

Top Message

Without losing focus, we will steadily cultivate growth in order to become a “light” solutions company.

Profile

Koji Naito

President and Chief Executive Officer

A Future in Line With Our Management Philosophy

It may seem like a minor detail, but I make a constant effort to avoid printing out documents. This is because I want to lead by example in terms of reducing both the risk of information leaks and our environmental impact. However, I made an exception for one particular piece of paper, which hangs on my wall in an acrylic frame. That paper bears our Management Philosophy.

In fiscal 2021, the results of our first-ever engagement survey were below the average of other companies in the Japanese manufacturing industry. Taking this on board, in fiscal 2022, I traveled to all of our business sites to engage in direct dialogue. Deepening understanding of our Management Philosophy was a key point of focus. Our Management Philosophy is rooted in the four basic principles created by Jiro Ushio, who passed away on June 13, 2023, a year after he established Ushio Inc. in 1964. While some minor adjustments have been made, their essential form carries on to this day. The first item in our Management Philosophy is “Build both a prosperous Company and prosperous employees.” To realize this, it is essential that our employees first understand how the Management Philosophy relates to them. This is because all of our future-oriented management policies are in line with our Management Philosophy.

The third item in our Management Philosophy is “Contribute to society through superior products and innovative research and development.” A modern interpretation of this would be that promoting ESG management is inseparable from business growth. If each of us recognizes that the provision of social value subsequently leads to economic value, we can shape the future of Ushio. This is reflected in “Creating Businesses with Greater Social Value,” which is one of our Five Management Focuses. The second item under our Management Philosophy is “Deliver products and services that are competitive in the global market.” Pursuing this has enabled us to establish our current position as a leading niche company that can stand toe to toe with massive competitors by quickly taking on new challenges in the global market, and it is also consistent with our future strategy of focusing on added value rather than scale. It could be said that the path we should follow to sustainable development was laid down at the time of our founding.

At the same time, repeated dialogue with employees has also clarified the issues we currently face. Rather than “running away” from these issues, I intend to fulfill my responsibility to deepen understanding of our Management Philosophy.

Becoming a “Light” Solutions Company

During my time in the International Business Division, around my fifth year with the Company, there were repeated instances of products that were shipped to the United States being damaged during transportation. Given the products had passed quality testing, we

reported to our subsidiary Ushio America, Inc. (UAI) that the problem was in transportation. Upon hearing this, the UAI President at the time rebuked me. They said, “Remember, it’s the customer that pays your wages, and it’s the manufacturer’s responsibility to make



products that arrive safely.” I realized that I had lacked a customer-first approach and had been quick to shirk responsibility. That moment was a catalyst for a change in my values regarding work.

While many of our products have extremely high market shares, resting on our laurels in such a position quickly leads to losing customers’ trust. On the other hand, if we are diligent in focusing on the customer’s point of view and win their trust, not only can we keep businesses stable, we can also get an insight into the social value that our customers are aiming to create in the future, enabling us to connect that to our own long-term value creation. Today, our customers are striving to address a diverse range of social issues in areas such as climate change countermeasures, food initiatives, and healthy life expectancy extension. In order to continue being the

choice of such customers, we must be highly aware of social issues and contribute to the totality of our customers’ business processes, in addition to providing high-quality products and high performance. However, such changes cannot be achieved overnight. In order to ensure that our efforts are consistent over the long term, we must set common targets and unite the entire Ushio Group as we move forward together. These unified targets are our Vision 2030, “Become a ‘Light’ solutions company,” and our Mission, “Promote the use of light as illumination and energy to support human well-being and societal growth.” Using a backcasting approach, we have drawn up a road map leading to 2030, which will guide us as we steadily close the gap between our Vision and where we are today.

Solidifying the Foundation and Beyond

The 1st Medium-Term Management Plan (fiscal 2020 to 2022) was the first step towards Vision 2030. With “Reattempt to solidify the foundation” as the core theme, it was positioned as a stage for improving our profit structure. We aimed to improve our operating margin, which we set as the most important performance indicator, to 8% or more. We approached this plan with strong conviction to achieve our targets. This is because we believe that we cannot inspire shareholders to get on board by explaining our long-term vision alone, commitment to achieving short- and medium-term targets is also essential.

For nearly 10 years, we made repeated downward revisions whenever the business climate diverged from expectations, and a long-term downward trend in profits followed. One major factor behind this was inefficiencies brought about by the independent Rempo* management style. Pursing sales growth through individual optimization and carrying out growth investment led to increasing sales. However, our operating margin continued to decline. With this plan, we decided on a basic policy of reducing inefficiencies and establishing a robust profit structure by advancing defensive strategies, proactive strategies and unifying strategies in order to shift from this conventional “additive management” style towards a solidarity-based Rempo management style, or “multiplicative management” that focuses on realizing overall optimization.

During the period covered by the plan, we faced various restrictions in our business activities, including travel restrictions as part of measures against COVID-19 and supply restrictions due to difficulty in procuring

parts. Nevertheless, we were able to achieve all required targets in the final fiscal year. The most significant reason for this is that the newly-established unifying organization at Head Office appropriately managed responses to changes in the operating environment from the perspective of the entire Group. Needless to say, we could not have achieved this without the hard work of all Ushio Group employees, who refused to use the challenging business environment as an excuse.

As shown by our significant improvement in the operating margin from 4.2% in fiscal 2019 to 9.1% in fiscal 2022, we significantly improved our profit structure and our defensive strategies have borne fruit. Furthermore, with regards to our unifying strategies, we achieved our plan of establishing a foundation for governance and utilization of financial reserves, including through the introduction of corporate finance and enhancements of the management of Group-wide consolidated targets.

However, some issues also remained. In the Imaging Equipment Business, difficulty in procuring parts offset the impact of management efficiency improvements, and the required targets were missed. The fact that promising products and technologies such as EUV and Care222 did not grow as expected was also a point to reflect on. We will remain conscious of these issues as we take our next steps.

* Rempo means “mountain chain” in Japanese. In contrast to independent Rempo management in which each Group company autonomously pursues optimization of individual performance, solidarity-based Rempo management is based on the idea of uniting all Group companies as one “mountain chain,” aiming for a unified vision as an entire group.

Cultivating Growth for the Future Under the 2nd Medium-Term Management Plan

Concerns about an economic slowdown have surfaced as a result of global monetary tightening aimed at curbing inflation. However, we will not lose our focus as we continue to advance measures aimed at achieving our unified targets. We will position the 2nd Medium-Term Management Plan (fiscal 2023 to 2025) as a stage of cultivating growth based on the solid foundation we established through the 1st Medium-Term Management Plan. As we build a structure to provide light solutions through active investment, we will cultivate seeds of growth with the aim of reaping the fruits of our labor through the 3rd Medium-Term Management Plan (fiscal 2026 to 2028).

In line with the expansion of investment, we have established EBITDA as our most important performance indicator, aiming to reach ¥30 billion in fiscal 2025. I am also aware of my responsibility to shareholders to resolve the fact that our share price has continued to have a PBR below 1.0 over a long period of time. Accordingly, with the 2nd Medium-Term Management Plan, in addition to fully embracing ESG management, we will work to enhance capital efficiency through effective use of funds, such as active investment and share buybacks, with the aim of achieving ROE of at least 8% and PBR exceeding 1.0. [> P.46-49 CFO Message](#) We are also pursuing a policy of strengthening our unifying strategy on a global level. In order to ensure that individual strategies tailored to the characteristics of each region are not impeded, we will place importance on input from people in the regions concerned.

With the 2nd Medium-Term Management Plan, we established Industrial Processes, Visual Imaging, and Life Sciences as market domains to focus on, and have a policy of promoting transformation toward becoming a “light” solutions company. We also wanted to communicate this strong volition internally and externally, and we implemented structural reform under which the previously product-centric Light Source Business, Optical Equipment Business and Imaging Equipment Business shifted to a market centric approach. One exception is our business relating to solid-state light sources, which it was decided would remain product centric under the Photonics Solutions segment.

Life Sciences and Photonics Solutions reported operating deficits in fiscal 2022. It is true that there were also internal concerns about

dividing our businesses in this way. However, we came to our conclusion based on the belief that it is important to present our current position relative to Vision 2030 with transparency internally and externally, and to work to resolve issues. This can be seen as a manifestation of confidence in these businesses.

Based on these new business domains, our policy is to transition from product-centric marketing to market-centric marketing, enhance our approach to go from simply selling products to both selling products and proposing solutions by adding processes and after-sales services, and expand value generation, which had been limited to customer value, to encompass resolving social issues facing our customers. For example, power semiconductors are a key market within Industrial Processes. In this field, combining the strengths of the former Optical Equipment Business, which has knowledge of customers’ business processes, and the former Light Source Business, which has customers in the power semiconductor heartlands of Europe and the United States, we can help alleviate constant supply shortages by improving our customers’ productivity.

Furthermore, in Visual Imaging, we can provide one-stop solutions to meet our customers’ needs, with our projectors, lighting solutions and maintenance services. Under Life Sciences, the business purpose of Care222 is not simply to sell Care222-related products, but to take on the societal challenge of creating a world without infectious diseases. We believe that putting together solutions that take social issues as a starting point and proving their economic soundness can lead to rapid widespread adoption.

With the changes to our business segments, we were able to integrate our previously disparate strengths into each new business domain. Going forward, we plan to rebuild our strengths corresponding to each step on the road to providing light solutions. In R&D, being able to freely control light source wavelengths and energy enabled us to significantly enhance our “power to control light,” and consequently optimize light performance. In terms of solution provision, we will combine optical technology, software, and peripheral technologies to enhance our “power to provide light-based solutions” that resolve our customers’ issues. In terms of after-sales support, we plan to strengthen our “power to retain light” in order to provide light solutions in a sustainable, stable manner.

Market-Centric Business Portfolio Reform

With these changes to our business segments, our policy is to clarify the positioning of our new business domains and promote appropriate

portfolio management. Industrial Processes is a core business and is positioned as a stable foundation for earnings. While the semiconductor



market is currently seeing a trend of deceleration, technological innovations such as DX and AI will continue advancing through to 2030, and demand for electronic devices is expected to increase in the medium to long term. We plan to develop a solutions structure covering areas such as offering optical processes that contribute to reducing the environmental impact of manufacturing while continuing to ensure stable earnings through key products such as large field steppers for cutting-edge IC package substrates, for which we boast a 90%* market share. In Visual Imaging, which is positioned as a rebuilding business, we plan to move forward in areas such as the creation of a one-stop solutions platform while also rebuilding the business structure by addressing risk factors for deteriorating business performance identified under the 1st Medium-Term Management Plan. We will position Life Sciences as an incubation business from a long-term perspective. The growth of this business is predicated on the fact that humanity has yet to find effective ways to solve social issues in areas such as food initiatives and healthy life expectancy extension without sacrificing our current convenience and comfort. Non-contact, harmless light holds promise in this regard. By making full use of our world-class light technology and global network, we can open up vast possibilities.

Going forward, we intend to select promising businesses from numerous candidates for commercialization, make preparations by securing the required resources, and produce results looking to fiscal 2030. Under Photonics Solutions, we plan to quickly establish competitiveness and

reorganize into various businesses in fiscal 2030. Rather than quantity, we aim to establish niche leading positions covering applications with high added value. We intend to leverage our strength in terms of the power to control light over diverse wavelengths to enter new markets into which lamps cannot expand while striving to differentiate ourselves.

Over the next three years, we plan to invest more than ¥40 billion in growth investment, including M&A, as we overhaul our portfolio and rebuild our strengths. Rather than M&A being an objective in itself, we plan to position it as a means to enhance our resources, and we will carefully formulate PMI plans in fields in which we have knowledge, then carry out diligent investment that mitigates risks.

In terms of R&D, we will move forward with the development of next-generation technologies and products, and plan to invest ¥46 billion, an increase of ¥14 billion from the 1st Medium-Term Management Plan. Under the 1st Medium-Term Management Plan, we were able to sprout the seeds of businesses such as battery manufacturing process development, methane gas decomposition and recycling, new pulse spectroscopy technology and Organs on Chip. With the 2nd Medium-Term Management Plan, integration between the Marketing Division, Research and Development Division and Intellectual Property Division within the Business Creation Division will accelerate new business creation.

* Cutting-edge IC package substrate market (stepper market)

Fully Embracing ESG Management

There is immeasurable diversity among people. Attempting to group everyone into a uniform "ideal" image means people lose their individuality, and the organization's dynamism is also lost. In order to build both a prosperous company and prosperous employees, each individual must consider the connection between fulfillment in their own lives, the work in front of them, and the resolution of social issues. To that end, it is essential to start by fostering a culture that embraces diversity.

We have established a foundation for ESG management through the 1st Medium-Term Management Plan. With the 2nd Medium-Term Management Plan, we have set non-financial KPI goals for fiscal 2025 and will fully embrace ESG management that combines business growth with ESG efforts. In our human capital strategy, we will emphasize diversity. In order to continue creating new value on a global basis, we must grow our pool of talent that can understand markets and society from a global perspective, then use that starting

point to search for applicable technologies. We must also bolster our breadth of talent spanning diverse academic backgrounds and our pool of talent possessing both technical knowledge and management literacy. I hope to see us realize true diversity by fostering a culture and developing systems that enable diverse personnel around the world, regardless of gender or nationality, to consider their own futures and demonstrate individuality in a manner that transcends national borders. In this, we plan to focus on training Ushio Group employees rather than external recruitment. Of course, this will take time, which means that engagement is important. We will bolster our efforts aimed at achieving our goal of improving our fiscal 2022 engagement score by 10 points by fiscal 2025. As part of this, we introduced an employee stock compensation system, starting in fiscal 2023. By linking incentives for employees to share prices and medium- to long-term performance, we hope to align the Company's prosperity with fulfillment for our employees.

Being a Company That Does the Right Thing

"Expand profits, corporate responsibility, and competitiveness through open and free-thinking business operations." This is the final sentence of our Management Philosophy. In line with this philosophy, I want Ushio to be a company that does the right thing, a company that its employees can be proud of. This could also be described as commitment to social justice. For example, strengthening corporate governance is based on the belief that even uncomfortable matters should be disclosed with transparency.

In terms of the corporate governance framework, we have made steady enhancements in areas such as making outside directors the majority of the Board of Directors and increasing the number of female directors. In fiscal 2023, we revised our directors' remuneration to align with our strategy, including by deploying ESG benchmarks as part of the calculation criteria, increasing the stock compensation ratio under the stock compensation system and incorporating key performance indicators for reaching Medium-Term Management Plan goals into the calculation criteria. In addition, we have appointed an outside director to chair the Board of Directors, and have strengthened the supervisory function of discussion topics relating to core management.

Our outside directors provide us with extremely frank input. We also received strong encouragement to improve capital efficiency through effective use of funds. While some feedback can be tough to hear, our outside directors possess more extensive management experience than the internal directors, including myself, and also serve to represent our shareholders. As such, I always pay diligent attention to what they say. If we listen to this type of input from our shareholders and investors, our employees, and society at large, then properly reflect that in our management, we will be able to achieve steady transformation.

I firmly believe that the "light" solutions company that lies beyond our transformation will also be the embodiment of social justice. In order to achieve this, I intend to keep moving forward together with our employees, never losing focus or shirking away from challenges.

President and Chief Executive Officer,
Ushio Inc.