Company Report

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Strategy Advisors

Leveraging "Surface Science" Technology and Expertise Cultivated in Fukui's Textile Industry, the Company is Expanding Globally & Transforming into a Growing Enterprise

NICCA CHEMICAL is classified as a chemical manufacturer, specializing in the production and sale of surfactants, a highly specialized field. Founded in Fukui in 1941, the company has grown alongside the domestic textile industry. Backed by a strong spirit of technical innovation, the company conducts proactive basic research (Science) and supplies a wide range of chemicals (Chemistry) to address the diverse challenges faced by customers across the supply chain. This long-standing accumulation of technical expertise and know-how in "surface science" (science and chemistry) has led to the acquisition of overseas textile customers and expansion into non-textile fields. In the cosmetics sector, the company has applied its technology for adding functional properties to textile surfaces to the that of hair, establishing it as a core business.

NICCA CHEMICAL's corporate DNA is "the commitment to solving various challenges faced by customers in the textile industry supply chain using surfactant technology". The difficulty of imitation lies in "the extensive product lineup and new product development capabilities based on the technical expertise and know-how accumulated over the long term by prioritizing on-site operations as a surfactant manufacturer". It is worth noting that the founder's core philosophies of "Creating Value by Providing Technology" and the "Family policy business" are still upheld today, supporting the company's difficulty of imitation.

To achieve their "mid to long-term group growth scenario", the company aims to increase the sales mix of high-value-added EHD product groups (E: Environment / H: Health / D: Digital (Advanced Materials)) in the chemicals segment and expand the scale of its cosmetics business through aggressive investment. In the FY2024 results, the profitability of the chemicals segment began to show
positive signs, which could serve as a plus factor for the future.

Stock Price & Trading Volumes (Past 1-Year)

Source: Strategy Advisors

Key Indicators

Stock Price (07/15/2025)	1,294
52-Week High (03/27/2025)	1,355
52-Week Low (07/30/2024)	980
All-Time High (12/28/2015)	1,539
All-Time Low (3/13/2020)	586
# of Shares Issued (¥mn)	17.7
Market Capitalization (bn)	22.9
EV (bn)	25.0
Equity Ratio (FY12/24, %)	54.0
ROE (FY12/24 Actual, %)	8.6
PER (FY12/25 CoE, Times)	7.9
PBR (FY12/24 Actual, x)	0.6
Yield (FY12/25 CoE, %)	4.6

Source: Strategy Advisors

The surfactants produced by the company are not recognized as a growing market, but the company's EHD products in the chemicals category are a niche, high-value-added field that contributes to solving social issues such as environmental conservation (including corporate ESG) and the company has the potential to be recognized as a specialty chemical stock with growth potential and high valuation in the future.

The cosmetics segment is poised to expand its market share by leveraging its strengths in technology and know-how developed in the textile industry and apply them to hair care, driven by increased production at a new factory scheduled to begin operations in 2027. This presents an opportunity to establish a solid position as a high-valuation cosmetics stock.

Based on the company's FY2025 plan, PER is 7.9x and based on FY2024 actual results, PBR remains low at 0.6x. If the equity story proposed by Strategy Advisors—namely, "Major transformation of business structure and fundamental overhaul of financial and capital policies"—is realized, the chemical division will enhance its recognition as a specialty chemical company with EHD products, while the cosmetics division will improve its status as a cosmetics stock through increased market share. As a result, upside potential is expected for the stock price.

Japanese GAAP (Consolidated)

FY	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS	DPS
	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥mn)	(%)	(¥)	(¥)
12/21	48,474	17.7	2,453	73.2	2,706	64.5	2,595	148.6	164.8	22.0
12/22	50,627	4.4	2,628	7.1	3,132	15.7	2,114	-18.5	134.1	30.0
12/23	50,169	-0.9	2,039	-22.4	2,528	-19.3	1,691	-20.0	107.1	32.0
12/24	54,099	7.8	3,519	72.6	3,976	57.3	2,754	62.9	174.2	52.0
12/25CoE	57,000	5.4	3,600	2.3	3,700	-6.9	2,600	-5.6	164.4	60.0

Source: Company data, compiled by Strategy Advisors

Table of Contents

Executive Summary

"Selling Technology (Providing Technology)" as Their Motto

NICCA CHEMICAL started out as a manufacturer of surfactants and has contributed to the development of the domestic textile industry supply chain. Overcoming numerous challenges, the company's founder, Mr. Kiyoki Emori, established the motto, "We do not sell products; we sell technology (Creating Value by Providing Technology)". With a strong spirit of technical excellence, the company has actively pursued research and development and as a result, built a business model that solves problems encountered by customers in their production sites through technology. By continuously incorporating feedback from the field into development, the company has accumulated technical expertise and know-how, which form the foundation of its current business. Mr. Mikio Emori, the reviver, expanded the application of surfactants into non-textile fields (such as cosmetics) while actively establishing overseas bases. The baton has now been passed to the current president, Mr. Yasumasa Emori. This is another distinctive feature of the company, its commitment to a "family policy business" since its founding.

The Company Operates in Two Business Segments

The company currently operates in two business segments: chemicals and cosmetics. The chemicals segment includes textile chemicals, where the company holds a high market share; specialty and functional chemicals (specialty chemicals), which are growing rapidly; and in laundry and medical chemicals, where the company has a high market share in the domestic B2B market. The cosmetics segment applies the company's surfactant technology from textiles to hair care, with professional (salon) products as its main focus.

Corporate DNA and Difficulty of Imitation

The Corporate DNA is defined as "the commitment to solving various customer challenges in the textile industry supply chain through surfactant technology" in our opinion at Strategy Advisors. Additionally, the Difficulty of Imitation is characterized as "the extensive product lineup and new product development capabilities based on the technical expertise and know-how accumulated over the long term by prioritizing on-site operations as a surfactant manufacturer".

Chemicals Aim to Expand Sales of EHD Products, While Cosmetics Seek to Expand Business Scale Through Aggressive Investment

NICCA CHEMICAL is working toward the realization of its "mid to long-term group growth scenario", aiming to increase the sales ratio of EHD products in the chemicals segment and expand the scale of its cosmetics business through aggressive investment. In the FY2024, the profitability of the chemicals segment began to show signs of improvement, which is a positive factor for the future.

Opportunity for Valuation Expansion

Although the surfactant industry is not recognized as a growth market, the company's EHD products in the chemicals segment are niche, high-value-added products that contribute to solving social issues such as environmental conservation. The company has the potential to be recognized as a specialty chemical stock with high growth potential and valuation.

The cosmetics segment is poised to expand its market share by leveraging its strengths in technology and know-how developed in the textile industry to apply them to hair care, driven by increased production at a new factory scheduled to begin operations in 2027. This presents an opportunity to establish a solid position as a cosmetics stock with a high valuation. Overall, favorable conditions for valuation expansion are emerging.

Equity Story Realization Could Drive Upside Potential for Stock Prices

Based on the company's FY12/2025 plan, PER stands at 7.9x, and PBR based on FY12/2024 actual results remains at a low 0.6x. Strategy Advisors' equity story is one of "Major transformation of business structure and fundamental overhaul of financial and capital policies". If the feasibility of the equity story increases, there is potential for upside in the stock price.

Figure 1. FLOWDIA MORE Brand

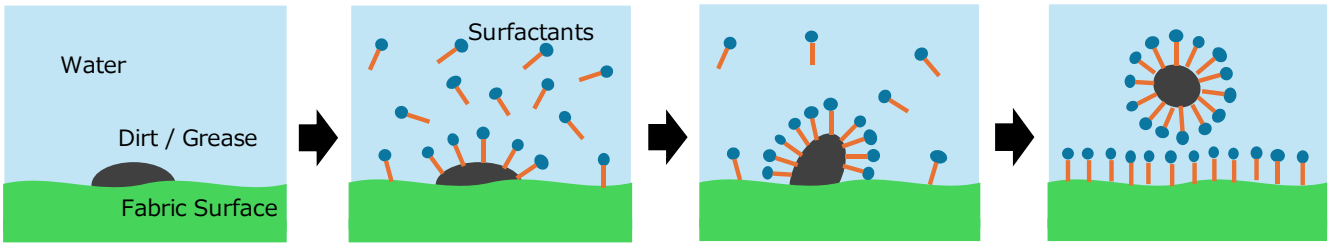
Source: DEMI Website

1. Company Overview

Manufacturing and Sales of Surfactants

NICCA CHEMICAL is a manufacturer and seller of surfactants, which are among the many types of chemicals available. While surfactants are not well-known products to the general public, they are widely recognized in the form of "soap". Soap works by helping surfactants act at the interface between oil and water, making them mix more easily and by helping water absorb and rinse away dirt (oil) from skin or clothing. This surfactant function has been essential for the development of the textile industry and has also been found to be effective in other industries such as paper, laundry, cosmetics, medical and electronics. In response to the diverse demands from these industries, the company has developed and marketed a wide range of products tailored to each market.

Figure 2. Examples of Surfactant Functions: How Dirt Is Removed

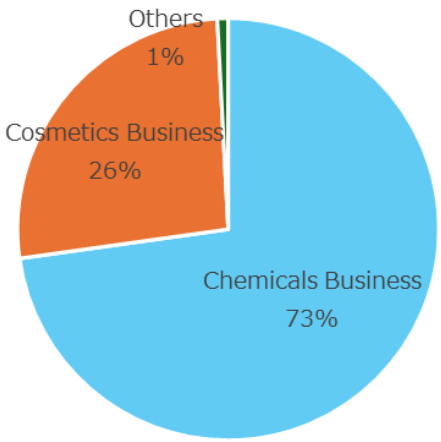


Source: Various Materials, compiled by Strategy Advisors

Comprising the Chemicals & Cosmetics Segments

Currently, the company's business consists of 3 segments: chemicals, cosmetics, and others. Based on FY12/2024 results, the sales composition ratio is 73% for chemicals, 26% for cosmetics and 1% for others. The composition ratio of chemicals, the company's original business, has always exceeded that of cosmetics. Additionally, when adjusting the operating profit of ¥3.52 bn by adding back the elimination of corporate-wide items to arrive at ¥5.6bn, the segmental breakdown for FY12/2024 shows chemicals at 67% and cosmetics at 33%, with chemicals again accounting for the larger share. However, over the past eight years (FY12/2016 to FY12/2023), the operating profit from cosmetics, which is more profitable, consistently exceeded that of chemicals. In FY12/2024, the profitability of chemicals improved, resulting in a reversal of the composition ratio.

Figure 3. Sales Composition Ratio by Segment (FY12/2024)



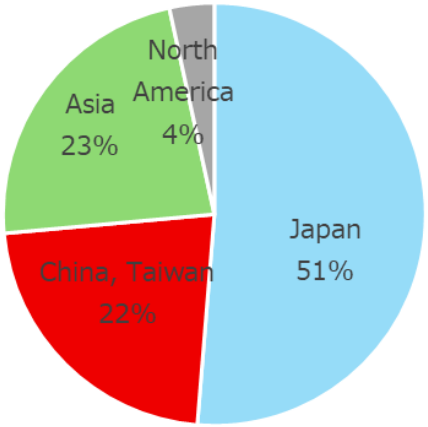
Source: Company data, compiled by Strategy Advisors

The Domestic Sales Ratio is Slightly Lower for Chemicals & Higher for Cosmetics

By location, Japan accounts for 51% of sales, slightly exceeding half. However, the domestic ratio is slightly lower for chemicals and higher for cosmetics. Chemicals have a high overseas ratio (China, Taiwan, and ASEAN) for their mainstay textile chemicals, while laundry and medical chemicals are mainly sold domestically. The company has an extensive

network of overseas sales bases in China, South Korea, Taiwan, India, ASEAN, and the United States.

Figure 4. Sales Composition by Region (FY12/2024)



Source: Company data, compiled by Strategy Advisors

Contributing to the Development of Fukui's Textile Industry

The company's philosophy is "Creating Value by Providing Technology". This philosophy stems from its role in supporting the development of Fukui's textile industry by addressing various challenges in the production supply chain through close collaboration with customers. While valuing "technology" and prioritizing innovative research and development, the company visits customers' sites to confirm product performance in actual usage environments, making continuous improvements and linking these efforts to the next stage of technological development. This unwavering commitment to small, consistent efforts has accumulated over time, leading to the company's extensive product variety. By distinguishing itself from the business model of large chemical manufacturers that mass-produce generic products, the company has established itself as a prominent player in niche markets.

Figure 5. Business Overview (¥mn)

Segment		12/24 Actual	12/25 CoE	Business
Total	Net Sales	54,099	57,000	-
	Operating Profit	3,519	3,600	
Chemicals	Net Sales	39,378	41,500	Items: Textile chemicals; 70% / Specialty chemicals & functional chemicals, etc.; 22% / Laundry and Medical Chemicals; 7% EHD Products (e.g.): PFC-free durable water repellent, Smart Dyeing Process-related agents, and Water-based polyurethane resins, etc.
	Operating Profit	3,724	3,770	
Cosmetics	Net Sales	14,271	14,700	Types: Hair care products (shampoo, treatment, etc.), perm products, color products, styling products, etc. Strategy: Primarily develop cosmetics for professionals (beauty salons) under the DEMI brand, etc.
	Operating Profit	1,822	1,840	
Others	Net Sales	449	80	Contract manufacturing services, etc.
	Operating Profit	58	60	
Eliminations	Operating Profit	-2,085	-2,070	-

Note: The figures for operating profit for each segment is shown before eliminations.
Source: Company data, compiled by Strategy Advisors

2. Company History

Tracing the Footsteps of the Founder and Reviver

Telling the story of NICCA CHEMICAL is nothing less than tracing the footsteps of its founder, Mr. Kiyoki Emori (1907-1986) and its reviver, Mr. Mikio Emori (1929-2014). Below, we introduce the achievements of both men in chronological order.

1) Mr. Kiyoki Emori Embarks on Drug Manufacturing

Mr. Kiyoki Emori Was Born into the Emori Shoten Drugstore Family

The founder, Mr. Kiyoki Emori, was born into the Emori family, which ran Emori Shoten (later Emori Shoji, then Kowa Emori), a business that started out selling medicine. In the late 1930's, Emori Shoten expanded into selling dyes and industrial products, supplying the thriving textile industry in Fukui. Mr Kiyoki Emori, a graduate of Osaka Pharmaceutical College (later Osaka University's Faculty of Pharmacy), joined the management of Miyashita Refining Agent Manufacturing in 1938 to help revive the company, which was then facing a management crisis.

Miyashita Refining Agent Manufacturing Co., Ltd. primarily manufactured and sold refining agents (chemicals used to remove impurities and stains from textiles) and was the predecessor of the current NICCA Chemical Industries. At the time, Miyashita Refining Agent Manufacturing. primarily supplied its products to Fukui Refining and Processing (now SEIREN: 3569 TSE Prime).

Rescue of Miyashita Refining Agent Manufacturing

Since its reconstruction in 1938, Miyashita Refining Agent Manufacturing has developed special surfactants mainly consisting of potash soap and solvents, earning high praise in the dyeing, and finishing industry in the Hokuriku region. In addition, the company developed calcium nitrate (salt

shrinkage agent) as a textile additive, which led to large orders. Thanks to Mr. Kiyoki Emori 's enthusiasm and efforts, the company took its first step toward reconstruction.

Founded NICCA CHEMICAL Industries to Manufacture Amino Acids for Supply to China

In the fall of 1938, merchants from China visited Emori Shoten and purchased a large quantity of hydrochloric acid. At that time, amino acids were used as raw materials for soy sauce in China and although soybeans and soda ash, the main raw materials, could be procured, amino acids could not be manufactured due to an extreme shortage of hydrochloric acid, which was the reason for the large order.

Mr. Kiyoki Emori received advice that the demand for amino acids would continue to expand in mainland China and proposed manufacturing and supplying amino acids at Miyashita Refining Agent Manufacturing. He invited experts in amino acid manufacturing from Tokyo to provide technical guidance and began mass production. This amino acid export business to China became a pillar of revenue and significantly contributed to the company's reconstruction.

Taking this business as an opportunity to serve as a "bridge" between Japan and China, Miyashita Refining Agent Manufacturing. was renamed "Nicca Chemical Industry Co., Ltd." in 1939. Two years later, in 1941, the company was reorganized and established as Nicca Chemical Industry Co., Ltd.

Wartime Production Was Prioritized Towards Military Needs

At the time, under the national policy of prioritizing military needs, the company was designated as a factory for producing amino acids and textile oil agents for military use. In 1941, the Pacific War broke out and the company's main textile additives suffered from a shortage of raw materials. As the war situation worsened, the company was required to manufacture turpentine oil (the aircraft fuel of the time) by refining pine root oil. In 1944, Mr. Kiyoki Emori himself was drafted into the army as a pharmacist, serving at the Sabae Army Hospital.

The Building Miraculously Survived the Great Fukui Air Raid

As the war worsened in 1945, the Fukui air raid by B-29 bombers occurred on July 19. Over 95% of the city center was reduced to ashes (source: "History of the Fukui Air Raid"), but miraculously, the NICCA CHEMICAL building remained intact. Looking back on that time, Mr. Kiyoki Emori said, "Fukui Technical College (now Fukui University) was completely destroyed. Of course, I had assumed that NICCA CHEMICAL had also been completely destroyed. But there it was. It was still there. The joy I felt at that moment was indescribable. Tears simply flowed down my face. I truly cried. I cried with joy. In that instant, I rejoiced, 'I am still here.'" He recounted this in the company's 30th anniversary commemorative magazine.

After the war ended on August 15, Mr. Kiyoki Emori was relieved of his military duties and returned to his position as president in December,

aiming to rebuild the company. However, without this miraculous event, the reconstruction of NICCA CHEMICAL might not have been possible.

Post-War Restart

NICCA CHEMICAL's reconstruction got off to a difficult start due to disruptions in the supply of imported oil raw materials, but the company began producing soap from domestically sourced plant-based raw materials. It also began producing calcium nitrate as a salt shrinkage agent necessary for the textile industry. However, the road to the company's reconstruction took another turn for the worse.

Headquarters & Factory Completely Destroyed in the Fukui Earthquake

On June 28, 1948, just 3 years after the end of World War II, a powerful earthquake measuring 7.3 on the Richter scale struck the entirety of Fukui Prefecture. The “Fukui Earthquake” was a tragic event that left an indelible mark on Japan's disaster history, reducing the city of Fukui—where post-war reconstruction efforts were underway at a rapid pace—to a pile of rubble in an instant. Both Emori Shoten was completely destroyed by fire and NICCA CHEMICAL's headquarters and factory were also completely destroyed. Additionally, the textile industry, which was a pillar of Fukui Prefecture's economy, suffered devastating damage. A total of 1,393 related factories in the prefecture were completely destroyed, resulting in the loss of 54% of the equipment, creating a dire situation.

Mr. Kiyoki Emori Also Suffered the Tragedy of Losing Some of His Family

On that tragic day, Mr. Kiyoki Emori, who was on a business trip to Osaka, rushed back to Fukui after the earthquake, only to find that his wife and third daughter had been crushed to death in the earthquake at his wife's parents' home in Sabae City and that the house had been completely destroyed. Mr. Kiyoki Emori was overcome with deep sorrow that could not be expressed, as well as remorse for not being there on that day. Upon returning to Fukui City, he found the entire town reduced to a pile of rubble. Additionally, both NICCA CHEMICAL and Emori Store had been completely destroyed, leaving Mr. Kiyoki Emori and his company with virtually nothing left.

Managing With the Well-Being of Employees & Their Families in Mind

However, Mr. Kiyoki Emori demonstrated an indomitable spirit, taking action to rebuild just two days after the earthquake. This reflected his sincere and unwavering commitment as a leader who prioritized the well-being of his employees and their families above all else. Additionally, Mr. Kiyoki Emori has been a devout follower of the Nichiren sect of Buddhism and his strong faith likely served as a source of emotional support. Later, in the company newsletter, he wrote, "I was overwhelmed by the shocking news, wondering if there were no gods or Buddhas in this world.

However, I was left with the mission of a business leader to overcome this sorrow and continue my work. That mission was to confirm the safety of the stores and factories where numerous employees, whom I regarded as my own children, worked". From the factory, which was piled high with debris, the rubble was soon removed and temporary shelters were constructed as preparations for resuming operations progressed. However, yet another tragedy struck.

One Month After the Earthquake, the Kuzuryu River Burst its Banks, Causing Flooding

Approximately 1 month after the earthquake, on July 25, 1948, heavy rains caused the Kuzuryu River, which flows through Fukui City, to burst its banks. The cause is believed to have been cracks in the embankment caused by the earthquake, which had not yet been repaired, combined with the torrential rains. The area around Makinoshima, where the headquarters of NICCA CHEMICAL was located, also suffered severe damage, including the destruction of drainage channels, disruption of power supply and materials and documents prepared for reconstruction being submerged in water. However, what was demonstrated here was the unity of the citizens of Fukui City as they faced this serious crisis together. NICCA CHEMICAL overcame the series of crises, air raids, earthquakes and floods and completed the reconstruction of its factory by December of the same year. This was the result of their efforts to achieve the goal of being “the first in Fukui to emit smoke from the chimney”.

Market Conditions Improved After a Recovery

Subsequently, the market environment surrounding the company improved. This marked the beginning of a “special demand boom” triggered by the outbreak of war on the Korean Peninsula in June 1950. NICCA CHEMICAL also benefited from this special demand and its factories operated at full capacity. However, Mr. Kiyoki Emori did not realize that this economic boom would lead to a management crisis shortly thereafter.

Business Conditions Deteriorated Due to a Sharp Decline in Oil Prices

The warning signs were in the rising prices of raw materials, namely oils and fats. NICCA CHEMICAL stockpiled oil and fat raw materials in preparation for a prolonged period of special demand. Meanwhile, changes in public opinion in the United States led to the dismissal of General MacArthur, Supreme Commander of the Allied Forces, in April 1951; and this marked a turning point as the war began to move toward its end (it actually ended in July). The price of oils and fats also began to plummet and NICCA CHEMICAL was forced to use the high-priced raw materials it had already procured for production, resulting in mounting losses the more it continued to operate.

A Difficult Decision: Laying Off Half of the Employees

Cash flow continued to deteriorate and negotiations with the main bank, Fukui Bank, continued. However, the situation did not improve, and the company was pushed to the brink of bankruptcy. In order to keep the company afloat, President Mr. Kiyoki Emori made the difficult decision to lay off 36 of the 71 employees, prioritizing those with close ties to the company, such as relatives. Subsequently, with the support of Fukui Bank and NAGASE & CO. (8012 TSE Prime), the company managed to achieve its reconstruction goals after 1951.

Notably, during the 6 years before and after the management crisis, Mr. Kiyoki Emori temporarily stepped down as president and appointed Mr. Yoshitaka Kubo, who had been on secondment from Fukui Bank, as the second president. Mr. Kiyoki Emori then returned as the 3rd president in 1957.

Performance Recovers with Surfactants for the Textile Industry

After this latest challenge, NICCA CHEMICAL recovered and entered a period of expansion by focusing on supplying surfactants to the Fukui textile industry. The company and the textile industry are inextricably linked.

Below is a brief introduction to the textile industry in Fukui.

Fukui's Textile Industry Was a Firmly Established Local Industry

The textile industry, which had been thriving since the Meiji period, centered on the production of double-layered fabric for export, began full-scale production in Gunma, and subsequently spread to the Hokuriku and Tohoku regions. In particular, Fukui, with its moderate humidity suitable for the textile industry, established itself as a strong local industry. In the latter half of the Meiji era, industrial production of silk textiles began, which was later succeeded by the production of rayon textiles. Surfactants, which have functions such as making textiles easier to spin, dye and clean, were recognized as essential chemicals for the textile industry.

Supplying Products That Meet the Needs of the Times, Amid the Backdrop of Changing Textile Materials

The textile industry, which had been severely affected by the war, recovered after the war, when synthetic fibers (nylon) appeared as a substitute for rayon. Amidst these changes in materials, the company has developed a wide variety of surfactants through research and development, and has supplied a wide range of products that meet the needs of the times to the supply chain. This history has led to the accumulation of know-how for solving problems at customers' production site, which has become the foundation of the company's current business.

"Creating Value by Providing Technology"

The company's founder, Mr. Kiyoki Emori, often said, “Creating Value by Providing Technology” and he was a person with a strong focus on technology. He was also a sincere and serious person who was deeply committed to his business. Although the company still retains the concept of “family policy business”, President Emori often said, “The company exists because of its employees”. Furthermore, he converted the 3rd floor of his home into a dormitory for single employees, sharing meals, baths and living quarters with them, treating them like his own children. Even during a business crisis, when he reluctantly had to lay off half of the staff, he kept the employees entrusted to him by others within the company. He vowed never to reduce staff again. These anecdotes reveal how kind and compassionate he was toward his employees, akin to a benevolent figure.

2) Mr. Mikio Emori, Successor to the Founder

Mr. Mikio Emori - The Reviver, Was Full of Vitality

Mr. Mikio Emori (formerly Nakao) joined the company in 1948 and married Ms. Sueko Emori, the daughter of Mr. Kiyoki Emori, in 1959, taking the Emori surname. He later succeeded Mr. Kiyoki Emori in 1977, becoming the fourth president as the son-in-law of the founder. Mr. Mikio Emori was recognized early on by Mr. Kiyoki Emori for his managerial talent and he made significant contributions, including expanding the use of surfactants beyond the textile industry and laying the groundwork for overseas

operations. Here, we will trace the post-war business expansion of NICCA CHEMICAL through the dynamic career of Mr. Mikio Emori.

Experienced Extreme Poverty Due to 2 Air Raids (WWII)

Mr. Mikio Nakao's father originally ran a textile business in Fukui Prefecture, but later moved to Tokyo and built a double-layered silk fabric wholesaler in Asakusa. However, in March 1945, the store was completely destroyed in the Great Tokyo Air Raid. Having lost everything, the family evacuated to the home of Mr. Nakao's mother's parents in Fukui; but in July, they were again affected by the Great Fukui Air Raid. Following this, his father fell ill, and the family faced extreme poverty, struggling to make ends meet in the years leading up to and following the end of the war. As the eldest son, Mr. Mikio Nakao was enrolled at Keio University during the Tokyo air raids but dropped out. To support his 5 younger siblings, he secretly sold Fukui-produced rayon textiles at the black market in Asakusa, barely managing to make ends meet.

Joined the Company After Meeting with Mr. Kiyoki Emori at Kangi-ji Temple

Mr. Mikio Nakao met with Mr. Kiyoki Emori, the founder of NICCA CHEMICAL, at the recommendation of his aunt in June 1948, immediately after the Fukui Earthquake and the July floods, at Myoken-san Kangi-ji Temple (now in Minamiechizen-cho, Nanjo-gun, Fukui Prefecture). Mr. Kiyoki Emori, a devout follower of Nichiren Buddhism (and later Mr. Mikio's father-in-law), was in the midst of a temple retreat after laying the groundwork for the company's recovery. He decided to hire Mr. Mikio, who had come to visit him in his time of hardship. At the time, Mr. Mikio was filled with determination to rebuild the Nakao family and his work ethic later caught Mr. Kiyoki Emori's attention.

Distinguished Himself as a Salesperson, Who Contributed to the Growth of the Business

Immediately after joining the company, Mr. Mikio was assigned to the accounting department, but due to his personality, it was decided that he would be better suited to sales than desk work and he was transferred to the sales department. After achieving success in sales of amino acid soy sauce and surfactants, Mr. Mikio was appointed at the young age of 23 as the head of the newly established Nagoya branch office in May 1953. Entrusted with the task of developing the Nagoya market at a young age, Mr. Mikio felt a sense of pride and conducted diligent sales activities on foot, making a significant contribution to the expansion of the business.

After the Failure of Sunrex Blue. NICCA Specialized in the B2B Business

One lesson learned from failures during the Nagoya era was that it is extremely difficult to succeed in the B to C businesses, targeting general consumers. At the time, NICCA CHEMICAL conducted research and development to expand its business opportunities into household detergents amid the rapid spread of washing machines and launched a product called “Sunrex Blue” in 1962. The company poured its expertise in surfactant technology, cultivated in the textile industry, into the product, confident that it could surpass major detergent manufacturers like Kao and Lion in terms of quality. However, in the B to C market where brand recognition takes precedence over quality, the product failed to capture consumers' hearts, resulting in a complete defeat. The company was forced to withdraw from the market after just over 5 years. Currently, NICCA

CHEMICAL operates in the cosmetics industry and provides detergents for the laundry industry, but it has adopted a policy of focusing solely on B2B operations, keeping the lessons from that period in mind.

Focus on Consulting Sales

Mr. Mikio always emphasized the importance of consulting sales in his sales activities. In the textile industry supply chain, there are companies that handle various processes such as spinning, weaving, dyeing, and washing, and each company produces products using different materials, manufacturing environments and machinery (equipment). Each factory faces unique challenges and NICCA CHEMICAL has addressed these challenges by verifying what is happening on-site, providing feedback to the R&D department, and developing optimal products for customers. This process has resulted in the accumulation of technical expertise and know-how. This is the core of the company's business model, which emphasizes “providing technology”. The founder, Mr. Kiyoki Emori, taught that the “Creating Value by Providing Technology”, and Mr. Mikio faithfully embodied this philosophy and played a pivotal role in putting the company on a growth trajectory.

Promotion of the Overseas Business Infrastructure

In 1958, Mr. Mikio became sales manager and in 1959, he married Kiyoki's daughter and took the family name Emori. In the mid-1960’s, he began laying the groundwork for overseas operations. At the time, Japan's textile industry was thriving, but neighboring Asian countries such as South Korea, Taiwan and China were beginning to show signs of a booming textile industry, leveraging their low labor costs. While Mr. Mikio felt a sense of crisis over Japan's declining share in the textile industry, he also recognized the significant business opportunities abroad and actively established overseas bases. Although the initial venture in South Korea around 1965 encountered some difficulties, he went on to establish joint ventures in Taiwan in 1968, South Korea again in 1971, Thailand in 1974, Indonesia in 1975, the Philippines in 1977 and Hong Kong in 1988. Additionally, Mr. Mikio assumed the position of president in 1977, succeeding the founder.

Continuing the “Family Policy Business” Established by the Founder

The distinctive feature of NICCA CHEMICAL's overseas expansion is its commitment to the concept of “family policy business” and its patient approach to building trust with joint venture partners. The maintenance of good relations with joint venture partners has contributed to the expansion of overseas business and this can be attributed to the skill of Mr. Mikio, who applied the “family policy business” approach emphasized by founder Mr. Kiyoki Emori to overseas operations. In 1987, Mr. Mikio established the motto “Creativity and Aspiration”. “Creativity“ reflects the company's emphasis on independent research and development, while “Aspiration” signifies its commitment to growth, including overseas expansion. This motto accurately captures the direction of the company's management at the time.

Leading the Way in Corporate Growth

As described above, Mr. Mikio Emori, who succeeded the founder, faithfully embodied the founder's management methods and led the company's

growth with his extraordinary vitality. He can truly be considered the founder of NICCA CHEMICAL's revival.

Listed on the Nagoya Stock Exchange in 1993. Currently Listed on the Tokyo Stock Exchange's Standard Market

NICCA CHEMICAL was listed on the Nagoya Stock Exchange in 1993. It was then listed on the Second Section of the Tokyo Stock Exchange in 2015. In 2016, it was designated for listing on the First Section of the Tokyo Stock Exchange. Although it moved to the Tokyo Stock Exchange Prime Market in 2022, it was unclear whether it would be able to continue to meet the listing criteria, so in 2023, it moved to the Tokyo Stock Exchange Standard Market.

Figure 6. History of NICCA CHEMICAL

Date	Details
September 1941	Established NICCA CHEMICAL INDUSTRIES CO (NICCA CHEMICAL INDUSTRY CO., LTD. is Reorganized as a Joint-Stock Company)
November 1958	Developed Powdered Soap for Laundry. Entered the Laundry Field
July 1963	Established NICCA CHEMICAL TRANSPORTATION DEPARTMENT CO (In June 1990, the Company Name was Changed to Nicca Enterprises Co)
April 1964	Developed a Cleaning Agent for Metals. Entered the Metal Industry Field
May 1965	Developed Defoaming Agent for Paper Manufacturing. Enters the Pulp and Paper Field
May 1968	Established a Joint Venture, TAIWAN NICCA CHEMICAL CO., LTD.
May 1971	Established a Joint Venture, Sankyong NICCA CHEMICAL Co (In January 1974, the Company Name was Changed to Korea Fine Chemicals Corporation; in January 2002, the Company Name was Changed to NICCA KOREA CO., LTD)
January 1974	Established a Joint Venture Company, SIAM TEXTILE CHEMICAL CO (The company name was changed to STC NICCA CO., LTD. in May 2009)
October 1974	PT.INDONESIA NICCA CHEMICALS, a Joint Venture Established in Indonesia
April 1980	Developed a Disinfectant. Entered the Pharmaceutical Field
August 1982	Completed DEMI Cosmetics Manufacturing Plant. Entered the Hair Cosmetics Field
December 1987	SunFiber Corporation Established to Strengthen the Pulp and Paper Related Business
April 1988	NICCA U.S.A., INC. Established as a Joint Venture in the United States
May 1988	HONG KONG NICCA CHEMICAL LTD Established in Hong Kong SAR
June 1988	Company Name Changed to NICCA CHEMICAL CO., LTD.
	UJT NICCA CHEMICALS CO., LTD. Established in Hong Kong SAR, as a Joint Venture with Investment from HONG KONG NICCA CHEMICALS
April 1989	Merger of Kanto factory (Est. November 1959) & Osaka factory (Est. May 1981) with NICCA CHEMICAL
October 1989	General Research Institute Established in Fukui City, Fukui Prefecture
March 1993	Established NICCA Bio Research Institute in Sakai-Cho, Sakai-Gun, Fukui Prefecture
April 1993	GUANGZHOU NICCA CHEMICAL CO., LTD. Established as a Joint Venture
September 1993	Listed on the Second Section of the Nagoya Stock Exchange (NSE)
July 1995	Hangzhou NICCA CHEMICAL CO., LTD Established in China
October 1995	Yamada Pharmaceutical Co., Ltd., a Pharmaceutical and Hair Care Cosmetics Manufacturer, Becomes a Subsidiary Through the Acquisition of All Shares
March 1996	Capital Participation in Elokimica Dyestuffs & Chemicals Ltd. (Brazil) The company was launched as a joint venture
November 1996	Rhone-Poulenc Nicca Co., Ltd. Established (In April 1998, the company name was changed to Rhodia & Nicca Co., Ltd.; in January 2014, the company name was changed to Solvay NICCA Co., Ltd.)
July 2002	Cosme Labs, Inc. is established in Fukui City, Fukui Prefecture
August 2002	Established NICCA CHEMICAL Technology Consulting (Shanghai) Co. (In May 2009, the company name was changed to NICCA CHEMICAL Research and Development (Shanghai) Co.)
September 2002	Established a Joint Venture Company, ZHEJIANG NICCA CHEMICAL CO., LTD (In May 2017, the company name was changed to NICCA CHEMICAL (CHINA) CO., LTD.)
February 2003	DEMI HAIRCARE SYSTEMS,INC. Established (USA)
	Merged with Nicca Enterprise
	Sold All Shares of Elokimica Dye Chemicals Ltd (Brazil)
August 2003	UJT NICCA CHEMICALS CO., LTD Dissolved

May 2004	Dissolved SunFiber Corporation
June 2004	NICCA VIETNAM CO., LTD. is Established as a Joint Venture
August 2005	DEMI HAIRCARE SYSTEMS,INC. Dissolved
June 2006	Dissolved Hangzhou NICCA CHEMICAL
February 2007	Transfer of NICCA Group Agri-Business
February 2010	Established Eral Co., Ltd. in Minato-Ku, Tokyo
November 2010	Kashima factory is opened in Kamisu City, Ibaraki Prefecture
March 2011	Established DEMI (BEIJING) INTERNATIONAL TRADING CO., LTD
August 2012	Established DEMI KOREA CO., LTD
June 2015	Acquired additional shares of affiliated company Emori Engineering Co., Ltd.
	Acquired all shares of petrochemical products manufacturer Ohtomo-chemical ins., corp
December 2015	Listed on the Second Section of the Tokyo Stock Exchange (TSE)
December 2016	Listed on the First Sections of the Tokyo Stock Exchange (TSE) & Nagoya Stock Exchange (NSE)
November 2017	NICCA INNOVATION CENTER opened in Fukui City, Fukui Prefecture
May 2019	Rera Cosmetic Co., a hair care cosmetics manufacturer, becomes a subsidiary by acquiring all shares
September 2020	NICCA INDIA PRIVATE LIMITED Established
April 2022	Revision of the market classifications of the Tokyo Stock Exchange (TSE) and the Nagoya Stock Exchange (NSE), the Company moved from the First Section to the Prime Market of the TSE and from the First Section to the Premier Market of the NSE, respectively
October 2023	NICCA BANGLADESH CO., LTD Established
October 2023	Moved from the Prime Market to the Standard Market of the Tokyo Stock Exchange (TSE)

Source: Company data, compiled by Strategy Advisors

3. CEO Profile

Mr. Yasumasa Emori is the Second Son of Mr. Mikio Emori

His second son, Mr. Yasumasa Emori (1962-Now), succeeded Mr. Mikio Emori as president in 2001. The following is a profile of Mr. Yasumasa and a review of NICCA CHEMICAL since 1990.

An Athlete in College, Favorite Subjects Were Math's & Science

Mr. Yasumasa Emori was born in Fukui, Japan, the second son of Mr. Mikio Emori (née Nakao) and Ms. Sueko Emori. Mr. Yasumasa was an active sportsman, playing on the baseball team in junior high school and the handball team in high school. His father, Mr. Mikio, was often away from the family due to his busy work schedule, but he grew up with his grandfather, Mr. Kiyoki, who took him to the 1970 World Exposition in Osaka, and he has many happy memories of the event. He was also told by his grandfather, Mr. Kiyoki, that he should take over NICCA CHEMICAL because he was good at science and mathematics.

Majored in Chemistry at University & Joined Mitsubishi Chemical Upon Graduating in 1985

After graduating from high school, Mr. Yasumasa moved to Tokyo and entered the Faculty of Science and Technology at Keio University, where he majored in chemistry in his junior year. There, he belonged to a laboratory where he studied surfactants and oleo chemistry. After graduating in 1985, he joined Mitsubishi Kasei (now Mitsubishi Chemical Corporation; TSE Prime 4188).

Although a graduate of the Faculty of Science and Technology, he decided that sales was the place where he could best demonstrate his abilities. He then worked as a sales representative in charge of engineering plastics.

Responded to Customer Needs at Production Sites as a Sales Representative Involved in Engineering Plastics

Mitsubishi Kasei had many businesses that sold general-purpose petrochemical products in large volumes, but engineering plastics was a cutting-edge field at the time because it involved proposing materials that met customer needs. At the customer's manufacturing site, plastic products were mass-produced by molding process, and there were various customer requirements such as productivity (e.g., tact time during molding), good mold release and reduction of residual stress after molding.

The sales style of responding to such on-site demands was similar to the business model of surfactants for the textile industry at NICCA CHEMICAL, and it was a good experience for Mr. Yasumasa. In 1985-86, just after joining the company, the music industry was shifting from vinyl records to CD's as the medium for supplying music, and the amount of polycarbonate used in CD production exploded. Amidst this booming demand for engineering plastic, Mr. Yasumasa himself recalls that he enjoyed the early years of his working life in Tokyo.

Entered NICCA CHEMICAL in 1989

In 1989, he returned to Fukui and joined NICCA CHEMICAL. At the time, NICCA CHEMICAL was preparing to list on the Nagoya Stock Exchange and needed to consider succession of the company in conjunction with the listing, so his father, Mr. Mikio, requested him to return home. After joining the company, he actively promoted the streamlining of business operations, making use of his experience working in Tokyo.

US Project Did Not Go Smoothly, But Valuable Lessons Learnt

In 1990, the factory was completed at NICCA USA, and in 1995, Mr. Yasumasa was given a new project. However, as a result of his efforts to expand the scale of production, including the introduction of large equipment that had never been used in Japan before, production did not start up successfully and he was forced to withdraw from the project. This was a major lesson for Mr. Yasumasa that he should take the "small is good, grow is large" approach that NICCA CHEMICAL had always followed when establishing overseas production bases, i.e., to start with a minimum amount of equipment and gradually increase production volumes.

Appointed President in 2001. Worked Hard to Keep the Chemical Business Growing Steadily & Build Up the Cosmetics Brand

Mr. Yasumasa assumed the position of President in 2001. In addition to achieving stable earnings growth by increasing overseas sales of "Chemicals", he has also firmly established the 'DEMI' brand for professionals (beauty salons) in "Cosmetics", which he started in 1981.

Currently, the company is pursuing the five measures set forth in its medium-term business plan: (1) major transformation of business structure, (2) well-balanced investment, (3) productivity reform, (4) promotion of sustainable management and (5) evolution of the extended family policy. Particularly in (1), the Company will focus on concentrating its business on EHD (E: Environment / H: Health / D: Digital (Advanced

Materials)) products in the Chemicals segment and expanding production capacity in the Cosmetics segment.

Figure 7. List of NICCA CHEMICAL CEO's

#	Name	Years as CEO	Company Start Date
1	Kiyoki Emori	1941-1951	—
2	Yoshitaka Kubo	1951-1957	1951
3	Kiyoki Emori	1957-1977	—
4	Mikio Emori	1977-2001	1948
5	Yasumasa Emori	2001－Current	1989

Source: Company data, compiled by Strategy Advisors.

4. Corporate DNA and Difficulty of Imitation

1) Positioning Theory

Adopted Both Concentration & Differentiation Strategies

Michael E. Porter's basic competitive strategies consist of 3 elements: (1) cost leadership strategy, (2) differentiation strategy and (3) focus strategy. Of these, NICCA CHEMICAL has adopted (3) focus strategy and (2) differentiation strategy. Since its founding, the company has focused on supplying surfactants to the entire textile industry (3). Additionally, backed by a strong technical spirit, the company has actively pursued research and development, and has expanded its technical expertise and know-how gained from resolving various challenges at production sites across the textile industry supply chain to other industries such as laundry, medical, and cosmetics. This enables the company to supply differentiated, competitive products in niche markets that are out of reach for major chemical manufacturers (2).

Competitors include Huntsman, Meisei Chemical Industry, Milbon and COTA

Major Japanese comprehensive chemical manufacturers include Mitsubishi Chemical Group (4188: TSE Prime), ASAHI KASEI (3407: TSE Prime), Mitsui Chemicals (4183: TSE Prime), TOSOH (4042: TSE Prime) and SUMITOMO CHEMICAL (4005: TSE Prime). In the surfactants for the textile industry, competitors include Germany's RUDOLF (unlisted), the US's Huntsman (HUN: NYSE), China's Zhan Yu Technology Group (002637: Shenzhen SE), China's Zhejiang Huangma Technology (603181: Shanghai SE) and Meisei Chemical Industry (unlisted). In the professional cosmetics sector, competitors include France's L'Oreal (OR: Euronext Paris), Milbon (4919: TSE Prime), Napla, Takara Belmont, Arimino (all three unlisted), COTA (4923: TSE Prime) and Hoyu (unlisted).

High Market Share in Niche Segments

NICCA CHEMICAL holds a 7–8% global share in surfactants for the textile industry (Strategy Advisors Estimate) and a 30–40% domestic share in laundry agents (Strategy Advisors Estimate) In the professional cosmetics

market, it holds approximately a 5% domestic share (Strategy Advisors Estimate) and is part of a broader second-tier group of multiple companies (over 10) following the market leader Milbon.

2) Corporate DNA

Founder Mr. Kiyoki Emori Was a Compassionate Individual Who Cared Deeply for His Employees and Loved the Fukui Textile Industry

Mr. Kiyoki Emori, the founder of NICCA CHEMICAL, graduated from Osaka Pharmaceutical College and began manufacturing chemicals to contribute to the local textile industry in Fukui. However, during the early years of the company, it faced numerous hardships, including air raids during the war, the Fukui Earthquake, floods, and the oil price crash following the post-war economic boom. Amid these challenges, Mr. Emori steadfastly upheld the belief of "Creating Value by Providing Technology". He consistently adhered to the principle of "family policy business", supplying surfactants to the entire domestic textile industry supply chain while building the company's foundation. Mr. Kiyoki Emori was widely respected as a man of integrity, known for his compassion toward his employees and his deep love for the Fukui region's industries.

Mr. Mikio Emori Has Been Actively Involved in Expanding the Applications of Surfactants and Launching Cosmetics.

As the successor to Mr. Kiyoki Emori, Mr. Mikio Emori built upon the strong business foundation and positive corporate culture established by the founder, fully leveraging his vitality. He focused on expanding the application of surfactants for the textile industry into other fields and establishing overseas business infrastructure in response to the shift of the textile industry to Asia. In particular, his achievements in entering the cosmetics field and developing it into a core business are significant. In his early years, Mr. Mikio worked tirelessly as a salesman to develop new markets, and later, as a manager, he actively established joint ventures overseas. However, he faithfully adhered to the words of his father-in-law, the founder, Mr. Mikio Emori, "Creating Value by Providing Technology" and even when expanding overseas, he practiced "family policy business" at local joint ventures.

Corporate DNA: "A Commitment to Solving Various Challenges Faced by Customers in the Textile Industry Supply Chain Using Surfactant Technology"

The corporate DNA that was formed as the business was passed down from the founder, Mr. Kiyoki Emori to his successor, Mr. Mikio Emori, is "the commitment to solving various challenges faced by customers in the textile industry supply chain using surfactant technology" Strategy Advisors believes. Advancing business based on corporate DNA is essential for corporate growth and this is likely to apply to NICCA CHEMICAL as well.

The environment surrounding the company, which specializes in surfactants, is likely to undergo significant changes in the future, with the potential for new high-value-added demand from customers. For example, in various industries including textiles, in addition to traditional challenges such as improving quality, increasing productivity, and reducing costs, a new challenge of "reducing environmental impact" has emerged.

Furthermore, as the company seeks to expand its cosmetics business overseas, which is currently centered in Japan, there may be cases where

new specifications are required due to differences in hair quality. In such cases, maintaining a stance of solving issues through "technology" backed by advanced research and development based on the company's DNA will be a key condition for successfully developing products that meet the new needs of customers.

3) Difficulty of Imitation

Focus on Difficulty of Imitation

The Resource-Based View proposed by Jay B. Barney and others is a concept that focuses on a company's management resources and capabilities. The VRIO framework concretely illustrates this concept, which involves examining Value (economic value), Rarity (scarcity), Inimitability (difficulty of imitation) and Organization (organizational structure). Strategy Advisors places particular emphasis on the "Difficulty of imitation" aspect of this framework.

"As a Surfactant Manufacturer, NICCA Has Built up a Rich Product Lineup and New Product Development Capabilities Based on Technical Expertise & Know-How Accumulated Over Many Years by Prioritizing On-Site Operations"

Strategy Advisors believes that NICCA CHEMICAL's "Difficulty of imitation" stems from its "rich product lineup and new product development capabilities based on the technical expertise and know-how accumulated over many years by prioritizing on-site operations as a surfactant manufacturer". Here, "on-site operations" refers to various manufacturing processes in industries such as the textile industry, as well as laundry factories and beauty salons.

Major chemical manufacturers that primarily sell petrochemical products operate under a business model that involves supplying generic chemical products in large quantities to customers. However, among chemical products, surfactant manufacturers operate under a business model that involves supplying a wide variety of customized chemical products tailored to the specific needs of customers across various industries, taking into account factors such as materials, surrounding environments, machinery, and equipment. With this premise in mind, we will provide additional explanation regarding NICCA CHEMICAL's difficulty of imitation.

Accumulating Technology & Know-How by Supporting the Textile Industry in Fukui

There are many companies worldwide, particularly in Asia such as China, which produce surfactants for the textile industry. However, NICCA CHEMICAL began by contributing to the textile industry in Fukui and has since expanded its operations nationwide, supplying chemicals tailored to the needs of its customers. As a result, the company possesses a competitive advantage in both advanced research and development (seeds) and technical capabilities that contribute to solving challenges on the production floor (needs). The diverse technical expertise and know-how accumulated over a long history in the textile industry are evident in the fact that the company currently holds approximately 2,000 varieties of textile processing chemicals. Furthermore, efforts to apply this technical expertise and know-how to other industrial fields are limited among competitors. In other words, the company possesses product development capabilities for technology transfer that are difficult to imitate.

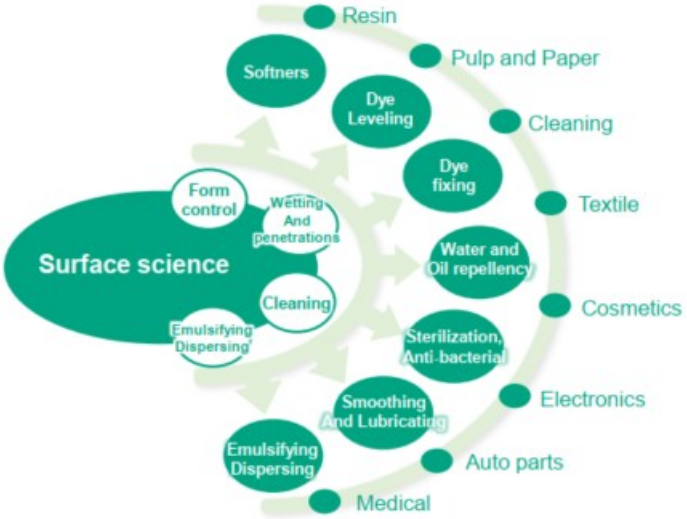
Cosmetics Leverage the Technical Expertise & Know-How from the Textile Industry to Differentiate Product Quality in Hair Care

In the hair care cosmetics sector, many major manufacturers also operate B2C businesses. NICCA CHEMICAL specializes in products for professionals (hair salons) who prioritize quality. By applying the technical expertise and know-how cultivated over many years in the textile industry—such as refining, dyeing and finishing—to hair care, the company has successfully differentiated itself through quality. Currently, the company possesses over 3,000 recipes, enabling it to provide highly customized solutions tailored to customer requirements and hair quality. This product development capability is characterized by a high level of difficulty in imitation.

A Tradition of Technology-Focused & Family Policy Business Practices

The difficulty of imitation that has been established is rooted in the company's DNA, which emphasizes a commitment to solving customers' challenges through technology. Additionally, the tradition of leveraging the expertise gained by employees through "family policy business" to collaborate on new technological developments remains strong.

Figure 8. Surfactants and Related Markets



Source: Company data.

4) Equity Story

"Major Transformation of Business Structure & Fundamental Overhaul of Financial & Capital Policies"

"We believe that an equity story is made up of a 'realizable and precise business strategy' and an 'exciting dream".

Additionally, an equity story must leverage the "difficulty of imitation" cultivated based on the company's DNA to the fullest extent. Currently, NICCA CHEMICAL is executing two major challenges and it is expected that both a) and b) will be fulfilled simultaneously. We define NICCA CHEMICAL's equity story as "Major Transformation of Business Structure and Fundamental Overhaul of Financial and Capital Policies".

Chemicals Aim to Increase the Ratio of EHD Products

First, we will explain the "Major Transformation of Business Structure". In the chemicals business, we will focus on EHD products and aim to transition to high-value-added businesses with growth potential. EHD products refer to products for Environment, Health and Digital (advanced materials) as defined by NICCA CHEMICAL. In particular, demand is growing for high-value-added products such as PFC-free durable water repellents, environmentally friendly process chemicals and water-based polyurethane resins in the Environment segment. NICCA CHEMICAL, which possesses high technical potential in new fields, is poised to benefit from favorable market conditions. The company aims to increase the ratio of EHD products in chemical sales from 44% in FY12/2024 to 75% in FY12/2030. If the company can introduce high-value-added EHD products and secure a high market share in niche markets where demand is expected to grow rapidly, its recognition as a broad specialty chemical-related stock is likely to expand.

Cosmetics: Expanding Production Capacity to Address Bottlenecks

In cosmetics (hair care products, colorants, etc.), the company aims to increase its current low market share in the domestic market, which is its main market, by expanding production capacity. It also plans to further develop overseas markets to expand its business. Since the company has already differentiated its products for professional (hair salon) use, it is expected that aggressive sales promotion activities will become possible once bottlenecks are resolved through capacity expansion, leading to higher growth.

Target Roe of 10% or Higher Whilst Strengthening Shareholder Return Policies

Second, the company is fundamentally transforming its "Financial and Capital Policies". NICCA CHEMICAL's stock valuation is low in terms of both PER and PBR. The basic policy for improving the low PBR includes (1) reforming the profitability of its businesses (as mentioned above), (2) reviewing its financial and capital policies and (3) strengthening SR/IR. In terms of financial and capital strategy, the company is targeting a ROE of 10% or higher. The company will prioritize WACC (currently 6%, according to the company's estimate) and aim to improve ROIC by leveraging financial leverage. Shareholder return policies are also undergoing significant changes. The dividend per share has increased from ¥10 in FY12/2020 to ¥52 in FY12/2024. The company expects to raise the dividend to ¥60 (dividend payout ratio of 37%) in FY12/2025.

The Currently Low Valuation May Be Revised Upward

NICCA CHEMICAL is a chemical manufacturer listed on the TSE Standard Market, headquartered in Fukui Prefecture, and is not widely known to the general public. However, the company has strong fundamentals and has shifted its capital policy to prioritize shareholder value. As this equity story gradually gains recognition in the stock market, it is expected that the currently undervalued valuation will be revised upward. Going forward, the company's profits are expected to grow steadily, making it possible for the PBR to rise above 1x and the PER to exceed 10x. If the company focuses more on investor relations, both EPS (Earnings Per Share) and valuation

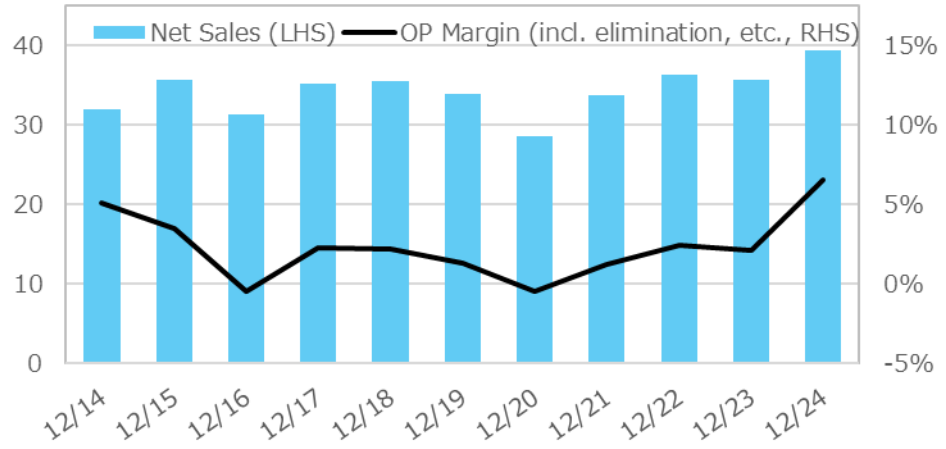
could increase, offering significant upside potential for the current stock price in the medium to long term.

5) Future Challenges

Chemicals: Securing a High Market Share in Newly Emerging Niche Markets is Key

In the chemicals segment, the company needs to develop high-value-added EHD products using its proprietary technology. The target is for EHD products to account for 75% of the ¥45 billion in sales forecast for FY12/2030, which is equivalent to ¥33.7 billion in sales. This is 1.6 times the sales forecast of ¥21 billion for FY12/2025 (CAGR +10%) and it will be necessary to maintain high growth. The key to achieving this goal will be to capture a high share of newly emerging niche markets. In addition, appropriate pricing is expected to increase gross profit margins for high-value-added products that contribute to solving social issues for customers. Furthermore, we aim to further improve operating profit margins by leveraging the technology and know-how accumulated to date to curb increases in selling, general and administrative expenses.

Figure 9. Earnings Trends of Chemicals Segment
(After Allocating Eliminations to Each Segment, ¥bn)



Source: Company data, compiled by Strategy Advisors

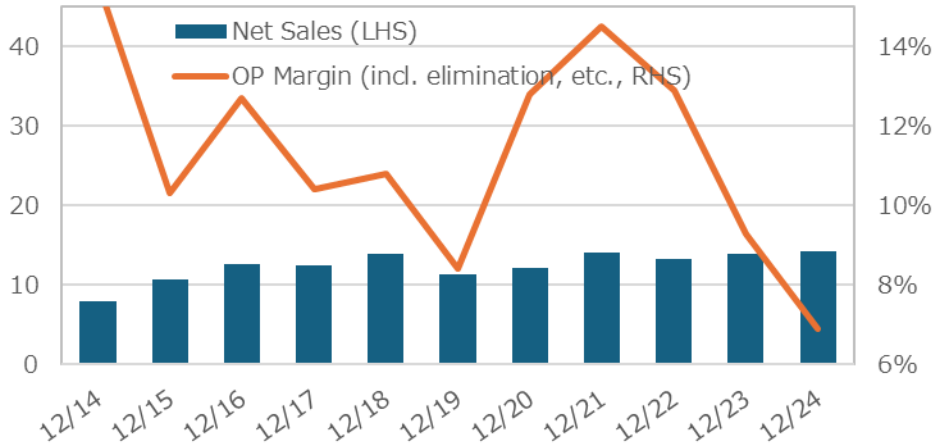
Cosmetics: Aiming to Improve the Currently Low Market Share Through the Impact of a New Factory Scheduled for Completion in 2027

The cosmetics business currently focuses on domestic beauty salons. With the population decline in Japan showing no signs of slowing down, the business environment is challenging, as it is difficult to expect an increase in the number of customers. On the other hand, there are positive factors such as continued growth in demand for hair color and increasing awareness of hair care. Furthermore, the company's domestic market share is currently around 5%, which is relatively low. By expanding production capacity, there is a high possibility of catching up with the market leader, Milbon, which holds approximately 20% of the market share and expanding the business. It will be important to leverage the production capacity of the new factory scheduled for completion in 2027 and the superior quality achieved by applying the company's expertise in surfactants developed in the textile industry to hair care products to

increase the domestic market share. Additionally, continued expansion into overseas markets (South Korea, ASEAN) will be necessary.

Currently, operating profit margin is declining, mainly due to an increase in selling, general and administrative expenses. The company is increasing its sales force in advance to lay the groundwork for expanding its market share ahead of the new factory's start of operations in 2027. Operating profit is expected to decline YoY in FY12/2027 due to an increase in depreciation and amortization expenses associated with the new factory's start of operations, but it is expected to return to growth in FY12/2028 and beyond.

Figure 10. Earnings Trends for Cosmetics Segment
(After Allocating Eliminations to Each Segment, ¥bn)



Source: Company data, compiled by Strategy Advisors

5. "Surface Science" for a Wide Range of Applications

What Are Surfactants?

The surfactants developed by NICCA CHEMICAL are chemical substances that function at the "interface" where substances with different properties, such as solids and liquids, or liquids and gases, come into contact with each other, enhancing the performance of the interface. These substances can be used to mix substances that are incompatible with each other, such as liquids and solids, or liquids and gases, including liquids and liquids (e.g., water and oil).

For Example, They Can Create a State Where Water and Oil Are Mixed Together

As a concrete example, consider water and oil. Surfactants are structured so that a single molecule (chemical structure) contains both a hydrophilic (water-soluble) part and a hydrophobic (water-insoluble) part. When water and oil are mixed, they initially separate from each other. When a surfactant is added, it gathers at the interface between water and oil and arranges itself. The arrangement is such that the hydrophobic parts face the oil and the hydrophilic parts face the water. Thus, surfactants naturally arrange themselves in a regular pattern at the interface between water and oil, stabilizing the system. From the outside, it appears as though the water and oil have mixed together and this is called emulsification.

In Addition to "Emulsification", Surfactants Have Various Other Functions

Surfactants have the following functions:

A) Emulsification/Dispersion: Emulsification is the process of mixing two liquids that do not normally mix, such as water and oil, to create a uniform mixture. Dispersion is the process of breaking down particles or substances that are originally solid (aggregated) into smaller particles and dispersing them uniformly in a liquid.

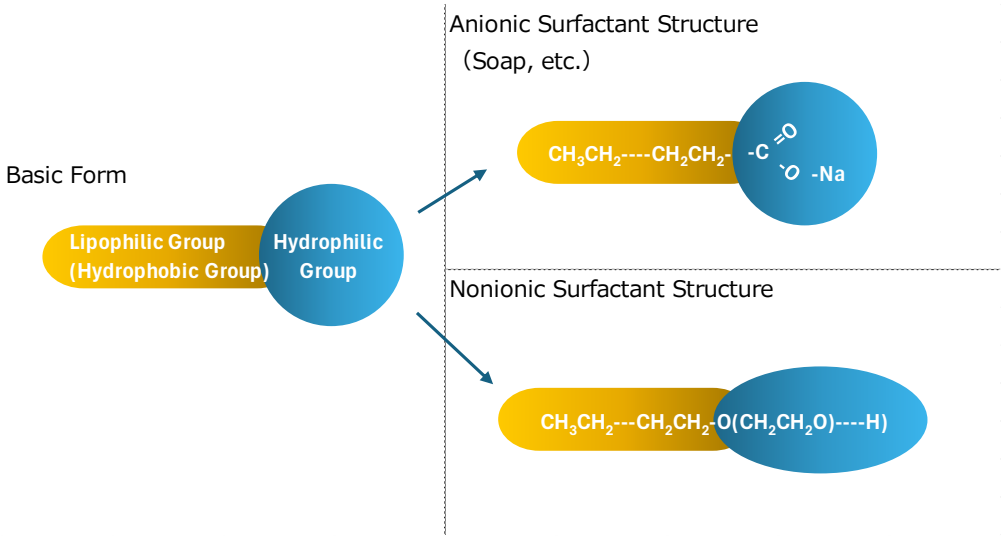
B) Cleaning: Surfactants utilize their ability to dissolve in both water and oil to encapsulate dirt (such as oil) and disperse it in water, making it easier to rinse away.

C) Wetting/penetration: This involves reducing the surface tension of water to make it easier for a liquid to spread over solid surfaces or into the gaps between textiles, and to penetrate into the interior.

D) Foaming/Defoaming: Foaming facilitates the formation and stabilization of bubbles, while defoaming breaks down and eliminates bubbles.

E) Others (flexibility, antistatic properties, rust prevention, uniform dyeing, dye fixation, sterilization, etc.)

Figure 11. Structure of Surfactants



Source: Various Materials, compiled by Strategy Advisors

1) Core Technology Developed in the Textile Industry

Positioning Ourselves as a "Surface Science" Manufacturer

When explaining its surfactant business, NICCA CHEMICAL refers to itself as a "surface science" manufacturer. The company defines "surface science" as a technology that controls the interfaces and surfaces of various materials through a dual approach combining science and chemistry.

Surfactants Are Widely Used Beyond the Textile Industry

The company's core technology has been developed over more than 80 years in various industries, starting with the textile industry. The textile industry is connected to various industries such as apparel and interior design. Well-known materials for clothing include wool, silk, cotton, hemp, and various synthetic fibers. In the manufacturing process, surfactants are used in many stages, including spinning and weaving, fabric washing and finishing, dyeing, and finishing. Surfactants are also used in finishing agents to impart properties such as stiffness, flexibility, static prevention, pill prevention and water repellency to textiles. The technology of surfactants is widely applied not only in textiles but also in paper manufacturing, laundry, medical and health, other special applications, cosmetics and more.

2) Demand for Chemicals Is Expanding Beyond Textiles

Paper Industry

In the paper industry, surfactants are used to impart flexibility to cellulose, a raw material, for cleaning and to enhance ink adhesion during printing processes. They are also used in deinking processes to remove ink from recycled paper.

Laundry Industry

In the laundry industry, surfactants are used as detergents in dry cleaning, wet cleaning, coin-operated laundries and facilities such as hospitals and hotels. The company specializes in business-use products. In business-use applications, there are various requirements beyond cleaning power, including deodorization, antibacterial properties, foam control, flexibility, and

static prevention. NICCA CHEMICAL has strengths in advanced research and development capabilities as well as problem-solving skills in actual field applications.

Other

In other sectors, there is demand for cleaning and disinfection in the medical device industry and for flame-retardant and durable properties in car seats in the automotive industry, where surfactants also play a significant role.

3) Applying Technology Developed for Cosmetics to Hair

Specializing in B2B Business for Beauty Salons

In the cosmetics industry, there are numerous major manufacturers that also engage in B2C businesses. Among them, NICCA CHEMICAL specializes in B2B business for professional hair care products (for beauty salons) that prioritize quality. By leveraging the technical expertise and know-how accumulated in the textile industry through processes such as refining, dyeing, and finishing, the company has successfully differentiated itself through quality. This is made possible by its ability to provide customized solutions tailored to customer requirements and hair quality, driven by its strong new product development capabilities. Additionally, the company's scientific analysis and research, which incorporates feedback from professional hairdressers, has enabled it to develop over 3,000 unique formulas. Domestically, the company is expanding sales of its own brands, "DEMI" and "Eral," to beauty salons. It also offers ODM products utilizing its own recipes. The company's cosmetics are classified into hair care products (including scalp care), perm agents, color agents, styling agents and others, with hair care products accounting for a high percentage of sales. However, color agents have slightly higher profitability.

Hair Care Products & Styling Products Are Classified as Cosmetics. While Colorants and Perm Agents Are Classified as Quasi-Drugs

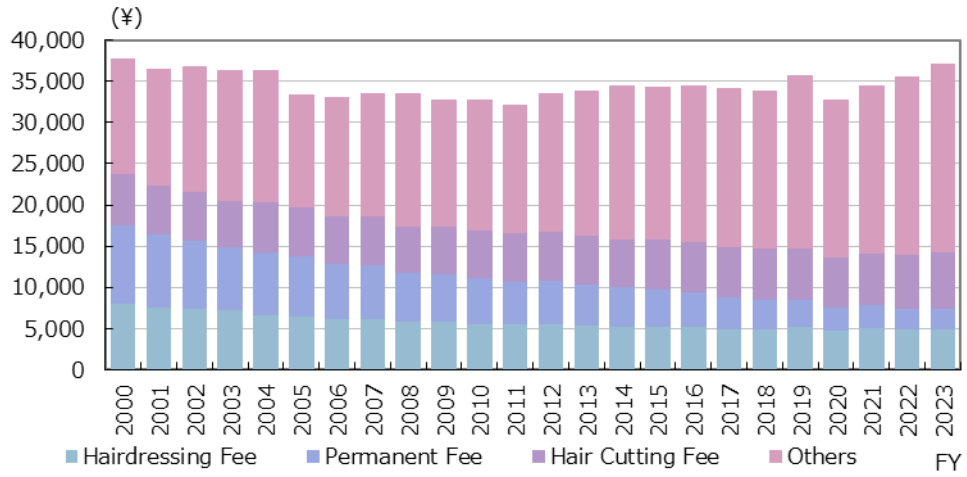
Hair care products (shampoos, conditioners) and styling products (sprays, waxes, mousses) primarily act on the surface of the hair and are classified as cosmetics. On the other hand, hair colorants and perming agents are classified as "quasi-drugs," with hair colorants having high added value. "Quasi-drugs" are products with intermediate properties between "drugs" and "cosmetics," containing active ingredients recognized by the Ministry of Health, Labor and Welfare within specified limits and exerting mild effects on the human body. Colorants, which introduce dyes into the hair, and perm agents which alter the hair itself, are classified as "quasi-drugs" and are manufactured by NICCA CHEMICAL. On the other hand, the production of hair care products and styling agents is carried out by NICCA CHEMICAL and its subsidiary, Yamada Pharmaceutical, with some outsourcing.

Under Its Own Brand, DEMI Cosmetics, the Company Offers a Wide Range of Product Lines

NICCA CHEMICAL's DEMI Cosmetics brand includes a variety of product lines (sub-brands). For hair care agents, there is FLOWDIA; for perm agents, FLOWDIA MORE and uevo; for color agents, TOIROCTION; and for styling agents, and uevo design cube, among others. Additionally, the company established Eral, a premium brand above DEMI, in 2010. In terms of research and development, the company established the DEMI Hair Science Research Center in 1984 to capture evolving customer needs and regularly

refresh its product lineup. The following data is provided as a reference for domestic demand trends.

Figure 12. Household Expenditure on Beauty and Hair Care Services (Households with Two or More People)



Source: Speeda, Strategy Advisors

4) Production and R&D sites

Chemicals Are Produced at Domestic & Overseas Sites

The production facilities for chemicals are located domestically at the Sabae Factory, Kashima Factory and Ohtomo-Chemical (a subsidiary). Overseas facilities are located in China (Zhejiang Province, Guangdong Province), South Korea, Taiwan, Vietnam, Thailand, Indonesia, and the United States. The domestic production ratio accounts for approximately 30–40% of total production (excluding Ohtomo-Chemical, estimated by Strategy Advisors).

Sabae Factory Serves as the Mother Plant

The Sabae Factory, which began operations in 1986, produces a wide range of surfactants using a batch production method and is positioned as the group's mother plant. The Technical Department is stationed there and possesses advanced know-how. On the other hand, the Kashima Factory primarily produces intermediate products and other basic raw materials for surfactants. Ohtomo-Chemical manufactures coolant agents for silicon wafer processing used in semiconductor substrates and operates a factory in Yamabu City, Chiba Prefecture.

Overseas, the company primarily produces products for local demand, with production capacity ranked in order of scale as follows: China, South Korea, Taiwan, and Indonesia (Taiwan and Indonesia are equivalent).

Cosmetics Are Produced at the Headquarters & Yamada Pharmaceutical

The production facilities for cosmetics (hair care products) are located at the headquarters factory and Yamada Pharmaceutical (factory in Kasumigaura, Ibaraki Prefecture). Due to insufficient production capacity, the company also utilizes outsourced production. Additionally, Eral handles the sale of hair care products through beauty salon channels. Technical training for beauty salons is conducted jointly by DEMI and Eral.

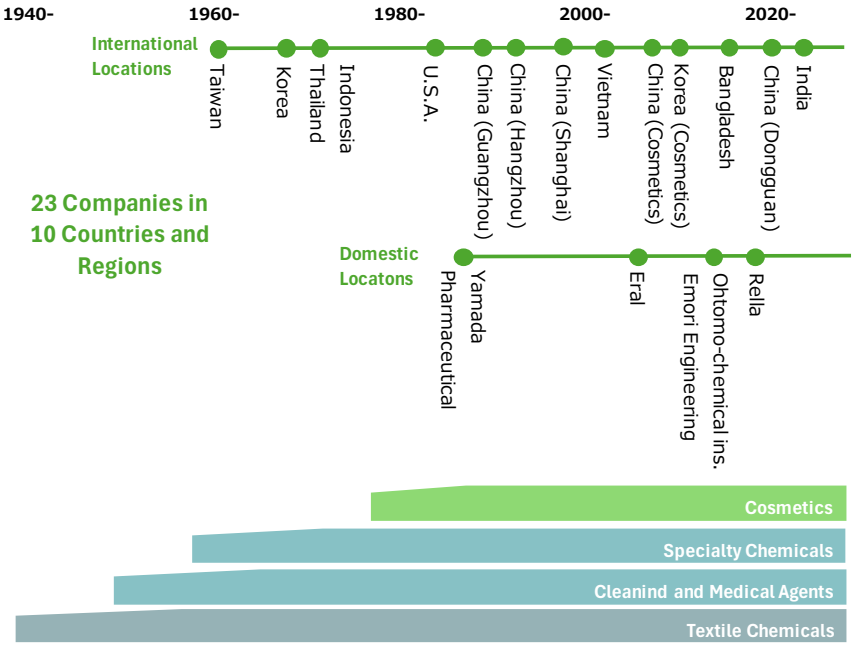
Batch Production in Small-Scale Pots Enables the Production of Multiple Product Varieties

The production process is largely common for both chemicals and cosmetics. Small-scale pots (mixing tanks with stirrers) are used for batch production of various surfactants, which are then filled into containers, drums, one-gallon cans or other packaging for shipment. Here, the know-how for each product's recipe (raw materials, mixing conditions, time, etc.) is concentrated at the manufacturing site. The number of reactors is large and their sizes vary. To accommodate multiple product types, for example, focusing on a single reactor, the cycle proceeds as "Product A production" → "Cleaning" → "Product B production" and so-on. This system enables quick switching of production items within a short period. Additionally, the company procures naphtha as a raw material, but its ratio in production costs is not particularly high.

Research & Development is Centralized at NIC

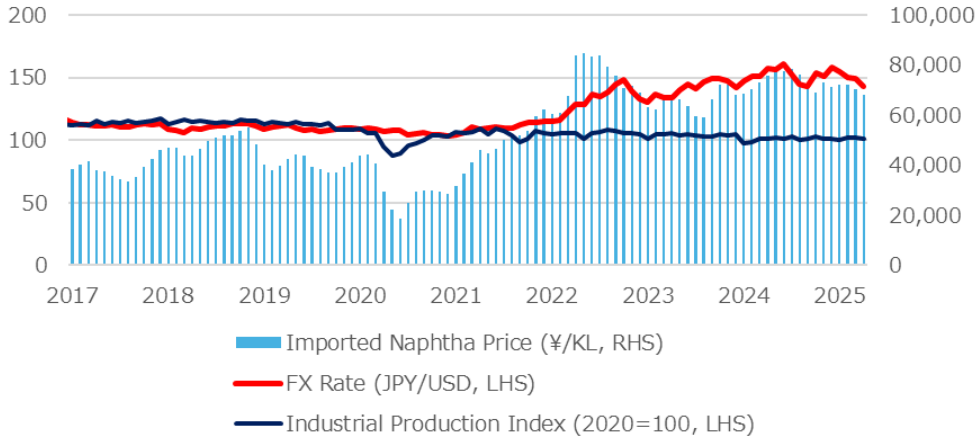
The research and development hub is centered around the NIC (NICCA Innovation Center), established on the company's headquarters premises in 2017. The NIC is equipped with a surface science research laboratory for chemicals and a hair science research center for cosmetics. It was designed based on the fundamental philosophy of promoting innovation in an open space and attitude, both internally and externally, to create new value. The facility features spacious, well-lit open areas, designed with the concept of creating a "fun place to work". It is effectively utilized as a collaborative space by inviting external research institutions and customers. Additionally, the company's commitment to providing a workplace where young engineers can work with vitality and a sense of fulfillment is evident in this cutting-edge research facility.

Figure 13. NICCA CHEMICAL's Global Network



Source: Company data, compiled by Strategy Advisors

Figure 14. Naphtha Price Trends



Source: Speeda, Strategy Advisors

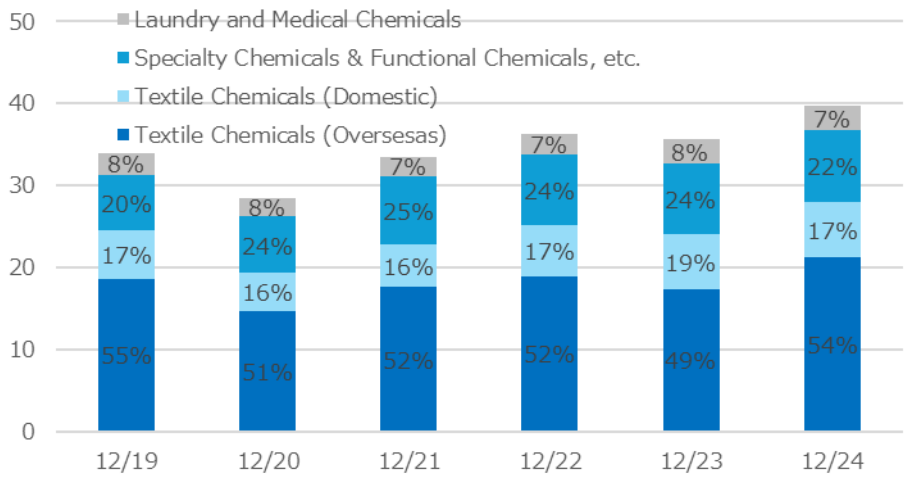
6. Earning Trends by Segment

1) Chemicals

Composed of 3 Businesses

The chemicals segment consists of 3 units, Textile Chemicals, Specialty Chemicals (Specialty and Functional Chemicals) and Laundry & Medical. The segment's share of total sales (FY2024) is 73% for the chemicals segment as a whole.

Figure 15. Earnings Trends in Chemicals by Segment Sales (¥bn): The composition ratio is within the segment.

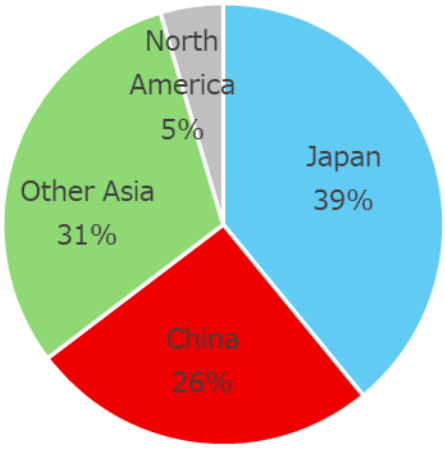


Source: Company data, compiled by Strategy Advisors

Textile Chemicals

Textile chemicals include intermediate process chemicals (such as scouring agents and dyeing auxiliaries) used in the actual textile production supply chain, finishing process chemicals (such as water-repellent, flame-retardant, and antibacterial agents) that add functionality to textile products, and chemicals for synthetic leather and artificial leather used in furniture (such as urethane-based coating agents). High-growth EHD products include agents related to smart dyeing processes (which achieve dyeing processes with reduced water usage) belonging to textile processing agents and PFC-free durable water repellents belonging to functional processing agents, among others, with future demand expansion expected. Additionally, the regional breakdown of textile chemical sales is 63% overseas and 37% domestic.

Figure 16. Sales of Chemicals by Region (FY12/2024)



Source: Company data, compiled by Strategy Advisors

Specialty Chemicals

Specialty chemicals include paper and pulp chemicals (deinking agents, softeners, developers, etc.), metal and rubber processing chemicals (cleaning agents, mold release agents, etc.), functional intermediates and monomers (alkylene oxide adducts, etc.), functional polymers (water-based polyurethane resins, fluorinated resins, etc.) and chemicals for semiconductor production processes (water-based coolants, etc.). High-growth EHD products include water-based polyurethane resins for automotive seats and water-based coolants for wafer processing developed by Ohtomo-Chemical, which are expected to see increased demand in the future. Note that the domestic sales ratio of specialty chemicals is higher than that of overseas sales.

Laundry & Medical

Laundry & Medical offers home and linen care chemicals (detergents, fabric softeners, etc.), medical device chemicals (detergents, disinfectants, etc.), and environmental hygiene chemicals (hand sanitizers, antibacterial and antiviral agents, etc.). EHD products include linen care chemicals, etc. Laundry & Medical primarily operates in the domestic market. While there was a temporary increase in demand due to the spread of the novel coronavirus, inbound demand decreased. In recent years, inbound demand has recovered, but in FY12/2024, the increase in linen detergents was limited due to factors such as a decline in domestic customers caused by rising hotel prices. Additionally, while the decline in the main laundry detergents has been offset by detergents for coin-operated laundries, the growth of these products has slowed.

Sales Trends

Segment sales reached ¥20 billion in FY3/1996 and remained at around ¥20 billion until FY12/2013. After surpassing ¥30 billion in FY12/2014, sales fluctuated between ¥31 billion and ¥36 billion for the following 10 years, excluding a temporary decline in FY12/2020 due to the COVID-19 pandemic. In FY12/2024, sales jumped 10.6% YoY to ¥394 billion, driven by an

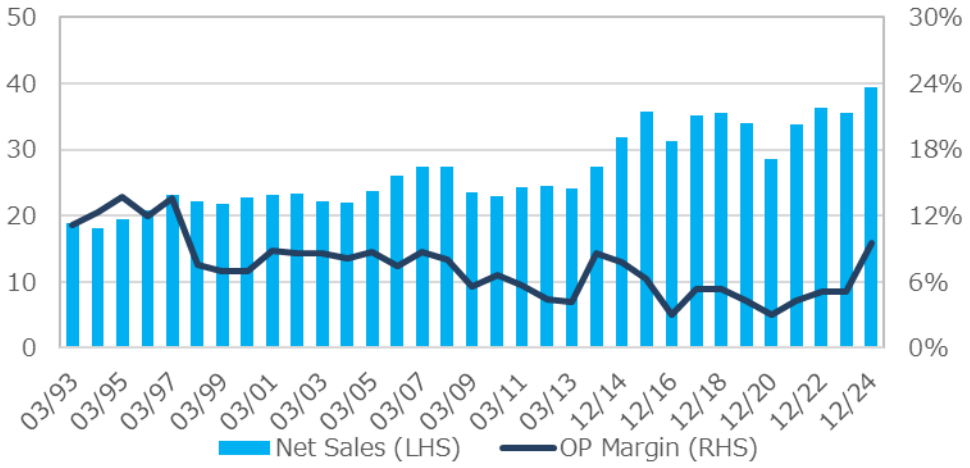
increase in the proportion of EHD products and price adjustments due to rising costs.

Operating Profit Trends

Segment operating margin exceeded 10% until FY3/1997. Since then, it has generally remained in the 7-10% range, with the exception of FY12/2013 and FY12/2014, when it fell to around 5%. From FY2016 onwards, the margin fluctuated within the 3–5% range, but in FY2024, it rose to 9.5% due to an increase in the proportion of EHD products.

Figure 17. Sales and Operating Profit Margin Trends for Chemicals

(¥bn, %)



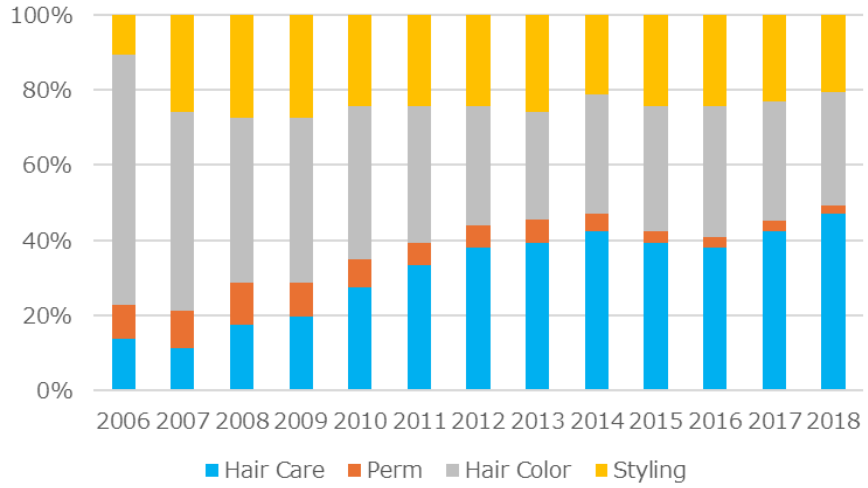
Source: Company data, compiled by Strategy Advisors

2) Cosmetics

Divided into 4 Product Groups

The cosmetics segment is divided into product groups including hair care products (including scalp care), perming agents, coloring agents and styling agents. It is worth noting that disclosure of sales composition ratios and other metrics has ceased since FY12/2019. Additionally, looking at the trend in household spending on beauty and hair care services in Japan (source: Ministry of Internal Affairs and Communications Household Expenditure Survey), spending remained flat from 2005 onwards but has been increasing since 2021. The driving force behind this is "other beauty and hair care expenses" (estimated to include service menus such as treatment menus) (Refer to Figure 12).

Figure 18. Composition Ratio of Cosmetics Sales by Product (Until FY12/2018)



Source: Company data, compiled by Strategy Advisors

Color and Perm: Classified as Quasi-Drugs

As mentioned in Chapter 5, colorants and perm agents are classified as "quasi-drugs" under general product categories, and colorants appear to be highly profitable. The company has traditionally had a strong presence in colorants, but the competitive environment has become more intense and the proportion of colorants in sales is expected to decline slightly.

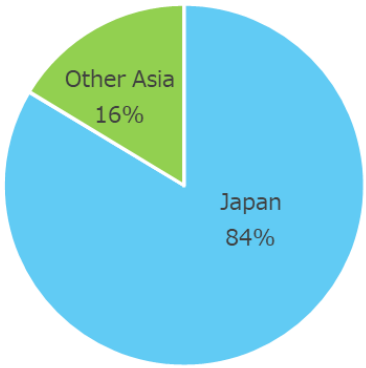
Hair Care and Styling: Classified as Cosmetics

On the other hand, hair care agents and styling agents, which are classified as "cosmetics," also have stable demand. The company adopted a strategy around 2007 to focus on products sold at retail stores. As a result, the proportion of hair care agents in sales is believed to be on an upward trend in recent years.

Regional Breakdown

The regional breakdown of sales is 84% domestic and 16% overseas (including South Korea), with domestic sales accounting for the majority. However, the overseas ratio has increased by 5% from 11% in FY12/2019, 5-years ago and is gradually emerging as a growth driver.

Figure 19. Sales for Cosmetics by Region (FY12/2024)



Source: Company data, compiled by Strategy Advisors

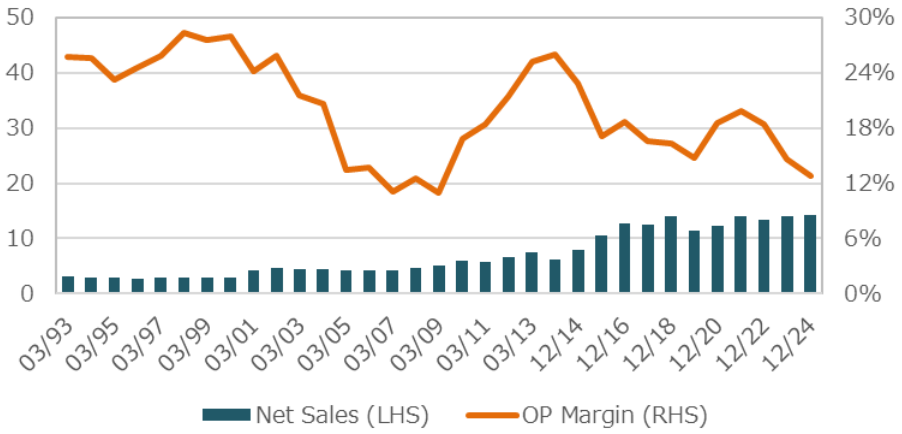
Sales Trends

Segment sales rose from around ¥3 billion in the 1990's to ¥4 billion in FY3/2001. Driven by the success of color products launched in 2000, color agents led the way, pushing total sales past ¥5 billion in FY3/2009. By focusing on the large-scale hair care agent market, sales exceeded ¥10 billion in FY12/2015 and continued to grow steadily thereafter. In FY12/2024, driven by strong performance in ODM and South Korea, sales reached a record high of ¥14.3 billion (a YoY increase of 2.1%).

Operating Profit Trends

Segment operating margin has historically been strong, exceeding 15% from the previous period through FY12/2022, driven by the high value-added color products. However, profit margins have been declining due to increased advertising and promotion expenses in FY12/2023, strategic increases in sales and marketing costs in FY12/2024 in anticipation of the start of operations at the new factory in 2027, increased sales-related expenses and also due to the impact of inventory fluctuations. The profit margin was 14.6% in FY12/2023 and 12.8% in FY12/2024.

Figure 20. Trends in Cosmetics Sales and Operating Profit Margin (¥bn, %)



Source: Company data, compiled by Strategy Advisors

7. Financial Strategy

Self-Analysis Identifies Low ROE as the Primary Cause of its Low PBR

NICCA CHEMICAL released "Actions to Realize Capital Cost and Stock Price-Conscious Management" on July 31, 2024. In the explanatory materials, the company stated that the main reason for the current low PBR is "the inability to stabilize and sufficiently improve ROE" and outlined its mid to long-term financial goals and measures to achieve them.

The Company's Vision for 2035

The company has outlined the following five key objectives for its mid-to-long-term (by 2035) vision:

・Net Sales of ¥75 billion / Operating profit margin of 10% or higher

・ROE: 10% or higher (a level that consistently exceeds the cost of equity capital (approximately 8%: company estimate))

・ROIC: 8% or higher (a level consistently exceeding the WACC (approximately 6%: company estimate))

・Dividend Policy: Progressive dividends + DOE of 3% or higher (aiming for 3% within 2-3 years, with ongoing consideration to further increase thereafter)

・PBR: 1.0x or higher (aiming for early achievement)

Efforts to improve the low PBR in stock prices are as follows:

(a) Improvement of business profitability

(b) Review of financial and capital policies (including strengthening SR & IR)

Item (a) overlaps with business strategies outlined in the medium-term plan, so further details will be provided in Chapter 8. The following section will focus on (b) review of financial and capital policies.

Enhancing FCF Generation Capacity

NICCA CHEMICAL will face significant depreciation expenses for a certain period following the commencement of operations at its new cosmetics factory in 2027. However, the company plans to stabilize and enhance its FCF (free cash flow) generation capacity by combining this with improvements in the profitability of its chemicals business.

Balance Sheet

Regarding the balance sheet, total assets are expected to increase due to business expansion, but the company plans to reduce inefficient assets. The equity ratio will be controlled while considering both operational soundness and ROE. For capital expenditures related to the new cosmetics factory, the company will utilize debt financing to leverage financial leverage and suppress WACC. As of the end of FY12/2024, the equity ratio has risen to 54.0% and the company aims to control it at around 50% going forward.

Capital Allocation

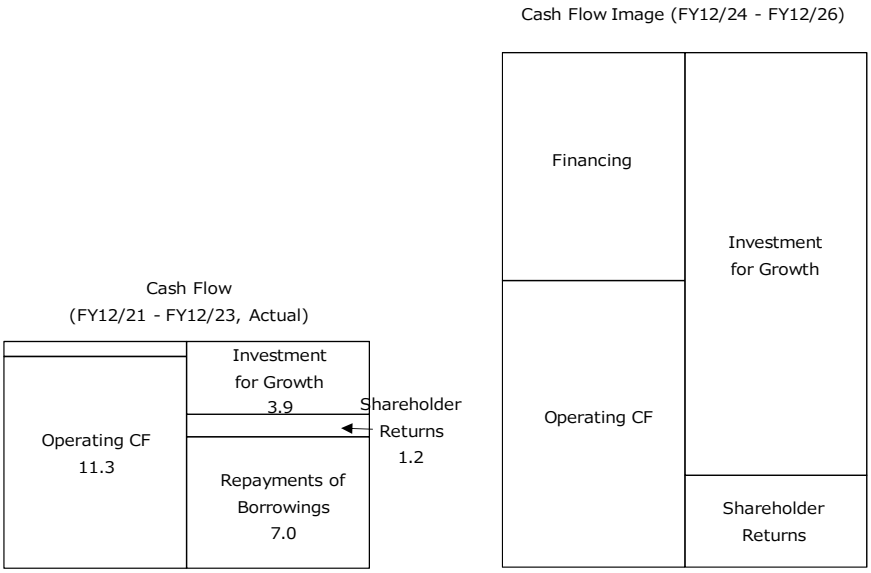
Regarding capital allocation, over the 3-year period from FY12/2024 to FY12/2026, cash outflows will more than double compared to the previous 3-years (FY12/2021 to FY12/2023) due to large-scale capital investments for growth. On the cash inflow side, the company plans to improve business

profitability to increase operating cash flow and secure funds through borrowing.

Shareholder Returns

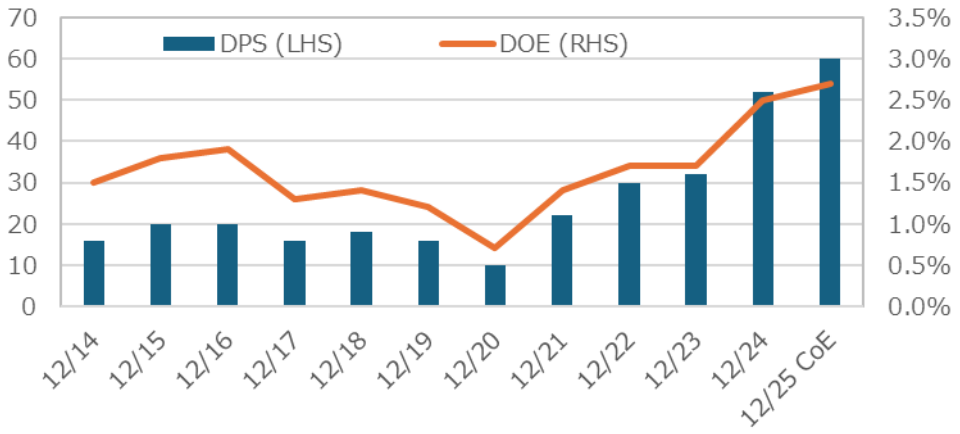
Regarding shareholder returns, the company previously adopted a basic policy of stable dividends with a target dividend payout ratio of 30%. However, this basic policy has been revised to a policy of stable dividends (+) with a target dividend payout ratio of 3% within 2 to 3 years. Additionally, the company has declared that it will continue to consider further increases in the dividend payout ratio. As a result, the risk of dividend cuts in the future has significantly diminished.

Figure 21. Capital Allocation (¥bn)



Source: Company data, compiled by Strategy Advisors

Figure 22. Trends in Dividends and DOE (¥)



Source: Company data, compiled by Strategy Advisors

8. Performance Trends and Outlook

1) Short-Term Performance Trends

FY12/2024 Results – Significant YoY Increase in Profit

FY12/2024 results (announced in February 2025) showed sales up 7.8% YoY to ¥54.1 billion and operating profit up 72.6% to ¥3.52 billion, marking a strong performance with significant profit growth (1 USD = ¥151.47). The 7.8% depreciation of the yen contributed a positive effect of ¥0.5 billion to operating profit. By segment, chemicals saw a 10.6% increase in sales and a 2.07x increase in operating profit, performing exceptionally well, while cosmetics saw a 2.1% increase in sales and a 10.9% decrease in operating profit, performing somewhat sluggishly. Overall, the decrease in operating profit from cosmetics was fully offset by the significant increase in operating profit from chemicals.

The Sales Ratio of EHD Products Increased in the Chemicals Segment

The Chemicals segment saw an increase in the sales ratio of EHD products from 42% in FY12/2023 to 44% in FY12/2024, leading to improved profitability. The increase was driven by higher demand for PFC-free durable water repellents and Smart Dyeing Process-related agents. By segment, the mainstay textile chemicals performed well, particularly in China and Vietnam, while specialty chemicals saw increased demand for semiconductor wafer processing coolants. Laundry and medical chemicals remained steady, driven by increased demand for linen agents due to inbound tourism. Additionally, the high overseas sales ratio contributed positively to performance due to the weak yen.

Cosmetics Saw an Increase in Strategic Costs

In the cosmetics segment, domestic DEMI Cosmetics saw an increase in new and focus products, but existing products declined due to a drop in salon customer visits. Yamada Pharmaceutical, which handles domestic ODM, experienced a decrease in some large-volume products, but overall performance was strong due to growth in new ODM customers. South Korea (DEMI Korea) saw growth driven by increased market share in color products and strong performance in hair care products. However, strategic cost increases in sales and marketing (primarily due to increased personnel expenses related to hiring sales staff in anticipation of new factory operations), higher sales-related expenses and inventory fluctuations resulted in an overall year-on-year decline in operating profit.

FY2025 Company Forecast

The company's forecast for FY12/2025 (announced in February 2025) is for net sales to increase 5.4% YoY to ¥57 billion and operating income to increase 2.3% to ¥3.6 billion (assuming 1 USD = ¥150). By segment, chemicals is projected to increase sales by 5.4% YoY and operating profit by 1.2%, while cosmetics is projected to increase sales by 3.0% YoY and operating profit by 1.0%. The company expects an overall operating profit increase of ¥80 million YoY, with positive factors including a ¥1.21 billion increase in sales, offset by negative factors such as sales-related costs of ¥0.46 billion, strategic costs of ¥0.53 billion (including ¥0.43 billion in personnel expenses and ¥0.1 billion for new ERP systems) and other costs of

¥0.14 billion. The company expects that the positive impact from increased sales will largely be offset by the negative impact from strategic costs related to mid to long-term growth initiatives.

Figure 23. Earnings Trends by Segment (¥mn)

FY	12/16	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25 CoE
Net Sales	**44,223**	**48,493**	**50,188**	**46,191**	**41,179**	**48,474**	**50,627**	**50,169**	**54,099**	**57,000**
Chemicals Business	31,290	35,220	35,502	33,890	28,496	33,773	36,268	35,605	39,378	41,500
Cosmetics Business	12,654	12,494	13,977	11,399	12,175	14,087	13,265	13,977	14,271	14,700
Others	278	778	708	901	506	612	1,093	586	449	800
Ordinary profit	**1,458**	**2,116**	**2,301**	**1,395**	**1,416**	**2,453**	**2,628**	**2,039**	**3,519**	**3,600**
Chemicals Business	940	1,887	1,905	1,441	842	1,460	1,861	1,803	3,724	3,770
Cosmetics Business	2,354	2,064	2,285	1,687	2,250	2,794	2,438	2,044	1,822	1,840
Others	15	69	63	99	43	72	129	64	58	60
Cancellations, etc.	-1,851	-1,905	-1,951	-1,831	-1,720	-1,873	-1,801	-1,871	-2,085	-2,070
Operating Margin (%)	**3.3**	**4.4**	**4.6**	**3.0**	**3.4**	**5.1**	**5.2**	**4.1**	**6.5**	**6.3**
Chemicals Business	3.0	5.4	5.4	4.3	3.0	4.3	5.1	5.1	9.5	9.1
Cosmetics Business	18.6	16.5	16.3	14.8	18.5	19.8	18.4	14.6	12.8	12.5
Capital expenditures	**3,726**	**4,734**	**4,134**	**3,816**	**1,461**	**1,691**	**1,295**	**1,349**	**4,172**	**-**
Chemicals Business	1,410	2,336	3,779	3,364	914	1,093	813	1,128	838	-
Cosmetics Business	2,171	1,276	307	411	480	257	213	114	3,247	-
Others/Cancellations, etc.	145	1,122	48	41	67	341	269	107	87	-
Depreciation	**1,634**	**1,860**	**1,982**	**2,234**	**2,768**	**2,500**	**2,417**	**2,269**	**2,224**	**-**
Chemicals Business	1,340	1,401	1,450	1,702	2,192	1,916	1,867	1,706	1,699	-
Cosmetics Business	235	375	432	441	487	500	449	454	408	-
Others/cancellations, etc.	59	84	100	91	89	84	101	109	117	-

Source: Company data, compiled by Strategy Advisors

Figure 24. Differences Between FY12/2025 Forecast & Mid-Term Plan

	FY12/2024			FY12/2025 Company Forecast			Mid-Term Plan (February 2023, Announced) FY2025 Company Target		
(¥bn)	Corporate	Chemicals	Cosmetics	Corporate	Chemicals	Cosmetics	Corporate	Chemicals	Cosmetics
Net Sales	54.0	39.8	14.2	57.0	42.3	14.7	57.0	40.0	17.0
CAGR	3.4%	3.2%	3.7%	4.0%	3.6%	3.7%	4.0%	2.3%	8.6%
Operating Profit	3.5	2.5	1.0	3.6	-	-	4.0	2.0	2.0
OP Margin	6.5%	6.3%	6.9%	6.3%	-	-	7.0%	5.0%	11.8%
ROE	8.7%	-	-	8.0%	-	-	8.0%	-	-
ROIC	5.8%	5.7%	5.9%	7.0%	-	-	7.0%	5.0%	12.0%
PBR	0.5x	-	-	-	-	-	-	-	-
(Actual / Assumption)									
FX	¥151/USD (as of FY24-ends)			¥150/USD			¥132/USD		
Naphtha Price	¥73,200/KL (as of 2024Q4)			¥73,200/KL			¥72,500/KL		

Note: "Chemicals Segment" includes other segments, and "Eliminations and Corporate Segment" is allocated to the Chemicals and Cosmetics segments. The CAGR for the fiscal year ended December 2024 is based on the two-year period from 2022.
Source: Company data, compiled by Strategy Advisors

FY12/2025 Q1 Financial Results

The FY12/2025 Q1 financial results announced on May 1 showed sales of ¥13.2 billion, +7.9% YoY, and operating profit of ¥0.86 billion, +45.6% YoY (at an exchange rate of 1 USD = ¥152.92). Progress against the company's February forecast was 23.1% for sales and 23.8% for operating profit, slightly below the 25% target for the first quarter. However, considering that Q1 is typically a slow start, the Q1 results are generally in line with the company's forecast.

Chemicals Q1 Results

The Chemicals segment reported Q1 results with sales of ¥9.73 billion, +7.6% YoY and segment profit of ¥1.08 billion, +31.3% YoY. The sales ratio of EHD products was 45.2% (+0.9 points from the previous Q1), contributing to improved profitability. In addition to continued growth in PFC-free durable water repellents, semiconductor wafer processing coolants recovered YoY. By segment, textile chemicals grew due to increased operating rates at major customers' factories in China and contributions from India also began to take effect.

Cosmetics Q1 Results

The Q1 results for cosmetics showed sales of ¥3.30 billion, +5.4% YoY, and segment profit of ¥260 million, +9.6% YoY. In Japan, sales of new and key products in the DEMI Cosmetics segment remained steady, but sales of existing products were somewhat stagnant.

Yamada Pharmaceutical's domestic ODM business saw a slowdown in orders for some large-volume products, but this was offset by an increase in orders from relatively new existing customers, which have become larger in volume, resulting in overall strong performance.

In South Korea (DEMI Korea), sales of color and hair care products increased. Operating profit improved due to an increase in the production ratio of color agents in South Korea, contributing positively, while increased personnel expenses related to the expansion of sales staff had a negative impact.

Figure 25. Earnings Trends by Segment (Quarterly, ¥mn)

	12/23				12/24				12/25
(FY)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Net Sales	**11,520**	**12,786**	**13,147**	**12,716**	**12,228**	**13,816**	**13,432**	**14,623**	**13,195**
Chemicals Business	8,310	8,850	9,195	9,250	9,043	10,143	9,897	10,295	9,730
Cosmetics Business	3,076	3,747	3,874	3,280	3,130	3,577	3,450	4,114	3,300
Others	133	189	78	186	53	97	85	214	163
Ordinary profit	**179**	**253**	**897**	**710**	**588**	**1,038**	**882**	**1,011**	**856**
Chemicals Business	237	207	610	749	821	1,035	957	911	1,078
Cosmetics Business	386	464	723	471	239	436	478	669	262
Others	16	42	-8	14	-4	-5	4	63	8
Cancellations, etc.	-460	-460	-428	-523	-467	-428	-557	-633	-493
OP Margin (%)	**1.6**	**2.0**	**6.8**	**5.6**	**4.8**	**7.5**	**6.6**	**6.9**	**6.5**
Chemicals Business	2.9	2.3	6.6	8.1	9.1	10.2	9.7%	8.8	11.1
Cosmetics Business	12.5	12.4	18.7	14.4	7.6	12.2	13.9	16.3	7.9

Source: Company data, compiled by Strategy Advisors

Figure 26. Earnings Trends (Quarterly, ¥mn)

(FY)	12/23 Q1	Q2	Q3	Q4	12/24 Q1	Q2	Q3	Q4	12/25 Q1
Net Sales	**11,520**	**12,786**	**13,147**	**12,716**	**12,228**	**13,816**	**13,432**	**14,623**	**13,195**
Cost of Sales	7,922	8,805	8,693	8,232	7,959	8,788	8,610	9,450	8,413
Gross Profit	3,598	3,981	4,454	4,483	4,268	5,028	4,823	5,172	4,782
Gross Profit Margin	31.2%	31.1%	33.9%	35.3%	34.9%	36.4%	35.9%	35.4%	36.2%
SG&A Expenses	3,418	3,728	3,557	3,773	3,680	3,989	3,941	4,162	3,926
Operating Profit	**179**	**253**	**897**	**710**	**588**	**1,038**	**882**	**1,011**	**856**
OP Margin	1.6%	2.0%	6.8%	5.6%	4.8%	7.5%	6.6%	6.9%	6.5%
Non-operating income	138	223	161	113	192	220	-30	220	70
Non-operating expenses	36	-9	8	111	14	17	20	94	122
Ordinary profit	**281**	**485**	**1,050**	**712**	**766**	**1,241**	**832**	**1,137**	**804**
Ordinary Profit Margin	2.4%	3.8%	8.0%	5.6%	6.3%	9.0%	6.2%	7.8%	6.1%
Extraordinary Income	1	2	1	1	0	1	1	2	0
Extraordinary Losses	0	1	2	6	0	1	3	72	1
Profit before Income Taxes	**281**	**487**	**1,049**	**708**	**766**	**1,241**	**830**	**1,067**	**803**
Income Taxes	225	192	260	-30	376	268	125	107	425
Tax Rate	80.1%	39.4%	24.8%	-4.2%	49.1%	21.6%	15.1%	10.0%	52.9%
Profit	56	294	789	737	390	972	705	962	378
Profit (Loss) Attributable to Non-Controlling Interests	29	36	56	63	71	74	74	55	85
Profit (Loss) Attributable to Owners of Parent	**27**	**258**	**733**	**673**	**318**	**899**	**631**	**906**	**292**
Net Profit Margin	0.2%	2.0%	5.6%	5.3%	2.6%	6.5%	4.7%	6.2%	2.2%

Source: Company data, compiled by Strategy Advisors

2) Mid-Term Business Plan

FY12/2025 Numerical Targets: Net Sales of ¥57 Billion & Operating Profit of ¥4 Billion

The mid-term business plan announced in February 2023 covers the 3-year period from FY12/2023 to FY25/3. Originally, the company announced a 5-year plan titled "INNOVATION25" in February 2021, setting management targets for FY12/2023 (3-years later) including net sales of ¥50 billion, operating profit of ¥2.5 billion, EBITDA of ¥5.0 billion and ROE exceeding 5%. However, considering that the company achieved these targets one year ahead of schedule in FY12/2022 and that the business environment is changing, the company has revised its FY12/2025 business targets upward. The revised targets are as follows: FY12/2025 sales of ¥57.0 billion, operating profit of ¥4.0 billion, ROE of 8% and ROIC of 7% (assuming an exchange rate of 1 USD = ¥132 and naphtha price of ¥72,500/kl).

Mid to Long-Term Growth Vision

The mid to long-term growth vision is "To be the most respected innovation company for customers all over the world", with a target of ¥70 billion in sales and a 10% operating profit margin by 2030. The FY12/2025 target serves as milestones toward achieving this vision. The 3-year mid-term plan is positioned as a period to establish a new growth spiral - namely, "business

structure transformation", "profitability improvement" and "active investment in growth areas" - to achieve sustainable growth beyond FY12/2026.

5 Major Strategies

The 5 major strategies announced in February 2023 are: (1) Major transformation of business structure, (2) Well-balanced investment, (3) Productivity reform, (4) Promotion of sustainable management and (5) Evolution of the extended family policy. Here, we will explain (1) to (3), which are related to the elements of the new growth spiral.

Figure 27. Medium to Long-Term Outlook (FY2035)

	Medium-Term Business Plan (Announced in February 2023)			Medium- to Long-term (2030) Business Structure			Aiming to Achieve
	FY12/2025			FY12/2030			FY12/2035
	Corporate	Chemicals	Cosmetics	Corporate	Chemicals	Cosmetics	Corporate
Net Sales	57.0	40.0	17.0	70.0	45.0	25.0	75.0
(Comp. Ratio)	-	70%	30%	-	64%	36%	-
Operating Profit	4.0	2.0	2.0	7.0	3.5	3.5	-
(Comp. Ratio)	-	50%	50%	-	50%	50%	-
Operating Margin	7.0%	5.0%	11.8%	10.0%	8.0%	14.0%	More than 10.0%
ROE	8.0%	-	-	-	-	-	More than 10.0%
ROIC	7.0%	5.0%	12.0%	-	-	-	More than 8.0%
PBR	-	-	-	-	-	-	More than 1.0x

Source: Company data, compiled by Strategy Advisors

3) Strategy (1): Major Transformation of Business Structure

Transforming the Business Structure Around 2 Pillars

NICCA CHEMICAL is pursuing a major transformation of its business structure centered on 2 pillars: the "EHD shift in chemicals" and the "expansion of the cosmetics business", aiming to enhance the profitability of the entire company.

Promoting the EHD Shift

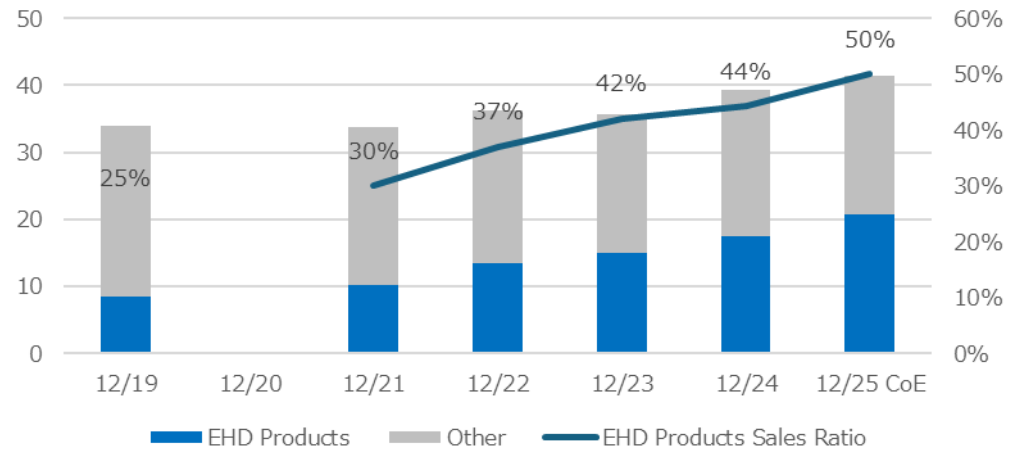
Identify the social issues underlying the EHD shift. **E** refers to environmental improvements in customers' production processes, such as energy conservation, water conservation, decarbonization and reduction of industrial waste. **H** refers to contributions to users' health such as antibacterial and antiviral properties. **D** (Digital/Advanced Materials) includes next-generation communication technologies and nanotechnology, among others.

Chemicals Have High Gross Margins for EHD Products

The chemicals segment has significant room for growth in the sales ratio of EHD products. The gross margin rate for EHD products is around 35%, compared to around 25% for conventional products, a difference of approximately 10%. Therefore, increasing the sales ratio of EHD products will lead to improved profitability through product mix optimization. The sales ratio of EHD products is 44% as of FY12/2024, with a target of 50% for FY12/2025 and 75% for FY12/2030. Representative examples of EHD products include PFC-free durable water repellents, agents related to the Smart Dyeing Process, water-based polyurethane resins, proposals for

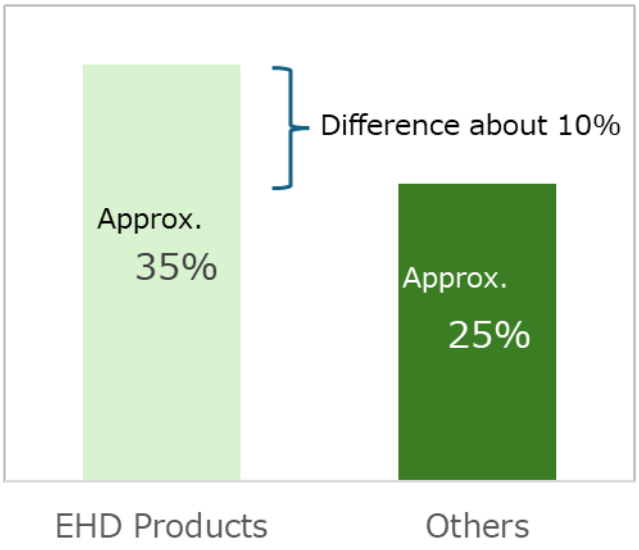
automated cleaning systems and coolants for semiconductor processing, among others.

Figure 28. Sales Composition Ratio of EHD Products (¥bn)



Source: Company data, compiled by Strategy Advisors

Figure 29. Comparison of Gross Margin Between EHD Products and Conventional Products



Source: Company data, compiled by Strategy Advisors

PFC-Free Durable Water Repellent (Textile Chemicals)

PFAS (a general term for organic fluorine compounds) have been used in a wide range of products due to their water-repellent properties. However, concerns about the potential health effects of PFAS have recently emerged, leading to an increasing number of countries introducing regulations. In the textile industry, there has been a rapid increase in demand for fluorine-free products, particularly from European and American apparel customers. The company has been developing PFC-free durable water repellents for over 20 years and holds a leading global market share. In response to growing demand in sportswear and other applications, the company is actively

expanding sales of its "NEOSHEED" series. Sales of PFC-free durable water repellents for the fiscal year ending December 2024 increased by ¥600 million YoY, driving the expansion of EHD products.

Smart Dyeing Process-Related Agents (Textile Chemicals)

Smart Dyeing Process refers to solutions that reduce environmental impact in the dyeing process. For example, the dyeing process for a single T-shirt is currently lengthy, using approximately 2 tons of water. In today's environment, where energy conservation and water conservation are prioritized, there is a growing demand for agents that shorten the process and reduce water usage. NICCA CHEMICAL leverages its on-site problem-solving capabilities to propose agents tailored to customers' processes alongside dyeing methods, enabling the company to expand in this field through its unique business model of "Providing Technology". Apparel companies are beginning to implement initiatives for energy conservation and water conservation in response to the growing awareness of ESG. Sales of Smart Dyeing Process-related agents for FY12/2024 increased by ¥300 million YoY. This is an area expected to continue growing in the future.

Water-Based Polyurethane Resins (Textile Chemicals)

Polyurethane resins are widely used for surface protection in products such as shoes, bags, car seats and mobile phone screens. While solvent-based polyurethane resins have traditionally been the mainstream, there is an accelerating shift toward water-based alternatives due to concerns about health and environmental impact. The company has been proposing water-based products for industries such as furniture, interior design, and automobiles. In FY12/2024, sales of a new topcoat agent for car seat synthetic leather, adopted in the previous fiscal year, grew significantly. The company's R&D capabilities enabled the development of products that meet the requirements for high brightness and high abrasion resistance, which were well received. Continued growth is expected due to the global expansion of customers.

Proposal and Sales of Automated Systems (Laundry and Medical Chemicals)

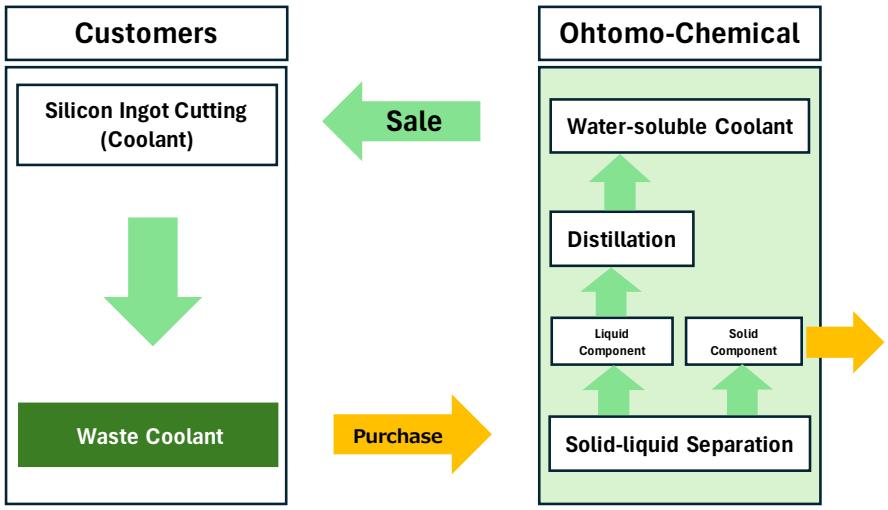
In the laundry-related field, NICCA offers an EHD business that primarily proposes chemical management systems for large linen factories. This contributes to their customers' production DX initiatives by fully automating chemical dispensing processes and delivering chemicals directly from tank trucks.

Semiconductor Processing Coolant Agents (Specialty Chemicals)

Semiconductor processing coolant agents are products handled by the subsidiary, Ohtomo-Chemical, and are characterized by their water solubility. The company's business model involves selling coolant agents for semiconductor silicon wafer processing, as well as collecting waste liquid for a fee in a closed-loop system. The collected waste liquid is separated into solids and liquid; and the liquid is distilled to regenerate water-soluble coolant agents, which are then resold to customers. Silicon wafer manufacturers have been struggling with the costs and environmental impact of disposing of conventional oil-based coolant agents. Ohtomo-Chemical's technology not only significantly reduces environmental impact costs, but also contributes to improving customer productivity. The company

supplies its products to leading silicon wafer manufacturers and is expected to continue its high growth.

Figure 30. Business Model for Semiconductor Processing Coolant Agents



Source: Company data, compiled by Strategy Advisors

Other EHD Products

In the **D** domain (Digital/Advanced Materials), the company also possesses EHD products with high growth potential in the medium to long term, such as special resin raw materials and high-performance fluorine-based polymer materials. Furthermore, the company has developed "NeoChromato Processing", a technology that removes dyes from dyed and printed polyester fabrics without the need for large-scale equipment or water, earning high praise as an environmentally friendly technology. Additionally, the establishment of an industrial production process for amino acid-derived artificial nucleic acid monomers is expected to contribute to future nucleic acid pharmaceutical research.

Cosmetics Adapting to Changes in the Business Environment

In the cosmetics sector, significant changes are occurring in the domestic business environment. NICCA CHEMICAL is now entering a period where it can leverage its expertise in hair science and feedback from hairdressers to demonstrate its strengths in product planning and development capabilities. The recent changes include the growth of the high-end hair care market driven by increased consumer awareness of hair care, as well as the emergence of new brands with strong product planning and marketing capabilities. In response to these changes, the company plans to pursue the following strategies: (a) launching new large-scale brands or renovating existing ones, (b) expanding marketing and promotional activities and (c) expanding its ODM business.

Strengthening Hair Care Products

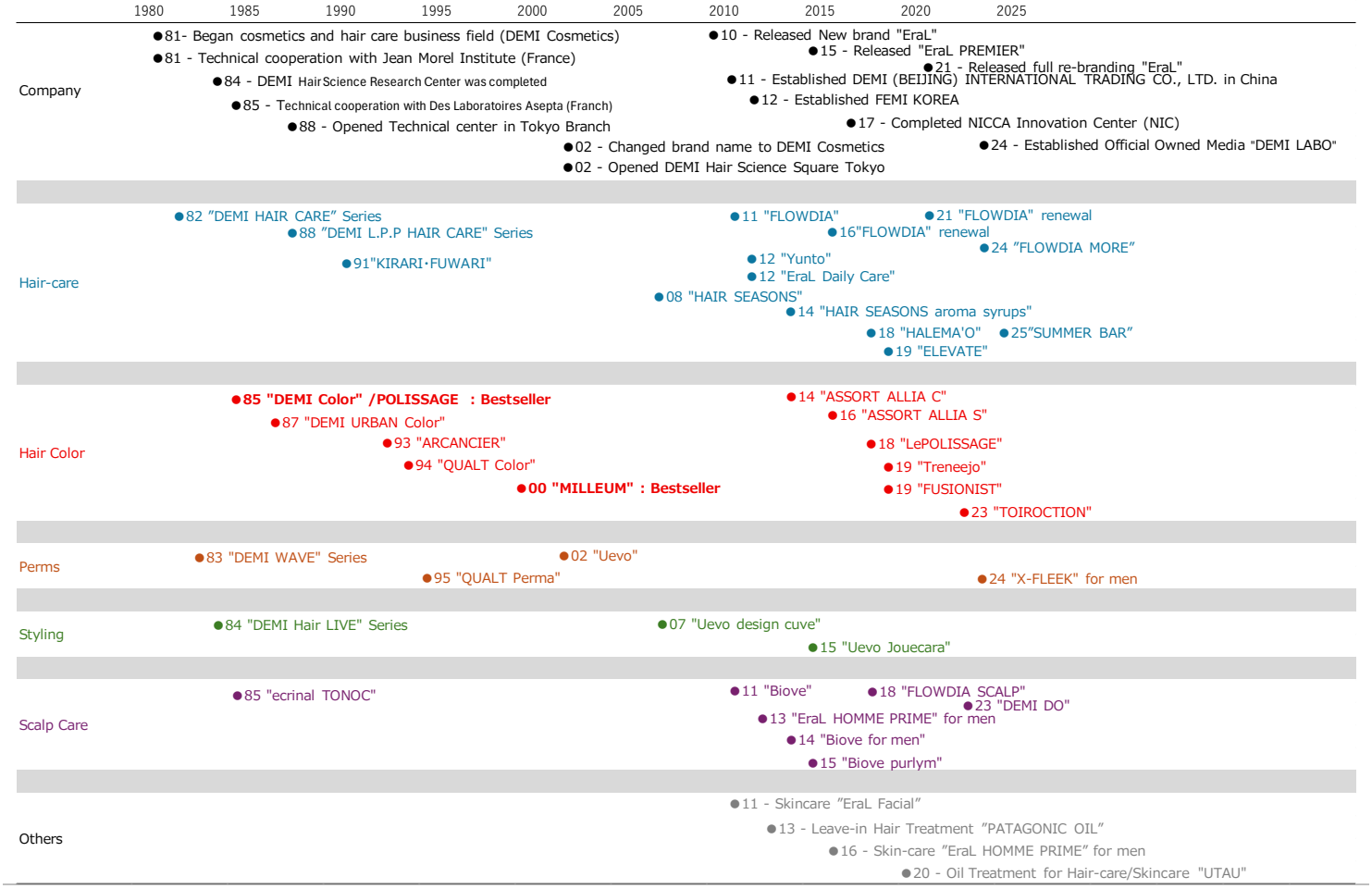
The company has traditionally been strong in colorants, but it has adopted a policy of simultaneously strengthening its hair care products, which have a large market size and steady demand. The domestic professional hair care market stands at ¥112.6 billion (2023), with a CAGR of 6% over the past 12

years (company estimate), showing stable growth. The company aims to expand its market share for both its own-brand products and ODM products. Additionally, in overseas markets, which are currently small in scale, the company is focusing on expanding its market share in South Korea and advancing its beauty market expansion into ASEAN countries to grow its business scale.

Brand Movements

In terms of brands, the company launched "DEMI DO" (scalp care, etc.) in April 2023, "TOIROCTION" (color) in June, "CARAVAN" (men's, styling, etc.) in January 2024, "XFLEEK" (men's, perm, etc.) in March and "FLOWDIA MORE" (hair care, etc.) in September. In 2025, the company began sales of "SUMMER BAR" (summer-season hair care, UV care, etc.) in February.

Figure 31. Cosmetics Brand and Product Trends



Note: All product names not marked with "EraL" are DEMI Cosmetics products.
Source: Company data, compiled by Strategy Advisors

In 2027, the Fukui Smart Factory (Tentative Name)

Although this falls outside the medium-term plan period, NICCA CHEMICAL plans to commence full-scale operations at a new cosmetics factory (Tentative Name: Fukui Smart Factory) in 2027, anticipating long-term growth in demand for cosmetics. The facility will be located in Inazu-Cho, Fukui City (Near the Fukui IC on the Hokuriku Expressway), with a land area

is Scheduled to Begin Full-Scale Operations

of 39,772 ㎡ , a building area of approximately 10,000 ㎡ and a total floor area of approximately 23,000 ㎡. The total capital investment is approximately ¥19.5 billion (with a maximum subsidy of about ¥4.9 billion). The production capacity is expected to triple from current levels. The company plans to introduce automated, labor-saving and energy-efficient production lines, including automated filling, packaging, and raw material handling. The goal is to achieve a 1.5x increase in labor productivity and reduce inventory turnover to less than half of the current level, creating a smart factory.

There is Room for Growth in Market Share

The cosmetics industry is currently facing the challenge of insufficient production capacity. Additionally, improving productivity to maintain a diverse product lineup, including hair care products, has been a key challenge. Once the new factory begins operations in 2027, the company will be able to develop and propose a diverse range of high-value-added products by integrating its expertise in hair science with feedback from hairdressers. As shown in Chapter 4, the company's domestic market share in the professional cosmetics market currently stands at around 5%, which is relatively low, indicating significant growth potential.

4) Strategy (2): Well-Balanced Investment

Cumulative Capital Investment over 3-Years is Planned to Be ¥10bn

Cumulative capital investment over the medium-term plan period (FY12/2023～ FY12/2025) is planned to be ¥10 billion, with depreciation and amortization of ¥8 billion and EBITDA of ¥18 billion. The company will focus on EHD shift and efficiency improvement investments to implement well-balanced investment. It has introduced ROIC as an indicator to manage investment efficiency by business segment. In the chemicals segment, the company will invest in increased production of EHD-related products, R&D, and DX investments to improve productivity. In the cosmetics segment, the company will expand manufacturing capabilities for long-term growth and invest in human resources to strengthen marketing.

Financial Leverage Awareness

As outlined in Chapter 7, the company's financial structure is improving rapidly at present. Investments during the medium-term plan period will be conducted within the scope of operating cash flow, with a focus on maintaining a sound balance sheet while being mindful of financial leverage.

5) Strategy (3): Productivity Reform

Actively Promoting DX

Through proactive DX initiatives, we will enhance efficiency and increase sales per employee and operating profit. We will continue to analyze and utilize various data to create new value. Specific examples include digitalization and automation of manufacturing processes, upgrading research core systems to enhance R&D capabilities, talent development and introducing sales management systems.

9. Valuation and Stock Price Outlook

Operating Profit is Expected to Reach a New High in FY12/2024

NICCA CHEMICAL's operating profit has remained in the range of ¥1.0 billion to ¥2.0 billion since 2000, except for the ¥450 million recorded in FY3/2009 following the global financial crisis and the ¥970 million recorded in 3/2011 following the Great East Japan Earthquake. In FY12/2013, which was a 9-month fiscal year due to a change in the fiscal year end, the company recorded its highest operating profit of ¥2.94 billion. Since then, the company has fluctuated around the ¥2.0 billion mark until FY12/2020. In particular, FY12/2019 saw a decline to ¥1.40 billion and FY12/2020 further dropped to ¥1.42 billion, marking a period of poor performance. Since FY12/2021, the company has consistently exceeded ¥2.0 billion. In FY12/2024, operating profit reached ¥3.52 billion, marking the highest profit in 11-years.

Current Stock Price Level

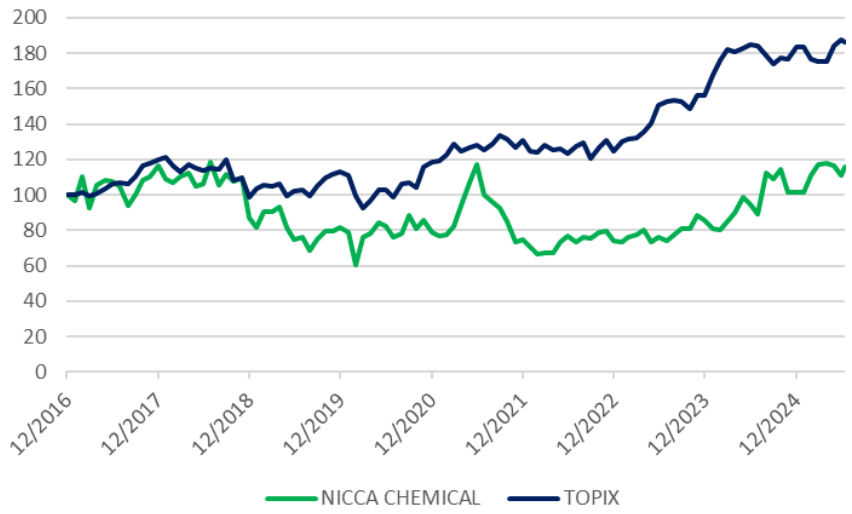
The company was listed on the TSE's Second Section on December 25, 2015. On the first trading day after listing, the stock reached a high of ¥1,542 in the over-the-counter market, but it then plummeted sharply in January 2016, falling below the ¥1,000 mark. The stock price subsequently stabilized somewhat, trading within the ¥1,100 to ¥1,300 range from 2017 onwards. However, due to poor performance, the stock price remained below the ¥1,000 mark for most of 2019 and 2020. In 2021, expectations for a performance recovery temporarily boosted the stock price, reaching ¥1,450 in June, the highest level since 2020. However, the stock price subsequently fell below ¥1,000 again due to a decline in valuation (PBR).

Since 2024, the stock price has risen alongside performance growth, recovering to above ¥1,000, but the low valuation remains unchanged. Following the strong results for FY12/2024 and the company's profit forecast for FY12/2025, the current stock price has risen slightly and is trading in the range of ¥1,200–¥1,300.

TOPIX Comparison

Figure 32 below compares NICCA CHEMICAL's stock price trend with TOPIX. The company's fundamentals are generally highly correlated with the global textile market and the domestic beauty salon cosmetics market. However, the decline in PBR valuation over the two years from 2019 to 2020 is reflected in the performance difference from the TOPIX. Since then, the correlation is believed to have improved again.

Figure 32. NICCA CHEMICAL's Stock Price & TOPIX Trends (December 2016 end = 100)

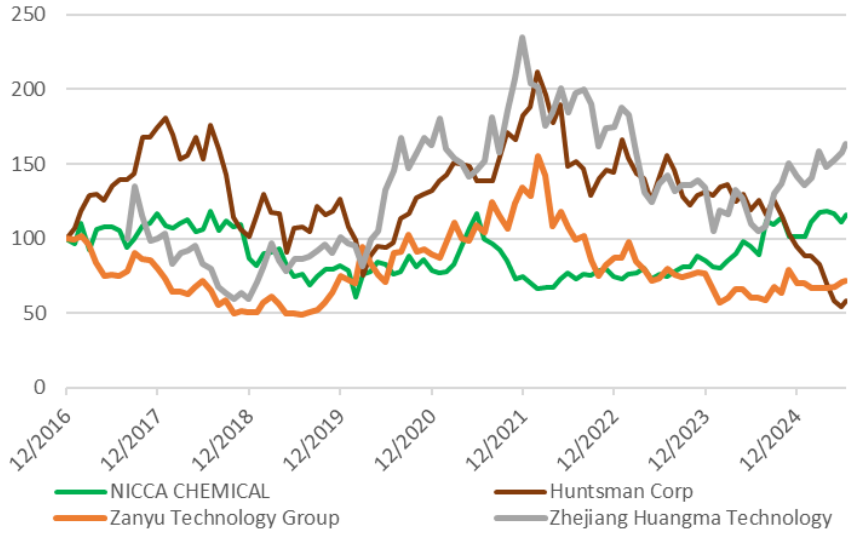


Source: Company data, compiled by Strategy Advisors

Comparison Within the Global Surfactant Industry

First, we compare NICCA CHEMICAL's stock price trends with those of global surfactant companies. The performance of U.S. competitor Huntsman was strong from 2017 to 2018 due to robust business performance, but it has deteriorated rapidly recently due to poor performance, including an operating loss in FY12/2024. The performance of the two Chinese companies (Zanyu Technology Group and Zhejiang Huangma Technology) has been highly volatile, with Zhejiang slightly outperforming. Both have seen a relative decline in performance since the beginning of 2022. NICCA CHEMICAL has few direct competitors domestically, making relative evaluation challenging. However, it is believed that expectations for improved profitability due to an increase in the ratio of EHD products are not yet factored into the current valuation.

Figure 33. NICCA CHEMICAL and Global Surfactant Companies' Stock Price Comparisons (December 2016 end = 100)

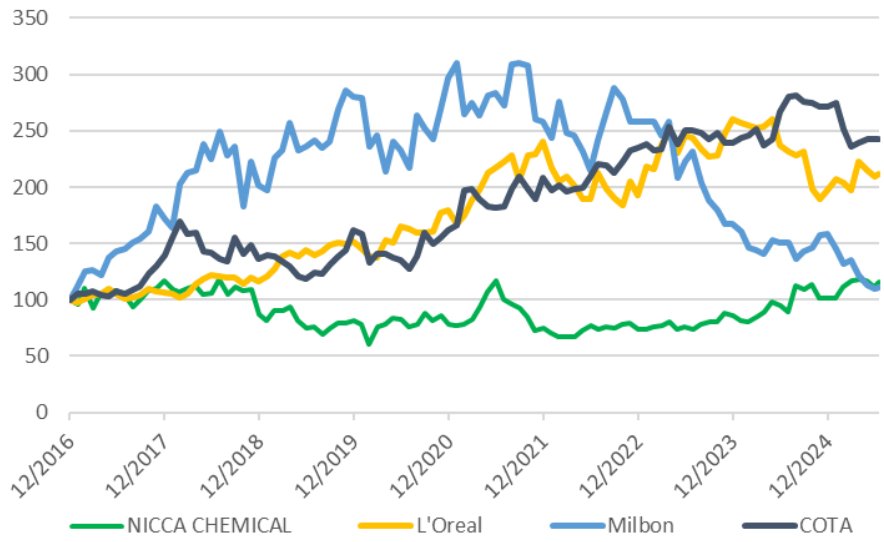


Source: Company data, compiled by Strategy Advisors

Comparison Within the Professional Cosmetics Industry

Next, we compare NICCA CHEMICAL's stock price trends with those of professional cosmetics companies. L'Oreal, a French company, is a major player in the cosmetics industry, both in the professional and general markets; and has demonstrated strong performance due to stable growth in its business performance. Milbon, the top domestic player, has a high market share and a stable corporate structure, which enabled it to maintain a performance advantage until 2018 when the domestic market was robust. However, since 2020, its business performance has lacked momentum and it has been showing signs of slowing down in recent years. COTA is a smaller company than NICCA CHEMICAL's cosmetics segment, but it has shown high profit growth and stable performance over the past 10 years. NICCA CHEMICAL's operating profit margin in the cosmetics segment is on a downward trend due to the upcoming start of operations at a new factory, and the company has not yet overcome its low recognition as a cosmetics company.

Figure 34. NICCA CHEMICAL and Professional Cosmetics Companies' Stock Price Comparison (December 2016 end = 100)



Source: Company data, compiled by Strategy Advisors

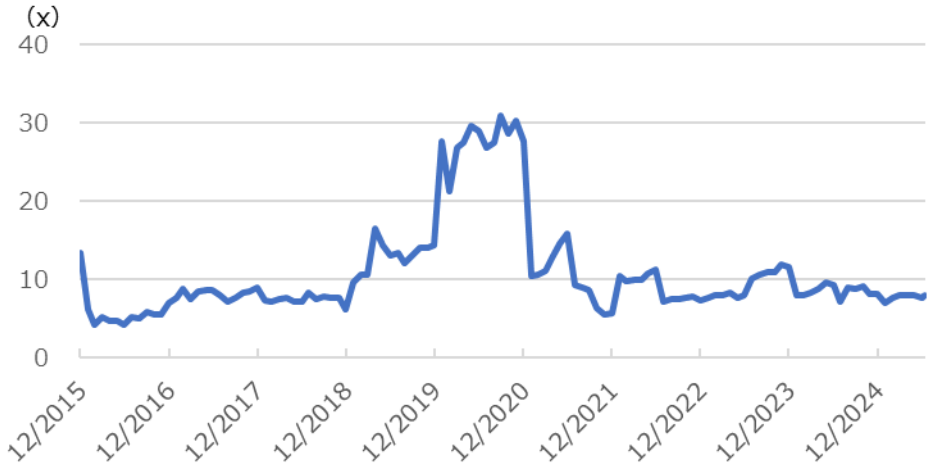
NICCA CHEMICAL's PER

NICCA CHEMICAL's PER has generally fluctuated within a range of 7.0x to 12.0x, excluding FY12/2020 when the company's EPS forecast was at a low level due to the spread of the novel coronavirus. However, since 2024, it has remained below 10.0x and currently hovers around 7.5x to 8.0x.

NICCA CHEMICAL's PBR

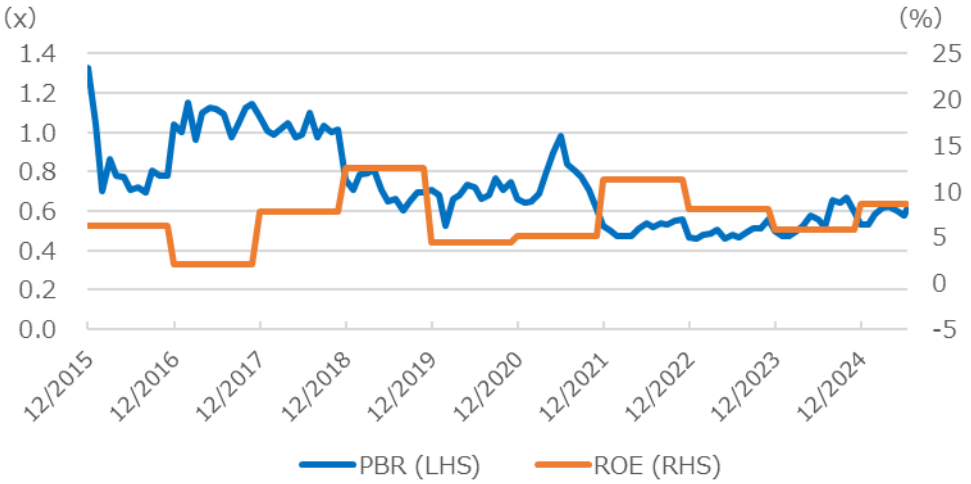
On the other hand, the PBR has remained below 1.0x since 2019. ROE has been declining, standing at 11.3% (FY12/2021)→ 8.0% (FY12/2022)→ 5.8% (FY12/2023), but rose to 8.6% in FY12/2024 due to improved profitability in the chemicals segment. However, this has not yet led to an improvement in PBR.

Figure 35. PER Trends



Source: Speeda, Strategy Advisors

Figure 36. ROE and PBR Trends



Source: Speeda, Strategy Advisors

Profitability Comparison

Next, we will compare the profitability and valuation of NICCA CHEMICAL with its competitors. NICCA CHEMICAL's ROE (FY12/2024) of 8.6% is lower than that of Zhejiang Huangma Technology among global surfactant competitors, but higher than that of Huntsman and Zanyu Technology Group. On the other hand, when compared with competitors in the professional cosmetics sector, NICCA CHEMICAL lags behind L'Oreal, Milbon and COTA. However, since NICCA CHEMICAL's ROE for chemicals is relatively low, it is assumed that the company does not significantly lag behind domestic competitors when limited to the cosmetics sector.

Stock Valuation Comparison

In terms of stock valuation, NICCA CHEMICAL's PBR of 0.6x is on par with Huntsman, while the two Chinese companies both exceed 1.0x, putting NICCA CHEMICAL at a disadvantage. Additionally, in a PER comparison with professional cosmetics competitors, Milbon at 15.4x and COTA at 29.3x

significantly outperform NICCA CHEMICAL. In PBR comparisons, L'Oreal leads with 6.3x, followed by COTA at 3.6x and Milbon at 1.6x with NICCA CHEMICAL again lagging significantly. To escape the low valuation state, improving ROE over the medium to long term will be a key focus moving forward.

Figure 37. Profitability Comparison with Competitors

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	**4463**	**12/24**	**6.5**	**8.6**	**6.0**	**10.6**	**54.0**	**-0.02**
Huntsman Corp	HUN	12/24	1.2	-6.1	-0.4	5.5	41.6	0.64
Zanyu Technology Group	002637	12/24	3.1	3.6	3.2	5.1	47.5	0.55
Zhejiang Huangma Technology	603181	12/24	17.7	13.6	11.7	24.4	80.3	-0.04
L'Oreal	OR	12/24	20.0	20.6	16.8	24.2	58.8	0.13
Milbon	4919	12/24	13.3	10.6	10.3	17.8	82.9	-0.28
COTA	4923	3/25	19.5	11.7	11.7	23.5	75.3	-0.46
Average			11.6	9.0	8.5	15.9	62.9	0.07

Source: Company data, compiled by Strategy Advisors

Figure 38. Valuation Comparison with Competitors

Company	Code	FY	Stock Price (Jul. 15)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	**4463**	**12/24**	**1,294**	**22.9**	**7.9**	**0.6**	**4.3**	**4.6**	**37**	**7.7**
Huntsman Corp	HUN	12/24	1,676	288.6	NM	0.6	NM	NM	NM	NA
Zanyu Technology Group	002637	12/24	212	93.7	NM	1.1	NM	NM	NM	NA
Zhejiang Huangma Technology	603181	12/24	267	157.4	NM	2.3	NM	NM	NM	NA
L'Oreal	OR	12/24	64,300	34,356.3	NM	6.3	NM	NM	NM	NA
Milbon	4919	12/24	2,461	81.5	15.4	1.6	7.3	3.6	55	10.7
COTA	4923	3/25	1,446	47.6	29.3	3.6	18.6	1.4	41	12.2
Average					17.5	2.3	10.1	3.2	44	10.2

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expense.
Source: Company data, compiled by Strategy Advisors

Compared with Komatsu Materials, SEIREN, MATSUMOTO YUSHI-SEIYAKU & TOHO CHEMICAL INDUSTRY

<Reference Comparison 1: Textile Industry Supply Chain>

NICCA CHEMICAL specializes in surfactants for the textile industry. This analysis compares NICCA CHEMICAL with four domestic companies in the same supply chain: Komatsu Materials (3580, TSE Prime), SEIREN (3569, TSE Prime), MATSUMOTO YUSHI-SEIYAKU (4365, TSE Standard) and TOHO CHEMICAL INDUSTRY (4409, TSE Standard).

Note that MATSUMOTO YUSHI-SEIYAKU and TOHO CHEMICAL INDUSTRY also produce surfactants and can be broadly categorized as competitors. Among the 5 companies, SEIREN has the highest ROE at 10.4%, while TOHO CHEMICAL INDUSTRY has the lowest at 7.7%. NICCA CHEMICAL's 8.6% is an average. However, while the PER of all companies except NICCA CHEMICAL exceeds 10x, NICCA CHEMICAL's PER is 7.9x. As a result, the PBR is highest at 1.0 for SEIREN and lowest at 0.6x for NICCA CHEMICAL. There is a possibility that the potential for long-term ROE improvement due to the increase in the ratio of EHD products has not been reflected in the stock price.

Figure 39. Profitability Comparison with Textile Industry Supply Chain Companies

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	**4463**	**12/24**	**6.5**	**8.6**	**6.0**	**10.6**	**54.0**	**-0.02**
Komatsu Materials	3580	3/25	5.5	7.6	3.4	8.9	74.6	-0.24
SEIREN	3569	3/25	11.2	10.4	8.4	15.0	72.0	-0.23
MATSUMOTO YUSHI-SEIYAKU	4365	3/25	21.5	8.9	8.3	24.0	83.4	-0.40
TOHO CHEMICAL INDUSTRY	4409	3/25	3.4	7.7	2.8	8.7	30.9	1.08
Average			9.6	8.6	5.8	13.4	63.0	0.04

Source: Company data, compiled by Strategy Advisors

Figure 40. Valuation Comparison with Textile Industry Supply Chain Companies

Company	Code	FY	Stock Price (Jul. 15)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	**4463**	**12/24**	**1,294**	**22.9**	**7.9**	**0.6**	**4.3**	**4.6**	**37**	**7.7**
Komatsu Materials	3580	3/25	730	31.5	13.8	0.7	6.3	3.6	49	5.3
SEIREN	3569	3/25	2,380	153.8	10.4	1.0	5.0	3.2	33	9.3
MATSUMOTO YUSHI-SEIYAKU	4365	3/25	19,220	86.7	NM	0.7	NM	NM	NM	NA
TOHO CHEMICAL INDUSTRY	4409	3/25	820	17.5	15.0	0.8	8.4	2.7	40	5.5
Average					11.8	0.8	6.0	3.5	40	7.0

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expense.
Source: Company data, compiled by Strategy Advisors

<Reference Comparison 2: Major Cosmetics Companies>

Comparison with Shiseido, KOSE, POLA ORBIS HD & Kao

NICCA CHEMICAL also operates as a cosmetics manufacturer. Therefore, we also compare it with 4 major domestic cosmetics companies: Shiseido (4911, TSE Prime), KOSE (4922, TSE Prime), POLA ORBIS HD (4927, TSE Prime) and Kao (4452, TSE Prime). Among the 5 companies, Kao has the highest ROE at 11.3%, followed by NICCA CHEMICAL at 8.6%, while the remaining three companies remain below 5%. However, the PER of all 4 companies exceeds 20x, with NICCA CHEMICAL standing out as significantly lower. As a result, all 4 companies have a PBR exceeding 1.0x, while NICCA CHEMICAL lags behind at 0.6x. As mentioned earlier, the PBR's of Milbon and COTA, which compete in the professional cosmetics, also significantly exceed 1.0x. This indicates that NICCA CHEMICAL has low brand recognition as a cosmetics company.

If NICCA Enhances its Presence as a Cosmetics-Related Stock, There is Potential for Resolving its Low Valuation

Therefore, with the planned startup of a new factory in 2027 and leveraging its product development capabilities cultivated in the textile industry, NICCA CHEMICAL could enhance its presence as a high-growth cosmetics-related stock, potentially leading to significant upside in stock price and resolution of its low valuation.

Figure 41. Profitability Comparison with Major Cosmetics Companies

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	**4463**	**12/24**	**6.5**	**8.6**	**6.0**	**10.6**	**54.0**	**-0.02**
Shiseido	4911	12/24	0.8	-1.7	-0.0	8.4	47.5	0.38
KOSE	4922	12/24	5.4	2.8	2.6	8.8	71.1	-0.38
POLA ORBIS HD	4927	12/24	8.1	5.6	5.0	13.0	82.3	-0.26
Kao	4452	12/24	9.0	10.5	8.0	14.4	57.1	-0.06
Average			6.0	5.2	4.3	11.0	62.4	-0.07

Source: Company data, compiled by Strategy Advisors

Figure 42. Valuation Comparison with Major Cosmetics Companies

Company	Code	FY	Stock Price (Jul. 15)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA CoE	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	**4463**	**12/24**	**1,294**	**22.9**	**7.9**	**0.6**	**4.3**	**4.6**	**37**	**7.7**
Shiseido	4911	12/24	2,465	986.0	164.1	1.6	14.1	1.6	266	0.9
KOSE	4922	12/24	5,758	348.9	23.8	1.2	8.6	2.4	58	5.1
POLA ORBIS HD	4927	12/24	1,262	289.2	32.8	1.7	10.8	4.1	135	5.2
Kao	4452	12/24	6,644	3,095.4	26.6	2.9	12.4	2.3	62	10.9
Average					51.0	1.6	10.1	3.0	112	6.0

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expenses.
Source: Company data, compiled by Strategy Advisors

<Reference Comparison 3: Major Comprehensive Chemical Companies>

Comparison with Mitsubishi Chemical Group, Asahi Kasei, Mitsui Chemicals, TOSOH & Sumitomo Chemical

Surfactants are chemicals and belong to the chemical sector in the broad classification. First, we compare the 5 major companies engaged in petrochemical products: Mitsubishi Chemical Group, Asahi Kasei, Mitsui Chemicals, TOSOH, and Sumitomo Chemical. Among the 5 companies, Asahi Kasei has the highest ROE at 7.4% except for NICCA CHEMICAL's 8.6%, which exceeds all 5 companies. However, it is not significantly ahead of the others. Nevertheless, the PER (based on company forecasts) is nearly identical to the lowest-ranked Mitsubishi Chemical Group at 7.9x, while the remaining four companies exceed 10x. The PBR of the group ranges from 0.6 to 0.9x, below 1.0x and NICCA CHEMICAL also stands at 0.6x, near the lower end of the range. The petrochemical industry is generally viewed as lacking growth potential and NICCA CHEMICAL may be perceived by the stock market as being a stock closely tied to this industry.

Figure 43. Profitability Comparison with Major Comprehensive Chemical Companies

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	**4463**	**12/24**	**6.5**	**8.6**	**6.0**	**10.6**	**54.0**	**-0.02**
Mitsubishi Chemical Group	4188	3/25	4.5	2.6	3.3	10.7	29.5	1.06
ASAHI KASEI	3407	3/25	7.0	7.4	5.3	13.1	46.3	0.43
Mitsui Chemicals	4183	3/25	4.3	3.8	2.8	9.8	39.4	0.73
TOSOH	4042	3/25	9.3	7.2	6.5	13.8	62.3	0.05
Sumitomo Chemical	4005	3/25	7.4	4.1	6.7	12.5	26.2	1.19
Average			6.5	5.6	5.1	11.8	42.9	0.57

Source: Company data, compiled by Strategy Advisors

Figure 44. Valuation Comparison with Major Comprehensive Companies

Company	Code	FY	Stock Price (Jul. 15)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	**4463**	**12/24**	**1,294**	**22.9**	**7.9**	**0.6**	**4.3**	**4.6**	**37**	**7.7**
Mitsubishi Chemical Group	4188	3/25	774	1,165.6	7.6	0.6	7.5	4.1	31	8.3
ASAHI KASEI	3407	3/25	1,011	1,380.8	11.1	0.7	5.6	4.0	44	6.7
Mitsui Chemicals	4183	3/25	3,431	689.1	11.7	0.8	7.2	4.4	51	6.5
TOSOH	4042	3/25	2,221	722.0	11.4	0.9	5.4	4.5	51	7.5
Sumitomo Chemical	4005	3/25	362	600.4	14.8	0.7	7.8	3.3	49	4.4
Average					10.8	0.7	6.3	4.2	44	6.9

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expenses.
Source: Company data, compiled by Strategy Advisors

<Reference Comparison 4: Specialty Chemicals>

EHD Product Lines Are Broadly Categorized as Specialty Chemical Products

On the other hand, NICCA CHEMICAL's surfactants are produced using a batch production method with small-scale equipment (pot), enabling flexible production of a wide variety of products. Furthermore, NICCA CHEMICAL's chemicals have seen the ratio of EHD products to sales rise to 44%, with a target of 75% by FY12/2030, indicating a significant transformation of its business structure. As mentioned in Chapter 8, EHD products include semiconductor processing coolants, which the company positions as specialty chemicals; as well as high-value-added products such as Smart Dyeing Process-related agents and fluorine-free water-repellent agents in the textile chemicals segment, which contribute to solving social issues. Therefore, the EHD product group may be considered a broad category of specialty chemical products within the chemical industry.

Comparison with Sumitomo Bakelite, Dexerials, KOBAYASHI PHARMACEUTICAL & Toyo Gosei

In the chemical sector, we compare 4 companies that manufacture a wide range of high-value-added products: Sumitomo Bakelite (4203, TSE Prime), Dexerials (4980, TSE Prime), KOBAYASHI PHARMACEUTICAL (4967, TSE Prime) and Toyo Gosei (4970, TSE Prime), which we temporarily classify as specialty chemical stocks. Among the 5 companies, Dexerials has the highest ROE at 30.6%. NICCA CHEMICAL follows with 8.6%, trailing Toyo Synthetic Industries' 14.1%. On the other hand, the PER (based on company forecasts) is lowest at 7.9x for NICCA CHEMICAL, with Dexerials slightly lower, while the other three companies all exceed 30x, indicating extremely high levels. Under these circumstances, the PBR is 3.7x for Dexerials, leading the 4 companies, all of which exceed 1.0x, with a significant gap from NICCA CHEMICAL's 0.6x. Based on the above, NICCA CHEMICAL is currently not recognized as a specialty chemical stock, as expected.

Whether Increased Recognition as a Specialty Chemical Stock Will Lead to Stock Price Upside Remains to Be Seen

By leveraging the technical expertise in surfactant development cultivated in the textile industry, NICCA aims to create numerous niche markets with high market share in the EHD product segment. This could enhance recognition as a profitable specialty chemical company and potentially unlock upside in stock prices through the resolution of low valuation.

Figure 45. Profitability Comparison with Specialty Chemical Companies

Company	Code	FY	OP Margin	ROE	ROIC (Invested Capital)	EBITDA Margin	Equity Ratio	Net D/E Ratio
			%	%	%	%	%	
NICCA CHEMICAL	**4463**	**12/24**	**6.5**	**8.6**	**6.0**	**10.6**	**54.0**	**-0.02**
Sumitomo Bakelite	4203	3/25	8.1	6.5	4.6	12.7	69.6	-0.23
Dexerials	4980	3/25	36.0	30.6	22.9	42.1	63.2	-0.14
KOBAYASHI PHARMACEUTICAL	4967	12/24	15.0	4.8	10.0	19.9	80.4	-0.23
Toyo Gosei	4970	3/25	10.6	14.1	7.2	20.2	37.7	1.01
Average			15.3	12.9	10.1	21.1	61.0	0.07

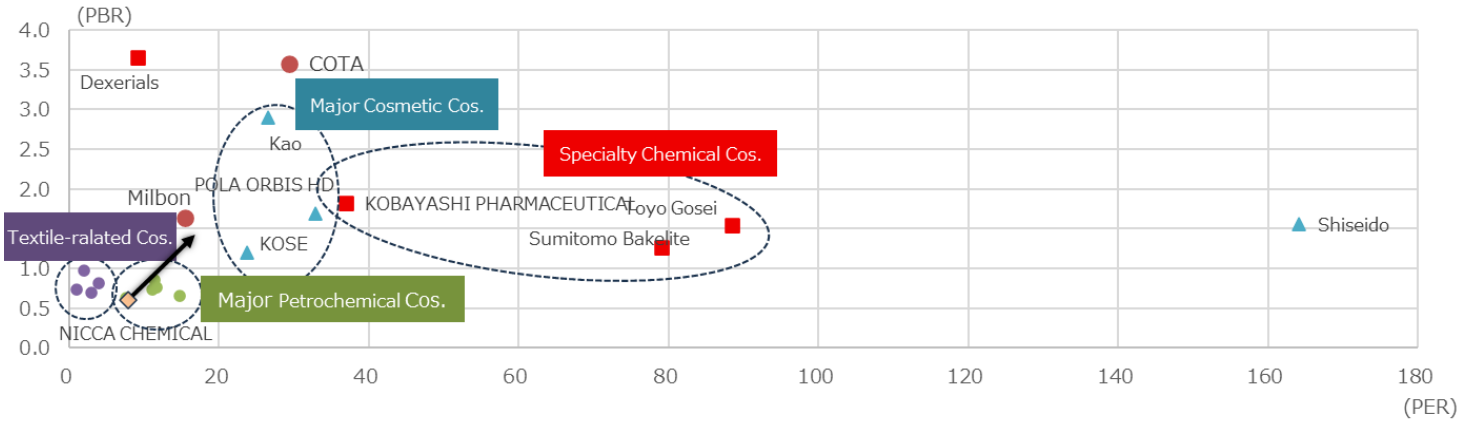
Source: Company data, compiled by Strategy Advisors

Figure 46. Valuation Comparison with Specialty Chemical Companies

Company	Code	FY	Stock Price (Jul. 15)	Market Cap.	PER CoE	PBR Actual	EV/ EBITDA	Dividend Yield CoE	Payout Ratio CoE	ROE CoE
			(¥)	(¥bn)	(x)	(x)	(x)	%	%	%
NICCA CHEMICAL	**4463**	**24/12**	**1,294**	**22.9**	**7.9**	**0.6**	**4.3**	**4.6**	**37**	**7.7**
Sumitomo Bakelite	4203	25/3	4,187	392.6	79.0	1.3	92.5	1.0	75	0.7
Dexerials	4980	25/3	2,088	368.3	9.1	3.7	14.7	6.7	61	14.0
KOBAYASHI PHARMACEUTICAL	4967	24/12	5,220	407.4	37.0	1.8	NM	1.0	NM	NA
Toyo Gosei	4970	25/3	4,835	39.4	88.4	1.5	13.4	3.2	282	4.6
Average					44.3	1.8	31.3	3.3	114	6.8

Note: ROE (company forecast) is calculated by multiplying the company's forecast net profit for the current period by the equity at the end of the most recent quarter. EBITDA for EV/EBITDA is calculated by adding the company's forecast operating profit to the most recent actual depreciation and amortization expenses.
Source: Company data, compiled by Strategy Advisors

Figure 47. PER/PBR Relationship



Source: Company data, compiled by Strategy Advisors

10. Risk Factors

The following risks are listed, categorized into short-term and medium-to-long-term, which may affect NICCA CHEMICAL's performance and stock price trends.

Short-Term Risks (External Factors)

In the short term, risks include a global slowdown in demand for the textile, automotive and semiconductor industries, or a decline in production capacity utilization rates at manufacturing plants, due to the imposition of mutual tariffs by US President Trump. In particular, the mainstay textile products are highly dependent on the performance of the textile industry, which is their primary customer. Additionally, amid uncertainty regarding the resolution of geopolitical risks, fluctuations in the prices of raw materials such as naphtha and exchange rate fluctuations also pose risks. As general risks, changes in market share and price declines due to intensifying competition among customers (textile, paper, laundry, medical, semiconductor, beauty salon, etc.) are also risks. Rising labor costs and fluctuations in supply chain inventory are also risk factors.

Short-Term Risks (Internal Factors)

Internal risks include delays in adjusting prices to offset rising costs. General risks include delays in the launch of new products or brands, quality issues and reduced yield or productivity at production sites.

Mid to Long-Term Risks (External Factors)

Next, external risks include a decline in demand and price declines due to the increasing commoditization of apparel products in the apparel industry. The entry of major chemical manufacturers also poses a threat, although there are no signs of this at present. In cosmetics, demand may shrink due to changes in consumer preferences or a decrease in the number of users visiting beauty salons.

Mid to Long-Term Risks (Internal Factors)

Internal factors include difficulties in increasing the ratio of EHD products in the chemicals segment and challenges in raising gross margins. In the cosmetics segment, challenges include the lack of progress in increasing market share in hair care, low yield and productivity at the new cosmetics factory, delays in expanding overseas markets and difficulties in securing necessary personnel in the R&D and manufacturing departments.

11. Promotion of Sustainability Management

1) Corporate Governance Structure (as of the end of FY2024)

Organizational Structure

NICCA CHEMICAL Group consists of NICCA CHEMICAL, 21 subsidiaries and 2 affiliated companies (as of the end of 2024). The organizational structure is a company with an audit committee. The board of directors consists of 10 directors, 4 of whom are independent outside directors (40% of the total), and all 4 meet the criteria for independence. Two of the three auditors are independent outside auditors. There is one female director, representing 10.0% of the board of directors and 7.7% of the total number of executives.

The company has been making efforts to comply with the listing maintenance standards of the Prime Market. However, to ensure a secure environment for shareholders to hold and trade shares with confidence and to avoid the risk of delisting, NICCA CHEMICAL transitioned from the Prime Market to the Standard Market in October 2023.

Board of Directors

According to the Corporate Governance Code (Principle 4-8), companies listed on the Standard Market are required to appoint two or more independent outside directors. NICCA CHEMICAL meets this standard with four out of ten board members being independent outside directors.

The principles of the Corporate Governance Code that are not implemented are: [Supplementary Principle 2-4 (1): Ensuring diversity in the appointment of core personnel] and [Supplementary Principle 4-1 (3): Supervision of succession planning for the Board of Directors].

Supplementary Principle 2-4 (1) requires disclosure of the status of implementation of goals for the appointment of women, foreigners, and mid-career hires to managerial positions, as well as policies for human resource development and internal environment improvement aimed at ensuring diversity. As described below, the company has set a target of having at least one-third of female employees in managerial positions, but there is no specific target for the ratio of female managers.

Under Supplementary Principle 4-1 (3), the board of directors is required to supervise succession planning (planning) for the CEO and other key executives. The third-generation CEO, Mr. Yasumasa Emori, is the grandson of the founder, Mr. Kiyoki Emori and the second son of the second-generation CEO, Mr. Mikio Emori. Additionally, the president's asset management company (Emori Planning) holds a 14.6% stake in the company and is the largest shareholder. Going forward, it will be necessary to clarify the desired qualities and characteristics of the CEO, establish methods for nurturing such talent, and consider whether it is necessary for the board of directors or nomination committee to develop a succession plan.

Figure 48. Management Structure and Skills

Title	Name	Corporate M'ment	INTL	Finance & Acc'ting	Sales & Mkt'ing	R&D	HR	ESG	Govern -ance
Representative Director President CEO (Chief Executive Officer)	Yasumasa Emori	○	○		○				
Representative Director Executive Vice President COO (Chief Operating Officer)	Kazuhisa Tatsumura	○	○		○		○		
Managing Director Member of the Board COO for Chemicals	Daiji Kojima	○	○		○				○
Director Member of the Board CFO (Chief Financial Officer) (Administration)	Shoya Sawasaki	○		○			○		○
Director Member of the Board COO in China	Jing-Ri Li	○	○		○				
Director Board Member CTO (Chief Technology Officer)	Takahiro Inatsugi	○			○	○		○	
Outside Director	Kaoru Aizawa	○			○	○			○
Outside Director	Minako Yamaoka	○			○		○	○	
Outside Director	Shuichi Sakamoto	○		○	○		○		
Outside Director	Kouichi Asakura		○			○		○	

Note: Titles omitted.
Source: Company data, compiled by Strategy Advisors

2) Sustainability Framework

Basic Policy

NICCA CHEMICAL has established a mid-term business plan titled "INNOVATION25" with 2025 as the final year, aiming to significantly transform its business structure by focusing on 3 key areas—Environment, Health and Digital (Advanced Materials)—and contributing to the resolution of societal challenges. One of the 5 major strategies of the mid-term business plan is "Promotion of sustainable management".

The company aims to reduce the group's total CO_2 emissions by 30% compared to FY12/2018 levels by FY12/2030. It will contribute to the realization of a sustainable society in line with the Sustainable Development Goals (SDGs). The materiality (important issues) are extracted in the following table, with a focus on the areas of environment (cleaner global environment), lifestyle (comfortable living and daily life) and society (richer society).

Materiality

Figure 49. NICCA CHEMICAL's Materiality Framework

Environment: Work toward a Cleaner Global Environment

- 30% reduction in net CO_2 emissions for the entire Group by 2030 (compared to 2018)
- Contribute to the realization of a sustainable society and circular economy by focusing on businesses that solve social issues related to the global environment
- Incorporate the "Chemical Green Concept" to strengthen chemical substance management and help customers reduce their own environmental impact
- Actively promote the use of environmentally friendly containers and packaging materials
- Implement resource and energy conservation activities

Life: Make People's Lives More Comfortable

- Focus on businesses that contribute to the health and prosperity of people around the world
- Provide products that contribute to healthy and clean living, such as laundry agents and sports apparel with added functionality
- Develop innovative cosmetics that pursue hair health and beauty
- Contribute to the prevention of infectious diseases with antibacterial and antiviral products
- Create and nurture new businesses in the areas of technologies and materials required in the domain of advanced information technology, such as digital devices and semiconductors

Society: Enrich Society

- Evolve the Group's extended family policy to attract diverse individuals and provide them with opportunities and motivation to fully display their abilities
- Deeply cultivate diversity that respects the diversity of individuals and a diversity of workstyles
- Implement various initiatives to improve employee job satisfaction
- Coexist with local communities and contribute to the creation of communities that are good places in which to live
- Actively support international students from emerging countries and provide scholarships for the physically disabled
- Manage health and productivity effectively

Source: Company data, compiled by Strategy Advisors

Sustainability Committee

NICCA CHEMICAL has established a Sustainability Committee (Chair: President and CEO, Members: Management Meeting members) as an organization responsible for reviewing and discussing important environmental issues. The committee comprehensively evaluates various issues related to environmental challenges, including climate change and the realization of a sustainable society. The results of its deliberations are regularly reported to the Board of Directors for approval. Under the committee, a Sustainability Coordination Subcommittee has been established to develop sustainability plans and monitor progress and initiatives.

Human Capital Management

In terms of human capital, the mid-term management plan "INNOVATION25" sets the promotion of human resource development as a key objective, with the following quantitative targets established and initiatives being implemented.

The target ratio of female employees aspiring to management positions is set at one-third or more and this target was achieved at 33.7% in fiscal 2024. The ratio of female managers is 13.4%. According to the Cabinet Office, the ratio of women in management positions in Japan is 14.6% (2023), which is generally in line with the average level. Going forward, the target ratio of female managers will be a topic for consideration.

Figure 50. NICCA CHEMICAL's Human Capital Goals

Target	FY12/2023	FY12/2024	Results
a. Increase the proportion of female employees who answered "Yes" to the question "Do you aspire to become a manager?" in the company's employee survey to one-third.	31.5	33.7	Achieved in 2024
b. Implement a 100% return-to-work support system for employees who take maternity or childcare leave	100.0	100.0	Achieved

Source: Company data, compiled by Strategy Advisors

3) Climate Change Response

GHG Emissions Reduction Targets

In terms of environmental initiatives, we have implemented "company-wide environmental activities" centered on ISO 14001 (Environmental Management System). Going forward, we will continue our ISO 14001 activities while also incorporating the principles and direction of the SDGs into our business strategy starting in FY12/2021. Additionally, the company has been disclosing an Environmental and Social Activities Report, which summarizes the environmental and social activities of the NICCA CHEMICAL Group, annually since FY12/2017.

In relation to climate change, we are conducting scenario analysis based on multiple scenarios published by the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change (IPCC) with the aim of assessing the potential impact on business operations and reflecting the results in our management strategy.

The 4°C scenario assumes a global average temperature increase of 4°C by the end of the 21st century compared to the industrial revolution period, with economic growth as a priority and climate change policies not strengthened beyond regulations in place as of 2021. The 1.5°C scenario assumes a global average temperature increase of less than 2°C by the end of the 21st century compared to the industrial revolution period, with proactive environmental policies promoted to achieve carbon neutrality.

The following table presents the impacts of transitioning to a decarbonized society, risks and opportunities associated with physical impacts of global warming, and NICCA CHEMICAL's current initiatives, based on scenario analysis.

Figure 51. Main Risks and Opportunities Related to Climate Change

Category	Factors and Events		Assessment			Status of Current Engagement
			Impact Type	4°C scenario	1.5°C scenario	
Impacts of the Transition to a Decarbonized Society	Carbon pricing	Increased operating costs, including introduction of a carbon tax	Risk	Small	Large	・Setting CO2 emission reduction targets ・Switching electricity demand to renewable energy sources ・Reducing environmental impacts through equipment
	Changes in energy costs	The price of purchased electricity is expected to rise significantly due to the switch to power generation from renewable energy sources, etc.	Risk	Small	Medium	・Installation of solar power generation equipment
	Advancement of low-carbon behavior	Increasing demand for related products in line with the development of low-carbon technologies and the promotion of DX with a view to decarbonization (fluorinated chemicals, water-based polyurethane resins, etc.)	Opportunity	Medium	Large	・Technology application and business promotion in the field of advanced information technology
	Changes in customer behavior	Growing need to reduce environmental impact due to expanding decarbonization needs through the supply chain	Opportunity	Small	Large	・Obtaining third-party environmental certifications • Investing in technology to develop environmentally friendly products ・Proposal of Smart Dyeing Process
Physical Impacts of Global Warming	Occurrence of extreme weather conditions	Increased scale of damage to the company's bases and logistics network caused by a disaster	Risk	Large	Large	・Periodically reviewing BCP ・Conducting site-specific disaster drills and education
	Impact on raw material prices	Change in demand for petroleum-based raw materials due to soaring crude oil, and price hikes associated with poor harvests of palm oil and other crop-based raw materials	Risk	Large	Medium	・Promoting the use of RSPO-compliant palm oil ・Development of products using natural ingredients, natural and bio-based raw materials
	Rising average temperatures	Increasing adaptation needs, including rising temperatures throughout the year (decreasing demand for synthetic fibers due to lower demand for winter clothing)	Risk / Opportunity	Medium	Medium	・Addressing the need for high functionality through the use of surface science and resin technology

Source: Company data, compiled by Strategy Advisors.

Considering the possibility that both scenarios could become reality, we will advance measures such as BCP countermeasures to mitigate the expansion of physical damage and promote a business structure transformation centered on "EHD" toward decarbonization. Additionally, regarding carbon neutrality, we are advancing efforts such as promoting CO2 reduction initiatives and proposing a Smart Dyeing Process that aims to reduce environmental impact across the entire supply chain in textile processing, thereby advancing decarbonization.

As a climate change-related target, the company has set a goal of reducing the actual CO2 emissions (Scope 1 and 2) of the entire group by 30% by 2030 (compared to fiscal 2018). To reduce CO2 emissions, the company has switched all electricity used at its facilities in Fukui Prefecture (head office and Sabae Factory) to 100% renewable energy, achieving zero CO2 emissions from electricity. To reduce CO2 emissions associated with the use of fossil fuels, the company is replacing aging boilers with LNG boilers. Across the group, efforts are being made to reduce production processes, convert to energy-efficient equipment, install solar power systems, and promote the use of LED lighting to reduce environmental impact.

Figure 52. Consolidated Income Statement (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24	12/25 CoE
Net Sales	**48,493**	**50,188**	**46,191**	**41,179**	**48,474**	**50,627**	**50,169**	**54,099**	**57,000**
Cost of Sales	32,870	33,856	30,990	27,410	32,431	34,456	33,652	34,807	
Gross Profit	15,622	16,332	15,201	13,768	16,043	16,171	16,516	19,291	
Gross Profit Margin	32.2%	32.5%	32.9%	33.4%	33.1%	31.9%	32.9%	35.7%	
SG&A Expenses	13,506	14,030	13,805	12,352	13,589	13,543	14,476	15,772	
Operating Profit	**2,116**	**2,301**	**1,395**	**1,416**	**2,453**	**2,628**	**2,039**	**3,519**	**3,600**
OP Margin	4.4%	4.6%	3.0%	3.4%	5.1%	5.2%	4.1%	6.5%	6.3%
Non-Operating Income	394	376	381	535	485	614	635	602	
Non-Operating Expenses	338	248	442	305	232	110	146	145	
Ordinary Profit	**2,171**	**2,430**	**1,334**	**1,645**	**2,706**	**3,132**	**2,528**	**3,976**	**3,700**
Ordinary Profit Margin	4.5%	4.8%	2.9%	4.0%	5.6%	6.2%	5.0%	7.3%	6.5%
Extraordinary Income	184	3,904	357	150	816	147	5	4	
Extraordinary Losses	69	183	89	25	61	11	9	76	
Profit Before Income Taxes	**2,287**	**6,151**	**1,602**	**1,770**	**3,461**	**3,269**	**2,525**	**3,904**	
Income Taxes	695	2,377	502	600	738	1,007	648	875	
Tax Rate	30.4%	38.6%	31.3%	33.9%	21.3%	30.8%	25.7%	22.4%	
Profit	1,592	3,774	1,099	1,170	2,723	2,262	1,876	3,029	
Profit (Loss) Attributable to Non-Controlling Interests	203	1,315	199	125	127	147	184	274	
Profit (Loss) Attributable to Owners of Parent	**1,388**	**2,458**	**900**	**1,044**	**2,595**	**2,114**	**1,691**	**2,754**	**2,600**
Net Profit Margin	2.9%	4.9%	1.9%	2.5%	5.4%	4.2%	3.4%	5.1%	4.6%
EPS (¥)	**88.5**	**156.7**	**57.3**	**66.4**	**164.8**	**134.1**	**107.1**	**174.2**	

Source: Company data, compiled by Strategy Advisors

Figure 53. Consolidated Balance Sheet (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Current Assets	**28,333**	**29,947**	**26,258**	**25,977**	**27,562**	**29,855**	**31,077**	**34,221**
Cash & Deposits	7,987	9,234	6,311	7,962	7,659	7,052	8,344	10,726
Notes & accounts Receivable	10,774	10,363	9,831	9,026	9,618	10,435	11,029	11,996
Inventories	7,235	8,827	8,975	8,025	9,330	11,405	10,875	10,504
Allowance for Doubtful Accounts	-13	-6	-4	-2	0	-1	-10	-13
Others	2,350	1,529	1,145	966	955	964	839	1,008
Non-current Assets	**26,761**	**26,649**	**28,795**	**27,197**	**26,970**	**26,266**	**25,841**	**28,144**
Tangible Assets	22,758	23,762	25,208	23,726	23,277	22,411	21,889	24,002
Intangible Assets	546	468	351	304	298	399	498	510
Investment & Other Assets	3,456	2,418	3,234	3,166	3,394	3,455	3,452	3,631
Investment Securities	1,855	1,521	1,499	1,457	1,706	1,716	1,771	1,966
Deferred Tax Assets	976	262	1,022	951	980	1,022	957	936
Others	625	635	713	758	708	717	724	729
Total Assets	**55,094**	**56,597**	**55,053**	**53,175**	**54,533**	**56,122**	**56,918**	**62,366**
Current Liabilities	**28,102**	**20,986**	**19,184**	**17,361**	**16,702**	**15,987**	**15,776**	**17,143**
Notes & Accounts Payable	6,110	6,548	4,996	5,325	6,619	6,544	5,895	6,181
Interest-Bearing Debt	17,680	9,826	10,315	8,033	5,662	5,168	5,618	5,668
Other	4,312	4,612	3,873	4,003	4,421	4,275	4,263	5,294
Non-current liabilities	**5,377**	**12,046**	**13,455**	**12,647**	**10,506**	**9,742**	**8,320**	**8,668**
Interest-Bearing Debt	1,495	8,055	9,215	8,267	6,038	5,170	3,652	4,234
Deferred Tax Liabilities	0	0	0	0	0	0	0	15
Others	3,882	3,991	4,240	4,380	4,468	4,572	4,668	4,419
Net Assets	**21,614**	**23,565**	**22,414**	**23,166**	**27,323**	**30,392**	**32,822**	**36,553**
Total Shareholders' Equity	17,711	19,921	20,404	21,271	23,667	25,407	26,566	28,703
Share Capital	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,898
Capital Surplus	3,054	3,054	2,928	2,928	2,928	2,951	2,951	2,960
Retained Earnings	13,237	15,445	16,058	16,909	19,284	21,006	22,145	24,251
Total Accumulated Other Comprehensive Income	1,211	213	-223	-251	1,383	2,553	3,567	4,946
Non-Controlling Interests	2,691	3,429	2,233	2,146	2,272	2,432	2,689	2,903
Total Liabilities and Net Assets	**55,094**	**56,597**	**55,053**	**53,175**	**54,533**	**56,122**	**56,918**	**62,366**
Interest-Bearing Debt	**19,175**	**17,882**	**19,530**	**16,301**	**11,700**	**10,338**	**9,270**	**9,902**
Equity Ratio	**34.3%**	**35.6%**	**36.7%**	**39.5%**	**45.9%**	**49.8%**	**52.9%**	**54.0%**
D/E Ratio	**1.1**	**0.9**	**1.0**	**0.8**	**0.5**	**0.4**	**0.3**	**0.3**

Source: Company data, compiled by Strategy Advisors

Figure 54. Consolidated Cash Flow Statement (¥mn)

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
Cash Flows from Operating Activities								
Income Before Income Taxes	2,287	6,151	1,602	1,770	3,461	3,269	2,525	3,904
Depreciation	1,860	1,982	2,234	2,768	2,500	2,417	2,269	2,224
Decrease (Increase) in Trade Receivables	411	130	570	759	-115	-494	-308	-603
Decrease (Increase) in Inventories	691	-1,790	-175	905	-977	-1,732	827	637
Increase (Decrease) in Trade Payables	758	564	-1549	357	998	-279	-808	68
Others	-1,028	-4,311	-1,578	-80	-1,145	-864	-419	-197
Total	**4,979**	**2,726**	**1,104**	**6,479**	**4,722**	**2,317**	**4,086**	**6,033**
Cash Flows from Investing Activities								
Purchase of Property, Plant & Equipment	-4,554	-3,948	-3,801	-1,334	-1,443	-1,347	-1,148	-3,626
Proceeds from Sale of Property, Plant & Equipment	287	4,330	64	81	818	69	37	31
Purchase of Investment Securities	-174	-20	-19	-21	-17	-115	-15	-17
Proceeds from Sale of Investment Securities	137	18	13	21	212	2	4	0
Others	119	-1,692	1,604	-296	-564	506	246	-1,525
Total	**-4,185**	**-1,312**	**-2,139**	**-1,549**	**-994**	**-885**	**-876**	**-5,137**
Cash Flows from Financing Activities								
Net Increase/Decrease in Short-Term Interest-Bearing Debt	2,198	-9,785	490	-2,169	-2,118	770	-200	200
Net Increase/Decrease in Short-Term Interest-Bearing Debt	-590	8,560	1,135	-1,053	-2,458	-2,168	-868	432
Proceeds from the Issuance of Shares	0	3	151	16	21	201	20	0
Payments for Purchase of Treasury Shares	-1	0	-131	0	0	-183	0	0
Dividends Paid	-484	-690	-1,031	-325	-418	-534	-646	-849
Others	-18	-16	-843	-95	-51	-48	-46	-111
Total	**1,105**	**-1,928**	**-229**	**-3,626**	**-5,024**	**-1,962**	**-1,740**	**-328**
Effect of Exchange Rate Change on Cash and Cash Equivalents	253	-267	-9	-45	479	419	245	335
Net Increase (Decrease) in Cash & Cash Equivalents	2,152	-781	-1,274	1,258	-816	-110	1,714	903
Cash and Cash Equivalents at Beginning of Period	5,834	7,987	7,206	5,931	7,190	6,373	6,263	7,977
Cash and Cash Equivalents at End of Period	7,987	7,206	5,931	7,190	6,373	6,263	7,977	8,881
Free Cash Flow	794	1,414	-1,035	4,930	3,728	1,432	3,210	896

Source: Company data, compiled by Strategy Advisors

Figure 55. Key Indicators

FY	12/17	12/18	12/19	12/20	12/21	12/22	12/23	12/24
EPS (¥)	88.5	156.7	57.3	66.4	164.8	134.1	107.1	1.1
BPS (¥)	1,206.1	1,283.0	1,283.9	1,335.6	1,589.4	1,771.7	1,906.6	2,125.6
DPS (¥)	16.0	18.0	16.0	10.0	22.0	30.0	32.0	52.0
Dividend Payout Ratio	18.1%	11.5%	27.9%	15.1%	13.3%	22.4%	29.9%	29.9%
# of Shares Outstanding at the End of the Period ('000)	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0	17,710.0
# of Treasury Shares ('000)	2,020.1	2,016.1	1,991.3	1,972.3	1,948.4	1,928.4	1,905.0	1,879.1
# of Shares of Treasury Stock ('000)	15,689.9	15,693.9	15,718.7	15,737.7	15,761.6	15,781.6	15,805.0	15,830.9
Average # of Shares Outstanding During the Period ('000)	15,690.7	15,691.1	15,709.8	15,729.2	15,749.9	15,772.8	15,795.2	15,817.6
Equity Ratio	34.3%	35.6%	36.7%	39.5%	45.9%	49.8%	52.9%	54.0%
Interest-Bearing Debt (¥mn)	19,175	17,882	19,530	16,301	11,700	10,338	9,270	9,902
Net Interest-Bearing Debt (¥mn)	11,188	8,648	13,219	8,339	4,041	3,286	926	-824
D/E Ratio	1.08	0.90	0.96	0.77	0.49	0.41	0.35	0.34
Net D/E Ratio	0.59	0.43	0.66	0.40	0.16	0.12	0.03	-0.02
OP Margin	4.4%	4.6%	3.0%	3.4%	5.1%	5.2%	4.1%	6.5%
EBITDA (¥mn)	4,056	4,292	3,635	4,187	4,953	5,046	4,308	5,743
EBITDA Margin	8.2%	8.5%	7.9%	10.2%	10.2%	10.0%	8.6%	10.6%
ROE	7.8%	12.6%	4.5%	5.1%	11.3%	8.0%	5.8%	8.6%
ROIC (Invested Capital)	3.7%	-0.2%	2.1%	2.0%	4.4%	4.1%	3.4%	6.0%
# of Employees (People)	1,472	1,479	1,496	1,500	1,454	1,472	1,500	1,531

Source: Company data, compiled by Strategy Advisors

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