



Measures for Realizing Management with Attention to Cost of Capital and Share Price

Current Situation and Plan

March 22, 2024

DKK Co., Ltd.

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1. CURRENT SITUATION

1-1. ROE Analysis

- ROE for FY3/23: **-2.7%**
- Profit margin and asset turnover decreased with the deterioration of net sales and profits
- Financial leverage is decreasing with the decrease in total assets, despite the promotion of equity optimization (reduction) with capital allocation

$$\text{ROE} = \text{Profitability (Profit margin)} \times \text{Asset efficiency (Asset turnover)} \times \text{Financial leverage}$$

$$\frac{\text{Net income}}{\text{Equity}} = \frac{\text{Net income}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Equity}}$$

	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23
ROE	3.4%	4.0%	2.5%	1.5%	-2.7%
Profit margin	3.4%	4.0%	2.8%	2.1%	-3.7%
Asset turnover	0.72	0.73	0.67	0.57	0.57
Financial leverage	1.39	1.37	1.34	1.28	1.28

1-2. Cost of Capital

- Cost of capital is analyzed using cost of equity, which is the required rate of return on shareholders' equity, and weighted average cost of capital (WACC)
- Cost of capital for FY3/23 was 6.5% cost of equity and 5.8% WACC
- However, ROE for FY3/23 was **-2.7%**, ROIC was **-2.5%**, resulting in negative equity and ROIC spreads

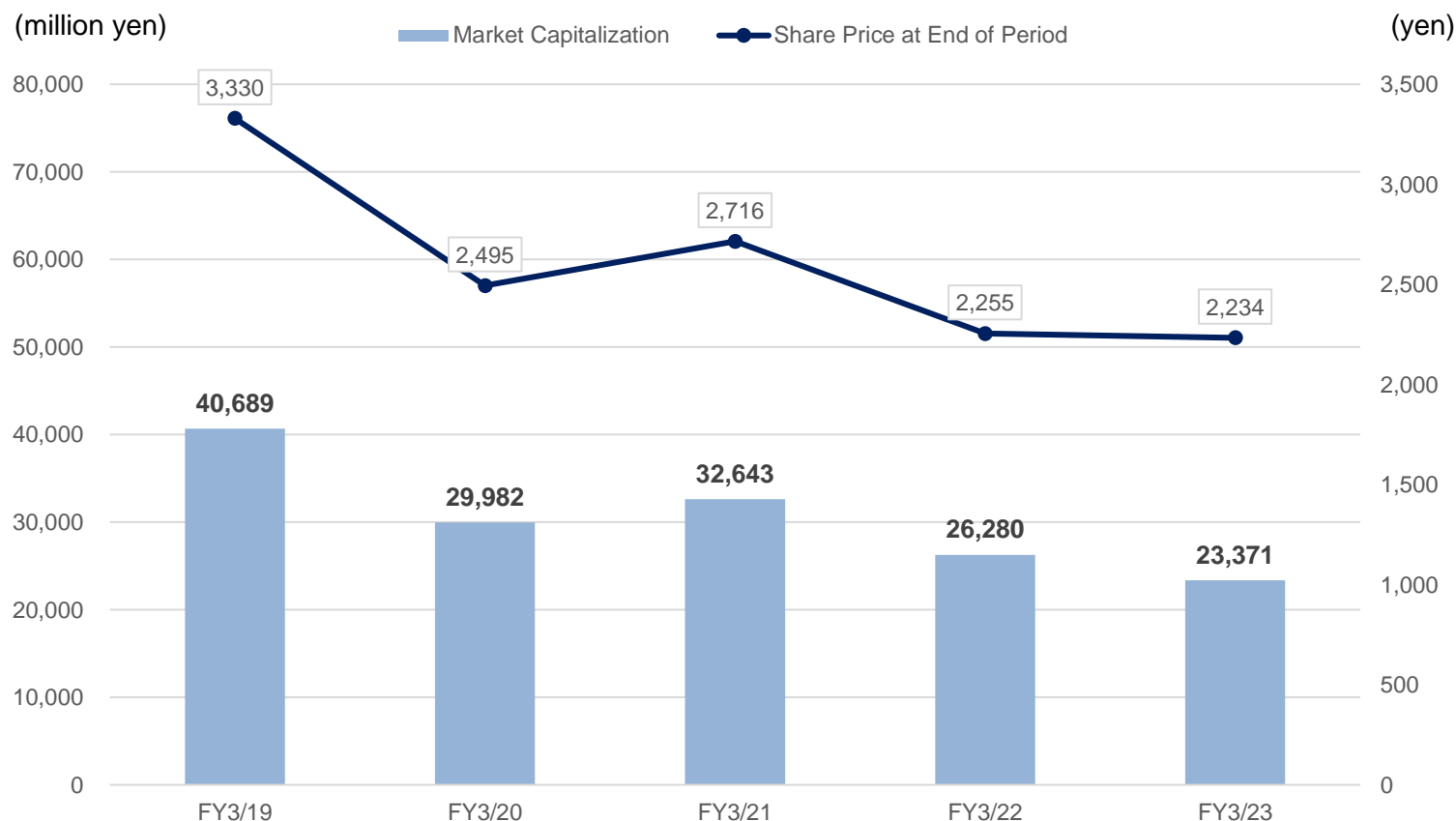
	FY3/23		FY3/23
ROE	-2.7%	ROIC	-2.5%
Cost of equity	6.5%	WACC	5.8%
Equity spread	-9.2%	ROIC spread	-8.3%

- Capital Asset Pricing Model (CAPM) is used for calculating the cost of equity
- Beta used for the calculation of monthly data over a period of 5 years
- 6.0% risk premium was applied to the whole stock market, referencing the TOPIX fluctuation
- ROIC was calculated with Operating profit after tax / (Interest bearing debt + Equity capital)

1-3. Market Valuation (Share Price and Market Capitalization)

- Share prices have been falling from FY3/19, underperforming TOPIX (from FY3/14, TOPIX: +93.6% vs DKK Co., Ltd.: -28.7%)
- Market capitalization is decreasing along with the share price

Share price and market capitalization (FY3/19 to FY3/23)

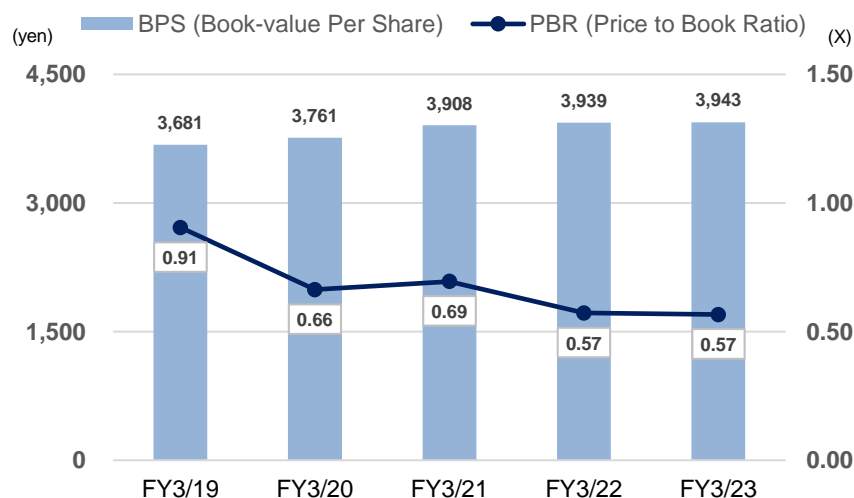


*Calculated with the closing price for the last trading date of each fiscal period

1-4. PBR and PER

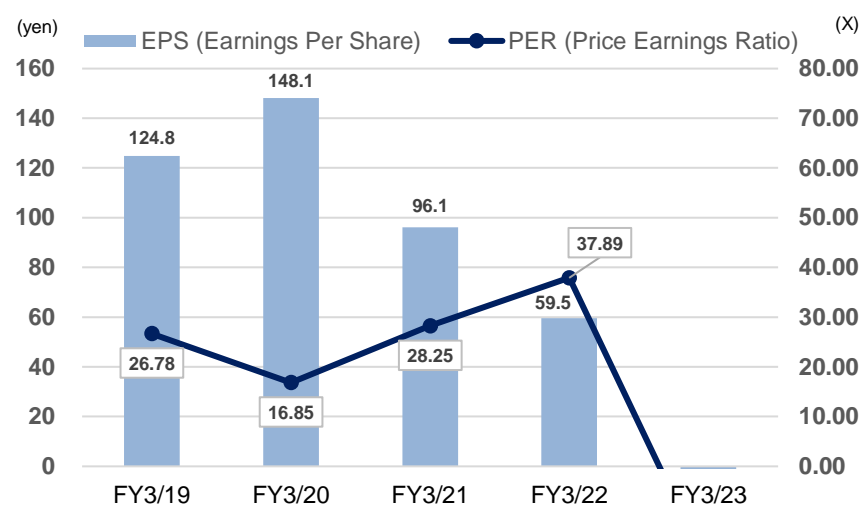
- PBR has remained below 1X for the whole of the past decade. Most recently it is trending downwards around 0.5X.
- PER has varied during the past decade, ranging from about 15X to 63X. However, it could not be calculated for FY3/23 due to reporting a net loss.

|| PBR (FY3/19 - FY3/23)



*Calculated with the closing price for the last trading date of each fiscal period

|| PER (FY3/19 - FY3/23)



*Calculated with the closing price for the last trading date of each fiscal period

■ Latest share price, PBR and PER

<Share price>

2,126 yen

<PER>

- X

<PBR>

0.54

<Market capitalization>

20,719 million yen

*Calculated using the share price and figures as of March 21, 2024

1-5. Issues and Summary of Improvement Measures

- Analysis of the results shows that the indicators regarding our cost of capital and share price are at a low level both in terms of profitability against the cost of capital and market valuation.
- Issues and improvement measures towards achieving PBR over 1X can be summarized as follows:

$$\begin{array}{ccccc} \mathbf{PBR} & = & \mathbf{ROE} & \times & \mathbf{PER} \\ \text{Market capitalization/Net assets} & & \text{Net income/Net assets} & & \text{Market capitalization/Net income} \\ & & \text{Return on Invested Capital} & & \text{Market valuation} \end{array}$$

1. Improve return on invested capital

- Low profit margin
⇒ Improve profit margin incorporating the spike in material prices and market environment
- Low net sales compared to total assets
⇒ Secure orders/net sales with business portfolio optimization based on demand outlook
- Capital structure continues to improve
⇒ Enhance assessment of the investment impact and make investment for growth and utilize leverage

Realize ROE and ROIC levels above capital costs

2. Improve market valuation

- PER cannot be calculated
⇒ Optimizing market valuation requires profit
- Improving PER
⇒ Improve recognition in the market, create expectation for growth

Improve expectation for growth for the company and businesses

2. PLAN BASED ON CURRENT SITUATION

2-1. Improve ROIC

1 Improve ROIC

- To improve ROIC, establish measures for improving ROE
- Aim for sustaining level of ROE above the cost of equity by improving profitability and implementing capital allocation

ROE improvement measures

1. Improve profit margin

- Improve profit margin incorporating the spike in material prices and market environment

2. Improve asset turnover

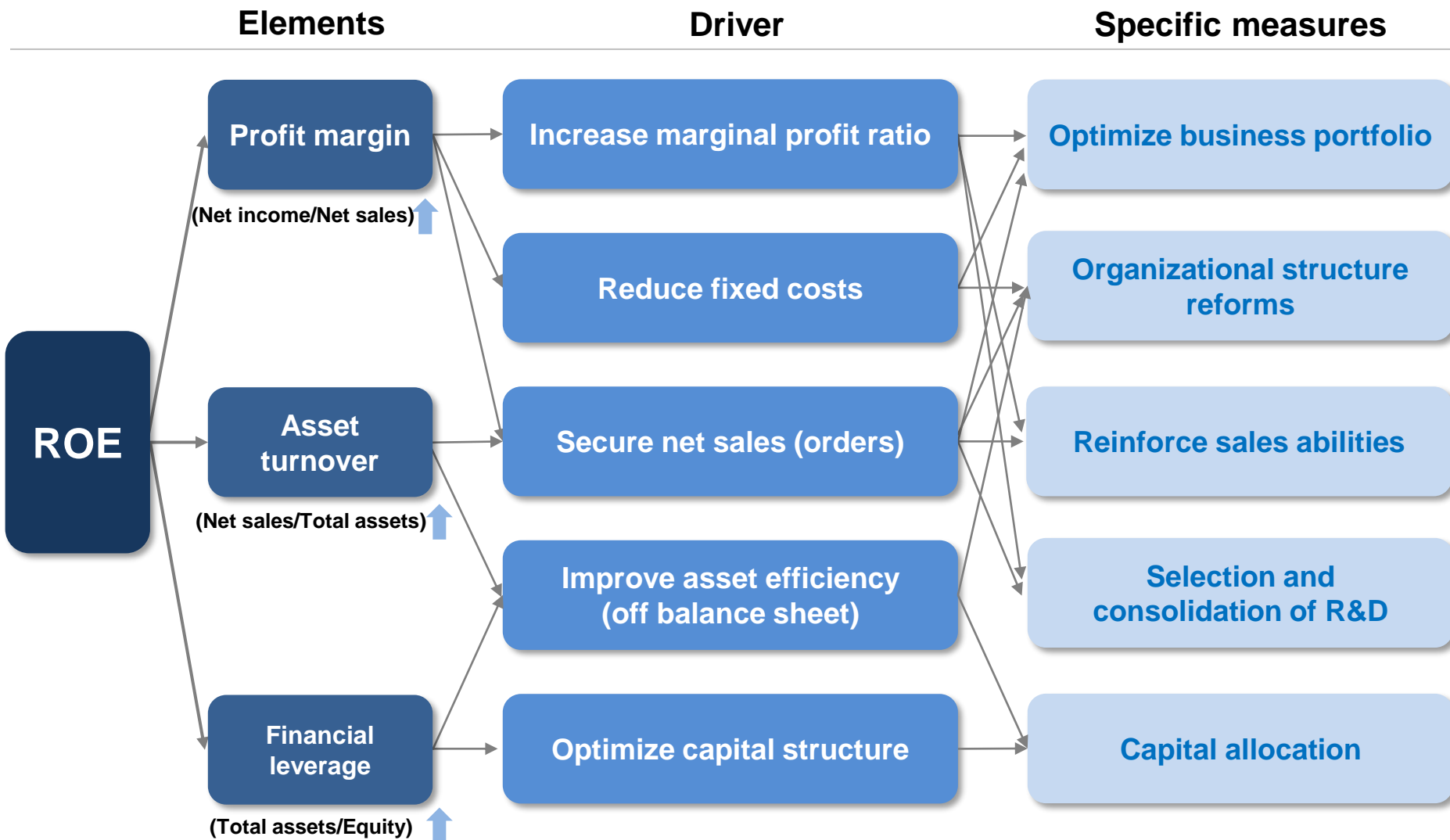
- Secure orders/net sales with business portfolio optimization based on demand outlook
- Strengthen order/production structure by expanding collaborating/partner companies

3. Realize optimal financial leverage

- Enhance assessment of the investment impact and make investment for growth and utilize leverage

2-1. Improve ROIC

Approach and initiatives to improve the ROE



2-1. Improve ROIC

Specific measures to improve the ROE

Optimize business portfolio

Select and enhance focus segments corresponding to the medium to long term vision and the market environment

- Select Solutions, Fixed Wireless (Defense), and Radio Frequency Business as the focus segments for optimizing the business portfolio and channel resources intensively including with M&A strategy
- For other segments, determine the investment impact and create optimal resource structure

Organizational structure reforms

Organizational structure reform to align with the business portfolio

- Promote business structure reforms by aligning the organizational structure with the business portfolio
- Aim to rationalize organizations through integration of divisions/elimination of offices to lower the break even point
- Continue to examine Group company reorganization

Reinforce sales abilities

Reinforce sales abilities with visualization of order activities and sales monitoring

- Sales structure reform to maximize profits for the sales division
- Manage behaviors/targets for the sales force using DX such as SFA (sales support system)
- Use order activity analysis data (peer/market/project progress management)

Selection and consolidation of R&D

Selection and consolidation of R&D to improve business performance

- Accelerate commercialization through aggressive investment in focus segments
- Take medium- to long-term strategies and investment impact into account in selecting R&D targets

Capital allocation

Capital allocation aiming at optimal asset and capital structure

- Execute investment for growth with use of cash and review of asset holdings
- Build optimal asset structure using leverage
- Continue to enhance shareholder returns with attention to capital structure

2-2. Improve Market Valuation

2 Improve market valuation

- Establish PER improvement measures to improve market valuation
- Reduce earnings volatility and cost of equity by promoting business structure reforms and securing stable revenue source
- Create expectations for growth through financial and non-financial initiatives and active information disclosure

PER improvement measures

$$\text{PER} = 1 / (r - g)$$

Market capitalization/Net income

r: Cost of capital

g: Expected growth rate

1. Reduce cost of capital

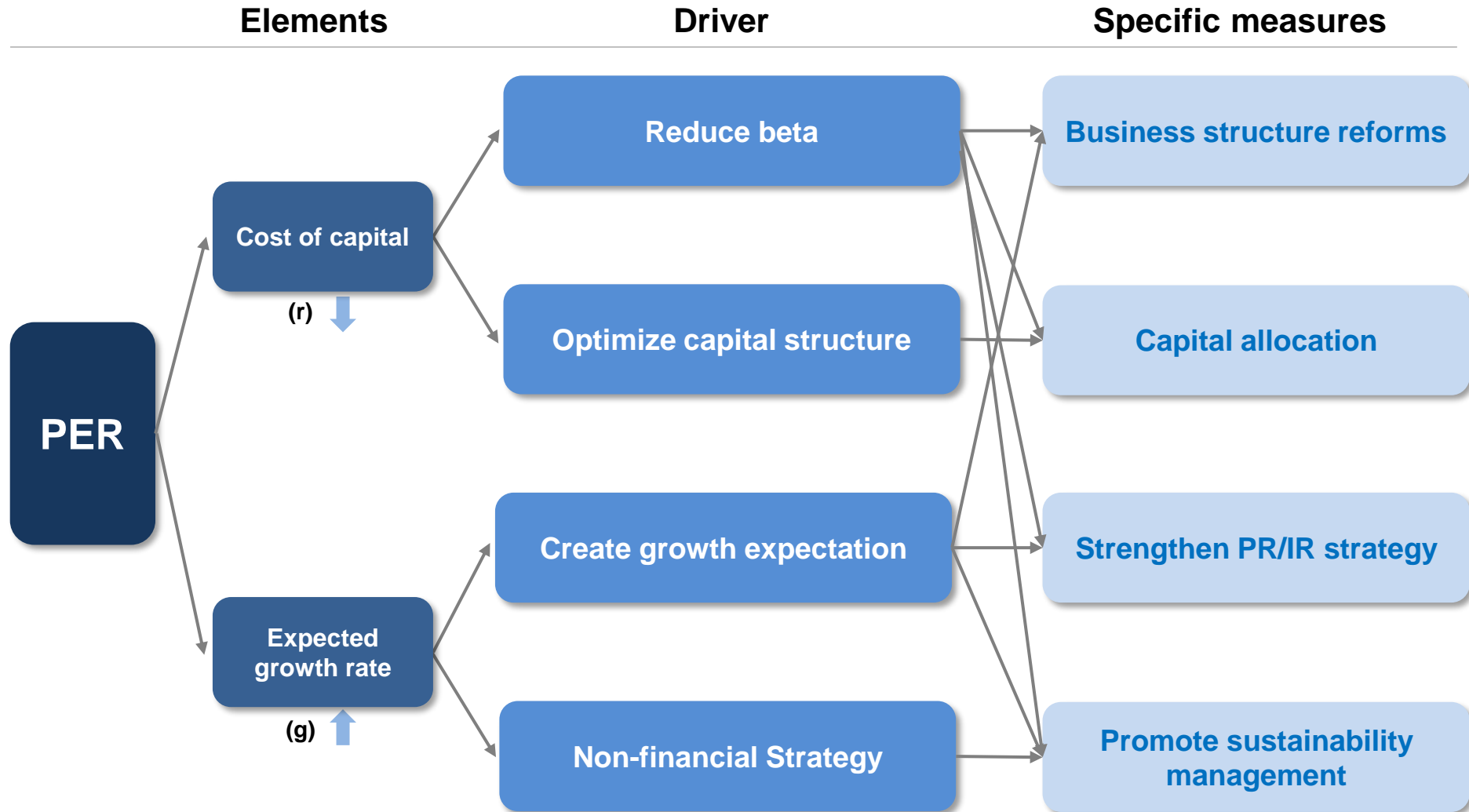
- Reduce beta with stable profit structure and optimal share price formulation
⇒ Promote profit improvement/stabilization to reduce volatility of business performance

2. Improve expected growth rate

- Create and promote growth expectation
- Eliminate risk factors with non-financial strategy

2-2. Improve Market Valuation

Approach and initiatives to improve the PER



2-2. Improve Market Valuation

Specific measures to improve the PER

Business structure reforms

Business structure reforms to improve corporate value and strength

- Promote business structure reforms such as business portfolio optimization, selection and consolidation of R&D, organizational structure reforms, and human resources strategy to break away from order-centric industry and achieve stable business performance improvement
- Avoid surprises by improving the accuracy of earnings forecasts

Capital allocation

Capital allocation aiming at optimal asset and capital structure

- Reduce WACC with optimal capital structure
- Stabilize share price with dividend policy with minimum limit

Strengthen PR/IR strategy

Aim to create growth expectations by strengthening strategic PR/IR activities

- Improve recognition with strategic PR activity
- Accurate information disclosure and improve credibility and retrospectivity of growth by enhancing IR activities
- Reduce cost of equity by formulating reasonable share price and lowering share price volatility with optimal information disclosure

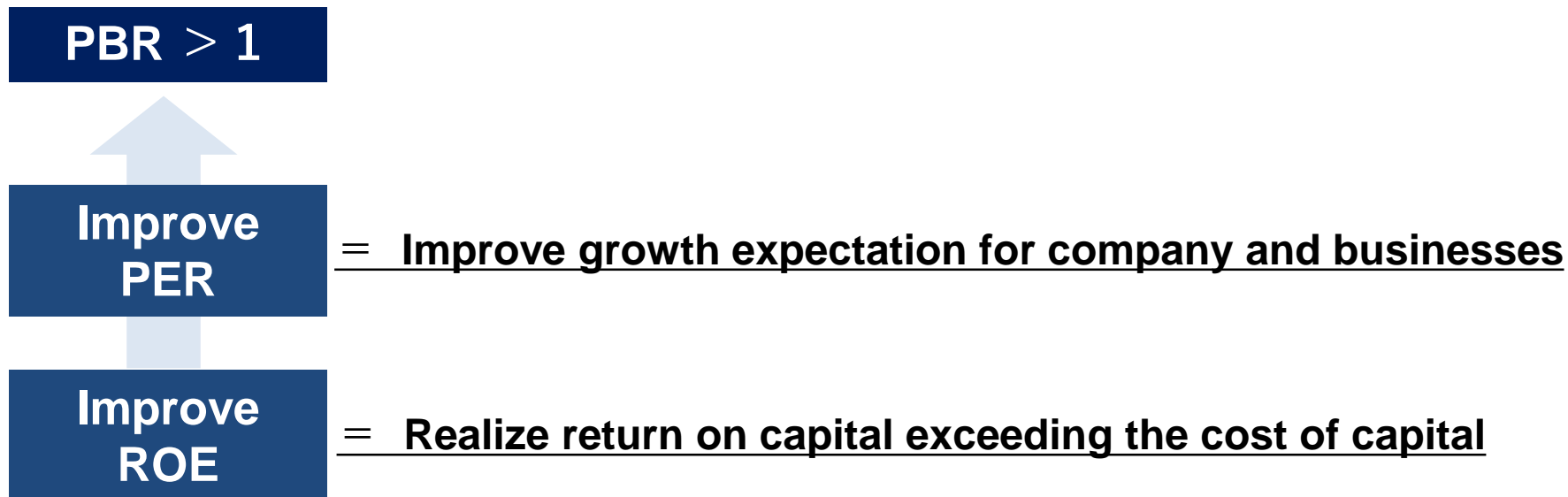
Promote sustainability management

Contribute to the realization of a sustainable society through promotion of sustainability management

- Create trust with long-term shareholders by solving social issues
- Control discount factors for expected growth rate including by strengthening corporate governance
- Control increase in cost of equity by enhancing ESG measures

2-3. Overview of the Plan

Implement initiatives in return on capital and market valuation aspects to realize management with attention to cost of capital and share price



Aim to achieve **PBR over 1.0X** by FY3/27 by improving return on capital through business performance improvement and capital policy, together with enhanced communication with investors and other stakeholders and PR activities

*For details of specific measures including the business structure reforms, refer to the “Medium-Term Business Plan, DKK-Plan2025: Rolling Plan” established on March 22, 2024 (<https://denkikogyo.co.jp/en/ir/management/dkk-plan/>)

Cautionary Note about Earnings Forecasts

Figures included in this document that are related to descriptions, including plans and policies and not past facts, are forecasts regarding future earnings. They are all calculated based on management assumptions and views based on information obtained by the company at the time of writing. Therefore, these forecasts include risks and uncertain factors, and actual results may differ from them due to a variety of factors. Such potential risks and uncertain factors include changes in economic situations and product demand levels in major markets, fluctuations in the foreign exchange market, changes in regulations in Japan and overseas, and accounting standards and practices. 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.