

Message from the Financial Director



We will achieve sustainable improvements in corporate value by penetrating ROIC management.

Noritoshi Masuda
Director

Review of Fiscal 2020

In fiscal 2020, amid a challenging business environment characterized by the spread of the Novel Coronavirus infectious disease, we were able to largely proceed as planned in terms of our business, on a profit basis exceeding the previous year's level, and in terms of our finances we were able to secure the liquidity of our cash on hand, which was one of our objectives, and to finance our business reforms. On the other hand, I feel responsibility as the Financial Director for the fact that, despite the implementation of business reforms, the Company posted a final loss for the second consecutive fiscal year

due to the extraordinary loss associated with these reforms.

In the previous medium-term management plan (MG20), we actively invested in expanding the scale of our business to acquire technologies and commercial distribution. On the other hand, the expansion of our product lineup in line with the expansion of our business domains meant that we were unable to successfully govern profitability. For this reason, the new medium-term management plan, MEX23, sets out a policy of emphasizing profit growth and corporate value rather than expanding scale.

Promoting ROIC Management

In management, considering only the immediate future, we tend to focus on PL (profit and loss statement), such as net sales and operating

profit. However, in order to increase corporate value, we need to promote management that emphasizes BS (balance sheet) and CF (cash

flow). Maxell Group has been accelerating the penetration of ROIC (return on invested capital), which was introduced in fiscal 2019, as a shared core indicator for the Group. ROIC emphasizes this as an indicator that reveals whether a business's earning power exceeds its cost of invested capital (WACC: weighted-average cost of capital) and improves its corporate value.

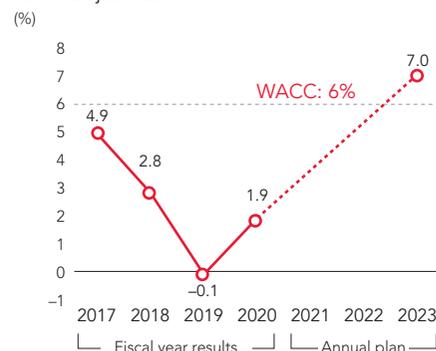
Until fiscal 2020, it was the "penetration phase" of ROIC, but from fiscal 2021, it will be positioned as the "full-scale operation phase," and targets will be set under MEX23, and implemented and evaluated. Previously, there had been a discrepancy in the target between the Company as a whole and business divisions, so we will again set common company-wide targets, replace them with targets that have been incorporated into each business division, and

regularly follow up on progress.

As I have mentioned, the primary objective of introducing ROIC is to increase corporate value. As can be seen from the fact that ROIC is derived from operating profit after tax on invested capital, corporate value will not increase without generating a return in excess of the cost of invested capital. MEX23 has set a goal of ROIC over 7%, and is promoting activities to improve ROIC under a company-wide project to achieve this goal. We will design a company-wide framework and implement a PDCA cycle in which progress is assessed and improved by each business division at quarterly portfolio meetings.

Among the initiatives to improve ROIC, the first initiative to contribute to improving operating profit is PIPJ Project (Profit and Loss Promotion Project by Model).

ROIC Objectives



Implementation Items

Goal	FY2023 ROIC over 7%
Assessment	Introduction of executive evaluation/ performance evaluation
Structure	Promote company-wide projects Promotion of quarterly PDCA control
Details of execution	[Profit drivers] Expand profit in growth businesses Efficient investments carefully selected
	[Efficiency drivers] Optimization of working capital Fixed asset monitoring Response to non-operating assets

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Whereas ROIC is the financial discipline for the company-wide and for each division, PIPJ Project is the financial discipline for each model.

It is profit and loss management activities per single product that is penetrated within business divisions as a company-wide activity, and

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we are expanding the number of profitable models and reducing the number of unprofitable models.

Whereas PIPJ Project is an initiative to increase profits that will become the numerator of ROIC, the appropriate management of the invested capital which is the denominator is Profit Potential (PP) and the Maspro (Project name of improving working capital), which will contribute to improve working capital and, in particular reduce inventories. There are several ways to shrink inventories, but “procure at the

minimum unit required, manufacture at the minimum lot required, and sell the products out” is the best way for cash flow. In short, PP is a project that makes large profit with proper inventory. As a result of PP and Maspro activities, inventory value decreased by ¥5 billion at the end of fiscal 2020 compared to the previous fiscal year. If we pursue good practice and invest less capital, the denominator becomes smaller, leading to improved ROIC. Under MEX23, we will set numerical targets and promote initiatives accordingly.

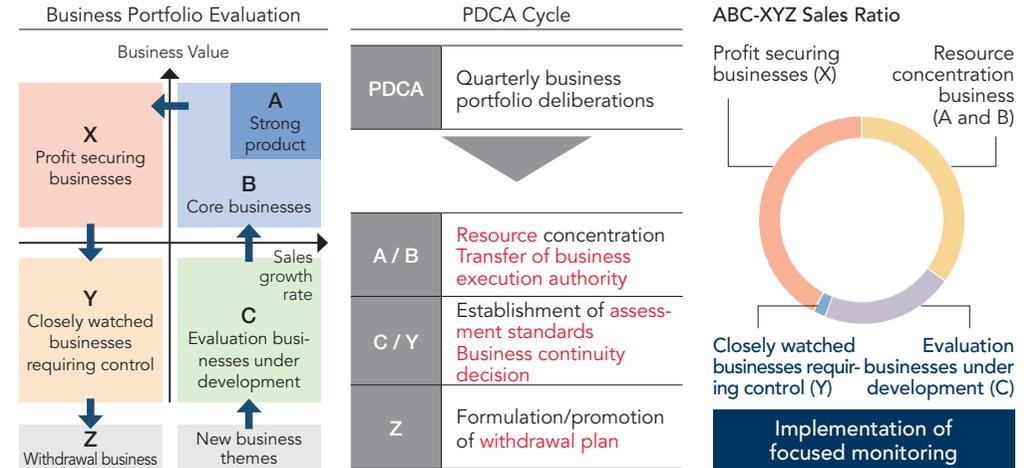
Accelerate Business Portfolio Turnover Based on ABC-XYZ Control

ABC-XYZ control is a broader management category for businesses rather than for each model. We rank all businesses according to their operating profit margins, growth potential, and other factors, and aim to efficiently advance business strategies according to the rank. Ranks A and B will promote investment as growth businesses, and C will distinguish whether to aim for growth businesses or shift to closely monitored businesses. Y aims to improve profitability by setting a period for evaluation as they are low-profit businesses, but if no improvement is expected, we will formulate a strategy to withdraw from these businesses. In fiscal 2020, the number of businesses was compressed by approximately 30%. Learning from the lack of thorough enforcement of financial discipline in the past, MEX23 determines whether or not to continue in business by establishing quantitative judgment criteria. This assessment will be conducted at the portfolio meeting held every three months.

Also, the Investment Committee holds meetings

when making new investments in optimizing invested capital for ROIC management and growing investments under ABC-XYZ control. In the committee, the person in charge of technology, marketing, finance, and the environment, etc., examines if the investment will lead to an increase in corporate value or if an investment should really be made based on the confirmation items. The process of making objective investment decisions is based on deliberations that are submitted to the Board of Directors. After investment, monitoring is conducted regularly to check progress.

While we will clarify businesses with lower ROIC, launching new businesses will also be crucial for new growth. For MEX23, we established the New Business Produce Division and the Sales & Marketing Division as a system for promoting development projects on a company-wide basis. New businesses are classified as the phases of D (Development) and S (Startup) before evaluation under ABC-XYZ control.



To Our Stakeholders

The Company's basic policy on profit distribution is to continue to appropriately distribute profits, comprehensively taking into account shareholder returns, current short-term investments, and investment funds with an eye to future business development. We intend to maintain a dividend payout ratio of 30% to 40% to our shareholders, but we did not pay dividends from the year-end of fiscal 2019 to fiscal 2020. I would like to express my deep apologies to our shareholders and strive for an early recovery in our business performance.

Following business reforms through fiscal 2020, Maxell Group started again with a management policy of “commit to value” that emphasizes

corporate value and profit growth. I will make further management efforts to improve Maxell Group's financial position and increase corporate value through sustainable growth. We ask for your continued support of Maxell Group.

