

FY2024/12 Results and Medium-term Management Plan Briefing

February 20, 2025 10:00~11:30(Japan Standard Time)

No	Item	Q	A
1	MTMP*	In the context of the evolution towards smart motion control, I understand that your company aims to transform from simply "selling products (tangible goods)" to "selling solutions (intangible goods)." At that view, what level of sales volume do you anticipate for smart motion control related products in 2027?	<p>We consider that our strength in CMP is selling products like component sales and as for TRS and ACB is component with maintenance service. By leveraging these strengths, we aim to evolve into smart motion control solutions, which encompass electrification, system integration, and data solutions, thereby enhancing our added value.</p> <p>Currently, the sales ratio of smart motion control products was just over 1% of sales in 2024 and it will be 7% in 2027.</p>
2	MTMP	I would like to know how to allocate cash during the new MTMP.	<p>Our company is still seeking the potential for growth opportunities and remains committed to prioritizing growth investments, as we are a growth-oriented organization.</p> <p>During the previous MTMP, we executed large scale of capital investments mainly for Hamamatsu plant. Therefore, in the new MTMP, our focus will shift primarily to growth investments such as R&D for smart motion control area, M&A and others.</p> <p>In case that there are no specific uses for investments, we will consider to allocate cash to shareholder returns.</p>
3	MTMP	Could you provide a detailed breakdown of the 45 billion yen CAPEX for the new MTMP?	<p>We plan to allocate approximately 4 billion yen for environmental investments, around 20 billion yen for growth investments such as new product development, and about 20 billion yen for the renewal of existing facilities and investments related to digital transformation (DX).</p>

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4	MTMP	How do you plan to achieve the operating profit target of 42 billion yen for FY2027?	<p>We aim to realize this target by increasing the revenue contribution from TRS as well as by enhancing the profitability of CMP. Although CMP is a growth business, it is currently in a downturn terms due to fluctuations in demand. Therefore, it is crucial to focus on improving profitability, including implementing structural reforms.</p> <p>The operating profit level for FY2027 is seen as a milestone, and we intend to strive for even higher targets beyond this level.</p>
5	MTMP	Could you please provide the assumptions behind the projected cash inflow of 160 billion yen during the new MTMP?	<p>Please understand that the projected cash inflow of 160 billion yen includes not only operating cash flow but also the addition of research and development expenses. The primary uses of this cash inflow are anticipated to be for capital investments, research and development, growth investments such as M&A, and shareholder returns.</p>
6	Overall	What are the primary uses of the current headquarters expenses? Additionally, is there a possibility of reducing headquarters costs through initiatives such as consolidating functions by independent business units?	<p>Approximately one-third of the headquarters expenses are allocated to R&D. We recognize that reforms need to be further digital transformation at the headquarters level.</p>
7	Portfolio Management	In portfolio management, how should we handle businesses that do not exceed the hurdle rate?	<p>During the new MTMP period, we aim to complete Project 10 and evolve towards smart motion control. As a result, we anticipate that all existing business units will exceed the hurdle rate.</p> <p>When considering the addition of new business units, we will make decisions based on their future potential, evaluating them over a multi-year timeframe rather than on a single-year basis.</p>

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8	Plan for 2025	When analyzing the changes in operating profit, it is observed that the amount of price pass-through is expected to decrease in the 2025 plan compared to the 2024 actual results (year-on-year).	<p>This reduction can be attributed to the following factors:</p> <p>Reflection of Increased Procurement Costs: The increase in procurement costs is being progressively reflected in contract (list) prices.</p> <p>Inclusion of Confirmed Impact Amounts: The 2025 plan incorporates only the confirmed impact amounts that have been established in contracts, excluding any anticipated increases that have not yet been finalized.</p> <p>Price pass-through in 2024 was mainly reflecting raw material cost increase and in 2025 will be mainly reflecting labor costs increase in suppliers. Production volume and product mix also influence the amount of price pass-through.</p>
9	Over all	The SG&A expense increased in 2024. Will SG&A expenses increase going forward?	<p>The main reason for this increase is the rise in personnel costs, which includes the impact of foreign exchange rates with subsidiaries in outside of Japan. From the perspective of human capital management, we will ensure that investments in compensation and training are continuing to invest appropriately.</p> <p>Following on Project 10 execution, we will implement a selective approach to expenses, focusing on prioritization and efficiency.</p>

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10	Over all	Please provide insights on the impact of U.S. tariff policies.	<p>The trade of automatic door components between Canada and the United States exists, but the impact is minimal.</p> <p>As for civil aircraft equipment, trading between Japan and the United States might be impacted for our products.</p> <p>However, we are currently watching what impact we might have.</p> <p>Regarding automotive tariffs, the implications are broad for Japanese automotive manufactures. If tariff policies lead to a deterioration of the global economy, there is a risk of reduced capital investment. Conversely, there may also be opportunities for increased capital investment due to the reshoring of production to the United States.</p>
11	CMP	Please tell us the sales portion for Chinese market sales in precision reduction gears and hydraulic equipment?	<p>Sales for Chinese local robot manufacturer is less than 5% of precision reduction gears sales.</p> <p>Sales for Chinese market in hydraulic equipment is approx. 35% in 2024.</p>
12	CMP	Regarding evolving to smart motion control, what kind of product will you sell in precision reduction gears except for industrial robot usage and hydraulic equipment for excavators?	<p>We will expand the sales of non-robotics usage such as for semiconductor production equipment (like an inspection equipment, wafer transfer equipment and others), logistics related products, antenna and others.</p> <p>When AI became popular, our business opportunity will expand because of edge AI, active system, required for component itself.</p> <p>Electrification of hydraulic equipment is evolving with excavators themselves. There is an example to transfer from mechanical valve to solenoid valve. In the future full electrification excavator may be a main stream, we prepare the product for electrified excavator arm as well.</p>

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13	CMP	Could you explain how CMP will grow during new MTMP and the progress of price pass-through?	<p>Increase of CMP is mainly sales growth by precision reduction gears. The plan was based on the growth assumption by IFR and hearing from customers. We estimate CAGR 7% from precision reduction gears for high end robot market. Rest of the growth is coming from non-robotics usage sales expansion.</p> <p>We will pass-through the price of procurement cost increase. Progress ratio of project 10 was 35% in 2024 and it will be 100% by 2026</p>
14	Precision Reduction Gears	Would you tell us about your policy of expanding sales to local robot manufacturers in China, which are expected to grow in the future?	We intend to focus on the high end customers. The high-growth market has become red ocean and it could be a high competitive market in terms of price. Sales to local robot manufacturers in China are conducted by joint ventures in China, therefor the company is working together with partners to expand the market.
15	Precision Reduction Gears	Please share the utilization ratio assumption of precision reduction gears plant in 2027	In 2024Q4, utilization ratio at the Tsu Plant and Chinese Plant at 65% and 100%, respectively. The Tsu plant is a multi-product with small-lot production. Hamamatsu plant is based on the concept of labor saving, it is aiming at an automation rate of 90%, and small-product with large-lot production. We will build a production capacity in accordance with demand.
16	Precision Reduction Gears	Will you possibility to penetrate the middle range price market of precision reduction gears?	If we would penetrate this kind of market, we need to consider its growth opportunity, profitability and our vision.

*MTMP: Medium-term Management Plan