Financial Strategy and Capital Policy

Related Materiality
- Build a business portfolio rich in originality
- Address PBR below 1.0x

Message from the Executive Officer in Charge of Corporate Planning



Making Investments for Sustainable Growth and Enhancing Shareholder Returns

Yasuo Murakami Managing Executive Officer

In FY2025, the final year of the previous Mid-term Management Plan SPEED 25/30 Phase 1, net sales reached a level reasonably close to the target, but the quantitative targets for operating profit, operating margin, and ROE were not achieved. Operating profit, in particular, reached only 49% of the target—a significant shortfall. This was because capital investment beyond the initial plan, primarily in the OLED materials business, together with stepped-up R&D to support business growth, put downward pressure on profit margins. After analyzing our initiatives to date and identifying the issues that had emerged, we fundamentally renewed the plan as CODE/CHORD 2030, a new Mid-term Management Plan that is not simply an extension of the previous plan.

Under CODE/CHORD 2030, we have divided the timeline into the Three-Year Transformation Phase and the Two-Year Harvest Phase. During the Three-Year Transformation Phase, we will undertake bold structural reforms and business portfolio transformation, sow seeds for the future and reallocate resources, and put mechanisms in place to achieve discontinuous growth. During the Two-Year Harvest Phase, we will maximize the results of transformation and the seeds sown for future growth, while establishing a highly profitable business structure. Throughout these phases, we will actively pursue infrastructure investments, including investments to maintain production, develop IT infrastructure, drive manufacturing DX, and invest in human capital, as well as growth investments in areas including R&D, new business development, M&A, expansion of production capacity, strengthening of supply systems, and fostering of co-creation.

To support these investments, we will shift to management with appropriate leverage that takes the cost of capital into account and flexibly utilize interest-bearing debt, thereby ensuring the achievement of our final-year ROE target of 8.0%.

The Company's PBR remains below 1.0x. We recognize that our capital efficiency and profitability have not met investor expectations and that the market has not fully recognized our future growth potential. While advancing growth investments, we will pursue investment and shareholder returns in tandem, with a view to responding flexibly through measures such as improving the efficiency of asset holdings and acquiring treasury shares, as we strive to sustainably enhance corporate value.

Financial Strategy to Achieve Mid-term Management Plan Targets

To achieve the targets of the Mid-term Management Plan CODE/CHORD 2030, we will strategically allocate approximately 69.0 billion yen in investment over the five-year period.

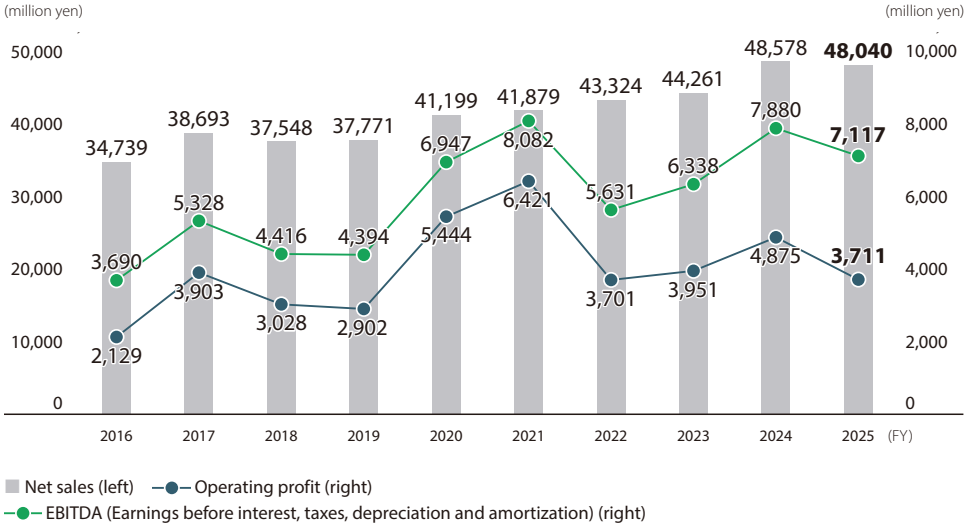
In addition to investing capital in the Functional Colorants Segment and the Specialty Polymers Segment, including specialty chemicals, we will invest in new business domains and M&A, while building a robust management foundation through manufacturing DX and investment in human capital, thereby putting in place the mechanisms for discontinuous growth.

As we execute these bold investments, our underlying earnings power is expected to follow a trajectory in which fixed costs precede returns during the Three-Year Transformation Phase, before the benefits of investment bear significant fruit during the Two-Year Harvest Phase.

With contributions from new products and new businesses, we will seek a dramatic improvement in the operating margin from its FY2025 low, while absorbing depreciation associated with large-scale investments through growth in net sales and achieving a substantial increase in EBITDA.

Through these initiatives, we aim to build a more robust business portfolio comprising multiple core businesses and establish a resilient earnings structure capable of withstanding fluctuations in the external environment.

Net sales / Operating profit / EBITDA

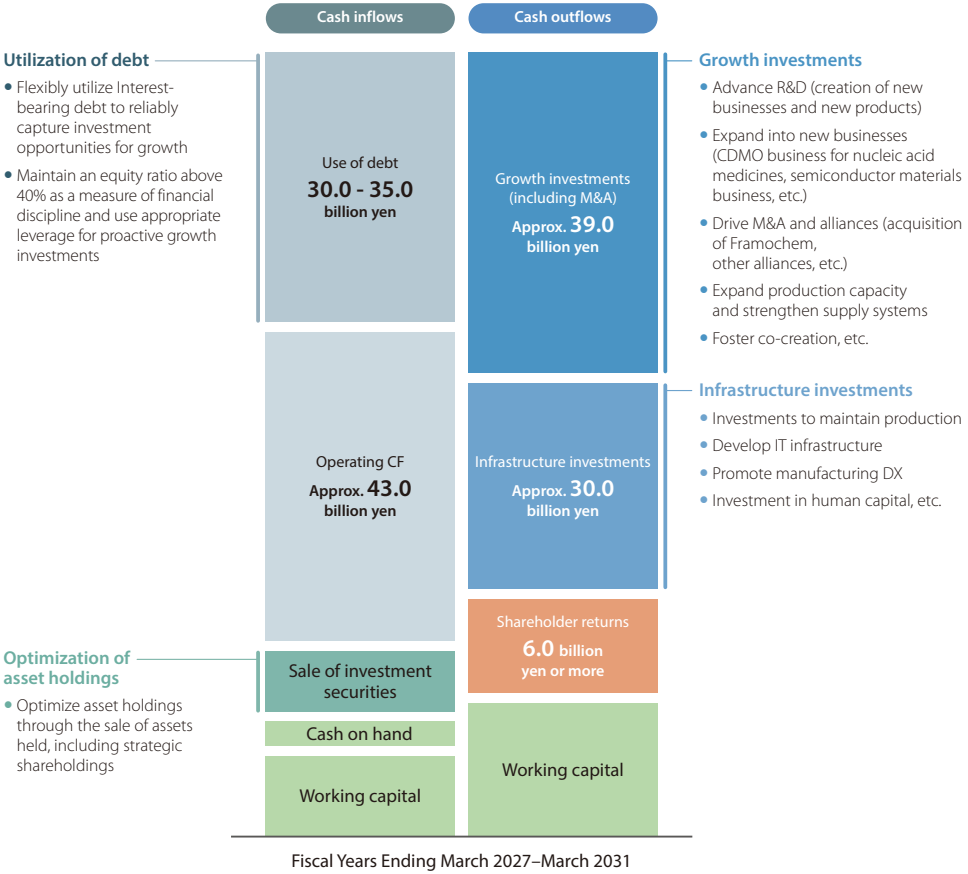


Financial Strategy and Capital Policy

Cash Allocation

From a financing perspective, while maintaining a certain level of financial discipline, we will flexibly raise 30.0 to 35.0 billion yen in interest-bearing debt over the next five years and strategically utilize debt. Together with approximately 43.0 billion yen in cash flow from operating activities, this will enable us to reliably capture investment opportunities for growth. We will also optimize our asset holdings, including through the sale of strategic shareholdings, both to generate a source of funds and to control the balance sheet.

Making growth investments for sustainable growth and enhancing shareholder returns



Fiscal Years Ending March 2027–March 2031

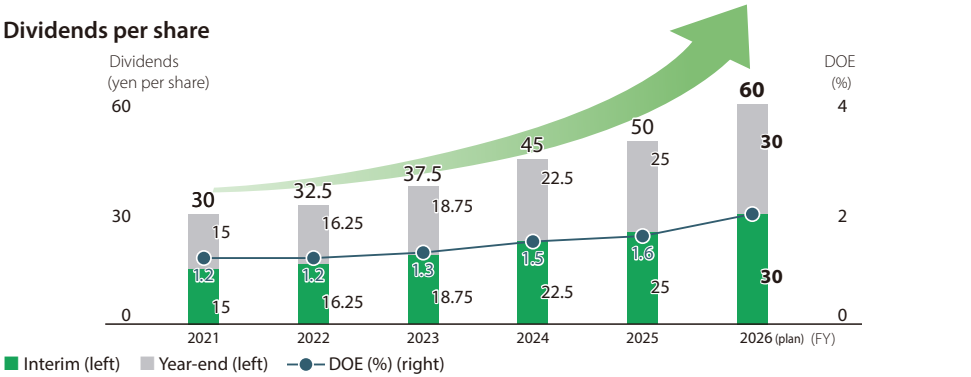
Shareholder Return Policy

The Company regards the sustainable maximization of corporate value as its highest management priority.

We have increased dividends for five consecutive fiscal years. Under the Mid-term Management Plan CODE/CHORD 2030, our basic policy is to balance future profit generation through growth investments with flexible and appropriate shareholder returns, and we have newly committed to a progressive dividend policy under which dividends will not be reduced during the plan period.

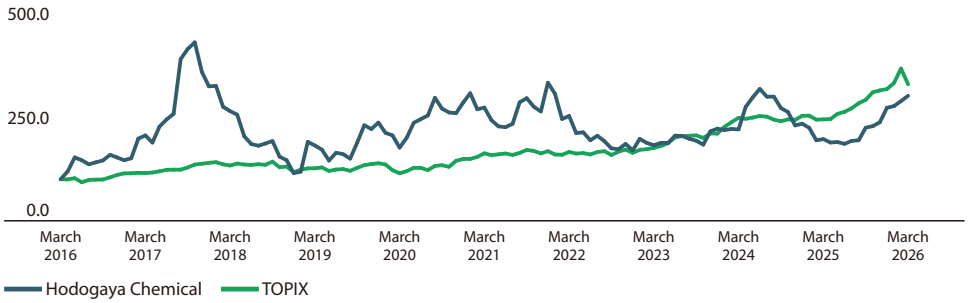
Under this policy, we will pay total dividends of 6.0 billion yen or more over the five-year period of the Mid-term Management Plan and aim to provide shareholder returns with a DOE of 3.0% or higher in FY2030. We will also consider the acquisition and cancellation of treasury shares as viable options to further improve capital efficiency.

Dividends per share



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

TSR



* Total Shareholder Return (TSR) represents the total investment yield combining capital gains and dividends.
* TSR for Hodogaya Chemical is calculated based on cumulative dividends and share price changes, while TOPIX is calculated using a total return index including dividends (prepared by Hodogaya Chemical using Bloomberg data and other sources).
* The graph indexes market value based on TSR, with the closing price as of March 31, 2016 set to 100 (holding period through March 31, 2026).