# Message from the Director in Charge of Finance

## CFO Message

We will achieve mid- to long-term corporate value through enhanced profitability by the promotion of ROIC management and optimal financing

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## Financial and Capital Strategy in the Sixth Mid-Term Management Plan

Sixth Mid-Term Management Plan (FY2023-2025) P.36-39

The Group is now at a major turning point as we look ahead to the next 100 years. In Vision 2035, our long-term vision, announced in April 2023, we have designated Mobility and Public Infrastructure as our key focus areas. We outlined our strategy to transform our business structure, with a shift from our core lead-acid battery business, which has contributed to societal development for over 100 years, to lithium-ion batteries, primarily for BEVs. Large-scale investment is necessary to realize this business structure transformation. As CFO, I recognize my responsibility to guide the success of our business structure transformation by pursuing an optimal capital structure that balances growth investment, financial soundness, optimal financing method, and returns to shareholders.

The Sixth Mid-Term Management Plan, which started in FY2023, is a three-year period to lay the foundation for achieving the vision we set for 2035 in our Vision 2035. At the time of announcing this plan, we set a target of 610.0 billion yen in net sales and 41.0 billion yen in operating profit before amortization of goodwill for the final year. During these three years, as investment for foundation-building will take precedence, we aim to strengthen the cash-generating power of existing businesses. We plan to invest the cash generated by these businesses and the funds raised externally into growth areas within Mobility and Public Infrastructure. If we determine that doing so has a high probability of enhancing future corporate value, we will carefully consider M&A as an option.

In the first fiscal year of the plan, FY2023, we achieved record highs in both net sales and profits at each level. The increase in sales volume of lithium-ion batteries for HEVs and ESS, along with efforts to correct sales prices, results in a consolidated net sales increase of 8.7% year-on-year to 562.9 billion yen. Operating profit before amortization of goodwill increased by 31.7% year-on-year to 42.2 billion yen, surpassing the target set for the final fiscal year of the plan. Net profit for the period increased significantly from 13.9 billion yen in the previous fiscal year to 32.1 billion yen, due to factors such as the restructuring of our business in China and the impact of tax effect accounting related to making Lithium Energy Japan a wholly-owned subsidiary.

This year, I feel that our "earning power" has been reliably strengthened. In particular, I consider it a significant achievement that we were able to correct prices amid rising raw material prices and various costs. Behind the price corrections, there are also businesses that have successfully transformed low-profitability business models that have persisted for many years. On the other hand, we had to revise our target upward three times in the previous fiscal year. We recognize the need to improve the accuracy of our budgeting and will strive to make improvements.

For FY2024, we aim for net sales of 590.0 billion yen, operating profit of 44.0 billion yen, and operating profit before amortization of goodwill of 44.5 billion yen. In July 2024, we updated the target figures for the final year of the Sixth Mid-Term Management Plan, the fiscal year ending March 31, 2026. Taking into account changes in the external environment, such as rising raw material prices beyond expectations, inflation-related cost increases, shifts in the trend of automotive electrification, further strengthening of the earning power of existing businesses, and the continued promotion of strategy execution in growth areas, we revised the net sales target from the initial 610.0 billion yen to 600.0 billion yen, and operating profit before amortization of goodwill from 41.0 billion yen to 46.0 billion yen. As CFO, I intend to clearly guide and strengthen the direction of enhancing earning power and investing cash generated by existing businesses into growth areas.

## Capital Policy

In July 2023, we established a joint venture with Honda Motor Co., Ltd. called "Honda·GS Yuasa EV Battery R&D Co., Ltd." and began research and development in August toward future mass production of high-capacity, high-output lithium-ion batteries for BEVs. In FY2024, we are planning approximately 80.0 billion yen in capital investment to increase the production of lithium-ion batteries for HEVs, with additional investment in Blue Energy No. 2 plant and the construction of a new plant for lithium-ion batteries for BEVs. We also expect large-scale investments in the future. According to the plan, with such large-scale investments, we expect an investing cash flow of approximately 190.0 billion yen over the three years of the Sixth Mid-Term Management Plan. Adjusting for the 140.0 billion yen cumulative operating

Sixth Mid-Term Management Plan Targets (FY2023-2025)

| | | FY2025 target | | Change ((B) - (A)) |
|---|---|---|---|---|
| | | Initial Target (April 2023) (A) | Revised Target (July 2024) (B) | |
| Net sales | | 610.0 billion yen or more | **600.0 billion yen or more** | -10.0 billion yen |
| Operating profit before amortization of goodwill (operating profit ratio) | | 41.0 billion yen or more (6.7% or more) | **46.0 billion yen or more (7.7% or more)** | +5.0 billion yen (+1.0P) |
| Reference: Operating profit before amortization of goodwill (before applying hyperinflation accounting) | | – | **48.6 billion yen or more** | – |
| ROE (return on equity) | | 8% or more | **8% or more** | – |
| ROIC (return on invested capital) | | 10% or more | **10% or more** | – |
| Total payout ratio | | 30% or more | **30% or more** | – |
| Prerequisite | Domestic lead price quote | 342,000 yen / t | **372,000 yen / t** | +30,000 yen / t |
| | LME | 2,000 US$ / t | **2,100 US$ / t** | +100 US$ / t |
| | Currency exchange | 140.0 yen / US$ | **145.0 yen / US$** | +5.0 yen / US$ |

Notes: 1. Above indicators refer to profit before amortization of goodwill (operating profit and profit).
2. ROIC is calculated as follows: Operating profit before amortization of goodwill (pre-tax) / Invested capital (fixed assets [excl. goodwill amortization] + working capital). Invested capital is the average of amount at beginning and end of term.
3. The reference amount for the application of hyperinflation account is recorded at the same level as in FY2023 in the revised target.

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cash flow over three years and the funds required for shareholder returns, we simply face a shortfall of 80.0 billion yen. Therefore, securing funds for investment towards transforming our business structure is our greatest challenge in terms of financial capital strategy. In December 2023, we conducted a capital increase of approximately 40.0 billion yen through public offering and third-party allocation, mainly to strengthen our financial structure for investment in lithium-ion batteries for BEVs. As a result, our equity ratio at the end of FY2023 exceeded 50%, achieving a strengthening of the balance sheet to capture growth opportunities. As investments in BEV lithium-ion battery production intensify going forward, the equity ratio is expected to decline. However, we plan to maintain a ratio of at least 40% to ensure financial soundness. In addition to maximizing operating cash flow by enhancing our earning power, we will also consider various funding methods moving forward.

We work on reducing cross-shareholdings to improve capital efficiency. We will steadily sell shares that do not generate direct profits while carefully evaluating our relationship with partner companies and allocate the proceeds to business assets. Regarding shareholder returns, we aim to maintain a total payout ratio of over 30% during the period of this plan, even while prioritizing investments. The dividend per share for FY2023 was set at 70 yen per share, an increase of 20 yen from the previous fiscal year. The total payout ratio in FY2023 remained at 20.6%. However, this was a result of carefully considering priorities and deciding to prioritize growth investments this time. We expect the dividend for FY2024 to be 70 yen as well.

## ROIC Management

Actions to Implement Management that is Conscious of Cost of Capital and Stock Price P.34-35

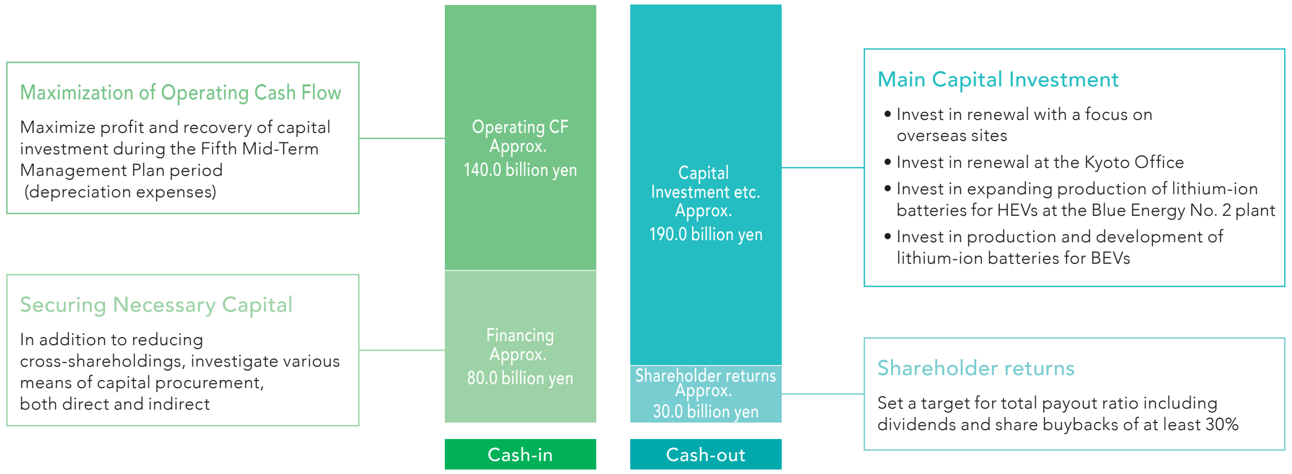
To generate cash that serves as the source of investment and build a highly profitable business portfolio, we believe it is extremely important to enhance capital efficiency by creating returns that exceed capital costs. In the Sixth Mid-Term Management Plan, we have set an ROE of 8% or more and ROIC of 10% or more as management goals. We are committed to this throughout the management team by using ROIC as an evaluation point for the performance-linked remuneration of directors.

The ROE for FY2023 was 11.6%, significantly exceeding the planned target due to an increase in net profit. However, since the denominator, which is total equity before noncontrolling interests, will increase due to the public offering, a downward trend is expected in the coming years. Since our business areas are broad, managing businesses solely by ROE is very challenging. Therefore, we aim to improve capital efficiency across the Group by monitoring efficiency with ROIC, which allows us to evaluate the return on invested capital according to each business's characteristics. For the numerator indicating earning power, we use operating profit before amortization of goodwill, rather than the usual after-tax operating profit. To deepen the understanding of ROIC and improve its effectiveness, we are excluding tax elements that are difficult for business units to consider.

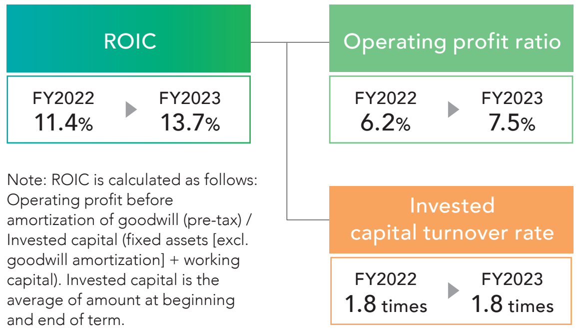
The ROIC for FY2023 was 13.7%. However, since the Company will be making significant investments in lithium-ion batteries for BEVs, a temporary decline is expected. For the overall business portfolio, the automotive battery business (Japan), which has many fully depreciated facilities, will maintain a high ROIC, and the cash generated there will be invested in growth areas. Similarly, the industrial battery and power supply business will use the cash secured in the emergency field to invest in regular field such as energy storage systems (ESS) for renewable energy, which are expected to grow. The automotive lithium-ion battery business will work on expanding profits for HEV use. However, a decline in ROIC is anticipated during the process of making large-scale investments in BEV use, as mentioned earlier. Needless to say, for these growth businesses, we will evaluate not only ROIC but also their future growth potential. For the automotive battery business (overseas), we aim to improve capital efficiency through regional strategy shifts, resource concentration on key bases, and profit maximization.

To promote understanding of ROIC, we regularly hold study sessions for managers and on-site employees. Additionally, through reverse tree deployment, we link management indicators with on-site operations, incorporating this into company-wide TQM activities. We are building a more effective system where each department employee's work improves ROIC.

Capital Allocation (FY2023 - 2025)




ROIC Tree (FY2022 and 2023)




Note: ROIC is calculated as follows: Operating profit before amortization of goodwill (pre-tax) / Invested capital (fixed assets [excl. goodwill amortization] + working capital). Invested capital is the average of amount at beginning and end of term.

## Toward the Sustainable Enhancement of Shareholder Value

Currently, the PBR of the Company's shares improved from around 0.8x right after the public offering to temporarily exceed 1.0x, but has since remained at a low level. We sincerely accept this market evaluation, aim to grasp the expected returns of our shareholders and investors, and strive for careful communication to ensure understanding of the Company's growth story.

We will strive to ensure that our investors understand that we do not take the easy way out by investing solely in the potential for growth in lithium-ion batteries for BEVs. Instead, we aim to manage our business while keeping ourselves grounded, increasing the profitability of the existing businesses, and taking on new challenges.

Most importantly, it is essential to steadily execute the necessary measures to enhance corporate value. The Company supplies products in various areas, including lead-acid batteries for automotive, forklift, and industrial applications and lithium-ion batteries for HEVs, PHEVs, and EVs. Leveraging our strength in operating across all areas, we will securely capture the expanding demand toward achieving carbon neutrality. We will work toward achieving our targets while addressing rising costs, such as surging raw material prices and increased transportation expenses. We aim to act as a "compass" toward achieving our "North Star" goal of "Vision 2035."

We hope that our shareholders and investors understand our Group's perspective of aiming to enhance corporate value from a mid- to long-term viewpoint and continue to support us.