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April 26, 2024

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## Efforts to Realize Management Conscious of the Cost of Capital and Stock Price

Tokuyama Corporation (hereinafter referred to as “Tokuyama” or “the Company”) resolved at a meeting of its Board of Directors held on April 26, 2024, to analyze and assess the Company’s cost of and return on capital, and to implement policies and specific initiatives in a bid to ensure improvement. Brief details are presented as follows.

### 1. Current Assessment

After trending upwards of 10% until FY2021, return on equity (ROE) declined in FY2022 as a result of across-the-board cost inflation due to skyrocketing raw material and fuel costs. Although ROE recovered to 7.4% in FY2023, the recovery in net income during this period was insufficient, thereby preventing ROE from reaching its previous levels. On the other hand, the price earnings ratio (PER) increased 11.0-fold in FY2023.

Meanwhile, the Company’s price book-value ratio (PBR) improved slightly in FY2022, yet failed to reach a factor of 1x in FY2023. According to the Company’s analysis, the primary factors behind this were a delayed recovery in ROE and a failure to fully indicate a path toward future profitability growth.

<Tokuyama Management Indicator Trends>

	FY2019	FY2020	FY2021	FY2022	FY2023 *1
ROE (%)	12.4	13.4	13.2	4.1	7.4
PER (fold)	7.3	8.0	4.4	16.2	11.0
PBR (fold)	0.86	1.01	0.55	0.66	0.78
Stock Price (closing price) (yen)	2,092	2,793	1,718	2,105	2,715

\*1 Management indicators for FY2023 are calculated based on unaudited financial statements (the same shall apply hereinafter).

\*2 The denominator for ROE is the average shareholders’ equity during the period, while the denominator

for PBR is shareholders' equity as of the end of the period.

## 2. Policy and Targets

The Company has laid out its mission as “creating a bright future in harmony with the environment, in collaboration with its customers, based on chemistry,” and is therefore endeavoring to achieve sustainable growth and enhance medium- to long-term corporate value. Moreover, the Company included ROE as one of the management indicators in its Medium-Term Management Plan 2025, and has since worked to improve the efficiency of shareholder equity. However, the Company recognizes the high degree to which enhancing corporate value relies on further advancing this effort, as well as on achieving targets by more resolutely carrying out Medium-Term Management Plan 2025.

### Medium-Term Management Plan 2025\* Priority Issues

- i) Transforming the business portfolio (Increase the share of consolidated net sales from growth businesses to over 50%)
- ii) Contribute to mitigating global warming (Expedite the development/commercialization of next-gen energy technologies; Reduce greenhouse gas (GHG) emissions by 30% (compared with FY2019))
- iii) Practice socially responsible management (Step up high-priority CSR initiatives to lay the groundwork for growth)

\* [https://www.tokuyama.co.jp/ir/business\\_policy/mid\\_term.html](https://www.tokuyama.co.jp/ir/business_policy/mid_term.html)

In order to realize greater corporate value, the Company recognizes the indispensable nature of trust and cooperation among its shareholders and other stakeholders. And for this reason, it will actively promote greater shareholder returns and dialogue with its shareholders. Along with steadily carrying out the Medium-Term Management Plan, the Company intends to link these efforts to realizing a management structure that exceeds a PBR of 1x at the earliest possible time by meeting the expectations of its shareholders and other stakeholders.

## 3. Specific Initiatives

### (1) Enhancing shareholder returns

The Company has positioned the return of profits to its shareholders as one of its most important management policies. Along with positioning a continuous, stable dividend as the foundation of the Basic Policy on Shareholder Returns, another aspect of this Policy is continuously returning profits to shareholders upon securing the retained earnings necessary to maintain a healthy financial position, improve shareholder value for the future, and address changes in business conditions. Under this policy, after FY2024, the Company determines the dividend based on a comprehensive assessment of performance trends, medium- and long-term business plans, and the cost of capital, among others. Specifically, the Company aims for a dividend payout ratio of at least 30% with a target of 3% for the dividend on equity ratio (DOE), which is not easily affected by performance during any one fiscal year.

(2) Making priority investments in growth businesses that actively utilize return on invested capital (ROIC) and revisions to existing businesses

The Company has promoted management conscious of cost of capital regarding businesses that have recorded an ROIC below WACC for two consecutive years, including assessing the propriety of continuing such businesses each year. Going forward, the Company will set a target ROIC for each business division, and along with working to further expand profits for growth businesses, it will agilely respond to revisions in existing businesses.

(3) Reducing cross-shareholdings

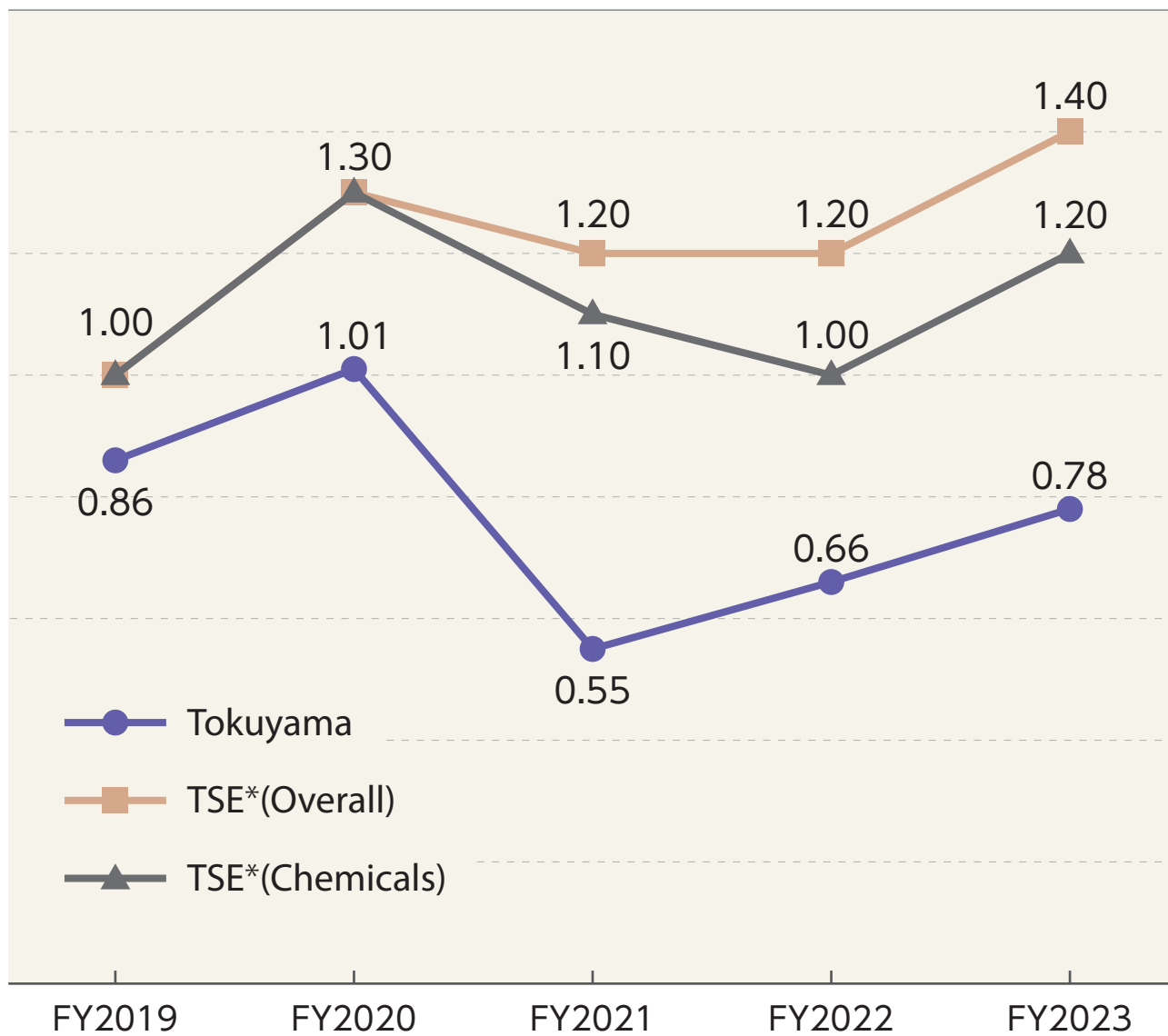
The Company aims to reduce the number of currently held cross-shareholdings (20 issues) on an ongoing basis in order to improve asset efficiency. In FY2024, the Company will work in aims of reducing around 10 issues, where the cash generated through their disposal will be applied to growth businesses, as well as to research and development.

(4) Shareholder dialogue

The Company recognizes the importance of ongoing relationship-building with its shareholders and investors for the purpose of enhancing medium- to long-term corporate value. Likewise, managers at the Company actively participate in various briefings (IR and SR), where they converse with shareholders and investors. Going forward, the Company will deepen its relationships with its stakeholders through a multi-layered approach to communicating information founded on a spirit of fair disclosure.

See the attachment regarding these efforts.

Unit: Folds



\* Note: Listed on the TSE First Section until FY2022 and on the TSE Prime Market from FY2023

## Current Assessment:

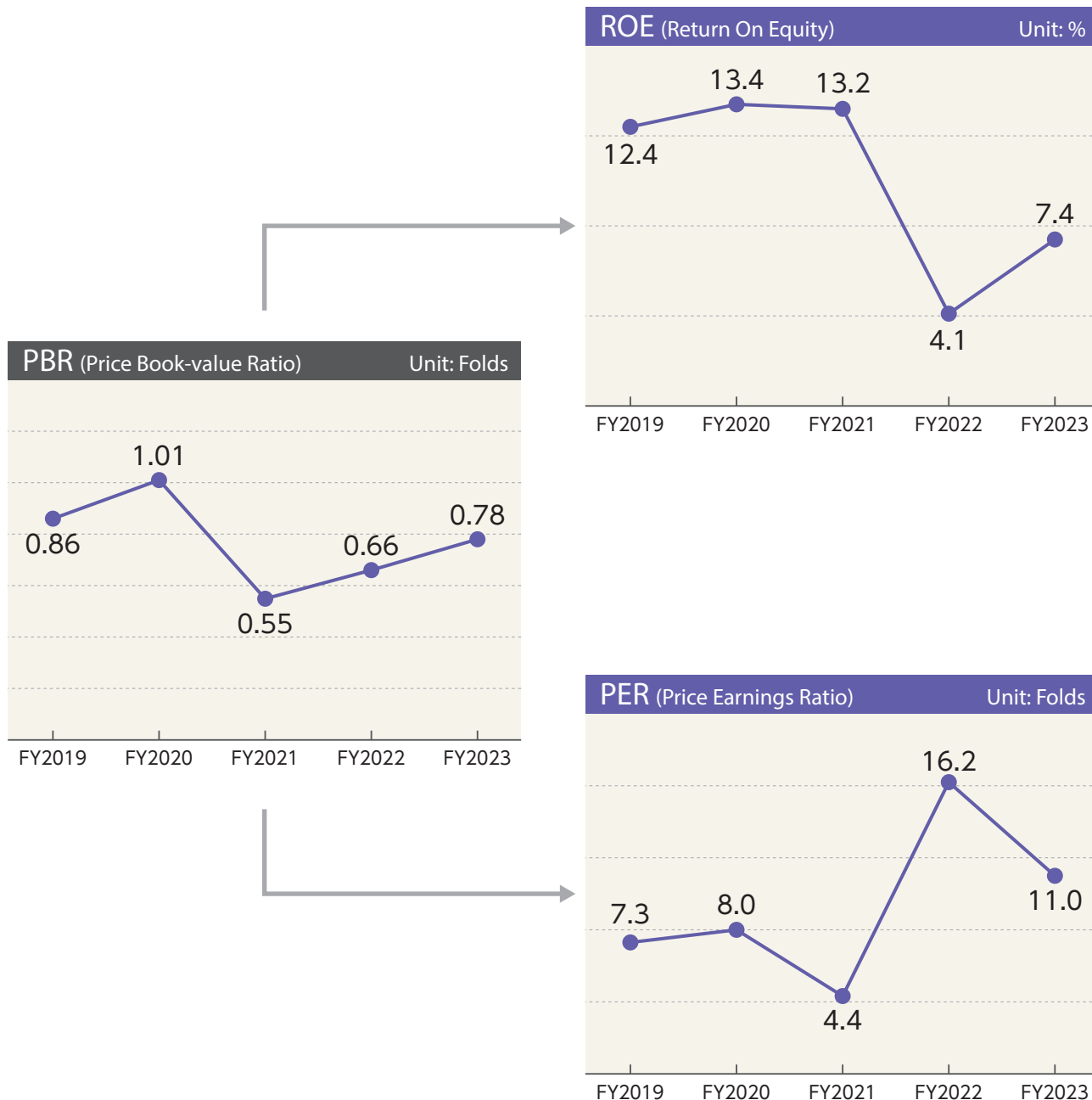
### Analysis regarding cost of capital and return on capital (1) (Attachment)

The low PBR is due to the currently low ROE, indicating the importance of increasing PER, which is reflected in future expected profits.

$$\text{PBR} = \text{ROE} \times \text{PER}$$

$$\text{ROE} = \text{Net Profit} \div \text{Shareholders' equity}$$

$$\text{PER} = \text{Stock Price} \div \text{Earnings Per Share (EPS)}$$



# Current Assessment:

## Analysis regarding cost of capital and return on capital (2) (Attachment)

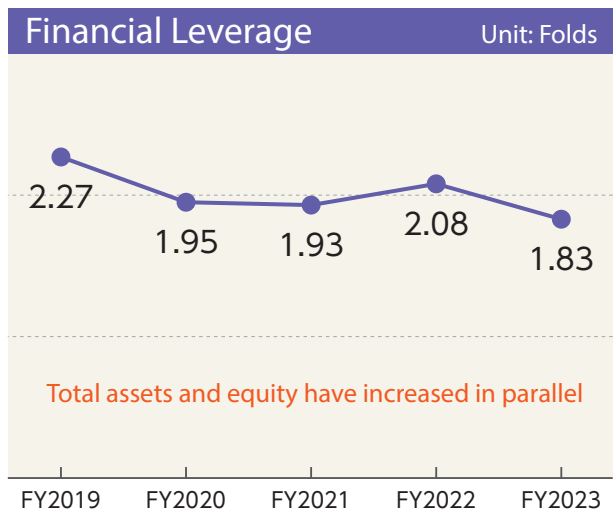
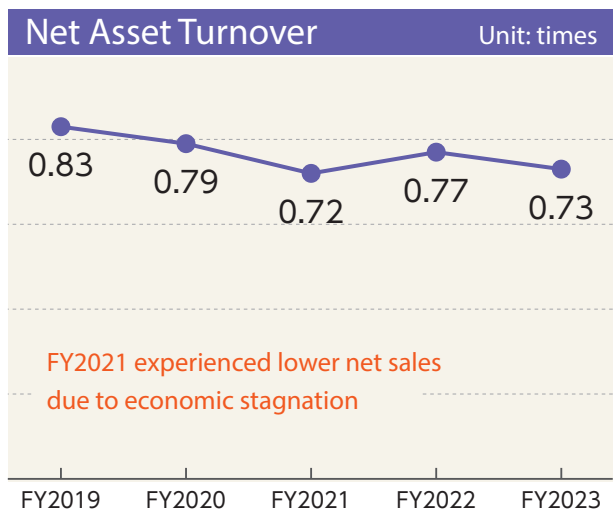
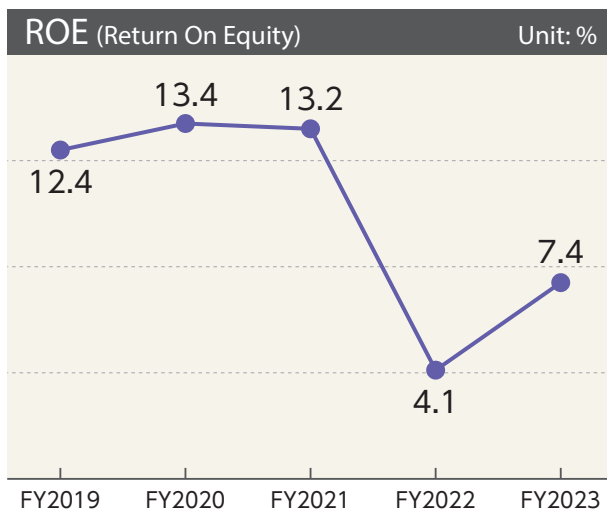
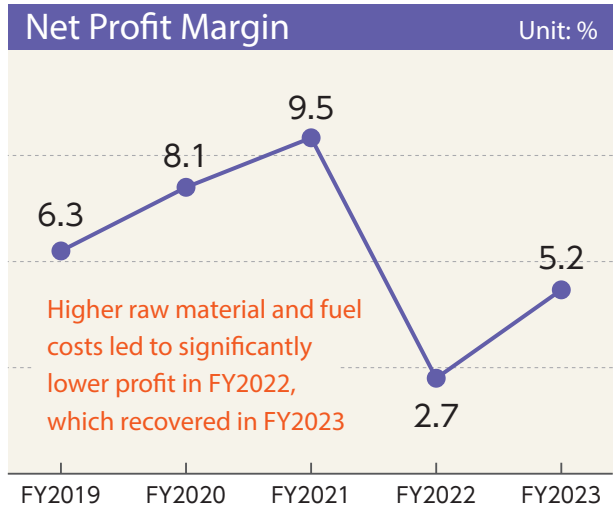
The declining ROE is primarily due to a deteriorating net income margin during this period.

$$\text{ROE} = \text{Net Profit Margin} \times \text{Net Asset Turnover} \times \text{Financial Leverage}$$

$$\text{Net Profit Margin} = \text{Net Profit} \div \text{Net Sales}$$

$$\text{Net Asset Turnover} = \text{Net Sales} \div \text{Total Assets}$$

$$\text{Financial Leverage} = \text{Total Assets} \div \text{Shareholders' equity}$$



## Initiatives :

In order to enhance the price book-value ratio (PBR)

(Attachment)

Implement measures to reduce the cost of capital and to increase the expected growth rate for the purpose of enhancing PER.

PBR = ROE(Return On Equity) × PER(Price Earnings Ratio)

PER = Stock Price ÷ Earnings Per Share (EPS) → Stock Price = EPS × PER

$$\text{Stock Price} = \frac{\text{EPS}}{\text{Cost of Capital} - \text{Anticipated Growth Rate}} = \text{EPS} \times \frac{1}{\text{Cost of Capital} - \text{Anticipated Growth Rate}}$$

Equality

### Reduce the cost of capital

#### ▶ Transforming the Business Portfolio:

Business restructuring leading to GHG reduction

#### ▶ Shareholder return policy:

Revise the dividend policy in a way that contributes to greater shareholder value

#### ▶ IR strategy:

Further strengthen dialogue with shareholders through IR, SR, etc.

#### ▶ ESG:

Publish a TCFD report and participate in the GX League

### Enhance the Anticipated growth rate

#### ▶ Growth businesses:

Expand the Polycrystalline Silicon Business in Malaysia

#### ▶ Overseas expansion:

Expand the IC Chemical Business in Taiwan and Korea

#### ▶ ROIC management:

Perform management conscious of cost of capital (reduce cross-shareholdings, etc.)

Shareholder return trends					
	FY2019	FY2020	FY2021	FY2022	FY2023
Dividends per share :yen	70	70	70	70	80
Payout ratio: %	24.4	19.9	18.0	53.8	32.4
DOE(dividend on equity ratio): %	2.9	2.6	2.4	2.3	2.5

Cross-holding trends					
	FY2019	FY2020	FY2021	FY2022	FY2023
Number of cross-shareholding issues	24	22	21	20	20
year-end market value : billion of yen	83	120	126	126	179

See the financial results briefing materials

(3. Efforts to Realize Management Conscious of the Cost of Capital and Stock Price)  
published the same date.

[https://www.tokuyama.co.jp/eng/ir/pdf/2024mar\\_setsumeikai\\_e.pdf](https://www.tokuyama.co.jp/eng/ir/pdf/2024mar_setsumeikai_e.pdf)



IR	Financial results briefing	4 times, quarterly
	Management Briefing	1 time, June 2023
	Business Briefing	1 time, September 2023
	Small Meeting	2 times, handled by the President and Representative Director
	Individual IR Coverage	223 cases
	Briefing for Individual Investors	1 time, March 2024

SR	Engagement with major institutional investors, etc.	5 cases, handled by the President and Representative Director
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