

November 4, 2022

NTN Corporation Q&A Summary of FY2022 IR meeting **(The first half of fiscal year ending March 31, 2023)**

Q1. Regarding the automotive business, what is the demand trend in the second half compared to the first half of FY2022 on a volume basis?

A1. In the second half, we expect an increase of about 5% globally compared to the first half.

Q2. Is the downward revision of the industrial machinery business due to lower sales of construction machinery?

A2. Demands for the construction machinery and machine tools industries are strong, and we do not foresee that sales for industrial machinery decrease sharply. However, we are conservatively forecasting sales for construction machinery in anticipation of delays in parts synchronization and semiconductor procurement due to the China lockdown.

Q3. I have a question regarding the competitive environment in the industrial machinery business. European competitors have many production facilities in Europe where fuel prices are rising and production costs are rising. Considering the weak yen and price pass-on measures, what is the attractiveness of your products, including price, from the customer's point of view? Is the competitive environment changing?

A3. The industrial machinery business includes a diverse industry, including construction machinery, agricultural machinery, and gearboxes. If demands for construction machinery become strong, many of our products will be used. In the field of gearboxes, we are seeing growth for robots, and in the field of wind turbine, offshore applications are attracting attention. In machine tools, Japanese manufacturers have strong demand including machine tools for China.

Q4. You have increased production for aftermarket business, and both profit and sales are expanding. What is the difference now from the past when you could not expand aftermarket sales in the phase of sales expansion for OEM?

A4. Now we are utilizing production lines originally for automotive applications to the aftermarket business. Suppliers' supply capacity is also gradually increasing. We have started increasing production lines to meet the demand from the aftermarket in the mid- to long-term.

Q5. We recognize that aftermarket demand is high and booming. We see that demand will decline in the next fiscal year due to the macro environment. What is your outlook for the market?

A5. Although it is difficult to forecast every change in industry after next April, we see demands for aftermarket business are mostly strong based on the outlook for this second half. There is a shortage of bearing products globally, and we do not expect a major decline in demand in the immediate future. However, in the aftermarket business, there are some negative factors in the European automotive aftermarket due to the problems in Russia and Ukraine, and we need to keep an eye on future trends.

Q6. What are the reasons that you expect the automotive business will recover greatly in the second half from a loss in the first half?

A6. The reason for this is that the price pass-on measures in the automotive business have great weight and volume in the second half compared to the first half. In addition to this, the business mix will partly change from the second half, which will significantly improve the operating margin.

Q7. What is the situation regarding the burden of logistics costs?

A7. The price is higher than last year, mainly for sea freight rates to Europe and the U.S. Currently, we are reducing costs by improving container loading efficiency. Sea freight rates are in a downward trend recently, but since we are doing business on an annual contract, we plan to incorporate reductions into our contracts for the upcoming fiscal year.

Q8. The amount of cost increase during the fiscal year is large, and I see that you have not passed those costs on to prices well enough. Due to the lead time issue, some of the price pass-on measures will be included in the next fiscal year or later? Or is it difficult to raise prices except for steels? I would like to know the background and if you can recover in the future?

A8. In response to cost increases, we are still negotiating with customers to pass those costs on to price, and we expect that many of the negotiations will be concluded in March. We will continue to promote price pass-on measures for rapid inflation by explaining the situation to customers politely while presenting evidence. On the other hand, we see risks in the world situation, including the impact of the semiconductor shortage, China's zero-COVID response, and economic trends due to rising interest rates.

Q9. Regarding the price increase this term, it is a top-down approach with momentum, but how about continuity? How is the mindset of sales people and those who negotiate, and how is the reform of internal systems?

A9. Since we are a manufacturing company, our starting point is to increase cost competitiveness through cost reduction towards market prices. On the other hand, we will continue to pass costs that increased rapidly over our cost reduction efforts on to prices after gaining understandings from customers. The mindset of our employees has changed as a result of our activities over the past two years. We go and see employees to have conversations at each business site as possible, and we will continue to do so.

Q10. Compared to the end of June, inventories are at the same level, and I have an impression that they are under control. Is it because the adjustment on the production side was good, or shipments was better than expected?

A10. For nearly two years, we have been experiencing a drop in demand from automotive customers right before our production due to a shortage of semiconductors. In the first half, we were able to control inventories with an intention to manage our inventories based on the number of demands being placed by our customers.

Q11. What is the feasibility of achieving the operating income target of 42.0 billion yen in the medium-term management plan for the revitalization scenario in the next fiscal year? The exchange rate has changed since that time. Please tell us about your approach to production volume, variable costs, and fixed costs for the next fiscal year.

A11. We will increase the ratio of aftermarket business in our portfolio. In the industrial machinery and automotive businesses, we will eliminate unprofitable items and improve profit margins. Furthermore, we will increase the supply capacity for the aftermarket and bring it to the portfolio we are aiming for. As for variable costs, we will purchase from competitive suppliers and reduce variable costs by promoting global procurement and procurement reforms. We will also reduce manufacturing costs by promoting production reforms. The goal of NTN's revitalization is to generate corporate value, and while operating income of 42 billion yen is certainly a target, we will strengthen management control and aim for ROIC of 5% or more and the Net D/E ratio of 1.0 or less.