

### Leading Structural Reforms for a V-Shaped Recovery and Renewed Growth



Representative  
Director & President

岩田 圭一  
Keiichi Iwata

### Moving Forward with a Strong Determination to “Do Whatever It Takes”

#### A Challenging Outcome in FY2023

In FY2023, our performance resulted in very challenging outcomes. From the outset, we anticipated the impact of the patent cliff for LATUDA®, which has long supported our pharmaceuticals, and implemented various measures. However, the drop was far steeper than we had expected. As a result, we recorded the largest deficit in our history, a situation I take very seriously at the management level.

In response to the greater-than-expected changes in the business environment, we have embraced a strong sense of urgency and a firm determination to do whatever it takes. We have initiated immediate-term, concentrated measures to improve business performance on a scale beyond anything we have previously undertaken. Furthermore, we have embarked on fundamental structural reforms with no sacred cows, establishing a company-wide “Structural Reform Cross-Functional Team” to lead these efforts. As the leader, I am personally taking the helm, strongly driving these reforms forward.

The most pressing issue at the moment is addressing the challenges faced by our listed group companies, Petro Rabigh and Sumitomo Pharma. We are now addressing two key issues more deeply and directly: the divergence in perspectives we had with Aramco regarding Petro Rabigh and our previous approach of respecting Sumitomo Pharma’s autonomy. Various factors had previously prevented us from fully engaging with these challenges, but we are now committed to tackling them head-on.

Regarding Petro Rabigh, the project has faced unforeseen environmental changes since its inception, including unstable operations during the first decade, the rise of shale gas, and increasing environmental awareness. Because we were unable to capitalize fully during the period when we should have been generating profits, our response to

address the current performance downturn—such as investments in upgrading the oil refining facilities—has been delayed. Additionally, because we dispatched over 20,000 person-months worth of manpower to Petro Rabigh, we were unable to allocate sufficient personnel and financial resources to advance our overall petrochemical business during that time.

As for Sumitomo Pharma, although we anticipated the patent cliff for LATUDA® and proactively pursued in-house development and the introduction of promising drugs early on, these efforts have largely been unsuccessful, leading to the challenging situation we face today. Fortunately, we were able to launch all three key products acquired from Roivant in 2019. However, it will take several years before they can fully compensate for the LATUDA® cliff.

In our fundamental structural reforms, we have not only begun restructuring these unprofitable businesses but have also simultaneously started developing strategies for new growth. With the traditional competitive landscape undergoing significant changes, our previous growth model now requires reassessment. I strongly believe it is essential to redefine our vision for the future and outline the path to achieve it. I am committed to establishing a direction that unites the entire company with a shared purpose, enabling us to advance steadily toward our envisioned goals.

My responsibility is to lead the structural reforms, achieve a V-shaped recovery in performance, and establish a clear direction for renewed growth. Even in this crisis, it is encouraging to see that our young members are continuously generating new ideas. Due to the size of our organization, it took some time to change course, but I now feel that the large ship has finally begun to move.



## Toward a V-Shaped Recovery and Sustainable Growth

### Enhancing the Certainty of a V-Shaped Recovery: Immediate-term, Concentrated Measures to Improve Business Performance

We are currently working on “immediate-term, concentrated measures to improve business performance” and “fundamental structural reforms.”

The immediate-term, concentrated measures to improve business performance aim to enhance the certainty of a V-shaped recovery in fiscal year 2024 while simultaneously strengthening our financial standing in preparation for the fundamental structural reforms we are undertaking.

We have already implemented initiatives under the themes of “rebuild businesses,” “reduce inventories,” “more selective investments,” and “sell assets and leverage surplus funds,” and are progressing at a pace exceeding our initial targets. We have raised our cash generation target from the initial 500 billion yen to 600 billion yen, and we are working with an eye toward further increasing this amount.

If there are risks to consider, they would be related to “rebuild businesses” and “reduce inventories.” Regarding rebuilding businesses, we have swiftly executed several deals, including the sale of the post-harvest business this spring and the sale of the LCD chemical business in China. However, since business sales and partnerships require negotiations with counterparts, there are risks of delays or cancellations in the negotiations. Therefore, we are constantly considering multiple plans. Additionally, while the hurdle to reducing inventories has become higher due to the appreciation of overseas assets resulting from the yen's depreciation, it is likely achievable through the utilization of DX and further reductions in baseline inventory levels.

For the FY2024, we anticipate a core operating income of 100 billion yen, driven by Sumitomo Pharma's rigorous cost-cutting measures and the expansion of its three key products to return to profitability, along with contributions from immediate-term, concentrated measures to improve business performance centered on gains from business sales. This represents a significant improvement of approximately 250 billion yen compared to the previous fiscal year. As of the first quarter, we have had a very strong start, with Sumitomo Pharma's performance improving beyond expectations and the IT-related Chemicals sector showing steady progress. We are committed to thoroughly executing each measure and will ensure a V-shaped recovery in FY2024 at all costs.

### Fundamental Structural Reforms to Address Structural Management Challenges

The fundamental structural reforms are initiatives aimed at addressing the structural management challenges we face, with the goal of achieving sustainable growth following the V-shaped recovery. We are advancing on two main pillars: the “Revival Strategy,” which aims to turn around existing businesses, and the “Growth Strategy,” which focuses on establishing a new long-term growth model and nurturing new growth drivers.

#### Revival Strategy

The core focus of the Revival Strategy is on improving the performance of “Petro Rabigh” and “Sumitomo Pharma.”

Regarding Petro Rabigh, after extensive discussions within the joint task force between our company and Aramco, a restructuring plan was announced in August 2024. Through providing funding and write-off loans from our company and Aramco, Petro Rabigh will achieve a total financial improvement of 3 billion dollars. Additionally, by selling a portion of our shares to Aramco, we will reduce our ownership stake from 37.5% to 15%, thereby revising the capital structure so that Aramco becomes the majority shareholder with a 60% stake. The investment ratio between our company and Aramco will change from equal partners to a 1:4 ratio. Additionally, based on this financial improvement plan, Petro Rabigh is expected to announce future measures to enhance profitability, including upgrades to its oil refining facilities. Although the losses incurred from the write-off loans are by no means insignificant, we believe this will create a structure that allows Rabigh to fully leverage its inherent strengths.

Regarding Sumitomo Pharma, while we have previously respected its autonomy and independence, we are now shifting to a more hands-on management approach, starting with immediate measures to stop the bleeding of cash. Specifically, we have assembled a specialized restructuring team consisting of approximately 25 external experts in corporate revitalization, alongside members from our company. This team has been deployed to key domestic and international locations, where they are responsible for developing and monitoring the restructuring plan. Additionally, we will provide maximum support through governance enhancement by dispatching directors, debt guarantees, and other measures. Furthermore, regarding

the path to renewed growth for Sumitomo Pharma, our company, being primarily a chemical company, has limitations in contributing to areas such as pharmaceutical expertise and development capabilities. Additionally, we do not have sufficient financial resources to acquire promising new drugs. We believe that, to achieve sustainable growth for Sumitomo Pharma, it is necessary to consider all possible options, including the selection of an optimal partner.

#### Growth Strategy

The Growth Strategy is positioned as the most important initiative among all our efforts.

The environment surrounding the chemical industry is undergoing drastic changes, and the value we should provide is fundamentally shifting along with technological advancements, market conditions, and societal trends. In addition to what we manufacture, we aim to focus more on how we manufacture and on providing solutions rather than just products, as we move forward with our business operations.

With this vision in mind, we have set our long-term goal to become an “Innovative Solution Provider.” We aim to be a company that solves societal issues through innovative technologies in four areas where we can leverage our technological competence: “Food,” “ICT,” “Healthcare,” and “Environment.”

The key concept of our Growth Strategy is growth through a “two-stage rocket” approach. After achieving a V-shaped recovery in FY2024, the first stage of our growth strategy is to establish a growth trajectory in two key areas—agriculture-related and ICT-related fields—aimed at growth toward 2030. Then, the second stage of our growth strategy involves launching initiatives such as the full-scale development of leading-edge medical fields and the societal implementation of technologies that reduce environmental impact, starting after 2030. This approach is designed to ensure sustained growth.

## To Transform into an “Innovative Solution Provider”

### Reorganizing into Four Business Sectors Aligned with Societal Issues

Until now, our company has aimed for overall growth without prioritizing among the five business sectors. While having a diverse range of businesses is a strength, it has also presented the challenge of dispersing our management resources. The key point of this reorganization into four business sectors is to focus on areas that can contribute to addressing social challenges. The aim is to clearly define the strategic position of each business area and to implement a dynamic portfolio strategy.

Our immediate growth drivers going forward will be “Agro & Life Solutions” and “ICT & Mobility Solutions.” By concentrating our management resources, we aim to achieve core operating income of 100 billion yen in each of these two growth drivers, totaling over 200 billion yen by 2030. Furthermore, we will cultivate “Advanced Medical Solutions,” including regenerative medicine and cell therapies, as a new growth area. “Essential & Green Materials” will steer towards value creation through environmental impact reduction technologies while fulfilling the essential mission of providing materials that support people's lives. Developing environmentally sustainable

businesses is a challenging endeavor, not only because it requires the creation of innovative technologies that do not yet exist, but also because it depends on the extent to which society embraces environmental value. However, we are committed to tackling this challenge with a strong sense of purpose and mission.

### Growth Strategy for the Two Sectors Expected to be Growth Drivers

We expect a high likelihood of achieving the profit levels set in our long-term goals for “Agro & Life Solutions” and “ICT & Mobility Solutions,” as many of the projects in these sectors are entering the harvest phase of prior investments.

“Agro & Life Solutions” envisions contributing to regenerative agriculture, an environmentally restorative form of farming, through its dual pillars of chemical crop protection technology and naturally-derived products such as biorationals. We have already taken steps in both the development of new agents and the establishment of our footprint, and over the next decade, we will be entering a phase of reaping the results. We have established a very strong footprint in five of the six major global markets. In addition to INDIFLIN™, a fungicide for soybeans now in its third year on the market, the herbicide Rapidicil® is set to be





launched sequentially in various countries starting this year. Going forward, we will focus on further strengthening our supply chain, which is one of our key strengths, and expanding our biorational business in Europe.

In “ICT & Mobility Solutions,” we will integrate the ICT-related businesses that were spread across different sectors and propose solutions that accelerate our customers’ innovation. Specifically, for semiconductor materials, we have already invested in expanding our capabilities in photoresists and semiconductor chemicals, as well as in our long-desired expansion into the U.S. market. We expect these efforts to yield results as the semiconductor industry recovers. Additionally, a key point will be how much market share we can capture in next-generation semiconductor materials, particularly advanced EUV resists, which will become prominent with the shift to 2-nanometer technology starting around 2027. Our company aims to achieve a top market share with our independently developed metal-free EUV resist, the “organic molecular resist,” as the core product.

### Promising Next-Generation Research Themes

In the context of more medium- to long-term perspectives, we envision continuously creating innovative solutions by leveraging our three key assets—GX, DX, and BX\*<sup>1</sup>—based on our six core technologies.

We are currently progressing on several concrete themes that we anticipate will lead to promising solutions in the future. For instance, from the GX perspective, we are developing a technology to produce propylene directly from ethanol, a sustainable chemical feedstock. This project is part of NEDO’s Green Innovation (GI) Fund initiative. The key to this technology lies in the catalyst, which allows for a

reduced process and enables low-cost production. Moreover, utilizing this technology is expected to reduce GHG emissions by approximately half compared to production from naphtha. Assuming global propylene production capacity reaches around 200 million tons per year by 2030, even converting just 1% of this to our technology could reduce annual GHG emissions by about 4 million tons, creating an environmental value of over 40 billion yen\*<sup>2</sup> annually. The development is progressing well, with the pilot plant scheduled to start operations in FY2025 and the demonstration plant in FY2028. In the future, we aim to make licensing this technology a core business within “Essential & Green Materials.”

From the BX perspective, we have high expectations for the biopharmaceutical business, particularly in regenerative medicine and cell therapies. Sumitomo Pharma is at the forefront globally in developing pharmaceuticals using iPS cells, with the most advanced project being a potential world-first iPS cell-derived treatment for Parkinson’s disease, which is aiming for application and approval within this fiscal year. As the market expands, we will enter a phase requiring mass production investment. To accelerate commercialization, we plan to establish a new company with Sumitomo Pharma and create a system led by our company. In addition to the pharma solutions business, which focuses on CDMO services for small molecule and nucleic acid drugs, we aim to nurture this regenerative medicine and cell therapies business as the core of our new business sector, “Advanced Medical Solutions.”

\*<sup>1</sup> Bio-Transformation

\*<sup>2</sup> Assuming a cost of 10,000 yen per ton of GHG emissions reduced

## Solving Two Major Management Challenges to Regain Market Trust

### Toward Increasing Stock Price and Enhancing Corporate Value

In FY2023, considering the challenging performance levels, we reduced the dividend by 9 yen from the previous year, resulting in an annual dividend of 9 yen per share. While we strived to provide as much dividend as possible despite the losses, we deeply regret having to reduce the dividend and apologize to our shareholders. For FY2024, although we anticipate a V-shaped recovery, we plan to prioritize strengthening our weakened financial standing and therefore intend to maintain the annual dividend at 9 yen per share, the same as in FY2023.

As a publicly listed company, we remain committed to the belief that an annual dividend of 12 yen per share is the minimum threshold for shareholder returns. We are determined to achieve this 12-yen dividend level as soon as possible, and in the future, we aim for a payout ratio of 30% and a dividend of 24 yen or more per share.

Currently, our stock price remains below a PBR of 1. We recognize that the primary short-term reason for this stagnation is that the measures we have taken to address the two major management challenges—Petro Rabigh and Sumitomo Pharma—have not yet fully gained the trust of the capital markets. For Petro Rabigh, we announced a restructuring plan in August of this year, and for Sumitomo Pharma, the measures we have implemented to stop the bleeding of cash are beginning to show the expected effects. We aim to alleviate concerns by demonstrating the performance improvements of both companies. Moving forward, we will continue to materialize the Growth Strategy outlined earlier, strengthen our “earning power,” enhance capital efficiency through targeted allocation of management resources, and strive to increase corporate value.

### Adapting to the Times through a Shift in Mindset

I believe that in order for us to achieve further growth in the future, we need to adapt to the changing times through a transformation of our mindset.

Our company began its journey by manufacturing fertilizers

to prevent the damage caused by smoke from copper smelting, based on the Sumitomo Spirit of Jiri-Rita Koushi-Ichinyo (which means that our business must benefit society at large, not just our own interests). This origin has deeply ingrained in our corporate culture and ethos the values of “trust and reliability” and “safety and quality.” I believe these are our strengths and the DNA that we must continue to protect in the future.

On the other hand, I have recently come to realize that we have not been able to fully adapt to societal changes, and as a result, we have not been able to fully leverage our potential and strengths. Since assuming the role of president, I have aimed to instill a culture that avoids the “losses due to inaction,” but I must admit that we are still only halfway there. We must “face change head-on without fear” and “envision necessary actions quickly and execute them steadily.” I am determined to reinforce this approach. To achieve this, I believe it is essential to create an environment where our employees can act boldly with an entrepreneurial spirit.

Moreover, to become a true solution provider that addresses societal issues in the future, we must develop the ability to discern the essence of things. In the case of the agrochemical business, agricultural insecticides are merely a means, and the ultimate goal is to meet the expectations of our customers by increasing crop yields. By shifting our focus from selling pesticides to enhancing crop yields, I believe new solutions, such as improving soil using natural materials, could emerge.

By maximizing the strengths of our diverse and deeply rooted technological foundation, along with our global market presence, and by further honing our ability to discern the essence of the evolving needs of society and our customers, we will continue to develop solutions (technologies and products) that address societal issues. In doing so, it is my hope that Sumitomo Chemical will remain a globally significant company 10 to 20 years from now.