

# Ushio Inc.



A global technology leader in industrial lighting applications. Cutting edge research for a wide range of applications serving society at large. Solid financial disclosure, good integrated reporting, but the board has not formulated clear targets and KPIs.

Michael Kretschmer, Senior Portfolio Manager

### Engagement rationale

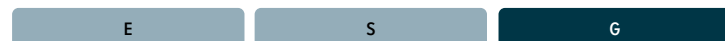
VLK has been invested in Ushio since 2021 and we are amongst the largest shareholders. Ushio is market leader in several niche markets.

### Background

Ushio's share price has been trading at a substantial discount to its intrinsic value for more than a decade. The company had an inward-looking engineering culture with very high research spend. At the same time, communication with shareholders was inconsistent and, in general, shareholder comments were disregarded.

### Theme for engagement

- Engagement for Change: Governance
- Engagement for Change: Strategy



### Development

Positive

### Milestone



### Engagement objectives

In preparation for the mid-term plan we formulated the following improvements in a presentation sent in December 2022:

- Use ROE as a key financial metric and a tool to assess the portfolio; set a realistic but sufficiently ambitious target (10%+).
- Address capital efficiency through an initially larger, but then also continuous buyback plan.
- Look for portfolio considerations to benefit from more recurring, resilient demand patterns and secular growth. Reconcile its capital allocation policy with its strategic priorities.
- Impose a clear pay-for-performance remuneration policy linking key targets from the Medium-Term-Plan (MTP) to long-term remuneration of the management team.

### Engagement results

In its 2025 mid-term plan announced in May 2023 the company announced the following:

- ROE target of 8%+ by 2025 and 10%+ by 2030.
- a 20 million share buy back (17% of shares outstanding) or JPY30bn in first year and JPY70-90bn in next three years.
- Continuously review the business portfolio for profitable growth toward 2030, and actively utilize held assets and liabilities for this purpose.
- Plans to revise executive compensation by adopting key performance indicators for reaching MTP goals and increasing stock compensation ratio.

Based on the above announcement we successfully closed the engagement case.

### Company

Ushio Inc. is a light solution companies. Its technology ranges from high spec lamps, to lasers and LEDs with a wide range of applications such as for the chip industry and UV solutions for health care.

### Country

Japan

### Sector

Industrials: Capital Good

### Market cap

Small Cap: 1.5bn EUR

### Materiality

A sound board structure is fundamental to effective leadership and execution of successful business strategy on behalf of shareholders and relevant stakeholders.

### ESG Research

MSCI ESG Rating: A  
Sustainalytics: 28.4 (medium risk)

### Engagement initiated

2022

### Latest update

June 2023

### Kempen Fund

Global Small Cap Fund

