

Action to Implement Management that is Conscious of Cost of Capital and Stock Price

Takuma Co., Ltd. | Updated as of June 20, 2025

*The major updates are framed in red.

TAKUMA

Analysis of current situation

- Our cost of equity, estimated using the capital asset pricing model (CAPM), has **risen to around 7%**, due to the rise in long-term interest rates (the estimated cost for FY3/2024 was 6.2%.)
- Based on interviews with institutional investors, the expected market return is estimated to be around 7-8%, which we believe **does not deviate significantly** from the CAPM estimated cost of equity.
- While the cost of equity is rising, **ROE is also increasing** (FY3/2025: **9.5%**), so a certain equity spread^{*1} has been secured.
- Our **PBR^{*2} improved to 1.4x** due to **the upward revision of the financial targets of the 14th MTP** in May 2025. Although it does not reach the weighted average PBR of 1.7x for the machinery industry on the Tokyo Stock Exchange Prime Market, it exceeds the weighted average PBR of 1.2x for the construction industry.
- While we believe that we have received a certain level of recognition from the market, **we need to continue our efforts** in order to meet market expectations.

Policies

- Maintain and increase ROE in excess of cost of equity (FY3/2027: **at least 11.5%**; FY3/2031: **at least 12%**).
- To achieve the target ROE, we will **increase balance sheet efficiency** while **improving profitability** and **maintaining a solid financial foundation**.
- At the same time, we will promote initiatives to **reduce the cost of capital**.

Initiatives

- **Steady implementation of the 14th Medium-Term Management Plan** to achieve Vision 2030 (Working especially to maintain and expand our market position in the EPC Business, the source of our recurring revenue model businesses)
- **Optimal cash allocation** to achieve both our growth strategy and capital efficiency.
- Specification of **a quantitative policy** on shareholder return
- **Further enhancement of IR activities**, including effective dialogue with investors and enhanced disclosure information.

^{*1} Equity spread = ROE - Cost of equity

^{*2} Calculated based on average closing stock price from May 15 to May 30, 2025 and net assets per share as of the end of March 2025

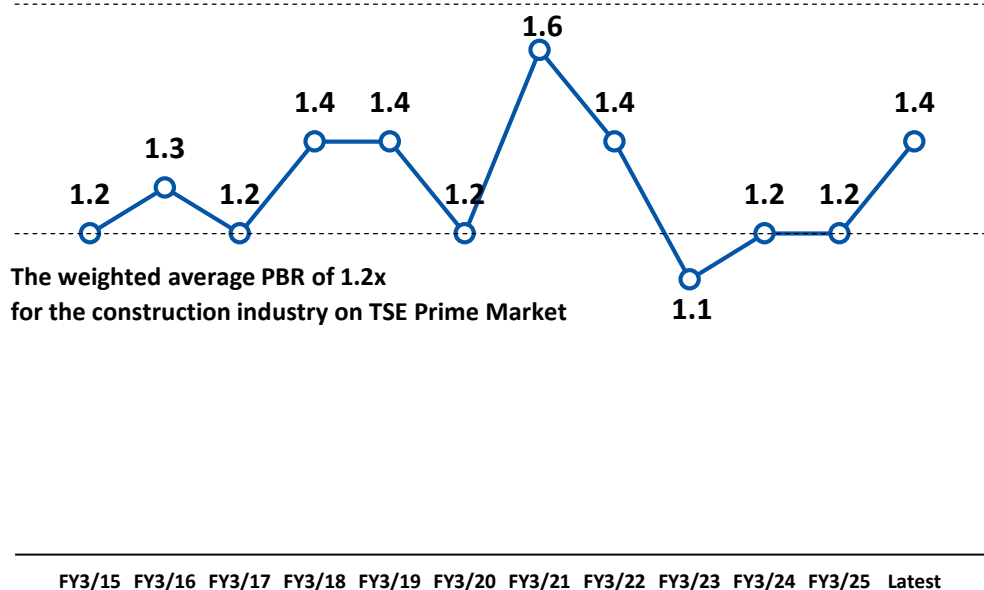
Analysis of Current Situation (1/2)

ROE has remained above cost of equity, and a certain equity spread has been secured.

Although PBR does not reach the weighted average for the machinery industry on the Tokyo Stock Exchange Prime Market, it exceeds the weighted average for the construction industry.

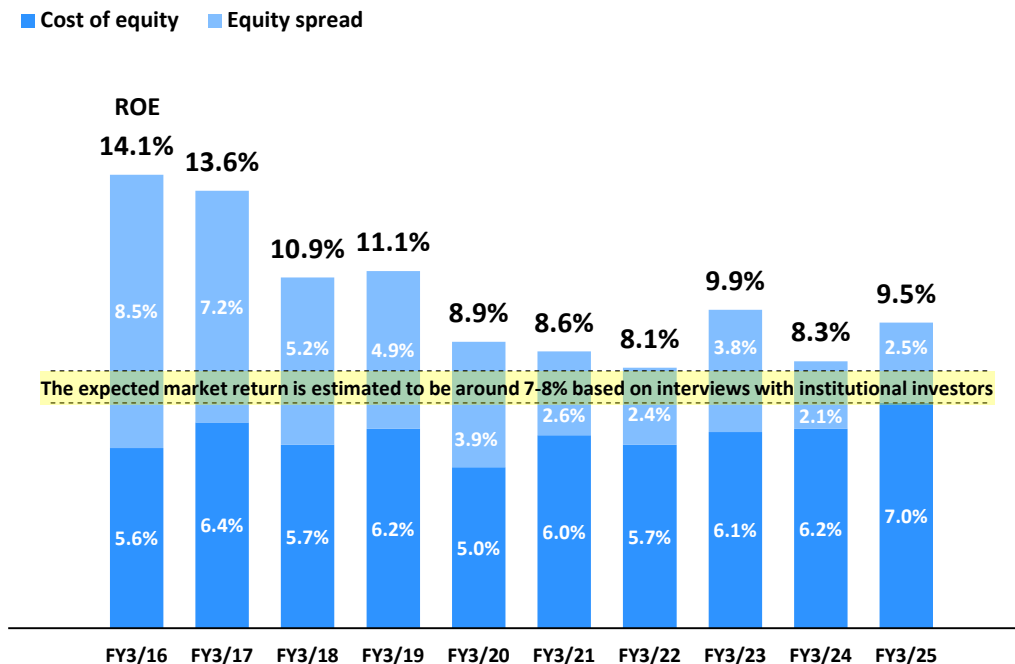
PBR^{*1} over time

The weighted average PBR of 1.7x
for the machinery industry on TSE Prime Market



^{*1} Each year PBR = (Average month-end stock price over 12 months) / (Year-end net assets per share)
 Latest PBR = (Average closing stock price from May 15, 2025 to May 30, 2025) / (net assets per share as of the end of March 2025)
 The weighted average PBR for the machinery industry and the construction industry based on the data as of May 2025 for the "Average PER and PBR by Size and Types of Industry" published by the Tokyo Stock Exchange.

ROE / Cost of equity^{*2} / Equity spreads over time



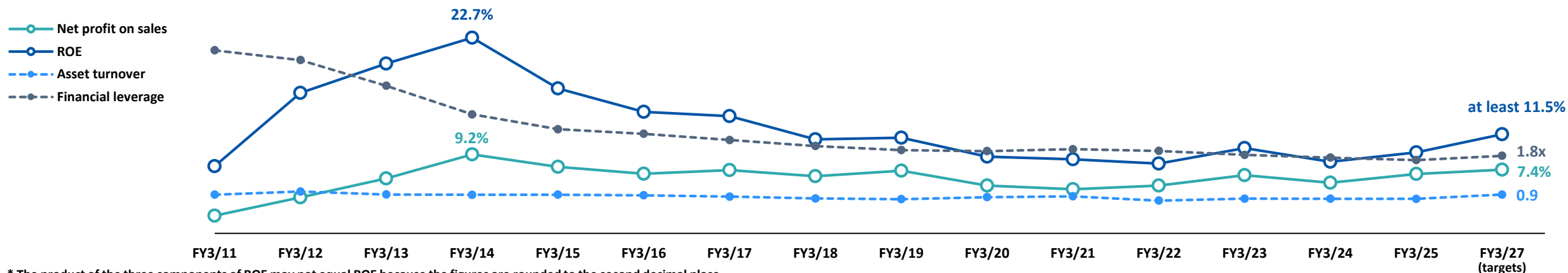
^{*2} Cost of equity calculated based on CAPM.
 Beta values are measured over multiple time periods (weekly 1 year, weekly 2 years, monthly 3 years, monthly 5 years, monthly 10 years), and the median value is used.

Analysis of Current Situation (2/2)

Over the past 15 years, we have enhanced our equity capital to stabilize management and improve creditworthiness. As a result, financial leverage decreased, and capital efficiency declined. While maintaining our strong financial base, we aim to achieve our target ROE by improving our profit margin on sales.

$$\text{ROE} = \text{Net profit on sales} \times \text{Total asset turnover} \times \text{Financial leverage}$$

	FY3/11	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25	FY3/27 targets
ROE	7.8%	16.3%	19.7%	22.7%	16.8%	14.1%	13.6%	10.9%	11.1%	8.9%	8.6%	8.1%	9.9%	8.3%	9.5%	at least 11.5%
Net profit on sales	2.0%	4.2%	6.4%	9.2%	7.7%	6.9%	7.4%	6.6%	7.3%	5.5%	5.1%	5.5%	6.7%	5.9%	6.9%	7.4%
Total asset turnover	0.9	1.0	0.9	0.9	0.9	0.9	0.9	0.8	0.8	0.8	0.9	0.8	0.8	0.8	0.8	0.9
Financial leverage	4.2x	4.0x	3.4x	2.8x	2.4x	2.3x	2.2x	2.0x	1.9x	1.9x	2.0x	1.9x	1.8x	1.8x	1.7x	1.8x
Financial figures (JPY billions)																
Net sales	89.1	101.0	96.3	96.3	103.8	113.0	116.3	118.1	121.9	134.4	146.7	134.0	142.6	149.1	152.1	
Profit	1.8	4.2	6.1	8.8	8.0	7.8	8.5	7.8	8.8	7.4	7.5	7.4	9.6	8.7	10.3	
Total assets	100.8	107.0	106.7	108.5	123.1	132.6	140.2	151.4	155.9	163.4	177.7	174.5	179.6	191.1	190.9	
Equity capital	23.6	28.0	34.3	43.6	52.2	58.5	67.4	76.4	82.6	84.6	90.1	93.9	100.6	110.3	108.7	
Equity ratio	23.5%	26.2%	32.2%	40.2%	42.4%	44.1%	48.1%	50.3%	53.0%	51.8%	50.7%	53.8%	56.0%	57.7%	57.0%	
Total dividends	0	0.1	0.3	0.4	0.7	0.9	1.0	1.3	1.8	2.5	2.9	2.9	3.4	3.8	5.1	
Purchase of treasury stock	0	0	0	0	0	0	0	0	0	1.9	0	0.7	1.2	0	6.2	



* The product of the three components of ROE may not equal ROE because the figures are rounded to the second decimal place.

Policy

Main Initiatives

Improvement of profitability

- We will expand EPC orders, which is a prerequisite for further growing recurring revenue model businesses.
- In particular, we will give priority to investing management resources in municipal solid waste treatment plants, for which a large amount of renewal demand is expected during the Medium-Term Management Plan period.

➡ Orders received reached ¥246.3 billion and order backlog reached ¥577.7 billion in FY 3/2025, both were record highs.

Enhancement of balance sheet efficiency

- Over the last 15 years, we've enhanced our financial foundation by building up a substantial internal reserve. Looking ahead, we will maintain a solid financial foundation to back our EPC and long-term O&M businesses, all the while ensuring a balanced distribution of profits between investments for growth including M&As and shareholder returns.
- Specify a new, quantitative policy on shareholder return
- We will maintain the equity ratio at the 50% level with cash and deposits at a minimum level of roughly two to three months' worth of sales (JPY 30-40 billion).

➡ Completed 2 M&A projects in September 2024 and April 2025.

Established the policy to strengthen the reduction of policy-held shares (selling approximately ¥7 billion worth of shares for the 14th MTP period) in November 2024, besides decided to increase share repurchase (during the 14th MTP period: from ¥12 billion to ¥18 billion yen.)

Reducing cost of capital

- Through proactive investor relations, we will carefully explain our business environment and corresponding business strategy to our investors so that they can expect stable returns over the long term, thereby bridging the gap between cost of equity and the future business outlook.

➡ In FY 3/2025, we held a total of 149 individual meetings with investors and 3 small meetings, as well as SR interviews and an information session for individual investors.

We will establish a quantitative policy based on an analysis of the current situation related to cost of capital and stock price.
We will enhance corporate value by balancing business growth and shareholder returns that meet market expectations with a solid financial foundation.

1

Establishment of ROE targets mindful of cost of capital

Establish target ROE based on the recognition that the cost of equity over the past 10 years has been around 6%.

FY3/2027 ROE
At least **11.5%**

FY3/2031 ROE
At least **12%**

2

Establishment of appropriate cash allocation

Secure a working capital and business risk buffer of roughly 2-3 months' worth of sales (JPY 30-40 billion).

For cash and deposits above that level (operating CF + cash and balance in account), implement **appropriate allocation** between investment in growth and shareholder return.

3

Establishment of new shareholder return policy

Dividends

Establish as a target **amount whichever is higher calculated based on dividend payout ratio of 50% or dividend on equity (DOE) ratio of 4.0%**

Share repurchase

Share repurchase **totaling approximately JPY 18 billion over three years** to improve capital efficiency

4

Maintenance of solid financial foundation
to support the EPC and long-term O&M businesses

Equity ratio
Maintain at
the **50%** level

5

Reduce Cross-share Holdings

Ratio of cross-shareholdings to consolidated net assets

Less than **15%**

by the end of FY 3/2027
(selling approximately ¥7 billion worth of shares)

Less than **10%**

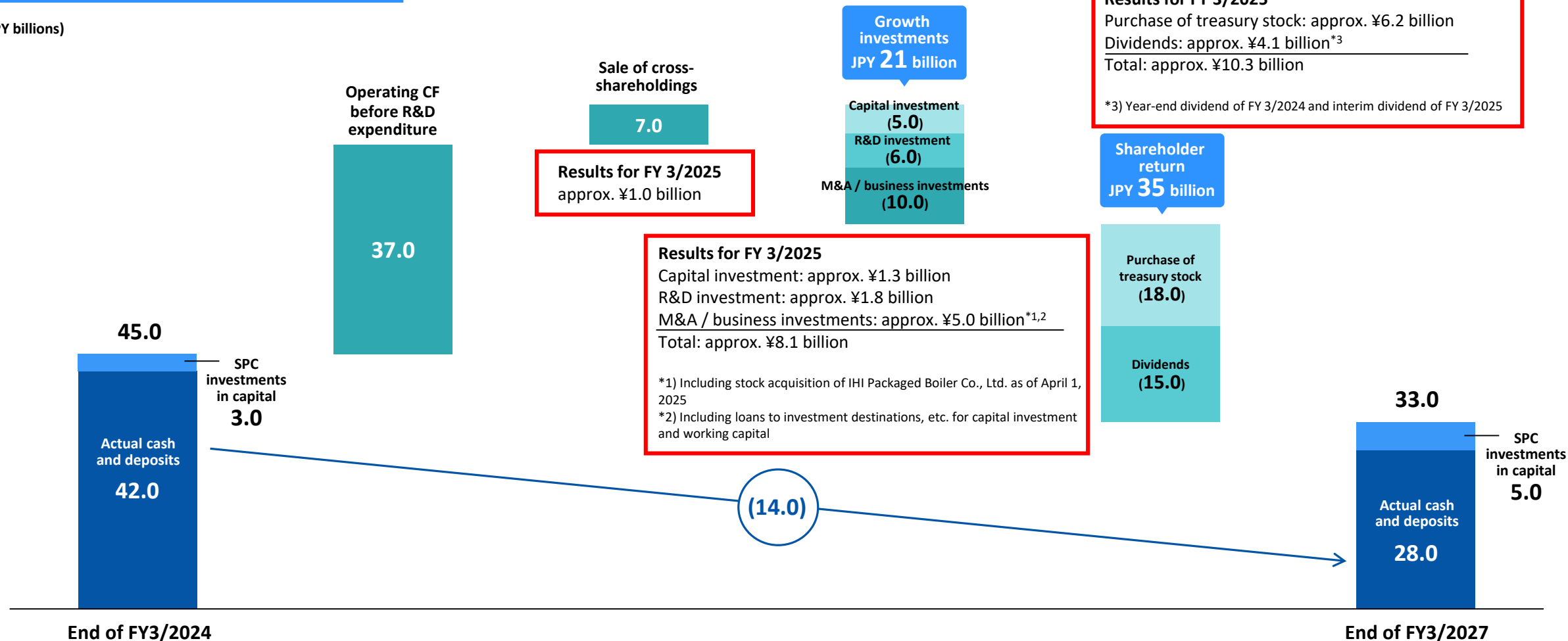
by the end of FY 3/2029
(selling further approximately ¥3 billion worth of shares)

Cash Allocation

Focus on growth investments and shareholder returns and execute appropriate cash allocation to increase corporate value.

14th Medium-Term Management Plan period

(JPY billions)



Shareholder Return

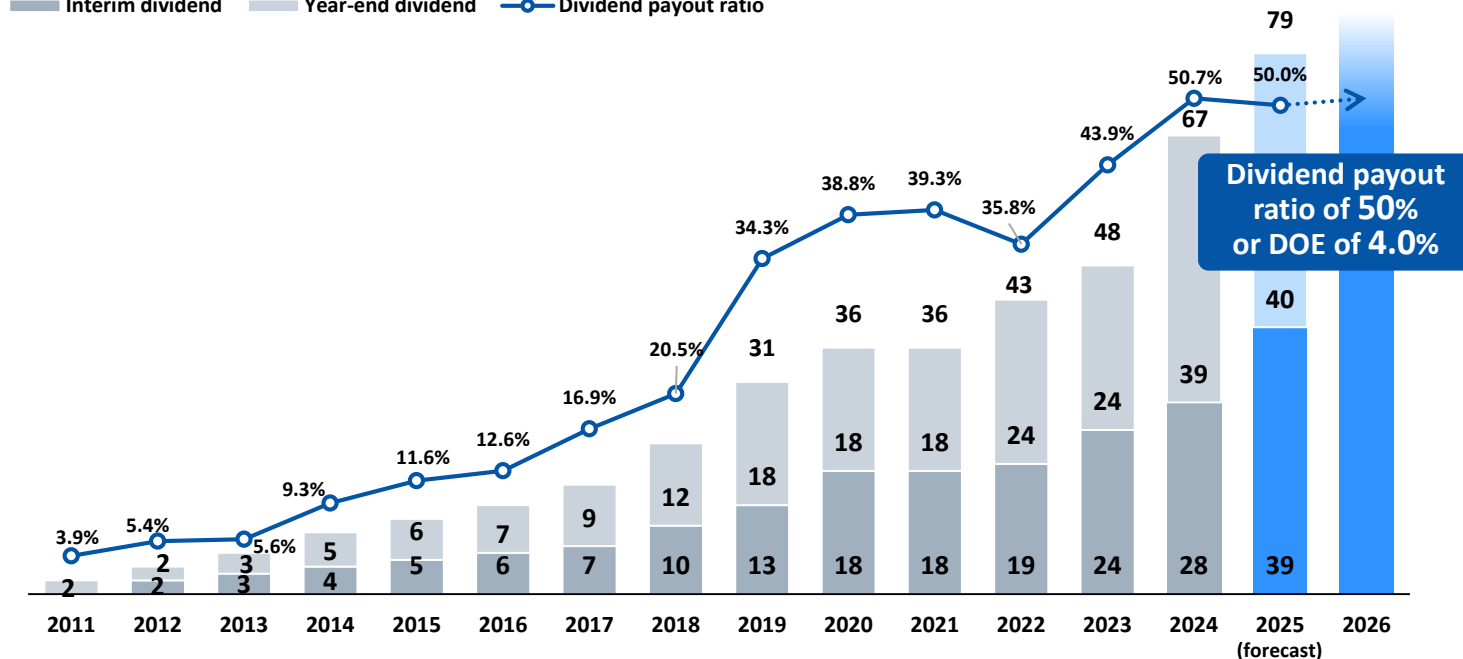
We will work to improve the efficiency of our balance sheet, primarily by reducing cross-shareholdings, and use the cash generated to return profits to shareholders, such as dividends and purchases of treasury shares. As a result, **shareholder returns over the three-year period of the 14th MTP are expected to be a total of 35 billion yen, with a total return ratio of approximately 100%.**

Shareholder return policy

- 1 Enhancing shareholder returns and improving capital efficiency through stable dividends and share repurchase
- 2 Establish as a target amount whichever is higher calculated based on dividend payout ratio of **50%** or dividend on equity (DOE) ratio of **4.0%**
- 3 Share repurchase totaling approximately **JPY 18 billion** over three years to improve capital efficiency

(JPY YEN)

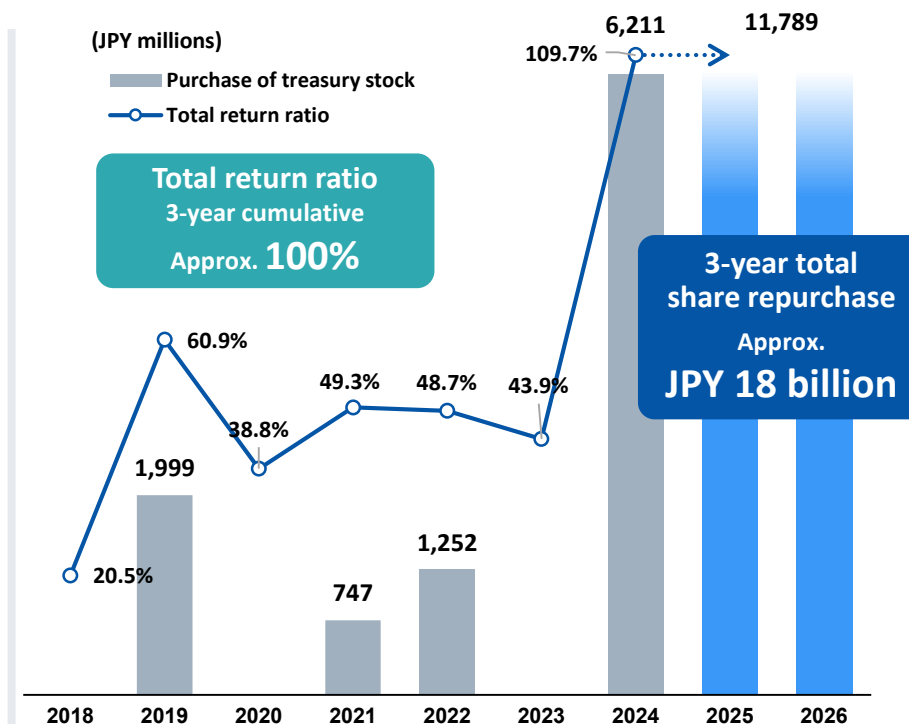
Interim dividend Year-end dividend Dividend payout ratio



(JPY millions)

Purchase of treasury stock Total return ratio

Total return ratio
3-year cumulative
Approx. 100%



Reduce Cross-share Holdings

Established the policy to strengthen the reduction of policy-held shares in November 2024.

In order to further accelerate our reduction effort, we will reduce our cross-shareholdings to less than 15% of its consolidated net assets (selling approximately 7 billion yen worth of shares) by the end of the fiscal year ending March 2027, and will further reduce them to less than 10% by the end of the fiscal year ending March 2029 (selling further approximately 3 billion yen worth of shares).

