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# Notice Regarding New Medium-term Management Plan for Fiscal Years 2024-2026

Harmonic Drive Systems Inc. (hereinafter "the Company") hereby announces that the Company formulated a medium-term management plan for the three years starting fiscal year 2024, fiscal years 2024-2026. The outline of the plan is as described below.

■ Targets and Results of the Medium-term Management Plan (FY2021-FY2023)

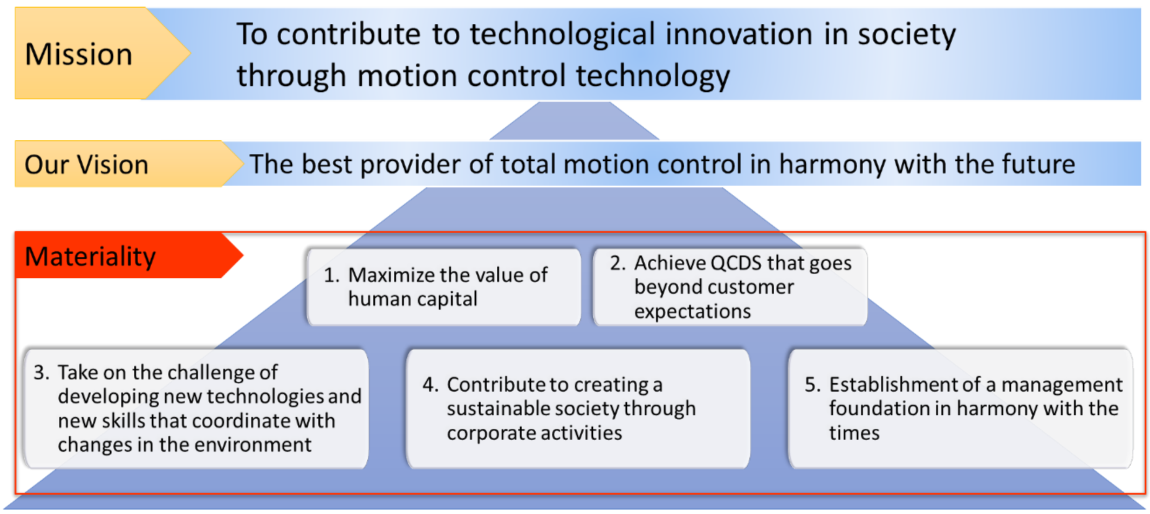
During the period under the previous medium-term management plan for fiscal years 2021-2022 announced in May 2021, the demand for products, mainly in applications for industrial robots and semiconductor manufacturing equipment, remained at a high-level due to factors such as a recovery of investment in automation which had been on hold, affected by the global spread of COVID-19, and an increase of capital investment led by a rising demand for semiconductors.
The Harmonic Drive Systems Group (hereinafter "the Group"), under the basic policy of QCDS "Providing value that meets customer expectations," has engaged in quality improvement and cost and lead time reduction by ensuring production transformation, such as production capacity enhancement by mainly' investment in factory automation, stable component procurement through building robust supply chain structure, and digitalization of production management to ensure an appropriate response to an increasing demand for our products.
In the business environment of the Group in fiscal year 2023, the Group faced a severe situation with the significant drop of orders due to cautious behavior being observed in capital investments in China's manufacturing and semiconductor industries as well as slower inventory adjustments of our products by customers. Sluggish orders led to the lower operating rates of production plants in Japan. However, the Company considered this a unique opportunity to further improve productivity and quality of our products to be ready for future demand increases and has proactively engaged in restructuring and improvements. Net sales and the amount of profit for fiscal year 2023 fell below the plan; however, the Company has engaged in establishing a foundation for coming expansion of demand.

| | FY2023 (Targets) | | FY2023 (Results) | |
|---|---|---|---|---|
| | Amount (Million yen) | Ratio to Net Sales (%) | Amount (Million yen) | Ratio to Net Sales (%) |
| Net Sales | 70,000 | 100.0 | 55,796 | 100.0 |
| Operating Profit | 15,000 | 21.4 | 124 | 0.2 |
| Profit (loss) attributable to owners of parent* | 10,500 | 15.0 | (24,806) | – |

* Loss attributable to owners was ¥24,806 million yen due to the recording of ¥28,159 million of impairment losses of intangible assets related to Harmonic Drive SE, a consolidated subsidiary.

■ Our Vision and Materiality

The Group promotes its unwavering mission of contributing to social and technological innovation through motion control technology. The market for mechatronics and precision speed reducers, in which we participate, is contributing greatly to the emerging social and technological innovation, including electrification of vehicles and surgical robots, and such demand is expected to continue to expand. At the same time, with the acceleration of automation, demand for collaborative robots in addition to a new market for “humanoid robots,” is expected to increase amid the worldwide labor shortage. To properly capture these growth opportunities, the Group aims to further strengthen its business foundation by newly formulating a new medium-term management plan (fiscal years 2024-2026). We also reevaluated materialities considering them as important issues to achieve our vision.




■ Medium-term Management Plan

Considering value creation and transformation to be the two key factors to achieve our mission and value, the Group strives for solving issues to be addressed according to its basic policies set on three pillars: 1) what we are striving to do, 2) what is necessary for that, and 3) sustainability.

**New Medium- to Long-term Issues to Be Addressed**

**Take on the challenge of “Value creation and transformation”**

1. Sustainable growth of all businesses with an emphasis on profitability
   - Develop new drivers for growth
   - Through implementation of QCDS+Speed to meet customer expectations

2. Strengthen management resources (people, things, money, information) that can adapt to changes in the environment
   - Realize an organization where individual growth and diverse skills are demonstrated and respected
   - Growth investment aware of capital efficiency
   - Strengthen the financial foundation and governance

3. Initiatives to enhance corporate value that will continue into the future
   - Promote Net Zero
   - Appoint and hire diverse personnel
   - Develop products that promote the reduction of customers’ environmental load

■ Medium-term Management Plan for Fiscal Years 2024-2026 Targets (Consolidated)

| | FY2023 (Results) | | FY2024 (Forecast) | | FY2026 (Plan) | |
|---|---|---|---|---|---|---|
| | Amount (Million yen) | Ratio to Net Sales (%) | Amount (Million yen) | Ratio to Net Sales (%) | Amount (Million yen) | Ratio to Net Sales (%) |
| Net Sales | 55,796 | 100.0 | 58,500 | 100.0 | 90,000 | 100.0 |
| Operating Profit | 124 | 0.2 | 2,700 | 4.6 | 15,000 | 16.7 |
| Profit (loss) attributable to owners of parent | (24,806) | – | 2,000 | 3.4 | 11,000 | 12.2 |

■ Target Management Indicators

Towards realizing sustainable growth and long-term enhancement of corporate value, the Group has newly added ratio of operating profit to net sales of 15% or more and a ratio of net sales to EBITDA of 25% or more as a “cash generation ability indicator” for net sales as indicators in the medium-term management plan (fiscal years 2024–2026) as the Group’s important management indicators. As an important financial indicator, in addition to return on equity (ROE), ROIC is a new indicator. Assuming that a comparable capital cost (WACC) is at approximately the 9% level, setting a target of return on equity (ROE) and ROIC at 10% or more, we aim to improve return on capital through conducting management aware of the operational efficiency of invested capital.

■ Dividend Policy

The Company sets a consolidated dividend payout ratio of 30%, and aims to sustainably increase the amount of dividend through profit return reflecting consolidated business performance.

* The contents contained herein are based on information available to the Company and various assumptions for the future at the time of the announcement of the document, and are not a guarantee of achievement of the medium-term management plan.