Material 5

Provisional Translation

Reference Material for the Twenty-Third Council (Capital Efficiency/Allocation of Management Resources, etc.)

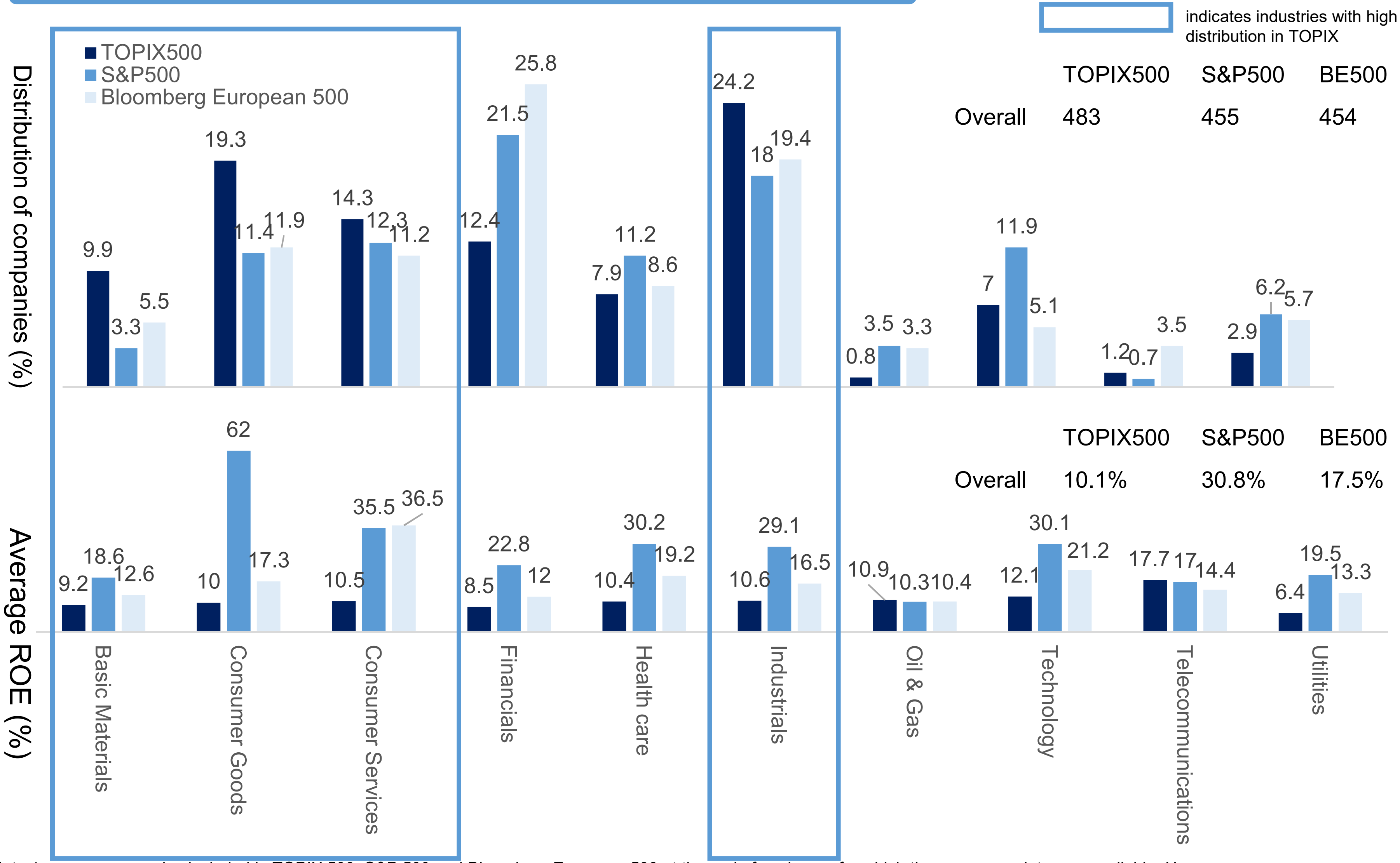
January 26, 2021
Japan Financial Services Agency

1. General Remarks

(1) ROE and DuPont Decomposition

□ A comparison of ROE by industry between Japan, the U.S. and the U.K. is shown below.

Percentage distribution and average ROE by ICB industry by country-specific index



	TOPIX500	S&P500	BE500
Overall	483	455	454

	TOPIX500	S&P500	BE500
Overall	10.1%	30.8%	17.5%

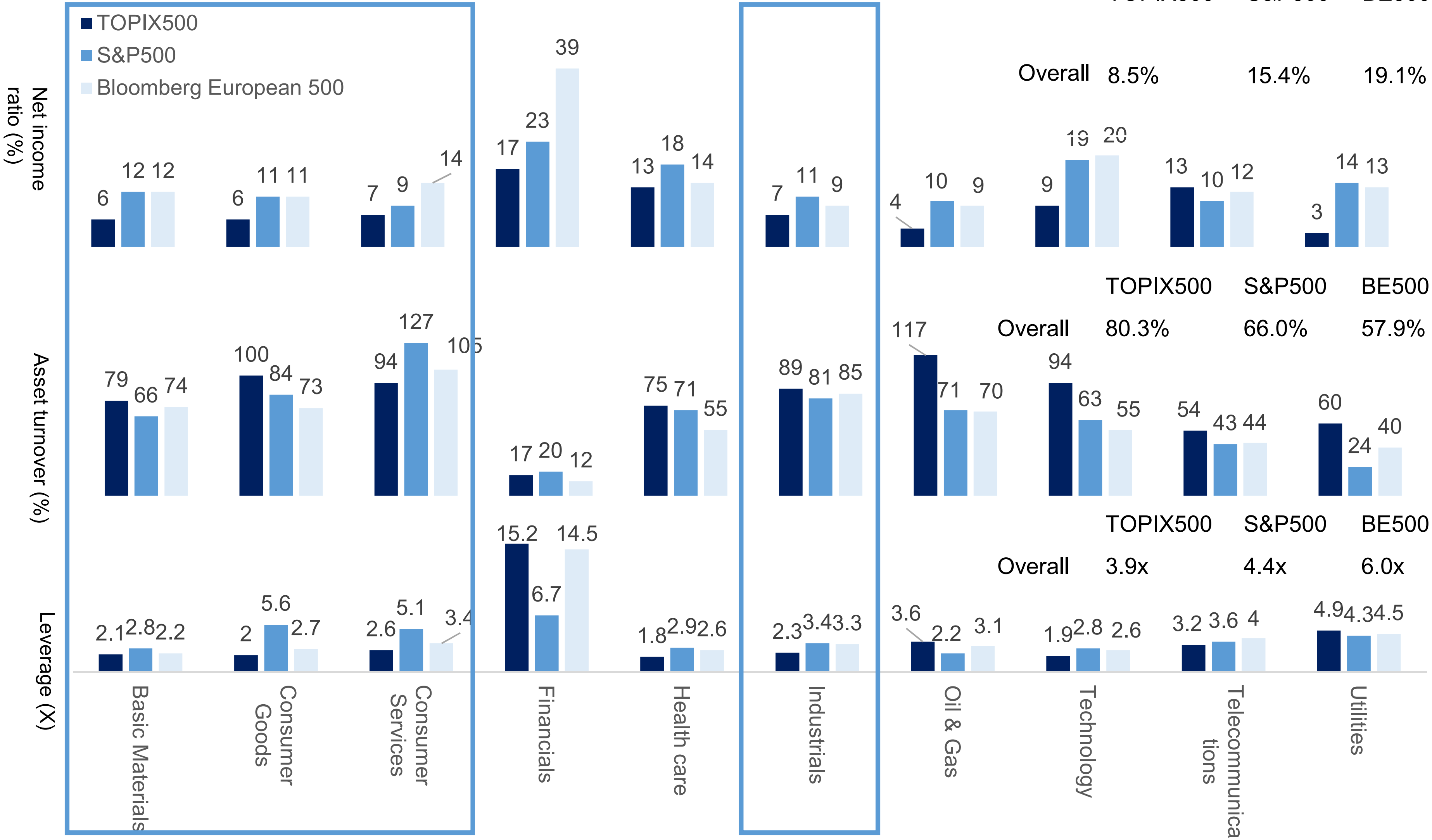
Note 1: covers companies included in TOPIX 500, S&P 500 and Bloomberg European 500 at the end of each year for which the necessary data was available. However, companies with negative net income or shareholders' equity were excluded.
Source: compiled by Financial Services Agency (FSA) from Bloomberg

(1) ROE and DuPont Decomposition

□ The following table compares ROE by industry in Japan, the U.S. and the U.K. based on the DuPont decomposition.

Average of DuPont decomposition by ICB industry by country-specific index

indicates industries with high distribution in TOPIX



	TOPIX500	S&P500	BE500
Overall	8.5%	15.4%	19.1%

	TOPIX500	S&P500	BE500
Overall	80.3%	66.0%	57.9%

	TOPIX500	S&P500	BE500
Overall	3.9x	4.4x	6.0x

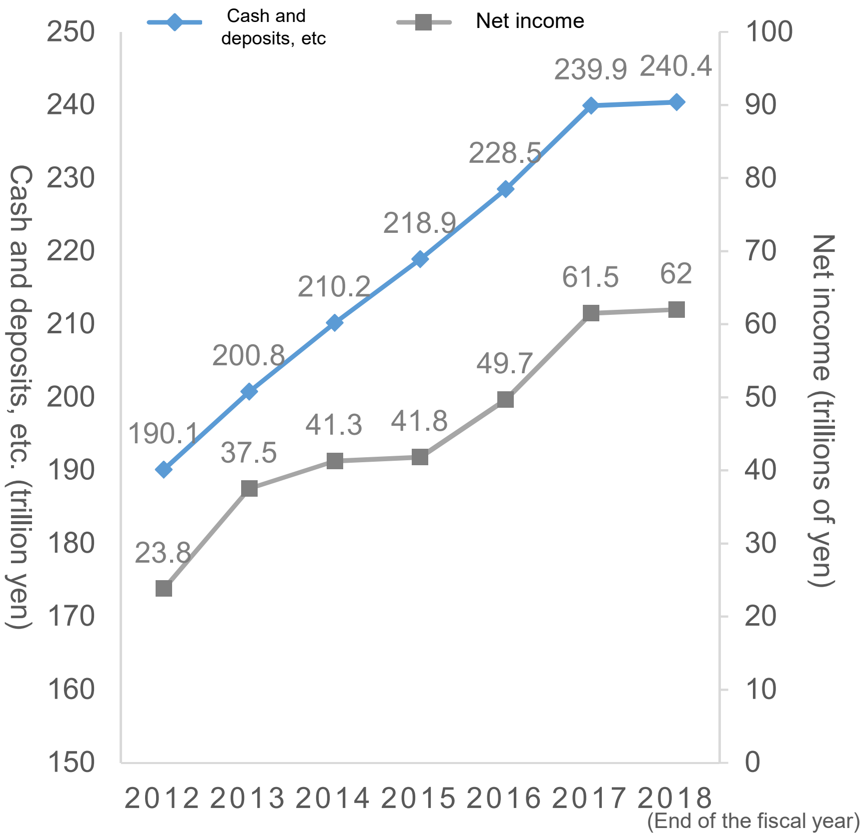
Note 1: covers companies included in TOPIX 500, S&P 500 and Bloomberg European 500 at the end of each year for which the necessary data was available. However, companies with negative net income or shareholders' equity were excluded.
Source: compiled by FSA from Bloomberg

2. Securing Management Resources

(2) Cash and Deposits, etc.

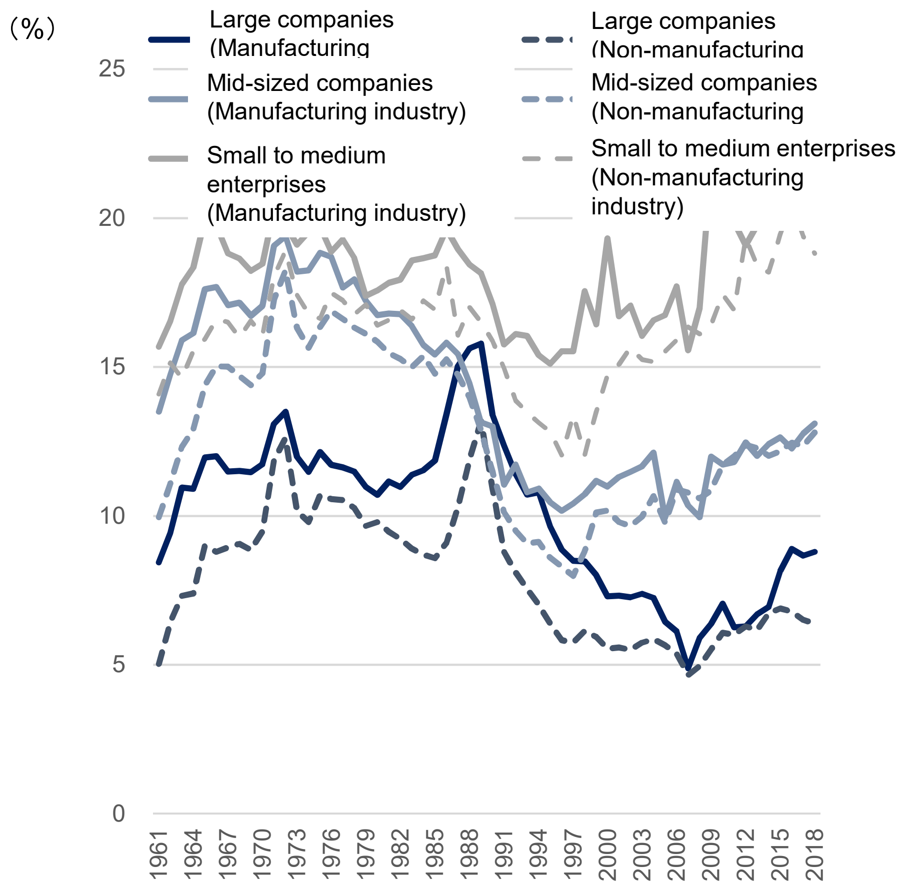
- In the past 10 years, **net income has been on an upward trend**, and **cash and deposits have also been on the rise.**
- Cash-to-debt ratio is different depending on company size. The increase in cash-to-debt ratio is more pronounced among SMEs.

Changes in cash and deposits, etc. and net income



Note 1: all industries except finance and insurance.
Note 2: "cash and deposits, etc." refers to cash and deposits plus marketable securities (for trading purposes or those maturing within one year).
(Source: FSA, based on the Financial Statements Statistics of Corporation by Industry)

Changes in cash ratio by company size

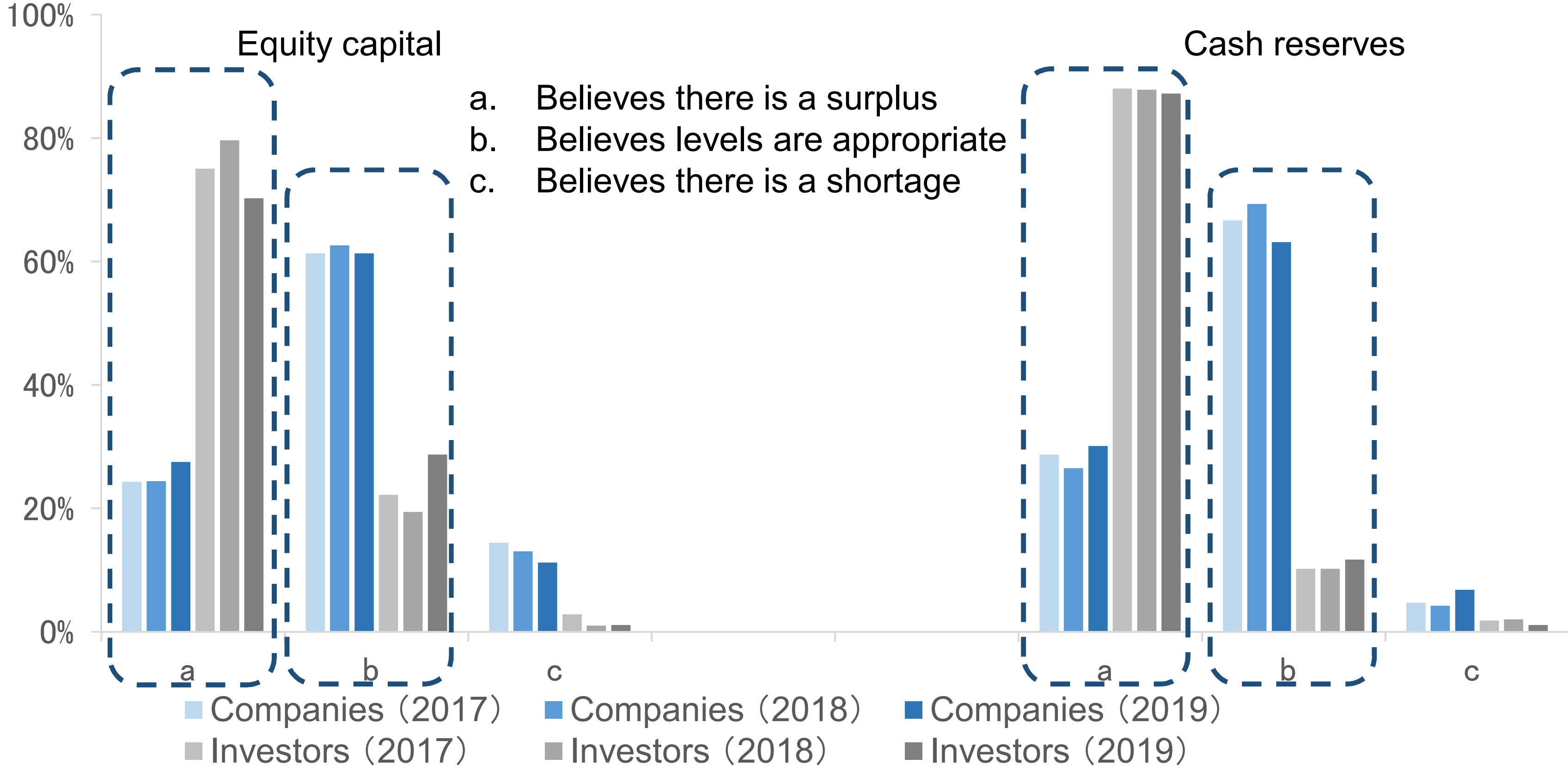


Note 1: cash-to-debt ratio is calculated as cash and deposits/total assets
Note 2: by size; companies with capital of 1 billion yen or more are considered large, companies with capital of 100 million yen or more but less than 1 billion yen are considered medium, and companies with capital between 10 million yen or more but less than 100 million are considered small.
Note 3: All industries except finance and insurance.
Source: Compiled by the FSA based on the Corporate Enterprise Statistics.

(2) Companies' and Investors' Perceptions of the Level of Shareholders' Equity and Cash Reserves

□ **Companies consider their equity capital and cash reserves to be at the appropriate level, while investors consider them to be in a surplus.**

Corporate and investor perceptions of the level of equity capital and cash reserves



(Number of responses [companies]: FY2019: 527, FY2018: 529, FY2017: 568)
(Number of responses [Investors]: FY2019: 94, FY2018: 98, FY2017: 108)

(Number of responses [companies]: FY2019: 528, FY2018: 528, FY2017: 554)
(Number of responses [Investors]: FY2019: 94, FY2018: 98, FY2017: 108)

Source: Compiled by the FSA based on The Life Insurance Association of Japan's "Questionnaire on Initiatives to Enhance Corporate Value (Fiscal 2019 Edition)".

3. Investment for the Future, etc.

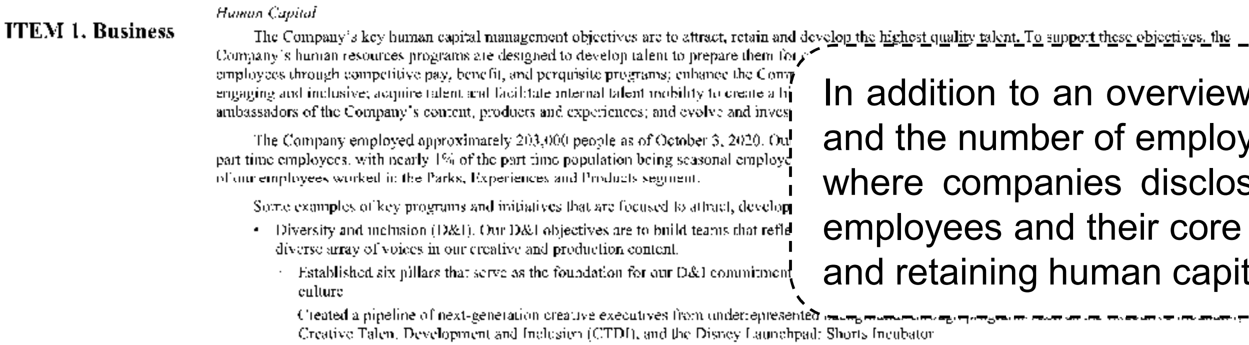
(3) Amendments to U.S. SEC's rules on human capital

- In August 2020, the U.S. Securities and Exchange Commission (SEC) **amended its rules on non-financial information** to require **disclosure concerning human capital** (effective November 9, 2020).
- A summary of the amendments to the disclosure of human capital in the revised rules is as follows.

Overview of amendments

- The amended rules adopt a principles-based approach, and require companies to disclose human capital and human resources to the extent that they are material to understanding the business.
- Given that the benchmarks and objectives included in human capital management disclosures may change significantly over time depending on the region where a company operates, its basic business strategy and other factors, the SEC has decided not to include detailed provisions.
- The amendments made to the rules pertaining to the disclosure of human capital are as follows.

> - In the description of business, disclosure of the company's **human capital resources** is required to the extent that it is **material to understanding the business**.
> - Such human capital and human resources include: (i) a **description of human capital** (including the number of employees); and (ii) the **human capital initiatives and objectives that the company emphasizes in operating its business** (for example, initiatives and objectives to address the development, attraction and retention of human capital to suit the nature of the company's business and workforce).



ITEM 1. Business

Human Capital

The Company's key human capital management objectives are to attract, retain and develop the highest quality talent. To support these objectives, the Company's human resources programs are designed to develop talent to prepare them for
employees through competitive pay, benefit, and perquisite programs; enhance the Com
engaging and inclusive; acquire talent and facilitate internal talent mobility to create a hi
ambassadors of the Company's content, products and experiences; and evolve and inves

The Company employed approximately 203,000 people as of October 3, 2020. Ou
part time employees, with nearly 1% of the part time population being seasonal employe
of our employees worked in the Parks, Experiences and Products segment.

Some examples of key programs and initiatives that are focused to attract, develop

- Diversity and inclusion (D&I). Our D&I objectives are to build teams that refle diverse array of voices in our creative and production content.
  - Established six pillars that serve as the foundation for our D&I commitment culture
  - Created a pipeline of next-generation creative executives from underrepresented Creative Talent Development and Inclusion (CTDI), and the Disney Launchpad: Shorts Incubator

In addition to an overview of human capital, goals and the number of employees, there are examples where companies disclose a breakdown of their employees and their core programs for developing and retaining human capital.

Source: annual report (10-K) by American company A

(3) Revision of the UK Corporate Governance Code

☐ The UK Corporate Governance Code was amended in 2018 to include a description of **the board's role in relation to how the company invests in people and determines remuneration**.

UK Corporate Governance Code

1 BOARD LEADERSHIP AND COMPANY PURPOSE	**【Principles B】** The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	**【Provisions 2】** The board should assess and monitor culture. Where it is not satisfied that policy, practices or behaviour throughout the business are aligned with the company's purpose, values and strategy, it should seek assurance that management has taken corrective action. The annual report should explain the board's activities and any action taken. In addition<u>, it should include an explanation of the company's approach to investing in and rewarding its workforce.</u>

Source: THE UK CORPORATE GOVERNANCE CODE（July 2018）

(3) ISO30414 Guidelines for Human Resource Management

- In January 2019, **benchmarks to be discussed internally/disclosed externally** regarding **human resource management** were compiled into guidelines by ISO.
- Benchmarks must be explained with **quantitative data** to enable comparison.

ISO30414 "Human resource management — Guidelines for internal and external human capital reporting"

Human capital areas		Human capital metrics	Large organizations		Small and medium organizations	
			Internal	External	Internal	External
Costs		See 4.7.3 for detailed information				
	1	Total workforce costs	x	x	x	x
	2	External workforce costs	x		x	
	3	Ratio of the average salary and remuneration	x			
	4	Total costs of employment	x		x	
	5	Cost per hire	x			
	6	Recruitment costs	x			
	7	Turnover costs	x		x	
Diversity		See 4.7.4 for detailed information				
	1	Workforce diversity with respect to				
		a) age	x	x	x	
		b) gender	x	x	x	
		c) disability	x	x	x	
		d) other indicators of diversity	x	x	x	
	2	Diversity of leadership team	x	x		
Leadership		See 4.7.5 for detailed information				
	1	Leadership trust	x	x		
	2	Span of control	x			
	3	Leadership development	x			
Organizational culture		See 4.7.6 for detailed information				
	1	Engagement/satisfaction/commitment	x		x	
	2	Retention rate	x		x	
Organizational health, safety and well-being		See 4.7.7 for detailed information				
	1	Lost time for injury	x	x		
	2	Number of occupational accidents	x	x	x	x
	3	Number of people killed during work	x	x	x	x
	4	Percentage of employees who participated in training	x		x	
Productivity		See 4.7.8 for detailed information				
	1	EBIT /revenue/turnover/profit per employee	x	x	x	x
	2	Human capital RoI	x	x	x	x

Human capital areas		Human capital metrics	Large organizations		Small and medium organizations	
			Internal	External	Internal	External
Recruitment, mobility and turnover		See 4.7.9 for detailed information				
		Recruitment (IN)				
	1	Number of qualified candidates per position	x			
	2	Quality per hire	x			
	3	Average length				
		a) time to fill vacant positions	x	x		
		b) time to fill vacant critical business positions	x	x		
	4	Transition and future workforce capabilities assessment (talent pool)	x			
		Mobility (THROUGH)				
	5	Percentage of positions filled internally	x	x		
	6	Percentage of critical business positions filled internally	x	x		
	7	Percentage of critical business positions	x		x	
	8	Percentage of vacant critical business positions in relation to all vacant positions	x			
	9	Internal mobility rate	x			
	10	Employee bench strength	x			
		Turnover (OUT)				
	11	Turnover rate	x	x	x	x
	12	Voluntary turnover rate (without retirement)	x			
	13	Voluntary critical turnover rate	x			
	14	Exit/turnover reasons/leaving employment by reason	x		x	
		See 4.7.10 for detailed information				
Skills and capabilities	1	Total developing and training costs	x	x	x	x
	2	Learning and development				
		a) percentage of employees who participate in training compared with total number of employees per year	x		x	
		b) average formalized training hours per employee	x		x	
		c) percentage of employees who participated in formalized training in different categories	x			
	3	Workforce competency rate	x			
		See 4.7.11 for detailed information				

(Source: Secretariat documents, 1st meeting of the Study Group on Sustainable Enhancement of Corporate Value and Human Capital (January 17, 2020), Ministry of Economy, Trade and Industry (METI) ISO30414 "Human resource management — Guidelines for internal and external human capital reporting"

(3) Importance of Social Factors in the Enhancement of Corporate Value

- There are also results of analysis showing that social factors are closely linked to corporate value.

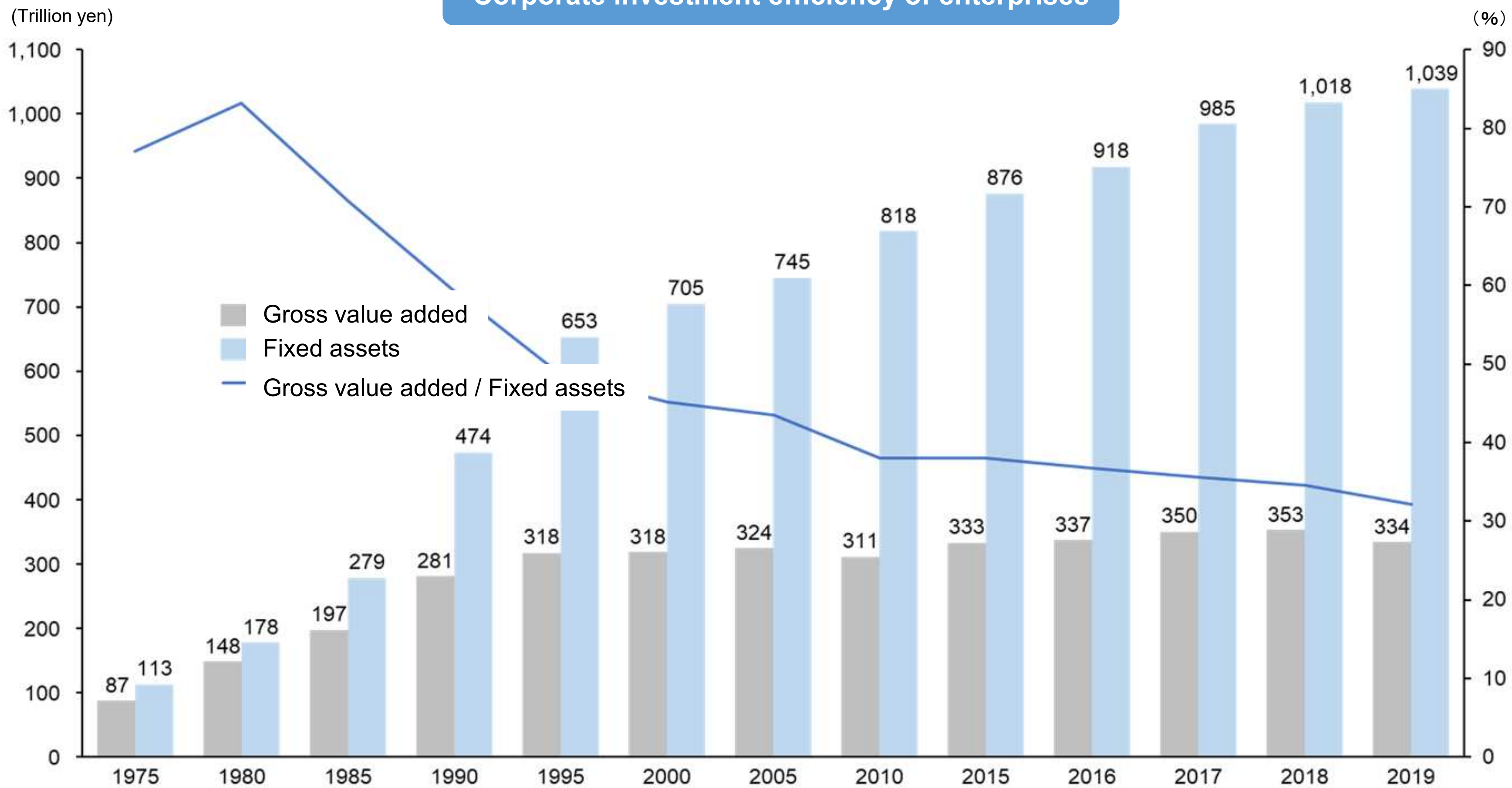
S Rating Cumulative Excess Returns (Simple Average)

Note 1: ESG ratings are assigned based on the results of ESG analysis, which is, in principle, carried out by applying three ratings for medium- to long-term corporate value ("positive," "neutral," and "negative") to Nissay Asset Management's own evaluation criteria. In principle, ESG ratings are assigned on a three-point scale (with "1" being a high rating and "3" a low rating).
Note 2: cumulative stock price performance was measured based on the survey universe for analysts. Period: December 2008 onwards
Source: materials submitted by Mr. Iguchi, Member at the 3rd meeting of the Study Group on Sustainable Enhancement of Corporate Value and Human Capital, METI (compiled from the Nissay Asset DB))

(3) Corporate Investment Efficiency of Enterprises

- The corporate investment efficiency (gross value added/fixed assets) of companies has also been declining in recent years.

Corporate investment efficiency of enterprises

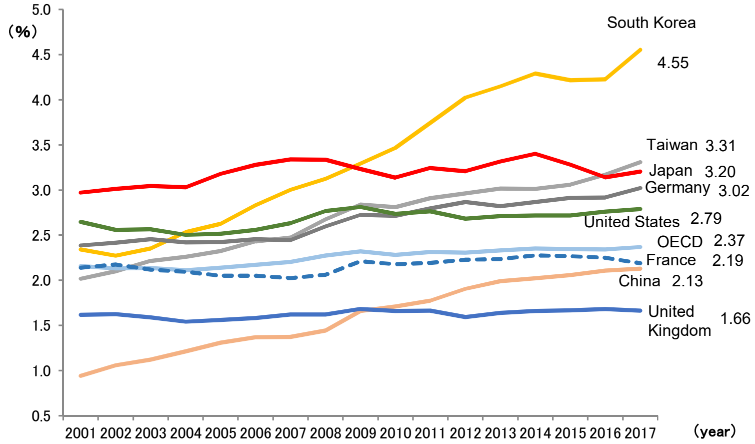


Note 1: excluding financial and insurance industries
Note 2: gross value added = value added + depreciation and amortization
Value added = labor cost + rent on movable and immovable property + interest and discount expenses + taxes and dues + net operating income
Net operating income = operating income - interest and discount expenses
Source: compiled by the FSA based on the Financial Statements Statistics of Corporations by Industry published by the Ministry of Finance.

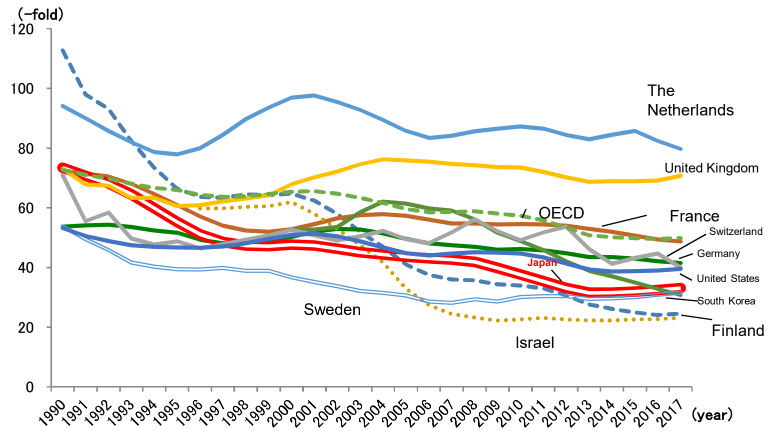
(3) R&D Investment

□ The ratio of R&D expenditure to GDP is high relative to other major countries. On the other hand, R&D investment efficiency (see note) is low. In addition, the number of patent applications in Japan is greater than the number of trademark applications.

R&D expenditure as a percentage of GDP (international comparison)



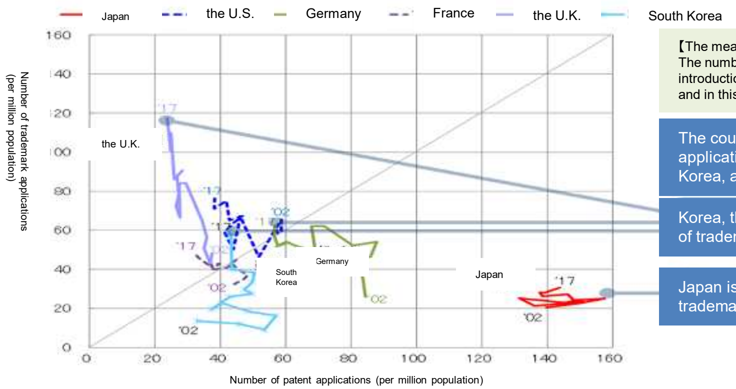
R&D investment efficiency (international comparison)



Source: "Trends in Research and Development Activities for Industrial Technology in Japan - Key Benchmarks and Survey Data" (September 2030), Industrial Science and Technology Policy and Environment Bureau, METI

Trademark applications and patent applications (per million population)

(Note 1: calculated using the ratio of five-year backward moving averages of corporate added value and R&D investment (in purchasing power parity terms) five years earlier. (Investment efficiency in 2010 = added value in 2006-10 / R&D investment in 2001-05)



【The meaning of the number of trademark applications as an indicator】
The number of trademark applications is related to the embodiment of innovation in the form of the introduction of new products and services, or the marketing activities of those products and services, and in this sense, the data reflects the relationship between innovation and the market.

The countries with more trademark applications than patent applications in the latest year are the U.K., the U.S., France, South Korea, and Germany.

Korea, the U.K. and Germany saw a significant increase in the number of trademark applications between 2002 and 2017.

Japan is the only country that has more patent applications than trademark applications.

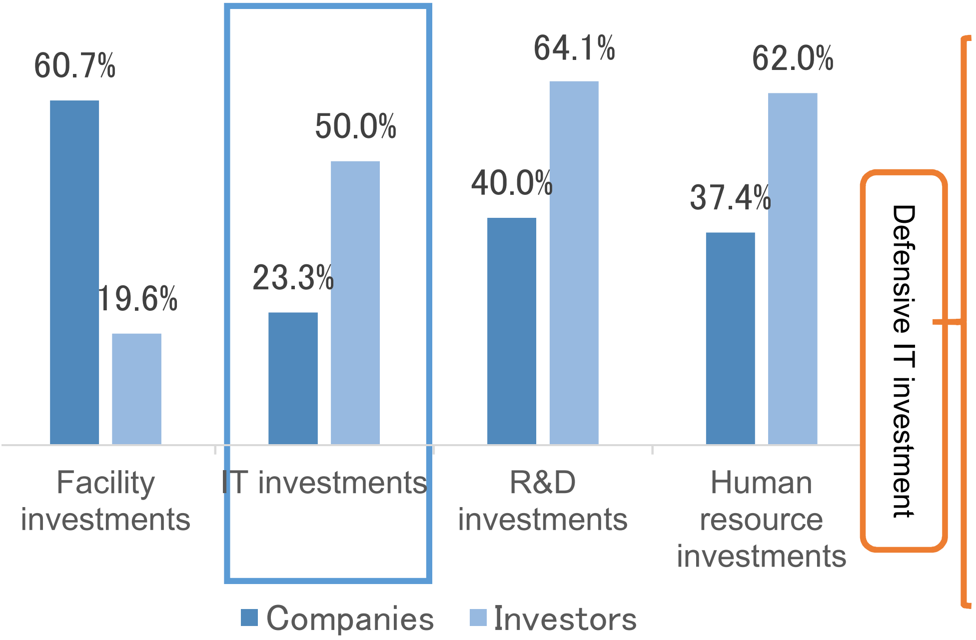
: * The definition of cross-border trademarks is based on "Measuring Innovation: A New Perspective" by the OECD. Specific definitions are as follows.
mber of trademarks for Japan, Germany, France, the U.K. and South Korea is the number of applications filed with the United States Patent and Trademark Office (USPTO).
mber of trademarks for the U.S. is the average of (1) and (2).
(1) Number of U.S. applications corrected for the ratio of Japanese and U.S. applications to the European Union Intellectual Property Office (EUIPO) = (number of U.S. applications to EUIPO/number of Japanese applications to EUIPO) x number of Japanese applications to USPTO.
(2) Number of U.S. applications corrected for the ratio of European and U.S. applications to the Japan Patent Office (JPO) = (number of U.S. applications to JPO/number of EU15 applications to JPO) x number of EU15 applications to USPTO.
2) ** The number of cross-border patent applications refers to the number of triadic patent families (patents with the same content filed in Japan, the U.S. and Europe).
Source: number of trademark applications WIPO,"WIPO statistics database"(Last updated: December 2019)
Number of triadic patent families and population: "Main Science and Technology Benchmarks 2/2019," OECD

(Source: Science and Technology Benchmarks 2020, Research Document 295, Institute for Science and Technology Policy, Ministry of Education, Culture, Sports, Science and Technology, August 2020)

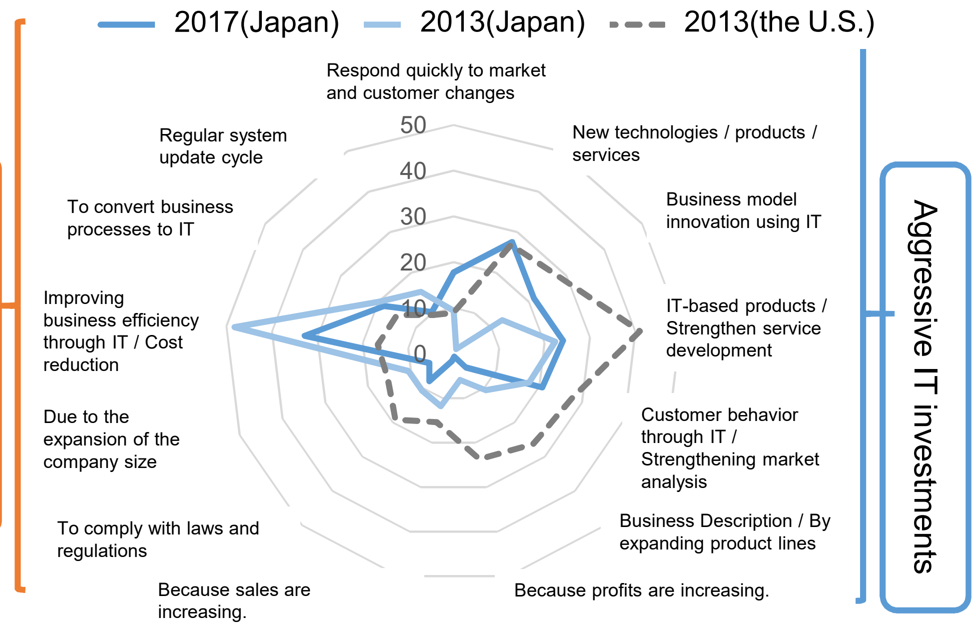
(3) DX (IT Investment)

- Among the key items in their mid- to long-term investment and financial strategies, 50% of investors emphasize IT investment versus just 23.3% of companies.
- Compared to the U.S., in Japan there is a greater focus on defensive than aggressive IT investments.

Key items for medium- and long-term investment and financial strategies



Comparison of IT investment in Japan and the U.S.

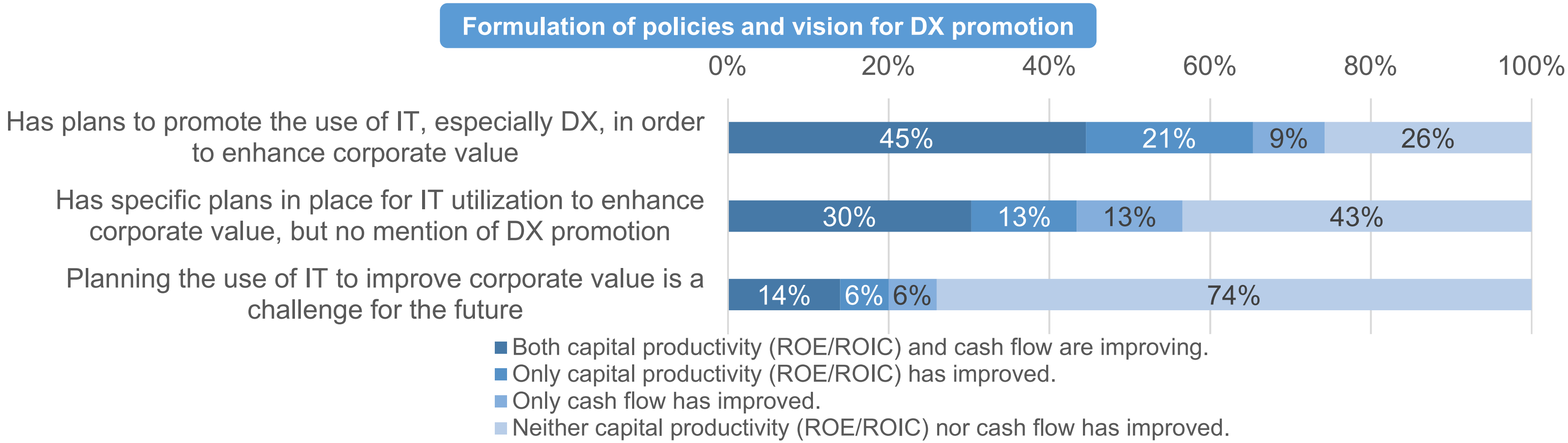


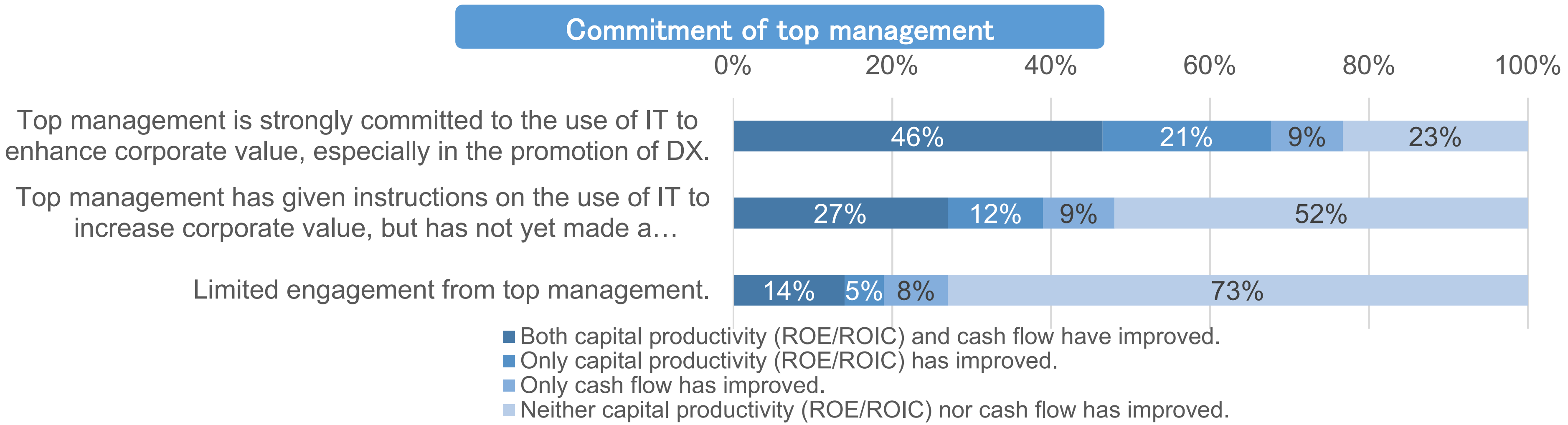
Note: the number of responses from companies was 527, and the number of responses from investors was 92.
Source: compiled by the FSA based on The Life Insurance Association of Japan's "Questionnaire on Initiatives to Enhance Corporate Value (Fiscal 2019 Edition)"

Source: (c) Prepared by the FSA based on 2017 JEITA/IDC Japan, "2017 Survey on IT Management in Japanese Companies" (January 2018).

(3) DX (IT Investment)

- There is some data showing that DX promotion and top management's commitment to it are correlated with improved ROE and cash flow.



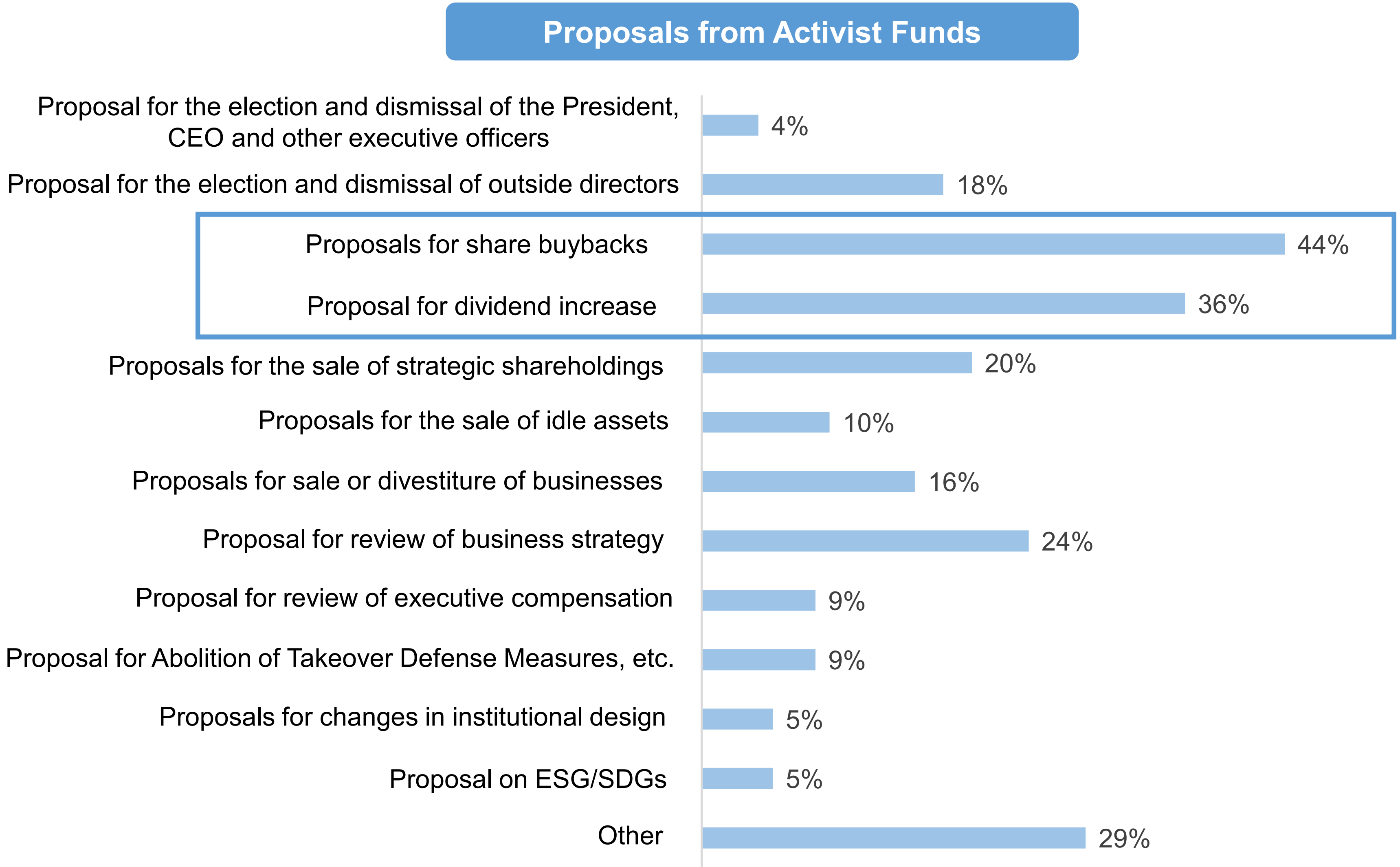


Note: a "Questionnaire Survey on Aggressive IT Management 2019" was conducted on approximately 3,600 companies listed on the Tokyo Stock Exchange (First Section, Second Section, Jasdaq, Mothers)

.Source: compiled by the FSA based on "Aggressive IT Management Brands 2019" (released on April 23, 2019) by METI and the Tokyo Stock Exchange.

(3) Proposals for Share Buybacks and Dividend Increases

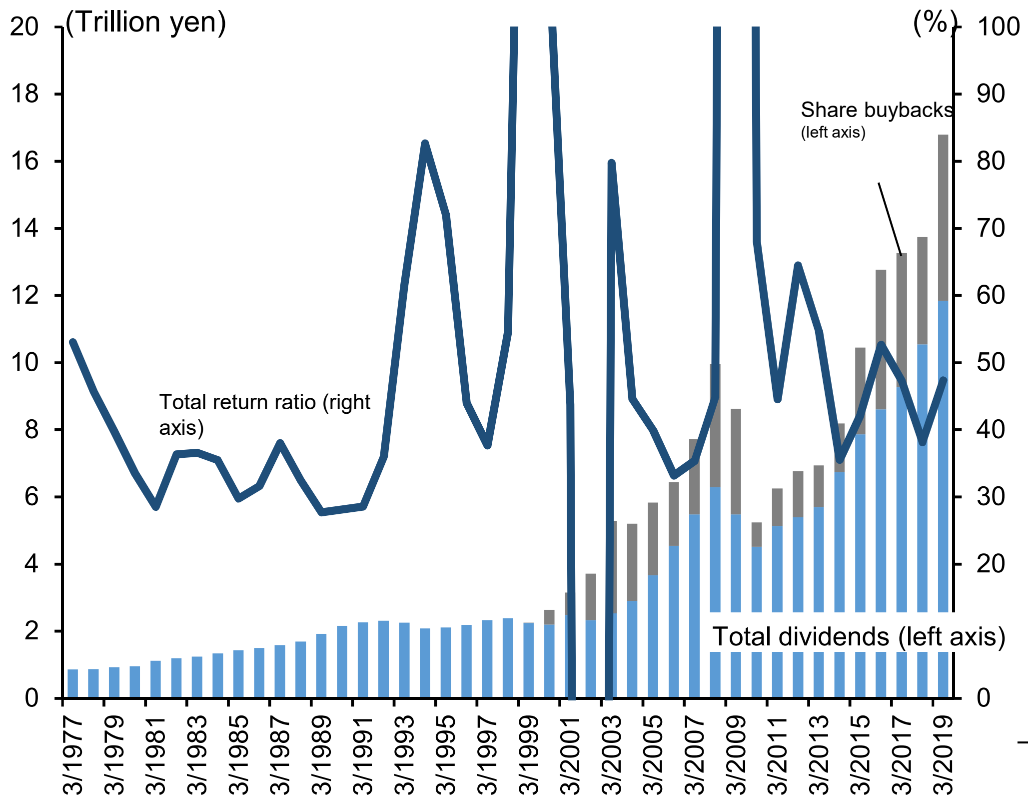
- Currently, about 40% of Japanese companies report that they have received specific proposals from activist funds regarding share buybacks or "dividend increases.



Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP.

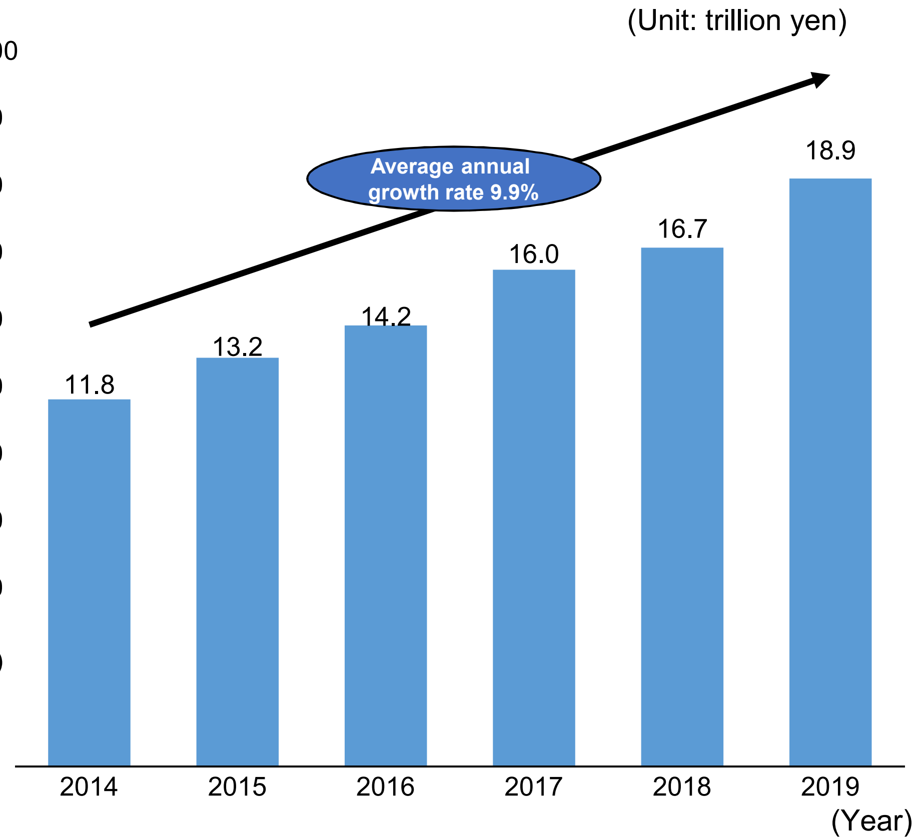
(3) Share Buybacks

Ratio of total dividends and share buybacks to net income for companies listed on the First Section of the Tokyo Stock Exchange



Note: covers companies listed on the First Section of the TSE at the end of each fiscal year (excluding financial institutions). Net buyback amount (cash flow statement) is calculated by subtracting the portion of shares sold from repurchased shares; share buyback for the fiscal year ending March 2020 is as projected by Mizuho as of November 19.Source: compiled by the FSA from Nikkei and TSE, based on Mizuho Securities Equity Research Division data.

Change in total amount of treasury stock recorded (First Section of the TSE)



Note: total of 1,752 companies listed on the First Section of the TSE for all six fiscal years from 2014 to 2019.

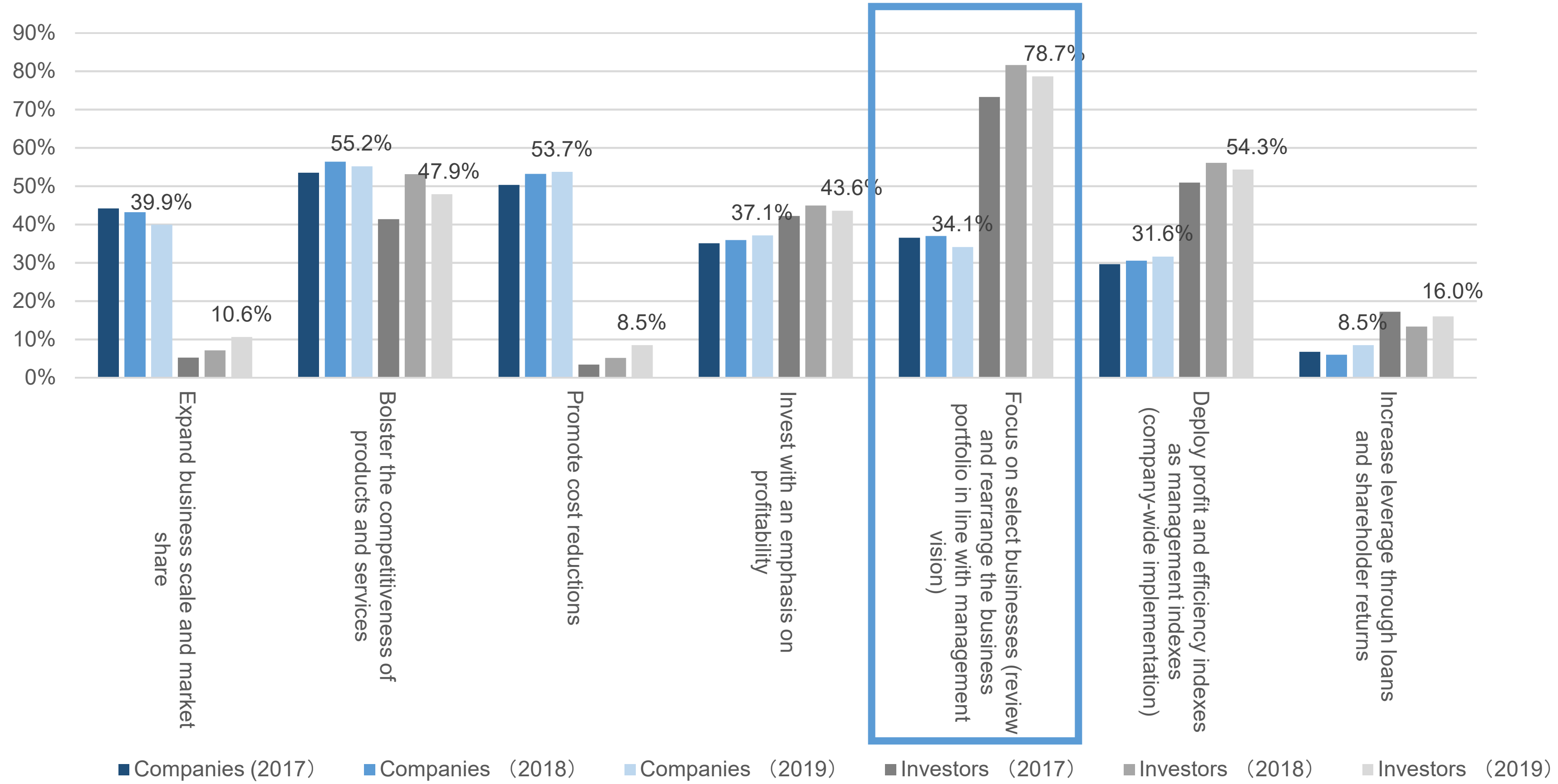
Source: compiled by the FSA based on SPEEDA

4. Business Portfolio Strategy

(4) Management Decisions in Response to Changes in the Business Environment (Current Status)

- From the standpoint of cost-conscious management of capital, it has been pointed out that it is desirable to **focus on select businesses**, and **many investors expect this to happen**. On the other hand, companies themselves do not necessarily emphasize this to the same degree.

Initiatives emphasized by companies and expected by investors for improving capital efficiency



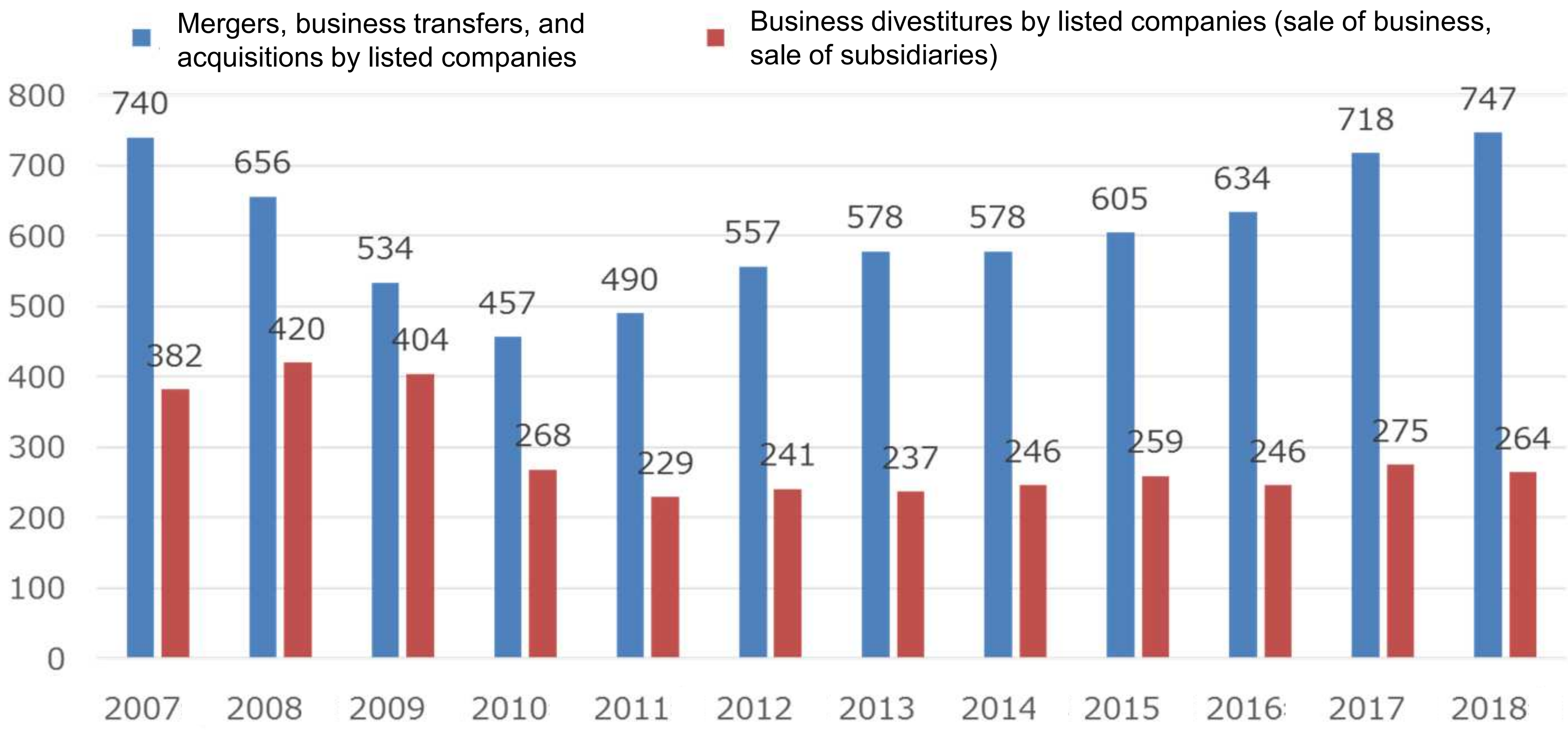
Note: number of responses [Companies]: FY2019: 531, FY2018: 532, FY2017: 568 / [Investors]: FY2019: 94, FY2018: 98, FY2017: 108

Source: compiled by the FSA based on survey "Efforts by Life Insurance Companies to Revitalize the Stock Market and Realize a Sustainable Society through Asset Management (April 2020)" by the Life Insurance Association of Japan

(4) Current Status and Trends of Business Restructuring of Listed Companies in Japan

- **M&A (mergers, acquisitions, and business acquisitions)** by domestic listed companies have been **on the rise in recent years**.
- By contrast, the number of **business carve-outs (sales of businesses and subsidiaries)** peaked at 420 in 2008 and has since **declined**, hovering around 250 for the past several years, with **purchases outnumbering sales.**

Business restructuring (including cross-border) of domestic listed companies by type

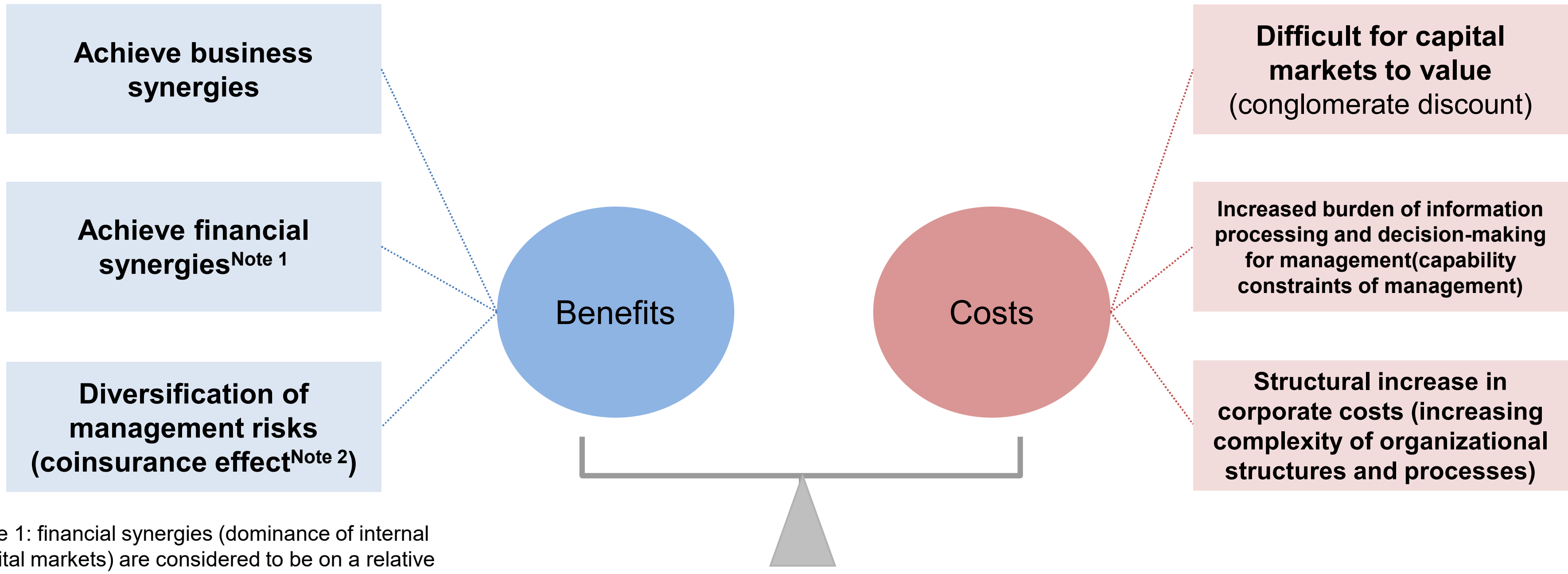


Note: based on the date of publication. Japanese companies are defined as those with more than 50% Japanese capital (from RECOF database).

Source: Secretariat materials for the 1st meeting of the Business Restructuring Study Group, METI (compiled by METI based on the RECOF database)

(4) Benefits and Costs of Diversified Management with Multiple Businesses

- **Diversified management with multiple businesses** entails both **benefits and costs**.
- It has been pointed out that companies need to **conduct a comparative analysis of the two and verify the rationality of their business portfolio**.



Conduct a comparative analysis of the two,
and verify the rationality of the business portfolio.

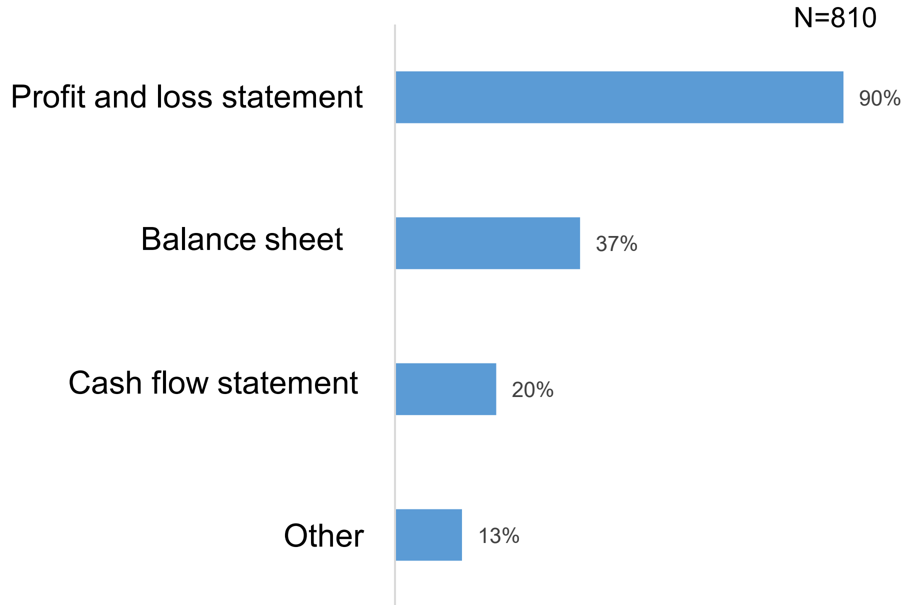
Note 1: financial synergies (dominance of internal capital markets) are considered to be on a relative decline due to the maturity of capital markets.
Note 2: combining businesses with different patterns of cash flow volatility reduces the risk of default and increases borrowing capacity, as the company's overall cash flow volatility is reduced.

Source: "Practical Guidelines for Business Restructuring: Toward Transformation of Business Portfolio and Organization (Guidelines for Business Restructuring)," METI (July 2020)

(4) Development and Disclosure of Segment Information

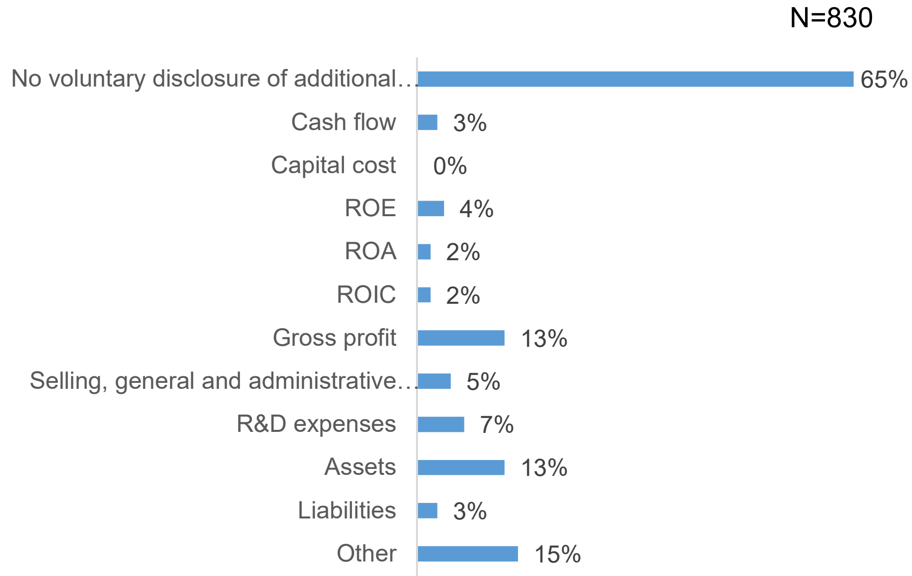
- With regard to the **preparation of financial data for specific business units and segments**, 90% of companies prepare income statements, but only 37% and 20% prepare balance sheets and cash flow statements, respectively.
- Among companies that voluntarily disclose business segment information (see note), a relatively large number disclose gross profit and other information. Note: assumed to be voluntarily disclosed separately from the items stated in the Annual Securities Report.

Data prepared for each business unit/segment



Note: number of valid responses: 810 companies (multiple choices allowed)
Source: prepared by the FSA based on the "Practical Guidelines for Business Restructuring: Toward Transformation of Business Portfolio and Organization (Guidelines for Business Restructuring)," METI (July 2020)

Voluntary additional disclosure of information by business segment

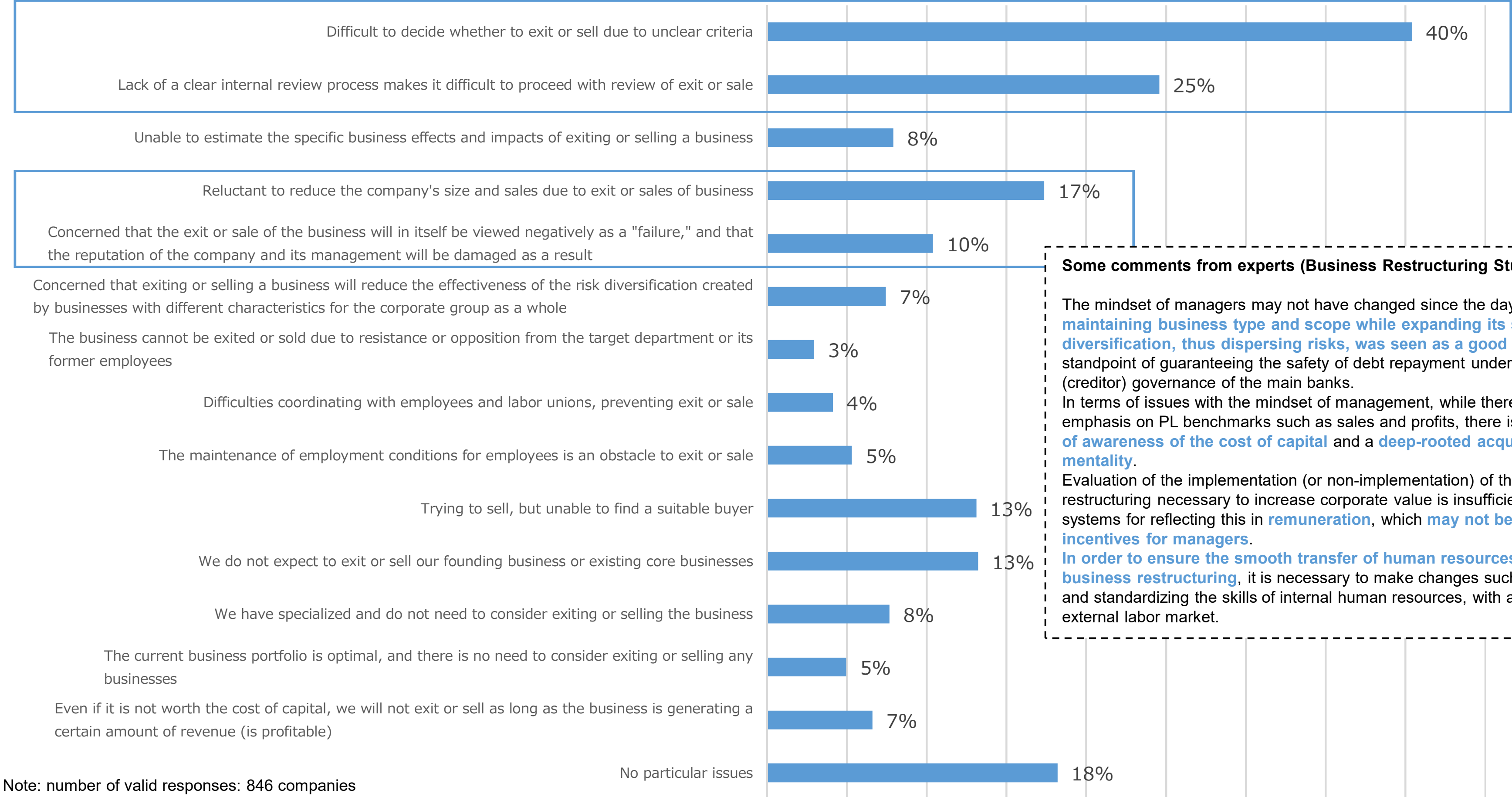


Note: number of valid responses: 830 companies (multiple choices allowed)
Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP.

(4) Issues to Be Addressed when Exiting or Selling a Business

- Many respondents said that **the criteria and review process for issues to be addressed when exiting or selling a business are unclear.** Furthermore, some responses show **a reluctance to reduce the size of a company as a result of exiting a business, as well as fear of such an exit being viewed negatively (as a "failure").**
- Some also argued that **we have not yet moved past a style of risk management that has an unquestioningly positive view of risk dispersion through diversification**.

Q. What are the challenges you face when exiting or selling a business? Please answer the following questions regarding the issues you face when exiting or selling a business. (Select all that apply.)



Some comments from experts (Business Restructuring Study Group)

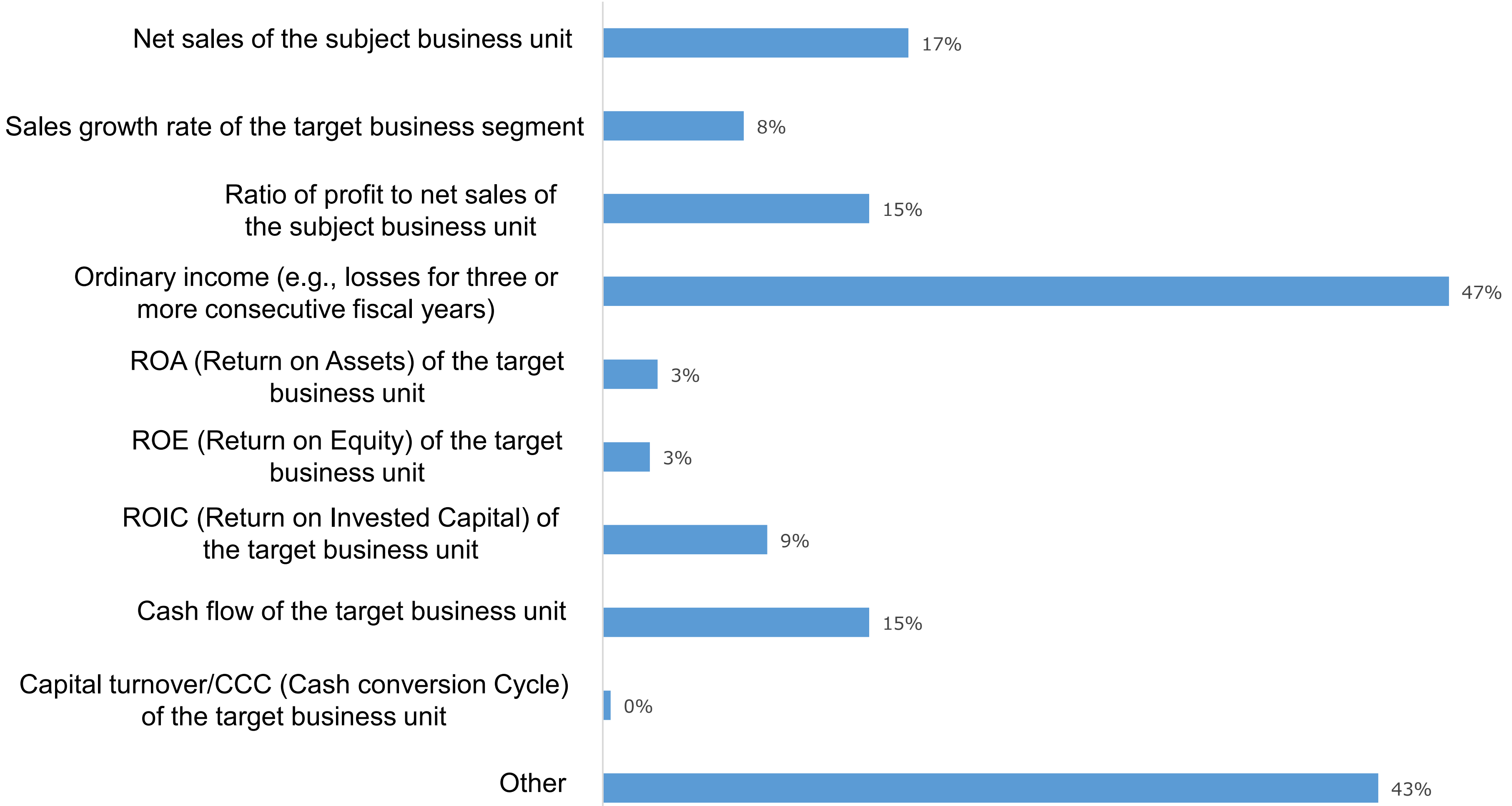
The mindset of managers may not have changed since the days when **maintaining business type and scope while expanding its scale through diversification, thus dispersing risks, was seen as a good idea** from the standpoint of guaranteeing the safety of debt repayment under the debt (creditor) governance of the main banks.
In terms of issues with the mindset of management, while there is a strong emphasis on PL benchmarks such as sales and profits, there is a **general lack of awareness of the cost of capital** and a **deep-rooted acquisition-oriented mentality**.
Evaluation of the implementation (or non-implementation) of the business restructuring necessary to increase corporate value is insufficient, as are systems for reflecting this in **remuneration**, which **may not be conducive to incentives for managers**.
In order to ensure the smooth transfer of human resources during business restructuring, it is necessary to make changes such as visualizing and standardizing the skills of internal human resources, with an eye to the external labor market.

Note: number of valid responses: 846 companies
Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP.

(4) Benchmarks for Exit From and Sale of Business

- **A survey found that 47% of companies that have set a benchmark for exiting or selling a business use ordinary income as their benchmark (e.g. being in the red for three or more consecutive fiscal years).**

Q. Do you have quantitative criteria for business exit or sale? If you have established quantitative criteria for business exit or sale, please indicate the benchmarks you use. (Select all that apply.).

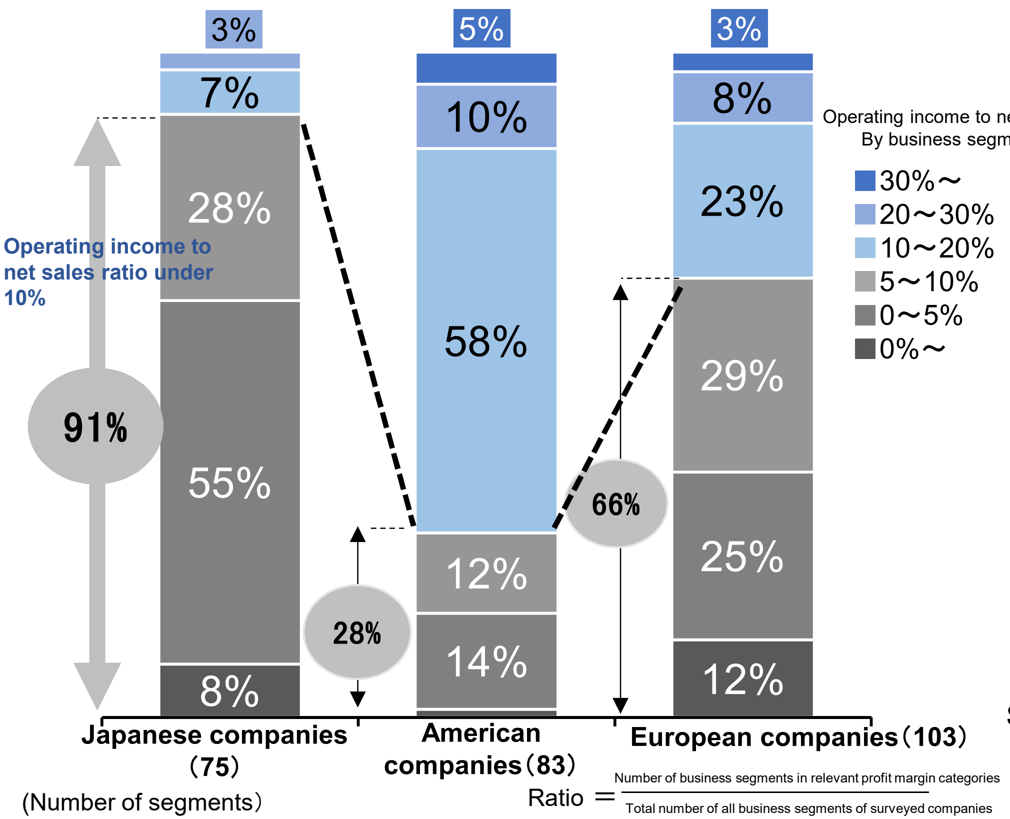


Note: number of valid responses: 231 companies
Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP.

(4) Conglomerate Discounting - Reiterated in Document 4

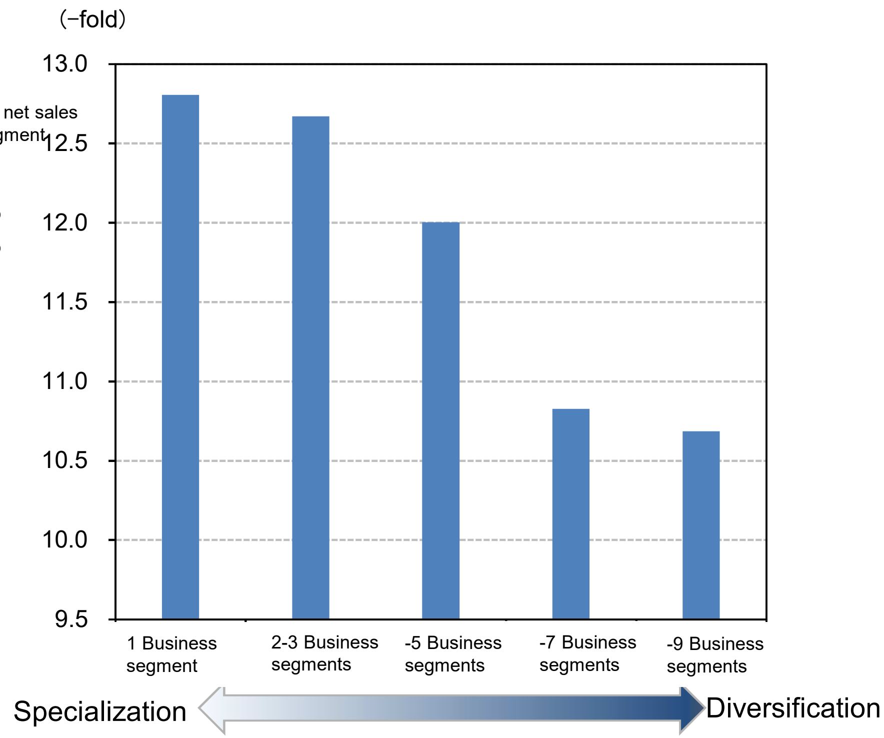
- In major **diversified companies**, the **percentage of low-profit segments*** is estimated to be **about 90% for Japanese companies,** compared to **about 30% for U.S. companies** and **70% for European companies**. *Segments with an operating income margin (ROS) of less than 10%.
- In this regard, some have pointed out the occurrence of **conglomerate discounts**, which refer to the tendency for companies that are active in multiple industrial fields (diversified companies) to be undervalued by the market compared to specialized companies that are active in the same industry.

Distribution of profit margin by business segment



Source: compiled by the FSA from the Secretariat materials for the First Meeting of the Business Restructuring Study Group, METI (processed by METI from materials prepared by Deloitte Tohmatsu Consulting based on Bloomberg database; both sales and operating profit by business segment are analyzed for top 500 companies in terms of global consolidated sales whose data for eight consecutive fiscal years was available, whose level of diversification (Herfindahl index) was in the top 50%, and whose overseas sales ratio was 20% or more.

Average PER by number of business segments (12 months ahead forecast)

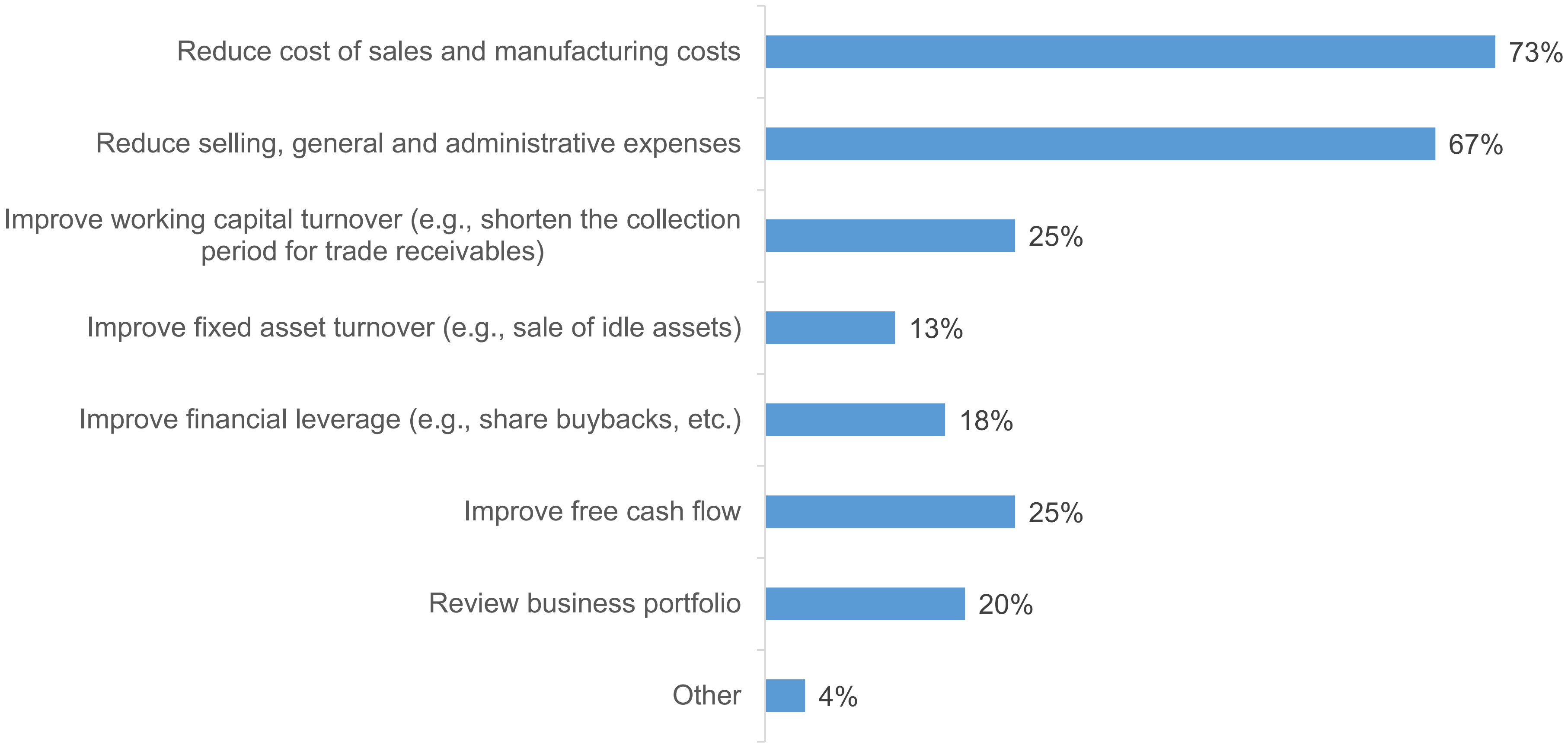


Note: covers TOPIX 1000; projections are based on the QUICK Consensus (or Toyo Keizai projections if not available).PER: stock price/net income per share
Source: prepared by the FSA based on Secretariat materials for the First Meeting of the Business Restructuring Study Group, METI (prepared by SMBC Nikko Securities).

(4) Recognition of Importance as a Measure to Improve Capital Efficiency

- The majority of companies cited cost reductions, such as "reduction of cost of sales and manufacturing costs" and "reduction of selling, general and administrative expenses," as **measures to improve capital efficiency**, while **20% cited "review of business portfolio."**

Q. Please select the initiatives that have the highest priority for improving capital efficiency. (Select up to three major initiatives.)

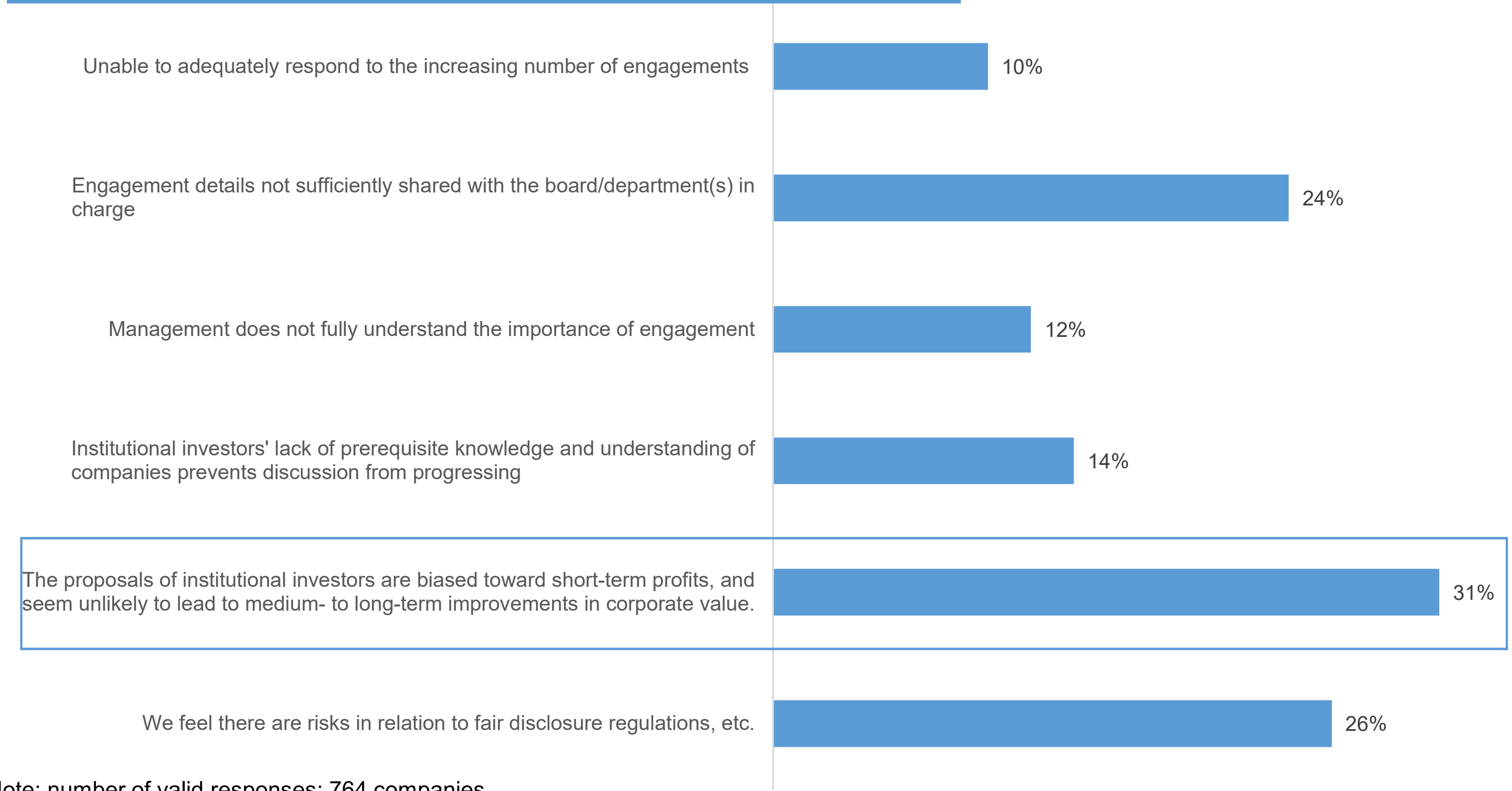


Note: number of valid responses: 828 companies
Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP

(4) Challenges in Investor Engagement

- About 30% of the companies cited the fact that "proposals from institutional investors are **biased toward short-term profits**, making it difficult to enhance corporate value over the medium to long term" as an engagement issue.

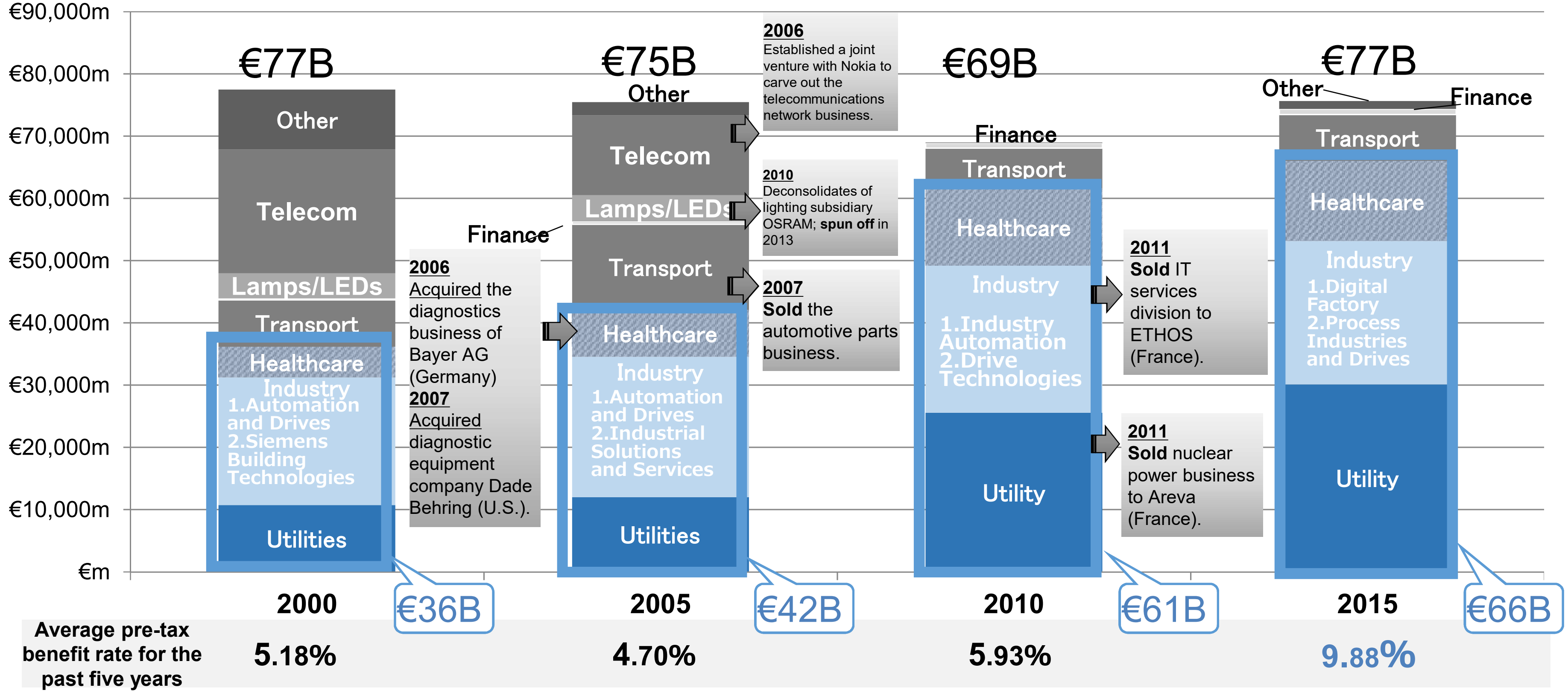
Q. Please indicate the challenges you face when engaging with investors. (Select all that apply.)



Note: number of valid responses: 764 companies
Source: prepared by the FSA based on survey "FY2019 Questionnaire on Corporate Governance (for Companies)" (March 2020), commissioned by METI and conducted by PricewaterhouseCoopers Aarata LLP

(4) Optimization of Group Management (1) (Reiterated in Document 4)

- In **Europe and the U.S.,** some companies have succeeded in **increasing the profitability of the entire group** by **bolstering their core businesses and drastically restructuring non-core businesses that have little synergy with their core divisions.**
- For example, Siemens of Germany has established a portfolio policy of withdrawing from businesses that are unlikely to secure the first or second position in the industry, and is improving profitability by managing its operations based on strict management decision benchmarks.



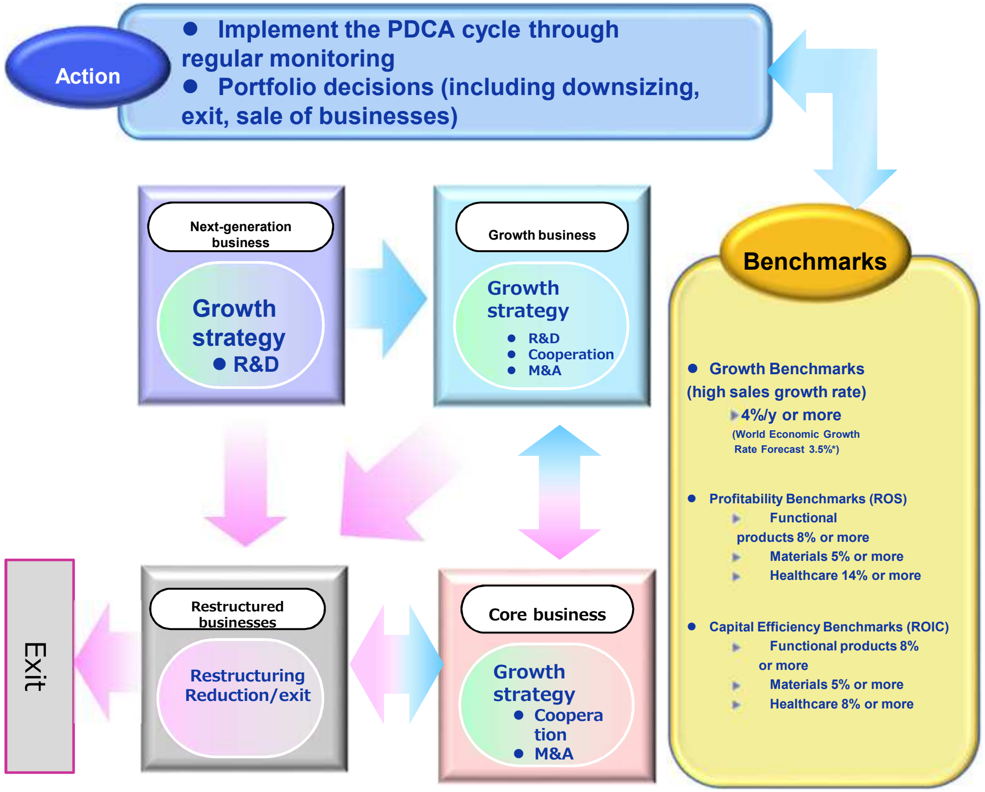
Source: compiled by the FSA, based on Siemens Annual Report, THOMSON ONE, Intellectual Asset Creation, Nomura Research Institute, August 2017

(4) Optimization of Group Management (1) (Reiterated in Document 4)

□ Even in Japan, there are companies that practice **business portfolio management from the perspective of overall group management**

Criteria for business portfolio management: benchmarks in our current mid-term plan (2016-20)

- Positioning of each business/affiliate in terms of standard benchmarks, by field
- Accelerate resource allocation and portfolio optimization while performing regular monitoring



Review process for business portfolio management: Our structure (partially reiterated)

Executive officers' meeting for business monitoring
- Held twice a year
- Improvement scenarios demanded for businesses that have not met their benchmarks
- Improved: quadrant maintained/not achieved: quadrant down

Corporate Planning Office (CSO)/ Corporate Management Office (CFO)

Board meetings for portfolio discussions
- Held once a year
- Half-day discussion without other agenda items
- Leads to the formulation of medium- and long-term strategies
- Secretariat and managers

Corporate Planning Office (CSO)/Legal Affairs Office (CCO)

- **Criteria for immediate decisions in the current medium-term management plan (2016-20)**

(1) Monitor businesses whose ROIC is below the benchmark (8% in Functional Products and Healthcare, 5% in Chemicals), and discuss (additional) measures.

(In theory, the same ROIC standard should be used regardless of the business field, but a temporary benchmark to achieve 10% ROE was adopted because the achievement of 10% ROE itself was in jeopardy before the start of the mid-term plan; this will be corrected in the next mid-term plan.)

(2) In terms of business monitoring, select target SBUs selected by focusing on deviation from the medium-term plan as well as the ROIC criteria above. Check the progress of action plans and investment plans, and include the necessity of considering exit in the discussion. The operating company is instructed to review the business strategy, including recommendations for exit, and execute it.

(3) Promote transformation by appointing personnel with experience in business acquisitions and sale not only as CFO but also as CCO and CSO, and by appointing professionals from outside the company to the M&A Office.

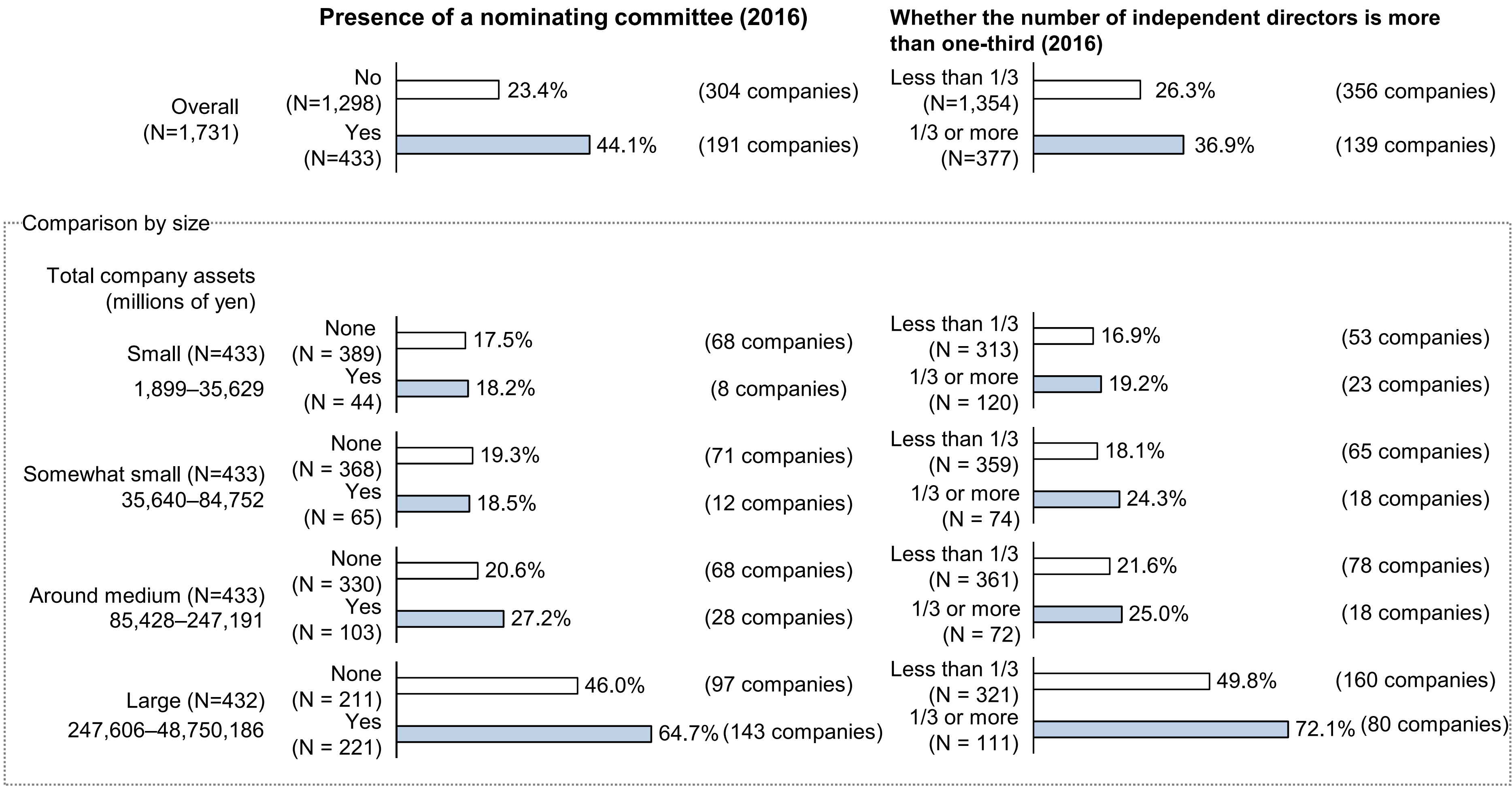
(4) Have the CFO lead projects such as using investment banks to access capital markets (e.g., spin-offs).

Source: materials for the presentation by Mr. Kobayashi, Member, at the 2nd meeting of the Business Restructuring Study Group, METI (February 14, 2020)

(4) Analysis: Relationship Between the Nominating Committee and Business Restructuring (Carve-Out)

☐ More companies have restructured (carved out) their business when they **have a nominating committee** or **have one third or more independent directors** than when they do not.

Percentage of companies that have restructured (carved out) their operations in the past five years.



Note: total assets of 1,731 companies that reported their financial results in FY 2016 are classified into four groups.

Source: compiled by the FSA based on governance report data (portion submitted as of August 12, 2016), SPEEDA, Bloomberg

Companies with higher ratios of institutional investor ownership, lower ratios of stable shareholder/bank ownership and higher ratios of outside directors are more likely to restructure their businesses.

Characteristics of companies restructuring their business

- Companies with a high ratio of institutional investors, a low ratio of stable shareholders/bank holdings, and a high ratio of outside directors
- Stock price/book value ratios of companies that have divested are relatively high, making it unlikely that they were forced to do so.

	Number of segments	Ratio of institutional investors	Ratio of foreign investors	Ratio of active investors	Hedge Funds	Stable shareholder ratio	Bank Retention Ratio	Ratio of outside directors	ROA	Market value/book value ratio
Company and year of business sale	562	562	562	562	562	475	307	562	556	554
mean value	7.7	13.2	8.2	10.8	5.8	34.7	2.5	0.2	6.0	1.3
median value	6.0	11.0	5.8	8.7	4.7	30.7	2.2	0.2	4.6	1.0
Other	21,544	21,544	21,544	21,544	21,544	18,554	12,112	21,543	21,339	21,317
mean value	4.3	8.0	4.5	6.6	3.5	41.8	3.0	0.2	6.2	1.2
median value	3.0	4.7	1.9	3.3	1.8	42.1	2.9	0.2	5.0	1.0
(Company, year) - (Other)										
Difference in mean values	3.4	5.2	3.8	4.2	2.3	-7.1	-0.5	0.1	-0.2	0.1
t-value	13.16	1.83	10.55	9.95	10.08	-7.79	-6.48	8.95	-0.51	2.47
Significance level	***	*	***	***	***	***	***	***		**

*** p<0.01, ** p<0.05, * p<0.1

Tend to be implemented by companies with a high percentage of institutional investor ownership

Companies with stable shareholders and a high percentage of main bank holdings tend not to do so.

Companies with a high ratio of outside directors tend to do so.

Source: materials for the presentation by Mr. Kotaro Inoue, Member, at the 2nd Business Restructuring Study Group, METI.

(4) Outline of the "Practical Guidelines for Business Restructuring"

- With a view to promoting business restructuring, and, in turn, achieve sustainable growth while boosting corporate value over the medium to long term, the report summarizes the state of corporate governance and other issues across three layers: (1) management, (2) the board (especially outside directors), and (3) investors (engagement).

Monitor

Delegate

Management

Section 2

- **Change the mindset of the management team and develop a system**
  - Best owner perspective, clarification of responsible entities, strengthening of CFO function, etc.
- **Create a system for quantitative business evaluation and visualize it**
  - Utilization of a four-quadrant framework based on capital profitability and growth, development of balance sheets for each business segment, etc.
- **Design appropriate incentives**
  - Performance evaluation and remuneration design based on capital efficiency, growth potential, market evaluation, etc.; stock-based remuneration, etc.

The Board

Section 3

- **Discuss business portfolio at board meetings**
  - Reviewed periodically at least once a year
- **Clarify the responsibilities of outside directors to shareholders**
  - Strengthen oversight and engage proactively
- **Board composition**
  - Secure diverse and highly-skilled human resources, and take an "overall optimization" perspective at the company-wide level

Investors

Section 4

- **Encourage engagement on business portfolio**
- **Disclose information on business portfolio and enhance the disclosure of information by business segment; shareholder proposals and opinions**