

Notice of the Formulation of a New Vision and the Next Management Plan “Mission 2030”

Denka Company Limited recently formulated its New Vision and the next Management Plan, “Mission 2030”, which covers the 8-year period from FY2023 to FY2030.

Denka aims to realize “Mission 2030” through the execution of both non-financial and financial strategies by enhancing human resources value and management value and concentrating on the creation of business value based on businesses that incorporate all three elements, namely specialty, megatrends, and sustainability.

1. Vision

1-1. Background to Formulation of the New Vision

A period of change beyond our imaginations is approaching for the world. When formulating “Mission 2030”, Denka started by analyzing various future metrics in order to clarify its raison d’etre from a long-term perspective.

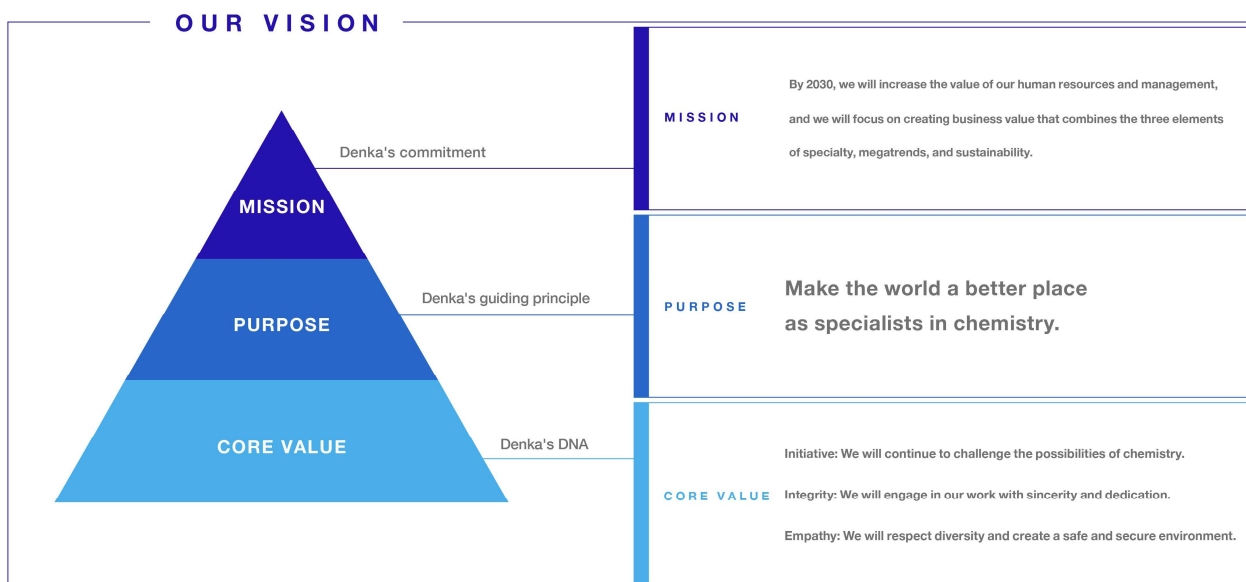
It based its assumptions on four worlds of the future: “Sustainability”, which relates to global warming, the problem of marine plastic pollution, air and water pollution, and soil contamination; “Evolving Technology”, typical examples of which are DX, AI and gene recombination; “Global Population Growth”, which will lead to pandemics and lack of food and water resources; and “Confusion in Social Order”, which will bring economic inequality and geopolitical risks.

<p><u>Sustainability</u> Global warming More natural disasters, shift to electric vehicles Marine plastic pollution Air and water pollution, soil contamination</p>	<p><u>Evolving Technology</u> Technological innovation DX, AI, robots, high-speed telecommunications, gene recombination</p>
<p><u>Global Population Growth</u> Pandemics Food shortages Lack of water resources</p>	<p><u>Confusion in Social Order</u> Economic inequality Limits of globalization Geopolitical risks</p>

Based on these four worlds of the future, Denka identified megatrends that will lead to business opportunities in the following three domains: “ICT & Energy”, where there is expected to be an increase in demand for renewable energy, a revolution in mobility, and increased demand for semiconductors; “Healthcare”, where there are likely to be increasingly sophisticated medical needs and revolutionary medical technologies; and “Sustainable Living”, which will see increased demand for food & water resources and infrastructure.

1-2 Conceptual Diagram for the New Vision

Based on these four future worlds and three megatrends, Denka created the new vision based on the candid views of its younger employees, who will form the core of the company moving forward, while also adding the thoughts of the executives. Based on Denka’s “Core Value”, which is the Denka’s DNA, and by combining its “Purpose” - Denka’s guiding principle - with its “Mission” - the duties it aims to fulfill by 2030 - Denka has set out a new Vision (view of the future) that will go beyond words and allow all employees to make the Vision directly relevant to them as individuals.



2. Next Management Plan “Mission 2030”

In order to achieve the Mission set out under its Vision, Denka will promote the creation of three types of value in Mission 2030 - business, human resources and management - and connect these to the enhancement of corporate value.

Three Elements



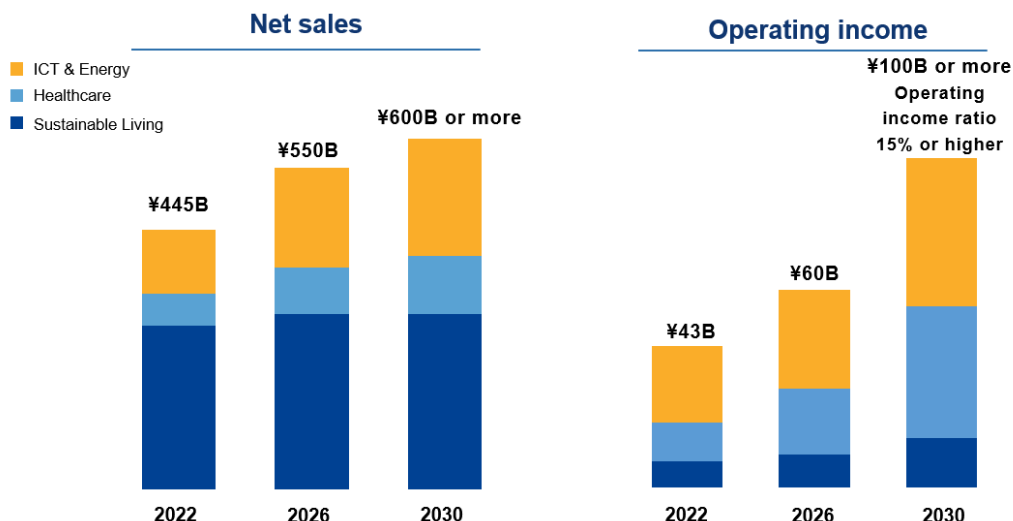
Growth Strategies

Business value creation		Increase profitability in megatrend areas where Denka can demonstrate its strengths to contribute to a sustainable society
Human Resources Value Creation		Become a company that enables each individual to feel their own growth with Denka’s core values of <i>Initiative</i> , <i>Integrity</i> , and <i>Empathy</i>
Management Value Creation		Strengthen ESG management through more sophisticated corporate governance

2-1. Business Value Creation

By 2030, Denka will make 100% of businesses “three-star businesses” that incorporate the three elements of specialty, megatrends, and sustainability

In businesses that will be difficult to convert to “three-star businesses”, Denka will undertake a portfolio shift, including the sale of or withdrawal from those businesses. In order to achieve this, Denka will invest ¥360 billion on strategic investments and ¥180 billion on R&D expenditure over the 8-year period, with the goal of realizing more than ¥100 billion in operating income by 2030.



(1) Megatrends and Specialty

In the three focus areas that have been defined as megatrends - ICT & Energy, Healthcare, and Sustainable Living - Denka will create business value through individual policies in each area and by using the unique technologies and strategies it possesses.

1) ICT & Energy

[Policy]

Contribute to the creation of a better society by supplying cutting-edge materials

[Technology and Strategy by Area]

	Next-generation high-speed telecommunications	xEV / Renewable energy
Needs	Energy loss, heat conduction	Electroconductivity, super high-purity, durability
Technology	Precision spheroidization, high-temperature control, precision film formation, coordination polymerization	Nanoparticles, impurity control, high-temperature firing
Strategic	Establish top market share	Become de facto market standard
Products	Spherical silica, spherical alumina, electronic packaging, heat dissipation materials, LCP film, ultra low dielectric materials, etc.	Acetylene black, silicon nitride, electronic circuit boards, next-generation conductive material, etc.

[Budgeting Plan and Strategic Investments/R&D Expenditure]

Over the 8-year period, Denka aims to invest a total of ¥80 billion in strategic investments and ¥40 billion in R&D expenditure in order to achieve ¥45 billion in operating income by 2030.

2) Healthcare

[Policy]

Contribute to QOL (Quality of Life) improvements for people around the world in the areas of prevention, diagnosis, and treatment.

[Technology and Strategy by Area]

	Prevention	Diagnosis	Treatment
Needs	Prevention of infectious diseases	Advancement of vitro diagnostics	Cancer treatments
Technology	Cultured and recombinant proteins	Production of diverse antibodies Simultaneous multi-item measurement	Culturing and purification of viruses Formulation
Strategic	Development of new vaccines, such as mRNA	Entry into next-generation diagnostic pharmaceuticals and genetic testing domains	Upgrading of manufacturing capabilities and development of business in the CDMO(*) domain
Products	Influenza vaccines, new products	Reagents for automatic analyzers, antigen testing kits, new products	Viral products, new products

* CDMO: Contract Development and Manufacturing Organization

[Budgeting Plan and Strategic Investments/R&D Expenditure]

Over the 8-year period, Denka aims to invest a total of 80 billion yen in strategic investments and 70 billion yen in R&D expenditure in order to achieve 40 billion yen in operating income by 2030.

3) Sustainable Living

[Policy]

Contribute to the realization of safe, secure, and comfortable daily lives

[Technology and Strategy by Area]

	Foods	Infrastructure	Daily Necessities
Needs	Contribution to food demand	Easing the impact of natural disasters Reducing the burden on the environment	Circular economy
Technology	High-temperature firing, humic acid control	High density/densification, quick hardening, CO2 fixing	Chemical recycling, development of bio-derived resins
Strategic	Overseas expansion	Technology development and overseas marketing adapted to increasingly sophisticated infrastructure demand	Early establishment of technology and social implementation, Collaboration with local communities and other companies
Products	Biostimulants, environmentally-friendly fertilizers	Special cement additives, LEAF	High-performance styrene-based resins, bio-plastics

[Budgeting Plan and Strategic Investments/R&D Expenditure]

Over the 8-year period, Denka aims to invest a total of ¥30 billion in strategic investments and ¥20 billion in R&D expenditure in order to achieve ¥15 billion in operating income by 2030.

(2) Pursuit of Sustainability as the Foundation for Business Continuity

Denka will pursue sustainability by making a total of ¥85 billion in environmental investments over the 8-year period with the aim of contributing to the Earth and further increasing Denka's social value.

Policy	Measures	KPIs (2030 targets)
Achievement of carbon neutrality	<ul style="list-style-type: none"> - Execution of portfolio shift, including establishment of low-carbon acetylene chains - Development and implementation of CO₂ capture, storage and utilization technologies - Expansion of green energy by increasing hydroelectric power generation and building new solar power plants 	<ul style="list-style-type: none"> - CO₂ emissions: 60% reduction (1.48 million tons) compared with FY2013 - Achievement of carbon neutrality (2050) - Maximum output of renewable energy generation: 150MW
Sustainable cities and fulfilling daily lives	<ul style="list-style-type: none"> - Promotion of circular economy for styrene-based packaging materials - Establishment of CO₂ sequestration technology 	<ul style="list-style-type: none"> - Establishment of consortium for social implementation of chemical recycling - Market launch and sales expansion of LEAF
Environmental conservation and minimization of environmental footprint	<ul style="list-style-type: none"> - Continuation of zero waste emissions - Response to natural-related risks, such as biodiversity and water resource conservation, based on the Taskforce on Nature-related Financial Disclosures (TNFD) 	<ul style="list-style-type: none"> - Ultimate waste treatment volume: zero emissions

2-2. Human Resources Value Creation

Denka will invest in human resources and undertake system reforms with the aim of being a company that enables each individual employee to achieve self-actualization and feel their own growth.

Policy	Strategic	KPIs (2030 targets)
Strengthening of HR development systems	Cultivation of future executive manager candidates, building of company-wide, integrated education framework, and fostering of a self-directed learning culture	Average training costs: 2x that of FY2021
Promotion of Diversity, Equity & Inclusion	Fostering of workplace environments, systems, and culture that will empower individuals with diverse ways of thinking to demonstrate their capabilities	Women, foreign nationals, and mid-career hires to account for 50% of managerial positions
Health and Productivity Management and work style reform	Promotion of system reforms to create workplaces that employees will "want to come to work again tomorrow"	Visualization and ongoing improvement of engagement

2-3. Management Value Creation

From the perspective of ESG management, Denka will work to strengthen the management foundations on which its corporate survival is premised.

Policy	Strategic	KPIs (2030 targets)
Process reforms	Transformation of business model and organization, productivity improvements, and development of in-house digital workforce	Investment in process reforms: ¥50 billion over 8 years (¥14.6 billion during the 5 years of DVU)
Respect for human rights	Establishment of human rights policy and thorough respect for human rights based on the United Nations Guiding Principles on Business and Human Rights and the Global Compact	Identification of human rights risks in the Denka Group supply chain and establishment of response processes

Place the utmost priority on safety	Group-wide efforts toward essential safety, establishment of rules, and promotion of safe workplace environments	Rate of lost-worktime injuries: reduce from 1.1 in 2021 to 0.2 or less
Supply chain management	Sustained improvement of added value across entire supply chain	No high-risk suppliers
Product safety	Contribution to sustained growth of society and environment through provision of trusted products and services	Integration of quality control systems, raising of control standards No serious quality accidents
Enhancement of corporate governance	Building of highly sophisticated and effective corporate governance structure that ensures transparency and fairness based on high ethical standards	No serious compliance violations thanks to thorough risk management achieved as a result of ongoing improvements in the effectiveness of the Board of Directors

3. Financial Strategy

Improve ROE (Return on Equity) and ROIC (Return on Invested Capital) and increase corporate value

	FY2018 -FY2022 average	FY2030 target	Measures
ROE	9%	15% or higher	<ul style="list-style-type: none"> - Improvement of profitability and efficiency with creation of three types of value - Selection and concentration of businesses through evaluation of ROIC - Pursuit of optimal capital structure (use of financial leveraging)
ROIC	7%	10% or higher	

<Cash Allocation>

Make effective use of operating cash flows and liabilities to create cash of ¥740 billion in total over the 8-year period, and allocate this to ¥570 billion in investments and ¥170 billion in shareholders' returns (Total Shareholder Return Ratio level of 50%)

(Billion yen)

Total Cash inflow (annual average)			Total Cash Outflow (annual average)			
	DVU 5 years	Mission2030 8 years		DVU 5 years	Mission2030 8 years	
Cash flow from operating activities	1,80.8 (36.2)	650 (81.3)	Cash flow from investing activities	Strategic	71.9 (14.4)	360 (45)
Sale of assets	10.8	10		General	109.9 (22)	210 (26.3)
Borrowing	50	80		Sub-total	181.8 (36.4)	570 (71.3)
Total	241.6 (48.3)	740 (92.5)	Shareholder Returns (Total Shareholder Return Ratio level: 50%)		59.8 (12)	170 (21.3)
			Total		241.6 (48.3)	740 (92.5)

<Human Resources and R&D Expenditure>

The plan is for annual averages significantly higher than Denka Value-Up for both human resources and R&D expenditures. In addition to external investments, Denka will focus on internal investments with the aim of achieving sustainable growth.

(Billion yen)

	Denka Value-Up		Mission 2030	
	5-year total	Annual average	8-year total	Annual average
Human Resources	260.4	52.1	500	62.5
R&D	73.6	14.7	180	22.5
Total	334	66.8	680	85

4. Major Financial/ Non-financial KPIs

The major financial and non-financial KPIs for Mission 2030 are as follows.

	Item	Denka Value-Up (Financial figures are FY2022 actual, non-financial figures are FY2021 results)	Mission 2030 (FY2030 target)
Financial	Operating income	¥43 billion	¥100 billion or more
	Operating income ratio	9.3% (FY2018 – FY2022 average)	15% or higher
	ROE	8.8% (FY2018 – FY2022 average)	15% or higher
	ROIC	6.9% (FY2018 – FY2022 average)	10% or higher
	Investment	¥260.9 billion (5 years)	¥540 billion (8 years)
	Total Shareholder Return Ratio	52.1% (FY2018 – FY2022 average)	50% level
Non-financial	CO ₂ emissions	2.13 million tons	1 million tons (60% reduction compared with FY2013)
	Maximum output of renewable energy power	133MW	150MW
	Managerial positions occupied by women, foreign nationals, and mid-career hires	19%	50%
	Rate of lost-worktime injuries	1.1	0.2 or less

Based on the above plans, the Denka Group will work together to promote Mission 2030 in order to “Make the world a better place as specialists in chemistry”.

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