

Message from the Financial Director

By adopting ROIC management,
we will realize a sustainable enhancement
in corporate value.

Noritoshi Masuda
Director



Review of Fiscal 2019

To sustainably enhance corporate value, it is essential to achieve progress using both capital policy and business strategy. The Maxell Group has been strengthening its financial structure to enable it to win out against global competition. In our balance-sheet management, we have been conscious of optimum capital structure. We set a guideline for a shareholders' equity ratio of around 50% and adjusted shareholders' equity by carrying out a special dividend of ¥250 per share in fiscal 2019, and we implemented fund procurement through debt. Furthermore, in fiscal 2019, despite the impact of COVID-19, we retained adequate liquidity (cash on hand), and implemented countermeasures based on our financial policy. Looking ahead, I think that

we need to consider the impact of life with COVID-19 and life after COVID-19, and prepare a financially robust structure that can withstand unexpected events by expanding the commitment lines that we have set up with financial institutions and so forth.

Meanwhile, in terms of business strategy, our operating results included many factors that we should reflect upon. External factors included a slide in the profitability of promising businesses due to a slump in the automotive and semiconductor markets and impacts on plant operations and sales due to COVID-19. There were also internal factors, such as lackluster sales and profits in projectors and health and beauty care products due to delays in a

brand switch and the development of new sales routes, losses caused by revision of the business plan for consumer-use lithium ion batteries, and the recording of an extraordinary loss for impairment of goodwill. In light of these, in fiscal 2020 we will undertake business reforms aimed at returning the Group to a growth

trajectory in the future (business portfolio reforms, countmeasure for three unprofitable businesses, emphasis on financial discipline), improving our corporate structure by accelerating the process of selection and concentration. (See pages 13-14 for details.)

Toward Adoption of ROIC Management

Maxell uses ROE as a key indicator of capital efficiency. In fiscal 2019, ROE was negative; however, in the short term we are aiming to achieve ROE of 6%, which is targeted in the mid-term plan, and in the medium to long term, to achieve ROE in the double digits.

In management, looking only at the near term tends to shift the focus to items on the income statement, such as net sales and operating income. However, as the director in charge of finance, to increase corporate value I need to consider the balance sheet and the cash flow statement, and I aim to promote management that emphasizes these aspects. Therefore, as stated in one of our main policies for business reform, "disciplined financial policy," I will accelerate the adoption of return on invested capital (ROIC) as a core indicator for the Group, having introduced it in fiscal 2019. ROIC is compared against the clear standard of the cost of capital in the form of weighted average cost of capital (WACC). We will emphasize this indicator because it clarifies whether the earning capability of a business is being translated into enhancement of corporate value. We have just started initiatives to get ROIC adopted throughout the Company, and I plan to accelerate the promotion of ROIC

management by having individual employees understand how their daily work ultimately contributes to the increase in ROIC.

We will approach raising ROIC from two aspects: profit and invested capital. To begin with the profit aspect, the Maxell Group has been implementing the P/L Improvement by Model Project (PIPJ), a project for enhancing earnings by model that incorporates improvement activities to reduce defective products in the manufacturing process for each product. ROIC is a way to impose financial discipline companywide and at the business division level, while PIPJ imposes it at the individual model level. (See page 14 for details.) PIPJ started in fiscal 2018, and has become firmly entrenched as a form of financial discipline on the front line. Going forward, we will aim to further increase profits by promoting even more far-reaching initiatives, such as setting prices that reflect added value and lowering manufacturing costs. Meanwhile, in terms of invested capital, we will reduce inventory, bring our trade accounts receivable and payables to an appropriate level and increase operating capital. In addition, we will keep invested capital at an appropriate level by thoroughly examining the efficiency of capital investments at

Message from the Director in Charge of Finance

the planning stage and rigorously monitoring investments once they have been made.

We have been consciously conducting these activities since before the introduction of ROIC, but I believe it is important to communicate the relationship between increasing ROIC and daily

operations more carefully. We will promote the adoption of ROIC by introducing e-learning and other training programs and a management-by-objective system for all employees, among other means.

Keeping Clear Criteria for Investment and Withdrawal by ABC-XYZ Management

The Maxell Group uses three approaches to financial discipline. The above-mentioned ROIC operates at the level of the entire Company, divisions, and Group companies, while PIPJ operates at the product model level. The third is ABC-XYZ management, which ranks the 61 product groups of the Maxell Group by operating margin, growth potential, and so forth, and aims to efficiently promote business strategies according to the ranking. ABC businesses are treated as growth businesses, and we encourage investment in these. XYZ businesses are low-earning businesses. We have set a timeframe for improving their earnings, but in

cases where improvement cannot be expected, we are considering withdrawal strategies.

Furthermore, under the ABC-XYZ management framework, businesses that are in the development or start-up phase are not only judged by financial indices but also monitored in terms of aspects such as market growth potential and affinity with the Maxell Group's core competences. On our time line, the development phase is followed by the start-up phase. Those that progress to commercialization are transitioned to the ABC-XYZ management classification. We check their progress each quarter to determine whether to invest or withdraw.

Approach to Profit Distribution

With regard to distribution of profits, our basic policy is to continue distributing profits appropriately, giving overall consideration to returns to shareholders, short-term capital investment, and funding investment aimed at long-term business development. We aimed to strongly maintain a dividend payout ratio of around 30% to 40% for shareholders, but in view of the

Company's loss attributable to owners of parent of ¥10.5 billion in fiscal 2019, we have decided to forgo dividends in fiscal 2020. I offer my sincere apologies to our shareholders, and a commitment to restoring profitability as soon as possible.

Role of the Director in Charge of Finance in a Time of Transformation

My mission is to work with the president, who is head of the executive, to continuously enhance corporate value. As the director in charge of finance, my role is to strengthen our growth strategies and financial foundation, and to support the operation of the Company's risk management and internal control systems. I will make full use of the governance function of the Board of Directors' system to determine the allocation of financial resources to address various risks.

In the short term, we will work to organize our businesses and assets to prevent any further deterioration of corporate value. The cash generated in this process will be reinvested, and by repeating this cycle we will strive to enhance our corporate value over the medium to long term and make the Company into a high-performing corporation that can consistently achieve a double-digit operating margin.

Through business reform, we will improve the structure of the Maxell Group from a financial perspective, and strive even harder in management with the aim of enhancing corporate value through continuous growth. I ask for your continued support of the Maxell Group in the years ahead.

