

Translation — Original text in Japanese



Medium-Term Management Plan
Chori Innovation Plan 2022

~FY2020-FY2022~

CHORI CO.,LTD.

May 29, 2020

- I Review of Former Medium-Term Management Plan
“Chori Innovation Plan 2019” (FY2017-FY2019)**

- II Medium-Term Management Plan “Chori Innovation Plan 2022”**
 - i. Positioning of Medium-Term Management Plan
 - ii. Basic Policy
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 - v. Dividend Policy
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I

**Review of Former Medium-Term Management Plan
“Chori Innovation Plan 2019”
(FY2017-FY2019)**

I . Review of Former Medium-Term Management Plan “Chori Innovation Plan 2019” (FY2017-FY2019)

Profitability

FY2016 Ordinary income ¥7.0 bil. → **FY2019 ¥8.7 bil. Record high**

Ordinary income of FY2017–FY2019 in total: **Plan** ¥23.5 bil. **Result** ¥24.8 bil. → Achievement rate **106%**

Net income* of FY2017–FY2019 in total: **Plan** ¥15.0 bil. **Result** ¥16.5 bil. → Achievement rate **110%**

* Net income: Net income attributable to owners of the parent

Financial Base

FY2016 4Q Total equity ¥46.3 bil. **Equity ratio 47.2%**

FY2019 4Q Total equity **¥57.2 bil.** **Equity ratio 50.0%**

FY2019 Ordinary income (ROA) **Plan** 7.5% **Result** 7.5% → **Achieved**

FY2019 Net income (ROE)..... **Plan** 10% or higher **Result** 11.0% → **Achieved**

Investment

Business investment result **¥5.7 bil.** (including M&A invested)

M&A invested **¥2.3 bil.** (FY2017)

Making Kozakura Shokai Co., Ltd. and Miyako Kagaku Co., Ltd. into subsidiaries

Dividends

Payout ratio **20% or higher** ⇒ **25% or higher** ⇒ **7 consecutive increases in dividends**

FY2017 ¥59 → **FY2018 ¥60** → **FY2019 ¥63**

(Includes commemorative dividend of ¥10)

I . Review of Former Medium-Term Management Plan “Chori Innovation Plan 2019” (FY2017-FY2019)

POINT

Achieved key financial targets one year ahead of schedule in FY2018

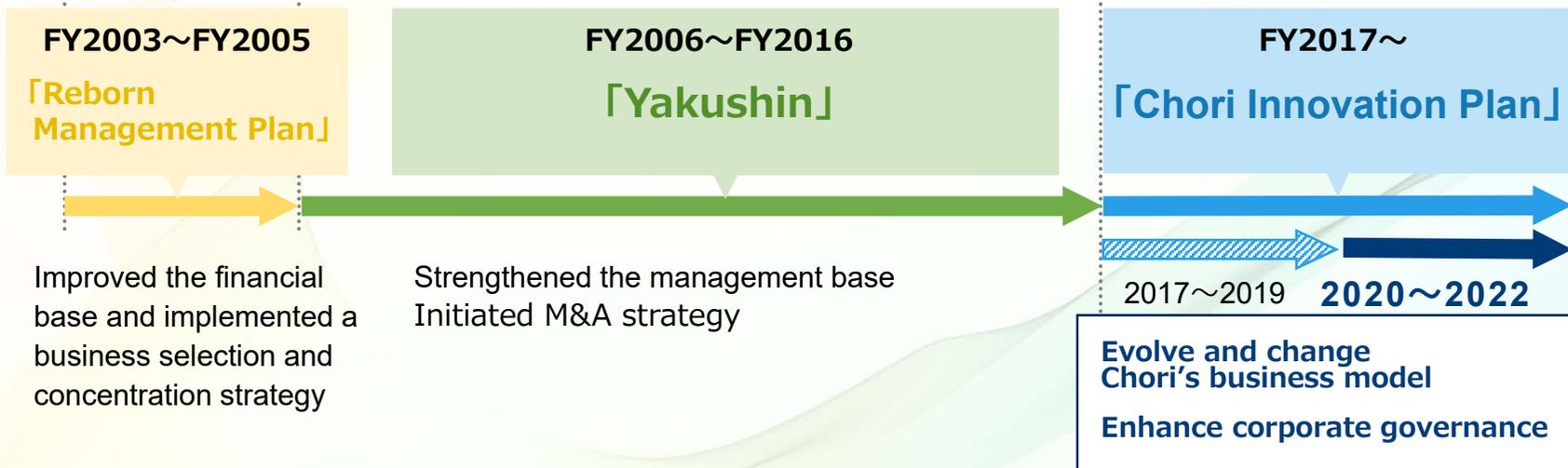
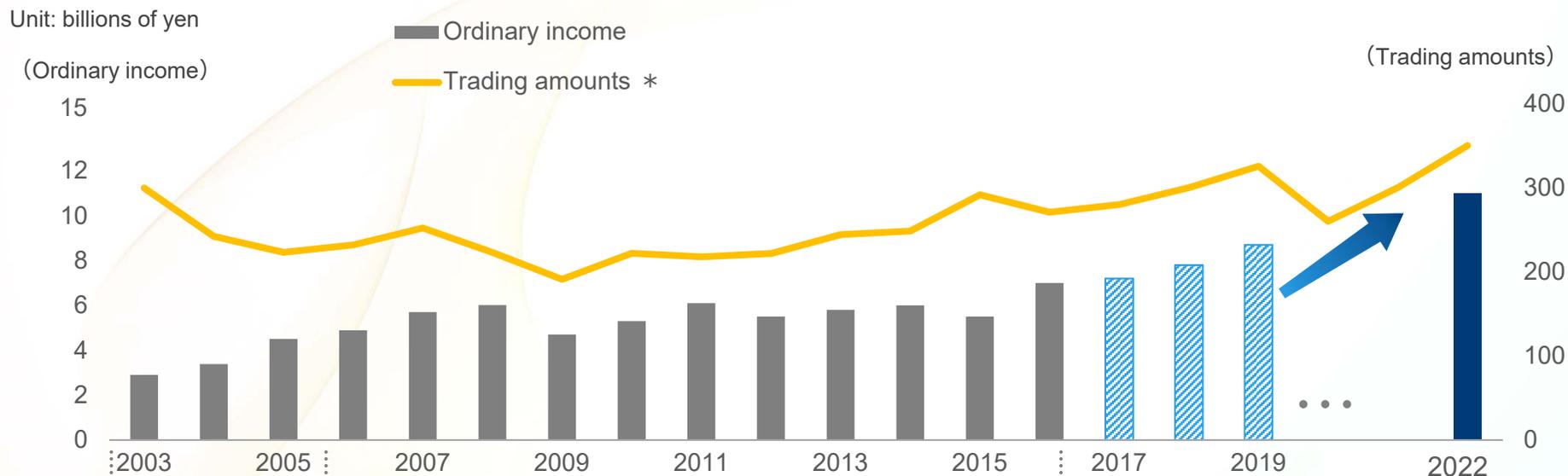
- Delivered consecutive years of record-high ordinary income due to factors such as improved profitability and the contribution to consolidated performance of subsidiaries after M&A.
- Delivered record-high net income attributable to owners of the parent in FY2018 for the first time in eight years. Net income continued to increase in FY2019.

Unit: billions of yen	FY2017	FY2018	FY2019	
	Result	Result	Result	Plan
Net sales	311.7	356.5	329.4	330.0
Ordinary income	7.5	8.7	8.7	8.5
Net income attributable to owners of the parent	4.7	5.6	6.1	5.5
ROA (ordinary income basis)	6.9%	7.3%	7.5%	7.5%
ROE (net income basis)	9.7%	10.7%	11.0%	10% or more

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Medium-Term Management Plan “Chori Innovation Plan 2022”

i . Positioning of Medium-Term Management Plan



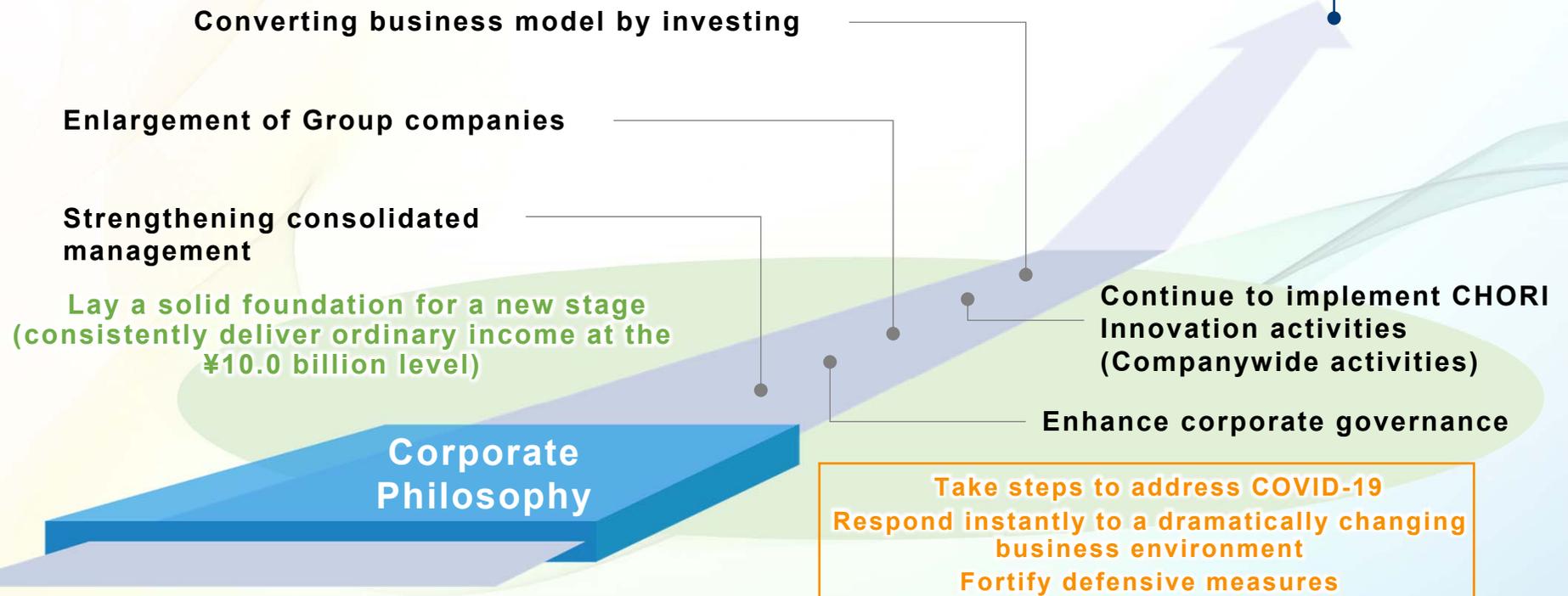
* Based on early adoption of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, issued on March 30, 2018), etc. from FY2020. Unless specified, trading amounts refers to net sales under the standards used before the aforementioned standard was applied.

ii . Basic Policy

【Basic Policy】

Corporate group continues to evolve and change on a global scale, underpinned by our exceptional capabilities and expertise

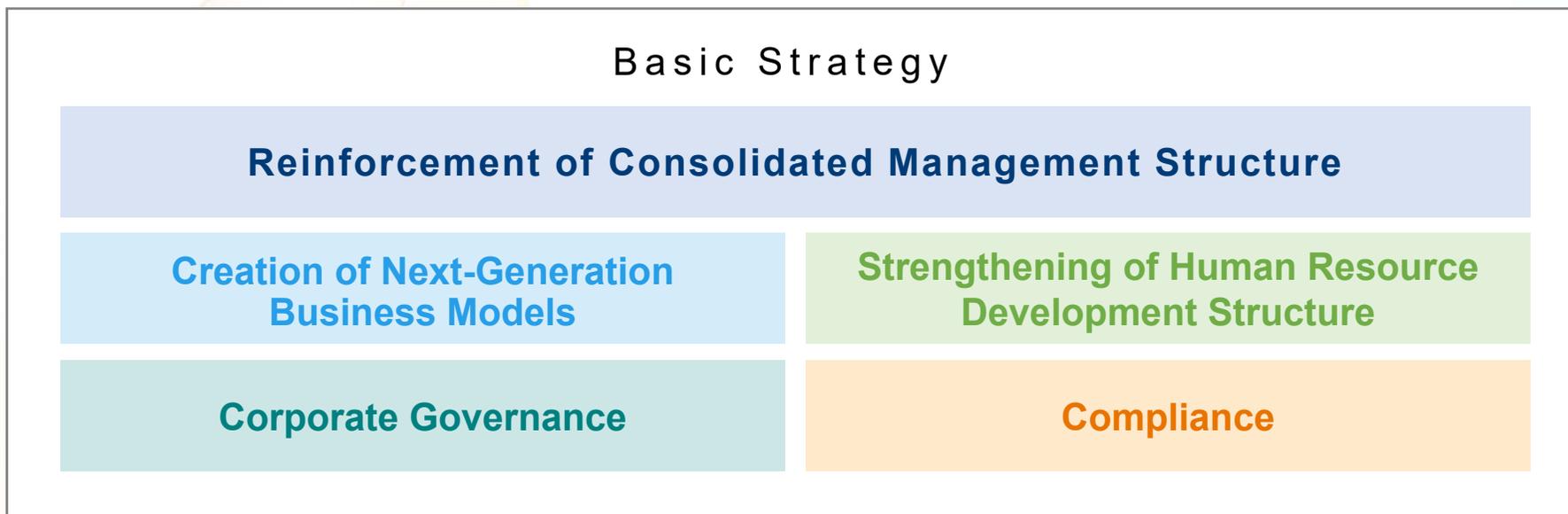
To a new normal
AFTER COVID-19



iii . Basic Strategy

Chori Innovation Plan 2022

Implement basic strategies boldly and steadily,
leveraging the Chori Group’s strengths



Summary of numerical targets	Net sales	Ordinary income	ROA (ordinary income basis)	ROE (net income base)
FY2022 (billions of yen)	280.0	11.0	8% or more	11% or more

Chori Group's Sustainable Growth

iii . Basic Strategy

Reinforcement of Consolidated Management Structure

① Consolidated management centered on global business

- Reorganize company structure to the most optimized management system (from April 2020)
 - Unify the Fibers, Textiles and Garments Business:
One operation
 - Separate management of the Chemicals Business and Machinery Business
 - Introduce business departments
- Expand the global business
- Form strategic partnerships with global companies

② Consolidated management

- Increase the consolidated-nonconsolidated ratio (consolidated-to-nonconsolidated ordinary income ratio 1.35 times → 1.6 times)
- Raise the sophistication of core subsidiaries' capabilities (Miyako Kagaku Co., Ltd., CHORI MACHINERY CO., LTD.)
- Boost the profitability of subsidiaries after M&A and their contribution to consolidated performance
- Promote Group management

③ Portfolio management

- Maintain high ROA and improve ROE
- Constantly optimize the business portfolio and promote sound assets
- Conduct continuous structural improvements
- Fortify defensive measures: Strengthen risk management
 - Credit control
 - Inventory reduction
 - Cost structure optimization (efficient cost implementation)

④ Digital management

- Enhance the development of global infrastructure
- Create new value with business x IT
- Improve operational efficiency through robotic process automation (RPA)

iii . Basic Strategy

Creation of Next-Generation Business Models

① Investment in and development of new businesses

- Maintain the Business Investment Committee
- Focusing on investment in growing fields and areas

Promote business investment based on themes such as the environment, health, sustainability, and cutting-edge technology

➡ Specifically, the aim is to expand activities related to the following key themes:

Fibers, Textiles, and Garments Business

- * Environmental and recycling, health, hygiene, materials fields

Chemicals Business

- * Environmental, 5G-related, electronics and battery materials, healthcare, agri fields

Machinery Business

- * Global market development

- Actively deploy development costs
- Conduct strict feasibility studies

② M&A

- Maintain the M&A Promoting Committee
- Implement separate approaches for companies that contribute to consolidated performance and companies that capture business synergies
- Expand business scope and contribution to consolidated performance
- Follow M&A principles (strict due diligence, etc.)

iii . **Basic Strategy**

Corporate Governance / Compliance

■ **Corporate Governance**

Seek to increase corporate value further by enhancing and strengthening corporate governance

① **Establishment of governance committee**

- Establish a **Governance Committee** (voluntary committee) comprising a majority of independent outside directors, as an advisory body to the Board of Directors. (Established March 25, 2020)



② **Improvement of dividend policy (P.16)**

③ **Continuation of stock-based compensation and enhancement thereof**

④ **Group governance**

⑤ **Enhancement of Chori’s brand value**

⑥ **CHORI Innovation Activities (Companywide activities)**

■ **Compliance**

① **Reinforcement of corporate ethics**

② **Elimination of legal violations**

③ **Global risk management**

④ **Strengthening of supervisory functions at consolidated subsidiaries**

iii . Basic Strategy

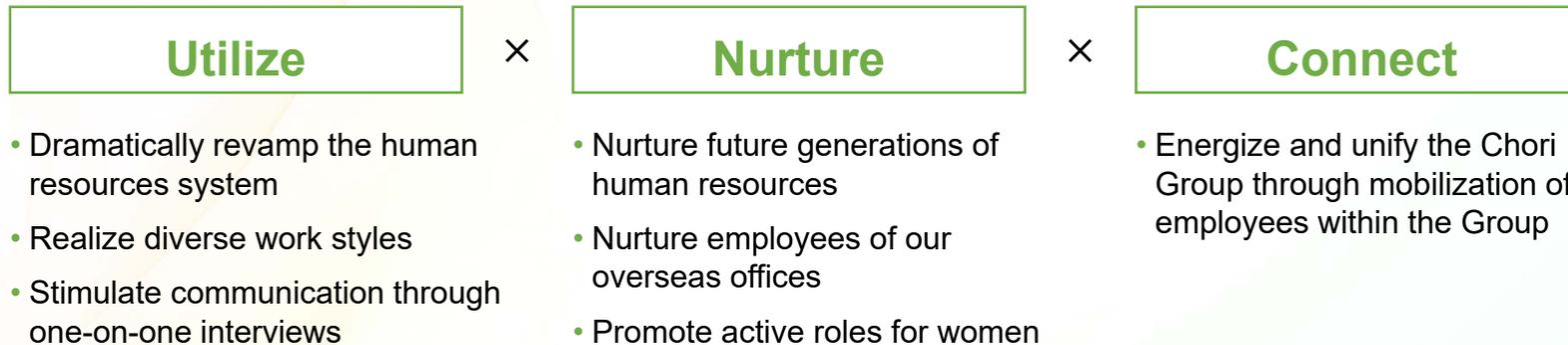
Strengthening of Human Resource Development Structure

Human Resources Policy

“Utilize people, and be useful to them. Nurture people, and develop with them. Connect people, and join together with them.”

→Consider human resources as Chori’s most valuable management resource

① Nurture of human resources for next generation



② Promotion of health and productivity management

• Health declaration

Pledged to promote health and productivity management based on the recognition that every Group employee is an essential management resource of the highest importance.



Strategically undertake employees’ health management from a business management perspective



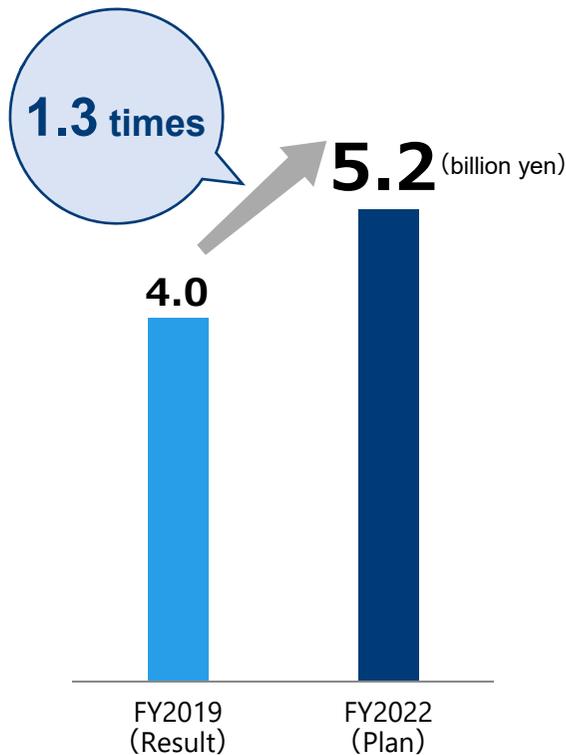
Actively engage in sports to promote employees’ health

iv . Strategy by Business

Fibers, Textiles, and Garments Business

GLOBAL ONE STOP Operation By CHORI

【 Ordinary income 】



① Bolster collective strength in the business

- Reorganize company structure to the most optimized management, with the aim of further strengthening the unified management of the Fibers, Textiles and Garments Business (Three divisions → one division, first major reorganization in 17 years)
- Bring together the collective capabilities of Chori’s Fibers, Textiles and Garments Business, which spans upstream to downstream fields, on a global basis

② Enhance global supply chain management

- Build Chori’s unique supply chain
- Form strategic partnerships with competitive global manufacturers
- Raise the sophistication of the procurement, processing and manufacturing platforms
- Exit strategy for global SPA apparel and sporting goods manufacturers, among others
- Enhance global framework of six regions

③ Strengthen global proposals and marketing capabilities for Chori’s original products

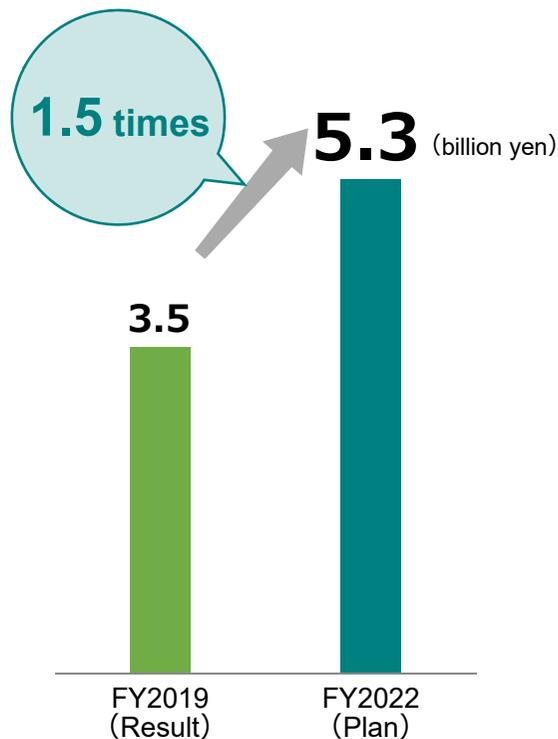
- Propose product lineups based on the key themes of the environment and recycling
- Seek to achieve differentiation by promoting branding of high-performance products

iv . Strategy by Business

Chemicals Business

Accelerate the transformation to a business model based on business investment

【 Ordinary income 】



① Enhance business investment and promote development of new businesses

- Concentrate investment on future growth fields, such as the environmental, 5G-related, electronics and battery materials, healthcare, and agri fields
- Speed up development of new products and strengthen development capabilities

② Accelerate global expansion

- Further strengthen and expand business originating in China
- Large projects in the ASEAN, South America, and Africa regions

③ Transfer business headquarters to optimal location

④ Strengthen subsidiaries centered on Miyako Kagaku Co., Ltd.

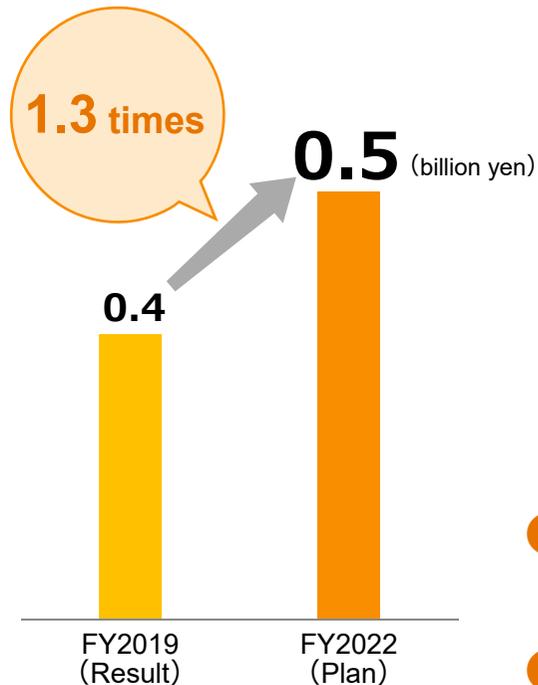
⑤ Expand business domain through M&A

iv . Strategy by Business

Machinery Business

Develop the global market by leveraging the vehicles business platform

【 Ordinary income 】



① Develop markets of four regions + India

- Develop and strengthen markets served by Chori’s four global bases (Mexico, South and Central America, the Middle East and Africa, Southeast Asia, Europe) and India
- Continuously replace business regions



② Expand automotive materials through trade and convert to revenue model

③ Promote strategic alliance with global corporations in each region

v . Dividend Policy

Increase the dividend payout ratio to 30% or more

Trends in per-share dividend (Annual)

(Unit: yen)

▨ Dividends per year

— Net income per share

(Dividends per year)

100

80

60

40

20

0

Targeted a dividend payout ratio of around 20%

Payout ratio 25% or more

Payout ratio 30% or more (FY2020~FY2022)

¥24

¥33

¥34

¥36

¥40

¥59

¥60

¥63

¥90

FY12 Result

FY13 Result

FY14 Result

FY15 Result

FY16 Result

FY17 Result

FY18 Result

FY19 Result

FY22 Plan

(Includes commemorative dividend of ¥10)

(Net income per share)

400

300

200

100

0

Basic Dividend Policy

We seek to make performance-based dividends based on net income levels for the current term from the perspective of motivational profit distribution and ensuring stable management finances with enough internal funds for business development reserved.

vi . Medium-Term Management Plan Financial Targets

Unit: billions of yen

	FY2019 Result	FY2022 Plan
Trading amounts	329.4	350.0
Net sales* (after adoption of Accounting Standard for Revenue Recognition)	248.5	280.0
Ordinary income	8.7	11.0
Net income attributable to owners of the parent	6.1	7.3
ROA (ordinary income basis)	7.5%	8% or more
ROE (net income basis)	11.0%	11% or more

* Net sales reflect the early adoption of Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018), etc.
(Figures for FY2019 results were calculated by the Company.)

Reference: I. Measures for Sustainable Growth

In light of the medium- and long-term outlook, the Chori Group is pushing ahead with the following SDGs themes, with the aim of achieving sustainable growth together with society.

1. Procure recycled pellets for use in the industrial reproduction of raw materials for fibers, with the aim of realizing a recycling-oriented society



2. Procure lithium salt, a raw material for lithium-ion batteries, which will serve as the most efficient means of conserving energy and resources



3. Participate in a chemical fertilizers production project in Nigeria, thereby contributing to agricultural development in Africa



4. Strengthen the corporate governance system (establish a Governance Committee)



5. Develop future generations of human resources and promote active roles for women



6. Health and productivity management



Reference: II. Reference Indexes

(1) Calculation of the cost of capital

- Calculation method: CAPM (capital asset pricing model)
 - Cost of shareholders' equity = risk-free rate + β x market risk premium
- | | |
|---|--------------|
| Risk-free rate | 0.10% |
| Market risk premium | 6.63% |
| β (beta value for individual stock) | 1.08 |
- Cost of shareholders' equity: **7.26%** < Chori's ROE (FY2019 result): **11.0%**

(2) Fund procurement capacity

Chori has secured a fund procurement capacity of ¥100.0 billion in total through such means as committed credit lines from its major banks (¥10.0 billion) and the securitization of trade notes and accounts receivable.

M a k i n g y o u r d r e a m s c o m e t r u e

CHORI CO., LTD.

Forecasts for operational performance, as well as future predictions described in this document, were prepared based on information available as of the day on which this document was released. This document in no way guarantees the contents and operational performance of the company in the future.