

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

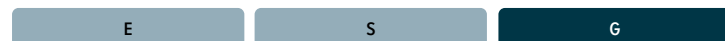
VLK has been invested in Ushio since 2021 and we are amongst the largest shareholders. Ushio is market leader in several niche markets.

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

