

# Initiatives Under Medium-Term Management Plan **ACE 2.0**

NAGASE & CO., LTD.

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# Medium-Term Management Plan **ACE 2.0** Basic Policies

Become a true “Business designer”

## **ACE 2.0 “Pursuit of Quality”**

With a mindset focused on Accountability (A), Commitment (C) and Efficiency (E), and to enable its sustained growth,  
NAGASE will work to give concrete shape (business, mechanisms, culture)  
(Pursuit)  
to the aspirations expected by all of its stakeholders.  
(Quality)

### Reform of Profit Structure

#### Create a profit base toward the Ideal NAGASE

- (1) Pursuit of profitability and efficiency**
  - Implement a company-wide asset replacement and reallocation of resources
- (2) Strengthen existing businesses**
  - Expand business opportunities through globalization
  - Improve productivity of manufacturing businesses and expand value-added through technical innovation
- (3) Create sustainable businesses (N-Sustainable business)**

### Reform of Corporate Culture

#### Mindset toward the Ideal NAGASE

- (1) Pursuit of economic and social value**
  - Fostering a sustainability mindset, and rigorous monitoring of financial and non-financial indicators
- (2) Pursue efficiency**
  - Deepen awareness of capital efficiency
  - Improve productivity of core operations
- (3) Strengthen human resources to drive reforms**

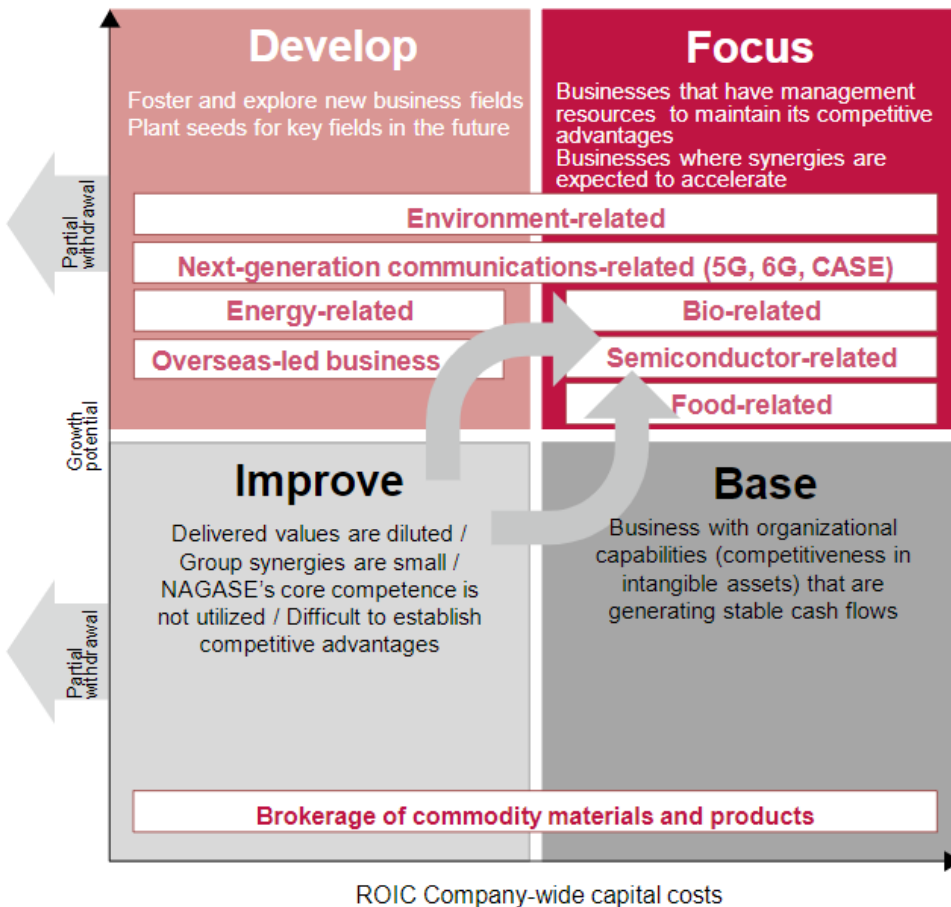
### Functions supporting reforms

- (1) Accelerate DX further**
- (2) Promote sustainability**
- (3) Strengthen corporate functions**

# Reform of Profit Structure – Pursuit of Profitability and Efficiency –

- ▶ Execute strategies according to four quadrants and accelerate shift of resources to Focus and Develop areas

## Approach to Business Portfolio



### Replace Businesses in Portfolio

- Divested consolidated subsidiary Kotobuki Kasei
- Withdrew from certain unprofitable and inefficient businesses

### Expand Focus Area Business

- Semiconductor-related  
Established Semiconductor Strategy Planning Team to accelerate group-wide efforts
- Food-related  
Prinova Group growing faster than expected at the time of acquisition  
⇒ Expanding product lineup and strengthening manufacturing and processing capabilities through M&A  
⇒ Investing in expansion of contract manufacturing capacity

### Invest in Start-Ups

- Investing in next-generation communications and new material development start-ups

## Reform of Profit Structure – Strengthen Existing Businesses –

### ▶ Strengthen the foundation supporting manufacturing business growth

#### Strengthen the management foundation of group manufacturing businesses

##### ■ Strengthen and implement collaborations on safety, quality, and the environment within the Group Manufacturers' Collaboration Committee

In addition to sharing information and engaging in discussions on safety and quality, the Collaboration Committee discusses policies and measures to achieve carbon neutrality in the manufacturing industry, shares information on DX activities within each manufacturing company, and pursues other initiatives to strengthen collaboration and implementation

##### ■ Established Group Manufacturing Management Innovation Office

Created a new organization to enhance synergies and improve the business of group manufacturers through a high-level view of the manufacturing capabilities, production technology, R&D, quality control, engineering, investment evaluation, etc., of each manufacturing company from a business management perspective

#### Expand manufacturing business profits

■ FY2021 : Record-high operating income due to growth of the Prinova Group, Nagase ChemteX, etc.

■ FY2022 : We expect to achieve the **ACE 2.0** KPI of 20.0 billion yen

|                  | (100 millions of yen) |                   |                   |                    |
|------------------|-----------------------|-------------------|-------------------|--------------------|
|                  | FY2019<br>Results     | FY2020<br>Results | FY2021<br>Results | FY2022<br>Forecast |
| Gross profit     | 396                   | 475               | 546               | 668                |
| Operating income | 128                   | 138               | 169               | 200                |

\* Results calculated using simple sums

\* Totals are based on classifications after the change in FY2021, which include the Prinova Group as a manufacturing company

# Reform of Corporate Culture – Pursuit of Economic Value and Social Value –

## ▶ Establish non-financial targets (KPIs) under **ACE 2.0**

### Background Behind Non-Financial Targets (KPIs)

- The Ideal NAGASE of 2032: Business Designer that Creates a Sustainable Future
  - Toward achieving our vision
    - **Important Stakeholders**
    - **Materialities (Key Issues)**  
to create values we want to provide to our stakeholders
- } Identify
- Set non-financial targets (KPIs) in the following two areas to evaluate and monitor initiatives quantitatively

#### Employee Engagement

To achieve sustainable growth of the NAGASE Group, we must increase engagement with employees—our important stakeholders—achieving a relationship between company (organization) and employee built on mutual respect and mutual motivation

- KPI -

- \* Engagement survey implementation and scores

#### Carbon Neutrality

As part of our efforts to solve the materialities of social issues, environmental issues, and globalization, we must address and respond to climate change as a key issue

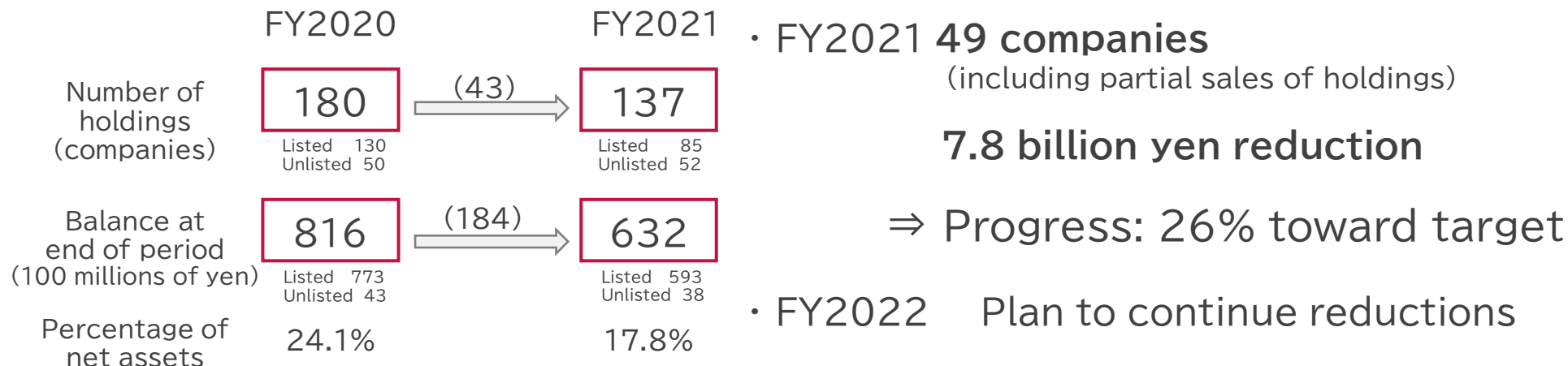
- KPI -

- \* Greenhouse gas emissions reductions (Scope 1, 2 basis)

\* See *NAGASE Group Sustainability* for specific targets

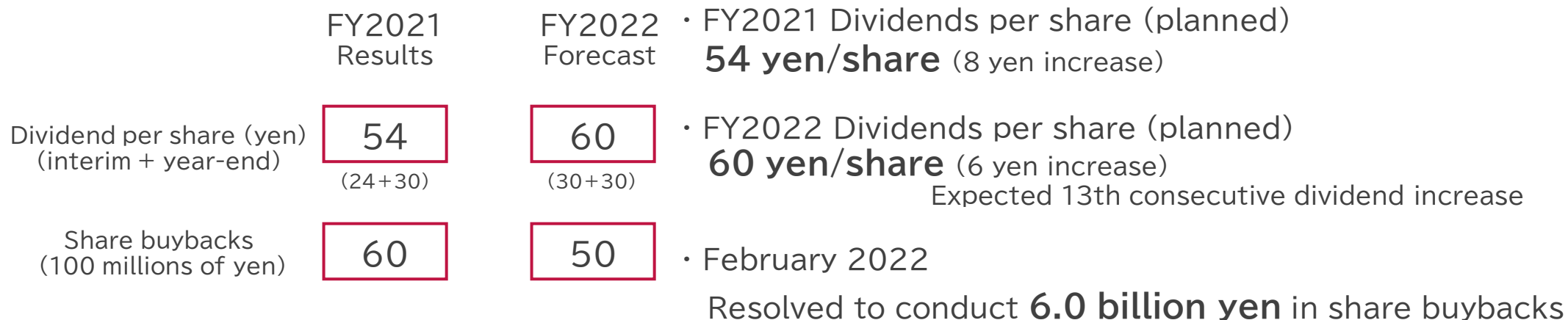
# Reform of Corporate Culture – Pursuit of Efficiency –

## Reduce cross-shareholdings ACE 2.0 Target :30.0 billion yen cumulative reduction



## Expand Shareholder Returns

ACE 2.0 Policy :Continued dividend increases + share buybacks to a maximum equivalent of cross-shareholdings sales



# Reform of Corporate Culture – Pursuit of Efficiency –

## ► Improve efficiency

- ROE increased to 7.7%, close to the target of 8.0% in the final year of **ACE 2.0**
- WACC decreased by 0.2% due to an increase in the ratio of interest-bearing debt to equity
- ROIC rose 1.1%, despite an increase in invested capital, due to improved profitability and gain on sales of cross-shareholdings

|  | FY2020 | Change   | FY2021 | FY2025 Target  |
|--|--------|----------|--------|----------------|
| <b>ROE</b>                                     | 5.9%   | +1.8% →  | 7.7%   | 8.0% or higher |
| <b>WACC</b>                                    | 5.7%   | (0.2%) → | 5.5%   | 5.0% or lower  |
| <b>ROIC</b>                                    | 4.2%   | +1.1% →  | 5.3%   | 5.0% to 5.5%   |
| <b>NET D/E Ratio</b>                           | 0.23   | +0.1 →   | 0.33   | 0.5 or lower   |
| Net assets<br>(100 millions of yen)            | 3,384  | +166 →   | 3,550  |                |
| Interest-bearing debt<br>(100 millions of yen) | 1,189  | +475 →   | 1,665  |                |

# Reform of Corporate Culture – Pursuit of Efficiency –

## ▶ Cash Allocation

- Cash inflow of 52.5 billion yen before deducting changes in working capital and investments (expenses) for DX, R&D, etc.
- Cash outflow of 85.8 billion yen due to working capital (stemming from strong financial results), DX and R&D expenses, and other growth investments, etc.
- Share buybacks leveraging cash inflows from cross-shareholdings sales, increased dividends due to strong financial results combined for 12.4 billion yen in shareholder returns

100 millions of yen

| Cash inflow                                      |              | Cash outflow                   |              |
|--|--------------|--------------------------------|--------------|
| *Operating CF after adjustments                  | 525          | Dividends and share buybacks   | 124          |
| Proceeds from sales of cross-shareholdings, etc. | 92           | Investment in DX, R&D, etc.    | 71           |
| Proceeds from change in interest-bearing debt    | 401          | Increase in working capital    | 631          |
| Other income                                     | 7            | Other growth investments, etc. | 156          |
|  |              | Other expenditures             | 25           |
| <b>Total cash inflows</b>                        | <b>1,026</b> |                                | <b>1,008</b> |

\* Operating CF excluding the impact of changes in working capital, DX and R&D costs recorded as expenses, etc.





<https://www.nagase.co.jp/english/>

These presentation materials contain projections based on forward-looking assumptions, forecasts, and plans as of May 27, 2022. Actual earnings may differ from projections due to risks and uncertainties in the future global economy, competitive landscape, currency exchange rates, etc.