

## Overview of Value Creation

## Message from the CEO

# Demonstrate True Value as a Challenger without Being Satisfied with Past Growth

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## Recognizing Again RIKEN TECHNOS's Past History and Growth through the Issuance of the First Integrated Report

Last year, RIKEN TECHNOS issued its first integrated report. I was deeply moved by the growth we have achieved so far when I saw the trend of our consolidated financial results found in the printed report. The oldest data stated was for FY2011, with net sales of 75.2 billion yen and an operating profit of 2.3 billion yen. In comparison, we achieved net sales of 125.7 billion yen and an operating profit of 8.7 billion yen in FY2023, growing 1.7 times for net sales and 3.7 times for operating profit. For dividends, we also increased from 9 yen to 32 yen per share. When I think about how our growth so far was backed by the hard work put in by all

Group employees, I could only feel a sense of gratitude. At the same time, turning to the future, I again thought about whether we can continue to maintain such growth going forward. It may be difficult to achieve such growth by continuing to do the same things as before, and there may be a need to take on new challenges.

We were established in 1951 as RIKEN VINYL INDUSTRY CO., LTD., stemming from RIKEN Foundation. We started as a venture capital based solely on our strength in terms of people and technology. The RIKEN TECHNOS WAY, our corporate philosophy today, fully represents the spirit of venture that has been passed down for more than half a century since our founding days. Our true value as a challenger—expressed in the RIKEN TECHNOS WAY—will continue to be tested for us to accomplish long-term and sustainable growth going forward.

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## Firm Belief in the Strategies Stated in the Medium-term Business Plan

In FY2023, our consolidated financial results set new records for all indicators, including net sales, operating profit, ordinary profit, and net profit. For three consecutive years, we have been setting new records for net sales and each profit. Furthermore, of the management indicators given in the medium-term business plan, we achieved our target for each profit, return on sales (ROS), and return on equity (ROE) in the second year of the plan. I firmly believe that the strategies we stated in the medium-term business plan were correct. Meanwhile, looking at the business environment, it was an extremely difficult year for navigating business, with no end in sight for the slowdown of the Chinese economy and the manifestation of global geopolitical risks, among other things. Achieving these results amid such circumstances should have helped to significantly boost our employees' confidence.

## Invest without Hesitation in Necessary Areas and Further Accelerate the Four Strategies

In terms of numbers, although we set new records and have achieved several targets, I think there are still things needed to be done for each of the four strategies—"Intensify global management and generate synergies," "Stay ahead of customers' expectations," "Take on the challenge toward new businesses and products," and "Contribute to solving environmental and social issues"—stated in the medium-term business plan.

To "intensify global management and generate synergies," we are actively carrying out capital investment centered on ASEAN, which is a growth market. For FY2023, we completed the expansion of manufacturing lines at our consolidated subsidiary in Thailand in August. We are also preparing in Vietnam, the United States, and Japan to expand our lines. In addition, to further intensify global management and generate synergies, instead of making decisions based on individual optimization based on the local circumstance of each consolidated subsidiary, which we have been doing in the past, there will be more situations in which we must decide at the regional or global level. Our approach of cross-functional linkage at the global level has

become entrenched through the conduct of global meetings for sales and manufacturing departments respectively with the participation of leaders within and outside Japan. These meetings are also effective for developing human resources to take on global management, and we will implement the same initiative at other departments, such as procurement and quality control.

To "stay ahead of customers' expectations," we are working to change mindsets so that we provide proposals that are beneficial to customers after understanding not only the customers in front of us but also the market beyond them. I think our biggest strength is to deliver products that stay ahead our customers' expectations, but we should not be satisfied with that. I keep telling our employees that we must take positive actions to bring our products to our customers at a higher speed. As a company, we are also providing support to help employees act independently to stay ahead of customers' expectations, such as the development of a mechanism by implementing customer relationship management (CRM) to share sales information and the introduction of materials informatics. These measures are steadily delivering results.

To "take on the challenge toward new businesses and products," I feel that we made greater progress than expected in academic-industrial partnerships in the past year. For the three-year period of the current medium-term business plan, we are exploring various fields for new business ideas that will support RIKEN TECHNOS's future, including those that may take time before they can be commercialized. For the next medium-term business plan, I look forward to reaching the stage when we actually invest management resources. Initiatives for diversity are also necessary to create businesses based on new ideas, and this effort is positioned as an important measure to "take on the challenge toward new businesses and products." In FY2023, we launched our Women's Empowerment Promotion Project and it has led to various recommendations being given to the management, and we will further expand and continue this initiative in FY2024 and beyond. We are not working on diversity initiatives because they are part of our corporate social responsibility, but because we see them as absolutely necessary for enhancing our competitiveness. I think it will be difficult to give birth to new ideas if we remain a homogeneous group like before. I hope we can become a group of diverse people—in terms of gender, nationality, knowledge gained at other companies, and such—with all kinds of thinking and united under the corporate philosophy of the RIKEN TECHNOS WAY.

Lastly, to "contribute to solving environmental and social issues," we are first focusing efforts on measures to combat climate change, which is an urgent global issue. We have decided on capital investment in solar power for our consolidated subsidiary in Thailand. We have also introduced internal carbon pricing (ICP) to encourage investment in decarbonization. As for our formulations and manufacturing technologies, we see rising awareness about environmental conservation in recent years as a major business opportunity. We are progressively developing products that contribute to the environment, as represented by the RIKEBIO® series that uses biomass, and the masterbatch for recycling rigid polyvinyl chloride (PVC). In the first place, the raw material for PVC compounds—our flagship products—is PVC resin, of which approximately 60% is salt, a natural resource. Therefore, their environmental load is lower than products derived from petroleum, and they also have excellent weather resistance, durability, and thermal insulating properties. As such, they are contributing toward reducing environmental load, such as being used as window frame materials in place of aluminum. Elastomer compounds are also our flagship products, and they are contributing toward reducing environmental

load by being lighter compared to vulcanized rubber, using less energy in the production process, and being recyclable. In food packaging, we also launched RIKEN WRAP BOTANICAL with a biomass content of 90%. Commercially speaking, there is no need to be so particular about achieving such a high biomass content, and it might have been better to compromise when you think about the selling price. In a way, it can be said to be an impeccable product contributing to the environment, created through the pride of our engineers. This particularness is truly typical of our engineers, and I think it is necessary to use the technology obtained through the development of this product in other products and eventually help to bring in profits.

## To Further Enhance Our Strengths and Presence in the Market

When we were formulating the current medium-term business plan, the management and frontline leaders—such as general managers and managers—conducted thorough discussions about our strengths and weaknesses. We





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concluded that our strengths are our strong technical capabilities and our capacity to meet the needs of leading global customers, and we formulated the strategies of the medium-term business plan based on these strengths.

However, whether it is our strong technical capabilities or our capacity to meet the needs of leading global customers, in the end, it is our people who take on these roles. We will not be able to maintain these strengths in the long term without abundant human capital. Broadly speaking, our human resource development policy is to develop human resources suited to a challenger. Specifically, in synchrony with the strategies of the medium-term business plan, we seek to develop human resources capable of executing global business strategies, human resources with analytical skills and strategic perspectives, and human resources with diverse perspectives. I ask managers to educate their subordinates, keeping in mind to encourage them to change and think. Of course, to carry out such education, they themselves must be people who change and think. My mission is to lead and make RIKEN TECHNOS into a collection of human resources suited to a challenger.

FY2024 is both the final fiscal year of the current

medium-term business plan as well as the year in which we conduct thorough discussions on the formulation of the next medium-term business plan, which will start in FY2025. I hope to make it a year in which all our colleagues in the RIKEN TECHNOS Group, including our consolidated subsidiaries, think about the future of RIKEN TECHNOS. As mentioned last year, my basic stance in management is to be thorough in discussions. I will definitely implement the conclusion arrived at by everyone under my leadership. Already, those at the executive officer level gather every week to share information and carry out frank discussions. For the next medium-term business plan, discussions are not limited to the executive officer level; we have also selected members from the general manager, manager, and chief classes and are conducting thorough discussions with them. The scope of our discussion is not limited to the three-year period of the next medium-term business plan. We also conduct discussions with the next decade in our minds. Besides the executive officers, I hope to get the generation that will take over our future management to be thorough in discussions with a sense of ownership. At all times, I repeatedly tell our employees that the growth of people is corporate

growth itself. I see discussions for the formulation of our next medium-term business plan as part of human capital management and invest considerable time in them.

### Increase Transparency of Management and Strengthen Governance and Risk Management

As long as I am in the top management position of a company, I will always be facing various risks and issues. I see sustainability management, and the strengthening of governance in particular as perpetual issues for a company. They are two extremely important pillars for both growth potential and corporate management.

When renewing the skill matrix of the Board of Directors in FY2023, we discussed again the qualities necessary for our directors and clarified the skills necessary for the execution of strategies. We then confirmed that our current Board of Directors as a whole adequately possesses the necessary skills. In addition, our basic stance is to let outside directors see our frontlines as much as possible, and we get them to allocate a lot of time for us, so much so that they sometimes joke about being too busy. In principle, we also get outside directors to participate in all discussions at the Management Committee, which is the place where we make executive decisions. Furthermore, we also let outside directors see the actual state of our frontlines without reservations, including the holding of Board of Directors meetings at our factories in addition to holding them at our Head Office. As a result, we receive valuable recommendations each time.

At the same time, in risk management, from the perspective of avoiding financial risks, it is very important to visit frontlines with hidden risks. I myself visit all overseas sites at least once each year, and I encourage executive officers to go around and see our overseas subsidiaries as much as possible. Of late, there are more companies forced to revise their financial results downward due to cyberattacks and system faults. Therefore, the strengthening of information security is also critical to risk management, and we are undertaking this effort with a high sense of crisis, such as establishing the Computer Security Incident Response Team (CSIRT).

### Maintaining Relationships That Are Thorough in Discussions with All Stakeholders

A point of reflection when looking back at our methods so far for disseminating information to our stakeholders is that we may have been too reserved in properly conveying to external parties the areas that we have been focusing on, such as our growth strategies and human resource development efforts.

As part of management that is thorough in discussions, I always thought about making dialogues with stakeholders even more meaningful. I see this integrated report, which we started issuing last year, as a means of communication with shareholders and investors. At the same time, we started holding shareholder relations (SR) meetings and are increasing opportunities for face-to-face dialogues. In fact, we receive various suggestions for management from everyone through SR meetings, and we will continue to conduct them with an expanded scope in this fiscal year.

Regarding our business portfolio, which is a matrix of “market-in segments” and “products” and draws high attention from shareholders and investors, we are concerned about how to disclose it outside the Company. In announcing the next medium-term business plan, it will be necessary to properly show shareholders and investors the concept behind our business portfolio.

Given that our overseas net sales ratio exceeds approximately 50%, since FY2023, we have been disclosing various investor relations (IR) materials in both Japanese and English simultaneously as far as possible to strengthen information disclosure to overseas investors.

In addition, in March 2023, Tokyo Stock Exchange requested companies with a price-to-book ratio (PBR) below 1.0 to disclose and implement improvement measures. Given this request, as a response to our shareholders and investors, we announced our “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” and showed our strong determination to break free from having a PBR below 1.0. At the same time, we purchased our own shares on an unprecedented scale.

RIKEN TECHNOS will continue to enhance communications with our stakeholders, and together, create new value to solve social issues. We hope that you will continue to give us your unwavering support.

