Message from the Director in charge of financial affairs

Improving capital efficiency to enhance our corporate value

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Director and Executive Vice President in charge of financial affairs

We celebrated the 90th anniversary of our founding in April 2023. However, we must improve our growth potential and profitability by more efficiently using the invested capital as we look toward our 100th anniversary. Further, we must be a company which fulfills its social responsibilities. While it is necessary for the Sansha Electric Manufacturing Group to expand its business with the goal of contributing in growth areas such as the new energy sector to continue its growth, we need to improve profitability at the same time. Unfortunately, our operating profit ratio has been sluggish, having remained below 10% for eight consecutive years. To improve this, we must take company-wide measures. Against this background, we use return on assets (ROA) based on consolidated operating profit as a management indicator and we are working to improve the ratio of operating profit to net sales and total asset turnover.

The improvement of the ratio of operating profit to net sales is dependent on our ability as a manufacturer to propose solutions that enable customers to achieve value. While we have been operating business leveraging our readiness to fulfill the needs of customers, which is a strength of ours, we will build relationships which enable us to appropriately profit by exploring the true needs of customers to offer benefits, and at the same time, standardizing and providing products. These activities need to be carried out by not just the sales, product planning, and development departments but by the entire company, including the manufacturing and supporting departments. We will enhance our initiatives focused on the improvement of added value.

We would like to improve total asset turnover by increasing the efficiency of investments, including capital and R&D investments, and at the same time, controlling inventories and other current assets to keep them at appropriate levels.

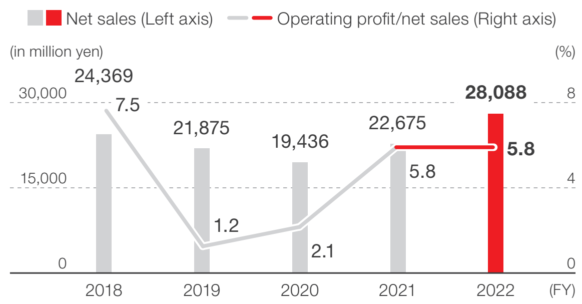
The Tokyo Stock Exchange has requested the “action to implement management that is conscious of cost of capital and stock price.” While our cost of capital is approx. 8% at present, ROE is currently a low 6.1%. We are promoting initiatives to achieve an ROE that exceeds the cost of capital. The first step will be increasing ROA based on operating profit to 8% in the operational departments within three years, and we will strive to continue to improve profitability, with the goal of increasing it to 10%. For this purpose, we will work to fully understand the current situation to see if our existing activities are sufficient, and we will promptly take measures for the points that need to be changed.

It must also be noted that sustainability management is an essential constituent of corporate value. We will give our full attention to the environmental sector and make the necessary investments. At the same time, investment in intangible assets such as human capital and intellectual capital is also an essential factor for sustainable growth.

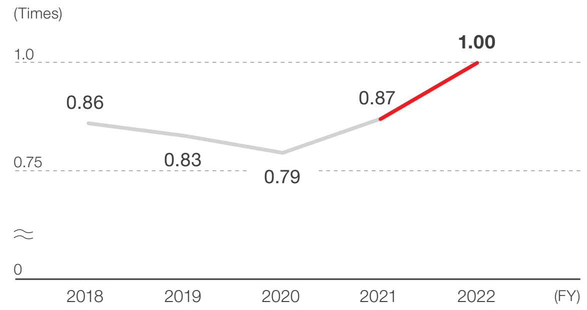
We will appropriate retained earnings from profit-oriented initiatives in operating activities to invest for future growth (capital and human resource investments) in a well-planned manner, and at the same time, we will continue to deliver returns to shareholders in a well-balanced manner.

We have a basic policy of continuing to pay dividends stably with a target dividend payout ratio of around 30% of consolidated net profit. The forecast annual dividend for FY2023 (fiscal year ending March 31, 2024) is 40 yen including 5 yen as a commemorative dividend for the 90th anniversary. We intend to use the rest as a strategic fund for capital investment to accomplish the CG23 medium-term management plan, the research and development of next-generation products and other purposes.

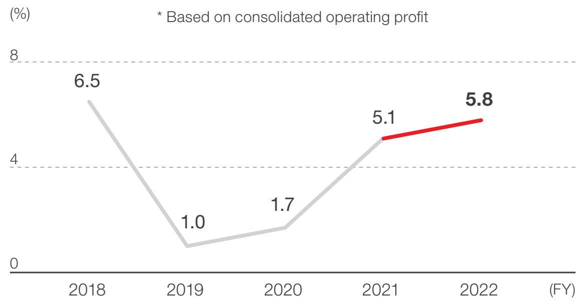
Ratio of operating profit to net sales



Total asset turnover



Return on assets (ROA)



Annual dividends and dividend payout ratio