Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Analysis of Current Situation)

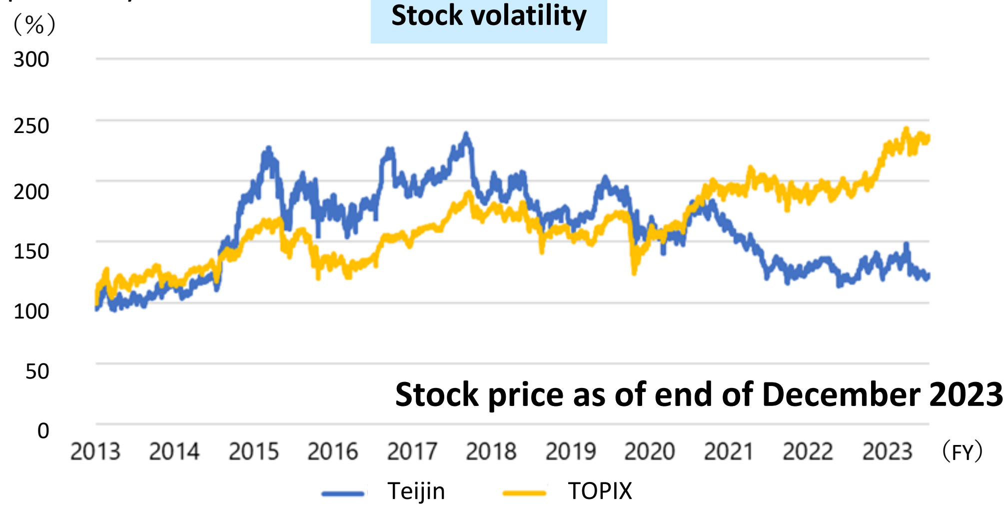
February 8, 2024

Awareness of the current situation of stock price, PBR, ROE and cost of shareholder's equity

Stock price and PBR

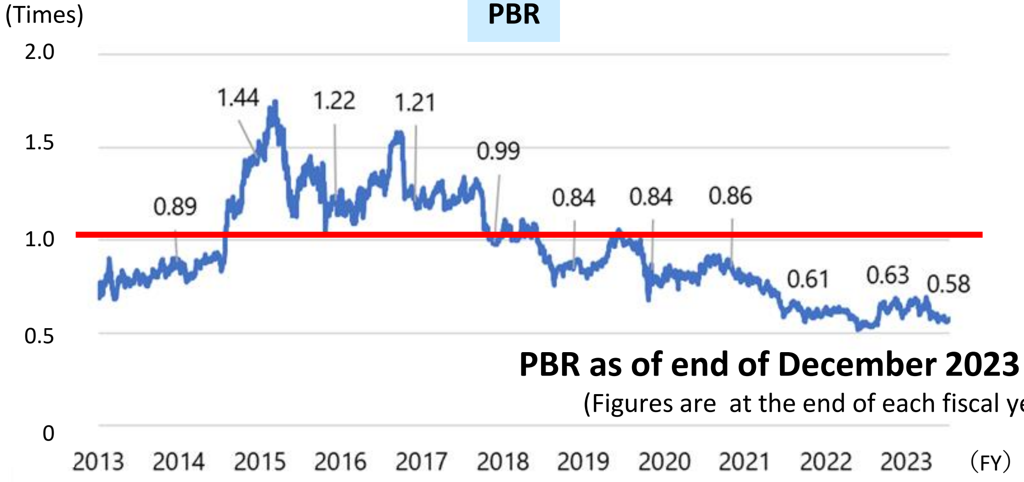
- The stock price has remained low since reaching its peak in FY17, continuously lagging the TOPIX
- The PBR has also remained below 1.0 due to the sluggish stock price during the past five years

Stock volatility



Stock price as of end of December 2023 1,336 yen

PBR



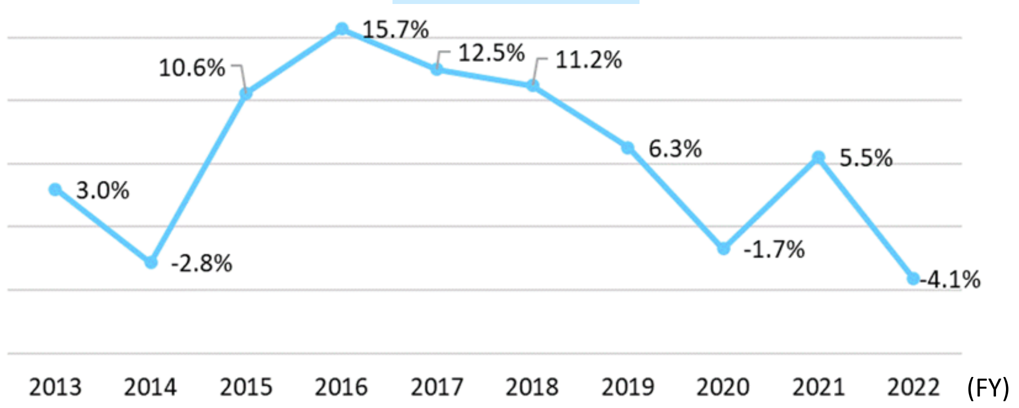
PBR as of end of December 2023 0.58x

(Figures are at the end of each fiscal year)

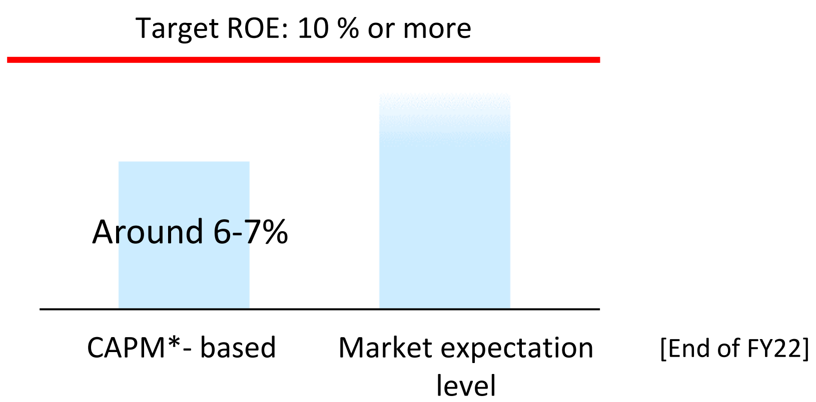
ROE and cost of shareholder's equity

- We recognize that our latest ROE is lower than the CAPM-based cost of shareholder's equity and that there is a gap between the actual ROE and the level we deem the market expects

Changes in ROE



Cost of shareholder's equity

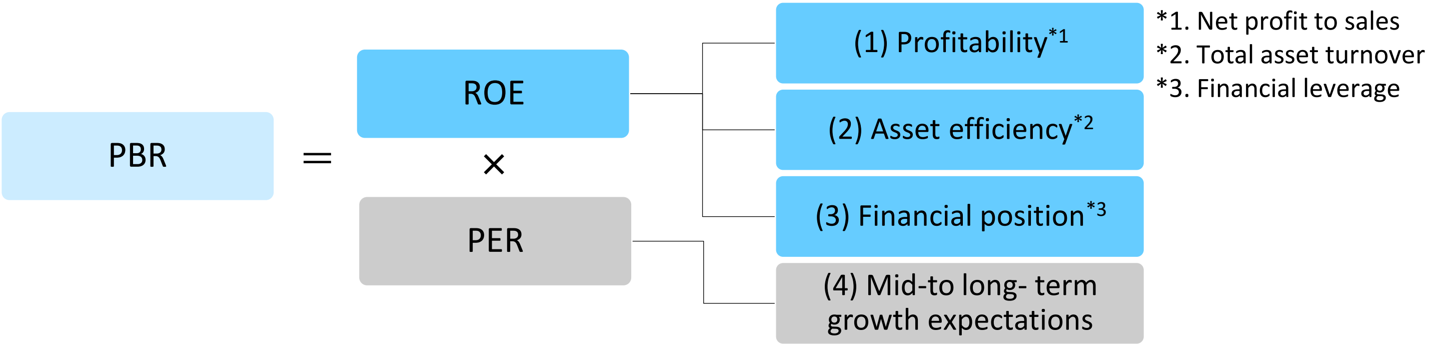


* CAMP-based cost of shareholder's equity: Risk-free rate 30-year government bond yield 1.61%, market risk premium 6.44%, β value 0.80

PBR component analysis I

Methods

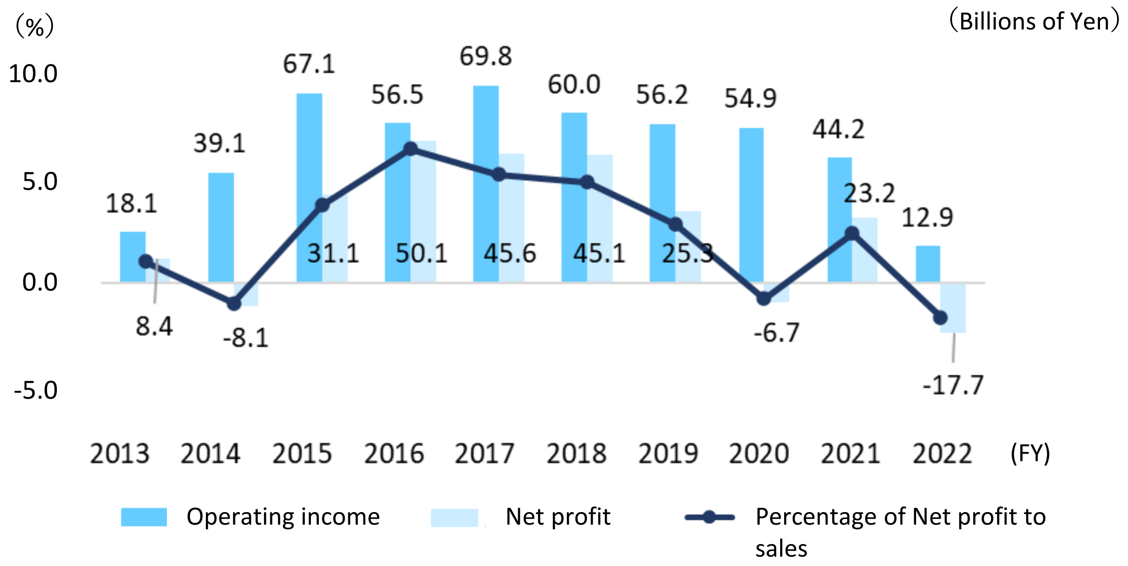
- Dividing the PBR into ROE and PER
- Examining ROE from the perspectives of (1) profitability, (2) asset efficiency, and (3) financial position
- Examining the PER from the perspective of (4) medium-to long-term outlook for growth



Results【ROE analysis】
(1) Profitability

- Since FY17, profitability has continued to fall, significantly **affecting low ROE**

Changes in operating income, net profit and net profit to sales



【Operating income】

- Operating income has continued to fall since reaching a peak of 69.8 billion yen in FY17
- The aramid business, which was expected to be a stable source of profits, started to fall from FY20
- In the Healthcare Business, profitability declined in FY20 with the entry of generic to *FEBURIC*
- The composites business, which had been expected to grow in the future, expanded deficit.

【Net profit】

- Net profit has been generally falling since reaching a peak of 50.1 billion yen in FY16
- A loss was recorded due to impairment losses in FY20 and FY22

PBR component analysis II

TEIJIN

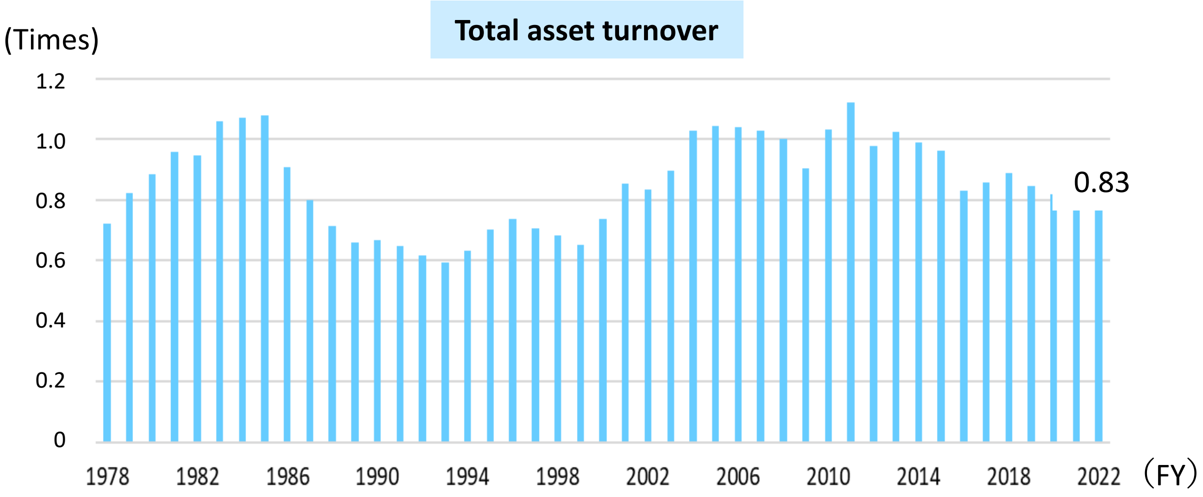
Results [ROE analysis]

(2) Asset efficiency (total asset turnover)

- The total asset turnover has recently remained slightly lower than 1.0, but at the average level in the industry

  ➡ **We have considered that this factor has a minor impact on the decrease in ROE**

- We will continue our efforts to further enhance efficiency by such measures as reducing cross-shareholdings and selling idle assets

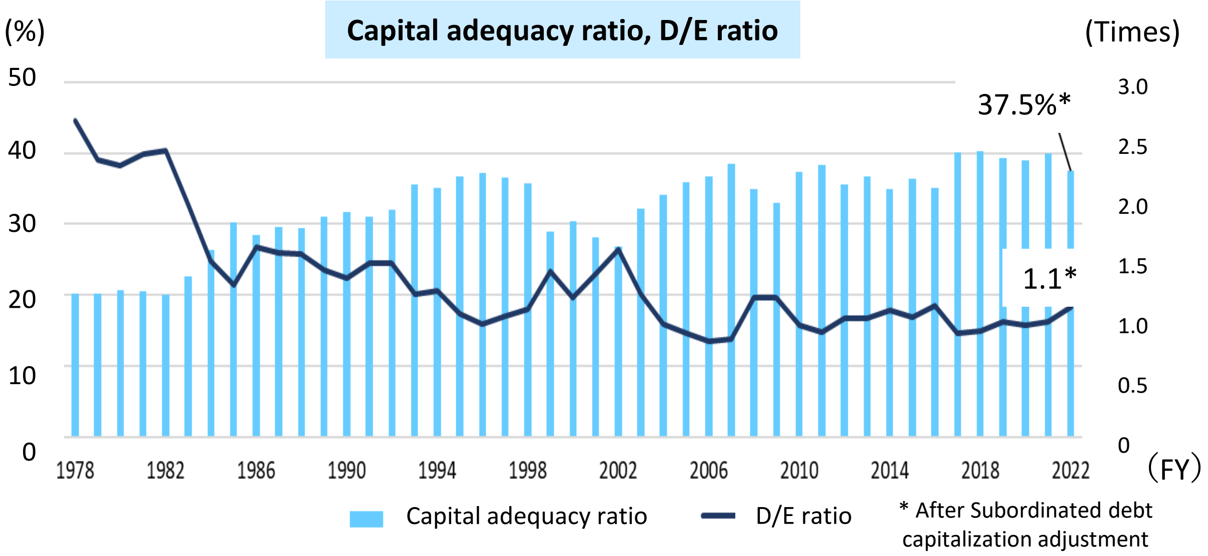


(3) Financial position (capital adequacy ratio and D/E ratio)

- We maintain a good balance between the financial discipline and asset efficiency by controlling the capital adequacy ratio at a level of 35 to 40% while proactively utilizing interest-bearing debts (with a higher leverage than the average level in the industry)

  ➡ **We have considered that this factor has a minor impact on the decrease in ROE**

- Since the D/E ratio slightly deteriorated at the end of FY22, we aim to improve it to an appropriate level of 0.9



[ROE analysis] Summary

- As a result of an analysis of (1) profitability, (2) asset efficiency, and (3) financial position, we have identified (1) profitability as the main cause of the current deterioration in ROE
- In consideration of our business performance, we have reaffirmed the factors behind the reduced profitability and the challenge we must solve as mentioned on the right:

Factors: Reduced profitability in the three businesses with significant issues

- Lack of the source of profits after patent cliff of *FEBURIC*
- Unsatisfactory performance of Teijin Automotive Technologies NA Holdings Corp. (formerly CSP) acquired in January 2017
- Frequent production problems in the aramid business

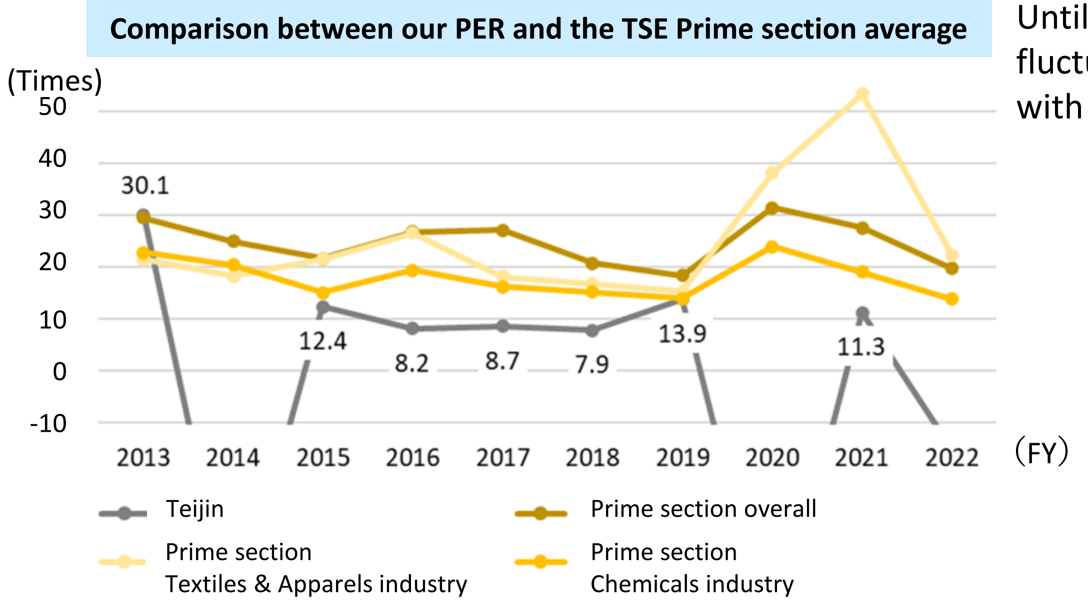
Our challenge: Improving and stabilizing profitability

◆ PBR component analysis III

TEIJIN

◆ Results [PER analysis]
(4) Mid-to long- term growth expectations

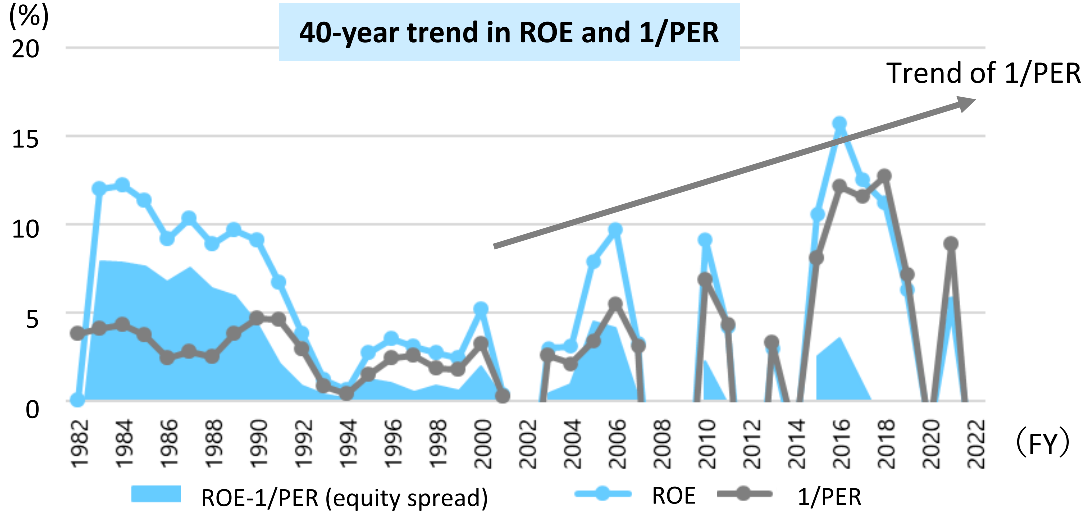
■ Since FY14, the PER has remained lower than the industry average except in FY19



■ We analyzed the longer-term relationship between the inverse of the PER (1/PER, which we premise that is approximately equal to cost of shareholders' equity nearly at the market expectation level) and ROE

■ Since the mid-2000s, our ROE has fluctuated widely due to a repeated cycle of structural reforms with impairment losses, and growth investments

Until around the mid-2000s, we obtained a certain level of equity spread despite fluctuations in ROE. Afterward, however, the spread has reduced even in the fiscal years with high ROE



[PER analysis] Summary

■ PER has remained low while the spread of ROE and 1/PER (≒ cost of equity) has also declined

■ We consider that a repeated cycle of structural reforms with impairment losses, and growth investments have prevented us from meeting market expectations for growth, resulting in a deterioration in the market's (4) medium- to long-term growth expectations

■ In consideration of these circumstances, we have reaffirmed the factors behind the reduced profitability and the challenge we must solve as mentioned on the right:

Factors:
- Frequent downward revisions concerning impairment loss and financial results
- Our failure to show the appropriateness of our current business portfolio
- Reduced trust in our strategy for future growth and our implementation ability
- Shareholders' lowered expectations due to reduced dividends

Our challenge: Formulating management strategy for gaining trust in our medium- to long-term growth

◆ Toward the future

TEIJIN

- Based on this analysis, we recognized **"improving and stabilizing profitability"** and **"formulating a management strategy for gaining trust in our medium- to long-term growth"** as challenges we must solve to improve PBR, in other words, our corporate value
- In addition, we recognize **that "rebuilding of the intangible management base (including global)"** is necessary to resolve these challenges, and have identified the following as items for consideration in the formulation of the new medium-term management plan

Our challenges	Considerations
1. Improving and stabilizing profitability	• Completely implementing the Reforms for Profitability Improvement and assessing these results • Responding to the remaining challenges in these reforms (including considering the possibility of downsizing or withdrawing from unprofitable businesses) • Adopting measures to ensure that businesses where the reforms have been achieved can return to a growth path
2. Formulating a management strategy for gaining trust in our medium- to long-term growth	• Showing a future vision of the desirable business portfolio • Formulating an action plan for fulfilling this vision (downsizing or withdrawing from unprofitable businesses, selecting and withdrawing from non-priority businesses from a best-owner perspective, and defining and investing in priority businesses) • Policies on capital allocation and shareholder returns
3. Rebuilding of the intangible management base (including global)	▪ Redefining our purposes（Journey to ONE TEIJIN project） ▪ Transformation to further strengthen management in terms of governance ▪ Review of human capital strategy etc.

Based on our further analyses, these will be disclosed in the new medium-term management plan to be announced in May 2024