02 Growth Strategy

# Message from the Corporate Strategy Officer

## Driving further growth in our automotive components businesses and cultivating new business pillars to maximize utilization of our core assets to become a company that brightens the Earth

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The Mid-term Management Plan 2025 (MMP 2025), which we pursued through FY2024, largely achieved its financial targets and concluded at a level that could be considered impressive in numerical terms at first glance. However, these results were significantly affected by beneficial exchange rates. If the influence of the rates is excluded, the results were not perfect.

While we fully recognize that the automotive components business has driven growth and emerged as a major pillar of earnings, the growth businesses and new business pillars, which were expected to lead future growth, failed to achieve the anticipated growth. Progress in optimizing the business portfolio fell short of expectations, which we view as an area requiring reassessment. Reflecting on these successes and failures, the factors that need to be resolved for the next stage of growth have become clear.

Our Company has grown primarily through automotive components businesses and has expanded its operations based on this solid business foundation. To build on that stability, we needed to take a more proactive stance of taking on new challenges and risks. During the MMP 2025 period, we implemented a company system and worked to foster a shift in mindset and revitalize our corporate culture. Although this yielded some results, the steady performance of our automotive components businesses meant that initiatives aimed at transforming our business structure did not progress sufficiently. We recognize this as an ongoing challenge requiring continuous attention.

Next, we must also reflect on the fact that by expanding the scope of our challenges in creating new business pillars too broadly, we failed to narrow down the areas we needed to focus on and nurture. We made some adjustments during the MMP 2025 period to narrow down the focus of our areas of challenge. MMP 2025 served as a preparatory phase leading to Mid-term Management Plan 2030 (MMP 2030), and we also view it as a period for laying the groundwork to chart a new course for growth.

### Balancing economic rationality and social value to be a company that brightens the Earth

In formulating our MMP 2030, we began by re-examining the value of our Group.

For nearly 90 years, we have supported the evolution of the mobility sector by providing spark plugs and oxygen sensors. We take pride in the fact that improvements in combustion efficiency and exhaust gas control through spark plugs and oxygen sensors have led to reduced environmental impact and enhanced energy efficiency, and generated significant social and economic value.

The technology our Company has cultivated over the course of this journey is unique. Leveraging this strength, our core vision to become a company that brightens the Earth is born from our determination to expand our sphere of influence beyond the mobility sector and contribute to society in diverse ways. This concept is also embodied in the name “Niterra,” a combination of the Latin words “niteo,” meaning “to brighten,” and “terra,” meaning “Earth.”

However, companies cannot sustain themselves on social significance alone. Economic rationality in securing profits and creating value necessary for society are not mutually exclusive; sustainable growth is achieved only when both are pursued simultaneously. We view these two values as two wheels driving our progress and have enshrined our aspiration to become a company that brightens the Earth through sustainable development in our MMP 2030.

## Regarding the Mid-term Management Plan starting in FY2025

MMP 2030 sets very challenging target values. In the automotive components business, we anticipate solid growth exceeding the MMP 2025 period. We envision strategically allocating the resources gained from this to areas where our core assets can be maximally leveraged, further strengthening our robust automotive components business while utilizing our cultivated core assets to create new businesses that will drive next-generation growth. The three areas we have positioned as our focus areas are Mobility, Semiconductors, and Environment & Energy. We will concentrate the majority of our investments in areas highly compatible with leveraging our core assets, such as our proprietary ceramic and inorganic material technologies, as well as our established commercial channels and customer resources, to act as the core drivers of our business expansion. While MMP 2025 included the medical field, we have decided to remove the broad medical field from our focus areas. This decision reflects our strategy to concentrate on areas such as the respiratory system by leveraging our gas sensing technology, one of our core strengths.

For businesses centered on ceramic technologies and products involving NTK CERATEC and Niterra Materials in particular, we aim to make solid investments based on near-term growth expectations and significantly expand these operations.

In the Environment & Energy sector, we expected it will take some time to contribute to revenue. We are currently engaged in the fuel cell business, but there is potential for future expansion into areas such as hydrogen production. We will continue to make appropriate investments from a mid-to-long term perspective, aiming to increase future returns beyond 2030. We will strategically pursue revenue generation with a focus on the time axis, taking into account the characteristics of our business areas.

## Specific initiatives for growth

As mentioned earlier, NTK CERATEC and Niterra Materials are indispensable for growth centered on ceramic technologies and finished goods. Initiatives to promote each company's growth require different points of focus.

NTK CERATEC operates in the highly volatile semiconductor sector and must carefully assess timing and areas of focus, clearly distinguish between areas warranting investment and those that do not, and adopt a focused approach. To achieve this, it is essential both to receive proposals from business departments and for corporate divisions to work together to foster the growth of the business. Headquarters must take a leading role in decision-making, including investment decisions, and manage them appropriately.

For Niterra Materials, it is crucial to first ensure the successful execution of the Purchasing Managers' Index (PMI) and to systematically capture any new synergies identified within that plan. Initially, we saw our respective strengths (namely, oxide ceramics for our Company and silicon nitride ceramics for Niterra Materials) as creating a complementary relationship with minimal overlap, which proved advantageous. However, it has become clear that the Company possesses insights and technical capabilities regarding silicon nitride systems that exceed initial expectations. We have high expectations that combining the insights of both sides will yield significant results going forward. We are also exploring potential synergies beyond Niterra Materials' core products, such as ceramic balls and heat dissipation substrates.

For Niterra Materials, our competitive advantage in overseas markets and sales channels targeting automakers could serve as a stepping stone for expanding into new markets. To maximize these synergies, we have carefully organized each element and incorporated them into our Mid-term Management Plan.

However, when technology companies merge, mutual understanding of each other's technologies can also lead to misperceptions arising from differences in corporate culture. While we will strive to achieve technical synergies early on, we will carefully and gradually integrate management practices and cultural aspects over time, with the aim of maximizing integration benefits with a balanced approach.

Even in fields where the connection to ceramic technologies and products is tenuous, we are proactively pursuing the launch of new business pillars by leveraging our Group's core assets and strengths using frameworks such as internal ventures in areas where we identify significance and value. For example, we have a business called Niterra Electric Power that harnesses the relationship between our Group and automotive repair centers to sell electricity generated by solar panels installed on the repair centers' rooftops back to those centers. At first glance, this may seem unrelated to our technologies and core assets, but it adds value by strengthening and streamlining our relationships with these repair centers.

We are also commercializing a water quality management system utilizing our proprietary sensing technology and applying it to shrimp farming. Even in areas outside of ceramics, we will continue to pursue initiatives with an eye toward the future whenever we determine that our technologies and assets can be leveraged to create new value.

## Clarifying the functions of corporate divisions and enhancing governance to implement growth strategies

While MMP 2025 respected the autonomy of business divisions, it lacked corporate functions to supervise the entire company. I believe this was one factor that delayed the transformation of our business structure. Based on this consideration, we restructured our organization to strengthen our management foundation and clarified the roles of corporate divisions, enhanced their capabilities, and transitioned to a more efficient system for accurately monitoring business units.

In managing our business portfolio, we have established specific criteria starting from the MMP 2025 phase and are implementing response policies that include withdrawal. However, for businesses positioned to cultivate our proprietary technologies and core assets, we make comprehensive judgments on whether to continue them based not only on profitability but also on their overall significance, including their technological and strategic value.

In our efforts to create new business pillars, we continuously monitor whether sufficient returns relative to capital costs can be expected and determine whether to incorporate them into the portfolio based on these results. For projects lacking commercial viability, we consider removing them from the portfolio as necessary based on a quantitative assessment. The corporate divisions will take the lead in strictly managing this entire process while ensuring effective governance is in place.

This clarification of roles is an important theme not only for corporate divisions but also for research and development divisions. While a business perspective is essential for technological development that creates a competitive advantage, fundamental research is indispensable for long-term growth. Based on this philosophy, we have restructured our R&D organization, dividing the technology development department into distinct functions: basic research, applied research focused on business needs, and development directly linked to business operations. While research activities vary in their timeframes and focal points, clarifying each respective role allows us to establish a framework that allows for more steady progress toward our objectives. From 2024 onward, these initiatives are moving steadily forward.

## Advancing the definition of smart factories toward full implementation

In our specific growth initiatives, digital transformation (DX) is a major theme. For our Group in particular, DX in manufacturing processes, particularly building out smart factory systems, is an essential part of improving profitability.

A smart factory is more than merely incorporating digital technology into manufacturing processes. We envision an integrated system that connects and visualizes the entire process, from the placement of orders and manufacturing to shipping and delivery by means of data, while incorporating automation into each process and logistics.

In comparison to the ideal state, our current reality is at the stage of digitalization rather than advancing DX. To this point, we have been unable to significantly change our traditional methods due to an excessive focus on process efficiency, resulting in only limited digitalization. Using DX, we will drive fundamental reforms in production processes and clearly reflect the resulting efficiency gains in quantitative metrics. During the MMP 2030 period, we will first define the scope of our smart factory initiative and incorporate these concepts into the design for new production lines. However, for existing processes, we aim to establish a framework to horizontally deploy these concepts wherever feasible.

DX is also crucial for enhancing efficiency within indirect departments as part of bolstering headquarters functions. We will analyze indirect efficiency based on objective data and strive for continuous improvement.

## To our stakeholders

We anticipate that Automotive Components will continue to generate stable profits going forward. However, we will not be complacent with the current situation and instead strive to achieve further efficiency improvements, so that everyone can grasp the growth and solidity of our Group.

During the MMP 2030 period, we will strive to draw people's attention to our growth areas, particularly in Component Solutions, where we have implemented various measures for improvement based on past successes and failures. We will also establish an integrated management foundation between headquarters and operations to support this growth.

We hope that we can continue to rely on your support as we strive to become a company that brightens the Earth, focusing not only on Mobility but also on our key areas of Semiconductors and Environment & Energy solutions.