



Harmonic Drive Systems Inc.

Financial Results for the Fiscal Year Ended March 31, 2025

May 20, 2025

Event Summary

[Company Name]	Harmonic Drive Systems Inc.	
[Company ID]	6324-QCODE	
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[Event Type]	Earnings Announcement	
[Event Name]	Financial Results for the Fiscal Year Ending March 31, 2025	
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[Participants]		
[Number of Speakers]	2	
	Akira Maruyama	President and CEO
	Kazutoshi Kamijo	Representative Director, Senior Managing Executive Officer, CFO, General Manager of Finance Accounting, Finance and Tax Division
[Analyst Names]*	Yuichiro Isayama Toshiharu Morota Sho Fukuhara Mitsuyuki Oodaira Lisa Jiang	
	Goldman Sachs Okasan Securities Jefferies Tokai Tokyo Intelligence Laboratory Morgan Stanley MUFG Securities	

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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Presentation

Moderator: Thank you for your patience. We will now begin the financial results briefing for the fiscal year ended March 31, 2025 of Harmonic Drive Systems Inc.

First of all, I would like to introduce today's attendees. Mr. Akira Maruyama, President and CEO.

Maruyama: I am Maruyama. Thank you for all your help.

Moderator: Mr. Kazutoshi Kamijo, Representative Director, Senior Managing Executive Officer, CFO, General Manager of Finance Accounting, Finance and Tax Division.

Kamijo: My name is Kamijo. Thank you.

Moderator: For today's presentation, Representative Director Kamijo will give an overview of the financial results and the forecast for this fiscal year, and President Maruyama will explain the future outlook. Today's presentation materials are also available on our website.

Today's briefing is being audio streamed on the web. The questioner will be nominated by me, the moderator. You can also ask questions via the Q&A button. Please note that we may not be able to answer all questions due to time constraints.

Now, Representative Director Kamijo, please begin.

Kamijo: I am Kamijo, who was just introduced. Thank you very much for taking time out of your busy schedule today to attend our financial results briefing.

I will now give an overview of our financial results for the fiscal year ended March 31, 2025, and our forecast for the fiscal year ending March 31, 2026, in accordance with the materials uploaded on our website today. First, here is a summary of the financial results for the fiscal year ended March 31, 2025.

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Consolidated results for FY 2025/3 (versus original forecasts)

The most recent earnings forecast was announced on April 24, 2025, but here we compare it with the figures announced on January 16, 2025.

(millions of yen)	Forecast (announced Jan 16, 2025)		FY 2025/3 (actual)		Vs. original forecasts	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	54,000	100.0	55,645	100.0	1,645	3.0
Operating income	▲400	—	6	0.0	406	—
Ordinary income	▲500	—	151	0.3	651	—
Net income	3,600	6.2	3,473	6.2	▲126	▲3.5
EPS (yen)	37.90	—	36.57	—	▲1.33	▲3.5

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



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Now, please see page two. First, here is a contrast between the forecast and actual results.

The most recent forecast was announced on April 24, and the differences from the forecast announced on January 16 this year are shown here.

Sales in Japan, China, and the European region, mainly to robot manufacturers, exceeded the assumptions of our earnings forecast. The accompanying effect of higher profits enabled the Company to secure an operating surplus, albeit a small one.

In addition, as already announced, net income fell short of the forecasted amount due to an extraordinary loss of approximately JPY1.2 billion from impairment loss on fixed assets of Harmonic Precision, a domestic subsidiary.

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Consolidated results for FY 2025/3 (year-on-year change)

(millions of yen)	FY2024/3		FY 2025/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	55,796	100.0	55,645	100.0	▲150	▲0.3
Operating income	124	0.2	6	0.0	▲117	▲94.4
Ordinary income	570	1.0	151	0.3	▲419	▲73.5
Net income	▲24,806	—	3,473	6.2	28,280	—
EPS (yen)	▲261.00	—	36.57	—	297.57	—
Capital investment	4,955	—	3,765	—	▲1,189	▲24.0
Depreciation costs	10,362	—	8,023	—	▲2,339	▲22.6
R&D costs	3,613	—	3,776	—	162	4.5

*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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Page three shows consolidated results compared to the previous year.

As you can see, both net sales and operating income decreased, but the amount of decrease was relatively small, and the monetary level was on par with the previous year. However, both net sales and operating income fell far short of the forecasts announced in May of last year at the beginning of the fiscal year.

This was due to the fact that the pace of recovery in industrial robot and semiconductor manufacturing equipment applications fell short of the assumptions made at the beginning of the fiscal year, and demand for automotive applications was soft, as we announced at the time of the downward revision of our earnings forecast last November.

On the other hand, looking at quarterly sales, while there was a downward trend from the beginning to the end of the fiscal year ended March 31, 2024, there was a consistent upward trend from the beginning of the fiscal year ended March 31, 2025, and as a result, we were able to achieve an operating profit from Q3.

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Performance of main group companies in FY 2025/3

(millions of yen)		Equity stake	Net sales		Net income	
			Amount	Year-on-year change (%)	Amount	Year-on-year change (%)
※2	HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (100%)	11,641	▲12.5	570	▲67.2
	Harmonic AD, Inc	100%	2,059	7.1	▲45	—
	Harmonic Precision Inc.	100%	3,108	47.4	▲425	—
※3	Harmonic Drive Systems (Shanghai) Co., Ltd.	100%	5,624	30.9	509	20.5
※4	Harmonic Drive SE (Germany)	100%	16,797	0.3	587	▲70.5

*1 For overseas subsidiaries, the fiscal year ends December 31.
 *2 Exchange rates: FY 23/12 1USD = 140.56 yen, FY 24/12 1USD = 151.58 yen
 *3 Exchange rates FY 23/12 1CNY = 19.82 yen, FY 24/12 1CNY = 21.02 yen
 *4 Exchange rates FY 23/12 1EUR = 152.00 yen, FY 24/12 1EUR = 163.95 yen



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Page four shows the results of major group companies.

First is the US subsidiary. Sales decreased due to lower sales for semiconductor manufacturing equipment and medical equipment. Note that the sales figures shown here are in yen terms, but sales in US dollar terms were down 19% from the previous year, which is larger than this. Operating income decreased mainly due to the impact of lower sales.

Next is Harmonic AD, Inc., which manufactures planetary reduction gears. Demand for gearheads for motor manufacturers and semiconductor manufacturing equipment increased moderately, but still did not reach a stable break-even sales level, resulting in an operating loss for the full year.

Next is Harmonic Precision, another domestic subsidiary. This company is a subsidiary that manufactures a special type of bearing called a cross roller bearing, which is an integral part of many of our products. Although sales increased from the previous year and factory capacity utilization increased this year, it was still not enough to cover fixed costs, and although the operating loss was reduced by half from the previous year, it did not reach the elimination of the deficit.

Next is the sales subsidiary in China. Both sales and profits increased due to higher demand from local robot manufacturers in China and European-based robot manufacturers.

Finally, this is a German subsidiary. In addition to the demand for robots and semiconductor manufacturing equipment, the number of small-lot projects decreased due to the deteriorating macroeconomic situation in Europe. Similar to the US subsidiary, operating income here also decreased due to the impact of a 7% YoY decline in euro-based sales.

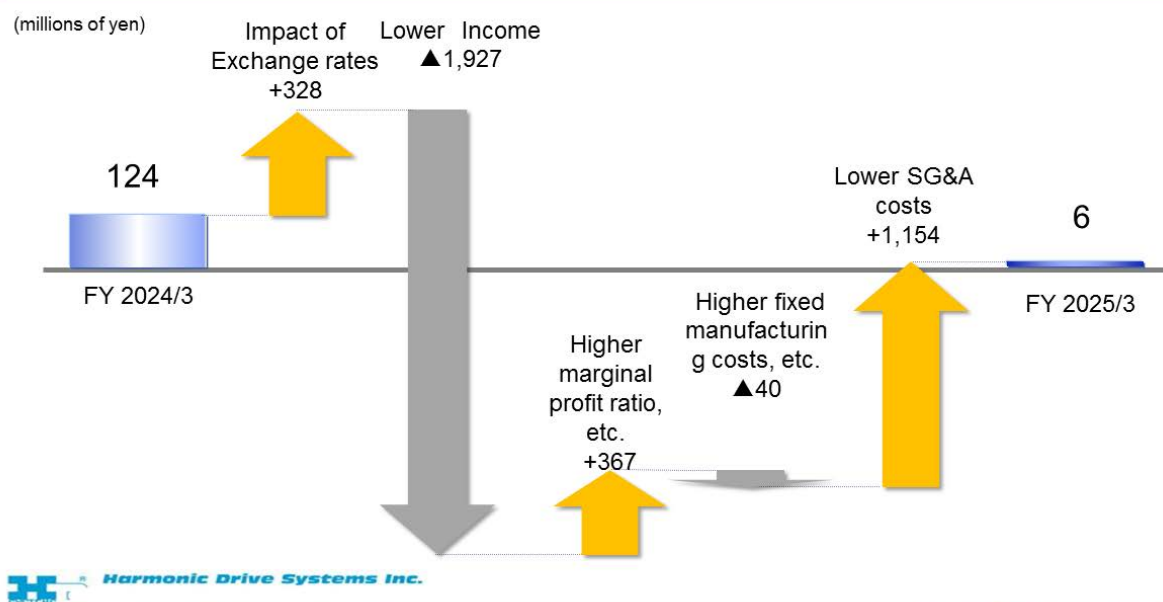
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Factors in year-on-year change in consolidated operating income (FY2025/3)



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Page five shows the factors for changes in consolidated operating income.

The effect of the weaker yen exchange rate had a positive impact of a profit increase of JPY328 million. On the other hand, excluding the effect of foreign exchange rates, sales decreased by about JPY2.8 billion from the previous year, and the associated impact was JPY1,927 million in the negative direction.

Next, the effects of marginal profit margin, inventory changes, and other factors had the effect of increasing profits by JPY367 million, as the effects of last year's surge in electronic component prices were generally eliminated this year. In manufacturing fixed costs, labor costs increased. SG&A expenses decreased due to a decrease in depreciation and amortization for the current fiscal year as a result of the impairment of goodwill and other assets implemented in the previous fiscal year.

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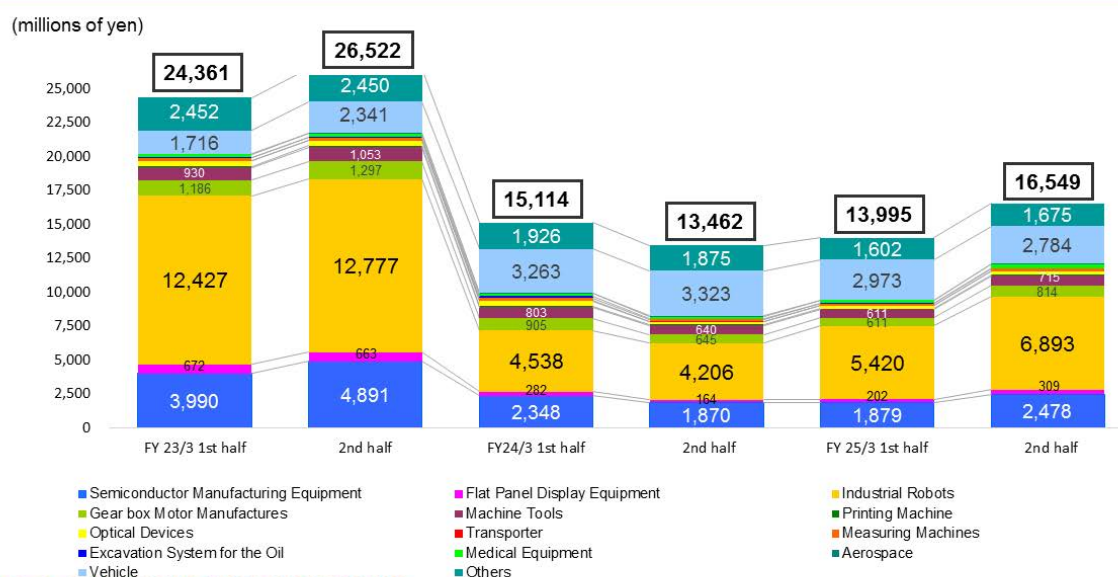
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Non-consolidated results for FY 2025/3(year-on-year change)

(millions of yen)	FY 2024/3		FY 2025/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	28,577	100.0	30,544	100.0	1,967	6.9
Operating income	▲542	—	▲187	—	354	—
Ordinary income	2,288	8.0	187	0.6	▲2,101	▲91.8
Net income	▲18,460	—	4,174	13.7	22,635	—
EPS (yen)	▲194.23	—	43.96	—	238.18	—
Capital investment	3,275	—	1,889	—	▲1,386	▲42.3
Depreciation costs	4,761	—	4,504	—	▲257	▲5.4
R&D costs	2,327	—	2,365	—	38	1.7

As you can see on page six, non-consolidated results showed an increase in revenue, but not enough to make up the deficit in H1 by a profit in H2, resulting in an operating loss for the full year.

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



Page seven shows non-consolidated sales by application.

As you can see, sales for this fiscal year increased from H1 to H2. By application, the recovery in sales, especially for industrial robots and semiconductor manufacturing equipment, drove overall sales. This is largely due to the fact that our customers have made progress in adjusting their inventories of our products and have resumed placing normal orders commensurate with their production activities.

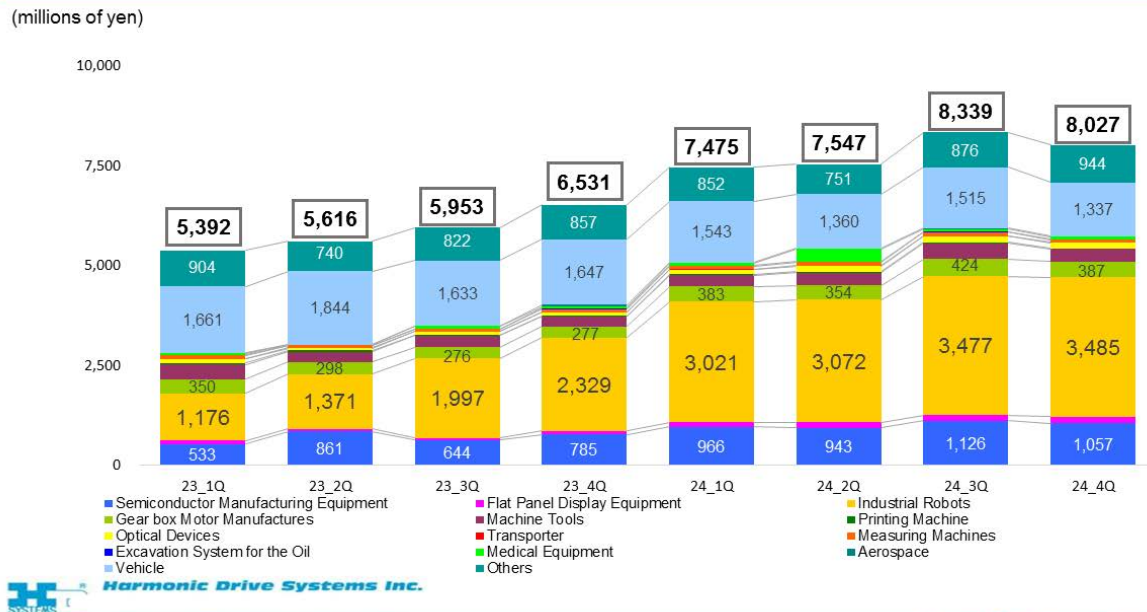
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On the other hand, sales to the in-vehicle market decreased due to a slight softening from H1 to H2, although there was no significant change in the sales level.

Non-consolidated bookings by application (quarterly)



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Page eight shows our non-consolidated orders received by application on a quarterly basis.

As you can see, the trend in orders received is moderate, but the results show a general increase. The total amount of orders received in Q4 was about JPY300 million less than in Q3, mainly due to a decrease in orders for automotive and semiconductor manufacturing equipment.

Orders for industrial robots were almost the same in Q3 and Q4, but a breakdown shows that orders for autonomous robots, which had been high in Q3, adjusted sharply, while orders for traditional industrial robots, such as vertical and scalar robots, increased, and the two offset each other.

In the case of orders for autonomous robots, the number of customers is still small, and the market is greatly affected by the trends of specific customers. As in Q4, we expect orders to be volatile in the near term.

On the other hand, for traditional industrial robots, we expect that customers' inventory adjustments will generally come to an end, and in addition, there are signs of a gradual improvement in the current demand for robots, so we expect orders to pick up, albeit slowly.

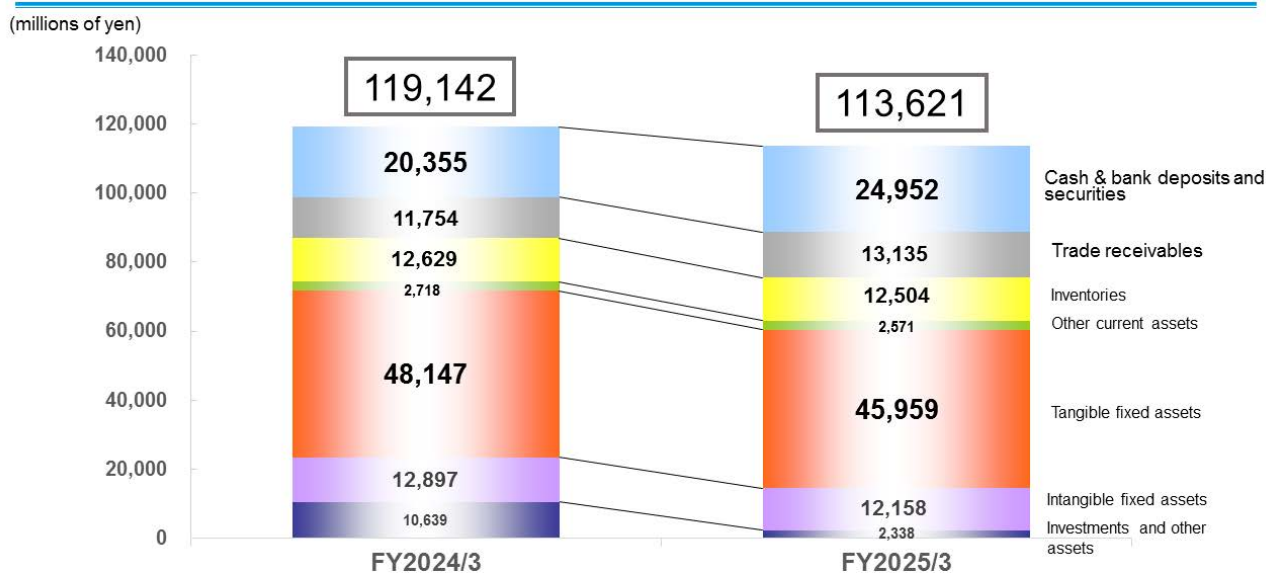
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Status of consolidated assets



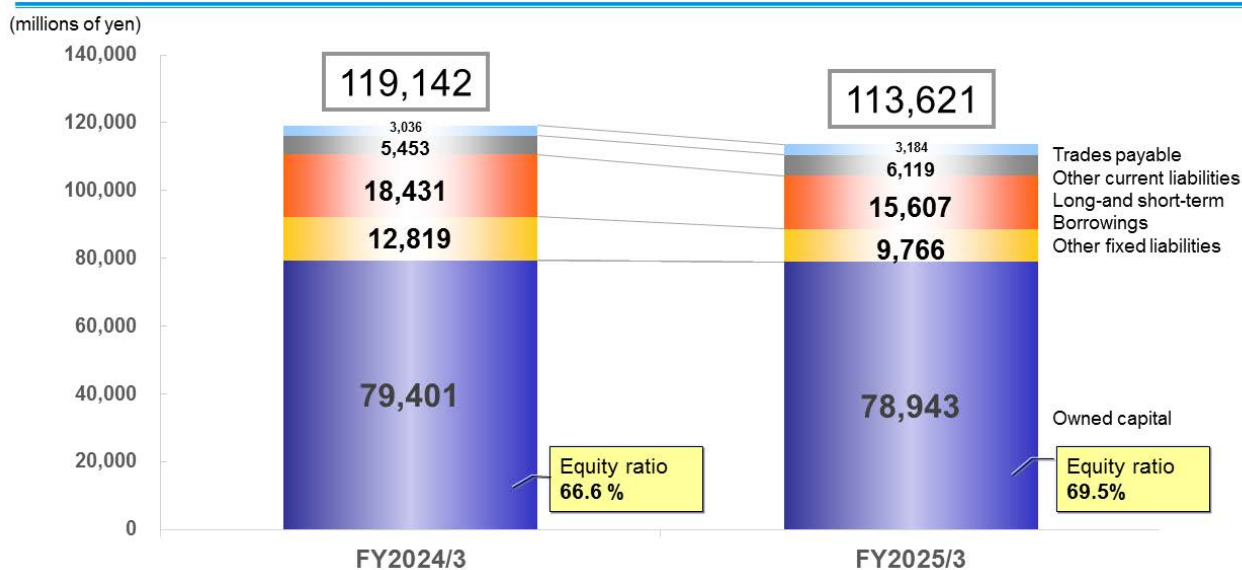
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Page nine is the consolidated balance sheet. In the fiscal year under review, we sold our holdings in Nabtesco Corporation and reduced our policy shareholdings. As a result, investments and other assets decreased significantly.

Status of consolidated liabilities and net assets



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Page 10. We used the proceeds from the sale of policy shareholdings mentioned earlier to buy back our own shares and made early repayment of some loans, thereby reducing total assets and shareholders' equity and improving capital and financial efficiency.

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Status of consolidated cash flows

(millions of yen)

	FY2024/3	FY2025/3
Cash flow from operating activities	12,728	7,516
Cash flow from investing activities	▲5,950	1,480
Cash flow from financing activities	▲8,122	▲5,874
Effect of exchange rate changes on cash and cash equivalents	363	859
Net increase (decrease) in cash and cash equivalents	▲980	3,981
Cash and cash equivalents at end of year	18,941	22,923

Page 11 shows cash flows. We hope you will find this information in the financial statements.

Next, I will explain our forecast for the fiscal year ending March 31, 2026.

Performance Forecasts for FY2026/3

Full-year forecast remains undecided; only 1H forecast disclosed

- Impact of U.S. tariff policy on 2H performance is difficult to reasonably estimate
 - ◆ We expect limited impact from increased tariffs, as approximately 70% of products sold in the U.S. are manufactured at our local production sites.
 - ◆ However, it is difficult to forecast the potential indirect impact of U.S. tariff policy on 2H orders and sales, resulting from changes in demand for products sold by customers.

The full-year forecast will be announced promptly once it becomes possible to make calculations, following a careful assessment of tariff trends and other developments.

See page 13. Regarding the forecast for the fiscal year ending March 31, 2026, we have decided to announce only H1, leaving the full year forecast undecided. The reason for this is due to the tariff policy of the US, which is shown in the slide you see.

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We would like to promptly announce the full year forecast as soon as we are able to calculate it by the announcement of the interim financial results at the latest.

Consolidated results for 1H FY03/26 (Vs. original forecasts)

(millions of yen)	1H FY03/25		1H FY03/26 (forecast)		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	26,559	100.0	27,000	100.0	440	1.7
Operating income	▲637	—	300	1.1	937	—
Ordinary income	▲828	—	200	0.7	1,028	—
Net income	▲850	—	300	1.1	1,150	—
EPS (yen)	▲8.95	—	3.16	—	12.11	—
Capital investment	2,403	—	3,656	—	1,252	52.1
Depreciation	3,936	—	3,345	—	▲590	▲15.0
R&D expenses	1,936	—	1,921	—	▲15	▲0.8

*Assumed exchange rate for 1H FY03/26 forecasts: 1USD = ¥140.00 1EUR = ¥155.00 1CNY = ¥20.00

*Interim net income (loss) refers to Interim net income (loss) attributable to owners of parent.

*Depreciation includes depreciation of tangible assets and amortization of intangible assets.



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Page 14 compares the interim results for the fiscal year ended March 31, 2025, with the interim forecast for the fiscal year ending March 31, 2026.

The forecast for H1 of the fiscal year ending March 31, 2026, is based on conservative assumptions for both the Company's non-consolidated and overseas subsidiaries. Although there are no signs of deterioration in the current order environment, the momentum is generally assumed to be flat, given that there is no strong sense of recovery.

As you can see, we are projecting a modest increase in revenue compared to the same period last year and taking into account the effects of ongoing efforts to improve profitability, we are forecasting an operating surplus of JPY300 million.

We are assuming consolidated sales of JPY12.8 billion for Q1 and JPY14.2 billion for Q2, and although sales are expected to decrease in Q1 due to customer-specified delivery dates, they are expected to turn around to increase in Q2.

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Non-consolidated performance forecasts for full-year FY03/26

(millions of yen)	FY03/25		FY03/26 (forecast)		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	13,995	100.0	15,500	100.0	1,504	10.8
Operating income	▲727	—	100	0.6	827	—
Ordinary income	▲699	—	0	0.0	699	—
Net income	▲701	—	100	0.6	801	—
EPS (yen)	▲7.38	—	1.05	—	8.43	—
Capital investment	1,343	—	2,647	—	1,303	97.1
Depreciation	2,175	—	1,856	—	▲319	▲14.7
R&D expenses	1,186	—	1,271	—	84	7.1

* Assumed exchange rate for 1H FY03/26 forecasts: 1USD = ¥140.00 1EUR = ¥155.00 1CNY = ¥20.00

Page 15 shows a YoY comparison on a non-consolidated basis. Generally, the trend is the same as that of the consolidated forecast.

Performance forecasts on main group companies for 1H FY03/26

(millions of yen)	Equity stake	Net sales		Operating income	
		Amount	Year-on-year Change(%)	Amount	Year-on-year Change(%)
※2 HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (100%)	5,321	▲8.1	101	▲59.9
Harmonic AD, Inc.	100%	1,165	19.1	14	—
Harmonic Precision Inc.	100%	1,658	9.7	25	—
※3 Harmonic Drive Systems (Shanghai) Co., Ltd	100%	2,092	▲30.4	139	▲57.9
※4 Harmonic Drive SE (Germany)	100%	7,782	▲4.5	493	94.1

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

*2 Exchange rates: Jan–Dec 2024 1USD = ¥151.58, Jan–Dec 2025 1USD = ¥140.00

*3 Exchange rates: Jan–Dec 2024 1CNY = ¥21.02, Jan–Dec 2025 1CNY = ¥20.00

*4 Exchange rates: Jan–Dec 2024 1EUR = ¥163.95, Jan–Dec 2025 1EUR = ¥155.00

Page 16 shows the interim earnings forecasts for the main group companies.

For the US subsidiary, we expect sales and profits to decrease due to expected adjustments in sales for medical equipment and semiconductor manufacturing equipment.

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For Harmonic AD in Japan, we plan to return to profitability in terms of operating income as a result of increased sales, as demand for planetary speed reducers is expected to improve moderately from last year.

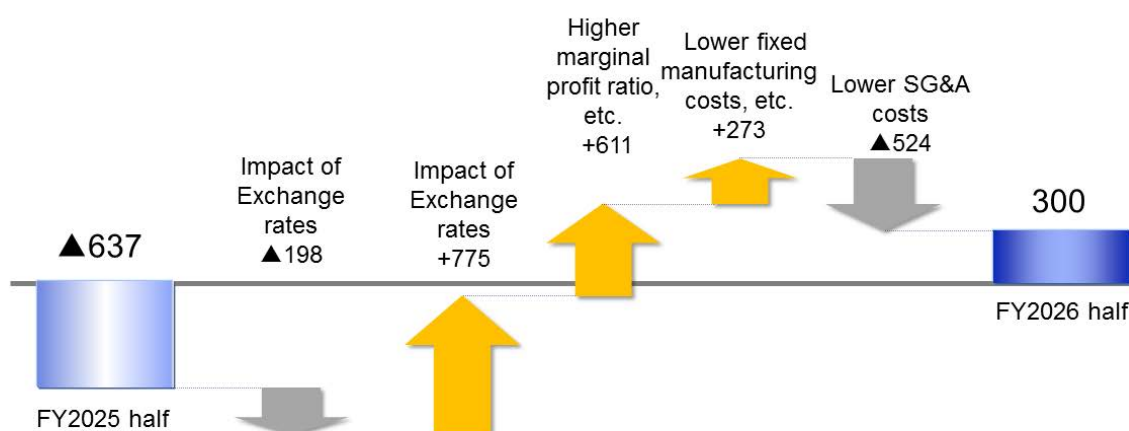
Next is Harmonic Precision in Japan. Although we assume that cross roller bearing production volume will remain flat, we expect it to return to profitability in the fiscal year ending March 31, 2026, as the burden of depreciation and amortization will be reduced following the recording of an impairment loss in the fiscal year ended March 31, 2025.

As for the Chinese subsidiary, we expect lower sales and profits compared to the previous fiscal year, when a large number of sales to local robot manufacturers were recorded.

Finally, this is the German subsidiary. Sales to manufacturers of industrial robots and human-controlled robots are expected to remain flat, but there are signs of improvement in inquiries for small-lot projects, and due to the effect of currency translation, sales are expected to decrease on a yen basis, but on a euro basis, sales are expected to increase from the previous year. In addition, the plant's capacity utilization is expected to increase as a result of this increase, and profit is planned to increase.

Factors in year-on-year change in consolidated operating income (1H FY2026/03 forecasts)

(millions of yen)



Finally, here are the factors that contributed to the increase or decrease in operating income for the interim period.

Although foreign exchange effects are expected to be the main reason for the decrease in profit this fiscal year, we anticipate an increase in profit due to the effect of increased profit in Japan and improved earnings at our German subsidiary. The effect of the price increase on profit growth is estimated to be about JPY150 million, divided into the impact of increased revenue and marginal profit.

In addition, manufacturing fixed costs, etc., are expected to be a factor in higher profits, mainly due to a decrease in depreciation and amortization, despite an increase in personnel expenses.

This is the end of my explanation, although it has been rushed. Thank you for your attention.

Now, Mr. Maruyama, President, will continue with an explanation of our future prospects.

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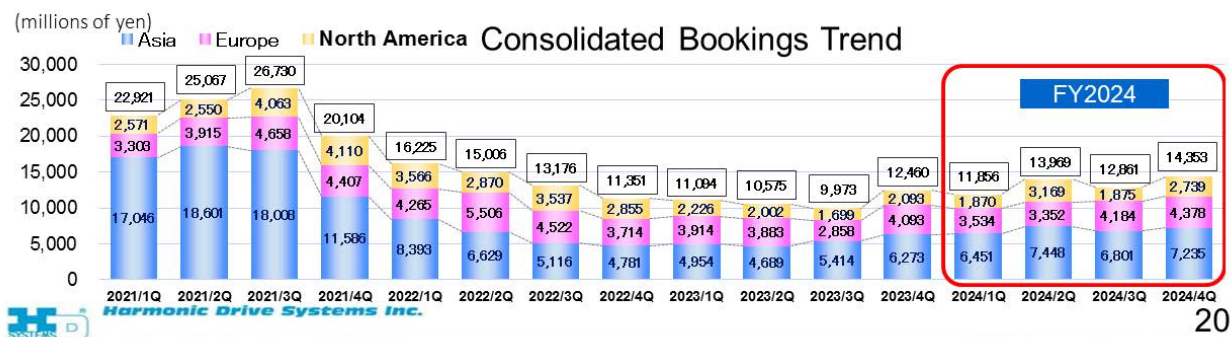
Maruyama: Again, my name is Maruyama, the president. Now, I would like to talk a little bit about the future outlook from my side.

1-1. Consolidated Bookings Status by Region

North America While there were bulk bookings from some customers in Q2 and Q4, inventory adjustments continued at semiconductor-related customers

Europe Bookings were robust, despite a stagnation in the European economy

Asia Bookings recovery has lagged behind expectations due to weak end-market demand in China and Europe, but customers are steadily optimizing inventory levels of our products



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First of all, let me look back at the year 2024, including the trends in orders that Kamijo just mentioned, and give you an overview of our overall management in North America, Europe, and Asia, including Japan.

As for North America, we received bulk orders from specific customers in Q2 and Q4, but the semiconductor-related market, which is expected to raise the US market, is still in a bit of a slump, including inventory adjustments.

On the other hand, in Europe, although the overall economy is sluggish and stagnant, orders at our local subsidiaries have been relatively firm. And I wonder if this trend will continue.

Next, in Asia, including Japan, we have seen a slump in demand for robots and other end-markets, and the speed of a full-fledged recovery in orders has been quite slow. On the other hand, our customers are making steady progress in optimizing their product and parts inventories of our reduction gears.

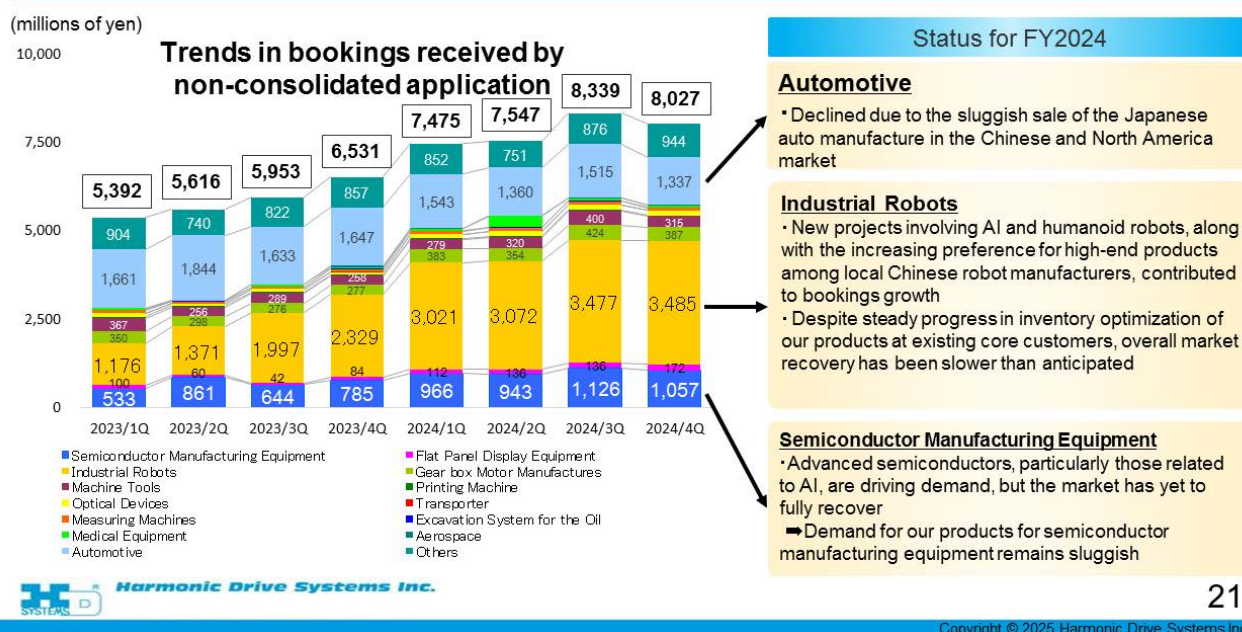
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1-2. Bookings by non-consolidated application



On page 21, I'm going to talk a little bit more about the non-consolidated situation at the moment.

There are three main factors driving non-consolidated orders: robots, semiconductors, and automotive. First, let me start from the top of the slide comment, regarding in-vehicle products for Nissan, as has been reported in the media, I do not think that the sluggish sales in China and North America are positive for the future outlook. Tariff issues will also naturally come up. However, we have not yet received any specific indications of a particularly large decrease in the current plan that Nissan Motor has given us for the foreseeable future. However, we are not optimistic about the situation, and we assume that the market should be viewed as a little weak for the time being.

Next is the robot. As I will explain later, new projects such as AI and humanoid robots and the expansion of high-end orientation among local robot makers in China has led to a quite active movement toward the use of our products.

Next, I expect semiconductors to be a bit more exciting. Not only us, but also other companies in the same industry as us, all say so.

As you know, demand for high-end semiconductors is growing at a considerable rate, but without full-scale activity in the memory-related fields in which we are involved, it has not yet led to an expansion in overall demand, especially for manufacturing equipment, which is our group's application.

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2-1. Mid-term Management Plan for fiscal years 2024–2026

Take on the challenge of “value creation and transformation”

① What do we aim to achieve?

Sustainable growth of all businesses with an emphasis on profitability

② What is necessary to achieve this?

Strengthen management resources (people, things, money, information) that can adapt to changes in the environment

③ Sustainability

Initiatives to enhance corporate value that will continue into the future

Page 23. As for our efforts in FY2024, I would like to look back on the three main basic policies of the medium-term plan, as I mentioned last year.

2-2. Initiatives for 2024

① Sustainable growth of all businesses with an emphasis on profitability

- Develop new drivers for growth
 - Developed relationships with players related to AI and humanoid robots
 - Expanded market share in China (9.3% in 2023 to 12.1% in 2024)
Source: “2024 China Precision Reducer Market Analysis Report” by M.I.R. Co., Ltd.
 - Supported by demand from local Chinese robot manufacturers
 - Began collaboration with other companies to develop new technologies
- Achieve QCDS that goes beyond customer expectations
 - Launched a new company-wide cost innovation project
 - Improved operating profit by approximately ¥300 million in FY2024 amid high prices and rising labor costs
 - Expanded local assembly in China

② Strengthen management resources

- Factory IoT adoption
 - Improved operational efficiency through MES implementation at the Ariake Factory
 - Expand to other factories in FY2025 and beyond
(Estimated effect: reduction of indirect man-hours by approx. 16,000 hours/year)
- Efficient allocation of production sites
 - Completed transfer of mechatronics product manufacturing operations to Harmonic Winbel Inc.

③ Initiatives to enhance corporate value that will continue into the future

- Activities based on our Basic Sustainability Policy
 - Selected as an A List company in CDP Water Security 2024 by CDP, a global nonprofit leading environmental disclosure
 - Formulated the group human rights policy
 - Implemented supplier risk assessments
 - Reduced cross-shareholdings (approx. ¥8.5 billion)
 - Established a voluntary Nomination and Remuneration Committee

On page 24, the first one, the growth of all businesses with an emphasis on profitability, which is written in the first sentence, I can say in particular that there are two major things in the development of new growth drivers. One is to build relationships with new players in the AI/humanoid robotics field, which we have been talking about since last year and the year before. I will talk about this a little later, but it is not simply a matter of mass production, but a preliminary step. We have been making a lot of progress with our clients on what we are going to produce.

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The other is to expand the share of local robot manufacturers in the Chinese market, especially those aiming for the high end of the market, as I mentioned earlier. I will be more specific here later.

Another major initiative is our own, where we are trying to devise ways to increase profitability. We are a manufacturing company, so we do what we call "normal cost reduction" every year, but last year we decided to focus our activities on so-called "innovative" areas outside of such ideas.

As a result, although there was a partial effect of price hikes, we were able to increase operating income by about JPY300 million, although operating income on a non-consolidated basis was negative due to the high prices of commodities and labor costs, which remained at a high level.

Next, within the context of strengthening management resources, one is the shift to IoT in factories. We have been working on this for the past several years, especially focusing on automation up to now, which we will continue to do in the future. In addition, the Ariake Plant was the first to fully introduce a system called MES for real-time forecasting and management to determine how to prepare for and monitor the state of so-called manufacturing. This is especially true for indirect man-hours, which can significantly increase operational efficiency.

Based on this track record, we will expand to other plants, centering on the Hotaka Plant, from FY2025 onward. We estimate that we can reduce overhead costs by the equivalent of 16,000 hours per year.

Next is the relationship between sustainability. In particular, in the area of governance, as explained earlier by Mr. Kamijo, we have reduced our strategic shareholdings and established a Nomination and Compensation Committee, albeit on a voluntary basis.

3-1. Emergence of local manufacturers in Chinese robotics market

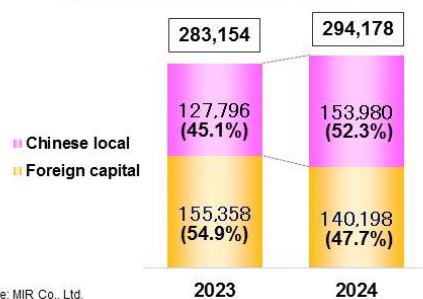
■ Rising market share of local manufacturers in Chinese robotics market

- The share of local manufacturers for collaborative and small-sized robots has expanded rapidly

■ Growing preference for high-end products by local robot manufacturers in China

- Major players are focusing on enhancing reliability and securing stable procurement to strengthen their international competitiveness
- ➡ Expanding opportunities for adoption of our products

(1) Shipment volume of industrial robots in China



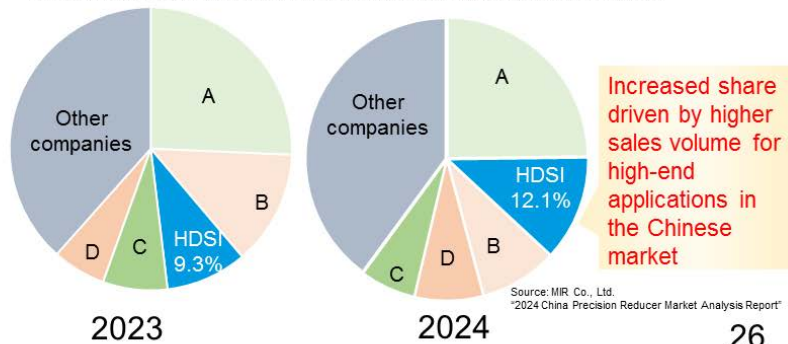
Source: MIR Co., Ltd.

"2024 China Industrial Robot Market Data Analysis Report"



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(2) Market share by shipment volume in the Chinese strain wave gearing devices market



Source: MIR Co., Ltd.

"2024 China Precision Reducer Market Analysis Report"

Increased share driven by higher sales volume for high-end applications in the Chinese market

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We will discuss future trends.

On page 26, I will briefly talk about the rise of local manufacturers in the Chinese robotics market.

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The graph in (1) below is from M-I-R, a company that produces analytical reports. In China, the so-called foreign manufacturers, mainly Japanese and European, are in yellow, and the local Chinese manufacturers are in pink.

When we look at the number of units shipped in China, we can see that traditional, so-called foreign manufacturers are being pushed out by local Chinese manufacturers. Already, we are about to enter the realm of more than half. Under such circumstances, we are now in a situation where we cannot ignore local manufacturers in China at all. We have never had the attitude of not actively entering into cheap or bad areas. This remains true to this day.

However, it is a fact that local Chinese manufacturers are trying to break into the global market, and they themselves are working to improve the performance and longevity of their robots in the so-called "high-end" area. In this context, our company's role is becoming very important, and the year 2024 was a year in which we were able to realize this very much.

The graph of reduction gear market share in (2) is for all local, so-called wave gear manufacturers in China, and our current market share is as shown here.

The share of the high-end-oriented market, which we have been supplying to as needed, has been growing considerably.

3-2. Semiconductor equipment and Automotive

Semiconductor equipment

■ Bookings from the Group's semiconductor-related customers are expected to gradually increase

- Sales of semiconductor manufacturing equipment for AI semiconductors used in server were robust
- Logic foundries and DRAM: overall strong, but some variation
- Uncertainty over the outlook due to U.S.-China tariff trends



Automotive

■ The impact of weak sales of the Japanese auto manufacturer was offset by increased adoption of our products in new vehicle models

- Sales were sluggish in China and North America
- Expansion of installation in new vehicle models in North America
- Flexible response to demand trends in automotive production lines



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Page 27 is semiconductors and automotive, as I mentioned earlier, in particular, the automotive sector, which currently accounts for a substantial portion of our sales, is not expected to decline sharply anytime soon. However, since the situation is a bit unstable, we ourselves are currently experiencing a fairly low-capacity utilization rate for our automotive production lines. We are not saying that we are going to do anything with this equipment immediately, but our on-board equipment is not dedicated for on-board use either. Although the individual facilities are currently dedicated to in-vehicle use in that they are connected to each other for automation, they can all be converted to produce HarmonicDrive® in individual facilities, allowing for flexibility in the future organization of production lines.

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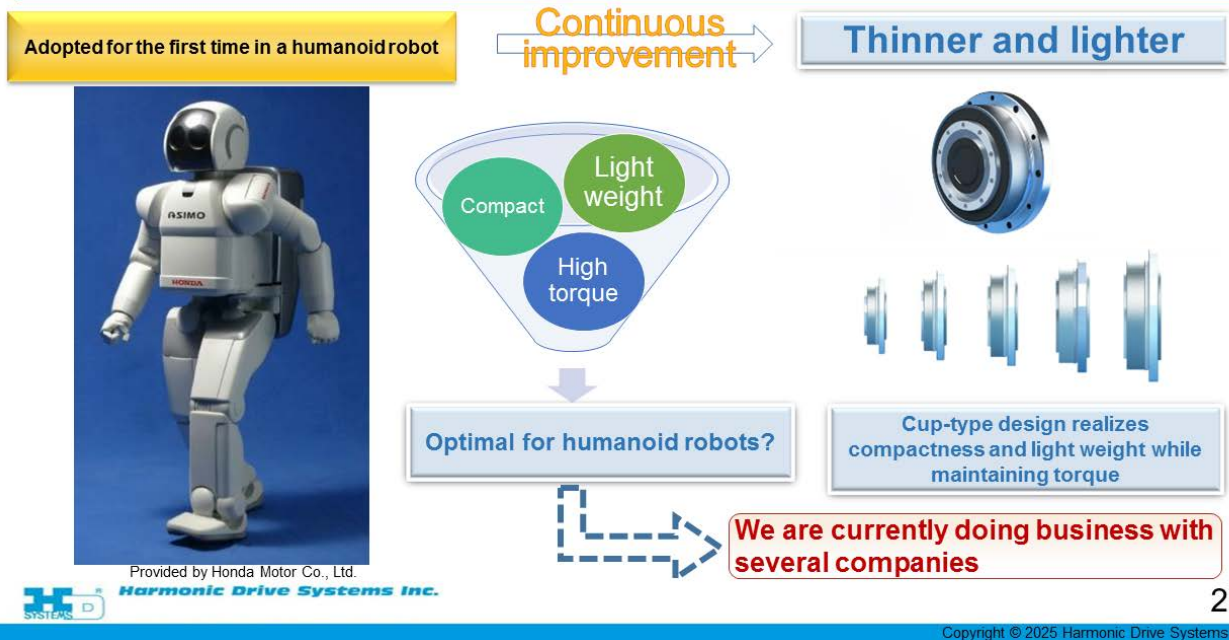
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The next step would be a new application.

4-1. History of our company and humanoid robots



Page 29. As I said, we are talking about humanoid robots here as well, but our products were first used in humanoid robots in the late 1990s, when Honda Motor's ASIMO was first introduced, which was a very long time ago. 20 years have passed since then, and this human type is now moving again on a tremendous scale.

In particular, we are not simply promoting the conventional HarmonicDrive® but have been focusing on the development of products that are optimized for the human type, especially in terms of weight reduction, but that can also guarantee torque life. With this in mind, we are now at the stage where we are about to start doing business with several companies.

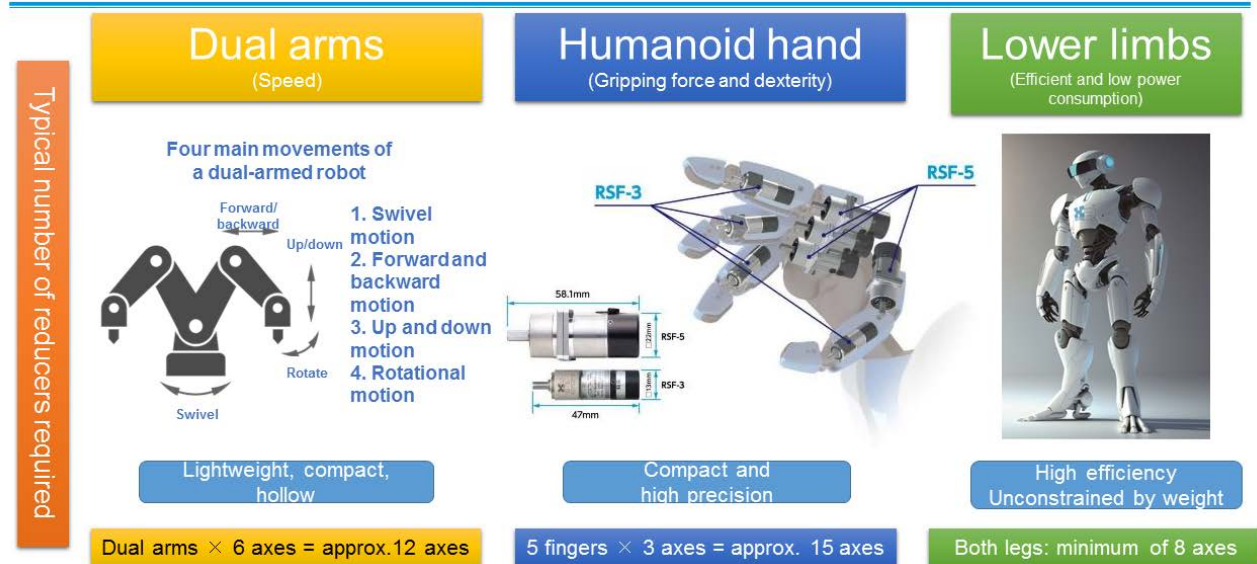
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4-2. Expected applications



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Page 30, what are the main applications?

Our supply will be mainly reducers, so you can think of it mainly as an extension of both arms, these arms, or cobots as they are now called. The other part is that the hand that is attached to the end of the hand is also an area where we have a commercial opportunity. The demand for reduction gears for the lower limbs is also expected to grow, although whether or not to attach legs to them will depend on how they are used.

4-3. Our current relationships with AI and humanoid robot developers

■ Mass production phase

Mass production supply confirmed for multiple companies, including venture firms

■ Development phase

Began collaborations with leading companies exploring entry opportunities in the humanoid robot field, which we believe will shape a new market

- Development of distinctive actuators incorporating each company's strengths
- Joint development of robotic hands with gripping force

➡ Development of robotic arms compatible with AI and advanced software



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On page 31, I would like to summarize the situation we are in nowadays.

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First, in the mass production phase, several companies have already confirmed their mass production supply. However, as for the 2025 fiscal year, all of them are still starting small, and we expect that the volume will probably increase to a considerable level from next year onward.

As I mentioned earlier, it is very important to have a development phase as the first step, and as I mentioned earlier, it is not simply a matter of offering the conventional HarmonicDrive®, but as I write here, a considerable number of major manufacturers and major companies are now envisioning various things to form this new market. And we have been asked to collaborate with them in various ways. We have already implemented it as well.

In particular, there are two of the biggest ones. After all, what kind of actuator is best for a humanoid? This is not only a reduction gear, but also a motor, a sensor, and what kind of actuator with what characteristics should be developed.

Although our main focus will be on speed reducers, we are now starting to work with major companies that have various areas of expertise and want to partner with us in a variety of ways to achieve the ideal final actuator.

The other is hand. There are many types of hands available today, including so-called grip-type specialized hands and general-purpose hands that are not very powerful or able to hold objects. In this context, this grasping power is always needed for certain applications, especially when trying to do something with the fingers.

We are now in the joint development phase with a company to determine whether there is a considerable need for harmonic reduction gears, especially for ultra-compact reduction gears. We are now in the phase of developing a new robotic arm that can follow AI and advanced software in total.

4-4. Space

Broadening of our applications as human activity extends into space

➤ Optical Satellite Communication

- Laser Communication System is a method of communication between artificial satellites and the ground using laser light.
- Our group's products are adopted for TESAT 's OPTICAL Communication Terminal
- Highly praised for its high precision and long life in space



Source: Tesat-Spacecom GmbH & Co.KG

➤ Manned and unmanned activities in space



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Page 32 shows the space industry that we have been talking about for some time.

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As Mr. Nagai, chairperson of Board of Directors of our company used to say, this is already moving from a place of experimentation to a place of commerce, and we expect the market to grow considerably. For our part, the communication antenna as shown in this document, which is a European company called TESAT, is like a European version of Starlink. HarmonicDrive® will surely be used in these satellites as well as in the containment products for these communication antennas.

In addition, we are also developing various types of manipulators for space applications, including manned rovers, as described in the lower part of this page. We are preparing for the time when humanoids will play a role in space development, and we would like to make various preparations for this.

4-5. e-Mobility

➤ eVTOL (Electric Vertical Takeoff and Landing vehicle)

- To support the launch of customers' commercial operations in late 2025 or early 2026, we have begun preparations for the mass production of speed reducers for eVTOLs
- Demonstration flight scheduled for the Osaka-Kansai Expo



➤ Urban compact EVs

- Lean Mobility
- Realize safe and exhilarating driving through state-of-the-art sensing and control technologies
- Our products are integrated into active lean technology, which optimally controls vehicle tilting during a drive
- Accelerating toward market launch in late 2025 to early 2026



Source : Lean Mobility Inc.

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Next is mobility. The upper section is an eVTOL, or so-called "flying car," which is also in the process of officially starting commercial operations in the near future. As a first step, several eVTOL manufacturers are currently conducting demonstration flights at the Osaka-Kansai Expo. As far as our customer is concerned, a demonstration flight is scheduled to take place this fall or so.

Next is Lean Mobility, which is a small urban EV. This is for one or two passengers. A company called Lean Mobility, which is a spin-out from Toyota, uses Harmonic Drive® to drive lean.

This one is nearing market introduction. In Taiwan, bikes have become a huge part of the morning commute, so we had planned to introduce them mainly in Taiwan, but we recently heard that they will also be available in Japan at the same time.

We will start the year slow in terms of volume, but we will be preparing for the volume zone in the future as well.

Next, on page 35, we discuss the new fiscal year initiatives for 2025.

I would like to summarize what we are going to do this fiscal year in line with the three basic policies of the medium-term management plan I mentioned earlier.

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This growth driver is already being cultivated, or rather, cultivated in depth. The idea is to do this thoroughly already. The key word is still actuator. What kind of actuators are we going to introduce to the market in partnership with our customers?

To this end, we, too, are trying to find ways to manufacture products without incurring costs. This is not just at the level of a cost reduction project, as I mentioned earlier, but we are now in the process of challenging manufacturing methods to achieve lower costs, including methods.

As for the other cost reduction, the Company-wide cost innovation project I mentioned earlier, we are in the process of implementing company-wide activities with a target of JPY1 billion in FY2025, with various KPI items set.

Regarding management resources, the expansion of the introduction of MES and capital efficiency that I mentioned earlier, our main focus has been and will continue to be on investment, especially in the area of making many good products, we will be focusing on how to produce output while reducing investment costs, including investment in new facilities to save space, and of course, since the current utilization rate is not that high, we are also strengthening our efforts to produce solid outputs with minimal investment, including the use of idle facilities.

There are four main corporate value initiatives following the future, as described here. Especially in the last stakeholder engagement, I believe that the main focus of our activities should be to increase engagement with various stakeholders, including our own employees.



Sustainability Topics for 2024~2025

April: Hold the 38th Harmonic Concert (Azumino City)

May: Sponsored the Robotics Summit 2024 (Boston)

May: Hold the 22nd Harmonic Lecture (Matsumoto City)

May: At the 47th Aerospace Mechanisms Symposium
Announcement of joint research with JAXA

June: Sponsored Shinshu Azumino Half Marathon as Gold Partner

Feb: Selected as an A List company in CDP Water Security 2024 by CDP



There is nothing particular to explain on page 36.

I, Mr. Maruyama, have explained our future activity policy. Thank you for your kind attention over the long day.

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Question & Answer

Moderator [M]: I will now move on to the question-and-answer session.

Thank you to the audience for your participation and for raising your hands. Please give your affiliation and name.

Isayama [Q]: Thank you very much for all your help. My name is Isayama from Goldman Sachs Japan. Thank you. Let me ask you two questions.

The first is around numbers, or rather, thinking. We have received some good news from a mid- to long-term perspective but looking at the non-consolidated sales for H1, the figure is JPY15.5 billion, which I believe is lower than Q4 orders x 2.

Are you talking about the adjustment only for autonomous type? I was wondering if this area would be up for traditional robots, for Japanese manufacturers, or for Chinese robot manufacturers, based on what you said, but at least it looks like it will be down from Q4 in your plan.

If possible, since I don't think you can tell us about the current full year yet, I would like to ask you about the inventory trends and order inquiries for humanoid robots, Chinese robots, and traditional manufacturers, as far as you can tell us about them. I would like to ask you about these three issues in particular. Thank you.

Maruyama [A]: I would like to give an answer.

Although there has been a slight decline since Q4, we have not incorporated this humanoid into our aggressive plan, even though we have just confirmed mass production and supply.

I cannot speak piously about the fact that we were not able to incorporate it, because honestly, we are finally starting to see prospects in this area, but we believe that we have a positive factor here.

As for China, we are currently moving forward with various projects while placing the main focus of our activities on the Chinese side, so I wonder what the numbers will be depending on when these projects are launched. Unfortunately, the level of contribution from these projects in H1 will be about the same as in the past. We have several projects that we ourselves are looking forward to in H2 and beyond.

Also, the inventory, depending on the manufacturer, is certainly quite adequate in some cases, but this time, depending on the model, those that have been selling well and have been stockpiled for the past two years have actually not been processed very well over the past two years, while other models have been raised very much. Although there are still some manufacturers that have yet to make a significant inventory adjustment, I believe that the inventory level will be almost at an appropriate level in H2 of this fiscal year. That is all.

Isayama [Q]: I'm sorry, just to add to the China part, I know that you have been involved with the largest FA manufacturers in China for a long time, but what President Maruyama mentioned in his presentation this time, was he talking about Chinese manufacturers of cooperative robots expanding overseas, or was he talking about the development of traditional industrial robots?

Maruyama [A]: Both.

Isayama [Q]: Thank you very much. In your second comment, you said that you have high expectations for the human type, so I would like to try again. Last year, you originally said that you were aiming for about 10%

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of the sole source, and I think that was probably a little short, but is it correct to say that you do not expect to hear from the manufacturers here this fiscal year?

Regarding what President Maruyama said, of course, I know you can't tell me the names, but if there will be additional manufacturers, etc., so can you give me a little more resolution as to what is going on?

In particular, please also tell us what happened, whether it was inventory or the other party's production plan that ended up being a little short of what you were offering to a certain manufacturer.

Maruyama [A]: In FY2024, with regard to certain manufacturers that we had originally anticipated, we are now reviewing how they will use the products in their final form, and how they actually did.

So, with respect to the current fiscal year, that portion will probably go down as compared to this previous fiscal year. On the other hand, there are two or three manufacturers, which I spoke of earlier for the positive side.

As for this area, we are definitely in the mass production phase of ordering now. However, as for 2025, the production of a large number of robots, as they had predicted, is still a real problem, and it may be difficult to start up to that point. Therefore, I mentioned the idea of starting small. But this is definitely an added bonus.

Isayama [Q]: I think there was a figure of JPY10 billion in the mid-term plan. This year, I think you have the situation you just mentioned, but in terms of the perspective itself, based on what you just said, is it correct to say that you are not generally out of alignment with the situation?

Maruyama [A]: I think this will be a timing difference as a fiscal year. In short, this sense of numbers we saw last year, this is where we probably will slide. This is probably something we talk about in our daily IR or something.

However, I am not sure if our initial view of the peak in terms of volume is correct, but I am not sure at this point whether it will be significantly lower or higher than the peak, but I think it is safe to say that it is positive.

Isayama [M]: Thank you very much.

Moderator [M]: Okay, please.

Morota [Q]: I am Morota of Okasan Securities. Thank you for all your help.

I would like to ask two questions focusing on the humanoid industry. I heard that there have been quite a few inquiries from new manufacturers of humanoids, but the requirements and production are quite high and you have been discussing. When was it finalized?

For example, there was talk of two or three companies, so if the number of companies combined with the current companies becomes three, I can imagine a JPY10 billion level as soon as possible. First of all, please tell us when do you envision that the amount will reach JPY10 billion?

Maruyama [A]: It is difficult for us to say when the figure will be announced. However, it is still an area where we are talking about something very vague, and it is only recently that we have really decided on the volume for FY2025.

Therefore, I believe that the outlook for FY2026 and beyond will brighten considerably over the next six months or a year, but at this point, I think it is still difficult to say we can reach JPY10 billion in H2 of next year.

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Morota [Q]: I've heard that the demand level and the number of units produced were quite high, and while that may be true for 2025, it is likely to be quite high in the long term. I am sorry, I am just imagining, but is it my understanding that the decision to accept the project was based on such a judgment that it could be handled, including the diversion of Ariake and other areas that you mentioned earlier?

Maruyama [A]: That is how we are judging it nowadays.

Morota [Q]: Okay, thank you.

Secondly, humanoid robots probably have about 40 joints, not including palms, but according to today's data, about half of them, not including palms, should be considered as your target field, and how should we look at competitiveness there? What kind of technology is essential to your company?

I'm a little concerned about this, but according to M-I-R's report, the current humanoid robots will probably cost tens of millions of yen per unit in 2023-2024.

By 2030, there is a prospect of maybe like a few million yen. I think it will be difficult to supply humanoid robots for a long period of time unless we keep our competitiveness and have something unique to your company, or if not, we can match the cost. What are your thoughts on this?

Maruyama [A]: Yes, that's right. We cannot say that 'Ours is definitely everything'. We do not intend to have that kind of production capacity, so I believe that there will be a division between those parts that require robots and those that do not, even in the same wave gears.

I think it will be absolutely necessary to reduce costs, including manufacturing methods, from the current manufacturing methods. Especially the smaller ones.

To be honest, there are many parts of the current arms and other parts that are an extension of the current cobot, so there may be parts that can be handled locally in China. However, it is not all axes. After all, there is a "the most important axis," and we are inevitably involved in it. This is already being viewed that way, including by those who are actually doing it now.

I think the most important thing is what kind of reduction gears we can supply for actuators that can be applied in such areas. And with plus costs.

Morota [Q]: Okay. Lastly, you mentioned that multiple companies have now decided on mass production, and I hope you don't mind me asking this, but are both American and Chinese manufacturers included?

Maruyama [A]: I have no comment.

Morota [M]: I understand. Thank you very much. That's all from me.

Moderator [M]: Okay, please.

Fukuhara [Q]: My name is Fukuhara from Jefferies Securities. Thank you again for your time today. I have two questions. First, I would like to discuss the capital investment plan for this fiscal year.

Although you only have figures up to H1 of the fiscal year, these figures are JPY2.6 billion on a non-consolidated basis. If you simply multiply by two, the amount exceeds JPY5 billion, but last year, the initial plan was for JPY4.9 billion, but the amount was reduced to JPY1.9 billion. Is that something that had been shifted from last year?

Also, if you are really going to spend about JPY5 billion this fiscal year, what will you invest in?

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Kamijo [A]: My name is Kamijo. We are presenting figures only for H1 of the fiscal year, but on a consolidated basis, we plan to invest about JPY6.8 billion for the full fiscal year.

As for the small amount of investment actually implemented last year compared to the initial plan, as Maruyama mentioned earlier, many of the autonomous robots we received last year from customers will increase toward 2025 and 2026.

In order to meet this request, there are some additional products that cannot be made with the facilities we have now, so we were investing in equipment to make these products. We were planning to invest in reduction gears and the accompanying bearings.

However, as I mentioned earlier, the customer's plans are now a bit backward overall, so our management decision last year was to delay the investment in order to minimize the risk of this investment failure, or rather, the risk of a mismatch between demand and investment.

We have yet to hear from our customers about the pace of future growth this year, so we have not included most of these projects in the JPY6.8 billion we mentioned earlier.

In this sense, we intend to maintain a normal level of CapEx this fiscal year, focusing mostly on maintenance, renewal, and efficiency improvement investments, as well as investments in tools.

Fukuhara [Q]: I see. That is also why depreciation for this fiscal year is planned to decrease from last year, but that is because, in essence, you are only investing in renewal.

Kamijo [A]: Yes, that's right. As for existing facilities, we use the declining-balance method for machinery and equipment, so the burden on existing facilities will gradually become easier.

In addition, as we review various construction methods, we are trying to reduce consumption of expensive cutters as much as possible, while at the same time increasing production, which will have an impact on the decrease in depreciation expenses.

Fukuhara [Q]: Okay. Second question. As for this talk about market share on page 26 of the slide, it is true that orders increased from FY2023 to FY2024, and I have no doubt at all that the market share is increasing. However, looking at the FY2024 quarter, orders did not increase, the JPY1.1 billion range. If so, the market share was increasing until 2024, but can you expect an increase in market share in 2025 as well?

Maruyama [A]: As mentioned in Mr. Isayama's question earlier, we are currently in discussions with a number of companies, including cobot manufacturers, who want to enter the global market with new high-end products, so I don't think this will lead to immediate orders at this point.

But in any case, we see this as a definite contribution to our market share expansion.

Moderator [M]: I will now introduce the questioner from the web. Mr. Oodaira, can you hear me?

Oodaira [Q]: I am Oodaira from Tokai Tokyo Securities. Thank you for everything. Excuse me from the web.

One point. I would like to check once again the domestic production, or rather, the operation status. I would like to ask you to comment on what kind of factory operation rate you expect for the half year, H1, H2, and the new term plan for this term, based on about one year from now, which has just ended. Thank you.

Maruyama [A]: I would like to say that we are operating at full capacity, but it is two direct, but we originally assumed that we would be operating at full capacity. Right now, it is almost one direct, and in that sense, the operation is 50 percent.

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Oodaira [Q]: Is there any difference between H1 and H2 of the fiscal year on operational situation?

Kamijo [A]: Yes, that's right. Since sales increased in H2 compared to H1, the monthly production volume of wave gears also increased in H2 compared to H1, as a result of the results of H1.

In H1, production volume was below the break-even point, but in H2, production volume finally touched the break-even point.

As I mentioned earlier, the capacity utilization rate is still in the neighborhood of 50% of the maximum production capacity, but as the capacity utilization rate gradually rises, we do not expect it to reach 70% or 80% in H1 of the current fiscal year, but we expect the situation to exceed the break-even point in H1 of the current fiscal year.

Oodaira [Q]: Thank you very much, Mr. Kamijo.

What do you think the growth rate of the volume of reducers in H1 of the new fiscal year? Are you looking at a growth rate of about 5%?

Kamijo [A]: Yes, that's right. Yes. As Mr. Isayama pointed out earlier, production in this H1 assumes that production will momentarily drop a little compared to H2, which is over. Compared to H1 of last year, H2 of last year's sales grew by about 5% to less than 10%, but we assume that H2 will be slightly lower than H1 of this year.

Oodaira [M]: Okay, thank you. That is all.

Moderator [M]: Now that our time is up, I am truly sorry, but the next questioner will be the last one. Please.

Jiang [Q]: I'm Jiang from Morgan Stanley Securities. I would like to briefly confirm two points.

The first point is about the concept of profitability of humanoid robot. In the past, I think there was quite a bit of concern about declining profitability, but I'm not sure if anything has changed in the recent past.

Also, I'd like to ask you about the use of these human-robot-related projects that have been taken so far. Maybe slide 30 earlier you also explained the three applications but let me confirm a little bit more about how to use the existing projects that we are receiving now and how to use the projects that are going into the mass production phase.

Maruyama [A]: In terms of profitability, it is not something that can be profitable in abundance, given the so-called volume. So, there, therefore, I think we have to do how we can make it cheaper, including more construction methods.

As for the places where we are receiving orders now and then, almost all of them are for these so-called arms.

Jiang [Q]: Thank you very much. Second, let me also check around regular industrial robots, not humanoid robots. If there are any signs of recovery in this end market, currently, or anything else, could you please update us a little more?

Maruyama [A]: I would strongly say that if it were really there, but I don't think it has gone down. Definitely. Some new orders for robots in China came in this April, so I think we will see some movement, albeit gradually, and this is wishful thinking. However, I don't think we can say that it is a situation where there is definitely a sense of recovery.

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Jiang [Q]: For example, looking at the end market, do you see any movement in the smartphone-related or consumer electronics-related sectors?

Maruyama [A]: As for smartphones, the scale is not so big, but they are here. It means that they are coming, but not on such a large scale.

Moderator [M]: With that, we will conclude the question-and-answer session. Thank you very much for your attention to the end. This concludes the presentation of financial results briefing for the fiscal year ended March 31, 2025.

Thank you very much for your participation.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
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