

August 2, 2022

## **NTN Corporation Q&A Summary of FY2022 Q1 IR meeting**

**Q1. Is the Q1 result (sales and OP) in line with the company's initial expectations? It seems the company's Q2 is better than expectations. Why the company doesn't revise the full year forecast?**

A1. Q1 result was almost in line, but slightly shortage from the initial plan except the weak yen exchange-rates effect. This shortage is caused by Chinese city lock-down in April and May. In June, the scale of sales and OP recovered due to lifting of lock-down and economical recovery. However, it was a bit negative in Q1 total. Looking at the recovery in June, we revised Q2 sales and OP forecasts a little more than the initial anticipated, but the full-year forecast shouldn't be revised.

**Q2. Looking at OP in June, Q2's OP forecast appears to be lower. Why?**

A2. Because we see the Q2 conservatively. In addition, we also consider the impact of a decrease due to the vacations in the European region.

**Q3. From the OP water-fall charts of analyzing changes in Q1 vs Q2 and H1 vs H2, I understood to realize an increase in profits by higher pricing, rather than relying on an increase in sales. Is it correct?**

A3. That is right. Since the beginning of this fiscal year, we have been negatively affected by unabated inflation, including steel prices, utilities, logistics costs, and foreign personnel expenses. We aim to return to profitability by passing costs to sales price throughout the year.

**Q4. How far is NTN's price pass-through progressing compared to the initial assumption?**

A4. We have been negotiating prices with customers globally since April. There are not only some customers who are tough to react, but understand the situation well. We will persistently continue negotiations, and we believe that we can achieve our plan under the current circumstances.

**Q5. Please tell us about the impacts of the Chinese city lock-down by business sector.**

A5. The Chinese city lock-down affected to significantly automotive business. Although it recovered sharply in June, it has not yet returned to its original net sales expectation. The impact was conspicuous in automotive business, but the impact effected to industrial machinery business, too.

**Q6. With respect to inventory assets, although there is an impact from fluctuations in the exchange-rate of yen, the inventory amount looks high. I understand that you need a production adjustments in the future. But in anticipation of a recovery in demand, it would be appropriate at the current inventory level. Please tell us the appropriate**

**inventory level that NTN considers.**

A6. Inventory assets increased at the end of June. However, finished goods inventory has not increased, and in particular, work-in-process inventory for automotive has increased. The main reason for this is a sudden reduction in automotive customers production, due to a shortage of semiconductors and a Chinese city lock-down impacts. You said the current inventory level could be fine. However, we are working to reduce inventory assets for improving CCC (the cash conversion cycle) and preparing for the risk of rising interest rates. In a phase of recovery in demand, we aim to achieve our inventory target at the end of March while utilizing a current work-in-process inventory.

**Q7. As for the demand of bearings, which declined in automotive business, you allocated it for aftermarket business, and aftermarket sales for Q1 increased. After Q2 to increase aftermarket business sales, is there any problem in securing the production capacity and the bearing inventory for aftermarket business?**

A7. We are working to expand production capacity for small-sized ball bearings by outsourcing production to a bearings company in Taiwan. In addition, we will utilize the newly installed bearing lines in new Wakayama Works to increase the capacity and secure bearings for aftermarket.

**Q8. Comparing the H1 and the H2 of net sales of aftermarket business, net sales in the H2 is lower than the H1. Do you think this is due to the depreciation of the yen at the assumed exchange rate?**

A8. Sales of Q1 to aftermarket were stronger than expected. We also succeeded allocating a decrease in demand for bearings for automotive to aftermarket. As we have not changed the sales forecast for aftermarket for the full fiscal year announced in May, it appears that net sales in the H2 will decrease. In reality, we are expanding sales in aftermarket business as a key measure of mid-term plan. If demand for automotive remains slow in the H2, we aim to further increase sales by prioritizing aftermarket business.

[Words]

OP> Operating Profit

Q1> 1<sup>st</sup> Quarter

Q2> 2<sup>nd</sup> Quarter

H1> 1<sup>st</sup> Half

H2> 2<sup>nd</sup> Half