

To Our Stakeholders



Striving for Medium- to Long-Term Market Expansion

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Looking Back on the 2019 Fiscal Year

In terms of the external environment during the 2019 fiscal year, the signs of an economic slowdown spreading mainly in China due to trade friction with the United States strengthened fears of a global economic downturn. In Japan, factors such as sluggish exports and production due to reduced external demand from China have clouded the future of the economy with uncertainty. Even as the THK Group saw adjustments in overall demand due to the trade friction between the United States and China, we steadily achieved sales through the high backlog of orders we accumulated during the previous period of increased demand for electronics and accelerated movement toward automation and robotization. However, our consolidated net sales decreased to ¥274.5 billion, a 20.3% reduction from the strong results of the previous fiscal year.

In terms of cost, we strove to minimize our losses from reduced sales by continuing to promote initiatives aimed at boosting productivity along with other improvement activities. However, the magnitude of the reduction in sales resulted in an operating income of ¥18.2 billion, a decrease of 65.4%.

Short-Term Adjustments and Medium- to Long-Term Market Expansion

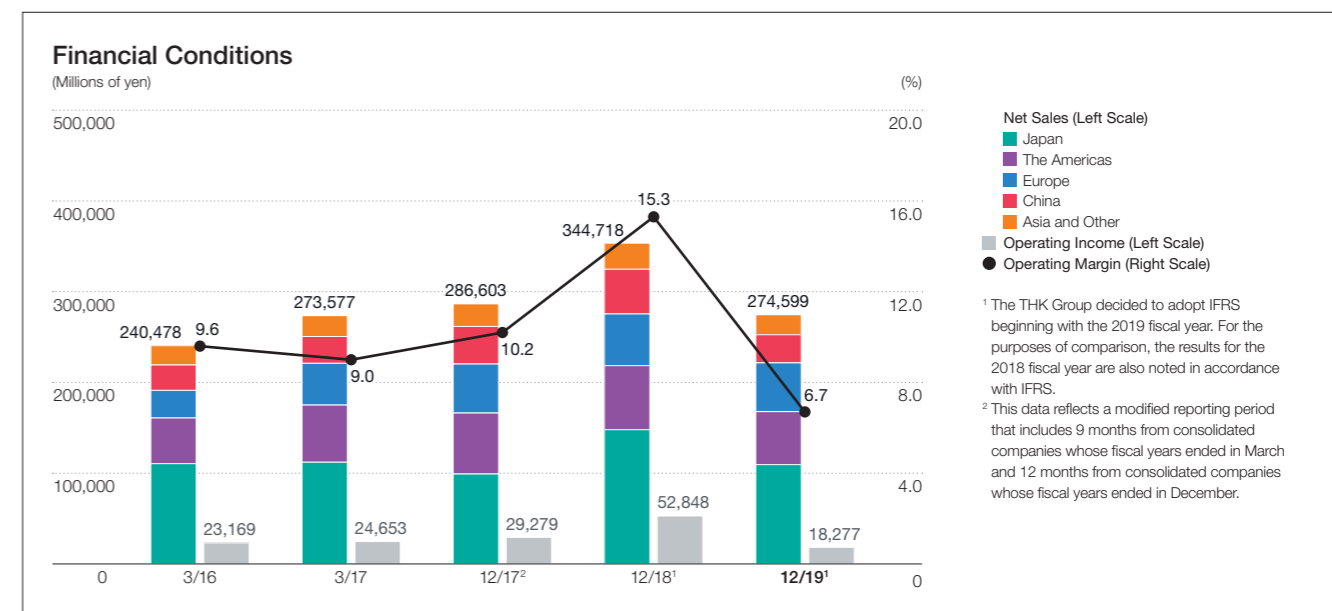
Although demand for THK products was sluggish in every region due to the trade friction between the United States and China, adjustments are occurring in customer inventories and our order backlog, and signs indicate that orders have bottomed out and we will start to hear about recovery. Nevertheless, we are anticipating lower revenue and profit in the 2020 fiscal year, which ends December 31, 2020. We are planning for our consolidated net sales to reach ¥264.0 billion, a decrease of 3.9%, and for our operating income to reach ¥11.4 billion, a

decrease of 37.6% compared to the previous fiscal year.

However, as we weather this short-term period of adjustment, there is no doubt that the THK Group's markets will experience medium- to long-term growth. As current megatrends revolve around macrodynamic changes such as the rapid advancement of digital technology, the heightened momentum of environmental conservation, and the labor shortages and increased lifespans occurring in developed countries, the keywords to address these changes are 5G, AI, the IoT, CASE, Industry 4.0, automation, and labor and energy savings. These keywords drive demand for the types of solutions THK offers, resulting in a dramatic medium- to long-term growth potential. Therefore, even as we continue to control costs in the short term, we will prepare ourselves for the full recovery of demand and invest in our medium- to long-term growth.

Steps Toward Further Growth

Under these circumstances, the THK Group has accelerated its provision of new solutions in various domains to create a new kind of customer experience. For our industrial machinery business, we began accepting orders for LM Guide applications of our "OMNIedge" IoT service for the manufacturing industry on December 18, 2019. At the same time, we are working to expand the service to other machine components, having begun recruiting participants for a ball screw trial. We will also make the system even easier to use by providing connectivity with external manufacturing IoT infrastructures. As we enter the 5G era, further strides will be made in automation and robotization once Industry 4.0 environments are established, and the speed at which a company can achieve predictive failure detection and preventative measures will be critical as machines become increasingly interconnected. In this





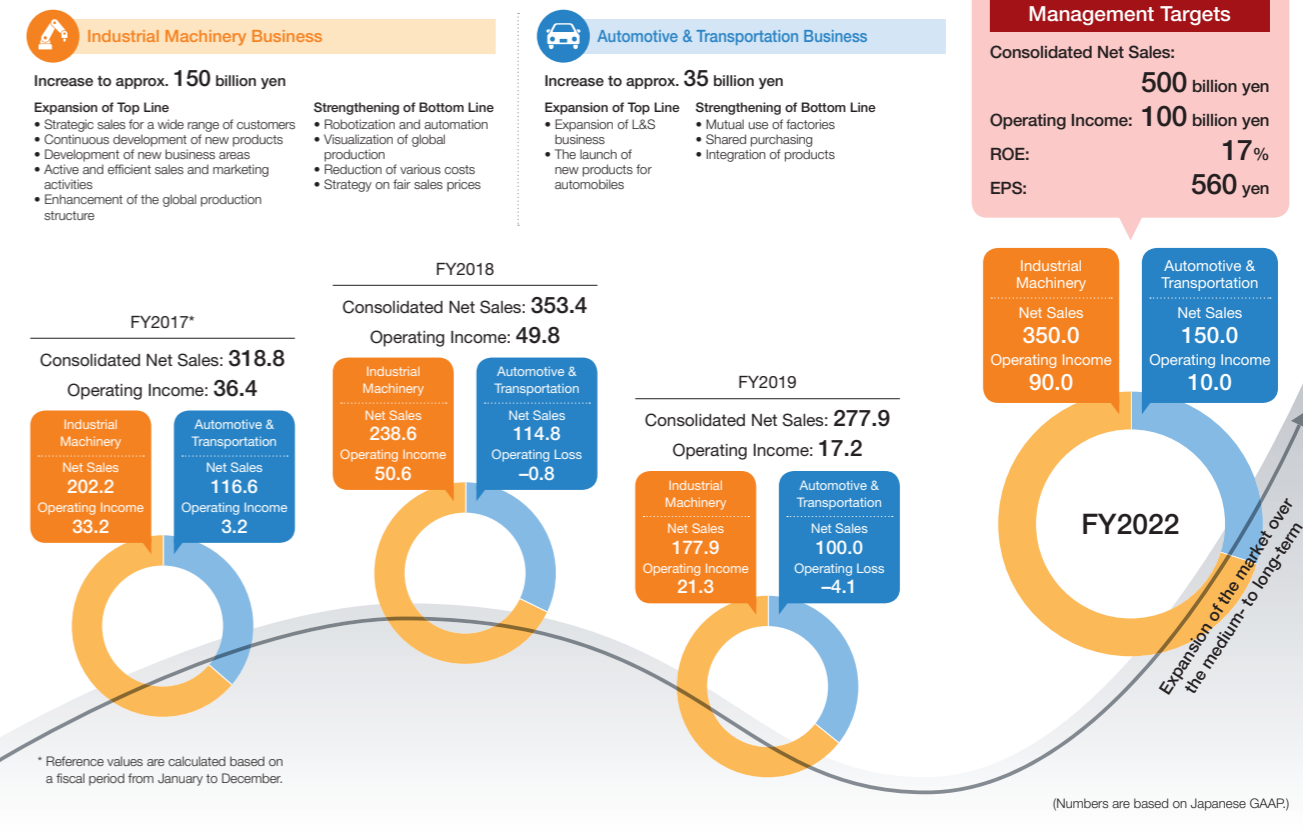
situation, a key feature of OMNIedge is that, in addition to being installed on new machines, it can also be added to the machines customers are currently using and are more concerned about. Furthermore, gathering and analyzing large volumes of data will enable us to not only perfect the service, but also develop new products and provide upgrades. We will continue to develop this system in partnership with NTT DOCOMO, Cisco Systems, and CTC, a company renowned for its large-scale infrastructure technology. With regard to Omni THK, our platform for communicating with customers, we will expand several of our new services, including our Fast Delivery service for our e-commerce site; Your Catalog, which digitally links customer and THK product information; and Forecast, which enables customers to manage planned versus actual orders by comparing their demand forecasts with THK's production plan. In

January 2020, we established a new IOT Innovation Division to accelerate our efforts to deliver innovative services to our customers and society through digital technology revolving around the IoT and AI, including Omni THK and OMNIedge. As short lead times become critical in this era of rapid change, we have launched the THK DX Project to accelerate the pace of our work through internal reforms. During Step 1 last year, we reduced the time it takes to perform routine tasks in every department. For Step 2, we will shift the employees that were freed up during Step 1 toward work with higher added value and develop measures to expand sales.

To cultivate new business fields, we continue to develop and propose new products for medical equipment, aircraft, seismic isolation and damping systems, renewable energy, and other fields, thereby steadily expanding the use of our products. Additionally, due to labor shortages and rising labor costs, there has been an increasing demand for products that will reduce labor needs in service industries such as logistics, retail, and restaurants. We will continue to make every effort to capture this demand.

For our automotive and transportation business, we faced an operating loss in 2019 due to the slowdown in global automotive sales as well as unforeseen costs related to the launch of new products manufactured entirely—from the aluminum forging process to machining and assembly—at THK RHYTHM AUTOMOTIVE CANADA. As a result of shipments for a large line of business being postponed due to a schedule change, we forecast that the investment made in advance will overtake our profit, leading to an operating loss for 2020. However, we anticipate that these products will begin shipping toward the end of 2020, and we will be bolstering our productivity and process improvements in addition to revamping our global products and manufacturing lines, restructuring our employees

Progress and Approach of Management Targets



and organization, and outsourcing. As a result, we will reduce our costs by around ¥2 billion, and we estimate turning a profit of ¥1.5 billion in the 2021 fiscal year. As we move forward, we are also accelerating our efforts to develop and sell new automotive products that make use of our core linear motion technology, spurred by the momentum of self-driving automobiles, electric vehicles, and other CASE trends.

In addition, as both business divisions advance their respective initiatives, we have strengthened our global production structure to support medium- to long-term top-line expansion. Besides the already completed expansions of the THK Yamagata plant (Japan) and THK MANUFACTURING OF VIETNAM (Vietnam), we are scheduled to finish construction and begin production at our new facilities for THK India (India) and SAMICK THK (a South Korean affiliate) in 2020. For the automotive and transportation company, we have completed the new expansions that multiple facilities underwent to prepare for large-scale business, and we are preparing for shipping. At the same time, we are strengthening our bottom line through controlling costs and making improvements in productivity by utilizing automation, robotization, and the IoT in our production processes in addition to implementing IT tools in our internal business processes, including in our sales and administrative departments.

Striving for Sustainable Growth and Solutions to Social Challenges

Our high-performance, high-quality products have contributed to labor and energy savings and advancements in machinery and many other industries. In addition to seizing opportunities for market expansion exemplifying the keywords of change that reflect the times, we will continue to establish our global production structure, improve our global procurement rate, and further strengthen our BCP to achieve our corporate philosophy of providing innovative products to the world and generating new trends to contribute to the creation of an affluent society. Furthermore, while we contribute to society through our business activities, we will also make efforts to achieve a sustainable society as the world experiences climate and other environmental changes. As we work toward achieving our established goals, we kindly request the continued support of all stakeholders.

April 2020

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 THK CO., LTD.

