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CTI Engineering Co., Ltd.

February 14, 2025

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

We (the "Company") hereby announce that, at the meeting of Board of Directors held on February 14, 2025, we analyzed and evaluated the current status of measures to realize management that takes our cost of capital and stock price into account, and updated its policies and initiatives for improvement.

For details, please refer to the attached document "Action to Implement Management that is Conscious of Cost of Capital and Stock Price".

Management that is Conscious of Cost of Capital and Stock Price

Analysis of the current situation

● Cost of equity

We consider the Cost of equity to be around **8**%.

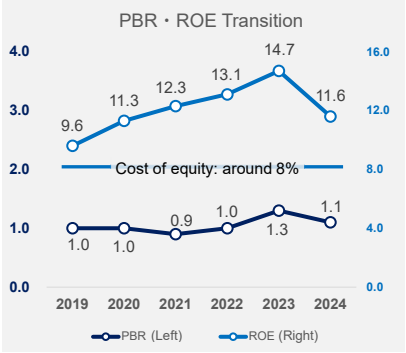
● ROE

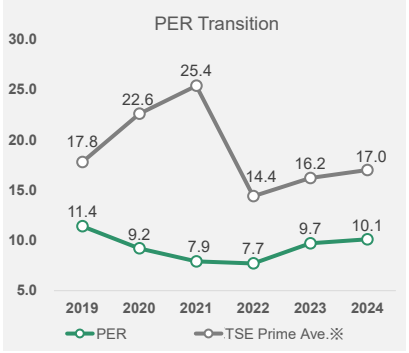
Exceeded the Cost of equity, **11.6**% in 2024.

● PBR

PBR in 2024 was around **1.1**.

The reason why PBR is low relative to ROE is :
Mainly due to low PER





Note: For TSE Prime Average P / E, reference is made to the December value of each year in TSE Statistical Data "Prime Market and Consolidated Integration (Simple)".

Subject

- Lack of growth expectations
- Capital Efficiency:
  Unclear allocation to investment and returns
- Concerns over corporate governance
- Lack of corporate awareness

Future policy

① **Realization of steady profit growth** through business portfolio transformation and growth investment
② **Promotion of growth investment** based on capital efficiency and financial soundness
③ **Balance between growth and returns** based on capital allocation
④ Promotion of strong governance and sustainability management
⑤ **Improvement of non-financial capital** and active engagement with investors

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Measures to improve PBR and PER

● By steadily implementing the Mid-Term Management Plan, which focuses on business portfolio reform and reconstruction of the foundation for growth, and by conducting management aimed at improving capital efficiency.
Aim to achieve ROE target + improve PER → improve PBR

PBR improvement

Improve ROE

ROE target of 12% or more

Realization of Profit Growth	・Aim for **EPS growth of 10% or more** through business portfolio transformation and growth investment
Improving Capital Efficiency	・**Reduction of cross-shareholdings** (aim 1/2 by 2027 and zero by 2030) ・**Investment management** applying hurdle rates based on the cost of capital ・Use of financial liabilities with financial discipline in mind
Return to Shareholders	・**Consolidated dividend payout ratio of 30% or more** ・Stable dividend (basic policy of **3% DOE** for mid-term plan 2027) ・Based on the progress of growth investment, aim for a total return ratio of around 35-50%

Increase in PER

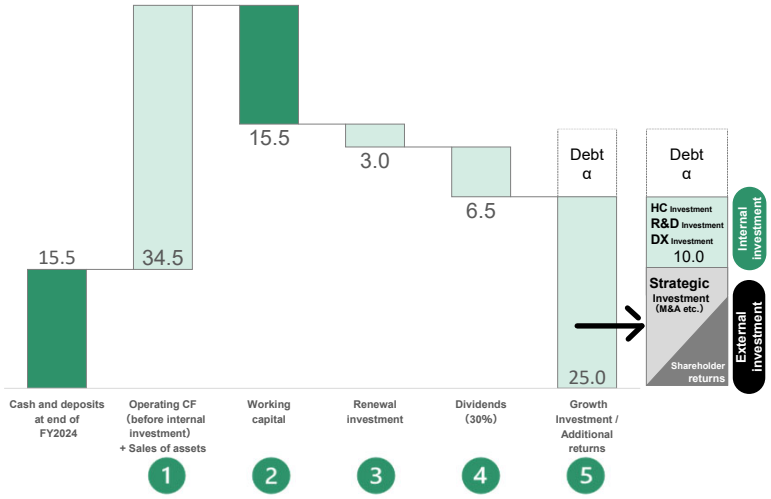
Increase in expected growth rate
Cost of capital reduction
→ Reduce the cost of equity

Sustainability Management Governance	・**Build a strong corporate governance structure** that is both proactive and defensive ・**Strengthen human capital initiatives and enhance disclosure** ・Promoting the CTI Engineering Group Challenges for Sustainability Plan
Communication With Shareholders and Other Investors	・**Enhance disclosure of financial and non-financial information** to highlight the features and appeal of the Company ・Analyze the content of dialogues, grasp the market evaluation, and give feedback to management

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Basic Policy for Capital Allocation in the Mid-Term Management Plan 2027

- Create an optimal balance sheet by enhancing sustainable cash flow generation, appropriately investing in growth and returning profits to shareholders.



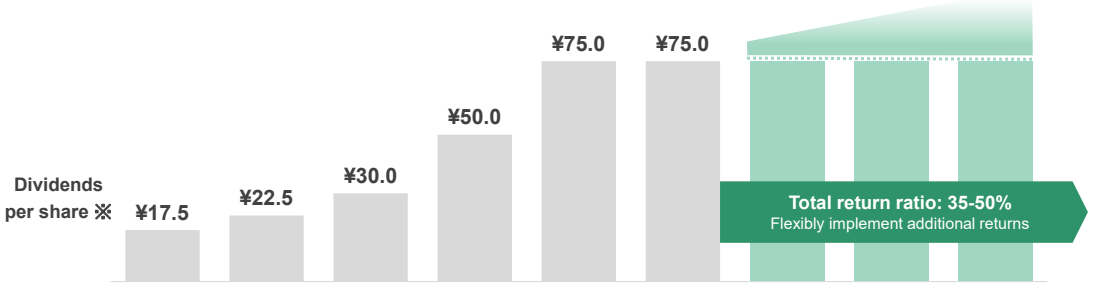
1. Operating cash flow (before deduction of internal investments : JPY 33 billion)
   Sale of assets (approx. JPY 1.5 billion)
   Total JPY 34.5 billion
2. As a necessary working capital,
   JPY 15.5 billion
   (Sales amount for about 2 months)
3. Renewal investment of JPY 3 billion
4. Dividends of JPY 6.5 billion
   A consolidated dividend payout ratio of approximately 30%
5. JPY 25 billion for growth investment
   JPY 10 billion for human capital investment, R&D investment, and DX investment.
   M&A is expected as strategic investment.
   (Debt may be considered depending on the project)
   Additional shareholder returns if there would be no growth investments.

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Basic Policy for Shareholder Returns in the Mid-Term Management Plan 2027

- Return profits to shareholders with a minimum consolidated dividend payout ratio of 30% or more.
- Basic policy of 3% DOE for mid-term plan 2027.
- Aim for a total return ratio of 35-50%, and flexibly implement additional returns while taking into account the progress of growth investment, business performance, and financial conditions.

Shareholder Returns (Dividends and Total Return Ratio)



	2019	2020	2021	2022	2023	2024	2025	2026	2027
ROE	9.6%	11.3%	12.3%	13.1%	14.7%	11.6%	→	→	12% or more
EPS (Yen) ※	99.30	129.08	158.13	207.75	271.06	243.10	CAGR2024-2027 Average growth rate 10% or more		
Payout ratio	17.6%	17.4%	19.0%	24.1%	27.7%	30.9%	30% or more		

※ We conducted two for-one stock splits of common stock on January 1, 2025.
Each dividends and EPS are calculated as if the stock split had occurred at the beginning of year.

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