

Shima Seiki's Medium-Term Management Plan  
(FY2018 - FY2020)

**Ever Onward 2020**

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SHIMA SEIKI MFG., LTD.

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President and Representative Director

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1) REVIEW OF  
THE PREVIOUS MEDIUM-TERM MANAGEMENT PLAN

## Outline of Medium-Term Management Plan “**Ever Onward** 2017”

### Structure

The Reinforcing phase for building the foundations for corporate growth over the next 50 years.

### Key principles

- Strengthening the flat knitting business
- Advancing unique business segments
- Improving the profit structure
- Reinforcing the management infrastructure

### Targets for FY2017

Net Sales	JPY <b>70.0</b> billion
Operating Income	JPY <b>15.0</b> billion
Ordinary Income	JPY <b>15.0</b> billion
Net Income	JPY <b>10.0</b> billion
ROE	<b>8.5%</b>

## Achievements and Issues with the Previous Medium-Term Management Plan

### Achieved

- Reached our numerical targets
- Increased sales and unit sales of WHOLEGARMENT machines under our differentiation strategy
- Stabilized finances through such means as improved operating cash flows

### Not Achieved

- Rectification of overdependence of operating results on the Flat Knitting Machine Segment
- Further strengthening of production and development capabilities
- Reduction in accounts receivable

## Overview of Performance under the Previous Medium-Term Management Plan

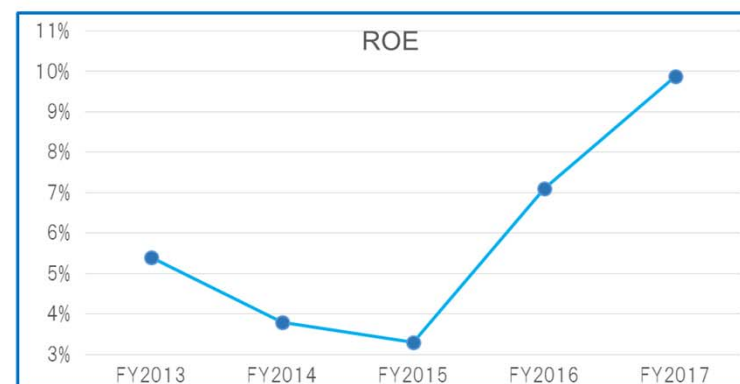
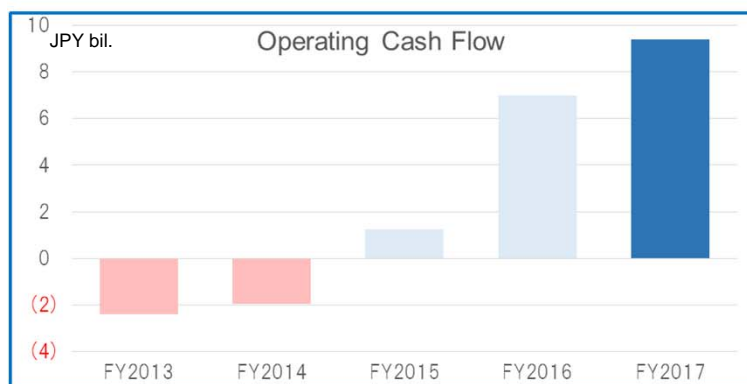
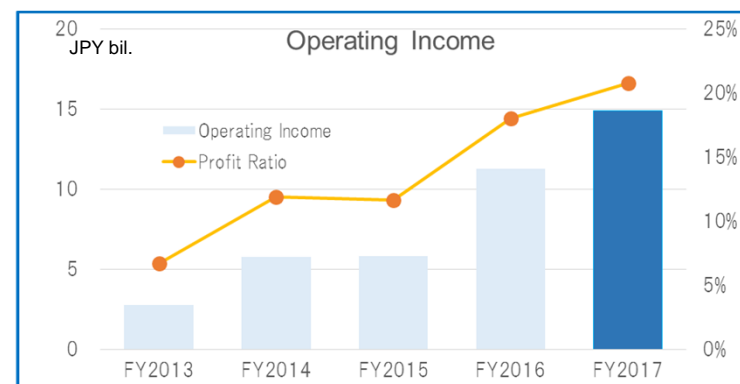
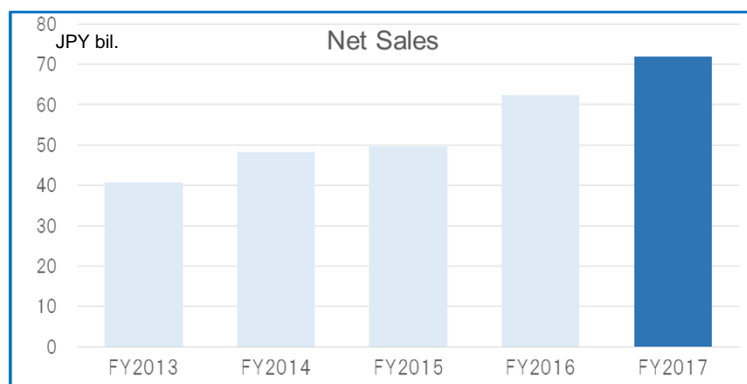
- Net sales and profits both increased significantly, and net income reached a new historic high.
- We met our ROE target and improved capital efficiency.

Unit: Yen in billions	Results of FY2014	Results of FY2017	Growth rate 2014→2017results	Target of Medium-term Plan I	Growth rate Target→2017results
Net Sales	48.3	71.8	+48.6%	70.0	+2.7%
Operating Income	5.7	14.9	+159.4%	15.0	-0.6%
Ordinary Income	8.4	15.5	+83.3%	15.0	+3.5%
Net Income	3.6	11.2	+209.4%	10.0	+12.8%
ROE	3.8%	9.9%	+6.1p	8.5%	+1.4p

# Overview of Performance under the Previous Medium-Term Management Plan

## Over the Past Five Years

- The operating margin has improved steadily.
- Increases in operating cash flows have become regular.



## Overview of Performance under the Previous Medium-Term Management Plan

### Net Sales by Segment

(Unit: Yen in billions)	Results of FY2014	Results of FY2017	(Note)
Net Sales	48.3	71.8	
Flat Knitting Machines	36.1	59.3	■ Highest unit sales to date
Design System	3.6	3.9	■ Growth in the cutting machine solution business
Glove and Sock Knitting Machines	2.8	2.3	
Others	5.7	6.1	

### WHOLEGARMENT Machines

	Results of FY2014	Results of FY2017
Number of Machines Sold	397	1,081

■ Highest unit sales to date

### Sales Credit

(Unit: Yen in billions)	Results of FY2014	Results of FY2017
Final Balance	52.5	70.0

■ The rate of turnover improved, but the  
accounts receivable balance increased.



### 3) EXTERNAL ENVIRONMENT AND ISSUES FACING THE COMPANY

# Quantitative Expansion of the Market and Issues Facing the Company

## Environment Surrounding the Company

### Consumers

- A growing global population and rising GDP in emerging markets

### Retailers

- Implementation of various strategies to increase sales
- Applications in new categories other than existing flat-knitted products

### Suppliers

- Rising personnel costs and labor shortages
- Large-scale manufacturers' growth strategies

### Competitors

- Stronger pricing strategies
- Rising functionality and quality

## Increasing Opportunities

- Stable expansion of the existing apparel market
- Emergence of new markets for flat knitting
- Growing demand for automated equipment

## Issues Facing the Company

- Stepping up production capabilities in response to demand
- Promoting a differentiation strategy using our proprietary technologies, led by WHOLEGARMENT
- Expanding our product lineup, including pre- and post-processes

## Qualitative Changes in the Market and Issues Facing the Company

### Environment Surrounding the Company

#### Consumers

- Spread of smartphones and the sharing economy
- Purchasing behavior that is conscious of the ESG/SDGs, etc.

#### Retailers

- Growth in sales over the internet
- Increase in on-demand sales of customized products

#### Suppliers

- Visualization and increasing efficiency of production
- Development of new materials

#### Competitors

- Focus on approaches other than existing apparel

### Increasing Opportunities

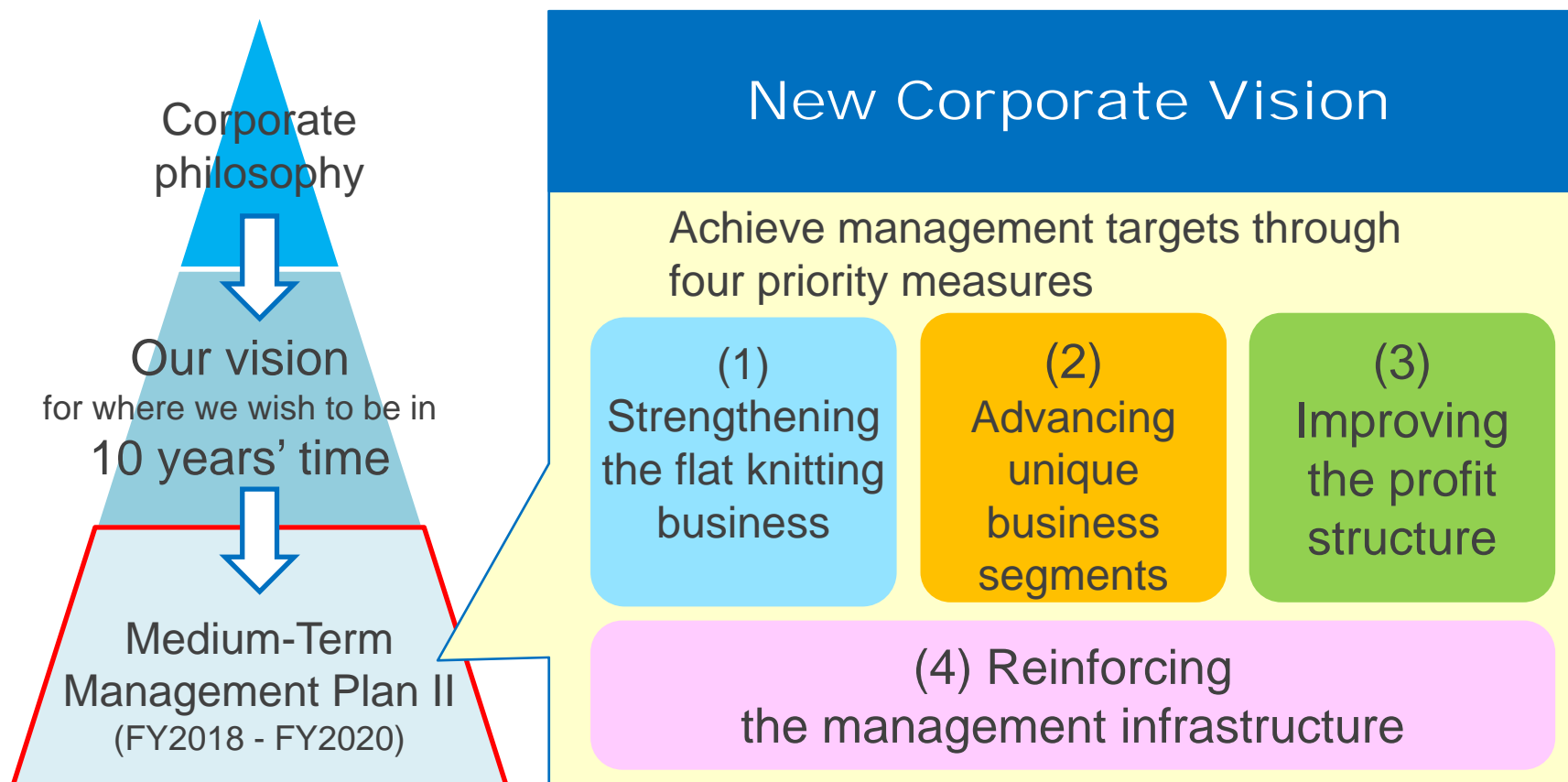
- Emergence of a new flat knitting machine market due to social changes and the development of new materials
- Increasing investment in efficiency, emphasizing sustainability

### Issues Facing the Company

- Increases in product development speed and agility in response to customer needs
- Strengthening the proposal of solutions linked with eliminating waste in supply chain

### 3) NEW MEDIUM-TERM MANAGEMENT PLAN

## Conceptual Diagram of the New Medium-Term Management Plan



# Ever Onward — Limitless Progress

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We strive to become an indispensable company to the society through sustainable business development.

We do this under the motto of "Ever Onward" with "love", "creation" and "passion" as our mantra.

“Love”: We contribute to society through our creative craftsmanship, which is friendly to both people and the environment.

We strive to contribute to society through love for our work, people, country, community and the earth.

“Creativity”: We aim to create world’s firsts through our finely honed sensitivity and sense of creativity.

“Passion”: We tackle new challenges with passion and chart our own future course by putting our all into our products and services.

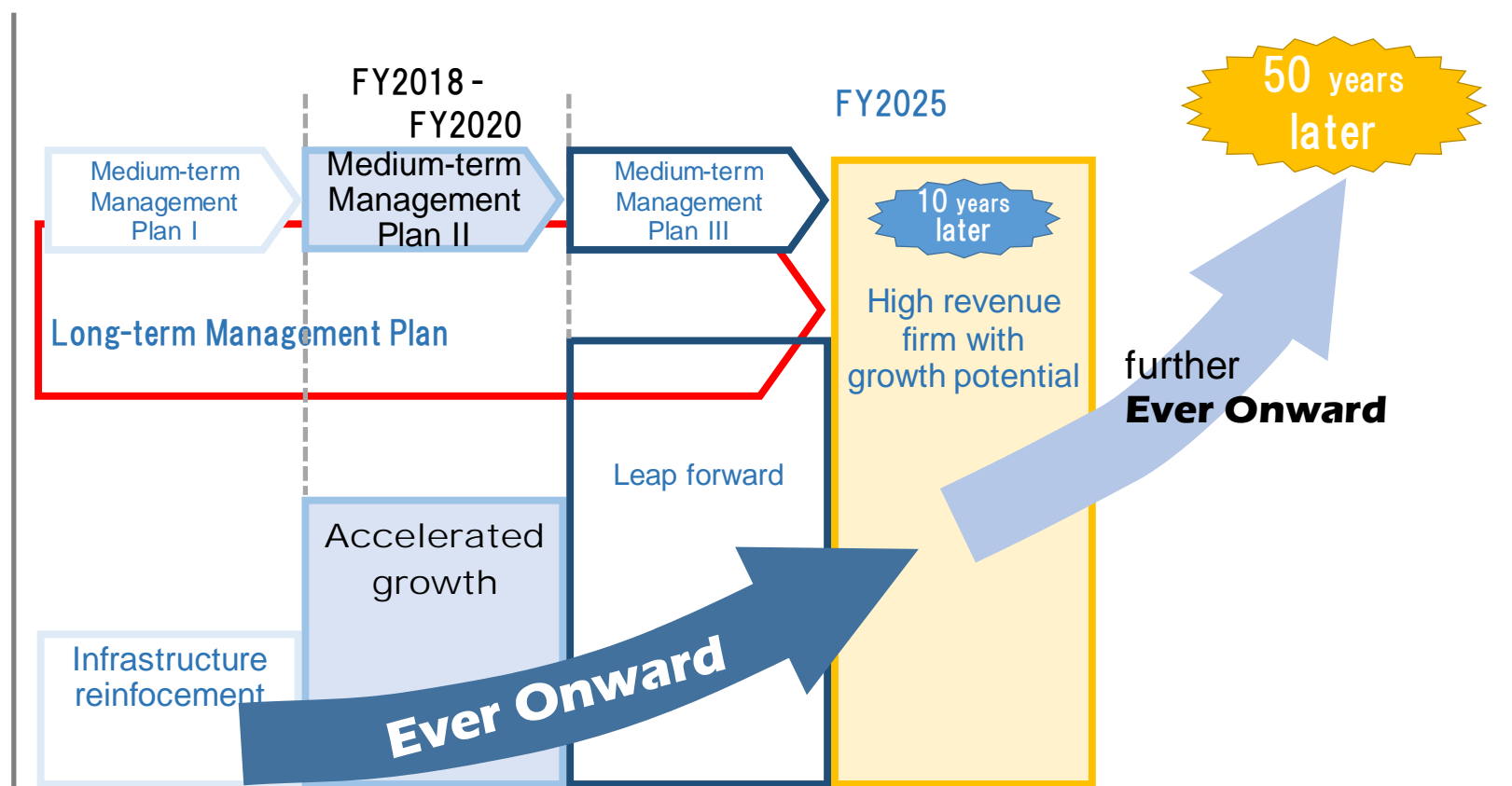
## Our vision for where we wish to be in 10 years' time

- Our technology is adopted around the world and becomes the standard for the creation of appealing fashion items.
- Our core competencies create a newly expanding and sustainable business domain as a creative, information-based company that values based on innovative ideas for industries other than fashion.



## Structure of New Medium-term Management Plan

- Move forward to the next phase, “Accelerated Growth”.





## Main Thrusts of the New Medium-Term Management Plan

1

Promote a differentiation strategy and expand our business domains

2

Step up proactive investment toward future growth

## Priority Measures

### (1) Strengthening the flat knitting machine business

We will further strengthen the flat knitting business by increasing customer satisfaction through innovative marketing strategies surrounding WHOLEGARMENT solutions.

### (2) Advancing unique business segments

We will advance our differentiation strategy by creating innovative business models that tap into our unique WHOLEGARMENT technology.

We will also expand flat knitting technology into non-fashion fields and strengthen the automated cutting machine solution business.

### (3) Improving the profit structure

We will achieve sustainable revenue growth and strategic cost reduction by reviewing our fundamental business practices and diversifying revenue sources through enhanced after-sale activities and improved operating cash flows.

### (4) Reinforcing the management structure

We will reinforce overall management resources, including the recruiting of creative and diverse personnel, and build a management structure with more emphasis on CSR.

## Priority Measures

### (1) Strengthening the flat knitting machine business

- Expand the WHOLEGARMENT machine business
- Strengthen proposals for solutions that include flat knitting machines
- Secure market share through alliances with partners outside the Company

### (2) Advancing unique business segments

- Increase business in the technical textiles sector
- Step up overseas expansion of the automated cutting machine solution business
- Augment related businesses, such as the content business

## Priority Measures

### (3) Improving the profit structure

- Strengthen the after-sales service structure, such as by increasing the number of technical service personnel
- Introduce new types of billing systems that respond to market and customer needs
- Step up cost-reduction efforts by automating production and back-office processes

### (4) Reinforcing the management structure

- Introduce a new personnel structure and secure global human resources
- Bolster production capabilities by setting up new factories and automating facilities
- Enhance R&D capabilities from a global perspective

## Management Targets

- We will invest proactively to meet customer needs and aim to further enhance operating performance and financial soundness.

Unit: Yen in billions	Result of FY 2014	Result of FY 2017	Target for FY 2020	Growth Rate Results of FY2017 → Target for FY2020
Net Sales	48.3	71.8	100.0	+39%
Operating Income	5.7	14.9	25.0	+68%
Ordinary Income	8.4	15.5	25.0	+61%
Net Income	3.6	11.2	18.0	+60%
ROE	3.8%	9.9%	12%	+2.1p

## Net Sales by Product Segment

Unit: Yen in billions	Results of FY2017	Targets for FY2020	Note
Net Sales	71.8	100.0	● Growth Rate: +39%
Flat Knitting Machines	59.3	81.0	<ul style="list-style-type: none"> <li>● WHOLEGARMENT machines: Major increase</li> <li>● Conventional machines: Growth for use in shoes and technical knits</li> </ul>
Design System	3.9	7.5	● Double unit sales of both design systems and automated cutting machines
Glove and Sock Knitting Machines	2.3	2.5	● Increase, mainly major customers
Others	6.1	9.0	● Strengthen sales of parts, peripherals and software

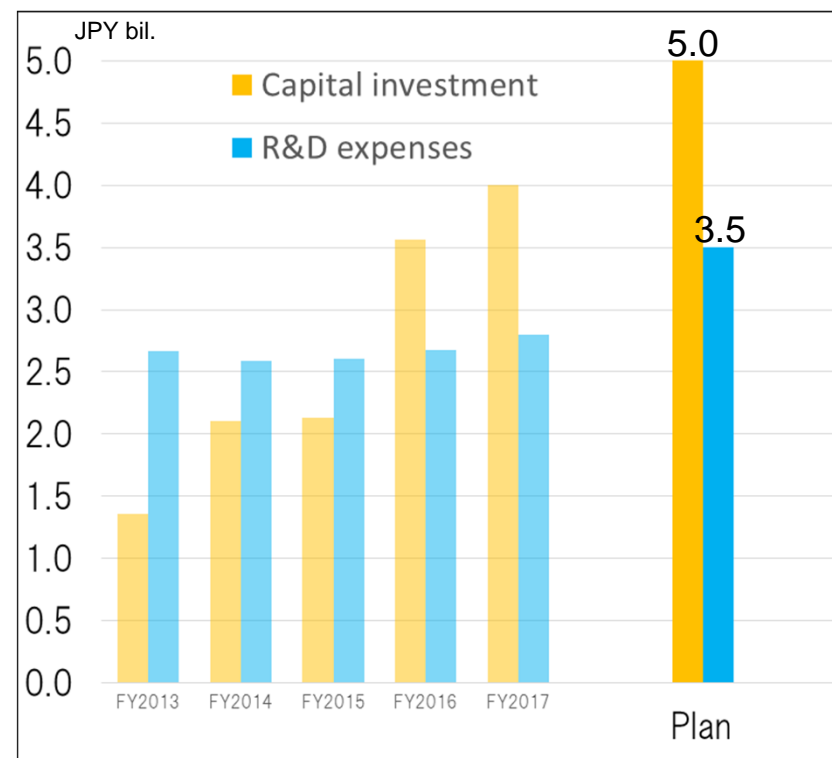
## Investment Plans

Invest strategically to implement our growth strategy



Invest efficiently to reinforce the management infrastructure

- Expand production capabilities by building new factories and through automation
- Acquire sites for further plant expansion
- Increase the number of WHOLEGARMENT technical experts and conduct human resource training
- Augment overseas bases for the automated cutting machine solution business
- Enhance R&D functions
- Invest proactively in human resource training



## Shareholder Returns

### (1) Policy on profit return

Shima Seiki considers the return of profits to shareholders one of its highest management priorities. Our fundamental policy is to continue providing stable dividends over the long term in line with sustainable business expansion.

On this basis, we strive to allocate profit in a balanced manner, while maintaining the internal reserves for investment in growth from a long-term perspective and future business expansion.

### (2) Guidance on Shareholder Returns (Three Years from FY2018)

Consolidated payout ratio: We target a ratio of 25%

- To create a stronger link to profit growth than in the past, we target a consolidated payout ratio of 25% for shareholder returns.

At the same time, we will take into overall consideration such factors as our share price level, cash situation and the market environment, purchasing treasury stock in a timely and expeditious manner and striving to increase capital efficiency in other ways.



# Ever Onward – Limitless Progress

(Disclaimer)

Company plans, operating performance projections and strategies mentioned in these materials are based on information available as of the date these materials were released, as well as on certain assumptions deemed to be rational.

Please be aware that actual performance may differ materially, due to a variety of factors.

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