Pro-Ship
Speciality for Customer

# Action to Implement Management that is Conscious of Cost of Capital and Stock Price

Pro-Ship Incorporated (SIC 3763, TSE Prime Market)

November 15, 2024

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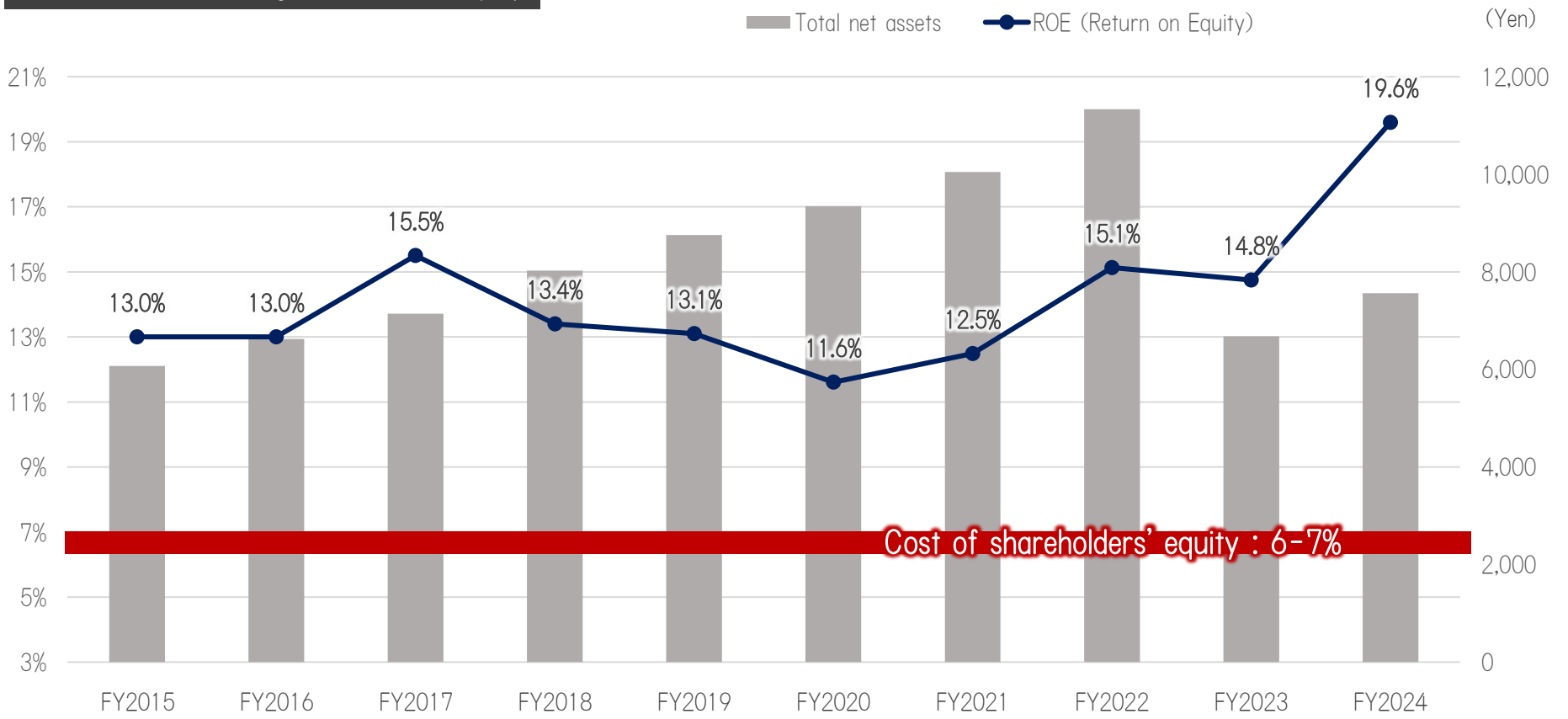
# Current Situation of Capital Costs and Return on Capital - ROE

ROE (Return on Equity) remains stable over the long term at over 10%.
This is further enhanced by the share buyback in FY2023,
it greatly exceeds our estimated cost of equity (6-7%).

Cost of equity: Calculated using CAPM (risk-free rate + ( $\beta$ × market risk premium))

ROE (net income/average shareholders' equity)

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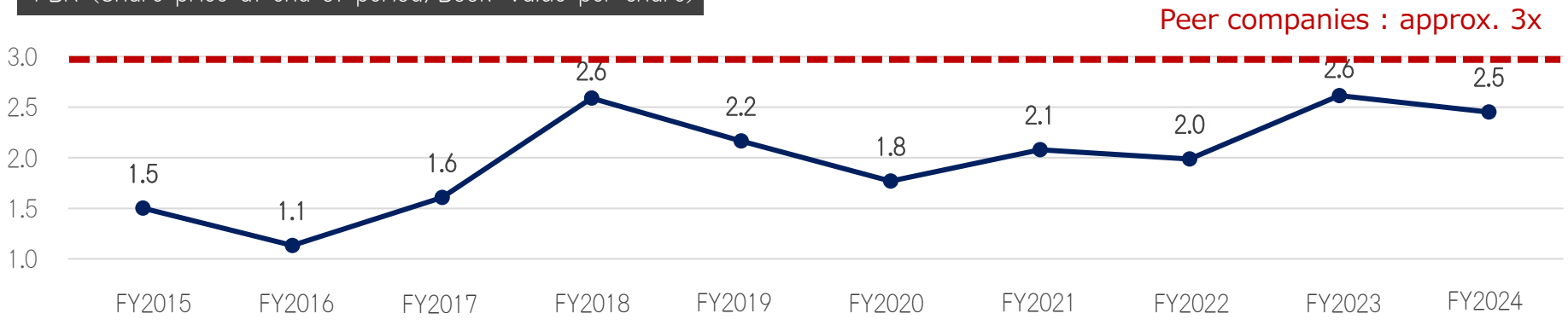
# Current Situation of Capital Costs and Return on Capital - PBR / PER

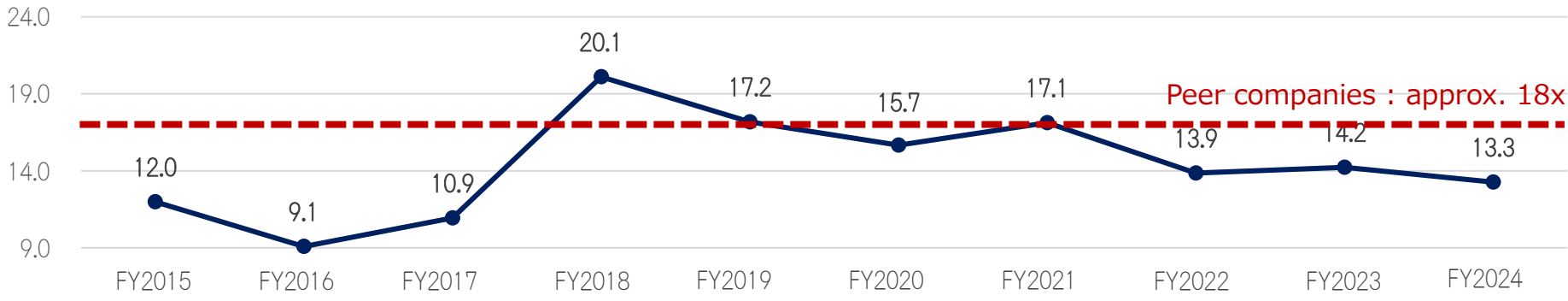
- PBR has remained above 1x over the long term, but it has not reached the level of other companies in the same industry.
- PER has averaged 14.8x over the last 5 years, which is below the level of other companies in the same industry.

⇒Market expectations for our growth strategy have not been properly raised.

PBR (Share price at end of period/Book-value per share)




PER (Share price at end of period/Net income per share)

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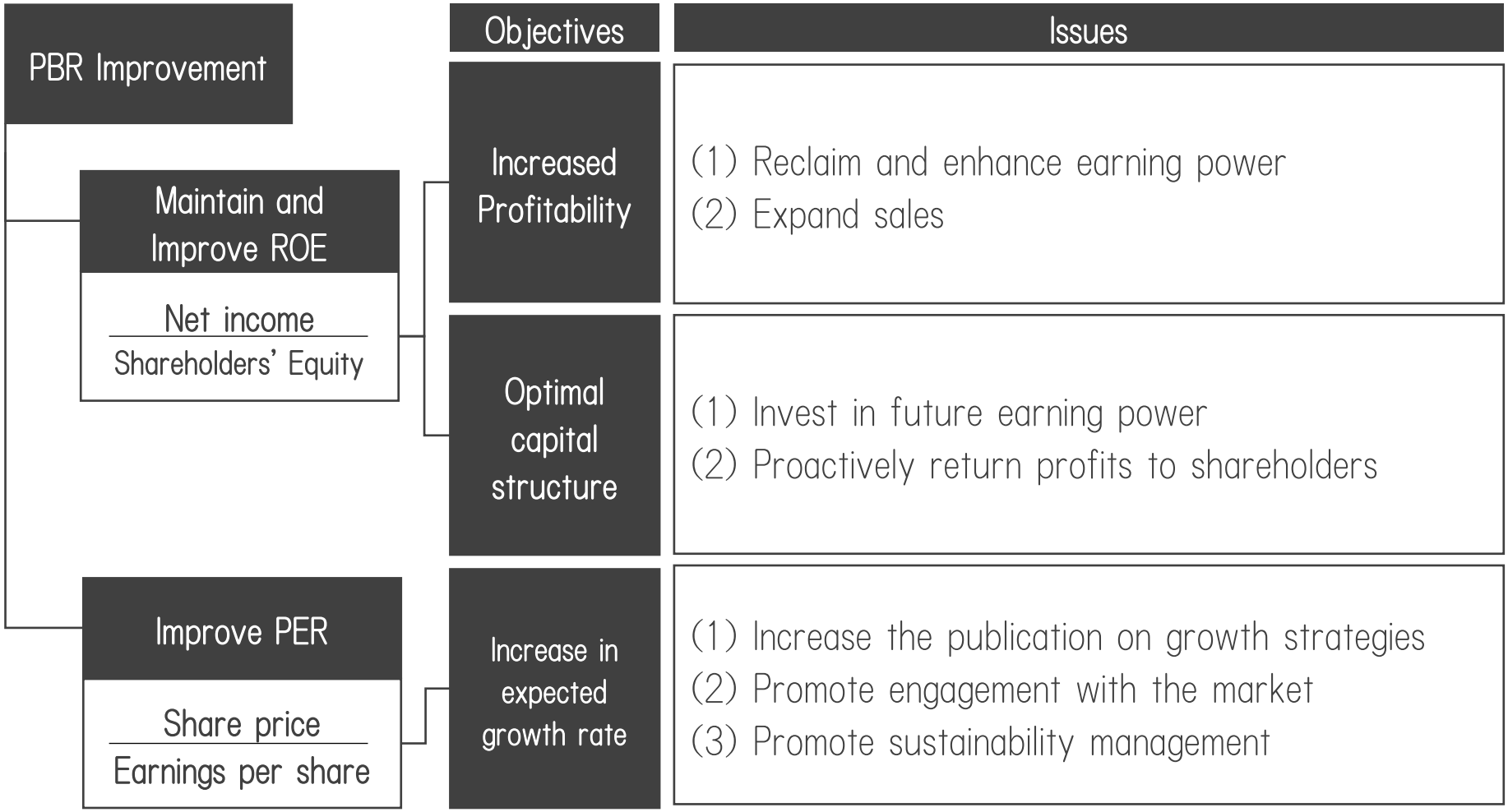
## Decomposition of factors to improve PBR (= ROE x PER )

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## Maintain and improve ROE - Increased profitability

| Issues | Specific Goals and Initiatives |
|---|---|
| (1) Reclaim and enhance earning power | - Building a Hybrid Model<br>( Conventional one-time purchase license business model + SaaS subscription business model )<br>- Expansion of recurring revenue<br>- Maintaining an ordinary profit margin of over 30%<br>- Ordinary profit per employee of over 10 million yen (FY3/2029) |
| (2) Expand sales scale | - Expanding results in growth areas such as social infrastructure industry, new lease accounting standard<br>- Average annual growth rate of sales: over 15%<br>( FY3/2025 - FY3/2029 ) |

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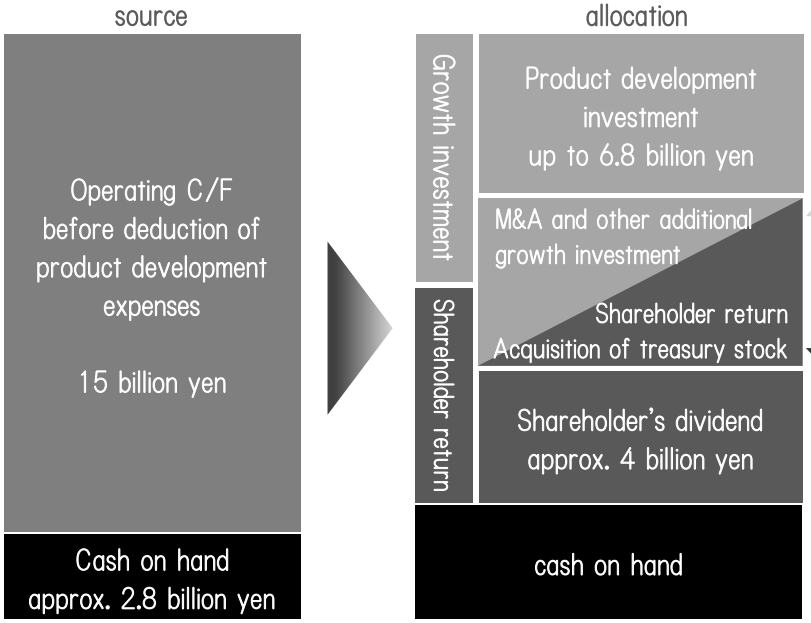
## Maintain and improve ROE - Optimal capital structure

| Issues | Specific Goals and Initiatives |
|---|---|
| (1) Invest in future earning power | - Continuous investment in strengthening products that are the source of revenue<br>- Investment in inorganic growth, such as M&A and business partnerships |
| (2) Proactively return profits to shareholders | - Maintaining a dividend payout ratio of 40% or higher and progressive dividend policy<br>- Flexible share repurchases |

## Cash Allocation ( FY3/2025-FY3/2029 )

While investing in human capital, such as by increasing employee compensation levels, we will seek to maximize operating cash flow.




- Investment in product development 7-13% of sales
- New product sales composition ratio: over 30% (FY3/2029)

Flexible implementation in consideration of business environment

- Maintaining dividend payout ratio of over 40%
- Continuation of progressive dividends

- Appropriate cash position based on factors such as increased working capital and business risk

*Operating C/F before deduction of product development investment = Operating CF + (R&D expenses + product repair and maintenance expenses)
*Product development investment = R&D expenses + product repair and maintenance expenses + intangible assets

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## Improve PER - Increase in expected growth rate

| Issues | Specific Goals and Initiatives |
|---|---|
| (1) Increase the publication on growth strategies | - Publication of medium/long-term goals and plans for achieving them<br>- Enhancement of information disclosure |
| (2) Promote engagement with the market | - Strengthen communication with shareholders and investors |
| (3) Promote sustainability management | - Promotion of human capital management<br>Ratio of female directors exceeds 30%, introduction of restricted stock compensation, enhancement of training and development, etc.<br>- Environmentally Sustainable Operations<br>Promotion of cloud computing and digitalization, use of energy saving appliance, etc.<br>- Contribution to the community<br>Establishment and expansion of Saga office, etc.<br>- Strengthening Corporate Governance |

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# Pro-Ship Incorporated (Securities Code: 3763)

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