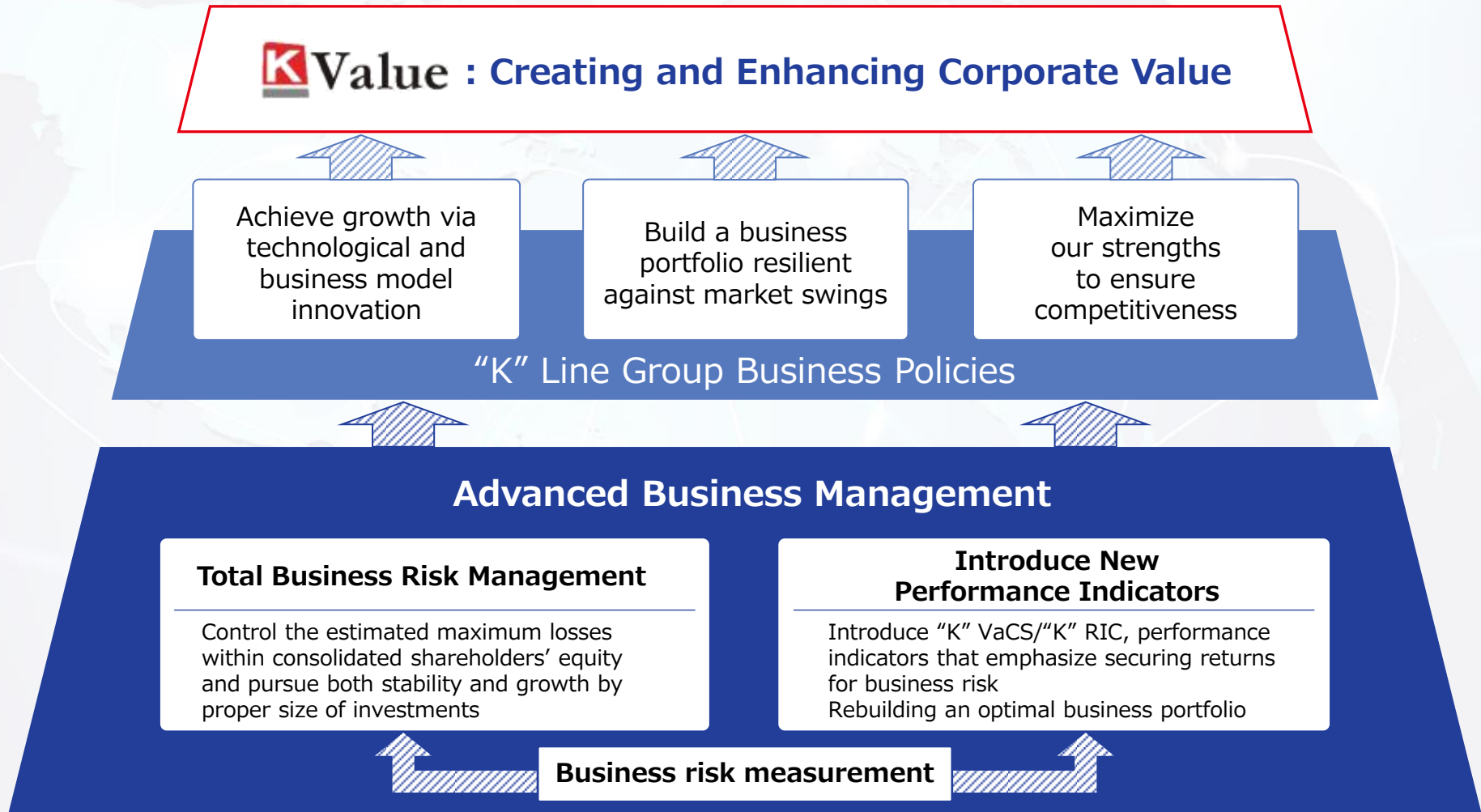


# Advanced Business Management

**K** Value Creation, Portfolio Rebuilding



### ▶ Progress on priority initiatives in “Revival for Greater Strides,” the medium-term management plan released in April 2017



## ▶ Beginning the deployment below from 2017 2H, continue refinement and sophistication

### ■ Measurement of "Total Business Risk = Estimated Maximum Losses"

- ▶ Measure risk for each Group businesses (including off-balance sheet exposures)
- ▶ Use EaR/VaR method such as Monte Carlo simulations to calculate business risk  
EaR (Earnings at Risk) : Earnings volatility risk  
VaR (Value at Risk) : Asset value volatility risk

### ■ Business Risk Control, Risk-Return Management

- ▶ Keep tolerable business risk below consolidated shareholders' equity
- ▶ Setting new target for the return on business risk in each business

➡ **Active rebuilding of business portfolio via optimal allocation of management resources**

### ■ New Performance Indicators: "K" VaCS/"K" RIC

- ▶ Introduce new performance indicators for advanced business management

➡ See Slide 3 for a full explanation

### ■ Upgrade Investment Evaluations

- ▶ Measure business risk for each prospective investment; quantitatively evaluate the required return level corresponding to the measured risk
- ▶ In addition, combine the above with qualitative evaluations such as consistency with management strategy for decision-making

- ▶ **Adoption of new performance indicators enhances the visibility of the business risk and profitability corresponding to cost of shareholders' equity.**

### **“K” VaCS** - “K” LINE Value after Cost of Shareholders' equity -

- A profit indicator that represents economic value corresponding to the cost of shareholders' equity
- Aims to optimize the Group's business portfolio by using the measured business risk

#### — Formula —

“K” VaCS = Net income after tax – (Business risk based on the Group's business attributes x Cost of shareholders' equity)

(\*) If “K” VaCS is greater than zero, then corporate value is enhanced

### **“K” RIC** - “K” LINE Return on Invested Capital -

- A efficiency indicator promoting corporate value enhancement that factors in the cost of capital
- Accelerate return on invested capital by establishing a profitability baseline
- Sets hurdle rates for each business and the Group overall by using business risk

#### — Formula —

“K” RIC = Earnings before interest after taxes ÷ invested capital

(\*) As a general rule, “K” RIC should be above the hurdle rate; among viable hurdle rate candidates is the weighted-average cost of capital (WACC)

# C Advanced Business Management

## Business Portfolio Rebuilding : Using "K" VaCS and "K" RIC

▶ Realize an optimal business portfolio by utilizing "K" VaCS and "K" RIC  
 Bridge to enhancement of corporate value (K Value) by;

- ▶ Further expanding the stable-earnings
- ▶ Improving the resilience of market-sensitive businesses
- ▶ Fostering new business for growth

