

FY2023 Financial Results Briefing: Q&A

Date and Time: 10:00 to 11:30 JST, Wednesday, February 21, 2024

No.	Contents	Q	A
1	Medium-term management plan	When will you be able to achieve a ROIC of 10%, a target under the medium-term management plan?	We are first aiming to achieve OPM of 10% by FY2026 under Project 10. We will indicate within how many years we will be able to achieve a ROIC of 10% in the next medium-term management plan, which is currently being formulated.
2	Portfolio management	Do you have an update on the EVA analysis of 36 business units that was disclosed in 2Q of FY2023?	The Board of Directors evaluates the operating results of each business unit based on the results of improvement activities over a year. There are no changes to our policy of updating the status following the evaluation and continuing to disclose such status.
3	Portfolio management	Are there any businesses which have been shifted to the rebuilding area? For example, in which area is the hydraulic equipment business positioned?	Since the areas in the portfolio are measured based on the average of performance over six fiscal years in principle, no businesses have been shifted to the rebuilding area since the previous disclosure. As the market environment for hydraulic equipment has been deteriorating, growth rate on a single-year basis is declining.
4	Portfolio management	Why do you keep OVALO in your portfolio despite it being unprofitable?	OVALO's active suspension business will not achieve our initial target, and it will withdraw from the automotive business while fulfilling its supply responsibilities. The purposes of maintaining our stake in OVALO are followings; 1) cultivation of the collaborative robot market using the small reduction gear technology developed in the automotive business, and 2) development of systems and electrified products by positioning it as a R&D base in Europe.
5	CVC	Returns on CVC investments are not clear. Are they going well? How do you monitor the investment from outside?	The total budget for CVC investments is 10.0 billion yen. We invest in projects and exit investments within this budget. There is the case of Deep Sea Technologies, which we decided to acquire as a result of identifying growth potential and synergy with our business after a CVC investment. When acquiring a company, we make decisions based on more detailed internal rules compared to at the time of a CVC investment.
6	Corporate	In which segments and areas are procurement costs expected to increase from FY2023 to FY2024?	Primarily in the CMP segment. This reflects demand from suppliers for price increases that we accepted during FY2023. We expect an impact of increases in material costs due to a rise in electricity prices and personnel costs for a year.
7	Corporate	Even if cost increases ease in the future, will you still push forward with price pass-through efforts in FY2024?	Especially in CMP, price pass-through lags one year behind increases in procurement costs. Therefore, we will continue to raise prices even if cost increases ease, as there is still an impact of cost increases that have not been recovered as of the end of FY2023.
8	Corporate	There seems to be a significant outflow of cash for CAPEX and R&D. Do you have a plan to review it in light of the deterioration of operating results?	Our three-year CAPEX plan from FY2022–FY2024 and including that for FY2024 will decrease by 10.0 billion yen from the 88.0 billion yen that was announced at the time of the formulation of the medium-term management plan. R&D expenses will also decrease by 4.0 billion yen from the initial plan of 40.0 billion yen. The amount of CAPEX for FY2024 may seem to be large, but it is based on the acceptance basis. Orders toward FY2025 have been reduced. On the other hand, while we recognize that innovation investment is necessary for our future growth, we will optimize it through careful screening to avoid excessive investment.

9	Impairment loss	Can you tell us about the timeline for profit improvements at OVALO and Gilgen?	<p>OVALO: The production of OVALO's mainstay product of large displacement engines remained lower than expected at the time of acquisition due to the trend of transitioning to EVs. The company will withdraw from the automotive business and endeavor to improve its profitability by focusing on the cultivation of the collaborative robot market in Europe through leveraging the small reduction gear technology it has developed in the automotive business. For FY2024, OVALO will aim to achieve sales of 2.7 billion yen and operating profit of 0 yen, focusing on the elimination of operating loss.</p> <p>Gilgen: An impairment loss was recorded by assessing future value and the recoverable amount in light of the adverse effects on profits due to rising labor costs and raw material costs reflecting inflation in Europe, a decline in profit in the overseas platform door business denominated in local currencies owing to the appreciation of the Swiss franc at the end of last year, and an anticipated slowdown in growth of construction demand in Europe. We will aim to improve the profitability of Gilgen as soon as possible by promoting the pass-through of price increases, cost reductions, screening of orders, and the reinforcement of MRO in the future.</p>
10	Impairment loss	How many assets subject to impairment are left at OVALO and Gilgen? Will there be a residual impairment risk?	<p>OVALO: There are no fixed assets subject to impairment left as a result of the recording of an impairment loss in FY2023.</p> <p>Gilgen: Gilgen's goodwill following the recording of an impairment loss in FY2023 amounts to about 16.0 billion yen, including that of Copas and the impact of the exchange rate. We will minimize additional impairment risks by ensuring the improvement of Gilgen's profitability as soon as possible.</p>
11	Shareholder return	Amid sluggish business performance, your stock price has also been stagnating. Will you consider a share buyback focused on enhancing corporate value from the perspective of increasing capital efficiency?	<p>As we believe that it is important to enhance corporate value by generating profits through business growth, we are not planning a share buyback at this stage.</p> <p>What we focus on the most for generating profits over the next three years is CMP's profitability. We will aim to improve profitability by promoting our profit improvement measures (Project 10).</p>
12	CMP	I would like to know the factors behind the anticipated change in CMP's operating profit in FY2024 (particularly regarding price pass-through and increases in other expenses).	<p>CMP's operating profit for FY2024 is expected to decrease by 7.1 billion yen year on year. This is due mainly to a decline in profit reflecting a drop in production.</p> <p>When comparing the amount of price pass-through and an increase in procurement costs anticipated in FY2024, the amount of price pass-through exceeds the increase in procurement cost. However, since there has been a procurement cost increase up to FY2023 that has yet to be passed on to the price, we will push forward with price pass-through efforts through negotiations led by our top management. The portion for which price negotiations have not been completed at the time of formulating the announced plan is not reflected here. Therefore, there is a possibility that operating profit will increase when we announce the results at fiscal year-end.</p> <p>While depreciation is expected to increase due to the commencement of operations at the Hamamatsu Plant, among other factors, we will endeavor to minimize the impact by reviewing costs.</p>

13	CMP	What are the factors behind a decline in CMP's OPM since 2022? I'd also like to know about the prospects for a profit improvement by FY2026.	Comparing FY2022 and FY2024, the largest impact was a decline in demand for both precision reduction gears and hydraulic equipment in terms of production capacity. In addition, earnings structure deteriorated due to a delay in passing on procurement cost increases to the price. A decline in operating profit is also attributable to a rise in CAPEX due to the construction of the Hamamatsu Plant and the rebuilding of the Tarui Plant as well as increases in outsourcing cost and investment aimed at boosting production to respond to a rapid increase in demand. We will aim to improve profitability by FY2026 through steadily implementing price pass-through efforts, reviewing costs, and developing an automated production system to secure profits under a higher utilization ratio in tandem with a recovery in demand.
14	CMP	Amid severe conditions surrounding the Chinese construction machinery market, what is your strategy for the hydraulic equipment business in China?	The sales volume of excavators in China for FY2023 (including exports) decreased by 25% year on year to about 195,000 units. We recognize that the Chinese market has shifted from the growth phase to the mature phase. It is necessary to review our production system to create a structure that generates profit even if the sales volume of excavators stays around 200,000 units. In addition, we would like to maintain production volume to a certain extent by expanding sales outside China.
15	Precision reduction gears	Can you talk about how you estimated the demand environment for precision reduction gears in FY2023 and how you decided on your business plan?	While it is difficult to estimate demand for precision reduction gears as the lead time is short, we formulate our annual business plan based on customer trends and the information collected by our sales representatives while referring to statics and forecasts by industry organizations. Regarding demand for FY2023, while we were working on investment aimed at boosting production at the beginning in anticipation of an increase in demand throughout the year, we suspended the investment when we sensed a sudden drop in demand.  As for the future, we project that inventory adjustments by robot manufacturers will progress to a certain extent in the first half of FY2024. However, since demand tends to rebound quickly after bottoming out, we will proceed with automation investment for the Hamamatsu Plant in order to maximize profit under a higher utilization ratio during the next demand peak.
16	Precision reduction gears	Is demand recovery the only factor contributing to profit improvement in precision reduction gears? Are there any measures that can be taken as internal efforts regardless of the external environment?	As we already have a high market share for precision reduction gears for industrial robots, it is difficult to further expand our share and we are susceptible to market fluctuations. On the other hand, we are striving to expand sales in areas other than industrial robots. For example, we are beginning to see some positive results in sales of positioners and FA products used in logistics areas, reflecting demand for CAPEX expansion in India and Southeast Asia. We are also expanding our sales in new fields, such as 5G and 6G antenna applications.
17	ACB	How will you improve the profitability of the automatic door business by FY2024?	The performance of the domestic business has been solid. The overseas business has been affected significantly by the appreciation of the Swiss franc and inflation in Europe (such as rising labor costs) In the overseas business (including platform doors), we will aim to improve profitability by developing a system that is less susceptible to exchange rate fluctuations by changing local suppliers in addition to investing resources to strengthen management. We will achieve profit improvements by reinforcing MRO at the same time.