## Message from the Financial Director

# Aiming to maximize corporate value through promotion of ROIC-focused management and strengthening of our management foundation

Noritoshi Masuda
Director

### Review of Fiscal 2022

In fiscal 2022, we revised our full-year profit forecast downward at the time of our second-quarter financial result announcement, and operating profit was 5.638 billion yen, down 39.6% year-on-year. The main factors behind this were the global surge in raw materials costs and a one-time cost stemming from the reform of our domestic BtoC business. We have been playing catch up with the soaring raw materials costs and have been quick to reflect the increases in product prices in a reasonable manner based on objective figures.

The decision to reform the domestic BtoC business in fiscal 2022 was made based on the financial discipline and future prospects. Although demand for ozone anti-bacterial deodorizers expanded during the COVID-19 pandemic, leading to increased profit, that demand subsequently plateaued, resulting in a loss for fiscal 2022. Furthermore, in order to concentrate on business that leverages our strengths, Analog Core Technologies, in April 2023, we transferred the product planning, development, and sales functions of this product group to DENKYOSHA CO., LTD., a company with strong consumer electronic product sales capabilities. Under this new structure, we will aim to expand our brand business in the domestic consumer market.

As part of this business reform, we recorded a one-time cost of approximately 600 million yen, including expenses related to personnel transfers. Some reform-related costs are continuing to be incurred in fiscal 2023, but we will concentrate resources on businesses focused on our Analog Core Technologies, and continue with reforms to ensure a steady return towards profitability.

Regarding cash flow, in fiscal 2023, we plan to invest aggressively, resulting in increased investment cash flow and a slightly negative free cash flow. The land sales we conducted in fiscal 2022 were aimed at addressing this in advance.

**Domestic BtoC Sales Business Alliance**

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| Life solution | BtoC (domestic sales) | Sales of approx. 9 billion yen (FY2022) | **Brand business**<br>- Batteries<br>- Audiovisual equipment<br>- Health/Beauty care products | Transferred product planning, development, and sales functions to DENKYOSHA |
| | BtoC (overseas sales) | Approx. 20 billion yen (FY2022) | **Brand business**<br>- Batteries<br>- Audiovisual equipment<br>- Health/Beauty care products | - Business will continue to be conducted within Maxell Group<br>- Business foundation enhancement through organizational restructuring including concentration of resources |
| | BtoB | | **OEM business**<br>- Health/Beauty care products | |
| | Hydraulic tools | | **Brand business**<br>**OEM business**<br>- Hydraulic tools | |

**Objectives of Business Alliance**

- **Expansion and reinforcement of BtoC business**
  Further expand BtoC business through integration of Maxell's planning and development capabilities with DENKYOSHA's sales capabilities
- **Maximization of corporate value**
  Accelerate maximization of corporate value through concentration of resources into businesses focused on our Analog Core Technologies

## Progress with ROIC Management

Since fiscal 2019, we have been utilizing return on invested capital (ROIC) as a core metric across the Group. Since introducing the ROIC metric, we have continued to explain it to employees in order to deepen their understanding. This has involved implementing e-learning initiatives and emphasizing how their efforts up until now have directly contributed to results, thus helping to make it more tangible for employees on the frontlines. We also now use ROIC as one of the criteria in personnel assessment. Furthermore, we now link the annual plans of each business division with ROIC, setting targets that are closely aligned with the work of employees on the frontlines, such as determining how much sales prices need to be increased to achieve the target ROIC.

In MEX23, our target is to achieve ROIC of more than 7%, which exceeds the cost of our invested capital (WACC: weighted average cost of capital) of 6%. However, due to factors such as the deteriorating business environment leading to reduced earnings, the outlook for fiscal 2023 is 4.8%. While strengthening investments for future growth, we intend to further strengthen management focus on capital costs. Through these efforts, we aim to achieve our target ROIC of more than 7% from fiscal 2024 onwards.

As part of our efforts to enhance ROIC through boosting profit, we are advancing initiatives such as ABC-XYZ (profit and loss control by business), and profit and loss improvement by model project (PIPJ).

With ABC-XYZ, we visualize the profit or loss of each business, rank all business segments based on factors like operating profit ratio and growth potential, and manage them within four quadrants: "Resource concentration businesses" (A & B) and "Developing businesses" (C) with high profit ratios or growth potential and "Profit securing businesses" (X) and "Observing businesses" (Y) with low profit ratios or growth potential. By efficiently executing strategies in accordance with each rank, we can boost the replacement of our business portfolio. In fiscal 2022, factors like soaring raw materials costs and component supply shortages, especially for semiconductors, led to an increase in the number of "Observing businesses" (Y) and the ratio of "Resource concentration businesses" (A & B) was 43%. We will continue strengthening growth businesses to attain the materiality KPI of 50% in fiscal 2023.

The profit and loss improvement by model project is a financial discipline at the product level, focusing on profit and loss control for each individual model. It is aimed at generating profits by increasing the profitable products and reducing the unprofitable ones. The number of target models was around 6,000 in fiscal 2022, and this is expected to decrease to approximately 5,000 in fiscal 2023. The reduction in losses for fiscal 2022 amounted to more than one billion yen, and we are aiming for a similar reduction in fiscal 2023. We will be brushing up our efforts in this area and incorporating them into our monthly actions.

On the other hand, in order to optimize denominator factors of ROIC such as inventory and non-current assets, , we are focusing on monitoring investments and improving the cash conversion cycle (CCC). To shorten the CCC, we are working on improving working capital through actions like inventory optimization. In fiscal 2022, the CCC grew longer due to factors such as soaring raw materials costs and semiconductor shortages, which led us to increase inventory levels. We are aiming for improvements through reducing and optimizing inventory levels, including from a manufacturing perspective.

In terms of investment monitoring, we conduct thorough examinations of the profitability of investments through our Investment Committee. For new investments amounting to 100 million yen or more, the Investment Committee creates a checklist based on which deliberations are conducted. Each person responsible for technology, marketing, procurement, environmental issues, financial affairs, legal affairs, and intellectual property, scrutinizes proposals based on their own expertise to determine whether it contributes to the enhancement of corporate value and if it is truly worth investing in. Cases that have passed this review process are then referred to the Management Committee and Board of Directors. After an investment is carried out, progress is monitored through reviews conducted on a quarterly basis.

Investments in our existing growth businesses are progressing according to plan, and we intend to step up our growth investments in new businesses. We will concentrate capital expenditure on the "13 growth businesses," and aim to deliver results starting from fiscal 2023.

Our capital expenditure for fiscal 2023 is expected to increase significantly, from 3.8 billion yen in fiscal 2022 to 8 billion yen. The cumulative

**Boosting the replacement of businesses and products through continuous monitoring and thoroughgoing discipline.**

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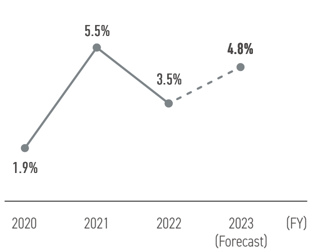
| Action Plans | • Strengthen marketing for efficient R&D<br>• Transformation to manufacturing that solves the social issues ahead of customer issues<br>• Continuously improve business portfolio through the two axes of market growth and business earnings (ABC-XYZ control) |
| KPI | Sales proportion of highly profitable A and B businesses: Over 50% (FY2023) |

| ROIC (return on invested capital) | ABC-XYZ (profit and loss control by business) | PIPJ (profit and loss improvement by model project) |
|---|---|---|
| **Creating Value through ROIC Management**<br>- Thorough control by business<br>- Incorporation into personnel assessment system | **Business replacement**<br>- Strengthening growth businesses<br>- Quick measures for unprofitable businesses | **Thorough Profit Generation:**<br>- Reduce unprofitable models and increase profitable ones<br>- Enhance cost planning capabilities |

**ROIC trend**




**Proportion of ABC-XYZ net sales**

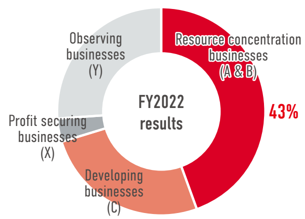
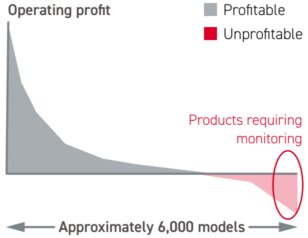



**Image of operating profit distribution by model**




**Activities in FY2022** (ROIC)
- Conducted share buybacks and selling off of non-current assets
- Decreased revenue due to deteriorating business environment impacting ROIC

**Targets for Activities in FY2023** (ROIC)
- Rotate PDCA cycles within each business division to further enhance activities
- Bolster growth investments for the future while focusing on capital cost-conscious management to improve ROIC

**Activities in FY2022** (ABC-XYZ)
- Monitoring of key businesses on a monthly basis and acceleration of PDCA cycles
- Decision made to carry out reform of domestic BtoC sales business

**Targets for Activities in FY2023** (ABC-XYZ)
- Continuously and thoroughly monitor key businesses on a monthly basis to advance portfolio-focused management
- Strengthen growth businesses to achieve a 50% ratio of A and B businesses

**Activities in FY2022** (PIPJ)
- Streamlining through reducing number of models (30% reduction compared to FY2020)
- Reduction of losses by more than one billion yen

**Targets for Activities in FY2023** (PIPJ)
- Identify and implement intensive solutions for worst-unprofitable models in each business
- Expand number of highly profitable models through rigorous cost planning

capital expenditure for the three fiscal years of 2021, 2022, and 2023 is expected to be 13.9 billion yen against the planned 16 billion yen, due to delays in component procurement caused by the global semiconductor shortage in 2021 and 2022.

As for our growth investment capacity (for new business creation, etc.), our projection for the cumulative total for the three fiscal years of 2021, 2022, and 2023, is 6 billion yen against the planned 17 billion yen. We intend to maintain the current growth investment capacity limit and step up investments in growth areas such as all-solid-state batteries from fiscal 2023 onwards.

## Working towards PBR Over 1.0

As we work towards achieving a price-to-book ratio (PBR) of over 1.0, it is crucial for us to enhance and maximize corporate value. We will achieve this by driving improvements in both ROIC and return on equity (ROE), while strengthening our management foundation. Expanding business earnings is the most essential factor in improving ROIC and ROE. The Finance & Accounting Department will support this by promoting disciplined growth investments to further bolster the shift towards BtoB business, accelerated launching of new businesses, and expansion of existing growth businesses. Additionally, to enhance capital efficiency for ROIC and ROE improvement, we will utilize financial leverage and establish a structure that facilitates flexible shareholder returns.

Regarding shareholder returns, dividend payments will continue to be made in a stable manner, in line with our basic policy of maintaining a dividend payout ratio of 30% to 40%. We expect that the dividend per share for fiscal 2023 will be the same as in fiscal 2022 at 40 yen, with a projected dividend payout ratio of 35.2%. Additionally, in fiscal 2022, we conducted share buybacks and disposition totaling 5 billion yen. The total amount of share buybacks in recent years has reached approximately 10 billion yen. In terms of strengthening the business foundation, we are committed to promoting sustainable management, and enhancing governance, human capital, and environment-focused management, while also expanding and enhancing our disclosure of non-financial information.

We intend to disclose information on these initiatives in the autumn of 2023. We will continue to ensure appropriate returns to shareholders and investors. Through investor relations and shareholder relations activities, we aim to enhance communication with stakeholders and work towards achieving a price-to-book ratio of over 1.0 as soon as possible.

Noritoshi Masuda

Director

September 2023

**Dividends**

Continuous and steady payment of dividends in line with basic policy of "maintaining dividend payout ratio of 30% to 40%"

| | Interim | Year-end | Total |
|---|---|---|---|
| FY2022 | 20 yen | 20 yen | 40 yen |
| FY2023 (forecast) | 20 yen | 20 yen | 40 yen |

**Share Buybacks**

- Enhance shareholder return measures taking into account current cash on hand, stock price, and other factors
- Conduct share buybacks and disposition after ensuring sufficient funds for investments for growth

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|---|---|
| Buyback period | May 16, 2022 through March 10, 2023 |
| Number of shares acquired (total value) | 3,645,700 shares (5 billion yen) |
| Plan after buyback | Disposition of all acquired shares |

**Promoting Management Approach to "Commit to Value," Taking Into Account Cost of Capital and Stock Price**