

Interview with Our COO



Providing Various Solutions for Movement by the Standardization Strategy and Unit Options

Representative Director, President & COO

Shinichi TANIGUCHI

—Please give us your review of the Group's results for 2022—the second year of the Mid-Term Management Plan.

Net sales, which were 116,432 million yen in 2020, increased to 156,706 million yen in 2022, raising the average annual growth rate of net sales to 16.0%. This is thanks to strong sales in both the Automotive Products market and the Life & Industrial Products market.

The Automotive Products market was negatively affected mainly by automobile production adjustments, which are attributed in part to the semiconductor supply shortage, as well as supply chain disruptions caused by the lockdowns in China and slowdown in consumer spending associated with inflation in individual countries. However, net sales increased 19.1% year on year, to 117,056 million yen, mainly reflecting an increase in the number of models in which our products are installed, as well as the effects of price revisions and the weaker yen. In the Life & Industrial Products market, demand for products for certain applications decreased due to a

slowdown in demand generated by people staying home. However, net sales increased 9.2% year on year, to 39,639 million yen, thanks mainly to the steady performance of products for use in wellness and healthcare as well as the effects of price revisions and the weaker yen.

Operating income benefited from the weaker yen compared to the previous year, as well as improved selling prices and product mix, among other factors. On the other hand, these factors were outweighed by negative factors such as lower capacity utilization resulting from lower sales volume due to automobile production adjustments attributed to the semiconductor supply shortage, as well as higher costs associated with prolonged raw material prices and logistics costs. As a result, operating income decreased 21.6% year on year, to 10,824 million yen, with an operating income ratio of 6.9%, resulting in a ROIC of 4.1%. As in the previous fiscal year, we deliberately held a larger inventory than usual to live up to the trust of our customers and fulfill our responsibilities to supply products. This was a factor in the decline of ROIC.

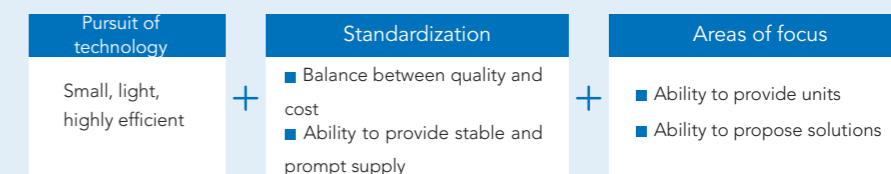
Mid-Term Management Plan 2021–2023

Providing solutions to issues which society and customers are facing

Breakdown plan for the first three years of the long-term management policy, which was formulated assuming a span of about 10 years.

Vision to realize in 2023

Provide solutions to problems facing society and customers, while accelerating the growth of our business through the success of our customers' business.



Mid-Term Management Plan Results Guidance (2021 to 2023)

Net sales Under the long-term management policy we aim to achieve an average annual growth rate of 8% to 10%. <small>(Net sales in FY2020 were 116.4 billion yen)</small>	Operating profit ratio Aim to achieve an operating profit ratio of 15% or more, reflecting our contribution to customers and society. (11.1% in FY2020)	ROIC Introduce ROIC-oriented management and raise return on invested capital. Aim to achieve an ROIC of 12% or more. (6.4% in FY2020)
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※ Assumed exchange rate: USD = JPY 105
 ROIC = (Operating profit × (1 - Effective tax rate)) / (Accounts receivable-trade + Inventories + Non-Current assets (excluding Investment securities) - Accounts payable-trade)

—Please tell us your forecast for 2023, the final year of the Mid-Term Management Plan, and the progress in the achievement of the targets set in the Mid-Term Management Plan.

2023 is the final year of the Mid-Term Management Plan that we announced in 2021. The external environment is expected to be tough as in the previous fiscal year, and we understand that it will be very difficult to achieve the targets that we set as Performance Guidance in the Mid-Term Management Plan. Regarding net sales, in 2023 we expect to achieve an average annual growth rate exceeding the 8% to 10% in the Performance Guidance of the Mid-Term Management Plan, thanks to effects of the price revisions and the weaker yen in addition to an increase in the number of models in which our motors for automotive products are installed and an increase in sales of life and industrial products. On the other hand, operating income is forecast to increase year on year due to factors such as an increase in sales volume and improvements in sales prices and the product mix which more than offset the negative factors including commodity prices hovering at a high level. However, the operating income ratio of 15% in the Performance Guidance will be difficult to achieve. ROIC is also expected to fall short of the 12% target due to the lower profit level and because we made stable supply the top priority in the implementation of strategic inventory policy in response to the supply chain disruptions caused by various factors. Moving forward, we will gradually lower

the inventory in consideration of factors including the supply chain situation, in our efforts to make improvements.

—What is needed to achieve the target operating income ratio of 15%?

I think that there are two major tasks. One is to increase the sales volume, and to do that, we should raise the factory utilization rate. To be able to supply products to customers in the Americas and in Europe under the policy of local production for local consumption, we established Mexico Mabuchi in 2014 and Poland Mabuchi in 2017, thus building the Five-Region Management Structure. However, the automobile market began to grow negatively after reaching the peak in 2017 and it has shrunk considerably due to COVID-19 pandemic. While the largest annual production volume of motors in the past ten years was more than 1.5 billion units, the production volume was only approx. 1.3 billion units in 2022.

Due to the impact of this market environment, we have yet to fully increase the utilization rates of our production bases, including Mexico Mabuchi and Poland Mabuchi which we established in anticipation of the growth of demand. At Mexico Mabuchi, preparations for the launch of its production system are making steady progress, and the company is expected to start contributing to consolidated performance as the automobile market recovers.

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Poland Mabuchi began mass production at the end of 2021. At present, the company is receiving many inquiries about new products. It is working to launch and stabilize production lines by sharing knowledge and supporting each other across bases. The company is expected to begin contributing to consolidated performance in about three years. Customers in Europe request production within Europe in more cases than before, with the intent of reducing CO₂ emissions from the distribution process. They value our policy of local production for local consumption.

The other task for improving profitability is the expansion of sales of high value-added products. We attach great importance to profit. This is because we believe that profit is a reward for contributing to customers and society and therefore is an index that can show the level of a company's contribution to society. Expanding sales of high value-added products — that is, products with high profit ratios — means contributing more greatly to customers and society. At present, we are developing high value-added products with a focus on the 3 M fields of Mobility, Machinery and Medical, to which we will make a commitment in the future. Among them, in the area of Mobility, we anticipate the expansion of opportunities associated with EVs and autonomous driving and the emergence of a new domain that includes AGV/AMR and personal mobility. We expect that this will be the first of the 3 M fields to contribute to our business performance.

—Regarding Mobility, what impact will the changes and shift to EVs in the automobile industry have on Mabuchi Motor's business?

At present, the shift to EVs is accelerating around the world. We will not miss the opportunities created by this change, and want to ensure that it will lead to growth. Our motors for many existing applications in the field of Automotive Products are also used in EVs. But in order to extend cruising

range with limited battery capacity, the motors installed in vehicles will need to be made smaller and lighter than ever before. We have a competitive edge in the development and production of compact, lightweight and highly efficient motors. We will continue to appeal to customers with the strengths of these products and work to expand sales of the products. Progress toward the adoption of EVs has created various new applications for our products. In particular, thermal management, which is the process of controlling the temperature of the battery so that it stays within a certain range according to conditions of the surrounding environment and the driving conditions of the vehicle, has been growing more important to limit battery deterioration, enable rapid charging and enable rapid discharge which is needed to improve the acceleration of the vehicle. Thermal management systems include valve actuators for rerouting battery cooling water and pumps for circulation, to make more effective use of heat. We are ready to provide products for both a distributed system featuring the use of multiple simple-structured valve actuators to reroute cooling water, which necessary in the thermal management systems of EVs, and an integrated system, which is capable of switching between multiple routes using a single high-performance valve actuator. We have received numerous inquiries about products for these valve actuator applications. Actuators for distributed systems have already been adopted. We are developing products for integrated systems with a customer. In addition, smaller auxiliary equipment is demanded because the space to install many batteries needs to be secured in EVs. Regarding our existing products such as motors for power seats, the small size that is an advantage of our motors is highly valued once again, in more cases than before.

—What new applications are expected in relation to autonomous driving?

Autonomous driving and advanced safety equipment require sensors to collect information about the environment around the vehicle. Sensors do not function properly if dirt or any other stains adhered to them. Therefore, additional components are needed to clean the sensors. Various sensor-cleaning mechanisms, such as ones that spray liquids or blow air, are being considered. Whatever the mechanism may be, it is likely that a motor will be needed to make it work. We can contribute by providing products for these applications, which is a promising area. Further, autonomous driving will greatly change the way people spend time in vehicles. People who previously were concentrating on driving will no longer have to do this. This may result in driver seats which can

be reclined deeply or turned around along with the front passenger seat to talk with the passengers in the back seat. Applications where our motors are utilized may be expanded to realize this world.

The structural change of the automobile industry is also a business opportunity for us. While automobile manufacturers and Tier 1 suppliers proactively allocate development resources to autonomous driving and advanced safety equipment, we provide motors for the actuators manufactured by customers, for example. There are also cases where it is requested that we provide units which include not only motors but also actuators. We would like to transform ourselves into a company which can also provide actuators and other components in response to customer requests.

—What tasks do you need to accomplish to achieve progress in the initiatives in the Medical and Machinery fields?

In the Medical area, one of the 3 M fields, we began to fully work on initiatives regarding products for medical applications by having Electromag (now known as Mabuchi Electromag) join the Group through an M&A activity in 2021. This company's strengths are in brushless motors for medical applications, such as artificial respirators, dental treatment equipment and surgical power tools. In addition, Oken Seiko (now known as Mabuchi Oken), a manufacturer of small pumps for medical equipment, joined the Mabuchi Group as a new member in 2023, which enabled us to



supply small pump units including motors. These pump units are expected to have various applications, including not only the medical equipment manufactured by Mabuchi Oken at present but also power seats and other automotive products. Thus, it is expected that they will help improve our ability to provide units.

In the Machinery area, we sell motors for collaborative robots which help resolve the labor shortage. At present,



we only provide motors for them while customers work on the interface and control sections. We plan to provide these components as units and work to enhance the product lineup to expand applications. Further, assuming that our motors will be used for industrial equipment, we are working on research related to arm robots, conveyors and other equipment, aiming to learn about our customers' perspectives. We will increase R&D expenses to achieve growth in the 3 M fields, including Medical and Machinery. At the same time, we will be proactive in M&A activities and collaborations and partnerships with external parties to secure any core technologies, sales channels, resources, etc. that we lack.

Standardization is the source of our competitiveness, and we will pursue it in the 3 M fields as well. Generally, regarding products for Medical and Machinery applications, the customization and small lot production of many products tend to be in demand. We provide motors as standardized products and cater to diverse customer needs by combining motors with gears, brakes, sensors and other components that we prepare as options in advance. We will enhance options to improve our ability to propose solutions. We are also advancing the standardization of motor components.

We have been operating as a manufacturer specializing in small DC motors. At present, we are internally discussing future growth strategies including the next Mid-Term Management Plan. Focusing on the movement created by motors, we are engaged in discussions with the goal of making a greater contribution to customers and society by looking at movement from a wider perspective. We will provide units for enabling movement in the broad sense of the word and transform the standardization strategy that is our strength, aiming to achieve growth in the 3 M fields.

