

Financial Strategy

The Tamron Group will balance ensuring a robust financial structure with high capital efficiency, and follow a basic policy of strategically allocating management resources to improve corporate value through business strategy.

Strategically allocating management resources by balancing robust financial structure with high capital efficiency

(1) Robust financial structure

We have implemented future-oriented R&D and capital investment for sustained growth while making preparations for flexible strategic investments (including M&A and alliances, etc.) and considering risk tolerance. Under these conditions, we aim to have at least two-thirds of our total assets comprised of owned capital and ensure sufficient liquidity on hand of two or three months. We have developed a financial structure that maintains financial health with a D/E ratio of 0.1x or less.

(2) Capital investment

We will actively pursue capital investment that contributes to improved corporate value. In addition to investment in new models and high-precision equipment, we are investing automation, streamlining, energy-saving production equipment, and other systems to boost productivity and improve business operations.

Over the three-year period from 2021 to 2023, we plan to make cumulative capital investments worth around 10 billion yen. This represents an increase of roughly two billion yen in cumulative investments over the preceding three-year period from 2018 to 2020 as we step up investments in anticipation of the medium and long term.

(3) R&D investment

As a global optical manufacturer, investment in R&D is essential to maintain and improve high-level technologies, as well as to contribute to social needs and produce innovation from a long-term perspective.

Over the three-year period from 2021 to 2023, we plan to make R&D investments worth around 15 billion yen, representing an increase of about one billion yen over the previous three years from 2018 to 2020. On a fiscal year basis, up to 2015 these investments amounted to around 5% of net sales, but this has gradually been raised to 8-10% of net sales.

(4) Shareholder return and capital policy

We will steadily link growth investment to profit growth, work to increase earnings per share (EPS), target a dividend payout ratio of around 35% as the allocation of profits based on business performance, and position the continuation of stable shareholder return as our basic policy.

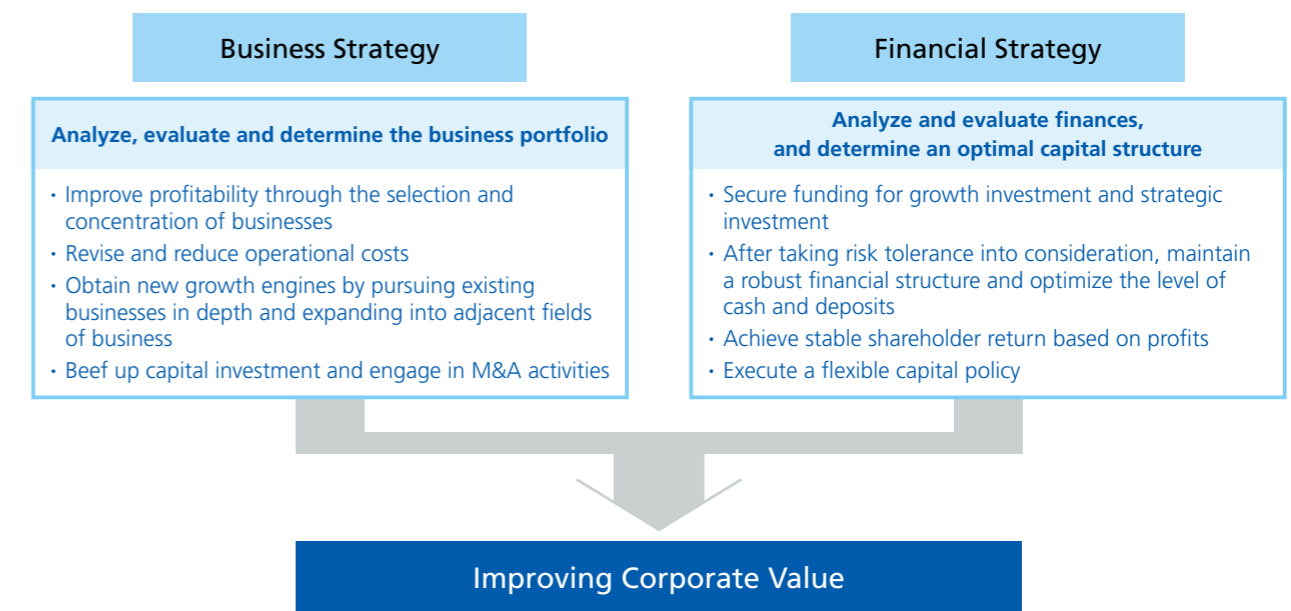
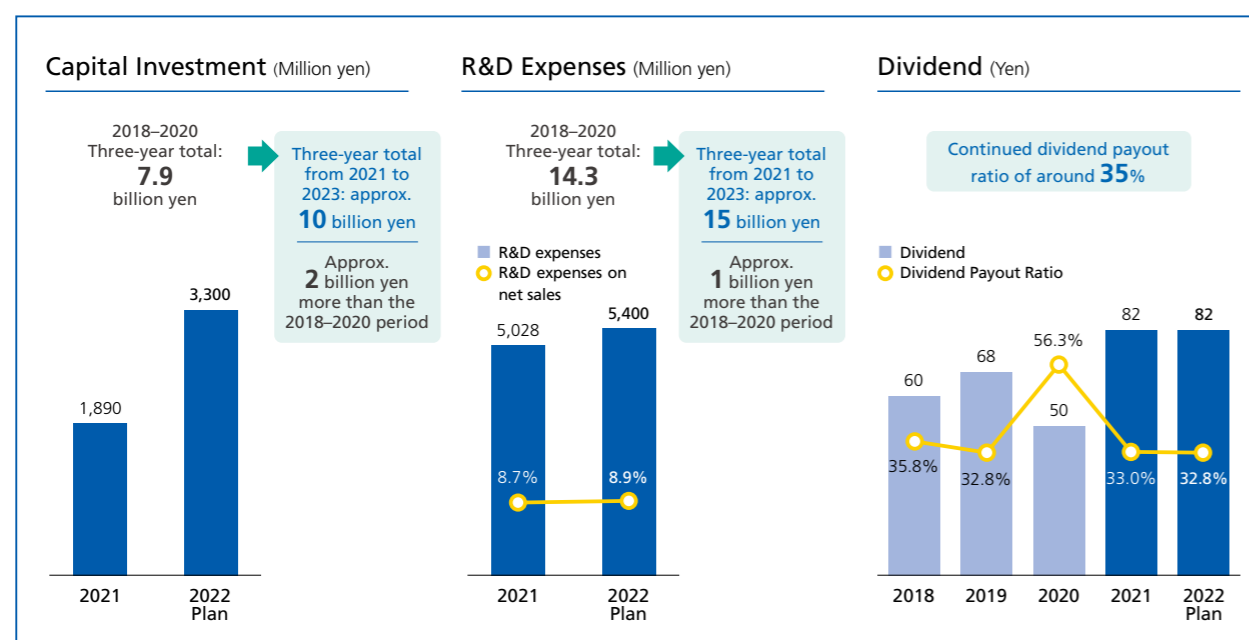
In addition, in light of developments such as market conditions, financial status and capital efficiency, we will also implement capital policy including the acquisition of treasury shares on a flexible basis.

The Tamron Group pursues management that maintains an awareness of capital costs and places an emphasis on capital efficiency. In our mid-term management plan, we have set the goal of raising ROE to at least 9%, exceeding the cost of capital (approx. 7%), and have undertaken various initiatives with this in mind.

Initiatives to Raise ROE

	Profitability $\frac{\text{Net Income}}{\text{Net Sales}}$	Asset Efficiency $\frac{\text{Net Sales}}{\text{Total Assets}}$	Financial Leverage $\frac{\text{Total Assets}}{\text{Net Assets}}$
	Improved profitability	Improved asset efficiency	Enhancing shareholder return and executing capital policy
Main Initiatives	<ul style="list-style-type: none"> Reduced development and production costs Reduced operational costs 	<ul style="list-style-type: none"> Improved asset turnover ratio Improved ROA Shortened cash conversion cycle (CCC) 	<ul style="list-style-type: none"> Ongoing shareholder return based on a dividend payout ratio of around 35% Execution of flexible capital policy
Results (2020 ⇒ 2021)	<ul style="list-style-type: none"> Gross profit margin: 38.0% ⇒ 40.3% SG&A expense ratio: 30.6% ⇒ 27.5% Improved non-operating profit/loss, reduced effective rate of duty 	<ul style="list-style-type: none"> Asset turnover ratio: 0.8 times ⇒ 0.9 times ROA: 5.9% ⇒ 12.0% CCC: 146 days ⇒ 145 days 	<p>[2020]</p> <ul style="list-style-type: none"> Acquisition of treasury shares (as a percentage of total shares outstanding: 18.87%, acquisition amount: 8.9 billion yen) <p>[2021]</p> <ul style="list-style-type: none"> Cancelled treasury shares (as a percentage of the total number of shares outstanding before the cancellation: 3.66%) Record annual dividend: 82 yen

Improving Corporate Value through Both Business Strategy and Financial Strategy



Strike a balance between growth potential and efficiency to achieve a corporate structure capable of sustained growth