

# CEO Message

*We aim to achieve sustainable growth on a global scale and contribute to solving societal challenges with the goal of realizing safety, ANSHIN, and well-being for people around the world.*

Chairman and Chief Executive Officer

**Toshi K. Funaki**



The IDEC Group announced a new medium-term management plan in 2022, setting a target of achieving net sales of 80 billion yen and an operating income margin of 16% or higher by FY2025. However, due to the robust demand for investment in manufacturing equipment globally, as well as our efforts to improve profitability, we have achieved record-high performance in FY2023 and have achieved the targets set in the medium-term management plan in the first year.

However, the global economic outlook remains uncertain. In order for the IDEC Group to achieve sustainable growth while contributing to solving societal challenges in any market condition, we defined our ideal state in 2050, and backcasted to formulate a vision for 2030. >> P.14

Going forward, we will promote radical reforms for further growth, and provide components and solutions that enable our customers to overcome diverse challenges in order to realize the company's purpose and long-term vision.

## Record-breaking performance due to favorable market conditions and our efforts to improve profitability

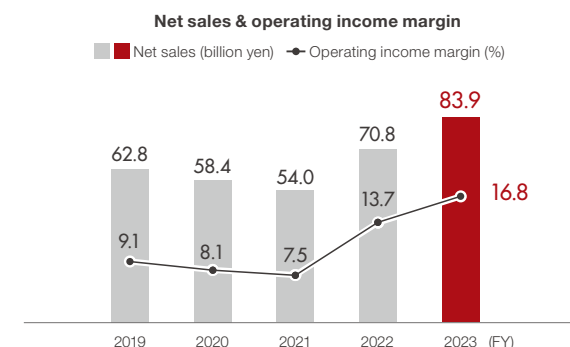
In FY2023, despite rising raw material prices and shortages of certain electronic components used in programmable logic controllers and other devices, the demand for manufacturing equipment in the global market remained strong with significant expansion in industries such as automotive, machine tools, and robotics.

These favorable market conditions drove a strong influx of orders throughout the year, setting a new record in our total value of orders received. Meanwhile, we proactively strengthened and expanded our manufacturing facilities, adding more production lines for safety-related products and HMI products—including control switches, a highly profitable segment that enjoys strong demand worldwide. We also shifted some production operations overseas and promoted the introduction of automated equipment.

Furthermore, in order to develop a more efficient business structure, we have been realigning our global sites, restructuring our Japan sales organization into a sales company while consolidating our sales offices to two locations

in 2021, as well as overhauling our distributor network. At the same time, we have worked to further improve our profitability by optimizing our selling prices globally to reflect the increased cost of materials, and by introducing new products with higher profitability.

These reforms and the global rise in capex-driven demand helped to boost sales and profits across our entire portfolio, particularly our core businesses of HMI and Safety & Explosion Protection, allowing us to attain our highest level of performance yet in FY2023. This includes our record-breaking operating income margin of 16.8%.



## Formulating a long-term vision toward sustainable growth

In 2023, the global economy remains uncertain, with various factors such as low economic growth due to high inflation and geopolitical risks potentially affecting the business environment. In addition, megatrends such as the acceleration of digitalization and automation, demographic shifts, and climate change continue to evolve daily. In response, we have formulated a long-term vision for 2050 as a pathway to successfully navigating through those many changes and achieving sustainable growth for our Group through business activities that help solve societal challenges. We have also backcasted from that ideal state to create a vision for 2030.

>> P.14

### Our vision for 2050

*Pioneer the new norm  
for a safer and sustainable world.*

IDEC will drive the future of manufacturing by creating new possibilities and establishing new standards that will become the “new norm” of tomorrow’s world.

Through our efforts,  
we envision a safer and a more sustainable world,  
bringing happiness and ANSHIN for all.

The long-term vision was formulated from our Group’s corporate philosophy, “The IDEC Way.” >> P.1 Ever since our founding in 1945, we have strived to create the optimum environment for humans and machines while providing products and services that help protect people’s lives even in unforeseen circumstances. In doing so, we have always endeavored to help bring forth a society where everyone can live healthy, happy, and vigorous lives. We will continue working on realizing safety, ANSHIN, and well-being for people across the globe by creating new possibilities and pioneering new standards.

As we cannot bring our long-term vision to reality without the commitment of each and every one of our employees, we are taking actions that allow individuals to maximize their potential, in line with our founding principle of “management with respect for humanity.” Specifically, we are strengthening our investment in human capital and striving to revitalize our organization by creating a more attractive workplace with higher job satisfaction. Under the new human resources system we launched in FY2023, our performance evaluation criteria now reflect our core values: Harmony, Passion, Innovation, Integrity, and Commitment. Furthermore, in FY2024, we re-established our Employee Awards Program to include categories for honoring employees who embody our Group’s philosophy, and another that recognizes those who are role models for their behavior aligned with our Principles, which are based on our Core Values and represent the concrete thinking and conduct that employees should remain mindful of as they perform their duties. This was done with the aim of facilitating our further growth by firmly implanting our philosophy across our organization.

### Core Values



**Harmony Passion Innovation Integrity Commitment**

## Transformation into a highly profitable structure through radical reforms

In order to attain sustainable growth, we must carry out radical reforms. Although we achieved strong results in FY2023, I am not satisfied with our current level of performance. Our Group has rapidly globalized since acquiring France’s APEM in 2017, with more than 60% of our core product sales now coming from overseas. Going forward, we will further expand our business globally, with the aim of raising the overseas share of core product sales to 80% or more within ten years.

As we actively globalize our company, we should take note that many leading manufacturers of control devices in Europe and the US generate operating income at high

levels that enable them to make large investments in product development. Meanwhile, unfortunately only a handful of manufacturers in Japan achieve profits at such a level.

In order for our Group to succeed in the global control equipment market, we need to expand our investment in R&D. Although we dramatically raised our operating income margin to 16.8% in FY2023, we are still not in a position to adequately compete against the world’s leading players. For this reason, I think it is vital for us to increase our margin to 20% or more. If we can maintain that level, we will be able to build a platform that can go toe to toe with European and American manufacturers.

To achieve this goal, we will develop a necessary foundation for further increasing our profitability in the remaining two years of the medium-term management plan, and implement various reforms in FY2024.

	FY2022	FY2023	FY2024 targets
Net sales	70.8 billion yen	83.9 billion yen	81.0 billion yen
Operating income	9.7 billion yen	14.1 billion yen	13.8 billion yen
Operating income margin	13.7%	16.8%	17.0%
ROIC	9.2%	12.5%	10% or higher
ROE	17.2%	18.9%	15% or higher
EPS	264 yen	348 yen	326 yen

● **Production reforms through organizational restructuring**

Our first focus of reform is production. Currently, the products we develop are manufactured at our factories and the production equipment used is fabricated at our head office's Manufacturing Technology Department. Since this approach shields our manufacturing processes from the forces of competition, it has been an obstacle to the enhancement of our productivity.

We began redesigning our entire Group's organizational structure in FY2024 to improve our established practices. One step we have taken is appointing talent who possess in-depth experience gained inside and outside our Group to manage each unit. Also, we plan to restructure our global organization, including APEM, to enable bilateral supply and technology exchanges in procurement, supply chains, and production across our Group, using an approach that strengthens each function. One possibility is to enable IDEC and APEM to share parts and jointly procure supplies, which would achieve tremendous cost savings. We will also consider expanding our range of manufacturing options to encompass not only our factories, but also external manufacturing contractors.

Through production reforms such as these, we will work to radically lower our costs and strengthen our global competitiveness.

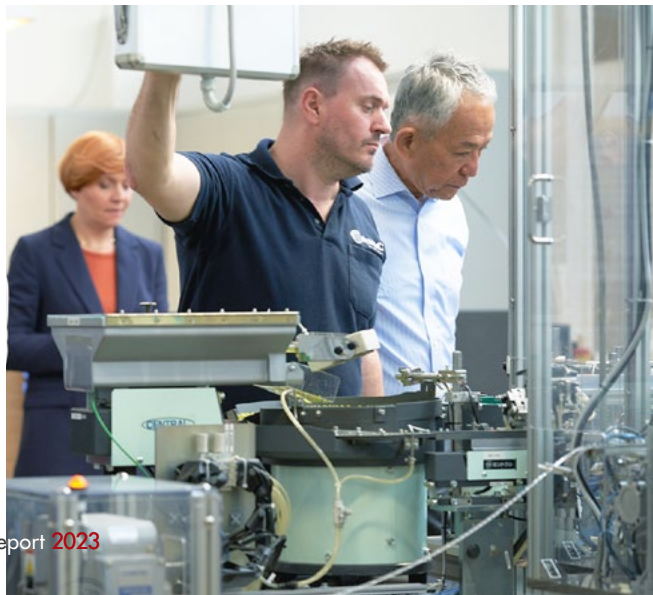
● **Advancing HMI-X by offering solutions and expanding sales in Asia**

We launched the Technical Solution Sales Department in FY2023 as an organization that combines various products into optimal solutions for addressing societal challenges and the increasingly diverse needs of our customers. This team has already received hundreds of customer inquiries on solutions, and is responding to them in collaboration with related departments. By strengthening our solutions sales, in addition to sales of existing components, we seek to further enhance our global competitiveness.

Furthermore, our new medium-term management plan includes a new concept that our Group will advance: HMI-X [Transformation]. In the years since our founding, we have grown as a leader in HMI products that connect humans and machines. We have evolved with the times by expanding our business beyond interfaces—the point of contact between humans and machines—to also encompass interactions, the network of connections linking machines with people and other machines. In the coming years, we believe that demand will grow for solutions that provide people with safety, ANSHIN, and well-being, through not only networked mechanical devices, but also the optimization of the environment, where the space between humans and machines coexist.

The know-how in safety that we have developed over the years is a key part of our DNA. We will leverage that expertise to pursue our human-centric HMI-X concept that will take our HMI to the next level. To accomplish this, we must strengthen our software development capabilities by cultivating our talent and exploring opportunities for acquisitions and partnerships. We will advance HMI-X by proactively developing new products through our joint venture with ALPS ALPINE CO., LTD., >> P.20 offering diverse applications for realizing safety, ANSHIN, and well-being >> P.21, and providing solutions that combine our safety equipment with the products of our French partner ez-Wheel. >> P.22

Turning to our regional strategies, we are working to expand our sales in the high growth potential markets of Asia. For example, in China, we are stepping up local manufacturing to serve local consumers, including the development of products tailored to local needs. We are also building up a solutions sales organization that will make our sales processes more efficient. Meanwhile, in India, we are pursuing strategic partnerships and other opportunities that will enable us to strengthen our sales channels. We are also considering ways to support our future business expansion through collaborations in production and other operations with our factory in Thailand.



## ● Streamlining operations through DX

DX has become a high-priority challenge for us. We are responding by adopting various systems that can streamline our operations, and thereby strengthen the foundation of our business.

In 2022, the digital marketing project we launched in 2018 completed its rollout of the common digital platform at APEM and all other Group offices globally. As this enables us to provide each customer with personalized and optimal content, we are now working on creating processes that will lead to acquiring new business opportunities.

In addition, we are continuing with a project initiated in FY2023 to globally implement two integrated management systems—one that functions as a platform for enterprise resource planning (ERP), and another that supports supply chain planning (SCP). These systems will provide integrated management of various business processes and will be interlinked with the digital marketing platform, sales force automation, and other tools, resulting in greater operational efficiency.

## Reinforcing our commitment to sustainability

To achieve our long-term vision, we must not only create economic value through our business activities, but also increase social value by reinforcing our commitment to sustainability. As part of our new long-term vision, we realigned our materiality and introduced new KPIs that align with our medium-term management plan. Moving forward, we will work toward resolving the societal challenges while monitoring our progress.

### Materiality >> P.15



#### Productivity improvement

Improve productivity using control technology



#### Climate change

Response to climate change



#### Safety, ANSHIN, and well-being

Pursuit and realization of safety, ANSHIN, and well-being



#### Business foundation

Establish a management structure that promotes value creation, fosters an organizational climate, and develops human resources.

## ● Addressing climate change >> P.45

It goes without saying that we cannot successfully reach our vision for 2050 without addressing the global challenge of climate change. Our environmental strategy is a key pillar of our business strategy to achieve sustainable growth. Accordingly, we are seeking to achieve carbon neutrality by 2050, actively utilizing environmental initiatives as transition opportunities and implementing strategies that include developing eco-friendly products, engaging in environmental energy businesses, and pursuing other activities that contribute to reducing environmental impact.

## ● Increasing investment in human capital >> P.40

In order to achieve a sustainable society and improve corporate value, it is essential to strengthen human capital and revitalize our organization. For this reason, we have added “business foundation” as a new materiality issue. We will promote engagement and work-style reform by aligning our initiatives with the medium-term management plan and sustainability KPIs.

In addition, we are systematically selecting and training candidates as our next-generation managers. This human resource development will provide a foundation for our Group's further growth.

## ● Strengthening governance >> P.53

We have been taking action to strengthen our governance. From early on, we proactively appointed outside directors to our Board of Directors. Since 2016, outside directors have constituted more than half of the board's membership. In 2022, we appointed outside directors to fill two new roles, supervising the important challenges of environmental measures and IT strategy. Female board members make up 30% of the board, contributing to its diversity.

Another critical challenge that we have been addressing is the cultivation of the next-generation of executive leaders.



In 2021 we established a voluntary Nominating Committee, comprised mostly of outside directors, to serve as an advisory body for the Board of Directors. This provides us with a system for objective and independent decision-making concerning the nomination of director candidates and the planning of training for next-generation executive candidates. The Directors also hold lectures and interviews as part of the next-generation training curriculum.

As another way to further strengthen our governance, we also established a voluntary Remuneration Committee in October 2022, comprised mostly of outside directors, to ensure fairness, transparency, and objectivity of our director remuneration decision-making process. We have designed our remuneration system to reflect nonfinancial KPIs in addition to financial ones, to reinforce our commitment to sustainability.

By pursuing the many different actions I have illustrated here, the IDEC Group will strive to realize the sustainable growth for its entire global organization. Going forward, everyone in our Group will continue working as one, to fulfill our Purpose of achieving safety, ANSHIN, and well-being for people around the world.