

## Message from the President



Create new value  
by combining innovation  
and the future.

President and Chief Executive Officer

**Koji Sawamura**

## Message from the President

Thank you very much for your interest in the Integrated Report 2023 of the NOF Group.

The NOF Group has a Corporate Philosophy that states that we are a corporate group that creates new value through the power of chemistry, from the biosphere to outer space, and contributes to mankind and society. The Group is engaged in multifaceted business operations offering innovative products in our three prioritized business fields of “Life/Healthcare,” “Environment/Energy,” and “Electronics/IT.”

The COVID-19 pandemic has generally subsided, marking a major turning point on a global scale. The major changes brought about by the pandemic have had a profound impact on people's lives and the state of society. Learning from this occurrence and based on the establishment of new values and technological advances, we have formulated our New Mid-term Management Plan NOF VISION 2030 as our strategic policy for the future. The NOF Group aims to make a leap forward as a global company through innovative approaches and proactive reforms. We will provide products and services that meet new needs while fully leveraging the possibilities offered by technological advances and responding swiftly to market changes. We will promote business activities that emphasize sustainability and social responsibility in order to meet the demands of society while keeping up with changing values.

Today, there is rapidly increasing interest in various social issues, including global environmental issues such as climate change as well as human rights issues. The NOF Group will face social changes with sincerity, endeavor to create new value with the power of and chemistry, and continue to meet the expectations of all of our stakeholders, with the aim of achieving a secure and affluent society. We shall be grateful if you would give your further support to the NOF Group and express your candid opinions.

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### Reflections on the 2022 Mid-term Management Plan

**We achieved our numbers-based plan for FY2025 three years ahead of schedule.**

In FY2022, net sales were ¥217.7 billion, operating income was ¥40.6 billion, ratio of operating income to net sales was 18.7%, ROA was 14.4%, and ROE was 14.8%. These were all record highs. Sales in the Functional Chemicals segment increased by ¥18.0 billion over the previous year, supported by sales price revisions in response to surging raw material and fuel prices as well as firm demand. Sales in the Life Science segment increased by ¥7.2 billion over the previous year, which was mainly due to growth in sales of raw materials for DDS drug formulations. In addition, the Explosives & Propulsion segment was flat year-on-year. In terms of profit, the increase in sales, especially in the Life Science segment, led Avto a ¥5.0 billion year-on-year increase in operat-

ting income, which was the highest ever.

The reasons for our achievement of the NOF VISION 2025 numbers-based plan three years ahead of schedule included growth in the DDS business as planned, as well as contributions from demand related to COVID-19, particularly demand for vaccines. Another reason was the effect of our efforts to strengthen the earnings bases of less profitable businesses in the Strengthening Foundation stage. Specifically, in the Functional Chemicals segment, we implemented price revisions to improve profitability, mainly for products that had become commoditized. We also withdrew from the functional films business, which had been severely unprofitable. In addition, we strongly improved efficiency by investing in labor-saving measures as well as reviewing production and sales items, and promoted sales price optimization to strengthen our earnings bases. In the midst of a rapidly changing business environment, we were able to strengthen the earnings bases of businesses with low profitability and bolster profitability, which we believe was a factor in achieving the overall numbers-based plan ahead of schedule.

### New Mid-term Management Plan NOF VISION 2030

**Setting the NOF Group's corporate vision for FY2030 for the next leap forward**

The NOF Group has set its corporate vision for FY2030 to be “a corporate group that continuously creates new value with the power of chemistry in the three business fields of ‘Life/Healthcare,’ ‘Environment/Energy,’ and ‘Electronics/IT’ in order to realize a prosperous and sustainable society.” We have set our operating income target at ¥60.0 billion for FY2030, and based on our record of earnings growth achieved over the past six years, we aim to become a corporate group that continuously creates new value.

We have newly formulated NOF VISION 2030 in order to achieve our corporate vision for FY2030. In order to achieve our corporate vision, we have positioned the 2025 Mid-term Management Plan, which started in FY2023, as Stage II: Expanding Profit. We have also positioned the 2028 Mid-term

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Management Plan as Stage III: Business Domain Expansion. We will conduct business operations toward further growth, aiming for operating income of ¥46.0 billion in FY2025 and ¥60.0 billion in FY2030.

### Revision of the Corporate Philosophy and Guiding Framework, and start of efforts pursuing new growth

Looking at the business environment today, we are facing two major changes. The first is that companies are now recognized as having the responsibility to take actions to solve social issues such as climate change and human rights issues. Achieving carbon neutrality by 2050 and respecting human rights in the supply chain are essential for business growth. The other change is technological innovation. Advances in IoT, AI, quantum computing, and other technologies are having a significant impact on society and business, and technologies in areas such as the pharmaceutical and biotech fields, electric vehicles, and 5G are

evolving rapidly. In order to create new value, we must be perceptive of technological advances and take on the challenge of developing new technologies and products.

In addition to the above two changes, in an environment where we must appropriately face the various changes in a society in which "uncertainty is the norm," we have revised our Corporate Philosophy and Guiding Framework based on the determination that it will become increasingly important for management to be grounded in the growth of people, the foundation that supports the company.

We have compiled the principles and guidelines that we have valued throughout our long history into a Corporate Philosophy and Guiding Framework that we stand by today, focusing on the present and the future. We have summarized our mission and vision in our Corporate Philosophy, and have established three values that we prioritize in order to put our Corporate Philosophy into practice. We have established our Code of Conduct to represent an attitude to put actual action into practice based on the Corporate Philosophy and our Values.

### Reform of the entire company into a robust organizational structure that strongly advances toward our corporate vision for FY2030

In conjunction with our new start, we implemented organizational restructuring as of April 1 this year. The reorganization of the business divisions was aimed at providing new value to customers to meet changing market needs in the three prioritized business fields of Life/Healthcare, Environment/Energy, and Electronics/IT, and there was also reorganization to upgrade and optimize the functions of corporate divisions in order to strengthen our ability to respond to changes in the business environment and other factors.

In the Functional Chemicals segment, the former Oleo & Speciality Chemicals Division and former Functional Chemicals & Polymers Division were merged to form the Functional Materials Division, which will cultivate new demand in growth fields by strengthening our capabilities to make proposals through sales integration. In the

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Pharmaceuticals, Medical and Health segment, the former DDS Development Division and former Life Science Products Division were merged to form the new Life Science Division, which will strengthen the quality assurance system for biocompatible materials and accelerate development in the medical field. In addition, the Functional Foods Division has a new Japanese name, and will shift to function-based business domains. This segment will be renamed from the former Life Science segment beginning in the fiscal year ending March 31, 2024 in order to more clearly communicate the nature of its business. The integration of these divisions is intended to



strengthen competitiveness in our three prioritized business fields. We will accelerate new product development and new market development by solidifying the creation of business synergies.

For corporate divisions, the Legal Department, the Corporate Communications Department, and the Corporate Technical Division were newly established to further enhance reliability related to compliance and quality management, as well as to strengthen our external communication abilities. In particular, the Corporate Communications Department will actively communicate with stakeholders.

Through these changes in our organization system, we will strongly advance toward our corporate vision for FY2030.

**We set a strategic investment framework of ¥70.0 billion in Stage II of NOF Vision 2030 (2025 Mid-term Management Plan)**

In the 2025 Mid-term Management Plan, we set

“Practice and Breakthrough” as our management policy for the three years of the Plan, aiming to realize our corporate vision for FY2030 as described in NOF VISION 2030. We will “put into practice” measures to increase earnings by bringing to fruition the measures to strengthen the earnings bases that were undertaken in the 2022 Mid-term Management Plan. We will also promote “strategic investments” to sow the seeds for future business pillars, and make “breakthroughs” toward our corporate vision for FY2030.

In order to realize our corporate vision for 2030, there are two important items that must be steadily implemented in the 2025 Mid-term Management Plan. The first is to ensure that we reap the results that we have cultivated under the 2022 Mid-term Management Plan. The second is to ambitiously sow the seeds of a new plan for the 2028 Mid-term Management Plan, while keeping an eye on future prospects. To ensure the realization of these goals, we have established a strategic investment framework of ¥70.0 billion, which is separate from the existing framework. Combined with existing investments, this will bring the total amount of investment to over ¥110.0 billion.

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The following are descriptions of the strategic investments comprising facility investment, research and development, and human investment.

### Facility investment

Facility investment under the 2025 Mid-term Management Plan is planned to be about three times the size of the investment under the 2022 Mid-term Management Plan. We will focus on strengthening our manufacturing facilities for raw materials for DDS drug formulations, and about 50% of the ¥69.5 billion in total facility investment will be used to strengthen facilities in the Pharmaceuticals, Medical, and Health segment. In the Functional Chemicals segment, about 35% of the total will be allocated to construction and reinforcement of manufacturing facilities in fields where demand continues to grow, such as cosmetics materials and anti-fog agents.

Of the total facility investment, ¥47.9 billion is expected to be related to manufacturing facilities, which includes a flexible investment framework

including M&As. M&As are basically considered from the perspectives of improving services to customers, generating synergies with our existing businesses, and entering new business domains, rather than pursuing scale. In addition, in order to increase productivity, we will advance investment for improving operational efficiencies by promoting automation and labor-saving, and for increasing the use of data in production and sales.

In terms of investment for environmental response, we will promote investment in energy conservation and efficiency improvement of manufacturing facilities to address the regulatory control of CFCs and to reduce CO<sub>2</sub> emissions.

### Research and development investment

Total R&D investment under the 2025 Mid-term Management Plan is planned to be ¥25.6 billion, an increase of about 40% over the actual investment during the 2022 Mid-term Management Plan period. In addition, in order to achieve business

expansion under the next Medium-term Management Plan, we will more than double the number of R&D personnel involved in corporate research in FY2025 compared to FY2022. We plan to increase the overall number of R&D personnel in FY2025 by about 20% compared to FY2022. In order to create new businesses, we will promote the exploration of promising themes through external co-creation, open applications, and public bidding invitations, as well as promote R&D through measures such as MI environment improvement and human resources development. We will also continue to actively participate in open innovation to promote collaboration among industry, academia, and government. To promote R&D aimed at creating new businesses, we launched industry-academia collaborative projects in FY2021 and are recruiting partners. In FY2023, we have begun sponsored research on themes adopted in the fields of materials for electronics and materials for health food. During the period of the 2025 Mid-term Management Plan, we will continue public bidding invitations for wider areas of industry-academia sponsored research.

### Human investment

With regard to human capital, we will develop measures to promote diversity and employee engagement as new important pillars. Based on the basic philosophy that “A company is its people,” we will implement active investment in human capital that encourages the development of our human resources.

As measures to create a diverse workforce with high work engagement, we will provide support for building career design for employees to help them plan their own career development, establish a new training program to develop digital transformation (DX) human resources, and expand training programs to foster global human resources. Furthermore, as a measure to motivate and utilize diverse human resources, we raised the retirement age to 65 years ahead of others. In addition, we will upgrade and renovate our employee welfare facilities.

### Numerical targets of the 2025 Mid-term Management Plan

In FY2025, we plan to achieve operating income of ¥46.0 billion, a ratio of operating income to net sales of at least 18%, ROA of at least 13%, and ROE of at least 12%. We will implement various measures to realize our vision for FY2025. We expect growth in each segment toward the Group-wide net sales of ¥255.0 billion in FY2025. Although consolidated operating income and the ratio of operating income to net sales for FY2023 will be lower year-on-year due to increased expenses for strategic investments and other factors, we expect each segment to grow to a level exceeding that of FY2022 in FY2025.

### Financial strategy

Strategic investments and existing investments will be made within the limits of our cumulative total cash flow from operating activities during the period of the 2025 Mid-term Management Plan

and our cash reserves, including funds from the sale of cross-shareholdings. We will advance sale of cross-shareholdings with the goal of achieving a ratio of cross-shareholdings to net assets of 15% or less. As for our policy on shareholder returns, we will strive to maintain and improve shareholder returns while maintaining a balance with strategic investments, with an awareness of improving capital efficiency. We will maintain a total return ratio of about 50% as our target level for FY2025, and will pay dividends based on the maintenance of stable profit returns. We will also purchase and retire treasury stock as necessary.

### Initiatives for sustainability issues

In order to strategically address global social issues, all directors, including those from outside the company, consider responses to these issues by participating in the Sustainability Committee, which I chair. In addition, this fiscal year, we incorporated ESG indicators into our executive compensation system. This will enhance the



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effectiveness of our ESG-related initiatives and strengthen corporate governance.

With regard to climate change, we will take on the challenge of innovation for decarbonization. In the previous fiscal year, we started R&D for the effective utilization of biomass-derived raw materials and unused exhaust heat through industry-academia collaborative projects. We will continue to focus on this. The NOF Group also offers a variety of products for fields related to the mitigation of global warming. We will contribute to mitigating global warming by providing products such as dispersants for electronic components and lubricants for electric units for electric vehicles, as well as biodegradable hydraulic oil and anti-corrosives for wind power generation.

### A company is its people

The most important component of corporate growth is human resources. We will reaffirm the

spirit of “A company is its people,” recognize the importance of communication among all employees, and constantly strive for open organizational operations so that each employee can work independently with a clear sense of purpose and responsibility, and feel a sense of fulfillment and satisfaction from work.

### Looking ahead to FY2030

The 2025 Mid-term Management Plan, with fiscal 2023 as its first year, faces a difficult business environment, including no outlook on the impact of the Ukraine crisis, soaring raw material and fuel prices, semiconductor supply shortages, and supply chain disruptions. However, we will monitor changes and steadily advance Stage II: Expanding Profit of NOF VISION 2030.

In an ever-changing society, corporate social responsibility (CSR) is a never-changing important issue. Being a part of efforts to achieve the SDGs

and contributing to realizing a sustainable society is not only our duty as a corporate citizen but also a challenge to be tackled. It is vital to have the mindset of trying to achieve greater wealth of society as a whole while trying to increase earnings for ourselves as a company. The NOF Group will steadily implement its CSR initiatives and continue to contribute to the realization of a sustainable society.

