



## Making strategic investments to enhance corporate value, in addition to capital investment and R&D investment, while ensuring corporate's financial health

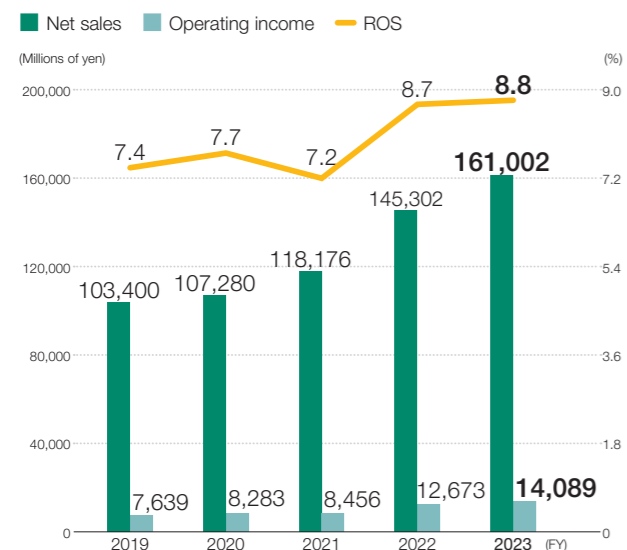
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### Review of the Previous Medium-Term Business Plan

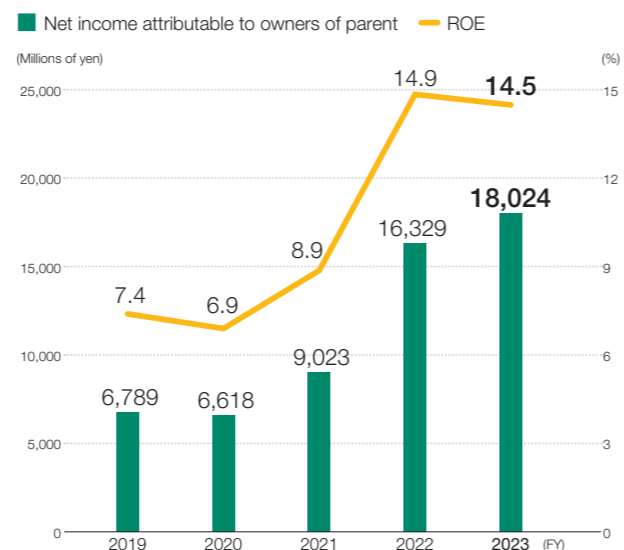
Under the previous Medium-Term Business Plan, the segment of Agricultural Chemicals and Agriculture-Related Business achieved significant growth due to increased sales of such products as field crop herbicide AXEEV® for overseas markets, and paddy rice herbicide EFEEEDA® for the Japanese market and paddy rice fungicide DISARTA® for the Japanese market. In particular, AXEEV®, which has gained widespread acceptance in the market due to its excellent performance and benefited from increased demand in line with the spread of herbicide resistant weeds, contributed significantly to Kumiai's

business performance. This offset the decline in demand for the core products of the Fine Chemicals Business, which was due to the impact of inventory adjustments in the semiconductor market, and we had achieved the record-high sales and profits in the final year of the Medium-Term Business Plan with consolidated net sales of 161.0 billion yen and operating income of 14.1 billion yen. The return on equity (ROE), a key management indicator along with net sales and operating income under the Medium-Term Business Plan, was 14.5%, significantly exceeding the target of 7.3%.

#### Net Sales / Operating Income / Return on Sales (ROS)



#### Net Income Attributable to Owners of Parent / ROE



We also vigorously promoted R&D investment and capital investment. We invested approximately 10.0 billion yen in construction of the Chemical Research Institute Shimizu Innovation Park (SHIP) in Shimizu-ku, Shizuoka City, where Kumiai was founded. SHIP began its operation in October 2023.



Chemical Research Institute Shimizu Innovation Park (SHIP)

Additionally, we made AAI a consolidated subsidiary. AAI is a Singapore-based company that sells agrochemicals and other products in Asia and Africa. We also vigorously pursued initiatives to expand our business domains, including through promotion of M&A. We acquired equity shares in two agritech companies in Japan (Agricore, which is mainly engaged in



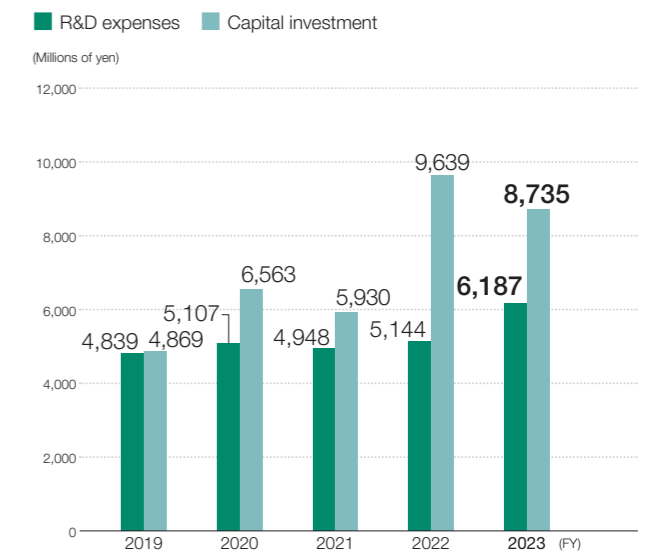
GRA INC.

production of wasabi using IT technology, and GRA, a smart agriculture enterprise that cultivates strawberries).

Furthermore, having started full-scale initiatives for sustainability management, we took steps to strengthen our foundation, such as by formulating the Basic Policy on Sustainability and setting KPIs for materiality. From the above, I believe that each measure set out in the previous Medium-Term Business Plan had been successfully accomplished.

On the other hand, although Kumiai's performance has been stable, the price-to-book ratio (PBR) has been sluggish, which I believe is partly due to the relatively low price-to-earnings ratio (PER), which indicates expectations for future growth. Considering the importance of ensuring that investors fully understand the business environment of Kumiai Group and the future growth scenario linked to our potential, we decided to incorporate these points into the new Medium-Term Business Plan. Also, for the first time, Kumiai Group disclosed its capital allocation in line with the establishment of management performance targets.

#### R&D Expenses / Capital Investment



### Capital Allocation

In order to achieve sustainable enhancement of corporate value, we recognize the necessity to continue investing in growth, and in the new Medium-Term Business Plan we have disclosed capital allocation, outlining the usage of funds. Under the new Medium-Term Business Plan, the source of funds will be approximately 90.0 billion yen over the three-year period from FY2024 to FY2026, consisting of approx. 60.0 billion yen in operating cash flow and approx. 30.0 billion yen in borrowings from financial institutions. Of these funds, we will allocate approx. 12.0 billion yen to dividend payments, approx. 15.0 billion yen to repayments of borrowings, and approx. 63.0 billion yen to growth investments. The growth investments are for realizing the future growth of Kumiai Group, and is

composed of approx. 28.0 billion yen for capital investments, approx. 22.0 billion yen for R&D expenses, and approx. 13.0 billion yen for strategic investments, such as M&A.

The new Chemical Research Institute SHIP was constructed and began its operation during the period covered by the previous Medium-Term Business Plan. As well as continuing to execute capital investments related to R&D, we will vigorously execute capital investments to reduce production costs and boost production capacity at our factories. Plans call for construction of a new research building for the Life Science Research Institute, a liquid formulation plant at Kogota Factory, and a multipurpose fine chemicals plant of K-I CHEMICAL INDUSTRY CO., LTD.

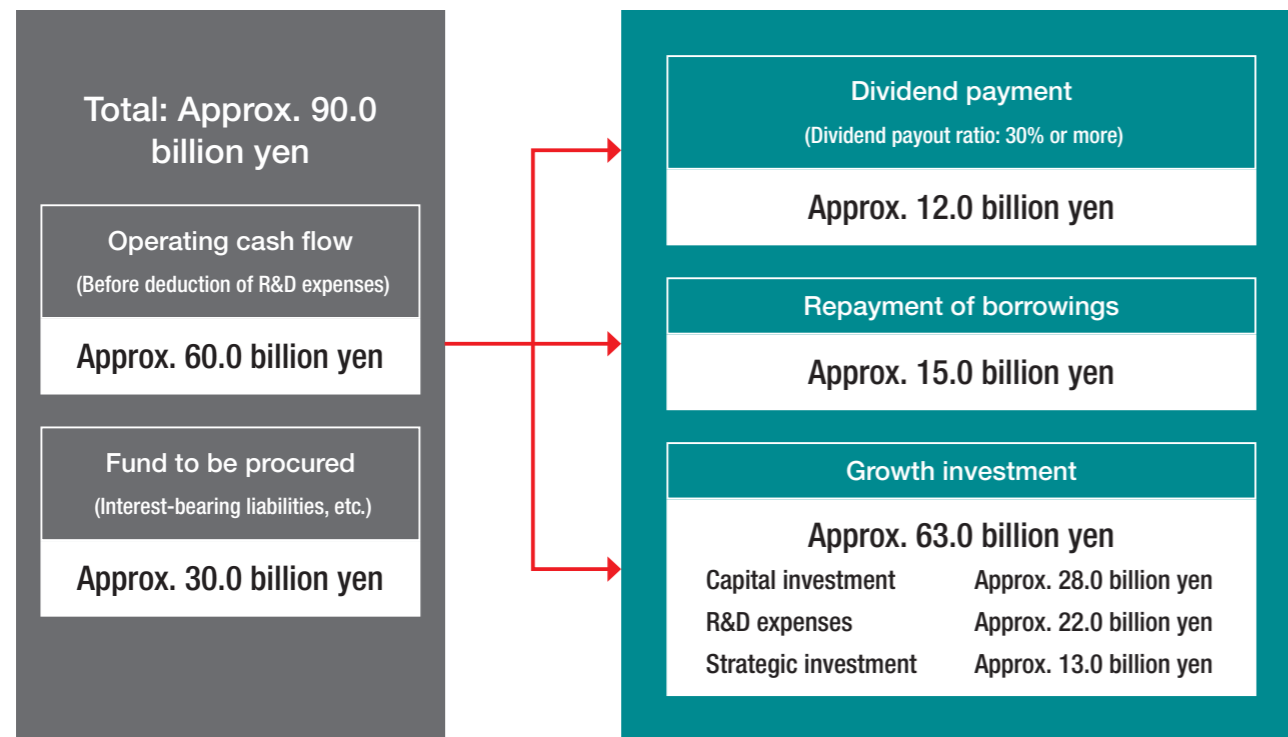
Regarding production facilities, our aim is to enhance cost competitiveness and improve productivity, as well as to reduce greenhouse gas (GHG) emissions by adopting environmentally-friendly specifications.

Since Kumiai Group is a R&D-oriented company, continuous investments in R&D are essential for future growth. In the Agricultural Chemicals Business, which is our core business, development of a new compound that will become an active ingredient of new agricultural chemicals (end user products) generally requires a significant period of time, more than 10 years, and huge investments of over 30.0 billion yen. Under the new Medium-Term Business Plan, while promoting effective and efficient investment corresponding to

development plans for new agricultural chemicals and fine chemicals in the new product pipeline, we will proactively invest in the development of new products that will support Kumiai's business 10 to 20 years from now.

To increase Kumiai Group's corporate value, it is necessary to continue investing in growth. Based on the premise of balancing a business strategy that meets market expectations with a strategy of maintaining and improving the corporate's financial health that supports the business strategy, I believe it is important to optimize the balance between growth investment, including investment in human capital, and strengthening shareholder returns.

## Capital Allocation Assumptions under the New Medium-Term Business Plan (FY2024–2026)



## Targets

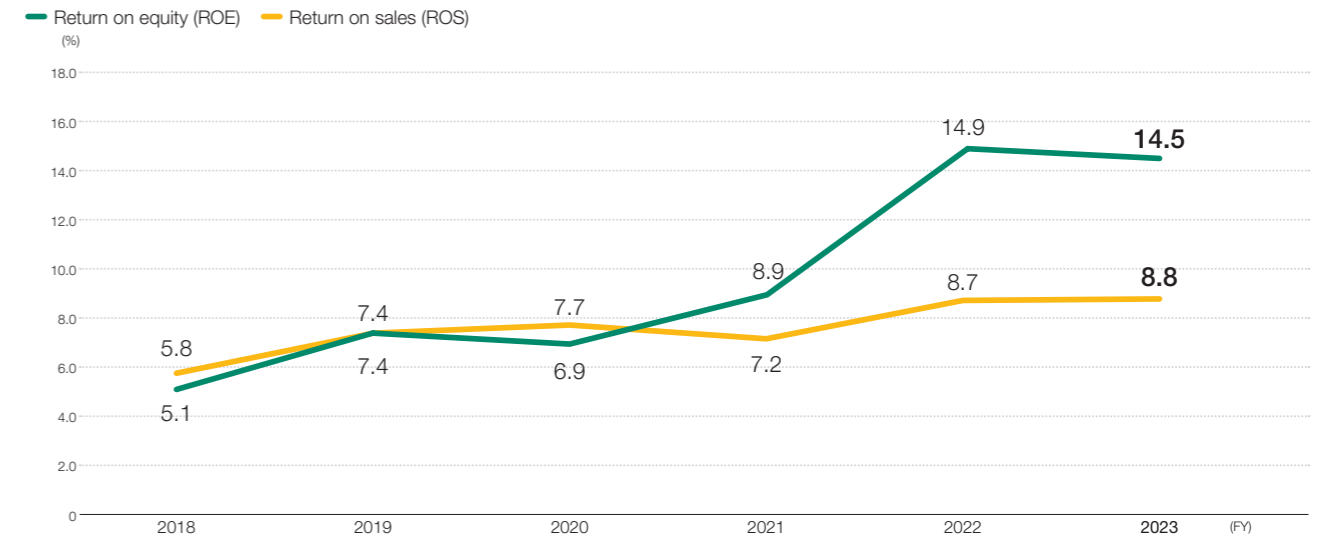
For continued sustainable growth and enhancement of corporate value, Kumiai Group has set return on equity (ROE) and return on sales (ROS) as key management indicators in addition to net sales and operating income. The targets for the final year of the new Medium-Term Business Plan are net sales of 185.0 billion yen, operating income of 16.0 billion yen, ROE of 11.0% or more, and ROS of 8.5% or more.

We recognize ROE as a key management indicator that indicates the efficiency of the use of shareholders' equity and is important as we aim to further strengthen profitability. By striving to achieve the ROE target, we will allocate the limited management resources efficiently and continue to produce

products that are essential in profitable business fields.

In order to achieve the ROE target we set as a key management indicator, we set ROS as a key financial performance indicator because we focus on profitability among ROE's three components. ROS directly indicates profitability of the company's operating activities. The ROS target under the new Medium-Term Business Plan is 8.5% or more, with a midium- to long-term target of 10% or more. I think placing emphasis on ROS as a core indicator of the profitability of operating activities will facilitate achievement of the ROE target.

## ROE and ROS



We recognize shareholder return as one of our most important management responsibilities. Previously, Kumiai Group did not indicate quantitative targets such as the target dividend payout ratio. The actual dividend payout ratio has been around 20%. However, from the viewpoint of taking a more shareholder-oriented approach, we have comprehensively considered the balance between investment for future growth and the shareholder return, and have decided to set a target of achieving a stable dividend payout ratio of 30% or more under the new Medium-Term Business Plan. We also have clearly disclosed this target to all stakeholders. Going forward, we will practice management, taking into account capital costs and the share price, to achieve sustainable enhancement of corporate value so as to meet the expectations of our stakeholders.

Although we do not disclose the target figure, the D/E ratio, which indicates corporate's financial health, was 0.35 times in FY2023 and remained at a reasonable level. The D/E ratio has

been increasing in recent years. The upward trend is attributable to an increase in borrowings resulting from increased demand for working capital in line with the rapid growth of the AXEEV® business.

Moreover, we are proactively engaged in IR activities, such as holding quarterly financial results briefings and small meetings, to ensure that stakeholders have a deeper and more accurate understanding of Kumiai Group. The number of IR interviews conducted increased approximately 1.8 times from 58 in 2021 to 105 in 2023. In the course of dialogue, shareholders and investors pointed out the lack of information regarding our future growth strategy and the low dividend payout ratio. In response to their comments, in the new Medium-Term Business Plan we have included more in-depth information on growth strategies for each business than ever before and a higher target dividend payout ratio. We will continue to strive for sustainable enhancement of corporate and social value through dialogue with our stakeholders.

## Dividends and Dividend Payout Ratio

