

Maximizing Synergies as the SUMINOE GROUP

Taking on Challenges to Enhance Our Corporate Value on a Global Scale



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Raising the level of our true capabilities to turn external factors into opportunities

We have worked on the Medium- to Long-term Management Targets "SUMINOE GROUP WAY 2022-2024-2027" (hereinafter SGW). However, in terms of profits, we have not attained the targets originally set at the time of the SGW formation. This is attributable to the prolonged impact of the COVID-19 pandemic, the Ukraine crisis, a decrease in automobile production due to the shortage of semiconductors and other components, and other factors. Looking back to the situations in recent years, the SUMINOE GROUP's performance has tended to be significantly affected by external factors. Given the predicted emergence of various risks and the profound transformation in the automotive industry triggered by the Connected, Autonomous, Shared & Service, and Electric (CASE) revolution, I keenly realize that the Group should raise the level of its true capabilities. Specifically, it is necessary for us to grasp the negative impact of the external factors on our business as early as possible, while maximizing the positive impact by developing high value-added products, expanding sales networks and shifting our focus to the growth areas. Notably, the increasing production of electric vehicles in response to CASE provides us with a market expansion opportunity. Amid the major trend toward structural conversion in the automotive industry, the Group will be able to significantly expand its market share through an aggressive approach to automakers in overseas countries, which have a much higher rate of transition to electric vehicles than that of Japan. To this end, steady preparations are underway, including production upgrades in Mexico.

Such efforts to reliably raise the level of the Group's true capabilities and bolster its business competitiveness will enable us to attain the SGW targets of "consolidated net sales at 100 billion yen or more and of an operating margin at 5% or more." If we can achieve net sales of 100 billion yen and an operating margin of 5%, operating income will be 5 billion yen. Then, even if some changes occur due to external factors, we can deal with them through optimization of our management resources. We will first aim to attain this level and continue to work for performance improvement.

From Suminoe Textile Group to SUMINOE GROUP

As a result of our active pursuit of M&A, we have now grown into a corporate group comprising 30 companies in Japan and overseas. I believe that maximization of synergies across the Group will greatly contribute to raising the level of our true capabilities. To heighten the sense of oneness across the Group and to establish a system that allows us to generate greater synergies, in June 2023 we embarked on a new chapter as the "SUMINOE GROUP," which is used in place of the "Suminoe Textile Group." This change is intended to improve the global recognition of the Group and represents our enthusiasm for taking on challenges to create further innovation as an industry pioneer and to open up a new frontier. We have also formulated the Group Philosophy, which includes its MISSION

defined as "Bring people- and society-friendly spaces to the world through technology and ideas that closely support people's lives." We will work to enhance the corporate value of the SUMINOE GROUP, which strives to shape a better future by fostering innovation while cherishing our tradition of 140 years. Toward realizing our VISION "To set 'new comfort standard' in harmony with the times and the earth to create delightful lifestyles of the future," we will promote Group-wide efforts to grow as an "enterprise that is more willing to take on challenges than ever before." To this end, we place emphasis on developing awareness of all employees. The Group Philosophy mentioned above was worked out after a series of discussions mainly involving young and mid-level employees. These discussions were based on the results of surveys conducted as part of the Shin Mirai project, specifically, surveys of all Group employees and interviews with the President and officers. The Group implemented the "Tsunagu meetings," in which I myself participated, to directly exchange views with employees of various age groups, ranging from young to seasoned. Moreover, we launched "Tsunagu-wa-cation," an initiative to promote cooperation between departments and between Group companies to share technologies and ideas.

In the future, we will utilize in-house training and other opportunities to make the Group Philosophy known to every member of the Group in order to ensure that it will be reflected in goals of respective segments, departments and individual employees. At the same time, we will encourage exchanges transcending the boundaries of segments and companies, which will lead to various innovations.

Focusing on reinforcement of IR and efforts in "sowing the seeds" for the future, always being conscious of market capitalization

I became the President of Suminoe Textile Co., Ltd. in August 2021. Since it was immediately after the Company selected the Prime Market, I was tasked with implementation. Partly because the Company's share price declined to 1,461 yen, how we could increase market capitalization has been the most important business task for me since then. As of July 14, 2023, the share price has increased to 2,584 yen. However, this task is only half finished—assuming that the PBR (price book-value ratio) is 1, we need to increase market capitalization from the current 18 billion yen to the level of 30-40 billion yen. Even so, we have promoted initiatives step by step to enhance IR activities. As a result, we satisfied the standard for "average daily trading value" as of December 31, 2022, the calculation reference date, with only the criteria for "market capitalization of tradable shares" remaining unsatisfied. The Company is making constant efforts to improve the market capitalization of tradable shares, with the aim of meeting the Continued Listing Criteria by May 31, 2024.

I also feel that I was able to embody most of what I had in mind, in the past two years. The best example of them is the construction of a new synthetic leather factory in Mexico in the automotive textile business. Mexico is home to many assembly factories, particularly for car seats designed for North and Central America. As such, building a new production line there

is truly effective in reducing supply lead time. The Group is an unusual supplier in the world in that it can offer a total line of automotive textiles, such as ceiling materials, seat coverings, car mats and floor carpets. By taking great advantage of this feature, the Group aims to utilize the factory in Mexico to further expand the business in North and Central America.

In the Interior Fittings segment, we implemented strategies to expand the space design business through the acquisition of CPO Co., Ltd. and PRETERIOR-TEXTILE Inc. These strategies are producing steady results, with these two subsidiaries now accounting for more than 10% of sales in the Interior Fittings segment. In the Traffic Facilities Business, in July 2022 the Company acquired Seki Textile Co., Ltd. as a subsidiary so as to establish a more stable production system. We will capitalize on new market channels possessed by Seki Textile to increase sales and market share of the Group. In this manner, we have worked to “sow the seeds” for future growth in each business segment. Consequently, I feel that the Group was able to establish a system to embody a new tagline, “Bring innovation to all kinds of spaces,” which was developed along with our new logo.

Meanwhile, as the management leader, I have always been careful about closely communicating with officers and employees. To ensure routine communication with officers in particular, it is important to share information and exchange opinions with them not only at meetings of the Board of Directors and the Executive Committee but also on any other occasions. For example, I have discussed many times with Managing Director Maruyama, the General Manager of the Automotive Textiles Business, to work out the process of restoring the profitability of our subsidiary in the United States. The subsidiary is expected to turn into the black by the fiscal year ending May 2024. As to the measures for improving the financial structure, I share the same idea with Managing Director Usugi, the General Manager of the Administration Headquarters. Aiming at a D/E ratio of 0.5 times as one indicator, we will work to strengthen the financial structure.

Significant improvement in operating income in FY2023

We fell short of the targets set at the beginning of FY2023 because Japanese car manufacturers, our major customers, reduced automobile production from originally planned, and



for other reasons. However, net sales increased to 94,828 million yen and operating income also increased to 1,294 million yen, achieving a significant improvement in operating income from the previous fiscal year.

By segment, the Interior Fittings segment posted growth in both sales and income, mainly thanks to a large order for products adopted by building redevelopment projects, mainly in the Tokyo metropolitan area. Also, CPO Co., Ltd., which is engaged in designing various retail stores, and PRETERIOR-TEXTILE Inc., which sells interior products, generated synergy effects together with our existing businesses. Moreover, our comprehensive proposals for interior materials and furniture were adopted by large stores, representing the first step toward market penetration.

In the Automotive Textiles and Traffic Facilities segment, as part of our business structure reforms, we strengthened coordination between our Mexican subsidiary and North American subsidiary. Now the US subsidiary's returning to profitability has come within sight. In addition, the Group was able to establish a foothold for expanding the market in the United States.

In the Functional Materials segment, we completed the consolidation of factories in China and Vietnam into a single manufacturing site. Starting from FY2023, the factory in Vietnam has been operating at full production. As just described, we made advancement in building an optimal supply system.

Progress in efforts toward the Medium- to Long-term Management Targets and forecast of financial results for FY2024

We have steadily carried out initiatives specified under the SGW. Particularly with regard to “Reduce CO₂ emissions, and develop and distribute products for environmental measures,” we launched ECOS NEO™, which features enhanced environmental performance. In addition, efforts are being made to increase sales of ECONIX, a car seat covering material that uses スミトロン® (SUMITRON) polyester yarn made from recycled PET bottles. The Group will continue to contribute to reducing CO₂ emissions through its environmentally friendly products. We will also strive to reduce environmental impact by curbing CO₂ emissions from the SUMINOE GROUP's business operations.

In order to “Improve work efficiency using core systems,” as the first step, Suminoe Textile Co., Ltd. introduced systems for receivables/payables management, general accounting and production management. These systems help speed up management decision-making and improve inventory management accuracy through integrated management. Furthermore, these systems will enable us to swiftly respond to environmental changes in the future. In FY2024, we will expand the application of these systems to subsidiaries, as the second step.

As mentioned earlier, the economy has been recovering at a gradual pace, as represented by a slower-than-expected recovery in car production by Japanese automakers. For this reason, for FY2024, the figures for profit targets in the plan set

at the beginning of the fiscal year are lower than those in the plan set at the time of SGW formulation. On the other hand, we began to see the early results of our efforts in “sowing the seeds” for the future, such as increasing synthetic leather production in Mexico, strengthening coordination with the US subsidiary, and expanding the space design business in the Interior Fittings segment. We therefore plan to post net sales of 99,000 million yen and operating income of 2,600 million yen, expecting both sales and income growth as compared to FY2023.

Reinforcing initiatives to address sustainability issues

To show the Company's attitudes towards sustainability issues and strengthen initiatives for sustainability, we formulated the Basic Policy on Sustainability and Related Policies in June 2022, as well as the SUMINOE GROUP Human Rights Policy in June 2023. We are also planning to establish the Guidelines for Sustainable Procurement in January 2024. As for human rights, we work to implement human rights due diligence, which will help prevent and mitigate the negative impact of the Company's business activities on human rights. To promote sustainable procurement, which should be undertaken throughout the supply chain, preparations are currently under way to formulate the Group's procurement policy and supplier code of conduct.

With regard to environmental initiatives, since the announcement of “KKR+A (Kenko [Health], Kankyo [Environment], Recycling and Amenity)” in 1998, the SUMINOE GROUP has been actively engaged in environmental conservation activities, such as interior environment improvement and utilization of recycled materials as well as decreasing our impact on the environment. In April 2022, the “Second SUMINOE Environmental Declaration – Under the Slogan of KKR+A” was formulated. The Group also aims to reduce CO₂ emissions by FY2031 by 35% from the levels of FY2014. To achieve this target, steady efforts are being made through such measures as energy conversion and the introduction of photovoltaic power generation systems into the Company's Nara Factory and a subsidiary in Thailand. As for environmentally friendly products, we strive to enhance their environmental performance and expand the product lineups, aiming to expand sales in the global market. Meanwhile, in support of the TCFD recommendations, in June 2023 we introduced a cloud service to calculate Scope 3 greenhouse gas emissions, in addition to Scope 1 and 2 emissions. In the initial phase, we calculated GHG emissions from six major Group companies in Japan. In 2026, we will be able to calculate roughly overall emissions. Based on the results, we will discuss specific measures and disclose information.

As part of further efforts regarding human capital, we re-established the Group Philosophy and defined the ideal employee profile for Suminoe Textile Co., Ltd. The Company supports the three elements that constitute the profile—“autonomy,” “challenging spirit” and “co-creation,” and strives to establish a work environment where employees can exhibit their abilities to the fullest. In June 2023, the Company



introduced a “career self-declaration system” to promote personnel transfers and other measures for human resource activation, aiming to strengthen human capital, which constitutes a foundation for business growth.

In terms of governance, we promote initiatives to ensure the effectiveness of the Board of Directors. In 2023, a survey and analysis were conducted by a third-party organ, and the results were reported to the Board of Directors. In the future, the Company plans to select priority issues to be addressed and formulate a policy for responding to these issues. Since it is important to utilize valuable opinions of stakeholders inside and outside the Company for its business management, we will incorporate objective viewpoints of Outside Directors when discerning risks and opportunities for the Company's businesses, thereby reinforcing its governance system.

Carving out a new era while always being a pioneer of the industry

We will continue to promote various initiatives, with the greatest focus on considering how we can raise the level of performance and increase the operating margin. I believe that one of the keys to success is held by the Company's three wholly owned subsidiaries in North and Central America. Now that a new factory of our Mexican subsidiary has started full-scale operation, we will further intensify our efforts to firmly gain market share in North and Central America in order to improve corporate value. In parallel, toward business expansion, we will foster global human resources while striving to improve the financial structure and build up the systems and foundation that enable us to demonstrate our presence in the global market. Based on the findings and results obtained in North and Central America, we hope to eventually advance our business into Europe in earnest. To this end, discussions will be held as to preparations for “sowing the seeds” to realize this hope.

I myself will clearly show employees the future direction to go and themes to be addressed and will actively engage in awareness-raising activities to encourage employees to willingly take on challenges and foster motivated employees. Without being self-complacent about its history of 140 years, the SUMINOE GROUP will always maintain a pioneering spirit and strive to carve out a new era.

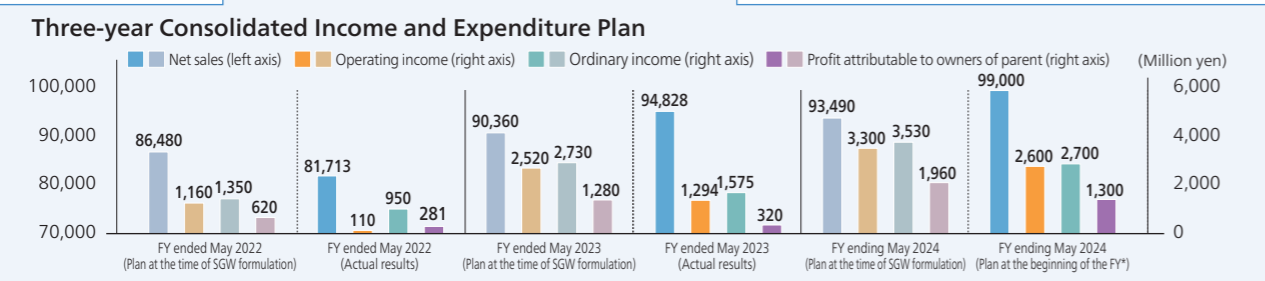
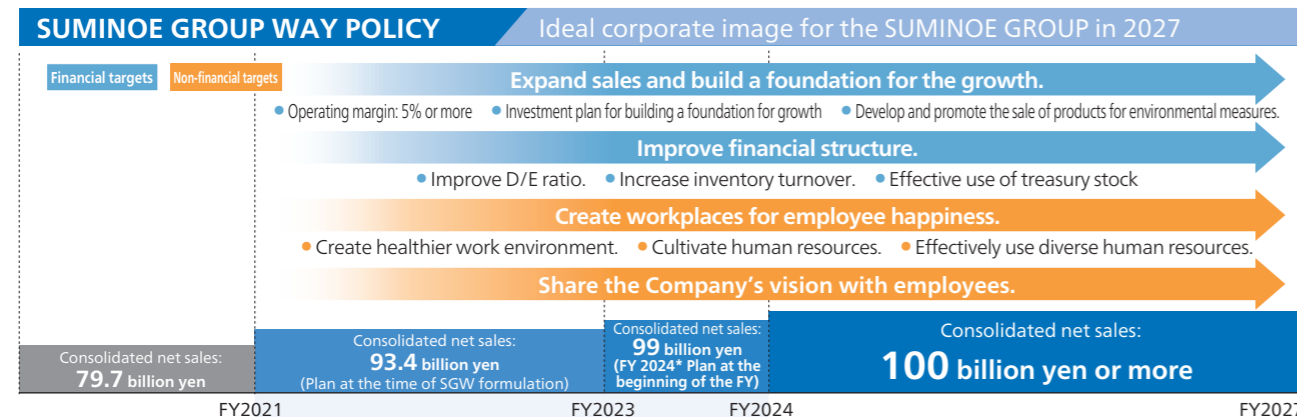
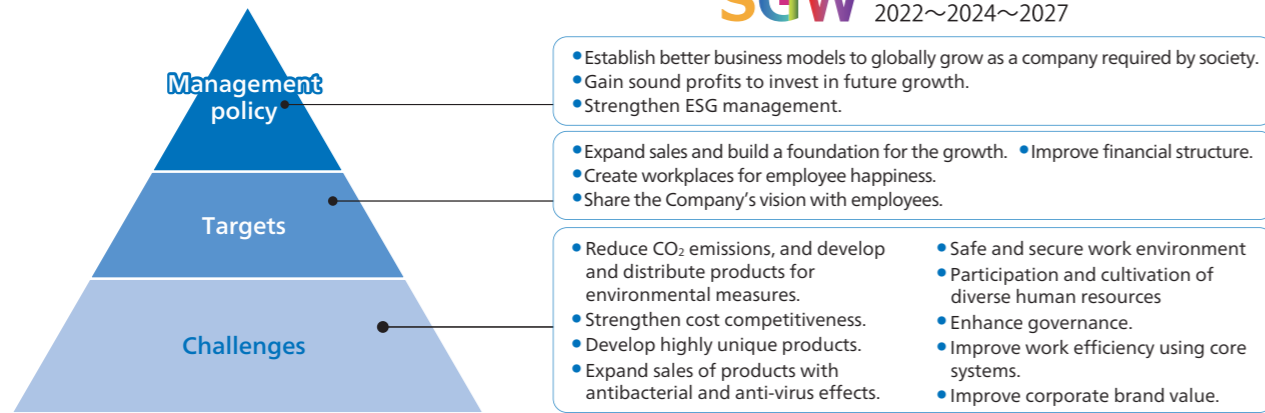
November 2023

President
Suminoe Textile Co., Ltd. 永田鉄平
Tepei Nagata

We have identified the “ideal corporate image” for the SUMINOE GROUP in 2027. To realize the image, the Group has been implementing initiatives in line with its policy.

Now two years have passed since we started to work on the Medium- to Long-term Management Targets “SUMINOE GROUP WAY 2022-2024-2027,” (hereinafter SGW). The SGW defines the ideal corporate image for the Group in 2027 as the state where the following targets have been accomplished: 1) expand sales and build a foundation for the growth; 2) improve financial structure; 3) create workplaces for employee happiness; and 4) share the Company’s vision with employees. 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.

SGW SUMINOE GROUP WAY 2022~2024~2027



Major Numerical Targets and Results by Business Segment (Million yen)

Business Segment	Actual results FY ended May 2021	Three-year Consolidated Income and Expenditure Plan (Fiscal years ending May 2022 to 2024)						
		FY ended May 2022		FY ended May 2023		FY ended May 2024		
		Plan at the time of SGW formulation	Actual results	Plan at the time of SGW formulation	Actual results	Plan at the time of SGW formulation	Plan at the beginning of the FY*	
Interior Fittings	Net sales	31,024	33,750	32,811	34,430	36,598	35,120	36,640
	Segment income	579	400	911	450	977	520	1,070
Automotive Textiles and Traffic Facilities	Net sales	45,102	48,980	45,005	51,910	54,314	54,170	58,800
	Segment income	2,102	2,800	1,127	3,590	2,230	4,170	3,630
Functional Materials	Net sales	3,130	3,410	3,548	3,680	3,550	3,840	3,200
	Segment income	-87	-140	-192	150	90	190	-30

* As of July 14, 2023

Initiatives to address challenges and results: Improve corporate brand value

The Group has strengthened its initiative to “improve corporate brand” as one of the SGW challenges.

Formulation of the Group Philosophy

The SUMINOE GROUP has selected corporate branding as a priority challenge to focus on during the SGW target period. In undertaking initiatives to improve corporate brand value, we recognized anew the necessity for considering this challenge from a long-term perspective, including the period after the target period. To begin with, we revisited the reason for the existence of the Group and the value that it offers to stakeholders.

We then launched the “Shin Mirai (lit. new future) Project” (see p. 49) in July 2022 and identified the strengths of the Group and the value it provides. At the same time, we established a new Group Philosophy: VISION (the future we aim for), MISSION (our mission to fulfill), and VALUE (basic guidelines for business activities) (see p. 3).

Objective of SUMINOE GROUP branding—for long-term corporate value improvement—

We aim to improve the corporate value of the entire Group on a long-term basis, thereby ensuring that the Group is chosen by stakeholders who feel empathy with us. To this end, we are aware that we must enhance our brand power by strongly disseminating the meaning of the Company’s existence.

The Group Philosophy mentioned above was stipulated based on the concept that it is necessary not only for the SGW initiatives but also for long-term improvement of corporate value.

We believe that if we can achieve the ideal corporate image for the SUMINOE GROUP in 2027, then we will be able to “create delightful lifestyles of the future” as an enterprise that “brings people- and society-friendly spaces to the world through technology and ideas that closely support people’s lives,” as stated in the Group Philosophy.

To realize the Group Philosophy, we will continue Group-wide efforts to accomplish the SGW and conduct business activities toward achieving sustainable corporate growth and employee happiness.

IR and PR activities

We are enhancing IR and PR activities for stakeholders to develop their deeper understanding of, and empathy with, our philosophy and businesses.

IR and PR activities in FY ended May 2023

Publishing sponsored reports to provide information on a neutral ground	Since the fiscal year ended May 2022, we have continuously published analyst reports, using the service of Shared Research Inc.
For institutional investors: Holding financial results briefings and increasing one-on-one meetings	The Group has conventionally held financial results briefings for analysts and institutional investors twice a year at the interim and the end of the year. We are also willing to meet their requests for one-on-one meetings with them.
For individual investors: Holding online IR briefings	To raise the level of name recognition and public understanding of the Group, we held online briefings for individual investors. We will continue to periodically organize such briefings while considering various methods to help them better recognize and then understand the Group, which will eventually lead to gaining their empathy with us.
Media advertisement	We placed an advertisement in the nationwide morning edition of the Nikkei newspaper on Thursday, February 16, 2023, to publicize the SUMINOE GROUP’s environmental awareness. The Group implements advertising activities not only through newspapers but also other media that are suitable for the target audience.
Response to media coverage	The Group willingly responds to coverage by newspapers, magazines, web media, etc.