Responses toward realization of management conscious of capital costs and stock prices

Based on the issues we identified in our analysis of the current situation, we aim to achieve a PBR of 1.0x or more by 2027 through the steady implementation of a host of measures under Project Z and by bolstering IR activities and ESG initiatives.

Vision for 2027

Toward realization of management conscious of capital costs and stock prices

- Consolidated operating margin: **5**% or more
- ROE: **8**% or more
- DOE: **2**% or more

→ PBR **1.0**x or more

Changes in PBR, ROE, and PER over time (current analysis)

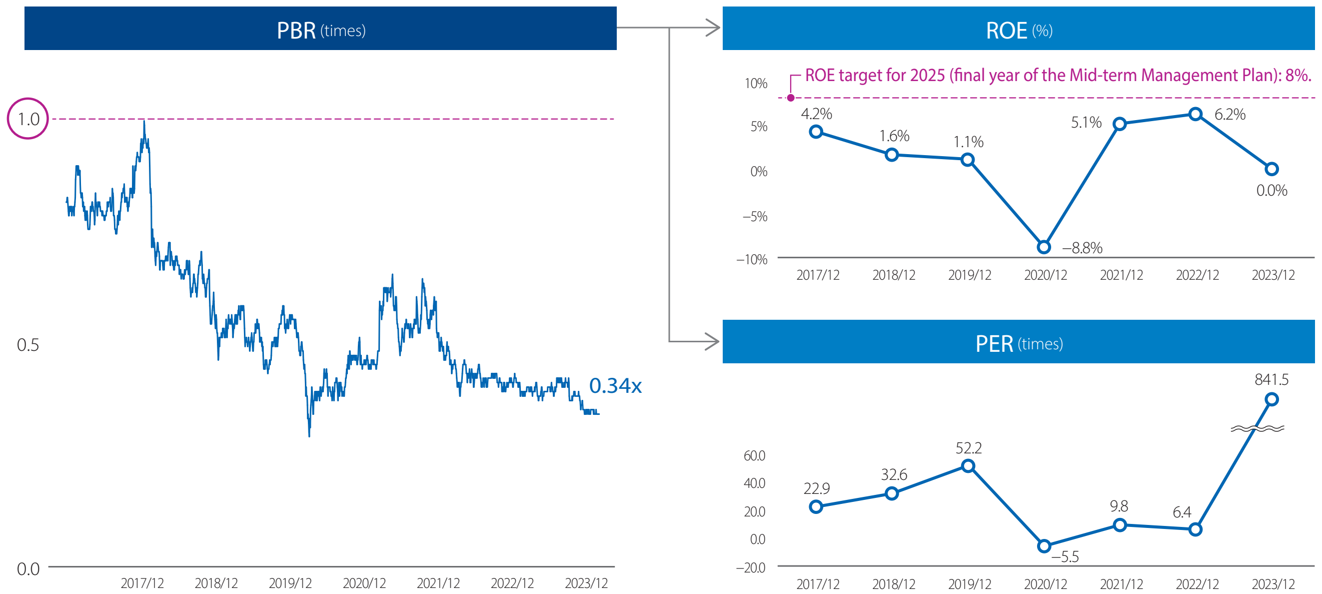
Our PBR has remained below 1.0x, standing at 0.34x as of December 31, 2023. We broke down PBR into its component parts, ROE and PER, and organized the factors for each of these indicators through comparison with other companies in the same industry over time and the gathering of opinions from investors connected with the company.

1 ROE

Based on changes in ROE over time, the Company failed to reach the target figure of 8% set forth in the Mid-term Management Plan. We have determined that this was due to the low net income margin and low total asset turnover ratio. Our view is that the net income margin is affected by the profit margin and selling, general and administrative expenses ratio for each product, while the total asset turnover ratio is impacted by factors such as inventory volume and facility utilization rate. The understanding of our institutional investors with whom we have daily contact is that our cost of equity is generally around 8%.

2 PER

Our PER has been less than 10x since 2020. We view this as being attributable to a dearth of information disclosure regarding factors such as growth, strengths, and profitability, as well as a discrepancy between plans and actual results.



Key analysis results and direction of improvement

Perspectives of current analysis		Key analysis results	Direction of improvement
PBR / ROE	Profitability	● Net profit margin and operating margin are low compared with other companies and have not satisfied investors' expectations ● Failed to generate return on capital surpassing investors' anticipated cost of equity	Improvement of profitability
PBR / ROE	Asset efficiency; Capital strategies (including financial leverage)	● While the share of operating cash flows allocated to investment is high compared with other companies, progress in sales and profits has been limited, keeping the non-current asset turnover ratio low. ● Inventory turnover period is lengthening compared with other companies	Asset efficiency
PBR / PER	Growth potential	● Sales and profit growth rates are low compared with other companies ● The ratio of overseas net sales to total sales is inferior to that of other companies ● Shareholder returns such as dividend payout ratio are low compared with other companies ● Debt redemption period is long, requires attention from the perspective of financial soundness	Cash allocation for growth
PBR / PER	Information disclosure/ dialogue; Capital cost	● Inadequate disclosure of profitability and strength differences between domestic and overseas operations ● Inadequate disclosure of action targets to achieve management objectives ● Significant differences between plans and actual results negatively impact plan credibility ● Governance (oversight function) needs reinforcement	Bolstering of IR activities and ESG initiatives

Toward improving PBR

1 | Improvement of profitability
Accelerate the upgrading of profit management and implement fundamental structural reforms and growth strategies through Project Z to enhance profitability. P25–28

2 | Asset efficiency
We will endeavor to improve asset efficiency by making investment decisions based on hurdle rates and inventory reduction.

3 | Cash allocation for growth
We will improve profitability and asset efficiency to generate operating cash flows. We will invest this cash in structural reforms and growth, return profits to shareholders, and reduce interest-bearing debt. P31–32

4 | Bolstering of IR activities and ESG initiatives
We will upgrade and augment activities toward promoting understanding of our growth strategies and lowering the cost of capital. P77–78