

# *New Medium-Term Management Plan*

2022-2024

## *Challenges for Creation*

~Towards 100th anniversary – Creating new value in a new normal era~

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高千穂交易株式会社  
TAKACHIHO KOHEKI CO.,LTD.

## 1

Reviewing our previous medium-term management plan and sorting out the issues we face

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  - Basic strategies
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- Capital policies
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  - Procuring and allocating cash

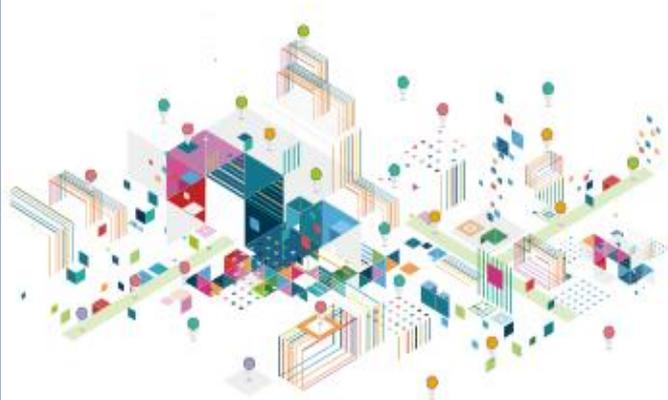
## 3

ESG initiatives in support of our new medium-term management plan

- Various ESG/SDG initiatives
  - Contributing to the environmental field
  - Contributing to the societal field
- State of our governance system
- Strengthening corporate governance

# Positioning of our new medium-term management plan

Period covered by our current medium-term management plan



## Stage 1

Realize productivity improvements  
~IT strategy & personnel system reform~

- Loyal Customer Strategy\*2

## Stage 2

The challenge of changing  
~Next stage to 70<sup>th</sup>~\*1

- Creating motivation for Job among employees
- Improving customer satisfaction
- Establishing a new business model

Period covered by our new medium-term management plan

## Stage 3

### Challenges for Creation

~To create new corporate value~

- Self-realization on the part of employees
  - Inspiring customers
  - Developing business with a sustainable competitive advantage
- Improving capital profitability
  - Attaining key performance indicators (KPIs) in our management plan
  - Commitment to shareholders

Improving ROE



Optimizing our business portfolio

FY2019

Creating a new revenue base

FY2021

Towards a growth stage

FY2022 to FY2024

Profit-structure reform

Maximization of corporate value

※1 We will commemorate the seventieth anniversary of our founding in fiscal year 2021.

※2 A strategy through which we aim to provide added value and thereby create and reinforce relationships with satisfied customers.



**1**

Reviewing our previous medium-term management plan and sorting out the issues we face

# Summary of our business performance

- The numerical targets for the final year of the previous medium-term plan were revised downwards: sales from 26 billion JPY to 21.7 billion JPY and ordinary income from 1.8 billion JPY to 1.1 billion JPY.
  - Primary factors
    - In the business of fire-protection systems in Thailand, plant construction has been at a standstill due to a slump in crude oil prices. In addition, group management has not been functioning properly, which has led to a drop in profits.
    - Global business and office- and retail-related markets have been slowing down due to the spread of COVID-19.
    - There has been sluggishness in various new businesses, such as our EC business and our RFID business.
- Due to a failure to meet our performance targets, the ROE failed to reach our initial forecast of 8%.
- For shareholder returns, a consolidated dividend payout ratio of 40% or more (minimum dividend of 24 JPY) will be implemented.

Targets for the final year

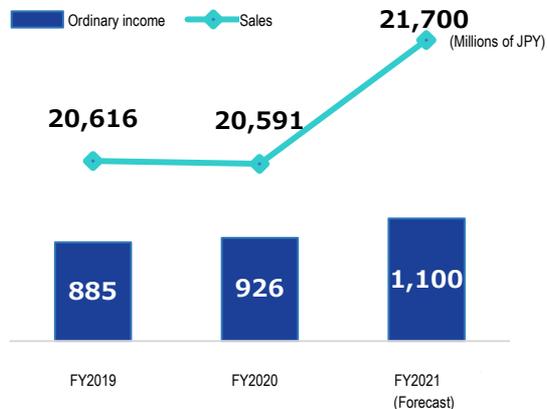
## Sales and ordinary income

### Net Sales

Revised: 21.7 billion JPY  
Pre-revision: 26.0 billion JPY

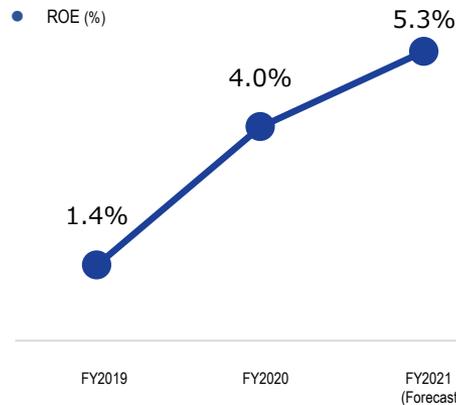
### Ordinary income

Revised: 1.1 billion JPY  
Pre-revision: 1.8 billion JPY



## Capital profitability

ROE forecast: 8%



## Shareholder returns

Dividend payout ratio: At least 40%

Minimum dividend: 24 JPY per year

	FY2019	FY2020	FY2021 (forecast)
Dividend per share	24 JPY	25 JPY	50 JPY*
Dividend payout ratio	112.1%	40.6%	57.8%
Current-term net income	191 million JPY	548 million JPY	770 million JPY

\* Includes commemorative dividend of 15 JPY.

# Summary of our basic strategies

## (i) Strengthen our competitiveness and improve our profitability through value-adding initiatives

Sales expansion resulting from efforts to concentrate on loyal customers and from the growth of our managed service business. Although we have improved the profitability of and streamlined our low-profit businesses, we have not generated operating income.

Select and concentrate on high value-added businesses that pursue customer satisfaction through a loyal customer strategy.



- Increase sales to loyal customers and growth rate in the number of loyal customers

Sales growth rate: 22%, growth rate in the number of loyal customers (client companies): 15%

\* Loyal customers: Clients with whom we engage in transactions of at least 30 million JPY in sales per company

\* Loyal customers on a non-consolidated basis

Generate operating income by improving the profitability of and streamlining our low-profit businesses.



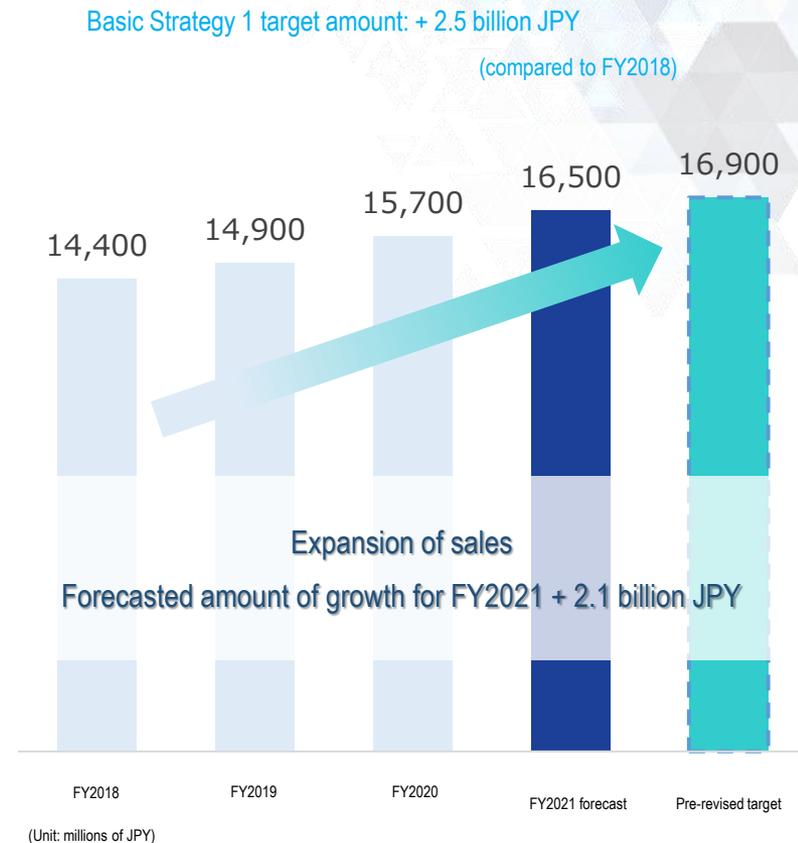
- Business downsizing and cost-sharing achieved through a merger with Takachiho Comtec.
- Downsizing of GuardFire Singapore.
- Despite carrying out the above, there remain issues as operating income has not been generated for the entire Group.

Carry out profit-structure reform by expanding recurring revenue model, such as MSP and maintenance



- Expand recurring revenue model through the growth of our managed service (MSP\*) business for the provision of cloud-based wireless LAN

\* Managed service: Our original service through which maintenance, operations, and alive monitoring of cloud products are offered on a subscription basis.



# Summary of our basic strategies

## (ii) Creating a revenue base through new businesses

Although sales of Mechanical Component Products for the United States expanded, the originally planned growth could not be achieved due to the sluggish fire protection business in Thailand and the withdrawal of the EC business, which is a new business.

Expand global business in China, Southeast Asia and the United States  
(Strengthening of Fire protection business and Mechanical Component Products)



- In addition to the fact that group management of our fire-protection business in Thailand was not functioning, the construction of new plants was significantly delayed due to the effects of sluggish crude oil prices and the spread of COVID-19 infections.
- **Sales of unit products for housing equipment in China** have floundered due to delays in commercialization.
- **Industrial equipment products for the US market** have doubled in terms of sales and gross profit since FY2018 due to increased stay-at-home demand from COVID-19.

Business development through proactive investments, the scope of which includes M&A and business tie-ups / Strengthen cloud- and software-related businesses



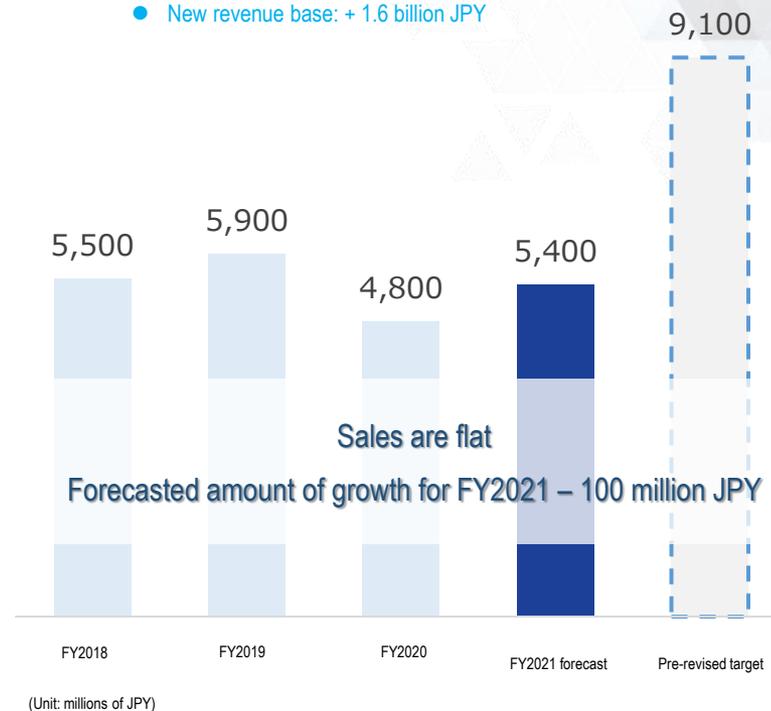
- **By investing in venture capital, we were able to secure contact points with venture companies with new technologies and implemented an open innovation education program.**
- The EC business and cloud camera business, which are new businesses, were sluggish, and a decision was accordingly made to withdraw from the EC business.
- **RFID business** is sluggish.
- We are developing and have taken steps to commercialize EMLINX, a cloud-based information distribution service for stores designed to allow communities to share information on shoplifting and theft.

Basic Strategy 2 target amount: +3.6 billion JPY

(Compared to FY2018)

(Breakdown)

- Global business + 2.0 billion JPY
- New revenue base: + 1.6 billion JPY



# Summary of our basic strategies

## (iii) Business structure reforms and improved productivity

We are making steady progress with respect to organizational reforms and are also strengthening our marketing functions, which had been an issue that we needed to address. We need to focus on increasing the efficiency of operational processes while we repeatedly engage in a process of trial and error.

### Improve operational efficiency through organizational reforms



- Share and improve the efficiency of operations through the consolidation of internal operations and technical support units.

### Redesign our organization to adapt to business, reform our sales organization, and strengthen our SE and marketing functions



- Accelerate the launching of new products and implement digital marketing through the strengthening of marketing functions.
- Contribute to achievements through the acquisition of large-scale projects by dealing with customers in a way that involves the integration of sales and SE functions.

### Centralize management information and review operational processes through IT investments



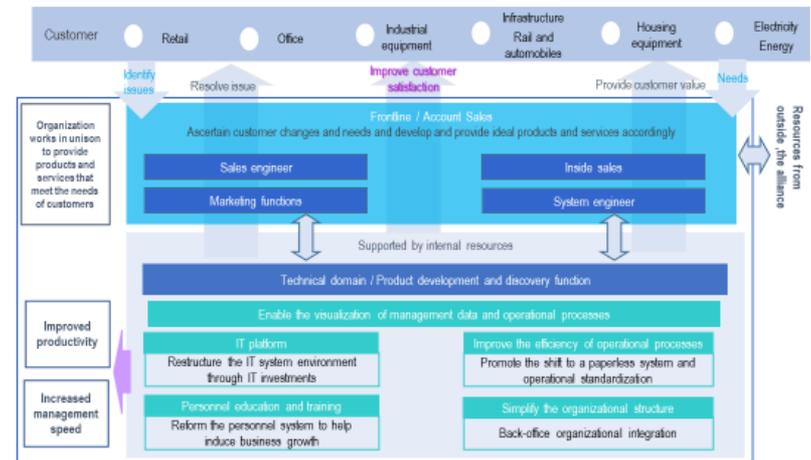
- Reduce infrastructure management costs and improve efficiency by shifting internal infrastructure into the cloud (such as by adopting Office 365 and a cloud-based core system).
- The optimization of operational processes and the centralization of management information remain issues for the next mid-term plan.

### Reform our personnel system

- We raised our salary level to that of our industry through the reformation of our personnel system.
- We introduced a 360-degree evaluation system to promote fair evaluations.

### Carry out working style reforms

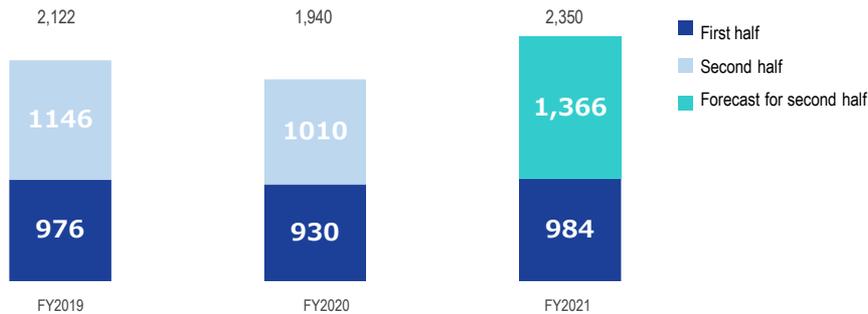
- By having built a teleworking environment prior to the emergence of COVID-19, we smoothly achieved a 70% teleworking rate.
- We have also improved productivity through progress made in terms of shifting to a paperless system.



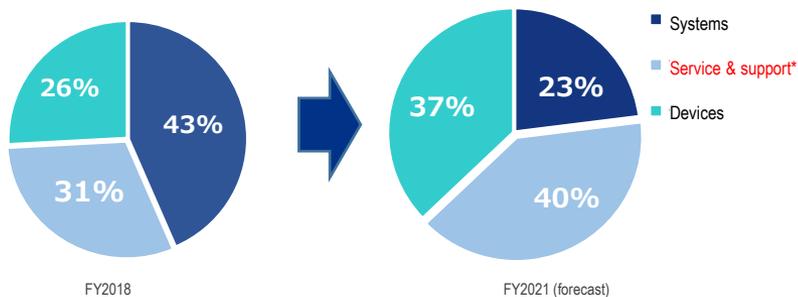
# Results of our structural reforms

Issue addressed	Results
Business portfolio optimization	I. By absorbing subsidiaries serving a market that is expected to shrink (mailing business), we have improved the efficiency of our structure. II. Reallocate resources from low-growth businesses to growth businesses such as services and support. III. We reduced personnel costs at Takachiho Fire, Security & Services (Thailand) Ltd., reallocated human resources to service products, and downsized Guardfire Singapore. IV. Concentration of resources to increase market share in the electronic products.
Establish a new revenue base	We succeeded in commercializing a managed service provider (MSP) for our service and support business (Cisco Meraki). In addition to establishing a high-revenue business model, we also succeeded to create a revenue base.

Changes in sales in our service & support business (millions of JPY)



Changes in the operating income component ratios in our service and support business



Cloud-based wireless LAN system  
MSP business

Cloud services

SD-WAN  
Centralized management of multiple WAN routers

Cloud mail security

Wi-Fi services for corporate customers

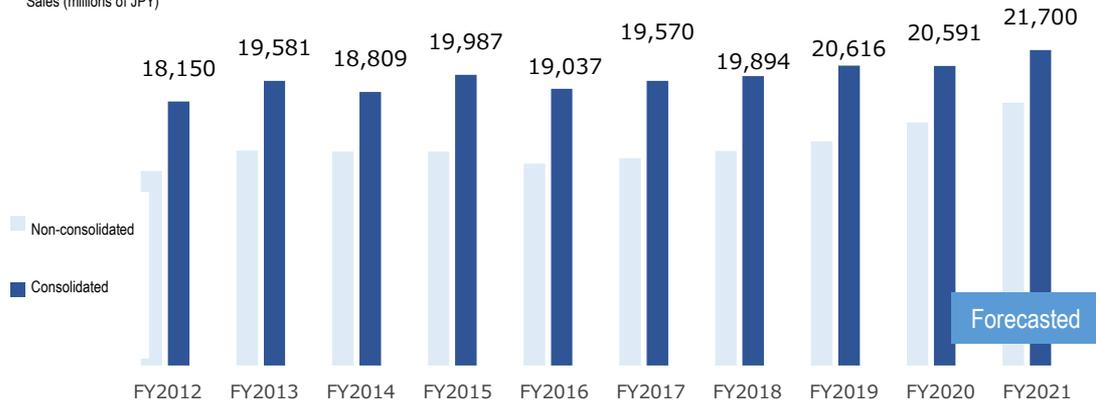
- Strengthened sales of MSP services based on the use of cloud-based wireless LAN systems.
- Expanded network maintenance contracts.
- Expanded various network subscription models (Velocloud, d-dive, Vade secure, and more).

\* We calculated changes in sales and operating income component ratios for "service & support" products in the system segment.

# Our management issues and policy on making improvements

## Changes in sales

Sales (millions of JPY)



## Issues requiring awareness

In looking back at our performance over the last decade, we see that most of our income has been earned on a non-consolidated basis.

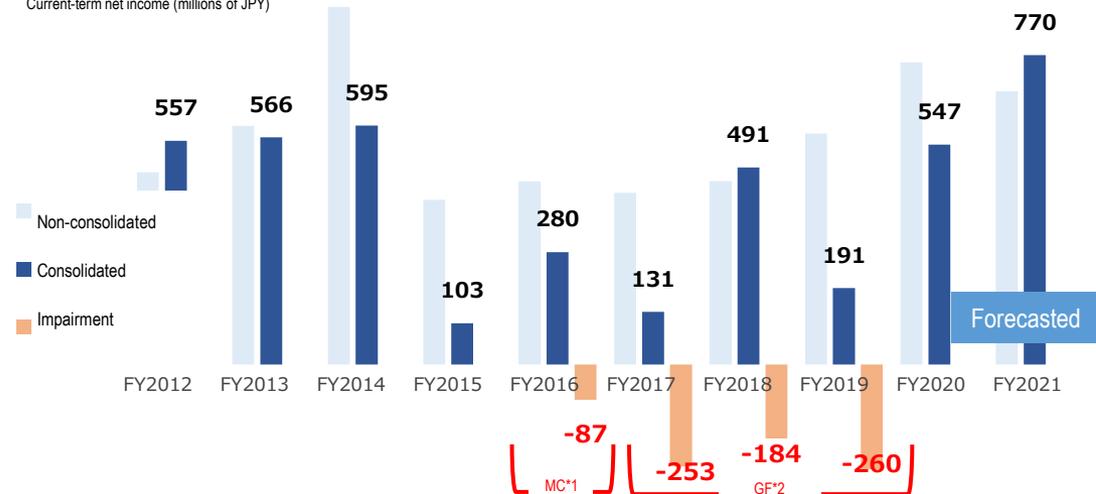
- ➔ Review the business portfolio of the entire group and improve profitability.

### Primary factors

- The PMI of group companies and group management did not function primarily for our acquired Thai fire protection business (GF) and RFID business (MC); the resulting deterioration of business performance caused an impairment loss to be posted.
- We were unable to identify synergies across the entire Group.

## Changes in net income

Current-term net income (millions of JPY)



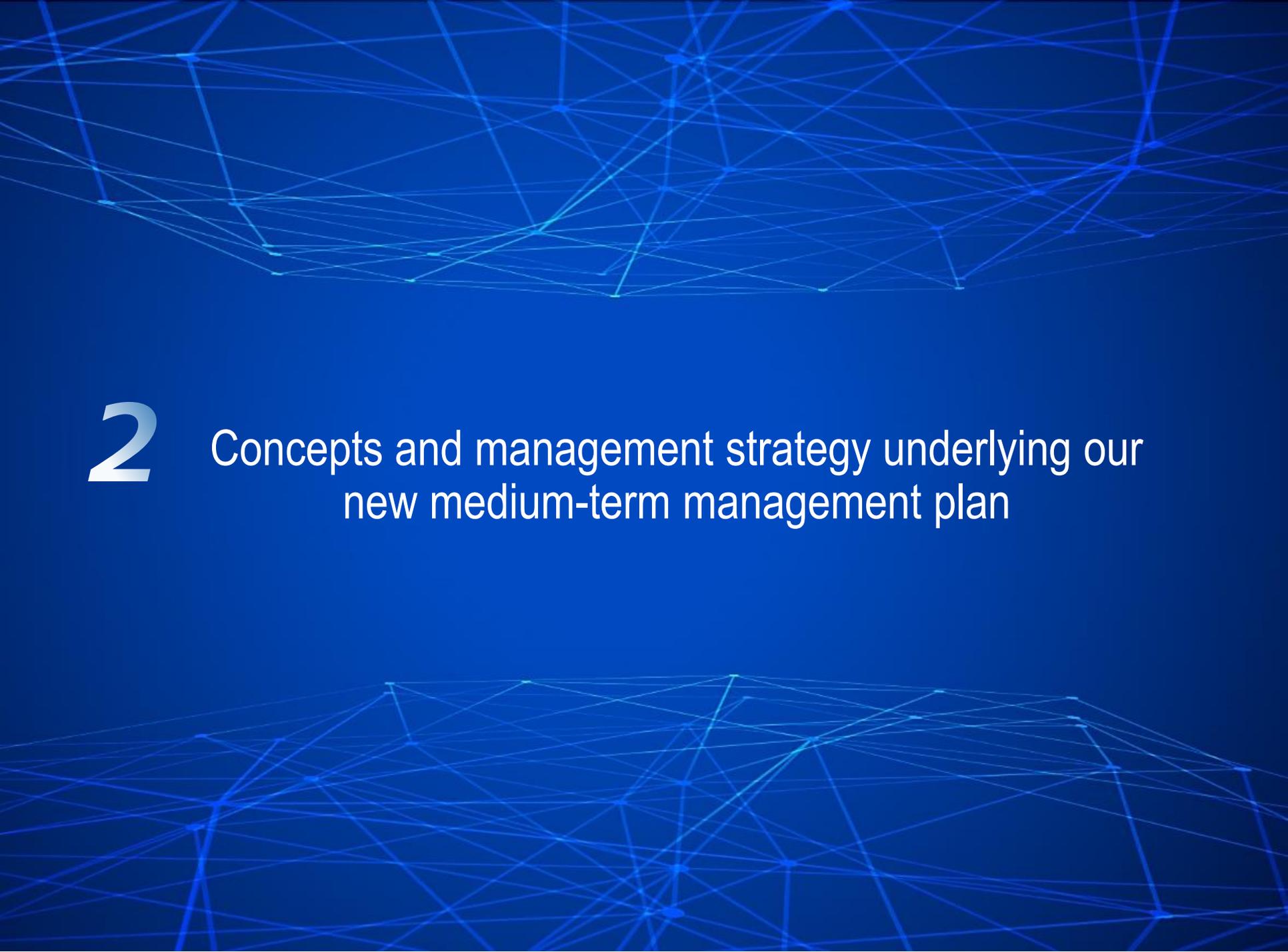
Impairment loss on goodwill (millions of JPY)

## Measures for improvement

Strengthen business portfolio management functions and engage in discussions

1. Establish an Investment Committee and strengthen supervisory, examination, and monitoring functions to be carried out at the time of execution.
2. Commence discussions on the businesses that failed to surpass growth and revenue expectations during our previous medium-term management plan.
3. Establish a new business model and create a new revenue base.

\* 1 : Mighty Cube (MC) became a subsidiary in 2012. RFID-based inventory-management systems are provided.  
 \* 2 : Guardfire (GF) became a subsidiary in 2014. Our fire-protection system business was rolled out across the ASEAN region.



# 2

Concepts and management strategy underlying our  
new medium-term management plan

## Company overview

### Corporate philosophy

**Creativity** lies at the heart of all our business activities. This allows us to pursue our three principal goals:

- Enhancing customer satisfaction
- Gaining worldwide trust
- Contributing to society

### Issues affecting customers

- Building a business environment for the new normal era
- Network security measures
- Measures to address store crime
- Add value to customer services and manufacturing

### Societal issues that we face

- Dealing with climate change and disasters
- Crime deterrence and prevention
- Contributing to a highly livable society through the promotion of digital transformation (DX)

### Our strengths

- Accurately identify market needs  
Demonstrate **marketing capabilities**
- Quickly introduce **leading-edge global products** to the Japanese market
- **Technological prowess** to continuously provide new value and products to the market
- Provide the following, which are backed by a high level of technological prowess:  
**Consulting / Development design services / After-sales services**
- **Relationships of trust** with customers cultivated over many years  
⇒ Total number of accounts: 25,000

### Our new medium-term management plan

We aim to realize a prosperous society and will work to take on the challenge of **creating** with a view to carrying out new business reforms and realize new value creation in order to resolve societal issues and issues that are faced by our customers on an ongoing basis.

In order to maximum corporate value:

- We will promote a *business strategy* to give rise to new value;
- Promotion of [Capital Policy] aiming for optimal capital structure without accumulating equity capital.
- Practice of [Governance] suitable for a prime-listed company

# Overview of our new medium-term management plan

Medium-term slogan

~Towards our 100th anniversary – **Creating new value** in a new normal era~

## Increase shareholder value

- Achieve ordinary income of 2.0 billion JPY and current-term net income of 1.4 billion JPY for the fiscal year ending in March 2025.
- Set the KPI for our new medium-term management plan to **an 8% average ROE** for three fiscal years and implement our business plan and capital policies.

## Capital strategy

- **Limit increases in equity capital in order to improve return on invested capital and the balance sheet.**
- Maintain a dividend payout ratio of 100% until the average ROE for three years exceeds 8%
- Consider using interest-bearing debt for control capital costs.

## Business strategy

- Growth strategy for new business transformation:
  - Promotion of strategies for loyal customers/Growth of service business/Creation of future core businesses
- Strengthening the management base
- Set aside a total of 3.0 billion yen over 3 years for a strategic investment framework.

## Governance

- **Establish an Investment Committee** and strengthen supervisory, examination, and monitoring functions to be carried out at the time of execution.
- Establish a Nomination and Compensation Committee to ensure fairness, objectivity, and transparency.
- Set KPIs for capital efficiency in executive compensation to promote management from the perspective of shareholders.

**Accelerate** the transition from *goods* to *services*

## Management targets (FY2022 to FY 2024)

We will achieve the sustainable growth of our Group and medium- to long-term increases in corporate value with the basic policies of "Concentrating on high value-added businesses transformation" and "Creating new value by strengthening the management base,"

### Points

#### ■ Promote a growth strategy for business transformation

- Expand high-profit businesses in core areas
- Growth of service businesses
- Build new businesses and new business models

#### ■ Build a robust governance structure to support business and strengthen our management base

- Optimal allocation of resources for realizing a growth strategy for the entire Group
- Transform the entire company, including business models and organizations, with the power of digital tools
- Improve capital efficiency

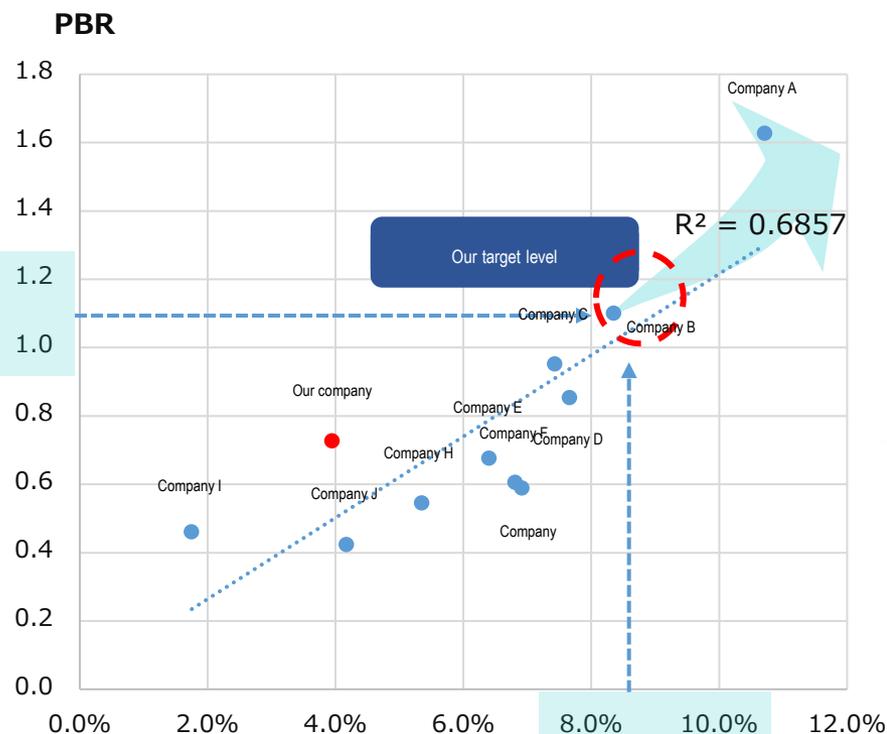
### Numerical objectives

	FY2021 (forecast)	FY2024
Net Sales	21,700 million JPY	26,000 million JPY
Ordinary income	1,100 million JPY	2,000 million JPY
Net income	770 million JPY	1,400 million JPY
ROE	5.3%	10.0% (target) 8.0% (required)
Dividend payout ratio	57.8% 50 JPY dividend per share	100% Maintain a dividend payout ratio of 100% until the average ROE for three years exceeds 8%.

# Reference: Approach to reaching 10 billion JPY in market capitalization of tradable shares to conform to the listing maintenance standards of the prime-listed market.

- In valuations of electronics trading companies, a certain level of correlation between PBR and ROE can be seen.
- We will continue our policy of a 100% dividend payout ratio until we attain an 8% average ROE for 3 fiscal years, therefore there will be no change in equity capital for a certain period after the next fiscal year, which means that higher profits will directly lead to a higher ROE.
- If our ratio of tradeable shares does not decline, the market capitalization of tradeable shares is expected to surpass the 10.0 billion JPY level once our PBR exceeds 1.08.

Correlation between ROE and PBR

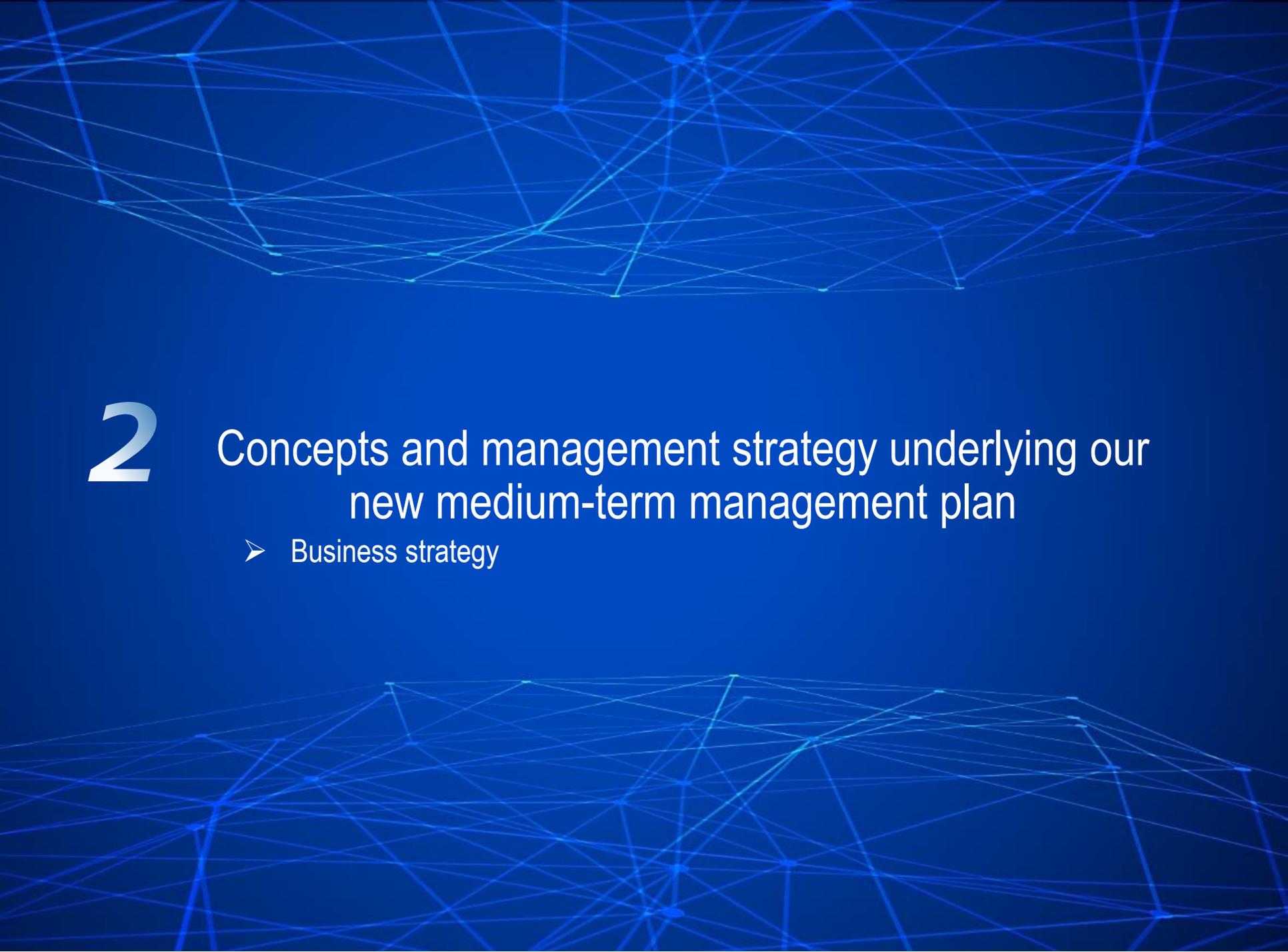


※Refer to figures as of the end of June 2021.

	FY2021 (forecast)	FY2024 (target)
Current-term net income (forecasted EPS)	770 million JPY (86.5 JPY)	1,400 million JPY (157.2 JPY)
ROE	5.3%	FY2022-FY2024 Exceeds 8% average
Equity capital	—	Zero increase in equity capital until 8% average ROE for 3 fiscal years is attained

PBR to attain 10.0 billion in tradeable shares market capitalization : 1.08

Improved ROE and PBR



# 2

## Concepts and management strategy underlying our new medium-term management plan

- Business strategy

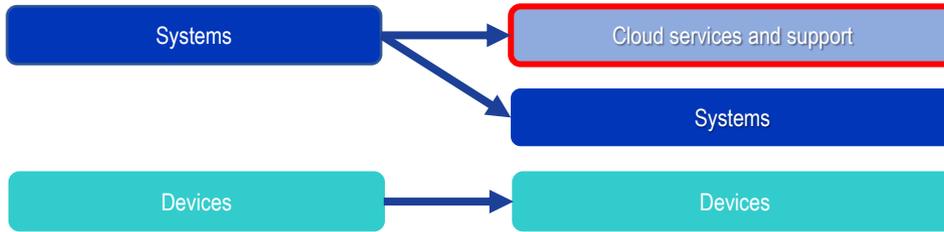
# Growth initiatives for new business transformation

## ➤ Segment change

### New segment

Current segments

New segment



Beginning in the term covered by our new medium-term management plan (FY ending March 2023), cloud-based subscription-type service businesses and maintenance businesses will be positioned as growth businesses and treated separately as segments from the standpoint of growth potential and profitability.

※ "Services and support" under the existing systems segment will be renamed "Cloud services and support" to comprise a new segment.

#### Cloud services and support



Cloud-based wireless LAN

#### Cloud services

- MSP and other services constituting an integration of *Equipment, cloud services, and operation management* within the systems segment

#### Maintenance

- Maintenance services for products coming within the systems segment

#### Systems



Access control systems

Facial recognition systems

#### Retail

- The electronic article surveillance (EAS) system, surveillance camera systems
- Store management systems
- Display products security systems

#### Office

- Access-control systems
- Auto Mailing Insertion Systems
- RFID systems
- Network systems

#### Global

- Fire-protection systems

#### Devices



Power modules



Silicon microphones



Soft-close units

#### Electronics

- Semiconductors, IC/electronic parts, sensors
- Various types of modules

#### Industrial equipment

- Slide rails, gas springs
- Soft-close units, electronic locks

# Growth initiatives for new business transformation

## ➤ Restructuring our basic strategies

### Basic strategies

i. Promote and deepen "Loyal customer strategy"

Expand businesses with high profitability and growth potential among existing businesses

ii. Growth of service businesses

Transformation from "selling goods" to "selling services"

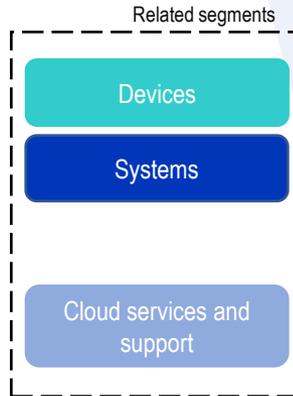
iii. Creation of future core businesses

Acquiring a new revenue base through launching new businesses and business model

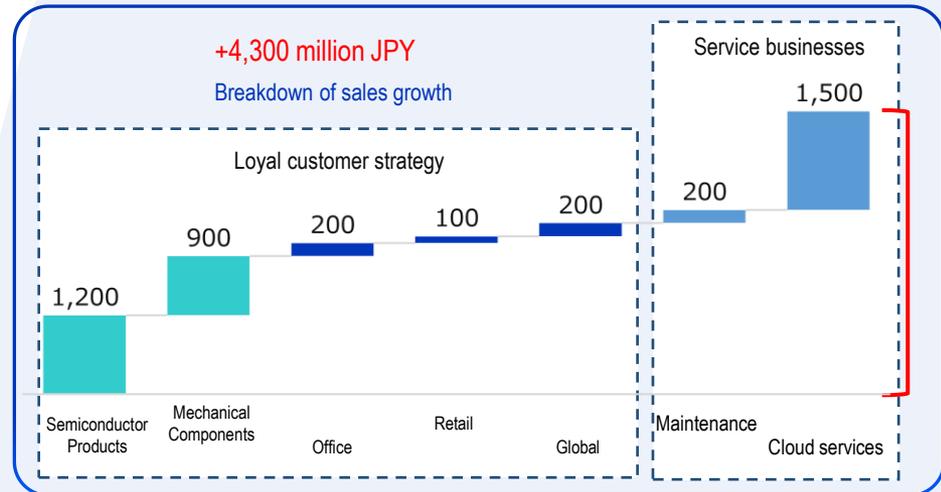
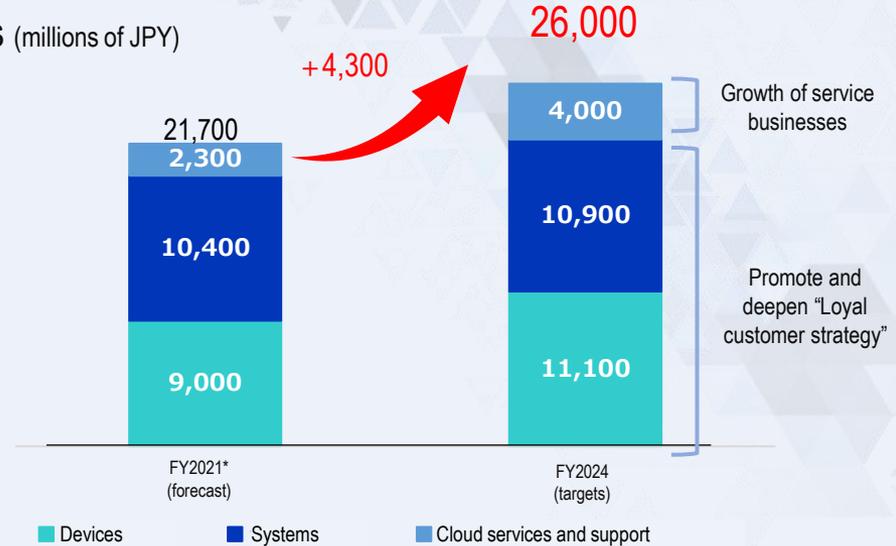
New business projects

iv. Strengthening the management base

v. Setting a total of 3 billion yen as the limit for strategic investments



Sales (millions of JPY)



※Some figures for the current fiscal year's forecast have been rounded.

※A breakdown of sales for FY2021 is presented based on the assumption that segments have been separated.

# Expand businesses with high profitability and growth potential among existing businesses

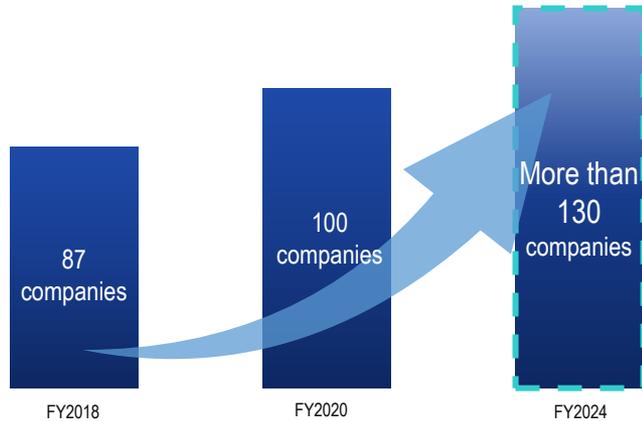
## Our top market share areas <sup>\*1</sup>

- The electronic article surveillance (EAS) system, surveillance camera systems in drug store market
- Office security systems for foreign-affiliated companies
- Mechanical parts for ATMs and copiers machines <sup>\*2</sup>

## Further expansion of market share

### Loyal customers and market share

- Increase in corporate clients with whom we have earned at least 30 million JPY in sales per company



- Average sales per company for all customers approx. 10M JPY → 20% increase

Initiatives for expanding our loyal customer base and market share

### Loyal customer strategy

Strategy by which we provide added value to create satisfied customers with whom relationships are strengthened.

### Core areas Focus markets

#### System segment

Retail  
Office  
Data center  
Plant  
Logistics

Build a *safe, secure, comfortable* system environment  
*Optimize corporate management and business operations*

- Labor-saving and smart-store solutions
- Combining network security elements
- Surveillance camera systems with image recognition and AI technology
- Logistics and store solutions based on the use of RFID technology

#### Device segment

Electronics companies  
Digital equipment market  
Housing equipment  
In-vehicle on-board devices  
Global (US, Asia)

TK's original solution proposal from single item sales  
*Adding value at a high level to customers' manufacturing and products*

- Acoustic/voice, communications, sensors, power supply solutions
- AI and image-recognition solutions
- Combination proposals and modularization
- Unitization of mechanical parts
- PWB (printed circuit boards)
- Cables and power-supply products

- Based on relationships of trust with customers whom we have cultivated over many years, we will ascertain potential customer needs, generate new added value for which we have harnessed our strengths in the areas of information and technology, and resolve issues faced by our customers.
- Maximize group synergies that transcend corporate and organizational boundaries.
- Increase market share with high value-added products that are unique and superior.
- Build WIN-WIN relationships that will help give rise to growth and high profits for customers, manufacturers, and the Company.

<sup>\*1</sup> In-house survey

<sup>\*2</sup> Mechanical parts: Slide rails with dampers, mechanical fixtures for opening/closing mechanisms and drawers

# Basic strategy (ii) Growth of service businesses

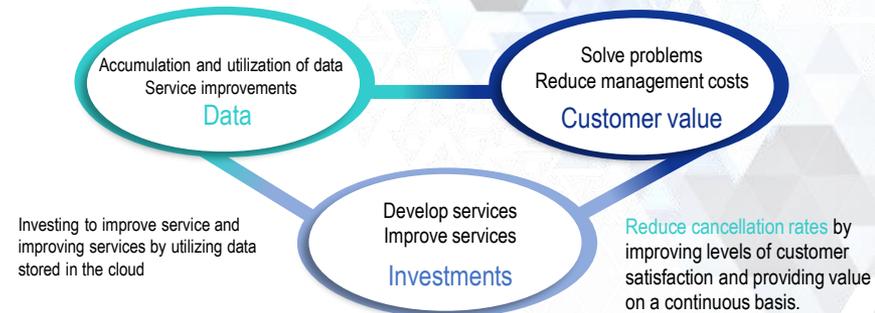
## From "selling goods" to "selling services"

## Realize customer success

### Numerical targets

Growth of cloud services and support	Percentage of total sales	Percentage of total operating income
	FY2021 (forecast) 10%	FY2021 (forecast) 40%
	FY2024 (target) <b>15%</b>	FY2024 (target) <b>45%~50%</b>
	MSP sales	
	FY2021 (forecast) 500 million JPY	
	FY2024 (target) <b>1.2 billion JPY</b>	

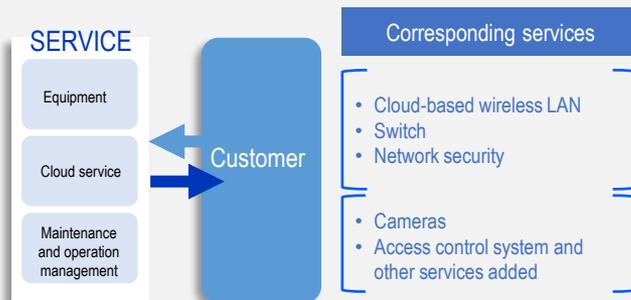
### Customer success cycle ~ growth factors ~



### MSP (subscription model) Managed service

Differentiation with our unique cloud service resulting from the integration of maintenance and operation management services

▼ Integrated services are provided for a monthly fee

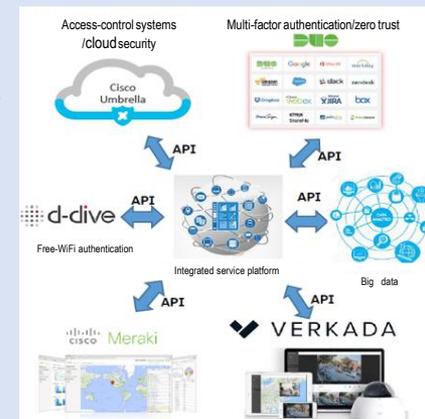


### Evolution

Building TK's own B2B platform that integrates physical security and networks.

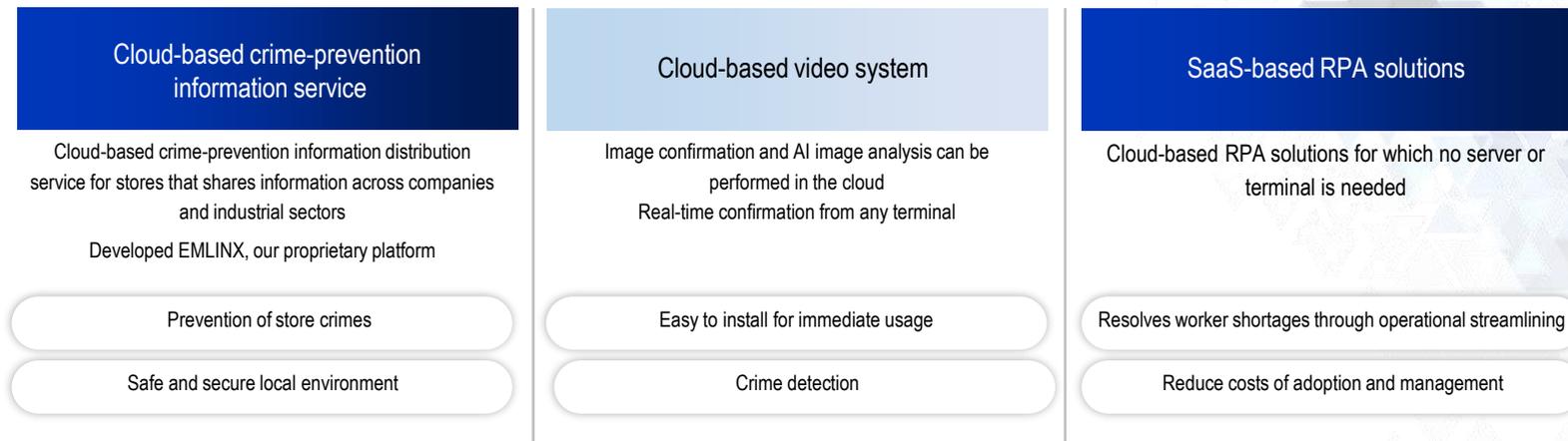
### TK Eco System Multi-cloud service

- Further evolution from cloud-based MSP services
- Our own proprietary platform for the centralized management of physical security and network security
- Leveraging data to further improve services



## Establish new businesses and business models

Creating demand: Towards becoming a business that accounts for more than 5% of total ordinary income for the entire TK Group in 5 years



## Scheme and focus areas for creating new businesses and business models

USA: Silicon Valley Innovation Center, JPN: Business Development Department

### New business development areas

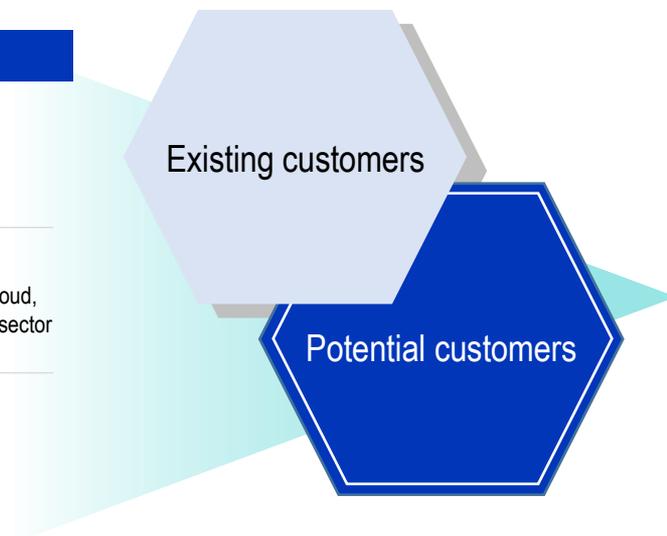
Cyber-security (vulnerabilities, privacy), climate change (SDGs, ESG), blockchains (metaverse, VR/AR, Web3, NFTs), robots (labor-saving, automation, logistics, automation, sensors), quantum computers, 5G/6G, smart homes

### Providing new commodities

Retail sector (camera analysis, privacy issues, labor-saving), office sector (TK cloud service, SASE, bringing net security into the cloud, logistics solutions), electronics sector (mid-sized, Asian manufacturers, acoustics, communications, sensors), industrial equipment sector (global commodities, existing alternatives), support for solution proposals

### Information sources x collaborations

Creating new businesses and business models by obtaining various information and collaborating with them..



Promote the following initiatives with a view to strengthening the management base that supports our business

Shift management resources to businesses to which we should direct our focus

- i. Shift human resources to businesses on which we should focus and carry out an optimal allocation of personnel.
- ii. Form an organization capable of executing strategies:
  - ✓ In order to promote company-wide loyal customer strategy and digital marketing, we will collect functions distributed in the system business in one place and carry out marketing activities that transcend the organization.
- iii. Carry out business portfolio management.

Promote digital transformation

- i. Improve the efficiency with which leads (potential customers) are acquired through digital marketing.
- ii. Improve customer satisfaction and reduce internal costs through the enhancement of customer services.
- iii. Promote the automation of internal processing and the move to paperless operations for small-scale customers.

Develop human resources and strengthen investments in human resources

- i. Hire and cultivate human resources required for the growth of service businesses and solution businesses that constitute focus businesses.
- ii. Engage in the management of human resources in a manner that is highly transparent and that meets with the substantial approval of employees through the promotion of a new human resources system.

Improve capital efficiency

- i. Improve capital efficiency by controlling inventory assets.
- ii. Improve the receivables turnover period: Improve capital efficiency through the growth of our monthly billing service business with short payment terms.
- iii. Set decision criteria through the ascertainment of revenue on an operating income base for each project and deal.

➤ Shift management resources to businesses that should be focused on

Business portfolio management using four-quadrant analysis

Organize the positioning of each business with axes consisting of *Market attractiveness (growth)* and *Leveraging our strengths (profitability)*.

- Proactively invest in focus businesses using an investment framework.
- Re-evaluate the direction of businesses with issues by assessing market and customer conditions.

Focus businesses

- We will **shift management resources** to and **engage in proactive investments** in business areas that are expected to help increase our corporate value and that can allow our strengths to be fully harnessed. As well as improving profitability, this will strengthen our ability to weather downturns in performance (such as by eliminating impairment losses).

Mature businesses

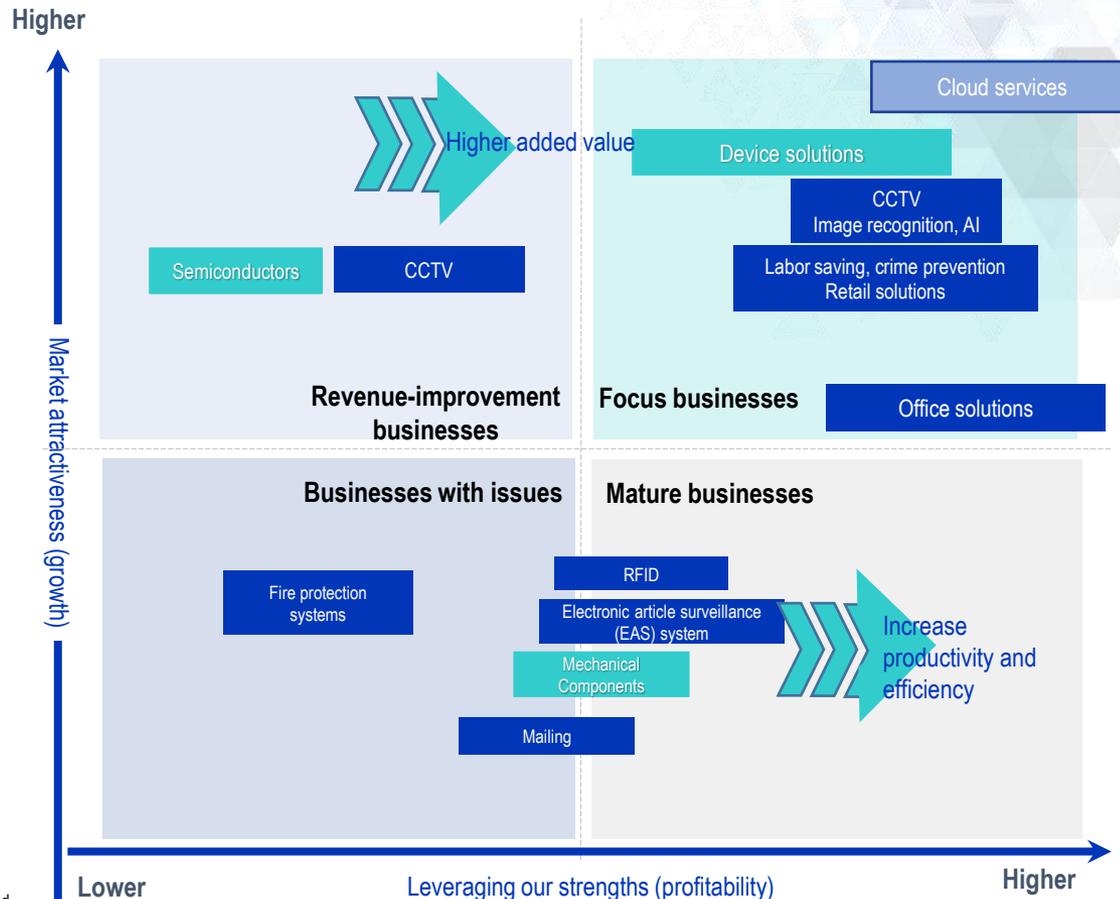
- We will expand our market share through distinctiveness and superiority.
- We will increase our efficiency and our profitability.

Revenue-improvement businesses

- We will develop products and services with high added value and uniqueness.
- We will shift from the selling of goods to the selling of services.

Businesses with issues

- In this medium-term management plan, we will, in accordance with our corporate philosophy, promote cross-sectional discussions on **businesses with issues** from the standpoints of such as synergy effects, and growth.
- In particular, we will strengthen the governance of Group companies and hold business review meeting with every month.



\*Prepared by the Company based on growth rate projections and profitability over the three-year period covered by our medium-term management plan.

➤ Promote digital transformation

## Promote the digital transformation of the management base

### Key measures for the digital transformation of our company

- Promoting digital transformation through a company-wide cross-sectional project

We will improve customer services to achieve improvements in sales efficiency and the growth of our service businesses as well as improve profitability by transforming our internal processes.



## ➤ Develop human resources and strengthen investments in human resources

Promote a new personnel system to develop DX and global human resources, provide support for women's activities, and engage in the flexible allocation of human resources as well as strengthen our shareholding association to enable employees to become shareholders.

- Look into introducing a DX personnel and global personnel development support program.
- Hire personnel required for the growth of core businesses.
- Introduce a side-job system with the aim of creating new knowledge.
- Support women's activities.
- Select professional and management positions.
- Shift to the flexible reallocation of human resources.

Establish a scheme to enable various career paths to coexist

Promote the sharing of the common interests of shareholders

- Expand the employee stock ownership incentive program with the aim of raising awareness of management participation among employees:
  - Incentive amounts will increase from 10% to 50%.
- Increase the rate of employee stock ownership.

### Concept of our new personnel system

Reform working styles

Strengthen job-based and performance-based compensation systems

- Promote initiatives to support a work-life balance:
  - Paid-leave utilization rate: 70%
  - Childcare-leave utilization rate: 100%
- Continue to promote telework.
- Introduce a system that provides for three days off per week on a test basis (April 2022).

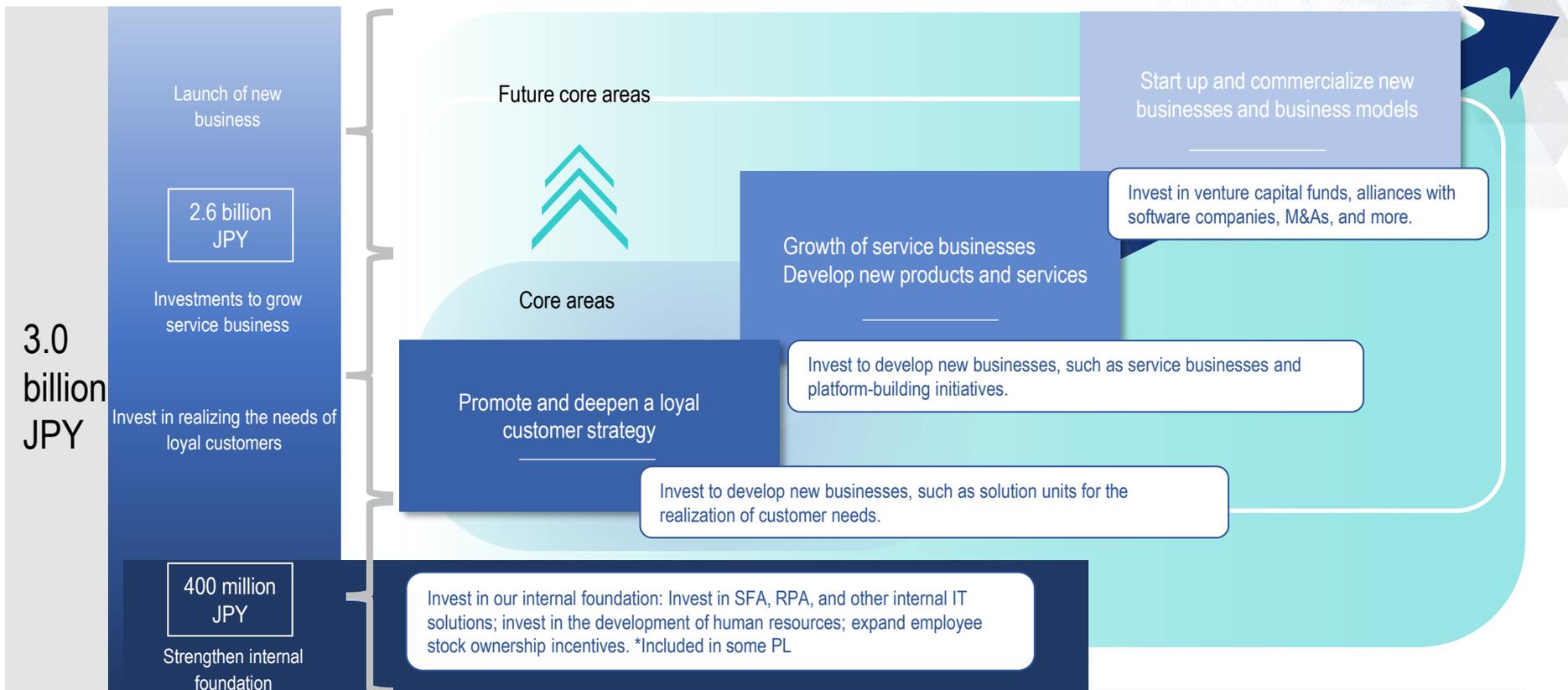
- Strengthen the pay-for-performance and pay-for-job schemes and their operations.
- Review salary levels according to the market to which individuals are assigned.
- Introduce and utilize 360-degree evaluations.
- Introduce ROIC evaluations for sections.

## Set up a 3.0 billion JPY strategic investment framework to create new corporate value

Strengthen our business foundation  
Proactively invest in focus businesses and domains

Accelerate growth drivers

Create new businesses and business models

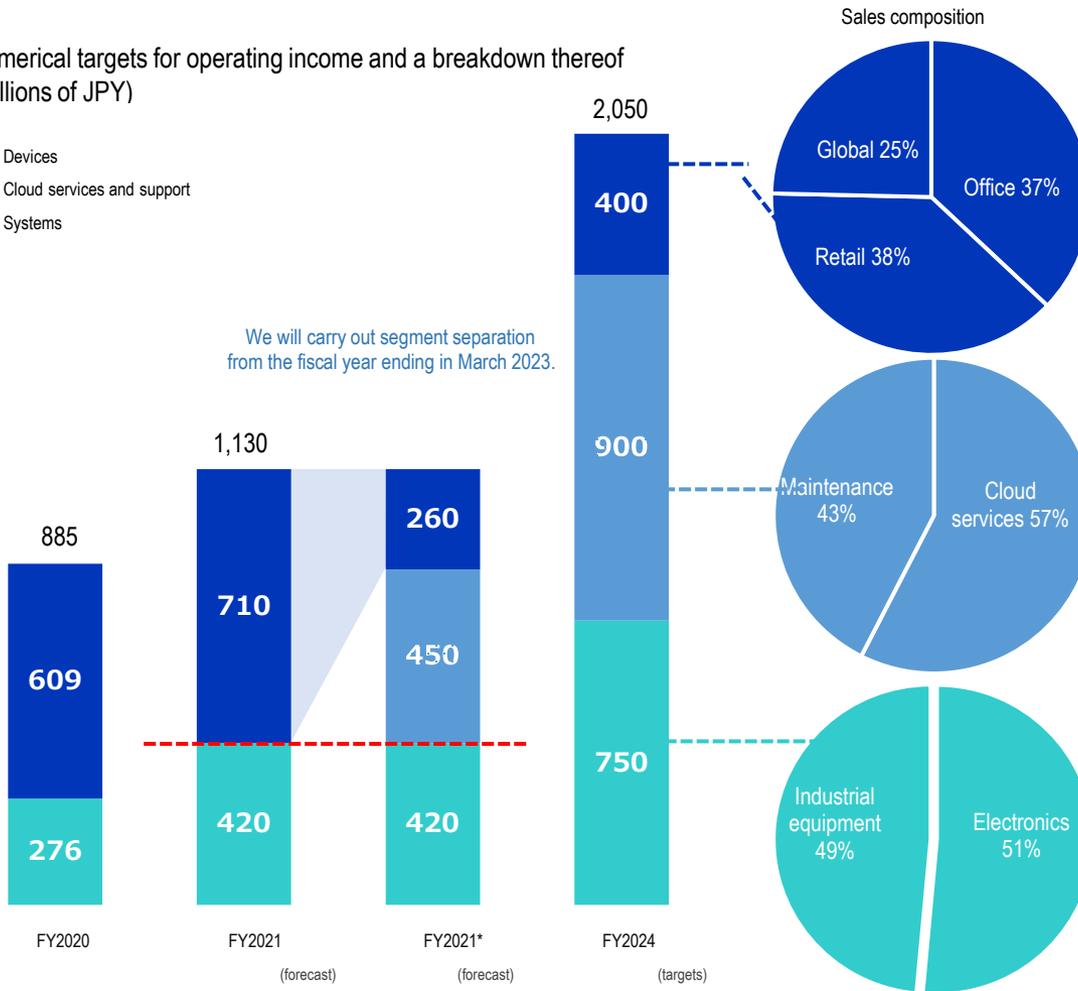


Develop businesses focused on growth areas and develop solutions for the resolution of issues affecting customers.

Numerical targets for operating income and a breakdown thereof (millions of JPY)

- Devices
- Cloud services and support
- Systems

We will carry out segment separation from the fiscal year ending in March 2023.



## Priority measures for each segment

### Systems

- Provide full-stack IT solutions for supporting the digital transformation of customers, including with respect to working styles, customer contact points, and business models.
- Create security systems that help solve such societal problems as shoplifting, theft, and a shrinking workforce.

### Cloud services and support

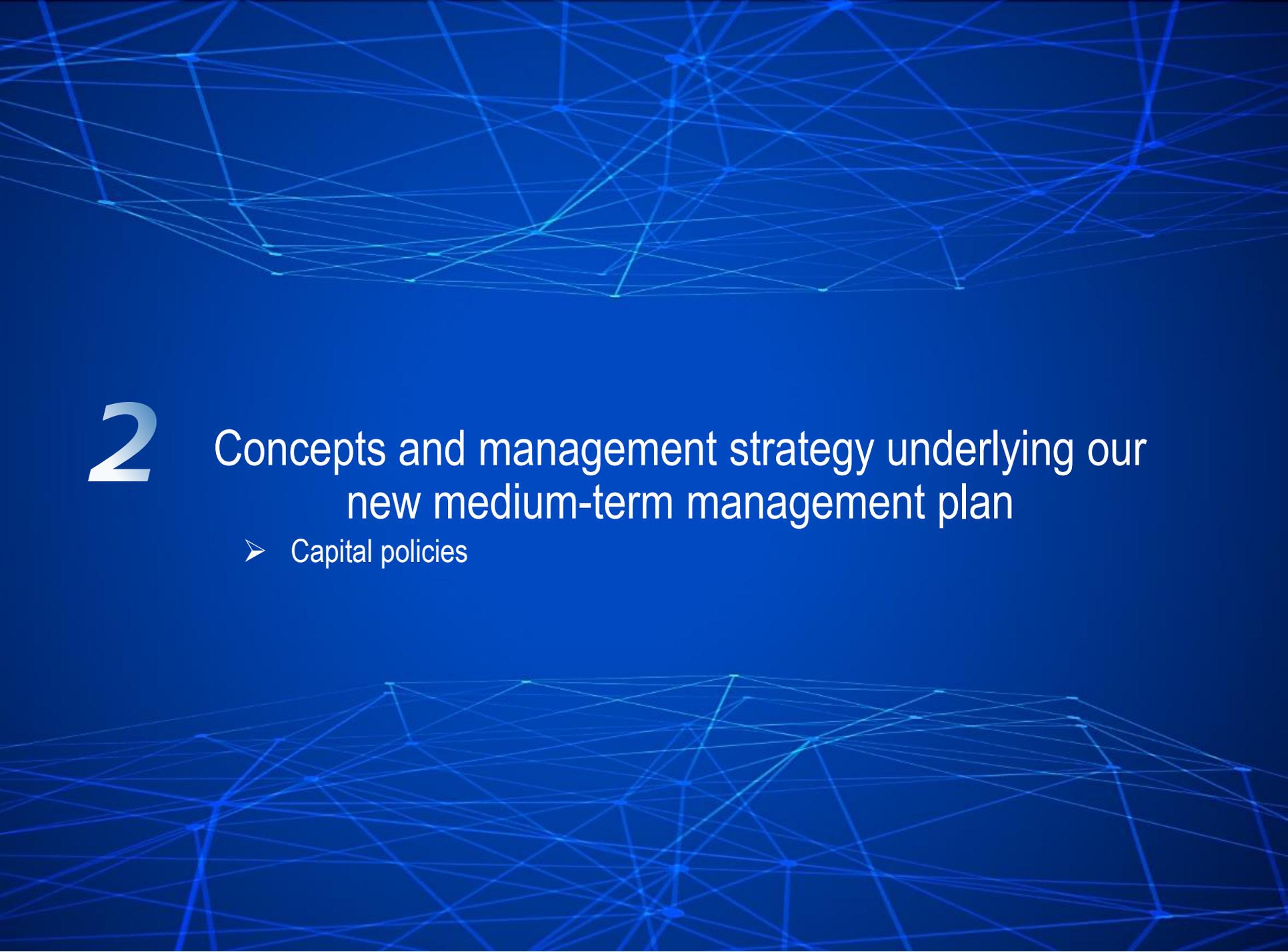
- Expand cloud-based solutions suited to *new-normal* working styles that are not tied to specific locations.
- Aim to reduce the operational management of customers and improve customer satisfaction through a managed service that integrates operations, maintenance, and critical monitoring.

### Devices

- Accommodate the need for semiconductors and electronic devices in response to, among other factors, the spread of 5G, the IT upgrading of plants through DX, and the adoption of robots.
- In order to increase customer satisfaction, we will shift from engaging in single-device sales to engaging in a business involving the provision of solution proposals.
- Expand our global business (United States and Asia).

\*From the fiscal year ending in March 2023, we will set cloud services and maintenance services as the *cloud services and support* segment.

\* Breakdown of operating income for FY 2021 in the event that segment separation is carried out.

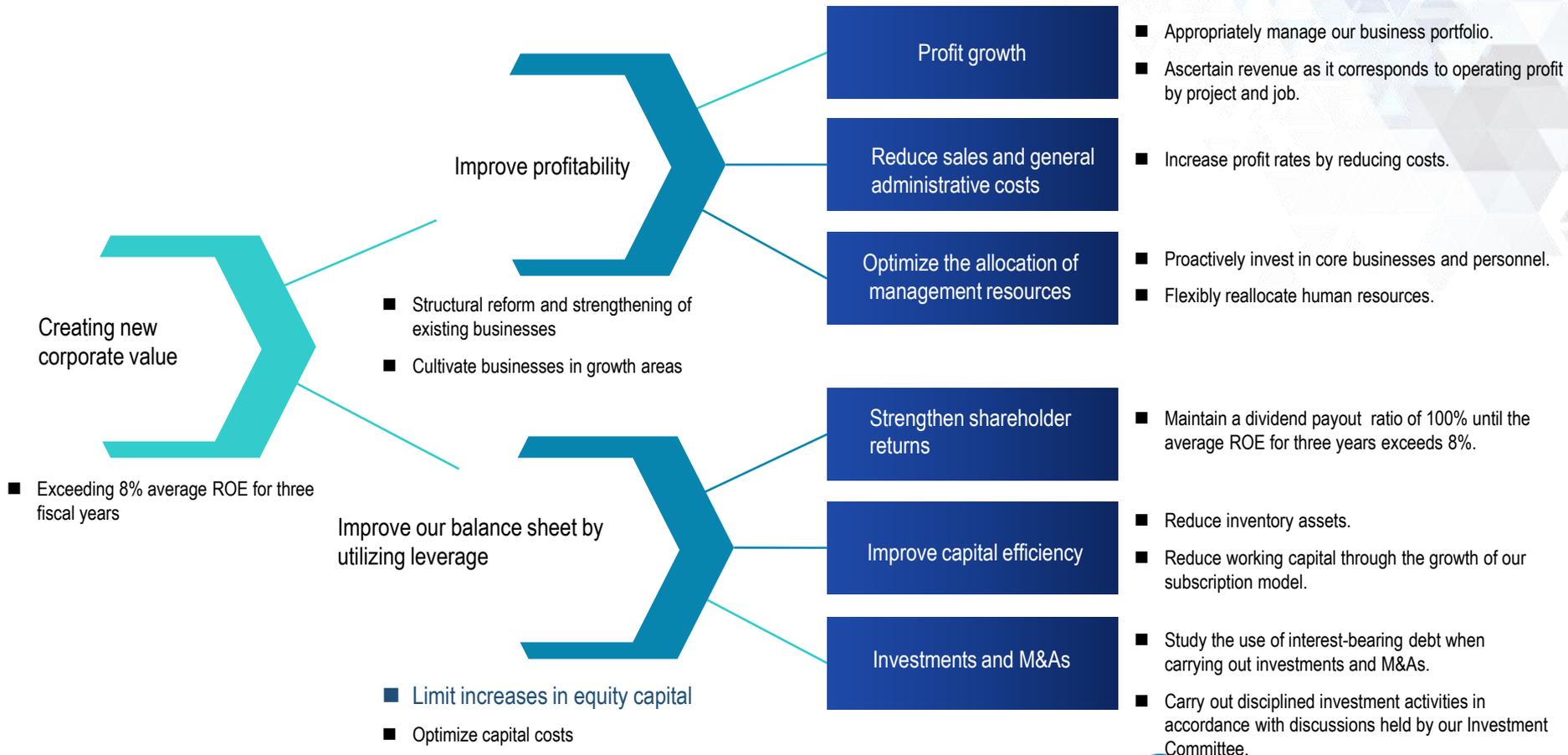


# 2

## Concepts and management strategy underlying our new medium-term management plan

- Capital policies

In order to create new corporate value after taking into consideration the overall financial soundness of the Company, we will steadily implement capital policies towards improving our capital profitability and our current balance sheet.



## Shareholder return policy during our medium-term management plan

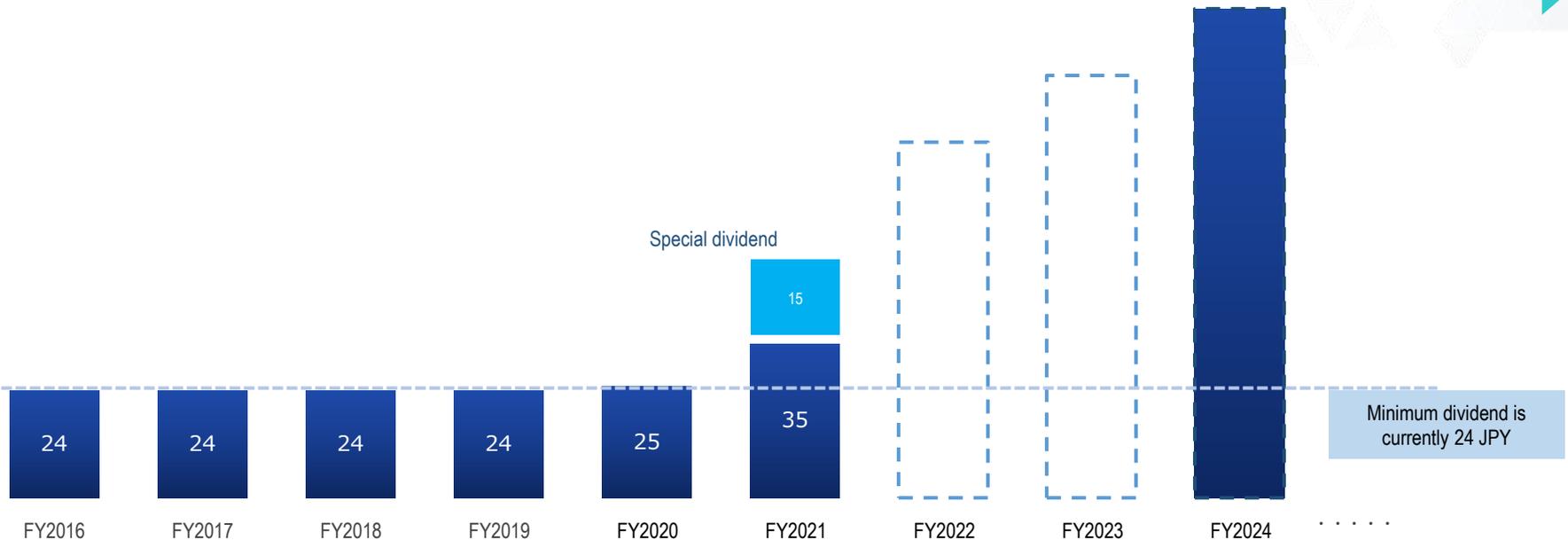
We regard *management that takes capital profitability into account* to mean the constant maintenance of an ROE at 8% or higher and efforts to obtain even higher levels of an ROE. Upon taking into consideration the Company's highly secure financial base and other factors, we will implement the following in an effort to proactively return profits to shareholders without increasing equity capital based on our existing stable dividend policy.

- We will maintain a 100% dividend payout ratio until the average ROE for 3 fiscal years reaches 8%.

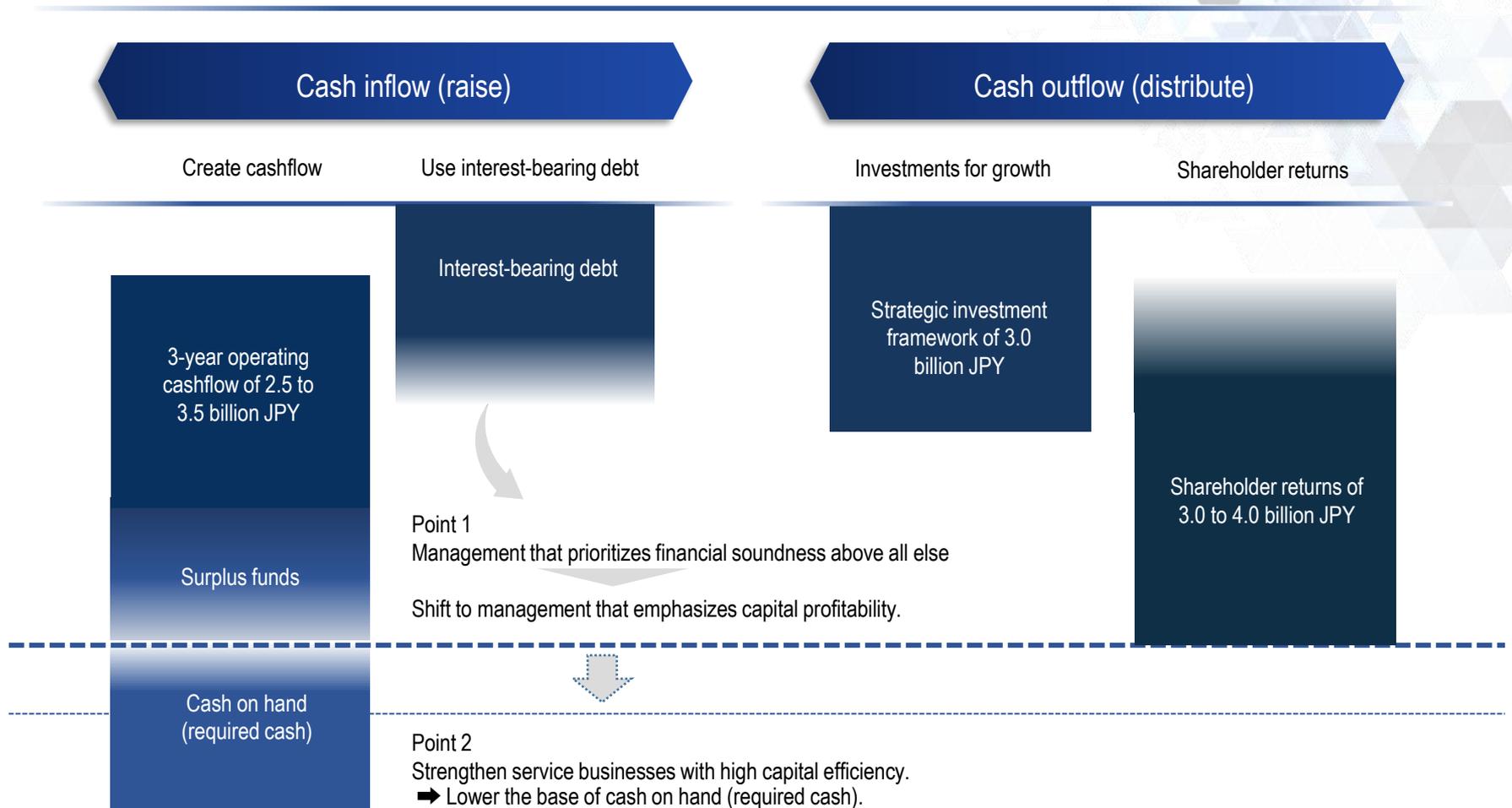
We plan to maintain the current minimum dividend policy of 24 JPY. We also plan to conduct a review of our shareholder return policy in the fiscal year after we reach an average ROE of 8% for 3 fiscal years.

## Changes in dividends per share (JPY)

The current policy will be continued until we reach an average ROE of 8% for 3 fiscal years.



Utilize obtained operating cashflow and surplus funds for shareholder returns and making strategic investments.  
The use of interest-bearing debt to control capital costs shall also be studied.





# 3 ESG initiatives in support of our new medium-term management plan

## Our basic policy on sustainability

We regard the resolution of environmental issues, societal issues, and corporate governance issues as important matters of management policy. Under a corporate philosophy of “*Creation*,” we will contribute to the realization of a prosperous future and sustainable society as a technology trading company after also taking the supply chain into account.

### E Contributing to the environmental field ~Environmentally-conscious solutions~

Deal with climate change

Contribute to the protection of the global environment



- Engage in eco-activities for the office (reduce CO<sub>2</sub> emissions).
- Use eco-cars for sales vehicles.
- Promote a paperless system.
- Engage in appropriate waste disposal practices and reduce the amount of waste.
- Contribute to a recycling-oriented society (3R).

- Provide various types of environmental sensors and product services.
- Reinforce the environmental consciousness of workplaces and facilities with “Verkada”
- Provide disaster-information services.
- Plans to accommodate the TCFD.

- Promote health-oriented management.

- Establish a Health and Safety Committee.
- Undertake the IT upgrading of internal systems.
- Establishment of a telework environment and the maintenance of regulations
- Appoint a diverse range of human resources.
- Establish child-care and nursing-care leaves, increase the rate at which paid leaves are taken, and promote a zero-overtime approach.

### S Contributing to the societal field ~Realizing a safe and secure society through technology~

Develop healthy, rewarding workplace environments

Contribute to a livable society through the promotion of DX

Deter and prevent crimes

Enrich education



- Provide support for the latest technology markets, including AI, IoT, 5G, and RPA.
- Support customer streamlining and convenience through the provision of cloud services.
- Provide support for the safety and security of local communities through crime prevention.
- Provide support for office management.

- Provide support for access security.
- Establish ties with industrial societies, the Japan Association of Electronic Article Surveillance Machines, and the National Shoplifting and Crime Prevention Organization.
- Provide crime-prevention support to offices and plants.
- Provide support for preventing and deterring crimes affecting stores.

- Improve IT solutions.
- Provide various education training programs.
- Promote OJT.
- Enact a qualification acquisition incentive program.

Security services to protect customers from becoming victims of crime

### G Resolving corporate governance issues

Strengthen governance



- Engage in initiatives for corporate governance code.
- Comply with our CSR Charter and Corporate Code of Conduct.
- Establish various committees.
- Upgrade governance education.

## ► Reinforce the environmental consciousness of workplaces and facilities with Verkada



In addition to the security of workplaces and facilities, the "visualization of information that contributes to environmental friendliness" is achieved by linking environmental sensors and hybrid cloud-based AI cameras.

### Environmental sensors



#### Measurable items

- Temperature
- Humidity
- PM2.5
- Noise
- AQI (Air Quality Index)
- Cigarette and e-cigarette smoke
- TVOC (total volatile organic compounds)
- Motion

- Environmental changes in the office can be monitored in real time through links with hybrid cloud-based AI cameras.
- Sensor readings can be visualized.
- Equipped with an alert function that is activated in emergencies, these sensors can be used to ascertain conditions in detail with live video.

#### Works well in a wide range of situations

- Visualization of working environmental spaces in offices, facilities, and manufacturing sites.
- Detects temperature and other environmental changes inside server rooms.
- Detects cigarette smoke in schools and other locations where smoking is prohibited.

#### Reduce environmental risks

- Detects air pollution, noise, vibrations, land subsidence, bad odors, and other pollution risks.
- Strengthens the monitoring and observation of information that contributes to environmental conservation.

### By visualizing environmental information...

Rapid identification of environmental changes and prompt responses.

Controls temperature, humidity, and air quality at proper levels and can analyze factors causing environmental changes from the data.

We provide total support for the security and health of workplace and facility environments and contribute to environmentally conscious measures implemented by customers.

## ➤ Security services to protect customers from becoming victims of crime

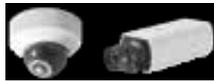


Through security services that provide safety, security, and comfort, the provision of total support is made possible by our top-class domestic market share.

### Physical security



Product-monitoring system



Surveillance camera system

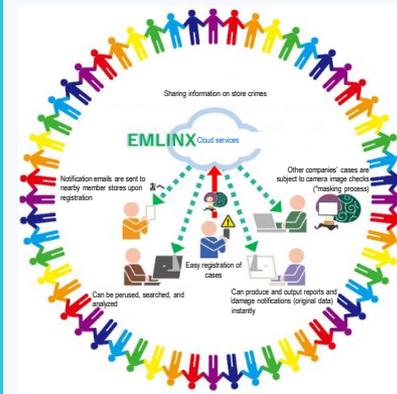


### Facial recognition system



- This system operates by detecting the faces of visitors with a dedicated camera installed at the entrance of a facility and authenticating them against facial data registered in advance.
- This system can quickly and accurately detect and verify any visit to a facility by a specific person.

### Cloud security



### EMLINX

- Crime prevention solution that contributes to loss reduction and crime elimination by sharing information on thefts with others in the community and enabling staff across different stores to immediately respond on a coordinated basis.
- The more information is aggregated, the more it can transition from enumerating lists to engaging in analytical work.
- This analysis will lead to the next step and effective measures.

- Store operations will be rendered more efficient by utilizing a high degree of flexibility in terms of satisfying space, functional, design, and other requirements and a cloud-based system.
- We offer office security and network features that are indispensable for a business environment on a comprehensive basis. We propose security and comfort backed by a strong track record in the area of safety management and the development of the latest technology.
- We use EMLINX, our own proprietary platform, to resolve crime-prevention issues faced by our customers. Further penetration of the system will help reinforce our information network in the area of crime prevention (i.e., increase the added value we can offer).

We are committed to contributing to the creation of an environment in which our customers and the users of customer services can live with peace of mind.

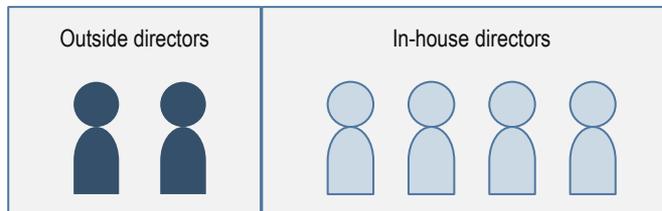
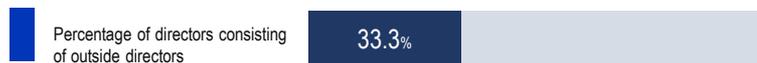
# Status of the Company's Governance Structure

## Board of Directors responsible for attaining our new medium-term management plan

Name	Position	Term of office	Skill matrix								
			Corporate management	Finance, accounting	Global	Legal, compliance	IT, technology	Risk management	Sales, marketing	ESG, sustainability, SDGs	Human resources, labor, personnel development
Takanobu Ide	President and Chief Executive Officer President & Executive Officer	3 years	●		●		●		●		●
Yoshiaki Hirata	Director and Executive Officer General Manager, Device Business Division In charge of Device Group Companies In charge of the Nagoya Branch	7 years	●		●			●	●	●	
Masazumi Uematsu	Director and Executive Officer In charge of Administration & Operations In charge of Southeast Asian Group Companies	7 years		●	●	●		●			●
Ichidou Tatsumi	Director and Executive Officer General Manager, System Business Division	3 years	●		●		●		●	●	
Tetsuo Wasano	Outside Director	7 years	●	●			●	●	●		
Michitoshi Tsuruoka	Outside Director	3 years	●	●		●		●			●

\*Up to five primary skills possessed by each individual are marked with a blue dot (●).

\*The term of office is the number of years as of February 8, 2022.



### State of the establishment of various committees

- **Investment Committee** – To be established in April 2022
- **Nomination and Compensation Committee** - Established in October 2021
- Crisis Management and Compliance Committee
- Information Disclosure Committee
- Personnel Committee
- Health and Safety Committee
- Environment Committee
- Information Security Committee

01

## Establish an Investment Committee

- We will improve the quality of discussions held by the Board of Directors and Board of Executive Officers by strengthening supervisory and review functions pertaining to investment decisions, including those that concern our M&A strategy.



Committee members	<p>Chaired by: Director in charge of Administration and Operations</p> <p>Members: Management Planning Section, Business Development Department</p> <p style="padding-left: 20px;">: Administration Department</p> <p style="padding-left: 20px;">: Investment Execution Section</p>
Positioning of committee	<ul style="list-style-type: none"> <li>■ Positioned as an advisory committee to improve the quality of discussions held by the Board of Directors and Board of Executive Officers</li> <li>■ The Investment Committee checks and discusses investment projects in advance and disseminates a set of knowledge and expertise on making an investment decision to the Board of Directors and Board of Executive Officers.</li> </ul>
Frequency of meetings	Assumed to be twice a year (and flexibly convened for any large investment project)

02

## Establish a voluntary Nomination and Compensation Committee

- Strengthen the fairness, transparency, and objectivity of procedures related to nominations and compensation.
- Endeavor to enhance corporate governance.

### ■ Composition of the Committee

- ◆ Composed of at least three directors selected by the Board of Directors with a majority of members consisting of outside directors.
- ◆ The chairperson will be selected by way of the adoption of a resolution by the Nomination and Compensation Committee.

03

## Revise performance-linked compensation for directors

- Increase the ratio of performance-linked compensation and stock-based compensation for officers.
- A capital efficiency index will be newly adopted as a KPI for performance-linked compensation in addition to ordinary income.

### ■ Compensation for officers

- ◆ Fixed compensation 87% → 70%
- ◆ Performance-linked compensation 13% → 30% (when 100% target attained)
- ◆ Aiming for a stock-based compensation ratio of 15%

### ■ Compensation-determination process

- ◆ Performance-linked compensation
  - Rate at which the single-year ordinary income and current-term net income plan is attained
- ◆ Performance-linked stock-based compensation
  - Rate at which our medium-term management plan as well as our target plan in terms of consolidated ordinary income, consolidated current-term net income, and capital efficiency (ROE) are attained

## Issues to be studied in the future

- Appointment of female directors for the purpose of strengthening our initiatives for ensuring diversity.
- Restructuring of our personnel system at group and global levels as well as our evaluation and compensation system.

- Direct any inquiries you may have regarding this document to the following:

TAKACHIHO KOHEKI CO., Ltd.

Masaya Iwamoto, General Manager, Administration Department



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[ir-takachiho@takachiho-kk.co.jp](mailto:ir-takachiho@takachiho-kk.co.jp)



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