



Yutaka Nagaoka

Nikke Group Representative Director
The Japan Wool Textile Co., Ltd.
President and Chief Executive Officer

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Our corporate philosophy—to be a corporate group that is gentle and warm toward people and the planet—is our guiding principle for the sustainable business management that will lead to greater corporate value.

My name is Yutaka Nagaoka. It was my honor to be appointed President and Chief Executive Officer in February 2022. I would like to take this opportunity to write a few words to our shareholders, investors, and other stakeholders.

“Nikke Group will meet every challenge with passion and pride as a corporate group that is gentle and warm toward people and the planet.” This is the corporate philosophy to which we aspire. It is the Group’s spiritual foundation: a concept born of our origins as a textiles business and reaffirmed through the identification of all businesses as our core business. Recent years have brought an increased focus on initiatives for ESG and the SDGs, and we believe that this philosophy perfectly applies to sustainable business management.






Assessment and analysis of results for the fiscal year ended November 2021

The highlight of the fiscal year ended November 2021 was the achievement of our highest-ever net profit and ROE exceeding 8%. Despite headwinds due to the COVID-19 pandemic, we believe we are making good progress in building a resilient corporate group through a continuing review of our business portfolio and creative innovation in each business. We have had to exit, shrink, or let go of some businesses for which we cannot see a future, while aggressively engaging in capital investment in other businesses. We also decided to rebuild the Tokyo office building as part of our efforts to redevelop the facilities we hold.

The issue, however, is those businesses in which profitability has slumped due to the COVID-19 pandemic. We cannot expect lifestyles to revert to how they were before COVID-19, even in the future. The key to success will be how we can recover and grow through and after

Highlights of the Fiscal Year Ended November 2021

Year-on-year increases in revenue and operating income, a record-high net income attributable to owners of parent, and ROE exceeding 8%

		Year-on-year
Sales	106.6 billion yen	1.6% 
Operating income	9.90 billion yen	9.4% 
Ordinary income	9.78 billion yen	▲22.7% 
Net income attributable to owners of parent	8.30 billion yen	16.7% 
ROE	8.4%	+0.7% 

the pandemic. Responding to Japan's shrinking and aging population with fewer children is another challenge that we must face. Not even 10% of our sales come from overseas. The Group has a robust domestic revenue base in its Textile & Clothing Materials business and Human & Future Development business, but capturing future trends to expand our overseas business will be a challenge for us. We plan to focus on recruiting and developing human resources to respond to this challenge.

We have been asked whether the Group is valued at a conglomerate discount, but I think that our results for the fiscal year ended November 2021 aptly answer this question. Sustainable business management has become a hot topic in recent times. Companies aiming for perpetuity must change to adapt to changes in the environment. Nikkei Group has flexibly transformed itself to suit its changing environment. We aim to achieve resource synergies (sales, production, investment, and management synergies) across businesses that appear at first sight to have little in common.

How is the 2nd Medium-term Management Plan progressing in its second year?

We have established four key strategies under the 2nd Medium-term Management Plan: (i) prioritize allocation of resources to growth businesses, new businesses, and streamlining, (ii) expand overseas business, (iii) improve capital efficiency, and (iv) create synergy through reorganization within business divisions.

1 Prioritize allocation of resources to growth businesses, new businesses, and streamlining

First, in the Textile & Clothing Materials business, we aim to maximize domestic profits and maximize overseas growth. Japan's current trend towards declining and aging population with a lower birthrate is expected to persist, while overseas apparel markets continue to grow. We are working to strengthen our revenue base in Japan, and use this as a foundation to grow our overseas businesses. Recently, however, the progress of overseas businesses has been delayed by restrictions on movement due to

Four key strategies under the 2nd Medium-term Management Plan

1 Prioritize allocation of resources to growth businesses, new businesses, and streamlining

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|  Textile & Clothing Materials: | <ul style="list-style-type: none"> • Foster growth drivers (functional materials, uniforms for the Chinese market, textile sales to overseas markets) • Invest in manpower saving and streamlining of manufacturing |
|  Industrial Machinery & Materials: | <ul style="list-style-type: none"> • Further expansion of automotive and environment-related business (especially strengthen business overseas) • Strengthen alliance with Fuji Corporation |
|  Human & Future Development: | <ul style="list-style-type: none"> • Further expansion of the lifestyle support field (nursing care, childcare, sports schools, and child-related businesses) • Generate revenue without relying on the utilization of unused land in the development and real estate businesses |
|  Consumer Goods & Services: | <ul style="list-style-type: none"> • Expansion of e-commerce business |
|  Medical-related: | <ul style="list-style-type: none"> • Make developed products profitable |

2 Expand overseas business

- Develop the Chinese market for the school uniform business
- For the Industrial Machinery & Materials business, expand overseas business and collaborate with Fuji Corporation

3 Improve capital efficiency

- Redevelopment, re-redevelopment, and divestment of from low-profit real estate
- Thoroughly prioritize businesses and promote withdrawal from or reorganization of unprofitable businesses

4 Create synergy through reorganization within business divisions



the COVID-19 pandemic. We aim to engage in the school uniform business in China from a long-term perspective, while monitoring market movements. The market is growing for textile sales to Europe and elsewhere, but we have been unable to begin sales promotions due to factors such as travel restrictions. On the other hand, we are making progress on our initiatives for functional materials, which we have identified as a growth driver. In terms of flame-proof materials, sales of flame-proof clothing using PBI materials* have been robust, and we are proceeding with a broad range of projects for edge-proof materials, including for industrial applications. We also have a number of highly-anticipated materials and products in the pipeline to suit the trend of the times, such as the development of the energy-saving Breeza® thread as an environmentally-friendly material, and the reassessment of wool as a natural material in the context of our orientation towards sustainability. The future of the school uniform business in Japan is not assured, given the continuing aging population with a declining birthrate. We must engage in these growth businesses and new businesses with an awareness of timing.

* PBI materials: Fabrics with outstanding flame resistance, durability, and comfort, used in a range of protective clothing such as fire-fighters' suits.

In the Industrial Machinery & Materials business, we are engaged in expanding our efforts in automotive- and

environment-related fields. In environment-related fields, we are expanding and enhancing our manufacturing base for the ADMIREX® high-performance bag filter in China, with production beginning in 2022. We made this capital investment in China specifically because it is a promising market for expanding sales of the Group's high-performance bag filter in the context of tightening environmental regulations. Production has begun smoothly, but our sales promotion activities are not progressing because of movement restrictions due to COVID-19. When the situation settles down, we intend to engage in aggressive sales promotions demonstrating the superiority of the Group's products, and we look forward to the future of this endeavor. In the automotive-related field, materials sales are strong at present, despite the impact of semiconductor shortages on the number of automobiles produced. We do have some concerns, however, about the manufacture of factory automation equipment (FA equipment). This is mainly affected by capital investment in automotive-related industries, demand for which is yet to see a recovery. We are currently awaiting a revival in capital investment associated with enhancing production equipment to meet the recovery in the number of automobiles produced, as well as the rise of new technologies such as those associated with electric vehicles (EVs). This is where we need to be patient. The Group's FA business has gained the trust of customers by working with them through all stages, from design to production, and I think that we can demonstrate this strength, especially in the context of capital investment related to new technologies.

In September 2021, we made Fuji Corporation ("Fuji Corp.") a wholly-owned subsidiary of the Company, and we aim to strengthen our non-woven fabrics business through an even stronger alliance with Ambic Co., Ltd. ("Ambic"). Through these measures, we have already achieved synergies such as improved mill operating rates due to the consolidation of production. After recording net losses for each of the previous three fiscal years, the Fuji Group has recently returned to profit, and I look forward to its future growth. Fuji Corp. has several overseas bases, and I expect it to play an important role in our planned expansion of overseas businesses in the Industrial Machinery & Materials business.

In the Human & Future Development business, we target further expansion in the lifestyle support field and are progressively expanding the scope of the business. In spring 2021, we opened three new nursing care facilities (including two specially designated facilities and one group home) and one licensed nursery school. Profitability is still low, however, due to the burden of up-front investment needed to open these new facilities. We will endeavor to improve profitability while expanding our

bases, working towards stable operations and efficiency improvements at existing facilities, and reviewing the operation of unprofitable facilities. In the SC business, both Nikke Parktown (Kakogawa City) and Nikke Colton Plaza (Ichikawa City) have performed strongly as community-based shopping centers, even in the midst of the COVID-19 pandemic. We undertook a large-scale renovation of Nikke Parktown in 2016, and the benefits of this renovation persist even today, thanks to the support of the local community. I feel that we must continue to enhance the attractiveness of these facilities through continuing renovation.

In the Consumer Goods & Services business, we have been able to expand profits by capturing the expansion of the e-commerce market due to factors such as stay-at-home demand during the COVID-19 pandemic. We expect the e-commerce market to continue to grow, but the barriers to entry are low and we are concerned about increasingly intense competition, in addition to factors such as soaring advertising fees. We aim for further expansion using our unique strengths, including the variety of our product lineup, by implementing measures such as M&A, as well as expanded product offerings and shared sales routes within the Group.

In the medical-related field, a new business field for us, we have engaged in product development utilizing Nikke Group's technologies. Our technologies, such as threads, strings, and non-woven fabrics, can be used in the medical field as well. More than three years have passed since we established a new company and launched full-scale operations in this business, and at last, we have achieved a profit. We have high hopes for this field, including the progress of product development and affinity with the Company's businesses, and we look forward to it becoming our fifth pillar of growth.

2 Expand overseas business

We aim to expand our overseas business as a key strategy in the Textile & Clothing Materials and Industrial Machinery & Materials businesses. We regard the Chinese school uniform business and measures such as the promotion of overseas sales of textiles, ADMIREX® high-performance bag filters and Himelon® non-woven fabric as growth drivers in each business.

3 Improve capital efficiency

At Nikke Group, we have actively implemented capital investment aimed at reducing inventories and simplifying production processes in the manufacturing field. Item shortages are not acceptable in the uniform business, where complete sets of clothing must be worn by all. Moreover, the business has an extensive value chain, stretching from



raw materials to the finished product. It is therefore vital to maintain a certain level of inventory. The key going forward will be how we can reduce inventory levels through better demand forecasts, more efficient ordering, and simpler production processes. We are also aware of the importance of raising consciousness of the need to circulate cash more swiftly through the cycle from raw materials purchasing to payment collection. In the real estate development business, we are progressively implementing and further considering the redevelopment of existing facilities and idle facilities. We have already decided to rebuild the building owned by the Company in Yaesu, Tokyo, aiming to raise its asset value as an environmentally-friendly building. We also have idle facilities for which the development plan is yet to be confirmed. We intend to consider developments that will be attractive from a long-term perspective.

At the same time, we have pursued the thorough prioritization of businesses, exiting or letting go of inefficient businesses to improve capital efficiency. We have suspended operations in the capsule hotel business, as we see no sign of a recovery during the COVID-19 pandemic. We are also closing and replacing unprofitable stores in the franchise business, as appropriate, and holding back on new investment in depressed businesses while we monitor demand trends.

At Nikke Group, we use ROIC (return on invested capital) as one criterion for investment, with a minimum hurdle rate of 5%, and a target of 8% or higher. I feel that this has allowed the concept of investment efficiency to filter down to the level of employees responsible for business development and day-to-day duties. We will continue to engage in improving capital efficiency as a company-wide effort, including the reduction of cross-shareholdings and the acquisition of treasury shares. In the last fiscal year, we recorded an ROE of 8.4%, achieving our target of 7% or higher. However, this came as the result of posting extraordinary income comprising gains on negative goodwill, leading to our highest ever net profit. I hope to establish a profit structure that will enable us to make this more than just a one-off result, and continually achieve an ROE of 8% or more.

4 Create synergy through reorganization within business divisions

We have engaged in creating synergies, by integrating sports-related companies in the Human & Future Development business, cooperating in non-woven fabric business between Ambic and Fuji Corp. in the Industrial Machinery & Materials business, and establishing e-commerce corporate alliances in the Consumer Goods & Services business, among other measures. Cost reduction effects from reorganization are one part of this, but our main goals are the creation of business synergies, sales growth, and higher customer satisfaction.

Overall, the COVID-19 pandemic has impacted overseas businesses and other businesses that have suffered from the restrictions on movement. We are recording strong results at present, thanks to the diversification of business across the entire Nikke Group, our continuing portfolio review, and creative innovations in each business. At the same time, we cannot expect further growth in the future unless we engage in initiatives to develop growth businesses and new businesses. Given that the present environment is here to stay, the key to success will be how we cultivate the buds of new growth through and after the pandemic.

Business portfolio evaluation and M&A strategy

Our focus in the evaluation of business portfolio strategy is, first and foremost, generating reliable profits. To contribute to society and generate sound profits is the first proposition for Nikke Group as a member of society. Capital efficiency is also a key focus for evaluation. When all is said and done, business funds are supplied from the funds of investors and creditors, and it is therefore vital that we

continue to generate profits that meet their expectations. We consider qualitative as well as quantitative aspects in our evaluation. In this context, we focus on points such as whether the business can provide social value in the future, even if it is not currently generating profits, and whether the person responsible for the business is passionate about presenting the business narrative. That being said, we cannot allow ourselves to be carried away by subjective factors. It is crucial that the person in charge of the business can support their narrative with numbers. We are currently incubating several potential business ideas in each business segment, to produce the second and third new businesses that will carry on from our successes in the medical-related field. We have identified M&A as a pillar of our growth strategy, and select potential targets from perspectives such as their affinity with Nikke Group, whether they correspond to our vision, whether they can be expected to generate synergies, and whether they have new customers. We are considering six or seven potential targets at any one time, focusing on downstream integration in the Textile & Clothing Materials business, automotive-related and environmental materials-related targets in the Industrial Machinery & Materials business, life value services-related targets in the Human & Future Development business, and e-commerce product-related targets in the Consumer Goods & Services business. We are considering an increasing number of potential M&As in the Consumer Goods & Services and Industrial Machinery & Materials businesses, in particular.

What kind of sustainable business management does Nikke Group aspire to?

Thorough compliance is vital for the perpetual growth of a company, but so are sustainability initiatives. Companies are also members of society. If society does not grow sustainably, then neither can companies. I believe that contributing to the resolution of social issues will bring recognition from stakeholders and lead to the enhancement of corporate value.

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What are our focus and our vision?

Nikke Group's ideal, as presented in the Group Vision, is to "be a company creating future lifestyles." What, then, is meant by a company creating future lifestyles? I have described this as each business and person in Nikke Group aiming for and achieving highly functional products and the best services for communities. I consider it my own responsibility to create environments where each business can forge ahead to be a company creating future lifestyles. I think that the first step must be to establish a section to investigate what needs to be done from now on to develop new businesses for the future. My hope is that we can use tie-ups with universities and venture companies to bring about the establishment of new businesses that will carry on from our efforts in the medical-related field, and aim to be a company that inspires our shareholders, investors, employees, local communities, and other stakeholders with the expectation of growth.

I think that three kinds of investment are necessary for the growth of such a company: Investment in production equipment and infrastructure, investment to expand the customer base, and investment to develop human resources. Of these, I consider human resources especially important. In order to implement these investments, it is first necessary to have the necessary human resources. Our first priority should be to foster the human resources to practice Nikke Group corporate philosophy and sustainable business management.

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Focus on corporate governance

An appropriate governance system to implement the PDCA cycle is vital for the promotion of sustainable business management. Since 2009, three of the Company's eight directors are independent external directors. We ensure that one-third or more of the members of the Board of Directors are external directors so that we can expect advice on management from various perspectives and strengthen the Board's supervisory function.

We have also established, in 2004, the Advisory Board which functions as an appointment and remuneration committee, from the perspective of strengthening the systems for monitoring management and selecting the most suitable managers. At least half of the members of the Advisory Board are independent external directors, ensuring its independence. A superior standard of governance is required of companies listed on the Prime Market, and Nikke Group has been an early mover in strengthening its governance system.

Shareholder returns

Regarding shareholder return, we are aiming to maintain stable dividends, a payout ratio of 30%, and a DOE (dividend on equity ratio) of 2%, and continue to increase dividends in line with our profits. We have not reduced dividends since 1975, when we reduced them due to a decline in our earnings after the oil shocks. We will also enhance total shareholder returns, including through the acquisition of treasury shares. As already announced, we plan to repurchase up to three million shares this fiscal year.

Investment in growth is also crucial for sustainable business management. I think it is important to aim for a balance between growth investment and shareholder returns, meeting the expectations of present and future shareholders by sowing the seeds for future growth while also returning profits to shareholders, to gain long-term shareholder support.

Understanding of the corporate philosophy and declaration of resolve

I have heard that the nuance of the Japanese term "yasashiku, *attakai*," meaning "gentle and warm," is difficult to translate. I think this shows just how much the term expresses Japanese culture and sensibility. This sensibility may prove to be an asset in our business expansion overseas. This is an interpretation that has remained unchanged throughout the New Nikke 120 Vision (NN 120 Vision) and the Renewal Nikke 130 Vision (RN 130 Vision) which clearly articulate this philosophy. I believe that this philosophy perfectly applies to sustainable business management.

This year marks the 126th anniversary of the founding of Nikke Group. I am sometimes asked how technologies and know-how have been passed down through this long history. For this, I think we have to thank the many helpful and conscientious engineers in the Group's manufacturing divisions over the generations, who have had the will to create outstanding products, and to pass on technologies to their juniors. We stand on their shoulders.

Simply passing down manufacturing methods and know-how, however, will not make us competitive. In addition to adopting new technologies and equipment, I think it is important that those engaged in production also have a marketing perspective.

Even a product integrating the most refined technologies is meaningless unless its superiority is genuinely demanded by customers and society. We must not simply pursue technologies but approach manufacturing with a marketing mind: how can we use these technologies? Otherwise,

our Group companies engaged in manufacturing will not survive.

In closing

In 2002, I was dispatched to a yarn spinning subsidiary in China, where I engaged in expanding and improving the mill equipment. Just as we were increasing production after the completion of these works, SARS struck. For a while, I was worried about how things would progress, but by the time I returned to Japan in 2005, I had been able to expand the mill's scale and significantly increase production volumes. Then in 2015, after I was appointed President of Nikke Machine Manufacturing Corp., I focused on growing the FA business, achieving the highest net sales since the company's establishment in 1978. Looking back, it seems that results improved at every new appointment I took, and I cannot help but be thankful for my luck and the fact that I have been surrounded by such outstanding human resources. At all times, I have kept in mind the "*sampo yoshi*" spirit: good for the seller, good for the buyer, and good for society. This has been my motto as I engage in my work. I think that it is the foundation of business, and no business will last long without it. Going forward, I hope to spread "*sampo yoshi*" businesses that will contribute to achieving the SDGs and enhance the corporate value of the entire Nikke Group, so that our stakeholders can perceive in us an attractive future. I look forward to your unchanging support.

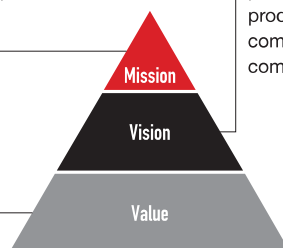


Corporate Philosophy

Nikke Group will meet every challenge with passion and pride as a corporate group that is gentle and warm toward people and the planet.

Group Vision

Turning an eye toward undeveloped fields, Nikke Group will make bold efforts for the development and provision of highly functional products and the best services for communities, aiming to be a company creating future lifestyles.







Corporate Principles

- Aspire to be a vigorous corporate group in which all employees of the Group have a "can-do" attitude and can grow.
- Create new markets with unique products and services derived from the voice of the customer, and research and development.
- Always look to the future and maintain a global point of view, and contribute to the development of our customers around the world as well as society.
- In order to continue winning in many markets, reform and/or develop our business by widely seeking human resources and integrating various kinds of knowledge.
- Aim to achieve sustainable growth and improve our corporate value in the mid to long term, by building durable relationships of trust with a broad range of stakeholders, including our customers, shareholders, employees, business partners, and local communities.

Completed First Year of RN130 Vision Second Medium-term Management Plan Results and Evaluation

In the first year of the RN130 Vision second medium-term management plan (fiscal 2021 to 2023), net profit reached an all-time high and ROE was over 8%. The four drivers of growth also performed well.

Progress in Growth Drivers

		Goal	Status of initiatives
Overseas business expansion		Because markets for textiles and industrial materials in Japan are saturating or shrinking, we aim to expand overseas business riding favorable trends in the business environment (spread of electric vehicles, stricter environmental regulations in China, etc.)	<ul style="list-style-type: none"> Overall progress in overseas business has been slowed due to the pandemic. We are cultivating the China school uniform business with a long-term perspective while closely watching the market. Construction was completed in December 2021 on the new factory in China for environmental filters.
Community alignment, redevelopment		We aim for community-aligned, multifaceted business expansion, mainly in the lifestyle support field; and for the realization of a sustainable society and stable growth through the redevelopment of our assets.	<ul style="list-style-type: none"> In 2021, operation started at three large nursing care facilities and one licensed nursery school. We began redevelopment of the Nikke Tokyo Building, where completion is scheduled for autumn 2024. We also continue to study concrete plans for proposals in prospective areas of redevelopment.
E-commerce sales		E-commerce sales have increased in recent years with the addition to Nikke Group of Niceday Inc., Miyako Corporation and AQUA Co., Inc. We aim for further growth by more strongly aligning these within the Group.	<ul style="list-style-type: none"> Fiscal 2021 sales of these three companies, whose main business is EC sales, were 9.2 billion yen, up 12% from the previous year. We are further aligning these within the Group with the aim of increasing the EC sales ratio in Nikke Group.
Synergy with Fuji Corporation		We aim to consolidate production in the nonwoven fabric business and streamline management of Fuji Corp. with the goal of expanding profits. (Fuji Corp. became a wholly owned subsidiary in September 2021.)	<ul style="list-style-type: none"> Due to production transfer of Fuji Corp.'s Tatebayashi Plant (production integration), the utilization rate of the plant of Ambic Co., Ltd. increased.





Nikke Group Results

(Unit: Million yen)	Fiscal year ended November 2021 (1st year)		Fiscal year ending November 2022 (2nd year)		Fiscal year ending November 2023 (final year)	
	Medium-term plan	Results	Medium-term plan	Forecast*	Medium-term plan	Forecast*
Sales	107,000	106,619	114,000	115,000	127,000	127,000
Operating income	8,600	9,900	9,500	10,200	11,500	11,500
Operating margin	8.0%	9.3%	8.3%	8.9%	9.1%	9.1%
Ordinary income	8,200	9,784	9,700	10,500	11,700	11,700
Net income attributable to owners of parent	4,000	8,308	6,500	7,000	7,800	7,800
ROE	—	8.4%	—	8.0% or more	7.0% or more	8.0% or more

- All items except sales achieved the target levels of the medium-term management plan.
- Net income attributable to owners of parent was an all-time high, partly as a result of posting the gain from negative goodwill arising from making Fuji Corp. a wholly owned subsidiary.

*Announced in January 2022

Results by Segment

	(Unit: Million yen)	Fiscal year ended November 2021 (1st year)		Fiscal year ending November 2022 (2nd year)		Fiscal year ending November 2023 (final year)
		Medium-term plan	Results	Medium-term plan	Forecast*	Medium-term plan
 Textile & Clothing Materials	Sales	32,000	29,872	34,500	32,400	36,700
	Operating income	2,700	2,749	3,200	3,200	3,650
	Operating margin	8.4%	9.2%	9.3%	9.9%	10.0%
 Industrial Machinery & Materials	Sales	22,000	20,390	24,000	28,000	27,200
	Operating income	1,200	1,235	1,550	1,800	2,150
	Operating margin	5.5%	6.1%	6.5%	6.4%	7.9%
 Human & Future Development	Sales	33,000	34,059	34,000	33,400	37,400
	Operating income	5,700	6,115	6,000	6,000	6,650
	Operating margin	17.3%	18.0%	17.7%	18.0%	17.8%
 Consumer Goods & Services	Sales	17,000	18,685	17,500	18,000	20,700
	Operating income	1,100	1,410	1,250	1,300	1,550
	Operating margin	6.5%	7.6%	7.2%	7.2%	7.5%
Others, adjustments	Sales	3,000	3,612	4,000	3,200	5,000
	Operating income	(2,100)	(1,610)	(2,500)	(2,100)	(2,500)
Total	Sales	107,000	106,619	114,000	115,000	127,000
	Operating income	8,600	9,900	9,500	10,200	11,500
	Operating margin	8.0%	9.3%	8.3%	8.9%	9.1%

- All segments achieved the operating income targeted in the medium-term management plan.

*Announced in January 2022