



Medium-Term Management Plan 2024

- Master the fundamentals and Take on the challenge of radical change -

February 21, 2024

Fenwal Controls of Japan, Ltd.

(Tokyo Stock Exchange Standard: 6870)

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1. The New Corporate Philosophy

Background

When Fenwal began operating under its new structure in 2023, activities for innovations were based on the dual themes of “Master the fundamentals” and “Take on the challenge of radical change.”

The Fenwal Group clearly defined the value that its businesses provide, including value in terms of the group’s significance in society and the vision for the future. Realizing that work was **needed for an even greater sense of group solidarity and unity**, we have used the announcement of a new medium-term management plan as an opportunity to revise our corporate philosophy.

We are dedicated to being a **source of value that exceeds the expectations of all stakeholders**. To accomplish this, everyone at the group is going back to the basics and taking on new challenges with no fear of changes. We are determined to continue to grow.

Mission

Creating value for a safe and secure future

The Fenwal Group is a source of value in the form of products used in disaster prevention and **in many other markets that contributes to the safety and security of society.**

Safety and security are probably values that are perceived differently by different times and different people. We use our manufacturing skills to create products that are solutions concerning needs involving the workplace environments, equipment and other aspects of the operations of our customers. **Our goal is the creation of value derived from the distinctive Fenwal approach of starting from the ground up.**

Vision

Your best partner for “manufacturing” that goes beyond customer expectations

Many Fenwal Group products are used inside the products that our customers manufacture or used as part of a facility or a type of equipment.

We want every product to **help solve our customers' problems**. This is why **constantly being a source of value that exceeds our customers' demands** is our ideal for how to manufacture products.

We will continue to do everything possible to remain a manufacturer that is the first choice of our customers.

Value

Fenwal WAY

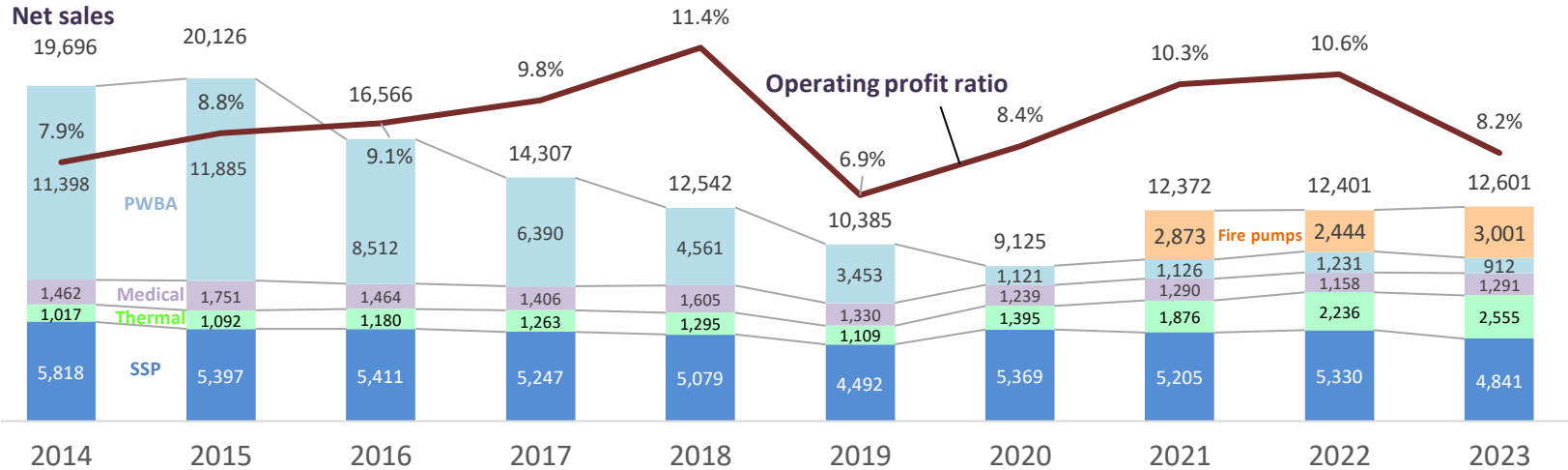
Quality and reliability Research and new challenges Good manners and appreciation

We understand that accomplishing our mission and our vision requires **doing all the obvious tasks in a reliable and consistent manner**. Furthermore, accepting the current situation is equivalent to going backward. We must **constantly take on new challenges** in order to go forward.

Skills are an individual trait, but everyone has the ability to try new ideas and approaches. No special skill is necessary. The Fenwal Way means never fearing failure and always placing priority on actions. We are determined to be an organization where everyone is committed to and guided by the *Fenwal WAY*.

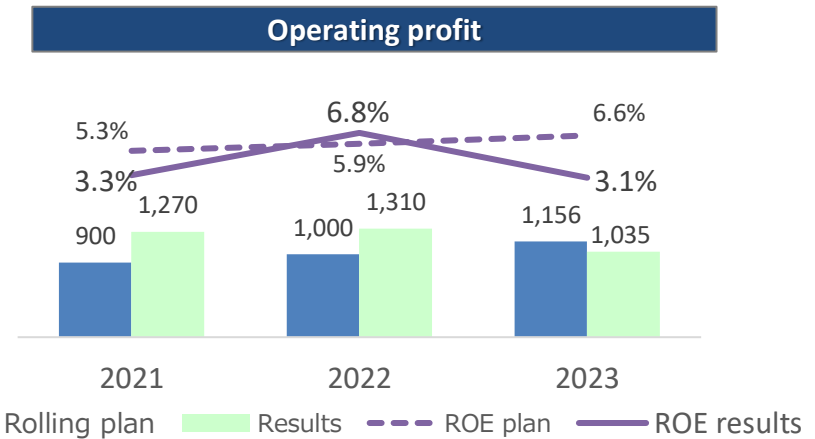
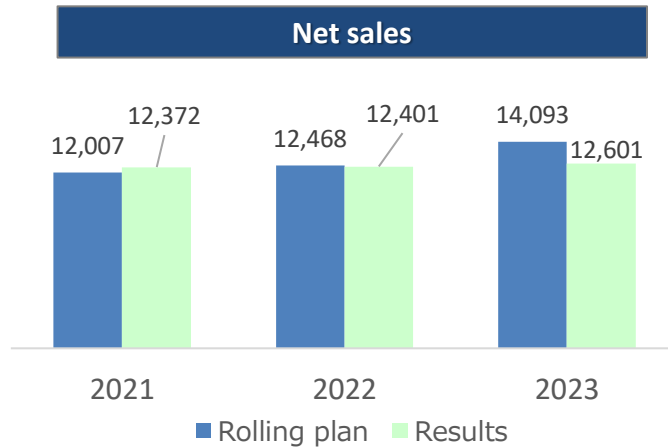
2. Performance and Accomplishments

10-Year Sales and Operating Profit Ratio



- | | |
|-------------------------------|---|
| Net sales | <ul style="list-style-type: none"> • PWBA sales peaked in 2015 and are now about 10% of the 2015 level. • Shibaura Fire Pump Co., Ltd. (Fire pumps) was added to the Group in 2021. • Although Thermal sales have been increasing somewhat in recent years, total sales, including SSP and Medical, have not increased during the past 10 years. |
| Operating profit ratio | <ul style="list-style-type: none"> • In 2019, this ratio fell sharply to 6.9% because of the termination of PWBA operations in China. • In 2023, the ratio decreased to 8.2% due to expenses involving defective SSP products. • The group's average operating profit ratio was about 9%. |

Summary of the Rolling Plan (2021-2023)



Basic policy of the previous rolling plan

- I. Continue until 2023 measures to build a stronger base for sustained growth
- II. Forge alliances with other companies to reinforce the foundation for the core SSP business
- III. Become an even more appealing company by establishing new performance indicators and increasing benefits for shareholders and employees

Evaluation of performance

Despite activities to build a stronger base and increase corporate value, the rolling plan's goals were not accomplished due in part to the lack of progress with some aspects of the plan. The main cause was improper activities involving products in 2022 as well as product quality problems.

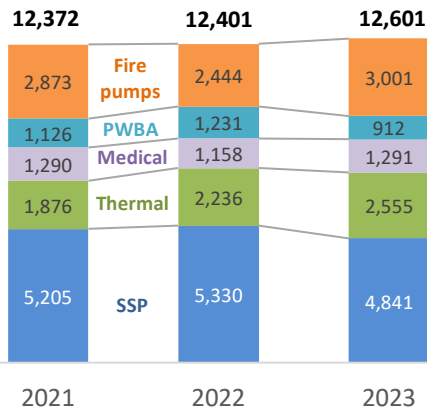
Although the dividend was increased, the ROE plan, one of the performance indicators, was not achieved.

Summary of the Rolling Plan (2021-2023)

Segment information

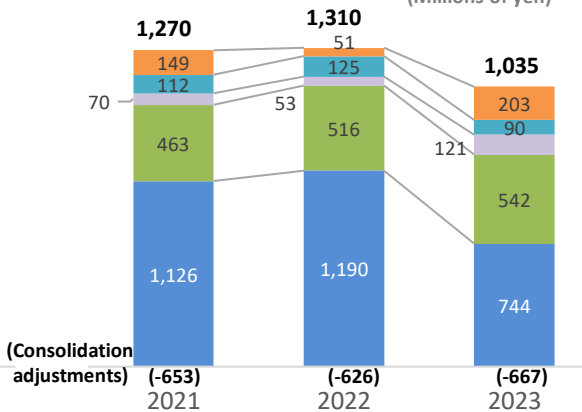
Net sales

(Millions of yen)

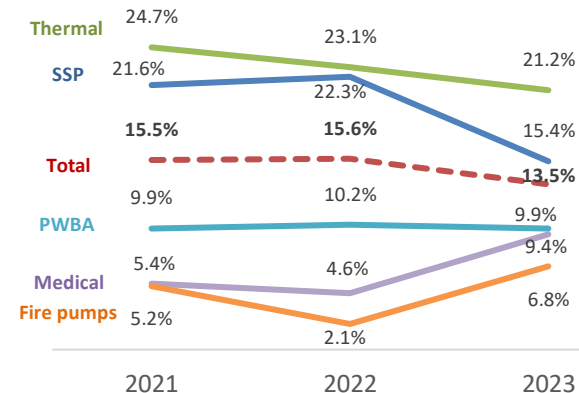


Operating profit

(Millions of yen)



Operating profit ratio (excluding consolidation adjustments)



Net sales

Sales were basically flat during the plan's three years with initiatives for growth needed in all businesses.

Operating profit

Operating profit decreased because of expenses involving defective SSP products. (SSP warranty repair expenses were ¥119 million in 2022 and ¥210 million in 2023.)

Operating profit ratio

- The operating profit ratio decreased mainly because of expenses involving defective SSP products.
- The Thermal operating profit ratio decreased due to a change in the product mix.

3. Medium-Term Management Plan 2024

Policies and Goals

New Medium-Term Management Plan (2024-2026) Reforms centered on profitability and efficiency

Long-Term Management Plan

Goals and business activity initiatives

“Master the fundamentals”

Sound foundation to focus on carefully selected activities

Fire extinguishing system (SSP)	<ul style="list-style-type: none"> • Add more markets by reinforcing and expanding the use of core technologies • Increase activities to develop underlying technologies • Upgrade the product quality control system
Control (Thermal)	
Medical (Medical)	Use equipment assembly technologies in other business domains
Printed wiring board assembly (PWBA)	More alliances with other businesses involving PWB assembly technology
Fire pumps (Shibaura Fire Pump)	<ul style="list-style-type: none"> • Enlarge the product lineup (water purification equipment, etc.)

“Take on the challenge of radical change”

Higher efficiency by consolidating segments

(Tentative) Engineering	<ul style="list-style-type: none"> ● Mainly the design, sale, installation and maintenance of fire extinguishing systems
(Tentative) Sensing equipment and devices	<ul style="list-style-type: none"> ● Mainly the development, design, manufacture and sale of sensors, control devices and assembly equipment
(Tentative) Disaster prevention equipment (Shibaura Fire Pump)	<ul style="list-style-type: none"> ● Mainly the development, design, manufacture and sale of products for disaster prevention

Reforms to become an advanced manufacturer

(Tentative) Engineering	<ul style="list-style-type: none"> [Increase installation of fire extinguishing systems] Expand sales channels to include general and subcontractors and architectural and civil engineering design firms
(Tentative) Sensing equipment and devices	<ul style="list-style-type: none"> [Expand sales to more markets] Use control technology expertise to increase sales in current markets and expand sales to many new market sectors
	<ul style="list-style-type: none"> [New business domains] Use new applications of core technologies to start new businesses that go beyond current market sectors
(Tentative) Disaster prevention equipment	<ul style="list-style-type: none"> [Larger lineup of disaster prevention products] • A larger lineup of products for disaster preparedness and responses • Closer ties with sales agents in Japan



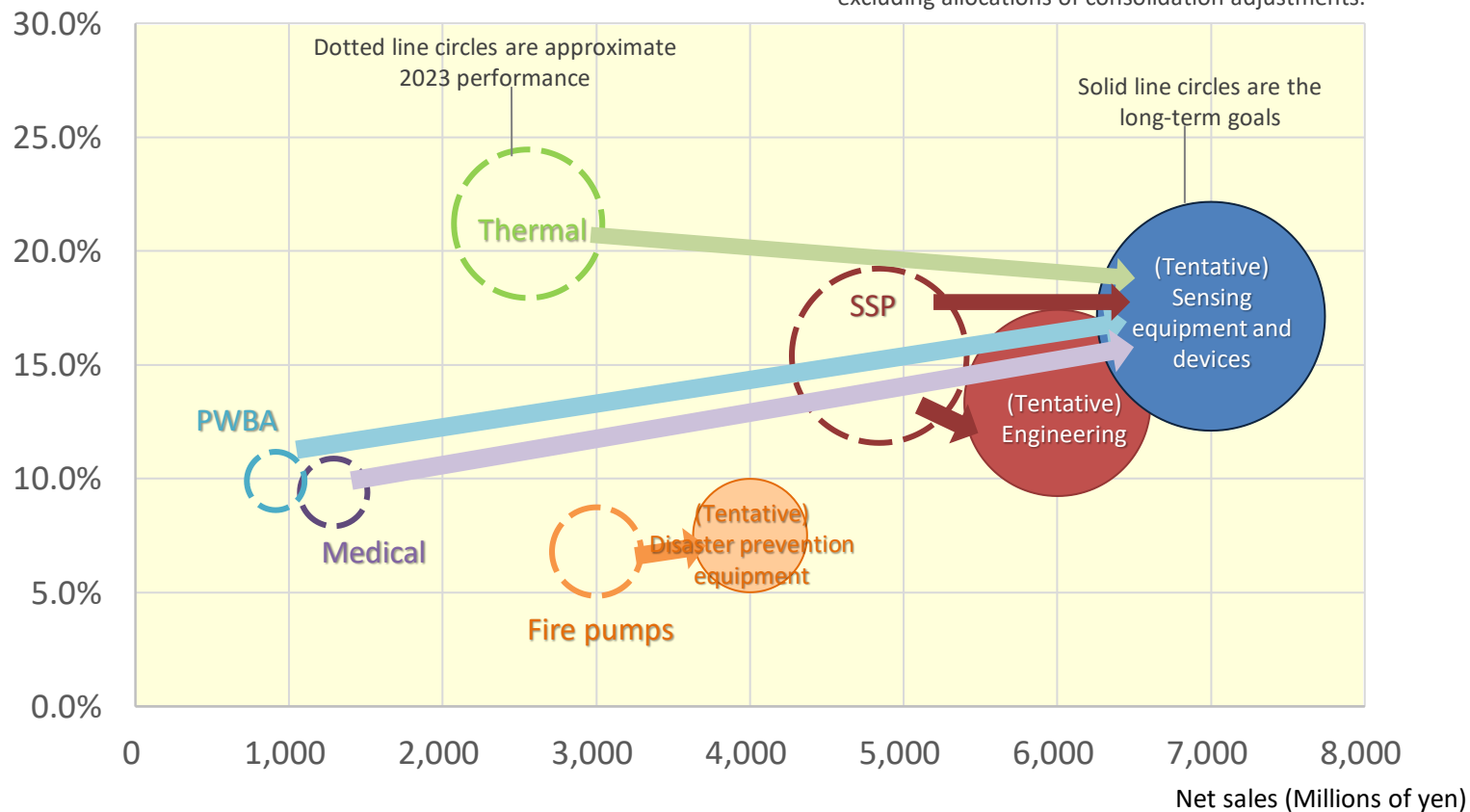
Your best partner for “manufacturing” that goes beyond customer expectations

Quality	• Establish a “quality first” culture; no defective products reach customers
Sales	• Expand sales to more market sectors; more research themes
Development	• Larger product development team; faster development activities by using industry/gov’t/academia technology alliances; rebuild development processes
Production	• More efficient manufacturing operations; more rigorous quality assurance framework; cost reduction activities
Administration	• More recruiting activities; seek opportunities for growth; activities for sustainability

■ Goal for the Business Portfolio

Operating profit ratio (%)

The size of circles shows the amount of operating profit excluding allocations of consolidation adjustments.



Human resources initiatives

(1) Increase recruiting activities

- Growth of the workforce (quality assurance, administration, development, sales and other activities)
- Start a recruiting website
- Establish relationships with educational institutions

(2) Increase training programs

- Firm commitments to the Fenwal mission, vision and values
- Increase growth opportunities and effective follow-up measures
- Support for acquiring specialized skills
- Use a variety of job assignments to upgrade skills

(3) Improve working environments

- Reexamine performance assessment methods and the remuneration system
- Increase non-salary benefits for employees
- Improve workplace environments
- Offer a variety of formats for working at Fenwal

Initiatives for a stronger foundation for growth

(1) A stronger quality assurance system

- Renew ISO9001/2015 certification
- Improve design and manufacturing quality
- Establish a “quality first” culture (education)
- Ensure that no defective products reach customers

(2) Consolidation of business segments

- Utilize people in the best possible manner
- Focus investments on growing businesses
- Higher productivity by streamlining operations

(3) Strengthen sales methods

- Maximize the collective sales capabilities of the group
- Start using many new methods for sales activities
- Upgrade sales activities starting with proposals (technology sales)

(4) Rebuild the development infrastructure

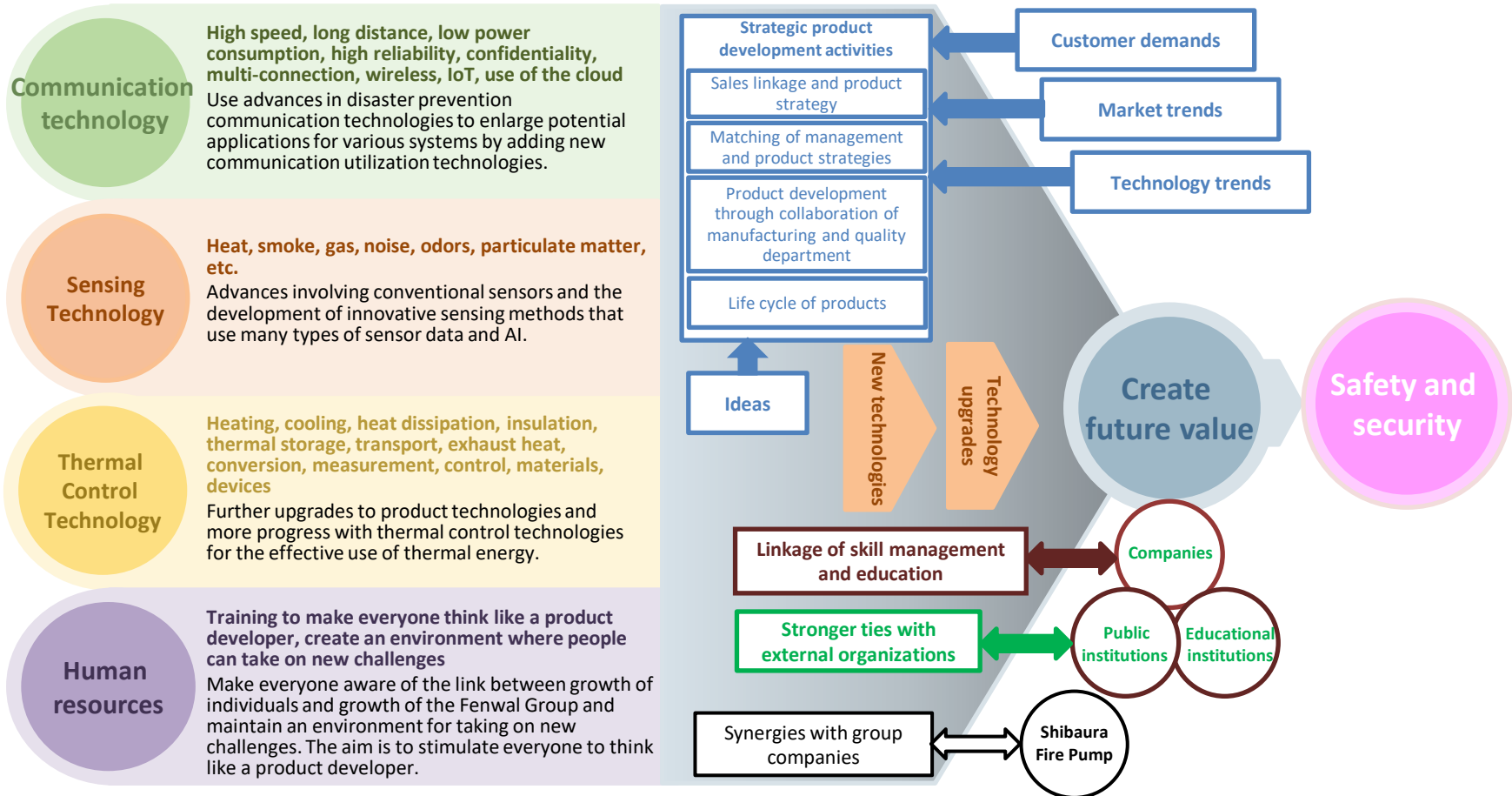
- Establish a process for creating new products
- Improve development processes to increase speed
- Training to create a team of technology salespeople
- Assemble a database of knowledge about technologies

(5) Increase manufacturing efficiency

- Upgrade material procurement capabilities
- More rigorous quality assurance processes
- Give production personnel skills to perform many tasks
- Automation of production lines

(6) Thorough oversight of KPI

- Visualization of sales activities
- Use capital more efficiently
- More info sharing among production/sales/technology departments
- Start using sustainability indicators



4. Medium-Term Management Plan 2024

Quantitative Targets

Policy

- Sales/Operating profit: Priority is rebuilding the foundation for business operations to aim for steady growth and high profitability
- ROE/EBITDA: By emphasizing efficiency, the goals are an ROE of 8% and an EBITDA margin of at least 14%

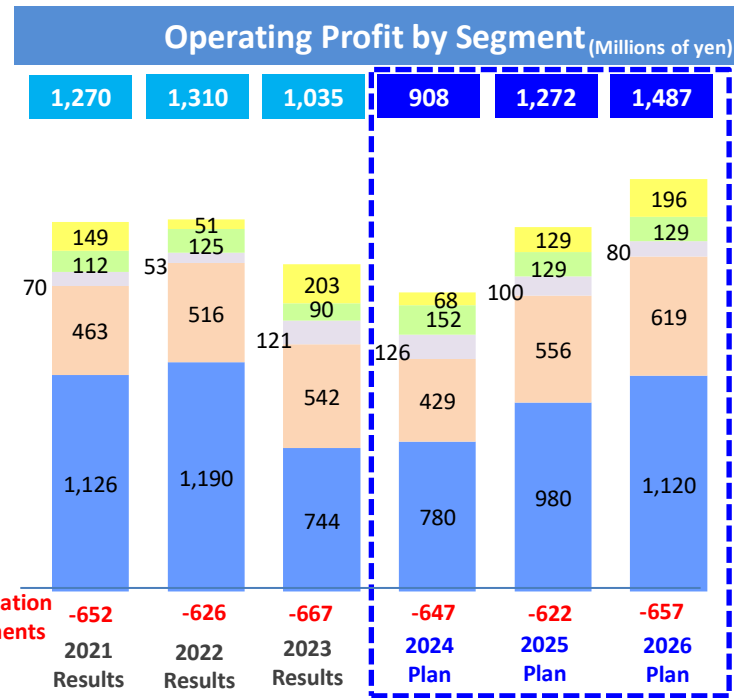
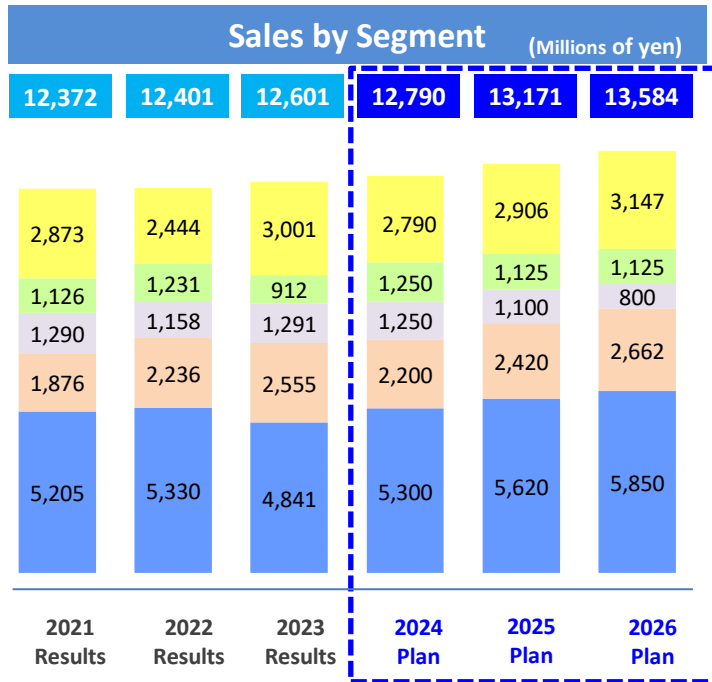
Millions of yen	2021 Results	2022 Results	2023 Results	2024 Plan	2025 Plan	2026 Plan
Net sales	12,372	12,401	12,601	12,790	13,171	13,584
Operating profit	1,270	1,310	1,035	907	1,272	1,487
Operating profit ratio	10.3%	10.6%	8.2%	7.1%	9.7%	10.9%
Ordinary profit	1,338	1,479	1,159	944	1,312	1,527
Profit	387	826	385	508	868	1,019
ROE	3.3%	6.8%	3.1%	4.1%	6.7%	8.0%
EBITDA	1,644	1,662	1,364	1,328	1,694	1,903
EBITDA margin	13.3%	13.4%	10.8%	10.4%	12.9%	14.1%

*EBITDA = Operating profit + Depreciation/amortization of goodwill in the consolidated statements of cash flows

Medium-Term Management Plan 2024 By Segment

Segments

- Fire Extinguishing Systems (SSP) is the primary source of sales and earnings; also emphasis on sales of devices primarily involving Control
- Consolidation of segments has the goal of increasing efficiency
- Aiming to expand to new markets with the potential for synergies by using thermal control technologies



5. Medium-Term Management Plan 2024

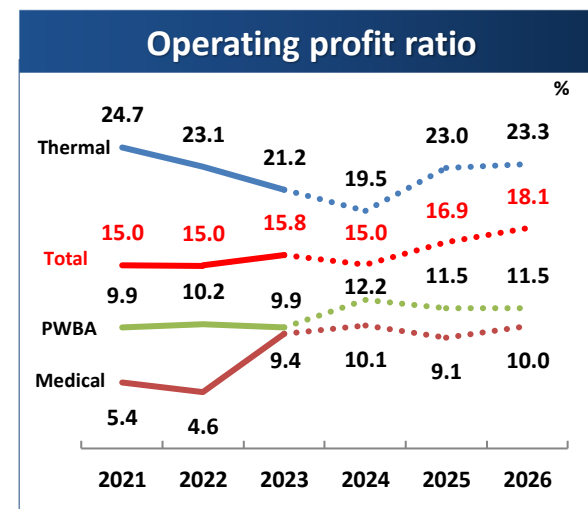
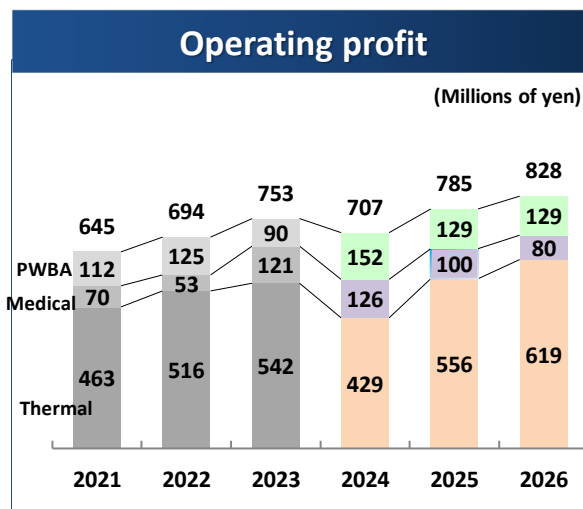
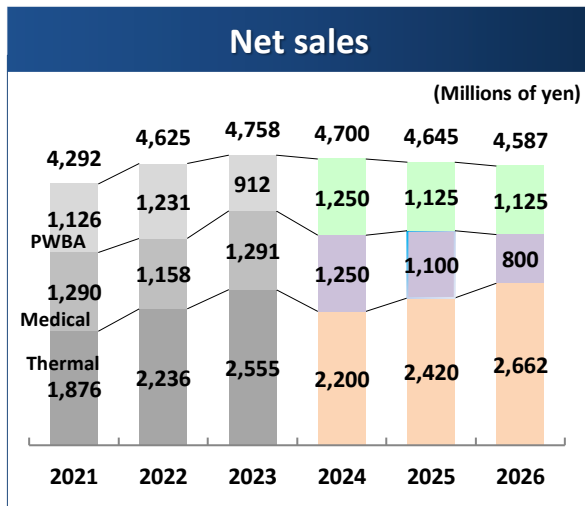
Policy by Segment



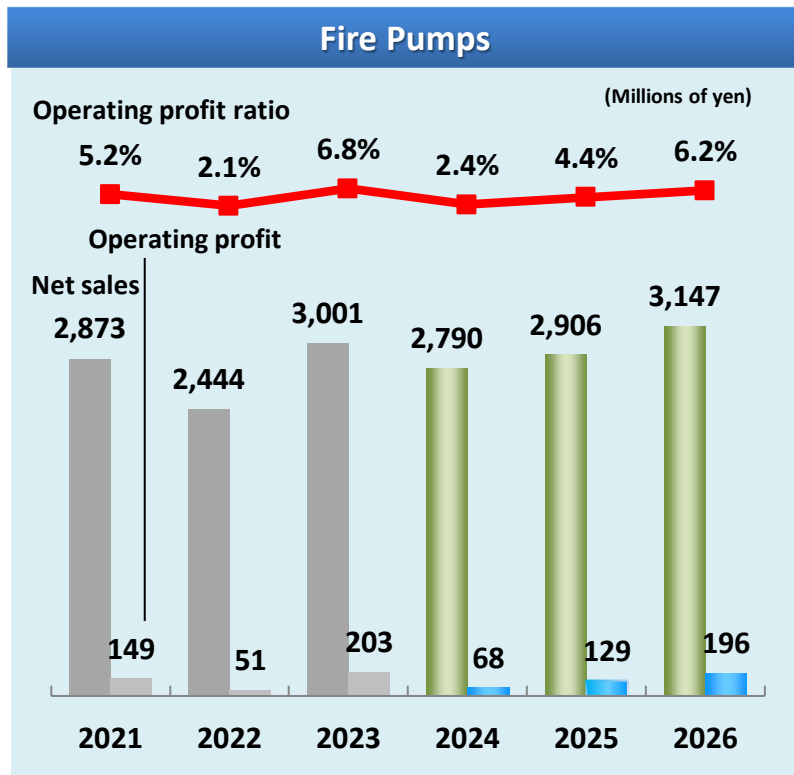
Business Policies

Consistent growth backed by a framework for steady and continuous earnings

- (1) Make large investments in human resources (sales, installation, development)
 - Use installation technology training rooms to give people key skills
 - Target many sources of demand by using a variety of sales methods
- (2) Place priority on profitability and focus on developing and selling products with substantial added value
 - Enlarge market sectors for sales of gas fire extinguishing systems
 - Increase sales of explosion proof detectors, the F Series detectors and other products
- (3) Many actions to build a stronger construction management framework for the long-term stability of earnings



- | | |
|--|---|
| Thermal
(Control) | <ul style="list-style-type: none"> • Use business synergies centered on control technologies to reinforce positions in current markets and add new market sectors • Increase sales of sensors and hot plates used in semiconductor manufacturing equipment |
| Medical
(Medical) | <ul style="list-style-type: none"> • Concentrate resources on medical equipment manufacturing technology by reexamining the product lineup and reorganizing this business unit • Focus on the development and production of unitized devices for other companies, an activity with high profit margins |
| PWBA
(Printed circuit board assembly) | <ul style="list-style-type: none"> • Use activities with other businesses to target circuit board assembly demand and make the development and production of units for other companies a priority • Reexamine internal and external manufacturing operations and place emphasis on circuit board assembly technologies and upstream designs |

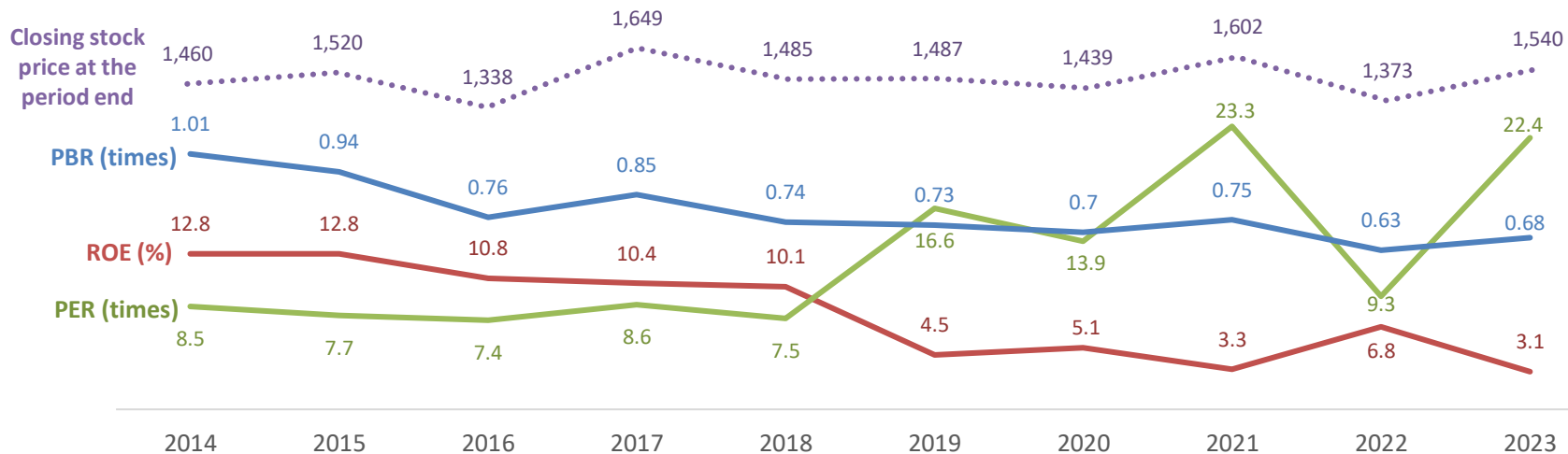


Business Policies

Add new markets for current products
Expand sales in other countries to more regions

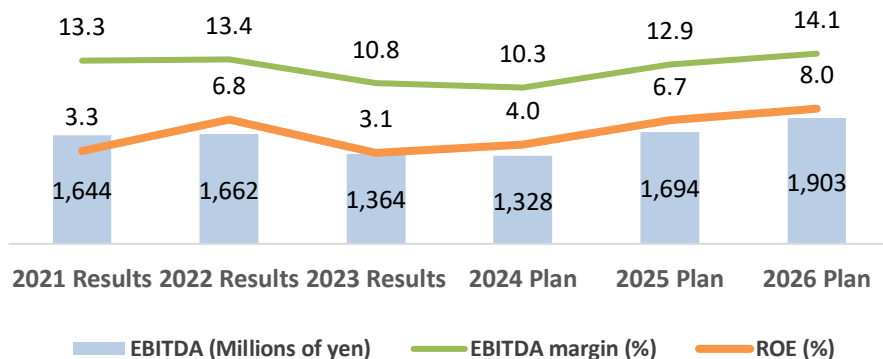
- (1) Target fire pump replacement demand
 - Use a pump replacement campaign to increase these sales
- (2) Increase sales of large safety pumps and produce these pumps internally
 - Large service stations, cultural properties, aerospace industry and other market sectors
 - Increase earnings by producing these pumps internally
- (3) Increase sales for pumps used in emergency water purification equipment
- (4) Work with sales agents to enlarge the lineup of disaster prevention products
- (5) Increase sales of fire pumps in China

6. Performance Indicators and Dividend Policy

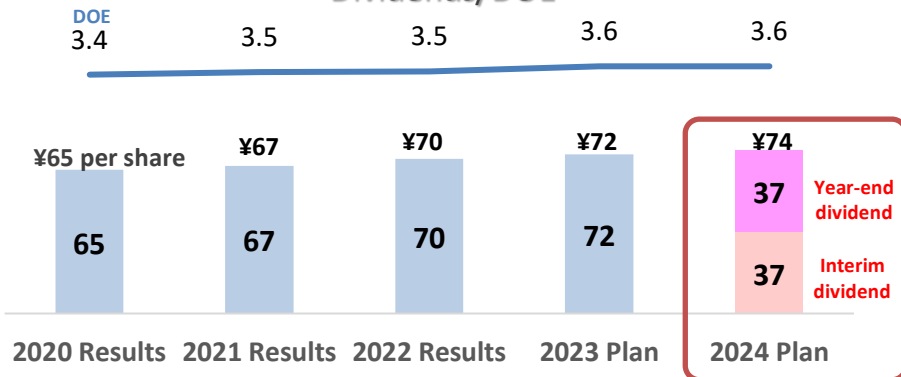


- (1) Emphasis on the ROE; the goal is an ROE of 8% in 2026 by building a stronger foundation for growth.
- (2) The dividend guidelines are a DOE of 3.5% until the ROE reaches 8% and a DOE of 4% after the ROE reaches 8%.

Performance Indicators



Dividends/DOE



Performance Targets

2026 EBITDA margin target: 14%

The performance indicator for earnings is the EBITDA margin due to the emphasis on profitability on a cash flow basis.

2026 ROE target: 8.0%

Increasing the ROE is a goal for all business operations.

Dividend Policy

DOE target: About 3.5%

Implement a DOE metric to ensure stable dividends while making proactive investments to enhance corporate value. We will implement a flexible strategy for shareholder returns through share repurchases, taking into account factors such as stock price trends, cash flow, and other relevant considerations.

Start paying an interim dividend to pay annual dividends in a more even manner and to increase the liquidity of our stock

2024 to 2026
Total capital of
¥6,100 million

Strategic investments

About ¥4,800 million

- (1) Capital expenditures: Infrastructure facilities, plant building reconstruction, etc. ¥3,000 million
- (2) R&D: Development of new products, activities with external organizations, etc. ¥1,500 million
- (3) Investments in people: Recruiting and training, revisions of human resources systems ¥300 million

Shareholder distributions











About ¥1,300 million

- Dividends in accordance with the dividend policy

- The plan for investments may be revised to reflect changes in results of operations and market conditions.

7. Sustainability Activities

We are dedicated to using business activities as a manufacturer to continue measures for ESG progress and for playing a role in achieving the Sustainable Development Goals.

ESG	Primary SDGs	Main involvement of Fenwal Controls
<p>Environment</p>	   	<ul style="list-style-type: none"> 6. Water supply during an emergency by selling emergency water purification systems 7. Energy conservation activities in accordance with ISO14001 guidelines 11. SSP and Fire Pump products help ensure the safety of communities 13. Activities to lower the impact of business operations in accordance with ISO14001 guidelines
<p>Society</p>	    	<ul style="list-style-type: none"> 3. Support for public health by selling medical equipment 4. Employee education by using e-learning and other training programs 5. Increasing workforce diversity by providing time off and other support concerning child birth, raising children and other family requirements 9. Contributing to technological innovations and progress by developing disaster prevention, temperature control, medical and other products 12. Committed to responsibilities involving the manufacture and use of products by maintaining a rigorous quality assurance framework
<p>Governance</p>		<ul style="list-style-type: none"> 16. <ul style="list-style-type: none"> • Contribution to social order through the responsible behavior of everyone at the group in accordance with the Fenwal Code of Conduct • Activities for sustainability based on compliance with Japan's Corporate Governance Code

■ Precautions

The contents contained herein are based on information that is currently available to us, and forward-looking statements are subject to a number of risks and uncertainties, including market conditions, currency exchange rates and other factors. Therefore, they may differ from our forecasts.

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