



Tatsuya Nakajima President

OPTEX GROUP CO., LTD.(6914)



Company Information

Market	TSE Prime Market
Industry	Electric equipment (manufacturer)
President	Tatsuya Nakajima
HQ Address	4-7-5, Nionohama, Otsu, Shiga Prefecture
Year-end	December
Homepage	https://www.optexgroup.co.jp/en/

Financial information

Sales	Operating profit	Ordinary profit	Net profit	Total assets	Net assets	ROA	ROE
¥56,372 million	¥5,899 million	¥6,258 million	¥4,608 million	¥67,127 million	¥44,271 million	9.6%	11.1%

*Results for the term ended Dec. 2023. Net profit means profit attributable to owners of parent. ROA stands for return on asset.

ESG Bridge Report Vol.5

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1. Company Overview

OPTEX GROUP CO., LTD. is a holding company centered around OPTEX CO., LTD. that manufactures and sells outdoor sensors (top share of 40% in the global market), automatic door sensors (30% share of the global market and 50% share of the domestic market) and environment related products.

OPTEX GROUP CO., LTD. holds subsidiaries including OPTEX FA CO., LTD., which deals with FA related sensing business; CCS Inc., which holds the global top share in the LED lighting business for image processing; Sanritz Automation Co., Ltd., which has a wealth of results in the development, manufacturing computers and sales of industrial computers, MITSUTEC CO., LTD., which plans, develops, manufactures, and sells image processing, inspection, and measuring equipment and automated machinery and equipment, contributing to the improvement in quality of manufacturing with its advanced technologies, THREE ACE CO., LTD., which specializes in the development of various systems, applications, and digital content; OPTEX MFG CO., LTD., which is responsible for manufacturing Group products, FIBER SENSYS INC. (US), which deals with optical fiber intrusion detection systems; and RAYTEC LIMITED. (UK), which has attained the largest global share (about 50 %) for supplemental lights for CCTV.

As of December 31, 2023, the company operates in 95 locations worldwide, including 28 overseas companies.

OPTEX CO., LTD.	Develops and sells sensors for various uses, such as security sensors and sensors for automatic doors
OPTEX FA CO., LTD.	Development and sales of photoelectric sensors, image inspection systems, displacement sensors and measuring instruments
CCS Inc.	Development, manufacturing computer and sales of LED lighting devices, and systems for image processing
Sanritz Automation Co., Ltd.	Development, manufacturing and sales of industrial computers
MITSUTEC CO., LTD.	Development, manufacturing, and sale of image processing, inspection, and measuring equipment and automated machinery and equipment
THREE ACE CO., LTD.	Development of various systems, applications, and digital content
OPTEX MFG CO., LTD.	Manufactures products for the Group and provides contract manufacturing service for electronic equipment
SICK OPTEX CO., LTD.	Development of general-purpose photoelectric sensors. A joint venture of SICK AG (Germany) and OPTEX FA CO., LTD.
GIKEN TRASTEM CO., LTD.	Development, manufacturing and sales of people counting systems, customer traffic counting/management systems
ZENIC INC.	Contracted development of IC and LSI for image processing, and design and sales of FA systems
O'PAL OPTEX CO., LTD.	Management of outdoor activities and environmental hands-on learning programs
FIBER SENSYS INC. (US)	Development, manufacturing and sales of fiber-optic intrusion detection systems
FARSIGHT SECURITY SERVICES LTD. (UK)	Security company providing remote video surveillance services
RAYTEC LIMITED. (UK)	Development, manufacturing and sales of supplemental lighting for surveillance cameras
GARDASOFT VISION LIMITED. (UK)	Development, manufacturing, and sale of LED lighting controllers for machine vision

1-1 Corporate History

In May 1979, Mr. Toru Kobayashi (founder, former director and senior corporate adviser), who was developing security sensors in a manufacturer of anti-crime devices in Kyoto, established OPTEX CO., LTD. with the spirit of the endeavor to “make their products recognized in the world as much as possible.”

In November 1979, the company developed “the world’s first far-infrared sensor for automatic doors.” Around that time, pressure-sensitive rubber mats were used for automatic doors, and an automatic door sensor that utilizes far-infrared light was epoch-making.

OPTEX CO., LTD. was unrivaled in maintenance and installation services and seized the largest share in the market of automatic door sensors in the third year after inauguration (currently occupying about 50% of the Japanese market). Since then, the company has developed a wide array of products for security, automatic doors, and industrial equipment with its unique ideas and technologies that embodies them.

In the 1980s, the company entered overseas markets. While it had been considered impossible to set a far-infrared sensor outdoors because external factors, such as light, would cause errors, the company developed the outdoor far-infrared sensor “VX-40” with its original technology, and that sensor was highly evaluated mainly in the European market, and occupied the largest share in the global market of outdoor intrusion detection sensors.

Through business expansion, the company became an over-the-counter company (equivalent to being listed in the JASDAQ market) in 1991. Then, it was listed in the second section of Tokyo Stock Exchange (TSE) in 2001, and in the first section of TSE in 2003.

Recently, the company has been strengthening solutions based on image processing technologies and high-end security systems. In 2008, it reorganized ZENIC INC., which undertakes the development of ICs and LSI for image processing, etc., into a subsidiary. In 2010, it acquired FIBER SENSYS INC. (US), which has plenty of experience handling high-end security systems (optical fiber intrusion detection systems) for important facilities in Europe and the U.S., as a subsidiary. In 2012, it acquired RAYTEC LIMITED. (UK), which handles supplemental lighting for cameras of high-end security systems for important large-scale facilities, as a subsidiary.

In May 2016, it acquired CCS Inc., which has the world’s largest share in the market of LED lighting for image processing, as a subsidiary, and transformed it into a 100% subsidiary in July 2018.

With the aim of adopting next-generation business administration and pursuing group synergy, it shifted to the holding company system on January 1, 2017.

In December 2020, the company acquired Sanritz Automation Co., Ltd., which has an abundance of experience in developing, manufacturing, and selling industrial computer systems, as a subsidiary. Furthermore, the company made MITSUTEC CO., LTD. into a subsidiary in November 2021. MITSUTEC CO., LTD. is a company that plans, develops, manufactures, and sells image processing inspection / measuring equipment and automated machinery and equipment.

Following the market restructuring of the Tokyo Stock Exchange in April 2022, the company was listed on a new market segment, “Prime Market of TSE.”

In its three-year management plan (2024-26), the company aims for further growth as the global niche No. 1 company by promoting business model reforms and strengthening solution proposal capabilities to achieve the plan.

1-2. Corporate Ethos

Group Philosophy	<p>“We aim to become a corporate group full of venture spirit!”</p> <p>Venture Spirit is having the ambition to contribute to the development of the world by proactively innovating and challenging ourselves to create new businesses.</p>
Behavioral Guidelines	<p>Enhance the capabilities, vitality and efficiency of people and organizations to maximize the corporate value of the Optex Group.</p> <p>Appreciate the people of all ages, genders and races as they contribute to each unique organization to optimize our true corporate power by valuing our diversity.</p> <p>Promote the autonomy of people and organizations to nurture a positive company culture of which we can all be proud.</p>

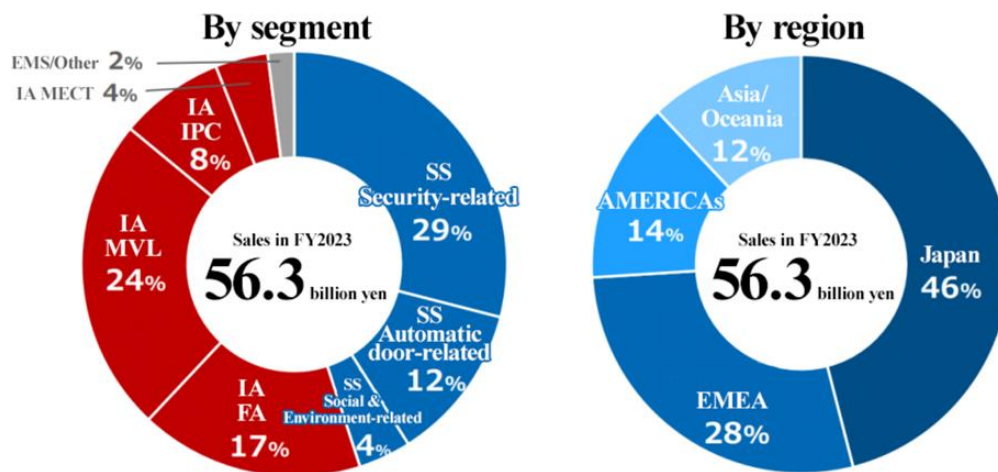
As the company commemorated the 40th anniversary of inauguration in 2019, the most emphasized evaluation item is to exert its venture spirit, and the company is developing an environment for fostering the venture spirit in order to strengthen human capital, which is the largest intangible asset for the company.

1-3. Business description

The Company’s business is composed of its main “SS (Sensing Solutions) business (security sensor segment and automatic door sensor segment)”, the “IA (Industrial Automation) Business” which works towards the automation, labor saving, and optimization of the production line using sensors for industrial machinery, LED lighting device and system for image processing and industrial computers, “EMS (Electronics Manufacturing Services) business,” which provides contract manufacturing services for electronic equipment in

China, and “Other business”, which operates programs for outdoor activities and experiencing and learning of the environment and develops apps and digital content.

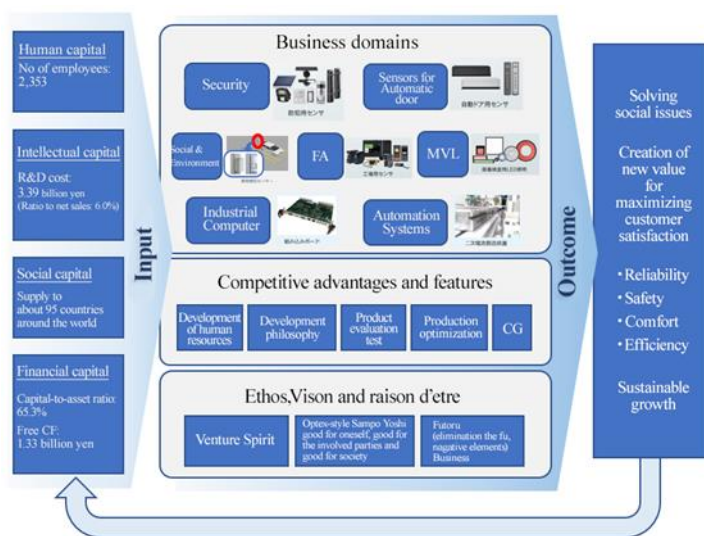
Company Overview_Sales Composition



Segment		Business Description
SS*Business	Security Sensor segment	Main products include various indoor and outdoor sensors, wireless security systems and LED lighting control systems, etc. For outdoor sensors, the company has the leading share in the global market.
	Automatic Door Sensor segment	The company developed the world’s first automatic door sensor using infrared rays. Main products are automatic door opening/closing sensors, shutter sensors for factories, wireless touch switches, customer counting system, etc.
	Social & Environment	Developing/marketing of vehicle detection sensors utilizing microwave technology, equipment for measuring water quality, image processing-related products.
IA*Business	FA*segment	Main products include photoelectric sensors used for quality control and automation of production lines, displacement sensors, image sensors, LED lights, etc. In Japan, these products are provided to a wide range of industries such as food or pharmaceutical for quality control of production lines. In Europe, its products on an OEM basis through its technological partner SICK AG (Germany) that has the largest share in industrial sensor market. Also, its house-brand products have been launched in Asia and North America.
	MVL*segment	The business of LED lighting for image processing has a lion’s share in the global market. The company cooperates with enterprises related to peripheral devices and software, etc. to offer the “best solution.”
	IPC*segment	Has shown great results in the development, manufacturing, and sale of industrial computers. Specializes in the development of devices and systems that require both “hardware” and “software” of industrial built-in computers.
	MECT*segment	The company is involved in the planning, development, manufacturing, sales, and maintenance services of image processing inspection/measuring equipment, and automated machinery of equipment for secondary battery manufacturing, etc. for various industrial fields.
EMS*Business		Contract manufacturing services for electronic equipment, developed at a factory in China.
Other Business		Operating outdoor activities and environmental hands-on learning programs and development of applications and digital content.

* SS: Sensing Solution, IA: Industrial Automation, FA: Factory Automation, MVL: Machine Vision Lighting, IPC: Industrial PC, MT: Mechatronics, EMS: Electronics Manufacturing Service

1-4. Flowchart for value creation



*The amounts of human capital, intellectual capital, social capital, and financial capital are the results for the term ended Dec. 2023

*Social & Environment is added from the term ending Dec. 2024

Based on corporate philosophy, vision and social significance since its foundation, the Optex Group develops unique products in seven business domains, by utilizing its competitive advantages, including excellent human capital.

They offer value, such as “safety, reliability, comfort, and efficiency,” to society as the No.1 enterprise in the global niche market.

1-5. Third-party evaluation regarding ESG

① MSCI* ESG Rating

The company got “BBB” in MSCI* ESG Rating in August 2024. In MSCI ESG Rating, several thousand companies around the world are evaluated comprehensively from environmental, social, and governance viewpoints, compared in each business category, and rated with 7 grades including the highest grade “AAA” and the lowest grade “CCC.” It is considered as a global evaluation indicator for ESG investment. This time, their grade has improved from “BB” in the previous year, as their initiatives for “labor management” and “corporate governance” became better.

*MSCI: A financial service provider headquartered in New York, the U.S. It offers a wide array of tools for supporting decision making for investment to institutional investors around the world, including large-scale public pension funds, such as GPIF, asset management companies, and hedge funds.

② CDP* climate change reports

In “Climate Change Report 2023” released by the international non-profit organization CDP*, which is headquartered in the UK, Optex Group received the score “B,” the third highest among 8 grades. CDP evaluates corporate activities with 8 grades (A, A-, B, B-, C, C-, D, and D-) by checking the setting of corporate goals and business strategies for coping with climate change, the recognition of risks and opportunities, the disclosure of greenhouse gas emissions, etc. They recognize the risks and opportunities regarding climate change, including global warming, as important managerial issues, and expressed their consent to the recommendations of “Task Force on Climate-related Financial Disclosures (TCFD)*” in January 2023. Based on the framework of TCFD, they will disclose more information on “governance,” “strategy,” “risk management,” “indicators and goals,” and so on, contribute to the realization of a sustainable society through business activities, and offer new value.

*CDP: Carbon Disclosure Project. It is a non-profit organization established in 2000 with the head office located in London, the UK. As its primary activities, it requests private enterprises and municipalities of major countries to disclose information on their measures for environmental issues, such as climate change, the protection of water resources, and forest conservation, analyzes and evaluates them in response to requests from institutional investors and major buying companies that have a keen interest in environmental issues, to address global environmental issues. In 2023, about 23,000 companies, which account for over two thirds of the global market capitalization, disclosed data via CDP.

*Task Force on Climate-related Financial Disclosures (TCFD):

This is a task force established in 2015 by the Financial Stability Board (FSB), which is an institution that oversees international finance, in response to the request of G20. In the final report announced in June 2017, they recommended that enterprises should disclose information on climate change to investors and proposed a framework for disclosure.

2. Interview with Top Management

We interviewed Mr. Tatsuya Nakajima, President of OPTEX GROUP CO., LTD., about the company's corporate philosophy, competitive advantages, ESG initiatives, and their message to stakeholders.

●Corporate Philosophy, Vision and Social Significance

Q. In recent years, the entire society has been striving for sustainable growth. As your company is one of society's important players, its corporate philosophy, vision, mission, and social significance are very important.

Firstly, could you tell us about your corporate philosophy?

Our philosophy is "aiming to become a corporate group full of venture spirit!"

When our founder established the company in 1979, he believed that for a company that started from scratch to be accepted by the world, it must offer something completely new and different, not just a rehash of existing products, to be useful to the world. This belief led to the development of highly unique products such as "the world's first far-infrared automatic door sensor" and a large market share both in Japan and abroad.

In 2017, we switched to a holding company structure and positioned this period as our second founding period. In order to return to our roots once again, we reiterated our corporate philosophy of "aiming to be a corporate group full of the venture spirit." Once again, we emphasize our founding philosophy of taking on new challenges not only in product development, but also in our daily routine work, thereby adding even more value.

Q. Optex Group follows an "Optex-style Sampo Yoshi" business philosophy as well, right?

The business philosophy of "Good for the seller, good for the buyer, and good for society" proposed by top-tier merchants in the Edo and Meiji periods called Oumi Shonin is well-known. In business, it is important to pursue one's own profit, but it is also considered good business when both the seller and the buyer are satisfied and when one can further contribute to society.

In our business, transactions cannot be completed without trust in the procurement of parts or the ordering of molds. To sustainably expand the business, it is important to recognize that the most important is not the person who buys goods, but both buyers and sellers are equally important.

The Optex Group interprets the above business philosophy in its own way and upholds it as "Optex-style philosophy: good for oneself, good for others, and good for the society (including the global environment). Since our founding, we have always placed the utmost importance on the belief that our priority is to please "others " and that this will lead to our own (our company's) benefit.

In our group, "others" include not only customers to whom we directly provide products and services but also our "supply chain," such as suppliers and subcontractors. Our attitude can be summarized in one phrase; "Let's grow together!" In addition, "others" also include our competitors. This is because we are constantly pursuing unique ideas and technologies, and through friendly competition with other companies, we can create products that no one else is making, thereby avoiding futile price competition and expanding the market with innovative products. This increases the choices of our customers and users and also leads to the realization of "good for society."



Tatsuya Nakajima, President

We also believe that the M&A that we are actively pursuing will also lead to "good for society" by creating synergy between the buyer (our Group) and the seller (e.g., CCS Inc., Sanritz Automation Co., Ltd., MITSUTEC CO., LTD. etc.) and developing system solution sales that go beyond mere product sales, thereby expanding the range of proposals to customers and users.



Optex-style Sampo Yoshi

Therefore, the spirit of "Optex-style Sampo Yoshi" that emphasizes the relationship of trust with all stakeholders is an important philosophy that underpins the foundation of the Group.

Q. What is the "Futuru (eliminating the fu) Business" concept, which is one of the guidelines for your Group's business activities?

The "Futuru Business" concept is our striving to become a global niche No.1 sensor manufacturer.

The "Futuru Business" means eliminating the customers' "anxieties", "inconvenience," and "dissatisfaction" (不安 "fuan," 不便 "fuben" and 不満 "fuman,") and replacing them with "reliability," "safety," "convenience" and "satisfaction," respectively. In other words, it means eliminating all the "不 (fu)" that the clients have by developing and providing products and services.

We believe that the purpose of the Optex Group's business is to contribute to society by providing comfort and efficiency through this "Futuru Business" concept. However, although our group is a technology company, what our customers are looking for is "problem-solving," which does not necessarily require the latest technology or high technology. We believe that it is important to discern the essence of what the customer is seeking.

And so, "aiming to become a corporate group full of venture spirit!" "Optex-style Sampo Yoshi" and "Futuru Business" are our Group's corporate culture and DNA since its founding.

"Introduction of Specific Products of the Futuru Business"

① Outdoor security sensors

OPTEX CO., LTD. was quick to focus on the importance of outdoor pre-crime security "alerting before an intrusion." In 1996, the company developed the Outdoor Security Sensors for Detecting Intrusion VX-40 that operates accurately, even in the outdoor environment where there are many malfunction factors such as rain, sunlight, and wind.

Especially in Europe and other overseas countries, "pre-crime" security, which is the detection and reporting of intruders before they enter the building, is spreading among ordinary households.

Since there are cases of illegal intrusions and crimes



Various Outdoor security sensors (image)

occurring regardless of whether the inhabitants are at home or not, this product can help you recognize the presence of intruders early, so that you can ensure your safety by reporting and defending yourself. Currently, these products are used in buildings and facilities around the world as they have been recognized for their high reliability, and the company has about 40% share of the global market.



Installation example (image)

② Automatic door sensors

The sensors for automatic doors provided by OPTEX CO., LTD. are used to detect people's movement more accurately and use automatic doors more safely.

In particular, the e-Smooth Sensor is equipped with sensors and imaging technologies to perceive the walking speed and the direction of pedestrians, reducing unnecessary opening by pedestrians passing by the automatic door.

By operating the doors only when necessary, it improves air conditioning efficiency in buildings and leads to power consumption that is approximately 30% lower than that of conventional automatic door sensors.



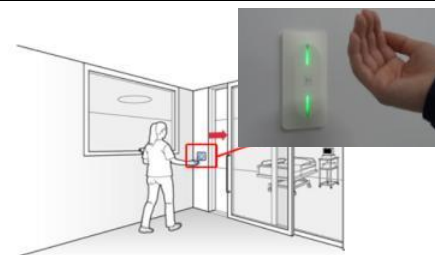
Application example of "e-Smooth Sensor" (image)

③ Contact-free switch for automatic doors

OPTEX CO., LTD. has developed the "Clean Switch," a non-contact switch that is ideal for locations where hygiene and reduced risk of viral and bacterial infections are important.

Doors can be opened and closed simply by holding the hand over the door without directly touching the doorknob or switch. It is ideal for food factories, medical facilities, and other places where hygiene control is required, such as public facilities and commercial facilities used by an indefinite number of people.

The company will continue to contribute to hygiene management at all kinds of workplaces by expanding its lineup of non-contact switches.



Application example of "non-contact switch" (image)



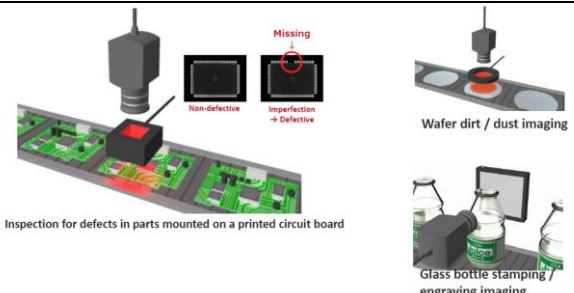

④ Sensors for factory automation

Sensors for factory automation from OPTEX FA CO., LTD. are used in the manufacturing process of factory product making.

In particular, the image sensor for "print inspection," which boasts the world's largest shipment volume, inspects expiration dates, lot numbers, etc. printed on the packaging, thereby reducing food loss and supporting the supply of safe and secure food.



"GVS-OCR" image sensor for print inspection (image)

<p>In 2021, the company received the "Nisshoku Excellent Food Machinery Award" sponsored by the Japan Food Journal. This is a highly competitive product that can meet new print inspection needs in the food industry, such as revisions to the Food Labeling Law and enhanced traceability.</p>	
<p>⑤ LED lighting for image inspection CCS Inc.'s LED lighting for image inspection is used to capture images of objects to be inspected to determine whether they are good or defective in the factory product manufacturing inspection process. The company is a pioneer in the industry, with a strong track record of over 50,000 imaging projects and the design, development, and production of approximately 10,000 models of custom-made lighting. In addition, the company has 14 domestic and 15 overseas test facilities, and its "comprehensive solution" proposals, including lenses, cameras, and other peripheral products, are highly evaluated by customers.</p>	 <p>Application example of LED lighting for image inspection (image)</p>  <p>Proposal at the experimental facility (image)</p>

●Recognition and Perspectives of ESG

Q. Could you tell us about the relationship between the philosophy you have just explained and ESG?

In recent years, the perspective of Environment, Society, and Governance (ESG) has been considered essential in corporate growth. Since its establishment, our group has been developing its business to contribute to a safe, secure, and comfortable society and industry by making full use of its competitive sensing technology. In other words, engaging more in eliminating the “un” from unease, the “in” from inconvenient, and the “dis” from dissatisfying that exist in the world into safe and secure, convenient, and satisfying situations (the Futoru (eliminating negatives) Business).

In that sense, we are confident that by continuing to promote this "Futoru (eliminating negatives) Business," we will be able to contribute to the resolution of environmental and social problems, as well as expand all our businesses and increase corporate value.

Also, we believe that "Optex-style Sampo Yoshi" represents our attitude towards the ESG as it aims to build relationships with diverse stakeholders.

(From the company's website _Sustainability_ for Stakeholders) <https://www.optexgroup.co.jp/esg/stakeholder.html>

Aiming to provide more value to the world as a "solution company" that solves social issues

Since the establishment of Optex Group, we have been contributing to the solution of customers' problems, focusing on work that transforms "insecurity into safety and security," "inconvenience into convenience," and "dissatisfaction into satisfaction."

This agrees with the meaning of "sustain," the base of the English word "Sustainability," which means "to grasp and support (a secure, convenient, and satisfying society) from below," and is consistent with the Optex Group's concept as a solutions company that solves a variety of social issues.

In response to many social issues, the group has identified three priority management issues to be addressed: addressing environmental issues, including climate change, respecting diversity, and improving productivity at manufacturing sites in response to the declining population caused by the falling birthrate and aging population.

First, with regard to our efforts to address environmental issues, including our response to climate change, we will contribute to society by providing power-saving and environmentally friendly products, which is one of the strengths of our group, based on our environmentally friendly business operations.

Next, with regard to respecting diversity, since the inauguration of business, we have had a "-san" culture in which employees address each other by name and "-san" instead of by title, and we believe that this flat corporate culture is an asset of our company. In addition to this, we believe it is important to further invest in our people by improving the working environment for our employees, promoting women's participation in the workforce, and educating our employees based on the idea that "the company is a stage where you achieve self-realization."

In response to the declining workforce due to the falling birthrate and aging population, we will contribute to the sustainability of society by providing products and services that contribute to the automation and sophistication of manufacturing.

Profit is the quantification of the added value created by our group in solving social issues, and we believe that this profit, recognized by our customers, is the value of our group's existence in a sustainable society.

We will continue to build a future together with our stakeholders through sustainable growth that balances social and economic value while respecting the basic stance we have taken since our founding.

● Characteristics, Strengths and Competitive Advantage

Q. What are the characteristics, strengths, and competitive advantages of your company?

By incorporating our sensing technologies with lighting technologies and various elemental technologies, our group advanced the technologies that allow them to look at changes and conditions, examine the invisible, and observe and judge. By doing so, we have made valuable proposals and offered solutions to diversifying customer needs. Multiple elemental technologies, know-how, and algorithms to control physical changes are essential to realize reliable and stable sensing.

The technologies, know-how, and the unique sensing algorithms which are suitable for such applications are our group's major strength and competitive advantage. Thus, I believe they are behind the group's brand power as it is the reason for achieving a large market share in all product categories of the SS business. It is extremely important to pursue the question "what is essentially required?" to accumulate such technologies and know-how.

For example, OPTEX CO., LTD. has established its development philosophy, "Optex Katachi," which has been handed down through many years. This philosophy focuses on manufacturing our products by using ideas from the standpoint of customers. We also carry out various product evaluation tests to achieve high reliability and performance that meet customer requirements.

In the outdoor environment where our sensors are used, many unexpected factors such as rain, wind, temperature changes, lightning, and small animals will affect the performance of our sensors daily. Therefore, in order to create a highly reliable sensor, our sensors need to pass tests that ensure that such factors do not affect their performance. Moreover, it is essential to manufacture products that comply with the laws and public standards that vary among the countries in which they are sold. Thus, it is crucial to carry out numerous product evaluation tests.

While these measures are very straightforward, they are not easy to apply. That is because in the niche field, delving deep into one topic for an extended period leads to the creation of a strong invisible entry barrier.

Our group's great strength lies in the fact that we are able to create new ideas through our thorough knowledge of each customer's usage and environment and our honest efforts to solve each and every problem, resulting in a high value-added business that other companies cannot compete with. We conduct onsite experiments in various environments and scenarios to test sensing performance, and we also create similar conditions to perform evaluation tests. These diligent activities enable us to make accurate performance assessments, which form the competitive edge of our group. Moving forward, we will continue to strengthen our competitiveness by deeply and

thoroughly exploring each matter.

On the other hand, while we have been releasing various products, we are aware that we have not been able to produce new products that are as highly regarded and have a significant market share as our outdoor security sensors, which are globally acclaimed. In other words, the growth of the new product sales ratio remains a challenge. This is due to the expansion of our product range as the company grows, which leads to a mixture of developing entirely new products and maintaining and improving existing ones, with more emphasis on the latter. We believe that we need to take on more challenges in this regard.

Therefore, to break through this situation and have each business company delve deeper into their own areas of expertise, we transitioned to a holding company structure in 2017. Each company focuses on individual optimization rather than overall optimization, emphasizing depth over breadth in product development. As a result, the roles of each business company have become very clear, so we expect more new products to emerge. In this context, we believe that it is necessary to demonstrate and strengthen the leadership of the holding company further in the future.

- **Initiatives regarding major Key Issues (Materiality)**

Q. Your group has selected 16 key issues (materiality). (Refer to 3. Issues, Materiality, and Measures)

Of these, I would like to ask you about your thoughts on the key issues (materiality) that are particularly important for your company's sustainable growth.

The first is "human capital." Please tell us about supporting employee work satisfaction, education and training systems, the corporate culture that respects diversity, etc.

The environment surrounding companies is undergoing major changes in response to environmental challenges, the rapid evolution of AI and other technologies, and stakeholder relations. In order for companies to sustainably increase their corporate value while responding to these changes, they must view human resources as "capital" and maximize their value by securing and developing human resources that generate innovation and added value, as well as by building organizations.

Since its founding, our group has focused on creating an environment in which employees can thrive, based on the belief that employees' growth leads to corporate growth, and it will focus even more on improving the environment and strengthening human capital in the future.

As the American psychologist Abraham Maslow argues in his "Maslow's hierarchy of needs", the highest need for humans is "the need for self-fulfillment." I believe that what motivates people to move is having something they want to do, being able to achieve it, being praised and appreciated for it. For that reason, we wanted to be the world's best company to achieve self-fulfillment since our group's founding. That is why we see our company as the stage for our employees. How you perform and dance on that stage is up to each and every one of you, the "main actor," and I hope that you will use the company as a stage to realize your own dreams.

Of course, the reward is also an essential factor in work satisfaction, but it is not the only one. Therefore, the management interviews employees to get to know what kind of dreams they have and what they want to do, and strives to support them to realize them.



Let's talk about the evaluation criteria of our group.

The most valued person in our group is the person who took up a challenge and succeeded. In the second place comes the person who took on a challenge but failed, and in the third place comes the person who supported others in their endeavors. As for the least valued

employee, it is the one who does not take on any challenges.

This criteria that does not focus only on results but also on the process is a part of the Optex Group's management philosophy that we have cherished since our founding. As for my own experience, I don't really remember that much of my successes. On the contrary, my failures are what helped me grow.

The group also attaches great importance to its "respect for diversity."

Based on the notion that "having a variety of choices is the evidence of an affluent society," we believe that it is the role of the Optex Group to contribute to social diversity through product development. That is why we include our rival companies as part of the "parties involved" in our "Optex-style Sampo Yoshi" Philosophy as a manifestation of our focus on diversity.

Of course, we respect the diversity of each and every employee as well. Also, we want all our employees to demonstrate their individuality and always continue to take on challenges.

We have established various systems to support the employees' "self-fulfillment" and "taking on challenges," and we will further enhance our competitiveness by creating a corporate culture where employees can maximize their abilities.

I have worked for domestic and international companies; this is my fourth company. I find our culture of respect for diversity and our open and flat organizational climate to be excellent. I have experienced that while high income and good benefits are motivating, the best results are achieved when you have an environment where you can strongly feel your own sense of fulfillment. Therefore, while valuing this culture and climate, I would like to work even harder than before to strengthen our human capital to foster our employees' self-realization, growth, and job satisfaction.

Specific initiatives include promoting health management to create a comfortable working environment. Our group has had OPTEX CO., LTD. recognized as a "Health and Productivity Management Outstanding Organization" for three consecutive years and OPTEX FA CO., LTD. for five consecutive years. We are now aiming to be among the top 500 recognized large corporations, known as the "White 500." Additionally, other business companies within our group are also working on creating workplace environments that fully consider employees' health.

Furthermore, we believe that the adoption of "OFF-JT" for employee growth and development will be effective. Currently, many Japanese companies use on-the-job training (OJT) as the core of employee education. OJT is optimal for sharing tacit understanding and know-how, and it also has the advantage of being cost-effective. However, in order to foster leadership and management skills, it is necessary to provide not only OJT but also "OFF-JT," which includes specialized programs such as sessions from outside instructors and concentrated problem-solving, and to enhance educational plans that support employees' growth as "human assets" and their reskilling. We aim to address the challenge of effective human resource development by organically combining the benefits of both on-the-job training (OJT) and off-the-job training (OFF-JT).

Q: Could you tell us about specific initiatives you will take to put the "We aim to be a corporate group overflowing with the venture spirit!" vision into practice.

We regularly execute a program for young and mid-career employees to propose ideas for the launch of in-house ventures.

The management team discusses these proposals, and budgets are allocated to promising ideas, with the proposer appointed as the person in charge of the new business to begin commercialization. Although we have been sowing the seeds of new businesses for the past 10 years, many of them are small in size, but we will continue to use the in-house venture system to sprinkle water on them and make them bloom.

Q. What are your thoughts on initiatives for environmental issues, GHG (greenhouse gas) reduction, and securing safe water?

To achieve a sustainable society, solving the problem of climate change to preserve the global environment is an issue of international importance.

Japan ratified the Paris Agreement in 2015, which sets two common global long-term goals: "to keep the global average temperature increase well below 2°C above pre-industrial levels and limit it to 1.5°C" and "to peak out global greenhouse gas (GHG) emissions and achieve a balance between GHG emissions and absorption in the second half of the 21st century." The Japanese government has also declared "2030 GHG emissions: 46% reduction from 2013 levels" and "achieving carbon neutrality by 2050."

We believe that the transition to a decarbonized society is an important issue that we, as a company that recognizes the protection of the global environment as one of our corporate social responsibilities, must take responsibility for addressing.

Regarding GHG reduction, since our group mainly develops and sells small sensors and software, we can say that our environmental impact is lower than that of general manufacturers. In our business activities, we also contribute to CO₂ emissions reduction by our customers through their use of our environmentally friendly products, such as sensors to detect people and objects and operate machines and systems only when necessary, or using sensors to help improve the efficiency and quality of factory lines.

Nowadays, we are aware that many customers are using our products for both its economic efficiency and environmental performance, and that is why we will continue to reduce greenhouse gas emissions further in the future by using our products.

Also, our group has been working for a long time on water quality measuring equipment with sensors. One of the equipment we developed is "WATER it." It is a simple water quality measuring device and system which has dramatically reduced the labor, time, and cost required for water quality measurement. Thus, in the future, we aspire to continue to contribute to overcoming the global challenge of "securing safe water" by supplying products.

As a company listed on the Prime Market, we recognize the risks and opportunities related to climate change, including global warming, as important management issues and have expressed our support for The Task Force on Climate Related Financial Disclosures (TCFD). Based on the TCFD framework, we will promote information disclosure on items including governance, strategy, risk management and indicators/targets. Although TCFD will be dissolved during the fiscal year 2024, we will continue to disclose information in compliance with the ISSB standards, which will be the core of future sustainability disclosure standards and will continue to contribute to the realization of a sustainable society and provide new value through our business activities.

In addition, since FY 2022, our company and its main operating company, OPTEX CO., LTD., have been responding to surveys from CDP*¹, an international NGO.

*CDP: Carbon Disclosure Project, a non-profit organization established in 2000 and headquartered in London, UK). Based on requests from institutional investors and major purchasing companies around the world that are highly interested in environmental issues, CDP's main activities are to lobby for global environmental issues by requesting private companies and local governments in major countries to disclose, analyze, and evaluate information on measures to combat climate change, protect water resources, conserve forests, and other environmental issues. In 2023, approximately 23,000 companies, more than two-thirds of the world's market capitalization, disclosed data through CDP.

Q: What are your thoughts and measures regarding corporate governance?

One of the points our group has placed great importance on since its founding is "the freedom to discuss anything."

Our desire to be a company with a culture of openness where we always discuss whether our decisions are truly right or not without hiding anything remains unchanged.

Our group, which has an open and flat culture and respects diversity, is increasing the number of its subsidiaries in Japan and overseas and expanding its business scale. Amid these circumstances, in 2016, we transitioned from being a company with a board of auditors to a company with an audit and supervisory committee to improve management transparency, maintain a management system that involves fair and prompt decision-making, and strengthen management monitoring.

Currently, out of the eight directors and audit committee members, four directors accounting for more than one-third are independent outside directors, and two are female outside directors. The ratio of female directors is 25%. Keeping in mind the numerical target indicated by the Tokyo Stock Exchange of increasing the percentage of female directors to 30% or more by 2030, we will continue to build a corporate governance system that places even greater emphasis on diversity.



● **Three-year (2024-26) management plan***

Q: Next, please tell us about the key points of your Three-Year (2024-2026) Management Plan.

Our company, under the group philosophy of "aiming to be a group of companies full of the venture spirit," is targeting an operating profit of over 10 billion yen and an operating profit margin of 15% by 2026.

The strategy to achieve this plan is based on three points: growth of existing businesses, growth of M&A targets, and synergies with M&A partners.

In terms of "growth of existing businesses," the SS business (Security Sensors), SS business (Automatic Door Sensors), IA business (Factory Automation), and IA business (Machine Vision Lighting) will shift from "selling products," which is mainly sensor sales, to "selling solutions," which provides solutions to customers' issues, and concentrate our efforts on providing system solutions.

In terms of "growth of M&A targets," we will aim to expand our core business in a favorable market environment by leveraging the advantages and characteristics of both Sanritz Automation Co., Ltd. and MITSUTEC CO., LTD., which have been recently acquired as subsidiaries.

In terms of "synergies with M&A partners," the entire group, including these two companies and CCS Inc., will generate significant synergies. Synergies with CCS Inc., which became a wholly-owned subsidiary in 2018, are expanding, including the sharing of customer bases, and we believe this will make an even greater contribution to earnings growth in the future.

* See "4. Three-year (2024-2026) Management Plan" for details.

● **Challenges for the Future**

Q: You are working on product development with the goal of becoming the dominant niche player in the market. What do you need to do to further improve your competitiveness?

For OPTEX CO., LTD., which operates the SS business, we are thoroughly committed to manufacturing products based on ideas from the customer's viewpoint. In addition, various product evaluation tests are conducted to ensure that all products have the "reliability" that gives them absolute value and the "performance" that satisfies customer requirements. Each of these is based on a series of steady efforts, but we believe that further development and evaluation from the customer's point of view will help us improve our competitiveness.

For OPTEX FA CO., LTD., which operates the IA business (Factory Automation), we have established a development pattern of carefully identifying what is lacking or what could be improved from the customer's perspective like in OPTEX CO., LTD. and commercializing these products within the factory automation and labor-saving sensor market, which has been pioneered by major companies.

In areas where major companies do not provide services or cannot enter, we are creating high value-added products by utilizing our technologies such as noise reduction technology and sensing algorithms, and have been valued by our customers as an irreplaceable company.

In order to continue carefully listening to the voices of our customers, we conduct thorough direct marketing and set a target number of cases of marketing involving development staff.

Displacement sensors and temperature sensors, whose sales have been growing rapidly in recent years, constitute product categories created through the above process.

Although OPTEX FA CO., LTD. is still a small company, SICK AG, a German company, has been a very reliable partner for us.

We believe that one of our major advantages is that by obtaining market information from Europe and the U.S. and using it for joint

development, we can develop products in areas that major Japanese companies cannot approach.

Q: Your company has been active in mergers and acquisitions in recent years. How do you develop synergies between companies?

In the field of industrial automation, OPTEX FA CO., LTD. and CCS Inc. are working closely together, because of which customers can now choose the best solution from many options.

MITSUTEC CO., LTD. is engaged in automation equipment, so it can procure sensors and lighting for the equipment from our own group. It is a great advantage. In addition, the company produces visual inspection equipment, so we can make proposals based on our previous research.

We strengthen cross-promotion for Industrial Automation.

Both Sanritz Automation Co, Ltd. and MITSUTEC CO., LTD have strong connections with large global companies, and we are seeing a significant increase of projects that take advantage of these connections.

As for synergies between the Industrial Automation and SS businesses, Sanritz Automation Co, Ltd. and OPTEX CO., LTD. have begun joint development of an AI-based remote surveillance camera system for critical facilities.

Q. You mentioned that expanding your share in overseas markets is an issue. Could you tell us about your current situation and future initiatives?

Even with regard to industrial automation, which is currently the company's main source of income, OPTEX FA CO., LTD.'s share in the U.S. market is still low, and CCS Inc., which has the largest share of the domestic market, has a lot of room to expand its share in China.

As president, it is my mission, as a person with long overseas experience, to cultivate overseas markets that have a great potential for growth.

Since it is difficult to expand sales of security equipment and factory automation equipment through distributors, we started direct marketing and direct sales for each of these products several years ago.

With regard to security-related products, the strategy has been successful and sales of "laser scan sensors," a highly profitable product for large, important facilities such as infrastructure, have increased significantly.

In the field of automatic doors, we are working to promote highly functional automatic door sensors that control unnecessary door openings and closings, reducing energy loss in buildings due to "air leakage" and contributing to the conservation of the environment. Recently, there has been a global demand for environmental designs that achieve ZEB (net zero energy buildings) that actively utilize energy saving and natural energy. The Ministry of Economy, Trade and Industry of Japan has also set a policy goal to achieve ZEB on average for new buildings by 2030.

In industrial automation, the direct sales system of OPTEX FA INC., the local subsidiary established in 2018 is gradually but surely bearing fruit.

We will continue to thoroughly pursue sales expansion and profitability improvement through direct sales.

In order to improve and expand direct sales, we will dispatch personnel from Japan, but it is also essential to train local managers and have them play an active role. In this sense, it is also important to spread our corporate philosophy overseas as well, and we intend to further improve communication of our mission and vision.

Q. How are the labor-management relations and management system at your factories in China and the production contractors in Vietnam?

The current labor relations at our factories in China and Vietnam are good. In particular, we are focusing on enhancing welfare programs at our Chinese factories. We provide commendation according to the employee's years of service, hold employee trips and seasonal events (sports days, new year parties, and birthday parties), provide employee dormitories and a vacation system, and enhance the after-school care. These efforts have been well received by the employees.

In recent years, forced labor and child labor at overseas production bases have become a problem. However, child labor and forced labor

are prohibited at our factories in China and production contractors in Vietnam under the Labor Law and the Underage Protection Law. Under these laws, we require potential employees to show us their IDs at the interview at the time of hiring, and we do not hire anyone under 16 years old. In addition, due to our compliance with the laws of each country, we do not allow illegal labor such as forced labor.

Our group, under the corporate philosophy of "aiming to be a group company full of the venture spirit," has recognized the importance of respecting human rights as a company based on the "Optex Group Code of Conduct," in addition to complying with laws and regulations since our founding. We strive to act with high ethical standards. We recognize that respect for human rights, which is the basis for sustainable business activities, is part of our social responsibility. We support internationally recognized human rights as stated in the "International Bill of Human Rights" and the "ILO Declaration on Fundamental Principles and Rights at Work" by the International Labour Organization. Details of our Group Human Rights Policy are available on the following website:

Group Human Rights Policy → <https://www.optexgroup.co.jp/esg/human-rights.html>

● Realization of management with an awareness of the cost of capital and stock price

Q: What are your thoughts on the Tokyo Stock Exchange's request for "measures to realize management that is conscious of the cost of capital and stock price?"

In order to achieve sustainable growth, we recognize that one of our key management issues is to improve not only sales and profits on the income statement, but also the cost of capital and return on capital based on our balance sheet and have set "a return on equity (ROE) of 10% or higher" as a target management indicator. Currently, we estimate our own cost of shareholders' equity to be around 7% (6-8%), and we recognize that we have achieved a return on capital that exceeds the expected returns sought by shareholders and investors, but we believe that further improvement in profitability is necessary in the future.

Regarding the "Measures to realize management conscious of the cost of capital and stock price" promoted by the Tokyo Stock Exchange, we plan to disclose the details around February 2025, consistent with the formulation of our three-year management plan starting in 2025, after the Board of Directors fully discusses concrete measures and other matters.

● Message to Stakeholders

Q. Thank you for discussing various points with me during this interview. Finally, could you please give a message to the stakeholders?

Since its founding in 1979, our group has been striving to expand its business based on its basic principles of "demonstrating the venture spirit," "Optex-style Sampo Yoshi," and "promoting Futoru Business." I believe that this approach to ESG management is what the companies should undertake to build a genuinely sustainable society.

Based on these basic principles, the products and services created in each of our businesses provide the world and customers with "safety, security, comfort, and efficiency." This is the role that our group plays and its social significance.

Although I have only joined the company halfway through my career, I find it very rewarding and exciting to be able to make a significant contribution to the environment and society through the expansion of our business by utilizing my knowledge, experience, and expertise. We will seek to maximize corporate value and solve social issues by achieving growth through the creation of new businesses and the full-scale development of overseas markets, and we would appreciate the continued warm support of our stakeholders.

3. Issues, Materiality, and Measures

The Optex Group currently recognizes the following issues and materiality in order to achieve sustainability. For materiality selection, they interviewed external personnel, too.

Issues	Materiality
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Environment	Reduction of greenhouse gas emissions
	Securing of safe water
	Use of renewable energy
Social capital	Securing of quality and safety of products
	Safe data management
	Utilization of geographical capital and cooperation with local communities
Human capital	Improvement in employees' satisfaction with their jobs
	Educational and training systems
	Corporate culture that respects diversity
	Employee health and safety
Business models & innovation	Reform of business models
	Appropriate supply chain management
	Procurement of materials and parts
Competitiveness and governance	Research and product development systems for enhancing competitiveness
	Expansion of the corporate governance system
	Risk control

*Produced with reference to SASB Materiality Map, etc.

【Regarding sustainability】

The corporate group has operated business since its inauguration with the goal of contributing to the development of a “safe, worry-free, comfortable” society and industries by utilizing its sensing technology as its specialty. They aim to become the No.1 sensor maker in the global niche market by expanding the business of dispelling a broad range of worries, discomfort, and inconveniences in the world. They are certain that by promoting this business, they will be able to help solve environmental and social issues, expand each business, and improve their corporate value.

Then, they will strive to contribute to the sustainable growth of society and improve their corporate value by setting the following basic policy for sustainability and promoting activities under this policy.

<Basic policy for sustainability>

- To cement relationships with all kinds of stakeholders, to contribute to the sustainable growth of society
- To supply environmentally friendly products with the aim of realizing recycling-oriented business administration
- To improve employees' engagement, with the aim of achieving the sustainable growth and advance of each group company.

The corporate group established a “group compliance promotion committee,” which is chaired by the representative director and president and meets two or more times a year, as a body directly controlled by the board of directors, to deliberate important issues on sustainability, including climate change risks.

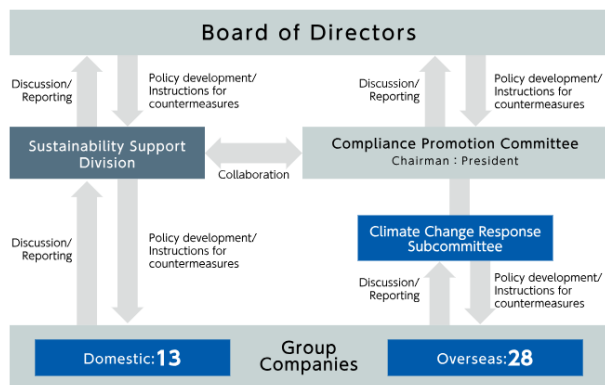
In addition, this committee submits items to be deliberated to the board of directors, and the board of directors deliberates them, and reflects the results in the operations of group companies.

As concrete measures for coping with climate change, they expressed their consent to the recommendations of TCFD, and established a “subcommittee for coping with climate change” under the group compliance promotion committee in 2023.

The policy of this subcommittee is to fulfill corporate social responsibilities by measuring greenhouse gas emissions, discussing and executing measures for reducing emissions by utilizing renewable energy, etc., and disclosing information based on the framework of

TCFD.

In 2024, they established Sustainability Support Division, to enhance the monitoring function and improve the effectiveness of sustainability activities, including the response to climate change.



(Taken from the website of the company)

3-1 Materiality for the “environmental” issues

(1) Basic recognition

The corporate group develops, manufactures, and sells sensors (for security, automatic doors, and industrial equipment), LED lamps for testing at factories, and software.

Recognizing the protection of the global environment as one of its corporate social responsibilities, the corporate group has made all employees aware of the Optex Group Code of Conduct, complies with various environment-related laws, regulations, and standards, and operates its business in an environmentally friendly manner.

Climate change is progressing around the world, and is projected to become more serious.

Following the guidance of the Task Force on Climate-related Financial Disclosures (TCFD), we conduct analysis with various external scenarios and identify significant effects of business in the aspect of strategy by studying climate-related risks and opportunities.

- Augmentation of financial costs due to the carbon tax and the tightening of market regulations
- Impact of the factory’s exposure to the danger of a flood due to the increase of abnormal weather on business
- Impact of the insufficiency of CO₂ reduction activities and the disclosure of climate-related information on business
- Impact of products and technologies that would contribute to low-carbon economies and measures against physical risks

Considering these impacts, they set a medium-term goal of “reducing CO₂ emissions (Scopes 1 and 2) by 30% or more from FY 2019 by 2030” as a measure for coping with climate change, reflecting it in their medium/long-term management plans.

In order to make firm progress toward the goal, they energized activities and investments required for realizing a sustainable low-carbon future, including the launch of a project directly controlled by the CEO.

The company provides a lot of products that contribute to the development of low-carbon systems and the improvement of energy efficiency in client companies, and believes that corporate value can be improved by “helping reduce emissions further” and “decreasing CO₂ emissions from business operations” with these products.

(2) Initiatives for disclosing information on climate change

Recognizing the risks and opportunities related to climate change, including global warming, as important managerial issues, they expressed their consent to the recommendations of “Task Force on Climate-related Financial Disclosures (TCFD)” in January 2023.

TCFD is scheduled to be dissolved by the end of FY 2024, but they will keep following mainly the ISSB standards when disclosing information on sustainability, and disclose information on “governance,” “strategy,” “risk management,” “indicators and goals,” etc., to contribute to the realization of a sustainable society and offer new value.

© Governance

As mentioned above, established a “group compliance promotion committee,” which is chaired by the representative director and

president and meets two or more times a year, as a body directly controlled by the board of directors, to deliberate important issues on sustainability, including climate change risks.

In addition, this committee submits items to be deliberated to the board of directors, and the board of directors deliberates them, and reflects the results in the operations of group companies.

As concrete measures for coping with climate change, they established a “subcommittee for coping with climate change” under the group compliance promotion committee in 2023.

This subcommittee will fulfill corporate social responsibilities by measuring greenhouse gas emissions, discussing and executing measures for reducing emissions by utilizing renewable energy, etc., and disclosing information based on the framework of the international standards.

In 2024, they established Sustainability Support Division, to enhance the monitoring function and improve the effectiveness of sustainability activities, including the response to climate change.

◎ Strategy

The situation surrounding the business of the corporate group is remarkably changing, due to the global spread of carbon pricing, the escalation of interest in renewable energy, the shift to electric vehicles (EVs), etc. in response to the climate change that is becoming more serious year by year. Accordingly, the response to them is a pressing matter.

In order to predict the effects of these external changes on their business from various perspectives, the corporate group discussed the business risks, opportunities, and countermeasures assumed in each scenario with reference to the risk scenarios of the international standards.

In detail, they selected 1.5°C, 2°C, and 4°C Scenarios.

Scenario	Details	International standards
1.5°C Scenario	The increase in air temperature is kept less than 1.5°C from before the industrial revolution and zero net CO ₂ emissions are achieved in 2050.	IEA NZE2050
2°C Scenario	Countermeasures are implemented immediately around the world, and the increase in air temperature is kept less than 2°C.	RCP2.6
4°C Scenario	Greenhouse gas emissions keep increasing, and temperature changes intensify.	RCP8.5

(Taken from the website of the company)

* Risks and opportunities

Following the section of “risks and opportunities” in the climate change questionnaire of CDP, which is one of international standards for disclosing environmental information, they identified risks and opportunities assumed in group companies inside and outside Japan. The company and its major business company OPTEX CO., LTD. has responded to a survey of CDP, which is an international NGO addressing issues in the environmental field, since FY 2022. In both FY 2022 and FY 2023, they answered the climate change questionnaire. CDP distributes questionnaire sheets regarding the environment, summarizes the results, and then conduct analysis and evaluation with a common yardstick.

They estimated mainly the amount of potential financial impact, costs for dealing with risks and seizing opportunities, etc. and classified items into short-term (1-3 years), medium-term (3-9 years), and long-term (over 9 years) ones.

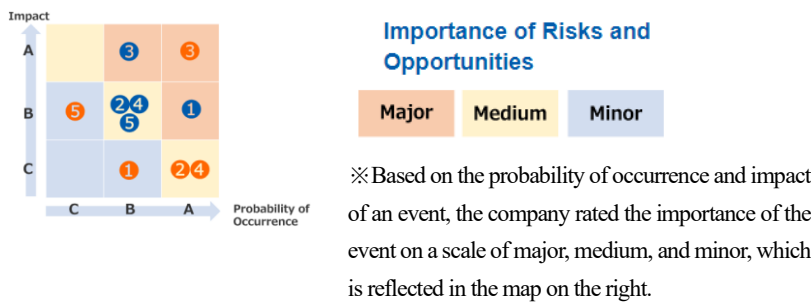
The probability and impact of each event were evaluated with three scales, and the two scores were combined, to gauge the level of significance with “low,” “medium,” and “high.” Based on the significance level of each event, the corporate group discussed measures for dealing with risks and seizing opportunities.

Major risks		Response	Significance level
①	Augmentation of overhead costs due to the accelerated shift to renewable energy	• Estimation of greenhouse gas emissions and promotion of activities for reducing them	Low

		<ul style="list-style-type: none"> • Replacement of some company vehicles with HVs, PHEVs, or BEVs • Installation of energy-saving lamps for offices 	
②	Augmentation of costs for components and raw materials in the wake of adoption of the carbon tax	<ul style="list-style-type: none"> • To utilize more renewable energy in the entire supply chain based on the cooperation with suppliers and clients • To cut down on manufacturing costs and reduce expenses by modifying designs in a planned manner, to cope with the skyrocketing of raw material prices 	Medium
③	The insufficiency of environmental measures and their appeal weakens the support from stakeholders and consumers.	<ul style="list-style-type: none"> • To actively promote measures for coping with climate change and disseminate related information (disclosure of information based on the recommendations of TCFD, the response to the climate change questionnaire of CDP, etc.) • To set a goal of reducing CO₂ emissions and promote related measures 	High
④	Intensification of the risk of heatstroke due to the increase of days with air temperature exceeding 35°C	<ul style="list-style-type: none"> • To improve air-conditioning equipment in offices and production sites • To install water supply equipment in facilities for experience-based learning of the environment 	Medium
⑤	Due to a natural disaster, the operation of their factory is suspended, or it becomes inaccessible to employees.	<ul style="list-style-type: none"> • To fortify BCP measures and improve water-proofing property • To decentralize production sites 	Low

	Major opportunities	Response	Significance level
①	Growth of demand for low-carbon products	<ul style="list-style-type: none"> • To develop and sell environmentally friendly products and offer related services (automatic door sensors conscious of air-conditioning efficiency, AI-based appearance inspection solutions, and industrial sensors for automation) 	High
②	Growth of needs for energy-saving products	<ul style="list-style-type: none"> • To enhance the development and sale of lightweight power-saving products • To promote the sales of high-performance products that would improve productivity 	Medium
③	Foray into a new market in response to the expansion of demand for EV batteries	<ul style="list-style-type: none"> • To release new products in the EV market • To promote the sales of equipment for manufacturing EV batteries 	High
④	Growth of demand for high-precision tests in the wake of the expansion of demand for energy-saving products, such as solar panels and EV batteries	<ul style="list-style-type: none"> • To promote the sales of sensors for factory automation and LED lamps for image inspection 	Medium
⑤	Growth of demand for products for disaster prevention as torrential rain becomes common	<ul style="list-style-type: none"> • Development and sales promotion of flood monitoring systems, disaster prediction and maintenance systems, inspection robots used at the time of disaster, etc. 	Medium

(Taken from the website of the company)



(Taken from the website of the company)

◎ **Risk management**

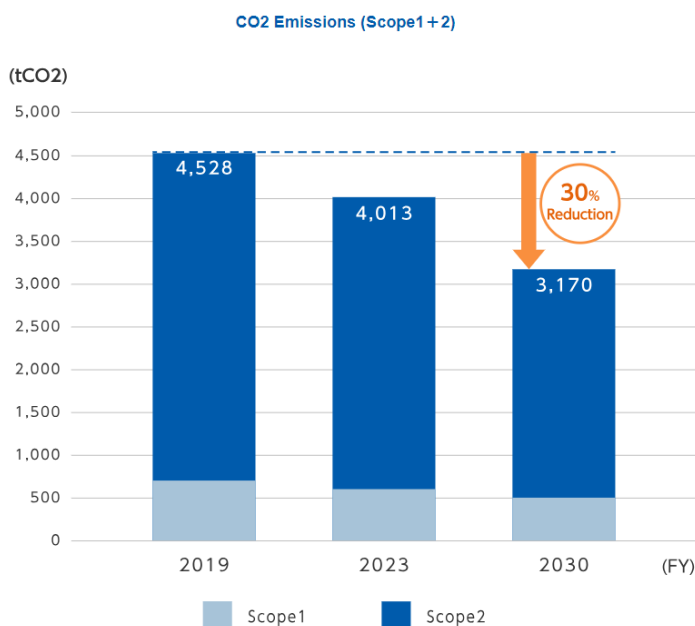
They established a “group compliance promotion committee,” which is chaired by the representative director and president, as a cross-sectoral risk control organization under the control and supervision of the board of directors, to promote and control risk management for climate-related business, etc.

The group compliance promotion committee identifies and assesses risks two or more times a year, and comprehensively review and revise their risk management process when necessary. The identified risks and assessment results are described in the “risk map,” the board of directors discusses it as well as the policy for coping with the risks, and then the policy is shared by all group companies.

◎ **Indicators and goals**

They set a medium/long-term goal of reducing CO₂ emissions (Scopes 1 and 2) by 30% or more from FY 2019 by FY 2030. In order to attain this goal, they take measures for reducing emissions by reviewing and revising their own equipment and operation processes in addition to measures for improving employees’ understanding and awareness.

In response to the policy for achieving carbon neutrality by 2050 announced by the government, they are discussing plans for reducing greenhouse gas emissions to achieve zero net emissions from the entire corporate group.



(Taken from the website of the company)

As a measure for reducing Scope 3 emissions, they offer environmentally friendly products, while believing that activities of client companies that have adopted their products will help reduce greenhouse gas emissions significantly.

For details, please refer to “(3) Reduction of greenhouse gas emissions, ② Contribution to solving environmental issues with products”

below.

(3) Reduction of greenhouse gas emissions

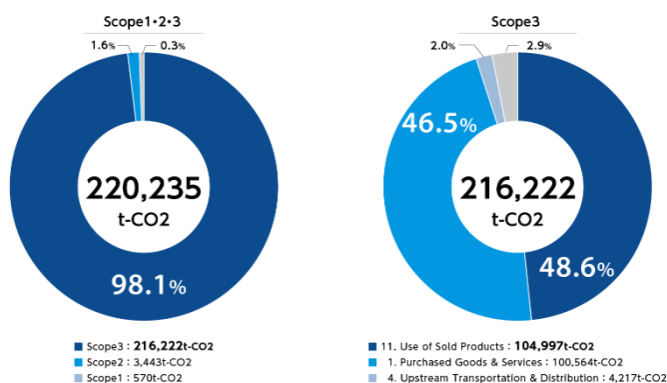
① CO₂ emissions from the corporate group

Since the company develops and sells mainly compact sensors and software, it can be said that they generate lighter environmental burdens, including CO₂ emissions, than general makers. They reduce CO₂ emissions from their own business activities and clients using their products and services. The CO₂ emissions from the company are as follows.

CO₂ emissions at all Group business sites

CO₂ emissions in 2023 (Scope1 · 2 · 3) (t-CO₂)

Composition Ratio



CO₂ emissions (t-CO₂)

	2022	2023
Scope1	541	570
Scope2 (Market-based)	3,729	3,443
Scope3	217,024	216,222
1. Purchased Goods & Services	114,240	100,564
2. Capital Goods	3,021	3,166
3. Fuel-and Energy-related Activities	648	668
4. Upstream Transportation & Distribution	3,716	4,217
5. Waste Generated in Operation	228	346
6. Business Travel	305	307
7. Employee Commuting	685	680
8. Upstream Leased Assets	—	—
9. Downstream Transportation & Distribution	91	50
10. Processing of Sold Products	—	—
11. Use of Sold Products	92,820	104,997
12. End-of-life Treatment of Sold Products	1,270	1,226
13. Downstream Leased Assets	—	—
14. Franchises	—	—
15. Investments	—	—
Total of Scope1 · 2 · 3	221,295	220,235

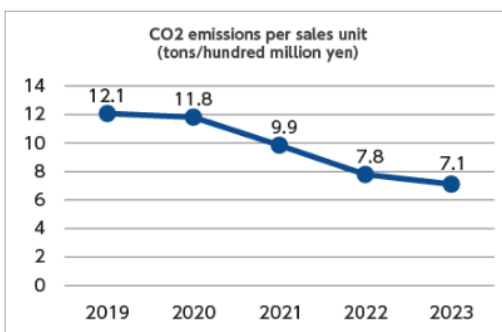
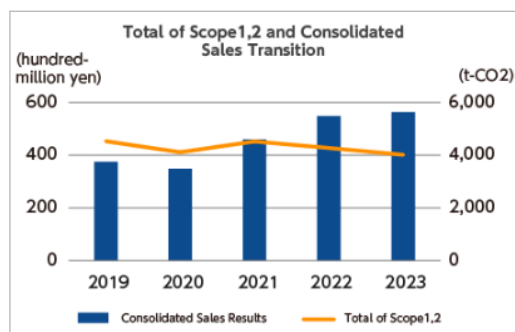
Coverage : All Optex Group companies (all global bases: production bases, development bases, operating company headquarters, main sales bases)
 Scope 2 CO₂ emission coefficients are market standards set by each electric power company.
 From FY2022 results, we expanded the coverage to include the entire consolidated Group and began measuring Scopes 1, 2, and 3.

CO2 emissions (Scope1・2) (t-CO2)

	FY2019	FY2020	FY2021	FY2022	FY2023
Scope1	704	548	558	541	570
Scope2	3,824	3,563	3,964	3,729	3,443
Scope1-2	4,528	4,111	4,522	4,270	4,013

CO2 emissions per sales unit (tons/hundred million yen)

	FY2019	FY2020	FY2021	FY2022	FY2023
CO2 emissions per sales unit	12.1	11.8	9.9	7.8	7.1
Consolidated sales results (hundred million yen)	375	348	459	548	564



Coverage : All Optex Group companies (All global bases: production bases, development bases, operating company headquarters, main sales bases)
 Scope 2 CO2 emission coefficients are market standards set by each electric power company.

(Taken from the website of the company)

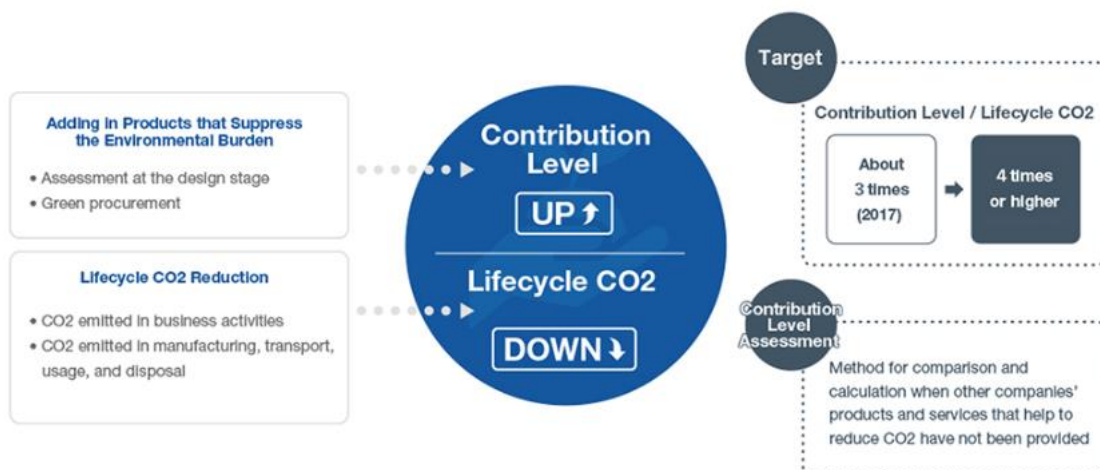
② Contribution to solving environmental issues with products

To actively reduce CO₂ emissions "when using Optex products," OPTEX CO., LTD. continues to conduct "environmental assessment evaluations" for all new product plans.

In FY2019, the company started activities to contribute to the reduction of CO₂ emissions by customers through the use of Optex products, and by 2021, the company has achieved its goal of increasing the "total amount of CO₂ reduction contribution by customers" to more than four times the "total CO₂ emitted by Optex's business activities."

In addition to the comprehensive management of their CO₂ emissions and contribution to other companies, they set reduction targets and actively carry out reduction activities.

In detail, the target ratio of sales of products and solutions that contribute to the reduction of CO₂ emissions by 2025 has been raised from 22.5%, which was set in 2022, to 25%, and then engage in reduction activities (the ratio in 2018 was 17.5%).



(Taken from the website of the company)

Optex discloses the items regarding climate change-related risks and opportunities in their website in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures, to which the Optex Group expressed their consent.

OPTEX FA CO., LTD. and CCS Inc. are also focusing on sales of environmentally friendly industrial sensors and environmentally-friendly LED lighting, and are steadily building up a track record.

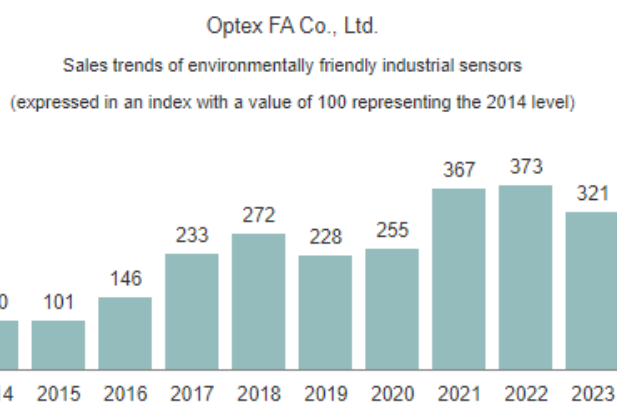
***OPTEX FA CO., LTD.**

The company has designated its own industrial sensors, especially those that help reduce environmental impact, as "environmentally conscious products" and has set a target for the number of units sold. The eco-friendly industrial sensors achieve energy conservation through compact casings and original circuits.

Environmentally friendly industrial sensors



Compact bodies and original circuit help achieve energy conservation.

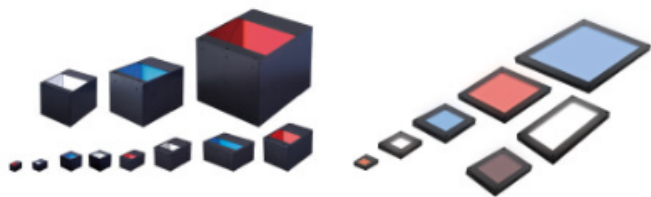


(Taken from the website of the company)

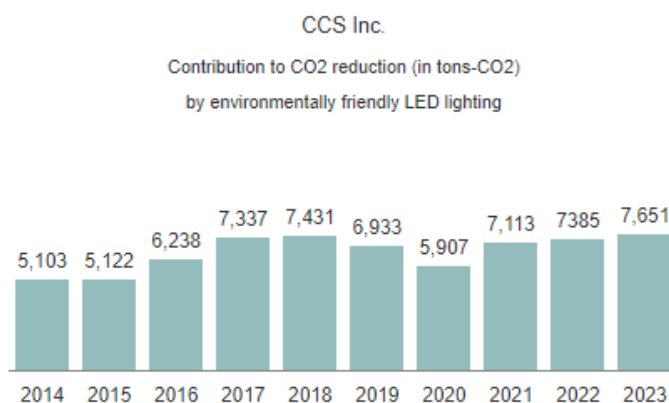
***CCS Inc.**

The CO₂ reduction effect achieved by expanding sales of LED lighting for image inspection is estimated. The CO₂ reduction effect in FY2023 is estimated to be 7,651 tons per year, with the reduction effect expanding by 50% from FY2014.

Environmentally friendly LED lighting



Introducing LED lighting for image inspections at an early stage and helping industry conserve energy



(Taken from the website of the company)

(4) Securing of safe water

One of Sustainable Development Goals (SDGs) is “to supply safe water and toilets to around the world”, and number 6 is assigned for this goal. This indicates that securing safe water is a global issue.

“WATER it,” which is a simplified water quality gauging equipment and system developed by the company, can measure the contents of substances in sampled water on the spot, when the sampled water is made react with an exclusive reagent (test kit) and it is set at a

portable measurement device (multimeter).

Measurement data are transferred to a smartphone via Bluetooth, and uploaded automatically from an exclusive smartphone app to the cloud.

This system considerably reduces labor, time, and costs for water quality measurement, allowing administrators to swiftly browse and manage measurement results.

The company aims to supply this system to Asian countries where "securing safe water" is an important issue. The company was commissioned by the Japan International Cooperation Agency (JICA) in October 2019 to conduct a verification test as a fluvial water environment inspection in Vietnam. The demonstration project was completed in October 2021, and WATER it pilot activities are currently being continued at the Ministry of Natural Resources and Environment under the JICA project "Information Collection and Confirmation Study for Worldwide DX Mainstreaming (Phase 2).



(Taken from the website of the company)

(5) Use of renewable energy

Solar panels have been installed on the rooftop of the west wing of the headquarters building of OPTEX CO., LTD. In 2023, they repaired the equipment, and resumed the operation in April 2024. The output in 2022 before the repair was about 19,000 kWh, covering 2.9% of the total power consumption of the west wing (about 664,000 kWh). Giken Trastem Co., Ltd., which is a company of the corporate group, resumed the operation of solar panels in November 2023, and the output in 2024 is expected to be 15,000 kWh. Furthermore, they installed solar panels at some overseas bases of OPTEX CO., LTD. in 2019.

At Tokyo Office of the corporate group, where 5 business companies, including OPTEX CO., LTD., are headquartered, they switched to the plan for using electric power derived from renewable energy in May 2022. They plan to promote the use of renewable energy in affiliated companies and production sites inside and outside Japan.

In product development, too, they adopted renewable energy, and have been developing solar-powered sensor-attached lamps since the Great East Japan Earthquake. When a sensor does not detect any person, the light remains off, and when a sensor detects a person, the light is turned on. Also, solar panels (solar cells) convert solar energy into electricity and recharge batteries during daytime, and turn the light on with the energy stored in the batteries at night. Since they do not require commercial power sources, wiring is unnecessary, and lighting can be secured even at places where it is difficult to supply electricity and during a power outage. During times of disaster, they can support anti-disaster measures, healthcare and medical-aid activities at hospitals, etc.

Solar panels installed on the roof of the new office building of Sanritz Automation Co. Ltd. generated approximately 19,000 kWh per year in 2023, covering 5.5% of the total power consumption of approximately 346,000 kWh at the company's head office.

3-2 Materiality for the "social capital" issues

The company, which has developed its business with the goal of contributing to a safe, secure, and comfortable society and industry, believes that building relationships of trust with all stakeholders, including customers, business partners, employees, society, and shareholders, is essential for sustainable growth and increased corporate value. By using its products, the company contributes to solving a wide range of social issues by eliminating various concerns, discomforts, and inconveniences that exist in the world, besides addressing environmental issues.

(1) Securing of quality and safety of products

In order to secure reliability, which provides all products with absolute value, the company satisfied the international standards at the highest level. Accordingly, their products are so safe that they can be used without worry for a long period of time. In addition, for commercialization, not only advanced functions, but also installation environments, purposes of use, cost balances, etc. are considered, so as to actualize performance that can satisfy customer needs.

(Major activities)

Anti-noise technology	Hardware design that minimizes various noises. Commercialization only for products that have passed numerous independently-determined environmental assessments.
Optical design	With optical simulation, sensors have a full coverage of high-density detection area. For downsizing, the company possesses the packaging technology.
Compliant to public standards	Conformance and compliance with all types of global standards, also conformance and compliance with standards and guidelines stipulated in each industry. (CE marking, EN standard [TUV certified], ANSI, JIS, etc.)
Eco-friendly design	The company has made all components harmless, while specifying 15 substances for limited use and 10 substances for voluntary management. While following the RoHS Directive, the company adopted lead-free solder alloy and designs that minimize the effects of CO ₂ at the time of use.
Security and safety control	The company adopted self-diagnosis and fail-safe features to keep systems functioning even when sensors malfunction or break down, and proposed preventive measures for maintaining functions.

(Taken from the website of the company)

(2) Safe data management

In order to thoroughly manage a wide range of important confidential information on business administration, the company specified requirements for management policies, basic measures, and procedures for actualizing an information security environment in the regulations for information security management, and educates employees thoroughly.

(3) Utilization of geographical capital and cooperation with local communities

—Contributive activities utilizing the Lake Biwa

Utilizing the geographical condition that OPTEX CO., LTD., which is the subsidiary that operates the core business, is located in the vicinity of the Lake Biwa in Shiga Prefecture, the company makes efforts to communicate with local communities through activities for supporting local sports and cultural development, including sponsoring all kinds of events related to the Lake Biwa, and engages in various social contribution activities.

The central activity is “Lake Biwa Active Learning Program,” which has been held on a full-scale basis since 2002, based on the office building of OPTEX CO., LTD. and the facilities of O’PAL OPTEX CO., LTD., which are located Biwa Lakefront.

Its purpose is to provide children with opportunities to learn things based on experiences by the Lake Biwa and support their activities. It includes the experience-based learning of sports (canoeing, dragon boat racing, raft making, etc.) and the experience-based learning of the water environment (research of living organisms on the lakeside, making a wind instrument by using Yoshigami, which is the name of paper made from a reed, research of the lakeside environment, research of non-native fish, observation of planktons, etc.). Especially, the company supports school subjects (science, social studies, physical education, etc.), school trips, field trips, etc. to bring inspiring experiences to children by supporting their activities. This activity is fee-charging, but there are participants not only from Shiga Prefecture, but also from other prefectures mainly in the Kinki region, and the number of participants is increasing year by year.

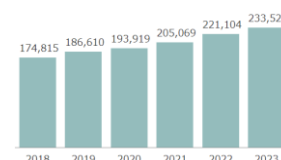
Experience-based learning of canoeing



Experience-based learning of living organism surveys



Number of participants in Lake Biwa Outdoor Education Program



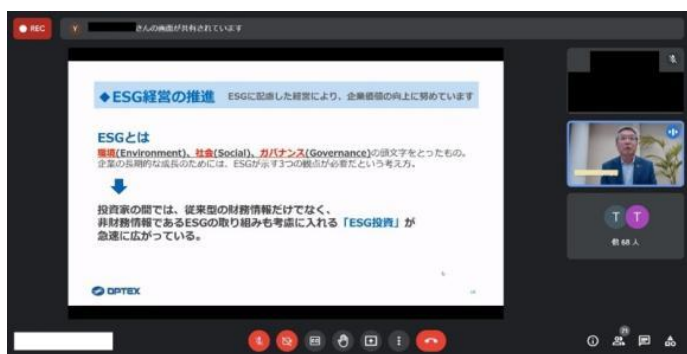
(Taken from the website of the company)

In addition, the company sponsors the canoeing team of O'PAL OPTEX CO., LTD., Peiron competition, and the dragon boat race.

—Giving cooperative lectures in college —

The executives of the company offer cooperative lectures at a college in Kyoto.

Since 2018, the company has conducted lectures on the theme of "management" at the college of business administration, Ritsumeikan University, and the Faculty of Economics at Ryukoku University, by using the company's corporate management achievements as case studies. From 2018 to 2023, 140 lectures were given in the two universities, and attended by a total of 27,800 students (including repeat attendees).



Online lectures at Ryukoku University



Lecture in a classroom on the Ritsumeikan University campus

The enhancement of popularity among students and college staff that could become stakeholders, is expected to lead to the improvement in corporate value and recruitment.

～Joining a local association～

*Shiga Prefecture Association of Security System Specialists

So that it is said that Shiba Prefecture is the safest prefecture in Japan, they assess security levels and give lectures for crime prevention as anti-crime CSR activities of an enterprise that conducts crime prevention-related businesses in Shiga and make efforts to realize a safe local community in cooperation with the Shiga Prefectural Police and Shiga Prefecture Association for Crime Prevention. OPTEX CO., LTD. serves as chair and secretariat of the association.

•Ohmi Philanthropy Net

OPTEX GROUP CO., LTD. serves as an operation committee member of Ohmi Philanthropy Net, whose objective is to conduct surveys, research, information exchange, etc. regarding social contribution activities and promote more attractive and effective activities for enterprises and local communities, while enlisting cooperation from enterprises, related institutions and groups mainly in Shiga Prefecture.

3-3 Materiality for the “human capital” issues

The environment surrounding companies is undergoing major changes, including responses to environmental challenges and the rapid evolution of technology.

For companies to cope with these changes and sustainably increase their corporate value, they are required to view human resources as "capital" and maximize their value by securing and developing human resources who can generate innovation and added value, and by establishing organizations.

Since its founding, the corporate group has focused on creating an environment in which employees can feel satisfaction in their work, and it intends to focus even more on improving the environment and strengthening human capital.

(1) Improvement in employees' mindset and satisfaction with their jobs

Since business start-up, the company has embraced the hope of “being a company that can achieve self-actualization the most in the world.”

The company can be likened to a “stage” for employees, and employees determine how they perform and dance there. It is hoped that each employee, who plays a leading role, makes their stage changeful and impressive by taking advantage of the company as a stage, and the company concentrates on the development of an environment for realizing it.

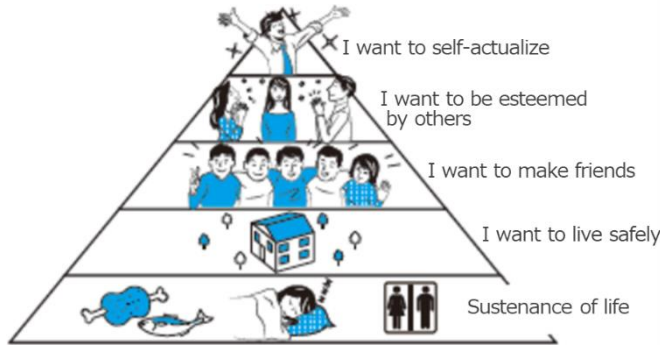


Diagram that classifies human desires into 5 stages. Proposed by Maslow, an American psychologist.

(Taken from the reference material of the company)

(2) Educational and training systems

One of the management principles of the Optex Group, which have been emphasized since inauguration, is the respect for “challenges.”

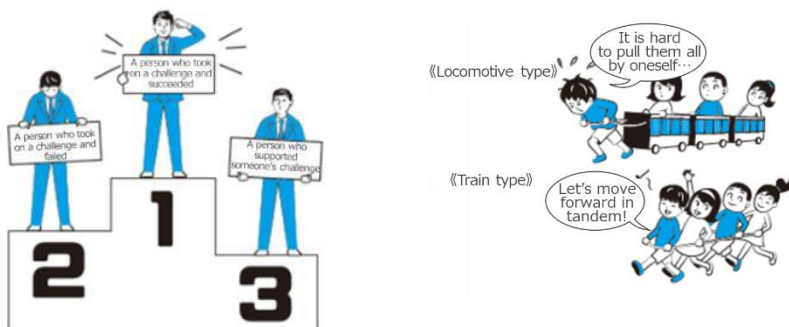
The most esteemed are “those who took on challenges and succeed,” the second most esteemed are “those who took on challenges and failed,” and the third most esteemed are “those who supported challenges,” while “those who do not take on challenges” receive the lowest evaluation.

The company aims to become a company where the diversity of employees is respected, and each employee can take action voluntarily. This is reflected in the “rule of casual communication by using San,” in which employees do not use a job title but refer to the president as “Nakajima-san” rather than “President Nakajima,” and “train-like management,” in which all of staff members join hands to proceed.

While the working environment is open, equitable, and comfort, there exists rigor as “just following orders is not tolerated.”

Employees are required to exert their abilities voluntarily and keep “the stance of taking on challenges.”

Even if they fail after taking on a challenge, they will be esteemed the second most as mentioned above, and they are required to overcome a sense of failure and continue their challenges.



(Taken from the reference material of the company)

With the aim of becoming “a company where employees can self-actualize the most in the world,” the company has various systems so that respective employees can exert their autonomy and creativity and work while being proud of their jobs and feeling their jobs worthwhile.

Educational and training systems	Training for new employees, young employees, and mid-career employees. Basic training for managers. Training for newly appointed management staff.
Dream design sheet	All employees envision ideal selves and dreams once a year, share them with their superiors and companies, and aim to actualize their ideal career paths.
Goal management system	Based on the corporate policies and directions, the goals for each employee are set. Employees review the goals with their superiors regularly, and aim to attain the goals.
In-company recruitment system	Each section looks for employees who possess necessary skills for positions that is a shortage of manpower, and interviews applicants. Then, personnel reshuffles are determined.
In-company free agent (FA) system	Employees can apply for a job or a section inside the company that they would like to do. Sections interview applicants, and personnel reshuffles are determined.
Invention rewards	The company evaluates each inventor's contribution to business, and pays rewards to them according to their contribution levels.

(3) Corporate culture that respects diversity

The value cherished in the Optex Group is "the understanding of diversity."

While considering that "the existence of various options proves an affluent society," they believe that the mission of the Optex Group is to develop unprecedented new products and differentiated products, to contribute to the diversity in society.

The Optex-style Sampo Yoshi includes even competitors. This is based on the recognition that "just imitating competitors' products and waging a price-cutting war would make it difficult to create something new and exhaust both the company and its competitors."

The understanding of and respect for diversity are utilized for not only product development, but also global business operation and post-merger integration (PMI), and competitiveness is enhanced through the development of a corporate culture in which all employees can exert their abilities to the maximum degree.

(4) Employees' health and safety

OPTEX CO., LTD. and OPTEX FA CO., LTD. have been certified as "Excellent Corporations for Health Management 2024" in the "Large Corporations Category" of the Excellent Corporations for Health Management System implemented by the Ministry of Economy, Trade and Industry in collaboration with the Japan Health Council.

◎OPTEX CO., LTD.

Certification for the three consecutive years: 2022, 2023, and 2024

Health Declaration	<p>OPTEX CO., LTD. believes that the health of each and every employee is an important management foundation for the realization of our management philosophy, "As a creative group for the future, we take on the challenge of I. F. C. S. comfortable living," and for the growth of our company.</p> <p>We are committed to creating a workplace where employees can work with peace of mind, health, and vitality.</p> <p>*I.F.C.S.: Individual, Family, Company, Society</p> <p style="text-align: right;">OPTEX CO., LTD. President Toru Kamimura Health Promotion Manager Takashi Imai</p>
Action Targets	<ol style="list-style-type: none"> 1. All employees will receive periodic health checkups within the period. (100% of employees receive general periodic health checkups) 2. Actively encourage employees to receive a second medical checkup after their health checkup. 3. The company will conduct health-themed training to raise employees' health awareness. 4. Thoroughly prevent infectious diseases (group vaccination to prevent influenza, etc.) 5. Ensure that employees take at least five days of annual paid leave. 6. Reduce long working hours. 7. Reduce the smoking rate.

Promotion Structure	The company has established a promotion system in which the director in charge of labor affairs is the "health promotion manager." In addition, the company is collaborating internally and externally to implement initiatives, verify their effectiveness, and improve issues on an ongoing basis.
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◎OPTEX FA CO., LTD.

Certification for the five consecutive years: 2020, 2021, 2022, 2023, and 2024

Health Declaration	<p>We aim to create a "healthier and more vibrant" company.</p> <p><Basic Philosophy> To realize our corporate philosophy of "customer satisfaction, company growth, and employee happiness," we at Optex FA actively support the health of our employees and the creation of a comfortable work environment, which is the foundation of our corporate philosophy. We believe that creating a workplace environment in which each and every employee can work vigorously and in good health, both physically and mentally, will bring high productivity and vitality to the company and organization, and will deliver value that will satisfy our customers; The entire company is united in our efforts to maintain and promote good health.</p> <p><Concrete Initiatives> First, we will continue to work on these "things that are obvious" and "things that can be done if we try," and while steadily building up the practices one by one, we will actively invest and focus on "things that should be done" as they emerge.</p> <ul style="list-style-type: none"> ▪ Achieve 100% of health checkups and improve the rate of reexaminations and thorough examinations (target: 100%). ▪ Disseminate information and conduct educational activities related to health promotion. ▪ Improve productivity by devising ways of working (reduce overtime work, create an environment that facilitates the use of paid leave). ▪ Prevention of infectious diseases (mass vaccination to prevent influenza) ▪ Establishment of health consultation desks <p style="text-align: right;">Tasuku Yuguchi Representative Director and President Chief Health Promotion Officer OPTEX FA CO., LTD.</p>
Promotion Structure	The company has established a system in which the board of directors, health committee, industrial physicians, and health insurance association can effectively collaborate and function together to develop and promote various initiatives and measures to improve employee health.

3-4 Materiality for the "Business models & innovation" issue

For sustainable growth, we believe it is necessary to build a robust business model and a strong value chain. As a manufacturer, the company is also keenly aware of its social responsibility in procuring raw materials and parts.

(1) Reform of business models

The group has a high market share in security sensors, automatic door sensors, and LED lighting for image processing, but for further growth, the company believes it is necessary to reform its business model and strengthen its ability to propose solutions.

Under the Three-year (2024-26) Management Plan, which the company is currently implementing, the SS business aims to shift from the traditional "mono-sales" approach of mainly selling sensors to a "solution-oriented business" (i.e., selling solutions to solve customers' problems), the FA-related business aims to grow by strengthening high-value-added products, and the MVL-related business aims to transform into a "total solution vendor. In FA-related business, the company aims to grow by strengthening high-value-added products.

(2) Establishment of appropriate supply chain

The supply chain of the Optex Group covers the entire world.

In order to swiftly deliver high-quality products to customers in over 80 countries, the company conducts a series of logistics activities in an integrated manner for procuring reliable materials stably, manufacturing products as planned, and delivering them swiftly.

◎Production

The manufacturing function of the Optex Group is maintained mainly by OPTEX MFG CO., LTD., which was founded for the purpose of separating and integrating the manufacturing functions of OPTEX CO., LTD. and OPTEX FA CO., LTD. to enhance the production of the Optex Group. In March 2021, the group is changing the system to a system that can centrally manage production and procurement strategies by relocating the production divisions of OPTEX MFG CO., LTD. and CCS Inc. to the same base. In the future, Optex Group will also supervise the production functions of CCS Inc. to pursue the synergy of the entire group.

OPTEX MFG CO., LTD. considers that in order to attain the goals regarding QCD (quality, cost, and delivery) of products as soon as possible, it is necessary to work on them from the development/design stage. The mother factory is located inside Japan at a production site, where products are planned and developed and the most appropriate production site is determined while considering conditions of products such as the functions, characteristics, production amounts, logistics costs, and integrated manufacturing is carried out.

The mother factory promotes research of mass-production technologies, systemization of management technologies, and visualization of production sites. Also, the mother factory plays a role to “establish and grow” global production sites.

In addition, the company has a production site in China, to manufacture products while considering costs, and also started manufacturing in Vietnam, while considering country risks. In the medium to long term, the company is promoting decentralization by adjusting the production ratio to 40% in Japan (cooperating factories: OFROM Co., Ltd. and SUNOCT Co., Ltd.), 40% in China (the company's factory: OPTEX (DONGGUAN) CO., LTD.) and 20% in Vietnam (production contractor: RHYTHM PRECISION VIETNAM CO., LTD.).



(Taken from the website of the company)

In addition, in order to manufacture developed products as designed and maintain their quality stably, they improved the factory environment, established a system for educating and training personnel for technical skills and high morals, and realized a safe, efficient production system.

Furthermore, they operate the EMS business by utilizing their production technology, to comprehensively support clients' manufacturing processes, including development, design, procurement, and mass production.

◎ **Distribution**

The ratio of overseas sales exceeds 50%, so the company built hub warehouses in 4 regions (Europe, Hong Kong, Japan, and North America) to supply products to clients around the world swiftly and smoothly. Like this, they established a flexible, extendable, unique supply chain.

The company improved its reliability by shortening lead time and reducing distribution costs, and offers high added value to clients in the global business field.

◎ **Procurement of raw materials and components**

For procurement of parts, the company engages in purchase activities under the following policies based on the group ethos “Sampo Yoshi (to be beneficial for buyers, sellers, and society)” in order to realize sustainable procurement.

<p>Chemical Substance Management Compliance with Chemical Substance Regulations</p>	<p>Due to concerns about the impact of chemical substances on the environment and ecosystems, laws and regulations governing the use of chemical substances are being strengthened worldwide.</p> <p>To provide products that comply with the laws and standards of the countries and regions where they are sold, the company has established a system that prevents the use of applicable parts and materials from the product design stage.</p> <p>The group has adopted an industry-standard format to collect information on chemical substances to ensure a reliable grasp of chemical substances and to facilitate communication and disclosure of information. It has also established a system to provide this information to interested parties as needed and in a timely manner. Furthermore, with the aim of procuring parts and raw materials with minimal environmental impact, the company has established "Green Procurement Standards" that are shared with all suppliers.</p> <p>Regarding the selection of new parts, OPTEX CO., LTD. and OPTEX FA CO., LTD. select RoHS compliant parts at the design stage, obtain all chemical substance information from suppliers before mass production, and store it in the chemical substance information management system. When appropriate, the company determines whether there are any problems with the regulations based on its own standards (Green Standards) and guarantees the chemical substances in its products.</p> <p>In addition, OPTEX CO., LTD., OPTEX FA CO., LTD. and OPTEX MFG CO., LTD. have created a common "Guideline for the Management of Chemical Substances Contained in Products" and have made it known internally and to their suppliers.</p> <p>CCS Inc. has created the "CCS Product Environmental Regulation Compliance Policy" to ensure internal compliance with new regulations, and has also created the "Green Procurement Guidelines" to ensure that its suppliers are aware of its policies regarding the reduction of environmentally hazardous substances and procurement of conflict minerals.</p>
<p>Fostering of trusting relationships</p>	<p>The company fosters trusting relationships with business partners, including suppliers, to actualize co-prosperity (win-win results).</p> <p>The behavioral standards that should be followed by all executives and employees is clearly stated, and the “Optex Group Code of Conduct,” which was enacted for the purpose of conducting compliance promotion activities in accordance with the behavioral standards, encourages “fair competition,” “fair sales activities,” and “fair procurement activities.”</p>
<p>Promotion of global procurement</p>	<p>The company aims to actualize optimal procurement at the global level while considering QCD, and strives to optimize the supply chain for supplying parts, including local procurement, and reduce total costs.</p>
<p>Reduction of environmental burdens</p>	<p>Throughout the lifecycles of products and services, they make efforts to reduce environmental burdens in cooperation with suppliers and contract manufacturers.</p>
<p>Enhancement of cooperation with suppliers</p>	<p>Most of optical components and sensor components, which determine the basic performance, are custom-made, so it is indispensable to cooperate with suppliers in the technological aspect, etc.</p> <p>They have fostered “win-win” relationships through the initiatives for improving the performance and quality of products, such as meetings for discussing technological trends, technological exchange sessions involving engineers, etc.</p>



(Taken from the website of the company)

Responsible Mineral Procurement

There are concerns about child labor, other human rights violations, and environmental destruction occurring in the Democratic Republic of the Congo (DRC) and its adjoining countries related to the minerals mined there, and also fear that these minerals may be a source of funding for armed groups, further aggravating the conflict.

The goal of responsible sourcing initiatives is to avoid the procurement of minerals connected to these issues. These initiatives include initiatives being conducted in line with the U.S. Dodd-Frank Act which reformed financial regulations in 2010.

The Optex Group positions initiatives on this matter as important tasks for the fulfillment of its corporate social responsibility and is moving forward with the following initiatives to ensure more responsible procurement.

- * Surveys to check whether procured materials and components include conflict minerals
- * Conclusion of contracts with business partners so that conflict minerals will not be procured
- * Explanations of our policies to suppliers and surveys on the supply chain

In surveys, standardized templates, such as the Conflict Minerals Reporting Template, a tool provided by Responsible Minerals Initiative (RMI), are used to grasp the situation of the supply chain.

- * Procurement from smelters certified by a third-party organization, such as RMI, change of suppliers if it is considered that there is a high risk, and encouragement of shift to suppliers with lower risks

As a result of the survey in FY 2023, it was found that the 252 smelters identified in the supply chain of the company are included in RMI's list of standard smelters, and the conformant smelters that have passed the audit of RMI account for 87% (219 companies).

3-5 Materiality for the “competitiveness and governance” issue

The company group, which has achieved a high market share in each product field by leveraging its competitive advantage in sensing technology, knowledge, and proprietary sensing algorithms, and has a strong brand, is taking steps to further strengthen its competitiveness.

The company is also focusing on improving its corporate governance to enhance its corporate value by strengthening its competitiveness.

(1) Research and product development systems for enhancing competitiveness

① Manufacturing from customers' viewpoints (human-centered design)

—Philosophy for development “Optex Katachi”

OPTEX CO., LTD., which is one of major operating companies, explicitly expresses their ambitions and mindsets for manufacturing with common words as “Optex Katachi,” in order to create reliable products consistently.

“Optex Katachi,” which is composed of “Through the eyes of the user,” “Absolute attention to detail,” “Designed to perfection,” “Delivering the WOW! factor,” and “Innovation, but with consistency” as five slogans, means the company's philosophy for manufacturing that has been inherited since the past, including the grasping of actual business sites and problems that have not been discovered by customers, fine-tuned quality, sophisticated forms, ingenuity that impresses customers, and the pursuit of the never-changing technological capability as a sensor manufacturer while responding to the changes in needs and markets. The company aims to make it shared by all employees in the sections of development, planning, marketing, production, quality control, and management, etc.

—Manufacturing with human-centered design

In order to create unique products that will be cherished for a long period of time, OPTEX CO., LTD. engages in manufacturing from the viewpoints of various customers related to products (human-centered design).

The concrete processes for commercialization are as follows:

1: (Survey) to grasp the state of use and have sympathy	<p>The staff of the development and marketing sections visit the sites together where their products are used around the world, to check what kinds of people use them, the situation of use, and how they are used, and receive candid comments from customers.</p> <p>Through this process, they understand the situations of customers and actual sites accurately, and seek what could satisfy real needs.</p>
2: (Analysis) to clarify the problems with customers and their needs	<p>By understanding and visualizing how customers feel and behave at the phases of recognition, selection, and use of products of the company, they find problems and share information.</p> <p>In addition, they clarify and summarize the value provided to customers and demanded quality, to reflect them in product development.</p>
3: (Design) Embodiment of solutions by producing prototypes	<p>By producing prototypes to embody designs repeatedly, they view them objectively, think over them more deeply, and follow the cycle of hypothesis setting and testing, to produce better products.</p>
4: (Evaluation) Evaluation of designs that meet requirements	<p>Inside the company, subjects (acting as customers) are chosen, and they conduct evaluation to check the usability, understandability, and conformity of products, by seeing how they are operated and listening to the comments of the subjects when the company sets the products.</p> <p>The staff in the development and marketing sections carry out the evaluation, analyze the results of the evaluation quantitatively and qualitatively, and give feedback to the production development section.</p>

《Major Technologies》

Noise Suppression Technology	<ul style="list-style-type: none"> ▪ Hardware design to minimize noise ▪ Only products that have passed numerous environmental evaluations set by our company will be released into the market.
Precise optical design	<ul style="list-style-type: none"> ▪ Realization of high-density area with no missing parts by making full use of optical simulation ▪ Packaging technology to pursue miniaturization
Reliability Compliance with official standards	<ul style="list-style-type: none"> ▪ Conform and comply with all global standards ▪ Conform to and follow the standards and guidelines set by each industry. (CE marking, EN standards [TUV certification], ANSI standards, JIS standards, etc.)
Environmentally Friendly Design	<ul style="list-style-type: none"> ▪ 15 restricted substances and 10 voluntary controlled substances are specified, and all components are made non-toxic. ▪ Compliance with RoHS Directive and lead-free solder ▪ Design to minimize the impact of CO2 emissions during use
Safe and secure control	<ul style="list-style-type: none"> ▪ Self-diagnosis in the event of sensor malfunction or failure to prevent system functionality from being down, Adoption of self-diagnosis and fail-safe functions in the event of sensor malfunction or failure to prevent the system from shutting down ▪ Proposal of preventive maintenance measures to maintain functionality
Proprietary sensing algorithms	<ul style="list-style-type: none"> ▪ Unique algorithms for detecting, scrutinizing, and analyzing only the intended events, while eliminating the effects of noise that cannot be suppressed by hardware. ▪ Various automatic correction functions to maintain performance in the field

② Product evaluation test for actualizing “reliability” and “performance”

OPTEX CO., LTD. conducts a variety of product evaluation tests, in order to achieve “reliability,” which gives absolute value to all products, and “performance,” which satisfies customer needs.

The outdoor environment, where the sensors of the company are used, is always exposed to unexpected phenomena, including rain, wind, air temperature fluctuations, thunder, and small animals.

In order to create a highly reliable sensor, it is indispensable to overcome such phenomena one by one. According to purposes of use, the company conducts over 150 evaluation tests.

Since the company sells its products broadly around the world, the company adopted global standards that comply with laws, regulations, and public standards in each country, and aims to develop products that can be used by customers around the world without worry.

To check whether the sensing property can be exerted in various environments and scenes, they visit the site where products are used, to conduct experiments, and reproduce the same environment and carry out evaluation tests. Such down-to-earth activities enable accurate performance evaluation, which is a strength of the OPTEX CO., LTD.

(Major evaluation tests)

Heavy snow test	There are a variety of snowfalls, including ordinary snows, snowstorms, and snow drifting, which is a storm of snow blown up from the ground by the wind. The company conducts experiments under the harsh outdoor natural environment, where products are actually set.
Mist test	So that sensors will detect a person without fail even in mist with poor visibility, the company conducts field tests in a mountainous area and reproduces an extraordinary man-made environment for evaluation.
Long rain test	Natural environment tests are conducted for all outdoor sensors as the required items under various conditions. These tests are conducted under bad conditions, such as the long rain surpassing a record-high rainfall amount per day and the water drops adhering to the sensor lens.
Human detection test	So that sensors will detect a person without fail regardless of how he/she moves or his/her characteristics, the company conducts tests under various conditions, such as a person crawling or spinning and different height, hairstyle, or gait speed.
Durability test	So that sensors will be used without worry for a long period of period, the company conducts tests for limitations, durability, impact resistance, etc. For example, the company carries out a test of turning switches on and off repeatedly and a severe “impact test,” in which destructive loads are applied relentlessly.
Ball test	Sensors are evaluated not only in the natural environment, but also by using objects. For example, the company conducts a performance test so that an automatic door will not open even if a ball rolls in front of the door.

③ Patents and Intellectual Property

The Optex Group regards patents and intellectual property created through various R&D activities as its important management resources, and is actively acquiring intellectual property rights, including patents and design rights.

The YK Value* of the Optex Group was 267.78, ranking fifth in the "Electrical Equipment" industry sector of the TSE Prime Market with a three-year YK Value growth rate of 354.79%. (Source: From PATWARE, a patent valuation web service (<https://www.patware.net/>). YK value is the value as of the end of March, 2023. Market Segment (Prime Market of Tokyo Stock Exchange) is the one as of April, 2023.)

*YK value

The YK value is a corporate technology competitiveness index, which is developed by the Ichiro Kudo International Patent Office and indicates the economic competitiveness (= economic value) of patents. YK value is evaluated as a leading indicator of corporate growth potential and has been used in numerous Bank of Japan reports, analytical reports by financial analysts, and corporate integrated reports.

(2) Corporate governance

They recognize that their primary mission is to keep improving corporate value while winning the trust of shareholders, investors, customers, and society. To do so, they set the enhancement of corporate governance as an important objective for business administration, and aim to improve the transparency of business administration, maintain a management system for fair, swift decision making, and strengthen the overseeing of business administration.

For the purposes of fortifying the auditing and supervising functions and further enhancing corporate governance, they transformed the company from a company with a board of auditors into a company with an audit and supervisory committee in 2016.

At present, they appoint four independent external directors (a person who has the experience of serving as an engineer of a leading electronics manufacturer in Japan, a person who has the experience of serving as an executive of a leading electronics manufacturer in Japan, 1 academic person, 1 certified public accountants, and 1 lawyer), who account for over one-third of the 8 directors and auditors. Based on decision making through active discussions at meetings of the board of directors, they improve the quality of strategies and aim to improve corporate value further.

© Corporate Governance Report: Last updated on March 27, 2024

<Basic Policy>

Our corporate group recognizes that our primary mission is to continuously raise the corporate value while earning the trust of customers and society, as well as shareholders and investors. In order to fulfill the mission, considering enrichment of our corporate governance framework to be one of our most important business issues, we aim to increase transparency in the corporate management, maintain the business system involving fair and swift decision-making, and enhance the corporate management monitoring function.

<Reasons for Non-compliance with Principles of the Corporate Governance Code>

Our company follows all principles of the Governance Code.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

【Principle 1-4 Strategically Held Shares】

Our company acquires and holds shares of other listed companies as strategically held shares through deliberations and resolutions by the board of directors only when we have judged that doing so will contribute to cementing business relationships and raising the corporate value. Concerning the shares so held, our board of directors carries out annual examination on the significance of holding them, and our company strives to sell strategically held shares by taking such factors as the market trend into account when we have decided that the rationality of their value is poor, and reduce the number of such shares.

Our company currently holds shares of a listed company at 55 million yen (as recorded in the balance sheet dated December 31, 2023).

We determine whether or not to exercise the voting rights as to the strategically held shares based on comprehensive judgement through close individual examination according to various criteria, including whether doing so will contribute to sustainable business growth and medium- and long-term improvement in the corporate value of the company, and whether the shareholder value will not be damaged significantly.

【Supplementary Principle 2-4-1 Ensuring Diversity in Promotion to Core Human Resources】

Since the establishment, cherishing a belief that we should be a company that enables employees to pursue self-realization and our company should serve as a stage for them, our corporate group has been concentrating on creating a workplace environment that allows our employees themselves to make their respective stages changeful and impressive regardless of gender, nationality, or whether they are employed as new graduates or mid-career workers.

The ratios of employees at our group companies in Japan (12 companies including our company) are as follows:

- Male-to-female ratio: 77 : 23
- Ratio of mid-career workers: 60%
- Ratio of employees with foreign nationalities: 1%

- Male-to-female ratio of employees in managerial positions: 96 : 4
- Ratio of mid-career workers in managerial positions: 71%

As shown above, the number of female employees and that of employees with foreign nationalities are potentially small due to the characteristics of our corporate group's business domain and business details, and accordingly, the ratios of women and foreign nationals in managerial positions are low.

Meanwhile, the percentage of mid-career workers who have been promoted to managerial positions exceeds 70%, based on which we believe that diverse human resources with a multitude of experiences and skills occupy the key management positions.

Our corporate group has consolidated subsidiaries all over the world, and we are certain that diversity is ensured adequately in our corporate group as a whole including the overseas subsidiaries.

While taking into consideration the characteristics of each of the operating companies under our corporate group in their respective business fields, our company will continuously and proactively promote and discuss creation of a working environment in which each of our employees can perform at their full potential so that we can ensure diversity in our employees more than now.

【Supplementary Principle 3-1-3 Sustainability Initiatives】

The basic policies of our corporate group are:

- to cement relationships with all stakeholders and contribute to the sustainable growth of society,
- to aim to realize recycling-based business administration by supplying environmentally friendly products, and
- to aim to achieve the sustainable growth and development of each group company by improving employees' engagement.

We have operated business since its inauguration with the goal of contributing to the development of a "safe, worry-free, comfortable" society and industries by utilizing its sensing technology as its specialty. We aim to become the No.1 sensor maker in the global niche market by expanding the business of dispelling a broad range of worries, discomfort, and inconveniences in the world.

We are certain that by promoting this business, we will be able to help solve environmental and social issues, expand each business, and improve our corporate value. Then, we will strive to contribute to the sustainable growth of society and improve our corporate value by setting the following basic policy for sustainability and promoting activities under this policy.

Our corporate group's activities are described in the following website.

- All matters of sustainability → <https://www.optexgroup.co.jp/esg/>

This page introduces the initiatives for pursuing ideal governance and improving the relations with society, and concrete measures for the environment and human capital are described in the following webpages.

- Basic policy for sustainability → <https://www.optexgroup.co.jp/esg/policy.html>
- Reduction of environmental burdens → <https://www.optexgroup.co.jp/esg/environment-impact.html>
- Response to the recommendations of TCFD → <https://www.optexgroup.co.jp/esg/tcf.html>

*In January 2023, our corporate group expressed our consent to the recommendations of TCFD, and set a goal of reducing CO₂ emissions from our corporate group by 30% by 2030 from 2019 for Scopes 1 and 2.

We will keep concentrating on the qualitative and quantitative improvement of disclosure of information on sustainability of our corporate group.

- ESG reports → <https://www.optexgroup.co.jp/shareholder/library/index.html#esgreport>
- Strategies, indicators, and goals regarding human capital → <https://www.optexgroup.co.jp/esg/human-resources.html>

【Supplementary Principle 4-11-1 Balance, Diversity, and Size of the Board of Directors as a Whole】

Our company's board of directors consists of five directors (four men and a woman) who efficiently utilize their respective experience in corporate management, business administration, technological development, production, sales, marketing, and working overseas, and expertise on accounting (the number shall be a maximum of nine) and three directors (two men and a woman) who serve as audit and supervisory committee members with profound insight and knowledge, such as extensive experience with audits and qualifications of lawyers, and certified public accountants and tax accountants (the number shall be a maximum of four). We consider that the balance of our board of directors is appropriate for propelling forward our medium- and long-term business strategies based on the current size of our company and our corporate group and other relevant factors.

We will continue discussion about the balance of diversity and that of expertise to optimize them.

Please see the last section of this report regarding the skill matrix of our current management team.

【Supplementary Principle 4-11-3 Analysis and Evaluation of the Effectiveness of the Board of Directors】

Our company conducts an annual survey covering all our directors with the aim of further boosting the effectiveness of the board of directors, and performs analysis and evaluation through constructive discussion by the board based on the survey results.

The result of the survey carried out in March of this year (responded to by all the 9 directors) has confirmed that our board of directors' functions generally effectively considering its roles and responsibilities. On the other hand, we share the understanding that we can further improve the functionality of the board by taking more time to enhance discussions on important matters from the medium/long-term perspective, such as consideration of the direction of management strategy. We will endeavor to make improvements regarding these matters, and continuously ensure and enhance the effectiveness of the board of directors as a whole.

【Principle 5-1 Policy on Constructive Dialogue with Shareholders】

Our company has set up a public relations and investor relations department to provide understandable explanations about our business policies and situations so that we can engage in proactive and constructive dialogue with our shareholders. The president, the directors in charge, and the employees in charge of investor relations hold explanatory meetings for institutional investors and ones for individual investors in a planned manner, and they deal with requests from institutional investors for interviews at any time.

Regarding general shareholder meetings, we arrange venues that foster participation by diverse shareholders, and after the meetings, we host shareholder briefing sessions for facilitating their understanding of our company's future policies.

【 Skills Matrix 】

	Name	Corporate management/ Management Strategy	International Experience	Audit/ Internal Control	Technology/ Research and Development	Sales/ Marketing	Financial/ accounting	Legal Affairs/ Risk Management
Directors	Tatsuya nakajima	●	●			●		
	Toru Kamimura	●	●		●	●		
	Koki Yamana	●		●			●	
	Kazuhiro Yoshida	●	●		●	●		
	Shoko Negishi	●	●				●	
Directors who are members of the Audit and Supervisory Committee	Masaya Okuno			●		●	●	●
	Minoru Kida		●	●			● <small>(certified tax accountants/ certified public accountants)</small>	●
	Keiko Iijima			●				● <small>(lawyers)</small>

※ The above list does not represent all the experience and knowledge possessed by each director.

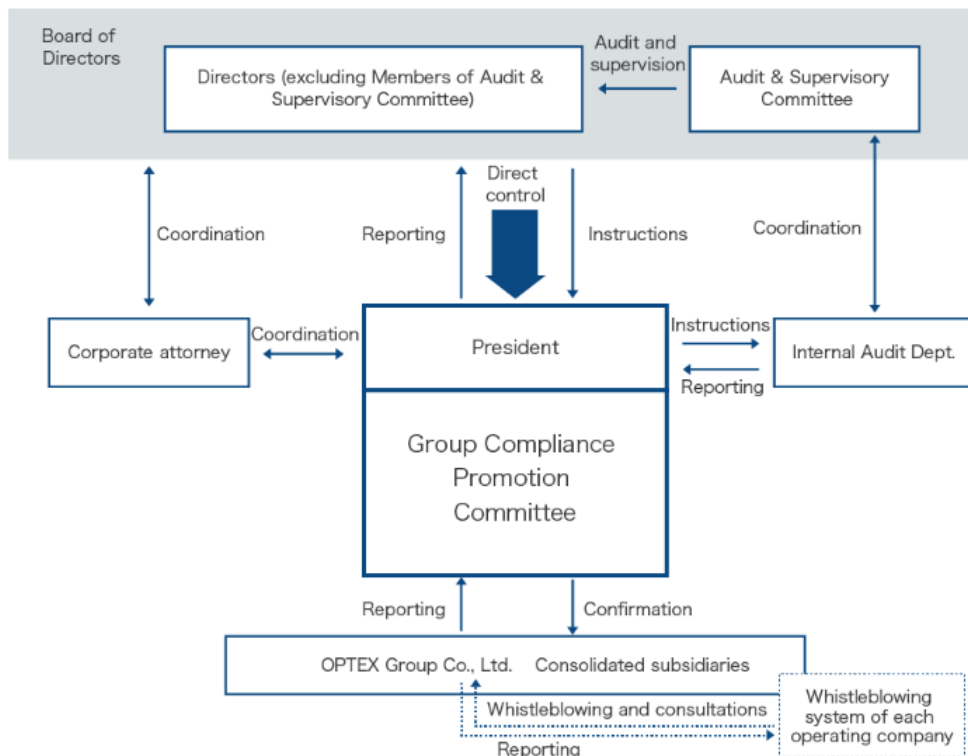
(3) Risk control

Optex Group has formed the Optex Group Compliance Promotion Committee for ensuring that the officers and employees of our company and our group companies engage in business activities and act based on a law-abiding spirit. With the president serving as the chair and the members being elected from the operating companies under our corporate group, the Optex Group Compliance Promotion Committee has developed a system that enhances understanding and awareness of our company's initiatives on compliance, and effectively shares compliance-related matters with each of the group companies.

The Committee conducts such activities as checking the compliance with laws and regulations within our corporate group, sharing and discussing matters related to compliance, and managing risks. In addition, our company has drawn up the Optex Group Code of Conduct, of which the Committee has charge, for maintaining and improving the awareness and action of all the officers and employees regarding compliance in our corporate group.

Furthermore, we have developed an internal reporting system that is intended to collect risk information at an early stage and deal with risks properly, and the Compliance Regulations explicitly specify that whistle-blowers shall not be treated disadvantageously, and all of the employees of our company and our group companies are thoroughly informed in this regard.

Structure of Group Compliance



(Taken from the website of the company)

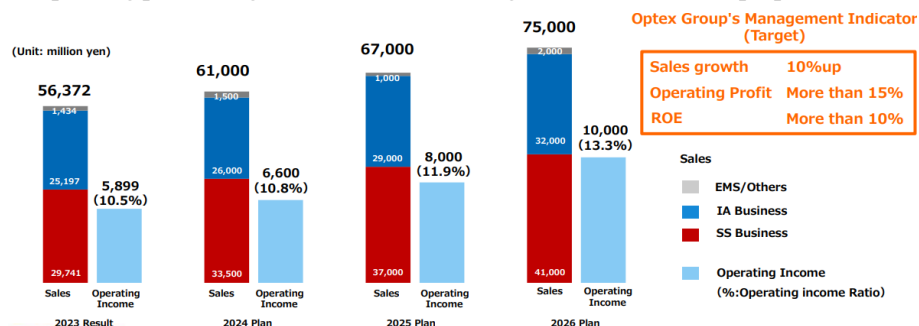
4. Three-year (2024-2026) Management Plan

【4-1 Overview and Targets】

In the fiscal year ended December 2023, both sales and operating profit fell below the revised forecasts due to a temporary slowdown in the IA business caused by the sluggish Chinese economy.

In the fiscal year ending December 2024, the company aims to increase operating profit by re-strengthening sales of highly profitable products.

The company has set management targets of sales growth of 10%, an operating profit margin of 15% or higher, and an ROE of 10% or higher, and in the fiscal year ending December 2026, it aims to achieve sales of 75 billion yen, an operating profit of 10 billion yen, and an operating profit margin of 13.3%, accelerating its shift to a solution proposal business.



(From the company release)

【4-2 Main Business Initiatives】

(1) SS business

① Security sensor segment

The company will further enhance image verification solutions, an area of its forte, and aggressively invest in business offices and facilities.

It will also continue to focus on direct marketing to cultivate existing markets and develop new markets.

② Automatic door sensor segment

The company will expand its market share in Europe and the U.S. by developing new products and aggressive investment. Additionally, it will develop the market further through remote monitoring services and “OMNICITY,” a service that creates new customer experiences through the effective use of automatic entrance doors.

(2) IA Business

① FA segment

Like the SS business, the company will expand the number of customers by developing direct consulting and marketing activities to meet on-site needs and reflect them in product planning.

Moreover, as a strategy for shifting from single-product sales to solution sales, the company is focusing on providing solutions centered on the "IO-Link master," which is a communication technology that enables the two-way exchange of various data between sensors and higher-level control systems.

② MVL segment

In addition to MV lighting, the company has procured power supplies, cameras, lenses, etc., from cooperating manufacturers and provides them as a system that is developed in the testing rooms to meticulously meet customer needs. In recent years, it has expanded its field to include AI and robots and has set up an AI lab and a robotics room in collaboration with external manufacturers and vendors with the aim of "evolving into a total solution vendor in the inspection process."

The company provides solutions that “make the invisible visible and the impossible possible.”

③ IPC segment

The company will establish a stable supply system for industrial PCs for semiconductor manufacturing equipment, which are selling steadily.

It aims to develop new businesses such as monitoring systems and wireless visualization systems.

④ MECT segment

The company will establish a stable supply system for secondary battery manufacturing equipment, which is selling steadily.

It will also develop new businesses, such as visual inspection solutions.

[4-3 Growth Vision]

Under the group's corporate philosophy of “We aim to become a corporate group full of Venture Spirit,” the company has positioned “business model transformation” as the core of its growth strategy and is shifting from conventional individual product sales to comprehensive solution sales in all of its businesses.



(From the company release)

5. Financial and non-financial data

(1) Financial data

◎BS/PL

	FY 12/2019	FY 12/2020	FY 12/2021	FY 12/2022	FY 12/2023
Sales	37,517	34,846	45,866	54,811	56,372
Operating profit	2,856	2,098	4,630	6,303	5,899
Ordinary profit	2,876	2,176	5,130	7,042	6,258
Net profit	2,197	1,395	3,762	4,752	4,608
EPS [yen]	60.02	38.59	104.18	133.79	129.73
ROE [%]	6.8	4.3	11.2	12.8	11.1
ROA [%]	6.6	4.8	9.8	11.6	9.6
Total assets	43,967	47,390	57,769	63,302	67,127
Net assets	32,372	32,625	35,360	39,735	44,271
Capital-to-asset ratio [%]	73.2	68.4	60.7	62.2	65.3

*Unit: million yen

◎CF

	FY 12/2019	FY 12/2020	FY 12/2021	FY 12/2022	FY 12/2023
Operating CF	3,621	3,894	3,102	1,669	2,113
Investing CF	-992	-3,228	-2,845	-310	-782
Free CF	2,629	666	257	1,359	1,331
Financing CF	-1,721	1,578	1,793	-1,627	-2,259
Cash and cash equivalents	12,396	14,583	17,120	17,287	17,119

*Unit: million yen

(2) Non-financial data

① Environment-related data

◎Variation in sales volume of environmentally friendly products (OPTEX FA CO., LTD.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Environmentally friendly industrial sensors	101	146	233	272	228	255	367	373	321

*Sales volume in 2014 = 100

◎Reduction of CO₂ emissions with LED lighting (CCS Inc.)

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Reduction of CO ₂ emissions	5,122	6,238	7,337	7,431	6,933	5,907	7,113	7,385	7,651

*Unit: t-CO₂

② Social capital-related data

◎No. of registrations for patents/designs

Region	Patent	Design
Japan	93	29
The U.S.	39	18
Europe	105	44
Asia	12	34
Other	4	18

*2023, OPTEX CO., LTD.

③ Employee-related data

◎Consolidated Number of Employees

	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021	FY 12/2022	FY 12/2023
Number of domestic employees	931	941	1,123	1,191	1,216	1,258
Number of overseas employees	890	834	758	807	890	878
Of which, EMEA	225	236	236	224	253	258
Of which, ASIA	575	512	439	506	560	538
Of which, AMERICAs	90	86	83	77	77	82
Total number of employees	1,821	1,775	1,881	1,998	2,106	2,136
% of overseas employees	48.9%	47.0%	40.3%	40.4%	42.2%	41.1%

*As of December 31, of each fiscal year. Unit: employees. The total number of employees does not include temporary or part-time employees.

◎Employee composition of group companies in Japan (as of December 31, 2023)

	Total No. of employees	Male	Ratio	Female	Ratio
Number of employees	1,288	993	77%	295	23%
Of which, the number of mid-career employees	776	555	72%	221	28%
Of which, the number of foreign nationals	18	12	67%	6	33%

*Unit: people

◎Management Position Composition of group companies in Japan (As of December 31, 2023)

	Total number	Male	Ratio	Female	Ratio
Number of managers	313	301	96%	12	4%
Of which, the number of mid-career hires	222	214	96%	8	4%
Ratio of mid-career hires	71%	71%	-	67%	-

*Unit: people

◎Those who took a childcare leave

Year	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021	FY 12/2022	FY 12/2023
Total number	10	17	8	10	15	18
Of which, male	0	0	1	3	3	8
Of which, female	10	17	7	7	12	10

*Unit: people

◎No. of employees who resumed work after prenatal, postnatal and childcare leave

No. of employees who resumed work after a childcare leave in the past 3 years (cumulative)	Return-to-work rate
34	77%

**Unit: people. Results in the past 3 years (2021 to 2023)

◎Employees working for shorter hours for childcare

年度	FY 12/2018	FY 12/2019	FY 12/2020	FY 12/2021	FY 12/2022	FY 12/2023
Total number	9	12	18	20	17	19
Of which, male	0	0	0	0	0	0
Of which, female	9	12	18	20	17	19

*Unit: people

◎No. of employees reemployed after the retirement age

Period	No. of employees who retired during the period (cumulative)	No. of employees reemployed during the period (cumulative)	Reemployment ratio
FY2021~FY2023	41	36	88%
FY2020~FY2022	36	32	89%
FY2019~FY2021	45	40	89%
FY2018~FY2020	52	47	90%
FY2017~FY2019	23	22	96%
FY2016~FY2018	20	17	85%

*Unit: people

◎State of retention of new graduates employed

	New graduates who joined the company in Apr. 2018	Remaining employees in Apr. 2021	New graduates who joined the company in Apr. 2019	Remaining employees in Apr. 2022	New graduates who joined the company in Apr. 2020	Remaining employees in Apr. 2023	New graduates who joined the company in Apr. 2021	Remaining employees in Apr. 2024
No. of employees	40	33	32	29	26	21	25	25
Retention rate		83%		91%		81%		100%
Retention rate (3-year average)	88%							

*Unit: people

* Companies considered for employee-related data: OPTEX GROUP CO., LTD., OPTEX CO., LTD., OPTEX FA CO., LTD., CCS Inc., Sanritz Automation Co., Ltd., MITSUTEC CO., LTD., OPTEX MFG CO., LTD., THREE ACE CO., LTD., O'PAL OPTEX CO., LTD., GIKEN TRASTEM CO., LTD., ZENIC INC., and Tokyo Opto-Electronics Co., Ltd.

<For reference>

For publishing ESG Bridge Report, the company enlisted significant cooperation from Mr. Ryohei Yanagi (PhD. in economics from Kyoto University, Executive Vice President and CFO of Eisai Co., Ltd., and a visiting professor of Graduate School of Accountancy, Waseda University).

This section mentions the purpose of publishing ESG Bridge Report and outlines the “Yanagi model” proposed by Mr. Yanagi, while citing a passage from his literature “CFO Policy 2nd ed.”

(1) Regarding ESG Bridge Report

While ESG investment became mainstream, investors demand that Japanese companies disclose ESG information proactively. Accordingly, an increasing number of companies produce integrated reports.

However, the production of integrated reports requires the understanding and involvement of executives, some human resources and some budgets. Accordingly, many companies still cannot produce integrated reports.

Also, for producing integrated reports, it is necessary to take many steps, including the summarization of various data, the identification of materiality, and the setting of indicators and goals. It seems that many companies are not prepared enough, so they are reluctant.

However, Mr. Yanagi mentioned, in “CFO Policy 2nd ed,” that “if Japanese enterprises shed light on their potential ESG value, their PBR will probably be at least the same level (around 2x) as that of companies in the UK” and “by actualizing Yanagi model, it is possible to double the value of Japanese companies, probably improving investment, employment, and pensions and maximizing national wealth, which have a high probability.” Investment Bridge Co., Ltd. considers that the provision of ESG information of Japanese companies is meaningful for the entire Japan and should be promoted actively.

Under these circumstances, for companies who deeply recognize the necessity to disclose ESG information although they still cannot produce integrated reports, our company cooperatively produces “ESG Bridge Report” based on currently available data and resources, to provide investors with ESG information as needed by investors as much as possible.

Japan Exchange Group actively encourages Japanese companies to disclose ESG information, and published “Practical Handbook for ESG Disclosure.” Page 6 of this handbook mentions “We do not mean that you cannot disclose information unless all of the elements mentioned here are covered. We expect that this handbook will provide you with some clues when you start with what you can do while considering your situation for disclosing ESG information to communicate with investors and proceed with more initiatives.” We believe that “ESG Bridge Report” is a tool for “starting with what you can do for disclosing ESG information.”

Mr. Yanagi mentioned that in order to achieve full-scale Yanagi model, it is necessary to conduct empirical research indicating positive correlation between ESG and corporate value and disclose concrete cases in which companies’ contribution to society helps increase long-term economic value. Accordingly, the actual hurdle is high, but we would like to explicitly describe how ESG initiatives of each company lead to the improvement in corporate value.

Based on the feedback from many investors who have read our reports, we would like to improve the quality of our reports. We would appreciate your candid opinions.

Kaoru Hosaka
Managing Director and Chairman
Investment Bridge Co., Ltd.
k-hosaka@cyber-ir.co.jp

(2) Regarding “Yanagi Model”

(Increasing value of non-financial capital, rapid increase of ESG investment, and production of a conceptual framework for connecting ESG and corporate value)

Recently, many empirical studies have verified the increase of importance of non-financial information in corporate value evaluation,

and it can be inferred that invisible value (intangible assets) and non-financial capital value account for about 80% of corporate value. In addition, it can be considered, from the results of many empirical studies on the relation between non-financial information and corporate value, that ESG may be positively correlated with corporate value.

On the other hand, as ESG investment is becoming mainstream globally, Japanese enterprises, whose PBR is less than one or stagnant in many cases although they have latent ESG value, need to transform non-financial capital into future financial capital with the “Yanagi model” for raising PBR, or produce and disclose a conceptual framework for connecting ESG and corporate value.

(Overview of the “Yanagi Model”)

Out of shareholder value, the book value of shareholders’ equity, which corresponds to “the part where PBR = 1,” is composed of current financial capital and financial value.

On the other hand, out of shareholder value, market value added, which corresponds to “the part where PBR exceeds 1,” is composed of non-financial capital (which can be said to be future financial capital), and the sum of current value of cash flow of equity spread (= ROE – Cost of shareholders’ equity) in the residual profit model.

Therefore, Mr. Yanagi proposed “the synchronization model of non-financial capital and equity spread” = “Yanagi Model” as a conceptual framework for synchronizing ESG and corporate value, as a result of non-financial strategy.

In the “Yanagi Model,” non-financial capital has a mutually complementary relation with equity spread, which is the sum of current value of residual profit through “market value added.” Namely, the value creation with equity spread is consistent in the long term because of the delay, via the creation of value of non-financial capital, including ESG, and market value added.

Therefore, ESG management can be synchronized with long-term investors, who demand capital efficiency, via market value added, and cooperation is possible.

According to Mr. Yanagi’s survey on investors for supporting the model, many investors around the world demand that “the relation between ESG and ROE values is explained” and answered that “100% or a significant proportion of the value of ESG is taken into account in PBR.” It can be considered that the “Yanagi model” is supported directly or indirectly by most of long-term investors.

(For details about his “Yanagi Model,” refer to “CFO Policy 2nd ed.” authored by Ryohei Yanagi, CHUOKEIZAI-SHA (2020).)

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