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

August 27, 2026

DKK Co., Ltd.

Securities code：6706

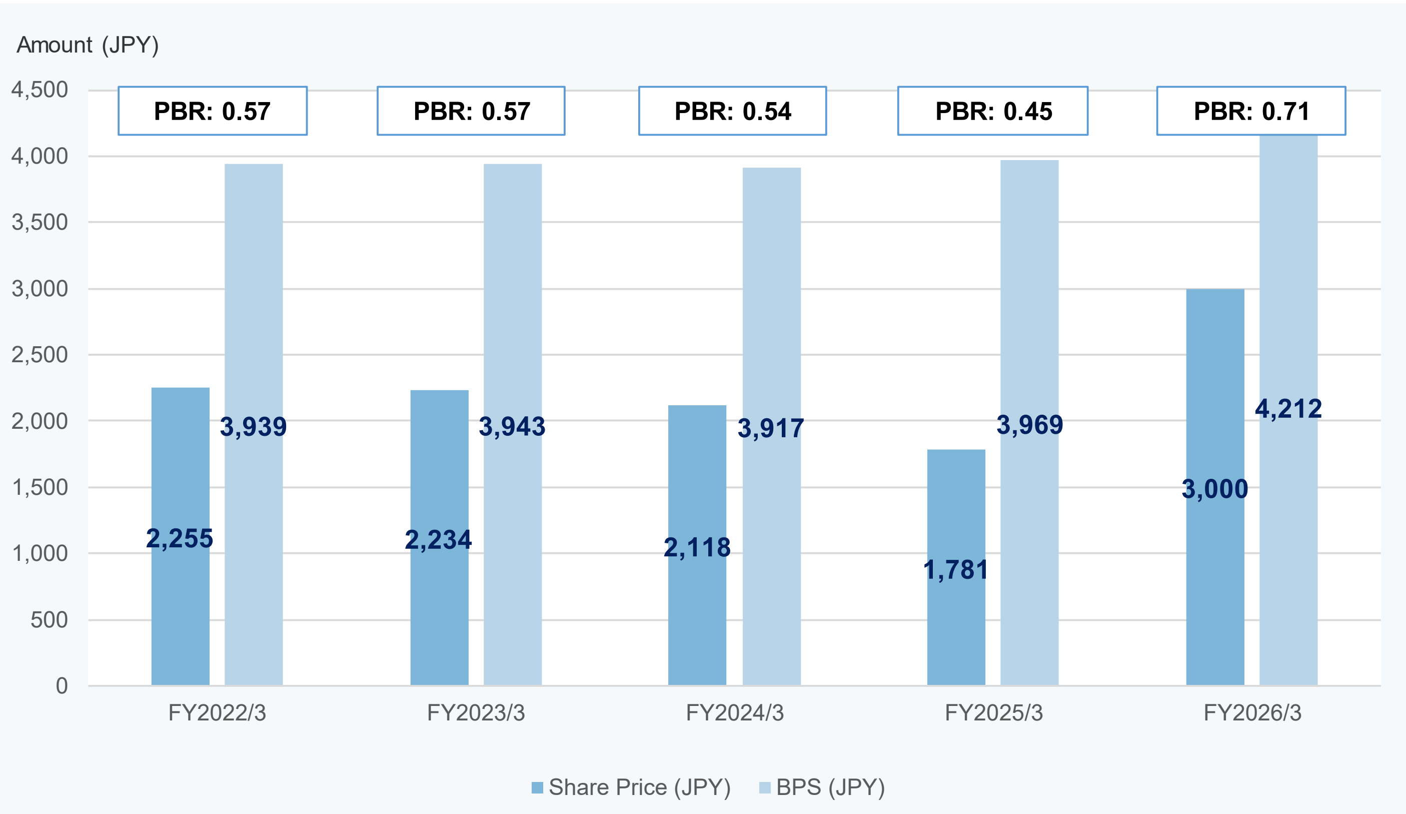
Tokyo Stock Exchange, Prime

1. Current Situation

1-1. Trends in PBR

- Although PBR has shown an improving trend in recent periods, driven by rising share prices, it has remained below 1.0X for the whole of the past five years.
- Despite advancing initiatives focused on the two pillars of the "enhancement of return on capital" and the "improvement of market valuation," we were unable to achieve a PBR of 1.0 or more.

Trends in PBR (FY2022/3–FY2026/3)



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

Initiatives to achieve a PBR of 1.0 or more

PBR = ROE × PER

ROE: Return on Capital

PER: Market valuation

1 **Enhancement of return on capital**
Achieve an ROE level exceeding the cost of shareholder equity

2 **Improvement of market valuation**
Enhance expectations for the growth of the company and its businesses

1-2. Trends in ROE

- We implemented initiatives to improve profitability toward the “enhancement of return on capital.” As a result, ROE has been on a recovery trend since FY2025/3.
- Progress was made in the improvement in profit margin. We recognize that further enhancing capital efficiency is a key challenge.

ROE = **Profitability** (Profit margin) × **Asset efficiency** (Asset turnover) × **Financial leverage**

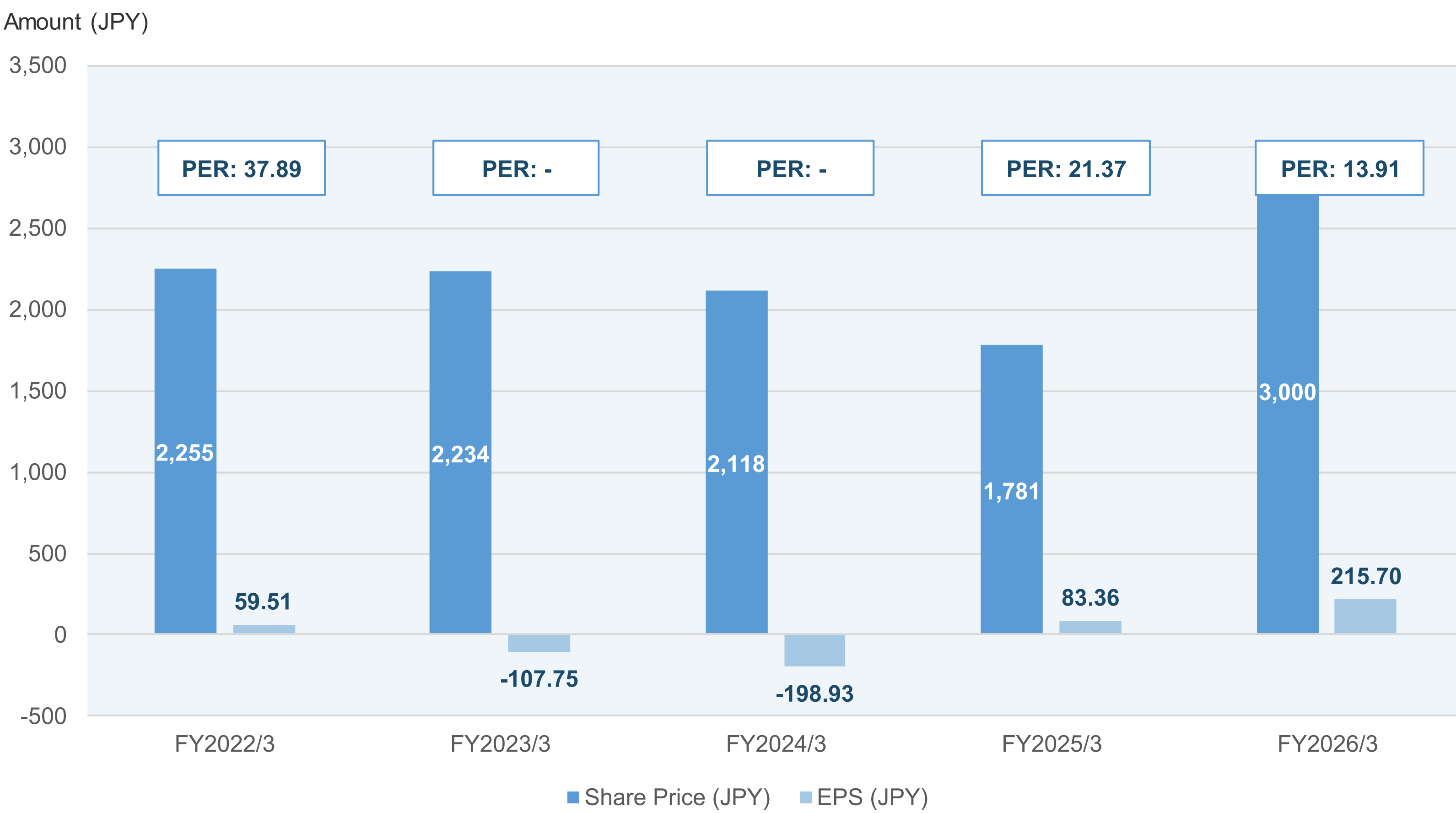
$$\frac{\text{Net income}}{\text{Equity}} = \frac{\text{Net income}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Equity}}$$

	FY2022/3	FY2023/3	FY2024/3	FY2025/3	FY2026/3
ROE	1.5%	-2.7%	-5.0%	2.1%	**5.2%**
Profit margin	2.1%	-3.7%	-6.9%	2.4%	**5.4%**
Asset turnover	0.57	0.57	0.52	0.60	**0.67**
Financial leverage	1.28	1.28	1.39	1.46	**1.44**

1-3. Trends in PER

- From FY2023/3 to FY2024/3, PER was not calculable due to the recognition of net losses. However, with the recovery in performance, it has now returned to a level where it can be calculated.
- In contrast, for the most recent period, PER has been on a downward trend, and the market valuation remains at a level where there is still room for improvement.

Trends in PER (FY2022/3–FY2026/3)



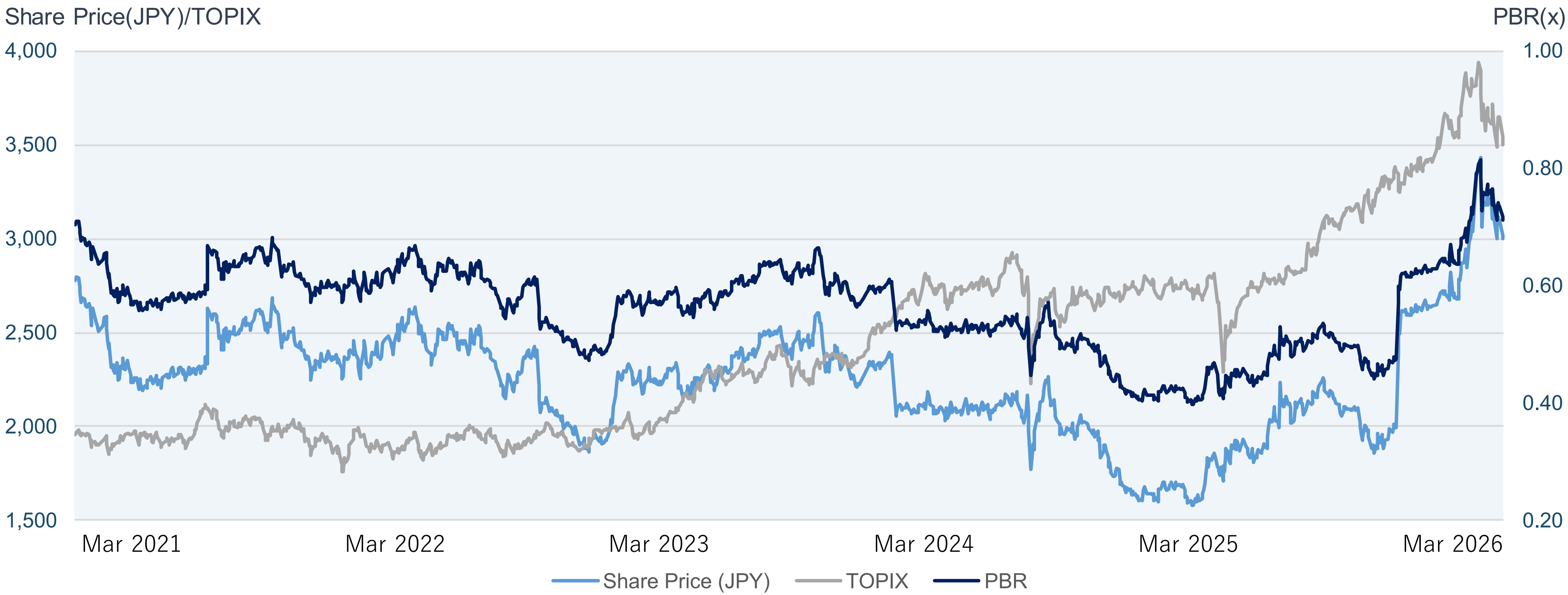
* Calculated with the closing price for the last trading date of each fiscal period

* PER could not be calculated for FY2023/3 and FY2024/3 due to reporting a negative EPS

1-4. Trends in Share Price

- Over the past five years, our share price has risen by 8.1%, while the TOPIX increased by approximately 80% over the same period. As a result, our shares underperformed the market by more than 70 percentage points.
- Throughout the period, the PBR remained below 1.0X and fell to approximately 0.4X between 2022 and 2024.
- In and after 2025, both the share price and PBR recovered rapidly, and PBR improved to nearly 0.8X.

Trends in Share Price (FY2022/3–FY2026/3)



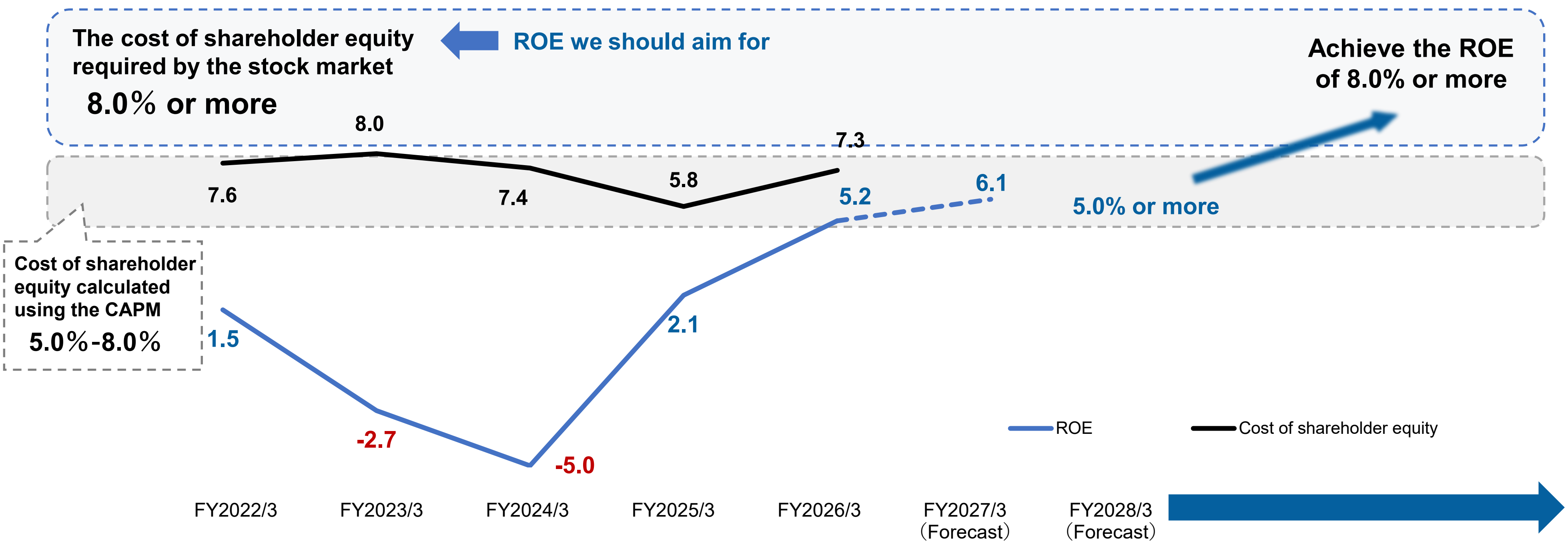
* PBR = Share Price ÷ Book Value Per Share (BPS)

* As for BPS, the figures as of the end of each fiscal year (end of March) are used (applicable to the period from April through the following March).

1-5. Trends in Cost of Shareholder Equity

- Although ROE has shown an improving trend in recent periods, the equity spread remains negative, and ROE continues to deviate from the cost of shareholder equity required by the stock market.

Trends in ROE and cost of shareholder equity



Calculation model for the cost of shareholder equity

Risk-free rate + **Beta (β)** vs. TOPIX, based on 5 years of monthly data × **Risk premium** Set at 6.0%, based on the rate of change in the TOPIX = **Cost of shareholder equity** Using the CAPM

2. Future Initiatives

2-1. Current Challenges

- We recognize the fact that the PBR has remained below 1.0X as a significant management challenge.
- There are challenges in both return on equity (ROE) and market valuation (PER). Therefore, we have updated our strategic approach to address these issues through our initiatives focused on the two pillars of the “enhancement of return on capital” and the “improvement of market valuation.”

Top Management Challenge | PBR continues to remain below 1.0X (currently hovering around 0.7–0.8X, which is low even compared to peers).

Return on Capital (ROE)

Current Situation and Background
- Although ROE has shown an improving trend, it remained at a level below the cost of shareholder equity required by the stock market (approximately 8.0%).
- The equity spread remains negative, and ROE continues to deviate from the cost of shareholder equity.
- We are experiencing the impact of rising costs and declining profit due to increases in the prices of raw materials, electricity, and other factors.

Recognized Challenges
- Enhancement in ROE through the improvements in profitability and capital efficiency
- Early achievement of profitability exceeding the cost of shareholder equity

Enhancement of return on capital

Market valuation (PER)

Current Situation and Background
- Most recently PER is trending downwards around 13.9X (there have been periods when it was not calculable due to declining profits).
- The share price continues to underperform market averages such as TOPIX.
- Although we have entered a new business, the ramp-up period is taking longer than expected. As a result, the contribution of this business to earnings remains limited, and market growth expectations have stagnated.

Recognized Challenges
- Creation and promotion of expectations for growth through growth investments and constructive dialogue
- Improvement of market valuation through proactive investor relations (IR) and shareholder relations (SR) and information disclosure

Improvement of market valuation

2-2. Action Plan

- Since our ROE is below the cost of shareholder equity, we recognize that our top priority is to enhance ROE through the improvements in profitability and capital efficiency.
- We will continue to implement the initiatives outlined in our Medium-Term Business Plan, “DKK-Plan2028,” to further improve capital efficiency and strengthen balance sheet management.

Enhancement of return on capital	Improvement in profitability	● Enhancement of profitability ● Reduction in fixed costs ● Promotion in operational efficiency ● Strengthening in the monitoring system	**Enhancement of ROE**	**PBR of 1.0 or more**
	Enhancement of capital efficiency (BS Initiatives)	● Enhancement of asset efficiency through improved CCC* ● Review of owned assets ● Reduction in cross-held shares ● Continuation of shareholder returns		
Improvement of market valuation	Creation of growth expectation	● Development of markets through new businesses ● Enhancement of the disclosure of information such as growth strategies and non-financial information ● Continuation of constructive dialogue with investors	**Improvement of PER**	

* Cash Conversion Cycle (CCC) is a metric that represents the number of days it takes for a company to recover cash it invested for procurement.

2-3. Initiatives to Improve Profitability

- Further strengthening of the profit-generating structure through the implementation of the initiatives outlined in the DKK-Plan2028.

Initiatives to enhance the profitability

Factors driving improvement	Basic Policies	Initiatives
Operating income		
Net sales	• Expanding business domains in growth businesses • Appropriate pricing, Creation of added value	• Allocating resources (personnel and equipment) to strengthen growth businesses • Reflecting the rise in raw material costs in the selling price (unit price) • Expanding our business areas through collaborations and various partnerships
Gross profit	• Enhancing the operating profit margin • Enhancement of the marginal profit ratio • Reduction in fixed costs	• Monitoring marginal profit and fixed costs by segment • Setting KPIs for target profit margins • Improving operation rates through the standardization and leveling of operations • Expanding the supply chain, including overseas procurement
SG&A expenses	• Promotion in operational efficiency • Cost reduction	• Implementing generative AI across the company • Enhancing time performance through the promotion of digital transformation (DX)

Target metrics

- **Achievement of an operating margin ratio of 6% or higher as early as possible**
- **Achievement of an ROE level exceeding the cost of shareholder equity**

2-4. Initiatives to Enhance Capital Efficiency(1)

- Updated our capital allocation in response to changes in the business environment, business performance, track record of shareholder returns
- Achievement of appropriate BS through capital allocation

Capital allocation under DKK-Plan 2028

Cash inflow (3-year cumulative total)

Initial plan	Update	
Operating cash flow (excl. R&D) **6.0 billion yen**	**Operating cash flow** (excl. R&D) **6.0 billion yen**	**Continuation of efforts to increase operating cash flow through initiatives to improve operating profit margins and reduce costs**
Review owned Assets (liquidity on hand, cross-held shares) **7.0 billion yen**	**Review owned Assets** (liquidity on hand, cross-held shares) **8.5 billion yen or more**	**Optimization of liquidity on hand through the enhancement of capital efficiency and the improvement of CCC (shorter accounts receivable collection period and optimized inventory levels)** *
Use of leverage **2.0 billion yen or more**	**Use of leverage** **2.0 billion yen or more**	**Appropriate use of leverage for growth investments**

Cash outflow (3-year cumulative total)

Initial plan	Update	
Growth Investment (M&As, capital spending, R&D) **10.0 billion yen or more**	**Growth Investment** (M&As, capital spending, R&D) **10.0 billion yen or more**	**• Growth capital investments Factory modernization, Introduction of automated equipment • R&D Investment, Next-generation communications, energy- and labor-saving equipment for radio frequency induction heating equipment • Collaborations and M&As aimed at the expansion of business domains**
Other investments (replacement/DX/ ESG-related investment) **2.0 billion yen**	**Other investments** (replacement/DX/ ESG-related investment) **2.5 billion yen**	**Expansion of DX investments aimed at improving operational efficiency**
Shareholder returns (share buybacks,dividends) **3.0 billion yen or more**	**Shareholder returns** (share buybacks,dividends) **4.0 billion yen or more**	**Strengthening of shareholder returns in line with improved business performance**

2-4. Initiatives to Enhance Capital Efficiency(2)

- Allocating cash generated through our business activities and balance sheet management to growth investments
- In addition, promoting efficiency through DX investments and enhancing shareholder returns

Initiatives to achieve an appropriate balance sheet (BS)

Factors driving improvement		Basic Policies	Initiatives
Cash inflow	Review of operating cash flow (CF) and owned assets	• Optimization of liquidity on hand through the improvement of CCC • Improvement in asset profitability and asset turnover	• Shortening accounts receivable collection period and optimizing inventory levels • Continuing to reduce cross-held shares • Downsizing unprofitable operations and other assets • Improving asset profitability through the use of ROIC
	Use of leverage	• Use of leverage with an eye toward investment	• Strengthening relationships with financial institutions, including through the loan commitment and other agreements
Cash outflow	Growth investments/ Other investments	• Active investment in growth areas • Realization of synergies through collaborations • Enhancement of operational efficiency through the promotion of DX	• Implementing growth investments to strengthen asset profitability • Business alliances and M&As to accelerate growth • Modernizing core systems and expanding DX investments aimed at improving operational efficiency
	Shareholder returns	• Strengthening of shareholder returns • Achievement of an appropriate equity ratio	• Mitigating the accumulation of equity capital through dividend policy and other measures. • Conducting flexible and opportunistic share buybacks

Target metrics

- **Improvement of CCC by at least 50 days (compared to FY2026/3)**
- **Transition to the equity ratio at a level of 60-65%**

2-4. Initiatives to Enhance Capital Efficiency | Growth Investments

- Promoting capital investments to enhance productivity and strengthen the business foundation in order to realize medium- to long-term growth

Capital investment plan

Modernization of core systems

- Strengthening data-driven management and cross-departmental data integration to streamline operations and move away from legacy systems

Speeding up decision-making	✓ Visualizing business performance trends in a timely manner ✓ Accelerating the monthly closing process
Strengthening cross-departmental collaborations	✓ Seamlessly integrating the process from order receipt to billing ✓ Eradicating human errors
Ensuring scalability	✓ Establishing a resilient and sustainable DX foundation

Aiming to begin full-scale operations in 2029

Factory modernization

- Planning and currently implementing a factory modernization to enhance the capacity and efficiency of production and engineering bases

Kawagoe Office, DKK Co., Ltd.

May 8, 2026: Renovation

Suzuka Factory,
Denko Techno Heat Co., Ltd.

March 2027: New factory scheduled to begin operations

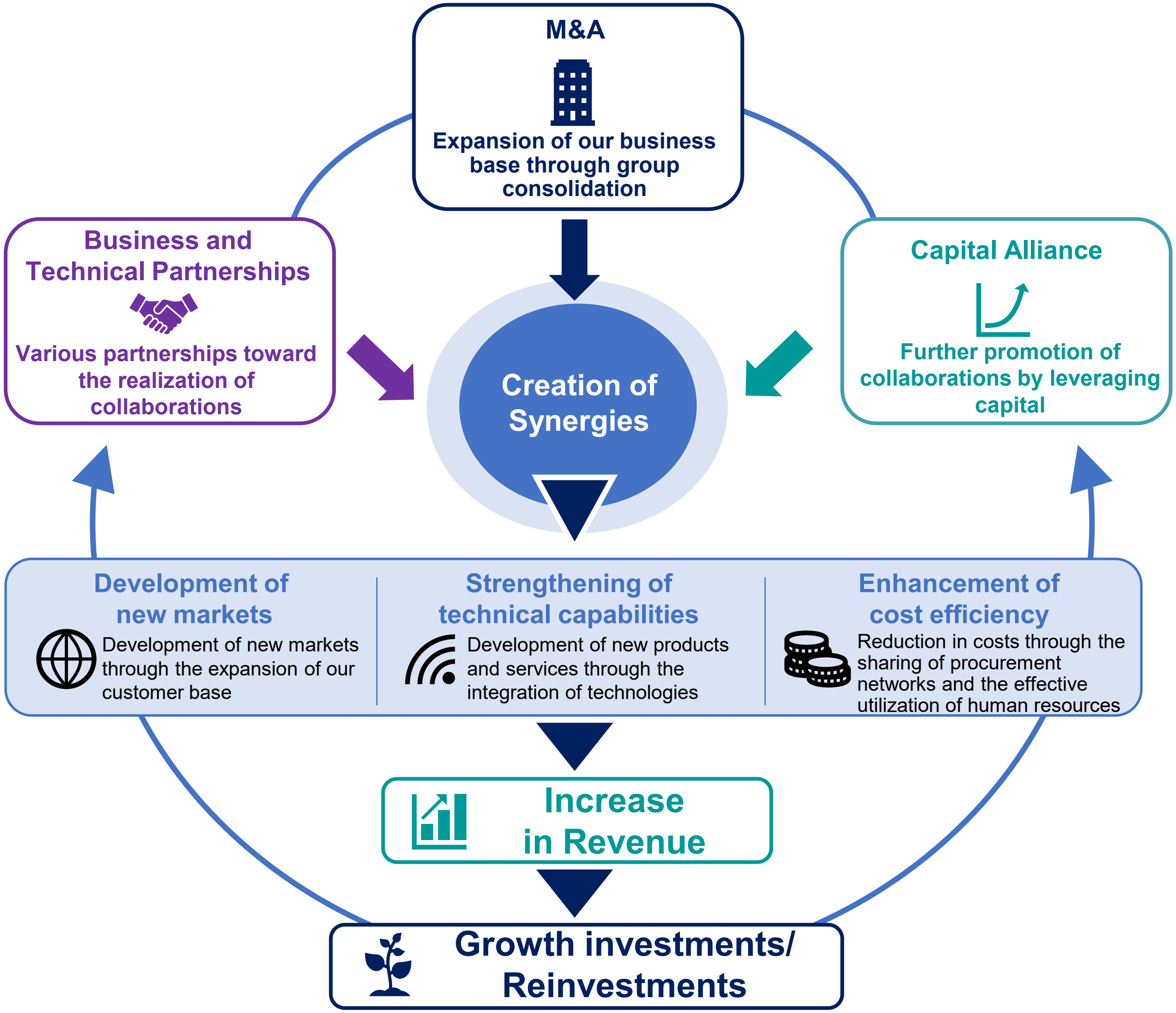
Plans are underway to further modernize production bases

Others

- Implementing operational reforms through the promotion of DX
- Upgrading production facilities
- Enhancing competitiveness through robotics, automation, and labor reduction

2-4. Initiatives to Enhance Capital Efficiency | Growth Investments

- Promoting growth in profits by developing new markets, strengthening our technological capabilities, and enhancing cost efficiency through business alliances, M&A, and other initiatives



Targets

- Business areas where we can accelerate our group's growth
- Companies that can contribute to sustainable profit generation

Selection Criteria

■ Growth Potential

- Feasibility of future business growth

■ Synergies

- Feasibility of creating new customer value and expanding sales opportunities through technological integration

■ Efficiency

- Leveraging the assets acquired through investment, including customer bases, technologies, and products/services

Governance Structure

- Selection of projects based on third-party evaluations
- Implementation of due diligence by external experts
- Implementation of rigorous reviews of investment proposals by the Investment Committee
- Decision-making based on investment discipline

2-4. Initiatives to Enhance Capital Efficiency | R&D

- Promoting short-term product development alongside medium- to long-term R&D aimed at realizing Our Ideal

		Short-term	Medium- to long-term
01	IT Solutions	Commercialize solutions combining AI and wireless technologies, such as port DX solutions	**Evolve into data business through big data accumulation and analysis technologies**
02	Wireless Power Transfer	Commercialize systems utilizing the 5.7GHz band Aim for a proof of concept (PoC) in FY2027/3 and commercialization in FY2028/3	**Realize integrated radio base stations supporting both Beyond 5G/6G communications and wireless power transmission**
03	Defense	Develop radar and communication antennas, and antenna modules	**Further expand advanced antenna system application areas**
04	Induction Heating Equipment / New Radio Frequency Areas	Develop energy- and labor-saving equipment for radio frequency induction heating equipment	**Improve durability Continuously advance energy- and labor-saving technologies**
05	New Radio Frequency Areas	Commercialize food processing and sterilization equipment based on ultra-high-temperature superheated steam system / develop waste-drying recycling technologies	**Expand application areas for radio frequency induction heating technology**
06	Beyond 5G/6G, ITS	Advance sub-terahertz antenna design and manufacturing technology	**Develop "ultra-high-speed," "wideband" and "low-latency" wireless devices**

2-5. Fostering Expectations for Growth | Vision for the Future of Our Businesses

- Clarifying the future vision and growth drivers for each group of “Growth business," "Restructured business," and "Introduction-phase business" and fostering expectations for the growth of the company and its businesses

Our Vision

Growth business group

- Defense
- Induction Heating Equipment
- Contract Heat Treating Service

Related Market: Increased defense budget
Growing demand for energy-efficient heat treatment in response to carbon neutrality initiatives

- Expanding business domains to capitalize on market growth by actively promoting growth investments, research and development, and collaborations
- Securing demand for defense equipment and defense facilities by leveraging the technical expertise and customer relationships we have cultivated to date
- Expanding our business areas by expanding the applications of the radio frequency technologies

→ **Enhancement of profitability by maximizing the impact of increased sales**

Restructured business group

- Mobile Communications
- Fixed Wireless
- Broadcasting
- Others

Related Market: Continuing demand for capital expenditures to improve communications quality
Enhancement of disaster prevention infrastructure following the extension of the emergency disaster prevention and mitigation bonds
Demand for frequency migration for V2X*

- Capturing demand by leveraging our technological strengths in existing businesses
- Enhancing profitability through selection of products
- Reducing fixed costs through optimization of resources

→ **Enhancing profitability through an increase in the marginal profit rate and a reduction in fixed costs**

Introduction-phase business group

- Solutions
- New Radio Frequency Areas

Related Market: Increasing significance of AI-powered image analysis driven by labor shortages
Growing demand for high-efficiency heating in the food processing industry

- Promoting the early commercialization of new products and technologies to accelerate their contribution to our profits
- Expanding sales of solutions, primarily in the image AI market
- Market development triggered by a track record of receiving orders for superheated steam equipment
- WPT*: Promoting development to establish the business

→ **Establishing new sources of profits through early commercialization and sales expansion**

* V2X: Vehicle-to-Everything (A communication system that enables vehicles to exchange data with surrounding vehicles, pedestrians, traffic signals, and road infrastructure)
WPT: Wireless Power Transfer (Spatial Transmission Wireless Power Transfer system. A technology that wirelessly transmits power to remote devices using radio waves (microwaves))

2-5. Fostering Expectations for Growth | Enhancement of Disclosure

- Raising expectations for the growth of our company and our businesses through the advancement of sustainability management and proactive public relations activities

Advancing Sustainability Management

Our Group's Material Issues (Materialities)

- Promotion of Human Capital Management
- Promotion of Environmental Management
- Promotion of Innovation
- Strengthening of Corporate Governance
- Sustainable Growth & Development of Business

Initiatives Being Strengthened

- Aligning the promotion of human capital management with our business strategy, promoting it with investments in human capital and the enhancement of technical capabilities in an integrated manner, and accelerating our initiatives to enhance corporate value through sustainability driven management

- Strengthening initiatives with a view across the entire supply chain and contributing to the realization of a sustainable society through collaboration with our stakeholders

Enhancement of understanding of our businesses and expectations for growth by strengthening public relations activities

1 Enhancement of understanding of the businesses

Effectively communicating information about products, technologies, and business models

Initiative: Expanding content on our business operations

2 Creation of expectations for growth

Presenting the progress of research and development, the business environment, the market size and earnings forecast for new projects

Initiative: Disclosing the progress on the Medium-Term Business Plan as appropriate

3 Fair valuation of corporate value

Aiming to realize an appropriate share price that reflects expectations for growth of the company by eliminating information asymmetry through proactive disclosure

Initiatives: Strengthening disclosure to and opportunities for dialogue with the stock market and investors

2-5. Fostering Expectations for Growth | IR and SR Activities

- Promoting a better understanding of DKK through strengthened disclosure of quantitative information and constructive dialogues with investors

IR and SR Activities (FY2026/3)

Activity results

Financial results briefings (Archived recording available)	Twice (interim/year-end)
Supplementary Briefing Materials on Annual Financial Results	Disclosure began starting with the third quarter of FY2026/3
IR Meetings	43 times
SR Meetings	9 times

Attendees

President and Representative Director, Inside Directors, Outside Directors, IR and SR Representatives

(The SR meetings were all attended by the President and Representative Director or an outside director.)

Key topics for dialogues with investors

- Financial results and earnings forecasts
- Business environment
- Progress on our Medium-Term Business Plan
- Capital allocation
- Sustainability (ESG, etc.)

Our actions based on dialogues with investors*

Progress on the actions

Completed	**Strengthening of disclosure of our human rights initiatives** Formulation of a human rights roadmap in May 2025
Completed	**Obtainment of SBT certification and reviewing greenhouse gas (GHG) emission reduction targets** Obtained SBT certification in October 2025
Completed	**Disclosure of the Supplementary Briefing Materials on Annual Financial Results** Began disclosing the Supplementary Briefing Materials on Annual Financial Results in February 2026.
Completed	**Measures to improve CCC and disclosure of the status of improvements** Disclosed in the financial results presentation materials for the Fiscal Year Ended March 31, 2026
Under consideration	**Expansion of our initiatives for individual Investors** Launch of a shareholder benefits program with the end of March 2027 as a record date
Under consideration	**Announcement of the results of growth investments**

* The comments listed here are selected excerpts from opinions received from our investors.
* The actions listed here include those already disclosed in the financial results briefing materials for the fiscal year ended March 31, 2026.

Notes on 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 grasped 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 exchange rate, 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.

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