


Message from the CFO

A portrait of Yuko Nakahira, the CFO, with dark hair, wearing a white blazer over a black top and a pink necklace. The background is a light green wall.

By reliably achieving our financial targets, we can boost our corporate value and flourish in pursuit of excellence.

Yuko Nakahira

Executive Vice President
Chief Financial Officer

Ambitions for my new role

I was appointed CFO in April 2022. Having taken up this position, I identify strongly with the vision of the Mitsubishi Chemical Group, a leading chemicals manufacturer in Japan, to increase corporate value in pursuit of excellence under Jean-Marc Gilson.

I majored in chemistry at university and began my career in R&D before moving into management consultancy and then taking on management roles at the global chemicals manufacturer 3M Group, in both Japan and Singapore. In 2019, I was appointed vice president of 3M Company in charge of their Asian consumer goods business. As a business leader, I have focused on steadily increasing earnings and improving shareholder value. To achieve this, I have had to make tough decisions in business management, such as selling or withdrawing from businesses with high market shares but where profitability was unlikely to improve.

The MCG Group has excellent technological capabilities. We need to steadily execute the five management strategies outlined in the new management policy "Forging the future" (▶ Page 23) in order to make the most of these technological capabilities and evolve into a Group capable of sustained growth.

As the new CFO, my mission is to leverage my experience to date and ensure that we reliably achieve our financial targets in order to increase corporate value.

Message from the CFO

Fiscal 2021 earnings and pinpointing challenges to address

The biggest challenge facing the MCG Group is our low profitability. In fiscal 2021, EPS and ROE both improved significantly due to a recovery in domestic and overseas demand and higher sales volumes after the impact of the COVID-19 pandemic in previous fiscal years, and transfer of the alumina fiber business as we restructured our business portfolio. However, operating income and operating margin are not yet at satisfactory levels.

We still have a long way to go to reach our ROIC target, and it seems that our capital costs are too high for the returns we generate. We have built up high levels of debt from previous M&A. While net interest-bearing debt is steadily decreasing, our net D/E ratio in fiscal 2021 was 1.40, which is still above our target of one.

Strategic capital allocation to meet our fiscal 2025 financial targets

To overcome these challenges, our new management policy sets out a three-phase road map through fiscal 2025. We have already begun to tackle the urgent challenge of simplifying and streamlining our business in Phase 1, and we are working on our exit from the Petrochemicals and Coal Chemicals businesses in Phase 2 while looking for the right strategic investments in Phase 3.

Reducing costs by more than ¥100 billion across the Group

Of all the cost restructuring underway, the logistics and supply chain reforms will probably have the greatest impact. We are integrating into Group-wide functions the logistics and supply chain processes that were previously carried out separately at

individual operating companies, and we are also using digital transformation (DX) to boost efficiency (▶ Page 38 "Message from the Chief Supply Chain Officer"). We are also moving to a "One Company" setup and eliminating duplicate operations by consolidating functions, such as finance and human resources, that were previously in place at each operating company and the holding company. These organizational changes will be rolled out globally, not just in Japan, so we expect further cost reductions at overseas affiliates as well from fiscal 2023.

Carving out businesses in petrochemicals, coal chemicals, and non-core performance products

To carve out the Petrochemicals business, we are currently investigating a range of possibilities. Japan needs to maintain its petrochemical industry for the sake of economic stability, but this is not something for which a single company can take sole responsibility, in terms of ensuring reliable operations and making the required environmental investment. To fulfill our responsibilities to our customers and maintain stable employment for workers, we are working to supply quality products, generate cash through economies of scale, and select the right partners to achieve our carbon-neutral pledge.

In the Performance Products business, we will accelerate our portfolio restructuring and carve out non-core businesses as part of our drive to raise profit margins.

Increasing ROIC at the business unit level

To boost ROIC, we need higher operating income for the numerator and lower working capital for the denominator. We are seeking to manage each business unit more rigorously than before, including rapid collection of accounts receivable and reduced inventories. Inventory management has been worked



on before, but I have concerns about the impact that recent forex trends and surging materials costs are having on our inventory assessments. We need to ensure much tighter control of inventory volumes. Capital expenditures are needed for investment in growth and repairs and maintenance, but we will be rigorous in our selection processes for overall capital expenditures, carefully selecting investment for ROIC or other indicators, within a spending range that does not hamper growth. We monitor relevant indicators each month and aim to achieve our minimum commitment of 7% ROIC by fiscal 2025 without fall.

We are sharing these strategies with the top management in each business unit, so that they can be reflected in the budgets which are set, and we are running town-hall meetings and various other interactive sessions for our employees. We will pursue reforms from within by helping every individual in the Group understand how their actions translate into figures and to adjust behavior accordingly.

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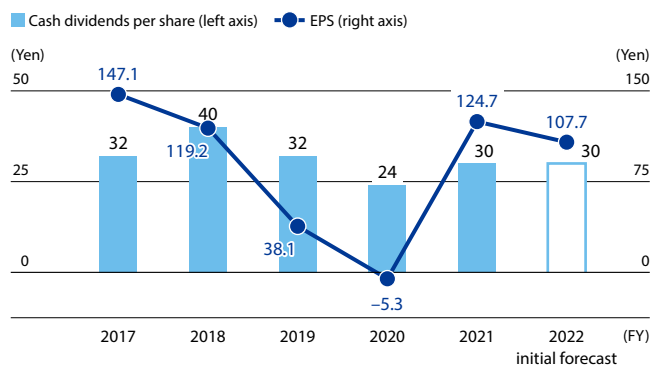
Sustained earnings growth and expanded dividends over the medium and long term

We paid dividends of ¥30 per share over the full year in fiscal 2021, ¥6 more than in fiscal 2020. In fiscal 2022, we plan to keep dividends at the same level as in fiscal 2021, at ¥30 per share over the full year.

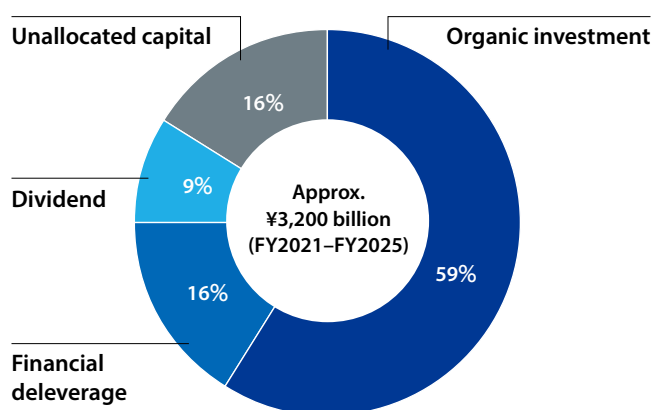
Looking ahead, we will monitor our financial position while considering how to expand our current dividend policy (a medium- to long-term dividend payout ratio of 30%) in order to provide our shareholders with the best returns. Furthermore, we will achieve key indicators through the reliable execution of business fundamentals, by generating business earnings and steadily improving our financial position to enable growth, and thereby increase TSR.

Between fiscal 2021 and fiscal 2025, the MCG Group expects to generate operating cash flow of approximately ¥3,200 billion, including around ¥400 billion from business disposals but excluding R&D expenditures. With stricter financial discipline, we will make strategic capital allocations and steadily reduce debt, which will lead to improved shareholder returns.

Shareholder returns



Capital allocation



Aiming to work together as a Group in pursuit of excellence

We have defined three portfolio assessment criteria in the new management policy, "Forging the future"—Is the market attractive? Do we have the strengths to be successful? Can this business thrive in a carbon-neutral economy? As we work to become carbon neutral by 2050, we will invest in growth while prioritizing ESG aspects such as initiatives for our human capital and environmental issues.

The MCG Group enjoys a wide-ranging technological base and takes a diverse approach to business because of our track record in aggressively pursuing M&A. By integrating these business resources in line with the "One Company, One Team" concept, we will use our fiscal 2025 financial targets as a checkpoint as we work together as a Group in pursuit of excellence.

Financial targets for fiscal 2025

Group targets	(FY)	2020 results	2021 results	2022 initial forecasts	2025 targets
Sales revenue		¥3,257.5 billion	¥3,976.9 billion	¥4,436 billion	¥3,000 billion
Core operating income		¥174.7 billion	¥272.3 billion	¥275 billion	¥350–370 billion
EBITDA		¥405.6 billion	¥502.4 billion	¥518 billion	¥540–560 billion
EBITDA margin		12.5%	12.6%	11.7%	18–20%
EPS		¥-5.3	¥124.7	¥107.7	¥125–145
Financial leverage (net debt / EBITDA)		5.3	4.1	3.9	2.0–3.0
ROE		-0.6%	13.2%	10.4%	≥10%
ROIC		3.3%	4.9%	4.9%	>7%

Mainstay segment targets

	Performance Products	MMA	Health care	Industrial Gases*
EBITDA	Approx. ¥180 billion	Approx. ¥70 billion	Approx. ¥70 billion	Approx. ¥220 billion
EBITDA margin	Approx. 15%	Approx. 26%	Approx. 15%	Approx. 25%

* Request based