



Overview of Value Creation

Message from the
Officer in Charge of
Financial Affairs

Junji Irie

Representative Director Executive Vice President

Promote Corporate Value Enhancement through Balance Sheet Reforms and Strategic Cash Allocation, Aiming to Strike a Balance between Sustainable Growth and Capital Efficiency

Financial Performance in FY2024
Achieved Another Record High for the Fourth Consecutive Year

RIKEN TECHNOS posted exceptional results in FY2024, the final fiscal year of the previous medium-term business plan, with net sales and each profit metric reaching record highs for the fourth consecutive fiscal year. We achieved an operating profit of 10.4 billion yen against the plan of 8.5 billion yen, and improved rate of sales (ROS; rate of ordinary profit against net sales) from 5.7% in FY2021 to 8.2%. Furthermore, return on equity (ROE) excluding gain on sale of cross-shareholdings reached 9.7%, significantly higher than the target of 8.0% stated in the medium-term business plan.

The significant improvement in profit margin is seen as the result of our financial strategies' steady success. Even amid a harsh external environment, with soaring raw material prices, rising labor costs, and higher utility costs, the departments in the area of sales led in giving numerous careful explanations to our customers, allowing us to steadily reflect higher costs in product prices and set appropriate prices.

At the same time, net sales were lower than our forecast at the start of the fiscal year. We are taking this seriously as an issue going forward. Looking at each segment, Transportation and Daily Life & Healthcare achieved higher revenues and profits, performing strongly. Meanwhile, Electronics and Building & Construction saw lower revenues and profits, resulting in what can be called a score of two wins and two

losses. In particular, it has become clear that we are not making progress as expected in the domestic market. With the ratio of overseas sales reaching approximately 51% today, we recognize that it is a pressing issue to review our growth strategies in our domestic businesses.

Shifting from Profit Margin-oriented Management to Capital Efficiency-oriented Management

The biggest change in the previous medium-term business plan was the shift from traditional management that focuses on profits and losses, to management that emphasizes capital and asset efficiency in terms of our balance sheet, ROE, and return on invested capital (ROIC). As the person in charge of our financial strategies, I feel that management emphasizing our balance sheet has steadily penetrated RIKEN TECHNOS during the last three years.

Approximately 10 years ago, we started giving half-yearly briefings on profit structure to employees working at factories and sales sites, continuing to explain to them how their daily activities are linked to the Company's financial performance. For example, we communicate that shortening accounts receivable cycles and reducing inventories not only improve operations but also generate cash and are directly linked to the securing of funds for growth investment. While the degree of understanding differs with each employee, recently, I feel there are some results as we are seeing changes in the

awareness and attitudes of employees working at our sites.

In parallel with changing employee mindsets in this way, we are also working to significantly enhance our dialogue with investors. In FY2024, we conducted meetings with 169 institutional investors, greatly exceeding our target of 140. Feedback obtained through dialogue is discussed at Management Committee and Board of Directors meetings and incorporated effectively into corporate activities.

Specifically, some of the measures we have taken include (1) disclosing metrics related to profitability (cost of equity, weighted average cost of capital (WACC), and ROIC), (2) clarifying our financial strategies by announcing our total return ratio and stating our cash allocation policy in the new medium-term business strategy, (3) reviewing materiality-related key performance indicators (KPIs), and (4) disclosing information related to cross-shareholdings at the end of the fiscal year in the notices of ordinary general meeting of shareholders. We will continue to take seriously the opinions and requests of investors and shareholders and properly incorporate them in management.

Achieving a Value-creating Balance Sheet in the New Medium-term Business Plan

In the new three-year medium-term business plan "One Vision, New Stage 2027" that started in FY2025, we have further evolved from the focus on our balance sheet pursued under the previous medium-term business plan and will seek to achieve a value-creating balance sheet. In an era where companies are no longer evaluated just by having abundant equity capital, the key to corporate value enhancement lies in the efficiency of assets possessed and strategic capital allocation.

Based on this policy, we made clear the overview of our cash allocation strategy. We will secure a total cash in of 56 billion yen, with 30 billion yen from operating cash flow and 26 billion yen through balance sheet reforms. These funds will be strategically allocated, with 11 billion yen to basic investment, 25 billion yen to growth investment and research and development expenses, and 20 billion yen to strategic investment and shareholder returns.

In particular, under balance sheet reforms, we will reduce assets that have low contributions to our profits through ways

such as reducing cash and deposits, shortening the accounts receivable cycle, reducing inventories, and reducing cross-shareholdings. The funds generated will be channeled to strategic investment—such as growth investment in our core business and mergers and acquisitions (M&As)—or shareholder returns through purchase of treasury shares and other such means.

We will continue reforms toward a value-creating balance sheet, such as the recently announced acquisition of land adjacent to Mie Factory to expand the factory and sale of a portion of the land and other assets at Gunma Factory.

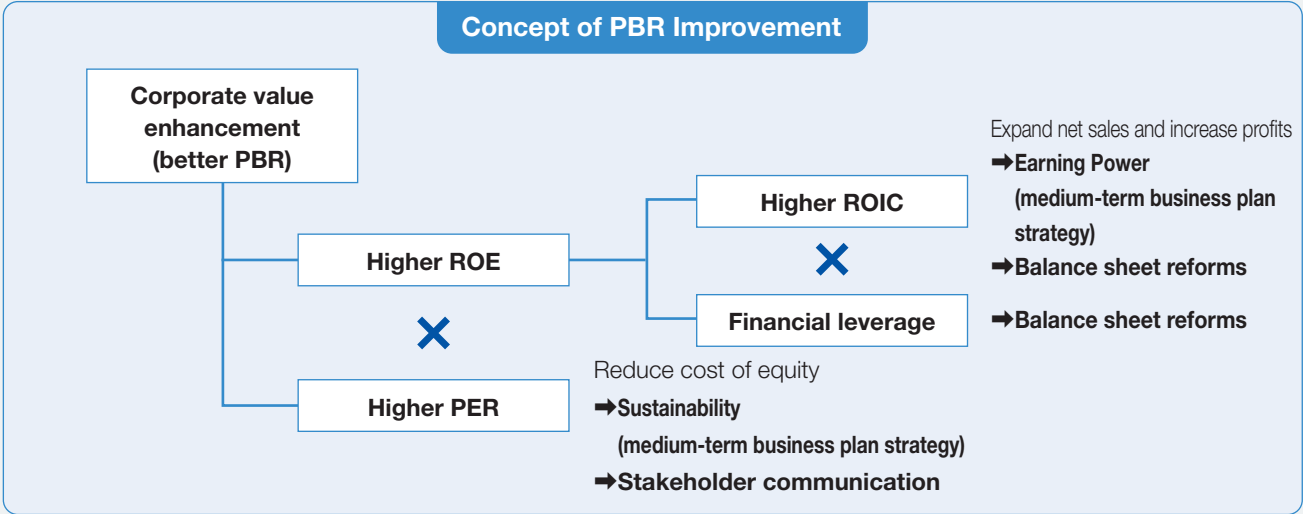
Actively Promoting Growth and Strategic Investments

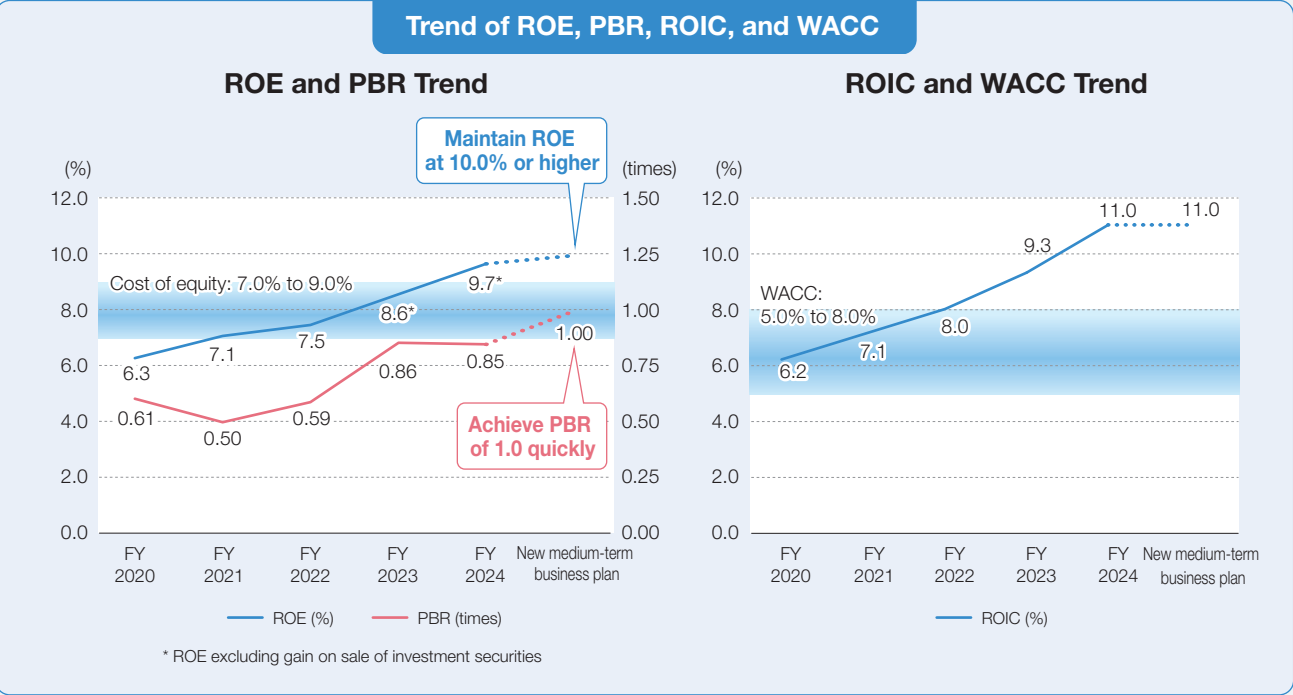
Regarding growth investment, besides investment for capacity enhancement, we will also focus on labor- and manpower-saving investments, among others. We have significantly increased the total amount for capital and IT system investment from 19.3 billion yen in the previous medium-term business plan, to 30.4 billion yen this time, simultaneously promoting production capacity expansion and efficiency improvement both in Japan and overseas.

As for M&As, which serve as the pillar for strategic investment, we will actively seek out projects that help to enhance our technological capabilities, expand our sales channels, and improve our market position. A successful case in the past was when we acquired our wrap business, through which we expanded our food packaging business from a scale of 5 billion yen to 16 billion yen and established the leading position of RIKEN TECHNOS in commercial polyvinyl chloride wraps with a domestic share exceeding 50%. If there are such cases that can produce multiplier effects in market share expansion and cost reduction, our policy is to actively work on them while also considering the use of interest-bearing debts.

Communicating Strengths and Growth Potential to the Market toward Improving PBR

Currently, our price-to-book ratio (PBR) is lower than 1.0, and we are working to strengthen our earning power. At the





same time, we recognize there is an issue with the communication of our growth potential.

Considering the current situation, with ROE excluding gain on sale of cross-shareholdings remaining at 9.7% without reaching 10.0%, an urgent task is to establish a revenue foundation that can perpetually achieve at least 10.0%. At the same time, it is also important to improve our price-to-earnings ratio (PER). The key to achieving a PBR of 1.0 is to steadily implement the growth and strategic investments stated in the new medium-term business plan and properly demonstrate our growth potential to external parties.

In particular, a strength of RIKEN TECHNOS is the existence of product groups that have excellent environmental performance, but I feel we are not adequately promoting them. For example, vulcanized rubber—often used in automobile components—has a heavy relative density and issues in the environmental aspects, in that it is difficult to recycle and emits a lot of CO₂ in its manufacturing process. In comparison, our elastomer compounds are light and can be recycled. Furthermore, another feature is low CO₂ emissions during manufacturing. They can contribute significantly toward reducing automobile manufacturers' Scope 3 emissions. We hope to deepen the understanding of investors etc. about our growth potential by actively promoting products that have such differentiating factors.

Another important issue for us is to respond to the revision of the number of constituents in Tokyo Stock Price Index (TOPIX), which will start in October 2026. As our free-float market capitalization is near the replacement criteria, we will strive to remain selected as a constituent of TOPIX by continuing to expand market capitalization through improving our earning power and increase our free-float weight through capital policies.

Group-Wide ROIC of 11% Achieved and Carefully Considering the Disclosure of ROIC by Business

We achieved a consolidated ROIC of 11.0% for FY2024 and aim to maintain the same level going forward. As for ROIC by business, we are now able to grasp detailed data internally and are currently carefully considering external disclosure. Under the current segments, an issue is the complexity in allocating invested capital as the same production line produces products for several segments.

For the time being, we will stay at disclosing an image of ROIC by segment while continuing to internally manage revenue in more detailed categories and promote the improvement of earning power, including keeping in mind to reduce manufacturing costs and reducing inventories. Instead of simply linking ROIC to exit decisions, our policy is to first focus on improving profitability and work to increase added value by reducing costs and improving technologies.

Maintaining a Consolidated Dividend Payout Ratio of Around 35% and Carrying Out Active Shareholder Returns

Regarding shareholder returns, in principle, we will maintain a consolidated dividend payout ratio of around 35%. At the same time, we will consider the purchase of treasury shares—with improving capital efficiency in mind—while taking into account whether there are investment projects.

For FY2024, we increased dividends by 9 yen, from 32 yen in the previous fiscal year to 41 yen, with a consolidated dividend payout ratio of 29.8% (35.1% when gain on sale of cross-shareholdings are excluded). Regarding treasury shares, we purchased and canceled 4.5 million shares (8.1%

of total issued shares), and we have resolved to purchase another 1.5 million shares (3.0% of issued shares) in FY2025, with 1.12 million shares already purchased as of August 31.

Our policy is not to set a numerical target for the total return ratio, but we will firmly keep in mind to seek a balance between investments and shareholder returns.

Actively Investing in Human Capital, the Most Important Asset

I have always thought that human capital is an important asset that should be recorded on the balance sheet. We conducted a wage hike of about 6%, which exceeds the national average, for union members in April 2025. In addition, to increase our employees' interest in the Company and raise their awareness about our stock price, we raised the subsidy rate for our employee stockholding association to 100% (up to a maximum of 5,000 yen). As a result, we have a high level of membership in the stockholding association, with more than 50% of our employees and 90% of those in management positions being members.

In the training of new employees, we emphasize the development of human resources that understand the basics of monozukuri, or what we call a "RIKEN person." In the past, a person's assignment is determined at the time of joining the Company, but we changed the system in this fiscal year. After completing manufacturing and quality control training, a person's assignment is determined while looking at their aptitude at the Monozukuri Headquarters. Under this development process, even those who came from science and engineering backgrounds are required to acquire Japan Chamber of Commerce and Industry (JCCI) bookkeeping level 3 certification. We strive to develop human resources, even if they are engineers, who can be mindful of revenue and cost.

As for the development of global human resources, we have revised our past single-directional approach of assigning Japanese employees to work overseas. We are promoting bidirectional globalization by also letting excellent human resources

from overseas sites gain work experience in Japan. Particularly in the ASEAN region, there are many excellent human resources who can freely communicate in languages other than their mother tongues. Another characteristic is the high proportion of women performing in management positions. We are promoting an effort to also consider such human resources for top management positions at their respective countries in the future by allowing them to gain practical experience in Japan.

Monitoring Higher Tariffs and Other Trends while Always Anticipating the Unexpected

In our recognition of risks regarding short-term changes in the economic environment, there is no significant direct impact from fluctuations in exchange rates as we carry out local production for local consumption as a principle. The impact of high raw material prices is also limited as, through careful explanations to our customers, we are reflecting higher costs in product prices and setting appropriate prices.

Regarding the raising of tariffs in the United States, the direct impact on sales within the United States is limited as we have two production sites within the country. However, the impact on our customers as well as indirect impact—such as a slowdown in the economy—may negatively affect our business. Therefore, we will continue to monitor the situation.

In the aspect of funds, we are able to secure sufficient funds against net sales, and we also build close relationships with financial institutions that we transact with during normal times. We recognize this to mean that we have a system that can flexibly and quickly respond to unexpected situations. Going forward, we will keep safety in mind while making adjustments toward an appropriate level of cash and deposits toward a value-creating balance sheet.

Conclusion

As the officer in charge of financial affairs, my greatest emphasis had been the shift from profit margin-oriented management to capital efficiency-oriented management. In the new three-year medium-term business plan, we will use our past initiatives as the foundation to take on the challenge of achieving a balance sheet that creates real value. Our cash allocation strategy of 56 billion yen is not simply a numerical target; it shows our determination to grow. We aim to perpetually achieve 10.0% ROE and quickly recover to a PBR of 1.0 by eliminating redundancy and focusing investments in areas that contribute to growth.

I will meticulously convey the strategies and thoughts behind numerical figures and further deepen our relationships of trust with our stakeholders as the officer in charge of financial affairs. We will continue to practice steady management, eliminate waste, and focus on creating value so as to achieve sustainable corporate value enhancement.

We hope that our shareholders and investors will look forward to our initiatives for transformation and our medium- to long-term growth potential and continue to give us your unwavering support.

