

Yokogawa Electric Corporation

Financial results briefing for the fiscal year ended March 2021

Yokogawa Mid-term Business Plan Accelerate Growth 2023

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Agenda

- 1. Review of Transformation 2020 (TF2020)
- 2. Background to Revision of Long-term Business Framework / Formulation of New Mid-term Business Plan
- 3. Long-term Business Framework
- 4. Mid-term Business Plan
- 5. Sustainability Strategies and Corporate Governance
- 6. Yokogawa's DX Strategy



1. Review of Transformation 2020 (TF2020)

TF2020 Review 1 KPIs, targets and basic strategies

Points

- **Expand business in focus areas and** exceed market growth rate
- Increase profitability regardless of what happens in external environment
- Reallocate management resources to focus areas
- Maximize cash generation by increasing income and improving capital efficiency

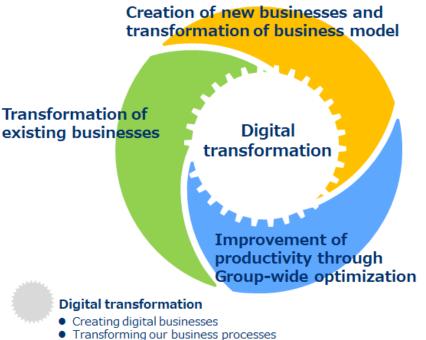
KPIs · Targets

| KPIs | Targets | | |
|-------------------------|---|--|--|
| Order & sales growth | 3~5 % / year | | |
| EPS growth | 7~9 % / year*1 | | |
| ROS | 10 % or more | | |
| ROE | 10 % or more | | |
| Organic FCF*2 | 85 billion yen or more (3 years, cumulative) | | |

Exchange rate (1\$): 110 yen

Basic strategies

Transform our businesses to achieve a sustainable society



Strengthening our information technology infrastructure

- Enhancing cost competitiveness
- Optimize organizational structure

Significantly improving

business efficiency

Working with customers to

Expansion of the OPEX

through innovation

business

business

radically improve productivity

Further strengthening of target industries

Sustainably creating value

Creation of life innovation

Creation of recurring model business

Optimizing utilization of resources







Excluding the FY17 impairment of goodwill, credit to allowance for doubtful accounts, and asset sales

^{*2} Free cash flow (FCF) + strategic investment (3-year cumulative total of 70 billion yen)

TF2020 Review ② Basic strategies – achievements & issues

In a dramatically changing business environment, we took on the challenge of transforming Yokogawa, but these efforts now need to be accelerated.





Transformation of existing businesses



Creation of new businesses and transformation of business model





- Received DX integration project order in collaboration with KBC (Middle East)
- Grew our remote business (Cl Server, etc.)
- Signed strategic alliance agreement with SABIC
- Received geothermal power plant project order and participated in demonstration of virtual power plant that utilizes industrial batteries

OPEX annual growth rate outside Japan

Target 7~10 % → Result (3.0)%

Growth in target industries* (per year)

Target 3~5 % → Result 10%

* Chemical and renewable energy industries (control orders)

- Acquired NKS corporation (expansion of validation business)
- Acquired Fluid Imaging Technologies, a provider of flow imaging particle analysis solutions
- Started water level meter and edge gateway business (recurring business model)

• Expanded use of global delivery centers

- Optimized procurement and logistics costs
- Accelerated business process outsourcing
- Increased utilization of Yokogawa University

etc.

Life Innovation business sales

Target 2~3 times^{*} → Result 1.8 times

* Compared to FY17 result of approx. 12 billion yen

Cost reduction activities through the above efforts

etc.

Approx. 6.5 billion yen

Issues

- Provision of DX solutions to meet customer needs for increased productivity and remote, safe, and secure operations
- Breaking away from dependence on fossil-fuel energy industry
- Expansion of energy supply chain business including renewable energy and storage batteries
- Focus on high-growth functional chemicals sector
- Provision of solutions to increase productivity throughout pharmaceutical and food industry value chains
- Expansion of use of recurring business model foundation

- Transformation of SG&A structure
- Reduction of fixed costs
- Achievement of further improvements in the efficiency of business processes
- Transformation of human resources



TF2020 Review 3 Digital transformation (DX)/ Strategic investment (M&A, alliances) - achievements and issues

Against the background of the COVID-19 pandemic, we carefully selected and executed strategies while maintaining a strong financial position

Strategy

Digital transformation (DX)

Strategic investment (M&A, alliances)

Achieve ments

• Focused on establishing the foundation needed to provide value for customers (external DX) and create value in-house (internal DX)

Internal DX

- Visualized/simplified management by globally rolling out enterprise system
- Sped up realization of data-driven management through use of global data lake and BI tools
- · Improved business efficiency by globally introducing RPA
- Strengthened global security services business

etc.

External DX

- Released Collaborative Information Server (CI Server)
- Strengthened global security services business

etc.



(max, amanocs)

business with ICQ Consultants, Corp.

 Signed investment and partnership agreement with HIROTSU BIO SCIENCE INC. to expand use of N-NOSE cancer screening test service

Signed partnership agreement for biopharmaceutical

 Signed a value-added reseller contract with Cognite for analysis of plant information relevance etc.

Amount of strategic investment
Approx. 11.0 billion yen

Issues

- Transforming into a partner that promotes customers' DX
- Utilizing and enhancing DX for the realization of industrial autonomy
- Accelerating internal DX to transform Yokogawa's operations

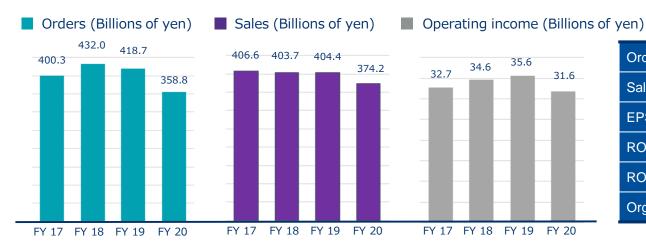
 Enhancing product portfolio and human resources through M&A and alliances in order to establish new businesses



TF2020 Review 4 KPIs

The targets were not achieved due to the dramatic changes caused by the spread of the COVID-19 pandemic.

Need to accelerate further growth to become a highly profitable company



| '') | /en <i>)</i> | FY17 | FY18 | FY19 | FY20 | TF2020 target |
|------|---------------|------|----------------|----------------|------------------|------------------------|
| | Orders growth | - | 7.9%/year * 1 | 2.3%/year * 2 | ▲3.9%/year *3 | 2 F9//woor |
| | Sales growth | - | ▲0.7%/year *1 | ▲0.3%/year *2 | ▲2.7%/year *3 | 3 ~ 5%/year |
| | EPS growth | - | 32.7%/year * 1 | 17.2%/year * 2 | ▲3.9%/year *3 | 7 ~ 9%/year |
| | ROS | 8.0% | 8.6% | 8.8% | 8.4% | 10% or more |
| | ROE | 8.1% | 10.1% | 5.1% | 6.5% | 10% or more |
| | Organic FCF | - | - | - | 68.8 billion yen | 85 billion yen or more |

*1: FY17 to FY18, * 2: FY17 to FY19, * 3: FY17 to FY20

Themes that should continue to be pursued

- Responding to changing customer needs
 - → leading customer business transformation
- Cost structure reform and cost efficiency improvement
- Transformation of human resources

Expanding needs for solutions with the themes of productivity improvement, remote control and safety and security

→ Raise priority and implement measures to provide solutions that utilize digital technologies such as DX

Continue to work on the measures and reap the results. Break away from the worker-proportional business style.

→ Implement measures for these challenges

The importance of innovative solutions is increasing due to the development of digital technology and changing customer needs.

→ Shift resources from existing fields to innovation fields and strengthen the capabilities of shifted human resources



2. Background to Revision of Long-term Business Framework / Formulation of New Mid-term Business Plan

A changing business environment





Customer trends and our perception of the current situation

Customer trends

- Shift to renewable energy (mainly energy-related companies)
- Shift to production of environmentally friendly products
- Growing need for workforce reduction/unmanned operations, progress with digital transformation (DX)
- Accelerating low-carbon investment
- Process flexibility improvement
- Efficient, sophisticated, and fast R&D

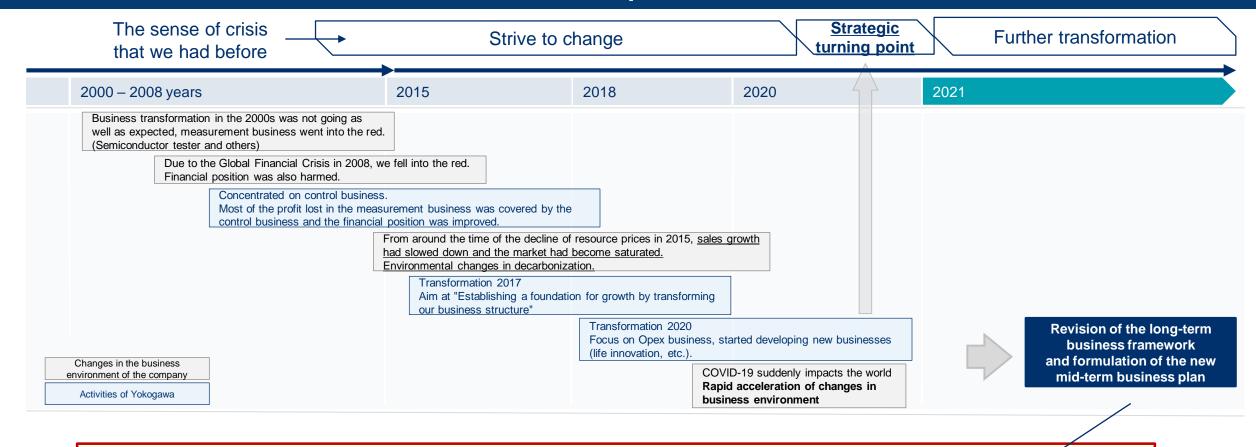
Process automation industry trends

- Maturing product markets, hardware commoditization
- Growing software and sensor markets
- Spread of new business models
- Competition with IT companies
- Threat of cyber attacks

Aspiring to be a growing company that is necessary to society



Background of revision of the long-term business framework and formulation of the new mid-term business plan



On the contrary, we see this dramatic acceleration of changes in the business environment as a growth opportunity.

In order to be reborn as a company that creates new value,

we will shift to a business structure based on customer value rather than an extension of the past.

Shifting the business structure itself from the product axis of "providing products, services and solutions" to the <u>axis of "value enjoyed by customers"</u>

(The organizational structure and the internal measurement method (KPI) of the created value have also been changed)



Background of revision of the long-term business framework and formulation of the new mid-term business plan

2020-2021 Complete strategic turning point

Revision of the long-term business framework and formulation of the new mid-term business plan

Business opportunities

amid accelerating environmental changes

- 1 Decarbonized society (Net-zero Emissions)
- 2 Recycling society (Circular Economy)
- 3 Rising needs for human life and health (Well-being)



Efforts that directly lead to the achievement of SDGs goals through the achievement of our Three goals

Yokogawa Opportunity

With advanced engineering capabilities

Actual results of system integration

Demand for productivity improvement that connot be achieved by single system optimization itself

Advances in digital technology makes it possible

A society in which the **System of Systems (SoS)** concept will be implemented and realized

Sublimation of SI and engineering capabilities to

SoS SI and engineering capabilities

Grow three opportunities into businesses as a pioneer

ESG management

Managing from an ESG perspective

to ensure that we can continue to provide high value over the next ten years



With a twin focus on sustainability and business activities, we will aim for sustainable growth while contributing to society and the environment



We will strengthen corporate governance by improving existing systems and frameworks, diversifying the board of directors, and enhancing information disclosure

Yokogawa's Purpose

Utilizing our ability to measure and connect, we fulfill our responsibilities for the future of our planet.

Measuring represents Yokogawa's origin as a company. We measure things, grasp and analyze their state, and add value through the information that is derived. Connecting refers to how Yokogawa not only combines valuable information, but also builds trusted relationships with customers in various industries and brings together businesses and industries, giving resonance to the value that we create.

Our ability to measure and connect is a core competence that Yokogawa must never lose. We wish to use this strength to find solutions to various social issues and create a future where humanity and planet Earth can coexist in symbiotic harmony. This aspiration is expressed in our commitment to fulfill our responsibilities for the future of our planet.

Overview of long-term business framework and mid-term business plan

2021 2023 2030 2050 Yokogawa's Purpose / The Yokogawa Philosophy Three goals Net-zero Circular Well-being for sustainability **Emissions** Economy Long-term business framework (including Vision statement) Aim for growth through the provision of shared value to society Mid-term business plan Mid-term business plan (From FY24, with roughly 3-year perspective) Accelerate Growth 2023 Establish a business structure centered on addressing broad social issues to enable growth



3. Long-term Business Framework

Vision statement

Through autonomy and symbiosis, Yokogawa will create sustainable value and lead the way in solving global issues.

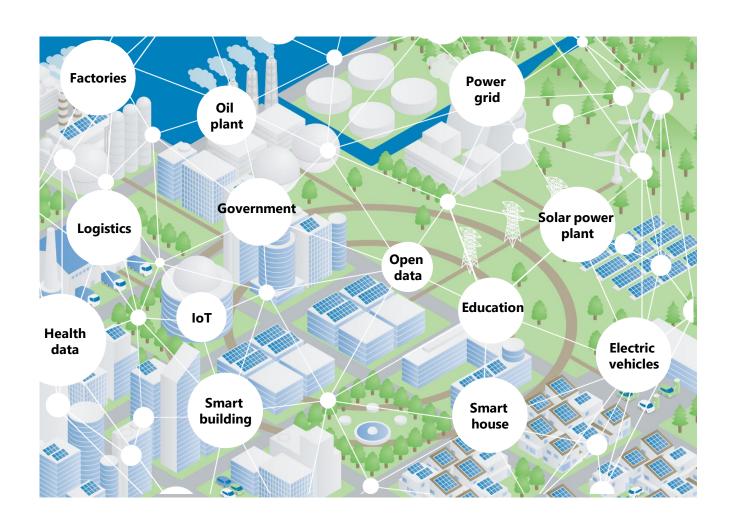
The operational autonomy that Yokogawa aims to achieve will help to increase productivity, avoid risks, reduce workloads, and ensure worker safety. This operational autonomy will extend beyond the boundaries of individual organizations, companies, and industries.

Yokogawa's vision is to bring about a symbiosis between industry and society in which these entities function autonomously, yet in a coordinated way. By realizing this vision and continuing to create value, Yokogawa will take the initiative in addressing social issues.

The global trend toward System of Systems

System of Systems

Everything is inter-connected in complicated ways, and the components function as independently operated and managed systems that work together to achieve a purpose that cannot be achieved by any single system.



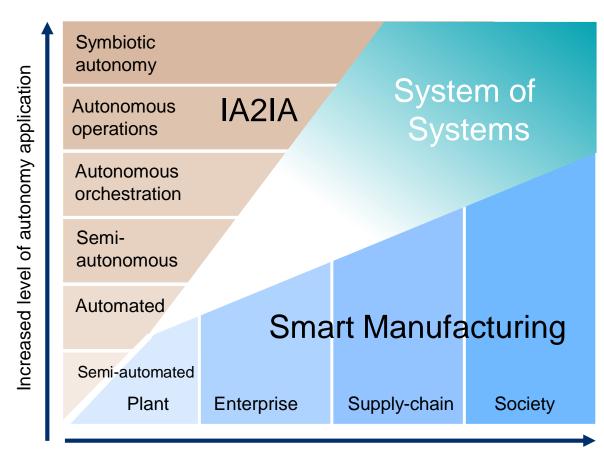
Value provision to customers 10 years from now

Value provided through System of Systems

Promote effective connectivity and create value through overall optimization driven by integration, autonomy, and digitalization.

Yokogawa's strengths in a connected society

- OT domain knowledge and project implementation capabilities
- A corporate culture that builds a chain of trust



Expansion of connectivity and optimization scope

Areas to be strengthened

Yokogawa aspires to lead the way forward as an integrator in a world where entire societies function as a System of Systems.

Creation of value through System of Systems

Value provision to customers 10 years from now

IA2IA

Smart Manufacturing

Yokogawa's approach

IT/OT convergence

Yokogawa's strength

Technical expertise needed to compete with IT vendors

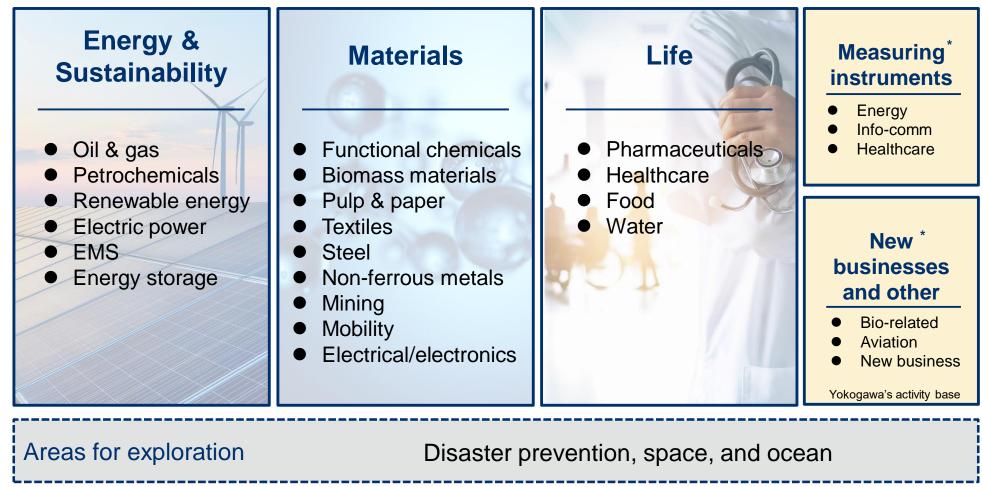
Enhancement and sharing of domain knowledge that is a core competence and a key differentiator

Broader
perspective
and deeper
understanding
necessary to uncover
customer issues

Areas to be strengthened

Business segments

From an organization centered on conventional products and functions to a business segment based on industry



*Measuring instruments business, New business and Other business need to maintain independent business operations due to the characteristics of their products and commercial distribution. They are in separate segments but share the same direction of value provision 10 years from now.



Ideal form for the industry segments

Speed up the expansion to other industries, the expansion of business areas, and the shift to a solution business in a way that fits the frontline business.

Quickly respond to and solve broad social issues with business segments that are focused on these social issues.

Ideal form for the industry segments



Support safe and optimal operations in a diverse range of energy sectors, spanning the entire value chain of production, supply, use, disposal, and recycling.



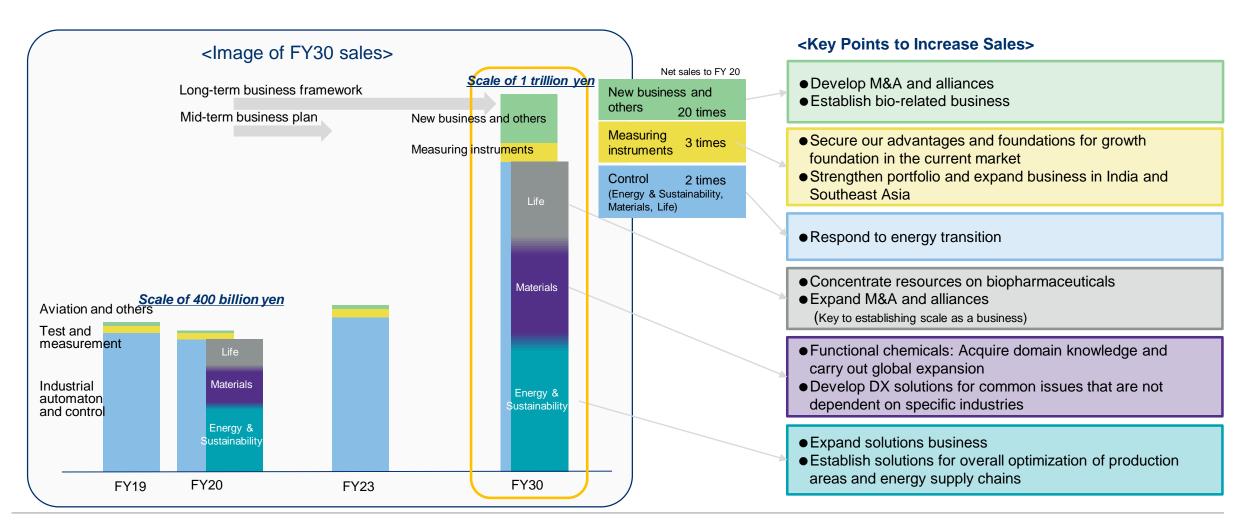
Contribute to the achievement of a recycling-oriented society that is in harmony with the environment.



Contribute to the supply of pharmaceuticals that protect people's lives and health, and the supply of safe water and food everyone can drink and eat with peace of mind.

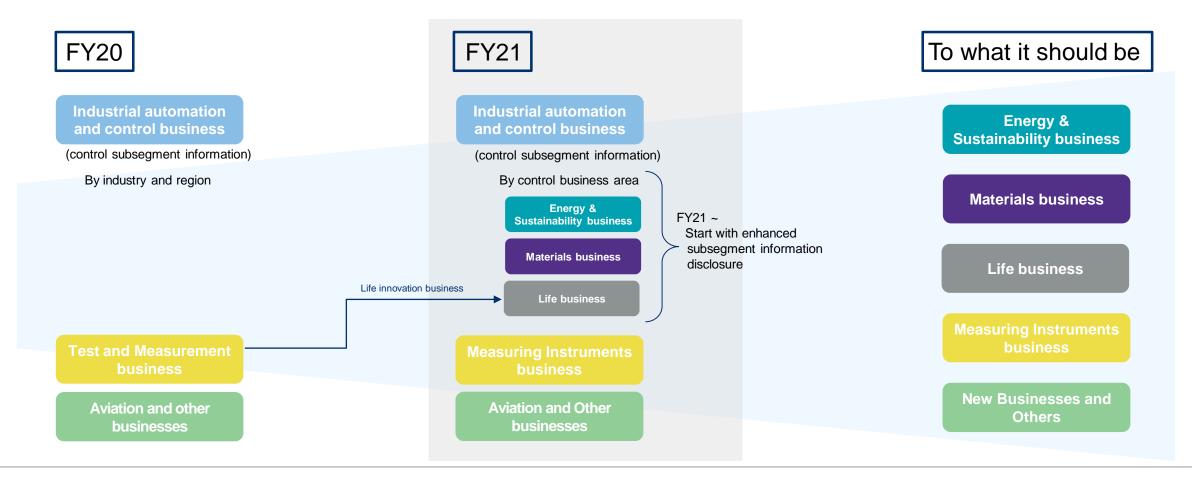
Business scale in FY30

As one of the elements of the kind of company we wish to be, we envision becoming a trillion-yen company by FY30, and have set out in the new mid-term business plan what should be done over the next three years to make that happen



IR disclosure segments

Work to enable information disclosure in the "<u>5 segments</u>" that we have drawn as the ideal form of industry segments





4. Mid-term Business Plan

- Strategies and KPIs
- Financial Strategy and Capital Policy

Accelerate Growth 2023: 4 basic strategies

Implement

IA2IA & smart

manufacturing

and transform

value provision

Expansion of value provided

- Move IA2IA concept to the implementation phase
- Expand the scope of smart manufacturing solutions provided for customers

Ensure profitability and sound growth

Accelerate Growth **2023** 2

Strengthen industry responsiveness and expand cross-industry business

Profitability and growth in value provision

- Aggregate knowledge and improve efficiency with large projects
- Focus resources on product groups that deliver high value
- Generate profits from software and engineering

Strengthening the corporate base

- Strengthen strategic planning functions
- Cultivate a corporate and organizational culture that encourages entrepreneurial spirit
- Strengthen internal DX and transform business models

Optimize internal operations and transform mindsets

4

Expansion of value provided

- Provide new value to customers who are making the shift to being integrated energy companies
- Expand other industry and cross-industry business



Accelerate Growth 2023: Basic Strategy Overview



1 Implement IA2IA & smart manufacturing and transform value provision

Expansion of value provided

- Move IA2IA concept to the implementation phase
- Expand the scope of smart manufacturing solutions provided

2 Strengthen industry responsiveness and expand cross-industry business

Expansion of value provided

- Provide new value to customers who are making the shift to being integrated energy companies (mainly energy-related companies)
- Expand other industry and cross-industry business

3 Ensure profitability and sound growth

Profitability and growth in value provision

- Aggregate knowledge and improve efficiency with large projects
- Focus resources on product groups that deliver high value
- Generate profits from software and engineering





Materials business

Life business

4 Optimize internal operations and transform mindsets

Strengthening the corporate base

- Strengthen strategic planning functions
- Cultivate a corporate and organizational culture that encourages entrepreneurial spirit
- Strengthen internal DX and transform business models
- Convert skills and improve engagement of human resources

Measuring instruments business Securing superiority and growth foundation in the current market Implement market entry strategies to develop solutions that deliver innovation to customers Strengthen portfolio with a view to M&A and expand business in India and Southeast Asia Aviation business Continue to improve profitability Focus on the development and commercialization of high-value-added plant-derived biomass materials with the aim of contributing to the development of a recycling-oriented society together with strategic partners.



KPIs

Structure our business to provide shared value, set record high targets, and maximize corporate and shareholder value from a mid- to long-term perspective

Key points

- Solve customer's on-site issues and globally expand enterprise system business
- Strengthen industry support and expand businesses that are not industry dependent
- Make improvements to ensure a sound earnings structure
- Optimize resource allocation to realize the strategy of the entire Group
- Strengthen the ability to generate cash flow creation output in the future and cumulatively

Targets

| Order growth | 8~10% / year | | |
|-----------------|------------------------------------|--|--|
| Sales growth | 4~6 % / year | | |
| EPS growth | 16~18% / year | | |
| ROS | 10% (FY23) | Record high level Previous record 9.6% (FY15) | |
| ROE | 10% or more (FY23) | | |
| Sales cash flow | ¥140B or more (3 years cumulative) | | |

(Forecast exchange rate (1US\$) = ¥105)

Sales targets by segment "Target CAGR vs. Market Growth"

FY20-FY23 is based on the premise that <u>the recovery of sales will be gradual</u> due to a decrease in the order backlog because of a decrease in orders received as a result of the COVID-19 pandemic in FY20. During this period, we will strive to recover sales by <u>prioritizing the acquisition of orders.</u>

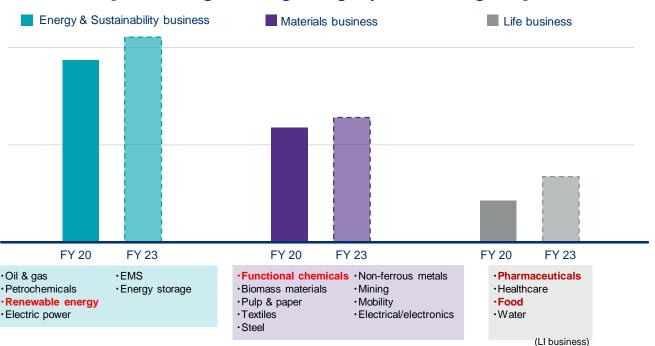
Energy & Sustainability business: Targeting renewable energy, including M&A, to grow <u>2 ~ 3 times</u>

Materials business: Although there are differences across industries, functional chemicals will be the

center of growth,

Life business: Will drive growth including through bio-related M&A

[FY23 sales growth target image by business segment]



| | FY20-23 | | |
|----------------------------------|------------------------------------|---------------------|-------------------------------------|
| | Market growth rate (Forecast) * | Sales growth target | (Reference) Order Growth Targets |
| Energy & Sustainability business | 3.2% | 4% or more | (9% or more) |
| Materials business | 3.5% | 3% or more | (6% or more) |
| Life business | 2.9% | 16% or more | (16% or more) |

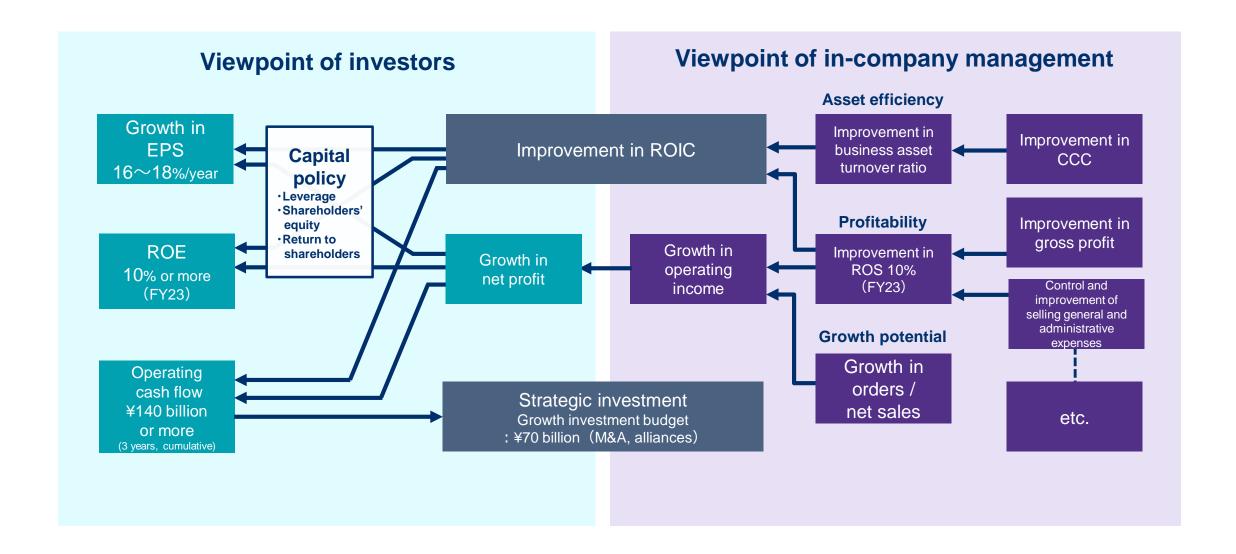
*Source: IIR Feb 2021

Above forecast is based on IIR (Industrial Info Resources) excluding less relevant industries from Total investment value in all industries

-Correlation between TIV (TIV*:Total Investment Value) and Investment value of our control business customers Investment trend in control business may lag behind TIV* by about a year, market situation is expected to remain severe



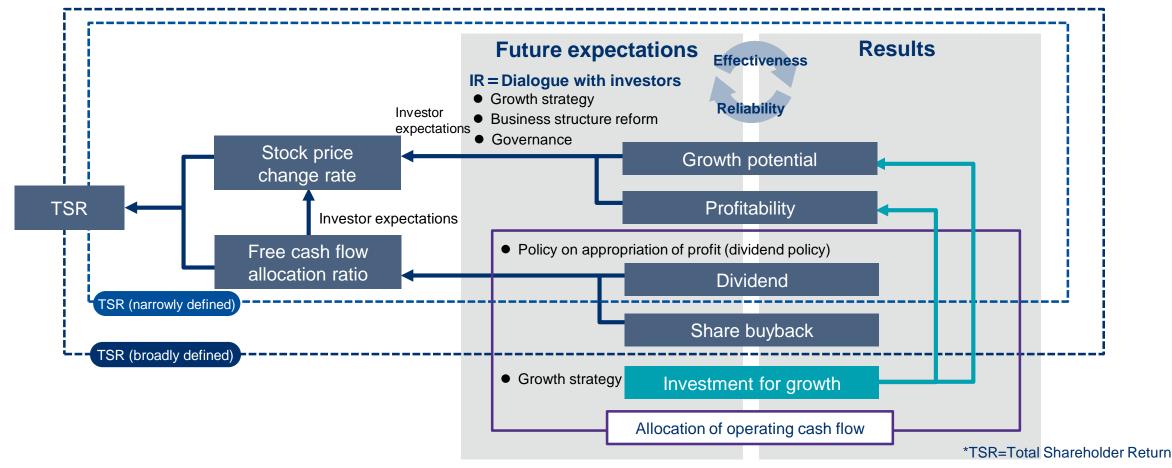
Main initiatives for achieving targets (KPI structure)



Shareholder value

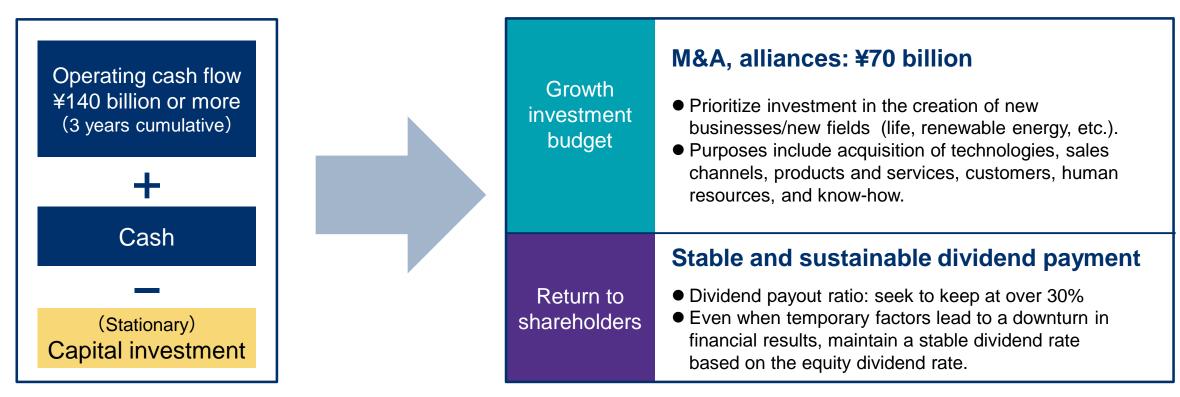
Ensure that TSR* exceeds shareholders' cost of equity while seeking to maintain a close dialogue with the capital markets (investor relations).

Maximizing the shareholder value over the mid- and long-term



Financial strategy and capital policy

Allocate cash generated through our business to investments that will increase or maximize corporate value in the mid to long term, and proactively return profits to shareholders.



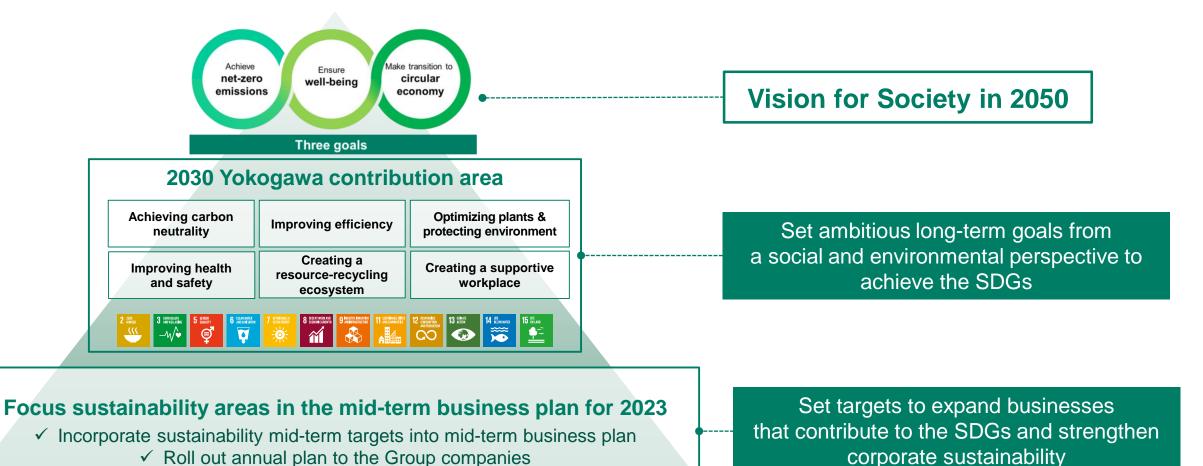
Precondition: keep shareholder capital at a level that can maintain an A rating



5. Sustainability Strategies and Corporate Governance

Co-innovating tomorrow™

Transformation through sustainability



Accelerate the transformation of our society and Yokogawa by identifying business opportunities based on the SDGs and incorporating them into the mission of each employee.



Six contribution themes and strategies for 2030

Achieving carbon neutrality

Reduction of greenhouse gases through energy conversion and reliable energy supply









use of resources and

energy through DX

Improving

efficiency

Efficient and autonomous

production and efficient



Optimizing plants & protecting environment

Balancing of long-term optimal operation of plant assets and reduction of environmental impact









Improving health and safety

Promotion of life innovation and improvement of plant and community safety







Creating a resource-recycling ecosystem

Establishment of a bioeconomy and resource recycling system









Creating a supportive workplace

Development of an environment in which each individual is respected, equal, and able to play an active role





Supporting renewable energy infrastructure

Providing measuring equipment used in the manufacture of renewable energy systems and lithium-ion batteries

Achieving carbon **neutrality** at Yokogawa offices by **2040**

Offering solutions that increase productivity by connecting production sites to companies, supply chains, and society

Providing optimal energy management solutions for visualization, supply and demand forecasting, and optimal control

Providing services for remote management of customer facilities. prevention of failures, and longterm stable operation

Providing equipment for continuous measurement and analysis of wastewater and exhaust gas

Contributing to the development of engineers and operators

Providing advanced measurement and control technologies in the fields of life sciences, biotech. pharmaceuticals and food products

Providing plant safety instrumentation systems

Participating in water management and desalination projects

Contributing to the advanced chemical and biochemical industries

Supporting the efficient recycling of plastics and other materials

Creating a new ecosystem with biomass materials as a theme

Strengthening employee engagement and encouraging initiative

Strengthen employee capabilities from a global perspective

Promoting diversity and respecting quality

Promoting flexible work styles in response to new normal





Further enhancement of corporate governance

FY21~ Further enhancement ~FY20 Continuous enhancement 2005 2015 2021 2010 **Outside** 2 directors • 5 directors, comprising a majority of the 1 director 4 directors board of directors (planned) directors 3 directors • Established nomination and compensation committee **Voluntary** Using and improving existing • Established nomination advisory committee and compensation advisory body advisory committee systems and frameworks Abolished retirement bonuses for directors Introduced a restricted stock compensation plan (RS)) Compensation Introduced a performance-linked stock system Diversifying the board of directors, compensation plan (performance share unit plan: PSU) and enhancing information Revised articles of incorporation to reduce number of directors (25→15) Introduced one year tenure system for directors disclosure Introduced takeover Discontinued (abolished) takeover defense measures Systems and defense measures Established the Company's independence standards **Creating global human resource** policies Established the Yokogawa corporate governance guidelines system and appraisal/compensation Abolished the senior advisor, advisor, and system for Group honorary corporate associate positions Conducted outside evaluation of the board of directors* **Enhancing Group governance** Appointed a woman as an outside audit & supervisory board member Appointed foreign nationals as officers Strengthening internal control and Appointed an outside director as the chairman Other of the Board risk management systems Appointed a foreign national as a director Appointment of a female outside director (planned) **Appointment of female officers** *Once every three years. Self-evaluation in other years





6. Yokogawa's DX Strategy

Digital transformation (DX) policy



Yokogawa's Purpose: <u>Utilizing our ability to measure and connect,</u> we fulfill our responsibilities for the future of our planet.

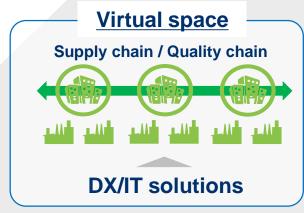
DX policy

External DX

Connecting customers and Yokogawa

Internal DX

In a virtual space, support our customers' transformation into digital enterprises (DE) and realize the transformation of business-to-business transactions to form a system of systems (SoS).



Connecting cyber and physical



Accumulation of DX use cases with our transformation into a DE, and improvement of employee productivity

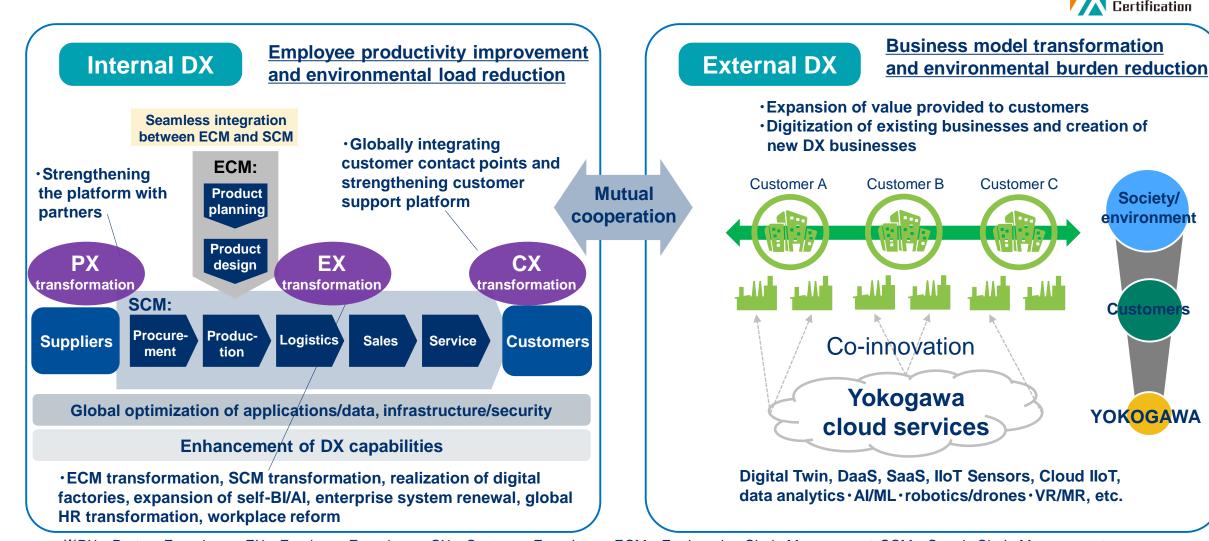
DX Strategy (FY21-FY23)



Society/

environment

YOKOGAWA



*PX: Partner Experience, EX: Employee Experience, CX: Customer Experience, ECM: Engineering Chain Management, SCM: Supply Chain Management



DX journey to realize IA2IA (overview)



| | Digitization 20 | Digitalization Now 202 | Digital 23 Transformation 20 | IA2IA |
|--------------------------|--------------------------------------|---|---|--|
| | Growth Foundation | STEP 1 | STEP 2 | STEP 3 |
| Back office operations | Partial centralization of operations | Centralization of operations (by BPO) | Automation (by RPA & Al/ML) | Autonomy (autonomous operations) |
| System landscape | 正 | ERP & other IT platforms globally integrated on the cloud OTTILLAGE Data Lake Site-based OT systems On-premise type | ERP & other IT platforms globally integrated on the cloud Digital Enterprise Globally integrated OT system Cloud type | Process optimization across company boundaries |
| Plant/factory operations | Field-based operations | Partial centralization and remotization | Automation and remotization (by AI/ML) | Autonomy (autonomous operations) |



Co-innovating tomorrow[™]

