

# Financial Strategies as Explained by the Executive in Charge of Finance

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**Akihiko Nagamine**  
Executive Officer  
Division Executive, Finance & Accounting Division

## Review of the Financial Strategies of E-Plan 2019

E-Plan 2019, EBARA's previous medium-term management plan, called on us to conduct growth investments totaling ¥105.0 billion under the slogan of "Unlimited challenge toward growth." Guided by this plan, we sought to achieve the targets of ROIC of 8.0% or more and an operating income to sales ratio of at least 9.0%.

Overall, investment amounts were in line with plans, when including investments for establishing bases, as we approved capital investments totaling ¥66.1 billion, higher than targeted, and R&D investments of ¥29.4 billion, slightly lower than the target. However, we were unable to fully realize the benefits of these investments due to delays in the construction of automated assembly lines and the lack of large-scale M&A activity. In addition, the realization of profitability improvements is taking more time than expected in reflection of how overly optimistic our market outlooks were and how insufficient our business structure reforms were.

As for shareholder returns, we issued dividends totaling ¥16.3 billion and conducted ¥20.0 billion worth of share buybacks during the period of E-Plan 2019. The consolidated total return ratio greatly surpassed our target in the fiscal year ended December 31, 2019, coming to 88.8%. We also sold cross-shareholdings from the perspective of economic rationality, thereby improving capital efficiency. Regardless, ROIC and the operating income to sales ratio fell below targets due to the aforementioned delays in profitability improvements.

## Financial Strategies and Shareholder Returns under E-Plan 2022

The slogan of E-Plan 2022, the new medium-term management plan, is "Reconstruct the foundations of growth." Based on this slogan, we will advance financial strategies focused on growth potential and capital efficiency.

In terms of **growth potential**, we will conduct capital investments to the tune of ¥100.0 billion, an amount exceeding that of the previous medium-term management plan. Specific targets of this investment will include the expansion and strengthening of S&S operations, the exploration of new markets, and the bolstering and optimization of production capabilities. We will also invest in an ERP system and other digital transformation initiatives to boost work efficiency and realize more sophisticated management. R&D investments are also set to surpass the previous medium-term management plan with a target amount of ¥40.0 billion. In this regard, we will invest in the launch of high-value-added products while conducting upfront investment in creating and developing new businesses. Furthermore, we will continue to look for M&A opportunities with the potential to buoy topline sales, and a proactive yet flexible approach will be taken toward business alliances and financing for uncovering new needs or burgeoning new technologies. In this manner, investments for fueling future growth will be conducted to an extent exceeding that of the previous medium-term management plan. Of course, financial discipline will be maintained through this process.

Moving on to **efficiency**, we will continue to target ROIC of 8.0% or more, with an emphasis on WACC, as we seek to strengthen portfolio management. At the same time, we will work to heighten our ROIC through a focus on improving KPIs such as by-business receivable and inventory turnover periods and fixed asset turnover. Meanwhile, we will categorize our operations into growth businesses and profitability improvement businesses. In growth businesses, we will institute measures targeting topline growth. In profitability improvement businesses, we will implement exhaustive profitability improvement measures, including efforts to optimize production systems. The period of E-Plan 2022 will thus see us investing in growth businesses and conducting upfront investments in new businesses while accelerating our efforts to build a strong balance sheet enabling future growth that were kicked off under the previous medium-term management plan.

As for **shareholder returns**, our basic policy will be to target a consolidated dividend payout ratio of 35% or more. However, we will also set a minimum of 2.0% for consolidated dividend on equity (DOE) to prepare for temporary downturns in performance. More than one-third of the earnings from our business will be allocated to shareholder returns while an amount exceeding two-thirds of business earnings plus depreciation and amortization will be invested in capital investments, R&D investments, and M&A activities. Meanwhile, a flexible approach will be taken toward share buybacks. We do not intend to increase internal reserves more than necessary. However, we do plan to exercise a sufficient focus on financial health and to maintain a credit rating of A in order to prepare for extreme circumstances.

## Countermeasures for Emergency Risks and Financial Strategies for New Business Models

The global COVID-19 pandemic has reaffirmed the importance of **safety** in finances. If we are to contribute to society and improve EBARA's corporate value by helping solve social issues through our business activities, it is essential that EBARA continue to survive as a company. A healthy financial base is a prerequisite to this survival. Accordingly, we will continue striving to secure on-hand liquidity while maintaining creditability.

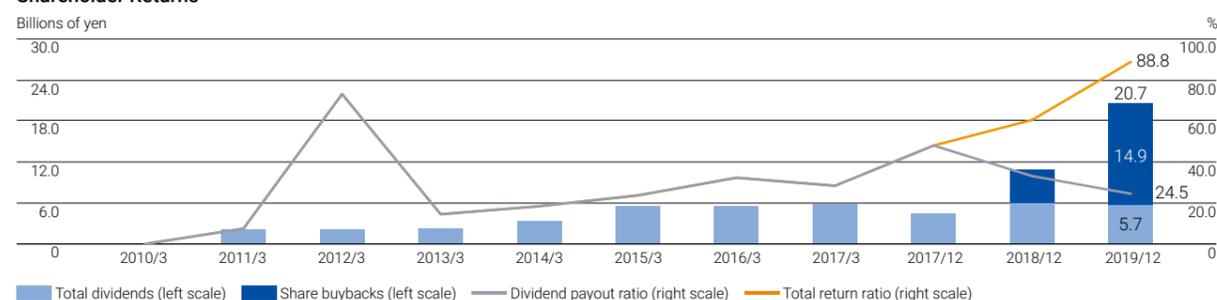
As the pandemic spreads on a global scale, we were forced to halt operations at the factories of certain overseas subsidiaries. Nevertheless, we were able to prepare and disclose fiscal year ending December 31, 2020 first-quarter financial statements for all consolidated subsidiaries. We are also promoting electronic accounting to create an even more robust accounting foundation. Meanwhile, we have ascertained that the paper bills and checks used for deposits and payments in Japan present an obstacle to teleworking for both the Company and its business partners. We therefore intend to take this opportunity to push ahead with digitization and digital transformation to strengthen our resilience to emergency situations.

Going forward, we will seek to support business continuity at EBARA with a highly resilient financial base and a sufficient emphasis on safety as the underlying foundation for our operations, even as we pursue growth and efficiency.

## Corporate Value for Realizing E-Vision 2030

When formulating our vision for EBARA a decade from now, we determined the Company's economic value should be reflected in ROIC of 10.0% or more and net sales of roughly ¥1 trillion. Rather than focusing purely on capital efficiency, we believe the simultaneous pursuit of capital efficiency and topline growth will allow for even greater improvements in economic value. Our stock price, meanwhile, is a representation of how we are evaluated and not something that we can affect directly through our own efforts. However, we have reached the conclusion that if we adopt an optimistic and rational outlook, with time, our stock price will approach the theoretically appropriate value, and it would not be irrational for us to target market capitalization of ¥1 trillion as the yardstick for gauging corporate value. This amount is what we have judged to lie down the path we will walk through our steadfast efforts to grow our business and improve capital efficiency.

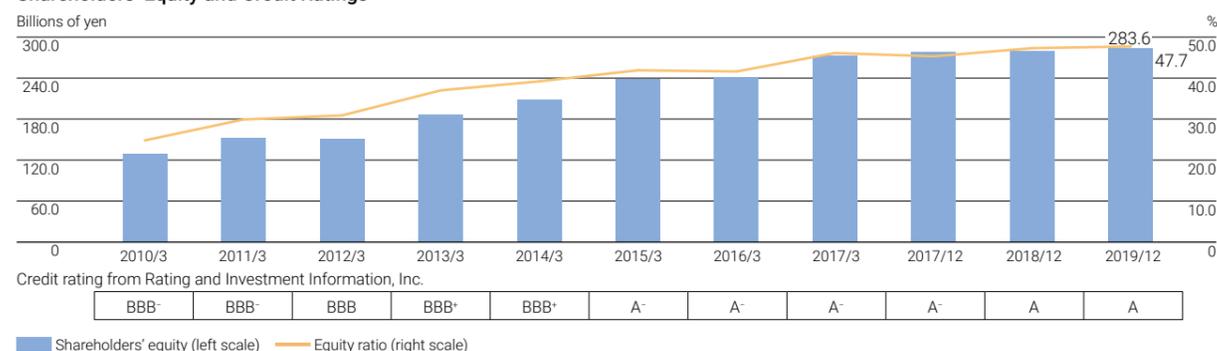
## Shareholder Returns



## Results of E-Plan 2019 and Targets of E-Plan 2022

		Targets of E-Plan 2019	Results of E-Plan 2019	Targets of E-Plan 2022
Growth investments	Capital investments	¥60.0 billion or more	¥66.1 billion (three-year total)	Approx. ¥100.0 billion
	R&D investments	¥35.0 billion or more	¥29.4 billion (three-year total)	Approx. ¥40.0 billion
	M&A activities	¥10.0 billion	1 sales base in South Africa	Proactive stance
Shareholder returns	Consolidated total return ratio	30% or more	88.8% (2019)	· Consolidated dividend payout ratio: 35% or more · Consolidated DOE: Minimum of 2.0%
	Share buybacks	Flexible stance	¥20.0 billion (three-year total)	Flexible stance

## Shareholders' Equity and Credit Ratings



# Human Resource Strategy

We are committed to increasing engagement with all EBARA Group employees worldwide in order to build a corporate culture that encourages competition and embraces challenge.

The fiscal year ending December 31, 2020, saw the appointment of EBARA's first non-Japanese executive officer. For diverse employees maximizing their abilities, we will continue to create an environment where everyone can work comfortably and feel rewarded. We will realize this by selecting human resources capable of competing on the global stage, hiring non-Japanese and mid-career employees. At the same time, we will foster workplace environments that are comfortable and accommodating for all to allow diverse employees to exercise their talents to the fullest. We are also examining new ways of developing our workplaces along with new work styles with an eye to the society after the global COVID-19 pandemic. In our pursuit of further corporate growth, we are committed to increasing engagement with all EBARA Group employees worldwide by building a corporate culture that encourages competition and embraces challenge.



**Shu Nagata**  
Executive Officer  
Division Executive, Corporate Strategic Planning Division and Human Resources Division

REFERENCE Personnel Affairs and Human Resource Development Policy

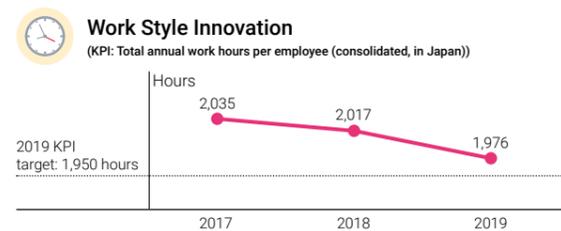
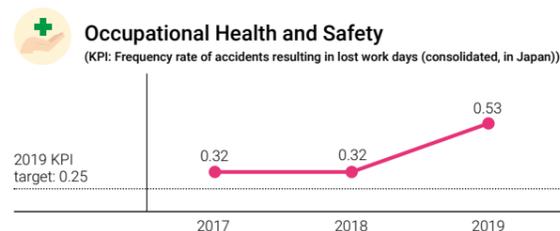
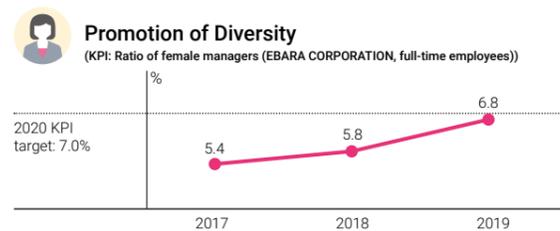
<http://www.ebara.co.jp/en/about/csr/social/environment/index.html#anc1209051>

## Review of E-Plan 2019

Major Measures	Accomplishments
Human resource system reforms	<ul style="list-style-type: none"> <li>Introduced new human resource systems (eliminated groups of occupations such as "professional grades" and "operating grades," drastically changed promotional examination for management-level positions, etc.)</li> <li>Instituted succession management program</li> <li>Promoted optimal positioning of human resources based on merits as opposed to years of service</li> </ul>
Promotion of diversity and work style innovation	<ul style="list-style-type: none"> <li>Monitored work hours and implemented work style innovations at business sites through the Work Style Innovation Committee (reduced total average work hours per employee in FY2019, to 1,976 hours, down 59 hours from FY2017)</li> <li>Introduced new attendance management system in FY2019, to track work hours and ensure compliance with the Labor Standards Act</li> </ul>
Human resource development	<ul style="list-style-type: none"> <li>Launched management candidate development program for appointing and cultivating future president candidates → Performed group training sessions, coaching, and assessments aimed at improving interpersonal skills necessary of managers</li> <li>Instituted referral recruitment program to enable employees to seek out and recommend individuals they would like to work with in order to recruit diverse and talented human resources given the seller's market</li> </ul>

## Material ESG Issue Action Policy and Major KPI Progress

**Action Policy 6** Enhance diversity, improve work environments to empower employees to develop to their full potential, and provide opportunities to develop necessary skills → P. 81-82



## Targets of E-Vision 2030 and Strategies of E-Plan 2022

### Targets of E-Vision 2030

**Material Issue 4**  
Promote working environments that encourage challenge

### Strategies of E-Plan 2022

Relevant E-Plan 2022 Measures	Human Capital Strategies	Concrete Measures
Improve management quality	Evolve work style innovations	<ul style="list-style-type: none"> <li>Encouragement of paid leave acquisition</li> <li>Reduction of excessive work hours</li> <li>Implementation of awareness reforms</li> <li>Reduction and streamlining of workflow processes</li> </ul>
Reinforce and support business activities	Recruit, develop, and position diverse human resources	<ul style="list-style-type: none"> <li>Introduction of talent management system</li> <li>Employment of diverse human resources</li> <li>Improvement of engagement</li> </ul>
	Promote health management	<ul style="list-style-type: none"> <li>Enhancement of workplace environments</li> <li>Support for safe and secure workplaces</li> </ul>

## TOPICS

### Appointment of Executive Officers

EBARA seeks to appoint the highly specialized human resources necessary for the implementation of its business strategies. Effective March 27, 2020, Hiroyuki Kowase, Division Executive of the Information & Communication System Division, and Michael T. Lordi, who is responsible for the Compressors and Turbines Business, Fluid Machinery & Systems Company, were appointed to positions as Executive Directors. Mr. Kowase boasts specialized insight pertaining to digital transformation while Mr. Lordi has experience as the CEO of an overseas subsidiary. When appointing executive officers, we choose individuals with sufficient insight and experience in the relevant areas, regardless of their geographic location and whether or not they are currently a member of the Group.

### Talent Management System

An important human resource-related measure in the fiscal year ended December 31, 2019, was the introduction of a talent management system. This system was introduced with the aim of accelerating human resource development and strategically allocating the right person to the right position by visualizing various information pertaining to human resources. We intend to deploy this talent management system throughout our global operations in the fiscal year ending December 31, 2020, and beyond going forward.

### Global Engagement Surveys

EBARA is implementing measures aimed at improving employee motivation. To this end, we conducted our first global engagement survey for all EBARA Group employees worldwide in the fiscal year ended December 31, 2019, to solicit employee input regarding the organization and work. Based on the findings of this survey, action plans are being formulated and implemented centered on division heads to improve employee engagement.

### Results of 2019 Global Engagement Survey (Excerpt)

Survey Item	Ratio of Employees Indicating Agreement
I feel strong support for the goals and targets of the Company.	86%
The Company provides workplace environments free of discrimination and harassment.	78%
I am able to report to a Company representative at the appropriate level on any misconduct or unethical practices without fear of reprisal.	75%

# R&D and Intellectual Property Strategy

Based on our successes over the past decade, we will reinforce our systems for contributing to the resolution of social and environmental issues through our business.

In the decade since the closure of EBARA Research Co., Ltd., in 2009, we have proceeded to build upon our R&D activities and intellectual properties based on a unique approach guided by the basic intellectual capital management policy of BRDIP,\*1 which promotes coordination among businesses, research and development, and intellectual properties, and the basic strategy of ABA,\*2 which encourages collaboration among academia, businesses, and associations. As a result of these efforts, we have been able to improve the awareness of our R&D and intellectual property divisions, step up coordination with business divisions, and accelerate joint research with outside entities. In this manner, we have achieved substantial improvements in research success and efficiency in comparison to the days of EBARA Research. Looking ahead, we will further evolve and develop the distinctive R&D and intellectual property activities advanced thus far from a medium- to long-term perspective in order to continue making contributions to the resolution of social and environmental issues through our business.

\*1 BRDIP: An original EBARA Group acronym created from "businesses," "R&D," and "intellectual properties"  
 \*2 ABA: An original EBARA Group acronym created from "academia," "businesses," and "associations"

REFERENCE Technologies

<https://www.ebara.co.jp/en/about/technologies/index.html>

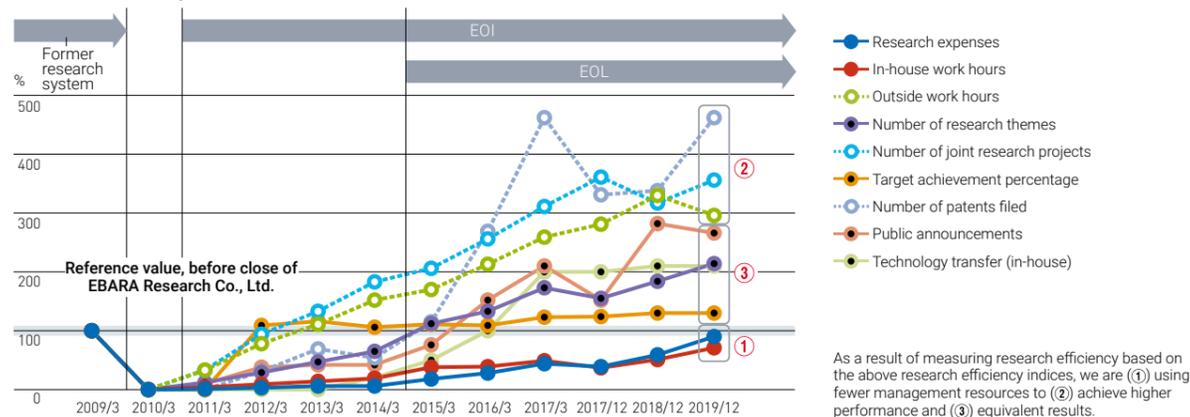
## Review of E-Plan 2019

Major Measures	Accomplishments
<b>Technologies, R&amp;D</b> Conduct R&D activities that are fully integrated with intellectual property activities aimed at supporting competitiveness and growth strategies	<ul style="list-style-type: none"> <li>Launched owner system*3 for effective and timely linkage of R&amp;D successes to business activities</li> <li>Began establishing and enacting research roadmaps for priority areas for the next decade aimed at ensuring ongoing enhancement of technological competitiveness</li> <li>Established data science research system and supported various businesses with AI, big data, virtual reality (VR), augmented reality (AR), and digital transformation technologies</li> <li>Further shaped technologies for realizing massive improvements in pump processes spanning from order receipt to engineering and manufacturing through advancement of EIX (new business field research) projects</li> <li>Continued to advance activities tying research themes to the SDGs starting in 2017, thereby disseminating social and environmental contribution awareness among researchers</li> </ul>
<b>Intellectual Property</b> Promote strategic intellectual property activities that fully utilize the Group's intellectual properties	<ul style="list-style-type: none"> <li>Shifted intellectual property focus from volume to higher-quality, more strategically viable intellectual properties through implementation of pre-litigation strategies, etc.</li> <li>Advanced technology branding activities ("eDYNAMiQ" standard pump technology brand, etc.)</li> <li>Developed intellectual property management systems at overseas Group companies and implemented subsequent follow-up activities</li> </ul>

\*3 The owner system is designed to promote the transference of R&D successes to business jurisdiction. By sharing information on successful R&D themes and their timing with business divisions and the EOL framework, the owner system facilitates the timely provision of the R&D advancements needed by business divisions through the EOL framework.

## Progress in Priority Strategies (Fiscal year ended December 31, 2019)

### Research Efficiency Indices



## Targets of E-Vision 2030 and Strategies of E-Plan 2022

### Targets of E-Vision 2030



**Material Issue 1**  
 Contribute to the creation of a sustainable society



**Material Issue 2**  
 Elevate standards of living and support abundant lifestyles for all

### Strategies of E-Plan 2022

Relevant E-Plan 2022 Measures	Concrete Measures
R&D	<ul style="list-style-type: none"> <li>Support for business divisions via augmentation of strategically important core technologies</li> <li>Deployment of profitability improvement-related EIX (new business field research) successes to business segments and acceleration of development</li> <li>Promotion of new research theme creation and research activities linked to new business development</li> <li>Diversification of R&amp;D staff</li> </ul>
Intellectual Property	<ul style="list-style-type: none"> <li>Drafting of product-specific intellectual property strategies</li> <li>Conclusion of strategic intellectual property contracts by setting policies on an individual-contract basis</li> <li>Sharing of information and proposals for contributing to management and business decisions and investor relations (IR) activities</li> <li>Utilization of intellectual property from inside and outside of the Group via in and out licensing</li> </ul>

## Topics: Overview of Research Frameworks and Major Activities

Research at EBARA is advanced through its unique Ebara Open Innovation (EOI), Ebara Open Laboratory (EOL), and Ebara Innovation for "X" (EIX) frameworks. In addition, we have in place the Ebara Open for Supplier (EOS) framework for enhancing prototyping functions and the Ebara Hi-tech University (EHU) program for fostering human resources capable of supporting technological advancement. By fully capitalizing on these frameworks through coordination with internal and external institutions and Group business divisions, we will seek to bolster EBARA's product competitiveness and create new businesses.

Framework / Program	Overview	E-Plan 2022 Activity Policies
Ebara Open Innovation	An original open innovation framework that fosters young researchers at outside research institutions by conducting joint research to resolve advanced technological issues	Continue to advance EOL activities in Japan, Europe, the United States, and Asia and engage in joint research; contribute to the resolution of social issues through participation in the UTokyo Future Society Initiative of the University of Tokyo
Ebara Open Laboratory	A corporate research organization that enables exchanges among researchers and open sharing of research themes in-house	Promote sharing of recognition of and timely incorporation into businesses of R&D successes through owner system introduced in FY2019; facilitate sharing of product and core technology insight within EOL framework by having business division product development representatives contribute to EOL themes; create virtuous cycle of research and business advancement through owner system and deepening of mutual understanding
Ebara Innovation for "X"	An R&D system for business creation	Respond to technological progress while continuing initiatives for creating new businesses through coordination with research functions from a perspective unbound by existing technologies
Ebara Open for Supplier	A term referring to both a framework and activities for open exploration of the suppliers of the components and prototypes necessary for R&D activities that is not limited to existing suppliers	Increase speed and efficiency of research-phase prototyping; create opportunities for exchanges with small and medium-sized companies participating in EOS framework to drive mutual technology improvements
Ebara Hi-tech University	A program aimed at bolstering the technical capabilities of Group researchers and engineers and providing inspiration by giving them an opportunity to learn about the latest technological information and trends	Arrange cutting-edge technology lectures and technical human resource development programs; contribute to internal and external technological advancement by positioning EOI International Symposium** as a forum for industry-academia co-creation linking industry and academia across technological fields

\*\*4 The EOI International Symposium is a technology-themed symposium held by EBARA CORPORATION to which experts from fields related to the Company's business are invited.

# Digital Transformation Strategy

The EBARA Group is aggressively promoting digital transformation to spur its further growth and augment its competitiveness.

The EBARA Group is aggressively promoting digital transformation to advance its business on a global scale and to drive its development as a sustainable industrial machinery manufacturer. Specific initiatives to this regard include work style reforms and the provision of information platforms for supporting revolutionary productivity improvements by automating and streamlining business processes to the greatest degree possible. In addition, we are utilizing data and digital technologies in our response to the rapidly changing operating environment and innovating our products, services and business models based on customer and social needs. We aim to contribute to the transformation of our current business segments while also supporting initiatives for advancing into new business fields.



**Hiroyuki Kowase**  
Executive Officer  
Division Executive, Information & Communication System

## Targets of E-Vision 2030 and Strategies of E-Plan 2022

### Targets of E-Vision 2030

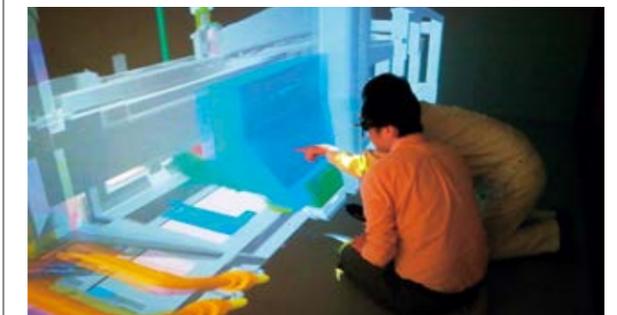
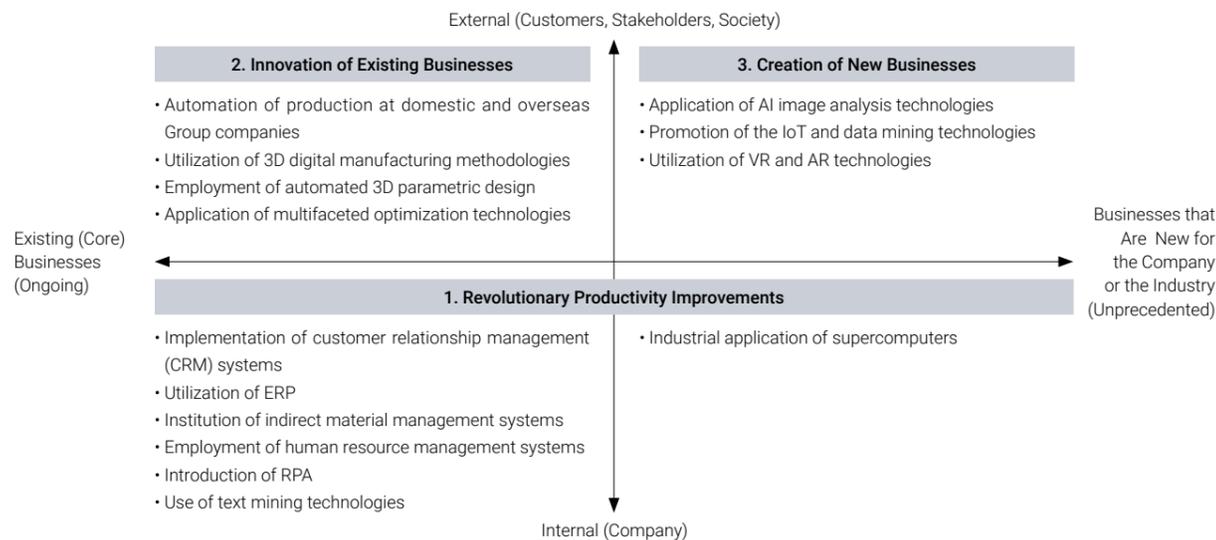
**Material Issue 1**  
Contribute to the creation of a sustainable society

**Material Issue 2**  
Elevate standards of living and support abundant lifestyles for all

### Strategies of E-Plan 2022

The EBARA Group is committed to proactively developing and accumulating the technologies necessary for accomplishing its mission, which is expressed in the slogan of E-Vision 2030, "Technology. Passion. Support Our Globe," while fostering the human resources that will contribute to the accomplishment of this mission. With this pursuit as our foundation, we will aim to lead the industry in terms of efficiency in management and business operations through digital transformation in our business. We will, therefore, be utilizing data and digital technologies to innovate products, services, and business models on a global scale. Moreover, we will introduce the ERP system needed to support these undertakings on a Groupwide basis to enhance information infrastructure while optimizing business process flows and business rules.

### Overview of Digital Transformation Initiatives



3D engineering utilizing xR (VR / AR technology)

## Digital Transformation Initiatives

### Aggressive and Preparative Digital Transformation

#### Aggressive Digital Transformation:

#### Product and Experience Creation Innovations via 3D Digital Technologies

By incorporating computer and computational science methodologies, which decouple in speed every three to four years, as well as data science and other cutting-edge technologies, the EBARA Group is looking to innovate its business in terms of both product creation and experience creation. We are currently undertaking a variety of efforts to innovate work processes. Examples of these efforts include achieving the practical application of AI powered waste identification systems using image analyses, text mining approaches for facilitating the better use of technological assets and deciphering technical documents, and transforming product creation processes through the use of multiobjective optimization, automated 3D parametric design, and 3D digital manufacturing methodologies for fluid machinery and systems. In addition, we will be pursuing the industrial application of supercomputers and other high-speed computers. To this end, we will be utilizing and evolving engineering practices based on scientific approaches in a wide range of business fields. Other initiatives will include the provision of product diagnosis

systems using IoT and big data analysis technologies and applying VR and AR to experience creation in sales, research and development, S&S operations, and a variety of other fields to accelerate the creation of customer value.

#### Preparative Digital Transformation:

#### Construction of Information Platforms to Support Globally Integrated Operations

The EBARA Group seeks to practice truly global management. This type of management goes beyond international management, which involves overseas bases operating their businesses separately, to achieve low-cost operations, enhance governance, and optimally position human resources by not installing separate administrative functions in each base. However, realizing this type of management requires the global standardization of business processes. For this reason, we are undertaking the global standardization of business processes, business rules, KPIs, and codes and constructing information platforms through the implementation of a Groupwide ERP system.

As the first step of this process, we will establish a center of excellence team based on members from the head office to develop standardized business process templates via ERP systems and deploy these templates throughout the EBARA Group's global operations. We will also globally track management information to shorten management cycles on a worldwide basis and supply information platforms that enable swift responses to management issues.

#### Current Processes and Systems

Businesses	Subsidiaries	EBARA CORPORATION (Non-Consolidated)						
		Operations	Design	Sales	Procurement	Production management	Services	Accounting
A								
B								
C								

Lack of consistency in processes and systems

#### Processes and Systems after Introduction of ERP

Businesses	Subsidiaries	EBARA CORPORATION (Non-Consolidated)						
		Operations	Design	Sales	Procurement	Production management	Services	Accounting
A								
B								
C								

Inherently linked processes and systems