



February 13, 2025

To whom it may concern

Company name: Tokushu Tokai Paper Co., Ltd.
Name of representative: Yuji Matsuda,
President and Chief Executive Officer
(Securities code: 3708; TSE Prime Market)
Contact: Hiro Mochizuki,
Executive Officer and Senior General
Manager
(Tel: +81-3-5219-1816)

(2025 Update) Notice Regarding Measures to Realize Management with Capital Costs and Stock Prices

On May 15, 2024, our Company released the, "Notice Regarding Measures to Realize Management with Capital Costs and Stock Prices" and has been steadily implementing various measures stipulated in the 6th Medium-Term Management Plan as well as continuously examining the PBR improvement measures. At a meeting of the Board of Directors held on February 13, 2025, we updated the current status and evaluation, together with the response measures and initiatives from the content announced last year, as per the attached document.

(2025 Updated)

Notice Regarding Measures to Realize Management with Capital Costs and Stock Prices

Tokushu Tokai Paper Co., Ltd. (TSE Prime 3708)

February 13, 2025

Current Status and Evaluation

- The Company recognizes that our assumed cost of equity is approximately **9.0%**, not 4.6% as calculated by CAPM*.
- Capital profitability (ROE) is below the assumed cost of equity, and PBR is lower than 1.0 times.

■ Estimation of our cost of equity

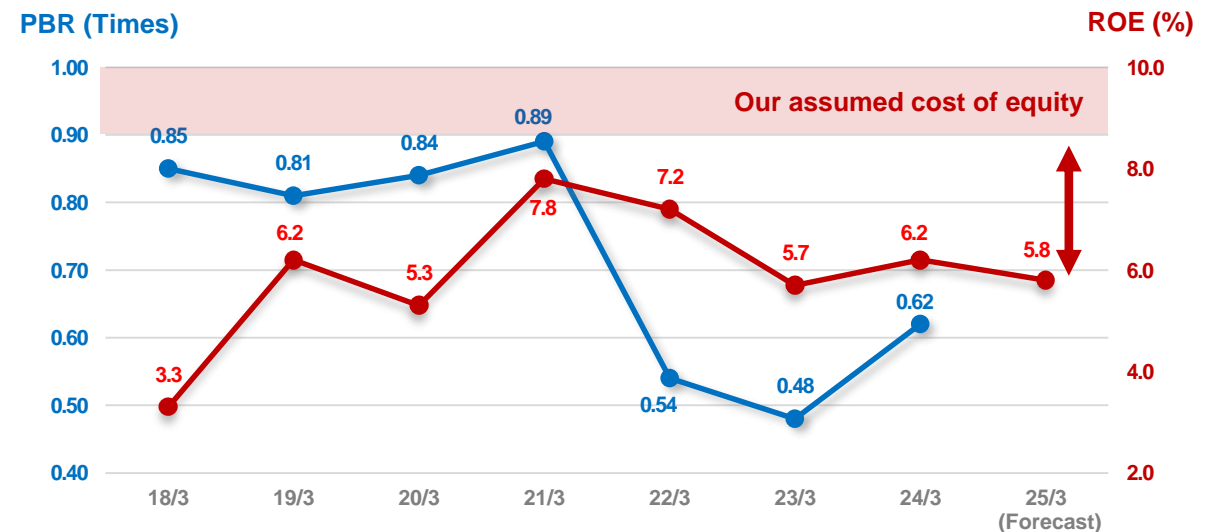
Calculation formula and assumptions

$$PBR = 1 + \frac{ROE - r}{r - g}$$

- r = Cost of equity
- g = Expected growth rate
- Average ROE over the last 10 years = 5.16%
- Expected growth rate is assumed as $\pm 1.0\%$

- As a result of estimating the cost of equity using the residual profit model, the cost of equity estimated from stock prices is about 9.0%.
- The desired cost of equity mentioned in dialogue with shareholders and investors is more than 9.0%, which is close to the estimated value.

■ Trend in PBR, ROE

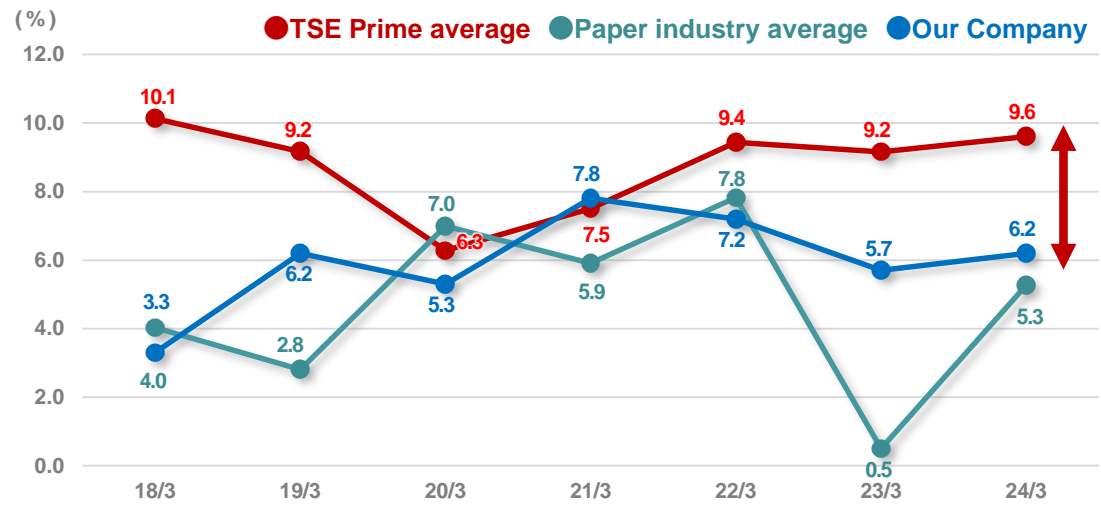


- ROE is about 3-4% below our assumed cost of equity.
- PBR was 0.5-0.6 times, which reminded us of the need for improvement.

Current Status and Evaluation

- Based on the assumption that $PBR = ROE \times PER$, both capital profitability and market valuation are recognized as low.

ROE in the industry

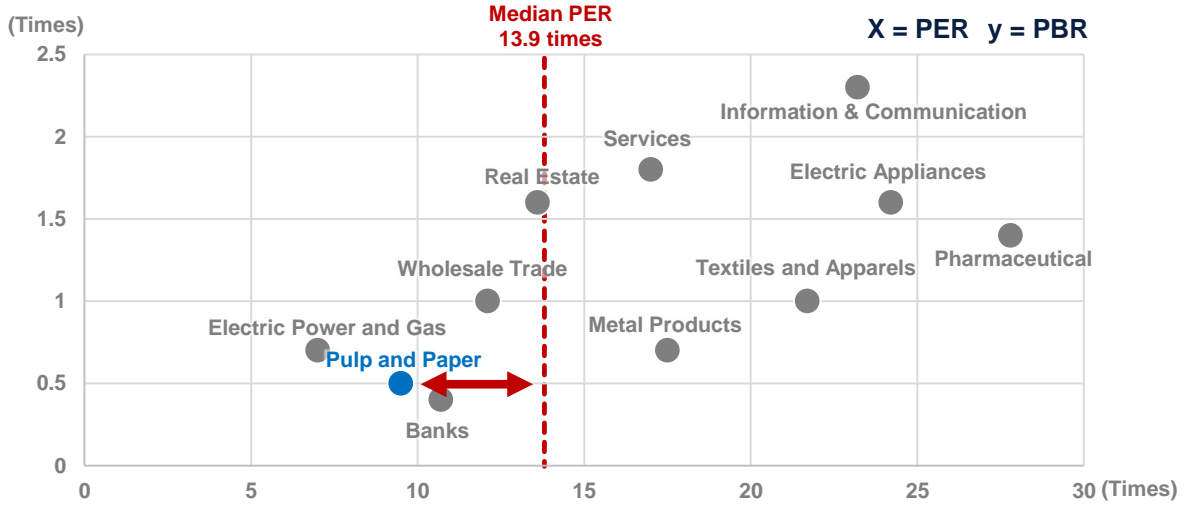


- The average for the pulp and paper industry, including our Company, is around 5-6%, which is about 3-4% below the average for the TSE Prime market.



In order to increase capital profitability above the assumed cost of equity, it is necessary to enter business areas where ROE is higher than in the pulp and paper industry.

Market valuation by industry (As of October 31, 2024)



- While the median PER of the 33 industries on the TSE is 13.9 times, the PER of the pulp and paper industry is 9.5 times (10.3 times in our Company), showing a tendency toward lower market valuations.



The pulp and paper industry may be perceived by investors as having discounting factors.

It is necessary to promote the growth potential to investors and reduce future risks.

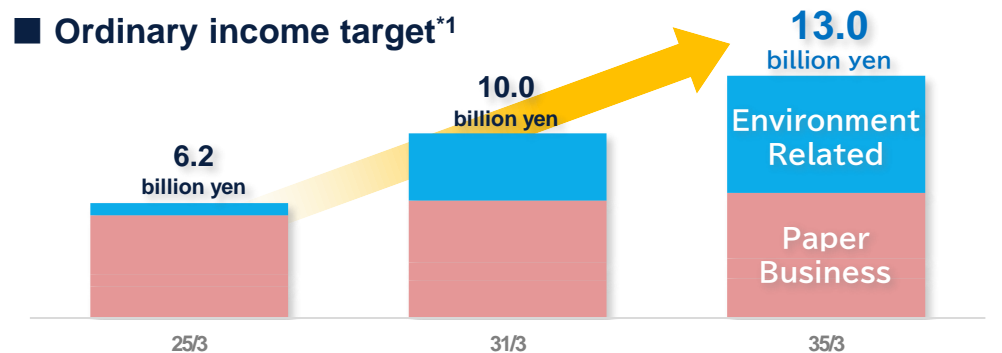
*Graphs are compiled based on TSE statistical data, etc.

- Based on the analysis and evaluation, we revised the long-term target upward from ROE 8.0% in the long term to "ROE 8.0% in FY2030 and ROE 9.0% or more in FY2034."
- We are in the process of formulating an effective 7th Medium-term Management Plan based on backcasting from our long-term goals (to be disclosed in May 2026).

Improve capital profitability

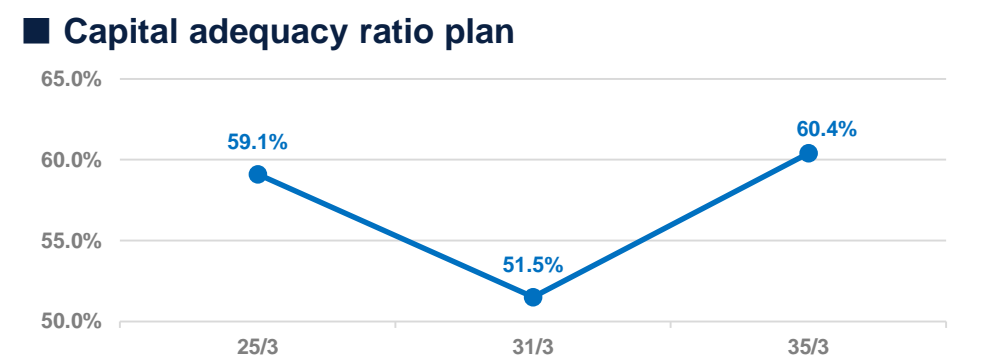
Improved profitability

- We are expanding and consolidating our Environment Related Business (industry average ROE of 12.5%) and moving to a business model that solves environmental issues.
- In the Paper Business, we will focus on high-profit products while improving production efficiency, such as converting our factories to DX.



Equity optimization

- The capital adequacy ratio is managed at an appropriate level*3 with the aim of maintaining and improving the credit rating of BBB/Positive*2.
- While maintaining financial stability, we will increase our debt-to-equity ratio (gross) up to 0.6 times from current 0.3 times and make growth investments.

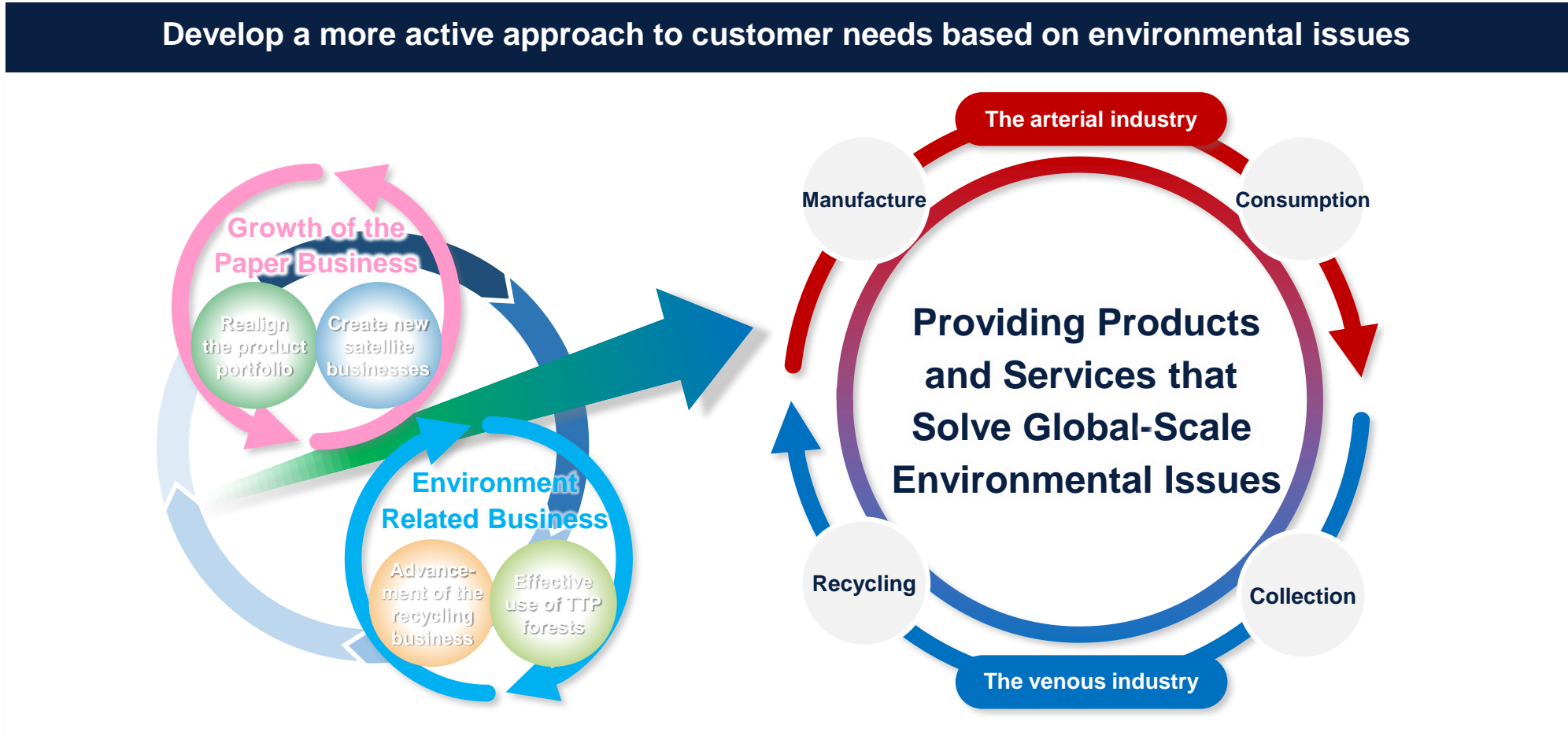


*1 The total amount of ordinary income includes other non-operating factors.

*2 Japan Credit Rating Agency, Ltd.

*3 Capital adequacy ratio as of December 2024 is 58%.

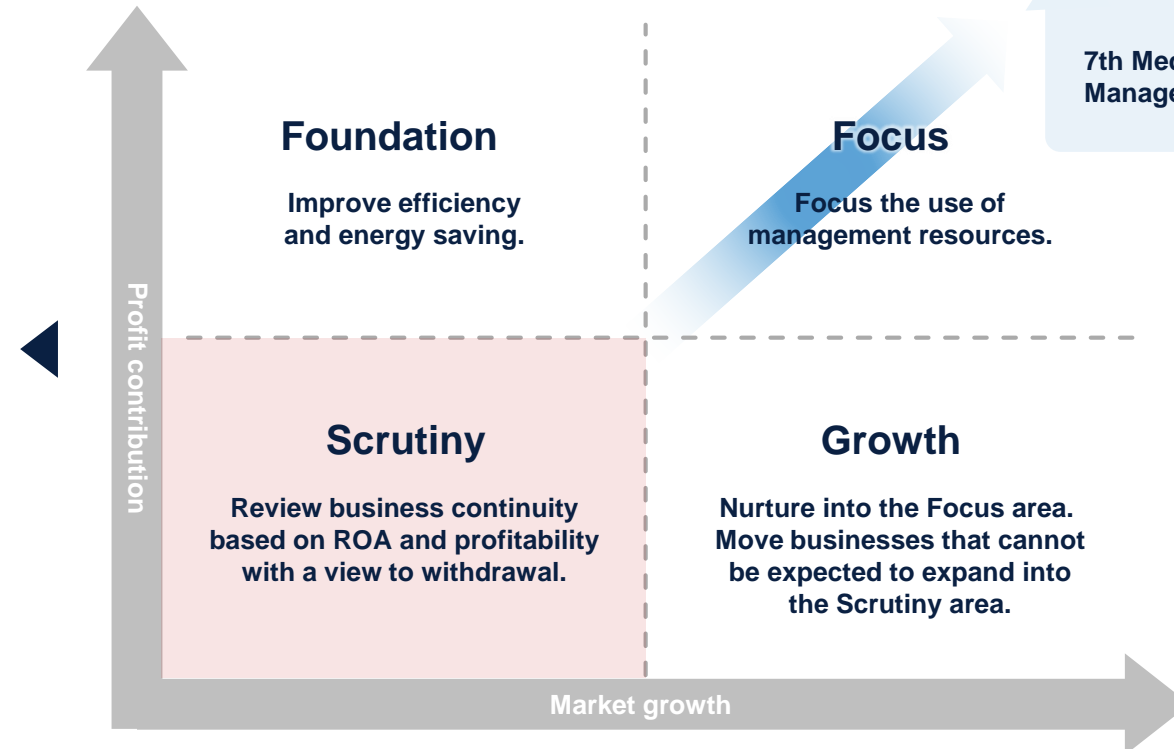
- In order to improve earnings, we intend to integrate our management resources in the Paper Business and Environment Related Business and transform into a business model that solves environmental issues.
- We will actively carry out M&A and alliances for further growth.



- We will continue to promote business portfolio management that is conscious of capital efficiency set forth in the 6th Medium-term Management Plan.
- In the 7th Medium-term Management Plan, we will use ROIC as a management indicator to make efficient growth investments.

Efforts thus far

- **Closure of the Gifu Mill**
 - Production of Special Papers is integrated into the Mishima Mill (March 2024)
 - Improve operation rate and reduce fixed costs in the Mishima Mill.
- **Reduce assortment of Fancy Paper**
 - We are selecting and discontinuing products with low profitability and sales growth
 - Aim for profitable product mix even in the shrinking market



Business & investment decisions

6th Medium-term Management Plan = Manage businesses with ROA and investments with ROI

7th Medium-term Management Plan = We will change the management index to ROIC.

- To enhance profitability, we will review our human resources strategy in conjunction with our management strategy.
- We will allocate significant human capital to the Environment Related Business.

■ Human resources strategy needed in order to improve profitability

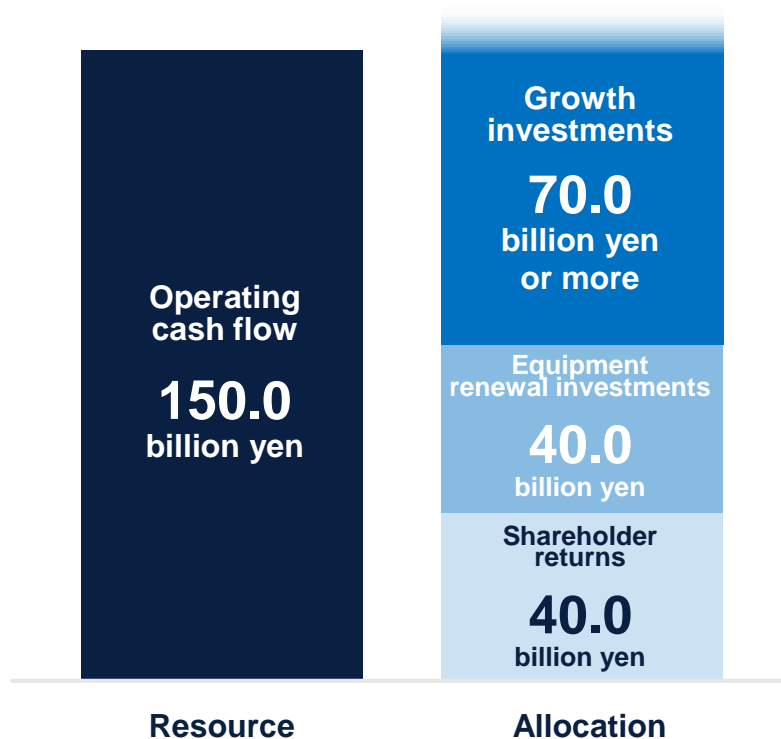
Themes	Issues
Business portfolio transformation	1 Development of management personnel
	2 Securing and developing specialized personnel
	3 Promoting DE & I
	4 Optimal human resources allocation
Improvement of productivity and efficiency	5 Securing and developing DX human resources
Creation of an organizational culture for business scale expansion	6 Improving engagement levels
Corporate activities from an investor's perspective	7 Raising employee awareness for growth



Major initiatives	Related issues
Establishment of Talent Management System	1, 2, 3, 4, 5
Active recruitment of specialized and diverse human resources and reskilling	1, 2, 3, 5
Selective education for management personnel	1
Internal recruitment, institutionalization of internal side jobs, and enhancement of career development support operations	2, 3, 4, 5, 6, 7
Improvement of treatment system (continuous wage increases and proper allocation)	2, 5, 6
Dissemination of management philosophy and company policy	6, 7
Promotion of internal communication	6, 7
Promotion of working styles that are not tied to time or place	3, 6
Introduction of a stock-based compensation system	6, 7

- We aim to achieve an ROE of 9.0% or more by increasing growth investments while maintaining a balance between financial soundness and growth strategies.

■ Capital allocation policy over the next 10 years*



In parallel with the formulation of the next Medium-term Management Plan, we will update the Long-term Plan to be more effective based on the following assumptions.

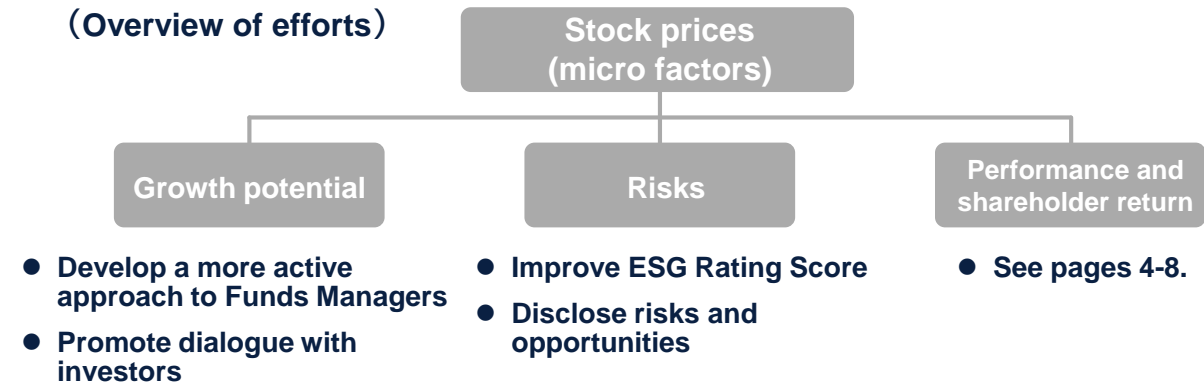
- The Paper Business is now generating more cash than the Environment Related Business.
- Cash from the Paper Business will be spent on growth investments.
- This will improve the profitability of our Environment Related Business over 10 years.
- We will also actively return profits to shareholders while investing in growth.

- We will reduce our cost of equity through dialogue with investors and make them aware of our growth story that is independent of sectors.
- We will develop IR activities that are conscious of improving trading value in order to eliminate the difficulty of investing.

■ Dissemination of growth potential and disclosure of risks

- Promote a growth story that is independent of sectors, and encourage an improvement in the evaluation of individual companies rather than the industry.
- Enhance information disclosure as not disclosing the risks and opportunities will cause lower future cash flows.

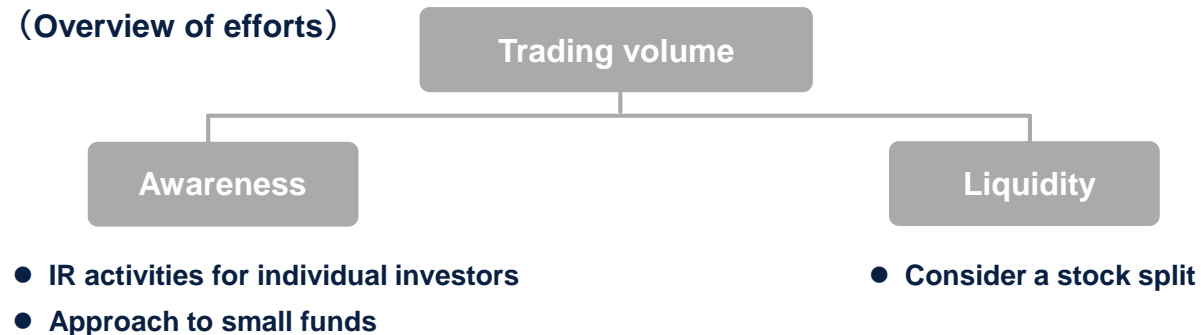
(Overview of efforts)



■ Improve trading volume

- The low daily trading value* has hampered the capital inflows and the stock price.
- First, raise awareness and aim for a trading value of 100 million yen or more.

(Overview of efforts)

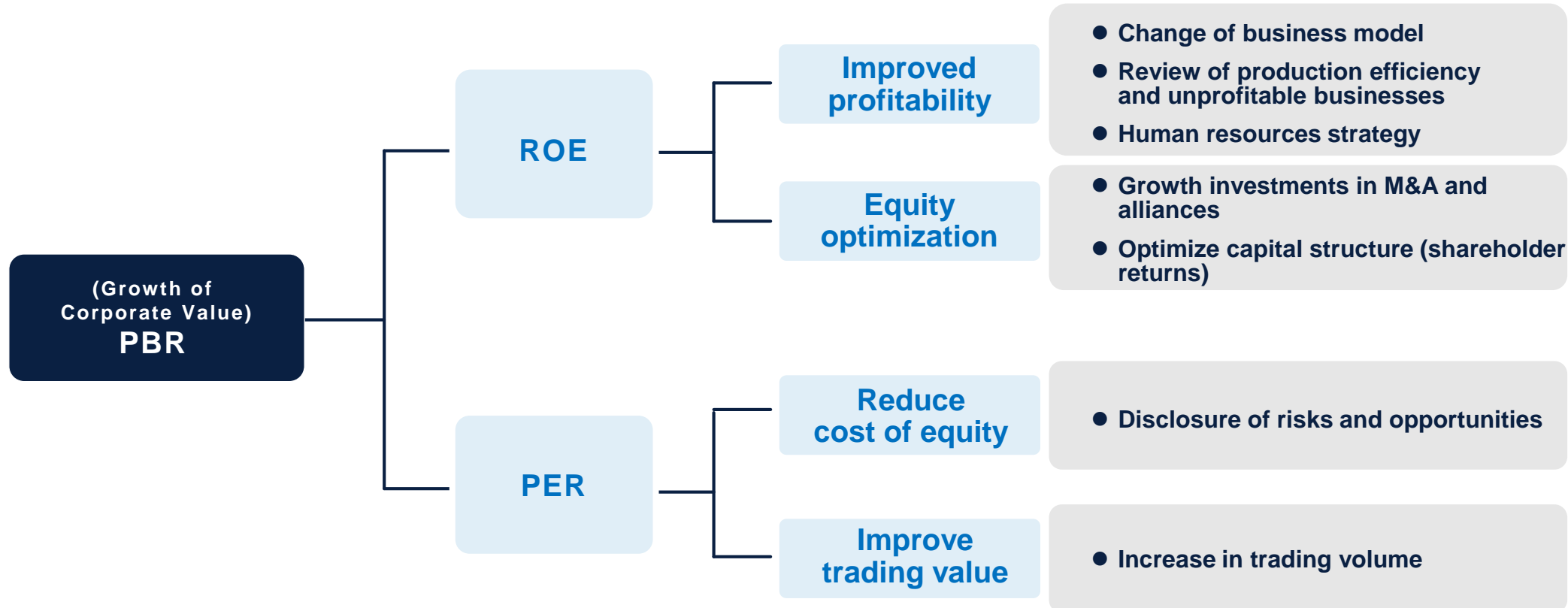


*About 70 million yen on average in 2024

- Change to a business model that solves environmental issues, and improve capital profitability by optimizing equity capital
- Reduce the cost of equity through dialogue with investors, and achieve market valuation by improving trading value



Growth of Our Corporate Value





Contact

Inquiries:

TEKKO BUILDING 11F, 1-8-2
Marunouchi, Chiyoda-ku, Tokyo

E-mail: ttp.ir@s.tt-paper.co.jp

* Plans, actions and other statements in this presentation are based on management decisions using information that was available as of the date of this presentation. As these statements include numerous risk factors and other uncertainties, actual results of operations may differ from the information in this presentation.