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Efforts to Realize Management Conscious of the Cost of Capital and Stock Price (Update)

Tokuyama Corporation (hereinafter referred to as “Tokuyama,” “the Company,” or “we”) hereby provides an update on the Company’s efforts to engage in management that is conscious of the cost of capital and stock price details of which were initially resolved at a meeting of its Board of Directors held on April 26, 2024. Brief details are presented as follows.

1. Current Assessment

Despite experiencing growth in both its business performance and stock price, Tokuyama’s price book-value ratio (PBR) remained below a factor of 1x throughout FY2024. While the Company’s ROE increased 1.7points compared with the previous fiscal year, to 9.2%, improvements in traditional business results outpaced the upswing in growth businesses, which are expected to help drive expansion. We believe this largely reflects the lack of sufficient progress in transforming the business portfolio.

<Tokuyama Management Indicator Trends>

	FY2020	FY2021	FY2022	FY2023	FY2024 ^{*1}
ROE (%)	13.4	13.2	4.1	7.4	9.2
PER (fold)	8.0	4.4	16.2	11.0	8.6
PBR (fold)	1.01	0.55	0.66	0.78	0.77
Stock Price (closing price) (yen)	2,793	1,718	2,105	2,715	2,789

*1 Management indicators for FY2024 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.

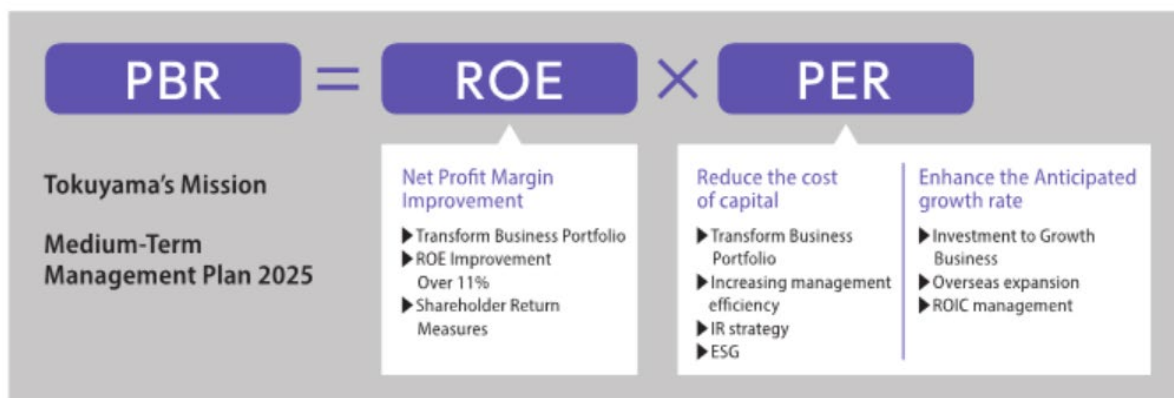
2. Policy and Targets

Tokuyama has laid out its mission as “creating a bright future in harmony with the environment, in collaboration with its customers, based on chemistry.” This mission will be realized through the trust and cooperation of our shareholders and other stakeholders. As we enter the final fiscal year of Medium-Term Management Plan 2025*, we are redoubling our efforts to achieve established targets. Currently, we are striving to realize a management structure that can support a PBR exceeding 1x as soon as possible. To achieve this, we will pursue various measures in line with our mission and the initiatives outlined in our Medium-Term Management Plan, which include securing sustainable growth and enhancing our medium- to long-term corporate value.

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/eng/ir/business_policy/mid_term.html



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. The company will continue to provide stable and continuous returns to shareholders, based on a comprehensive assessment of factors, including maximizing corporate value from a medium- to long-term perspective through investment, financing and research and development for sustainable growth, business performance, financial situation and the cost of capital. Under this policy, after FY2024, 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. Tokuyama has also set its dividend for FY2024 at ¥100 per share for a dividend payout ratio of 30.8% and a DOE of 2.9%. Looking ahead, we intend to continue to return profits to shareholders in line with this policy from FY2025 onwards.

(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.

In fact, with ROIC falling below WACC, the decision was made to discontinue business at the Company's local subsidiary in China, Tokuyama Plastics Co., Ltd., which engages in the manufacture and sale of microporous films, and to withdraw from this business in FY2024. Tokuyama began disclosing ROIC and WACC data on a Group basis from FY2024. In FY2024, our ROIC was 6.2%, while our WACC was 6.5%. We believe the reason ROIC fell below WACC is due to our proactive investments in growth businesses over the past few years as part of our efforts to transform our business portfolio, which have not yet yielded sufficient results. Moving forward, we will continue to utilize our business evaluation framework, promote management with a greater awareness of capital costs, and strive to transform our business portfolio and improve profitability.

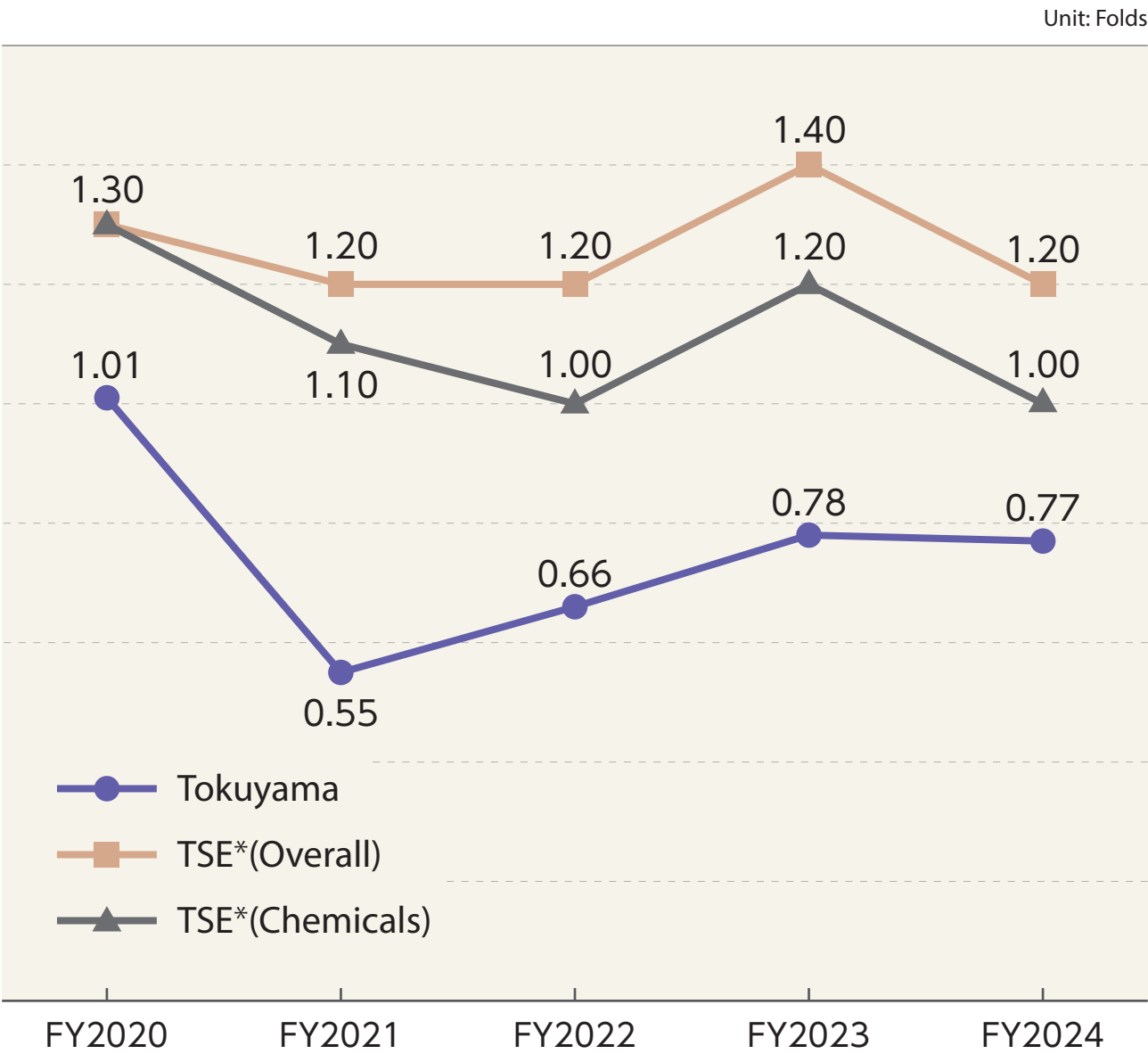
(3) Reducing cross-shareholdings

Tokuyama has taken steps to further reduce the number of cross-shareholdings held in order to improve asset efficiency from FY2024. Of the total of 23 issues, comprising the 20 issues held as of the end of the previous fiscal year and three issues acquired as of April 1, 2024 as a result of the absorption-type merger of Shin Dai-ichi Vinyl Corporation, the Company sold 12 entire issues while disposing of a portion of three issues. We will continue to pursue this initiative in FY2025, focusing mainly on the disposal the three partially sold issues. 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, president actively participate in various briefings (IR and SR), where they converse with shareholders and investors. During these conversations, we deepened discussions on the business environment in growth fields and efforts to achieve Medium-Term Management Plan 2025. 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.



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

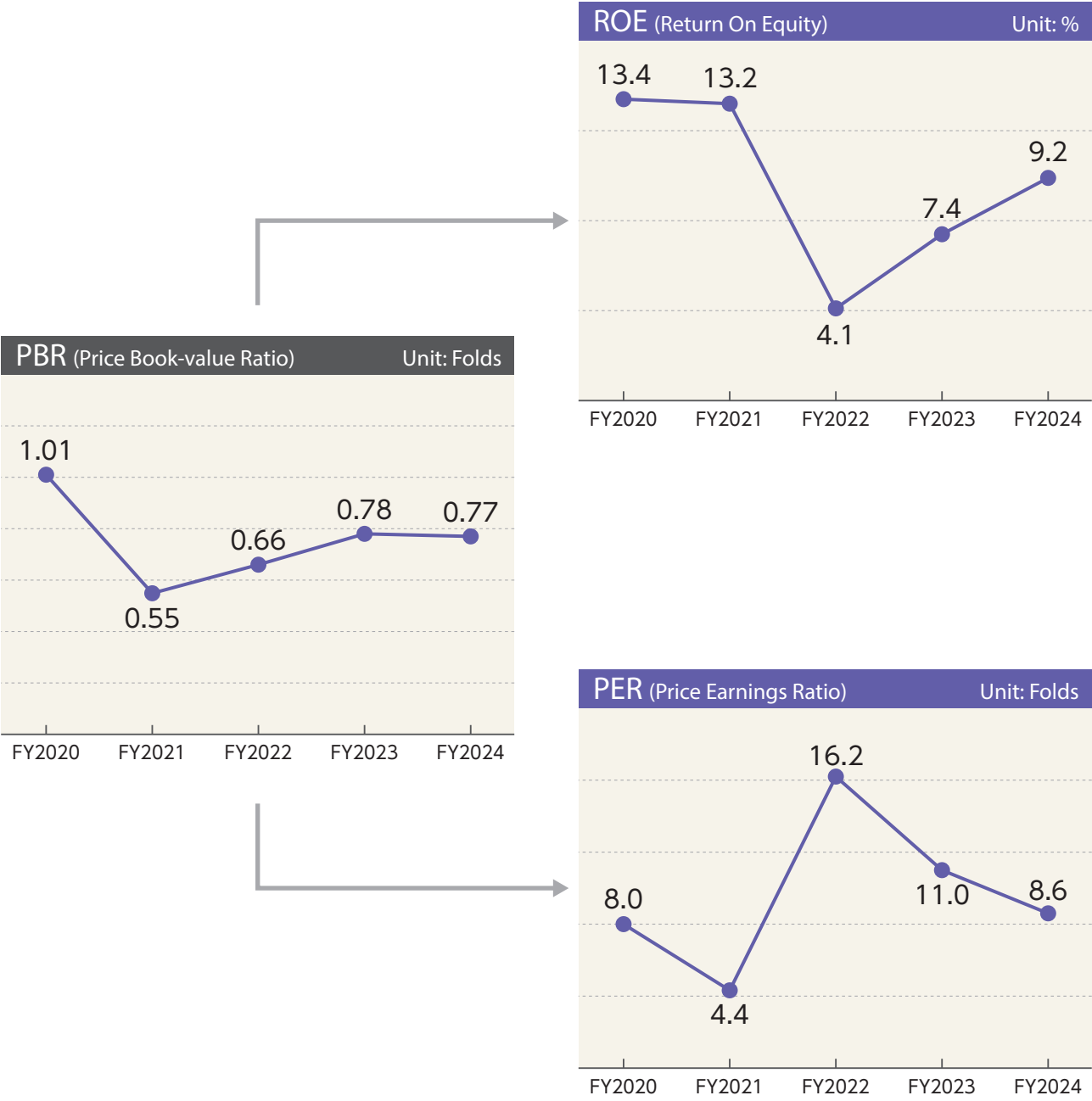
Current Assessment:
Analysis regarding cost of capital and return on capital (1) (Attachment)

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)

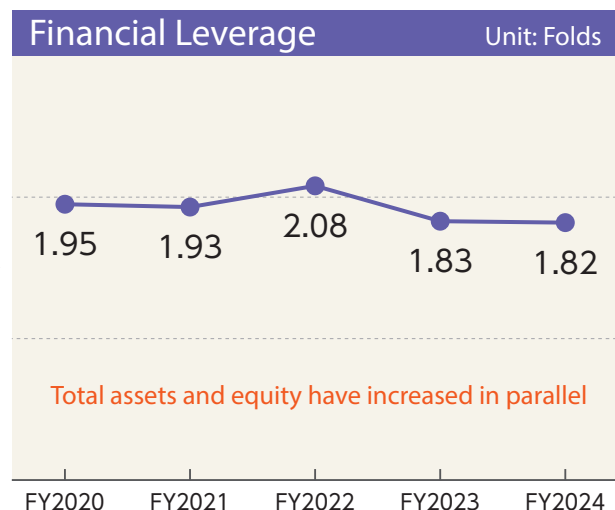
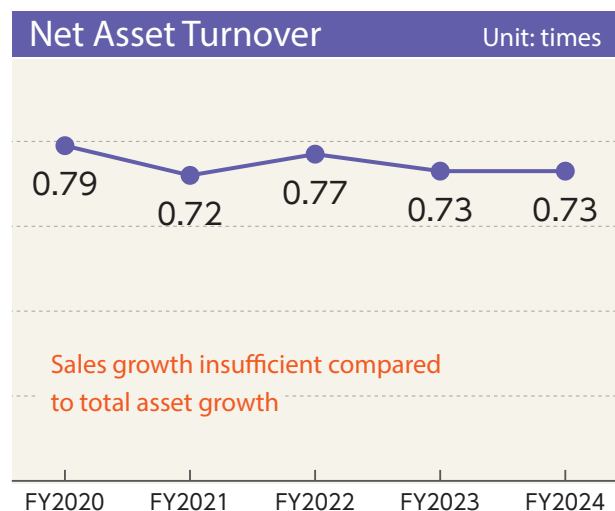
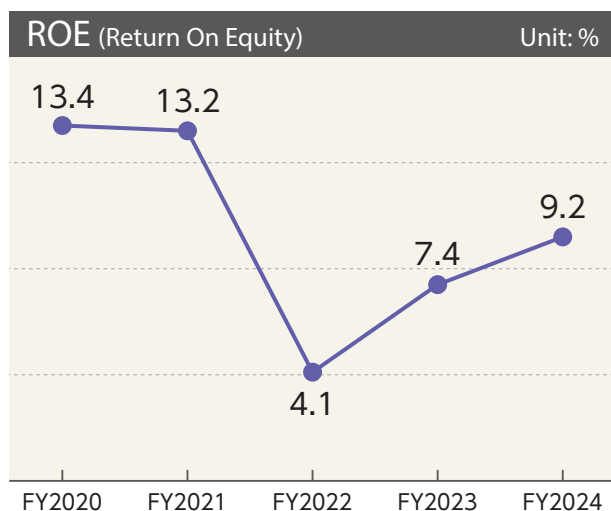
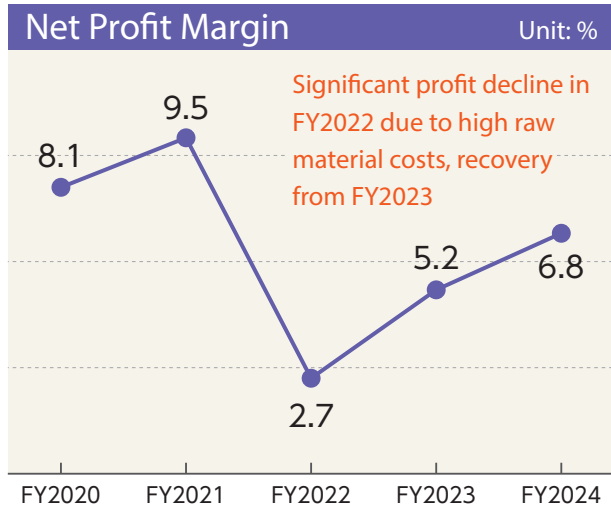
Promoting net profit margin improvement for ROE growth

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

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

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

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



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.

$PBR = ROE(\text{Return On Equity}) \times \text{PER}(\text{Price Earnings Ratio})$

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

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

Equality

1

Reduce the cost of capital

► Transform Business Portfolio:

- ◎ Business restructuring leading to GHG reduction
- ◎ Business expansion in the growth areas of electronics, healthcare, and the environment

► Increasing management efficiency:

- ◎ Promote DX in production processes
- ◎ Improve productivity by promoting personnel system reforms

► IR strategy:

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

► ESG:

- ◎ Publish a TCFD report
- ◎ Participate in the GX League
- ◎ Participate in the Taskforce on Nature-related Financial Disclosures (TNFD) Forum

Enhance the Anticipated growth rate

► Growth businesses:

- ◎ Expand the Polycrystalline Silicon Business in Malaysia and Vietnam
- ◎ Strengthen the dental materials and equipment business supply chain (Tokuyama Dental)
- ◎ Acquisition of invitro diagnostic pharmaceutical business (Pursuing synergies with A&T)

► Overseas expansion:

- ◎ Expand the IC Chemical Business in Taiwan and Korea
- ◎ Establish a subsidiary in India (marketing in the electronics, healthcare, and environmental fields)

► ROIC management:

- ◎ Perform management conscious of cost of capital (reduce cross-shareholdings, etc.)
- ◎ Begin disclosing ROIC and WACC data on a Group basis (from FY2024)

Shareholder return trends					
	FY2020	FY2021	FY2022	FY2023	FY2024
Dividends per share :yen	70	70	70	80	100
Payout ratio: %	19.9	18.0	53.8	32.4	30.8
DOE(dividend on equity ratio): %	2.6	2.4	2.3	2.5	2.9

Cross-holding trends					
	FY2020	FY2021	FY2022	FY2023	FY2024
Number of cross-shareholding issues	22	21	20	20	11
year-end market value : billion of yen	120	126	126	179	148

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/2025mar_setsumeikai_e.pdf

IR	Financial results briefing	4 times, quarterly
	Management Briefing	1 time, June 2024
	Business Briefing	1 time, September 2024
	IR meetings with domestic institutional investors	233 cases
	IR meetings with overseas institutional investors	12 cases
	Briefing for Individual Investors	1 time, March 2025
SR	Engagement with major institutional investors, etc.	5 cases, handled by the President and Representative Director

Main themes	Medium-Term Management Plan	<ul style="list-style-type: none"> ◎ Progress and challenges in transforming the business portfolio ◎ Growth business future outlook ◎ Certainty of achieving final fiscal year targets
	ESG/DX	<ul style="list-style-type: none"> ◎ Human Resource Strategy initiatives ◎ Progress in reducing GHG emission ◎ Productivity improvements using DX
	Other	<ul style="list-style-type: none"> ◎ Approach toward stock price levels and returns