MP-14 Financial Strategy

Financial Strategy ~ CFO Message ~

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We will promote corporate transformation to achieve significant profit growth.

FY2025 March Performance Overview Chart (Unit: million yen)

		Rate of change
Consolidated net sales	76,183	4.0%
Operating income	1,028	-49.1%
Ordinary income	2,180	-26.8%
Net income attributable to owners of parent	1,859	-28.5%

Review of 14th Middle-Range Planning (MP-14)

For the fiscal year ending March 2025, net sales were 76.1 billion yen, operating profit was 1 billion yen, ROE was 2.7%, and ROIC was 2.0%. In the final year of "MP-14," we have a plan for operating profit of 9 billion yen and ROIC of 8.0% or higher, and it was positioned as a year of intentional contraction in order to achieve a leaner financial structure and to make a significant leap forward from the second year onward.

"MP-14" is an aggressive plan that initially targets operating profit of 780 million yen in the first year (fiscal year ending March 2025), aiming to raise this to 9 billion yen by the fourth year (fiscal year ending March 2028).

The main points are (1) returning net sales to a growth trajectory, and (2) improving profitability as a group.

First, regarding sales growth, in the two overseas segments, there is ample room to expand net sales with existing brands, so we will expand sales by deepening our presence in each area's market. We will actively make the necessary marketing investments to achieve this. Across the group, especially in Indonesia, we were forced to significantly curb marketing expenses after the COVID-19 pandemic, but we now see this as a turnaround phase and have resumed active marketing investments. We are also currently strengthening our development functions in Asian areas, including Indonesia. Our aim is to respond in detail to the differing characteristics and wants of Seikatsusha (Consumers) in each area. In Japan, while addressing categories with still low usage rates and growth categories with our existing brands, we are also working on proposing new brands, responding to D2C channels, and entering new fields such as beauty appliances. For some brands, there are gaps with the plan, so we will continue to make necessary investments while closely monitoring acceptance by consumers.

Regarding profitability improvement, since the previous fiscal year, we have launched a company-wide structural reform project in Japan, focusing on procurement, production, marketing, and sales. This initiative is expected to improve profitability by about 7 billion yen over the four years of "MP-14." In the previous fiscal year, we achieved a profit improvement effect of over 1.1 billion yen. Although there is a gap in the timing of the effects compared to the initial plan, we plan to continue improving profitability, mainly by expanding gross profit, and expect this to make a significant contribution to the expansion of operating profit from this fiscal year onward. Furthermore, from this fiscal year, we will roll out similar initiatives in Indonesia.

Proactive allocation of funds for growth

Triggered by the decline in net sales due to the COVID-19 pandemic, our stock price has stagnated since 2021, and PBR has continued to fall below 1x, which is very disappointing for me as CFO. I strongly feel that, in addition to insufficient strength in business recovery, a major factor is that investors have not felt expectations for our company's future growth. At the start of "MP-14," we announced our capital allocation policy. Here, about one-third of the cash generated during the period will be allocated to investments in new business areas. One-third will be allocated to shareholder returns through dividends. The final is planned to be allocated to capital investments and IT/DX investments. In addition, we are actively considering M&A, utilizing borrowings separately from this generated cash. As mentioned earlier, initiatives in new business areas are underway, mainly in Japan. However, unfortunately, we have not been able to announce any M&A

Our main initiatives to expand PBR

ROE Expansion initiatives

Profitability Improvement

Structural reforms in Japan

- Revision to appropriate pricing
- Strategic procurement of raw materials
- Reduction of unprofitable SKUs
- Switchover to substitute raw materials

Business revitalization in Indonesia

- For core brands “GATSBY” and “Pixy” Reinforcement of marketing
- Initiatives to reduce manufacturing and production costs

Balance Sheet management

- Improving capital efficiency through share buybacks
- Review of appropriate cash on hand levels
- Consideration of optimal capital structure including borrowings
- Futher reduction in cross-shareholdings

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PER Initiatives with a focus on expansion

Future growth expectations

Initiatives and investments in new areas

- Strengthening initiatives for D2C channels
- Expansion of sales through external EC channels
- Expansion into Health, Cleanliness, Beauty and Fun areas related to cosmetics
- Strengthening collaboration with retailers
- Expansion of business areas in Asia

Strengthening existing channels

- Strengthening new brands for existing distribution channels: “ZFACE”, “Levätä”, “T/ME U”
- Sales recovery through rebranding of “GATSBY” and “Pixy”

Initiatives to reduce capital costs

- Strengthening group governance and risk management
- Enhancement of IR activities and disclosure information

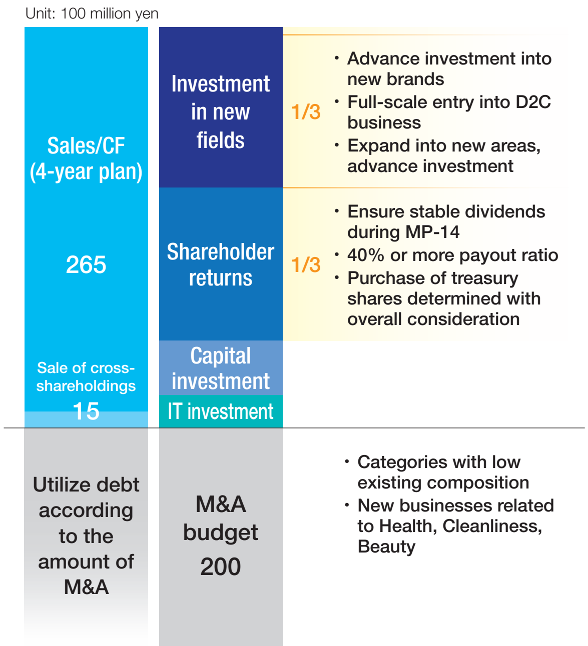
M&A

Targeting domestic and overseas brands and companies in categories with low existing sales composition

achievements. This is because our goal is not to conduct M&A for its own sake, but to search for deals that can reliably contribute to strengthening the portfolio of categories with low sales composition and acquiring new businesses related to Health, Cleanliness, and Beauty outside of cosmetics. ACG International, which we acquired through M&A in 2019, is now driving the “Other Overseas” segment, and a major factor in this success was the alignment of corporate culture and values with the Mandom Group. We will continue to carefully examine this point as we consider future M&A opportunities. We will steadily carry out these “MP-14” initiatives and first aim for a PBR of 1x or higher.

Shareholder Returns Policy

We continue to set shareholder returns at a dividend payout ratio of 40% or higher. Over the past four years, while focusing on growth investments in new areas that will serve as a foundation for growth after MP-14, we have also maintained stable dividends, resulting in a dividend payout ratio close to 100% last fiscal year with an annual dividend of 40 yen. Dividends are planned to be increased significantly based on a 40% payout ratio in the third year in FY2026 and final year in FY2027 when profits are planned to greatly increase.
We are closely monitoring the level of cash and cash equivalents on hand. Our company has a business structure that consistently generates cash, and since the investment for the expansion of the Fukusaki Plant in 2021, there have been



no large-scale investments, so we recognize that the level of cash and deposits is high. Cash and deposits will be prioritized for growth investments such as new businesses and M&A for the sustainable growth of our group, but if it is expected that the level of cash and deposits on hand will exceed expectations during the period, we will earnestly consider specific measures to enhance shareholder value. To this end, we request your continued understanding on this matter.