

To Our Stakeholders



For continuous growth as “Leaders in Innovation”

Nabtesco celebrates the 20th anniversary of its founding in 2023. Also, one year has passed since the launch of the new medium-term management plan under the leadership of Kazumasa Kimura, the new CEO of the Company. In the following, Mr. Kimura looks back on the corporate history and shares his ideas about what it will take for Nabtesco to continue their growth as “Leaders in Innovation,” while asserting his strong commitment to implementing measures that will allow the Company to meet and exceed the expectations of customers and society.

Kazumasa Kimura
Representative Director, President and Chief Executive Officer (CEO)

Strengths built over the last two decades and issues to be solved for sustainable growth

Over the last 20 years—and even before Teijin Seiki and NABCO were merged to create Nabtesco—we have been striving to create value to meet the expectations of customers and society, while facing a range of issues. As a result, we have gained a large market share in our niche market, which provides our business with a strong foundation.

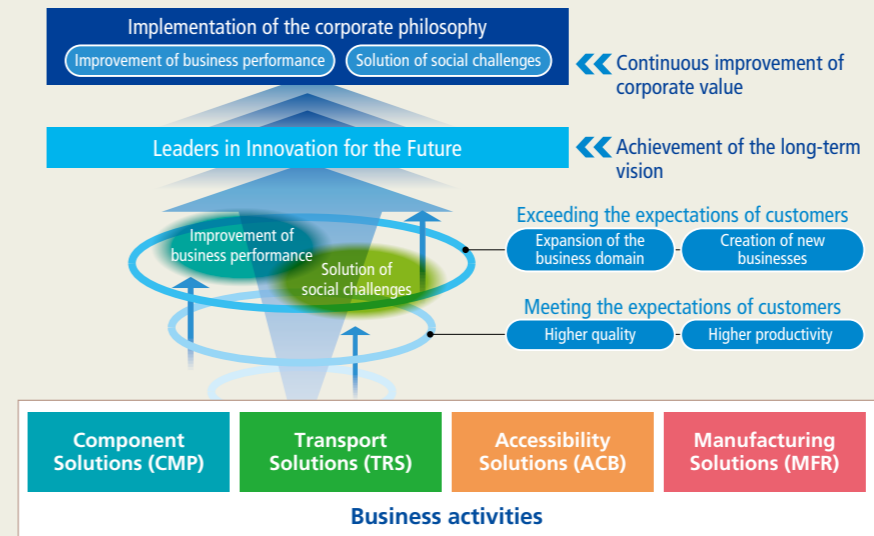
Based on our unique motion control technology, we have built up different types of capital: intellectual capital and manufacturing capital formed through our advanced R&D activities and production technologies; financial capital that supports proactive growth investment; robust relationship capital that is based on the trust we have built with blue-chip corporate customers; organizational capital, which provides us with the basis for the solution of ESG-related issues; and human capital, which supports all of the other categories of capital. By organically combining these different categories of capital, we have built inimitability against our competitors, thereby holding onto our large market shares.

However, to ensure sustainable growth, we need to do more than just continue to successfully meet the expectations of customers. We are now coming to a big turning point and are strongly committed to making reforms that will lead to innovation.

In order to continue our growth for the next one, two and more decades, we repeatedly discussed our ideal state under the leadership of younger employees and set a long-term vision for 2030 in 2021. We will strive for the achievement of the vision, which is to become “Leaders in Innovation for the Future”^{*1} by meeting and exceeding the expectations of customers and society toward solving social issues while improving our own business performance.

^{*1} P35 Long-term Vision

Nabtesco’s value creation story



Identifying and advancing our management materiality

In 2021, aiming to exceed the expectations of customers and society, we identified the issues that are material for the achievement of the long-term vision as our “management materiality.”^{*2} By implementing both financial and non-financial measures to “improve our financial performance,” “enhance our management foundation” and promote “specific measures to achieve the long-term vision” as our issues of management materiality, we will increase both our economic and social value.

In 2022, based on the recognition that we need to constantly review our management materiality in a proactive manner in order to make flexible responses to dramatic changes in our business and economic environment, we started a review in consideration of the changes in society and in management awareness of relevant issues. As a result, we newly included “Enhance human capital management” in our management materiality items, regarding human capital as a primary source of value creation for the Company.

As the basis to foster human capital management, we think it is important for the following three actors to take more actions for innovation in close cooperation with one another: company & top management; organizations & managers; and individual employees.

Looking back on the first year of the medium-term management plan—the first step to achieve the long-term vision

“TIME FOR CHALLENGE” is our first medium-term management plan^{*3} (“MTMP”) to be launched as the first step to be taken for our management materiality and as the foundation for the achievement of our long-term vision. By cultivating the soil and sowing seeds to make reforms under the MTMP, I believe that we will be able to see the green shoots of innovation in 2024. In the MTMP we are committed to embracing three challenges: challenge of fostering reforms, challenge of fostering creativity and challenge of fostering globalization. For all of these three challenges that we are addressing, we need to promote human resource development and innovation. Accordingly, we have taken actions in a multifaceted manner to enhance both our human and intellectual capital.

Challenge of fostering reforms

In October 2022, we launched the intrapreneurship program “Light”^{*4} to encourage the bottom-up proposal of business ideas that can then be selected and refined through internal workshops for the launch of in-house ventures. In the first year we received 21 employee proposals under the program. Nine of them passed the first screening and are now being polished for the second screening.

^{*2} Management Materiality P37

^{*3} Progress with the Medium-Term Management Plan P41

^{*4} Intrapreneurship program “Light” P42

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P42 *5 In-house company innovation system

P81 *6 Implementation of a Personnel System Reform Project

P5 *7 The Nabtesco Way

P22 **P84** Activity to increase employees' awareness of The Nabtesco Way

P27 *8 Special Feature: Talking about the Innovation Strategy Division

P91 *9 CVC (Corporate Venture Capital)

*10 Condition Monitoring system with Fail-Safe (CMFS): Failure prevention monitoring system for yaw drive units used in wind turbines. A yaw drive unit is designed to optimize the movement of the blades of wind turbines according to wind direction and is subject to external forces, not only when the turbines are in operation and generating power but constantly. It is therefore necessary to implement measures to prevent the unit from quickly becoming worn or damaged due to such forces.

P52 *11 Hamamatsu Plant (slated to start operation in October 2023)

Also, in parallel with the measures to provide individual employees with opportunities to embrace challenges, we have enhanced the system to support in-house companies in creating innovation.⁵ The system is designed to encourage the in-house companies to create next-generation technologies by making effective use of our existing business foundation and technologies for the launch of new businesses. I attribute the utmost importance to offering environments where employees can hit upon and propose new ideas in an autonomous manner.

We are also reforming the personnel system⁶ for human capital management and as a reform necessary to steadily promote the creation of new businesses. Under the reformed personnel system we will emphasize employees' commitment to autonomous and sustainable growth, introduce job-based salaries and achieve job-based employment in a transparent manner unique to Nabtesco.

While implementing these specific measures, we are also redefining The Nabtesco Way,⁷ which was established in 2012 to set out the core principles that unify employees. We will redefine it to lead the way in corporate culture reform by encouraging employees to adopt the shared value of embracing challenges.

■ Challenge of fostering creativity

In January 2023, we newly established the Innovation Strategy Division⁸ as the first step to foster innovation in a cross-functional manner. The Division's CVC Promotion Department and Digital Transformation (DX) Promotion Department will make use of external resources and press forward with process innovation through DX toward creating unique products and services.

As an initiative implemented by the Innovation Strategy Division, we are promoting open innovation with startups through CVC⁹ across various fields, including co-creation with Deep Sea Technologies, which provides route optimization and performance monitoring systems for ships, with SPACE ONE, which is promoting its artificial satellite launch business, and with start-ups developing battery technologies.

Moreover, we applied our unique motion control technology to develop CMFS,¹⁰ which is a failure prevention and diagnosis system for yaw drive units used in wind turbines. This system contributes to the stable operation of wind turbines, and we have received lots of inquiries for the system from power generators and wind turbine manufacturers within and outside Japan. By combining eologix's status monitoring sensors with CMFS, it will become possible for us to develop more advanced status monitoring systems and contribute to higher power generation efficiency. By promoting co-creation with a range of companies, we will speed up our effort to meet the challenge of exceeding the expectations of customers and society.

■ Challenge of fostering globalization

Nabtesco has tended to open overseas bases to serve Japanese companies expanding their business overseas, with each of the in-house companies individually establishing local corporations outside Japan.

However, to accelerate our growth outside the country, I think it is essential to build, under the leadership of the overseas headquarters, a local production and local consumption system that meets local needs promptly and autonomously. To this end, we need to address many themes, including enhancing our overseas bases and establishing new ones in regions where we have no bases, developing local leaders through the introduction of a global personnel system, and strengthening our local production capacity to meet future needs in each region.

In FY2022, we opened a representative office in Indonesia and a hydraulic equipment sales base in Europe to this end.

Moreover, we are constructing a leading-edge precision reduction gear plant¹¹ in Hamamatsu City for the start of production in October 2023. Global demand for precision reduction gears, which represent our growth driver, will continue to expand at the annual rate of 10% to 15%, and by the establishment of the Hamamatsu Plant, our production capacity will reach 1.2 million units per year in 2030 to meet the expanding demand. The new plant in Hamamatsu is designed based on the concept of "The world's No. 1 smart plant with manufacturing innovation and high evaluation for SDGs." We will work to increase profitability through advanced automation and achieve environment-friendly and safe manufacturing at the plant.

Aiming for "ROIC: 10%" as a medium-term target

In the MTMP we are upholding "ROIC: 10% or over" as a management target. However, in the first year of the MTMP, or FY2022, we posted ROIC as low as 4.6% due to the dramatic changes in the external environment, such as Russia's invasion of Ukraine and lockdowns in Shanghai. Our profitability was also badly affected by increases in materials prices, a shortage of electronic components and the substantial slowdown of demand in the Chinese construction machinery market. In FY2023, we aim to increase ROIC year on year to 6.5% by steadily offsetting the increases in materials cost by raising our own prices, stabilizing production following the end of the shortage of electronic components and implementing profitability improvement measures, such as promoting the sale of MRO services.

Also, in our effort to improve ROIC toward narrowing the large gap between reality and the 10% target, we newly established the Basic Policy on the Business Portfolio¹² at a Board meeting held at the end of 2022. Under the policy, we subdivide the Group's businesses into business units and evaluate their business performance in a comprehensive manner in terms of their growth potential, competitive advantages and others. In FY2023, we will foster strategic discussions and monitoring at Board meetings to optimize our business portfolio and improve our capital efficiency.

Making contributions to the solution of ESG-related issues

In the MTMP, we are upholding "Focus on solving ESG issues"¹³ as one of our management targets. In 2022, we revised the Environmental Philosophy and Environmental Action Guidelines to incorporate the latest knowledge into our environmental management on a group-wide basis and to clarify our environmental vision and the environmental issues to be tackled by us.

In addition to the initiatives for climate change, conservation of water resources, waste reduction and resource saving and prevention of pollution, we added a new paragraph to the Guidelines on initiatives for biodiversity conservation. We intend to collaborate across the Group as well as with our external stakeholders to contribute as much as we can to the creation of a sustainable society.

As for the CO₂ reduction targets to deal with climate change, we also set a numerical target to go carbon neutral by 2050 in the MTMP. For FY2022, we were able to reduce our CO₂ emissions by 14% relative to the baseline year of 2015 and are thus steadily moving toward achieving the target set in the MTMP.

Making further efforts in my second year as CEO

During my first year as CEO, I continued to embrace challenges in line with the basic policy of "Change Yourself, Change the World," as set out in the MTMP.

I am determined to keep embracing challenges and to make my best efforts to help Nabtesco and its people soar to new heights as "Leaders in Innovation." We cannot innovate if we are too overcome by a fear of failure to even take action. By embracing new challenges to generate innovation and fostering reforms to enhance our business structure, we aim to fulfill our corporate social responsibility and continue to be a company that is indispensable for customers and society.

We will make a concerted effort for the development of the Company, and I would ask all stakeholders for your continued support.



*12 Basic Policy on the Business Portfolio **P43**

*13 Approach to ESG issues **P71**