# Financial Strategy

## Strive for the Optimal Balance of Improvement of Financial Soundness with Proactive Growth Investments and Shareholder Returns

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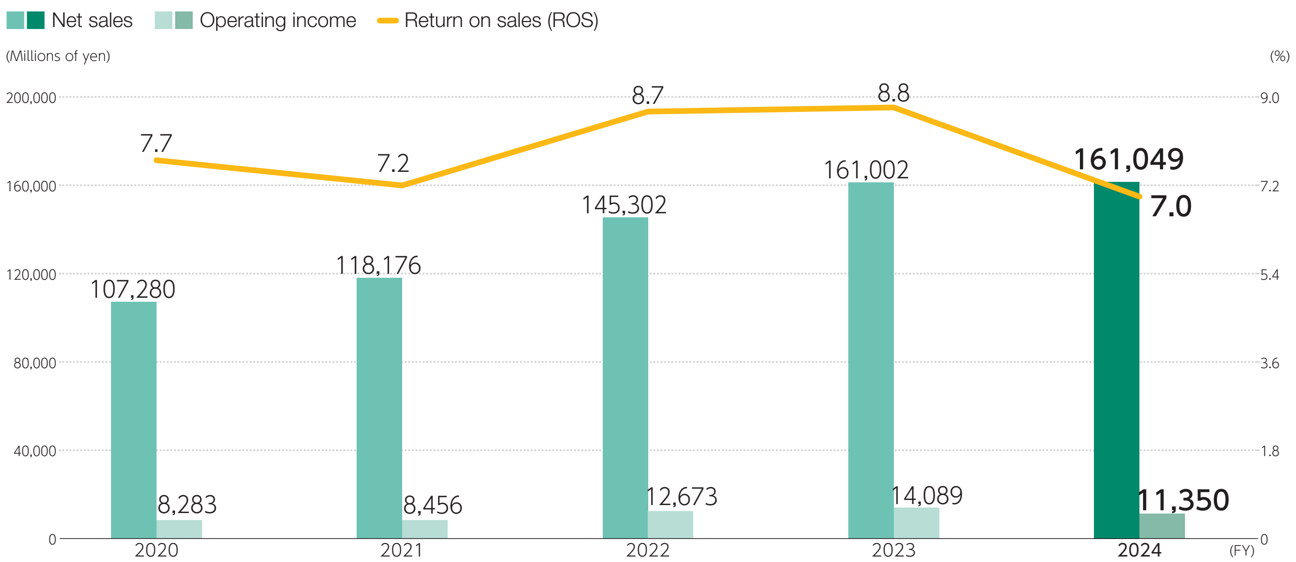
## Review of First Year of Medium-Term Business Plan (FY2024)

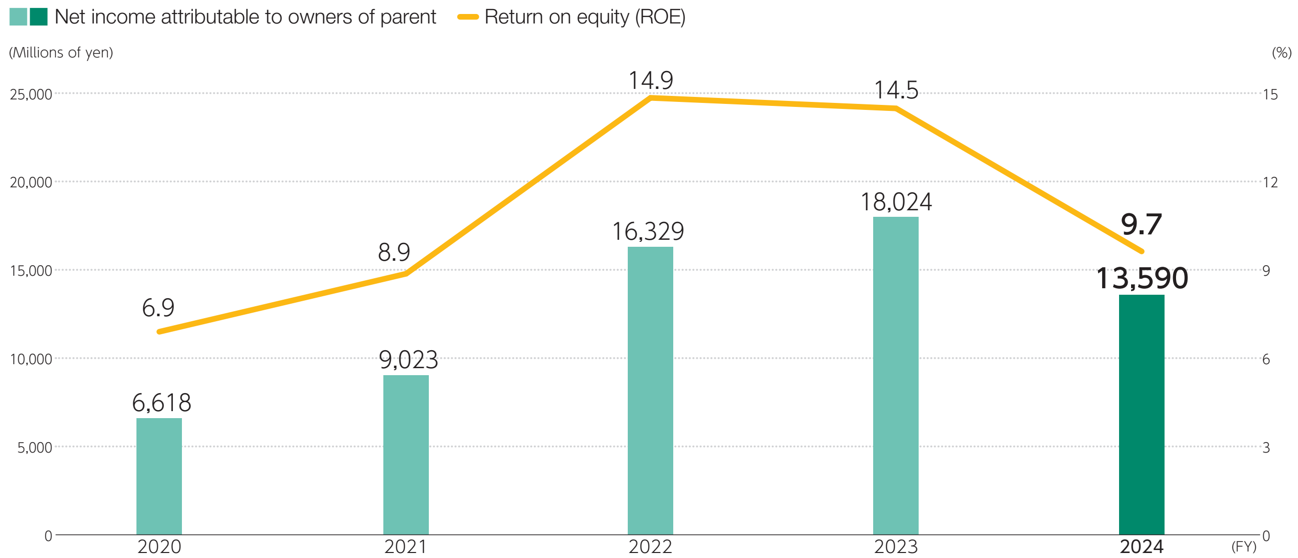
In our results for FY2024, the first year of the Medium-Term Business Plan, regarding the Agricultural Chemicals and Agriculture-Related Business, although sales of the herbicide, EFFEEDA®, and fungicide, DISARTA® were favorable, our core product, the herbicide AXEEV®, recorded a decline in sales for the first time since it was launched in 2011, resulting in falls in sales and profit compared with the previous fiscal year. In results by country for AXEEV®, shipments to Argentina increased year on year thanks to the easing of import restrictions caused by insufficient foreign currency, and shipments to Brazil were also up. However, in other key regions, including the U.S. and Australia, shipments fell due to the impact of worldwide inventory adjustments of agricultural chemicals, resulting in a year-on-year fall in results. Meanwhile, in the Fine Chemicals Business, due to the recovery of semiconductor demand, shipments of bismaleimides increased significantly, contributing to increases in sales and profit. Net sales overall in FY2024 increased slightly year on year, but operating income was down, due mainly to increases in depreciation and amortization resulting from proactive capital investment.

In addition, return on equity (ROE) and return on sales (ROS), which are both important management indicators in the Medium-Term Business Plan alongside net sales and operating income, were only 9.7% and 7.0% respectively, compared to their targets of 11.0% or more and 8.5% or more. As mentioned above, in addition to declines in shipment volumes of AXEEV® to key markets, heightened downward pressure on prices caused by the entry of generic products of AXEEV® and lower prices of competing products in some regions was another factor in the decline in profitability.

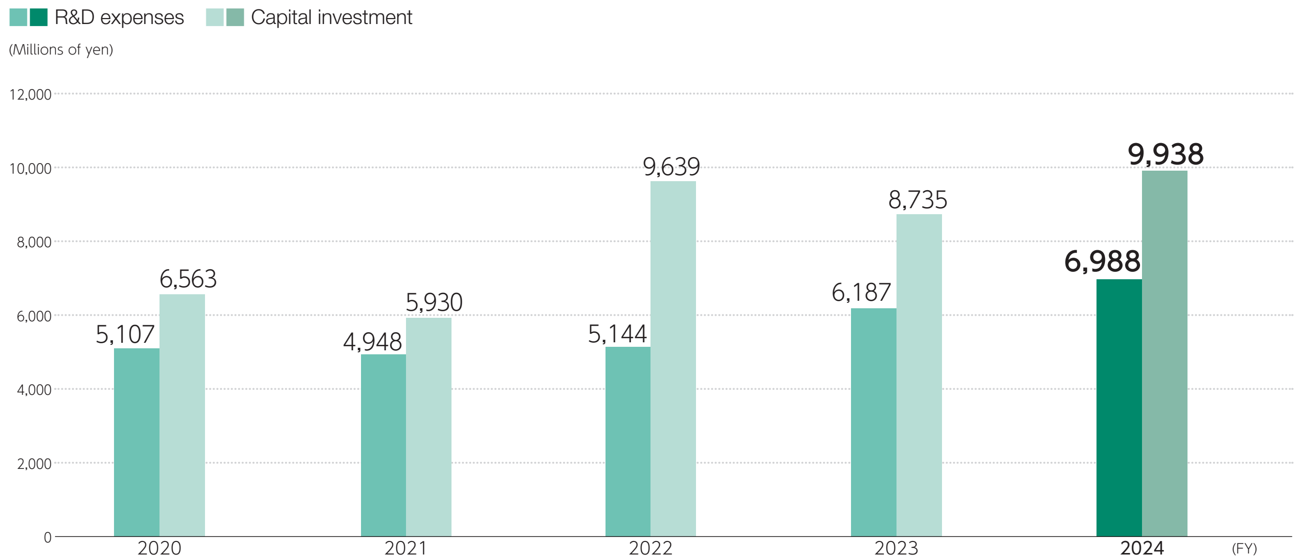
### Net Sales / Operating Income / Return on Sales (ROS)




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




### R&D Expenses / Capital Investment




## Progress in Capital Allocation

Capital allocation, which indicates the breakdown of the use of financial resources, has been set and announced in the Medium-Term Business Plan. The source of funds, approximately 90.0 billion yen over the three-year period from FY2024 to FY2026, will consist 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 our group, and are planned to be 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.

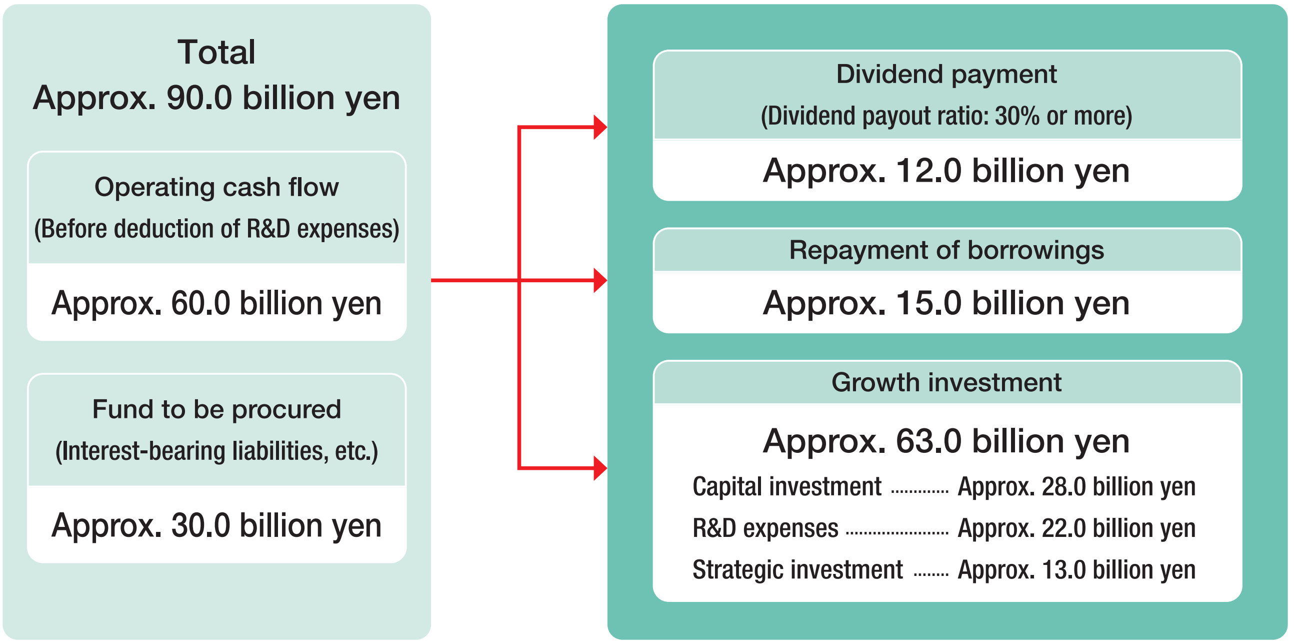
In FY2024, the first year of the Medium-Term Business Plan, as growth investments, we made 9.9 billion yen in capital investments and 7.0 billion yen in R&D investments, achieving progress generally in line with the plan. In terms of capital investments, we actively invested in facilities for the reduction of production costs and the enhancement of production capacity. These included a liquid formulation plant at the Kogota Factory and a hydrochloric acid heat recovery facility at IHARANIKKEI CHEMICAL INDUSTRY. Regarding production facilities, our ongoing aim is to enhance cost competitiveness and improve productivity, as well as to reduce greenhouse gas (GHG) emissions by adopting environmentally-friendly specifications.

Also, in the Agricultural Chemicals Business, which is our core business, developing a new compound that will be a new active ingredient for agricultural chemicals generally requires a significant period of time, more than 10 years, and huge investments of over 30.0 billion yen. In FY2024, we promoted effective and efficient R&D investment corresponding to development plans for new agricultural chemicals and fine chemicals in the new product pipeline, for the development of new products that will support our business 10 to 20 years from now. In addition, we are pursuing the development of EFFEEDA®, which, at present, is primarily sold as a herbicide for paddy rice, as a herbicide for paddy rice and wheat production in Europe. We will actively invest in the roll-out of this product into other regions, including the U.S., and the expansion of its applicable crops, with the intention of growing it into a product that, following AXEEV®, will support our future profits.

Regarding dividend payments, based on the policy of the stable achievement of a dividend payout ratio of 30% or more set in the Medium-Term Business Plan, we paid an annual dividend of 34 yen per share (dividend payout ratio: 30.1%, total dividend payments: 4.1 billion yen). In terms of our vision for dividends, we will further strengthen our initiatives to raise profit levels and, after comprehensive consideration of the allocation of management resources that is best for the company, we intend to turn them into returns to our shareholders and the enhancement of corporate value.

Meanwhile, capital investments and R&D investments for the future (total of 17.0 billion yen) are proceeding according to plan. Although inventories increased temporarily due to factors such as worldwide inventory adjustments of agricultural chemicals, the entry of generic versions of AXEEV® into the Australian market, and the impact of lower prices of competing products, investments for the future during this period have primarily been covered by short-term borrowings from financial institutions. In response to the issues mentioned above, while responding resolutely to products that infringe our AXEEV® patents and doing our utmost to implement effective measures against generic products, we intend to maintain and increase the share of AXEEV® in an expanding market and work forcefully on reducing inventories. (Please refer to page 24, TOPICS: "Response to the Expiration of the Substance Patent for AXEEV®.)"

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




## Toward the Improvement of Financial Soundness

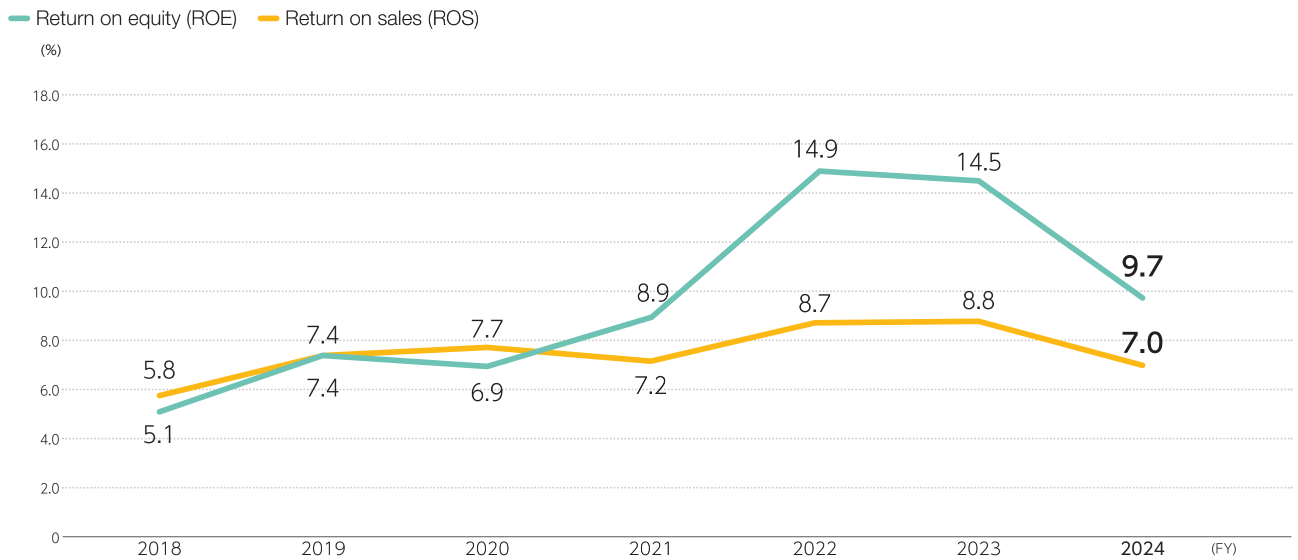
Although equity ratio, at 53.0% (down 5.6% year on year) and D/E ratio, at 0.51 (up 0.16 year on year), were at reasonably safe levels in FY2024, interest-bearing liabilities are on the rise as inventories increase due to global inventory adjustments of agricultural chemicals and the entry of generic products of AXEEV® as mentioned above. In addition to maintaining and increasing the share of AXEEV® in an expanding market, we will conduct sales promotions based on our strong relationships with our sales partners and work on reducing inventories to optimal levels by improving the accuracy of market forecasts through close exchanges of information. In these and other ways, we intend to make strategic improvements to our cash conversion cycle (CCC). We will strive for the optimal balance of improvement of financial soundness with proactive growth investments and shareholder returns.



## Initiatives for the Realization of Management that Takes Capital Costs and the Share Price into Account

We are engaged in initiatives in response to the realization of management that takes capital costs and share price into account. Since December 2023, our price/book ratio (PBR) has stayed below 1. PBR is divided into return on equity (ROE) and price-to-earnings ratio (PER), and, in our analysis, PBR is not improving because PER, which indicates expectations for future growth, is at relatively low level of 10 times or lower, suggesting that investors are not fully recognizing our business strategy and growth strategy. In the Medium-Term Business Plan, in addition to net sales, operating income, and net income, we have set numerical targets for ROE and return on sales (ROS) as management indicators, and we have also disclosed our capital allocations, as well as setting targets for investments for growth and dividend payout ratio. We will also strive to improve profitability after first gaining an accurate understanding of cost of shareholders' equity and weighted average cost of capital (WACC). In addition, we will continue actively to implement the various measures established in the Medium-Term Business Plan and engage in dialogue with capital markets. Through activities aimed at further improvement of ROE, we will work on the sustainable enhancement of corporate value and social value.

### ROE and ROS




### Dividends and Dividend Payout Ratio