

CFO Message



Director Managing Officer
Hideki Miyazaki

Progress of the Mid-Term Business Plan

Under the JSR20i9 Mid-Term Business Plan, the three years spanning FY2017 to FY2019 were positioned as a period to strengthen competitiveness for the future. Accordingly, we pursued changes aimed at creating a framework that can sustainably achieve ROE of at least 8% and total operating profit of 42 billion yen or more. As a result, revenues increased steadily in the Semiconductor Materials Business segment, which is an existing growth driver for JSR, as well as in the Life Sciences Business, which is being developed as a third pillar of growth. In the Digital Solutions Business as a whole, we have been strengthening the fields of lithography materials and functional cleans. In the Elastomers Business, we built an overseas plant dedicated to solution polymerization SBR (SSBR), which is in high demand for its eco-friendliness. In the Plastics Business, the merger of JSR Group company Techno Polymer Co., Ltd. and UMG ABS Co., Ltd. to form Techno-UMG Co., Ltd. resulted in increased domestic market share. Through these efforts, JSR was able to achieve its revenue and operating profit targets for FY2018. However, in FY2019, the final year of the plan, a strong US economy notwithstanding, there were signs of a global economic slowdown due to the effects of a slump in the Chinese economy and deepening tensions between the US and China. Moreover, from the latter half of February 2020, global economic activity came to a standstill amid the COVID-19 outbreak, while the oil demand crisis led to sluggishness in the petrochemicals market. As a result, we were unfortunately unable to achieve our operating profit and ROE targets in FY2019.

Operating Profit (¥ millions)

	FY2018	FY2019	FY2020 Pro	YoY
Digital Solutions Business	142,216	144,805	135,000	-7%
Operating Profit	32,663	30,917	24,000	-22%
Life Sciences Business	43,872	50,496	61,000	21%
Operating Profit	781	3,594	5,500	53%
Elastomers Business	200,736	178,794	145,000	-19%
Operating Profit	7,421	(1,758)	(5,000)	-
Plastics Business	105,446	95,092	79,000	-17%
Operating Profit	9,214	6,237	4,000	-36%
Other Businesses & Adjustment	3,084	2,779	3,000	8%
Operating Profit	(4,818)	(6,104)	(5,500)	-
Revenue	495,354	471,967	423,000	-10%
Operating Profit	45,261	32,884	23,000	-30%

* FY2020 forecasts are as of April 2020.
Please refer to the JSR website (https://www.jsr.co.jp/jsr_e/ir/library/presentation.html) for the latest forecasts.

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Regarding the new mid-term business plan scheduled for FY2020, we postponed announcing revenue and operating profit targets given the heightened uncertainties surrounding the COVID-19 crisis. However, the plan's management policy declared organizational resilience and sustainability as the growth slogans for the Group. Over the medium to long term, our intention is to increase R&D and business investment in the growing Semiconductor Materials and Life Sciences Businesses, with the aim of creating greater corporate value.

Initiatives by Business Segment

Digital Solutions

The Semiconductor Materials Business will focus on maintaining and increasing market share amid an expected upswing in semiconductor demand. Another focus will be on expanding sales of peripheral materials used in the production of advanced semiconductors, and targeting business growth that outpaces market growth by expanding our product portfolio. A plant is under construction in the US that will produce advanced cleans for cutting-edge semiconductors, with operations set to start in FY2020. In the Display Materials Business, we will seek to expand sales targeting the continued growth potential in the Chinese market, especially of our competitively strong alignment films and insulating films for wide-screen LC panels, while we align our organization structure to adapt to changes that have occurred in customer industries.

Life Sciences

KBI Biopharma, Inc. and Selexis SA will seek to expand new contracts for their research, development and manufacturing services for biopharmaceuticals. In addition, Crown Bioscience International will focus on increasing multi-year contracts for its preclinical contract research and translational technology business. The use of our diagnostic and bioprocess materials is expanding globally. Meanwhile, Medical & Biological Laboratories Co., Ltd. will contribute to expand through stable growth in its clinical diagnostic and research reagents businesses.

Elastomers

SSBR demand is growing for use in fuel-efficient tires, as well as for new applications such as electric vehicles and all-season tires. To meet this demand, the Group's new plant in Hungary will begin commercial production in FY2020, allowing JSR to supply SSBR globally from this new plant as well as its existing bases in Japan and Thailand, leading to increased sales. On the other hand, automobile and tire manufacturing, which are major demand industries for this segment, are currently stagnant due to COVID-19. The segment has begun to undertake structural reforms needed to respond to these and other drastic changes in the business environment, including the global economic slump and the oil demand crisis.

Plastics

For the automobile market, the Group will work to further strengthen profitability by expanding sales of distinctive high-performance products, especially in overseas markets. Techno-UMG Co., Ltd., which was formed through the April 2018 merger of two companies as previous noted, will continue to leverage the manufacturing, development, and sales capabilities of both companies while realizing synergies through operational and product integration.

Planned Investments

JSR will continue to invest in growth despite the COVID-19 crisis. In particular, we will invest aggressively in the Semiconductor Materials and Life Sciences businesses, which are positioned as growth drivers. Specifically, we will invest in innovation, capacity building, and M&As. Furthermore, to support next-generation research, construction of a new JSR Bioscience and Informatics R&D Center in Kawasaki City is moving forward, with operations due to begin in 2021. The Center will create new business opportunities through research using materials informatics, which involves a broad range of advanced digital technology applications in materials development, and its labs and office space will be open to outside partners to engage in open innovation. Although JSR has sufficient capital on hand for these investments, we will issue a further 35 billion yen in corporate bonds and otherwise diversify our financing to guard against heightened future uncertainties arising from COVID-19 and increasing geopolitical risks.

Changes in R&D Expenses

	2016	2017	2018	2019	2020 (Prospect)
R&D Expenses (Billion yen)	19.7	20.3	24.9	25.4	25.0

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Towards Building a Sustainable and Resilient Group

The Group has committed to organizational resilience and sustainability as the foundations for future growth. Environmental, social, and governance (ESG) issues, which are crucial to sustainability, are taking on more significance in capital markets and are extremely important factors in measuring corporate value. In this context, we have been engaging in discussions with numerous investors about governance issues, and are pleased that our sound, transparent governance system has been recognized as something that will lead to growth. On the other hand, in recent years, calls for action to address environmental and social issues have been rising rapidly, and JSR faces expectations to focus on human resource development, diversity, energy-saving, carbon emission reductions and other areas to ensure corporate sustainability. To respond to such trends in society, we intend to actively allocate funds to strengthen ESG measures, alongside traditional investments targeting earnings growth. I am confident that this approach will serve to strengthen our businesses and lead to the long-term development of JSR Group.



Shareholder Returns

The Group believes it is of the utmost importance to pursue stable, long-term growth by strengthening our competitiveness from a long-term perspective. Therefore, shareholder returns are determined through consideration of business performance and medium- to long-term capital requirements, and the balance between the redistribution of profits to shareholders and retained earnings for the future growth of the Company.

During the previous mid-term business plan, the Company sought an overall return to shareholders of at least 50% through a combination of dividends and share buybacks. We will continue to determine shareholder returns based on this policy. The annual dividend for FY2020 has been set at 60 yen per share.

COVID-19 has caused increased uncertainties around the globe. However, we believe that the current crisis is also an opportunity to carry out the reforms needed to make our organization more sustainable and more resilient. As CFO, I will continue to provide full financial backing for these reforms, and would like to ask our shareholders for their continued support.

Changes in Dividend Payout Ratio

