NTN Corporation

Consolidated Financial Results for the First Half of FY2023

November 2, 2023

Event Summary

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[Venue]	Webcast	
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[Participants]		
[Number of Speakers]	5	
	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
	Etsu Harima	Executive Officer, Aftermarket Business HQ., Industrial Business HQ.
	Tatsuo Nagao	Corporate Strategy Division, Public Relations & IR
[Analyst Names]*	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley
	Yuichiro Isayama	Goldman Sachs
	Tomohiko Sano	JPMorgan Securities

Hirosuke Tai	Daiwa Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Nagao: Now that the time has arrived, we will begin the IR presentation of NTN Corporation's financial results for Q2 of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedule today to participate in our financial results IR presentation.

To begin, I would like to introduce the attendees. Ukai, Director, Representative Executive Officer, President, Executive Officer, CEO.

Ukai: This is Ukai. Thank you for your cooperation.

Nagao: Yamamoto, Director, Executive Officer, CFO.

Yamamoto: I am Yamamoto. Thank you for your cooperation.

Nagao: Miyazawa, Director, Representative Executive Officer, Executive Officer, Corporate General Manager, Automotive Business HQ.

Miyazawa: My name is Miyazawa. Thank you for your cooperation.

Nagao: Harima, Executive Officer, Aftermarket Business HQ., Industrial Business HQ.

Harima: My name is Harima. Best regards.

Nagao: Nagao and Kouge of the Corporate Strategy Division will be your moderators for today. Thank you for your cooperation.

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

Today, President Ukai will first explain the key points of the financial results, followed by CFO Yamamoto's explanation of the financial results for Q2 of the fiscal year ending March 31, 2024 and the outlook for the full year. After the explanation, there will be a Q&A session and the meeting is scheduled to end at 5:00 PM.

Now then, President Ukai, please go ahead.

1.Key Points of Financial Result for the First Half

Increased sales and profits from the previous year and the announcement

- Net sales increased thanks to easing of semiconductor shortages, improvement in selling prices and foreign exchange effects
- Operating income increased due to improvement in selling prices and reduction of expenses, despite decrease in sales volume
- Inventories increased due to foreign exchange effects, and FCF remained positive

(billion yen)	FY2022 1H result①	FY2022 Full year result	FY2023 1H result②	FY2023 YoY ①vs②	FY2023 1H(announced)③	FY2023 Difference②vs③
Net sales	371.7	774.0	409.6	+37.9, +10.2% Exclu. Forex +5.3%	404.0	+5.6, +1.4% Exclu. Forex (2.0%)
Operating income	3.9	17.1	6.8	+2.9	6.5	+0.3
Operating margin	1.0%	2.2%	1.7%	+0.7pt	1.6%	±0pt
Ordinary income	3.6	12.0	4.9	+1.3	4.5	+0.4
Profit attributable to owners of parent	(1.6)	10.4	4.1	+5.8	4.5	(0.4)
Exchange rate (JPY) 1USD	133.9	135.5	140.8	+6.9	136.1	+4.7
1EURO	138.7	140.9	153.3	+14.6	149.7	+3.6
Inventories	247.6	239.4	256.1	+16.7 (compared to March)		
Capital expenditure	9.5	22.3	10.5	+1.0		
Free cash flow	13.5	20.4	24.2	+10.6		

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Ukai: My name is Ukai from NTN. Thank you very much for taking time out of your busy schedule today to attend our earnings presentation. We would also like to take this opportunity to thank our shareholders and analysts for their continued support.

CFO Yamamoto will explain the details of the financial results and the analysis of profit increase/decrease in detail later. I will explain the main points of the financial results.

See page three. In H1 of the year, both sales and income increased from the previous year and from the announcement, with the exception of net income.

Net sales totaled JPY409.6 billion. The progress in resolving the shortage of semiconductors, together with improved selling prices in response to soaring raw material and energy prices and the impact of foreign exchange due to a weaker yen, resulted in a JPY37.9 billion increase in sales from the previous fiscal year and a JPY5.6 billion increase from the announced figures.

Operating income was JPY6.8 billion. While affected by a decrease in the volume of goods shipped for industrial machinery, the increase was JPY2.9 billion more than the previous year and JPY0.3 billion more than the announced figure, due to factors such as progress in improving selling prices, reductions in fixed costs that exceeded plans—including lower ocean freight costs and productivity improvements—and the impact of foreign exchange rates.

Ordinary income was JPY4.9 billion, and net income attributable to owners of the parent was JPY4.1 billion.

Inventories totaled JPY256.1 billion, a JPY16.7 billion increase from the end of the previous fiscal year, but this was due to foreign exchange effects and a slight decrease in physical inventory.

Free cash flow was positive JPY24.2 billion, mainly due to continued curbing of capital investment.

2.Key Points of Financial Results for the First Half by Business Segment

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Profits in Aftermarket and Industrial Machinery Business decreased YoY
Automotive Business became profitable in 2Q

Aftermarket

- Demand in Japan declined as the recovery from the pandemic ran its course
- While selling prices improved more than planned in the first half of the year, profits decreased from the previous fiscal year and the announcement due to lower factory operating rates resulting from decreased demand for industrial machinery

Industrial Machinery

- Sales decreased from the previous fiscal year due to lower demand in major industries such as construction machinery, agricultural machinery, and gearboxes
- While selling prices in Europe improved more than planned, profits decreased from the previous fiscal year and the announcement due to decreased sales volume

Automotive

- Sales increased from the previous fiscal year and the announcement thanks to easing of semiconductor shortages
- In 2Q (Jul.-Sep.), selling prices improved more than planned and cost reductions progressed, resulting in increase in profits from the previous fiscal year and the announcement

	Aftermarket			Industrial Machinery			Automotive			All		
	FY2023			FY2023			FY2023			FY2023		
(billion yen)	1Q	2Q	1H	1Q	2Q	1H	1Q	2Q	1H	1Q	2Q	1H
Net sales	35.5	34.4	69.8	32.9	31.9	64.8	132.4	142.6	275.0	200.8	208.9	409.6
YoY	+3.1	+0.8	+3.9	(1.2)	(3.0)	(4.3)	+26.3	+12.0	+38.3	+28.2	+9.8	+37.9
Difference from August IR (Announced)			+0.3			+0.3			+5.0			+5.6
Operating income	4.8	4.1	8.9	0.9	0.5	1.4	(4.1)	0.6	(3.5)	1.5	5.3	6.8
YoY	+0.2	(1.2)	(1.1)	(0.4)	(0.9)	(1.3)	+2.5	+2.8	+5.3	+2.3	+0.6	+2.9
Difference from August IR (Announced)			(1.6)			(0.6)			+2.5			+0.3
Operating margin	13.5%	11.9%	12.7%	2.6%	1.7%	2.2%	(3.1%)	0.4%	(1.3%)	0.7%	2.5%	1.7%

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See page four. I will explain the key points of the H1 results by business segment.

In the aftermarket, demand declined in Japan as the recovery from the pandemic ran its course, but sales increased by JPY3.9 billion from the previous fiscal year and by JPY0.3 billion from the announced figure, partly due to the promotion of selling price improvement and the effect of foreign exchange rates.

Operating income, on the other hand, decreased by JPY1.1 billion from the previous year and by JPY1.6 billion from the previous announcement, owing to these factors: the loss incurred from the bankruptcy of our distributor in Q1; and an increase in fixed costs due to lower factory utilization rates resulting from decreased demand for industrial machinery, despite the improvement in selling prices.

Sales for industrial machinery decreased by JPY4.3 billion from the previous year and increased by JPY0.3 billion from the announcement due to decreased demand from major industries excluding rolling stock, such as construction machinery, agricultural machinery, and gearboxes.

Operating income decreased by JPY1.3 billion from the previous year and decreased by JPY0.6 billion from the announcement due to the decrease in scale, although the increase in steel and energy prices was compensated for by the improvement in selling prices.

Sales to the automotive industry increased by JPY38.3 billion from the previous year and JPY5 billion from the announcement, due to the progress in resolving the shortage of semiconductors, as well as the effect of foreign exchange rates. Operating income increased by JPY5.3 billion from the previous fiscal year and JPY2.5 billion from the announcement, due to the promotion of selling price improvement, reduction of fixed costs by decreasing ocean freight rates, and productivity improvement.

As for H1 of the year, we were unable to make up the Q1 loss and are still in the red, but the Q2 results were the first quarterly operating profit since Q4 of the fiscal year ended March 31, 2021.

3.Key Points of the Second Half and Full-year Forecast

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Full-year forecasts remain unchanged from the previous announcement

◆ It is difficult to forecast situations due to recovery from the U.S. auto strike, stagnation in the Chinese real estate market, and the impact of the situations in Ukraine and the Middle East as well as the continuous effects of global monetary tightening, exchange rates, inflation, etc.

	FY2022	FY2023			
(billion yen)	Full Year Results	1H Results	Full Year Forecast	Full Year (previous announcement)	Difference from Previpus Announcement
Net sales	774.0	409.6	825.0	825.0	0.0
Operating income	17.1	6.8	30.0	30.0	+0.0
Operating margin	2.2%	1.7%	3.6%	3.6%	0pt
Ordinary income	12.0	4.9	23.0	23.0	+0.0
Profit attributable to owners of parent	10.4	4.1	11.0	11.0	+0.0
Exchange rate (JPY) 1USD	135.5	140.8	137.9	135.5	+2.4
Exchange rate (JPY) 1EURO	140.9	153.3	151.7	149.8	+1.9
Inventories	239.4	256.1	230.0	230.0	0.0
Capital expenditure	22.3	10.5	28.0	28.0	0.0
Free cash flow	20.4	24.2	29.0	29.0	0.0

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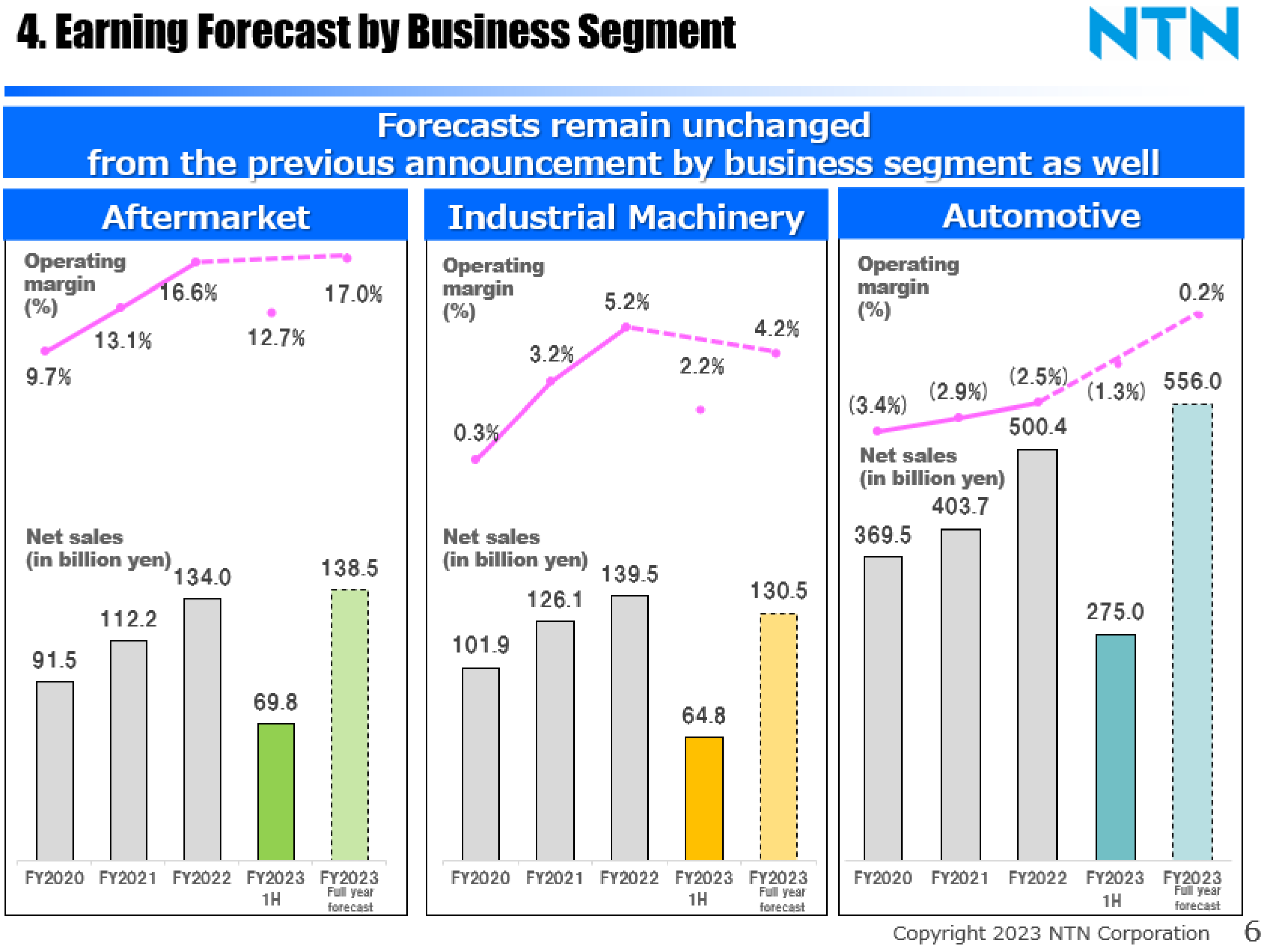
See page five. While the global economy continues to pick up, the situation in Ukraine, as well as the effects of rising energy prices and inflation, coupled with tightening global monetary conditions, remain uncertain.

Under these circumstances, and because of the current situation in the Middle East and the difficulty in foreseeing a recovery from the US auto strike, which has already ended, we maintain our full-year forecasts announced on August 2, 2023: net sales of JPY825 billion, operating income of JPY30 billion, ordinary income of JPY23 billion, and net income attributable to owners of the parent of JPY11 billion.



See page six.

As explained earlier, in light of the current business environment, we have left the previous forecasts for each business segment unchanged.

5.Issues and Measures in Aftermarket and Industrial Machinery Business

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Issues in 2H

- Aftermarket demand remains flat
- In Industrial Machinery Business, there is a risk that demand conditions in 1H continue or decline further

Sales overview by industry	FY22 2H / FY23 1H	FY23 1H / FY23 2H
Construction machinery	↘	↘
Gearbox	↘	↘
Agricultural machinery	↘	↗
Aerospace	↘	↗
Wind turbines	→	↘
Machine tools	↘	→
Railway rolling stock	↗	→

- As in 1H, **there is a risk of profit margin deterioration due to lower factory operating rates** as demand for industrial machinery declines

Measures for profit improvement

- **Continue improvements in selling prices** in line with inflation
- Accelerate **price increases and downsizing** of unprofitable businesses
- Allocate production capacity for industrial machinery to **shipments and inventory enhancement for aftermarket** in response to declining demand for industrial machinery

Completion ceremony of Wakayama Works (Oct.)

- Expand procurement from optimal locations
- **Prompt fixed cost reductions** in response to decreased sales volume

TOPICS

Sensor Integrated Rolling Bearing "Talking Bearing" receives Machinery Components of 'CHO' MONODZUKURI Innovative Parts and Components Award 2023

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See page seven. This page will discuss the challenges and countermeasures in the aftermarket and industrial machinery business.

Demand from the aftermarket is expected to remain flat overall, with a continued decline in Japan, but an increase in the Americas and Europe, especially in the high-margin automotive aftermarket.

On the other hand, demand for industrial machinery is weak.

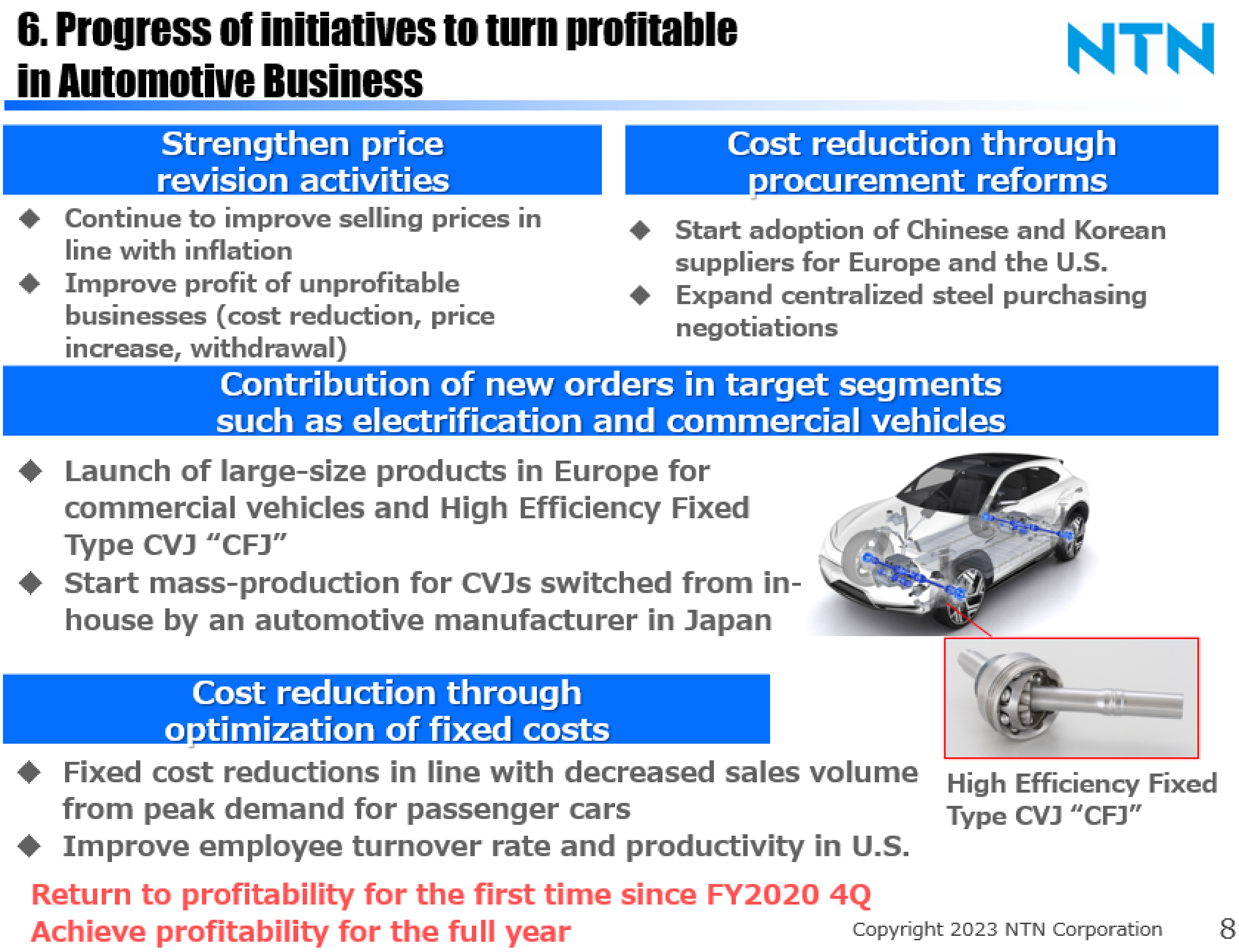
Demand is expected to decrease for construction machinery and wind power generation, where inventory adjustment continues mainly in the US, and for gearboxes for robots, due to the impact of reduced new investment in China. Demand in other industries is also expected to remain sluggish from the previous year, with the exception of rolling stock.

Under these demand conditions, we will implement the following measures to improve profits.

First, we will steadily implement our ongoing efforts to improve selling prices in line with inflation and other factors, as well as to raise prices and scale back unprofitable businesses.

Secondly, we will improve factory utilization rate, expand sales, and improve profits by redirecting production capacity due to decreased demand for industrial machinery to shipments to the aftermarket and to expand standing inventory. The Wakayama Works, our newest plant, has also begun operations and will contribute to strengthening our supply capacity for the aftermarket.

We will also expand procurement in optimal locations by developing and selecting new suppliers without sticking to traditional suppliers, and thoroughly control fixed costs in response to declining scale.



See page eight. As explained at the Q1 financial results meeting held in August this year, our primary mission in the automotive business is to return to profitability in the current fiscal year, and as initiatives to achieve this mission, we have raised the strengthening of price revision activities and the cost reduction through procurement reforms and improvement of MIX. I will explain the progress of each of these.

The first step is to strengthen price revision activities. Reflecting on last year's activities, negotiations are being escalated at an early stage to promote a reliable shift of inflationary costs to selling prices, and at this point, some of the results are being achieved ahead of schedule. We will continue to secure reasonable prices along with profit improvement in unprofitable businesses.

Next is cost reduction through procurement reforms. From H2 of this fiscal year, we will adopt pre-process products from Korean manufacturers in the US and expand centralized procurement negotiations for steel materials to reduce costs.

As for the improvement of MIX, new orders in the target segment will contribute to improved profits, including the start-up of CFJ, a high-efficiency fixed type constant velocity joint for which we had received an order for mass production, in Europe in H2, and the full-scale mass production of CVJ in-house switching products for a Japanese automobile manufacturer.

As for other activities, in the US, where the impact of inflation, including labor costs, has been significant, productivity has improved as a result of better employee retention and improved technical proficiency.

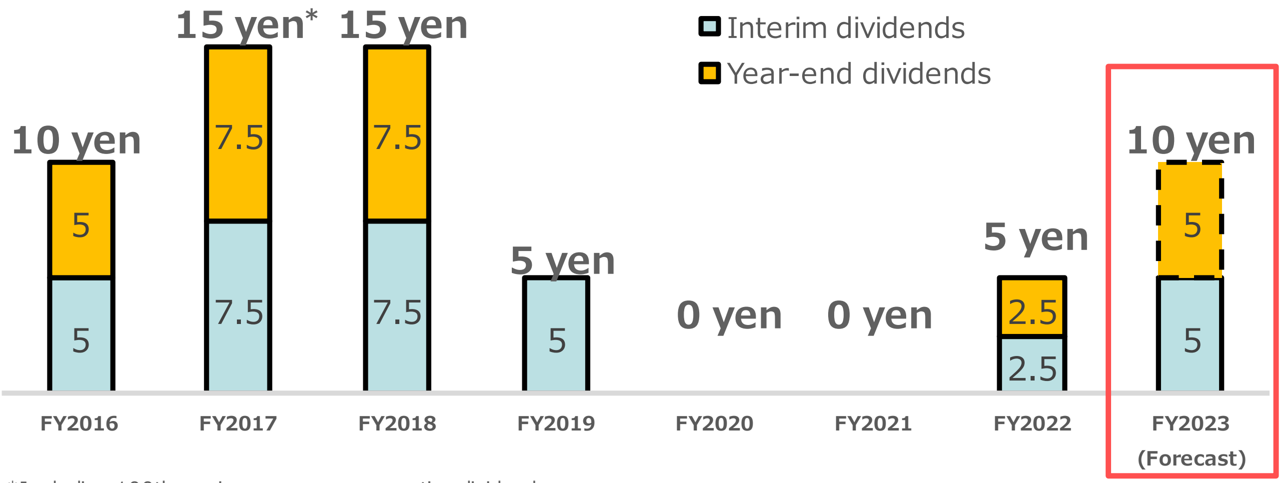
By steadily implementing and delivering results from these initiatives, we will achieve profitability for the full year.

7. Forecast of Shareholder Return

- Pay dividends in proportion to operating results while maintaining stable dividend payments from medium - to long-term perspective
- Stable dividend target: DOE 4%

Dividends in FY2023

- Dividends for FY2023 are expected to be 10 yen per share, unchanged from the forecast at the beginning of the year



*Including 100th anniversary commemorative dividends

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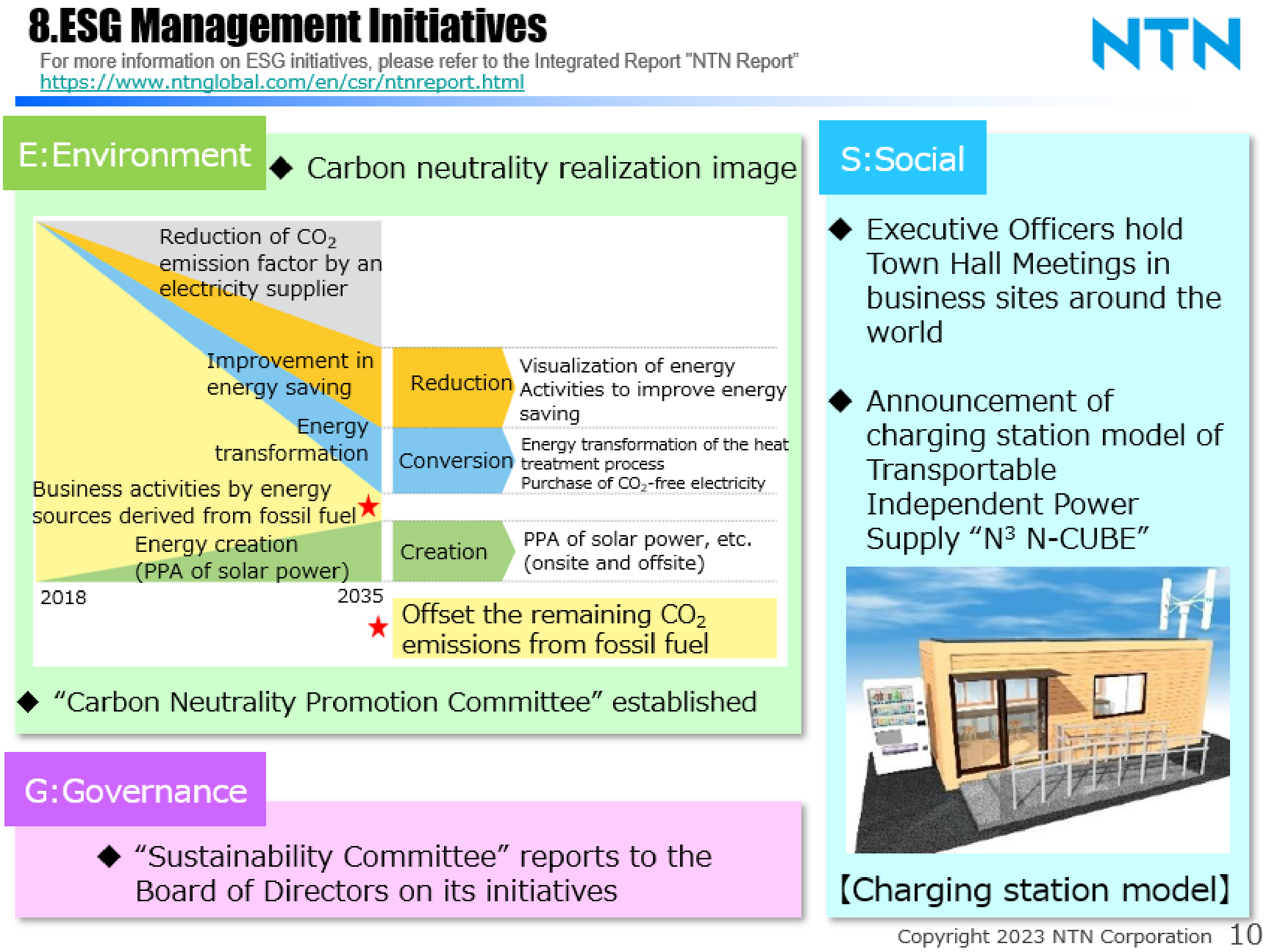
See page nine. I would like to explain the outlook for shareholder returns.

The Company's policy is to pay dividends in proportion to operating results while maintaining stable dividend payments from a medium- to long-term perspective.

In addition, we have set a target of 4% DOE for stable dividends.

For the current fiscal year, we plan to pay an annual dividend of JPY10 per share, unchanged from the forecast at the beginning of the year. We will steadily pursue earnings recovery toward our goal of 4% DOE, which is our target for stable dividends.



See page 10. We will explain our approach to ESG management.

With the aim of steadily promoting the action plan to achieve the carbon neutral goal, the Group is working to reduce CO2 emissions through activities such as energy visualization and energy conservation improvement, energy conversion of heat treatment facilities, purchase of CO2-free electricity, and use of natural energy generation.

In July, the Carbon Neutral Promotion Committee and regional subcommittees were established in each district, creating a global promotion system.

In addition, as an approach to disaster prevention and mitigation to reduce the impact of natural disasters on people's lives, we are developing the market for N^3 N-CUBE, which contains a small wind power generator, solar panels, and storage batteries in a container.

In addition to conventional charging of mobile devices, we have begun proposing new ways to use the stations as charging stations for personal mobility vehicles such as electric bicycles and electric kickboards, which provide mobility for sightseeing and in times of disaster.

We will hold a separate ESG presentation meeting in December, at which we will explain these ESG management initiatives in detail.

That is all from me.

Nagao: Thank you, President Ukai. Yamamoto, CFO, will then present the financial results for Q2 of the fiscal year ending March 31, 2024 and the outlook for the full fiscal year. CFO Yamamoto, thank you for your time.

1. Key Financial Indicators

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(billion yen)	FY2022 1H Results ①	FY2022 2H Results	FY2022 Full Year Results	FY2023 1H Results ②	FY2023 Full Year Forecast (Latest)	Year on Year ②-① Total	Year on Year ②-① Volume	Year on Year ②-① Forex	(Reference) FY2023 1H Forecast (Previous)	(Reference) FY2023 Full Year Forecast (Previous)
Net sales	371.7	402.3	774.0	409.6	825.0	37.9	19.9	18.1	404.0	825.0
Operating income / loss (-)	3.9	13.3	17.1	6.8	30.0	2.9	(2.2)	5.1	6.5	30.0
Operating margin	1.0%	3.3%	2.2%	1.7%	3.6%	0.6%			1.6%	3.6%
Ordinary income / loss (-)	3.6	8.5	12.0	4.9	23.0	1.3	(3.9)	5.2	4.5	23.0
Extraordinary income / loss (-)	-	(1.2)	(1.2)	(0.4)	(4.0)	(0.4)	(0.4)	(0.0)	0.0	(4.0)
Profit attributable to owners of parent / loss (-)	(1.6)	12.0	10.4	4.1	11.0	5.8	2.3	3.5	4.5	11.0
Inventories *	247.6	239.4	239.4	256.1	230.0	16.7	(0.2)	16.9	237.0	230.0
FCF	13.5	6.8	20.4	24.2	29.0	10.6	-	-	19.2	29.0
Exchange rate 1USD	¥133.9	¥137.0	¥135.5	¥140.8	¥137.9	¥6.9			¥136.1	¥135.5
Exchange rate 1EURO	¥138.7	¥143.1	¥140.9	¥153.3	¥151.7	¥14.6			¥149.7	¥149.8

* Increase/decrease from the end of Mar. 2023

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Yamamoto: My name is Yamamoto.

Now, please turn to page 13. Key indicators of consolidation.

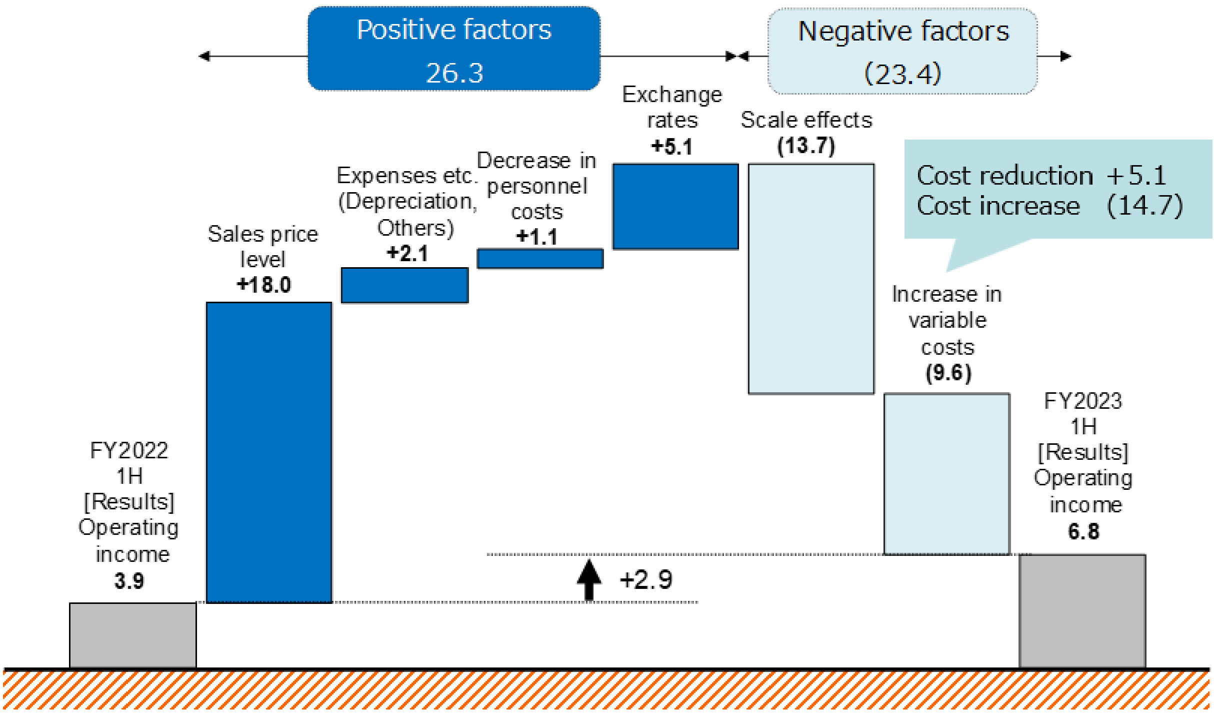
As Ukai mentioned earlier, the H1 results show net sales of JPY409.6 billion, operating income of JPY6.8 billion, ordinary income of JPY4.9 billion, and net income of JPY4.1 billion after posting an extraordinary loss of JPY0.4 billion.

Inventories totaled JPY256.1 billion, an increase from the previous year, but a decrease of JPY0.2 billion excluding foreign exchange factors. Free cash flow was JPY24.2 billion, which is very favorable progress against the full-year target of JPY29 billion.

Also, in the increase/decrease section, excluding foreign exchange, (2) minus (1), sales increased by JPY19.9 billion, but operating income decreased by JPY2.2 billion, and this information is explained on page 14.

2-1. Analysis of Operating Income (FY2022 1H Results vs FY2023 1H Results)

＊All figures in billion yen



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Please see page 14. This is an analysis of the change in operating income between H1 of the previous year and H1 of the current year.

First, on the right side are the factors that reduced profits. The scale of the project is listed here at JPY13.7 billion. On the other hand, the selling price level is plus JPY18 billion on the left side. I mentioned earlier that the increase in sales was JPY19.9 billion, so if we subtract the selling price level, sales based on physical volume increased by only JPY1.9 billion.

On the other hand, in the previous fiscal year, we had increased inventories and built up production considerably. Compared to the previous year, production has decreased significantly, and inventory valuation has fallen. The deterioration in the composition of the industry, with a drop in sales of industrial machinery aftermarket and an increase in automotive sales, is included in the minus JPY13.7 billion figure for scale and other items.

The variable cost was JPY9.6 billion, but the rise in cost was JPY14.7 billion, of which the energy cost has been calming down, but compared to H1 of the previous year, the rise in cost was about JPY10.4 billion. This is the breakdown of the variable cost of JPY9.6 billion.

In addition, expenses, in particular, increased by JPY2.1 billion due to a significant return of shipping costs, personnel expenses increased by JPY1.1 billion, and foreign exchange effects increased by JPY5.1 billion, resulting in a YoY increase of JPY2.9 billion.

2-2. Analysis of Operating Income (FY2023 1H Forecast [previous] vs FY2023 1H Results)

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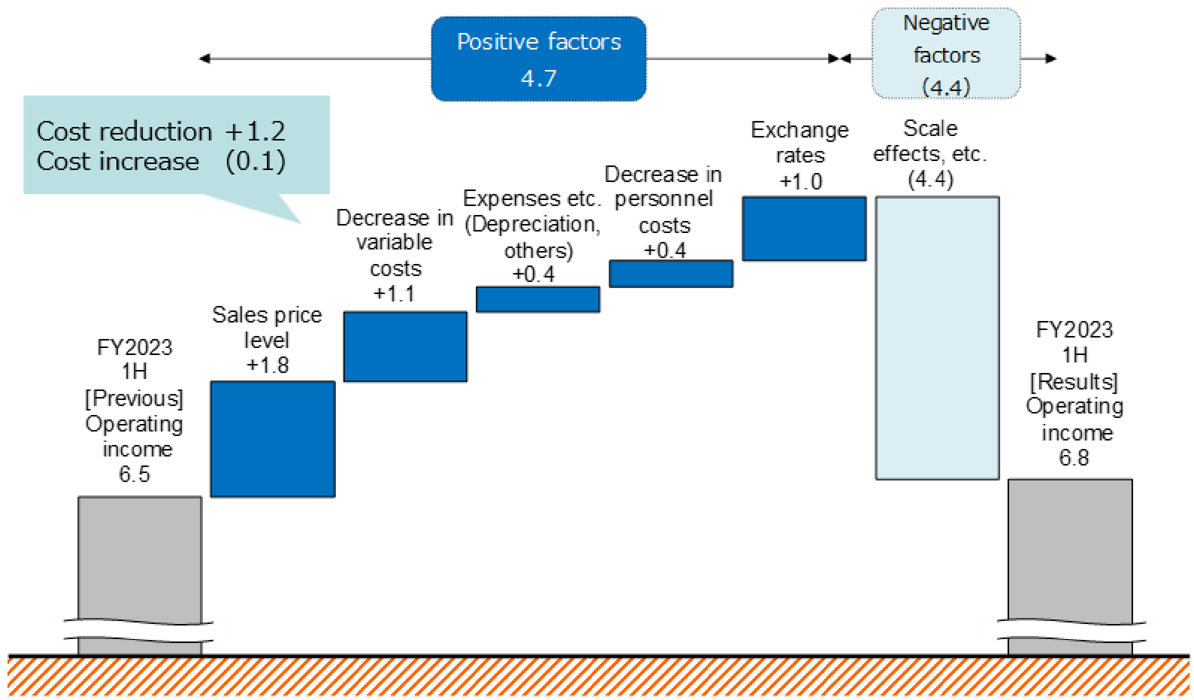
＊All figures in billion yen



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Next, page 15. This is the difference between the operating income of JPY6.5 billion announced in August for H1 of the fiscal year and the actual results of JPY6.8 billion.

On the right side, the scale and other factors are negative JPY4.4 billion, but the volume of goods sold excluding the selling price level decreased by less than JPY7 billion, so the scale and other factors are negative here due to the impact of that and inventory valuation.

On the left side, the sales price level is up JPY1.8 billion, of which JPY1.5 billion accounts for automotive business and JPY0.3 billion accounts for the aftermarket. In addition, the variable costs were a factor in an increase in profit of 1.1 billion yen as cost reduction was higher than originally forecasted, resulting in a JPY1.2 billion increase due to cost reductions and a JPY0.1 billion decrease due to soaring costs.

Also, control of expenses and personnel costs has been effective, resulting in an increase in profit of JPY0.4 billion each.

3. Net Sales by Region

(For reference)

(billion yen)	FY2022 1H Results ①	FY2022 2H Results	FY2022 Full Year Results	FY2023 1H Results ②	FY2023 Full Year Forecast (Latest)	Year on Year ②-① Total	Year on Year ②-① Volume	Year on Year ②-① Forex	FY2023 1H Forecast (Previous)	FY2023 Full Year Forecast (Previous)
Japan	95.5	106.1	201.6	**104.7**	**217.0**	**9.1**	**9.1**	**0.0**	**105.5**	**217.0**
Americas	118.6	127.7	246.2	**133.2**	**263.0**	**14.7**	**7.1**	**7.6**	**130.0**	**263.0**
Europe	72.0	83.2	155.2	**84.2**	**173.0**	**12.2**	**4.2**	**8.0**	**85.0**	**173.0**
Asia and others	85.6	85.3	170.9	**87.6**	**172.0**	**2.0**	**(0.5)**	**2.5**	**83.5**	**172.0**
Total	371.7	402.3	774.0	**409.6**	**825.0**	**37.9**	**19.9**	**18.1**	**404.0**	**825.0**

Please refer to page 16. This is the status of sales by region.

Since we have not changed the results for H1 and the forecast for the full year, we have not changed the sales by region or the forecast.

The key point here is the increase/decrease excluding foreign exchange rates, (2) minus (1), but of the JPY19.9 billion, JPY18 billion is due to the price increase, so there is only a JPY1.9 billion increase in terms of physical quantity. The breakdown of the volume by region is as follows: Japan added JPY1.9 billion in volume, the Americas added JPY2.2 billion, Europe was almost flat, and Asia and other regions were minus JPY2.1 billion. In Asia and others, the decline in the Chinese market has had a considerable impact.

4. Net Sales and Operating Income by Business Segment

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<Net Sales by Business Segment>

(billion yen)	FY2022 1H Results ①	FY2022 2H Results	FY2022 Full Year Results	FY2023 1H Results ②	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 1H Forecast (Previous)	(For reference) FY2023 Full Year Forecast (Previous)
Aftermarket	65.9	68.1	134.0	69.8	138.5	3.9	0.2	3.7	69.5	138.5
Industrial machinery	69.1	70.4	139.5	64.8	130.5	(4.3)	(6.8)	2.6	64.5	130.5
Automotive	236.7	263.7	500.4	275.0	556.0	38.3	26.5	11.8	270.0	556.0
Total	371.7	402.3	774.0	409.6	825.0	37.9	19.9	18.1	404.0	825.0

<Operating Income by Business Segment>

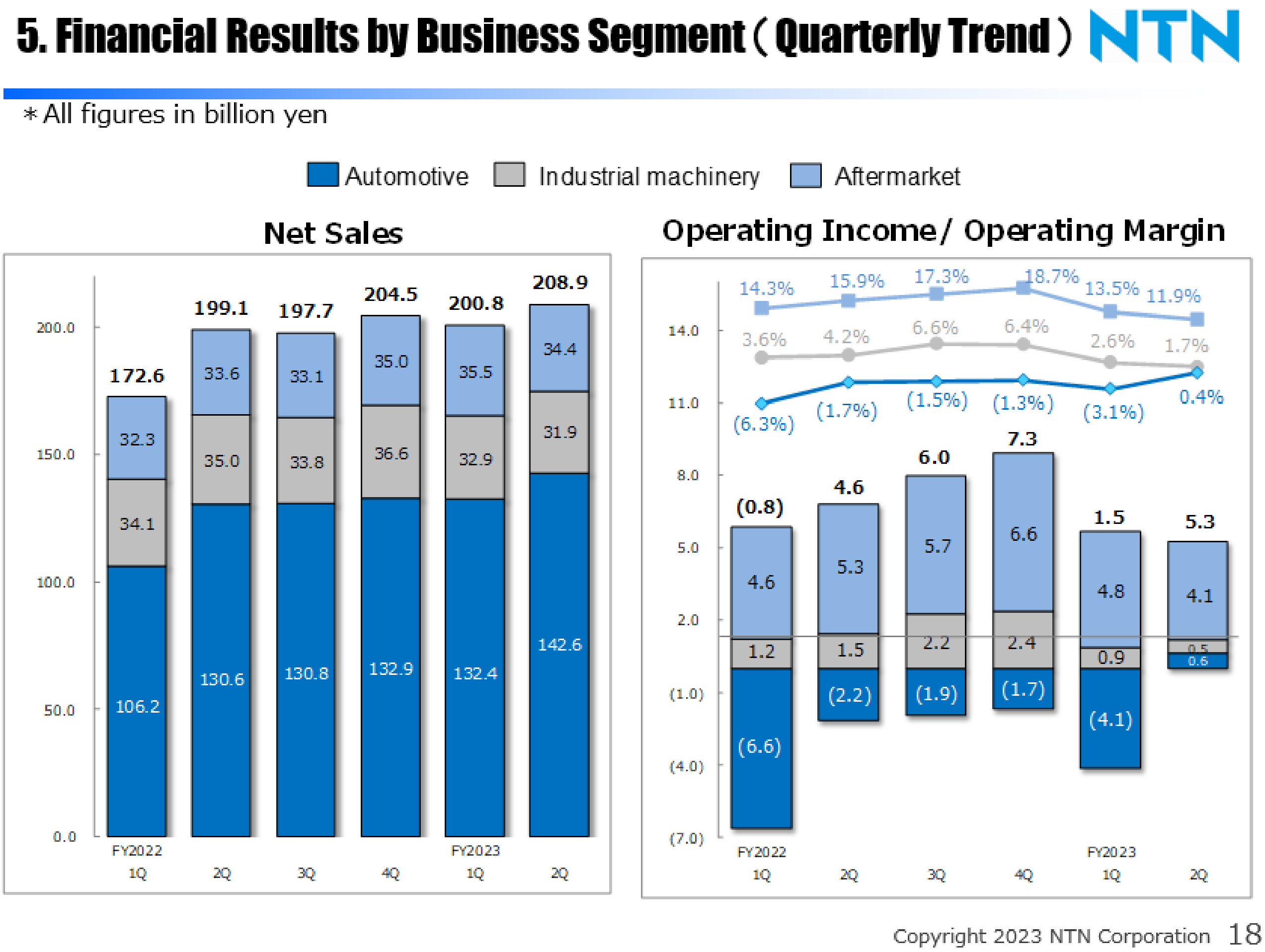
(billion yen)	FY2022 1H Results ①	FY2022 2H Results	FY2022 Full Year Results	FY2023 1H Results ②	FY2023 Full Year Forecast (Latest)	Year on Year ②-①	(For reference) FY2023 1H Forecast (Previous)	(For reference) FY2023 Full Year Forecast (Previous)
Aftermarket	10.0	12.3	22.3	8.9	23.5	(1.1)	10.5	23.5
Industrial machinery	2.7	4.6	7.3	1.4	5.5	(1.3)	2.0	5.5
Automotive	(8.8)	(3.6)	(12.4)	(3.5)	1.0	5.3	(6.0)	1.0
Total	3.9	13.3	17.1	6.8	30.0	2.9	6.5	30.0

Next, please turn to page 17. This is the situation by business segment.

The upper row shows net sales and the lower row shows operating income. The key point here is that the excluding exchange rate for the same period last year, (2) minus (1), as I mentioned earlier, this JPY19.9 billion includes JPY18 billion in price increase, so I will exclude those figures.

Excluding price increases, the aftermarket will be minus JPY2.8 billion, industrial machinery minus JPY9.7 billion, and automobiles plus JPY14.4 billion.

Due in part to the impact of this reduction in scale, operating income in the bottom row shows a YoY decrease of JPY1.1 billion in the aftermarket, a decrease of JPY1.3 billion in industrial machinery, and an increase of JPY5.3 billion in automotive business, for a total increase of JPY2.9 billion, which is the breakdown by business segment.

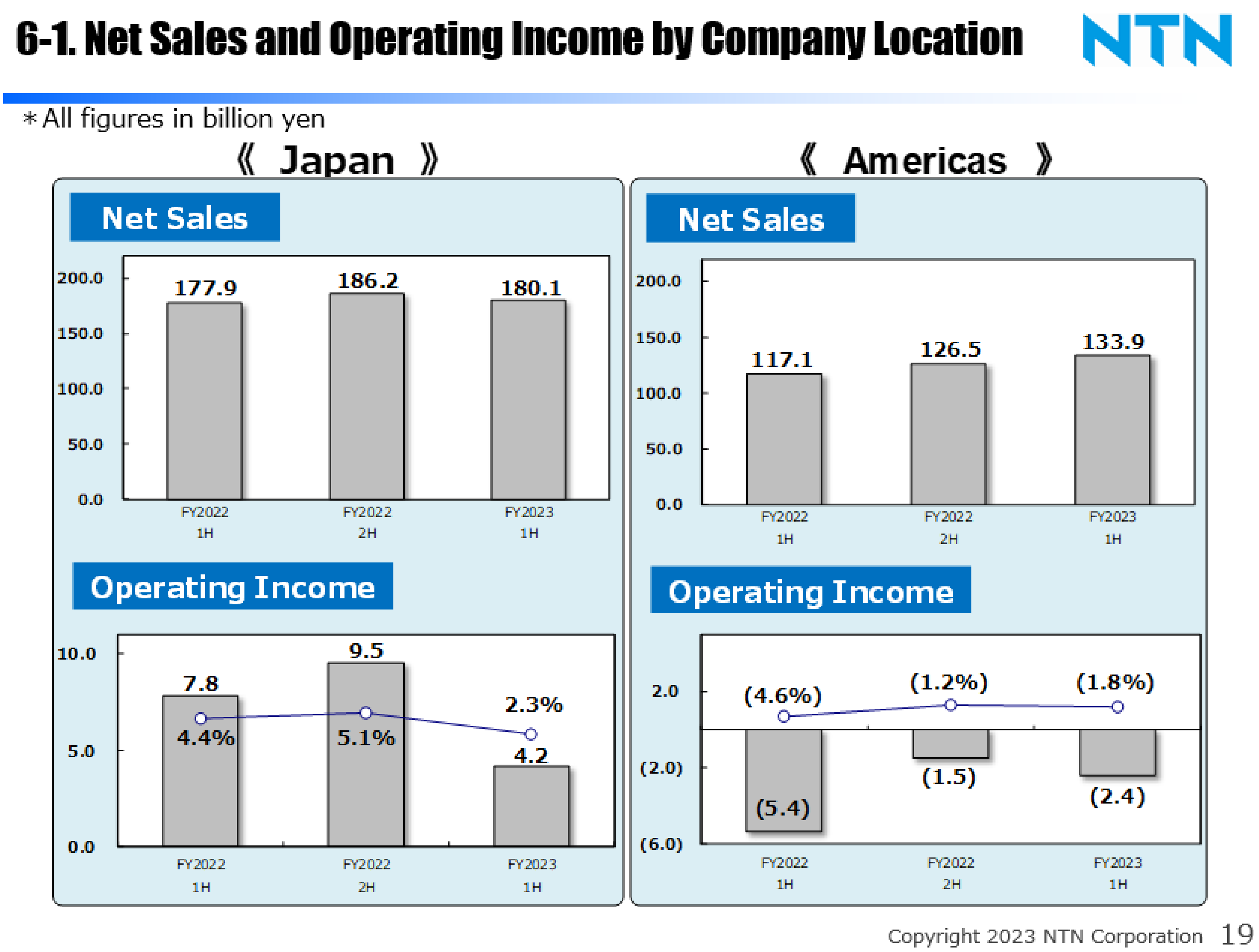


Please continue to page 18. As I mentioned, here are the quarterly changes by business segment.

The bar graph on the left shows net sales, the bar graph on the right shows operating income amount, and the line graph shows operating margin.

Comparing Q1 and Q2, aftermarket profit decreased by JPY0.7 billion from JPY4.8 billion to JPY4.1 billion, mainly due to a decrease in scale. In the industrial machinery business, the decrease from JPY0.9 billion to JPY0.5 billion was also due largely to a reduction in the scale of operations.

Conversely, for automotive business, the figure was JPY4.7 billion, up from minus JPY4.1 billion to plus JPY0.6 billion. This is a price pass-on measure. In particular, in Japan, we will pass on a large portion of the costs to selling price in September, which will have an impact, and we have also reduced fixed costs, resulting in a JPY4.7 billion increase in profit over the previous quarter.

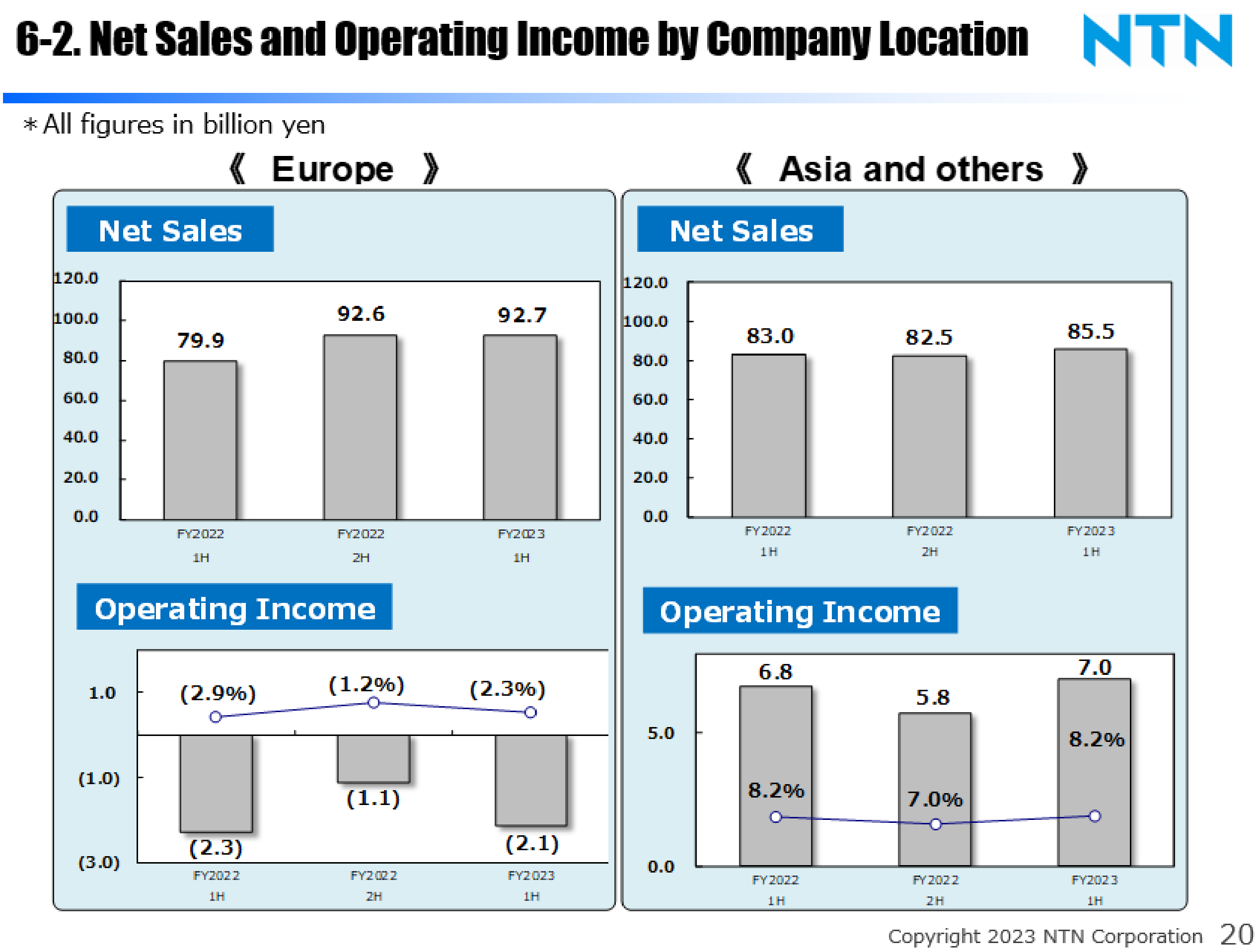


Please see page 19. This is the situation by company location.

The upper row is a bar graph of net sales, and the lower row is a bar graph of operating income amount and a line graph of operating margin.

First of all, in Japan, there was a JPY5.3 billion decrease in profit due to the impact of the scale of the business from H2 of the previous fiscal year to H1 of the current fiscal year. As a result, the operating margin also decreased from 5.1% to 2.3%.

In the Americas, although there was an improvement from the same period of the previous year, there was a slight decrease when comparing H2 of the previous fiscal year with H1 of the current fiscal year. However, in August and September, on a monthly basis, we achieved profitability.

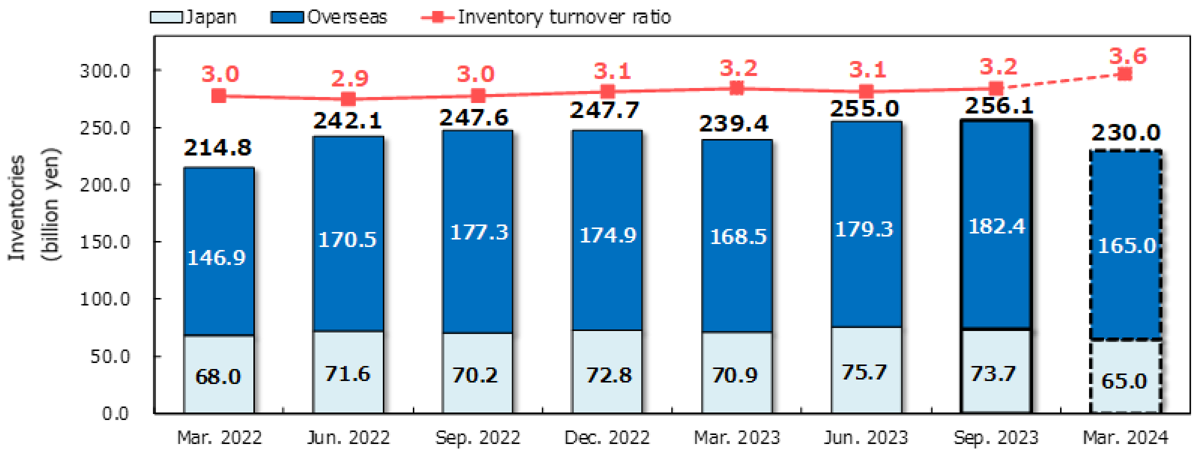


Please continue to page 20. The same graph is for Europe, Asia, and others.

In Europe, both the amount and rate of operating income deteriorated from H2 of the previous fiscal year. Since Europe has a long summer vacation, fixed costs, etc. have been reduced, but there is inevitably a decrease in the volume of goods. On a monthly basis, Europe also returned to profitability in September.

Profitability of ASEAN has been very stable, and both the amount of profit and profit margin have improved compared to H2 of the previous fiscal year.

7. Inventories

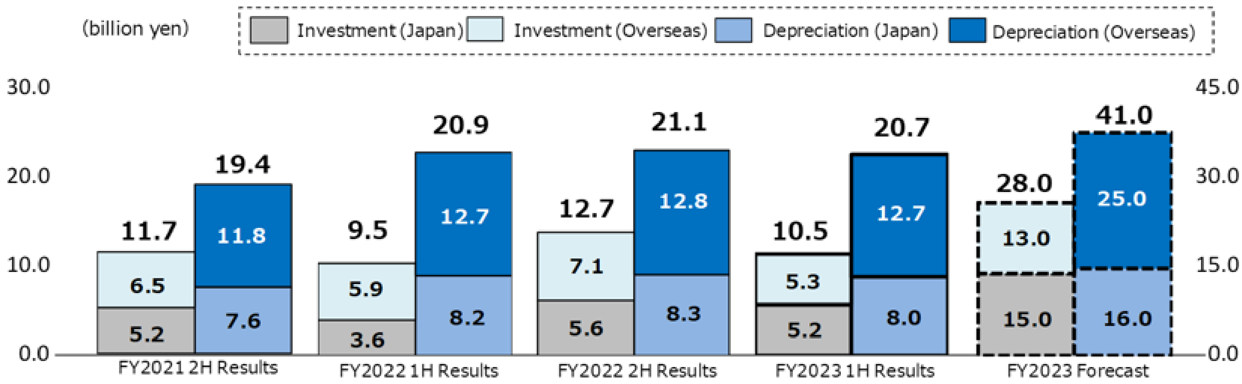


(billion yen)	Mar. 2022 Results	Jun. 2022 Results	Sep. 2022 Results	Dec. 2022 Results	Mar. 2023 Results	Jun. 2023 Results	Sep. 2023 Results	Mar. 2024 Forecast
Inventories	214.8	242.1	247.6	247.7	239.4	255.0	256.1	230.0
[Overseas]	146.9	170.5	177.3	174.9	168.5	179.3	182.4	165.0
[Japan]	68.0	71.6	70.2	72.8	70.9	75.7	73.7	65.0
Inventory turnover ratio	3.0	2.9	3.0	3.1	3.2	3.1	3.2	3.6

Please continue to page 21. Inventories.

September 2023 was JPY256.1 billion with a turnover of 3.2. As I mentioned earlier, the figure is up JPY16.7 billion from the end of March, but the foreign exchange impact is JPY16.9 billion, and the volume is down JPY0.2 billion, almost unchanged.

The forecast and target figures for March 2024 remain unchanged, which is JPY230 billion. Due to the impact of foreign exchange rates, the actual inventory volume is JPY10.7 billion, and if this amount is reduced, the total inventory volume will reach JPY230 billion. In particular, we plan to reduce materials, parts, and work in process.



(billion yen)	FY2021 2H Results	FY2022 1H Results①	FY2022 2H Results	FY2023 1H Results②	②-①	FY2023 Forecast
Capital expenditure	11.7	9.5	12.7	10.5 *	**1.0**	**28.0**
[Overseas]	6.5	5.9	7.1	5.3	**(0.6)**	**13.0**
[Japan]	5.2	3.6	5.6	5.2	**1.6**	**15.0**

*In addition, capital expenditure for intangible fixed assets (FY2023 1H Results : ¥1.3 billion, FY2023 Full Year Foreacst : ¥5.0 billion)

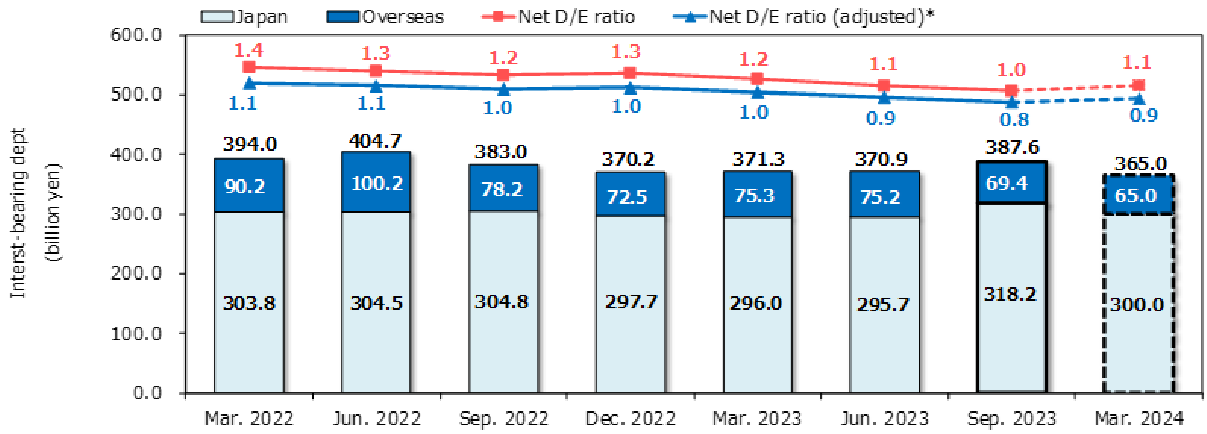
(billion yen)	FY2021 2H Results	FY2022 1H Results①	FY2022 2H Results	FY2023 1H Results②	②-①	FY2023 Forecast
Depreciation	19.4	20.9	21.1	20.7	**(0.2)**	**41.0**
[Overseas]	11.8	12.7	12.8	12.7	**(0.1)**	**25.0**
[Japan]	7.6	8.2	8.3	8.0	**(0.2)**	**16.0**

 22

Moving on to page 22, this is the status of capital expenditures a nd depreciation.

This is the fourth bar from the right in the bar graph. This represents a capital investment of JPY10.5 billion for H1 of the current fiscal year. The forecast for the full year is JPY28 billion, so we are almost on plan. Also, depreciation was JPY20.7 billion in H1 and is projected to be JPY41 billion for the full year, so it is also roughly on plan here.

9. Interest-Bearing Debt



(billion yen)	Mar. 2022 Results	Jun. 2022 Results	Sep. 2022 Results	Dec. 2022 Results	Mar. 2023 Results	Jun. 2023 Results	Sep. 2023 Results	Mar. 2024 Forecast
Interest-bearing debt	394.0	404.7	383.0	370.2	371.3	370.9	387.6	365.0
[Overseas]	90.2	100.2	78.2	72.5	75.3	75.2	69.4	65.0
[Japan]	303.8	304.5	304.8	297.7	296.0	295.7	318.2	300.0
Net Interest-bearing debt	272.6	278.6	268.8	265.0	260.6	253.7	243.4	243.0

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

 23

Please continue to page 23. This is the status of interest-bearing debt.

In September 2023, the amount of interest-bearing debt increased to JPY387.6 billion, partly due to the issuance of JPY22.1 billion of convertible bonds.

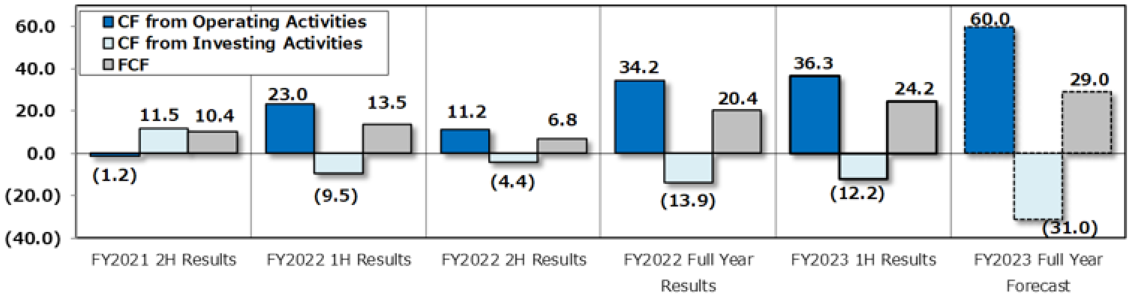
On the other hand, net interest-bearing debt was JPY243.4 billion, which is very close to the March 2024 target.

The net D/E ratio was 1, as shown in the line graph above, and then 0.8 after adjusting subordinated bonds.

10. Cash Flows

NTN

(billion yen)	FY2021 2H Results	FY2022 1H Results①	FY2022 2H Results	FY2022 Full Year Results	FY2023 1H Results②	②-①	FY2023 Ful Year Forecast
Ⅰ. Cash flow from operating activities	(1.2)	23.0	11.2	34.2	36.3	13.3	60.0
Ⅱ. Cash flow from investing activities	11.5	(9.5)	(4.4)	(13.9)	(12.2)	(2.7)	(31.0)
Ⅰ+Ⅱ. Free cash flow	10.4	13.5	6.8	20.4	24.2	10.6	29.0
Ⅲ. Cash flow from financing activities	(18.5)	(25.0)	(8.3)	(33.3)	4.2	29.2	(17.0)
Ⅳ. Effect of exchanging rate translatio on cash and cash equivalents	4.1	4.1	(2.0)	2.1	5.0	0.9	(2.7)
Ⅴ. Net increase in cash and cash equivalents	(4.0)	(7.3)	(3.5)	(10.8)	33.3	40.7	9.3



 24

Next, page 24. This is the status of cash flows.

For the 1H of fiscal year ending March 31, 2024, operating cash flow is JPY36.3 billion, investing cash flow is negative JPY12.2 billion, and free cash flow is JPY24.2 billion.

Compared to the forecast figures for the fiscal year ending March 31, 2024, which are shown on the far right, we are making almost better progress than plan.

11. Issuance of Zero Coupon Convertible Bonds due 2025

NTN

Ⅰ. Purpose and Use of Proceeds

To increase corporate value while flexibly responding to changes in the business environment
- It is essential to **"invest for sustainable growth"** through selection and concentration and to **"build a strong financial position"**
- Decided to issue the Bonds, taking into consideration the market environment, the impact on existing shareholders, and financing costs, etc.

Investments on growth industries **Approx. ¥10 billion**	Investments on productivity enhancement and strategic production reorganisation **Approx. ¥10 billion**	Cash reserve to be used in response to a carbon neutral society **Approx. ¥2 billion**

Ⅱ. Overview

1. Payment Date	September 22, 2023 (GMT)
2. Maturity Date	December 19, 2025
3. Issue Amount	JPY 22.0 billion
4. Coupon	0.00%
5. Initial Conversion Price	JPY 339.5 (Conversion Premium 11.97%)
6. Rider Clauses	①Soft Call Option
	②Net Cash Settlement (Acquisition at the Option of the company)
7. Potential Dilution	12.2% (total number of dilutive shares / total number of issued shares《excluding treasury stock》)

*as of August 31, 2023

 25

Lastly, please turn to page 25. The following is a summary of the convertible bonds issued in September.

We must make investments for sustainable growth and build a strong financial structure. Particularly with regard to financial strength, our equity ratio was 26.8% at the end of this past September. On the other hand, our competitors in the same industry, are about 20 points better than NTN. While strengthening our financial position, we issued CBs to further invest in growth areas, to improve productivity, to invest in strategic production restructuring, and to fund carbon-neutral society.

As noted in the summary section, the conversion price is very high, approximately 12% higher than the closing price on September 6. Therefore, the issue is based on the concept of keeping the dilution portion as low as possible.

That is all for my explanation.

Nagao: Thank you very much, CFO Yamamoto.

Question & Answer

Nagao [M]: Okay, we will now move on to the question-and-answer session.

Now, Mr. Sasaki of Mitsubishi UFJ Morgan Stanley Securities, please state your question.

Sasaki [Q]: My name is Sasaki from Mitsubishi UFJ. Best regards. Please tell me three brief points.

The first is, what are your thoughts and feelings about the automotive business? As you explained, we are pleased that you were able to raise prices relative to your expectations and that you were able to turn a profit in Q2 as a result of productivity improvements. What I would like to ask is how much of the JPY0.5 billion surplus in Q2 was your company's ability, including transitory factors and others? On top of that, you originally said that you would do whatever it takes to achieve profitability in H2 of the year through the various projects and other things mentioned on page eight.

Please tell us about your company's response to the turnaround in H2 of this fiscal year, or rather, how confident or responsive you are in your efforts. Best regards.

Miyazawa [A]: My name is Miyazawa and I am in charge of the automotive business. I would like to provide an answer to your current question. We have achieved this in Q2 and have returned to profitability, making a profit of about JPY0.6 billion. As I explained earlier, one of the major results is that we were able to include the advance payment of price revisions. In addition, our internal efforts to reduce fixed and variable costs are progressing as planned, and these results were achieved.

Regarding H2 of the fiscal year, of course there will be a decrease in the volume of goods in China in H2 of the fiscal year, and the UAW strike is on track to be settled to a certain degree. Although there is a risk that we will not be able to see a scenario for recovery from the damage caused by these factors, we are beginning to see a certain degree of prospect for price revisions. We believe that there is a certain degree of certainty that the Company will return to profitability for the full year, including H2 of the fiscal year. This will be our response.

Sasaki [Q]: What do you think? Although your company may not be able to give details, from your company's point of view, compared to, say, three or six months ago, is it correct to think that there has been a sense of improvement?

Miyazawa [A]: I, Miyazawa, will answer. One is price revision, but of course there are other parties involved in price revision, and to be honest, there are variations by region and by customer.

In that sense, as Ukai mentioned earlier, we are now proceeding with the escalation of negotiations at an early stage to reach a certain settlement. In the area of fixed costs and costs, in the case of North America, we have been promoting products made in the US by increasing the local procurement rate in North America. This is a big challenge, but we are trying to lower costs by promoting the supply of parts and materials from outside the US. We are already seeing a certain amount of execution in November or December in this area. We believe that unless there are very unexpected circumstances, we will be able to make a positive transition for sure. That is all.

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

Second question. I guess this is a question for CFO Yamamoto, but what are your thoughts on inventory? To be honest, I think your company has had some challenges with inventory management in the past, at the risk of sounding a bit rude. On the other hand, looking at the current financial results, while customers are adjusting their inventories, especially in the industrial machinery and aftermarket business, your company has been able to reduce its own inventories, and I think it is wonderful that free cash flow, as well as operating income, have been solidly generated.

With respect to that, what is the background behind the firm's ability to manage inventory and generate free cash flow compared to the past? On that basis, I would very much like to know Mr. Yamamoto's opinion on how working capital and other aspects of inventory management should be considered for H2 of the year ahead. Best regards.

Yamamoto [A]: This is Yamamoto and I will answer. As for the inventory in September, production reform activities have been progressing quite well in Japan, and I think we have been able to control the situation there. However, there is still some differencees by region. In Europe, we have been unable to absorb fluctuations in customer demand, and the current situation is that materials and work in process have fluctuated considerably.

In H2 of the year, the scale will increase in Europe as well, and we will make firm reductions in materials and work in process. On the other hand, we will have excess production capacity for industrial machinery, which we intend to control by firmly expanding inventories for aftermarket. I hope this answers your question.

Sasaki [Q]: What exactly is happening in terms of the progress in production reform activities in Japan that you mentioned at the beginning? I know that reforming production there has been an issue in the past, so could you please tell us what changes you would like to see?

Ukai [A]: Ukai will answer your question. In a nutshell, we are trying to strengthen cash flow management. We are working to reduce inventories between process and work-in-process inventories in the entire value chain, from purchases and material suppliers to the final customer.

First, we started with production, and now we are working on reducing the amount of materials in the supply chain, including those in the pre-process and those in the distribution process. We have been working on this for two to three years now, and although it is still a work in progress, we are gradually beginning to see results.

We have been trying for many years to reduce work-in-process inventories while controlling inventories as a whole and, at the same time, firmly shifting our portfolio to the expansion of our aftermarket business, which is our goal, but we have not been able to achieve this. We are further enhancing our inventory of finished goods, which is used for necessary aftermarket, and while we will control the total inventory, we are proceeding with a policy of reducing work in process, but maintaining the necessary finished goods. Does that answer your question?

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

Finally, on the third point, in light of what you have just said, I would very much like to ask President Ukai. As Mr. Miyazawa mentioned earlier, the results for Q2 of this fiscal year show that while automotive business did fairly well, the external environment was difficult for aftermarket and industrial machinery, and the results were a bit harsh. However, from what you have said, it seems to me that the results of individual management reforms, such as thorough inventory control as you mentioned, the ability to raise prices ahead of schedule, and productivity improvements in the US, can be seen in the financial results.

So, I would like to ask President Ukai, putting aside the external environment, from the perspective of NTN's restructuring, from the top management's viewpoint, what kind of response do you see in terms of the company's structure and profit improvement? If you have any ideas on how to improve this in the future, please let us know. Best regards.

Ukai [A]: Yes, I understand. First, aftermarket is experiencing a drop in sales in Japan. However, overseas sales have not declined significantly. On the other hand, price increase activities are steadily progressing in terms of correcting prices to be fair to the market. It is not that the brand value of the aftermarket business is declining; 70% of the aftermarket business is bearings used for industrial machinery aftermarket.

Demand for industrial machinery OEMs has dropped in each region, including Japan, the Americas, Europe, and China. The utilization rate of factories that make products for OEM industrial machinery has dropped. This has increased manufacturing costs, so the balance of these costs has resulted in a slightly negative profit margin. Conversely, we do not expect to see a recovery in industrial machinery OEMs until March and again in H2 of this fiscal year.

As I mentioned earlier, I believe that this is a great opportunity for us to shift our portfolio to the aftermarket business, which we have not been able to achieve smoothly so far, by allocating this excess production capacity to expand the necessary inventory for the aftermarket business.

The next medium-term management plan will start in April next year. In the next mid-term plan, we will shift our focus even more toward aftermarket business, and we are planning to make various changes, including organizational changes. We see this as a great opportunity for a period of preparation for this.

And the other is the automotive business. The shortage of semiconductors is gone, and the strike happened in the Big Three will have various effects throughout November, but after December, the market is waiting for cars, so the companies will start increasing production. How far we manufacturers will be able to keep up with this is another question. We are firmly on track to increase production for automotive business in the remaining four months of the year. In addition, the cost structure and selling prices have become more appropriate, so our profit structure is improving a little.

We would like to speed up this process even further, and by March of next year, we would like to move forward with such enthusiasm that automotive business will conversely help industrial machinery. Although H2 of the year will be difficult, we believe that we can use this period to create various strengths for our business plan for the next mid-term. That is all.

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

Nagao [M]: Thank you very much, Mr. Sasaki. Mr. Isayama of Goldman Sachs Securities, please continue with your question.

Isayama [Q]: This is Isayama from Goldman Sachs. Let me ask you three points as well.

First point, a simple question. I want to ask for an analysis of the increase/decrease in your H1 results on page 14. As is customary, could you please give us the figures broken down by business?

Nagao [M]: Okay, the secretariat will answer that one.

Kouge [A]: This is Kouge from the secretariat. I will give you a breakdown by business segment on page 14, regarding the change in operating income compared to the same period last year.

The first is the aftermarket business. JPY1.1 billion minus compared to the previous year, of which scale effect is minus JPY3.8 billion, foreign exchange is plus JPY1.3 billion, selling price level is plus JPY3 billion, variable cost is minus JPY1.5 billion, and fixed cost is minus JPY0.2 billion.

Next is the industrial machinery business. The breakdown is a negative JPY1.3 billion compared to the previous year, of which the scale effect is minus JPY4.3 billion, foreign exchange is plus JPY1.2 billion, selling price level is plus JPY2.9 billion, variable cost is minus JPY1.7 billion, and fixed cost is plus JPY0.8 billion, of which personnel cost is JPY0.4 billion.

Regarding the aftermarket business mentioned earlier, of the negative JPY0.2 billion, JPY0.1 billion is for personnel expenses.

Continuing on, we have the automotive business. This is an increase of JPY5.3 billion over the previous year. The breakdown is as follows: scale effect minus JPY5.6 billion, foreign exchange plus JPY2.6 billion, selling price level plus JPY12.1 billion, variable cost minus JPY6.4 billion, and fixed cost plus JPY2.6 billion, of which JPY0.8 billion is personnel cost. That is all.

Isayama [Q]: Thank you very much. I would like to confirm the figures, but the forecast for H2 of the year is not written in the entirety and has not been disclosed by you, but as for the business, you have dropped the industrial machinery and aftermarket to a certain extent. Since President Ukai mentioned earlier that the automotive business will help them, is this where you are increasing the amount than before?

Ukai [A]: One reason is that we would like to replenish inventory for the aftermarket using production capacity for industrial machinery and OEMs , while production for automotive business will probably continue to be at full capacity. This production is global and is expected to continue through December and beyond. Therefore, as Miyazawa mentioned earlier, in order to respond to these changes, we are making changes to each material purchase in the variable cost section, which will come into effect H2 of the fiscal year.

We will also start mass production of new products, and we will also start alternative production of constant velocity joints for a domestic automobile manufacturer's in-house production. The mix will also change a little. We believe that the volume will increase while the profit structure will also improve, and that automotive business will be even more expected in H2 of the year than we have planned.

Isayama [Q]: Okay. Thank you very much.

Based on your current comments, here is the second question. I want to ask President Ukai on this as well. The slide you have just released on the industrial machinery and aftermarket segments shows that orders for H1 of the fiscal year were JPY1.4 billion, but the H2 plan of JPY4 billion for industrial machinery seems a little too large target in the current situation where orders from customers, including construction machinery, are decreasing. I think you can say that you were indeed strong last year with a little less than JPY13 billion when you produced JPY14 billion on a half-year basis. However, I think it is quite a challenging figure, even in light of what you said about wanting to increase the composition of aftermarket sales. Can you get closer to this figure by increasing the weight of aftermarket sales as you mentioned?

When I looked at the figures frankly, my impression was that the downward swing would be too severe to be covered by the automotive portion. Is the effect of increasing profits by increasing the aftermarket weighting that large of an expectation? Sorry, I'm afraid I'm asking in a rather vague way.

Ukai [A]: Okay. Harima, who is in charge of industrial machinery and the aftermarket, is also present today, so I would like to begin with his response as the executive officer in charge.

Harima [A]: My name is Harima. First of all, in the H2 forecast, we mentioned a little at the beginning about the external environment, and I believe it is true that the Chinese market has been affected by the decline and other factors more than we had imagined. In particular, we expect a large drop in reduction gears for robots and machine tools. I think it is a natural question to ask how much can be covered in the aftermarket sales.

However, we expect to increase inventories for the next fiscal year and beyond, and in the case of business categories such as machine tools, which are subject to extreme ups and downs, we would like to focus on creating appropriate inventories so that we will have the right amount of inventory the next time we have to climb a mountain, based on our past reflections. To the extent that this will contribute to profits in H2 of the year, we will have to take measures in other areas for profits in H2 of the year.

We have been actively promoting the transfer of inflation costs to selling prices since about a year ago, but there are still some areas where inflation costs have risen with some delay and we have to transfer this as well. Then the other thing is that I don't think we can make profits in H2 of the year unless we raise the prices of businesses that are unprofitable or accelerate downsizing. We have already done our utmost to reduce fixed costs, including personnel costs, and expenses, and we hope to minimize the bleeding in these areas. That is all.

Isayama [Q]: Thank you very much.

Finally, the third part. As for the industrial machinery aftermarket, I expect the results of the measures mentioned by Mr. Harima, but as President Ukai mentioned, it is a part of how much will be covered by the automotive business. I would like to talk about the part from now on after turning profitable. For your part, Mr. Miyazawa, you mentioned that the selling price is ahead of schedule, but what measures, other than foreign exchange, do you have in mind to make the Company more profitable with respect to the current published plan?

Rather than the quantity of goods, I am wondering if there is anything that can be expected to improve profitability in H2 of the year, such as the possibility of positive effects in certain regions, further progress in selling price negotiations, or some other positive factor specific to your company other than foreign exchange rates. What can we expect in terms of plan overachievement? Please tell us about your automotive business.

Miyazawa [A]: This is Miyazawa and I would like to give a few answers. One is in the area of selling prices, but there is quite a bit left to accumulate for FY2022, not the current fiscal year. We are also negotiating intensively with European manufacturers, in particular, on the remaining balance. Although not incorporated in the plan, we are currently in the midst of strong negotiations with European manufacturers on selling prices, including the remaining balance, although it is going through a difficult negotiation. One of the first things we are thinking is that if we can successfully reap the results of these efforts, we may be able to get more than the selling price we are currently planning.

Secondly, as Ukai mentioned earlier, we have a new project coming up in H2 of the fiscal year, which we had originally planned. This is a change in MIX, or rather, the start of mass production in H2 of the year for relatively profitable items, although the profit margin is not that high for the automotive business as a whole. We are factoring in a certain amount of that. We are now looking at that contribution in a very conservative way, but one thing is that there is room for that.

We are also working on a plan to rationalize our internal fixed costs, especially our technical staff, of which we have a considerable number. We believe that is also an upside factor.

And also, as I mentioned earlier, changes in the supply chain within the US. We have been receiving supplies of inexpensive products from outside the US, whereas in the past, the supply was completed within the US. In addition, production in the US is currently quite tight, so we are responding to this situation with support production from Japan or China. Fortunately, the yen is very weak at the moment, so the more we send in from Japan, the more it will have a positive effect. The idea is to achieve the planned profit while having several plans in that area as well. That is all.

Isayama [Q]: Thank you very much. I don't want to talk too much about how much each of these would be, but if you put them all together, would it be in the low billions of yen, or would you say that you are taking a margin of at least JPY5 billion? You may not want to say too much because it may lead to a discussion later on about what you could or could not do, but can you give us a hint?

Ukai [A]: Yes. For example, in the previous announcement, we had planned a minus JPY1.9 billion for Q2, but this quarter we had the effect of foreign exchange and we also brought forward the price increase, so we finally landed at JPY0.6 billion, which is about JPY2.5 billion more than planned. Is this a hint for you, Mr. Isayama?

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

Nagao [M]: Thank you very much, Mr. Isayama. Please continue with your question, Mr. Sano of JP Morgan Securities.

Sano [Q]: My name is Sano from JP Morgan. Thank you for your explanation. Three points from me as well, please.

First, I would like to ask you about the change in your view of this fiscal year, particularly with regard to the increase or decrease in operating income and sales price. Compared to three months ago, other companies in the industry have seen lower-than-expected inflation, and in some cases, the increase in selling prices has been suppressed accordingly. After the past three months, we would like to know if there are any differences from your previous plans in terms of the range of increase in selling prices for the full year, and if you could explain the basics of your approach to selling prices for the next fiscal year, etc. This is the first point.

Miyazawa [A]: Regarding automotive business, I would like to give an explanation. For automotive business, we are basically revising selling prices to include inflationary costs and unprofitable portions. For some customers who have ordered less than the contracted quantity, we are revising the selling price to include the portion of the quantity that is less than the contracted quantity.

However, as you know, electricity costs in Japan are beginning to decline, so there have been cases where we have not been able to receive the electricity and energy costs that we originally planned. In the area of procurement, our own energy costs are also decreasing, so this will be offset, so we do not think that there will be much effect on a net basis.

In addition, some customers are beginning to talk about cost reductions instead of accepting price hikes. Basically, however, our stance is that we will first ask our customers to fully reflect inflationary prices including those left from the past in their selling prices, and if we ourselves can come up with the funds for cost reduction, we will return them within a reasonable range. What we are focusing on now, or concentrating on, is to revise the selling price, including past overcharges. That is all for automotive business.

Harima [A]: Continuing from Harima, first of all, the aftermarket. The aftermarket has a significant portion of its business based on a fixed price list. One reason for this is that the fixed price list has been revised since the last fiscal year, and this has made a significant contribution.

Then, in the case of the aftermarket, there is a wide range of small, medium, and small-lot customers. We have been raising prices and passing on costs to selling prices in detail. This is another example of what we have been doing since the previous fiscal year and is showing results in this fiscal year. The aftermarket has achieved much more than the price increase that was initially contemplated in the business plan for the current fiscal year.

There are also two items related to industrial machinery. One is the passing on of price increases for energy and other inflationary costs. We have been negotiating with many of our customers to raise the prices of unprofitable parts of our products, and we have been able to raise the prices with the understanding of many of them. However, there are some customers who have entered a phase in which the external environment is deteriorating and have not been able to cooperate. Here, we have been continuing price increase negotiations in H2 of the year while appealing to our actual situation. This is one of the situations.

The other part is that we are being asked to pass on the cost of inflation from our suppliers. There has been a slight delay in the electricity and gas price increases. Naturally, we are willing to accept this part of the project as well. The current situation is that we are asking our customers to raise prices while obtaining their understanding in this area as well, although we are behind schedule. That is all.

Sano [Q]: Thank you very much. Incidentally, I usually see the new profit increase/decrease from H1 to H2 and then to the full year on page 16 or 17. I thought it was your company's way of disclosure to do this every time, but am I correct in understanding that we don’t have this for this time?

Yamamoto [A]: My name is Yamamoto. Since we have not changed the forecast for the full year, H2 of the fiscal year is a subtraction of H1 from the full-year forecast, so we have not indicated this figure.

Sano [Q]: Yes, I understand. Thank you very much.

Second, I would like to ask Mr. Miyazawa to tell us about the status of orders for automotive business, or rather, the accumulation of projects. In the Chinese market, where you struggled a bit in Q1, I would like to know if you have seen any results from your efforts to expand sales to non-Japanese companies or to attack the local market, which was a bit of a challenge in Q1. Please.

Miyazawa [A]: Miyazawa here would like to give an answer. Basically, we have already finished the business year through 2024, so I would like to talk a little bit about the area around the 2025 business year in terms of the fiscal year. Roughly JPY18 billion to JPY20 billion for the driveshafts. And then on the axle bearings, I think the number is around JPY13 billion to JPY15 billion. Please keep in mind that this includes the dedicated model number for EVs.

In China, as you know, Japanese manufacturers are struggling very badly, and we are shifting our focus to China, especially to EV manufacturers. As a whole, Japanese manufacturers account for more than 80% of the total, and local manufacturers account for about 15%, but we expect this to increase by three to five percentage points. Does this answer your question?

Sano [Q]: Thanks for the details.

Lastly, I would like to ask President Ukai, I believe that the plan is more focused on H2 of the year. From what you have told us so far, I think that you are both certain and responsive to achieving this goal. How are you managing the budget and actual results, including the front line, and how are you spreading the message that you will steadily achieve the figures you have set forth? Including the recent Global Management Conference, how are you fostering a sense of urgency among NTN's frontline and management in terms of achieving the plan?

Ukai [A]: This is Ukai. Last year, before the pandemic had been contained, I visited all domestic offices, plants, and sales companies, as well as major overseas offices, sales companies, and plants. This is what is known as a town hall meeting, where we try to have a direct dialog with our key employees. I explained to them the current situation of the Company and the future direction of the Company, and asked for their direct understanding of the situation, as well as receiving various questions. At the same time, I answered their questions. This is what I have been doing in the past year.

From April of this year, all executive officers have been going directly to the regions of the divisions they are in charge of, that is, to the sales companies and plants in Japan, but also overseas, depending on the region. In addition, all executive officers have been working on a global basis to promote direct dialog with employees and to share the direction we should take.

We are still on-going now, and will be in Europe again this month, but that is what we are doing.

We held the Global Management Conference the other day for the first time in five years. We were not able to do much of this, mainly because of the pandemic. The main management members from around the world gathered in Japan and held a meeting there to discuss common issues and the direction that NTN should take and move in for the next mid-term, and we set the agenda in advance. The participants were divided into teams, and the results of the team activities were presented in front of everyone, followed by a question-and-answer session.

In the past, the meetings were rather presentation-oriented, with the head of each department giving a presentation and the participants listening to it, but this time we asked the participants to devise a new way to include the opinions of various younger people. Those who came from overseas also left with a sense of fulfillment of their own when they did things in a way that was completely different from the way they had done them before. It is not enough to just be fulfilled, so I feel that this is a significant response to the situation that we will continue to act on so that we can get the proper results from it.

As I mentioned earlier, we are very clearly implementing various measures to enhance NTN's corporate value for the next medium term. Naturally, we will have to make fine adjustments depending on the conditions of the external environment, but I have the feeling that we are gradually gaining a sense of direction and the ability for everyone to act in this direction. That is all.

Sano [M]: Yes, I understand. Thank you for your response. That is all.

Nagao [M]: Thank you for your question, Mr. Sano. Now, Mr. Tai of Daiwa Securities, please ask your question.

Tai [Q]: My name is Tai. One is about the figures on page 17. For aftermarket, your results for H1 of this fiscal year show an increase in sales compared to H2, but I think the profit has decreased by about two-thirds. I think there is an increase in revenue and a decrease in profit compared to H1 of the previous year. I have received various figures on this, so an analysis might help, but in the end, what is the biggest impact?

Yamamoto [A]: My name is Yamamoto. I did not explain it well earlier, but first of all, compared to the same period of the previous year and H1 of the previous term, the aftermarket sales are shown as an increase of JPY0.2 billion, excluding exchange rate effects. However, if you exclude the selling price level, the sales volume decreased by JPY2.8 billion. In addition, sales of industrial machinery were minus JPY6.8 billion excluding foreign exchange, but minus JPY9.7 billion if the price portion is excluded. In short, the largest impact of the decrease in production scale was seen in H1 compared to H1 of the previous year. The impact of scale on H1 of the year is still quite large compared to H2 of the previous year.

Tai [Q]: Okay. In that sense, it would still be tough without an increase in volume.

Yamamoto [A]: Yes, that's right. As mentioned in the previous explanation, the products made at the industrial machinery plants go to the aftermarket sales, so even if we pass on the price, the cost structure will deteriorate due to the decline in the scale of production.

Tai [Q]: Okay.

One more thing, as I asked you earlier at other companies, I would like to ask you how you see prices when looking at the next fiscal year and beyond. Perhaps we should separate automotive and industrial machinery business, but for automotive business, for example, the increase in sales to China that Mr. Miyazawa mentioned earlier is naturally a tough mix. In the first place, the degree to which each customer accepts price increases is probably getting smaller and smaller now. In particular, I am wondering how much you are thinking about this, especially as it relates to EVs in China.

On the other hand, as for industrial machinery, I think we are entering an era in which, although this may be true at present, they cannot accept price increases when demand is so weak.

What I would like to ask you is that the tide is turning again a bit, as similar stories are coming out quite often in conference calls at overseas competitors, where the financial results have already been released. I believe that the days of simply asking for a price increase are over, and that unless we add some value or change the system, we will not be able to respond by raising prices all the time. Since the results for the current fiscal year are no longer important, can you tell us anything that would complement the results for the next fiscal year and beyond? That is all.

Miyazawa [A]: Now I would like to talk about automotive business. The discussion of next year and beyond is a hypothetical one, but basically, we will continue to receive business from next year and beyond, so there will be contract unit prices for those contracts. What we are doing now is to steadily pass on the cost of inflation due to economic fluctuations to the selling price.

Especially in the US, since the UAW has approved a 25% wage increase over the next four years, our labor costs in the US will naturally rise, as well as our labor costs for our parts. The idea is to ensure that such inflationary costs are taken care of. On the other hand, if they do not accept our offer, or if the negotiations are extremely severe, we will not be able to ensure a stable supply. That is how we negotiate and we would like to continue that.

Also, I want to talk about the volume. Basically, our contract unit price is a contract to fulfill a price within a certain contract volume. In cases where this is not met, we are considering negotiating with the customers to have them pay a certain amount of the cost.

And about the future. Of course, we must add value to our products. Even CVJ does not easily move out of commodity areas. Rather than simply competing on price, we will add to our selling price our ability to solve problems, make proposals, and respond quickly, which we believe is superior to our competitors. By adding value in this way, we are trying to be chosen by our customers.

In fact, there have been several cases where they themselves have selected an LCC manufacturer but have not been able to successfully develop the product, so they have come back to us in the middle of the development process. We are planning to apply such an approach to bring back overall profits in automotive business. That is all.

Ukai [A]: I would like to add a few words. What I am saying is that we should overhaul the design. NTN has the number one or number two market share in the world for high-speed constant velocity joints and hubs, but I wonder if we are not resting on their laurels. The design standards that have been used for many years have not been reviewed in a timely manner to meet the demands of the external environment and to improve the quality of procurable parts and materials.

In addition, Chinese manufacturers and other manufacturers from emerging countries are now able to offer products of reasonable quality and technology at low prices. In response to this, to keep on offering only high-spec products forever will, as Mr. Tai just said, reduce the strength of our products, which are the pillars of our company, in the years to come and beyond.

We have a variety of products that are easy to manufacture and simple to design, and we also have a variety of products that customers really want, especially for high-spec EVs in the future, but they will also be very expensive. We believe that we need to fundamentally review the design of our products to determine how we can competitively match market prices at an appropriate cost. We are going to make sure that this part of the project is going to be a big theme , I think, for the next mid-term, although we have already started now.

On the other hand, in the case of industrial machinery, the machines manufactured by individual customers, such as construction machinery manufacturers, are not standardized like cars, so various specifications are demanded individually. However, our customers are also in competition with emerging countries, and in order to increase cost competitiveness through the supply chain, I think it is necessary for us to encourage them to simplify their design standards and so on. We believe that it is by no means possible to do business as before simply by maintaining relationships with traditional customers. In that sense, we will review this area carefully, as appropriate, or at least with increased speed.

In terms of parts and materials, we are shifting our procurement from China to India. Again, quality has improved very much and so has competitiveness. We are now in the process of making drastic improvements and reforms in the areas of variable costs connected to design, and of course, fixed costs to increase productivity. That is all.

Tai [M]: Thank you very much. It's okay. Thank you again.

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

This concludes the NTN Corporation's IR presentation of financial results for Q2 of the fiscal year ending March 31, 2024.

Thank you very much for your participation today.

[END]

Document Notes

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