

# Report on the Progress of the Key Considerations for the Formulation of the Next Medium-Term Management Plan and the Independence of the Fiber Business

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November 22, 2023



Daiwabo Holdings Co., Ltd.

(Securities Code: **3107**)

# Key Considerations in the Next Medium-Term Management Plan

**We decided to transfer the shares of Daiwabo Co., Ltd. in order to make the fiber business independent as a result of our consideration of “establishing an optimal business portfolio”**

Considerations	Summary	Current status
Establishment of group-wide purpose and development of growth strategy	<ul style="list-style-type: none"> <li>■ Identifying our Group’s identity and establishing a purpose based on social trends and corporate DNA</li> <li>■ Formulating a growth strategy from the perspective of what is the core of our Company and how to maximize profitability and realize our social significance from that starting point</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>We established a new purpose for our Group and will communicate it together with the value creation process in the integrated report to be issued in November 2023</b></li> <li>■ We are examining growth strategies based on the established purpose, while examining growth areas and the value-added we can provide</li> </ul>
Establishment of an optimal business portfolio to maximize value for our entire Group	<ul style="list-style-type: none"> <li>■ Examining the best owner principles, business environment assessment, and return on capital for existing businesses with reference to the Practical Guidelines for Business Restructuring formulated by the Ministry of Economy, Trade and Industry; implementing strategic options at the appropriate time to maximize corporate value; and establishing an optimal business portfolio</li> </ul>	<ul style="list-style-type: none"> <li>■ <b>From the viewpoint of maximizing the corporate value of our Company and Daiwabo Co., Ltd., we decided to transfer the shares of Daiwabo Co., Ltd. in order to make the fiber business independent</b></li> <li>■ We are continuing our deliberations to establish an optimal business portfolio in terms of value offered by our Group, growth potential, and sustainability</li> </ul>
Optimization of investment for growth and shareholder returns	<ul style="list-style-type: none"> <li>■ Establishing a capital allocation policy for higher corporate value by achieving optimal growth investment and shareholder returns based on the cost of capital</li> <li>■ Optimizing the allocation of human, material, and financial resources and establishing a capital policy that maximizes returns to shareholders</li> </ul>	<ul style="list-style-type: none"> <li>■ <u>We are considering a capital allocation policy to maximize the profitability of our Group as a whole</u>, rather than only prioritizing growth investments to enhance the performance of each of the operating companies</li> </ul>

Ongoing

# Summary of Independence of Fiber Business

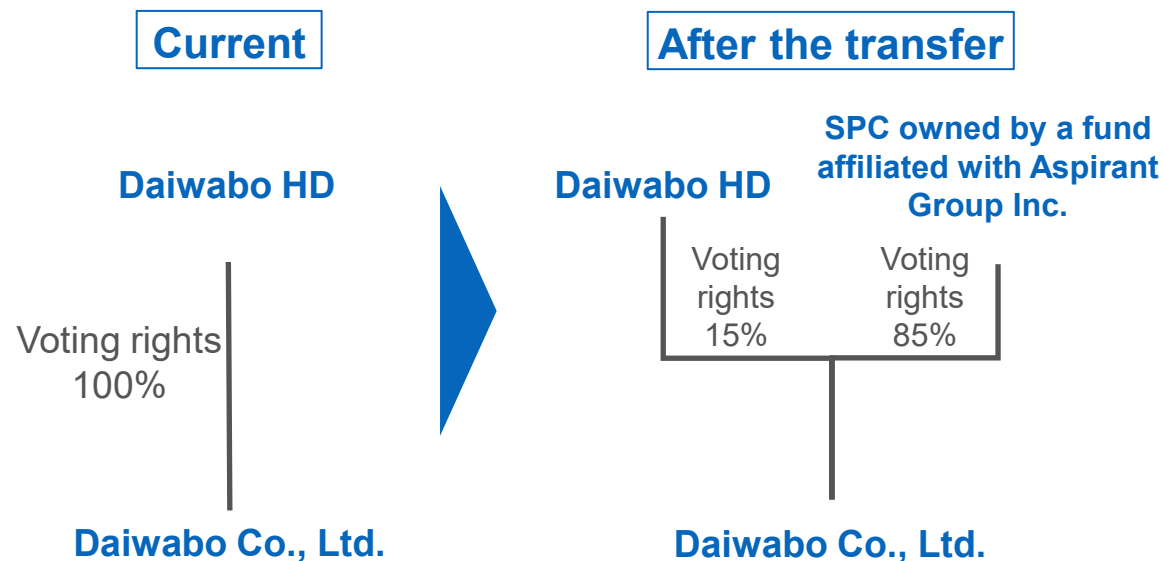
On November 22, 2023, our Company resolved to transfer 85% of its shares in Daiwabo Co., Ltd. to an SPC owned by a fund affiliated with Aspirant Group Inc.

## Summary of transfer of shares in Daiwabo Co., Ltd.

Outline of Daiwabo's Business	<ul style="list-style-type: none"><li>■ Manufacture, processing and sales of fiber products</li><li>■ Controlling business activities by holding shares in operating companies</li></ul>
Consolidated financial summary* (Mar. 2023)	<ul style="list-style-type: none"><li>■ Net sales: ¥62.7 billion    ■ Operating profit: ¥1.3 billion</li><li>■ Assets: ¥63.1 billion    ■ Net assets: ¥32.5 billion</li></ul>
Transferee	<ul style="list-style-type: none"><li>■ Aspirant Group SPC No.11 (SPC wholly owned by Aspirant Group Inc. with all of its outstanding shares. At the time of the transfer, 100% of the shares will be owned by a fund affiliated with Aspirant Group)</li></ul>
Transfer price	<ul style="list-style-type: none"><li>■ ¥9.54 billion (equivalent to 85% of the stock value of ¥11.22 billion)</li><li>■ The transfer price is based on the corporate value of ¥24.8 billion and takes into account working capital, interest-bearing liabilities, and other assets and liabilities, as well as the amount of capital investment that Aspirant Group plans to contribute to achieve sustainable growth for Daiwabo Co., Ltd.</li></ul>
Completion of transfer	<ul style="list-style-type: none"><li>■ January 18, 2024 (planned)</li></ul>

\* Financial figures on a consolidated basis managed by Daiwabo Co., Ltd. are provided for reference only, as the consolidated financial statements have not been prepared through an external accounting audit

## Capital structure after the transfer



**We plan to continue to hold 15% of the voting rights for Daiwabo Co., Ltd. for the time being** as a period of cooperation with the aim of having a smooth transition, while maintaining certain relationships with its existing business partners, employees, and other stakeholders

# Process for Independence of Fiber Business

We implemented a fair bidding process with a review system in place to determine the transferee for the fiber business to become independent

As a result of comprehensive consideration from the perspectives we consider important, we evaluated the Aspirant Group's proposal as being the most competitive

## Summary of the independence process

<b>Establishment of a review system</b>	<ul style="list-style-type: none"><li>■ To ensure a fair process progression, we appointed Houlihan Lokey as financial advisor and put a review system in place</li></ul>
<b>Selection of candidate for transfer</b>	<ul style="list-style-type: none"><li>■ We invited a wide range of domestic and foreign operating companies, investment funds, and other candidates to participate in the process</li></ul>
<b>Review process for proposals</b>	<ul style="list-style-type: none"><li>■ Based on reports and advice from working groups and external advisors, we determined the transferee and terms and conditions of the transfer after thorough discussions by the Board of Directors, the majority of whom are outside directors</li></ul>
<b>Securing the negotiation period</b>	<ul style="list-style-type: none"><li>■ We secured a negotiation period of over two months to negotiate the terms and conditions of the transfer in order to obtain the most favorable terms and conditions for our Group</li></ul>

## Our decision through the independence process

**Reviewed multiple proposals received from process participants**

**Comprehensive consideration of the following main aspects**

- **Valuation of corporate value of Daiwabo Co., Ltd.**
- **Post-transfer management structure**
- **Certainty of the transfer**
- **Post-investment strategy for Daiwabo Co., Ltd.**
- **Rapidity of transition to the new structure**

**Aspirant Group's proposal rated as most competitive**

# Impact of the Transfer on Financial Results and Our Approach to Shareholder Returns in the Current Fiscal Year

We plan to record an extraordinary loss from the transfer of Daiwabo shares, and the impact on net sales and operating profit is under scrutiny

We will continue our existing approach to shareholder returns in the current fiscal year, and will also continue to pay interim and year-end dividends

## Revision of earnings forecast

- We expect to incur an extraordinary loss of approximately **¥17.0** billion in connection with the transfer of Daiwabo's shares, and have factored in the impact of the loss in the revised earnings forecast disclosed today
- We are currently examining the impact of this business portfolio reorganization on net sales and operating profit, including recent performance trends
- If it becomes necessary to revise the earnings forecast announced today, we will announce it promptly

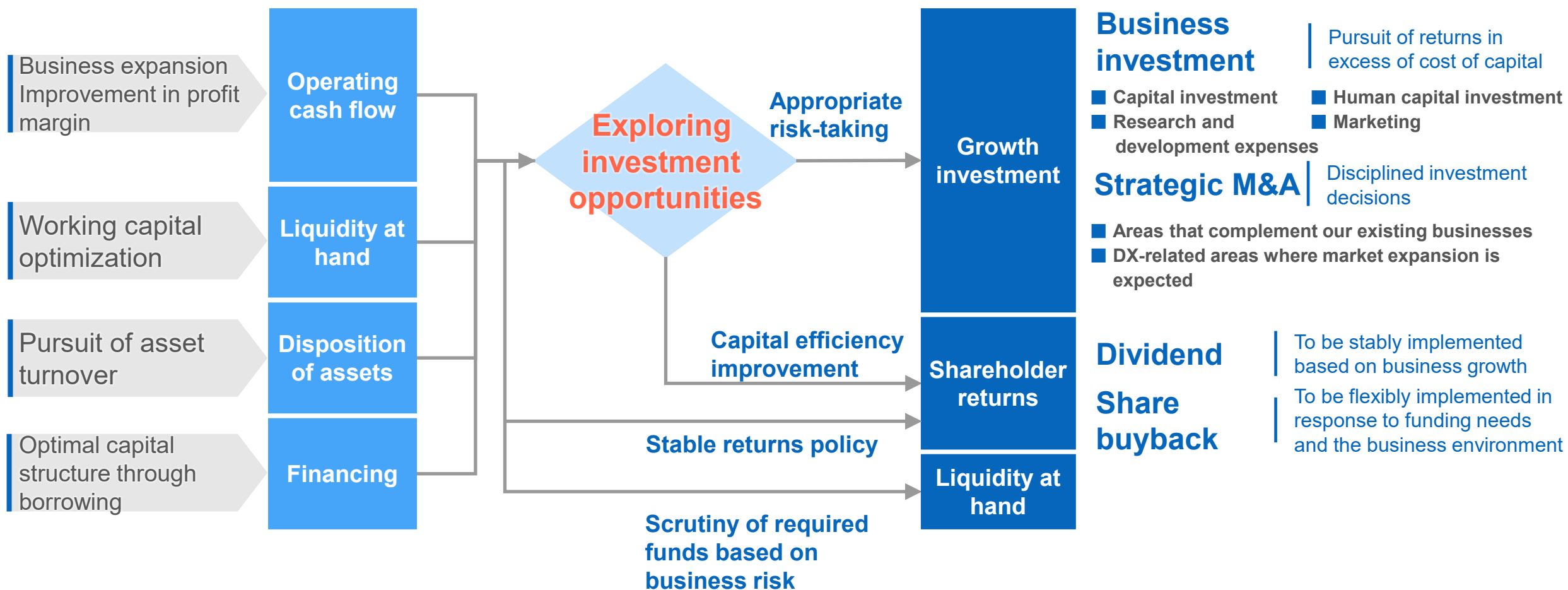
## Our approach to shareholder returns in the current fiscal year

- No change in the annual dividend amount from the following level disclosed in the "Notice of Dividends of Surplus (Interim Dividends)" on November 9, 2023, despite the extraordinary loss incurred due to the transfer of Daiwabo's shares  
**Interim dividend: ¥32 per share**  
**Year-end dividend: ¥32 per share (planned)**
- We will **maintain the shareholder return policy of the current Medium-Term Management Plan** with respect to the acquisition of treasury shares that we are considering for this fiscal year, and **plan to implement it flexibly in light of our Group's normal earnings capacity** without taking into account the extraordinary loss from the transfer of Daiwabo's shares

# Optimization of investment for growth and shareholder returns

We aim to increase corporate value by optimizing growth investment and shareholder returns through the formulation and implementation of appropriate investment evaluation criteria

We plan to allocate the cash from the transfer of Daiwabo's shares appropriately in the next Medium-Term Management Plan, based on the following approach



## purpose

### **Connecting people and society to the future with our value chain**

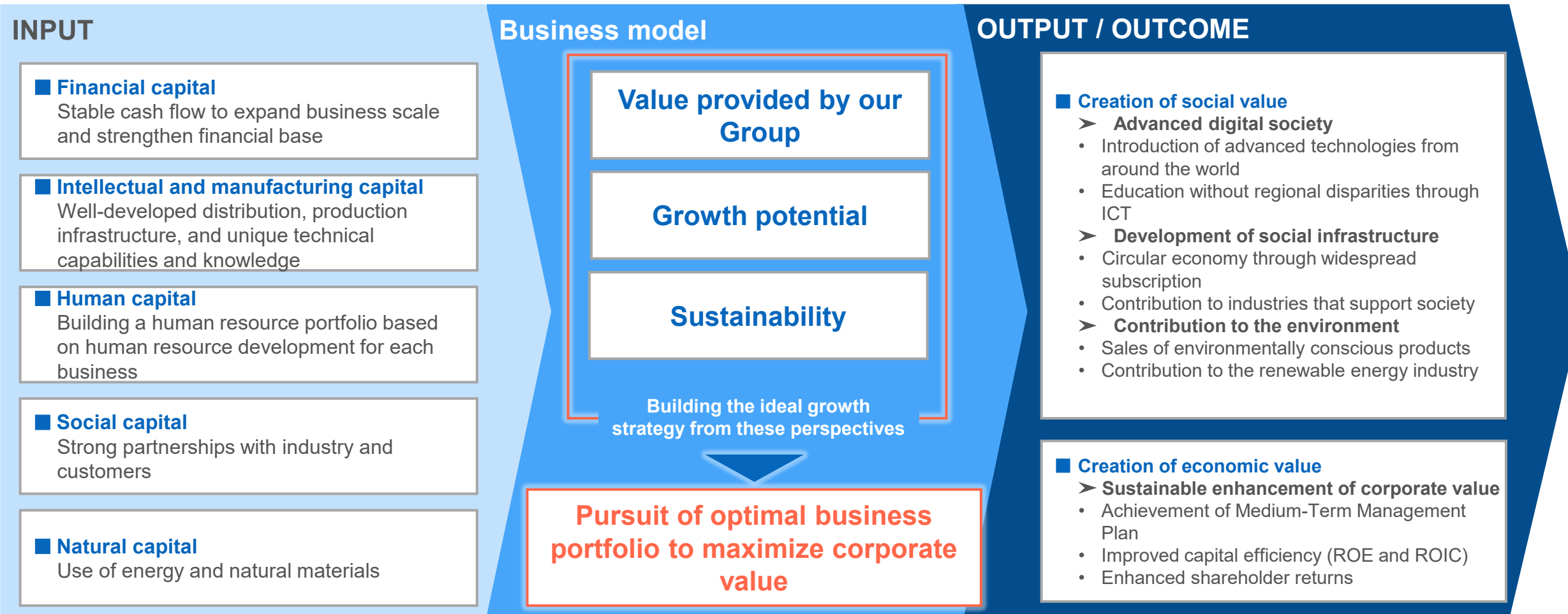
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We believe that the purpose of the group's existence is to connect and link people in business, companies, and local communities in the value chain that consists of various social activities. We will demonstrate our collective strength by focusing on partnership, branding the entire value chain, and organically collaborating and cooperating with others to address social issues that would be difficult to solve by our group alone.

Also, "Connection to the future" expresses our determination to realize a future with comfort, safety and security, and happiness for people and society. We are aiming to achieve this by constantly exploring and experiencing new technologies through the promotion of diverse advanced IT products and services and through the quest of research and development that can contribute to daily life and many industries, and by feeding back those technologies to our value chain. We will not only support the infrastructure of modern society but also make a wide range of contributions to creating a more comfortable future society by catching changes in the business environment and values.

# Formulation of an Ideal Growth Strategy

Based on the newly established purpose, we aim to manage our Group in a way that both solves social issues and increases our corporate value in a sustainable manner





<https://www.daiwabo-holdings.com/>



Daiwabo Holdings Co., Ltd.

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