KITZ Group

1st Medium-term Management Plan 2024
(FY2022-FY2024)
Review of the 4th Medium-term Management Plan (FY2019-FY2021)
Review of the 4th Medium-term Management Plan

Summary

Financial targets were not achieved. Steady progress in strengthening the global/ESG management foundation and continued to enhance shareholder returns, but challenges remain in implementing strategic investments for sustainable growth.

| Achievement of financial targets | Underperformed major financial targets
| | Main reasons are weak domestic and overseas market outlook, stagnant market due to COVID19, and delay in profit structure reform |
| Execution of growth investment | Capital investment fell short of the 24 billion yen budget
| | Investment in Malaysia's Unimech Group for growth in Asia's middle class zone, but not yet ready to contribute to earnings
| | Lagging behind in response to semiconductor market expansion |
| Implementation of strategic measures | Domestic business failed to reach market share targets for key valve types
| | Full-scale entry into the industrial butterfly valve market with a focus on the Cephas brand, but PMI and synergies are still insufficient. |
| Enhancement of shareholder returns | EPS (Earnings per share) target was not achieved, but the target consolidated dividend payout ratio of 35% was secured.
| | 3.85 billion yen share buyback |
| Strengthening of management infrastructure (ESG/Global management) | Started operation of new ERP (KInGS) from May 2019
| | Unification of the Group's accounting periods from the fiscal year ending December 31, 2020
| | Entering the packaged unit-type hydrogen station business
| | Increase in number of outside directors and auditors |
## Review of the 4th Medium-term Management Plan

### Financial targets and Management KPIs

- **Financial targets were not achieved.** The main reasons were weak market outlook, significant stagnation in the market due to COVID19, and delay in profit structure reforms such as review of low-profit categories.

- **Due to the lack of operating cash flow and the uncertainty of market conditions caused by the COVID19, capital investment was kept within depreciation expenses. Investment for growth will be carried over to the next mid-term plan.**

### Financial targets

<table>
<thead>
<tr>
<th>Management Indicators (Billions of yen)</th>
<th>3rd Medium-term plan</th>
<th>4th Medium-term Management Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY2018 Results</td>
<td>FY2019 Results</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net sales</td>
<td>136.6</td>
<td>127.1</td>
</tr>
<tr>
<td>Operating income</td>
<td>11.7</td>
<td>6.9</td>
</tr>
<tr>
<td>EBITDA ():(Depreciation and amortization)</td>
<td>16.8 (5.1)</td>
<td>13.7 (6.8)</td>
</tr>
<tr>
<td>ROE</td>
<td>7.4%</td>
<td>6.5%</td>
</tr>
<tr>
<td>EPS</td>
<td>58.50 yen</td>
<td>53.06 yen</td>
</tr>
</tbody>
</table>

### Financial strategy and capital policy

<table>
<thead>
<tr>
<th>Financial targets</th>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
<th>FY2021</th>
<th>3Year-to-date</th>
<th>Medium-term targets (FY2021)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating CF</td>
<td>10.1</td>
<td>13.3</td>
<td>10.0</td>
<td>8.3</td>
<td>31.6</td>
<td>45.0</td>
</tr>
<tr>
<td>Capital investment</td>
<td>13.9</td>
<td>7.8</td>
<td>3.1</td>
<td>4.9</td>
<td>15.8</td>
<td>24.0</td>
</tr>
<tr>
<td>M&amp;A, Alliance</td>
<td>2 Korea (Valves &amp; Filters)</td>
<td>1 Malaysia (Valve)</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>Agile implementation</td>
</tr>
<tr>
<td>Consolidated dividend payout ratio</td>
<td>34%</td>
<td>38%</td>
<td>39%</td>
<td>36%</td>
<td>-</td>
<td>Around 35%</td>
</tr>
</tbody>
</table>

© KITZ CORPORATION All Rights Reserved
1st Medium-term Management Plan 2024 (FY2022-FY2024)

I. Executive Summary
1st Medium-term Management Plan 2024 (FY2022-2024)
Executive Summary

Basic management policy
Aim for two-sided management that can generate earnings in core businesses and growth areas
- Proactively allocate resources to growth fields and regions driven by digitalization and de-carbonization
- Business development with emphasis on return on invested capital (ROIC)

Business Strategy

Valve Business

Strategy by Market
- Medium- to Long-term target markets are divided into eight market segments
- Shift resources to growth and new fields based on core businesses

Outline of Group Strategy
- Global Product x Area Strategy
  - Global Product Strategy
  - Area Business Strategy (North America, China, ASEAN/India)
- Creating Group Synergies
- Strengthen contact with users

Related Business

Brass Bar Business
- Reaping the benefits of large-scale renewal investment
- Capturing the needs of secondary and tertiary post-processing

Other (Service business)

Management Capital

Organizational and human resources
- Business Innovation and DX Project
- Building an organizational structure in line with business strategies
- Sustained improvement in employee engagement

ROIC/Sustainability Management
- Investment, financing, and capital policies that prioritize investment for growth
- Business management based on return on investment and cost of capital
- Strengthen initiatives from an ESG perspective
## Quantitative targets (financial and non-financial KPIs)

<table>
<thead>
<tr>
<th>Financial KPIs</th>
<th>FY2021 (results)</th>
<th>FY2024 (targets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>135.8</td>
<td>150.0</td>
</tr>
<tr>
<td>Operating income</td>
<td>9.0</td>
<td>12.0</td>
</tr>
<tr>
<td>ROE</td>
<td>6.4%</td>
<td>8% or more</td>
</tr>
<tr>
<td>Consolidated dividend payout ratio</td>
<td>36%</td>
<td>around 35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-financial KPIs *1</th>
<th>FY2021(results)</th>
<th>FY2024 (targets)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CO2 reduction rate</td>
<td>-26.9% *2</td>
<td>-80%</td>
</tr>
<tr>
<td>(compared to FY2013, domestic group)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee engagement score</td>
<td>rewarding work culture</td>
<td>48pt</td>
</tr>
<tr>
<td></td>
<td>Better work environment</td>
<td>43pt</td>
</tr>
<tr>
<td>Percentage of women employees</td>
<td>21.7%</td>
<td>23%</td>
</tr>
<tr>
<td>Percentage of women managers *3</td>
<td>3.4%</td>
<td>10%</td>
</tr>
<tr>
<td>Percentage of men taking childcare leave</td>
<td>29.0%</td>
<td>50%</td>
</tr>
</tbody>
</table>

*1 KITZ(non-consolidated) excluding CO2 reduction rate
*2 FY2020 results
*3 managers: employees of the department manager
1st Medium-term Management Plan 2024 (FY2022-FY2024)

II. Medium-term Plan by Business

1. Valve Business
2. Brass Bar Business
3. Others (Service Business)
Valve Business
Target segments and targeted revenue structure

Medium and Long-term target markets are organized into eight market segments. Shift resources to growth/new business fields based on the current core businesses to change the revenue structure.

<table>
<thead>
<tr>
<th>Target segments</th>
<th>growth potential</th>
<th>revenue growth hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Building &amp; facilities</td>
<td></td>
<td>High growth rates in semiconductor, fine-chemical, and hydrogen/clean energy businesses will drive earnings growth. Existing businesses will also be capturing data center-related and pure water markets, as well as solid demand growth overseas.</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water treatment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery &amp; equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semiconductor equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semiconductor materials (filters)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fine-chemicals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hydrogen &amp; clean energy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Valve Business / Sales Composition by Market

Growth business*: Semiconductor equipment, Semiconductor materials (filters), Fine-chemicals, Hydrogen & clean energy

Growth business: Semiconductor equipment, Semiconductor materials (filters), Fine-chemicals, Hydrogen & clean energy
Valve Business Strategy by Market

1. Building and facilities

Housing in Japan on a downward trend, but overseas markets continue to grow, especially in ASEAN. The needs for simplified construction and operation is increasing in developed countries. Global demand for data centers is growing rapidly.

**Business Environment**

- Capturing demand in the data center market
- Responding to the need for quick delivery: product inventories, etc.
- Product development for simplified construction
- Development of products that respond to changes in piping methods and materials and to automation and smart technology

**Global Data-center market forecast**

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe, middle east and Africa</th>
<th>North and central America</th>
<th>Asia (excluding Japan)</th>
<th>Japan</th>
<th>World-wide</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>3.8</td>
<td>2.5</td>
<td>0.3</td>
<td>2.1</td>
<td>14.4</td>
</tr>
<tr>
<td>2019</td>
<td>7.8</td>
<td>4.2</td>
<td>4.5</td>
<td>2.8</td>
<td>20.3</td>
</tr>
<tr>
<td>2025</td>
<td>11.6</td>
<td>7.6</td>
<td>9.5</td>
<td>2.1</td>
<td>26.8</td>
</tr>
<tr>
<td>2030</td>
<td>14.5</td>
<td>3.1</td>
<td>14.5</td>
<td>4.8</td>
<td>36.4</td>
</tr>
</tbody>
</table>

Source: IDC Japan

**Key Measures**

- The United States, with the largest market share, and China, with its "new infrastructure" policy, are driving the global market.
- Strong urban infrastructure-related demand in emerging countries
- Increasing need for simplified construction in developed countries
Valve Business Strategy by Market
2. Petrochemicals

Oil demand is expected to increase, especially in emerging countries, as they recover from COVID19. In developed countries, demand for petrochemicals will remain strong despite a shift to clean energy.

**Business Environment**

- **Driving forces**
  - (Overseas) Increase in demand due to economic growth in emerging and developing countries
  - (Domestic) Selection and concentration of petrochemical business, needs for environmental measures

- **Key Measures**
  - Product development that follows user trends, such as the shift to clean energy and environmental measures
  - Service to key account users, mainly Japanese, and increase MRO order rates
  - Improve the adoption rate of the KITZ predictive diagnostic system
  - Compliance with global standards, certifications and customer approvals

**World Oil Consumption by Industry**

- Roads
- Non-energy
- Aviation/Ship
- Other Transportation
- Consumers
- Others
- MENA
- ASEAN
- EU
- China
- U.S.

**Source:** IEEJ Outlook 2021

https://eneken.ieej.or.jp/data/9170.pdf

---

**Main Brands**

- India
- China
- U.S.
- EU
- Roads
- Other Transportation
- Non-energy
- Aviation/Ship
- Consumers
- Others
- MENA
- ASEAN
- EU
- China
- U.S.

**Key Measures**

- Product development that follows user trends, such as the shift to clean energy and environmental measures
- Service to key account users, mainly Japanese, and increase MRO order rates
- Improve the adoption rate of the KITZ predictive diagnostic system
- Compliance with global standards, certifications and customer approvals

**Three Piece Type Trunnion Ball Valve**

**Predictive Diagnosis System “KISMOS”**
Valve Business Strategy by Market

3. Water treatment

Global demand for water infrastructure is increasing, but price points and certification systems are barriers to entry. Investment in pure water/ultrapure water plants will increase due to rising demand for semiconductors.

### Business Environment

<table>
<thead>
<tr>
<th>Global Ultrapure Water Market Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Billions of dollars)</td>
</tr>
<tr>
<td>2020: 6.9</td>
</tr>
<tr>
<td>2027: 10.8</td>
</tr>
<tr>
<td>CAGR: 6.6%</td>
</tr>
</tbody>
</table>

Source: Global Industry Analysts, Inc.
https://www.gii.co.jp/report/go909391-ultrapure-water.html

### Driving forces

- In addition to semiconductors, which are the main application, solar cells, FPDs, pharmaceuticals, power generation, and other industries are expanding.
- Growing demand in the electronics industry in the APAC region and in the pharmaceutical sector in Europe

### Key Measures

- Close contact with pure water plant manufacturers and pure water equipment manufacturers
- Compliance with standards that strictly prohibit the elution of metal ions and development of resin-based products
- Providing solutions to the water infrastructure field
  - Water purification equipment (Pureculaser by TOYO, Aquarescue by Shimizu, etc.)

### Graphs

- Graph showing global demand increase from 6.9 billion dollars in 2020 to 10.8 billion dollars in 2027, with a CAGR of 6.6%.
- Graph showing various brands and their products.
Provide new customer value by accurately grasping the environmental needs of the machinery and equipment field, such as RoHS/REACH compliance and green refrigerant.

### Key Measures
- To establish Machinery & Equipment Sales Department
- Development and market introduction of products that support the downsizing, weight reduction and automation of machinery and equipment
- Expansion of products to comply with environmental regulations such as RoHS and REACH
- Capturing demand for switching to next-generation (green) refrigerants

### Business Environment

**Global Machine Tool Market Forecast**

<table>
<thead>
<tr>
<th>(Billions of dollars)</th>
<th>2020</th>
<th>2027</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>80</td>
<td>106</td>
</tr>
</tbody>
</table>

CAGR 4.0%

Source: Report Ocean press release

### Transition of Environmentally Friendly Refrigerants

<table>
<thead>
<tr>
<th>Refrigerant</th>
<th>Specified CFCs</th>
<th>Alternative CFCs</th>
<th>Green Refrigerant</th>
</tr>
</thead>
<tbody>
<tr>
<td>ozone layer destructive effect</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>greenhouse effect (GWP)</td>
<td>Major effect</td>
<td>Major effect</td>
<td>Minor Effect</td>
</tr>
</tbody>
</table>

“Miyoshi” Brand Products
Compact actuated valve “KELMO”
Valve Business Strategy by Market
5. Semiconductor equipment

Driven by the solid expansion of the semiconductor market, expand the production capacity of clean valves for semiconductor equipment and strengthen R&D capability

**Business Environment**

<table>
<thead>
<tr>
<th>Global Semiconductor Manufacturing Equipment Market Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
</tr>
<tr>
<td>2027</td>
</tr>
<tr>
<td>CAGR 9.0%</td>
</tr>
</tbody>
</table>

Source: Report Ocean press release

**Key Measures**

- Production capacity expansion: Construction of new building at Nitta SC Plant
- Investment in production DX (automation and labor saving)
- Strengthen R&D system

**Driving forces**

- Expanding end markets for semiconductors for related equipment and SSDs for data centers as 5G communication spreads
- Changes in needs for local production for local consumption and inventory strategies due to US-China decoupling
Driven by the strong demand for semiconductors, we expect steady growth in filters for semiconductor photoresists (polyfix). In order to meet the growing demand, we will expand our production capacity.

**Business Environment**

<table>
<thead>
<tr>
<th>Global Semiconductor Photoresist Market Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="chart.png" alt="Bar chart showing forecast" /></td>
</tr>
<tr>
<td>2020</td>
</tr>
<tr>
<td>2026</td>
</tr>
<tr>
<td><strong>CAGR</strong></td>
</tr>
</tbody>
</table>

Source: Fuji Keizai press release


**Key Measures**

- Expand production capacity of industrial filters such as Polifix
- Development of next-generation products for semiconductors that meet sub-nano level requirements
- Development of applications for precision filters in other fields (other than for resist)

**Driving forces**

- Expanding end markets for semiconductors for related equipment and SSDs for data centers as 5G communication spreads
- Continued development and market launch of cutting-edge products such as immersion ArF resists and EUV resists
Chemical companies, our major customers, are focusing on high value-added fine-chemicals. Expand product lineup to meet increasingly sophisticated process requirements and increase earnings.

### Business Environment

#### Global Fine-chemicals Market Forecast

- **2019**: 166
- **2027**: 332
- **CAGR**: 9.1%

Source: Stratistics MRC

https://www.gii.co.jp/report/smrc942524-fine-chemicals-global-market-outlook.html

### Key Measures

- Expansion of the product lineup to meet the demand for high cleanliness and easy maintenance (diaphragm valves, etc.)

- Establish a cross-sectional sales and technical organization dedicated to fine chemicals (pursue synergies with KITZ SCT)

- Build and strengthen process technology and production technology networks with fine chemical/equipment and machinery manufacturers

#### Driving forces

- Expansion of end-product market size due to population growth, especially in Asia
- Increasing demand and sophistication of requirements in the automotive electronics and infrastructure industries, etc.
Valve Business Strategy by Market
8. Hydrogen & Clean energy

The market potential for hydrogen and clean energy is expanding rapidly toward a decarbonized society. Aiming to expand business by entering the hydrogen supply chain, which is being implemented in society.

**Business Environment**

**Hydrogen energy value chain**

- **Transportation**
- **Production**
- **Storage**
- **Utilization**

**CY2030**

1.2 trillion JPY* (Japan market)

*KITZ’ estimate

**Key Measures**

- Enter the hydrogen station market with packaged units and small-scale green hydrogen energy chain business for local production for local consumption.
- Conduct R&D on large-scale demonstration plants for liquefied hydrogen (shipping and receiving terminals, carriers) and entry into the hydrogen aircraft market.
- Take advantage of new demand for hydrogen energy, such as hydrogen power generation and hydrogen pipelines.
- Expand the lineup and strengthen sales of ultra-low temperature valves for LNG for overseas markets.

**Driving forces**

- Establishment of an international hydrogen supply chain
- Full-scale introduction for power generation
- Promotion of energy carrier use (Power to Gas), etc.
- Energy shift from oil and coal in line with the growing trend toward low-carbon energy

(Hydrogen)

(Natural gas)
Valve Business
Outline of Group Strategy

- Rebuilding the brand strategy
- Strengthen cross-selling
- Group development/design pursuits
- Group Mutual Production

- Strengthen relationships with key accounts
- Digital communication
- Implementation of direct demand sales strategy
- New Business Development

Global model
(Establish a competitive global development)

- North America Market strategy
  - Identify growth markets and expand products from a global perspective, starting with North America
  - QT valves (ball, butterfly and instrument valve)

- Cost structural reform
  - Global model production in the most suitable location
  - Cost reduction by promoting modularization
  - Pursuit of optimal procurement and purchasing

- SCM
  - Strengthen supply system (shorten LT/expand lineup)
  - Appropriate allocation of global inventory

Regionally-contained model
(Establishment of a local value chain* completion)

- China
  - Capturing domestic industrial valve demand
  - Capacity expansion for data centers
  - Production in the most suitable location with emphasis on business speed

- ASEAN
  - Maximizing revenue through with regional brand (KITAZAWA) policy and collaboration with Unimech Group
  - Strengthening relationships with Japanese users

- India
  - Responding to domestic production policies

* Design, production, and sales functions
**Valve Business Area business Strategy (North America)**

### Priority target markets

- **Building & facilities**
  - Semiconductor equipment
- **Petrochemicals**
  - Semiconductor materials (filters)
- **Water treatment**
  - Fine-chemicals
- **Machinery & equipment**
  - Hydrogen & Clean energy

### Business opportunities

- Expansion of oil, petrochemical, and gas markets in the United States, now the world’s largest oil producer
- Movement toward stricter environmental regulations (de-carbonization, lead-free, etc.)

### Key measures

#### Market strategy

- Positioning the U.S. base as the control tower for oil and gas market strategy
- Entering the chemical market: Aiming to develop and launch a low-cost ball valve

#### Industrial valves

- Expand sales of trunnion ball valves (global trunnion) and high performance butterfly valves

#### Commercial valves

- Expand sales in the commercial valve market
  - Building a distributor network for the general-purpose valve market
  - Lead-free valves: Provide products that meet the standards required by the region
Valve Business
Area business Strategy (China)

Priority target markets

Business opportunities

Key measures

<table>
<thead>
<tr>
<th>Building &amp; facilities</th>
<th>Petrochemicals</th>
<th>Water treatment</th>
<th>Machinery &amp; equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Semiconductor equipment</td>
<td>Semiconductor materials (filters)</td>
<td>Fine-chemicals</td>
<td>Hydrogen &amp; Clean energy</td>
</tr>
</tbody>
</table>

- Expansion of the data center market on the back of the "new infrastructure" policy
- Expansion of ethylene and other production capacity due to policy guidance (chemical shift) in the petroleum industry
- Market growth due to policy-driven domestic production of semiconductors

Commercial valves
- Proactively utilize an integrated system of design, production, and sales to quickly respond to market requirement

Industrial valves
- Expand sales of industrial products, which have a large market size, by utilizing Chinese production plants

Actuated valves
- Establishment of an assembly and inspection system at the production site in China

Valves for Semiconductor
- Increase local production capacity and expand sales
## Valve Business Area business Strategy (ASEAN and India)

<table>
<thead>
<tr>
<th>Priority target markets</th>
<th>Building &amp; facilities</th>
<th>Petrochemicals</th>
<th>Water treatment</th>
<th>Machinery &amp; equipment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business opportunities</td>
<td>Semiconductor equipment</td>
<td>Semiconductor materials (filters)</td>
<td>Fine-chemicals</td>
<td>Hydrogen &amp; Clean energy</td>
</tr>
</tbody>
</table>

### Key measures

- **Middle-Zone economic expansion due to the growth of middle-class markets in emerging countries, including urban infrastructure**
- **Expansion of key account marketing opportunities as Japanese users enter the market**

#### ASEAN

- Build a network of key accounts with a focus on Japanese users
- Identify hot-selling products through community-based marketing and establish an integrated local supply system (development, production, and sales)
- Maximize revenue through regional brand and collaboration with Unimech Group

#### India

- Establish a regionally complete regional strategy in response to domestic production policies.
Brass Bar Business

Despite the shrinking trend in existing areas, we will continue to expand sales by cultivating growth areas (automobiles, semiconductors, etc.) and strengthen sales expansion of processed products driven by the change in supply chain and increase profitability through cost reduction.

### Business Environment

<table>
<thead>
<tr>
<th>Medium-term Demand Forecast for Copper Products (Domestic)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Thousands of ton)</td>
</tr>
<tr>
<td>2020: 657</td>
</tr>
<tr>
<td>2025: 828</td>
</tr>
<tr>
<td>CAGR 4.7%</td>
</tr>
</tbody>
</table>

Source: Japan Copper Products Association


### Key Measures

- **Enter and expand sales in growth fields**
  - Automobiles, construction machinery/heavy equipment, semiconductors, etc.

- **Approaches to secondary and tertiary processing**
  - Forging, cutting, brazing

- **Reduce manufacturing costs and promote recycling**

- **Improving business efficiency through DX, etc.**

### Opportunity

- Increase in demand due to a return to metals for recyclability
- Return of secondary and tertiary processing to Japan by reviewing the supply chain

### Risk

- Shrinking housing-related markets
- Material substitution risk due to soaring copper prices

https://www.kitzmetalworks.com/products.html
To secure profits amid the pandemic, shift sales policy to target individual customers and business areas in neighboring prefectures. Use the opportunity of the changing business environment to fundamentally reform service productivity and make it more established.

### Business Environment

<table>
<thead>
<tr>
<th>In-prefecture/out-of-prefecture ratio (nationwide)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd half of 2019</td>
</tr>
<tr>
<td>within the prefecture: 24.8%</td>
</tr>
<tr>
<td>outside the prefecture: 75.2%</td>
</tr>
<tr>
<td>Increase: 7.0+pt</td>
</tr>
<tr>
<td>2nd half of 2020</td>
</tr>
<tr>
<td>within the prefecture: 31.8%</td>
</tr>
<tr>
<td>outside the prefecture: 68.2%</td>
</tr>
</tbody>
</table>

### Type of trip (individual/group)

<table>
<thead>
<tr>
<th>2nd half of 2019</th>
<th>Independent travel</th>
<th>Packaged and group travel</th>
</tr>
</thead>
<tbody>
<tr>
<td>82.5%</td>
<td>17.5%</td>
<td>+4.4pt</td>
</tr>
<tr>
<td>2nd half of 2020</td>
<td>86.9%</td>
<td>13.1%</td>
</tr>
</tbody>
</table>

Source: Japan Tourism Agency

[https://www.mlit.go.jp/common/001408385.pdf](https://www.mlit.go.jp/common/001408385.pdf)

### Key Measures

- **Enhance service value by focusing on individual guests**
  - Renewal of upper floor Japanese style rooms into modern Japanese rooms
  - Increase in the percentage of plans that include dinner

- **Developing multi-skilled workers**
  - Improving labor productivity through the internalization of outsourced services
  - Skill management/meister system/short-term transfers in off-seasons

- **Strengthening of easily accessible facilities**

- Increase in the percentage of tourism within the prefecture and other neighboring regions (so-called micro-tourism)
- In terms of travel type, the proportion of independent travel increased further.
1st Medium-term Management Plan 2024 (FY2022-FY2024)

III. Digital Transformation : DX
Transformation scenarios for DX
Business transformation (BX) through business innovation activities

To realize the Long-term Management Vision, we aim to thoroughly streamline existing businesses, visualize and mobilize management resources, and transform into a customer-oriented and agile organization.

Scope of 1st Mid-Term Plan

Stage 1
- Strengthen existing businesses
  - Thorough operational efficiency and automation
  - Major review of customer contact points

Stage 2
- Change in management structure
  - Resource Visualization
  - Resource mobilization

Stage 3
- New business model
  - Pursuit of added value
  - Solution-oriented
  - Hypothesis testing (Trial & Error)

New Business Models
- Realization of
  - Business portfolio reform
  - Value proposition / business model shift

- Thorough elimination of waste
- N times productivity and speed
- Generate profit & resources (spare capacity)
DX Medium-term Plan Concept

Shifting to value-added operations

- **Design and development**
  - Technology Transfer by knowledge Management
  - Expansion of technical contents and provision of services
  - Standardization and automation of design work (RPA)

- **Production and QA**
  - Construction of factory IT infrastructure
  - Standardization and data creation
  - Establish MES (traceability/efficiency) (MES: Manufacturing Execution System)

- **Marketing, sales, and CS**
  - Collection and utilization of customer needs (CRM)
  - Strengthen customer touch points
    - Web x Real Channel Collaboration
    - Sales & Service Engineer Training

**EX Employee experience**

- Data/fact-oriented business management infrastructure
  - Enhancements to the consolidated planning and forecasting system
  - Visualization of profitability by business and development of measures
- Building a Group HR Database
- Introduction of LMS (LMS: Learning Management System)
- Development of DX human resources
1st Medium-term Management Plan 2024 (FY2022-FY2024)
IV. Financial Strategy and Capital Policy
Financial strategy and capital policy

- Under the new medium-term management plan, we have set “improving return on invested capital over the medium to long term” as the core management objective, and are managing ROE externally and ROIC internally as the main KPIs.
- On the other hand, we will execute strategic investments and raise necessary funds for future growth and ROE improvement.
- Cash and deposits, which was set aside in large amounts last year as a contingency measure, will be returned to normal. Consolidated cash in FY2024 will be reduced to about one month’s worth of consolidated monthly sales.

**ROE target**

- **FY 2024:** more than 8%
- **FY 2030:** more than 10%

**Introduction of ROIC management:**

1. Profitable improvement (Execution of pricing strategies・Review of unprofitable products)
2. ROIC Tree deployment and PDCA management
3. CCC improvement and asset compression

**Proactive strategic investment:**
Ensuring growth and profitability for the future

**Preservation of optimal capital structure and Ensuring borrowing capacity:**
Flexible financing and risk response capability

**Accumulated Operating Cash Flow 38.0 Billion yen (FY2022-2024)**

**Investment**

- Total investment limit 37.0 Billion yen
  - Strategic investment limit 24.0 Billion yen
  - Semiconductors, fine-chemical, Hydrogen, DX, and environmental measure
  - M&A

**Shareholder Returns**

- Dividend Payment Ratio Keeping previous policy 35%
  *Share repurchases will be conducted to ensure financial stability and improve the quality of our operations. Consideration will be given as appropriate, taking into account the liquidity of cash on hand and the status of investment funds.

**Debt repayment・Financing**

- Repayment of interest-bearing debt
  - Redemption of corporate bonds 10.0 Billion yen (Sep. 2022)
- For strategic investment
  - Flexible financing

**Risk response capability:** Equity Ratio Target 55 to 60 %
Commitment line of short-term loans from banks (Current state: 13.5 billion yen)