

Message from the President



Representative Director, President
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Mid-Term Business Plan -Achieving Our “Ultimate Goals” as a 100-Year Old Company-

Economic trends inside and outside Japan have become more unclear. Therefore, in order to develop our group sustainably with the aim of becoming a 100-Year old Company, we have positioned our current three-year Mid-Term Business Plan, “Create the Future -The Challenge for New Possibilities-,” which was launched in the period ended October 2021 as a seeding period for expanding our business domains with the goal of achieving our “Ultimate Goals” based on market environment perspective for the next 20 to 30 years later. As the business environment continues to shift, it can be difficult to maintain sustainable growth by focusing solely on agricultural chemicals. Therefore, we took time to seriously consider what kind of value we can provide as a company by expanding our intended business domains in preparation for a paradigm shift in the business environment. To achieve this, we selected four important policies, which are ① Expansion of research and business domains, ② Ensuring diverse sales routes, ③ Ensuring cost competitiveness, and ④ Corporate activities that emphasize ESG, and we have been working to implement these.

Continuing from FY2021, during FY2022, our consolidated net sales and operating income both reached new records, which were beyond the targets of the Mid-Term Business Plan, and we were able to achieve target figures set for the final year during the second year. ROE was 14.9%, which was much higher than the target set for the Mid-Term Business Plan of 7.3%.

There are multiple factors that have resulted in our performance exceeding the expectations set in the Mid-Term Business Plan. For example, in addition to rising demand for our main field crop herbicide AXEEV® due to soaring grain prices and an increase in planting area, we newly launched other inhouse developed products including an herbicide for paddy rice called EFFEEDA®, a fungicide for paddy rice called DISARTA®, which exceeded our forecast. We were able to maintain our good performance due to certain positive factors

including yen depreciation despite negative factors such as increasing costs with raw materials and manufacturing connected to higher crude oil prices. In the Fine Chemicals Business, although progress with the implementation of the Mid-Term Business Plan was delayed as a result of the long-term impact of the pandemic, it is now on track. There are also some positive factors like the increased demand with the Chlorination Business and Advanced Chemicals Business.

During FY2023, our aim is to increase earnings and profits from sustainable growth mainly with the Agricultural Chemicals and Agriculture-related Business, ensure the implementation of important policies and prioritized measures specified in the Mid-Term Business Plan, and to focus on strengthening the foundation for sustainability management.

Performance trends with the Mid-Term Business Plan



Introduction

Fiscal 2022 marked the second year for the Kumiai Group’s Mid-Term Business Plan “Create the Future -The Challenge for New Possibilities-” as well as my first year as a President. We have been implementing a variety of measures for increasing corporate value based on our three policies of “Promoting sustainability management,” “Enhancing governance in harmony with our transition to the Prime Market,” and “Pursuing the happiness of all stakeholders to help them achieve their dreams.” During my first year as a President, I held exchange meetings with executives and employees from all departments of the head office and from all offices in Japan, U.S., and Europe in order to listen directly to their opinions and encourage them to understand our new policies, which helped create an atmosphere where people feel free to speak up.

Although Kumiai Group is exposed to various risks including the invasion of Ukraine by Russia, we will maintain an open environment inside our group, and respond flexibly to major changes with the business environment by having all executives and employees work together.

From this time, we decided publish our comprehensive Integrated Report containing financial and non-financial information along with business strategies to our stakeholders.

Prioritized Measures and Initiatives based on Important Policies

For the Agricultural Chemicals and Agriculture-related Business, in addition to expanding our existing business, we have been promoting growth strategies in new fields and regions such as by “Expansion of research and business domains” and “Ensuring diverse sales routes.” We are always looking for opportunities to quickly enter into new fields through M&A. During the current Mid-Term Business Plan period, we acquired shares in Agricore Corporation, which develops new agriculture using cultivation techniques based on microorganisms and environmental control technology through IT, and acquired shares of the Singapore-based company AAI, which has agricultural chemical sales routes in Asia and Africa with high growth potential.

In the Fine Chemicals Business, we newly established our New Material Research Laboratory at the Process Chemical Research Center of the Chemical Research Institute for maximizing business. At the New Material Research Laboratory, researchers have been assigned from group companies in addition to Kumiai. Our goal is to establish a cross-sectional research system in our group by integrating research and development that had been carried out by each company into one laboratory, and will promote co-creative initiatives that utilize the knowledge, know-how, and technology of each company.

By deepening collaboration within Kumiai Group and with outside institutes, we will maximize our Fine Chemicals Business by developing new fields and moving business downstream.

Leading product AXEEV® with Sustained High Growth Potential

During FY2022, demand for our mainstay product AXEEV® remained high due to the rise of the global grain market. We initially expected sales of 39.2 billion yen in our plan, but we were able to reach 54.4 billion yen and significantly outperform forecasts.

Shipping performance has been better than expected in all major countries, including U.S. As the effectiveness of AXEEV® has become more known, it has been positioned as an essential product for preventing herbicide resistant weeds at agriculture productions sites, and the earnings and purchasing capabilities of growers have improved due to soaring grain prices, resulting in greater demand for AXEEV®, which is a premium product. Moreover, demand for all agricultural chemicals has increased, causing a lack in supply for competitive products due to various factors. However, we were able to maintain stable production and supply of AXEEV®, which we believe to be a factor in its good performance. We anticipate that the favorable business environment will continue during the period ending in October 2023, and forecast an increase of 18.5 billion yen year-on-year to 72.9 billion yen.

During the period of the current Mid-Term Business Plan, AXEEV® has been growing at a higher rate than expected. However, we will continue keeping an eye on the entry of generic products into the market, soaring raw material prices, and trends with distribution stock in countries where our products are sold. We are also implementing proactive measures to maintain such growth.



Our Strengths as a Research and Development Oriented Company

Our stance is to continuously develop new agricultural chemicals through brute innovation as a research and development oriented company. It has been said that the probability of commercializing a new agricultural chemical from a given evaluation compound is 1 in 160,000. However, we have been able to develop new agricultural chemicals at an extremely high probability of 1 in 8,000. Major reasons why we are able to continue developing new products are the following: We develop products based on our understanding the needs of growers and our ability to anticipate the future market, our teams are composed of researchers from various fields which use integrated sciences for development, each individual researcher has wide expertise allowing for comprehensive value determination at the researcher level.

Based on the goal of strengthening our research and development system, we are building a new Chemical Research Institute in Shizuoka Prefecture that will integrate three Chemical Research Centers that were formerly divided for chemical discovery, formulation technology, and process chemistry, which will open in the Fall of 2023. This will allow researchers from various fields to share their opinions and information in one space. This Chemical Research Institute includes “Shimizu” in its name which is where Kumiai was founded. The name Shimizu Innovation Park (abbreviated as “ShIP”) was chosen based on in house selection, and will be a place where various innovations can go beyond the framework of agricultural chemical and fine chemical products to create new technologies and business. The concept is a ship from Shimizu Port departing into the vast open sea. We will accelerate our research and development at this world’s most advanced research center allowing us to develop new compounds based on our dreams.

Initiatives for “Strategy for Sustainable Food Systems, MeaDRI”

In the “Strategy for Sustainable Food Systems, MeaDRI” that was formulated by MAFF in May of 2021, targets related to agricultural chemicals were set for pesticide manufacturers, which seemed to have aggressive goals like reducing the amount of use by 50% in terms of risk-conversion by 2050. On the other hand, the “MeaDRI” clearly stated that improvement of agricultural productivity and sustainable agriculture should both be promoted through innovation. In the Mid-Term Business Plan, we set our Ultimate Goals as a 100-year old company to be an “Advanced chemical manufacturer with innovative technologies and a unique business field contributing to agriculture that supports stable food supply.” The business strategy formulated to realize this “Ultimate Goals” already incorporates the vision presented in the “MeaDRI,” including responses to environmental protection and energy issues, etc., and we believe that our directions are largely in line with this.

We believe that the development of agricultural chemicals that are safer, more effective, and have a lower environmental impact, as well as the development of technologies for IPM (Integrated Pest and Weed Management), smart agriculture, and microbial pesticides, will continue to be business opportunities for us as a research and development oriented company. We will confidently endeavor to establish innovative technologies that contribute to “Innovation that will enhance potentials and ensure sustainability in a compatible manner” in the “MeaDRI.”

Agricultural Chemicals and Agriculture-Related Business	
Expansion of existing business	Growth of AXEEV®, EFFEEDA®, and DISARTA®
Expansion of research and business domains	Development of Flupentiofenox, ECOARK®, biostimulants, methane suppression technology, acquisition of shares of Agricore
Ensuring diversity of sales routes	New markets are cultivated using AAI* (*Asiatic Agricultural Industries)
Fine Chemicals Business	
Expansion of research and business domains	Establishment of the New Material Research Laboratory

Initiatives for Sustainability Management

At the beginning of FY2022, we established our Basic Policy on Sustainability and set up a Sustainability Promotion Committee. In May 2022, we also established our Responsible Care Promotion Section to enhance the organization of the Sustainability Promotion Department, and made other efforts to strengthen the sustainability management platform throughout FY2022.

We also conducted a review of existing materiality based on Kumiai Group business strategy and social changes affecting us. By identifying new materiality, we will reflect ESG elements to our management strategy and aim to improve corporate social value by improving non-financial indicators while improving corporate economic value through business growth. By setting KPIs for each materiality and collaborating with the business plans of each department according to the Mid-Term Business Plan, we will take the initiative to work toward achieving these.

Kumiai Group will accelerate initiatives toward sustainability management with the aim of contributing toward the realization of a sustainable society while also improving corporate value.

As for initiatives in response to climate change and for reducing the load on the environment, which are deeply connected with our core Agricultural Chemicals and Agriculture-related Business, we have established targets for reducing greenhouse gas emissions from Kumiai Group by 30% by FY2030 compared to FY2019 through energy efficiency improvements and effective use of renewable energy. As for climate change mitigation and adaptation, in addition to these initiatives, in July 2022, we responded to the CDP (an international environmental non-profit organization which operates a global environmental disclosure system), and in November 2022, we announced our support for the TCFD (Task Force on Climate-related Financial Disclosures), and are engaging in information disclosure based on TCFD recommendations. In particular, we are reducing GHG (greenhouse gas) emissions by improving energy efficiency based on capital investment in our own factories and effectively utilizing renewable energy such as solar power, and are promoting GHG control by absorbing CO₂ through the management of 640 hectares of forest which we own in the town of Fukushima, Hokkaido. We are also conducting verification tests for practical use of technologies for controlling methane gas generated on farmland.

As the global population continues to rise, there is a limit to how much farmland can expand. Therefore, the agricultural chemicals that we develop, produce, and sell are essential for the stable supply of food to the world, and consider it to be one of our important missions to maintain stable business for supporting society as a whole. Although growers who are end-users of our agricultural chemicals understand the usefulness and risks of these chemicals and use these properly, general consumers of farm produce have few opportunities to understand the usefulness of agricultural chemicals. Therefore, some people have a negative view of agricultural chemicals based on unscientific information. We believe that it is extremely important for our stakeholder to have an accurate understanding of the need and safety of agricultural chemicals. We have published free manga brochures entitled “Okome wo Mamoru Hanashi” (“Protecting Rice”) and “Ringo to Mikan wo Mamoru Hanashi” (“Protecting Apples and Oranges”), and make visits to elementary schools to teach about this, targeting 5th grade students. Through such efforts, we are proactively engaging in educational activities that teach about the necessity and safety of agricultural chemicals along with the importance and challenges of agriculture.

Conclusion

FY2023 is the final fiscal year for the Mid-Term Business Plan, so we want to focus efforts on various initiatives for achieving our future “Ultimate Goals.” In the Shimizu Ward of Shizuoka City, where Kumiai was founded, our new Chemical Research Institute (SHIP) with cutting-edge equipment has been reborn as a state-of-the-art research facility.

In October 2022, Agricore Corporation was added to Kumiai Group as a company with specialized technology that takes advantage of unique microorganisms and IT. As we continue to conduct research and development of agrochemicals and chemical products, we will continue to innovate, which is like seeds for new business, and move forward with our aim of becoming a 100-year old company. Since Kumiai moved to the Prime Market of the Tokyo Stock Exchange in April 2022, we have a greater awareness of our social responsibility while we continue to expand our business. We believe that corporate value is determined by the extent to which we can help to address social issues. Therefore, we need to make effort to deepen our sustainability management, which will allow us to have both economic and social value.

Kumiai Group aspires to create a flow where each individual has dreams and then works to achieve them, and where satisfaction can be experienced through accomplishment, resulting in happiness. We refer to this as the Dreams and Triangle for Happiness. We also believe that sustainability management means pursuing the happiness of all stakeholders including employees, shareholders, and business partners, and means aspiring toward accomplishment including social contribution and responding to the environment, not just business performance and achieving targets, which will extend to happiness for the planet earth. We will continue increasing earnings and profits as we have been doing by “Strengthening shareholder return” and promote earth-friendly “Strengthening of sustainability management” in order to realize our Ultimate Goals for Kumiai Group toward becoming a 100-year old company.

In the next Mid-Term Business Plan that will be formulated during this period, we will also pursue much balanced shareholder return and capital allocation. I want to thank each of you for your continuous understanding and support.



Representative Director, President

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