Company Report

TSE Prime Market/machinery
February 6, 2023

Tsubakimoto Chain (6371)

Analysts in charge

Shinji Kuroda
Hidehiko Hoshino, CMA
Capital Goods Research & Advisory (CGRA)

Interview with Mr. Kimura, President and Representative Director/COO

- CGRA issued the first sponsored research report for Tsubakimoto Chain Co. (hereinafter, the "Company") as of September 1, 2021. This report is positioned as a follow-up report, and explains changes from the previous report, an interview with Mr. Takatoshi Kimura, President and Representative Director/COO, performance progress toward the Mid-Term Management Plan, non-financial/execution strategies toward the achievement of the Long-Term Vision 2030, points of the briefing about the mobility business, and other matters. In the interview with the President, we heard about challenges that have become apparent since he assumed the presidency, measures to change the corporate culture, appeals of the Tsubaki Group, and even a possibility of organization restructuring, etc., and could feel "signs of the beginning of transformation" in a traditional company that has been in business for over 100 years.
- As for business performance of the Company, while the mobility business was affected by sluggish production of automobile companies stemming from the semiconductor shortage and the materials handling business continued to see a decline in large projects in Japan and weak performance of a subsidiary in the U.S., results of these businesses were covered by those of the chain business whose earnings environment remained strong. Consequently, operating profit up to 3Q(April to December) of the fiscal year ending March 2023 rose by 6% year on year to ¥13.7 billion (operating profit ratio: 7.5%), and the earnings momentum was accelerated in 3Q (October to December) at ¥5.4 billion, up 12% year on year, (operating profit ratio: 8.5%). In the fiscal year ending March 2024, the mobility business is likely to drive business performance with a recovery in global automobile production. With regard to the Mid-Term Management Plan, although the burden of advance investments is a little heavy, relatively good progress is being made while the driving force for business performance is changing.
- Toward the achievement of the Long-Term Vision 2030, the Company set 13 material issues and KPIs for three social challenges, and newly established the "Sustainability Committee" chaired by the COO in January 2022 to strengthen monitoring and effectiveness and work on advancement of ESG management. Its policy is to pursue organizational transformation and challenges through the creation of innovation under the theme of "Driving the World … and the Future." Cross-functional organizational reforms as well as manufacturing reforms have started in the chain and motion control (MC) businesses, and the regenerative medicine project has gone into full-scale operation in the materials handling business. In the mobility business, while promoting expansion of the market share of existing products, the Company has begun promoting business development from a long-term perspective in anticipation of the EV era.
- The Company's PBR hovers at around 0.5 times factoring in EV-related and other risks, while the dividend yield is beginning to exceed 4%. In 3Q of the fiscal year ending March 2023, the chain business, which has a highly profitable structure, has become the top earner accounting for 72% of corporate segment profit, but we have the impression that the value of the chain business is not reflected in the Company's share price. We hope the Company works on strategic information disclosure in its high margin and high-growth chain business going forward.

Consolidated results of Tsubakimoto Chain and various share price data: 100 millions of yen, yen, %

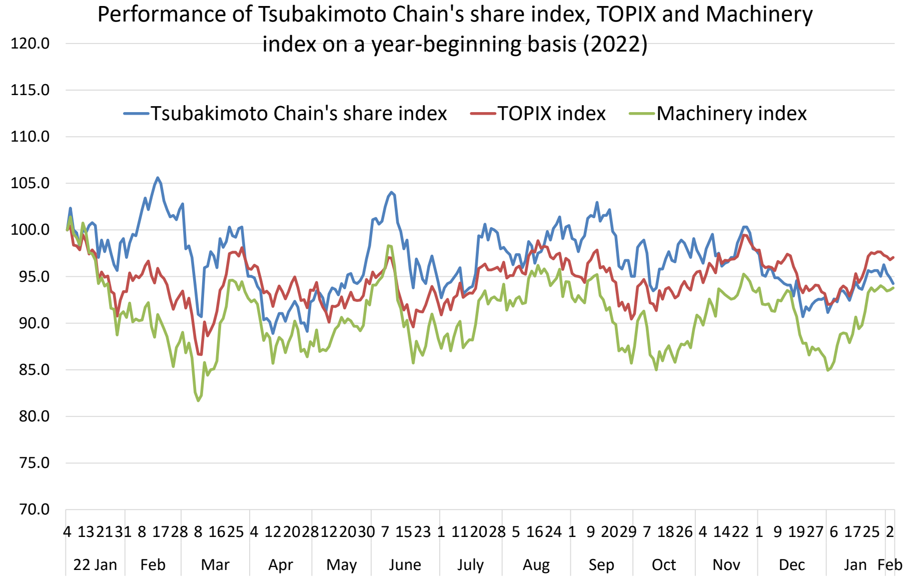
Trading data	
Stock price（Feb/3/2023）	JPY 3,030
52-weeks range	JPY 2,846~3,415
Market cap	JPY 116 billion
Number of outstanding shares	38.2 million shares
Avarage trading value(20 days)	JPY 170 million
Company forecast PER	8.2 times
PBR(As of March 2022)	0.54 times
Company forecast DPS	JPY 130
Company forecast Dividend yield	4.3%
ROIC（March 2022)	5.4%

Performance	18/3	19/3	20/3	21/3	22/3	23/3COE
Sales	2,157	2,385	2,264	1,933	2,158	2,450
Operating profit	206	217	161	88	178	175
Ordinary profit	217	216	166	110	200	190
Net profit	146	137	115	87	145	136
EPS	387.4	364.0	308.7	235.2	392.8	367.3
ROE	9.2	8.1	6.7	4.8	7.4	-
DPS	120.0	120.0	120.0	75.0	120.0	130.0
Dividend payout ratio	31.0	33.0	38.9	31.9	30.5	35.4
FCF	102	-78	60	183	119	-
NetCash	76	-60	-85	68	175	-

Note: ESP and dividend per share in the fiscal year ended March 2018 to the fiscal year ended March 2019 were adjusted on a post-share consolidation basis.

Table of Contents

Figure 1: The Company's share price in 2022 slightly outperformed the machinery index



Source: Created by CGRA

Three Noteworthy Points of Tsubakimoto Chain

Point (1): Hoping for a recovery in global vehicle production by 8 Japanese companies

From the latter half of the fiscal year ending March 2023, a recovery in vehicle production is expected, and the mobility business will become the driver for business performance.

On October 29, 2021 after the issuance of the previous report, the Company announced its downward revision of earnings forecast for the fiscal year ended March 2022 mainly due to a decrease in vehicle production stemming from semiconductor shortage (operating profit forecast ¥16.0 billion→¥15.0 billion). However, actual operating profit exceeded ¥15.0 billion, the Company's forecast, on the back of an upswing in the chain business, reaching ¥17.8 billion. On the other hand, as for the earnings forecast for the fiscal year ending March 2023 as of February 3, 2023, although net sales were revised upward to ¥245.0 billion, up 13% year on year, (period-beginning forecast: ¥240.0 billion), operating profit was revised downward to ¥17.5 billion, down 1% (period-beginning forecast: ¥200.0 billion) largely due to parts shortage and the burden of an intentional rise in advance investments. Yet, as shown by Figure 2, global production of eight Japanese automakers is on a recovery trend, though at a sluggish pace. From the latter half of the fiscal year ending March 2023, the Company's mobility business will become the driver for business performance with a recovery of vehicle production, and relatively steady performance can be expected while the sentiment of the macro economy is rather weak.

However, as a risk, there are concerns about a slowdown in demand for capital investment mainly in China, softening demand in car sales through rising interest rate on car loans, and others.

Point (2): Embarking on structural reforms toward achievement of the Long-Term Vision

We have an impression that structural reforms toward achievement of the Mid-Term Management Plan and Long-term Vision have been undertaken steadily

On June 14, 2021, the Company announced the "Long-Term Vision 2030" and "Mid-Term Management Plan 2025." The Mid-Term Management Plan 2025 is positioned as the 1st stage for the action plan for the Long-term Vision aiming at sales of ¥500.0 billion in FY2030 (FY ending March 2031), and calls for (1) the creation of next-generation business, (2) strengthening of profitability, (3) strengthening of business foundation, and (4) strengthening of ESG initiatives. As numerical targets in the Mid-Term Management Plan, it aims at net sales of ¥300.0 to ¥320.0 billion, operating profit ratio of 9 to 11% (¥27.0 to ¥35.2 billion) and ROE of 8% or higher.

To achieve these targets, reforms to become a "New Tsubaki" are being advanced. Specifically, efforts that have been already implemented include (1) introduction of a cross-sectional functional to break down the barriers of a sectionalism organization due to the division system, which partly inhibited the creation of innovation, (2) enhancement of a promotion structure which encourages strengthening of technology bases that make innovation happen and transformation and growth, (3) establishment of the New Business Development Department to which 5 dedicated staff members were assigned in the headquarters, and (4) expansion of resources for Research & Development and implementation of advance investments in R&D functions by accelerating mid-career employment of cutting-edge technical experts. Though it will require time for the effects to be seen, we hope the structural reforms will be continued.

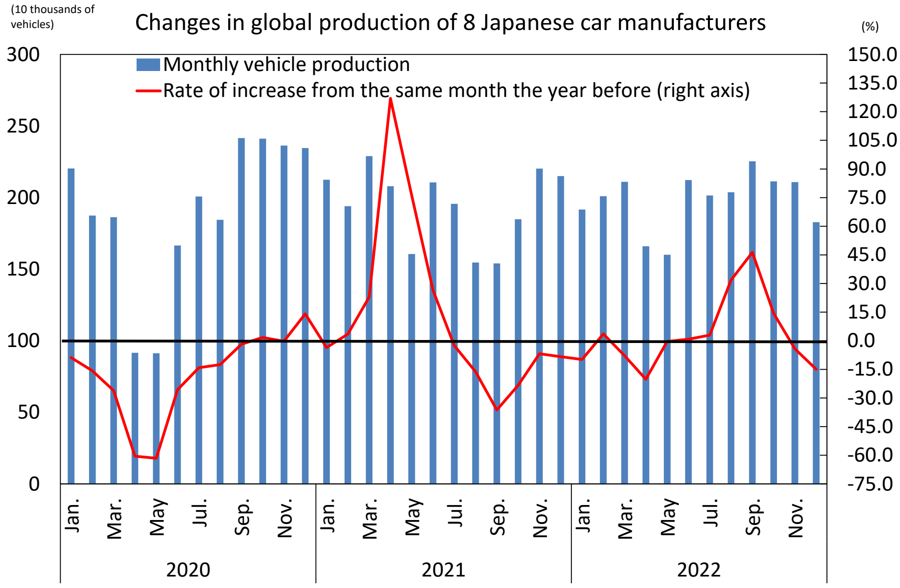
Point (3): Impression that the share price excessively factors in various risks

While the value of the chain business has not been incorporated in the share price, we want a sense of security in the materials handling business.

The Company's PBR in recent years has declined, hovering at around 0.5 to 0.6 times, through a fall in ROE and PER. CGRA thinks that worsening business performance while having a strong Balance sheet has caused the decline in ROE, and at the same time, a decrease in the possibility of continuity of the Company due to concerns about EV-related risk has caused a fall in PER. On the other hand, the expected dividend per share for the fiscal year ending March 2023 is ¥130, up ¥10 year on year (stable actual dividend of ¥120 for the past six years except during the COVID-19 crisis), and the dividend yield is beginning to exceed 4%.

In the fiscal year ended March 2022, the composition ratio of segment profit of the highly profitable chain business was 61%. When theoretical PER is estimated by applying the average forward PER of 4 industrial machine companies at 14.4 times to this 61% portion, and the average forward PER of 4 auto parts companies at 7.8 times to the composition ratio of segment profit of the mobility business of 36% based on the Sum-of-the-Parts approach, a fair value of 11.6 times is derived. Theoretical ROE estimated by applying the Company's forward PER at 8.2 times and PBR at 0.54 times to "PBR = ROE × PER" is 6.6%. Theoretical PBR calculated from the above fair PER of 11.6 times and theoretical ROE of 6.6% is estimated at 0.76 times (= share price of approx. ¥4,300). Thus we have the impression that while the Company's share price excessively factors in various risks, value of the chain business is discounted. Continued and strategic information disclosure and publicity relating to the chain business are required.

Figure 2: Hoping for a recovery in global vehicle production in 2023



We see global vehicle production is on a recovery trend, though at a sluggish pace.

Figure 3: Structural reforms are being implemented steadily

(1) Enhancement of cross-sectional function	**Established Power Transmission Operations** - Generate synergies between the chain business and the MC business - Promote marketing reforms for both businesses **Launched the Maintenance Reform Project** - Expand the maintenance business in the materials handling business - Generate synergies between the materials handling business and the power transmission business
(2) Strengthening of the structure for promoting transformation and growth	- Split the Mobility Division into **Timing Systems Operations (existing business) and e-Mobility Operations (new business)** - Allocate a substantial number of personnel to e-Mobility Operations - Launched the **Regenerative Medicine Project** in the Materials Handling Division
(3) Enhancement of the structure for promoting new growth	- Established the New Business Development Department in the headquarters
(4) Significant strengthening of R&D functions	- Accelerate mid-career employment of cutting-edge technical experts - Largely reinforce resources for Research & Development - Strengthen initiatives toward improving R&D efficiency

Structural reforms to become a “New Tsubaki” are being implemented steadily.

Figure 4: Consensus estimate valuation for related categories companies (forecast for the fiscal year ending Mar. 2023)

	Company name	PBR	=	ROE	×	PER
	Tsubakimoto Chain	0.54		6.6		8.2
Auto parts	TOYODA GOSEI	0.61		6.2		9.8
	Aisan Industry	0.48		7.9		6.1
	EXEDY	0.34		3.2		10.7
	NIPPON PISTON RING	0.27		5.8		4.7
	Simple average among 4 companies	0.43		5.8		7.8
Industrial machinery	YASKAWA Electric	4.07		15.3		26.7
	THK	0.97		9.7		10.0
	Okuma	0.79		10.0		7.9
	NTN	0.72		5.5		13.1
	Simple average among 4 companies	1.64		10.1		14.4

We have the impression that the value of the highly-profitable chain business has not been incorporated in the share value.

Source: Created by CGRA. Fiscal year ending Feb. 2023 for YASKAWA Electric and fiscal year ended Dec. 2022 for THK.

Changes from the Previous Report

A decline in share price valuation is seen on the back of increasing market risk

Future business performance will likely be driven by the mobility business in line with a recovery in automobile production.

As changes from the previous report issued as of September 1, 2021, on the business performance aspect, for operating results for the fiscal year ended March 2022, the operating profit forecast was revised downward from ¥16.0 billion to ¥15.0 billion at the time of announcing the operating results for 2Q (October 29, 2021), but operating profit ended up to be ¥17.8 billion. Although operating profit for the fiscal year ending March 2023 was forecast to be ¥20.0 billion, up 12% year on year, at the beginning of the period, it was revised downward to ¥17.5 billion, down 1%, as of February 3, 2023. While a slowdown in global vehicle production stemming from semiconductor shortage, etc. has negatively affected the Company's mobility business, a worldwide recovery in private capital expenditures has boosted performance of its chain business. However, YASKAWA Electric revised downward earnings forecasts for the fiscal year ending February 2023 on October 7, 2022, and FANUC also revised those for the fiscal year ending March 2023 on October 27 mainly due to a slowdown in demand in China. As seen in such moves, uncertainty is beginning to rise about the capital expenditure trend. Going forward, as private capital investments are levelling off, improvement in profitability of the Company's mobility business and materials handling business in line with a recovery in automobile production is likely to be a key point in business performance.

As for the Company's share price, a decline in PBR has been seen, largely because its operating results have not returned to the level prior to the COVID-19 pandemic, concerns over long-term EV-related risks have not been addressed, ROE is low due to its solid financial condition, and prolonged weak performance of the materials handling business. However, the dividend yield has increased to slightly more than 4%, and together with the low share price valuation, the Company is showing steady share price performance compared to machinery stock index.

In recent years, the chain business has become the driver for the Company's earnings performance

The chain business, which boasts a 15% operating profit ratio, drives the Company's business performance.

With regard to operating results for 3Q of the fiscal year ended March 2023, consolidated net sales were ¥182.8 billion, up 17% year on year, and operating profit was ¥13.7 billion, up 6%, (operating profit ratio: 7.5%). The chain business accounted for 36% of consolidated net sales, the motion control business for 9%, the mobility business for 31%, the materials handling business for 23%, and other businesses for 1%. As for operating profit, the chain business posted ¥10.0 billion (operating profit ratio: 15.0%), the motion control business posted ¥1.3 billion (operating profit ratio: 8.1%), the mobility business posted ¥4.5 billion (operating profit ratio: 8.0%), the materials handling business posted a loss of ¥740 million, other businesses also posted a loss of ¥370 million, and elimination was approximately ¥1.0 billion. The chain business constitutes 72% of operating profit (63% for 3Q of the fiscal year ended March 2022 and 61% for the full year), driving the Company's business performance.

Figure 5: Changes from the time of issuance of the previous report

		Previous (September 1, 2021)		Current (February 3, 2023)	
Share price: yen		3,340		3,030	
Dividend per share: yen		120	(actual record for the fiscal year ended Mar. 2022)	130	(company forecast for the fiscal year ending Mar. 2023)
Dividend yield: %		3.6		4.3	(company forecast for the fiscal year ending Mar. 2023)
PER: times		7.8	(actual record for the fiscal year ended Mar. 2022)	8.2	(company forecast for the fiscal year ending Mar. 2023)
PBR: times		0.69	(at the end of Mar. 2021)	0.54	(end of the fiscal year ended Mar. 2022)
Company forecast of net sales: 100 millions of yen		2,250	(forecast for the fiscal year ended Mar. 2022)	2,450	(forecast for the fiscal year ending Mar. 2023)
Company forecast of operating profit: 100 millions of yen		160	(forecast for the fiscal year ended Mar. 2022)	175	(forecast for the fiscal year ending Mar. 2023)
Vehicle production: 10 thousands of units	CY2022E	8,400		8,100	
	CY2023E	-		9,000	
Orders received for machine tools: 100 millions of yen	CY2022E	16,500		17,596	
	CY2023E	-		16,000	
U.S. policy interest rate: %		0.25		4.75	
U.S. dollars: yen		110.0		128.6	
TOPIX		1,929		1,970	

Source: Created by CGRA. Orders received for machine tools are based on data of the Japan Machine Tool Builders' Association. Forecasts of vehicle production and orders received for machine tools were made by CGRA.

Interview with Mr. Kimura, President and Representative Director/COO

Felt "signs of the beginning of transformation" in the future through the interview

On December 22, 2022, we conducted an interview with Mir Kimura, President of the Company, and would like to report the details.

Q: Six months have passed since you became President/COO. Are there any challenges that have become apparent?

With a desire to understand how our employees feel when they engage in work, I have talked with a number of our employees by proactively visiting many site in Japan and overseas including visits to the U.S. in September 2022 and Europe at the end of November. The Company has 81 group companies around the world and I have an impression that there are too many sites. Given the need for strengthening of the governance system, flexibility in human resources, etc., reorganization of group companies is necessary, and I intend to work to enhance the structure and speed up management. Though the details have not yet been decided, I would like to implement it by 2025, which is the final fiscal year for the Mid-Term Management Plan.

In addition to organic relationships among organizations, an increase in the speed of management seems promising.

Q: You have embarked on structural reforms since the new Mid-Term Management Plan was launched. The Company has introduced mechanisms such as a cross-sectional function among businesses. What are you aiming at?

The Company separated execution of operations from supervision three years ago, and has proceeded with making a structure that enables executive officers to concentrate businesses while promoting change of the management's consciousness. To achieve further evolution, organizational operation beyond barriers in the organization and transformation of manufacturing are required. To this end, "horizontal connection" among organizations is important, and currently we are working on manufacturing reforms toward making each factory unmanned and automated in the cross-divisional project. While taking advantage of the good points of the division system, we will work cross-sectionally among divisions on common themes such as manpower reduction and carbon neutrality by also adding DX and IT toward 2025 as a company-wide initiative. In addition, although the Company's chain, motion control and mobility businesses are dedicated to supplying components, the materials handling business is the only business that can create new businesses on its own. Amid the COVID-19 pandemic, we made efforts to create a market for PCR automatic testing systems, etc. Synergies have been demonstrated, for example, as seen in a system in the materials handling business incorporating parts from the chain and motion control businesses. The Company is a globally unique company, which can develop, produce and supply products from components to finished products. I intend to show the direction to be taken by the Tsubaki Group as a whole in the future.

A cross-sectional project among divisions under a common theme has been launched.

Q: Next, to succeed with a cross-sectional function among businesses, it is necessary to enhance sustainability of management by clarifying an ideal. Could you please explain the appeal of the Company in light of the Group's corporate philosophy?

We established the corporate philosophy "TSUBAKI SPIRIT" in 2017 when we celebrated our 100th anniversary, and mapped out the Mid-Term Management Plan in 2021 to present a path to be followed in the future. And the Company calls for being a company that contributes to resolution of social issues as its "ideal" in the Long-Term Vision. While generating profit is also important, the basis of the Company is to do business for the whole world, including customers, society, and employees. The Company has absolutely no desires to pursue only near-term gains. I think this is the appeal of the Group and proof that we have been able to continue business over 100 years.

The management's stance on contributing to resolution of social issues has enhanced sustainability of the Company.

Q Traditionally, your company has been associated with serious-mindedness. "T-Start-up" that you launched recently is a very new project. Could you tell us about the progress?

We launched the "T-Start-up" internal venture system aimed at creating new businesses. As the Company has many human resources who are excellent but rather serious and quiet, I wondered at first what would happen. However, a total of 100 proposals were gathered from Japan and overseas. At discussion meetings between myself and employees, I heard their comments that although they had various ideas they did not have the chance to put them into practice, and that they were prepared to make intense efforts if given the opportunity within the company. We chose eight teams in the initial screening, and plan to conduct the second screening at the end of February 2023 while broadcasting it to sites around the world. It would be great if the positive effects are added to the appeals of the Company, and we intend to proceed with creating a culture in which everyone can take on new challenges.

Q: Please explain the situation by segment. First, the materials handling business has continued to show poor performance, but there have been moves for changes such as entering the regenerative medicine area. Could you explain the specific measures?

For example, at logistics centers, the past materials handling business responded to the entire system including automatic sorting machines. Now in line with the organizational restructuring, target domains have been aggregated. While we boast a 70%-plus share in automatic sorting machines in Japan, I think we have narrowed down target domains too much. For instance, one of the measures to overcome the current situation and achieve numerical targets in the Mid-Term Management Plan is the business tie-up with KDDI. We intend to propose a vision for new logistics by combining the Company’s automation equipment as well as multi-level storage warehouses and various AGVs procured from around the world with KDDI’s high-speed, high-capacity technologies.

As its policy, the materials handling business will capture growth markets through the strategy for differentiating it from competitors.

In the regenerative medicine area, we remained just a seller of LABO STOCKER devices, but have proceeded with recruitment of capable human resources well-versed in the industry and been considering entering the market for making cells used in regenerative medicine through tie-ups with and capital participation in venture companies. Going forward, we intend to promote joint research with universities and research institutions to try to expand into growth markets that will enable us to distinguish ourselves from competitors.

Q: Finally, could you give us a comment on each business?

The chain business has succeeded in establishing a highly profitable structure with an increase in the market share, with the composition ratio in operating profit of the entire Group at nearly 70%. As for the mobility business, the popularization of EVs has advanced steadily, and I believe this big trend cannot be changed. Though the composition ratio of the mobility business in profit was once nearly 80%, it has decreased to around 30% lately. However, there remain needs for low noise, reduction in weight and size, and energy saving. The name of the business was changed to the mobility business, but we aim to create new businesses while expanding target domains to all vehicles, instead of targeting automobiles only.

He intends to work to expand business domains, and at the same time, reinforce provision of new added value.

Under the principle of “making quality products,” the Company has been dedicated to manufacturing tangible products since its founding. However, going forward, as for the motion control business, I believe intangible areas such as, literally, control and information will be more important. We intend to supply optimal products to solve social issues and also change the ideal of the division by making proposals for new added value including modularization, systemization and responses to IoT, rather than selling a single product. I think it is time we let the agribusiness, which was started as a next-generation business, and the PCS business handling eLINK (V2X-compatible charging and discharging devices) become independent.

Mid-Term Management Plan 2025 and Progress

Overview of the Mid-Term Management Plan 2025

The Mid-Term Management Plan 2025, which was launched in the fiscal year ended March 2022, aims at net sales of ¥300.0 to ¥320.0 billion, operating profit ratio of 9 to 11% (operating profit of ¥27.0 to ¥35.2 billion), and ROE of 8% or higher for the fiscal year ending March 2026, the final fiscal year. Cumulative free cash flow for five years is estimated at ¥50.0 to ¥60.0 billion, of which ¥30.0 to ¥36.0 billion will be used for advance investments and financial investment in companies and ¥20.0 to ¥24.0 billion will be allocated to dividends under the plan. As shareholder returns, the Company is considering agile acquisition of treasury shares to improve ROE on the basis of the dividend payout ratio at 30%.

As ESG-related KPIs, its plan is to reduce CO_2 emissions of domestic group companies by 30% compared to the fiscal year ended March 2014, and those of overseas group companies by 20% or more compared to the fiscal year ended March 2019.

The Mid-Term Management Plan 2025, for which the fiscal year ending March 2026 is the final year, is ongoing.

Impression that relatively smooth progress is being made in the Mid-Term Management Plan

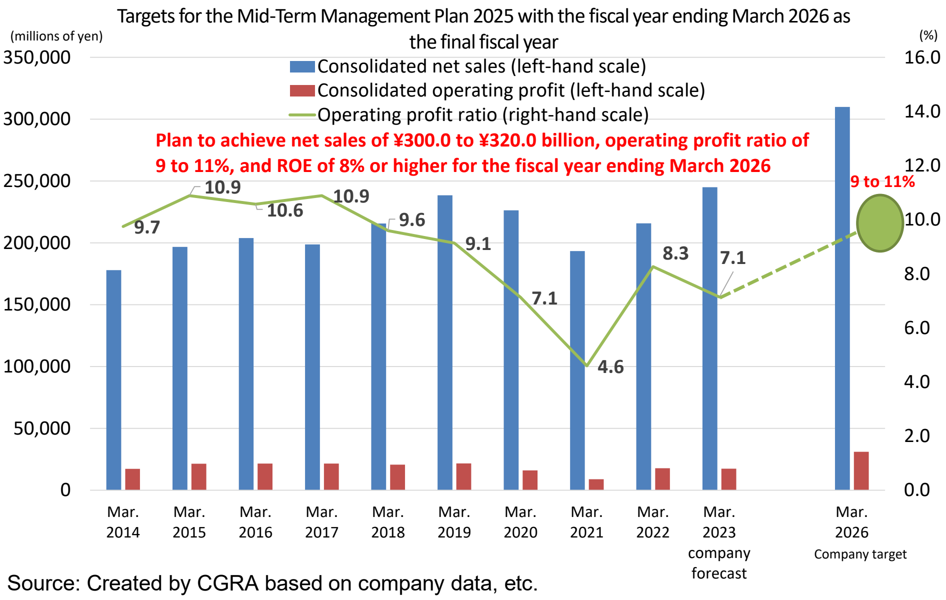
As for operating results for the fiscal year ended March 2022, the first year for the Mid-Term Management Plan, net sales were ¥215.8 billion, up 11% year on year, operating profit was ¥17.8 billion, up 100%, (operating profit ratio: 8.3%), and ROE was 7.4%, resulting in better performance by 18% against expected operating profit of ¥15.0 billion, which was revised downward at the time of announcement of results for 2Q. By segment, actual operating profit of all the four segments, including the mobility business which was the major reason for the downward revision, exceeded their expected operating profit.

Despite the delayed recovery in business performance of the mobility business, the core business, relatively smooth progress is being made.

As for performance for the fiscal year ending March 2023, the second year for the Mid-Term Management Plan, expected net sales of ¥245.0 billion, up 13% year on year, and expected operating profit of ¥17.5 billion (operating profit ratio: 7.1%), down 1%, have been presented.

In respect to Figure 6, we have the impression that net sales have been basically as expected against the target in the Mid-Term Management Plan for the fiscal year ending March 2026. By segment, while the chain business has achieved the target in the Mid-Term Management Plan three years ahead of schedule, the Company's gaining of market share and production improvement activities in the mobility business have been as planned, and early elimination of the semiconductor shortage in finished car manufacturers, which are its customers, is awaited. In the motion control business, though delays in new product development and measures to expand sales in overseas markets are undeniable, it remains difficult to procure components and acceptance of orders has been intendedly restricted in a sense. The business is expected to contribute to revenue in and after the fiscal year ending March 2025. Although the largest challenge is the materials handling business, we hope the existing business will recover profitability and advance investment projects will yield profits as soon as possible. In CGRA's opinion, the Company's business performance at present has been basically in-line toward achievement of the targets in the Mid-Term Management Plan.

Figure 6: Mid-Term Management Plan 2025 has progressed as expected



Source: Created by CGRA based on company data, etc.

Execution Strategy toward Achievement of Long-Term Vision 2030

Established the Sustainability Committee in January 2022

Due to the passing of Mr. Yasushi Ohara, former Chairman and Representative Director/CEO, in June 2022, Mr. Kenji Kose, then President and Representative Director/COO, became Chairman and Representative Director/CEO, and Mr.Takatoshi Kimura, became President and Representative Director/COO. Mr. Tadasu Suzuki, Director, retired from office and Mr. Masaki Miyaji, who was Senior Executive Officer for the mobility business, assumed the post of Director. As a result, while the number of Directors became six (seven in the last year), that of Outside Directors became three (composition ratio: 50%). We hope effectiveness is enhanced and management speed is improved for the achievement of the Long-Term Vision 2030 and the Mid-Term Management Plan. There have been no changes in the three Outside Directors: Mr. Shuji Abe who has held prominent positions such as President and Representative Director of current YANMAR AGRIBUSINESS CO., LTD., Mr. Keiichi Ando who has held senior positions such as Director and Deputy President of Sumitomo Mitsui Banking Corporation, and Ms. Hisae Kitayama who is a certified public accountant and has held key positions such as Senior Managing Executive Officer of KPMG AZSA LLC.

The establishment of a structure to realize increase in social and economic value through resolving priority matters is underway.

In FY2019, the Company clearly separated roles of Directors (strategy development and supervision) and Executive Officers (execution of operations) and established a voluntary Nomination and Remuneration Committee. In FY2020, the Company introduced performance-based compensation (restricted share compensation plan) with year-on-year increases or decreases in profit in the current term, ROE and market capitalization used as the measure, aiming at improving Directors' effectiveness and promoting management from the shareholders' viewpoint. In January 2022, the Sustainability Committee chaired by the COO was newly established to work on the advancement of ESG management. Furthermore, the Company expressed its endorsement of the TCFD in March 2022, and also signed the United Nations Global Compact (UNGC).

Focusing on creation of next-generation businesses as well as enhancement of effectiveness of ESG management

As "what we want to be" toward FY2030, the Company aims to be a corporate group that contributes to resolving three issues: "creating a people-friendly society," "building a safe and secure infrastructure for living," and "creating an Earth-friendly society." In addition, the Company intends to enhance the feasibility by pinpointing 13 priority matters (material issues) linked to respective ESG items, setting KPIs, and strengthening its monitoring functions and measures.

We want to pay attention to the creation of next-generation businesses aimed at resolving issues.

The ratio of sales of eco products (SDG-oriented products) to net sales in the fiscal year ended March 2022 increased to 35% (30% in the fiscal year ended March 2018), and the Company has endeavored to create next-generation businesses to resolve the three social issues (Figure 7). Specifically, its materials handling system "Autran Vanguard Mark II" was introduced to a state-of-the-art totally enclosed plant factory in November 2021, and a development center was newly established at the Kobe Medical Industry Development Project site in December with the aim to expand businesses into the regenerative medicine/cell therapy field. The Company participated in the "social implementation of advanced robot engineering technologies" of Man-Machine Synergy Effectors, Inc. in March 2022, and launched the human assist business, a new business development with SHIN-JIGEN Co., Ltd. on September 15, aiming to expand businesses into medical, nursing care, agriculture and forestry, and other markets by making use of robotics. In the "T-Startup" new business proposing challenge to operationalize ideas invited internally, a total of 100 ideas were gathered, and eventually one or two projects are planned to be operationalized.

Figure 7: Example of creation of next-generation businesses addressing 3 social issues

Creating a people-friendly society	Building a safe and secure infrastructure for living	Creating an Earth-friendly society
Human Assist	**Agriculture Business**	**Energy Infrastructure**
Enter automation and support equipment businesses for general consumers	Expand agriculture business using Linked Automation technology	Expand into carbon-neutral-related markets
Maintenance	**Life Science**	**Mobility**
Strengthen maintenance service structure for systems (things that move) to contribute to stable operation of customer facilities	Participate in the field of regenerative medical care	Transform from internal combustion engine parts to mobility parts

Source: Tsubaki Group Integrated Report 2022

Value Created and Performance Trend of the Chain Business

Social value created by the chain business and business strategy

The Company's chains, its original business, retain a 16% global share (No. 1) in the industrial steel chain market, achieving high reliability on the back of unrivaled abrasion resistance property (wear endurance, world-class power transmission ability, a full lineup of products, etc.)

As power-transmission parts essential for various production facilities, the Company's chains create social value through minimization of energy loss due to the world-class power transmission ability, space saving through miniaturization, and contribution to automation/labor saving. As the business strategy, its policy is to strengthen development of new next-generation products while advancing manufacturing reforms, and at the same time, maximize synergies with the MC business and, furthermore, expand the after-sales service business.

Further enhance the brand power through efforts such as developing chains for power transmission with the world's smallest pitch

Business forecast for the fiscal year ending March 2023: containing upswing potential

As for the results for 3Q of the fiscal year ending March 2023, amid the continued strong demand environment in all regions, net sales amounted to ¥66.8 billion, up 22% year on year. Operating profit was ¥10 billion, up 22% year-on-year, and an operating profit ratio of 15.0% was secured, as revenue growth, increases in product prices, the weaker yen, and other factors helped absorb the impact of higher material prices and personnel expenses.

Net sales for the fiscal year ending March 2023 are expected to be ¥87.5 billion, up 18% year on year, which will mark a record high again following the previous fiscal year. Operating profit is estimated at ¥13.0 billion, up 18%, and the operating profit ratio at 14.9%, both of which are expected to break the record. The strong demand environment continues mainly in Japan and the Americas, and it seems that the market share has increased particularly in the North America market.

Orders received of YASKAWA Electric serve as a leading indicator

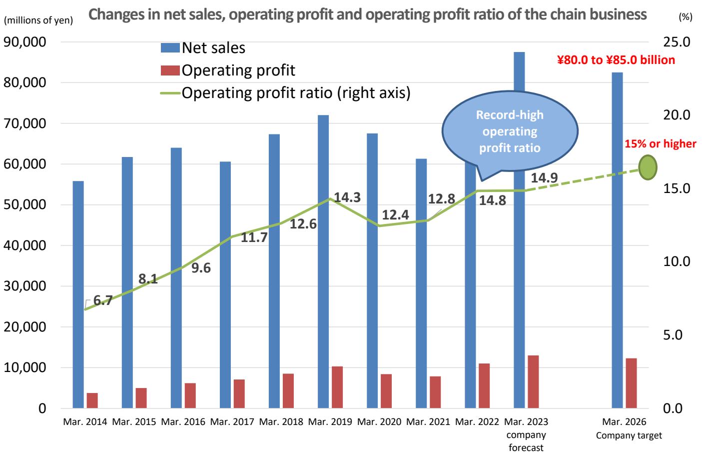
The right-hand graph below shows the comparison between orders received in the power transmission business, which are combined orders received of its chain business and MC business, and orders received of YASKAWA Electric (sum of orders received for servomotors and inverters, and robots). As YASKAWA Electric announces financial results around one month earlier than the Company, CGRA gives attention to them as a leading indicator for orders received. The chain business tends to follow a cycle of growing for two years and then correcting for one or two years. Though the brisk demand environment has also continued recently, concerns about a slowdown in demand for capital investments are growing in the stock market.

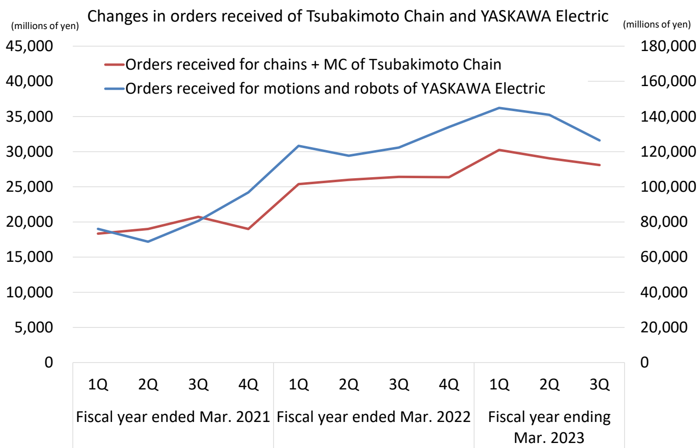
Chains are a cyclical growth market and around 5% annual growth rate can be expected.

Mid-Term Management Plan and progress

The Company aims at net sales of ¥80.0 to ¥85.0 billion and an operating profit ratio of 15% or higher for the fiscal year ending March 2026, the final year for the Mid-Term Management Plan. The Company is expected to reach the targets in the Mid-Term Management Plan three years ahead of schedule. Going forward, measures to increase profit stability and further improve profit margins will be required.

Figure 8: Changes in business results of the chain business and leading indicator





Source: Created by CGRA based on financial results data of each company

Value Created and Performance Trend of the MC Business

Social value created by the motion control (MC) business and business strategy

The MC business handles products incorporated in moving/driving parts of various machines, or used in conjunction with servomotors mounted in industrial robots or various manufacturing machines, such as reducers, electric cylinders, clutches, shaft couplings and fasteners. Particularly, its power cylinders (electric cylinders) boast a 76% market share in Japan.

In recent years, as moves to replace hydraulic/pneumatic cylinders with electric cylinders that are expected to contribute to energy saving have gained more momentum, the MC business products using ball screws or zip chains made by the Company have been attracting attention. As the business strategy, it has been advancing development of new products that contribute to making manufacturing smarter through predictive maintenance and other actions with control system motor products and its unique technologies for all types of automation. The Company aims to improve profitability through automation-based production reforms utilizing similar technologies at its manufacturing sites and cross-sectional effects with the chain business.

In many cases, products of the MC business are used in conjunction with industrial motors centered around servomotors.

Business forecast for the fiscal year ending March 2023: Full-year operating profit forecast was revised downward

As for 3Q of the fiscal year ending March 2023, performance remained robust in each region and a recovery trend was also seen in the Chinese market which had been a concern, resulting in net sales of ¥17.1 billion, up 16% year on year. Despite rising material prices and personnel expenses, operating profit was ¥1.3 billion, up 67%, an operating profit ratio of 8.1% was maintained, and in addition, the operating profit ratio in 3Q (October to December) further improved to 10.4% largely due to revenue growth and the recording of unrealized gains resulting from inventory growth.

For the fiscal year ending March 2023, net sales are estimated at ¥22.5 billion, up 13% year on year, (previous forecast: ¥21.0 billion), operating profit at ¥1.5 billion, up 32%, (previous forecast: ¥1.7 billion), and operating profit ratio at 6.7%. In addition to a rise in material prices and the increasing burden of advance investments, the issue of procuring purchased parts is expected to continue.

The percentage of sales for Japan is high at approx. 74%, and a recovery in business performance is slow.

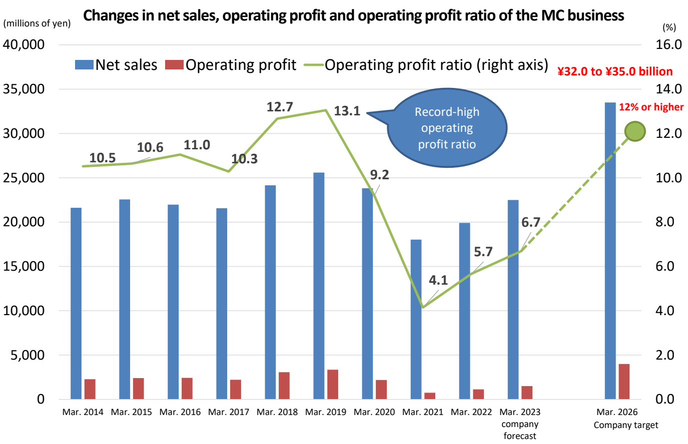
It is a concern that orders received for machine tools will pass the peak

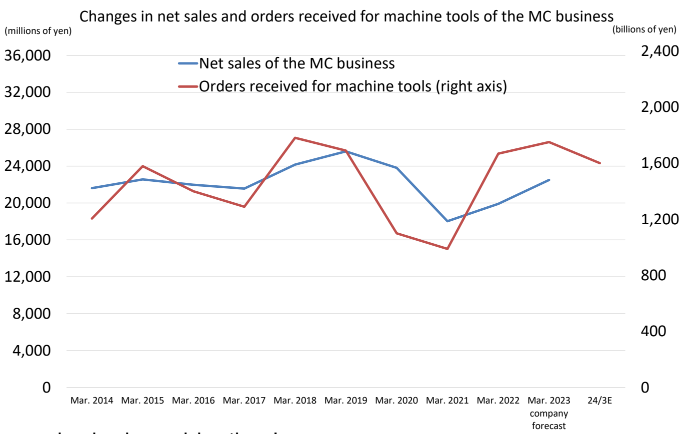
The right-hand graph below shows net sales of the Company's MC business and orders received for machine tools on a fiscal year basis, which were released by the Japan Machine Tool Builders' Association. Net sales of the MC business tend to slightly lag behind orders received for machine tools. However, monthly orders received for machine tools in October 2022, which were ¥141.1 billion, down 5.4% year on year, fell into negative territory for the first time in two years. Thus, the market is likely to enter a correction phase in 2023.

Mid-Term Management Plan and progress

The Company plans to achieve net sales of ¥32.0 to ¥35.0 billion and an operating profit ratio of 12% or higher for the fiscal year ending March 2026, the final year for the Mid-Term Management Plan. In and before the fiscal year ended March 2019, the business stably recorded an operating profit ratio of 10 to 19%, and we have expectations of early elimination of the parts shortage and effectiveness of the business strategy such as rollout of new compound products.

Figure 9: Changes in business results of the MC business and leading indicator





Source: Various materials; created by CGRA based on orders received released by the Japan Machine Tool Builders' Association, etc.

Value Created and Performance Trend of the Mobility Business

Social value created by the mobility business and business strategy

The mobility business has rapidly grown on the back of downsizing of engines aimed at low-fuel consumption of cars, and shown growth exceeding that of global vehicle production significantly due partly to the shift from rubber timing belts to steel timing chains and the achievement of market share. Its current global share is No. 1 at 38%.

A favorable trend of performance can be expected at least until around 2025.

Social value created includes lower fuel consumption and longer life in line with miniaturization/weight saving and improving performance of car engines. BEVs do not need an engine, nor are chains themselves used in them. However, chains are necessary parts for HV engines and hydrogen engines partly for responding to miniaturization. In the meanwhile, the business has been advancing new application development as represented by EnedriveChain for BEVs and clutches for automobiles and e-Bikes.

Business forecast for the fiscal year ending March 2023: Profitability is beginning to show a trend toward improvement

As for 3Q of fiscal year ending March 2023, although production cutbacks mainly by Japanese car manufacturers, the lockdowns in Shanghai, China, and other factors affected the business, effects of the weaker yen of ¥6.2 billion and other factors contributed to net sales of ¥56.8 billion, up 18% year on year. On the other hand, operating profit was ¥4.5 billion, down 10%, affected by rising material prices, a profit fall associated with rebound of inventory building in the previous term, and other factors, and the operating profit ratio was 8.0%.

For the fiscal year ending March 2023, net sales are estimated at ¥76.0 billion, up 15% year on year, operating profit at ¥6.3 billion, down 4%, and operating profit ratio at 8.3%. The Japanese market is beginning to show a recovery trend, and production improvement and effects of price increases are also starting to contribute to an improvement in profitability. Going forward, we are hoping for a recovery in automobile production.

A recovery in automobile production will likely drive the Company's performance

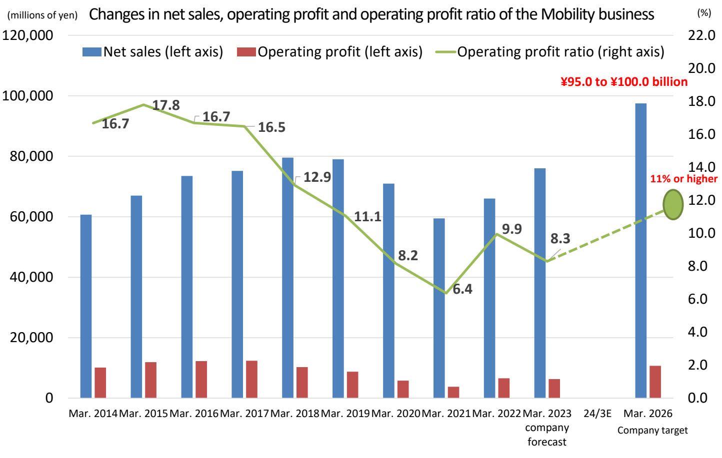
The right-hand graph below shows changes in the global vehicle production of eight Japanese car manufacturers and operating profit of the mobility business (assuming a three month-lag due to a difference in the fiscal-year end). Vehicle production is on a recovery trend, though it is slow; the mobility business will likely become the driver for the Company's performance toward the fiscal year ending March 2024.

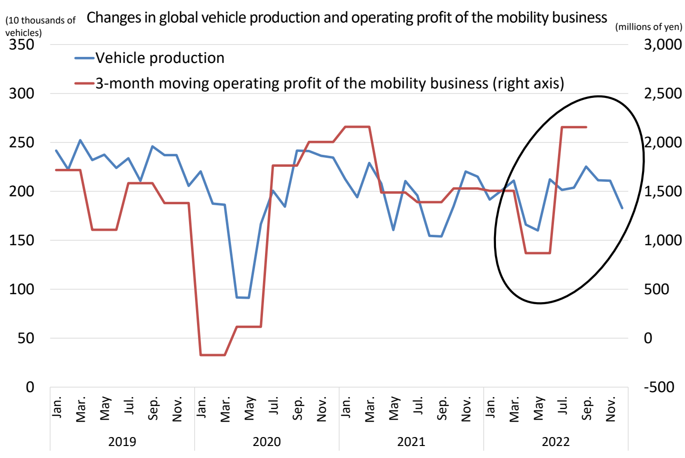
We would like to pay attention to global vehicle production, which will serve as a leading indicator for performance of this business for a while.

Mid-Term Management Plan and progress

The Company plans to achieve net sales of ¥95.0 to ¥100.0 billion and an operating profit ratio of 11% or higher for the fiscal year ending March 2026, the final year for the Mid-Term Management Plan. In addition to improvement in profitability through an increase in the market share, production reforms, etc., we want to see acquisition of new projects for BEVs. Taking into account production cutbacks by car manufacturers, etc., CGRA considers that smooth progress is being made.

Figure 10: Changes in business results of the Mobility business and leading indicator





Source: Created by CGRA based on various data

Points of the Briefing about the Mobility Business

Strategy in which the global market share will be increased to 42% in 2025

Stable growth is likely to last until around 2025 on the back of expansion of market share.

We would like to report points of the briefing about the mobility business meeting, which was held on September 2, 2022. The global market share of timing chains (for internal combustion engines (ICEs) and hybrid engines) handled by the Company's mobility business was 38% in the fiscal year ended March 2022. In the fiscal year ending March 2023, however, the share is expected to rise to 39% due to an increase in delivery in projects for the North American and European markets.

In the medium- to long-term, the Company plans to raise the global market share to 42%, the largest in the industry by far, in 2025 by implementing sales expansion activities mainly through development of products compliant to environmental regulations such as EURO 7 in Europe and noise restrictions, an increase in delivery for hybrid cars (including HVs/HEVs and PHEVs), which are environmentally compatible vehicles, and launch of low-cost products targeting the Asian market.

New projects for hybrid cars will drive business performance.

The actual number of the Company's timing chains delivered was approx. 20.3 million units (approx. 80% for ICEs, and approx. 20% for hybrid cars) in 2021 (fiscal year ended March 2022), but the number is expected to be 24.0 million units (the ratio of those for ICE decreasing to 56%, the ratio of those for hybrid cars increasing to 44%) in 2025, resulting in growth of both the number of delivered units and market share.

The Company aims to increase the delivery of products for hybrid cars, environmentally compatible vehicles, by making use of advantages of its products such as low-fuel consumption, weight saving, low-noise and optimal design. With regard to production capability, it intends to cope through improving the efficiency of existing facilities without making new production capacity.

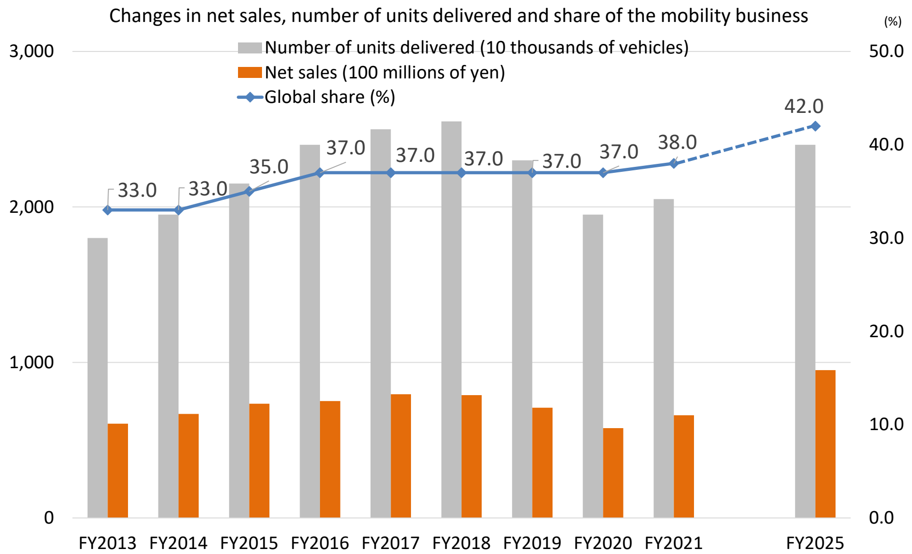
Impression that relatively smooth progress is being made for the Mid-Term Management Plan

Aiming to tap all mobility markets and be a company that can contribute to society and the planet.

The Company assumes that the total number of ICE and hybrid vehicles (the markets for timing chains) produced will reach its peak at approx. 77 million vehicles (composition ratio: 85%) in around 2024 and then shift to a declining trend, dropping to approx. 64 million vehicles (composition ratio: 65%) by 2029.

Going forward, the Company aims to achieve stable growth through an increase in the market share, and at the same time, plans to work on the creation of not only parts for internal-combustion engines but also new products that help tap all mobility markets, including e-Bikes and other forms of non-automobile Personal Mobility that are friendly to people and the planet, and improve environmental performance, as well as improving/developing products for electric vehicles (BEVs).

Figure 11: Outlook for sales and number of units delivered of timing chains



Source: Company data. The share represents the global market share of timing chains in vehicles with a chain-driven engine.

Value Created and Performance Trend of the Materials Handling Business

Social value created by the materials handling business and business strategy

The materials handling business handling automatic sorting machines at which the Company excels, and automatic storage for the life science field that enables ultralow-temperature preservation (Japan's top share), manufacturing systems for automobiles and foods, and conveyors for biomass power generation and machine tools. Its tilt-tray-type sorters boast a 70%-plus market share in Japan.

Social value created is highly efficient logistics with precise and high-speed sorting, research and development of low molecular and macromolecular medical products and development in the field of biological samples such as DNA, and in addition, the business is expected to contribute to the regenerative medicine field, which is receiving global attention as next-generation medical treatment. Many expert human resources have already been recruited, and a structure that enables bio-evaluation of equipment systems has been built, with the setup of a lab in the clean room at the Saitama Factory in December 2022.

An automatic picking system with the world's first 3D running wagon was developed, and it appears that multiple inquiries have been received.

Business forecast for the fiscal year ending March 2023: Full-year forecast revised downward

As for 3Q of the fiscal year ending March 2023, although sales of systems for the Japanese logistics industry and the U.S. automobile industry declined, in addition to effects of the weaker yen of ¥2.8 billion, transportation of metal swarf and sales of coolant processing devices grew in Japan, the Americas and Europe for strong machine tool related sectors. As a result, net sales amounted to ¥42.0 billion, up 9% year on year. On the other hand, in terms of operating profit, the business fell into negative territory with an operating loss of ¥0.7 billion from an operating profit of ¥0.2 billion in the previous 3Q. While a large unprofitable project in the U.S. ended, a decrease in revenue from large projects for logistics in Japan, increasing material prices, a rise in upfront expenses, and other factors affected the business.

Hoping for turning profitable early and stabilizing profitability

For the fiscal year ending March 2023, net sales are estimated at ¥59.0 billion, up 5% year on year (previous forecast: ¥57.8 billion), and an operating loss of ¥1.0 billion (previous forecast: profit of ¥0.5 billion) is expected to be posted. Orders received in the Oct.-Dec. period were brisk at ¥16.2 billion, up 10% (BB ratio: 1.2 times), but weak revenue in the U.S.-based subsidiary and the rising burden of advance investment have affected the business.

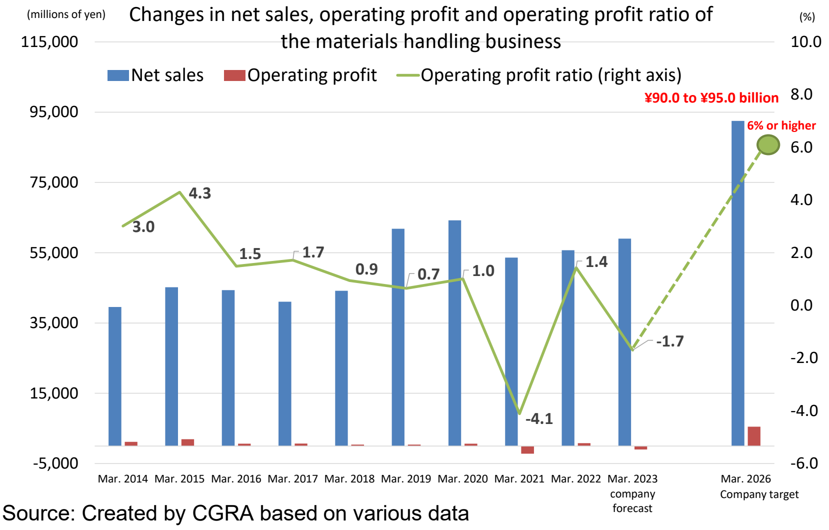
Unprofitable project of U.S.-based CCC, which was a concern, has been completed

It seems that a large-scale unprofitable project undertaken by a subsidiary in the U.S. has been completed. As inquiries for new projects are on the rise, we are hoping for an early recovery in performance in the future through enhancement of support from Japan.

Mid-Term Management Plan and progress

The Company plans to achieve net sales of ¥90.0 to ¥95.0 billion and an operating profit ratio of 6% or higher for the fiscal year ending March 2026, the final year for the Mid-Term Management Plan. We expect the business to improve profitability by evolving existing core technologies, bolstering engineering abilities, etc. However, the likelihood of achieving these targets may decrease depending on advance investment in the regenerative medicine field.

Figure 12: Changes in business results of the materials handling business



Source: Created by CGRA based on various data

Consolidated P/L , B/S and Cash Flows

Figure13 : Consolidated P/L and segment data

(¥ mn,%)	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3COE
Sales	**178,022**	**196,738**	**203,976**	**198,762**	**215,716**	**238,515**	**226,423**	**193,399**	**215,879**	**245,000**
YOY	18.7	10.5	3.7	-2.6	8.5	10.6	-5.1	-14.6	11.6	13.5
COGS	126,130	137,014	142,241	138,191	152,629	171,959	166,158	145,764	153,134	-
COGS ratio	70.9	69.6	69.7	69.5	70.8	72.1	73.4	75.4	70.9	-
SG&A	34,536	38,296	40,164	38,924	42,392	44,767	44,118	38,737	44,902	-
SG&A ratio	19.4	19.5	19.7	19.6	19.7	18.8	19.5	20.0	20.8	-
Operating income	**17,354**	**21,427**	**21,570**	**21,647**	**20,694**	**21,789**	**16,146**	**8,896**	**17,842**	**17,500**
YOY	38.0	23.5	0.7	0.4	-4.4	5.3	-25.9	-44.9	100.6	-1.9
Operating income ratio	9.7	10.9	10.6	10.9	9.6	9.1	7.1	4.6	8.3	7.1
Non-operating income/expenses	639	836	539	357	1,049	-167	552	2,129	2,204	1,500
Non-operating profits	1,529	1,516	1,505	1,505	1,784	1,809	1,918	3,265	3,230	-
Equity-method investment profits	34	33	49	17	5	27	44	47	81	-
Non-operating losses	890	680	966	1,148	735	1,976	1,366	1,136	1,026	-
Equity-method investment losses	0	0	0	0	0	0	0	0	0	-
Financial balance	90	259	470	485	632	637	781	584	802	-
Interest earned	67	136	134	99	119	150	152	129	154	-
Dividends earned	484	488	661	670	780	851	1,010	775	944	-
Interest paid	461	365	325	284	267	364	381	320	296	-
Ordinary income	**17,993**	**22,263**	**22,109**	**22,004**	**21,743**	**21,621**	**16,698**	**11,026**	**20,045**	**19,000**
YOY	40.4	23.7	-0.7	-0.5	-1.2	-0.6	-22.8	-34.0	81.8	-5.2
Ordinary income ratio	10.1	11.3	10.8	11.1	10.1	9.1	7.4	5.7	9.3	7.8
Extraordinary income/loss	-421	321	-1,665	-429	-579	-2,189	111	1,133	35	-
Extraordinary income	6	365	75	10	0	4	533	1,190	130	-
Extraordinary loss	427	44	1,740	439	579	2,193	422	57	95	-
Pretax income	17,572	22,583	20,444	21,575	21,164	19,432	16,809	12,159	20,081	-
Taxes and deferred taxes	6,855	8,163	7,643	6,721	6,422	5,577	5,123	3,377	5,418	-
Tax ratio	39.0	36.1	37.4	31.2	30.3	28.7	30.5	27.8	27.0	-
Minority interests	503	267	33	257	75	75	109	75	119	-
Net income	**10,214**	**14,153**	**12,766**	**14,596**	**14,666**	**13,779**	**11,576**	**8,706**	**14,543**	**13,600**
YOY	37.5	38.6	-9.8	14.3	0.5	-6.0	-16.0	-24.8	67.0	-6.5
NP margin	5.7	7.2	6.3	7.3	6.8	5.8	5.1	4.5	6.7	5.6
EPS	54.58	75.65	68.24	390.15	387.44	364.03	308.71	235.23	392.88	367.29
Segment Sales										
Chain	55,828	61,721	63,998	60,600	67,338	72,023	67,526	61,312	74,174	87,500
Motion Control	21,612	22,557	21,975	21,563	24,156	25,591	23,813	18,024	19,906	22,500
Mobility	60,674	66,978	73,473	75,147	79,545	78,992	70,949	59,450	66,027	76,000
Material Handling Systems	39,565	45,169	44,354	41,043	44,187	61,827	64,212	53,618	55,728	59,000
Others	2,719	2,968	3,186	3,001	3,331	3,548	3,542	3,941	3,074	3,000
Elimination	-2,378	-2,658	-3,011	-2,594	-2,843	-3,469	-3,622	-2,948	-3,031	-3,000
Consolidated Sales	178,022	196,738	203,976	198,762	215,716	238,515	226,423	193,399	215,879	245,000
Segment Profit										
Chain	3,763	5,002	6,172	7,102	8,502	10,292	8,406	7,862	11,005	13,000
Motion Control	2,273	2,400	2,428	2,218	3,060	3,340	2,189	747	1,129	1,500
Mobility	10,119	11,916	12,258	12,385	10,258	8,734	5,791	3,782	6,568	6,300
Material Handling Systems	1,192	1,940	659	706	416	402	647	-2,202	799	-1,000
Others	63	123	84	-1	-41	-43	20	-330	-442	-700
Elimination	-56	44	-30	-765	-1,502	-936	-909	-963	-1,217	-1,600
Consolidated Operating Income	17,354	21,427	21,570	21,647	20,694	21,789	16,146	8,896	17,842	17,500
Profit Margin										
Chain	6.7	8.1	9.6	11.7	12.6	14.3	12.4	12.8	14.8	14.9
Motion Control	10.5	10.6	11.0	10.3	12.7	13.1	9.2	4.1	5.7	6.7
Mobility	16.7	17.8	16.7	16.5	12.9	11.1	8.2	6.4	9.9	8.3
Material Handling Systems	3.0	4.3	1.5	1.7	0.9	0.7	1.0	-4.1	1.4	-1.7
Others	2.3	4.2	2.6	0.0	-1.2	-1.2	0.6	-8.4	-14.4	-23.3
	2.4	-1.7	1.0	29.5	52.8	27.0	25.1	32.7	40.2	53.3
Consolidated Operating Income Margin	9.7	10.9	10.6	10.9	9.6	9.1	7.1	4.6	8.3	7.1

Consolidated EPS for FY2016, FY2017, FY2018 are adjusted to reflect the value after stock consolidation(reverse split)

Source : Created by CGRA based on Company documents

Figure14 ：Consolidated B/S and Cash Flows

(¥ mn, %)	13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Current assets	**96,782**	**100,626**	**116,619**	**116,536**	**125,400**	**132,144**	**143,949**	**134,083**	**145,185**	**166,512**
Cash on hand and in banks	19,678	13,518	17,504	20,195	26,332	29,590	33,647	29,019	41,869	49,104
Receivables	41,844	44,337	47,338	48,726	50,760	55,612	59,807	57,046	55,377	59,131
Marketable securities	560	7,877	12,020	7,533	7,965	4,646	4,114	3,965	6,189	6,339
Inventories	29,298	29,625	33,574	33,153	33,875	37,676	41,884	40,278	38,389	49,008
Other current assets	5,402	5,269	6,183	6,929	6,468	4,618	4,495	3,773	3,360	2,930
Fixed assets	**119,055**	**128,213**	**142,122**	**137,570**	**141,814**	**151,429**	**161,966**	**160,015**	**162,147**	**166,107**
Tangible fixed assets	90,481	96,852	101,613	102,777	105,435	113,285	116,946	118,579	115,059	114,918
Intangible fixed assets	5,381	5,807	5,132	4,352	3,841	2,968	12,787	11,361	10,695	10,700
Investments and other assets	23,192	25,554	35,376	30,444	32,537	35,175	32,233	30,074	36,391	40,488
Total assets	**215,837**	**228,840**	**258,742**	**254,106**	**267,215**	**283,574**	**305,916**	**294,098**	**307,332**	**332,620**
Current liabilities	**57,543**	**62,003**	**59,435**	**55,525**	**66,558**	**70,796**	**82,617**	**67,081**	**61,690**	**67,839**
Notes payable - trade	26,488	25,269	25,902	24,986	25,462	34,148	33,701	27,030	25,674	28,373
Short-term borrowings	11,868	18,847	11,761	10,547	20,225	11,292	22,779	17,139	11,953	13,142
Other current liabilities	19,187	17,887	21,773	19,992	20,872	25,356	26,137	22,912	24,064	26,324
Long-term liabilities	**49,696**	**45,208**	**55,014**	**52,766**	**44,439**	**43,012**	**47,844**	**50,961**	**58,147**	**55,023**
Convertible bonds	0	0	10,000	10,000	10,000	10,000	15,000	15,000	15,000	15,000
Long-term debt	24,638	17,690	15,146	14,269	4,409	5,288	5,992	9,369	14,214	9,727
Other long term liabilities	25,058	27,518	29,868	28,497	30,030	27,723	26,851	26,592	28,933	30,295
Total liabilities	**107,239**	**107,212**	**114,450**	**108,291**	**110,997**	**113,808**	**130,461**	**118,043**	**119,838**	**122,863**
Minority interests	6,577	3,194	3,851	3,774	3,744	1,848	1,720	1,695	1,703	2,000
Shareholders' equity	102,019	118,433	140,439	142,041	152,474	167,916	173,734	174,360	185,791	207,756
	108,597	121,628	144,291	145,815	156,218	169,764	175,454	176,055	187,494	209,757
Total liabilities and shareholders' equity	**215,837**	**228,840**	**258,742**	**254,106**	**267,215**	**283,574**	**305,916**	**294,098**	**307,332**	**332,620**

(¥ mn, %)	13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Operating CF	**15,350**	**19,761**	**22,189**	**19,090**	**25,434**	**27,657**	**24,197**	**20,275**	**27,890**	**21,000**
Income before income taxes and minority interests	12,644	17,572	22,583	20,444	21,575	21,164	19,432	16,809	12,159	20,081
Depreciation and amotization	7,360	8,745	9,476	10,402	10,342	11,005	12,366	12,739	12,682	12,694
Working capital total	832	-220	-4,110	-3,721	-2,804	720	-5,847	-3,318	3,143	-7,998
Income taxes	-4,695	-6,099	-7,193	-9,785	-6,126	-6,664	-7,354	-5,089	-3,810	-3,533
Others	-792	-237	1,433	1,750	2,447	1,432	5,600	-866	3,716	-244
Investing CF	**-18,401**	**-17,166**	**-14,306**	**-13,593**	**-13,420**	**-17,389**	**-32,088**	**-14,241**	**-9,560**	**-9,075**
Purchase of investment securities	-512	-223	-548	-194	-229	-11	-212	-15	-252	-12
Proceeds from sales of investment securities	14	665	0	0	19	0	328	215	166	352
Additions to property, plant and equipment	-11,121	-13,232	-9,384	-13,750	-14,151	-15,542	-17,273	-14,661	-9,723	-8,004
Proceeds from sales of fixed assets	187	104	356	147	135	167	198	171	689	178
Purchase of subsidiary investment	-6,334	0	0	0	0	0	-15,457	0	0	0
Others	-635	-4,479	-4,730	207	807	-2,001	327	48	-440	-1,589
FCF	**-3,050**	**2,594**	**7,882**	**5,496**	**12,013**	**10,268**	**-7,890**	**6,034**	**18,329**	**11,925**
Financial CF	**6,325**	**-3,196**	**-2,647**	**-5,476**	**-4,084**	**-13,191**	**12,679**	**-10,385**	**-4,354**	**-7,780**
Net increase(decrease) in long term debt	9,880	-642	-1,239	-1,540	-688	-9,410	15,780	-2,398	1,213	-658
Net increase(decrease) in short term debt	-1,949	-175	1,135	-190	913	1,042	1,813	376	-1,687	-3,005
Cash divident paid	-1,310	-1,497	-2,432	-3,554	-3,928	-4,544	-4,731	-4,541	-3,330	-3,516
Others	-296	-882	-111	-192	-381	-279	-183	-3,822	-550	-601
Effect of exchange rate changes on cash and cash equivalents	793	1,378	741	-957	-649	374	-414	-358	730	2,658
Changes on cash and cash equivalents	4,068	776	5,976	-937	7,279	-2,548	4,374	-4,708	14,706	6,803
Cash and cash equivalents at the beginning of the year	13,916	20,194	21,291	27,360	26,422	34,142	31,712	36,087	31,378	46,084
Cash and cash equivalents at the end of the year	20,194	21,291	27,360	26,422	34,142	31,712	36,087	31,378	46,084	52,888
Sales/total assets (x)	0.74	0.80	0.81	0.80	0.76	0.78	0.81	0.75	0.64	0.67
Sales/fixed assets (x)	1.73	1.90	1.98	2.00	1.91	1.97	2.07	1.92	1.66	1.88
Sales/current assets (x)	1.64	1.80	1.81	1.75	1.64	1.68	1.73	1.63	1.39	1.39
Sales/inventories (days)	93.79	85.26	84.18	85.61	88.52	85.55	84.44	90.24	98.49	104.16
Sales/receivables (days)	103.09	88.35	85.04	85.95	91.35	89.99	88.31	94.19	106.09	96.80
Sales/payables (days)	66.02	53.06	47.47	45.53	46.32	50.43	51.91	48.95	49.73	45.69
Shareholders' equity ratio (%)	47.27	51.75	54.28	55.90	57.06	59.21	56.79	59.29	60.45	62.46
CCC(days)	130.85	120.55	121.75	126.03	133.55	125.12	120.84	135.48	154.85	155.27

Source : Created by CGRA based on Company documents

Analysts Responsible for this Report

Shinji Kuroda, Partner and Senior Analyst

Kuroda joined Kankaku Research Institute (now Mizuho Securities) in April 1992, assigned to the Industrial Research Department. He then would join Jardine Fleming Securities (now JP Morgan Securities) in September 1999, then Goldman Sachs. Until January 2020, he worked for Credit Suisse Securities. He served as Vice President at Goldman Sachs, and Director at Credit Suisse Securities. In his career, he has been in charge of the machinery, shipbuilding, and heavy machinery sectors. He joined CGRA as a partner in June 2020. Member of the Machinery Industry Disclosure Committee, The Securities Analysts Association of Japan

Hidehiko Hoshino, CMA, Representative Director and Chief Advisor

Hoshino joined Shinko Securities (currently Mizuho Securities) in April 1987, assigned to the Corporate Research Department. He then would join Jardine Fleming Securities (now JP Morgan Securities) in 1997, joining Deutsche Securities in 2000 and UBS Securities in 2006, where he would serve until April 2016. As a sell-side analyst, he has been in charge of the machinery, shipbuilding, heavy machinery, and plant sectors for 28 years. Has served for more than 10 years as Vice Chairman of the Machinery Industry Disclosure Committee, The Securities Analysts Association of Japan. He served as Managing Director from 2003 to 2016. In June 2017, Hoshino established Capital Goods Research & Advisory Co., Ltd. (CGRA), and was appointed as Representative Director. Certified Analyst, The Securities Analysts Association of Japan

Capital Goods Research & Advisory Co., Ltd.

An advisory company specializing in the machinery sector. CGRA's main businesses are (1) support for creating integrated reports offering feedback to management while satisfying the needs of capital markets, (2) advisory services for medium-term plan creation and business strategy, as well as various IR & SR areas, (3) preparation of various materials and English translation, and (4) drafting corporate analysis sponsored reports useful for long-term investors and management.