

# Initiatives for Sustainable Enhancement of Corporate Value

～Measures to Realize Management with Focus on the Cost of Capital and Stock Price～

May 9, 2024



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Interaction with Capital Markets

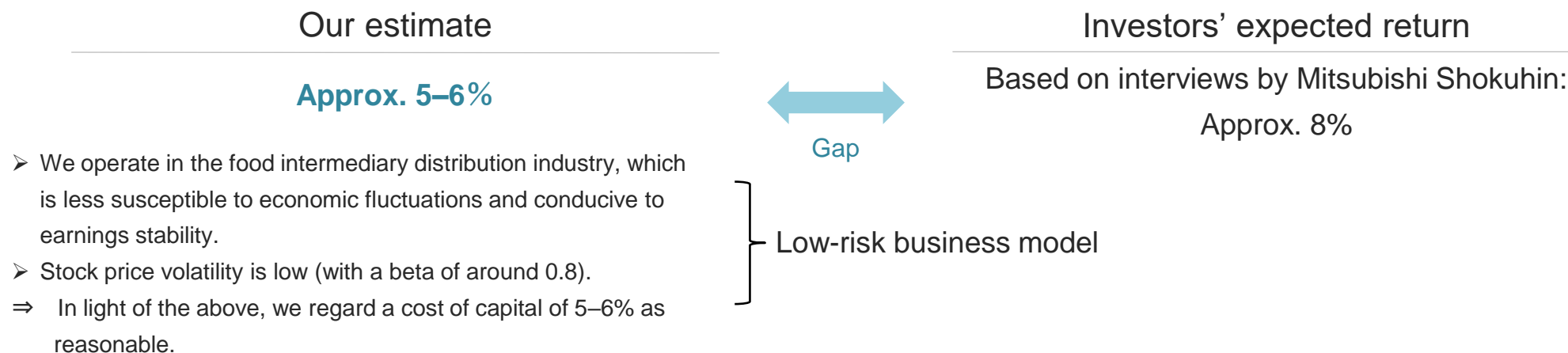
# Analysis and Evaluation of Current Situation

- Mitsubishi Shokuhin estimates its cost of capital is around 5–6%. We understand there is a gap with investors' expected return of around 8%.
- Our capital efficiency (ROE) was 11.7% in FY03/24, clearing double digits. Going forward, it remains essential to maintain an ROE of 10% or above and set targets with a focus on securing an equity spread.

## Analysis of current cost of capital and capital efficiency

### Cost of capital

- ✓ Our cost of capital, calculated using a capital asset pricing model (CAPM), is 5–6%.
- ✓ Since we have minimal interest-bearing debt, our weighted average cost of capital (WACC) approximates our cost of shareholder's equity.



### Capital efficiency

- The primary source of our revenue is the wholesale business (effectively, a single segment), and since we have minimal interest-bearing debt, we consider ROE a more appropriate indicator of capital efficiency than ROIC.
- In FY03/24, our ROE was 11.7%, clearing double digits.

Recognizing the aforementioned gap, we understand that we are expected to aim for an ROE of 10% or above and secure an equity spread going forward.

# Analysis and Evaluation of Current Situation

- In FY03/24, our stock price rose significantly, our market capitalization surpassed ¥200.0bn, and our price-to-book ratio (P/B) topped 1x.
- Our stock price growth is modest compared to the expansion of earnings per share (EPS) driven by the improved profitability in recent years and the retirement of treasury stock in FY03/22, leaving room for our price-earnings ratio (P/E) to rise.

## Analysis of current market valuation

P/B



After announcing a projected ROE of 11.6% at end-FY03/24, our P/B exceeded 1x.

P/E

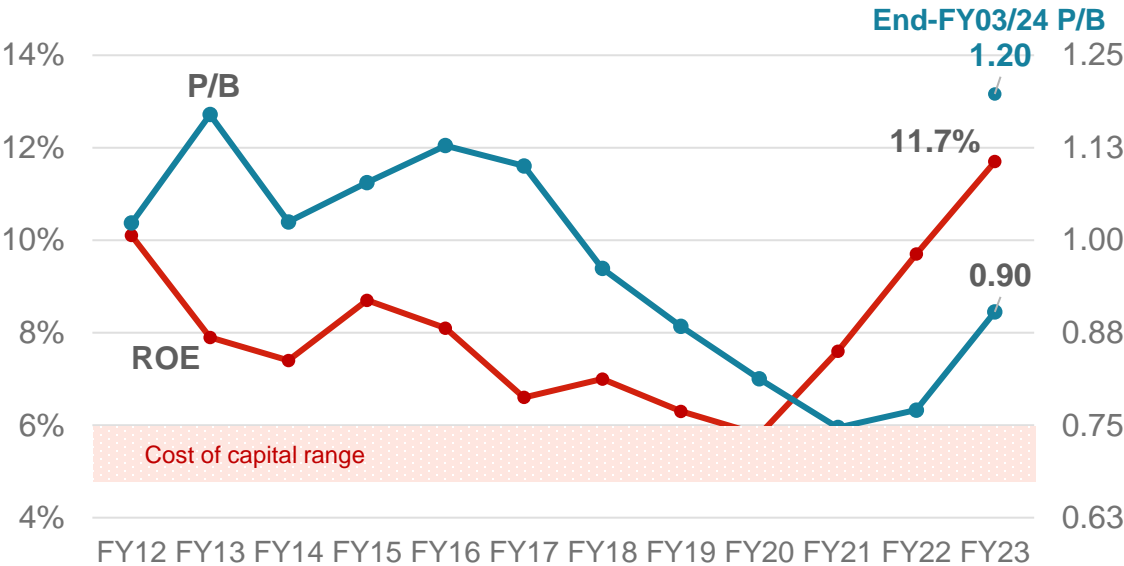


Around 10x

Compared to the TSE average, industry peers, and our own historical average, our P/E is low, leaving room for growth.

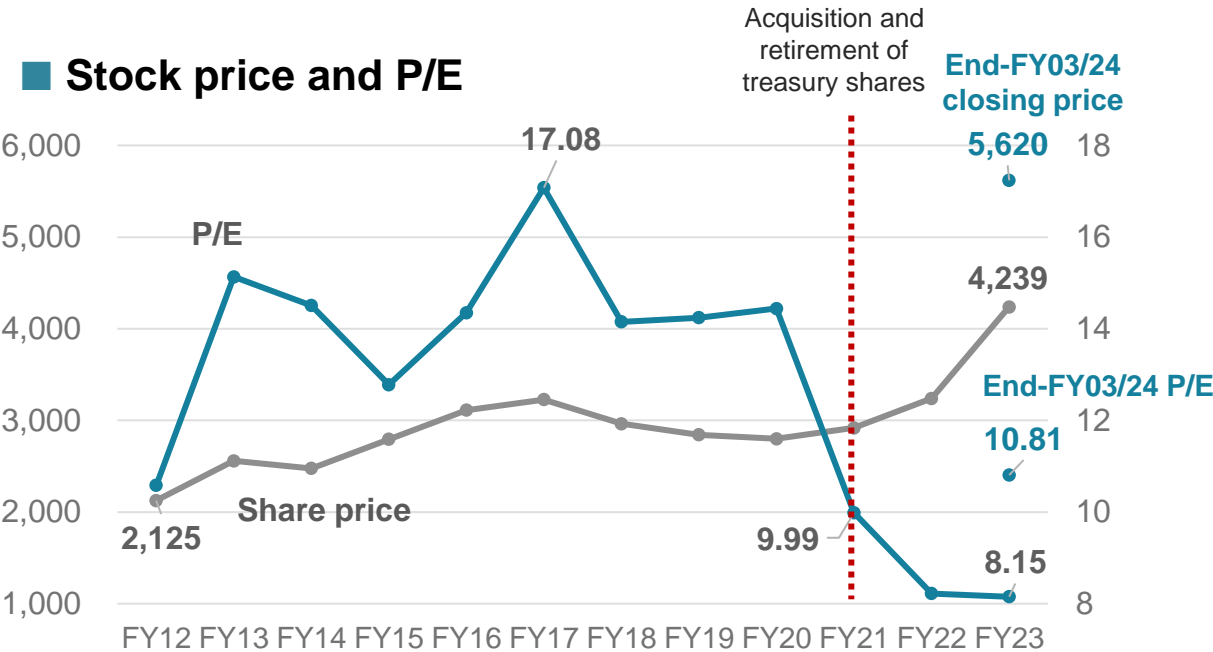
► Challenge: Improve P/E

### ROE and P/B



\* Assumed stock price is the annual average closing price.

### Stock price and P/E



\* Assumed stock price is the annual average closing price.

# Measures to Realize Management with Focus on Cost of Capital and Stock Price

- Based on our analysis and evaluation of the current situation, we have implemented the following initiatives.
  - We also have put in place systems to interact with capital markets and provide feedback to management, thereby promoting management with a focus on our stock price.
- For details, please refer to the following “Interaction with Capital Markets” section.

## Status of initiatives to enhance corporate value

		Details
Challenges	Low growth expectations	<ul style="list-style-type: none"><li>• Unable to envision medium- to long-term growth</li><li>• Delayed progress and uncertain realization of growth strategies (uncertainty of business growth and lack of information disclosure)</li></ul>
	Gap in capital cost with investors' perception	<ul style="list-style-type: none"><li>• Insufficient information disclosure (views on capital policy, progress with growth strategies, etc.)</li><li>• Parent and subsidiary listings, low ratio of tradable shares, etc.</li></ul>
Key initiatives	Growth expectations	Medium- to long-term targets <ul style="list-style-type: none"><li>• In our MS Vision 2030, we have disclosed target profit amounts (business portfolio) and milestones.</li><li>• In our MS Vision 2030, we have disclosed target figures and milestones for non-financial items.</li></ul>
		Growth story <ul style="list-style-type: none"><li>• To clarify business progress in growth areas, we have revised our disclosure segments.</li><li>• We have clarified the human resources we seek in order to achieve our growth strategy and are implementing initiatives to develop these resources.</li></ul>
	Capital policy	Balance sheet management <ul style="list-style-type: none"><li>• We have declared progressive dividend payment through FY03/31 and disclosed a target dividend payout ratio of 40% or higher for FY03/31.</li><li>• Based on our ROE target of 10% or above, we have made growth investments with a focus on risk and return.</li><li>• We have reduced strategic shareholdings.</li></ul>
	Other	Protection of minority interests <ul style="list-style-type: none"><li>• We have further enhanced our corporate governance structure.</li></ul>

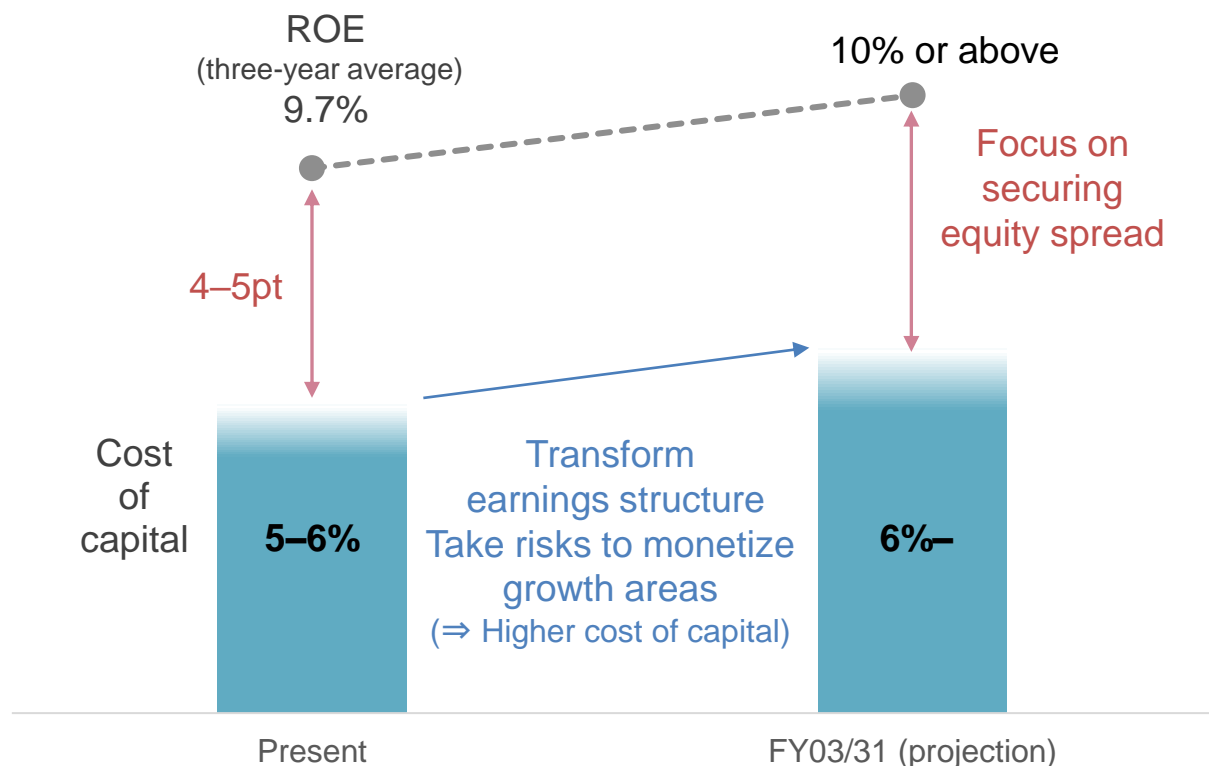
# Measures to Realize Management with Focus on Cost of Capital and Stock Price

## Supplementary information: Views on capital efficiency in MS Vision 2030

Aside from making investment decisions with a focus on equity spread, if there is surplus cash at hand, we will ensure a spread on par with the level at end-FY03/24 and effectively balance further growth investments with shareholder returns.

### Equity spread (ROE – Cost of Capital)

Since we have minimal interest-bearing debt, our weighted average cost of capital (WACC) approximates the cost of our shareholder's equity.



### Factors expected to affect the equity spread until FY03/31



Upside

Stable profit increases in our core business area (wholesale business)  
Profit growth driven by monetization of growth areas



Downside

Potential profit erosion due to upfront investments to transform earnings structure, and higher cost of capital and volatility stemming from risk-taking

- ✓ Investment decisions with a focus on equity spread
- ✓ Using the equity spread at end-FY03/24 as a benchmark, we will aim to secure a similar spread level, while effectively balancing further growth investments with shareholder returns.

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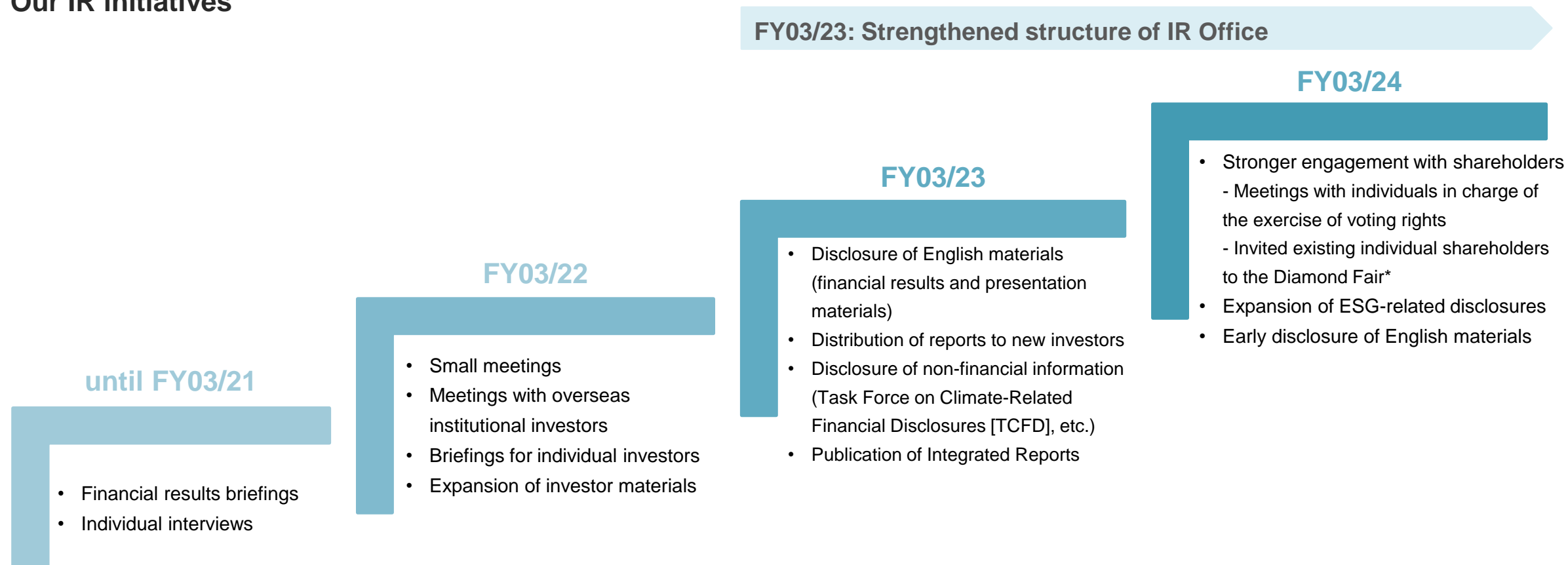
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Interaction with Capital Markets

# Interaction with Capital Markets

- Mitsubishi Shokuhin has actively pursued interaction with the market since FY03/22, and we have strengthened the structure of our IR Office from FY03/23 (by assigning dedicated personnel)
- In FY03/24, we enhanced engagement with existing shareholders and worked to expand the disclosure of non-financial information

## Our IR initiatives



Market  
events

● Restructuring of TSE market segments (selected TSE Standard Market)

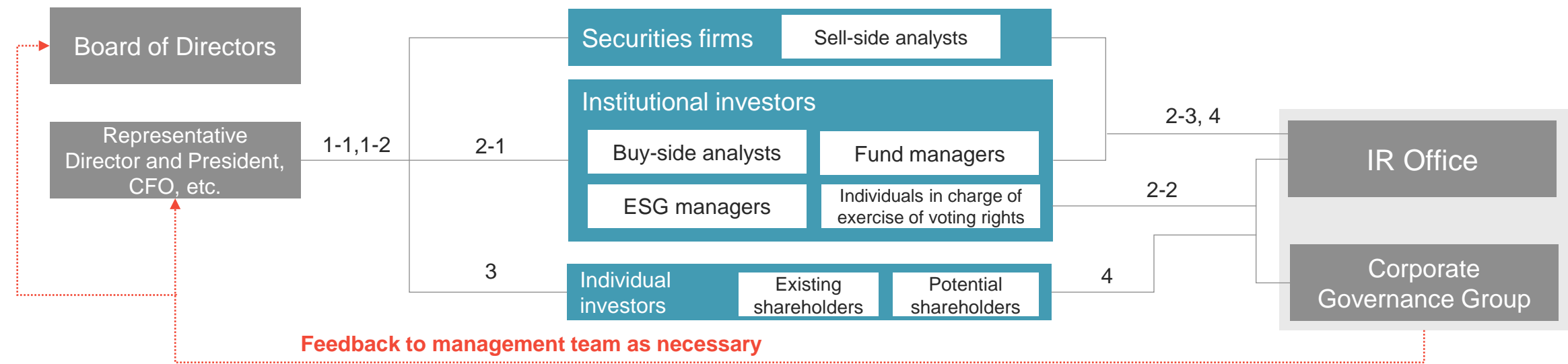
★ Acquisition and retirement of treasury shares

\* Diamond Fair: Exhibition for business partners hosted by Mitsubishi Shokuhin.



# Interaction with Capital Markets

## Organization to promote interaction

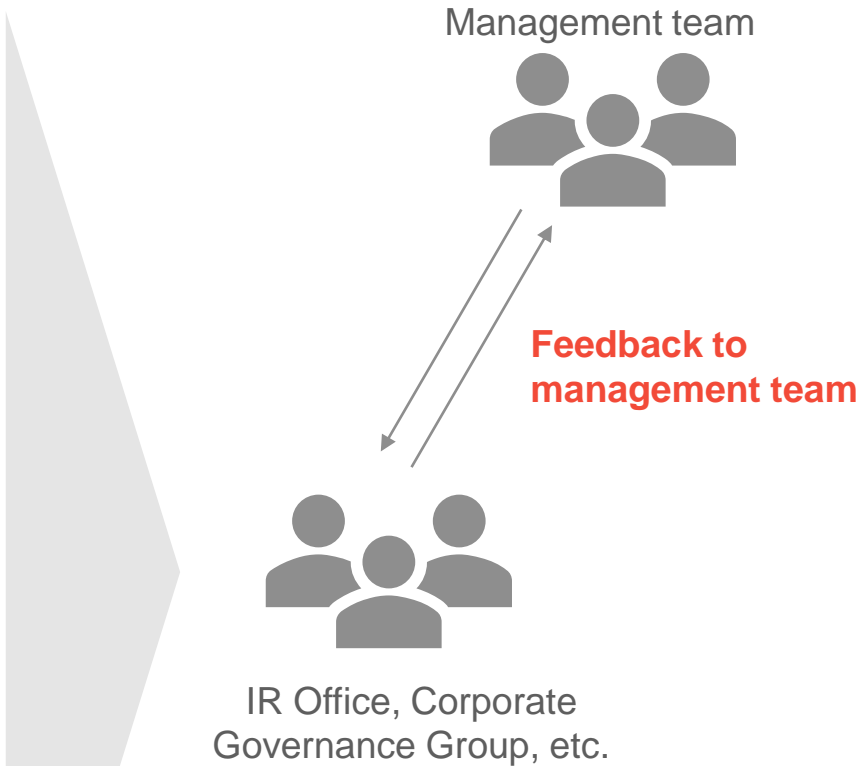


Opportunities for interaction		Main officers
1-1	General Meeting of Shareholders	Representative Director and President, etc.
1-2	Financial results briefings	Representative Director and President, CFO
2-1	Meetings with overseas institutional investors	CFO
2-2	Meetings with domestic institutional investors (ESG, exercise of voting rights, etc.)	Corporate Governance Group, IR Office, etc.
2-3	IR interviews	IR Office
3	Briefings for individual investors	CFO
4	Invitations to Diamond Fair (domestic institutional investors, sell-side analysts, individual/existing shareholders)	IR Office, Corporate Governance Group

# Interaction with Capital Markets

## FY03/24: Major interaction themes

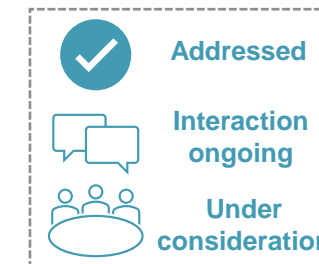
Earnings-related	<ul style="list-style-type: none"><li>Responses to price increases and other changes in the external environment</li><li>Responses to “2024 logistics problem”</li><li>Trend in operating profit margin (gross profit margin, SG&amp;A expense ratio)</li></ul>
Growth strategy	<ul style="list-style-type: none"><li>Progress in growth areas</li><li>Directions for overseas business</li><li>Establishment of joint venture with K.R.S Corporation, and subsequent operations</li><li>Content of data x digital (DD) marketing initiatives</li></ul>
Capital policy	<ul style="list-style-type: none"><li>Progress with efforts to reduce strategic shareholdings</li><li>Deposits of funds into Mitsubishi Corporation's cash management system</li><li>Cash flow allocation</li><li>Clarification of dividend policy</li></ul>
ESG-related	<ul style="list-style-type: none"><li>Parent and subsidiary listings, governance (effectiveness of checks and balances by independent outside directors)</li><li>Ratio of female managers, ratio of employees taking maternity or paid leave</li><li>Employee engagement</li><li>Setting of SCOPE3 targets</li></ul>



Systems to provide feedback to management team		
Reports on IR activities	Board of Directors	Annually
Reports on results of financial results briefings	Management team	Semi-annually
Other important matters	Board of Directors or management team	As needed

# Interaction with Capital Markets

## Major outcomes of interaction



Earnings	<ul style="list-style-type: none"> <li>There is no disclosure that shows what is factored in the earnings forecast and how.</li> </ul>		From FY03/25, alongside our earnings results, we started disclosing factors contributing to changes in our earnings forecast using waterfall charts.
Growth strategy	<ul style="list-style-type: none"> <li>Which quantitative indicators should we monitor to follow progress with future growth?</li> <li>Please provide specific examples and visions for the growth strategy.</li> </ul>		To clarify operating conditions in growth areas, we are revising our disclosure segments from FY03/25.
	<ul style="list-style-type: none"> <li>How is the relationship with your parent company positioned within your growth strategy?</li> </ul>		In our overseas operations, digital fields, and other areas, we utilize the network and expertise of our parent company group, which we believe are essential for our growth.
Capital policy	<ul style="list-style-type: none"> <li>Would depositing funds into the cash management system of Mitsubishi Corporation, the parent company, not impair the interests of minority shareholders? Also, please explain how surplus funds are used.</li> </ul>		<p>We deposit funds into the cash management system of our parent company because we have determined that it offers the most favorable interest rates and other terms compared to commercial banks. The deposits can be used flexibly, and we will use them appropriately while considering our capital needs in the future.</p> <p>As for the use of surplus funds (free cash flow), we will effectively balance investing in growth areas and enhancing shareholders.</p>
	<ul style="list-style-type: none"> <li>Please clarify your dividend policy.</li> </ul>		In our MS Vision 2030, we have disclosed our intention to pay progressive dividends with a dividend payout ratio of 40% or above.
	<ul style="list-style-type: none"> <li>Please provide an update on the status of the reduction of strategic shareholdings.</li> </ul>		<p>Immediately after the management integration (FY03/12), we had strategic shareholdings in 212 companies. By FY03/24, we reduced such holdings to 55 companies (16.1% of net assets).</p> <p>Over the long term, we aim to reduce the ratio of strategic shareholdings to net assets to 10%.</p>

# Interaction with Capital Markets

## Major outcomes of interaction



E	<ul style="list-style-type: none"> <li>Through the SCOPE 3 disclosures, we understand that reducing CO<sub>2</sub> emissions solely by the company's own efforts is difficult. However, we would like you to disclose the status of your efforts to encourage business partners and what exactly are the barriers to reduction.</li> </ul>		We will consider disclosing more specific information on our initiatives and challenges (including efforts to engage with business partners) through our Integrated Reports, etc.
S	<ul style="list-style-type: none"> <li>Human resources strategy: Please explain how your human resources strategy is linked to your management strategy, and describe the gap between your vision and the current situation.</li> </ul>		<p>We aim to transition to a corporate culture that continuously seeks to create new added value to flexibly respond to changes in our business environment. We have defined the type of human resources we need for this transformation as “autonomous professionals who take on the challenges of the next-generation distribution industry,” and are encouraging our employees to grow continuously and to improve engagement to enhance their performance.</p> <p>In conjunction with our business portfolio transformation towards 2030, we will consider disclosing information on our envisioned human resources portfolio in the future.</p>
G	<ul style="list-style-type: none"> <li>Because both the parent company and the subsidiary are listed, a majority of the board members should be independent outside directors.</li> </ul>	 	<p>In FY03/24, three of our nine board members were independent outside directors. Following the general meeting of shareholders in June 2024, we plan to add one more independent outside director, for a total of four out of 10 board members.</p> <p>We will continue to consider further increases in the future.</p> <p>To ensure the independence of our Audit &amp; Supervisory Board, we will consider the optimal structure for our company.</p>
	<ul style="list-style-type: none"> <li>Governance structure: Please provide information that shows the effectiveness of the checks and balances function. We also would like to know how outside directors are functioning.</li> </ul>		In our Integrated Reports, we have included the expected roles of independent outside directors and messages from each of them. Going forward, we will consider expanding the content of our Corporate Governance reports and other related efforts.