



May 15, 2025

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Listed Stock Exchange: Tokyo Stock Exchanges,
Prime Market
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Actions to Achieve Management Conscious of Cost of Capital and Share Price (Update)

ESPEC CORP. (the “Company”) hereby announces that, at the meeting of its Board of Directors held on May 15, 2025, it reanalyzed the current status of measures to realize management that takes capital costs and stock prices into account, and resolved to implement the following future measures.

1. Progress and Results of Major Initiatives

The Company disclosed the “Actions to Achieve Management Conscious of Cost of Capital and Share Price” on May 15, 2024, and has promoted the following “Main Initiatives.” The progress and results are as follows.

< Main Initiatives in FY2024 >

(1) Implement a growth strategy targeting the EV and IoT fields, strengthen profitability

In the EV and battery market, we won large-scale orders for customized products and equipment dedicated for batteries for production in addition to development applications, and further expanded our product lineup in the electronics field, including EV and IoT, with Platinous J Series ECO Type Low Temperature (& Humidity) Chamber, Rapid-Rate Thermal Cycle Chamber, etc. We also increased our production capacity in Japan by increasing personnel, expanding production space, and utilizing outsourcing, with a view to clearing the order backlog and leveling the production load. In laboratory testing services business, we established the Aichi xEV Battery Safety Test & Certification Center in February 2025 as the Aichi Next-Generation Mobility Test Lab, and expanded the functions of the Toyota Test Center in April to strengthen laboratory testing services in central Japan. In FY2023, we raised the prices of our products and services to cope with rising prices of parts and materials, and electricity costs, and we were able to see the effects of these increases through FY2024.

(2) Proactively invest in growth (business, facilities, research, human resources) and clarify investment effects

Approaches to the businesses, facilities, and researches as active investment in growth are as described in (1), while we also addressed the expansion of education systems and nurturing management personnel for the next generation as investment in human resources. In addition, we worked to stimulate communication by holding seminars and company-wide events to deepen the understanding of our corporate philosophy, as well as conducted engagement surveys to formulate and implement action plans for executive officers and general managers to resolve workplace issues.

To clarify the effects of investment, we reviewed the indicators used in investment evaluation and brushed up the mechanism for verifying the effects of investment after implementation. Specifically, if the investment effect of each theme falls short of the plan, we will conduct factor analyses and implement measures to eliminate the gap to maximize the effect of the investment.

(3) Generate cash by reducing inventories and finance growth investment and shareholder returns

Inventories increased due to factors such as strategic inventories to cope with the deteriorating procurement environment caused by the COVID-19 pandemic, prolonged production lead times due to delays in parts delivery, and an increase in the backlog of orders due to a favorable order environment. To improve the situation, we worked to reduce raw material inventories and reduce work in progress by improving production lead times, and we have seen some positive results. We will continue our efforts to optimize inventories.

(4) Enhance dialogue with shareholders and investors to improve reputation in the stock market and strengthen management

The Company discloses quarterly financial results briefing materials and holds individual meetings with institutional investors and securities analysts. In addition, top management actively participates in IR activities. For the first half and full year financial results, we posted to distribute video presentations by the President on our company website and held individual meetings with institutional investors in Japan and overseas. In FY2024, meetings were held with a gross total of 147 companies, mainly via web conferencing. As part of our IR activities for individual investors, we held a briefing in Tokyo in March 2025 sponsored by the Nippon Securities Journal, which was attended by 135 people. Opinions, etc. received from shareholders and investors are reported to the Board of Directors (held total of 5 times in FY2024) to provide feedback to management.

2. Recognition of the current situation

For ESPEC to realize the Company's long-term vision, ESPEC Vision 2025, it has been executing medium-term management plans every four years (Stage I through Stage III), and since Stage II has set ROE as a medium-term management target and is working to achieve it.

The Company is of the understanding that the cost of capital is about 8%, and is conscious of the importance of ensuring ROE is stably at 10% or more. The Medium-term Management Plan Stage III (FY2022 to FY2025) sets ROE targets of 10.0% or more, reaching 10.0% in FY2023 and 11.0% in FY2024. However, as of the end of March 2025, the stock price was at a relatively low level, with a PBR of 0.92 times. Our company believes it is important to present a medium- to long-term growth strategy to the stock market in its new medium-term management plan, to further enhance capital efficiency and to strengthen shareholder returns.

Results of Medium-Term Management Plan Stage II (FY 2018 to FY 2021) and Stage III (FY 2022 to FY 2024)

	Stage II (FY 2018 to FY 2021)				Stage III (FY 2022 to FY 2024*2)		
	2018*1	2019	2020	2021	2022	2023	2024
Net sales (million yen)	47,060	42,443	38,668	41,852	52,892	62,126	67,288
Operating profit (million yen)	5,470	3,742	2,572	1,968	4,366	6,585	7,526
Profit attributable to owners of parent (million yen)	4,030	2,818	1,961	1,905	3,330	4,969	6,003
ROE (%)	9.9	6.6	4.5	4.2	7.2	10.0	11.0
PBR (times)	1.12	0.88	0.94	0.97	0.95	1.26	0.92

*1 FY2018 was an irregular 15-month fiscal period for overseas consolidated subsidiaries.

The above figures are for reference when the fiscal year of the overseas consolidated subsidiaries was 12 months.

*2 Stage III was planned for 4 years from FY2022 to FY2025, but completed in 3 years because the target was achieved ahead of schedule in FY2024.

3. Efforts to achieve management conscious of cost of capital and share price

As the Company achieved the medium-term targets set out in its Medium-term Management Plan Stage III (FY2022 to FY2025) one year ahead of schedule in FY2024, the Company established "Progressive Plus 2027" (FY2025 to FY2027), a medium-term management plan starting in FY2025, with which target of ROE was raised to 12.0% or more.

Policy

- Aim to Achieve the FY2027 Target (net sales of 70 billion yen, operating profit of 10.5 billion yen, operating profit ratio of 15.0%, profit of 7.6 billion yen, and ROE of 12.0% or more) of the Medium-Term Management Plan "Progressive Plus 2027"
 - Generate cash by improving operating profit ratio and efficiency of total assets
 - Aggressively invest in growth and return profits to shareholders based on the three-year cash allocation
- Shareholder return policy: Set a consolidated dividend payout ratio of 40% or more and flexibly acquire treasury shares
- During the period of the medium-term management plan, we will ensure a total return ratio of 50% or more, cumulative over three years, and will not reduce dividends

Main Initiatives

- (1) Increase profitability:
Implement growth strategies targeting AI semiconductors, autonomous driving, and satellite communications, and strengthen profitability
- (2) Financial Strategy and Shareholder Returns:
Optimization of inventories, reduction of trade receivables, and return of profits based on shareholder return policy
- (3) Strengthening IR Activities:
Enhance dialogue with shareholders and investors to improve reputation in the stock market and strengthen management

The company announced the formulation of its Medium-term Management Plan "Progressive Plus 2027" and the revision of basic policy on dividends today. For details, please refer to the "Announcement of Medium-Term Management Plan Progressive Plus 2027" and the "Notice Concerning Revision of Basic Policy on Dividends" released today.

(Note) This material has been prepared based on currently available information and based on reasonable judgment. However, please be aware that this material may change due to various factors in the future.