Evolving ROIC management to improve cash flow generation

— Achieving medium- to long-term corporate value improvement through appropriate capital allocation —

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Achieve further growth by improving cash flow generation

We have been boldly making growth investments, including M&A, and have improved our corporate value by achieving high growth and profitability centered on HDD motors. Amid major changes in the global market, new growth opportunities are expanding in various fields, including Water-cooling modules for AI data center servers and emergency generators, for which demand is rapidly expanding, as well as battery energy storage systems to promote the effective use of renewable energy and motors for eVTOL (electric vertical take-off and landing aircraft). In order to ensure that we take advantage of these opportunities and achieve further growth and increased corporate value, we are working to evolve our ROIC management and improve our ability to generate cash flow as our top priority.

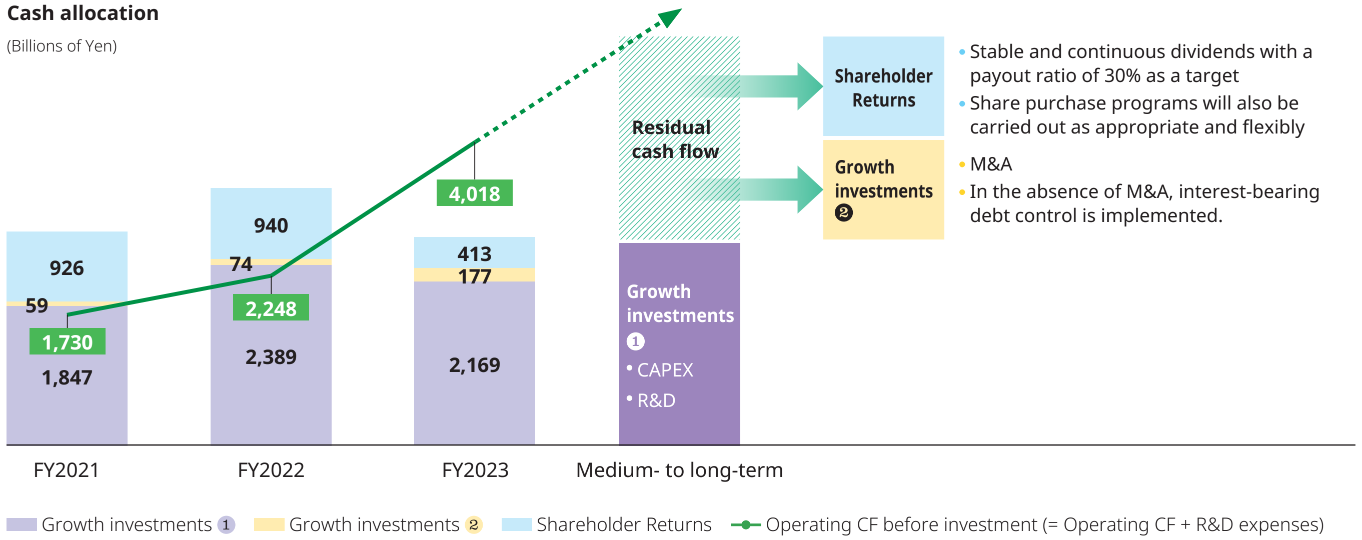
Cash allocation for improving corporate value

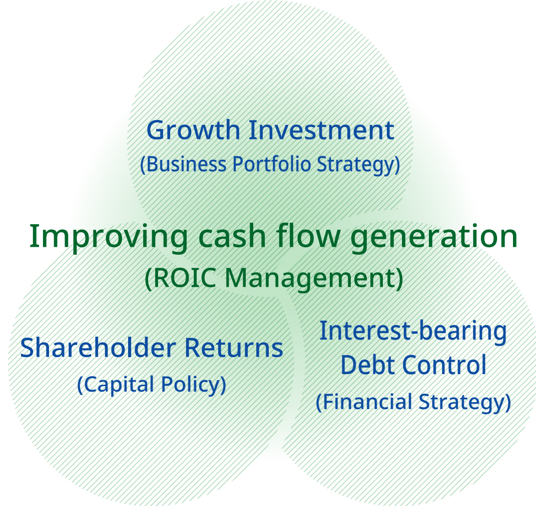
Since FY2021, we have been using ROIC (Return on Invested Capital) as one of our management indicators, and have been promoting improvement activities from both the perspectives of profitability and capital efficiency, with the goal of achieving an ROIC of 15% or more. Despite a period of decline in working capital efficiency due to the coronavirus pandemic, we were able to generate free cash flow of 167.2 billion yen (operating CF before investment*: 401.8 billion yen) in FY2023, a significant improvement on our previous record, as a result of our efforts to improve profitability and operating cash flow through working capital control, and to increase the efficiency of our investment activities. The cash generated in this way is allocated to "growth investment", "shareholder returns" and "interest-bearing debt control" in a balance that contributes to the improvement of corporate value in the medium- to long-term.

* Operating CF before investment = Operating CF + R&D expenses

Cash allocation

(Billions of Yen)





Growth Investment (Business Portfolio Strategy)

Regarding growth investment, in order to achieve our target of 10 trillion yen in sales by FY2030, we are actively pursuing M&A that will have a synergistic effect with our existing businesses, as well as expanding production capacity for organic growth, CAPEX to improve productivity, and strengthening R&D. In making investment decisions, we will clarify business fields with relatively high profitability and fields with potential for future growth, and introduce a new system to support our business portfolio strategy so that we can optimally allocate the funds generated by our businesses. This is a system that enables the unified visualization of business and financial profiles (profitability, financial situation, etc.) for each business unit, such as "characteristics of the market entered" and "status of the company in the market entered", and enables relative evaluation. Through this, we will optimize the allocation of funds based on the business portfolio strategy and achieve profitable growth in the medium- to long-term.

In addition, M&A is a powerful tool for optimizing business portfolios, and it has played an important role in our growth strategy to date. In the future, we will adopt new methods and pursue all possibilities.

Shareholder Returns (Capital Policy)

We have positioned the share price and market capitalization as important management indicators, and have been working to engage in careful dialogue with the capital markets. Therefore, in terms of shareholder returns, in addition to increasing the share price through business expansion and improved profitability in growth areas, we will implement stable and continuous dividends with a target payout ratio of 30%, and we will also flexibly implement share purchase programs, taking into account factors such as the funds for medium- to long-term growth investments, the current cash position, the share price level, and the total amount of shareholder returns.

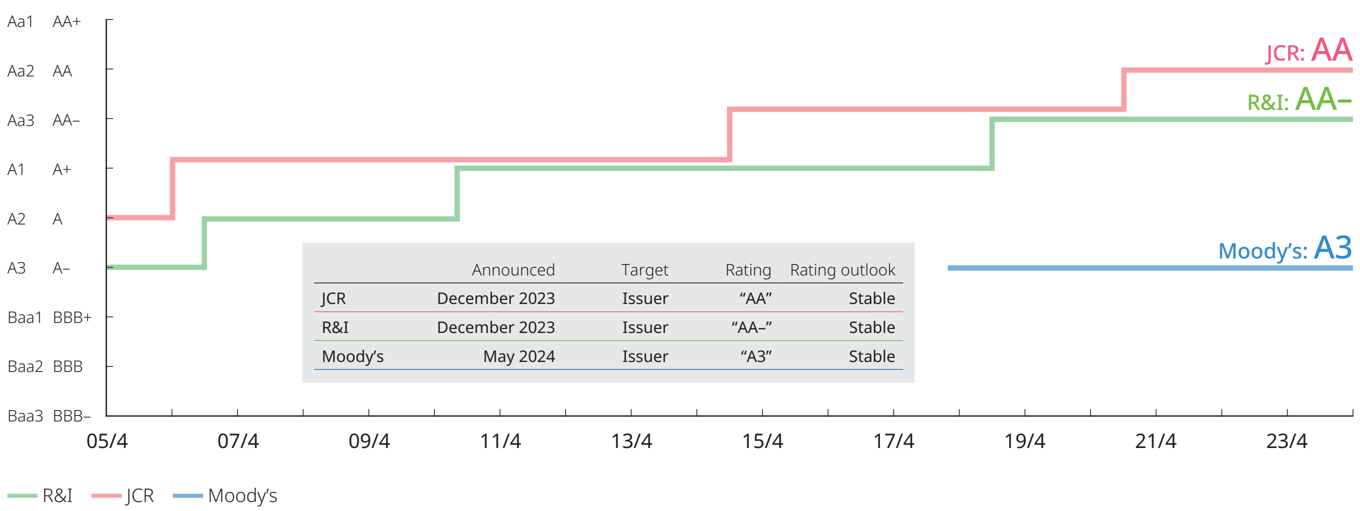
Interest-bearing debt control (Financial Strategy)

We believe that the basic principle of financial strategy is to balance securing growth investment funds with maintaining financial soundness. To this end, we have adopted the principle of "reinvesting cash generated by our own operations" to create a virtuous cycle, and our finance department, which acts as an internal bank, is at the center of the process, rigorously checking the profitability of investment projects and the adequacy of collection plans. At the same time, we are maintaining financial soundness by appropriately controlling the level of interest-bearing debt through the establishment of internal systems that promote the efficient use of funds, such as the setting of internal interest rates according to the creditworthiness of each business and the imposition of capital costs in the event that the invested capital budget is exceeded.

On the other hand, in order to carry out M&A, which plays a part in our growth strategy, in a flexible manner, we will secure a variety of funding methods and sufficient funding capacity, and we will build a strong financial structure that will enable us to maintain a certain credit rating* even if there is a need for funds for growth investment, including large-scale M&A.

* As of June 2024, the Company has obtained credit ratings from three domestic and overseas rating agencies, and is working to maintain and improve these ratings.

Rating history



	Announced	Target	Rating	Rating outlook
JCR	December 2023	Issuer	"AA"	Stable
R&I	December 2023	Issuer	"AA–"	Stable
Moody's	May 2024	Issuer	"A3"	Stable