

# Targeting Further Growth under a New Growth Strategy



THK CO., LTD.  
President and CEO

**Akihiro Teramachi**

## Looking Back on Fiscal 2015

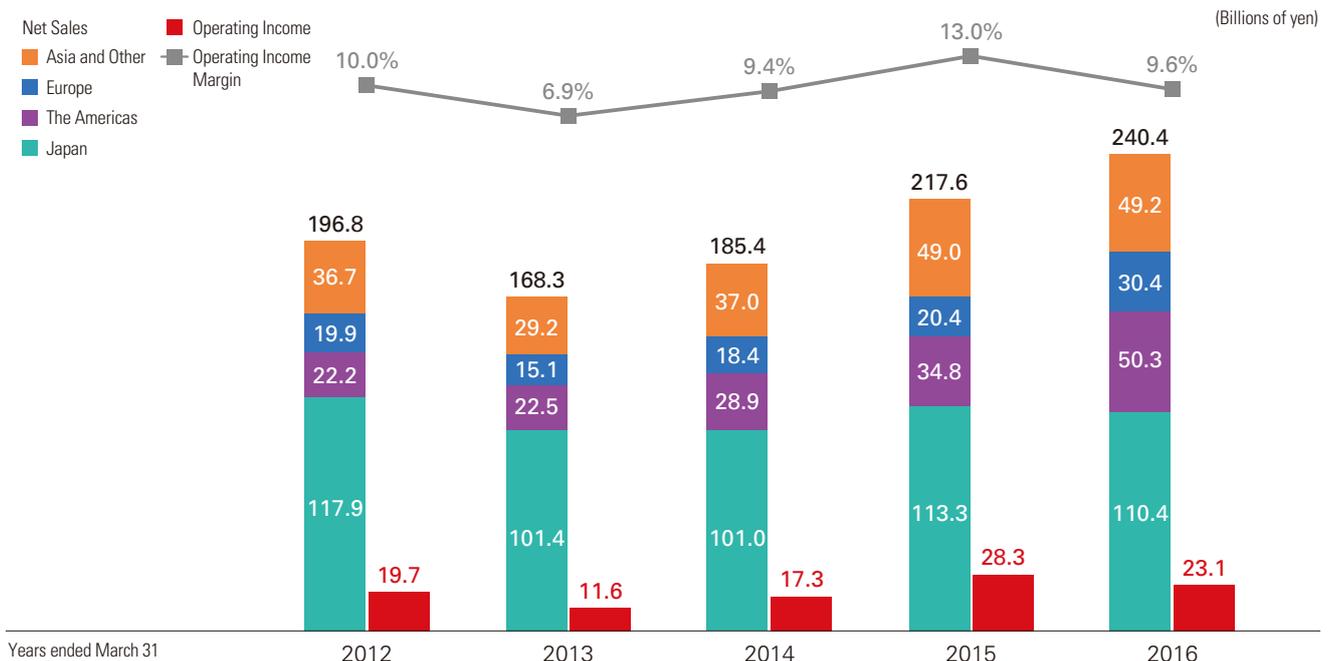
Looking at the operating environment in fiscal 2015, ended March 31, 2016, Japan experienced a moderate recovery despite the impact of a downturn in demand for small machine tools, which had been driven by smartphone-related investments, and electronic products. Outside Japan, on the other hand, demand was firm in such developed countries and regions as Europe and America. Under these circumstances, the THK Group made aggressive efforts to expand sales, harnessing its business structure, which has been reinforced to date. In a bid to bolster its Automotive & Transportation Business, the European and North American linkage and suspension (L&S) business of TRW Automotive Inc., which handles undercarriage components for automobiles, was transferred to the Company on August 31, 2015. As a result, four companies have been included in THK's scope of consolidation as THK RHYTHM AUTOMOTIVE (TRA). Furthermore, due to such factors as depreciation in the value of the yen compared with a year earlier, consolidated net sales increased 10.5% compared with the previous fiscal year, to ¥240.4 billion. Amid this increase in net sales, the Company took steps to control costs. Despite efforts to hold down a variety of expenses and to increase the efficiency of operations, fixed costs increased in line with investments geared toward future growth. THK also incurred acquisition-related expenses in connection with the transfer of businesses. As a result, operating income for the fiscal year under review decreased 18.4% year on year, to ¥23.1 billion. Meanwhile, net income attributable to shareholders of THK CO., LTD. dropped 40.2%, to ¥13.5 billion.

The THK Group has identified Full-Scale Globalization and the

Development of New Business Areas as cornerstones of its growth strategy to expand markets for the Company's products including linear motion (LM) guides. Against the backdrop of an upswing in emerging markets spurred the growing trend toward factory automation (FA), as well as user base growth in developed countries, the THK Group upgraded and expanded its sales and production structure in a bid to capture demand under its Full-Scale Globalization strategy. As a part of efforts to promote the Development of New Business Areas, particular emphasis was placed on expanding sales of both existing and newly developed products in line with an upswing in the application of the Company's products in such new business fields as automotive parts, seismic isolation and damping systems, medical equipment, aircraft, robots, and renewable energy. In addition to operating activities aimed at boosting business in each of these areas, the THK Group vigorously pushed forward a raft of improvement measures as a part of efforts to increase the efficiency of fixed costs and improve the variable expense ratio in a bid to increase profitability.

Accounting for each of these factors, net sales grew compared with the previous fiscal year buoyed mainly by the inclusion of TRA in fiscal 2015. Earnings on the other hand declined. This largely reflected the impact of fixed cost investments geared toward future growth and acquisition-related expenses in connection with the transfer of TRA on profits. However, despite the downturn in demand compared with projections at the start of the fiscal year, we are pleased with successful efforts to link the increase in sales revenue compared with revised forecasts announced in November 2015 to an

### Financial Condition



## TO OUR STAKEHOLDERS

upswing in operating income due mainly to the implementation of cost control measures in the short term.

In fiscal 2016, net sales is anticipated to reach ¥262.0 billion, a year-on-year increase of 8.9%. This forecast is based on our outlook of external operating conditions, the current status of orders and the expected full period 12-month contribution to sales from TRA compared with 4 months in fiscal 2015. From a profit perspective, industrial

equipment-related sales are forecast to decline. Compared with the fiscal year under review, the value of the yen is also projected to increase. Taking into consideration each of these factors, operating income is estimated to fall 9.4%, to ¥21.0 billion. Net income attributable to shareholders of THK CO., LTD. is expected to come in at ¥14.0 billion, an increase of 3.1%.

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## Medium-Term Management Plan

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THK announced its three-year medium-term management plan in fiscal 2014. Working toward the final year of the plan, fiscal 2016, the Company has implemented a variety of measures with the aim of achieving consolidated net sales of ¥250.0 billion, operating income of ¥40.0 billion and an ROE of 10% or more. While we have made positive steps to put in place a sound platform for growth, gaps between current external operating conditions as well as internal factors and our initial assumptions in fiscal 2014 have emerged. On the internal plus side, the Group has benefited from the inclusion of TRA. However, the average rate of global economic growth has stalled at 3.2% compared with the 3.8% forecast announced by the International Monetary Fund. As of July 2016, the forecast for the rate of global economic growth in 2016 is estimated at 3.1%. Taking these factors into consideration, we are currently undertaking an internal review of our medium-term management plan. Given the uncertain nature of external operating conditions, we have decided to disclose future initiatives only.

Under these circumstances, we are conducting a review to determine where we have succeeded under our medium-term management plan, where we are yet to achieve our goals, and where we need to exert additional efforts. As far as efforts to rebuild

sales strategies are concerned, we continue to show steady progress. Working to upgrade and expand our sales network, the number of distributors which sell our products in China is roughly 3.5 times higher than the number on fiscal 2013, just prior to the start of the plan. While sales of volume zone products in China have been impacted by a slowdown in the rate of economic growth in fiscal 2015, the levels recorded remain well above those of fiscal 2013. Turning to efforts designed to boost the marketing function, we are pushing forward various initiatives including adopting a new system and restructuring our organization to expand future sales. As a part of efforts to develop new business areas, we have seen an increase in sales targeting the medical equipment as well as seismic isolation and damping systems fields compared with fiscal 2013. Looking ahead, we plan to strengthen sales in the aircraft and renewable energy fields. In the automotive & transportation field, we will further expand the L&S business following the inclusion of TRA. Growth is also predicated on the increased use of linear motion products such as LM guides and balls screws as an important component of automobiles.

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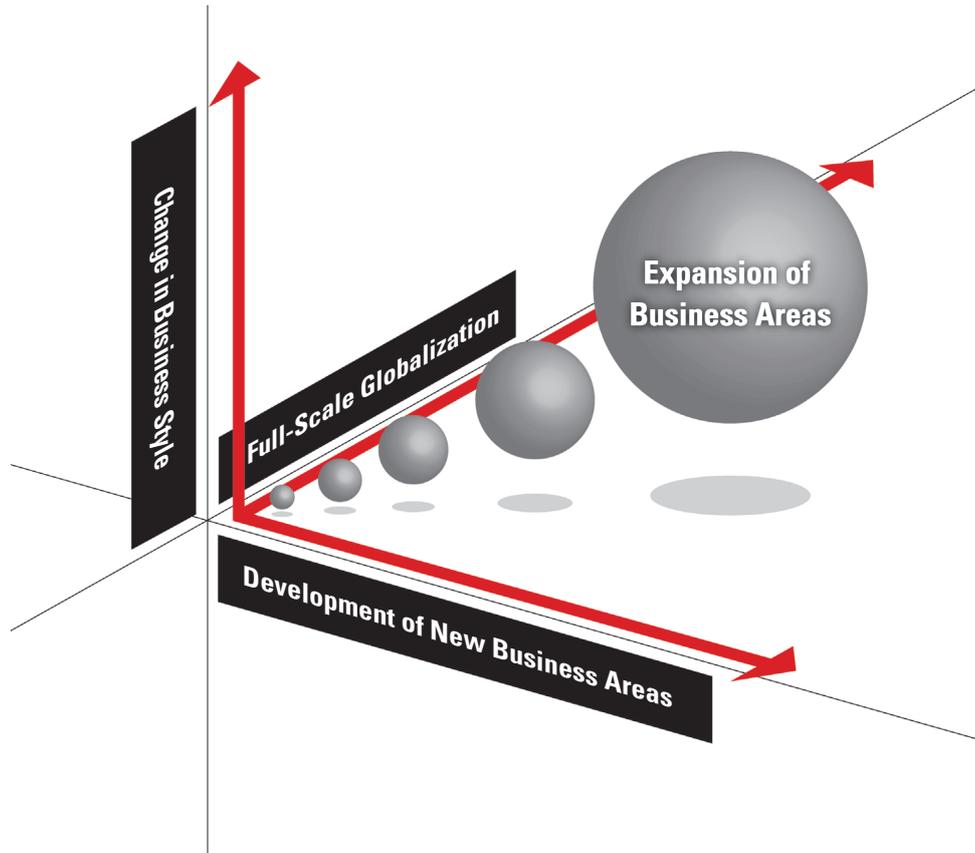
## New Growth Strategy

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To date, THK has positioned Full-Scale Globalization and the Development of New Business Areas at the heart of its strategic business development endeavors. With the continued advance of technology and the introduction of a wide range of new systems and concepts including Internet of Things (IoT), the Company has decided to adopt an additional strategy and to embrace a Change in Business Style. By thoroughly applying IoT, cloud computing, AI, and robotics, THK is transforming the way it conducts its business as well as its

business framework with respect to the “what,” “where,” “how,” and “to whom” of sales and production. In this manner, the Company is further expanding its business domain. Guided by this new growth strategy, we will strive to increase our top line while strengthening the bottom line. We will focus on the industrial machinery and automotive & transportation fields in line with growth in the Automotive & Transportation Business attributable to the inclusion of TRA.

## New Growth Strategy



## Industrial Machinery Business Activities

In the industrial machinery field, we will maintain our focus on pursuing active and efficient sales and marketing activities, strategic sales for a wide range of customers and the continuous development of new products in a bid to expand the top line. In specific terms, we opened the THK Chubu Technical Support in our Toyota Branch in March 2016 as a part of efforts to boost sales. With this initiative, we are endeavoring to provide a one-stop service that encompasses technical support, testing and sales. Moreover, we are striving to visualize latent customers and markets by introducing and utilizing marketing tools. In doing so, we are bringing into focus a broad market that offers a wide range of opportunities. Other than the mass production machine made by equipment manufacturing customers, these opportunities include dedicated machine that manufacturers produce on an order-made basis, the in-house production facilities of customers who actually utilize machinery equipment, automation-related facilities, and service parts. Compared with mass production machines, the aforementioned opportunities offer higher profit margins. Moving forward, we will ramp up strategic sales in an effort to steadily capture a share of this broad market. From a production perspective, full-fledged operations

commenced at THK MANUFACTURING OF CHINA (CHANGZHOU) CO., LTD., the Company's sixth production base in China in July 2016. In addition to the manufacture and maintenance of THK's production base facilities in China, energies are being directed toward not only providing components to customers, but also putting forward design and manufacturing proposals as a single mechanism that includes peripheral equipment. While China has recently seen the pace of its economic growth decline, the nation's manufacturing industry is expected to become increasingly sophisticated as future business conditions recover resulting in an upswing in expenses including labor costs. Coupled with a host of initiatives, the startup of operations at this new facility is designed to capitalize on demand that is expanding in line with the growing sophistication of the industrial field.

In addition to initiatives aimed at expanding the top line, the THK Group is making every effort to strengthen its bottom line. Energies are being channeled toward improving productivity by increasingly incorporating robots into the production process and automating the production line. At the same time, the Group is endeavoring to visualize global production by employing IoT technology.

# TO OUR STAKEHOLDERS

## Industrial Machinery (Other) Business Activities

THK is working diligently to cultivate fields in close proximity to the consumer goods sector as a part of efforts to promote the Development of New Business Areas. In the seismic isolation and damping systems field, the Company has witnessed growing awareness toward business continuity plans in the wake of the Great East Japan Earthquake in 2011. As a result, in addition to seismic isolation systems that protect buildings from the shaking motions of earthquakes, demand for seismic isolation platforms that protect the assets of individuals and corporations including servers and works of art has increased. In the medical equipment field, use of such next-generation devices as surgical-assisted as well as assisted-gait robots is expanding. There are also clear signs of an upswing in the use of aircraft interior equipment such as reclining seats and table pullout mechanisms. In the renewable energy field, the THK Group is promoting the development and increased sales of its products as mechanical components. With the adoption of low-torque shaft units by several companies active in wind power generator operations, steps are being taken to promote mass production and sales. THK continues to push forward the development

of products for use in the manufacture of new generation robots. Work is being undertaken to upgrade and expand the SEED Solutions, which is a product line of element/components for robot technology systems. Within the SEED Solutions, THK has experienced growing interest in its smart actuator that enables the use of kits to build frameworks with ease since last year. Under these circumstances, sales of robotic hands that employ these technologies have also commenced. Building on these initiatives, the THK Group will increase the number of new business field exhibitions across various regions in Japan and overseas. On this basis, every effort is being made to sow the seeds for future growth.

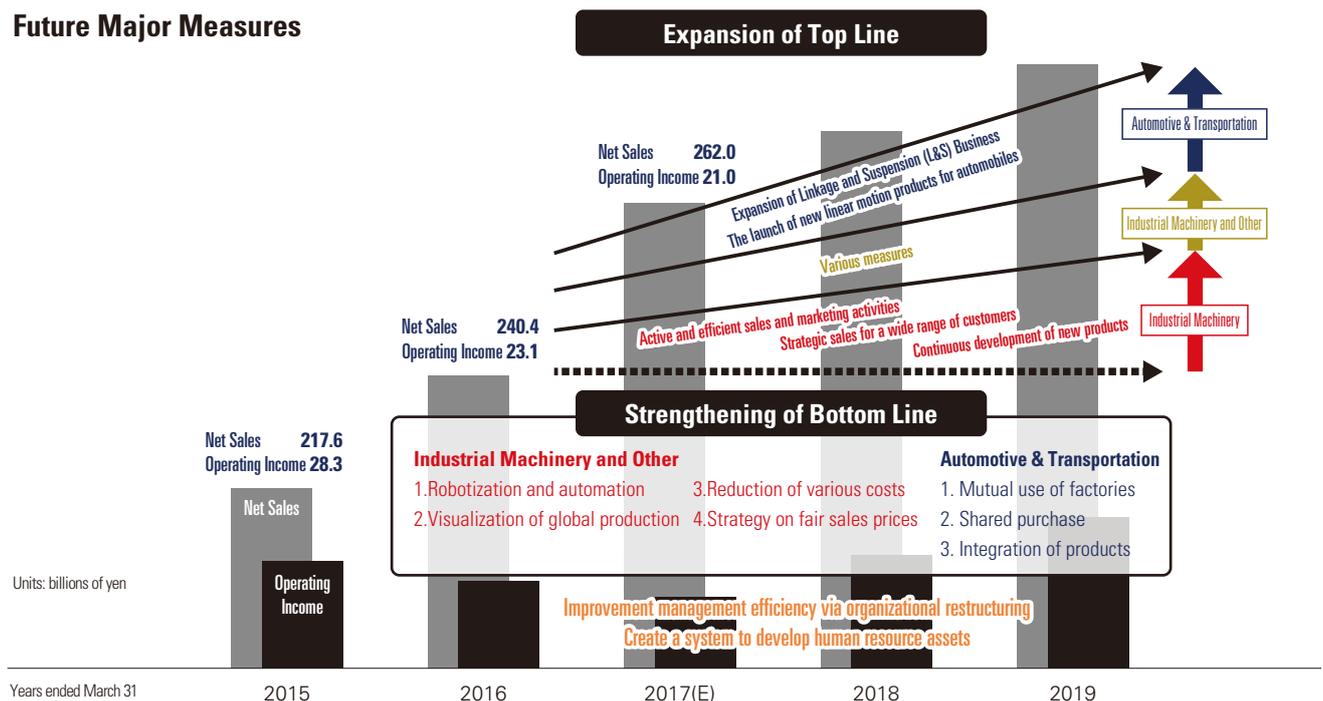
In order to draw out the vast potential of the latent demand for the Company's products in every corner of the linear motion field, which is becoming increasingly evident, the THK Group will continue to hone its accumulated LM system core technologies and know-how while aggressively engaging in promotional activities. Through these means, we will accelerate the pace of Development of New Business Areas.

## Automotive & Transportation Business Activities

TRA maintains a solid production, development and sales channel network as well as strong ties with major automobile manufacturers in Europe and the United States. With the inclusion of TRA in THK's

scope of consolidation, the Company has established a robust global business platform in the automotive & transportation field. Amid ongoing efforts to further expand the L&S business, we have received

### Future Major Measures



substantial inquiries and are confident of substantially bolstering our activities in this business mainly in emerging markets. In addition, taking into consideration growing concerns toward the environment, we are seeing an upswing in interest and demand in electric-powered automobiles. Against this backdrop, we will make every effort to promote the increased use of our LM products, which offer outstanding energy efficiency. In this regard, we are making steady progress in the development of products and have secured orders for use in certain vehicles. In order to meet these orders, THK will undertake capital

investments from the current fiscal year. Plans are in place for the supply of new automotive LM products to begin from 2018.

In addition to these initiatives, particular emphasis will be placed on generating synergies between THK, THK RHYTHM CO., LTD. and TRA. In this manner, we intend to strengthen both the top and bottom lines. Furthermore, from a development perspective, we will build on the addition of TRA's development base in Germany to look beyond more than just the automotive & transportation field and reinforce mutual strengths across the Group as a whole.

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## Toward Future Growth

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As has been outlined so far, THK is confident that it will continue to enjoy substantial opportunities for future growth. We are equally confident in our ability to expand the scope and scale of our business through Full-Scale Globalization, the Development of New Business Areas and a Change in Business Style. Under these circumstances, and with the advance of globalization in the Industrial Machinery Business coupled with the inclusion of TRA in the Company's scope of consolidation, which brings the THK Group's workforce outside Japan to approximately 60%, we will dynamically reorganize our global structure in order to promote increased management efficiency and build a human resource development framework as a part of efforts to ensure further growth. Through these initiatives, we will take definitive steps toward boosting both sales and profit while at the same time increasing our corporate value and ultimately to meet the expectations of all stakeholders including shareholders.

Moving forward, the THK Group will engage in forward-looking investments with the aim of securing growth. Taking into consideration the volatile nature of demand in those markets in which the THK Group operates, the Company generally looks at a four-year cycle. Accordingly, and in the context of returning profits to shareholders, our

average dividend payout ratio has previously come in at 20% based on this four-year cycle. However, we have raised the target dividend payout ratio to 30% under the medium-term management plan and are forecasting a ratio at this level for fiscal 2016. With this in mind, we will continue to pursue a four-year average dividend payout ratio of 30% for the foreseeable future.

As we work toward achieving our established goals, we kindly request the continued support and understanding of all stakeholders.

July 2016

*Akihiro Teramachi*

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

