

# Financial Strategy

## 1 Financial strategy

Upon starting the 13th Middle-Range Planning (hereinafter “MP-13”), the Company developed the “Financial Strategy to Contribute to Sustainable Company Value Improvement” in April 2021 and communicated this strategy within the company.

**In principle**, the Company makes efforts to improve company value through the following financial strategy **from a perspective of free cash flow (hereinafter “FCF”)**.

### 1 Setting ROIC targets

In recent years, “a decline in earning power” has been raised as the Group’s issue, which some investors are concerned about. In MP-13, in addition to traditional net sales and profit targets, the Company newly adopted ROIC from a perspective of capital efficiency and shifted to management that focuses on “earning power.” MP-13 targeted consolidated ROIC of 7.0% or higher for FY2023 (final fiscal year of MP-13). This level surpasses capital costs and makes it possible to grow company value. However, since the fiscal year ended March 31, 2021, the global environment has changed drastically, including restrictions on outings and reduced movement of people due to the pandemic, as well as rising prices of raw materials and supplies, the rapid appreciation of the dollar, and the ongoing depreciation of the yen. Consequently, the Group’s performance, including net sales and profit, has deviated downward from the initial plan. As a result, consolidated ROIC for the fiscal year ended March 31, 2023 stayed put at 2.1%. Although we returned to operating income in the fiscal year ended March 31, 2023 and will improve operating income in the following fiscal years, we expect consolidated ROIC to be 2.4% in the fiscal year ending March 31, 2024.

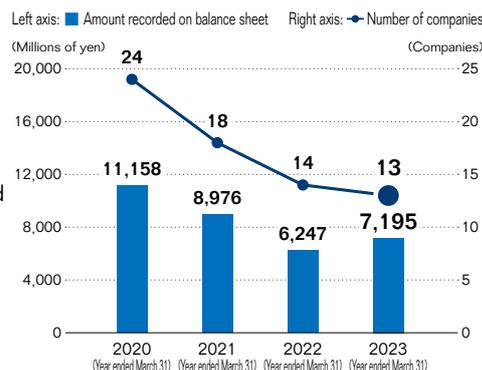
### 2 Improve asset efficiency rate through balance sheet (BS) management

The Company will conduct the following measures as part of the financial strategies to achieve the ROIC targets and evolve into management that takes into account the balance sheet (BS) and cash flow (CF).

#### (1) Reduction of cross-shareholding

The policy states that cross-shareholding shall be less than 10% of net assets at the end of each fiscal year on the consolidated balance sheet, and that as of March 31, 2024 (end of the final fiscal year of MP-13), cross-shareholding shall be reduced by at least 30% compared to March 31, 2021. As of March 31, 2023, cross-shareholding was 10.1% of net assets at the end of the fiscal year on the consolidated balance sheet, no more than a 19% reduction compared to March 31, 2021. This was due to an increase in the market value of the shares held, despite reducing our shareholding for policy investments during the year under review. In the fiscal year ending March 31, 2024, we will continue to examine the rationale for our shareholding by company and consider reductions.

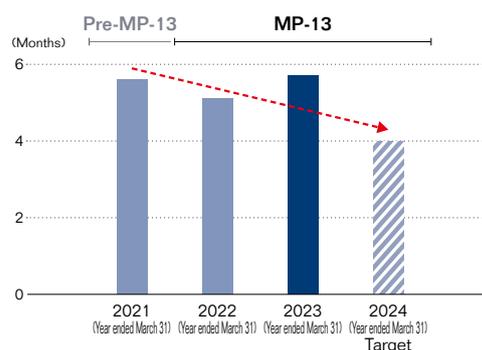
Trends in Cross-shareholdings (listed companies)



#### (2) Improvement of cash conversion cycle (CCC)

The Company is reviewing to improve the receivables turnover cycle, inventory assets turnover cycle, and debt repayments cycle in order to cut down the cycle from 5.6 months on a balance base on March 31, 2021 to 4.0 months or less on a balance base on March 31, 2024 (end of the final fiscal year of MP-13). The cycle was 5.7 months based on balances as of March 31, 2023. This was due to an increase in year-end product inventories at Mandom (Japan) as a result of accelerated production of new products and summer season products. We will make continued efforts to improve asset efficiency.

Trends in CCC



### (3) Group cash management

The Company regularly checks the cash flows of each Group company, pools excess cash in the Company, the headquarters of the Group, and utilizes it in high-profitability investments as the Group. In the fiscal year ended March 31, 2022 and the fiscal year ended March 31, 2023, the Company pooled a total of 1.37 billion yen in capital.

### (4) Financing for strategic investment

With cooperation from our partner banks, the Company has secured a line of credit of 20 billion yen. There was no outstanding balance as of March 31, 2023. The Company will utilize this financing for strategic investments with due consideration to FCF and the profit and loss statement (P/L). For the 14th Middle-Range Planning (MP-14), we will consider a cash allocation policy that combines FCF and the line of credit. Furthermore, the Company aims to share its earnings results and direction, including Middle-Range Planning, with our partner banks as appropriate in constructing a strong relationship.

## 3 Improve shareholder returns

The Company strives to increase FCF through BS management, boost ROIC, and improve shareholder returns.

### (1) Dividend policy

The Company regards the return of profits to shareholders as an important management issue. While always keeping the improvement of capital efficiency in mind, we will comprehensively consider a number of factors, including FCF, investment plans, securing liquidity and economic conditions. We have a basic policy of implementing stable and continuous returns through dividends (numerical target: consolidated payout ratio of 40% or more excluding special elements). In the fiscal year ended March 31, 2023, dividend was 38 yen, up 2 yen from the previous year, and the payout ratio was 178%.

### (2) Acquisition of treasury shares

The Company will deliberate the acquisition of treasury shares after the comprehensive consideration of economic status, company assets, FCF status, stock price trends, and other factors.

## 2 Strengthening governance in accounting

In executing this financial strategy, the Company must also strengthen the financial governance that underpins the execution.

The Company is undertaking the following initiatives in order to strengthen the financial governance.

### 1 Introduction of the Company-wide ERP system (SAP)

In addition to improving the accuracy and speed of decision-making, Mandom is proceeding with the implementation of SAP for the Group companies aimed at ensuring the accuracy of information and acceleration of consolidating earnings. We aim to build a structure in which 80% of consolidated net sales are covered by companies that have implemented SAP. As of March 31, 2023, such companies comprised 77% of consolidated net sales. We are also proceeding with visualization of management information at each overseas Group company.

### 2 Standardization of accounting policies on a global base

The Company aims to speed up management decisions and strengthen Group management operations by changing and aligning various systems, operation rules, and processes in the Group to standardize accounting policies on a global base.

### 3 Minimize tax risks on a global base

The Company is making efforts to minimize tax risks in the overall Group while fulfilling our social responsibilities through appropriate tax payment in all countries where the Group is operating business.

# Promotion of Digital Transformation of the Mandom Group

The Mandom Group stipulates “Shift to a company that creates new value through digitalization and open innovation” in its 13th Middle-Range Planning (MP-13) basic management policies, and accordingly, is developing the internal infrastructure to “Achieve success in DX (digital transformation) resulting in the realization of wellness.”

## Promotion of digital transformation in MP-13

We have been promoting digital transformation throughout the Company, establishing the DX Promotion Committee in May 2021, and became a certified operator under the Digital Transformation Certification\* in August 2022.



\* Digital Transformation Certification is a national initiative that certifies companies that meet the basic requirements specified in the Digital Governance Code based on the Act on Facilitation of Information Processing.

**MP-13  
basic management  
policies**

### 3. Shift to a company that creates new value through digitalization and open innovation

- 1 Achieve success in DX resulting in the realization of wellness

**DX objectives**

### Transition to a company that produces new value through digital transformation

Dramatically expand both the quality and quantity of Dedication to Service (Oyakudachi) by simultaneously proceeding with initiatives for new businesses and improving efficiency of existing businesses through a digital foundation

## IT strategy

In order to develop the IT environment necessary to shift to become a company that creates new value through promoting digital transformation, we have formulated an IT strategy based on the IT priority measures in MP-13.

It sets out three strategic themes as areas of focus: **acquisition of new digital technology**; **data utilization**; and **reduction of technical debt**. We are carrying out initiatives under MP-13 to achieve our vision for each theme.

Strategic Theme

1

### Acquisition of new digital technology

To equip ourselves with organizational capabilities to utilize new digital technologies for operation process transformation and new value creation, we are acquiring knowledge and building up a track record in the utilization of RPA, AI, and low-code/no-code development technologies.

**RPA**

To generate management resources through automation of routine operations, develop a system to proactively promote RPA in internal departments and implement it across the Company.

**AI**

Conduct research on AI technologies that will help solve the Company’s issues and consolidate in-house AI experience, and promote more optimal and advanced operations through the use of AI and machine learning technologies.

**Low-code/  
no-code development**

Aiming to create agile operational applications in-house, promote their development using low-code tools through collaboration between the business and IT divisions.

Strategic Theme

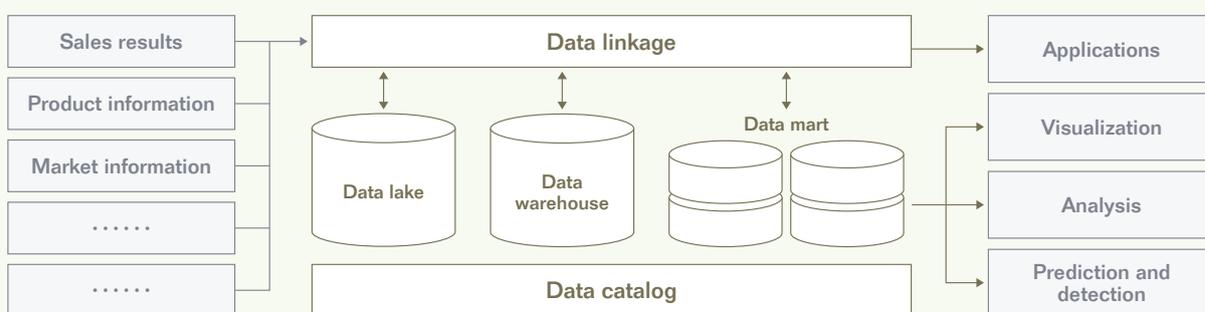
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## Data utilization

In order to effectively utilize data, which is the source of value creation via digital technology, Mandom promotes data governance and data management by establishing a basic policy on data utilization, along with analyzing data-related issues and monitoring the utilization and management of our data.

In addition, we built a cloud-based data utilization platform system that functions as a data hub for the entire company, which can be expanded flexibly according to purpose and usage. Based around this platform, we are advancing various data utilization measures to maximize the value of internal data assets and generate business results.

### Conceptual diagram of the data utilization platform system



Strategic Theme

3

## Reduction of technical debt

In order to maximize business value through proactive use of new technologies, it is important to build and maintain an information system platform that can adapt quickly and flexibly to changes in the business environment. Therefore, we have formulated company-wide governance rules on IT utilization, and are evaluating existing IT assets from a combination of perspectives to identify and address technical debt risks that may hinder the use of new technologies.

### Information security measures

To protect the Group's information assets from increasingly sophisticated cyber attacks and maintain a safe and secure business environment, the Group implements information security measures covering all domestic and overseas Group companies from organizational, human resource, technical, and other perspectives.

For organizational measures, we established the Mandom Group Information Security Basic Policy and shared our basic approach and policy on information security across the entire Group. In addition, by referring to global standards and domestic guidelines, we established the Mandom Group Unified Standards for Information Security Measures on matters to be observed by Group companies. All Group companies are implementing initiatives to comply with the standards.

For human resource measures, we conduct regular employee training throughout the year to ensure awareness about compliance with information security measures and about basic security procedures. We also internally disseminate information on security incidents that have occurred in the world to alert employees.

For technical measures, in preparation for any unforeseen situations, we have introduced Group-wide tools for early detection and response to security breaches, and have established and are operating a 24-hour/365-day security monitoring system through external security experts.

Through these efforts, the Group as a whole is promoting the optimization of information security measures.