

JTEKT Reborn

The first year of JTEKT Reborn—
A revitalized company pursuing
continuous innovation, for the Earth,
for Society, for Customers.



I. Looking in a mirror, getting on a scale—Tearing down the walls between divisions, and changing the management mindset

I would like to begin by expressing my sincere sympathies to everyone affected by the COVID-19 crisis, as well as my deep appreciation to the medical professionals and everyone striving to prevent further spread of the pandemic.

When I assumed the position of president in June 2020, it was a difficult start on my path as executive manager. JTEKT recorded loss for the year attributable to owners of the parent company of ¥3.7 billion in fiscal 2019, and in the first quarter of fiscal 2020 posted an operating loss of approximately ¥30 billion as lockdowns and other restrictions due to COVID-19 took their toll. Up to that point, JTEKT had become downright flabby, never looking in a mirror or getting on a scale. My first act was to task the Earnings Improvement Committee, established in April 2019 when I was an advisor, with clarifying the current cost

structure and ascertaining where the excess fat was compared to the year JTEKT posted record-high earnings, as well as to other companies. We investigated problems throughout the company without any exceptions, taking steps to eliminate unprofitable products, while at the same time measuring and reviewing key performance indicators (KPIs) during the monthly managerial committee meeting. In essence, we implemented a structure to follow a self-directed crash diet.

In parallel with these measures, we set out to reform the mindset of top management. Up to this point, JTEKT had allocated resources based on the management policies of each operational division. Because we focused on the near term for all businesses, and insufficient foresighted investment that took into account the optimal thinking for the

entire company. Product competitiveness had declined, and research and development to capture the next business opportunity was marked by halfway measures. To counter this situation, we introduced a senior executive officer system that eliminated the hierarchy between directors, and established the Strategy Committee to thoroughly consider the future of the JTEKT Group beyond each position from all angles. Time was set aside every Monday morning for all directors, including the Strategy Committee, to hold discussions. Compared to when we first started, I feel that discussions have become much more animated. As a result, we were able to formulate Vision 2030 for the JTEKT Group as well as the medium- to long-term business plan, which identifies the specific items on which we should focus over the next three years. Communication between individual directors has also improved, and I feel like we are moving toward real coordination between operational divisions.

This shared sense of crisis throughout the corporate group has clarified the system of responsibility for

fundamental improvement in the earnings structure. Furthermore, as a result of structural reforms, in fiscal 2020 JTEKT recorded revenue of ¥1,246.2 billion, with business profit of ¥15.9 billion. This represented a year-on-year decline in both sales and earnings, but profit for the year attributable to owners of the parent company increased ¥4.5 billion from the previous fiscal year to ¥0.8 billion, putting JTEKT back in the black. We came together as a corporate group in the conviction that we must avoid a second consecutive year of loss for the year attributable to owners of the parent company at all costs, achieving this result through cost cutting and other measures. I feel that making good on our promises has boosted everyone's confidence. However, while this crash diet has been a success, if we are not careful we could quickly rebound, and there are still aspects that can be slimmed down. Our aim is for a healthy and robust body. We are determined to strengthen our management practices, enhance competitiveness, and together with our Group companies work to achieve One JTEKT.

II. From roommates to family—A true merger that generates synergy as One JTEKT

The recently formulated medium- to long-term business plan establishes fiscal 2021 as the initial year for JTEKT Reborn. This plan incorporates a determination to regain our lost competitiveness. It goes beyond just “change” for JTEKT to be a sustainable company with annual growth, expressing the necessity for us to be “reborn.”

I arrived at JTEKT in January 2020 as an advisor, and during the little over six months until I assumed the role of president, I noticed three things that I thought were out of place. The first was that although it had been 15 years since Koyo Seiko and Toyoda Machine Works were merged to form JTEKT, the operational processes and mentalities of each side had not yet been fully integrated. The second was that despite being part of the Toyota Group, JTEKT was not making use of the benefits of that status, and showed no sign of enthusiasm to do so. The third was that the JTEKT Group seemed unaware that it possessed so many exceptional products and technologies, and was making almost no effort to pursue synergies between business divisions. I felt that we needed to eliminate these three issues and achieve a turnaround, so we established “a true merger” and “cooperation between the Toyota and JTEKT corporate groups” as the two pillars for the “Reborn” program.

One aspect of reform that we implemented almost immediately without waiting for the start of the

medium-term period, was in December 2020 to move the head office functions from Nagoya, where JTEKT had started, to Kariya in central Aichi Prefecture. This was something I had been considering since my time as advisor, and proposed it at the Board of Directors’ meeting soon after taking over as president. There were two main reasons for moving the head office. The first is that JTEKT is part of the Toyota Group. Toyota is our biggest customer, and many Toyota Group companies’ head office are located in Kariya. Central Aichi (the Nishimikawa area) is the base for suppliers to the Toyota Group. The ties between Toyota Group companies are robust, and its strength as a corporate group lies in a willingness to help each other during times of difficulty, and together find solutions to problems that could not be solved by one company alone. JTEKT had little awareness of contributing to the Toyota Group, and was hardly pursuing any cooperative projects. Even with a telework environment in place, it’s important to be near to your customers, and use all your senses to feel what the customer desires. There is no way to completely separate physical distance from mental distance.

I proposed moving to Kariya out of a desire to strengthen and accelerate cooperation with the Toyota Group, and be a company better able to serve customers. The other reason is that JTEKT is a

manufacturer. Human resources, accounting, and other head office functions present many opportunities to communicate and direct the entire organization. However, those who are unfamiliar with production sites tend to act in ways that pay them little regard. Conversely, while the head office works diligently every day to support the company, there are some people working in the business divisions who feel like the head office just pushes work on them to make their own jobs easier. By moving the head office from a high-rise tower to a location next to the factory, I wanted to foster mutual recognition of the evident fact that a company is a factory, supported by administrative divisions. The idea was to foster mutual consideration and appreciation, while propelling activities that will restore a strong JTEKT with a common purpose.

Measures for the other pillar of “a true merger” included eliminating the formalities in communication between labor and management, allowing all employees to talk to one another about the future of the company as members of the same family. We called it the “Let’s Be a Real Family” campaign. We instigated a policy that employees should no longer use titles such as “general manager” or “section chief,” and instead just refer to each other with the polite general suffix “san,” breaking down hierarchies and organizational barriers.

Strengthening ties in this manner, both internally and externally, should make everyone more aware of the strengths of the JTEKT Group. Looking around the industry worldwide, it’s rare to find a company

that has both a bearing business, known as the staple of the mechanical industry, and a machine tool business, often called the “mother machine.” Both are essential for the advancement of manufacturing. JTEKT also possesses many other technologies and business seeds, and I believe has strong potential to achieve things that other companies are unable to emulate. In addition, each company in the JTEKT Group has its own unique characteristics. This diversity of products, technologies, customers, and suppliers is also one of the JTEKT Group’s strengths, and a valuable asset. We established new organizations and functions within the company that allow us to remain on high alert to problems in the world and the needs of customers, connect these with the JTEKT Group’s business seeds, and coordinate cooperation among business divisions and Group companies. We anticipate that this will generate innovative products and services never available before.

Alongside technologies, functional collaboration and synergies are also important. Up to now, each business and Group company had its own sales function. Sales to the same customer would be handled separately, leading to inefficiencies. We want to create a structure in which a single salesperson is able to represent the JTEKT Group, and offer all products and materials. One move to achieve this goal is the integration of three sales companies in October 2021 to establish JTEKT Sales Corporation. The aim is to generate synergies as One JTEKT in every respect.



III. Pursuing high quality at a reasonable price—Being a company that continually generates value that exceeds customer expectations

Looking back at our history, JTEKT has delivered many types of new value to society, such as the world's first electric power steering (EPS) system that allowed people with limited upper body strength, such as women or the elderly, to easily drive a car. Somewhere along the way, however, we began to neglect this focus on solving the problems facing customers, and instead came to embrace a product-led way of thinking tied to the idea, based on previous successes, that making products with greater performance will alone lead to sales. The result has been a sharp loss in competitiveness as the times have changed. We need to reflect seriously on this point, abandon our past successes and extravagance, and humbly recognize those areas in which we are falling behind. If we don't, JTEKT will have no tomorrow.

I think the key to regaining competitiveness is in the JTEKT Group Vision, "No. 1 & Only One."

First, to be No. 1, we need to fully benchmark ourselves against our competitors, and provide customers with products and services of high quality at a reasonable price that exceed those of other manufacturers. Simply benchmarking against products already on the market is not enough to be the superior, undisputed No. 1. We need to anticipate our customers' future needs, estimate how our competitors will respond, and develop new products accordingly. Also, the object of benchmarking should not be limited to just performance, quality, and price. We must examine how our rivals compete in terms of business model, promotional methods, product flows, lead times, and other aspects, and find ways to differentiate ourselves.

At the same time, generating new value that does not exist elsewhere in the world is what leads to "Only

One." It's important that we predict the ways the world will move, anticipate what our customers will want based on current and future social issues and concerns, and think about what we can do to continually provide value that exceeds these needs. We also need to strengthen front-loading^{*1} in our business method, and make a drastic change from a passive to more solution-oriented stance, if we are going to prevail over the fierce global competition. I believe it's necessary to continually reiterate the importance of transitioning from product-out to market-in approach, until we change the thinking of all employees.

Changing the organizational structure is also necessary to promote the shift to market-in thinking. We have revised the composition of our business units from the former product-centered arrangement (Steering Business, Driveline Business, Bearing Business, and Machine Tools & Mechatronics Business) to a market-oriented structure (Automotive Business, Industrial & Bearings Business, Machine Tools & Systems Business, and Aftermarket Business). This change in emphasis from products to markets will clarify contact points for customers, and allow us to more quickly respond to customer demands. The Aftermarket Business Unit in particular is a new division for an area we have not focused on greatly in the past. The aftermarket business remains firm even in periods of recession, and is expected to remain profitable. More than anything else, however, repairing products so that they can continue to be used for a long time will also contribute significantly to the realization of a circular (recycling-oriented) economy.

^{*1} Investing resources in upstream processes such as product development, incorporating cost and quality.

IV. JTEKT's version of the Basic Principles of TQM—An earnest attitude as the driving force for everything

In last year's report, I introduced the Basic Principles of Total Quality Management (TQM). In formulating the medium- to long-term business plan, I added my own ideas to create a JTEKT-specific version of the

TQM Basic Principles. For the three pillars of the TQM Basic Principles, we changed "Customers First" to "For the Earth, for Society, for Customers," and added the word "Passion" in the center of the triangle.

When I assumed the position of president, I talked about the need for a three-part approach to changing the company, using medical terms—surgical procedures to stop the bleeding, medicinal treatments for a more complete examination to take proper measures, and Oriental medicine to maintain a healthy body. Just over a year later, we have prioritized the surgical and medicinal treatments, taking immediate steps with a sense of urgency. We are continuing to stamp down problems with a simple honesty, but we have yet to apply the final treatment of Oriental medicine. These treatments to maintain a healthy body are the development of organizational structures and human resources that will allow us to achieve the JTEKT version of the TQM Basic Principles.

Structural and organizational development is like the skeletal structure of the body, in essence the development of systems and frameworks that allow for the instillation and embodiment of these basic principles as universal values. It is the foundation for creating new value by offering solutions to the problems facing customers. Taking the policy management aspect as an example, we start by surmising what the customer needs, discuss what we need to do to keep the customer satisfied going forward, and then decide on a course of action. A concrete example of this is the medium- to long-term business plan formulated for the company overall. Once we've determined the course of action and what to do, the next step is to decide who will do what, and when, to embody these actions, cascading downward from the fiscal year plan to the business unit plan, annual plan for each department, and finally individual goals. If we clarify the structures, rules, and responsibilities to implement this plan, and gain everyone's agreement, there will be no need for internal adjustments later on, and operational efficiency will increase. Of course, the conditions in society are constantly changing, so we need to be careful about being inflexible regarding things once they're decided, pursuing continuous improvement with full participation from all employees. I want to instill this way of thinking fully down to the details, and create a company where everyone is able to embody these principles naturally.

For the other component, human resource development, companies that lack the ability to evolve to meet the ever-changing times have only one path, and that leads to extinction. People are the



only thing capable of effecting change in an organization, so the type of employee I desire is one who consistently thinks about the customer, approaches their work earnestly with a mindset of continuous improvement, and is passionate about accomplishment and contribution. JTEKT has many serious employees who diligently do what is asked of them, but I feel somewhat discouraged by the lack of people putting forward their own ideas. Once a person has the experience of having an idea flatly rejected out of hand, they are hesitant to propose something again. However, I believe that a corporate culture in which people are appreciated and supported for submitting ideas, even just for a small improvement, is necessary for personnel development. Our new human resource system and compensation system are mechanisms to support people with an earnest attitude and a mindset of continuous improvement. Over this last year, we promoted to management positions people able to think and act on their own for customers, including younger employees. We have also reformed the compensation system to widen the gap between the upper and lower limits for remuneration, allowing us to reward people who are earnest about continuous improvement and produce results.

It will take a long time to develop the sort of personnel able to put into practice the JTEKT version of the TQM Basic Principles, but by equipping all employees with an earnest attitude and a mindset for continuous improvement, we will be able to build a strong and flexible business foundation resistant to any environment. I plan to lead by example so that we reach this stage as quickly as possible.

V. Measures for carbon neutrality, digital transformation (DX)

In an effort to respond proactively to the significant changes in society, on August 1, 2021, JTEKT established two new inter-departmental organizations under the direct control of the president, the Carbon Neutral Strategy Office and the DX Promotion Office.

In October 2020, the Japanese government declared a plan to achieve carbon neutrality by 2050. JTEKT has also formulated a roadmap for carbon neutrality, aiming for net zero CO₂ emissions on a non-consolidated basis by 2035, for the full JTEKT Group by 2040, and for the entire process, including the supply chain, by 2050. The Carbon Neutral Strategy Office will coordinate this effort, collecting information regarding carbon neutrality and formulating a strategy based on it. Several subcommittees have been established to execute our carbon neutral strategies, including the Carbon Neutral Technologies Subcommittee, Energy Infrastructure Subcommittee, and Value Chain Subcommittee. We will take steps to steadily achieve carbon neutrality starting with Scope 1 and Scope 2 emissions, and finally in Scope 3 emissions.

Companies and governments around the world are pursuing technological innovation to achieve carbon neutrality, but these efforts are still in the early stages. This presents a huge business opportunity for JTEKT. In the field of hydrogen utilization and application in particular, JTEKT is conducting research and development in a range of fields related to hydrogen storage, use, and electricity conversion, such as hydrogen-resistant bearings², products for fuel cell

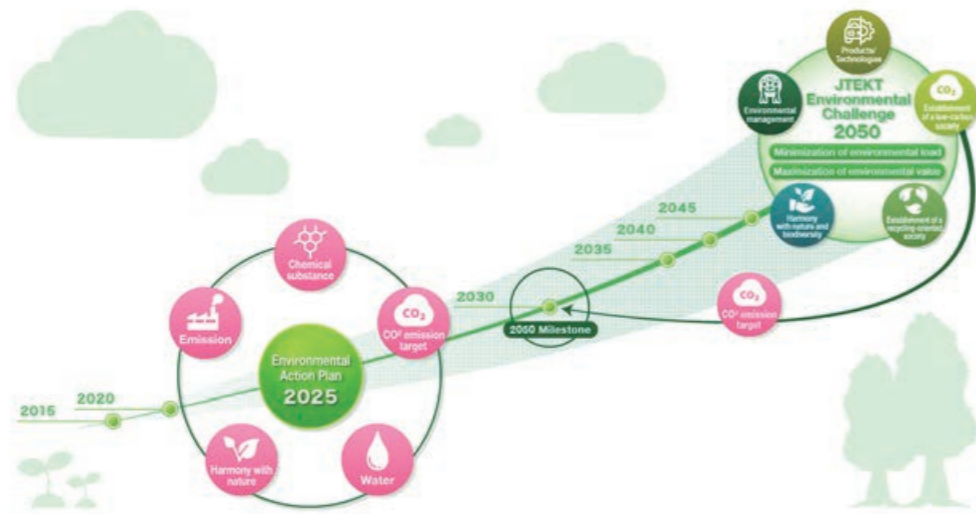
electric vehicles (FCEVs), and lithium-ion capacitors³. We aim to expand earnings in new fields beyond our conventional business domains.

In the recently formulated medium- to long-term business plan, we identified two types of materiality, "Social challenges to be solved through business" and "Important issues in business structure" (please see page 46). One of the themes adopted for "Social problems to solve through our business operations" is "Protect the rich earth for future children." JTEKT has been making efforts in the environmental field for some time, but this theme indicates our determination to strengthen determination to prevent climate change, reduce use of materials with a high environmental load, and contribute to the realization of a sound material-cycle society.

JTEKT is also shifting gears this year in terms of digital transformation (DX) measures. As I mentioned previously in the section about a "true merger," even after 15 years since the union created JTEKT, the operational processes from the two companies are not fully integrated. Because digitization has focused on optimizing individual processes, there are examples throughout the company of processes that are still conducted by hand, making it impossible to get a grasp of managerial indicators in a timely manner. Furthermore, a deeper look reveals that these manual processes include many instances of queries or reworking, with a great many employees spending their working hours on pointless tasks. Investment in

²2. Bearings that are resistant to hydrogen embrittlement, and will not corrode in steam.

³3. Electrical storage devices (capacitors) with electric double layer positive and negative electrodes, in which the energy density has been enhanced by adding lithium ion to the negative electrode.



IT up to now was not small, but I decided to pursue DX in the conviction that this is our last chance for improvement. We cannot overlook the fact that so many employees are spending their valuable time on tasks with low added value.

Of course, the goal of DX is not only to enhance productivity through automation, but also to drive innovation in operational processes with data utilization, create platforms that generate new business, and accelerate measures to strengthen the

competitiveness of the JTEKT Group. The DX Promotion Office comprises an elite team of 19 employees from throughout the company. We want to have these men and women think flexibly about what sort of company JTEKT should be a decade from now, and together develop an optimal goal for the entire organization. This should be nothing less than a company where no employees are subjected to pointless tasks, and everyone works with energy and satisfaction.

VI. Ensuring employee satisfaction 10 and 20 years into the future

The medium- to long-term business plan outlines Vision 2030, with the three-year period of fiscal 2021 to fiscal 2023 as the stage for strengthening JTEKT's foundations. When I was at Toyota, I learned the importance of "tree-ring management," a focus on steady earnings growth, rising little by little each year. Steady growth is not easy to achieve in these times of high uncertainty and a clouded outlook for the future. Whether or not we will succeed will depend, I think, on whether during this first stage we are able to strengthen the competitiveness of our existing businesses and restore our earnings capacity, and allocate the majority of those funds to laying the seeds for the future. To secure ample capital, it will be essential to establish a finely honed, robust management foundation with the excess thoroughly removed. Specifically, we will need to achieve a breakeven point ratio of 80% by fiscal 2023.

As I noted in the opening section, JTEKT managed to achieve a net profit in fiscal 2020. However, I think this was due to luck rather than merit. People tend to attribute poor outcomes to bad luck, but I have come to believe that in fact it's the bad times that are a reflection of capabilities, and that good times are the result of luck. To reiterate what I said previously, our profitability last year was the result of a crash diet,

rather than our capabilities. To acquire true competitiveness, we need to set ambitious targets, such as reducing by half the amount of capital investment required to establish a new production line, or halving the number of man-hours spent on design for model changes. We want to challenge ourselves to pursue drastic cost reductions.

JTEKT has implemented reforms with unprecedented speed over this last year. I would like to express my heartfelt appreciation to all the employees who have joined me in this effort. To be perfectly honest, there have been times when the sudden changes faced opposition from within the company. However, we cannot loosen the reins if we want to have a future in which 10 or 20 years down the road JTEKT employees are able to say with a smile that they are glad to be working at this company. I am resolute in my sense of mission that this company must be changed in earnest, and while continuing to seek the support of stakeholders through transparency and open dialogue, I plan to continue pursuing reform going forward.

JTEKT continues to make a concerted effort as a company for the earth, for society, and for customers. I appreciate your continued support.

