

# Business Strategy and Business Model

This section discusses the Group's Mid-Term Plan, the initiatives of each business in line with the strategy, and the direction of technological development, with a focus on messages from the officers in charge.

## I N D E X

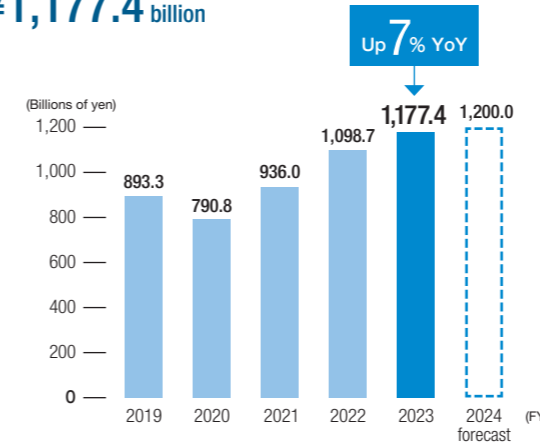
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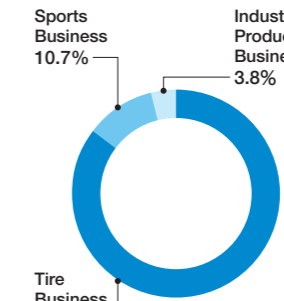
## At a Glance

### Sales Revenue

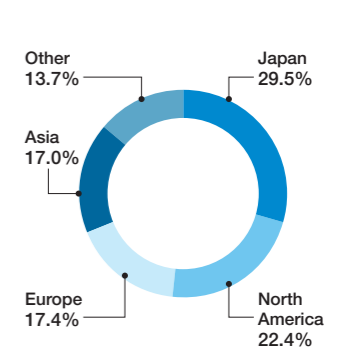
¥1,177.4 billion



### Sales Revenue Breakdown by Business Segment

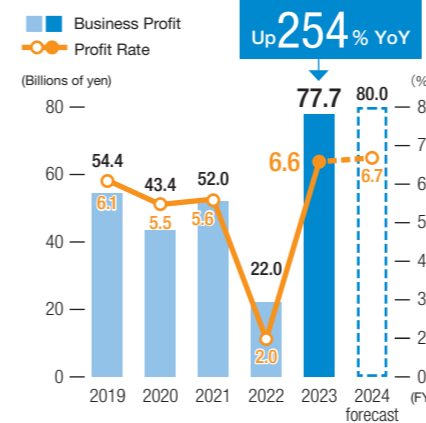


### Sales Revenue Breakdown by Region



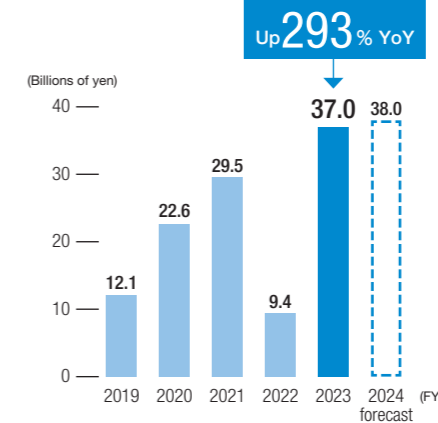
### Business Profit/Business Profit Rate

¥77.7 billion/6.6%



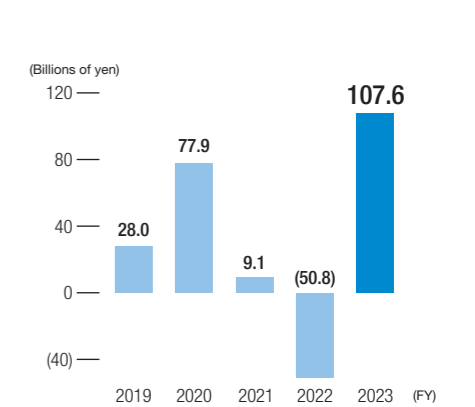
### Profit Attributable to Owners of Parent

¥37.0 billion



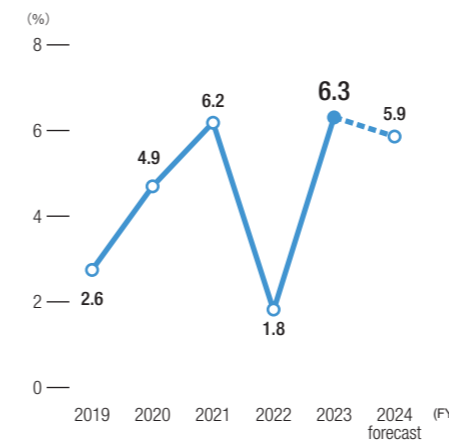
### Free Cash Flows

¥107.6 billion



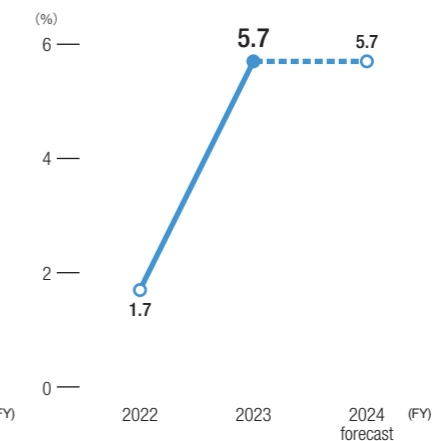
### ROE

6.3%



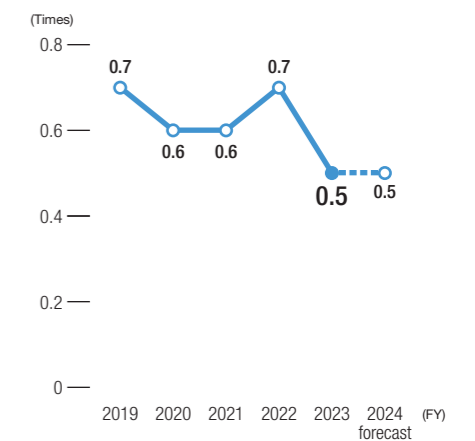
### ROIC

5.7%



### D/E Ratio

0.5 times



# Progress of the Mid-Term Plan (2023–2027)

## Progress of the Mid-Term Plan

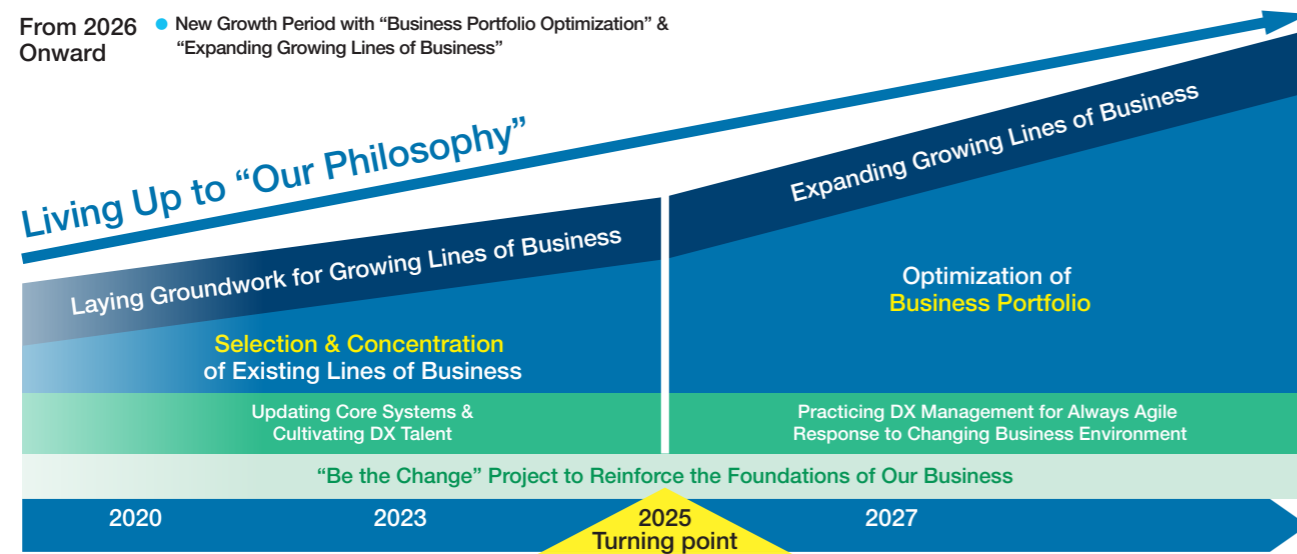
In February 2023, the Sumitomo Rubber Group announced a new Mid-Term Plan (2023–2027).

By 2025, defined as a turning point under the Plan, the Group will be focusing on selection and concentration of existing lines of business, as well as laying groundwork for growing lines of business, and achieve the 2027 financial targets ahead of schedule.

### Financial Targets

	2022	2023	2027 targets
Business Profit Rate	2.0%	6.6%	7%
ROE	1.8%	6.3%	10%
D/E ratio	0.7 times	0.5 times	0.6 times
ROIC	1.7%	5.7%	6%

- Through 2025**
- Moving Ahead with Improvements (to Organizational Framework, etc.) as Part of Ongoing Activities to Reinforce the Foundations of Our Business
  - Completing Updates to Core Systems for DX Management by 2025
  - Focusing on “Selection & Concentration of Existing Lines of Business” + “Laying Groundwork for Growing Lines of Business”
- From 2026 Onward**
- New Growth Period with “Business Portfolio Optimization” & “Expanding Growing Lines of Business”



## Initiatives for the 2025 turning point

	2023	2024	2025
Monetize business in North America	Turning profitable in business in North America	Work to further increase profits	
In the scope of Structural Reform (approx. 10 businesses)	Withdrawal/sale of 2 businesses	4 businesses will be estimated within 2024, other businesses will be estimated by 2025	
Tire Business: Revamping Management & Organizational Structures	Integration of manufacturing, sales, and technology	Promote efficiency to improve profit in the Tire Business	
Promote DX	Steady efforts for updating Core systems by 2025		
Living up to “Our Philosophy”	Work on CASE + Sustainability (ACTIVE TREAD, SENSING CORE) and others		
Developing the foundation for growth		Also pursue investment opportunities in growth areas	

## Main Initiatives in Fiscal 2023

### Structural Reform Initiatives

We are working to optimize our business portfolio by positioning approximately 10 businesses and product lines as structural reform businesses. Of these businesses and product lines, we have decided to withdraw from the gas hoses business within the Industrial Products Business (announced in October 2023) and to sell the business of rubber parts for medical applications in Europe (transfer completed in January 2024). As a result, the company-wide ROIC is expected to

improve by 0.2 percentage points.

In the future, we will shift the resources that have been invested in these businesses to those where growth is expected, in order to improve profitability. In the Industrial Products Business, we will focus on domestic rubber parts for medical applications business and vibration control dampers business.

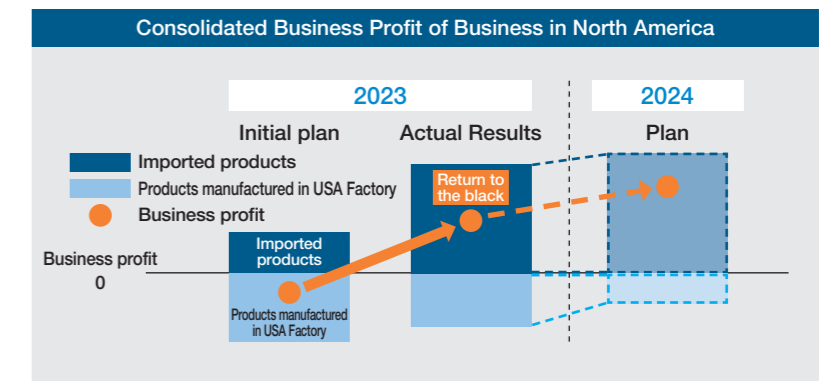
Business Name	Overview	Completion Schedule	Improvement of ROIC
Gas hoses business	Withdrawal from domestic residential gas hoses production and sales business	Scheduled to withdraw by the end of March 2025	Minimal
Business of Rubber Parts for Medical Applications in Europe	Sold Lonstroff AG, a subsidiary for the manufacture and sales in Europe	Completed on January 31, 2024	+0.2P

Shift resources (technology development, human resources, investment, etc) to business where growth is expected, to improve profitability

### Initiatives in North America in the Tire Business

We have positioned the Tire Business in North America as our top priority and have been working to improve it. In 2023, profitability improved more than originally planned, resulting in a return to the black.

In terms of sales, the profitability of imported products improved, partly due to strong sales of FALKEN’s WILDPEAK series, which is highly regarded in the North American market, resulting in a significant increase in business profits. Efforts for improving our USA factory are in progress. However, we are still halfway through the process. In 2024, we plan to further increase profitability, including by expanding sales of our new product, WILDPEAK A/T4W.



### Embodying “Our Philosophy”

**Develop the ACTIVE TREAD Technology**

In October 2023, we unveiled our unique ACTIVE TREAD technology, which adjusts rubber performance in response to road conditions, for the first time at the JAPAN MOBILITY SHOW. We plan to launch the product as an all-season tire for the domestic market in autumn 2024.

**Commercialize SENSING CORE Technology**

SENSING CORE is a proprietary sensor-free sensing technology that combines expertise in the dynamic behavior of tires with technology that analyses wheel speed signals generated by tire rotation to monitor the air pressure, load, wear and tear of tires, and even road conditions, and warning signs of wheel detachment.

**TOWANOWA Initiatives**

We are working on initiatives on the basis of the TOWANOWA concept, announced in 2023. “TOWANOWA,” a business model designed to support a circular economy through the Tire Business, aims to provide new value to customers by circulating limited resources and utilizing our unique big data.

P. 35 Tire Business

P. 9 Future Products and Service Technology

P. 52 “TOWANOWA,” a Business Model Designed to Support a Circular Economy through the Tire Business

## A Message from the Executive Director in Charge of Finance

**Aiming to Establish a Stronger Financial Base by Ensuring that Structural Reforms Are Firmly in Place by 2025**

**Naoki Okawa**

Director and Senior Executive Officer

### External Environment and Structural Reforms Combined to Achieve Favorable Results in Fiscal 2023

Our management approach in fiscal 2023 was based on reflecting on lessons learned regarding the unmet targets of the previous mid-term plan. By pursuing highly efficient management with an emphasis on profitability, we were able to increase business profit from ¥35.0 billion, the figure announced at the beginning of the term, to the final figure of ¥77.7 billion.

This success stemmed not only from external factors such as prices for maritime freight shipping returning to pre-COVID-19 pandemic levels and the stabilization of the supply chain in China and other countries, which led to the reduction of raw materials prices, but also from the Company policy of emphasizing profitability. Under this policy, we discontinued unprofitable products regardless of sales volume and accelerated sales activities focusing on highly profitable products. The combination of the external environment and structural reforms has led to favorable results.

Our tire pricing policy has also contributed to our success. For original

equipment tires for automobile manufacturers, we managed the risk of fluctuating raw materials prices by having dynamic pricing system-based contracts. Meanwhile, for replacement tires for auto-repair shops and car accessory stores, especially in the U.S. market, we were able to demonstrate the strong brand value and high quality of the FALKEN brand "WILDPEAK AT3W" for SUVs and develop our business with a high level of customer trust without getting caught up in the price competition, which also contributed to improved profits.

We have also noticed that each employee within the Company looks distinctly more confident. This is proof of the organization's strength that cannot be reflected in financial figures. While there is no doubt that returning profits to our shareholders is important, we are committed to appropriately distributing the results of our employees' daily efforts, which is why we have decided to raise the base salary in the spring of 2024 by ¥12,000, or ¥2,000 more than what the union had requested.

### Sports Business Achieved a Record High Business Profit of ¥12.5 Billion

Profitability is also improving in areas other than the Tire Business.

In the Sports Business, sales of the golf business grew steadily in North America and South Korea, partly due to the success of sponsored professional golfers, and the new golf club product "XXIO13" that launched in December 2023 got off to a good start. In addition, profitability also improved in the tennis business, resulting in a record high ¥12.5 billion in business profit for the Sports Business. It is also important to note that the Company achieved a high business profit to sales

revenue ratio of approximately 10%.

Furthermore, our Industrial Products Business has also made progress in structural reforms and is now beginning to see a path to improved profitability in the future. Our main products, vibration control dampers, were reported to have made a significant contribution to preventing the collapse of houses in the 2024 Noto Peninsula Earthquake. We believe that this product will become widespread in preparation for possible earthquakes in the future.

### Generated Over ¥40.0 Billion in Cash in Four Years through Structural Reforms

Since 2020, the Company has been promoting "Be the Change (BTC)," a project that aims to reinforce the foundations of our business by enhancing our organizational framework and reinforcing our foundation for profitability. As a result, we generated ¥10.0 billion in cash each year, exceeding ¥40.0 billion in four years. Accordingly, business profit for fiscal 2023 was ¥77.7 billion, and free cash flows (FCF) reached a record high of over ¥100.0 billion. Considering that fiscal 2022 had negative FCF, fiscal 2023 was also a year that gave us confidence in our ability to rise again as "Sumitomo Rubber Industries, a company known for profitability."

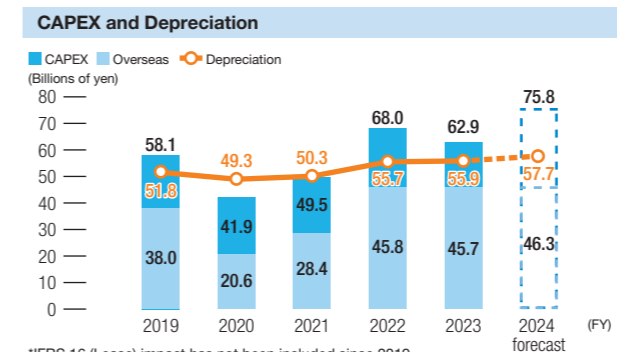
Of course, with FCF reaching a record high, there is no doubt that

momentum is building for a shift in management from quantity to quality, but we are still halfway through our structural reforms and we are determined to confront challenges head-on, especially in the top-priority tire business in North America. We will continue our structural reforms until their completion in 2025.

In the process, it is possible that a situation may arise that calls for significant cash outlays. We will first prioritize structural reforms to secure a solid profit base, and after implementing our growth strategies, we will return profits to shareholders and investors.

Regarding future capital expenditures, the allocation of investments

may change depending on what choices we make as we work to complete our structural reforms and growth strategies. Top management



\*IFRS 16 (Lease) impact has not been included since 2019.

### Accomplishing Structural Reforms by 2025

With structural reforms for 2025 reaching a critical point, we are currently monitoring ROIC and other factors, having established KPIs for each business, including those for the issues faced by our USA factory. Although still undetermined at the time of issuing this Integrated Report, we will inform our stakeholders without delay should the situation change.

To avoid any misunderstanding, we would like to clarify that although our USA factory is facing structural challenges, our North American tire business as a whole is performing well. By resolving this issue, we believe that we can significantly improve our profitability. One of our concerns

### Introducing ERP to Shorten Supply Chains

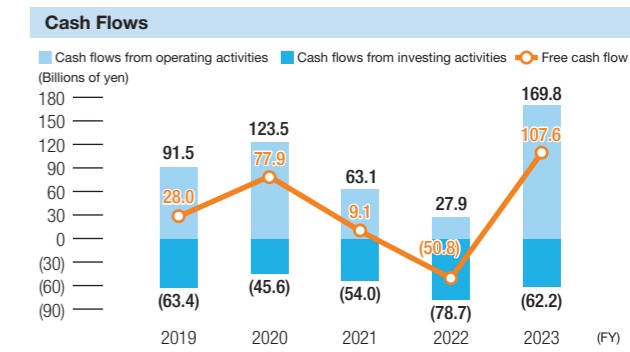
As it was mentioned that cash is increasing as a result of the BTC Project, one measure that will further boost this momentum is to leverage DX to shorten the global supply chain. Previously, it took approximately one month for production orders from the U.S. to reach the factories in Southeast Asia. By improving our work flow, this lead time has been reduced to about one week. However, we plan to introduce a new Enterprise Resources Planning (ERP) system to further shorten the time to as close to real time as possible. This reduces excess distributor inventory and also allows us to adjust our factory operations flexibly in

### Looking Beyond Structural Reforms to Formulate the Next Growth Strategy

The future path of the mid-term plan can only be explained in uncertain terms that short-term performance could fluctuate depending on the options available for structural reforms. However, we are determined to achieve the 2027 target figures that we promised and have been looking beyond structural reforms toward implementing the next growth strategy within the Company.

To this end, we will invest in the launch of competitive new products and services such as ACTIVE TREAD and SENSING CORE to transform

will discuss this thoroughly and come to a conclusion, as this could affect the future of the Company for the next five to 10 years.



about the North American market going forward is the U.S. presidential election to be held in the fall of 2024. In this regard, we are carefully assessing the risks and discussing the measures to take for each scenario.

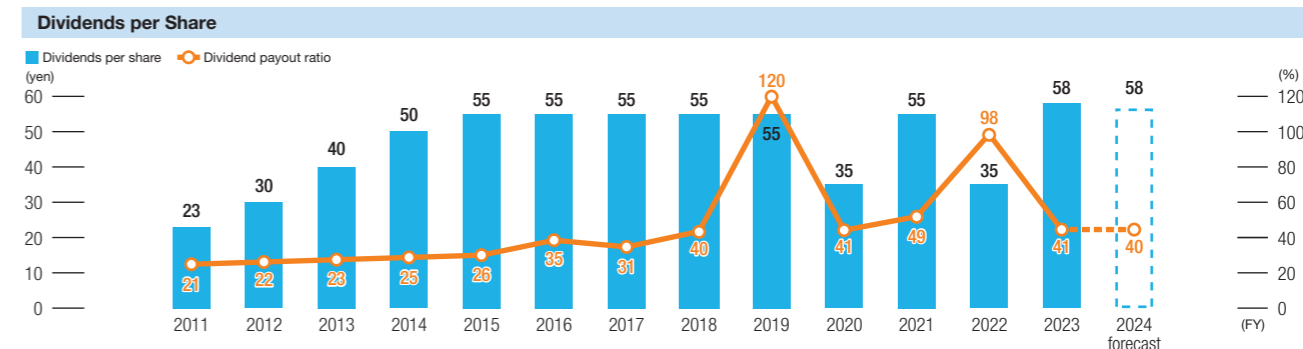
In addition, there is no guarantee that prices for maritime freight shipping will not surge in the future, as was the case during the COVID-19 pandemic. In order to avoid risks in the mid to long term, it is necessary to establish production bases close to our sales areas from the perspective of local production for local consumption. These mid-term issues are also under consideration.

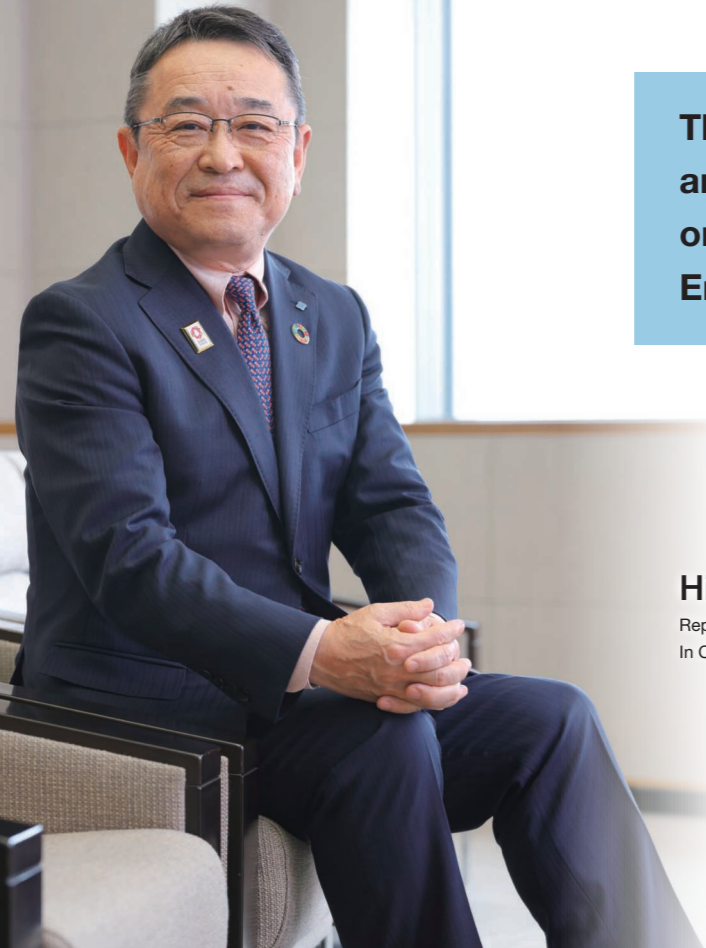
response to changing market conditions and decrease inventories of materials and other items.

Our cash conversion cycle was the longest in the domestic tire industry in 2019, but became the shortest in 2022. We remained at the top in 2023, maintaining an additional gap of 10 days or more in the cash conversion cycle compared to the company with the second shortest cycle, which has demonstrated our improved equity turnover and more stable cash flows.

our structure and generate even more cash flows from operating activities. Upon achieving this, we hope to focus on shareholder returns, including the repurchase of treasury stock.

For our dividend payout ratio, we are aiming to maintain a level of 40% or more. Dividends will not be determined solely by the amount of profit for a single fiscal year, but will be based on multi-year free cash flow trends, and we will strive to pay stable dividends as much as possible.





**Through Aggressive Restructuring and Value Creation, We Will Take on the Challenge of Further Enhancing Profitability.**

## Hidekazu Nishiguchi

Representative Director and Managing Executive Officer  
In Charge of the Tire Business and Automotive System Business

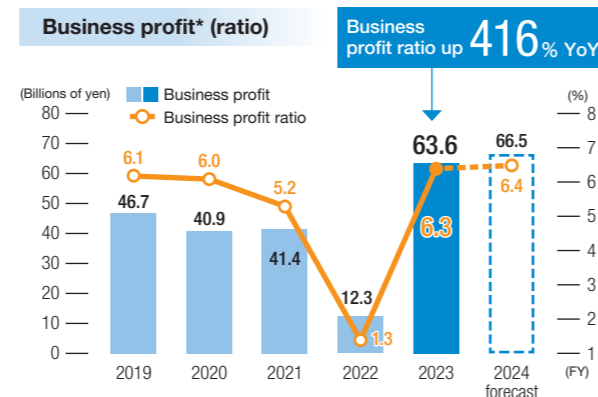
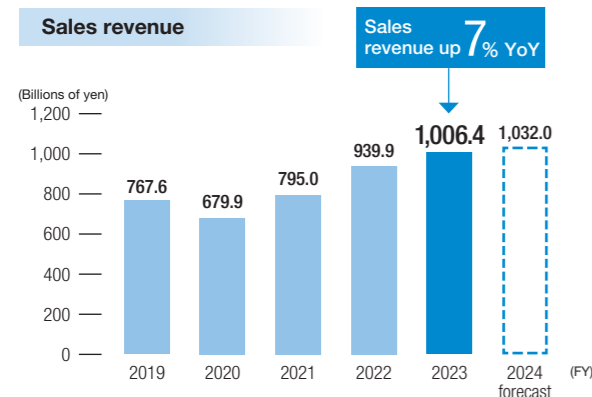
### Business Profit Expected to Increase Significantly through Steady Progress in Structural Reforms

The Tire Business has grown and globalized since the 1980s, as we have followed in the footsteps of Japanese automakers pursuing global expansion by moving into other Asian countries. Historically, the bulk of our profits thus came from Japan and elsewhere in Asia. However, the share of our profits earned in other regions has gradually increased. By fiscal 2023, about half of our profits were generated outside of Japan or the rest of Asia.

The US Business has been one of the core sources for our profits along with that of Japan or Asia. While our US operations previously dragged down our overall business performance due to losses, recent increases in sales of high-value-added products have brought them into the black, leading to a marked improvement in the profitability of the Tire Business.

Although structural reforms at our US factory is still ongoing, SUV tires exported from Thailand to the US have proved incredibly popular among American customers, resulting in favorable business performance. I believe that progress with structural reforms at our production bases, including the US factory, will enhance the profitability of the Tire Business even more.

Incidentally, the reason for the deterioration in the business profit of the Tire Business was increased fixed costs resulting from business expansion, which caused a worsening in our break-even point. In the course of building up a formidable global business framework, we have provided a diverse product lineup to meet the needs of as many markets and customers as possible. We have backed these endeavors with enhanced development, production, logistics, sales and service



\* Business profit = Sales revenue - (Cost of sales + Selling, general and administrative expenses)

structures, which have created a negative impact such as raising fixed costs. They have also rendered various aspects of our operations inefficient, putting pressure on our profitability.

There will be no delay in dealing with the issues faced by our US factory. After considering various options, we are determined to complete the structural reforms by 2025.



**WILDPEAK A/T4W**

FALKEN "WILDPEAK A/T4W," selling well in North America



**e.ZIEX**

FALKEN "e.ZIEX" EV tire for the European market

### Tire Business Headquarters, Supervising All Aspects of the Tire Business

We will optimize our business portfolio via "Selection & Concentration," a key pillar of our mid-term plan, with the aim of returning to growth from 2026 onward. Within the Tire Business, we plan to increase the ratio of invested capital in businesses with high growth potential and profitability from 60% in 2021 to 70% by 2025. This will facilitate a resource shift of investment and human resources into businesses with high growth potential and profitability, thereby strengthening our profit base.

In January 2024, we established the Tire Business Headquarters as part of a forward-looking organizational restructuring drive. We will streamline the complex value chain within our global framework by bringing digital transformation (DX) to management. This will allow us to organize the value chain based on data and achieve efficiency and optimization through flat organizational administration. Through this initiative, the goal is to build a foundation for responding quickly and flexibly to changes in our external environment.

In the background to our establishment of this organization now is the shared realization, which emerged when President Yamamoto took up his post in 2019, that there can be "no improvement in performance without organizational transformation." In other words, we needed to turn the twin wheels of improving our organizational health and generating profits. Back then, we had launched the "Be the Change (BTC)" Project, and as chief of the project, I set about transforming our organization. A key issue that came up was insufficient collaboration along the supply chain, from research and development to production and sales. Although individual departments were pursuing optimization, there was scant awareness of the importance of total optimization, and little progress was made with the sharing of issues.

Therefore, we aimed to create a framework that straddled departmental boundaries to enable swift and strategic decision-making. Incidentally, we deliberately located the Tire Business Headquarters inside the Tyre Technical Center next to Head Office. It brings together personnel from manufacturing, technology, and sales, and offers an environment in which everyone can discuss various issues face-to-face.

And of course, as the general manager, I am also based at the Tire Business Headquarters, from where I direct operations.

With the establishment of the Tire Business Headquarters, I want to focus on the following two tasks:

- (1) Halt the declining trend in profits, both in absolute terms and in terms of margin, in the Tire Business, and ensure we turn things around.
- (2) Formulate and implement measures to boost business profit in our mid-term plan.

To accomplish this task, the Tire Business Headquarters will take the following four actions:

- (a) Ensure the sales and manufacturing sides straddle the boundaries between them and collaborate, driving the business forward with a sense of unity among manufacturing, sales, and technology departments.
- (b) Have cross-departmental task forces proceed with work and accelerate the PDCA (Plan-Do-Check-Act) cycle.
- (c) Maintain solid communication with overseas Group companies to manage and administer the business globally.
- (d) Strengthen product planning and marketing, and focus on leveraging our unique technologies to develop hit products and on enhancing marketing at the global level.

In addition, regarding domestic replacement tires, one of the pillars of the Tire Business, we merged 11 domestic sales companies into one company in January 2024. By improving efficiency in all areas and concentrating on the solutions business, we aim to enhance our profitability in the future.

Alongside fundamental organizational transformation, we will pursue DX as we look toward 2025. By deploying ERP (Enterprise Resource Planning) systems, we will establish a mechanism for obtaining information on inventory, orders received, and production at our global bases in real time, thereby enabling us to make decisions faster. We will also create a structure that allows us to respond flexibly to market conditions, with the objective of improving profitability.

Tire Business

Launch of All-season Tires Equipped with ACTIVE TREAD in Autumn 2024

In addition to moving forward with structural reforms, we will be taking on challenges with an eye to the future. This is the SMART TYRE CONCEPT, an advanced concept for future-oriented tire technology. As a means of offering products that meet the mobility needs of society in the future, we have been pursuing development along five technical axes: Airless Tires, SENSING CORE, Sustainable Materials, Performance Sustaining Technology, and ACTIVE TREAD.

In recent years, the rise of tire manufacturers in China and other Asian countries has been remarkable. We are gripped with a sense of urgency that unless we create incredibly high-value-added, differentiated products, we will not be able to compete. Therefore, based on the SMART TYRE CONCEPT, we are concentrating on developing tire technologies in anticipation of the competitive landscape of 2030 and even 2040.

In autumn 2024, we will launch all-season tires equipped with ACTIVE TREAD. It is no exaggeration to say that these will significantly change the notion of tires, and I am confident they have the potential to become a game-changer for the market.

These new products feature rubber that actively switches its performance in response to changes in road conditions. Simply put, on sunny days, the tires excel in terms of dry grip and fuel efficiency, and when there is rain, they respond to the water by transforming into tires specialized for wet grip. Furthermore, when it snows, they respond to the low temperature by changing into tires specialized for grip on snow and ice. In other words, although they are merely a type of tire, they were born from the completely new idea of having multiple tire features that adapt to changing road conditions.

In Europe, the share of all-season tires has grown to about 20% of the total tire market in recent years. However, in Japan, penetration stands at just a few percent, so we had been exploring the potential for such products. In response, our materials development team presented rubber material technology that they had been working on since 2018 in an internal technical report in 2022. I intuitively felt that this technology could

allow us to create products that are befitting of Sumitomo Rubber, and urged other people in the company to aim for commercialization immediately, which accelerated the development of our all-season tires.

In October 2023, we exhibited prototypes of ACTIVE TREAD tires and materials at the JAPAN MOBILITY SHOW 2023, and they were met with a great response. Based on feedback from the media and analysts, who were questioning the feasibility of tires, we invited them to our test course in Asahikawa, Hokkaido during the harsh winter of 2024. I also attended personally and hosted the test drive event. The latest, improved version of ACTIVE TREAD was so impressive that even I, the host, was amazed, and the event participants also heaped praise on the tires for their "incredible performance."

Brimming with confidence from the test drive event, I have been telling the people that we do business with that in autumn 2024, Japanese tires are going to change. In addition to various data, the evidence for this that the performance of ACTIVE TREAD can be felt by ordinary drivers. Just as our XXIO golf club has become a long-seller because many golfers can experience the "straight flight" of the ball when they hit it, ACTIVE TREAD allows drivers to feel the tires' grip on snowy roads. This is the value that Sumitomo Rubber provides, and I believe it will be a driving force for creating new revenue opportunities. You can expect great things from us.



ACTIVE TREAD Technology

Rubber That Changes Properties According to Road Conditions



Unveiled at JAPAN MOBILITY SHOW 2023

Release of Next-generation EV Tires around 2027

ACTIVE TREAD is no more than a component of the overarching SMART TYRE CONCEPT. We plan to bring out second and third versions going forward. Specifically, in 2027 we plan to launch next-generation EV tires equipped with ACTIVE TREAD.

Compared to gasoline vehicles, EVs have greater torque, leading to faster tire wear. In addition, tires with poor rolling resistance can reduce

the efficiency and range of EVs. To address such issues, we will continue to come up with tires incorporating measures to tackle them.

Looking ahead to the full-scale arrival of the EV era, we aim to contribute to extending the range of EVs, ensuring customer safety, and protecting the earth's environment, as we position ourselves on a new growth trajectory.

SENSING CORE, a Solutions Service for Predicting Automobile Breakdowns

Besides ACTIVE TREAD, another of our unique tire technologies is SENSING CORE. This solution service expands upon DWS, a tire pressure warning system that has been adopted in 53 million vehicles. We will continue to add new functions to the four already-established ones. It will enable us to better contribute, in diverse ways, to the shift toward CASE and a sustainable society in the coming era, so we are endeavoring to rapidly commercialize such new functions.

As a concrete example of commercialization, automakers are set to start installing SENSING CORE in 2024. We have also invested in Viaduct Inc., a US-based company that has a track record of products for predicting failures of vehicle parts, with the aim of strengthening our relationship with the company.

Since 2023, we have been carrying out proof-of-concept trials with Viaduct that combine its AI-powered vehicle failure prediction solutions with the ability to detect tire conditions provided by SENSING CORE. By strengthening our strategic partnership with the company through this investment, we will accelerate the deployment of failure prediction solution services for the entire vehicle.

The appeal of these solution services lies in the fact that they do not require large-scale production facilities like tire factories and can yield early returns with minimal investment. The marginal profit rate is far higher

than in manufacturing, making it an attracting business model from an ROIC perspective.

Our plan is to enhance the value of SENSING CORE by integrating it with Viaduct's technology. I encourage the technical team for SENSING CORE by telling them they need not be afraid of anything. I urge them to look at what is in front of them and push ahead. We have already started making presentations to hundreds of corporate customers worldwide. Through this unique technology-driven data business, we are aiming to establish a fourth business pillar generating profits of more than ¥10 billion by 2030.



Aiming to Make Sumitomo Rubber the First Company You Think of When You Hear the Word Rubber

Our Philosophy defines Our Purpose thusly: "Through innovation we will create a future of joy and well-being for all." And going forward, I believe that realizing Our Purpose is the biggest challenge for the Tire Business.

Additionally, we will evolve our technology concept, the SMART TYRE CONCEPT, and its components, ACTIVE TREAD and SENSING CORE to create products and solution businesses. I believe that this will allow us to differentiate ourselves from other companies and contribute to the development of the mobility society and sustainable society of the future.

Finally, my dream is to delve into the essence of rubber, many aspects

of the structure of which remain unknown. I believe that by pursuing the essence of rubber, which still offers a great deal to explore, we will be able to create unprecedented business opportunities.

Furthermore, I want Sumitomo Rubber the first company you think of when you hear the word rubber. As a rubber pioneer, we will be aiming to establish ourselves a global manufacturer boasting advanced rubber technology. We will continue to believe in the endless possibilities of rubber and to take on new challenges.



**In the Golf Business, We are Focused on Growing Our Presence in North America, the World's Biggest Market. Step by Step, We are Making Progress Toward Becoming a Truly Global Player.**

**Keiji Moriyama**  
Executive Officer, General Manager of the Sports Business HQ

## In Fiscal 2023, both Revenues and Profits Increased, and the Business Profit Ratio Reached 10%

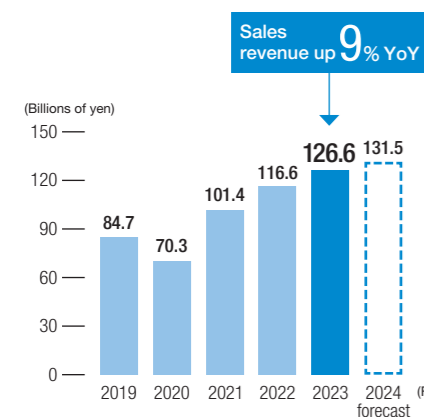
In fiscal 2023, the Sports Business saw higher revenues and profits for the third straight year, and the business profit ratio was around 10%. The overseas sales ratio hit 67%, just shy of the 70% target, bolstering our confidence in ourselves as the Sports Business Headquarters.

As part of our mid-term plan, which runs until 2027, in the golf business we are aiming to become one of the top-three global manufacturers of clubs and balls, while in the tennis business, we are striving to expand the business by building on the foundation of trust we have earned as the holder of one of the top-three shares of the tennis-ball

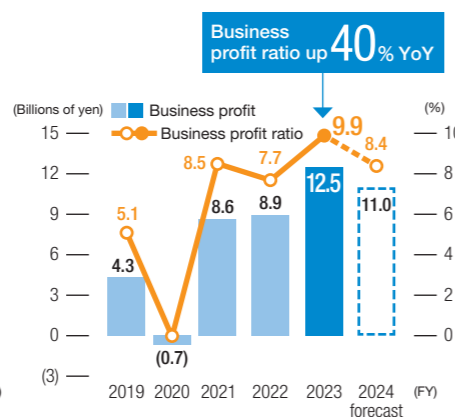
market, as we endeavor to become a truly global player.

Going forward, we will not rest on our current achievements, but instead will leverage our strengths in product development and production technology to create even more competitive products. Through marketing activities that reflect the "5-Gen Methodology" that I value, i.e., Genba (on-site), Genbutsu (actual products), Genjitsu (reality), Genri (principles), and Gensoku (rules), we intend to provide products that meet the needs of markets around the world.

### Sales revenue

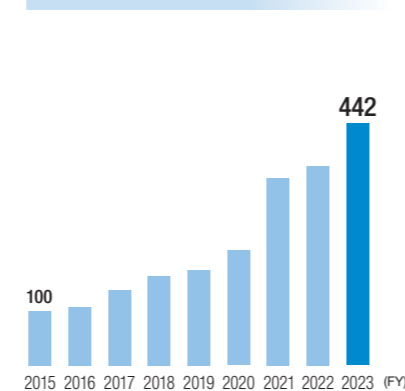


### Business profit\* (ratio)



\* Business profit = Sales revenue - (Cost of sales + Selling, general and administrative expenses)

### North American golf business: Sales revenue trend\*



Note: Sales are expressed as an index starting at 100 in 2015

## Further Strengthening the Golf Business in North America

In fiscal 2023, sales in overseas markets, particularly in North America and South Korea, were strong. Notably, SRIXON saw significant growth, and Cleveland Golf improved its performance with its formidable brand power, having the second biggest market share globally for wedges. In addition, XXIO, which boasts overwhelming brand strength in Japan and South Korea, continued to perform well. These three brands have each been leveraging their unique characteristics to grow sales, and constitute the strengths of the golf business.

Historically, our strategy has been for profits earned from XXIO and Cleveland Golf to be reinvested into the growth of SRIXON, which we view as a future source of profits. Our dream has been to see top professional players compete and win in the most prestigious major tournaments with SRIXON clubs and balls, and since 2019, that dream has been realized multiple times. Among the successes, the victory of Hideki Matsuyama, with whom we have a golf equipment contract, in the 2021 Masters Tournament has been a big confidence booster.

His win elevated the brand value of SRIXON as golf gear used by top professionals, leading to a steady improvement in performance in North America. Although we anticipate a temporary decrease in profits in fiscal 2024 due to increased competition amid market contraction and higher expenses from marketing and DX investments aimed at future business development, we are strengthening our workforce and expanding sales channels in North America with an eye to further growth.

Additionally, we will leverage our product development capabilities, which could be described as the core competence in the Sports Business, to further enhance our competitive edge. In Japan, we utilize our Golf Science Center, which boasts a wealth of rubber material technology and simulation technology cultivated through tire research, to develop leading products like XXIO. Meanwhile, in the US, the marketing and R&D teams focus on product planning that meets market needs and tour professionals' demands. Moving forward, we will continue to develop differentiated products through our dual-polar development structure in Japan and the US.



13th-generation XXIO club

## Tennis Business Leverages Trust in Balls to Accelerate Sales of Rackets

In the tennis business, we maintain a top-three global market share for balls and are focusing on expanding sales in key markets such as Europe, Asia, North America, and Japan.

We believe that keeping our position as the number-one supplier of balls on the ATP (Association of Tennis Professionals) Tour and enjoying continued support from the world's top professional players is important from a marketing perspective, and have thus endeavored to support the tour and approach leading players. One of our achievements in fiscal 2023 was the expansion of our presence all the way from Europe to Asia.

In anticipation of future growth in the racket business, we have been providing assistance to promising young players through contracts with prominent academies. By scouting junior players who have the potential to break into the world's top 10 rankings, we aim to pave the way for future growth.

In product development, we are making full use of the Tennis Science

Center, which opened last year, to comprehensively measure, analyze, and evaluate our products. By further honing our strengths in material development and simulation technology, we aim to create products that are highly regarded by leading professional players worldwide and will contribute to expanding our market share in rackets.



DUNLOP ATP tennis ball

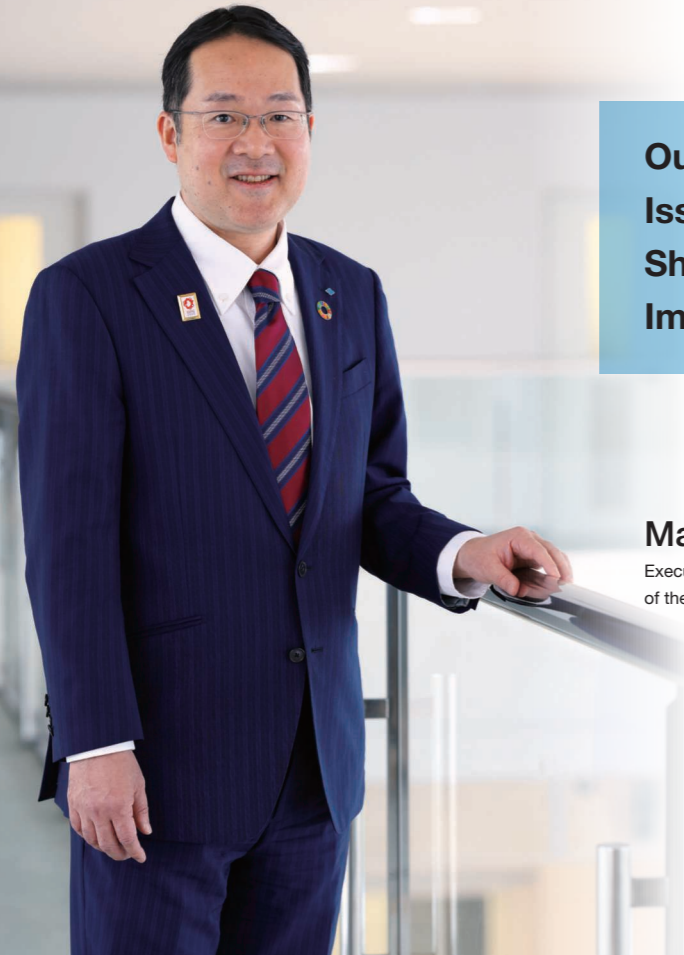
## Toward Further Growth for the Sports Business

Regarding the wellness business, which is the third pillar of the Sports Business, market conditions have been recovering since the downgrading of COVID-19 to Category 5 in May 2023, but they have not yet returned to the pre-pandemic conditions of 2019. We are endeavoring to get the business contributing to corporate profits by growing our customer base at a faster pace than the recovery in market conditions and through efficient management.

And in terms of sustainability initiatives, we have developed the SRIXON Z-STAR+e golf ball (not for sale), which uses plant-based biomass materials to achieve the same performance as current models. We unveiled it at the Dunlop Phoenix Tournament in November. As for tennis balls, we have actively worked to reduce environmental impact by replacing container lids and plastic labels with paper ones and using recycled PET materials for the containers.

Since fiscal 2020, when we were heavily impacted by the COVID-19 pandemic, we have achieved a V-shaped recovery, which began in fiscal 2021. This rebound has seen business profit doubling compared to pre-pandemic levels. The Sports Business has weathered various challenges over the years, including earthquakes, and has built up resilience against crises. It is said that no management strategy is superior to a company's culture, and I believe the enthusiasm of our employees contributes to the creation of culture capable of resisting headwinds. Moving forward, our organizations will work together and continue to grow by accurately responding to changing times.

Furthermore, I believe it is essential to not only sell products, but also to propose ways of using them and ways of enjoying sports. I hope you will continue to expect great things from the Sports Business.



**Our Mission is to Resolve Social Issues, and We Will Continue to Shine Brightly as a Small but Impactful Business Division.**

**Masahiro Tsuzaki**  
Executive Officer, General Manager  
of the Hybrid Rubber Products Headquarters

## Progress with Structural Reforms - Business Withdrawal and Sale

In line with our mid-term plan, in which we committed to achieving substantial progress with structural reforms by 2025, we made two significant decisions last year, namely, to withdraw from the gas hose business in Japan and to sell all our shares in Lonstroff AG, a wholly-owned subsidiary that manufactures and sells rubber parts for medical applications in Europe. The former decision was driven by the shrinking domestic market for consumer gas hoses, making it challenging to maintain economic viability while consistently delivering high-quality products that satisfy our customers. The latter decision, meanwhile,

reflected delayed productivity improvements due to the spread of COVID-19 around the world and deteriorating profitability due to the jump in prices of raw materials, which made it difficult to improve profitability over the short term.

As President Yamamoto has stated, one of the major roles of management is to select businesses where efforts lead to results and to create jobs where each employee can shine. We will continue to focus on resolving social issues, and will steadily move forward with restructuring while seeking higher profit ratios and asset efficiency.

## Honing Technology for and Expanding Adoption of Vibration Control Dampers and Rubber Parts for Medical Applications

We possess advanced technologies unique to a tire manufacturer. One example is our vibration control technology, which employs high damping rubber. This high damping rubber boasts unparalleled hardness and absorbs the energy from earthquakes and wind. By reducing its size, we can also achieve lower costs. Our vibration control damper "MIRAIE," which utilizes this high damping rubber, significantly reduces vibrations\*1, requires no maintenance for 90 years\*2, and is highly resistant to repeated shaking. It is therefore a highly competitive product that our division is proud of.

\*1. Based on the results of full-scale tests using the MIRAIE framework by the Disaster Prevention Research Institute, Kyoto University, in January 2017.

\*2. Based on the results of accelerated aging tests (for the high damping rubber damper part) performed by the Company.

Vibration control dampers are primarily installed in homes, buildings, and bridges within Japan, but currently, only about 20% of new wooden houses in Japan are equipped with them. Our goal is to increase this adoption rate to over 50% of buildings in Japan, so as to protect people's lives and give them daily peace of mind. We are also focusing on thriving overseas building markets, especially in Asia. Moreover, our technology has been adopted in historical structures such as Kumamoto Castle and Higashi Honganji Temple. Going forward, we aim to extend its application to the preservation of important cultural properties like temples and

shrines, and having witnessed the huge damage caused by the recent 2024 Noto Peninsula Earthquake, to expand its use in retrofitting existing homes.



Our advanced technology from the Tire Business is also being leveraged as a strength in the rubber parts for medical applications business. This business requires extremely high-quality standards, such as the elimination of impurities. Utilizing resources from our tire research facilities, our research team has dedicated 5 to 10 years to product development.

Rubber parts for medical applications are directly linked to people's health and lives, making this a highly significant business. To ensure further growth, we prioritize enhancing the added value of our products and expanding our production capacity.

## Aiming to Contribute to Resolving Social Issues Through Our Business

The Hybrid Rubber Products Headquarters operates with a vision of resolving social issues and providing safety, security, and comfort to people. Based on this vision, we engage in businesses such as rubber parts for office equipment, gloves, floor coating, marine fenders, and artificial turf for sporting facilities. By leveraging our technical strengths in each product and integrating DX, AI, and sustainability, we aim to secure stable profits.

We also intend to enter new fields utilizing rubber technology. Over the years, the Hybrid Rubber Products Headquarters has developed and manufactured various products that meet the needs of the times. With a long history and a culture/DNA of boldly taking on challenges, the mission of our division is to resolve social issues.

Our future focus will be on strengthening our product power. This year,

we launched the "Hit Product Project," which is aimed at serving our customers with differentiated products. We will bring to market high value-added products that exceed customer expectations.



## Continuing Organizational Transformation with the Theme of "Trust x Persistence"

Investing in our organization and people is crucial for sustainable business growth. I believe that our employees' motivation is our most important resource. Last year, we established a specialized team within the division to promote a healthy organizational culture and human resource development. Based on a policy of making everything open, both good and bad, we are pursuing initiatives such as level-based training and team building. I am confident that the accumulation of such honest efforts will gradually change mindsets and transform daily operations.

This year, we have declared "trust" as a particularly important theme. There are various issues within our organization, but trust is the key weapon for resolving them. Starting this year, we have begun training

managers to thoroughly consider "trust" until their daily work and mindset changes. Because trust is a skill that can be acquired over time.

The customers of the Hybrid Rubber Products Headquarters are diverse, and from specialized industries. In such a context, how do we differentiate ourselves? We will compete by leveraging three features that the Sumitomo Rubber Group possesses: earned trust, network and information capabilities, and innovation. We want to resolve social issues in fields that are out of the reach of the Tire Business and the Sports Business, continuing to shine brightly as a small but impactful division that excels, and thereby enhancing our enterprise value.

## Achieved Profit Target in Fiscal 2023 Thanks to Turnaround Efforts

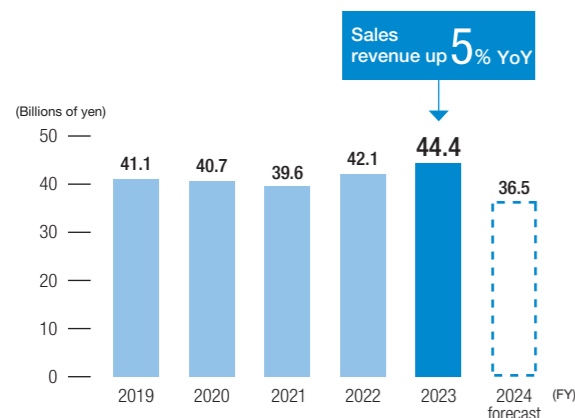
Fiscal 2023 was a significant year for the Hybrid Business Headquarters, as it was one in which we took a major step forward. Despite a challenging operating environment with soaring costs for energy, raw materials, and many other products, the combined efforts of our sales, technical, manufacturing, and administrative departments paid off, allowing us to achieve our profit target for the first time in six years, an achievement that marks a first step in turning the business around.

With those efforts ongoing, the 2024 Noto Peninsula Earthquake occurred on New Year's Day 2024. I wish to extend my deepest condolences and sympathy to those who lost their lives or were adversely

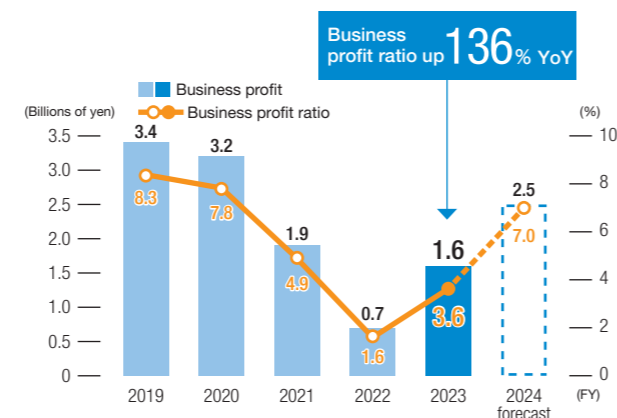
affected by the temblor. Following the earthquake, we conducted on-site investigations of damage, focusing on areas where a JMA seismic intensity of 6-lower or higher had been recorded. The results showed that no buildings equipped with our vibration control dampers experienced total or partial collapse\*, and many customers expressed their gratitude. We directly experienced the effects of the Great Hanshin-Awaji Earthquake and the Great East Japan Earthquake, and this latest temblor has reminded us of the importance of the vibration control damper business as a socially significant endeavor that protects people's lives and assets.

\*Based on information available to the Company as of June 4, 2024.

Sales revenue



Business profit\* (ratio)



\* Business profit = Sales revenue - (Cost of sales + Selling, general and administrative expenses)

## Roundtable Talk among Officers in Charge of Technology and General Managers of Business HQs



With a Corporate Culture that has Pursued Advanced Technologies, We will Enhance the Motivation of Each Individual Involved in Research and Development While Focusing on Developing Technologies that Lead the Times.

### Susumu Tanaka

Executive Officer, Vice General Manager of Technology HQ, Tire Business HQ

### Kiyoshige Muraoka

Director, Senior Executive Officer, Supervision of Tire Business, Technology and Production

### Kenichi Uesaka

General Manager of Research & Development HQ

Three key persons involved in our technology development gathered to discuss our technological strengths, future technology strategies, efforts to create innovation, and the importance of human resource development.

## Demonstrating Global Presence with Uniqueness and Adaptability in Advanced Technologies

**Muraoka** Our rubber products, including tires, use dozens of additives and structural materials, mainly rubber raw materials, to deliver the required functionality and quality. Our strength lies in our possession of technologies for combining various materials and technologies for optimizing materials. The keys to this optimization are our technologies for analyzing physical properties and performing simulations. We always pursue technological advances with the confidence that we are second to none in these areas.

Moreover, while we don't have the top market share in the tire industry, this allows us to focus on being distinctive in terms of the products we manufacture and on creating value that other companies cannot offer. Tires are used in a vast number of ways, and by optimizing them for different uses, the possibilities are endless, so we are dedicated to developing high value-added tires that other firms are unable to imitate.

**Uesaka** There are many aspects of the mechanisms by which rubber performance manifests that are yet to be fully understood. By uncovering

even one of these aspects and applying the insights to R&D and performance optimization, we can begin to generate new value. And by repeatedly cycling through evolutions in rubber technology, I think we are able produce unique products that are distinctively ours.

**Tanaka** Having been involved in product design for many years, we focus on creating tires that maximize the performance of rubber as identified through R&D. The design of the tread pattern, which is the outer part of the tire in contact with the road surface, is especially important, as it affects the tire's stability, drainage, and other essential performance characteristics. Matching the tread pattern to customer preferences is also a vital element. Internally, we refer to this as "getting close to and adjusting to the customer," which emphasizes our market-driven product development.

**Uesaka** Regarding the analysis and simulation technologies that we excel in, I would also say that given the dramatic improvement in the

processing performance of hardware for data analysis, it now comes down to how effectively we can take advantage of this advancement. We are also making greater use of generative AI, which is increasingly penetrating R&D settings. We have accumulated a massive amount of data on tire usage, which I expect to prove a powerful asset in future business development.

**Tanaka** One aspect of tire development, is that the techniques and know-how of charismatic, master designers are black-boxed, and are thus highly valued. By having generative AI learn this knowledge and skill, we should be able to better develop human resources by allowing advanced techniques to be shared and passed on.

**Muraoka** In the upcoming era, while it will be crucial to have differentiated products that only we can offer in the tire business, pursuing uniqueness alone could make global expansion trickier. It is essential to create new value ahead of other companies, and to endeavor to make that the de facto standard in the tire market. In this regard, we continually embrace new challenges, creating unique value and bringing it to the world. One example has been the development of tires that are manufactured using a high proportion of sustainable materials, namely biomass and recycled raw materials.

In addition, our "TOWANOWA" circular economy concept, which leverages data-driven insights based on big data, offers huge potential.

By combining our technological strength with data utilization, we intend to increase opportunities to earn profits while resolving social issues.

**P.52 "TOWANOWA," a Business Model Designed to Support a Circular Economy through the Tire Business**

**Tanaka** As Muraoka mentioned, expanding our business in the coming era will require both uniqueness and adaptability. For example, as EVs (electric vehicles) become more prevalent, it is not feasible for a single automaker to pursue unique technologies in isolation. Instead, companies will need to both compete and collaborate to deliver the performance and environmental features required for EVs. Similarly, in tires, sustainability is an industry-wide challenge that I believe should be tackled collectively.



## Shifting from a Defensive to an Offensive Intellectual Property Strategy

**Muraoka** Enhancing our competitive position and strength increasingly hinges on our intellectual property strategy. Historically, we have strived to acquire intellectual property across a broad spectrum, but in recent years we have focused on obtaining patents that are aligned with our business strategies. We are also aiming to secure not only manufacturing-related patents, but also rights in areas such as software and services.



Therefore, we are making a significant shift from a defensive intellectual property strategy, where we focus on acquiring necessary patents for product development, to an offensive one, where we seek to fill gaps in our product development.

**Uesaka** When considering technology strategy in the context of differentiation and advancement, it is naturally important to master technologies in cutting-edge fields and to secure the relevant rights. However, it will also become increasingly crucial to disseminate these technologies and gather supporters. As our predecessors often said, we need to be the trendsetters. By not limiting advanced technologies to tires alone, but instead aiming to apply them across broader fields, we can increase business opportunities via our technology strategy.

**Tanaka** We are currently focusing on the questions of how to effectively utilize our existing patents and how to protect the rights we will need in fields we aim to explore in future technological development. Therefore, we are conducting benchmarking surveys for each product to clarify their current positioning, and systematically deciding on the patents we should acquire moving forward.



## Creating an Environment in which We can Devote Our full Attention is Vital for Innovation

**Muraoka** In the process of technological development, it is essential in this era to balance achieving steady results along the roadmap with fostering so-called non-linear innovation. The role of the R&D Headquarters is thus becoming increasingly important.

**Uesaka** As Muraoka pointed out, one of the missions of the R&D Headquarters is to create innovation. However, innovation does not naturally occur just by working on assigned tasks. I believe that to generate true innovation, it is most important for R&D personnel to devote their full attention to what interests them. Of course, devoting one's full attention to research is not guaranteed to lead to innovation. Although this entails some resolve as a company, we need to be willing to leave researchers to do what they like doing in some aspects of their work. As the General Manager of the R&D Headquarters, I see it as my mission to figure out how to create an environment in which researchers can conduct research as they please.

It is also important for multiple researchers to work collaboratively on themes rather than steadily continuing their research alone. In some cases, interaction among researchers from different fields is an essential element in creating innovation.

However, pursuing research that is totally at odds with our business strategies is meaningless for us as a company. Therefore, we divide our technological development into several areas. Among these are areas that are closely related to specific existing businesses and areas that broadly encompass all our existing businesses. For the research themes that have emerged, we sometimes decide, based on certain criteria, whether to consider commercialization, and for some themes, we decide to proceed with development in collaboration with a business division. There are also themes we tackle thoroughly from a long-term perspective.



**Muraoka** In R&D, a challenge is to decide which among numerous seeds we should move to commercialize. Whether to elevate a theme, continue working on it, or abandon it requires judgment from a more specialized perspective. Therefore, researchers do not handle everything themselves in the run-up to commercialization. They also obtain advice from outside directors and external specialist organizations.

A recent innovation success story is our ACTIVE TREAD all-season tires, which are set to hit the market in autumn 2024. They have the potential to fundamentally change conventional tire wisdom and represent a truly unexpected innovation achievement.

**Uesaka** I can talk about it now, but back in 2016, when a researcher first proposed the ACTIVE TREAD concept, everyone in the company thought it was an interesting idea but impossible to realize. Actually, I had responsibility for the final decision, but there were hardly any supporters in the company, and I felt like I was playing away from home. And for about six years, there was no prospect of realization. It was as though I was sleeping on a bed of nails during that period. Though encouragement from a superior who kept urging me to see it through to the end provided a ray of hope. Without that support, we might have abandoned the theme. Through our unique R&D, which values the fundamental principles of technology, we thoroughly and continuously elucidated and pursued physical phenomena, leading to this accomplishment.

**Tanaka** As ACTIVE TREAD becomes more widespread, I predict it will become a game-changer for automobile tires. Tires equipped with this ACTIVE TREAD will be launched in autumn 2024. Those who have experienced them on the test course have expressed a strong desire to fit their own cars with them. This is the first time in my experience that a new product has garnered such a significant reaction before its release.

Through this experience, we have had the opportunity to reconsider the nature of innovation. We have learned that while it is obviously crucial to come up with groundbreaking ideas, it is also essential to have the ability to implement those ideas. It is unrealistic for a single human being to handle everything, so looking ahead, I think it will be vital to create an organization in which some individuals generate ideas and others work on realizing those ideas.

## Fostering Human Resources Willing to Take on Tough Challenges

**Tanaka** While this may sound self-congratulatory, we should probably be more confident and bolder in our approach to R&D. Looking back on the past, we have long been involved in developing products using non-petroleum resources. Although some themes were ahead of their time and commercialization failed, it is a fact that we have an unbroken history of taking on the challenge of new value creation, as evidenced by our 100% fossil resource-free tires, ENASAVE100, which are made from all-natural materials, and could be described as a pioneering example of sustainability. Learning from the achievements of our predecessors, I feel it is our mission to develop as many individuals as possible who have the spirit to take on challenges.

**Muraoka** Creating advanced technology is imperative, but researchers working in isolation cannot deliver good products to the market. I view ACTIVE TREAD as a technology that resonates well with customers. It is thus important for everyone involved in R&D to share a commitment to turning technology into something valuable from the customer's perspective.

Going forward, we will be increasingly focusing on R&D that reflects societal trends. Our mission is to lead in areas such as sustainability and the use of non-fossil fuels, addressing the needs of the future ahead of our competitors. With this belief, we will continue to move forward with foresight.

**Uesaka** Ever since I joined the company, I have felt that executives have kept a close eye on R&D and played key roles in supporting work that responds to societal demands. For example, the development of our 100% fossil resource-free tires, which are made from all-natural materials, began with a young researcher's grand vision of creating a tire in anticipation of the eventual exhaustion of oil reserves. For around a decade, they were encouraged by a superior with a "Let's do it!" attitude.

While I may sound idealistic, I would say that this episode emphasizes that our corporate culture of supporting dreams remains undiminished. Looking back on my own experience, I have found immense joy when I have been allowed to pursue what I wanted to do. Conversely, being instructed to do things I didn't want to do was painful. I don't want to be misunderstood, but I believe that not all R&D needs to be directly linked to business outcomes. In an organization in which such a mindset is firmly established, I believe it fosters motivation among researchers and enables the creation of groundbreaking innovations. And by continually looking ahead and moving forward, they can establish technologies that are more advanced than those of anyone. This is the key point. To that end, I want us to be a company that fairly evaluates the work of each individual engaged in R&D while providing them all with encouragement.

**Tanaka** I believe that along with fair evaluation of work, it is crucial to maintain close communication with each researcher about the themes they want to tackle, providing them with projects that align with their abilities and aspirations. In addition, during the years of the COVID-19 pandemic, opportunities to engage with people externally were limited. Moving forward, we will encourage researchers to actively participate in the activities of external research institutions and in academic conferences. I hope that by doing this, they will gain exposure to external insights, feel inspired, and take on the challenge of work that leads to the creation of innovations.

**Uesaka** The key to human resource development lies in whether the organization allows for self-actualization. Of course, complete freedom isn't possible within a corporate structure. That being said, motivation is ultimately fostered by enabling individuals to pursue their interests to the greatest extent possible. This naturally cultivates talent. On the one hand, we allow each individual to do what they want to do. And on the other hand, we have them produce research outcomes that contribute to our business. The reality, though, is that achieving balance between the two is not easy. However, I believe that by maintaining regular communication with each individual, this problem is not insurmountable.

Personally, I want to develop human resources, even just one person, willing to take on tough challenges. Taking on a tough challenge brings with it the possibility of failure. I think we must have a corporate organization that supports people who take on challenges and evaluates them fairly, even if their efforts end in failure. As the General Manager of the R&D Headquarters, I will be implementing measures to boost employee morale so that we can replicate the success we had with the development of ACTIVE TREAD a second and a third time.

**Muraoka** I have asked the personnel in the departments supervising manufacturing to fundamentally change their approach to work. I have requested that managers adopt the "3-3-3-1" approach. This means allocating 30% of their work time to operations themselves, 30% to operational transformation, 30% to staff development, and the remaining 10% to self-improvement. In operational transformation, I want us to pursue DX to create a mechanism that allows operations that used to take a decade to master to be mastered by subordinates in five years or less. Through this process of operational transformation, we will make ourselves an organization in which managers can concentrate more on developing their subordinates. Each individual has different abilities, personalities, and values. Given that, if we provide a place where each individual can demonstrate their value, they will grow independently. Going forward, within the departments supervising manufacturing, we aim to create rewarding workplaces. This will strengthen our human resource foundation and allow us to pursue the creation of new value that contributes to business development.