Top Message

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We aim to transform our corporation based on our history and trust and seek to create new value leveraging art and science.

The business environment surrounding us is changing rapidly and dramatically. The COVID-19 pandemic has impacted the world for three years. It brought forward many different things in society. As a result of the fast pace of digitalization, we have suffered an irreversible decline in demand for printing inks. Just after becoming president, I myself felt a huge sense of crisis in the face of the issues. This prompted me to think seriously about the corporate transformation.

Let me look back at the starting point. Our founder Kamataro Kobayashi was illiterate and thought that education would be an indispensable part of Japan's development. He started a business manufacturing and selling printing inks for books and school textbooks. The spirit of looking to the future and serving society has been passed down through the generations to us.

I will always pay attention to the fundamental questions of do we create things that are really needed by society and can we continue to create them. To achieve this, we will resolutely transform the corporation. I will lead our transformation into a company that can continue to create new value.

Putting the word art into the name of the company is an enterprising move

In January 2024, we made a fresh start after changing our company name to artience Co., Ltd. It is not easy for a 129-year-old company to rebrand itself. In the past, we transformed from an ink manufacturer into a specialty chemical manufacturer. We have been offering products and services suited to the times to live up to the trust that people have had in us. Earnings have

been sluggish in recent years, so we strongly resolved to transform on the basis of the credibility we have cultivated without rejecting our past history. We changed the name of the company to demonstrate this resolution to people inside and outside the company.

In the processing of considering what the new company name would be, we collected comments broadly from inside the company and identified our strengths and weaknesses and the direction that we should move in. We narrowed down around 50 proposals to three. During final selection, many of the project members chose artience.

"artience" is a fusion of the words "art" and "science." We are aware that we are a science-oriented company. This is reflected in the fact that our previous medium-term management plan included the Scientific Innovation Chain (SIC) concept. It was an enterprising attempt to incorporate art into this. We strongly feel that the combination of rationality based on scientific thinking and human feelings, aspirations and passions may create some unprecedented value.

The art here also refers to the liberal arts. The liberal arts, such as the study of culture and the humanities, is an academic discipline that values flexible thinking and contextual understanding and that accepts multiple diverse solutions based on multi-faceted thinking. Given that already more than 50% of our total sales is overseas sales, I believe this perspective is very important for our future global expansion. The new name of our company embodies our policy of paying attention to and respecting people's histories, cultures, religions, ethnicities and other characteristics, seeking coexistence.

Our unchanging management philosophy and our Brand Promise

Along with changing the name of the company, we established a new philosophy consisting of the Corporate Philosophy, the Brand Promise and Our Principles. We have worked to transform the company, changing everything except one thing, our Corporate Philosophy, "People-oriented management." People are always at the heart of all of our activities. In other words, individuals (employees) are essential to the whole (company), and not vice versa.

We have formulated the Brand Promise, "Creating value that resonates with the senses and building a future where all people can live enriched lives." In the process of determining the new name of the company, it was proposed that we introduce emotional value to our philosophy system. This is closely linked to the notion of art. If we define the value that resonates with the senses as something that makes people excited, happy or comfortable, it can vary from person to person. I hope that we can do activities, such as asking all the staff to write down things that they think have emotional value and sharing them.

A recent good example of creating value that resonates with the senses is the development of the *Nama Jokki Can* (Draft mug can) that we are engaged in jointly with with Asahi Breweries Co., Ltd. The *Nama Jokki Can* enables a frothy head to rise from the open can. Traditionally, it was undesirable for bubbles to come out of the can when it is opened. However, we scientifically elucidated the mechanism behind the bubbles and developed an inner coating technology to control it. This was combined with Asahi Breweries's desire to can their beer in a new way and resulted in the success delivering an excitement to the consumer that is similar to what they would feel when drinking a beer at a bar or pub. This creation of new value would never have been achieved by us alone as a manufacturer of materials. It will be great if we can create other kinds of new value in collaboration with other companies.

Through SIC-II towards a new medium-term management plan aimed at growth

Review of the previous SIC-II Medium-Term Management Plan

The previous Medium-Term Management Plan, SIC-II, ended in FY2023. The initial net sales target was met, but income was far below the target. The underlying circumstances included the disruption of supply chains during the COVID-19 pandemic and the prolonged conflict in Ukraine. The most significant cause of the failure to achieve the operating profit target was our failure to quickly respond to the global increase in the prices of raw materials. In addition, the insufficient specificity of our business plan led to a delay in the establishment of new businesses as the market changed.

During the three-year period, we addressed the urgent issue of increasing our profitability, which had weakened, and we carried out intensive cost reduction measures. In Japan, we integrated six sales companies within the Group to restructure the printing inks business and consolidated production at the Mobara Plant in Chiba Prefecture. Outside Japan, we withdrew from the colorants business in France and in the Philippines and the pigments business in Tianjin, China. In FY2023, our price revisions caught up with the soaring prices of raw materials. This helped us reach the income level that we had achieved in FY2019.

Meanwhile, we invested a cumulative total of 46.8 billion yen in growth businesses mainly outside Japan in preparation for future growth. These investments have already began to produce effects in India, Southeast Asia and Turkey. We hope to continue these activities over the next three years.

Resolution behind the new artience 2027 Medium-Term Management Plan

In January 2024, with a slogan "GROWTH," we started implementing the new management plan, artience 2027/2030. After regaining profitability, this plan presents our specific course of action towards growth. It addresses three key management issues: the transformation of the business portfolio, the maximization of capital efficiency and cash flow, and the establishment of the foundation of our corporation and sustainability management practices.

In the first three years of the artience 2027 management plan, we will focus on the transformation of the business portfolio. In the existing businesses with growth potential, we will work to increase profitability. In other businesses, we will conduct more intensive reforms. We will also define strategic priority businesses and allocate management resources heavily to them. Specifically, the strategic priority businesses are the mobility and battery related business which handles carbon nanotube (CNT) dispersions for lithium-ion batteries (LiB) and other products, and the display and advanced electronics related business, which, for example, is involved in sensors and semiconductors.

We will be investing 30 billion yen of capital in existing businesses and another 30 billion yen in CNT dispersions for LiBs. In total, we will be investing 60 billion yen. This figure is larger than the 46.8 billion yen invested during SIC-II. It reflects our serious determination to transform the business portfolio.

To maximize capital efficiency and cash flow, we have decided to introduce two indicators, return on invested capital (ROIC) and the cash conversion cycle (CCC). The goal of this is to increase the visibility of targets for each division and performance management. Many times, I have stressed our intention to value freedom and discipline in the company. These indicators are a part of that discipline. We will persistently seek to achieve positive results and to keep our promise with the market while respecting the abilities of all our employees to freely take on new challenges. I hope this culture takes root within our company.

Enhancing shareholder return while implementing large-scale investments

As I said, the top priority action in artience 2027 is to implement the growth strategy. We have set a net sales target of 400 billion yen and an operating profit target of 25 billion yen. On the other hand, we recognize that our cost of shareholders' equity is around 7%. It is necessary that we achieve an ROE of at least 7%. This is a mere milestone. I believe that we can achieve a PBR of 1.0 or above by aiming for an ROE above 10%.

In terms of cash allocation, we will appropriate 60 billion from the forecasted cash flow of 95 billion yen in the three-year period to investments for growth, as I mentioned earlier. In parallel with this, we will also be spending 20 billion yen to pay dividends and repurchase treasury stock as we believe that a well-bal-

anced shareholder return is important. With a projected profit of 40 billion yen, the total return ratio will be 50% or more. I believe that this is a fairly ambitious plan that will allow us to implement large-scale investments while also enhancing shareholder return.

We have received a proposal regarding the repurchase of treasury shares from a shareholder. No stable return can be offered without continuing corporate growth. While we will continue our efforts to reduce our cross-holding shares, we will continue to engage in dialogue to increase stakeholder understanding of our capital policy in order to carry out our growth strategy.

Increasing sustainability management practices

Also during the new medium-term management plan, we will continue to expand our ESG initiatives based on our asv 2050/2030 Sustainability Vision and implement sustainability management practices. My approach to business administration is based on the idea of the inseparability of morality and economic activity (*Gi-Ri Gouitsu.*) This idea was consistently asserted by leading Japanese industrialist Eiichi Shibusawa in his publication, "*Rongo to Soroban* (The Analects and the Abacus.)" To be moral (*Gi*) means to do the right thing, and the goal of economic activity is profit (*Ri.*) They are never in a trade-off relationship. They are compatible with each other.

To serve the global environment, it is vital that we fulfill our responsibilities based on an understanding of our environmental impact as a chemical manufacturer. Roughly speaking, there are two courses of action. One is to create products that aid a sustainable society. The other is to reduce the environmental impact of our manufacturing operations.

To address climate change, we aim to reduce our CO_2 emissions in Japan by 35% from the FY2020 level by FY2030 and reduce our overseas emissions by 35% in FY2030 from the business-as-usual (BAU) level with an eye towards achieving carbon neutrality in 2050. We will make similar efforts regarding waste and hazardous chemicals emissions. We will set numerical targets for the individual plants to control these emissions.

We will strive to heighten the ratio of sustainability-enhancing products to totals products in terms of net sales to 80% by FY2030 and to 100% in 2050. I am sure that products that help the environment and society will go beyond merely contributing to sustainability and they will increase our competitiveness.

As part of our reform of corporate governance, we transitioned to being a company with an audit and supervisory committee in March 2022. Today, three of our outside directors are women. We are increasing the percentage of officers that are outside officers to enable discussions to be more active and include more diverse perspectives. In FY2024, we reduced the number of operating officers and corporate advisors from 26 to 16. I believe it was a major decision to pass the baton to the next generation. Apart from that, we will continue to improve our corporate governance by continually improving our whistle-blowing systems and information security measures, including outside Japan.

Enhancing human capital at the heart of all of our activities

It is always humans that support our growth. Since we are committed to people-oriented management, our human capital strategy is of course significant to us. This year is the third year that we have had our Task Force on artience's Future workshops headed by the president for employees in their forties and fifties. A significant part of the Task Force's purpose is its function as a succession plan. In January 2024, a former member of the Task Force was appointed to be an operating officer.

In addition, we established an incubation center in response to a strong proposal from workshop members regarding the establishment of a system under the direct control of the president for the creation of new businesses. This brought about very good initiatives including a program which enables the team winning an internal business contest to work to commercialize the business they have proposed.

In FY2024, we began holding semimonthly Incubator Campus Project events. They provide opportunities for invited people from start-ups, local governments and non-governmental organizations that are active in the subject area of the event to interact. They are open to employees and in the future we will open them to customers and others outside the Group. Ideally, I want to make the artience Group into a company where people and information from around the world gather through the global expansion of human networks. I hope that this project will be an initial step towards the realization of this.

Amid the current increase in personnel mobility, we hope to be a company that attracts personnel rather than a company that discourages personnel from leaving. To increase productivity in response to the labor shortage that is anticipated in the future, we must take measures to improve employee engagement and motivation. In my thirties, I was assigned to the United States. There, it was difficult to cultivate new customers by myself, as I was not used to speaking English. However, I feel that my struggles at that time have shaped what I am today. Now there are more efficient ways of working, but I hope that young staff members will do jobs that gives them experience that will help them later. I think we need to properly assign staff to achieve this.

Additionally, from the perspective of diversity we must create an environment that is friendly to the women working with us, even at plants where workers have been traditionally male. Diversity is the source of new value creation. This is not just gender diversity but also diversity in terms of nationality and disability.

Working for world peace together with stakeholders

Following the waning of the COVID-19 pandemic, we have been working intensively on face-to-face communication with employees since last year. For this purpose, I have been visiting our bases across the country. When I directly stress the significance of the corporate transformation that the Group is striving to achieve, I often feel that it resonates well with employees. Some employees from different age groups comment that they already feel the company is changing. I hope that the solid feeling of changes will spread across the Group. In FY2024, I will be visiting as many overseas bases as possible. I hope that my visits will energize workers. Often, these visits energize me.

I am responsible for steering the company, and I aspire to make artience a good company. My own definition of a good company has three characteristics. First, a good company produces products and services that aid society. Second, its employees have job satisfaction, and third, it is capable of continuously improving its financial results. There are lots of things that cannot be done by us alone. We will involve customers, business partners, competitors and other parties in our activities and work towards our ideals.

The outlook regarding the international situation is still uncertain. However, I believe that world peace can be achieved through economics. Since we are a corporate group, we can build closer industrial relationships beyond national boundaries to create new things together with a wide variety of people. Believing in the significance of the role the economy plays in peace, we will strive towards a bright future in collaboration with stakeholders all around the world.