

Actions for Profit Margin Improvement: Raw Material Price Increases and Our Responses

In order to achieve our Year 3 operating profit target in the Medium-Term Plan of 140 billion yen, we are taking actions such as strategic price increases and continuous reviews of SG&A expenses to respond to raw material prices that have moved up significantly and remained elevated due to the Ukraine crisis and other reasons. As a result of these actions, the operating profit margin is starting to recover.

Raw material prices

Crude oil and naphtha prices have increased following US and UK bans on Russian oil imports, coupled with continuing disruptions in international logistics and intermittent problems at some factories. Raw material prices increased further during the first half of FY2022.

Crude oil/naphtha	Crude oil and naphtha prices have increased beyond our assumptions at the start of FY2022 due to US and UK bans on Russian oil imports. These prices are unlikely to decline within the next few months or so.
TiO ₂	The price of TiO ₂ has increased further due to continuing ore price increases, logistics disruptions, and supply-and-demand imbalances. The Ukraine crisis may cause the cost of TiO ₂ to increase even faster.
China	Raw material production and logistics have continued to be impacted by production restrictions and China's zero-COVID policy, coupled with electricity shortages.

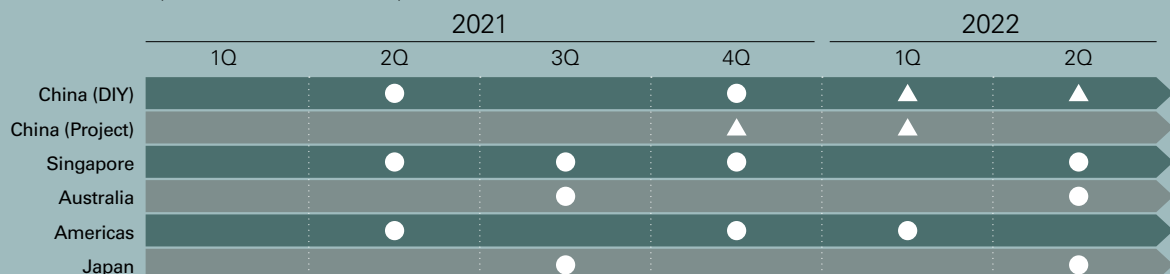
Our responses in the first half of FY2022

With the high cost of raw materials impacting our operations worldwide, we are continually taking actions such as raising selling prices, procuring alternative raw materials, and reviewing SG&A expenses.

Selling price increase	We have been raising selling prices in the decorative paints business in major operating regions since 2Q FY2021. We have also conducted price negotiations in the automotive and industrial businesses while maintaining sound relationships with customers.
Procurement of alternative raw materials	Our R&D and production divisions in all operating regions are sharing information and knowhow about ways to procure alternative raw materials.
Review of SG&A expenses	We are reviewing SG&A expenses in all operating regions, which resulted in 1 pt reduction in the consolidated SG&A expense in FY2021, to 29.5% from 30.5% in FY2020.

Selling price increases in major operating regions (decorative paints)

● Price revisions of all products ▲ Price revisions of some products



Road map for improving the OP margin

Our guidance for FY2022 announced in February 2022 assumed that the Japan naphtha price would remain above ¥60,000 through 1H FY2022. However, raw material prices have increased beyond our assumptions due to rising crude oil and naphtha prices caused by US and UK bans on Russian oil imports. We will continue to raise selling prices to keep up with raw material price increases, which we expect will result in continuous and gradual improvement of the operating profit margin. However, margin improvements may be delayed depending on crude oil and naphtha market developments. We are well positioned to restore the operating profit margin over the medium and long term through continuous selling price increases.

Raw material prices and OP margin

