

**FY2021 Full Year Results and Medium-term Management Plan Briefing: Q&A**

**Date and Time: 10:00 to 11:40, Thursday, February 17, 2022**

No.	Item	Q	A
1	New medium-term management plan	The operating income target under the new medium-term management plan remains unchanged at 41.0 billion yen as in the case of the previous medium-term management plan. What is the reason behind the decline in profitability?	The new medium-term management plan is positioned as "TIME FOR CHALLENGE," and it entails advance investment. For this reason, the operating income level will not grow significantly. For example, since not only investment to increase the production of precision reduction gears and environmental investment but also investment aimed at acquiring new technologies (DX, electrification, and systematization) are included in the plan, fixed costs are expected to increase to a certain extent.
2	New medium-term management plan	The three challenges include "new value creation" and "global management." Could you provide us with specific examples in connection with your businesses?	Specifically, in terms of "new value creation," we are planning to develop the MRO business by adding a sensing device to automatic doors for monitoring function, and to expand applications of precision reduction gears in other business units. As for "global management," we are considering expanding into Asia other than Thailand, Russia, South America, the Middle East, and Africa.
3	New medium-term management plan	In the analysis of the internal environment of the new medium-term management plan, it is mentioned that "Need to develop businesses that will be new pillars for growth" Does this mean that you did not have businesses as growth pillars before?	We recognize CMP and ACB, which grew during the period of the previous medium-term management plan, as our current growth pillars. Determining that we will need other growth pillars in order to achieve medium-term growth in the future, we have incorporated the "development of businesses that will be new pillars for growth" as an issue to be recognized. It is possible that TRS will become a pillar for regrowth as a result of the review of the OVALO plan. It is also possible that new pillars will emerge through our efforts to create new businesses.
4	New medium-term management plan	Can you provide an explanation on your business portfolio in line with the development of the new medium-term management plan?	Our business portfolio is balanced at this stage in the sense that the decline in a certain business is complimented by another business, thus realizing continuous growth. We will judge the optimization of our portfolio by taking into account the growth potential of businesses going forward.
5	Growth investment	How will you use the 65.0 billion yen in growth investment to achieve your long-term vision?	We plan to use the funds mainly for CVC and M&A, based on our efforts to create new value such as system integration, DX and electrification as part of innovation investment.
6	Growth investment	You plan to use 36.1 billion yen in 2022, out of CAPEX of 88.0 billion yen. What is your investment plan for in 2023 and 2024 to use the remaining 51.9 billion yen?	The biggest investment will be the construction of the Hamamatsu Plant, which will commence this year and the building is scheduled to be completed next year. As we will install equipment gradually thereafter, we believe that there will be no significant variance in each year.
7	Growth investment	Does the amount of investment in Hamamatsu Plant of about 47.0 billion yen include the land acquisition cost of 5.7 billion yen?	CAPEX of 47.0 billion yen is the amount of investment in the Hamamatsu Plant between 2022 and 2026. Therefore, the land acquisition cost incurred in 2020 is not included.
8	Growth investment	Can you tell us about your share buyback and FCF plans between 2022 and 2024?	While we don't have a plan for share buyback for now, we believe it should be decided by the management flexibly. During the period of the medium-term management plan, we would like to provide a return to stakeholders by making active investment for growth, and thereby achieving medium- to long-term growth. While we do not disclose the estimated amount of FCF between 2022 and 2024, we recognize that we have funds for investment amounting to about 100 billion yen in roll-over cash and cash flow in the medium-term. As we plan to make active investment for growth, the amount of FCF in the calculation will be limited.
9	HDS shares	Could you tell us about the progress in sales of HDS shares?	As for the portion that has been sold to Nomura Securities, the sale is expected to be completed by around mid-2022 as scheduled. Details of the sales of the remaining HDS shares have not been decided at this stage, but the direction of the plan to sell all shares has not changed. We are still considering the methods and timing.
10	Precision reduction gears business	Sales of CMP is forecast to be 151.8 billion yen in FY2022/12 Plan and 156.5 billion yen according to the referential figures for 2024 under the new medium-term management plan. It looks like sales will not grow very much during the period of the medium-term management plan. Can you explain the reasons why?	The segment figures for 2024 are for reference only. Among CMP, precision reduction gears are expected to continue to grow in line with the growth in demand for automation. Meanwhile, as the hydraulic equipment market will enter a cyclical period, we think that this is the right time for us to focus on development investment looking ahead to stable growth and electrification efforts for the next medium-term plan.
11	Precision reduction gears business	What is the background behind the fact that demand for precision reduction gears will not grow in the first half of FY2022 but will grow in the second half?	The precision reduction gears business itself is expected to grow throughout the year. As an expansion of sales for general industry applications, in particular, is anticipated in the second half, the business will likely grow more in the second half than the first half.

12	Capacity expansion plan in the precision - reduction gears business	What is your view on the capacity expansion plan in precision reduction gears, taking into account the frontline and supply chain situations?	Capacity currently disclosed is ordinary capacity (calculated based on 3 shifts, 20 days/month for 12 months). We believe that continued investment in capacity expansion is necessary in the future as the operating rate of the Japan plant exceeded 130% in Q4 of FY2021 against the capacity of 680,000 units/year. The current capacity expansion plan has been formulated on the assumption of developing a system that can meet customer needs and maintain stable and high operating rates, taking into account future growth in demand.
13	Capacity expansion plan in the precision - reduction gears business	Why you are planning to expand production capacity at the Hamamatsu Plant although you cannot expect growth in sales of precision reduction gears during the period of the medium-term management plan?	From a medium- to long-term perspective, demand for precision reduction gears is expected to grow by 7-10%. In addition, the current Japan plant and China plant have limited space for capacity expansion. Therefore, we have decided to expand capacity by building the Hamamatsu Plant.
14	Capacity expansion plan in the precision - reduction gears business	Are you planning to manufacture precision reduction gears RV at the Hamamatsu Plant?	Yes, we will be manufacturing precision reduction gears RV. We believe that further capacity expansion will be required due to an increase in demand in the future.
15	Hydraulic equipment business	Demand for hydraulic equipment has been sluggish in the Chinese market. Why you believe sales will increase year on year in FY2022 under such circumstances?	While we believe that the Chinese market will decline by 20% from FY2021, our sales will likely grow year on year on the back of an expansion of sales in the region and the recovery of demand in markets other than China (Europe, U.S. and Southeast Asia).
16	OVALO	What are your measures to increase the profitability of OVALO?	Sales to automobile manufacturers, which OVALO had been focused on, have not grown as much as initially anticipated due mainly to the effects of the semiconductor shortage. We would like to stabilize earnings by focusing on electrification leveraging OVALO's development capabilities, which was our initial purpose for the acquisition, as well as the utilization of know-how in system integration and the usage as a development base.