

Aiming at an optimal capital structure to lead to new growth

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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 by the external environment, failing to achieve the targets in FY2023

In the fiscal year ended May 2023, the second year of the Medium- to Long-term Management Targets "SUMINOE GROUP WAY 2022-2024-2027" (hereinafter SGW), although net sales exceeded the target figures in the plan, we failed to achieve the targets for operating income, ordinary income, profit attributable to owners of parent, ROE and D/E ratio. In the fiscal year ending May 2024, we will accelerate efforts to "expand sales and build a foundation for growth," which is one of the SGW targets, and aim to achieve the plan.

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

	2022		2023		2024
	Plan*	Results	Plan*	Results	Plan*
Net sales (million yen)	86,480	81,713	90,360	94,828	93,490
Operating income (million yen)	1,160	110	2,520	1,294	3,300
Operating margin (%)	1.3	0.1	2.8	1.4	3.5
Ordinary income (million yen)	1,350	950	2,730	1,575	3,530
Profit attributable to owners of parent (million yen)	620	281	1,280	320	1,960
ROE (%)	2.2	1.0	4.5	1.1	6.6
D/E ratio (times)	0.58	0.67	0.64	0.73	0.56

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

Efforts to Meet the Criteria for Remaining Listed

Continuously working to improve corporate value to meet the remaining criterion

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 "an average daily trading value of at least 20 million yen" and "a market capitalization of tradable shares of at least 10 billion yen" had not been achieved. However, as a result of the enhanced IR activities and shareholder returns, the average daily trading value as of December 31, 2022,

the calculation reference date, reached 47 million yen, satisfying the criterion. Meanwhile, however, the market capitalization of tradable shares was 8.07 billion yen as of May 31, 2023, falling short of the target. Going forward, in order to satisfy the criteria for remaining listed by May 31, 2024, we will continue various efforts to improve corporate value through reinforcement of existing businesses, capital investment and M&A, to promote proactive IR activities, and to enhance corporate governance.

Progress in the Company's Status of Compliance with the Continued Listing Criteria and the Period of the Plan

	No. of tradable shares	Market capitalization of tradable shares	Tradable share ratio	Average daily trading value	
Listing maintenance criteria for the Prime Market	20,000 units	10 billion yen	35%	20 million yen	
The Company's compliance status and progress	Transition reference date	27,068 units	5.44 billion yen	35.2%	7 million yen
	Calculation reference date	37,631 units	8.07 billion yen	48.9%	47 million yen*
Status of compliance and the period of the plan described in the initial plan	Confirmed	Conformed May 31, 2024	Confirmed	Confirmed	

* This description is based on the notification from the Tokyo Stock Exchange concerning the state of compliance with the listing maintenance criteria (trading volume standard) for the period January to December 2022.

Cash Flow Management and Investment Strategies

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

To proactively make investment to reinforce existing businesses and expand the business fields, we have established a target of securing free cash flows of 3 billion yen or more each year. With particular focus on increasing cash from operating activities, we have 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 trade receivables and inventory, at an appropriate level and liquidate fixed assets by selling securities and land, etc.

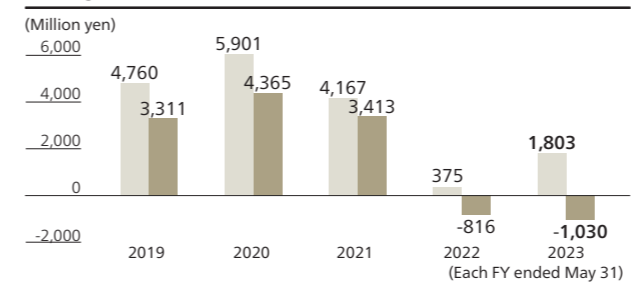
In fiscal year ended May 2023, cash flows increased due to increased income in the Automotive Textiles and Traffic Facilities segment. In fiscal year ending May 2024, business performance has been on a recovery trend, whereas inventory has still remained at a high level. However, we will secure cash flow from operating activities by returning inventory to a more appropriate level, such as that before the COVID-19 pandemic.

We also significantly reduced the ratio of dollar denominated debt in response to the increase in U.S. interest rates. The lower payment of interest is expected to create cash from operating activities in fiscal year ending May 2024 and onward. In the future, we will continue to work on cash flow

management on a global scale, taking into account the interest rates and the currency selection, so as to promote an optimal finance policy.

In fiscal year ending May 2024, we plan to reorganize the logistics bases in East Japan. By further improving the efficiency of logistics networks and selling land of a logistics site after its relocation, we aim to create cash flows.

Changes in Cash Flows

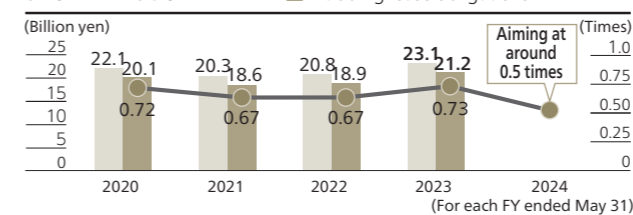


Improving the financial structure by reducing interest-bearing debt to achieve an optimal capital structure

In improving the financial structure, we attach importance to the D/E ratio. We have incorporated the improvement plan in the SGW, aiming at about 0.5 times. The D/E ratio for fiscal year ended May 2023 was 0.73 times due to a reduction in cash flows from operating activities and an increase in interest-bearing debt resulting from M&A and large investment undertaken since the previous fiscal year. In conjunction with various measures to create cash flows, we will make efforts to reduce interest-bearing debt, aiming for achieving an optimal capital structure.

As an indicator to measure the profitability of capital, we focus on ROE. In fiscal year ended May 2023, ROE was 1.1% since profit recovery was on the way. However, for fiscal year ending May 2024, we aim at ROE of 6.6%, as targeted in the SGW. In fiscal year ending May 2024, we will accurately grasp the capital costs and carry out analysis and evaluation regarding the profitability indicators and market assessment. We will then establish policies and targets toward improving diversification of elements of corporate value in the SGW 2027, and we will implement specific initiatives.

Interest-bearing Debt and D/E Ratio



M&A and investment for the next generation

With regard to M&A, Seki Textile Co., Ltd. joined the Group as a subsidiary in the Traffic Facilities business (p. 30). With this acquisition, we will promote BCP of the Traffic Facilities business, which holds the top market share, aiming to further increase incoming orders and expand the business amid recovering demand.

As for capital investment, we launched the construction of a new synthetic leather production factory at a subsidiary in Mexico to cope with the expansion of the synthetic leather markets in North and Central America. A total of approximately 3 billion yen will be invested to establish the new factory, which is slated for completion

in December 2023. Regarding investment in restructuring of core systems, Suminoe Textile Co., Ltd. introduced a receivables/payables management system, an accounting system, and a production management system. With these systems, we aim to reduce maintenance costs, promote rapid decision-making, improve inventory management accuracy through unified management, and enhance work efficiency. In the fiscal year ending May 2024, these systems will be deployed to subsidiaries.

We manage the above-mentioned investment by giving discretion to each Business Headquarters to facilitate speedy decision-making while using the payback period method and setting the hurdle rate for each business at the Board of Directors' meetings. Basically, internal reserves and cash from operating activities are used as a source of funds for investment, and if necessary, funds are raised and allocated to investment projects.

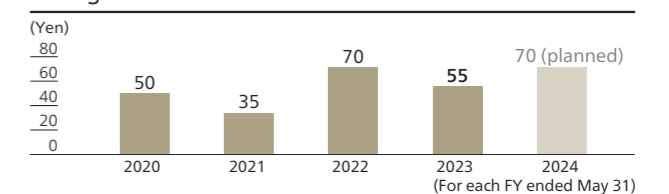
Shareholder Returns

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.

For fiscal year ended May 2023, the Company revised the year-end dividend from 35 yen to 20 yen per share, to total a full-year dividend of 55 yen, in light of the revisions to the business performance forecast. We plan to pay a full-year dividend of 70 yen for fiscal year ending May 2024.

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 improving the contents of the integrated report and various other information disclosure materials and translation to English thereof, continuous publication of sponsored reports, and posting the proceedings of financial results briefings on our corporate website to enhance information provision for individual investors. In addition, recently we have held an increasing number of individual meetings with institutional investors in every quarter. In this manner, we remain proactive in promoting constructive dialogue with shareholders and investors.

Going forward, we will continue to implement IR activities aimed at an optimal capital structure, which will lead to new growth and improved corporate value of our Group.