10% for ROE, a key financial performance indicator, with a view toward creating a sustainable society through our business activities, based on a policy of

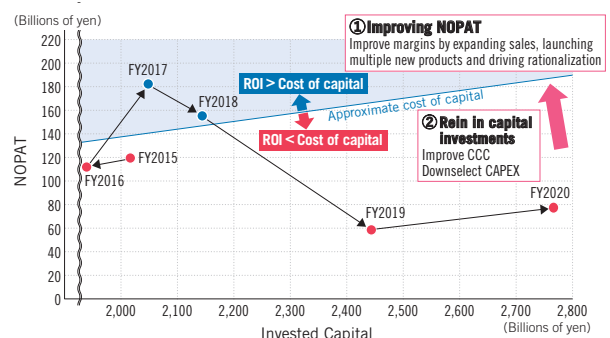
implementing projects that we believe can make an important contribution to the solution of societal issues, as long as they are expected to be profitable. We set a target of 7% for ROI, in order to exceed our weighted average capital cost (WACC).

Our target D/E ratio is approximately 0.7, with a view to maintaining our current credit rating, which enables flexible financing. For new capital expenditures or M&A, we have decided to take into consideration economic indicators in each individual investment decision, including net present value (NPV), internal revenue rate (IRR), and the payback period. Since fiscal 2019, in order to contribute to the creation of a sustainable society, we have been calculating an economic indicator that reflects our internal carbon pricing (10,000 yen per ton) for any project that is expected to increase or decrease CO₂ emissions, which is used in our investment decision-making. In addition, we also regularly follow-up on the results of investments, including both capital investments and acquisitions.

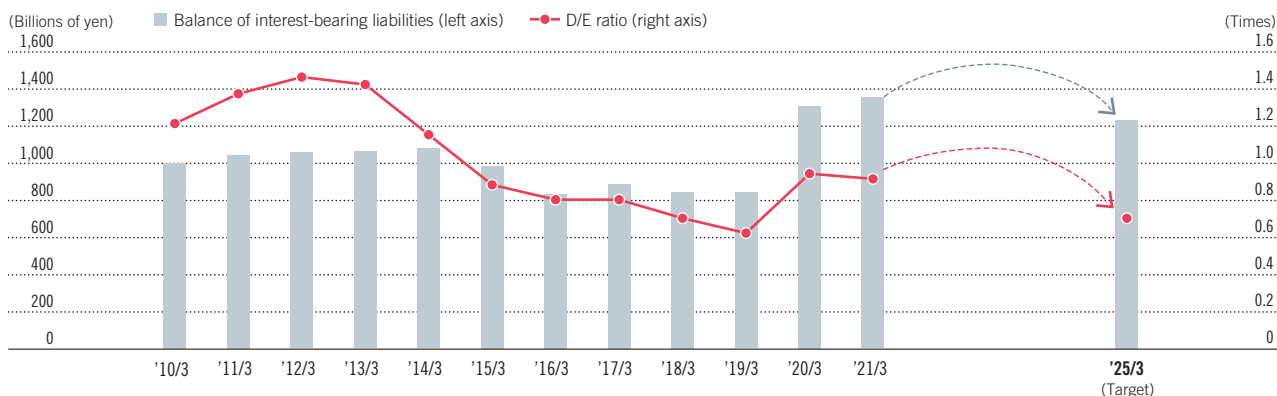
Medium- to Long-term Targets for KPIs

ROE	ROI
Over 10%	Over 7%
D/E ratio	Dividend payout ratio
Approx. 0.7 times	Approx. 30%

Invested Capital and NOPAT



Interest-bearing Liabilities, D/E Ratio



Progress of the Corporate Business Plan

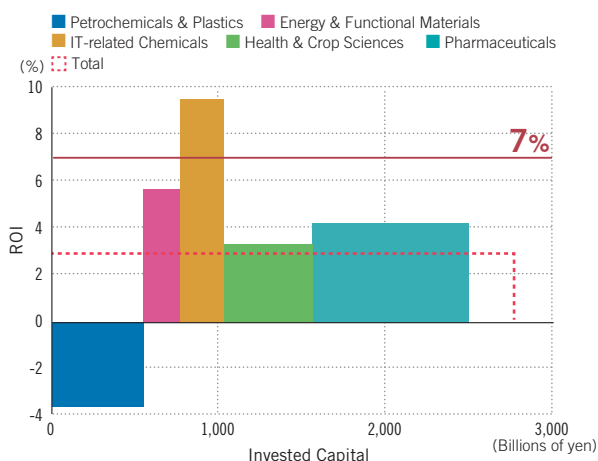
Our policy in the financial aspect of the Corporate Business Plan (FY2019-2021) is to recover cash steadily from capital expenditures already made, and to control costs and assets through disciplined operations. This policy itself will remain unchanged, but due in part to the fact that two large-scale strategic investments had been carried out (the acquisition of the South American business of Nufarm in the Health & Crop Sciences sector, and the strategic alliance with Roivant in the Pharmaceuticals sector), our financial structure temporarily deteriorated, with effects such as our balance of interest-bearing liabilities exceeding 1.3 trillion yen at the end of fiscal 2020 and our D/E ratio reaching 0.9, so we are taking measures to improve this situation.

As for capital expenditure and investment for FY2019-2021 (on a decision-making basis), we aim to reduce the projected scale of 950 billion yen, inclusive of the planned

amount of each business sector, by 100 billion yen, by rigorously selecting investment projects with an eye toward growth. In addition, we are also working to sell assets and improve our cash conversion cycle, with targets of asset sales of 50 billion yen, including the sale of cross shareholdings and other unneeded assets, and cash generation of 50 billion yen by shortening the cash conversion cycle to 110 days, by the end of fiscal 2024.

Currently, we have already conducted sales of over 40 billion yen of assets, while also continuing to follow our plan of constricting investments. For fiscal 2020, the cash conversion cycle was 118 days, due in part to accumulating inventories relating to new products, but we are accelerating our efforts to achieve this goal, including not only setting up and launching a project to reduce inventories company-wide, but also strengthening management using DX. Going forward, we plan to improve our financial structure by steadily implementing these sorts of measures, and our goal is to achieve a D/E ratio of 0.7 by the end of fiscal 2024.

Invested Capital and ROI by Sector (FY2020)



Shareholder Return

We consider shareholder return as one of our priority management issues. We have made it a policy to maintain stable dividend payments, giving due consideration to our business performance, the dividend payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors. We aim to maintain a dividend payout ratio of around 30% over the medium- to long-term. We will continue to sustainably improve corporate value by improving capital efficiency and strengthening our financial structures, thereby meeting the expectations of our shareholders.