



We will overcome this unprecedented crisis as “One JTEKT” by adhering to the “No. 1 & Only One” spirit and maintaining a “customer first” outlook.

President

佐藤和弘

Kazuhiro Sato

I. Establish a “kaizen mindset” to create a stronger JTEKT

My name is Kazuhiro Sato, and I took over as president of JTEKT in June 2020. I would like to thank everyone for their steadfast support.

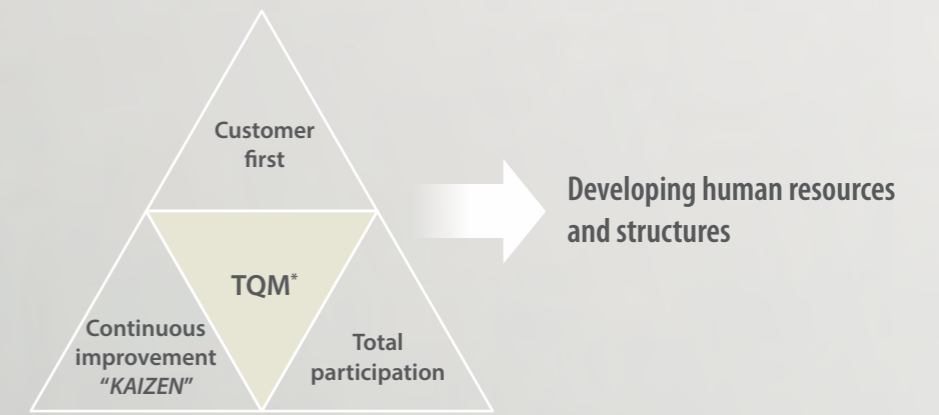
I was a member of Toyota Motor Corporation for many years, involved mainly in quality assurance and Total Quality Management (TQM). The Toyota Group defines TQM as “actions that improve the vitality of individuals and organizations.” Adhering to the principle of the continual advancement of all employees to ensure customer satisfaction (the three pillars of “customer first,” “total participation,” and “kaizen” (continuous improvement)), I worked to develop the people and structures that put these ideas into practice.

People feel satisfied when they make others happy or help them in some way, that is, when they feel that they have made a contribution. One of the action principles for TQM is “respect for humanness.” I believe

that proactively working to improve on a daily basis, and gaining such feelings of contribution and satisfaction, is the true essence of respect for humanness. The strength underpinning the performance of the Toyota Group is that it is an organization of people with a *kaizen* mindset. This strong organization has been fostered over many years by such practices as expressing inventive ideas, and quality control circles.

I would like all employees of the JTEKT Group to have such a *kaizen* mindset, and gain a sense of contribution and satisfaction through their work.

I have taken on the position of president as the automotive industry undergoes a “once in a century” transition, further complicated by the unpredictable crisis resulting from the COVID-19 pandemic. However, I consider this situation to be an opportunity, and am committed to strengthening the character of JTEKT.



Conceptual scheme of TQM

*Total Quality Management

II. Exposure of our weaknesses is an opportunity to make a fresh start

JTEKT posted year-on-year declines in both sales and earnings in the fiscal year ended March 2020, with net sales of ¥1,418.5 billion and operating income of ¥34.6 billion. Furthermore, as a result of the impairment loss at our European subsidiary that was recorded as an extraordinary loss, we posted a net loss of ¥6.6 billion, the first such shortfall in a decade. We were forced to reduce our year-end dividend from ¥22 to ¥16 per share, and I sincerely regret the concern and trouble this has caused for shareholders.

The external factors that led to this loss include stagnation in the automotive industry in China and India, and a falloff in sales due to the COVID-19 pandemic. At the same time, with global competition intensifying, a major factor for the earnings decline was our belated response to internal issues, including an inability to cover the shortfalls from lower sales prices with cost reductions, delays in achieving the planned cost point following product switchovers, insufficient controls on R&D and

infrastructure investment, and inadequate productivity gains in administrative divisions. Furthermore, looking back, the recording of an impairment loss as a result of the poor performance at our European subsidiary suggests an over-optimistic outlook regarding the future.

This most recent financial statement has clearly exposed weaknesses in our earnings capacity. People are reluctant to make changes when conditions are good, but now, with the recording of our first loss in a decade, and the uncertainty surrounding how long the global economy will continue to be impacted by the pandemic, I am sure that all our employees share a sense of crisis. I am certainly not taking an optimistic view, but I am thinking about it positively as an opportunity to make a change.

I think there are three approaches to changing a company. To put it in medical terms, there is first of all the surgical operation that needs to be done immediately, drastic action to stem the flow of red ink with structural reforms that leave

nothing off the table. Next is internal medicine-type actions, examining and reviewing in detail those businesses likely to be at risk in the future, and applying the appropriate treatments. Finally, there is Oriental medicine conducted in parallel using herbal treatments, a system of developing human resources according to TQM principles.

Looking at results by region and business segment, the Europe region and Bearing Business both recorded operating losses during the subject fiscal year. For Europe in particular, this was the second consecutive year of loss. We need to quickly stop the bleeding, and compile a structural reform plan. For the Bearing Business, we have been implementing various measures, including launching a rebuilding program for the Kokubu Plant in fiscal 2017, and the reorganization of tapered roller bearing plants in North America in the previous fiscal year. However, these measures are still only halfway complete, and we need to continue to steadfastly pursue reform. Other businesses and regions were also unable to achieve sufficient earnings. We will treat the problem areas quickly to stop the hemorrhaging, and regain a healthy body by prioritizing investment and strictly controlling fixed costs. Even if net sales declines further as a result of the pandemic, we will make a concerted effort as a corporate group to avoid a second consecutive year of loss.

I mentioned previously that we have been given an opportunity for change, but one thing has already changed greatly as a result of COVID-19. It's something that is also talked about often at other companies as well—the working style of employees. JTEKT already had a structure for telework in place, but it was rarely utilized owing to a deep-rooted sense that being at the office is the proper working style, and that not being present causes difficulties for coworkers.



Now, based on the government's request that people remain at home as much as possible in order to prevent the further spread of COVID-19, JTEKT has set a target office attendance rate of 30%, and in principle all employees in administrative divisions are to work from home. Thanks largely to the expanded IT infrastructure put in place under the previous president Tetsuo Agata, we have been able to shift to a telework format without any significant disruption. Employees have also reacted favorably, reporting that they are able to use the time previously spent commuting in a meaningful way, and that their productivity has increased. I feel that the benefit has been even greater than expected. Providing better work environments and workspaces is one type of Oriental medicine, and going forward I want to create an environment that will allow for various types of working styles.

(Billions of yen, J-GAAP)

	FY2018	FY2019	Increase / (decrease)	
Net sales	1,520.8	1,418.5	(102.3)	(6.7)%
Operating income	66.6 [4.4%]	34.6 [2.4%]	(31.9)	(47.9)%
Ordinary income	69.6 [4.6%]	34.7 [2.5%]	(34.9)	(50.1)%
Profit (loss) attributable to owners of parent	24.6 [1.6%]	(6.6) [(0.5)%]	(31.2)	—

[%]: Ratio to sales

III. Continuing to meet customer expectations with “No. 1 & Only One” products and technologies.

The first time I heard the JTEKT Group Vision “No. 1 & Only One,” I thought it was an extremely wonderful phrase.

There are a lot of ways to be No. 1, such as first in sales, market share, technology, quality, or performance. However, I think that the “No. 1” in this Group Vision is intended to make employees think for themselves what sort of “No. 1” they want to achieve. In the Steering Business, for example, that might be to consider what they need to do be the overwhelming “No. 1” that surpasses foreign competitors, and put that into action. In other businesses as well, if we use competitors as a benchmark to understand our own weaknesses, compensate for them and emphasize our strengths, we will be able to stand out from the competition. With the drastic changes in the business environment, JTEKT ought to change its definition of “No. 1” as necessary. Knowing the competition, as well as our own position, I’d like all of us to seriously consider the type of “No. 1” we should strive to achieve in order to survive into the future.

The other part of that phrase, “Only One,” I think means continuing to develop and offer original and revolutionary products that customers have never seen or experienced before. “Only One” products are by definition “No. 1” at the time they are created, but if we simply rest on our laurels, our competitors will soon catch up and overtake us. We need to continually anticipate customer needs, and provide them with new value.

The business environment for JTEKT becomes more difficult with each passing year, and we are now entering the era of “new normal” when conventional wisdom

and thinking no longer apply. While we will no longer be able to draw on past successes, I believe that new initiatives will expand opportunities for growth. If we remain conscious of helping achieve the UN’s Sustainable Development Goals (SDGs)¹ and the changes in peoples’ lifestyles, create a framework to establish new businesses without fear of failure in this time of great uncertainty, incorporate the ideas of a market-led, customer-centric approach, and continue to offer new “No. 1 & Only One” products and technologies where the needs (problems to be solved) of society intersect with JTEKT’s solutions, we will be able to satisfy customers around the world, advance the development of a sustainable society, and lay the cornerstones for business that will become the future pillars of JTEKT.

I’d like to cite a few examples of the new products that have emerged from this type of thinking. High Heat-Resistant Lithium-Ion Capacitors², which we began mass producing at a new factory in October 2019, are a unique, innovative power storage device that is able to operate stably at a high temperature range of 85°C, to a low of minus 40°C, allowing it to be installed in automobiles without the need for a cooling system. We have already received orders for this “Only One” product for use as a backup power supply in steer-by-wire³ systems, as well as many inquiries from customers outside the automotive industry for use in a range of applications, including functional stability of power generating systems, power supply regeneration, and main power supplies. In fact, the ability to operate in a wide temperature range also gives these capacitors exceptional durability,

allowing them to be charged and discharged repeatedly with almost no degradation. Many people are familiar with how the battery in their mobile phone drains more quickly after it has been used for a while. That is caused by the degradation of its lithium-ion battery. Lithium-ion capacitors have an advantage over lithium-ion batteries in terms of high power output, but their disadvantage is their low capacity. Going forward, if we are able to enhance these products and improve their capacity, it will allow them to be utilized by an even wider range of customers for many types of applications.

Electric power steering (EPS) currently accounts for more than half of JTEKT’s earnings. We faced major challenges during its development, and there was a long period of low profitability, but today, with the use of electric motors in hybrid, electric, and plug-in hybrid electric vehicles (EVs), it has become the standard for steering. In addition to High Heat-Resistant Lithium-Ion Capacitors, JTEKT has launched new

products and services each year. To contribute to the emerging aging society, we have developed the J-PAS Power Assist Suit⁴ to help people carry heavy objects, and the Electric Assist & Training Walker⁵ designed to encourage people to move independently, as well as the J-WeLL⁶ system to support groundwater management for the efficient utilization of water resources. Initiatives such as these are the driving force that will revitalize JTEKT, and we plan to develop them into the pillars that will support the company’s future.

Notes

1. The SDGs are a collection of 17 goals with 169 international targets adopted at the UN Sustainable Development Summit in September 2015 to “achieve a better and more sustainable future for all.”
2. The High Heat-Resistant Lithium-Ion Capacitor is an electric power storage device in which the energy density has been enhanced by adding lithium ions to the negative electrode material of a capacitor with an electric double layer positive and negative electrode.
3. Steer-by-wire is a system in which the commands from the steering wheel are conveyed to the tires by electrical signals rather than a mechanical structure.
4. Power assist suit for easier and safer physical labor.
5. A walker with a physical training function designed to enable independent movement.
6. A well water management system that detects the inflow volume and manages the pumping rate accordingly.



High Heat-Resistant Lithium-Ion Capacitor



Production plant for High Heat-Resistant Lithium-Ion Capacitors



J-PAS



Electric Assist & Training Walker

IV. Utilizing the strengths of “One JTEKT”

JTEKT has more than 150 facilities around the world, with around 50,000 employees. Each Group company has its specialty, and I believe that our diversity, including the products, technologies, customers, and suppliers for each firm, is both part of JTEKT’s strength, and an asset. At the same time, JTEKT has established a Group Vision of “No. 1 & Only One,” as well as the JTEKT WAY as the set of values that all employees should share (comprising the five elements of “Customer first,” “Ownership,” “Continuous kaizen,” “Teamwork and self-discipline,” and “Aspiration for innovation and for technique”). JTEKT has continued to instill

these principles throughout the corporate group, providing us with a standard for resolving global issues.

Going forward, we will take a broad view of the situation from the standpoint of the JTEKT Group, and make a concerted effort to address issues. For example, determining a theme to address as a group and thinking about it together will almost certainly generate unexpected and innovate ideas. To implement our business and resource allocation strategies from a global perspective, we must be mindful of “One JTEKT” and strengthen ties among Group companies.

V. People with a passion to accomplish something drive the company

Strengthening JTEKT’s earnings capacity will require revising businesses and generating synergies, but also focusing further on cultivating the type of people who are the source of our strength. Manufacturing equipment and leading-edge ICT devices⁷ can be obtained comparatively easily with money, but with the labor market more fluid these days, it’s

difficult to quickly find people who can consider the customer perspective and make continual improvements. Employees who have the necessary “kaizen mindset” of a member of the Toyota Group, and continually apply it in the course of their work, cannot be bought with money. Cultivating such employees takes considerable time.

The basic mindset that I look for is not just a *kaizen* mentality, but people with a passion to accomplish something or make a contribution. People such as this, in order to put into action the things they want to do, think intently about what is lacking, and learn on their own. At a time of rapid change in the world, only those who can think and act on their own accord will be able to adapt to change and survive. When leaders have that sort of passion, the people around them are greatly inspired by it, and are able to give 120%. If every department had such

a manager, it would give a tremendous boost to the company.

Companies support people with passion and a *kaizen* mindset, and while utilizing the autonomy and originality of their employees, provide the backing that allows people to gain a feeling of contribution. This is what I believe is truly “respect for humanness,” and what allows companies to greatly strengthen their constitution.

Note
7. Information and Communication Technology (information devices such as computers, projectors, and digital cameras).

VI. Contributing to a sustainable society through “tree-ring management”

I’ve been thinking a lot in recent years about the definition of a company. My answer is that a company is an apparatus, a tool for contributing to society.

The social responsibility of a manufacturer is first and foremost to provide high-quality yet inexpensive products in order to satisfy the greatest number of customers. Earnings are generated as a result, which allow the company to contribute to society in the form of taxes and employment. Such steady growth year by year is the social significance of the “tree-ring management” that I seek to achieve. Tree rings only increase by one ring each year, but a new ring is always added, and the addition of each thin ring eventually creates a large tree. Companies also aim to achieve the same sort of continuous, steady growth.

In addition to customers, companies have a responsibility to communities and to the global environment. Through its value creation, manufacturing, and human resource development, JTEKT makes firm

contributions to the sustainable growth of communities and the conservation of the global environment.

I have been in the manufacturing industry for a long time, and have had many experiences and valuable learning opportunities. As a way of giving back to the world, I will consolidate the power of all JTEKT Group employees, overcome this unprecedented crisis, and contribute to society. I ask for your continued support.

