Financial Capital Strategy in Line with Our Pivot from Structural Reforms to Improving Growth Ability

Eiichi Mizutani
Executive Officer & Vice President
In charge of Finance & Investor Relations

Financial strategy for improving growth ability

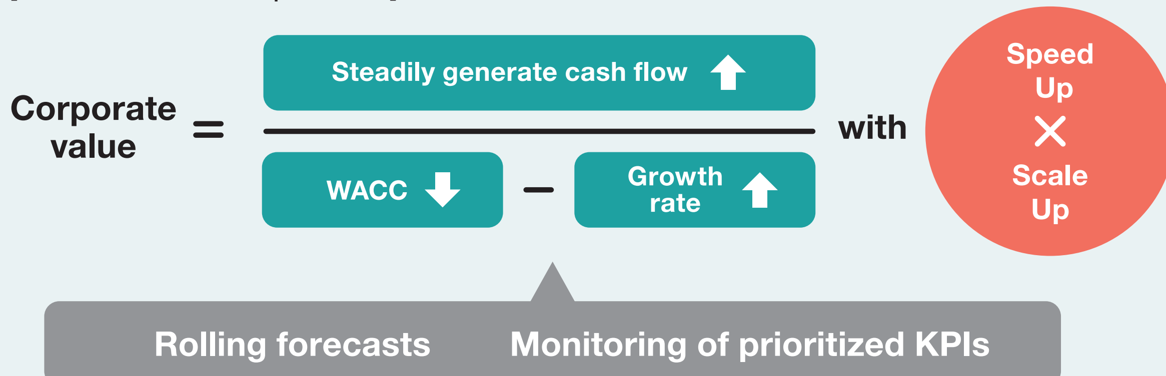
We have focused on increasing return on invested capital (ROIC), steadily achieving organic growth, concentrating on core businesses, and promoting asset-light operations, positioning the period from fiscal 2020 to fiscal 2022 as a structural reform phase aimed at regrowth.

With the aim of increasing ROIC in excess of the weighted average cost of capital (WACC), the Ajinomoto Group's executive management and frontline operations have worked together to allocate management resources optimally across the two axes of "growth" and "efficiency," continuously improving profitability and achieving more efficient utilization of current assets. In addition, by focusing on core businesses and promoting asset-light operations, we have reduced business assets by approximately ¥130 billion, and reallocated resources and sold off cross-shareholdings totally by roughly ¥80 billion. As a result, we have realized the targeted asset-light by fiscal 2025 ahead of schedule and will now transition to a financial strategy focused on improving growth ability.

Three policies to achieve our vision for 2030

1. **Cash allocation policy for maximizing corporate value using appropriate business and capital strategies**
2. **Management policy for continuously enhancing shareholder value**
3. **Policy for continuously strengthening shareholder returns**

[Standard calculation of corporate value]



1. Cash allocation policy for maximizing corporate value using appropriate business and capital strategies

Prioritizing investments in growth and M&A

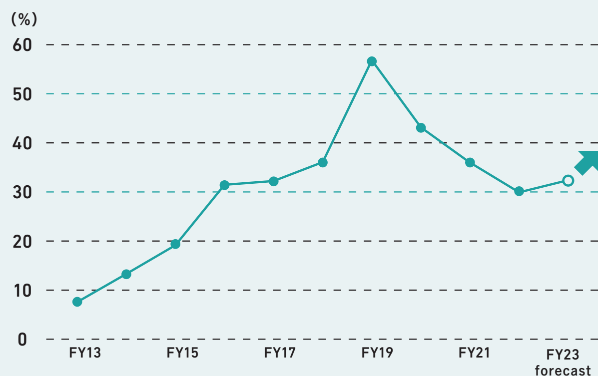
In terms of cash allocation, we will prioritize investments that enhance the organic growth ability of core businesses as investments that exceed WACC. Additionally, we will concentrate on investments that accelerate growth in the four growth areas (Healthcare, Food & Wellness, ICT, and Green) as we pivot toward business model transformation (BMX), and will increase the growth potential of the entire Ajinomoto Group. Furthermore, we will actively explore and execute M&A deals for generating inorganic growth of existing businesses and creating new businesses.

Flexible and agile shareholder returns within a range of net debt*-equity ratio of 30% to 50%

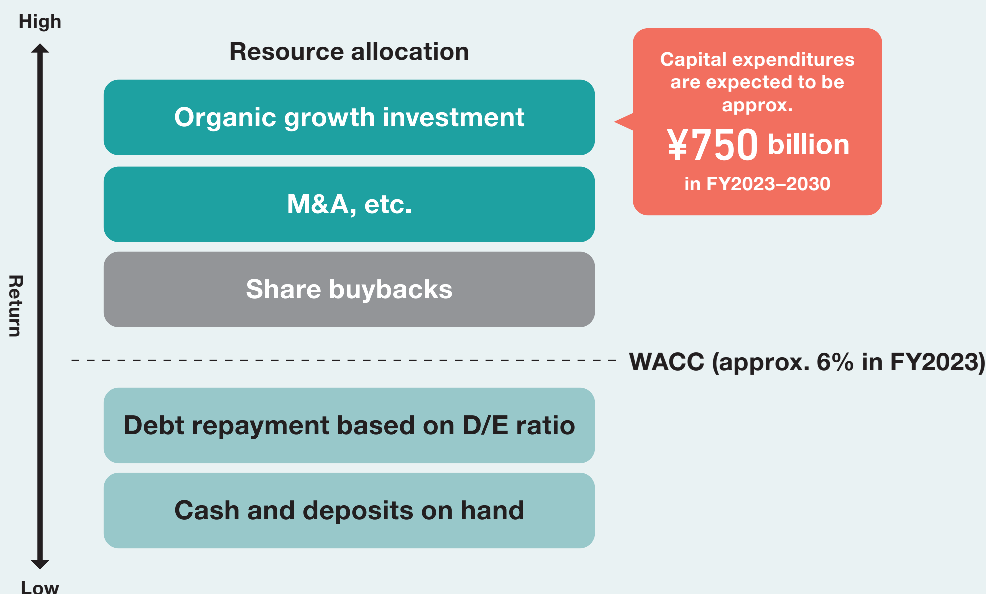
* Net debt: Interest-bearing debt - Cash on hand and in banks x 75%

When there is surplus operating cash flow after executing investments necessary for increasing business growth ability, we will provide shareholder returns in a flexible and agile manner according to a new policy within a range of net debt-equity ratio of 30% to 50% (see page 87). Our most recent net debt-equity ratio is trending in the lower bound of this range. Over the medium term, we will increase it to the upper bound, and maintain our credit rating after further increasing profitability and increasing our ability to generate cash flows.

[Trend in net debt-equity ratio]



[Approach to cash allocation]



2. Management policy for continuously enhancing shareholder value

Using rolling forecasts to achieve continuous and reliable business growth

We will achieve continuous business growth in a reliable manner through rolling forecasts, which involves the processes from timely updating of business forecasts to review of actions based on performance trends and confirmation of effects. In addition, we have established KPIs in line with the business environment, including strengthening monitoring of the TDC* margin in response to the performance risks posed by soaring raw material and logistics costs. In order to instill and internalize these initiatives among our employees, we are taking steps to increase employee literacy regarding our financial results and share price formation.

*TDC = Total Delivered Cost

Policy for managing effective tax rate

The Ajinomoto Group has set its standard tax rate at 27% (fiscal 2023) based on a holistic examination of the statutory effective tax rate mix in each country where it operates and the tax burden associated with dividends. Additionally, we will work to lower the effective tax rate using global tax risk monitoring and utilization of tax incentives for sustainability investments and as such.

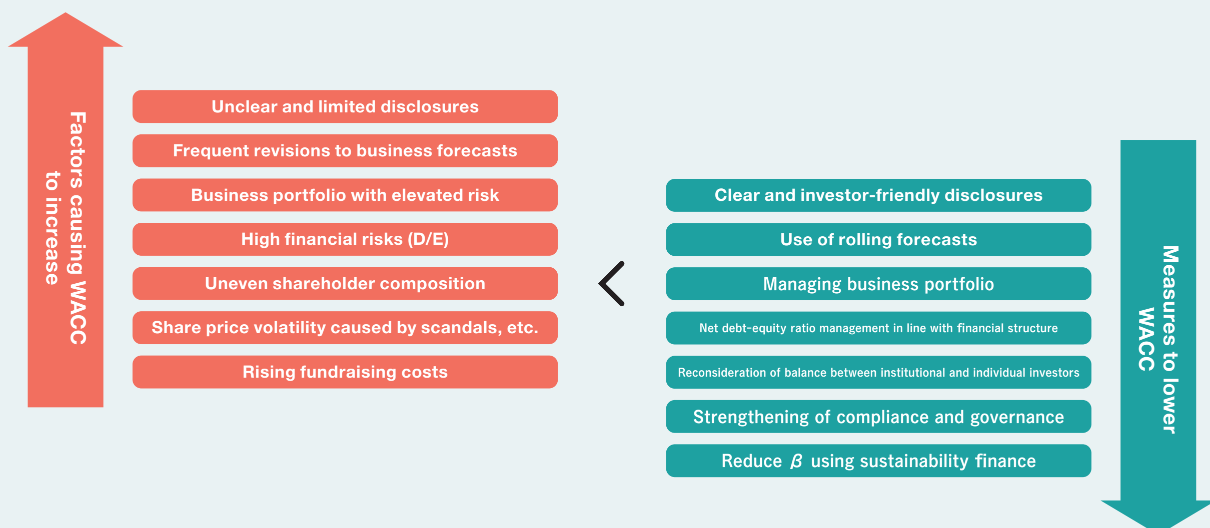
Increasing capital and asset efficiency

In pursuing flexible and agile share repurchases, we will continuously reduce the number of shares outstanding, used as the denominator for earnings per share (EPS), and increase ROIC, and as an extension, achieve return on equity (ROE) attributable to owners of parent company in excess of ROIC. Running parallel to this, we will minimize the level of cash on hand and in banks and utilize surplus funds for growth investments and shareholder returns.

Lowering WACC

We are implementing a number of measures to lower WACC, a crucial element of the Ajinomoto Group's formula for calculating corporate value. Specifically, these include stabilizing performance by way of rolling forecasts, lowering financing costs using sustainable finance, increasing the upper bound of the net debt-equity ratio range, and stabilizing share price relatively by increasing the ratio of individual shareholders. As a point of reference, the WACC for the entire Company is approximately 6% in fiscal 2023.

[Factors behind rising WACC and measures to lower it]



3. Policy for continuously strengthening shareholder returns

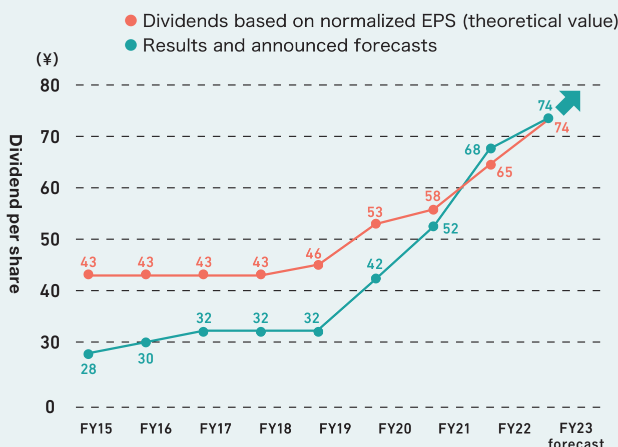
Introduction of progressive dividend policy

A progressive dividend means maintaining the current dividend per share even when business performance weakens temporarily. Our policy is to either increase or maintain the dividend—never decrease it—every year starting in fiscal 2023.

Introduction of dividends based on normalized EPS

We have introduced an approach where business profit, which is less susceptible to unsteady profit fluctuations such as impairment losses, is used as the basis for calculating dividends. We have decided to call this approach “dividends based on normalized EPS*.” This new dividend formula applies a profit return coefficient of 35% to business profit considering the Ajinomoto Group’s standard tax rate of 27% (fiscal 2023). Comparing the theoretical dividend of previous fiscal years calculated using this formula and the actual dividend amount shows that dividends will be stronger and more attractive. We will steadily increase business profit and seek to further increase dividends going forward.

[Comparison of theoretical value of dividends based on normalized EPS and actual dividends]



* We have defined dividends based on normalized EPS as follows:

$$\text{Dividends based on normalized EPS} = \frac{\text{BP x (1 – Ajinomoto Group standard tax rate)}}{\text{Outstanding shares}} \times 35\%\ \text{(Return coefficient)}$$

Continuing with flexible and agile share repurchases and maintaining a total return ratio of 50% or higher

We will continue to achieve a total return ratio of 50% or higher (versus net income attributable to owners of the parent company). Looking at share repurchases, we will increase EPS in a flexible and proactive manner taking into account such factors as business environment, financial environment, capital efficiency and share price.

Setting policy for holding treasury shares

We will speed up investments in the four growth areas and pivot toward growth, but in order to maintain the diversity of investment funding sources, and when considering share-based remuneration for employees intended to increase corporate value sustainably, we plan to hold treasury shares up to a maximum of around 1% of shares outstanding.