

Implementation Status of Dialogue with Shareholders in FY2022

At Inabata & Co., Ltd., we actively engage in dialogue with shareholders and investors, with the aim of promoting sustainable growth and enhancing our corporate value over the medium to long term. The following is a report on the implementation of our dialogue with shareholders in FY2022.

1. Structure for Promoting Investor Relations (IR)

- Our President leads the IR efforts, supported by Director, Senior Managing Executive Officer, a designated officer responsible for IR (“IR Officer”). The primary point of contact for dialogue with shareholders and investors are the President and the IR Officer.
- Our dedicated IR Department works in collaboration with related departments to gather and analyze various business data. This ensures the timely and accurate distribution of information within the company and to the public.

2. Summary of IR Activities

- We proactively seek to arrange meetings with investors to the extent reasonable. We also consider accommodating requests for engagement with our outside directors to the extent practical.
- We organize biannual financial result briefings where we explain the progress of our Medium-Term Management Plan and present an overview of our financial results.
- We foster opportunities for dialogue with individual shareholders and investors by participating in IR events.
- We actively disseminate information through various mediums such as our website, integrated reports, shareholder newsletters, and shareholder meeting notices.

[Record of IR Activities for FY2022]

Activities	Frequency
Financial results briefings	2 times
One-on-one meetings with institutional investors & analysts (including foreign investors and analysts)	54 times
Individual investor briefings (participation in online IR fair)	1 time

3. Feedback to the Board of Directors

Our Board regulations require that shareholder opinions and concerns gathered through our dialogue with shareholders be incorporated into the IR Officer's activity report at least once a year. For FY2022, we presented reports concerning IR matters at Board meetings held in July and September 2022, and January 2023.

4. Main Topics of Discussion

1) Medium to Long-term Management Challenges

Discussion with: Foreign institutional investors (responsible investment managers)

Q: Looking ahead to the next five years or so, what do you see as the significant management challenges?

A: First, we aim to increase our overall profitability. While we have primarily focused on organic growth and maintained a cautious stance on acquisitions until now, we recognize the need to be more proactive in this area moving forward. Second, we must establish new drivers of earnings. At present, our Plastics and Information & Electronics segments make up around 80% of our total sales and operating profit. We need to cultivate growth in other areas, such as the food sector within the Life Industry segment. Lastly, we are focusing on the development and utilization of our human capital. In response to the expansion of our overseas business, we believe it is increasingly important to cultivate our local staff, create more opportunities for them to excel, and promote diversity as an important challenge.

[Our views, understanding, and response]

We have communicated our intentions for sustainable growth, and how we recognize and address challenges, using ongoing initiatives as examples. This has fostered understanding among our shareholders. In future dialogue, we plan to regularly update our shareholders on our progress, focusing on the three aspects of increasing our overall profitability, establishing new drivers of earnings, and developing and utilizing our human capital.

2) Direction of Growth Investments

Discussion with: Domestic institutional investors (active fund managers)

Q: Your current Medium-Term Management Plan, *NC2023*, highlights the intensification of investment targeting future growth. What are the key directions and targeted sectors? Also, can you share any past success stories related to growth investment?

A: Fundamentally, we view our trading business as the cornerstone of our investment strategy. We will continually evaluate whether prospective investments align with our primary business and if we are capable of managing them effectively. Our most notable success has been our compound business in the Plastics segment, where our ability to cater precisely to our global customers' needs has become a differentiating factor.

[Our views, understanding, and response]

Since our company has not traditionally engaged in significant growth investments, there were concerns about whether we could aggressively pursue such investments while maintaining discipline and effectiveness. By emphasizing that we intend to invest only in areas that contribute to expanding our main business and citing the compound business as a concrete success story, we managed to gain the understanding of our shareholders.

3) Disclosure of Growth Investments

Discussion with: Domestic institutional investors (active fund managers)

Q: Could you elaborate on the synergies and earnings enhancements brought about by your growth investments? Without sufficient disclosure, appraising these investments appropriately can be difficult, even if they are in promising businesses, thus impeding your chances of gaining favorable impressions from shareholders.

A: Thank you for your constructive suggestion. We will actively consider increasing our disclosure.

[Our views, understanding, and response]

At our financial results briefings, we reinforced our explanations concerning the direction of growth investments, target areas, and specific case studies. Also, when initiating investments or acquisitions, we started providing timely disclosures and posting overviews on our website, detailing the anticipated synergies and other elements.

* In February-March 2023, we shared detailed information about the following investments.

Notice of Development of a Dedicated Wood-Burning Biomass Power Plant in Sakaiminato City, Tottori Prefecture

<https://ssl4.eir-parts.net/doc/8098/tdnet/2240519/00.pdf> (in Japanese only)

Notice of Acquisition of the Shares of DAIGO TSUSHO CO., LTD. (Made into a Subsidiary)

<https://ssl4.eir-parts.net/doc/8098/tdnet/2242338/00.pdf> (in English)

<https://ssl4.eir-parts.net/doc/8098/tdnet/2242337/00.pdf> (in Japanese)

Notice of Establishment of New Lithium-Ion Battery-Related Materials Company in the United States

https://ssl4.eir-parts.net/doc/8098/ir_material1/202699/00.pdf (in English)

https://ssl4.eir-parts.net/doc/8098/ir_material/202484/00.pdf (in Japanese)

Notice of Acquisition of Shares of Maruishi Chemical Trading Co., Ltd. (Made into a Subsidiary)

<https://ssl4.eir-parts.net/doc/8098/tdnet/2251399/00.pdf> (in English)

<https://ssl4.eir-parts.net/doc/8098/tdnet/2250752/00.pdf> (in Japanese)

4) Building a Business Portfolio

Discussion with: Domestic and foreign institutional investors (active fund managers)

Q: The main focus of your Information & Electronics segment is currently on flat-panel displays. But it seems that this sector can no longer be relied upon for the high growth rates of the past. Isn't it time to consider a shift towards new areas with prospective growth?

A: We are indeed pursuing development in promising growth sectors, including semiconductors, as well as the environmental and energy fields, through investments, capital contributions, and collaborations with other companies. Specifically within the environmental and energy sectors, we are focusing our efforts on participating in biomass power generation businesses, expanding solar power generation, and broadening sales of components and materials used in lithium-ion batteries. These efforts are already evolving into substantial business operations.

[Our views, understanding, and response]

We understand that our shareholders have expressed concerns about the future growth of our Information & Electronics segment, a key part of our business traditionally revolving around flat-panel displays, given the market slowdown. In response, we have detailed our specific initiatives in promising growth sectors such as semiconductors and environmental and energy-related fields, thereby successfully communicating our future growth prospects.

5) Reducing Cross-Shareholdings

Discussion with: Domestic and foreign institutional investors (active fund managers)

Q: We have long been advocating for a reduction in your cross-shareholdings considering aspects of asset efficiency and corporate governance, and we appreciate your company laying out a specific reduction plan.

A: At the time of formulating our current Medium-Term Management Plan, we pledged to reduce our cross-shareholdings by 50%* over three years, and we have been following through on this as planned. However, to strengthen our growth investments and shareholder returns, and taking into account opinions from investors and the trends in proxy advisory firms, we have additionally announced our aim to reduce these shares by 80%* by the end of FY2026.

*Based on the balance at the end of FY2020

[Our views, understanding, and response]

When we developed our current Medium-Term Management Plan, we declared a policy to reduce cross-shareholdings by 50%. However, during discussions with shareholders, questions arose about our approach after this reduction. Given increasing external pressures such as the revision of the Corporate Governance Code, we announced an additional reduction policy to optimize asset utilization further.

* For more details, please refer to our IR briefing material.

https://www.inabata.co.jp/themes/english@inabata/investor/library/file/ir_briefing20230605.pdf (in English)

https://www.inabata.co.jp/themes/inabata/investor/library/file/230605kessan_tan_shiryuu.pdf (in Japanese)

6) Stock Price Valuation and Capital Policy

Discussion with: Domestic and foreign institutional investors (active fund managers)

Q: I had believed that the low position of your company's price-to-book (P/B) ratio was a reflection of your balance sheet. However, with the enhancement of your capital policy, including the reduction of cross-shareholdings and the raising of your total payout ratio target, there has been a significant improvement in the ratio.

A: Starting with our current Medium-Term Management Plan, we have been striving to bolster our management with a focus on capital efficiency. Specifically, when we disclosed the medium-term plan, we decided on a policy to decrease cross-shareholdings and implement progressive dividends. Furthermore, when we made an upward revision of our medium-term plan targets in February 2022, we committed to further reductions of cross-shareholdings and an increase in our total payout ratio target.

[Our views, understanding, and response]

Through the decision and implementation of management policies and specific measures with a focus on capital efficiency, we have successfully gained understanding from our shareholders. As a future challenge, while maintaining this capital efficiency-centered approach, we aim to delve into strategies for enhancing our stock price valuation, which is still rather low, in conversation with our shareholders.

* In our June 2023 IR briefing material, we revealed our “measures to realize management conscious of cost of capital and share prices.”

https://www.inabata.co.jp/themes/english@inabata/investor/library/file/ir_briefing20230605.pdf (in English)

https://www.inabata.co.jp/themes/inabata/investor/library/file/230605kessan_tan_shiryuu.pdf (in Japanese)

7) Composition of the Board of Directors

Discussion with: Domestic and foreign institutional investors (responsible investment managers)

Q: In June 2022, your company adopted a new corporate governance structure that included an Audit and Supervisory Committee, with a majority of the board seats held by independent external directors. Can you elaborate on the factors that influenced this decision, and describe any observable changes in board operations since the transition?

A: The transition came about due to growing external pressures such as feedback from shareholders and investors and amendments to the Corporate Governance Code. We identified a need to quicken decision-making processes and strengthen supervisory functions in our capacity as a trading company.

As for the changes, the reduced number of internal directors has led to a stronger voice for external directors. The preparation of internal materials and discussions has been geared more towards accommodating external perspectives, in an effort to help the external directors understand each agenda item. In addition, to further facilitate a monitoring-centric board, we raised the criteria for submitting proposals and made progress in delegating execution authority. Meanwhile, this has led to an increased number of items to be reported due to enhanced board monitoring.

[Our views, understanding, and response]

By explaining the rationale behind the transition, we were able to gain an understanding of our objectives. In terms of future challenges, we need to continue executing effectiveness evaluations, as we have traditionally done, to verify whether we are achieving the results we aim for and to disclose these results.

* Please refer to the following for an overview of the effectiveness evaluation of the Board of Directors.

<https://www.inabata.co.jp/english/csr/governance/> (in English)

https://www.inabata.co.jp/sustainability/governance/corporate_governance/ (in Japanese)

8) Utilizing Human Capital

Discussion with: Domestic institutional investors (active fund managers)

Q: We hope to see more opportunities for female participation in your company's human capital utilization. The percentage of women in managerial positions in your company was 3.7% for FY2021, which is not high. Could you shed light on the role female external directors are playing in addressing this issue?

A: The Board of Directors is providing counsel on our approach to diversity and inclusion. We have also implemented initiatives such as holding discussions with female employees to inspire and motivate them. From a recruitment standpoint, setting up comprehensive support systems is vital. For example, we are moving forward with implementing work-from-home policies to assist with balancing work and childcare duties.

[Our views, understanding, and response]

We are working on the development of systems that promote not only the active participation of women but also that of senior staff. By sharing specific examples of our initiatives, we have managed to secure a certain level of understanding. As we move forward, we aim to be more transparent about the improvements we are making to these systems. We also plan to publish the results of our annual employee engagement survey and share the identified challenges and progress with our shareholders.

* For further information on our diversity and inclusion initiatives, please refer to the following link.

<https://www.inabata.co.jp/sustainability/social/diversity/> (in Japanese only)

9) Sustainability Disclosure

Discussion with: Domestic institutional investors (responsible investment managers)

Q: If you are already aligning your disclosures with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations, we highly recommend that you officially voice your endorsement. This could foster greater trust with investors and increase your chances of attracting investment.

A: We started disclosures in line with TCFD recommendations in June 2022. However, as we have not been able to address every disclosure item, we have postponed expressing our formal endorsement. As we expand our disclosures in the future, we will consider pledging our support.

Following deliberation, we declared our endorsement in April 2023. Looking ahead, we intend to continue our detailed analyses and discussions, and progressively augment our information disclosure in adherence with TCFD recommendations.

* For more information about our TCFD-based disclosures, please refer to the following link.

https://www.inabata.co.jp/sustainability/environment/climate_change/ (in Japanese only)

5. Future Approach

Throughout FY2022, we undertook significant adjustments in our management strategies and operational structure, particularly in capital policy and corporate governance. We believe that these transformations have been generally understood and supported by our shareholders and investors. In the process of contemplating and making these changes, we gained numerous valuable insights from our dialogue with shareholders and investors.

For FY2023, we remain committed to cultivating constructive dialogue and driving initiatives that foster sustainable growth and enhance corporate value. We plan to provide an update on the implementation status of these initiatives around this time next year.

Kenichi Yokota, Director, Senior Managing Executive Officer in charge of IR