

Basic Capital Policy

Measures for Realizing Management Mindful of Share Price and Cost of Capital

As part of our Measures for Realizing Management Mindful of Share Price and Cost of Capital, we have established the following Basic Capital Policy in conjunction with our medium-term management plan (FY2023-FY2025).

Basic Capital Policy

Our basic capital policy has been designed to ensure financial stability and soundness, aiming to achieve sustainable improvement of corporate value.

We utilize the EVA*¹ spread (ROIC*² minus WACC*³) as an indicator for improving corporate value, and will increase the added value from our businesses by improving ROIC and optimizing WACC.

At the same time, we intend to advance management mindful of share price and cost of capital, using the equity spread (return on equity (ROE) minus cost of capital) as a management indicator, with the aim of improving share value.

In addition, we aim to optimize the cost of capital and increase ROE by setting an equity ratio required for ensuring high financial soundness and creditworthiness with external parties, as well as by being active in shareholder returns when capital exceeds a certain level.

Furthermore, in investing in growth areas to secure future earnings, we will rigorously screen investments by setting a hurdle rate based on the cost of capital and diligently calculating the net present value of cash flows and the internal rate of return.

Through a series of measures such as improving the profit margin on sales in our businesses, improving the total asset turnover and utilizing financial leverage, we will achieve ROE of 10% in the medium to long term and improve price book-value ratio (P/B ratio).

*1 Economic value added *2 Return on invested capital *3 Weighted average cost of capital

Analysis of Current Situation Based on FY2023 Results

Our current net assets per share is ¥2,571, and the PBR is about 0.7 compared with the market share price (average price at the end of May 2024: ¥1,831). The Company uses ROIC as a KPI to measure profitability, but the actual result for FY2023 was 3.7%, and for ROE, the result was 6.8%, both lower than the cost of capital/WACC and not reaching the targets in the medium-term management plan.

We recognize that the key points for addressing these factors and business challenges is to improve profitability in the Automotive and Construction Machinery Industries segment and to recover net sales and profits in the Semiconductor Industry segment, and so we will continue to develop new products and expand in the Semiconductor Industry segment to further increase sales and improve profit margins over the medium term.

Analysis of Current Situation	BPS: ¥2,571, PBR: approx. 0.7× as of March 31, 2024	
	Comparison of ROIC/ROE with cost of capital/WACC	FY2025 Targets
	ROIC 3.7% < WACC 6%	ROIC 6%
	ROE 6.8% < Cost of capital 8% to 9%	ROE 9%
	Target profit level has not been reached, and target ROE and ROIC have not been reached	
Business Challenges	Profitability improvement in the Automotive and Construction Machinery Industries segment, recovery in the Semiconductor Industry segment	
	Achieve 10% ROE in the medium- to long-term and further improve PBR	

Shareholder Returns during the Medium-Term Management Plan Period

Based on the above capital policy, we plan to return a total of approximately ¥18 billion to shareholders during the medium-term management plan period, but we have decided to partially change the method of shareholder return in consideration of profit trends and shareholder composition in FY2023.

(1) Share buyback

We plan to repurchase treasury stock totaling approximately ¥12.0 billion during this period, and repurchased 3,000,000 shares totaling approximately ¥5.2 billion during FY2023. However, from the current fiscal year onward, from the standpoint of the Company's shareholder composition, share price and liquidity in the stock market, the Company will abolish the planned total amount of share repurchases and proceed with repurchases flexibly according to future trends in market stock prices.

(2) Payment of dividends

The dividend policy of "continuing annual dividend payments of ¥70 with a target DOE of 2.5% or more" has been changed to "continuing annual dividend payments of ¥80 or more with a target DOE of 3.0% or more."