

Financial Strategy

Maintaining Sound Financial Position and Generating Solid Free Cash Flow Despite Adverse Business Climate

In fiscal 2020, demand plunged in the chemicals and machinery businesses, particularly during the first half, owing to the impact of the COVID-19 pandemic. In spite of the recovery in the second half, both revenue and earnings decreased compared with fiscal 2019. Return on sales (ROS) and return on equity (ROE), which are key performance indicators (KPIs), were both down at just 4.2% and 6.6%, respectively. The decrease in ROE was despite a reversal of deferred tax liabilities and other favorable factors.

In fiscal 2021, we look for operating profit to increase to ¥37 billion, with ordinary profit reaching ¥34.5 billion. The prime contributor would be the Chemicals segment, with the prospect for a recovery from the pandemic. These figures nonetheless would be below the ¥55 billion in operating profit and ¥58 billion in ordinary profit we targeted for the final year of our medium-term management plan. We project ROS of 6.5% and ROE of 5.8%. These numbers are also short of our targets of 7.0% and 10.0%, respectively, for fiscal 2021. We will need to do more to enhance profitability.

On the upside, we have maintained a sound financial position. Our debt/equity ratio was down only slightly in fiscal 2020, at 0.60 times. At the same time, the equity ratio improved to 46.6%. We strove to overcome a tough business climate by reducing working capital, including inventories. We thereby generated an operating cash flow of ¥66 billion, not far off the level of a year earlier. We reviewed our capital expenditures for upgrade projects and secured more free cash flow than initially planned.

Financial Strategies for Medium-Term Management Plan (Fiscal 2019 to Fiscal 2021) Focusing on Growth Investments

Our basic priority under this plan is to strengthen our business growth underpinnings. We are emphasizing efforts to improve earnings stability

and drive growth in the chemicals business. We seek to allocate significant funds for growth investments to generate future cash flows in keeping with a policy of more swiftly expanding specialty businesses in high-value-added areas that draw on our strengths, including environmentally friendly products and technologies (please see the figure on the left for fund allocations).

In making investment decisions, we factor in equity costs and the weighted average cost of capital. We base decisions based on internal rates of return, net present value, and other figures during payback periods, as well as on business strategies and other qualitative factors. We have set internal carbon costs and incorporate environmental cost perspectives in our investment decisions.

Aiming to Pay ¥90 in Cash Dividends per Share and Purchase ¥10 Billion in Treasury Stock

The basic stance of our shareholder return policy is to deliver stable and sustainable dividends. We target a dividend on equity (DOE) ratio of at least 2.5%. We also aim to deliver a consolidated total return ratio of at least 30% under our medium-term management plan.

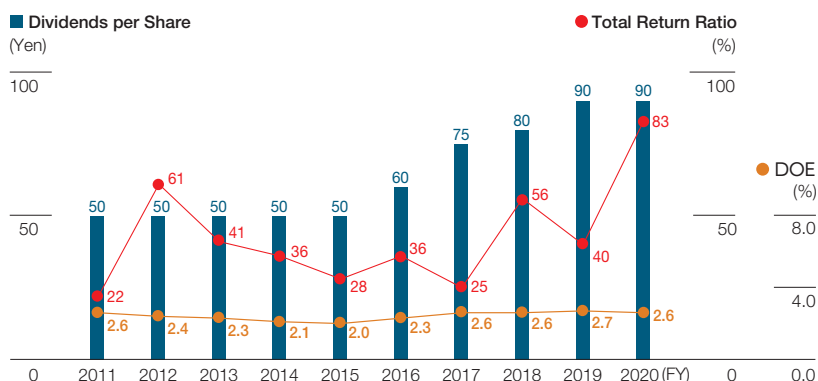
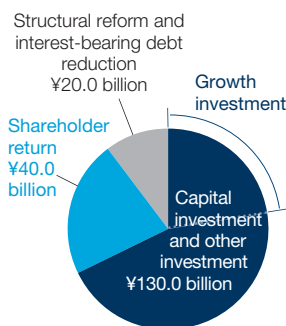
For fiscal 2020, we decided to pay interim cash dividends of ¥45 per share and an identical year-end amount, for an annual total of ¥90 per share. This is unchanged from the previous fiscal year. The DOE ratio would thus be 2.6%, with a total return ratio of 40%. Also, we are in the process of repurchasing up to ¥10 billion in treasury stock.

In fiscal 2021, we expect to pay annual cash dividends of ¥90 per share (from interim and year-end payments of ¥45 each). The total return ratio would therefore be 56% during our medium-term management plan period.

We will continue to maintain a sound financial position, balancing growth investments and expanding shareholder returns.

Using around ¥190 billion in operating cash flow generated across the three years of the medium-term management plan

(total for fiscal 2019 to 2021)



Note: The Company consolidated every 10 shares into one share, effective October 1, 2017. Stock prices are adjusted for consolidation.

Masayuki Fujii
Director, Managing Executive Officer, CFO

