

Financial Strategy

We aim to improve corporate value over the medium to long term by improving our ability to generate cash so that we can continue to actively invest for further growth.

Kazuhide Ino

Member of the Board, Managing Executive Officer, CFO



I was appointed Chief Financial Officer (CFO) in April 2023. Previously, I held concurrent positions as Chief Strategy Officer (CSO) and Director of Accounting & Finance Headquarters, overseeing accounting from a business strategy perspective. Now however, I have an added financial

strategy perspective being involved in the planning and execution of Group-wide strategies. Not only will I further refine our strategies for cash allocation, balance sheet management, and other matters going forward, but I will also actively share information.

Looking Back on the Second Year of the Medium-Term Management Plan

FY2022 marked the second year of our Medium-Term Management Plan “Moving Forward to 2025.” Throughout the year, the automotive market experienced adjustments to production owing to shortages of some semiconductors and components following disruptions to global supply chains caused by the pandemic. Meanwhile, demand for automotive semiconductors continued to grow due to the promotion of electrification toward a decarbonized society. The industrial equipment market remained strong thanks to decarbonization moves at plants in each country and greater investment in improving production capacity, automation, and digitalization. In addition to these factors, net sales increased due to the yen’s depreciation, resulting in record high sales of

507,882 million yen (up 12.3% year-on-year), the highest sales for the second consecutive year. Operating profit also increased by 29.2% from the previous year to 92,316 million yen, and the operating profit ratio increased by 2.4 percentage points from the previous year to 18.2%, achieving significant increases in sales and profits. The percentage of overseas sales grew by 2.9 percentage points from the previous year to 43.1%, while EBITDA, a key metric for ROHM, increased by 30.8% from the previous year to 148,456 million yen.

In FY2023, there is still a strong sense of uncertainty about the future due to factors such as inflation, interest rate hikes, and rising energy costs. Overall growth in the semiconductor

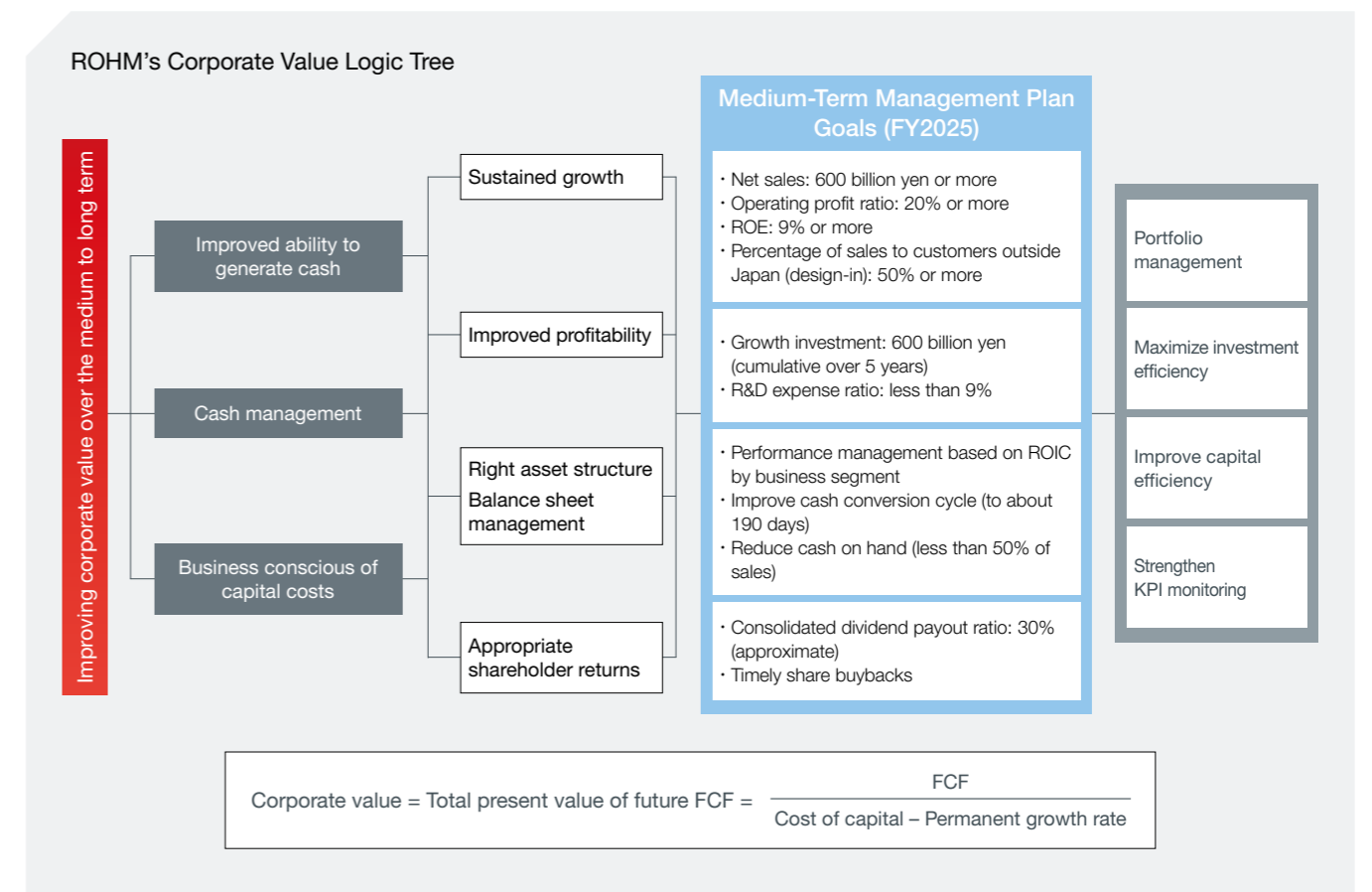
market is therefore expected to slow down somewhat. Meanwhile, the electrification of automobiles is progressing faster than initially predicted. As such, demand for semiconductors in the automotive field is expected to increase at an annual rate of more than 10% to roughly double by FY2027 compared to FY2021. We believe ROHM’s target market will continue to be strong due to an expanded automotive

semiconductor market from further vehicle electrification. Accordingly, by continuing to work on the development and stable supply of products that match the needs of society, centered on power and analog semiconductors, we will achieve medium- to long-term growth and make greater social contributions through our business.

Initiatives to Improve Corporate Value

ROHM’s idea for improving corporate value is how much free cash flow (FCF) can be generated in the future. In other words, a business that is conscious of capital costs, cash management, and an improved ability to generate cash, is the basis for increasing corporate value. We will improve profitability while achieving sustained business growth to find

the right asset structure. The results will be visible in our ROE and sales growth, and we will also provide appropriate shareholder returns. To create this cycle, the specific details which management needs to focus on while maintaining the right balance is shown in the Medium-Term Management Plan as targets and items for implementation.



Target metrics have been set in the current Medium-Term Management Plan to achieve an ROE of 9% or more and an operating profit ratio of 20% or more by 2025, the final year of the plan. Our ROE in FY2022 was 9.2%, achieving our target. In terms of improving profitability, the Group continues to

work on improving the product mix, increasing development and investment efficiency, and reducing costs.

In managing our business portfolio, we divide our business into about 20 categories, and conduct annual business evaluations from the perspective of market growth in each

Financial Position

	FY2018	FY2019	FY2020	FY2021	FY2022
Total assets (millions of yen)	874,427	848,873	926,240	1,029,132	1,123,283
Shareholder's equity (millions of yen)	766,266	714,990	768,972	839,817	914,912
Cash and deposits + Securities (millions of yen)	289,745	315,723	319,430	342,400	329,247
Equity ratio (%)	87.6	84.2	83.0	81.6	81.4
Dividend per share (yen)	150	150	150	185	200
Payout ratio (%)	34.8	60.6	39.9	27.2	24.4
ROE (%)	6.0	3.5	5.0	8.3	9.2

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business segment, our own market position, profitability based on ROIC by business segment, and consistency with our management vision. We then assess and carry out what we need to focus on, maintain or pull out from over the medium-term. Additionally, in each of our business segment, with a focus on ICs, we have been working to transform our portfolio at the product level in preparation for a shift from the consumer market to the automotive and industrial equipment markets. Using IDM and integral technologies, the source of our competitiveness, we are expanding our lineup of products that provide high added value by making proposals for solutions to customer problems as well as for stable supply and long-term supply. By concentrating resources on development and customer support to increase the sales ratio of products that bring real value, we aim to build win-win relationships with customers to improve our profitability. In the automotive market, we are beginning to see some results thanks to a tailwind from increased electrification and more electronics in vehicles, and we are now also working to expand in the industrial equipment field. The industrial equipment field is characterized for having customers widely dispersed across various industrial fields and for long demand lifetimes, while at the same time entry into the market takes time. As such, we have organized a dedicated department that specializes in responding to such market characteristics. We are working to accelerate development that matches market demands by selectively allocating development resources to key areas and setting KPIs for man-hours spent on development with regard to planned sales target for new products.

We felt that there were issues with the efficiency of traditional capital investments, so we began evolving our own decision-making process. In addition to the payback period method used as a standard for investment decisions, we started to use the net present value (NPV) and internal rate of return (IRR) methods, setting hurdle rates that take into account capital costs and business risks. We then make decisions based on a comprehensive review of our profit advantage based on a clear forecast of future cash flows for each investment project. In addition, we are implementing initiatives to improve the accuracy of future decisions by enhancing monitoring after investments are made to manage the contribution to sales growth relative to invested capital as well as estimated and actual cash inflow for each investment project.

In terms of cost reductions, our development, manufacturing, and procurement divisions work together to promote initiatives that take full advantage of the strengths of our vertically integrated model. In addition to reducing costs by increasing the diameter of wafers, primarily by increasing the size of IC production to 300 mm and SiC to 8 inches, we are standardizing materials across internal and external supply chains, working to reduce procurement costs by taking advantage of mass advantages and reduce inventory costs by using standardized materials. Additionally, we are working to improve fixed costs by contributing to production through the latest fully automated lines launched in Japan and by applying this technology to existing mass production lines.

Growth Investment and Cash Management

Regarding investments in FY2023, more than 80% will be allocated to our key areas of power and analog solutions. To further accelerate investment in growth businesses, we have increased growth investment from 500 billion yen to 600 billion yen over a five-year cumulative period. We had set a goal for SiC sales of over 270 billion yen and a market share of over 30% by FY2027, but as demand has been brought forward, we have accordingly revised our investment plans upward. To reduce mass production costs, we are working on increasing the diameter of SiC wafers in both wafer manufacturing and front-end processing. As such, equipment that can convert 6-inch wafers to 8 inches has been installed at ROHM Apollo Co., Ltd.'s Chikugo Plant. Regarding wafers, we will begin supplying 8-inch wafers in 2023. Consequently, we are quickly expanding our facilities and increasing production in order to respond to fast growing demand. We will also expand the 12-inch Bi-CDMOS production line for ICs. Furthermore, in addition to investing in current growth businesses to improve permanent corporate

value, we are also constantly considering capital investments and M&As with an eye to expanding business opportunities in the future, with a focus on strengthening our distinctive IDM capabilities and potential to strengthen the power and analog fields.

The investment funds necessary for current business growth are basically covered by operating cash flow, and we will also efficiently utilize cash on hand with proper cash management. Specifically, we anticipate approximately 650 billion yen in operating cash flow over the five years from FY2021 to FY2025, which will cover growth investments of 600 billion yen. Additionally, in order to provide funds for further growth investments in the future, we have been working on improving our cash conversion cycle since FY2022, working to generate cash internally. Based on this, our policy is to flexibly raise funds as needed when M&A or capital alliances arise for business expansion or technology acquisition.

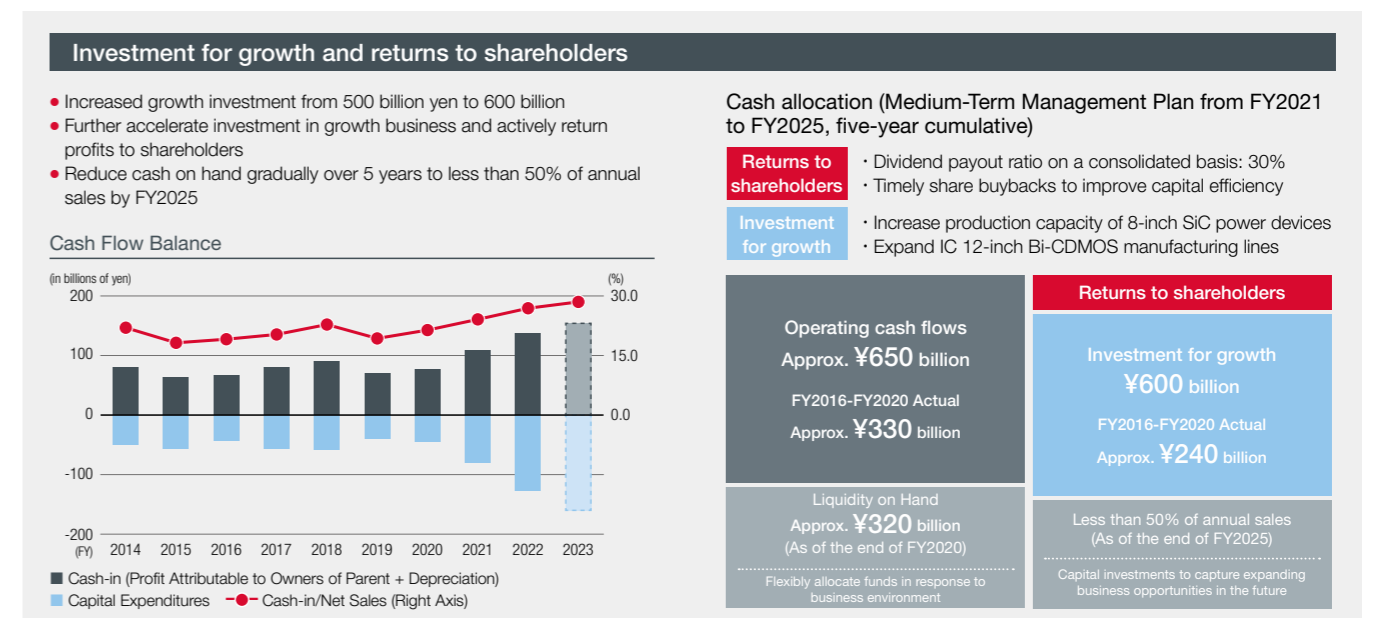
Furthermore, we plan to gradually reduce cash on hand to less than 50% of annual sales by FY2025.

Shareholder Returns

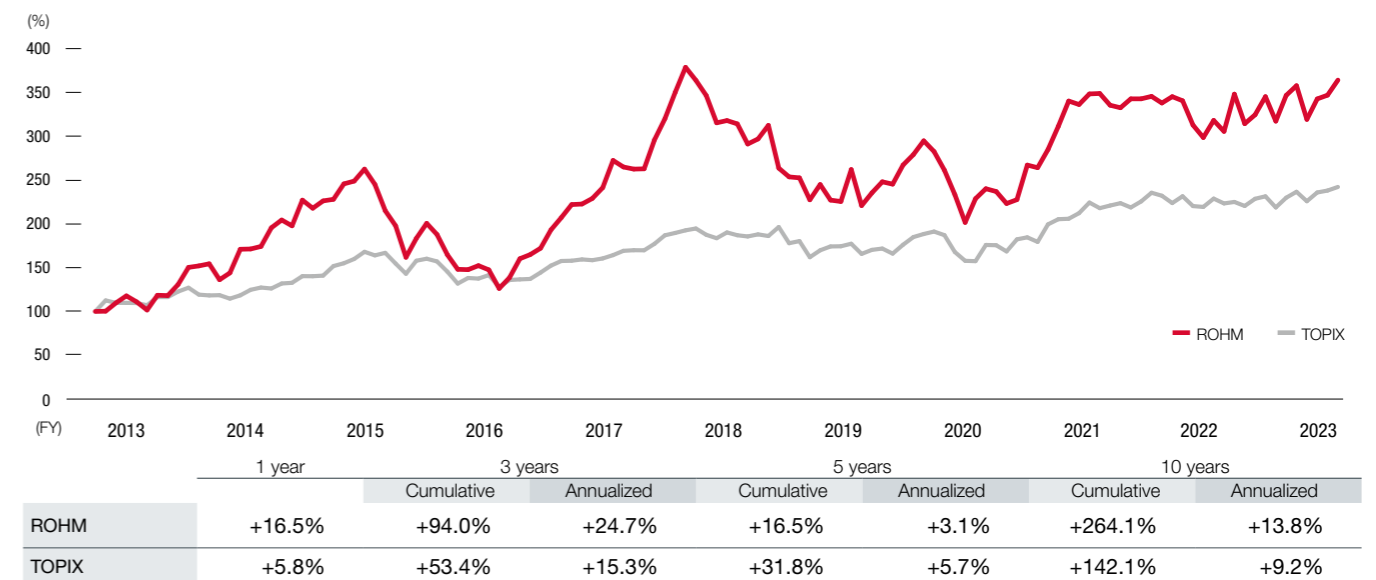
Our policy is to implement shareholder returns with a consolidated dividend payout ratio of 30%. In addition, our policy is to acquire treasury stock in a timely manner, and we have decided to buy back shares worth up to 20 billion yen in November 2022.

For the past few years, we have been in a phase of active investment aimed at business growth and strengthening our future ability to generate cash, but we will review the balance between investment and shareholder returns as appropriate, depending on how well our business grows. To increase our

corporate value, we will continue to strike a balance between shareholder returns and investment in human capital as well as capital expenditure to further expand our ability to generate cash. Our policy is to promote business operations around the two pillars of our power device business and analog IC business, aiming to achieve the growth and profit expansion indicated in the Medium-Term Management Plan, and to become a major global player in the future. We hope that our shareholders will look forward to ROHM's future growth.



TSR (10 years, dividends included)



* Total shareholder return (TSR): Total rate of return on investment that combines capital gains with dividends
 * TSR for ROHM is calculated based on cumulative dividends and stock price fluctuations. TSR for TOPIX is calculated with a stock price index including dividends. (Created by ROHM using Bloomberg data and other sources.)
 * TSR values in the graph are indexed to market prices as of March 31, 2013 as 100 (assuming the stock was held until March 31, 2023).