

## Message from the CFO

**We will actively return profits to our shareholders while focusing on investment to research and development.**



**MIYAZAKI Junichi**

Director, Senior Executive Vice President, CFO

## About Our Financial and Capital Strategies

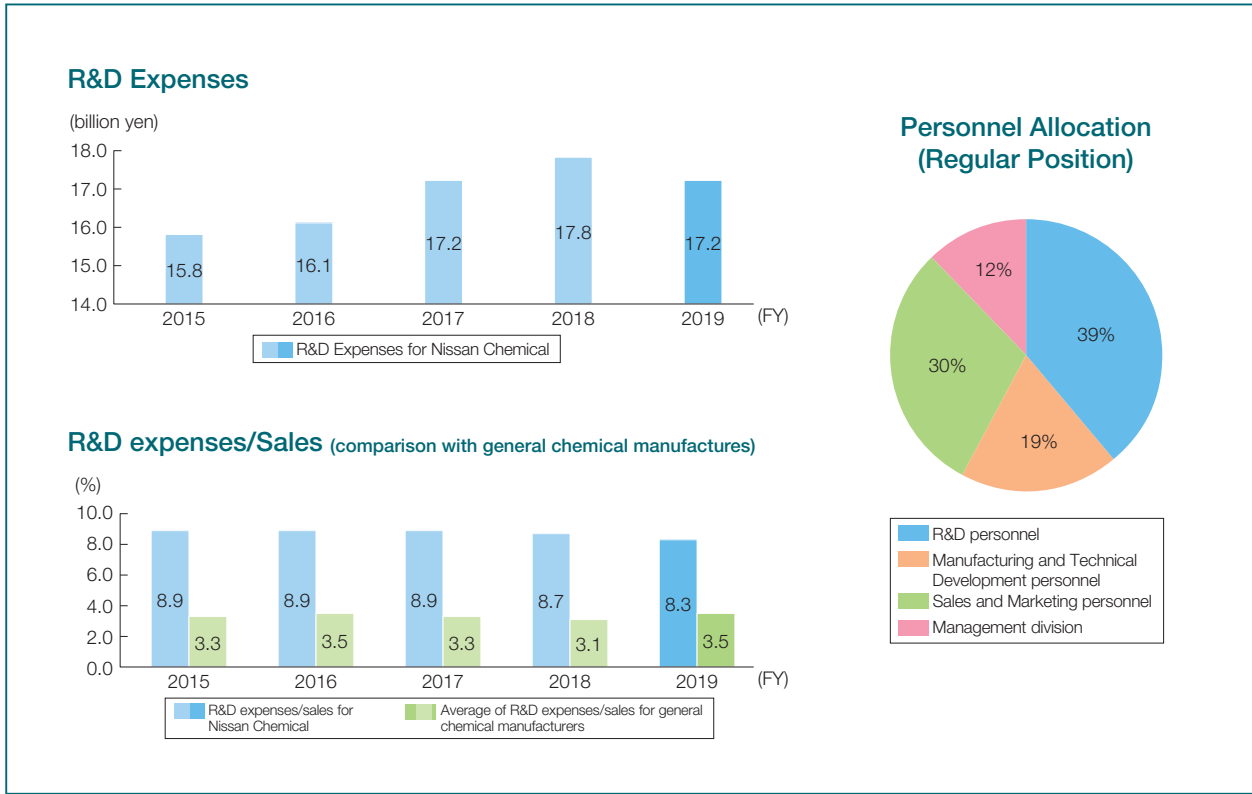
**Continuing to maintain an ROE of 16% or higher by placing the highest priority on it as a management index.**

The basis of our financial strategy is to place the highest priority on ROE (return on equity) as a management index. We have maintained this policy since the middle of 2000s, and aim for an ROE of 16% or more in the “Vista2021” mid-term business plan (2019-2021). In FY2019, we achieved an ROE of 16.9% and maintained it at a high level, which is more than double an ROE of 8% that is generally regarded as acceptable.

The reason why we place great importance on ROE is rooted in our corporate philosophy “We contribute to society in harmony with the environment, based on our excellent technologies, products and services”. To achieve this, instead of following the idea of producing mass volumes of cheaper products like many other general chemical companies do, our strategy is to create high value-added products and provide them to niche markets.

As a management index which reflects this business strategy, we decided to place importance on an ROE that matches the business concept of producing high value-added products using limited resources called “equity” (shareholders’ equity) to make profits. Our ROE has continued to rise since being recorded at 9.5% in FY2011.

The financial impact caused by the global spread of COVID-19, which began in the latter half of FY2019, is relatively small at the moment. Among our business domains, Agricultural Chemicals and Pharmaceuticals are not easily affected by economic trends, and demand for Performance Materials, such as materials for semiconductor and display, is currently strong. However, since there is no prospect of eradicating COVID-19, I think it is necessary to pay attention to future trends.



## About Our Investment Plan

### We will continue to develop our own innovative technologies and meet the demands of society.

We aim to change society for the better by constantly creating innovative technologies and reflecting those technologies in our products. For this, we are actively investing in research & development (R&D). While the average of sales-to-R&D expenses ratio (R&D expenses/sales) in the chemical industry is 3% to 4%, our sales-to-R&D expenses ratio for FY2019 is 8.3% (annual investment of about 17 billion yen). It has maintained a high level (8% to 9%) for around the past 10 years. The majority of the breakdown is investment in Performance Materials and Agricultural Chemicals.

In terms of human resources, about 40% of employees of regular position are allocated as R&D personnel (non-consolidated basis). In this way, I can say that we are at a level where we can fully implement various fiscal policies while giving top priority to R&D investment.

Looking at past figures, our operating margin has maintained levels of 10% or more for 17 consecutive years from FY2003 to FY2019. This is a record that only one other company in the chemical industry can

claim to have. That is why the chemical industry is an industry where business performance is susceptible to changes in the economy and other business environments.

Our company, however, has secured profits without being affected by the external environments by creating new growth engines one after another, such as active ingredients for pharmaceuticals and veterinary pharmaceuticals, agrochemicals, and materials for liquid crystal display. Now that they are all fully matured, the major issue is that next new engines that will support our growth have not yet developed.

Although we have positioned regenerative medical materials and materials for displays and sensors as the next growth engines, they are still in the budding stage.

If these new lines of business are launched in the future, some level of capital investment will be required. All of the current growth engines are also created from steady R&D, and, in that sense, we will continue to firmly secure about 9% of the sales for investment in R&D.

## Capital Efficiency and Shareholder Returns

**We have achieved a total shareholder payout ratio of 75%, including dividends and share repurchase.**

We place great importance on returning profits to our shareholders. The dividend payout ratio (dividend net/income per share) was around 30% until FY2015, but has been gradually increased since FY2016 to 42.8% in FY2019.

In regard to capital efficiency, as I have already mentioned, ROE is given importance and the amount of shareholders' equity is controlled. We have been aggressively pursuing share repurchase to improve our ROE. Although the amount reached 10 billion yen in FY2019, the repurchased shares were basically canceled in the same year. This makes it possible to actively return profits to our shareholders, including dividends and share repurchase.

As a result, the total shareholder payout ratio ((total dividend + share repurchase)/net income) has been over the 70% range since FY2015 and was 75.1% in FY2019. Considering that the average total shareholder

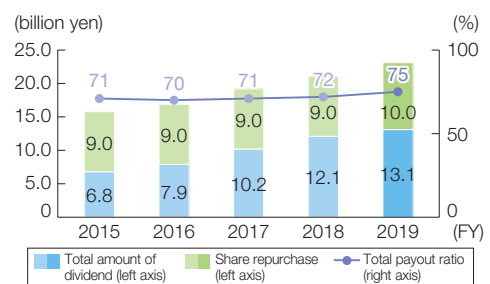
payout ratio of Japanese companies is about 45%, it can be said that ours is at a fairly high level. The total payout ratio target for 2020 and 2021 as provided in "Vista2021" is 75% (dividends of 45%, share repurchase of 30%).

Furthermore, the equity ratio is currently over 70%, and since financial stability is sufficiently secured, I believe that it is not necessary to accumulate a larger amount of capital. Both cash and deposits are at a sufficient level, and we are in a very favorable state in terms of cash flow. I am able to say that we can continue to utilize this cash for investment and shareholder returns as needed.

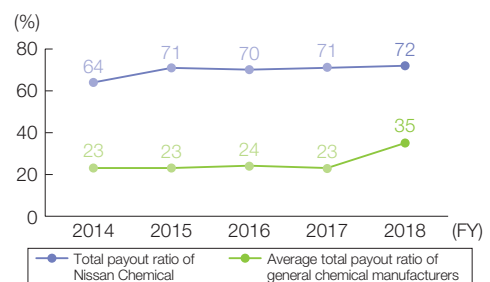
While proclaiming the importance of shareholder returns, some companies are reluctant to commit to investors in terms of total payout ratio, etc. As promised, we will continue to stick to our policy of being committed to investors without change.



### Total amount of dividend/ Share repurchase/Total payout ratio



### Total payout ratio (comparison with general chemical manufactures)



## Number of Dialogue with Stakeholders Held in FY2019

With Institutional Investors	306
With Individual Investors	2
With Analysts	49
ESG Related Dialogues	2



Financial results briefing

## Dialogues with Stakeholders

**We will make management decisions by referring to the opinions received via dialogues.**

We make opportunities for dialogues with stakeholders such as institutional investors and analysts as much as possible, and actively explain and exchange opinions on mid- to long-term growth strategies and efforts to solve social issues through our business.

At briefings for individual investors, etc., since our business portfolio covers various domains such as Chemicals, Performance Materials, Agricultural Chemicals, and Pharmaceuticals, we want investors to fully understand the content of these business areas. As a result, we take time to explain to them about each business field in detail. Due to the characteristics of each business field, performance varies greatly depending on the season. Therefore, a special characteristic of our briefing sessions is that we disclose detailed quarterly performance information unlike other companies that provide performance information for the first half and latter half of a fiscal year. In addition, at the financial results briefings, we disclose financial strategies, capital policies, policies

related to shareholder returns and R&D in a summarized format so that they can be understood.

In regard to dialogues with investors, I personally conducted dialogues with 290 companies (180 companies in Japan and 110 companies overseas) in FY2019. This number together with the number of dialogues conducted by other personnel makes the overall number of dialogues held quite large.

Furthermore, we strive to be fair when providing information to domestic and overseas investors. Many companies provide an English summary of their financial results briefing materials a few days after publishing them on their website. In contrast, we disclose materials with a volume of about 90 pages in both Japanese and English at the same time. Fair disclosure - providing the same information in this way is extremely important to us and is highly regarded by overseas investors.

We will continue to provide more opportunities for dialogue with our stakeholders and strive to further enhance dissemination of information.