

Interim Business Report 2020

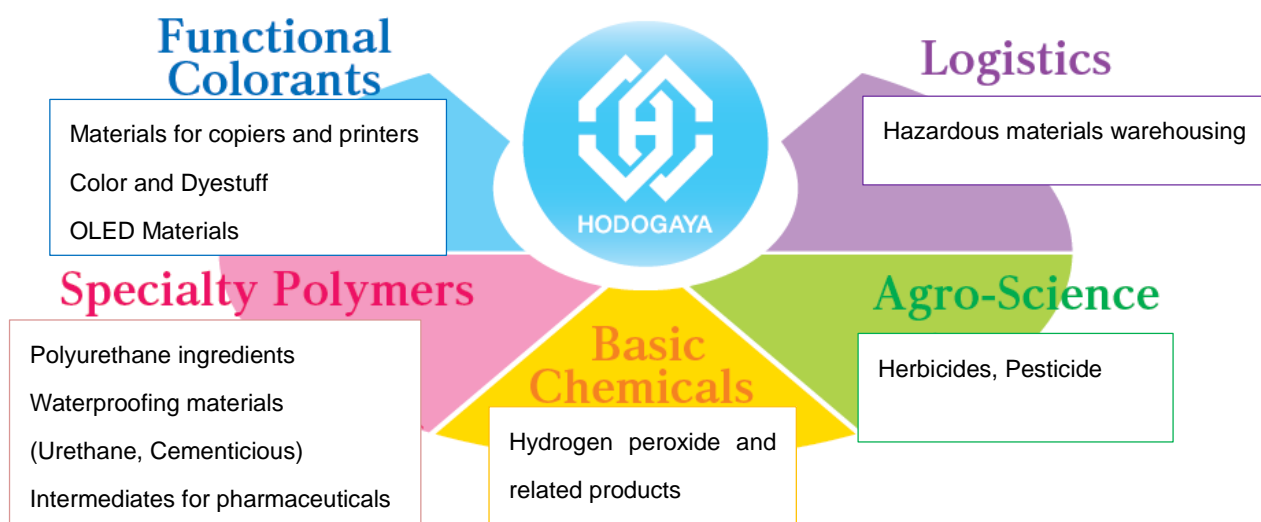
April 1 - September 30, 2020

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.



A Message from our President

Through efforts to promote environmentally friendly product manufacturing based on our unique chemical technologies, we continue to create “Harmony between Chemistry and Environment.”

We would like to express our sincere thanks to our shareholders for their continued support and understanding. The consolidated performance of the Group for the first half of FY2020 (April 1 to September 30, 2020) has recorded an increase in both sales and profit from the same period of the previous year due to growth in the OLED materials business and others. Despite rapid changes in the surrounding environment and various social problems we face, the Hodogaya Chemical Group has maintained safe and stable operation even in the face of the COVID-19 pandemic. With the Group’s recognition that business activity based on corporate philosophy can lead to solving social problems and that the process of solving these social problems also serves as a process for creating corporate value, we will continue our efforts in developing and offering high-quality products/services that meet customer expectation and will contribute to the creation of environmentally friendly living culture. We sincerely ask our shareholders for their continued support and cooperation.



The following is a summary of business performance for the first half of FY2020 and the forecast report.

Yuto Matsumoto
President and CEO
December 2020

Notice of death of our former Representative Director and Chairman

Special Advisor Toshikazu Kitano, former Representative Director and Chairman of the Group, passed away on July 11, 2020 at the age of 70. Exercising his great leadership, former Chairman Kitano moved forward with the expansion of the OLED materials business, the promotion of globalization, the restructuring of Group companies, the enhancement of corporate governance system, etc. We, the whole Group, will jointly continue to strive for realization of the ideal corporate figure indicated by the former chairman.

Profile

Date of birth: October 28, 1949

Career history:

April 1973	Joined The Industrial Bank of Japan, Ltd.
March 2006	Deputy President of Mizuho Bank, Ltd.
May 2007	Joined the Group
June 2008	Representative Director and President of the Group
November 2016	Representative Director and Chairman of the Group
June 2020	Special Advisor of the Group



First-Half Results

Our efforts and consolidated financial performance for the first half of the year

Due to growing demand for application as material for PCR diagnostic kits, both sales and profits have increased from the same period of the previous year.

In Japan, the business environment for the first half of FY2020 remained extremely severe due to the spread of COVID-19 and the stagnation of social and economic activities in conjunction with the declaration of the state of emergency. Containment of COVID-19 has yet to be seen and we are still in the middle of an unpredictable situation.

Under such a severe business environment, the Group has aggressively worked on advancing its mid-term management plan “HONKI 2020”, which is in its final year. Efforts have been focused on the implementation of future-oriented strategies and policies, such as further reinforcement of core businesses and pursuance of strategic investments in growing businesses. As preventive measures against COVID-19, in addition to strict infection preventive measures that have been implemented at each business site and Group company in Japan and overseas, efforts have been made to introduce and sustain a new working style including, for example, facilitation of “work from home” and staggered working hours.

Through these efforts, we achieved the following consolidated results for the first half of the year: 19,420 million yen in net sales (up 10.7% from the first half of the previous year), 2,792 million yen in operating profit (up 244.0%), and 2,900 million yen in ordinary profit (up 266.2%), with 1,252 million yen in quarterly profit attributable to owners of the parent company (up 122.6%).

With regard to the overview of the trend by business segment, in the functional colorants segment, owing to the fact that the shift from liquid crystals to OLED materials has accelerated in the field of smartphone display and that the material for PCR diagnostic kits developed by our subsidiary was adopted by multiple diagnostic kit manufacturers, etc., both sales and operating profits of OLED materials and related products have significantly increased. Meanwhile, imaging materials and dyestuffs in the functional colorants segment showed decreased sales due to the effects of COVID-19. Due to economic stagnation created by the spread of COVID-19, such as the decreased operation rate of automobile manufacturers, segments related to functional polymers, basic chemicals, and logistics experienced a decrease in sales relative to the same period of the previous fiscal year. On the other hand, in the agro-science segment, sales of herbicide for home gardening increased as a result of “nesting demand”. In this connection, however, current sales of the material for PCR diagnostic kits are on a decline due to supply increase under globally intensified competition, etc.

In comprehensive consideration of performance trends, fulfillment of internal reserves, continuation of stable dividends, etc., we have set the interim dividend for the first half of 2020 at 25 yen per share, which is the same as that for 2019.

Second Quarter 2020 Consolidated Results (Millions of Yen)

	FY 2020 Second Quarter Results	Changes Gains/Losses
Net sales	19,420	+10.7%
Operating profit	2,792	+244.0%
Ordinary profit	2,900	+266.2%
Profit attributable to owners of parent	1,252	+122.6%

Our efforts in ESG

In an effort to realize an affluent and sustainable society, we are working on further deepening ESG operation.

The Group has constantly endeavored to enhance ESG operation by identifying ESG (Environmental, Social and Governance) initiatives as one of the priority issues in corporate management.

With regard to “environment”, we have been working on environment-minded product manufacturing using our original chemical technologies, thereby contributing to the development of a sustainable society. As a high-added-value oriented company that can propose the best solutions for diversified social problems, we will continue pursuing the creation of environmentally friendly living culture.

As for “society”, we aim to build a corporate group that is trusted by all shareholders. Especially, regarding profit return to shareholders, we will maintain stable and continuing dividends with focus on “dividend on equity ratio” (DOE), while taking full consideration of the trend of business results, future business development, unforeseeable risks, etc.

In the field of “governance”, using the Nominating and Compensation Committee founded in June 2019 in which independent outside directors comprise the majority as one of the core organizations, we will make an effort to further develop the management system and strengthen the function of the board meeting.

Future growth strategies and management policy for the second half of the year

Based on a review of “HONKI 2020”, we are in the midst of preparations for a new mid-term management plan.

FY2020 is the final year of our mid-term management plan “HONKI 2020”, which was launched in FY2015. We believe that six years of efforts towards the renovation of business structure and the reinforcement of management system will be large assets for us to continue aiming at the further development of the Group. For the purpose of planning a growth scenario for the next fiscal year and beyond, based on a review of measures implemented in “HONKI 2020”, we are presently preparing strategies and measures to be taken on a mid-term basis as a new mid-term management plan. As soon as the plan is completed, the contents will be reported to shareholders.

Under the management policy for the second half of FY2020, our efforts will be focused on the expansion of both core businesses and growing businesses, while carefully monitoring the effects of COVID-19 and the future direction of the US-China trade friction.

Simultaneously, we will continue to pour our efforts into expanding sales of high-value-added products primarily, including the OLED materials business, and into creating new businesses that will serve as future pillars, aiming at sustainable growth and maximization of shareholder value.

We sincerely ask our shareholders for their continued support and cooperation.

Forecast for FY 2020 (Millions of Yen)

Net sales	39,000
Operating profit	4,300
Ordinary profit	4,500
Profit attributable to owners of parent	2,200

Overview By Business Segment

Functional Colorants

The business of imaging materials, aluminum coloring dyes, and dyes for fibers has seen a substantial decrease in sales due to a decline in demand. On the other hand, there has been a demand increase in the OLED materials business as displays for smartphones are shifting from liquid crystals to organic EL materials.

Further, due to efforts made by our subsidiary to expand the application of OLED materials, multiple diagnostic kit manufacturers have introduced OLED materials for PCR diagnostic kits, bringing about a large increase in sales.

From the above results, this business segment achieved sales of 8,337 million yen and operating profit of 2,559 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

Urethane raw materials and tire adhesives have shown a significant decrease in sales due to demand reductions for textiles and cars in the face of the US-China trade friction and the COVID-19 pandemic. In the construction materials business, sales have significantly decreased as postponement or cancellation of construction work reduced demand for materials and waterproofing/water-stopping work. Further, in the specialty chemicals business, there was a significant decrease in sales mainly due to reduced demand for pharmaceutical intermediates, etc.

From the above results, sales of this business segment amounted to 4,737 million yen, creating an operating loss of 29 million yen.

Functional Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc. Adhesive Release Agents
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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.

Basic Chemicals

As for hydrogen peroxide derivative products, the demand for bleach for clothing materials and household detergent increased, and sales increased. On the other hand, the hydrogen peroxide business experienced a fall in revenue due to demand decline for pulp and paper under the influence of the COVID-19 pandemic. From the above results, sales for this business segment amounted to 3,352 million yen and operating profit was 139 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

In the pesticides business, sales dropped due to customers' inventory adjustment. On the other hand, the demand for herbicides for golf courses remained strong along with an increase in the demand for herbicides for home gardening due to nesting demand caused by COVID-19, where a substantial increase in sales was generated.

From the above results, sales for this business segment amounted to 2,049 million yen and an operating loss of 48 million yen was created.

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

Under the influence of the COVID-19 pandemic and the US-China trade friction, export volume dropped, resulting in a sharp decrease in sales.

From the above results, sales for this business segment amounted to 860 million yen and the operating profit was 155 million yen.

Logistics	Hazardous materials warehousing
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Preventive measures against COVID-19: Our efforts

In recognition that infection preventive measures at work are not only our responsibility for supplying products as a manufacturer but also our contribution to preventing infection spread in the entire society, the Group has been implementing measures to reduce infection risks. Along with promoting efforts to respond to the “New Normal”, we shall continue working on the development of our organizational operation to sustain growth even in the face of the COVID-19 pandemic.

●Infection preventive measures taken by employees of the Group●



Practicing proper hand washing and coughing etiquette

Wearing a mask and checking body temperature

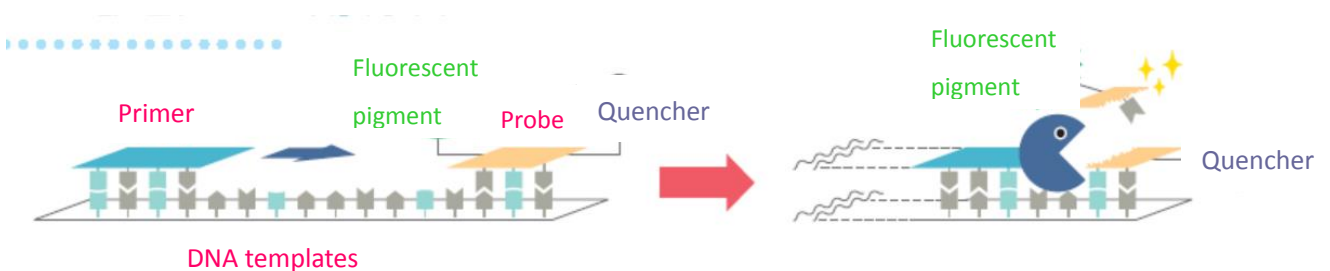
Providing antiseptic solutions, disinfecting common-use space on a regular basis, and installing partitions

Holding awareness-raising campaigns for measures to be taken in poor health, etc.

Promoting “work from home” and staggered working hours

Restricting domestic/overseas business trips and utilizing Web conferences, etc. for business meetings with customers, etc.

Material for PCR diagnostic kit



In association with the PCR mechanism, let us explain the materials (fluorescent pigment and quencher) developed by SFC, our subsidiary. Using a single DNA strand as template, a DNA fragment called “primer” is attached to the edge. A material called “probe” is attached to a different position. Although a fluorescent pigment is applied on the probe, it does not emit light because of the presence of a quencher. This fluorescent pigment and the quencher are the strong points of SFC. The primer stretches like a fastener being closed and moves forward while breaking the probe. At this time, the fluorescent pigment that separates from the quencher emits light and DNA amplification is confirmed.

Our efforts in work-life balance

With the aim of achieving “further growth of the Hodogaya Chemical Group” and “improvement of employees’ job satisfaction” at the same time, we respect diverse lifestyles and are working on the creation of a motivating workplace environment. To this end, we have introduced various programs and policies to enable employees to achieve a highly productive work style and successfully combine work with daily living (work-life balance).

● Child-raising and nursing care

The Group implements various childcare support programs, including short working hours during pregnancy and child-rearing periods, long-term childcare leave, and nursing leave to care for a sick child. At the time of spouse’s childbirth, employees are entitled to take congratulatory leave and childcare leave. For the purpose of nursing care, the Group implements long-term and short-term nursing care leaves. Further, a re-employment registration system has been introduced for employees who terminated employment voluntarily due to such reasons as childcare and nursing care.



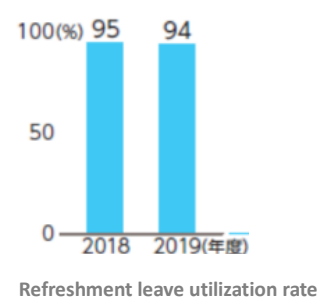
● Use of Shinkansen and limited express trains for commuting

This system allows employees to use the Shinkansen and limited express trains for commuting, aiming to reduce the commuting time of long-distance commuters, to allow effective utilization of their time, and to offer more choices of where to live. There are certain eligibility requirements, such as commuting time and commuting distance, but the system is utilized as a measure to enhance work-life balance.



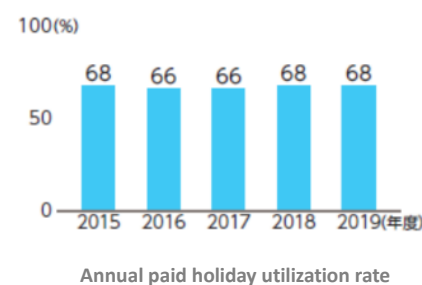
● Refreshment leave

“Refreshment leave system” was introduced in FY2018 in which employees are eligible to take five consecutive business days off in addition to annual paid holidays. This leave aims to refresh the mind and body, and by combining it with Saturdays and Sundays, employees can enjoy a longer vacation. Employees are required to use a certain number of annual paid holidays prior to taking the refreshment leave in order to achieve a good balance between annual paid holidays and refreshment leave.



● Annual paid holidays

Annual paid holidays can also be used on a half-day basis, and the utilization rate of annual paid holidays is 60% or higher. In both FY2018 and FY2019, all Group employees took five days or more off. Annual paid holidays that were not used can be accumulated as “accumulated annual leave for personal injury and sickness”. “Accumulated annual leave for personal injury and sickness” may be used for such purposes as nursing care and volunteer activities in addition to personal injury and sickness.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2020 Mar. 31	2020 Sep. 30
ASSETS		
Total Current Assets	25,563	25,969
Total non-current assets	29,340	30,777
Total property, plant and equipment	22,108	22,396
Total intangible assets	157	160
Total investments and other assets	7,074	8,220
Total Assets	54,903	56,746
LIABILITIES		
Total current liabilities	10,207	9,434
Total non-current liabilities	7,655	7,396
Total Liabilities	17,863	16,830
Total shareholders' equity	29,586	30,698
Share Capital	11,196	11,196
Capital surplus	8,706	8,716
Retained earnings	11,396	12,451
Treasury shares	(1,712)	(1,666)
Total accumulated other comprehensive income	4,354	5,186
Non-controlling interests	3,099	4,030
Total net assets	37,040	39,915
Total liabilities and net assets	54,903	56,746

CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	2019	FY 2020
	Apr.1-Sep.30	Apr.1- Sep.30
Net Sales	17,549	19,420
Cost of sales	11,917	11,492
Gross profit	5,631	7,927
Selling, general and administrative expenses	4,819	5,134
Operating profit	811	2,792
Total non-operating income	232	242
Total non-operating expenses	252	134
Ordinary profit	792	2,900
Total extraordinary income	0	2
Total extraordinary losses	37	6
Profit before income taxes	755	2,896
Income taxes	127	664
Profit	628	2,231
Profit attributable to non-controlling interests	65	978
Profit attributable to owners of parent	562	1,252

STOCK (AS of September 30, 2020)

AUTHORIZED NUMBER OF SHARES

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

7,302

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held (Thousand)	Percentage of Shares Held (%)
The Master Trust Bank of Japan ,Ltd. (Trust Account)	755	9.5
Tosoh Corporation	700	8.8
Custody Bank of Japan, Ltd. (Trust Account)	465	5.9
Mizuho Bank, Ltd.	298	3.8
The Norinchukin Bank	227	2.9
Meiji Yasuda Life Insurance Company	164	2.1
Custody Bank of Japan, Ltd. (Trust Account 5)	152	1.9
The Toho Bank, Ltd.	148	1.9
Mitsui Sumitomo Insurance Co., Ltd.	141	1.8
The Yamaguchi Bank Ltd.	130	1.6

Treasury stocks (496 thousand shares) are not included in the above list.