

Chapter

Value Creation

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POINT

- This report includes a message from the CEO outlining how we will achieve our long-term vision
- This report clearly sets out our value-creation story (how we leverage our core competencies)
- This report communicates our ideas about the sources of collaborative value creation (our core competencies)

CORE

The Core is an open communication hall allowing centrifugal and collaborative communication. It is a place where diverse personalities gather to create a melting of creativity and disseminate new ideas empathetic responses.

Message from the CEO



Hidekuni Kuroda
President and CEO

Drawing on our strengths to achieve our long-term vision CCC 2030.

2023 and FE 2024: In line with expectations

Our long-term vision, CCC 2030, sets a 2030 target of 500 billion yen in net sales. To achieve this target, we've developed the Forest-Like Management Model and have worked on our third medium-term plan, Field Expansion 2024 (FE 2024)—an execution strategy covering, the years 2022, 2023, and 2024. In this strategic context, 2023 represented an important foothold toward the final year of FE 2024.

How, then, did we fare in 2023? Our consolidated financial performance was generally pleasing. Although short of the annual target due to the delayed recovery of the Chinese economy, net sales still showed revenue growth from the previous year, totaling at 328.7 billion yen. Operating income, at 23.8 billion yen, vastly exceeded the upgraded target and again represented growth from the last year. As for net income attributable to owners of parent, we achieved an all-time high of 19.0 billion yen, partly as a result of selling cross-held shares.

Some of our businesses performed better than others, with the variation reflecting national and international economic factors and high raw material prices. The overall picture, though, is one of strong performance. In multiple businesses, we identified problems to address and capitalized on growth opportunities, culminating in palpable progress in our portfolio strategy. Take, for example, our recent acquisition of HNI Hong Kong Limited, an office furniture company in Hong Kong. Now known as Kokuyo Hong Kong Limited, the company is serving as the fulcrum in our efforts to streamline business processes and strengthen cross-selling in China and ASEAN. To give another example, in our

Indian stationery business, we boosted capacity to supply our mainstay products, unlocking a larger market share. In these ways, the seeds of growth we sowed are beginning to bear fruit. Although the pandemic presented challenges for our office furniture operations, our employees promptly recognized shifts in our customers' workstyles and identified corresponding needs, leading to numerous successful deals. Exemplifying this is Work Pod, a portable work booth resembling a telephone box. Work Pod was designed to meet the demand for diverse forms of remote conferencing following the rise in hybrid work.

Let me tell you about our expectations for 2024, the final year of FE 2024. For net sales, we're determined to achieve an annual target of 355 billion yen, representing an 8% increase over the previous year, by further reinforcing the foundations for our portfolio strategy. This goal is mainly predicated upon steady growth in our Japanese furniture business and business-supplies business as well as in our overseas stationery businesses. As for operating income, we're unlikely to meet the initial target set out in FE 2024 given that field expansion in the lifestyle field has been a little slow and also because we're investing in talent and fixed assets ahead of the upcoming fourth medium-term plan. On the other hand, ROE is set to top 8%, exceeding the target set out in FE 2024. It's crucial to meet the targets for 2024, the concluding year of FE 2024, as this success will provide us with a solid foundation for launching our fourth medium-term plan and ultimately reaching our CCC 2030 goals.

Three Strengths and Sources of Value Co-creation:
Seeing as the customer does, focusing on customers’ situational contexts,
and having unique talent

As I mentioned earlier, during FE 2024 we’ve been seizing growth opportunities in a number of businesses. This growth is driven by three strengths that represent sources of value co-creation at Kokuyo.

The first of these strengths lies in a corporate culture where we co-create ideas and solutions together with customers. Our employees are good at seeing from the customer’s perspective when it comes to developing products (furniture, stationery, office supplies) and the purchasing and delivery services related to them. In other words, our employees can switch back and forth between two different perspectives: They can think as the customer does and they can also think as one who is pitching a solution to the customer. Although it is generally thought that the practice of observing customers is very important in business, we don’t believe it’s nearly enough to simply engage in passive observation. Instead, we believe it is even more crucial to put ourselves into our customers’ shoes. Only by thinking as the customer does can you generate brilliant ideas for new products and services. Through

such customer-oriented thinking, we’ve racked up many successes, helping entrench this approach as our corporate culture.

The second strength is that our employees focus not on what products we could sell but on the situational contexts in which the products might address the customer’s needs. Kokuyo aspires to be a WORK & LIFE STYLE Company. To fulfill this aspiration, our employees, as a matter of habit, always try to envisage the situational context—in a work environment or private setting, for instance—where the value should be delivered. In the case of office furniture, for example, we might pitch a particular combination and layout of office furniture with the idea that this would support more effective workstyles or enhance communication in the office. In the case of stationery in China, we struck gold with a line tailored for schoolgirls. Our success came from focusing on how stationery could help make the act of studying more enjoyable. To give an example from our B2B operations, in a joint product-development project with the



convenience store chain FamilyMart, we analyzed the situational contexts in which consumers buy things and applied that to design the layout of the store shelves. Our successes in problem-solving are down to a process in which we focus not just on the product itself but on the situational context in which it is used. Simply put, we have the talent and technological prowess to turn ideas into reality, and that is one of our key strengths.

Underlying this approach is our culture of experimentation, one of our important values. As part of this culture, we run experiments on our own or together with customers when necessary, to identify potential unmet needs and then focus on solving them. This entrenched culture of ours enables a unique approach to identifying and solving problems. As such, it plays an important role in our product development.

None of these approaches would be possible were it not for our wonderfully unique and creative employees, and we often use the words “diligent and quirky” to describe them. We say “diligent,” because employees are devoted to solving customers’

problems. We say “quirky” because they are obsessed with thinking up interesting and unconventional ideas. “Co-creating with empathy” is a core value of ours, and the pursuit for it is an endless endeavor. It refers to the process of building empathic resonance with customers and expanding the possibilities to co-create value with them. But as to whether our “diligent and quirky” employees have opportunities to fulfill their potential, this hinges upon the workplace climate and corporate culture. Management must therefore provide a workplace environment that respects employees’ individuality and rewards challenge-taking instead of punishing failure. Management must also ensure that employees feel psychologically secure, so that they have the confidence to take on the next challenge. Thus, to ensure our sustained growth as an organization, we need to encourage an open, fair, and non-hierarchical culture that supports diligent and quirky employees. I and the rest of management will stay committed to building an organization and culture to that end.

A self-directed, collaborative society:
Real progress and outcomes in material issues (materiality)

“Presenting a tomorrow you can’t wait for” is a corporate purpose statement we unveiled in 2022: We then made 2023 a year for communicating this purpose to our internal and external stakeholders. We used TV ads to broadcast employees’ visionary ideas and I actively made a number of media appearances. In this way, we succeeded in our goal of communicating our commitment internally and externally. What matters, of course, is what we do from now on. As we put our long-term vision into practice, we need to give internal and external stakeholders a clear idea of the visionary ideas we have (the kind of tomorrow we’re presenting) and how we will make them a reality. Our visionary ideas remain ideas for now, but everyone’s pumped—employees are raring to make them a reality.

CCC 2030 commits us to work toward the future we imagine: a self-directed collaborative society. I know this sounds like an impossible dream. After all, many people today would say that living a self-directed life and being true to yourself are hard to balance with being a collaborative team player.

To reconcile these contradictory elements, we need plenty of

creative ideas and innovation. We also need to clarify where we are headed—to set out what exactly we should be doing through such innovation. With this in mind, we identified five material issues. Addressing these material issues will unlock our potential for continually creating value over the long term and it will also lay a foundation for a self-driven, collaborative society.

In our efforts to tackle the material issues of 2023, the primary focus was on urging employees to take initiative and be proactive. This is because employees are faced with a balancing act that demands creativity and innovation: they must meet urgent customer demands while also working to solve medium to long term sustainability issues.

Employees have indeed been taking the initiative and devising ideas for the material issues, and their actions have started producing fruit. For example, to address the material issue of improving wellbeing among employees and external stakeholders, employees developed the idea of Hows Park. Hows Park is a joint initiative in which Kokuyo employees work with the employees of Kokuyo K Heart, a special (disability-friendly) subsidiary of ours, to

develop products with inclusive design. The goal is to get inclusive-design products representing 20% of new product launches by 2024. Hows Park emphasizes both living a self-directed life and being true to yourself. It equally emphasizes being a collaborative team player in society. After a period of testing, Hows Park started full operation in June 2023. It organizes workshops to develop products. In FY2023, it developed an envelope storage box with a design that makes the envelopes easily grabbable. It is now a product series.

Another material issue is to contribute toward a circular economy. For this issue, employees came up with Tsunage Loopa,

a program of environment learning for kids across Japan. The program involves collecting and recycling used notebooks. Since its launch in November 2023, a total of 86 schools have participated in Tsunage Loopa, with a total 20 thousand tons of notebooks brought in for recycling. An increasing number of schoolteachers and students in elementary schools are expressing an interest in participating. Echoing this interest, our employees have shown an increased appetite for developing more new products. It's really wonderful to see employees start to take the initiative and engage proactively in building a sustainable world.

**Delivering our purpose in a changing world:
Toward more self-directed and collaborative workstyles and lifestyles**

The world will continue to move at a breakneck pace, bringing further changes to workstyles and lifestyles. As people's values grow increasingly diverse, so too will people's motivations for working and studying. In this world of change, our role as an organization is to deliver ideas and solutions for a better work life, a better study life, and a better private life. This is exactly what our purpose (presenting a tomorrow you can't wait for) is all about, and this is how we show the world our unique worth. By fulfilling this purpose, we'll be helping people be both self-directed and

collaborative in their work life, study life, and private life, which in turn will help create a better planet and society.

In order to keep broadcasting our purpose to the world, we want to keep taking on fresh challenges in the global arena with the trust and confidence of our stakeholders. I hope that Kokuyo will earn your continued trust and confidence as we present ideas for workstyles and lifestyles of tomorrow. I look forward to our continued journey together.

Changes in 2024: A new talent management policy, stronger corporate governance

If we are to achieve the CCC 2030 target of 500 billion yen in net sales, then we need to expand the reach of our businesses. In 2024, we're making anticipatory investments in talent and infrastructure to unlock growth in the years ahead.

We can predict that as we expand the reach of our businesses, we will be met with the need to take on new challenges. It will be increasingly important to invest in the talent necessary to digitize and globalize our operations, including existing ones.

Against this backdrop, we established a new talent management policy in 2023. The purpose of this new policy is to empower each employee by fostering an organizational culture conducive to challenge-taking and by providing opportunities for growth (see the feature article on human capital management). Under this policy, we're going to ramp up talent development efforts. We've also committed to increasing the hiring of fresh graduates and mid-career talent, and in 2024, we doubled the previous year in the number of fresh graduates we hired. With a high proportion of our workforce consisting of employees aged 50 or older, we feel that hiring more young graduates will bring in fresh perspectives and ideas. We'll also focus on a form of talent development that fosters a mindset that is willing to take on the challenge of transcending existing business boundaries and creating new value.

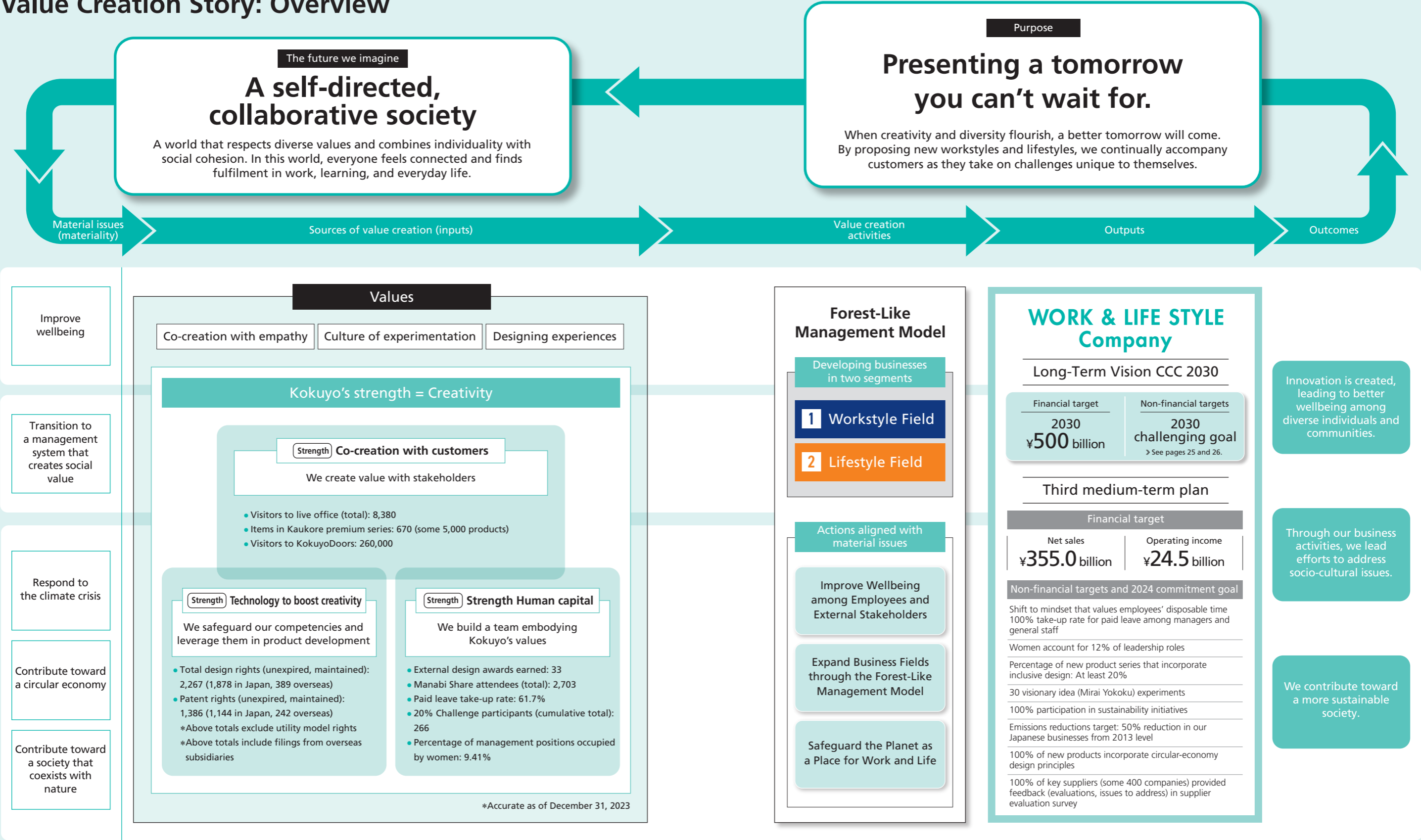
CCC 2030 commits us to long-term value creation, in which we create both social value and economic value. One way we build our long-term value is to strengthen corporate governance. As part of this, we switched our corporate structure from that of a company with an audit and supervisory board to that of a company with three designated committees (nomination, audit, and remuneration). With this transition, we'll be operating in the final year of FE 2024 with a clear separation between management supervision and business execution.

If we are to make real progress toward our vision in the run-up to 2030, we need to make decisions quicker. Streamlined decision-making in business execution is essential to sustaining and accelerating our revenue growth. Being a company with three designated committees means having a clearer division of roles and responsibilities between those who supervise management and those who execute the company's business. This clear division will enable us to make decisions quicker than we could previously. Along with this new structure, we're encouraging our frontline employees to be proactive challenge-takers and to engage in a PDCA cycle of continuous improvement.

I believe that our transition to a globally standard corporate governance model will help convince a lot more investors and stakeholders about our commitment to corporate governance.



Value Creation Story: Overview



Our philosophy

be Unique.

Sustainable Business Strategy

To build a self-directed, collaborative society, we will present a tomorrow you can't wait for and lead the way in sustainable business practices.

Source of Collaborative Value Creation (Our Strengths)

Co-creation with customers

Creating value with a broad spectrum of stakeholders

The starting point to all our business activities is the drive to empathize with the customer and address their problems. This motivation is one of our strengths. This strength is encapsulated in a number of our businesses. One is our live office, where customers can see our workstyles up close. Another is Kaukore Premium, which develops products that directly solve customers' problems. Another is KOKUYODOORS, a retail outlet targeting inbound tourists.

Such co-creation initiatives are driving forward our field expansion agenda, in which we expand the reach of our businesses in a way that transcends traditionally defined business categories.



Creativity-inspiring technology

An approach to product development that upholds our strengths

The drive to empathize with the customer and address their problems has inspired us to develop many technologies. By protecting this intellectual property with design rights and patents, we build and maintain our strengths. One example is Ing, a brand of office chair. The product was designed to solve the back pain that many office workers experience. Similarly, GLOO and Hakoake are two stationery brands that solve a particular problem. With few other products like them on the market, they illustrate the strengths that we have upheld.



GLOO



Hakoake

Human capital

Nurturing visionaries

With the drive to empathize with the customer and address their problems, we developed a purpose statement: presenting a tomorrow you can't wait for. We want our employees to be visionaries who present ideas for a better tomorrow. Leadership is key to this. Our strategy for human capital management therefore emphasizes the need to shine the spotlight on all our diverse employees and empower them to aim high, to dedicate themselves to solving problems, and to act creatively.



KOKUYO DIGITAL ACADEMY

Kokuyo's Collaborative Value Creation projects

Working with FamilyMart to set a new standard in stationery

Delivering new value to convenience store shoppers

We worked with FamilyMart to develop stationery products in the new category of Convenience Ware, an original brand that FamilyMart developed with designer Hiromichi Ochiai. What resonated with us was the concept of developing choice stationery—stationery that people would go out of their way to buy. And that is what the project delivered.

The series, which sets a new standard in stationery, is available in 16,300 stores across Japan that every year serve 5.5 billion men and women of all ages. We focus on developing a lineup of products that resonate with the consumer needs of today, emphasizing materials, color scheme, shape, and pleasantness of feel. Our strength lies in how, instead of just producing products and laying them out into categories, we extend our focus to include concept design and layout of shelves and furniture so that we can create a space that will generate customer experiences.

Such all-encompassing solutions give customers memorable encounters with the products.



Technology that embodies our innovative office designs

Obtaining patents and industrial design rights for our game-changing office chair Ing

We offer office solutions that solve the customer's business problems. These solutions involve many products.

One of these products is Ing, a brand of office chair we launched in 2017. During the design process, we focused on the fact that people in Japan spend many hours seated. We came up with a gliding mechanism that moves unhindered 360 degrees so that the user no longer needs to maintain the same sitting posture hour after hour. The idea of allowing the user to adjust their posture without having to leave the seat is a game-changer for deskwork and has contributed to health management initiatives.

The overall design includes design features for which we have obtained robust IP protection. One is a mechanism that allows free frontal tilting and swiveling. Another is fixable armrests to stabilize the user's posture when at work. Another is a stopper that holds the chair in its standard position when the user rises.

