

Sodick Co., Ltd.

Integrated Report 2023

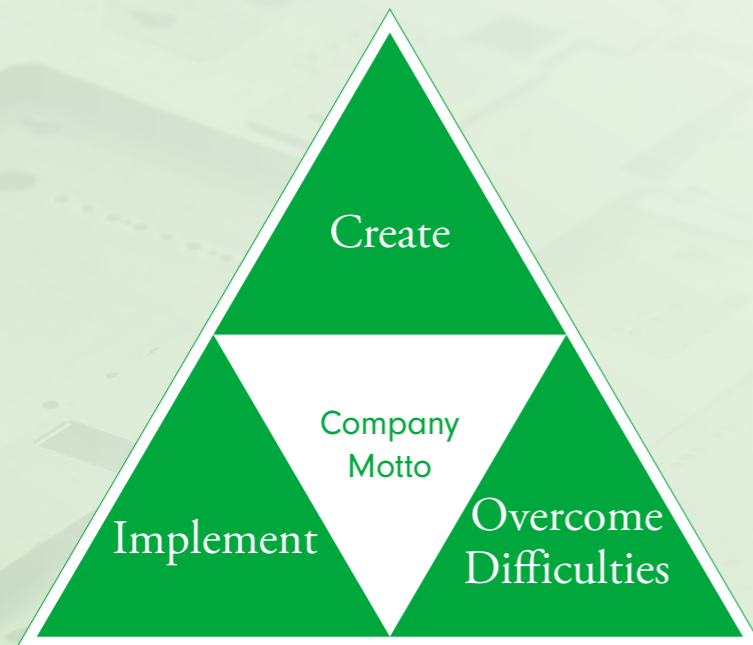


Origins/Development Philosophy

To contribute to our customers' manufacturing operations, "We create it if it does not exist."

Sodick is a pioneer in the field of numerical control (NC) electrical discharge machines (EDMs). Since our founding, we have dramatically enhanced processing precision through research into electrical discharge control and the development of NC units, thereby contributing to manufacturing worldwide.

Our company motto is "Create, Implement, and Overcome Difficulties," and our company name Sodick also derives from combining the phonetics of the Japanese words for "Create" (sozo), "Implement" (jikko) and "Overcome Difficulties" (kuro kokufuku). It encapsulates our deeply held philosophy of "creating" new things, turning these into reality through "implementation," and through a process of "overcoming difficulties," contributing to our customers' manufacturing operations. Our mission is to create machinery that our customers love to use. By consistently putting our motto into practice, we further enhance our own technologies and develop them for application in new product groups, thereby contributing to society via manufacturing.



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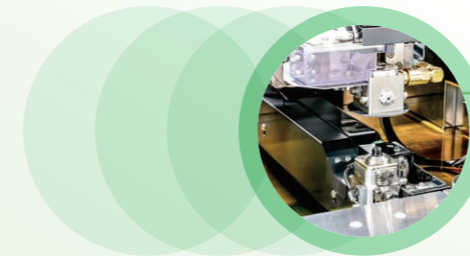
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Precautions concerning Forecasts

The current plans, strategies, etc., of Sodick and the Sodick Group described in this report that are not based on historical fact are merely future forecasts, and contain elements of risk and uncertainty. Please be aware that actual performance may differ significantly from these forecasts for a variety of reasons.

There are a number of important factors that could potentially affect our performance. These include the economic climate surrounding the business fields of Sodick and the Sodick Group in Japan, the Americas, Europe, Greater China, Asia, and other regions; downward pressure on prices due to changes in demand for Sodick's products and services and intensifying competition; our ability to continue to provide products and services that are well-received by customers in markets where competition is intense; fluctuating exchange rates; and an increase in global pandemics. Factors that could potentially affect our performance are not limited to those mentioned here.

Report Scope

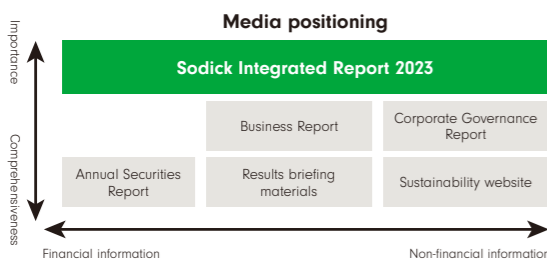
Sodick Co., Ltd. and its consolidated subsidiaries

Report Period

This report covers performance for FY2023. Some of the content included herein dates from immediately before or after the period in question.

Information Disclosure Framework

This report features carefully selected, highly important information related to the enhancement of Sodick's corporate value.



Reference Guideline

This report was prepared with reference to the Guidance for Collaborative Value Creation, which serves as a common language with investors.

The Guidance for Collaborative Value Creation is "a common language" linking companies with investors. For companies (corporate executives), it lays out in a systematic and comprehensive manner the information (such as management philosophy, business models, strategies, and governance) that should be communicated to investors. It is a guide for improving the quality of information disclosure and dialogue with investors.



Changes to Our Accounting Period

From FY2017, we changed our accounting period so that instead of ending on March 31, it now ends on December 31. Consequently, the fiscal year ended December 2017 was a transitional period of changeover to the new accounting period, making it an irregular settlement period: the applicable period for consolidation was nine months (April 1-December 31, 2017) in the case of Sodick, its consolidated subsidiaries and equity-method affiliates whose accounts are settled in March; and 12 months (January 1-December 31, 2017) for consolidated subsidiaries whose accounts are settled in December. The consolidated subsidiaries that settle their accounts in December comprise seven consolidated subsidiaries in China.

Continuing to Create the Future

1976-

Starting Point

Toshihiko Furukawa established Sodick

1976 In August, Sodick Co., Ltd. was established in Midori-ku (currently, Aoba-ku), Yokohama, with 24 employees
In December, the Company delivered the first NC die-sinker EDM with a microcomputer

1977 "GPC" power supply series for NC die-sinker EDM completed

1978 Head Office relocated to Nippa-cho, Kohoku-ku, Yokohama

Technical Development & Remarkable Growth

Development of world's first NC EDM

1980 Fukuji Office completed in Sakai-cho, Sakai-gun (currently, Sakai City), Fukuji Prefecture as a main production center
Started sales of NC die-sinker EDM in the United States

1981 Started sales of the "350W" NC wire-cut EDM equipped with five-axis control

1982 New Head Office completed in Shin Yokohama, Kohoku-ku, Yokohama

1986 Company's shares listed on the Second Section of the Tokyo Stock Exchange

1987 Kaga Factory completed as second production center (automated EDM production system introduced)

1988-

Overseas Development

Sodick Thailand became first overseas production center

1988 Expanded overseas
Established Sodick (Thailand) Co., Ltd. in Thailand

1989 Started the injection molding machine business
Developed and sold injection molding machine with our proprietary V-LINE[®] technology

1989 Completed construction of Research and Technology Center in Kohoku-ku, Yokohama

Period of Accelerated Growth

Full-scale entry into China

1991 Acquired shares of Japax, Inc.
Established a software company in Shanghai, China
Total sales of the "A series" NC wire-cut EDMs reached 2,000 units

1993 Established Sodick Singapore Pte., Ltd. in Singapore

1994 Began setting up production and sales structure in China, established Suzhou Sodick Special Equipment Co., Ltd. in Suzhou, China

1997 Head Office relocated to Nakamachidai, Tsuzuki-ku, Yokohama
Established Sodick (Taiwan) Co., Ltd. in Taiwan
Established Sodick Electromechanical (Shanghai) Co., Ltd. in Shanghai, China
Released the "MC series" machining center

1998-

Technical Innovation

World's first high-speed NC die-sinker EDM equipped with linear servo motor

1998 Released the "TR80EH" hybrid injection molding machine
Released the "AM series," the world's first high-speed NC die-sinker EDM equipped with linear servo motor

1999 Released the "AQ series" NC die-sinker EDM equipped with linear servo motor on three axes

2000-

Taking on Challenge of Nano-Level Accuracy

Ultra-precision linear nano-machining center

2000 Established Sodick America Corporation (R&D center) in Silicon Valley, United States
Established Sodick Europe Ltd. in the United Kingdom as first European sales center

2001 Sodick Plustech Co., Ltd. listed on JASDAQ stock market
Developed the "NANO-100," the world's highest-class nano-level precision processor

2002 Released the "LQ series" NC power supply equipped with 3D solid model
Released the "MC430L" ultra-precision linear nano-machining center

Transition of Value Creation/Sodick's History

Sodick began when our founder, Toshihiko Furukawa, developed the world's first technology that held the key to the practical application of electrical discharge machines (EDMs). Since then, we have supported technological innovation in Japan and around the world with a number of "world firsts." We will continue to contribute to society going forward through future-oriented manufacturing.

2003-

Market Expansion

Top market share in high-end market

2003 Developed and released the "LQ33W," the world's fastest high-speed NC power supply for wire-cut EDM

2005 Achieved the world's fastest total shipments of 10,000 linear motor drive machines

2005 Sodick Hightech Co., Ltd. listed on the Hercules stock market of the Osaka Securities Exchange

2006 Established Sodick Amoy Co., Ltd. in Xiamen, China

2007-

Progression of Linear Technology

Ultra-precision with linear motor drive

2007 Started the food machinery business, began developing, manufacturing, and selling noodle-making machines

2008 Total shipments of linear motor drive machines reached 20,000 units
Released the "AG40L" and "AG60L" linear motor drive high-speed die-sinker EDMs
Released the "AG400L" and "AG600L" linear motor drive high-speed/high-performance wire-cut EDMs
Released the "AZ250" nano-machining center

2009 Sodick merged with its subsidiary Sodick Hightech Co., Ltd.

2010 Announced new business expansion for LED-lighting segment
Established Sodick LED Co., Ltd.

2012-

Expanding Business Fields

Full-scale entry into the food machinery segment

2012 Sodick merged with its subsidiary Sodick Plustech Co., Ltd.
Established Sodick Vietnam Co., Ltd. in Vietnam

2013 Completed construction of the Second Factory in Thailand

2014 Released the "OPM250L" linear motor drive precision metal 3D printer
The "OPM250L" later won the Nikkan Kogyo Shimbun "Main Award of the 57th (2014) Best 10 New Product Awards"

2015 Company's shares listed on the First Section of the Tokyo Stock Exchange

2016 Completed construction of food machinery plant at Kaga Factory

2017 Began developing, manufacturing, and selling aseptically-packed cooked rice production systems

2018 Completed construction of Multi-factory at Kaga Factory

2018 Opened new technical center at Sodick, Inc. in the United States
Completed construction of second building at Sodick Head Office/Research and Technology Center

2019-

A New Age

Corporate transformation aiming for rapid, new growth

2019 Established Sodick Singapore Techno Centre Pte., Ltd. in Singapore

Developed world first "SRT method" for stable molding of large-scale metal mold parts using a metal 3D printer
Opened new technical center at Sodick Europe Ltd. in the United Kingdom

2020 Selected as one of "The 100 Global Niche Top Companies" for 2020 by the Ministry of Economy, Trade and Industry (METI)
Released the "INFILT-V[®]" injection molding system for biodegradable plastics

2021 The "K4HL" linear motor drive ultra-high-speed small-hole drilling EDM won the "Main Award of the 63rd (2020) Best 10 New Product Awards"
The "INFILT-V[®]" inert gas dissolution injection molding system received the "environment, resource, and energy-related parts award of the 18th (2021) Ultra Monozukuri Parts Awards"

2022 The "LPM325S" high-speed building metal 3D printer won the "Main Award of the 64th (2021) Best 10 New Product Awards"
Stock listing transferred to Prime Market of the Tokyo Stock Exchange
Rapid cooling equipment for granule powder (food machinery) won Judging Committee Prize at the 1st FOOMA Award 2022

2023 Expanded new food machinery plants (at Kaga Factory and China Amoy Factory) to strengthen production structure
Launched the "LSP5070" femtosecond laser processing machine
Embarked on structural reforms

2024 Formulated a new medium-term management plan

1977 1980

1990

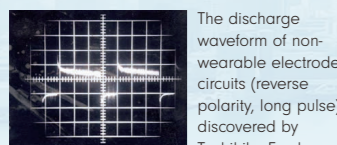
2000

2010

2020



Toshihiko Furukawa at the time of Sodick's establishment in 1976



The discharge waveform of non-wearable electrode circuits (reverse polarity, long pulse) discovered by Toshihiko Furukawa around 1963



Sodick (Thailand) Co., Ltd.



China Suzhou Factory



AM35L
World's first EDM equipped with linear servo motor



TR50S2
Injection molding machine with our proprietary V-LINE[®] technology



China Amoy Factory



NANO-100
Ultra-high-precision nano-level processor



Vacuum mixer for noodle making



Cooked rice production systems (part of aseptically-packed cooked rice production systems)



OPM250L
Linear motor drive precision metal 3D printer



Kaga Multi-factory

Sodick's Businesses

Machine Tools

Electrical Discharge Machines (EDMs), Machining Centers, Metal 3D Printers

Creating ultra-high-precision molds and parts



AL600G iG+E wire-cut EDM
Equipped with our proprietary wire rotation mechanism (1 Groove), reduces wire consumption while energy-saving pump system reduces energy consumption

AL100G+ die-sinker EDM
Equipped with high-output linear motor developed and manufactured in-house. Upgraded discharge controls and discharge circuits achieve higher processing precision, speed, and quality



UX450L machining center
High-speed, high-precision linear motor drive with ultra-lightweight head for high-speed, high-precision processing



LPM450 metal 3D printer
Our proprietary powder materials and new laser mechanism for larger-sized and faster processing



Sodick products addressing increasingly sophisticated manufacturing

In order to support customers' manufacturing, we are devoted to resolving customers' issues, even developing new products and technology not yet in existence. We provide customers with optimal solutions to solve their issues through leveraging our proprietary technologies and developing applications for new products.

Industrial Machinery

Horizontal Injection Molding Machines, Vertical Injection Molding Machines, Light Metal Alloy Injection Molding Machines, Automation Systems

Resolving molding issues with excellent stability and productivity



VT50 vertical single-acting-type injection molding machine
Contributing to even higher productivity with both molding stability with V-LINE® technology and molding cycle reduction with our proprietary hybrid toggle mechanism

GL30G2 horizontal injection molding machine
Global standard V-LINE® model contributes to high-value-added molding in various fields including those for precision equipment, electronic equipment, optical devices, and medical devices



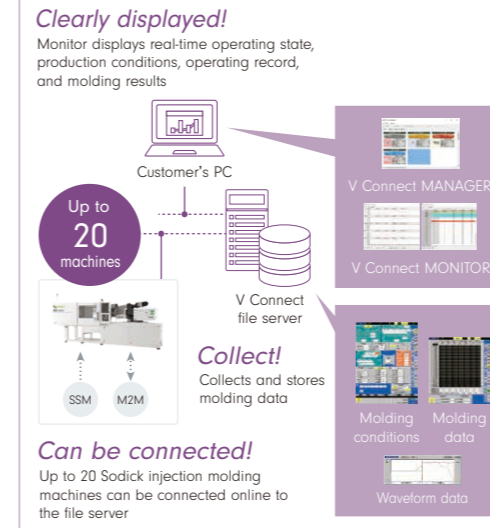
MR30 injection molding machine for OPM mold
All-in-one structure for peripheral devices needed for injection molding with a V-LINE® injection molding unit as a base features a compact design and saves energy



Quality and Production Management Systems, Machine Utilization Management Monitors

Sodick IoT

Visualizing manufacturing sites, sophisticated controls



S-Viewer machine status monitor

Software that inspects every NC unit at fixed intervals to collect data and permit integrated management of operating states of registered NC units. Allows to detect problems such as temporary stoppage rapidly even from a remote location, and improve machine operating rates

V Connect total management system for quality and production

Various molding data can be collected by connecting the "V Connect" file server and multiple injection molding machines online. Enables customers to easily monitor molding status on their PCs and improve productivity and quality



Aseptically-Packed Cooked Rice Production Systems, Noodle-Making Machines, Confectionery and Precooked Side Dishes Equipment

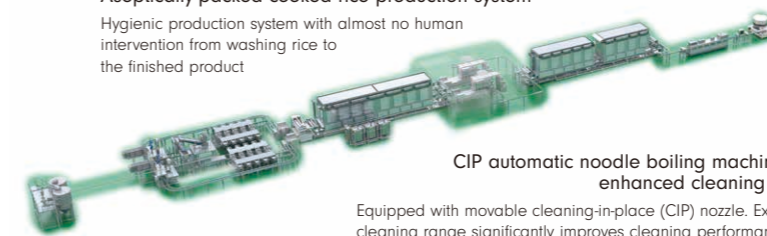
Food Machinery

Creating even more safe, secure, and delicious food

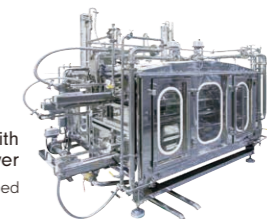
Continuous steam sterilizer
Gondola system for space-saving design. High thermal efficiency enables uniform and consistent sterilization. Automatic load-and-discharge device makes possible totally unmanned operation



Aseptically-packed cooked rice production system
Hygienic production system with almost no human intervention from washing rice to the finished product



CIP automatic noodle boiling machine with enhanced cleaning power
Equipped with movable cleaning-in-place (CIP) nozzle. Expanded cleaning range significantly improves cleaning performance



DDM continuous noodle-sheet press roller
Equipped with direct drive motor (DDM) with motor and roll directly connected. Waved rolls create a handmade-like noodle texture



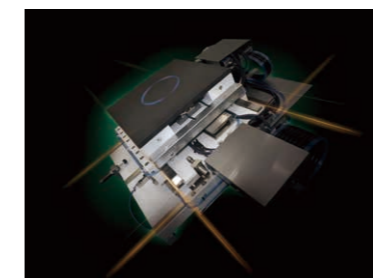
Others

Precision Dies and Molds, Ceramics, Linear Motors, LED Lighting

Others

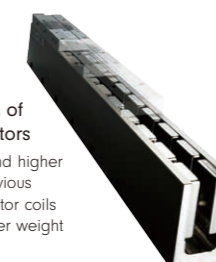
Ultra-precision ceramics XY θ Stage

Proprietary mechanism uses low center-of-gravity structure and low thermal-expansion metals



Our proprietary in-house technology for superior products

New CA_V3 series of coreless linear motors
More compact size and higher driving force than previous models. Low-mass motor coils and magnets for lighter weight and compact size

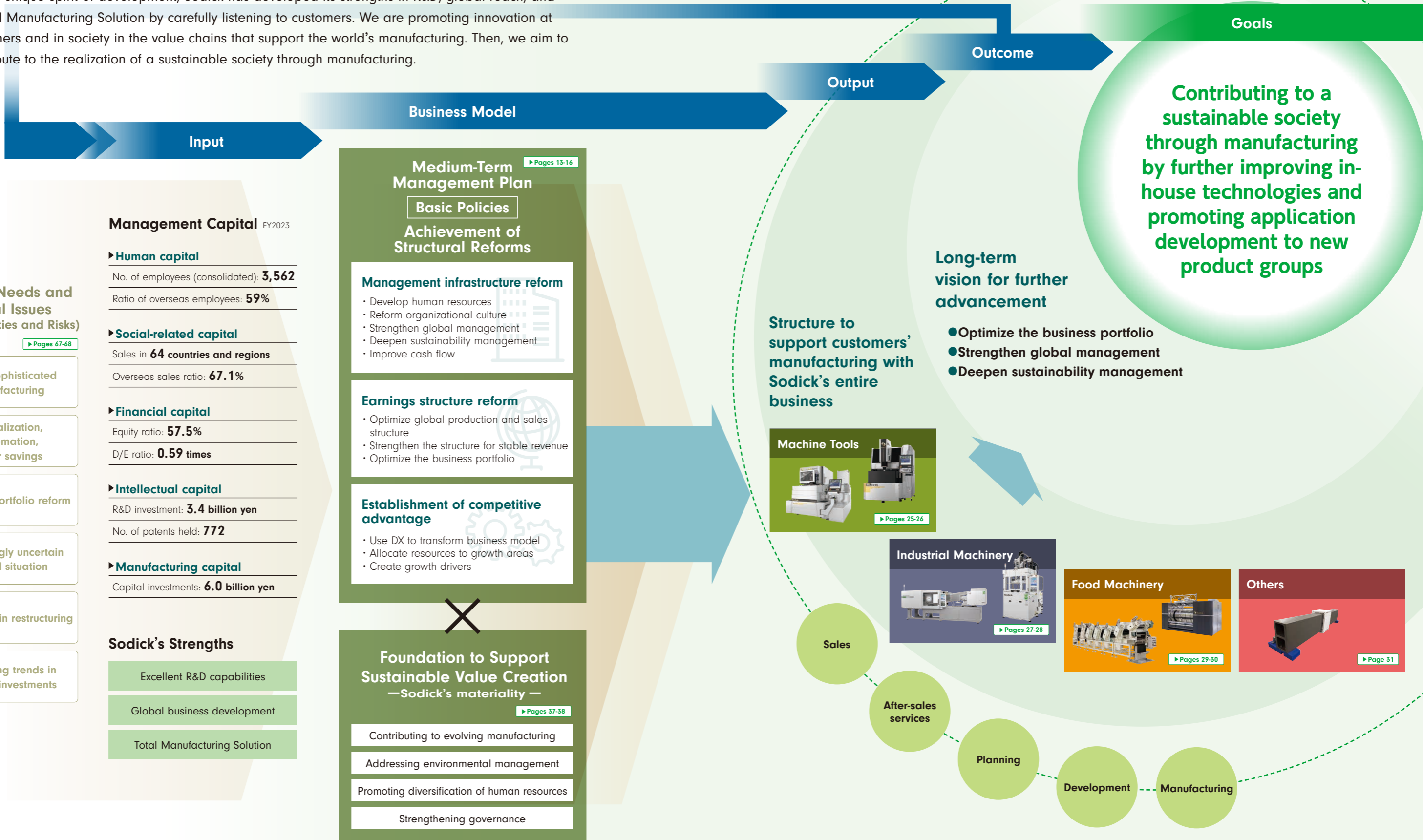


PIKA series of LED floodlights
Bright but without glare, to address light pollution



Sodick's Value Creation Process

With a unique spirit of development, Sodick has developed its strengths in R&D, global reach, and a Total Manufacturing Solution by carefully listening to customers. We are promoting innovation at customers and in society in the value chains that support the world's manufacturing. Then, we aim to contribute to the realization of a sustainable society through manufacturing.



A three-year medium-term management plan that looks beyond the short term to the future. The Sodick Group as a whole will focus on laying the foundation to return Sodick to a growth trajectory during this plan.

Kenichi Furukawa

CEO
President and Representative Director

Looking back on FY2023

Business conditions in Greater China started to shrink after the government issued its zero-COVID policy in 2022 and showed no signs of recovery in 2023. The operating environment of FY2023 was extremely challenging for Sodick due to the price hike of raw materials and energy, fears of a recession and prolonged depreciation of the

yen as central banks worldwide tightened monetary policy, and the geopolitical risks fueled by events such as the war in Ukraine, etc. Sales of machine tools in Greater China decreased about 30%, and sales of industrial machinery in Greater China also dropped about 20%. Therefore, we adjusted production volume, and the operating rates and the profitability in the factories declined. In addition, we incurred an inventory write-down because of the expansion of components previously arranged during supply chain disruptions.

We initiated structural reforms in the third quarter to improve profitability. However, net sales for FY2023 nonetheless decreased 16.5% year on year, to 67,174 million yen. In terms of profit, we recorded an operating loss of 2,819 million yen, compared with operating profit of 5,813 million yen year on year, largely owing to a heavier burden of labor costs, manufacturing costs, and deteriorating profitability at overseas factories from production adjustments.

We foresee that the future will definitely come when the way of producing automobile-related molds will change and then new molding methods can be properly developed and applied. However, it will take more time for the industry to examine and make a decision on next-generation vehicles, whether electric vehicles, plug-in hybrids, or hydrogen fuel-powered vehicles. In addition, we saw that the production of electronic devices and electronic parts has entered an adjustment phase amid the falling demand that followed the spike in demand during the COVID-19 pandemic and recovery from the semiconductor shortage, except for a few items. The aerospace industry is booming, but this situation has not yet increased demand for producing new molds in this industry. Given these factors, we should not be particularly optimistic about our prospects in the future. In fact, we expect the current severe business environment to continue for the time being.

Consequently, we decided to restructure our organization and implement structural reforms to keep growing and gain enough profit even if market conditions remain severe.

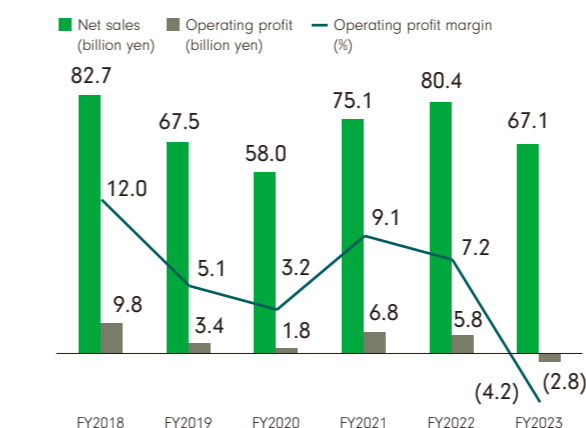
Structural reforms for a completely different structure after the destruction of existing internal system and organization

Companies that manufacture primarily in Japan are more susceptible to a decrease in profits from the appreciation of the yen. On the other hand, Sodick manufactured more than 90% of products overseas and earned profit even if the exchange rate of the yen rose to the rate of under 100 yen to the U.S. dollar. We began the overseas production around 1988, and this business model proved extremely successful as the trend of the appreciation of the yen continued for more than 30 years. However, in early 2022, the depreciation of the yen suddenly began, and the yen dropped to the rate of over 150 yen to the U.S. dollar. Then, we lost the advantage of overseas production and it became difficult for us to secure profit with our business model.

We formulated the long-term management plan "Next Stage 2026" in 2018, when both net sales and profits of Sodick reached record highs. From 2019, the economic situation changed significantly, largely due to U.S.-China trade friction, the COVID-19 pandemic, and Russia's invasion of Ukraine. Those issues caused wide gaps between targets of our long-term management plan and actual business results. In 2022, we concluded that we needed the reform of our business and a long-term vision. We got our next-generation leader candidates to examine the new long-term vision of Sodick. We, firstly, envisioned the ideal representation of Sodick in and after 2030 and made concrete business plans to achieve the long-term target. However, our business results deteriorated noticeably from the second half of 2022 due to sluggish demand in the Chinese market and rapid depreciation of the yen. We recognized that we had to change our business structure to a completely different one after destruction of the existing internal system, otherwise we could not earn profit and present a truly realistic growth strategy. In November 2023, we announced that we would draw back the long-term management plan and embark on structural reforms.

We have frequently discussed our dependence on the Chinese market as one of the key management issues. For machine tools, our core product category, Greater China accounted for 40% of net sales and close to 60%

Performance trends over past six years



of number of sales. We had a local-production-for-local-use system in our business. When the demand exceeded production capacity in mainland China at its peak, we also manufactured machines in Thailand for sale in China. Over the past 30 years, mold technology in China has steadily advanced, and China became the largest market of the mold industry in the world. We consider it natural that the dependency of our machine business on the Chinese market significantly increased and the machine market leaned toward China during the period. However, the situation gradually changed, and mold manufacturing has shifted to countries other than China.

We have two factories in China (in Xiamen and Suzhou). However, we will consolidate the two manufacturing operations into the Amoy Factory in Xiamen in order to raise productivity and reduce production costs. Meanwhile, since many customers still use our machines in the Suzhou area, we will establish a new technical center and services center to reinforce our after-sales service business there.

At the same time, we will strengthen production in Japan. To date, the multi-factory lines have produced at the Kaga Factory, but its profitability has been low due to low production volume and low facility operating rates. From 2024, we will increase the output at the Kaga Factory, promote automation and Digital Transformation (DX) through new investment, and establish a highly profitable production system. We had discussed many times in the past strengthening domestic production, but we could not find the merits of increasing production in Japan under the appreciation of the yen. Now, however, as the yen has kept depreciating, we decided to establish an excellent production system in Japan. Through the current series of structural reforms, we will create the tripolar production system based in Thailand, China, and Japan.

Initially, we planned to produce injection molding machines for the Chinese market at a new factory line in the Amoy Factory. However, the advantage of local production has decreased because of sluggish demand in China, so we decided to discontinue production in the Amoy Factory and shift those operations to Japan, again. As some injection molding machines have been produced in the Thailand Factory as well, we aim to boost the operation rate of the factory and increase profitability through the bipolar production system based in Thailand and Japan.

We are also pushing through major reforms in R&D activities. Previously, we focused on developing new models fine-tuned to a variety of customer requirements, leading to a wider product lineup. From now on, we will screen and streamline the development themes, review the product lineup, and increase the higher value-added products to enhance our competitive edge. We will decrease the low-profit models in our product lineup and streamline the product portfolio, aiming to improve profitability of our whole product portfolio.

Next growth story of Sodick after current structural reforms

The important strategies in our structural reforms are to reduce our dependence on China and to rebuild our earnings base through executing selection and concentration of our product portfolio. Completing structural reforms was set as our ultimate goal in the newly announced medium-term management plan. However, just implementing structural reforms is not enough for our further future growth. We have to take other measures for business growth without a drop in the loop of the reductive balance of the Sodick Group. I would like to explain several ideas of our next growth story as follows. First, in the machine tool segment, we will strengthen sales outside China, focusing on emerging markets, especially India and Mexico. We are seeing a trend among manufacturers in Japan, Europe, and the U.S. to produce the molds required for advanced processing technology, internally by themselves. Also, in Japan in particular, orders from the automotive industry are still at a standstill, but new budgets have been allocated in the aerospace and defense industries. In the semiconductor industry, large-scale production bases will be completed in Kumamoto and Hokkaido, Japan, and we will extend our reach in this market from the second half of 2024. We expect the business trend of production in each region of the global scope as follows. In China, production of components and precision parts will continue. On the other hand, production of finished goods will gradually shift to India, Vietnam, Mexico, and other regions. Looking ahead, Sodick established a local sales company, SODICK TECHNOLOGIA MEXICO, in July 2023, and began full-scale support to boost its sales activities in Mexico.

In the industrial machinery segment, we are strong in the medical device sector in the U.S. and will extend our sales reach to Europe from the current focus in the U.S. In the food machinery segment as well, we will reinforce our overseas sales organization by emphasizing the noodle-making machines and the cooked rice production systems for Asian countries, where strong needs and huge market potential are prospected in.

Even though the way of making molds changes, Sodick will remain the indispensable company for customers and continue to support customers' manufacturing activities. We will adhere to our corporate philosophy and stress "contributing to a sustainable society through manufacturing by further improving in-house technologies and promoting application development to new product groups."

One of the next and potential mainstream technologies of manufacturing is the metal additive manufacturing with metal 3D printers. One 3D printer was limited to deal with



only one material in the past, but the LPM325S, our 3D printer launched in autumn 2021, can deal with multiple metal molding materials in one machine. As Europe and the United States are key markets of metal 3D printers right now, we invested our capital in and made a business alliance with an Italian metal 3D printer company to promote full-fledged overseas expansion. In addition, Japanese companies seem to gradually have interests in additive manufacturing, and we are promoting development of machines able to accommodate gigacasting and larger molds in the Japanese automotive industry.

Another key product is the laser processing machine. Over the years, we have accumulated the linear motor control technology essential for high-speed and high-precision movement, and could produce the laser processing machines that achieve higher performance than competitors' machines. We were new in this market, but we have already received inquiries from customers. We will collaborate with them on development of laser processing machines, aiming to raise the product performance to the highest level possible and quickly catch up to the competitors in this area.

We believe that Sodick can provide a variety of solutions for our customers in fine and precise processing by providing our state-of-the-art processing technology in a new era of manufacturing. We will actively allocate our budget to growth investments including capital investment, R&D investment, and M&As. At the same time, we recognize that PBR (price book-value ratio) of Sodick was 0.48 as of year-end 2023, and this figure is extremely low. To overcome this situation, we will vigorously strive to secure high profit through our business activities, and make our shareholders and investors expect our stable profitability and potential to continue to grow in the future. On the financial front, we have secured enough necessary capital to simultaneously execute structural reforms and growth strategies, and have also continued the balance sheet adjustment as an urgent issue.

■ Medium-term management plan quantitative targets

	FY2023 (Result)	FY2024 (Plan)	FY2026 (Plan)
Net sales	67.1 billion yen	72.2 billion yen	90.7 billion yen
Operating profit	(2.8) billion yen	1.1 billion yen	7.3 billion yen

* Based on assumed exchange rate of U.S.\$1 = ¥140 for FY2024 through FY2026

Enhancement of ESG management and reform of management base

Under the medium-term management plan, we will strive to reshape the management base in unprecedented ways. A cornerstone of this process is corporate governance reform. Since 2018, we have taken steps to reconfigure the Board of Directors, including an increase in the number of External Directors to four people and a review of the

management meeting format. We recognized that more active discussions were formed and the effectiveness of the meeting was improved by adding the diverse and external perspective in the Board of Directors. We have struggled to achieve structural reforms, but those reforms should lead to the change of the overall corporate structure (as "intensive

care" for corporate structure). We will consider the sudden examination for additional policies or new investment during the reform process. To encourage quick business judgment and management decision-making from a more objective and long-term perspective by Directors, we shortened the term of the office for Directors from two years to one year. Furthermore, to separate the roles of the decision-making and supervision function from the business execution function in management and transform into a more clearly management style of monitoring board, we abolished the position of executive directors with special titles, and made the number of External Directors more than half of the Board of Directors. Additionally, I handed over the post and responsibility of the chair of both the Advisory Committee on Personnel and the Committee on Compensation to an External Director, effective February 2024, to ensure objectivity and fairness in management. We will update the compensation system for executives by revising the performance-related compensation and linking to non-financial indicators such as employee satisfaction scores. We will also consider transition to a company with an Audit and Supervisory Committee in 2025.

Enhancement of sustainability management is another important issue. Since Sodick is a manufacturing company, we have to provide high-value-added products and services. At the same time, we provide customers the methods of production with low environmental impact and that contribute to carbon neutrality, as one of our corporate missions. Toward this end, we must first reduce our own greenhouse gas emissions. In 2022, we established the EFM Department, dedicated to strengthening environmental management, and continue to promote activities aimed at

achieving carbon neutrality by 2050. In 2023, we embarked on initiatives to make Scope 3 emissions the same across the entire value chain, from suppliers to the Sodick Group and further to customers' facilities.

In terms of human resources, under the medium-term management plan, we recommit to activities that encourage diversity, deepen engagement through employee satisfaction surveys, and promote health and productivity management. In addition, we are currently seeking to improve meetings, formats, document work, work methods, and other measures to improve internal communication. We are also reviewing the personnel management system and the measures used to evaluate employee growth.

For promoting the active participation and advancement of women in the workplace, as it is, originally, difficult to recruit female employees and the number of female employees tends to be low in machinery companies in general, we are trying to hire more women and increase the percentage of women in management positions to 5% by 2026. Actually, we are implementing various measures such as letting female employees work at overseas Group companies and providing support for career development. At present, the Department Manager of the Export Control Department is a woman. Export control work has the potential risk that a single mistake could significantly damage a company's credibility. So, I felt the manager of the department requires a strong sense of justice and mission, and assigned her the role based on her experience and skills. We will actively provide opportunities to upgrade personal skills and management skills for more women in Sodick, after her, to be able to take on the challenge of management positions with strong confidence.

Sodick's value lies in the trust built with customers

We acknowledge that we have to first destruct our business foundation, which we have built over the past 40 years, under the structural reforms. And then, we will rebuild a new one. Our business model and our successful history were certainly worthy of praise. However, it is obvious that the current business model, which had huge success in the past, does not work in today's business environment. If we are to survive in the future, we have to restructure it now.

I have often asked myself what the significance of Sodick's existence is. I believe our value lies in the trust we earned from the customers who chose us and continued to use our products and services in their production. To prove we are worthy of such customers' trust, Sodick continues to progress and provide advanced products and services for customers. Our customers are better aware of the advantages of our technologies than we are. They understand that we are not just an assembly manufacturer but a manufacturer that has the proprietary technology and tries to produce the main machine components, too, which are key items for higher processing in customers' production, by in-house production, for customers. Customers are confident in asking for advice or making specific requests because they know Sodick can provide solutions for their problems. We work with our customers on-site, like a partner in manufacturing operations. We are proactive, taking pride in our ability to

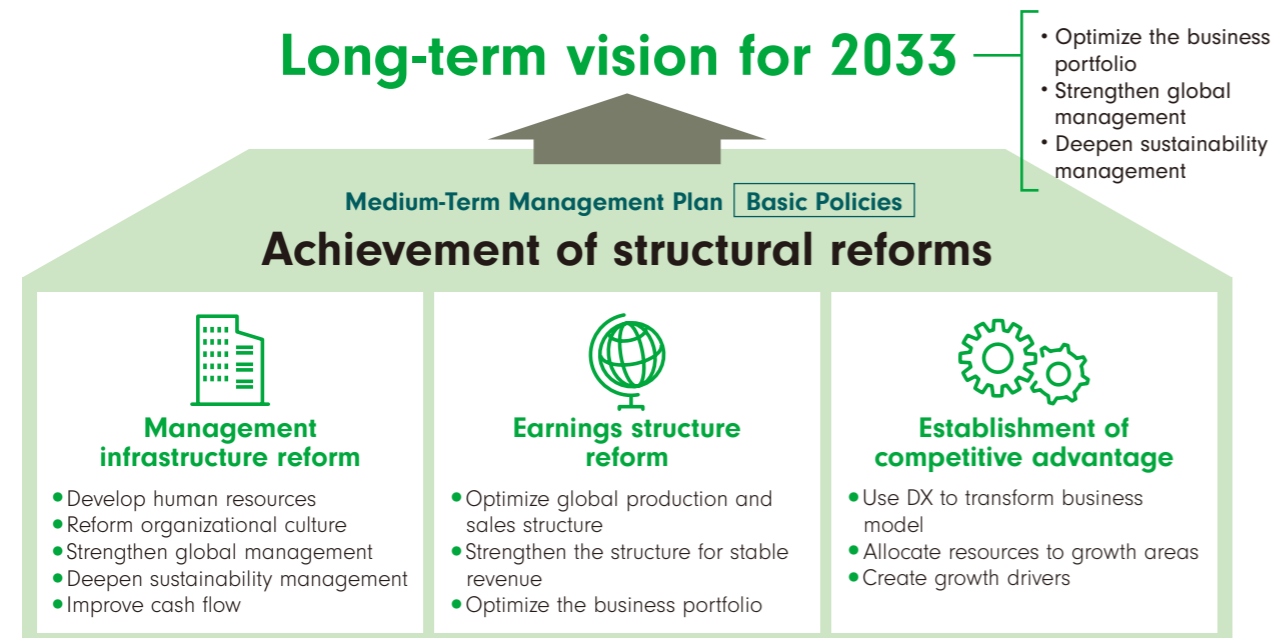
offer constructive suggestions for customers—"You could use this" or "That probably will work out well"—regarding applications and solutions. By promoting open innovation and collaborating with outside associates boasting excellent technology, the Sodick Group will work as a cohesive team and enhance capabilities to provide customers access to a wide range of options. The purpose of corporate culture reform, currently being coordinated mainly by young employees, is to realize the level up of both the organization and the individual employee of Sodick, take everyone under the corporate umbrella in the Sodick Group to new heights, and create an atmosphere conducive to growth and motivation through close communication each other.

We will strive to build a solid foundation for Sodick getting into a growth trajectory again during this three-year medium-term management plan from 2024. The medium-term management plan is based not only targeting better business results on a short-term perspective but also a bright future, as we can achieve our objectives, on a long-term view. We believe that if we achieve those goals, we will steadily go forward to a further brighter future.

I am asking both our shareholders and other stakeholders to look forward to the progress of structural reforms and the future growth of Sodick.

Medium-Term Management Plan 2024–2026

Basic Policy of the Medium-Term Management Plan (2024–2026)



In light of the drastic changes in market conditions since 2022, we found that it will be difficult to improve earnings with the current management infrastructure and business model. Therefore, we have embarked on structural reforms across the entire Sodick Group.

Under our medium-term management plan covering

three years from 2024, we have set three basic policies to achieve structural reforms—management infrastructure reform, earnings structure reform, and the establishment of a competitive advantage—as we build a foundation to realize our long-term vision for 2033.

Objective and Four Basic Policies for Structural Reforms

Objective	The business environment surrounding the Sodick Group has changed drastically and its profitability has declined significantly. The Company plans to fundamentally reform its profit structure and management structure by changing its business models.		
Basic policy	1	Reducing dependence on China	Reorganize manufacturing operations and expand production items in Japan by consolidating manufacturing at two factories in China into one factory
	2	Selection and concentration	Improve profitability by reorganizing business segments and products based on market trends and competitive environment
	3	Restructuring of production and sales systems	Rebuild production and sales systems globally in response to yen depreciation and changes in demand
	4	Balance sheet improvement	Enhance the cash conversion cycle and reduce long-term inventory Improve cash flows by reducing inefficient non-current assets, etc.

We are implementing reforms of the overall existing businesses, which have experienced significant declines in profitability. The first reform is to reduce our dependence on China in terms of both manufacturing and sales; the second is selection and concentration in businesses and products based on market trends

and the competitive environment; and the third is to restructure our production and sales systems in response to depreciation of the yen and changes in demand. Along with the better profitability resulting from these first three reforms, our fourth reform is to improve the balance sheet by reducing inventories and non-current assets.

Business Strategy of Each Segment

Machine Tool Segment

Improve profitability while strengthening the competitiveness of EDMs

Optimize production structure

- Move production from Suzhou Factory to Amoy Factory to consolidate and optimize the production scale in China
- Fundamentally increase domestic production to create a global three-region production system (Thailand, China, Japan) compatible with the exchange rate fluctuation
- Reduce fixed costs, focusing on personnel expenses, and restore profitability by increasing productivity through the introduction of automation facilities

Strengthen stock businesses

- Strengthen the stable and profitable after-sales service business (consumables sales and maintenance) and meet customer needs with full lineup of services from machine sales to after-sales services

Reduce dependence on China

- Strengthen sales in emerging markets (India, Mexico, etc.)
- Respond flexibly to the return of production related to advanced technologies to Japan and the West

Industrial Machinery Segment

Review production structure and product lineup to improve profit structure/
Increase sales volume and market share

Reduce dependence on China and consolidate production structure

- Discontinue production at Amoy Factory and reduce costs by increasing production in Japan

Shift to sales of profitable models

- Shift to the lineup of models with added value by analyzing market needs

Provide automation solutions

- Work with our subsidiary Sodick F.T to sell a complete line of manufacturing automation, from molds to molded products

Enter the European market

- Leverage sales in the United States to expand into the European market with our highly competitive electronic components and industrial machinery for medical devices

Food Machinery Segment

Expand sales and business areas in Southeast Asia/
To be a global general food machinery manufacturer

Expand overseas sales

- Increase overseas sales by strengthening the sales structure of noodle-making machines and cooked rice production systems in Southeast Asia

Improve existing products

- Improve existing products from the perspective of saving energy, enhancing their productivity, making them smaller and more functional

Develop new products and take on consigned production

- Expand business scale through developing new food machinery and taking on consigned production

ESG Strategy

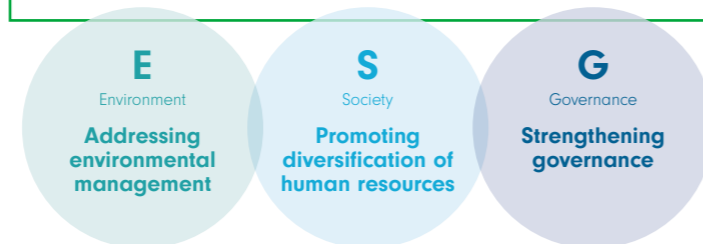
We will strengthen our sustainability management under the new medium-term management plan.

In 2021, the Sustainability Committee identified Sodick's four materiality issues (important issues). In addition to contributing to evolving manufacturing as a company that supports customers' manufacturing, we have set and are pursuing KPIs in the areas of the environment, human resources, and governance.

Contributing to evolving manufacturing

Contribute to building of a foundation for economic development through more sophisticated manufacturing

- Higher-precision, higher-functional EDMs
- Higher-precision injection molding machines and greater diversity of molding materials



E | Environment-related KPIs and information disclosure (TCFD)

Required items	Content of disclosure
Governance	Report and deliberate by the Sustainability Committee and the Board of Directors (at least once a year)
Strategy	Identify risks and opportunities through scenario analysis → List of assessment of significance at 4°C/1.5°C
Risk management	Report and deliberate at the Risk Management Committee (on a Company-wide management basis)
Indicators and targets	Set targets for reducing greenhouse gas emissions (as compared to the base year of 2013) <ul style="list-style-type: none"> Reduce combined Scope 1 and 2 by 46% in 2030 Promote overall emission reductions, including Scope 3, and aim for carbon neutrality by 2050

We are carrying out scenario analysis in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). We are targeting a 46% reduction in internal (Scope 1 & 2) greenhouse gas emissions by 2030 compared with the 2013 level. We are also formulating our response for Scope 3 emissions.

S | Materiality and KPIs related to human resources

Materiality	KPIs	Results	Actions
Promoting diversification of human resources	Increase percentage of women in management positions Target 5% (by 2026)	3.1% * As of December 31, 2023	Women's leadership training, etc., for position-specific and objective-specific training
	Increase percentage of male employees taking parental leave Target 100% (2027)	60.9% * January-December 2023	<ul style="list-style-type: none"> Dissemination using in-house newsletters and training for managers Conducting personal interviews with employees eligible for parental leave

A unique feature of the machine tool industry is that it has few female employees, and the percentage of women in management positions remains low today. Nevertheless, we are working toward active participation by women and supporting their career formation through position-specific training and women's leadership training.

For parental leave by men, we are working to increase the percentage of male employees taking leave by tracking employees eligible for leave, disseminating information using in-house newsletters, promoting understanding within those employees' departments, etc.

G | Strengthening governance

Major items of improvement

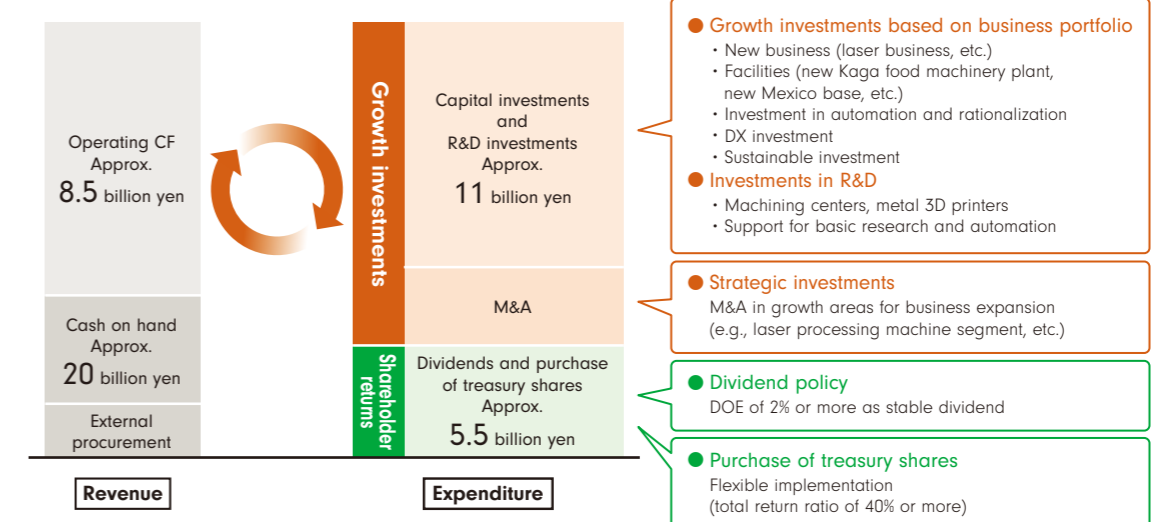
- Shorten the term of office of Directors to one year from two years
- Abolish system of appointing Directors with special titles, separate decision-making and supervisory function from executive function of management to clarify their roles
- Change structure of the Board of Directors
 - Majority of the Board of Directors is External Directors (Percentage of independent External Directors: 55%)
 - Replacement of the President and Representative Director by an External Director as the Chairperson of the Advisory Committee on Personnel and the Committee on Compensation
- Consider review to tie officer compensation to management plans
- Consider shift to a company with an Audit and Supervisory Committee to strengthen governance structure further

Under the medium-term management plan, we have introduced a new management structure to further strengthen governance for the plan's

steady implementation. Major improvements are as shown above.

Cash Allocation

Proactively allocate capital to investment for growth



During the three-year period of the medium-term management plan, we intend to allocate to growth areas approximately 30 billion yen including operating cash flow of approximately 8.5 billion yen, cash on hand, and a portion of external procurement.

We have designated metal 3D printers and laser processing machines as our growth areas. We will invest in R&D in these areas and are considering mergers, acquisitions, and alliances for business expansion. We will also make strategic investments for growth in the European, North American, and South American markets.

Financial Targets (FY2026)

	FY2023 (Result)	FY2024 (Plan)	FY2025 (Plan)	FY2026 (Plan)
Net sales	67.1 billion yen	72.2 billion yen	82.5 billion yen	90.7 billion yen
Operating profit	(2.8 billion yen)	1.1 billion yen	4.6 billion yen	7.3 billion yen

	Indicators	Targets	2023 results
Capital efficiency	ROE (5-year average)	8% or more	3.5%
Financial soundness	Equity ratio	50% or more	57.5%
Shareholder returns	DOE ¹	2% or more*	2.2%
	Total return ratio ²	40% or more	— ³

* Dividends per share: 27 yen or more (calculated from the average shareholders' equity at the beginning and the end of FY2023 × DOE of 2%)

¹ DOE (Dividend on Equity Ratio) = Total dividends / Shareholders' equity (average at the beginning and the end of the period)

² Formula for calculating the total return ratio in the Company: Total return ratio = (dividends in FY *n*) + (purchase amount of treasury shares in FY *n* + 1) / Profit for FY *n*

³ Profit in FY2023 was negative, and the total return ratio was calculated to be negative, which is indicated by a hyphen.

Our five-year average ROE during FY2023 was 3.5%, but we are working toward an earnings recovery as quickly as possible with a target of a five-year average ROE of 8% or more.

We have also set targets of 50% or more for the equity ratio, DOE of 2% or more as shareholder returns, and a total return ratio of 40% or more.

Message from COO



Yuji Akutsu

Chief Operating Officer (COO)
Executive Vice President and
Director

Sodick will extend the successes of our turnkey business model in the United States to Japan, Europe, and other regions, leading the way into a new era of manufacturing and customer support.

Developing a turnkey business model strengthens our commitment to provide a complete manufacturing solution for our customers.

Since I assumed COO position in November 2022, I have been working to promote growth strategy, built on three key themes: creating a solutions business, strengthening the after-sales service business, and promoting DX (Digital Transformation). In the solutions business, we create and provide advanced machines with big technical advantage and added value, such as software, solutions, remote services, and maintenance programs. In FY2023 we received rapidly increasing inquiries from mid- and large-sized Japan and U.S. corporate customers asking if Sodick could provide the necessary machinery and solutions to enable them to produce their desired products with. This is known as “turnkey solutions” in the United States, whereby we design and develop the entire process including work holding, machinery, and measurement procedure for manufacturing a product.

A reason behind the trend mentioned above is a shortage of human resources in manufacturing, which puts our customers in the difficult situation of having to make highly complex competitive products with limited human resources.

Last autumn, we invited a group of representatives from corporate customers expanding their molding machine businesses across the United States including experts in molding technology to our Kaga Factory as well as to Sodick F.T Miyazaki Factory, to show the entire automated system, from precision die manufacturing to molding. As a result, we immediately received orders for the entire automated process, including precision die, molding equipment, and automated production systems. Turnkey solution projects also increased in the aerospace industry, which has regained momentum since last year. Sodick has a complete range of die-sinker electrical discharge machines (EDMs) and small-hole drilling EDMs, which are indispensable for the production of aircraft engine components, some inquiries have already led to orders, and the scale of our business is expanding as we provide various process enhancing features, such as automation, measuring equipment, associated software, rotary axis, and specially designed fixtures. We expect the demand for such projects to continue to grow going forward. To respond positively to such emerging opportunities and accelerate expansion of our turnkey business, we will develop our internal human resources and also utilize external resources appropriately.



Key to innovation is “engaging (with customers)”

In addition, we have been working to strengthen the after-sales service business and promote DX in parallel with creating a turnkey-focused solutions business. In 2023, we introduced CRM* in Japan. In the United States, CRM was already operating to provide customer and sales information centrally. We worked to integrate CRM with the after-sales service business system and will launch a new business platform to manage after-sales customer support data in spring 2024. The key to innovation is “engaging (with customers),” and we will utilize IoT technology to remotely monitor machines and production status at customer sites, providing customers with various remote services, including software updates.

We are now in an era when we can realize full remote support for customers to keep smooth manufacturing operations without visiting the manufacturing site of the customers.

Through DX evolution, customers, machines, and Sodick will always be connected, and this transformation will lead to a shift toward a sustainable society (for example, all employees’ work style change due to a reduction of business travel frequency, reduction of CO₂ emissions, etc.).

* Customer Relationship Management: A system and tool for managing relationships and interactions between a company and its customers

Structural reform and overseas strategy

The Sodick Group in FY2023 unfortunately recorded an operating loss. We recognized in analysis of our financial results by country that influence and fluctuations of the Greater China economy have become extremely large over the past decade and these fluctuations potentially have a direct and huge impact on our consolidated financial performance. We have to reduce the impact and fluctuations in the consolidated financial results as we steadily continue to proceed our growth strategies to achieve our goals. Therefore, we are currently engaged in structural reforms to restructure and optimize our production system in China. At the same time, we are expediting growth strategies for North America and Europe and accelerating business development in Asia, with the aim of generating stable well-balanced corporate profit structure in every geographical area of operations.

We will extend our successful U.S. business model to Europe. In Europe, we have two subsidiaries, in the U.K. and Germany, operating mainly EDMs business, however from now on, we will reinforce our industrial machinery business as well. We are considering a wider presence in Ireland, making it a priority region, since many major pharmaceutical and medical device companies are moving into that market, where the technical advantage of our injection molding machines can be well received.

We will also strengthen our base in India, which has shown a rapid economic growth in recent years. Just

recently, I visited a local customer and found they have a large number of skilled staff members who produce extremely precise work. India is a very high potential market. We will establish a prompt delivery system by investing in local machine inventory because customers in India require short lead times to respond to rapid increase of product demand. We currently have one sales company and three branch offices, and we plan to build a new technical center in the state of Maharashtra, an industrial region where many mold and die makers are concentrated. The technical center will feature a showroom displaying our latest advanced machinery and technology.

Meanwhile, in Mexico, production volume has grown sluggish in recent years, reflecting the economic downturn in the automobile industry, but the situation has gradually recovered. Only a limited number of countries including Japan, China, South Korea, the United States, and some European countries have a capability of producing precision molds. As labor costs in the United States have continued to rise, Mexico is now an alternative location where for example, Chinese companies are also actively investing. With its huge working population and low labor costs, we assume that Mexico will become the next growth area for our machine tools, if its production capability of molds expands. Sodick will give a high priority to this market where we already have a strong presence.

Our responsibility to stakeholders

The Sodick Group is very highly respected by stakeholders all over the world as we expand the business globally. We recognize that it is our social responsibility to meet these expectations, but we are sorry that we could not do so in FY2023. Currently, we are working collectively on structural reforms and growth strategies to steadily develop our business activities while keeping in mind the global market in the future.

As a business, we have important responsibilities—

generating profits through business activities, constantly updating parts-recycling and energy-saving technologies that fuel GX (Green Transformation), and responding to the great trust that customers place in Sodick. In addition, we believe that it is vital that we will make our business highly profitable and pay stable dividends to our shareholders. We will evolve and grow to fulfill our responsibilities to all stakeholders. Please look forward to Sodick continuously achieving our goals in the future.

Message from CFO



Hirofumi Maejima

Chief Financial Officer (CFO)
Director and
Corporate Executive Officer

Sodick is standing at a major turning point in its corporate history. We aim to achieve a sustainable increase in corporate value by implementing structural reforms and efficient management practices while seriously considering capital efficiency.

Looking back on financing activities of FY2023

We encountered drastic changes of the surrounding business environment of Sodick in FY2023, and the times had truly changed. In financing activities, we made a decision in 2022 to buy back and cancel 2.5 million treasury shares. Those activities had been continuing through 2023 and ended in May. In addition, we executed a variety of financing activities to deal with the unexpected situation. Financial results for FY2023 deteriorated because of a significant decrease in the sales unit of machine tools and industrial machinery due to the prolonged and severe economic slowdown in Greater China, our largest market. Moreover, depreciation of the yen, acceleration of inflation, and continuous cost increases of raw materials, energy prices, labor costs, etc., throughout the year hurt our results. Since the 2008 global financial crisis, we have steadily strengthened our financial position while maintaining a sufficient level of working capital in response to demand fluctuations and achieved a 58.5% capital-to-asset ratio well above the 55% average of major machinery companies, as of the end of FY2022. However, the situation changed in FY2023. As the operating rates of the factory significantly decreased, the production costs have dramatically increased, and the operating

cash flow has significantly decreased. We secured a sufficient level of working capital with the use of external funding, and proceeded with liquidation of accounts receivable and inventory reduction in order to control the balance sheet. Our financial policy is that we can afford to procure funds while ensuring financial soundness, to keep from falling into a cycle of cash shortages due to delays in cash conversion and too large working capital.

In addition, the trend toward depreciation of the yen appears firmly to be prolonged, and the impact of appreciation of the yen prompted by overseas emergencies, which frequently occurred in the past, seems less likely to occur now. In FY2023, the exchange gain resulting from the depreciation of the yen failed to cover losses, leading to an operating loss of 2.8 billion yen and an ordinary loss of 1.2 billion yen.

Reflecting changes in cash flows from operating, investing, and financing activities, the balance of cash and cash equivalents increased to 33.3 billion yen at the end of FY2023. The year-on-year increase is largely due to fund raising and surplus cash in overseas subsidiaries. We are considering measures like subsidiary-parent loans in order for the timely utilization of surplus cash within the Group.

Purpose of structural reforms and underlying basic policy

Regarding trends in the Chinese market since 2022, opinions vary widely on when and to what degree the demand will bounce back. Especially China has significantly restricted information on its economy since 2023, making it difficult to obtain sufficient data to make reliable predictions even through the representative in China. Greater China accounts for a large percentage of total sales of Sodick, and so we began considering more carefully and quickly about how to promote the business in China. Our business model, under which most products are manufactured overseas rather than in Japan, has enabled us to maintain high profit even when the yen is stronger. However, the success pattern of this business model does not seem to apply during a persistent depreciation of the yen. Furthermore, energy and raw materials costs have become the norm. Having no control over such external factors, we started to structurally reform both our business and finance practices from perspectives of responding to changes in the external environment and realizing self-reformation to mitigate risks.

In China, we will optimize production capacity to match current market size by integrating two factories into one factory and improve profitability even against the raw materials price hike with increased production efficiency. For other markets, including Japan, we will shift and reinforce production of main electrical discharge machines (EDMs) and injection molding machines into Japan since we cannot expect advantages of the overseas production system under current yen depreciation, while production in the Thailand factory had cost advantages before. We will transform and shift from the current excessive overseas production structure into a well-balanced structure across three production bases—Thailand, China, and Japan—to optimize the effect of exchange fluctuations.

From the perspective of self-reformation, we aim to narrow down our product lineup. To date, the number of

models for both EDMs and injection molding machines has increased every year, as we worked to meet the high-level requirements of our customers. But too many models brought disadvantages of insufficient resources supporting machines' stable performance and its improvement. From now on, we will narrow down our lineup and follow a policy of simultaneously improving the product performance and securing profit. Along with that, we will promote a change in awareness of the sales department that would prioritize profitability over number of units sold in sales targets. At the same time, as we mentioned above, we will do our utmost to collect funds in the shortest period while carefully monitoring the situation in each country where our products are sold.

In addition, Sodick carried out an organizational restructuring in 2022, shifting from a functional organization to a divisional organization. This transformation was limited to a change of the organizational structure but has not yet reached a change in corporate culture. A large part of the business plan and strategy planning for each business is still entrusted to the Board of Directors. We will delegate authority to the executive officers. We expect that the executives of each business division would have an awareness of cost and return for each business, and could discuss their business with the use of ROIC (return on invested capital) and other indexes. The Board of Directors will focus on monitoring more than ever and we aim to shift to better and proper role sharing between the Board of Directors and executive officers.

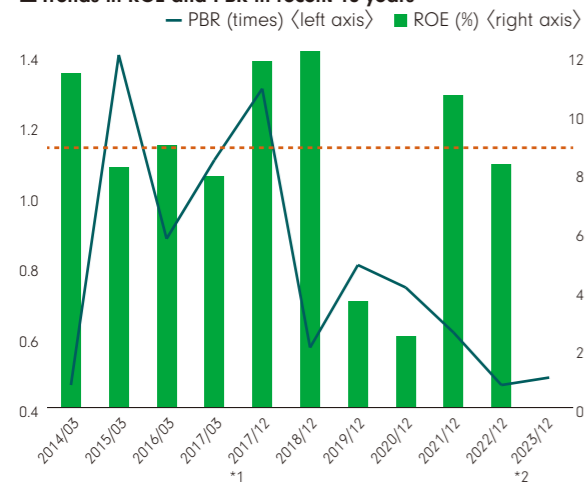
We have decided to implement our structural reforms at this time in the case of sudden and significant changes in the external environment in 2023. This is a very major turning point in its corporate history for Sodick. We recognize that it is vital that we complete this restructuring to solidify a foundation for growth into the next decade.

Management by being more conscious about cost of capital and stock price

We were in the red in FY2023, and ROE (return on equity) fell below the cost of equity. PBR (price book-value ratio) was 0.48 times at December 31, 2023, and PBR of Sodick has been continuously under 1.0 times since 2018. As for the trends in ROE in the recent 10 years, Sodick's ROE exceeded 8% on average until 2018, but after 2019 it significantly decreased to an average of 3.5%. The primary reason is a deterioration of the operating profit margin. We analyzed the current situation in which the profitability of the Sodick Group as a whole has declined significantly in relation to the external environment.



Trends in ROE and PBR in recent 10 years

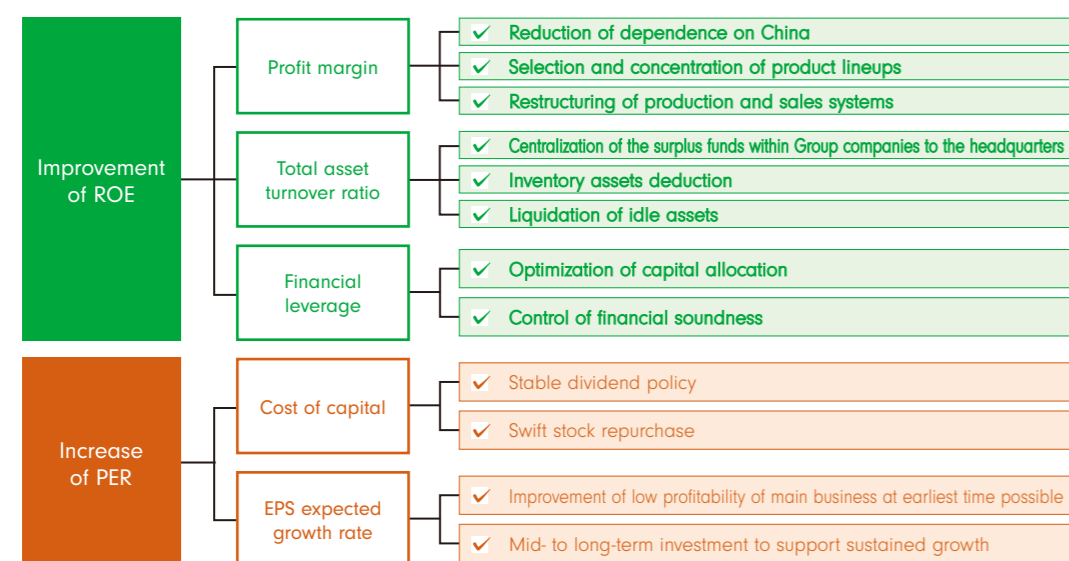


*1 FY2017/12 was a transitional nine-month period following a change in the fiscal year-end, effective in 2017.
*2 ROE for FY2023 was minus.

Our core business is machine tool business, which is not a leading-edge industry like those related to IT enjoying rapid growth because of the unavoidable effect of high volatility of demand in global capital investment. As it is difficult to arouse the interest of many investors for the machinery industry, the average ROE and PBR of the industry also remain at a relatively low level.

Nevertheless, as our management challenges are now clear, we decided to implement structural reforms as soon as possible and then would like to show higher profits and higher ROE to our shareholders and investors. At the same time, we must invest for future growth opportunities and show our potential for growth to external stakeholders. In addition, we will optimize financial leverage and raise awareness of the cost of capital to improve ROE and PER (price earnings ratio), which should then lead to a higher PBR.

Measures to improve PBR



The purposes of the sufficient level of fund raising, as mentioned above, are not only to secure working capital but also to make an investment to support sustained growth. For example, we are considering aggressively investing in the metal 3D printer and laser processing machine businesses. It will support next-generation manufacturing. We will also invest in the after-sales service business, expecting it to maintain stable profitability, the solutions business, etc., to carry out the transformation of our business portfolio. Due to the nature of PBR, a quick improvement in a short period is not expected. However, we would like to promote reforms, get better results, and show the steady progress of our growth strategies every year. We would like Sodick to become a company that is expected to have great potential and grow despite some risks by all stakeholders in the market.

Under our new medium-term management plan, announced in February 2024, we planned to allocate about a total of 30 billion yen to growth investment and shareholder returns. This will be sourced from operating cash flow, cash in hand, and external funds over three years. In addition to capital investment, R&D investment, and return to shareholders, we consider strategic investment, including M&A. Sodick has traditionally emphasized in-house technical expertise in production. But from now on, it is necessary to consider possibilities of alliances with other companies and M&A to seek breakthroughs. As our competitors also need to reform, we foresee and are preparing for possible changes in the machine tool industry. We intend to examine our strategy from a versatile approach that takes human resources, technology, sales channels, etc., into account.

Promoting sustainability management

Since I was assigned as the director of the Corporate Division, I recognized that the world had changed between 2018 and 2019. While we could plan and execute valid theory-based policies until 2018, we found it difficult to predict our business environment reasonably after 2019 as various orders drastically changed.

The world economy is becoming chaotic. At the same time, the damage to the global environment by the increased greenhouse gas emissions has become more obvious. We must also pay close attention to the sustainability of the planet and society to continue our own business activities and keep sustainable growth. Sodick expressed its support for Task Force on Climate-related Financial Disclosures (TCFD) in December 2022, and set greenhouse gas emissions (Scope 1, 2) as metrics to evaluate and manage risks due to climate change and assess and track progress on corporate environmental activities. Furthermore, we set the target of a reduction of 46% of greenhouse gas emissions by 2030, compared with 2013. Currently, we are examining the plan and the activities of greenhouse gas emission reduction to respond to Scope 3 and aim to realize carbon neutrality across the whole Company by 2050. To achieve our targets, we have introduced renewable energy sources into our operations, installed and expanded the solar power generation systems at our facilities both overseas and in Japan (the Kaga Factory), and engaged in technology development to improve the environmental performance of our products toward realization of a decarbonized society.

In addition, we believe that human resources are sources of value creation of Sodick, and every employee is the driving force of our transformation. We will strive

to provide the comfortable work environment and the diverse working styles that allow our diverse employees to keep high productivity and remain in good physical and mental health. For example, we promote activities that improve the internal communication and workflow in the Company. Before the reforms, we had traditional and bureaucratic systems of many and frequent meetings with many attendants, and long and detailed explanations using several dozen pages of documents by the responsible department (but only short discussion after that). Such a bureaucratic process was a big obstacle to productivity. Furthermore, we have reviewed the whole business process streamlining excessive indirect work caused by complicated workflows, frequency of meetings, the number of attendants, the meeting time, the approval process, and volume of email communications, etc., and are trying to significantly improve the efficiency of our work from both digital and analog perspectives. In today's unpredictable times, it is not easy to make steady and continuous progress in our business. Indeed, we cannot overcome such a difficult situation while everyone spending so much time stuck together in meetings with vast amounts of documents.

We aim to delegate authority and accountability to young employees, shorten working hours, and boost the productivity of the Company to eliminate inefficient and internal legacy systems and processes. I believe that routine operational work is not true business, but the true business is "Thinking." Ideally, I would complete the daily tasks in half of the business day, and then spend the rest of business hours "Thinking." If we have such time in business hours, we can tackle more creative work, which will lead essentially to our working-style reform.

Message to shareholders and investors

Our basic policy on return to shareholders, as described in the current medium-term management plan, indicates DOE (dividend on equity ratio) of at least 2% in order to offer stable and continuous returns to shareholders while securing the necessary internal reserves. We will also maintain a total return ratio of at least 40% and strive to increase stock value by further increasing returns to shareholders.

Sodick was started by Toshihiko Furukawa, the founder, as a start-up with 24 employees almost 50 years ago. What is important for a start-up company is the entrepreneur spirit—to come up with one's own creative idea and try it by oneself—and the ability to overcome various risks and challenges along the way. Because

Sodick has continued to have this entrepreneur spirit since its foundation, we have grown and achieved the milestone of listing in the Second Section of the Tokyo Stock Exchange and then the Prime Market.

Today's Sodick has also many young and mid-career employees who possess the entrepreneur spirit. Though it is still in the middle of reform, we, the top executives of the Company, strongly believe that those new members will play a big role shortly by showing a big picture—the future direction of Sodick—, delegating more authorities to them. To our shareholders, please look forward to recognizing Sodick's future after our entire reformation including our business fundamentals, profit structure, and organizational structure for success.