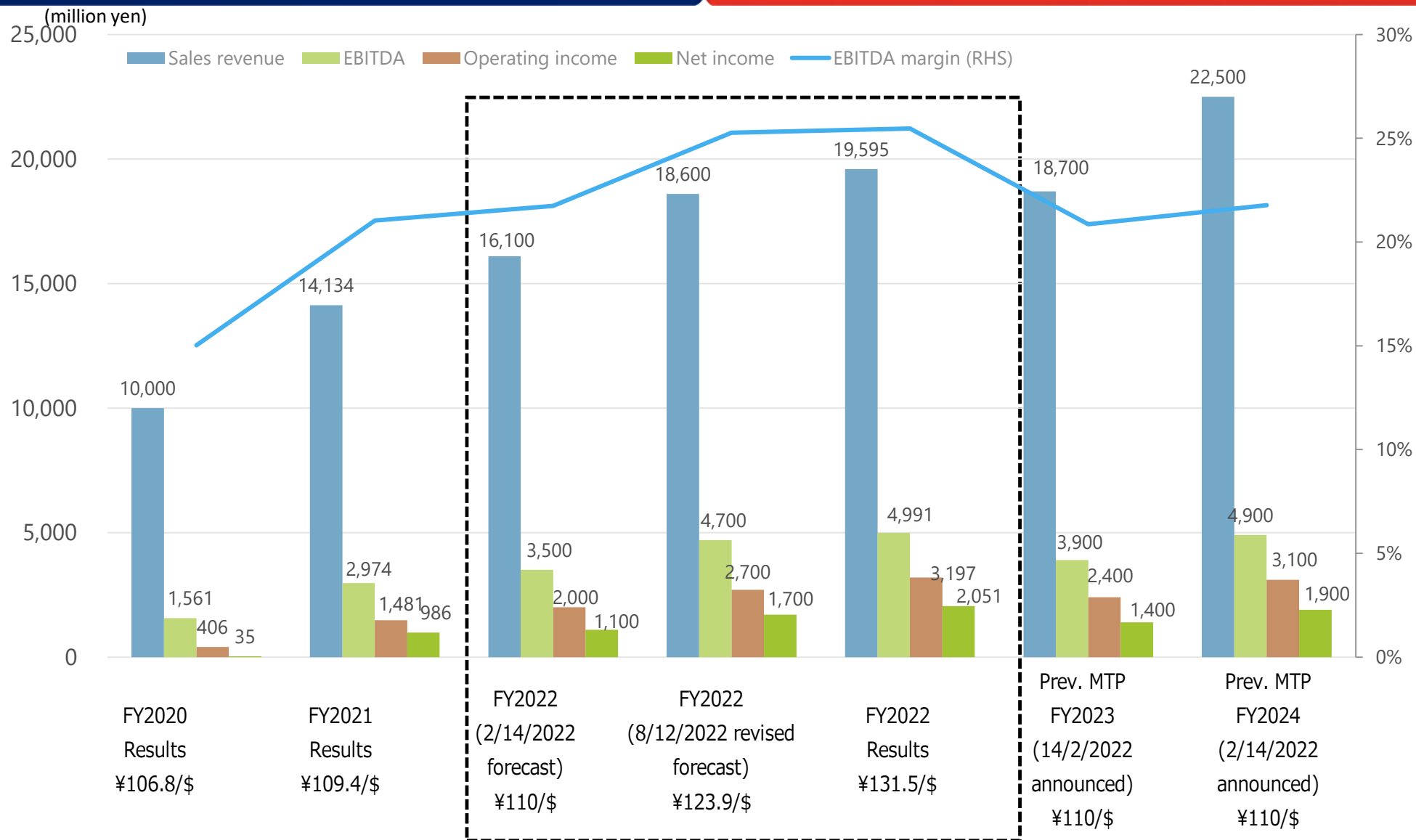


# 2023-2025 Medium-Term Management Plan



# PROGRESS TOWARDS 2022-2024 MEDIUM-TERM MANAGEMENT PLAN



# CHANGES IN EXTERNAL ENVIRONMENT EXPECTED FOR 2023

		2022	2023	
Positive factors for 2022	Weaker yen	(+++)	(-) ¥131.5/\$ → ¥125/\$	No change in long-term trend
	US economy	(+)	(-) Slowdown risk	
	Price revisions	(++)	(+) Full-year lift	
Negative factors for 2022 (rising costs)	Raw materials	(--)	(-)	
	Fuel	(-)	(-)	
	Personnel	(-)	(--)	
	Logistics	(--)	(+)	Logistics turmoil dissipates

We update our Medium-Term Management Plan for 2022-2024, unveiled at the beginning of the prior year, to reflect recent results, changes in the environment, and our updated forex assumptions, and roll the plan forward to a new three-year period starting 2023.

There are no major changes to policy or initiatives.

## ▶ 2025 performance targets

Sales revenue ¥29.1bn, operating income ¥4.9bn, EBITDA ¥7.0bn

Forex assumption updated from ¥110/\$ to ¥125/\$

## ▶ Multiple growth streams

Create comfortable spaces in various settings, such as houses, cars, airplanes, and leisure facilities.

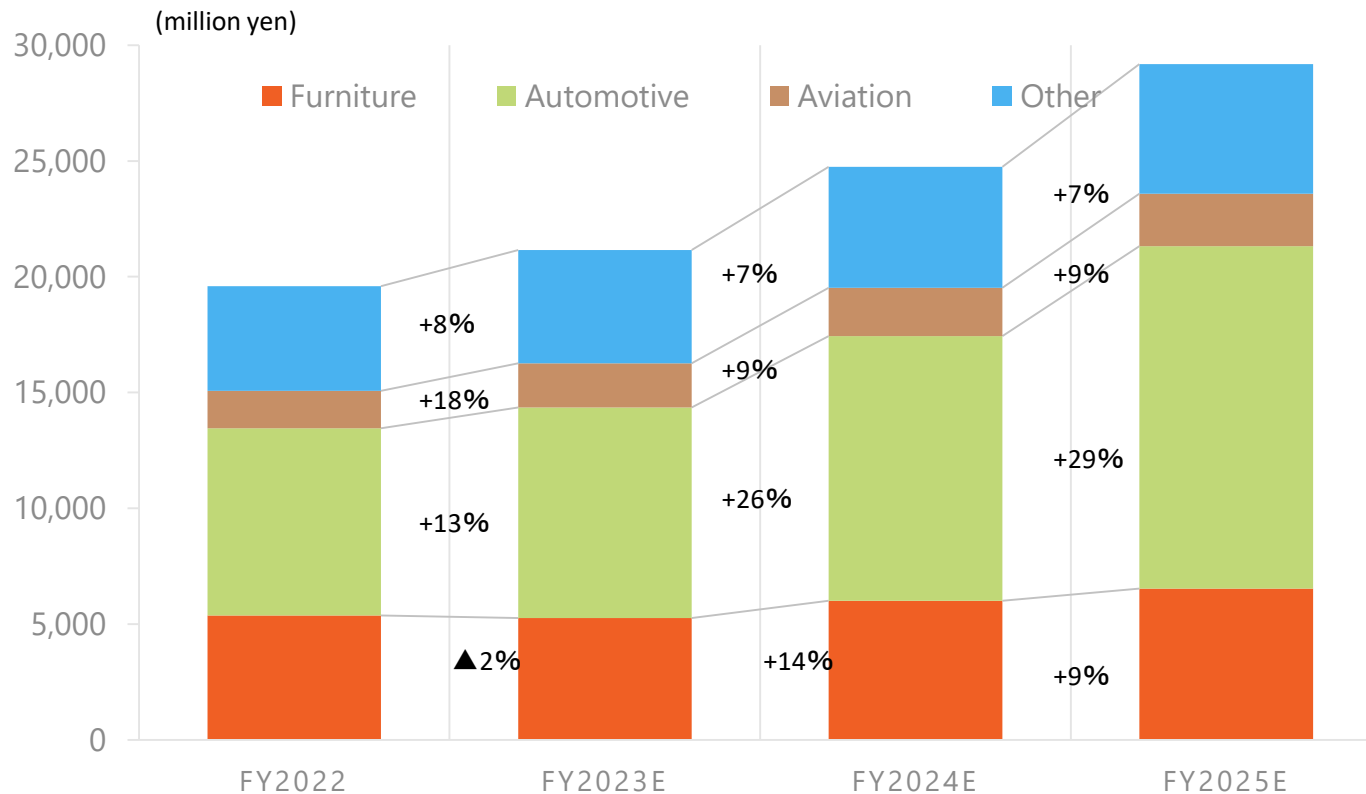
Pursue “comfort” in design, texture, safety, cleanliness, and sustainability

- ▶ **Raise financial corporate value by expanding scale, profitability**
  - Tackle ageing production equipment, expand production capacity
  - Increase production capacity including through partner companies
  - Improve profitability by reviewing product portfolio
  - Improve productivity
  
- ▶ **Enhance non-financial corporate value by focusing on sustainability**
  - Develop sustainable products using bio/recycled materials
  - Achieve sustainability targets in production by switching to sustainable plants
  - Share sustainability goals with partner companies
  - Establish Ultrafabrics as a sustainable brand

# 2023-2025 MEDIUM-TERM MANAGEMENT PLAN: INITIATIVES

	Initiatives announced in 2022	Progress
Furniture	<ul style="list-style-type: none"> <li>On top of the recovery in office furniture, develop new markets such as sound absorbing partitions, and residential and outdoor (home-use) furniture</li> <li>Tap into expanding healthcare market</li> <li>Promote digital marketing with an updated website (Ultrafabrics Inc.)</li> </ul>	<ul style="list-style-type: none"> <li>Residential market weak, but office, healthcare, outdoor firm</li> <li>Updated website traffic up 2.5-fold</li> </ul>
Aviation	<ul style="list-style-type: none"> <li>Acquire new commercial aircraft programs amidst moderate industry recovery</li> <li>Expand sales of lightweight materials</li> </ul>	<ul style="list-style-type: none"> <li>Steady acquisition of programs with Atago, lightweight material</li> </ul>
Automotive	<ul style="list-style-type: none"> <li>Win seat projects for new clients (especially EVs)</li> <li>Enhance production support and QA systems for partner companies</li> </ul>	<ul style="list-style-type: none"> <li>Strengthening support systems through alliance promotion office</li> </ul>
R&D / Product development	<ul style="list-style-type: none"> <li>Develop bio/recycled products: Over 50% of raw materials for all Ultrafabrics products in 2030 to be bio/recycled materials</li> </ul>	<ul style="list-style-type: none"> <li>2022 bio/recycled material ratio was 20.3%</li> </ul>
Production	<ul style="list-style-type: none"> <li>Raise productivity through use of project management systems</li> <li>Respond to rising raw materials costs</li> <li>Construct new plant to tackle ageing of production equipment, raise efficiency</li> <li>Build profit/loss management system to aid product portfolio review</li> <li>Formulate plans for future capacity expansion</li> </ul>	<ul style="list-style-type: none"> <li>Moving forward with Chiyoda plant construction plan</li> <li>Set plan to expand production capacity, including through partner companies</li> </ul>
Sustainability	<ul style="list-style-type: none"> <li>Set targets and action plan for production activity to reduce CO<sub>2</sub> emissions, water consumption, waste</li> <li>Invest in sustainability to achieve above targets</li> <li>Share awareness of environmental protection, human rights with suppliers</li> </ul>	<ul style="list-style-type: none"> <li>Obtained SBT for SME certification</li> <li>Fleshed out investment plan for reducing CO<sub>2</sub>, water use, waste</li> <li>Carried out supplier survey</li> </ul>

# 2023-2025 Medium-Term Management Plan: Sales targets by application



- ▶ **Furniture:** Stable growth, especially for healthcare, office furniture
- ▶ **Automotive:** Ongoing high growth, especially for seat materials
- ▶ **Aviation:** Stable growth for business jets, growth for commercial crafts
- ▶ **Other:** Stable for use in RV, growth for small ships, other outdoor uses

# 2023-2025 MEDIUM-TERM MANAGEMENT PLAN: EARNINGS TARGETS

(million yen)	FY 2022	Medium-Term Management Plan			
		FY 2023	FY 2024	FY 2025	2022-2025 CAGR
Sales revenue	19,595	21,100	24,700	29,100	14.1%
Gross profit	9,670	9,900	11,100	12,200	8.1%
Operating income	3,197	3,500	4,100	4,900	15.3%
Net income before income taxes	2,865	3,000	3,700	4,400	15.4%
Net income	2,051	2,100	2,400	2,900	12.2%
EBITDA	4,991	5,100	5,900	7,000	11.9%

					2025vs.2022
Gross profit margin	49.4%	46.9%	44.9%	41.9%	-7.5P
Operating income margin	16.3%	16.6%	16.6%	16.8%	+0.5P
EBITDA margin	25.5%	24.2%	23.9%	24.1%	-1.4P
ROE	16.2%	14.9%	15.0%	15.7%	-0.5P
Number of shares on a fully diluted basis	9,473,243	9,530,043	10,502,651	10,559,451	-
Earnings per share (yen)	216.6	220.4	228.5	274.6	-
Assumed exchange rate (yen/\$)	131.5	125.0	125.0	125.0	-



# 2023-2025 MEDIUM-TERM MANAGEMENT PLAN: EARNINGS TARGETS

## ▶ Sales up, profit up slightly in 2023

We forecast solid growth in sales revenue, but only slight growth in profit on a higher drag from forex and other external factors than in 2022.

## ▶ 3-year average profit growth around 15%

We expect the gross profit margin to fall by 7.5pt vs. 2022 on expanded outsourcing, higher depreciation following the start of production at the Chiyoda plant, and investment in production process sustainability. However, we see the operating income margin rising by 0.5pt as higher sales lower the fixed cost ratio.

## ▶ ROE around 15%, rising gradually

▶ Our estimate for the impact from forex on operating income is +¥80mn for every yen of depreciation versus the dollar. We will minimize the impact of forex movement through appropriate hedging arrangements.

# 2023-2025 MEDIUM-TERM MANAGEMENT PLAN: CASH FLOWS AND DIVIDENDS

(million yen)	FY 2022	Medium-Term Management Plan		
		FY 2023	FY 2024	FY 2025
Net income	2,051	2,100	2,400	2,900
Depreciation and amortization expenses	1,534	1,300	1,400	1,800
Increase/decrease in working capital	-1,419	600	1,000	500
Operating cash flow	2,166	4,000	4,800	5,200
Investment cash flow	425	-2,000	-4,000	-800
Financial cash flow	-2,112	0	0	-4,000
Total cash flow	479	2,000	800	400

Dividend per share (yen)			
Ordinary shares		62	62
Preference shares		68	68
Dividend total amount		566	570
Payout ratio		27.6%	27.1%

# 2023-2025 MEDIUM-TERM MANAGEMENT PLAN: CASH FLOWS AND DIVIDENDS

- ▶ Total 3-year operating cash flows of ¥14.0bn
- ▶ 3-year capex totals ¥6.8bn, including ¥5.2bn on Chiyoda plant construction, ¥1.6bn for upgrade/R&D investment at existing plants; of total, ¥1.7bn earmarked for solar panels, hydrogen boilers, other sustainability purposes
- ▶ New borrowing will cover Chiyoda plant construction, but contractual redemption of existing loans is expected to reduce interest-bearing debt and improve net debt-equity ratio
- ▶ Given sustained strong capex demand, we target a dividend payout ratio of around 30%, aiming for a balanced allocation between profit-generating investment, retained earnings, and shareholder returns
- ▶ Our FY2023 DPS forecast is ¥62 (common stock)