

# Aiming at an optimal capital structure to lead to new growth

Hiroaki Usugi

Managing Director

General Manager, Administration Headquarters

Suminoe Textile Co., Ltd.



As the General Manager of the Administration Headquarters, I am in charge of formulation and execution of financial strategies to maintain an optimal capital structure, which is necessary to realize the strategies for growth. My role is also to support the initiatives to improve competitiveness of each Business Headquarters, such as reviewing operations and improving efficiency by using information systems as well as developing educational and other new systems for human resources development and utilization.

Progress in Efforts toward Medium- to Long-term Management Targets

**Affected severely by the external environment, Automotive Textiles and Traffic Facilities segment failed to achieve the targets**

The fiscal year ended May 2022, the first year of the Medium- to Long-term Management Targets “SUMINOE GROUP WAY 2022-2024-2027,” marked net sales of 81,713 million yen (5.5% lower than the plan), operating income of 110 million yen (90.5% lower), ordinary income of 950 million yen (29.6% lower), and profit attributable to owners of parent of 281 million yen (54.6% lower), failing to achieve all target figures in the plan, including ROE and D/E ratio. This was due to the impact of mainly the production reduction by automobile manufacturers and soaring raw material prices and logistics costs on the Automotive Textiles and Traffic Facilities segment despite results better than the plan in the Interior Fittings segment. In the fiscal year ending May 2023, although the severe external conditions are expected to continue, we will accelerate efforts to “expand sales and build a foundation for growth,” which is one of the Medium- to Long-term Management Targets, and aim to achieve the plan.

Results of the First Year of the Three-year Consolidated Income and Expenditure Plan

	2022		2023	2024
	Plan*	Results	Plan*	Plan*
Net sales (million yen)	86,480	81,713	90,360	93,490
Operating income (million yen)	1,160	110	2,520	3,300
Operating margin (%)	1.3	0.1	2.8	3.5
Ordinary income (million yen)	1,350	950	2,730	3,530
Profit attributable to owners of parent (million yen)	620	281	1,280	1,960
ROE (%)	2.2	1.0	4.5	6.6
D/E ratio (times)	0.58	0.67	0.64	0.56

\* Planned figures are as of the disclosure on July 13, 2021.

Efforts to Meet the Criteria for Remaining Listed

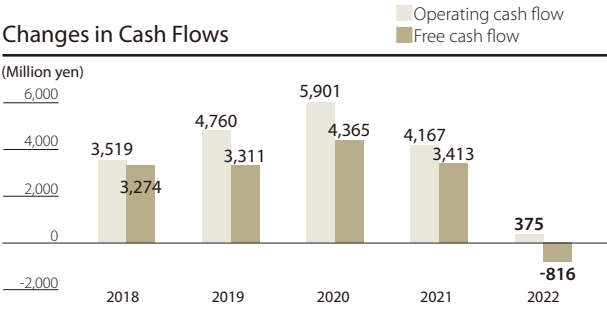
In response to the Tokyo Stock Exchange’s revision of the market segments, we selected the Prime Market. As of June 30, 2021, the record date of the market transition, the criteria “the market capitalization of tradable shares of at least 10 billion yen” and “the average daily trading value of at least 20 million yen” had not been satisfied. However, as a result of the enhanced IR activities and shareholder returns, the average daily trading value as of May 31, 2022 reached 39 million yen according to our estimate, and thus it satisfied the criterion. Meanwhile, however, the market capitalization of tradable shares was 5.86 billion yen as of May 31, 2022, failing to reach the target. According to our calculation based on the list of all shareholders as of May 31, 2022, including those of shares held for the purpose of net investment, the market capitalization of tradable shares is 6.75 billion yen and the ratio of tradable shares is 47.8%. Moving forward, we will continue to promote various efforts to satisfy the criteria for remaining listed by May 31, 2024, such as the efforts to improve corporate value through capital investment and M&A and increasing the number of tradable shares by implementing stock-related measures.

Cash Flow Management and Investment Strategies

Creating cash flows by increasing cash from operating activities and liquidating fixed assets

We proactively make various forms of investment to reinforce existing businesses and expand the business fields. Under the SGW, a total of 10 billion yen will be invested in three years from the fiscal year ended May 2022 to the year ending May 2024. To this end, we place emphasis on the creation of cash flows and have set a target of securing free cash flows of 3 billion yen or more each year.

To create cash flows, we have been working to increase cash from operating activities and set an operating margin of 5% or higher as a target in the SGW. Moreover, we will make efforts to keep the level of current assets, such as accounts receivable and inventory, at an appropriate level and liquidate fixed assets by selling securities and land, etc. In fiscal year ended May 2022, cash flows worsened temporarily due to inventory increase under the impact of the production reduction by automobile manufacturers. But we will secure cash by returning inventory to an appropriate level as soon as possible.



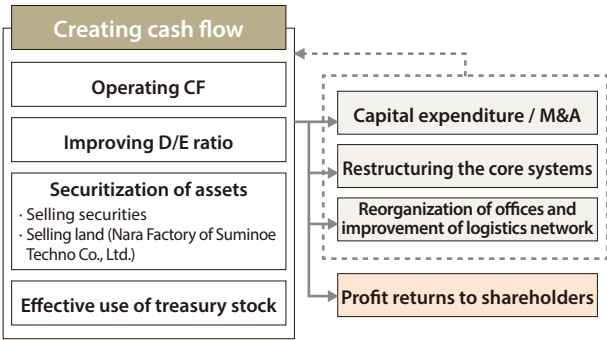
M&A and investment for the next generation

As for M&A, we acquired CPO Co., Ltd. in fiscal year ended May 2021 and PRETERIOR-TEXTILE Inc. in January 2022 to expand the Space Design Business in the Interior Fittings segment. By enhancing the synergetic effect between our existing interior business and these two companies, we will expand our business domain.

Regarding capital investment, the reorganization of Nara Factory, a project we have been engaged in since fiscal year ended May 2019, was completed in the fiscal year under review (→ p.27). For the reorganization project, we made active investment in logistics facilities to substantially improve the storage capacity and logistics efficiency of the Nara Factory. Based on this, we will integrate our logistics bases, which were dispersedly located, at the Nara Factory, thereby achieving further improved logistics efficiency and cost reduction. As for investment in restructuring of core systems, we have been simultaneously promoting reengineering of the production management system to improve efficiency in business operation through information sharing among departments of manufacturing, procurement and sales (→ p.50) and of the accounting system mainly for management of receivables and payables to improve operations and realize timely response to regulatory revisions by electronification and sharing of information (→ p.48).

For human resources, based on training through OJT, employees are provided with a combination of training programs, including the level-based program offered at every promotion since joining the company, next-generation leader training using business schools, and training for skill improvement for all employees. We will proactively create opportunities to develop and utilize human resources in a well-balanced manner.

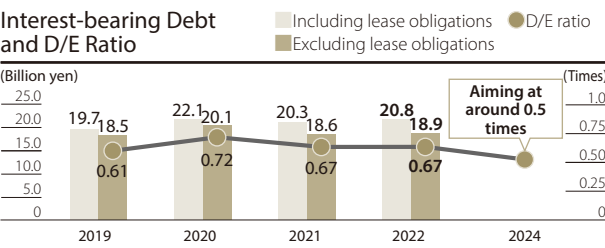
Overview of Investment Plan



Improve Financial Structure

Reducing interest-bearing debt to achieve an optimal capital structure

In improving the financial structure, we focus on the D/E ratio. We have incorporated the improvement plan in the SGW, aiming at about 0.5 times in fiscal year ending May 2024. The D/E ratio for fiscal year ended May 2022 was 0.67 times, about the same level as the previous year, due to an increase in interest-bearing debt as a result of temporary worsening of cash flows. We will make efforts, along with the various measures to create cash flows, to reduce interest-bearing debt to achieve an optimal capital structure.

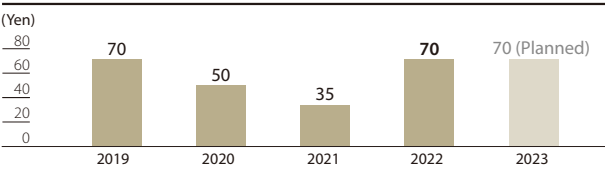


Shareholder Returns

Ensuring stable dividend payment and introducing a shareholder special benefit program

Our basic policy of shareholder returns is to ensure stable dividend payment to our shareholders and properly allocate the surplus, taking into consideration the trends in business performance and investment for business expansion. Starting from fiscal year ended May 2022, we introduced a shareholder special benefit program to enhance shareholder returns.

Changes in Dividends



Strengthening Communication with Investors

Enhancing disclosure materials and proactive IR activities

To raise the level of our recognition and reliability both inside and outside Japan, we are working to enhance investor relations (IR) activities. Our IR efforts include enhancing the contents of the integrated report and various other information disclosure materials and translation to English thereof, publication of paid analyst reports, increasing individual meetings with institutional investors, and posting the proceedings of financial results briefings on our corporate website to enhance information provision for individual investors.

We will continue to promote activities aimed at an optimal capital structure, which will lead to new growth and improved corporate value of our Group.