Message from the CFO

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Financial Strategies Supporting "Continuous Growth with Sustainable Superior Profits"

"Investing for growth," "expanding returns to shareholders," and "strengthening our financial position" are essential for sustainable growth. After giving consideration to the changes in the market environment and competitive situation as well as to the financial market environment, our financial position, and other factors, at the end of the day, properly managing these activities constitutes the central core of our financial strategy.

Going forward, the forecast is for change to become even more severe than in the prior periods. Anritsu is working to improve its ACE key performance indicator, while at the same time placing priority on optimizing cash flow, "investing in growth," "boosting returns to shareholders," and "fortifying our financial position."

Accomplishments under GLP2014

To strengthen its global competitiveness, Anritsu implemented initiatives to create a management infrastructure and framework designed to perform well in an international context.

As part of these activities, Anritsu adopted the globally recognized International Financial Reporting Standards (IFRS) beginning in the first quarter of fiscal 2012. In addition, we positioned ROE and ACE as our key management indicators and took action to increase corporate value.

Moreover, to continue to secure stable growth in cutting-edge technology markets, we believe that further improvement in our financial position will be invaluable. We worked to achieve a ratio of shareholders' equity to total assets of greater than 60% as well as a debt/equity (D/E) ratio of less than 0.3.

The results are noteworthy. We successfully fulfilled various global investment criteria standards. Recognized as a company that is highly attractive to investors, our stock was chosen for inclusion in the well-regarded JPX-Nikkei Index 400, and our debt rating was upgraded to A-.

Financial Strategies and Initiatives under GLP2017

In view of the strengthening of our financial position due to initiatives under the previous medium-term management plan, under our new medium-term business plan GLP2017, strengthening our cash flow is the highest priority item in our financial strategy for attaining continuous growth with sustainable profitability. To be sure, the capability to efficiently generate cash flow, which mirrors corporate value, is the basis of competitiveness.

To differentiate Anritsu in harshly competitive global markets and achieve growth in the medium-to-long term, it will be critical to utilize cash generated via profits and capital efficiencies and proactively invest it in business development activities where we forecast growth. We will also carry out strategic investments, focusing on M&A. We will then recover appropriate returns on our investments, increase returns to shareholders, substantially strengthen our financial position, and then make further investments in opportunities with growth potential.

Projecting Anritsu's corporate value into the future, our financial objectives under GLP2017 may be summarized as follows.

Initiative 1 Our goals are to raise ROE, which was 10% in fiscal 2014, to 14% in fiscal 2017 and increase ACE from ¥3.0 billion to ¥8.0 billion in fiscal 2017. To this end, we will work to improve profitability and efficiency and generate corporate value in excess of capital costs.

Initiative 2 By strengthening our cash flow, our goal is to raise our operating cash flow margin from 8% in fiscal 2014 to 13% in fiscal 2017. Moreover, we will shorten our cash conversion cycle (CCC), which is another important KPI, by 20 days, from 140 days in fiscal 2014 to 120 days in fiscal 2017. We will realize these goals through increasing profitability by accelerating cost reductions and utilizing expenses more efficiently. We will also work to improve asset efficiency by reducing inventories, promoting recovery of receivables, and other measures.

Initiative 3 We have a number of options for boosting corporate value when making strategic investments. One of our most-important management issues will be to consider and implement investments from a medium- to long-term perspective based on scenarios of either further expanding existing businesses (via strengthening technological capabilities, expanding marketing power, etc.), and/or accelerating the development of new businesses.

In our development activities, as in the past, we will aim for developmental ROI (defined as gross profit on net sales divided by the amount of developmental investments) equal to or greater than 4.0 as a key factor in raising our investment efficiency.

* ACE: Anritsu's original KPI for corporate valuation, defined as operating profit after tax minus capital cost

Financial Strategy for Achieving Continuous Growth with Sustainable Superior Profits

1. ROE/ACE improvement targets

We will work to improve capital efficiency and corporate value, and enhance returns to shareholders.

	FY2014 (Results)	FY2015	FY2017
ROE	10.2%	10%	14%
ACE	¥2.4 billion	¥3.0 billion	¥8.0 billion
Operating cash flow margin	7.7%	9%	13%

2. Strategic investment plan (Cash-based)

We will prioritize the allocation of cash to strategic investments to achieve growth.

		FY2014	Total of FY2015-17
Normal investments*1		¥3.0 billion	¥11.0 billion
Strategic investments*2	M&A	—	¥6.0 billion
	BCP	¥2.9 billion	¥4.0 billion

*1 Normal investments include software investments.
*2 Strategic investments: These are plan figures that show the usage of cash flow assumed for FY2015 through FY2017 and are not an upper limit on the amounts of investment.

3. We will continue to work to strengthen our financial structure (Equity ratio: 60% to 70%, credit rating of at least A-).