

To Our Stakeholders

Striving toward Medium- to Long-Term Growth

Akihiro Teramachi
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THK CO., LTD.

Responding to the Coronavirus (COVID-19)

Since February 3, 2020, the THK Group has convened daily coronavirus response task force meetings to collect and share information from all over Japan and around the world in order to take swift action and prevent the spread of the virus. As an essential business, many customers have urged us to continue supplying THK Group products. As we do so, we consider the health and safety of our customers, suppliers, local communities, and all of our employees and their families to be our number-one priority, and we will take even greater steps to prevent infections. We will continue to vigilantly remind all of our employees to take the virus seriously and be careful of how they spend their time outside of work.

Looking Back on the 2020 Fiscal Year

As automotive manufacturers faced shutdowns due to the spread of the coronavirus during the 2020 fiscal year, the automotive and transportation business was hit hard mainly in April through June. Our industrial machinery business also saw a downward trend in orders from the pandemic, primarily in developed countries. As a result, our consolidated revenue decreased 20.2%, to ¥218.9 billion. However, the second half of the year brought a recovery in demand in China, where economic activity resumed ahead of other countries.

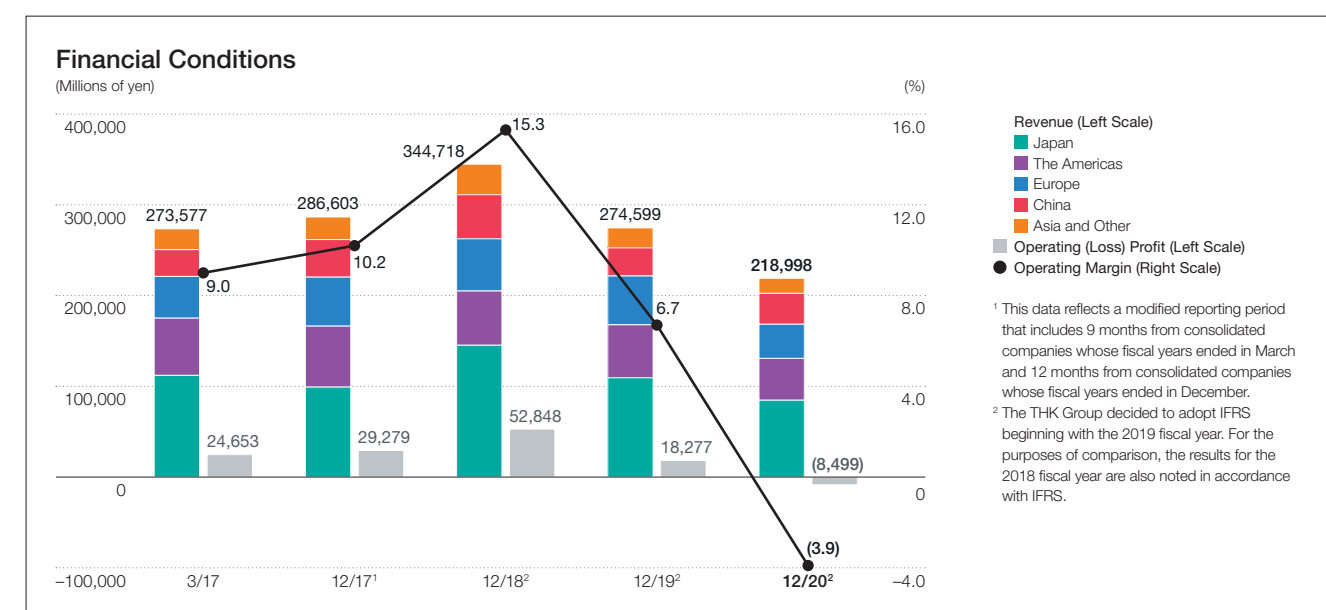
In order to reduce financial losses as revenue declined, the industrial machinery business sought to control every kind of cost. While the automotive and transportation business continued to pursue improvements in profitability, the financial results of the consolidated subsidiaries who operate this business include impairment losses and restructuring charges incurred as a result of the decrease in revenue due to market conditions worsened by the global spread of the coronavirus. As a result, we experienced an operating loss of ¥8.4 billion.

Management Targets

The THK Group established the following as our 2022 fiscal year management targets: consolidated revenue of ¥500 billion, an operating income of ¥100 billion, an ROE of 17%, and an EPS of ¥560. These targets assumed an average IMF global economic growth rate of 3.8%. However, partly as a result of the pandemic, the average was well below that projection at 1.0%. In addition, market conditions for both sides of our business fell short of our estimates due to the state of the global economy. The revenue from our automotive and transportation business was also lower than expected due to other factors such as the delay in the large product launch planned for 2020 and reductions from purchased supplied materials due to the transition to IFRS. As a result, we have determined that we must reevaluate the time frame for achieving these management targets.

Medium- to Long-Term Market Expansion

Nevertheless, 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. Furthermore, as our business environment evolves drastically due to the coronavirus, we believe these changes will drive greater demand for semiconductors in response to the rise of remote work, as well as greater demand for automation to meet the increased need for contactless service. We believe this dramatic growth potential will persist over the medium to long





term, so we will continue to promote our growth strategies of full-scale globalization, the development of new business areas, and a change in business style.

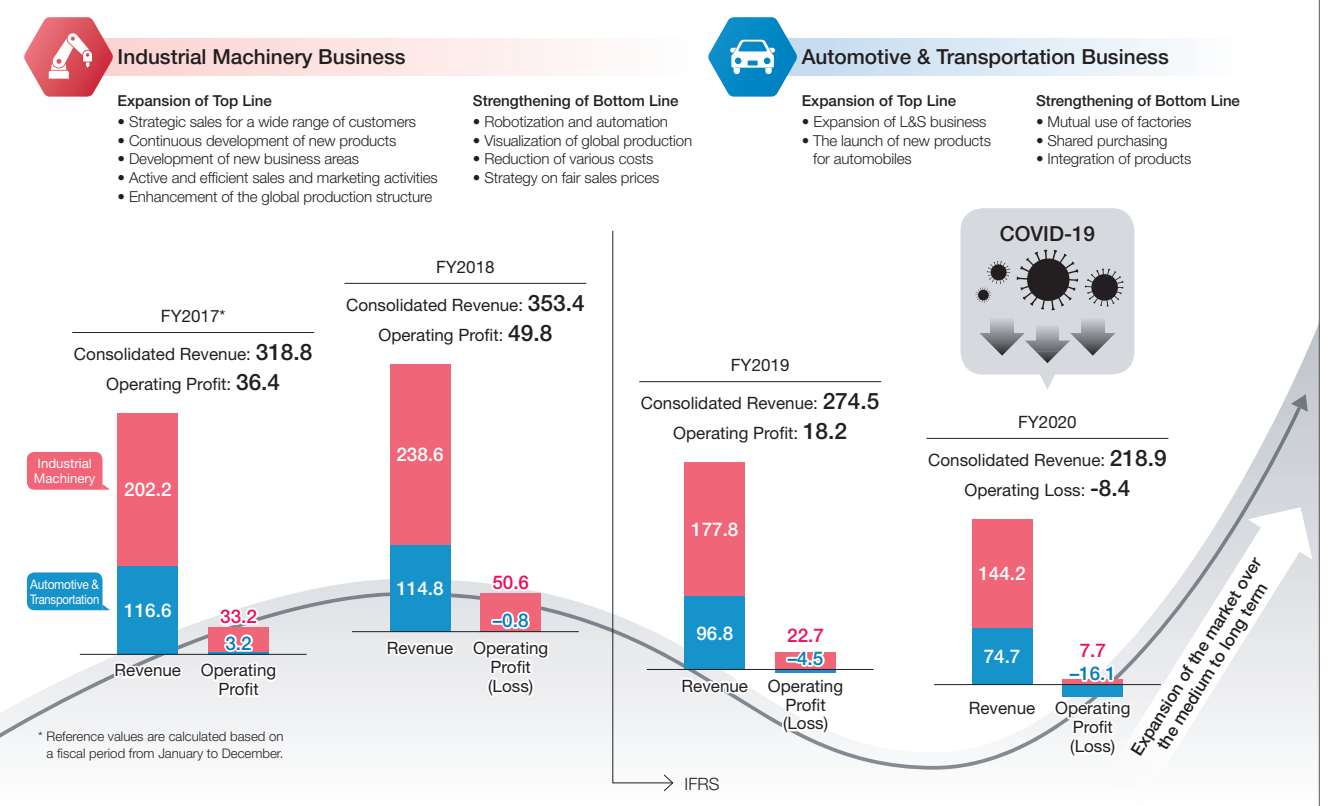
Steps Toward Further Growth

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, in alignment with the THK DX Project, we have established a platform for communicating with customers: Omni THK. While we provide and promote services such as quoting, shipping date replies, and drawing downloads through Omni THK on the front end, behind the scenes, we are pushing the limit of customer responsiveness through comprehensive improvements in productivity achieved via DX (digital transformation). In

this way, we are working to maximize customer satisfaction. As for our “OMNI edge” IoT service for the manufacturing industry, we added compatibility for ball screws, which are often used alongside the LM Guide, in November 2020. In March 2021, service was also expanded to actuators, which are widely used in automatic machines such as transfer and assembly equipment. In addition, we are conducting a free trial for rotary components. We began recruiting participants last November and received greater interest than planned, so we are involving more companies in the trial beyond the original scope of thirty. This makes it clear that the need for predictive failure detection is expanding to various types of components. Many customers have also requested the ability to diagnose the status of components and achieve predictive failure detection in their overseas factories, as well as the ability to check overseas conditions remotely during the pandemic. In these circumstances, we began offering global compatibility using international communications networks. Furthermore, we are promoting connectivity with FANUC CORPORATION's FIELD system and other industrial platforms in order to expand OMNI edge's applications beyond individual units. As automation and unmanned operations become more prominent, we need to strengthen our ability to monitor operations. We believe that OMNI edge will become increasingly vital worldwide in order to keep lines running.

As we continue to expand new services such as these, in our existing product areas, we will promote the introduction of highly rigid, high-precision products, such as those for increasingly precise semiconductor manufacturing equipment. In our new business areas, our products are steadily being adopted more than ever before in medical devices, aircraft, and fields that mitigate risks from natural disasters and climate change, such as seismic isolation and damping systems and renewable energy. Additionally, due to labor shortages and rising labor costs, there has been an increasing demand for products that will reduce

Revenue Trends (Billions of yen)



labor needs in service industries such as logistics, retail, and restaurants, and we are accelerating our provision of new products and various types of robots to respond to this demand.

Although our automotive and transportation business experienced an operating loss in 2020 due to the aforementioned reasons, we intend to continue with our recovery plan in 2021, cutting around ¥1.3 billion in costs and revising our product portfolio. In doing so, we aim to achieve a profit in Q4 2021 for the automotive and transportation business as a whole. As we move forward with these initiatives aimed at improving profitability, 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. In November 2020, SAMICK THK (our affiliate in South Korea) began operations at a new factory. Our new THK India plant (India) is scheduled to begin production in summer 2021. At the same time, we are controlling costs and strengthening our bottom line through exhaustive improvements in productivity made by utilizing automation, robotization, and the IoT in our production processes in addition to utilizing 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 as well as advancements in machinery and many other industries, and many customers look to us as an essential business to keep them supplied with products, no matter the circumstances. 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 2021

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Medium- to Long-Term Market Expansion

