Financial Strategy

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 with an awareness of green transformation (GX) while maintaining the soundness of our financial base.

Financial KPI targets
(achieve the following on a stable basis)

ROE Over 10%

ROI Over 7%

D/E Ratio Approx. 0.7 times

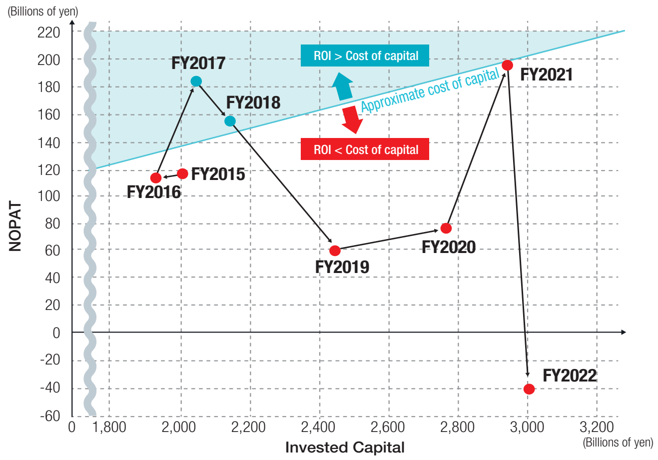
Dividend payout ratio Approx. 30%

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. This Corporate Business Plan also calls for ROI-oriented management. 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).

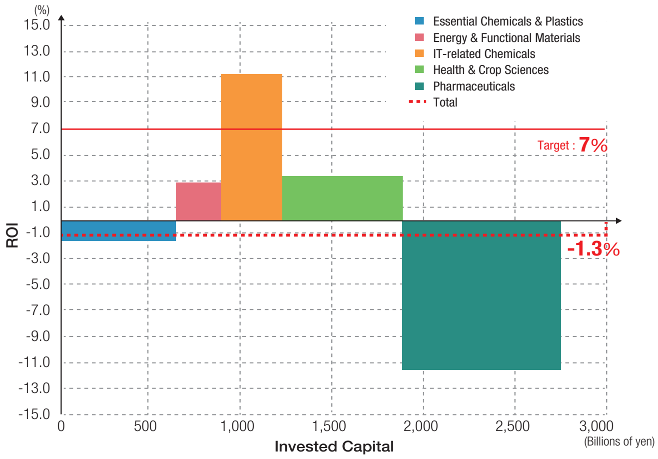
Our target D/E ratio is approximately 0.7 times, with a view to maintaining our current credit rating, which enables flexible financing. For new capital expenditures or M&A, we have decided to take into consideration economic indicators in each individual investment decision, including net present value (NPV), internal revenue rate (IRR), and the payback period. Since FY2019, 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 CO_2 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.

Trends in Invested Capital and NOPAT



(Note) Figures for FY2015 use J-GAAP, figures for FY2016 and beyond use IFRS

Invested capital by business segment, ROI (FY2022 results)



To improve capital efficiency and financial strength

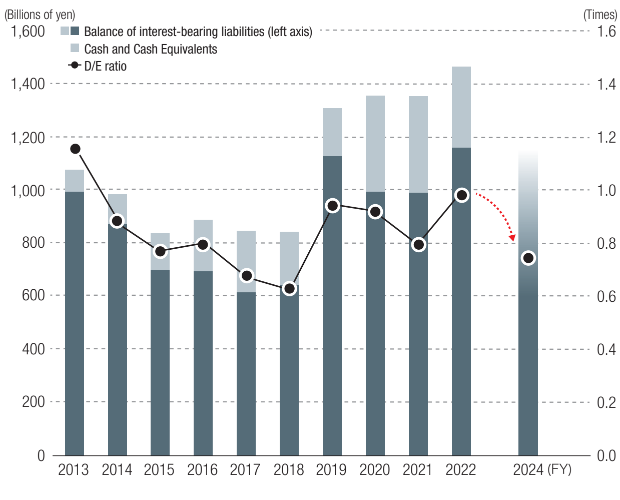
Regarding ROE and ROI, in FY2022, the first year of this Corporate Business Plan, results fell far short of targets due to deteriorating performance in the Essential Chemicals & Plastics Sector and Pharmaceuticals Sector. In FY2023, we expect the severe situation to continue, as we anticipate a deterioration in performance in the Pharmaceuticals Sector due to the termination of LATUDA's exclusivity period and other factors. However, from FY2024 onward, ROE and ROI are expected to improve as the results of efforts to improve earning power, such as bolstering growth businesses and reforming and rationalizing the business structure in this Corporate Business Plan, gradually become apparent.

We are also working to improve our financial position, which had deteriorated due to major strategic investments during the previous Corporate Business Plan period. Although we have continued to pursue the three initiatives of asset sales, careful selection of investments, and improvement of CCC with the goal of achieving a D/E ratio of about 0.7x, which is set as a financial KPI, we expect operating cash flow to be worse than in the initial Corporate Business Plan due to the current deterioration of the business environment and other factors. Therefore, we aim to achieve a debt-to-equity ratio of 0.7x in FY2024 by steadily reducing interest-bearing debt by reducing investments through further careful selection of investment projects, improving asset efficiency by accelerating asset sales, and utilizing surplus funds across the Group by introducing global cash management.

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. More specifically, we consider 12 yen per share per year to be the minimum stable dividend line that should be maintained, and our target is 24 yen or more per year, assuming a payout ratio of 30% at the 200-billion-yen level of core operating income. We will continue to sustainably improve corporate value by improving capital efficiency and strengthening our financial structures, thereby meeting the expectations of our shareholders.

Interest-bearing Liabilities, D/E Ratio



Shareholder return