

MESSAGE

Message from the Officer in Charge of Finance



Accelerating Investment for the Future through Efficient Use of Funds

Fueling Further Growth with Record Profits

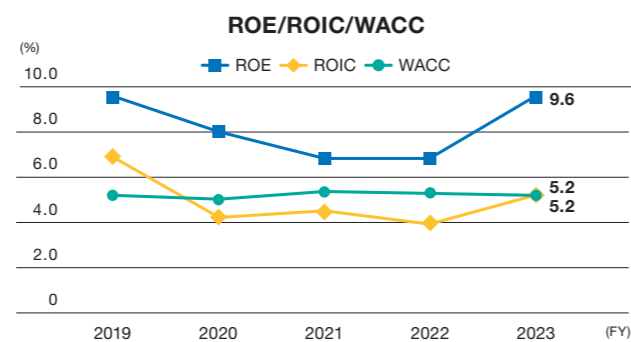
Masayuki Iwao
Director & Senior Managing Executive Officer

1. Reflecting on FY2023

In FY2023, despite the impact of soaring raw material prices and other factors, operating income and net income attributable to owners of the parent company both marked record highs, at 12.7 billion yen and 11.2 billion yen, respectively. ROE and ROIC also improved to 9.6% and 5.2%, respectively, from 6.8% and 3.9% in the previous fiscal year. However, we recognize that ROIC remains near our WACC level, and further improvements in profitability and asset efficiency are essential to rectify this. The performance forecast for FY2024 is for operating income of 15.0 billion yen, which is higher than the FY2023 result, although it is still below the target set in the Medium-term Management Plan 2024.

Looking back over the past 10 years, we have aggressively invested capital in growth areas, including investments in overseas T&D, EVs and semiconductor related businesses, as well as the establishment of a new company utilizing pure ozone technology. Although there was a period of underperformance due to the COVID-19

pandemic, I feel that with our FY2023 results, we are moving into a new stage of the Company's growth. Going forward, we will continue to generate cash as a source of growth through our business activities, achieve sustainable growth through appropriate cash allocation, and increase corporate value.



2. Cash Flow Management

We are committed to cash flow management to avoid opportunity losses and to ensure that we are always ready to make optimal investments. To improve our ability to generate cash, we are working to increase the profitability of our business activities and improve asset efficiency through asset reduction. Improving asset efficiency, in particular, is a major challenge. Even with a high level of order backlogs and an increase in safety stock due to measures to address

long delivery times of parts and materials, we intend to make improvements by developing more efficient production activities with an awareness of inventory turnover.

From the viewpoint of effective use of funds within the Group, we also utilize a cash management system (CMS) in Japan. The Company seeks to control external borrowings and interest expenses by accommodating funds among its subsidiaries.

3. Cash Allocation

We will balance investment for growth and shareholder returns while aiming to obtain a higher credit rating through strengthening our financial base. Through our efforts to strengthen financial soundness so far, we have improved the equity ratio to 37.8%. Going forward, we intend to continue efforts to improve financial soundness, targeting an improved equity ratio and a net D/E ratio between 0.25 and 0.30 to be maintained, as well as aggressively investing in growth areas.

Our basic policy on shareholder returns is to maintain a payout ratio of 30%. This policy has been created in the approach that, considering the business environment in which we operate, it is possible to further increase corporate value through growth investments, which will lead to greater returns to our shareholders going forward. In FY2023, we increased the dividend by 25 yen to 75 yen per share. We intend to continue to return profits to shareholders through stable and consistent dividends.

4. Toward Management Conscious of Cost of Capital and Stock Price

Although our P/B ratio is showing improvement over the previous year, we recognize that the market's assessment of our current profitability and growth potential still leaves room for improvement. At Meidensha, we break down the P/B ratio into ROE and the P/E ratio, and work to improve each.

In our efforts to improve ROE, in addition to improving the operating margin to generate a return that exceeds the cost of capital, we will also be conscious of the efficient management of our business assets. We will also balance investment in growth with shareholder returns, aiming to optimize our capital structure in the process.

Meanwhile, in our efforts to improve the P/E ratio,

we believe it is necessary to show a clear path toward medium- to long-term improvement of corporate value. Looking ahead to the era of carbon neutrality, there are numerous hurdles to be solved in areas such as power infrastructure and mobility, and issues are expected to emerge with the acceleration of digitalization. However, Meidensha has the technologies and human resources to solve these issues.

We view these changes as business opportunities and intend to reflect specific measures to achieve sustainable growth and increase corporate value in our next medium-term management plan, which is scheduled to be announced in 2025.

Efforts to Improve the P/B Ratio (Price-to-Book Ratio = Corporate Value)

	Main improvement measures	Action items	
Increase in P/B ratio (corporate value)	ROE improvement	Strengthening profitability and improving investment efficiency	<ul style="list-style-type: none"> Strengthening earning power Improving investment efficiency
		Optimizing capital structure	<ul style="list-style-type: none"> Investing for growth Financial soundness Shareholder returns
	P/E ratio improvement	Increasing expected growth rate	<ul style="list-style-type: none"> Medium- to long-term growth strategy Development of new domains
		Increasing non-financial value	<ul style="list-style-type: none"> Building a sustainable management base Improving stakeholder engagement

5. Dialogue with Stakeholders

We take the opinions and evaluations of shareholders, investors, securities analysts, and other market participants seriously and feed them back into our business operations to enhance our corporate value. Dialogue with a diverse range of external stakeholders helps us to gain a bird's-eye view of our business direction, and at the same time, it provides an opportunity to reaffirm that the management resources and accumulated knowledge and experience of

the Meiden Group can contribute to solving social issues.

Your cooperation and support are essential to the growth of the Meiden Group. We will continue to strive to disclose accurate information in a fair, timely, and appropriate manner, and to communicate carefully at various opportunities for dialogue, including investor and shareholder relations activities.