

## Message from the CFO



We will actively return profits to our shareholders while maintaining an ROE of 16% or increasing it.

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## About Our Financial and Capital Strategies

We place importance on ROE as a management indicator and set numerical targets by breaking it down.

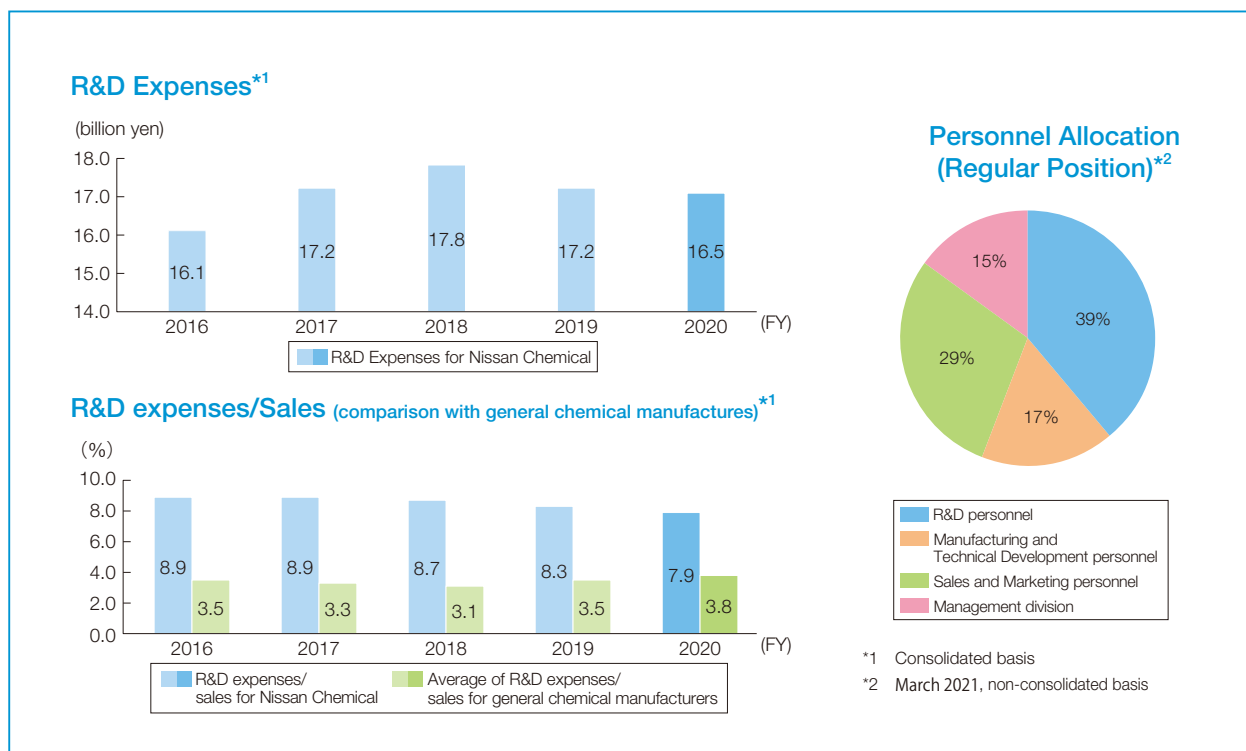
We place importance on return on equity (ROE) as the basis of our financial strategy. In order to realize our corporate philosophy “We contribute to society in harmony with the environment, based on our excellent technologies, products and services”, we have set ROE as our most important target value as a management indicator that is consistent with our business concept of producing high value-added products with limited resources, shareholders' equity, to make profits.

We have maintained this policy since the mid-2000s, and although we aimed for an ROE of 16% or more in the “Vista2021” mid-term business plan (2019-2021), in FY2020, we achieved an ROE of 17.5%. Since recording an ROE of 9.5% in FY2011, it has been steadily increasing for nine consecutive years and has been maintained at a high level, more than double the 8% that is generally considered to be a “passing score.”

In formulating the next mid-term business plan starting in FY2022, we will continue to set ROE as the

most important management indicator and set other targets based on it. We also intend to look at matters such as finding the balance between paying dividends and share repurchase while listening to the opinions of investors.

The financial impact caused by the global spread of COVID-19 infections, which began in the latter half of FY2019, is only minor at this point. Although there were some negative aspects that interfered with sales activities, semiconductor-related demand grew in line with the spread of telecommuting and remote meetings and the increase in opportunities to view videos on computers and tablets. As a result, our company's business performance was also favorable, and we were able to return profits to our shareholders and others as planned without any major changes in our financial and capital policies while investments in large-scale acquisitions in our agricultural chemicals business also progressed smoothly.



## About Our Investment Plan

We secure a financial level that allows us to give top priority to R&D investment.

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 FY2020 was 7.9% (annual investment of about 16.5 billion yen). It has maintained a high level (approximately 8% to 9%) for 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, we are at a level where we can fully implement various fiscal policies while giving top priority to R&D investment.

Our operating margin in FY2020 was 20.3%. It has been maintained levels of 10% or more for 18 consecutive years since FY2003. This is an exceptionally high level of performance that has been maintained over a long period of time in the chemical industry, where performance is easily affected by changes in the business environment.

In regards to new activities, we began full-scale investment, approximately 300 million yen, into the digital transformation (DX) of our operations in FY2020. We are starting with our plants as the first targets, and expect to invest about 400 million yen in FY2021. In the next mid-term business plan starting in the next fiscal year, DX is expected to be one of the major pillars, and will be expanded to entire company in the future.

Also, in the agricultural chemicals business, we have started construction of a multi-plant within the Onoda Plant. We are planning to invest a total of approximately 3 billion yen to address the bottlenecks and lost sales opportunities caused by the inability to keep up with the changeover of production lines to manufacture a variety of products and to prepare for the launch of new products planned in the pipeline of agrochemical. In addition, we are planning to invest in a manufacturing plant in line with the progress of a joint venture project in India.

Furthermore, we will maintain a high level of investment in R&D, at around 9% of net sales, to generate growth engines that will lead to new businesses in the future.

## Capital Efficiency and Shareholder Returns

We have achieved stable shareholder returns over the long term.

We have placed great importance on returning profits to our shareholders. The FY2020 dividend was 104 yen per share and has continually increased over a 10 year period. Although the dividend payout ratio (dividend/net income per share) was around 30% until FY2015, it has been gradually increased, reaching 44.9% in FY2020.

In regard to capital efficiency, as I have already mentioned, ROE is given importance. Therefore, the amount of shareholders' equity is controlled based on ROE. In particular, we have been aggressively pursuing share repurchase to improve our ROE. Although the amount reached 10 billion yen in FY2020 just as 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.

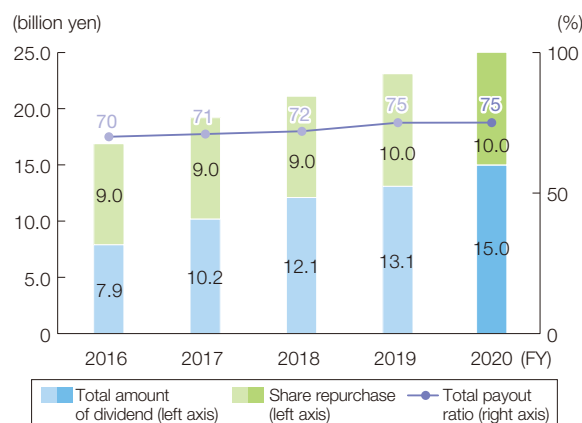
On the other hand, "Vista2021" sets the target for the total payout ratio ((total dividend + share repurchase)/net income) at 75% (45% for dividends and 30% for share repurchase) for FY2020 and FY2021. Our total shareholder payout ratio has been over 70% since FY2015. It was 74.6% in FY2020, which was close to the target and quite high compared to the average of about 45% for Japanese companies.

Furthermore, the equity ratio was 74.9% in FY2020, and since our financial stability is sufficiently secure, I believe that it is not necessary to accumulate a larger amount of capital. Both cash and deposits are at a

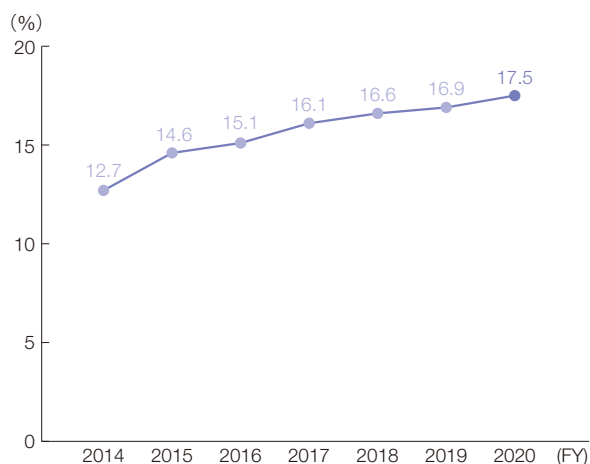
sufficient level, and we are in a very favorable state in terms of cash flow. We plan to continue to utilize this cash for investment and shareholder returns as needed.

We will continue to adhere to our policy of placing the highest priority on shareholder returns and making commitments to our investors regarding our promises on various management indicators such as ROE and total payout ratio.

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

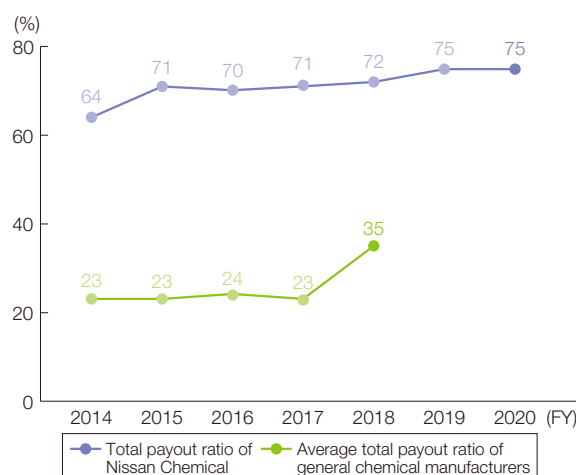


**ROE**



**Total payout ratio**

(comparison with general chemical manufactures)





## Dialogues with Investors

Increasing ESG related dialogues allows us to listen to opinions from various perspectives.

We have made opportunities for dialogues with stakeholders such as institutional investors and analysts as much as possible, and actively explained about and exchange opinions on mid- to long-term growth strategies, efforts to solve social issues, etc.

Due to the need for COVID-19 infection control measures, we conducted all investment information sessions for individual investors in FY2020 by switching to online-based investment information sessions using our website. As a result, about 200 people (per session), almost twice as many as at the previous in person sessions, accessed the website, and we were able to receive a variety of questions and opinions from more diverse perspectives than ever before, partly due to the increased participation of relatively young investors.

Something special about FY2020 was the increase in ESG related dialogues held. In particular, various parties had many questions for us about greenhouse gas (GHG). Originally, our GHG emissions were

approximately 350,000 tons, which is significantly lower than around the 5 million tons emitted by major integrated chemical companies. We will continue our efforts to achieve our target of reducing GHG emissions by 30% by FY2030 (compared to FY2018).

However, since it is difficult to achieve a return on investment when reducing GHG emissions, we will introduce the Internal Carbon Pricing (ICP) system and will use it as a guideline for investment decision-making while listening to the opinions of our stakeholders as we strive to help realize a low-carbon society.

In addition, we have received many questions regarding the appointment of female directors and executives. We will continue our efforts to promote the advancement of women, which includes the appointment of one female director in June 2021.

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

Dialogue with institutional investors	Dialogue with individual investors	Dialogue with analysts	ESG related dialogues
262	2	51	4