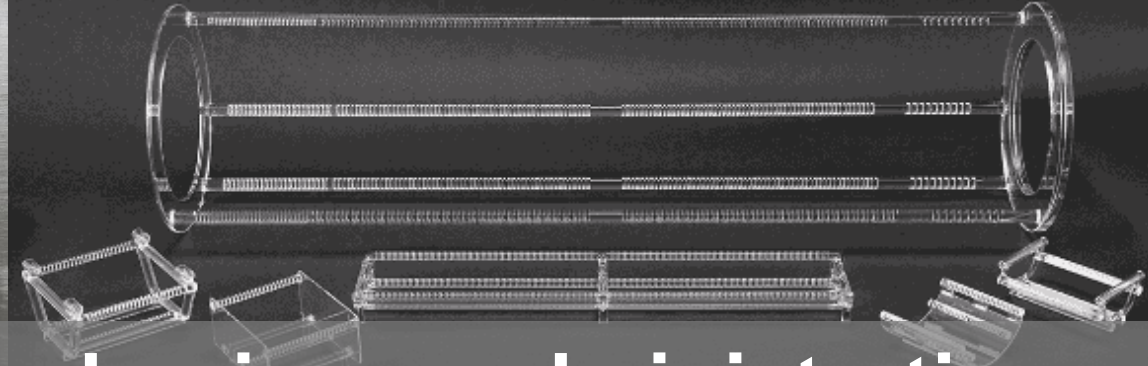


Standard Market of TSE: 6890



Regarding initiatives for realizing business administration
conscious of capital cost and share price

*Strong commitment to our customers
Excellence in engineering precision solutions
Delivering superior quality, value and service*

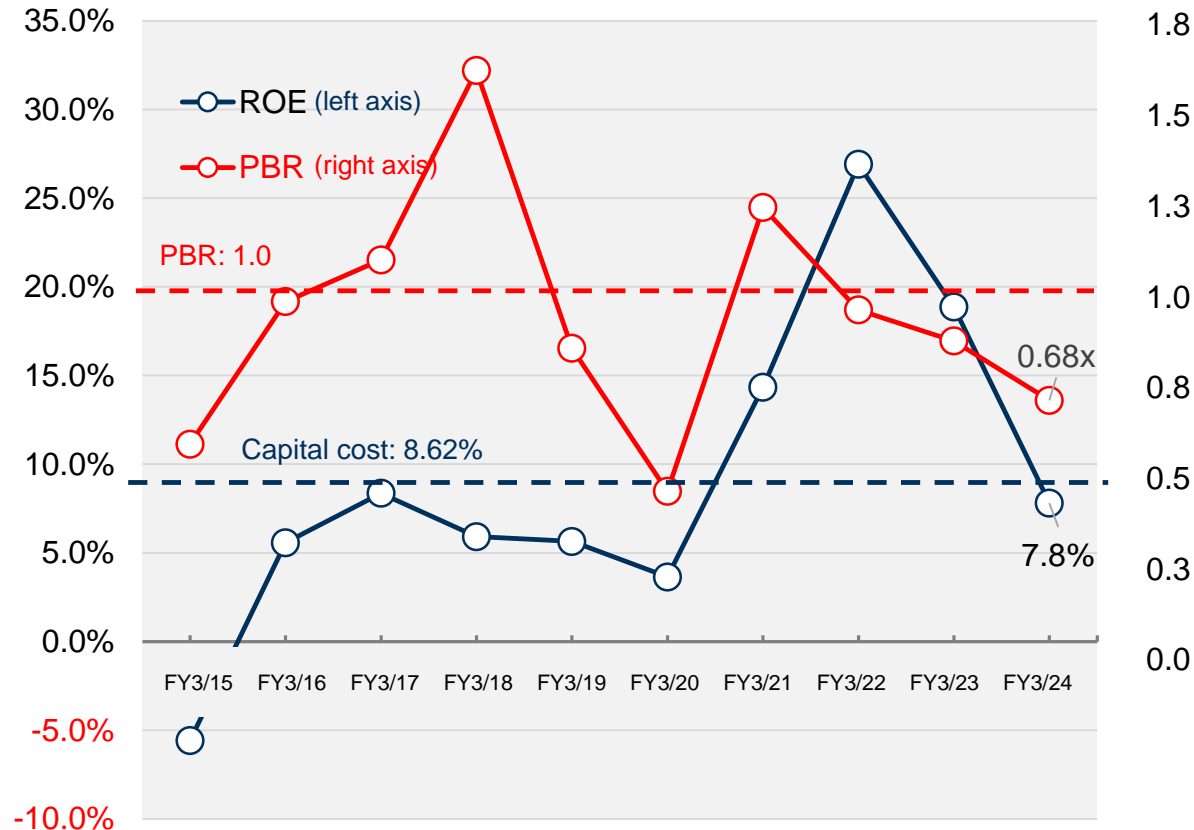


July 31, 2024

Ferrotec

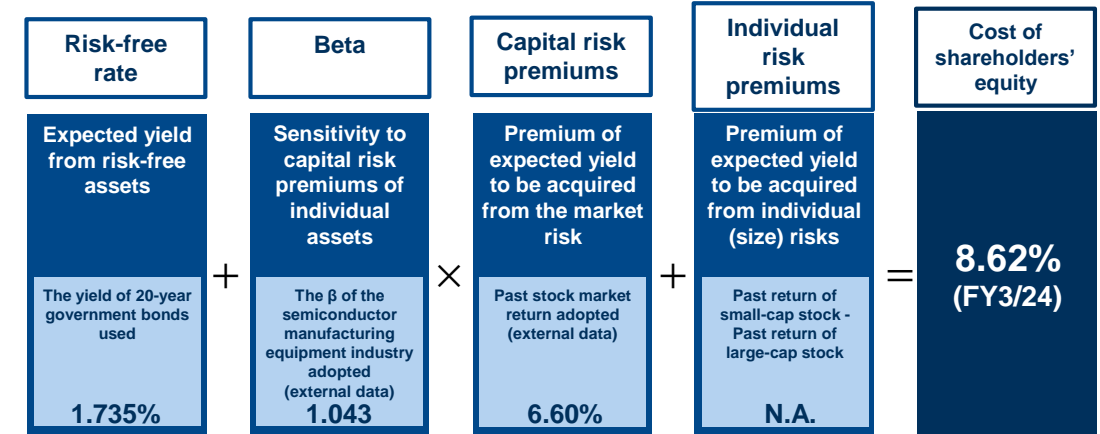
- Evaluation of the current situation: Variations in PBR and ROE	P.2
- Evaluation of the current situation: Variation in ROIC	P.3
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Variations in PBR and ROE (in the past 10 fiscal years)



$PBR = \text{Share price} \div \text{Net assets per share}$
 $ROE = \text{Profit attributable to owners of parent} \div \text{Equity capital}$
 $\text{Total asset turnover} = \text{Net sales} \div \text{Total assets}$
 $\text{Financial leverage} = \text{Total assets} \div \text{Equity capital}$

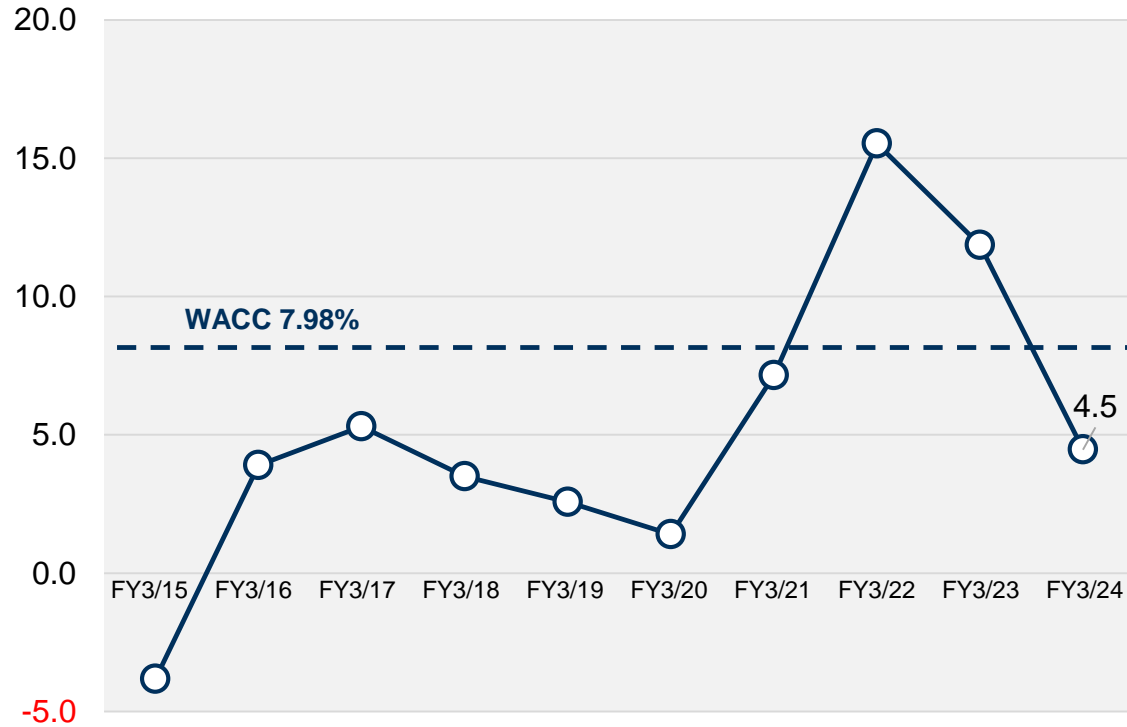
Cost of shareholders' equity: Calculated with the capital asset pricing model (CAPM)



Policy for evaluating and improving the current situation

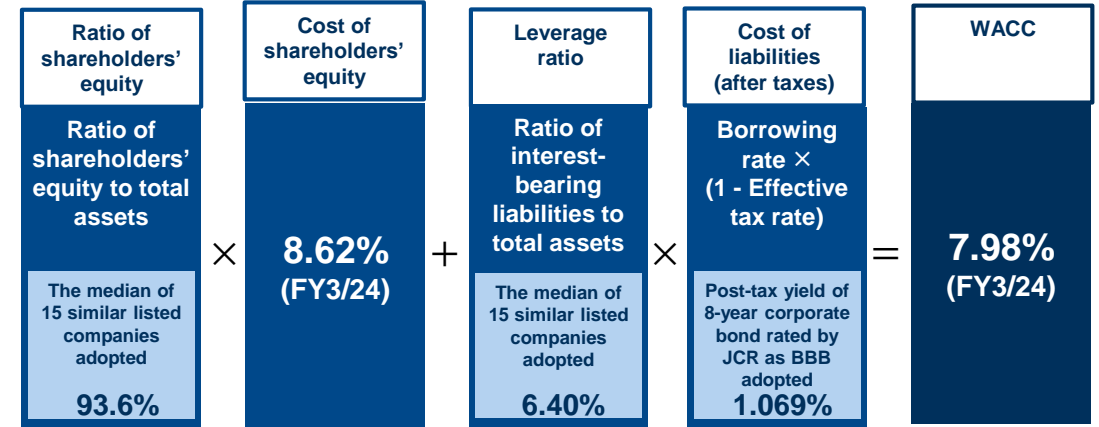
Evaluation of the current situation	<ul style="list-style-type: none"> PBR: From FY3/22 to FY3/24, PBR remained less than 1. In FY3/24, PBR dropped to 0.68, as ROE decreased significantly from the previous fiscal year. The calculated cost of shareholders' equity in FY3/24 is 8.62%. ROE: In FY3/24, ROE was 7.8%, falling below the cost of shareholders' equity. We consider that it is necessary to brush up our earning capacity exceeding the cost of shareholders' equity.
Policy for improvement	<ul style="list-style-type: none"> Improvement in PBR: Can be broken down into $ROE \times PER \Rightarrow$ Improvement in ROE and PER Improvement in ROE: We will improve ROE by realizing business and revenue growth and strengthened earning capacity, managing ROIC, engaging in selection and concentration of businesses, and improving total asset turnover and financial leverage. We aim to achieve an ROE of 15% in FY3/27 (KPIs set in the Mid-Term Management Plan). Improvement in PER: We will strive to further enhance shareholder return policies and non-financial strategies (sustainability, IR, and SR).

Variation in ROIC (in the past 10 fiscal years; unit: %)



ROIC = Profit attributable to owners of parent / (Interest-bearing liabilities + Equity capital)

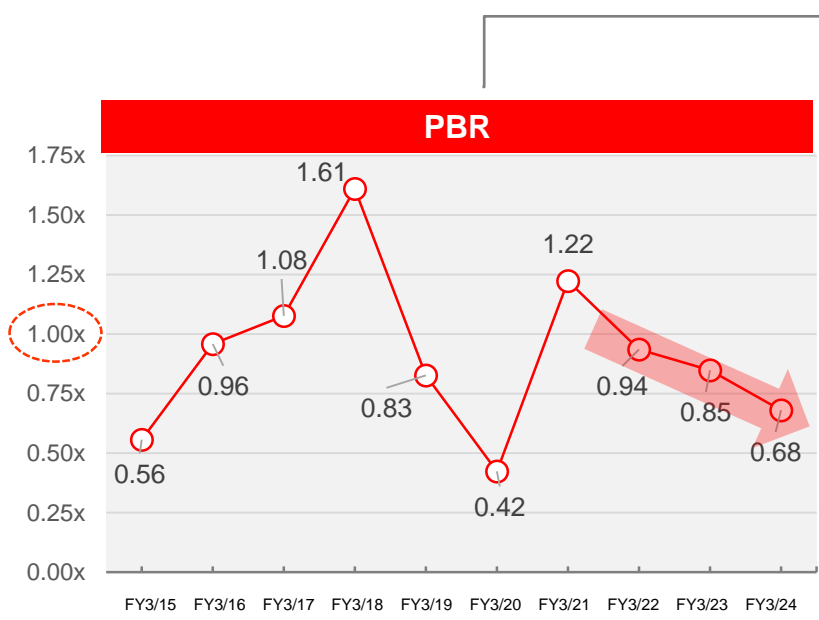
Weighted average cost of capital (WACC)



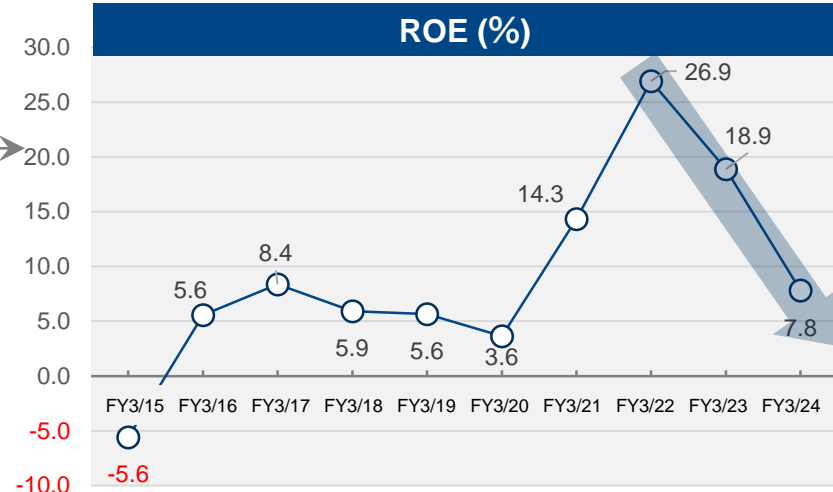
Policy for evaluating and improving the current situation

Evaluation of the current situation	<ul style="list-style-type: none"> In FY3/24, the value was 4.5%, much lower than WACC (7.8% in FY3/24). Namely, EVA spread* is negative. In the past 10 fiscal years, it exceeded WACC only in two fiscal years (FY3/22 and FY3/23). Accordingly, it is considered imperative to improve ROIC.
Policy for improvement	<ul style="list-style-type: none"> To thoroughly manage ROIC in each business and each subsidiary and further strengthen investment judgment and control according to ROIC To improve ROIC by reviewing the business portfolio, engaging in selection and concentration of businesses, and restructuring the organization of our corporate group (sale of businesses or a portion of equity, exclusion of some subsidiaries from the scope of consolidation, and so on) By implementing the above measures, we will improve ROIC while conducting investment for business growth. We aim to achieve an ROIC of 8.0% in FY3/27 (KPIs set in the Mid-Term Management Plan).

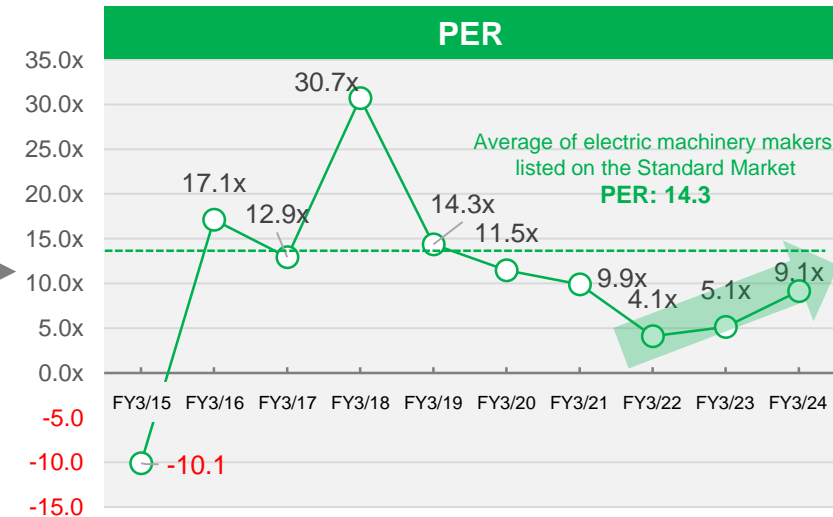
Note: EVA means Economic Value Added. If EVA spread (ROIC - WACC) is more than 0, it can be said that a company provides EVA.



$PBR = ROE \times PER$
 $ROE = \text{Profit attributable to owners of parent} \div \text{Equity capital}$
 $PER = \text{Share price} \div \text{Earnings per share (EPS)}$



×



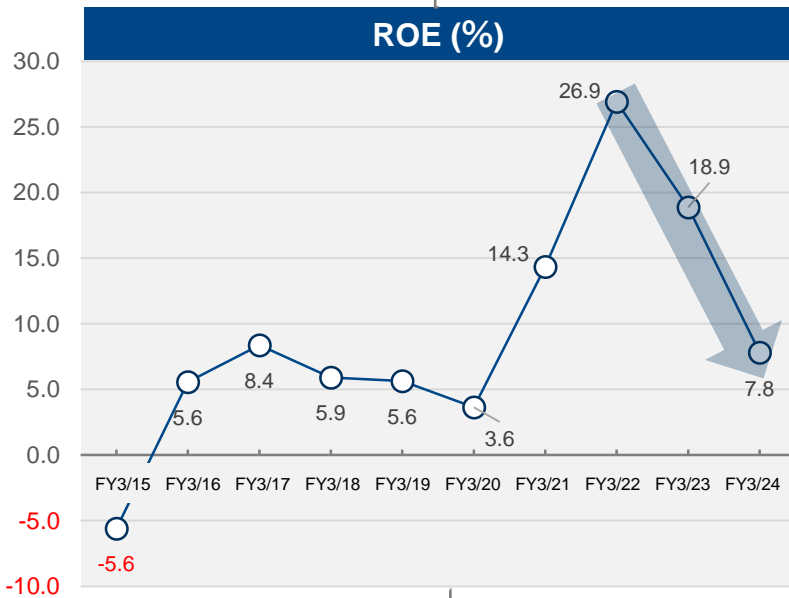
Factors

- ROE is obtained by multiplying (1) profit attributable to owners of parent, (2) total asset turnover, and (3) financial leverage, so their graphs were produced with reference to the data for the past ten fiscal years, and major factors were analyzed. (See the following slide.)
- As a result, it was concluded that the decline of ROE in the past 3 fiscal years is attributable to mainly the significant drop in net income margin.
- Variation in the ratio of profit attributable to owners of parent

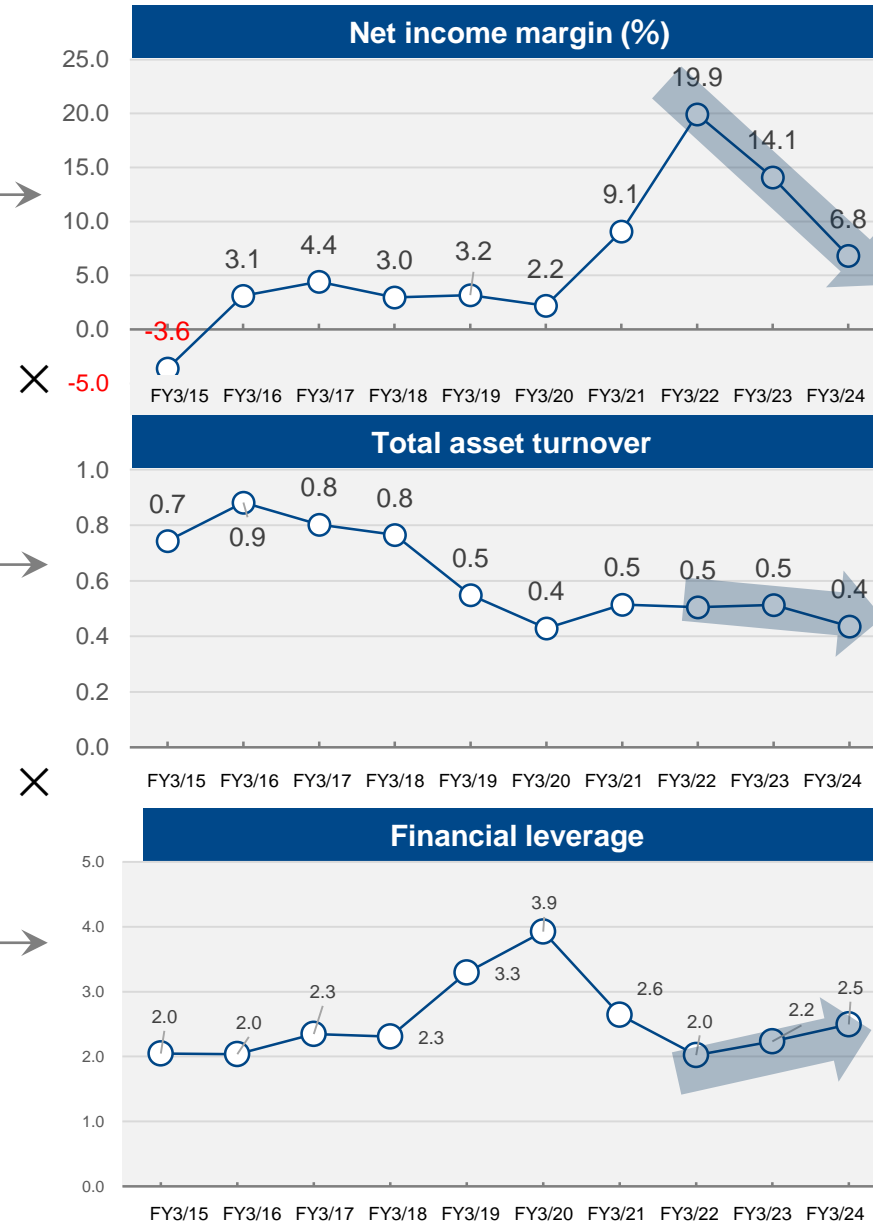
FY3/22	FY3/23	FY3/24
19.9%	14.1%	6.8%

Factors

- PER in FY3/24 was 9.1, much lower than 14.3, the average of companies listed on the Standard Market in this industry (electric machinery) in FY3/24.
- We consider the following items as major factors.
 - (1) Concern about a possibility to realize profit growth commensurate to expanded investment
 - (2) Concern about future financing (diluted profit) accompanying continuing deficit of free cash flow as a result of large-scale capital investment which exceeds cash flow to capital investment
 - (3) Concern about an impact from the US-China semiconductor friction due to concentration of manufacturing sites in China
 - (4) Impact resulting from a wide array of businesses



ROE = Net income margin × Net asset turnover × Financial leverage
 Net income margin = Net income ÷ Net sales
 Total asset turnover = Net sales ÷ Total assets
 Financial leverage = Total assets ÷ Equity capital



Factors

- FY3/24: Gross profit decreased by 3.1% from the previous fiscal year due to the augmented costs such as depreciation and amortization as a result of building new plants amid the worsening semiconductor market. Operating profit declined by 29.0% from the previous fiscal year because SG&A expenses augmented by 21.5% from the previous fiscal year as a result of expansion of business as well as increases in labor and test research expenses.
- Net income margin decreased by 7.3 points from the previous fiscal year due to a decrease in exchange gain (down 4.11 billion yen from the previous fiscal year) and an increase in equity in losses of wafer- and SiC wafer-affiliates (up 3.11 billion yen from the previous fiscal year).

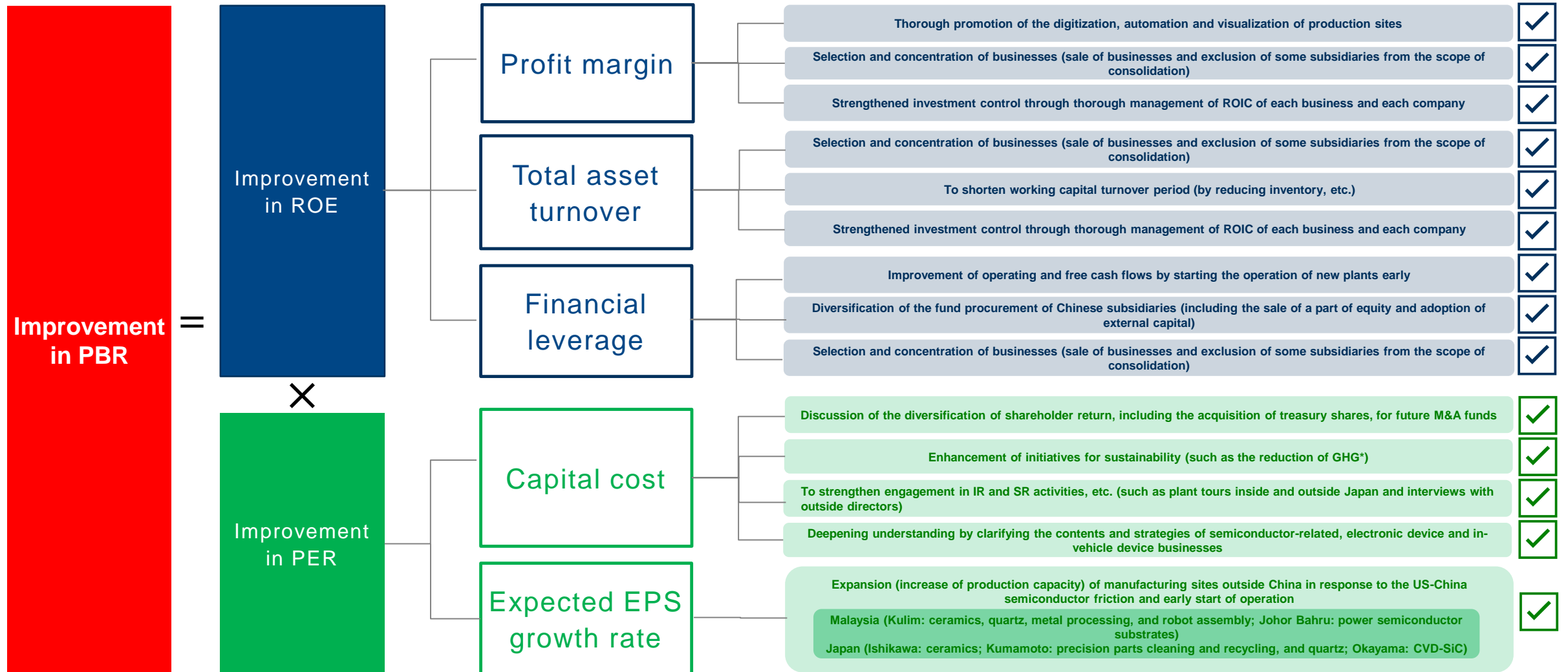
Factors

- In FY3/24, turnover declined by 0.1 from the previous fiscal year, because an increase in total assets (up 99.3 billion yen from the previous fiscal year) was more significant than an increase in net sales (up 11.6 billion yen from the previous fiscal year).
- In detail, it is attributable to mainly an increase in property, plant, and equipment (up 61.7 billion yen from the previous fiscal year) through capital investment, etc. at new factories in Malaysia, China (Changshan, Sichuan, and Yinchuan), and Japan.

Factors

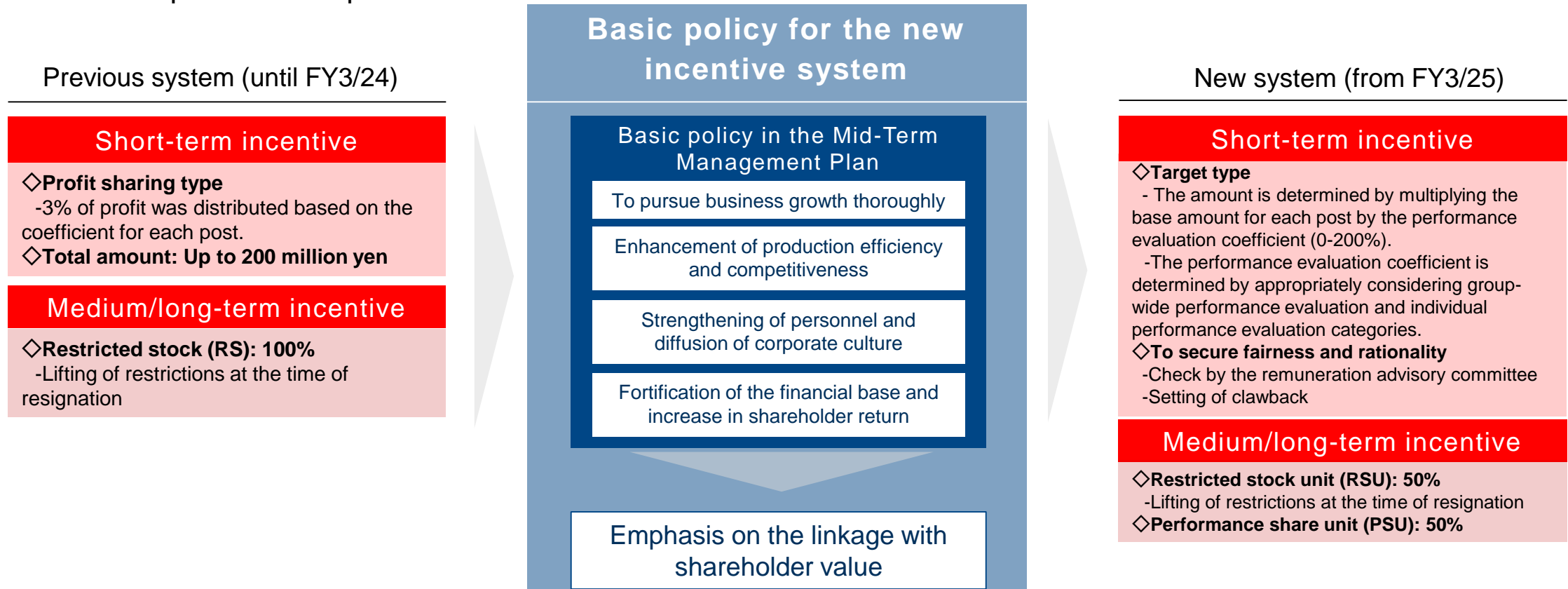
- In FY3/24, financial leverage increased by 0.3 points from the previous fiscal year, because an increase in total assets (up 99.38 billion yen from the previous fiscal year) was more significant than an increase in equity capital (up 20.68 billion yen from the previous fiscal year).
- In detail, it is attributable to mainly the growth of cash and deposits (up 14.1 billion yen from the previous fiscal year) due to the capital injection, increase, etc. for Chinese subsidiaries (sensor business in Lishui and Malaysia), the augmentation of accounts receivable and inventory (up 16.39 billion yen from the previous fiscal year) due to the sales growth, and the increase of property, plant, and equipment described above (up 61.7 billion yen from the previous fiscal year).

- By implementing the following measures, we will strive to improve ROE and PER, with the aim of improving PBR.



*GHG stands for greenhouse gas, mainly CO₂.

- We will enrich the incentives for completing the Mid-Term Management Plan by shifting to a **system of remuneration that strongly depends on performance** for both short-term and medium/long-term incentives, in order to improve our corporate value.



- For the executive remuneration system, we put importance on the linkage with the sustainable improvement in corporate value.
- The ratio among basic remuneration, performance-linked remuneration, and stock-based remuneration is 1 : 0.5 - 1.0 : 0.5 - 1.0 according to posts.

Remuneration Table

Case of CEO	Basic remuneration	Performance-linked remuneration	Stock-based remuneration	
	Monthly remuneration	Short-term incentive	Medium/long-term incentive	
		Bonus	Performance share unit (PSU)	Restricted stock unit (RSU)
Composition ratio (standard)	1.0	1.0	1.0	
Evaluation indicator (KPI)	-	Net sales, operating profit margin, profit, and ROE	Comparison between total shareholder return and growth rate of TOPIX (3 years)	3-year term
Evaluation coefficient	-	0% - 200%	0% - 200%	-
Payment method	Cash	Cash	Stock unit is provided for each post. Three years later, shares and money for paying taxes are provided, with each of them accounting for 50% of 1 share per unit (the number of PSU is obtained by multiplying the evaluation coefficient).	
Malus and clawback*	-	Subjects		

*Malus provisions specify the decrease or removal of stock-based remuneration to be provided at the time of a scandal. Clawback provisions specify the mandatory return of already paid remuneration.

Data of briefing sessions for institutional investors (previous fiscal year)

Item	Briefing session	Conference	Interviews for IR (including small ones)
Number of times	2	4	208
Number of companies we contacted	110	48	338
Domestic : Overseas	72 : 38	0 : 48	160 : 178
Sell side : Buy side	57 : 53	0 : 48	51 : 287

Details of briefing sessions for institutional investors (previous fiscal year)

Timing	Name	Description	Major presenters
Results briefing sessions			
May	Briefing session for financial results *Recorded	Full-year performance, business strategy, and progress of the Mid-Term Management Plan	CEO and directors in charge of finance/accounting and planning
June	Q&A event for financial results *Website	QA session with institutional investors and analysts regarding financial results	CEO and directors in charge of finance/accounting and planning
November	Briefing session for financial results in Q2 *Recorded	Performance in the second quarter, business strategy, and progress of the Mid-Term Management Plan	CEO and directors in charge of finance/accounting and planning
December	Q&A event for financial results in Q2 *Website	QA session with institutional investors and analysts regarding financial results in Q2	CEO and directors in charge of finance/accounting and planning
IR events, such as business strategy briefing sessions			
April	Small sell-side meeting	Future business strategy	IR/Publicity Department
June	General meeting of shareholders	Future business strategy	CEO
September	Sell-side conference (New York)	Introduction of our company	IR/Publicity Department
October	Small sell-side meeting	Future business strategy	CEO and IR/Publicity Department
December	Sell-side conference (Hong Kong)	Introduction of our company	IR/Publicity Department
March	Sell-side conference (Tokyo, twice)	Introduction of our company	IR/Publicity Department
March	Small sell-side meeting	Future business strategy	IR/Publicity Department

Theme of dialogue with shareholders and investors (previous fiscal year)

Example of the theme of dialogue with shareholders and investors	Situation of our activities, etc.
Recognition of the effects of the intensified US-China semiconductor friction on our recent business performance, and our future vision	<ul style="list-style-type: none"> Made decisions and implemented plans for constructing manufacturing bases in regions other than China (Malaysia and Japan) from 2022. Exchange of opinions about future production ratio: Envisioning a shift to a system in which the production ratio between China and other regions is 6 : 4. Production bases in Malaysia: Start of operation of a semiconductor equipment-related plant in the northern region (Kulim) in January 2024 Construction of a power semiconductor substrate plant in the southern region (Johor Bahru) Production bases in Japan: Start of operation of Ishikawa Plant No. 2, the planning and construction of Ishikawa Plant No. 3, and the planning and construction of Kumamoto Plant
Relation between the advance of generative AI and our business	<ul style="list-style-type: none"> The growth of demand for equipment for manufacturing logic semiconductors (mainly for GPUs) and inspection device-related products contributed to our performance. The growth of demand for semiconductors for telecommunication devices (such as 5G-related products and optical transceivers) contributed to our performance.
Status of the IPO of Chinese subsidiaries	<ul style="list-style-type: none"> In response to the financial trouble of China Evergrande Group in 2023, the regulations for limiting IPOs for stabilizing the financial market were enforced, and the screening of companies applying for an IPO became rigorous, so the screening period for IPOs lengthened. The situation of fund procurement through IPOs is not favorable, due to the stagnation of Chinese share prices, etc.
Capital investment and cash flows	<ul style="list-style-type: none"> Allocation of additional funds to the establishment of manufacturing bases in regions other than China, in response to the US-China semiconductor friction Expenditure for M&A (Ohizumi Mfg. Co., Ltd., Toyo Knife Co., Ltd., etc.) Exchange of opinions about the balance between operating and investment cash flows and future capital investment
Situation of activities for ESG and sustainability	<ul style="list-style-type: none"> Exchange of opinions about shareholder return, etc. Establishment of a Sustainability Committee, start of measurement of group-wide GHG (CO₂) emissions, and examination by CDP Interview and exchange of opinions about the situation of activities for ESG and sustainability, including climate change

System to provide feedback to management

- Timely sharing of information at the time of meetings of the Board of Directors, Department Heads, etc. to reflect them in management strategies

Content	Frequency	Reporting method
Comments of investors and analysts (urgent ones)	When necessary	Department Head meetings, email, etc.
Comments of investors and analysts (feedback and evaluation of financial results)	Quarterly	Board of Directors meetings

- We established a **Sustainability Committee** in March 2023. Firstly, **we started the measurement of group-wide GHG* (CO₂) emissions** (Scopes 1, 2, and 3).

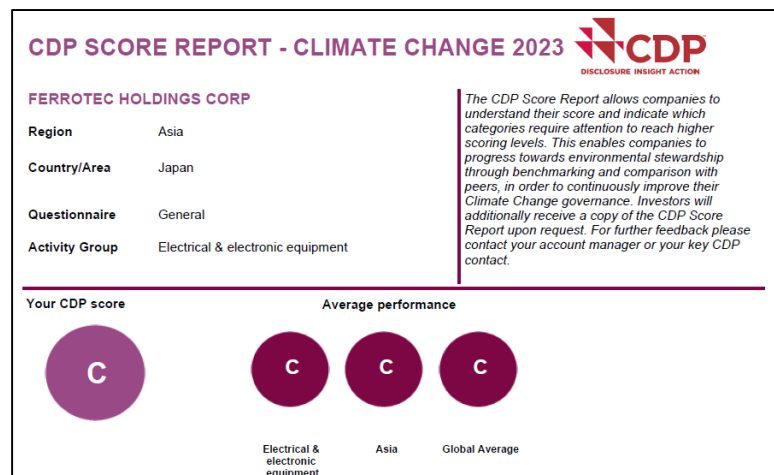
GHG (CO₂) emissions in FY 2022

Ferrotec Group's GHG emissions [t-CO ₂ e*]	993,768 tons
Scope 1 (fuel used by our company: petroleum-related fuel, etc.)	20,955 tons
Scope 2 (energy procured from outside: electricity)	218,759 tons
Scope 3 (CO ₂ generated in the supply chain)	754,053 tons

Plans for future activities

Policy	The Sustainability Committee takes the initiative in setting a policy for group activities.
Plans for activities	<ul style="list-style-type: none"> ✓ To design group-wide policies and strategies according to the actual situation of our company (including TCFD scenario analysis and recognition of opportunities and risks) ✓ To determine each management (disclosure) item and set goals ⇒ To set a goal for reducing GHG (CO₂) emissions (reference year: FY 2022) ⇒ To set management (disclosure) items and goals regarding ESG ✓ To design a road map and establish a system for operation

Results of submission of data to CDP (climate change): Graded C in FY 2023.



CDP score (8 grades)

- 1. Information disclosure level (D⁺, D)**
A questionnaire was answered, but efforts for stewardship are insufficient.
- 2. Recognition level (C⁻, C [our company])**
The effects of business on the environment are taken into account, and the awareness of environmental issues is being enhanced.
- 3. Management level (B⁻, B)**
Measures against environmental risks and their effects have been taken, to mitigate the risks.
- 4. Leadership level (A⁻, A)**
Best practices are carried out for managing environmental issues.

<For reference> Examples of important disclosure items regarding sustainability (IFRS Foundation)

Environment <ul style="list-style-type: none"> • GHG (mainly CO₂) emissions • Energy management • Air quality • Management of water and sewage • Management of waste and hazardous materials • Impact on ecosystems 	Human capital <ul style="list-style-type: none"> • Labor practices • Health and safety of employees • Engagement, diversity, and inclusion of employees
	Business models and innovation <ul style="list-style-type: none"> • Product design and lifecycle management • Capability of restoring business models • Supply chain management • Procurement of materials, and its efficiency • Physical impact of climate change
Social capital <ul style="list-style-type: none"> • Human rights and connections with local communities • Privacy of customers • Data security • Access and affordability • Quality and safety of products • Welfare of customers • Sales practice and labelling of products 	Leadership and governance <ul style="list-style-type: none"> • Management ethics • Competitive behavior • Management of the legal environment • Critical incident risk • Systemic risk control

*GHG stands for greenhouse gas, mainly CO₂.

t-CO₂e represents Carbon Dioxide Equivalent. This is a globally recognized standard indicator for comparing GHG emissions.

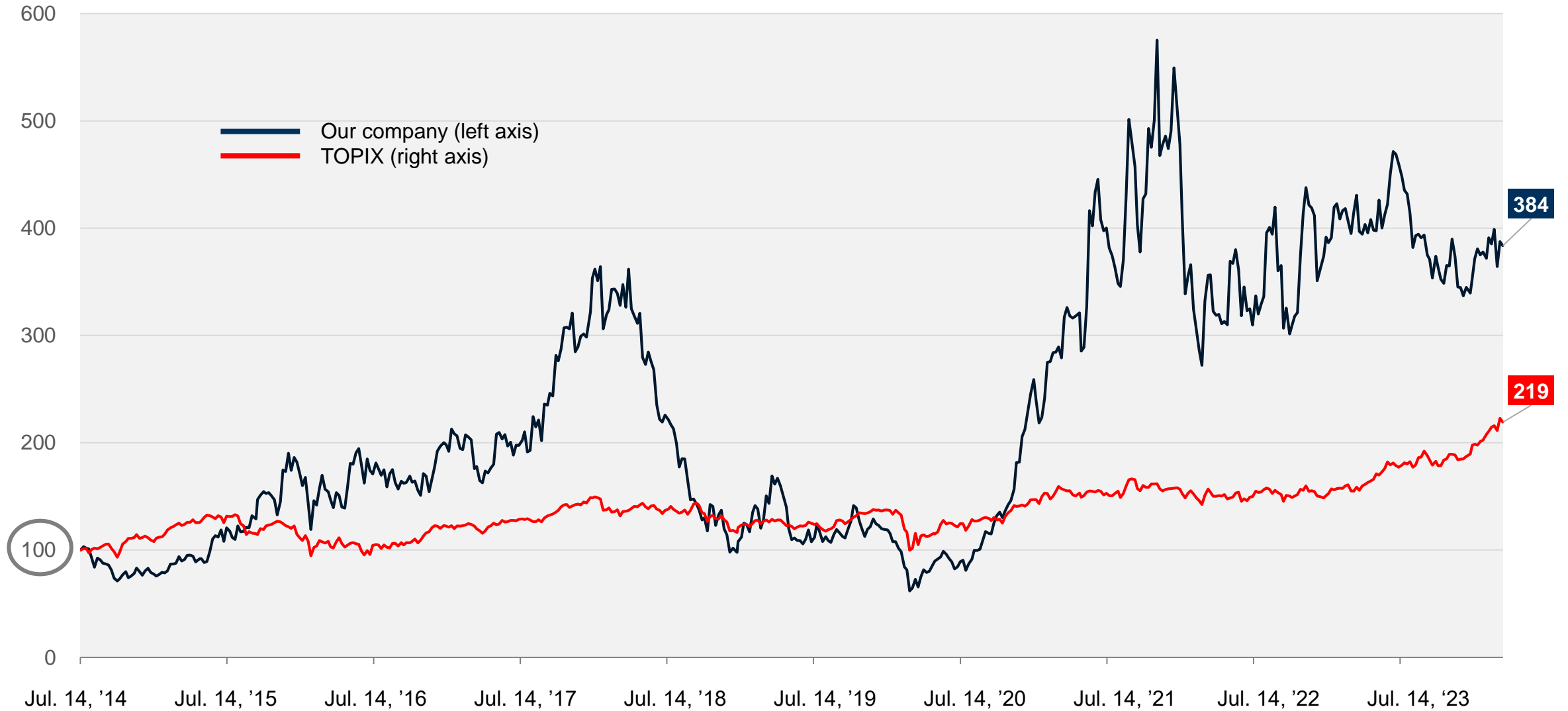
CDP is an NGO managed by a British charity organization, which operates a global information disclosure system in which investors, enterprises, national governments, local communities, and cities manage environmental burdens.

[Unit: million yen]

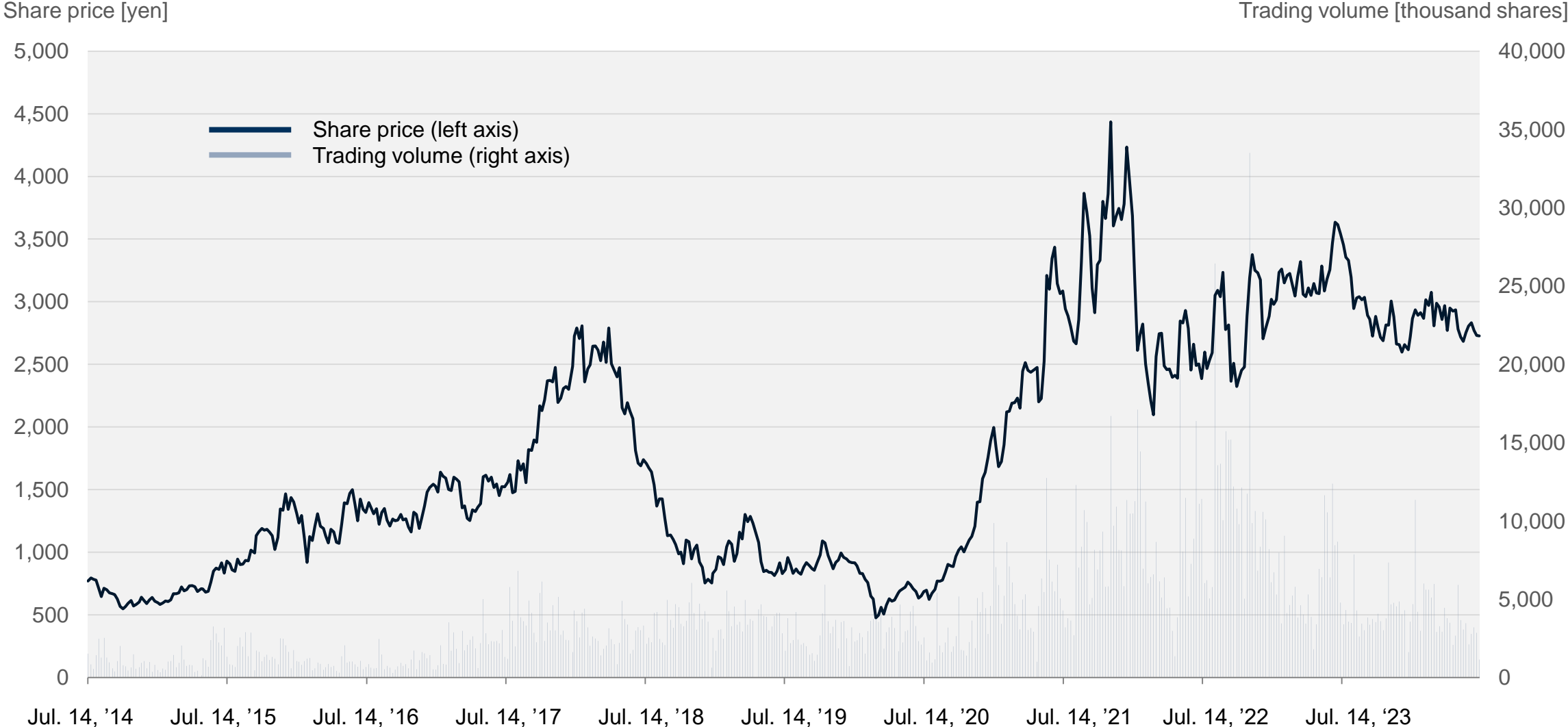
	Indicator	Results in FY 2023	Forecast for FY 2024	Plan for FY 2025	Plan for FY 2026
Performance	Net sales	222,430	235,000	300,000	38,000
	Operating profit	24,872	26,000	40,000	60,000
	Operating profit margin	11.2%	11.1%	13.3%	15.8%
	Profit	15,154	16,000	22,000	30,000
Capital efficiency	ROE	7.7%			15%
	ROIC	4.4%			8%
Financial standing	Capital-to-asset ratio	40%			40%
	Capital investment	75,227	60,000	40,000	40,000
Shareholder return	Dividend per share	100 yen	<p>We will take finance and investment opportunities into account. We aim to enrich the dividend with the aim of achieving a payout ratio of <u>20 to 30%</u>.</p>		

•When comparing the rise of our share price and TOPIX in the past ten years, our share price soared by approx. 3.8 times while TOPIX rose by approx. 2.2 times.

Variation in share price relative to TOPIX (weekly; the past 10 fiscal years; July 14, 2014 to July 8, 2024; assuming that the closing price on July 14, 2014 is 100)

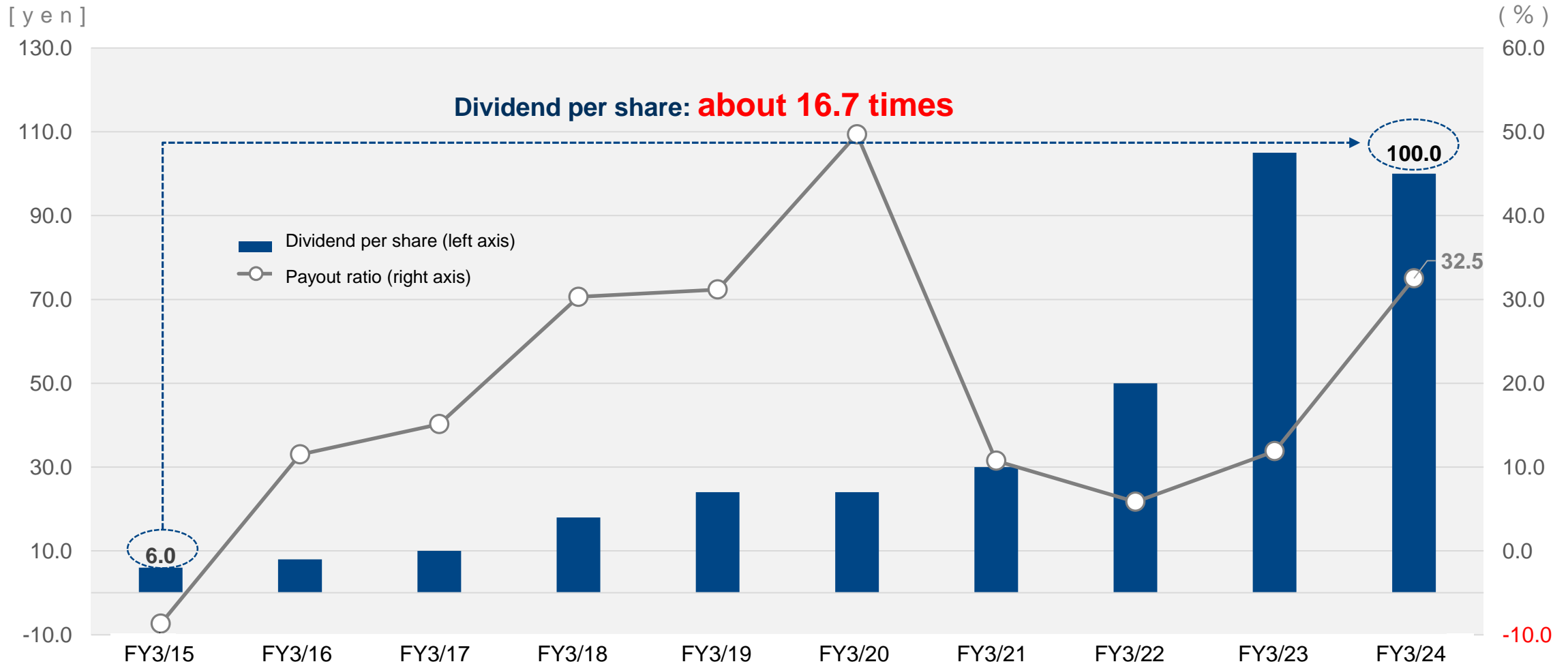


Variations in share price and trading volume (weekly; the past 10 fiscal years; July 14, 2014 to July 8, 2024)



- Over the past 10 years, dividend per share rose about 16.7 times, and the payout ratio in FY3/24 exceeds 30%.

Variations in dividend and payout ratio (in the past 10 fiscal years)



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Please make a final decision about the selection of stocks and investment on your own judgment.

