

Top Message

CEO  
Message

Representative Director  
and President

朝倉

Kenji Asakura

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We will continue  
providing society  
with value  
throughout the ages  
and achieve sustainable  
growth for the  
NAGASE Group



I would like to express my sympathies to those who were affected by the current COVID-19 pandemic.

I would also like to express my heartfelt gratitude to all medical workers who are working hard on providing treatment.

## Pursing New Value Proposition as a Business Designer

### Accept Changes as an Opportunity for Reform and Continuously Provide Value to Stakeholders

Since its founding, the NAGASE Group has handled products which support many aspects of individual lifestyles with chemicals as its base. The NAGASE Group is always looking ahead at technological trends and identifying the products, technologies and services that will be needed in the future. In this way, the Group continues to transform its business on a flexible basis. Unconstrained by the existing business foundation, the NAGASE Group continues to expand the domain and scope of its business.

In 2020, the COVID-19 pandemic has led to dramatic social and economic changes on a global scale. With the continuing trade tensions between the U.S. and China, and the further rise of protectionism, the situation we find ourselves in grows ever more uncertain. As the international balance of power predicated on free trade continues to shift, we understand that it will be extremely important for the NAGASE Group to find its place.

The global spread of COVID-19 has served as a keen reminder of the importance of our employees and families' well-being, securing an emergency supply chain, and a stable financial base. We accept the sudden changes in the times, the environment, and the needs of all our stakeholders as

opportunities for the NAGASE Group to reform and will work quickly to generate new value creation.

Under these conditions, we believe it is important to maintain the position we have held up until now, which is to conduct investment towards the future. We will continue our prior investment in DX (Digital Transformation) and also invest in next-generation information communications-related businesses such as 5G, which will become critical to future communications infrastructure, regardless of results in the short term.

### NAGASE's Business Designer Initiatives Embody "Identify, Develop and Expand"

The concept of a Business Designer has been very important since I became president of the Company. Not limiting ourselves to trading, we will align the six functions of the NAGASE Group (Trading, R&D, Investment, Logistics, Global Network, and Manufacturing) and generate business alongside our partners. Through this concept, we embody the NAGASE Group's value proposition: "Identify, Develop and Expand."

I believe that the best thing about being a trading company is the degree of freedom. We are able to work on new businesses unconstrained by a single product or technology. If we add the NAGASE Group's unique manufacturing and development capabilities to the equation, the possibilities of

a Business Designer are endless. We currently possess six functions, but do not intend to limit ourselves to this number. For instance, entirely new functions such as AI may be added. Thinking about the situation in that way is exhilarating.

We continue to share and maximize knowledge within the NAGASE Group as well as strengthen collaboration to create new business and values. We are also crossing business and segment boundaries to launch new initiatives such as business related to next-generation information communications and materials for 3D printers. We hope that our customers can count on us to deliver new and improved value.

### Looking Back on the Fourth Year of the Mid-Term Management Plan ACE-2020

#### • Reform of Our Profit Structure

In fiscal 2019, the NAGASE Group completed the fourth year of its mid-term management plan ACE-2020. We are now seeing both what we could and could not accomplish. Although there are some companies that have not disclosed their outlook for the current fiscal year, we disclosed our outlook based on the presumption that the impact of COVID-19 on the NAGASE Group's business domains will largely improve in the second half of the fiscal year. The inability to meet our goals for ACE-2020 is something that I take very seriously as a manager. Since this is the final year of the plan, we will continue to pursue our targets. Meanwhile, we will be required to reform swiftly in anticipation of an end to the COVID-19 pandemic. I believe that balancing our ACE-2020 goals with the current situation is the critical issue for this year.

With regard to reform of our profit structure among our KPI (key performance indicators), we saw improved profits in the focus areas of Life & Healthcare and Manufacturing as well as major developments in the North America region.

The acquisition of U.S.-based company Prinova in August 2019 spurred reform of our profit structure in the Life & Healthcare segment, and also largely improved the NAGASE Group's overall portfolio. We also established the new Food Ingredients Department in April 2020 to expand the NAGASE Group's food ingredients business. Although Europe and the U.S. are currently our main focus in this division, we are also beginning to develop measures to branch out into Asia.

In the Electronics Business, we steadily took on challenge after challenge, but have not achieved the success we had expected due in part to the market environment. We understand that portfolio reevaluation within the segment is

required. Businesses such as next-generation information communications systems and semiconductors are undoubtedly growing fields, so we will continue to pursue profitability in those areas.

Another major KPI is the improved profitability of our Manufacturing Business. Remarkable progress toward this effort was made in various indices through the efforts each NAGASE Group company put into reform. We are also continuing to withdraw from unsuccessful businesses which we have determined do not have future potential. I believe the Manufacturing Business is headed in the right direction.

One of the major themes of ACE-2020 is inorganic growth through the introduction of a new earnings model. We made it a goal to spur inorganic growth, which will become a growth engine in the future. This will be in addition to organic growth, which has made full use of existing management resources. However, right now there appear to be a number of measures that are not producing concrete results. Regrettably, this happened because our feasibility assessment of business investments was overly optimistic. This is one point we will improve when it comes time to draft the next mid-term management plan.

#### • Reform of Our Corporate Culture

As for reforming our corporate culture, I believe that the C\* in ACE—that is to say, commitment—is extremely important. Under our previous corporate culture, we were unable to seriously assess achievement of the objectives laid out in the mid-term management plan. Yet after thoroughly implementing a PDCA cycle, we have seen satisfactory progress, including a sense of responsibility toward the results and an awareness of working together toward a common goal.

The existence of Prinova was also a major factor. In welcoming Prinova to the NAGASE Group, we became keenly aware of the need to not forcefully impose Japanese methods but to construct a new system while listening to the other party's ideas. As a result, the degree of understanding and awareness of the completed system was extremely high. This, combined with a sense of speed, resulted in a PMI (Post-Merger Integration) that is capable of producing satisfactory results. I think that this will be a tremendous asset for the NAGASE Group, which aims to be a true global company. From now on, I would like to keep a global perspective when making efforts such as reevaluating employees' working styles.

\* In the mid-term management plan ACE-2020, ACE stands for accountability, commitment and efficiency.

# Realizing a Sustainable World Where People Live with Peace of Mind

## Sustainability Management

Around the world, there is growing awareness regarding the realization of a sustainable society. Due to the spread of COVID-19, society is paying more attention to corporate behavior, and I myself have become more aware than I previously was. I believe that management from now on will involve balancing contributions to the sustainability of society as a whole in the short, medium and long term with our own company's sustainable management to increase our profit and increase economic benefits.

Amidst all this, we launched the Sustainability Committee in June 2020. In this committee, in which I serve as chair, we thoroughly discuss the sustainability management of the NAGASE Group. Although our company has grown with a focus on petrochemical-based chemical business, from now on we must continually grow while giving even further consideration to environmental pollution like plastic marine debris and climate change. I believe that contributing to all 17 of the United Nation's SDGs is not about the Nagase Group's sustainability. We will establish a direction while thoroughly analyzing our strengths and the external environment.

The NAGASE Group defines employees, customers, society, consumers and shareholders as its stakeholders, and views employees as our number one priority. We believe that if there is an environment in which employees can work happily, then the company will be set on a path to growth. That in turn will lead to contributions to customers, society and consumers as well as stable dividends for shareholders.

## Improve the Efficiency of Board of Directors Meetings

Although we have not deliberated on the separation of management and execution, we are aware of the immense importance of that division. That is part of the reason we increased the number of outside directors from two to three and aim to more actively promote strategic discussions. We anticipate that the opinions of these three outside directors will be better reflected at Board of Directors meetings. We established the likes of a Nomination Committee and a Compensation Committee to ensure greater transparency. We think that this will further enhance the effectiveness of the Board of Directors and, in turn, raise corporate value.

## Making Full Use of Various Management Resources to Create New Value

### • Food Ingredients Business

In the NAGASE Group, Nagase ChemteX Corporation has treated enzymes as a food ingredient. After incorporating Hayashibara Co., Ltd. as a subsidiary in 2012, the NAGASE Group honed its unique manufacturing capabilities.

However, for many years, securing an overseas distribution route was a challenge for the NAGASE Group as a whole. When the NAGASE Group made a subsidiary of Prinova, which possesses a strong sales network in Europe and the U.S., in 2019, all the pieces were finally put into place. As the undeveloped market of Southeast Asia expands, we intend to rapidly accelerate development while expanding our product lineup and services. Establishing the Food Ingredients Department was merely the first step; in the future, we hope to group all related organizations together and operate on a global scale. Because safety is number one when it comes to food ingredients, we are making



even greater efforts to deal with international laws and regulations as well as BCP.

### • Next-Generation Information Communications Business

Looking ahead to 5G, which has recently been put into practical use, and even further ahead to 6G, we can see that in the future there will undoubtedly be a need for many chemical ingredients with entirely new properties. We believe that the next-generation information communications business is a business in which the NAGASE Group can contribute to the development of cutting-edge infrastructure by maximizing the technology and networks it has amassed up until now. Cutting-edge research development is always advancing, and needs are constantly being created. If chemical ingredients possessing new properties

are utilized as the basic technology of next-generation information communications, then new value will be created which can help change the world. We will work together by utilizing the NAGASE Group's unique strengths which are focused on ingredients and ingredient processing technology.

### • Digital Transformation

The NAGASE Group is working on developing a Group-wide digital marketing platform as the first step toward producing its own form of Digital Transformation (DX). The NAGASE Group launched a team in the U.S., where there is an abundance of talented individuals with specialized skills. Then in April 2020, it also established a new organization in Japan called the Global Marketing Office to make digital marketing widespread throughout the entire Group. Yet digital marketing is not NAGASE's only form of DX. For instance, services for a new material development system using AI (material informatics, or "MI"), which the NVC (New Value Creation) Office developed in cooperation with IBM, is scheduled for release within the current fiscal year. Other projects include information sharing and streamlining of the NAGASE Group's in-house manufacturing business and management of overall supply chain logistics using blockchains. We hope to advance these projects in an integrated manner and create a model that will outpace our competitors.

## Looking Ahead to the Next Mid-Term Management Plan

We have spent time discussing measures for the next mid-term management plan starting from fiscal 2021. Social and economic conditions were radically altered at the beginning of the year due to the spread of COVID-19. However, we believe that the so-called "post-coronavirus" world will practically overlap with the world we envisioned when discussing the next mid-term management plan with regard to matters such as the acceleration of digitalization. We were fortunate that we were able to get a jump start in that regard, but feel that we must accelerate efforts even more.

We uphold the phrase "maintain the highest standards of integrity" as our management philosophy. From now on, the way we do business as a trading company will change as digitalization progresses. Nevertheless, we believe that deep down what customers seek from us is quality and trust. No matter the business environment, we always go back to this mentality of "highest standards of integrity." We aim to achieve a sustainable world where people live with peace of mind.

I kindly ask for your continued understanding and cooperation.

CFO Message

Masaya Ikemoto



## Creating New Business and New Value by Raising Corporate Value

Masaya Ikemoto

Director and Executive Officer

### Mid-Term Management Plan Completing the Fourth Year of ACE-2020

Under the mid-term management plan ACE-2020, we worked on optimizing our business portfolio as part of reform of our profit structure, giving particular attention to Life & Healthcare and Electronics as our focus businesses.

With regard to the Life & Healthcare business, as a biochemical company, we worked on becoming a corporation that could propose businesses more connected to daily life, such as dietary culture or medicine, prior to acquiring Hayashibara Co., Ltd. in 2012. I believe that stance led to the acquisition of Prinova in 2019, and became a tremendously important step during the period of ACE-2020.

On the other hand, the Electronics Business was unfortunately unable to meet its targets. We went through many cycles of trial and error in these four years, but the Electronics Business is now experiencing difficulties at the stage right before it enters the next new lifecycle of business.

The acceleration of global expansion is a necessity for

expanding and strengthening our profit structure. At the NAGASE Group, business expansion in Asia has been progressing for a while. However, in Europe and the U.S. business hasn't expanded to the extent of Asia so that the NAGASE Group could show our presence, despite concentrated efforts particularly in North America. In this sense, the acquisition of Prinova served as a major stepping stone towards expansion of the food ingredients business in North America.

The Manufacturing Business has come to occupy a larger percentage of our earnings every year. As that situation progresses, it will probably be necessary for the NAGASE Group to create a NAGASE Standard to explain our manufacturing criteria. To put it another way, NAGASE is a brand built on great trust; its name alone signifies that it is dependable in terms of technology, finance, and partnership. From now on, we will contemplate the role of the NAGASE Group's Manufacturing Business while further increasing our level of quality and profitability.

We promote rationalization and improved efficiency of organizations and functions as part of the reform of our corporate culture. One result of this has been the transfer of intra-Group administrative duties to Nagase Business Expert

Co., Ltd. (P.19). I feel that there is still a lot of reform that can be done. We will organize a system to generate a steady profit while at the same time providing business and products.

We made advancements to uphold investment discipline. In the past, there were businesses we continued despite being unprofitable. Naturally, from the viewpoint of raising corporate value, we must continue businesses that are worth continuing and quickly decide to withdraw from those that are not. Under ACE-2020, we revised the investment guidelines that serve as a standard for decisions making. Consequently, we are in the process of organizing businesses that require direction and deliberating on each one individually. From now on, as the investment environment grows increasingly challenging, we will actively invest in businesses for which we can confidently envision a future.

### Perceiving a Turning Point in the Rapidly Changing Business Environment

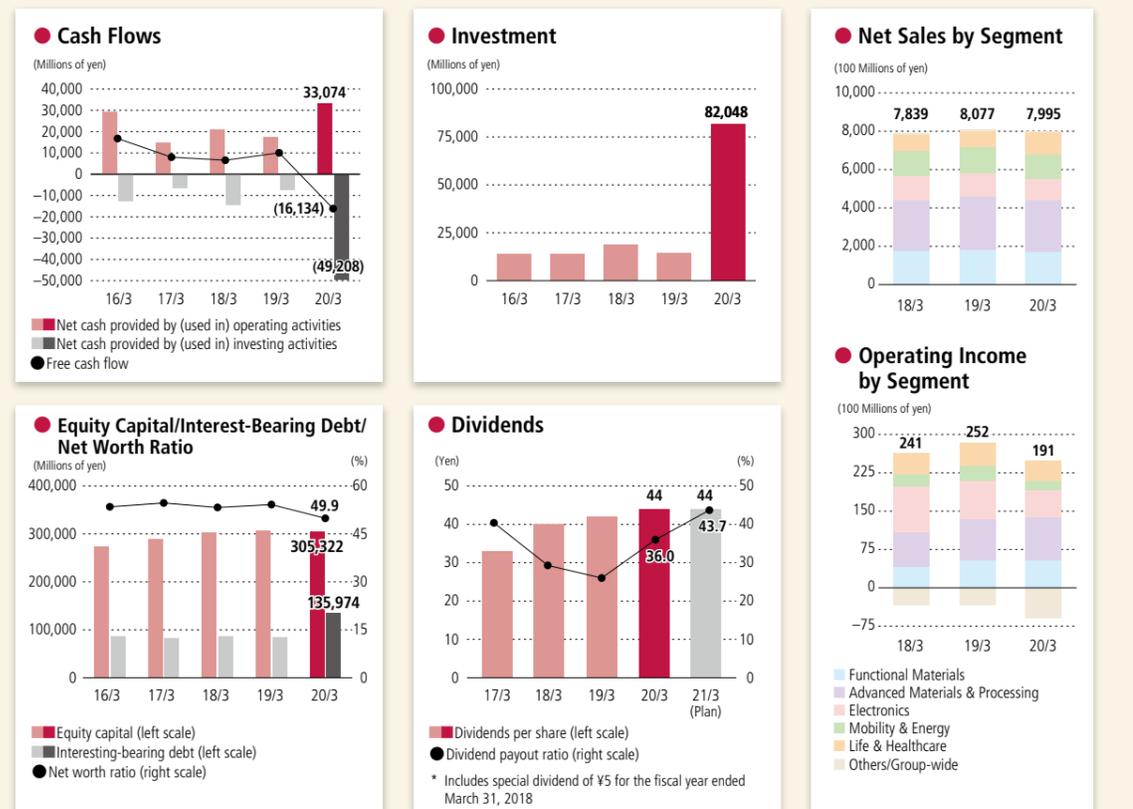
Looking back at recent events, the impact of COVID-19's spread is just as serious as we thought.

When we assess this impact from a medium- to long-term perspective, we see three stages. In the first stage, we assess how much this will impact results, and by what channels we can escape from that impact. In the second stage, we assess when the things that changed due to the pandemic will return to the way they were before and what will happen if they don't. Then in the third stage, we assess whether the norms of the altered economy will become permanent. As the NAGASE Group, we must consider these three stages as well as future business policies and solutions.

If we draw a comparison to the 2008 financial crisis when problems in the financial system occurred, this time we were forced to implement social distancing measures, which had a huge impact on physical places of business. In other words, this meant that the impact on the real economy was tremendous.

From the perspective of corporate finance, the impact on the cash flows and capital structures of our customers and business partners is also significant. More serious consideration will probably become necessary when conducting business. Naturally, the way we approach investments will also change.

We are now at a generational turning point. Even if we were to take away the impact of COVID-19, this is without a



doubt a major turning point. Therefore, the big question now is how the NAGASE Group will lead the way forward. It is also becoming necessary to assess how we will use this experience in the post-coronavirus environment and how we will change things like working styles as well as salary and evaluation systems from the perspective of corporate governance in addition to risk management.

Of course, changes are also opportunities. For instance, IT tools had been a focal point in communication with customers and coworkers. Fortunately, the NAGASE Group has been working on DX (Digital Transformation) since before the COVID-19 pandemic. By clearly perceiving turning points in the rapidly changing business environment and providing solutions with flexible ways of thinking, we will seize business opportunities.

## Raising the Corporate Value of the NAGASE Group

### • Utilize Global Governance to Maximize Synergy

Our overseas business expanded significantly through the acquisition of Prinova in fiscal 2019. Locally hired employees currently make up over half of our workforce.

Faced with these conditions, pursuing a universally standardized governance system and maximizing Group synergies is becoming a key issue. Under ACE-2020, we

worked more on organizational development in China and the U.S. in addition to revising our original Japanese governance system to enhance regional control. Actual efforts have only just begun, but we are steadily moving forward.

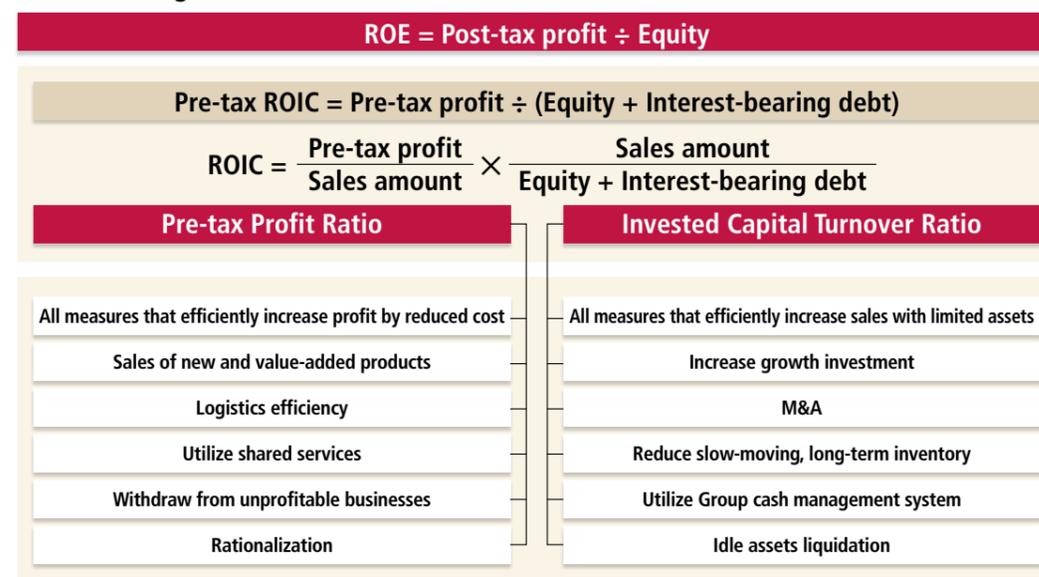
During Prinova's integration into the NAGASE Group, we carried out high-quality PMI (Post-Merger Integration) and fostered understanding and trust in our respective cultures. Prinova also become accustomed to the NAGASE Group's way of thinking. Even now, we are working to achieve more advanced synergy while engaging in daily conversation. We hope that Prinova will utilize its own product lineup and platforms in Europe and the U.S. and make advances in the fields of sports nutrition, infant nutrition and food for seniors.

### • Aiming for Capital Cost Management that Fits the NAGASE Group

Under ACE-2020, we added ROIC (Return on Invested Capital) to the index. By introducing ROIC, we aim to transition into management aware of the cost of capital by having executive management thoroughly discuss capital costs.

We at NAGASE are considering actively expanding businesses with high ROIC. However, businesses in the NAGASE Group are built on a sturdy customer base over many years. Therefore, even in the case of a business with low ROIC, we will not simply withdraw but rather incorporate the business into the expansion of a new business by using the existing customer base.

### Numerical Targets under ACE-2020



## Launching Sustainability Management

### • Emphasizing Balance between ROE and ESG

Under ACE-2020, the target ROE has been set at above 6%. Although we reached 6% in the fiscal year ended March 31, 2019, ROE has currently fallen below 6% once again. We intend to make another effort in the next mid-term management plan period starting from fiscal 2021.

However, achieving 6% ROE is not the only goal we have set our sights on. It goes without saying that continual raises in corporate value are critical. We think that the NAGASE Group's ROE will naturally improve if corporate value rises, boosted by our earning power.

Meanwhile, sustainability management is also important. In June 2020, we launched the Sustainability

Committee, and began full-scale sustainability management.

When it comes to sustainability management, an ESG perspective is critical. I think it is fair to say that a thought process which values not only financial but social benefits will become more widespread as a result of this current pandemic. To the NAGASE Group, the continual pursuit of social value is no doubt important. We intend to continue sincere efforts toward ESG.

For the management of the NAGASE Group, both ROE and ESG are important elements. From now on, it will be especially important to distribute management resources appropriately while considering the balance between both of these things. The NAGASE Group intends to continue boldly striving to create new value and businesses and raise corporate value while enhancing sustainability management.

## Supporting the platform of the NAGASE Group

**Takanori Yamauchi**  
Representative Director  
and President  
Nagase Business Expert Co., Ltd.



### We help improve profitability by making intra-Group operations more efficient and developing human resources.

Nagase Business Expert Co., Ltd. provides BPO services for intra-Group operations such as logistics, trade, payroll services, receipts and payments, credit management and general affairs. We also help increase productivity through standardization and streamlining of administrative duties. Since April 2020, our functions have also included account settlements, tax services, funds, legal services and intellectual property. As a professional organization equipped with both risk management capabilities and expertise, it is our mission to create a sustainable and optimal operating platform for the NAGASE Group while solving its various issues and helping to promote business by aggregating and streamlining its operations.

With regard to "reform of our profit structure," the most important challenge is cost optimization. The intra-Group operations that we handled in the past as "dots" have been connected to form "lines" of a comprehensive

process. As a result, the potential to streamline administrative operations will increase dramatically. We will continue to reform the profit structure by submitting proposals to optimize the workflow of the entire Group and work on that together with human resources.

We understand support for human resources to be an important issue as it relates to contributions to the increased corporate value of the entire Group. For instance, when a customer expands overseas there may be a service through which we dispatch an employee who is well versed in administrative operations. We hope to make further contributions to the entire Group in terms of optimal allocation of human resources, including fostering human resources for overseas expansion.

We have undertaken working style reform since our founding, and were able to deal with the COVID-19 pandemic relatively smoothly by systemizing telework. On the other hand, new issues have also arisen. We will improve our ability to handle various types of risk through additional infrastructure arrangement and improved efficiency.

We will continue contributing to improved value for the entire Group in terms of further improvements to efficiency of intra-Group operations and human resource development.