FINANCIAL AND CAPITAL STRATEGY

The Ajinomoto Group will utilize its ever-growing cash flow to maximize its corporate value toward the realization of its 2030 Roadmap.

Aiming to maximize equity value by “deepening global financial strategy” and “reducing cost of capital”

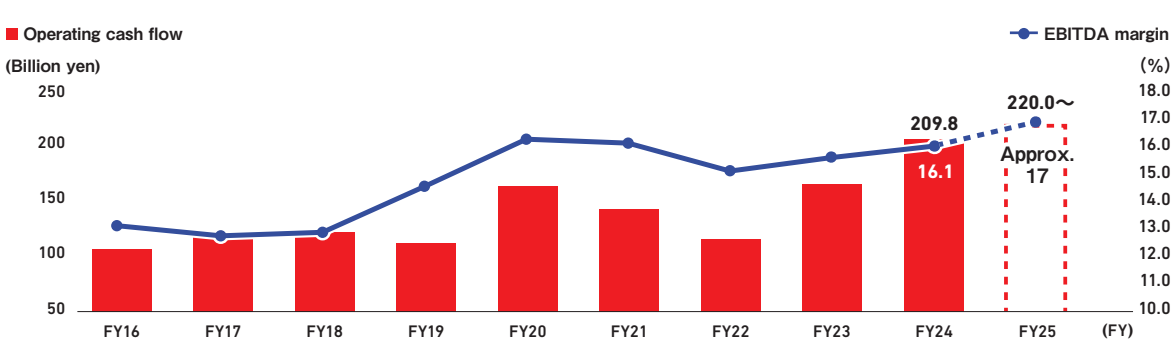
1 | Implementing measures to generate further cash flow

2 | Switching to a global standard financial discipline indicator and appropriate cash allocation through the use of leverage

3 | Achieving increased equity value by improving our ROIC and optimizing the weighted average cost of capital (WACC)

Executive Officer & Vice President Eiichi Mizutani (in charge of Finance and Investor Relations)

[EBITDA margin and operating cash flow for the last 10 years]



To achieve triple EPS, it is necessary to increase profit attributable to owners of the parent company by double digits in the medium to long term. In fiscal 2024, we decided on areas where we should increase focus and sold Ajinomoto Althea Inc. to improve profitability. Similarly, we are taking various measures to improve the EBITDA margin, which indicates the earning power of existing businesses.

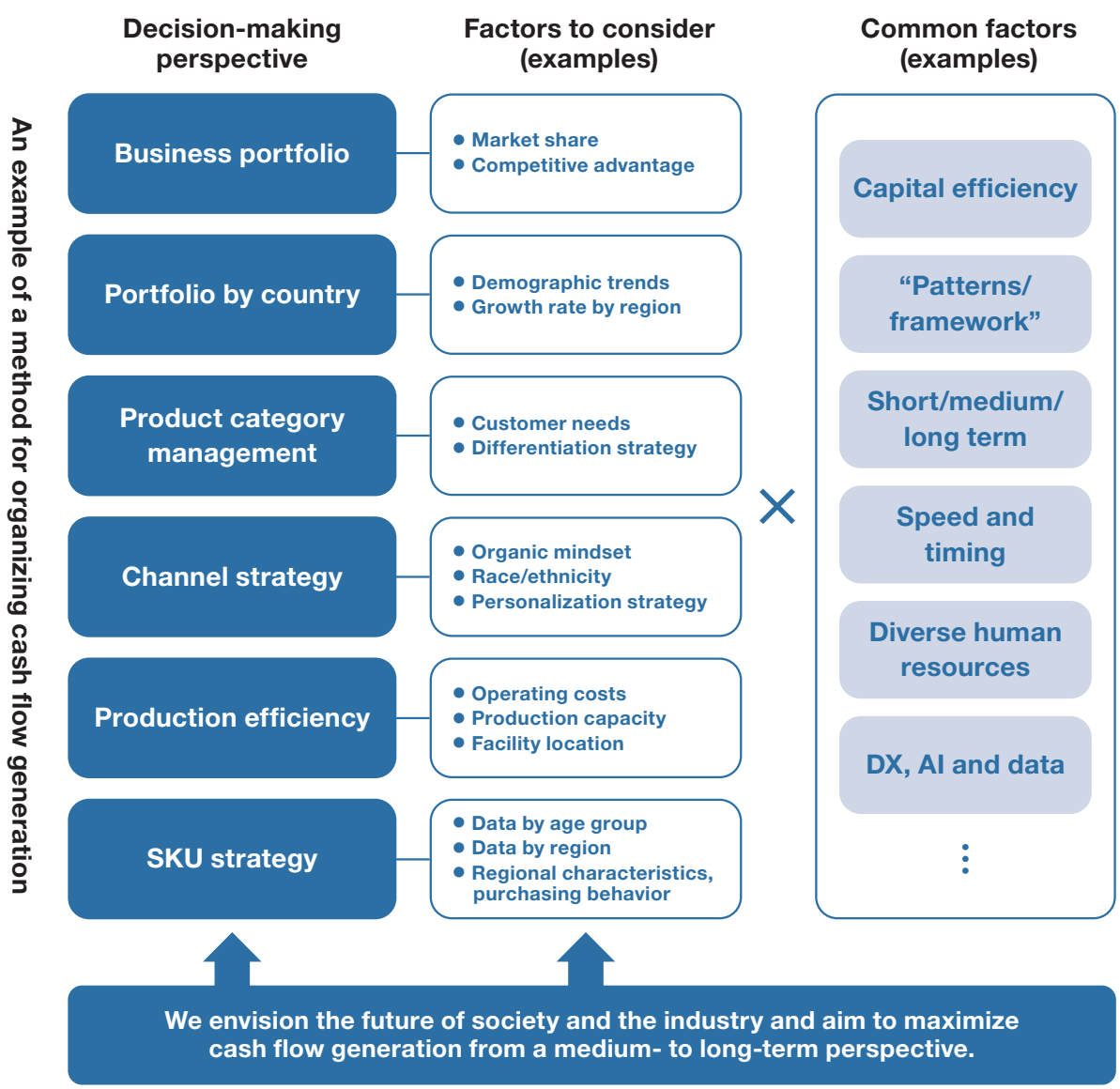
1. Implementing measures to generate further cash flow

We are strategically utilizing our growing cash flow to strengthen our financial base and improve capital efficiency. As an example of our global financial strategy, we hold the “Global Group CFO Discussion Forum” where financial officers from each region and country gather every month to share good examples such as cash generation and other best practices from each country and region and to utilize them in strategic decision-making.

In addition to constantly evolving its business portfolio and optimizing the allocation of resources across the Group, the Group is also proactively working to improve the efficiency of working capital by, for example, promoting a program to accelerate cash generation through accounts receivable liquidation, introducing supplier financing in collaboration with business partners, and enhancing supply chain management to reduce inventory.

Through these multifaceted initiatives, we aim to enhance cash cycle efficiency by shortening the cash conversion cycle and to generate further cash flows from each business, thereby steadily generating capital for growth investments and shareholder returns.

[Examples of materials to discuss with financial officers of group companies]

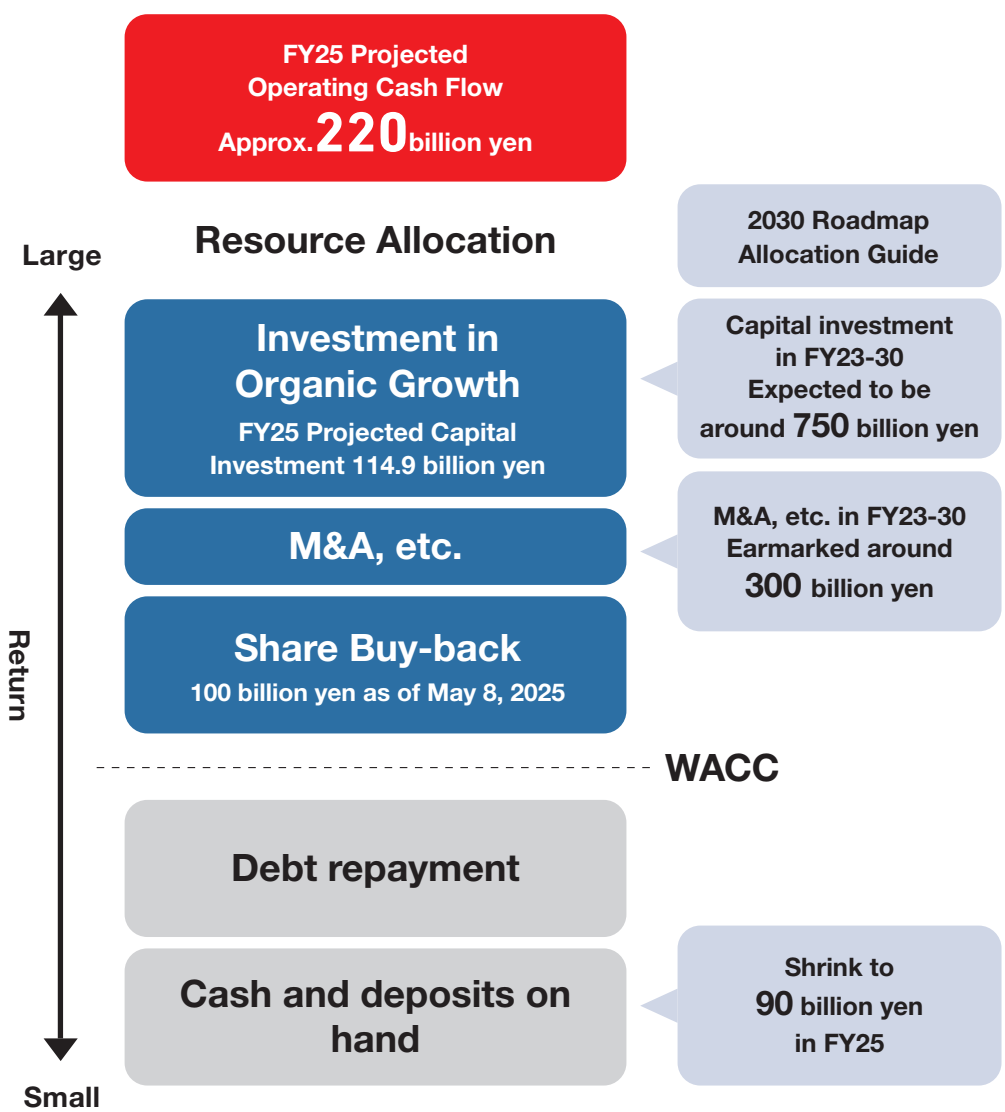


2. Switching to global standard financial discipline indicator and appropriate cash allocation through the use of leverage

In order to both maintain financial soundness and maximize capital efficiency, we have changed our financial discipline indicator from the previous Net Debt to Equity ratio (40% to 60%) to the Net Debt to EBITDA ratio (<2.0x), which is also used by rating agencies and investors. This will enable us to monitor and adjust the appropriate debt level relative to our cash generating capacity based on EBITDA and will enable us to realize a flexible and agile capital management policy aimed at tripling EPS.

In addition, our cash allocation policy aims to achieve a return exceeding the WACC, and the basic policy is to implement (1) organic growth investments, (2) M&A, etc., and (3) shareholder returns such as share buybacks and dividends. By appropriately utilizing leverage with an awareness of the rating level, we aim to maximize equity value from a long-term perspective by making investments that contribute to both business growth and improving our ROIC while controlling capital costs, and continuing to allocate funds with an emphasis on capital efficiency.

[Approach to Cash Allocation]

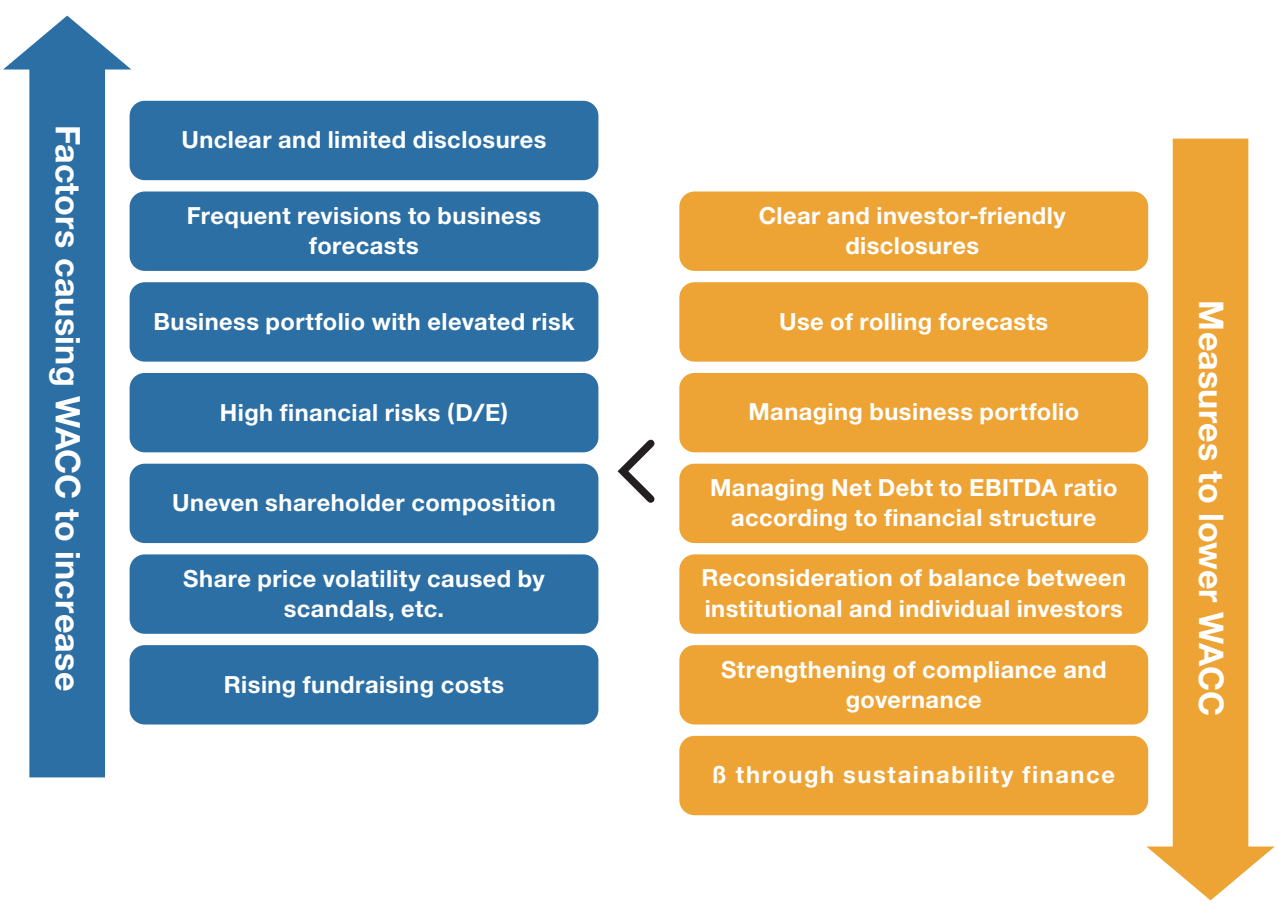


3. Achieving increased equity value by improving our ROIC and optimizing the weighted average cost of capital (WACC)

We consider the reduction of the weighted average cost of capital (WACC) to be an important financial issue as a driver for increasing equity value, and we thoroughly implement decision-making with an awareness of capital cost throughout management. In light of the need for investment decisions based on the WACC and the need to optimize capital structure, we have reviewed the balance between cost of equity and cost of debt.

Specifically, we are taking a multifaceted approach, including providing clear, investor-friendly disclosures, enhancing our rolling forecasts by implementing a new system, utilizing leverage in line with our financial structure, aiming to reduce the WACC by increasing ownership by individual investors, and periodically conducting our own corporate valuation and corporate valuation of the Ajinomoto Group to understand our current situation.

In addition, when it comes to business investments and M&A, we are committed to concentrating investment in projects that are expected to produce returns exceeding the WACC. This will increase our ROIC/WACC spread and realize an increase in equity value over the medium to long term. Going forward, we will continue to evolve our financial strategies to contribute to improving the WACC from both a quantitative and qualitative perspective.

WACC, an important element of the Ajinomoto Group's corporate value calculation formula, increased from approximately 6% to approximately 7% in fiscal 2024. The main factor was the increase in the risk-free rate, but we continue to work on various measures to reduce the WACC. One such measure is improving the accuracy of business profit forecasts by evolving rolling forecasts, and going forward, we will work to improve our medium- to long-term bottom-line management.

[Various Measures to Reduce WACC]