Company Report

TSE Prime Market / Machinery
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Tsubakimoto Chain（6371）

Analyst

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In 2025, the Company is expected to re-accelerate its performance and continue to return profits to shareholders

- **Summary:** The external environment surrounding Tsubakimoto Chain (hereinafter referred to as the “Company”) has been harsh, with high interest rates and inflation worldwide leading to a slump in private capital investment, a slowdown in the Chinese economy, and certification fraud by Japanese automakers, and the Company's performance has reached a plateau. However, the Company’s earnings momentum is relatively favorable, and its strong balance sheet and high cash generation capacity remain healthy. The large gap in profitability between business segments remains an issue, depending on the measures taken, we believe that the Company will be able to achieve the numerical target (9-11%) set in the Mid-term Management Plan for the operating profit margin on a company-wide basis. The Company presented a new cash allocation plan (image) for FY2025, the final year of the Mid-term Management Plan, and it is positive that the Company is committed to achieving the target ROE of 8% or more through capital policies, in addition to aggressive shareholder returns, including share buybacks. Going forward, we expect the Company to present a convincing long-term growth story, solve problems and nurture new businesses, and improve sustainability in order to realize its Long-Term Vision 2030 and P/B ratio of 1x or higher.
- **Earnings Trends:** FY2024 earnings forecasts were revised slightly downward at the same time as the announcement of 1H FY2024 results. However, the acquisition of new projects and product price revisions have been successful, and the Company's performance has been relatively strong compared to other companies in the machinery and auto parts industries. With a positive business environment expected in 2025, especially in the Chain Operations and the Mobility Operations, CGRA believes that the Company will be able to achieve its numerical targets in the Mid-term Management Plan, depending on measures to improve profitability in the Motion Control Operations and the Materials Handling Operations and measures to counter the risk of trade tariffs from the policies of the new U.S. administration.
- **ESG Management:** The sales composition ratio of eco-products linked to solving materiality issues increased to 37.9% (FY2023) of domestic sales, including domestic manufacturing subsidiaries, and increased 9.5% year-on-year to 44.5 billion yen. This is a positive financial impact through ESG management and will be well received. However, the SDG management evaluation published by the Nihon Keizai Shimbun is on a downward trend. The Company will need to continue to strengthen its efforts to improve sustainability, including the incorporation of ESG management at its workplaces.
- **Share Price Valuation and Shareholder Returns:** The Company's reasonable P/B ratio, calculated by the sum-of-the-parts (SOTP) analysis, is estimated to be 1.1x (the current ratio is 0.79x). To achieve this, the Company will be required to improve the profitability of the Motion Control Operations and the Materials Handling Operations and achieve a long-term growth image. However, the Company's commitment to shareholder returns has increased to a consolidated dividend payout ratio of 35% or higher, and over the past two fiscal years, the Company has repurchased its own shares and raised its dividend for consecutive years. In FY2025, the final year of the current Mid-term Management Plan, the Company is expected to actively return profits to shareholders.

Tsubakimoto Chain’s consolidated earnings and stock price data

Trading data	
Stock price（Dec/20/2024）	JPY 1,887
52-weeks range	JPY 1,819~1,982
Market cap	JPY 209.9 billion
Number of outstanding shares	111.24 million shares
Avarage trading value(20 days)	JPY 440 million
Company forecast PER	9.8 times
PBR(As of March 2024)	0.79 times
Company forecast DPS	JPY 80
Company forecast Dividend yield	4.2%
ROIC（March 2024）	4.8%

Performance	20/3	21/3	22/3	23/3	24/3	25/3COE
Sales:¥100 million	2,264	1,933	2,158	2,515	2,668	2,740
Operating profit	161	88	178	189	212	200
Ordinary profit	166	110	200	209	234	220
Net profit	115	87	145	137	185	200
EPS:yen	102.9	78.4	130.9	123.7	170.5	192.2
ROE:%	6.7	4.8	7.4	6.4	7.7	-
DPS:yen	40.0	25.0	40.0	43.3	53.3	80.0
Dividend payout ratio:%	38.9	31.9	30.5	35.0	31.3	41.6
FCF:¥100 million	60	183	119	120	294	-
NetCash:¥100 million	-85	68	175	257	492	-

Note: EPS and dividend per share have been adjusted for the October 1, 2024 stock split (1 share to 3 shares)

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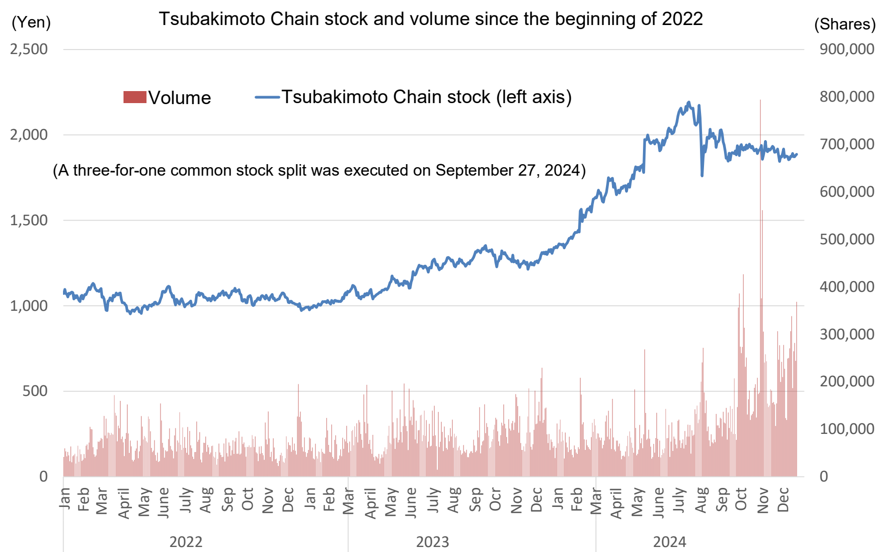
Figure 1: Tsubakimoto Chain shares show an increase in trading volume as share price rises



Source: Created by CGRA

Company Profile

Business: The company is involved in the field of motion control, from components and units to systems

The Company was founded in Osaka in 1917 as a local factory manufacturing bicycle chains, and has since developed into a comprehensive solutions provider that supports the "moving" field by expanding into four business segments: industrial chains, motion control, mobility, and materials handling.

With its mission “Advance the ‘art of moving’ beyond expectations,” and aspiration “*Monozukuri* specialists taking the craft of manufacturing to new heights,” the Company aims to create new innovations and added value based on its manufacturing and intellectual capital (power transmission/conveyance, wrapping transmission, mass production, material, and electrification technologies).

The Company boasts the No. 1 share of the global market for industrial chains and automotive timing chain systems

Chains are components used in a variety of industrial machines, automobiles, motorcycles, and other vehicles to transmit power and convert rotational motion into linear motion. The Company holds an estimated 17% share of the global market for steel chains for industrial applications and 40% of the global market for timing chain systems for automobile engines. It boasts the No. 1 global market share in both of these categories.

Currently, the Company has four segments: (1) the Chain Operations which offers power transmission and conveyance chains; (2) the Motion Control Operations (hereinafter referred to as the “MC business”) which offers a variety of equipment for power transformation, deceleration, and transmission, such as reducers, linear actuators, shaft couplings, locking devices, clutches, and units; (3) the Mobility Operations which focuses on timing chain systems, which are mounted on automobile engines and contribute to improved fuel efficiency and engine downsizing; and (4) the Materials Handling Operations which specializes in conveyance and sorting systems, as well as automated ultra-low temperature storage systems.

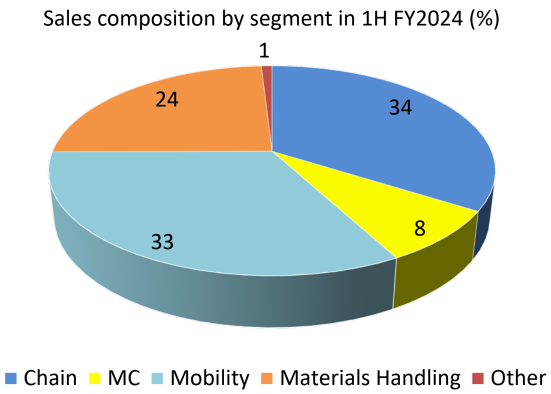
The Company is also actively working to create next-generation businesses in human assistance, maintenance, agriculture, life sciences, energy infrastructure, and new mobility to achieve sustainable growth.

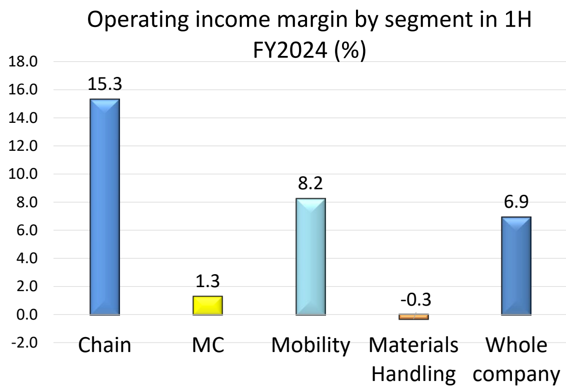
The highly profitable Chain Operations business drives operating income

The Chain Operations business, which boasts an operating income margin of approximately 15%, accounts for 75% of consolidated operating income and is the Company's main source of revenue

Consolidated sales for 1H FY2024 increased 5.9% year-on-year to 136.3 billion yen, and operating income rose 9.7% year-on-year to 9.4 billion yen (operating income margin of 6.9%). By reporting segment, sales to external customers accounted for 34% of consolidated sales in the Chain Operations business, 8% in the MC business, 33% in the Mobility Operations business, 24% in the Materials Handling Operations business, and 1% in other businesses. By segment, operating income decreased 8.5% year-on-year to 7.2 billion yen (operating income margin of 15.3%) in the Chain Operations business; decreased 37.7% year-on-year to 100 million yen (operating income margin of 1.3%) in the MC business; and increased 14.9% year-on-year to 3.6 billion yen (operating income margin of 8.2%) in the Mobility Operations business, while the Materials Handling Operations business posted an operating loss of 100 million yen (1.6 billion yen loss in the previous 1H), and the other businesses posted an operating loss of 500 million yen (400 million yen loss in the previous 1H), and the adjustment amount was 1 billion yen. The Chain Operations business generates 75% of consolidated operating income.

Figure 2: Sales composition and operating income margin by segment





Source: Created by CGRA based on Company documents

Tsubakimoto Chain - Three Highlights

Highlight #1: The Company announces capital policy to maximize shareholder value

On May 14, 2024, the Company announced "Measures to Achieve Management Conscious of Cost of Capital and Stock Price" and also announced a share buyback program (ended on November 30) for up to 10 billion yen (5.0% of total shares outstanding). In this announcement, the Company stated its intention to achieve the numerical targets of the Mid-term targets Plan 2025, and to achieve management that is conscious of capital costs and stock prices, by striving for sustainable profit growth in existing businesses, while also promoting sustainable profit growth through the execution of growth strategies and strategic shareholder returns with an awareness of appropriate cash and deposit levels, thereby achieving ROE of 8% or more. Specifically, the Company will (1) set a cash and deposit requirement of 50 billion yen (equivalent to two months' worth of monthly sales; 68.5 billion yen in cash and deposits on the balance sheet as of the end of 1H FY2024) during the period of the Mid-Term Management Plan 2025, and aggressively invest and provide strategic shareholder returns; (2) raise its consolidated dividend payout ratio from the 30% level to 35% or more; (3) flexibly implement share buybacks and other measures to return profits to shareholders, taking into consideration the Company's cash reserves and profit generation, and with an eye on the total payout ratio; and (4) proceed with the sale of policy shareholdings, targeting a ratio of 10% or less of consolidated net assets as of the end of March 2026 (the ratio of investment securities to net assets at the end of 1H FY2024 was 15.5%). The Company has a high cash generation capacity and intends to achieve its target ROE and return to a P/B ratio of 1x or more by implementing an aggressive capital policy.

The Company plans to continue to provide aggressive shareholder returns through FY2025

Highlight #2: We expect the Company to implement various measures to leverage cash

Consolidated operating income for FY2023 was only 21.2 billion yen (12.0% year-on-year increase, operating income margin of 8.0%), which was on par with the operating income of 21.7 billion yen in FY2018, before the COVID-19 pandemic. On the other hand, operating cash flow in FY2023 was 38.5 billion yen, much higher than the 24.1 billion yen in FY2018, thanks to the successful reduction of working capital, mainly inventories, and free cash flow, after deducting 9.1 billion yen in investment cash flow, including 10.8 billion yen in capital expenditures, reached a record high of 29.4 billion yen. After deducting 15.6 billion yen in financing cash flow, including 5.2 billion yen in repayment of short-term borrowings, 4.7 billion yen in dividend payments, and 4.5 billion yen for the purchase of treasury stock, cash and cash equivalents at the end of the period increased to 74.6 billion yen (64.8 billion yen at the end of 1H FY2024), or 39% of market capitalization at the end of FY2023. In the current Mid-term Management Plan, the cumulative free cash flow for the five-year period from FY2021 to FY2025 was assumed to be 50-60 billion yen, but the cumulative free cash flow for the first three and a half years including the 1H FY2024 reached 58.9 billion yen. We expect the Company to implement measures with a sense of speed, such as strategic investments using its ample cash, fostering new businesses, building an optimal portfolio, and strengthening shareholder returns.

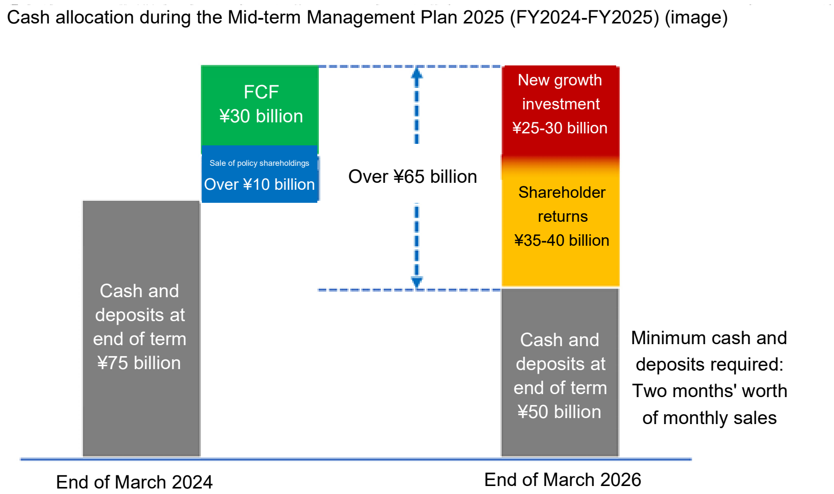
The Company continues to have strong cash generation capabilities

Highlight #3: Stable growth in eco-product sales continues

In its Long-Term Vision 2030, the Company aims to become a corporate group that contributes to solving the three social issues of "creating a people-friendly society," "building a safe and secure infrastructure for living," and "creating an Earth-friendly society." In the area of "moving" products, the Company has established sustainable product certification criteria and set internal KPIs to increase the effectiveness of activities aimed at contributing to the global environment and cost benefits for customers by extending the service life, saving energy, and reducing the size of the products offered. Sustainable products are divided into eco-products that contribute to the environment and social products that contribute to society, and eco-products are classified as (1) products that respond to climate change and (2) products that contribute to the realization of a recycling-oriented society. With these product categories in mind, the Company has set CO_2 emission reductions and recycling rates as KPIs, and is working hard to develop and expand sales. Sales of eco-products grew 9.5% year-on-year to 44.5 billion yen (37.9% of total domestic sales including domestic manufacturing subsidiaries) in FY223. Customers are beginning to base their equipment selection criteria not only on performance and price, but also on social contribution and environmental (decarbonization) criteria, including Scope 3. We look forward to the further growth of the Company's eco-products, their contribution to earnings, and their overseas expansion.

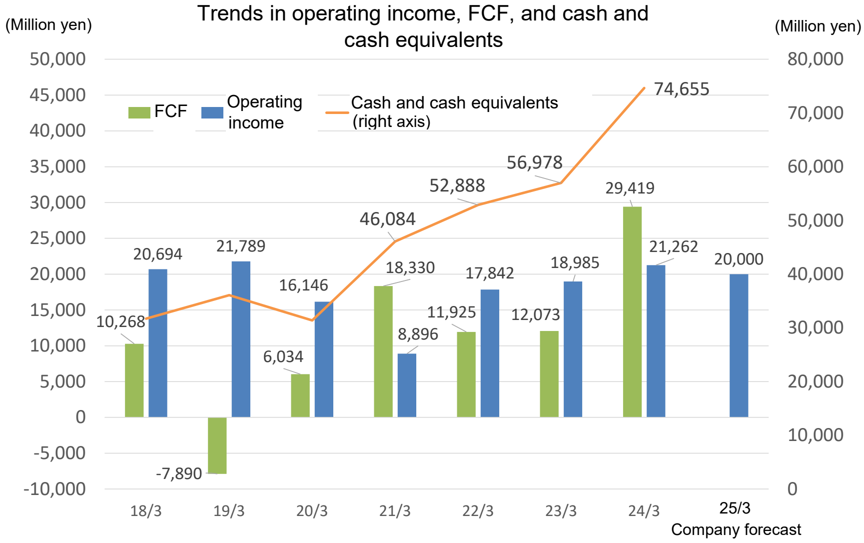
Continued growth in eco-product sales as a financial impact through deeper ESG management

Figure 3: Cash allocation during the Mid-term Management Plan 2025 (FY2024-FY2025)



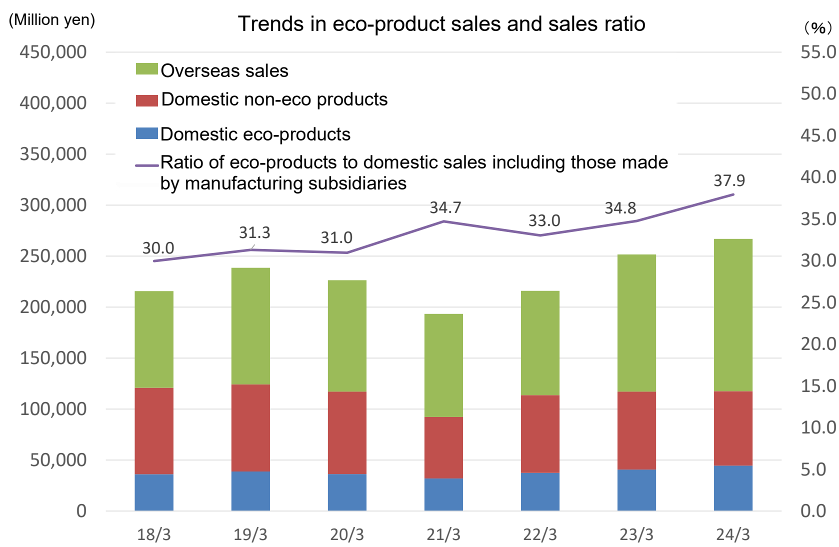
Total shareholder returns in FY2024 are expected to be approximately 18.3 billion yen, and the figure is expected to be in the range of 16.7 to 21.7 billion yen in FY2025

Figure 4: The Company continues to have strong cash generation capabilities



The Company maintains a strong cash position supported by robust cash generation capabilities

Figure 5: Eco-products continue to show stable growth



Domestic sales composition including eco-product manufacturing subsidiaries rose to 37.9%

Source: Created by CGRA based on Company documents, etc.

Changes from the Previous Report

Tsubakimoto Chain: Major events in 2024

The main event since the last report issued on December 20, 2023, was the announcement on May 14, 2024, on the Company's capital policy, including shareholder returns, which was noteworthy and led to a significant rise in the Company's stock price. The Company also seems to be steadily implementing business reforms for an optimal portfolio and higher profitability, as well as creating new businesses. We expect these activities to contribute to the Company's future performance and financial position.

The Company has announced a new shareholder return policy and appears to be steadily implementing internal measures for higher profitability

Figure 6: Major news in 2024

2024	Date	Details
IR information	May 14	- Acquisition of treasury stock - Sale of policy shareholding stocks - Change in dividend policy - Announcement of measures to achieve cost of capital and stock price conscious management
	August 15	- Acquisition of the agri-business of Kidaya-Shoten Co
	October 31	- Downward revision of earnings forecasts for FY2024
Sustainability	March 12	- Recognized as a 2024 Excellent Corporation for Health and Productivity Management
	October 16	- Publication of TSUBAKI REPORT 2024
Organizational change	April 1	- Reorganization of MC business's engineering and manufacturing management - Establishment of Business Development Dept in Materials Handling Operations business - Establishment of Project Department in New Business Development Center
	October 1	- Establishment of Human Assist Business Development Department

Source: Created by CGRA

External environment: Continued weakness in private capital investment and the Chinese and European economies

The business environment surrounding the automotive and machinery industries remains challenging due to the slow recovery of private capital investment as represented by machine tool orders, the sluggish Chinese and European economies, and the certification fraud problems of Japanese automakers. Nissan Motor has cut 20% of its production capacity and 9,000 workers, Honda Motor has cut its workforce in China, and Aisin and other auto parts manufacturers, machine tool makers Okuma and DMG Mori, and factory automation-related Yaskawa Electric also announced downward revisions to their earnings forecasts. The Company also lowered its full-year earnings forecast for FY2024, but the relative earnings momentum is strong and the company's stock price has outperformed its competitors.

Amid a deteriorating external environment, the Company appears to be performing relatively well

Figure 7: Changes since the previous report was issued

Main items		Previous report (December 13, 2023)	This report (December 20, 2024)
Share price: Yen		1,313	1,887
Dividend per share: Yen		53.3 (FY2023, actual)	80 (company forecast for FY2024)
Dividend yield: %		4.1(24/3)	4.2 (company forecast for FY2024)
P/E ratio: Times		7.7 (FY2023, actual)	9.8 (company forecast for FY2024)
P/B ratio: Times		0.65 (end of FY2022)	0.79 (end of FY2023)
Net sales: ¥100 million		2,668 (FY2023, actual)	2,740 (company forecast for FY2024)
Operating income: ¥100 million		212 (FY2023, actual)	200 (company forecast for FY2024)
Automobile production	FY2023	9,000 (forecast)	9,000 (actual)
(10,000 units)	FY2024	-	8,800 (forecast)
Machine tool orders	FY2023	14,600 (forecast)	14,531 (actual)
(¥100 million)	FY2024	-	14,600 (forecast)
US policy interest rates: %		5.50	4.50
US Dollar : Yen		145.6	156.8
TOPIX		2,355	2,702

Source: Machine tool orders are based on the Japan Machine Tool Builders' Association. Automobile production and machine tool order forecasts are created by CGRA.

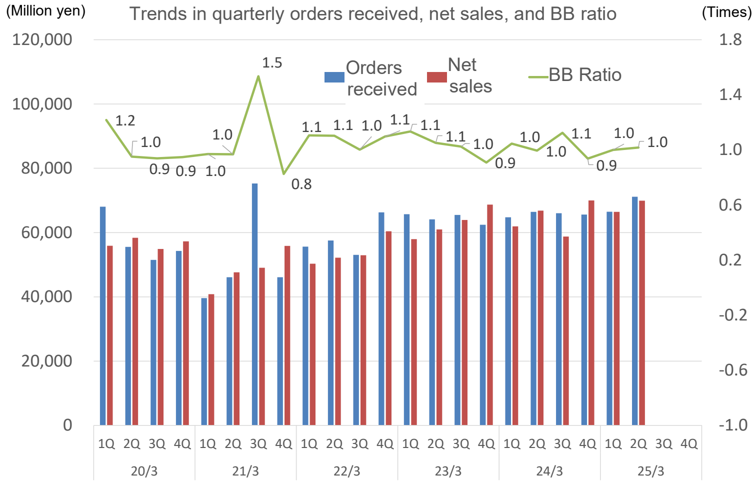
Quarterly Results

The Company has maintained a stable BB ratio at 1x or higher

Quarterly orders and net sales have recovered to pre-pandemic levels. The BB ratio, which is the ratio of orders received divided by net sales, a leading indicator of the company's stock price and earnings, has been stable at 1x or higher. In 1H FY2024, orders received increased 4.9% year-on-year to 137.6 billion yen (1Q: 66.4 billion yen, 2Q: 71.1 billion yen), net sales increased 5.9% year-on-year to 136.3 billion yen (1Q: 66.4 billion yen, 2Q: 69.9 billion yen). The order backlog at the end of 1H was 74.0 billion yen (72.4 billion yen at the end of FY2023), a 3.2-month monthly sales volume.

Judging from the BB ratio and order backlog, the Company is likely to continue to perform solidly

Figure 8: Orders received and net sales have remained stable, exceeding the pre-pandemic levels



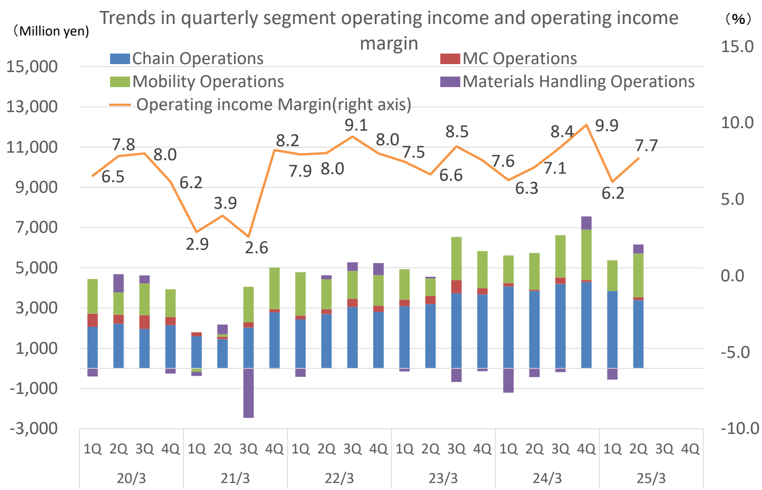
Source: Created by CGRA

Further improvement in operating income margin requires higher profitability of the MC and Materials Handling Operations businesses

Operating income on a quarterly basis is already above the pre-pandemic level, but the operating income margin continues to hover around 7% amid increasing volatility. The Chain Operations and Mobility Operations businesses continue to be the drivers of profits, although a slight leveling off trend is beginning to be seen in the Chain Operations business. The Company will need to improve profitability in the MC and Materials Handling Operations businesses with speed in order to break out of the current stagnant range in operating income margin and secure a stable 9-11%, which is the consolidated target of the Mid-term Management Plan.

The Company wants to see the emergence of a third earnings driver after the Chain Operations and Mobility Operations businesses

Figure 9: The Company needs to improve the MC and Materials Handling Operations businesses for higher profitability



Source: Created by CGRA

Mid-Term Management Plan 2025 and Progress

Summary of “Mid-Term Management Plan 2025”

The Mid-Term Management Plan 2025 started with the main targets for the final year of the plan: net sales of 300-320 billion yen, operating income margin of 9-11% (operating income of 27-35.2 billion yen), ROE of 8% or higher, and consolidated dividend payout ratio of 30% (already revised upward to a consolidated dividend payout ratio of 35% or higher). The basic policies are to (1) create next-generation businesses that will enable sustainable growth, (2) further improve the market position and profitability of existing businesses, (3) strengthen the business foundation by reforming manufacturing and strengthening human resources development, and (4) strengthen ESG initiatives. This period was positioned as a "seeding period for new growth" that will lead to sustainable growth toward the realization of the Long-term Vision 2030.

There are large earnings disparities among businesses, but company-wide performance is generally favorable

Figure 10: Mid-term Management Plan 2025 numerical targets

Items	Indicator	FY2025(March/26)Target	FY2023 CGRA Assesment
Profitability	Net sales	¥300～320 billion	△
	OPM	9～11%	△
Capital efficiency	ROE	8% or more	○
Shareholder returns	Payout ratio	35% or more (initially 30%)	◎
ESG	CO_2 Emissions	30% reduction from FY2013 level (Domestic group companies)	◎
		Over 20%reduction from FY2018 level (Overseas group companies)	△

Business Segment	FY2025(March/26) Target Net sales (¥100 million)	Operating income margin	FY2023 CGRA Assesment
Chain	800～850	15% or more	◎
MC	320～350	12% or more	×
Mobility	950～1,000	11% or more	△
Material Handling	900～950	6% or more	×

◎: Already achieved、○: As planned、△: Slightly underachieved、×: Not achieved

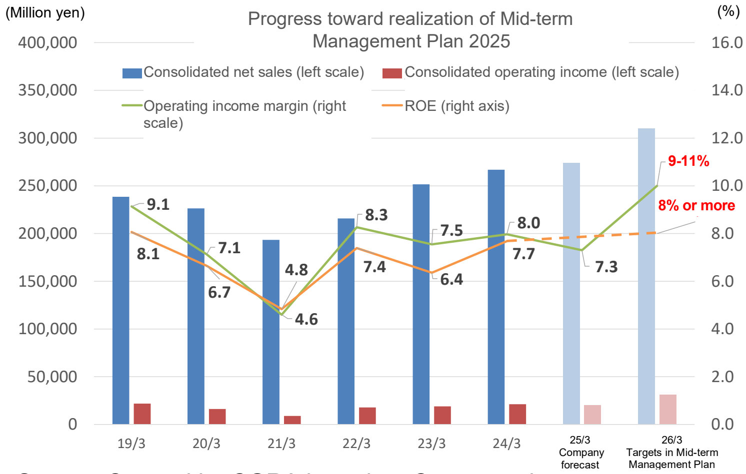
Source: Created by CGRA based on Company documents, etc.

The Company will be required to resolve profitability issues to achieve numerical targets in the Mid-term Management Plan

In FY2023 (March/24), the third year of the Mid-term Management Plan, the Company showed steady progress, with net sales of 266.8 billion yen, operating income of 21.2 billion yen (operating income margin of 8.0%), ROE of 7.7%, and dividend payout ratio of 31.3% (total payout ratio of 55.6%). In FY2024, the fourth year of the Plan, the Company faced a worse-than-expected deterioration of the external environment and was forced to revise downward its forecasts for net sales and operating income from 280 billion yen to 274 billion yen and from 23 billion yen (operating income margin of 8.2%) to 20 billion yen (7.3%), respectively, with the announcement of 1H results. The forecast dividend per share remains unchanged at 80 yen, and the consolidated dividend payout ratio is expected to be 41.6%. By business segment, the Chain Operations business achieved its mid-term target three years ahead of schedule, and the Mobility Operations business also performed well due to the acquisition of new projects. However, the MC business and the Materials Handling Operations business have fallen far short, and improving profitability in both businesses will be the key to achieving the mid-term targets.

The Company needs to accelerate the improvement of profitability in the MC and Materials Handling Operations businesses in order to increase the certainty of achieving this goal

Figure 11: Mid-Term Management Plan 2025 is progressing in line with expectations



Source: Created by CGRA based on Company documents, etc.

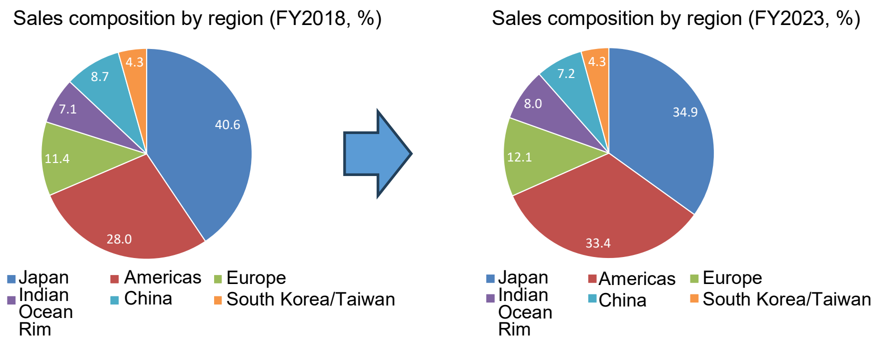
Business Opportunities and Risks in 2025

Sales in China account for only about 7% of total sales, while sales in Japan and the Americas account for about 60%

Geopolitical risks are relatively low

As far as 1H FY2024 results are concerned, SMC, the world's largest manufacturer of pneumatic control devices, as well as Aisin and other auto parts manufacturers, have decided to revise their full-year forecasts downward due to declining demand in China and intensifying competition with local Chinese manufacturers. Risk related to China is likely to remain one of the concerns in 2025 and beyond. While the percentage of net sales to China declined from 8.7% in FY2018 to 7.2% in FY2023, net sales in Japan and the Americas still account for about 60% of consolidated net sales, as the Indian Ocean Rim and other markets are growing moderately. In particular, CGRA believes that political risks are relatively minor, as the Chain Operations business, which is the Company's primary earnings driver, generates about 70% of its sales in Japan and the Americas.

Figure 12: Geopolitical risks are relatively low



In 2025, the Company is likely to see more upside business opportunities

The Company will be required to consider proactive measures with respect to trade tariff risks

In 2024, the risk of deterioration in the performance of the machinery and automotive-related industries became apparent against the backdrop of the sluggish Chinese economy, postponement of private capital investment in anticipation of the U.S. presidential election, delayed recovery of semiconductor capital investment excluding AI, production decline due to certification fraud by Japanese automakers, global inflation and high interest rates, and other factors. Looking ahead to 2025, however, the business environment is expected to be relatively favorable for the Company, as Japanese automakers are expected to recover production and private capital investment, especially in the U.S. and Japan. Macro risks include the introduction of import tariffs in the U.S. and retaliatory tariffs elsewhere, while company-specific risks include concerns about weak profitability in the MC and Materials Handling Operations businesses.

Figure 13: Business opportunities are likely to outweigh risks in 2025

Business opportunities		Risks	
Macro environment	Production recovery at Japanese automakers (Rebound increase from certification fraud) Recovery of private capital investment following the end of the U.S. presidential election (Recovery of orders for machine tools, material handling systems, etc.)	Macro environment	Prolonged economic stagnation in China Introduction of trade tariffs by the U.S. and retaliatory tariffs by other countries Re-acceleration of BEVs Prolonged inflationary environment, including soaring component prices
Chain Operations	Recovery in U.S. and domestic demand Development of new applications of robot-hand products, etc. Market launch of the next-generation roller chain "G9" (2026)	Chain Operations	Increased competition in the U.S.
MC Operations	Structural demand growth related to automation and labor saving Development of new applications with the world's smallest roller chain Expansion of market share through acquisition of large conveyor chain manufacturing base in Europe	MC Operations	Slow improvement in profitability
Mobility Operations	Expansion of automotive clutch applications Recovery in demand for Japanese and European automobiles Re-expansion of demand for HEVs and PHEVs	Mobility Operations	Tighter import tariffs in the U.S. Introduction of measures to promote BEV conversion Significant downturn in Chinese demand
Materials Handling Operations	Expansion of needs for DX solutions in logistics Recovery of demand for domestic logistics, a key strength Expansion of after-sales service business	Materials Handling Operations	Slow improvement in profitability Trouble arising during construction progress

Source: Created by CGRA based on Company documents, etc.

Chain Operations

CGRA's view: Solid demand environment continues

Various chains provided by the Chain Operations business are indispensable power transmission components for a wide range of production and conveyance equipment, and contribute to creating social value by minimizing energy loss through world-leading power transmission performance, saving space through miniaturization, automating and labor-saving, and extending product life. In recent years, the weak yen, product price revisions, and rising market share in the U.S. have boosted the performance of the business. In addition, the business has been linked to the Commodity CRB Index, a leading economic indicator in an inflationary environment, and the demand environment is likely to remain strong in the future.

Solid demand environment continues, especially for heavy-duty applications such as mining resources

Earnings Trends: FY2024 (March/25) operating income forecasts were revised slightly downward

Net sales in 1H FY2024 (April-September) exceeded the Company's plan (47.0 billion yen), growing 0.8% year-on-year to 47.2 billion yen (excluding the effect of the weak yen, net sales fell 4.6% year-on-year). Operating income fell 8.5% year-on-year to 7.2 billion yen (operating income margin of 15.3%) due to higher personnel expenses, but it exceeded the Company's plan (7 billion yen). The full-year forecast for FY2024 was revised from the initial forecast, with net sales increased from 95.0 billion yen to 97.0 billion yen (up 3.0% year-on-year), but operating income was revised downward from 15.5 billion yen to 15.0 billion yen (down 8.5% year-on-year) due to higher fixed costs, such as personnel expenses.

Order Trends: CGRA hopes that demand will enter an expansion phase in 2025

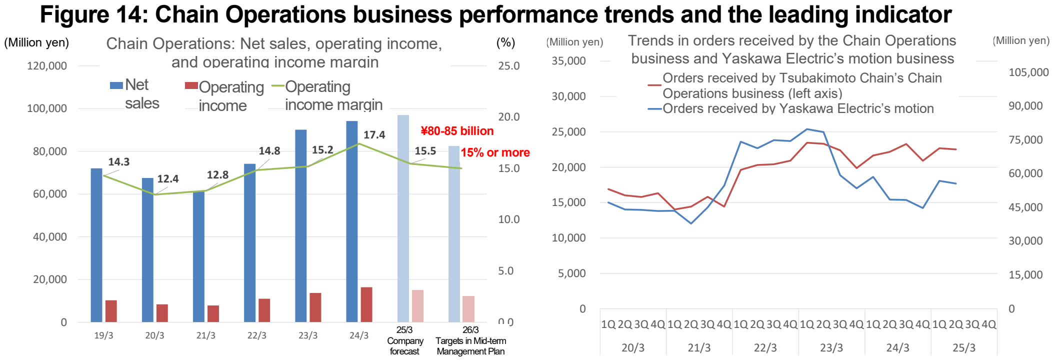
A comparison of the Company's Chain Operations business and Yaskawa Electric's motion business in terms of quarterly orders (servomotors and inverters) shows the resilience of the former. This can be attributed to the Company's high market share and brand power, which has allowed it to raise product prices, as well as its low dependency on the Chinese market (approximately 3%), which continues to experience an economic slowdown. Dependence on the Americas is high at around 40%, and in recent years orders from the Indian Ocean Rim have been growing steadily, with the proportion of orders increasing to around 8%. The situation has plateaued at present, but going forward, against the backdrop of a renewed expansion of the U.S. economy following the presidential election and the development of new applications through the launch of new products, demand for the Company's products is likely to expand again from 2025 onwards.

Recovery of private capital investment, especially in the U.S. and Japanese markets, will be the next driver of business performance

Progress of Mid-Term Management Plan: Achieved 3 years ahead of schedule

The Chain Operations business is targeting net sales of 80-85 billion yen and an operating income margin of at least 15% in FY2025 (March/26), the final year of the Mid-term Management Plan. The business outperformed its targets for both net sales and operating income margin in FY2022, with operating income margin reaching 17.4% in FY2023. According to the Company's news release, it had already launched five new products in FY2023 and seven new products including the world's smallest roller chain in FY2024. The Chain Operations business is expected to create demand, including the development of new applications, and improve profitability.

Figure 14: Chain Operations business performance trends and the leading indicator



Source: Created by CGRA based on the company's financial statements

Motion Control Operations

CGRA's view: Profitability deterioration has not been halted

The reducers, electric cylinders, clutches, shaft couplings, and locking devices produced by the MC business are used to move and drive parts of various machines. They are important components that affect operating performance and machining accuracy. While domestic sales account for only 33% of total net sales in the Chain Operations business, this business is dependent on domestic demand, which accounts for 67% of total net sales. This business has been increasing sales in recent years, mainly in the Americas and the Indian Ocean Rim, and is increasing the ratio of overseas net sales to total net sales, the profitability of this business in FY2023 (March/24) onward has deteriorated further than at the time of the COVID-19 pandemic, and the business needs to review its policies.

CGRA hopes to see synergies from the acquisition of ATR and the introduction of new products

Earnings Trends: FY2024(March/25) earnings forecasts were revised downward

Net sales in 1H FY2024 (April-September) outperformed the Company's plan (11.0 billion yen), rising 1.8% year-on-year to 11.3 billion yen (a slight decrease if the effect of the weak yen is excluded), but operating income fell 37.7% year-on-year to 145 million yen (operating income margin of 1.3%), below the plan (300 million yen). Unfavorable factors include higher prices for purchased parts such as motors and higher labor costs. The full-year forecast for FY2024 was revised downward from the initial forecast, with net sales decreasing from 24.0 billion yen to 23.0 billion yen (1.2% increase year-on-year) and operating income decreasing 39.4% year-on-year from 1.0 billion yen to 400 million yen (operating income margin of 1.7%). In November, the business raised the prices of its domestic products and is focusing on establishing next-generation mainstay products, the effects of which are expected to become apparent in the next fiscal year.

Order Trends: CGRA predicts October to December 2024 will be the bottom for the time being

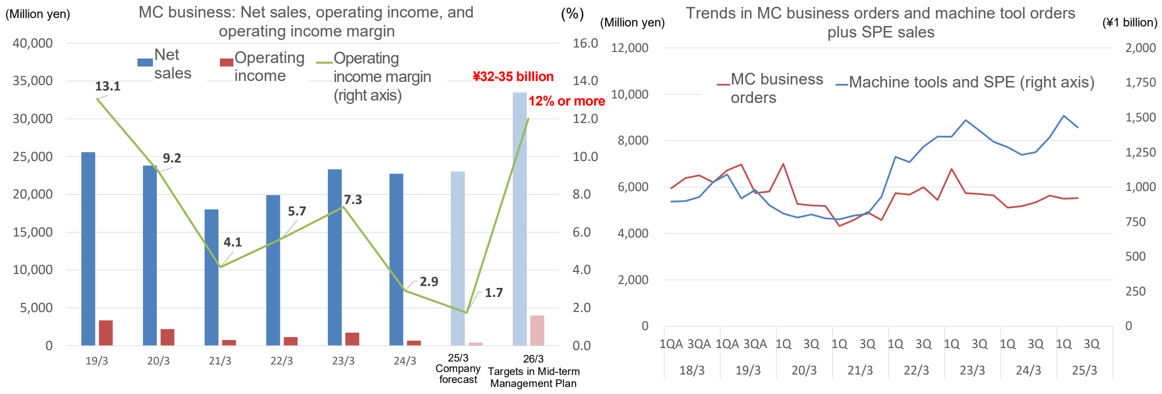
The quarterly machine tool orders, which are a barometer of private-sector capital investment and are highly correlated with the orders received by the Company's MC business, have remained flat. Meanwhile, semiconductor production equipment (SPE) sales have been on a double-digit year-on-year growth trend since April 2024. Orders received by the Company's MC business are lagging behind the leading indicator, which is the sum of machine tool orders and SPE sales. This is attributed to inventory adjustments at distributors and customers, but the recovery trend in orders in the Company's MC business is expected to strengthen in the future, filling the gap between the two.

Demand for machine tools and SPE is expected to recover in 2025

Progress of Mid-Term Management Plan: Struggles continue

The MC business is targeting net sales of 32-35 billion and an operating income margin of at least 12% in FY2025. Although the operating income margin improved to 7.8% in 2H FY2022, profitability has been deteriorating due to lower demand, especially for SPE and machine tools, and higher fixed cost burdens. In FY2025, the business is expected to benefit from a recovery in semiconductor capital investment and machine tool orders. However, in order to achieve the numerical targets in the Mid-term Management Plan, the business will be required to further raise product prices, strengthen after-sales service, and select and concentrate on products and industries through ROIC management.

Figure 15: MC business performance trends and the leading indicator



Source: Created by CGRA based on the Company's financial statements and materials provided by Japan Machine Tool Builders' Association, Semiconductor Equipment association of Japan, etc.

Mobility Operations

CGRA's view: The Mobility Operations business appears to have significant upside potential for the next 1-2 years

The timing chain systems provided by the Mobility Operations business are necessary products for making automobile engines smaller, lighter, more powerful, quieter, and more fuel-efficient. Battery electric vehicles (BEVs), which run entirely on electricity, do not need an engine, so the timing chain system itself is not used, but is necessary for HEV engines and hydrogen engines. In recent years, the shift toward BEVs in the automobile industry has slowed, with increased demand for HEVs and PHEVs. The business is also expected to gain market share, and a favorable profit environment is expected for the next one to two years. However, in addition to measures for long-term BEV conversion, countermeasure simulations for U.S. trade tariffs will likely be required.

For the time being, demand is expected to rebound towards HEVs and PHEVs, and Japanese automakers are expected to make up for lost production

Earnings Trends: FY2024 (March/25) full-year earnings forecasts were slightly revised downward

Net sales in 1H FY2024 (April-September) outperformed the Company's plan (44.0 billion yen), rising 10.1% year-on-year to 44.6 billion yen, and operating income exceeded the plan (3.3 billion yen), rising 14.9% year-on-year to 3.6 billion yen (operating income margin of 8.2%). Sales growth offset higher manufacturing and labor costs associated with increased production, allowing the Company to achieve higher sales and profits. The FY2024 full-year forecast was revised slightly downward, with net sales decreasing from 90 billion yen to 88 billion yen (4.0% increase year-on-year), and operating income decreasing 1.5% year-on-year from 8.2 billion yen to 7.7 billion yen (operating income margin of 8.8%). Operating income margin for 2H is expected to be 9.3%. Depending on the top line going forward, the business may be able to achieve the profitability targets set forth in the Mid-term Management Plan for FY2025 (March/26).

Leading Performance indicators: Automobile production volume hits bottom

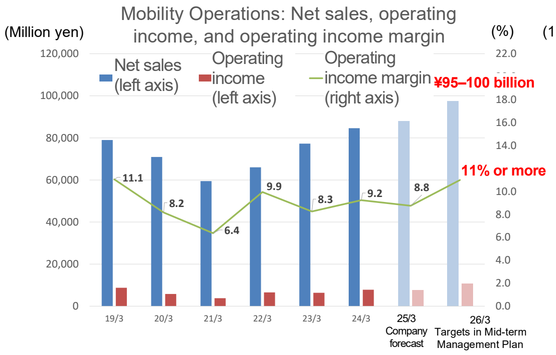
Global production by the eight Japanese automakers continues to be sluggish against the backdrop of the certification fraud issue and other problems, but there are signs of bottoming out. As automakers are expected to recover production and swing back from BEVs, the recovery of the Mobility Operations business is likely to drive the Company's performance in 2025.

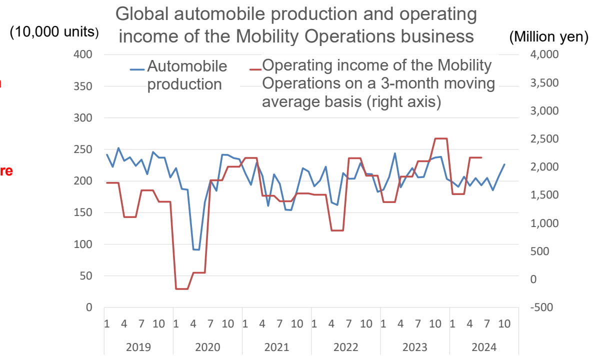
We would like to focus on the re-expansion of global automobile production

Progress of Mid-Term Management Plan: The probability of achieving the plan is increasing

The Mobility Operations business is targeting net sales of ¥95–100 billion and an operating income margin of at least 11% in FY2025 (March/26), the final year of the mid-term plan. In China, the Mobility Operations business faces significant downside risk, just like other companies. Nevertheless, the business appears more likely to exceed its Mid-term Management Plan targets for sales and operating income margin in FY2025, thanks to the full-scale launch of large new projects in Europe, a recovery in production by Japanese automakers, a return of demand for HEVs/PHEVs, and the consolidation of production bases. The business has taken measures to maximize profits by consolidating factories, such as transferring the UK base in Europe to the Czech Republic plant, and consolidating the number of production bases in Thailand to one from two in the Indian Ocean Rim. The business also appears to be making progress in developing new businesses for long-term BEV conversion.

Figure 16: Mobility Operations business performance trends and the leading indicator





Source: Created by CGRA based on various documents

Materials Handling Operations

CGRA's view: Drastic measures are needed to improve profitability

The Materials Handling Operations business is expected to contribute to highly efficient logistics through accurate and high-speed sorting equipment and systems, as well as to the research and development of low-high polymer pharmaceuticals and the development of the field of biological samples such as DNA, and also to the field of regenerative medicine, which is attracting worldwide attention as a next-generation healthcare. However, the business's operating income margin has never exceeded 5% in the past 15 years. The margin on segment assets at the end of FY2023 was also only -2.0%. We believe that taking advantage of the introduction of ROIC management, it is now time for the business to introduce measures aimed at "selection and concentration."

This business is attractive for its unique business development that other companies do not have, but it is necessary to quickly rebuild earning power

Earnings Trends: Profitability improvement measures are slowly showing results

Net sales in 1H FY2024 (April-September) fell short of the Company's plan (34.0 billion yen), but grew 9.9% year-on-year to 33.0 billion yen. However, operating income fell short of the Company's plan (100 million yen), and the business posted an operating loss of 100 million yen, a turnaround from its forecast profitability. Bulk handling systems, systems for the Americas automotive industry, and domestic logistics and automotive projects drove revenue growth. Operating income, despite being negative, turned to a profit of 452 million yen (operating income margin of 2.5%) in 2Q, compared to a loss of 558 million yen in 1Q. The FY2024 (March/25) full-year forecast was revised downward, with net sales decreasing to 66 billion yen from 71 billion yen (1.1% increase year-on-year), and operating income decreasing to 500 million yen from 1.2 billion yen (operating income margin of 0.8%). Operating income for 2H is expected to be 600 million yen (operating income margin of 1.8%).

Order Trends: Orders received appear to hit bottom

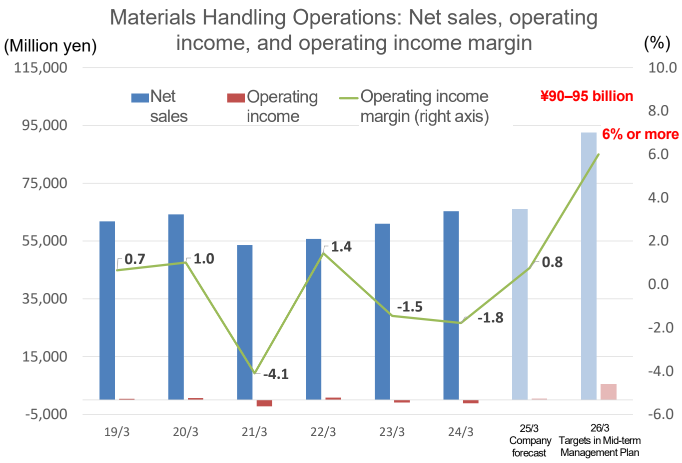
Orders received in 2Q FY2024 (July-September) grew 15.1% year-on-year to 19.9 billion yen. It is difficult to judge profitability from the amounts of orders received, but we hope that selective orders will contribute to profits.

Progress of Mid-Term Management Plan: The business is expected to develop with profitability in mind

The Materials Handling Operations business is targeting net sales of 90-95 billion yen and an operating income margin of at least 6% in FY2025 (March/26), the final year of the Mid-term Management Plan. Although achieving its targets may be challenging for this business, a joint venture company established with KDDI to support the digital transformation and automation of logistics warehouses started operations on April 1. In addition, the business is promoting business development that differentiates itself from its competitors, such as by implementing world-class AI image recognition technology in an automatic sorting system. The business is also strengthening its after-sales service business with the aim of securing a stable revenue source, and is expected to build a sustainable profitable structure.

Many stock market observers believe that the earnings gap with Daifuku is obvious and want the business to take drastic measures to improve its performance

Figure 17: Materials Handling Operations business performance trends



Source: Created by CGRA based on various documents

Stock Price Valuation Considerations

Reasonable P/B ratio at this time is estimated to be 1.1x

There appears to be significant potential for the Company's stock price to rise through self-help efforts

Here, we would like to apply the sum-of-the-parts (SOTP) analysis based on the segment profit composition to estimate a reasonable stock price. First, if we apply an average P/E ratio of 9.9x for the three major auto parts makers (Aisin, Aisan Industry, and Tokai Rika) to the Mobility Operations business's projected 38.5% share of segment profit, we estimate a P/E ratio of 3.8x.

On the other hand, the segment profit composition, including the Chain Operations business but excluding the Mobility Operations business, is 61.5%, and applying the average P/E ratio of 16.2x for the machinery industry (113 companies listed on the Prime Market), the P/E ratio is estimated to be 9.9x. Combining these, the Company's expected P/E ratio is 13.7x, and the theoretical share price is calculated to be 2,633 yen (market cap of 292.9 billion yen = P/B ratio of 1.1x) based on the Company's expected EPS of 192.25 yen. The difference between this and the current share price is considered to be the discounted portion brought about by the low profitability of the MC and Materials Handling Operations businesses.

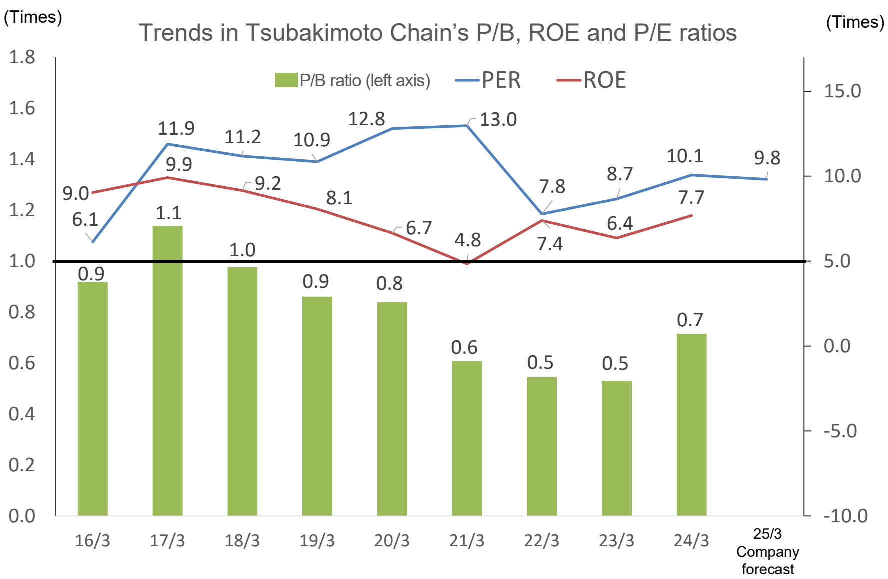
The Company needs an ROE of about 10% to ensure a stable P/B ratio of 1x or more

The Company needs to achieve a medium- to long-term growth vision and improve sustainability for a higher P/E ratio

The Company's P/B, ROE, and P/E ratios over the past 10 years, including the FY2024 (March/25) forecast, show that prior to FY2017 (March/18), the Company had a stable ROE of around 10% and was valued at over 10x P/E, and its P/B ratio had been above 1x. Prior to FY2017, ROE was driven by the Mobility Operations business, which had a 15-17% margin on segment assets, while the Chain Operations business had a 7-10% margin on segment assets. However, the margin on segment assets of the Chain Operations business reached 15.3% in FY2023 (March/24), outpacing the Mobility Operations business with 6.9%. On the other hand, the margin on segment assets in the MC business, which accounted for 11% of segment assets before adjustment at the end of FY2023, and the Materials Handling Operations business, which accounted for 19% of segment assets at that time, remained low at only 1.9% and -2.0%, respectively.

There is a limit to raising P/E ratio and ROE through capital policy, and the Company will be required to secure ROE of around 10% by enhancing profitability in its core business, achieving a long-term growth vision and improving sustainability in order to achieve a stable P/B ratio of 1x or higher.

Figure 18: Trends in the Company's P/B, ROE and P/E ratios over the past 10 years



Source: Created by CGRA based on various documents

Shareholder returns

Aggressive measures to increase shareholder value can be expected to continue during the current Mid-term Management Plan period

Dividend payout ratio revised upward to "consolidated dividend payout ratio of 35% or higher

Based on target ROE and other key KPIs and cash allocations set forth in the current Mid-term Management Plan, the Company announced a share buyback and cancellation of up to 5 billion yen (1.2 million shares, 3.24% of total shares outstanding) on May 23, 2023. In its May 14, 2024 announcement, "Measures to Achieve Management Conscious of Cost of Capital and Stock Price," the Company further revised its policy to raise the consolidated dividend payout ratio from the 30% standard to 35% or more and to flexibly implement share buybacks and other measures to return profits to shareholders with an awareness of total payout ratio. On the same day, the Company announced the sale of three stocks of its policy shareholdings (proceeds of approximately 6 billion yen, to be implemented during FY2024), as well as the repurchase of up to 10 billion yen (5.0% of total shares outstanding) of its own shares (completed on November 30).

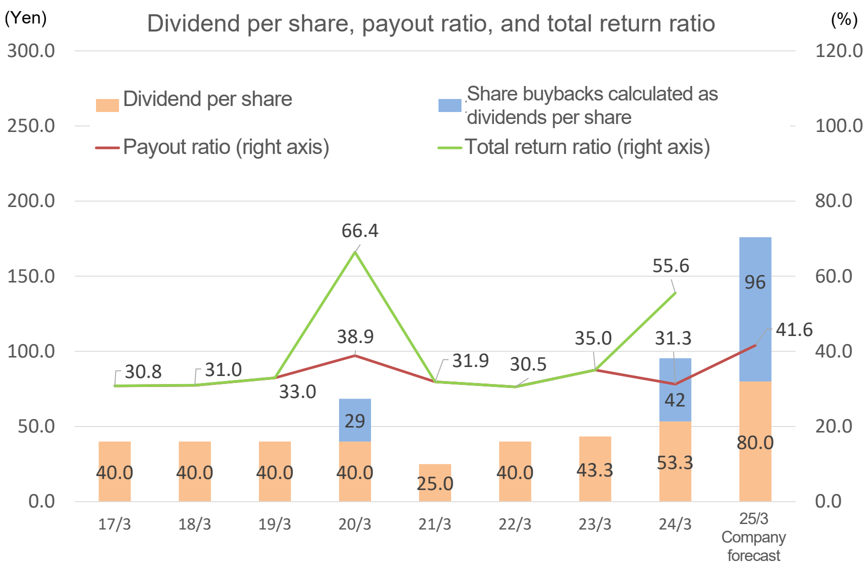
Shareholder returns of 16.7-21.7 billion yen can be expected in FY2025 (March/26)

- Promised dividend payout ratio of 35% or more (forecast dividend payout ratio for FY2024 (March/25): 41.6%; dividend per share after considering the stock split: 80 yen)

- Total shareholder return in FY2024-25 is estimated to be 35-40 billion yen (in FY2024, the Company plans to buy back 10 billion yen of its own shares and pay out 8.3 billion yen in dividends, for a total of 18.3 billion yen, with the remaining 16.7-21.7 billion yen to be returned to shareholders in FY2025)

Taking into account the three-for-one common stock split, the dividend per share for FY2023 (March/24) is 53.3 yen, an increase of 10 yen from the previous fiscal year. The dividend payout ratio is 31.3%, but the total payout ratio is estimated to be 55.6% after taking into account the share buyback mentioned above. The Company revised downward its full-year earnings forecast for FY2024 (March/25) as of October 31, 2024, but maintained its dividend of 80 yen per share (payout ratio of 41.6%) after considering the stock split. The dividend per share calculated by converting the above repurchase of treasury stock into a dividend is 176 yen, and the total payout ratio including the repurchase of treasury stock is estimated to be 91.6%. Based on the Company's cash-allocation forecast, it seems likely that the Company will continue to actively return profits to shareholders in FY2025 (March/26), the final year of the Mid-term Management Plan.

Figure 19: The company has continuously increased its dividend and repurchased shares



Source: Created by CGRA based on Company documents

A good balance between income gains and capital gains

As mentioned above, income gains have been improved by raising the dividend payout ratio, and ROE for FY2023 (March/24) rose to 7.7%, the highest since FY2019 (March/20). As a result, not only income gains but also capital gains from share buybacks and improved profitability in the core business contributed to the improvement of the dividend on equity (DOE) ratio by 0.2 points year-on-year to 2.4% in FY2023. Although the Company does not currently use DOE as a key indicator in its Mid-term Management Plan, we look forward to its efforts to improve DOE by balancing income gains and capital gains.

We anticipate that the Company will adopt management practices that consider DOE as a key metric

Figure 20: Improved income gains and ROE also contribute to higher DOE

(%)	DOE (Dividend on equity ratio)	=	ROE (Capital gains)	×	Payout ratio (Income gains)	Total payout ratio
19/3	2.7		8.1		33.0	33.0
20/3	2.6		6.7		38.9	66.4
21/3	1.5		4.8		31.9	31.9
22/3	2.3		7.4		30.5	30.5
23/3	2.2		6.4		35.0	35.0
24/3	2.4		7.7		31.3	55.6
25/3 Company forecast	-		-		41.6	-

Source: Created by CGRA based on Company documents

The Company's TSR has outperformed TOPIX and the Machinery Index over the past three years

The Company's total shareholder return (TSR), which takes into account dividends and stock price performance (i.e., capital gains), has outperformed the TOPIX with dividends and the Machinery Index with dividends over the past three years. For example, investors who purchased the Company's stock five years ago saw a +45.7% increase in returns, but their yields underperformed the TOPIX, which was up +96.2%, and the Machinery Index, which was up +117.0%. However, investors who purchased the Company's stock three years ago enjoyed a return of +82.3%, a return that outperforms the TOPIX of +52.5% and the Machinery Stock Index of +52.8% by about 30 percentage points. In other words, the Company is generating good absolute and relative returns.

Figure 21: The Company's TSR outperformed TOPIX and the Machinery Index

(%)	1 year ago	2 years ago	3 years ago	4 years ago	5 years ago	7 years ago	10 years ago
Tsubakimoto Chain	65.2	78.1	82.3	42.6	45.7	29.2	184.3
TOPIX	41.3	49.6	52.5	116.8	96.2	115.9	188.6
Machinery index	46.2	58.8	52.8	144.3	117.0	123.6	201.8
vs. TOPIX	+23.8	+28.5	+29.7	-74.2	-50.5	-86.7	-4.2
vs. Machinery index	+18.9	+19.3	+29.5	-101.7	-71.3	-94.4	-17.5

Source: Created by CGRA based on Company documents

Sustainability Management

ROIC Management: We expect the Company to leverage ROIC as a management decision-making tool

The "TSUBAKI REPORT 2023" issued last year clearly stated that the Company's Board of Directors intended to add ROIC by business division as a management indicator during FY2023, calculate cost of capital, be aware of stock price (market capitalization and P/B ratio), and discuss specific measures to achieve ROE above cost of equity and ROIC above WACC. On the other hand, the "TSUBAKI REPORT 2024" did not refer to anything specific, only stating in an interview with Outside Director Keiichi Ando that "we have added ROIC for each division to our decision-making metrics starting in 2024." In the future, beyond disclosing data such as the cost of capital, we hope the Company will leverage ROIC as a strategic tool for management decisions focused on "selection and concentration."

We expect the Company to engage in effective ROIC management

Environmental (E): Environmental activities are generating positive financial impact

The Company previously disclosed CO_2 reduction targets for domestic and overseas group companies for FY2025. In May 2023, it acquired Science Based Targets (SBT) certification and disclosed its first global CO_2 emission reduction target (42% reduction in FY2030 compared to FY2021) in the "TSUBAKI REPORT 2024." The Company also presented a 25% reduction target for Scope 3 compared to FY2021 in Categories 1 and 11. The Company plans to achieve carbon neutrality in Scope 1, 2, and 3 by FY2050, and is steadily implementing the plan, including information disclosure. It is also worth noting that the Company is steadily growing sales of eco-products as a financial impact of its environmental activities.

Creating financial impact through ESG management can be evaluated favorably

Social (S): We would like to request the Company to disclose customer satisfaction and procurement surveys in the future

The percentage of employees taking paid leave (non-consolidated) is increasing, as is the ratio of female employees in positions of responsibility, and the turnover rate of new hires within three years is low at 3.4%, indicating that the Company is a good place to work. On the other hand, only 49.8% of employees in Japan rated their job satisfaction in an awareness survey (9 items) conducted once every two years. We hope that the Company will enhance the content and frequency of its employee satisfaction (ES) surveys in the future to improve internal motivation, which will lead to a greater financial impact manifested through enhanced human investment. We would also like to request the Company to disclose the contents of the customer satisfaction survey and the sustainable procurement survey.

Governance (G): We would like to see better disclosure of board meeting agendas

The Company's enhanced shareholder returns to maximize shareholder value, including the sale of policy shareholdings and share repurchases, are favorably evaluated. However, there is an undeniable impression that the Company seems insufficient in its disclosure of aspects related to effectiveness, including the agenda of its Board of Directors. In particular, we encourage greater disclosure of initiatives related to business model reforms through ROIC management, including discussions on the optimal balance sheet composition, strategic portfolio management, identification of key challenges, and succession planning for the CEO and COO.

External evaluation: The Company saw a decline in its external evaluation

In the SDGs Management Survey published by Nihon Keizai Shimbun, in 2023, Komatsu was given a score of 4.5 out of 5, EBARA, Kubota, Daikin Industries, DMG Mori, and Daifuku were given a score of 4.0, while the Company was rated 3.0, as were IHI, NTN, and Iseki & Co. Specifically, last year, when the Company received an overall score of 3.5, it received an A+ in the "SDG Strategic and Economic Value," "Social Value Assessment," "Environmental Value Assessment," and "Governance Assessment," while in 2024 it received lower scores in all three categories except "Governance Assessment."

Consolidated P/L, B/S, and Cash Flow

Figure 22 : Consolidated P/L and Segment earnings data

(¥ mn,%)	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3	25/3COE
Sales	**203,976**	**198,762**	**215,716**	**238,515**	**226,423**	**193,399**	**215,879**	**251,574**	**266,812**	**274,000**
YOY	3.7	-2.6	8.5	10.6	-5.1	-14.6	11.6	16.5	6.1	2.7
COGS	142,241	138,191	152,629	171,958	166,158	145,764	153,134	180,321	189,046	–
COGS ratio	69.7	69.5	70.8	72.1	73.4	75.4	70.9	71.7	70.9	–
SG&A	40,164	38,924	42,392	44,767	44,118	38,737	44,902	52,267	56,503	–
SG&A ratio	19.7	19.6	19.7	18.8	19.5	20.0	20.8	20.8	21.2	–
Operating income	**21,570**	**21,647**	**20,694**	**21,789**	**16,146**	**8,896**	**17,842**	**18,985**	**21,262**	**20,000**
YOY	0.7	0.4	-4.4	5.3	-25.9	-44.9	100.5	6.4	12.0	-5.9
Operating income ratio	10.6	10.9	9.6	9.1	7.1	4.6	8.3	7.5	8.0	7.3
Non-operating income/expenses	539	357	1,049	-167	552	2,129	2,204	1,973	2,188	2,000
Non-operating profits	1,505	1,505	1,784	1,809	1,918	3,265	3,230	2,933	3,770	–
Equity-method investment profits	49	17	5	27	44	47	81	122	17	–
Non-operating losses	966	1,148	735	1,976	1,366	1,136	1,026	960	1,582	–
Equity-method investment losses	0	0	0	0	0	0	0	0	0	–
Financial balance	470	485	632	637	781	584	802	1,168	1,968	–
Interest earned	134	99	119	150	152	129	154	332	1,039	–
Dividends earned	661	670	780	851	1,010	775	944	1,119	1,248	–
Interest paid	325	284	267	364	381	320	296	283	319	–
Ordinary income	**22,109**	**22,004**	**21,743**	**21,621**	**16,698**	**11,026**	**20,045**	**20,958**	**23,450**	**22,000**
YOY	-0.7	-0.5	-1.2	-0.6	-22.8	-34.0	81.8	4.6	11.9	-6.2
Ordinary income ratio	10.8	11.1	10.1	9.1	7.4	5.7	9.3	8.3	8.8	8.0
Extraordinary income/loss	-1,665	-429	-579	-2,189	111	1,133	35	-2,666	2,444	–
Extraordinary income	75	10	0	4	533	1,190	130	376	3,719	–
Extraordinary loss	1,740	439	579	2,193	422	57	95	3,042	1,275	–
Pretax income	20,444	21,575	21,164	19,432	16,809	12,159	20,081	18,292	25,894	–
Taxes and deferred taxes	7,643	6,721	6,422	5,577	5,123	3,377	5,418	4,429	7,282	–
Tax ratio	37.4	31.2	30.3	28.7	30.5	27.8	27.0	24.2	28.1	–
Minority interests	33	257	75	75	109	75	119	120	60	–
Net income	**12,766**	**14,596**	**14,666**	**13,779**	**11,576**	**8,706**	**14,543**	**13,742**	**18,551**	**20,000**
YOY	-9.8	14.3	0.5	-6.0	-16.0	-24.8	67.0	-5.5	35.0	7.8
NP margin	6.3	7.3	6.8	5.8	5.1	4.5	6.7	5.5	7.0	7.3
EPS	113.73	130.05	129.15	121.34	102.90	78.41	130.96	123.70	170.55	192.25
Segment Sales										
Chain	63,998	60,600	67,338	72,023	67,526	61,312	74,174	90,096	94,151	97,000
Motion Control	21,975	21,563	24,156	25,591	23,813	18,024	19,906	23,316	22,731	23,000
Mobility	73,473	75,147	79,545	78,992	70,949	59,450	66,027	77,275	84,616	88,000
Material Handling Systems	44,354	41,043	44,187	61,827	64,212	53,618	55,728	60,973	65,312	66,000
Others	3,186	3,001	3,331	3,548	3,542	3,941	3,074	3,200	3,404	3,000
Elimination	-3,011	-2,594	-2,843	-3,469	-3,622	-2,948	-3,031	-3,287	-3,402	-3,000
Consolidated Sales	203,976	198,762	215,716	238,515	226,423	193,399	215,879	251,574	266,812	274,000
Segment Profit										
Chain	6,172	7,102	8,502	10,292	8,406	7,862	11,005	13,687	16,396	15,000
Motion Control	2,428	2,218	3,060	3,340	2,189	747	1,129	1,710	660	400
Mobility	12,258	12,385	10,258	8,734	5,791	3,782	6,568	6,376	7,815	7,700
Material Handling Systems	659	706	416	402	647	-2,202	799	-888	-1,165	500
Others	84	-1	-41	-43	20	-330	-442	-534	-944	-1,000
Elimination	-30	-765	-1,502	-936	-909	-963	-1,217	-1,365	-1,499	-2,600
Consolidated Operating Income	21,570	21,647	20,694	21,789	16,146	8,896	17,842	18,985	21,262	20,000
Operating Income Margin										
Chain	9.6	11.7	12.6	14.3	12.4	12.8	14.8	15.2	17.4	15.5
Motion Control	11.0	10.3	12.7	13.1	9.2	4.1	5.7	7.3	2.9	1.7
Mobility	16.7	16.5	12.9	11.1	8.2	6.4	9.9	8.3	9.2	8.8
Material Handling Systems	1.5	1.7	0.9	0.7	1.0	-4.1	1.4	-1.5	-1.8	0.8
Others	2.6	0.0	-1.2	-1.2	0.6	-8.4	-14.4	-16.7	-27.7	-33.3
Consolidated Operating Income Margin	10.6	10.9	9.6	9.1	7.1	4.6	8.3	7.5	8.0	7.3

Consolidated EPS are adjusted to reflect the value after stock consolidation and stock sprit

Source：Created by CGRA based on Company documents

Figure 23：Consolidated B/S and Cash Flow

(¥ mn, %)	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3
Current assets	**116,619**	**116,536**	**125,400**	**132,144**	**143,949**	**134,083**	**145,185**	**166,512**	**182,054**	**205,853**
Cash on hand and in banks	17,504	20,195	26,332	29,590	33,647	29,019	41,869	49,104	56,908	77,321
Receivables	47,338	48,726	50,760	55,612	59,807	57,046	55,377	59,131	63,208	67,350
Marketable securities	12,020	7,533	7,965	4,646	4,114	3,965	6,189	6,339	2,674	603
Inventories	33,574	33,153	33,875	37,676	41,884	40,278	38,389	49,008	55,882	58,156
Other current assets	6,183	6,929	6,468	4,618	4,495	3,773	3,360	2,930	3,381	2,421
Fixed assets	**142,122**	**137,570**	**141,814**	**151,429**	**161,966**	**160,015**	**162,147**	**166,107**	**163,823**	**185,444**
Tangible fixed assets	101,613	102,777	105,435	113,285	116,946	118,579	115,059	114,918	115,097	118,942
Intangible fixed assets	5,132	4,352	3,841	2,968	12,787	11,361	10,695	10,700	9,081	8,904
Investments and other assets	35,376	30,444	32,537	35,175	32,233	30,074	36,391	40,488	39,644	57,598
Total assets	**258,742**	**254,106**	**267,215**	**283,574**	**305,916**	**294,098**	**307,332**	**332,620**	**345,878**	**391,298**
Current liabilities	**59,435**	**55,525**	**66,558**	**70,796**	**82,617**	**67,081**	**61,690**	**67,839**	**65,588**	**77,499**
Notes payable - trade	25,902	24,986	25,462	34,148	33,701	27,030	25,674	28,373	29,643	33,291
Short-term borrowings	11,761	10,547	20,225	11,292	22,779	17,139	11,953	13,142	9,328	9,984
Other current liabilities	21,773	19,992	20,872	25,356	26,137	22,912	24,064	26,324	26,617	34,224
Long-term liabilities	**55,014**	**52,766**	**44,439**	**43,012**	**47,844**	**50,961**	**58,147**	**55,023**	**53,707**	**53,238**
Convertible bonds	10,000	10,000	10,000	10,000	15,000	15,000	15,000	15,000	15,000	15,000
Long-term debt	15,146	14,269	4,409	5,288	5,992	9,369	14,214	9,727	9,457	3,728
Other long term liabilities	29,868	28,497	30,030	27,723	26,851	26,592	28,933	30,295	29,249	34,510
Total liabilities	**114,450**	**108,291**	**110,997**	**113,808**	**130,461**	**118,043**	**119,838**	**122,863**	**119,295**	**130,738**
Minority interests	3,851	3,774	3,744	1,848	1,720	1,695	1,703	2,000	2,184	2,159
Shareholders' equity	140,439	142,041	152,474	167,916	173,734	174,360	185,791	207,756	224,398	258,400
Total net assets	144,291	145,815	156,218	169,764	175,454	176,055	187,494	209,757	226,582	260,559
Total liabilities and shareholders' equity	**258,742**	**254,106**	**267,215**	**283,574**	**305,916**	**294,098**	**307,332**	**332,620**	**345,878**	**391,298**

(¥ mn, %)	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3
Operating CF	**22,189**	**19,090**	**25,434**	**27,657**	**24,197**	**20,275**	**27,890**	**21,000**	**21,352**	**38,580**
Income before income taxes and minority interests	22,583	20,444	21,575	21,164	19,432	16,809	12,159	20,081	18,292	25,894
Depreciation and amotization	9,476	10,402	10,342	11,005	12,366	12,739	12,682	12,694	13,299	13,883
Working capital total	-4,110	-3,721	-2,804	720	-5,847	-3,318	3,143	-7,998	-5,851	2,624
Income taxes	-7,193	-9,785	-6,126	-6,664	-7,354	-5,089	-3,810	-3,533	-7,403	-6,534
Others	1,433	1,750	2,447	1,432	5,600	-866	3,716	-244	3,015	2,713
Investing CF	**-14,306**	**-13,593**	**-13,420**	**-17,389**	**-32,088**	**-14,241**	**-9,560**	**-9,075**	**-9,279**	**-9,161**
Purchase of investment securities	-548	-194	-229	-11	-212	-15	-252	-12	-24	-620
Proceeds from sales of investment securities	0	0	19	0	328	215	166	352	793	2,775
Additions to property, plant and equipment	-9,384	-13,750	-14,151	-15,542	-17,273	-14,661	-9,723	-8,004	-8,922	-10,844
Proceeds from sales of fixed assets	356	147	135	167	198	171	689	178	354	178
Purchase of subsidiary investment	0	0	0	0	-15,457	0	0	0	0	0
Others	-4,730	207	807	-2,001	327	48	-440	-1,589	-1,480	-650
FCF	**7,882**	**5,496**	**12,013**	**10,268**	**-7,890**	**6,034**	**18,330**	**11,925**	**12,073**	**29,419**
Financial CF	**-2,647**	**-5,476**	**-4,084**	**-13,191**	**12,679**	**-10,385**	**-4,354**	**-7,780**	**-9,963**	**-15,695**
Net increase(decrease) in long term debt	-1,239	-1,540	-688	-9,410	15,780	-2,398	1,213	-658	-4,581	-279
Net increase(decrease) in short term debt	1,135	-190	913	1,042	1,813	376	-1,687	-3,005	145	-5,226
Cash divident paid	-2,432	-3,554	-3,928	-4,544	-4,731	-4,541	-3,330	-3,516	-4,813	-4,767
Others	-111	-192	-381	-279	-183	-3,822	-550	-601	-714	-5,423
Effect of exchange rate changes on cash and cash equivalents	741	-957	-649	374	-414	-358	730	2,658	1,980	3,952
Changes on cash and cash equivalents	5,976	-937	7,279	-2,548	4,374	-4,708	14,706	6,803	4,089	17,677
Cash and cash equivalents at the beginning of the year	21,291	27,360	26,422	34,142	31,712	36,087	31,378	46,084	52,888	56,978
Cash and cash equivalents at the end of the year	27,360	26,422	34,142	31,712	36,087	31,378	46,084	52,888	56,978	74,655
Sales/total assets (x)	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.7	0.7	0.7
Sales/fixed assets (x)	2.0	2.0	1.9	2.0	2.1	1.9	1.7	1.9	2.2	2.3
Sales/current assets (x)	1.8	1.7	1.6	1.7	1.7	1.6	1.4	1.4	1.4	1.4
Sales/inventories (days)	84.2	85.6	88.5	85.6	84.4	90.2	98.5	104.2	106.2	110.1
Sales/receivables (days)	85.0	85.9	91.3	90.0	88.3	94.2	106.1	96.8	88.7	89.3
Sales/payables (days)	47.5	45.5	46.3	50.4	51.9	49.0	49.7	45.7	42.1	43.0
Shareholders' equity ratio (%)	54.3	55.9	57.1	59.2	56.8	59.3	60.5	62.5	64.9	66.0
CCC(days)	121.8	126.0	133.5	125.1	120.8	135.5	154.8	155.3	152.8	156.3
ROE (%)	10.9	9.0	9.9	9.2	8.1	6.7	4.8	7.4	6.4	7.7
ROA (%)	5.8	5.0	5.6	5.3	4.7	3.9	2.9	4.5	4.1	5.0

Source：Created by CGRA based on Company documents

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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

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Capital Goods Research & Advisory Co., Ltd.

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