The Yokogawa Group has formulated Transformation 2020 (TF2020), a new mid-term business plan covering fiscal years 2018 through 2020, to improve profitability and further its transformation.
Overview of Sustainability goals, long-term business framework, and mid-term business plan

In fiscal year 2015, Yokogawa established a long-term business framework that defined its goals for the next 10 years and described what will be needed to accomplish them. Subsequent to the establishment of that framework, there have been some notable shifts on the public policy front that include the adoption in September 2015 of the Sustainable Development Goals (SDGs) by the United Nations and the adoption in December of that year of the Paris Agreement at the 21st Conference of Parties to the United Nations Framework Convention on Climate Change (COP21). In light of these changes, in August 2017 Yokogawa established sustainability goals (Three goals) and indicated the direction that it will take to achieve them. Moreover, in reviewing the direction it will take under the long-term business framework, Yokogawa has clarified the ideals that it will strive for in the next 10 years and beyond.

Yokogawa will work to achieve net-zero emissions, ensure the well-being of all, and make a transition to a circular economy by 2050, thus making the world a better place for future generations.

Sustainability goals (Three goals)

Yokogawa will work to achieve net-zero emissions, ensure the well-being of all, and make a transition to a circular economy by 2050, thus making the world a better place for future generations.

Through “Process Co-Innovation,” Yokogawa creates new value with our clients for a brighter future.

In accordance with this vision, we aim to both maximize economic value for our customers and resolve social issues, while creating social and environmental value through our customers’ businesses.

Yokogawa continues to focus on industries that are related to resources, energy, and materials. Also, under the TF2020 plan, we will seek to focus on new businesses in the pharmaceutical and food industries that support people’s health and enrich lives. As a long-term initiative, the company will focus on the bioeconomy field.
In fiscal year 2015, Yokogawa drew up the Transformation 2017 (“TF2017”) mid-term business plan with the goal of achieving the transformation needed to build a foundation for mid- to long-term growth. Changes in the business environment over the three-year period of TF2017 were greater and swifter than anticipated, and nowhere were these changes more dramatic than in the energy industry, one of Yokogawa’s primary markets. Moreover, a wave of innovations in digital technology has driven unprecedented industry changes, and this is having a major impact on the company’s business environment.

In this dramatically changing business environment, it will not be enough to merely continue with the TF2017 transformations that seek to increase our corporate value over the mid- to long-term: Yokogawa needs to fundamentally transform the structure of its businesses. Under TF2020, the company will seek to enhance its corporate value. Making full use of digital technology, we will seek to grow existing businesses and improve their profitability, create new businesses and establish new frontiers for growth, and take measures to dramatically improve the productivity of those organizations that support our business activities.

**Key performance indicators (KPIs) and targets for TF2020**

Under a basic policy of maximizing corporate and shareholder value over the medium- to long-term, Yokogawa aims to increase profitability, generate cash, and improve capital efficiency, outperforming market expectations.

<table>
<thead>
<tr>
<th>KPIs</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth in orders / net sales</td>
<td>3-5%/year</td>
</tr>
<tr>
<td>Growth in earnings per share (EPS)</td>
<td>7-9%/year(^1)</td>
</tr>
<tr>
<td>Return on sales (ROS)</td>
<td>10% or more (fiscal year 2020)</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>10% or more (fiscal year 2020)</td>
</tr>
<tr>
<td>Organic free cash flow(^2)</td>
<td>85 billion yen or more (cumulative over three years)</td>
</tr>
</tbody>
</table>

\(^1\) The growth rate is real growth, excluding special items such as the fiscal year 2017 impairment of goodwill, the recording of allowance for doubtful accounts, and the sale of assets.

\(^2\) Organic free cash flow = free cash flow + strategic investment (70 billion yen cumulative over three years)

**Overview of TF2020 and positioning of strategies**

Based on an accurate assessment of its business environment, Yokogawa has formulated strategies for maximizing corporate value over the medium- to long-term.
Basic strategies of TF2020 mid-term business plan

TF2020 defines as follows the ideal that Yokogawa is striving to achieve: “A company that seeks to build a sustainable society by using its core measurement, control, and information technologies and pursuing digital technology innovation and co-innovation with its customers that revolutionizes productivity in a wide range of business processes.” To achieve this, the company will implement the following basic strategies for transforming itself in three ways.

**Expansion of OPEX business**

- **KPI and target**
  - OPEX growth rate: 7 to 10% per year  
  *Control business OPEX orders*

- Yokogawa will focus on expanding the OPEX business, which focuses on solving issues to improve productivity at existing plants and on providing maintenance services at these facilities.

- Yokogawa will continue with the efforts to establish and globally expand the solutions business that it pursued under TF2017.

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**Transformation of existing businesses**

- Working with customers to radically improve productivity
- Sustainably creating value through innovation
- Dramatically improving business efficiency

**Digital Transformation**

- Creating digital businesses
- Transforming business processes
- Strengthening our information technology infrastructure

**Creation of new businesses and transformation of business model**

**Improve productivity through group-wide optimization**

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**Background**

- Customers are shifting from capital investment in new plants (CAPEX) to investments that seek to improve the efficiency of operations at existing plants (OPEX).

**Strategy**

- Expand our Japan solutions business and KBC’s consulting business to other regions and industries.
- Utilize data obtained from a rich installed base to optimize the service business.

**Product portfolio**

- Control systems, field instruments
- KBC consulting
- Other solutions (energy conservation, cyber-security measures, etc.)
Plant lifecycle  Example of a chemical project in Japan

The OPEX business is cumulative, providing solutions over the entire plant lifecycle. Yokogawa has many opportunities in this field to exercise its strengths.

Further strengthen in target industries

KPI and target industries  3 to 5% per year  

- Continue efforts to expand our business in the chemical industry to markets other than Japan, where Yokogawa already has a large share of the market.
- Cultivate the renewable energy market, which has potential for growth and addresses issues that are of social significance.

Pursuit of transformation in measurement business

- Secure healthy profits by focusing on competitive products.
- Challenge new growth markets.

Pursuit of transformation in aviation and other businesses

- Develop our business in growth markets by leveraging proprietary technologies and our customer base.
Yokogawa will strive to leverage its strengths in the pharmaceutical and food industries by establishing service businesses that improve productivity throughout the value chain, including R&D, product development, manufacturing, and logistics.

**Vision**
- Through the use of measurement, control, and information technology, support people’s health and enrich lives by radically improving productivity across the entire value chain, from basic research to logistics and services.

**Strategy**
- Expand this business based on existing pharmaceutical/food industry businesses and new technologies and products that are under development.
- Expand the solutions portfolio by actively utilizing external resources and M&A.

**KPI and target**
Increase of orders for new businesses **2 to 3** times by FY2020 (compared to FY2017).

*Pharmaceutical and food industry orders FY2017 result: approx. 10 billion yen

**Transformation of business model**
Yokogawa will transform its business model from the simple selling of products and services (“sell-once”) to a recurring business model that includes performance-based business and emphasizes the offering of services.

**Sell-one model**
- Products need to be modified to accommodate new technologies.
- Ongoing maintenance is needed to retain value.
- Replacement is an opportunity for other companies to capture the business.

**Recurring model**
- Platform is always up to date.
- Improved functionality with periodic application updates
- Personalized services

**Improvement of productivity through Group-wide optimization**
Yokogawa will dramatically improve business efficiency through Group-wide optimization.

**Enhance cost competitiveness**
Strengthen cost competitiveness by establishing a mechanism for continuous cost-reduction activities and by utilizing digital technology.

**Optimize the Group structure**
Integrate the support functions of Group companies for improved business efficiency and operational quality.

**Strengthen human resources**
With a focus on the company’s in-house university, establish an environment in which employees can transform themselves to take on operations that create greater added value.
Digital transformation

As a basis for the three transformations, Yokogawa will seek to improve productivity both for itself and its customers by developing architecture that makes full use of digital technology. Yokogawa will help its customers achieve a transformation in their productivity by enhancing the value added by the company’s AI, IIoT, and cloud-based products and other solutions, thereby leading to new opportunities for growth. And to establish a firm foundation for continued growth, the company will make increased use of RPA, digital marketing, and mobile work solutions as well as network and security technologies. The company will make the aggressive investments needed to make this happen.

*RPA stands for robotic process automation.

Capital policy and financial strategy

Prioritize investments that maximize corporate value and proactively increase dividends

Under TF2020, on the premise of sustainably maintaining an optimal capital structure*, the company will prioritize the allocation of the cash that it generates through the three key transformations to investments that maximize its corporate value over the mid- to long-term. The company will also actively seek to improve its payment of dividends.

Through the business strategies, capital investment for growth, and improvement of dividend payments that are set out in TF2020, the company will aim to maximize shareholder value by ensuring that total shareholder return (TSR) always exceeds shareholders’ cost of equity.

*Sharholders’ equity is at the level needed to maintain an A rating and there is adequate capacity for undertaking the investments needed for further growth.

Organic free cash flow 85 billion yen or more (3 years, cumulative) + Strategic investment + Cash

Prerequisite: Keep shareholders’ equity at a level that can maintain an A rating

1) Strategic investment cap

M&A deals, alliances: 70 billion yen
- Prioritize investment in the transformation of existing businesses and the creation of new businesses
- Purposes include the acquisition of technologies, sales channels, products and services, customers, human resources, and know-how

2) Return to shareholders

Stable and sustainable dividend payment
- Dividend payout ratio: Seek to keep at over 30%
- Even when temporary factors lead to a downturn in financial results, maintain a stable dividend rate based on the equity dividend rate.

1) Capital investments for growth (strategic investments)

Assuming that it maintains an optimal capital structure, the company will set aside 70 billion yen for capital investments over the three-year period of the TF2020 plan.

2) Dividend policy (basic policy on allocation of profits)

The company will also actively improve dividend payments based on the following new dividend policy.

The distribution of earnings to shareholders is a top priority for Yokogawa. By improving profitability, the company aims to secure the funds needed to continue increasing its dividend payments. Specifically, the company will strive to exceed a 30% consolidated dividend payout ratio while ensuring it retains the financial base required to make the investments needed to maximize business performance, deliver value to shareholders over the mid- to long-term, and ensure continued growth. The company also aims to maintain a stable dividend based on the dividend on equity (DOE) ratio, even when business performance deteriorates due to temporary factors.