

The Sanwa Group's Human Resources Strategy

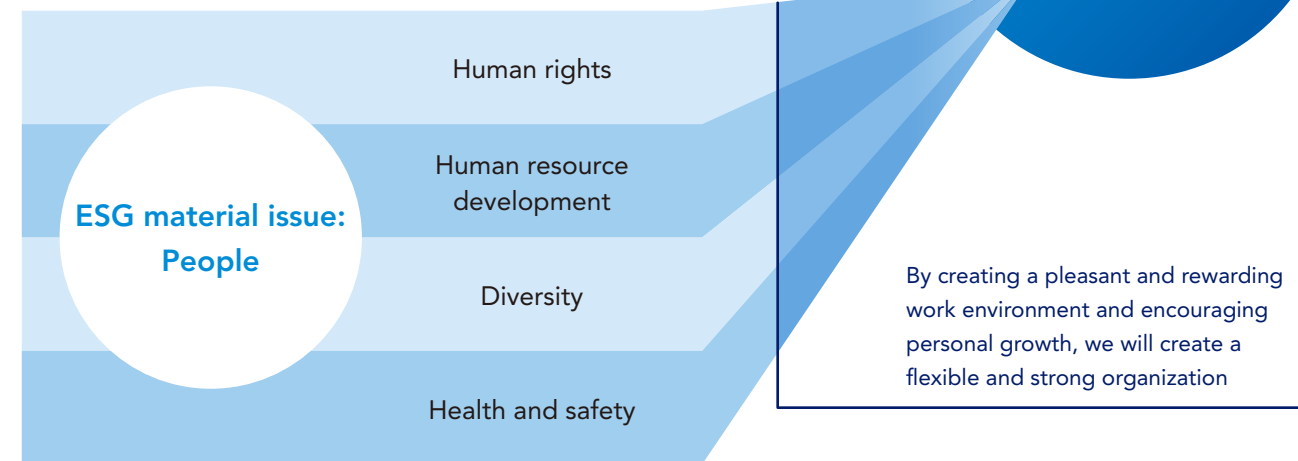
Basic policy for human resources

The Sanwa Group views human resources as its most important management resource. We are focusing on the development of human resources, the driving force behind value creation, by enhancing systems and work environments so that employees can fully demonstrate their capabilities. We are also working to promote human resources-related measures that take human rights and diversity into account, and to ensure that work environments are safe and comfortable. Through fair and sincere corporate activities based on the effective use of human capital, we seek to maximize the social value we provide to stakeholders.

Approach to securing human capital and ensuring diversity

The Sanwa Group hires and assigns human resources with an emphasis on their individual strengths and abilities, regardless of their gender, nationality or employment type. We believe that creating a positive work environment with free and open communication and respect for diverse values is essential in order to achieve sustainable growth and enhance corporate value.

The Relationship Between People (as an ESG Material Issue) and Value Enhancement



Types of talented people the Sanwa Group needs

In fiscal 2022, the Sanwa Group set forth its aim of becoming "a Global Leader of Smart Entrance Solutions" as the foundation for its Long-Term Vision, the Sanwa Global Vision 2030.

To achieve this Long-Term Vision, we will need a variety of talented people, including:

- People who take a serious approach to the PDCA cycle
- People with a global perspective
- People who can contribute to a sustainable society
- People with digital skills
- People who see productivity enhancement as a priority
- Innovative people

In order to attract and bring this kind of talent into the Group, we will strive to create a flexible organization that can accommodate diversity.



Human resources the Sanwa Group needs



Training System (Group companies in Japan)

	Level-specific training	Goal-specific training (open to all/select employees)		Goal-specific training (mandatory/elective)		Personal development
		Next-generation	Global	Career	Division-specific skills	
Senior management						
Managers	Training to strengthen management skills	Sanwa Management Training School (Executive)	Training for global assignments	Life planning seminars	Training to improve skills required in each division (sales, design, construction, manufacturing, development, management, etc.)	Correspondence courses, recommended reading, etc.
	Training for onboarding new employees					
	New manager training					
Mid-level employees	Next-generation leader training	Sanwa Management Training School (Advanced)	Practical global training	Career design seminars		
	Career development training (for female employees)					
	Mid-level employee training					
	Mentor training					
New employees	Follow-up training		TOEIC IP			
	New employee training (Sanwa Professional Human Resources Training Plan)					
			E-learning, etc.			

Training to strengthen management skills

With the aim of reinforcing the Sanwa Group's combined strengths, and to give managers at the heart of the business enhanced management capabilities, since fiscal 2022 we have conducted training to strengthen management skills. The training is designed for personnel who already have some management experience and who are expected to play a more active role in the future. The training involves group discussions of a manager's roles and responsibilities, and of skills such as management, planning, and communication with subordinates (coaching, listening, etc.).

Next-generation leader training

Since fiscal 2022 we have carried out next-generation leader training, designed for mid-level employees as the core human resources in each Group division. Participants learn about the mindset and skills needed to demonstrate leadership, and the training aims to provide them with self-awareness as next-generation leaders, as well as to generate both the motivation to tackle various issues and a sense of ownership as potential management candidates. During the training, participants also learn about the skills required of them as future leaders, such as grasping issues and finding their causes, establishing the subject matter and drawing up concrete proposals, and communicating in a way that influences others.

Career development training (for female employees)

One of the basic strategies for the Group in Japan is to strengthen human resource development, increase productivity, and reinforce our installation, manufacturing and supply capabilities. Achieving all of those things will depend on female employees being able to fully demonstrate their abilities, and also on leadership that leverages the unique insights women hold. With this in mind, since fiscal 2022 we have held new career development training sessions designed for female employees who have worked for the Group for ten or more years. The training is part of our human resource development for future management candidates, and is also an opportunity for individual career development. Through the training, participants consider the unique characteristics women possess and the career challenges they face. With a renewed outlook on their current work and life, they see themselves in a more positive light, fostering their drive for career development.



Practical global training

As part of our global human resource development, we have been conducting overseas training at ODC in the U.S. since 2010 and in Shanghai, China since 2017. Through an approximately year-long period of practical training at overseas Group companies, we develop global human resources for the Group who hold a strong international outlook. After the training period, participants go on to play active roles in various fields in Japan and overseas. Training at ODC in the U.S., which was put on hold during the COVID-19 pandemic, will resume in late 2023.



Roundtable Discussion between the President and Employees —The Sanwa Group's work style—



Members of various Group departments and divisions met with the President to discuss the significance of working at the Sanwa Group and what makes it rewarding. Through this discussion, we present the Sanwa Group of today, including its qualities, challenges and outlook.

The Sanwa Group's culture and corporate climate

- President** How do you feel about the Sanwa Group's culture and corporate climate, and about the organization as a whole?
- Sales (A)** I feel that individual salespeople are given a lot of discretion over their work, and I find that extremely rewarding. The more work is entrusted to me, the more I feel a sense of responsibility in my role.
- Installation** If, for example, a voluntary inspection uncovers serious issues at a work site, my department provides support. I also feel there is a lot of warmth in our internal and external relationships, such as our close work with the installation management department (nationwide, but mainly in the greater Tokyo area) and the Group's corporate climate of working together to get the job done.
- Product Planning** I took part in the year-long overseas training program. After returning to Japan, I participated in a purchasing division meeting for one of our overseas Group companies, and was given an opportunity to work in the U.S. as a result. I think the Group's appeal is that anyone with enough motivation has the chance to take on the challenge of global work.

Group synergies and ways of working

- President** Do you have any examples of times when you felt a sense of collaboration within the Group?
- Development** In the development department, our approach often involves looking at customer needs identified by the

sales department, considering product specifications that will meet those needs and moving forward with development. One example result of this approach is the Soundproof Guard: a highly sound-insulating door that was launched this year, as it was a product developed by considering specifications and variations based on information from the sales department. Overseas, heat insulation is a standard feature, and Novoferm (Europe) and other Group companies already offer heat-insulating products. I would like to actively cooperate with overseas Group companies to accelerate our development of products that meet customer needs from among a wider variety of options.



Product Planning At ODC (in the U.S.), the marketing division decides the development policy, and the engineers implement it. The marketing division is also basically responsible for tasks such as project scheduling and coordination. On the other hand, if a project is not so big then an engineer can draft the project plan and has the discretion to move forward with it. That aspect is perhaps a little different from how development works in Japan.

Development Until recently, it was hard to imagine developing my career while balancing home and work responsibilities. But when one of my coworkers became the first female manager in the product development department, she became my role model. Looking at senior colleagues like her who have gone before me, I feel that I can also consider future career development as part of my own life plan.

Installation There are fewer people at my workplace right now, and the number of women working in installation management is low in the first place. In particular, I think a work environment that makes it easy for everyone (regardless of gender) to balance childcare and work is a great idea, as nobody else around me is having to struggle with it. I also think that remote working makes balancing childcare and work easier, but we do not currently make use of that work style very often. It would be nice to have a work environment that makes working from home even simpler.



Toward the generation that will drive the Sanwa Group's sustainable growth

- President** What do you think the Sanwa Group will look like in five to ten years' time? When you think about the kind of person you want to be ten years from now, are there any challenges you want to take on to achieve that?
- Installation** Thinking about the situation in five to ten years' time, one big issue is that installers, who are a strong asset for our company at work sites, will be older. Research into optimizing installation is an urgent task for the construction industry as a whole, and I believe that we need to carry out product development focusing on weight reductions and other key themes. Also, by making the work and workplaces more appealing, including working conditions and benefits, if more people decide to become installation engineers and want to work for the Sanwa Group as a result, I can see a bright future for the Group ten years from now.
- Sales (A)** In five to ten years' time, our generation will be playing the leading roles. As the younger generation, we must fully inherit the knowledge, experience and Sanwa spirit held by the senior colleagues who have led the company to date. I would like us to take the lead in revitalizing the company, in order to become a sustainable Sanwa Group.
- Development** There are many important themes that the development department needs to work on, but to start with, I would like to see the product development flow and work sites at Group companies in person. Doing so would enable me to learn more, and to acquire knowledge and technologies that we could then make use of in product development. I also think that if we move forward with product development in collaboration with Group companies (including overseas companies), the possibilities will be even greater.



Product Planning It would be true to say that communication between Japan and other countries has not been effective so far because of the differing laws, regulations and markets in each country. Even so, I would like to collaborate on development with a broader field of vision. Personally, I think we need to raise awareness of the Sanwa Group among the general public. I think that the increase in the company's brand value as a result would give us the kind of presence that makes us the obvious choice in the market. It would also boost the pride and sense of reward that we feel as employees of the Sanwa Group.

Sales (B) The Sanwa Group offers a wide variety of products and has employees working in a wide range of occupations, so I believe we should continue to collaborate on initiatives. My aim is to absorb everything there is to learn from my supervisors and senior colleagues who have built up Showa Front so far, grow as an individual, and contribute to the future of the company and the Sanwa Group.

President The Sanwa Group is comprised of numerous companies around the world. Obviously, our employees have various occupations, as well as different genders, nationalities and backgrounds. It is only natural that there are differences in our values and ways of thinking, and with that in mind it is important that we understand and accept each other and continue to collaborate. I also hope that you will fully inherit the Sanwa Group's qualities that have been cultivated by our predecessors throughout our long history. However, please do not hesitate to change what needs to be changed. My job is to provide all of you with the opportunity to do so. I believe that as the Group's qualities are passed on to the next generation, that positive cycle spanning generations leads to further individual growth, building a strong yet flexible organization.

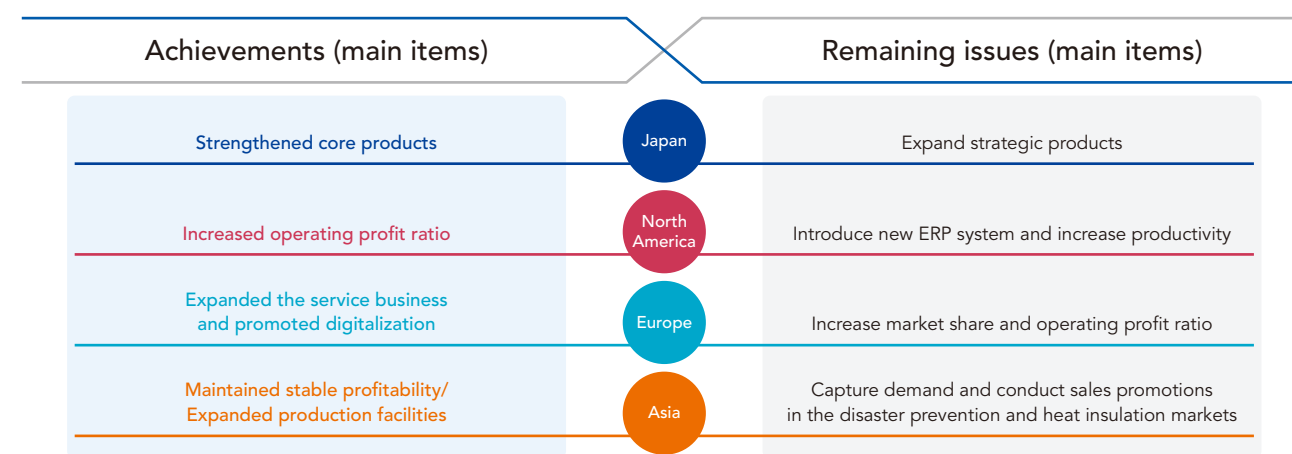


Sanwa Global Vision 2030

In fiscal 2022, the Sanwa Group launched its Long-Term Vision, the Sanwa Global Vision 2030. The Mid-Term Management Plan 2024, which runs from fiscal 2022 to fiscal 2024, aims to establish the foundation of our efforts toward becoming a global leader of smart entrance solutions to respond to changing societal needs influenced by climate change and digitalization. In fiscal 2022, the first year of the plan, sales and profits rose in all regions we operate in (Japan, North America, Europe and Asia). We also achieved record highs for net sales and profit in each region, meeting the targets for the final fiscal year of the plan two years ahead of schedule. While leaving the Mid-Term Management Plan 2024 target amounts unchanged, we will focus on initiatives for each measure specified in the plan by steadily implementing the basic strategies with the intent of exceeding those targets.



We have achieved the net sales and operating profit targets of the Mid-Term Management Plan 2024 two years ahead of schedule. Leaving the target amounts unchanged, we will focus on implementing the basic strategies.



Progress of the Mid-Term Management Plan 2024 (FY2022–FY2024)




Basic Strategy 1 Expand and strengthen core businesses (shutters, doors & service) in Japan, North America and Europe

With quick and appropriate responses to customer needs, aim to strengthen business and expand core businesses, including the service business

Strategy	Progress
1 Increase market share in shutter and door businesses <ul style="list-style-type: none"> Expand non-residential business by enhancing product lineup and reinforcing proposal capabilities Expand residential business through product differentiation and increased distribution channels Strengthen structures to support business expansion 	<ul style="list-style-type: none"> Japan: Steady progress of core product use at factories, logistics warehouses and other facilities / Moved forward with differentiation of strategic products to expand market share North America: Focused on sales promotions for commercial doors targeting large-scale projects by strengthening product lineup Europe: Focused on robust non-residential projects in countries such as Germany and France to expand business 
2 Expand the service business <ul style="list-style-type: none"> Steady implementation of statutory inspections and repair and replacement proposals for product deterioration over time in the domestic business Strengthen automatic door business in North America Build and strengthen the service business structure in key European markets 	<ul style="list-style-type: none"> Japan: Steady progress in general repairs, periodic maintenance and statutory inspections North America: Moved forward with strengthening the automatic door service business Europe: Steady progress influenced by the acquisition of Manuregion S.A.S. (France) 
3 Utilize M&As to strengthen business and expand business domains <ul style="list-style-type: none"> Strengthen core businesses, including the shutter, door, and service businesses Expand from fixtures and fittings (doors, windows, etc.) into access control systems and other peripheral businesses Investments in M&As (Total for the three years of the Mid-Term Management Plan 2024: ¥20.0 billion) 	<ul style="list-style-type: none"> August 2022: Acquired AUB Limited (Hong Kong) as the Group's first M&A in Asia January 2023: Acquired Door Control, Inc. (North America) 

Basic Strategy 2 Strengthen the basis for growth of the Asia business

Rebuild manufacturing and sales structures to acquire market share, and build the foundation for a fourth pillar alongside Japan, North America and Europe

Strategy	Progress
1 Significantly boost production capacity with enhanced facilities <ul style="list-style-type: none"> Further expand hinged door business with the commencement of operations at the Sanwa Novoferm Changshu Plant Expand residential business through product differentiation and increased distribution channels 	<ul style="list-style-type: none"> Consolidation of Sanwa Novoferm Changshu as part of plans to further expand hinged door business Improved productivity by renovating production facilities at main factories (Vietnam, Indonesia) 
2 Restructure sales operations and address product diversification <ul style="list-style-type: none"> Strengthen sales capabilities by restructuring sales operations in China Expand sales by capturing demand in the fireproof product and heat insulation markets Move forward with product diversification in each region 	<ul style="list-style-type: none"> Newly consolidated AUB Limited (Hong Kong) and used synergies to drive sales capabilities Plan to move forward with new product development, including fireproof and smokeproof products, in each country in the Asia region, to expand product lineups 
3 Strengthen the foundation of our business structure <ul style="list-style-type: none"> Introduce an ERP system and centralize management at Sanwa Shutter Shanghai Build a human resource development program 	<ul style="list-style-type: none"> Started the introduction of ERP systems optimized for each region Strengthened business administration at Sanwa Shutter Shanghai (centralized procurement functions in addition to administrative functions) 

Basic Strategy 3 Expand disaster prevention products and environmentally friendly products and move forward with smart products and services

Expand disaster prevention product and environmentally friendly product lineups and move forward with smart products and services, to respond to changing societal needs influenced by climate change and digitalization

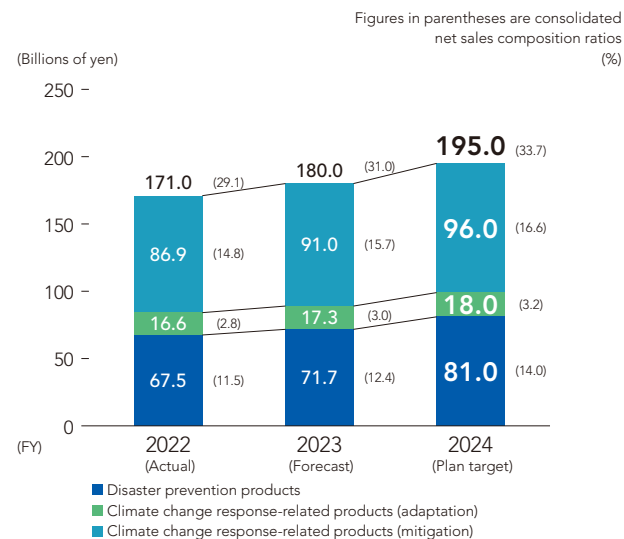
1 Expand disaster prevention products and environmentally friendly products

- **Japan:** Launched overhead doors with high heat insulation from the Re-carbo series
 - Significantly improves heat-insulating performance. Contributes to energy conservation by increasing the efficiency of air conditioning.
 - Reduction in heat transfer rate (unit: W/(m²K))
Conventional product panels 0.68 → steel panel type 0.484, aluminum panel type 0.520
- **North America:** Moved forward with development of hurricane-resistant doors
- **Europe:** Launched the heat-insulating Evolution premium sectional garage door
 - Achieves outstanding insulating performance compared to conventional products
 - Improves heat insulation by up to 17%, compared to other garage door products with panels of equal thickness

2 Move forward with smart products and services

- **Japan:** Integrated window shutters with HomeLink
- **Japan:** Introduced RemoSma, a smartphone-operated system for garage doors
- **North America:** Introduced the BenchSentry™ smart delivery box

Net Sales of Disaster Prevention Products and Environmentally Friendly Products



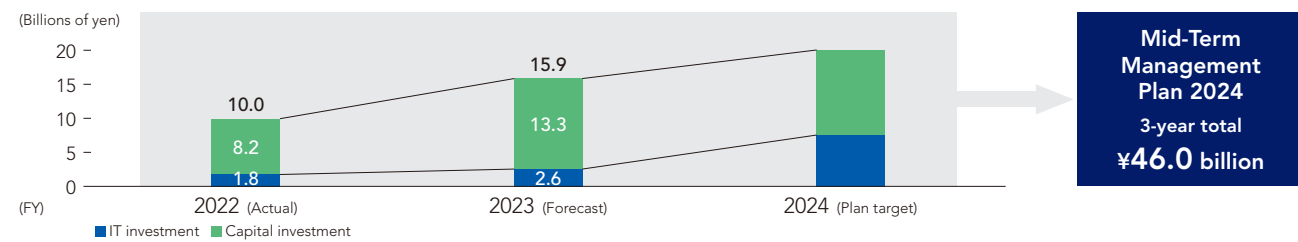
	Disaster prevention and climate change response-related products	Smart and IoT-compatible products
Japan	<p>Re-carbo series Overhead doors with high heat insulation</p>	<p>Smart home compatible window shutter</p> <p>Smartphone-operated system for garage doors RemoSma</p>
North America	<p>High-speed sheet shutter</p>	<p>Garage door smart operating system Aladdin Connect</p> <p>Smart delivery box BenchSentry™</p>
Europe	<p>Heat-insulating sectional garage door Evolution premium sectional garage door</p>	<p>Garage door smart operating system SmartHome Connection</p> <p>Management systems for entranceway fittings at distribution centers Lion4.0</p>

Basic Strategy 4 Improve productivity through digitalization and manufacturing innovations

Move forward with digitalization of business processes, production capacity expansions and investments in labor reductions

Strategy	Progress
1 Move forward with digitalization <ul style="list-style-type: none"> • Japan: Linkage of manufacturing, sales, and installation systems / digitalization of internal operations • Japan: Use apps to raise efficiency of business systems • North America: Improve productivity through ERP systems and sub-systems • Europe: Further digitalization of internal processes • Asia: Move forward with improvements to business processes through ERP systems 	<ul style="list-style-type: none"> • Japan: Improved productivity by linking manufacturing, logistics and installation systems • North America: Improved efficiency at locations that have already introduced ERP systems, and expanded them to more locations • Europe: Steady progress with digitalization of processes, including the introduction of ERP systems at sales companies • Asia: Moved forward with improvements to business processes through ERP systems (Hong Kong, East China, Vietnam)
2 Manufacturing innovation <ul style="list-style-type: none"> • Japan: Make labor reductions through investments in facility automation and digital technology • North America: Optimize manufacturing structures throughout North America • Europe: Strengthen manufacturing and distribution capabilities at the European level • Asia: Newly establish the Changshu Plant, upgrade production facilities 	<ul style="list-style-type: none"> • Japan: Upgraded staff skills to strengthen supply structure for steel doors • Japan: Moved forward with product differentiation by establishing a sound insulation testing lab • North America: Moved forward with automation of production lines for garage doors and commercial doors, optimized product lineup • Europe: Expanded dock leveler plants (Poland) and door plants (Italy) • Asia: Commenced full-scale operations at the Changshu Plant, introduced equipment to expand production capabilities (ASEAN)

IT and Capital Investments



Basic Strategy 5 Advance sustainability management

Set KPIs linked to the Group's 11 ESG material issues in May 2022. Head for the next stage, with the aim of "contributing to sustainable, resilient communities" as our driving force

	FY2022	FY2023	FY2024 (KPIs)
Manufacturing	<ul style="list-style-type: none"> • The MADOMORE Wind-resistant Guard (Fire Prevention) received an honorable mention in the 2022 Super Monozukuri Parts Grand Award 	<ul style="list-style-type: none"> • Launched overhead doors with high heat insulation from the Re-carbo series 	<ul style="list-style-type: none"> • Climate change response-related products (mitigation and adaptation) ¥114.0 billion (consolidated sales) • Disaster prevention products ¥81.0 billion (consolidated sales)
Environment	<ul style="list-style-type: none"> • Broadened the scope of environmental data disclosure (ODC/NF) • Conducted third-party verification of disclosed CO₂ emissions data 	<ul style="list-style-type: none"> • Broadening the scope of environmental data disclosure (consolidated) • Calculating Scope 3 CO₂ emissions (Sanwa Shutter) • Put solar power generation panels into operation at plants in China and Italy 	<ul style="list-style-type: none"> • Reduce Scope 1 + 2 CO₂ emissions by 10% (Sanwa Shutter)
People	<ul style="list-style-type: none"> • Conducted career development training for female employees 	<ul style="list-style-type: none"> • Conducting next-generation leader training • Starting investigation into human rights due diligence 	<ul style="list-style-type: none"> • Conduct human rights due diligence
The Group's Management Foundation	<ul style="list-style-type: none"> • Appointed a female Outside Director 	<ul style="list-style-type: none"> • Established share ownership guidelines for Directors 	<ul style="list-style-type: none"> • Address board diversity

With one eye on the balance between investment and returns, we aim to maintain a robust financial position in order to achieve further growth.

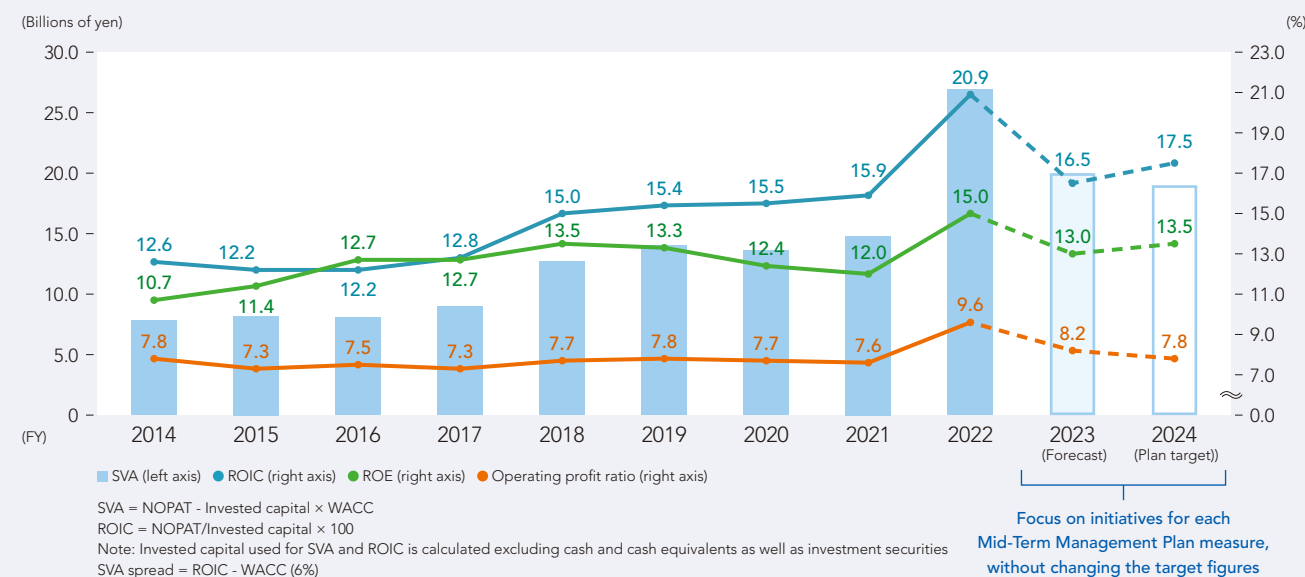


Hiroyuki Yamazaki
Director, Senior Executive Officer, Responsible for Corporate Planning Unit

Financial results for fiscal 2022

In fiscal 2022, we achieved growth in sales and profit in all regions of Japan, North America, Europe and Asia, and both net sales and profit reached record highs, substantially exceeding the targets set in the Mid-Term Management Plan two years ahead of schedule. As a result, the operating profit ratio increased to 9.6%, very close to our long-standing target of 10%, Sanwa Value Added (SVA) was ¥26.9 billion, far exceeding the plan target of ¥19.0 billion, ROIC was 20.9% and ROE was 15.0%, both also exceeding targets. Taking those results into account, the annual dividend per share was ¥58, a significant increase from the initial forecast of ¥45 and the ¥36 dividend paid in the previous fiscal year.

Looking at overall market conditions, while the economy in each of the four global regions the Group operates in is on a recovery trend following the COVID-19 pandemic, downside effects include the soaring cost of raw materials, semiconductors and other components, and rising interest rates in financial markets to ward off inflation, leading to exchange rate fluctuations. Geopolitical risks, such as the ongoing situation in Ukraine, are likewise increasing. In the face of these circumstances, the Group has been able to achieve results by steadily implementing the measures of its Mid-Term Management Plan, and I see those results as a positive.



In particular, results in our North American business exceeded expectations, with net sales reaching ¥219.2 billion and operating profit rising to ¥29.0 billion, representing year-on-year increases of 1.5 times and 3.4 times, respectively. In the U.S. market environment, housing starts began to decline due to higher interest rates, and steel prices have entered a period of depreciation, with the risk of a drop in selling prices having likewise increased. However, although the cost of

materials has fallen, inflation, generally, has continued unabated. In addition, existing homeowners have been reluctant to purchase new homes at high interest rates and so held off on selling their properties, leading to a reduction in market inventory. As a result, home prices did not drop by much and we maintained selling prices above expected levels, and I believe this contributed to our strong performance.

Progress of the Mid-Term Management Plan in terms of financial strategy and focus points

The Group's financial strategy is based on improving capital efficiency and maintaining financial soundness, at the same time working to balance it with the business strategy in order to achieve sustainable growth. Firstly, in terms of ROIC, the increase from 15.9% in fiscal 2021 to 20.9% in fiscal 2022 is an irregular result due to strong performance in North America and is not something we can fully rely upon going forward.

Similarly, the portion (SVA spread) of ROIC above WACC (6%, cost of capital: 8%) improved significantly from 9.9% in fiscal 2021 to 14.9% in fiscal 2022 (a roughly 50% increase). Improvements to the ROIC cash conversion cycle (CCC) contributed to this increase, from 86 days in fiscal 2020 to 80 days in fiscal 2021, and then to 78 days in fiscal 2022.

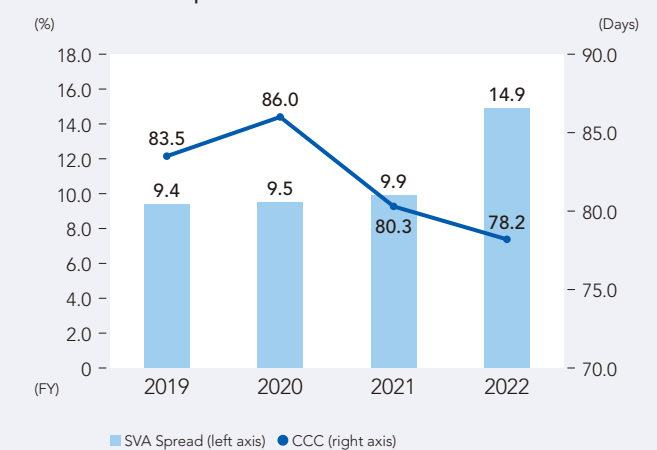
Meanwhile, in terms of financial soundness, the D/E ratio was 0.23

(times) in fiscal 2021, 0.20 (times) in fiscal 2022, and is forecast to be around 0.19 (times) at the end of fiscal 2023. A slight drop in interest-bearing debt, from ¥49.2 billion in fiscal 2022 to ¥46.5 billion in fiscal 2023, is likewise expected. Cash and deposits are forecast to slightly increase, from ¥71.1 billion in fiscal 2022 to ¥71.7 billion in fiscal 2023, and net cash is projected to increase from ¥21.9 billion in fiscal 2022 to ¥25.2 billion in fiscal 2023. The shareholders' equity ratio is expected to remain at around 54.4% in fiscal 2023. I would like us to maintain this ratio at 50% or higher, and I recognize that we currently have some leeway in this area. However, that thinking is based on the expectation of net cash remaining at around ¥20.0 billion during the current Mid-Term Management Plan period.

Trends in Shareholders' Equity Ratio and D/E Ratio

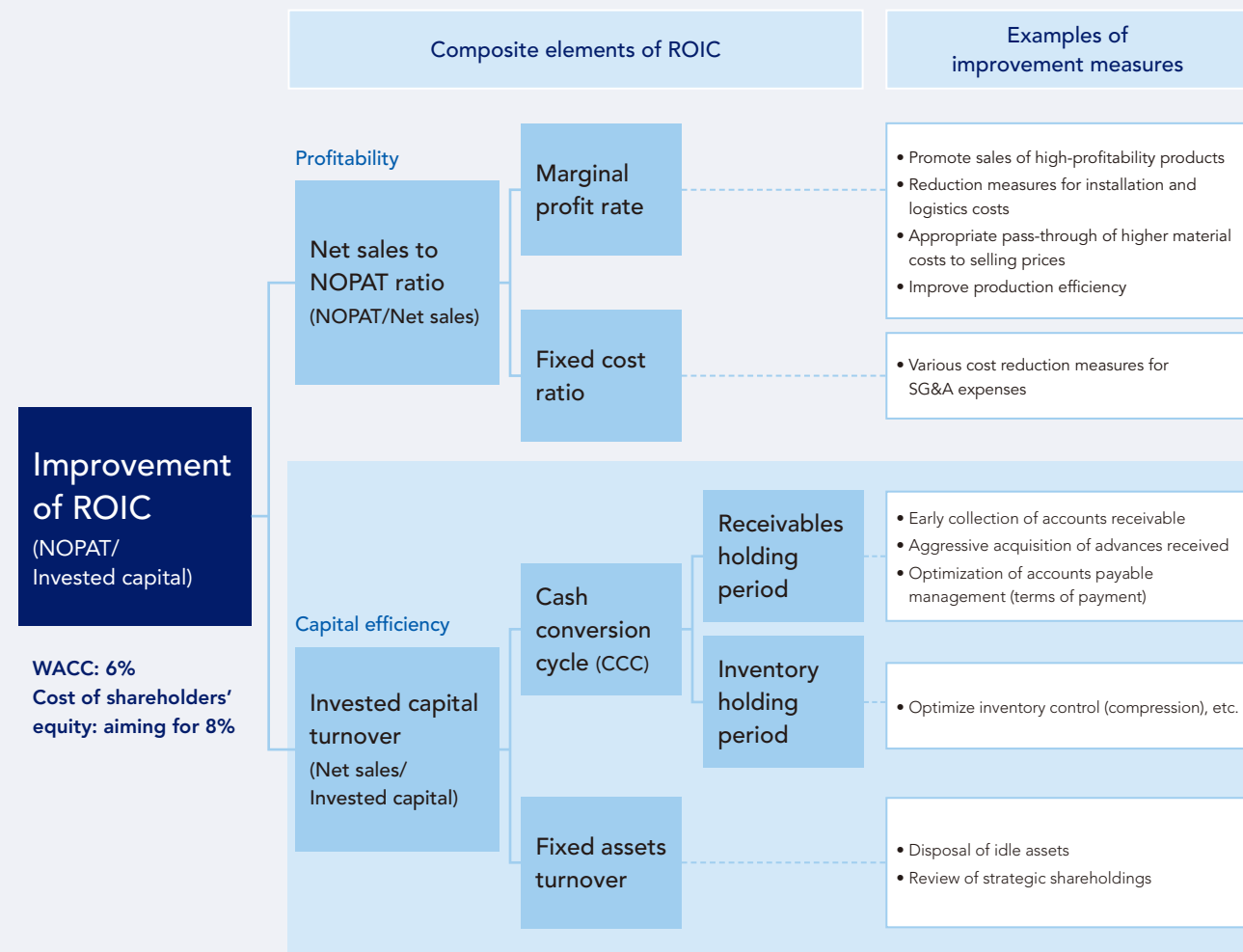


Trends in SVA Spread and CCC



	FY2021 Actual	FY2022 Actual	FY2023 Forecast	FY2024 Mid-Term Management Plan Targets
SVA	¥14.8 billion	¥26.9 billion	¥20.0 billion	¥19.0 billion
ROIC	15.9%	20.9%	16.5%	17.5%
ROE	12.0%	15.0%	13.0%	13.5%
Payout Ratio	34.8%	38.7%	40.3%	40.0%
D/E Ratio	0.23 times	0.20 times	0.19 times	0.21 times
Shareholders' Equity Ratio	52.2%	54.4%	54.4%	51.1%

Evaluation of and issues related to capital efficiency from an SVA perspective



SVA* was introduced in fiscal 2001 as our unique economic value added (EVA) indicator. It has grown from ¥14.8 billion in fiscal 2021 to ¥26.9 billion in fiscal 2022, an increase of approximately 80%. SVA is calculated as Net operating profit after tax (NOPAT) - Invested capital x Cost of capital (WACC at 6%). It can also be expressed as the following equation:

$$\begin{aligned}
 \text{SVA} &= \text{ROIC} \times \text{Invested capital} - \\
 &\text{Invested capital} \times \text{Cost of capital} \\
 &= \text{Invested capital} \times (\text{ROIC} - \text{Cost of capital (6\%)})
 \end{aligned}$$

To increase SVA, it is essential to improve ROIC, assuming that invested capital is a constant. ROIC is used as an indicator internally, and we also disclose it publicly. Although ROIC has stood at around 10% up until now, in fiscal 2021 and fiscal 2022 it reached 15.9% and 20.9%, respectively. The fiscal 2022 result was irregular due to better-than-predicted results in North America, but even so we are aiming for 16.5% ROIC in fiscal 2023 and for 17.5% in fiscal 2024, the final year of

the Mid-Term Management Plan. Our ROIC has been trending at over 15%, and we intend to stabilize it at the 17-18% level in the future.

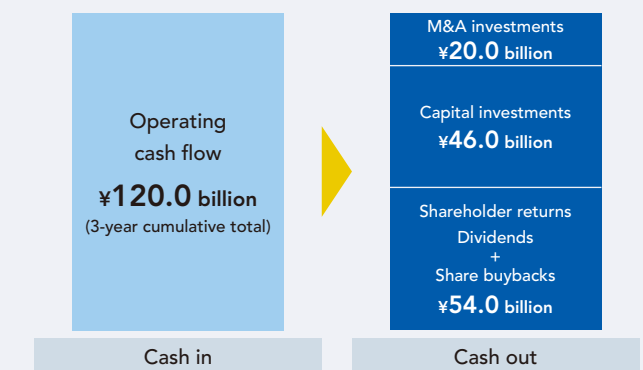
* Sanwa Value Added (SVA): the Company's unique indicator of added value. Invested capital used in SVA and ROIC is calculated excluding cash, cash equivalents and investment securities.



Cash generation initiatives to fund investments

In regard to cash flow, firstly, while strong operating cash flow generally leads to increases in operating profit, the important thing in terms of financial strategy is that it provides control over working capital. From this perspective, we see the cash conversion cycle as an indicator. As mentioned previously, the cycle for the Group as a whole is 78 days. In Japan it has conventionally been a 70-day cycle, but this has improved to around 55 days in recent years. The situation temporarily worsened in fiscal 2021, partly due to supply chain issues in North America, but improved significantly in fiscal 2022. Although investment (an increase in strategic investments and M&As) using cash flow will reduce the amount of cash on hand, I believe this to be a necessary aspect of driving future growth. As for the focus of our investments, we plan to be particularly aggressive in making capital investments aimed at labor reductions, investments in human resource development and M&As. We plan to generate "cash in" (operating cash flow) of ¥120.0 billion over the three years of the Mid-Term Management Plan, but in relation to the ¥20.0 billion that we have allocated to M&A investments, we currently have only one M&A planned in the U.S. and one in Asia. This is partly due to

the lack of opportunities in the context of global inflation and the trend of rising stock prices, and partly because we are waiting for the ideal timing to make acquisitions. Given that we have set capital investments at ¥46.0 billion, the amount of investment we made in fiscal 2022 was slightly low, but we plan to invest aggressively in fiscal 2023.

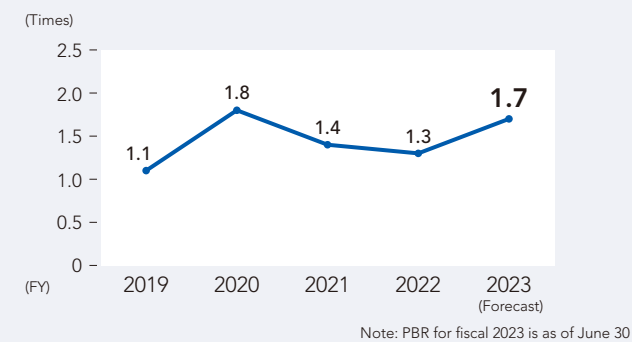


Share price evaluation and approach to shareholder returns

In recent times, the Price-to-Book Ratio (PBR) of companies has been attracting attention.

$$\begin{aligned}
 \text{PBR} &= \text{Market capitalization} / \text{Net assets} \\
 &= \text{Price Earnings Ratio (PER)} \times \text{ROE}
 \end{aligned}$$

Trends in PBR



- Dividend payout ratio: Target raised from 35% to 40% (from FY2022)
- Dividend amount
 FY2022: ¥58 per share (first half: ¥25, year-end: ¥33)
 FY2023: ¥58 per share (forecast) (first half: ¥29, year-end: ¥29)
- Share buybacks: Carried out flexibly while considering investments for growth and funds on hand
- Target of ¥54.0 billion (total of dividends and share buybacks) during the current Medium-Term Management Plan period

A low PBR indicates that a company is not making use of the equity entrusted to it by shareholders and investors, resulting in a low stock price valuation, and this may be perceived as a problem.

Based on an understanding of the formula shown above, to increase PBR it is necessary to increase PER and ROE. Because PER = Stock price / Earnings per share (EPS), for PER to increase the stock price must rise at a higher level than profit growth. There are no shortcuts to raising PER, because the share price is determined by shareholders' evaluation (stock price). Basically, I believe that there is no other way forward but to continue to grow our business, communicate our position to our shareholders and other stakeholders, and strive to achieve a high stock price valuation. It is difficult to set a target for PER itself under these circumstances. However, for ROE, I would like to see it generally come closer to 15% through CCC improvements (for example, by collecting on debts at an earlier stage and increasing our inventory turnover rate).

In terms of shareholder returns, our target is to maintain a stable dividend payout ratio of 40%. Under the current Mid-Term Management Plan, the shareholder return target (stock dividends and share buybacks) is ¥54.0 billion. The dividend per share was increased from ¥36 in fiscal 2021 to ¥58 in fiscal 2022, and is forecast at ¥58 in fiscal 2023.

Trends in Dividends

