

Vision

- Enhancing corporate value by improving both ROE and PER

Key Features

- Stable cash inflow generated from automotive components business
- Concentrating management resources on focus areas to enhance profitability

Challenges

- Expanding EBITDA to 1.6x during the Mid-term Management Plan 2030 period
- Optimizing the portfolio to improve ROIC

Executive Officer's Message



Increasing capital efficiency and supporting sustained growth through disciplined capital allocation

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Strong start to Mid-term Management Plan 2030 after record-breaking results

For FY2025, the first fiscal year of the Mid-term Management Plan 2030 (hereinafter, MMP 2030), revenue reached 731.2 billion yen and operating income 138.1 billion yen, as we set record highs in all stages of profits. Profit margins improved, mainly in the automotive components business posted results, and return on equity (ROE) improved to 15.7%. I am pleased to report that steady growth helped us come close to our target ROE of 16% for the final fiscal year of our Mid-term Management Plan.

Despite rising costs due to surging prices of precious metal materials and additional tariffs imposed by the United States, the automotive components business secured increased profits through strong sales and price adjustments. While one-off expenses such as impairment losses in the medical business were recorded in the component solutions business, the SPE business, which primarily sells electro-static chuck, recorded profit growth due to higher demand for semiconductors, reducing operating losses. Niterra Materials, which recently joined the Group, is expected to experience steady growth over the medium to long term, although the timing of full-scale growth will be delayed due to the slowdown in the EV market.

For FY2026, we anticipate reaching record-high revenue of 790 billion yen and operating income of 150 billion yen, driven by robust demand in the automotive components business and growing demand for semiconductors. We will continue to adjust prices in response to cost increases, closely monitor the impact of the situation in the Middle East on logistics, minimize the impact by considering alternative routes, and steadily move forward on our projected growth trajectory.

Enhancing profitability and capital efficiency, and accelerating ROIC improvement

Viewing corporate value enhancement as synonymous with improving the price-to-book ratio (PBR), the Group is implementing measures from both the ROE and price-to-earnings ratio (PER) perspectives. To increase ROE, we will improve return on invested capital (ROIC) and ensure the appropriate use of financial leverage. To increase PER, we will raise expectations for sustained growth through growth investments, human capital management, and expanded investor relations activities.

The first pillar for improving ROIC is to further enhance the capital efficiency of the automotive components business and maximize its cash generation capabilities. In our decisions to execute capital investments, we are prioritizing efficiency in our investments, carefully considering their alignment with our business strategy and their return on investment. Even when increasing production, instead of large-scale equipment expansion, we are focusing our investments on bottlenecks in the production process, thereby increasing production capacity and return on investment efficiency while keeping investment costs down.

Additionally, we are shifting the focus of our investment from hardware-centric to digital transformation (DX) in order to create smart factories. In the automotive components business in FY2025, capital expenditures (capex) amounted to 23.5 billion yen against depreciation expenses of 32.3 billion yen, meaning that capex remained within the scope of depreciation. This is not about curbing investment, but rather changing the nature of

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investment, such as using DX to improve the productivity of existing facilities. While the effects may not be apparent in the short term, we will steadily improve productivity and operational efficiencies throughout the Mid-term Management Plan period, transforming our automotive components business into a more robust cash-generating foundation.

The second pillar is improving unprofitable businesses. In FY2025, we focused on reducing unprofitable regions and products, as well as business portfolio optimization, through measures such as consolidating some business sites. Regarding the medical business, our first goal is to achieve profitability in FY2026. On top of this, we will assess whether the business can be transformed into one that continuously generates profits and achieves ROIC exceeding the weighted average cost of capital (WACC). We will also examine the synergies with our core sensing technology and decide on a future direction before the end of FY2026.

Going forward, under our new management structure, we will accelerate business portfolio optimization even more than before, including the possibility of business divestitures, while comprehensively evaluating profitability, growth potential, and compatibility with the Group's core assets.

To improve ROIC, it is important for both the business and finance departments to fulfill their respective roles. As for business departments, in addition to growing operating income, which is the biggest driver of ROIC improvement, we will improve asset efficiency by properly managing invested capital, such as inventories and accounts receivable. Meanwhile, the finance side will manage the entire balance sheet, including liabilities and equity, to ensure both a sound financial foundation and improved capital efficiency.

In particular, with regard to working capital, we are showing each business unit the impact of inventories and accounts receivable on ROIC and encouraging improvements. Due to geopolitical risks and preparations for potential logistics disruptions, we have kept current inventories slightly higher than average temporarily. We will strive to improve efficiency while determining the optimal level that balances stable supply with capital efficiency. Looking at investments to increase production, we will verify the recoverability, including the increase in inventories and accounts receivable. The business and finance departments will communicate using common metrics to improve both profitability and asset efficiency.

Aiming to achieve both financial soundness and capital efficiency and building a financial foundation that supports growth

To improve ROE, it is important to optimize the capital structure by utilizing the right amount of financial leverage while maintaining financial soundness, in addition to improving ROIC. The Group's equity ratio fell from 68% at the end of FY2024 to just under 63% at the end of FY2025, due to larger borrowings resulting from the acquisition of Niterra Materials and share buybacks. Going forward, we will continue to utilize debt financing flexibly to fund growth investments while keeping in mind the equity ratio of around 60% necessary to maintain our current corporate bond rating.

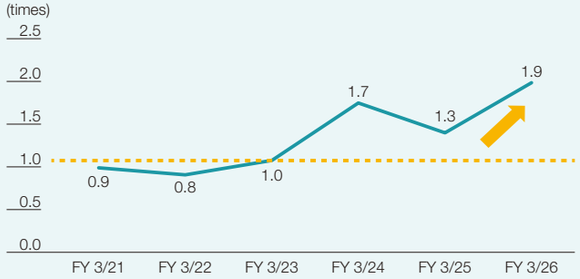
In acquiring Niterra Materials we utilized interest-bearing debt without raising equity capital. I believe we have been able to maintain financial soundness while allocating funds to investments that will lead to improved profitability in the future. Looking ahead, we will continue to monitor interest rate trends and market conditions, securing diverse funding options such as borrowings and corporate bonds to enhance the stability and flexibility of our financing.

Simultaneously, avoiding excessive cash holdings is also a form of financial discipline. We are promoting a capital policy that emphasizes capital efficiency, including implementing a share buyback program totaling 30 billion yen from the end of FY2025 to FY2026. Share buybacks not only improve capital efficiency but also serve to demonstrate our position to the market regarding the current share price level. Moving forward, we will continue to utilize this strategy flexibly, taking into account comprehensively our financial situation, stock price levels, market conditions, and other factors.

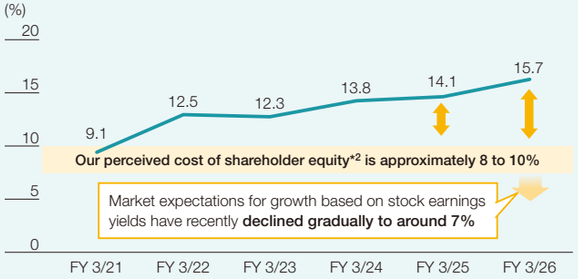
Furthermore, the Group has a structure where profits tend to accumulate easily at overseas subsidiaries, and funds tend to be concentrated or kept at local subsidiaries. To use these funds to unlock growth for the entire Group, we are expanding the global reach of our Cash Management System (CMS), which we have been operating domestically for over a decade. We aim to enhance capital efficiency and risk management—and further reduce the consolidated cash balance—by optimizing the use of funds across the Group. This involves securing the working capital necessary for each overseas subsidiary's operations while managing foreign exchange regulations, tax systems, and currency risks. We will achieve this through mechanisms such as repatriating funds from subsidiaries via dividends and utilizing systems like CMS to address short-term fluctuations and surplus capital.

Regarding exchange rate fluctuation risks, we strive for flexible management while carefully considering the balance between hedging costs and benefits. Currently, we are also working to reduce actual risk by

Change in price-to-book ratio (PBR)*1



Change in return on equity (ROE)



Change in price-to-earnings ratio (PER)*3



*1 Calculated by dividing the closing stock price at the end of each fiscal year by the book value per share (BPS, excluding non-controlling interests) corresponding to the end of the previous fiscal year.
*2 Estimated range based on the expected growth rate from the market based on CAPM and stock earnings yields.
*3 Calculated by dividing the closing stock price at each point in time by the projected EPS (market consensus) at that time.

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optimizing fund transfers and settlement terms within the Group.

As for our capital policy, we have adopted a dividend policy based on stable dividends, combining a DOE of 4% with a dividend payout ratio of 10% of net profits. In essence, this approach is similar to progressive dividends, emphasizing continuous shareholder returns.

Currently, we recognize that the Group's ROE is approximately 16%, which exceeds our cost of capital, which is typically around 8% to 10%. By continuing to return profits to shareholders while prioritizing investments in growth areas and expanding profits, we aim to improve capital efficiency and achieve sustained growth.

Assessing growth potential and return on investment and executing disciplined investments

To increase our P/E ratio, it is important to raise expectations for sustained growth. Based on the cash allocation outlined in MMP 2030, we will allocate the cash generated from our automotive components business to focus domains while carefully assessing their growth potential and investment efficiency.

Business investments in the first fiscal year of the Mid-term Management Plan are progressing largely in line with the plan. In our component solutions business, we have executed approximately half of our 320 billion yen investment plan, including the acquisition of Niterra Materials, and we plan to focus our investments on our SPE business going forward.



We plan to invest 340 billion yen in our automotive components business to promote the expansion of production capacity by making investments in equipment upgrades and productivity improvements.

In our SPE business, we anticipate medium- to long-term growth in demand, primarily in applications related to generative AI and advanced logic semiconductors. While this business requires upfront investment, the semiconductor market experiences extreme demand fluctuations, so we will more carefully assess the certainty of demand before making investment decisions. In plant construction, we plan to prioritize building the structures first, and then gradually introduce production equipment in accordance with demand, making investments only after risks are controlled. When making investment decisions, we consider not only accounting profits but also the cash-based payback period to ensure sufficient return on investment. This is a different decision-making framework than our automotive components business, where we have invested in accordance with our customers' capex plans. Because upfront investments are required that anticipate market growth and customer demand, we place great importance on balancing the accuracy of demand forecasts with investment discipline.

Regarding Niterra Materials, we do not currently plan any large-scale additional investments because the growth of the BEV market has slowed more than anticipated at the time of the acquisition. However the silicon nitride business such as heat dissipation substrates and bearing balls is an area where medium- to long-term growth is expected. We are looking beyond the BEV market to a wide range of applications, and we will keep a close eye on market trends to prepare for future growth opportunities.

Cash allocation is not about automatically spending a predetermined amount of money. We will assess the market environment, business progress, and investment effectiveness, and strategically allocate capital to areas where we can expect returns exceeding the cost of capital.

Transforming human capital enhancements and dialogue with the capital markets into a force for sustained growth

To enhance expectations for sustained growth and reduce the cost of capital, strengthening non-financial capital, including human capital, is essential. As our business portfolio expands from the automotive components business to growth areas, we are optimizing human capital allocation and human resources in line with the strategies of each business. We are working to improve productivity and development efficiency while also building an organization that can flexibly respond to changes in the business environment.

Furthermore, through performance-linked compensation programs and increased subsidies for the employee shareholding association, we are developing mechanisms that enable employees to personally experience the capital market's evaluation of the company and the benefits of enhanced corporate value. By encouraging each employee to view corporate value enhancement as their own concern and share in the benefits of growth, we will strengthen our ability to execute initiatives that support sustained growth.

Engaging with the capital markets is also an important initiative aimed at improving our PER and reducing the cost of capital. I believe that PER is not determined solely by financial indicators, but rather by how clearly we can communicate the Group's growth story to the capital markets and gain their understanding and trust. In addition to visits to investors by top management both in Japan and internationally, we doubled the number of meetings with overseas investors compared to the previous fiscal year. We are also looking more to Asian investors and investors who evaluate corporate value from a medium- to long-term perspective. We increased our IR meetings from 281 in FY2024 to 330 in FY2025.

Through these dialogues, we are seeing an increasing number of investors paying attention not only to our traditional automotive-related reputation but also to the growth potential of our semiconductor-related business. There is a growing understanding of our business portfolio, which possesses both the stable cash flow generated by the automotive components business and the growth potential centered on the SPE business. Going forward, we will continue to share the opinions gained from these dialogues internally, reflect them in our management and information disclosure, and carefully communicate the business strategies and growth paths behind our financial figures. In turn, this will boost confidence in our sustainable corporate value enhancement.

To our stakeholders

In the first fiscal year of our Mid-term Management Plan, we were able to get off to a good start financially speaking. Going forward, we will strive to further enhance capital efficiency while maintaining financial soundness and pursue the optimal balance between growth investments and shareholder returns through disciplined capital allocation integrated with our business strategies. We will redirect our stable cash-generating capabilities to growth businesses and future pillars in an effort to achieve medium- to long-term enhancement of corporate value.

Going forward, we will continue to steadily demonstrate these initiatives and their results and strive to build relationships that foster a deeper understanding of our company through assertive dialogue and that earn us support over the medium to long term. I hope that our stakeholders will continue to look forward to the Group's transformation and growth.

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