

Turning “All Stakeholder’s Dreams” into Reality



Katsuhiko Teramoto

Representative Director,
President and CEO

01 ROE: 15%

02 Consolidated payout ratio: 35% or over

03 Focus on solving ESG issues

* ESG: Environment, society and governance

Inaugural message

I am Katsuhiko Teramoto. In my capacity, as of March 28, 2017, as the new president and CEO of the company, I would like to express my heartfelt gratitude to our stakeholders for the kind support they have heretofore given to Nabtesco.

I joined Nabtesco 10 years ago in 2007, after gaining experience in both corporate planning and sales at my former workplace. For my first two years at Nabtesco I was engaged in the precision reduction gear business and for the next four years in the automatic door business, specifically, in overseas sales and business planning activities. During that period, I was also involved in the process of M&A and integration targeting foreign companies, which taught me the importance of respecting diversity and increasing the speed of business management.

I became the General Manager of the Corporate Planning Department in 2013 and the General Manager of the Corporate Planning Division in 2015, and in these positions I supported the former CEO in making decisions for the company. During the same period, I was also engaged in the formulation of two medium-term management plans and then pressed forward with the creation of the new medium-term management plan based on the results of the former plans. Now, I am leading the Nabtesco Group's business management as its CEO.

I am determined to fulfill my huge responsibility as CEO. While it will take some time for me to produce excellent results, I will work to shorten the time required. I would ask for the continued support of all stakeholders toward the Group.

Commitment to Growth

I believe that if each member of an organization makes a sincere effort to fulfill his or her respective roles, it will increase the value of the entire organization. A company can also achieve growth if its employees, each of whom has his or her own unique qualities, cooperate and share their roles with one another.

In the process of fulfilling their roles, each member of the organization needs to listen to and respect the opinions of other members playing different roles in different positions. This will help individual members to achieve their own growth.

As corporate citizens, companies are expected to provide their stakeholders with value. This is one of their roles. In the Action Declaration, which together with Corporate Philosophy, Our Promises, and the Action Guidelines comprises The Nabtesco Way, it is stated that "By implementing these promises, we will realize 'All Stakeholders' Dreams.'" I think it is necessary for Nabtesco to fulfill its social responsibility on a continual basis while listening to the opinions of its stakeholders, which include its customers, shareholders, investors, business partners, employees, local communities and also the global environment. As a result of fulfilling this role, Nabtesco will be able to achieve profitable growth and meet the long-term expectations of its stakeholders and help them turn their dreams into reality.

So what roles should I fulfill as the CEO of the Nabtesco Group? I think one of my important roles is to make managerial decisions. While providing stakeholders with continuous value, I hope to make management decisions that achieve total optimization for all stakeholders, rather than optimizing individual issues, and, as the CEO, will sincerely meet accountability expectations.

Another important task I have as CEO is to demonstrate leadership. In the new medium-term management plan, which I will detail later, we state three management commitments: "ROE: 15%," "Consolidated payout ratio: 35% or over," and "Focus on solving ESG issues." I will lead the Group so that it will gain speed in implementing the ongoing measures and undertake challenges and reforms to fulfill these commitments.

Please be sure to keep an eye on our progress as we provide people across the globe with safety, comfort and a sense of security while at the same time ensuring management transparency to become a "Global Partner with Best Solutions."

Summary of the results of the former medium-term management plan

Unfortunately, we were unable to attain the consolidated performance targets set in the former plan, including “Net sales of 280 billion yen ± 5%” and “Operating income of 34 billion yen,” mainly due to the sharp downturn of the Chinese machinery market, which we had expected to expand.

Looking back on the measures implemented for the targeted three years, I think we achieved fantastic results regarding “Financial Strategy,” which focused on internal measures and was one of the three management themes set for the period, along with Market Creation and Technology Innovation. Another fruit of implementing the plan was the fact that the dividend payout ratio was kept at 30% or higher and we were able to continue paying stable dividends to shareholders with no decrease.

The Market Creation measures helped us to approach a new market for actuators (products made by combining precision reduction gears and servomotors in an optimal manner), and the Technology Innovation measures fostered production reforms at our plants. From now on, we will take on the challenge of fostering cross-organizational cooperation in manufacturing in order to gain new markets and create new products.

The former medium-term management plan was positioned as the second step to attain our long-term vision toward FY2020, which is to become a “Global Partner with Best Solutions.” This vision initially included the targets of “Net sales of 400 billion yen” and “Operating income of 60 billion yen” for consolidated business performance for FY2020, but we now need to reexamine the assumptions made for these targets in light of the dramatic changes that hit our business environment after the plan was formulated.

Changes will continue to occur in our business environment. Based on this recognition, we have made commitments in lieu of performance targets in the new medium-term management plan launched in FY2017.

New medium-term management plan: “Move forward! Challenge the future! Create ‘New Value 2020’”

The new medium-term management plan targets the four-year period from FY2017 to FY2020. In line with the basic policy of the plan, “Move forward! Challenge the future! Create ‘New Value 2020,’” we will work to become a “Global Partner with Best Solutions” while pursuing profitable growth on a continual basis.

There will be no major changes to our management strategy and we will continue to implement measures for “Market Creation” and “Technology Innovation,” but we will shift from “Financial Strategy” to “Operational Excellence” under the new management plan to enhance our operational basis by reforming our production systems, organizations and business operations in addition to implementing the financial strategies. To this end, we will introduce a new internal management indicator (return on invested capital: ROIC) to increase the profitability and capital efficiency of our business departments. At the same time it will be necessary for us to establish a system to respond flexibly to changes in the business environment, in particular in our Market Creation activities.

In the plan, as mentioned above, the management team made three commitments (ROE: 15%; Consolidated payout ratio: 35% or over; and Focus on solving ESG issues), which we can control, unlike performance targets that are subject to environmental changes.

Our commitments in the New Medium-term Management Plan

ROE: 15%

Consolidated payout ratio: 35% or over

Focus on solving ESG issues

Basic Policy of the New Medium-term Management Plan

Basic Policy

Move forward! Challenge the future!

~Create “New Value 2020”~

→ “Promote and enhance the existing measures” →

1

Key Strategies

Obtain new markets

Market Creation
Obtain new markets by accelerating overseas business and developing new domains

2

Key Strategies

Create new solutions

Technology Innovation
Create new solutions through transition from components to systems and services

As for “ROE: 15%,” which is not a target for the final year of the plan, we will achieve it as early as possible and maintain the percentage going forward. ROE is an indicator that combines other indicators for profitability, capital efficiency and financial leverage (effective use of debt). Accordingly, we will pursue the improvement of these three indicators.

In the former medium-term management plan, we set the policy of keeping the consolidated payout ratio in the range of 30 to 40% but have changed the target to “35% or over” in the current plan. We are thus committed to continuously increasing the dividend amount provided we can continue to maintain a sound balance sheet.

For “Focus on solving ESG issues,” it is indeed the most important theme for the Group to achieve long-term growth and to survive as a going concern that is highly evaluated by society. In order to enhance the CSR promotion system and further increase our corporate value, we established the CSR Committee in 2016. We will continue to invest certain amounts to implement the relevant measures in order to provide our stakeholders with value in a sustainable manner.

In particular, for environmental issues, we promote the introduction of solar power generation systems and various other energy-saving devices to our existing plants in addition to building new environment-friendly plants. For CO₂ emissions, we will work to reduce emissions per unit of global sales while increasing our production volumes with sales expansion, thereby maintaining our total CO₂ emissions in Japan on par with the FY2015 level.

Regarding social issues, we place importance on human resource development and the provision of comfortable workplaces. The management team will put out the call to foster internal communication toward work style and

personnel system reforms, with a view to making Nabtesco a company where all employees are motivated to work and demonstrate their talents.

As for governance issues, the Compliance Committee and the Risk Management Committee, which were established in 2016, will lead the measures to promote compliance behavior and risk management in order to enhance the management basis for speedier business expansion outside Japan. In March 2017, we increased the number of members of our Nomination Committee, which nominates directors, from three to five to increase its diverse and objective perspective. We will also enhance the development program for the next generation of management leaders.

By implementing the new medium-term management plan, we aim to achieve net sales of 330 billion yen, operating income of 42 billion yen, and net income of 30 billion yen in FY2020 as reference values for consolidated business performance, on the premise that there will be no major changes to the economic environment. For the first year of the period targeted for the plan, we expect net sales of 260 billion yen, operating income of 26 billion yen, and net income attributable to owners of the parent of 19.7 billion yen. For the first two years of the period, the transport solutions-related market will be stagnant and we will cover the expected loss by expanding other businesses.

In order to achieve the reference value (net sales of 330 billion yen) in FY2020, we need to increase sales by 8% annually. The Nabtesco Group will attain this by achieving organic growth in the existing businesses and also by gaining new markets, creating new products, and making effective use of M&A projects.

Finally, once again, I would ask for the further support of our shareholders toward the Nabtesco Group, which has taken a new step for growth in FY2020 and beyond.

Long-term vision: Status on FY2020
Global Partner with Best Solution

~ Enjoy The Challenge ~

“New challenges and reforms” → New Value 2020

3

Key Strategies

Improve profitability and efficiency

Operational Excellence

Improve corporate value by raising profitability through production reforms and operational reforms as well as by seeking better capital efficiency.

New Mid-Term Management Plan (Referential)

(JPY billion)	2016/12 Result (Reference for IFRS) ^{*3}	2017/12 Plan (IFRS)	2020/12 Reference (IFRS)
Sales	244.6	260.0	330.0
Core Operating profit ^{*1}	25.1	26.0	42.0
Operating Profit	26.9	26.0	42.0
Net Profit ^{*2}	19.4	19.7	30.0

*1 Core operating profit: Calculated the sum of operating income year ended December 2016(JGAAP), goodwill amortization and others.

*2 Net Profit: Net profit attributable to owners of the parent

*3 Actual figures for FY2016/12 (IFRS) represent referential values prepared for the purpose of comparison with the forecast for FY2017/12. Therefore, they are subject to change after auditing.