

Business Report 2020

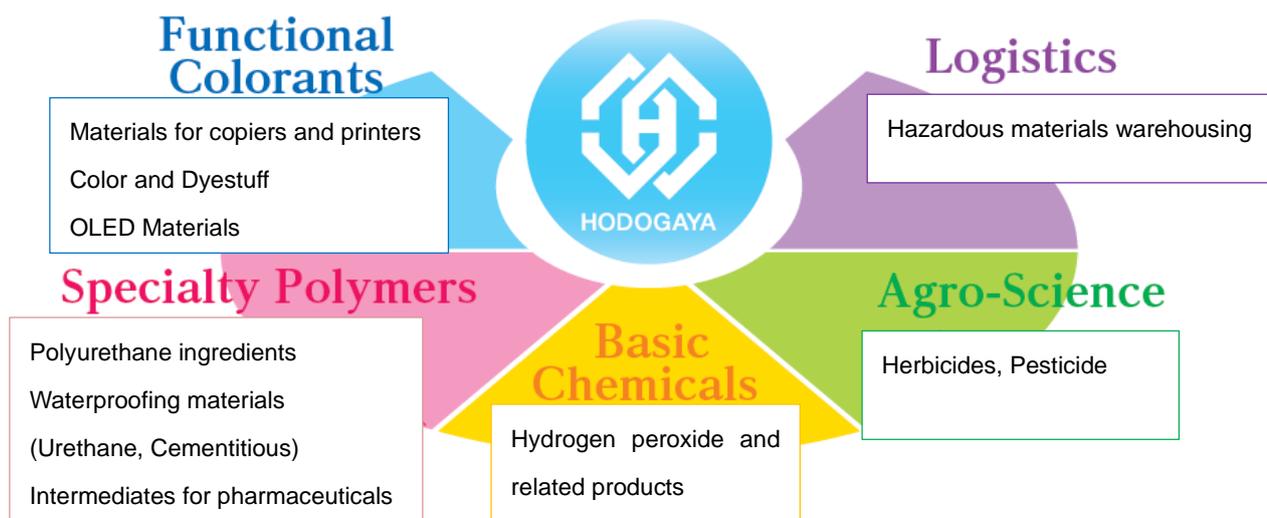
April 1, 2020 - March 31, 2021

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

In the consolidated fiscal year, the spread of COVID-19 did not come to a halt and produced a large impact on the social and economic activities worldwide. In the first half of the fiscal year, the economy significantly slowed down due to the global restraint to the social and economic activities. In the second half of the period, responding to the stepwise restart of economic activities, financial and monetary policies by each country, and start of vaccination, the economy regained upward momentum. In particular, Chinese economy recovered the pre-COVID-19 level with an extraordinary speed. In the most regions of the world, however, various restrictions to the social and economic activities still continue. In addition, social turmoil after the US presidential election and the escalating struggle for mastery between US and China increased the uncertainty about the future. In the latter half of the period, Japanese economy has seen signs of some recovery in the domestic and foreign demands, however, it has still difficulty in achieving a balance between the infection deterrence and the social and economic activities, and a strong feeling of uncertainty continues. Amid such circumstances, our net sales in FY2020 increased by 3,428 million yen (up 9.1%) year-over-year to 41,199 million yen. In terms of profit and loss, operating profit increased by 2,541 million yen (up 87.5%) year-over-year to 5,444 million yen mainly thanks to the increase in sales. Ordinary profit increased by 2,782 million yen (up 91.0%) year-over-year to 5,841 million yen, while profit attributable to owners of parent increased by 1,261 million yen (up 67.9%) year-over-year to 3,119 million yen.

Based on our "Policy concerning the Return of Profits to Stakeholders", the year-end dividend of the fiscal year ended March 31, 2021, 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 2020, including the second-quarter-end dividend, was 50 yen per share.

FY 2020: Consolidated Results (Millions of Yen)

	FY 2020 Results	Changes Gains/Losses
Net sales	41,199	+9.1%
Operating profit	5,444	+87.5%
Ordinary profit	5,841	+91.0%
Profit attributable to owners of parent	3,119	+67.9%

Overview of our Mid-Term Management Plan

The Hodogaya Chemical Group was devoting its efforts on "HONKI 2020", a 6-year mid-term management plan that began in FY2015 (FY2015 – FY2020).

(Hodogaya as **Only one**, **Number one** with our **Key** technology and **Imagination**)

We aimed to become a corporation that steadily supplies "Only One/Number One" specialty products in the global and niche markets by FY2020, and the following describes a general review of "HONKI 2020" and challenges for the "New Mid-term Management Plan".

1) Outline of "HONKI 2020"



2) General Review of "HONKI 2020"

(1) Business targets (consolidated performance targets for FY 2020)

- Net sales: 50 billion yen
- Operating profit: 5 billion yen
- Operating margin: 10.0%

Performance results

• Net sales:

Expansion of the OLED business and other positive outcomes resulted in an annual average growth rate of 4%, but our target of 50 billion yen could not be achieved.

• Operating profit:

In FY2020, our profit increased sharply thanks to strong sales of PCR diagnostic kit materials under a special demand, leading to the achievement of the target.

• Operating margin:

In FY2020, sales of OLED and PCR diagnostic kit materials contributed to meet the target.

Transition of consolidated performance

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Net sales	33.8 billion yen	34.7 billion yen	38.7 billion yen	37.6 billion yen	37.8 billion yen	41.1 billion yen
Operating profit	0.8 billion yen	2.1 billion yen	3.9 billion yen	3.0 billion yen	2.9 billion yen	5.4 billion yen
Operating margin	2.3%	6.0%	10.0%	8.0%	7.6%	13.2%

(2) Operational summary

Core Businesses: "Securing a stable revenue base" by regaining competitive strength

Growth Businesses: Establishing a "pillar for the next generation"

Cultivation Businesses: Expanding our sphere of activity by creating "new additional values"

Results

Core Businesses:

The net sales remained mostly level, mainly due to sluggish market and intensified competition, but preparation for future expansion has been underway, including newly installed facilities for aluminum colorants and phosgene derivatives.

Growth Businesses:

The OLED business played a leading role in terms of net sales and revenues, growing into the top business to replace imaging materials.

Cultivation Businesses:

Cultivation for next-generation pillars has continued, including color filter dyes. In particular, peroxides for agricultural applications have grown under extreme weather.

Operational summary

- During the "HONKI 2020" period, OLED-related businesses, which had received a concentrated investment of our business resources, showed substantial growth, increasing their existence in the market and their contribution to the entire Hodogaya Chemical Group.
- For businesses using the Group's unique technologies, the production capacity has increased, including aluminum colorants and phosgene derivatives.
- We are currently expanding collaboration between agro- and hydrogen peroxide derivative businesses, using a foothold we have gained there.

Strategic investment

- Major capital investment: 10.1 billion yen of capital investment has been made in total. Includes newly installed aluminum colorant facilities and enhancement of manufacturing and research facilities at SFC in South Korea.
- M&A: Our engagement has continued but with no actual closure of large-scale deals.

(3) New Business Creation

- Target: Sales of new products (FY2020) 5 billion yen

Results: Sales of new products resulted in "3.4 billion yen" in FY2020.

- The establishment of "development bases" and "manufacturing bases" in South Korea, a leading OLED market in the world, has led to an enhanced relationship with customers, which in turn supports our business expansion.
- In the agro-business, continual launches of new products to meet specific needs have contributed to maintain and increase our market share.

(4) Strengthening global operations further

Measures taken

- Newly established "development bases" and "manufacturing bases" in South Korea, a leading OLED market in the world, have advanced our globalization also in terms of research and development.
- HODOGAYA CHEMICAL EUROPE GmbH has been established in Germany to strengthen our sales activities in Europe.
- Our global material procurement has been enhanced utilizing foreign affiliate companies, increasing our resilience against China and other risk areas.

(5) Cultivating personnel for a diversifying society

Measures taken

- Manufacturing-related education has completely been developed, including practical education at manufacturing sites. For research and development education, an "R&D Learning Center" has been established and a progress management system has also been developed completely.
- A "company-wide education system" has been completed, with new educational items incorporated.
- Dispatch of "overseas trainees" has been postponed in FY2020, partly due to the effect of COVID-19.
- In addition to the recruitment of new graduates, human resources with required skills have been recruited throughout the year.

(6) Enhancing our commitment to CSR

Measures taken

- A CSR Promotion Department has been established to strengthen CSR activities. An "Integrated Report" has been published in English and Japanese, and dialogs with institutional investors have also been held regularly.
- We have committed to CSR by taking into account support for ESG management and contribution to achieving SDGs.
 - Results of the Toyo Keizai CSR Survey: 300th in 1,284 companies in FY2019 and 277th in 1,348 companies in FY2020
 - Results of ESG evaluation by FTSE*: 150th in 287 chemical companies in the world

*FTSE Russell: A company based in London, UK, that calculates and maintains stock market indexes and provides related financial data. The company is also well known as a global ESG evaluation organization.

(7) Others

"Strengthening our governance"

- June 2015: Transition to a company with an audit and supervisory committee
- July 2016: Introduction of a company stock award plan
- January 2018: Transition to a new management system
- June 2019: Establishment of a nominating and compensation committee

"Work environment"

- Smartphones have been provided, mainly for sales personnel.
- A virtual desktop environment has been developed to enable employees to work anywhere.
- "Teleworking" has been implemented as a measure against COVID-19.

3) Challenges for the "New Mid-term Management Plan"

- (1) Exploration and development of a new growth driver succeeding the OLED business
- (2) Construction of a business portfolio capable of responding to changes in the external environment
- (3) Further enhancement of tripartite activities among "development, production and sales"
- (4) Development of a system that allows monitoring toward the achievement of the plan and proper response to environmental and other changes

Mid-term management plan (FY2021 to FY2030)

1 . Mid-term Management Plan

The Hodogaya Chemical Group has been promoting our mid-term management plan (FY2021 to FY2030) that began in FY2021.

In establishing this mid-term management plan, we have focused on how, based on the issues found in "HONKI 2020", the Hodogaya Chemical Group, which aims to continue to exist for 200 years, realizes growth in the next 10 years under ambiguous situations.

Despite a hard-to-predict condition, we have set our "ideal figure" to be achieved in 10 years, with "megatrends" up to FY2030 in mind.

Using a "backcasting" method, the plan has drawn up a growth scenario for the Group over the next 10 years.

[VISION]

[VISION for the Mid-term Management Plan]

A corporation that contributes to establish a sustainable society by means of our original portfolio and environmentally friendly manufacturing, with a focus on specialty products

The Hodogaya Chemical Group's management philosophy (MISSION) is "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". Under this philosophy, the mid-term management plan has defined our target corporate image (VISION) as "a corporation that contributes to establishing a sustainable society by means of our original portfolio and environmentally friendly manufacturing, with a focus on specialty products".

[Outline of the Mid-term Management Plan]

Mid-term Management Plan [FY2021 from FY2030]

"SPEED 25/30"

The Hodogaya Chemical Group will speedily transform itself to our "target figure" in FY2025 and to our "ideal figure" in FY2030, by means of:

- S : Specialty products that construct a
- P : Portfolio built up with great originality;
- E : Engagement improvement that contributes to
- E : ESG management promotion;
- D : Digital transformation-led competitiveness enhancement

"SPEED 25/30" aims at a speedy transformation of the Hodogaya Chemical Group to the "target figure" by FY2025 and to the "ideal figure" in FY2030.

In this hardly predictable age, we have first defined a figure that we seek to achieve in FY2030 as our "ideal figure" and developed a 10-year scenario using a "backcasting" method. As its halfway point, we have drawn up our "target figure" to be achieved in FY2025.

[Ideal figures in FY 2030]

Items	"Ideal figures"
Strengthening operations	A well-constructed business portfolio Promoting digital transformation
Expanding our sphere of activity	Continually creating new products
Higher efficiency	Achieving a high productivity
Employees' point of view	Improving job satisfaction
Social point of view	Contributing to the achievement of SDGs and realizing environmental friendliness
Shareholders' point of view	Maintaining a stable dividend for a long term

DX

[Target figures in FY 2025]

Items	"Target figure"
Businesses	<ul style="list-style-type: none"> Achieving sustainable growth of the Group through both "core businesses" and "strategic businesses" <p>[Core Businesses]</p> <ul style="list-style-type: none"> Securing a stable revenue to enable deployment of strategic businesses <p>[Strategic businesses]</p> <ul style="list-style-type: none"> Playing a leading role for products and markets that will meet demand from the next generation by taking advantage of the Group's strength
Research & Development	<ul style="list-style-type: none"> Being capable of supporting strategic businesses by supplementing technologies for them Having already commercialized current new projects Having converted exploratory subjects into research subjects
Manufacturing Technology	<ul style="list-style-type: none"> Having completed a system for quickly launching new products Constantly producing environmentally friendly products safely and stably with high productivity
Infrastructure and related aspects	<ul style="list-style-type: none"> Improving the organizational capability to become a winner in the 2020s All officers and employees being satisfied with their job (feeling motivated and easy to work) Responding to emerging social values Having become a company recognized by both the Group and others to show excellent financial performance Promoting innovation with an already developed system for engaging in innovation using digital and other technologies

To facilitate the "SPEED 25/30" plan, we will react to changes in the external environment and other conditions, while adopting "KPI management" and monitoring its progress.

Overview By Business Segment

Functional Colorants

Imaging Materials business saw a large decrease in income due to the slumping demand for materials for printers and the decrease in demand for printing in offices due to the COVID-19 pandemic. Color and Dyestuff business maintained the same level as the previous fiscal year with the increased sales of dyes for coloring aluminium for smartphones, in spite of the decreased demand for dyes for fabrics and stationery products due to the impact of the COVID-19 pandemic. On the other hand, Organic EL Material business saw an increase in demand in the area of displays for smartphones due to an increased switchover from liquid crystal to organic EL. At one of our subsidiaries, an organic EL material was adopted by more than one diagnosis kit manufacturer as material of PCR diagnosis kits, as one of its developed applications, and the Organic EL Materials business achieved a large increase in income in the first quarter of the fiscal year. Due to the intensified competition, the sales volume decreased in the second quarter, however, as a result of repeated spread of infection worldwide, the sales volume recovered. As a result, the net sales in this segment came to 16,503 million yen and the operating profit came to 3,874 million yen.

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

Functional Polymers business saw a decrease in income with the decrease in income of adhesives for tires due to the reduced automotive production in the COVID-19 pandemic, although Polyurethane Materials mainly for clothing gradually recovered and achieved the same level as the previous fiscal year. Specialty Chemicals business saw a large decrease in income mainly due to the intensification of competition of Intermediates for Pharmaceuticals. Furthermore, the Construction Materials business saw a large decrease in income due to a decrease in materials sales and in demand for waterproof works caused by postponement and cancellation of construction works in the COVID-19 pandemic. As a result, the net sales in this segment came to 10,255 million yen and the operating profit came to 207 million yen.

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.

Basic Chemicals

Hydrogen Peroxide Derivatives business maintained the same level as the previous year with the steady sales of products for bleaching agent for clothing and household detergent, in spite of the decrease in demand for endoscope decontamination in the COVID-19 pandemic. On the other hand, Hydrogen Peroxide business saw a decrease in income due to the decrease in the paper-pulp-related demand, in spite of strong sales of products for industrial chemicals mainly in the semiconductor market. As a result, the net sales in this segment came to 6,866 million yen and the operating profit came to 694 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
--	---

Agro-Science

Pesticide business saw a large decrease in income with a decrease in sales volume due to inventory adjustment by the customers. On the other hand, herbicides for crop fields maintained the same level as the previous year since the inventory adjustment proceeded while herbicides for golf courses saw a steady demand. Herbicides for home gardening saw a large increase in income thanks to the demand by people staying home in the COVID-19 pandemic. As a result, the net sales in this segment came to 5,554 million yen and the operating profit came to 268 million yen.

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

Logistics

Along with the sluggish economic activities in the COVID-19 pandemic, logistics business saw a decrease in income due to the decrease in export handling volume. As a result, the net sales in this segment came to 1,848 million yen and the operating profit came to 361 million yen.

Logistics	Hazardous materials warehousing
-----------	---------------------------------

TOPICS

TOPIC 1: Advertisements of Hodogaya Chemical Group in the areas of plants

Hodogaya Chemical Group, as a chemicals manufacturer, performs its production activities, placing the highest priority on the “safety”. Our plants are performing daily production activities with the understanding and cooperation of the community people. Amid such circumstances, Koriyama Plant (Koriyama City, Fukushima Prefecture) and Nanyo Plant (Shunan City, Yamaguchi Prefecture) placed advertisements in the places visible from the community people to show our thanks for their ordinary acceptance and cooperation, as well as to request them for continual cooperation in the respective areas.

Hodogaya Chemical Group, as part of its CSR activities, commits to further enhance its familiarity among the community people.



Wrap advertisement on a circular route bus in Koriyama City



Advertisement on a light signboard in JR Tokuyama Station (the nearest Shinkansen Station to our Nanyo Plant)

TOPIC 2: Certification as “Health and Productivity Management Organization 2021 (Large Enterprise Category)”

Certification as “Health and Productivity Management Organization 2021 (Large Enterprise Category)”: Hodogaya Chemical was certified as a “Health and Productivity Management Organization 2021 (Large Enterprise Category)” selected by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

In addition to the existing “stress check” and “mental health training”, we worked on the health promotion, including the extension of health guidance for those with findings, based on their medical checkup results. We, recognizing that health promotion leads to the activation of the organization and the enhancement of corporate value, such as the improvement of the employees’ vitality and productivity, will continue to actively address health and productivity management.



CONSOLIDATED FINANCIAL STATEMENT
CONSOLIDATED BALANCE SHEETS

MILLIONS OF YEN

	2020 Mar. 31	2021 Mar. 31
ASSETS		
Total Current Assets	25,563	30,096
Total non-current assets	29,340	32,512
Total property, plant and equipment	22,108	22,645
Total intangible assets	157	245
Total investments and other assets	7,074	9,621
Total Assets	54,903	62,609
LIABILITIES		
Total current liabilities	10,207	11,783
Total non-current liabilities	7,655	7,171
Total Liabilities	17,863	18,954
Total shareholders' equity	29,586	32,362
Capital stock	11,196	11,196
Capital surplus	8,706	8,716
Retained earnings	11,396	14,119
Treasury shares	(1,712)	(1,670)
Total accumulated other comprehensive income	4,354	6,314
Non-controlling interests	3,099	4,977
Total net assets	37,040	43,654
Total liabilities and net assets	54,903	62,609

CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	FY 2020	FY 2021
	Apr.1-Mar.31	Apr.1-Mar.31
Net Sales	37,771	41,199
Cost of sales	25,017	25,125
Total selling, general and administrative expenses	9,850	10,629
Operating profit	2,902	5,444
Total non-operating income	513	544
Total non-operating expenses	357	147
Ordinary profit	3,058	5,841
Total extraordinary income	69	29
Total extraordinary losses	193	181
Profit before income taxes	2,934	5,689
Total income taxes	538	930
Profit	2,395	4,758
Profit attributable to non-controlling interests	537	1,639
Profit attributable to owners of parent	1,858	3,119

STOCK (AS of March 31, 2021)

AUTHORIZED NUMBER OF SHARES

20,000,000

NUMBER OF COMMON SHARES ISSUED

8,413,726

NUMBER OF SHAREHOLDERS

7,399

MAIN SHAREHOLDERS (TOP 10 COMPANIES)

Shareholder	Number of Shares Held	Percentage of Shares Held (%)
Tosoh Corporation	700,000	8.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	627,500	7.9
Custody Bank of Japan, Ltd. (Trust Account)	539,300	6.8
Mizuho Bank, Ltd.	298,704	3.8
The Norinchukin Bank	227,430	2.9
Meiji Yasuda Life Insurance Company	164,535	2.1
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
JPMBL RE NOMURA INTERNATIONAL PLC 1 COLL EQUITY	129,056	1.6