

Sports Business

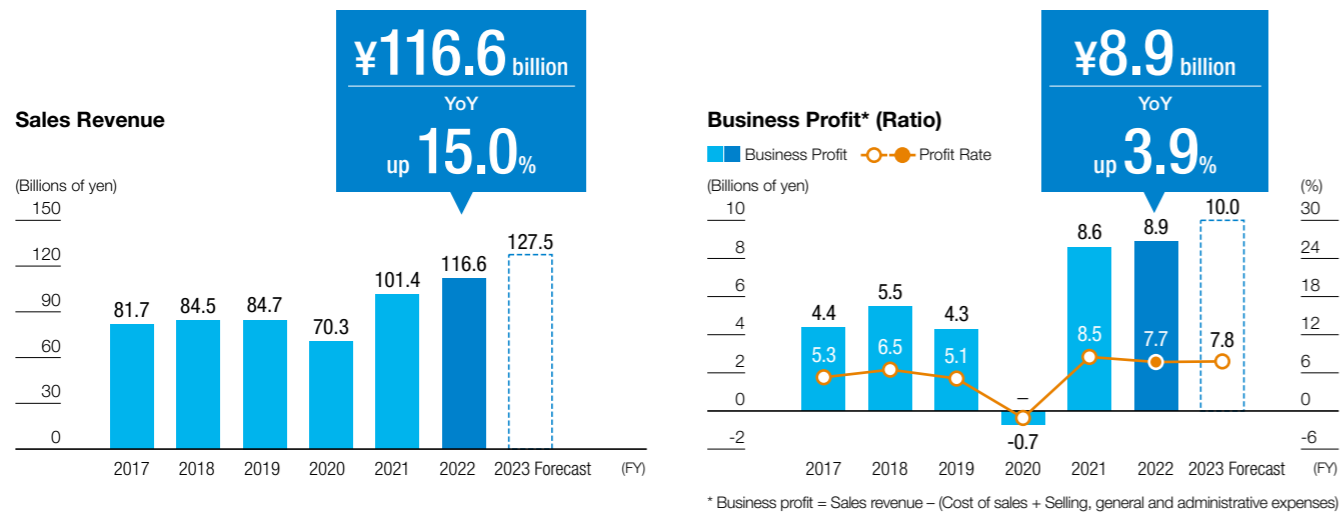
Enriching Sporting Life

Drawing on the full range of its advanced technical capabilities, the Sumitomo Rubber Group continually strives to enrich sporting life for customers. In addition to providing high-performance golf clubs, tennis rackets and other sporting gear designed for ease of use by athletes of all stripes, we operate a chain of fitness clubs as well as golf and tennis schools. And, backed by know-how accumulated through our Fitness Business, we have recently expanded our business to include nursing facilities and preventive care facilities as well.

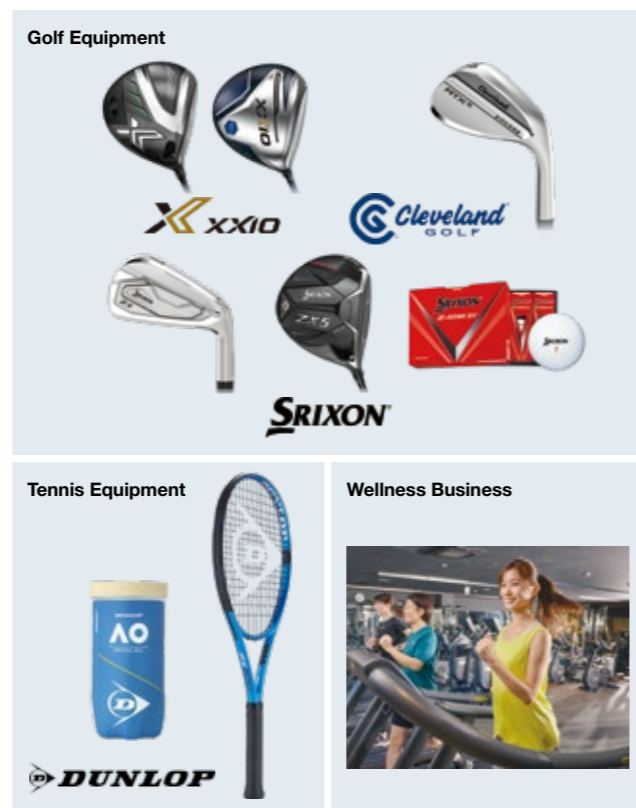
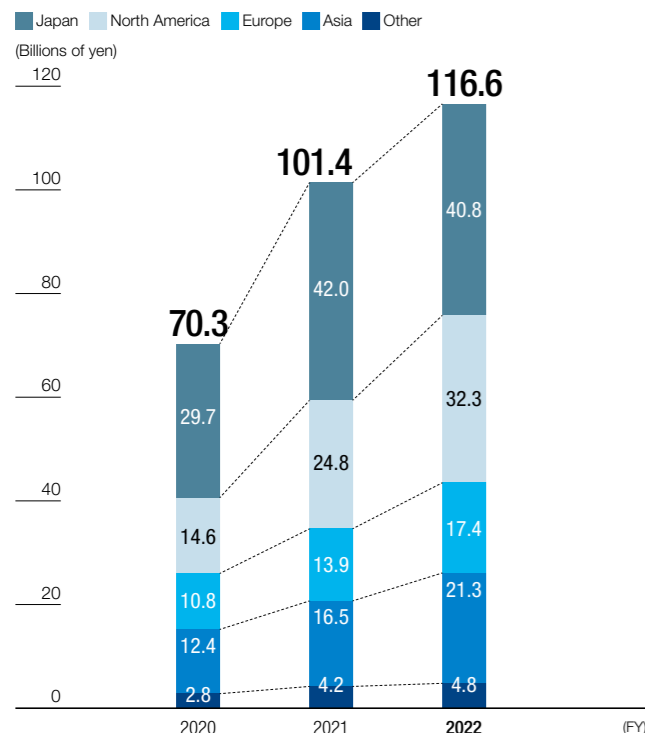
In this way, our Sports Business is actively engaged in various business activities that support better physical and mental health for our many customers on a day-to-day basis.

In addition, we host golf tournaments and operate golf courses.

Results of Operations / Major Indicators



Sales Trends



Results Overview/Status of Sales

Overview

Sales in the golf, tennis and wellness businesses all increased year on year. Although both the golf and tennis businesses reported lower domestic revenues, overseas revenues increased on a local currency basis. Foreign exchange rates had a substantial impact on sales. Although business profit was significantly affected by soaring distribution and raw material costs and the weak yen resulted in a growing volume of funds spent on foreign currency-denominated purchases, business profit grew significantly overseas, mainly in North America and South Korea, resulting in an increase in profit.

Domestic

Sales decreased from the previous year. In golf goods, sales of 12th generation XXIO clubs remained steady, but struggled in the second half of the year due to a slowdown in market conditions and restrictions on purchases by some customers, resulting in a year-on-year decline in sales. Tennis equipment sales remained at the same level as the previous year. The wellness business posted an increase in revenue as membership, which had declined due to the impact of the COVID-19 pandemic, recovered to a certain extent.

North America

Sales significantly increased from the prior year, partly as a result of the effects of foreign exchange rates.

Despite a slowdown in market growth, golf clubs and balls fared well, and market share rose as a result of effective sales strategies that have been put in place thus far. For tennis, sales increased due to higher sales of balls.

Europe

Sales increased from the previous year. Golf sales were strong for both clubs and balls. Tennis sales increased due to higher ball sales and other factors.

Asia

Sales increased from the previous year. Golf equipment sales also increased on a local currency basis due to strong sales of 12th generation XXIO clubs in South Korea.

Topics

Sustainability Activities in the Sports Business—Plastic Reduction Initiatives

Under the Long-Term Sustainability Policy: "Driving Our Future Challenge 2050," the Sports Business is moving forward with a 50% reduction in the amount of plastic used for product packaging and other materials by 2030 compared to the 2019 level.

For golf balls released in the fall of 2021 and thereafter, window film on packaging is being phased out. In addition, from 2023, the plastic lids of PET packaging tubes for DUNLOP AUSTRALIAN OPEN and DUNLOP FORT tennis balls sold domestically will be replaced with paper ones. Plastic lids for the St. JAMES brand training balls and other products were eliminated and the labels were replaced with paper ones that slip inside the containers.

These initiatives are expected to reduce domestic plastic usage by approximately 20 tons per year. After 2024, we plan to take similar measures in other countries and regions.



Release of e-Sports Exclusive Arm Supporter

The Sports Business has newly made a foray into the e-sports market, which is attracting attention for its growth. The Dunlop Gaming Muscle Arm Supporter, launched in October 2022, was developed based on our insights into the phenomena that occur at the point of contact between objects, such as where a tire meets the road surface or a golf club impacts a golf ball, areas of scientific study our group has engaged in for years. The supporter eases concerns about injury caused by contact and friction between the forearm and mouse pad during long bouts of gaming in addition to helping improve playing performance.

Sales got off to a great start, thanks in part to collaboration with popular internet streamers during promotion. The future expansion of our product line is something we're actively considering.



Sports Business

Aiming to Become a Truly Global Player by Creating a Future of Joy and Well-Being for All

Hideaki Kawamatsu

Senior Executive Officer, Head of the Sports Business HQ



Robust Business Results Overseas Leading to Increases in Sales and Profit in 2022

In fiscal 2022, the Sports Business saw year-on-year increases in sales and profit, an overall robust performance. While this was to some extent attributable to foreign exchange fluctuations, we were also able to considerably expand overseas businesses.

Under the previous Midterm Plan introduced in 2019, we worked to become a truly global player. At that time, more than 80% of the profit we were recording in the Sports Business was accounted for by domestic operations, with overseas profit accounting for less than 15%. In contrast, more than two thirds of the Sports Business's fiscal 2022 profit can be attributed to overseas operations, albeit somewhat reflecting the influence of foreign exchange fluctuations. Thus, we have not only expanded sales but also succeeded in transforming the Sports Business into a business capable of winning in the global arena over the course of past year.

That being said, we have been negatively affected by surges in raw material costs and transportation expenses, which, in turn, left us no choice but to upwardly revise sales prices. However, we have countered this adversity by implementing sales promotional measures finely tuned to differing market circumstances so that our customers are fully confident about their purchasing choices. Through these and other efforts, we strove to flexibly and swiftly adapt our approach.

Amid the COVID-19 pandemic, golf attracted renewed attention as a sport that poses no problems concerning social distancing. As a result, in the first half of the fiscal year we struggled to deliver a sufficient volume of supply to meet growing demand due to parts supply

shortages. We rallied the strengths of all employees at home and abroad to address the problem and this experience strengthened our organizational capability.

Looking at the golf market in Japan, following a temporary shrinkage due to the outbreak of the COVID-19 pandemic, growth in the number of newcomers brought significant market expansion. Although this market expansion has already peaked, the market has stabilized at a size well in excess of the level recorded in 2019 prior to the pandemic. To summarize, we struggled with product supply shortages and the resulting loss of opportunities in the first half of 2022, inconveniencing both business partners and customers, however, in the second half we regained our ability to deliver stable supplies and satisfied their expectations.

Meanwhile, the presence of overseas brands in the domestic market is growing year by year. For domestic manufacturers, these successive waves of imported goods pose an existential threat that they must rally their strengths to counter. We have positioned addressing this situation as a pillar of the new Midterm Plan.

With regard to the sales revenue breakdown by region, sales in North America surpassed domestic sales for the first time. Thus, in order of size of sales revenue, our largest operations are now those in North America, with Japan and South Korea coming in at second and third, respectively. In addition, overall sales in Europe are on par with sales in South Korea. Taking these factors into account, we consider South Korea an important market.

Leveraging Our Growing Presence in North America to Capture a Top Three Position in Terms of Global Share of the Golf Equipment Market

Thoroughly focused on delivering a lineup of products designed to help customers feel a sense of excitement, our Sports Business is promoting smooth communication.

Sumitomo Rubber Industries boasts three golf brands: XXIO, SRIXON and Cleveland Golf. SRIXON brand golf clubs are supported by professionals and other players strongly focused on winning through aggressive golfing. Meanwhile, XXIO brand golf clubs are known for the pleasing sound they produce when the ball is hit and ease of hitting. These clubs help secure stable carry even if the player misses the ball's sweet spot. Cleveland Golf's flagship wedge clubs help minimize short-game errors. As such, we strive to set our products apart from others by leveraging the clearly distinctive features of each brand.

While we have been thoroughly executing our brand strategies as described above, Hideaki Matsuyama won a championship in the Masters Tournament in 2021 using our clubs and Brooks Koepka, an upcoming player in the United States, began using SRIXON brand golf clubs in the same year. These developments greatly enhanced players' trust in the SRIXON brand in 2022. In addition,

we released updated models and strengthened our sales structure. These measures have proven successful, helping us attract a rapidly growing number of new customers. This is, I believe, the hard-earned result of our efforts to win customer trust in our brands.



Professional golfer Hideaki Matsuyama

Our current aim under the new Midterm Plan is to double sales in North America by 2027. I am convinced that this target is achievable if we thoroughly implement such essential measures as developing even better products through the full use of the Sumitomo Rubber Group's technological assets and further strengthening our sales structure to secure as many contact points as possible with customers. Through these measures, we will build our presence in North America, our main market, and secure a place—a 15% global market share—among the top three suppliers of golf clubs and balls.

In the United States, a growing number of baby boomers are retiring, leading to the expansion of the golf market as many enjoy golfing as part of post-retirement life. For this generation of players, equipment like XXIO brand golf clubs is suitable due to its ease of handling. Originally designed with Japanese and other Asian players in mind, XXIO clubs are designed for individuals who have a smaller stature and difficulties in gaining club head speed.

Although our competitors are similarly vying to capture this market, the XXIO brand is our Sports Business's flagship, long-selling product brand, has undergone constant updating and is now in its 12th

generation. In this light, I believe our 20-year track record puts us at an advantage. In particular, the Sumitomo Rubber Group's strength lies in its in-house produced lightweight shaft, responsibility for which is entrusted to our Miyazaki Factory. In summary, our products are underpinned by the robust accumulation of Sumitomo Rubber Group manufacturing technologies. This provides us with advantages over other golf equipment manufacturers.

Looking at markets other than the United States, that of South Korea is currently booming in a way that is transcending our expectations, with high-end XXIO golf clubs selling very well. Also, there are many people who enjoy golfing at indoor golfing facilities only. Moreover, tournaments of simulated golfing are being held. The golf market is thus developing in a very unique way.

In Europe, Germany, France and other high-profile market regions are seeing robust sales of high-end products. On the other hand, there are market regions where affordably priced products are preferred. We are expanding sales by implementing product strategies aligned with the characteristics of each market.

Progress in Developing Foundations Supporting the Sustainable Growth of the Racket Business

In April 2017, we acquired trademark rights to the Dunlop brand in countries overseas as well as Dunlop brand sports equipment and licensing businesses. Since then, we have drastically accelerated the pace of expansion in the tennis business, the pillar of our racket business.

In the course of this expansion, we have focused on securing customer trust in our tennis balls by ensuring stable high quality, building on our track record of sincerity in manufacturing to prevail over the competition. At the same time, we have been enhancing our distribution network and sales capabilities. Also, in 2018, we signed an official partnership agreement with the Australian Open, one of the Grand Slam tournaments, and our tennis balls have been the event's official tennis balls since 2019. Dunlop brand tennis balls also boast the top share in terms of use in ATP^{*1} tours since 2019. We will continuously strive to secure greater trust in the entire Dunlop brand based on the reputation of Dunlop brand tennis balls. In this way, we will expand sales of tennis rackets and sports equipment for other racket sports.

With regard to tennis rackets, we are also aware that many customers have a strong tendency to purchase brands used by top-tier professionals. Accordingly, we are focused on discovering promising junior players and nurturing them. Among such players using Dunlop brand tennis rackets is Bruno Kuzuhara, who is ranked among the top 10 players in terms of the ITF^{*2} male junior player ranking, and two other players who similarly use Dunlop rackets. As for female tennis players, in March 2023, we signed a tennis equipment sponsorship agreement with Sayaka Ishii, who turned professional at age 17. We expect that the success of these players will, in turn, empower the Dunlop brand to achieve further growth in the near future.

As described above, our basic strategy is to expand sales of tennis rackets by building on players' trust in, and sales channels developed for, our tennis balls. Taking a similar approach, we also aim to expand sales of equipment for padel and other racket sports.



We renewed our official partnership agreement with Australian Open in January 2023. From 2024 onward, we will continue to act as the official tennis ball supplier for a total of five years.
Left: Satoru Yamamoto, President of Sumitomo Rubber Industries;
Right: Craig Tiley, CEO of Tennis Australia and the Director of the Australian Open.

A mix of tennis and squash, padel is a racket sport that originated in Spain. It is casually played as a doubles game, with a pair of players on either side of a net. In Europe and elsewhere, padel is rapidly gaining popularity.

In addition, we are strengthening our development team to explore new technologies leading to innovation in tennis rackets.

^{*1} Association of Tennis Professionals
^{*2} International Tennis Federation

Initiatives outside the tennis business to enhance the comprehensive capabilities of the Dunlop brand include an entry into the e-sports equipment market, a new business initiative for the Sports Business. We began this initiative by releasing an arm supporter designed to help players improve their performance. Specifically, this product reduces friction between the player's forearm and the mouse pad, helping to smooth the operation of the mouse. Going forward, we will pay close attention to the future potential of e-sports and deliver products capable of contributing to its sound development.

Creating a Future of Joy and Well-Being for All through Sports

Our wellness business, the third pillar of the Sports Business, has just begun modestly recovering from stagnation due to fallout from the COVID-19 pandemic. However, this business has yet to see operating results return to the levels recorded in 2019. Although there is considerable room for improvement in operating results, we are currently promoting various measures to bring this business to full recovery at a pace faster than the industry average. To this end, we are taking a locally rooted approach, making our facilities available to members from surrounding communities and delivering the best possible services. In doing so,

we are helping users improve their emotional and physical health while creating Dunlop brand fans by building familiarity with our products.

Going forward, we will strive to communicate to wider society an understanding of the feeling of refreshment and positive health benefits that participating in sports activities provides and to share the thrill of watching the amazing performances of professional players. In these ways, we will strive to enrich the sporting lives of our customers, thereby living up to our reason for being, namely, creating "a future of joy and well-being."