Action to Implement Management That Is Conscious of Cost of Capital and Share 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 cost of capital and share 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 Share Price (**Table 1**), and since FY2023, we have been advancing concrete initiatives based on this policy.

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

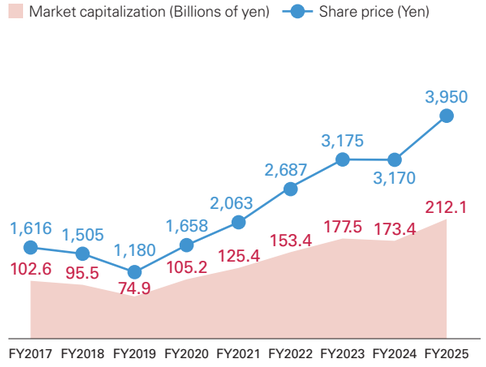
Initiatives to consistently achieve a P/B ratio above 1x as soon as possible:
(1) Steadily implement growth strategies to continuously enhance business value and build expectations for stronger future earnings (Growth)
(2) Maintain ROE of 10% or more (Capital efficiency)
(3) Control and/or curtail the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

Challenges and key areas for further enhancement

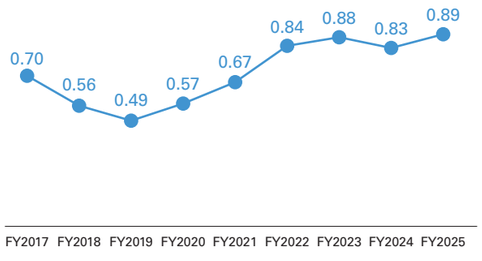
As a result of our initiatives, business performance has expanded steadily, contributing to consistent growth in both our share price and market capitalization (**Graph 1**). However, our P/B ratio remains below 1x (**Graph 2**), reinforcing the need to further strengthen our initiatives.

Comparing our cost of capital with our capital profitability, we have succeeded in steadily reducing our cost of capital. At the same time, under NC2026, profit exceeded our plan in both the first and second years, resulting in a larger-than-expected increase in shareholders' equity and, consequently, a decline in ROE (**Graph 3**). In light of these circumstances, we decided to strengthen shareholder returns by introducing DOE from FY2026 as part of our new policy, together with other shareholder return measures (**Tables 2 and 3**).

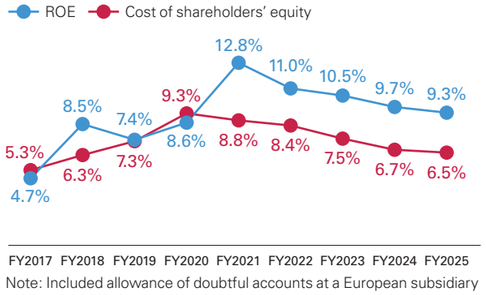
Graph 1: Share price and market capitalization



Graph 2: P/B ratio



Graph 3: ROE and cost of shareholders' equity



Note: Included allowance of doubtful accounts at a European subsidiary in FY2017.

Table 2

Addition of a new policy (effective FY2026)
Strengthen shareholder returns through measures including the introduction of DOE, while working to improve capital efficiency.

Table 3

Performance indicators, etc.	Through FY2025	From FY2026 onward
DOE*1		**Newly introduced** Target a DOE of 4.0%–4.5%.
Progressive dividends	Fundamentally, we will ensure that dividends per share does not decline year on year by continually increasing our dividends.	**Continued** Fundamentally, we will ensure that dividends per share does not decline year on year by continually increasing our dividends.
Total return ratio*2	The target for total return ratio is roughly 50%.	**Partially revised** Maintain a total payout ratio of at least 50% each fiscal year.

*1 DOE = (Total dividends ÷ Shareholders' equity) × 100 (%)
*2 Total return ratio = (Dividends + share repurchases) ÷ consolidated net income x 100 (%)

Note: Underlined items indicate changes.

Specific measures to strengthen our efforts

To achieve, as early as possible, a share price that consistently results in a P/B ratio above 1x, we will further strengthen our initiatives. First, with respect to initiatives to enhance business value and foster growth expectations, as discussed in the progress report on the second year of NC2026 (pages 33–34), the investments we have made over the past several years have steadily contributed to strengthening our earnings base. We intend to continue making proactive investments to further accelerate growth.

Next, with regard to maintaining an ROE of 10% or higher, as noted earlier, we have strengthened our shareholder return policy beginning in FY2026 and will place an even greater emphasis on improving capital efficiency. In addition, we have conducted share buybacks and canceled treasury shares every fiscal year since FY2021 and intend to continue doing so.

Finally, with regard to controlling and reducing the cost of capital, we have, in recent years, been included in an increasing number of indices, including the JPX-Nikkei Index 400, and our issuer credit rating was upgraded by one notch in FY2025. We believe these developments reflect the growing confidence that investors have in us, as evidenced by the increasing number of one-on-one meetings we have with investors and analysts. Going forward, we will further enhance our dialogue with investors and our information disclosure, thereby reducing information asymmetry with the market, including with respect to risk-related information, and helping to control and reduce our cost of capital.

Background and future direction for strengthening initiatives

		Up to FY2022 Significant expansion of shareholder returns	FY2023 to FY2024 Implement measures to realize management conscious of cost of capital and share price	From FY2025 Implement measures to strengthen management conscious of cost of capital and share price
Growth	Enhance business value and foster growth expectations	• Expanded the earnings base mainly through core businesses	• Actively pursued M&A and business investments under a policy of proactive investment	• Steadily expanded earnings, primarily through M&A investments, and further accelerate investment going forward
Capital efficiency	Maintain ROE of 10% or more	• Achieved an ROE level exceeding the cost of capital through improved performance and enhanced shareholder returns	• Maintained ROE levels through share buybacks and cancellations	• Continued share buybacks and the cancellation of treasury shares • Strengthened our shareholder return policy and further reinforced our commitment to improving capital efficiency
Reducing cost of capital	Control and/or curtail the cost of capital	• Strengthened corporate governance structure (with independent directors constituting the majority) • Reduced strategic shareholdings	• Lowered cost of capital through improved performance levels and increased liquidity	• Enhanced investor confidence through inclusion in major indices, including the JPX-Nikkei Index 400, and an upgrade of our issuer credit rating (A– to A) • Increased one-on-one meetings with institutional investors and analysts