



# ***Accelerate 2025 - II***

Mid-Term Management Strategy (Updated)

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May 11, 2023

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- ( 1 ) Background

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# Background



- On the occasion of the 100th anniversary of the Company's foundation, we developed the Fourth Long-Term Vision: "Daicel Vision 4.0" and Mid-Term Management Strategy: "Accelerate 2025"
- Despite our efforts to achieve our group's vision, the business environment, including terms and conditions of trade, has changed significantly due to the impact of various social changes.
- Under the circumstances of these changes, we reviewed the progress of our efforts toward our vision and updated as necessary.

## [Main Changes Affecting on Accelerate 2025]

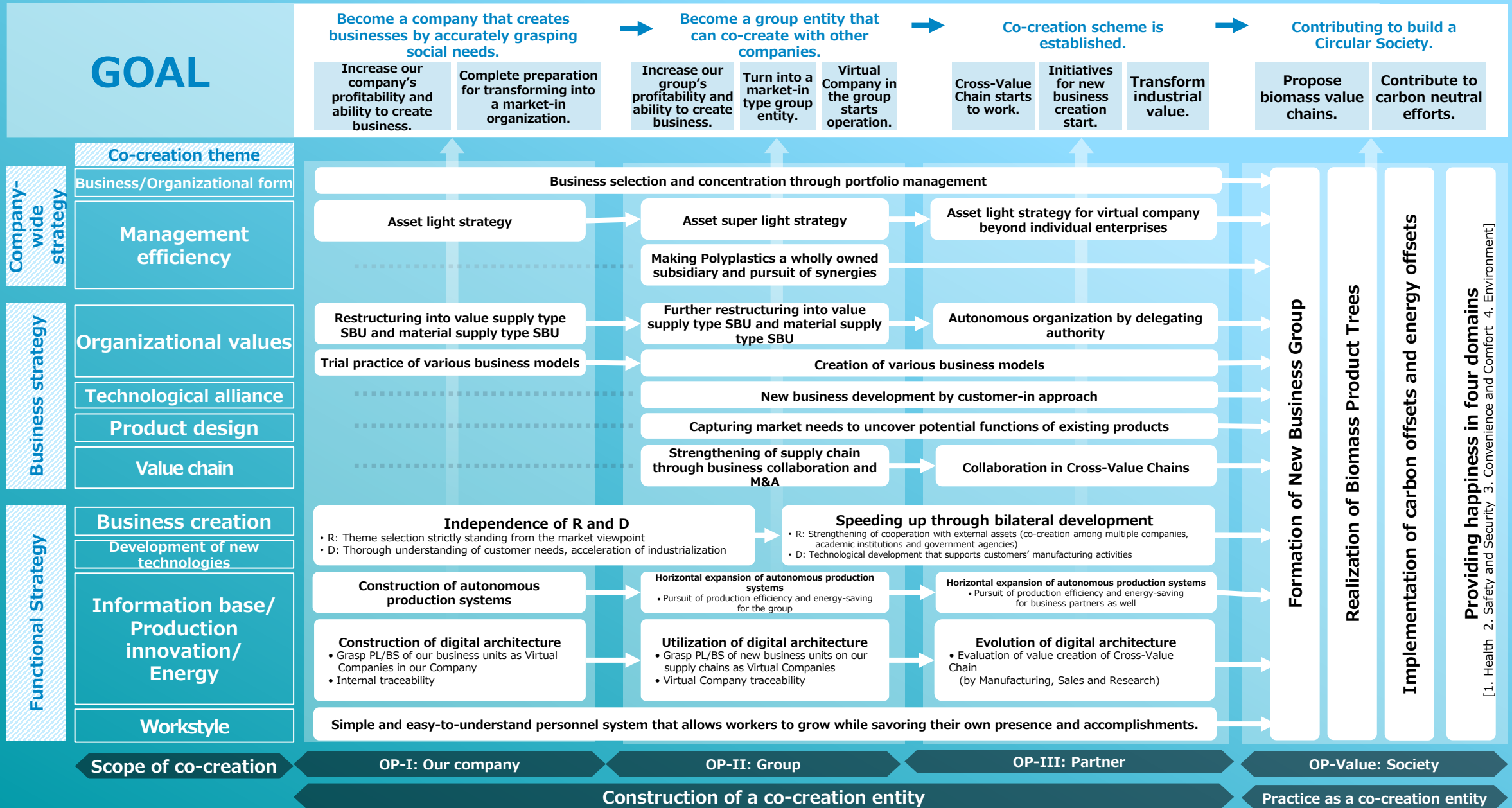
<b>Social Background</b>	<ul style="list-style-type: none"><li>• Prolonged COVID-19 pandemic</li><li>• Russia's invasion in Ukraine</li><li>• Increase in economic security risks</li><li>• Global inflation surge (rising labor costs)</li><li>• Increase in raw material, fuel and freight costs</li><li>• Prolonged semiconductor shortage</li><li>• Exchange rate fluctuation</li></ul>
<b>The Changes of Business Plan in Daicel Group</b>	<ul style="list-style-type: none"><li>• Changes in capital investment plans (escalation, delays and acceleration)</li><li>• Increase in production of our major products without expansion of the facility</li><li>• Acceleration in the progress of the Cross-Value Chain for a Circular Society</li><li>• Update on our capital policy</li></ul>

A low-angle photograph of a large tree with a dense canopy of bright green leaves. Sunlight filters through the leaves, creating a dappled light effect. The tree trunk and branches are dark and silhouetted against the lighter foliage.

# Further promotion of Mid-Term Management Strategy

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# Accelerate 2025 Outline (Road to DAICEL VISION4.0)



# Accelerate 2025 Outline (Road to DAICEL VISION4.0)



## GOAL

Become a company that creates businesses by accurately grasping social needs.

Increase our company's profitability and ability to create business.

Complete preparation for transforming into a market-in organization.

Become a group entity that can co-create with other companies.

Increase our group's profitability and ability to create business.

Turn into a market-in type group entity.

Virtual Company in the group starts operation.

Co-creation scheme is established.

Cross-Value Chain starts to work.

Initiatives for new business creation start.

Transform industrial value.

Contributing to build a Circular Society.

Propose biomass value chains.

Contribute to carbon neutral efforts.

Corporate value

Fiscal 2020

### New Business group (OP-III)

- Cross-Value Chain

### New DAICEL (OP-II)

- Business restructuring, drastic review of existing JVs
- Transformation to asset super-light

### Original DAICEL (OP-I)

- Transformation of business structure
- Transformation to asset light

Formation of New Business Group

Realization of Biomass Product Trees

Implementation of carbon offsets and energy offsets

Providing happiness in four domains

[1. Health 2. Safety and Security 3. Convenience and Comfort 4. Environment]

Scope of co-creation

OP-I: Our company

OP-II: Group

OP-III: Partner

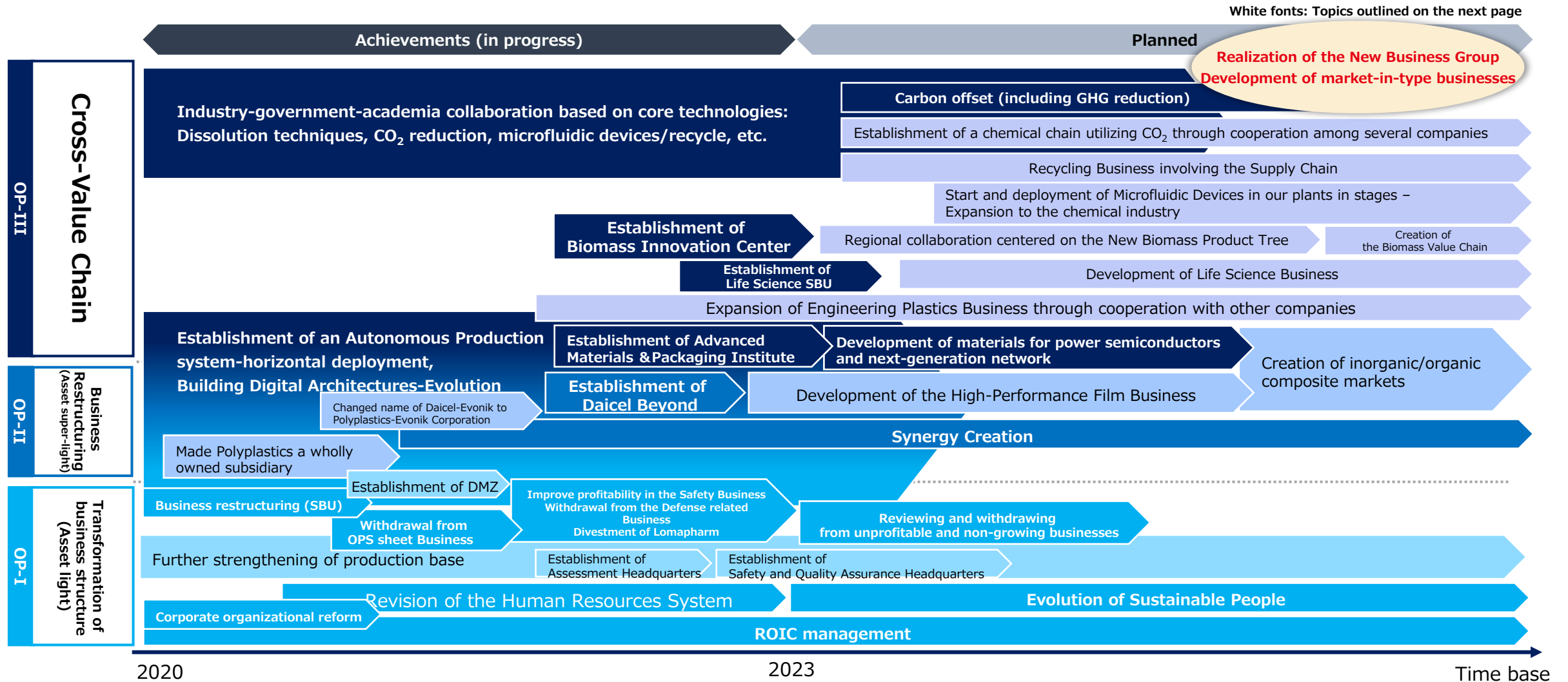
OP-Value: Society

Construction of a co-creation entity

Practice as a co-creation entity

# Progress of Accelerate 2025 (1)

- Implementing structural reforms, organizational reforms, and resource reallocation to encourage change in the previous system and build a new system
- Shift to OP-II and III by establishing new core technologies and reforming business models through industry-government-academia collaboration





# Progress of Accelerate 2025 (2)

- Promote structural reforms of existing businesses, implement organizational development in line with them, and build an internal foundation
- Build foundations for co-creation schemes by strengthening and accelerating efforts with outside parties while promoting restructuring of Engineering Plastics Business

OP-I

## Transformation of business structure

- **OPS sheet Business: Completed withdrawal in March 2022**
- **Defense related Business: Completed withdrawal in March 2023**
- **Completed divestment of Lomapharm:2023 in March**
- **Improvement in profitability in the Safety Business**
  - Consolidation of production areas: to be completed in FY2023
  - Variety integration of inflators (Cataloging): to be completed in FY 2023

OP-I

## Creation of organizations, personnel, and systems

- **Organizational Reform: Strengthening the Market-In Type Business**
  - Strengthen corporate functions: Accelerate company-wide cross-functional strategy promotion
  - Transition to an organization centered on Strategic Business Units (SBUs) to provide value in response to social demand
- **Revision of the Human Resources System**
  - Shifted to a performance-based system for utilizing senior employees
- **Evolution of production systems**
  - Establishment of an Autonomous Production System and horizontal deployment
    - ✓ Consistently monitoring the status of quality, compliance, and quality improvement
    - ✓ Expansion and penetration of operational load reduction at all plants

OP-II

## Business restructuring through co-creation

OP-III

### Transformation to asset super-light

- **Pursue synergy with Polyplastics**
  - Partial integration of corporate functions and acceleration of investment of Daicel's engineering expertise and other resources
  - Reorganization from Daicel-Evonik to Polyplastics-Evonik
  - Collaboration with other companies that transcend conventional frameworks for functional polymers with the aim of expanding the engineering plastics lineup
- **More efficient and faster development through logistics reform and collaboration**
  - Joint warehousing, joint distribution, and inventory optimization from an SCM perspective
  - Expanding initiatives from OP-I (company-wide) to OP-II (group venture) and OP-III (New Business Group)
- **Evolution toward Sustainable People**
  - To be a company where the employees with great effort are rewarded
  - To be a vibrant workplace that has a respects for diversity

OP-II

## Establishment of co-creation scheme with our partners

OP-III

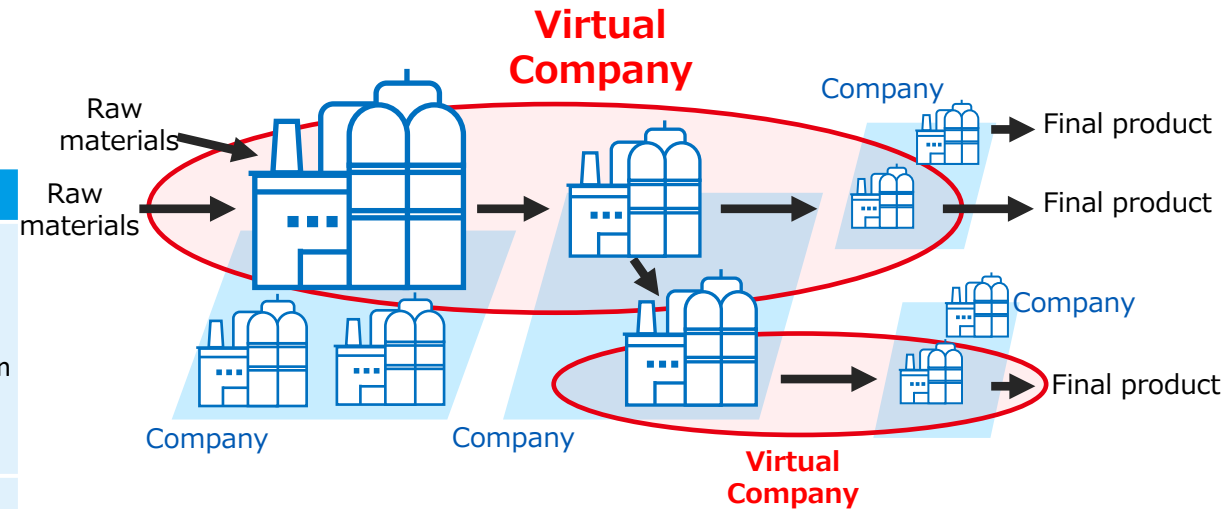
- **Cooperation with other companies**
  - Green Chemicals: Collaboration with Japanese and non-Japanese companies
  - Collaboration with other companies in the electronic materials field
  - Provision of DAICEL Production Innovation and Autonomous Production Systems to other companies
    - ✓ Preparations for the New Business Group
- **In-house initiatives**
  - Accelerate the creation of new businesses
    - ✓ Establishment of new business model through establishment of new organization
      - Biomass Innovation Center
      - Advanced Materials & Packaging Institute
      - Life Science SBU
    - ✓ "Beyond Coating"
      - ⇒ Composite inorganic/organic coatings
- **Collaboration with universities**
  - Joint research for the realization of carbon negative
  - Joint research in four domains we focus on

# Topics (1): New Business Group (Virtual Company)

- It is under examination whether the form of new business group should be considered as a trial phase of preliminary acquisitions, mergers, business alliances, etc., or a new form of holding company
- Optimal solution for the company and the supply chain
  - ✓ Commitment among each company's management
  - ✓ It is essential to synchronize the previous and subsequent processes of each company by making use of Digital Transformation (DX). Utilization of Daicel Production Innovation (Construction of Information Infrastructure)/Autonomous Production System (Optimization)

## Potential for supply chain collaboration across the border of companies 20% reduction in inventory and 30% reduction in GHG emissions

Cut-off	Keywords	Benefits
<b>Production</b>	<ul style="list-style-type: none"> <li>• Continuous monitoring management</li> <li>• Small lots</li> <li>• Reducing time to stop and restart operation</li> <li>• Synchronization of production plans</li> </ul>	<ul style="list-style-type: none"> <li>• Enhancing product quality</li> <li>• Inventory reductions</li> <li>• Horizontal deployment of Daicel Production Innovation</li> </ul>
<b>Development</b>	<ul style="list-style-type: none"> <li>• Co-creation</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction in development period</li> <li>• Reduction in cost of development</li> </ul>
<b>Distribution</b>	<ul style="list-style-type: none"> <li>• 3PL</li> <li>• Lead time reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Reduction of third-party warehouses</li> <li>• Reduction of on-site logistics</li> <li>• Generating extra capacity for logistics human resources</li> </ul>
<b>Energy</b>	<ul style="list-style-type: none"> <li>• Load equalization</li> <li>• CO<sub>2</sub> reduction</li> </ul>	<ul style="list-style-type: none"> <li>• Self-consignment system</li> <li>• Deployment of clean energy technology into other industries</li> </ul>



### Conventional Design Theory

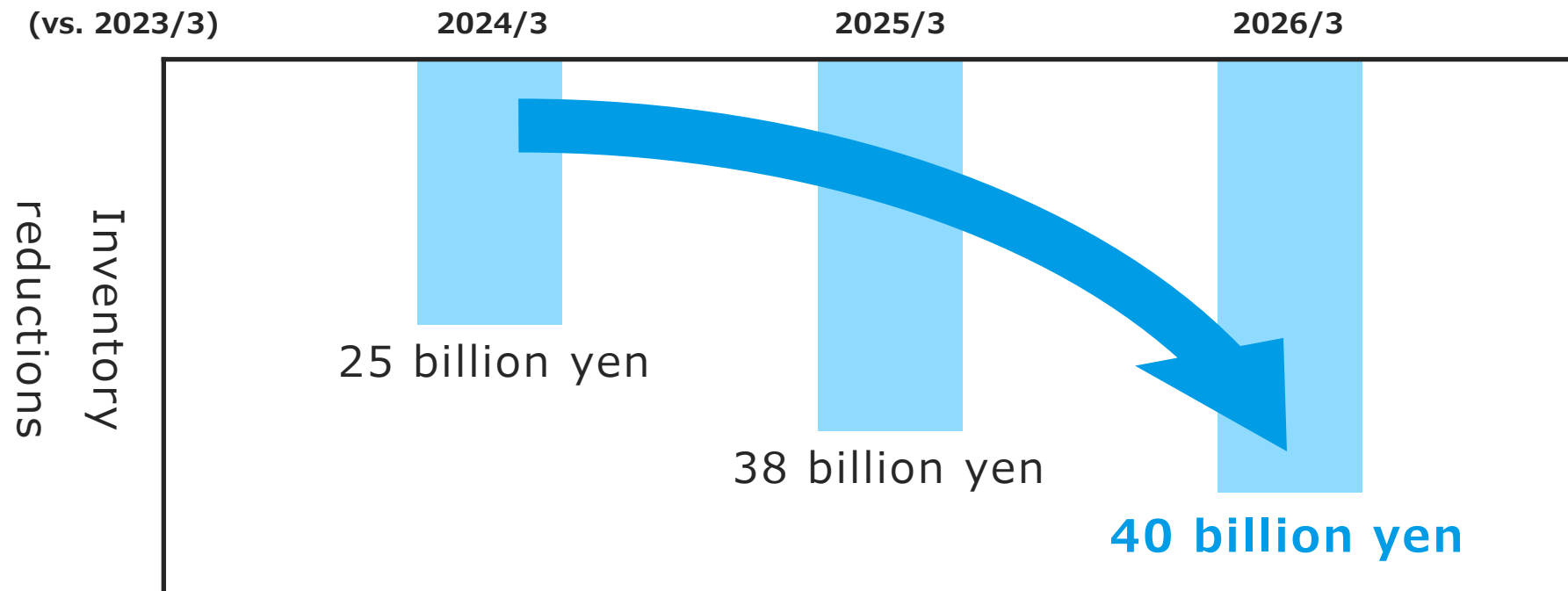
**As a rule in Monozukuri, the production capacity of facilities in upstream process is designed larger than that of downstream process.**

⇒ To ensure the production capacity to respond to fluctuations in demand in the downstream process

⇒ Differences in production capacity cause inventory excess and loss of energy

# Topics (2): Actions for Inventory Reduction

- Although we expect an increase in products and raw materials inventories due to an increase in sales volume, we aim at inventory reduction equivalent to ¥40 billion by March 31, 2026 by taking actions of inventory reduction subject to the entire Daicel Group.
- To further strengthen the capability of cash generating, we will control working capital including inventory under the level in the end of FY 2023/3, rise in ROIC by improving the efficiency of capital investment, cut down the size of balance sheet and increase in operating cash flow



- By consistently monitoring the status of product quality utilizing online analysis and small-unit management, we will closely manage the inventory and work in cooperation with logistics reforms project.
- Optimization of production plans and shortening of product switching periods by deploying Autonomous Production Systems.
- Improve in product quality by introducing process innovation technologies and reduce in a lead time for raw material procurement by making the most of general-purpose pulp.
- Shortening a lead time for product transportation by shifting local production.

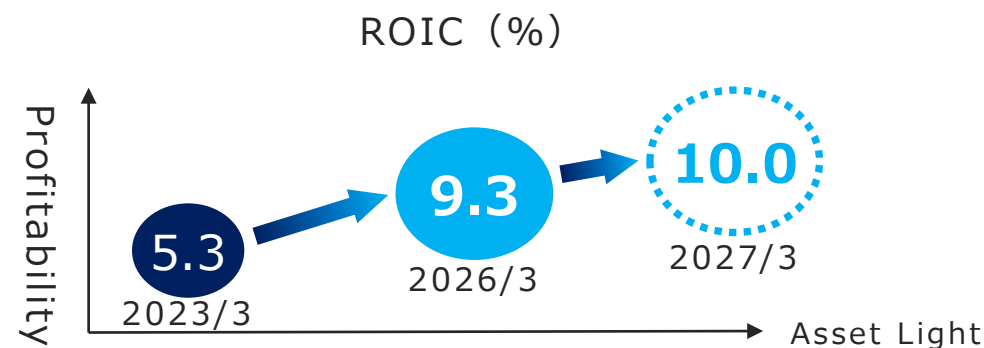
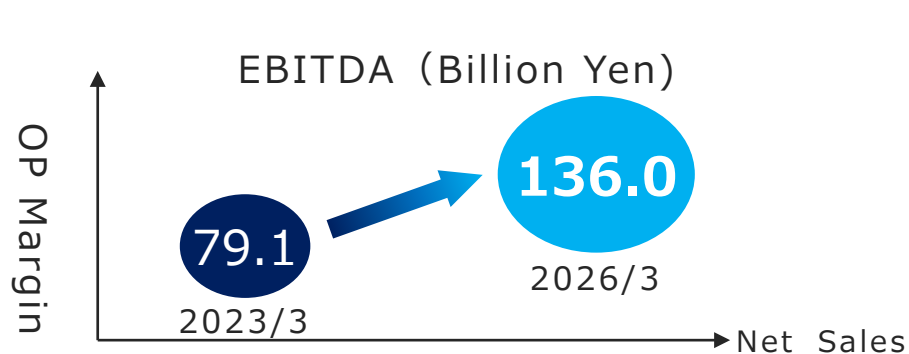


Result & Strategy

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# Performance and Management Index Targets

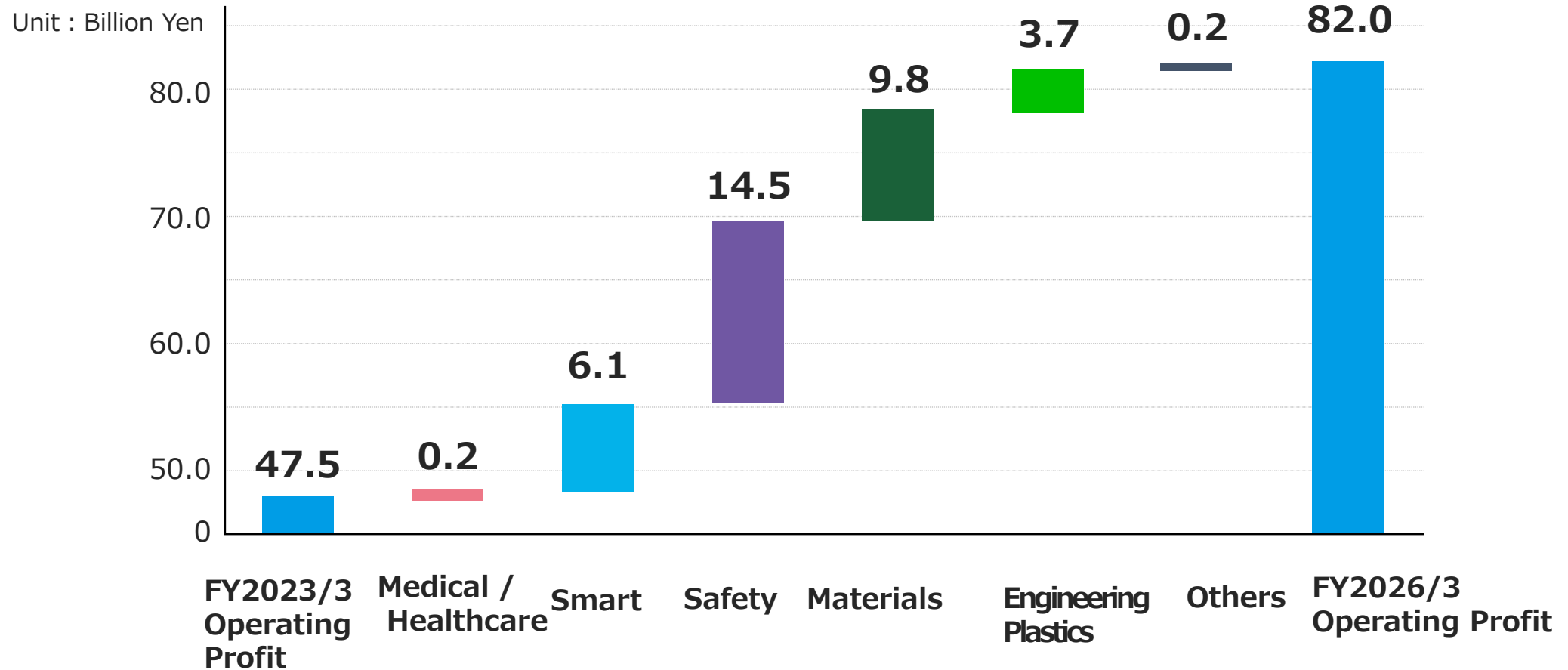
- Maintain the trend in increase in profit by improving profitability of foundation businesses and expanding sales in growth businesses.
- Further improvement in EBITDA
- Control expanding the size of balance sheet with the aim of getting ROIC 10% by fiscal year of March 31, 2027.



Unit: Billion Yen	2023/3	2026/3
Net sales	538.0	660.0
Operating income	47.5	82.0
Operating profit margin	8.8%	12.4%
Net income attributable to owners of the parent	40.7	58.0

Unit: Billion Yen	2023/3	2026/3
EBITDA	79.1	136.0
ROE	14.3%	17.1%
ROIC	5.3%	9.3%
ROA	5.6%	7.7%
CCC	163 days	125 days

# Changes in Operating Profit by Segment



# Results and Business Strategy by Segment

Unit: Billion Yen	2023/3		2026/3		Business strategy
	Net sales	Operating income	Net sales	Operating income	
	Actual		Target		
Medical / Healthcare	16.6	1.3	17.0	1.5	<ul style="list-style-type: none"> <li>Development of a new intestinal metabolite-based food ingredient with function (Urolithin etc.)</li> <li>Expansion of CPI business in China/India</li> <li>Fostering businesses in the medical field, including DDS* and medical-related materials</li> </ul>
Smart	29.6	-0.6	50.0	5.5	<ul style="list-style-type: none"> <li>Provision of materials for the semiconductor market industries and expansion of related businesses</li> <li>Expand the share of high-performance films by utilizing the asset of Daicel Beyond</li> <li>Creation of new businesses by utilizing dry coating technology</li> </ul>
Safety	84.0	-0.5	111.0	15.0	<ul style="list-style-type: none"> <li>Improvement in profitability by consolidating production areas</li> <li>Collaborating in India and ASEAN markets to manage risk hedging and active sales expansion</li> <li>Strengthen relationship with Chinese companies</li> <li>Implement mass production of Pyro-fuse for EV vehicles and its sales to Europe and the United States</li> </ul>
Materials	160.8	20.7	182.0	30.5	<ul style="list-style-type: none"> <li>Increase in sales of acetate tow for heat-not-burn cigarettes by increase in production without expanding facilities</li> <li>Expand the application of Lactone and Epoxy to high-value-added product market</li> <li>Market development of cellulose acetate for environmental material</li> </ul>
Engineering Plastics	238.1	25.3	294.0	29.0	<ul style="list-style-type: none"> <li>Sales expansion in Europe and North America (the target of market share of POM and LCP in Europe and North America : 10%)</li> <li>Strengthen business in Chinese market (sales to Chinese companies)</li> <li>Creation of new environmental business (development of products using bio-raw materials and recycling)</li> </ul>
Others	9.1	0.3	6.0	0.5	—
<b>Total</b>	<b>538.0</b>	<b>47.5</b>	<b>660.0</b>	<b>82.0</b>	—

\* DDS = Drug Delivery System

# Pursue synergy with Polyplastics

- Aimed at further business expansion by investing actively for establishing steady sales field in Asian market and expanding share of product in Europe and United States.
- Aimed at maximizing the synergy by concentrating the engineering expertise in Daicel Group

## Benefits from investments in expansion targets for the fiscal year ending March 2031

Investment	Initial plan		Forecast		Effect*	
	Start of operation (FY)	Production Capacity (MT/ years)	Start of operation (FY)	Sales expansion strategy	2026/3 (Billion Yen)	2031/3 (Billion Yen)
POM	2025	90,000	2024	✓ Responding to domestic demand by expanding production capacity in China	16.0	78.0
		60,000	2025	✓ Making the more of next-generation methanol as a raw material ✓ New applications/market development other than automotive, such as medical applications		
LCP	2024	5,000	2024	✓ Maintain top market share by expanding sales further aimed at expanding demand by responding to 5G millimeter-wave demand in the future	5.0	36.0
		5,000	By Under Planning	✓ Expansion in new markets through 5G composite material (hybrids with inorganic compounds)		
COC	2023	20,000	2024	✓ Responding to the growing demand in the packaging and medical fields ✓ Sales expansion in EU countries by leveraging unique recyclability	9.0	64.0
<b>Total</b>					<b>30.0</b> (Initial plan: 20.0)	<b>178.0</b>

\*Cumulative benefits (EBITDA) from operation



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## Balance sheet control aimed at both maintaining a sound financial base and improving capital efficiency

- Manage business assets appropriately and accelerate the reduction of non-business assets
- Improve fund efficiency by reducing and optimizing liquidity on hand
- Equity control with an awareness of efficiency while ensuring financial stability
- Aimed at positive impact on various stock price indexes through improving in EPS\*

\*EPS = Earnings Per Share

## Allocate maximized cash inflow appropriately

- Implement of sufficient investment enough to execute growth strategy
- Further improvement based on the existing return policy (total return ratio of 40% or more)
- Control the balance in interest bearing debt

# Image of Balance Sheet

- Non-current assets increased due to the progress in growth investing.
- Minimize the increase in working capital due to the increase in sales.
- Improve efficiency of capital by quickly reducing strategically held shares.

## End of March 2023

Assets	Liabilities Equity
<b>Current assets</b> <b>406.6</b> Cash and deposits 93.5 Working assets 278.7	<b>Liabilities</b> <b>455.2</b> Interest-bearing debt 322.0
<b>Non-current assets</b> <b>300.1</b> Strategically held shares 58.9	<b>Net assets</b> <b>310.4</b>
<b>765.6</b>	<b>765.6</b>

## Target at the end of March 2026

Assets	Liabilities Equity
<b>Current assets</b> <b>370.0</b> Cash and deposits 60.0 Working assets 280.0	<b>Liabilities</b> <b>380.0</b> Interest-bearing debt 240.0
<b>Non-current assets</b> <b>350.0</b> Strategically held shares 20.0	<b>Net assets</b> <b>360.0</b>
<b>740.0</b>	<b>740.0</b>

Unit: Billion Yen

- Increase in profitability and enhancing capability of making capital by reducing CCC\*<sup>1</sup> (target : 120 days / unit)
- Utilize increasing cash inflows for growth investment and shareholder return
- ➔ To raise the standard of revenue and further improvement of EPS\*<sup>2</sup>
- Flexibility respond to the inorganic growth investments

## Cash in

(3-year cumulative from the term ending at 24/3)

Operating CF	287.6
Cash	End of March 31. 2023 93.5
	Sale of strategically held shares 38.9
Debt financing	0~

Total distributable amount  
420.0~

## Cash out

(3-year cumulative from the term ending at 24/3)

Growth investment	190.0~
Shareholder Return	~85.0
Debt repayment	~85.0
Cash	60.0

\*1 CCC = Cash Conversion Cycle

\*2 EPS = Earnings Per Share

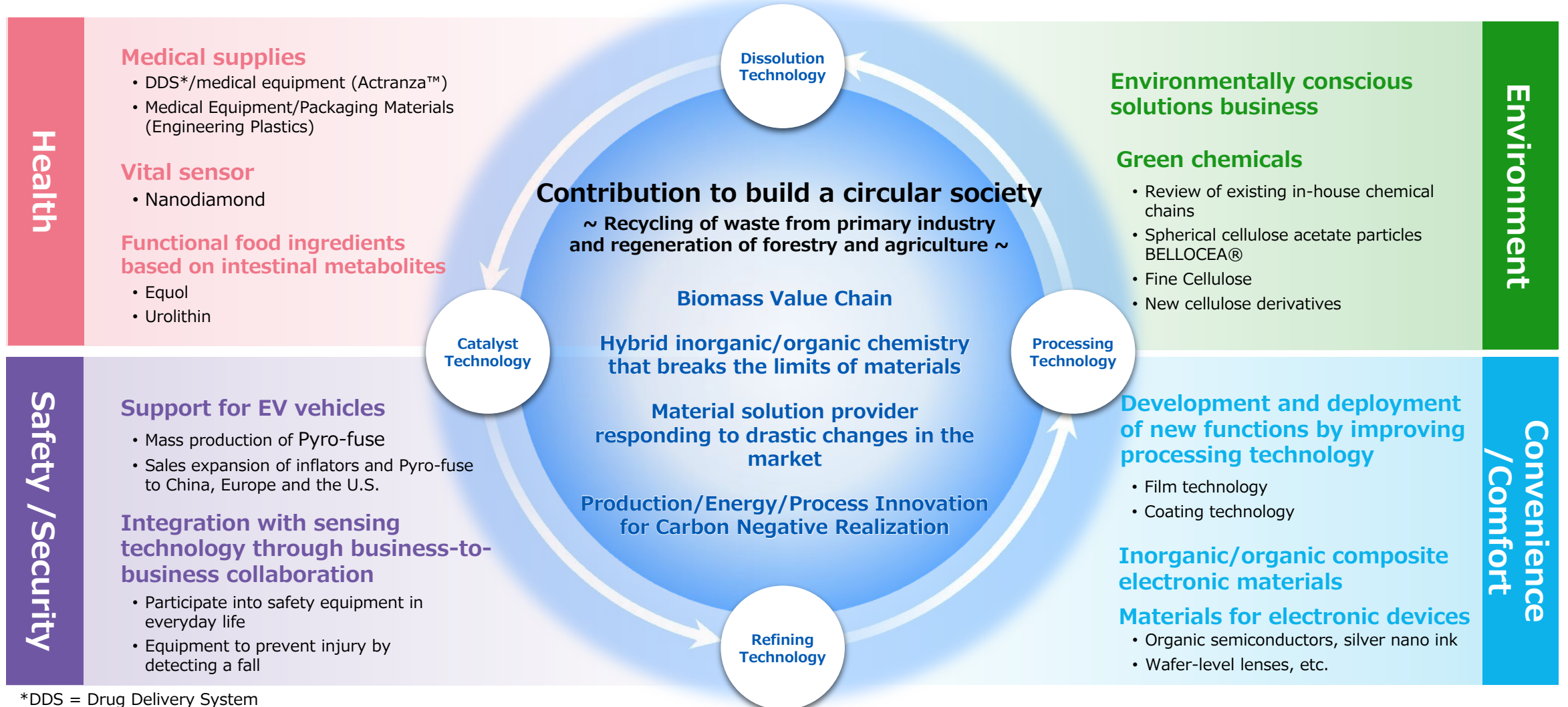
Unit: Billion Yen

# Vision



# Daicel's Vision

Develop new products and markets for four domains beyond the framework of existing SBU to contribute to the creation of a circular society

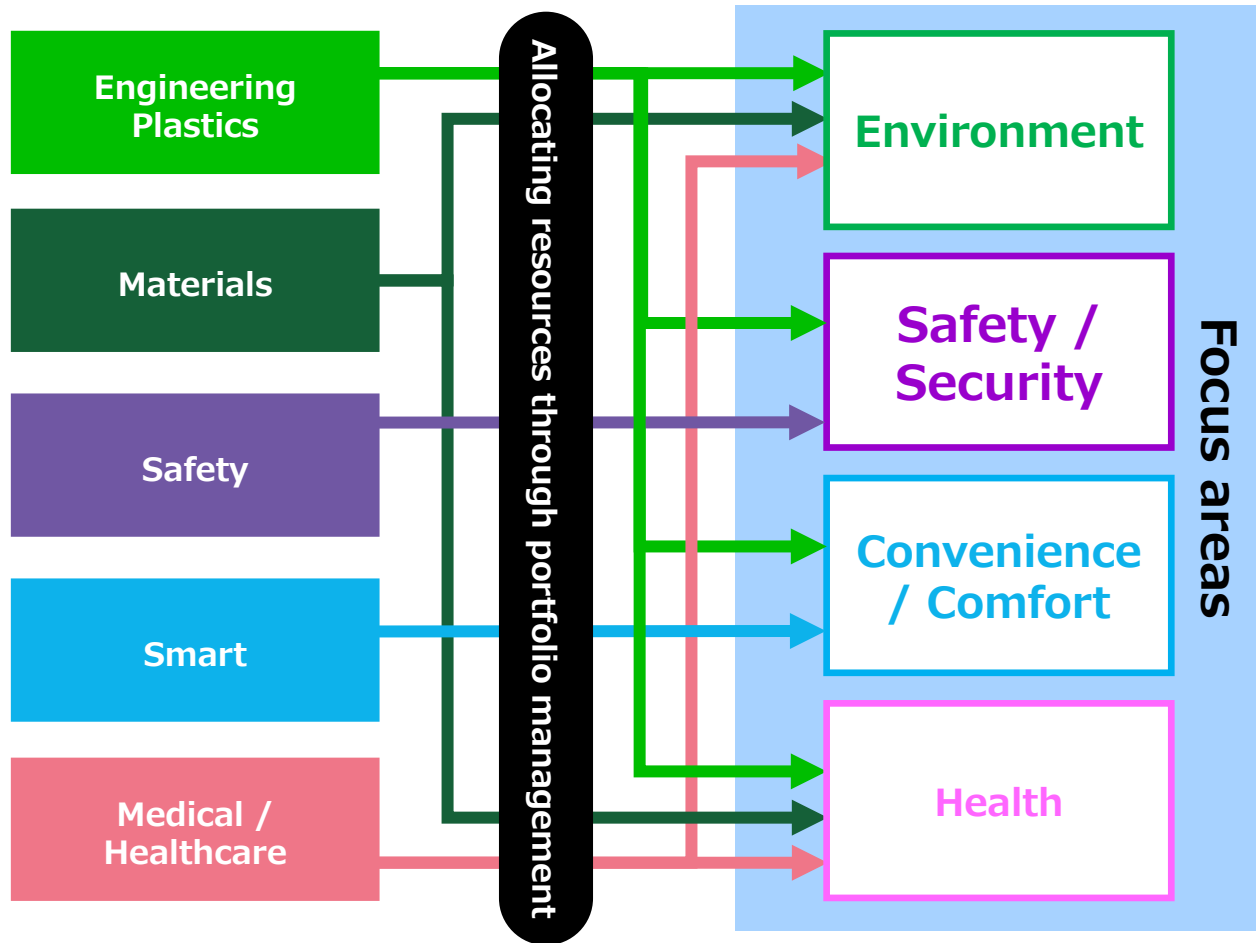


\*DDS = Drug Delivery System

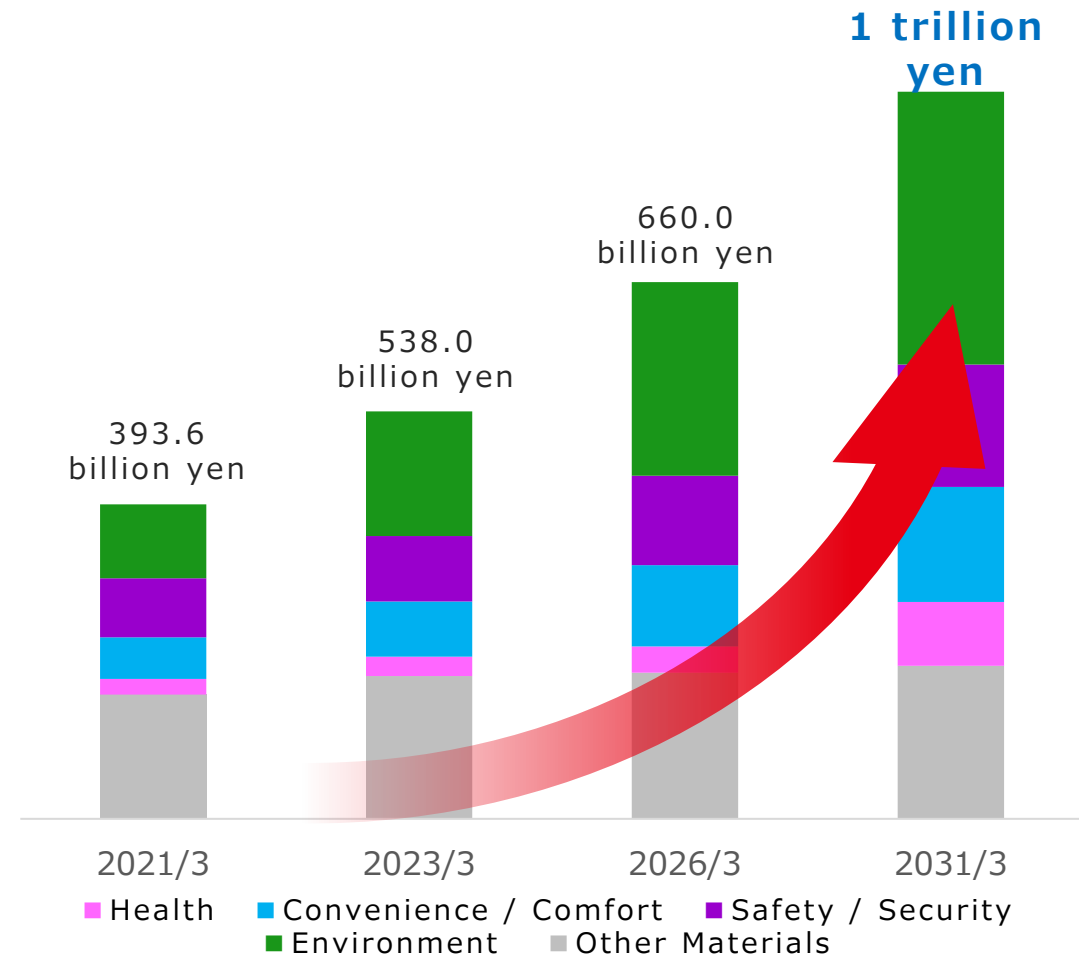
# Focus Areas and Targeted Earnings Structure

- Shift from “Material-providing Business” to “Value-Providing Business” for Materials/Engineering Plastics
- Increase in profit by “Provision of Happiness in Four Domains”

**[Each Business and Focus Areas]**



**[Target earnings structure (net sales)]**



# Appendix

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		2021/2 Announcement	2024/3 Forecast	Update (2024~2025)
Exchange rate (USD/JPY)		100	125	120
Raw Materials	Methanol Asian spot price (USD/ton)	280	380	
	Crude Oil Dubai (USD/bbl.)	60	90	
	Domestic Naphtha (JPY/kl)	40,000	68,000	

# Segment Information (Capital Expenditures/Depreciation and Amortization/R&D)

	Capital Expenditures		Depreciation and Amortization		R&D	
	2021~2022 Result*	2023~2025 Forecast*	2021~2022 Result*	2023~2025 Forecast*	2021~2022 Result*	2023~2025 Forecast*
Unit : Billion Yen						
Medical / Healthcare	3.1	7.0	3.0	3.5	6.0	8.2
Smart	7.5	12.0	5.0	10.5	8.2	11.5
Safety	16.9	29.0	11.7	21.5	10.8	16.5
Materials	29.5	41.0	21.1	57.0	5.4	12.0
Engineering Plastics	38.1	100.0	15.7	46.0	11.7	23.5
Others	2.1	1.0	1.2	1.5	0.5	0.8
<b>Total</b>	<b>97.1</b>	<b>190.0</b>	<b>57.8</b>	<b>140.0</b>	<b>42.6</b>	<b>72.5</b>

Note : Result for 2021/3 and 2022/3 reflects segment changes in the Cosmetics Raw Material 1,3-BG (Medical/Healthcare > Materials) and Novel Drug Delivery Devices R&D functions (Safety > Medical/Healthcare).

\*Cumulative total for the fiscal year

## Notes Regarding Forward-Looking Statements

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