

# Financial Strategy/Policy on Shareholder Returns



**Given the difficulties associated with predicting the future, it is important that we respond flexibly to changes in the environment.**

**Keita Suzuki** Director  
Representative Executive Officer,  
Executive Vice President, and CFO

## Message from the New CFO

The business environment was more challenging than initially anticipated in FY2022, the first year of the Mid-Term Management Plan 2026 (MTP2026). In addition to ongoing supply chain issues, including shortages in the supply of semiconductors, this challenging environment was due to a variety of factors, including disruptions stemming from the zero-COVID policy adopted in China, the prolonged conflict between Russia and Ukraine, and rising material and energy costs. Given the difficulties associated with predicting the future against the backdrop of a rapidly changing and unstable environment, I recognize the critical need to respond even more quickly and appropriately to this change.

Looking to our corporate philosophy, as a key message we raise the importance of being both responsive and creative. NSK's responsive capabilities stem from the

Company's agility, smoothness, tenacity, flexibility, and high level of technology as well as the beliefs that it holds together with employees. NSK's creative approach expresses its stance toward its goals and mission as a company to create value, grow, and contribute on a continuous basis. In this rapidly changing environment, NSK will work in unison to demonstrate its strengths, flexibility, and adaptability.

A company's significance lies in its ability to solve the social issues facing people and the planet through its economic activities. Put another way, profitability is critical to a company achieving its vision. My role as CFO is to address changes in the business environment and to steer the Company toward achieving the goals set forth in MTP2026. At the same time, I am committed to contributing to the development of society together with stakeholders and aim to continuously increase our corporate value.

## Looking Back at Financial Results in FY2022, the First Year of MTP2026

NSK maintained its sound financial structure in FY2022 on the back of a year-on-year increase in sales and profit. Despite the growing impact of higher levels of inflation and the upswing in material, energy, and logistics costs, these positive results were largely due to trends in foreign currency exchange rates, most notably depreciation in the value of the yen, and successful efforts to transfer the

impact of inflation to sales prices. Turning to the MTP2026 ROE KPI, however, NSK's 3% in FY2022 fell well short of the 10% target. With this in mind, we will promote portfolio reform focusing on efforts to increase the share of the Industrial Machinery Business while working diligently to pass on the effects of inflation to selling prices. At the same time, we will engage in activities aimed at improving asset efficiency through a variety of measures, including efforts to increase output through the super-stabilization of production.

As far as shareholder returns are concerned, we have set our annual dividend at ¥30 per share in FY2022, up ¥5 from the ¥25 per share paid in FY2021, after comprehensively taking into account such factors as the increase in sales and profit as well as the future business environment. As a result, the Company's payout ratio and total return ratio came in at 83.6%, exceeding the MTP2026 target of 50%.

In financing activities, NSK procured a total of ¥43 billion after issuing corporate bonds on two occasions. This initiative was geared toward securing stable funds at low interest in anticipation of future capital needs and took into account concerns of an economic recession due to tightening of monetary policy by the central banks of various countries.

Moreover, we continued to promote the reduction of cross-shareholdings in FY2022 and sold a portion of shares contributed to the Company's retirement benefit trust.

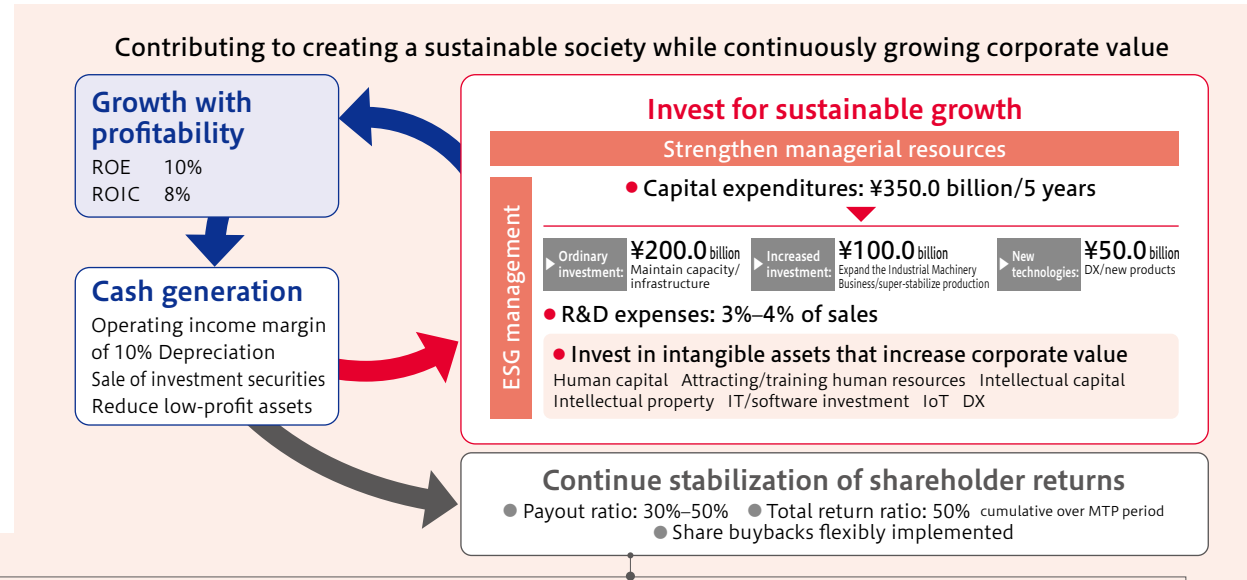
Financial Strategy Basic Policy	Management Indicators	Mid-Term Management Plan Targets	FY2022 Results	Evaluation and Comments
Maintenance of Financial Stability	Net D/E ratio	0.4 times or less	0.29 times	Maintained a sound financial structure
Growth with Profitability	ROE	10%	3.0%	Continued to operate with a focus on achieving an ROE and ROIC of 10% and 8%, respectively
	ROIC	8%	2.1%	
Stabilization of Shareholder Returns	Payout ratio	30%–50%	83.6%	Dividend ¥30 per share Continued stabilization of shareholder returns
	Total return ratio	50%	83.6%	

## MTP2026 Financial Strategy/Policy on Shareholder Returns Overview

To contribute to the creation of a sustainable society while continuously growing corporate value, the fundamental financial strategy policy under MTP2026 is to continue to allocate funds for the investment necessary for our sustainable growth and for the stable return of profits to our shareholders. The policy will be carried out by achieving growth with profitability and generating cash, under a stable financial structure. We are committed to achieving the KPIs set forth in MTP2026, including a 10% ROE, which exceeds our cost of capital. We believe that continuing to achieve these targets over the mid- to long term will lead to increased shareholder value.

The flexible buyback of shares is another option in providing shareholder returns. Between May and June 2023, the Company repurchased 25 million shares (approximately ¥22 billion) of treasury stock. In addition, NSK cancelled roughly 51 million shares of treasury stock in August.

### MTP2026 Cash Allocation



#### Maintenance of Financial Stability

The maintenance of financial stability is a prerequisite in supporting NSK's sustainable growth and in its ability to withstand the effects of economic fluctuations. Including the equity ratio, the net D/E ratio, and liquidity on hand, the indicators that denote the financial health of the Group remain sound. [▶ P.66 Financial Highlights](#)

By targeting a net D/E ratio of 0.4 times or less under MTP2026, the Company will secure a stable financial base while working on the flexible and effective utilization of interest-bearing debt.

Rating and Investment Information, Inc. (R&I)	A
Japan Credit Rating Agency, Ltd. (JCR)	A+

#### Growth with Profitability

Sustainably achieving "Growth with Profitability" is essential for generating cash flows and making capital expenditures and R&D investments to achieve sustainable growth; making various investments, including in the human capital necessary for ESG management; and for paying a stable return to shareholders. The Group has set an ROE target of 10%, which exceeds the cost of capital (roughly 8%–9%) as estimated based on past share trends, business characteristics, and the current state of the stock market. Having also adopted an ROIC of 8% as one of our management targets, we will work to reduce low-profit assets and improve asset efficiency.

#### Stabilization of Shareholder Returns

One of NSK's core management policies is the stabilization of shareholder returns. Under MTP2026, NSK has established a dividend payout ratio target of 30%–50%, and it remains our policy to pay stable and continuous dividends to our shareholders. We also recognize the acquisition of treasury stock is one of the options for an agile capital policy. We continue to look at implementing this option in an appropriate and flexible manner, while taking into consideration such factors as our cash position and stock market trends. Our aim is to achieve a cumulative total return ratio of 50%, which includes dividends and share buybacks, over the period of MTP2026.

##### ■ Continue Stabilization of Shareholder Returns

MTP2026
● Payout ratio: 30%–50%
● Total return ratio: Around 50% (cumulative over the MTP2026 period)
● Share buybacks (flexibly implemented)

Expand total shareholders' return by implementing stable and continuous dividends and improving corporate value

## Financial Strategy/Policy on Shareholder Returns

### NSK's Share Price Trend (10-year period)

Looking at performance trends over the past 10 years, NSK's share price has continued to underperform TOPIX and TOPIX Machinery since 2019. Since the pandemic, global automobile production volumes have failed to recover as expected owing to ongoing supply chain issues. Coupled with the decline in steering business sales and the sharp upswing in material and other costs, NSK has experienced a downturn in profitability. Buffeted by these factors, NSK's stock price has confronted difficulties in breaking out of the ¥700 to ¥900 range, representing a price book-value ratio (PBR) below 1.

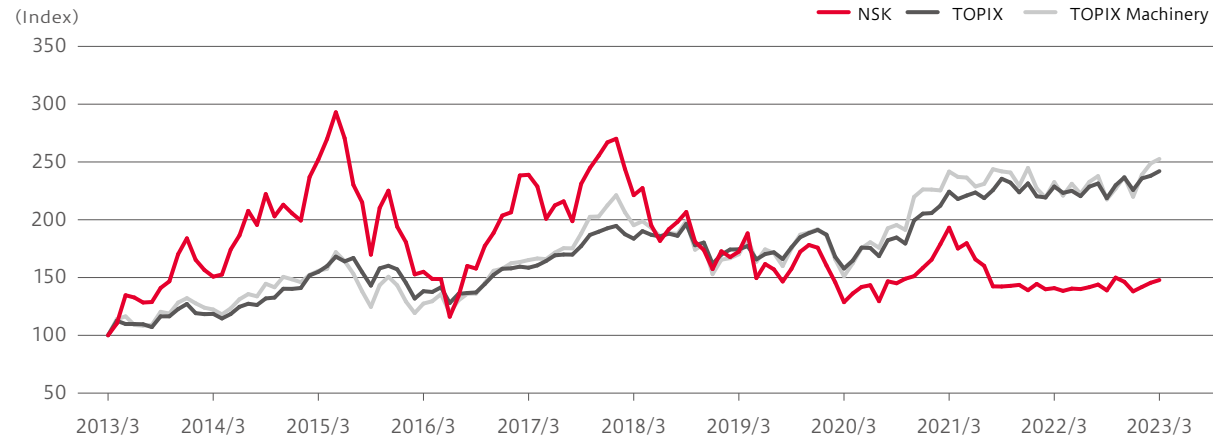
The stock price is based on various factors beyond just the Company's performance, such as market trends and the state of the economy. We believe that increasing profitability through an operating income margin of 10% or more; continuing to stabilize shareholder returns, including share buybacks; and improving capital efficiency to achieve a 10% ROE will lead to a positive evaluation by the stock market.

#### Share Price Trend by Fiscal Year

Fiscal Year	High (Yen)	Low (Yen)	Fiscal Year-End (Yen)	Volatility*
2013	1,360	646	1,062	45.7%
2014	1,815	1,023	1,758	32.6%
2015	2,120	910	1,030	39.0%
2016	1,739	691	1,592	44.3%
2017	1,916	1,261	1,426	28.5%
2018	1,488	885	1,037	26.1%
2019	1,208	579	694	33.7%
2020	1,202	581	1,135	43.2%
2021	1,141	630	736	30.6%
2022	803	680	756	23.6%

\* Volatility refers to the standard deviation annualized rate based on the daily closing price.

#### NSK's Share Price Trend (10-year period)



Note: Share price index trend including dividends (March 31, 2013 = 100)

#### TSR

Investment Period	1 Year	3 Years		5 Years		10 Years	
	Cumulative/ Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate	Cumulative	Annual Rate
NSK	6.8%	19.7%	6.2%	-36.8%	-8.8%	47.8%	4.0%
TOPIX	5.8%	53.4%	15.3%	31.8%	5.7%	142.1%	9.2%
TOPIX Machinery	8.6%	67.1%	18.7%	29.3%	5.3%	152.6%	9.7%

Notes: 1. TSR (Total Shareholder Return): Total return on investment including capital gains and dividends

2. Each index includes dividends.

3. Annual rate based on the geometric mean

4. Compiled by NSK from Quick Factset data

## NSK Financial Logic Tree

Showing how the NSK Group’s management tasks and management strategies will lead to increased shareholder value, the NSK financial logic tree is a diagram based on the connections between the numerical targets of MTP2026 and related indicators.

From a financial perspective, dividends and share price growth form part of the factors that bring about increases in shareholder value, and these outcomes can be verified using long-term TSR. Because the share price generally fluctuates depending on the level of the cost of capital, stably incorporating an appropriate cost of capital into the market price should reduce the risk of stock price fluctuations.

One of NSK’s core management policies is the stabilization of shareholder returns. While able to pay stable and continuous dividends to shareholders even during the COVID-19 pandemic, our TSR has unfortunately fallen below TOPIX and TOPIX Machinery over the past 10 years, in similar fashion to the previously mentioned stock price trends. With the main factor being the decline in profitability, we believe that raising ROE to 10% under MTP2026 will lead to an increase in TSR, and to higher shareholder value over the mid- to long term. The key to achieving “Growth with Profitability” is portfolio reform. Moreover, we will continue to promote various initiatives, including the reduction of cross-shareholdings, to generate additional cash, which we will use to invest in enhancing managerial resources and ESG management for sustainable growth. Through these means, we will create a virtuous cycle that will allow us to continuously provide stable shareholder returns.

In light of the growing importance of ESG in recent years, we are incorporating management strategies and numerical targets for advancing ESG management in the Company’s logic tree. We believe that promoting ESG management and reducing capital costs will lead to increased shareholder value. From a financial perspective, we are also expanding our financing options related to our sustainability strategy.

