CFO Message

Promoting a transition of financial strategy looking towards 2030
Invest in growth and enhance shareholder returns

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 profit” to “investment management in order to realize growth” will become a key part of our financial strategy.

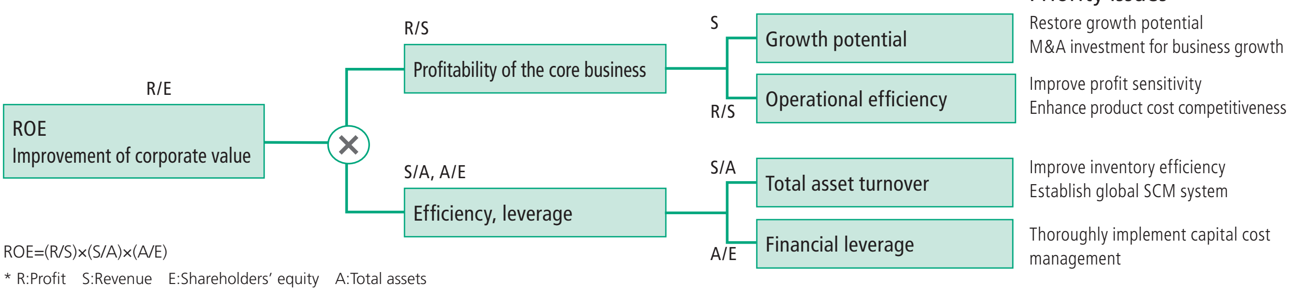
First Year of GLP2023 Review

One year has passed since the start of the Mid-Term Business Plan GLP2023, which focuses on strengthening investment for growth and further enhancing shareholder returns. The first year’s accomplishments include (1) M&A as a strategic investment, specifically the acquisition of Takasago, Ltd. and (2) a ¥5 billion share buyback (acquired from September to October 2021 and retired in June 2022).

Akifumi Kubota

Director
Executive Vice President
CFO

Drivers and key priorities of ROE/Corporate Value Improvement



ROE=(R/S)×(S/A)×(A/E)

* R:Profit S:Revenue E:Shareholders' equity A:Total assets

The acquisition of Takasago, Ltd. in (1) is the execution of a strategy aimed at market development in the "electric vehicles, battery" field, one of the four new domains set forth in the GLP 2023, and is a major first step toward achieving ¥200 billion in revenue in fiscal year 2030.

In addition, the total return ratio for fiscal year 2021 increased to 81.3% due to the share buyback mentioned in (2). We were able to clearly state to the market that we consider share buybacks, in addition to dividends, as an important form of shareholder return. Moreover, the Company repurchased another ¥5 billion of its own shares in June-July 2022. We are thoroughly implementing a financial strategy that emphasizes shareholder returns.

Meanwhile, ROE, the most important KPI for GLP2023, finished at 11.5% in fiscal year 2021, falling short of the 15% target.

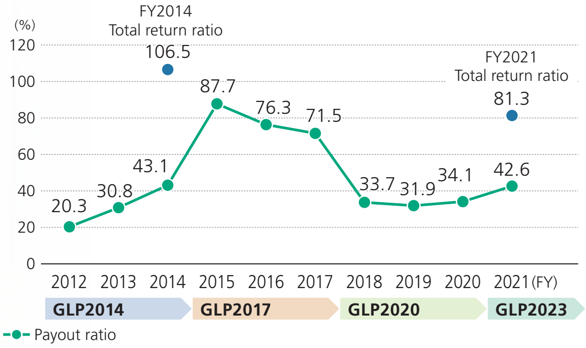
Efforts to Enhance Corporate Value

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

(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.

Payout ratio and total return ratio



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 steadily generate profits, the source of investment. An ROE of 15% is the global standard and is considered to be the engine for profitable growth. The drivers and key priorities for improving and increasing ROE are shown in the chart above.

(2) Aiming for an ROE of 15%

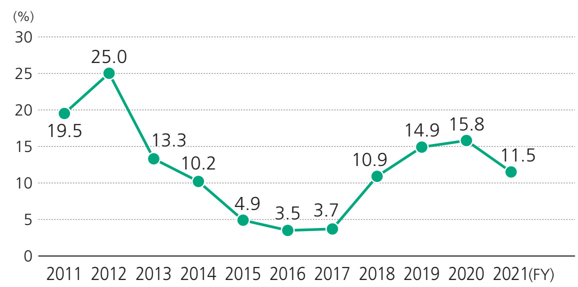
ROE is analyzed using three factors: profitability, efficiency, and leverage.

ROE Target Factor Breakdown

Profitability | Efficiency | Leverage

$$\text{ROE} = \frac{\text{Net income}}{\text{Equity}} = \frac{\text{Net income}}{\text{Revenue}} \times \frac{\text{Revenue}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Equity}}$$

ROE Trends



Trends of ROE Factors

	Profitability	Efficiency	Leverage	ROE
FY2019	12.5%	0.79	1.50	14.9%
FY2020	15.2%	0.75	1.39	15.8%
FY2021	12.2%	0.69	1.34	11.5%
Model case of GLP2023	13.0% or more	0.80 or more	1.50	15.0% or more

CFO Message

Compared to the GLP2023 model case, fiscal year 2021 was a year in which challenges remained in terms of profitability, efficiency, and leverage. In particular, the main challenges for achieving GLP2023 are improving the profitability of the PQA Business in terms of profitability, expanding the scale of sales in the Test and Measurement Business in terms of efficiency, and raising funds by taking advantage of the A rating of our corporate bonds rating in terms of leverage.

(3)-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 divided by 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. One of the approaches, for example, is to appropriately manage and promote improvement of cost per order (CPO) in each sales region in order to enhance each business segment's cost structure. Including such effort we are actively working on achieving greater efficiency in our sales activities and improve business processes in our corporate back office functions.

(3)-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 at or above 13% (achievable by realizing an operating profit margin of at or above 18% and avoiding increases in working capital), and to raise our CCC*, which is a cash flow improvement index, to 121 days (the result of fiscal year 2011, the best recent result) by the end of fiscal year 2023. 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.

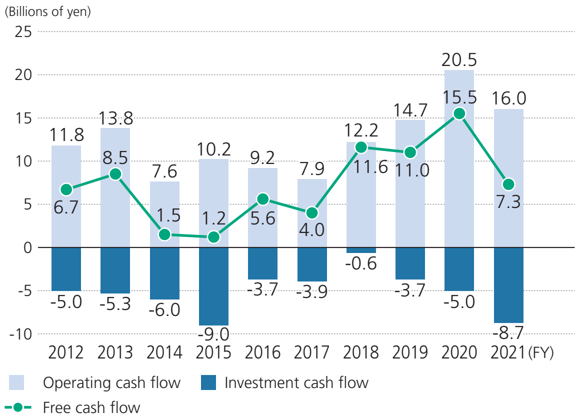
In fiscal year 2021, inventories, mainly parts and work in process, increased as a result of prioritizing meeting delivery deadlines to customers, due to the factors such as global shortage of semiconductors. As a result, CCC also deteriorated by 8 days compared to fiscal year 2020. Current efforts include building strong relationships with suppliers, creating a system to promptly grasp information, and minimizing risk by switching to alternatives for high-risk parts. In addition to properly grasping product demand trends, including the 5G market, we are working to optimize inventories in response to changes in the parts procurement environment, which should lead to sales expansion and shorter CCCs.

*CCC: Cash Conversion Cycle

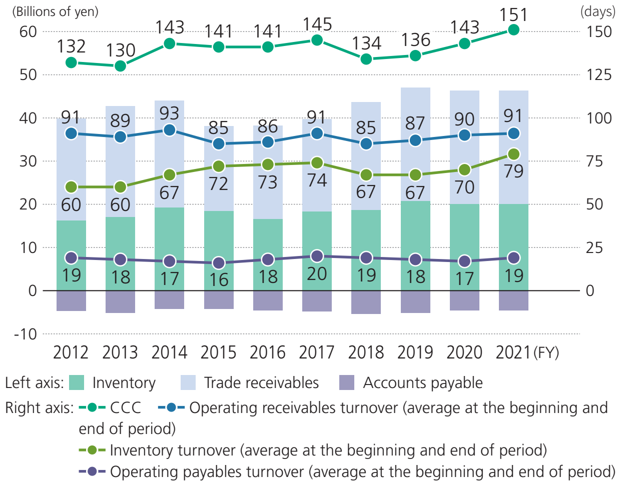
(4) Allocating Cash to Strategic Investment for Growth

Along with allocating cash generated from improving profitability and efficiency to strategic investment for growth, we will also be taking dynamic financial measures. Although establishing financial strength was the key issue up until GLP2020, the 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.

Trends in Cash Flow



Trends in CCC



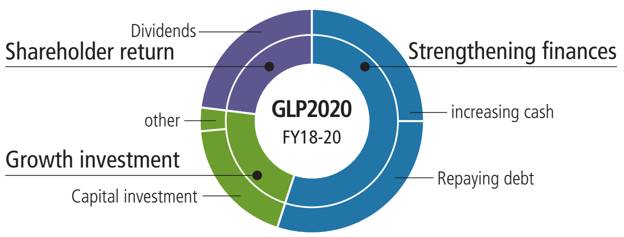
Shifting our strategies from a protective (defensive) approach to an active (offensive) approach, we will be carrying out financial activities that establish growth as a priority goal.

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.

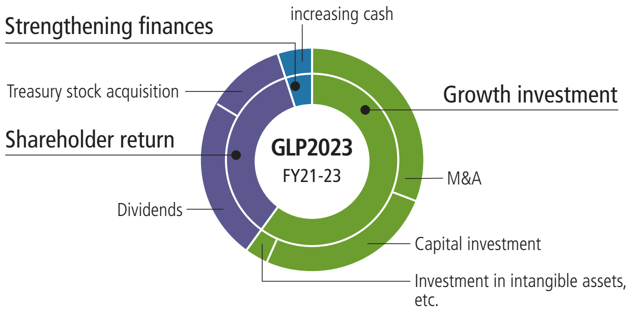
We also plan to stick with our aggressive plan for shareholder returns, as outlined in the next section.

Net Cash Provided by Operating Activities Allocation

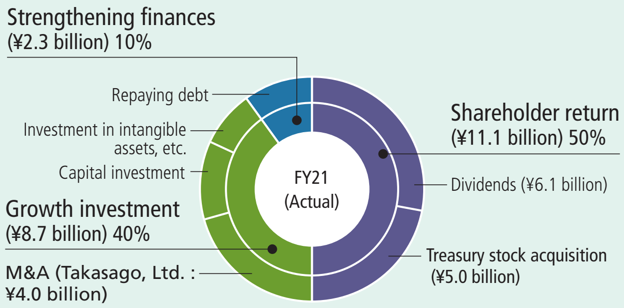
FY2018-2020 Net Cash Provided by Operating Activities Allocation (Actual)



FY2021-2023 Net Cash Provided by Operating Activities Allocation (Plan)



FY2021 Net Cash Provided by Operating Activities Allocation (Actual)



¥22.1 billion (¥16 billion cash provided by operating activities + ¥6.1 billion cash on hand) to be allocated to shareholder returns and growth investments

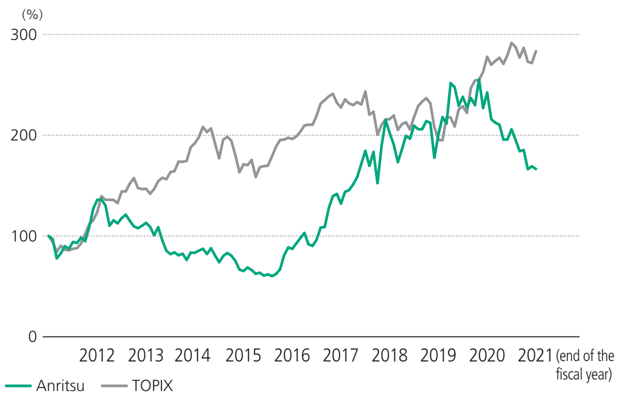
Shareholder Returns

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. Anritsu's TSR fell below that of TOPIX due to our consolidated financial performance not meeting the first year goal set in the GLP2023. We will continue to implement growth strategies, 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.

TSR

	One year	three years		five years		ten years	
		Cumulative	Annual rate	Cumulative	Annual rate	Cumulative	Annual rate
Anritsu	-34.1%	-18.8%	-6.7%	104.9%	15.4%	64.7%	5.1%
TOPIX	2.0%	31.2%	9.5%	44.3%	7.6%	183.3%	11.0%



* Total Shareholder's Return (TSR): the total return on investment including capital gains and dividends.
* TSR is calculated based on cumulative dividends and stock price fluctuation for Anritsu, and based on the stock price index including dividends for TOPIX (prepared by the Company using Bloomberg data, etc.).
* The values in the graph are the market value indexed by TSR with the closing price data as of the end of March 2012 as 100 (the holding period is until the end of March 2022).