

# Results Briefing for the Fiscal Year Ended December 31, 2019 (FY2019/12)

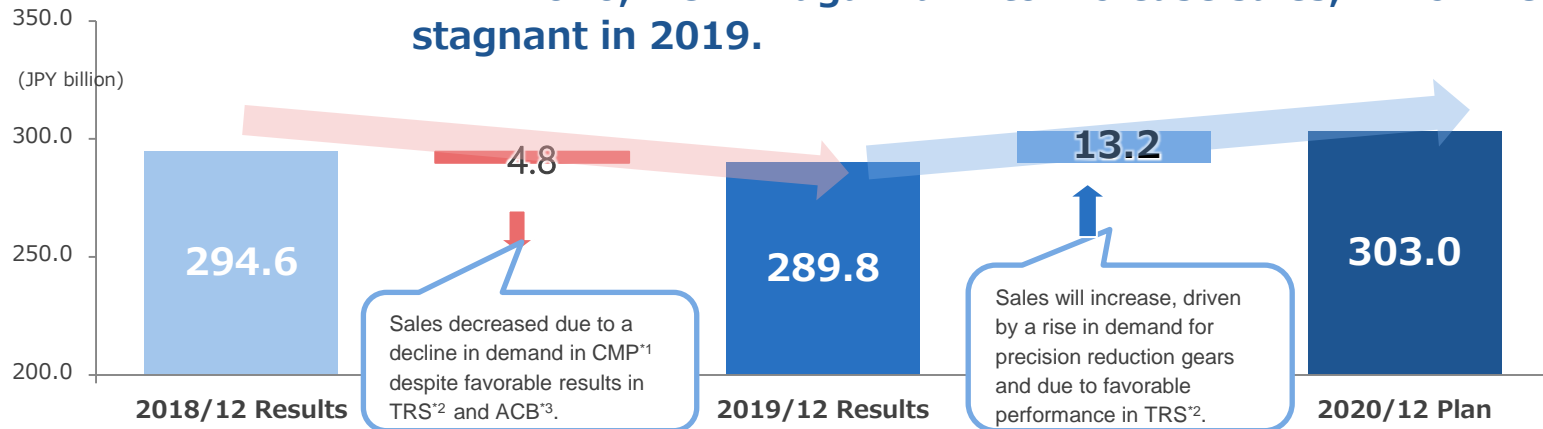
**February 17, 2020**

**CEO Katsuhiro Teramoto**

# Summary of Annual Consolidated Results

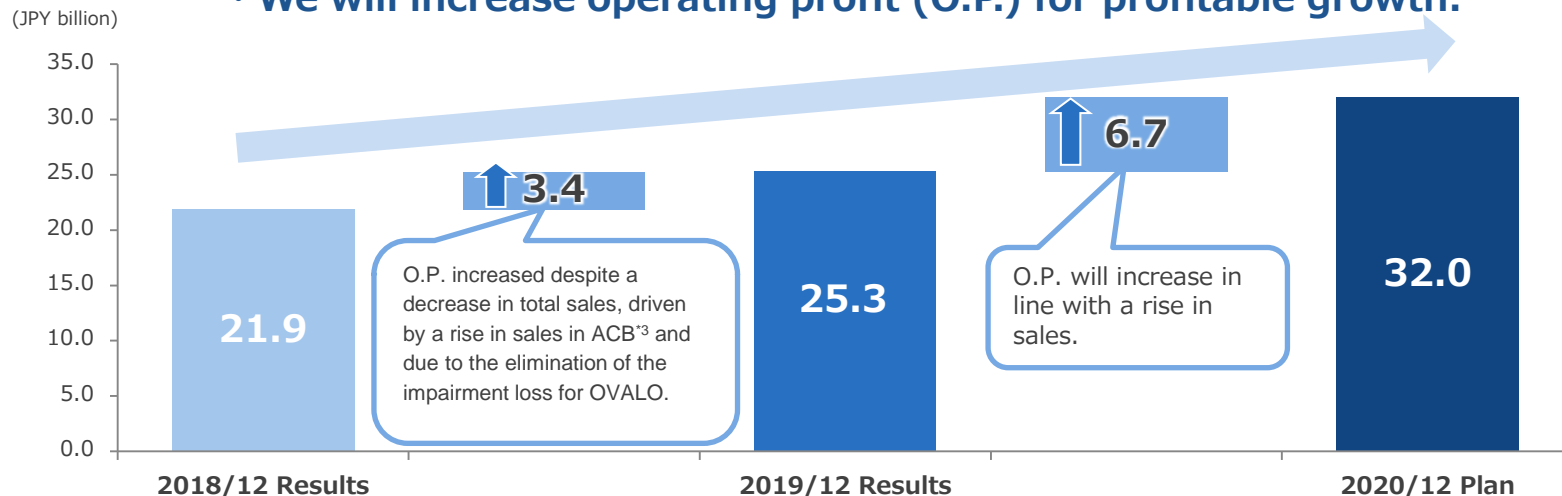
## Sales

- In 2020, we will again aim to increase sales, which were stagnant in 2019.



## O.P.

- We will increase operating profit (O.P.) for profitable growth.



\*1 Component Solutions Segment \*2 Transport Solutions Segment \*3 Accessibility Solutions Segment

**1. Consolidated Results for FY2019/12**

**2. Forecast for FY2020/12**

**3. Progress with the Medium-Term Management Plan  
(2017-2020)**

**1. Consolidated Results for FY2019/12**

2. Forecast for FY2020/12

3. Progress in Mid-Term Management Plan  
(FY2017-2020)

# Consolidated Results for FY2019/12

## ■ FY2019/12 results were almost as described in the revised plan

(JPY million)	FY2018/12 Full-year results (A)	FY2019/12 Full-year plan As of Feb. 8 (B)	FY2019/12 Full-year plan (rev.) As of Oct. 31 (B)	FY2019/12 Full year result (C)
<b>Sales</b>	294,626	313,000	288,500	289,808
<b>O.P.</b>	21,889	30,000	24,100	25,320
<b>(OPM)</b>	7.4%	9.6%	8.4%	8.7%
<b>Finance Income and Cost</b>	-1,107	-	-	-205
<b>Equity in earnings of affiliates</b>	9,181	-	-	2,864
<b>Income before tax</b>	29,962	33,600	25,300	27,979
<b>Net profit*<sup>1</sup></b>	21,029	22,900	16,800	17,931
<b>ROA</b>	6.7%	6.6%	5.0%	5.3%
<b>ROE</b>	12.1%	12.3%	9.3%	9.8%

YoY Change (C-A)	Relative to revised plan Change (C-B)
-4,818	1,308
3,431	1,220
1.3pt	0.4pt
902	-
-6,317	-
-1,983	2,679
-3,098	1,131
-1.4pt	0.3pt
-2.3pt	0.5pt

<b>DPS (in yen)</b>	73	73 (Planned)	73 (Planned)	73 (Planned)
<b>Payout ratio</b>	43.0%	39.5% (Planned)	53.9% (Planned)	50.5% (Planned)

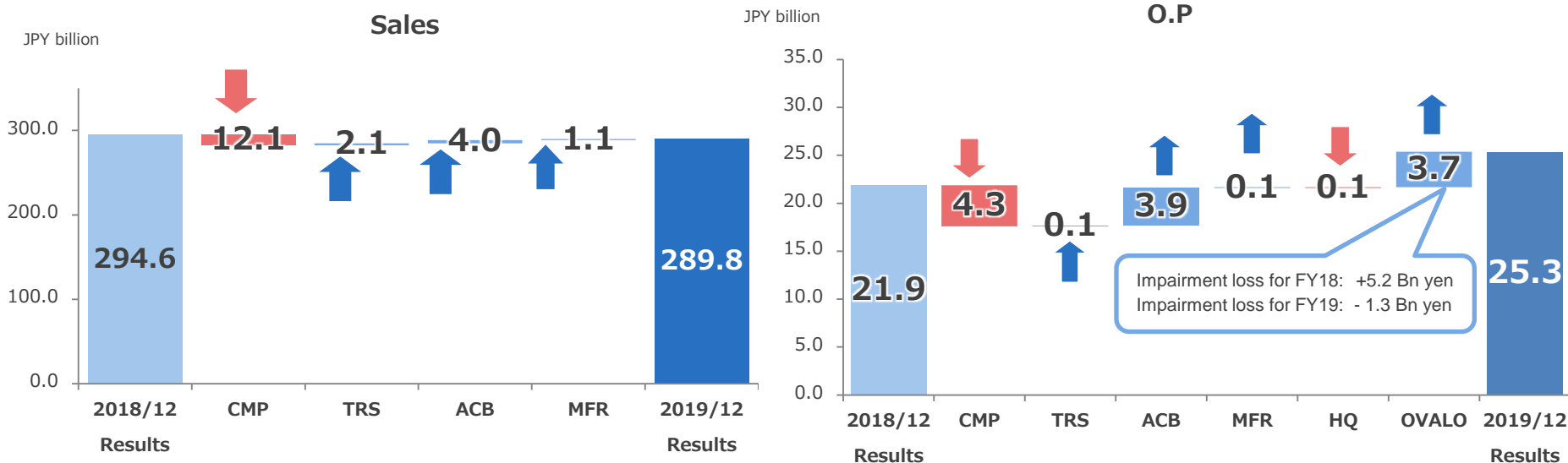
\*1 Net profit attributable to owners of the parent

### Remarks :

- 2018: Equity in earnings of affiliates increased by 5.7 billion yen due to the capital increase at Harmonic Drive Systems.

# Analysis of Sales and O.P. Change Factors by Segment (Relative to FY2018/12)

■ O.P. increased due to favorable results in ACB and other business segments, although profit decreased in CMP as demand diminished due to stagnant capital investment.



CMP: Precision reduction gear sales decreased as capital investment by customers remained stagnant.

Hydraulic equipment sales also dropped due to weak market demand in Southeast Asia. O.P. decreased as a result of these declines in sales.

TRS: Both sales and O.P. increased, driven by a rise in civil aircraft equipment sales and by the gradual recovery of the marine vessel equipment market.

ACB: Sales increased due to robust demand for automatic doors for buildings and platform doors in both overseas and domestic markets.

O.P. increased due to higher sales and to the elimination of the PMI\* cost for FY2018.

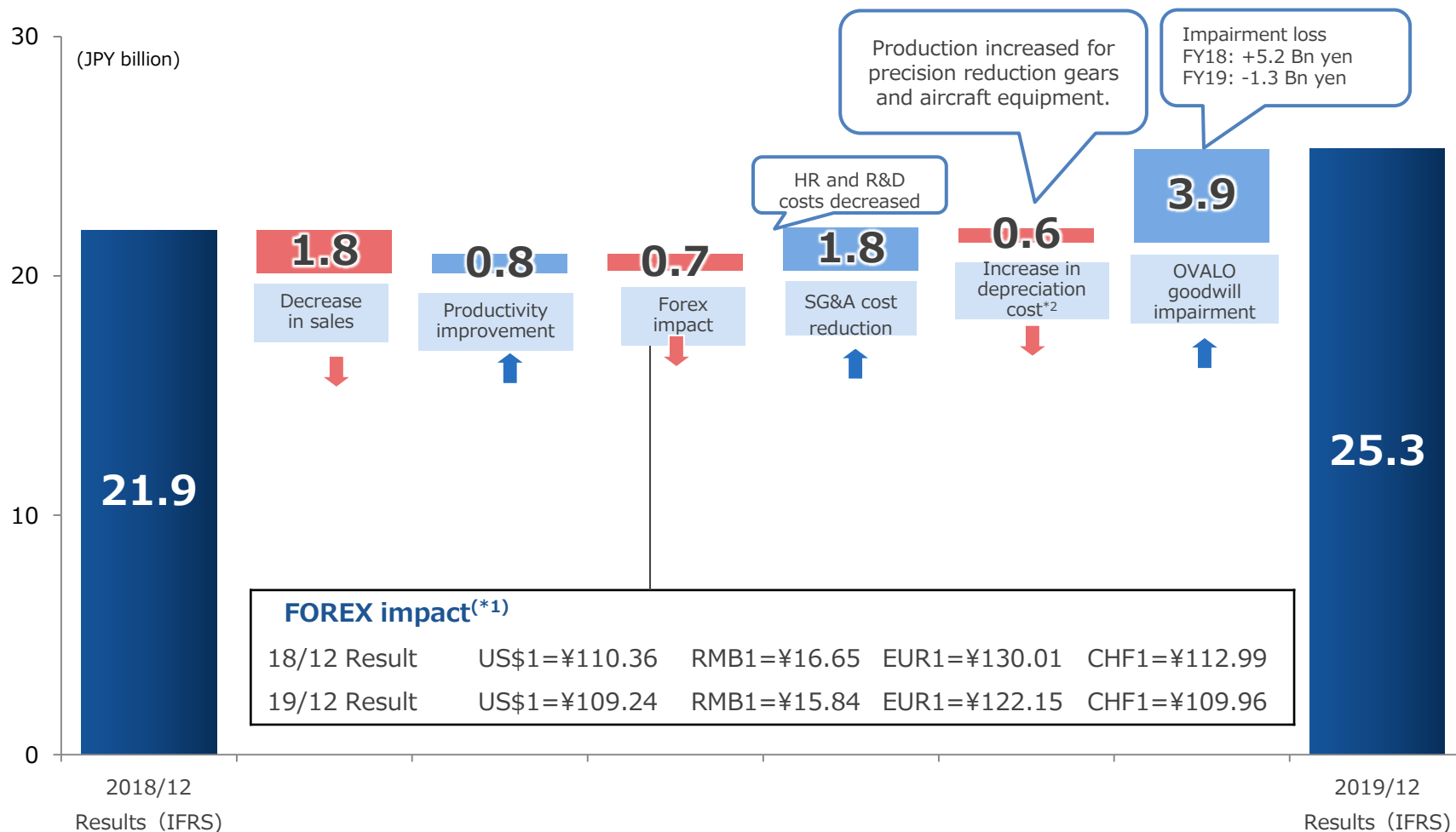
MFR : Sales and O.P. increased, propelled by strong demand for packaging machines.

OVALO: O.P. increased with no impact of impairment losses posted for 2018.

\*Post merger integration

# Analysis of O.P. Change Factors (Relative to FY2018/12)

- O.P. increased by the reduction of the SG&A cost, despite a decrease in sales and the impact of foreign exchange fluctuations.



\*1 FOREX sensitivity of O.P. (This represents the effect to be expected on operating profit if the exchange rate fluctuates by one yen) :

(US\$) 76 million yen (RMB) 756 million yen (EUR) minimal (CHF) minimal

\*2 Excluding the increase caused by the application of "IFRS 16 Leases."

# Balance Sheet (Relative to FY2018/12)

## ■ Right-of-use assets increased by about nine billion yen due to the application of "IFRS 16 Leases."

(JPY million)	End of FY2018/12 (As of December 31, 2018)	End of FY 2019/12 (As of December 31, 2019)	Change
<b>Assets</b>	328,568	344,558	15,990
(Cash and cash equivalents)	54,039	58,686	4,647
(Trade receivable)	76,602	70,175	-6,427
(Inventories)	43,592	41,257	-2,334
(Tangible fixed assets)	80,573	87,083	6,510
(Right-of-use assets)	0	9,004	9,004
<b>Liabilities</b>	139,313	145,424	6,112
(Bonds and borrowings)	45,310	43,936	-1,375
<b>Total equities</b>	189,255	199,133	9,878
(Non-controlling interests)	10,553	11,735	1,182
<b>Equity attributable to owners of parent</b>	178,702	187,398	8,696

Ratio of equity attributable  
to owners of parent:

54.4%

54.4%



1. Annual Consolidated Results for FY2019/12

**2. Forecast for FY2020/12**

3. Progress in Mid-Term Management Plan  
(FY2017-2020)

# Consolidated Performance Forecast for FY2020/12

- Sales and O.P. will increase, driven by stable demand in TRS and for packaging machines, and also as demand for precision reduction gears is expected to recover during and after the second half of 2020.

(JPY million)	FY2019/12 Full-year result (A)	FY2020/12 Full-year plan (B)
<b>Sales</b>	289,808	303,000
<b>O.P.</b>	25,320	32,000
<b>(OPM)</b>	8.7%	10.6%
<b>Income before tax</b>	27,979	34,000
<b>Net profit*<sup>1</sup></b>	17,931	23,100
<b>ROA</b>	5.3%	6.5%
<b>ROE</b>	9.8%	12.0%

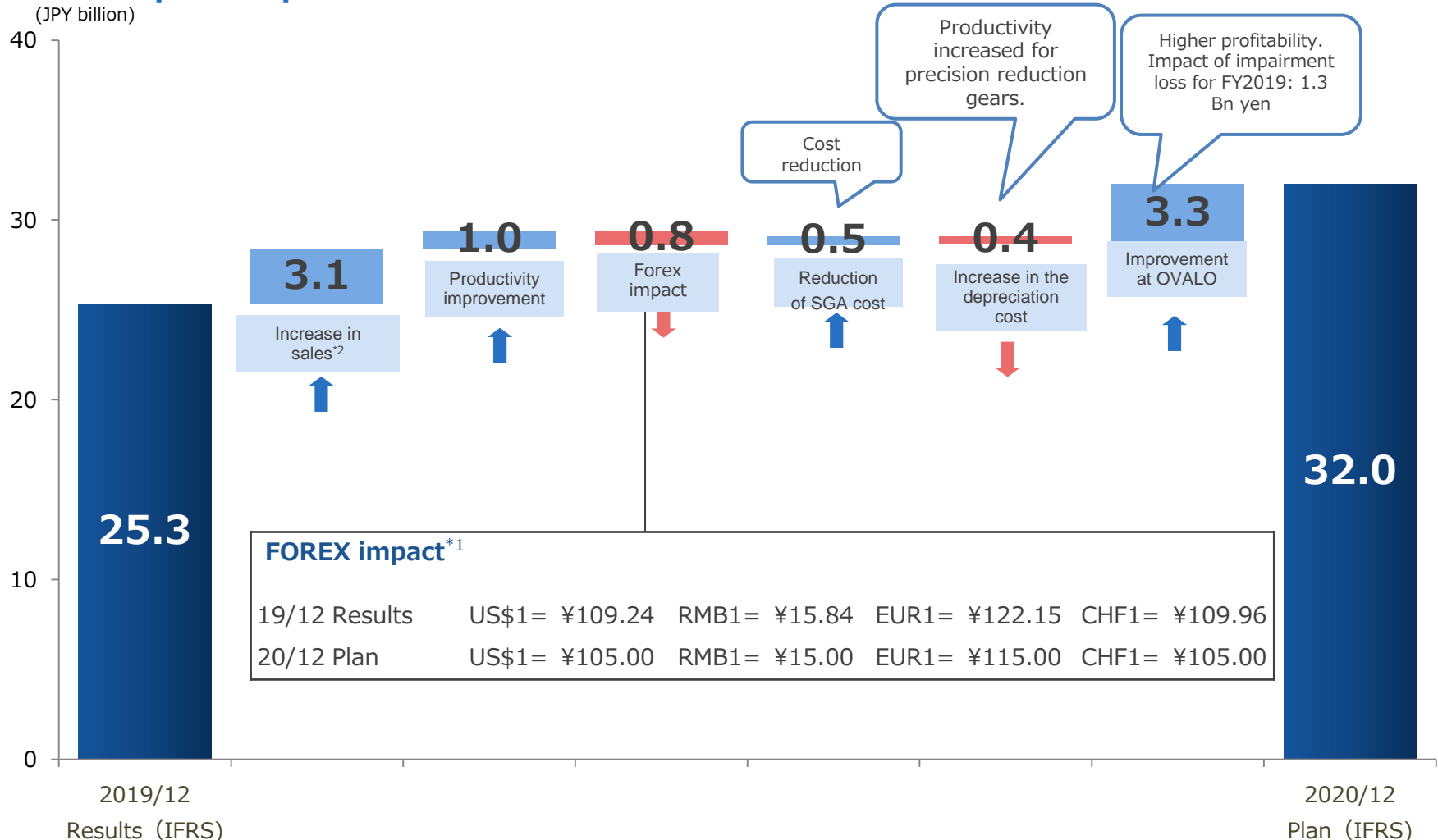
YOY Change (B-A)	YOY Change rate (B-A)/A
13,192	4.6%
6,680	26.4%
1.8pt	-
6,021	21.5%
5,169	28.8%
1.2pt	-
2.2pt	-

<b>DPS (in yen)</b>	73 (Plan)	82 (Plan)
<b>Payout ratio</b>	50.5% (Plan)	44.1% (Plan)

\*1 Net profit attributable to owners of the parent

# Analysis of O.P. Change Factors (Relative to FY2019/12)

■ O.P. will increase due to an increase in sales in each business segment as well as to the improved performance of OVALO.



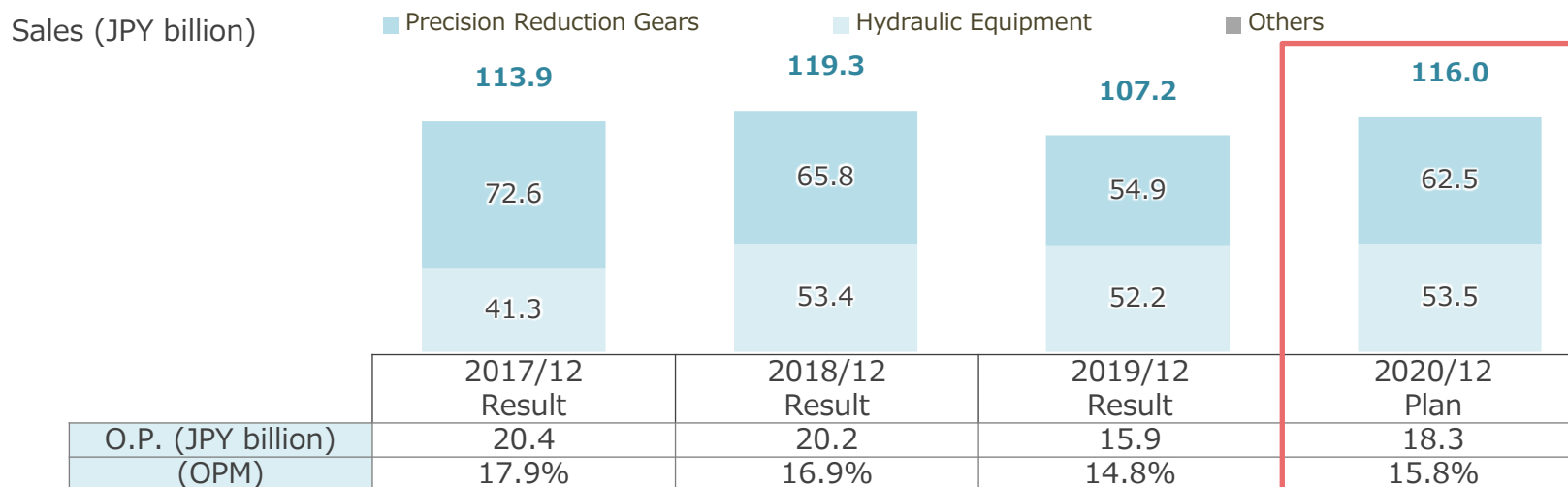
\*1 FOREX sensitivity of O.P. (This represents the effect to be expected on operating profit if the exchange rate fluctuates by one yen) :

(US\$) 57 million yen (RMB) 815 million yen (EUR) minimal (CHF) minimal

# Component Solutions Segment (CMP)

- Sales will increase, driven by the recovery of demand for precision reduction gears used in industrial robots in the latter half of the fiscal year as well as by stable demand for hydraulic equipment in China and a recovery of demand in the Southeast Asian market.

## Results and Plan



## FY2019/12 Result and FY2020/12 Plan

**Precision Reduction Gears:** Sales will increase, driven by the recovery of capital investments by automakers.

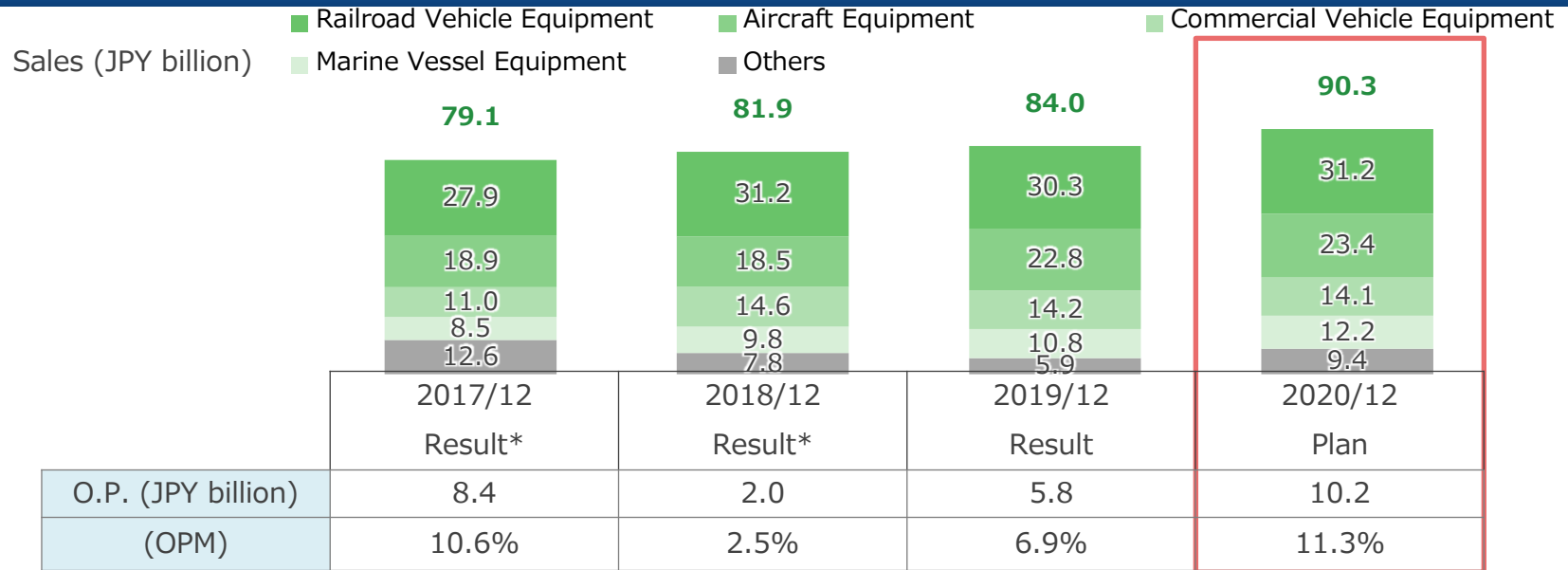
**Hydraulic Equipment:** Stable demand in China, driven by robust infrastructure investments. Sales will increase due to a recovery of demand in Southeast Asia.

**O.P.:** Increased sales will, in turn, boost O.P.

# Transport Solutions Segment (TRS)

- Sales will increase in line with growth in the number of overseas railroad vehicle equipment-related projects and due to the continued recovery of the marine vessel equipment market.

## Results and Plan



\*Comparison with sales during and before 2017/12 is not possible due to changes made to the adjustment method

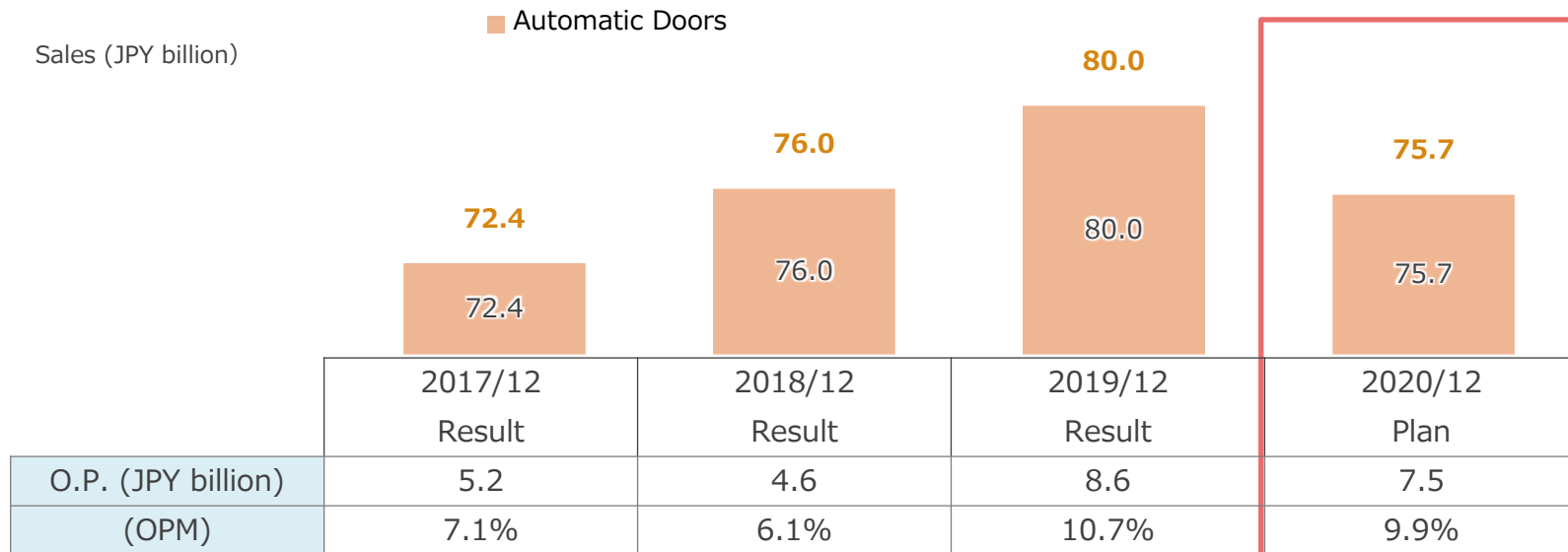
## FY2019/12 Result and FY2020/12 Plan

- Railroad Vehicle Equipment :** Sales will increase, propelled by growth in the number of overseas projects, while an off-demand period will continue in the Japanese market.
- Aircraft Equipment :** Sales will remain at the same level as FY2019, while the mass production of the B777X will start.
- Commercial Vehicle Equipment :** Sales will remain at the same level as FY2019, while demand in Japan will become stagnant.
- Marine Vessel Equipment :** Sales will expand, driven by the gradual recovery of the market.
- Others:** For OVALO GmbH, sales will increase due to the launch of full-year mass production.
- O.P.:** O.P. will increase due to the elimination of the impact of impairment loss for OVALO and to increased sales.

# Accessibility Solutions Segment (ACB)

■ Sales will decrease due to a temporary drop in demand during the Tokyo 2020 period and because of the start of an off-demand period for overseas platform door projects.

## Results and Plan



## FY2019/12 Result and FY2020/12 Plan

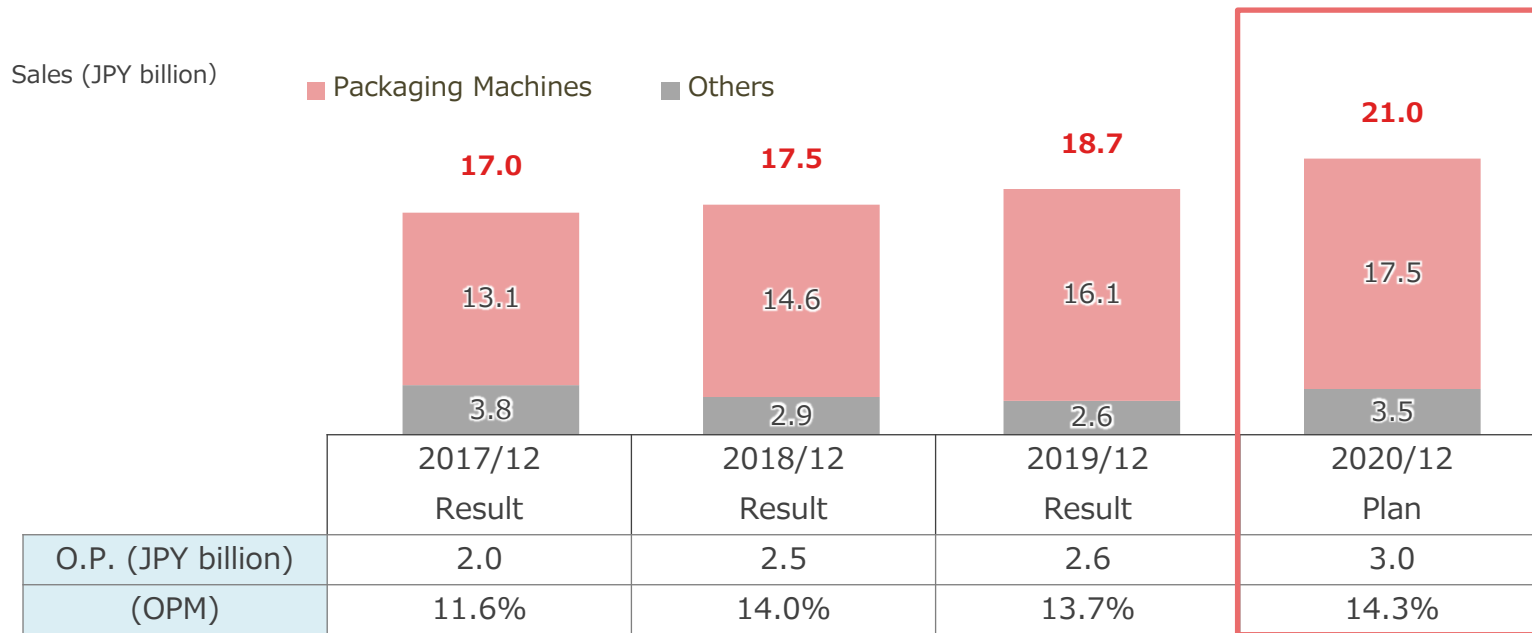
Automatic Doors: Although demand for automatic doors for buildings will remain robust overseas, sales will decrease, being affected by a temporary drop in demand during the Tokyo 2020 period and the start of an off-demand period for platform door projects.

O.P.: Decreased sales will, in turn, lower O.P.

# Manufacturing Solutions Segment (MFR)

- Sales and O.P. will increase, driven by overseas sales expansion for packaging machines.

## Results and Plan



## FY2019/12 Result and FY2020/12 Plan

Packaging Machines: Sales will increase driven by the stable domestic market and sales promotions in the overseas food and pet food markets.

O.P.: Increased sales will, in turn, boost O.P.

# CAPEX, R&D and Depreciation

- Capital expenditure and R&D are almost as described in the medium-term plan.
  - Plan to obtain new land in Shizuoka Prefecture (at the cost of 5.7 billion yen) in anticipation of the expansion in demand for precision reduction gears.
  - Make environment-related investments on a continual basis.

(JPY billion)	FY2017/12 Full-year result	FY2018/12 Full-year result	FY2019/12 Full-year result	FY2020/12 Full-year plan
CAPEX	15.2	20.3	16.4	24.1
R&D	8.7	10.2	9.9	11.5
Depreciation	9.0	10.0	13.1*	13.5*

Cumulative (for 2017 to 2020)	Medium- term plan (for 2017 to 2020)
76.0	77.0
40.3	40.0

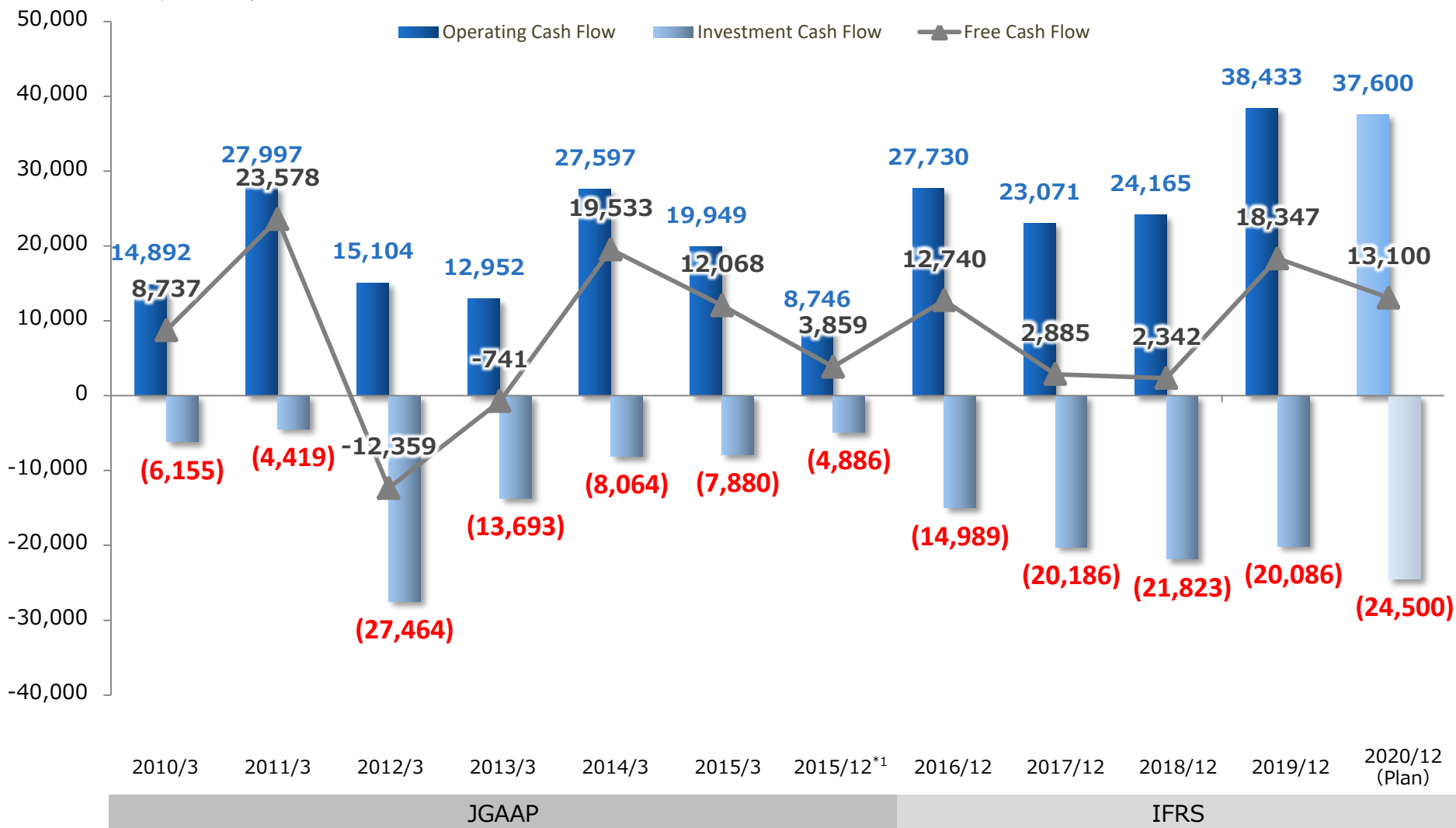
\* Depreciation cost increased due to the application of "IFRS 16 Leases" for FY2019/12.



# Consolidated Cash Flow

## ■ Maintaining a positive free cash flow while making capital investments in growth areas

(JPY million)



\*1 Please note that the estimates for FY2015 (Reference) were calculated for the period of 12 months to make comparisons with the result for FY2016 under the same conditions.

1. Annual Consolidated Results for FY2019/12

2. Forecast for FY2020/12

**3. Progress with Medium-Term Management Plan  
(2017-2020)**

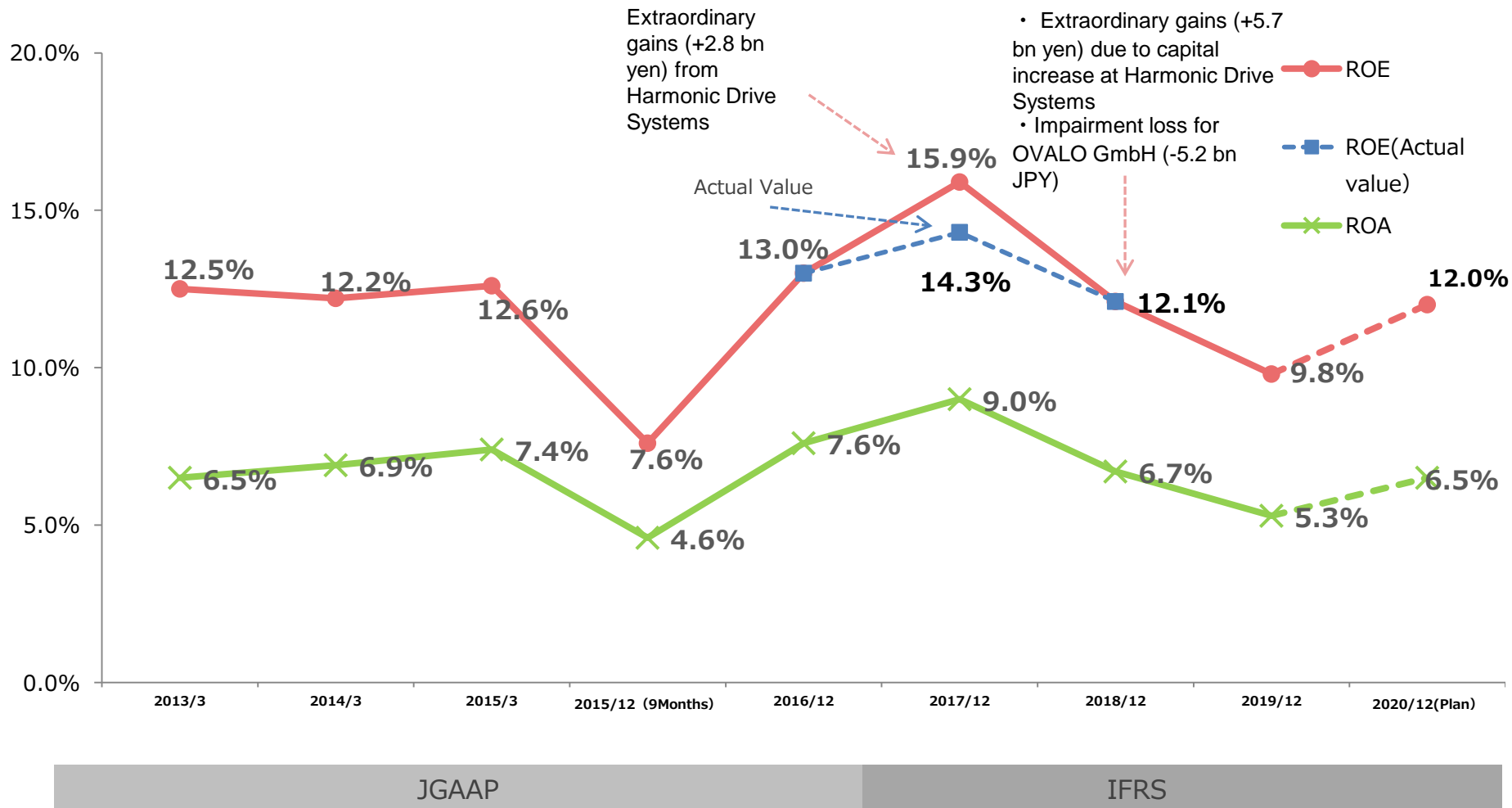
**ROE : 15%**

**Consolidated payout ratio:  
35% or over**

**Focus on solving ESG issues**

# Medium-Term Management Plan: ROE 15%

■ While it would be difficult to achieve an ROE of 15% in FY2020/12, we will continue to develop business activities to attain the target as soon as possible.

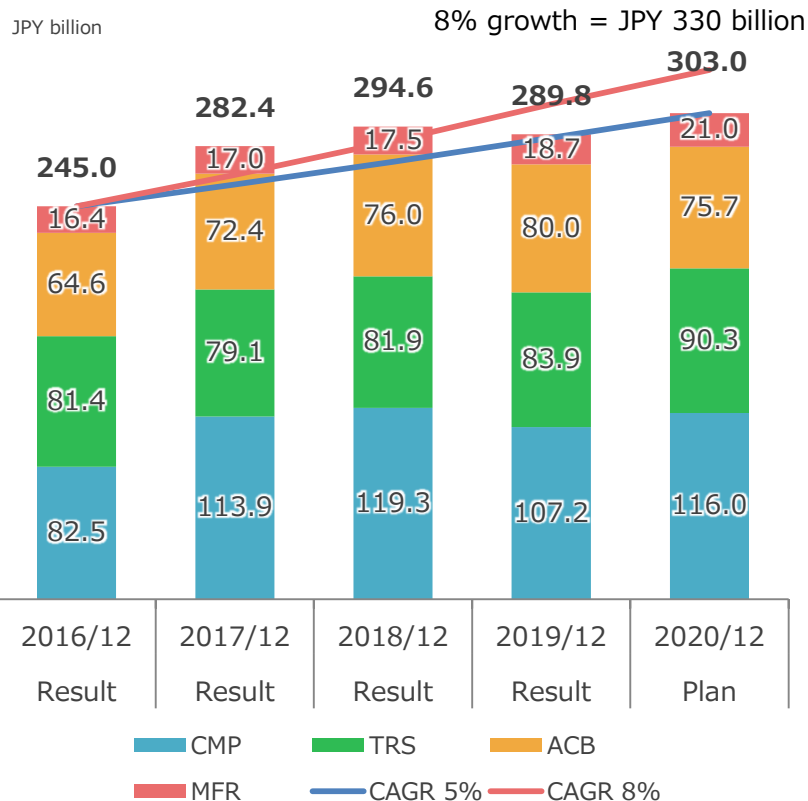


# Growth during the Medium-Term Management Plan

- Achieved profitable growth during the medium-term plan period, although there are gaps between the targets and actual sales and O.P.

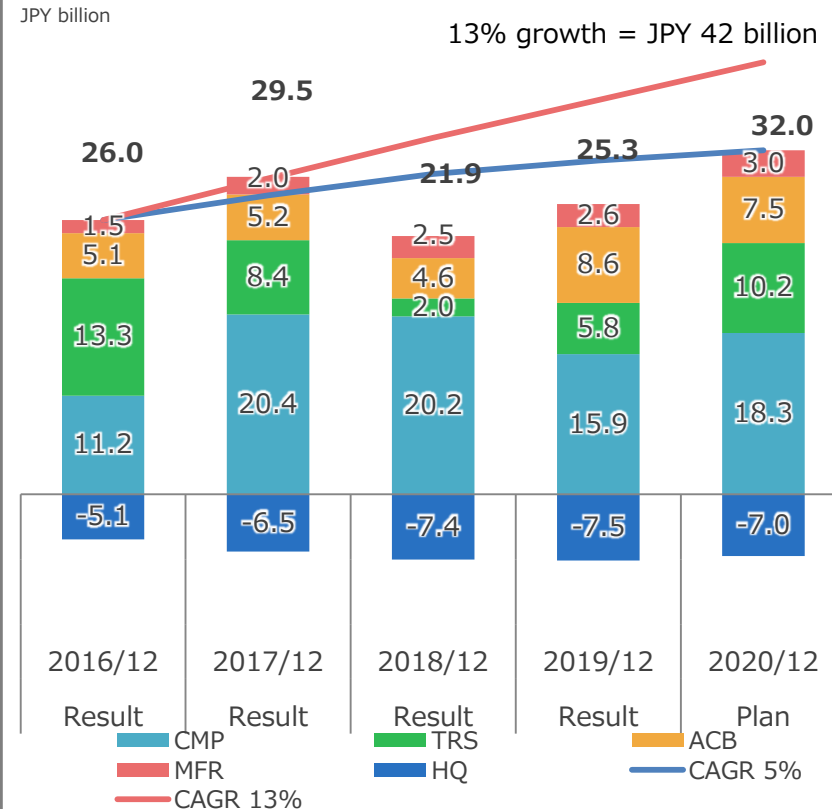
## Sales

Planned CAGR: 8%  
Actual CAGR (Incl. forecast for FY2020/12): 5%



## O.P.

Planned CAGR: 13%  
Actual CAGR (Incl. forecast for FY2020/20): 5%



## Changes to Business Environments during the Medium-Term Plan Period

### Business environments

Business	Forecast made when the Plan was made	Current situation
Precision reduction gears	The business will continue to achieve steady growth.	Stagnant capital investment by automakers and others due to the influence of the U.S.-China trade conflict
OVALO	The company will begin to increase sales at a faster pace in 2018.	The start of mass production has been delayed and sales will begin to expand at a faster pace in 2020.
Railroad vehicle equipment	In China, domestic production of high-speed trains will progress gradually, including the production of medium-speed trains.	Progress has not been made as expected for medium-speed train projects.

### Competitive environment

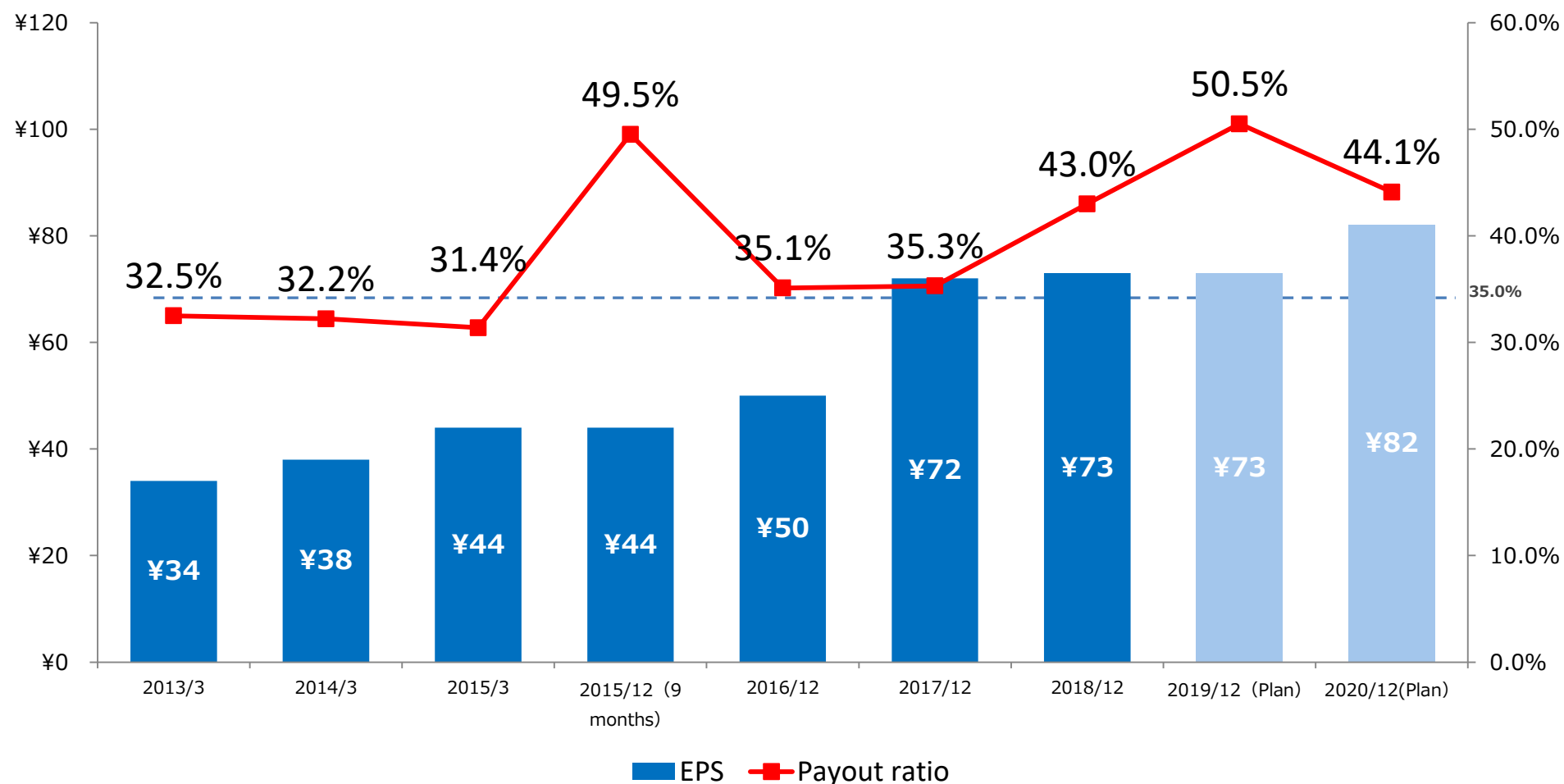
No major changes:

We have maintained our market shares in each of the segments.

# Medium-Term Management Plan: Consolidated Payout Ratio of 35% or over

## ■ Consolidated payout ratio: 35% or over

-The dividend amount will be increased in FY2020/12.



# Medium-Term Management Plan: Focus on Solving ESG Issues








## ■ ESG measures are being steadily implemented on the following themes in each area.

- G : “Secure management transparency,” “Globalize risk management and compliance” and “Enhance the disclosure of non-financial information”
- S : “Further revitalize the organization” and “Enhance the development of human resources”
- E : “Combat climate change” and “Reduce environmental impact”

ESG Theme	Materiality	FY2017/12	FY2018/12	FY2019/12	FY2020/12 (Plan)
Governance (G)	<b>Strengthen CG</b>  <b>Promote risk management and compliance behavior</b>  <b>Ensure proactive dialogue with stakeholders</b>	<ul style="list-style-type: none"> <li>■ Adopted Board Benefit Trust (BBT) as a compensation plan</li> <li>■ Enhanced risk management on a company-wide basis</li> <li>■ Strengthened anti-corruption measures and prevention of bid rigging</li> <li>■ Promoted integrated reporting</li> </ul>	<ul style="list-style-type: none"> <li>■ Revised the CG basic policy</li> <li>■ Enhanced risk assessments</li> <li>■ Set local rules to prevent corruption and bid rigging</li> </ul>	<ul style="list-style-type: none"> <li>■ Abolished the advisor system</li> <li>■ Globalized the internal reporting system</li> <li>■ Made presentations on ESG for investors</li> <li>■ Published an ESG data book</li> </ul>	<ul style="list-style-type: none"> <li>■ Increase the rate of outside directors</li> <li>■ Provide compliance training by a risk-based approach globally</li> <li>■ Review material issues (materiality)</li> </ul>
Social (S)	<b>Provide safe and comfortable workplaces</b>	<ul style="list-style-type: none"> <li>■ Launched the Business Transformation Division</li> <li>■ Promoted due diligence for human rights across the company</li> </ul>	<ul style="list-style-type: none"> <li>■ Promoted telework</li> <li>■ Returned the benefits of higher productivity to employees</li> </ul>	<ul style="list-style-type: none"> <li>■ Installed systems (for the use of PPA and AI)</li> <li>■ Promoted health and productivity management</li> </ul>	<ul style="list-style-type: none"> <li>■ Promote office reforms</li> <li>■ Make a transition to selective career training</li> </ul>
Environment (E)	<b>Countermeasures for climate change</b>  <b>Environmentally friendly manufacturing</b>	<ul style="list-style-type: none"> <li>■ Set long-term CO<sub>2</sub> reduction target</li> <li>■ Set environment-related incentive system</li> </ul>	<ul style="list-style-type: none"> <li>■ Promoted environment-related investment (solar panels)</li> </ul>	<ul style="list-style-type: none"> <li>■ Announced support to the recommendations of TCFD</li> <li>■ Developed measures to comply with the Act on Rational Use and Appropriate Management of Fluorocarbons</li> </ul>	<ul style="list-style-type: none"> <li>■ Promote the “smartization” of plants (Use of renewable energy)</li> <li>■ Manage hazardous substances used in products and make examinations for LCA</li> </ul>



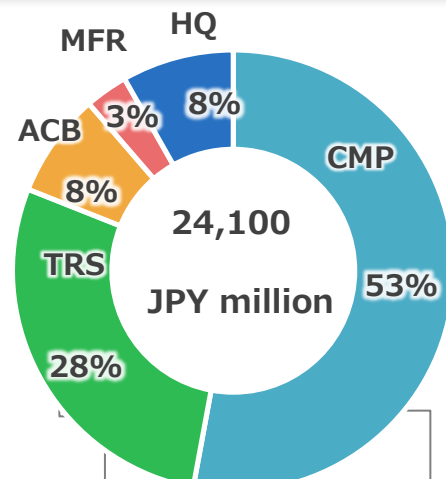
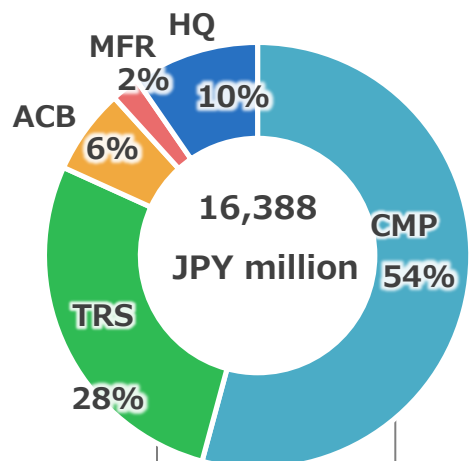
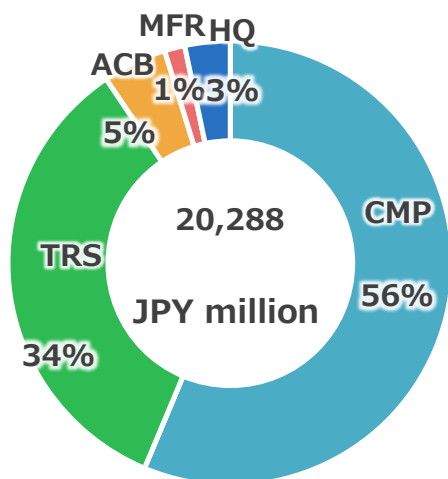
# Inclusion in ESG Indices/ESG Rating

		2016	2017	2018	2019
DJSI Asia Pacific		★ (2013-)	★	★	★
DJSI World		★	★	★	★
FTSE4Good		★ (2009-)	★	★	★
FTSE Blossom Japan			★	★	★
MSCI ESG Leaders Indexes		★ (2015-)	★	★	★
MSCI Japan ESG Select Leaders Index			★	★	★
MSCI Japan Empowering Women (WIN) Select Index				★	
S&P/JPX Carbon Efficient Index					★
CDP CLIMATE CHANGE			★	★	★
CDP WATER SECURITY				★	
CDP SUPPLIER ENGAGEMENT LEADER			★	★	

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# Appendix

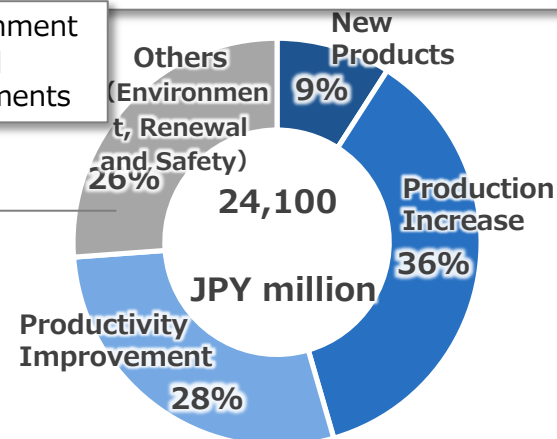
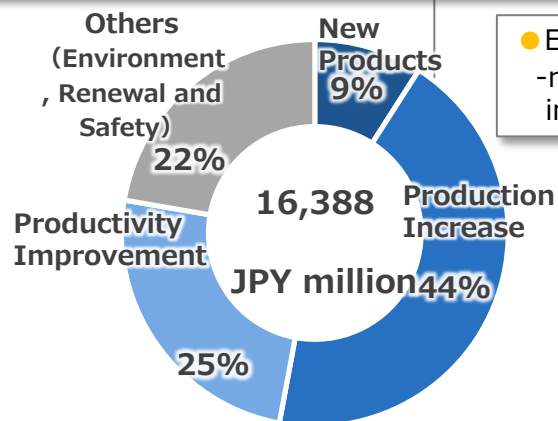
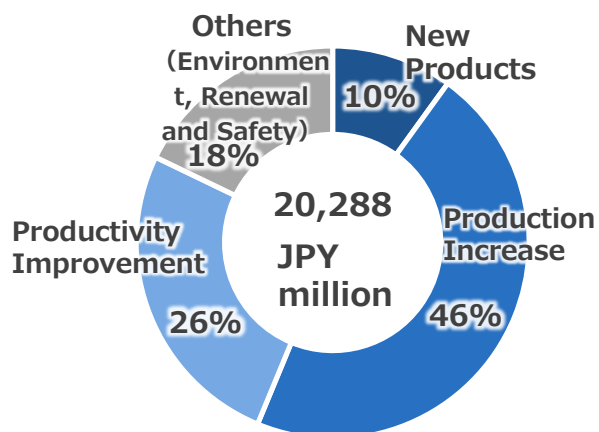
# Breakdown of CAPEX



- Precision Reduction Gears: Increased production capacity of the Tsu Plant
- Aircraft Equipment: Expanded facilities at the Gifu Plant

- Precision Reduction Gears: Purchased land in Shizuoka Prefecture
- OVALO GmbH: Mass production of new products

- Environment-related investments



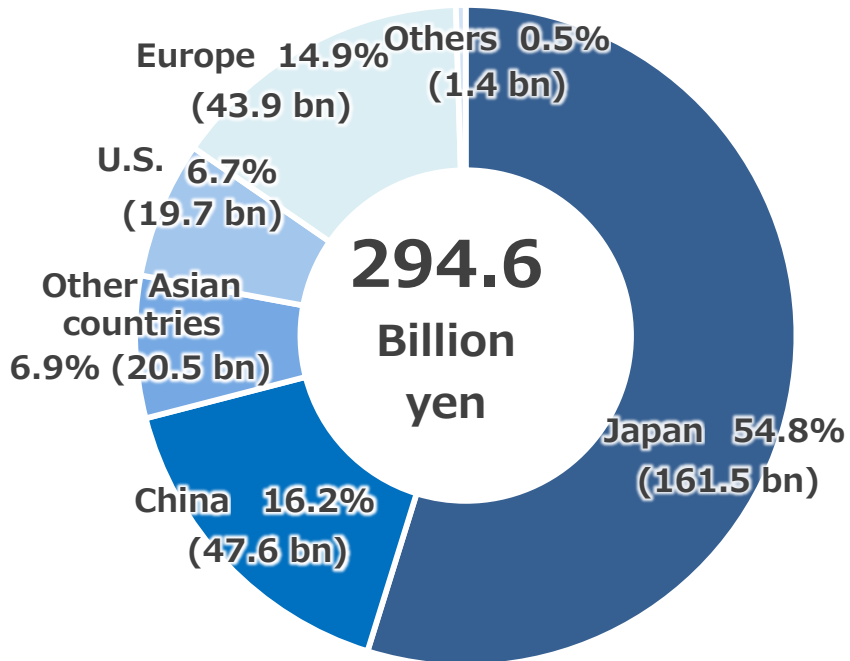
2018/12 Result

2019/12 Result

2020/12 Plan

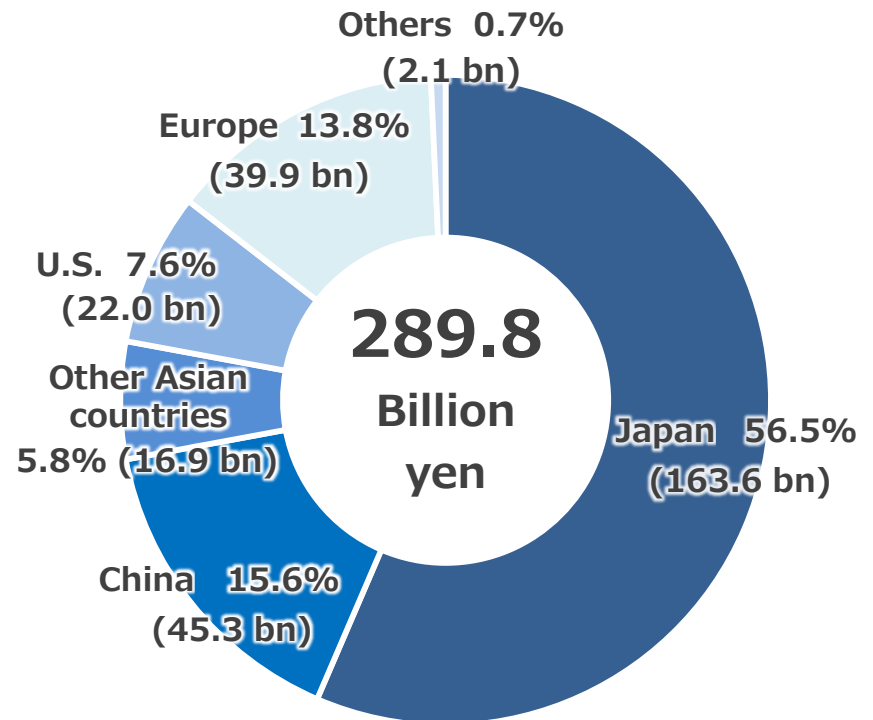
# Sales by Geographic Segment

## FY2018/12 Result



Overseas Sales	133.2 billion yen
Ratio	45.2%

## FY2019/12 Result

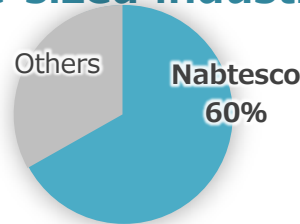


Overseas Sales	126.2 billion yen
Ratio	43.5%

# Main Products: Component Solutions Segment (CMP)

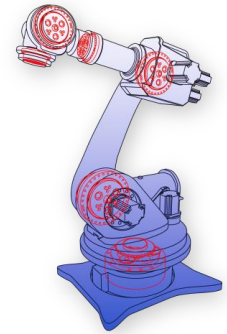
## Precision Reduction Gears

### ■ Joints of medium- and large-sized industrial robots



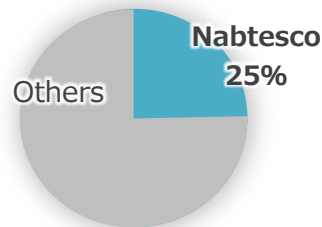
**No.1**

Approx. **60%**  
world market share

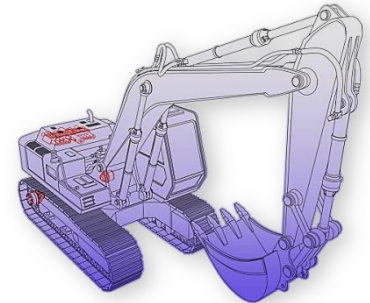


## Hydraulic Equipment

### ■ Traveling units for hydraulic excavators



Approx. **25%**  
world market share



## Main Customers

### ■ Precision Reduction Gears

**Industrial Robots:** Fanuc, Yaskawa Electric, KHI, KUKA Roboter (Germany), ABB Robotics (Sweden)

**Machine Tools:** Yamazaki Mazak, Okuma, DMG Mori Seiki

### ■ Hydraulic Equipment

**Traveling Units:** Komatsu, Sumitomo Construction Machinery, Kobelco Construction Machinery, Sany (China), XCMG (China), Liu Gong (China)

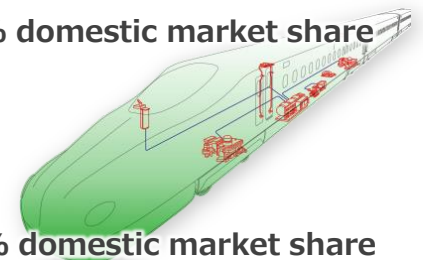
# Main Products: Transport Solutions Segment (TRS)

## Railroad Vehicle Equipment

### ■ Brake Systems



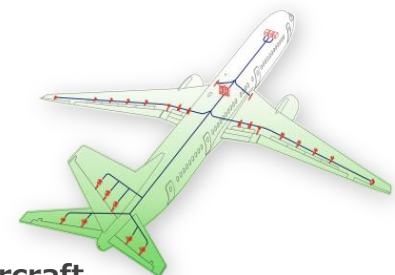
### ■ Door Operating Systems



## Aircraft Equipment

### ■ Flight Control Actuation Systems (FCA)

- One of the four major world players for FCA systems (major FCA supplier to Boeing Company)
- Expanding business to include engine accessories and power supply systems in the product lineup



## Main Customers

### ■ Railroad Vehicle Equipment

JR Companies, Private railway companies, KHI, bullet train and subway projects in China

### ■ Aircraft Equipment

Boeing, KHI, MHI, IHI, Japanese Ministry of Defense, airline operators

# Main Products: Transport Solutions Segment (TRS)

## Commercial Vehicle Equipment

### ■ Wedge Chambers



Approx. **80%** domestic market share



### ■ Air Dryers



Approx. **70%** domestic market share

## Marine Vessel Equipment

### ■ 2ST Main Engine Control Systems



Approx. **50%** domestic market share  
(Approx. 40% world market share)



## Main Customers

### ■ Commercial Vehicle Equipment

Hino, Isuzu, Mitsubishi Fuso Truck & Bus, UD Trucks

### ■ Marine Vessel Equipment

KHI, Makita Corporation, Hitachi Zosen, Mitsui Engineering & Shipbuilding, Japan Engine Corporation, Hyundai Heavy Industries (Korea), HSD Engine Co., Ltd. (Korea), Hudong Heavy Machinery (China), MAN Diesel (Denmark)



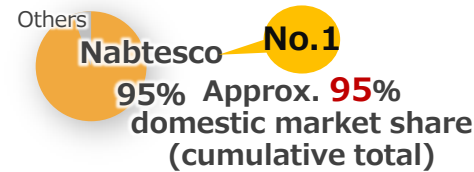
# Main Products: Accessibility Solutions Segment (ACB)

## Automatic Doors

### ■ Automatic Doors



### ■ Platform Screen Doors



## Main Customers

### ■ Automatic Doors

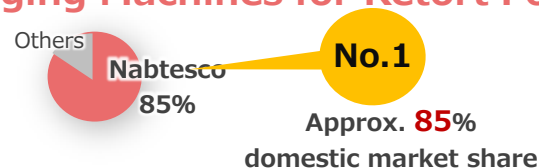
**Automatic doors for buildings:** Major general contractors, sash manufacturers, hospitals, banks, public institutions, etc.

**Platform Doors :** Subway projects in France and China, others

# Main Products: Manufacturing Solutions Segment (MFR)

## Packaging Machines

### ■ Packaging Machines for Retort Pouch Foods



## Main Customers

### ■ Packaging Machines

Mitsui Sugar, Ajinomoto, Marudai Food Co., Ltd., ARIAKE Japan, KENKO Mayonnaise, P&G, Kao, Lion, beverage companies in North America, food companies in China

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