

Actions on Achieve Management Conscious of Cost of Capital and Stock Prices

We hereby announce that our Board of Directors, at a meeting held on December 1, 2023, deliberated and decided on the following, with the aim of achieving sustainable growth and increasing corporate value over the medium to long term, with a consciousness of the cost of capital and stock price.

1. Analysis of Current Situation

Consolidated Results

(Unit: Billions of JPY)

	FY2020 Results	FY2021 Results	FY2022 Results	FY2023 Forecast
Order intake	429.4	677.9	737.5	620.0
Net sales	408.5	441.7	492.6	540.0
Operating income	15.3	15.5	20.0	23.0
Operating income margin (%)	3.8%	3.5%	4.1%	4.3%
Profit attributable to shareholders	4.2	7.8	15.5	13.0
ROIC (%)	4.8%	4.8%	6.2%	7.2%
ROE (%)	3.5%	6.1%	11.5%	9.0%
Stock price (JPY)	895	746	866	
Net assets per share at beginning of year (JPY)	700.15	749.58	779.08	
PBR	1.28x	1.00x	1.11x	

During the implementation period of the previous medium-term management plan "Forward 22" (FY2020-FY2022), the Group has been working to enhance corporate value by adding value to its products and services, promoting business selection and concentration and shifting resources to growth areas, and implementing work style reforms by improving operational efficiency and productivity. As a result, orders received and net sales well exceeded the initial target level of JPY400 billion, but the operating income margin fell below the target of 5%, and we recognize that strengthening profitability is an ongoing issue.

During this period, our share price rose from a closing price of 348 yen at the end of

March 2020 to 866 yen at the end of March 2023. The ROE recovered to 11.5% in FY2022 due to an improved operating profit margin as well as extraordinary profits. We expect ROE to be 9.0% in FY2023, and beyond that, we believe we can continue to improve ROE through higher profit margins.

On the other hand, PBR was 1.11x as of March 31, 2023, but has temporarily fallen below 1x since then due to stock price fluctuations. We are self-evaluating the need for further efforts to gain sufficient understanding from shareholders and investors regarding the probability of achieving the targets of the new medium-term management plan "Forward 25" announced in March 2023 and the policy of allocating a large amount of cash to growth investments for future sustainable growth during these three years.

2. Implementation of Initiatives

Based on the above evaluation of the current situation, through the following efforts, we will strive to gain the understanding of shareholders and investors, and as a result, we will not only stably exceed a PBR of 1x, but also continue to maintain a stock price level that meets the expectations of shareholders and investors.

- ① Strengthen profitability through steady implementation of priority measures in the "Forward 25" medium-term management plan (Achieve operating margin target of 5% in FY2025)

Priority measures	
Basic Policies (1) Sustainable growth of existing businesses	① Expanding overseas businesses ② Promoting structural reform ③ Expanding O&M/Service, improving profitability of EPC/New production
Basic Policies (2) Creation and expansion of growth businesses	① Promoting investment strategies ② Promoting investment in priority areas ●Decarbonization (CN) business: Wind Power, Nuclear and CN Related, H ₂ generation and Power to Gas, Fuel conversion, CCUS ●Resource circulation (CE) business: Waste to X*+ carbon credit, Renewable gas production/use/sales, Industrial waste disposal business ●Water business: Industrial wastewater, Water supply and sewage ●Life science related business: Various devices for drug discovery, regenerative medicine, and next-generation medicine ●Inspection, measurement, monitoring and remote support related business
Basic Policies (3) Promoting sustainable management (Enhancement of corporate value)	① Strengthening human capital ② Decarbonization in business activities ③ Promoting DX Strategies ④ Thorough risk management

* Waste to X = Energy, material, chemical, fuel, H₂, CO₂ storage, phosphorus recovery, etc.

② Establishment, disclosure, and monitoring of annual plans for cost of capital and profitability

With regard to the Group's overall ROE, ROIC, cost of equity and WACC, from FY2023 (ending March 2024), the Group will disclose the actual figures for the relevant year at the time of publication of the main results (fourth quarter results) as well as the forecast (plan) for the following year.

In principle, the results of monitoring risk factors and measures to achieve the annual earnings forecast, ROIC, cash conversion cycle, etc. are reported and discussed as necessary regularly, at the earnings follow-up meetings between management and each business unit and the management strategy meetings consisting of executive directors and the heads of major divisions every month, and also at the Board of Directors meeting every two months.

③ Enhancement of disclosure and IR

- Explanation of the progress of the medium-term management plan

The progress of the medium-term management plan will be explained at the 2nd quarter and 4th quarter financial results meeting.

- On-going active dialogue with analysts and institutional investors

We have been engaged in IR activities, such as surveys to solicit opinions regarding financial results briefings and small meetings, strengthening proactive dialogue, and enhancing the content of integrated reports, but we will focus more than ever on dialogue with the market, including the management team.

- Creation of IR video for individual investors

We plan to create and distribute a video presentation to individuals who are interested in our company so that they can understand our business overview, management strategy, and performance. (Scheduled to be implemented in the fourth quarter of FY2023)