

Manufacturing Capital

Strengthen supply chain risk management through a global production system. Optimizing production and logistics by utilizing DX and working to provide value by combining our factories and core competencies.



Hiroshi Nagai
President of Yokogawa
Manufacturing Corporation

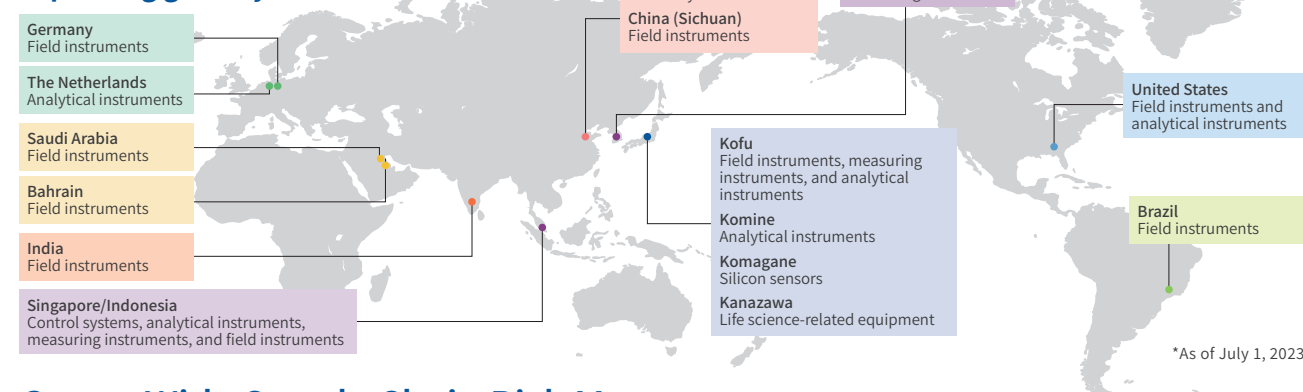
Yokogawa's manufacturing organization spans globally. Although manufacturing around the world is rapidly changing, such as supply chain disruptions and material shortages, we continue to strive to improve our production operations by enhancing global collaboration to meet our customer's demands for on-time delivery, while maintaining high quality, based on quality-first policy. We view adversity as an opportunity to strengthen our resilience by globally optimizing material selection and procurement, diversifying risks, and reviewing how products are developed and designed. In addition, we utilize digital technology to visualize and optimize production and logistics to be able to quickly and flexibly adapt to unexpected changes in our business.

The driving force behind our new initiatives is a core competence, "Genbaryoku," which means the site know-how and manufacturing engineering capabilities we have acquired through our build-to-order production and a platform that allows us to continuously develop these capabilities. This is based on a process-oriented organizational culture in which management and production line workers continuously discuss ways as one team to make improvements based on the global standard New Yokogawa Production System (NYPS). Our systematic human resources development activities support these efforts.

We also contribute to solving our customer's problems by demonstrating daily improvements in our factory where Yokogawa's solutions and products are installed.

In these ways, we engage value creation to our customers by making use of both our factories as tangible assets and intangible assets, namely this "Genbaryoku."

Production activities expanding globally



Group-Wide Supply Chain Risk Management

Due to supply chain disruptions caused by COVID-19 and a global shortage of materials, we have had to adjust production in Yokogawa. Our group provides solutions that are essential to our social infrastructure, and we are required to respond to further changes to maintain a stable supply for our customers. To this end, it is essential to strengthen our supply chain management (SCM), particularly our overall management from procurement to logistics. Manufacturing is located at the center of SCM, and we are promoting the overall strengthening of SCM by cooperating with the upstream and downstream process of the supply chain through Genbaryoku, thereby taking on the role of Yokogawa's overall optimal engine. Currently, we are rebuilding a stable supply system through the following initiatives.

■ Rebuilding the Supply Chain in Consideration of Geopolitical Risks

Depending on the type of parts and components, we have established systems, such as multiple sourcing, independent of specific regions, strategic stock, localization, and in-house manufacturing to enhance resilience.

■ Next-generation SCM through DX, including AI

Global inventory management is realized by integrated and centralized management of incoming and outgoing warehouse information from tracking data by DX. In addition, we calculate the parts required from demand forecasting data using AI and share them with suppliers in advance to enable supply in line with customer demand.

■ Design Updates for Longer Product Life Cycles

Our customer's demand that we provide products with long-term high reliability. Therefore, we need to update the design of our products on a regular basis to match parts that switch over a short period of time. By making strategic design changes, we will maintain supple products, while ensuring the parts availability.

Financial Capital

Capital Policy and Financial Strategy

Under the medium-term business plan Accelerate Growth 2023, we will preferentially allocate generated cash flow for growth investment to increase sustainable corporate value and total shareholders return (TSR). We will also strive to improve shareholder returns in a proactive manner on the premise that we will maintain a certain financial base.

In order to realize investment for growth and proactive shareholder returns, it is also important to maintain a financial base supporting them. Assuming discontinuous risk from the past, including rapid changes in external business environments, we will keep shareholders' equity at a level that can maintain an A rating, even if the risk is actualized.

Michiko Nakajima
Head of Accounting
& Treasury
Headquarters



Operating cash flow ¥140 billion or more (Three years cumulative) + Cash - (Stationary) Capital investment	Growth investment budget Shareholder returns	M&A, alliances: ¥70 billion <ul style="list-style-type: none"> ● Prioritize investment in the creation of new businesses/new fields (life, renewable energy, etc.). ● Purposes include acquisition of technologies, sales channels, products and services, customers, human resources, and know-how. AG2023 Cumulative result: ¥24.3 billion Stable and sustainable dividend payment <ul style="list-style-type: none"> ● Dividend payout ratio: Aim to maintain above 30% ● Even when temporary factors lead to a downturn in financial results, maintain a stable dividend rate based on the equity dividend rate. FY2022 Result: 23.3% (¥9.1 billion)
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■ Capital Investments for Growth (Strategic Investments)

The company will set aside a total of ¥70 billion over the three-year period. It will maintain an optimal capital structure that takes into account overall existing risks, predicted increases or decreases in equity, and predicted increases in risk associated with capital investments for growth (strategic investments).

Major Results

- Acquired Insilico Biotechnology AG, developer of innovative bioprocess digital twin technology
- Acquired PXiSE Energy Solutions LLC, developer of high-speed control software for grids and renewable energy assets
- Acquired Dublix Technology ApS, provider of optimization technologies for waste-to-energy and biomass power plants
- Acquired Fluence Analytics, Inc., pioneer in digitalizing the monitoring of polymerization reaction* processes
- Launched "SynCrest Inc.," a joint venture targeting the CRDMO business for middle-molecular drugs (investment ratio: Otsuka Chemical 51%, Yokogawa Electric 49%)

* Polymerization reaction: The combination of small molecules, called monomers, to form larger molecules (polymers)

■ Dividend Policy (Basic Policy on Allocation of Profits)

We will seek to allocate profits preferentially to investments that maximize corporate value over the medium to long term, but will also strive to improve shareholder returns through the proactive payment of dividends, while ensuring it retains a certain financial base. Yokogawa will continue to return a certain percentage of profit each period based on the target dividend payout ratio, and maintain a stable dividend based on the equity dividend rate. We will aim to maintain the dividend payout ratio above 30%, based on the thinking laid out above, we will set it at a level in order to maintain long-term expectations for the company in the capital markets.

We also flexibly consider additional shareholder returns through acquisition of own shares based on status of cash flow generated and other factors, on the premise that we will ensure preferential allocation to growth investment and a certain financial base.

Dividend: See Financial Highlights on page 98

Acquisition of own shares: The company's common shares are purchased on the market with an upper limit of ¥20 billion (acquisition period: from May 22, 2023, to December 29, 2023)

Thoughts on Shareholder Value

We will strive to maximize shareholder value from a medium- to long-term perspective by achieving a total shareholder return (TSR) that exceeds the cost of shareholders equity. Through investment for growth, we will strive to increase our "growth potential" and "profitability", further increase our cash flow, achieve sustainable growth, and increase corporate value over the medium to long term. We will also actively provide returns to shareholders on the premise that we will maintain a certain financial base.

Furthermore, by actively engaging in dialogue with stakeholders, including capital markets, through IR activities, we will strive to deepen common understanding and foster trust.

The TSR in fiscal year 2022 was below the weighted average cost of capital (WACC). Based on the basic strategies of AG2023, we will accelerate business growth to improve ROIC, and eventually also ROE.

