



**We will transform our business structure and thereby become a company capable of securing profits.**

Director  
Representative Executive Officer, President  
CEO (Chief Executive Officer)

**Eiichi Ukai**

With the steady implementation of our Medium-term Management Plan “DRIVE NTN100” Phase 2, we are promoting the transformation of our business structure and accelerating initiatives designed to strengthen our financial framework and build a resilient corporate structure capable of responding to changes in the business environment. We recognize that we still face many challenges, but we also see positive signs. For example, our aftermarket and industrial machinery businesses are showing expansionary trends, and the Americas and Europe regions returned to profitability in the fourth quarter of the fiscal year ended March 31, 2023. In this, the final year of “DRIVE NTN100” Phase 2, we will focus even more intently on the key issues of the Medium-term Management Plan, and thereby transform ourselves into a company capable of securing profits. I therefore wish to take this opportunity to bring our stakeholders up to date on our current status and outlook.

### Fiscal year ended March 31, 2023: Results and Issues

The NTN Group reported net sales of 774.0 billion yen and operating income of 17.1 billion yen in the fiscal year ended March 31, 2023. With increases in income and profit, we enjoyed solid improvements in performance compared to the previous fiscal year, which was heavily impacted by the COVID-19 pandemic. Moreover, our aftermarket and industrial machinery businesses marked record-high net sales and operating income. These businesses are benefitting from recovering demand and foreign exchange rates. Even before I became president, I was in charge of both businesses, and from the very beginning, we focused on earning power. We strove to reduce costs as much as possible within the company, and then engaged in repeated negotiations with customers and revised prices in unprofitable businesses. These efforts are now bearing fruit.

However, overall operating income fell far short of our announced figure of 26 billion yen. Consequently, we have not met the expectations of our investors and other stakeholders, a fact that I take very seriously.

Our operating income was lower than expected for changes in the external environment and other reasons. Chief among them were adjustments in production that we made in anticipation of a slow recovery in automotive market demand, higher-than-expected energy costs, additional price increases for various materials as a result of those costs, and our acceptance of suppliers' demands for higher prices. While changes in the external environment were also a factor, a challenge we must undertake is the revitalization of our automotive business, which accounts for more than 60% of our Group's net sales but which has been in the red for four fiscal years. A major point we must take to heart is that we were unable to generate adequate profits despite the fact that driveshafts and hub bearings—mainstay products that account for about 80% of our automotive business—have a significant impact on our business performance. We will endeavor to secure profits from driveshafts and hub bearings by strengthening our cost competitiveness and passing on rising costs to sales prices.

To strengthen our cost competitiveness, we will continue making unrelenting efforts to reduce costs through procurement reforms, production reforms, and other initiatives. One of the measures we will take is to promote new procurement of parts with cost competitiveness or cost advantages in terms of tariffs after quality evaluations. We will strive to reduce variable costs by using parts with higher cost competitiveness, which we will do after obtaining approval from automakers, our customers, to make process changes.

As for passing on rising costs to sales prices, some customers have had harsh words for us during price negotiations. Nonetheless, some other customers

tell us that they want to continue doing business with NTN and urge us to notify them if we are struggling with a problem. I therefore get the sense that they appreciate the value of our company. We will use this as a springboard for strengthening trust with our customers. Negotiating with customers is never easy, but we are determined to press forward with price negotiations, including for businesses that we have not yet passed on higher costs to sales prices in fiscal year ended March 31, 2023.

### Outlook for fiscal year ending March 31, 2024 and the Next Medium-term Management Plan

For the fiscal year ending March 31, 2024, we are forecasting net sales of 810 billion yen and operating income of 30 billion yen. The aftermarket and industrial machinery businesses are expected to reach record highs by continuing to pass on rising costs to sales prices and revising prices in unprofitable businesses. Meanwhile, in the automotive business, we will aim to achieve year-on-year increases in sales and profit and break free from operating losses as easing semiconductor shortages lead to a recovery in automobile production.

In comparison with the initial targets of the Medium-term Management Plan ending in the fiscal year ending March 31, 2024, we anticipate that net sales will expand but operating income will fall off the target of 42 billion yen or more by 12 billion yen. Likewise, although our operating margin is gradually rising, it will remain at 3.7% for the fiscal year ending March 31, 2024, compared to the target of 6% or more.

Thus, we will be unable to achieve the Medium-term Management Plan's initial targets. Nonetheless, I see it as management's responsibility to make achievement happen early in the new Medium-term Management Plan, which will start in the fiscal year ending March 31, 2025. We are making thorough preparations during the current fiscal year and will proceed with a concerted Group-wide effort under the new Medium-term Management Plan.

Specifically, we reworked the organizational structure of our head office in April 2023. The key component of this reorganization was the establishment of the Group Management Headquarters and the SCM Strategy Headquarters. In particular, the SCM Strategy Headquarters has a framework that consistently manages operations related to overall supply chain management, from procurement to production, supply and demand control (production control), logistics, and other areas. By consolidating functions to achieve efficiency and overall optimization, and by strengthening the Group's management functions, we will make steady progress in business reformation aimed at improving profits.

## Promoting reform in production and all other operations

Although production reform is something we have been working on for years, our efforts have tended to remain at partial optimization. Consequently, some production facilities are seeing better productivity, but production line takt time (production time per single product) happened to stay unimproved. In contrast, the production reform we are currently undertaking aims for optimization in all areas, including the reduction of work-in-process inventories from the standpoint of cash flow management. Our goal is to change how we approach Monozukuri and also to change the mindset of the employees working on site. We are endeavoring to execute fundamental reforms with the advice of a company that has long tackled similar production issues and achieved positive results.

In addition, we revamped our IT core system in an undertaking aimed at comprehensively grasping all information pertaining to our domestic supply chain. We now have the ability to analyze product costs, sales prices, and profits in a timely manner.

We intend to move boldly in transforming our business portfolio through these changes to our organizational structure and IT core system. We already have a firm vision of what we want to achieve. I will share the details with you when we make a formal decision.

## Increasing profitability by enhancing brand value

I believe brand value will be an important topic in our pursuit of more profitable business going forward. Especially in the aftermarket segment, it is attractive as a business since we have an ability to take the initiative in pricing. On the other hand, a brand power in the market is a key factor in determining prices.

When I was posted to Singapore, I encountered something that left a strong impression on me. When I compared our price of a particular product with those of our competitors, I discovered that our product sold at a lower market price than theirs, even though they were almost identical in performance and quality. The only thing that can account for this difference in price is brand value. Suppose a customer has a bearing break and needs a new one right away, and a supplier has the ability to deliver one quickly and also offer solutions to the problem. There are many customers who are willing to pay a higher price for that kind of ability. This experience—this concept—is what led me to strongly advocate the importance of “availability” to NTN employees every day.

Our goal is to be the price leader in the aftermarket segment. In such a business model, it is important that we have a large inventory of products on hand so that we can deliver them as quickly as possible when

customers need them.

At the same time, if we are going to make it our business to propose solutions that promptly address the various issues our customers face, then we must have personnel with the experiences and skills to execute those solutions—in other words, field engineers. Strengthening capabilities in this area cannot be accomplished overnight, but I believe we must work toward this goal through education, training, and practical activities.

## Medium- to-long-term business outlook

In our mainstay automotive business, we will focus on adjusting amid the shift to electric vehicles (EVs). Many people are concerned that the shift to EVs will reduce the number of parts that must be supplied. But as I have said in the past, for NTN Group—whose main products are driveshafts and hub bearings used in EV drive units—the shift will be rather advantageous.

In addition to our existing products, we have already developed a high-speed deep groove ball bearing that achieves the highest rotation speed in the industry, making it suitable for “e-Axle” drive systems for EVs and motors and transmissions for hybrid electric vehicles (HEVs). Moreover, because EVs have better acceleration and require higher vibration damping performance, we are also developing electric modules and other components that are adapted to the unique behavior of EVs. We will create high-added-value products through efforts like these.

Looking at scheduled mass production start-ups over the next three years, we anticipate that the ratio of products we make for HEVs and EVs, which have higher added value than those for internal combustion engines (ICE), will increase. We are currently working on a variety of projects, which I will share with you as soon as they can be announced to the public.

In terms of sustainability, I believe an important question for the coming age will be how to make products that remain usable for long periods of time. Moreover, even products that have long service lives will eventually reach a point when they can no longer be used as is. We will therefore need to detect product conditions quickly and perform maintenance to ensure even longer service life. In other words, I believe “maintain” leads to “sustain.”

Traditionally, the NTN Group’s business has focused mainly on manufacturing and marketing bearings and other forms of hardware. However, we are now stepping up efforts to attach sensors to hardware to collect data around them during operation and link it to monitoring services through software. I believe this will translate into new profit opportunities.

Specifically, we offer condition monitoring systems for various types of equipment, such as bearings in wind turbines and bearings in machine tool spindles (rotating shafts). We have also commercialized a diagnostic report business for bearings using NTN Portable Vibroscope.

We are also developing “Talking Bearing™” with built-in sensor functions without any changes in bearing volume or appearance. Fully exploring this concept will allow us to provide high-added-value solutions our competitors cannot match.

One possibility for the future is the application of big data on operating conditions that is gathered through sensors. This capability will allow us to notify customers of predicted equipment malfunctions before they occur and to offer new added-value services linked to planned preventative maintenance.

Furthermore, if we can accurately predict the service life of parts based on equipment operating hours and other factors using big data, we will be able to forecast demand. What bearings will be needed? When will they be needed? And how many will be needed? Being able to read demand will allow us to also read inventory levels, which will naturally lead to more precise planning of inventories, production, and procurement. In other words, we will be able to develop “pull”-type marketing strategies by obtaining accurate information from the market. This business model is the exact opposite of the “push”-type model, in which production plans are prepared by anticipating demand based on rule of thumb. This is the kind of digital transformation (DX)-led business structure reform that our Group aims to achieve.

## Enhancing sustainability by practicing ESG management

In 2015, NTN signed the United Nations Global Compact. In line with this, we continue striving to realize ten principles in four areas—human rights, labour, environment, and anti-corruption—that we consider to be universal values. Aspiring to tackle environmental issues, we launched a Carbon Neutrality Promotion Project in July of last year. Then, in April of this year, executed a reorganization that involved establishing a Carbon Neutrality Strategy Promotion Department in the Group Management Headquarters to bring this project into closer alignment with management. We will continue to formulate and promote strategies to achieve carbon neutrality under this new structure.

Human capital management has become a hot topic in recent years. Based on our belief that “the company is its people,” we recognize that strengthening our human resource base is essential for sustainable growth and are therefore striving to develop diverse human resources, taking “prosperous human development” as one of the ESG issues. In addition, we started holding Executive Officer-led “town hall meetings” this year. I have communicated face-to-face with employees in Japan and overseas on numerous occasions, and now our Executive Officers are more proactively visiting their respective departments to listen to employees in the workplace. In this way, we are finding out what troubles all employees have. We are endeavoring to enhance communication by clearly identifying what we can do as



a company and providing feedback.

In the area of corporate governance, NTN transitioned from a Company with a Board of Company Auditors to a Company with a Nominating Committee, etc., in June 2019. Under this structure, we are striving to enhance our corporate value over the medium and long term. The Board of Directors is now chaired by a female Outside Director. In addition, the Nominating Committee, Compensation Committee, and Audit Committee are all chaired by Outside Directors. In this way, we are employing a structure designed to strengthen governance and increase corporate value.

## NTN’s purpose and push to higher corporate value

While pushing forward with efforts to reform our business structure over the past year, I reflected upon NTN’s mission and purpose as a citizen of the world. Specifically, I thought about how, for over a century, we have been supplying the world with products that minimize energy consumption by reducing friction, and that this fact is linked to our contribution to the global environment and forms the foundation of our Group’s business.

Over the next 50 to 100 years, our mission with respect to climate change and other global issues will be to help solve those issues by providing products and services while limiting the environmental footprint of our business wherever possible. I am confident that the accumulation of such activities will bear fruit and ultimately enhance our Group’s corporate value.

Lastly, I know that our price book-value ratio (PBR) is below 1.0 and must be improved. This is a matter we are discussing internally. We want to continue being a company that produces things we can leave to future generations with pride. With this in mind, we will move forward, striving to become a company valued by society and capable of increasing its economic value while appropriately returning profits to all of its stakeholders, including investors, shareholders, customers, employees, business partners, and society at large. I respectfully request your continued support for NTN in this endeavor.