

# INTERIM FINANCIAL RESULTS BRIEFING

**August 8<sup>th</sup> 2019**

**THK CO., LTD.**

**President & CEO**

**AKIHIRO TERAMACHI**

This presentation material contains forward looking statements that reflect the Company's business plans, performance projections, and management strategy. Such statements are based on information currently available to the Company. However, changes in the operating environment may cause actual results and achievements to differ from those anticipated in this corporate presentation material. Also, please let you know that this presentation material includes reference information that are not exactly accounts indication matters.

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for 1st Half of Fiscal 2019**

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# **I . Financial Results for 1st Half of Fiscal 2019**

# Financial Highlights

Net sales decreased by 16.9% year on year to 149.1 billion yen \*Geographic sales is based on where our customers are located

- US-China economic friction prompted companies to curb investment worldwide, mostly in China. Amid the general trend of order and inventory adjustments, orders remained at low levels in all regions.
- Even in these circumstances, the backlog of orders, which had incrementally grown to high levels due to increased investment in semiconductors and advancement of automation and robotization, steadily translated into more net sales.

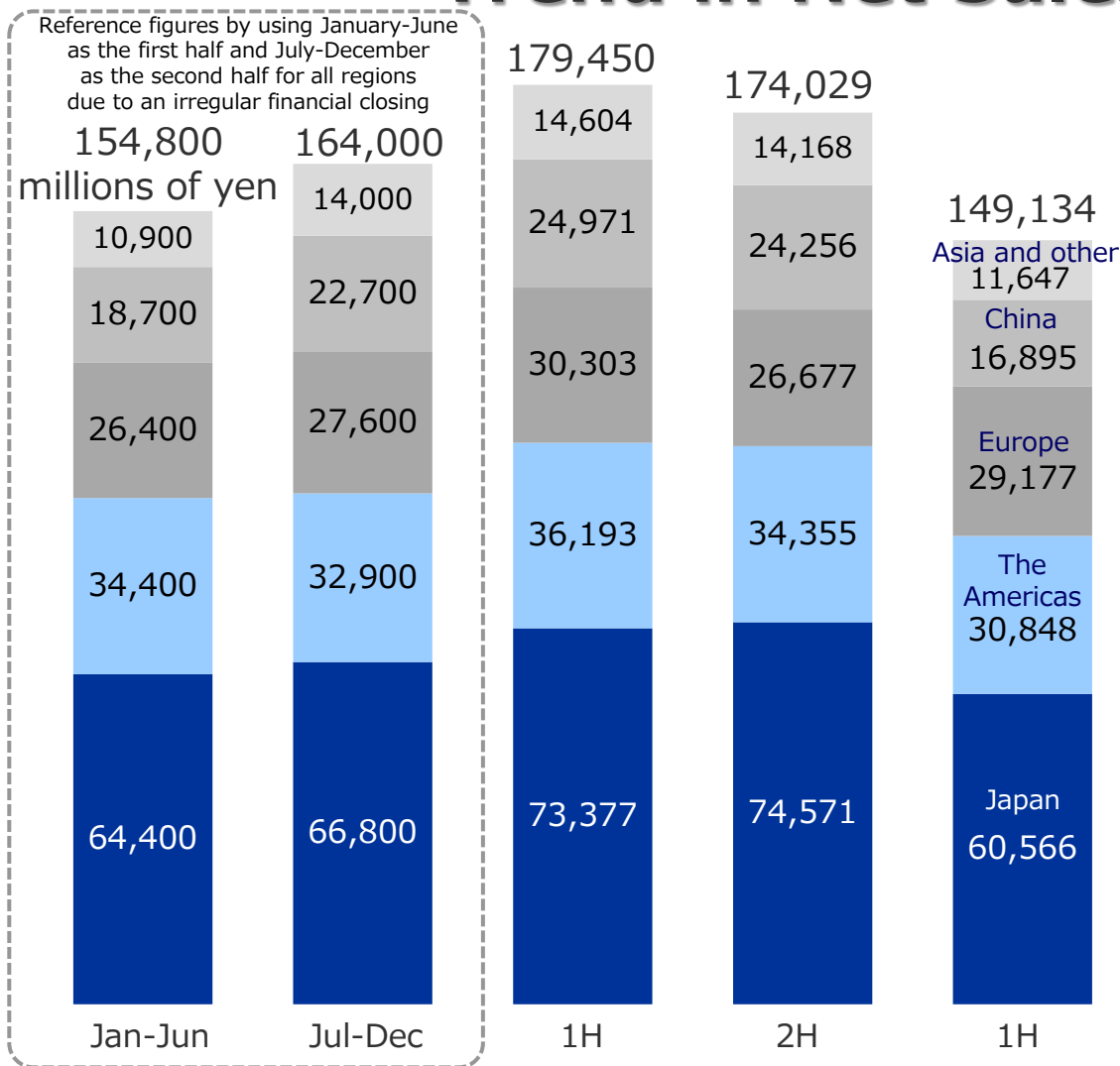
Operating income decreased by 46.7% year on year to 13.9 billion yen

- A decline in net sales due to demand adjustment was not sufficiently covered by our cost control effort to reduce the declining profit margin. Operating income decreased year-on-year largely due to the net sales decline.

Operating income surpassed the start-of-the-term projection

- As order levels remained low, net sales fell short of the projected level by roughly 4.9 billion yen, while operating income outperformed the start-of-the-term projection of 13.8 billion yen.

# Trend in Net Sales



\*The growth rates are just for reference

## Asia and other

- Taiwan Down 26.0%
- Singapore Down 21.1%
- India Up 3.6%

## China

- Machine tools Down 28.3%
- General machinery Down 18.4%
- Electronics Down 29.4%
- Automotive & Transportation Down 10.4%

## Europe

- Machine tools Down 4.5%
- General machinery Up 2.8%
- Electronics Down 4.7%
- Automotive & Transportation Down 4.1%

## The Americas

- Machine tools Down 9.1%
- General machinery Up 2.1%
- Electronics Down 41.8%
- Automotive & Transportation Down 16.8%

## Japan

- Machine tools Down 20.4%
- General machinery Down 18.1%
- Electronics Down 31.3%
- Automotive & Transportation Down 12.2%

\*Geographic sales is based on where our customers are located.

\*Growth rate by industry is based on the figures in local currency from January to June.

\*Growth rate for Automotive & Transportation was calculated based on the sum of net sales of THK RHYTHM and TRA.

Exchange rate

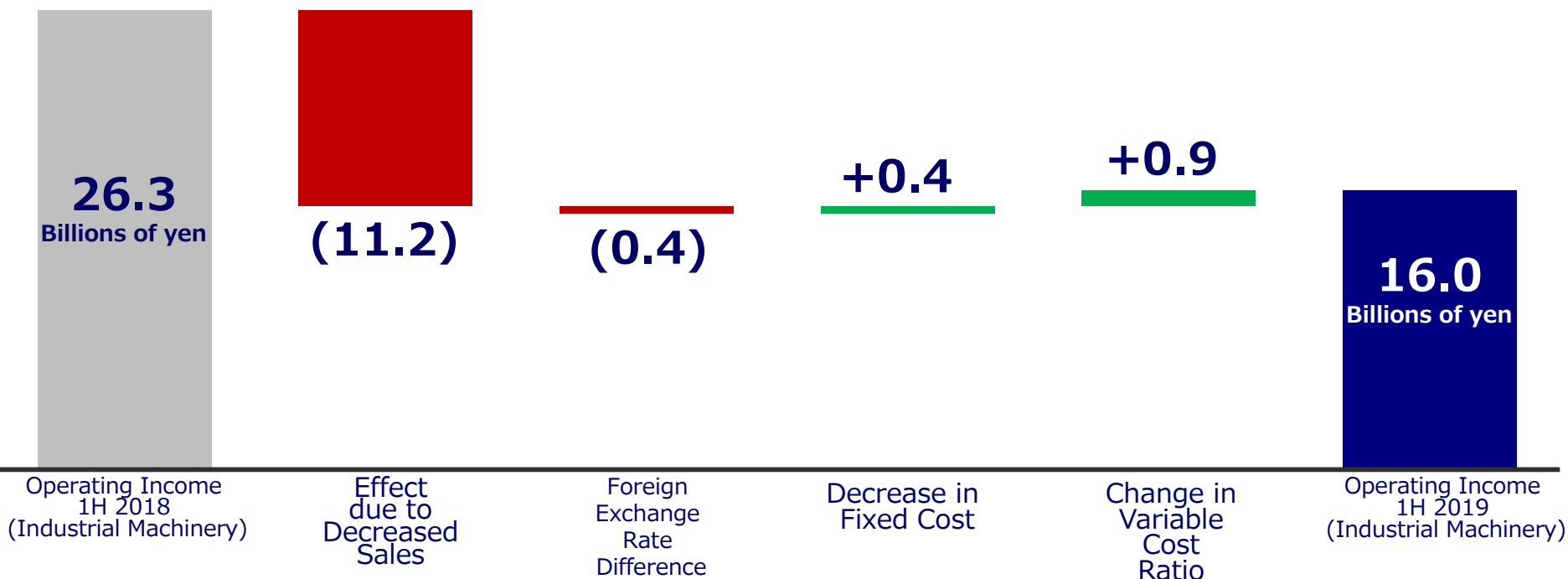
2017/12

2018/12

2019/12

1US\$	112.37	112.01	108.72	112.12	110.05
1EUR	121.63	131.70	131.56	129.17	124.31
1CNY	16.39	16.86	17.07	16.34	16.22

# (Ref.) Operating Income – Change Factors – (Industrial Machinery: January-June)



FY19_1H By type of business Unit: billions of yen		FY18		FY19
		1H	2H	1H
Industrial Machinery	Net Sales	119.5	119.1	97.7
	Operating Income	26.3	24.3	16.0

FY19_1H Operating Income by segment	
Japan	¥10,305million
The Americas	¥(317)million
Europe	¥(10)million
China	¥1,811million
Asia and Other	¥724million
Adjustments	¥1,435million

# (Ref.) Operating Income – Change Factors – (Automotive & Transportation: January-June)



FY19_1H By type of business Unit: billions of yen		FY18		FY19
		1H	2H	1H
Automotive & Transportation	Net Sales	59.9	54.9	51.4
	Operating Income	-0.2	-0.6	-2.1



- The operating loss is largely attributable to a decline in net sales and changes in the variable cost ratio.
- The changes in the variable cost ratio occurred largely due to rising material costs at TRA Canada and unexpected expenses associated with the launch of a new aluminum forging product.
- In the 2nd half of the fiscal year, thorough cost control and other steps will be performed to make improvements.

# Assets, Liabilities and Net Assets

## Cash and Cash in Account | Y/Y :

**Up ¥14,743 million**

Cash Flows from Operating Activities :

¥11,660 million

Cash Flows from Investing Activities :

¥(17,195) million

Cash Flows from Financing Activities :

¥22,576 million

Foreign Currency Translation Adjustments

on Cash and Cash Equivalents :

¥(2,298) million

## Accounts Receivable | Y/Y :

**Down ¥13,732 million**

Number of months' sales receivables :

Previous period : 3.1 months

This period : 3.2 months

## Inventories | Y/Y :

**Up ¥3,476 million**

Number of months' sales in inventory :

Previous period : 1.7 months

This period : 2.2 months

## Property, Plant and Equipment | Y/Y :

**Up ¥9,408 million**

■ CAPEX : ¥16,503 million

■ Depreciation : ¥7,067 million

## Intangibles | Y/Y :

**Down ¥1,775 million**

## Investments and Other | Y/Y :

**Down ¥121 million**

**Total Assets**  
**474,565 millions of yen**  
**Up ¥11,634 million**  
**from previous period**

## Current Assets

**289,003**

**Up ¥4,122 million**  
**from previous period**

## Fixed Assets

**185,562**

**Up ¥7,513 million**  
**from previous period**

## Liabilities

**177,868**

**Up ¥9,656 million**  
**from previous period**

## Net Assets

**296,697**

**Up ¥1,978 million**  
**from previous period**

## Current Liabilities | Y/Y :

**Down ¥18,764 million**

■ Accounts Payable | Y/Y :

Down ¥7,916 million

Number of months' notes payable

Previous period : 1.7 months

This period : 1.7 months

■ Income Taxes Payable | Y/Y :

Down ¥8,739 million

■ Current portion of long-term bank loans

| Y/Y : Down ¥10,000 million

■ Current portion of long-term bonds

| Y/Y : UP ¥10,000 million

## Long-term Liabilities | Y/Y :

**Up ¥28,419 million**

■ Bonds | Y/Y :

Up ¥10,000 million

■ Long-term bank loans | Y/Y :

Up ¥17,815 million

## Net Income Attributable to Owners of the Parent

**¥9,855 million**

## Foreign Currency Translation Adjustments | Y/Y:

**Down ¥3,341 million**

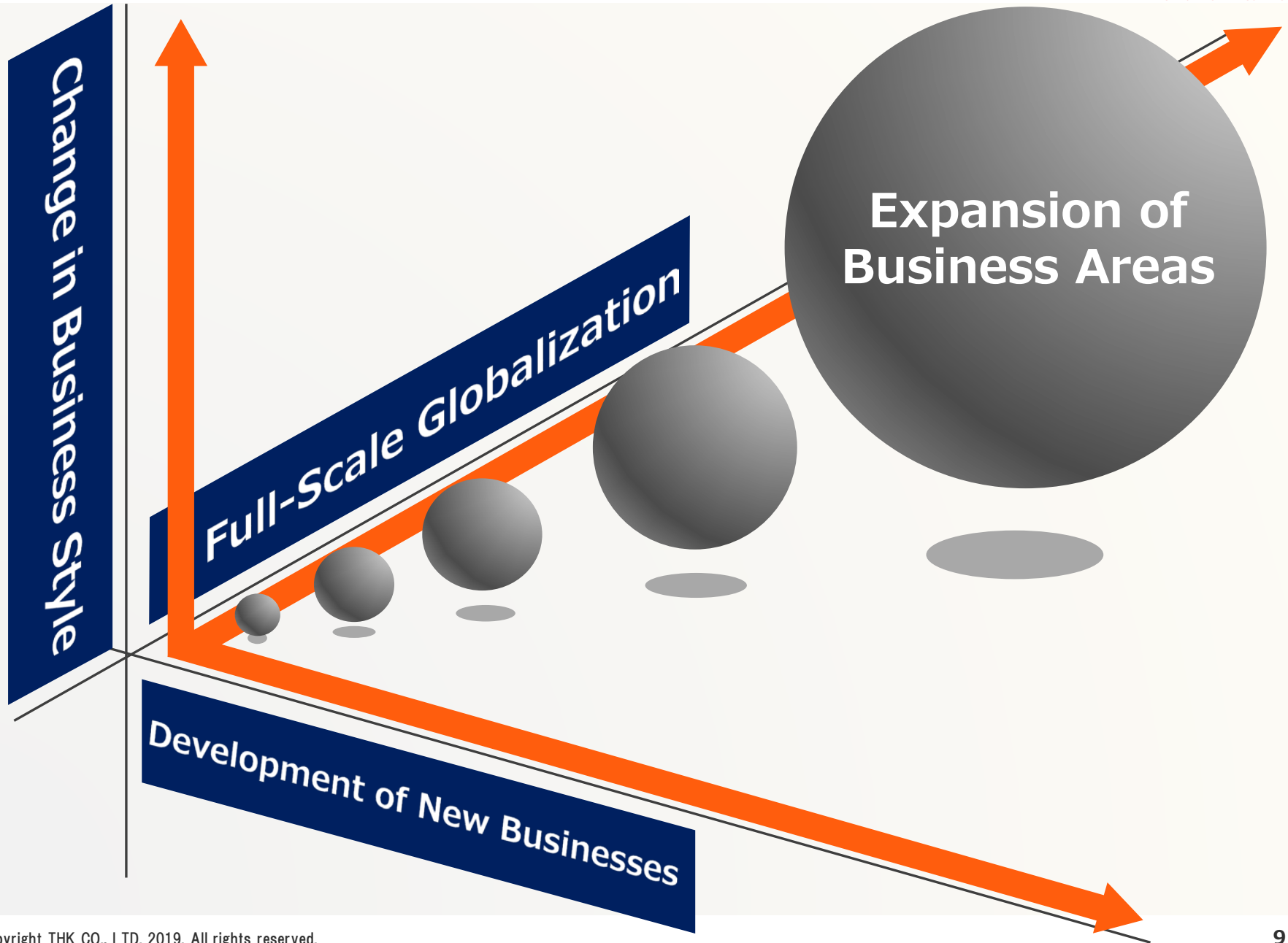
**Dividends Paid : ¥(4,887) million**

\*(Note) Effective January 1, 2019, THK applied "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Statement No. 28 issued by Accounting Standards Board of Japan). The 2018 figures in the above table have been retrospectively adjusted in accordance with the revised standard.



# II. Major Measures

# Growth Strategy



# Business environment recognition and our strategy **THK**

The Mark of Linear Motion

<b>FY2022</b>	
Consolidated Net Sales	¥500 billion
Operating Income	¥100 billion
ROE	17%

**Full-Scale Globalization**

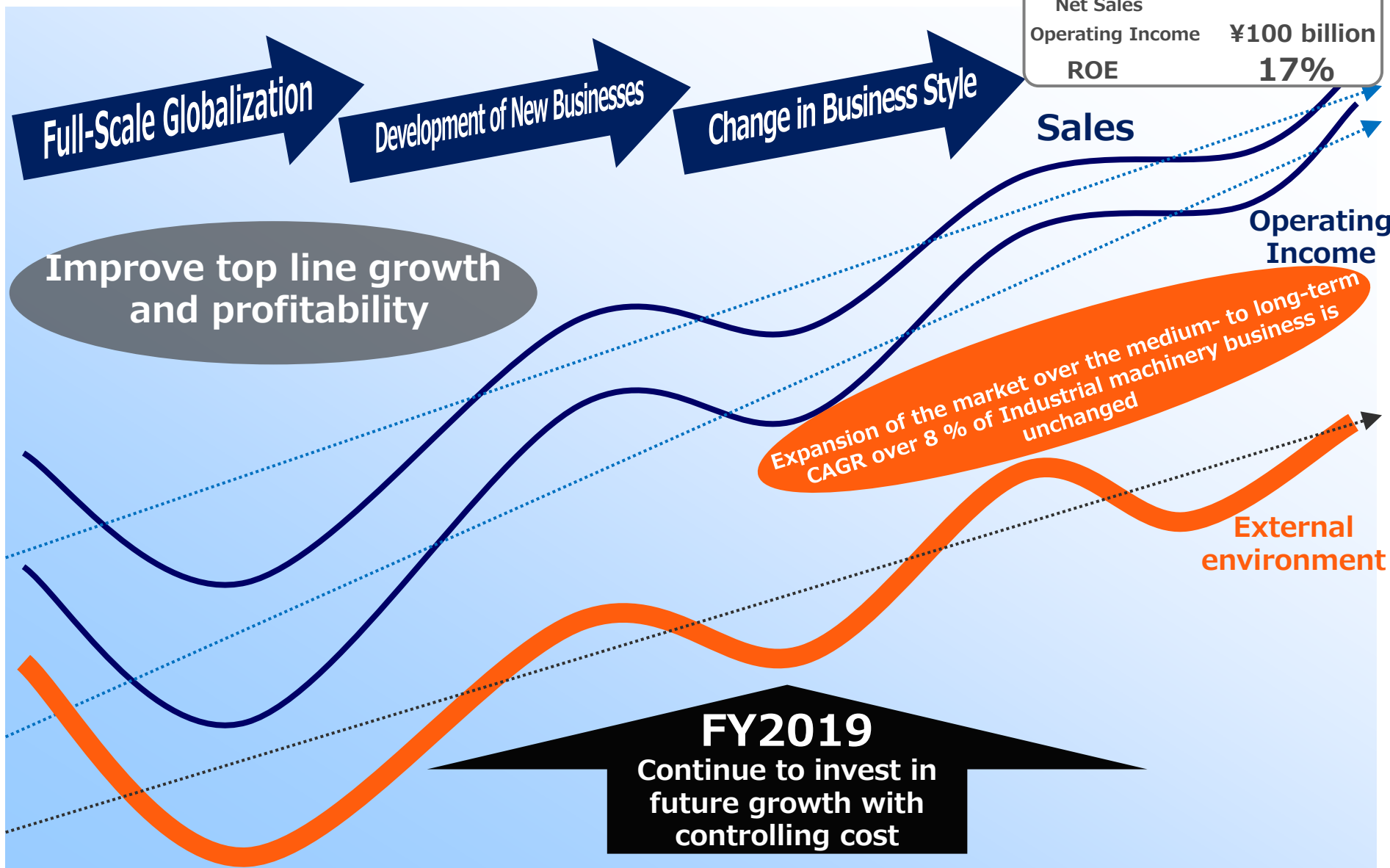
**Development of New Businesses**

**Change in Business Style**

**Improve top line growth and profitability**

**Expansion of the market over the medium- to long-term CAGR over 8 % of Industrial machinery business is unchanged**

**FY2019**  
Continue to invest in future growth with controlling cost



# Expansion of the market over the medium- to long-term

## Megatrends

Technology change  
[Digital disruption]

Changes in the global environment  
[Growing protection momentum]

Changes in macro dynamics  
[Labor shortage and Prolonged life in developed countries]

## Keywords of the Changes

AI · IoT

5G

CASE

Industry 4.0

Automatization  
Labor saving

Energy saving

Required needs

High quality parts

Visualization

Electric motorization

## THK's solution

Products for semiconductors and FA related

Products for service robot related

Products for medical equipment related

Omni THK OMNI edge

Electric Actuators

Next generation auto parts

# THK's growth potential dramatically expands

# Key Initiatives in Business Lines

**FY2019\_1H**

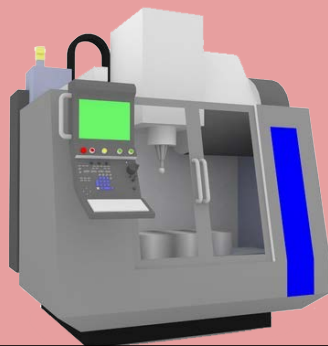
**Industrial Machinery**  
**Net Sales 97.7 billions of yen**  
**Y/Y -18.3%**

**FY2019\_1H**

**Automotive & Transportation**  
**Net Sales 51.4 billions of yen**  
**Y/Y -14.1%**

## Expansion of Top Line

Strategic sales for a wide range of customers  
Active and efficient sales and marketing activities  
Continuous development of new products  
Development of New Business Areas  
Enhancement of  
the Global Manufacturing Structure



**FY2019\_1H**  
**Consolidated**  
**Net Sales**  
**149.1 billions**  
**of yen**  
**Y/Y**  
**-16.9%**

Expansion of L&S Business  
The launch of  
new products for Automobile



## Strengthening of Bottom Line

### 【Industrial Machinery】

1. Robotization and automation
2. Visualization of global production
3. Reduction of various costs
4. Strategy on fair sales prices

### 【Automotive & Transportation】

1. Mutual use of factories
2. Shared purchase
3. Integration of products

# Deployment of Omni THK

Promoting activities to create and provide new customer value experience through the use of IoT/AI

 **Fast Delivery** Short delivery time support function for standard and semi-ordered items

**2017: Launched in ASEAN**

**2018: Launched in Japan, China, and Brazil**

**2020: To be launched in Europe and expanded into other countries**

 **Your Catalog** Special item drawing management function / Digitization of new production study request

**Preparation for launch**

**July 2019: Launched in Japan**

**2020: To be expanded into other countries**

 **Forecast** Budget control function with a comparison between customer's demand forecast and THK's production schedule

**Preparation for launch**

**July 2019: Launched in Japan**

**2020: To be expanded into other countries**

**OMNIedge** New service for sign detection of equipment, consisting of visualization of the state of the LM Guide and "IoT Connect System"

**Preparation for launch**

**2019: Conduct trials (over 100 firms)**

**2020: Commercialization in Japan and expanded into other countries**

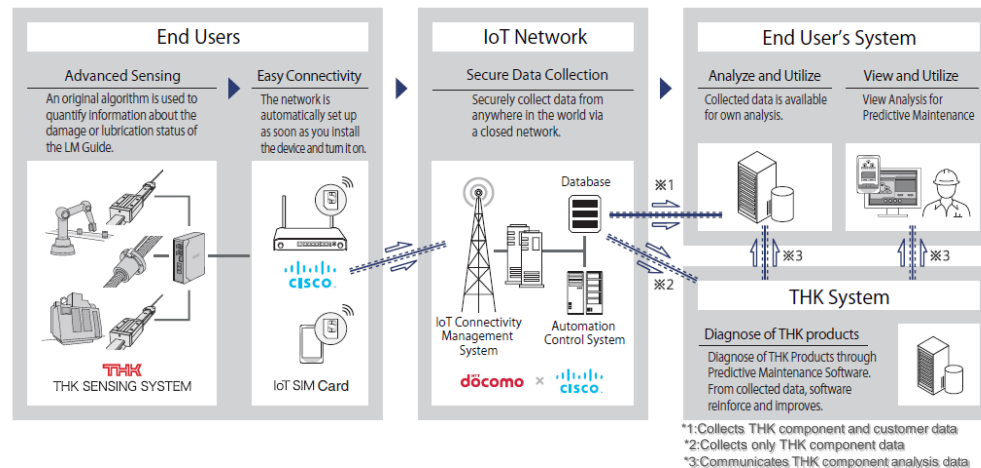
# Deployment of predictive maintenance service, "OMNIedge"

## Current status of progress

- Free trials are underway at more than 100 companies.
- Prices and plans are under review.
- In addition to LM Guides, trials on ball screws have also started.

## Future plans

- September 2019: To exhibit at the EMO trade show in Europe with a view to overseas expansion
- January 2020: Go-live in Japan



# Enhancement of the Global Manufacturing Structure (Industrial Machinery Business)

## THK India

New plant

Planned operation in Jan. 2020

- Target products : LM Guide
- Space of land bought : About 205,000m<sup>2</sup>
- First term floor space : About 34,000m<sup>2</sup>



## Yamagata Plant (Japan)

New plant extension

Completed in Mar. 2019



- Target products :  
Electric Actuator  
Ball Screw  
LM Guide
- Floor space :  
About 32,000m<sup>2</sup>

## THK MANUFACTURING OF VIETNAM

New plant extension

Completed in Nov. 2018

- Target products :  
Miniature LM Guide
- Floor space :  
About 16,000m<sup>2</sup>





# Development of new business areas

Helping the service industry promote labor-saving whose demands have been increasing due to a labor shortage, soaring labor costs, and the advance of the IoT

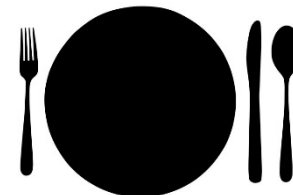
## Distribution



## Shop



## Restaurant



## Medical Equipment



## Consumer goods-related fields

## Aircraft



## Renewable Energy

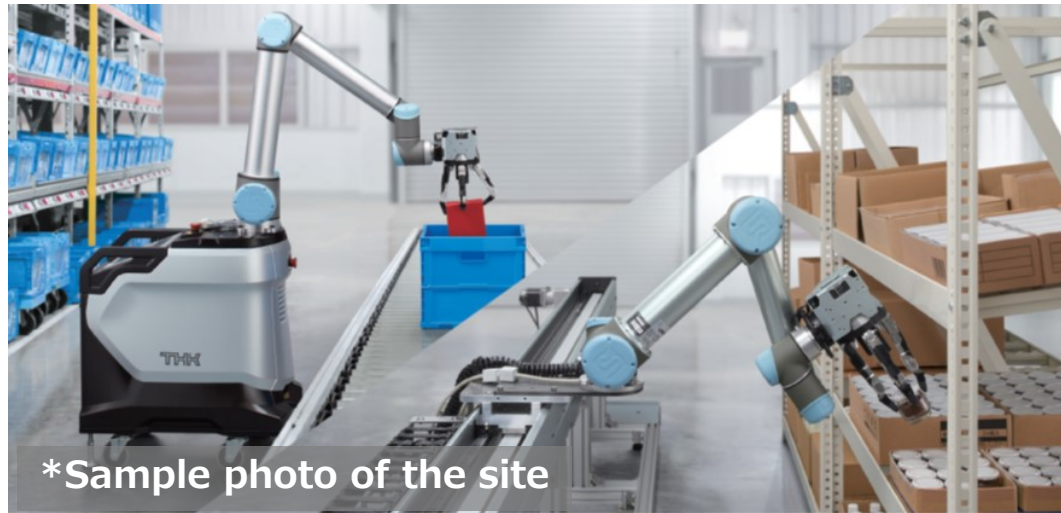


## Seismic Isolation Home Automation



# To meet demand for automation and power saving

Automation achieved for item picking operations at logistics centers.



**Robot Hand**

**Picking Robot Hand System  
Model PRS**

Tokyu Construction and THK have started verification tests of transport robots for construction sites

Equipped with the autonomous motion control system developed independently by THK, the transport robots are designed to automate transportation processes in a semi-outdoor environment, such as construction sites.



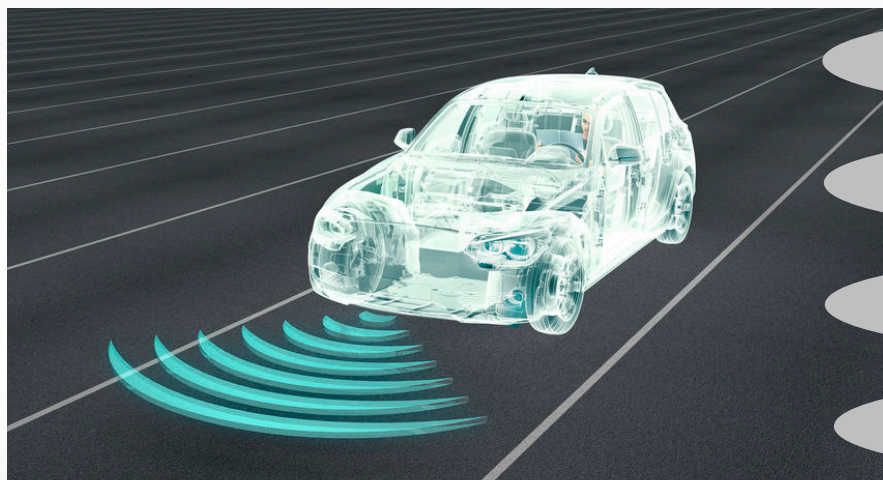
## Expansion of L&S Business

Sales activities that fully utilize mutual sales and production between THK RHYTHM and TRA



## The launch of new products for Automobiles

Backed by the trend of "CASE" accelerating the development of linear motion products for automobiles



Next-generation Suspension parts

Next-generation Brake parts

Electric power steering parts

Interior

Continuing capital expenditures for production expansion in anticipation of large projects

THK RHYTHM MEXICANA (MEXICO)  
Completed in 2018



THK RHYTHM Kyushu Plant (JAPAN)  
Completed in 2019



THK RHYTHM NORTH AMERICA (USA)  
Completed in 2019



THK RHYTHM CHANGZHOU (CHINA)  
To be completed in 2019

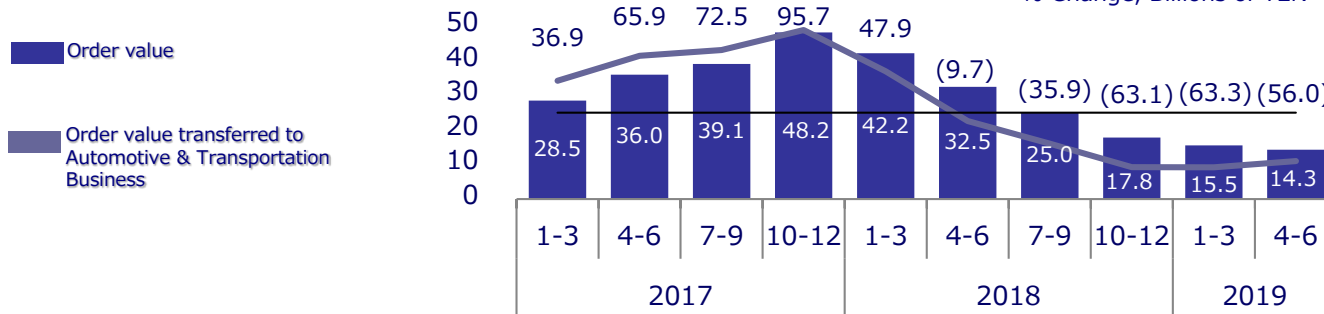


# **Ⅲ. Financial Forecast for Fiscal 2019**

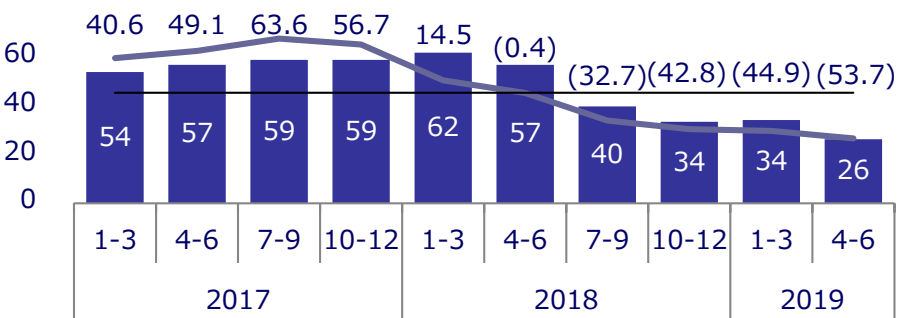
# Orders Received by Region <Industrial Machinery Business>

THK CO., LTD. (Japan)

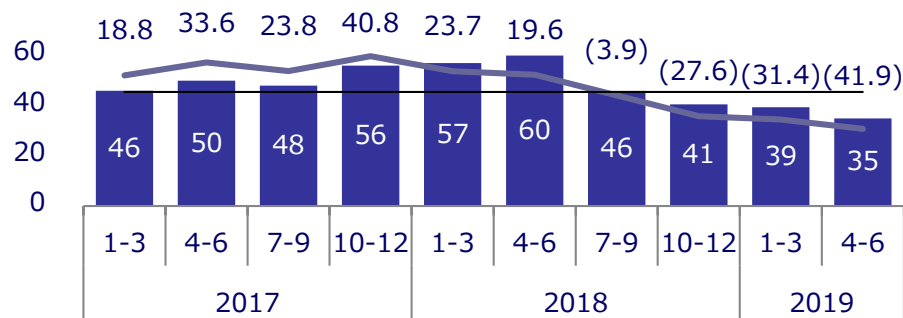
\* exclude export  
% Change, Billions of YEN



THK Europe % Change, Millions of EUR

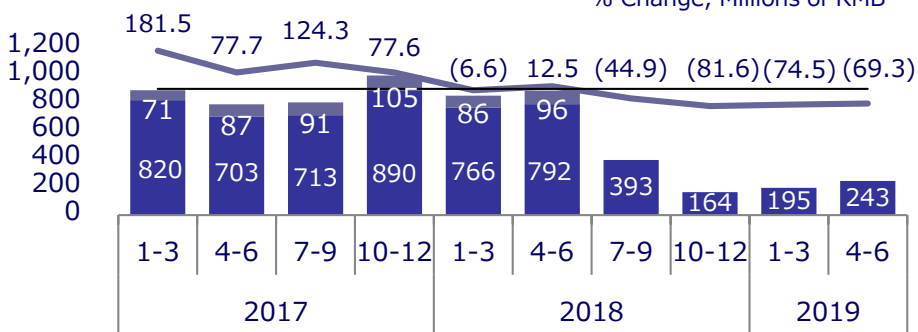


THK Holdings of America % Change, Millions of USD



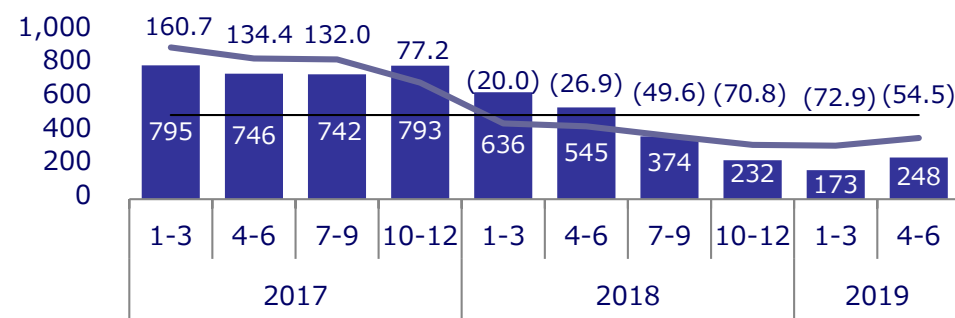
THK (CHINA) CO., LTD. + THK (SHANGHAI)

% Change, Millions of RMB



THK TAIWAN

% Change, Millions of NTD



\*Since the Automotive & Transportation business was transferred as shown below, revisions were made retroactively in consideration of the portions involved.

The year-on-year changes were calculated based on order intake figures after exclusion of the Automotive & Transportation business.

<CHINA>Transferred to THK RHYTHM GUANGZHOU CO., LTD. and THK RHYTHM CHANGZHOU CO., LTD. in July 2018

<EU>Transferred to THK RHYTHM AUTOMOTIVE GmbH in January 2017

<US>Transferred to THK RHYTHM NORTH AMERICA CO., LTD. in July 2016

# Financial Forecast (Consolidated)

	2019/12		2018/12
	FY Forecast	1H Results	Results <small>*(Percentage changes from the previous fiscal year are just for reference)</small>
Net Sales	310,000	149,134	353,479
<i>Y/Y</i>	<i>-12.3%</i>	<i>-16.9%</i>	<i>+10.9%</i>
Operating Income	28,000	13,949	49,832
<i>Y/Y</i>	<i>-43.8%</i>	<i>+46.7%</i>	<i>+36.9%</i>
Ordinary Income	30,000	14,787	51,758
<i>Y/Y</i>	<i>-42.0%</i>	<i>-45.3%</i>	<i>+35.8%</i>
Net Income Attributable to Owners of the Parent	22,000	9,855	35,400
<i>Y/Y</i>	<i>-37.9%</i>	<i>-49.7%</i>	<i>+16.8%</i>

\*Growth rates represent reference figures as compared to the 2017 January-December period

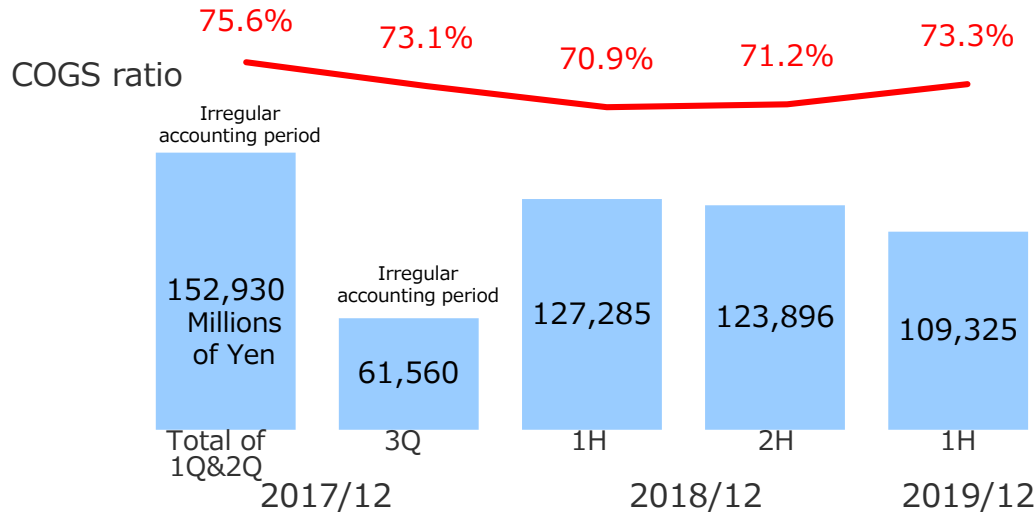
# Financial Forecast (Unconsolidated)



	2019/12		2018/12
	FY Forecast	1H Results	Reference <small>*(Percentage changes from the previous fiscal year are just for reference)</small>
<b>Net Sales</b>	151,000	75,239	186,311
<i>Y/Y</i>	<i>-19.0%</i>	<i>-16.3%</i>	<i>+17.8%</i>
<b>Domestic</b>	105,700	51,423	126,899
<i>Y/Y</i>	<i>-16.7%</i>	<i>-18.2%</i>	<i>+19.0%</i>
<b>Operating Income</b>	16,700	8,385	34,699
<i>Y/Y</i>	<i>-51.9%</i>	<i>-48.8%</i>	<i>+65.9%</i>
<b>Ordinary Income</b>	19,500	10,893	39,053
<i>Y/Y</i>	<i>-50.1%</i>	<i>-41.7%</i>	<i>+71.9%</i>
<b>Net Income</b>	15,000	8,455	28,035
<i>Y/Y</i>	<i>-46.5%</i>	<i>-38.2%</i>	<i>-2.0%</i>

# Trends in COGS and SG&A

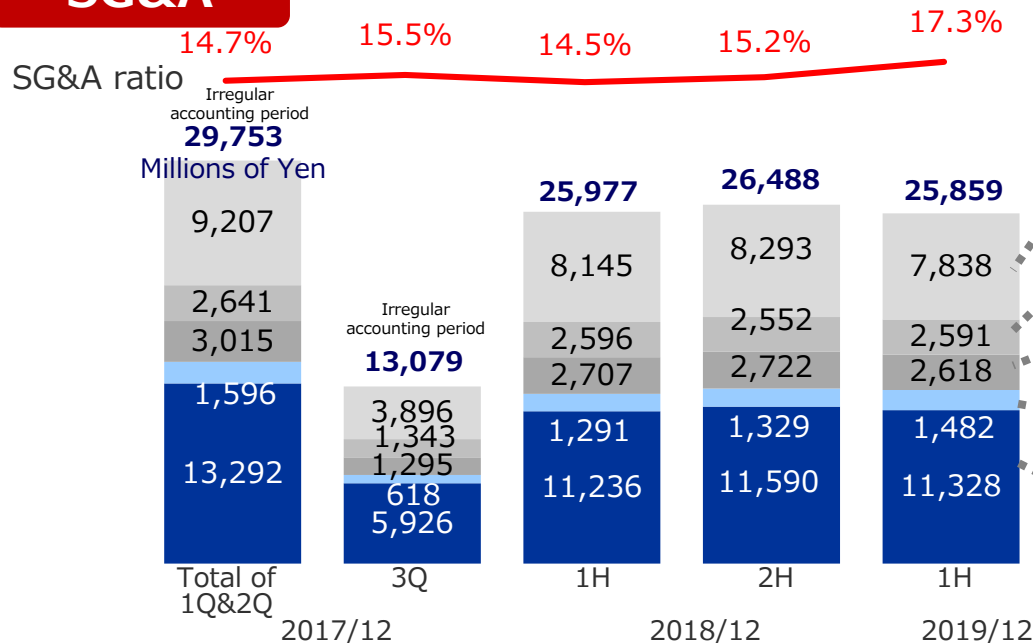
## COGS



Sales-cost ratio increased by 2.4 points Y/Y  
 • Due to decrease sales

※The financial results for the fiscal year ending in December 2017 is based on an irregular accounting period: 9 months for Japanese companies and 12 months for overseas companies

## SG&A



Other | Y/Y : Down ¥ 306 million, or 3.8%

R&D | Y/Y : Down ¥ 5 million, or 0.2%

Sales & Distribution Costs | Y/Y :  
Down ¥ 89 million, or 3.3%

Depreciation and Amortization | Y/Y :  
Up ¥ 191 million, or 14.8%

Personnel Costs | Y/Y : Up ¥ 92 million, or 0.8%

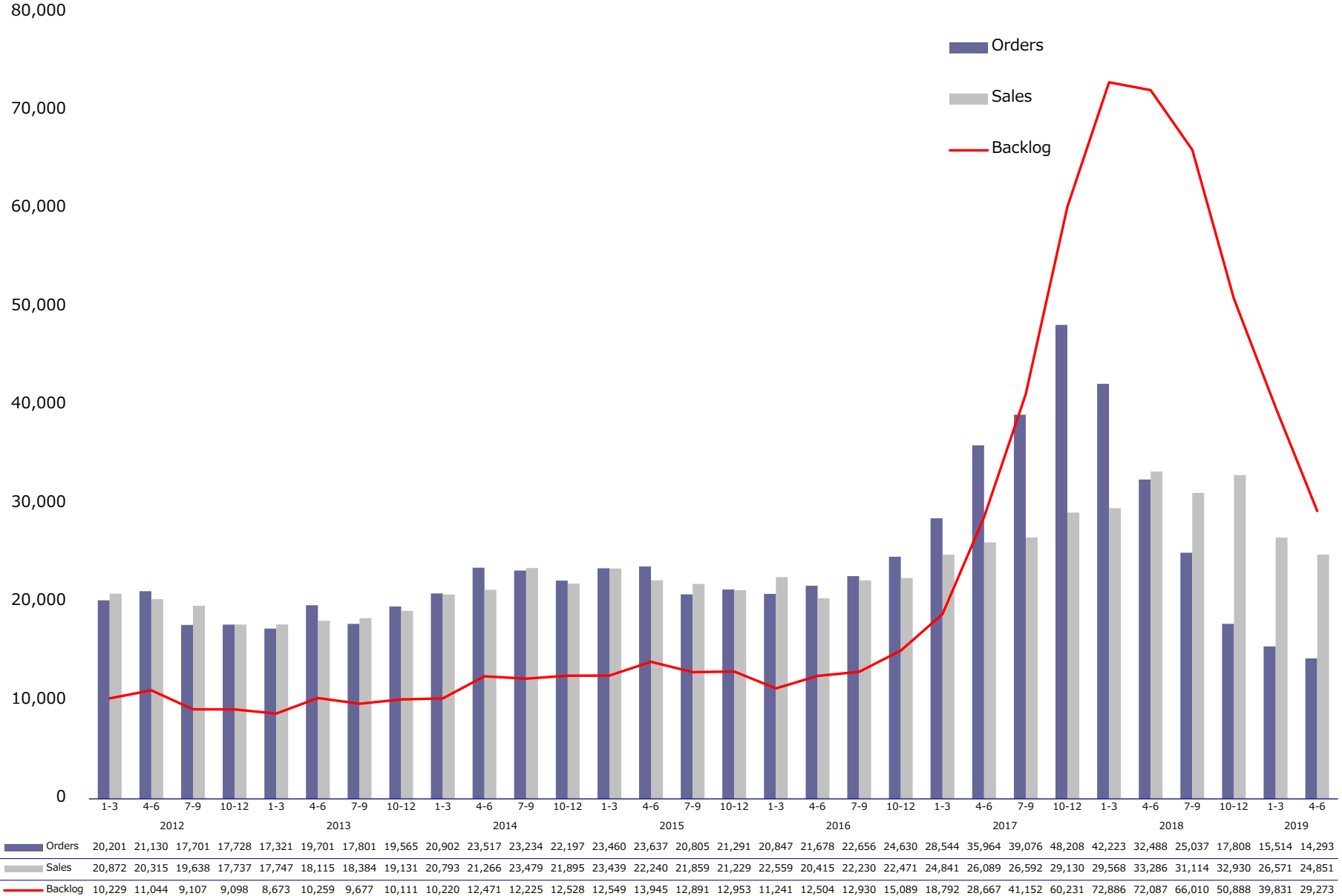
※The financial results for the fiscal year ending in December 2017 is based on an irregular accounting period: 9 months for Japanese companies and 12 months for overseas companies



**– Trends in Orders, Sales and Backlog(Domestic – Unconsolidated) –**



(millions of yen)



**-Trends in Orders Classified by Industry (Unconsolidated)-**



(millions of yen)

12,000

10,000

8,000

6,000

4,000

2,000

0

Machine Tool

General Machinery

Electronics

	2012			2013			2014			2015			2016			2017			2018			2019								
	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6	7-9	10-12	1-3	4-6								
Machine Tool	3,681	3,721	3,536	3,114	2,117	2,439	2,683	2,753	3,129	4,004	4,188	4,160	4,370	4,339	3,014	2,875	2,715	2,800	2,575	2,630	3,353	5,879	6,213	8,076	5,976	5,534	4,139	2,489	1,737	1,355
General Machinery	3,300	3,301	2,797	2,878	2,782	3,272	2,972	3,133	3,545	3,908	3,398	3,466	3,813	4,183	3,561	3,203	3,682	3,671	3,662	4,083	4,846	6,798	6,730	8,573	7,193	6,021	5,130	3,391	2,485	2,287
Electronics	3,519	4,337	2,514	3,037	3,152	3,852	2,774	3,146	3,492	4,446	4,547	4,177	3,779	3,628	2,896	3,784	3,485	4,649	4,697	5,867	6,816	6,780	8,142	10,442	8,967	5,425	4,575	2,618	2,793	2,717