CFO Message

Achieving "Sustainable Growth with Profit" by Strengthening Strategic Investment and Evolving Cash Flow Management

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The biggest issues for our GLP 2020 is to: restore growth in our core business; make improvements to operating profit ratio, a key pillar; raise ROE; and conduct investment in growth that is not affected by mobile technology evolutionary cycles. To that end, we conduct our management in a manner that places a high level of importance on capital cost, maximizes cash generation, and enhances corporate value.

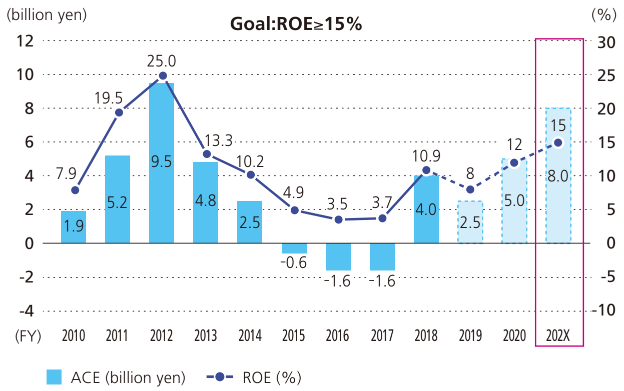
Enhancing Corporate Value

We have set two KPIs as indices for enhancing the measurement of corporate value. As a numerical target, we use ROE, due to its ease of comparability with other companies, while as a quantitative target, we use ACE*[1] (Anritsu Capital-cost Evaluation), an original index that measures economic added-value. ACE is defined as "after-tax operating profit minus the cost of capital." Unless a level where "after-tax operating profit exceeds the cost of capital" is achieved, we do not regard the situation as having positive economic added-value; that is, no corporate value will be created. The factors (drivers) and main priority issues for enhancing and increasing ROE and ACE are indicated in the diagram below.

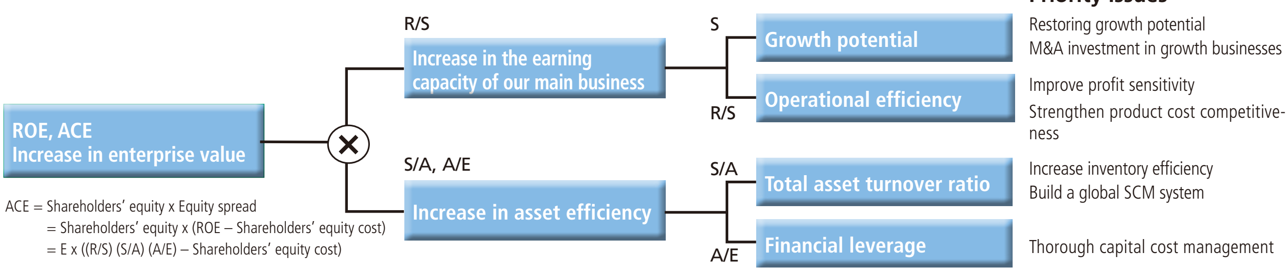
GLP2020 and Beyond 2020 will work towards improving each of these factors, with a goal of achieving an ROE of 15%.

*1 ACE (Anritsu Capital-cost Evaluation): after-tax operating profit - cost of capital

ACE and ROE trends and targets



ACE Drivers for Corporate Value and Priority Issues



Note: R: Profit; S: Sales; E: Shareholders' equity; A: Total assets

Note: The Company's capital cost was calculated as 7% for the shareholder equity cost, and the weighted average cost of capital (WACC) used in our original ACE index is 5%.

Aiming for 15% ROE

ROE is analyzed using three factors: "profitability," "efficiency," and "leverage." Our initiatives to target each of these factors are listed below.

Profitability

Investment to realize growth

For the Test and Measurement Business, which is our main strength, we will focus on strengthening 5G competitiveness, while for the PQA Business, we will focus on investments aimed at global business development.

We have adopted development ROI (Return on Investment) as the standard for investment level, and are working to improve investment efficiency, with the goal of the development ROI (gross profit/development investment) of 4.0 or higher.

To improve profitability, we are also actively working to improve our cost structure. For example, we are taking active steps to achieve higher efficiency in our sales activities and improved business processes in our corporate department, by managing and seeking to improve cost per order (CPO) in each sales region, with the goal of reviewing the cost structure in each business segment.

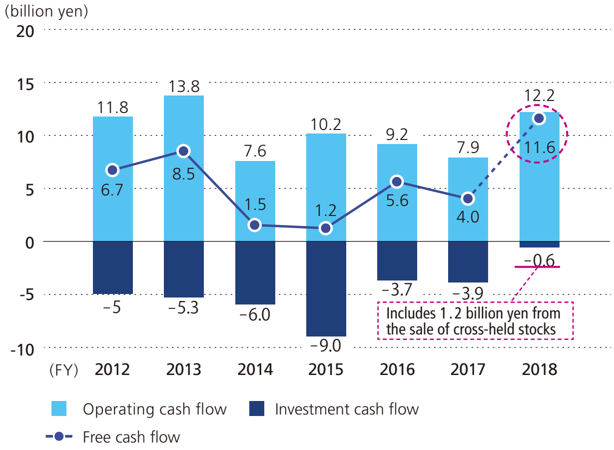
Efficiency

Thorough cash flow management

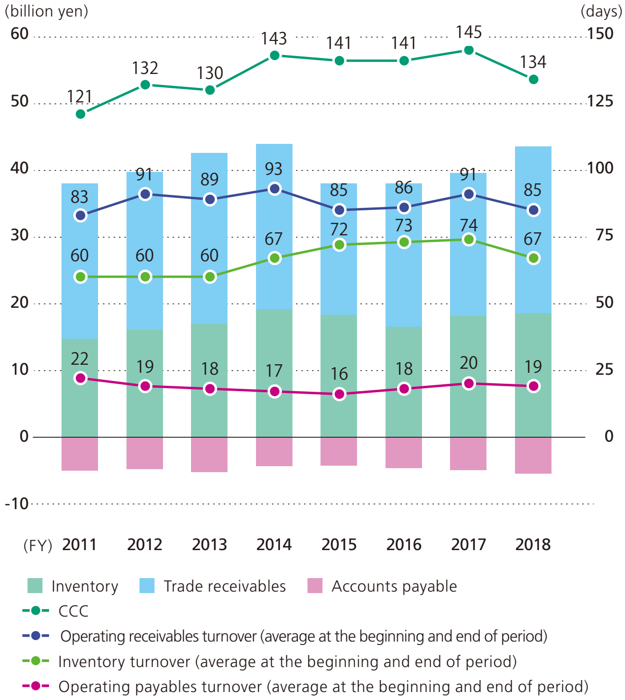
To achieve sustainable growth investment, it is essential to generate more cash flow. Our goal is to improve our operating cash flow margin to 13%, and to raise our CCC*[2], which is a cash flow improvement index, to 120 days in the fiscal year ending March 31, 2021. These targets will be realized through improved profitability via cost reductions and more efficient spending, as well as improvements in asset efficiency, such as by reducing inventory and promoting the collection of accounts receivable.

Moreover, as part of our capital cost-conscious management approach, we are also focusing on cash flow management in each division. As specific measures, we have created a balance sheet for each division, and are working on new management accounting practices, such as visualizing changes in cash and working capital. These measures are aimed at improving capital efficiency management in each division.

Trends in cash flow



Trends in CCC



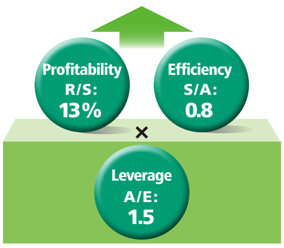
*2 CCC: Cash Conversion Cycle

Leverage

Building a robust financial structure

Our core policy for building a robust financial structure is to maintain a capital adequacy ratio ≥ 60% and a debt-to-equity ratio (D/E)[*3] ≤ 0.3. In a rapidly changing market, having a strong financial base that supports medium- to long-term growth is extremely important. Anritsu's robust financial base has been evaluated, and according to the rating by R&I (Rating and Investment Information, Inc.) as of March 31, 2019, our short-term rating is "a-1" and our long-term rating is "A-."

15% ROE (Beyond 2020 Target)



[Model case]

ROE target: Factor breakdown

$$\text{ROE} = \frac{\text{Net income}}{\text{Equity}} = \underbrace{\frac{\text{Net income}}{\text{Revenue}}}_{\text{Profitability}} \times \underbrace{\frac{\text{Revenue}}{\text{Total assets}}}_{\text{Efficiency}} \times \underbrace{\frac{\text{Total assets}}{\text{Equity}}}_{\text{Leverage}}$$

	Profitability	Efficiency	Leverage	ROE
FY2018	9%	0.8	1.5	10.9%
Beyond 2020	13%	0.8	1.5	15%

*3 Debt-to-equity ratio (D/E): Interest-bearing debt/Equity attributable to owners of the parent company

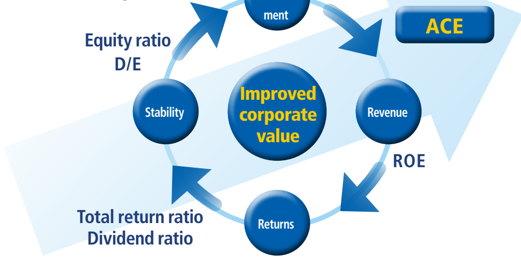
FY2018 initiatives and results

In our main Test and Measurement Business, the ROE of the entire company recovered to 10.9% by capturing 5G initial development demand and achieving an operating profit ratio of 14%. We also verified our cross-held stocks in accordance with the principles of the Corporate Governance Code. As a result, in the current fiscal year (FY2018), we sold stocks for which continued ownership was no longer beneficial. By doing so, as of March 31, 2019, the book balance of listed shares related to policy holdings fell to roughly 0.1% of total assets. Going forward, we intend to continue working to reduce cross-held stocks, from the perspective of improving asset efficiency.

Exploiting the Corporate Value Improvement Cycle

Improving profitability and efficiency, and maximizing cash flow generation are fundamental to improving corporate value. By aggressively investing in new product development and strategic investments including M&As, we will work to strengthen the competitiveness of our solutions and improve our business foundation in order to achieve high returns. By also enhancing shareholder returns and building a robust financial position, we will be able to harness the corporate value improvement cycle.

Corporate value improvement cycle



Shareholder returns▶ When returning profits to shareholders, our basic policy is to pay dividends with a consolidated payout ratio of 30% or higher, basically by raising the DOE (Dividend On Equity) in response to an increase in consolidated net income, and to also flexibly implement other shareholder return policies that take the total return ratio into account.

Furthermore, we plan to use surpluses for funding requirements for strategic investments (including M&As) for business expansion in industrial fields that employ 5G/IoT, and for business development in the cloud service and other markets. By making further improvements to our corporate value, including these investments in new businesses, we aim to meet the expectations of our shareholders.

Dividend forecast trend