

Ushio Group Medium-Term Management Plan

Improving Corporate Value

Ushio Inc.

President and Chief Executive Officer

Koji Naito

July 31 , 2020

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USHIO

Applying Light to Life



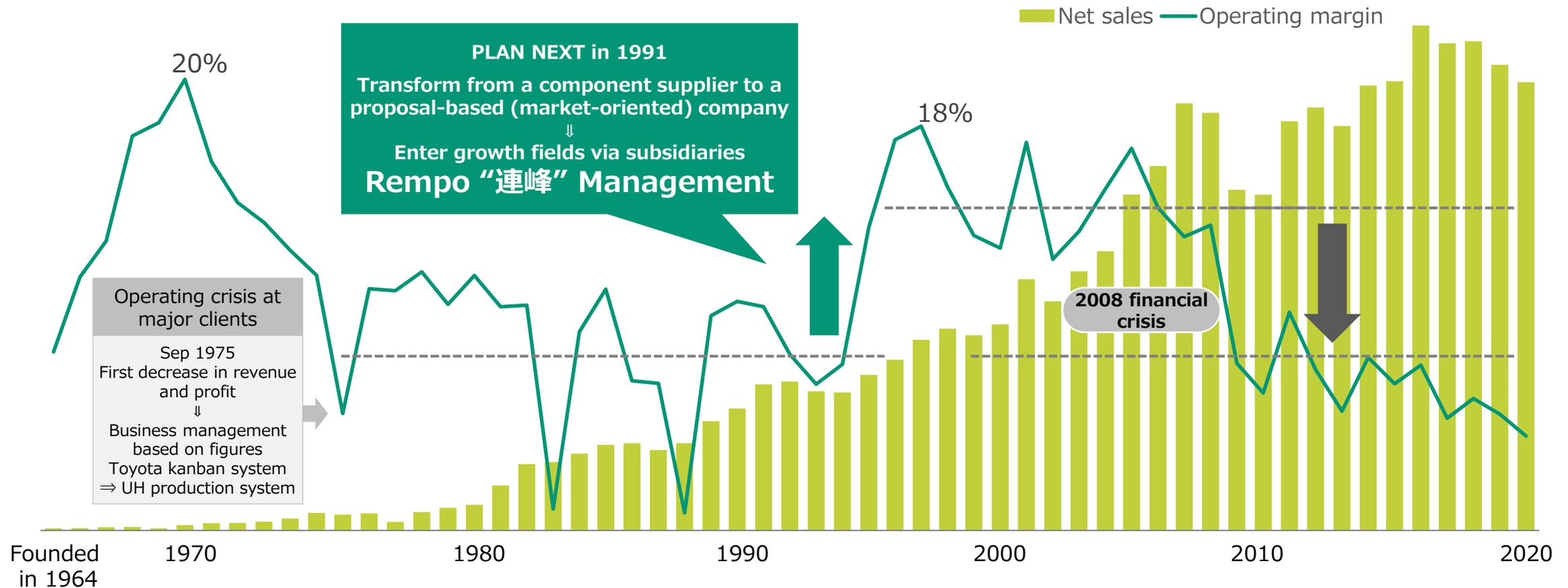
Ushio Group Medium-Term Management Plan

- Rempo “連峰” Management:
Shifting from Independence to Solidarity
- Reviewing the Previous Medium-Term Management Plan
- Overview of the New Medium-Term Management Plan
- Strategy for the Light Source Business
- Strategy for the Equipment Business
- Strategy for the Creation Business
- Unifying Strategy

- **Rempo “連峰” Management:
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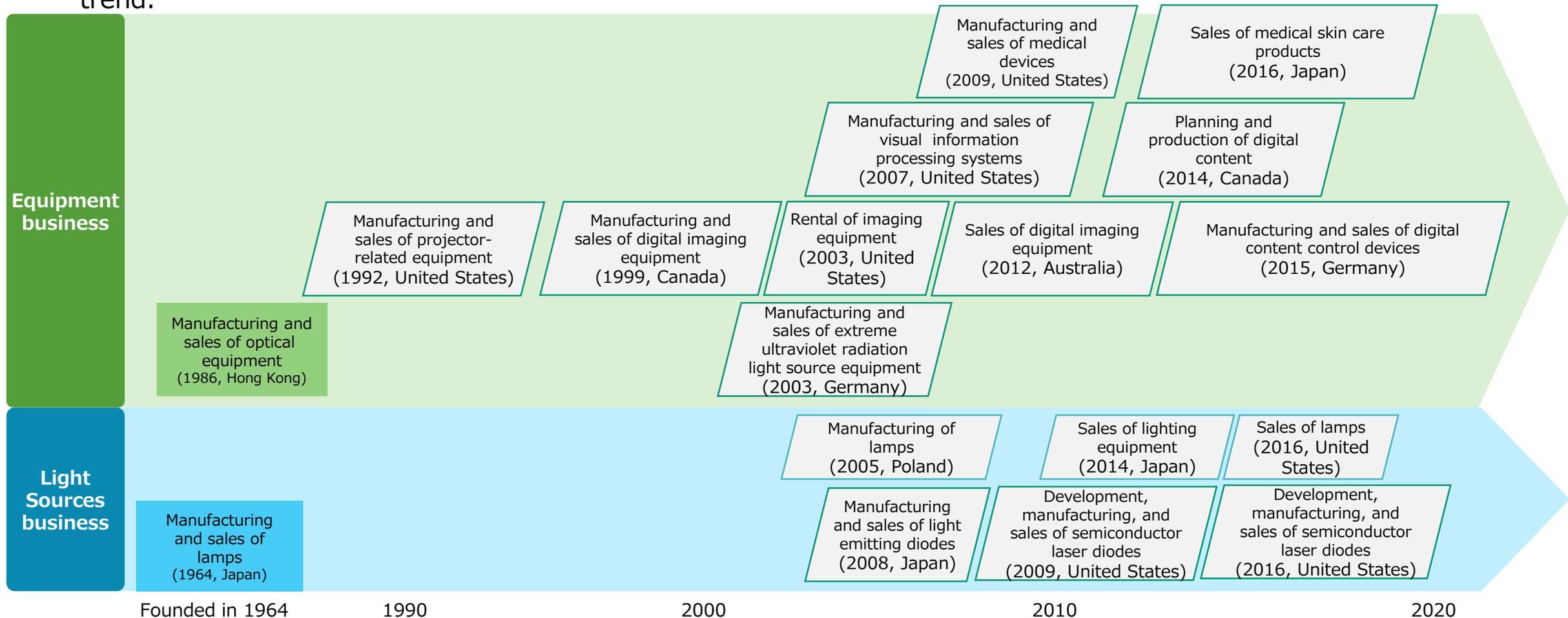
Major Changes Before and After the 2008 Financial Crisis

- In the midst of the rapid expansion and changes in the market since the 1990s, we promoted "Rempo ‘連峰’ Management" to enhance on-site agility. Our profit margins greatly increased.
- However, we have seen a downward trend since the 2008 financial crisis. We have now fallen below the level before Rempo “連峰” Management was adopted.



Accelerating M&A Fails to Prevent Profit Margins from Decreasing

- We promoted M&A from the 2000s. This enabled us to steadily globalize and enter new market fields.
- However, it failed to stop the downward trend in profit margins. M&A has not yet triggered a reversal in the trend.



Previous Rempo “連峰” Management ≡ additive management

- **Independent** departments and subsidiaries autonomously pursue optimization of individual performance
- Although this enables strict accounting checks, it hinders company-wide strategies and synergy between departments and subsidiaries



Increased need to actively adopt a strategic point of view for pursuing optimization of company-wide performance



New Rempo “連峰” Management ≡ multiplicative management

Enhance solidarity for **non-continuous** evolution

Overview of Rempo “連峰” Management

Independence for individual optimization ⇒ Solidarity for overall optimization

Previous Rempo “連峰” Management

Concurrent independence and solidarity

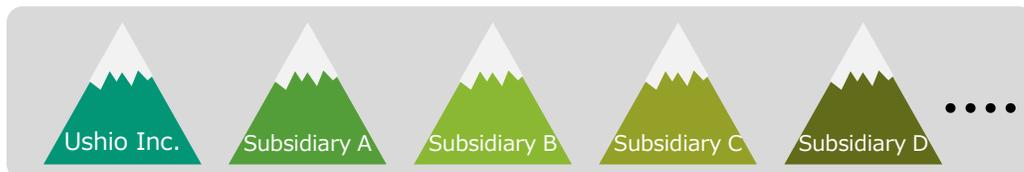


- Pursue organizational targets separately based on a common foundation



Current status of "Rempo"

Individual optimization: Independence > Solidarity

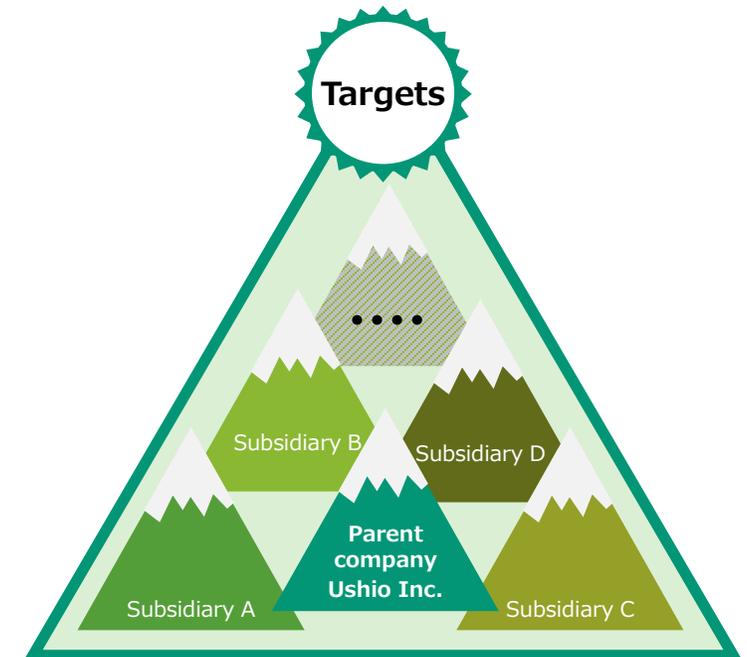


- Each company deploys individual measures and is not linked
- PDCA (monitoring) implemented for each company separately

Shift

Rempo “連峰” Management to aim for

**Overall optimization:
Independence < Solidarity**



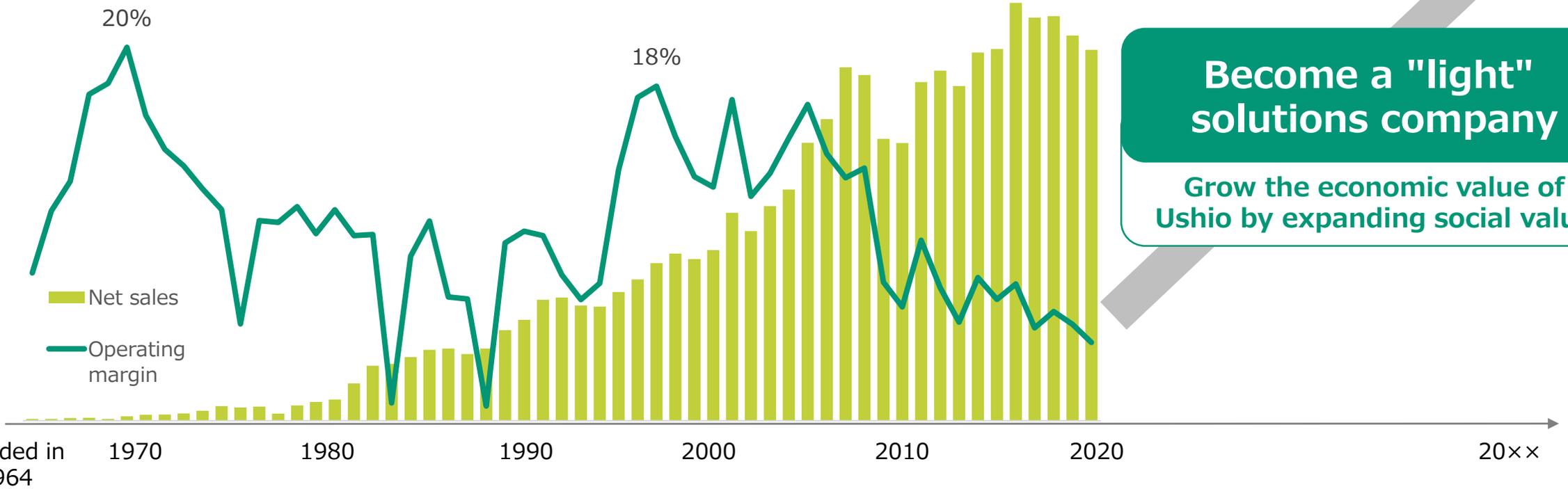
- Aim for unified targets for the entire group
- Overall understanding across businesses
- Unify PDCA (monitoring)

Positioned as great transformation opportunity



Break down passive nature

Correct bias on independence



Become a "light" solutions company
Grow the economic value of Ushio by expanding social value

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Reviewing the Previous Medium-Term Management Plan (1)

Previous Medium-Term Management Plan
(FY2017 - FY2019)

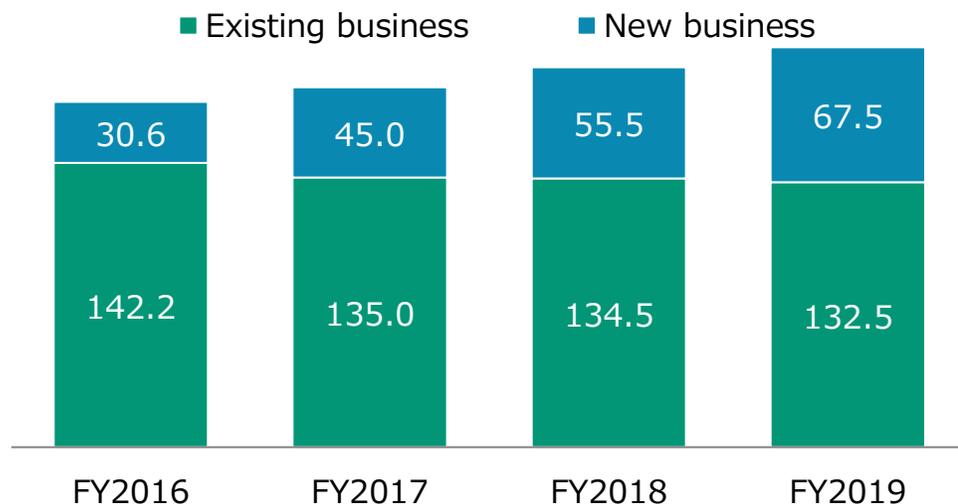
**Solidify the foundation to make
the next leap forward**

Basic Policy

1. Maintain profitability and improve existing businesses
2. Pursue new growth opportunities
 - ① Structural improvements for the equipment business
 - ② Expanding sales in new business
 - ③ M&A focused on synergy

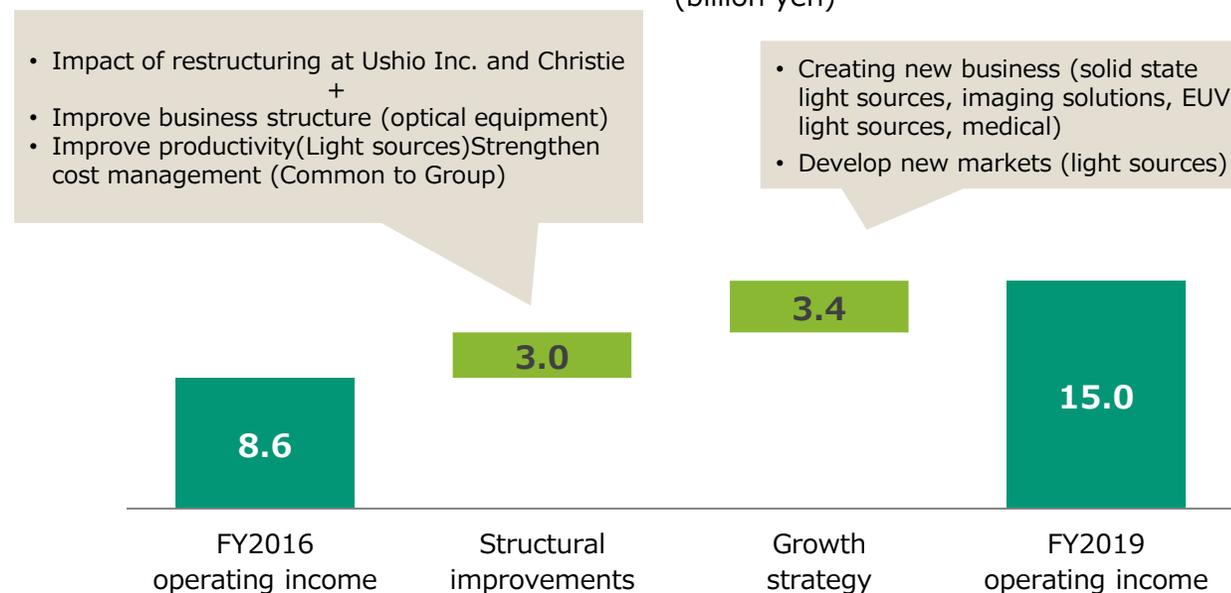
Sales trend

(billion yen)



Operating income growth scenario

(billion yen)



Reviewing the Previous Medium-Term Management Plan (2)

(billion yen)	FY2016 actual results	FY2019 plan	FY2019 actual results	Difference
Net sales	172.8	200.0	159.0	▲41.0
Light Source Business	71.9	84.0	58.5	▲25.5
Discharge lamps	59.7	73.0	47.9	▲25.1
Halogen lamps	12.1	11.0	10.6	▲0.4
Equipment business	97.6	113.0	97.0	▲16.0
Imaging equipment	67.0	77.5	57.8	▲19.7
Optical equipment	28.5	33.0	36.1	+3.1
Illumination equipment	2.0	2.5	3.0	+0.5
Other	3.2	3.0	3.3	+0.3
Operating income	8.6	15.0	6.6	▲8.4
Operating margin	5.0%	7.5%	4.2%	▲3.3p

Reasons for non-achievement of Medium-Term Management Plan

1. Light Source Business:

Shift to solid state light sources progressed more than expected, which diminished the effect of initiatives

2. Imaging equipment:

Development of new products delayed
1st phase of structural reform completed, effect still partial

3. Creating new business:

Limited impact of in-house development and M&A

- Optical Equipment business achieved the plan
Lithography Equipment business expanded due to enhanced product lineup and production capacity



Background behind non-achievement

- Lack of company-wide strategy and long-term vision (shared timeline)
- Optimistic outlook
 - Excessive expectations for new business and M&A
 - Underestimated speed of business environment deterioration

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Mission

Promote the use of light as illumination and energy to support human well-being and societal growth

Vision

Become a "light" solutions company

Grow the economic value of Ushio by expanding social value

**Comfort/
Convenience**

**Excitement/
Sharing**

**Safety/
Reassurance**

Support the creation of comfortable and convenient social infrastructure via Optical processing technologies

Industrial Process

Provide people with excitement and happiness via imaging and lighting technologies

Visual Imaging

Support the health of people and the planet by applying optical technologies

Life Science

Aim of the New Medium-Term Management Plan

While looking ahead to the next **30** years, **reattempt to solidify the foundation** for profit structure transformation in order to achieve sustainable growth for net sales of **250** billion yen and an operating margin of **12%** or more and in FY2030

Goal of the New Medium-Term Management Plan (FY2022)

	Required target	Ambitious target	FY2019 actual results
Net sales	170 billion yen	190 billion yen	159 billion yen
Operating margin	8.3%+	10%+	4.2%

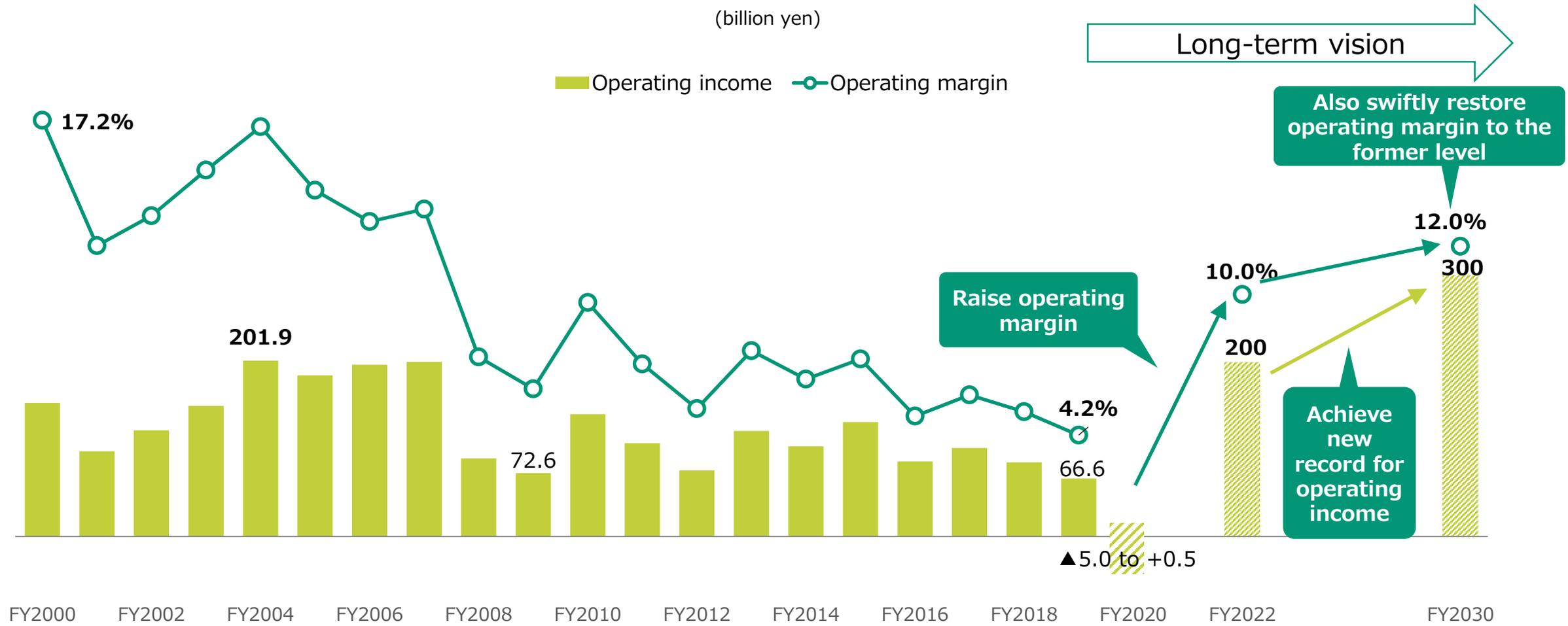


Focus on clarifying route to FY2030

Long-term financial results

(billion yen)

■ Operating income ○ Operating margin



Defensive strategy

Proactive strategy

Strategy for the Light Source Business

- Dramatic structural reform

- Post-COVID-19 market development

Strategy for the Equipment Business

- <Imaging Equipment>**
- Continue/enhance structural reforms

- <Optical Equipment>**
- Cultivate/focus investment on growth businesses

Strategy for the Creation Business

- Visualize/launch new businesses

Unifying Strategy

- Promote optimization of overall performance
 - ✓ Effective allocation of funds for overall optimization

Overview of the New Medium-Term Management Plan

(2) Numeric targets

(billion yen)	FY2016 Actual results	FY2019 Actual results	FY2022 target		Increase/decrease
			Required	Ambitious	
Net sales	172.8	159.0	170.0	190.0	+11.0 to 31.0
Light Source Business	71.9	58.5	56.0	66.0	▲2.5 to +7.5
Equipment business	97.6	97.0	110.0	120.0	+13.0 to 23.0
Imaging equipment *Including previous lighting equipment, etc.	69.0	60.8	54.0	60.0	▲6.8 to ▲0.8
Optical equipment	28.5	36.1	56.0	60.0	+19.9 to 23.9
Operating income	8.6	6.6	14.0	19.0	+7.4~12.4
Operating margin	5.0%	4.2%	8.2%	10.0%	+4.0 to 5.8p

Assumptions behind numeric targets

1. Light sources: Structural reform during transition to solid state light sources
Commercialization of Care222*
2. Imaging equipment: Structural reforms for post-COVID-19 world
3. Optical equipment: Expansion in promising products such as EUV light sources
4. Structural reform: Reduce costs by 6.0 billion yen
5. Contribution of M&A/new business not included in plan
6. COVID-19: Second wave (such as lockdown) is not taken into account

*Light sources for disinfection and virus deactivation for hygiene

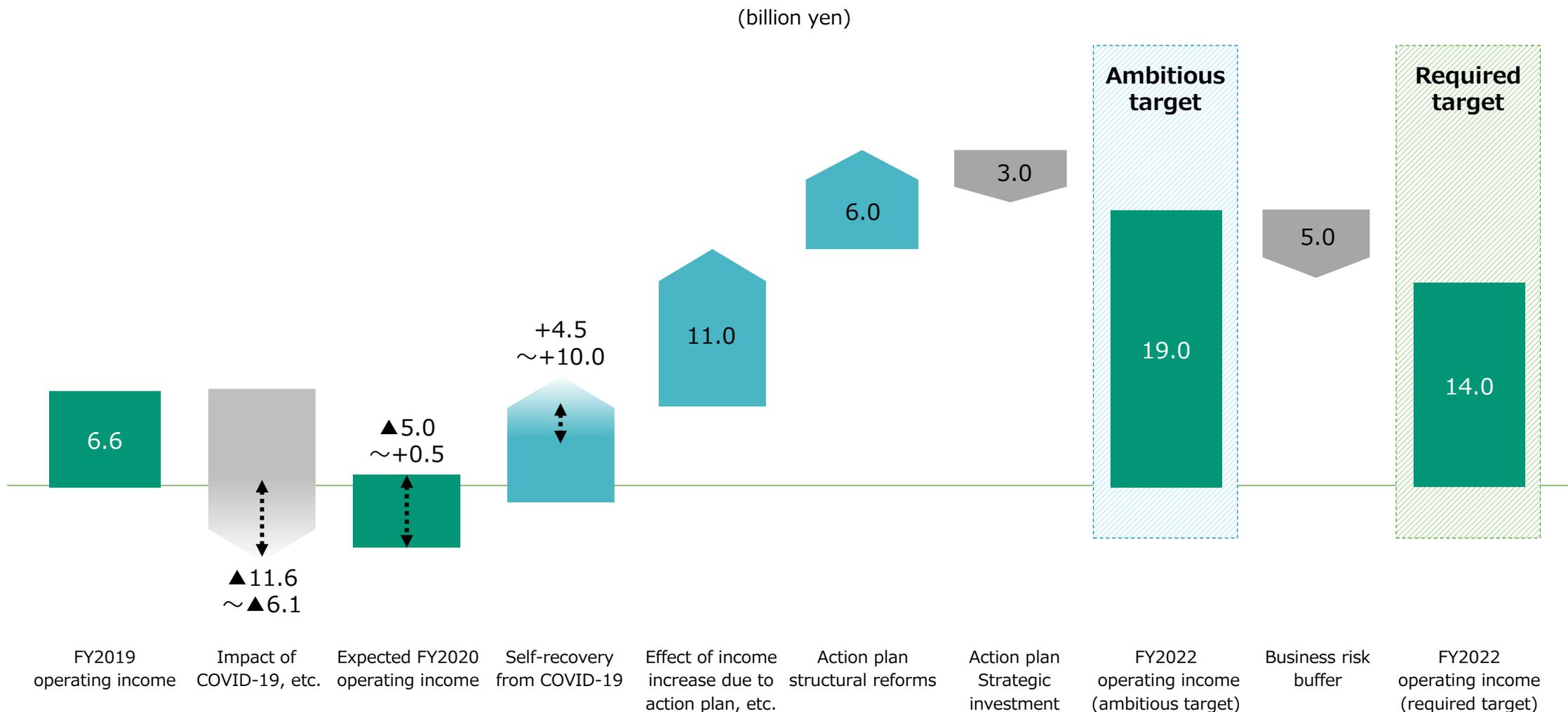
Basic approach to setting numeric targets

- Eliminate optimistic forecasts/assumptions from required targets
- Prioritize optimization of company-wide performance
- Ambitiously pursue targets, while also setting commitment levels that consider business risks

Overview of the New Medium-Term Management Plan

(3) Expected Operating Income Decrease/Increase Scenario

Expected operating income decrease/increase scenario



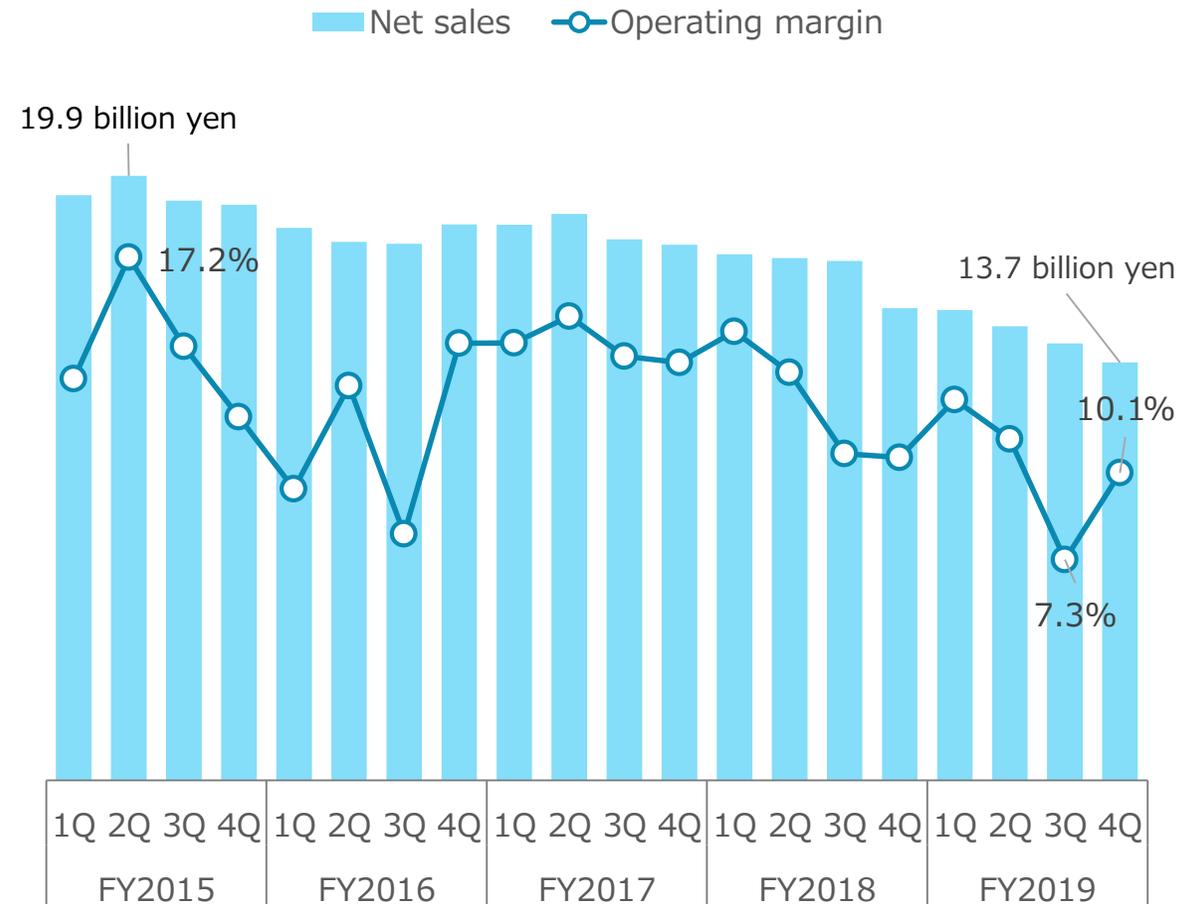
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Issues in the Light Source Business

- **Rapid market contraction and reduced profit margin** in market for projector light sources due to shift to solid state light sources (Shift to solid state light sources happening faster than expected)
- The largest and unrivaled revenue base of Ushio

	FY2017	FY2019
Net sales	67.1 billion yen	58.5 billion yen
Operating margin	12.5%	10.3%

Light Source Business financial results



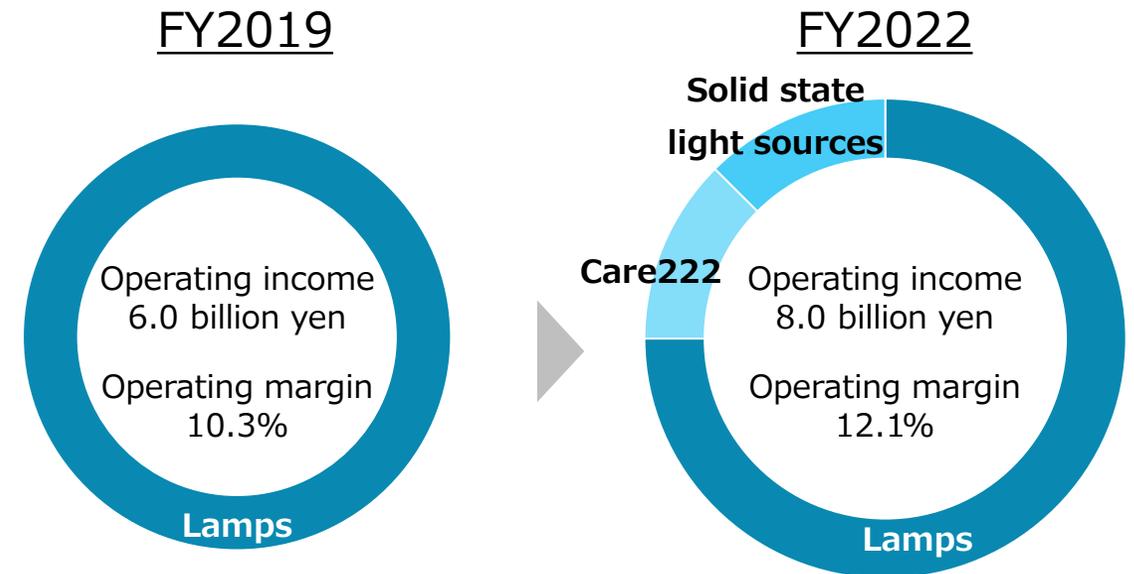
Targets

Quick establishment of business structure with high profitability, despite increasing shift to solid state light sources

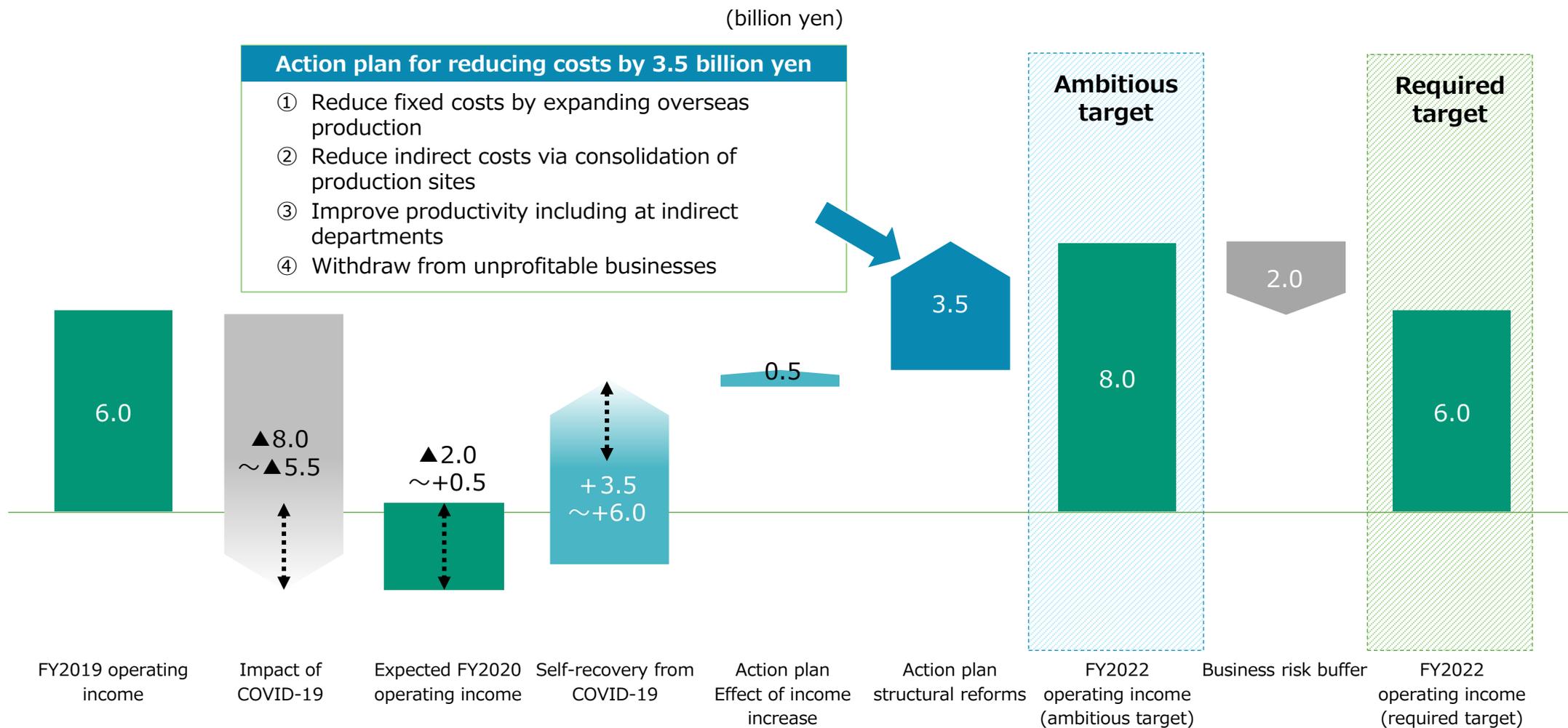
- **Defensive strategy** Lamps : Maintain operating income level by executing strategy according to the situation of each product
Solid state light sources: Open new niche markets that do not compete with the existing Light Source Business
- **Proactive strategy** Commercialization of Care222 virus deactivation

Revenue/profit ratio

(billion yen)	FY2016 Actual results	FY2019 Actual results	FY2022 target	
			Required	Ambitious
Net sales	71.9	58.5	56.0	66.0
Discharge lamps	59.7	38.9	—	about 46.0
Halogen lamps	12.1	10.6	—	about 9.0
Solid state light sources	(including discharge lamps)	7.8	—	about 11.0
Operating income	8.1	6.0	6.0	8.0
Operating margin	11.3%	10.3%	10.7%	12.1%



Expected operating income decrease/increase scenario

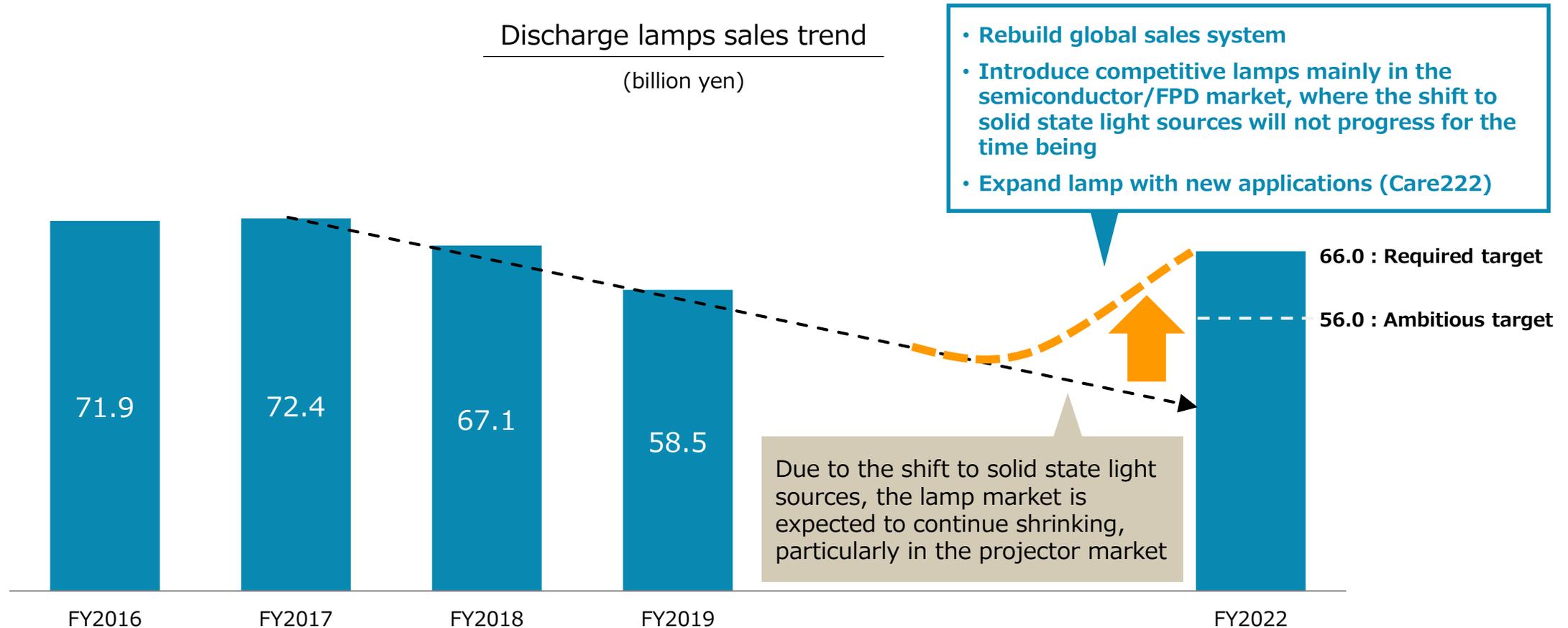


Strategy for the Light Source Business

(4) Trend by Lamp Product

Product	Period of previous Medium-Term Management Plan (FY2017 to FY2019)		Period of new Medium-Term Management Plan (FY2020 to FY2022)	
	CAGR	Situation	Net sales direction	Forecast
UV lamps	▲3%	↓ Price drop due to intensified competition ↓ Less opportunities for replacement due to increased adoption of long-life lamps		<ul style="list-style-type: none"> As the situation in the period of the previous Medium-Term Management Plan continues, the shift to solid state light sources will not proceed in the major semiconductor/FPD markets for the time being, so we will release competitive lamps to maintain/expand our share
Cinema lamps	▲11%	↓ Reduction in lamp demand due to shift to solid state light sources ↓ Price drop due to intensified competition		<ul style="list-style-type: none"> In addition to the continuing situation in the period of the previous Medium-Term Management Plan, demand for replacement will decrease due to the impact of COVID-19, but we will maintain/expand our share based on global expansion
Data projector lamps	▲14%	↓ Projector market shrinking ↓ Reduction in lamp demand due to shift to solid state light sources		<ul style="list-style-type: none"> In addition to the continuing situation in the period of the previous Medium-Term Management Plan, reduction in lamp demand will accelerate due to the impact of COVID-19 and the shift to solid state light sources
OA lamps	▲3%	↓ Slight decrease in OA device market ↑ Price rise due to launch of environmentally-friendly products		<ul style="list-style-type: none"> As the situation in the period of the previous Medium-Term Management Plan continues, the price will rise due to the launch of environmentally-friendly products
Other lamps	-	-		<Expand new applications> <ul style="list-style-type: none"> Rising demand for lamps for the environmental health market (Care222 virus deactivation)

- Demand for lamps will decrease in some markets, but we can make up for this by deploying new applications and enhancing sales in markets where we are competitive



- Start fundamental review of production system and focus on improving/maintaining profit margin
- Rebuild a global sales system in markets where we are competitive to increase our share

Action plan

UV lamps

- Rebuild and enhance global sales strategy
- Improve lamp performance
- Promote automation of manufacturing process for cost efficiency
- Reduce raw material costs

Cinema lamps

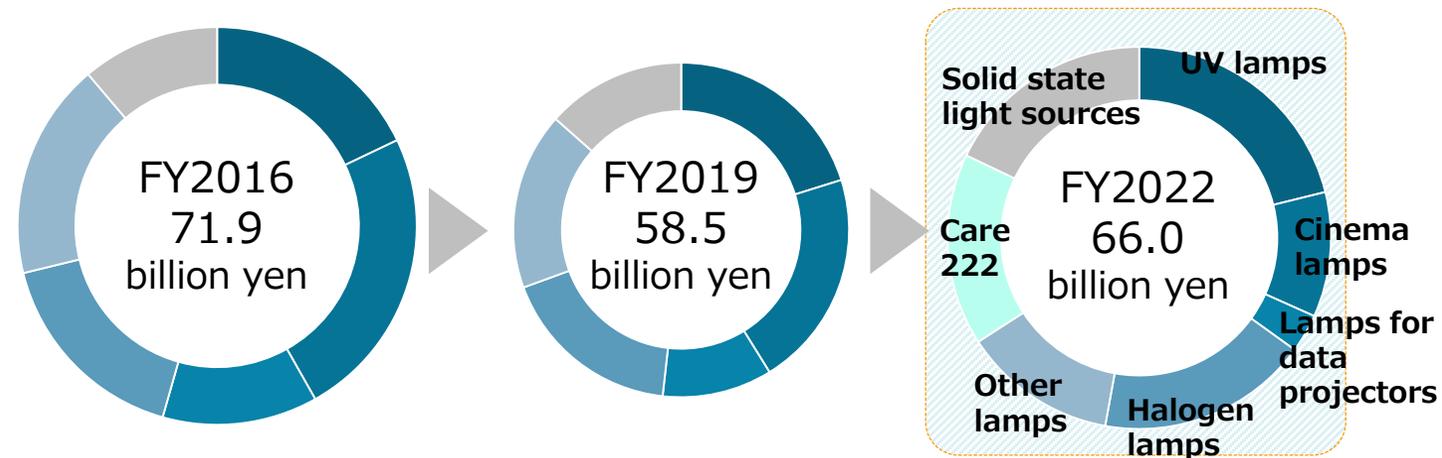
- Rebuild global sales strategy
- Expand overseas production

Other lamps

environmental hygiene lamps, semiconductor heating lamps, etc.

- Enhancing the global marketing strategy
- Investing resources in growth businesses

Overview of revenue ratio by product



- Target demand for replacement in ultra-niche markets in advance and open new markets
- Shift from investment phase to return phase. Aim to expand operating income.

Market to focus on

(ultra-niche market x markets expected to expand)

Market need for replacing lamps

- Electronics market and cinema projector market
- Market for printing with UV LED modules

Opening new markets

- Sensing/sorting market (security cameras, wearable devices, smartphones, biometrics, etc.)
- Entertainment market (show lasers, laser TVs, AR/VR, etc.)

Action plan

Rebuild sales and management system

- Integrate subsidiary dedicated to solid state light sources (UOS) with Light Source Business, and launch Global Business Unit (April)

Expand applications such as enhancing cooperation

Strengths (barriers to entry)

- LD high output technology (acquired in past M&A, etc.)
- Rich variety of LED products
- Device to module manufacturing with advanced optical technology

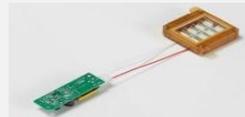
- For the post-COVID-19 world, promote the creation of value via the provision of safe and secure spaces in the growing market of Environmental Hygiene
- Focus investment of resources to promote the early commercialization of Care222 and turn it into a core business

Market to focus on

Needs for the post-COVID-19 world

Step 1: Space infrastructure market

- ✓ Expansion OEM business to lighting devices and air conditioning devices for general facilities
- ✓ Expansion to public transport (automobiles, aircraft, ships)
(respond to severe usage environments)



Step 2: Hospital-acquired infection control market (from 2025)

- ✓ Treatments/infection prevention at hospitals
- ✓ Hand disinfection, etc.

Action plan

- ✓ Aim for net sales of **10.0** billion yen or more in FY2022
- ✓ Deploy business alliances with other companies and maximize utilization of global business sites in the priority markets of lighting devices and air conditioning devices
- ✓ Invest in approx. **1.0** billion yen of equipment for mass production
-Also consider alliances with other companies for production and procurement
- ✓ Continue to accumulate safety and irradiation process solutions

Strengths (barriers to entry)

- ✓ Exclusive license for UV disinfection method that is harmless to the human body (Columbia University)
- ✓ Accumulation of optimal irradiation process solutions to meet various types of spaces
- ✓ High-quality excimer lamp/module manufacturing technology cultivated in the LCD/semiconductor industries

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Strategy for the Equipment Business: Imaging equipment

(1) Problem Awareness

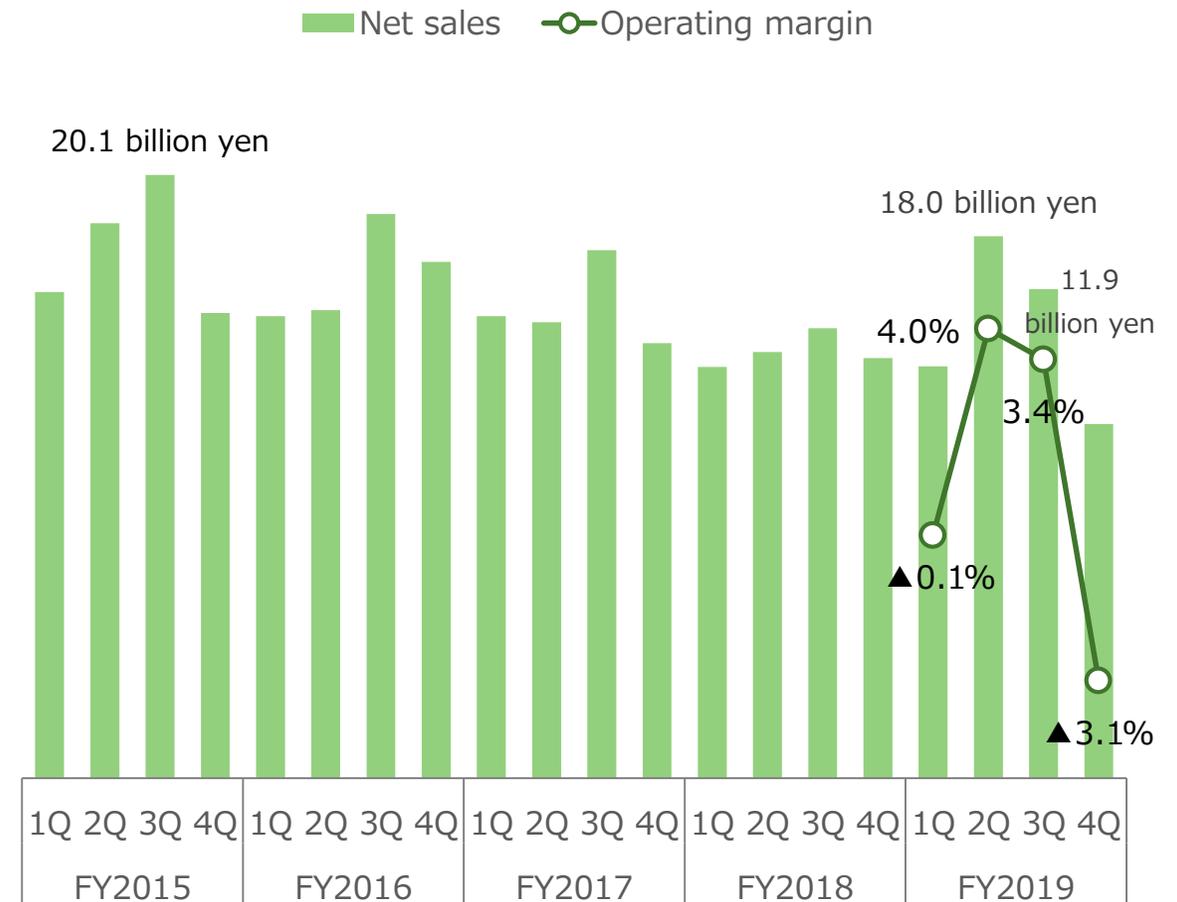
Issues in the Imaging Equipment business

- **Internal environment: Profit margin constantly at low level**
 - Launch of RGB projectors has limited contribution to profit
 - Competition intensifying in volume zone for small to medium size screens
- **External environment: The post-COVID-19 market environment will be extremely severe**

	FY2018	FY2019
Net sales	59.2 billion yen	57.8 billion yen
Operating margin	▲1.2%	1.2%

*Excluding previous lighting equipment, etc.

Imaging Equipment business financial results



Targets

Improve business efficiency via selection and focus, and rebuild business for the post-COVID-19 world

Market environment

[Cinema]

- Styles of enjoying movies will continue to diversify, and the number of cinemas will decrease
- Watching a movie at a cinema will become more special, and demand for the premium large format will continue or slightly increase

[General imaging]

- Equipment updating and new installation for government and companies will recover in the long term
- Event-related and theme park business will recover in the long term

Sales/profit transition

- FY2016 to 2019 (background of decrease)
 - ✓ This was due to a decrease in share caused by the delay in RGB projector development, and divestiture of unprofitable non-core businesses, as well as the impact of cinemas and commercial facilities closing due to the spread of COVID-19 infections in FY194Q
- FY2020 to 2022
 - ✓ Promote the selection and focus of business scope. Prioritize operating margin over net sales.

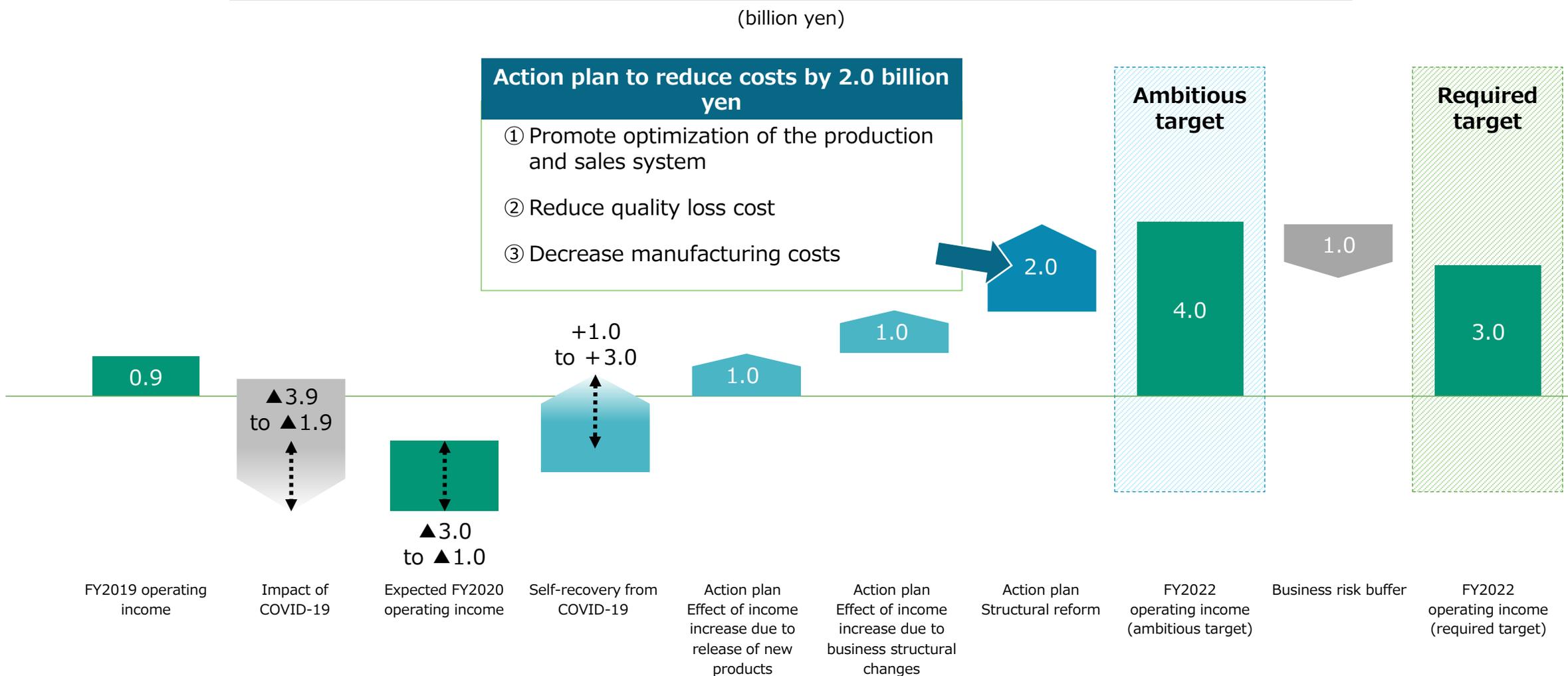
(billion yen)	FY2016 Actual results	FY2019 Actual results	FY2022 target	
			Required	Ambitious
Net sales	69.0	60.8	54.0	60.0
Including net sales of withdrawn business:	2.3	-	-	-
Operating income	(non- disclosed)	0.9	3.0	4.0
Operating margin		1.4%	5.6%	6.7%

*Including previous lighting equipment, etc.

Strategy for the Equipment Business: Imaging equipment

(3) Expected Operating Income Decrease/Increase Scenario

Expected operating income decrease/increase scenario

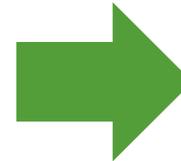


(4) Action Plan

- Promote the selection and focus of business scope. Prioritize operating margin over net sales
- We plan that cost reductions and improved business efficiency by selection and focus selection and focus will lead our efforts to raise our operating margin

Basic plan

- ✓ Focus investment and expand share in the market for premium imaging and cinema replacement
- ✓ Increase income via new products that incorporate peripheral technologies
- ✓ Increase profit by reviewing the sales mix, reducing costs, and optimizing working capital, etc.



Action plan

Cinema

- Enhance solutions for premium screens, which is a field with high added-value

General imaging

- Further enhance the niche ultra-high-end field
- Develop video transmission technology and promote marketing

Common

- Aim for service enhancement and turn the service department into a business division
- Develop next-generation technologies
- Reduce manufacturing costs and costs due to quality losses
- Promote optimization of the production and sales system

Strategy for the Equipment Business: Optical equipment

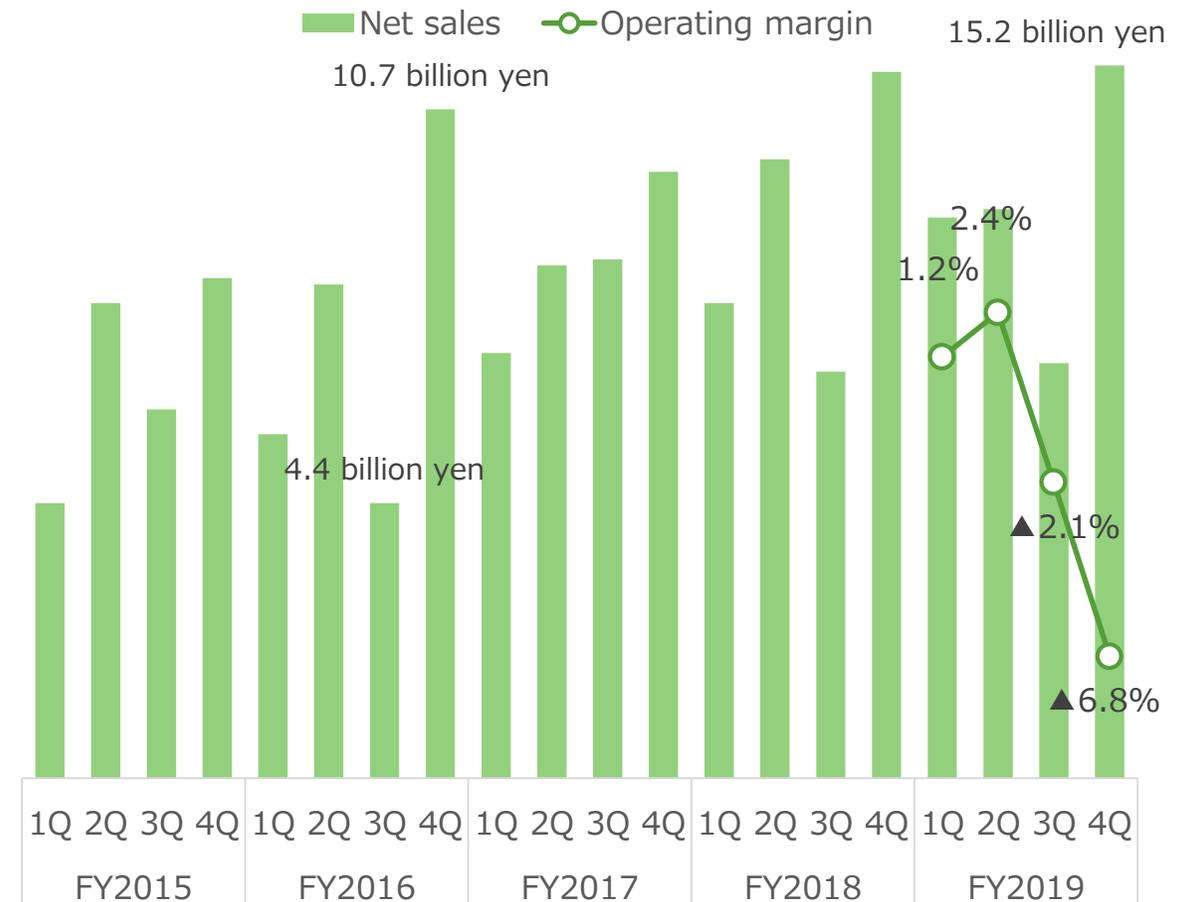
(1) Problem Awareness

Issues in the Optical Equipment business

- A scope of sales comparable to the Light Source Business, but a low level of contribution to profit
- Transform the complementary role of the Light Source Business

	FY2018	FY2019
Net sales	35.3 billion yen	36.1 billion yen
Operating margin	1.1%	▲ 1.5%

Optical Equipment business financial results



(2) Policies

Targets

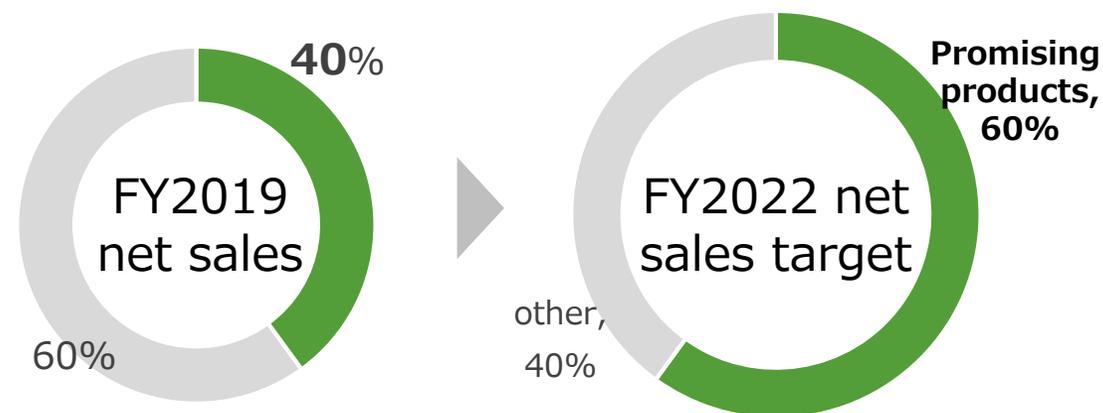
Enter the phase for reaping the benefits of growth products, and evolving to a pillar of profit comparable with the Light Source Business

- Promising products
- EUV light sources for mask inspection
 - UV equipment
 - Large Field Stepper for latest IC package substrates
 - Direct imaging lithography equipment, etc.

Revenue/profit transition

(billion yen)	FY2016 Actual results	FY2019 Actual results	FY2022 target	
			Required	Ambitious
Net sales	28.5	36.1	56.0	60.0
Operating income	(non-disclosed)	▲0.53	5.0	7.0
Operating margin		▲1.5%	8.9%	11.7%

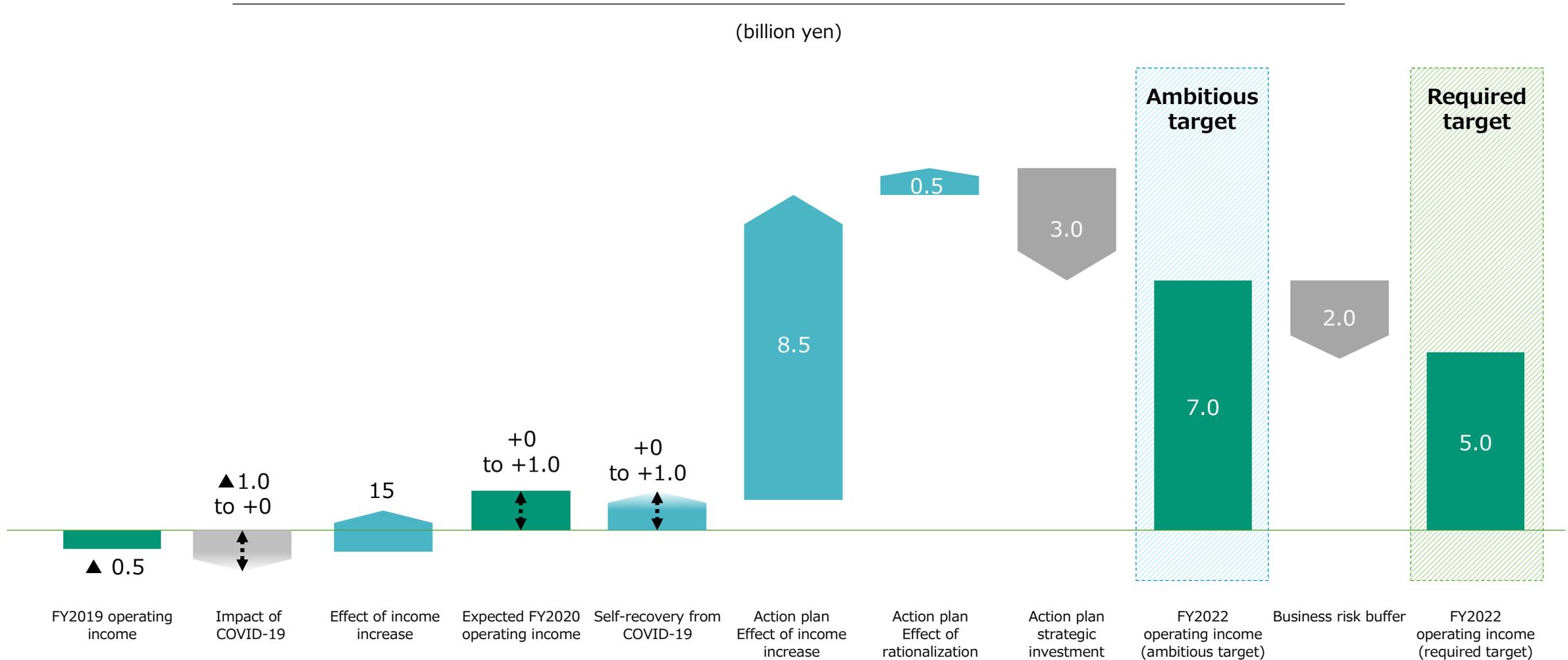
Net sales ratio

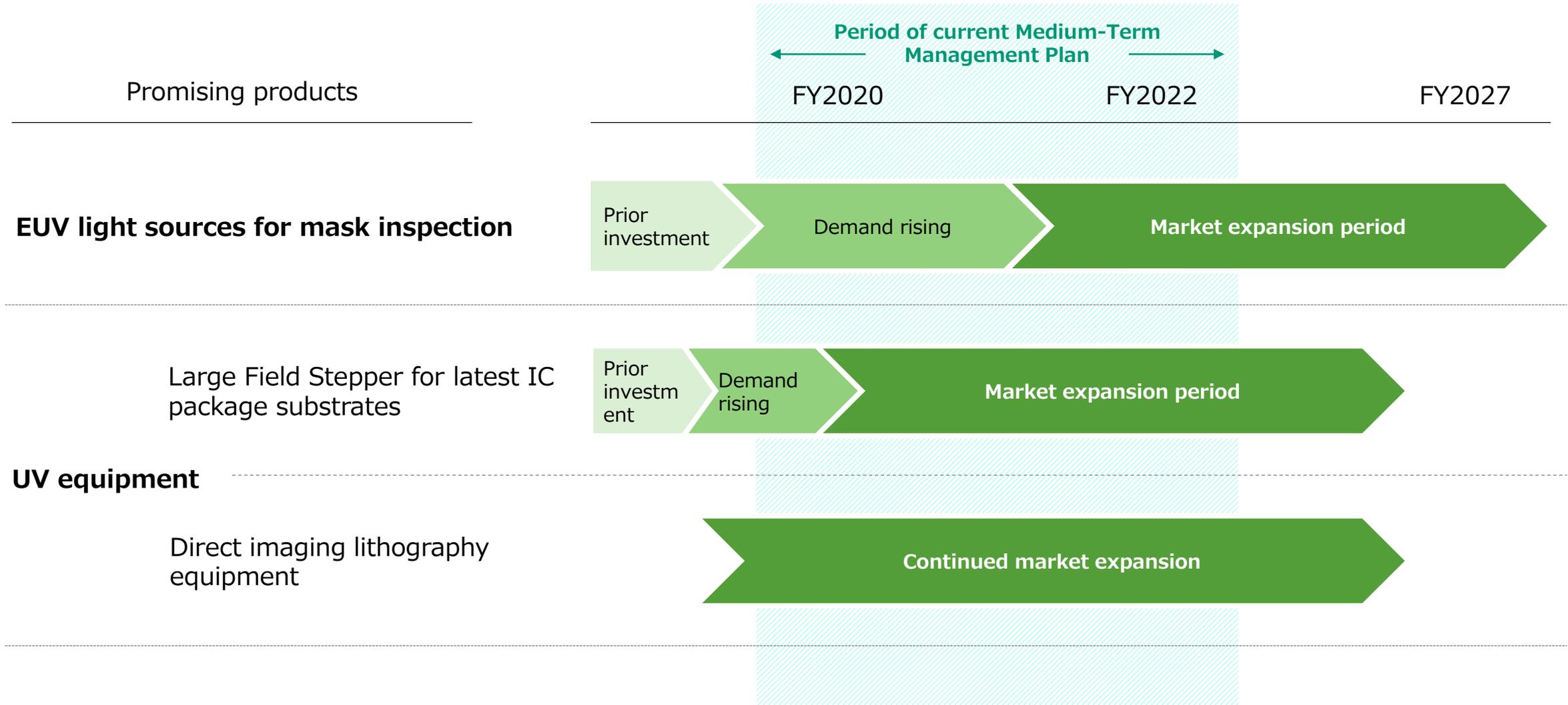


Strategy for the Equipment Business: Optical equipment

(3) Expected Operating Income Decrease/Increase Scenario

Expected operating income decrease/increase scenario





EUV light sources for mask inspection



- ① Maintain 100% share
- ② Build a high-profit model by expanding maintenance in the medium to long term

Action plan

Aim for 150% production capacity

Continuous development of high-spec EUV light sources

- Expand production capacity and continue growth investment of approx. 3.5 billion yen/year

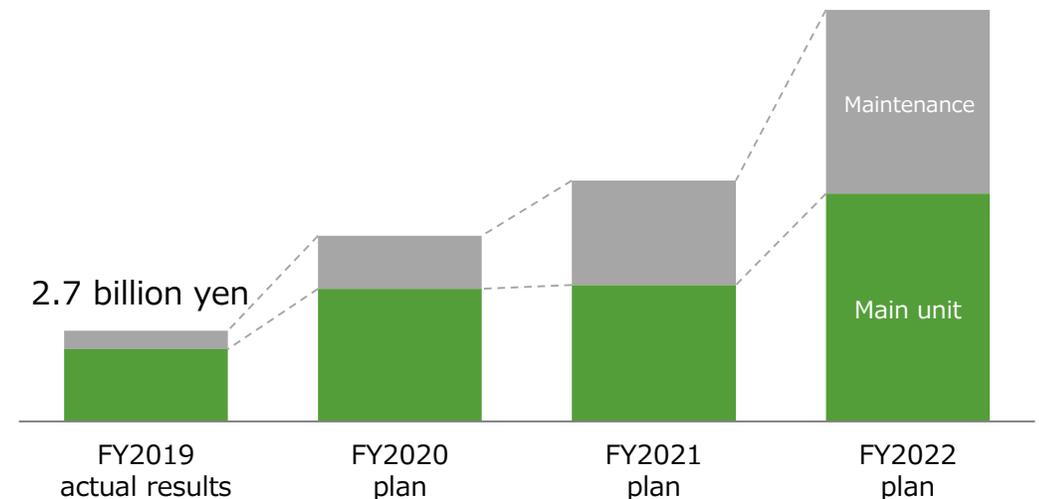
Cost reduction

- Improve profit margin by shifting to in-house production for major components

Barriers to entry

- Technical hurdles
 - Optimal and compact technologies for achieving high-intensity and high-output light
 - Long period of development (development history of almost 20 years)
- Limited market

Sales trend forecast



Strategy for the Equipment Business: Optical equipment

(6) Action Plan-2 UV Equipment

Large Field Stepper for latest IC package substrates

- ① Maintain 100% share
- ② Maintenance contracts

Barriers to entry

- Actual results as first vendor
- Previously established customer support capacity (Asia base and maintenance part system)
- Limited market
- Ability to respond to more detailed customer requests

Action plan

Growth investment of approx. 1 billion yen/year

- Support for next-generation road map

Enhanced maintenance system

- Improved productivity through improved utilization rates

Direct imaging lithography equipment

- ① Increase profit with market expansion (5G) and competitiveness
- ② Expand maintenance service

Barriers to entry

- Resolution (high end)
- Fastest high-productivity in the world (middle end)
- Price competitiveness (low end)
- Maintenance support capacity that puts customers first

Action plan

Growth investment of approx. 1.5 billion yen

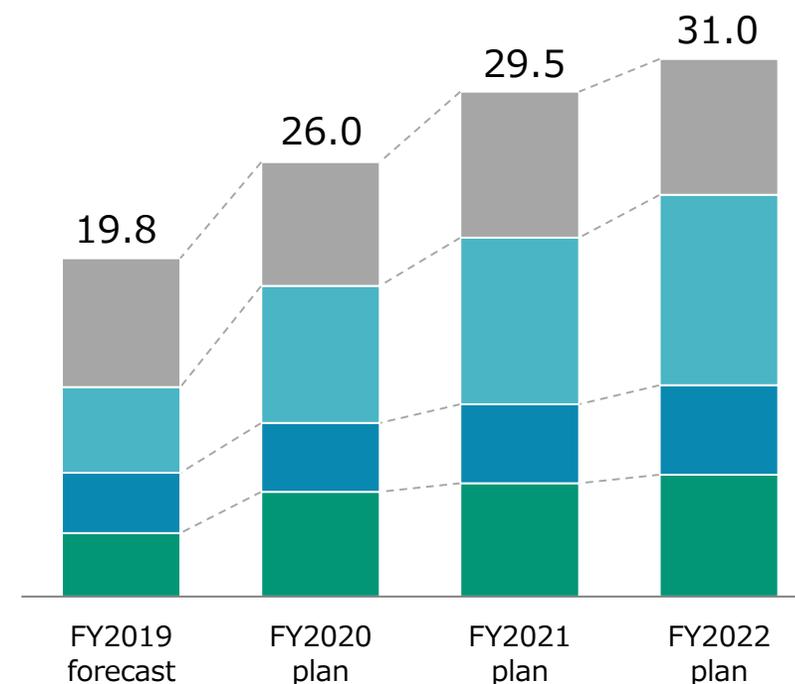
- Enhanced competitiveness for smartphones and automobiles, etc.
- Higher resolution for high-end models
- Improved productivity for middle-end models

Cost reduction with overseas part procurement

Sales trend forecast

(billion yen)

- Large Field Stepper for latest IC package substrates
- Direct imaging lithography equipment
- Maintenance service
- Other



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Strategy for the Creation Business

Visualizing/Launching New Businesses (Laying the Foundations for the Future of Next-Generation Development)

Before

Wide, shallow, and short-term efforts



Future

Focused, deep, and long-term investment stance

Example business to create

Perspective of selecting new business (process)

Business to create	Core value and business model	Market potential, etc.
Component testing equipment	<ul style="list-style-type: none"> • Pulse spectroscopy technology • Achieve both inspection speed and precision • Equipment sales and maintenance/operation for material manufacturers 	<ul style="list-style-type: none"> • Approx. 400.0 billion yen (2025) • Become profitable in 2022 • Profit margin of approx. 40%
Organs on Chip	<ul style="list-style-type: none"> • Photobonding® technology • Non-glue joining technology/devices that enable IPS cells and human cells to be used in the drug discovery process • Sales of standard chips and customized chips 	<ul style="list-style-type: none"> • Approx. 10.0 billion yen (2025) • Become profitable in 2023 • Profit margin of approx. 30%
Infection prevention solutions (222nm excimer lamp)	<ul style="list-style-type: none"> • Virus deactivation and disinfection effects that don't hurt people • Sales as well as deployment of infection prevention solutions against new viruses and resistant bacteria (infection prevention at hospitals, etc.) 	<ul style="list-style-type: none"> • Approx. 200.0 billion yen (2025) • Become profitable in 2025 • Profit margin of approx. 40%

- ① Opportunity (market potential) and strength (technical superiority, etc.)
- ② Risk, time, and money
- ③ Investment option evaluation of growing story and business model (compatibility with patterns for success, relationship between businesses, consideration of M&A, etc.)



Select businesses that can be expected to achieve sales scope and profitability comparable with the Light Source Business when grown

- Rempo “連峰” Management:
Shifting from Independence to Solidarity
- Reviewing the Previous Medium-Term Management Plan
- Overview of the New Medium-Term Management Plan
- Strategy for the Light Source Business
- Strategy for the Equipment Business
- Strategy for the Creation Business
- **Unifying Strategy**

Promote optimization of overall performance

Incorporate the concept of "Rempo '連峰' Management: Shifting from Independence to Solidarity" and build a system oriented toward overall optimization

IT infrastructure maintenance, function globalization, and new business scenario design

Company-wide issues

- Robust financial structure not utilized to improve corporate value
- Actual FCF has maintained profitability for the past more than 10 years, and we have not started all-out investment

Robust financial base

D/E ratio **11.1%**

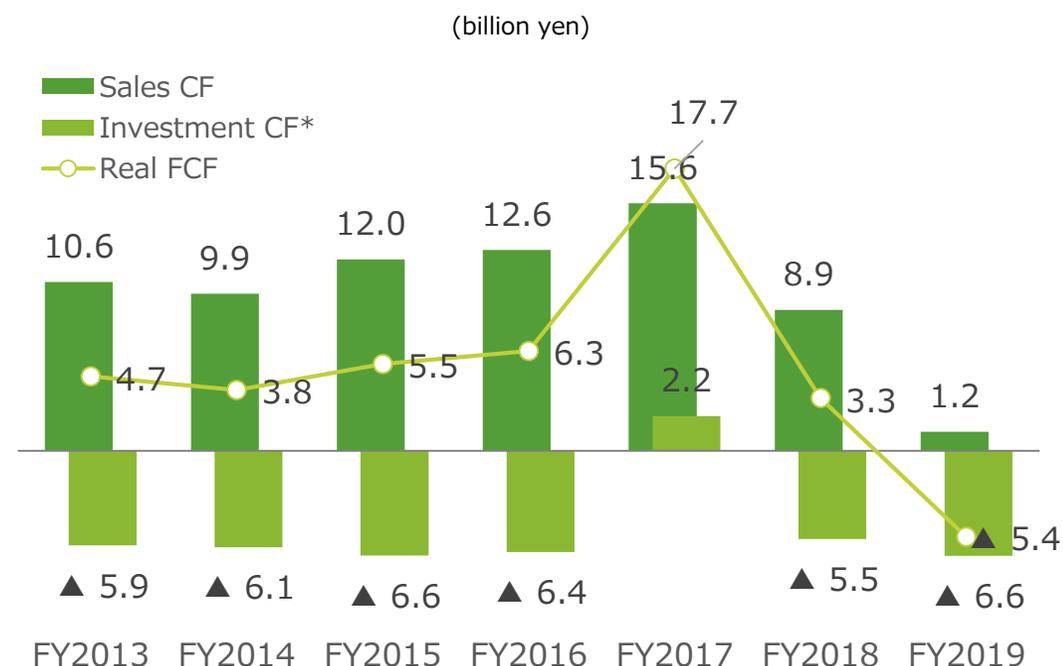
Net cash **42.6** billion yen

Low asset efficiency

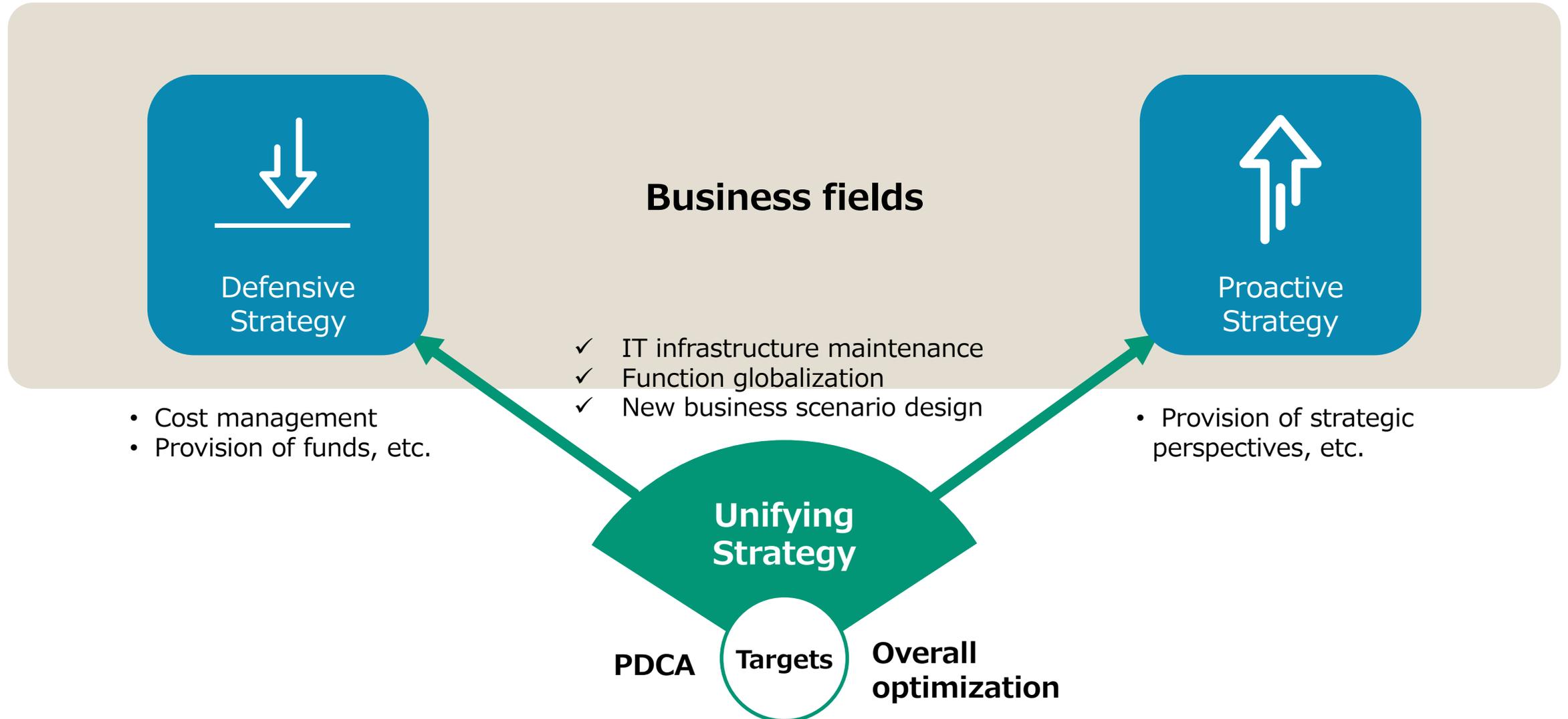
Asset turnover rate **0.55** times

Inventory turnover rate **1.77** times

Cash flow transition



*Excluding the impact of variation in fixed deposits and the sale of investment securities



1. Governance reform

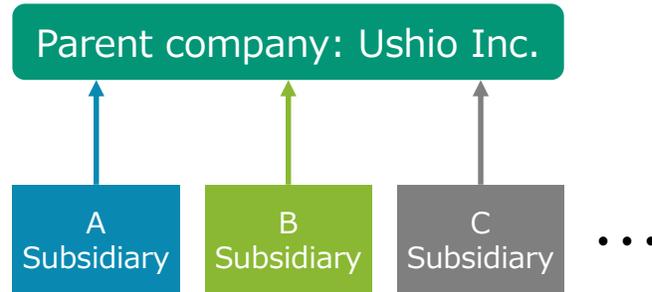
2. Utilizing financial reserves

Unifying Strategy

(3)-1 Governance Reform

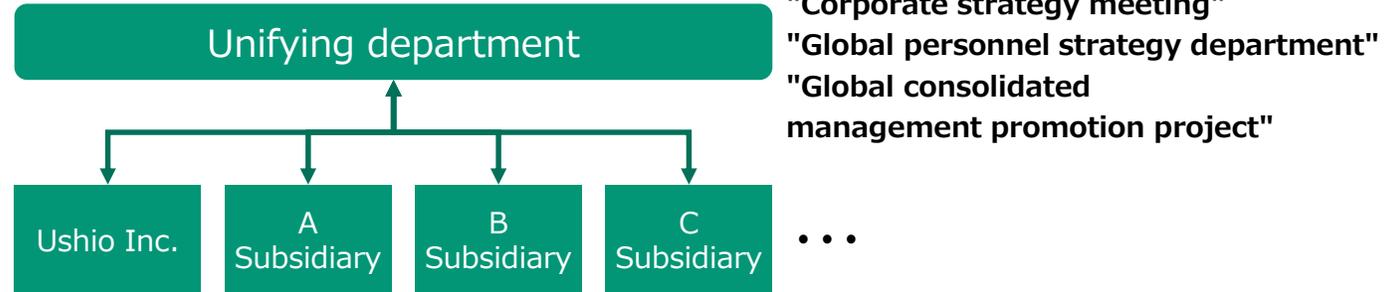
Previous governance

Passive additive management



Governance in new Medium-Term Management Plan

Grip the entire group



- Respect the autonomy (right to manage) of subsidiaries as much as possible
- Focus on local sites and prioritize agile responses to highly fluctuating market needs

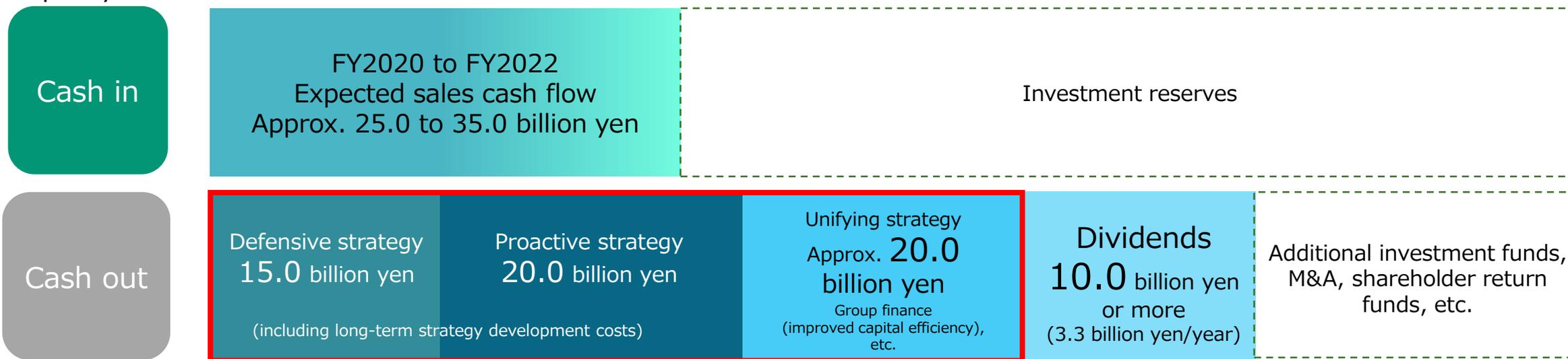
- In order to achieve overall optimization, create a matrix to understand all products and customers, and promote PDCA
-
- Establish **corporate strategy committee*** for a more strategic perspective and creation of ideas
 - Launch **global HR strategy department** and **global consolidated management promotion project** to grip personnel and account monitoring, etc.

*A management plan supervising organization that is directly controlled by the president of the Ushio Group

Cash allocation policy (this Medium-Term Management Plan period)

Actively utilize cash as funds for achieving our defensive, proactive, and unifying strategies, including our spare investment capacity

(Before)
Management safety valve function
Capital for shareholder return



Shareholder return policy (this Medium-Term Management Plan period)

Annual dividends

Maintain minimum dividends of 26 yen per share annually (minimum total dividends: 3.3 billion yen/year)

Share buyback

Respond to changes in the business climate, and implement with agility Cancel 5% or more of total issued shares each year

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