

Maximizing Group Synergies as One JTEKT with the Aim of Being “No.1 & Only One” Becoming an Indispensable Presence for our Customers



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President

Focusing on the breakeven sales ratio has strengthened our corporate structure

When I was appointed president on June 25, 2020, the JTEKT Group had posted a loss for FY2019 and started FY2020 with a 30 billions of yen operating loss in the first quarter. Another loss seemed inevitable in FY2020, but over the next nine months we did everything we could to pare the company down to a lean operating structure and ultimately posted 800 millions of yen in business profit for the year. The next year, FY2021, which was the initial year of the three-year stage to enhance corporate structure called the First Medium-Term Business Plan, we raised full-year profit for the year to 20.6 billions of yen. This gave us confidence that if we continued with our efforts, we could put our earnings on an upward trajectory.

As we worked to strengthen our corporate structure, we focused our efforts primarily on lowering the breakeven sales ratio. By lowering the ratio, we would be able to generate a profit even if our sales remained level. We scrutinized our cash flow more closely to eliminate loss-producing products and reduce costs. We reviewed all of the processes from the initial design stage onward for ways to drastically cut costs while maintaining product quality. These efforts lowered the breakeven sales point (using revenue in FY2019) from 92.0% in FY2019 to 82.5% in FY2022 when factoring out external factors affecting our financial standing.

We have also reconstructed our internal work structure. I first leveled the officers by eliminating the titles deputy president, senior managing director, and managing director to create an environment encouraging the free exchange of opinions.

The ten senior executive officers, including myself, meet every Monday morning to share information and discuss strategy, and I believe communication among us is now more active and open. We also revised the management personnel of our Group companies, and the new corps of managers is eager to take on new challenges while giving us more versatility. The change in the mindset of management is gradually spreading to employees, and some of the younger staff in the Sales & Marketing Division have taken the initiative to create working groups to “change the way they work” and to explore the latent needs of customers. I believe that this development of younger personnel taking action on their own initiative is a major step forward for us that will lead to future growth for the Company.

Our profit in FY2022 at the end of the second year of the First Medium-Term Business Plan was 34.2 billions of yen. Conditions during the year were quite adverse and included soaring raw materials, logistics, and energy prices, Russia’s invasion of Ukraine and other geopolitical risk, and China’s Zero COVID policy. In these conditions, I believe that our ability to increase profit from the previous fiscal year confirms that our efforts have been focused in the right areas.

Communicating our Objective of One JTEKT with “No.1 & Only One” Corporate Group

On April 1, 2022, we unified all of our business brands into the single JTEKT brand and in FY2023 reformulated our management philosophy by consolidating and unifying it as the JTEKT Basic Principle. These changes enhance the Group’s sense of unity and communicates our objective to our Group members and the public that we intend to be One JTEKT with the “No.1 & Only One” corporate group.

Financial Results

	FY2021 Results	FY2022 Results	FY2023 Forecast
Revenue (billions of yen)	1,428.4	1,678.1	1,800.0
Business profit (billions of yen)	42.3	62.6	75.0
Profit for the year ^{*1} (billions of yen)	20.6	34.2	35.0
Breakeven sales ratio ^{*2} (versus FY2019 revenue)	85.0%	82.5%	80.0%

*1 Profit for the year attributable to owners of the parent company

*2 Financial assessment excluding external factors such as rises in resource prices and logistics costs

The Group's greatest strengths are the breadth of our seeds and the high level of sophistication of our technology. I want us to be the "No.1 & Only One" corporate group by breaking down the barriers between our Group companies and businesses and by combining our various seeds and activating our synergies as One JTEKT.

The full-fledged entry into the gear business last year brought together Group capabilities spanning materials procurement to heat treatment and machining technologies. We are continuing in that direction by filling out our "ultra-compact series" of products, including engineering the JTEKT Ultra Compact Diff.TM miniaturized differential and the extremely narrow JTEKT Ultra Compact BearingTM unit. These elemental components respond to needs for increasingly miniaturized and high-power density components for eAxles, which are the core drivetrains for battery-electric vehicles, and we expect demand for eAxle components to grow as EVs become more common.

The advantage of being a manufacturer of eAxle components is that it positions us to supply to all automakers and eAxle manufacturers. We already have a vast base of customers involved in eAxles. By supplying elemental components, we are seeking to become an "indispensable presence" for our customers, increase our market share, and ultimately establish JTEKT as the world's leading maker of eAxle components.

Maximizing our Group synergies will require both applying our technological seeds and leveraging the sales resources throughout the Group. We are taking steps to increase cross-selling of Group products and services by deepening the sales department's knowledge of our diverse offerings so they can introduce the whole range to our own customers.

All of the 50,000 people in the JTEKT Group working toward the same objective will be a powerful force. As we present to customers products and services that make full use of our "No.1 & Only One" technologies, I hope we will all be confident that we can become the best in the world in



The entrance ceremony for new employees

our field and that the JTEKT Group will become even stronger.

To symbolize the unification of the Group as One JTEKT, we added JTEKT to the names of the Group companies and introduced matching uniforms. We also put much thought into devising a new entrance ceremony intentionally designed to make new employees happy about their decision to join the JTEKT Group and inspire motivation in their new jobs. Held jointly for the first time with all 15 Group companies, the ceremony's grand theme was Team JTEKT. The stars of the ceremony were the new employees, who watched a movie about the JTEKT Basic Principle and joined in a mass choreographed activity welcoming the new members of the JTEKT Group.

We will continue to conduct various measures to foster the sense of Group unity.

Creating broader perspective growth strategies by backcasting from future market and industry composition outlooks

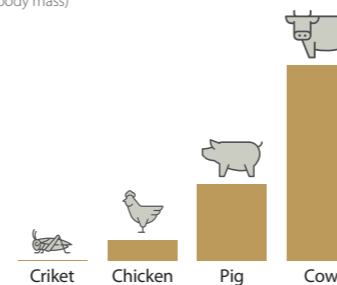
Sowing seeds for the future requires envisioning the future and then working backward to set targets and make plans. Until now, we have been forecasting the future based on the status in the present. However, with the pace of change at the speed it is now, that approach will always leave us behind the curve. Instead of forecasting, we need to backcast. We need to imagine what the world will be like 10 and 20 years from now and project what the markets and the industry composition will be at that time, then decide how we will be involved in that future and what we can be contributing. For example, consider the how fast the space exploration business has been growing recently. When we think about what products or services the Group might be able to provide for rockets, we have to first find out what kind of parts rockets require. We need to pay attention and have an interest in developments and trends around the world or else we will not be able to find the clues of the world's future direction.

Two years ago, we created the Corporate Strategy Department with the mission of gathering cutting-edge information and linking it to commercialization. The department plays a central role examining which markets are primed to expand in the future, how and in what fields we can use our seeds, and how we can contribute to our customers and society. The department then takes action to develop new businesses to cover those areas.

As we broaden our horizons on the vertical axis of time—the future—and the horizontal axis of space—the world—we will be searching for activities that can become new pillars for our business.

We are also advancing initiatives addressing social issues. One area we are actively pursuing is developing drone technology, which offers promising solutions for a wide variety of social issues involving surveying, facility inspections, security, and logistics. In the burgeoning drone field, we are providing technical support to Prodrone Co., Ltd., which is a core company in a project to develop drones to serve as distribution vehicles for depopulated areas. The project is aiming to engineer drones capable of carrying a 50 kilograms of cargo over 50 kilometers for distribution networks of "flying small trucks" by 2025. We are also preparing for an era where food is in short supply with our ongoing efforts to develop processes for cultivating and harvesting edible crickets as an efficient and sustainable source of protein. As with our business planning, a forward-looking approach is also essential to solving social issues. Here also, we are imagining the future and linking that image back to our business seeds so we can formulate concrete measures.

Greenhouse gas emissions
(per kg of animal body mass)



Becoming the world's top company with high profit margins and multiple earnings pillars

When I think of what I want the Company to be 2030, my first thought is that I want us to be a company where employees can work with a smile and confidence. Since becoming president, I have advocated tree-ring management that allows us to flexibly respond to changes in the business environment and continuously grow. At the root of that is my desire to create a company where employees can work with peace of mind not just today, but also 10 and 20 years from now.

Steadily increasing our profit margins will be essential. We have been strengthening our corporate structure, as demonstrated by the growth in our business profit margin to 3.7% in FY2022. In the Second Stage Medium-Term Management Plan we plan to continue raising the margin to 6%. That is why we are emphasizing that we want to be

the best in the world. We cannot hope to achieve significant growth if we are content with being a good company—we must aspire to become the best in the world.

The sales, technology, and production divisions in the Industrial and Bearings Business Unit have launched a project led by ambitious young staff to be the number one maker of bearings in each category of agricultural machinery, construction machinery, robots, machine tools, and semiconductor and steel production equipment.

Our Machine Tools & Manufacturing Systems Business Unit's mainstay cylindrical grinders command top market share in Japan, and we will work to further substantiate our leading position. I also want us to go beyond that to have the business unit providing machine tools that are the "only one" equipment that can make the products our customers need. In addition to the machine tool business unit at the head office, the Group also has two machine tool manufacturers with their own areas of expertise. We can combine these seeds to make a completely new, "only one" machine tool. Products that can only be made using these machines, meaning products that can only be made by JTEKT, will differentiate us from other companies. This is one of the major strengths of the JTEKT Group.

The JTEKT Group's strengths are in the two areas—bearings and machine tools—that are often called the "food staple of industry" and the "mother machines" which will remain fundamental no matter how the world changes. The evolution from gasoline-powered to electric vehicles is an example of this. As this shift progresses, demand for engine parts will decline significantly. The closer a supplier is to the final product, the more susceptible it is to changes in the industrial structure. Although the final design of our products may change, demand for JTEKT bearings, machine tools, and gears will continue as long as there is a need for objects to be shaped and moved and for metals to be processed. Of course, that does not mean that we can stand pat without doing anything. We have to continue our meticulously research, even in how to design and structure a basic gear to lower frictional resistance. The value-added aspect of low friction gears is just as important for electric vehicles as for gasoline vehicles since improving electrical efficiency will continue to be a major issue and also because quietness is a major feature of electric vehicles.

I believe that if we envision ourselves becoming the best in the world in various areas, then we can work to fulfill that vision by refining our technologies for each area while also combining the Group's many seeds to meet the needs of society. The innovative products and services that we will offer will make us a unique presence in the world.

In addition to our three existing businesses, we consider gears and lithium-ion capacitors as prime candidates to become new earnings pillars for our Group. In the gear business, I believe we can become the world leader if we can create an “only one” product that can only be produced using our machine tools. Our lithium-ion capacitors offer industry-leading from -40°C to 85°C operating temperature range and applications ranging from backup power sources for automobiles to peak demand assistance and power fluctuation suppression, and we are exploring their application potential for all types of industrial machinery. By developing the gear and lithium-ion capacitor businesses, I believe we will have a business portfolio with five core earnings pillars. My aim is to add more new businesses so that by 2030 we have seven earnings pillars.

As I stated earlier, the strengths of our Group are our numerous elemental technologies at the fundamental levels of industry and our ability to flexibly respond to changes in society. We are currently in deep discussions about which current businesses to move out of and how we can reallocate resources during the Second Stage Medium-Term Management Plan so we can fully leverage our strengths and cultivate new high-profit businesses into earnings pillars.

Developing human resources and organizational structures, and spreading an improvement mindset

The First Medium-Term Business Plan focused on the four themes of developing our human resources and organizational structures, strengthening the management foundation, strengthening our competitiveness, and sowing seeds for the future. Of those, the one that will require the most amount of time to realize is developing our human resources and organizational structures. We have approached this from a long-term perspective and from the beginning have been expecting it to take about 10 years, so we are not viewing this as critical to achieve quick results. Our aim is to carefully develop human resources and organizational structures that will apply the JTEKT Basic Principle.

As we develop our human resources, we will never be content with our existing approach and will always be looking for ways to improve our systems. We have a strong desire to cultivate rich human resources who will provide a steady stream of positive improvements for the sake of the Earth, society, and our customers. The first step to improving our personnel system is to revise our educational programs for new employees and for retraining new section managers. Some time will be needed to spread the improvement mindset to more people and for it to permeate throughout the Group, but

I am certain that when it does, JTEKT will be even stronger.

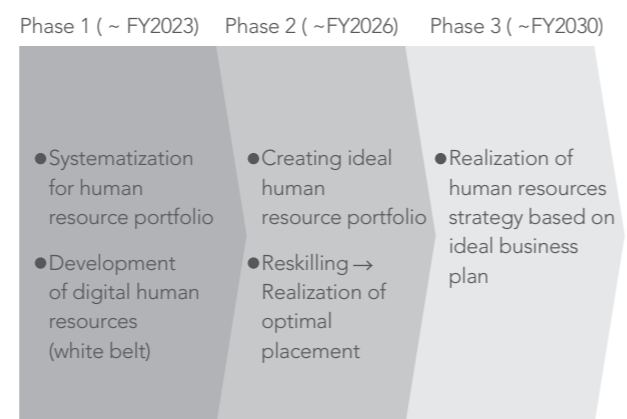
The Group employs some 50,000 people worldwide. If each of them were to take the initiative to set and pursue their own challenges, our Group’s presence in the world would increase dramatically.

I also have a strong conviction to make JTEKT a company where “people can say what they think and do what they want.” An environment where people can speak freely is fundamental to discouraging and preventing misconduct. Education is, of course, essential for prevention, but just as important is having an environment where people can openly talk about a problem after it has occurred. Hiding or putting off dealing with a problem only magnifies the negative repercussions. Promptly sharing and addressing problems that arise with everyone and applying what we learn from the experience both minimizes future losses and increases sensitivity to compliance.

Developing our organizational structure is becoming increasingly important as the scale of our business grows. Although the corporate culture of relying on individual expertise and artisanal skills still exists, in the future, a diminishing workforce and increasing labor mobility in overseas as well as in Japan means that we must have a system that can quickly accommodate changes in personnel. Standardizing our operations will be absolutely essential.

Developing and strengthening our human resources and organizational structures is an eternally ongoing process. There is much that we need to change, but that also means that the improvements we make can be substantial.

Roadmap for Human Resource Development



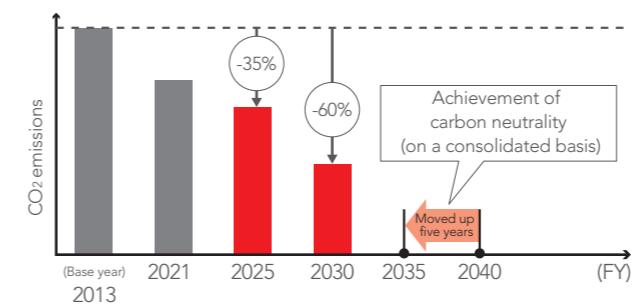
Becoming a company that satisfies all stakeholders

The first precept of the JTEKT Basic Principle is to prioritize “for the Earth, for society, and for customers.”

The direct contribution we make to our customers is providing high-quality, low-cost products and services. Through our customers, we also hope to make all consumers happy. As a company, we also have the responsibility to generate profits, pay taxes, and provide employment.

At the same time, everyone and all companies living on our planet have an obligation to protect the Earth’s environment. As a company, pursuing carbon neutrality is a duty, but it is also a business opportunity. Minimizing CO₂ emissions will require us to make products that are smaller, lighter, and simpler, which is exactly what products like JTEKT Ultra Compact Diff.™ are designed to be. We will continue advancing business activities that lead to happier people and society.

Roadmap to Carbon Neutrality



In addition to our business initiatives, we adopted the JTEKT Group Social Action Policy in April 2023 and declared our commitment to social contribution activities in the three priority areas of the environment, sports promotion, and community contribution. We will be particularly focused on contributing to communities, and plan to increase activities that promote the healthy growth of children.

At the same time, we also created the JTEKT Group Human Rights Policy. As our business continues growing worldwide, we recognize that it will be increasingly important that we deepen our understanding of human rights and share that understanding with our Group companies in Japan and overseas. In accordance with the United Nations Guiding Principles on Business and Human Rights, we will establish a human rights due diligence system to identify and provide an assessment of the negative impact of our business activities on human rights and will implement prevention and mitigation measures based on the assessment.

When we restructured the management philosophy system in FY2023, along with “No.1 & Only One,” we added “our priorities are safety first, quality second” to the JTEKT Basic Principle to show our strict stance that we are a company that values life above all else. Safety first, of course, refers to keeping our employees safe and protecting their lives. Quality second means protecting the lives of our customers. Our products are used in a whole range of automobile components, including the steering mechanism, and a defective product can result in to a serious accident. We must always remember that the quality is the most critical element of our products because it can affect people’s lives. “Safety first, quality second” means that the greatest priorities in our business activities are the lives of our employees and our customers. We want to contribute to the Earth, society, and our customers as “a company that protects and values life” at the core of all of our business activities.

We also plan to engage in more dialogue with shareholders, who are important stakeholders in our company. This year we formed a committee to focus directly on our stock price and identify and take action on factors that affect the value of our stock. In FY2022, the improvement in our profits lifted our return on equity (ROE) to 5.3%. We will continue working to increase profits and improve our capital efficiency to achieve the ROE of 8% and 1x PBR standards required by the Tokyo Stock Exchange. We intend to continue improving our capital efficiency beyond those levels with the aim of returning profits to our shareholders and society.

Accelerating our reforms to optimize overall Group business and sowing seeds for the future by expanding our existing businesses and developing new businesses have brought us to the point where we will soon start to harvest the results of our efforts. Fully united at JTEKT, we are rapidly evolving into the JTEKT Group of the future.

October 2023

President

佐藤和弘