

# We will achieve a global leap forward by instilling a spirit of challenge in our corporate culture and enhancing our engineering capabilities.



*Masashi Osada*

President and Representative Director

## Leveraging 20 Years' Experience Overseas to Accelerate Global Growth

My name is Masashi Osada, and I am honored and humbled to serve as President and Representative Director of the Company from April 1, 2023. I am committed to the further development of the Group and to meeting the expectations of our stakeholders. I appreciate your continuous support and look forward to working with you.

Since our founding in 1913, we have actively absorbed Western technologies and developed numerous technologies related to energy, air, and water. In the 1980s and 1990s, as Japanese manufacturers expanded overseas, we increased our overseas bases, mainly contributing to the development of manufacturing industries

in various countries. I was also assigned to a local subsidiary in Canada in 1986, and since then have spent a total of 20 years overseas, 17 years in North America and 3 years in Singapore, during which time I was involved in the establishment of local subsidiaries, construction of plants for automobile manufacturers, and the industrial HVAC (heating, ventilation, and air conditioning) business.

Working in our overseas operations since the 1980s, I have realized that there are *opportunities* all over the world where our technological capabilities are needed. As industries become more sophisticated, environmentally-friendly facilities are evolving day by day. Therefore there are many potential development themes exist in the field, and we can improve our engineering and design skills by confronting them. Also, by delivering on large-scale projects, we are

also able to accumulate managerial competence. I therefore believe that there are a multitude of opportunities all over the world to develop our human resources through projects.

Thanks to your support, we are celebrating our 110th anniversary this year. The Group has stayed in business by providing value to the world in three business lines for many years. These are the paint finishing system business for automobile factories, the industrial HVAC system business, and the building HVAC system business for buildings and commercial facilities. I think we have been able to maintain these business lines for many years because not only do we take care of construction and installation, we also possess design and engineering capabilities. We have cultivated these competencies by meeting our customers' expectations and demands, and by making proposals that are half a step ahead of them.

As a background factor, Taikisha has developed within the structure of the Japanese construction industry. In contrast to the West, where designers and builders are separated, Japan's construction sector has developed based on construction contracts that also encompass design and engineering. This is because industrialization progressed rapidly after the war, so the construction industry needed to also provide manufacturing services. Not only at the design stage, but also during the construction process, we, as an engineering company, endeavor to provide ideal paint finishing and HVAC systems while making various proposals and performing work to the highest standards. It is this commitment to craftsmanship that has shaped the Taikisha Group of today and enhanced our aptitude in design and engineering.

Meanwhile 40 years ago, when we began to take on projects abroad, our predecessors, under the slogan of "Open Challenge & Quick Response," courageously embraced the challenge of undertaking work at challenging construction sites and projects posing a high degree of difficulty. They produced results while accumulating an enviable track record and building trust, and this led to Taikisha coming to be regarded as a company strong in overseas operations. So it could be said that our strength has been honed by taking on the challenges of various sites and projects, even ones where we ultimately experienced failure.

When I look at the current status of the Group from this perspective, I feel that our momentum is a bit weaker than it was in those days in the 1980s when we started taking on the challenge of succeeding abroad. I feel a sense of crisis that we need to take on more and more new challenges for the future.

While many companies developed a heightened sense of crisis and pursued new initiatives in the wake of past events such as the economic bubble burst and the financial crisis of Lehman Brothers, we have made few such moves ourselves, and I feel that our growth has stagnated. One reason may be that Japan has enjoyed strong construction demand, and because our axis of operations was still here in Japan, our momentum for overseas expansion lost steam.

In the first two decades of my 40 years with the Company, the Group's sales grew primarily thanks to our overseas revenues. In particular, we saw commercial opportunities in the construction of automobile plants in North America by Japanese automakers and in

industrial advancement in Southeast Asia, so as Japanese companies expanded their operations abroad, we went with them. Over the next two decades, however, when compared to the growth of those overseas markets, Taikisha's global operations have not seen substantial growth. After-sales service has come to account for a greater share of our revenue, but sales growth from new projects has been sluggish. So what has been lacking? My impression is that we have failed to sufficiently maintain the enterprising spirit and challenge mindset we had back when we were setting up all those overseas bases. That spirit and mindset saw us proactively take on more challenging properties and projects in response to customers' requests, and improve our engineering, development, and management capabilities.

To get us back to that mentality, since last year I have been visiting our domestic and overseas sites, chatting candidly with employees in each region, and holding discussions on what each local subsidiary should do to become more independent and take on new challenges. As a precondition for globalization, it will be necessary to clearly define what is to be monitored by the Japanese side and what is to be delegated to each company.

We have been focusing in particular on our R&D organization, strengthening it to facilitate globalization. For example, we are expanding our existing R&D centers in India, China, and the U.S. and taking initial steps to promote the sharing of development technologies and themes among affiliates. We have also established an online connection between R&D centers in Japan and head office, and are promoting the use of the R&D Satellite, which shares information on development themes. This facility, located in the easily accessible Shinjuku area of Tokyo, is designed to serve as a "gate" through which people can pass to experience our technologies. Our hope is that it will broaden the scope of our communication, as well as lead to the fusion of internal and external solutions and to innovations for the future. Besides providing a setting for sharing development themes, the facility is also proving successful as a means of inviting customers to our head office and giving explanations to them in a way that makes them feel as though they are actually in one of our research centers. Looking ahead, we are considering establishing similar "gates" at our overseas bases, and linking them to our R&D centers in Japan.

Going forward, we intend to expand utilization by bringing young overseas engineers to our Japanese R&D centers and having them respond to overseas customers online from Japan. This will be possible not only in Japan, but also in the U.S., India, and other overseas locations, so if we can create a place where engineers can gather freely online, we should derive huge benefits. Projects have been getting larger, and reaching a scale beyond that which can be handled by the staff of a single country, so initiatives like these are also getting important for advancing our globalization and enhancing our engineering capabilities.

In recent years, companies, such as automobile manufacturers, in the Group's client industries have been focusing heavily on theme of decarbonization and consciously pursuing incredibly forward-looking initiatives. We need to be aware that we are lucky to have such



customers, keep pace with their initiatives, and seize business opportunities. Since the oil crises of the 1970s, Japanese customers have become increasingly energy-conscious and have sought solutions from us. The world has changed dramatically, and the vast majority of customers in the West and Asia are now conscious of the importance of the sustainable global environment.

Within the Group, the provision of decarbonization solutions is currently the hottest topic in our sales, development, and design departments, so it seems that our customers' enthusiasm in this area is rapidly diffusing internally. We are taking on the decarbonization theme as a solutions business and will be working alongside with our customers through *concurrent engineering*, starting with upstream processes.

### Continuing the Results in the First Year of Implementation of Our Mid-Term Business Plan to Move Closer to Our Goals

In FY2022, the domestic market saw strong investment by electronic component and pharmaceutical manufacturers, and construction demand for office buildings in the Tokyo metropolitan area remained steady. Overseas markets, meanwhile, continued to recover on the back of capital investment by manufacturers. Against this backdrop, the Group, having gotten underway with execution of our new three-year Mid-Term Business Plan, received orders for construction work amounting to 288.6 billion yen, a record high, and also booked year-on-year increases in both revenues and profits. So I feel that we got off to a good start toward achieving our goals for the final year of the plan (FY2024).

Looking back at sales performance by Business segment, in the Green Technology System Business, both orders received and net sales of from completed construction contracts increased significantly due to strong performance in the industrial HVAC field. In Japan, large projects from semiconductor-related manufacturers and pharmaceutical makers contributed to the rises, and overseas, large projects from semiconductor-related manufacturers were the driver.

In the Paint Finishing System Business, orders received increased

both domestically and overseas, with large projects from automobile manufacturers contributing. However, net sales of completed construction contracts decreased both domestically and overseas due to the impact of the deconsolidation of Geico S.p.A consolidation from April 2022, and also because of changes to customers' production plans.

Regarding progress on the qualitative side, in response to the issue I mentioned earlier of a lack of enthusiasm for taking on more challenging projects, thanks to the efforts and hard work of our employees, we were able to win orders for projects that will strengthen our engineering and development capabilities. I view this as an indication that we have started taking concrete action to "challenge to create new value," one of the basic policies set forth in the plan. I expect these projects to not only contribute to our business performance going forward, but also to help develop our personnel, and will therefore be keeping a close eye on our progress with them.

Another of the basic policies in the plan is to "further strengthen core businesses," and as part of our efforts in the Green Technology System Business to pursue "business development that continues to create added value," we increased our stake in our Indian subsidiary Nicomac Taikisha Clean Rooms Private Limited to 100%. With this move, we will accelerate execution of our strategy of business expansion in the clean room construction market in India. In connection with our objective for the Paint Finishing System Business of "development with an awareness of global social issues," we have been developing an energy management system (EMS) as a new function of i-Navistar, a monitoring and factor analysis system for automobile paint finishing lines. The EMS makes wasted energy visible and features a simulator function for optimal energy management. We can therefore expect demand to expand as automakers work to further decarbonize their operations.

In addition to these developments, in FY2022 we also invested in facilities and human resources. For example, we launched a frontline DX-related initiative and built core business system infrastructure for global deployment. As for technology development investment, in the Green Technology System Business as I mentioned earlier, we established R&D Satellite at head office, and in the Paint Finishing System Business we are focusing on R&D for decarbonization.

With regard to the remaining basic policy in the plan, which is to "strengthen management base that supports transformation and growth," we have yet to make concrete advances either domestically or overseas, so this is still a work in progress. We will be aiming to strengthen our human capital, which is the source of the Group's strength, while expanding our digital strategy and governance, and to transform our business structure into one that can generate added value over the long term. Achieving the goals of the Mid-Term Business Plan is my number-one priority as President, and I will be steadily implementing measures to produce results over the remaining two years.

### Becoming a Company That Leverages Challenge to Seize Growth Opportunities and Carve out a New Future

In FY2023, the second year of the Mid-Term Business Plan, market conditions are expected to remain favorable, but a significant increase in the amount of construction work on hand has made it necessary to adjust the volume of orders we accept. Therefore, we expect to see a decrease in orders in both the Green Technology System Business and the Paint Finishing System Business, and are forecasting orders received of 218.0 billion yen (down 24.5% from FY2022). In the Green Technology System Business, progress is being made with large domestic and overseas projects in the industrial HVAC field, and in the Paint Finishing System Business, the impact of customers' production plan changes looks likely to dissipate. As such, we are projecting year-on-year increases in net sales of completed construction contracts and profits at each level of the income statement.

During this fiscal year, we will make solid progress with projects that we received orders for in FY2022 and which will lead to our growth, and as we proceed with these projects, it will be important for us to identify new development themes from among them. We will use this as an opportunity to enhance our engineering and development capabilities and build up new strengths for the future.

Regarding our globalization efforts, we plan to increase and accelerate personnel exchanges to foster cross-cultural understanding. To that end, we will be bringing young overseas design personnel to Japan and at the same time sending young Japanese employees abroad as trainees. Personnel who can play an active role globally need to have a high level of understanding of the culture of the region in which they operate, so we must take steps to build up their knowledge and awareness. While increasing the number of such personnel, I would like to make our internal approaches and attitudes "stateless." Another important task is to globalize our head office functions. We are considering a method by which personnel evaluations and the like are left to each base, while governance-related matters are handled by global talents who are shared throughout the Group.

So what sort of development themes should we select from projects to enable us to grow in the future? Let me give you my view. The Group is an engineering entity, so we should not be looking to create something out of nothing. Rather, the themes should involve the creation of methods that will lead to bigger outcomes from things that already exist. As we take on the challenges of our customers' large-scale and difficult projects, we will be adopting new methods in design and construction, feeding them back into our skillset, and then applying them again when the next opportunity arises. Our customers' production technologies will be evolving day by day. Unless we have a firm grasp of what kind of evolution is occurring in the environment surrounding our customers and where they are trying to go from here, we will not be able to propose best practices for the equipment we provide and their production equipment on the production frontline. As we take on challenges together with our

customers, I believe that it will become increasingly necessary to grasp and understand the situation surrounding production technology, including overseas trends as well as those shaping Japan.



But how can we create an internal culture of challenge? I think that one approach is to emphasize the importance of *excitement* at work, and I regularly communicate this message to our employees. Motivation to take on challenges arises when you are excited yourself and your excitement resonates with the people you are working with.

As for creating an organizational culture, I feel that a spirit of challenge is gradually emerging internally. Creating a corporate culture is a people-oriented effort, so effective methods are required to ensure that this spirit permeates throughout the Group. I will continue to discuss this with our approximately 5,000 staff in Japan and overseas, emphasizing face-to-face communication as I do so. In addition, I would like to boost our centripetal force by utilizing digital tools such as chat rooms and blogs, and by remaining conscious of the importance of casual, two-way dialogue. As we move forward with globalization, this centripetal force will play a particularly important role. It will serve as a guideline for our locally-hired overseas staff as they take independent action at their bases, and give Japanese employees working overseas the peace of mind to apply centrifugal force themselves. We also intend to pursue a variety of other ways of increasing excitement, such as organizing tours to take overseas sales and technical staff to see landmark projects.

Under the theme of sustainability, companies are now expected to contribute to society and protecting the environment, and for the past 50 years, Taikisha has been working on this theme with the desire to protect the earth's environment, even changing our company name in the process. This is where the value of our existence lies, and where we see opportunities for sustainable growth. I would like all our stakeholders to look forward to the exciting challenges that lie ahead for Taikisha, and I hope we can count on your continued support.