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Press release

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Kokuyo Unveils New Three-Year Business Plan: Field Expansion 2024

Kokuyo Co., Ltd., hereby announces that its Board of Directors, at a meeting held on November 29, 2021, approved the company's new three-year (2022–2024) business plan as follows.

1. Long-Term Vision (CCC 2030)

We are working on CCC 2030, our long-term vision for 2030, which we first announced in the press release dated February 12, 2021 (Notice Regarding Long-term Vision CCC 2030).

(1) CCC 2030

CCC 2030 sets out a long-term vision for sustainable corporate development. It envisages a world of authentic and interdependent lives, in which everyone enjoys personal and social fulfilment in work and life. In line with this vision, we have redefined our role in building such a world: We want to be a work and lifestyle company. To change our organization into one that generates new solutions for a fulfilling life, rather than one that just focuses on tangible stationery and furniture, we will reorganize our businesses into two broad domains. The first is the domain of work. The second is the domain of learning and daily life.

(2) The forest model

To achieve CCC 2030, we are undergoing a strategic transformation toward the Forest Model. Underpinning the Forest Model is an awareness of the broad changes in society and an awareness that our strength lies in the way we design with empathy. This strength has served us well over the years. We have always worked with customers and partners to design new experiences and develop them into successful businesses. Crucially, we have shifted our focus from tangibles to intangibles. For example, we have moved from producing furniture to providing office space solutions that support diverse working patterns. Likewise, we have moved from producing stationery to providing innovative tools that support people in their learning and daily routines.

To ensure that our businesses resonate with people's desire for authentic and interdependent lives, we will focus on creating more experience value in each business

field by linking tangible products to intangible value (this means expanding each business field, tweaking existing businesses, and nurturing new business ideas).

We will reorganize our businesses into the two broad fields of workstyles and lifestyles as part of our transition into an ecosystem of diverse businesses that meet the needs of customers in their respective fields. We believe this approach will deliver sustainable growth in all our businesses.

(3) A culture of experimentation

When it comes to designing customer value, we already have an approach for creating unique *Kokuyo* value: We experiment internally with ideas for addressing the needs of customers and society and then develop these ideas into winning experiences—before anyone else. Verbalizing this as our “culture of experimentation,” we will now communicate and inculcate this culture throughout the organization to promote bottom-up innovation. Because our culture of experimentation underpins our design-with-empathy values, by facilitating this culture, we expedite the process of turning new ideas into reality.

(4) A work and lifestyle company

CCC 2030 sums up our purpose in the self-determined, interdependent society as follows: “be Unique.” It also casts our organization as a work and lifestyle company. To expand our businesses in both fields, we will uphold our design-with-empathy values, capture the growing demand for intangible experience alongside tangible products, and generate one new idea after another through our culture of experimentation.

Through this strategy, we aim to become, by 2030, an ecosystem of diverse businesses achieving net sales of ¥500 billion.

2. Second Medium-Term Plan (2019–2021) in Review

We are reaching the end of our second medium-term plan (for the 2019–2021 period), titled “Enabling Sustainable Growth – Smart & Sustainable Transformation 2021.” Under this plan, we have worked to smarten our earning power by diversifying revenue streams. We have also worked to streamline our workflows to enable the dynamic investment we need for better growth in the medium to long term.

During the three-year period, Covid-19 dramatically reshaped the business landscape, and our own businesses were hit hard. Consequently, we had to downgrade our targets. However, the pandemic-driven changes also presented business opportunities. In the spatial value domain, for example, we saw the beginnings of a shift to a new normal in working practices. Winds of change were also felt in the other domains. We managed to accelerate efforts to capitalize on these emerging business opportunities. In that respect, we can end the three-year period on a high note.

For your reference:

	2018/12	2021/12	
	Result	Downgraded target (announced Oct 2020)	Latest forecast (announced Jul 2021)*
Net sales	¥315.1 bn	> ¥305.0 bn	> ¥322.0 bn
Gross profit (%)	¥112.6 bn (35.7%)	> ¥109.3 bn (> 35.8%)	> ¥116.7 bn (36.2%)
Operating income (%)	¥18.2 bn (5.8%)	> ¥13.0 bn (> 4.3%)	> ¥20.2 bn (6.3%)

*These are the full-year forecasts announced during the financial results briefing for the first half of the year ending December 2021.

3. Introducing the Third Medium-Term Plan (2022–2024): Field Expansion 2024

(1) Position in CCC 2030

Field Expansion 2024 forms the next three-year phase of our long-term vision, CCC 2030. The wording of the title expresses our intention to broaden our horizons and expand our business fields. During the three years, we will start to tweak our existing businesses and expand the business fields in anticipation of emerging needs.

(2) Quantitative KPIs

Our quantitative targets for 2024 (the last year of the period) are as follows: We aim for net sales of ¥360.0 billion, gross profit of ¥143.7 billion, operating income of ¥27.5 billion, and an operating margin of 7.6%. The following table presents these targets against the forecasted results for the current year. Please note that these forecasted results have been adjusted to account for the impact of the new standard for recognizing revenue, which will take effect next year (the year ending December 2022).

	2021/12	2024/12	
	Forecast	Target	Change from 2021/12
Net sales	¥294.2 bn	> ¥360.0 bn	+ 22.3%
Gross profit (%)	¥114.6 bn (39.0%)	> ¥143.7 bn (> 39.9%)	+ 25.4% (+ 1.0pt)
Operating income (%)	¥20.1 bn (6.8%)	> ¥27.5 bn (> 7.6%)	+ 36.5% (+ 0.8pt)

(3) Four organization-wide strategic priorities

Over the three years, we will work on the following four organization-wide strategic priorities.

- Dynamic investment
Determine R&D budget, determine deliberative/decision-making processes, delineate responsibilities, build framework for investment governance, (PDCA rules, organizational infrastructure)
- Empowered talent
Increase employees' internal mobility to create more opportunities for unleashing

the potential of diverse talent

- Active innovation
Establish processes and infrastructure for business incubation
- Social Value and Business Value
Create more opportunities for employees to experience social/environmental issues first-hand

(4) Business strategies for the workstyle and lifestyle fields

- Workstyle field:

The pandemic has entrenched the dispersed workplace and diverse working patterns. Against this backdrop, we will target emerging needs related to the rise of hybrid work.

For our furniture businesses, we will target demand for office renovation driven by these changes. We will also work to expand the field in terms of digital solutions and interior design. Such expansion will drive earnings growth for our organization as a whole. As for our business supply distribution operations, we will target the Covid-driven growth of e-commerce in the e-commerce/mail-order market. Meanwhile, Kaunet will strengthen its online marketing to attract a larger following and thereby improve its revenue and profitability.

Through these actions, we aim to capitalize on the changes in working patterns to achieve significant earnings growth across the workstyle field.

- Lifestyle Field:

In this area, we will target the rising demand for authentic self-expression in learning and lifestyle tools.

For our stationery businesses, we will focus on the growing market for value-added stationery, which is driven by the demand for self-expression (as exemplified by social media). Targeting this market, we will tweak our existing stationery businesses and strengthen our digital marketing in Japan and overseas to achieve earnings growth. As for interior retail, Actus will expand its focus from stay-at-home demand to emerging living-space needs. To capture these emerging needs, the retailer will follow an online-merge-offline strategy to integrate its online store with its brick-and-mortar stores in pursuit of higher earnings.

Through these actions, we aim to capitalize on consumers' desire for a more authentic life as well as consumers' social consciousness and thereby achieve earnings growth across the lifestyle field.

(5) Capital policy

To provide for the above strategies, we will strike an optimal balance between reinvesting profits and returning profits to shareholders in dividends. To achieve this balance, we will work to improve the efficiency of our business assets and keep capital cost foremost in mind when vetting prospective investments and evaluating existing investments.

To provide for sustainable corporate development and growth in enterprise value, we will commit ¥30.0 billion as growth capital expenditure on top of ¥20.0 billion yen in regular (or maintenance) capital expenditure. To build social value, we will set aside 1% of our ordinary income (around ¥200 million) for charitable donations. We will also set aside an amount for ESG initiatives. Additionally, our investment department and sustainability department will coordinate efforts in this area and clarify the criteria.

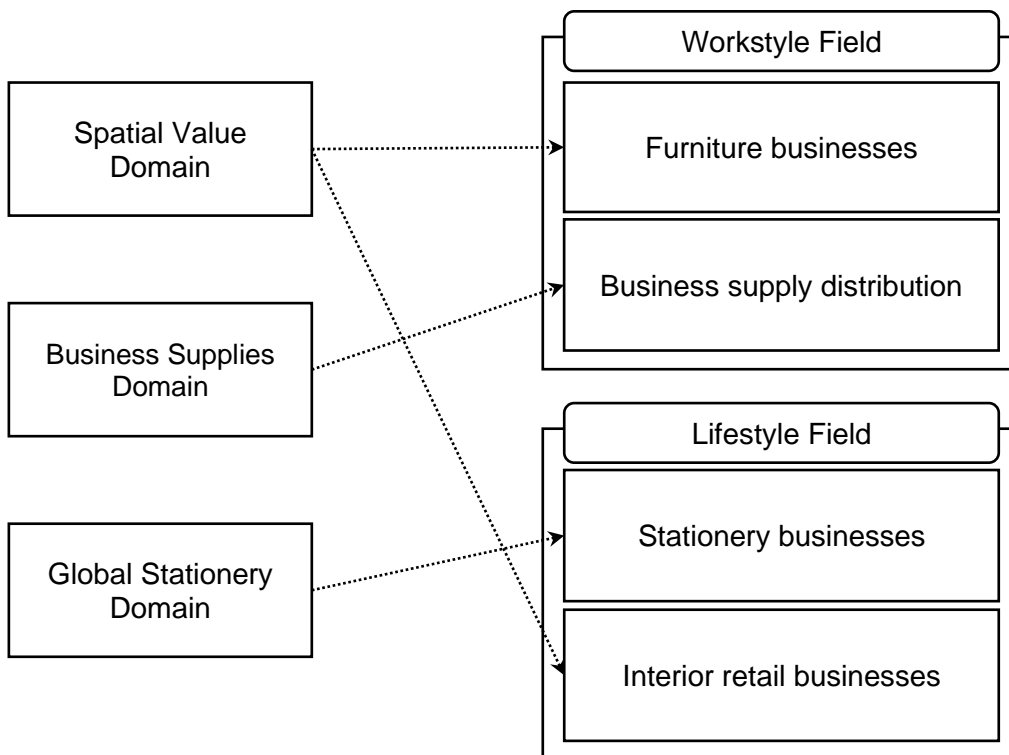
For shareholders, we commit to a stable dividend with a dividend payout ratio of 40%. We also commit to proactive shareholder engagement, in which we fulfill our responsibility to explain our corporate growth story.

Through the above actions, we aim to achieve a return on equity of 8% in 2024.

(6) Reorganization of reportable segments

As mentioned earlier, with a view to achieving CCC 2030, we have redefined our role in society as that of a work and lifestyle company and reorganized our businesses into two broad domains: 1) work and 2) learning and daily life. Under the new medium-term plan, Field Expansion 2024, we will reorganize them further to help us focus on creating new ways of adding color into people’s lives, as opposed to just producing tangible stationery and furniture. Specifically, we will reorganize our three segments into four segments: two workstyle segments and two lifestyle segments.

Reportable segments before and after



The following table shows the targets for each reportable segment.

		2021/12		2024/12	Change (B-A)	% change	
		Non- adjusted forecast	Adjusted forecast (A)*	Target (B)			
Workstyle Field	Net sales	¥260.5 bn	¥230.9 bn	¥275.0 bn	¥44.0 bn	19.1%	
	Op. income (%)	¥20.7 bn 8.0%	¥20.6 bn 9.0%	¥27.2 bn 9.9%	¥6.5 bn +0.9pt	31.6% -	
	Furniture businesses	Net sales	¥138.8 bn	¥135.3 bn	¥170.0 bn	¥34.6 bn	25.6%
		Op. income (%)	¥17.5 bn 12.7%	¥17.5 bn 13.0%	¥23.4 bn 13.8%	¥5.8 bn +0.8pt	33.2% -
	Business supply distribution	Net sales	¥121.6 bn	¥95.5 bn	¥105.0 bn	¥9.4 bn	9.9%
		Op. income (%)	¥3.1 bn 2.6%	¥3.1 bn 3.3%	¥3.8 bn 3.6%	¥600 mn +0.4pt	22.3% -
Lifestyle Field	Net sales	¥94.2 bn	¥93.2 bn	¥116.0 bn	¥22.7 bn	24.4%	
	Op. income (%)	¥6.9 bn 7.4%	¥6.8 bn 7.4%	¥10.2 bn 8.8%	¥3.3 bn +1.4pt	48.5% -	
	Stationery businesses	Net sales	¥76.1 bn	¥75.5 bn	¥95.0 bn	¥19.4 bn	25.8%
		Op. income (%)	¥6.1 bn 8.1%	¥6.0 bn 8.0%	¥8.8 bn 9.3%	¥2.7 bn +1.2pt	44.9% -
	Interior retail businesses	Net sales	¥18.0 bn	¥17.7 bn	¥21.0 bn	¥3.2 bn	18.2%
		Op. income (%)	¥700 mn 4.4%	¥700 mn 4.5%	¥1.4 bn 6.7%	¥600 mn +2.2pt	76.4% -
Other	Net sales	¥400 mn	¥400 mn	¥600 mn	¥100 mn	35.3%	
	Op. income (%)	-¥0 -	-¥0 -	-¥0 -	¥-0 -	- -	
Reconciliation	Net sales	-¥33.1 bn	-¥30.3 bn	-¥31.6 bn	-¥1.3 bn	-	
	Op. income (%)	-¥7.3 bn -	-¥7.3 bn -	-¥9.8 bn -	-¥2.5 bn -	- -	
Total	Net sales	¥322.0 bn	¥294.2 bn	¥360.0 bn	¥65.7 bn	22.3%	
	Op. income (%)	¥20.2 bn 6.3%	¥20.1 bn 6.8%	¥27.5 bn 7.6%	¥7.3 bn +0.8pt	36.5% -	

*The forecasts in this column have been adjusted to account for the impact of the new standard for recognizing revenue, which will take effect next year (the year ending December 2022).