NTN Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024

August 2, 2023

Event Summary

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[Venue Size]	
[Participants]	
[Number of Speakers]	4

Eiichi Ukai	Director, Representative Executive Officer, President, Executive Officer, CEO
Hideaki Miyazawa	Director, Representative Executive Officer, Executive Officer, Corporate General Manager, Automotive Business HQ
Masaaki Yamamoto	Director, Executive Officer, CFO
Tatsuo Nagao	Corporate Strategy Division, Public Relations & IR

Presentation

Nagao: We will now begin NTN Corporation's Q1 financial results briefing for the fiscal year ending March 2024. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

First, I would like to introduce today's attendees.

Mr. Ukai, Representative Executive Officer, President, and CEO.

Ukai: I'm Ukai. Thank you.

Nagao: Mr. Yamamoto, Executive Officer and CFO.

Yamamoto: I'm Yamamoto. Thank you.

Nagao: Mr. Miyazawa, Executive Officer, Corporate General Manager of Automotive Business Headquarters.

Miyazawa: I'm Miyazawa. Thank you.

Nagao: I'm Nagao from Corporate Strategy Division, and I will be the moderator. Thank you.

Today's briefing will follow the briefing materials distributed to your registered email address. The documents are also available on our website, so please check our website if you do not have them.

Today, President Ukai will first explain the highlights of the financial results, and then Mr. Yamamoto, CFO, will explain the results for Q1 of the fiscal year ending March 31, 2024 and the outlook for the full fiscal year. After that, Mr. Miyazawa, General Manager of the Automotive Business Headquarters, will give an explanation of the initiatives of the automotive business, followed by a question-and-answer session. The briefing is scheduled to end at approximately 6:00 PM.

Now, President Ukai, please begin.

Ukai: I'm Ukai from NTN. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today. We would also like to take this opportunity to thank our shareholders and analysts for their continued support.

CFO Yamamoto and General Manager Miyazawa of the Automotive Business Division will explain the financial results, earnings forecast, and profit increase and decrease analysis in detail.

Key Points

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FY2023 1Q

- Net sales: ¥200.8 billion (+¥28.2 billion year on year)
  Operating income: ¥1.5 billion (+¥2.3 billion year on year)
  - Aftermarket: net sales ¥35.5 billion, operating income ¥4.8 billion
    Sales decreased in Japan, however increased steadily in Europe, China, and Asia, resulting in increased sales and income year on year
  - Industrial machinery: net sales ¥32.9 billion, operating income ¥0.9 billion
    Sales decreased mainly in agricultural machinery, construction machinery, wind turbines, resulting in decreased sales and income year on year
  - Automotive: net sales ¥132.4 billion, operating loss ¥4.1 billion
    Sales and income increased year on year due to recovery of semiconductor shortage mainly in Americas

FY2023 Full Year Forecast

- Revised net sales to ¥825.0 billion (+¥15.0 billion) from the forecast at the beginning of the FY2023 by reflecting effects of exchange rate (+¥33.0 billion) and decreased sales (-¥18.0 billion)
- Operating income remains unchanged (¥30.0 billion)

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Please refer to page two.

Net sales were JPY200.8 billion, operation profit was JPY1.5 billion, and they both increased YoY.

In the aftermarket business, sales were JPY35.5 billion, an increase of JPY3.1 billion YoY, due to strong sales in Europe, China, and Asia, the promotion of price pass-through, and the impact of foreign exchange rates, and operation profit was JPY4.8 billion, an increase of JPY0.2 billion YoY.

Sales of the industrial machinery business decreased by JPY1.2 billion YoY to JPY32.9 billion, and operating income decreased by JPY0.4 billion YoY to JPY0.9 billion due to decreased demand for agricultural machinery, construction machinery, and wind power generation mainly in the Americas.

In the automotive business, demand recovered in all regions due to the recovery of demand from the lockdown in urban areas of China and the easing of semiconductor supply shortages, resulting in net sales of JPY132.4 billion, an increase of JPY26.3 billion YoY. As for operating profit, it increased by JPY2.5 billion YoY due to the promotion of selling price pass-through, the impact of foreign exchange rates, and other factors, but we recorded an operating loss of JPY4.1 billion.

Regarding our distributor, Horimasa Co., Ltd., we apologize for any concerns or inconvenience this may have caused to end users. We have already recorded a loss of approximately JPY700 million due to this bankruptcy.

For the current fiscal year, we have revised our sales forecast to JPY825 billion, taking into account the positive JPY33 billion impact of foreign exchange rates due to the recent depreciation of the yen and the negative JPY18-billion decrease in sales due to the risk of market slowdown caused by the economic recession and the sluggish performance of Japanese automobile manufacturers in Europe and China, where the EV shift is progressing.

Operating profit will remain unchanged at JPY30 billion, as the decrease in sales will be offset by the impact of foreign exchange rates and a review of costs and other factors.

That's all from me.

Now, Mr. Yamamoto and Mr. Miyazawa will continue to explain the details of our business performance.

1. Key Financial Indicators

(For reference)

(billion yen)	FY2022 1Q Results ①	FY2022 Full Year Results	FY2023 1Q Results ②	FY2023 2Q Forecast	FY2023 1H Forecast	FY2023 2H Forecast	FY2023 Full Year Forecast (Latest)	Year on Year ②-① Total	Year on Year ②-① Volume	Year on Year ②-① Forex	FY2023 Full Year Forecast (Previous)
Net sales	172.6	774.0	200.8	203.2	404.0	421.0	825.0	28.2	19.9	8.3	810.0
Operating income / loss (-)	(0.8)	17.1	1.5	5.0	6.5	23.5	30.0	2.3	(0.7)	3.0	30.0
Operating margin	(0.5%)	2.2%	0.7%	2.4%	1.6%	5.6%	3.6%	1.2%			3.7%
Ordinary income / loss (-)	0.0	12.0	1.9	2.6	4.5	18.5	23.0	1.9	(1.0)	3.0	23.0
Extraordinary income / loss (-)	-	(1.2)	-	-	-	(4.0)	(4.0)	-	-	-	(4.0)
Profit attributable to owners of parent / loss (-)	(2.5)	10.4	1.6	2.9	4.5	6.5	11.0	4.1	2.1	2.0	11.0
Inventories *	242.1	239.4	255.0				230.0	15.6	1.9	13.7	220.0
FCF	3.3	20.4	12.1				29.0	8.7	-	-	29.0
Exchange rate 1USD	¥129.6	¥135.5	¥137.2	¥135.0	¥136.1	¥135.0	¥135.5	¥7.6			¥130.0
Exchange rate 1EURO	¥138.1	¥140.9	¥149.4	¥150.0	¥149.7	¥150.0	¥149.8	¥11.3			¥140.0

FY2023 Annual Dividend	¥10.0 (Interim ¥5.0 / Year-end ¥5.0)

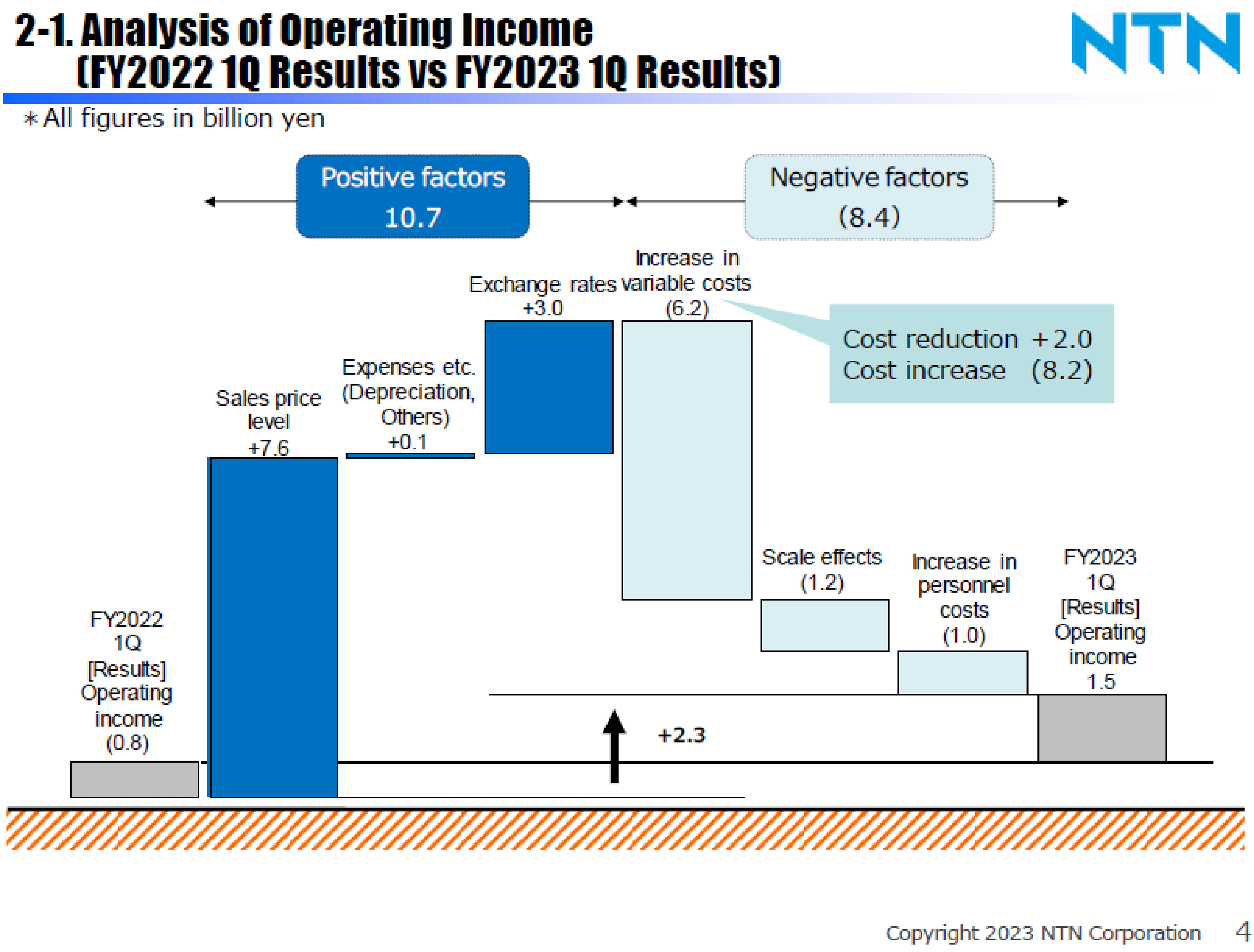
* Increase/decrease from the end of Mar. 2023

Yamamoto: I'm Yamamoto. I will begin my explanation on page three of the slides.

First of all, in terms of consolidated key indicators, as just mentioned by Mr. Ukai, Q1 closed with net sales of JPY200.8 billion, an operating profit of JPY1.5 billion, and a net profit of 1.6 billion.

As a result of revising the exchange rate to JPY135 to the US dollar and JPY150 to the euro from Q2 onward, the profit in the forecast for the full year remains unchanged from the previous announcement, with net sales of JPY825 billion, an operating profit of JPY30 billion, and a net profit of JPY11 billion.

The key point here is, excluding exchange rate in column 2-1 of the YoY comparison. Despite a JPY19.9 billion increase in sales, operating profit was a negative JPY0.7 billion. And, although we changed the sales, we did not change the operating profit. I will explain more about this later.



Please move on to page four.

This is the waterfall chart from the operating profit of negative JPY800 million from the same period last year to the current JPY1.5 billion.

The second item from the left shows a plus of JPY7.6 billion at the selling price level. I mentioned earlier that sales increased by JPY19.9 billion, so if we subtract this JPY7.6 billion from the sales price level, we get JPY12.3 billion in terms of scale. This is the increase in the sales volume YoY. Despite this, it was minus JPY1.2 billion due to the scale.

First, let me explain this section.

In the same period last year, we raised production considerably and increased inventories. In the current fiscal year, we have considerably reduced production since the end of the previous fiscal year, and although the volume of goods sold increased by JPY12.3 billion, production was slightly down YoY. The impact of scale is slightly more than JPY2 billion.

On the other hand, the inventory valuation impact is negative YoY since the price of raw materials increased quickly in the same period of the previous year. This is about JPY2.6 billion, so the impact of scale has been a negative number.

In addition, we are currently closing operations in Brazil and other countries, and the deterioration in loss there is also included in the scale.

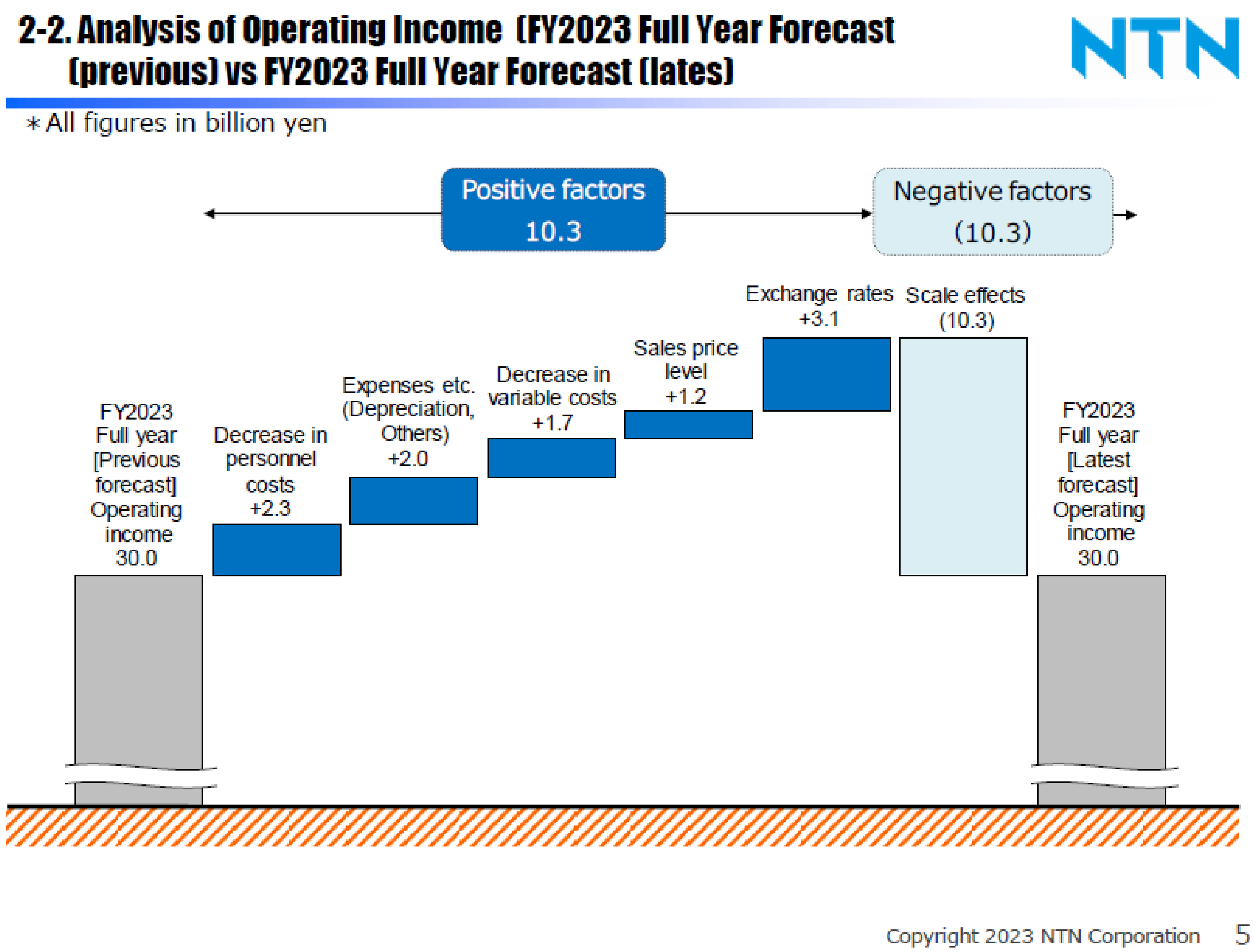
Due to such events, the scale effect and other factors are in the negative JPY1.2 billion.

As Mr. Ukai explained earlier, the increase of JPY100 million was due to the addition of JPY700 million in bad debts from Horimasa, which otherwise would have resulted in an increase of about JPY800 million.

The rest is plus JPY3 billion of foreign exchange impact.

In terms of proportional costs, there was a cost reduction of JPY2 billion and a cost increase of JPY8.2 billion, and the cost increase is greatly affected by components and electrical gas rather than steel products.

The last item is the minus JPY1 billion in personnel expenses, which is mainly due to base increases in Japan and an increase in personnel expenses in the United States.



Please continue on to page five.

This is the waterfall chart from the JPY30 billion announced last time to the same amount this time.

The second item from the right is the decrease of JPY10.3 billion in scale and other factors.

Then, the selling price level is plus JPY1.2 billion.

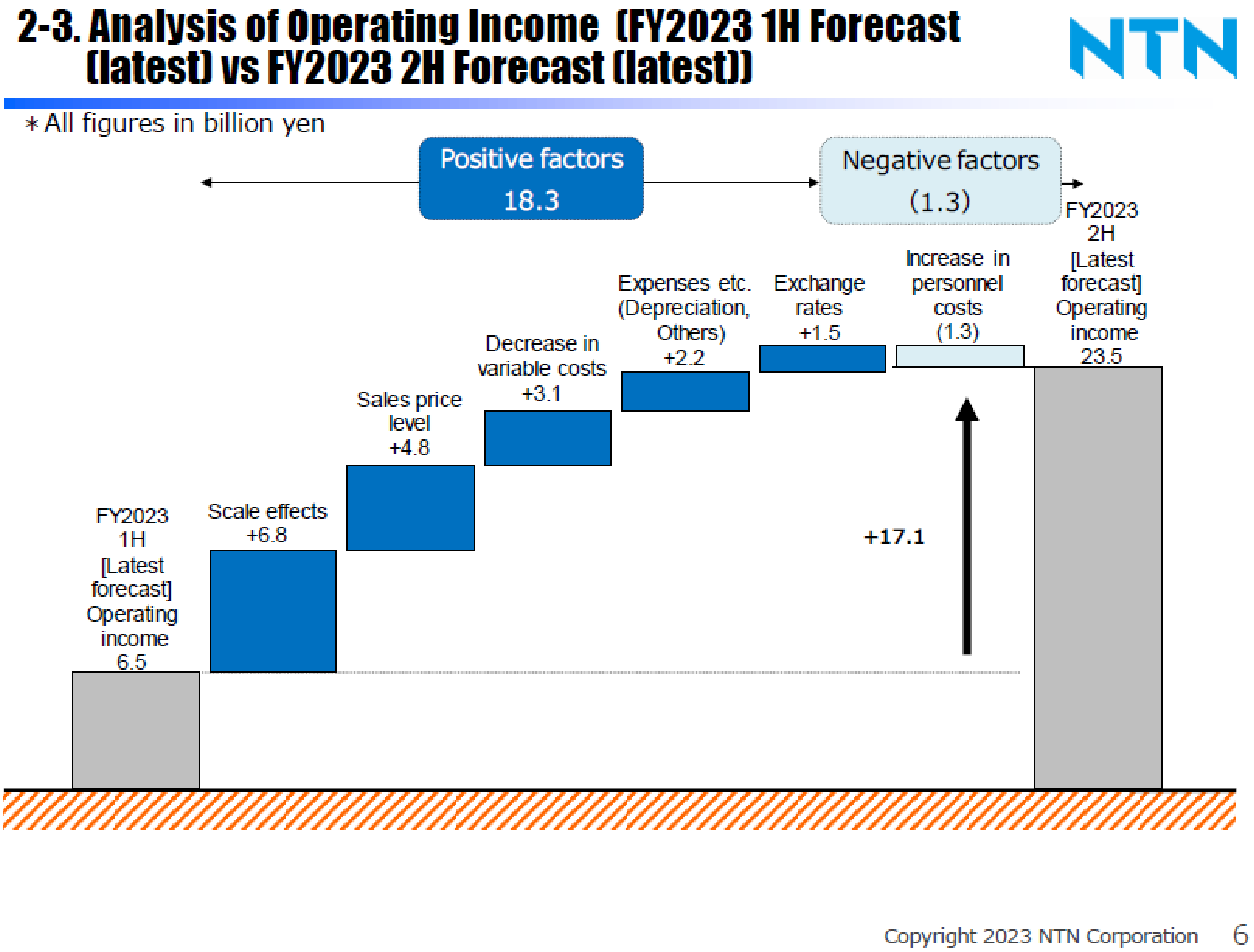
I mentioned earlier that sales will decrease by about JPY18 billion, but excluding the impact of selling prices, sales will decrease by a little more than JPY19 billion in volume. In particular, since sales in China are expected to decrease by approximately JPY12 billion, we expect a decrease of JPY10.3 billion in profit due to the scale.

As for the increase in profit, we have reviewed the exchange rate, and it is plus JPY3.1 billion.

The selling price I mentioned earlier is plus JPY1.2 billion, mainly for automobiles, which we will take up to the end.

Regarding proportional expenses, the current amount is plus JPY1.7 billion, including the fact that it may be somewhat less than originally expected.

As for expenses and personnel costs, since the scale will decrease, we will naturally cut back on these costs. Also, in Q1, we have been able to reduce expenses and personnel costs considerably in Japan, China, and other areas, so based on that, we expect JPY2 billion and JPY2.3 billion as a factor in the increase in profit.



Please continue on to page six.

This page shows the waterfall chart from the H1 forecast of JPY6.5 billion to the H2 forecast of JPY23.5 billion.

In H2, sales and production will increase by approximately JPY15 billion to JPY16 billion in the scale compared to H1, which is an increase of JPY6.8 billion in sales volume.

The selling price is the same as in the previous fiscal year, but the effect of the price increase is higher in H2, and it will be JPY4.8 billion from H1 to H2.

Also, regarding the proportional costs, the price of steel materials, etc., will probably fall from around October. The effect of the lower raw material prices is also expected to be plus JPY3.1 billion, as the amount of effect will be larger in H2.

As for expenses, as I mentioned earlier, we have about JPY700 million in allowance for doubtful accounts in H1. In H2, this will naturally disappear. In addition, shipping fees to North America have been revised and lowered since around May, and we estimate the impact of this on our monthly freight rates to be about JPY800 million. Those two will bring the total to JPY1.5. As for the remaining JPY700 million, we are now also thoroughly reducing costs, which will be a reduction of JPY700 million towards H2.

For foreign exchange, we are looking at plus JPY1.5 billion.

Finally, labor costs. This will increase in scale, but we expect an increase, especially in the European region, etc.

3. Net Sales by Region

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(billion yen)	FY2022 1Q Results	FY2022 Full Year Results	FY2023 1Q Results	FY2023 2Q Forecast	FY2023 1H Forecast	FY2023 2H Forecast	FY2023 Full Year Forecast ② (Latest)	(For reference) FY2023 Full Year Forecast ① (Previous)	②-① Total	②-① Volume	②-① Forex
Japan	44.3	201.6	50.8	54.7	105.5	111.5	217.0	223.5	(6.5)	(6.5)	0.1
Americas	55.4	246.2	64.9	65.1	130.0	133.0	263.0	251.5	11.5	0.6	10.9
Europe	36.1	155.2	43.0	42.0	85.0	88.0	173.0	160.0	13.0	(4.1)	17.1
Asia and others	36.8	170.9	42.0	41.5	83.5	88.5	172.0	175.0	(3.0)	(8.0)	5.0
Total	172.6	774.0	200.8	203.2	404.0	421.0	825.0	810.0	15.0	(18.1)	33.1

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Please continue on to page seven. This is the sales by region.

Around the middle are the results for Q1, and then the forecast for Q2 and beyond.

Since we have changed the sales figure to JPY825 billion this time, I will mainly explain the comparison with the previous announcement.

Please look at column 2-1 that says excluding foreign exchange. As you can see, it is JPY8 billion in Asia and others. It has been greatly impacted by the decrease in China, as I mentioned, which was about JPY12 billion.

4. Net Sales and Operating Income by Business Segment

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<Net Sales by Business Segment>

(billion yen)	FY2022 1Q Results ①	FY2022 Full Year Results	FY2023 1Q Results ②	FY2023 2Q Forecast	FY2023 1H Forecast	FY2023 2H Forecast	FY2023 Full Year Forecast (Latest)	Year on Year ②-① Total	Year on Year ②-① Volume	Year on Year ②-① Forex	(For reference) FY2023 Full Year Forecast ① (Previous)
Aftermarket	32.3	134.0	35.5	34.0	69.5	69.0	138.5	3.1	1.5	1.7	133.0
Industrial machinery	34.1	139.5	32.9	31.6	64.5	66.0	130.5	(1.2)	(2.4)	1.2	133.0
Automotive	106.2	500.4	132.4	137.6	270.0	286.0	556.0	26.3	20.8	5.4	544.0
Total	172.6	774.0	200.8	203.2	404.0	421.0	825.0	28.2	19.9	8.3	810.0

<Operating Income by Business Segment>

(billion yen)	FY2022 1Q Results ①	FY2022 Full Year Results	FY2023 1Q Results ②	FY2023 2Q Forecast	FY2023 1H Forecast	FY2023 2H Forecast	FY2023 Full Year Forecast (Latest)	Year on Year ②-①	(For reference) FY2023 Full Year Forecast ① (Previous)
Aftermarket	4.6	22.3	4.8	5.7	10.5	13.0	23.5	0.2	22.5
Industrial machinery	1.2	7.3	0.9	1.1	2.0	3.5	5.5	(0.4)	7.5
Automotive	(6.6)	(12.4)	(4.1)	(1.9)	(6.0)	7.0	1.0	2.5	0.0
Total	(0.8)	17.1	1.5	5.0	6.5	23.5	30.0	2.3	30.0

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Then, the next page, page eight, shows sales and operating income by business type.

The upper row shows net sales, and the lower row shows operating profit.

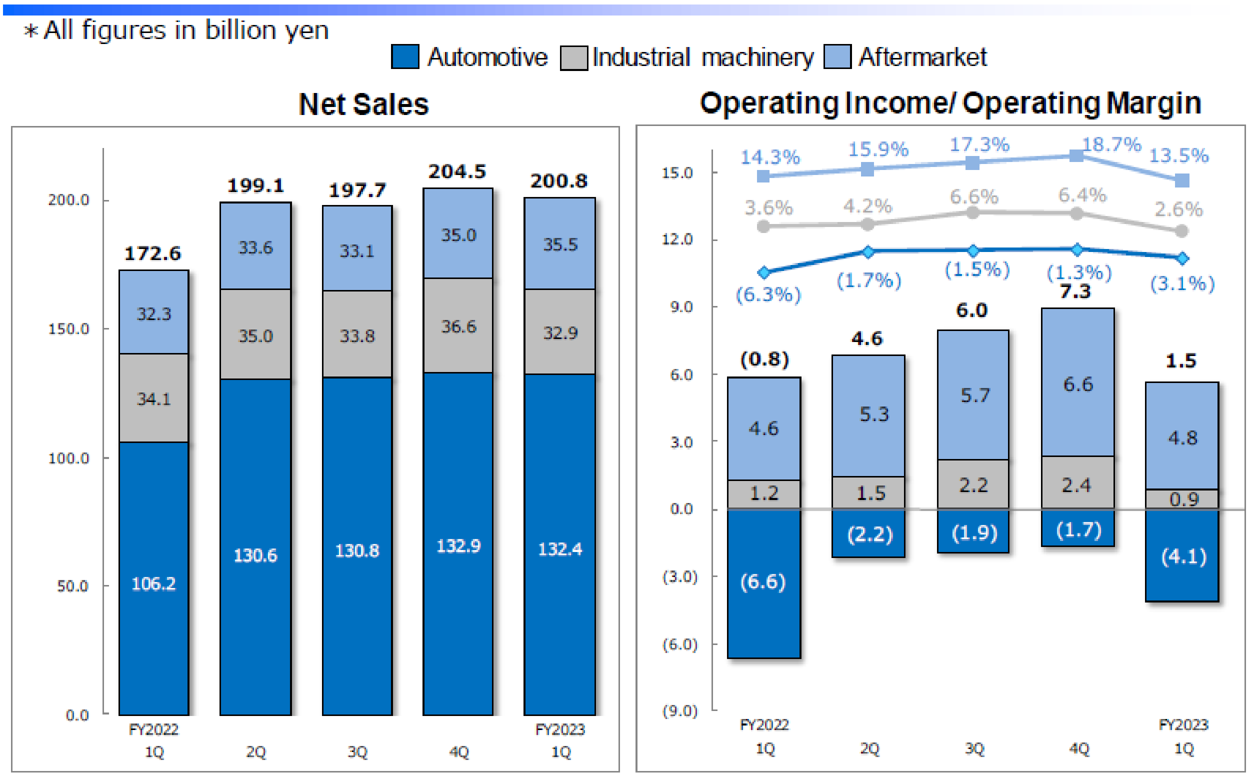
The sales by business type in Q1 were JPY35.5 in the aftermarket business, JPY32.9 billion in the industrial machinery business, and JPY132.4 billion in the automotive business.

If you look at column 2-1, which says excluding exchange rate, on the right, the scale of the industrial machinery business decreased.

The operating income below is JPY4.8 billion for the aftermarket business, JPY0.9 billion for the industrial machinery business, and JPY minus 4.1 billion for the automotive business.

In terms of the changes YoY, profit increased by JPY0.2 billion in the aftermarket business, but the effect of the bad debt provision for Horimasa, which I have already mentioned, is around JPY350 million each for the aftermarket and industrial machinery businesses. Excluding that, the profit in the aftermarket business increased by about JPY550 million. As for the industrial machinery business, the scale is smaller, but it is almost on the same level as the previous fiscal year.

5. Financial Results by Business Segment (Quarterly Trend)



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Next, please turn to page nine. This is the quarterly change in performance by business type that I explained earlier.

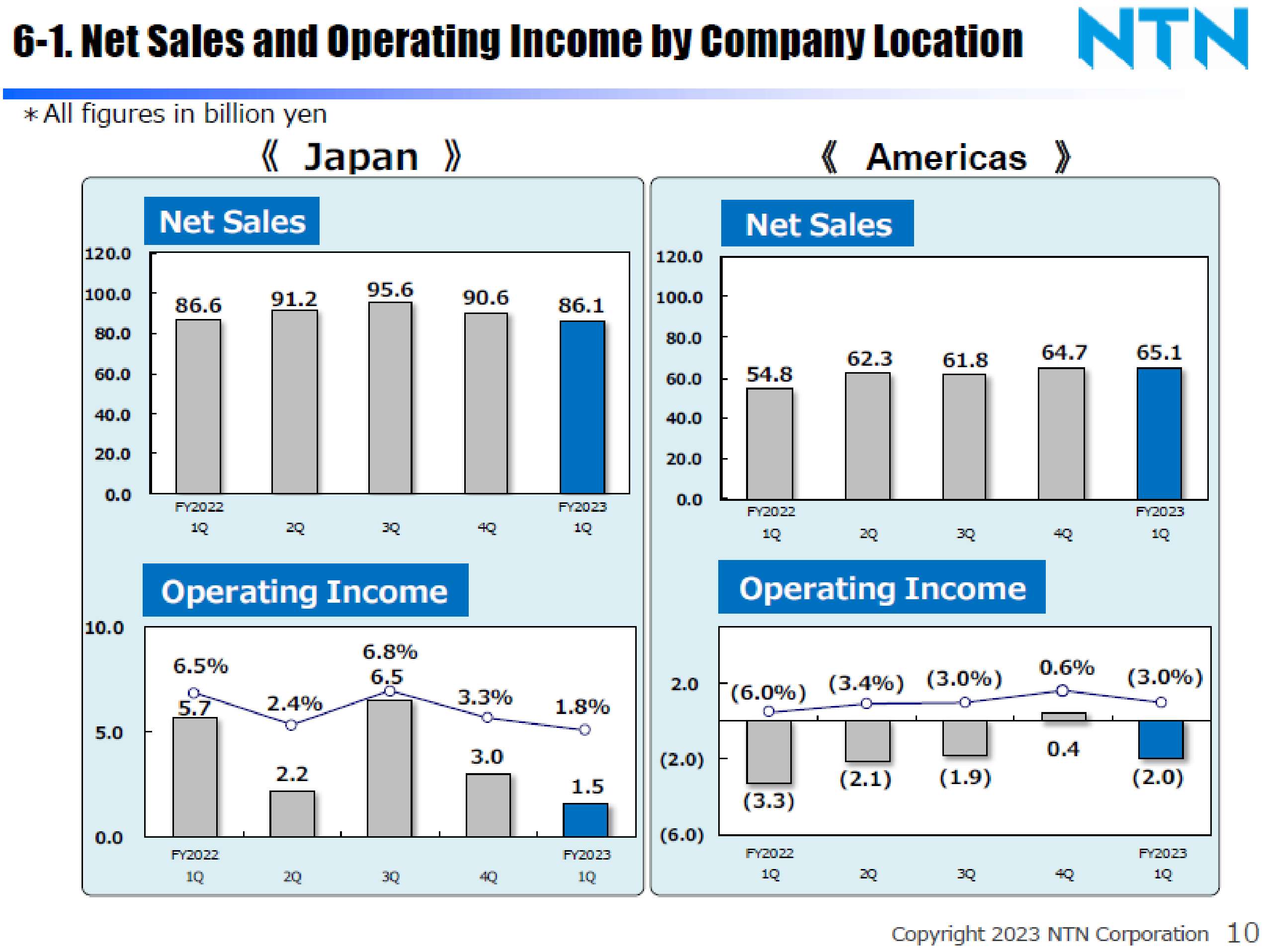
On the left is a bar graph of net sales, and on the right is a bar graph of operating income and a line graph of operating margin.

First, the aftermarket business is the top line, and it has dropped from 18.7% in Q4 to 13.5%. This is due to the impact of the credit loss mentioned earlier, which was a negative 1 percentage point, and the impact of the scale effect and regional composition, especially the Americas, where profit margins are high, which decreased compared to Q4, which had a negative 2 percentage points impact.

The industrial machinery business is also affected by Horimasa by 1 percentage point, and then by the scale by about 2 percentage points.

On the other hand, the profit margin for the automobile business deteriorated by more than 1 percentage point in terms of selling prices compared to Q4 due to the fact that the processing of selling price hikes was concentrated in September and March in particular. The current situation has deteriorated by about 2 percentage points due to an increase in fixed costs and other factors.

6-1. Net Sales and Operating Income by Company Location



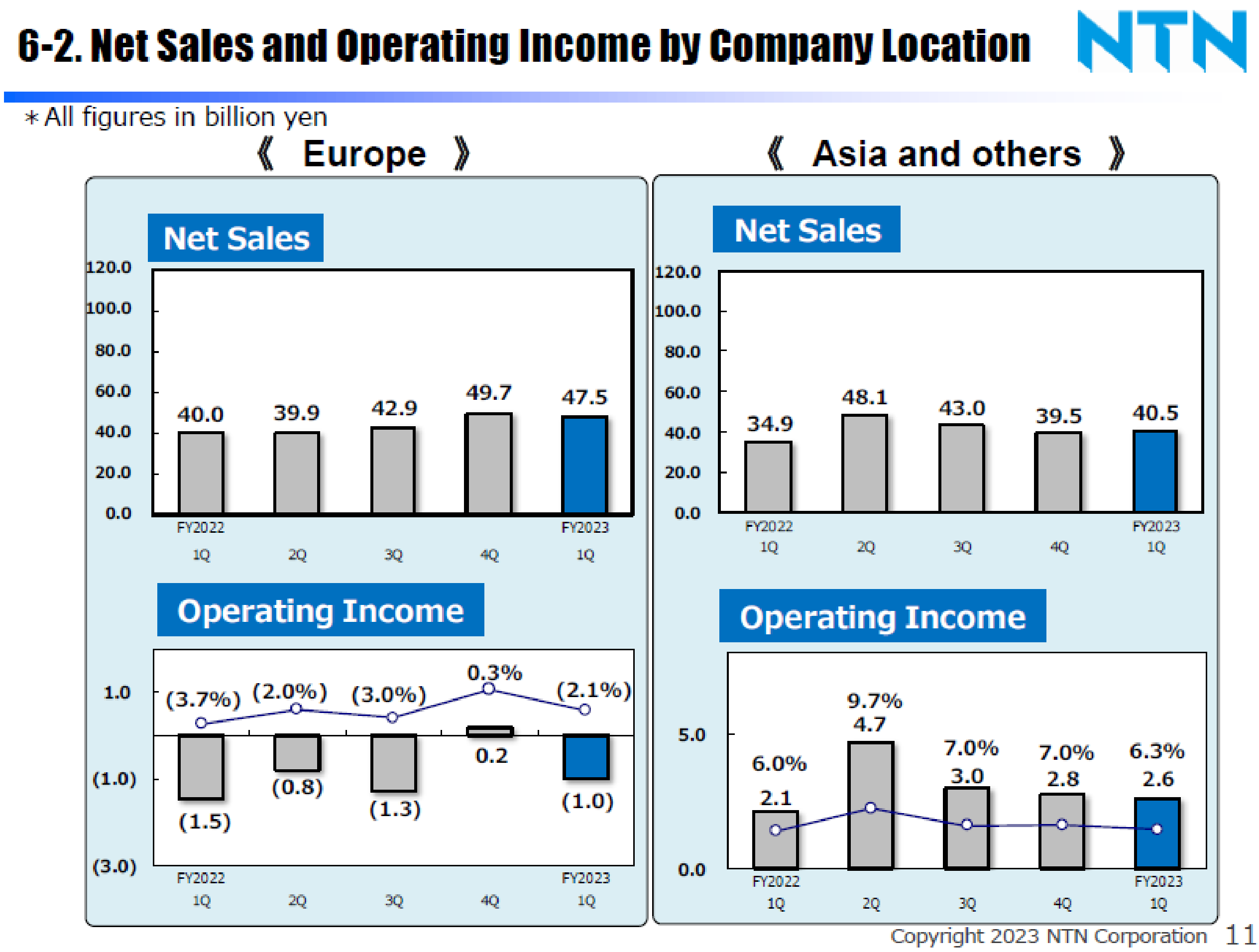
Pages 10 through 11 show sales and operating income by location.

Page 10 shows Japan and the Americas.

The upper row shows net sales, and the lower row shows operating income.

As for Japan, the sales volume has dropped since Q4, and the operating profit margin has dropped from 3.3% to 1.8%. The main component of this is the allowance for doubtful accounts, which I mentioned earlier, which is about JPY700 million. Also, there is a JPY1.1 billion rebound from the price increase in March. As a result, the profit margin is down compared to Q4.

In the Americas, on the right, the selling price was affected by the same factors, although in a smaller amount, and the fixed costs also had a negative impact, falling to minus 3 percentage points on page 10.

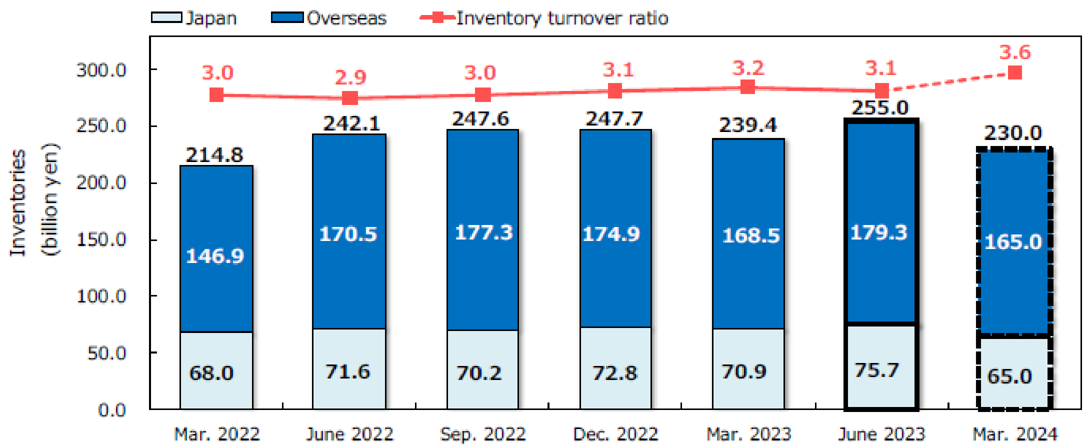


Page 11 shows the same graph for Europe and the rest of Asia.

As for Europe, even when the exchange rate is considered, the volume of goods is down compared to Q4. This has had the greatest impact.

In Asia and other regions, there was a slight decrease in the volume of goods sold, and this had a negative impact on the operating profit margin, which was slightly lower than in Q4.

7. Inventories



(billion yen)	Mar. 2022 Results	June 2022 Results	Sep. 2022 Results	Dec. 2022 Results	Mar. 2023 Results	June 2023 Results	Mar. 2024 Forecast
Inventories	214.8	242.1	247.6	247.7	239.4	255.0	230.0
[Overseas]	146.9	170.5	177.3	174.9	168.5	179.3	165.0
[Japan]	68.0	71.6	70.2	72.8	70.9	75.7	65.0
Inventory turnover ratio (times)	3.0	2.9	3.0	3.1	3.2	3.1	3.6

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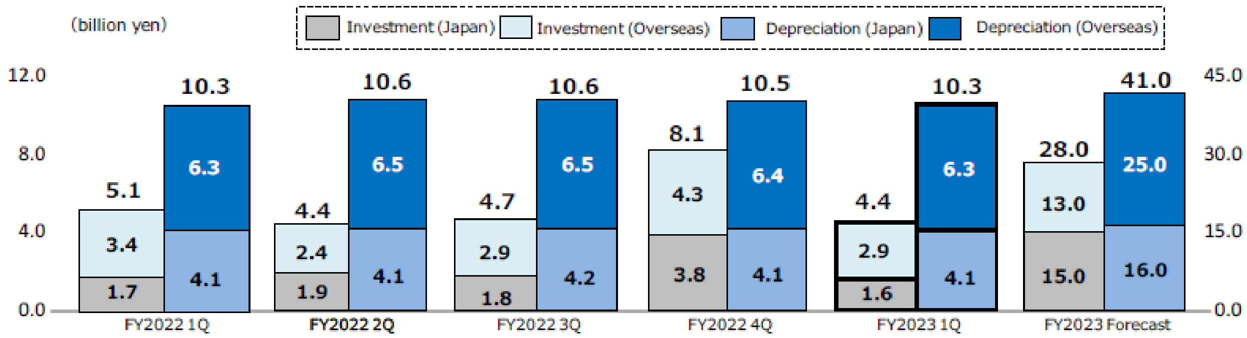
Continuing on to page 12, the status of inventories.

At the end of this past June, the actual result was JPY255 billion. The increase was JPY15.6 billion from March, but since there was a JPY13.7 billion impact from the foreign exchange rate, the increase was JPY1.9 billion in volume.

The forecast for FY2024 is JPY230 billion. This is an increase of JPY10 billion from the previous JPY220 billion. This is not due to the volume but to the effect of foreign exchange rates, which have increased by JPY10 billion since the last time.

8. Capital Expenditures and Depreciation



(billion yen)	FY2022 1Q Results①	FY2022 2Q Results	FY2022 3Q Results	FY2022 4Q Results	FY2022 Full Year Results	FY2023 1Q Results②	Year on Year ②-①	FY2023 Forecast
Capital expenditure	5.1	4.4	4.7	8.1	22.3	* 4.4	(0.7)	28.0
[Overseas]	3.4	2.4	2.9	4.3	13.0	2.9	(0.5)	13.0
[Japan]	1.7	1.9	1.8	3.8	9.2	1.6	(0.1)	15.0

*In addition, capital expenditure for intangible fixed assets (FY2023 1Q Results : ¥0.7 billion, FY2023 Full Year Foreacst : ¥5.0 billion)

(billion yen)	FY2022 1Q Results①	FY2022 2Q Results	FY2022 3Q Results	FY2022 4Q Results	FY2022 Full Year Results	FY2023 1Q Results②	Year on Year ②-①	FY2023 Forecast
Depreciation	10.3	10.6	10.6	10.5	42.0	10.3	(0.0)	41.0
[Overseas]	6.3	6.5	6.5	6.4	25.5	6.3	0.0	25.0
[Japan]	4.1	4.1	4.2	4.1	16.5	4.1	(0.0)	16.0

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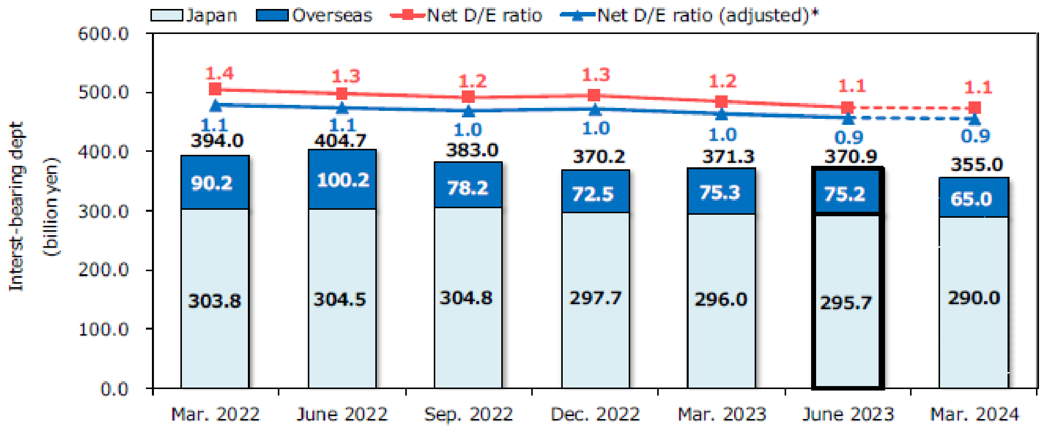
Continuing on to page 13, the changes in capital expenditures and depreciation.

In this Q1, capital investment was JPY4.4 billion, and depreciation was JPY10.3 billion.

The forecast for the full year is JPY28 billion for CapEx and JPY41 billion for depreciation. This has not changed, and we are staying on this line for now.

9. Interest-Bearing Debt



(billion yen)	Mar. 2022 Results	June 2022 Results	Sep. 2022 Results	Dec. 2022 Results	Mar. 2023 Results	**June 2023 Results**	**Mar. 2024 Forecasst**
Interest-bearing debt	394.0	404.7	383.0	370.2	371.3	370.9	355.0
[Overseas]	90.2	100.2	78.2	72.5	75.3	75.2	65.0
[Japan]	303.8	304.5	304.8	297.7	296.0	295.7	290.0
Net Interest-bearing debt	272.6	278.6	268.8	265.0	260.6	253.7	243.0

*Taking into account a part of the subordinated bonds through public offering that is recognized as equity (50%).

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Continuing on to page 14, the status of interest-bearing debt.

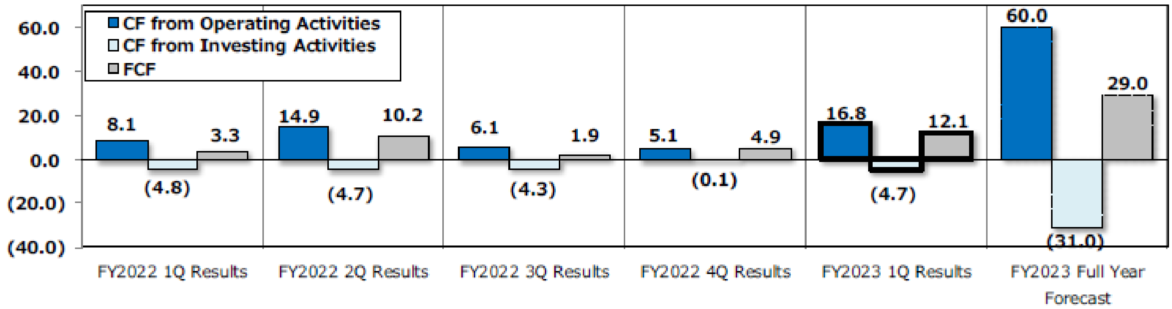
Interest-bearing debt at the end of June was JPY370.9 billion. Net interest-bearing debt was JPY253.7 billion, and the net D/E ratio was 1.1.

The decrease was JPY0.4 billion compared to the end of March, but there was an increase of JPY6.3 billion due to the foreign exchange rates. Therefore, excluding the impact of foreign exchange, we have achieved a steady reduction of minus JPY6.7 billion.

We have also increased our forecast for the fiscal year ending March 31, 2024, from JPY350 billion to JPY355 billion, but this is again only because we have seen a JPY5 billion impact of foreign exchange rates overseas, and there is no substantive change from the previous forecast.

10. Cash Flows

(billion yen)	FY2022 1Q Results①	FY2022 2Q Results	FY2022 3Q Results	FY2022 4Q Results	FY2022 Full Year Results	FY2023 1Q Results②	②-①	FY2023 Forecast
Ⅰ. Cash flow from **operating activities**	8.1	14.9	6.1	5.1	34.2	**16.8**	**8.7**	**60.0**
Ⅱ. Cash flow from **investing activities**	(4.8)	(4.7)	(4.3)	(0.1)	(13.9)	**(4.7)**	**0.1**	**(31.0)**
Ⅰ+Ⅱ. **Free cash flow**	3.3	10.2	1.9	4.9	20.4	**12.1**	**8.7**	**29.0**
Ⅲ. Cash flow from **financing activities**	(0.1)	(24.9)	(8.1)	(0.1)	(33.3)	**(9.7)**	**(9.6)**	**(27.0)**
Ⅳ. Effect of exchanging rate translation on cash and cash equivalents	1.4	2.8	1.5	0.6	2.1	**4.0**	**2.6**	**(2.7)**
Ⅴ. Net increase in cash and cash equivalents	4.6	(11.9)	(16.2)	5.4	(10.8)	**6.3**	**1.7**	**(0.7)**



 15

Then, on page 15 is the cash flow situation.

In Q1, operating cash flow was JPY16.8 billion, and free cash flow was JPY12.1 billion as a result of reducing investment cash flow.

The forecast for the full year is shown on the far right, and we are forecasting an operating cash flow of JPY60 billion and a free cash flow of JPY29 billion, so we believe that cash flow will also be favorable.

11. Forecast of Net Sales and Operating Income of Automotive Business in FY2023

NTN

- **Strengthen price revision activity**
  - Price increase/withdrawal from unprofitable businesses
  - Escalation of negotiation at the early stage
- **Execute procurement reform (optimal procurement)**
  - Switch to overseas procurement (Korea + India) in U.S.
- **Improve sales mix (shift to profitable businesses)**
  - Start mass-production of large-sized products for large SUVs and commercial vehicles
  - Start mass-production of low friction hub bearings for EVs
  - Launch full-scale partnership businesses

(billion yen)	FY2022 Resutls			FY2023 Forecast			Difference
	1H	2H	①	1H	2H	②	②-①
Net sales	236.7	263.7	500.4	270.0	286.0	556.0	+55.6
Operating income	(8.8)	(3.6)	(12.4)	(6.0)	7.0	1.0	+13.4
Operating margin [%]	(3.7%)	(1.4%)	(2.5%)	(2.2%)	2.4%	0.2%	+2.7pt

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Continuing on to page 16, Mr. Miyazawa will explain.

Miyazawa: My name is Miyazawa. I would like to explain the outlook for the overall sales of the automotive business and operating income for the current fiscal year.

As I mentioned at the financial briefing for the previous fiscal year in May, we posted an operating loss of JPY12.4 billion last fiscal year, and our primary mission for the current fiscal year is to return to the black.

Three major pillars are currently underway to achieve these results.

The first is to strengthen price revision activities. There are two major ones.

The first one is a price increase and withdrawal of unprofitable business. Negotiations on this issue have been ongoing since last fiscal year, and we are aiming for an early settlement of this issue, which is being developed globally.

Last year, we were not able to start the process we had hoped for, especially with European manufacturers, so we are trying to achieve solid results by escalating negotiations at an early stage. Our main targets are European manufacturers.

The second one is procurement reform. In particular, focusing on the US, the rise in the cost of materials, including labor costs, has been much higher than in other regions, so we are shifting from the traditional policy of satisfying local content to procurement outside the region, particularly from South Korea and India. We are currently working to ensure that this will produce results in H2 onwards.

In the US, some of our customers have requested an increase in volume, and we are considering shipping from Japan or China for the overflow of capacity in the US. In particular, we are trying to ensure that shipments from Japan will be able to take advantage of the current exchange rate environment.

Last but not least, it is the improvement of MIX.

As I have explained in various ways, I have been saying for some time that we should shift to large vehicles and promote a shift to so-called high-profit businesses, and this is expected to come to fruition in this fiscal year.

As I explained in the previous report, we have been undertaking 100% in-house production of the constant velocity joint business in Japan, and full-scale mass production of this business will start in H2.

We expect operating income minus JPY6 billion in H1. For H2, we are currently aiming to achieve a solid turnaround to black figures for the full year, which currently stands at about JPY1 billion in operating income, after taking into account the revision of selling prices in particular and the improvement of MIX.

That is all from me.

Question & Answer

Nagao [M]: Now, we will have time for questions and answers. During the Q&A session, the secretariat will select the persons with questions.

First, Mr. Sasaki from Mitsubishi UFJ Morgan Stanley Securities.

Sasaki [Q]: My name is Sasaki from Mitsubishi UFJ. Thank you. I would like you to briefly answer three questions for me.

First of all, I would like to ask about Mr. Miyazawa's earlier presentation. As you say, if NTN's turnaround in the automobiles business progresses through these initiatives, I believe that it will happen finally, but on the other hand, you have been struggling quite a bit with your automotive initiatives, so I think that many investors are probably wondering if this is really going to progress.

So, let me ask you straight out, what is your level of confidence in achieving the level of the automobile plan on page 16? Also, since you have been struggling in the past, I would like to know what you think is the difference between this time and the past, such as your level of confidence and what is different.

Thank you.

Miyazawa [A]: I would like to explain a little about the question. Of course, there are risks in the future, risks of various changes in the future, and risks of changes in the economic environment, but at this point, I am confident that we will achieve this plan with a high degree of certainty because we are continuing to negotiate with European manufacturers, in particular, on projects that have been left over from the previous year, and we are now at a critical stage.

In addition, as a reflection of last fiscal year, we were unable to achieve the final target because negotiations were escalated at a very late stage, close to the end of the fiscal year, and we are proceeding with an escalation of negotiations at a much earlier stage for this fiscal year. Of course, the negotiations are not necessarily progressing as we had hoped, but we are determined to bring them to success.

Also, regarding the change in MIX, the partnership business is a highly profitable business for us, as I mentioned earlier, and we are quite confident that it will definitely start up mass production in H2. We expect that this will enable us to improve profits in H2.

That is all from me.

Sasaki [Q]: Thank you very much.

I venture to ask, but from your point of view, Mr. Miyazawa, is there anything you perceive as a risk to your achievement? Would you be willing to share it with us?

Miyazawa [A]: One factor is the recession in China or the reduction in car production. Unfortunately, in our case, about 65% of our automotive business in China is for Japanese-affiliated companies. As you know, Japanese-affiliated companies are struggling greatly due to the lack of electric vehicle lineups, and this has had a large-scale impact on us in H1.

We do not expect any major changes in H2, so we have factored in some of the negatives. However, if Japanese automakers reduce production in China more than we expect, we consider that to be a major risk.

That's all from me.

Sasaki [Q]: I understand very well. Thank you very much.

Second, on slide number five, what is the concept of the increase and decrease factors for the new plan? I understand that the impact of the scale has been lowered due to the impact of Chinese EVs, as Mr. Miyazawa just mentioned, but since the impact of scale has been reduced to a certain extent in addition to that, please tell us where in the scale has it been lowered compared to the previous plan.

Also, the proportional costs and selling price are considerably higher than in the previous plan, but this is not something that you can control, but rather something that is determined by the other party. Could you give us a little more background on why the proportional costs and the selling price will really improve?

Thank you.

Yamamoto [M]: First of all, about the scale, is it correct that you are asking how much the volume was reduced in each region?

Sasaki [Q]: Yes, please. If possible, please let us know the figures by business and region.

Yamamoto [A]: Okay. First, the sales volume of the automotive business dropped by JPY10.9 billion. The breakdown is, as I mentioned earlier, sales volume decreased by JPY11.6 billion in China, and the big fall was in Europe, which was a sales volume of JPY5.2 billion. On the other hand, it is increasing in the US by JPY3 billion. Plus, JPY2.7 billion in ASEAN countries. Also, in Japan, although it's like a fraction, it's a plus of JPY0.3 billion. The total is JPY10.9 billion.

Is this OK for the automobile business?

Sasaki [M]: Yes.

Yamamoto [A]: As for the industrial machinery business, it was reduced in all regions. As for the amount of money decreased, the total is JPY6.8 billion on a physical quantity basis. The largest portion is JPY2.7 in Japan, JPY2.4 in the US, and the rest is the equal amount of 1/3 each in Europe, Asia, and China.

Is this enough for the industrial machinery business?

Sasaki [Q]: For the industrial machinery business, what specific industries did you reduce your products?

Ukai [A]: I will answer.

For example, in Japan, machine tools and construction machinery manufacturers, such as Komatsu and Hitachi Construction Machinery, have achieved quite high results, but in reality, we are struggling a bit with our sales of bearings.

As for the Americas, especially the agricultural machinery, Deere and other areas with fairly high-profit margins are now falling in this region. Then, Caterpillar is also down quite a bit. Caterpillar's own results were high today, but we have a 50/50 ratio between OEM and maintenance, and the drop in maintenance is significant.

So, to a large extent, the drops in Japan and the Americas have been large in such industries.

That's all from me.

Sasaki [Q]: Thank you very much.

How about the aftermarket business?

Yamamoto [A]: It dropped in Japan and in the US. It dropped by a little over JPY3 billion in Japan and about JPY0.6 billion in the US, and it is increasing in Europe and Asia by about half each. The total is around to be minus JPY1.6 billion.

Is this enough for sales?

Sasaki [Q]: Yes. I'm sorry that this is getting a bit long, but for construction equipment, are you saying that inventory adjustments are still having an impact on your company? The sales of each company itself are strong.

Ukai [A]: Domestic aftermarket has been deteriorating markedly, and this started to happen around the end of the last fiscal year. Not enough information is available on whether this is an obvious stock adjustment. However, the Japanese aftermarket industry has been the most affected. Also, China's future is still a bit unpredictable. It varies considerably from month to month.

Sasaki [Q]: Thank you very much.

Sorry, this is getting a bit long, so I'll end with this one, but how certain are you about these JPY1.7 billion and JPY1.2 billion as proportional costs and selling price? I'm referring to the comparison with the existing plan on page five.

Yamamoto [A]: The selling price is almost the same as that of the automotive business. As Miyazawa explained earlier, regarding proportional expenses, as was the case in Q1, there is still a part of the current amount that is settling down. Since the amount of JPY1.7 billion incorporates this, it is difficult to imagine another sharp rise in the cost of raw materials, so we are fairly certain that this is the case.

Is that all?

Sasaki [M]: Yes, I understand very well. Thank you very much.

Nagao [M]: Thank you very much, Mr. Sasaki.

Now, Mr. Isayama of Goldman Sachs Securities, please continue with your question.

Isayama [Q]: Thank you. My name is Isayama of Goldman Sachs Japan. Thank you.

First question, as is customary, may I ask you to break down the analysis of increase and decrease by the factor on page four for each project? You have given us a detailed explanation, but it would be helpful if you could provide the details of each business.

Thank you.

Yamamoto [M]: You said it's page four, so that means the YoY comparison by business?

Isayama [M]: Yes.

Nagao [M]: Now, the secretariat will answer.

Koge [A]: I am the secretariat, Koge, and I will answer.

The first is about the aftermarket business. In the aftermarket business, the sales income increased by JPY0.2 billion YoY. By factor, the scale effect is negative JPY700 million, foreign exchange rates are positive JPY900 million, selling price level is positive JPY1.3 billion, proportional costs are negative JPY900 million, and fixed costs are negative JPY500 million, of which personnel costs are negative JPY200 million.

Next, let's look at the industrial machinery business. This was a negative JPY0.4 billion YoY. The breakdown is as follows: scale effect is negative JPY1.3 billion, foreign exchange rate effect is positive JPY0.8 billion, selling price level is positive JPY1.4 billion, proportional costs are negative JPY1.1 billion, and fixed costs are negative JPY200 million, of which personnel costs are negative JPY200 million.

Continuing on, let's look at the automotive business. In the automobile business, it increased by JPY2.5 billion to the previous year's figure. The breakdown is as follows: scale effect is positive JPY0.8 billion, foreign exchange effect is positive JPY1.2 billion, selling price level is positive JPY5 billion, proportional costs are negative JPY4.2 billion, and fixed costs are negative JPY0.2 billion, of which personnel costs are negative JPY0.6 billion.

That's all for me.

Isayama [Q]: Thank you.

Moving on to my second question. I'm sorry, I'm having a bit of trouble judging this, but how does the operating income of a little over JPY2 billion when you add back the Horimasa's JPY700 million that you just mentioned compare to the Q1 results that you had projected at the beginning of the term?

I would like to ask about the strengths and weaknesses of each business. I somehow got the impression that the automotive business was in line with it, but perhaps the industrial machinery business and such were a bit weak.

Yamamoto [A]: Okay, I will answer.

As you mentioned, the impact is still that even in Q1, the scale of the project was smaller than expected. In other words, the scale of the industrial machinery business was smaller than expected, and I think this affected the lower profit.

As I explained earlier, other areas, such as management of fixed costs, progress in raising prices, original costs, and proportional costs, are almost in line with expectations. In Q1, the impact of the scale of operations on the industrial machinery business and the automotive business was more prominent than expected.

Is this okay?

Isayama [Q]: Thank you. This is my last question.

In the industrial machinery business, although I was actually worried about the automotive business, based on what you just said, it is still the industrial machinery area that is falling, and I'd like to know the background of it.

I'm sorry, President Ukai, but in your earlier exchange with Mr. Sasaki, I think you answered about the aftermarket business in terms of inventory, and I think you mentioned that for the industrial machinery business, such as CAT, inventory adjustments are made, or orders to your company are stopped due to their inventory on hand or something like that.

You said that for the past year or two, there have been no such signs at all. Is the reason why their performance is good but your company's orders have stopped because your customers, the construction and agricultural machinery manufacturers, are no longer under pressure because their bearing inventory is much higher, and as a result, sales have fallen?

The momentum of construction and agricultural machinery that you have separately shared looks pretty bad, so I wonder if you could comment once again on this, not on the aftermarket business, but on the growth rate of the industrial machinery business by industry, especially on construction and agricultural machinery, which seemed to have become tougher.

Thank you.

Ukai [A]: Yes. First of all, agricultural machinery, for which market demand has, first of all, declined. There are various reasons for this, including the social and political situation in Europe, which started in Ukraine, and the abnormal weather conditions. In the case of agricultural machinery, the number of parts supplied directly to the production line has been declining due to the decrease in production.

As for Caterpillar, their demand for maintenance parts have been declining.I am not sure if I am answering your question directly, but that is the situation we are currently facing.

Isayama [Q]: Thank you.

Just one thing, but did it suddenly happen during this quarter? Or did you already see a few signs since your announcement at the beginning of the term, which gradually and progressively worsened? I want you to answer my last question and tell us whether the event was sudden or gradual and visible.

Ukai [A]: I am aware that there were signs. Therefore, we began to see such signs toward the end of the last fiscal year, and I think they are clearing up now. The same is true of machine tools. Since the end of the last fiscal year, some machine tool manufacturers have been saying that the situation is becoming more difficult, and I believe that this situation is becoming more pronounced now, especially among domestic machine tool manufacturers.

Isayama [M]: I understand very well. Thank you very much.

Nagao [M]: Thank you very much, Mr. Isayama.

Thank you very much for your patience, Mr. Sano of JPMorgan Securities. Please ask your questions.

Sano [Q]: Thank you. I am Sano from JPMorgan Securities. Thank you.

My first question is: how much sales and operating income in Q1 were up or down from the initial plan in quantitative terms?

Thank you.

Yamamoto [A]: We did not originally disclose it in Q1, so I will give you a rough explanation, but I think the volume of sales fell by a little less than JPY10 billion. Including the impact of the volume, operating income is now JPY1.5 billion, but I estimate that it has dropped by JPY3 billion to JPY4 billion. This includes JPY700 million from Horimasa's bad debts, which is the current situation.

Is this okay?

Sano [Q]: Yes. Thank you, Mr. Yamamoto.

The second question is about the profit margin on aftermarket in Q1, which is roughly 14.4% if we go back to the aftermarket profit, which is half of Horimasa's bad debts that you just mentioned. I think it's a high situation, not so different from the previous year's Q1, but last year in Q4, or in Q2 and Q3, I think last year in Q4, we had a similar level of sales, almost 59%.

Is it correct to think that this is a matter of seasonality and that from Q1 onwards, from Q2, this quarterly number for the aftermarket business sales will recover quite steadily?

Thank you.

Yamamoto [A]: First of all, the profit margin for aftermarket was quite high in Q4 in the previous year. So, if we return Horimasa's figure this time, it is about the same as Q1 of the previous year.

And you wondered if the recovery would be the same from here on out. Is this what your question is about?

Sano [M]: Yes.

Yamamoto [A]: Yes. First, as I mentioned earlier, the difference between Q4 of the previous fiscal year and the current fiscal year is due to the impact of Horimasa and a decrease in the scale of aftermarket products, which are manufactured at the same plant as the industrial machinery business. That is the main reason why they are falling. As you mentioned, we expect that Q2 will see a recovery from the current rate and that H2 will be back to Q3, to Q4 of the previous year.

Sano [Q]: I understand. Thank you, Mr. Yamamoto.

One last question, which I would like to ask President Ukai or Mr. Miyazawa, is about page 16 about improving MIX and shifting to a particularly high-profit business in the automobile business. I think it is true that from Q4 and Q1, the prospects for Japanese manufacturers' EV business in China, which you mentioned earlier as a risk, have become increasingly uncertain.

How do you feel about the risks here in the last three or six months? And if you think that this is likely to continue, how have you been accelerating your efforts to improve MIX in the last three months or so while minimizing that part of the risk? It would be very helpful if you could give us some kind of temperature or a sense of the scene in this area.

Thank you.

Miyazawa [A]: This is Miyazawa. I would like to answer your question.

Indeed, as I mentioned earlier, more than 65% of our Chinese automotive business is with Japanese manufacturers, so production cuts there have had a very large impact on our Chinese business. Looking at H1 alone, the volume of goods sold was about 30% less than we had originally planned at the beginning of the fiscal year. Most of the impact is on Japanese-affiliated manufacturers, and for H2, the current plan is based on the expectation of a reduction of nearly 20% from what was planned at the beginning of the fiscal year.

Of course, car manufacturers, including Japanese car manufacturers, have announced various plans for recovery in H2, but we are not sure how much we can count on them, and we are expecting a certain level of certainty.

As I mentioned earlier, as for MIX, as I explained earlier, we have been able to fully satisfy the automobile manufacturers in Japan with CV joints manufactured in-house, and mass production has started this fiscal year. We are in a very advantageous position in this regard, and we believe that MIX will certainly improve in this sense.

I hope this answers your question.

Sano [M]: I understand. Thank you. That's all from me.

Nagao [M]: Thank you very much, Mr. Sano.

Now, last but not least, Mr. Tai from Daiwa Securities, please ask your questions.

Tai [Q]: Please excuse me. I would like to squeeze in one last question. This overlaps with the earlier exchange.

When compared to the previous year's Q4 QoQ, sales were almost the same, but profits were significantly lower. However, as you mentioned, from the plan at the beginning of the term, the profit in Q4 last year was a little over JPY7 billion, and in Q1 this time, it was JPY1.5 billion.

I think that means that in Q1, we were looking at a budget of around JPY3 billion or JPY4 billion from the beginning of the term. Compared to Q3 of last year, sales in the previous Q3 were just about JPY200 billion, which is almost the same, but there was a profit of about JPY6 billion at that time. Then, even if this year's Q1 budget were JPY3 billion or JPY4 billion, it would still be lower than then.

I think it would be nice to see the effects of some more effort being made, but what are the factors that are still so much in place that are spoiling or canceling it out? For example, you mentioned that shipping and material costs are decreasing and that price hikes will gradually take effect and will be topped up, but even so, compared to Q3 of last year, there is no change at all. Is this due to the impact of MIX due to the decrease in China, or is it because the cost of electricity has gone up so much?

If I'm missing something, please tell me. I was wondering if you could give us a quick summary of all NTN's businesses rather than a breakdown by business.

Ukai [A]: Thank you very much. I'm Ukai.

In terms of your current question, the biggest impact is still that the Chinese market, not only for automobiles, but also for industrial machinery and then aftermarket, is selling considerably less than expected, which I think has the biggest impact.

There are many areas where we cannot do anything about it through our own efforts and thoughtfulness. We are working day and night on how to improve our earning power. So, as Mr. Tai just mentioned, we did quite a bit of analysis as to why Q4 and Q1 were so much lower.

There have been some external disturbances, such as the Horimasa incident I mentioned earlier, but there have been new cost increases in some areas, such as labor costs and electric and gas costs, and although costs for steel materials have subsided considerably, there is still a global trend of cost increases. However, the cost increase is still continuing on a global scale, and the transfer of the cost increase to prices is still lagging behind.

Therefore, it is also important to see how we can recover and reap the benefits of this in this period. In the final Q4, which we are reporting on today, we must, first of all, manage the Company in such a way that we can achieve these figures as a minimum.

Does that answer your question?

Tai [Q]: Yes. Thank you very much.

However, no one knows what will happen in China, but there is an increasing number of pessimistic voices about the future, and even if they do start to move forward, there is an increasing number of people who say that the momentum of the past will no longer be as strong. I think the Chinese bearing manufacturers are the ones who are suffering the most, and I think the situation where we have to fight with these people is going to increase more and more. I understand very well that it is difficult in China, but I wonder if we are starting to need a new mindset to overcome that.

So, I'm sorry. I understand the question and what you are saying, but I would like to hear one more word. That was my impression.

Ukai [A]: In fact, there are various automobile specifications tailored to the Chinese market. As a global manufacturer, we have produced common global specifications. However, as we conducted various surveys for each market, we came to understand the level of technology required in each market.

In particular, with regard to CVJ(constant velocity joint) and hubs for EVs now being sold in China, Japanese manufacturers, premium brands, European manufacturers, and American manufacturers were all saying the same thing, and at first, we thought that high-specification products for EVs were absolutely necessary. But, in fact, what Chinese EV manufacturers are doing now is using conventional components that can be made cheaply and putting them on the market.

So, as Mr. Tai mentioned, we need to fundamentally review our cost structure and specifications to ensure that we can sell our products at the appropriate price required by the market, and we need to review the specifications themselves. We are also working on these areas.

As Miyazawa explained earlier on page 16, the biggest impact is to ensure that we increase the profit margin in a market where we sell more than JPY500 billion.

I believe that the first step in building a solid foundation is to proceed with the activities that I am reporting on today so that we can steadily reap the benefits of our efforts.

That is all.

Tai [M]: Thank you very much. Thank you. I'm looking forward to seeing the next result.

Nagao [M]: Thank you very much, Mr. Tai.

We sincerely apologize for being late due to a system malfunction at the beginning of this presentation, and the time has passed the scheduled time of 6:00 PM, so I would like to conclude the IR presentation of NTN Corporation for Q1 of the fiscal year ending March 31, 2024.

Thank you very much for joining us today.

[END]

Document Notes

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