

# Tsubakimoto Chain's Future Direction

An Interview with the President

**T**subakimoto Chain is making steady progress toward becoming a stronger, more profitable company. Although we registered a net loss in the previous fiscal year, during the year under review our aggressive restructuring and management reform measures began to take effect, and we recorded net income in line with our plans for the year. We believe that the success of our restructuring program is demonstrated by the fact that we were able to achieve a strong improvement in performance in a year when private-sector capital investment, which has a significant impact on our results, did not fully recover. We are seeing the results of the reforms that we have designed to minimize the influence of economic fluctuations on our ability to generate steady profits. In the future, we will continue to move ahead with management reforms and will accelerate our rebuilding initiatives through the development of an organization that carefully focuses our management resources in fields where we boast special strengths.



A handwritten signature in black ink, appearing to read 'Takashi Fukunaga' with a stylized flourish at the end.

**Takashi Fukunaga**  
President and Representative Director

**H**ow would you evaluate the past year, when Tsubakimoto Chain recorded lower sales but higher profits? Also, how was the Company's operating environment during the year?

As in the previous year, the operating environment did not improve significantly in the year under review. We think that our ability to earn a profit in this challenging environment reflects the success of our reforms. Although there were signs of a slight improvement in business con-

ditions in the second half of the fiscal year, private-sector capital investment for the full fiscal year was sluggish. We are working, however, to build a strong corporate constitution that is not heavily influenced by the market environment, and in the past year we demonstrated the success we have had in that endeavor.

We are on course toward achieving our goals in the areas of workforce reductions and operational reforms targeting further rationalization of management, and we will continue to emphasize these reforms in the future.

**The Company's flagship power transmission products operations showed signs of recovery during the past year; what are the recent operational trends in this business area?**

Orders, which were weak in the first half of the fiscal year, began to gradually improve in the second half, when a number of products enjoyed increased demand. These products included roller chains and conveyor chains for the machine tool and electrical equipment industries.

The use of timing drive chains increased, and timing chains and other automotive parts recorded favorable orders and sales. In products for automobiles, we anticipate growth in orders in domestic and overseas markets, and we expect these products will support further improvement in our results.

Our performance in power transmission units and components, which had been extremely sluggish until the previous year, also began to improve during the past year. This recovery, which was due to the reevaluation of our product portfolio and the implementation of operational reorganization measures, was centered on such highly competitive products as Power Locks and Power Cylinders.

As a result of the developments I have outlined, we are confident that we can record further steady improvement in our power transmission products operations.

**In materials handling systems operations, reorganization measures have been an essential part of your plans to return to profitability. What have been the recent developments in this area?**

Unfortunately, the results of our materials handling systems operations during the past year were adversely affected by the difficult environment. We have aggressively moved forward with operational reorganization measures aimed at achieving a return to profitability, but we were unable to offset the difficult market conditions. We think it is likely that we will be able to return to profitability in the current year, however, due to our ongoing restructuring activities and to an improved market situation.

The operating environment is getting better. In addition to growth in orders from the automotive industry for factory automation

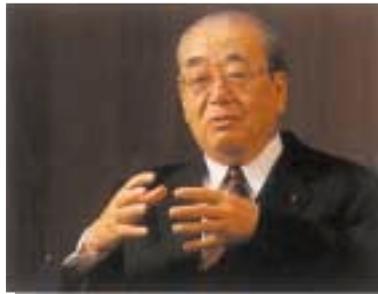
*Sales of chains, our principal product line, were strong throughout the year, and in the second half of the year orders for chains began to increase.*



systems, demand is picking up for products for the electronics industry, including semiconductors and LCDs, and for the newspaper industry. In the years ahead, we will bolster our market competitiveness by using our engineering strengths in the development of factory automation systems that are not single-process systems but total factory automation systems that automate the entire production process. We have achieved significant increases in production efficiency by streamlining our organization and consolidating our domestic production bases, and we are steadily building the foundation necessary for a sustained recovery in performance.

**W**hat major progress has resulted from Tsubakimoto Chain's restructuring plans?

A key goal of our restructuring activities has been to lower fixed costs through workforce reductions. We continued to make steady progress in this area during the year under review. For example, the number of employees in materials handling systems has been



**“Tsubakimoto Chain is aggressively striving to develop a stronger profit structure that is less susceptible to changes in the market environment, and in the year under review the results of those efforts began to emerge.”**

reduced by 200 in the past year, leaving us with a 500-person division, or about 60% of the peak level. We are also moving aggressively to raise operational efficiency by reevaluating production processes. Through these measures, we are significantly improving the division's profit structure.

We will continue to move forward with Companywide workforce reductions, and, by March 2001, we plan to be down to 2,500 employees. At that point, our labor expenses will have been reduced by about ¥4.0 billion from March 1999, when we had 3,000 employees. Thereafter, we plan to reduce labor costs as a percentage of net sales to less than 20%, in part by reducing staff department workforces

*In materials handling systems, we are bolstering our marketing of the New Traverser System, a body paint shop conveyor system for the automotive industry.*



*Every March, a meeting is held to outline the Company's management policies to all senior executives. Here, the president explains the Company's concrete policies for improving the corporate constitution.*



to one-half of their previous levels. In addition to workforce reductions, we will improve management efficiency through the consolidation of Group companies and production bases.

**W**hat are Tsubakimoto Chain's plans for growth in the years ahead, and what are the major challenges the Company faces?

An important management challenge for us now is the establishment of a corporate constitution that can continue to generate steady results without being overly influenced by changes in the operating environment. As I mentioned, our restructuring measures aimed at bolstering our profit structure are producing results in line with our plans. We are in the process of creating a foundation that facilitates the generation of profits even in sluggish business conditions. In addition, if market conditions undergo a full-fledged recovery, that would further accelerate the improvement in our performance.

We will also promote simultaneous engineering in all divisions, including development, production, and marketing, and thereby

enable a more rapid response to market conditions. In this way, we will boost our market competitiveness and expand our sales through the provision of high-value-added products that make use of our strengths and through a detailed response to customer needs. The expansion of sales is a fundamental element in our future growth plans and one of our most important challenges.

**A**utomotive parts have been positioned as a key product for Tsubakimoto Chain's growth. What are your plans for this area of business?

It has become clear that sales of timing drive systems for automotive engines, especially timing chains, are on the upswing. We cover this topic in more detail in the special section of this year's annual report, but it is true that our strength in automotive parts has been driving much of our growth. In addition to leading domestic automakers, such as Toyota and Nissan, we are also supplying products to General Motors and Ford in the United States. The industry is in the process of a switch from the

*Tsubakimoto Chain's fundamental approach to marketing calls*

*for providing prompt, high-quality customer service based on the analysis of a range of customer data.*



*Demand for automotive parts continues to grow, and to further*

*strengthen our automotive parts operations we are implementing R&D activities targeting the development of advanced, high-quality products.*



conventional belt timing drive systems to chain systems, and demand for chains is expanding rapidly.

In the United States, the growth in demand has been especially strong, and in the next five years local sales of automotive parts are projected to expand threefold from the current level of US\$30 million. We expect our sales of automotive parts to grow from the current level of ¥18.5 billion to about ¥30.0 billion within five years, and we plan to invest more aggressively in augmenting our production capacity for timing chains in both Japan and the United States

**And finally, the Company's new plant, which is now under construction, will come on stream in 2002. What is the outlook for its performance over the medium to long term?**

As I mentioned a moment ago, the steps that we have taken to strengthen our profit foundation are steadily taking effect, and market conditions are gradually showing signs of improvement. As a result, our outlook for our performance over the medium to long term is



**“It has become clear that sales of timing drive systems for automotive engines, especially timing chains, are on the upswing.”**

optimistic. The construction of our long-awaited new plant is progressing on schedule toward the opening in 2002. When it goes into operation, production efficiency in our core chain operations will increase dramatically, and our improved cost-competitiveness will further enhance our position in the market.

It also looks as if we will be able to offset the depreciation and amortization charges and the interest expense incurred due to the new plant with the significant fixed expense reductions that have followed our recent restructuring measures. With the increased competitiveness that the new plant will give us, we are confident that we will be on course for the achievement of steady performance gains over the medium to long term.

*Tsubakimoto Chain has begun the construction of its new chain plant in Kyotanabe City, Kyoto Prefecture.*



*This plant, which will boast advanced production facilities, will be one of the world's leading chain facilities when it comes on stream in 2002.*