

Vision

- Implement systematic production site reorganization to achieve optimal location utilization for both current and new business pillars
- Establish processes that effectively harness digital data, aiming for a plant where anyone can produce quality goods anywhere without relying on people
- Establish a global quality assurance system and develop standardized processes suitable for each area to meet customer requirements for all products.

Key Features

- Securing future space requirements through systematic plant reorganization for future business expansion
- Implementing a company-wide unified information utilization platform to enhance value-added productivity with data integration
- Unifying quality control rules based on global quality regulations and establishing an information sharing system enabling swift responses to prevent defects on a global scale

Challenges

- Strategic production site planning
- Establishment of operational standardization and utilization of data integration
- Swift responses to quality defect prevention activities (including information transmission speed)

Executive Officer's Message

Evolving manufactured capital that supports business portfolio optimization to serve as a driving force for realizing the Mid-term Management Plan 2030



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Supporting the improvement of profitability and capital efficiency toward the realization of the Mid-term Management Plan 2030

In the Mid-term Management Plan 2030 (MMP 2030), we plan to accelerate business portfolio optimization by further strengthening our automotive components business, which is one of our strengths, and allocating the cash generated there to the component solutions business and other new businesses. Within this framework, manufactured capital is a vital foundation supporting our business and an element closely linked to our performance. For example, promoting smart factories leads to productivity improvements and cost reductions. Additionally, our production site strategy and supply chain optimization contribute not only to cost reduction but also to the optimization of inventory, leading to an improvement in ROIC through enhanced capital efficiency. Strengthening manufactured capital may at first glance seem like an initiative unrelated to profitability. However, we believe that the source of competitiveness in the manufacturing industry lies in the production floor, and its evolution is a key factor in supporting improvements in profitability and capital efficiency.

Evolution of production systems according to expanding business characteristics and promotion of mid- to long-term production site strategy

Regarding manufactured capital, we believe it is necessary to optimize procurement, quality, and logistics according to the characteristics of each business while strengthening governance across the entire value chain in view of business portfolio optimization. We are transforming from a business centered on automotive components to a portfolio with diverse business domains, and evolving into a system capable of responding to this change is indispensable. However, particularly in the component solutions business, the diversity of product groups made it difficult to distinguish between areas that should be integrated and those requiring responses tailored to different characteristics. Additionally, in new businesses, product development tended to take precedence, often leaving logistics and supply chain design as secondary considerations. Consequently, we reviewed our organizational structure in April 2026, reorganizing and integrating four departments, namely the Business Infrastructure Strategy Department, the Management Department, the SCM Strategy Department, and the Safety & Health Department, into the Business Strategy Department within the Global Strategy Division. This has established a framework where key themes such as procurement, supply chains, and safety and health can be promoted integrally from a strategic perspective.

In recent years, M&A has added new businesses and production sites, expanding our options; therefore, we must determine the ideal mid- to long-term state of our production sites from a Group-wide optimization perspective. We will specifically advance preparations aligned with the investment speed of new businesses, pursuing risk management and profitability improvements tailored to each business characteristic. Looking beyond five years to ten, twenty, and even further into the future of our business portfolio, we will distinguish between what should be integrated and what should be decentralized to optimize our production site strategy.

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Smart factories: Key to the evolution of production systems

To optimize our production systems in line with business portfolio optimization and achieve a 1.4x increase in productivity efficiency, the realization of smart factories is an indispensable theme. We recognize that challenges remain regarding data linkage between processes and end-to-end automation and autonomy; we intend to map out the solution for these technical issues in the first half of the MMP period and proceed with full-scale deployment in the second half.

First, in FY2026, we will steadily develop our data platforms as a foundation for realizing smart factories. By organizing and integrating the different processes and data structures of each business, we will reliably build a data utilization environment that enhances productivity and risk response capabilities.

On the other hand, realizing fully autonomous production lines that do not rely on human labor is by no means an easy path. Advanced technical challenges exist in areas such as the implementation of in-line quality checks, the inspection processes that must identify subtle color irregularities and textures characteristic of ceramics, and the transport process, where size, shape, and delicacy vary extremely by product. Essentially, the challenge lies in how to translate human intuition into technology. However, we view this as a vital challenge to open new frontiers in manufacturing. By flexibly incorporating advanced technologies such as AI and persistently repeating on-site verification and challenges even when faced with difficult obstacles, we will move forward with determination toward realizing next-generation autonomous manufacturing that is both efficient and sustainable.



Strengthening sustainable supply chains and risk response capabilities

The standards required by overseas customers, particularly in Europe, regarding social demands such as the promotion of carbon neutrality and respect for human rights are increasing year by year. Being able to respond steadily to these demands can be said to be part of the competitiveness that allows us to continue being chosen as a business partner. Prospering together with our customers and suppliers ultimately leads to the return of value to our shareholders, investors, and society. The prerequisite for this is sustainability compliance.

Furthermore, utilizing DX in manufacturing capital is essential to enhancing risk response capabilities across the entire supply chain. In a world situation of increasing uncertainty, it is difficult to accurately predict when and where risks related to procurement and logistics will materialize. Therefore, in addition to preventive measures such as multi-sourcing, the most important factor is how quickly we can implement countermeasures once a risk materializes. Moving forward, we will expand the data platform development for smart factories into the procurement and logistics domains, linking data on procured items and logistics routes. By accelerating the understanding of the scope of impact and causes when problems occur, we will improve the speed of management decisions and risk responses.

An unwavering commitment to quality and safety even as business domains expand

On the other hand, even as our business domains expand and the surrounding environment changes, our commitment to quality and our approach to health and safety are foundational areas that must remain steadfast as a manufacturer. Although required quality standards vary by final product, our dedication to quality and our commitment to thorough health and safety, or maintaining the ideal state for a manufacturer, remain unchanged.

First, regarding quality, we will strictly adhere to a quality-first (zero-defect) principle to ensure that no defects are produced in any process. The spirit embodied in the words of our founder, Ezoe Magoemon, “Even if only one product in a thousand is defective, the customer who buys it has a 100% defect rate,” will never waver, regardless of changes in eras or business domains. We reaffirm that quality control must be the top priority, especially when promoting optimization that includes production processes.

Regarding health and safety, it is not only a social requirement but also an important theme that aligns with Shisei-Shinjitsu, one of our Shared Values, in terms of facing employees with sincerity while engaging in manufacturing. Serious occupational injuries are management risks that must never occur, as they not only rob employees of their lives but can also instantly damage our very business foundation. Therefore, with legal compliance as a prerequisite, we will eliminate major risks and ensure that thorough risk management is fully functional. Creating this ideal state of manufactured capital and maintaining an honest approach to production provides the foundation for employees to work with peace of mind and for us to deliver high-quality products to our customers. We believe that this business foundation must be protected no matter what happens.

Evolving manufactured capital for the realization of the Mid-term Management Plan 2030 and sustained growth

In advancing our manufactured capital strategy, we emphasize the approach of managing the immediate surroundings while looking toward the distant future. While ensuring that current operations run smoothly, we believe it is important to prepare the foundations and decision-making axes that support investment in growth areas and business expansion in view of future changes in our business portfolio, thereby strengthening governance across the entire value chain.

The development of smart factories and data platforms, along with the strengthening of the supply chain, will serve as a common foundation supporting diverse future business developments beyond immediate productivity improvements. For this reason, it is crucial to proactively establish necessary rules and foundations in anticipation of the future, rather than responding only after challenges materialize.

On the other hand, no matter how much our business structure changes, our commitment to quality and health and safety must never change. While placing these at the core of our manufactured capital, we will protect what must be protected and change what must be changed. By strengthening our manufactured capital with this clear sense of balance, we will make it a driving force for the realization of the Mid-term Management Plan 2030 and sustained growth.

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