

Financial Strategy

Message from the Executive Officer in Charge of Corporate Planning



Increasing ROE and Shareholder Returns by Strengthening our Earning Power

Yasuo Murakami Managing Executive Officer

Under the Mid-term Management Plan SPEED 25/30, the Hodogaya Chemical Group aims to achieve return on equity (ROE) of 9% and the plan will reach the end of Phase 1, its midway point, at the close of FY2025 (March 2026). While using cash flow from operating activities obtained over the past four years (21.2 billion JPY) to invest (21.1 billion JPY) in the growth of businesses, primarily the Functional Colorants segment, which is the growth driver of the Group, we have kept the D/E ratio in the 0.2 times range, which demonstrates the Company's high level of financial soundness and safety. During this period, based on our dividend policy that focuses on increasing dividend on equity (DOE), we have raised our annual dividend per share from 25 JPY in FY2020 to 45 JPY in FY2024. Furthermore, we aim to raise our dividend for the fifth consecutive year by offering an annual dividend of 50 JPY in the fiscal year ending March 31, 2026.

For FY2025, the final year of Phase 1, our forecast for net sales is at the same level as our initial target, but we expect a significant deviation in operating profit. In light of this situation, we will review Phase 1, identify issues, and reflect these in the formulation of our Phase 2 plan. Specifically, we will reinforce our management foundation through further allocating resources to growth areas, improving productivity through digital transformation, and stepping up environmental friendliness, with the aim of further strengthening our earning power and increasing ROE.

Going forward, we will continue to aim for highly efficient management that can achieve a high ROE while firmly maintaining a balance between growth investments, shareholder returns, and interest-bearing debt controls. Toward this end, in addition to increasing shareholder returns, we will create new value and accelerate the sustainable growth of the Group by implementing financial and capital strategies, such as making more effective use of net interest-bearing debt, shareholders' equity, and shareholders' equity ratio, which currently sit at a certain level of safety, in order to create new value and increase future corporate value.

* The Company carried out a 2-for-1 stock split of common shares, effective April 1, 2025. The figures for dividend per share prior to April 1, 2025, reflect the values adjusted for the stock split.

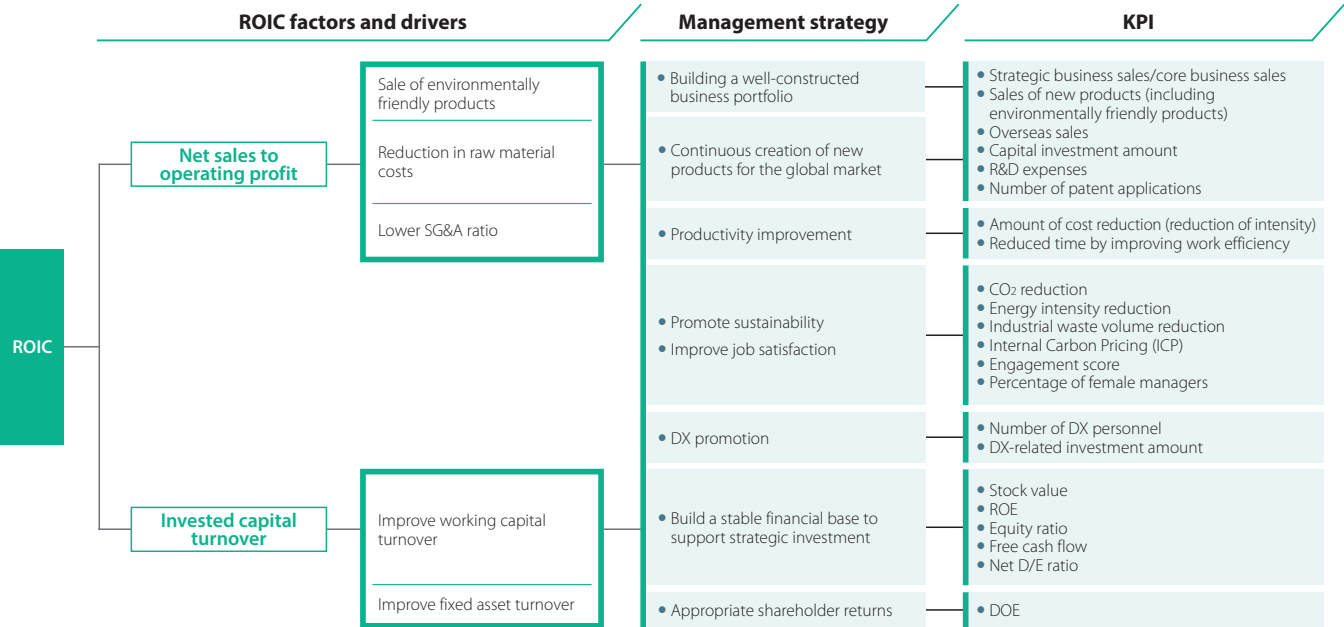
Financial Strategy to Achieve Mid-term Management Plan Targets (Management Resource Allocation)

We identify and manage internally set key goal indicators (KGIs) and key performance indicators (KPIs) for investments in existing businesses for building a well-constructed business portfolio as set out in the Ideal Figure in FY2030 in our Mid-term Management Plan SPEED 25/30, investments in intellectual property that contributes for developing new products for global markets, investments aimed at improving efficiency in all areas for achieving high productivity, and investments in human capital to expand our human resources. In addition, we recognize through the ROIC tree that the KGIs and KPIs of each department and Group company are linked to the growth of the entire Group. For each KPI, we conduct quantitative and qualitative evaluations every year, decide on the allocation of management resources to each measure, and then implement

them. Until now, we have focused on allocating management resources to the functional colorants segment, which mainly consists of existing and new businesses at our base in South Korea.

Looking ahead, we will actively invest in growth, primarily in Japan, and accelerate our efforts for building a well-constructed business portfolio. In addition, non-financial KPIs such as cost reduction amount (reduction in intensity), CO₂ reduction amount, and number of DX personnel are also important factors that will lead to our future growth, and we are allocating management resources appropriately. SPEED25/30 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.

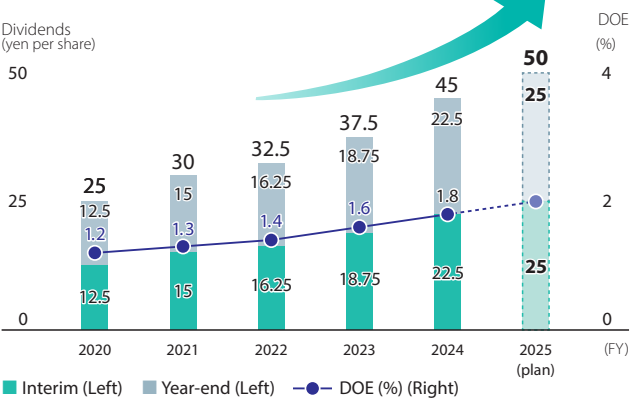
Hodogaya Chemical Group ROIC tree



Capital Policy and Shareholder Return Policy

In our capital policy, we prioritize the balance between growth investments, shareholder returns, and retained earnings, aiming to maximize capital efficiency that contributes to enhancing corporate value. Specifically, we continue to provide stable dividends with a focus on the Dividend on Equity (DOE), while also working on capital optimization with an awareness of the Price-to-Book Ratio (PBR) and the cost of capital. Regarding treasury shares, we are flexible in considering holding and acquiring them, with an eye toward future compensation systems as well as potential cancellation and disposal. By fulfilling a clear accountability for our financial strategy, we aim to strengthen our relationship of trust with shareholders and investors and promote a return policy aimed at maximizing corporate value in the medium to long term.

Dividends per share



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Net sales / operating profit / EBITDA (earnings before interest, taxes, depreciation and amortization)

