March 24, 2025

Company name: RHYTHM CO., LTD.
Representative: Takeo Yumoto
President and Representative Director
(Securities code: 7769; TSE Prime Market)
Inquiries: Tatsuya Aizawa
Director and Executive Officer
Telephone: +81-48-643-7241

Notice of the Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Update)

Rhythm Co., Ltd.(the “company”) hereby announces that it has updated its policies and initiatives for improvement based on an analysis and assessment of the current situation regarding the "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" announced on March 4, 2024 at Board of Directors meeting held today.

In addition, today the company formulated and announced a new medium-term management plan with FY2025 as the first year. In this plan, as in the current medium-term management plan, we set forth initiatives for capital cost management. At present, its PBR is about 1 times, but the company will continue to strive to realize management that is conscious of cost of capital and stock price, and to further improve our PBR, with priority given to improving Corporate Value through business expansion.

Note : This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Update)

March 24, 2025

RHYTHM CO., LTD.

(TSE Prime 7769)

Ⅰ Overview and Policy

Ⅱ Current Status Analysis of Capital Cost and Capital Profitability

Ⅲ Initiatives

Notes
・Unless otherwise noted in this document, amounts are rounded down, and years represent the fiscal year (April to March).
・FY 2024 performance forecast is based on the figures from the "Financial Results Forecast for the Fiscal Year Ending March 2025" in the Second Quarter (Interim) Financial Report announced on November 14, 2024.
・FY 2024 mid-term plan figures are from the "Mid-term Management Plan (FY2022-2024)" announced on March 23, 2022.
・The mid-term plan figures for FY 2025-2027 are from the "Mid-term Management Plan 2027" announced on March 24, 2025.

Ⅰ　Overview and Policy

Action to implement management that is conscious of cost of capital and stock price

	End of December 2024
Stock price	¥4,105
PBR	1.08 times
ROE (annualized)	2.3%

[Issues]
- ✓ Delays in earnings growth
- ✓ Ensuring **capital profitability** that exceeds the cost of capital
- ✓ **Appropriate market assessment of growth potential**

(Maintaining appropriate stock price levels)

Analysis of Current Status

- **Due to changes in the business environment, the profit level is below the medium-term management plan.**
- **ROE remains 2.3%, below the target of ROE5.6% set forth in the medium-term management plan and below WACC, which is 6% level, calculated as the cost of capital by the company.**
- **The latest PBR is about 1, but continuous and further improvement is required.**
- **The PER has declined from 61 in the previous fiscal year to 34, but remains high. Earnings remain unable to keep pace with the stock price.**

Policy

- **Expansion of business performance under the New Medium-Term Management Plan (Medium-Term Management Plan 2027)**
- **Appropriate allocation of management resources to achieve sustainable growth**

Details of initiatives for improvement

- **Achievement of Medium-Term Management Plan 2027 (FY 2025 to FY 2027)**
  - Aim to achieve growth strategy, sustainable growth, and Corporate Value improvement by expanding business performance under the new Medium-Term Management Plan
- **Promotion of ROIC management**
  - Business portfolio and KPI evaluation with consideration of WACC and ROIC
  - Monitoring of ROIC tree by business segments
  - Individual Investment Decision based on investment criteria
- **Active investment in growth areas**
  - Capital investment, R & D investment, human capital investment, M & A
- **Improvement of shareholder returns and execution of capital policies**
  - FY 2024 dividend increase (¥73 per share)
  - Achievement of further shareholder returns by expanding business performance under the new Medium-Term Management Plan
- **Strengthening IR activities**
  - Disclosure in English, IR event for individual Investor, 1on1 meeting with Institutional Investor
- **Improvement of Corporate Governance**
  - All items of the Corporate Governance Code are complied. Further Enhance Effectiveness

Ⅱ　Current Status Analysis of Capital Cost and Capital Profitability

Sales and Profit Plan

	FY 2023 Actual	FY 2024 Medium-Term Plan	FY 2024 Q3	FY 2024 Progress Rate * 1	FY 2024 Forecasts	FY 2027 Medium-Term Plan	FY 2027 Compare to FY 2024
Net Sales	**32,602**	**35,500**	**25,386**	**72%**	**33,000**	**40,000**	**7,000**
Precision parts Business	25,173	26,300	19,316	73%	25,100	30,000	4,900
Livingware Business	7,027	8,800	5,770	66%	7,500	9,400	1,900
Other Business	401	400	299	75%	400	600	200
Operating income	**730**	**2,000**	**656**	**33%**	**1,200**	**2,500**	**1,300**
Precision parts Business	1,769	2,300	1,647	72%	2,100	2,850	750
Livingware Business	-704	200	-658	–	-400	150	550
Other Business	68	75	43	58%	50	110	60
Adjustments	-401	-575	-376	–	-550	-610	-60
Ordinary profit	**1,259**	**2,250**	**958**	**43%**	**1,600**	**2,800**	**1,200**
Profit attributable to owners of parent	**477**	**1,600**	**549**	**34%**	**1,000**	**2,100**	**1,100**
ROE	**1.6**	**4.7**	***2 2.3**	**–**	**3.2**	**6.0**	**2.8**
Exchange Rate	151.41	120.00	158.18	–	145.00	140.00	-

*1 Progress Rate versus Medium-Term Management Plan. *2 Annualized ROE

Status of PBR

	Tradable Share Market Capitalization (million yen)	Net Income (million yen)	Stock Price (Yen)	EPS (Yen)	PER (times)	Tradable Share Ratio	BPS (Yen)	PBR (times)
FY 2022 Actual	9,068	794	1,652	96.16	17.2	65.4%	3,497	0.47
FY 2023 Results	11,197	477	3,551	57.86	61.4	37.6%	3,773	0.94
FY 2024 End of December	13,386	1,000 *3	4,105	*1 119.26	34.4	38.9% *4	*2 3,808	1.08

*1, * 2 Calculated as the number of all shares excluding treasury stock *3 Net income for FY 2024 is based on business forecast *4 Caluculated by the Company at the end of September 2024

- **Due to changes in the business environment, the profit level is below the medium-term management plan.**
- **ROE remains 2.3%, below the target of ROE5.6% set forth in the medium-term management plan and below WACC, which is 6% level, calculated as the cost of capital by the company.**
- **The latest PBR is about 1, but continuous and further improvement is required.**
- **The PER has declined from 61 in the previous fiscal year to 34, but remains high. Earnings remain unable to keep pace with the stock price.**

Ⅲ　Initiatives

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Numerical Plan

	FY 2024 Forecast	FY 2025 Medium-Term Plan	FY 2026 Medium-Term Plan	FY 2027 Medium-Term Plan	FY 2027 Compare to FY 2024
Net Sales	**33,000**	**33,500**	**37,000**	**40,000**	**7,000**
Precision parts Business	25,100	24,700	27,500	30,000	4,900
Livingware Business	7,500	8,300	9,000	9,400	1,900
Other Business	400	500	500	600	200
Operating income	**1,200**	**1,400**	**2,000**	**2,500**	**1,300**
Precision parts Business	2,100	2,150	2,450	2,850	750
Livingware Business	-400	-250	50	150	550
Other Business	50	90	100	110	60
Adjustments	-550	-590	-600	-610	-60
Ordinary profit	**1,600**	**1,700**	**2,300**	**2,800**	**1,200**
Profit attributable to owners of parent	**1,000**	**1,200**	**1,700**	**2,100**	**1,100**
ROE	**3.2**	**4.0**	**5.0**	**6.0**	**2.8**
Exchange Rate	145.00	140.00	140.00	140.00	-

Capital Cost Management

Structure

Management Committee, Board of Directors

Report

■ Business Portfolio Report (twice a year)
・Discussion on basic policy
・Business Portfolio Analysis and Evaluation
・Discussion on M & A, etc.
*Separate regular reports on M & A

Business Portfolio Practitioners' Council

Discussion and confirmation of progress and effects of specific measures by officers and working-level leaders in charge

ROIC Management Framework

Efforts and Results in Fiscal 2024

- Development and operation of capital cost management structure
- Continuation of business portfolio evaluation in consideration of WACC * and ROIC
- Continuation of monitoring of ROIC tree by business segments
- Implementation of individual Investment Decision based on investment benchmark
- Establishment of Key Improvement Indicators (Profitability and Capital Efficiency Indicators)
- Dissolution and liquidation of unprofitable subsidiaries (I Next GE, RHYTHM USA)
- Sale of real estate
- Sale of strategic investment stocks

*Estimation in the company
WACC: About 6%
Cost of Equity: About 7%

Ⅲ Initiatives -3. Active investment in growth areas (FY 2025 to FY 2027)

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Cash	Cash allocation	
Operating CF **6~7 billion yen**	Business investment **5~6 billion yen**	■ **Active investment for sustainable growth** ● Investment to improve productivity in precision parts, a growth driver ● Expansion investment in new mainstay of livingware business (comfort products) ● System/IT investment, environmental investment ● Human capital investment
	M&A **5 billion yen**	■ **M & A policy (target)** ● Manufacturing company of more than a certain size engaged in precision parts manufacturing ● Companies with technology, know-how and human resources necessary to expand comfort products
Cash on hand Sale of assets Borrowings **6 billion yen**	Shareholder return **2 billion yen**	■ **Improvement of shareholder returns (next page)**
		■ **Effective use of cash on hand, sale of assets, use of debts** ● Effective use of cash on hand ● Sale of real estate and strategic investment stocks ● Utilization of debts

[Cash In]

- **In addition to improving business performance and earnings, operating cash flows are secured by optimizing inventory levels.**
- **Real estate sales are being conducted as appropriate. The policy will continue to be considered in accordance with the status of real estate utilization.**
- **Efforts are underway to reduce strategic investment stocks. (Reduced the number of listed stocks held in FY 2024 from 11 to 6.)**

[Cash Allocation]

- **Top priority is given to Capital investment, R & D investment, and human capital investment, which is the source of business growth.**
- **A quota for M & A investment is established to achieve discontinuous growth.**

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Improvement of shareholder returns

[Basic Dividend Policy]

- **Dividend ratio: 30% or more, dividend per share: 30 yen or more**
- **Continual stable dividends**

Dividends (Calculation based on profit plan)

	FY 2024 Forecasts	FY 2025 Medium-Term Plan	FY 2026 Medium-Term Plan	FY 2027 Medium-Term Plan
Net sales (million yen)	33,000	**33,500**	**37,000**	**40,000**
Net income (million yen)	1,000	**1,200**	**1,700**	**2,100**
Net income per share (yen) *1	121.14	**145.38**	**205.96**	**254.42**
Dividend per share (yen) * 2	73	**73**	**73**	**76**
Dividend payout ratio (%)	60	**50**	**35**	**30**

* 1 calculated as the number of all shares excluding treasury stock. * 2 The planned figure is a calculation based on the medium-term management plan and does not guarantee the dividends stated above.

- **In FY 2024, although the earnings forecast was revised downward, the dividend forecast was maintained at 73 yen.**
- **Under the basic dividend policy, further dividends will be paid in accordance with the performance, cash reserves and capital expeduture status.**
- **By improving business performance and profitability through the promotion of the Medium-Term Management Plan 2027 and generating further cash flow, the Company will promote active investment for growth and steadily improve shareholder return.**

Strengthening IR	■ Enhancing the quality and volume of Information Disclosure and promoting Dialogue with Investor

Specific Initiatives

■Enhancing the quantity and volume of Information Disclosure and raising awareness of Investor

- Financial Results Briefing for Institutional Investor 2 times a year, 1on1 Meeting
- Expansion of English Disclosure (April 2025: Response to Disclosure Obligation in English in Prime Market)
- IR event for Individual Investors (continued from FY 2023)
- Registered as the company "Wish to have more active contact from institutional investors”

■ Active Initiatives and Disclosure of Sustainability and Human Capital Investment (Non-Financial Information Disclosure)

- Promote Sustainability Initiatives by the group under the Sustainability Committee
- Promotion of environmental initiatives such as the introduction of solar power generation, implementation of human rights DD and initiatives to ensure diversity, and expansion of Information Disclosure

■ **In addition to the requests made to Prime Listed Companies, the quantity and volume of various Information Disclosure will be enhanced based on Dialogue with Investor.**

■ **In addition to Institutional Investor and Overseas Investor, efforts will be taken to raise awareness of Individual Investor in particular, which will lead to the proper evaluation of Corporate Value of the company.**

Corporate Governance Improvement	■ Implementation of all items of the Corporate Governance Code

Revised CG Code / Major Initiatives

Items and Principles		Response Status and Policy
1-2 ④	Use of Electronic Voting Platform and English Translation of Convocation Notice	✓ Platform usage and English translation of convocation notice started in FY 2022
2-4 ①	Measurable targets for ensuring diversity, human resource development policy, and internal environment development policy should be disclosed	✓ Targets for ensuring diversity, human resource development and internal environment development policy has been disclosed since FY 2022
3-1 ②	Disclosure and provision of required information in English should be made	✓ English translation of financial results and convocation notices started in FY 2022 Partially preemptive action was imlemented toward English Disclosure Obligation enforced from April 2025.
3-1 ③	Enhance the quality and volume of disclosure based on TCFD	✓ Sustainability Committee was established in FY 2022. Disclosure based on TCFD was implemented on Feb. 2025.
4-1 ③	Succession plans should be formulated and implemented, and appropriate supervision should be conducted	✓ In FY 2024, a management succession plan was formulated and put into operation.
4-8	Independent Outside Director is appointed at least 1/3 of Directors	✓ 4 Independent Outside Directors out of 11 Directors
4-10 ①	Independent Outside Director makes a majority of nominations and remuneration committee	✓ Governance Committee is composed of a majority of Independent Outside Director.

※ Items marked with ✓ are complied.

- In FY 2024, TCFD disclosure and succession planning were implemented. **All items for Prime Market listed companies were complied with.**
- **We will continue to meet Corporate Governance standards required for Prime Market listed companies and further enhance their effectiveness.**

This document has been prepared to provide an understanding of the company. Forecasts, plans, and other forward-looking statements in this document are based on information available at the time and do not constitute any committments or guarantees. Please note that this document may differ from the company's future results.

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Contact for Public Relations and Investor Relations

RHYTHM CO., LTD.
Corporate Planning Department
Tatsuya Aizawa
Tomoko Nomura

Telephone 048-643-7241
(direct to Corporate Planning Department)