

# Message from the President



## Review of the Business Environment in FY2023 and Progress of the Mid-term Management Plan SPEED 25/30

In FY2023, the business environment showed a recovery trend, supported by a steady increase in demand centered on materials for smartphones and the effect of the weak yen. On the other hand, the unstable international situation continues, with Russia’s invasion of Ukraine entering its third year and tensions in the Middle East escalating. As a result, economic security aimed at stabilizing the supply chain for semiconductors and display-related products has become an important issue for our Functional Colorants Segment as well. Additionally, the persistently high energy prices due to the weak yen are affecting our domestic businesses such as Basic Chemicals and Agro-Science.

Even in such an environment, we achieved an increase in both sales and profits, with net sales of 44,261 million yen (up 937 million yen from the previous year) and operating profit of 3,951 million yen (up 250 million yen). Furthermore, I believe it is worth noting that we were able to increase the annual dividend to 75 yen (up 10 yen).

In the Mid-term Management Plan SPEED 25/30, we envisioned the business environment in 2050 and formulated our “ideal figure” in FY2030 and our “target figure” in FY2025 using a backcasting method. In FY2023, which marks the

halfway point of Phase 1 up to FY2025, the Functional Colorants Segment showed remarkable growth, particularly in the OLED materials business, where adoption by major customers further expanded. Also, to promote growth in new business areas such as cutting-edge electronic device materials, we established the Organic & Optical Device Materials Division in April 2023, and set up the Advanced Device Materials Department as a subordinate organization to actively incorporate new areas of business such as semiconductor resist materials. We will also actively expand into materials for perovskite solar cells.

In the Agro-Science Segment, we are working on the development and expansion of agricultural materials, and have completed the first phase of expansion work for oxygen supply materials. In the future, we plan to proceed with data collection on the user side to further expand sales and begin the second phase of expansion work.

Mid-term Management Plan→P. 23

## The Increasing Importance of Business in South Korea

The importance of business in Korea is increasing year by year for our Group. With active capital investment in SFC and REXCEL

in Korea, we established the Korea Business Strategy Office under the direct control of the president in July 2023, creating a system that allows for quick management decisions on capital investments and other matters.

At SFC, we are also focusing on the bio business to foster a second pillar of business following OLED materials. In November 2023, we established and started operations at BioPark, a research and development and production base. We aim to enter the biopharmaceutical field by further developing the technology cultivated in materials for PCR diagnostic kits, which was developed as a horizontal expansion of the OLED materials business, with the goal of entering oligonucleotides for nucleic acid medicine, the next generation of pharmaceuticals.

In addition, as the importance of REXCEL, which has played a part in OLED material manufacturing, has increased, we made it a subject of group consolidation from April 2023. To respond to the expansion of production of electronic materials requiring advanced purification technology such as OLED materials, the second plant at the Chungju campus started operations in April 2024. Also, at the Eumseong campus, which is responsible for the synthesis of energy materials and electronic materials, a new plant is under construction and will start operations in September 2024.

Through these efforts, we will further expand and strengthen our business in Korea and enhance our global competitiveness.

Mid-term Management Plan→P. 23  
Global Expansion of the Hodogaya Chemical Group→P. 31

## Challenges in New Business Areas

In FY2023, the Functional Colorants Segment, which includes the OLED materials business, accounted for 50% of our segment sales ratio, and the imbalance in operating profit by segment is a major issue. While investments in research and development for new product development and advance investments to improve production capacity in the OLED materials business are bearing fruit, some other areas are experiencing delays in development and market size contraction, and we recognize that we are still in the process of reaping the benefits.

We will continue to strengthen our efforts on materials for perovskite solar cells, which could be a solution to future energy problems, and battery materials, in which we have made advance investments in anticipation of the global rise in EV demand, as important themes that will form a new business portfolio. Our stakeholders expect us to achieve sustainable growth and balance a diverse business portfolio through advance investments and technological development in these areas.

We will continue to promote efforts to overcome challenges in new business areas and strengthen our overall business portfolio.

At a Glance→P. 7 Mid-term Management Plan→P. 24

## Challenges in Research and Development Contributing to the Realization of a Sustainable Society

R&D expenses for FY2023 were 5,011 million yen, reaching 11.3% of sales. This ratio is high within the chemical sector and is on par with pharmaceutical companies, which are considered to be leaders among research and development-oriented companies. In FY2023, advance investments mainly in OLED material-related areas in Korea bore fruit, resulting in significant sales growth and increased corporate value. It is necessary to invest these profits in advance in the next growth areas to nurture second and third pillars.

As information terminals such as smartphones and tablets have become necessities in daily life, we expect the electronic materials-related business to continue growing in the future. While we will of course continue to grow OLED materials and semiconductor-related materials as one pillar, we are also developing materials for perovskite solar cells, which Japan is urgently working to commercialize, as an extension of the technology we have cultivated so far.

Furthermore, we are also focusing on agro-related businesses. “Food” is the basis of life, and its demand will never disappear. We will continue to research and develop products that respond to climate change and improve productivity, centered on agricultural materials such as oxygen supply materials. In this field, we are also considering entering the global market through partnerships with global companies.

Through these efforts, we will contribute to the realization of a sustainable society and further accelerate our growth.

R&D and Intellectual Property Strategy→P. 29

## Aiming for Growth by Focusing on Each Component of the ROIC Tree

To realize our growth strategy, while maintaining financial soundness, we have made capital investments of 10.8 billion yen and R&D investments of 13.8 billion yen over the past three years. In the Mid-term Management Plan SPEED 25/30, we set a target of 9% ROE for FY2025, but the actual result for FY2023 was 5.5%, which we recognize as a major challenge.

I believe that to improve ROE, we need to actively implement measures to improve performance for each component of the ROIC tree. We must clearly define how much each measure contributes or will contribute to the improvement of ROIC and focus on that. For employees, if they can understand which component of the ROIC tree their work corresponds to and how it contributes to value enhancement, it will lead to high motivation in their work.

In Phase 2 of the Mid-term Management Plan SPEED 25/30,

Message from the President

which starts from FY2026, we plan to work on visualizing ROIC. As a preliminary step, to make all employees understand the importance of ROIC and encourage actions that contribute to improving ROIC, we intend to break down each component of the ROIC tree and refine it so that we can clearly explain the challenges that each employee should address.

As improving ROIC directly leads to improving ROE, we recognize it as a challenge that we must tackle to realize our growth strategy.

Financial Strategy → P. 26

Sustainability Management Aimed at Realizing the “Ideal Figure” in FY2030

In FY2023, we achieved the FY2025 targets for energy intensity and carbon dioxide emission intensity (per unit of sales) ahead of schedule due to changes in product composition. In addition, external evaluations have improved, with our FTSE Russell score increasing to 3.6, maintaining the EcoVadis Silver Medal, our CDP (Carbon Disclosure Project) rank rising to B, and our “Integrated Report 2023” receiving the “Excellence Award” at the 3rd Nikkei Integrated Report Awards.

We recognize that these improvements in evaluation are not the result of significantly changing our efforts, but rather the result of enhancing ESG information disclosure, reflecting on the fact that our sincere efforts were not easily visible from the outside. We also believe it is the result of each employee making efforts toward “environmentally friendly manufacturing” with high awareness, even with limited resources.

Our VISION: The corporate image we aim for, advocates “environmentally friendly manufacturing.” This includes two meanings: “creating environmentally friendly products” and “adopting environmentally friendly manufacturing methods.” In Phase 2 of the Mid-term Management Plan SPEED 25/30, we aim to develop products and services that contribute to the harmony between the environment and chemistry, accelerate sustainability efforts, contribute to a sustainable planet and society, and contribute to the creation of an environmentally conscious society, and we will proceed with more in-depth consideration from Phase 1.

Also, as a chemical manufacturer, safe operation is our primary mission. In FY2023, we achieved zero accidents at all business sites. We will continue to further enhance our Responsible Care activities and work towards zero accidents, zero disasters, and safe operations.

Management Philosophy → P. 1 Mid-term Management Plan → P. 22  
Hodogaya Chemical Group’s Sustainability → P. 38 Responsible Care → P. 41

Towards Further Advancement of Human Capital Management

Since becoming president in 2016, I have been working to make our Company “a place where personnel can have aspirations, experience job satisfaction and feel happy to work for the Company.” Our aim is to be a company with high productivity and profitability, and consequently high salary levels, as well as a company where people can take pride in their work, which leads to motivation and job satisfaction. Furthermore, I believe that a safe work environment and appropriate work-life balance are necessary, and we have been advancing initiatives in these areas.

Promoting Diversity

As a chemical manufacturer, we face the challenge of having few female recruits, but this is also an opportunity to promote diversity. In overseas chemical companies, the number of female employees active on site is increasing. In our Company too, by actively promoting DX and creating a work environment where we can shift to monitoring and decision-making tasks in instrument rooms, we can expand opportunities for women to play active roles.

We aim to increase the percentage of female managers to 13% by FY2025, and in 2023 we invited a female Outside Director, while in 2024 a female Executive Officer was also appointed. In the future, we want to actively appoint women to positions that participate in management meetings and raise awareness of participation in management.

Education and Global Talent Development

Our Company’s educational programs are comprehensive, providing career education for next-generation management talent and female employees. In FY2023, as a new initiative, we sent young researchers for training in Korea. After the training, the researchers all mentioned the difference in sense of speed. While working environments differ, we plan to send researchers to Korea on a rotation basis for relatively long-term training in the future, not only to feel the difference in speed but also to have a positive influence on their own work methods and to develop a global perspective. Also, for our Company, where 50% of sales come from overseas and we have many overseas bases, developing global talent is essential. In particular, it’s important to develop talent familiar with non-English languages and cultures, such as Chinese and Korean. Overseas business experience is very beneficial for career development, and I hope employees will take on these challenges more and more.

Next-generation Management Talent

The drivers of value creation are those who can learn, think, and act on their own. Providing an environment where people can continue to learn leads to the development of new products and improved productivity. Regarding the development of

talent to lead the next generation of management, we have non-members of the Board of Directors and Management Committee attend as observers to watch and learn from the discussions. Executive Officers attend the Board of Directors meetings, and manager-level personnel attend the Management Committee meetings, participating in case explanations and Q&A sessions as appropriate, making these venues that combine practical experience and education.

Recently, an Outside Director advised me, “You shouldn’t say everything. For the sake of developing talent, it’s better to let others answer.” I once again recognized the importance of meetings as educational venues, also to provide opportunities for Outside Directors to understand the personalities and thinking of next-generation management talent.

Human Resource Strategy → P. 47 Corporate Governance → P. 53

Further Strengthening Group Governance

In overseas subsidiaries, especially in Korea, quick decision-making is often required, which I think is partly due to the national character. Also, in Korea, there seems to be a strong tendency to prioritize investment in research and development over dividends, with the idea of returning value to stakeholders, including shareholders, through corporate growth. In the Hodogaya Chemical Group, for our Korean subsidiaries, in addition to governance based on capital structure, we dispatch and station personnel from Director to Section Manager levels, having them handle practical operations. These individuals are highly trusted by the subsidiary’s management, and through close communication, they confirm the way business is conducted and its direction, acting as a bridge to the Company’s management.

While the importance of governance is increasing globally and external scrutiny of companies is becoming stricter, we aim to ensure the effectiveness of necessary governance while not stifling the uniqueness of our subsidiaries under the name of governance, aiming to enhance the corporate value of the entire Group. I believe this has become our hidden advantage.

To Be Needed by Society for the Next 100 Years

I am now advocating the slogan “Changing Together.” The meaning of this slogan is not just a superficial partial change, but to achieve a “transformation” that changes significantly from within to the target figure and ideal figure set forth in SPEED 25/30, with the aim of continuing to grow as a company for the



next 100 years. On the other hand, there are things we must cherish without changing, such as the DNA of the Group represented by the spirit of Hompo Koshi” (the first one to do so in the country) cultivated as a 100-year-old company, the technologies that have been passed down continuously, and the joy as a manufacturer of developing, producing, and selling high quality products.

The current Mid-term Management Plan SPEED 25/30, which started in April 2021, began preparation two years prior, drawing a growth strategy using a backcasting method from the assumed business environment in 2050, and in the process, we carefully considered what to “change” and what “not to change.” We will soon enter the preparation stage for Phase 2 of the Mid-term Management Plan, but amidst rapidly changing world conditions, we must reconsider how we envision the business environment in 2050. With the management philosophy of “contribute to the creation of an environmentally conscious society” as our axis, we will spend the next two years or so reviewing our “ideal figure” in FY2030, and discuss our vision, corporate image we aim for, and the composition of our business portfolio not only among management but throughout the entire Group.

We must not overly focus on immediate challenges and the current situation, but rather consider how to approach our ideal figure for FY2030.

While discerning carefully what needs to be changed and what should remain unchanged to realize our desired future vision speedily, all members of the Hodogaya Chemical Group will work on our business with great dedication, as a united team.

Lastly, we sincerely appreciate the continued support from all our stakeholders.