Financial Strategy

The foundation for sustainable growth

The IDEC Group generates approximately 5.5 billion yen of cash through its operating activities.
Cash created through global business activities is mainly used for investing in equipment/facilities, R&D and human capital, and for providing returns to shareholders—all with the aim of achieving sustainable growth and increasing our corporate value.

Improve profitability — Boost operating profit margin even higher through diverse reforms

Improve capital efficiency — Increase capital efficiency and secure ROE and ROIC at 10% or higher

Promoting financial strategy aimed at improving profitability and capital efficiency

The IDEC Group has set shareholders' equity cost at 8%, and based on that, set the weighted average cost of capital (WACC) at 6%. To generate returns exceeding this mark and boost corporate value, we have established Return on Equity (ROE) and Return on Invested Capital (ROIC) as metrics, which we aim to continually maintain at levels of 10% or higher.

In our medium-term management plan, we have strengthened our management structure by expanding net sales globally, optimizing sales prices to improve operating profit margins, reducing the cost ratio through the promotion of automation and improved efficiency in production, and appropriately managing SG&A expenses. In addition, since it is necessary to enhance both profitability and capital efficiency to further improve ROE and ROIC, we have consolidated our product line-up, revised unprofitable products, optimized fixed assets through a global site reorganization, actively expanded investments leading to future reforms, and engaged in cash management. As a result, ROE and ROIC were 18.9% and 12.5% respectively in FY2023.

However both net sales and profit declined due to a deterioration of market environment in FY2024, combined with increased global inventory that took longer than expected to sell through. ROE and ROIC also declined, ending up at 7.1% and 4.7% respectively.

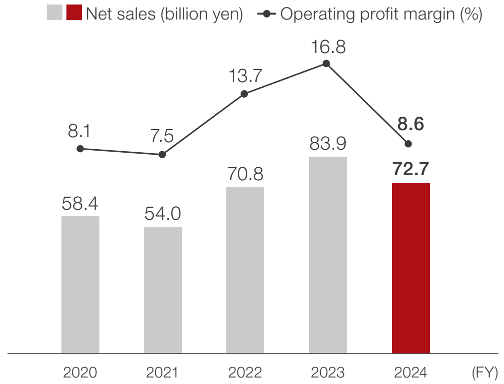
To ensure that the cost of capital continues to stay above 6%, we will drive improvements to capital efficiency including working capital and production facilities, drive drastic cost reductions to further improve profitability by accelerating global site reorganization, business reforms, DX and other innovations.

Cash management and shareholder return measures

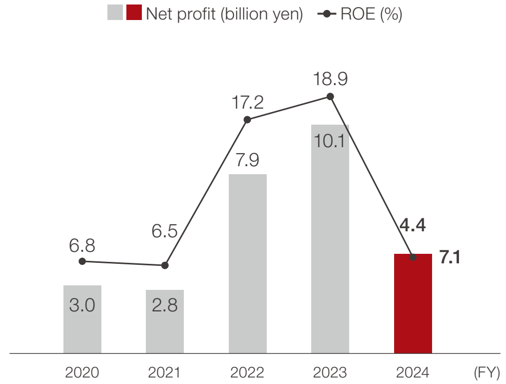
Due to worsening business performance in FY2024, cash flows from operating activities trended lower, but is on the rise in the long-term. We have promoted stronger cash management, secured funds for capital expenditures, R&D and other areas needed to strengthen competitiveness globally, while providing shareholders with stable and continuous dividends.

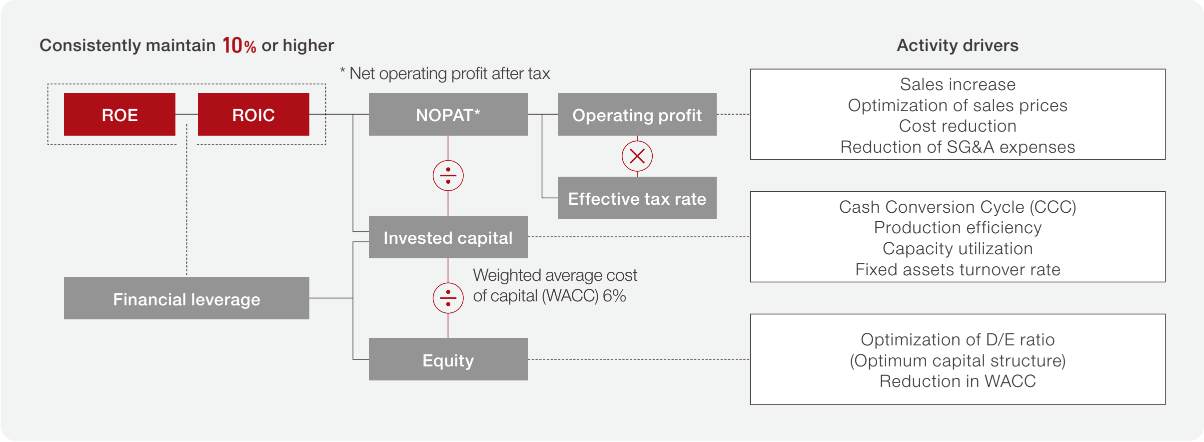
We target a payout ratio of 30-50% and the payout ratio was 86.6%, with a dividend yield of 4.8% in FY2024.

Net sales and operating profit margin



Net profit and ROE

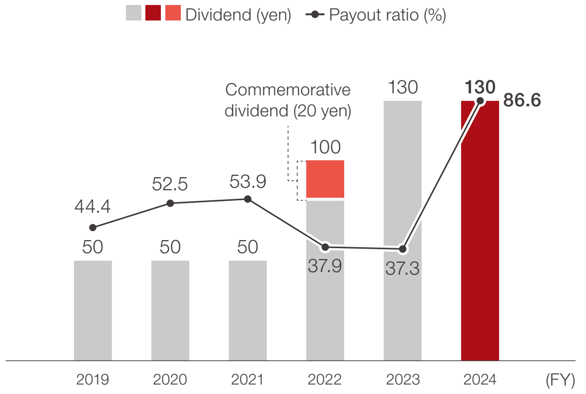




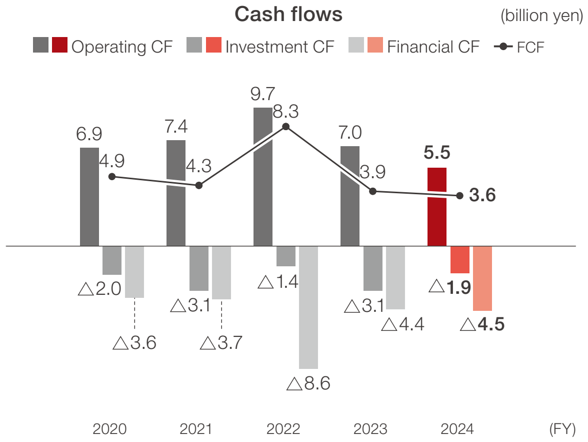
We also acquire treasury stock in a flexible manner in view of the stock price level.

Going forward, we will continue to actively pursue various investments required for medium to long-term corporate growth while maintaining improvements to profitability and stable dividends, and promote management and financial strategies that exceed our WACC.

Annual dividend per share and payout ratio



Cash flows



Investment strategy

As global business expansion is essential for our continued growth, we have expanded growth investments. We established a joint venture company with Alps Alpine Co., Ltd. in 2021 and acquired the France-based ez-Wheel in 2023. In these ways, we have pursued M&A activities and alliances with a focus on fields and regions that hold promise of synergies with our existing businesses.

In terms of human capital, we have been recruiting and developing human resources capable of driving business innovation as well as human resources who possess highly specialized knowledge to propose solutions tailored to the issues that customers face. We have expanded our spending on training and education on a per-employee basis. Our sustainability investments have also increased. These include the installation of solar power generation equipment at our domestic and overseas sites, raising the percentage of our enhanced eco-friendly products to reduce our environmental impact, and conducting applied research into eco-friendly materials.

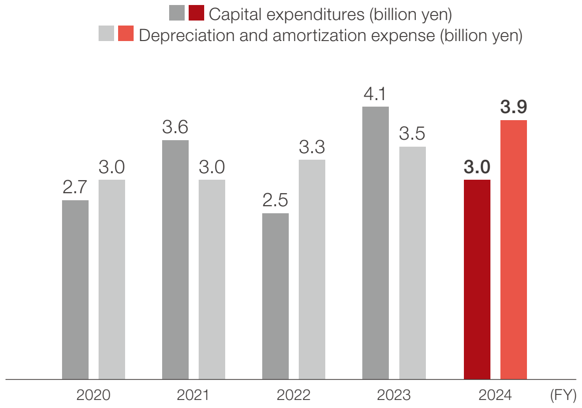
In terms of capital expenditures, in addition to ongoing efforts to optimize global sites, introduce automation and labor-saving equipment and strengthen IT infrastructure, we have focused on the promotion of DX to achieve groupwide efficiency improvements.

By expanding growth investments and shareholder returns from a long-term perspective, we will meet the expectations of our stakeholders.

Aggressive investment aimed for medium to long-term growth

Issues	Medium-term management plan
Growth investments	**■Investment in M&A and alliances** - M&A and alliances for enhancing the safety business, AGV industries, software, and engineering field - Strengthen partnerships in China and India **■Investment in new products** - Proactively invest in the new HMI and safety businesses **■Investment in human resources** - Investment in expanded training spending and global talent development **■Investment in sustainability** - Install solar power generation equipment, replace air conditioning equipment with energy-saving models, develop eco-friendly products, and pursue applied research on eco-friendly materials
Capital expenditures	**■Sites and equipment** - Increase manufacturing sites and introduce automation and labor-saving systems, optimize sites **■Investment in DX** - Upgrade ERP, introduce global SCP system, and develop talent management system
Shareholder returns	**■Measures for returns** - Proactively pay dividends at a dividend payout ratio of 30-50%, acquire treasury stock in a timely manner in view of the stock price level

Capital expenditures and depreciation and amortization expense



R&D expense