

Message from the President



In the spirit of “Changing Together,” we will become a company that is essential to the realization of a sustainable society over the next 100 years.

Yuto Matsumoto
President and CEO

Progress, Evaluation, and Pending Issues in the Second Year of the Mid-term Management Plan SPEED 25/30

Despite the increase in economic activity as the spread of COVID-19 began to subside, conditions throughout FY2022 were significantly impacted by the surge in energy prices owing to such factors as the prolonged conflict between Russia and Ukraine. In the fiscal year under review, net sales increased 3.5% year on year, to 43.3 billion JPY, due to higher sales in the Company's mainstay businesses and the effects of the weak yen. In contrast, operating profit decreased 42.4% year on year, to 3.7 billion JPY. In addition to the substantial decline in materials for PCR diagnostic kit demand, this downturn in profit was attributable to a variety of factors,

including the surge in raw material and fuel prices as well as the increase in research and development expenses.

Under its Mid-term Management Plan SPEED 25/30, the Hodogaya Chemical Group has set net sales of 50.0 billion JPY, operating profit of 7.5 billion JPY, and an operating margin of 15.0% as its management targets in FY2025. While achieving this operating margin target in FY2021, our operating margin fell below the target at 8.5% in FY2022 owing to the decline in PCR-related sales. **In order to achieve our targets for FY2025, we recognize the need to strengthen existing businesses while building a new business portfolio.**

Building a New Business Portfolio

The Hodogaya Chemical Group restructured certain business divisions and established the Advanced Device Materials Department in April 2023. Reporting to the Organic & Optical Materials Device Division, the Advanced Device Materials Department is responsible for expanding sales of dyes for color filters and promptly commercializing new products, including near-infrared absorption materials and perovskite solar cells*1.

Meanwhile, the Group's business in Korea is becoming increasingly important with each passing year. In addition to

South Korea's growth potential and importance as a market for the OLED material business, our subsidiary SFC CO., LTD. develops materials for PCR diagnostic kits as an extension of the OLED material business, which contributed significantly to earnings through to FY2021.

Looking ahead, we will apply proprietary technologies to the development of Oligonucleotide medicine, while considering entry into the biopharmaceutical field from diagnostic pharmaceuticals. In the fall of 2023, a Biotechnology

center under construction near SFC's headquarters will be completed. We anticipate this will contribute to the expansion of our bio business.

Furthermore, REXCEL CO., LTD. (Chungcheongbuk-do, South Korea), in which we have maintained an equity interest since 2018, will be included in the scope of the Company's consolidation as a subsidiary from FY2023. REXCEL, which has largely specialized in the refining of OLED materials, has decided to apply this expertise to engage in the ultra-high purity refining of cutting-edge semiconductor resist materials. The latest semiconductors require extremely levels of resist material purity to produce ultra-fine circuits. Recognizing this as an opportunity, REXCEL is currently working to expand its facilities.

In July 2023, we established the Korea Business Strategy

Department as an organization under the direct control of the President in order to flexibly and promptly consider and promote business strategies for further growth of our business in South Korea, where expectations of a significant leap forward are high.

In addition to the aforementioned, **we will take steps to build a new business portfolio by accelerating the development of products that are essential to the realization of a sustainable society** in the fields of the environment and energy as well as agriculture and food in our core and strategic businesses.

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*1 Perovskite solar cells: Solar cells made from perovskite, which has a crystal structure that converts light into electricity. Expectations of reduced costs through coating and printing technologies that enable mass production.

Contribution to Help Realize a Sustainable Society through Our Business

The Group's vision is to contribute to a sustainable society through its business. The Hodogaya Chemical Group placed considerable emphasis on Responsible Care (RC) activities well before environmental issues became a major issue. We position sustainability management as an extension of these activities. Meanwhile, we established the Sustainability Development Committee in 2021 to fulfill functions and roles that differ from RC activities. Activities of this committee are conducted through an organization structure that includes the TCFD*2 Subcommittee and the Global Environment Subcommittee.

In addition to our RC activities since 1997, our FTSE Russell*3 score has improved each year on the back of our proactive information disclosure efforts under our sustainability promotion system. In FY2022, we were selected as a constituent of the FTSE Blossom Japan Sector Relative Index*4 and received the Silver Medal presented by EcoVadis*5. We see this as **proof that the Group's ESG management has received a certain**

level of recognition. Our environmentally friendly and other products that use environmentally friendly raw materials have attracted considerable attention. As an example, our soil improvement oxygen supply materials, bio-based urethane materials, and release agents have been included in the FTSE Green Revenues Data Model*6. These products accounted for about 3% of Hodogaya Chemical's (non-consolidated) sales in FY2015. With this figure climbing to 12% in FY2022, we are becoming increasingly aware of the contributions that our businesses make to realizing a sustainable society.

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*2 TCFD: Task Force on Climate-related Financial Disclosures
*3 FTSE Russell: UK-based company that provides indexes.
*4 FTSE Blossom Japan Sector Relative Index: An index provided by FTSE Russell that reflect the performance of Japanese companies that excel in responding to environmental, social and governance (ESG) concerns in their respective sectors.
*5 EcoVadis: A platform for evaluating corporate social responsibility and sustainable procurement.
*6 Green Revenues Data Model: A model that identifies companies that derive revenue from green products and services and classifies the greenness of their products.

Addressing Environmental Issues

The Hodogaya Chemical Group expressed its support for the TCFD recommendations in November 2022. We are now required to report the carbon footprint of individual products, including differences in raw materials, and will work to proactively disclose information, including our Scope 3 efforts going forward. We have already introduced CO₂-free electricity at several plants and offices. In FY2022, we introduced Internal Carbon Pricing (ICP) as a method for estimating carbon price within the Group to promote low-carbon investments and measures as well as energy conservation.

The Group nevertheless continues to face some issues. For example, CO₂ is generated in the process of producing hydrogen

from natural gas, which is necessary for the manufacture of hydrogen peroxide and its derivatives, one of our core businesses. Should green hydrogen*7 and blue hydrogen*8 become readily available at a low cost in the near future, we are confident we will be able to reduce CO₂ emissions. Moreover, the use of our hydrogen infrastructure will significantly contribute to the hydrogen society advocated by the government.

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*7 Green hydrogen: Hydrogen produced using renewable energy sources.
*8 Blue hydrogen: Hydrogen produced from such fossil resources as petroleum or natural gas that has been treated so that no CO₂ is emitted into the atmosphere during production.

Human Capital Initiatives

I believe that our personnel are the most important resource, or capital, to achieve sustainable growth. Based on this understanding, I have placed considerable emphasis on promoting human capital management, since my appointment as President in 2016, in the belief that it will lead to the Company's growth. In my initial address as President, I stated that we have a legacy to carry forward as a company that has celebrated its 100th anniversary. Over and above such tangible capital as the Group's businesses, products, technologies, production bases, customers, and business partners, we are also charged with the responsibility of fine-tuning our legacy by incorporating the intangible and important contributions born from our personnel, including the joy of developing and selling products as a manufacturer, the vision set forth in our Mid-term Management Plan, and the gratitude we feel toward our customers and all other stakeholders. Recently, we have taken steps to put in place a flexible workstyle framework to provide all officers and personnel with a greater sense of fulfillment in their work. This framework includes further entrenching the Group's teleworking system, the Come-back Entry Program, a reemployment registration system, the ability to take annual paid holidays on an hourly basis, refreshment leave, and allowing personnel to dress more freely. As a result, Hodogaya Chemical has been certified as a Health & Productivity Management Outstanding Organization since FY2021. In order to improve personnel satisfaction, we have also endeavored

to gauge the level of engagement from both the qualitative and quantitative perspectives by regularly measuring engagement scores from FY2021.

With overseas sales accounting for half of the Group's total sales, we recognize that the development of global talent is a pressing issue. Hodogaya Chemical introduced an overseas trainee program in 1989 and has worked diligently to develop personnel on a continuous basis. As a member of the first batch of personnel to participate in this program, I was dispatched to the United States. On a personal note, this initiative helped highlight the importance of not only learning a new language, but also experiencing first hand local business practices and cultural differences. In addition to Europe and the U.S., we are currently expanding this dispatch program to Chinese- and Korean-speaking countries.

New initiatives are underway in the areas of personnel evaluation and remuneration. We began providing performance-linked bonuses from FY2019. We also introduced a multifaceted evaluation system for certain department general managers, including evaluations from peers and subordinates. More recently, we launched a personnel stock compensation plan for management personnel in April 2023 to realize the sustainable improvement and growth of both corporate value and personnel.

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Strengthening Corporate Governance

Hodogaya Chemical was quick to reform its corporate governance structure and systems. We transitioned to a Company with an Audit & Supervisory committee in 2015 and introduced a stock-based compensation plan for officers in 2016. A female Outside Director with expertise in personnel strategies was appointed in June 2023, increasing the diversity of the Board of Directors and broadening its skill set. Moving forward, we will look to appoint female Directors from within the Company as well to further increase the diversity of the Board of Directors.

Succession planning is another important issue. I believe that a person who understands Hodogaya Chemical's corporate culture and has a strong desire to manage the Company would be a suitable successor. In addition to conducting executive training for selected members, we also have General Managers of departments

attend Management Committee meetings where they can explain the operations of their own departments, learn about the kind of information management requires, and gain an understanding of the committee's deliberations. In addition, we provide opportunities for

dialogue with Outside Directors so that Board members can gain an insight into the next generation of candidates.

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Green Innovation to Realize a Sustainable Society

An issue that I believe the Group must definitively address over the long term is Green Transformation (GX).

In addition to the development and manufacture of battery materials, we are undertaking research on perovskite solar cells as part of our technological development activities to promote GX. Perovskite solar cells use organic compounds as an alternative to silicon, an area in which the Japanese government is also focusing its research efforts. Hodogaya Chemical is endeavoring to contribute to early commercialization by providing highly durable and highly efficient materials.

Moreover, we will focus on the promotion of digital transformation (DX), an important issue under SPEED 25/30, as we believe that the accelerated promotion of GX will help secure our competitiveness by promoting innovation through the use of digital technology.

Our goals are also to develop sustainable products that reduce the environmental impact, especially in the

agricultural and food fields as an extension of our technologies. Building on our collaboration with ASAHI AGRICULTURE CO., LTD. announced in February 2023, we will focus on the similarities between our soil preparation and soil improvement technologies to develop a composite material of compost and oxygen supply materials that is expected to generate fertilizer effects, prevent moisture damage, and improve efficiency. We believe this initiative will contribute to the efficiency and stability of crop cultivation. We also see this as a significant step toward the reduction of chemical pesticides and fertilizers. More than just a pipe dream, we strongly believe that this business will help address the global social issue of food shortages attributable to population growth as it gets off the ground and expands through Asia to the rest of the world.

Research & Development  P.29

The Mission and Purpose of the Hodogaya Chemical Group

Guided by its PURPOSE – Management Philosophy -, the Hodogaya Chemical Group aims to contribute to a sustainable society by making chemical technology useful. Our catchphrase, Your Dream is Our Business, encapsulates not only the development of products that meet the needs of customers, but also the continuous development and provision of products and services that help realize a sustainable society from a social perspective. The value of any company is ultimately determined by its personnel. **In order to realize our management philosophy and ensure the Company's profitability, we are committed to maximizing the potential of our personnel and then channeling this potential toward the sustainable growth of our corporate value. At the same time, we will return profits to shareholders through improvements in PBR*9 on the back of a higher ROE*10 and efforts to lift DOE*11.**

The role of the organization's leaders is to clarify the

Group's vision and targets and to then exert their influence to promote increased awareness in a bid to foster a corporate climate and culture in which all officers and personnel work passionately to achieve established goals. In the spirit of "Changing Together," we will become a company that is essential to the realization of a sustainable society over the next 100 years. Moving forward, we will ensure our harmonious coexistence with all stakeholders, including customers, investors, personnel, and local communities. I thank all stakeholders for their understanding and look forward to their support for the Hodogaya Chemical Group.

*9 Price book-value ratio (PBR): An indicator that measures the number of times the stock price is equal to net assets per share (PBR = Stock price / Net assets per share).

*10 Return on equity (ROE): An indicator that measures a company's ability to efficiently utilize its capital and generate profits (ROE = Earnings / Equity).

*11 Dividend on equity ratio (DOE): An indicator that measures how much a company pays out in dividends to shareholders' equity (DOE = Total annual dividends / Shareholders' equity x 100%).

