

SUMITOMO CHEMICAL Announces Revision of FY2023 Financial Forecast, FY2024 Financial Forecast, etc.— Despite Strong Downward Pressure on Ratings, Progress Toward Future Performance Recovery

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on SUMITOMO CHEMICAL COMPANY, LIMITED (security code: 4005)'s announcements on its financial forecast revision for FY2023, financial forecast for FY2024 and others.

- (1) On April 30, SUMITOMO CHEMICAL (the "Company") announced a revision of its financial forecast for the fiscal year ended March 2024 (FY2023). The Company also announced the progress of the immediate-term concentrated performance improvement measures, the outline of fundamental structural reforms for the two slumping businesses, and the outlook for FY2024. For FY2023 performance, the Company forecasts a core operating income in the red of 149 billion yen (previous forecast was a 145 billion yen loss) and a net income in the red of 312 billion yen (previous forecast was a 245 billion yen loss), and while the core operating income is expected to be roughly in line with the previous forecast, net income is expected to be lower, mainly due to an impairment loss on the patent for Myfembree (a drug for the treatment of uterine fibroids and endometriosis) in the Pharmaceuticals business. On the other hand, concerning the two slumping businesses, which are the most pressing issues, for Sumitomo Pharma, which handles the Pharmaceuticals, the parent company will take measures, including debt guarantees, in addition to reducing the cost structure to a level appropriate for the size. In addition, for Essential Chemicals, it announced a review of the positioning of Petro Rabigh and plans to improve profitability in the future. In addition to the above, the Company indicated that it will build a new growth model by concentrating its management resources on Agriculture and ICT related businesses.
- (2) The Company's financial base will be impaired more than previously expected due to the widening of the net loss for FY2023. Due in part to the increase in interest-bearing debt, it is inevitable that the net DER will deteriorate somewhat more significantly relative to that at the end of FY2022. However, it is understandable that the Company posted the related losses as a response to future structural reforms and performance recovery. While there was no mention of a review of investments in the two slumping businesses, and the outlook for Essential Chemicals' performance remains difficult to predict, the path to a return to profitability has been developed to some extent for the Pharmaceuticals business. In addition, the immediate-term concentrated performance improvement measures are progressing at a faster pace and are expected to show some effects in terms of performance and financials in FY2024. Including these factors, the forecast for FY2024 shows reasonable figures as a V-shaped recovery. The lower performance for FY2023 is expected to increase downward pressure on the rating, but it will remain at a level that can be absorbed by the Company's financial strength. The Company's strength in Agriculture and ICT related businesses is considered being maintained, and such downward pressure may ease if its performance picks up steadily from FY2024 onward. JCR will check the pace of performance recovery and improvement in the Company's financial structure, as well as progress in rebuilding its two slumping businesses, and incorporate these developments into the rating.

Shigenobu Tonomura, Takeshi Fujita

<Reference>

Issuer: SUMITOMO CHEMICAL COMPANY, LIMITED

Long-term Issuer Rating: A+ Outlook: Negative



Japan Credit Rating Agency, Ltd.

Jiji Press Building, 5-15-8 Ginza, Chuo-ku, Tokyo 104-0061, Japan
Tel. +81 3 3544 7013, Fax. +81 3 3544 7026

Information herein has been obtained by JCR from the issuers and other sources believed to be accurate and reliable. However, because of the possibility of human or mechanical error as well as other factors, JCR makes no representation or warranty, express or implied, as to accuracy, results, adequacy, timeliness, completeness or merchantability, or fitness for any particular purpose, with respect to any such information, and is not responsible for any errors or omissions, or for results obtained from the use of such information. Under no circumstances will JCR be liable for any special, indirect, incidental or consequential damages of any kind caused by the use of any such information, including but not limited to, lost opportunity or lost money, whether in contract, tort, strict liability or otherwise, and whether such damages are foreseeable or unforeseeable. JCR's ratings and credit assessments are statements of JCR's current and comprehensive opinion regarding redemption possibility, etc. of financial obligations assumed by the issuers or financial products, and not statements of opinion regarding any risk other than credit risk, such as market liquidity risk or price fluctuation risk. JCR's ratings and credit assessments are statements of opinion, and not statements of fact as to credit risk decisions or recommendations regarding decisions to purchase, sell or hold any securities such as individual bonds or commercial paper. The ratings and credit assessments may be changed, suspended or withdrawn as a result of changes in or unavailability of information as well as other factors. JCR receives a rating fee paid by issuers for conducting rating services in principle. JCR retains all rights pertaining to this document, including JCR's rating data. Any reproduction, adaptation, alteration, etc. of this document, including such rating data, is prohibited, whether or not wholly or partly, without prior consent of JCR.

JCR is registered as a "Nationally Recognized Statistical Rating Organization" with the U.S. Securities and Exchange Commission with respect to the following four classes. (1) Financial institutions, brokers and dealers, (2) Insurance Companies, (3) Corporate Issuers, (4) Issuers of government securities, municipal securities and foreign government securities.

JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)
