

Harmonic Drive Systems Inc.

Financial Results for the Fiscal Year Ended March 31, 2020

May 22, 2020

This presentation contains forward-looking statements relating to expected future performance as of May 22, 2020. Such statements are based on the views and assumptions of company management and involve risks and uncertainties such as changes in the business environment that may cause the actual results to differ materially from expectations.



Performance Summary for FY 2020/3



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Consolidated results for FY 2020/3 (versus original forecasts)

(millions of yen)

	Forecast (announced Nov 12, 2019)		FY2020/3 (actual)		Vs. original forecasts	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	36,700	100.0	37,487	100.0	787	2.1
Operating income	▲1,500	—	67	0.2	1,567	—
Ordinary income	▲1,300	—	499	1.3	1,799	—
Net income	▲1,500	—	▲832	▲2.2	667	—
EPS (yen)	▲15.58	—	▲8.65	—	6.93	—

Net income refers to net income attributable to owners of parent.



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Consolidated results for FY 2020/3 (year-on-year change)

(millions of yen)

	FY2019/3		FY2020/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	67,809	100.0	37,487	100.0	▲30,321	▲44.7
Operating income	16,903	24.9	67	0.2	▲16,836	▲99.6
Ordinary income	17,464	25.8	499	1.3	▲16,965	▲97.1
Net income	11,601	17.1	▲832	▲2.2	▲12,434	—
EPS (yen)	120.52	—	▲8.65	—	▲129.17	—
Capital investment	23,876	—	7,892	—	▲15,983	▲66.9
Depreciation costs	6,247	—	7,467	—	1,220	19.5
R&D costs	2,476	—	2,195	—	▲280	▲11.3

Net income refers to net income attributable to owners of parent.

Depreciation costs include depreciation cost of tangible assets and amortization cost of intangible assets and goodwill.



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Performance of main group companies in FY2020/3

(millions of yen)

	Equity stake	Net sales		Net income	
		Amount	Year-on-year change (%)	Amount	Year-on-year change (%)
Harmonic Drive Systems Inc.	—	19,788	▲59.8	▲160	—
*2 *5 HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (51%)	6,258	▲8.7	364	▲26.2
Harmonic AD, Inc.	100%	1,779	▲47.2	14	▲96.0
*3 Harmonic Drive Systems (Shanghai) Co., Ltd.	100%	3,330	▲17.7	199	2.6
*4 *6 Harmonic Drive SE (Germany)	74.7%	12,744	▲20.1	441	▲81.1

*1 For overseas subsidiaries, the fiscal year ends December 31.

*2 Exchange rates: FY18/12 1USD = 110.43yen, FY19/12 1USD = 109.05yen

*3 Exchange rates: FY18/12 1CNY = 16.72yen, FY19/12 1CNY = 15.78yen

*4 Exchange rates: FY18/12 1EUR = 130.42yen, FY19/12 1EUR = 122.07yen

*5 Net income of US subsidiaries (consolidated) is after excluding non-controlling interests.

*6 The figures for Harmonic Drive SE are on a consolidated basis, including results of its subsidiaries; net income is before excluding non-controlling interests.



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Non-consolidated results for FY2020/3 (year-on-year change)

(millions of yen)

	FY2019/3		FY2020/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	49,249	100.0	19,788	100.0	▲29,461	▲59.8
Operating income	13,798	28.0	380	1.9	▲13,418	▲97.2
Ordinary income	14,213	28.9	848	4.3	▲13,365	▲94.0
Net income	10,413	21.1	▲173	▲0.9	▲10,587	—
EPS (yen)	108.18	—	▲1.8	—	▲109.98	—
Capital investment	15,945	—	5,022	—	▲10,922	▲68.5
Depreciation costs	2,458	—	3,289	—	830	33.8
R&D costs	1,629	—	1,572	—	▲56	▲3.5



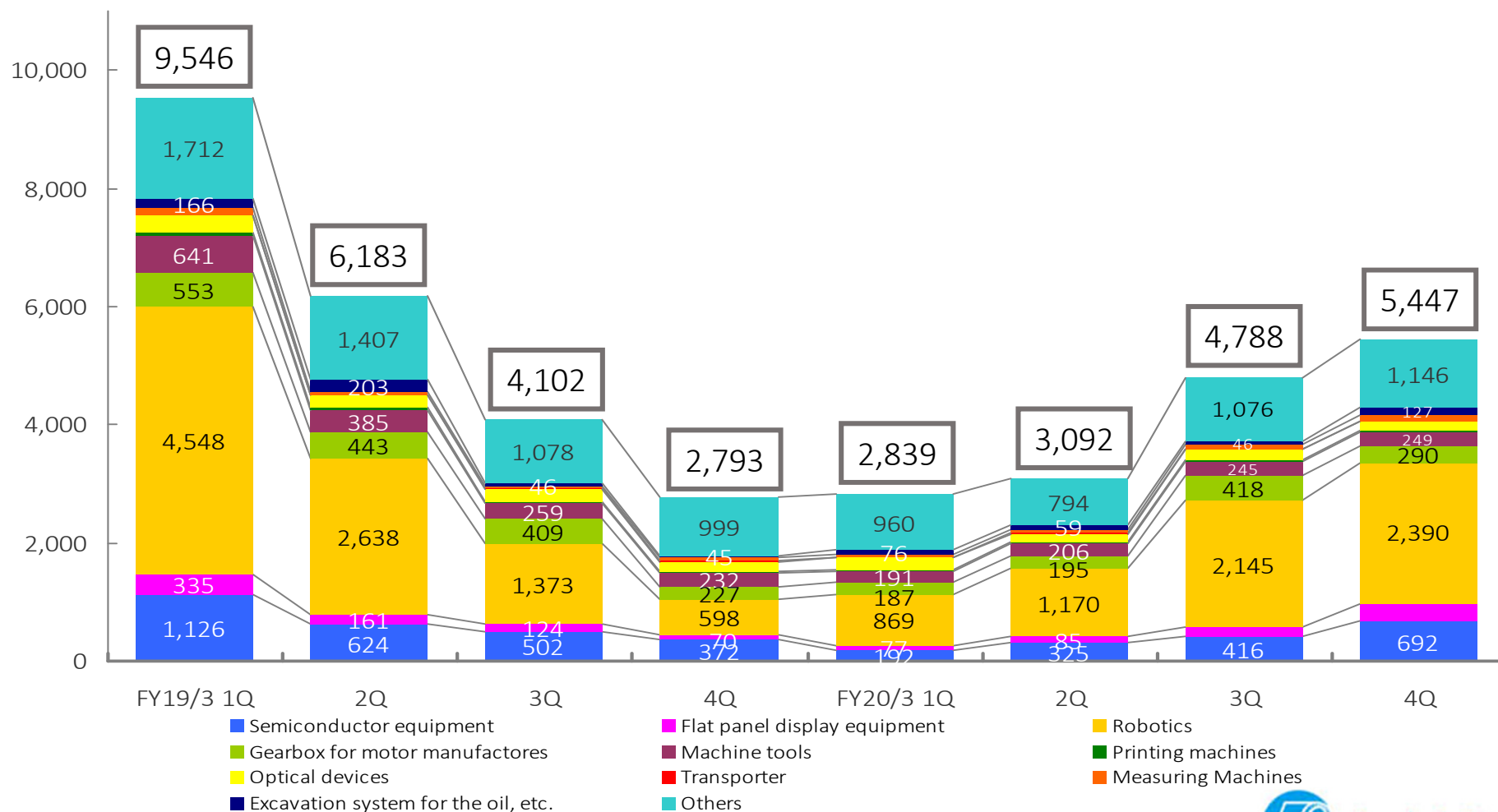
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Non-consolidated bookings by application (quarterly)

(millions of yen)



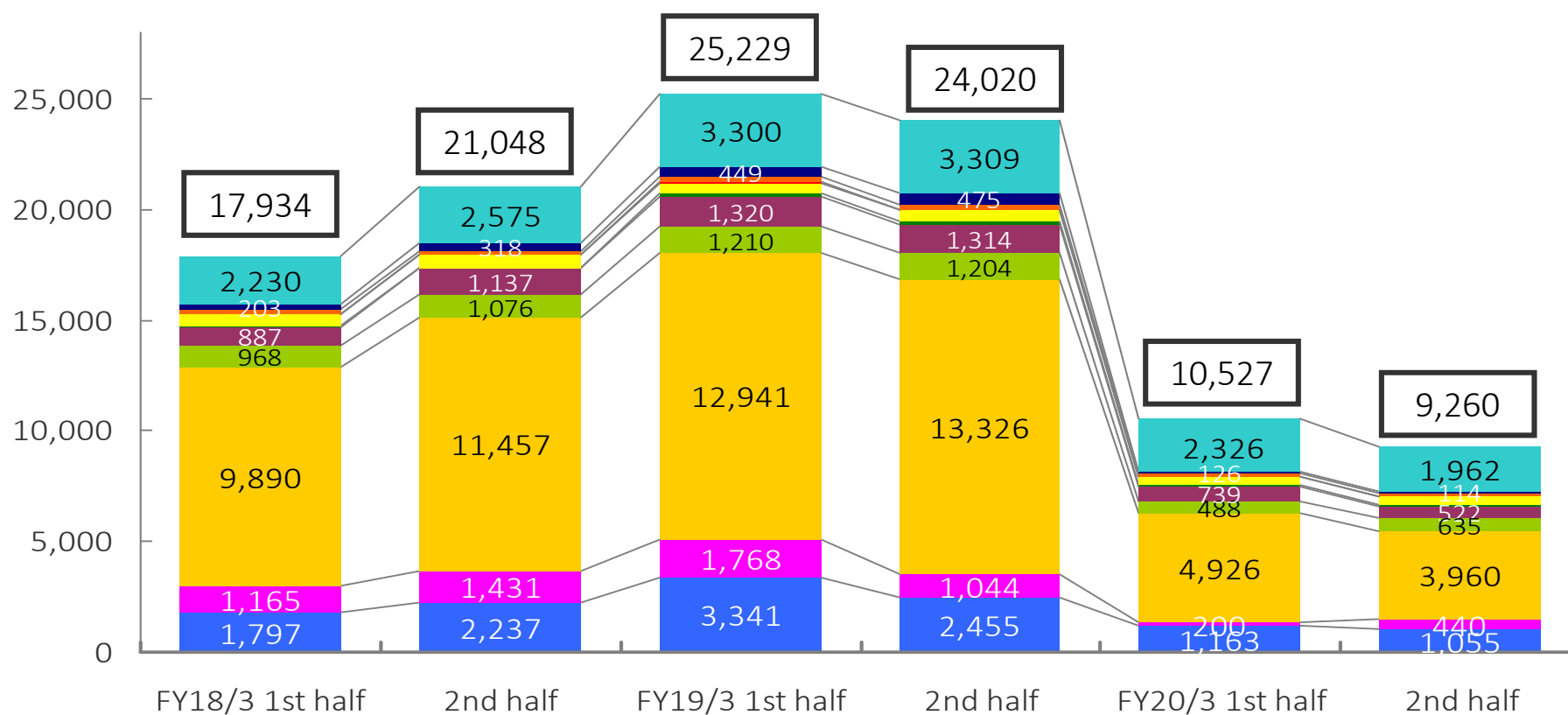
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Non-consolidated net sales by application (half-yearly)

(millions of yen)



■ Semiconductor equipment
■ Gearbox for motor manufactures
■ Optical devices
■ Excavation system for the oil, etc.

■ Flat panel display equipment
■ Machine tools
■ Transporter
■ Others

■ Robotics
■ Printing machines
■ Measuring machines

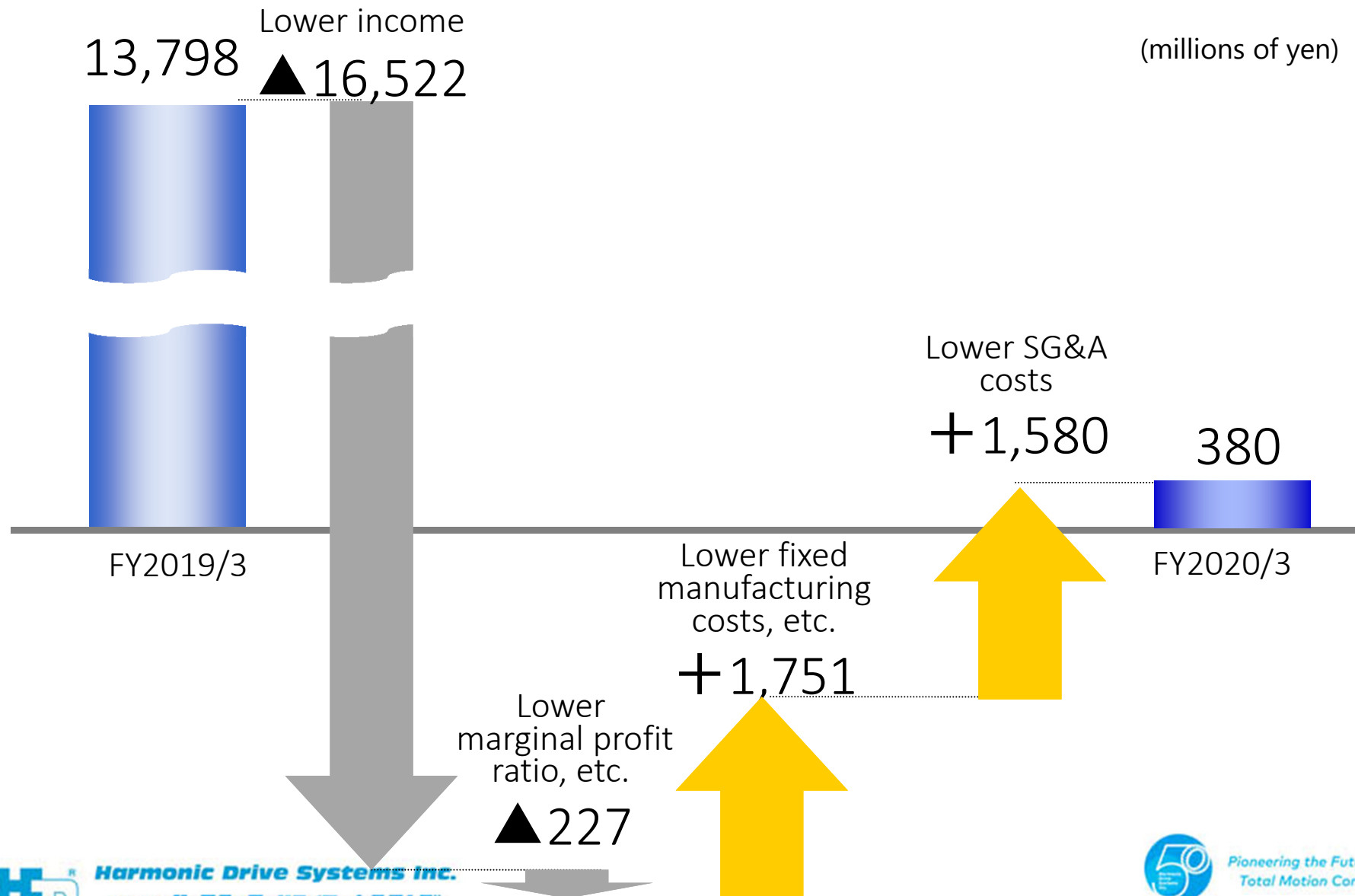


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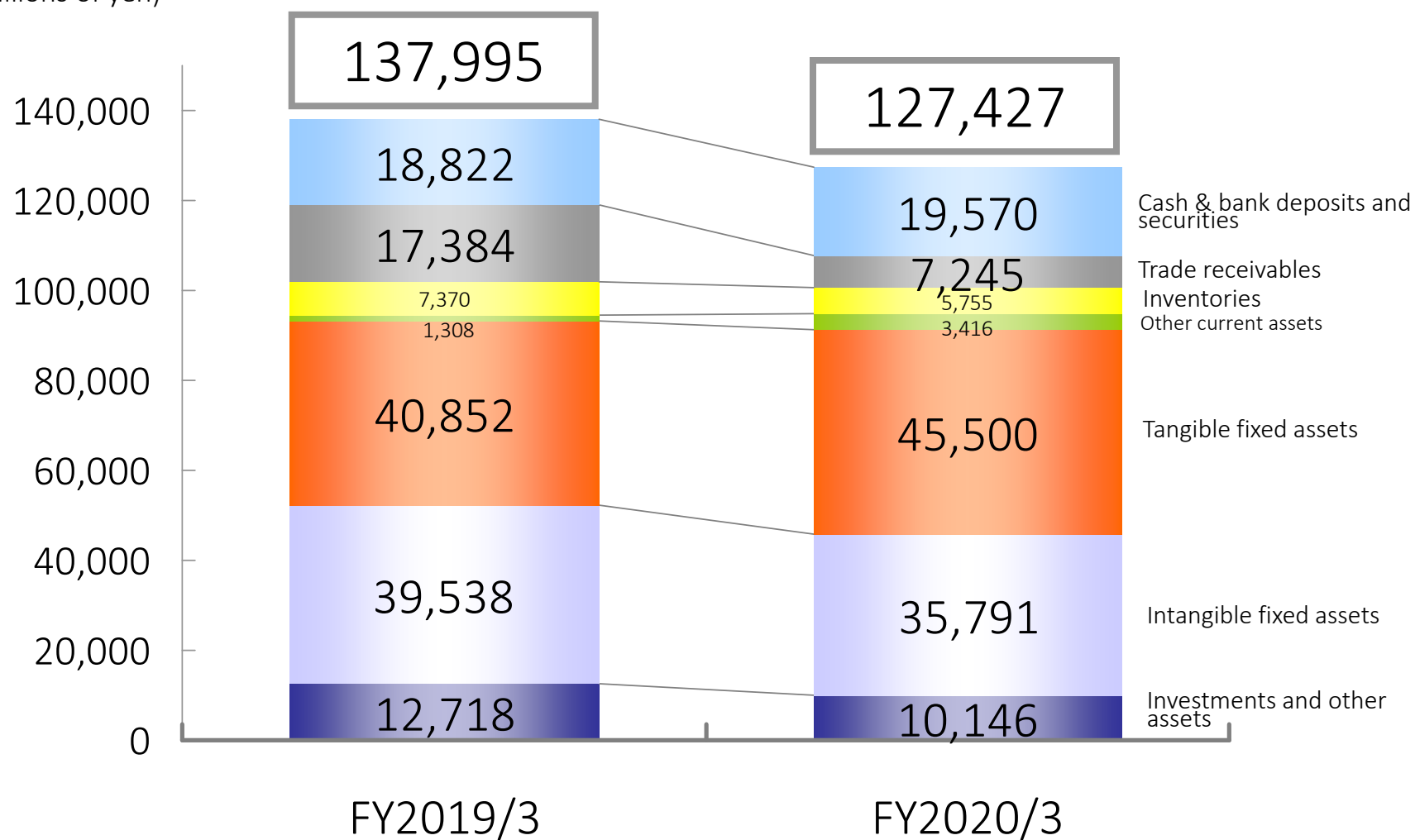
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Factors in year-on-year change in non-consolidated operating income (FY2020/3)

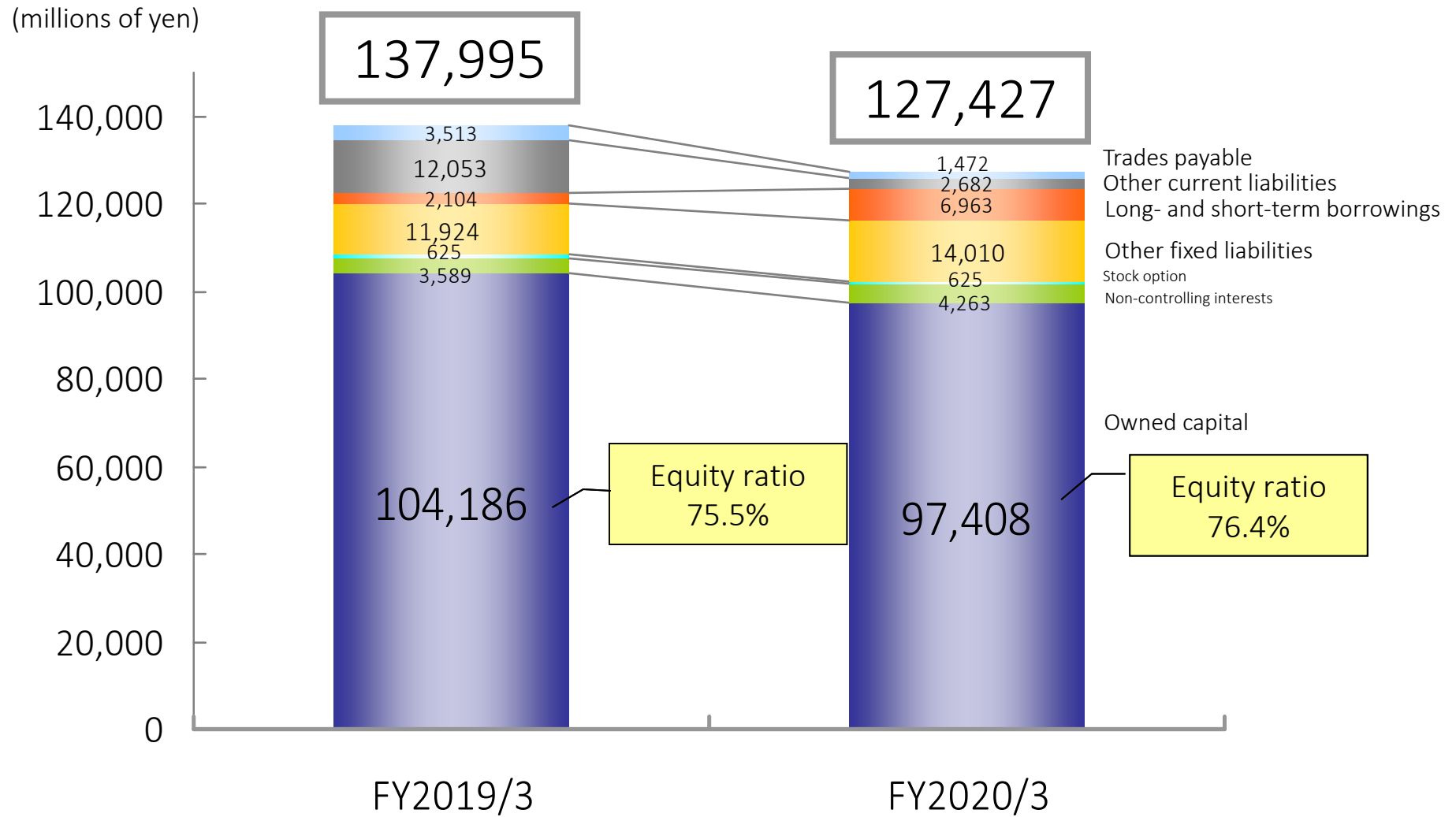


Status of consolidated assets

(millions of yen)



Status of consolidated liabilities and net assets



Status of consolidated cash flows

(millions of yen)	FY2019/3	FY2020/3
Cash flow from operating activities	15,121	9,769
Cash flow from investing activities	▲22,399	▲11,357
Cash flow from financing activities	▲3,271	2,362
Effect of exchange rate changes on cash and cash equivalents	▲171	▲33
Net increase (decrease) in cash and cash equivalents	▲10,720	742
Cash and cash equivalents at end of year	17,600	18,342

Status of Initiatives Outlined in Medium-term Management Plan FY2018–FY2020



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Basic policies of medium-term management plan spanning FY2018 to FY2020

50th Anniversary of Founding

Seize rapidly expanding growth opportunities and
advance to next stage

1

Significantly increase global production capacity

2

Raise capabilities of
Group companies to
strengthen all-around
abilities

3

Increase customer
satisfaction by raising
QCDS capabilities

4

Strengthen
management
foundation to support
future growth



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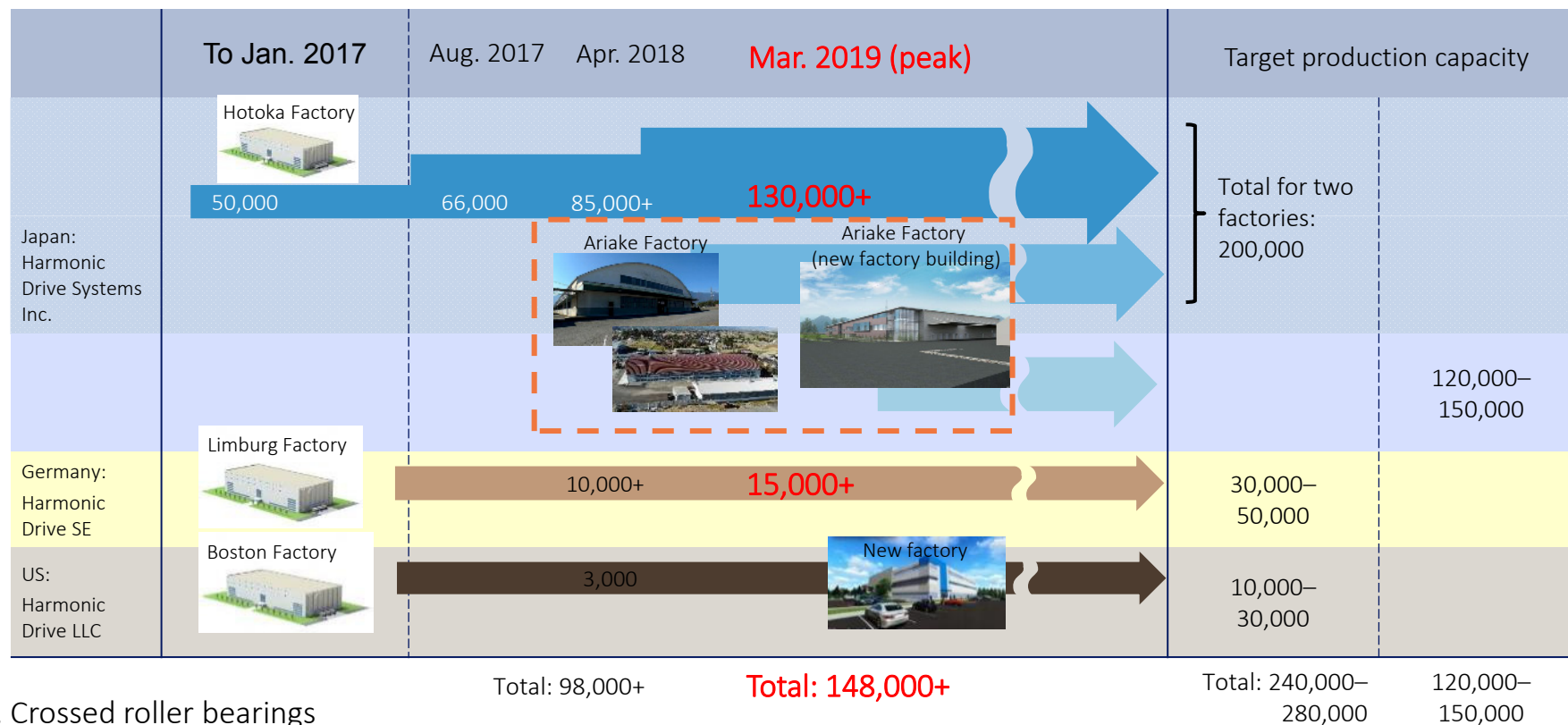
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(1) Significantly increase global production capacity

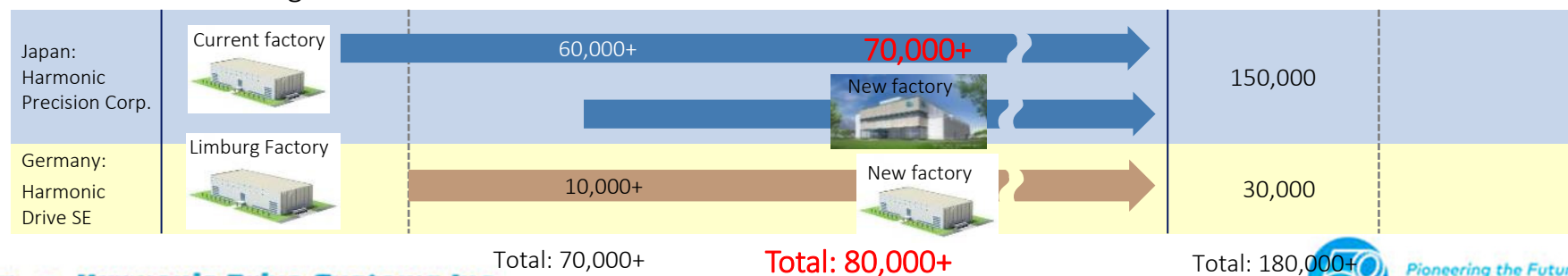
(2) Raise capabilities of Group companies

1. Strain wave gearing devices

(Numbers indicate units produced per month)



2. Crossed roller bearings



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(3) Raising QCDS capabilities to increase customer satisfaction — 1

Issue Need to normalize and shorten lead time from receipt of order to product shipment

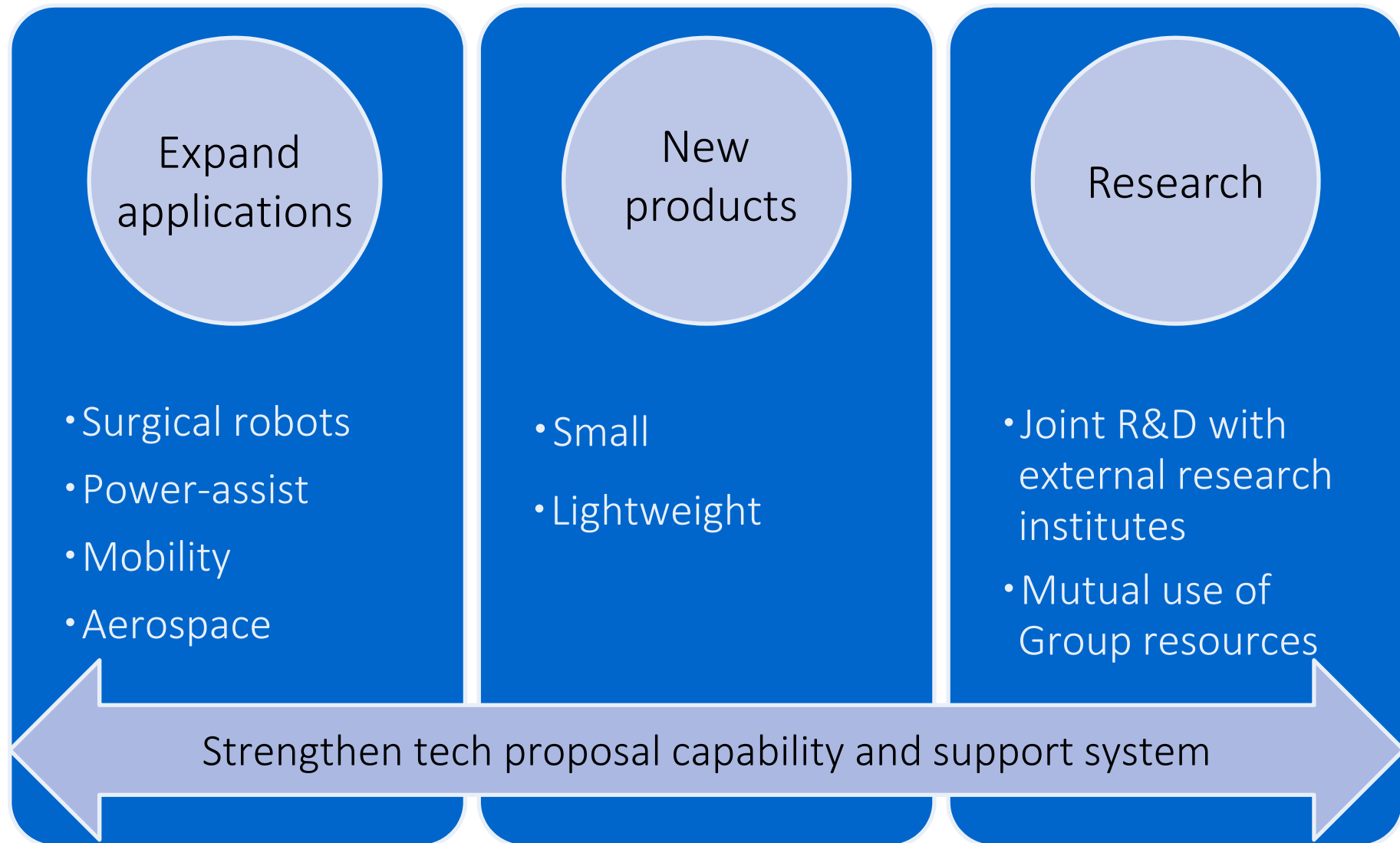
Initiatives

- (1) Expand production capacity at all production sites
- (2) Promote production automation by introducing advanced technologies and strengthening quality controls
- (3) Strengthen cooperation and support in our supply chain

Results & future initiatives

- Completely normalized lead time
- (4) Further reduction of lead time
 - ➡ Decided to implement new production management system; preparations now underway

(3) Raising QCDS capabilities to increase customer satisfaction – 2



(4) Strengthen management foundation to support future growth

Initiatives for a work environment that prioritizes safety and security

- Greatest consideration for worksites that support manufacturing
- Put in place a telework environment

Maintain stable production system

- Demonstrate true value and power of technology and skills accumulated over many years
- Create a system that can withstand demand fluctuations
- Tangible and intangible support for partner companies

Strive for sound cash flows

- Halt unnecessary investments and thoroughly review expenses
- Sign contract for ¥8.5 billion commitment line

Currently Anticipated Operating Environment



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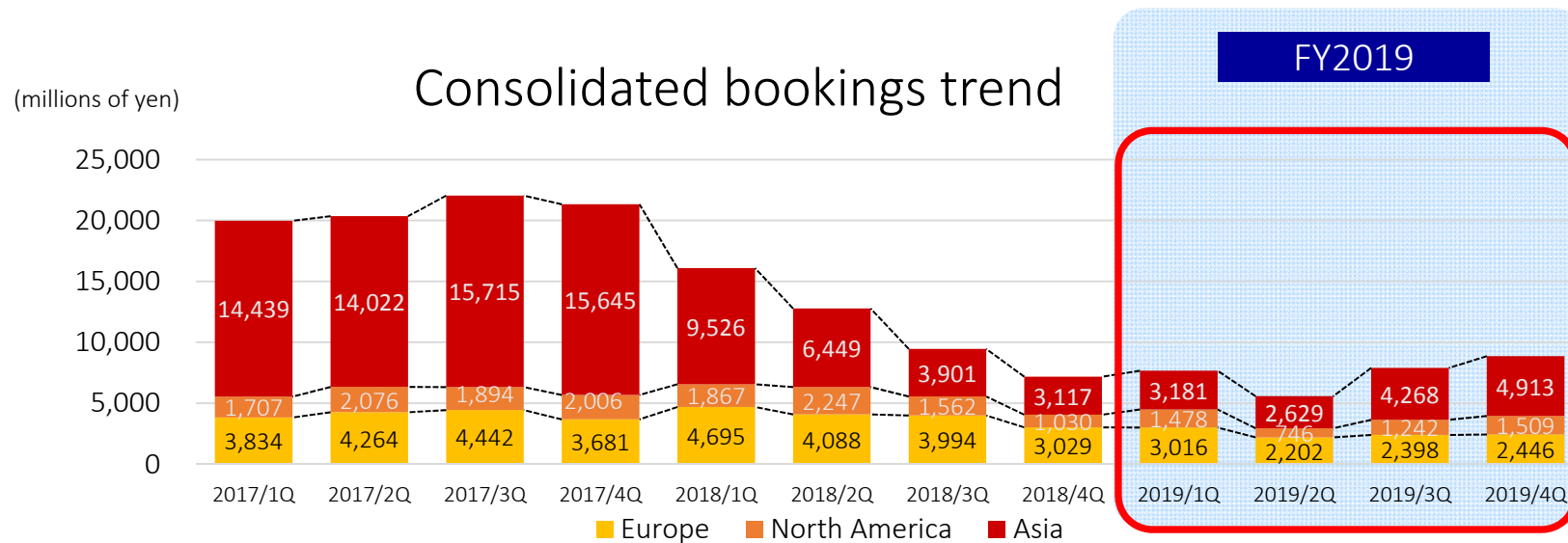
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Our operating environment

Consolidated bookings gradually recovering



Coronavirus impact negligible as of end-FY2019

(1) Supply chain in good shape

(2) Labor-saving investment related demand is firm

FY2020

(3) Managing business with awareness of possible sudden sharp reductions in demand



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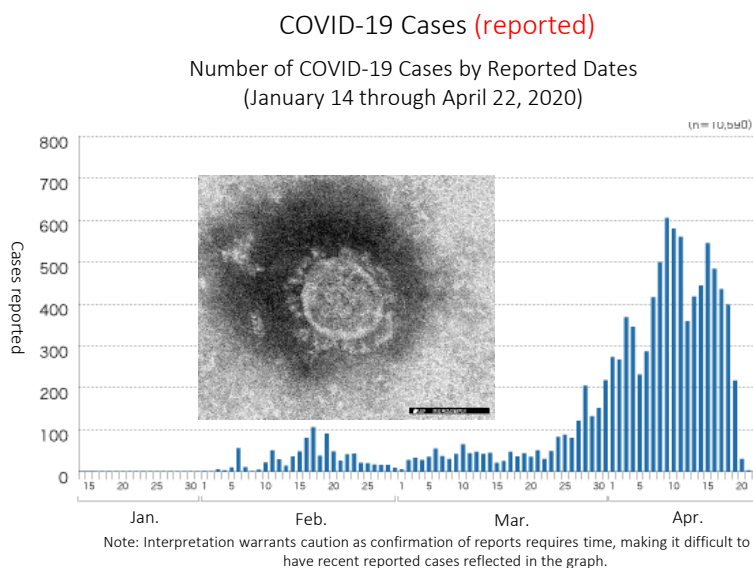


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General social conditions

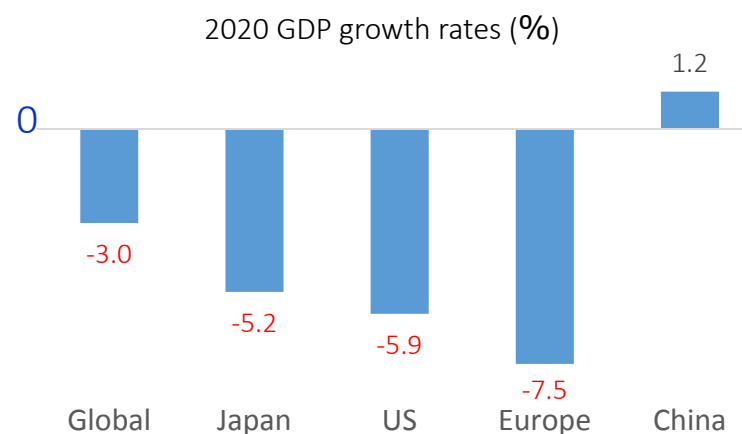
We expect the “corona shock” to subside but assume prolongation of severe social conditions

1. Unprecedented economic turmoil (concerns that global economic indicators will suffer biggest drops since the Great Depression)
2. Worldwide concerns about employment (fears of unemployment rates in excess of 10% in developed countries) could cause stagnation in consumer activities (middle class' concerns about future could prompt them to postpone or forego purchases)
3. Growing concern that rekindling of US-China trade friction could fragment the global economy
4. Uncertain post-coronavirus social structure



Source: National Institute of Infectious Diseases (Japan)

IMF Forecast of Coronavirus' Economic Impact
(Economic growth rates assuming pandemic subsided in 2H 2020)



Source: HDIS, based on IMF materials

Basic policy in response to the “corona shock”

Safety and security of employees and stakeholders is No. 1 priority

- Above all else, protect lives and health
- Prioritize safety and business continuity over immediate efficiency
- Promote teleworking and dispersion in onsite work environments

Steadfast maintenance of production system

- Effectively use assets, such as new factory wing, to promote social distancing and ensure safety
- Maintain fundamental production system to meet expected increase in demand after the coronavirus subsides
- Protect our supply chain

Secure funding to support long-term management

- Secure additional commitment lines of credit
- Halt unnecessary investments and thoroughly review expenses
- Strengthen fund procurement system to ensure ability to secure needed capital



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Performance Forecasts for FY 2021/3



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Consolidated performance forecasts for 1st-quarter FY 2021/3

(millions of yen)

	1st-quarter FY ending Mar.31,2020		1st-quarter FY ending Mar.31,2021		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	11,652	100.0	9,500	100.0	▲2,152	▲18.5
Operating income	1,504	12.9	200	2.1	▲1,304	▲86.7
Ordinary income	1,498	12.8	200	2.1	▲1,298	▲86.7
Net income	382	3.3	50	0.5	▲332	▲86.9
EPS (yen)	3.98	—	0.52	—	▲3.46	▲86.9

Assumed exchange rate for 1st-quarter FY21/3 forecasts 1USD = ¥105.00 1EUR = ¥115.00 1CNY=¥15.00

Net income refers to net income attributable to owners of parent.

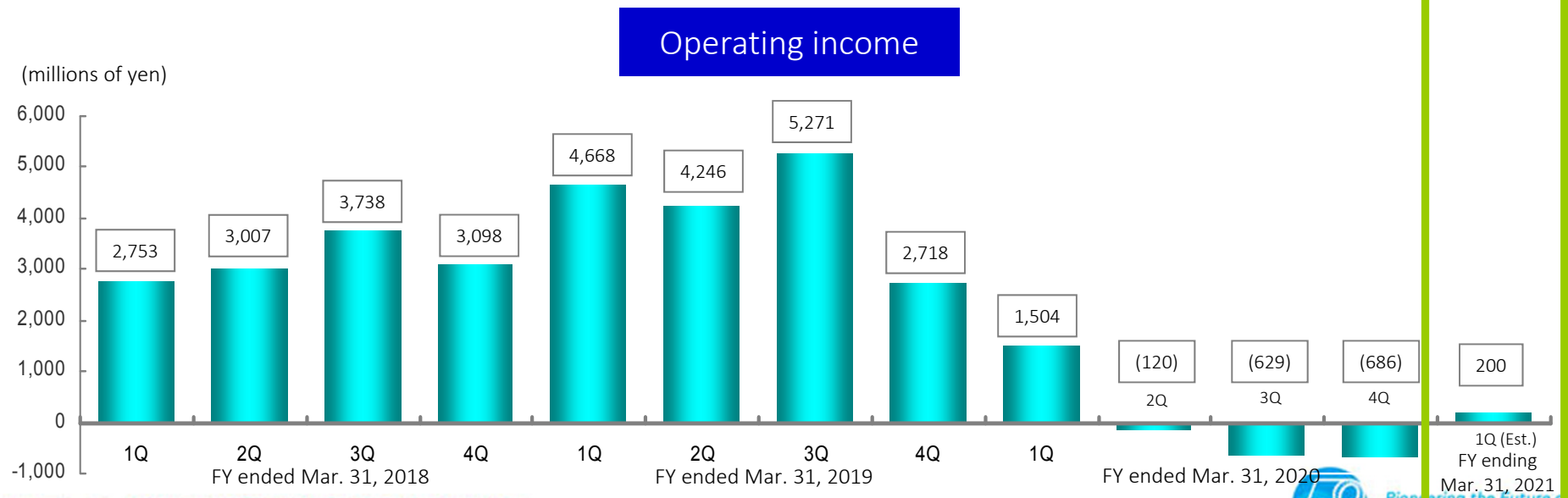
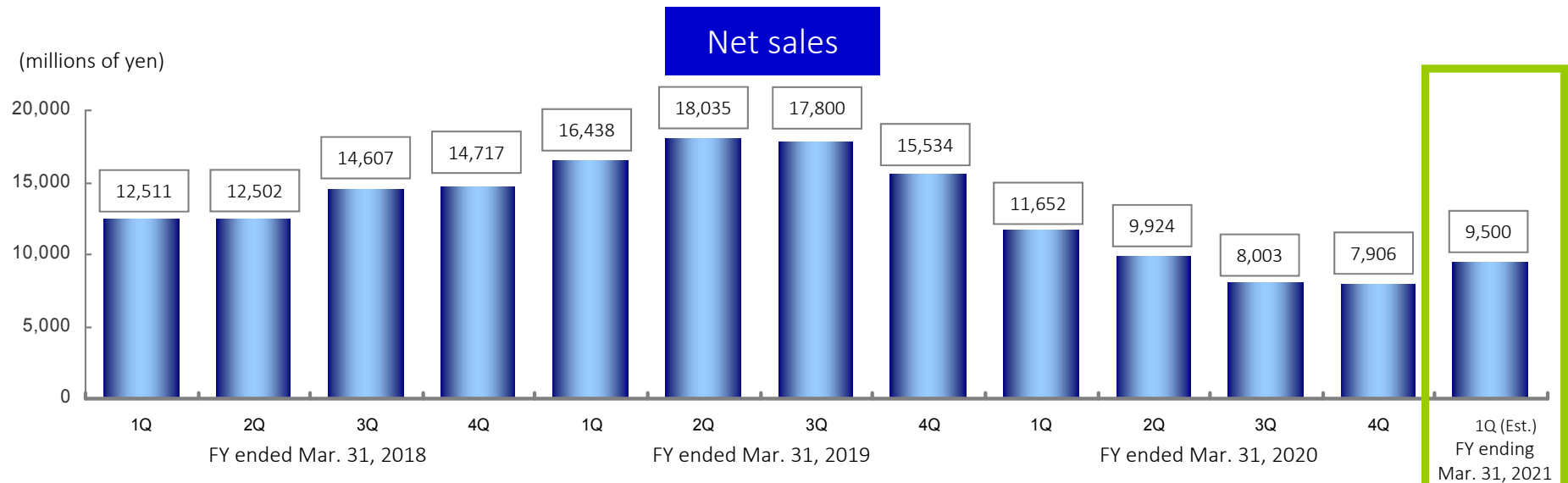


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Consolidated net sales & operating income (quarterly)



Non-consolidated performance forecasts for 1st-Quarter FY 2021/3

(millions of yen)

	1st-quarter FY ending Mar.31,2020		1st-quarter FY ending Mar.31,2021		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	6,014	100.0	5,300	100.0	▲714	▲11.9
Operating income	501	8.3	350	3.7	▲151	▲30.3
Ordinary income	554	9.2	380	4.0	▲174	▲31.4
Net income	54	0.9	200	2.1	145	267.5
EPS (yen)	0.57	—	2.08	—	1.51	267.5

Assumed exchange rate for 1st-quarter FY21/3 forecasts 1USD = ¥105.00 1EUR = ¥115.00 1CNY = ¥15.00



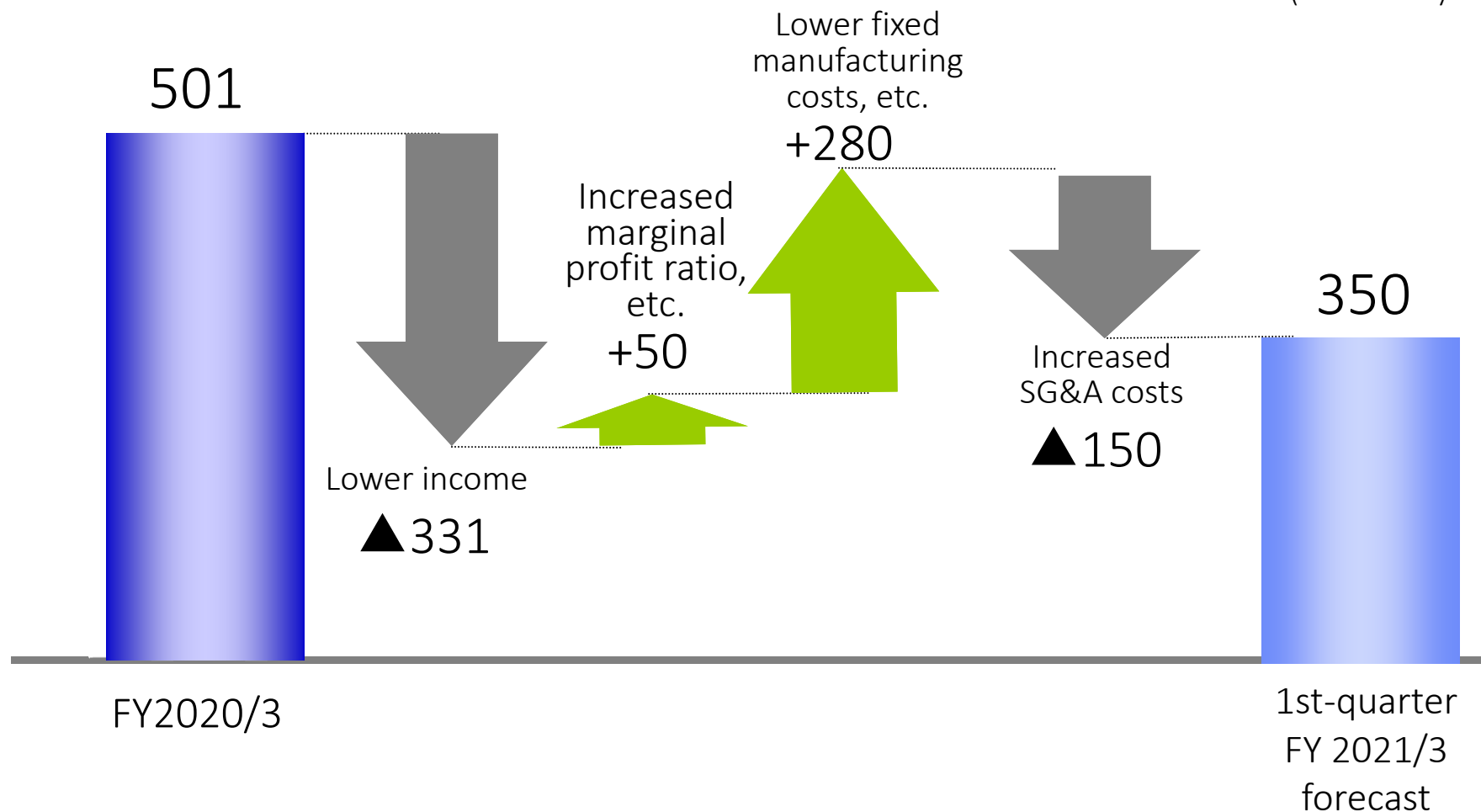
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Factors in year-on-year change in non-consolidated operating income (1st-Quarter FY 2021/3)

(millions of yen)



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