

Interim Business Report 2019

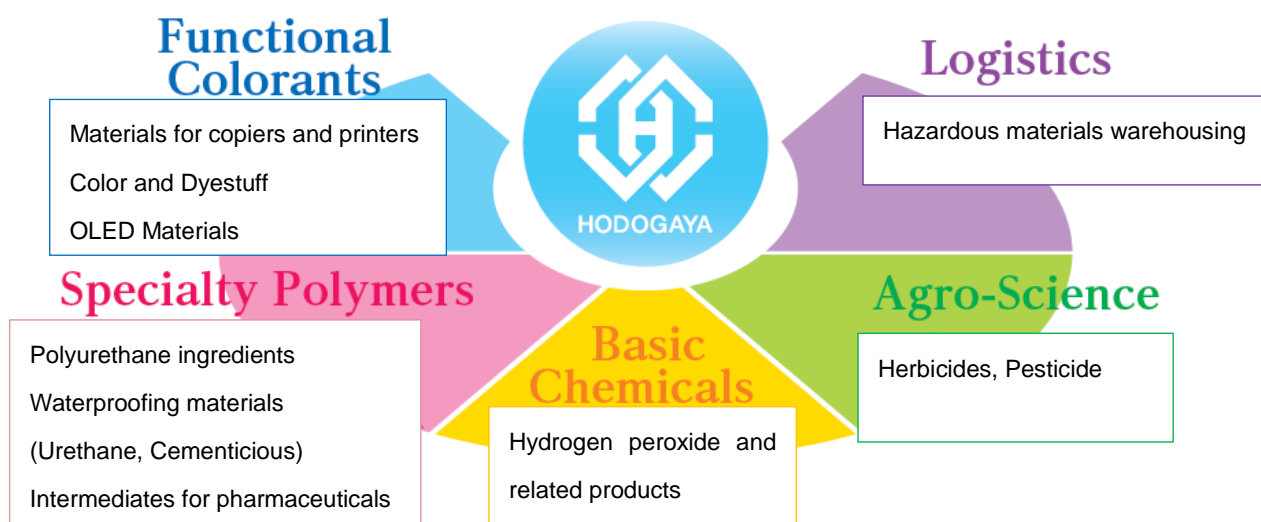
April 1 - September 30, 2019

Hodogaya Chemical Group: Management Philosophy

Through constant innovation of chemical technology, we will provide high-quality products and services throughout the world and contribute to the creation of an environmentally conscious society.

Business Overview

One of the things that make the Hodogaya Chemical group unique is that in each sector, whether it is Functional Colorants, Specialty Polymers, Basic Chemicals, Agro-Science, or Logistics, etc., there is a highly specialized group company. With Research & Development, Manufacturing, and Sales working together in a Trilateral Business Plan, we are able to meet the various needs of our customers quickly, and with products and service of the highest quality.



A Message from our President

By accelerating the initiative of the mid-term management plan, “HONKI 2020,” we aim to become a corporation that steadily supplies “Only One/Number One” materials in the global and niche markets.

We extend our sincere sympathies to those who have been affected by the typhoon this time and hope a recovery from this disaster at the earliest possible date.

The Hodogaya Chemical Group is currently hard at work on “HONKI 2020”, a mid-term management plan that will end in FY 2020. (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination)

By steadily implementing strategies and measures that are included as themes in this plan, such as the establishment of the pillar for the next generation and further enhancement of the global management structure, we aim to become a corporation that steadily supplies “Only One/Number One” materials in the global and niche markets. We thank you for your support throughout this effort.

We will now report on our results for the first half of FY 2019 (April 1, 2019 – September 30, 2019), and on our prospects for the future.

Yuto Matsumoto
President and CEO
December 2019



First-Half Results

Although we focused on the progress of the “HONKI 2020,” the result was increase in sales and decrease in profit due to the rising cost of raw materials, etc.

When looking at economic trends of various countries in the first half of FY 2019, although the economy in the US maintained increase in consumer spending in the context of good employment, the economy tended to decrease in Europe and China due to the decrease in export, etc. International issues such as the trade conflict between the US and China and Brexit have not been solved yet, and prospects remain uncertain. In addition, increased price of raw materials caused by the influence of environmental regulations in China became burden on our revenue.

Under these circumstances, our Group actively invested our management resources into the progress of the mid-term management plan, “HONKI 2020.” With regard to the core business, we made efforts to secure stable revenue base through the enhancement of production capacity, etc., and we tried to establish the pillar of the growth business for the next generation by implementing strategic investment. In July 2019, for aluminum coloring dyes which is the main product of the functional colorants segment, new manufacturing facilities were introduced in Koriyama Plant in order to expand the production system. With regard to development of new products, with the aim to achieve sales amount of 5 billion yen in FY 2020, we are focusing on creation of new specialty products by applying and developing technology and knowhow of specialty that centered on the organic composite technology. In addition, with regard to overseas expansion, we are further enhancing our global operation structure by expanding and improving our network bases.

Through these efforts, we achieved the following consolidated results for the first half of the year: 17,549 million yen in net sales (up 2.0% from the first half of the previous year), 811 million yen in operating profit (down 28.1%), and 792 million yen in ordinary profit (down 42.5%), with 562 million yen in profit attributable to owners of parent (down 43.4%). Although we achieved increase in sales on a year-to-year comparison basis, we had a harsh consequence in profits mainly due to the rising cost of raw materials.

With regard to the overview of the trend by business segment, in the functional colorants segment, although dyestuffs and imaging materials are weakening, the trend of OLED materials maintained the same level as the same period the previous year. In the meantime, dyes for fiber increased. Our overall result was the same level as the same period the previous year. In the specialty polymers segment, although we saw decrease in profits in polymer materials, with the steady performance of products for pharmaceuticals, the result was increase in profits. The result of the basic chemicals segment was increase in profits as the demand for sodium percarbonate increased. The agro-science segment maintained the same level as the same period the previous year.

Upon consideration of performance trends, future business development, and unquantifiable risks, etc., we set the interim dividend at 25 yen per share.

Second Quarter 2019 Consolidated Results (Millions of Yen)

	FY 2019 Second Quarter Results	Changes Gains/Losses
Net sales	17,549	+2.0%
Operating profit	811	(28.1%)
Ordinary profit	792	(42.5%)
Profit attributable to owners of parent	562	(43.4%)

Initiatives to strengthen governance**We set up the Nominating & Compensation Committee to achieve strengthened governance in June 2019.**

In order for our Group to achieve continued growth and the maximization of our corporate value, further deepening and expanding ESG (Environment, Social and Governance) initiatives are indispensable in addition to the appropriate performance of business strategies. Based on this understanding, our Group has made efforts to establish the Group management systems by enhancing corporate governance, contributing to environment through business and products, contributing to communities based on various CSR activities.

Aiming at further improvement of governance, we set up the “Nominating & Compensation Committee” as an advisory body for the board of directors this June. Of five members of the committee, three members accounting for the majority are external directors from independent companies, and one of the external directors from independent companies has been appointed as the chairperson. By increasing independence and objectivity of the function of the board of directors in appointment and decision for the remuneration of directors, we are further enhancing accountability to our shareholders. Our Group will continue to enhance governance.

Business Objectives (Millions of Yen)

	FY 2020
Net sales	50,000
Operating profit	5,000
Operating margin	10.0%

Full-year Prospects

With regard to the second half of FY 2019, in addition to the decline in global economy due to the influence of the trade conflict between the US and China and the trend of the European economy, because of concern about decrease in consumer confidence caused by the increase of consumption tax in Japan, it is prospected that we are in severer economic environment. Under such circumstances, we have no choice but prospect continued sever environment for our main business related to automobiles and smartphones, etc. Therefore, our performance for the full year will be below the estimate of performance announced in May 2019.

Against this background, while taking into consideration steady growth into the future, our Group will make efforts to perform various measures included in the “HONKI 2020” and pursue maintaining the growth path and improving earning capacity.

With regard to returning our profits to our shareholders, we will continue to make efforts to expand mid-to long-term shareholder value through profit growth to be achieved by stable dividend and future investment. We thank you for your continued support.

Forecast for FY 2019 (Millions of Yen)

Net sales	36,000
Operating profit	1,400
Ordinary profit	1,400
Profit attributable to owners of parent	600

Overview By Business Segment

Functional Colorants

In the imaging materials business, continued sluggish demand for materials for printers caused decrease. In the meantime, the OLED materials business maintained the same level as the same period the previous year since the demand for the display area remained strong. In the dyes and colors business, the result of aluminum coloring dyes for digital home appliances was decrease because demand surpassed the production capacity during the first half period and the demand itself decreased during the latter half period. However, demand for dyes for fiber increased, and the result was the same level as the same period the previous year.

Sales in this segment came to 5,337 million yen, with operating income of 279 million yen.

OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights.
Imaging Materials	CCA (Charge Control Agents), a critical component of toner. Materials for the OPC (Organic Photo Conductors) drums that are central to copiers and laser printers. Dyes for ink jet printers
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents Colorants for processed foods and cosmetics, etc.

Specialty Polymers

With regard to functional polymers business, as demand for urethan materials decreased, the result was decrease. In addition, the result of the construction materials business was increase because a large sized construction deal was acquired. However, the performance of material sales was poor, and the result was the same level as the same period the previous year. In the meantime, in the specialty chemicals business, the demand for pharmaceuticals, etc. increased, and the result was a great increase.

Sales in this segment came to 5,774 million yen, with operating income of 276 million yen.

unctional Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc. Adhesive Release Agents
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
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Basic Chemicals

The demand for sodium percarbonate which is the material of detergent increased, and the result was increase.

Sales in this segment came to 3,590 million yen, with operating income of 206 million yen.

Basic Chemicals (Hydrogen peroxide)	Bleaching agent for paper pulp, fibers and clothing, etc. Pollution treatment and other forms of environmental cleanup. Parasiticides for Farmed Fish
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Agro-Science

The demand for herbicides for home gardening, etc. decreased, and the result was great decrease. In the meantime, the demand for herbicides for golf courses and cropland and pesticides, etc. increased, and the result was great increase.

Sales in this segment came to 1,797 million yen, with operating loss of 134 million yen.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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Logistics

Sales fell sharply as a result of decreases in warehousing and export handling.

Sales in this segment came to 973 million yen, with operating income of 210 million yen.

Logistics	Hazardous materials warehousing
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Special topic of ESG; initiatives for the “Sustainable Development Goals (SDGs)”

Our Group will support the initiatives to achieve these goals for sustainable development.

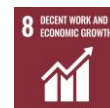
Sustainable Development Goals (SDGs) are international goals adopted at the UN summit held in September 2015 and consist of 17 goals and 169 targets to realize sustainable world by 2030.



Contribution through business activities

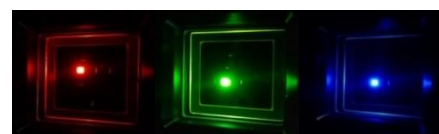
Sugomaku

Our group company, Hodogaya Construction Products Co., Ltd. launched “Sugomaku,” a new product of urethan water-proof material. This is a product of urethan coating water-proof material in the next generation having both flexibility and resistance. Since Sugomaku does not contain specified chemical substances, it helps to promote safe and secure work environment. In addition, because of its high physical properties, processes can be omitted, and improvement of work efficiency can be expected.



OLED Materials

Smartphone display panels are switching from LCD to OLED due to its high degree of design freedom. As our Group develops both emitting materials and transport materials, we offer “the art of combination” to our customers. OLED materials are now produced at three bases at Tsukuba Research Laboratory in Japan, SFC CO., LTD., and HODOGAYA CHEMICAL KOREA CO., LTD. in South Korea. We are gaining greater presence in South Korea where many major panel manufacturers are based. We are contributing to the improvement of energy efficiency by providing highly efficient OLED materials.



Building additional facility for aluminum coloring dyes

We are producing and selling aluminum coloring dyes as our main product of the functional colorants segment. In order to meet market needs, we introduced new production facility in Koriyama Plant and held a ceremony of switch-on. Addition of facility this time is one of the important measures included in the mid-term management plan, “HONKI 2020,” and we are providing products through stable production as well as safe operation.



Contribution through CSR activities

Green Festa

Nanyo Plant and its affiliate K.K. Jasper hosted a thanksgiving festival named Green Festa with the aim of showing their gratitude to the local people. Green Festa offered various events such as tossing rice cakes and the free use of the driving range for children and parents, and introduced the companies' products. With the support of restaurants around the Plant, there were also food booths aiming to further vitalize the local community. Through recreational activities, which are opportunities to interact directly with many people, from children to adults, we were happy to hear that they had a good time and wanted to come again. We will continue to undertake various activities that will lead to the development of and contribution to the local community and society.



Inawashiro Lake Clean Action

Workers of Koriyama Plant participated in the activity called "Inawashiro Lake Clean Action 2019." This is a cleaning activity through the cooperation among residents, businesses and the government of Fukushima Prefecture since a large amount of trash reaches the lakeside of Inawashiro Lake with the melting of snow. As participants had to pick up fruit of Hishi with spines in addition to plastic bag and trash, it was hard work. We will continue to actively participate in such cleaning activities.



Agreement on shelters for route buses during disaster

We concluded trilateral agreement concerning evacuation of buses during a disaster with Koriyama City and the Koriyama branch of Fukushima Transportation Inc. For evacuation of buses when a disaster occurs, we offer part of the premises of our Koriyama Plant as an evacuation place. We will continue to contribute to secured traffic infrastructure for the community people.



COOL CHOICE Activity

We agree with the people's movement of "COOL CHOICE" for local measures to prevent global warming promoted by the government. As a part of this movement, we are taking various measures by setting the room temperature at 28°C at the time of cooling, turning off lights of the whole building during lunch break, promoting paperless, etc.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2019 Mar. 31	2019 Sep. 30
ASSETS		
Total Current Assets	27,344	24,873
Total non-current assets	29,795	29,886
Total property, plant and equipment	20,778	21,681
Total intangible assets	151	147
Total investments and other assets	8,865	8,056
Total Assets	57,140	54,759
LIABILITIES		
Total current liabilities	11,763	10,089
Total non-current liabilities	8,517	8,472
Total Liabilities	20,280	18,561
Total shareholders' equity	28,129	28,499
Share Capital	11,196	11,196
Capital surplus	8,716	8,715
Retained earnings	9,933	10,298
Treasury shares	(1,716)	(1,711)
Total accumulated other comprehensive income	5,846	5,031
Non-controlling interests	2,883	2,666
Total net assets	36,860	36,197
Total liabilities and net assets	57,140	54,759

CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	2018	FY 2019
	Apr.1-Sep.30	Apr.1- Sep.30
Net Sales	17,213	17,549
Cost of sales	11,309	11,917
Gross profit	5,904	5,631
Selling, general and administrative expenses	4,774	4,819
Operating profit	1,129	811
Total non-operating income	330	232
Total non-operating expenses	82	252
Ordinary profit	1,377	792
Total extraordinary income	-	0
Total extraordinary losses	6	37
Profit before income taxes	1,371	755
Income taxes	194	127
Profit	1,177	628
Profit attributable to non-controlling interests	183	65
Profit attributable to owners of parent	993	562

STOCK (AS of September 30, 2019)

AUTHORIZED NUMBER OF SHARES

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

7,953

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares	
		Held (%)	
Tosoh Corporation	700,000	8.3	
Japan Trustee Services Bank, Ltd. (Trust Account)	496,900	5.9	
The Master Trust Bank of Japan ,Ltd. (Trust Account)	356,800	4.2	
Mizuho Bank, Ltd.	298,704	3.6	
The Norinchukin Bank	227,430	2.7	
Meiji Yasuda Life Insurance Company	164,535	2.0	
The Toho Bank, Ltd.	148,399	1.8	
Japan Trustee Services Bank, Ltd. (Trust Account 5)	142,800	1.7	
Mitsui Sumitomo Insurance Co., Ltd.	141,400	1.7	
The Yamaguchi Bank Ltd.	130,000	1.5	