

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

Pigeon Corporation

April 2025

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 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.

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

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

Pigeon currently sets the WACC for PVA calculations at 5%, but we periodically (twice a year) calculate the actual value (CAPM-based calculations) and also verify and compare other calculation methods to verify the appropriateness of the set value.

The CAPM base calculation is based on the following factors:

- Risk-free rate: Reference to 10-year government bond yield
- Beta: Multiple references to the average of monthly beta values (vs. TOPIX) for the past three years, calculated semiannually.
- Risk Premium : Refer to GPIF's expected return

With regard to our WACC setting, we will continue to hold dialogues with stakeholders to determine an appropriate level.

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

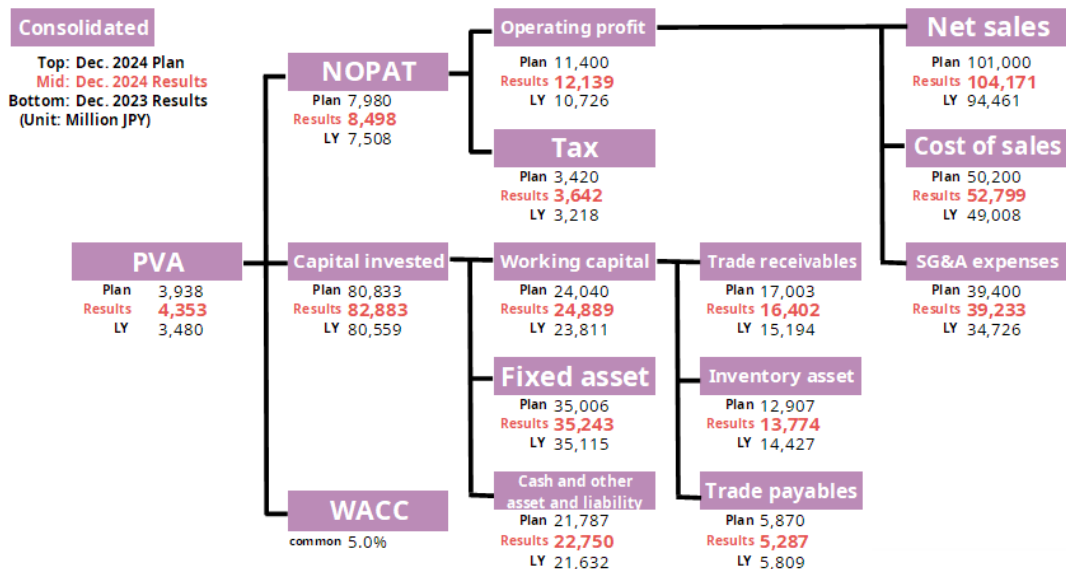
Utilization of PVA:

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.

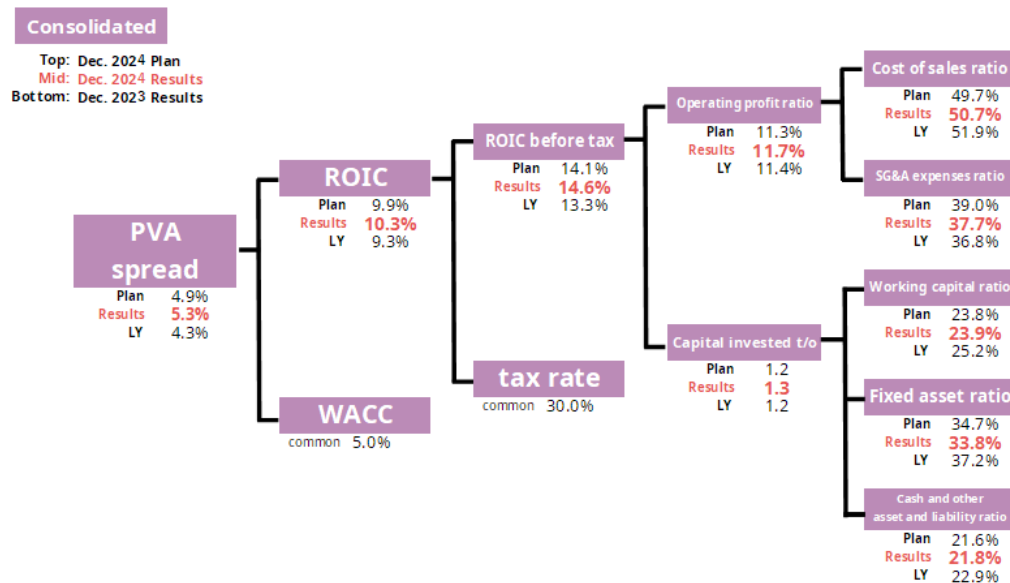
The PVA components are broken down into a tree-like structure, and each component is set and managed as a KPI, which is then incorporated into specific measures to improve PVA. This also helps visualize how each employee's work contributes to each component. Pigeon will continue to utilize PVA to further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

FY 2024 Results - Consolidated PVA Tree



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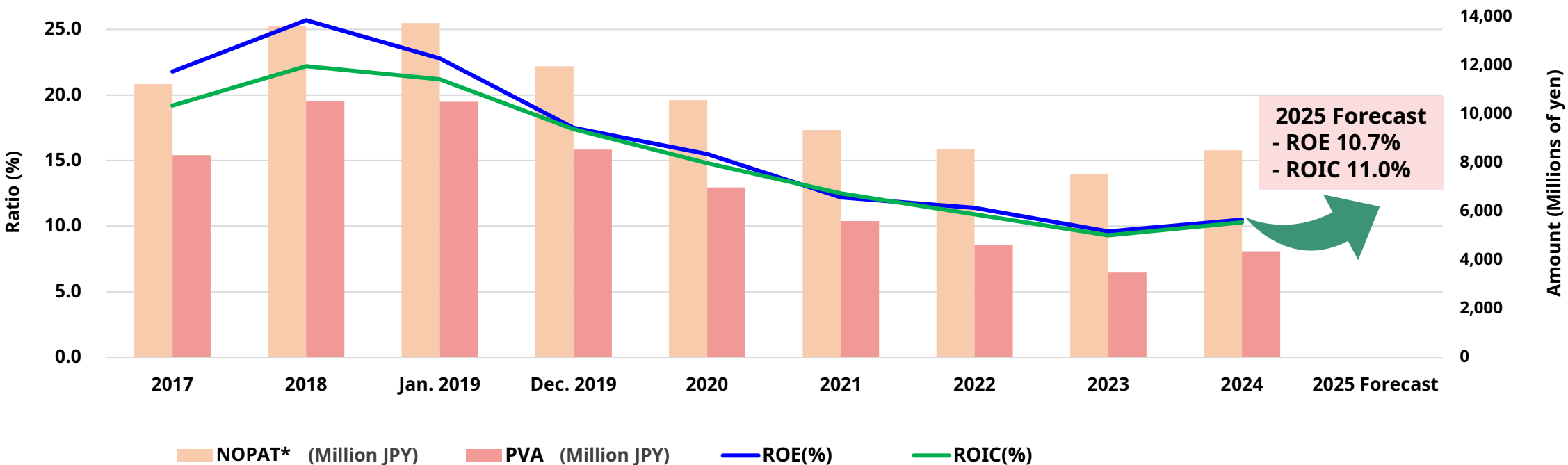
Actions to Achieve Management Conscious of Cost of Capital and Stock Prices

Current Analysis: Need further recovery and growth of PVA and various PVA components.

Our business performance has been hit by market turmoil, declining births, and rising costs in our core markets, starting with the Covid-19 pandemic, and while market conditions in many countries and regions are still in the process of recovery, the second half of 2023 also saw the release of ALPS treated water, causing harmful rumors in China and other businesses.

On the other hand, in 2024, we achieved and exceeded our annual forecast for the first time in seven fiscal years, and the levels of PVA and various other indicators are recovering.

Since the trend of the stock price level is also generally in line with the trends of various KPIs including PVA, we recognize that the recovery and growth of PVA and various PVA components is an important issue for improving corporate value, and we will work for further improvement without being satisfied with the current situation.



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Policy on 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/>

<PVA Improvement (Overall)> Improvement and implementation of strategies to improve profitability (8th Mid-Term Management Plan/Single Year Plan, etc.)

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. In addition, we will actively restructure our business structure and aim to improve various financial indicators such as PVA. We also update our strategies as needed in accordance with the progress of each business and current issues.

*The 8th Mid-Term Management Plan (2023~2025) <https://www.pigeon.com/ir/management/midplan/>

It is difficult to achieve the quantitative targets (final year targets) initially set forth in the 8th MTP, but refer to the following documents for future initiatives based on the business environment and challenges in each business, our return policy and cash allocation policy.

*FY Dec. 2025 Strategic and Financial Outlook https://www.pigeon.com/ir/files/pdf/kessan20250214_e.pdf

Key Financial KPIs for FY Dec./2025: ROE 10.7%, ROIC 11.0%

<Improvement of invested capital> Efforts to reduce working capital (especially inventory levels)

Of the "invested capital" 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.

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

Policy on Future Initiatives: Toward Enhancing Corporate Value (2)

<Improvement of PVA (overall)> 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 realize it. Once a year at the board meeting in February or March following the finalization of the financial statements, board members discuss to evaluate each business based on the following criteria and confirm our basic stance for each business such as "investment & growth", "maintain status quo", "structural reform", and "downsize and/or withdrawal".

- (1) Our purpose of the Pigeon Way (Do our business contribute to the realization of our purpose?)
- (2) Economic value (Is the business capable of generating earnings in excess of its cost of capital?)
- (3) Social value (Do our business contribute to solving social issues?)

<Management with an awareness of stock prices> <Reduction of capital costs> Disclosure related to ESG and materiality issues and enhancement of dialogue with various investors, etc.

We will continue to enhance and improve the content of disclosures related to ESG and materiality with regard to our activities to enhance the corporate value of our group, including the initiatives mentioned above. In addition, we will actively engage in IR/SR 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/]

<Management with an awareness of stock prices> Incorporation of various performance and stock price indices into the calculation criteria 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.

Contact

Pigeon Corporation

Business Strategy Dept.

PIC: Kanatsuka, Matsuda, and Hiratsuka

+81-3-3661-4204

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