# Initiatives to Achieve Management Focused on Cost of Capital and Stock Price

Ferrotec Corporation (Securities Code: 6890)
July 15, 2026

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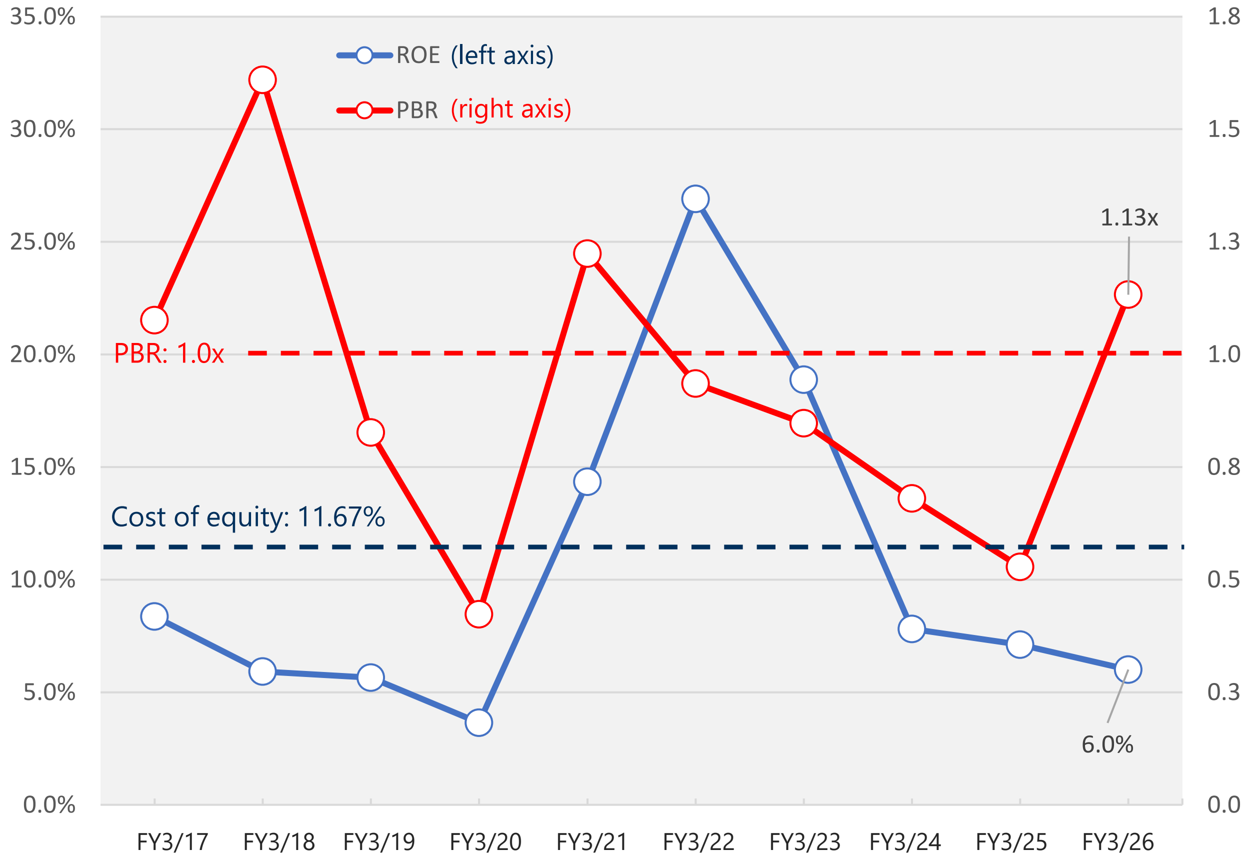
# Current Assessment: Trends in PBR and ROE

## Trends in PBR and ROE (Past 10 Fiscal Years)




PBR = Stock price ÷ Book value per share (BPS)
ROE = net income margin × Total asset turnover × Financial leverage
Total asset turnover = Net sales ÷ Total assets
Financial leverage = Total assets ÷ Equity capital

## Cost of equity: Calculated using the capital asset pricing model (CAPM)

| Risk-free rate | | Beta | | Market risk premium | | Specific risk premium | | Cost of equity |
|---|---|---|---|---|---|---|---|---|
| **Expected return on a risk-free asset** | + | **Sensitivity to market risk premium of individual assets** | × | **Additional return expected for assuming market risk** | + | **Additional return expected for assuming company-specific risk** | = | **11.67% (FY3/26)** |
| 20-year JGB yield | | Beta for the semiconductor manufacturing equipment industry (external data) | | Historical stock market return (external data) | | Historical small-cap return less historical large-cap return | | |
| 3.543% | | 1.625 | | 5.00% | | N.A. | | |

## Current assessment and policy for improvement

**Current Assessment**

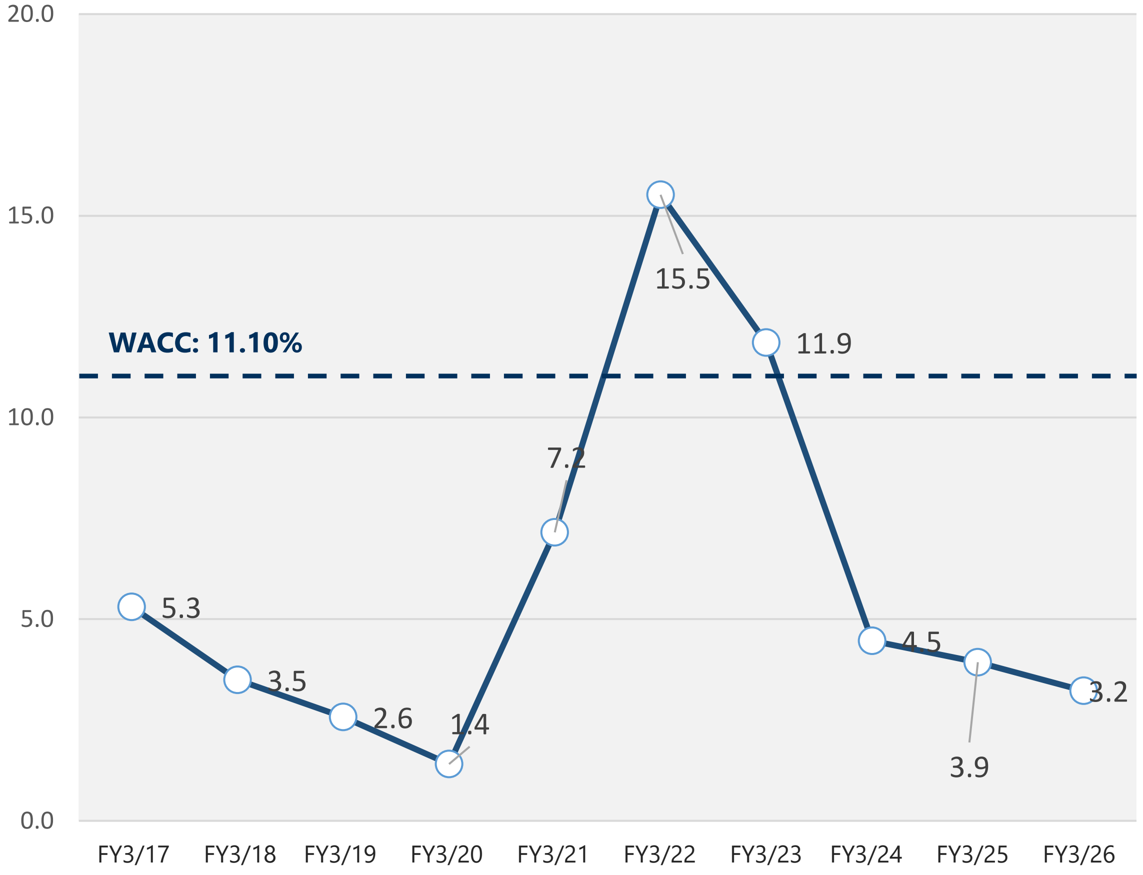
- PBR remained below 1.0x for four consecutive fiscal years but recovered to 1.13x in FY3/26.
- The cost of equity was calculated at 11.67% for FY3/26.
- ROE was 6.0% in FY3/26, below the cost of equity. The Company therefore recognizes strengthening profitability to exceed the cost of equity as a key management priority.

**Policy for improvement**

- Improve PBR by improving both ROE and PER, based on PBR = ROE × PER
- Improve ROE by driving business and profit growth, strengthening profitability, improving total asset turnover, and optimizing financial leverage through rigorous ROIC management and business portfolio selection and concentration. The Medium-Term Management Plan sets **an ROE target of 11%** for FY12/28.
- Improve PER by further strengthening shareholder return measures and non-financial strategies, including sustainability, IR, and SR initiatives.

# Current Assessment: Trend in ROIC

## Trend in ROIC (Past 10 Fiscal Years; unit: %)




ROIC = Profit attributable to owners of parent / (Interest-bearing debt + Equity capital)

* EVA (Economic Value Added) represents the economic value created by a company. When the EVA spread (ROIC – WACC) is greater than zero, it indicates that the company is generating economic value.

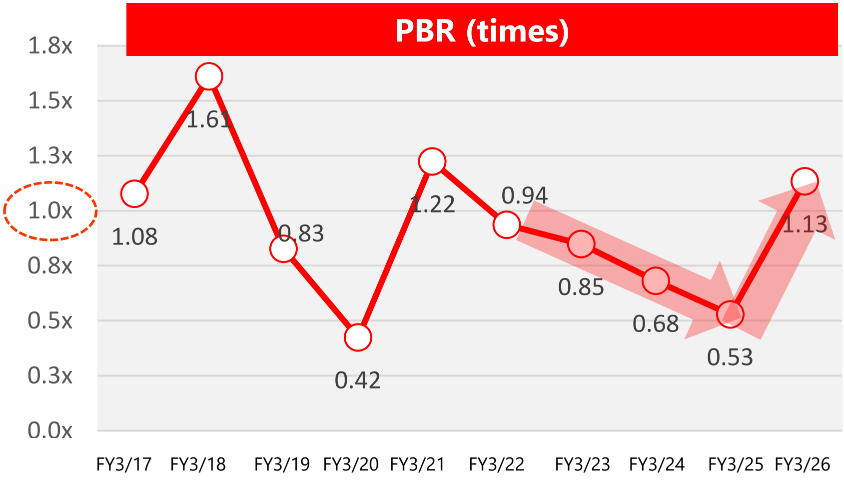
## Weighted average cost of capital (WACC)

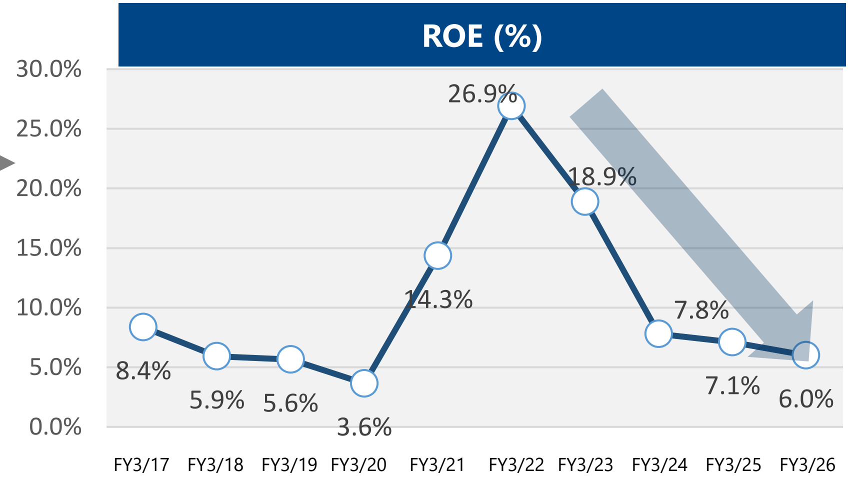
| Equity weight | | Cost of equity | | Debt weight | | Cost of debt (after tax) | | WACC |
|---|---|---|---|---|---|---|---|---|
| Equity-to-asset ratio<br>Median of 14 comparable listed companies<br>93.9% | × | 11.67% (FY3/26) | + | Interest-bearing debt-to-asset ratio<br>Median of 14 comparable listed companies<br>6.06% | × | Borrowing rate × (1 - Effective tax rate)<br>Based on the after-tax yield of an eight-year corporate bond rated BBB by JCR.<br>2.25% | = | 11.10% (FY3/26) |

## Current assessment and policy for improvement

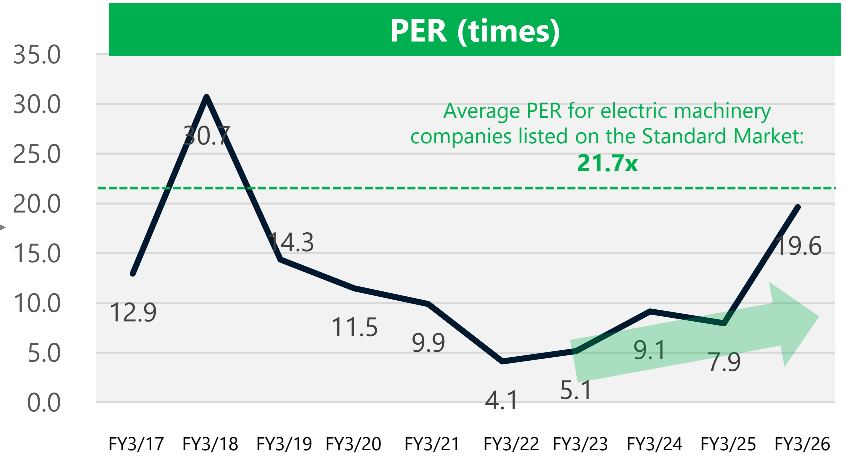
| | |
|---|---|
| Current Assessment | • ROIC was 3.2% in FY3/26, well below WACC of 11.10%, resulting in a negative EVA* spread.<br>• ROIC exceeded WACC in only two of the past 10 fiscal years (FY3/22 and FY3/23). The Company therefore recognizes improving ROIC as an urgent management priority. |
| Policy for improvement | • Implement rigorous ROIC management by business and subsidiary, and further strengthen ROIC-based investment decisions and investment management<br>• Improve ROIC by reviewing the business portfolio, selecting and concentrating businesses, and reorganizing the Group, including business sales, partial stake sales, and deconsolidation<br>• Through these measures, the Company will improve ROIC while continuing to invest for business growth. The Medium-Term Management Plan sets **an ROIC target of 7.0%** for FY12/28. |

# Current Assessment: PBR Analysis




×




PBR = ROE × PER
ROE = Profit attributable to owners of parent ÷ Equity capital
PER = Stock price ÷ Earnings per share (EPS)

**Factors**

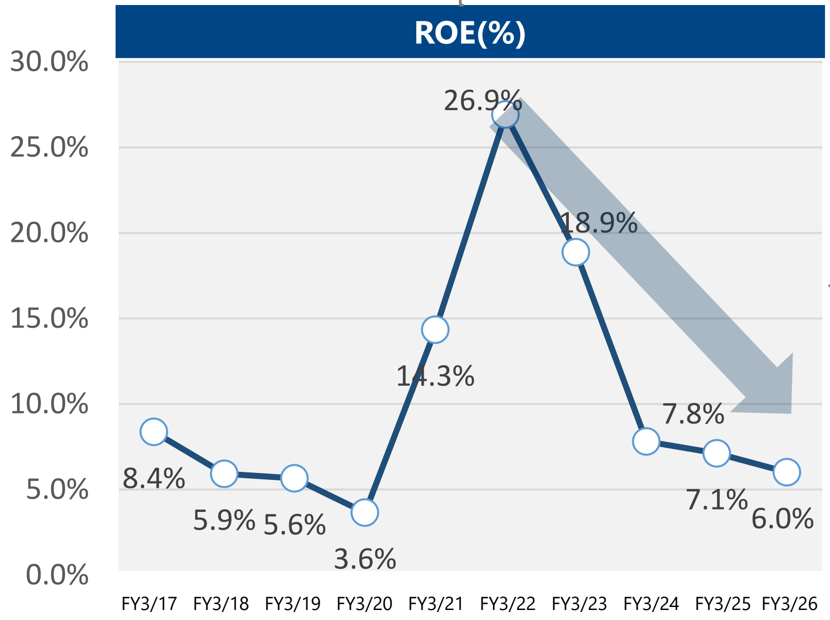
- ROE is the product of (1) net income margin, calculated using profit attributable to owners of parent, (2) total asset turnover, and (3) financial leverage. Ten-year trends for each component were analyzed to identify the key drivers. See the next slide.
- The Company concluded that the decline in ROE over the past four fiscal years was driven mainly by the significant deterioration in net income margin.
- Trend in net income margin

| FY3/23 | FY3/24 | FY3/25 | FY3/26 |
|---|---|---|---|
| 14.1% | 6.8% | 5.7% | 5.2% |

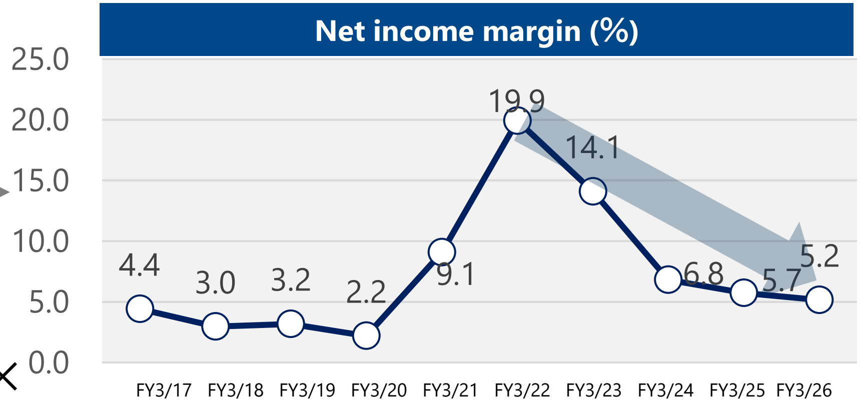
**Factors**

- PER was 19.6x in FY3/26, below the Standard Market average of 21.7x for the electric machinery industry in FY2026/3.
- The Company attributes the lower PER primarily to the following factors:
  (1) Concerns about achieving profit growth commensurate with increased investment
  (2) Concerns about future financing and earnings dilution due to continued negative free cash flow caused by capital expenditures exceeding operating cash flow
  (3) Concerns about the impact of U.S.-China semiconductor tensions given the concentration of production sites in China
  (4) Concerns arising from the broad range of businesses

# Current Assessment: DuPont Analysis of ROE



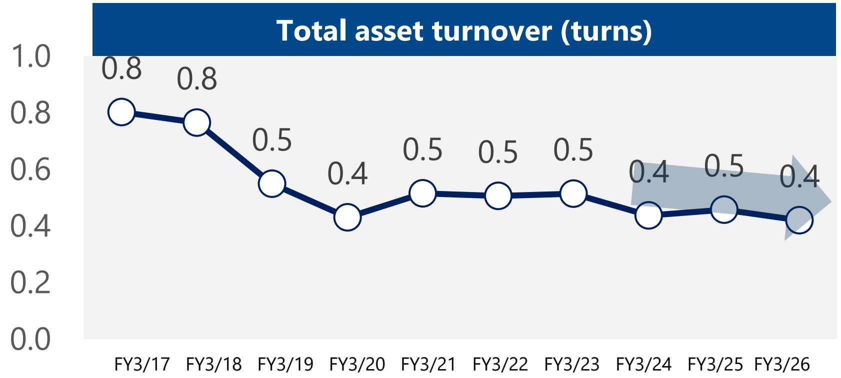

ROE = Net income margin × Total asset turnover × Financial leverage
Net income margin = Net income ÷ Net sales
Total asset turnover = Net sales ÷ Total assets
Financial leverage = Total assets ÷ Equity capital




**Factors**

Net income margin decreased 0.5 percentage points YoY in FY3/26.

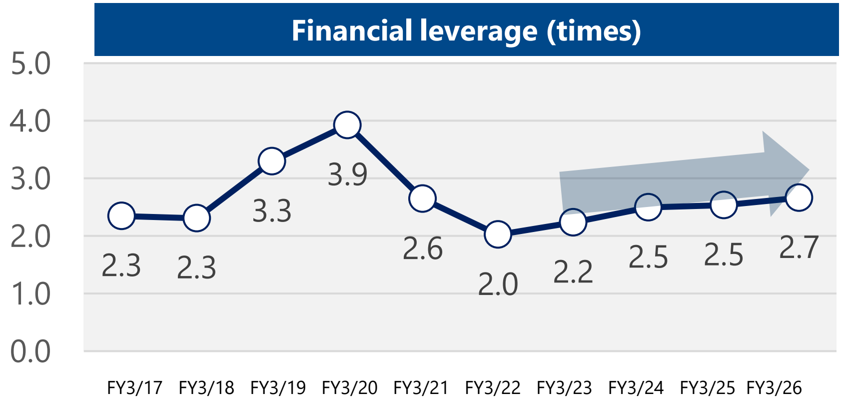
- Operating profit margin improved 0.7 percentage points YoY.
- Gross profit margin improved 1.4 percentage points YoY, while the SG&A ratio increased 0.6 percentage points.
- Non-operating income decreased ¥360 million YoY, reflecting a ¥2.4 billion decrease in foreign exchange gains and a ¥350 million decrease in subsidy income.
- Non-operating expenses increased ¥2.61 billion YoY, including a ¥960 million increase in interest expense and a ¥430 million increase in share of loss of entities accounted for using the equity method (wafers, SiC wafers, etc.).




**Factors**

Total asset turnover decreased 0.1 turns YoY in FY3/26

- This is because total assets increased ¥88.65 billion, outpacing the ¥14.54 billion increase in net sales.
- The increase in total assets was driven mainly by increases of ¥25.33 billion in trade receivables and inventories and ¥36.00 billion in property, plant and equipment.




**Factors**

Financial leverage increased slightly YoY in FY3/26.

- This is because the ¥88.65 billion increase in total assets was approximately 2.3 times the ¥38.52 billion increase in equity capital.
- The primary reason for the increase in total assets is as mentioned above.
- The ¥50.11 billion increase in liabilities was driven mainly by increases of ¥17.50 billion in the current portion of long-term borrowings and ¥24.82 billion in long-term borrowings.

● Improve PBR by implementing the following measures to raise ROE and PER.

**Improvement in PBR** = Improvement in ROE × Improvement in PER

**Improvement in ROE**

- **Profit margin**
  - Drive the digitalization, automation, use of AI, and visualization of production operations ☑
  - Pursue business selection and concentration through business sales and deconsolidation ☑
  - Tighten investment control through rigorous ROIC management by business and Group company ☑
- **Total asset turnover**
  - Pursue business selection and concentration through business sales and deconsolidation ☑
  - Shorten the working capital turnover period (by reducing inventory, etc.) ☑
  - Tighten investment control through rigorous ROIC management by business and Group company ☑
- **Financial leverage**
  - Improve operating cash flow and free cash flow by bringing new Factories into operation at an early stage ☑
  - Diversify financing at Chinese subsidiaries through partial stake sales, external capital investment, and other measures ☑
  - Selection and concentration of businesses (sale of businesses and exclusion of some subsidiaries From the scope of consolidation) ☑

**Improvement in PER**

- **Cost of capital**
  - Consider diversifying shareholder returns, including share buybacks that could be used to fund future M&A ☑
  - Strengthen sustainability initiatives, including GHG* emissions reduction ☑
  - Strengthen engagement through IR and SR activities, including Factory tours in Japan and overseas and meetings with Outside Directors ☑
  - Promote understanding by clarifying the business models and strategies of the semiconductor-related, electronic device, and automotive businesses ☑
- **Expected EPS growth rate**
  - Expand manufacturing sites outside China, including production capacity, and bring them into operation early in response to U.S.-China semiconductor tensions ☑
    - Malaysia (Kulim: ceramics, quartz, metal processing, and robot assembly; Johor Bahru: power semiconductor substrates)
    - Japan (Ishikawa: ceramics; Kumamoto: precision parts cleaning and recycling and quartz; Okayama: CVD-SiC)

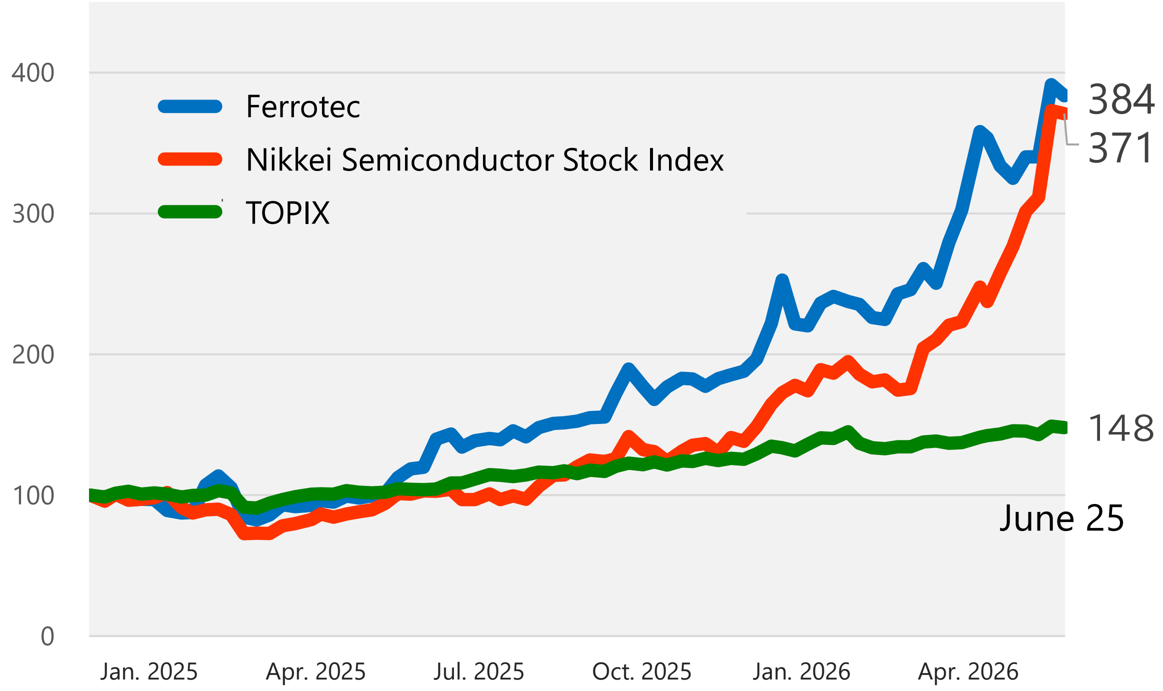
*GHG stands for greenhouse gas, primarily $CO_2$.

- The Company continues to implement initiatives to enhance its stock price.
- Although ROE declined YoY in FY3/25, the following measures were well received by shareholders, and the Company believes they contributed to the upward trend in its stock price in the first half of 2026.

Specific measures to improve stock price

| Policy | Specific measures |
|---|---|
| **Reduce the cost of capital by lowering the risk premium and beta** | |
| Significantly enhance shareholder returns | Introduced DOE (3.5% floor)<br>Announced a share buyback program (¥25.0 billion over three years) |
| Reduce dependence on the Chinese market | Started up Malaysia Factories (Kulim Factory 1, Kulim Factory 2, and Johor Bahru Factory) and expanded Ishikawa Factory 3 |
| **Increase expected EPS growth rate** | |
| Response to China's policy to manufacture semiconductors domestically | Adjusted production plans at factories in China in line with growing domestic demand |
| Supply products to growing industries | Supplying materials and components for AI semiconductors, memory, automotive semiconductors, and electronic devices |

Relative stock price performance vs.
Nikkei Semiconductor Stock Index and TOPIX
(Weekly; January 2025 = 100)




Source: Nikkei Average Profile

<Details of cash generation through investments and asset sales>

– Same content as the Medium-Term Management Plan announced in May

| | |
|---|---|
| Capital investment | Capital expenditures from FY3/26 through FY12/27 are planned to total ¥175.0 billion, including investments in Malaysia and ceramics capacity expansion. |
| Asset sales | Plan to sell more than ¥50.0 billion of Group assets, including shares in subsidiaries, over three years |
| Use of sale proceeds | Proceeds from asset sales will be used to fund capital expenditures and shareholder returns, including share repurchases |

<Illustrative cash allocation from FY3/26 through FY12/27>

**Generation of operating cash flow**

Operating cash flow: **¥150.0 billion+**

Cash generation through asset sales

Proceeds from partial sales of shares in listed subsidiaries, etc.: ¥50.0 billion

**Allocation**

**Growth investment**

**Capital investment**

**¥175.0 billion**

Major investments:
- Malaysia—Kulim Factory and Johor Bahru Factory
- Ceramics capacity expansion

**Equity investments and M&A***

**Shareholder returns**

**Shareholder returns DOE: 3.5% (minimum)**

**Share repurchases**

* Equity investments and M&A will be undertaken as opportunities arise; amounts will vary depending on the specific transaction.

# Reform of the Executive Remuneration System 1/2

- The Company reviewed the remuneration mix for Directors to strengthen alignment with business performance and shareholder value and ensure that it serves as an incentive to enhance corporate value over the medium to long term.
- The Company reduced the relative weighting of base remuneration while increasing the weightings of short-term performance-linked remuneration and stock-based remuneration, a medium- to long-term incentive that facilitates value sharing with shareholders.

## Previous Structure (Until FY3/2024)

**Short-Term Incentive**

◇**Profit-sharing plan**
- 3% of net income distributed according to position/rank-based coefficients

◇**Total cap: ¥200 million**

**Medium- to Long-Term Incentive**

◇**Restricted Stock (RS)**
- Fixed number of shares by position/rank

## Basic Policy of the Current Incentive System

Basic Policy in the Medium-Term Management Plan

- Thoroughly pursue business growth
- Improve profitability and production efficiency
- Strengthen human capital and embed the corporate culture
- Strengthen financial foundation and shareholder returns

Emphasize alignment with medium- to long-term corporate value and shareholder value

## System Reform (From FY3/2025)

**Short-Term Incentive**

◇**Target-based formula**
- Determine the amount by multiplying the target amount for each position by a performance multiplier (0%–200%).
- Determine the performance multiplier by appropriately weighting performance KPIs and individual performance assessments.

◇**Ensuring fairness and reasonableness**
- Ensure oversight by the Compensation Committee, a majority of whose members are independent outside officers.
- Introduce a clawback provision.

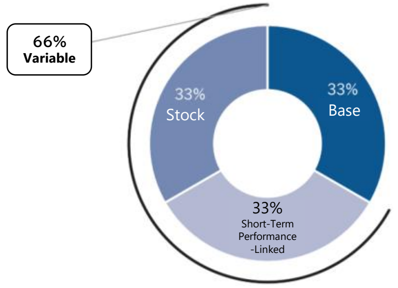
**Medium- to Long-Term Incentive**

◇**Stock-based remuneration with deferred share delivery**
- Clarify its role as an incentive for medium- to long-term corporate growth by aligning executives' perspectives with those of shareholders

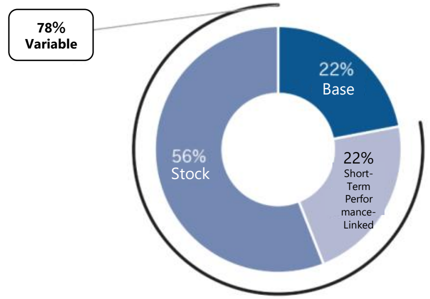
- **Restricted Stock Units (RSUs)**
- **Performance Share Units (PSUs)**

## Remuneration Mix Reform (From FY12/2026)

President (Consolidated Remuneration Basis)




President(Consolidated Remuneration Basis)

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# Reform of the Executive Remuneration System 2/2



- The executive remuneration system strengthens alignment with the sustainable enhancement of corporate value, business performance, and shareholder value.
- Reduce the relative weighting of fixed base remuneration, while increasing the weightings of short-term performance-linked remuneration and share-based remuneration, a medium- to long-term incentive designed to align interests with shareholders.

Remuneration Table

| **Example: CEO** | **Basic** | **Performance-linked** | **Stock-based** | |
|---|---|---|---|---|
| | Fixed monthly remuneration | Short-term incentive | Medium- to long-term incentive | |
| | | Bonus | Performance Share Units (PSUs) | Restricted Stock Units (RSUs) |
| Composition ratio (standard) | 22% | 22% | 56% | |
| Evaluation metrics (KPIs) | – | (1) Net sales, (2) Operating profit margin, (3) Net income, and (4) ROE | Comparison of three-year growth rates: total shareholder return vs. Nikkei Semiconductor Stock Index | Three years of continuous service |
| Evaluation coefficient | – | 0%–200% | 0%–200% | – |
| Payment method | Cash | Cash | Units are granted by position. After three years, each unit is settled as one share, with PSU awards adjusted by the evaluation coefficient; 50% is delivered in shares and 50% in cash to cover taxes and related expenses. | |
| Malus and clawback* | – | Applicable | | |

* A malus provision allows unpaid stock-based remuneration to be reduced or forfeited in the event of misconduct.
A clawback provision requires the repayment of remuneration already paid.

# Non-financial Strategy: Dialogue with Shareholders and Investors 1/2

## Institutional investor briefings: Activity data for the previous fiscal year

| Item | Financial results briefings | Conferences | IR interviews (including small-group meetings) |
|---|---|---|---|
| Number of sessions held | 2 | 2 | 206 |
| Number of companies engaged | 96 | 20 | 298 |
| Domestic : Overseas | 72 : 24 | 0 : 20 | 107 : 99 |
| Sell side : Buy side | 55 : 41 | 0 : 20 | 45 : 161 |

## Institutional investor briefings: Details for the previous fiscal year

| Timing | Event name | Overview | Key speakers |
|---|---|---|---|
| Financial results briefings | | | |
| May | Full-year financial results briefing *Recorded | Full-year results, business strategy, and the Medium-Term Management Plan | CEO and Director responsible for Finance, Accounting, and Corporate Planning |
| June | Full-year results Q&A session *Online | Q&A session on full-year results with institutional investors and analysts | CEO and Director responsible for Finance, Accounting, and Corporate Planning |
| November | Semi-annual financial results briefing *In person + online | Semi-annual results, business strategy, progress on the Medium-Term Management Plan, and Q&A | CEO and Director responsible for Finance, Accounting, and Corporate Planning |
| IR events, including business strategy briefings | | | |
| June | General Meeting of Shareholders | Future business strategy | CEO |
| September | Online briefing for individual investors | Introduction of the Company, future business strategy, etc. | IR/PR Department |
| September | Sell-side small-group meeting | Future business strategy | CEO and Director responsible for Finance, Accounting, and Corporate Planning |
| November | Sell-side conference meeting (Tokyo) | Future business strategy | IR/PR Department |
| February | Sell-side small-group meeting | Introduction of the Company and future business strategy | IR/PR Department |
| March | Sell-side conference meeting (Tokyo) | Future business strategy | IR/PR Department |

## Discussion topics with shareholders and investors for the previous fiscal year

| Examples of discussion topic with shareholders and investors | Status of the Company's initiatives |
|---|---|
| **Overall Management** | • Roadmap and specific measures to improve profit margins, the expected year-by-year improvement, and when the margin is expected to return to 15%<br>• Current Factory utilization rates, the outlook for the next two to three years, and the link between utilization and margin improvement<br>• Outlook for capital expenditures and depreciation, and when FCF is expected to turn positive<br>• Impact of U.S.–China semiconductor tensions, Japan–China relations—including tariffs and export restrictions—and conflicts in the Middle East |
| **Semiconductor Equipment Market** | • Sensitivity of earnings to WFE and other industry cycles<br>• Geographic breakdown of the Semiconductor Segment by customer domicile and future trends<br>• Conditions in China's semiconductor market, including investment appetite, the customer base, and the relationship between increased China exposure and profit margins<br>• Current status and outlook for Kulim Factory 1 in Malaysia, including utilization and progress in improving profit margins |
| **Generative AI Investment and Optical Transceivers** | • Percentage of thermo-module sales attributable to optical transceiver applications<br>• Overview of the thermo-module business for optical transceiver applications, including customers, competitors, demand growth, unit prices, and production capacity<br>• Relationship between the adoption of silicon photonics and CPO and demand for thermo-modules |
| **Financial Matters** | • Specific timing of the planned ¥50 billion in asset sales and intended use of the proceeds<br>• Progress in the sale of FTSVA shares following the expiration of the lock-up period<br>• Progress in CCMC's listing application |

## Securities analyst evaluation

- Following a significant increase in an analyst's target price, the stock price rose above ¥10,000

| | Evaluation | Target stock price | Summary of comments |
|---|---|---|---|
| Analyst at a major U.S. securities firm | OW (Overweight), maintained | ¥13,000 (prev. ¥7,700) | • Earnings improvement is expected, driven by increased demand for TECs used in optical transceivers and components for semiconductor manufacturing equipment, as well as higher utilization rates at Ferrotec's factories.<br>• Although improving profit margins remains a challenge, the Q1 results showed a clear improvement in semiconductor-related business momentum, which could serve as a catalyst for share price appreciation. |
| Analyst at a major Japanese securities firm | 1 (Buy), maintained | ¥10,000 (prev. ¥8,700) | • Raised WFE assumptions and revised forecasts for components used in semiconductor manufacturing equipment.<br>• Significantly raised forecasts for thermo-modules used in optical transceivers.. |

# Appendix I: KPIs in the Medium-Term Management Plan

| (Millions of yen; unless otherwise stated) | Indicator | FY3/26 Actual | FY12/26 Forecast | FY12/27 Plan | FY12/28 Plan |
|---|---|---|---|---|---|
| Performance | Net sales | 288,933 | 350,000 | 400,000 | 450,000 |
| | Operating profit | 27,561 | 38,000 | 48,000 | 57,000 |
| | Operating profit margin | 9.5% | 10.9% | 12.3% | 12.7% |
| | Profit | 14,886 | 23,000 | 30,000 | 38,000 |
| Capital efficiency | ROE | 6.0% | → | → | 11.0% |
| | ROIC | 3.2% | → | → | 7.0% |
| Financial | Equity ratio | 37.6% | ← | 40.0% | → |
| | Capital expenditure | 54,598 | 65,000 | 55,000 | 30,000 |
| Shareholder returns | DPS (annual) | ¥148 | ¥200 | DOE (dividend on equity, based on consolidated shareholders' equity) adopted, with a minimum of 3.5%; share repurchases to be considered flexibly, targeting a total payout ratio of 50% | |

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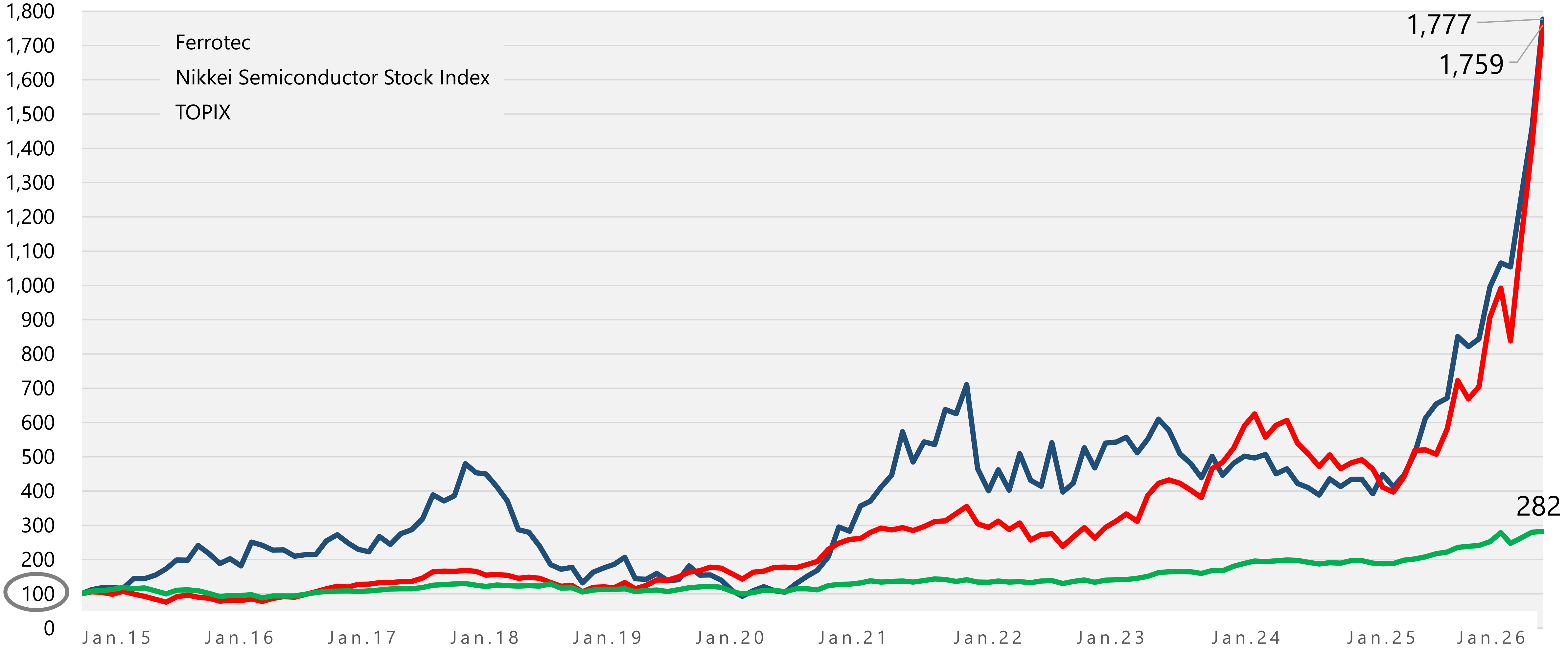
- Since 2015, the Company's stock price has risen approximately 17.7-fold, compared with approximately 17.6-fold for Nikkei Semiconductor Stock Index and 2.8-fold for TOPIX.

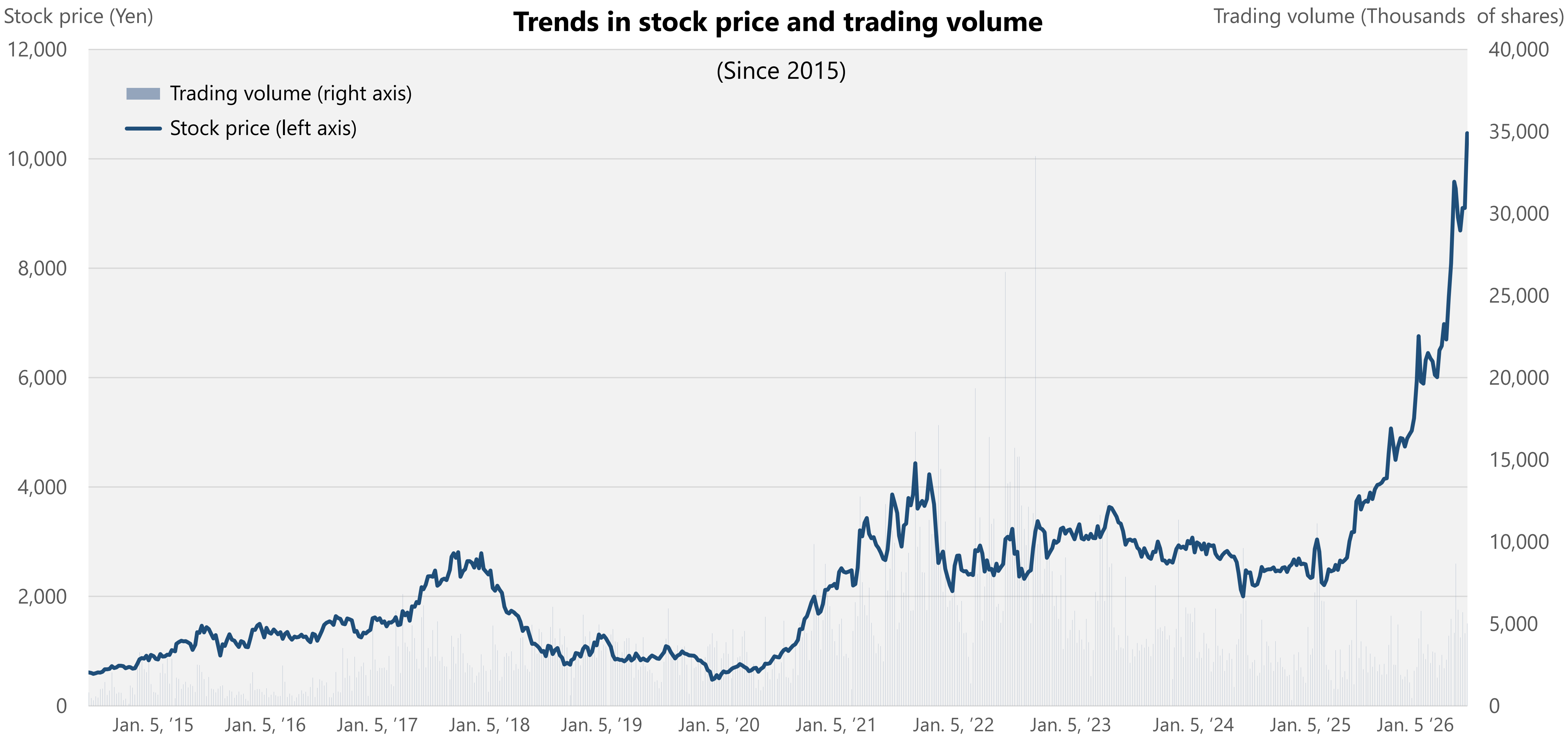
Relative stock price Trends vs. the Nikkei Semiconductor Stock Index and TOPIX (Monthly; January 5, 2015–June 1, 2026; January 5, 2015 close = 100)




Source: Nikkei Average Profile

# Appendix III: Trends in Stock Price and Trading Volume

Trends in stock price and trading volume (Weekly; January 5, 2015–June 15, 2026)

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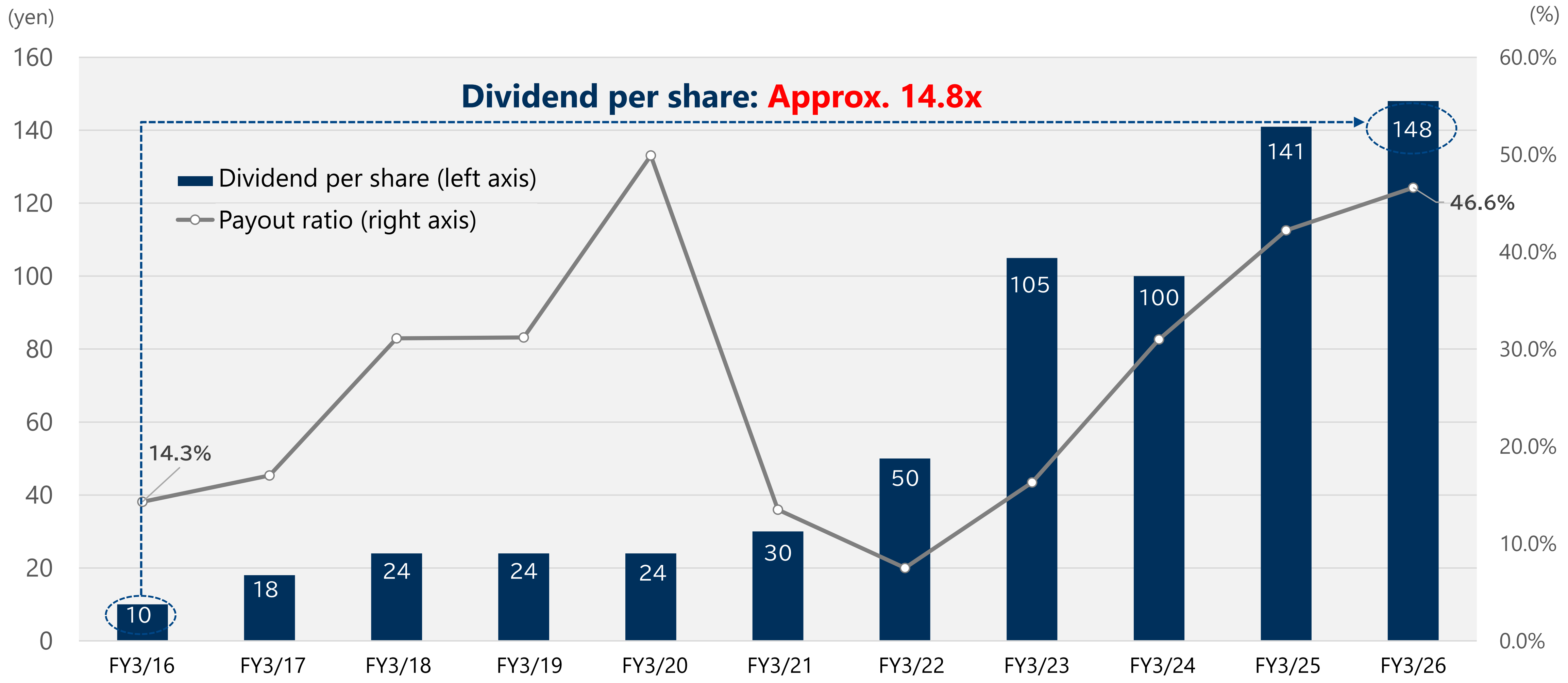
# Appendix IV: Trends in Shareholder Returns

- Dividend per share increased 14.8-fold from FY3/16, while the payout ratio rose substantially to 46.6% in FY3/26.

Trends in dividends and payout ratio (Since FY3/16)



# Appendix V: Sustainability Initiatives

## Environment: GHG emissions (climate action)

| | FY3/24 | FY3/25 | Remark |
|---|---|---|---|
| Ferrotec Group GHG emissions [t-$CO_2$e*] | 1,401,734 tons | 1,567,654 tons | The increase in emissions was mainly attributable to higher fuel and electricity consumption and increased purchases of materials and supplies following factory expansions and the start-up of new factories. |
| Of which: Scope 1 emissions (fuel used by the Company: petroleum-related products, etc.) | 13,999 tons | 19,581 tons | |
| Of which: Scope 2 (energy procured from external sources: electricity) | 293,217 tons | 334,497 tons | |
| Of which: Scope 3 ($CO_2$ generated throughout the supply chain) | 1,094,518 tons | 1,213,576 tons | Categories 1 to 7, 11, 12, and 15 were measured. |
| | | | |
| (For reference) CDP evaluation and rating | C | C | |

**Taking rapid business growth into account, the Company will set appropriate GHG emissions reduction targets.**

*GHG stands for greenhouse gas, primarily $CO_2$. t-$CO_2$e means tonnes of carbon dioxide equivalent, a globally recognized standard measure for comparing greenhouse gas emissions.

CDP is a non-governmental organization managed by a UK-based charity. It operates a global disclosure system through which investors, companies, countries, regions, and cities manage their environmental impacts.

Note: GHG emissions for FY3/2026 are currently being calculated.

**This material is provided solely for informational purposes to assist investors in making investment decisions and does not constitute an offer or solicitation to buy or sell any securities or other financial instruments.**

**Investors should select securities and make final investment decisions based on their own judgment.**

Ferrotec Corporation