STANDARD
TOKYO

May 10, 2024

Company name: TENOX CORPORATION
President and Representative Director: Masayuki Sato
Stock code: 1905 (Standard of Tokyo Stock Exchange)
Contact: Takashi Horikiri, Director and Management General Manager
(Telephone:+81-3-3455-7758)

# Towards Implementing Management That is Aware of Capital Costs and Stock Prices

Our group has recently formulated a new Medium-Term Management Plan which covers the period from FY2024 to FY2026. We are pleased to announce that the new Medium-Term Management Plan also incorporates measures for implementing management that is aware of capital costs and stock prices.

1. **Recognizing the current situation, understanding capital costs, and the return on capital that we aim to achieve** (refer to p. 20-21 of the new Medium-Term Management Plan)
   The PBR (Price Book-Value Ratio) of our company has been hovering around 0.4 to 0.6 for the last 10 years. The market assessment of our growth potential is low, which we believe is mainly due to our inability to sufficiently surpass market expectations for our capital costs. In order to increase corporate value, we recognize that it will be vital for us to promote management which is aware of capital costs.
   As for our capital costs, we have almost no interest-bearing debts, that is to say, the cost of shareholders' equity (*reference value of 2.4-4.4%). We have analyzed that our return on equity (ROE) must be at least 5% to ensure a return on investment, which generates the equity spread (ROE - cost of shareholders' equity) that is the source of corporate value. Based on that fact, we believe that raising our ROE is a prerequisite for achieving a PBR of 1; specifically, an ROE of 8% or higher is necessary.
   *CAPM, the most common method of calculating cost of shareholder's equity, was used

2. **Measures for raising ROE**
   In order to achieve an ROE of 8% or higher, the following three points will be implemented in the new Medium-Term Management Plan.
   (1) Increasing profits (refer to p. 6 of the new Medium-Term Management Plan)
   Five major strategies have been adopted in the new Medium-Term Management Plan, and of those strategies, "business strategy," "development strategy," "environmental and digital strategy," and "enhancing our management base" will be implemented to increase profits.
   We will achieve an ordinary income of 1.5 billion yen in FY2026, the final year of the new Medium-Term Management Plan.

(2) Expanding investments which will lead to growth (refer to p. 22 of the new Medium-Term Management Plan)

Utilizing operating cash flow and our cash on hand as funding sources, we have established investment funding for three years with a six billion yen limit for existing business investments and investments in growth areas (overseas projects, environment-related projects, and M&A), as an effective use of funds which will lead to future growth.

(3) Stable shareholder returns (refer to p. 23 of the new Medium-Term Management Plan)

Up until now, our company has generally implemented a dividend payout ratio of approximately 30%, based on a policy of determining stable dividends by taking into consideration the medium-term outlook, as well as our business performance and financial position for the relevant period. However, over the past few years, the dividend payout ratio has exceeded the target of 30% due to stable dividend payments amid fluctuating profits. Due to this fact, we have decided to review our policy on shareholder returns.

We will change the key indicator from the dividend payout ratio to dividend on equity (DOE) and set DOE at 2% or more during the period of the new Medium-Term Management Plan, pursuing a policy of providing stable shareholder returns.

We will strive to further enhance our IR activities going forward and continue to disclose the progress and initiatives of our new Medium-Term Management Plan (FY2024-FY2026), and by doing so, help our shareholders and investors to gain a deeper understanding of our business.

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