

November 12, 2024

Notice Regarding Decision of Basic Policy (Early Realization of ROE of Over 10%) for Revision of the Current "Management Targets for FY2026 (Five-Year Plan)"

Company Name : THK CO., LTD.
Representative : Takashi Teramachi, President and COO
Code number : 6481 (Tokyo Stock Exchange Prime Market)
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THK CO., LTD. ("THK") is currently revising its "Management Targets for FY2026 (Five-Year Plan)" ("FY2026 Management Targets"), which were announced on February 10, 2022, and are scheduled to be announced in February 2025.

In advance of the public announcement, THK hereby announces the basic policy for revision resolved at the Board of Directors meeting held on November 12, 2024, as follows.

Basic Policy **Early Realization of ROE of Over 10%**

1. Background to the Revision

In February 2022, THK established its management targets of ¥500,000 million in revenue, ¥100,000 million in operating income, ¥590 in earnings per share (EPS), and 17% return on equity (ROE) as FY2026 Management Targets. However, the external environment surrounding THK has changed dramatically since then, with growing geopolitical risks, rising inflation, and the sluggish Chinese economy, making it difficult to foresee the achievement of these targets. In this environment, THK's ROE has remained stagnant at around 5%, and price book value ratio (PBR) continues to be below 1x, which means that THK has not been able to meet the expectations of its shareholders.

In such a situation, on January 1, 2024, Takashi Teramachi assumed the position of President and COO and made a statement that "THK will thoroughly strengthen what needs to be strengthened and courageously change what needs to be changed" under the vision of "Manufacturing and Innovative Services Company." that THK has stated. THK has been considering drastic measures based on its reflection that the above situation was caused not only by the external environment but also by THK's own various problems. As a result, while THK's primary focus has been on increasing returns, the numerator of ROE, THK will also place greater emphasis on "business selection and concentration" and "controlling equity capital," the denominator of ROE. As a first step, THK will strive to promptly achieve an ROE of over 10%, a level that exceeds THK's cost of equity based on the opinions of THK's shareholders, investors, and outside experts, and thereafter will work to achieve a stable ROE that exceeds its cost of equity.

2. Policy for Revision

(1) "Promotion of Management That Emphasizes Profitability and Capital Efficiency"

- (a) Revision of business portfolio considering cost of capital

THK will implement business selection and concentration based on strict comparison and scrutiny of ROIC (return on invested capital) and cost of capital.

- (b) Execution of highly disciplined investments that strengthen the competitiveness of the business for sustainable growth

While promoting business selection and concentration, in order to "thoroughly strengthen what needs to be strengthened," THK will be highly disciplined mainly in making "capital investments that contribute to productivity improvement including IT," "investments in human resources," and "investments in research and development."

- (c) Revision of capital policy

Until the aforementioned "Early Realization of ROE over 10%" is achieved, the following policies will be continued:

- 1) Set the level of required equity capital at around ¥300,000 million for the time being
- 2) Adopt a dividend policy of 8% DOE (dividend on equity ratio)
- 3) Conduct flexible purchases of treasury shares
- 4) Reduce cash and bank deposits to net neutral level promptly
- 5) Tolerate net debt levels of 1-2x EBITDA (in the mid- to long-term)

The level of required equity capital in 1) above will be reviewed from time to time corresponding to the growth of businesses and the scale of operations. In order to achieve 10% ROE promptly, 2) above will be applied for the second half of the year ending December 31, 2024, and 3) above will be implemented immediately, in advance of the announcement of the revision of the FY2026 Management Target in February 2025. (For details, please refer to "Reference Material No. 1: Basic Policy for Capital Policy" described below)

(2) "Evolution of Corporate Governance"

In order to enhance corporate value through the aforementioned "Promotion of Management That Emphasizes Profitability and Capital Efficiency," THK will implement and review the following revisions to further solidify its corporate governance structure.

(Items to be implemented)

- Nomination Advisory Committee and Compensation Advisory Committee
 - ✓ Change the organizational structure of the committee: the number of outside directors shall be a majority and the chairperson of the committee shall be an outside director. (For details, please refer to "Reference Material No. 2: Organizational Structure of Nomination Advisory Committee and Compensation Advisory Committee " described below)

(Items to be reviewed)

- Composition of Board of Directors
 - ✓ Increase the proportion of independent outside directors, expand diversity, review and strengthen the skills matrix
- Compensation system for executives
 - ✓ Add commitment to performance to KPIs, increase percentage of performance-linked compensation and equity-based compensation and others

THK is currently reviewing performance indicators, management targets, and other corporate governance systems other than those mentioned above, and plans to announce them as revision of "FY2026 Management Targets" in conjunction with the announcement of financial results for the fiscal year ending December 31, 2024, to be released in February 2025.

Reference Material No. 1: Basic Policy for Capital Policy

THK's historical dividend policy was as follows:

Not only its basic policy which is to provide shareholders with stable and continuous dividends, THK also places priority on providing shareholders with proactive distribution of profit befitting operating results, simultaneously strengthening its financial soundness by securing internal reserve. According to this policy, THK sets its payout ratio on a consolidated basis at 30% and a minimum dividend for a fiscal year at ¥15.0 per share (¥7.5 per share for both interim dividend and year-end dividend). THK plans to make effective use of internal reserve by investing it to research and development activities, production facilities, and IT systems, to respond globalization.

In reviewing its capital policy, THK conducted a financial simulation and confirmed that THK has built up sufficient internal reserves to invest in future growth and that there is no need to build up further reserves for the time being, and that in order to further improve capital efficiency, THK needs to actively return profits to shareholders and streamline its balance sheet.

Specifically, THK aspires to achieve ROE of over 10% promptly by implementing the following policies:

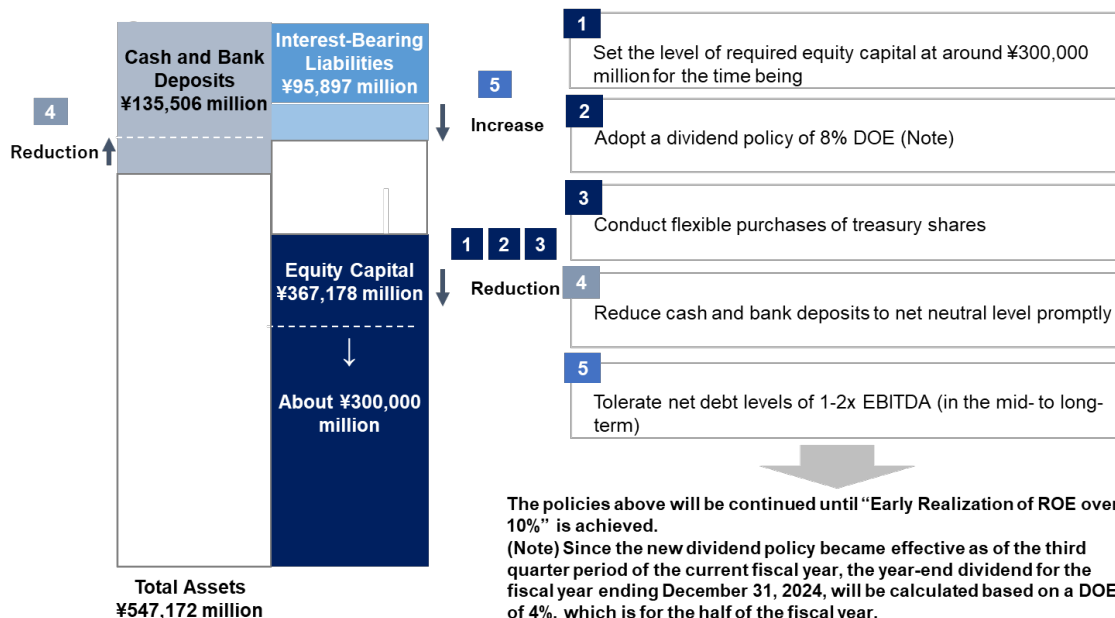
- (1) Set the level of required equity capital at around ¥300,000 million for the time being
- (2) Adopt a dividend policy of 8% DOE
- (3) Conduct flexible purchases of treasury shares
- (4) Reduce cash and cash equivalents to net neutral level promptly
- (5) Tolerate net debt levels of 1-2x EBITDA (in the mid- to long-term)

<For reference: Ordinary dividends based on 8% DOE>

8% DOE = {(Equity Capital at Previous Year-End + Equity Capital at Current Year-End) / 2} x 8%
→ Ordinary Dividends (Interim + Year-end)

Since the new dividend policy became effective as of the third quarter period of the current fiscal year, the year-end dividend for the fiscal year ending December 31, 2024, will be calculated based on a DOE of 4%, which is for the half of the fiscal year.

Summary of Capital Policy Revision



Reference Material No. 2: Organizational Structure of Nomination Advisory Committee and Compensation Advisory Committee

New organizational structure (as of November 12, 2024)

Chairperson: Chairperson shall be an outside director.
 Composition of members: The number of outside directors shall be a majority of the members.

	Outside Directors (two members)	In-house Director (one member)
Nomination Advisory Committee	Masakatsu Hioki (Chairperson) Masaaki Kainosho	Takashi Teramachi
Compensation Advisory Committee	Yoshiki Ueda (Chairperson) Masaaki Kainosho	Takashi Teramachi

Former organizational structure

Chairperson: Chairperson shall be an in-house director.
 Composition of members: The number of outside directors shall be half of the members.

	Outside Directors (two members)	In-house Directors (two members)
Nomination Advisory Committee	Masaaki Kainosho Masakatsu Hioki	Akihiro Teramachi (Chairperson) Takashi Teramachi
Compensation Advisory Committee	Masaaki Kainosho Yoshiki Ueda	Akihiro Teramachi (Chairperson) Takashi Teramachi