



NTN Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2025

August 2, 2024

Event Summary

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[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2025	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	4	
	Eiichi Ukai	Director, Representative Executive Officer, President, Executive Officer, CEO
	Masaaki Yamamoto	Director, Executive Officer, CFO
	Tatsuo Nagao	Manager, Corporate Communications Department, Group Management HQ
	Kazuhisa Kouge	Corporate Communications Department, Group Management HQ
[Analyst Names]*	Hirosuke Tai	Daiwa Securities
	Tomohiko Sano	JPMorgan Securities
	Tatsuhiko Ito	Mizuho 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.

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Presentation

Nagao: We will now begin NTN Corporation’s financial results briefing for Q1 of the fiscal year ending March 31, 2025. Thank you very much for taking time out of your busy schedule today to participate in our financial results IR presentation.

First, I would like to introduce today’s attendees. Ukai, Executive Officer, CEO.

Ukai: I’m Ukai. Thank you.

Nagao: Yamamoto, Executive Officer, CFO.

Yamamoto: I am Yamamoto. Thank you.

Nagao: The secretariat will be headed by myself, Nagao, of the Corporate Communications Department, and Kouge. Thank you.

Kouge: Thank you.

Today, President Ukai will first explain the key points of the financial results, and then CFO Yamamoto will explain the results for Q1 of FY2025 and the outlook for the full fiscal year. After the presentation, there will be a question-and-answer session, and the meeting will end at 6:00 PM.

Now then, President Ukai, please begin.

Ukai: My name is Ukai from NTN Corporation. Thank you very much for taking time out of your busy schedule today to attend our 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, earnings forecast, and profit increase/decrease analysis in detail, so I will explain the key points for Q1 of FY2025.

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Key Points of Financial Results



FY2024 Q1

Net sales : ¥210.8 billion (+¥10.0 billion YoY) incl. for Aftermarket ¥35.4 billion

Operating income : ¥4.5 billion (+¥3.0 billion YoY) Operating margin : 2.2%

□ Bearing and Others

Net sales ¥84.3 billion, Operating income ¥3.3 billion, Operating margin 3.9%

Sales decreased YoY due to decreased demand mainly in Japan, Europe and Asia.

Operating income decreased YoY due to the significant impact of declined scale despite the improvement of selling prices.

□ CVJ /Axle

Net sales ¥126.5 billion, Operating income ¥1.2 billion, Operating margin 1.0%

Sales and operating income increased YoY due to the impact of foreign exchange rates, while demand decreased except in Asia and other regions, improvement in selling price, and cost reductions.

Forecast for FY2024 Full Year

No change from the previous announcement

(For reference) Net Sales : ¥860.0 billion, Operating income : ¥32.0 billion, Operating margin 3.7%

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Please refer to page two. Net sales totaled JPY210.8 billion and operating income was JPY4.5 billion, partly due to the impact of foreign exchange rates resulting from the weaker yen.

Sales in the aftermarket business remained on par with the previous year at JPY35.4 billion. In bearing and others, sales were JPY84.3 billion, down JPY3.2 billion YoY, and operating income was JPY3.3 billion, down JPY0.5 billion YoY, as demand declined in all regions despite efforts to improve selling prices and reduce costs, and the impact of a weaker yen.

In the CVJ/Axle business, while demand declined, except in Asia, sales amounted to JPY126.5 billion, up JPY13.2 billion YoY, and operating income was positive JPY1.2 billion, up JPY3.6 billion YoY, due to improvement in selling price and cost reductions, as well as the impact of foreign exchange rates due to yen depreciation.

The forecast for this fiscal year remains unchanged from the beginning of the fiscal year.

That is all from me.

Nagao: Thank you, President Ukai. CFO Yamamoto will continue with a detailed explanation of the financial results.

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1. Key Financial Indicators of FY2024



(billion yen)	FY2023		Q1 Results ②	Q2 Forecast	FY2024		Full Year Forecast (Previous Announcement)	Diff. ②-①		
	Q1 Results ①	Full Year Results			H1 Forecast	H2 Forecast		Total	Volume	Forex
Net sales	200.8	836.3	210.8	219.2	430.0	430.0	860.0	10.0	(7.3)	17.4
Operating income	1.5	28.1	4.5	6.5	11.0	21.0	32.0	3.0	0.2	2.8
Operating margin	0.7%	3.4%	2.2%	3.0%	2.6%	4.9%	3.7%			
Ordinary income	1.9	20.0	2.2	3.8	6.0	16.0	22.0	0.3	(2.3)	2.6
Extraordinary income (loss)	-	(3.4)	-	-	-	(8.0)	(8.0)	-	-	-
Profit (loss) attributable to owners of parent	1.6	10.6	0.2	1.8	2.0	3.0	5.0	(1.5)	(3.1)	1.6
Inventories	255.0	264.8	273.9				242.0	* 9.1	(1.0)	10.1
FCF	12.1	40.1	(4.6)				24.0	(16.7)	-	-
Exchange rate	1USD	¥137.2	¥144.5	¥155.7	¥145.0	¥150.4	¥145.0	¥147.7	¥18.5	
	1EURO	¥149.4	¥156.7	¥167.7	¥160.0	¥163.8	¥160.0	¥161.9	¥18.3	
FY2024 Annual Dividend			¥11.0 (Interim ¥5.5 / Year-end ¥5.5)							* Increase/decrease from the end of Mar.2024

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Yamamoto: I, Yamamoto, will explain from here. First, please see page three, consolidated key financial indicators.

Q1 results for this fiscal year were as follows, net sales of JPY210.8 billion, operating income of JPY4.5 billion, ordinary income of JPY2.2 billion, and net income of JPY0.2 billion.

Comparisons of sales and operating income with the same period of the previous year, as well as inventories and cash flows, will be explained later in this report.

On the right side of the screen, there is a column showing ② - ① for the same period of the previous year, which indicates that ordinary income decreased by JPY2.3 billion from the previous year. This is mainly due to foreign exchange gains and losses. Foreign exchange gains were recorded in the previous period, and the current period was slightly affected by foreign exchange losses. The net income of JPY0.2 billion was due to a larger tax burden ratio in Q1, due to the impact of tax effect accounting.

As Ukai explained earlier, we have not changed our full year forecast, but we are now disclosing the H1 forecast. Increase or decrease in operating income for H1 and H2 will also be explained later.

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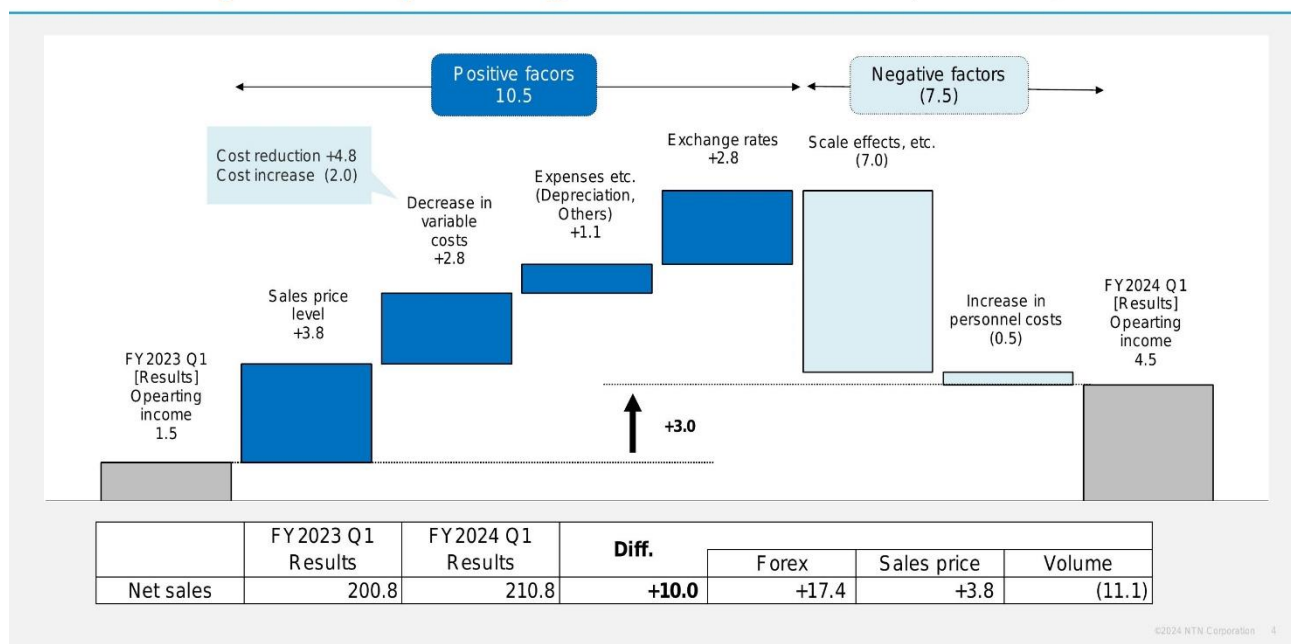
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2-1. Analysis of Operating Income

[FY2023 Q1 Results vs FY2024 Q1 Results]



Please refer to page four. This is a waterfall graph of operating income increase/decrease analysis from the same period of the previous year. The leftmost figure shows operating income of JPY1.5 billion for the same period last year, and the rightmost figure shows operating income of JPY4.5 billion for Q1 of the current fiscal year.

A table of increase/decrease in net sales is shown below the graph. Excluding foreign exchange and selling prices, sales decreased by JPY11.1 billion YoY in terms of volume. The largest factor for the decrease in profit on the right side is the impact of the decline in sales as I mentioned earlier, and associated production, and inventory valuation, and the scale of the decline is a negative JPY7.0 billion factor. As for personnel expenses, this was a negative factor of minus JPY0.5 billion, mainly in Europe.

On the other hand, the factors that contributed to the increase in profits on the left side of the graph included increase of JPY3.8 billion in the selling price level, JPY2.8 billion in variable expenses, JPY1.1 billion in cost reduction, and JPY2.8 billion in foreign exchange effects despite a decrease in the scale of sales.

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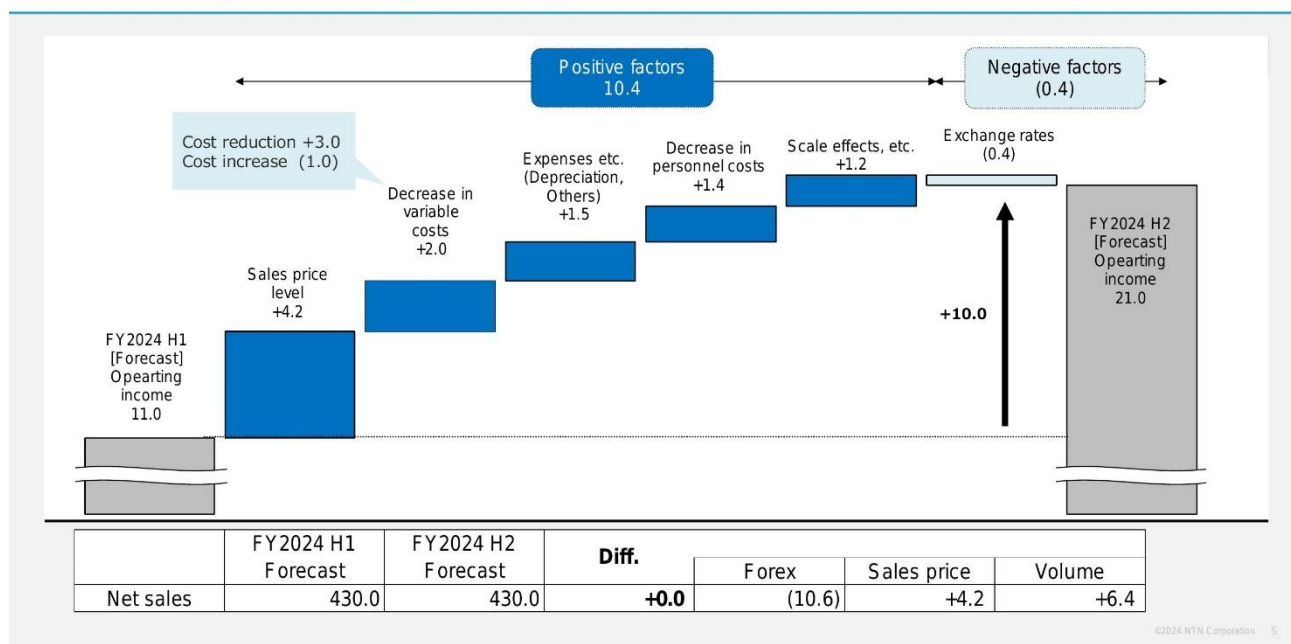
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2-2. Analysis of Operating Income

[FY2024 H1 Forecast vs FY2024 H2 Forecast]



Please refer to page five. This is a waterfall graph of the increase/decrease analysis of operating income for the H1 forecast and the H2 forecast that we disclosed this time. The leftmost figure shows the H1 forecast for operating income of JPY11.0 billion, and the rightmost figure shows the H2 forecast for operating income of JPY21.0 billion.

As in the previous slide, the graph below shows the increase/decrease in net sales. Excluding foreign exchange and selling prices, we expect sales to increase by JPY6.4 billion in H2, compared to H1. The only factor that reduced profits in the above table is the negative exchange rate of JPY 0.4 billion.

On the other hand, the left side of the profit increase factor is an additional JPY4.2 billion in selling price level, assuming that most of the price hike negotiations will be settled in H2 as the same as last year, an additional JPY2.0 billion in variable costs, and an additional JPY1.5 billion, mainly due to the reduction of expenses in Japan. We also expect to reduce labor costs by improving productivity, plus JPY1.4 billion.

The increase in the scale is expected to be contained against the JPY6.4 billion increase in sales volume by curtailing production.

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3. Net Sales by Region



(billion yen)	FY2023		FY2024		Diff.		
	Q1 Results ①	Full Year Results	Q1 Results ②	Full Year Forecast (Previous Announcement)	Total	Volume	Forex
Japan	50.8	210.0	49.1	222.5	(1.7)	(1.7)	0.0
Americas	64.9	274.7	74.5	273.0	9.6	0.7	8.9
Europe	43.0	171.5	44.8	183.5	1.8	(3.1)	4.9
Asia and others	42.0	180.1	42.4	181.0	0.4	(3.3)	3.6
Total	200.8	836.3	210.8	860.0	10.0	(7.3)	17.4

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Please look at page six, sales by region. Please see the column on the right for ②-①, excluding the foreign exchange. As I explained earlier, there was a JPY3.8 billion increase in the selling price level, which, if excluded, would have resulted in a JPY11.1 billion decrease in the volume of sales.

As for increase/decrease in the volume of sales by region, Japan was minus JPY3.2 billion, the Americas, minus JPY0.8 billion, Europe, minus JPY3.6 billion, and Asia and other regions, minus JPY3.5 billion, of which China was minus JPY2.4 billion. Sales in Europe and China declined noticeably.

4. Net Sales and Operating Income by Business Segment NTN

(billion yen)	FY2023		FY2024		Diff.		
	Q1 Results ①	Full Year Results	Q1 Results ②	Full Year Forecast (Previous Announcement)	Total	Volume	Forex
Bearing and Others	87.5	346.8	84.3	357.0	(3.2)	(9.2)	6.0
CVJ /Axle	113.3	489.5	126.5	503.0	13.2	1.9	11.3
Total	200.8	836.3	210.8	860.0	10.0	(7.3)	17.4

(billion yen)	FY2023		FY2024		Diff.
	Q1 Results ①	Full Year Results	Q1 Results ②	Full Year Forecast (Previous Announcement)	②-①
Bearing and Others	3.8	17.7	3.3	18.7	(0.5)
CVJ /Axle	(2.3)	10.4	1.2	13.3	3.6
Total	1.5	28.1	4.5	32.0	3.0

[Notes] After disclosing the results for the fiscal year ended March 31, 2024, at the financial results briefing on May 17, 2024, we have refined our common cost allocation criteria for several overseas subsidiaries.
As a result, common expenses allocated to Bearings and Others decreased, while common expenses allocated to CVJ /Axles increased (Impact on operating income)
- FY2024 Q1 results Bearings and Others **+¥0.6 billion** CVJ /Axle **(¥0.6 billion)**
- FY2024 Full year forecast Bearings and Others **+¥2.3 billion** CVJ /Axle **(¥2.3 billion)**

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Next, please see page seven. These are sales and operating income by new business segment.

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First, please see the column in the top row for the change in net sales, ② - ①, excluding foreign exchange. Excluding the JPY3.8 billion increase in the selling price level, sales of bearing and others decreased by JPY10.7 billion, and sales of CVJ/Axle decreased by JPY0.4 billion.

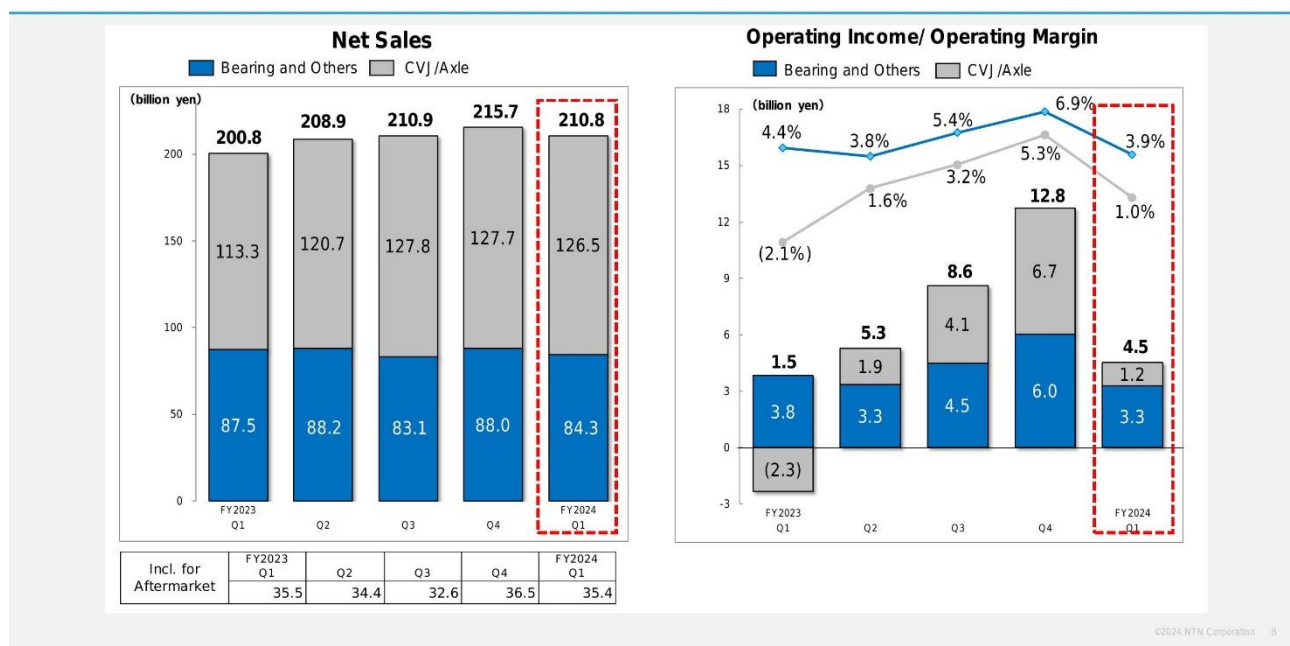
As for operating income in the lower row, as described in the notes, common cost allocated to bearing and others decreased and common cost allocated to CVJ/Axle increased due to the impact of more refined criteria for allocating common cost at overseas subsidiaries.

The impact on bearing and others is a plus of JPY0.6 billion and a minus of JPY0.6 billion for CVJ/Axle in Q1, and a plus of JPY2.3 billion for bearing and others and a minus of JPY2.3 billion for CVJ/Axle in the forecast for the full year. The figures presented here include the impact of this change.

As for increase/decrease in operating income, operating income for bearing and others decreased by JPY0.5 billion. Although there were positive factors, such as positive foreign exchange rates, improved selling prices, better variable costs, and fixed cost reductions, these were not enough to offset the JPY10.7 billion decrease in the volume, resulting in a decrease in income.

Also, for CVJ/Axle, positive foreign exchange rates, improved selling prices, and better variable costs offset the impact of the decrease in scale, resulting in a JPY3.6 billion increase in profit.

5. Financial Results by Business Segment (Quarterly Trend) NTN



Please refer to page eight. Here are the quarterly sales and operating income amounts, and operating margin by new business segment.

As you can see from the line graph on the right, the operating margin in Q1 of FY2024 was lower than in Q4 due to the same factors as in the previous fiscal year, such as the delay in passing on inflationary costs to the selling prices, as well as a decrease in the scale from Q4 of the previous fiscal year.

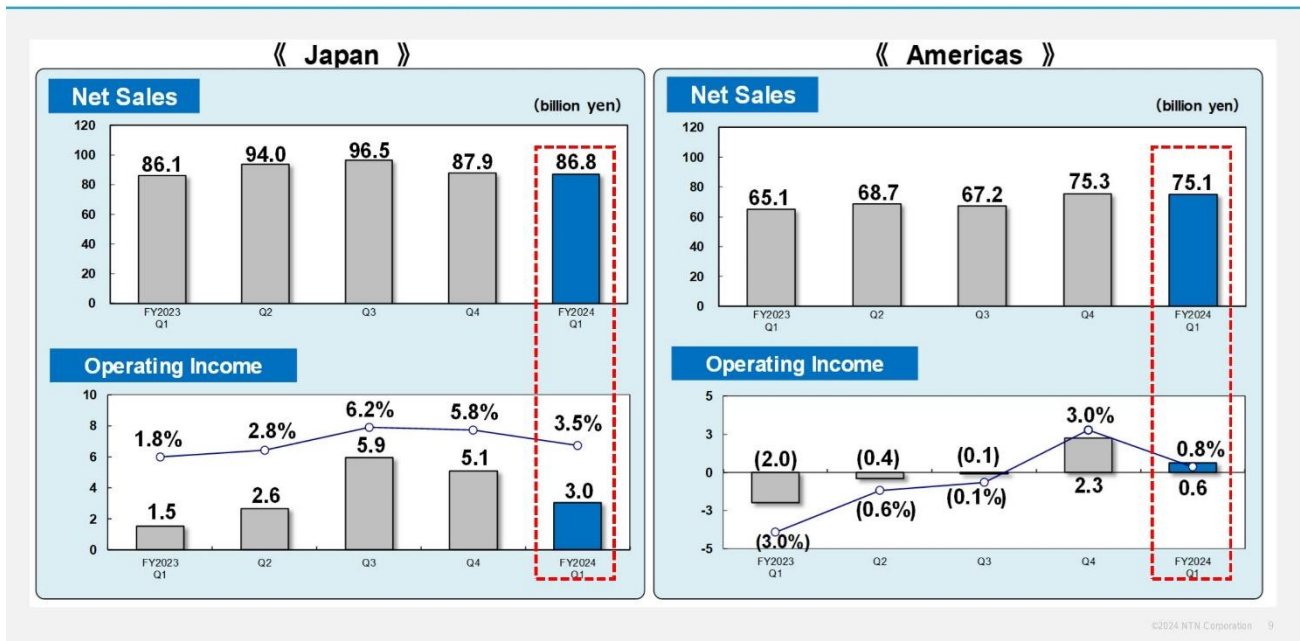
However, we expect the operating margin to gradually improve in Q2, Q3, and Q4 of the current fiscal year, as it did in the previous fiscal year.

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



Please refer to page nine, quarterly sales and operating income by company location. The upper row shows net sales and the lower row shows operating income, with Japan on the left and the Americas on the right. As I explained earlier, each quarter is lame, so I will explain the comparison with Q1 of the previous fiscal year.

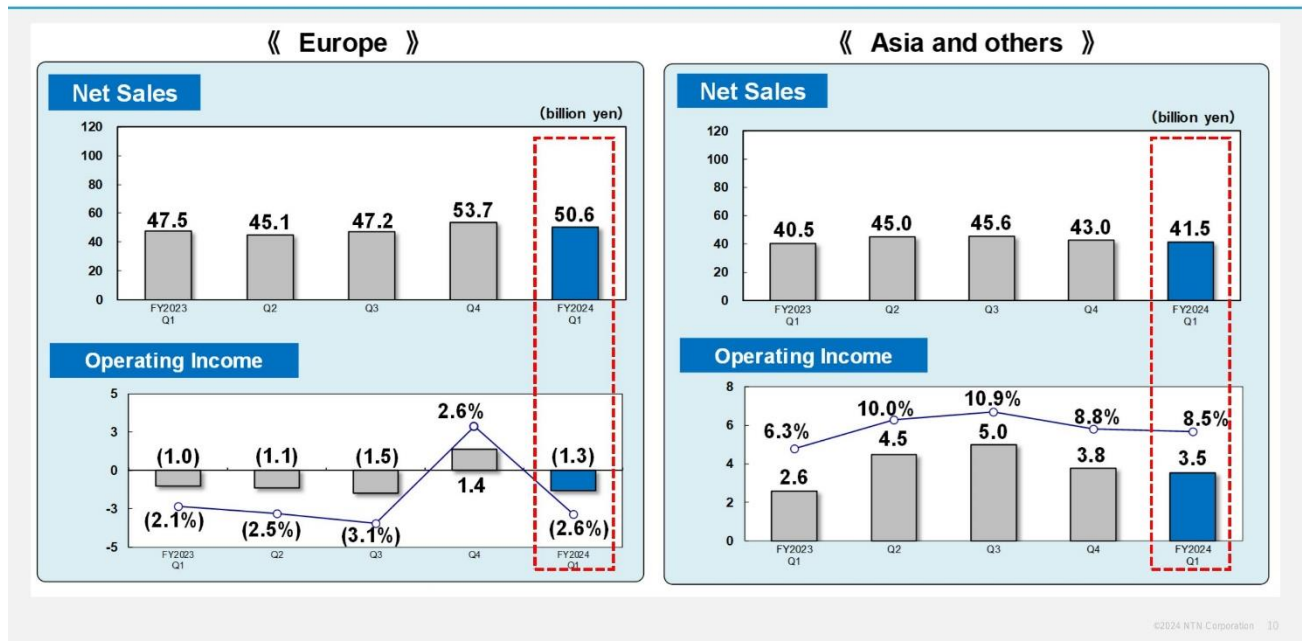
As for Japan, operating income increased by JPY1.5 billion, mainly due to an improvement in the selling price level, and the operating margin improved by 1.7 percentage points. In the Americas on the right side, the operating income increased by JPY2.6 billion, mainly due to the improvement of selling price level and variable cost, and the business turned profitable.

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



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Next, please see page 10. The same is quarterly sales and operating income by company location. Europe is on the left and Asia and others, on the right.

First, in Europe, sales on a volume basis, excluding the foreign exchange and level of selling prices, decreased by JPY3.2 billion compared with the same period of the previous year. The impact of this decrease in scale could not be fully offset, resulting in a JPY0.3 billion decrease in profit compared to Q1 of the previous fiscal year.

On the other hand, Asia and others on the right side posted stable profit margins despite a decline in sales in China.

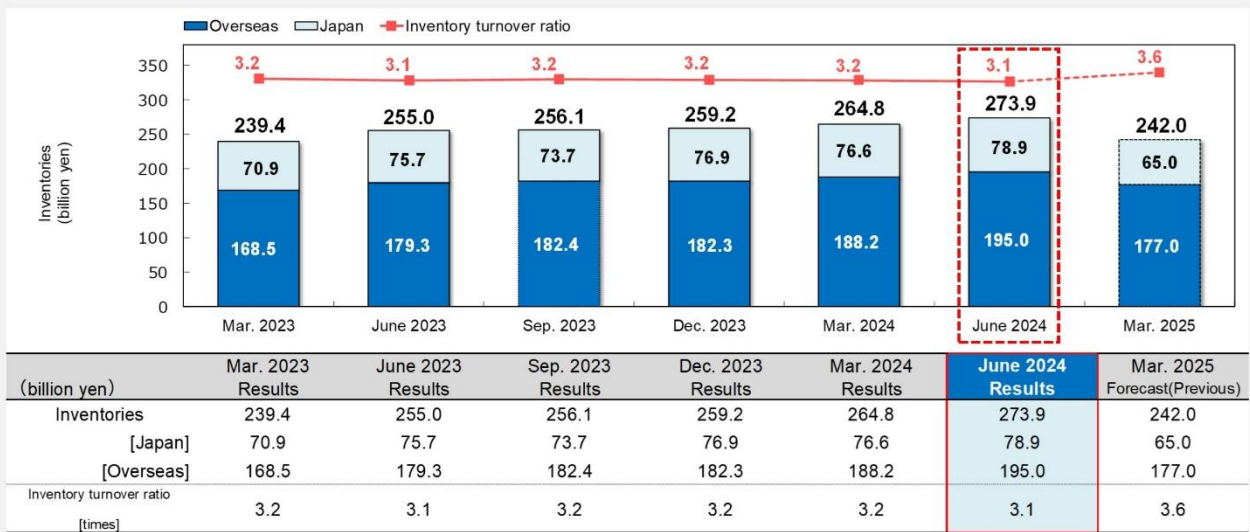
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7. Inventories

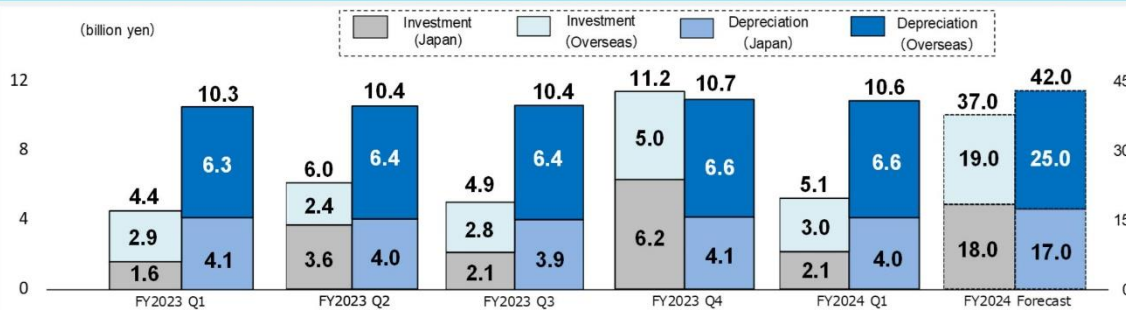


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Next, please look at page 11, inventories by quarter. Inventories at the end of June 2024 totaled JPY273.9 billion, an increase of JPY9.1 billion from the end of the previous fiscal year, but this includes JPY10.1 billion in foreign exchange effects, resulting in a decrease of JPY1.0 billion in volume.

The forecast for the fiscal year ending March 31, 2025 is JPY242.0 billion, with a turnover ratio of 3.6. To achieve this target, we will continue to reduce inventories of work in process, parts, and materials in particular.

8. Capital Expenditures and Depreciation



(billion yen)	FY2023					FY2024	Diff.	FY2024
	Q1 Results①	Q2 Results	Q3 Results	Q4 Results	Full Year Results	Q1 Results②	②-①	Full Year Forecast
Capital expenditure	4.4	6.0	4.9	11.2	26.6	* 5.1	0.7	37.0
[Japan]	1.6	3.6	2.1	6.2	13.5	2.1	0.5	18.0
[Overseas]	2.9	2.4	2.8	5.0	13.1	3.0	0.1	19.0

*In addition, capital expenditure for intangible fixed assets (FY2024 Q1 Results : ¥0.6 billion, FY2024 Full Year Forecast : ¥5.0 billion)

(billion yen)	FY2023					FY2024	Diff.	FY2024
	Q1 Results①	Q2 Results	Q3 Results	Q4 Results	Full Year Results	Q1 Results②	②-①	Full Year Forecast
Depreciation	10.3	10.4	10.4	10.7	41.8	10.6	0.3	42.0
[Japan]	4.1	4.0	3.9	4.1	16.1	4.0	(0.0)	17.0
[Overseas]	6.3	6.4	6.4	6.6	25.7	6.6	0.3	25.0

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Next, please see page 12, capital expenditures and depreciation by quarter.

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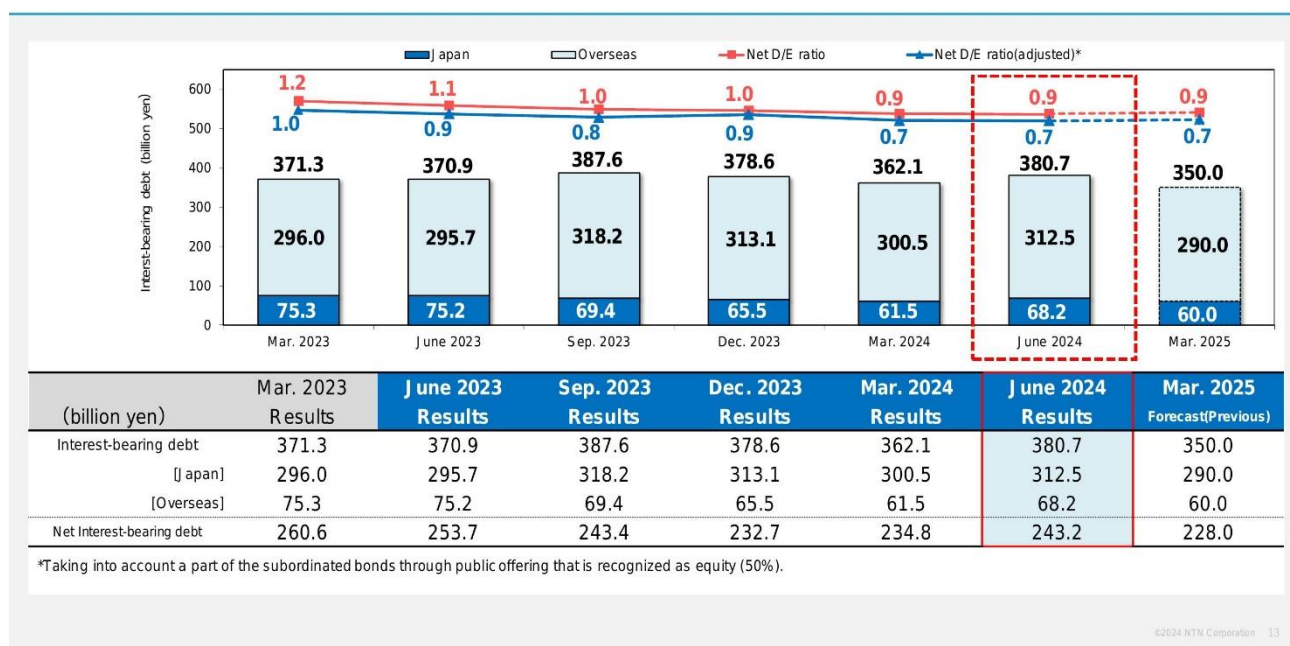
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Capital expenditures in Q1 totaled JPY5.1 billion, and depreciation and amortization totaled JPY10.6 billion. Although there was a slight delay in capital investment in Q1, we believe that both investment and depreciation are on the lines of our full year forecast.

The breakdown of the JPY5.1 billion capital investment in Q1 by region is as follows, JPY2.1 billion in Japan, JPY0.8 billion in the Americas, JPY1.6 billion in Europe, and JPY0.6 billion in Asia and other regions.

9. Interest - Bearing Debt



Next, please see page 13, interest-bearing debt. Net interest-bearing debt is shown at the bottom of the table in the bottom row. Net interest-bearing debt at the end of June 2024 was JPY243.2 billion, an increase of JPY8.4 billion from the end of the previous fiscal year.

As explained on the next page, net interest-bearing debt increased temporarily due to the impact of the temporary suspension of liquidation of accounts receivable and tax payments, but is expected to decrease in Q2 and thereafter.

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10. Cash Flows

*Deterioration in operating CF because of temporary suspension of liquidation of accounts receivable due to worsening conditions



(billion yen)	FY2023					FY2024		FY2024
	Q1 Results①	Q2 Results	Q3 Results	Q4 Results	Full Year Results	Q1 Results②	②-①	Full Year Forecast
I. Cash flow from operating activities	16.8	19.6	18.8	10.0	65.1	* 0.9	(15.8)	64.0
II. Cash flow from investing activities	(4.7)	(7.5)	(2.9)	(9.9)	(25.0)	(5.5)	(0.8)	(40.0)
I + II. Free cash flow	12.1	12.1	15.9	0.1	40.1	(4.6)	(16.6)	24.0
III. Cash flow from financing activities	(9.7)	13.9	(12.4)	(22.0)	(30.2)	10.5	20.2	(29.0)
IV. Effect of exchanging rate translation on cash and cash equivalents	4.0	1.0	(1.8)	3.5	6.7	4.3	0.4	(0.3)
V. Net increase in cash and cash equivalents	6.3	27.0	1.9	(18.7)	16.6	10.3	4.0	(5.3)

Period	Operating CF	Investing CF	Free CF
FY2023 Q1 Results	16.8	(4.7)	12.1
FY2023 Q2 Results	19.6	(7.5)	12.1
FY2023 Q3 Results	18.8	(2.9)	15.9
FY2023 Q4 Results	10.0	(9.9)	0.1
FY2024 Q1 Results	0.9	(5.5)	(4.6)
FY2024 Full year Forecast	64.0	(40.0)	24.0

Next, please see page 14, quarterly cash flows. Operating cash flow for this Q1 was JPY0.9 billion, a drop of JPY15.8 billion compared to the same period last year.

The reason for this is that the Company has been using liquidation of accounts receivable as part of its efforts to diversify its financing methods. However, since April this year, the interest cost of some products has exceeded the interest rate of borrowings, so the Company has temporarily suspended the use of liquidation of accounts receivable. The impact of this change was approximately JPY13.0 billion, which was a deteriorating factor for operating cash flow in Q1.

Since this is the effect of the temporary suspension of liquidation of accounts receivable, there is no impact on operating cash flow from Q2 onward. We are already considering a replacement product that will provide interest rate benefits, and we do not expect this to affect our cash flow forecast for the full year.

That is all from me.

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Question & Answer

Nagao [M]: Thank you very much, CFO Yamamoto. We will now begin the question-and-answer session.

First of all, Mr. Sano of JPMorgan Securities, please begin.

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

First of all, I would like to know the scale of the Q1 sales and operating income compared to the internal plan, and if there are any bumps in the road and if there are any changes compared to three months ago. That is my first question.

Ukai [A]: I am Ukai. Thank you, Mr. Sano.

First of all, sales and profits are as we have expected. However, in terms of the current global situation, the recovery of the Chinese and European markets has been delayed. The US is not strong either. Only Asia is coming in line with the plan, and the domestic market has not yet returned strongly. I see it as such a situation.

The exchange rate has been moving significantly since the day before yesterday, so there are many factors that will change in the future, especially this year, such as the US presidential election and global political issues, so we need to carefully assess these factors as we move forward with our business. That is all.

Sano [Q]: Thank you very much. You have disclosed the H1 plan, but I would like to know if you have disclosed the H1 sales and operating income plan for bearings and CVJ, and if there is any subtraction of the increase or decrease, even if it is just roughly the movement from Q1 to Q2. I understand that you have disclosed the increase/decrease from H1 to H2, but I would appreciate it if you could tell me. I appreciate your explanation.

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

First of all, the sales forecast for H1 is JPY430.0 billion. If we break this down into bearings and CVJ, there are a few fractions, but we expect sales of JPY176.3 billion for bearing and others and JPY253.7 billion for CVJ/Axle.

The operating income of JPY11.0 billion is expected to be JPY6.1 billion for bearing and others and the remaining JPY4.8 billion to JPY4.9 billion for CVJ/Axle. This is the breakdown for H1.

Secondly, would you prefer a breakdown of Q2?

Sano [Q]: I don't think the change in operating income from Q1 to Q2 is that big compared to H1 and H2, but I would appreciate if you could tell us if there are any change factors or key points.

Yamamoto [A]: First of all, in terms of volume, let me start with the sales for Q1 and Q2. Q1 was JPY210.8 billion and Q2 will be JPY219.2 billion. Since there is a negative impact from the foreign exchange, we expect a positive JPY19.0 billion in the volume and others.

Operating income for Q1 was JPY4.5 billion and JPY6.5 billion for Q2, and we expect an increase of about JPY6.0 billion due to the volume impact I just mentioned. We also expect the exchange rate to be at JPY145 per dollar, so we are projecting a negative exchange rate and a negative fixed cost.

Sano [Q]: Thank you very much. I would like to ask President Ukai one last question. As you answered earlier, the business environment is becoming more and more uncertain, as usual, but you have just released your

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midterm business plan, and you have to think about structural reforms and how to further improve sales and profitability for the next three years.

In the automobile industry, there are prospects for a slight decrease in production, mainly by Japanese manufacturers, and in the industrial machinery, we do not know whether China and Europe will recover or not and maybe you may have to implement further structural reforms. Since it has only been three months, there may be no big changes yet, but I wonder if you could introduce some of the things that are being done at the moment or confirm some of your perceptions.

Ukai [A]: We have been promoting the optimization of selling prices for some time now, and we will continue to promote this activity in the future. We continue to have a situation where everyone on the front lines of sales globally is constantly negotiating prices with customers. As I explained earlier, this has led to an increase in sales price or net sales. The other is variable cost. We would make further reductions in this.

In particular, as I mentioned earlier, we are working to strengthen our BCP, including political risks, various international risks, and various natural disaster risks. We will, of course, continue to focus on China, but we are also working to optimize our procurement of competitive products from India and other regions around the world by forming teams.

In this area, we are working to strengthen our variable cost portion, and while the sales may change depending on the market, we would like to continue to strengthen our structure and continue to enhance our earning power. We are taking action in this manner. That is all.

Sano [M]: Okay, thank you. That's all from me.

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

Next, Mr. Tai from Daiwa Securities. Please ask your questions.

Tai [Q]: I would like to ask Mr. Yamamoto. One thing I was wondering about the H1 plan for each segment that you just told us about, regarding CVJ's H1 and H2, do you see lower sales in H2? If the H1 figures were recorded incorrectly, I apologize.

I also wondered why sales were lower in H2 when looking at H1 and H2, and I also noticed that the profit of bearing was lower in Q2 than in Q1, although this is very detailed.

I don't need to know the details of the increase in profit, so I would like to know if there is a reason for this.

Yamamoto [A]: First of all, on your first question about H1 and H2 sales, if we exclude the effect of exchange rate and the selling price level, the bearings are plus JPY5.5 billion. CVJ/Axle are not decreasing. We expect about JPY0.8 billion, although it is positive and unchanged. This is the first answer. I hope it answers your question.

Tai [Q]: CVJ was JPY253.7 billion in H1, wasn't it?

Yamamoto [A]: Yes. It's JPY253.7 billion in H1 and JPY249.3 billion in H2. The figure appears to be minus JPY4.3 billion, but we are looking at the impact of foreign exchange rates of JPY145 per dollar and JPY160 per euro in H2, so the impact is about JPY6.7 billion in the negative.

Tai [Q]: I thought it was JPY145, JPY160 this quarter because of the Q1 figures.

Yamamoto [A]: Yes, there is a plus for Q1.

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Tai [Q]: I understand. It's clear, thank you.

Yamamoto [A]: The other one is Q1 and Q2, regarding the bearings profit?

Tai [Q]: Yes, that's right. You mentioned JPY6.1 billion in H1. The profit plan for bearings is JPY3.2 billion in Q1, so Q2 would be less.

Yamamoto [A]: Yes, that's right. This includes, as I mentioned earlier, the negative impact of the exchange rate. In addition, we expect an increase in fixed costs in Q2 as a result of the divergence from Q1, when we were able to significantly reduce expenses.

As a result, we expect a slight decrease in profit.

Tai [Q]: Okay, thank you very much.

Secondly, I would like to ask you, Mr. Ukai, or even Mr. Yamamoto, to tell us a little bit about the difference between the demand environment for industrial machinery and that of three months ago.

Can you please share any information on what is getting better or worse in your industry?

Ukai [A]: I am Ukai. As I explained at the beginning of the fiscal year, the general situation is still not good, but there are still some applications for rolling stock and high-speed rolling stock in China, as well as for aircraft. In particular, many of our products are made in Europe, and these two industries are still performing well.

Other than that, it is also true for agricultural machinery, especially in the US, Thailand, and Asia. The agricultural machinery business is down, and this situation has not changed since the beginning of the fiscal year. The situation for construction machinery and other industrial machinery has not changed significantly over the past three months.

However, in talking with machine tool manufacturers, we have learned that demand for some semiconductors is increasing, so we expect to see a recovery in industrial machinery in H2, albeit delayed, as machine tools start to move in that area as a leading indicator. I am aware that this is the current expectation. That is all.

Tai [Q]: How about if we change the angle and look at only China? Is it getting a little better, as far as wind direction?

I read an interview with Mr. Ukai in Nikkan Kogyo Shimbun (newspaper) or something, and you commented that this Q1 was not a good start at all. I thought that was true, but even so, I was wondering if there might be a slight change in the wind direction.

Ukai [A]: Mr. Tai asked the same question last time about the fact that changes in the market itself, where we sell our products, are not yet moving in the right direction. You mentioned that there are signs of recovery in some areas in other industries, or manufacturers, but we are aware that the same situation is still continuing as at that time.

Tai [Q]: Sorry for the long question, is there anything in particular that is getting worse? Are there any areas or industries that are worse off than you thought, or is that not too much change?

Ukai [A]: Particularly in China, Japanese automakers' sales have not recovered and are falling further, and in the Americas and Europe, we have been able to acquire various new EV businesses. The situation has changed from the previous March or April period, when automakers were at a plateau in the current EV market and are now gradually delaying the start of mass production by six months, or even two years, in the case of the longest EVs.

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Tai [M]: I understand. Thank you.

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

Next, Mr. Ito of Mizuho Securities. Please ask your question.

Ito [Q]: This is Ito from Mizuho Securities. Thank you. I have two questions. The first question is about the selling price, or rather, the trend of price pass-through.

For example, will the price increase in H2 of the current fiscal year be at a pace and timing that will allow profits to rise as a result of the price increase, or will it be concluded near the end of H2 of the fiscal year? Is it likely to be spread evenly throughout each quarter? I think the viewpoints of industrial machinery and automobiles may differ, but what are your current plans for this area?

Ukai [A]: Ukai will answer. Thank you for your question.

This is one major trend in past years, but it gradually improves from Q1 to Q4.

In many cases, negotiations are finally settled, especially in Q4. In this sense, we expect the same pattern to emerge again this year. However, regarding the numbers, the waterfall graph that you have just shown is the overall number.

Ito [Q]: Thank you very much. The intent of the question is that, for example, in light of the fact that price pass-through is concluded at the end of the fiscal year, those that come back with certainty in terms of volume, and those that do not, the conversation will inevitably come closer to the end of the fiscal year.

I am a little concerned about how much progress can be made against the end of H1 or when Q3 is achieved.

In particular, last year, I assume that the amount of profit in Q4 was high because of the large amount of price increases negotiated by some of the finished car manufacturers. Will it be the same this time?

My understanding is that, at that time, there may have been some items in the past that you were able to conclude the discussion on, but what do you think?

Ukai [A]: In fact, in Japan alone, for example, the government has been instructed to pass on higher labor and energy costs to the public. G-men have been sent in to evaluate each company, and these evaluations are now being made public.

This has been handled quite clearly for small and medium-sized companies, but it is still a tough negotiation for supply relationships of a certain size. Naturally, we also prepare evidence and explain our negotiations based on that evidence, but it is not that easy, and negotiations continue to be protracted.

Last year is for last year, and we need to think carefully how to take last year's work that has not yet been taken up this year. We would like to negotiate that and this year's portion, and finally settle it as soon as possible for Q4, but we expect it won't be that easy in practice.

Ito [Q]: I understand. One last point, could you tell us a little more about the extraordinary loss projections in your plan?

In this document, if you look at page three, the extraordinary loss is JPY8.0 billion in the H2 forecast, but conversely, up to Q2, we have not seen any package of structural reforms, and I wonder if we will have to wait until the end of the fiscal year to hear about this. Can you tell us about that as well?

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Yamamoto [A]: I'm Yamamoto. This was explained at the midterm management plan briefing, but we will be working on structural reforms, Europe, the Americas, China, and Japan, over the next three years in these regions.

In this context, for the current fiscal year, we have factored in how we will reduce production capacity in China, where there has been a large drop in the scale of production. I can't go into details, but I can tell you that we are integrating manufacturing bases, scrapping production equipment, and reducing redundancies. We have factored in these factors, and this will appear in H2.

Also, in Europe, as I explained last year, we have already decided to close our manufacturing base in Germany. We have also already notified our employees of the closure of our small manufacturing base in France.

Although we have estimated and recorded retirement costs, et cetera, especially in Germany at the end of the previous fiscal year, we expect to see impairment and disposal of unnecessary equipment in fixed assets in H2. In addition, since the situation in Europe is still quite challenging in terms of scale, we may have to go further in H2, and that totals to JPY8.0 billion.

I hope this answers your questions.

Ito [M]: Yes, thank you very much. That is all.

Nagao [M]: Thank you, Mr. Ito. Next, Mr. Wang of Nomura Securities, please go ahead.

Wang [Q]: I am Wang from Nomura Securities.

Sorry to repeat the question, but do you have a revised version of the profit increase/decrease for the full year, or is it the same as before?

Yamamoto [A]: We have not changed our full year forecast at this time, so it has not changed.

Wang [Q]: Is there any change in the breakdown of the increase/decrease in profit?

Yamamoto [A]: What do you mean by breakdown?

Wang [Q]: This is a breakdown of items, such as scale effects, foreign exchange effects, variable costs, et cetera.

Yamamoto [A]: We have not changed our full year sales or operating income, so we are not currently reviewing our full year forecast.

Wang [Q]: Okay, thank you. In Q1, I see that personnel expenses were about JPY0.5 billion lower than in the same period of the previous year, and this will have a positive effect from H1 to H2 of the fiscal year. Am I correct in understanding that this is progressing as planned?

Yamamoto [A]: First of all, in Q1, there is a negative JPY0.5 billion compared to the previous year. The main reason for this is that we have been raising the base in Europe since January, and this will appear as an increase in personnel expenses if it is Q1 to Q1 comparison. Of this JPY0.5 billion, there is a negative balance of about JPY0.8 billion.

On the other hand, in the Americas, productivity improvements and other factors are gradually progressing, and there was an increase of about JPY0.3 billion in Q1.

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Next, regarding H1 and H2, we expect an increase of JPY1.4 billion in personnel expenses, but this is mainly due to the reduction of personnel expenses in the Americas, as production efficiency in the Americas is improved, as I mentioned earlier.

I hope this answers your questions.

Wang [Q]: Thank you for the details. Also, is it possible to disclose the breakdown of the items for bearing and others? I would like to know if there are any.

Yamamoto [A]: I think you are asking what the others are in bearing and others, and I am sorry, but I would like to leave it just as bearing and others.

Wang [Q]: Is it also difficult in the aftermarket for automobiles and industrial machinery?

Yamamoto [A]: That is quite impossible when it comes to profit. I would like to gradually disclose the sales.

I am sorry, we are in this new business segments from this fiscal year, and we are still very much in the running, so I apologize for the inconvenience at this time.

Wang [Q]: I understand. Thank you for your question.

Another point is the price pass-through, I believe that the agreement will be reached toward the end of the fiscal year, but since the October to December period is Q3 and the end of the overseas fiscal year, should we expect to see a certain amount of price pass-through effect here? Is it still more like a place that leans toward Q4?

Yamamoto [A]: I think it is more heavily leaning towards Q4. As you mentioned, the fiscal year ends in December overseas, so it is generally the Japanese way of thinking to wait until the end of the fiscal year. In many cases, the payment will be delayed until after the new fiscal year's budget is obtained, so there are many cases where it will be delayed until January. You may still consider Q4 to be the larger of the two.

Wang [M]: Thank you. I understood very well. That's all from me.

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

This concludes the IR presentation of NTN Corporation for Q1 of FY2025. Thank you very much for your participation today.

Ukai [M]: Thank you very much.

Yamamoto [M]: Thank you very much.

[END]

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