

Shaping a Better Future through the Concerted Efforts of the Entire Group

Taking on challenges to achieve further growth based on the founding “spirit”



Teppei Nagata

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Respect for the founding spirit

The Suminoe Textile Group upholds the Company Purpose, which reads: “We contribute to the improvement of society through the production and sales of good products, and a prosperous business.” The Company Motto that we follow states that “We pride ourselves as a pioneer in the interior design and furnishing industry and persist in a spirit of cooperation, sincerity and determination.” Ever since its founding, in keeping with this Company Purpose and Motto, the Group has consistently taken on new challenges in response to the needs of the times and worked to develop and provide products that benefit society. For instance, the Group became Japan’s first to hand-weave a Wilton-style carpet, to manufacture seat materials for railway carriages, and to create carpet tiles. The Group’s ECOS® series, eco-friendly carpet tiles under the horizontal recycling system, obtained Eco Mark certification by fulfilling its new criteria, for the first time in the industry. These examples demonstrate the enterprising attitude and the frontier spirit of our predecessors.

The Company Motto contains the phrase “a spirit of cooperation,” which indicates the ideal state of our relationships with customers and suppliers and that of the relationships among our employees. I could say that this is the concept that leads to today’s sustainability. The Motto also includes the word “sincerity,” which should form the basis of a business enterprise. With a strong resolution never to repeat any insincere behaviors, the Group has been continuing “management by walking around,” under which executives in person frequently visit workplaces, as part of ongoing efforts to reinforce governance. The word “determination” is embodied by our history of 139 years. Throughout so long a history, we have continued business while overcoming many serious hardships and tiding over difficult times. The outlook still remains uncertain due to the prolonged COVID-19 pandemic and the increasingly volatile international situation. In this present context, I realize anew the significance of upholding “determination” in our Company Motto.

Embracing challenges to achieve next-stage growth, with pride as a pioneer

Aiming for next-stage growth, we have been striving to accomplish the Medium- to Long-term Management Targets “SUMINOE GROUP WAY 2022-2024-2027” (hereinafter SGW), launched in June 2022. The SGW has set targets for consolidated net sales at 100 billion yen or more and for an operating margin at 5% or more, by the fiscal year ending on May 31, 2027. To achieve these targets, it is literally indispensable to constantly take on new challenges to produce products that benefit society, with pride as a pioneer. In particular, in the present time when social situations are rapidly changing, I believe that we need to bring together the wisdom of the entire Group to create innovation faster than before. At the same time, the Group has started to identify a purpose (the reason for the existence of a company) that provides spiritual support for employees. We are endeavoring to determine and announce a purpose that will better reflect contemporary society and times, based on the Company Motto and the Company Purpose, which

have been embraced ever since the founding of the Suminoe Textile Group.

In the first year of the SGW, we moved forward to achieve the final targets, albeit falling short of the Medium- to Long-term Management Targets

The fiscal year ending May 2022 was the important first year of the SGW. However, we had no choice but to make a downward revision to our initial plan since the Automotive Textiles and Traffic Facilities segment, which drives the Group’s performance, was significantly impacted by the COVID-19 pandemic and the shortage of semiconductors and components. On a consolidated basis, net sales increased by 2.5% year on year to 81,713 million yen, whereas we posted declines in operating income, ordinary income, and profit attributable to owners of parent. Operating income sharply declined 89.5% year on year to 110 million yen. Despite these lower profits, the said fiscal year saw each business segment steadily paving the way for future growth, making us feel certain that we were able to move a step closer to achieving the final targets.

In the Interior Fittings segment, to strengthen the space design business, we acquired shares of CPO Co., Ltd., which is engaged in designing various retail stores, so that it became a subsidiary of Suminoe Textile Co., Ltd. in August 2020. This was followed by the acquisition of another company that sells interior products, PRETERIOR-TEXTILE Inc., which joined the Group as a subsidiary in January 2022. In addition, our ECOS® series, eco-friendly carpet tiles under the horizontal recycling system, has achieved a recycled material ratio of approximately 70% by weight, which is among the highest in the world. We are pleased that ECOS® won two major prizes: the Economy, Trade and Industry Minister’s Prize in the 4th EcoPro Awards and the Grand Prize in the plastic resource recycling special category of the 22nd Green Purchasing Award. On the back of winning these prizes, our presence as “Eco-friendly Suminoe” increased, leading to large incoming orders. Due partly to the effect of price revisions, the Interior Fittings segment posted growth in sales and profit.

In the Functional Materials segment, we received increased orders for fabric-coated heating products, such as electric carpets, and floor materials for bathrooms. The Company also completed the consolidation of factories in China and Vietnam, in consideration of the country risk and future costs. We can now expect an improvement in cost-effectiveness in the next fiscal year and onward.

Furthermore, in May 2022, we completed the project for reorganizing the Nara Factory, the mother plant of the Group. In addition to improving production and logistics efficiency, we constructed a new R&D building so as to further enhance collaboration between R&D and production technology divisions. As a result of the reorganization, functions of the Interior Fittings and Automotive Textiles segments have been divided more clearly: The Nara Plant of Suminoe Techno Co., Ltd. focuses on production of interior products, while the Shiga Factory focuses on production of automotive textiles. We look forward to seeing the effects of this functional differentiation in the fiscal year ending May 2023 and later.

As for the Automotive Textiles segment, in order to expand

the North American market, we decided to build a new production line for synthetic leather at Mexico, Suminoe Textile de Mexico, S.A. de C.V. (STM), our subsidiary in Mexico. STM will start mass production in March 2024 and will contribute to the Group's performance from the fiscal year ending May 2025. Our subsidiary in the United States, Suminoe Textile of America Corporation (STA), is in the process of a significant organizational change. In the Traffic Facilities segment, the Company acquired Seki Textile Co., Ltd., which has Japan's leading processing technology for moquette production. We also make consistent efforts to strengthen business continuity planning (BCP).

With regard to the plan for the fiscal year ending May 2023, we again revised the planned figures downwardly from those targeted at the time of the SWG formulation, but the strategies and measures remain unchanged. Although the outlook remains uncertain, we anticipate that, after the external environments surrounding the Automotive Textiles and Traffic Facilities business improve, the Group will reach its interim targets—net sales of 93.4 billion yen and operating income of 3.3 billion yen—in the fiscal year ending May 2024, the third year of the SWG. We also believe that the Group will be able to achieve net sales of 100 billion yen or more and operating income of 5% or higher in the final year of the SWG, i.e., the fiscal year ending May 2027, based on our forecast that STA will return to profitability, measures being taken in the current fiscal year will prove effective, and depreciation will decrease in that year.

Forging a solid footing to grow as an enterprise that can surely contribute to realizing a sustainable society

Suminoe Textile will mark its 140th anniversary of its founding in 2023. To continue to grow into the future, the Group must remain committed to being an enterprise that brings value to society and that is required by all stakeholders.

Employees are our stakeholders and the driving force for the Group to create value. As such, our most important task is to "create workplaces for employee happiness" for these employees. On June 1, 2022, the Group announced its Basic Policy on Sustainability and Related Policies, which lays out initiatives for human resources development, diversity and inclusion, and work-life balance. The key to future success lies in ensuring these policies are communicated to and observed by every member of the Group. We also aim to be certified as a Health & Productivity Management Outstanding Organization by the fiscal year 2025, and we plan to hold round-table discussions for employees in respective age brackets from 20s to 50s. As part of initiatives for human resource development, the Company will nurture next-generation management personnel, including female managers.

Other priority challenges for the Group include to "improve work efficiency" and "improve corporate brand value." We are promoting restructuring of the core systems aimed at more transparent business operation, with these systems slated for completion in the fiscal year ending May 2025. Efforts are also under way to increase efficiency in warehouse activities in logistics through the effective use of digital technology. In regard to improving corporate brand value, we launched a cross-departmental project



involving various members, ranging from executives to young employees, to ensure that the SUMINOE brand is chosen by stakeholders who feel empathy with us. These project members hold discussions from diverse perspectives.

On the other hand, there are many social issues to be resolved to establish a sustainable society. Among other things, we are aware that the response to climate change issues is important. In April 2022, the Suminoe Textile Group announced its Second SUMINOE Environmental Declaration. At the same time, the Group set a target for reducing CO2 emissions 35% from the fiscal 2014 levels, by the fiscal year 2031. To accomplish this target, we will intensify our efforts to reduce energy consumption in business operations and introduce photovoltaic power generation systems. Meanwhile, we will strive for development and sales expansion of products that contribute to the recycling of resources, as exemplified by ECOS®. We will also work to develop new seat covering materials using a plant-derived fiber.

As for the financial impact of climate change, we will conduct scenario analysis and clarify the impact, following the TCFD recommendations on climate-related financial disclosures, in the next fiscal year and beyond.

We always seek to be better than we are today through the concerted efforts of the entire Group as we move forward into the future. We have addressed challenges at hand and used the lessons learned from these challenges, regardless of whether the outcome is a success or failure, as valuable experience for undertaking the next challenge. Through the endless repetition of such attempts, we have made continuous efforts, which have made the Group what it is today. I am confident that our present hard work will help us shape a better future.

Even in the harsh business environment, we will first secure a 5% operating margin to enhance our corporate value, aiming to grow as an enterprise that can live up to expectations of shareholders and investors. Please expect the future development of the Suminoe Textile Group.

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Focusing on our medium- and long-term "ideal corporate image," we established our policy through the fiscal year ending May 2027. In line with the policy, we have been working to achieve our targets.

Suminoe Textile Co., Ltd. formulated "SUMINOE GROUP WAY 2022-2024-2027," Medium- to Long-term Management Targets (SWG). Now one year has passed since we started to work on the SWG in June 2021. All employees of the Group companies are joining forces to achieve these targets by increasing sales of products that meet social needs and by promoting global management, based on the ESG management that the Group has focused on to date.

