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For immediate release

Company	HIOKI E.E. CORPORATION
Representative	Takahiro Okazawa President and CEO (Code no. 6866, Tokyo Stock Exchange Prime)
Inquiries	Yoshikazu Suyama Managing Director and Executive Officer Chief Financial Officer (CFO) Manager, Administration Department (Phone: +81-268-28-0555)

Hioki’s Implementation of Capital Cost- and Share Value-Aware Management

Meeting on August 9, 2024, Hioki’s Board of Directors deliberated and approved a resolution related to the disclosure of information about its implementation of capital cost- and share value-aware management, which is described below.

Implementation of Capital Cost- and Share Value-Aware Management

1. Analysis of the status quo

(1) Revisions to estimates of the cost of equity

As Hioki does not borrow from financial institutions, its assessment of capital cost is founded on the cost of equity. As of last August, we estimated the cost of equity to be approximately 7% (6% to 8%). We subsequently engaged in dialog with shareholders and investors concerning capital cost and return on equity, and the Operations Committee and Board of Directors discussed what was learned through those conversations. Based on that information, we currently estimate the cost of equity to be approximately 10%.

We consider improving return on capital to be a key priority in our management, and since 2022 we’ve used a return on equity (ROE) target of at least 10% to guide our management. Hioki’s ROE has significantly exceeded 10% since 2021, and based on that performance, we do not consider the current level of this management indicator to be appropriate. Currently, we're formulating a Medium-term Business Plan that will take effect in 2025, and we're working to revise the indicator in line with that plan. We plan to disclose the new Medium-term Business Plan and target in February 2025.

(2) Evaluation from the capital market

We consider Hioki's share price, market capitalization, price-to-book-value ratio (PBR), and price-to-earnings ratio (PER) to be key indicators of how capital markets assess Hioki. Share price has increased substantially since 2021, a time of growing performance for the company. The PBR has improved in line with our share price and currently stands in excess of 2.

A comparison of return on equity (ROE) and the cost of equity supports the conclusion that Hioki's return on capital has significantly surpassed the cost of equity, and as a result, we believe that Hioki is living up to shareholders' and investors' expected return on equity.

At this point in time, Hioki assesses that it has earned a certain level of recognition from shareholders and investors, and it reiterates its commitment to earning a favorable assessment from shareholders and investors on an ongoing basis by continuing to increase return on equity going forward.

2. Plan formulation and disclosure

Hioki will undertake the following three initiatives in order to implement capital cost- and share value-aware management:

(1) Improving return on equity

(1) Improving profitability

•Achieving the targets set forth in the Medium-term Business Plan

Hioki considers it important to undertake initiatives to achieve the targets set forth in the Medium-term Business Plan, which has been disclosed. For more detailed information about initiatives being pursued at present, please see materials from the financial results briefing held on July 31, 2024. Achieving the 2024 business plan* is forecast to boost ROE to 16.3%.

*Hioki revised the consolidated full-year earnings forecast for the fiscal year ending December 31, 2024, on July 9, 2024.

Reference URL (financial results briefing materials for the second quarter of the fiscal year ending December 31, 2024)

https://www.hioki.co.jp/file/cmw/hdInformation/2907/information_file1/?action=browser

•Carrying out a reorganization to accommodate change

Since May 2024, we've carried out a reorganization of our technology development, marketing, and global digital transformation (DX) teams. Hioki has identified the development of products that benefit from its essentiality and market-oriented business development as growth strategies. To implement these strategies, we're revamping our product development process while pursuing a group-wide digital transformation across the new organization. In this way, we will realize more efficient operations.

(2) Improving asset efficiency

•Strengthening investment related to growth strategies

Hioki has seen free cash flow rise to extremely high levels compared to the past as a result of its rising performance since 2021. We will draw on that resource to accelerate investments in sustainability initiatives such as pursuing decarbonization, reducing environmental impacts, and ensuring human rights are respected throughout the value chain while giving top priority to investments related to our growth strategies, for example to resolve societal issues, create customer demand, and address human capital and facilities needs.

•Further reducing strategic shareholding

As of December 31, 2023, Hioki held strategic stakes in 11 companies. In addition to halting new purchases, going forward we will work to further sell or reduce such stakes, except where we determine that continued ownership will yield benefits in terms of HIoki's business strategy. Moreover, even in cases where we have deemed continued ownership to be appropriate, we will study the suitability of such positions by continually analyzing and considering the reasons for ownership from a medium- and long-term perspective.

(2) More effectively returning profits to shareholders

(1) Dividend policy

Based on its assessment that a consolidated net asset dividend ratio (DOE) of at least 2% provides a basis for the stable return of profits to investors, Hioki's policy is to return profits to shareholders even more effectively by improving its performance and offering a consolidated dividend ratio of 40%. We will continue to actively return profits to investors in the future in line with this policy.

(2) Share buybacks

Hioki will accelerate investments and other initiatives related to growth strategies. Even as we follow our dividend policy, which revolves around a consolidated dividend ratio of 40%, we will also seek to return profits to shareholders through share buybacks. We conducted one such buyback from July 17 to August 5, 2024. For details, please see the "Notice of Share Buyback Status and Completion of Purchases" (August 6, 2024).

(3) Actively disclosing information concerning efforts to reduce the cost of equity

Additionally, in order to lower the cost of equity, we believe it will be important to better earn the trust of shareholders and investors through active disclosure of important information. Hioki has disclosed a range of information in keeping with its Information Disclosure Policy, and we look forward to continuing to make public information that will contribute to investment decision-making by shareholders and investors. The Integrated Report 2024, which was published in July 2024, reflects an effort to enhance coverage of non-financial information.

Currently, there's a need to put in place an environment that allows securities reports to be disclosed in advance of the General Meeting of Shareholders so that we can facilitate more thorough dialog with shareholders and investors. Hioki continues to hold the General Meeting of Shareholders within two months of the final day of the fiscal year, but the departments responsible for hosting that gathering will collect information and consider Hioki's future approach. We remain committed to providing end-of-year financial information in as timely a manner as possible.

Reference: Return on capital, share price, and related information

Return on capital

	2019	2020	2021	2022	2023
Return on equity	8.9%	8.1%	16.3%	17.1%	18.1%

Share price, etc.

	2019	2020	2021	2022	2023
Share price (yen)	3,800	4,180	8,780	6,330	6,320
Market capitalization (hundreds of millions of yen)	532	586	1,231	887	886
PBR	2.06	2.19	4.07	2.64	2.33
PER	23.56	27.52	26.50	16.21	13.64

*Share price and other data have been calculated based on the closing price on the last trading day of the fiscal year in question.