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Message from

Shifting toward a “market-out” approach, we are determined to promote substantive structural reforms by breaking away from overreliance on the simple extension of existing operations.

Progress Made in My First Year in Office and Measures Reflecting Hard Truths

A year ago, I became the first MGC president with a background in research. I can leverage the advantage my background provides by taking a bird’s-eye view of the Green Energy & Chemicals Business and the Specialty Chemicals Business while addressing both areas without bias because, in addition to having firsthand experience as a researcher of entire processes from research through to commercialization and manufacturing, I have experience in corporate planning. In response to rapid changes in society, we must transform our existing templates for R&D processes and customer relationships. Mindful of this, I have not merely set out policies but also driven reforms by drawing on my accumulated experience and firsthand knowledge and by proactively engaging with frontline operations, which has given me a definite sense of progress.

That said, in fiscal 2025 the MGC Group recorded a net loss for the first time in 13 years, due to the recognition of a substantial impairment loss arising from the discontinuation of plant construction by a subsidiary engaged in manufacturing meta-xylenediamine (MXDA) in the Netherlands. As president, I take this outcome very seriously. With a determination to learn lessons from this substantial impairment loss, we have not only strengthened our investment discipline but also partially reformed our governance structure. Through the exclusion of executive officers in charge of business sectors from the Board of Directors, we have further separated business execution and management oversight. We are also expediting the construction of systems aimed at ensuring management decision-making is based on objective information.

Although achieving our targets is likely to take longer than originally planned, the reform of our business portfolio is progressing steadily as a result of measures such as the discontinuation of plant construction in the Netherlands and the discontinuation of polycarbonate production at the Kashima Plant. Depending on which course of action best suits the business environment, we will decisively hit the brakes or step on the gas. Moreover, we are resolved to undertake even more far-reaching reforms during the next medium-term management plan.

Substantive Structural Reforms by Shifting to a Market-Out Approach

In an era of steady market growth and gradual technological and environmental change, our structural reforms entailed business division-led improvements aimed at achieving the efficient, organic growth of existing businesses. However, in today’s brittle, anxious, non-linear, and incomprehensible (BANI) environment, solely relying on a traditional, straightforward growth vision of improving existing businesses would make it easier for competitors to catch up. Our Chinese rivals, for example, are advancing their technological development and business expansion at a faster-than-expected rate by accelerating research and development, pursuing overcapacity strategies, and implementing strategies aimed at meeting all types of market demand. Although the direction of our research is not in itself mistaken, I have a strong sense of crisis because as long as we remain in the same race as Chinese and Indian rivals, they will ultimately catch up with and overtake us. Going forward, therefore, we must pursue substantive structural reforms by backcasting from our vision and identifying the value we want to offer society. With a focus on realizing said value, we must then determine the businesses required and reassess the technologies to be strengthened or newly incorporated from a Groupwide perspective.

Particularly with respect to basic chemicals, we have benefited from having a product chain created by marketing various derivatives from single products. However, the breakage of even a single link in the chain brings entire operations to a halt. In other words, the business has an inherent structural risk. Irreversible changes to market structures are proceeding at a faster-than-expected pace. With respect to certain

technologies and products for which we enjoyed competitive advantages just a few years ago, competitors are realizing technological improvements or introducing rival products. What is more, competitors' successive increases in production capacity have led to an oversupply of certain products. We do not need to be constrained by product chains or feel obliged to participate in fields where the realization or maintenance of our competitive advantages is challenging. Instead, we will focus on a market-out approach, transitioning to a solutions-based business model whose starting point is customers' issues.

The "market-in" approach, whereby products are launched to meet specific customer needs, tends to lead to competitor convergence and price competition. By contrast, the market-out approach identifies customers' latent issues at an early development stage and begins research and development accordingly. This approach allows us to work with customers to create markets around products. Consequently, the Group can build markets that are well-suited to it but pose a high barrier to entry for competitors. In putting the market-out approach into practice, we must adopt the perspective of chemistry to articulate the unspecified concerns and issues of customers and establish relationships of trust that encourage customers to think, "Let's consult with MGC first." In fact, by becoming involved in customers' design processes, the optical materials and electronics materials businesses have already achieved positive development outcomes. To encourage a Groupwide transition to a business structure that is based on this type of market-out approach, I repeatedly engage in dialogue with research and development and business divisions.

In determining business and product solutions, the correct answers can be found through interactions with customers, not through internal discussions. While changing existing corporate structures and culture is not an easy task, I regularly tour our organization and directly encourage personnel to visit customers so that we become more involved in the early stages of their development efforts. Further, to free up time for researchers to engage with customers, we are increasing the automation and autonomy of experiments through the introduction of digital transformation and robot transformation initiatives enabled by AI and statistical analysis technology. In addition, the Corporate Planning Division is leading efforts to build a foundation for data-driven business management that integrates data from all businesses and functions. This foundation will ensure that decisions on projects and business management are objective, prompt, and based on evidence, rather than solely influenced by the convictions of individual business divisions.

The simple extension of existing operations is not evolutionary or exciting. At university, my mentor once told me not to follow in the footsteps of my predecessors as this would only result in repetition. After joining the Group, I was put in charge of polymer chemistry, a field I had never encountered during my undergraduate and graduate studies. As I threw myself into the work despite my lack of knowledge, I developed a method of incorporating computational chemistry, which I had originally studied, into my new field. Just as the method I developed led to the growth of our current optical materials business, I want our employees to boldly shift their thinking and actions, view things from a different angle than others, and leverage their unique strengths and skills to take on the challenge of opening up new fields.

Resource Allocation and Commitment to Technology

During my time as the general manager of the Tokyo Research Laboratory, I would occasionally suggest to researchers that they might benefit from venturing into industries beyond the chemistry field. My aim was to have them return to the commitment to technological development that is the source of our competitive advantage by deliberately turning their attention to fields where we have limited expertise. Even as we push forward with bold reforms, I intend to continue cherishing and preserving the pioneering spirit and commitment to technological development that have defined us since our founding. While differentiated technologies and products will remain our strength, we must assess the significance of commercializing them in terms of whether they solve customers' issues or benefit society. In deciding on the acquisition of core technologies through M&A, we must have the ability to evaluate technologies and determine whether they can become in-house technologies and be integrated into our operations.

We do not have to cling onto the same businesses indefinitely. Business structures and portfolios should evolve in response to changing customer needs. To meet society's many different needs, we will continue to hone our commitment to technological development while maintaining a diverse range of competencies—even if some of them are minor. If another company requires a particular technology, we have the option of exploring the best ownership structure, either based on patents or on business matching. In line with our return in investment (ROI)-based philosophy, we will ensure the focused allocation of resources as we continue research and development in fields where the realization of returns takes time. We will also concentrate our resources on responding to emerging social needs, considering collaborations with other companies as needed.

A Portfolio Built on Short-, Medium-, and Long-Term Business Areas

We will undertake the selection and concentration of businesses, focusing on three key strategic areas: ICT/mobility, which calls for rapid development; medical and food, where we plan to grow over the medium term; and energy and climate change, which we will address together with society over the long term.



The ICT/mobility area will continue to be our main source of earnings. While we need to adjust our up-front investments in electronic chemicals to reflect variations in the pace of customers' growth, the semiconductor-related sector as a whole is performing well, and we expect the market to continue growing. In areas such as BT materials and optical polymers, we already possess target materials for the next and subsequent generations of ICT applications thanks to our long-standing market-out approach to development. We are now at the stage of evaluating manufacturing processes and seeking feedback. The Group will proceed with investments and market launches in line with society's emerging needs. Given the fast-paced competitive cycle of this area, however, we will retain the courage to move on to the next objective before latecomers catch up with us.

The medical and food area, which has significant social importance, is expected to see stable demand growth driven by demographic trends. Through investments and external partnerships, we will expand the scope of our current core technologies and cultivate this area as a mainstay alongside the Specialty Chemicals and Green Energy & Chemicals businesses.

As for the energy and climate change area, although the achievement of profitability will take some time, we will continue to invest in technologies with concrete potential and increase the number of partners we have while establishing the required social infrastructure to sustain momentum.

In carbon neutrality-related efforts, as well as geothermal power generation, we aim to advance the full-fledged rollout of Carbopath™, a unique environmentally circular carbon platform that generates energy and materials through the use of methanol produced from CO_2 and waste. If we can use circular carbon methanol, which contains a single carbon atom as a starting point and extend our operations so that they encompass carbon recycling and become the lifeblood of a carbon-recycling society (a methanol economy), we will establish a business that is efficient and impactful—both in terms of economic and social value. Through process demonstration tests at the Mizushima Complex and other initiatives, we will provide society with actual examples of recycling and show the uses of the process. At the same time, we will expand collaboration with upstream and downstream partners to establish a circular carbon platform. Further, amid rising geopolitical risks due to conflicts and other factors, we are seeing a gradual move away from the global paradigm of simply seeking the most inexpensive raw materials and production locations. We ourselves are addressing supply constraints through the restructuring of our supply chain, which is centered on Asia, where we have strengths. We also want to convince society of methanol's value as an alternative to naphtha that has the potential to underpin society's infrastructure.

Resolute Implementation of Structural Reforms with Our Vision as the North Star

We take criticism about the complexity and efficiency of our conglomerate business model seriously. Nonetheless, our portfolio of businesses in areas with three different growth rates and time horizons—namely, specialty chemicals; carbon neutrality; and life sciences, medicine, and food— plays a significant role in stabilizing business management by mitigating the impact of economic fluctuations and enhancing resilience to unpredictable geopolitical risks. We will keep this in mind as we continue reforming and replacing the businesses in our portfolio.

Going forward, we must reap the rewards of investments and maximize their effectiveness. While further evolving return on investment capital (ROIC) management, our vision will be the North Star of efforts to resolutely implement Groupwide structural reforms. Moreover, we will establish data-driven business management that enables us to make decisions on business continuation or withdrawal in light of numerical data. The MGC Group will sustain growth by simultaneously pursuing short-term profitability and advancing long-term initiatives that support society. As we forge ahead with reforms in earnest, I would like to ask our shareholders and investors for their understanding and continued support.

Yoshinori Isahaya
President and Representative Director