

# Achieving New Management Targets

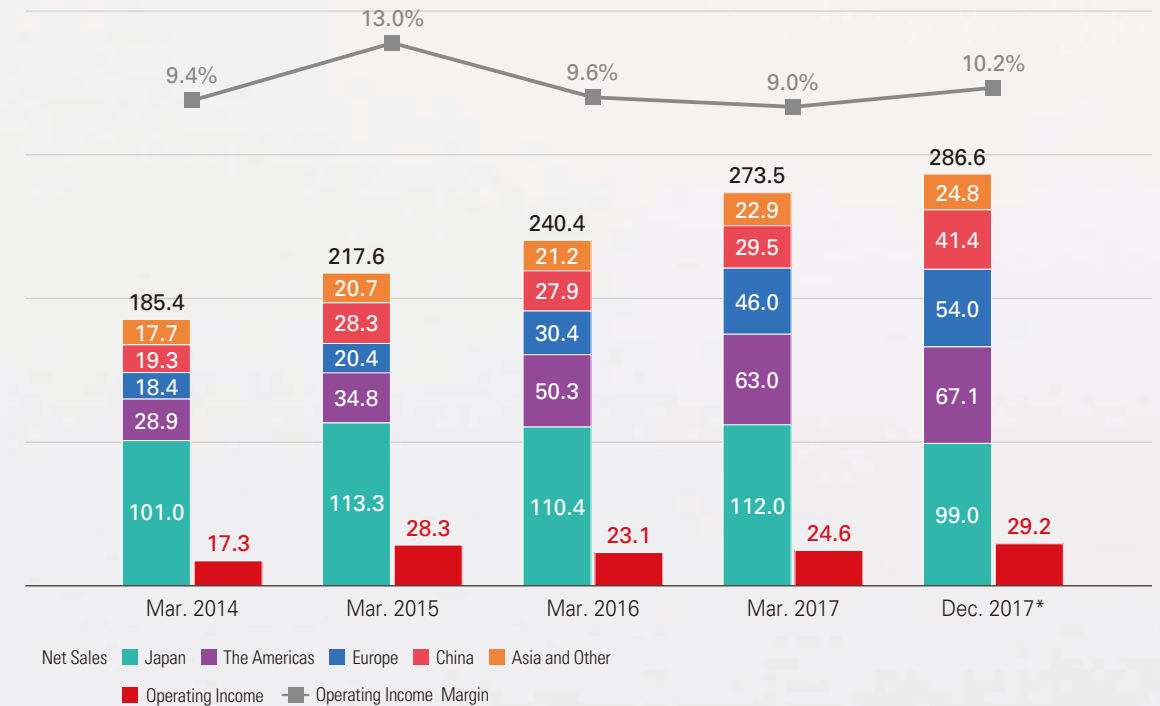
THK CO., LTD.  
President and CEO

**Akihiro Teramachi**



## Financial Condition

(Billions of yen)



\*This data reflects a modified reporting period that includes 9 months from consolidated companies whose fiscal years ended in March and 12 months from consolidated companies whose fiscal years ended in December.

## A Reflection on the 2017 Fiscal Year and the Outlook for 2018

The 2017 fiscal year, which ended December 31, 2017, marked our transition from having our fiscal year end in March to having it end in December. Accordingly, we had a modified reporting period that includes 9 months from consolidated companies whose fiscal years ended in March and 12 months from consolidated companies whose fiscal years ended in December. In terms of our external environment, a moderate recovery continued in the global economy, led by a continuing trend of recovery in Europe and the United States and other developed countries, as well as signs of economic revival in China and other emerging countries. For the THK Group, the acceleration of automation and robotization has led to a favorable shift in overall demand for our products for general machinery and machine tools, particularly in the electronics field, which has been driven by vigorous semiconductor-related investment. By converting that demand into sales, our consolidated net sales reached ¥286.6 billion, an increase of 18.7% from the previous fiscal year.

Although our workforce and equipment increased as we bolstered our production, leading to higher fixed costs,

the volume effect of our increased sales was greater than the increase in cost. As a result, our operating income was ¥29.2 billion, an increase of 64.1% compared to the previous fiscal year. Furthermore, due to the transfer of all THK RHYTHM CO., LTD., shares to our consolidated subsidiary TRA Holdings CO., LTD., the net income attributable to shareholders of THK CO., LTD., was ¥25.7 billion, a 120.4% increase from the previous fiscal year.

With a continuing favorable trend in the level of orders, an environment of vigorous demand is expected again in 2018, especially for our industrial machinery business. Under these circumstances, we are anticipating a record high year in terms of sales and profits in the 2018 fiscal year, which ends December 31, 2018. We are planning for our consolidated net sales to reach ¥350 billion, an increase of 9.8%, and for our operating income to reach ¥45 billion, an increase of 23.6% compared to the previous fiscal year. In order to respond to increasing demand on top of achieving this plan, we will carry out our responsibility to supply products to our customers by doing everything we can to strengthen our production capability.

## Formulating Management Targets

Previously, the THK Group's long-term management target was to achieve ¥300 billion in consolidated net

sales. However, if the fiscal year ending December 31, 2017, were adjusted to reflect 12 months, our net sales

Management Targets	
FY2022	
Consolidated Net Sales	¥500 billion
Operating Income	¥100 billion
ROE	17%
EPS	¥560

Objective: Continuation and further augmentation of THK's basic strategies

Based on: Exchange rate of U.S. \$1 = ¥105

IMF global economic growth rate of 3.8% on average

Industrial Machinery Business		(Billions of yen)			
	FY17	FY18	...	FY22	
Net Sales	202.2	235.0	...	350.0	
Operating Income	33.2	42.5	...	90.0	

Automotive & Transportation Business*		(Billions of yen)			
	FY17	FY18	...	FY22	
Net Sales	116.6	115.0	...	150.0	
Operating Income	3.2	2.5	...	10.0	

\*The figures for the Automotive & Transportation Business are the combined figures of THK RHYTHM CO., LTD., and TRA.

would exceed that goal at ¥318.8 billion. Accordingly, we have formulated new 5-year management targets to be achieved by the end of the 2022 fiscal year. These targets are: consolidated net sales of ¥500 billion, an operating income of ¥100 billion, an ROE of 17%, and an EPS (earnings per share) of ¥560.

As we strive to achieve these targets, our fundamental

strategies of *full-scale globalization*, the *development of new business areas*, and a *change in business style* remain unchanged. We will continue to vigorously promote these strategies and accelerate activities for each in order to expand our top line and strengthen our bottom line in our industrial machinery business and automotive and transportation business.

## Industrial Machinery Business Activities

In our industrial machinery business, we are aiming to achieve ¥350 billion in net sales, an increase of ¥150 billion in comparison to the ¥202.2 billion we achieved based on an adjusted, 12-month calculation ending December 31, 2017. The average annual market growth rate is estimated to be 8%, so we will continue to steadily engage with the expected increase in demand in our current market. In addition, we will further expand our top line through activities such as our sales to a wide

range of customers and the development of new business areas.

To expand our sales to a wide range of customers, we have been promoting efficient sales activities targeting a multitude of customers. As a result of our efforts, we were able to strengthen global recognition of THK. The number of visitors to our booths at international exhibitions was 2.5 times higher in the 2017 fiscal year than in the previous fiscal year. As of December 31, 2017,

registration on Omni THK, the e-commerce website we have been expanding primarily in the ASEAN region, has reached 7,700 users. In 2018, we are expanding the regions the website serves to include China and Brazil as we continue to construct a framework that allows customers around the world to easily purchase our products anywhere and anytime, even if they are in a region where we do not have any sales offices. In addition, we have been planning products based on the accumulated market needs of a wide range of customers. We have also expanded the variety of actuators and other products available as semi-custom orders, which we began selling in 2017, and we have been developing new mechatronic products that contribute to automation. In this way, we have steadily promoted various activities aimed at expanding sales to a wide range of customers while also meeting the vigorous demand in our current market. We will continue to strengthen those activities.

At the same time, we are actively making investments in each region to increase production, thereby supporting top line expansion in our industrial machinery business. In January 2018, we began operating equipment to increase production at THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD. We are also scheduled to begin production in the additional factory spaces being built on the grounds of THK MANUFACTURING OF VIETNAM CO., LTD., in October 2018 and the Yamagata plant (Japan) in November. In August 2018, we will begin constructing a new plant in India, which is scheduled to open for business in January 2020. In addition to responding to current demand, which is expanding in every region, we will continue to strengthen our production structure in order to steadily engage with the anticipated mid- to long-term growth of demand spurred by the advancement of automation and robotization.

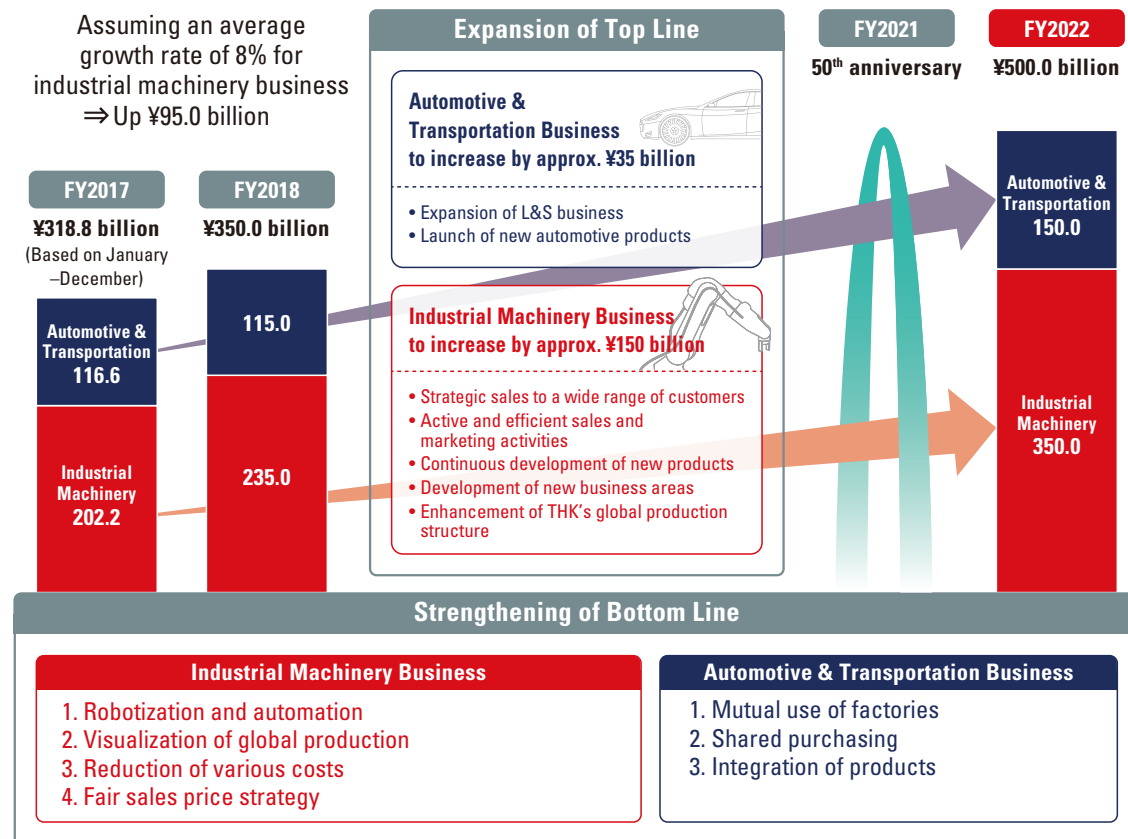
With our development of new business areas, we are expanding into various fields such as medical equipment, seismic isolation and damping systems, aircraft, robotics, and renewable energy. We have launched into the robotics field with SEED Platform Robots, which enable the easy and cost-effective construction of mobile manipulators. We are not just active in new product development, however. We are also actively engaging in activities such



as sponsoring robotics competitions in order to contribute to the advancement of the robotics industry. In the field of renewable energy, we are expanding the use of THK products as components by capitalizing on our products' ability to support large loads and move lightly and smoothly with little force required. In 2017, we began supplying shaft units for wind turbines produced by Challenergy Inc., which developed the world's first wind turbine capable of generating energy even during typhoons. We will continue developing the market for our products by expanding their applications through these kinds of activities in new fields.

In addition to these efforts aimed at expanding our top line, we are continuing to strengthen our bottom line. One initiative has been the visualization of global production, which involves developing policies based on our Eagle System that was introduced in 2017. Specifically, the ability to use terminals to communicate the status of machines in real-time to employees and managers has allowed us to optimize our decision-making regarding our production activities and to increase our overall machine utilization. Furthermore, by accumulating and analyzing machine utilization data, we have achieved greater visibility of the overall distribution of work among our processes and have been using that to increase our production output. We will continue to promote various measures such as these to aim at a dramatic increase in our productivity.

### Major Activities



### ■ Automotive and Transportation Business Activities

In our automotive and transportation business, we are actively working on various initiatives to achieve ¥150 billion in net sales and ¥10 billion in operating income. For our undercarriage L&S (Linkage and Suspension) products, we have developed activities that make use of both THK RHYTHM's and TRA's sales and production structures to obtain orders. In terms of new automotive products, we began shipping new linear motion products in February 2018. We will continue to accelerate the development of these kinds of new products that take

advantage of the momentum provided by the increased use of electronics and automation in automobiles. We are also steadily progressing with the construction of frameworks that will enable us to strengthen our top line by bolstering investments that will increase production in every region. Through vigorously promoting such activities, we aim to achieve our management targets and to increase the long-term corporate value of our automotive and transportation business.

### ■ Striving for Long-Term Growth

As technology develops and industry becomes even more sophisticated, we anticipate that the demand for THK products will continue to expand over the medium to long term. In order to meet that demand and fulfill our responsibility as a manufacturer to supply parts, we will actively work to bolster our production capability. At the same time, we will strive to improve our profitability by reducing costs. We also believe that expanding the market for our products, which have contributed to the realization of high-performance and energy-saving industrial equipment, will both

contribute to industry and help solve social challenges such as labor shortages and environmental issues.

By striving to make contributions as a corporation indispensable to society, we will realize continuous long-term growth, increase our corporate value, and meet the expectations of our shareholders and other stakeholders. As we work toward achieving our established goals, we kindly request the continued support and understanding of all our stakeholders.

April 2018



*Akihiro Teramachi*

THK CO., LTD.  
President and CEO **Akihiro Teramachi**