

Business Report 2019

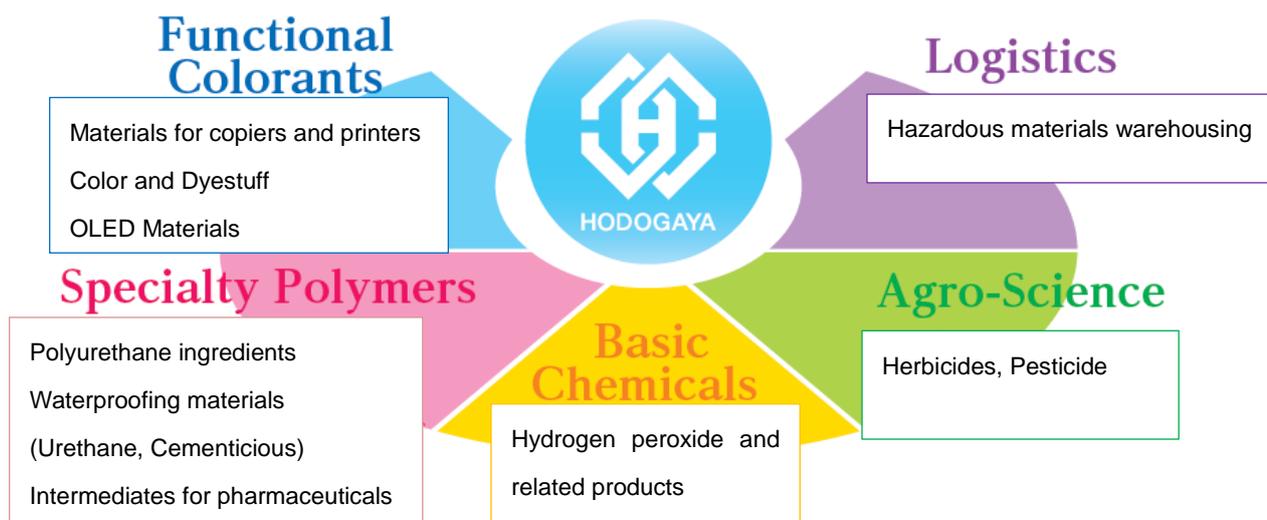
April 1, 2019 - March 31, 2020

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.



Financial Results

Global economy in FY2019 slowed down rapidly due to the impact of COVID-19 spread from the beginning of this year, in addition to prolonged U.S.-China trade friction and slow-down of Chinese economy, while the United States economy remained steady under some market conditions.

As for Japan, our economy slowed down rapidly due to the impact of COVID-19 spread, in addition to the slow-down of export to China affected by U.S.-China trade friction and the sluggish consumption due to the increase of consumption tax rate.

The situation of slowing down global economy due to the impact of COVID-19 spreading in many countries is unpredictable.

Within this economic climate, our net sales in FY2019 increased by 223 million yen (up 0.6%) year-over-year to 37,771 million yen.

In terms of profit and loss, operating profit in FY2019 decreased by 125 million yen (down 4.2%) year-over-year to 2,902 million yen due to an increase in sales costs and other factors.

Ordinary profit came to 3,058 million yen, a decrease of 45 million yen (down 1.5%) year-over-year, and profit attributable to owners of parent decreased by 25 million yen (down 1.3%) year-over-year to 1,858 million yen.

Based on our “Policy concerning the Return of Profits to Stakeholders”, the year-end dividend of the fiscal year ended March 31, 2020 was determined to be 25 yen per share, the same amount as that of the previous year-end dividend. Dividend for the full fiscal year 2019, including the second-quarter-end dividend, was 50 yen per share

FY 2019: Consolidated Results (Millions of Yen)

	FY 2019 Results	Changes Gains/Losses
Net sales	37,771	+0.6%
Operating profit	2,902	-4.2%
Ordinary profit	3,058	-1.5%
Profit attributable to owners of parent	1,858	-1.3%

Overview of our Mid-Term Management Plan

We embarked on “HONKI 2020” (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination), a 6-year management plan that will be completed in FY 2020.

Our Group’s Vision for 2020

A corporation that steadily supplies “Only One/Number One” materials in the global and niche markets.



Each business is classified into one of the following four categories, and we focus on strengthening core businesses while developing and cultivating the businesses of the future.

Core Businesses: Businesses that are already generating positive results

Growth Businesses: Expected to generate positive results in FY 2015~2016

Cultivation Businesses: Expected to generate positive results in FY 2017~2018

New Business Creation: Businesses that are expected to generate positive results in FY 2019 and beyond

With “HONKI 2020”, we are implementing the following measures:

- (1) Regaining Competitive Strength and Securing a Stable Revenue Base
- (2) Establishing a Foundation for the Next Generation
- (3) Expanding our Scope of Business by Creating New Added Value
- (4) Strengthening Global Operation
- (5) Cultivating Personnel for a Diversifying Society
- (6) Enhancing our Commitment to CSR (Corporate Social Responsibility)

(1) Regaining Competitive Strength and Securing a Stable Revenue Base

① Core Businesses: Businesses that are already generating positive results

[Basic Approach] Cutting costs, improving production capacity, developing new applications, expanding global business.

[Main Businesses]

[Functional Colorants Segment] Existing charge control agents (CCA), aluminum dyes, stationery dyes, hair coloring dyes.

[Functional Polymers Segment] Existing polyol materials (bio-polyols, special polyols), phosgene derivatives, tire adhesives, cementitious and urethane waterproofing materials.

[Basic Chemicals Segment] Hydrogen peroxide, sodium percarbonate.

[Agro-Science Segment] Herbicide granules, pesticides, contract manufacturing.

[Logistics Segment] Logistics, warehousing.

(2) Establishing a Foundation for the Next Generation

② Growth Businesses: Expected to generate positive results in FY 2015~2016

[Basic Approach] Expand sales and market share in growing markets, strategic investment.

[Main Businesses]

[Functional Colorants Segment] OLED materials, environmentally-friendly charge control agents(CCA).

[Basic Chemicals Segment] Peracetic acid, hydrogen peroxide for veterinary pharmaceuticals.

[Agro-Science Segment] Liquid herbicides, mega-solar grounds management.

(3) Expanding our Scope of Business by Creating New Added Value

③ Cultivation Businesses: Expected to generate positive results in FY 2017~2018

[Basic Approach] Creation of new products, expansion of sales and market share.

[Main Businesses]

[Functional Colorants Segment] Dyes for color filters, CCA for color toner.

[Functional Polymers Segment] New polyol materials.

[Agro-Science Segment] Peroxides for agricultural applications.

④ New Business Creation: Businesses that are expected to generate positive results in FY 2019 and beyond

[Basic Approach]

- Striving to achieve 5,000 million yen in new product sales in FY 2020.
- Using the strengths in organic synthesis and manufacturing technologies that we have cultivated over the course of our long history as a foundation for our capabilities in “High Purity Technologies”, “Development of Functional Materials”, and “Evaluation of Functional Materials”, we will endeavor to contribute to a world of abundance.

(4) Strengthening Global Operation

[Basic Approach] Promotion of business activities in global and niche markets on the basis of a firm understanding of customer needs.

(5) Cultivating Personnel for a Diversifying Society

[Basic Approach] Energizing the Group by training employees to “think, investigate, and act”.

(6) Enhancing our Commitment to CSR (Corporate Social Responsibility)

[Basic Approach] Maintaining and deepening the trust held in us by all stakeholders, and contributing to social development.

“HONKI 2020” Business Objectives (Millions of Yen)

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

Prospects for FY 2020

Forecast of consolidated business results for the fiscal year ending March 31, 2021 has yet “to be determined”, because reasonable estimation is difficult at this time due to the impact of COVID-19.

(Millions of Yen)

	FY 2020
Net sales	-
Operating profit	-
Ordinary profit	-
Profit attributable to owners of parent	-

Overview By Business Segment

Functional Colorants

Imaging Materials business maintained the same level as the previous fiscal year with the acquisition of new customers, in spite of continued sluggish demand for materials for monochrome printers.

Color and Dyestuff business maintained the same level as the previous fiscal year with increased demand for fiber dyes, in spite of delay in exploring applications of aluminium coloring dyes and sluggish sales of dyes for smartphones.

The OLED Materials business saw a large increase in income thanks to an increase in demand in the area of displays for smartphones due to an increased switchover from LCD to OLED.

As a result, net sales in this segment came to 11,855 million yen, with 1,182 million yen of operating profit.

OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights. Light Emitting Materials.
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

Specialty Chemicals business saw a large increase in income thanks to acquisition of large transactions in the area of intermediates for pharmaceuticals.

Construction Materials business maintained the same level as the previous fiscal year with sluggish sales of materials, in spite of an increase thanks to acquisition of large transactions of waterproofing materials.

Functional Polymers business saw a large decrease in income with a decrease in demand for urethane materials due to an impact of U.S.-China trade friction.

As a result, net sales in this segment came to 11,717 million yen, with 531 million yen of operating profit.

Functional 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 performance of hydrogen peroxide maintained the same level as the previous fiscal year thanks to an increased demand for industrial chemicals with a recovery of semiconductor market, while paper pulp related demand continues to decrease due to an impact of trend toward the paperless society.

Derivatives of hydrogen peroxide saw a large increase in income thanks to an increase of demand for bleaching agent for clothing and household detergent, together with acquisition of new customers, and other factors.

As a result, net sales in this segment came to 7,156 million yen, with 589 million yen of operating profit.

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

Herbicides for golf courses saw a large increase in income with acquisition of major customers.

In contrast, herbicides for home gardening saw a large decrease in income due to a decrease in market share caused by fiercer competition.

As a result, net sales in this segment came to 4,951 million yen, with 205 million yen of operating profit.

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

Logistics business saw a decrease in income due to the current decrease in export handling volume and warehouse storage volume affected by U.S.-China trade friction, while the demand for hazardous materials warehouse remained steady.

As a result, net sales in this segment came to 1,932 million yen, with 397 million yen of operating profit.

Logistics	Hazardous materials warehousing
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TOPICS

OLED materials

Smartphone display panels are being switched over from LCD to OLED due to its high flexibility in design. HODOGAYA CHEMICAL GROUP develops both emitting materials and transport materials. With an established organizational system of three business locations, which are Tsukuba Research Laboratory in Japan, SFC CO., LTD. and HODOGAYA CHEMICAL KOREA CO., LTD. in South Korea, we have strong presence in South Korea, where many leading panel manufacturers are based. HODOGAYA CHEMICAL GROUP offers the “art of combination” of different materials to our customers to meet their diverse needs.



Peracetic acid

Peracetic acid, a derivative of hydrogen peroxide, has an environment-friendly disinfectant agent that is decomposed to acetic acid and water, while having powerful anti-bacterial effects. It is extensively used in our living environment for example, disinfection of PET bottles before filling them with drinks, anti-bacterial treatment of surface of meats, vegetables and fruits, and disinfection of endoscope used in medical sites. It is expected to be used in a wider range of applications, such as disinfection of food processing equipment.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2019	2020
	Mar. 31	Mar. 31
ASSETS		
Total Current Assets	27,344	25,563
Total non-current assets	29,795	29,340
Total property, plant and equipment	20,778	22,108
Total intangible assets	151	157
Total investments and other assets	8,865	7,074
Total Assets	57,140	54,903
LIABILITIES		
Total current liabilities	11,763	10,207
Total non-current liabilities	8,517	7,655
Total Liabilities	20,280	17,863
Total shareholders' equity	28,129	29,586
Capital stock	11,196	11,196
Capital surplus	8,716	8,706
Retained earnings	9,933	11,396
Treasury shares	(1,716)	(1,712)
Total accumulated other comprehensive income	5,846	4,354
Non-controlling interests	2,883	3,099
Total net assets	36,860	37,040
Total liabilities and net assets	57,140	54,903

CONSOLIDATED STATEMENTS OF INCOME

	MILLIONS OF YEN	
	FY 2019	FY 2020
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	37,548	37,771
Cost of sales	24,663	25,017
Total selling, general and administrative expenses	9,856	9,850
Operating profit	3,028	2,902
Total non-operating income	458	513
Total non-operating expenses	382	357
Ordinary profit	3,104	3,058
Total extraordinary income	7	69
Total extraordinary losses	138	193
Profit before income taxes	2,973	2,934
Total income taxes	653	538
Profit	2,319	2,395
Profit attributable to non-controlling interests	436	537
Profit attributable to owners of parent	1,883	1,858

STOCK(AS of March 31, 2020)**AUTHORIZED NUMBER OF SHARES**

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

7,042

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
Tosoh Corporation	700,000	8.9
The Master Trust Bank of Japan, Ltd. (Trust Account)	684,100	8.7
Japan Trustee Services Bank, Ltd. (Trust Account)	592,700	7.5
Mizuho Bank, Ltd.	298,704	3.8
The Norinchukin Bank	227,430	2.9
Meiji Yasuda Life Insurance Company	164,535	2.1
Japan Trustee Services Bank, Ltd. (Trust Account 5)	148,600	1.9
The Toho Bank, Ltd.	148,399	1.9
Mitsui Sumitomo Insurance Company, Limited	141,400	1.8
The Yamaguchi Bank, Ltd.	130,000	1.6