# CFO Message


## GLP2020 Review

During the GLP2020 (2018-2020) period, due to an accurate assessment of mainly 5G development demand and data center-related market demand, the Test and Measurement Business achieved its FY2020 revenue and operating profit targets.

As a result, the entire Group was able to achieve its revenue, profit, and ROE targets. The Group recorded an operating profit on sales, an indicator of profitability, of 19%, and achieved an ROE of above 15% by conducting management focused on capital cost. We also built a strong balance sheet in part by improving our equity ratio, which indicates financial stability. In recognition of these efforts to strengthen profitability and our financial standing, our previous "A-" long-term bond rating was upgraded to "A." Now, to further enhance corporate value, investment towards growth has reached an even more important stage.

### Anritsu's Rating

| ~2001 | 2002 | 2003~2011 | 2012 | 2013 | 2014 | 2015~2020 | 2021 |
|---|---|---|---|---|---|---|---|
| A- | BBB | BBB | BBB+ | BBB+ | A- | A- | A |

- December 26, 2002 A-→BBB
  - 2001 dot-com crash, FY 2002 business restructuring
- May 10, 2012 BBB→BBB+
  - Capture of initial LTE demand
- May 13, 2014 BBB+→A-
  - LTE hits peak demand
- May 31, 2021 A-→A
  - Capture of 5G and data center demand

# Switch from defense to offense
# Transition of financial strategy looking towards 2030

**The principal objective of the financial strategies laid out in the new Mid-Term Business Plan, GLP2023, is accelerating growth-oriented investment with a view to achieving revenue of ¥200 billion by 2030. Leveraging the robust financial standing we have built up over the years, we will be aggressively investing for growth in order to build a business portfolio independent of the business cycles of mobile telecommunications systems. Evolving from the previous "cost management to safeguard profits" to "investment management in order to realize growth" will become a key part of our financial strategy.**

## Efforts to Enhance Corporate Value

The basic policy for financial strategy in GLP2023, which aims at accelerating growth, consists of the following three key pillars.

**1. Enhancing Corporate Value**
We will make committed efforts to improve upon our management system in order to enhance corporate value. This means establishing a corporate value improvement indicator as a KPI for ROE and consistently practicing management by objectives.

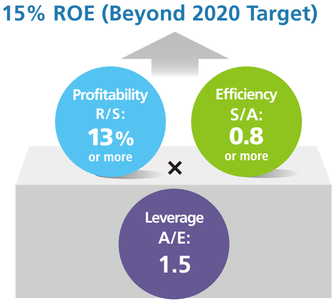
Anritsu considers achieving 15% ROE to be a priority management issue. To realize medium- to long-term growth in the global market, it is essential that we gradually create profits to feed investment. An ROE of 15% is the global standard and is considered to be an engine for profitable growth. ROE is analyzed using three factors: profitability, efficiency, and leverage.

We are working to meet ROE targets primarily by improving profitability and efficiency.

### ROE Target: Factor Breakdown

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

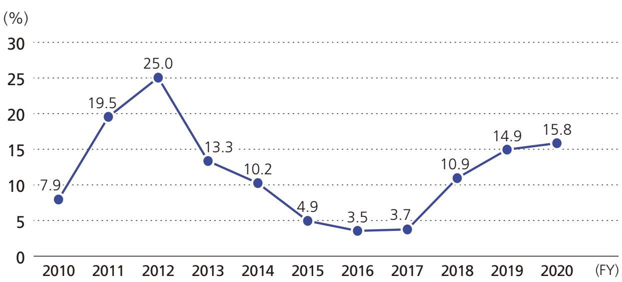
**[Model case]** **15% ROE (Beyond 2020 Target)**




### Trends of ROE Factors

| | Profitability | Efficiency | Leverage | ROE |
|---|---|---|---|---|
| FY2018 | 9.0% | 0.79 | 1.53 | 10.9% |
| FY2019 | 12.5% | 0.79 | 1.50 | 14.9% |
| FY2020 | 15.2% | 0.75 | 1.39 | 15.8% |
| Model case of GLP2023 | 13.0% or more | 0.80 or more | 1.50 | 15.0% or more |

## ROE Trends




### 2-1. Initiatives to Establish Investment Level Standards and Improve Cost Structure: Improving Profitability

For our core business, the Test and Measurement Business, we will focus on strengthening our competitiveness in 5G, while for the PQA Business we will focus on investment aimed at global business development.

We have adopted development ROI (gross profit and development investment) as the KPI for investment levels and are working to improve investment efficiency with the goal of achieving a development ROI of 4.0 or higher.

We are also actively working to strengthen our cost structure to enhance profitability. For example, we are taking active approaches to achieve greater efficiency in our sales activities and improve business processes in our corporate back office functions by appropriately managing and promoting improvement of cost per order (CPO) in each sales region in order to enhance each business segment's cost structure.

### 2-2. Thorough Cash Flow Management: Improving Efficiency

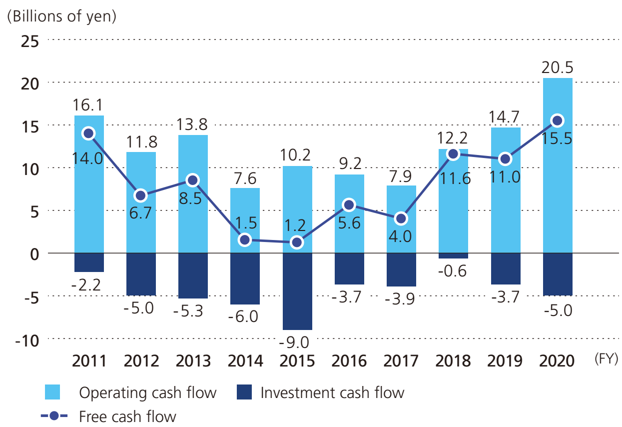
Strengthening our ability to generate net cash provided by operating activities is essential for realizing sustainable investment for growth. Our constant goal is to maintain an operating cash flow margin above 13% (achievable by realizing an operating profit margin of above 18% and avoiding increases in working capital), and to raise our CCC*, which is a cash flow improvement index, to 120 days (the best result over the last 10 years) in the fiscal year ending March 31, 2024. To achieve these targets, we will improve profitability through cost reductions and more efficient spending, as well as by improving capital efficiency through such measures as 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 per business division.

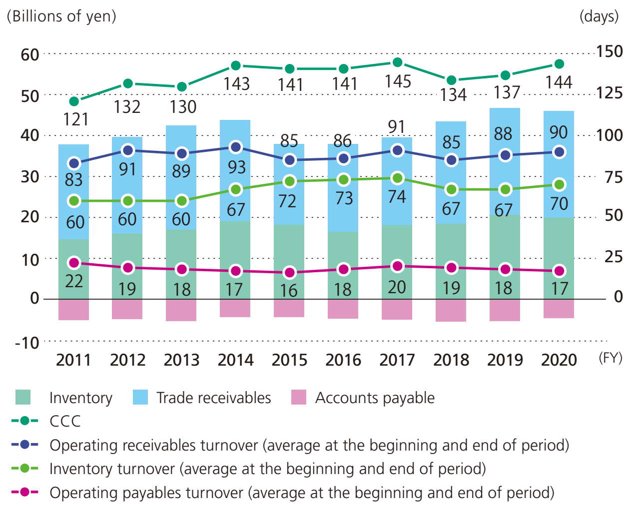
Specifically, we will take accounting measures that include preparing balance sheets for each business division and visualize the flow of cash and working capital. Through these measures, improvements are being made to capital efficiency management at the business division level.

*CCC: Cash Conversion Cycle

## Trends in Cash Flow




## Trends in CCC



**3. Allocating Cash to Strategic Investment for Growth**
Along with allocating cash generated from improving profitability and efficiency to strategic investment for growth, we will also be taking dynamic financial measures. Although enhancing our financial standing was a key issue up until GLP2020, a major management issue addressed by GLP2023 is how we can effectively utilize the achievements we have so far made, and our basic policy going forward involves concentrating investment in growth areas. Shifting our strategies from protective (defensive) approach to active (offensive) approach, we will be carrying out financial activities that establish growth as a priority goal.

More specifically, greater than 50% of operating cash flow (a total of ¥47.4 billion over three years) was used in strengthening our financial standing (paying back liabilities and increasing cash) over the past three years (GLP2020). Over the next three years (GLP2023), however, we plan to put more than 50% of operating cash flow toward strategic investment aimed at business growth.

We also plan to stick with our aggressive plan for shareholder returns, as outlined below.

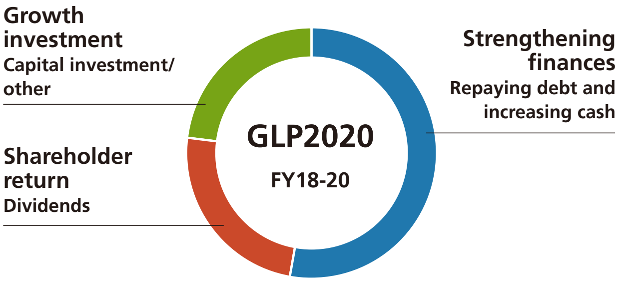
## Shareholder Returns

Our basic policy on distributing profits to shareholders is paying dividends with a consolidated payout ratio of 30% or higher primarily by raising the dividend on equity (DOE) in response to increases in consolidated net income. We also flexibly implement other measures regarding shareholder return that take the total return ratio into account.

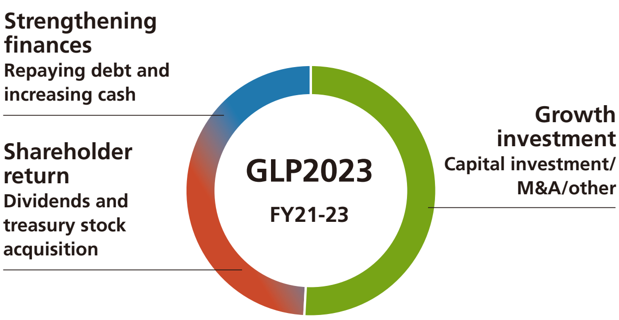
Total shareholder return (TSR) over the past 10 years is shown below. We will continue to implement growth strategies and sound finance and capital policies that will enable us to realize a TSR that exceeds capital cost (7%). Specifically, we will further enhance corporate value and meet our shareholders' expectations by strengthening our competitiveness in the 5G market, expanding business into industrial fields that employ the IoT, developing business in the cloud service and other markets, and cultivating new growth fields, while making strategic investments and carrying out accurate financial strategies that include acquiring next-generation technologies such as 6G.

### Net Cash Provided by Operating Activities Allocation

Net Cash Provided by Operating Activities Allocation (Actual)




Net Cash Provided by Operating Activities Allocation (Plan)




### Share Price Performance

| | Past year | Past 3 years | Past 5 years | Past 10 years |
|---|---|---|---|---|
| **Anritsu** | 22.4% | 24.1% | 32.6% | 15.3% |
| **TOPIX total return index** | 42.1% | 6.9% | 10.2% | 10.8% |

### Total Shareholder Return (over past 10 years)