

# Actions to Achieve Management Conscious of Cost of Capital and Stock Prices

**Pigeon Corporation**

April, 2024

Celebrate babies the way they are



# Actions to Achieve Management Conscious of Cost of Capital and Stock Prices

## [PVA (Pigeon Value Added)]

Pigeon's proprietary management indicator aimed at increasing corporate value

Pigeon considers our own PVA (Pigeon Value Added), which is based on economic value added, to be an important management indicator.

PVA is calculated by subtracting the cost of capital from NOPAT (deemed operating profit after tax), and evaluates the extent to which corporate value is created through business activities in excess of the cost of capital. The PVA is designed to prevent business downsizing and to ensure further business growth by ultimately evaluating absolute values, rather than rates.

$$(PVA = NOPAT - \text{Cost of capital (Invested capital} \times WACC^*))$$

\*WACC (Weighted Average Cost of Capital): Weighted average of cost of debt and cost of equity.

Pigeon currently sets the WACC in the PVA calculation at 5%, but periodically (twice a year) the actual value is calculated, We verify the reasonability of the set values (cost of equity is calculated on a CAPM basis).

We will continue to consider the appropriate level of WACC through dialogue with investors and other parties.

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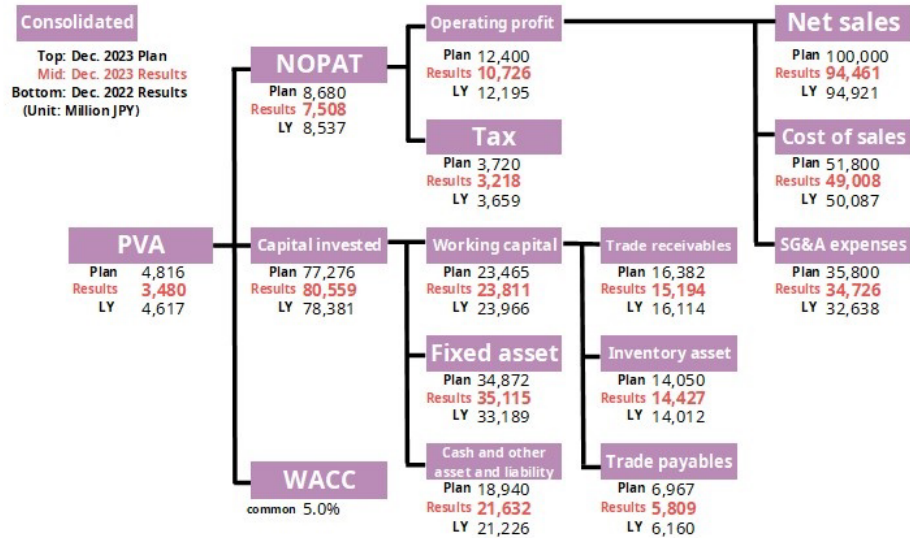
## [Introduction and Utilization of PVA]

Pigeon introduced PVA in 2013 and uses it as a tool to simultaneously pursue the three elements of profitability, efficiency, and growth for the entire Group. In addition to utilizing PVA throughout the Group as a whole, we also manage PVA at the business and company level, and the degree of PVA achievement is also incorporated into the calculation of compensation for full-time directors.

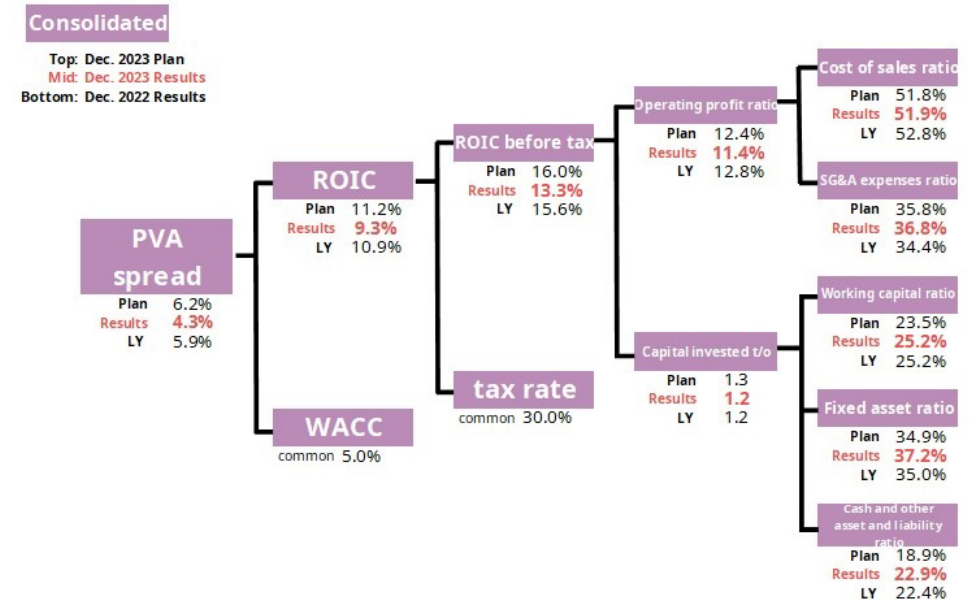
The PVA components are broken down into a tree-like structure, and each component is set and managed as a KPI, which is then incorporated into specific measures to improve PVA. This also helps visualize how each employee's work contributes to each component. Pigeon will continue to utilize PVA to further enhance corporate value.

[For PVA trees for each period, please refer to the financial results presentation (half/full year): [https://www.pigeon.com/ir/library/kesan\\_setumei/](https://www.pigeon.com/ir/library/kesan_setumei/)]

### FY 2023 Results - Consolidated PVA Tree



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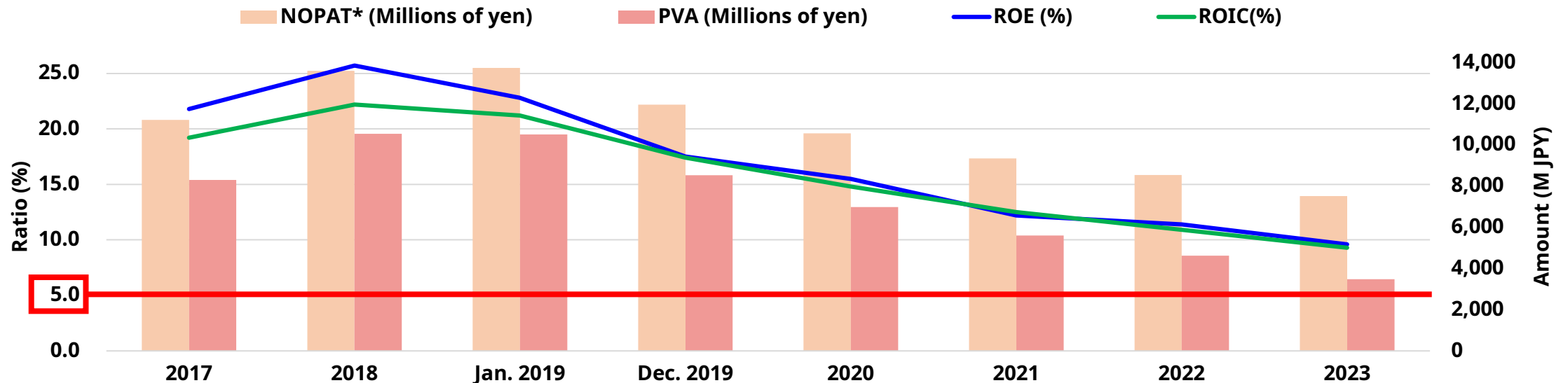
## [Current Status Analysis]

### Our challenge is recovery and growth of various PVA component

Currently, Pigeon's ROE is above WACC (our set value of 5%).

On the other hand, the market environment in many countries and regions is still in the process of recovery, with the Covid-19 period as a starting point, and the main markets suffering from market turmoil, a decline in the number of births, and soaring costs, etc. In the latest year 2023, sales in China slowed down due to the release of ALPS treated water, and other factors, and the company continues to face difficult conditions regarding business performance.

Accordingly, the levels of PVA and its various constituent indicators have been on a downward trend. Since the stock price level is generally in line with the trends of PVA and other KPIs, we recognize that the recovery and growth of PVA and its various PVA components is an important issue for improving corporate value.



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## [Future Initiatives: Toward Enhancing Corporate Value (1)]

Pigeon will promote the following initiatives to enhance corporate value through improvement of PVA and various KPIs, which are important management indicators.

\*See also Pigeon Group Value Creation Story (Integrated Report) <https://www.pigeon.com/ir/library/factbook/>

- **<Improvement of PVA> Execution of various strategies (e.g., 8th Mid-Term Management Plan) to improve profitability**

In order to respond flexibly to the rapidly changing global business environment and ensure sustainable growth, we will focus not only on sustainable growth in existing business areas by implementing our three basic strategies (brand strategy, core product strategy, and regional strategy), but also on exploring and cultivating new growth areas where we can leverage our expertise. We will proactively restructure our business structure and aim to improve various financial indicators such as PVA.

\*8th Mid-Term Management Plan <https://www.pigeon.com/ir/management/midplan/>

\*Forecast for FY 2024 Dec. [https://www.pigeon.com/ir/files/pdf/kessan20240215\\_e.pdf](https://www.pigeon.com/ir/files/pdf/kessan20240215_e.pdf)

[Financial KPI at the final year of 8th MTP]

- ROE of 14.0% or more
- ROIC of 15.0% or more
- PVA of 7 billion yen or more

- **<Improvement of Invested Capital> Efforts to reduce working capital (especially inventory levels)**

“Invested capital“, one of the component of PVA, we will promote optimization of capital efficiency and further improve PVA by working to reduce working capital, particularly through appropriate management of inventory levels and reduction of excess inventory.

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## [Future Initiatives: Toward Enhancing Corporate Value (2)]

- **<Improvement of PVA> Utilization of PVA to examine business portfolio and optimize allocation of management resources**

PVA and its component KPIs are used to verify the performance of each business and to examine the business portfolio, aiming for an optimal business structure and the optimal allocation of management resources to achieve it.

- **<Management Conscious of Stock Prices> <Reduction of capital costs> Disclosure related to ESG and materiality, and enhancement of dialogue with our shareholders and investors, etc.**

We will continue to enhance and improve the content of our disclosures on ESG-related and materiality issues, as well as on our activities to enhance the corporate value of our group, including the initiatives mentioned above. In addition, we will actively hold IR meetings, briefings, and other dialogues with various investors and other stakeholders to promote a better understanding of our company's situation and activities.

[Please also refer to the status of dialogue with shareholders, etc.:  
[https://www.pigeon.com/sustainability/governance\\_top/investor/](https://www.pigeon.com/sustainability/governance_top/investor/)]

- **<Management Conscious of Stock Prices> Incorporation of various performance and stock price indices into the calculation standards for executive compensation**

The calculation of compensation for directors (excluding independent outside directors) incorporates KPI progress evaluations such as PVA and ROIC, and is designed to foster a high awareness of various management indicators and the cost of capital among the management team. In addition, for the purpose of “same boat” (sharing awareness of interests with shareholders), TSR as a stock price index is also incorporated into the basis for calculation of executive compensation, and we will promote efforts to enhance corporate value over the medium to long term.

# Disclaimer on Forward-Looking Statements

This material includes certain forward-looking statements about the Pigeon Group. To the extent that statements in this material do not related to historical or current facts, they constitute forward-looking statements.

These forward-looking statements are based on the current assumptions and judgments of the Pigeon Group in light of the information currently available to it, and involve know and unknown risks, uncertainties and other factors, which may affect the statements made in this material.

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