We seek to be a company that continues to grow and to innovate through the creation of unique value as a specialized trading company.

FY2023 earnings results and next fiscal year earnings forecast

In FY2023, the second year of our "Marubun Nextage 2024" Medium-Term Business Plan, net sales increased by 10.3 billion yen from the previous fiscal year to 236.4 billion yen due to factors including growth in semiconductors for consumer equipment and automobiles. Operating income increased by 1.9 billion yen to 12.9 billion yen, boosted by a yen-denominated gain on sales associated with depreciation of the yen. Both net sales and operating income achieved new highs since our application of the Accounting Standards for Revenue Recognition (as earlier issued by the Accounting Standards Board of Japan) for FY2021 and onward.

However, most of our transactions, from recording of purchases to sales collection, are denominated end-to-end in foreign currencies, and our operating financing also consists largely of US dollar-denominated impact loans. This financing method is intended to implement a natural hedge effect with respect to exchange rate fluctuation risks. However, significant depreciation of the yen resulted in the recording of 3.4 billion yen in foreign exchange valuation loss on foreign currency-denominated liabilities, while foreign currency-denominated interest expenses increased by 1.8 billion yen from the previous fiscal year due to rising US dollar interest rates. The result was a decline of 2.2 billion yen in ordinary income to 5.6 billion yen. Profit attributable to owners of parent declined by 1.8 billion yen to 3.4 billion yen. ROE declined by 4.6 points to 6.9%.

The earnings forecast for FY2024, the last fiscal year of the Medium-Term Business Plan, unfortunately foresaw further declines in the Company's forecast revenue and income from FY2023, based on the financial market environment and the forecast for supply and demand trends as at the start of the fiscal year. Considering that the business environment outlook for the electronics sector as a whole remained highly uncertain and that the high US dollar interest rate would likely continue longer than initially expected, our initial forecast for the current fiscal year called for 212 billion yen in net sales, 5 billion yen in ordinary income, and 3 billion yen in net income.

By contrast, we had set 6 billion yen in ordinary income and ROE of 8% as financial goal targets for the final fiscal year of the Medium-Term Business Plan. As of the beginning of FY2024, we would fall 1 billion yen short of the Medium-Term Business Plan's ordinary income target. To counter the impact of the high US dollar interest rate, the main reason for the expected decline in ordinary income, to even a small degree, we will steadily execute the business strategies set out in the Medium-Term Business Plan. In the area of finances, we will also work to reduce our interest-bearing debt and shorten our turnover period of working assets. The consolidated Group will endeavor with all its might to achieve the financial targets of the Medium-Term Business Plan.

Enhancing our resilience to changes in the external environment

To address the declining predictability of the electronics sector caused by changes in domestic and overseas environments, it is vital that we boost our profit resilience in the medium and long term by demonstrating synergies among our business segments while diversifying our business portfolio on a consolidated basis. Toward that end, we

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must constantly evolve and advance in the areas of the products and services we handle while enforcing our principle of placing the customer first. To do so, we established a new Electronic Solutions Business at the start of the Medium-Term Business Plan.

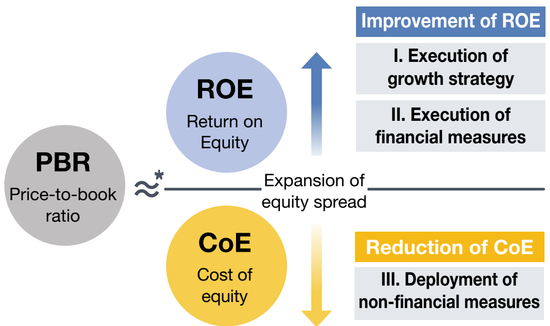
Under our new consolidated three-business segment structure, we clarified the strategic missions of our three businesses: "foundation strengthening business" in the Electronic Devices Business, "growth driving business" in the Electronic Systems Business, and "value creating business" in the Electronic Solutions Business. Through each of these businesses aiming for sustainable growth on the basis of its strategic theme, we believe that we can strengthen the profitability of the consolidated Marubun Group and enhance our resilience with respect to uncertainty.

We are also looking at inorganic growth strategies as paths for sustainable growth. As an example, as we actively explore non-linear growth opportunities regardless of size, in the Electronic Solutions Business we made the decision to invest in Taiwan-based NUWA Robotics Corp. in 2024 and began selling communication AI robots as a distributor in Japan.

Toward sustainable enhancement of our corporate value

Our Company places importance on ROE aimed at sustainable enhancement of our corporate value. Under current conditions of slightly higher financial leverage after conversion to yen due to yen depreciation, the keys to improving ROE will be the enhancement of profitability as an unending effort in business and high turnover of total assets, particularly inventory and other working assets – that is, the shortening of our cash conversion cycle (CCC). Particularly under high US dollar interest rates, we must boost the efficiency of our consolidated balance sheet, taking into account the profitability of transactions.

It is also important that, as a result of these actions, we improve PBR.



* An approximate formula when conservatively assuming a future profit growth rate (g) of zero and a given short-term target ROE

Our Company divides our path toward PBR improvement into the two elements of increasing ROE (%) and reducing the cost of equity (%). Our aim is to grow the difference between the two, or the equity spread. Our emphasis on ROE is as mentioned above. However, while the reduction of financial leverage is also a goal, we will not neglect the consideration of allocation of capital toward opportunities for growth investments. Accordingly, while making a stable dividend policy a prerequisite, we recognize that reducing the denominator (equity) and working toward ROE enhancement through its balanced contraction are only secondary issues.

Rather, it is B-to-B business that is the mainstay of our Group. And, as such, we must consider efforts to expand our shareholder base and reduce the cost of equity, by way of earning new recognition and evaluation from a wider range of investors. We will also undertake non-financial measures that include promotion of our IR initiatives. Specifically, we will set promotion of sustainability management, strengthening corporate governance, and improving stakeholder engagement as three themes for reducing the cost of capital, and will promote non-financial measures including the strengthening of IR activities[*1].

*1 See our website (link) for information on our efforts for sustainable enhancement of our corporate value. The disclosed content is a compilation of our Company's measures in accordance with the Tokyo Stock Exchange's "Request Concerning Action, etc. to Implement Management that is Conscious of Cost of Capital and Stock Price", and is listed as one of 29 examples selected by the Tokyo Stock Exchange for use as reference.
https://www.jpx.co.jp/english/equities/follow-up/uorii50000004sse-att/240201en2.pdf

Policy concerning capital allocation

The return of profit to shareholders is a key issue in our Company's management. As an addition to our existing dividend payout ratio guidelines, in October 2023 we introduced DOE (dividend on equity ratio) as a new indicator, aiming for the effect of setting a floor limit for dividend amount. Specifically, we will strive to pay continuous and stable dividends with the higher of a dividend payout ratio of 40% or a DOE of 2.5% as a guideline.

With respect to additional capital retained internally as profit surplus, etc. after payment of dividends, our policy is to allocate such retained earnings efficiently and effectively mainly among four priority areas, based on circumstances at the time and with the aim of sustainable growth. Through this, we seek to achieve a virtuous cycle in which we realize sustainable growth through the effective use of internal reserves.

The first priority area is the pursuit of growth investment opportunities. Under themes including digitalization, smartification, IoT, AI, robotics, next-generation communications, and medical care, we will expand our markets in existing domains, enhance our commercial rights, demonstrate synergies in neighboring domains, and enter new promising markets. With regard to business acquisitions and venture investments, while recruiting candidate projects from multiple sources, we have built a structure enabling prompt decisions based on our internally stipulated investment criteria.

The second priority area is investments in work infrastructure. To precisely and agilely respond to the demands of our suppliers and customers and to continuously strengthen our value chain functions, we must flexibly and rapidly review our IT systems. We will also raise the level of our information system, including sales management and managerial accounting, and will connect this to improved profitability and financial feasibility.

The third priority area is investment in human capital (human resources). We will expand our investments in human capital to develop trading company professionals and will also undertake investments in human resources infrastructure and in human resources management system advancements that will lead to strengthening of our competitiveness from a medium- and longer-term standpoint. Our Company established a new Human Capital Committee in the current fiscal year and is actively drafting measures related to human capital strategy.

The final priority area is balance sheet compression. By maintaining an appropriate level of tangible net worth, we will enhance risk tolerance on our business administration and management. Our basic policy is to keep our equity ratio within a range of about 20% to 40% on a yen conversion basis, even under depreciation of the yen.

To our stakeholders

I built a career of nearly 30 years at a major financial institution. I was stationed in New York and Bangkok for many years and gained experience in investment management and business management for leading local financial institutions. My background was mainly in international business and corporate planning fields. In the latter half of my career, I also served as the Vice President of the Japanese Chamber of Commerce and Industry abroad and was involved in a number of policy initiatives. I was the General Manager of the Business Administration Division of MARUBUN CORPORATION in 2020, and was assigned to the role of CFO this year.

While the mission of the CFO is wide-ranging, it is my creed that the role calls for a display of self-discipline beyond the standards demanded of listed companies. Public companies, as listed companies are typically termed in English, are public instruments of society and face demands for a high level of transparency and accountability. A prerequisite for this is demonstrating self-discipline beyond the level expected of listed companies. Appropriateness of financial accounting and enforcement of compliance with legal affairs, taxes, and so on are of course requirements, as are the sustainability-related initiatives undertaken from the perspectives of the environment, society, and governance demanded of “responsible business management.” I intend to continue working hard on a foundation of self-discipline and to steadily advance toward the target states that the Company should aim for.

I find our stakeholders reflected in the Company’s financial statements. We repay customers through sales, and suppliers through the cost of net sales. In selling, general and administrative expenses, we repay employees and their families through salaries. For financial institutions and other creditors, we pay interests as non-operating expenses. We also repay society through the payment of taxes, and shareholders through dividend payments and enhancement of net assets. I believe that managing a listed company is a matter of earning the trust and appreciation of all these stakeholders while achieving sustainable growth as a public company through the planning and execution of effective and impactful business strategies, financial measures, and non-financial measures. As an outcome of doing so, we will strive to ensure that opportunities to invest in our shares are positively received and to ensure that we consequently achieve and stably maintain a PBR of 1.0 time or higher at an early stage. I cordially ask for your continued support of our business.