

Financial Strategy



Implementing financial and capital policy with an eye toward SPEED 25/30 goals

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We are currently implementing the Mid-term Management Plan SPEED 25/30 and are approaching the end of phase 1 at the close of FY2025 (March 2026), the halfway point of the plan. Since the start of SPEED 25/30 in FY2021, we have worked to implement various measures with an eye toward achieving a high ROE in the future while balancing growth investments, interest-bearing debt controls, and shareholder return.

Over the past three years, we have generated about 15.5 billion JPY in cash flows from operating activities and have directed about 14.5 billion JPY of that into business investments, mainly the functional colorants segment, the Group's engine of growth. At the same time, we have maintained a D/E ratio of around 0.2 times, ensuring the financial soundness and stability of the Company. In addition, during that time we increased the dividend per share from 50 JPY to 75 JPY (150%) based on our dividend policy that is conscious of improving dividend-on-equity ratio (DOE), our traditional guideline. Research and development is indispensable for the Group's future growth, and the R&D expense ratio (compared to sales) exceeds 10%. We are making steady progress in building a new business portfolio, the most important contribution to growth in SPEED 25/30.

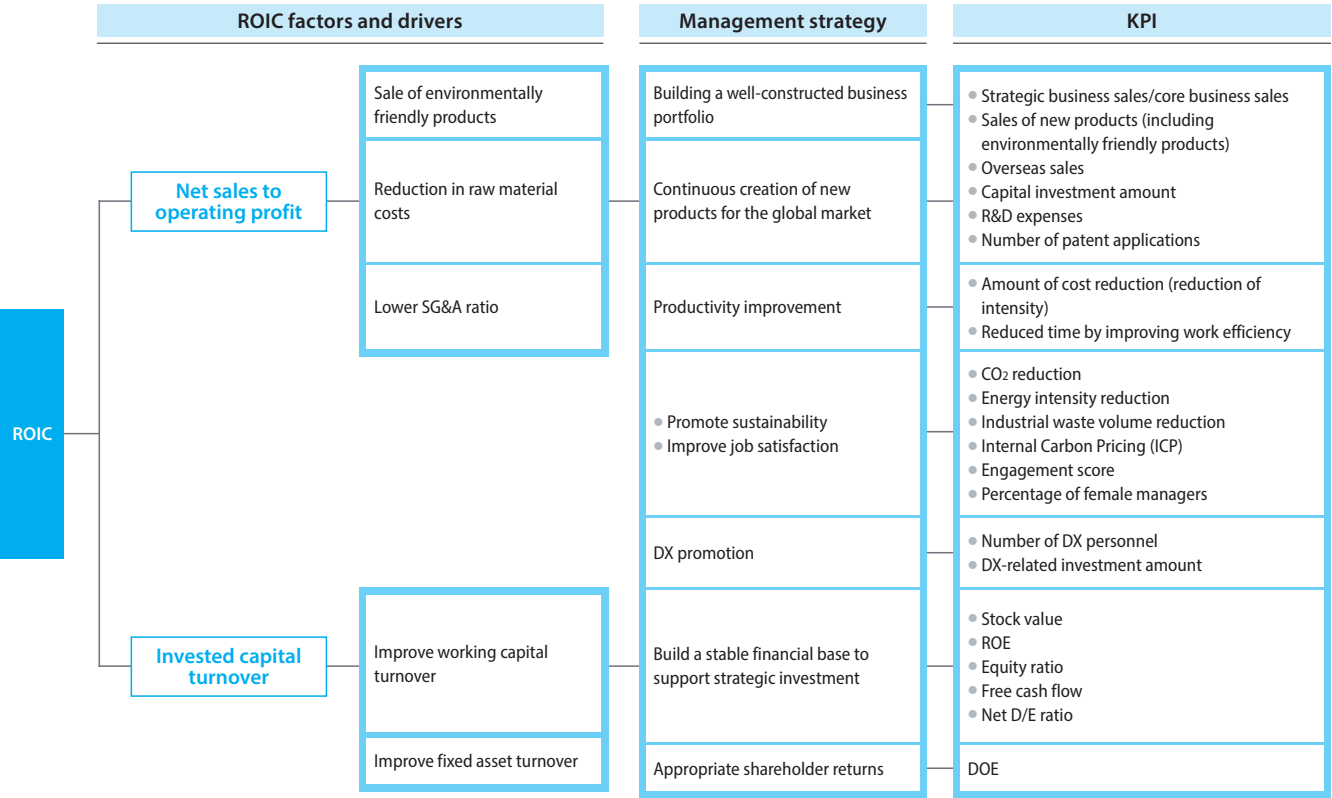
With an eye toward FY2025 (end of phase 1), the midway point for SPEED 25/30, we are aware that in order to achieve our management targets, generate further growth after that, and improve our PBR through these initiatives, we must not only reap the fruit of the various measures executed through FY2023 but also implement new measures. In addition to enhancing shareholder returns, we are committed to creating new value and driving future corporate value growth. To achieve this, we will implement financial and capital strategies aimed at accelerating the sustained growth of our Group. These strategies include more effectively utilizing our current resources, such as interest-bearing debt and shareholders' equity, all while maintaining a certain level of financial stability.

Financial strategy to achieve Mid-term Management Plan targets (management resource allocation)

We will undertake the various types of investments outlined in our ideal figure for FY2030 as part of the Group's Mid-term Management Plan SPEED 25/30. At the same time, we will ascertain and manage the KGIs and KPIs set for these investments by the Company. In specific terms, we will invest in existing businesses to build a well-constructed business portfolio, intellectual property to develop new products for the global market, other areas to improve efficiency in various ways to achieve high productivity, and human capital to enrich our personnel. In particular, we are moving forward with measures to achieve key KGIs and KPIs in SPEED 25/30 by broadly sharing progress and issues with not only the responsible department but also related departments. Aware that the KGIs and KPIs for each department and Group company are tied to growth of the whole Group as depicted in the ROIC tree, we conduct both an annual qualitative and quantitative evaluation of each KPI, decide on the allocation of

management resources for each related measure, and implement those measures. For example, between FY2021 and FY2023, we focused management resources on the functional colorants segment, which is centered on existing and new businesses at the Korean base. Through these investments, we will accelerate the building of a well constructed business portfolio, and key elements of that are the KPIs strategic business sales, sales of new products, and overseas sales, which appear in the Group's ROIC tree. In addition, the non-financial KPIs amount of cost reduction (reduction of intensity), CO2 reduction, and number of DX personnel are important factors that will lead to future growth for the Company. We will appropriately allocate management resources to those. SPEED 25/30 is the mid-term management plan through FY2030, and we will accelerate achieving targets in the plan by appropriately evaluating and verifying KGIs and KPIs each year.

Hodogaya Chemical Group ROIC Tree

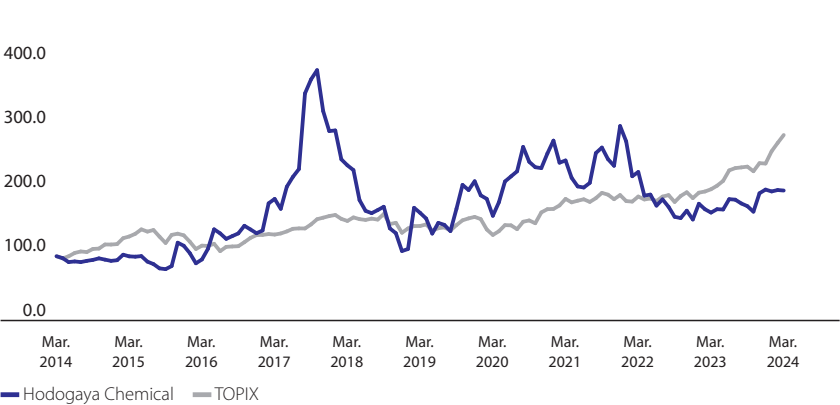


Capital Policy and Shareholder Return Policy

The Hodogaya Chemical Group builds a sound and stable management foundation and continuously improves corporate value through appropriate cooperation with various stakeholders such as shareholders, investors, customers, business partners, local communities, society, and personnel. Regarding profits earned, we will strive to maintain an appropriate balance between, our basic policy, which is to use internal reserves for investment and other activities that will

lead to the growth of the Hodogaya Chemical Group, and returning profits to shareholders. Moreover, in our Mid-term Management Plan SPEED 25/30, we have set a goal of achieving stable dividends over the long term as part of our ideal figure in FY2030. Regarding shareholder returns, we will pay dividends to shareholders, while keeping DOE in mind and premised on improving profitability by promoting various measures set out in SPEED 25/30.

TSR



* Total Shareholder Return (TSR): Total return on investment combining capital gains and dividends
* TSR is calculated based on cumulative dividends and stock price fluctuations for Hodogaya Chemical, and TOPIX based on stock price index including dividends (prepared by Hodogaya Chemical based on Bloomberg data, etc.)
* The graph value is the market price index by TSR with the closing price data as of the end of March 2014 as 100 (the holding period is until the end of March 2024)

Dividends per share

