

February 8, 2023



# The Teijin Group Reforms for Profitability Improvement

**Teijin Limited**  
TSE Prime: 3401

## Disclaimer regarding forward-looking statements

Any statements in this document, other than those of historical facts, are forward-looking statements about the future performance of Teijin and its Group companies, which are based on management's assumptions and beliefs in light of information currently available and involve risks and uncertainties. Actual results may differ materially from these forecasts. The figures and indicators for the outlook for FY2022 in this document are announced on February 8, 2023.

## Note

The information on pharmaceuticals, medical devices, and regenerative medical products (including products in pipeline ) included in this material is not provided for the purpose of advertising or medical advice.

- I. Executive Summary
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  - III. Long-Term Direction
  - IV. Overview of Profitability Improvement Plan for Underperforming Businesses
  - V. Management Structure Reform
- Supplementary Information
- Non-financial Indicators

## Prioritizing profitability improvement reform for FY2023 toward a return to growth in the future The new Medium-Term Management Plan will be announced in FY2024

### Profitability Improvement Measures (Announced this time)

- In FY2023, we will carry out structural reforms company-wide, focusing on improving profitability of underperforming businesses and reforming our management structure of corporate officers and HQ staff.
- As a result of these efforts, we aim to improve earnings by 30 billion yen or more by FY2023.

#### Profitability Improvement for Underperforming Businesses

##### Composites Business

- For the North American business, approximately 130 new profitability improvement measures on the operational level, in addition to the measures so far, will be implemented. If the improvement measures are not achieved, decision on whether to continue the business, including the possibility of selling the business will be made.
- Selecting and concentrating facilities in Europe, China, and Japan, is made, considering the possibility of selling or withdrawing from these markets

##### Aramid Business

- Prioritizing the stabilization of production in response to issues such as production slump, including factory fires, and restoring earnings

##### Healthcare Business

- Setting prospects for achieving the fixed costs reduction up to the essential functional resources, aiming for business development in areas such as rare diseases and intractable diseases

#### Management Structure Reforms

##### Review of the management structure to promote faster management decisions and executions

- Flattening of the organizational hierarchy, halving the number of corporate officers, etc.

### New Medium-Term Management Plan (to be announced in FY2024)

- The new Medium-Term Management Plan for the entire Teijin Group will be announced in FY2024, reflecting the results of profitability improvement in FY2023, restructuring the business portfolio, and growth strategies.

# II. Review of Medium-Term Management Plan 2020-2022

## Summary

- The financial targets failed to achieve due to significant drop in profitability of Materials Business amid radical changes in the external environment.
- While certain businesses are performing on track, **radical profitability improvement is necessary on a company-wide level** to avoid further decline in profitability of underperforming businesses.

## Strategic Focus

### Composites for automotive

- Our position as No.1 Tier1 supplier in North America became stronger due to proactive investments.
- **Large deficit in profit continued despite cost pass-through, cost cutting, insourcing, and automation** to offset semiconductor shortages, sharp rise in raw material costs, and labor shortages.

### Carbon fiber intermediate materials for aircraft

- The new carbon fiber plant in North America has been launched successfully.
- COVID-19 **significantly delayed development of next-generation aircraft applications** with Teijin's materials expected to be adopted.

### Healthcare New Business

- **Comprehensive Community-based Healthcare**, orthopedic implantable devices, functional foods made progress but **require more time to grow into an adequate size of business**
- Regenerative Medicine CDMO business has been launched as an integrating area of Healthcare and Materials

## Profitable Growth

### Aramid

- Despite an increase in production capacity, profitability significantly declined due to the **cost increase out of rising price of natural gas and underperformed productivity** caused by **labor shortage, slump in production, and occurrences of power outage and fire.**

### Resin

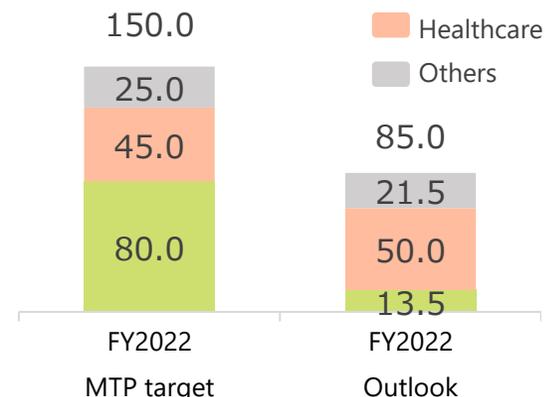
- Stable profits have been secured by shifting to high value-added products

### Pharmaceuticals and home healthcare

- Cash generating ability has been enhanced thanks to takeover of the sales rights for diabetes treatments, but **product pipeline for future profits is insufficient.**
- Home healthcare **maintained top share of home oxygen therapy (HOT) and continuous positive airway pressure (CPAP) therapy** in Japan, while **creation of new products and services wasn't enough.**

## EBITDA\*1

(billions of yen)



	FY22 MTP Target	FY22 Outlook
<b>ROE*2</b>	10% or higher	-4%
<b>ROIC (based on operating income)*3</b>	8% or higher	1%

\*1 Operating income + Depreciation & amortization

\*2 ROE= Profit attributable to owners of parent / Average\* total shareholders' equity

\*3 ROIC based on operating income = Operating income / Average\* invested capital

(Invested capital = Net assets + Interest-bearing debt - Cash and deposits )

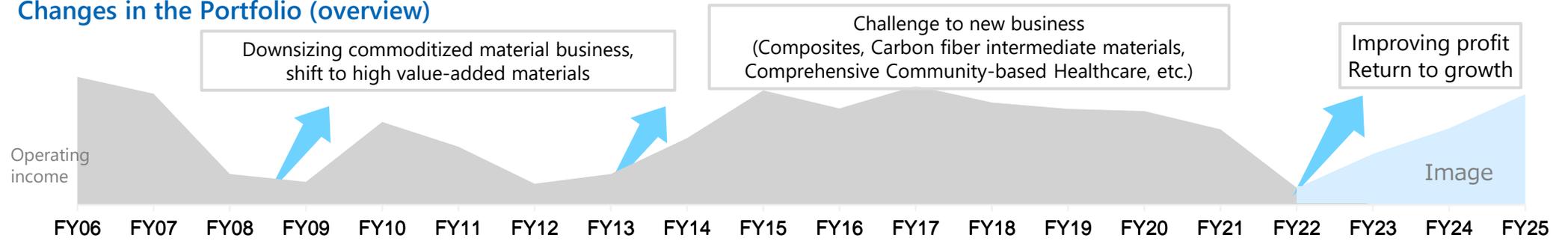
\*Average: ([Beginning balance + Ending balance] / 2)

# III. Long-Term Direction

## Target Position

- About 100 years since its foundation, Teijin has foreseen society's future needs and developed its business platform, pursuing ceaseless reform and challenges to create businesses.
- Teijin has sincerely faced customers and patients, building reliable quality, strong customer relations and ability to support patients and communities.
- We will deepen these strengths, overcome this difficult situation, and make a concerted effort to return to growth.

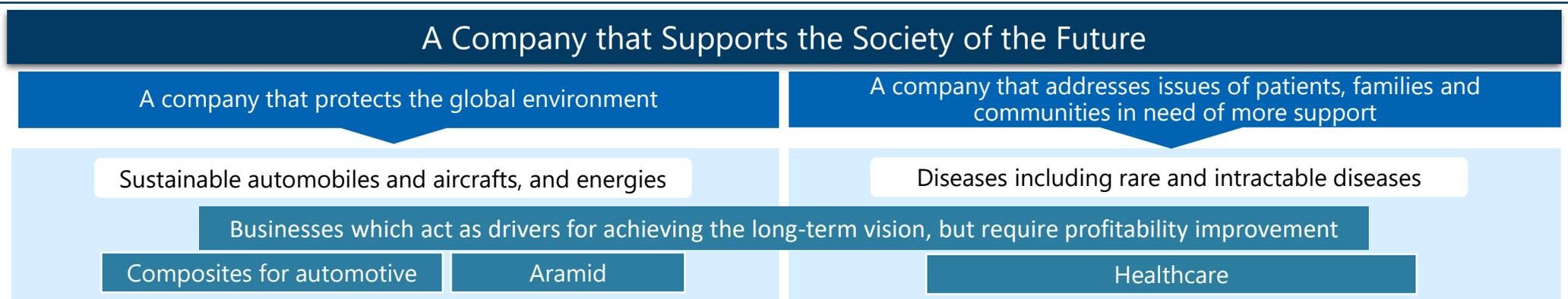
### Changes in the Portfolio (overview)



## Long-term Materiality

- Our long-term vision to be “A Company that Supports the Society of the Future” and our “Materiality” remain unchanged.
- We will accelerate transformation into a company that solves important social issues in the post-pandemic world, taking advantage of our strength.

## Embodying Long-Term Vision



\*Material issues (materiality): Climate change mitigation and adaptation, achievement of a circular economy, safety and security of people and local communities, realization of healthy and comfortable living for people, further strengthening of sustainable management base

- We do not make any major changes to the Medium-Term Management Plan 2020–2022
- However, the investment strategies classified into Strategic Focus and Profitable Growth are temporarily suspended

<b>Materials</b>	<ul style="list-style-type: none"><li>■ Composites and Carbon fiber intermediate materials have growth potential in the long-term and will be nurtured to provide environmentally friendly solutions through customer-oriented business.</li><li>■ Aramid will pioneer the shift to a circular business over the entire value chain.</li><li>■ Carbon fibers, Resin, and Separators will focus on an environmentally friendly strategy including recycling and use of biomaterials.</li></ul>
<b>Fibers &amp; Products Converting</b>	<ul style="list-style-type: none"><li>■ Growth in growing sectors (mobility, infrastructure, global apparel) will be accelerated while promoting environmental strategies.</li></ul>
<b>Healthcare</b>	<ul style="list-style-type: none"><li>■ Healthcare aims at a unique comprehensive healthcare company that addresses needs of every individual by providing unique products and services based on science.</li></ul>
<b>IT</b>	<ul style="list-style-type: none"><li>■ IT Service Business Solutions Group will focus on the healthcare business, while the Digital Entertainment Group will explore further growth opportunities.</li></ul>

# IV. Overview of Profitability Improvement Plan for Underperforming Businesses: Composites

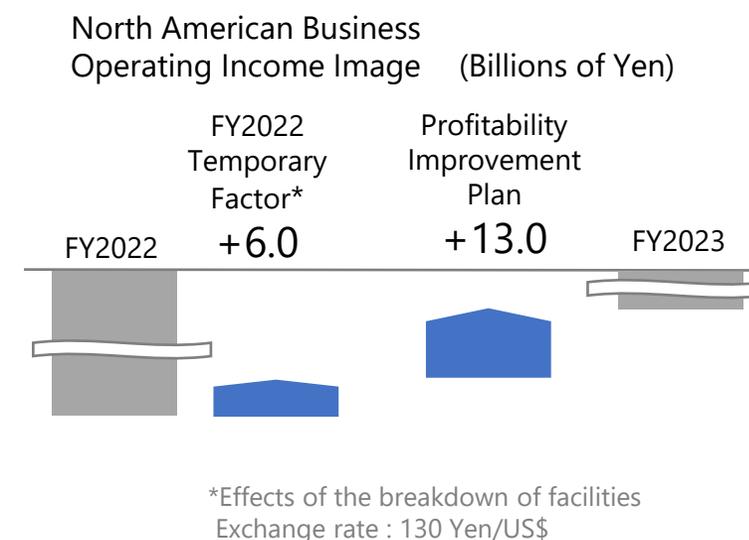
## Direction

- Further reinforcing customer relations to **provide sustainable products and solutions** in light of EV shift in the automotive market.

## Key Points of Profitability Improvement Plan

- Placing **top priority on a swift recovery from the deficit in profit, narrowing down investments, and reexamining thoroughly the room for improving the profitability of the North American business** comprised of many high value-added programs.
- Aiming to improve **operating income by +13 Billions of Yen** in FY2023 with approximately 130 new improvement measures that have been formulated and implemented on the operational level.
- If the improvement measures are not achieved, decision on whether to continue the business, including the possibility of selling the business will be made.

Profitability improvement area in North America	Overview of improvement measures	
<b>Sales</b>	<ul style="list-style-type: none"> <li>Exiting unprofitable programs</li> <li>Renegotiating cost pass-through other than raw material cost</li> </ul>	5.0
<b>Procurement</b>	<ul style="list-style-type: none"> <li>Negotiating with/switching suppliers, reviewing proposal request and bidding process</li> <li>Centralizing procurement</li> </ul>	1.5
<b>Production</b>	<ul style="list-style-type: none"> <li>Scaling out best practices, optimizing inventory and logistics</li> <li>Integrating or partially closing production facilities for efficient use of capacity</li> </ul>	6.5
FY2023 total profit improvement (Billions of Yen)		<b>13.0</b>



- Selecting and concentrating facilities in Europe, China, and Japan, **taking into account the possibility of selling or withdrawing from these markets.**

# IV. Overview of Profitability Improvement Plan for Underperforming Businesses: Aramid

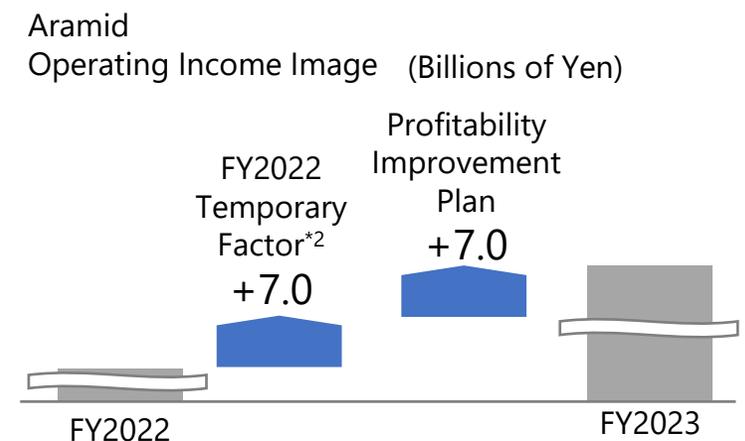
## Direction

- Setting KPIs to aim at 100% use of renewable energy / zero-use of oil-derived raw materials by 2050 and **further differentiating itself in sustainability by allocating resources to environmental investments**
- **Strengthening top share position by increasing sales volume**

## Key Points of Profitability Improvement Plan

- Prioritizing the following measures to transform into a resilient business structure, and **setting prospects for future earnings recovery in FY2023**
- **Prioritizing investment necessary for improvement measures**

Productivity Improvement	<ul style="list-style-type: none"> <li>● Rapid recovery from the impact of factory fire, stabilizing production on existing and expanded lines, and driving production innovation through enhanced automation<sup>*1</sup> and digitalization of processes mainly in the yarn spinning process</li> </ul>
Natural Gas Price Surge	<ul style="list-style-type: none"> <li>● Considering sourcing raw materials from outside Europe and dispersing production facilities</li> <li>● Stabilizing purchase price (e.g. executing forward contract)</li> </ul>
Production/Sales Increase	<ul style="list-style-type: none"> <li>● Realizing early the effects of expanded facility capacity</li> </ul>



\*1 Operation will begin in 2024  
 \*2 Impact of fire at raw material factory  
 Exchange rate : 130 Yen/US\$, 140 Yen/Euro

## Sustainability Initiatives

- Developing recycling technologies of products and promoting sales of recycled items<sup>\*3</sup> by creating recycling system with partners
- Adding high value through the establishment of circular businesses including the use of recycled materials

\*3 Sales target of recycled items in 2025: Over 5%

# IV. Overview of Profit Improvement Plan for Underperforming Businesses: Healthcare

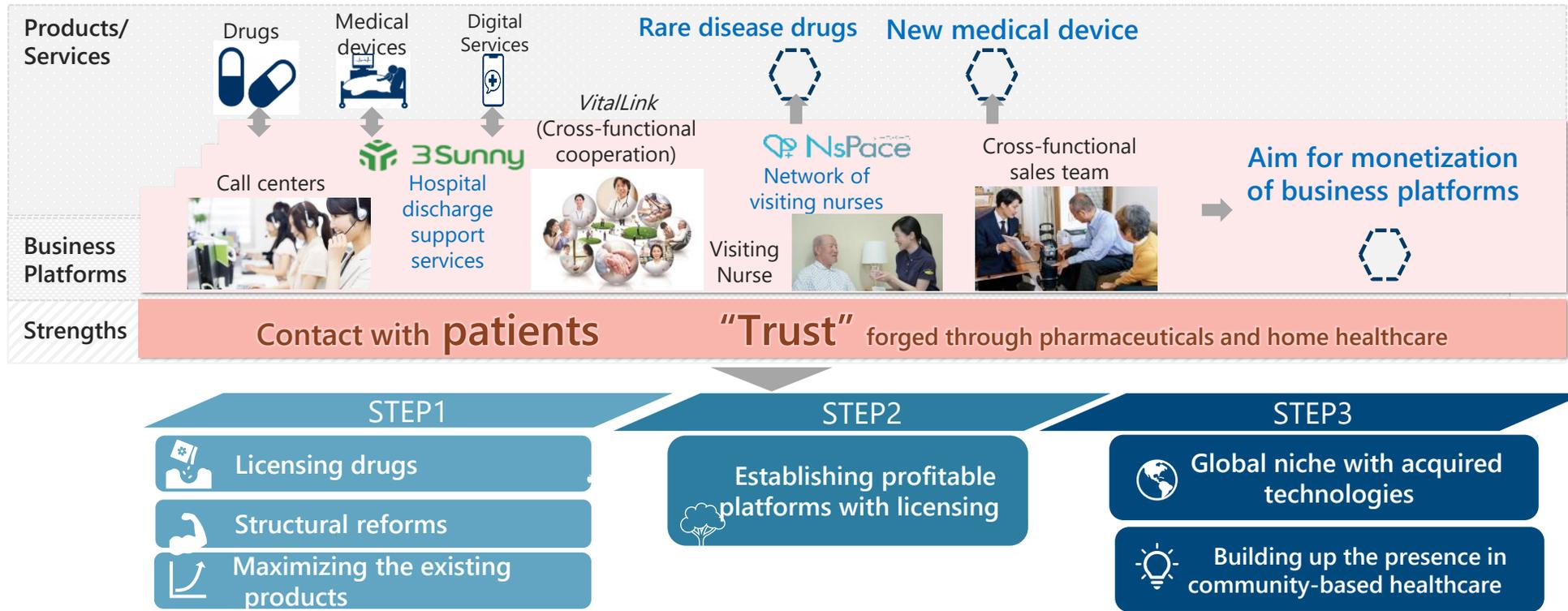
## Direction

- Utilizing business platforms to license in drugs for rare and intractable diseases areas first and aiming at expanding pipeline with new services and new medical devices
- Aiming for monetizing the business platform as uninsured healthcare business

## Key Points of Profitability Improvement Plan

- Utilizing the business platforms, cultivated as a No.1 home healthcare devices business, for pharmaceuticals of rare diseases and intractable diseases
- Thoroughly reviewing necessary functional resources and setting prospects for drastically reduce fixed costs in FY2023 (fixed cost reduction target by FY2025 : 5 billion yen)

## Strategy Overview



## ■ Redefining management structure for swift decision-making and executions to resiliently respond to changes of external environment

### Clarifying the roles of HQ and Business Units

- Clarifying responsibilities and roles through restructuring the Corporate Officer system
  - Shifting to the new corporate officer system consisting of the CEO and “Chief Officers”, and “Business Executive Officers” in charge of business operation.
  - Reducing the number of corporate officers from the current 30 to 15 and abolishing corporate officers (Riji).
- Concentrating organizations under CEO’s direct supervisory
  - Flattening the organizational structure, eliminating and consolidating functional Chief Officers and placing business units under CEO’s direct supervisory by abolishing the “President position” of Materials/Healthcare Business.

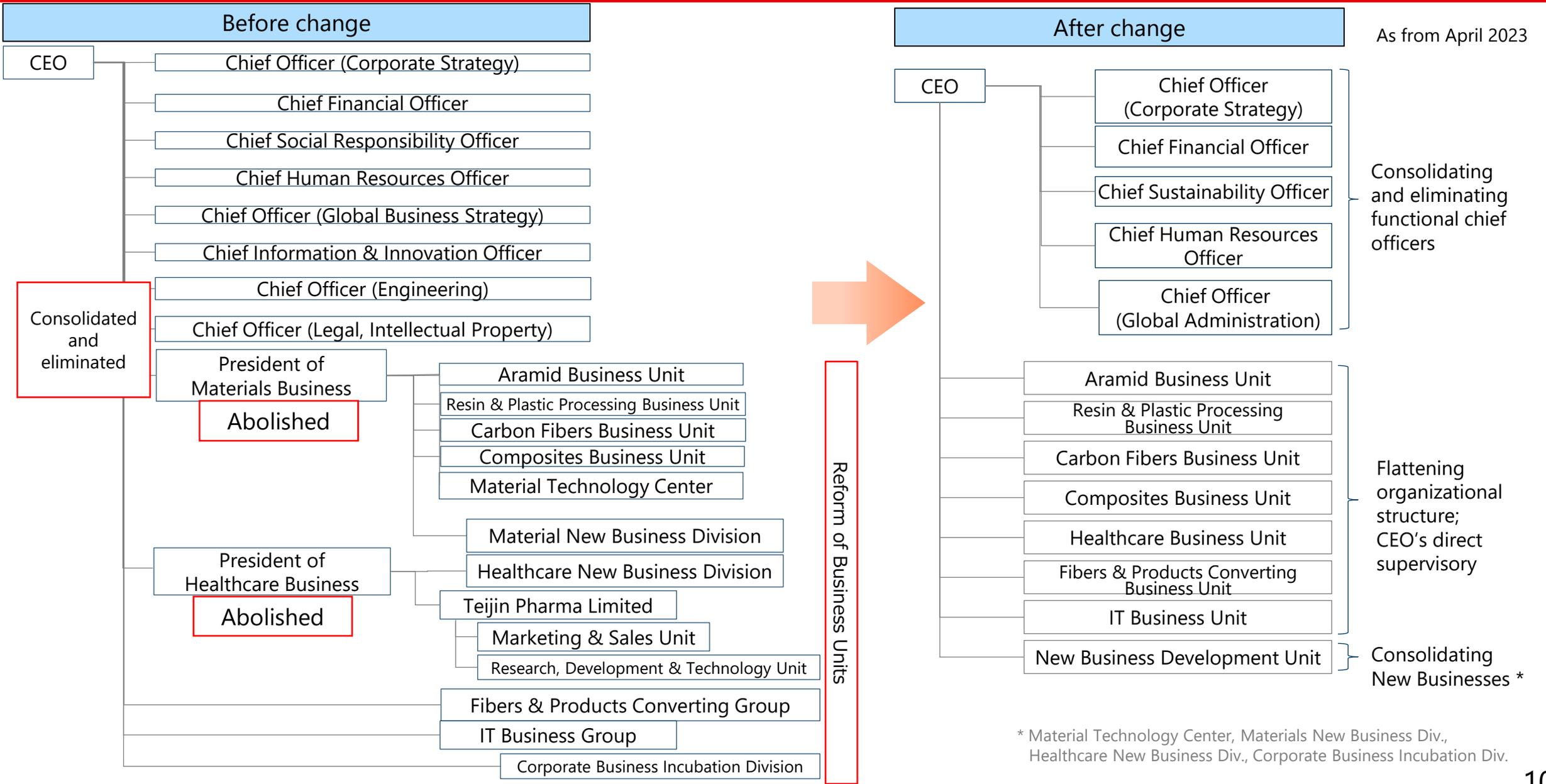
### Enforcement of business operation function

- Through the structure of CEO’s direct supervisory, enforcing the creation of business strategy/planning and monitoring by HQ.
- Further delegation of General Managers of Business Units to strengthen execution power, balancing speedy execution and risk management.

### Review of HQ’s function

- Reorganizing and integrating new business development organizations in Materials and Healthcare Businesses into New Business Development Unit under Corporate supervision.  
The creation of innovation for the future through collaboration will be executed cross-functionally.
- Concentration and enforcement of the function for creations and executions of cross-company strategy, optimizing the allocation and scale of HQ staff in line with the organizational reform.  
(Target fixed cost reduction by FY2025 : 4 billion yen)

# V. Management Structure Reform: Organizational Change

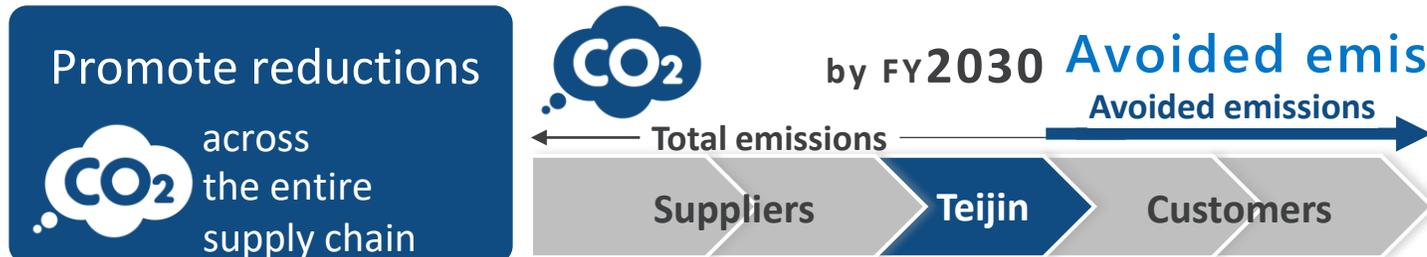


# Appendix

# Appendix) Non-financial Indicators (reducing environmental impact)

- Keeping non-financial KPIs for reducing environmental impact set in the Medium-Term Management Plan 2020-2022 to achieve the long-term vision (One target is raised).
- The roadmap for achieving the long-term goals will be clearly indicated in the new Medium-Term Management Plan (to be announced in FY2024).

			Medium-Term Management Plan 2020-2022	Latest Targets
Long-Term Targets for reducing environmental impact (vs FY2018)	Climate Change (CO <sub>2</sub> emissions)	Our CO <sub>2</sub> emissions (Scope 1+2)	FY2030 30% reduction	▶ (no change)
			FY2050 Net <b>Zero</b> Emissions	▶ (no change)
	Supply chain (Scope 3)	FY2030 15% reduction*	▶ (no change)	
	Water (freshwater intake per unit of sales)	FY2030 30% improvement	▶ (no change)	
	Hazardous Substance (emissions of hazardous chemical substances per unit of sales)	FY2030 20% improvement	▶ (no change)	
	Resource Circulation (landfill waste volume per unit of sales)	FY2030 10% improvement	▶ <b>20%</b> improvement	



Calculate the CO<sub>2</sub> reduction effect in the downstream of supply chain due to the use of Teijin products as avoided emissions, which are to be made greater than total CO<sub>2</sub> emissions of the entire Group and the upstream of supply chain

\* Reduction target for emissions from sources accounting for 2/3 or more of total Scope 3 emissions (the portion of Scope 3 emissions from all purchased products and services (Category 1), excluding trading company business)

- Long-term targets have been redefined in line with the reduction in the number of Corporate Officers made in the management structure reform.
- Changed the target from a number of people to ratio.

## Diversity and Inclusion

	Milestone APR 2026	Targets FY2030
Female executives	20%	30%
Non-Japanese executives	10%	30%
Employee satisfaction	1% improvement every year (Reference: 64% in FY2022)	

***TEIJIN***

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