

Action to Implement Management That Is Conscious of Cost of Capital and Stock Price

Background to initiatives

Inabata has been committed to capital-efficient management since before the Tokyo Stock Exchange's March 2023 request to all listed companies on the Prime and Standard markets to take action on management practices conscious of capital cost and stock price. Following a significant improvement in our performance and a marked enhancement in financial soundness, we substantially increased shareholder returns beginning in FY2021. At the same time, we strengthened corporate governance by transitioning in June 2022 to a Board of Directors with a

majority of independent directors. We also introduced a policy to reduce strategically held shares and are ahead of schedule in executing this reduction.

In June 2023, we announced our Policy for Action to Implement Management That Is Conscious of Cost of Capital and Stock Price (Table 1), and since FY2023, we have been advancing concrete initiatives based on this policy. Table 2 summarizes the major growth investments since FY2023.

Table 1: Policy for Action to Implement Management That Is Conscious of Cost of Capital and Stock Price

<p>Initiatives to consistently achieve a P/B ratio above 1 as soon as possible:</p> <p>(1) Steadily implement growth strategies to continuously enhance business value and build expectations for stronger future earnings (Growth)</p> <p>(2) Maintain ROE of 10% or more (Capital efficiency)</p> <p>(3) Control and/or curtail the cost of capital, including by utilizing financial leverages (Cost of capital reduction)</p> <p>(4) Continue buying back shares (Capital efficiency)</p>

Table 2: Major Growth Investments from FY2023 Onward

Segment	Project	Aim
Information & Electronics	Participation in biomass power generation project (Shiwa District, Iwate Prefecture)	Expansion of environment and energy-related business
	Investment in semiconductor-related companies	Expansion of semiconductor-related business
Chemicals	Acquisition of Maruishi Chemical Trading Co., Ltd. as a subsidiary	Strengthening of the chemicals business
Life Industry	Acquisition of Daigo Tsusho Co., Ltd. as a subsidiary	Enhancement of food processing and sales functions
	Acquisition of Satoen Co., Ltd. as a subsidiary	Enhancement of food processing and sales functions
	Investment in a French company engaged in the development, extraction, and sales of plant extract components	Utilization of natural raw materials (cosmetics, agrochemical raw materials, etc.)
Plastics	Establishment of Novacel Co., Ltd.	Expansion and enhancement of compounding capabilities
	Investment in REFINVERSE Group Inc., a recycled resin manufacturer	Promotion of the green business
Plastics, Information & Electronics	Investment in a plastic additive (high-performance filler) manufacturing company	Expanding sales of molding materials through lightweighting and recycling of plastic products

Future challenges and strengthened initiatives

These efforts have led to steady improvements in market valuation, but in FY2024, both the P/B ratio and price-to-earnings (P/E) ratio remained roughly the same as the previous fiscal year. We feel it is necessary to intensify and deepen our initiatives from FY2025 onward. (Graphs 2 and 4)

First, looking at the comparison between cost of capital and capital profitability, the cost of capital decreased in FY2024, supported by improved market liquidity and a broader shareholder base. On the other hand, our market capitalization remains relatively small, and although liquidity has improved, it is still not sufficient. Taking these

risk premiums into account, we believe it is necessary to maintain an adequate spread. (Graph 1)

In addition, strong business performance led to increased retained earnings and shareholders' equity, causing ROE to dip slightly below 10% in FY2024. Since FY2021, we have conducted share buybacks and cancellations every fiscal year. We will continue these practices going forward to manage shareholders' equity. (Graph 3)

Since FY2023, we have actively pursued growth initiatives centered on M&A investments, which are already beginning to yield results. We will steadily advance the monetization of these projects while exploring further opportunities for proactive investments to continuously enhance business value.

Finally, regarding efforts to control and/or curtail the cost of capital, we consider enhancing information disclosure and expanding dialogue with investors to be especially important, and have been focusing on these efforts since FY2023.

Our communications emphasize not only the stability of our performance and shareholder returns, such as progressive dividends, but also how to effectively convey our strengths, business model, and growth potential.

With the expansion of our investor relations (IR) structure, the number of investors newly interested in the Company has increased. Through ongoing dialogue with these investors, we aim to gather insights and further improve the quality and transparency of our information disclosure.

Background and future direction for strengthening initiatives

		Up to FY2022	FY2023 to FY2024	From FY2025
		Significant expansion of shareholder returns	Implementation of management that is conscious of the cost of capital	Strengthening of management that is conscious of the cost of capital
Growth	Enhance business value and foster growth expectations	<ul style="list-style-type: none"> Expanded the earnings base mainly through core businesses 	<ul style="list-style-type: none"> Actively pursued M&A and business investments under a policy of proactive investment 	<ul style="list-style-type: none"> Steadily realize profits from completed investments and continue to make further proactive investments
Capital efficiency	Maintain ROE of 10% or more	<ul style="list-style-type: none"> Achieved an ROE level exceeding the cost of capital through improved performance and enhanced shareholder returns 	<ul style="list-style-type: none"> Maintained ROE levels through share buybacks and cancellations 	<ul style="list-style-type: none"> Continuously conduct share buybacks and cancellations to rigorously control shareholders' equity
Reducing cost of capital	Control and/or curtail the cost of capital	<ul style="list-style-type: none"> Strengthened corporate governance structure (with independent directors constituting the majority) Reduced strategic shareholdings 	<ul style="list-style-type: none"> Lowered cost of capital through improved performance levels and increased liquidity 	<ul style="list-style-type: none"> Aim for further reduction of cost of capital by enhancing information disclosure and expanding dialogue with investors

