COMPANY RESEARCH AND ANALYSIS REPORT

NIHON DENGI CO., LTD.

1723

Tokyo Stock Exchange Standard Market

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https://www.fisco.co.jp

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Summary

Efforts will be made to increase corporate value under the next medium-term management plan

1. Developing air conditioning instrumentation and industrial systems based on instrumentation engineering technologies

NIHON DENGI CO., LTD. <1723> (the "Company") specializes in instrumentation engineering. Instrumentation refers to the control of equipment and machinery in buildings and factories, including air conditioning and production lines by means of measurement, monitoring and control. In the mainstay air conditioning instrumentation-related business, the Company supports the energy efficiency of non-residential buildings such as office buildings through the automated control of air conditioning facilities. The Company has extensive experience and technology as the largest distributor for Azbil Corporation <6845>, a major manufacturer of automated control equipment, and as a pioneer in the industry. In the industrial systems-related business, where growth is expected, the Company provides services that support optimization and labor savings through the conversion of factories to smart factories and is engaged in the automation of production and conveyance lines in factories and robot deployment and operation, among other operations.

2. Strength in instrumentation engineering, which combines instrumentation and engineering technologies

The Company's strength lies in possessing both instrumentation technology and engineering technology. In the air conditioning instrumentation-related business, the Company has built up an extensive track record of new work site orders, including for urban redevelopment projects. It has been able to do so because Azbil's new products are constantly evolving and large projects are becoming increasingly complex year after year, and the handling of these products and projects requires the engineering technologies that the Company is unique in providing among Azbil's distributors. Orders have also been increasing for building renovations as structures age, and this order growth is also due to the same reasons. The industrial systems-related business is a field where the Company can easily harness its strengths in instrumentation engineering. This is because the conversion of factories to smart factories requires systems that organically connect measurement equipment and robots, etc. for production processing and conveyance lines and provide automated control, and the Company's instrumentation engineering technology is optimal for this.

3. FY3/24 results are expected to surpass results for the previous fiscal year, when the medium-term management plan targets had already been achieved

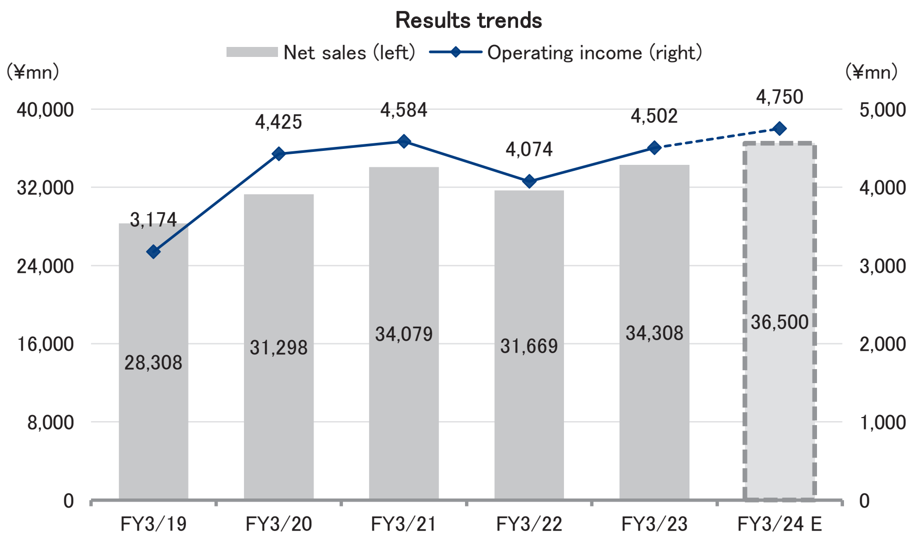
The Company reported 1H FY3/24 results of ¥22,571mn in construction orders received (-5.1% YoY), ¥15,584mn (+34.8%) in net sales, and ¥1,748mn in operating income (+186.7%), which were extremely favorable. Looking at orders received, new site work remained solid for facilities such as semiconductor factories and data centers, and orders for urban redevelopment projects can now be projected through 2027, including projects in regional areas. Moreover, in existing site work, firm orders were received for renovations to reduce CO_2 emissions, etc. and projects have also become larger. For this reason, the Company upwardly revised its outlook for FY3/24. The Company is now forecasting orders received of ¥38,500mn (-1.4%), net sales of ¥36,500mn (+6.4%), and operating income of ¥4,750mn (+5.5%). These forecasts surpass the results for the previous fiscal year when the medium-term management plan targets had already been achieved. The operating income forecast exceeds the most recent all-time high of ¥4,584mn in operating income for FY3/21.

4. Efforts will be made to increase corporate value under the next medium-term management plan, which corresponds to Phase 2

Under the long-term management guidelines "ND for the Next 2030," the Company is targeting ROE of 10% or higher, operating income of ¥6,000mn, and net sales of ¥45,000mn in FY3/31. The current medium-term management plan corresponds to Phase 1 (FY2021-2023), a period aimed at building a growth foundation. As described above, the current medium-term management plan has been progressing very well. The next medium-term management plan corresponds to Phase 2 (FY2024-2027), a period for achieving growth and further increasing business quality. Under the next medium-term term management plan, the Company will establish ROE as a Company-wide target management indicator in order to increase corporate value, which is now strongly demanded by the stock markets, while factoring in changes in the internal and external environment, with a policy of implementing cost of capital-conscious management. The Company plans to announce details at its financial results briefing for FY3/24. FISCO expects that the Company will achieve a measure of growth, supported by an active order-flow environment, while focusing on priorities such as expanding human capital and enhancing productivity through digitalization.

Key Points

- Air conditioning instrumentation orders increased based on the Company's strengths in instrumentation engineering, as the Company entered the industrial systems field
- Favorable orders for urban redevelopment and semiconductor factories. Expected to achieve profit targets for Phase 1
- Efforts will be made in Phase 2 to increase corporate value through cost of capital-conscious management, in addition to driving growth



Note: Since FY3/21, disclosure has changed from non-consolidated to consolidated results, but results have been compared side-by-side for convenience
Source: Prepared by FISCO from the Company's financial results

Business profile

Creating high-quality spaces through instrumentation engineering

1. Company profile

The Company conducts business in the field of air conditioning instrumentation for automated control of air conditioning equipment in large non-residential buildings such as offices, hotels, hospitals and factories, and in the field of industrial systems to automate production and conveyance lines in factories. In the mainstay air conditioning instrumentation-related business, the Company has extensive experience and know-how as the largest distributor for Azbil, a major manufacturer of automated control equipment, and as a pioneer in the industry. In addition, in the air conditioning instrumentation market, a majority of which is controlled by the Azbil Group, which includes the Company, the Company has strength as an engineering company that handles everything from design to construction and maintenance. In the industrial systems-related business, where there is major room for growth, the Company is carrying out high-value-added businesses, including supporting the conversion of factories and production lines to smart facilities through optimization and labor savings based on its know-how in air conditioning instrumentation and engineering as well as the production control systems of subsidiary Jupiter Advanced Systems Co., Ltd. Instrumentation engineering technologies not only help to create high-quality spaces and increase production efficiency, but they can also cut CO_2 emissions from buildings and factories. As a result, these technologies contribute to decarbonization and, by extension, the realization of a sustainable society.

Strengths in instrumentation engineering

2. Instrumentation engineering

Instrumentation refers to technology to automate and control equipment and machinery including air conditioning and production lines in buildings and factories through measurement, monitoring and control techniques, and is designed to achieve greater comfort, improve efficiency, and save labor and energy. For example, office building air conditioning instrumentation is positioned as a technology that provides a comfortable environment with the least amount of energy. Specifically, it involves measuring temperature, humidity, pressure and other variables, monitoring the measured data, then controlling the building's entire air conditioning system while controlling individual machines to maintain a certain environment, thereby achieving comfort and saving energy. In recent years, instrumentation technology has attracted attention and continued to evolve as an essential technology for saving energy, including the development of measurement and monitoring systems utilizing the latest IoT and AI technology, and its use as the core technology for district heating and cooling. Meanwhile, engineering refers to the technological ability to optimize entire systems of equipment and machinery that tend to be only partially optimized for users.

Few companies have both instrumentation and engineering capabilities as the Company does, and the Company's strength lies in its technological capability in instrumentation engineering. This is why the Company is regarded to be exceptional among Azbil's distributors in terms of fully utilizing Azbil's constantly evolving products with ease and controlling the air conditioning of entire buildings as they become increasingly complex year by year. In addition, the Company has the longest professional career history in the industry, a broad construction track record, and a large stock of existing projects. These characteristics are major strengths in instrumentation, which is an area of engineering based on experience. Furthermore, the Company has brought this instrumentation engineering technology into the field of industrial systems. Instrumentation engineering technology greatly enhances automation and labor-saving processes in factory production equipment and production lines as a whole. This field can be described as a fertile "blue ocean" of opportunity for the Company.

Business comprises air conditioning instrumentation as the mainstay and industrial systems as a growth driver

3. Business description

The Company's business is broadly divided into the mainstay air conditioning instrumentation-related business and the industrial systems-related business, which accounted for 89.6% and 10.4% of net sales in 1H FY3/24, respectively.

(1) Air conditioning instrumentation-related business

The air conditioning instrumentation-related business involves the comprehensive management of automated air conditioning control systems for non-residential buildings through heat source control, air conditioning control, power control, central monitoring equipment, and other functions. By creating comfortable spaces through optimal automated control systems, and also by proposing equipment/machine upgrades, assisting with building energy management, proposing ways to save energy, and providing other related services, the Company helps customers preserve their building assets and reduce lifecycle costs. The Company's air conditioning instrumentation-related business is divided into the building systems business and the solutions business. The building systems business is the Company's mainstay business and provides one-stop services for the air conditioning systems installed in buildings when they are built, from system design to installation, pre-handover test operations and adjustments, and usage guidance at the time of handover. In addition, in the area of heat supply equipment (district heating and cooling), the Company builds systems for the automated control of equipment and devices used to supply energy. In the solutions business, the Company is involved in maintenance and upkeep of air conditioning systems and system upgrades after buildings are completed. It also assists in energy savings and reducing costs through improving energy efficiency and system operations.

(2) Industrial systems-related business

In the industrial systems-related business, the main business area is automation and labor savings for the entire factory. Backed by instrumentation engineering technologies, the industrial systems-related business provides services such as building automated control systems by setting up measurement devices, robots and other equipment for production processing and conveyance lines for small- to large-scale factories. Specifically, the Company supports the optimization of customers' value chains by addressing various issues faced by production sites, primarily in the labor-intensive food and pharmaceutical sectors, through measures such as 1) automation and labor savings through electrical instrumentation work and the installation of utility equipment (cold/hot water, steam, compressed air, etc.) that meets special specifications; 2) support for ensuring safety, and improving the precision and efficiency of sorting work; 3) use of robots in labor-intensive processes such as box filling, inspection, assembly and cargo handling to improve productivity; and 4) ensuring safety and security (food defense) through the absence of human intervention. Essentially, the business supports the conversion of factories into smart factories, and the market has just started to expand significantly. The Company has established a new division to capture the market's growth. It is developing high-value-added services by actively leveraging cutting-edge technologies such as AI, IoT, and the cloud, as well as expanding its customer base by boosting market recognition through trade show booths and collaborations with plant manufacturers.

Results trends

Operating income increased nearly twofold in a favorable business environment

1. 1H FY3/24 results trends

The Company reported strong results for 1H FY3/24, with profits increasing nearly twofold. It posted ¥22,571mn in orders received (-5.1% YoY), ¥15,584mn in net sales (+34.8%), ¥1,748mn in operating income (+186.7%), ¥1,824mn in ordinary income (+170.7%) and ¥1,234mn in net profit attributable to owners of the parent (+174.1%).

Japan's economy has been following a gradual recovery path due to the reclassification of COVID-19 to a Class 5 disease, the same category as seasonal influenza, and various policy measures. However, the economic outlook remains uncertain, mainly due to slowdowns in overseas economies caused by inflation and the tightening of monetary policy worldwide. In the construction industry, parts and material shortages are being resolved. Public works investment held firm, supported in part by the effects of a supplementary budget. Private sector capital investment saw a continuation of surging construction demand centered on semiconductor-related and other factories and redevelopment projects in the Tokyo metro area and regional areas. As a result, there is a growing view that the peak in demand centered on urban redevelopment, which had previously been expected in 2024, will now be postponed to 2027. In this environment, the Company actively conducted business with a focus on addressing the following issues: "rigorous implementation of a Company-wide optimization policy and receipt of orders for projects that lead to existing site work" in new site work in the air conditioning instrumentation-related business; "business development that balances proposal-based business aligned with energy issues and the maintenance business" in existing site work in the air conditioning instrumentation-related business; and "establishing an earnings base and expanding business in unison with Group companies, alongside the creation of a business structure to make that possible" in the industrial systems-related business.

1H FY3/24 results

(¥mn)

	1H FY3/23		1H FY3/24		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Orders received	23,778	-	22,571	-	-5.1%
Net sales	11,562	100.0%	15,584	100.0%	34.8%
Gross profit	3,616	31.3%	5,100	32.7%	41.0%
SG&A expenses	3,006	26.0%	3,352	21.5%	11.5%
Operating income	609	5.3%	1,748	11.2%	186.7%
Ordinary income	674	5.8%	1,824	11.7%	170.7%
Net profit attributable to owners of the parent	450	3.9%	1,234	7.9%	174.1%

Source: Prepared by FISCO from the Company's financial results

Looking at the Company's order flow, orders received for new site work remained strong for semiconductor factories and data centers, and vigorous orders for redevelopment projects, including those in regional areas, are now projected through 2027. Additionally, existing site work has seen firm orders for renovation to improve energy efficiency and reduce CO_2 emissions and projects have grown in size. To address the so-called 2024 problem for the construction industry, in which construction workers will be subject to stricter regulations on overtime work, the Company has already begun workforce management efforts. If it continues to make progress while remaining compliant with rules before and after the new regulations on overtime work take effect, the Company should be operating at full capacity. For this reason, the Company has been working to accept orders in a strategic and selective manner. While orders received have decreased YoY, profitability has gradually improved. Moreover, in workforce management, enhancing productivity is essential. The Company has established a DX Promotion Office and is promoting efforts to improve operating efficiency. It is also undertaking initiatives such as utilizing BIM* and applying AI.

* BIM (Building Information Modeling): A 3D digital model of a building is used to capture and apply information about the structure throughout its lifecycle, from planning and design to maintenance and management.

As a result, combined with the completion of construction for large new factory and urban redevelopment projects in 1H FY3/24, net sales increased substantially. On the profit front, earnings increased sharply in line with the growth in net sales. Notably, the gross profit margin improved greatly owing to progress on the selective acceptance of orders, although there were cost pressures due to factors such as raw material and labor costs as well as outsourcing expenses to partner companies. These conditions are likely to continue into next fiscal year. SG&A expenses were held to an increase that was covered by the increase in net sales, due partly to progress on increasing operating efficiency through advances in DX and the use of satellite offices, despite an increase in expenses due to factors such as an increase in the salary base. Although performance relative to the Company's initial forecasts is not disclosed for 1H, the Company seems to have successfully surpassed its forecasts for both net sales and operating income, mainly due to factors such as unforeseen orders received in existing site work in the air conditioning instrumentation-related business.

Extraordinarily strong inquiries in air conditioning instrumentation continue for the Company

2. Status by business

In terms of the status by business, in the air conditioning instrumentation-related business, orders received totaled ¥20,864mn (-4.1% YoY). Net sales were ¥13,956mn (+41.7%), and segment profit was ¥3,134mn (+78.8%). In the industrial systems-related business, orders received were ¥1,707mn (-15.6%), net sales were ¥1,628mn (-4.9%), and segment profit was ¥95mn (-3.8%). Notably, orders received in the air conditioning instrumentation-related business appear to have decreased as the Company selectively took orders. However, the Company has continued to receive strong inquiries, and it appears that almost all unprofitable construction work has been removed.

Results by segment in 1H FY3/24

(¥mn)

Net sales	1H FY3/23		1H FY3/24		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Air conditioning instrumentation-related business	9,851	85.2%	13,956	89.6%	41.7%
Industrial systems-related business	1,711	14.8%	1,628	10.4%	-4.9%

Segment profit before adjustment	1H FY3/23		1H FY3/24		Change rate
	Results	Profit margin	Results	Profit margin	
Air conditioning instrumentation-related business	1,753	17.8%	3,134	22.5%	78.8%
Industrial systems-related business	99	5.8%	95	5.8%	-3.8%

Source: Prepared by FISCO from the Company's financial results

Orders received in the air conditioning instrumentation-related business decreased in new site work for factories and offices, etc., while increasing in existing site work for offices and public facilities, marking an overall decrease. Another factor behind the decrease was a reactionary decline from the same period of the previous fiscal year, mainly due to additional orders received for Tokyo metro redevelopment projects and medium-sized projects in that period. Net sales increased for new site work for factories and offices, and also rose for existing site work for offices and factories. In addition, projects remained firm for data centers and logistics centers, and in existing site work, there were many projects for factories. Incidentally, the Company appears to be involved in most of the redevelopment projects in Tokyo and regional areas.

In the industrial systems-related business, orders received decreased in areas such as electrical work and ancillary work on production equipment, and net sales declined in areas such as industrial robot-related work and electrical work. Although precise information is somewhat lacking, these decreases seem to have been caused by excessively strong business conditions in the air conditioning instrumentation-related business (personnel support was provided to the air conditioning instrumentation-related business). Another possible factor is that given that the Company's main target is the food industry, which has numerous small and medium-sized factories, customers were hesitant to invest after the COVID-19 pandemic ended. These factors should be resolved over time. In this environment, the Company also reaped rewards. Sales activities carried out in conjunction with the production management system of Jupiter Advanced Systems, a subsidiary of the Company, have begun to yield positive results, and the Company has received favorable responses to its proposals to client company management teams seeking to make factory operations more visible.

A conservative outlook for 2H FY3/24, despite upwardly revising forecasts

3. FY3/24 outlook

In its outlook for FY3/24, the Company is projecting orders received of ¥38,500mn (-1.4% YoY), net sales of ¥36,500mn (+6.4%), operating income of ¥4,750mn (+5.5%), ordinary income of ¥4,850mn (+5.1%), and net profit attributable to owners of the parent of ¥3,300mn (+4.2%). In light of its strong performance in 1H FY3/24, the Company upwardly revised its forecasts, raising the forecast of orders received by ¥6,000mn, net sales by ¥1,500mn, operating income and ordinary income by ¥200mn and net profit attributable to owners of the parent by ¥100mn. Although orders received is projected to decline, the Company is expected to surpass its results for the previous fiscal year, when it had reached its medium-term management plan targets, and it is expected to exceed its most recent all-time high in profit (operating income of ¥4,584mn in FY3/21).

FY3/24 outlook

(¥mn)

	FY3/23		FY3/24		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Orders received	39,064	-	38,500	-	-1.4%
Net sales	34,308	100.0%	36,500	100.0%	6.4%
Air conditioning instrumentation-related business	29,792	86.8%	32,000	87.7%	7.4%
Industrial systems-related business	4,515	13.2%	4,500	12.3%	-0.3%
Gross profit	11,603	33.8%	-	-	-
SG&A expenses	7,100	20.7%	-	-	-
Operating income	4,502	13.1%	4,750	13.0%	5.5%
Ordinary income	4,613	13.4%	4,850	13.3%	5.1%
Net profit attributable to owners of the parent	3,167	9.2%	3,300	9.0%	4.2%

Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

In the air conditioning instrumentation-related business, in 2H FY3/24 the Company continues to expect surging growth in the completion and contracting of large projects, centered on new site work, such as Tokyo metro and other urban redevelopment projects and semiconductor factories. Meanwhile, the carryover amount has accumulated to all-time highs ahead of the so-called 2024 problem for the construction industry, and the Company will continue to selectively accept orders considering its level of surplus construction work capacity. For these reasons, orders received are forecast to decrease YoY. Accordingly, the Company will work to achieve Company-wide optimization through selectivity and focus with respect to management resources. In existing site work, the Company will make a steady stream of proposals focused on energy issues such as reducing CO_2 emissions. Through these efforts, the Company aims to establish a business structure that can consistently generate earnings.

In the industrial systems-related business, the Company expects capital investment to recover, led by food factories, its main customers, and project completion and contracting are both projected to increase in 2H FY3/24. However, because the Company has temporarily assigned some personnel to support the air conditioning instrumentation-related business, there is a risk that order growth might turn out to be slower than expected. Therefore, the Company intends to expand its business scope and increase business efficiency through measures such as establishing an earnings base aimed at plant manufacturers and bolstering the supply of solutions to production sites in partnership with Jupiter Advanced Systems.

However, it is unavoidable that the forecast is somewhat repressed, owing to selective order acceptance and the construction industry's so-called 2024 problem. The Company expects decreased sales and earnings, with net sales falling 8.0% YoY and operating income falling 22.9% in comparison to 2H of the previous fiscal year. However, when considerations such as improved profitability for orders received are taken into account, this forecast can be viewed as slightly conservative.

Medium-term management plan

Achieving long-term growth through "ND for the Next 2030"

1. Long-term management guidelines "ND for the Next 2030"

The speed of technological innovation is accelerating against a backdrop of changes in the social structure and digitalization. In order to accommodate such changes in the management environment, strengthen existing businesses, and promote business expansion in carefully identified growth areas, the Company formulated the long-term management guidelines "ND for the Next 2030" in 2021. With its comprehensive capabilities in instrumentation engineering, a technology asset it has cultivated to date, the Company will help to reduce environmental impact and realize a decarbonized society by increasing the energy efficiency of buildings; enhance customer satisfaction by providing high value-added services leveraging digital technology; and strive to achieve sustainable growth and increase medium- and long-term corporate value by helping to solve sustainability-related issues. Concurrently, the Company will enhance human capital investment, with a view to recruiting and training human resources. Through these efforts, in FY3/31, the Company is targeting an ROE of 10% or higher, operating income of ¥6,000mn and net sales of ¥45,000mn. Furthermore, the Company has divided "ND for the Next 2030" into Phase 1 (FY2021-2023) for building a growth foundation, Phase 2 (FY2024-2027) for achieving growth and further increasing business quality, and Phase 3 (FY2028-2030) for endeavoring to take another major leap forward. The Company intends to create medium-term management plans for each phase in order to achieve steady growth.

The key priority is to increase corporate value

2. Key priorities of Phase 2

Phase 1 progressed very well, reflecting new construction projects for urban redevelopment projects in the Tokyo metro area and regional areas, semiconductor factories, data centers, and logistics centers. For this reason, the Company will almost certainly meet its targets for orders received of ¥38,500mn, net sales of ¥36,500mn, operating income of ¥4,750mn, and ROE of 10% or higher. In addition to these current conditions, in Phase 2, the Company is likely to incorporate changes in the internal and external environment, such as the postponement of the peak in demand for urban redevelopment to 2027 and the implementation of efficiency improvement measures ahead of the so-called 2024 problem, into its new financial targets.

Meanwhile, in terms of non-financial targets, the Company will most likely accelerate ESG management, with the aim of implementing sustainable corporate management to realize its vision for FY2030. In the Environment (E) field, the Company seeks to accelerate measures to address climate change, provide disclosure based on TCFD*1, and establish Science Based Targets (SBTs)*2, which comply with the required levels of the Paris Agreement. To this end, in October 2023, the Company set up a Climate Change Project Team to help achieve a decarbonized society. The Project Team began calculating the Group's greenhouse gas (GHG) emissions (Scope 1 – 3) and aims to set SBTs and acquire SBT certification during the next medium-term management plan. In the Social (S) field, the Company has adopted a medium- and long-term strategy for enhancing human capital and maximizing human resource capabilities. The Company plans to develop an internal environment with the goal of creating workplaces where a diverse range of human resources can reach their full potential. To do so, the Company is taking steps such as enhancing technical training, revising wages such as starting salary and annual base income, formulating a human rights policy, and entering into an official partnership agreement with the men's professional basketball team Chiba Jets Funabashi, which will increase the Company's market recognition and improve motivation. In the Governance (G) field, the Company seeks to build an effective governance structure in accordance with the Corporate Governance Code, with the goal of promoting sustainable growth and increasing medium- and long-term corporate value. To accomplish this, the Company will improve the IR structure through such means as enhancing English-language disclosure and individual IR, as well as setting up a Corporate Communications Section; revise officers' remuneration to be more closely linked to performance; implement a capital policy; and promote cost of capital-conscious management.

*1 TCFD: The Financial Stability Board (FSB) established the Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD proposes that companies disclose detailed information about their efforts to combat climate change, as well as the present state of such activities.
*2 SBT certification: An international certification that certifies that an organization has set GHG emissions reduction targets in accordance with the Paris Agreement.

Improving PBR is a crucial non-financial target of Phase 2

3. Toward increasing corporate value

The Company has identified increasing corporate value as one of its most urgent priorities and plans to implement management that is conscious of cost of capital. It has set ROE as a Company-wide target management indicator and is aiming for an ROE of 10% with a lower limit of 8%, which exceeds its estimated cost of capital of 6%. In addition, ROIC (Return on Invested Capital) has been set as a management indicator for each business. The Company will regularly monitor WACC (Weighted Average Cost of Capital) and ROIC for each business, and it will seek to instill business management based on ROIC in situations such as decisions on whether to approve management resource allocations and investments in each business. The Company has already implemented stock price-conscious management based on requests for "implementing management that is conscious of cost of capital and stock price" by the Tokyo Stock Exchange, Inc. (TSE).

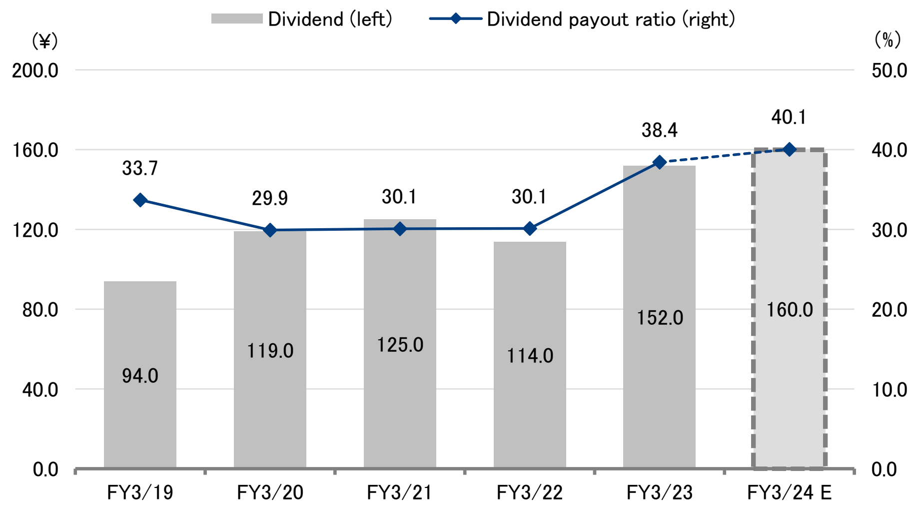
The TSE has presented a challenge to companies that have a Price-to-Book Ratio (PBR) of less than 1. Although the Company's PBR is currently larger than 1, it will strive to create corporate value that is recognized by the markets over the long term by implementing its growth strategy and enhancing return on capital, with the goal of improving PBR further. Improving PBR entails increasing profitability through growth investments, stepping up sustainability efforts, and bolstering measures to improve disclosure and IR, in addition to existing measures such as improving Return on Investment (ROI), strengthening shareholder returns (discussed later in the report) and revising the remuneration structure to be incentive-linked. Considering these points, improving PBR is expected to be positioned as a crucial non-financial target of Phase 2. The next medium-term management plan is expected to be a four-year medium-term management plan running from FY3/25 to FY3/28. The details are scheduled to be announced at the Company's financial results briefing for FY3/24.

Shareholder return policy

Implementing a basic policy of providing a progressive dividend based on a standard DOE of 4%, in addition to flexibly buying back shares

The Company has a basic policy of paying a dividend on retained earnings twice a year, an interim dividend and a year-end dividend. The body that determines these dividends is the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend. In terms of the Company's capital policy, its target management indicator is a consolidated ROE of 10% or higher, with the goal of increasing medium- and long-term corporate value. The Company is implementing a capital policy that balances growth investments, shareholder returns, and financial soundness. Regarding shareholder returns in particular, the Company's policy is to provide a progressive dividend based on a standard consolidated Dividend on Equity (DOE) of 4%, unless there are events that have a major impact on results, and it will also flexibly buy back shares (if ROE is 10% and DOE is 4%, the dividend payout ratio is 40%). Based on this, the annual dividend per share for FY3/24 is forecast at ¥160.0 (interim dividend of ¥76.0 and year-end dividend of ¥84.0).

Trends in dividend and dividend payout ratio



Source: Prepared by FISCO from the Company's financial results

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