NTN Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending March 2024

February 2, 2024

Event Summary

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[Participants]	

[Number of Speakers]	4	
	Eiichi Ukai	Director, Representative Executive Officer, President, Executive Officer, CEO
	Masaaki Yamamoto	Director, Executive Officer, CFO
	Hideaki Miyazawa	Director, Representative Executive Officer, Executive Officer, Corporate General Manager, Automotive Business HQ
	Tatsuo Nagao	Corporate Strategy Division, Public Relations & IR
[Analyst Names]*	Tomohiko Sano	JPMorgan Securities
	Yuichiro Isayama	Goldman Sachs
	Hirosuke Tai	Daiwa Securities
	Boqiong Wang	Nomura 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: It's time to begin the NTN Corporation IR presentation of financial results for Q3 of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedule to participate in our IR presentation of the financial results today.

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

Ukai, Representative Executive Officer, President, and CEO.

Ukai: I'm Ukai. Thank you.

Nagao: Yamamoto, Executive Officer and CFO.

Yamamoto: I'm Yamamoto. Thank you.

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

Miyazawa: I'm Miyazawa. Thank you.

Nagao: I, Nagao, and Kouge of the Corporate Strategy Department, will serve as the secretariat. Thank you.

Kouge: Thank you.

Nagao: Today's briefing will follow the briefing materials distributed to your registered e-mail 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 key points of the financial results, followed by CFO Yamamoto's explanation of the Q3 results for the fiscal year ending March 31, 2024 and the outlook for the full year, and finally 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 of 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.

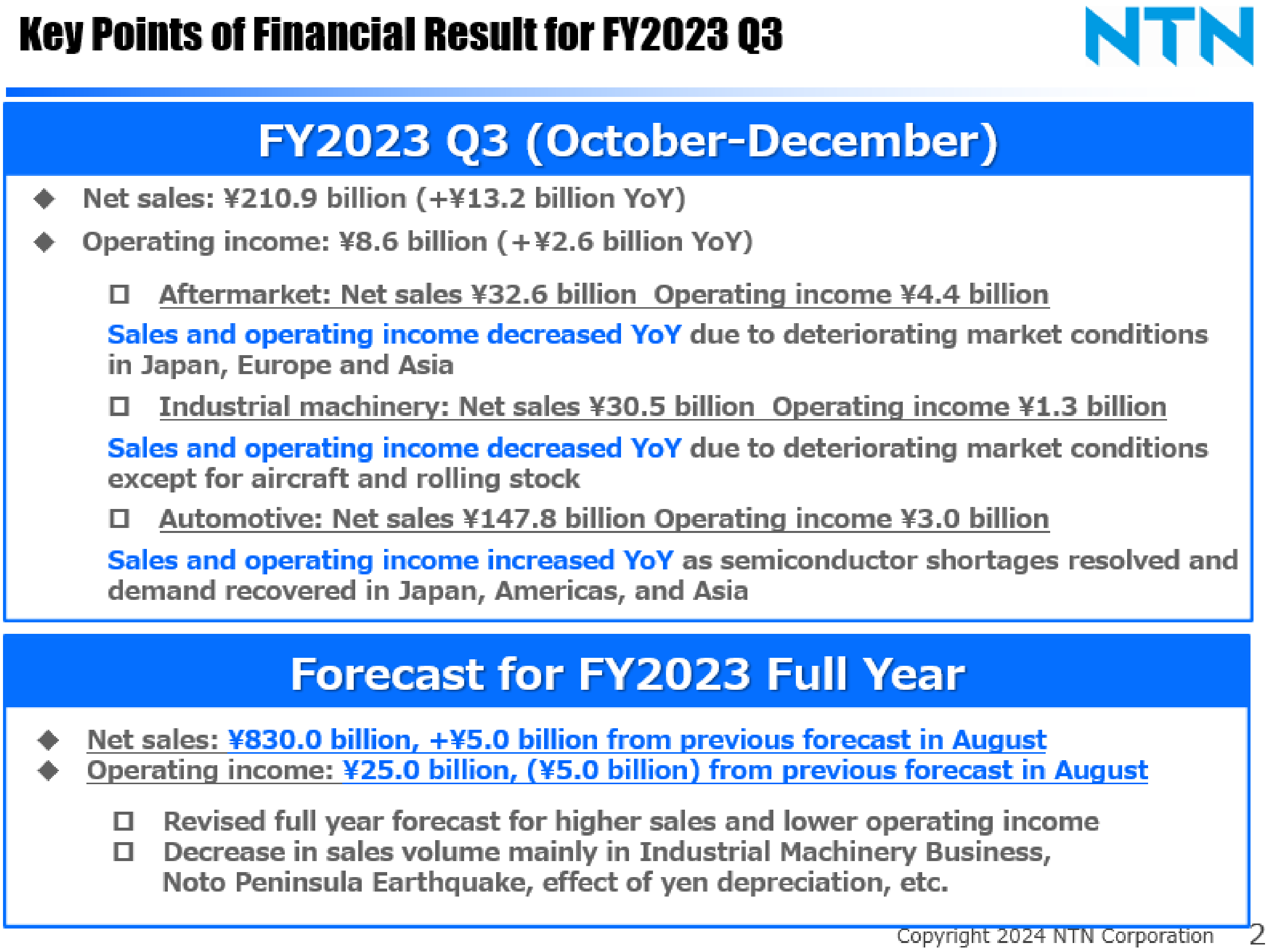
Before presenting our financial results, we would like to express our deepest condolences to those who lost their lives in the Noto Peninsula earthquake of 2024 that occurred on January 1 and our heartfelt sympathy to all those affected by the disaster.

There are five manufacturing bases of our group in the affected area. Although some of the buildings and production facilities at three of these manufacturing sites were damaged, safety and quality checks have been completed and the sites have already returned to normal operations.

Of the two remaining manufacturing sites, NTN Shika Corp. has partially resumed production, while the other manufacturing site, NTN Noto Corp., suffered more damage than the others and is working to restore damaged buildings, production facilities and infrastructure. In the restoration process, we are continuing to confirm safety and quality together with our partner companies, and with the understanding and support of our customers, the entire group is working to resume partial production by the beginning of April.

CFO Yamamoto will explain the impact of the earthquake on our consolidated financial results later. In addition, NTN donated JPY10 million to Ishikawa Prefecture to support earthquake recovery efforts and, together with Gojo City in Nara Prefecture, provided Hosu-gun, Noto-cho, Hosu-gun, Ishikawa Prefecture, with NTN-developed mobile independent power supply N-CUBE circulation-type flush toilet. We will continue to support the reconstruction of the affected areas in cooperation with local governments and administrative agencies.

Now, let me start with the results of Q3 for the fiscal year ending March 2024. Yamamoto, CFO, will explain the details of the financial results and forecasts, as well as the analysis of profit increase or decrease, etc. I will explain the main points of the financial results.



Please refer to page two.

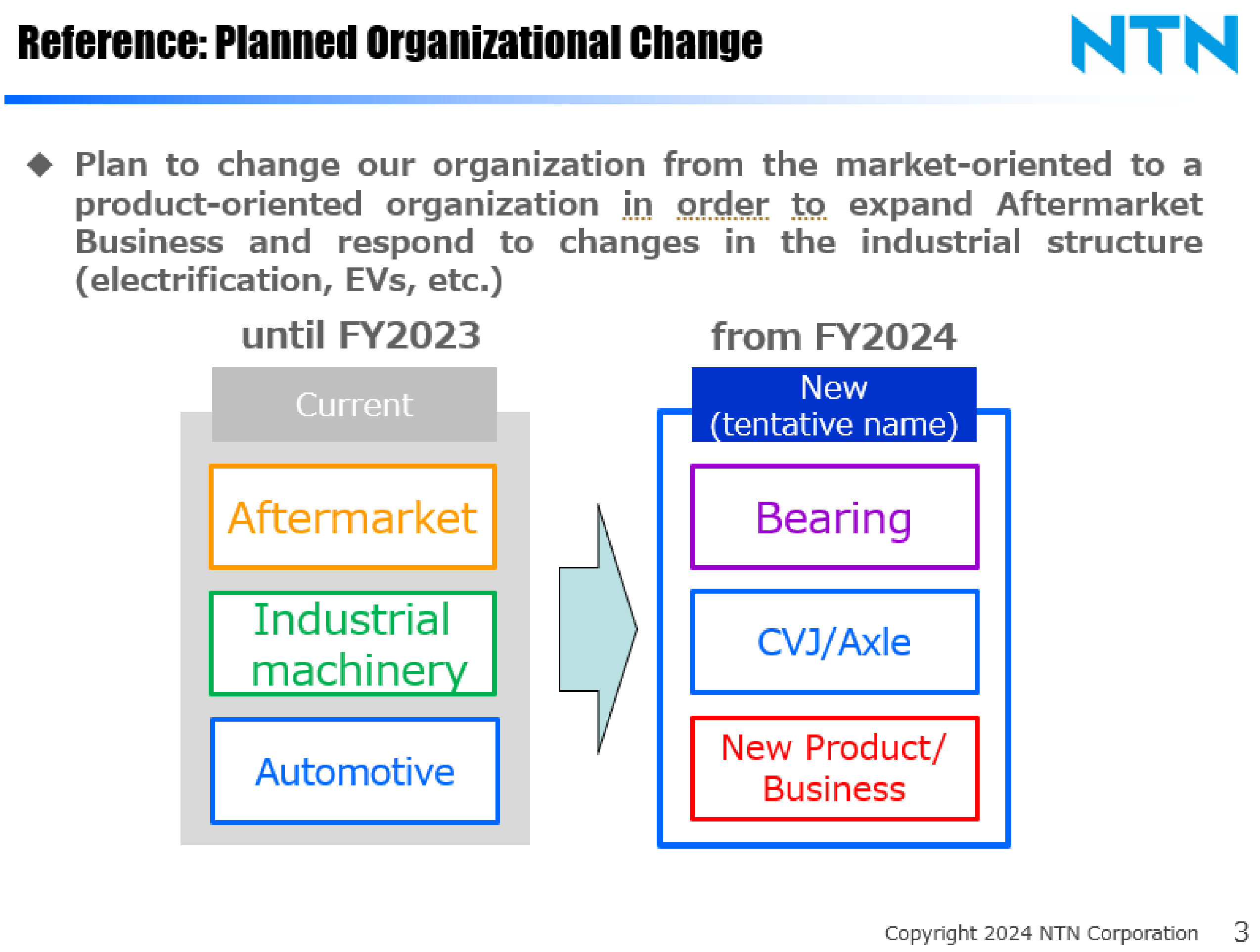
For Q3 of the fiscal year ending March 31, 2024, net sales were JPY210.9 billion, and operating income was JPY8.6 billion, up from the same period last year.

Sales to the aftermarket were JPY32.6 billion, down JPY0.5 billion YoY, and operating income was JPY4.4 billion, down JPY1.3 billion YoY, due to deteriorating market conditions in Japan, Europe, and Asia, as well as inventory adjustments by distributors.

Sales for industrial machinery decreased by JPY3.3 billion to JPY30.5 billion, and operating income decreased by JPY0.9 billion to JPY1.3 billion from the same period last year due to decreased demand for construction machinery, gearboxes, and agricultural machinery, except for aircraft and rolling stock applications.

Sales to the automotive industry were JPY147.8 billion, up JPY17 billion YoY, as the overall semiconductor shortage was resolved, despite the economic slowdown in Europe and the struggles of Japanese automakers in China. In addition, an increase in sales volume, promotion of price increases, and improvement in fixed costs, as well as the effect of the yen depreciation, resulted in an operating income of JPY3 billion, an increase of JPY4.9 billion over the same period last year.

The forecast for this fiscal year has been revised to JPY830 billion for net sales and JPY25 billion for operating income, taking into account the impact of the Noto Peninsula earthquake and production stoppages by some automobile manufacturers, in addition to the decline in demand mainly in the industrial machinery business, while improving selling prices and reducing variable costs generally as planned, and the impact of the weaker yen on exchange rates.



Please refer to page three.

We plan to reform our organization in the next fiscal year as we start a new medium-term management plan. We plan to change our organization from the current market-oriented to a product-oriented structure in order to expand our aftermarket business and promote response to changes in the industrial structure, electrification, and the shift to EVs.

We will consolidate our dispersed bearing business, strengthen our service and supply capabilities, and aim to generate profits by integrating aftermarket and OEM operations. By concentrating on CVJs and axles as the product axis, we will respond to new needs, such as electrification, and build a muscular business foundation.

Details will be reported in due course in the news release on the reorganization scheduled to be announced during this fiscal year and in the new medium-term management plan to be announced in May.

That's all from me. Yamamoto will now continue with a detailed explanation of the financial results.

1-1. Key Financial Indicators (vs Previous Announcement)

NTN

	FY2022		FY2023			Diff.		
						②-①		
(billion yen)	Q1-3 Results	Full Year Results	Q1-3 Results	Full Year Forecast ①(Previous)	Full Year Forecast ②(Latest)	Total	Volume	Excl. forex
Net sales	569.4	774.0	620.5	825.0	830.0	5.0	(23.9)	28.9
Operating income (loss)	9.9	17.1	15.4	30.0	25.0	(5.0)	(10.2)	5.2
Operating margin	1.7%	2.2%	2.5%	3.6%	3.0%	(0.6%)		
Ordinary income (loss)	7.4	12.0	9.8	23.0	17.5	(5.5)	(10.6)	5.1
Extraordinary income (loss)	(0.9)	(1.2)	1.2	(4.0)	(2.1)	1.9	1.8	0.1
Profit (loss) attributable to owners of parent	(0.8)	10.4	7.7	11.0	9.0	(2.0)	(5.4)	3.4
Inventories	247.7	239.4	259.2	230.0	243.0	13.0	3.0	10.0
FCF	15.4	20.4	40.1	29.0	29.0	-	-	-
Exchange rate 1USD	¥136.5	¥135.5	¥143.2	¥137.9	¥142.4	¥4.5		
Exchange rate 1EURO	¥140.5	¥140.9	¥155.2	¥151.7	¥155.2	¥3.5		

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Yamamoto: I'm Yamamoto. Please refer to page four.

This table compares the previously announced figures of JPY825 billion in net sales and JPY30 billion in operating income with the current announced figures of JPY830 billion in net sales and JPY25 billion in operating income. Today I'd like to provide you with a quick summary.

First, in terms of the increase or decrease, excluding foreign exchange, net sales decreased by JPY23.9 billion. As I will explain later, we won about JPY1.6 billion in price increases, so the sales volume is down JPY25.5 billion.

In terms of regions, we have factored in declines in Japan, the US, Europe, and China. In Japan in particular, we expect a decrease in sales of over JPY3 billion due to the impact of the earthquake in Noto and the suspension of shipments by some automobile manufacturers.

On the other hand, I will explain the JPY1.9 billion increase in the total in the extraordinary gain or loss column. This is largely due to a gain on the sale of land in Europe, which we had expected in the next fiscal year and which will be realized in March, and we expect an increase of JPY2 billion.

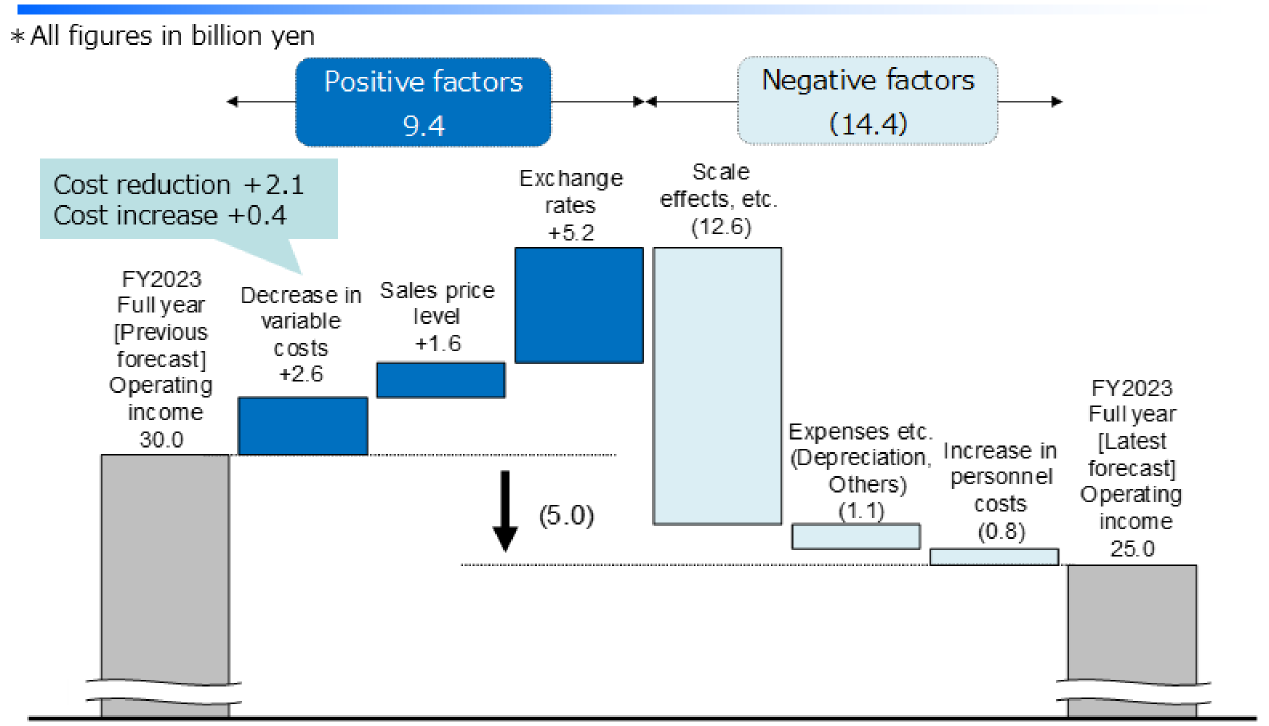
On the other hand, the impact of the Noto earthquake. At this point, we are only estimating restoration costs, etc., but we expect fixed costs and relief supplies for the three-month production stoppage period to total JPY0.5 billion, and restoration costs, which are also difficult to estimate, to total JPY1 billion, for a total of JPY1.5 billion.

On the other hand, the provision for Renault's lawsuit, which we had initially anticipated, will be reduced by JPY1 billion since we won the first trial. Then, some restructuring costs will also be reduced by about JPY0.5 billion.

In short, the result is that Noto's extraordinary loss is offset by a decrease in Renault and restructuring costs.

1-2. Analysis of Operating Income (FY2023 Full Year Forecast (previous) vs FY2023 Full Year Forecast (latest))

NTN



	Full Year Forecast (Previous)	Full Year Forecast (Latest)	Diff.	Forex	Sales price	Volume
Net Sales	825.0	830.0	**+5.0**	+28.9	+1.6	(25.5)

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Please refer to page five.

The upper part of this graph is a waterfall graph showing the increase or decrease from JPY30 billion in the previous announcement to JPY25 billion in the current announcement. Below that is a table showing the change in net sales between the previous and current announcements, broken down by exchange rate, selling price, and volume.

First, if you look at it, as I mentioned earlier, the volume will decrease by JPY25.5 billion. The effect of this has been included in the profit decrease factor etc., in the graph above by minus JPY12.6 billion here. In addition, we have added about 1.9 billion in fixed costs, which we expect to increase in Europe, which has already been completed by Q3.

On the other hand, as for the profit increase factors on the left side, both variable costs and cost reduction/increase exceeded the plan. Selling price also exceeded the plan, adding JPY1.6 billion. Then, there is JPY5.2 billion in foreign exchange.

2-1. Key Financial Indicators (vs Previous Fiscal Year)

NTN

(billion yen)	FY2022 Q3 Results	FY2022 Q1-3 Results ①	FY2022 Full Year Results	FY2023 Q3 Results	FY2023 Q1-3 Results ②	FY2023 Full Year Forecast (Latest)	Diff. ②-① Total	Diff. ②-① Volume	Diff. ②-① Excl. forex
Net sales	197.7	569.4	774.0	**210.9**	**620.5**	**830.0**	**51.1**	**23.7**	**27.4**
Operating income (loss)	6.0	9.9	17.1	**8.6**	**15.4**	**25.0**	**5.5**	**(1.7)**	**7.2**
Operating margin	3.1%	1.7%	2.2%	**4.1%**	**2.5%**	**3.0%**	**0.7%**		
Ordinary income (loss)	3.8	7.4	12.0	**4.9**	**9.8**	**17.5**	**2.4**	**(4.7)**	**7.1**
Extraordinary income (loss)	(0.9)	(0.9)	(1.2)	**1.6**	**1.2**	**(2.1)**	**2.2**	**2.1**	**0.1**
Profit (loss) attributable to owners of parent	0.9	(0.8)	10.4	**3.6**	**7.7**	**9.0**	**8.4**	**3.8**	**4.7**
Inventories *	247.7	247.7	239.4	**259.2**	**259.2**	**243.0**	**19.8**	**7.9**	**11.9**
FCF	1.9	15.4	20.4	**15.9**	**40.1**	**29.0**	**24.6**	**-**	**-**
Exchange rate 1USD	¥141.6	¥136.5	¥135.5	**¥147.9**	**¥143.2**	**¥142.4**	**¥6.7**		
Exchange rate 1EURO	¥144.2	¥140.5	¥140.9	**¥159.0**	**¥155.2**	**¥155.2**	**¥14.7**		

* Increase/decrease from the end of Mar. 2023

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Please refer to the next page, page six.

This table compares key indicators on a consolidated basis with those of the same period of the previous year.

In Q3 of the fiscal year ending March 31, 2024, net sales amounted to JPY210.9 billion, and the operating income margin recovered to 4.1%.

For the April to December period, net sales were JPY620.5 billion, and operating income was JPY15.4 billion, for an operating margin of 2.5%.

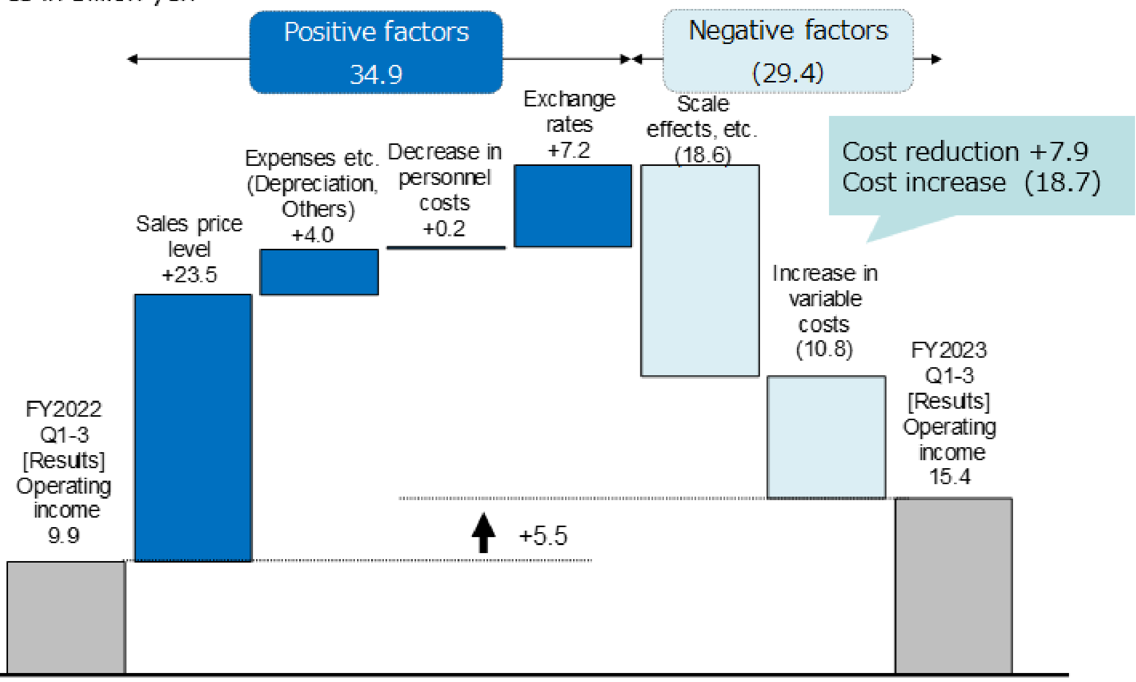
The increase or decrease column next to it shows that net sales will increase by JPY23.7 billion on an excluding exchange rate basis, but on an excluding exchange rate basis, operating income will be minus JPY1.7 billion.

The details are explained on page seven.

2-2. Analysis of Operating Income
(FY2022 Q1-3 Results vs FY2023 Q1-3 Results)

NTN

*All figures in billion yen



	FY2022 Q1-3 Results	FY2023 Q1-3 Results	**Diff.**	Forex	Sales price	Volume
Net Sales	569.4	620.5	**+51.1**	+27.4	+23.5	+0.3

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Now, please refer to page seven.

This waterfall graph shows the change in operating income from JPY9.9 billion in the previous year's cumulative Q3 to JPY15.4 billion in the current quarter. Likewise, the bottom line shows changes in net sales, broken down by exchange rate, selling price, and volume.

As you can see, selling price increased by JPY23.5 billion, which was the largest factor in the increase in profit. On the other hand, the volume increased by only JPY0.3 billion.

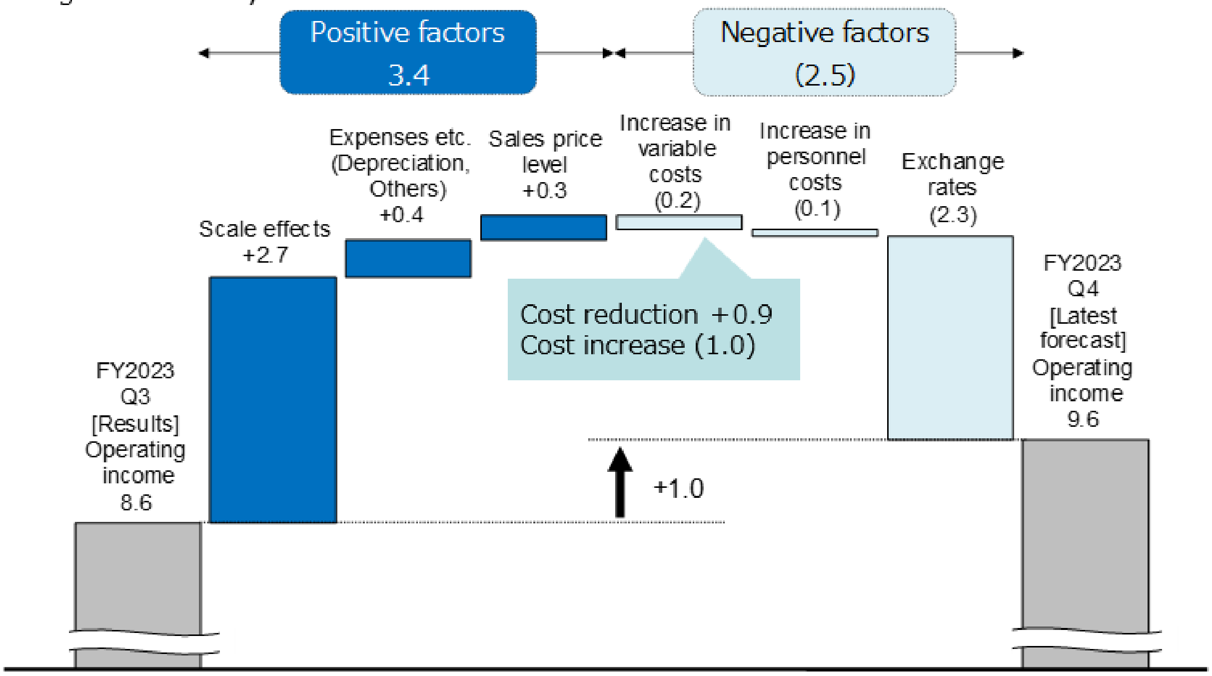
The scale, etc., was minus JPY18.6 billion. This is exactly the same trend through Q2, but the volume of sales has not increased nearly as much. On the other hand, inventory valuation, production decline, and the impact of the composition of products all contributed to the large negative figure of JPY18.6 billion.

As for the variable costs, the cost reduction is progressing as planned, plus JPY7.9 billion, and the cost increase is minus JPY18.7 billion, resulting in a net minus JPY10.8 billion.

The left side shows the factors that increased profits, such as expenses, which increased by JPY4 billion from the previous year, mainly due to the return of ocean freight rates. Then, for personnel expenses, there is an additional JPY0.2 billion, while the scale is about the same. The foreign exchange impact was an additional JPY7.2 billion.

2-3. Analysis of Operating Income
(FY2023 Q3 Results vs FY2023 Q4 Forecast (latest))

＊All figures in billion yen



	FY2023 Q3 Results	FY2023 Q4 Forecast (Latest)	Diff.	Forex	Sales price	Volume
Net Sales	210.9	209.5	**(1.4)**	(10.9)	+0.3	+9.2

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Please continue to page eight.

This is a chart comparing the actual results for Q3, October to December, and the forecast for Q4, January to March.

Operating income for Q3 was JPY8.6 billion, and the forecast for Q4 is JPY9.6 billion. At the bottom, we have attached a table of net sales, with increases and decreases broken down by exchange rate, selling price, and volume.

First, the volume of sales will increase by JPY9.2 billion, and the impact of this increase on the scale, etc., is shown in the second item from the far left in the above graph, which is JPY2.7 billion.

On the other hand, the largest factor for the decrease in profit is the negative JPY2.3 billion in foreign exchange. The average exchange rate for the October to December period was about JPY148 for the US dollar and JPY157 for the euro, but the forecast for Q4 is JPY140 for the US dollar and JPY150 for the euro. The effect of this change was a negative JPY2.3 billion in foreign exchange. On the flip side, if the average rate for the October to December period is on par with the average rate for the same period, this factor of lower profits will be eliminated.

As for profit increase factors, expenses increased by JPY0.4 billion. As I mentioned earlier, the excess in the October to December period, mainly in Europe, will come back. Selling price level is plus JPY0.3 billion. We are also looking at a large cost of JPY1 billion for variable costs, but this is mainly for the domestic market, and we are also expecting a delay in price increases from our suppliers.

As for personnel expenses, the volume will increase by JPY9.2 billion, but as I mentioned earlier, fixed costs increased during the October to December period in Europe and other areas, so we expect a negative JPY0.1 billion because we will be able to control these costs.

3. Net Sales by Region

NTN

(billion yen)	FY2022 Q3 Results	FY2022 Q1-3 Results ①	FY2022 Full Year Results	FY2023 Q3 Results	FY2023 Q1-3 Results ②	FY2023 Full Year Forecast (Latest)	Diff. ②-① Total	Diff. ②-① Volume	Diff. ②-① Excl. forex	(For reference) FY2023 Full Year Forecast (Previous)
Japan	52.6	148.1	201.6	**55.7**	**160.3**	**212.5**	**12.2**	**12.2**	**0.0**	**217.0**
Americas	62.8	181.3	246.2	**66.7**	**199.9**	**269.5**	**18.6**	**7.6**	**11.0**	**263.0**
Europe	37.7	109.7	155.2	**39.7**	**123.9**	**169.5**	**14.2**	**2.5**	**11.7**	**173.0**
Asia and others	44.6	130.3	170.9	**48.8**	**136.4**	**178.5**	**6.1**	**1.4**	**4.7**	**172.0**
Total	197.7	569.4	774.0	**210.9**	**620.5**	**830.0**	**51.1**	**23.7**	**27.4**	**825.0**

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Please continue to page nine.

This is the table of sales by region. The middle part of the table shows the results for the period from April to December, JPY620.5 billion, by region.

If you look at the 2-1 excluding exchange rate on the right side, you will see that the increase here is very small, in Europe and Asia. This figure includes the increase in selling prices, so even the scale of sales in Europe and China have fallen compared to the same period of the previous year.

4. Net Sales and Operating Income by Business Segment

<Net Sales by Business Segment>

(billion yen)	FY2022 Q3 Results	FY2022 Q1-3 Results ①	FY2022 Full Year Results	FY2023 Q3 Results	FY2023 Q1-3 Results ②	FY2023 Full Year Forecast (Latest)	Year on Year ②-① Total	Year on Year ②-① Volume	Year on Year ②-① Excl. forex	(For reference) FY2023 Full Year Forecast (Previous)
Aftermarket	33.1	99.0	134.0	32.6	102.5	138.0	3.4	(1.9)	5.4	138.5
Industrial machinery	33.8	102.8	139.5	30.5	95.3	126.5	(7.6)	(11.4)	3.8	130.5
Automotive	130.8	367.6	500.4	147.8	422.8	565.5	55.2	37.1	18.2	556.0
Total	197.7	569.4	774.0	210.9	620.5	830.0	51.1	23.7	27.4	825.0

<Operating Income by Business Segment>

(billion yen)	FY2022 Q3 Results	FY2022 Q1-3 Results ①	FY2022 Full Year Results	FY2023 Q3 Results	FY2023 Q1-3 Results ②	FY2023 Full Year Forecast (Latest)	Year on Year ②-①	(For reference) FY2023 Full Year Forecast (Previous)
Aftermarket	5.7	15.7	22.3	4.4	13.3	18.5	(2.4)	23.5
Industrial machinery	2.2	4.9	7.3	1.3	2.7	4.0	(2.3)	5.5
Automotive	(1.9)	(10.7)	(12.4)	3.0	(0.6)	2.5	10.2	1.0
Total	6.0	9.9	17.1	8.6	15.4	25.0	5.5	30.0

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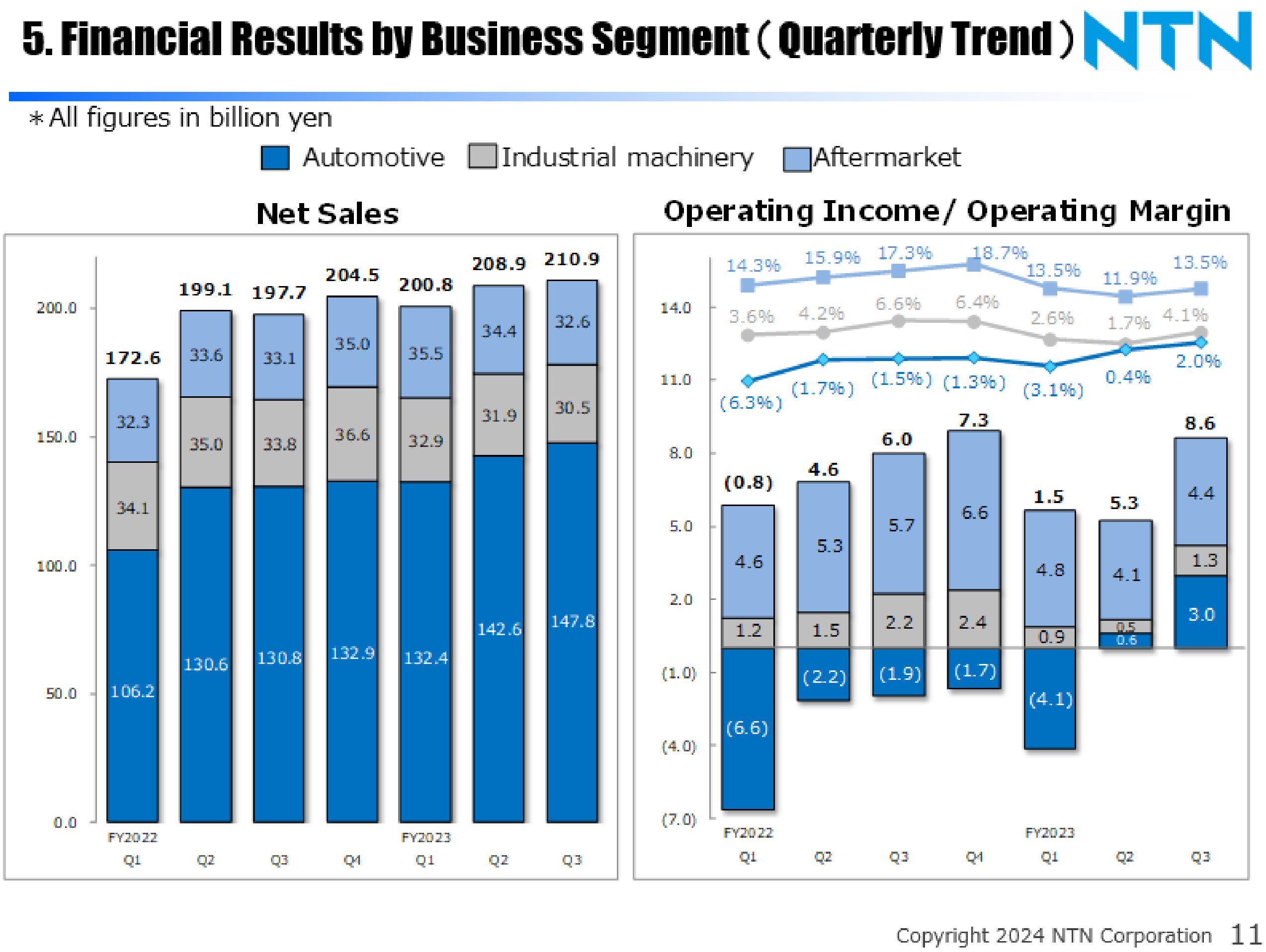
Then, please refer to the slide on page 10.

This is the table of net sales and operating income by business segment. The upper row shows net sales, and the lower row shows operating profit.

Here, too, if you look at the column 2-1 excluding foreign exchange, this JPY23.7 billion increase includes a JPY23.5 billion increase in the selling price level, so the actual increase in volume is about JPY0.3 billion. In particular, the aftermarket and industrial machinery, even including the increase in the level of selling prices, were negative, resulting in an increase in the volume only for automotive business.

As for operating income in the lower row, we were able to record a profit of JPY3 billion in the Q3 results, especially for automotive business, following on from Q2. Due to this impact, the forecast for the full year, initially put out at JPY1 billion for automotive business, has been raised to JPY2.5 billion.

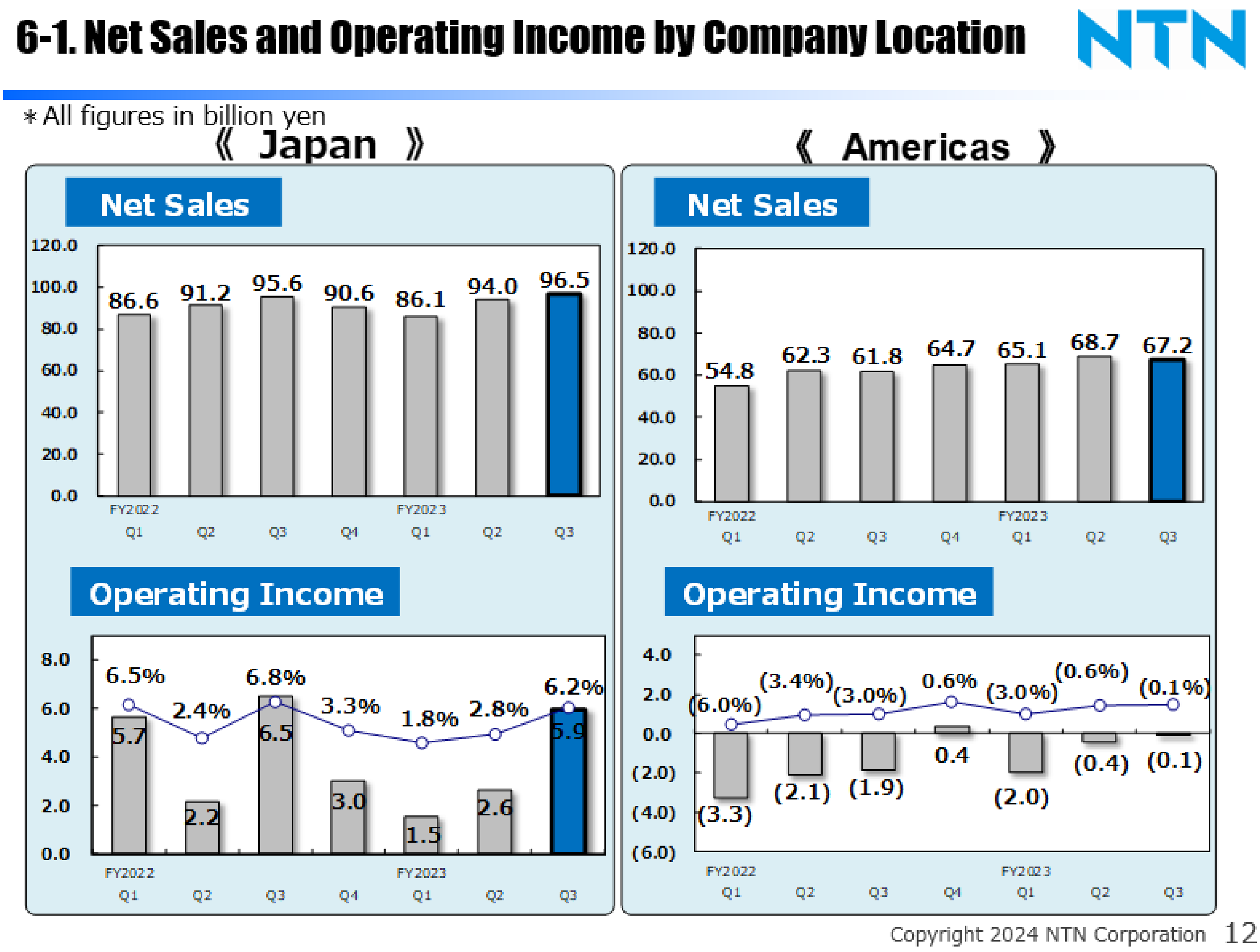
On the other hand, we have lowered our full-year forecast for the aftermarket and industrial machinery, which is significantly affected by the decline in scale.



Please refer to page 11.

This is the quarterly trend of business performance by business segment that I explained earlier. The bar graph on the left shows net sales, the bar graph on the right shows operating income amount, and the line graph shows the operating margin.

If you look at Q3, the aftermarket, industrial machinery, and automotive businesses have all recovered from Q2. When we announced our financial results for Q2, we explained that we would allocate the reduction in the scale of industrial machinery production to the expansion of inventory for the aftermarket, and thanks in part to this effect, the operating margin has returned in the aftermarket and industrial machinery.



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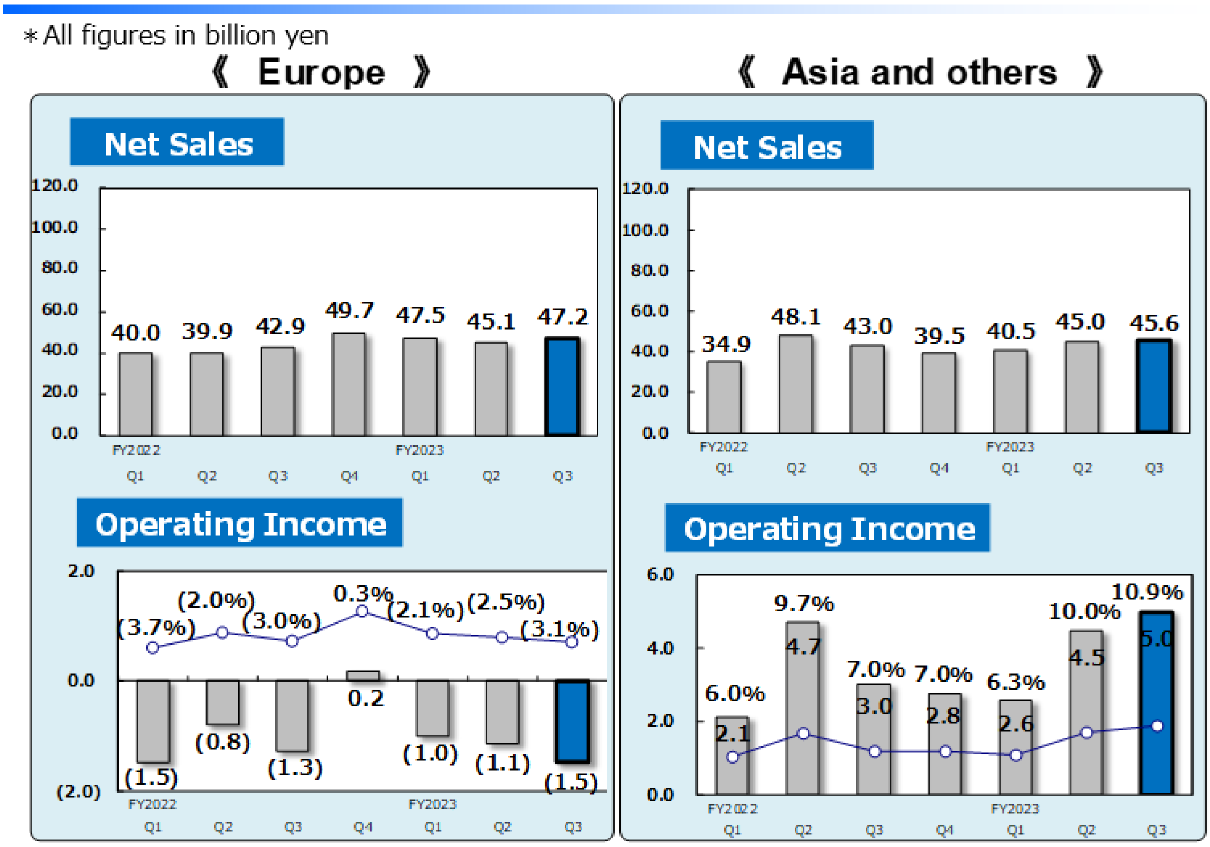
Pages 12 and 13 show the changes of quarterly sales and operating income by location, with the top row showing sales and the bottom row showing operating income.

First, for Japan, operating income rose to 6.2% in Q3 from 2.8% in Q2. The main effects include scale, positive variable costs, and foreign exchange.

Besides that, operating income in the Americas has also returned to a level where it will soon reach below the surface. The main reason for the increase in income was a reduction in variable costs, which was effective.

6-2. Net Sales and Operating Income by Company Location



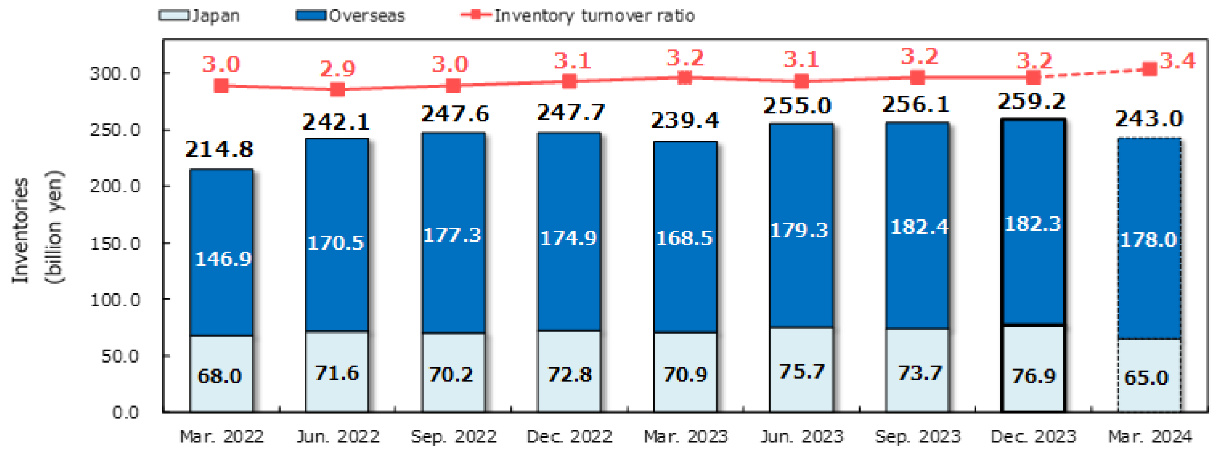
 13

Page 13 shows Europe and Asia and others.

As for Europe, while the scale of the business is quite severe, the operating margin has deteriorated for Q3 as well, due in part to negative fixed costs, as I mentioned earlier.

In Asia and other regions, we have been able to record stable operating margins despite the situation in China.

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	Dec. 2023 Results	Mar. 2024 Forecast
Inventories	214.8	242.1	247.6	247.7	239.4	255.0	256.1	259.2	243.0
[Overseas]	146.9	170.5	177.3	174.9	168.5	179.3	182.4	182.3	178.0
[Japan]	68.0	71.6	70.2	72.8	70.9	75.7	73.7	76.9	65.0
Inventory turnover ratio (times)	3.0	2.9	3.0	3.1	3.2	3.1	3.2	3.2	3.4

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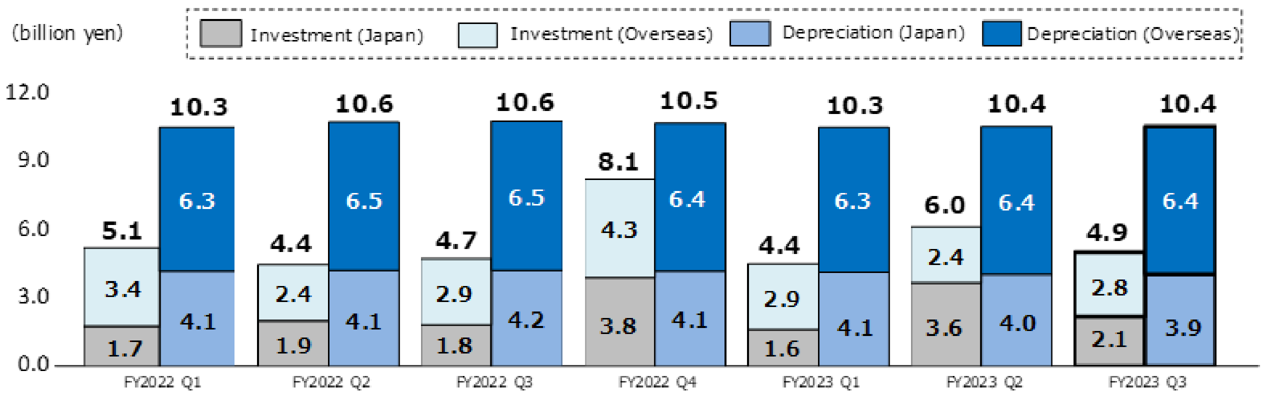
Please continue to page 14. It shows the situation of inventories.

A bar graph and a line graph are in the top row, and the second one from the right is the results for December 2023.

Inventories totaled JPY259.2 billion, an increase of JPY19.8 billion from JPY239.4 billion at the end of the previous period, of which JPY11.9 billion was due to the impact of foreign exchange rates and a JPY7.9 billion increase in inventories. The main factor is seasonality, but Europe and the Americas are also heavily affected by inventory buildup due to the Christmas vacations.

The forecast for the fiscal year ending March 31, 2024 is JPY243 billion, which is JPY13 billion more than the previous forecast of JPY230 billion. Of this amount, JPY10 billion will be affected by the exchange rate, and JPY3 billion will be affected by the volume because the Suez Canal cannot be accessed, so the shipments will be around the Cape of Good Hope.

8. Capital Expenditures and Depreciation



(billion yen)	FY2022 Q1-3 Results①	FY2022 Full Year Results	FY2023 Q1-3 Results②	②-①	FY2023 Full Year Forecast
Capital expenditure	14.2	22.3	**15.4 ***	**1.2**	**25.0**
[Overseas]	8.7	13.0	**8.1**	**(0.7)**	**12.0**
[Japan]	5.4	9.2	**7.3**	**1.9**	**13.0**

*In addition, capital expenditure for intangible fixed assets (FY2023 Q1-3 Results : ¥1.7 billion, FY2023 Full Year Foreacst : ¥3.0 billion)

(billion yen)	FY2022 Q1-3 Results①	FY2022 Full Year Results	FY2023 Q1-3 Results②	②-①	FY2023 Full Year Forecast
Depreciation	31.5	42.0	**31.1**	**(0.5)**	**41.0**
[Overseas]	19.2	25.5	**19.1**	**(0.1)**	**25.0**
[Japan]	12.4	16.5	**12.0**	**(0.4)**	**16.0**

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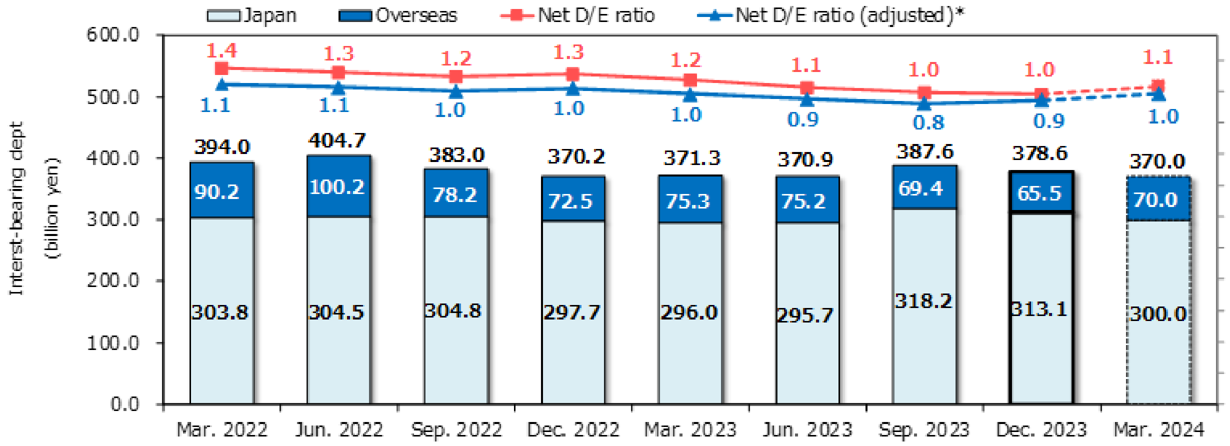
Please refer to page 15. Next, let's look at capital expenditures and depreciation.

The bar graph in the upper row shows the situation from October to December. For the October to December period, capital investment was JPY4.9 billion, and depreciation was JPY10.4 billion.

As a result, the table at the bottom shows that from April to December, the amount of capital investment was JPY15.4 billion, and the amount of depreciation and amortization was JPY31.1 billion.

Since depreciation and amortization expenses were almost in line with the plan, while capital expenditures were below the plan, we have lowered our full-year forecast for the fiscal year ending March 31, 2024, which was JPY28 billion in the previous forecast, to JPY25 billion.

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	Dec. 2023 Results	Mar. 2024 Forecast
Interest-bearing debt	394.0	404.7	383.0	370.2	371.3	370.9	387.6	378.6	370.0
[Overseas]	90.2	100.2	78.2	72.5	75.3	75.2	69.4	65.5	70.0
[Japan]	303.8	304.5	304.8	297.7	296.0	295.7	318.2	313.1	300.0
Net Interest-bearing debt	272.6	278.6	268.8	265.0	260.6	253.7	243.4	232.7	245.0

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

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Please refer to page 16. This is the status of interest-bearing debt.

The second bar graph from the right in the upper row shows the situation in December 2023.

Interest-bearing debt amounted to JPY378.6 billion, with net interest-bearing debt of JPY232.7 billion.

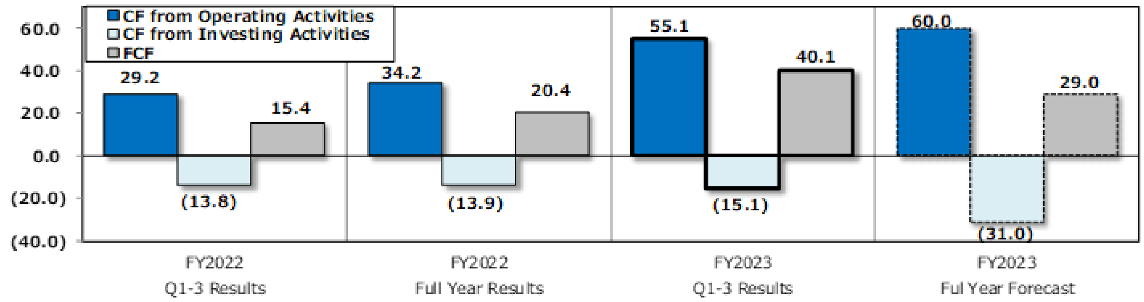
To the right is the forecast for the year ending March 31, 2024, which has been changed from the previous forecast of JPY365 billion to JPY370 billion. This is also due to the impact of foreign exchange rates.

Net interest-bearing debt, which was JPY243 billion last time, has been changed to JPY245 billion due to the effect of foreign exchange rates, but there is no change in the actual figure.

10. Cash Flows

NTN

(billion yen)	FY2022 Q1-3 Results①	FY2022 Full Year Results	FY2023 Q1-3 Results②	②-①	FY2023 Ful Year Forecast
Ⅰ. Cash flow from operating activities	29.2	34.2	**55.1**	**26.0**	**60.0**
Ⅱ. Cash flow from investing activities	(13.8)	(13.9)	**(15.1)**	**(1.3)**	**(31.0)**
Ⅰ+Ⅱ. Free cash flow	15.4	20.4	**40.1**	**24.6**	**29.0**
Ⅲ. Cash flow from financing activities	(33.1)	(33.3)	**(8.2)**	**25.0**	**(17.0)**
Ⅳ. Effect of exchanging rate translation on cash and cash equivalents	1.5	2.1	**3.2**	**1.6**	**2.3**
Ⅴ. Net increase in cash and cash equivalents	(16.2)	(10.8)	**35.3**	**51.4**	**14.3**



 17

Then, on page 17 is the cash flow situation.

In the upper table, the third column from the right shows the results for April to December.

Operating cash flow was JPY55.1 billion, and free cash flow was JPY40.1 billion, exceeding the full-year forecast for the fiscal year ending March 31, 2024, which is shown on the far right.

However, we expect an increase in accounts receivable from January to March toward the end of the fiscal year, so we have conservatively estimated JPY29 billion. We have not changed this part.

This concludes my explanations.

Nagao: Thank you, President Ukai and CFO Yamamoto.

Question & Answer

Nagao [M]: We will now move on to the question-and-answer session. Thank you for your prompt attention. Mr. Sano of JPMorgan Securities, please ask your question.

Sano [M]: Thank you very much. I am Sano from JPMorgan Securities. Is the sound fine?

Nagao [M]: Yes, it’s fine.

Sano [Q]: Okay. Thank you for your explanation. Now, I would like to make two points.

The first point is the evaluation of the landing in Q3. I think there were probably a lot of downsides to the internal plan, but how did you land on the upsides as well?

Also, the change in operating income from Q3 to Q4 is shown on page eight, but the foreign exchange assumptions seem a bit conservative. In terms of assumptions on a currency-neutral basis, for example, is there any upside at the selling price level, or could expenses be reduced a bit more? Please explain more about the current situation in such areas.

That is my first question.

Yamamoto [A]: Okay, I, Yamamoto, will answer your question.

First, the internal evaluation of this Q3 landing was that a reduction in scale was a major factor. By region, I mean Europe. The fixed costs here got high. These two points are negative factors.

On the other hand, the Company's internal evaluation of the price pass-on measures, variable costs, etc., was more positive than the initial forecast. This is the situation of the Q3 landing.

Is that enough?

Sano [Q]: Yes, fine. What would this have been plus or minus combined?

Yamamoto [A]: Since the decrease in scale was significant, the total is minus of hundreds of millions.

Sano [M]: I understand. Thank you.

Yamamoto [A]: The other question is, from JPY8.6 billion in Q3 to JPY9.6 billion in the Q4 forecast for the fiscal year ending March 2024.

First, we are looking at the exchange rate conservatively, as you mentioned. Therefore, we expect this negative exchange rate effect to disappear when the exchange rate becomes AR-based for the October to December period. However, as you are aware, the yen suddenly appreciated in December, so we are taking a conservative view here.

Also, as for the additional JPY0.3 billion for the selling price level, we are conservative here as well. There may be some positive factors, there are still some things that are being negotiated, so we are looking at it at the level of not including that part to be more specific.

As for fixed costs, since the volume will increase by JPY9.2 billion compared to Q3, personnel costs will be minus JPY0.1 billion, and expenses will be plus JPY0.4 billion. We are not so conservative here and expect that this is about right.

No more?

Sano[Q]: Thank you very much. I'm sorry that I said two points, but I would like to ask two more questions.

In terms of selling prices, what are the negotiated conditions from H2 to H1 of next year in terms of on-site interactions with customers, and how are they changing, getting worse, or getting better?

Ukai [A]: Yes. Ukai answers your question.

While we have been working to strengthen the revision of selling prices for the past two years, it is true that various customers, considering the foreign exchange market, have already begun to talk about annualized discounts and the like. They are still very reluctant to negotiate although we present any kind of evidence to prove that the price has gone up.

On the other hand, the price of iron ore or labor costs are going up. Especially in Japan, we received guidance from the Ministry of Economy, Trade and Industry (METI) in December, and the Fair Trade Commission also joined in, and we, as a BtoB manufacturer standing in the middle of the supply chain, should decide to raise prices properly without asking for much evidence from the beginning regarding the rising labor costs from our suppliers.

A major trend is emerging in which we are demanding the raise of price to our customers in order to further boost the Japanese economy. We will continue to follow up on this trend and continue to sell our products to our customers at appropriate prices.

Negotiation does not go easy. As Yamamoto mentioned earlier, there are still many customers who are currently negotiating for March, and we will continue to pursue appropriate prices in April and beyond.

That's all from me.

Sano [Q]: Thank you, Mr. Ukai.

Lastly, regarding the plan for structural reform, as you enter the new medium-term management plan, I feel it is a little difficult for the new organization to make it easier to understand the profit margin that has been set forth in the past. So, of course, there may be changes in the industrial structure behind this change, but I am a little unfamiliar with the terminology itself, so please tell me if it will really be easier to grasp profitability, ROIC, and so on.

Ukai [A]: Yes. I can't give you any details as of today. As a basis for our thinking, what should NTN be like 10 years from now? We will create a target for what kind of company we should be, and then work toward that target as we do a solid back cast for the next three years and the next three years after that.

As we have said in the past, in order to further expand the aftermarket field so that we can become a price leader, we need to further expand the 70% of the bearing aftermarket business, which is 70% of the total aftermarket business, and the remaining 30% is the automotive business. In addition, we will expand the constant velocity joints and hub bearings, which will continue to be used in automobiles, especially in EVs. We will maintain and improve our earning power in these two main pillars.

It depends on how much new products can be developed in addition to above areas. As you mentioned, we would like to set firm targets for ROE and ROIC, as well as for measures to achieve them, and show what they will look like not only in the next medium term, but also in 10 years' time. I would like to show you the schedule for achieving these goals. We would like to follow up on that closely.

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

Ukai [M]: Thank you.

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

Next, Mr. Isayama from Goldman Sachs, please state your question.

Isayama [M]: I'm Isayama from Goldman Sachs. I hope you can hear me.

Nagao [M]: Yes, I can,

Isayama [Q]: Thank you very much. I would also like to ask three quick questions.

I would appreciate it if you could give me an analysis of the increase or decrease in the Q3 cumulative results on page seven, here by business segment. In conjunction with that, and I guess this is a question for CFO Yamamoto, I think there were different breakdowns in minus JPY18.6 billion of Q3 and minus JPY12.6 billion of the full-year guidance in the scale and other factors as sales, production, inventory valuation, etc. Could you supplement this information as well.

That's all for the first question. Thank you.

Nagao [M]: Okay, Kouge of the secretariat will answer the first question.

Kouge [A]: I am Kouge from the secretariat.

Now, on page seven, I will provide a breakdown by business segment of the change in operating income for the same period of the previous year.

The first is the aftermarket business. The total amount was minus JPY2.4 billion compared to the previous year. The breakdown is as follows: scale effect was negative JPY6.3 billion, foreign exchange was positive JPY1.8 billion, selling price level was positive JPY4 billion, variable costs were negative JPY1.6 billion, and fixed costs were negative JPY0.3 billion, of which personnel costs were negative JPY0.5billion.

Next, let’s look at the industrial machinery business. The negative figure compared to the previous year was JPY2.3 billion, of which scale effect was negative JPY7.3 billion, foreign exchange was positive JPY1.6 billion, selling price level was positive JPY3.7 billion, variable costs were negative JPY1.8 billion, and fixed costs were positive JPY1.5 billion, of which personnel costs were positive JPY0.6 billion.

Continuing, here is the automotive business. It was a positive JPY10.2 billion compared to the previous year. The breakdown is as follows: scale effect was negative JPY5 billion, foreign exchange was positive JPY3.7 billion, selling price level was positive JPY15.7 billion, variable costs were negative JPY7.3 billion, and fixed costs were positive JPY3.1 billion, of which personnel costs were positive JPY0.1 billion.

That’s all from me.

Yamamoto [A]: Yamamoto will answer two questions about scale, etc.

First, I will start with the breakdown of the negative JPY12.6 billion on slide five. The table of sales is attached at the bottom of the waterfall graph, and since sales decreased by JPY25.5 billion in terms of volume, the impact of the scale of sales was JPY5.1 billion. We also reduced production, so the impact on the scale of production was JPY6.4 billion. Then, there is the composition, which was a correction due to the increase in the automotive ratio, which was minus JPY1.1 billion. The total is JPY12.6 billion.

Continuing on, slide seven, minus JPY18.6 billion for scale, etc. You asked for a breakdown of this one as well.

Isayama [M]: Yes. Please.

Yamamoto [A]: Yes. As I explained in Q2, production inventories accumulated in the previous fiscal year. The inventory valuation was over JPY7 billion, compared to the production inventory accumulated in the previous fiscal year.

Then, there was the decrease in production, the scale of production has dropped by about JPY18 billion, so the decrease in production, JPY4 billion or more. Then, there was the JPY2 billion-plus in the composition area. This is still the relationship between automotive, industrial machinery and aftermarket businesses.

Also, as I have explained, we are in the process of closing down our Brazilian operations, and we are inevitably losing profit in importing and selling products there. Including this, the rest is a deterioration in the composition of our business.

I hope this answers your first question.

Isayama [Q]: The deterioration of the Brazilian composition was quite significant in Q3.

Yamamoto [M]: You mean YoY.

Isayama [Q]: Yes. Just over JPY7 billion of JPY18.6 billion was negative inventory, and more than JPY4 billion was negative due to production decline.

Yamamoto [A]: The composition was JPY2 billion-plus. The remainder was Brazil, and there was also a partial deterioration in the domestic products mix ratio, but the deterioration including the Brazilian composition was the main factor.

Isayama[Q]: Yes, I understand very well. Thank you.

My second question is about a good story that it was better than I thought it would be about the trend in selling prices. I wonder if it is on automotive business, and I would very much like to know what kind of progress has been made.

The profitability of automotive business is now at 2%, as President Ukai mentioned at the beginning of his talk. I would like to see it expand as it is, but there are cases where a struggling customer's negotiations have improved, or some companies have commented that they have received a batch of retroactive revisions and are going down again, so I would like to know what the situation is. I would very much appreciate your comments on the selling price.

This is my second question. Thank you.

Miyazawa [A]: I would like to explain about the selling price of automotive business. In general, we were able to revise selling prices more than planned globally, especially in US, the revision of selling prices in has produced better results than we had expected, although especially Japan is remaining.

On the other hand, although we had a tough time with certain customers in Europe, we were able to achieve a certain level of expectations and results by escalating negotiations. In that sense, we have been able to make some adjustments in selling prices. For Q4, especially in Japan, we will finalize the agreement this month and next month, and we expect to be able to revise the selling price as expected. As Yamamoto mentioned earlier, we have factored in a certain amount of selling prices for Q4, but the figures are conservative.

That's all from me.

Ukai [A]: Also, in the industrial machinery and aftermarket, we can change the list prices while keeping an eye on market conditions, and we can take the initiative in the aftermarket. We have continued to revise the fixed price list as needed and will continue to do so in the future.

The OEMs of industrial machinery are still struggling, and even if the customer is making the highest profit, they will allow to raise prices in three years. There are some customers who are willing to raise prices immediately in response to the current price increase, but there are some major customers who are reluctant to accept such an increase.

In any case, OEM customers in the automotive and industrial machinery industries are still negotiating severe price hikes, and we are still unable to get them. We will continue to negotiate with our customers by providing them with evidence.

That's all from me.

Isayama [Q]: Thank you, President Ukai and Mr. Miyazawa. Sorry, just a few additions please.

From the way you are talking, the Q3 cumulative total was a little better not only in the automotive part, but also in the industrial and aftermarket. In the automotive business, progress was good, not so much good in certain areas, but not bad all around. From the way you mentioned, is it correct to say that there was an upside in Q4, especially for domestic OEMs? Please do so in the form of confirmation of the points you mentioned.

Ukai [A]: To answer your question, we are still negotiating with automobile OEMs in Japan, so there is a possibility that this part of the negotiations will come to fruition at the end of March. As for industrial machinery, we have not been able to obtain all of the contracts for the current fiscal year, but we will start negotiations in April or later.

Isayama[Q]: Yes, I understand very well. Thank you. Sorry, I have a third and final question.

Regarding the volume trend of industrial machinery, we have heard about the business confidence, and I think we can see from the trends we have recently received that, with the exception of aircraft, the overall trend has been weakening. I have a feeling that aftermarket sales are starting to decline a bit, too.

What I wanted to ask you is, is this going to be quite a long production adjustment or inventory adjustment at the customers? Or is it a short-term thing, and you would like to see a reversal in the spring or summer or so? In terms of the volume outlook, my last question is whether you have heard any signs of a turnaround in the volume trend that you mentioned.

Thank you.

Ukai [A]: Yes, Ukai will answer.

At this point, we have not received any clear information on signs of a turnaround in industrial machinery OEMs, but as reported in some newspapers, there are various movements and information that semiconductors are expected to make a slight recovery in H1 of the next fiscal year. In the past, the growth of machine tools and semiconductors has been the basis for this growth, and we have seen a trend toward growth in various industrial machinery in the future, so we will keep a close eye on these trends with high expectations.

As Yamamoto explained earlier, we are working toward this goal by enhancing the inventory for immediate delivery for aftermarket, and as I mentioned earlier, aftermarket for industrial machinery, which account for 70% of aftermarket business, are inextricably linked to industrial machinery. When industrial machinery business grows, aftermarket for industrial machinery is also expected to follow. So, we are currently focusing on the enhancement of our inventory to meet the demand.

That's all from me.

Isayama [Q]: Thank you very much. I'm sorry. I know I'm being really persistent, but this is a story that has come up in discussions with analysts and investors at these briefings in the past, but as I said, there are many users of industrial machinery, so the trends in new model shipments and repairs are similar. I understand that you want to increase aftermarket sales through unique measures such as the ones you mentioned, but I wonder if you can really keep it up, since I often hear about inventory on the customers' side, even in other industries. I am sorry to be persistent, but may I ask you to describe the certainty of this aftermarket measure or the response to it?

Ukai [A]: In the past, since 2012, NTN has been pursuing a policy of increasing aftermarket business, but the difference between that policy and the current situation is that NTN now has what we call FIRST, standard, or best-selling inventory. We started targeting that inventory level about two years ago, but we have not been able to reach a certain amount. That level is now pretty much double what we were aiming for at that time, and I am even talking about extending it to triple what we were aiming for.

If one buffer in such an area is created, that buffer can be used when aftermarket applications start to grow. This buffer was a problem for production plants, which had to deal with a variety of disruptions. The growth of industrial machinery and aftermarket and the need for immediate delivery of a wide variety of products led to poor productivity. In order to eliminate that, we are trying to provide the rich necessary buffers. This buffer will strengthen the immediate delivery system and at the same time help improve the stability of the factory's production itself, which is what we are steadily doing now. We believe that the situation is a little different from the past.

Isayama [M]: Very clear. Thank you very much.

Nagao [M]: Thank you very much, Mr. Isayama. Does anyone have any other questions? Thank you.

Next, Mr. Tai from Daiwa Securities, please.

Tai [Q]: This is Tai.

Just one thing, I would like to know if you have any analysis of the bumpy increase or decrease in profit between the JPY5.3 billion in operating income in Q2 and the JPY8.6 billion in operating income in Q3. Company-wide basis is fine.

Nagao [M]: Yes, please wait a moment.

Yamamoto [M]: Mr. Tai, my name is Yamamoto.

Tai [M]: Yes.

Yamamoto [A]: I will explain. Operating income for Q2 was JPY5.27 billion, or about JPY5.3 billion, and for Q3 it was JPY8.63 billion, or JPY8.6 billion, a difference of about JPY3.4 billion. The overall situation is as follows: the effect of scale was about JPY3 billion, foreign exchange was plus JPY1.5 billion, selling price level was minus JPY0.4 billion, variable costs were plus JPY1.2 billion, and fixed costs were minus JPY2 billion.

Tai [Q]: What is the background behind the additional JPY1.2 billion in variable costs?

Yamamoto [A]: The cost reduction is having a positive and considerable effect.

Tai [Q]: I see, I understand. Thank you.

Sorry, this is the last one, but is the plus JPY3 billion on the scale basically at the automotive business? It's not a good idea to ask these questions while saying I don't need an explanation by division.

Yamamoto [A]: To be clear, it is almost exclusively automotive business.

Tai [Q]: There is a fair amount of negative impact from other industrial machinery and aftermarket, but is it more than this JPY3 billion, plus the volume effect of the cars, which netted out to a positive JPY3 billion left?

Yamamoto [A]: Yes. The aftermarket and industrial equipment were slightly negative since the scale was almost the same between Q2 and Q3. Automotive business put out a little over JPY3 billion, with a total of JPY3 billion.

Tai [M]: I see. Thank you. That's all from me.

Yamamoto [M]: Thank you.

Nagao [M]: Thank you very much, Mr. Tai. Does anyone have any other questions? Thank you.

Next, Ms. Wang of Nomura Securities, please.

Wang [M]: I'm Wang from Nomura Securities. Can you hear me?

Nagao[M]: I can hear you. Thank you.

Wang [Q]: Just a quick point, can you tell us about your outlook for Q4 in the automotive segment and hopefully into the next fiscal year?

Miyazawa [A]: I would like to explain a little about automobiles. As you know, a production cutback at some car makers has had a strong impact, and we have factored in a certain amount of this impact in our business plan based on the forecast that their production volume will be only 50% in March. We do not expect that the impact of the production cutback due to the fraud at some parts manufactures, which was announced this time, will be so large.

As for our projection of car production volume for the next fiscal year and beyond, we believe that global production volume will increase compared to the current fiscal year because the semiconductor problem has subsided globally.

However, there are some unstable factors in the European market, especially regarding electric vehicles, because the price of EVs is higher than that of conventional vehicles due to the loss of government support, and because the infrastructure is still lagging behind. EV adoption is likely to be slower than previously expected. Therefore, although this is a matter of great concern, we expect that the total number of vehicles produced will increase to a certain degree compared to the current fiscal year.

In terms of our business, we have already completed the sales negotiation through FY2026, and in FY2024, we will begin full-scale production of CVJs switched from in-house by an automotive manufacturer, so we expect a certain increase in volume compared to the current fiscal year. I hope this answers your question.

Wang [Q]: Thank you very much for the detailed answers. May I just add something?

Is it safe to assume that we can already expect an improvement in the profitability of the product mix for automotive business alone from the next fiscal year?

Miyazawa [A]: Yes, the mix will not change drastically, but as Ukai explained earlier, we will maintain a certain level of prices, and we will continue to implement price adjustments from April onward if they are still insufficient. We are currently moving forward in the direction of improving profitability.

Wang [M]: Thank you. That's all from me.

Miyazawa [M]: Thank you very much.

Nagao [M]: Thank you very much, Ms. Wang. Does anyone have any other questions? No more?

This concludes the IR presentation of NTN Corporation's financial results for Q3 of the fiscal year ending March 31, 2024.

Thank you for taking time to join us today.

[END]

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Document Notes

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