

## Interview with the CEO



“ We are aiming to enhance our unmatched ability to provide unique automation solutions for our customers and society as we transform the Group for sustaining growth. ”

**Kiyohiro Yamamoto**  
Representative Director,  
President and Group Chief Executive Officer



The Shonan Factory (top) and Fujisawa Technology Center (bottom)

Q1

**Your first year as Company President was challenging with the worldwide COVID-19 pandemic. How do you view the Group's performance in FY2020?**

A1

**The azbil Group's meaningful contribution to creating a sustainable society became clear during the year. Our automation technologies and installation, engineering, and service businesses, particularly the services we provide to medical facilities and other key institutions of social infrastructure, all played important roles during the challenging situation.**

Throughout the pandemic, our priorities have been on the safety of our employees and customers and on ensuring that we continue to provide customers with the essential services needed to maintain uninterrupted operation of important facilities and social infrastructure in FY2020. We were able to do so largely because of the reforms to our business and operating structures that we completed under the previous two medium-term plans.

The relevancy of our automation products and services to a sustainable society became abundantly evident as more people began working from home during the year. The technologies we offer, such as those enabling work to be done online and from remote locations and providing carefully controlled air conditioning and ventilation, create living and work environments that are both safe and secure.

Our products and services are also playing an important role in mitigating the effects of climate change. The Group's measurement and control technologies help to reduce carbon dioxide emissions from large buildings, factories, and plants, and many of our customers are using our products and services

to help them achieve carbon neutrality. The azbil Group as a whole emits about 17 thousand tons of CO<sub>2</sub> per year, but the total effective reduction of CO<sub>2</sub> that our technologies are producing at our customers is about 2.94 million tons annually, or about 170 times our own emission volume (Data from FY2020).

During the year, I was also reassured about the Group's potential for future growth into the long term from the increasing demand for automation technologies at the core to address social issues. We believe that integrating the latest IoT, AI, and sensing technologies to create innovative products that can provide significant contributions to addressing societal problems, such as the challenges Japan is facing with a graying population and declining birthrate, new work styles, and aging infrastructure.

I also believe the Group's proactive efforts to implement and enable work-at-home and remote work are allowing our employees to use their time and workspaces more efficiently. This is increasing productivity, which I think will be key asset in the future.

Q2

**Please discuss your view on the Company's performance in FY2020 and the results of the previous two medium-term plans.**

A2

**The business and operating structure reforms under the recently completed two medium-term plans limited the impact on our performance from the severe business conditions.**

In Japan, the numerous urban redevelopment projects supported solid demand for equipment and systems for large buildings, and the capital investment activity drove steady demand for advanced manufacturing systems. The labor

shortage in Japan led to strong demand for equipment maintenance and for rationalization and labor-saving technologies. At the same time, our business was impacted to some extent by the global economic contraction during the pandemic, as many companies inevitably postponed investment plans due to the reduced business activity. As a result, we recorded moderate year-on-year declines in both sales and profit in FY2020, with sales amounting to ¥246.8 billion and operating income of ¥25.7 billion.

Despite the harsh business conditions, our improved operational efficiency enabled us to hold the operating income margin at 10.4%, very near the 10.5% in FY2019, while a rise in net income helped maintain return on equity (ROE) above 10%, at 10.4% compared to 10.9% last year. The improvement in operational efficiency was achieved under the medium-term plans from FY2013 to FY2016 and from FY2017 to FY2019. During that time, we nearly doubled operating income from ¥13.9 billion to ¥27.3 billion and expanded the operating income margin from 5.6% to 10.5%. ROE similarly rose from 5.4% to 10.9%. I believe these results demonstrate the success of our profit-oriented management since the global financial crisis of 2007–2008, which has enabled us to significantly limit the potential damage to our performance compared to past times of economic crisis. The business and operating structure reforms and steps to improve profitability are guided by three fundamental policies: being a long-term partner for the customer and community by offering solutions based on azbil's technologies and products; taking global operations to the next level by expansion into new regions and a qualitative change of focus; and being a corporation that

never stops learning so that it can continuously grow stronger.

These policies guide all of our efforts to strengthen our product and service offerings. They were also behind our strategic decision to raise the business ratio of the life cycle solutions businesses in the Group's three segments of Building Automation (BA), Advanced Automation (AA), and Life Automation (LA). The measures we have implemented have increased the value we provide to customers and improved our profitability. We have also been expanding our global operations with the aim of developing them into another engine for business growth. We currently have sales and service operations in 23 countries, and in 2018 we established the Strategic Planning & Development Office for Southeast Asia in Singapore.

In addition, we are upgrading our production capabilities. We are introducing state-of-the-art technology to our lead development site at the Fujisawa Technology Center and the Shonan Factory, which together serve as a combined mother factory for the Group's global operations. We are also investing in technology development as another source for business growth. Our focus is on developing sensor technology, which is a key component of the booming IoT field, and on new products and services integrating AI, IT, and cloud technologies.

The new medium-term plan sets a course for ongoing reform and strengthening of our business and operational structures. The plan also provides a clear roadmap for further expanding our global business and harnessing the power of digital transformation (DX) as we systematically and methodically continue to improve our operations and enhance our business performance and potential.

Q3

**What are the main objectives and initiatives of the new medium-term plan, and what will be the biggest challenges?**

A3

**The current medium-term plan has several initiatives designed to apply the Group philosophy of “human-centered automation” and to steadily and swiftly bring about the transformation needed to deliver us to our next phase of growth to FY2030.**

I think it is important in these business conditions to reaffirm our business character and strengths. Management must also be steadfastly committed to making quick and bold decisions to change what we need to make our business better in the future.

What should not change is our “human-centered automation” philosophy and the unique business model it gives us. The azbil Group’s core assets are not just its ability to develop, manufacture, and sell equipment and systems with state-of-the-art measurement and control technology. We also have the ability to provide long-term solution services with high-level safety, security, and efficiency, including advanced engineering technology for onsite equipment installation and maintenance.

A suitable environment requires more than steady



temperature control; it also needs to create air and space quality that harmonize with various factors and conditions. We provide equipment for buildings, plants and factories, houses, and societal lifelines. To create the optimal conditions for the people who live and work at each site, we must not only offer a broad menu of products, but also have the ability to tailor the products to each site’s unique conditions. In addition, providing maintenance and other services during 10- or 20-year equipment life cycles requires us to continually make our products and systems more competitive and constantly improve our onsite engineering and service capabilities.

At this moment, many Group employees are hard at work inside customer factories trying to find solutions to complex problems. I know their dedication because I myself did similar work when I was helping launch an energy management business. It’s true that “The solution always exists at the worksite.” That’s why our employees are side by side with our customers worrying, thinking, and devising ingenious solutions. These employees are the fundamental source of the azbil Group’s competitive advantage.

I believe that setting clear targets and key performance indicators and carrying out the PDCA cycle as quickly as possible will be critical. When business conditions and technologies are changing as rapidly as they are, this speed is absolutely essential and will go a long way to determining our competitiveness in the years ahead.

The new medium-term plan was designed for these conditions. It was purposely designed to provide easy visualization of our objectives for the three business segments and for the Group’s development, production, and human resource

functions that support the segments. The plan’s objectives are based on long-term targets that we updated to take into account the changing business climate, new technology trends, and structure of society, as well as what we want the Group to be three and 10 years in the future. The aim of the plan is to set the Group’s growth on an upward trajectory with all Group employees using their originality and ingenuity at onsite locations and feeling proud about contributing to the sustainability of society.

The concept of office workspace is evolving, and this is creating a whole new panoply of demand for the changes in customers’ needs in accommodating to the new ways people work, such as to ensuring safe ventilation. New opportunities for business growth are also surfacing, such as from the growing demand for sophisticated air conditioning technology that focuses on segmented spaces and provides a balance of comfort and energy efficiency.

The medium-term plan was formulated for the Group to thrive in this environment. Under the plan we aim to transform the Group to be able to meet customer needs and respond to societal problems in Japan and overseas and to generate Group synergies while developing customized business models for each segment. The plan also sets specific performance goals of reaching ¥300.0 billion in net sales and ¥36.0 billion in operating income, with an operating income margin of approximately 12%, in FY2024. At that point, the plan will deliver us from a transformation phase to a growth phase propelling us toward ¥400.0 billion range in net sales and ¥60.0 billion range in operating income, with an operating income margin of approximately 15%, in FY2030.

**Building out three growth fields to propel segment growth**

To keep pace with the changes in customer needs and society, we are focusing on expanding business by fully leveraging the azbil Group’s strengths and unique solutions to develop the three growth fields of new automation, environment and energy, and life-cycle solutions. Building out our business in these three fields will open up new avenues for growth in the BA, AA, and LA businesses.

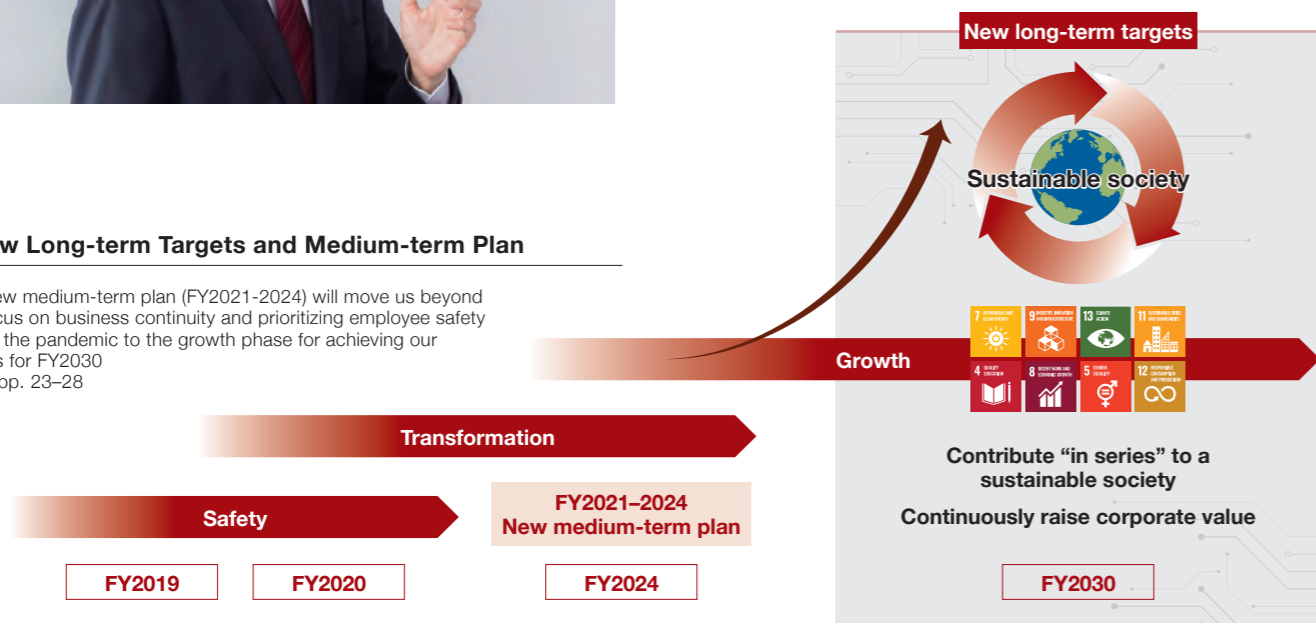
The growth potential in the new automation fields has become increasingly apparent over the past year. Our approach to expanding the new automation fields is to directly boost our customers’ competitive advantages by providing the added value of “improved quality of space and productivity” at their facilities. Improvements in these areas normally lead to increased consumption of energy and resources, but we will provide another layer of added value by developing highly energy efficient equipment, which strategically overlaps with the environment and energy business fields.

Technology in the new automation fields will have the dual challenge of tackling social issues, which will no doubt be a very competitive field, while also being more environmentally friendly. Our onsite experience, specialized expertise, and extensive data will be our differentiating factors and will be the resources that will enable us to improve both quality and environmental performance. In short, I believe the azbil Group has the perfect set of unique strengths for success.

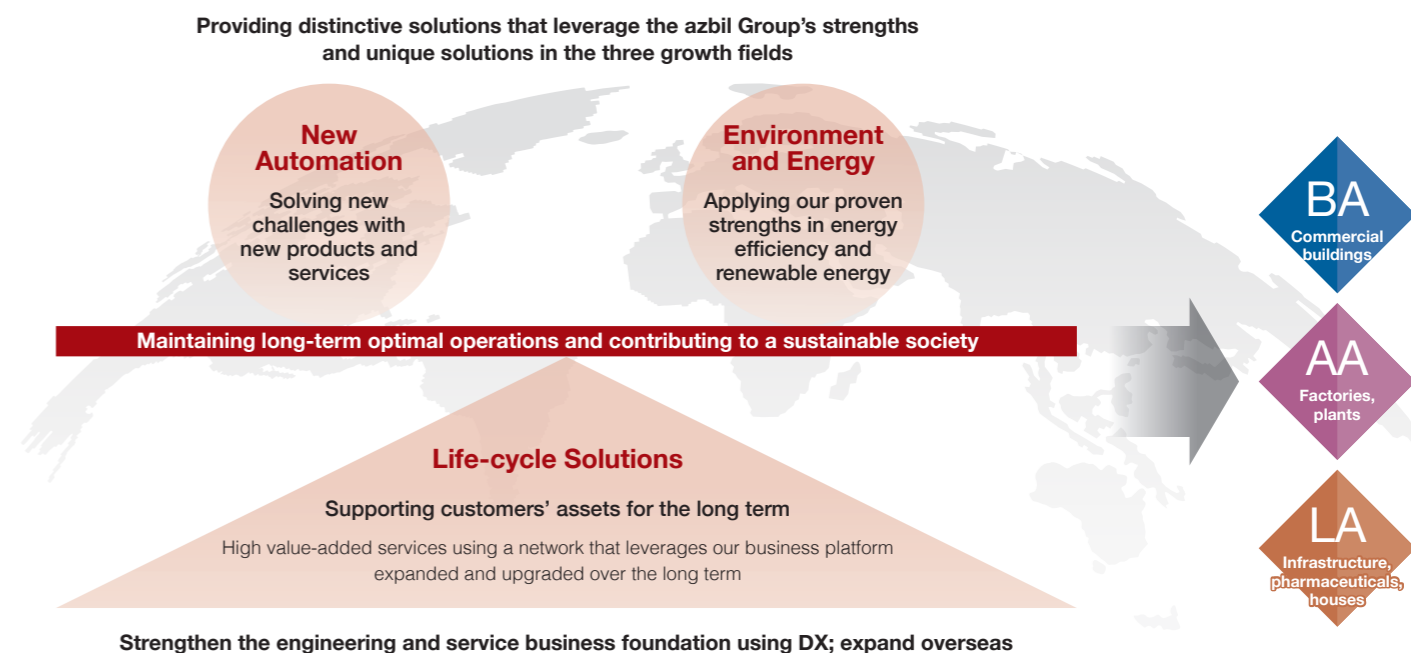
The added value of a life-cycle business is the continuous provision of value over long periods. For customers, the provided value becomes a foundational element for their operations and businesses; for us, providing the value be-

**New Long-term Targets and Medium-term Plan**

The new medium-term plan (FY2021-2024) will move us beyond the focus on business continuity and prioritizing employee safety during the pandemic to the growth phase for achieving our targets for FY2030  
\* Ref: pp. 23-28



**Three Growth Fields That Share a Common Foundation of Automation Technology**



comes a recurring business that will infuse a steadily growing flow of profits to the Group into the future.

Over time, as we broaden our presence in the three growth fields, our business scale will steadily grow along with our contribution to a sustainable society.

These fields already have presences in the BA, AA, and LA businesses that can be further developed with automation technology as a core. We will be advancing five initiatives to meet changes in needs and markets as they emerge around the world, such as the changes caused by the COVID-19 pandemic. The ultimate objectives of the five initiatives that follow are to generate business growth and establish steadily rising profits in all three business segments.

**■ Increase investment to strengthen our product and service development capabilities**

We will meet new needs for automation and develop new products and services to drive growth in each business by augmenting our product sensor, actuator, and other offerings with edge computing services located close to customers' sites and by improving our cloud computing applications for optimally using and controlling big data gathered from custom-

ers' sites. Guided by our technology development strategies to meet changing customer needs and provide new added value, we will aggressively invest to strengthen our abilities to develop new products and services. Part of this will be to construct a new testing center with state-of-the-art facilities at the Fujisawa Technology Center, our lead site for research and development.

**■ Increase contact points with customers**

The new social issues and changing business environment are creating the need for new solutions through new automation at our existing customers and opening up business opportunities in new markets and business fields. While using DX to strengthen and streamline our sales capabilities, we will invest resources in our focus markets in Japan and overseas to build on our connections with current customers and to continue cultivating new customers around the world.

**■ Expand business by actively addressing social issues**

To alleviate the pressing social issues of climate change, aging infrastructure, the prevention of contagious diseases, and Japan's shrinking labor force, we will create safe and secure

office and production spaces and develop new solutions, such as virtual power plants, that reduce energy demand and enable conversion to alternative renewable energy sources.

**■ Boost DX and strengthen employee DX proficiency**

Cloud and application software technology is a common element in boosting the added value of our services with AI and big data and in developing business related to virtual power plants and other emerging technology fields. We will train employees and hire dedicated DX staff to ensure we have a fully developed DX structure for our onsite engineering services, which are a key Group strength.

**■ Form strategies to establish continuous profit margin growth**

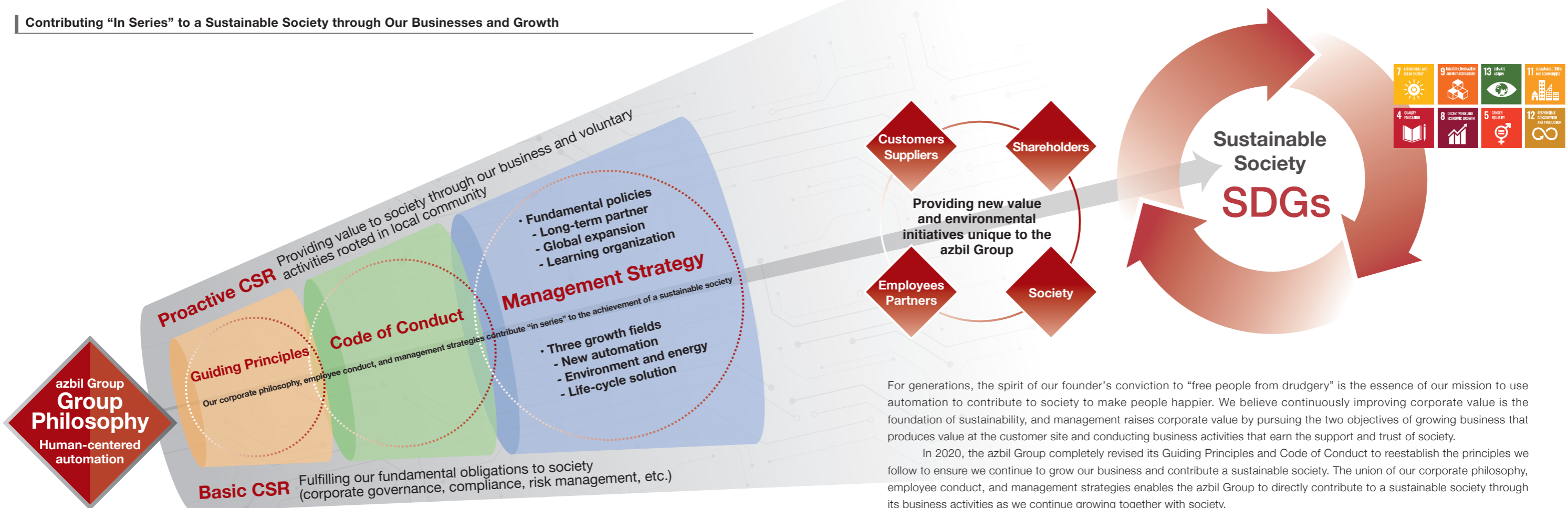
As we develop strategies for business growth, we will continue and expand the strategies of the previous medium-term plans that have improved our ability to generate profit. Management will emphasize profit improvement, which will include lowering costs by introducing new products and using DX to improve business efficiency, as we actively work to attain our FY2030 target of operating income margin of 15%.

**Q4** Companies are increasingly being evaluated in terms of the United Nations' Sustainable Development Goals and environmental, social, and governance criteria. How is the azbil Group incorporating social responsibility into its business operations?

**A4** Management is using the SDGs as guideposts for our mission to contribute "in series" to the achievement of a sustainable society.

The medium-term plan sets taking action on social issues as one of the primary means for expanding our business, and we are harnessing the azbil Group's unique capabilities to address social issues. In the environmental and energy fields, for example, we are reducing the environmental impact that is usually associated with "improved quality of spaces and productivity" and supporting customer efforts to attain carbon neutrality. In FY2020, we set four essential goals of the Group for SDGs along with specific targets. The core categories are the two businesses of environment and energy and new automation, and two areas of general corporate activities, which are supply chain and social responsibility along with health and well-being management and an organization that never stops learning.

**Contributing "In Series" to a Sustainable Society through Our Businesses and Growth**



For generations, the spirit of our founder's conviction to "free people from drudgery" is the essence of our mission to use automation to contribute to society to make people happier. We believe continuously improving corporate value is the foundation of sustainability, and management raises corporate value by pursuing the two objectives of growing business that produces value at the customer site and conducting business activities that earn the support and trust of society.

In 2020, the azbil Group completely revised its Guiding Principles and Code of Conduct to reestablish the principles we follow to ensure we continue to grow our business and contribute a sustainable society. The union of our corporate philosophy, employee conduct, and management strategies enables the azbil Group to directly contribute to a sustainable society through its business activities as we continue growing together with society.

Among these, the most concerned with great passion is about global warming and environmental issues. Our automation technologies contribute in two ways, by reducing energy waste through efficient energy usage and in turn by reducing demand for energy. Product recycling and renewable energy technologies also contribute greatly. The value of our automation technology is that it can lower energy demand while providing quality of space and maintaining productivity at living, office, and production sites. This is one of the ways that azbil is contributing “in series” to the achievement of a sustainable society. I find this extremely motivating and hope to inspire Group employees in Japan and around the world to take action on the SDGs.

We are also engaging in several measures to improve our non-financial reporting of the Group’s environmental, social, and governance status. Fortifying our corporate foundation is a priority as it will support not only sustaining growth for the Group, but will enable us contribute meaningfully to realizing a sustainable society. Our investment in business growth will be aggressive in the areas of technology (intellectual capital), manufacturing equipment (manufacturing capital),

and human resources (human capital).

Our CSR management practices focus on contributing to a sustainable society through our business activities founded on our Group philosophy of “human-centered automation,” and putting people first. On the most fundamental level, in all of our operations, we will continue actively applying and enforcing the Ten Principles of the United Nations Global Compact in the four areas of human rights, labor, environment and anti-corruption. Our CSR management also prioritizes risk management, thorough ethical and legal compliance, and environmental and social contribution.

Our efforts to strengthen our CSR activities were recognized by the Government Pension Investment Fund, which in FY2020 selected four ESG indexes in which azbil is a constituent. Yet, it is imperative that we continue diligently strengthening our corporate governance to continue ensuring fairness, neutrality, and transparency in our management practices. Recent measures include steps to establish a structure to facilitate constructive dialogue with all stakeholders, which is essential to realizing sustaining business growth and continuing to increase our corporate value into the long term.

### Essential Goals of azbil Group for SDGs

We are taking steps to achieve the targets set in the following four categories. We constantly review the targets and indicators with the aim of continuing to improve our environmental performance. (See page 58 for details about the targets and our initiatives.)

Business	
<b>Essential Goals</b>	<b>Targets</b>
<b>I Preserving the Earth’s environment and solving energy-related problems through cooperative creation</b> Environment and Energy	→ Solutions for energy (toward a decarbonized society) → Environmental preservation (realization of Integrated Environmental Corporate Management) Lower our greenhouse gas emissions and help reduce CO <sub>2</sub> at our customer sites to advance decarbonization, and incorporate resource recycling, biodiversity conservation, and other environmental activities into our business activities
<b>II Realizing a safe and comfortable society through new automation</b> New Automation	→ Providing productivity and higher value that lead to customer’s peace of mind and comfort Automate manufacturing and operations to improve the quality of customer living, production, and shared spaces and create new value
General corporate activities	
<b>Essential Goals</b>	<b>Targets</b>
<b>III Fulfilling our responsibilities to society across our supply chain and contributing to local communities</b> Supply Chain, Social Responsibility	→ Fulfilling social responsibilities with customers and business partners → Invigorating local communities Work with our business partners toward common SDGs and share the value of CSR in the supply chain Promote local social contribution activities
<b>IV Strengthening our foundations to solve societal problems through health and well-being management and continuous learning</b> Health and Well-being Management, An Organization That Never Stops Learning	→ Implementing health and well-being management (job satisfaction, health, diversity and inclusion) → Developing and strengthening “an organization that never stops learning” Flexibly accommodate work styles, reduce total work hours, support and promote employee mental and physical health, create opportunities for diverse personnel to demonstrate their abilities, and provide learning opportunities to develop human resources who can contribute to solving social issues

Q5

**How will the Company return profit from its business growth to shareholders and investors?**

A5

**We raised the FY2020 year-end dividend and the planned total annual dividend for FY2021 in accordance with our commitment to a disciplined capital policy and strategically investing to increase our corporate value. We have also supplemented shareholder return through share buybacks. As part of our disciplined capital policy, we apply an internal control index for capital investment activities that includes our own formula for ROIC reflecting the specific conditions of our business investments. Management practices an active awareness of capital costs and is geared toward achieving targets for ROE.**

I stress the importance of keeping long-term objectives in mind even when dealing with the immediate situation. Shareholder return is a key part of this and remains a management priority. Our basic policy is to maintain a stable dividend and seek to raise dividends while considering the overall circumstances of our consolidated business performance, dividend on equity ratio (DOE), ROE, and the strategic need to ensure adequate internal reserves for current and future business development and a sound financial foundation.

Following this basic policy and in consideration of our business performance, which even in the harsh operating environment exceeded our projections, we raised the FY2020 year-end dividend payment to ¥30 per share, a ¥5 increase from our original plan, which brought the full-year dividend payment to ¥55 per share. The DOE ratio was thus 4.0% for FY2020, and we will continue advancing the medium-term plan to continue steadily increasing DOE. Looking ahead to FY2021, based on our outlooks for business growth and our earnings performance, we plan to raise the ordinary dividend by ¥5, which will increase the full-year dividend to ¥60 per share.

As mentioned earlier, we will be aggressively investing in technology, equipment, human resources, and other areas necessary for sustaining growth and raising corporate value. In keeping with a disciplined capital policy, we also acted on our commitment to returning value to shareholders by improving ROE and distributing dividends by flexibly repurchasing 2.25 million outstanding azbil shares, valued at approximately ¥10.0 billion.

In FY2021, we began using ROIC as an additional key management indicator with ROE to further strengthen our corporate governance and as an additional guide for raising our corporate value and maintaining a disciplined capital policy. I believe strong awareness of capital costs is increasingly critical and plan to emphasize its importance in our management activities.

Q6

**Do you have a message for stakeholders?**

A6

**The azbil Group is engaging in a concerted effort to transform itself by pursuing the substantial opportunities for long-term growth in the automation business. The Company and its stakeholders will share the benefits of the growth we achieve and maintain good relationships.**

We fully embrace the idea of stakeholder capitalism as it reflects the values that the azbil Group has adhered to since its inception.

We have always had strong relationships with our stakeholders, and I wish to continue engaging in constructive dialogue, which is essential for maintaining the business environment and our business performance.

How business conditions will be in the aftermath of the COVID-19 pandemic is still anything but certain, but I think there will be an exponential increase in demand for the Group’s core competencies in automation technology, installation, services, and engineering. It is truly rewarding and I take pride in the fact that our drive to increase the use of automation directly contributes to a sustainable society. At the same time, the increasingly fierce competition in all markets means that we need to mobilize the full power of our capabilities to succeed. The azbil Group is putting all of its energy into transforming itself for future growth, and I look forward to pursuing the significant opportunities ahead.

