

MARGIN OF SAFETY

BALANCE OF POWER

MANAGEMENT ANALYSIS



BETTER GOVERNANCE AND DIVIDEND POLICY FOR VALUATION IMPROVEMENT

MARCH 2022



ISSUES WE OBSERVE



- Effectiveness of complicated subsidiary governance.
- Prevention of lack of employee motivation derived from problems involving parent company's management.
- Low stock valuation resulting from information gap with investors. (next fiscal year's earnings estimate, mid-term management plan)
- Excessively conservative financial policies (abundant cash, low dividend, etc.)

PROPOSAL OF MEASURES FOR EACH ISSUE



- Effectiveness of complicated subsidiary governance.
 - ✓ Expansion of administrative staff (Corp. planning, HRs and General Affairs, Compliance, IR, Finance)
 - ✓ Transforming to pure holding Co. while subsidiary management take full responsibility for the subsidiary's business without assuming concurrent positions in the Hold Co.
 - ⇒ enabling full implementation of reward and punishment and providing opportunities of OJT training to become the next management of Hold Co.
 - ✓ Assumption of governance, not to mention strengthening compliance, comes down to "people are weak". Strong governance with clear KPIs will change weakness into strength.

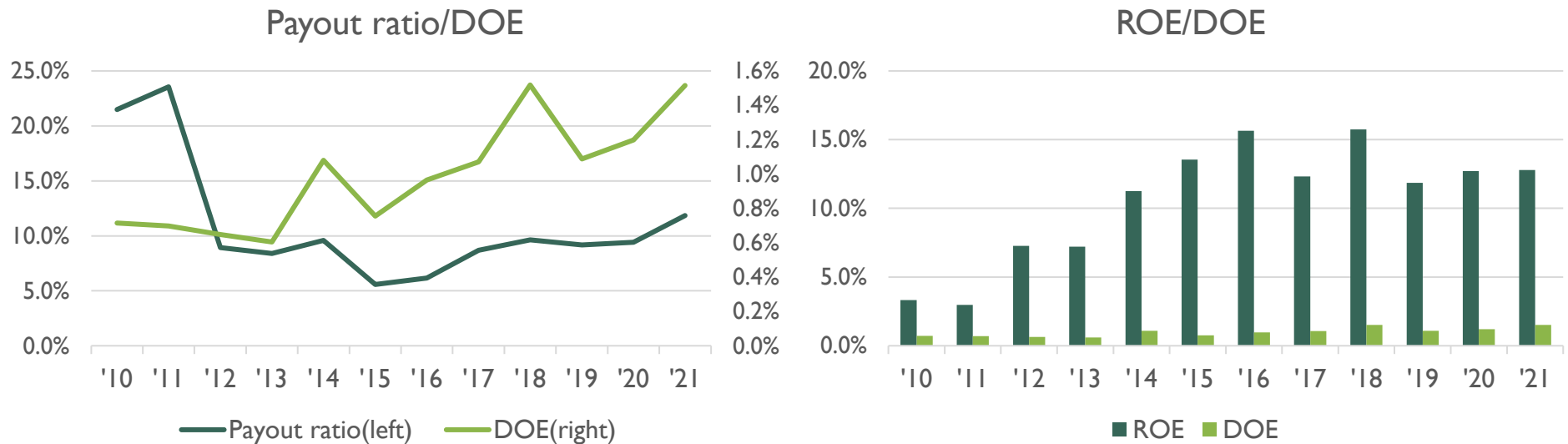
- Prevention of lack of employee motivation derived from problems involving parent company's management.
 - ✓ Sharing of visions and dreams (already in progress)
 - ✓ Implementing stock-based compensation for executives and stock options for employees.
 - (⇒ Link business development to employee happiness based on the idea that happiness will arrive when people forget about it)

PROPOSAL OF MEASURES FOR EACH ISSUE



- Low stock valuation resulting from information gap with investors.
(next fiscal year's earnings estimate, mid-term management plan)
 - ✓ Market considers cost of capital as 12% being calculated back from current stock price.
 - ✓ Avoid overly conservative forecasts as much as possible
(⇒ extremely negative impact as the market nowadays perceives them as bearish)
 - ✓ Revise the mid-term management plan upward depending on the progress
(⇒ Investors are not aware unless the company provides opportunities to analyze.)
 - ✓ Break down current market cap target
(better to communicate to investors at MTG even if you can't document it. e.g. EPS x PER)
 - ✓ Appoint independent director(s) who can discuss with investors.
- Excessively conservative financial policies (abundant cash, low dividends, etc.)
 - ✓ Change from payout ratio to dividend on equity(DOE).
⇒ Dividends link to increase in equity. ⇒ Share price should also follow the trend.
 - ✓ Disclose cash allocation. (refer to P.6) ⇒ Visualize the logic for share buybacks.
 - ✓ Financial measures are directly related to corporate evaluation, not to mention business growth

DIVIDEND POLICY PROPOSAL



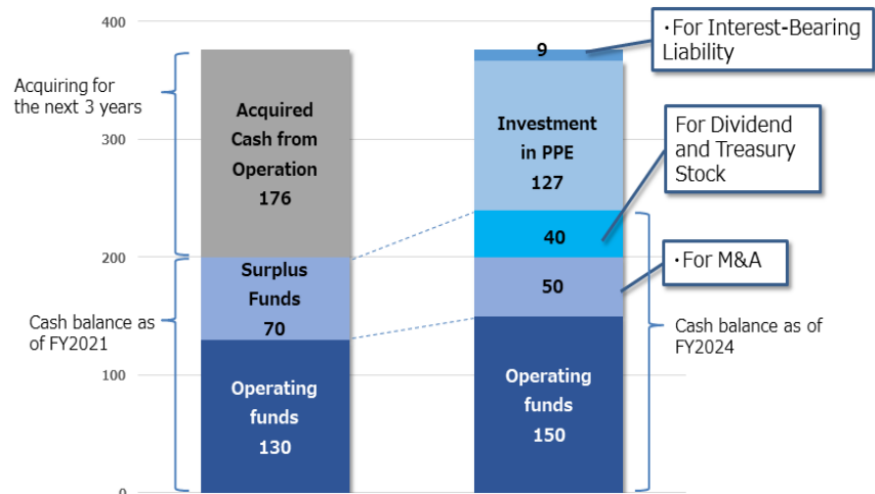
- ✓ Recommend to commit to a payout ratio of at least 30% or 3% DOE.
- ✓ Strongly recommend DOE as it is suitable for your company's stable dividend policy.
- ✓ DOE prevents volatility of dividends regardless of profit and increases dividend predictability. Low predictability of earnings and dividends increase cost of capital.

EXAMPLE OF CASH ALLOCATION DISCLOSURE



Cash Allocation

- Covering repayment of interest-bearing liability and return of profit to shareholders with operating C/F in the period of intermediate-term business plan.
- Aiming 30% of payout ratio to achieve stable dividend.

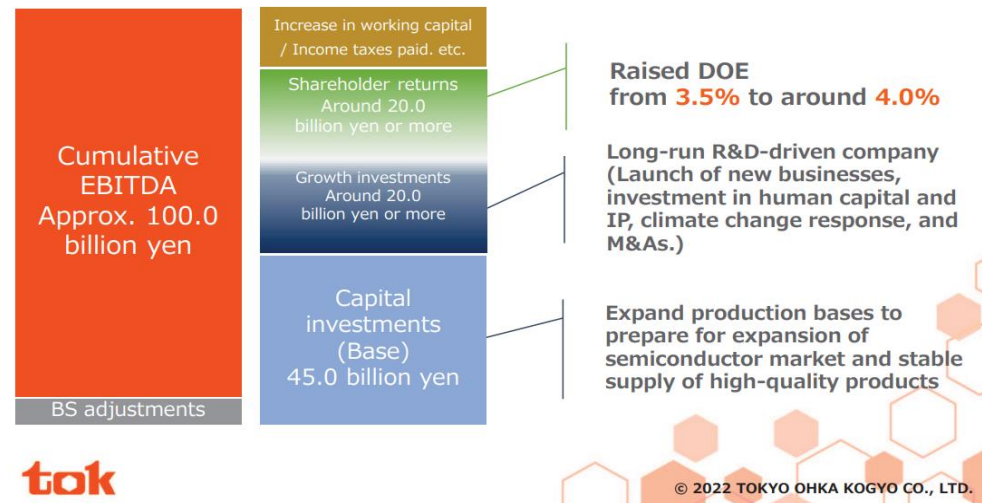


Reinforce management foundation (Promote BS management)

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EBITDA generated by a growth in semiconductor materials will be used for capital investment to prepare for demand growth in the semiconductor market and also flexibly allocate to shareholder returns after making sufficient growth investments.

3-year cash flow plan (image)



Rational explanation of how much cash to keep in B/S should lower the cost of capital and improve your company's valuation!

*Source : <https://www.hosokawamicron.co.jp/en/ir/management/mtp.html>
https://www.tok.co.jp/eng/content/download/7300/108071/file/account_2112_3_en.pdf

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