

Message from the CSO

We aim to achieve further growth across the entire Group, placing the highest priority on expanding our business domains through aggressive M&As and capital investment in growth businesses.

Director and Managing Executive Officer
Chief Strategy Officer

Takehiro Okamoto



Roles of the Corporate Strategy Center

Centralizing information in the Corporate Strategy Center to make decisions quickly and accurately

The Corporate Strategy Center oversees the Business Research & Planning Department, Finance & Accounting Department, Human Resource Department, General and Legal Affairs & Public Relations Department, Digital Promotion Department (responsible for DX [digital transformation]), and the Business Development Department (responsible for M&As, others). Its operations include strategic planning and implementation of short- and medium-term management plans for the entire Group, finance, accounting, taxation, recruiting, personnel, labor, DE&I, general affairs, legal, public relations, IR, DX, planning and promotion of M&As, and business development.

Until about 15 years ago, two departments played central roles, that is, one handling finance and the other handling human resources and general affairs as the central function of the Headquarters. With the establishment of the Corporate Strategy Center, information has been centralized, enabling faster and more balanced decision-making.

The challenge lies in the fact that the chief strategy officer must fulfill opposing roles—promoting planning initiatives and applying necessary restraints. For example, the chief strategy officer also serves as CFO. While responsible for planning and

promoting M&As, he/she concurrently evaluates financing and other considerations from a financial perspective in his/her role as CFO. At present, this challenge is mitigated through repeated information sharing and discussions between the director of the Corporate Strategy Center, the president, and division chief operating officers.

Having both the corporate function and the administrative center function, while implementing efficient strategies in cooperation with business departments

The duties of the Corporate Strategy Center's functions are as described above, with its functions divided into corporate function and administrative center function. The corporate function includes formulating business strategies for the entire Group, developing strategic measures, and assisting business departments in strategy implementation. Meanwhile, the administrative center function includes performing tasks that benefit from consolidation, supporting back-office operations, and providing specialized services, all aimed at centralization, cost reduction, and quality improvement. In-house lawyers and specialists in M&As, public relations, and IR are positioned at the Nikke Headquarters, where they work to promote group-wide policies and address issues. At present, DX and IT staff are assigned to approximately half of our Group subsidiaries.

However, we plan to consolidate these roles within the Digital Promotion Department of the Corporate Strategy Center as this approach will improve efficiency and raise operational standards.

Business strategy

Aiming to optimize our business portfolio by expanding growth businesses into a stable earnings base

Our current business portfolio includes four core businesses, along with a medical business that utilizes our textile technology. The real estate business of the Human & Future Development business and the uniform business of the Textile & Clothing Materials business provide stable earnings bases. We aim to achieve steady, group-wide growth by positioning the nonwoven fabric business in the Industrial Machinery & Materials business, the e-commerce business in the Consumer Goods & Services business, and the medical business as growth businesses.

Our strength in the real estate business lies not only in developing and leasing our owned real estate, but also in operating our own tenants, such as shopping centers, golf driving ranges, indoor tennis facilities, and nursing care and childcare services, which allows us to generate high profitability. However, as continual replacement with more competitive businesses is essential, we scaled back our mobile phone sales and franchise operations in fiscal 2023.

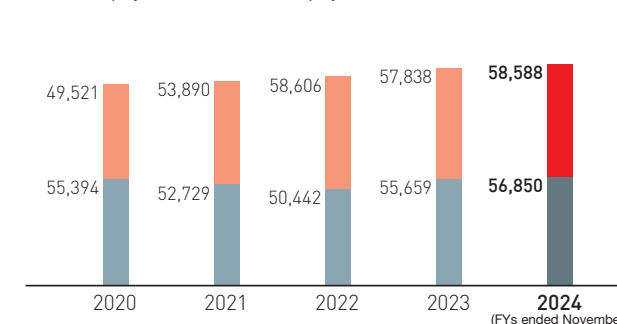
The uniform business, another stable earnings base, faces a shrinking market. While other industry players are considering withdrawing from the business due to the population decline and a declining birthrate, we are working to expand our market share, as well as improve profitability by streamlining operations and implementing labor-saving measures at production plants.

We also aim to expand the nonwoven fabric business of the Industrial Machinery & Materials business, which is a growth business, as the third stable earnings base. The Nikke Group does not target general-purpose sanitary materials (face masks, diapers, others), where price competition is intense. Instead, we target industrial material fields, including those used in automobiles and environment-related materials, where market growth is expected. As a result of the M&As of three companies (Fuji Corporation, Kankyo Techno, and Kureha), we have expanded our manufacturing and sales hubs across China, ASEAN, and North America. Consequently, our sales volume rose to approximately 25 billion yen, ranking us second in domestic market share. Going forward, we will aim to generate synergies as soon as possible to improve profitability.

In the medical business, current sales stand at just around 4 billion yen. We aim to grow this to around 10 billion yen by

M&A company sales (million yen)

■ M&A company sales ■ Non-M&A company sales



expanding sales of Pawdre®, a PGA sheet product planned and developed in-house, and upgrade this segment to become our fifth business department.

Financial strategy

Striving to improve capital profitability by targeting a dividend payout ratio of 35% and DOE of 2.5%

The price-to-book ratio (PBR), calculated using the current stock price, is 0.8—below the benchmark value of 1. The stock price equivalent to a PBR of 1 is approximately 1,800 yen. Further improvement is needed in view of unrealized gains on real estate holdings.

Specifically, we need to (1) improve return on equity (ROE), (2) increase earnings through growth investments, (3) engage in investor relations, and (4) implement capital policies. As part of our efforts to improve ROE, we have been redeveloping or selling real estate holdings with declining competitiveness, as well as selling strategic shareholdings that have lost value. Over the past five years, we sold 57 strategic shareholdings, totaling approximately 2.9 billion yen on a book value basis. In addition, we have been using return on invested capital (ROIC) as an investment criterion from an early stage, with a target of keeping it at 8% and a minimum threshold of 5%, to raise awareness of internal capital efficiency.

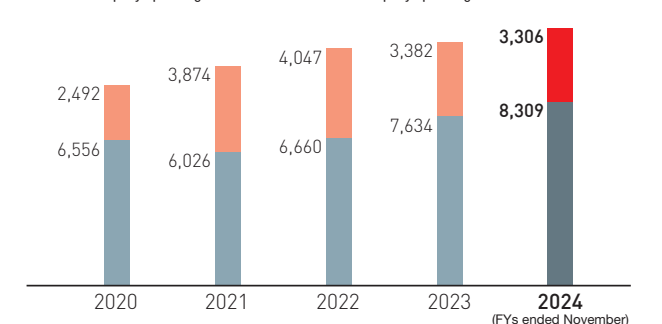
To boost earnings through growth investment, we believe it is important to carry out growth investment capped at approximately 50 billion yen as outlined in the Medium-Term Management Plan. Last year, that is, the first year of the 3rd Medium-Term Management Plan, we conducted two M&A transactions; however, capital and R&D investment fell behind schedule at approximately 50% of the plan. As rationalization, labor-saving, and DX investment in the Textile & Clothing Materials business are important for improving capital efficiency, we will accelerate turnaround measures.

As part of our IR activities, we increased the frequency of meetings with institutional investors, including foreign investors and analysts. Last year, we held approximately 40 meetings with these stakeholders. In addition, we held an online seminar for individual investors in collaboration with securities companies, attracting approximately 1,700 participants. We will continue to communicate the Nikke Group's business strengths and stability, as well as growth strategies through meetings.

As part of our capital policy, we aim to achieve a dividend payout ratio of 35% and a dividend of equity ratio (DOE) of 2.5% in the final year of the 3rd Medium-Term Management Plan. Additionally, the company has not cut its dividend in nearly 50 years. To make this clear, we have declared a progressive

M&A company operating income (million yen)

■ M&A company operating income ■ Non-M&A company operating income



dividend approach. In addition, we will acquire our own shares flexibly, based on the progress of growth investments, and strive to improve overall shareholder returns.

Growth investment

Achieving group-wide growth by strategic M&As with the aim of streamlining management and expanding business domains

Under the 3rd Medium-Term Management Plan, we plan to allocate total growth investment capped at approximately 50 billion yen, comprising around 29 billion yen for capital and R&D investment and around 20 billion yen for M&As and alliances. The objective is to make investments that balance internal and external growth.

Capital and R&D investment includes investment in manufacturing rationalization and labor-saving and investment in DX in the Textile & Clothing Materials business, introduction of recycling equipment in the Industrial Machinery & Materials business and nonwoven fabric equipment in Indonesia, and real estate development and acquisition of profit-making real estate in the Human & Future Development business.

The company's business strategy for M&A investment is to secure market share and generate profits in niche markets. Our M&A investments target projects that will drive expansion of the nonwoven fabric business and facilitate entry into new trade areas for the uniform business. After an M&A, we will implement Nikke-style internal controls within the acquired company; however, the business operations and management will remain under the leadership of those originally in that company. M&A is often described as a way to buy time. But at the same time, a major advantage is that it allows for bringing together human resources with valuable know-how and skills into the Group.

Investing in human resources is one of the most important management priorities, and creating an environment where diverse human resources can thrive

Human resources are the most important capital that supports a company's sustained growth.

The Nikke Group considers human capital investment to be one of its most important management priorities, and we are actively working to create an environment where diverse talent can maximize their abilities. Specifically, we are implementing a wide range of measures, including actively hiring outside experts with a global perspective, implementing selective training and rank-specific training to develop the next generation of managers, establishing specialized teams to promote DE&I, introducing a flexible work system to support work-life balance, and promoting group-wide healthy corporate management.

The Nikke Group manages the capital efficiency of each business department based on ROIC. We recognize that a future challenge is to quantitatively assess the effectiveness of initiatives implemented in the area of human resources.

Believing that building a business and organization that utilizes DX is essential, and a new core system in progress

In the Textile & Clothing Materials business, we have operated core systems on mainframes for many years. However, recognizing the necessity to transform our operations, organizations and business models using IT and DX, we have been working on rebuilding our core systems for about the past three years. Although we are slightly behind schedule, we are progressing toward the final confirmation stage in preparation for full-scale operation. The key is to integrate the systems of the three manufacturing hubs, namely, the Innami Mill, Gifu Mill, and Ichinomiya Plant, and to visualize the entire supply chain, from

Strengthening profitability through strategic M&A

Basic strategy for M&A

- Streamlining management and expanding business domains
- Effective use of human resources
- Establishing disciplined investment criteria

...and more
Synergy with the Human & Future Development business

Sophisticated use of M&A A new monetization business model

Effective use of real estate

Leveraging the real estate expertise of the Human & Future Development business to actively utilize real estate held by companies acquired through M&As

Examples
Fuji Corp. acquired through M&A
Negative goodwill recorded

Consolidated production through business integration
Profitability at Fuji Corp., which had posted three consecutive years of losses, through streamlined manufacturing

Redevelopment of former factory sites
Further monetization using expertise from the Human & Future Development business

Two M&A deals executed in fiscal 2024, with steady progress toward our 20 billion yen budget target under the 3rd medium-term management plan

raw materials and parts procurement to shipping, sales, and inventory management, enabling the market and manufacturing sites to quickly share information and make accurate management decisions.

Risk management

Aiming to improve corporate value by strengthening governance in order to recognize and minimize various risks

The Nikke Group now comprises more than 60 group companies due to aggressive M&As, and improving corporate value by strengthening governance has become an important theme.

To strengthen corporate governance, we have implemented measures from an early stage such as appointing independent outside directors to comprise more than one-third of its Board of Directors and ensuring that the chairman does not hold representative authority. In addition, we have established an advisory board, the majority of whom are independent outside directors and positioned under the Board of Directors, to provide advice on remuneration paid to directors for their appointment as well as on other important matters raised by the president. We are improving transparency by establishing a monitoring and evaluation system that integrates external perspectives.

With regard to internal control across the entire Group, the Internal Audit Department, which operates under the direct supervision of the president, has been established, and conducts internal control audits across the entire Group throughout the year. Since rule violations and compliance violations, which can lead to scandals and misconduct, are occasionally pointed out, we strive not only to establish internal controls but also to ensure that audits verify whether those controls are truly functioning.

Conclusion

Towards achieving final year targets of the 3rd Medium-Term Management Plan

In fiscal 2024, the first year of the 3rd Medium-Term Management Plan, we achieved our targets for sales, operating income, and other income items each listed on the income statement. We are off to a good start, marking the fourth consecutive fiscal year of increases in both sales and income.

In the Textile & Clothing Materials business, productivity improvements show moderate progress, as improvement through digitalization of the value chain has been somewhat behind schedule, although this has been offset by progress in developing overseas textiles and knitwear products.

In the Industrial Machinery & Materials business, we carried out two M&A transactions and are beginning to see a path forward in developing the nonwoven fabric business into the third earnings pillar.

In the Human & Future Development business, we sold our mobile phone sales and franchise businesses, which had become less profitable, while advancing redevelopment initiatives such as the redevelopment of our Tokyo building, the renovation of our Kobe building, and the development of the former Shukugawa company residence site.

In the Consumer Goods & Services business, although we remain committed to strengthening our e-commerce business, we are struggling due to intensifying competition, rising advertising expenses, procurement costs, and logistics costs. As a result, a strategic turnaround is needed.

In the medical business, sales of Pawdre®, a PGA sheet product, have been slow to expand; however, this has been offset by increased sales of purchased products and the launch of new products.

While progress remains slow in certain areas, overall our business is progressing smoothly. We will continue to make three investments to achieve our targets: (1) in product development, rationalization, and energy-saving equipment; (2) in customer expansion; and (3) in human resources.

Roles and aspirations as CSO

The CEO presents overall management policies, while the CSO is responsible for planning, implementing, and supervising overall strategies, managing risks, and creating and coordinating synergies among business departments.

As the CSO, I will always work closely with the CEO to share the information I have gathered so that we can make prompt management decisions.

Furthermore, strategies and measures will be most effective if all business departments agree on them, so I will pursue overall optimization by improving information sharing and communication with business departments.

Shareholder returns based on a progressive dividend policy with no dividend cuts

- For the fiscal year ended November 2024, the dividend was **increased by 7 yen to 40 yen per share** (for the fiscal year ending November 2025, a **further 2 yen increase to 42 yen** is planned).
- The final year of the current medium-term management plan (fiscal year ending November 2026) targets a dividend payout ratio of 35% and a DOE of 2.5%.

Revision of shareholder return policy: Based on investor feedback, a **progressive dividend policy** and a **DOE target of 2.5%** have been added to the basic policy.

Dividend per share

