Financial Strategy

Basic approach

Aichi Steel believes that it is important to grow sustainably and continue to provide value to its stakeholders in any business environment. We therefore aim to improve capital efficiency by generating cash through asset reduction and actively allocating it to investment in growth and shareholder returns, in addition to actively using interest bearing debt based on business profits and maintaining a strong financial base.

● Achievements and issues of FY2021-23 Medium-term Management Plan

While ensuring financial soundness such as our D/E ratio, we have strived to expand our business by investing in the renewal, maintenance and repair of aging facilities, mainly in existing businesses, and by ensuring stable supply capacity, thereby capturing solid demand. However, operating profit and ROE fell short of our targets, partly due to fixed expenses that were held back by sluggish demand growth caused by the COVID-19 pandemic. As a result, market assessments of PBR and other parameters were harsh, and some issues emerged in terms of profitability and capital efficiency.

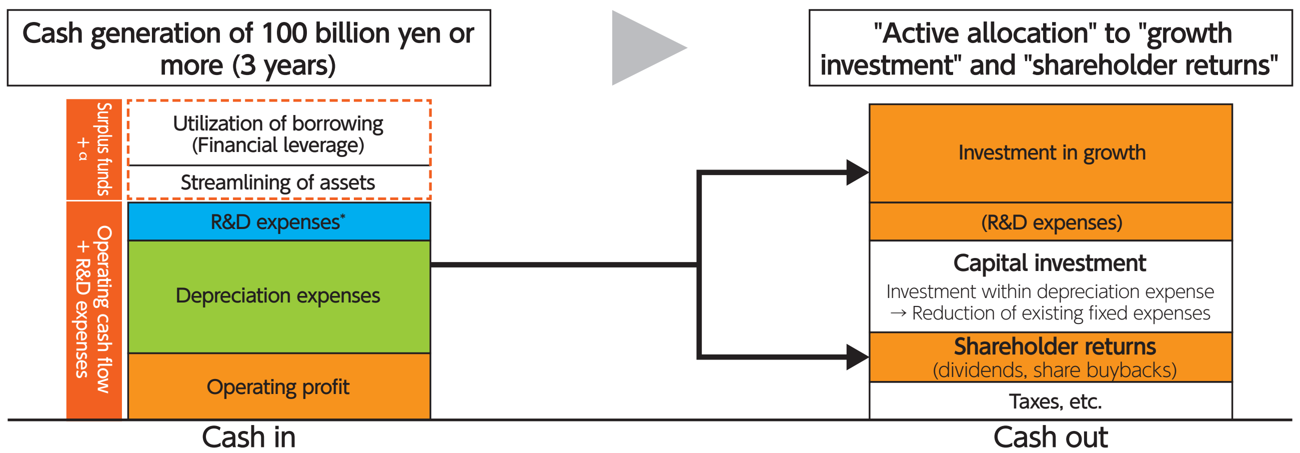
FY2024-26 Financial Targets

Under the new Medium-term Management Plan ending in FY2026, we will place the highest priority on steadily materializing our growth strategy and strengthening earning power to improve profitability, with the aim of increasing shareholder value and corporate value. In addition, we will implement capital measures to improve capital efficiency and enhance shareholder returns. We will make steady improvements to gain the understanding and trust of the market as we work toward achieving the FY2026 target of our new Medium-term Management Plan, a milestone along the way to achieving the target of a 1.0x PBR by FY2030.

(1) D/E ratio (debt-to-equity ratio)	0.3~0.5 times	(2) ROE (return on equity)	4.0% or more	(3) PBR (price-to-book ratio)	0.5 times or more

Capital allocation

Regarding cash flow, which is a source of growth investment essential for maximizing shareholder value and corporate value, we aim to generate more than 100 billion yen over the three years of the new Medium-term Management Plan. To realize our Group's growth through capital allocation, we will keep focusing on three key issues: (1) strengthening earning power to maximize operating cash flow, (2) pursuing an optimal capital structure by flexible fund procurement and moderate use of leverage, and (3) improving capital efficiency by streamlining assets.

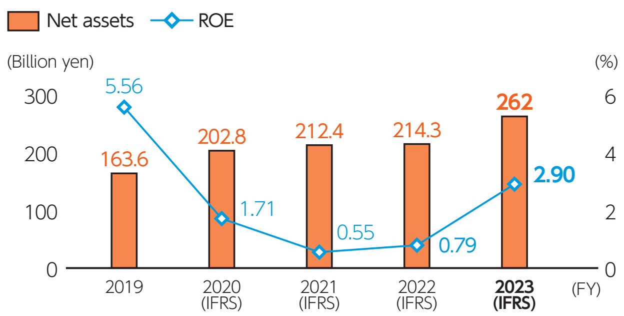


*R&D expenses not included in operating profit calculations

Strengthening earning power

Accelerating the growth of new businesses through the integration of sales and development and improving the profitability of existing businesses by maximizing their potential are key issues, as well as carefully selecting capital investments and reducing costs. With regard to capital investment, we will carefully review and select individual projects based on the characteristics of the business domain and market stage, and proceed with them strategically with a sense of urgency. We also focus on investments in human capital and other non-financial capital, which are important growth investments that will lead to future earning power. As well as developing human resources in the digital and sustainability fields, we are also emphasizing the feasibility of using their skills in our business.

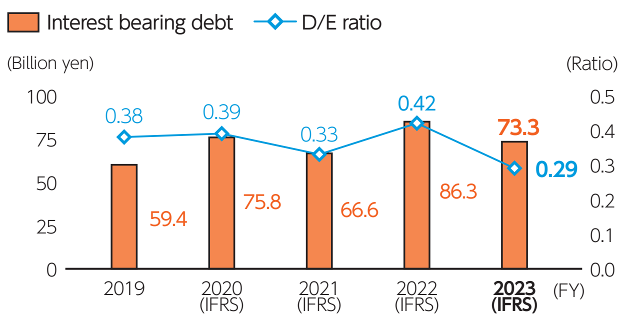
◆ Net assets/ROE



Optimal capital structure

Until now, as a materials manufacturer for the Toyota Group, we have emphasized "stable supply" and "stable financial base. "However, to adapt to recent changes in the business environment, including the automotive industry, while achieving growth, we believe that flexible financing that also utilizes financial leverage is essential. Our goal is to procure funds through the most appropriate means, taking into consideration various conditions such as the timing and amount of funds needed for the project, with a D/E ratio of 0.3 to 0.5 times.

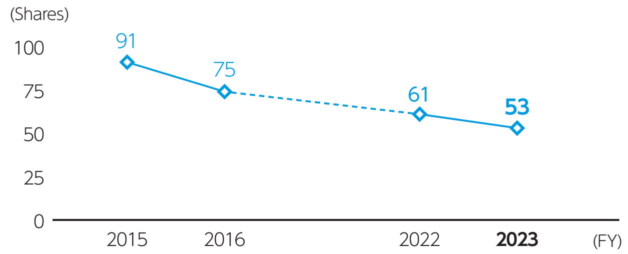
◆ Interest bearing debt D/E ratio



Streamlining of assets

Through the use of surplus funds and reduction of inventory, our policy is to allocate funds in a balanced way to investment in growth and shareholder returns. Each year, the Board of Directors reviews the appropriateness of cross shareholdings. All stocks held are scrutinized for the purpose of holding and the benefits associated with holding, and those deemed to have no significance or rationality are sold. In FY2023, eight listed stocks were sold. From the standpoint of improving capital efficiency, our target is to reduce the ratio to net assets to less than 10% (12.8% as of March 31, 2024). We will continue to monitor and reduce this ratio.

◆ Changes in volume of cross shareholdings



Reduced capital costs

We believe it is important that many investors understand the medium- to long-term growth potential we are aiming for and the value we deliver. To this end, we will provide timely and accurate information, engage in constructive dialogue, and work to improve the effectiveness of such dialogue. We will also focus on reducing shareholder capital costs by strengthening our sustainability activities to eliminate future uncertainties.

For future enhancement of corporate value

In future, we will seek to maximize shareholder value and corporate value by (1) raising shareholder returns through a dividend payout ratio of 30% or more, which is our existing guideline, and share buybacks, while taking into consideration funds required for growth investment, and (2) improving liquidity through stock splits in consideration of stock price trends.