



NTN Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending March 2025

February 4, 2025

Event Summary

| | | |
|-----------------------------|---|--|
| [Company Name] | NTN Corporation | |
| [Company ID] | 6472-QCODE | |
| [Event Language] | JPN | |
| [Event Type] | Earnings Announcement | |
| [Event Name] | Q3 Financial Results Briefing for the Fiscal Year Ending March 2025 | |
| [Fiscal Period] | FY2024 Q3 | |
| [Date] | February 4, 2025 | |
| [Number of Pages] | 24 | |
| [Time] | 17:00 - 17:48 (Total: 48 minutes, Presentation: 19 minutes, Q&A: 29 minutes) | |
| [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 |
| | Boqiong Wang | Nomura Securities |
| | Tatsuhiko Ito | Mizuho Securities |
| | Tsubasa Sasaki | UBS 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: It is now time to begin NTN Corporation's Q3 financial results briefing for the fiscal year ending March 2025.

Thank you very much for taking time out of your busy schedule today to attend our briefing on our financial results.

First, let me introduce the speakers. This is Mr. Ukai, Executive Officer, CEO.

Ukai: I am Ukai. Thank you.

Nagao: This is Mr. Yamamoto, Executive Officer, CFO.

Yamamoto: I am Yamamoto. Thank you.

Nagao: The secretariat is Nagao, me, and Mr. Kouge from the Corporate Communications Department. Thank you.

Kouge: Thank you.

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

Today, President Ukai will first explain the key points of the financial results, followed by CFO Yamamoto's detailed explanation.

After the explanation, there will be a Q&A session and the meeting will end at 6:00 PM. President Ukai, please begin.

Ukai: I am Ukai. Thank you very much for taking time out of your busy schedule today to attend our earnings presentation. We would also like to thank our shareholders and analysts for their continued support.

CFO Yamamoto will explain the details of the financial results and analysis of operating income, and I will explain the key points of the financial results for Q3 of the fiscal year ending March 31, 2025.

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FY2024 Q1-3

Net Sales : ¥201.6 billion, ¥(9.3) billion YoY incl. Aftermarket ¥34.4 billion (+¥1.8 billion YoY)
Operating income : ¥4.3 billion, ¥(4.4) billion YoY Operating margin : 2.1%, (2.0)pt YoY

□ Bearing and others

Net sales ¥82.8 billion, Operating income ¥2.9 billion, Operating margin 3.4%

Sales and operating income decreased YoY

- Sales for the aftermarket increased, but sales for the industrial machinery and automobile decreased due to lower demand mainly in Japan and China
- Operating income decreased due to the impact of declined scale despite the improvement of selling prices

□ CVJ/Axle

Net sales ¥118.8 billion, Operating income ¥1.4 billion, Operating margin 1.2%

Sales and operating income decreased YoY

- Sales decreased due to decreased demand mainly in Americas, Europe and China
- Operating income decreased due to the impact of declined scale despite the improvement of selling prices and cost reductions

Progress in Structural Reform

FY2024 Q3

Extraordinary income(loss) : ¥(5.0) billion

- Structural reforms are proceeding as planned in each region

Forecast for FY2024 Full Year

No change from the previous announcement

(For reference) Net Sales : ¥815.0 billion,
 Operating income : ¥22.0 billion, Operating margin 2.7%

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See page two. Net sales were JPY201.6 billion, operating income was JPY4.3 billion, and operating margin was 2.1%, down from the same period last year due to the impact of declined scale.

The aftermarket business recorded sales of JPY34.4 billion, an increase of JPY1.8 billion or 5.5% YoY.

In bearing and others segment, net sales for the aftermarket increased. While sales price improvements and the impact of yen depreciation had a positive effect, they were not enough to offset the decline in demand for industrial machinery and automobile. As a result, sales totaled JPY82.8 billion, down JPY0.3 billion YoY, and operating income stood at JPY2.9 billion, a decrease of JPY1.6 billion YoY.

In CVJ/Axle segment, while sales price improvements, cost reductions, and the impact of yen depreciation had positive effect, they were not enough to offset the decline in demand except in Asia. As a result, sales totaled JPY118.8 billion, down JPY9 billion YoY, and operating income stood at JPY1.4 billion, a decrease of JPY2.7 billion YoY.

Our structural reform is progressing as planned in all regions, and restructuring costs mainly for the Americas, Europe, and China were incorporated in Q3. The forecast for this fiscal year remains unchanged from the previous announcement.

That is all from me.

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

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1. Key Financial Indicators of FY2024



| (billion yen) | Q3 Results | FY2023 | Full Year Results | Q3 Results | FY2024 | Full Year Forecast (Latest) | Diff. | | |
|--|------------|-------------------|-------------------|---|-------------------|-----------------------------|--|--------|-------|
| | | Q1-3 Results ① | | | Q1-3 Results ② | | ②-① | | |
| | | | | | | | Total | Volume | Forex |
| Net sales | 210.9 | 620.5 | 836.3 | 201.6 | 615.5 | 815.0 | (5.0) | (30.0) | 25.0 |
| Operating income | 8.6 | 15.4 | 28.1 | 4.3 | 14.2 | 22.0 | (1.2) | (6.1) | 4.9 |
| Operating margin | 4.1% | 2.5% | 3.4% | 2.1% | 2.3% | 2.7% | (0.2%) | | |
| Ordinary income | 4.9 | 9.8 | 20.0 | 2.3 | 5.8 | 9.0 | (4.0) | (8.9) | 4.9 |
| Extraordinary income (loss) | 1.6 | 1.2 | (3.4) | (5.0) | (5.6) | (15.0) | (6.8) | (6.7) | (0.2) |
| Profit (loss) attributable to owners of parent | 3.6 | 7.7 | 10.6 | (6.1) | (8.3) | (16.0) | (15.9) | (18.9) | 3.0 |
| Inventories | 259.2 | 259.2 | 264.8 | 266.7 | 266.7 | 242.0 | * 1.9 | (1.0) | 2.9 |
| FCF | 15.9 | 40.1 | 40.1 | 2.9 | 5.7 | 15.0 | (34.4) | - | - |
| Exchange rate | 1USD | ¥147.9 | ¥143.2 | ¥144.5 | ¥152.3 | ¥152.4 | ¥9.2 | | |
| | 1EURO | ¥159.0 | ¥155.2 | ¥156.7 | ¥162.5 | ¥164.7 | ¥9.5 | | |
| 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 am Yamamoto. I will explain from here. Please see page three. This is the consolidated key financial indicators.

For the results for Q1 to Q3, sales totaled JPY615.5 billion, operating income was JPY14.2 billion, and ordinary income was JPY5.8 billion. Extraordinary loss was JPY5.6 billion, the loss attributable to owners of parent for the period was JPY8.3 billion.

Analysis of changes in sales and operating income, inventories, and cash flow will be discussed later.

As Mr. Ukai explained earlier, structural reforms are progressing as planned, and we have recorded restructuring costs and impairment losses in the Americas, Europe, China, and Japan as extraordinary losses. The main factor behind the net loss for this period was the impact of tax effect accounting due to weak performance in Europe and the Americas.

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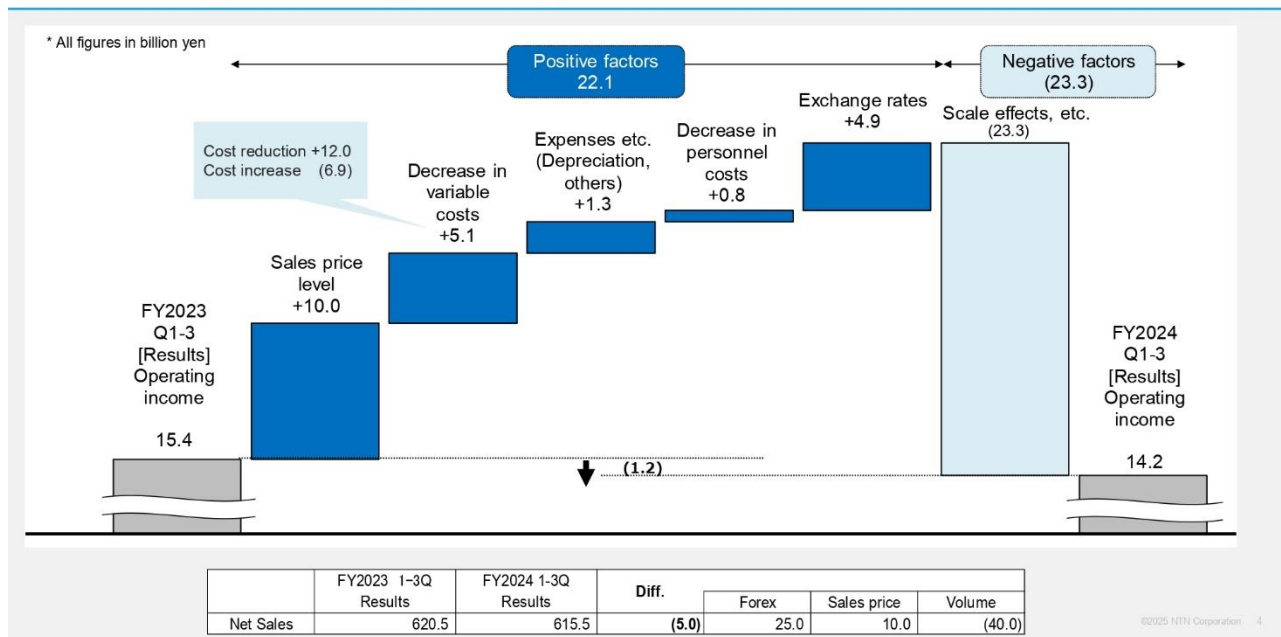
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2-1. Analysis of Operating Income

[FY2023 Q1-3 Results
vs FY2024 Q1-3 Results]



See page four. This is a waterfall graph of the analysis of operating income between the previous period's April to December results and the current period's April to December results.

The left end shows the amount of operating income for the previous period and the right end shows that of the current period. The chart below the graph shows the change in net sales. Excluding exchange rates and selling prices, sales volume decreased by JPY40 billion YoY.

The only factor that reduces the operating income on the right side is a negative impact of JPY23.3 billion from scale effects and other due to sales and production declines and inventory valuation. On the other hand, factors increasing the operating income on the left side included the positive impact of JPY10.0 billion from improved selling prices, JPY5.1 billion from variable costs, JPY1.3 billion from cost reduction, 0.8 billion from lower personnel expenses, and JPY4.9 billion from foreign exchange effects, but these were not enough to offset the impact of the declined scale, resulting in a JPY1.2 billion YoY decrease in operating income.

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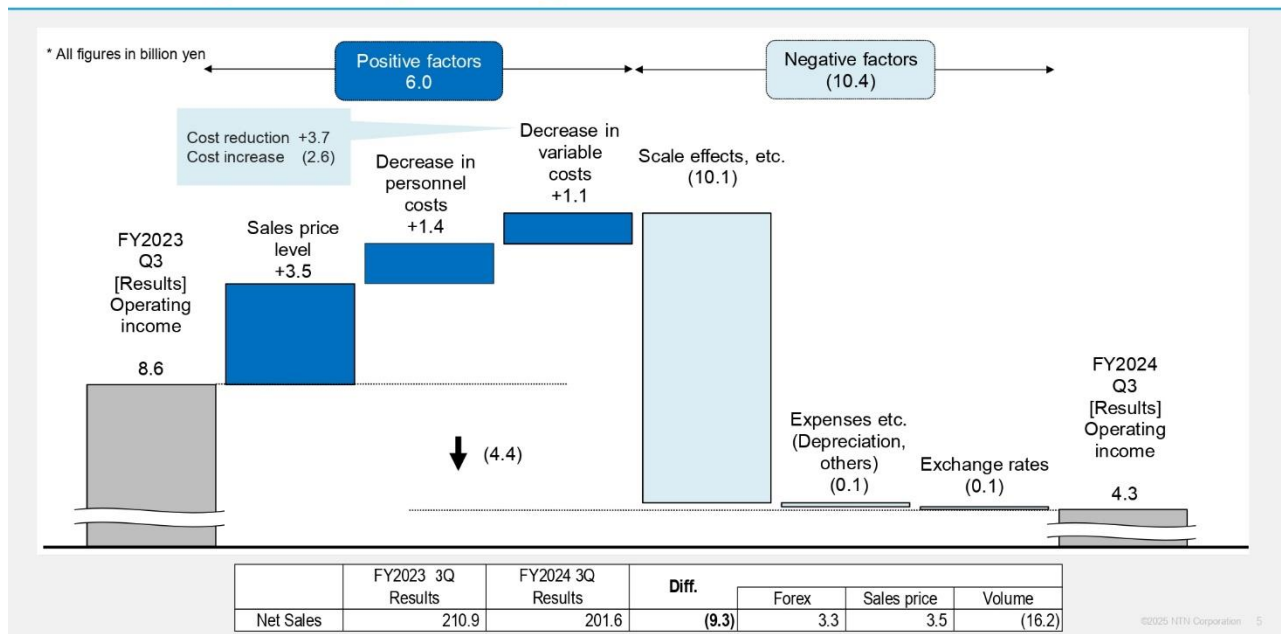
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2-2. Analysis of Operating Income

[FY2023 Q3 Results vs FY2024 Q3 Results]



See page five. This is a waterfall graph of operating income analysis between the previous period's October to December results and the current period's October to December results. Likewise, the left side shows the amount of operating income for the previous period and the right side shows the amount of operating income for the current period.

The table below the graph shows the change in net sales, and as expected, excluding the impact of foreign exchange and selling prices, the volume decreased by JPY16.2 billion YoY.

The factors that reduced the operating income on the right side include a JPY10.1 billion decrease from scale effects such as declined sales, production and inventory valuation, a JPY0.1 billion decrease from expenses, etc., and a JPY0.1 billion decrease from the impact of foreign exchange rates.

On the other hand, the positive factors on the left side include an increase of JPY3.5 billion from improved selling price, JPY1.4 billion from personnel cost reduction, and JPY1.1 billion from improved variable costs. Similarly, the impact of declined scale was significant, and operating income for the three months from October to December saw a YoY decline of JPY4.4 billion.

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3. Net Sales by Company Location (Excluding intragroup sales)

| (billion yen) | FY2023 | | | FY2024 | | | Diff. | | |
|-----------------|------------|-------------------|-------------------|------------|-------------------|-----------------------------|-------|--------|-------|
| | Q3 Results | Q1-3 Results ① | Full Year Results | Q3 Results | Q1-3 Results ② | Full Year Forecast (Latest) | ②-① | | |
| | | | | | | | Total | Volume | Forex |
| Japan | 57.0 | 165.0 | 216.1 | 55.2 | 159.7 | 211.5 | (5.3) | (5.4) | 0.0 |
| Americas | 66.1 | 198.1 | 272.3 | 62.6 | 202.4 | 268.0 | 4.3 | (6.0) | 10.2 |
| Europe | 45.8 | 135.8 | 188.0 | 43.9 | 136.3 | 185.5 | 0.6 | (8.2) | 8.8 |
| Asia and others | 41.9 | 121.6 | 160.0 | 39.9 | 117.1 | 150.0 | (4.5) | (10.5) | 6.0 |
| Total | 210.9 | 620.5 | 836.3 | 201.6 | 615.5 | 815.0 | (5.0) | (30.0) | 25.0 |

*From FY2024Q2, sales by region have been changed to sales by company location.

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Next, please see page six. It shows the net sales by company location. Please refer to the ②-① volume column on the right side.

As explained earlier, this includes an increase of JPY10.0 billion from selling price level, so excluding selling price, the decrease in sales volume is JPY40 billion.

The decrease on the volume basis by region is as follows: JPY11.7 billion in Japan, JPY8.1 billion in the Americas, JPY9.3 billion in Europe, and JPY10.9 billion in Asia and others, of which JPY8.2 billion is in China.

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4. Net Sales and Operating Income by Business Segment NTN

| <Net Sales by Business Segment> | | | | | | | | | |
|---------------------------------|--------------|-------------------|-------------------|--------------|-------------------|-----------------------------|--------------|---------------|-------------|
| (billion yen) | FY2023 | | | FY2024 | | | Diff. | | |
| | Q3 Results | Q1-3 Results ① | Full Year Results | Q3 Results | Q1-3 Results ② | Full Year Forecast (Latest) | Total | Volume | Forex |
| Bearing and others | 83.1 | 258.8 | 346.8 | 82.8 | 250.9 | 335.0 | (7.8) | (17.1) | 9.3 |
| CVJ/Axle | 127.8 | 361.8 | 489.5 | 118.8 | 364.6 | 480.0 | 2.8 | (12.9) | 15.7 |
| Total | 210.9 | 620.5 | 836.3 | 201.6 | 615.5 | 815.0 | (5.0) | (30.0) | 25.0 |

| <Operating Income by Business Segment> | | | | | | | | | |
|--|------------|-------------------|-------------------|------------|-------------------|-----------------------------|--------------|--------|-------|
| (billion yen) | FY2023 | | | FY2024 | | | Diff. | | |
| | Q3 Results | Q1-3 Results ① | Full Year Results | Q3 Results | Q1-3 Results ② | Full Year Forecast (Latest) | Total | Volume | Forex |
| Bearing and others | 4.5 | 11.7 | 17.7 | 2.9 | 9.5 | 14.3 | (2.2) | | |
| CVJ/Axle | 4.1 | 3.7 | 10.4 | 1.4 | 4.7 | 7.6 | 1.0 | | |
| Total | 8.6 | 15.4 | 28.1 | 4.3 | 14.2 | 22.0 | (1.2) | | |

[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 Q1-3 results Bearings and others **¥1.6 billion** CVJ/Axle **¥(1.6) 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. This is net sales and operating income by business segment.

First, please look at the net sales in the top row and the ②-① volume section on the right. As I explained earlier, there were a JPY40.0 billion decrease on a volume basis. This includes a JPY21.7 billion decrease in bearing and others and a JPY18.3 billion decrease in CVJ/Axle.

Next, regarding the operating income in the lower section, bearing and others saw a decrease of JPY2.2 billion, as the positive effects of foreign exchange rates, improved selling prices, better variable costs, and fixed cost reductions were not enough to offset the impact of the declined scale.

CVJ/Axle, on the other hand, recorded an increase of JPY1.0 billion, as positive foreign exchange rates, improved selling prices, and better variable costs could offset the impact of declined scale.

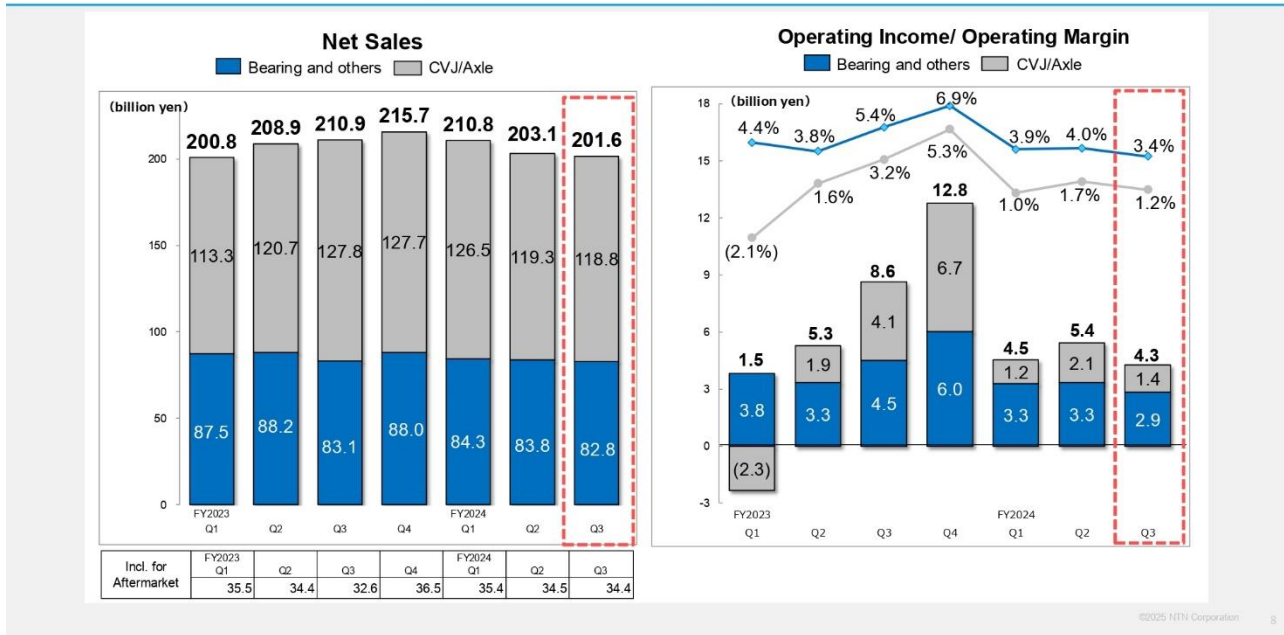
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5. Financial Results by Business Segment (Quarterly Trend) NTN



Next, please see page eight. It shows quarterly net sales and operating income and operating margins by business segment.

The graph on the left shows the trend of net sales, and the graph on the right shows the trend of operating income and operating margin. I will explain in comparison with the most recent Q2.

In Q3, sales for bearing and others declined by JPY1.0 billion, and sales for CVJ/Axle declined by JPY0.6 billion.

Excluding the effect of foreign exchange rates, sales for bearing and others declined by JPY1.5 billion, and sales for CVJ/Axle also declined by JPY1.5 billion.

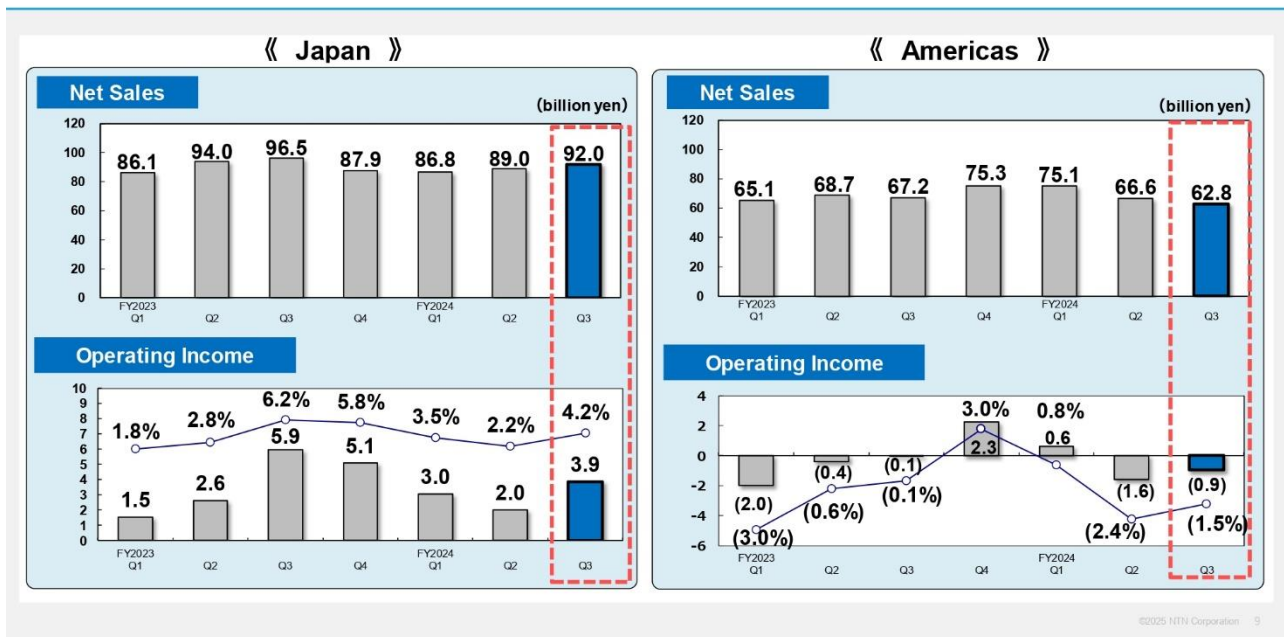
Variable costs improved in both business segments, but the operating margin declined from Q2 for both bearing and others and CVJ/Axle due to the impact of declined scale and the processing of price increases in September.

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



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Next, please see page nine. This is quarterly net sales and operating income by company location. Japan is on the left and the Americas on the right. I will explain in comparison with the same period last year.

Net sales in Japan for the October to December period were JPY92.0 billion. Excluding a JPY0.4 billion positive impact from the exchange rate, it was down JPY4.9 billion YoY. On the other hand, operating income decreased by JPY2.1 billion due to the significant impact of the declined scale, despite an improvement in the selling price level and the effect of foreign exchange rates.

Next, regarding the Americas on the right side, net sales for the October to December period were JPY62.8 billion. Excluding a JPY0.9 billion positive impact from foreign exchange rate, it declined JPY5.3 billion YoY. Operating income, on the other hand, decreased by JPY0.9 billion, mainly due to a declined scale, despite improvements in variable costs and sales price levels.

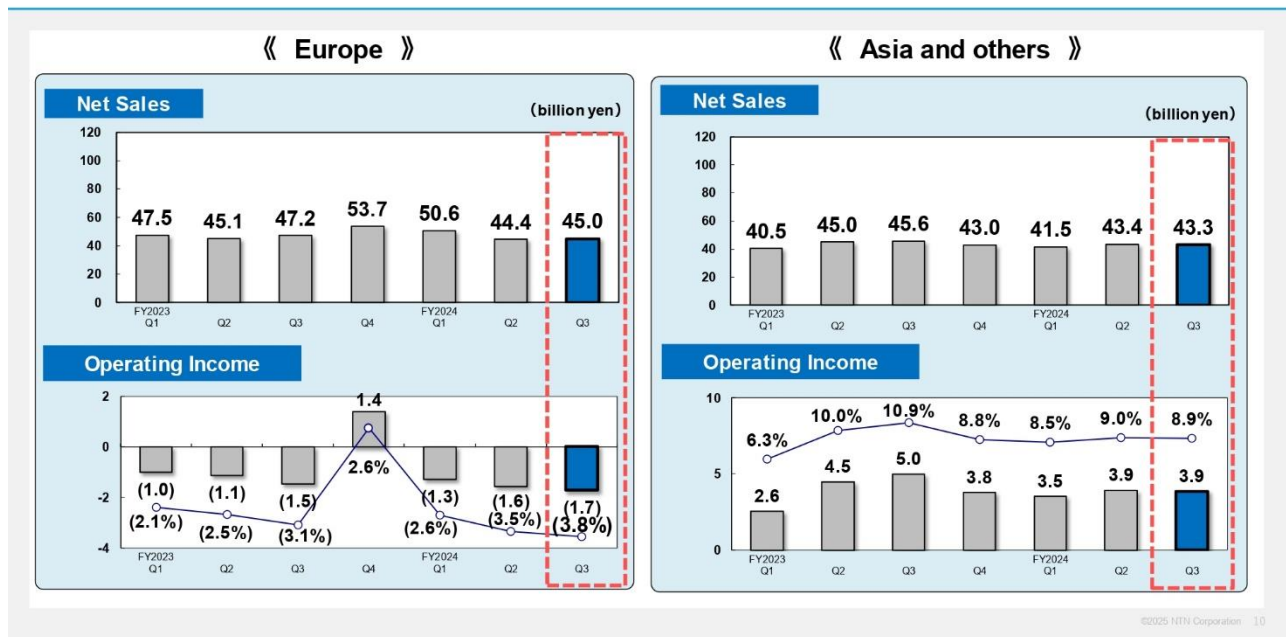
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6-2. Net Sales and Operating Income by Company Location NTN



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Next, please see page 10. This slide also shows net sales and operating income, with Europe on the left and Asia and other regions on the right.

Net sales in Europe for the October to December period totaled JPY45.0 billion, including a positive impact of JPY1.0 billion from exchange rates. Excluding this effect, it declined by JPY3.2 billion YoY. Operating income decreased by JPY0.2 billion YoY, despite improvements in variable costs and fixed cost reductions, which still could not offset the impact of the declined scale.

In Asia and others on the right, net sales for the October to December period totaled JPY43.3 billion. Excluding the JPY1.6 billion impact of foreign exchange rates, it decreased by JPY3.9 billion YoY. This region recorded a stable operating income margin compared to other regions, but still saw a JPY1.1 billion YoY decrease in operating income, mainly due to a declined scale, and a slight decline in the operating margin.

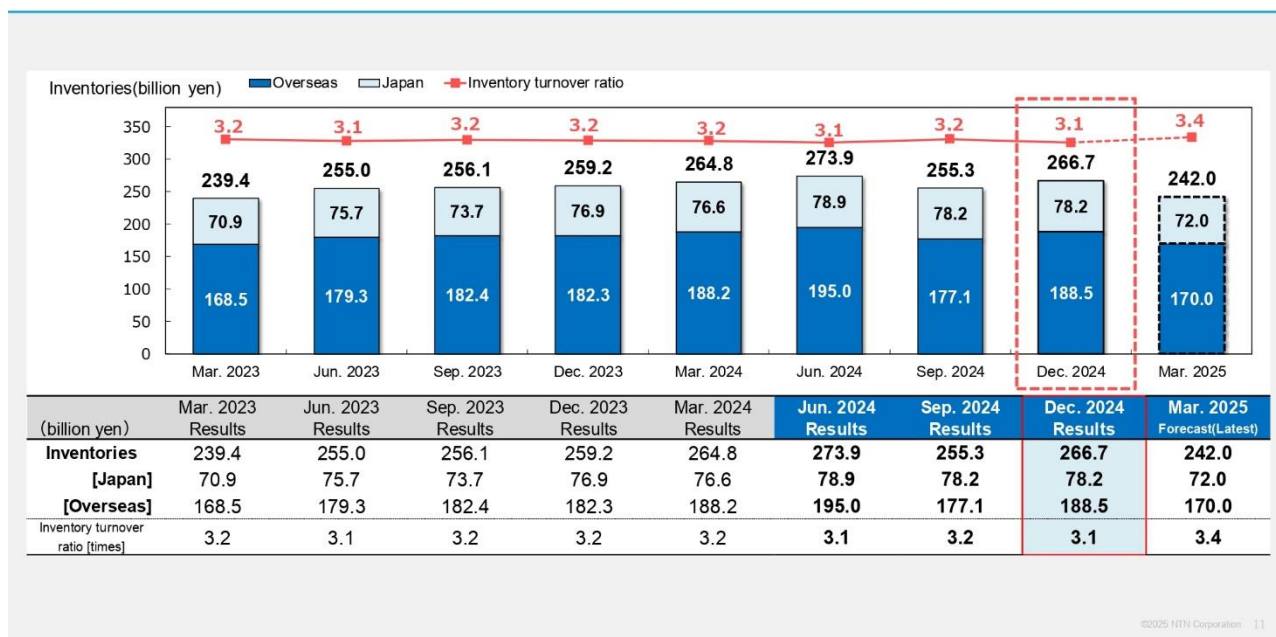
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7. Inventories



Next, please see page 11. Inventories by quarter.

Inventories at the end of December 2024 totaled JPY266.7 billion, a JPY1.9 billion increase from the end of March 2024, but this includes a JPY2.9 billion increase due to foreign exchange effects, resulting in a JPY1.0 billion decrease in volume.

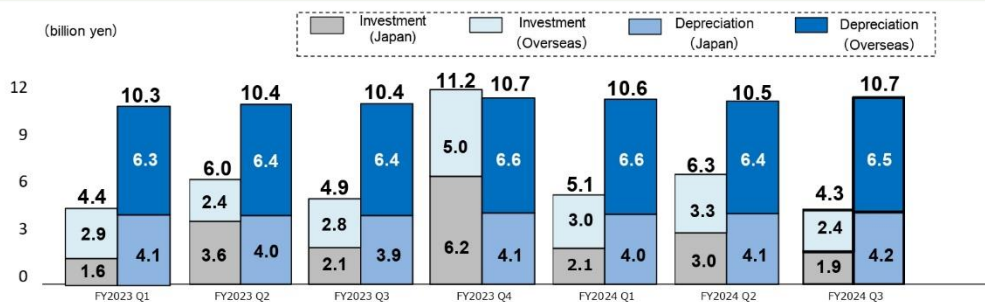
The forecast for the end of March 2025 will be JPY242.0 billion, and the amount of reduction required in Q4 is JPY14.1 billion, from the end of December to the end of March, excluding the effect of foreign exchange rates. To achieve the turnover ratio of 3.4 times, we will promote reduction of work in process, parts, and material inventories in particular.

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8. Capital Expenditures and Depreciation



| (billion yen) | FY2023 | | FY2024 | Diff. | FY2024 |
|---------------------|---------------|-------------------|---------------|-------|--------------------|
| | Q1-3 Results① | Full Year Results | Q1-3 Results② | ②-① | Full Year Forecast |
| Capital expenditure | 15.4 | 26.6 | 15.7 | 0.3 | 37.0 |
| [Japan] | 7.3 | 13.5 | 7.0 | (0.3) | 18.0 |
| [Overseas] | 8.1 | 13.1 | 8.8 | 0.7 | 19.0 |

*In addition, capital expenditure for intangible fixed assets (FY2024 Q1-3 Results : ¥2.0 billion, FY2024 Full Year Forecast : ¥5.0 billion)

| (billion yen) | FY2023 | | FY2024 | Diff. | FY2024 |
|---------------|---------------|-------------------|---------------|-------|--------------------|
| | Q1-3 Results① | Full Year Results | Q1-3 Results② | ②-① | Full Year Forecast |
| Depreciation | 31.1 | 41.8 | 31.9 | 0.8 | 42.0 |
| [Japan] | 12.0 | 16.1 | 12.3 | 0.3 | 17.0 |
| [Overseas] | 19.1 | 25.7 | 19.6 | 0.5 | 25.0 |

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Next, please see page 12, regarding capital expenditures and depreciation.

Capital expenditures for Q1 to Q3 totaled JPY15.7 billion, and depreciation totaled JPY31.9 billion. Depreciation was almost in line with the plan in Japan, but slightly higher than planned overseas, partly due to the impact of foreign exchange rates. On the other hand, progress in capital investment was slightly delayed through December.

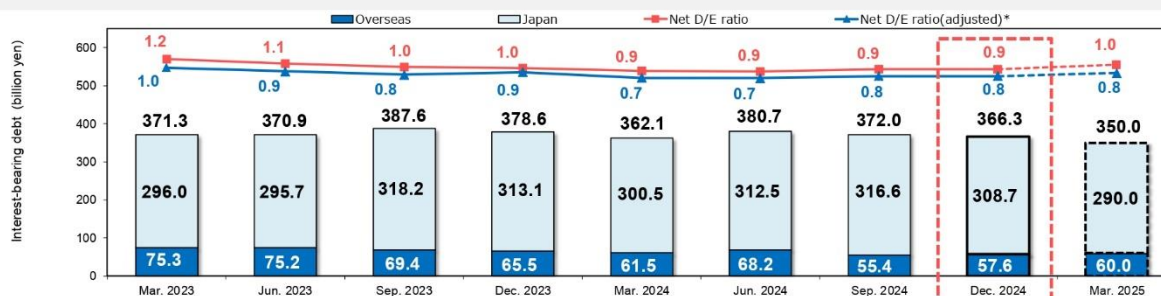
The breakdown of the JPY15.7 billion in capital investment by region is as follows: JPY7.0 billion in Japan, JPY1.8 billion in the Americas, JPY4.9 billion in Europe, and JPY2.0 billion in Asia and others, of which JPY0.8 billion was in China.

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9. Interest - Bearing Debt



| | Mar. 2023 | Jun. 2023 | Sep. 2023 | Dec. 2023 | Mar. 2024 | Jun. 2024 | Sep. 2024 | Dec. 2024 | Mar. 2025 |
|---------------------------|-----------|-----------|-----------|-----------|-----------|--------------|--------------|--------------|-------------------|
| (billion yen) | Results | Results | Results | Results | Results | Results | Results | Results | Forecast (Latest) |
| Interest-bearing debt | 371.3 | 370.9 | 387.6 | 378.6 | 362.1 | 380.7 | 372.0 | 366.3 | 350.0 |
| [Japan] | 296.0 | 295.7 | 318.2 | 313.1 | 300.5 | 312.5 | 316.6 | 308.7 | 290.0 |
| [Overseas] | 75.3 | 75.2 | 69.4 | 65.5 | 61.5 | 68.2 | 55.4 | 57.6 | 60.0 |
| Net Interest-bearing debt | 260.6 | 253.7 | 243.4 | 232.7 | 234.8 | 243.2 | 234.7 | 238.1 | 237.0 |

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

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Next, please see page 13, interest-bearing debt.

Interest-bearing debt at the end of December 2024 was JPY366.3 billion, net interest-bearing debt was JPY238.1 billion, and the net D/E ratio was 0.9, unchanged from the end of the previous period.

Interest-bearing debt at the end of March 2025 is expected to be JPY350.0 billion, with net interest-bearing debt of JPY237.0 billion and a net D/E ratio of 1.0.

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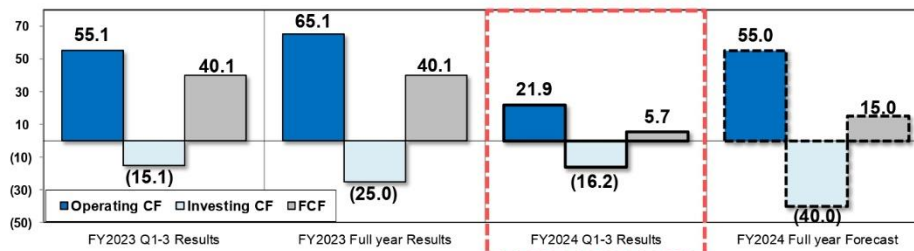
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10. Cash Flows

| (billion yen) | FY2023 | | FY2024 | ②-① | FY2024 |
|--|---------------|-------------------|---------------|--------|--------------------|
| | Q1-3 Results① | Full Year Results | Q1-3 Results② | | Full Year Forecast |
| I. Cash flow from operating activities | 55.1 | 65.1 | 21.9 | (33.3) | 55.0 |
| II. Cash flow from investing activities | (15.1) | (25.0) | (16.2) | (1.1) | (40.0) |
| I + II. Free cash flow | 40.1 | 40.1 | 5.7 | (34.4) | 15.0 |
| III. Cash flow from financing activities | (8.2) | (30.2) | (7.6) | 0.6 | (29.0) |
| IV. Effect of exchanging rate translation on cash and cash equivalents | 3.4 | 6.7 | 2.8 | (0.6) | (0.3) |
| V. Net increase in cash and cash equivalents | 35.3 | 16.6 | 0.9 | (34.3) | (14.3) |



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Next, please see page 14 regarding cash flows.

Cash flow from operating activities and free cash flow for Q1 to Q3 were JPY21.9 billion and JPY5.7 billion, respectively.

For the three months from October to December, operating cash flow was JPY6.6 billion and free cash flow was JPY2.9 billion. For the full year, we expect operating cash flow of JPY55.0 billion and free cash flow of JPY15.0 billion.

That is all from me.

Nagao: Thank you, CFO Yamamoto.

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Question & Answer

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

First of all, Mr. Sasaki of UBS Securities, please ask questions.

Sasaki [Q]: My name is Sasaki from UBS Securities. Thank you very much for your time today. Let me ask you three quick questions.

First, could you give more details on how the Q3 results compare to your company plan in terms of progress?

I would appreciate a detailed explanation of the performance of bearing and CVJ/Axle. Additionally, looking at the waterfall chart, in terms of exchange rate, selling price, and scale, please specify which factors were in line with the plan, which performed better than expected, and which fell short. Thank you.

Yamamoto [M]: Okay. Your question is about how the three-month period from October to December progressed compared to our forecast, correct?

Sasaki [M]: Exactly.

Yamamoto [A]: Okay. To give you a broad overview, we revised our sales forecast downwards in November last year, and net sales has been almost in line with our expectations.

In terms of profits, there was also a positive effect from foreign exchange, so overall, it is slightly more positive than projected.

However, if we break it down into bearing and CVJ, sales of bearings are slightly lower than expected, while sales of CVJs are higher. As a result, overall, we are slightly better than expected in terms of operating income. Is this answer correct?

Sasaki [Q]: Yes. I understand very well, thank you.

Let me ask the second question. I heard that there are no changes to the full-year plan, but with operating income of JPY4.3 billion for Q3, the plan for Q4 is JPY8.0 billion.

Could you tell us how the operating income will recover like this from Q3 to Q4?

Yamamoto [A]: The trend was roughly the same last year, but the selling price level is naturally positive in Q4 compared to Q3. On the other hand, the exchange rate impact will be negative because the IR rates in the plan are calculated at JPY145 to the US dollar and JPY160 to the euro.

Additionally, in terms of sales, the October to December period is affected by the Christmas vacations in the US and Europe, so the sales volume tends to increase in the January to March period. As a result, the scale effects also come into play.

We will also continue to reduce variable costs, so we expect to see an improvement there as well. The operating income for Q4 is expected to be higher than that of Q3.

Sasaki [Q]: Thank you very much. Japanese automaker's production will recover in the near future. Will such factors be one of the reasons for the recovery of the operating income in Q4 compared to Q3?

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Nagao [A]: Excuse me, I, Nagao, will answer your question, the secretariat. The scale effect is primarily expected to be seen in the bearing and others segment. To be honest, I think that the overall automobile market, especially in Europe, will have a hard time returning to normalcy.

Sasaki [Q]: I understand very well. Finally, for the third question, regarding pages four and five of the waterfall charts, I would like to ask how you currently perceive the situation, and please let me know about the plan for how you intend to recover the performance in the next fiscal year onward.

If we look at the waterfall charts on pages four and five, we can see that current results are sluggish, and the external environment has had a negative impact on the scale resulting in poor figures, but I think that there have been favorable results in terms of variable costs, sales prices, the procurement reforms, and the review of unprofitable products.

Do you see profitability improving quite a bit at present? That being said, since the performance is still sluggish, how do you plan to recover and move towards achieving the mid-term plan, particularly the final, in the next fiscal year onward?

If possible, please share your thoughts on how you intend to turn the performance profitable from here. This is the third question. Thank you.

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

Regarding the graphs on pages four and five, what Mr. Sasaki said is right. Although improvements in our business structure are progressing, the difficult situation in our top line continues.

Currently, it is not clear whether sales will improve significantly in the next fiscal year onward. Therefore, we believe that our current policy is to optimize fixed costs while preparing a structure that will enable us to achieve significant growth when the economy recovers.

Sasaki [Q]: Basically, while continuing the ongoing structural improvement efforts, the significant decline in volume makes the situation quite challenging. Would it be correct to understand that both the automobile and bearing business need an increase in volume driven by an economic recovery?

Ukai [A]: Yes. Ultimately, the increase in volume depends on the external factors, so it is difficult for us to control. However, as I explained earlier, we believe it is important to promote structural reform and put in place a system that is suited to current demand. We are working to strengthen our income structure and we hope to firmly establish a manufacturing system that is in line with demand during this period.

Sasaki [Q]: Thank you very much. Compared to the current external environment, I think your company's structure has become somewhat oversized. Therefore, while continuing to improve your income structure, you will also review your production sites to optimize the capacity and fixed costs of the entire company. And when a certain level of volume has been recovered, you will aim for a V-shaped recovery, is that correct?

Ukai [A]: Yes, we have labeled the three years as "FINAL," and this is the period in which we will be preparing a system that meets demand. Of course, not everything will be completed in these three years, but we will proceed with a clear plan for the next three years. In particular, as we explained in the previous IR briefing, we have also recorded additional structural reform costs for the current three years, and we are working to improve our structure ahead of schedule.

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

Ukai [M]: Thank you very much.

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Nagao [M]: Thank you very much Mr. Sasaki.

Next, Mr. Ito from Mizuho Securities will ask questions.

Ito [Q]: I am Ito from Mizuho Securities. Thank you.

My first question is if you could explain the current trends in industrial machinery by industry sector. Based on a QoQ comparison between Q2 and Q3, which markets have shown strong growth? I assume that the aerospace sector is performing well, but I would appreciate it if you'd share your current assessment with us.

Nagao [M]: Okay. Mr. Ito, may I answer from the secretariat?

Would it be okay if I told you about the trends in Q3 and Q4 by industry type for industrial machinery?

Ito [Q]: Yes, that's right. The percentage will become clear to everyone later. I would appreciate it if you could comment on the key industries and whether your company is on track to meet the growth rates as planned. Additionally, are there any markets where you can expect the levels to increase further from January to March?

Nagao [A]: Thank you very much. The secretariat will answer the following questions.

Regarding construction machinery, which constitutes the largest portion of our business, we expect it to remain roughly flat. Agricultural machinery is likewise flat. On the other hand, the order for aerospace and gear boxes, I think there will be an increase. We expect them to increase compared to Q3.

We expect the order for wind turbines to increase as several projects are starting up in the US. Additionally, we expect a slight increase in machine tools as well.

Demand for rolling stocks will be flat, and we are looking at a slight increase for rotating electrics as well.

Ito [Q]: Thank you. My second question is if you could tell us what you are thinking now about the impact of tariffs.

There is still some flux, but I believe there is talk of tariffs being imposed, for example, in Canada, Mexico, China, and Japan.

Could you share your current understanding and approach regarding whether this will have any impact on your business in the Americas? I believe there could be an issue for your entire supply chain and your customers.

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

Now most recently, there is talk of a 25% tariff on Mexico and Canada. Although it is expected to be withdrawn soon, with the measure being suspended for about a month, this will undoubtedly have an impact on our business operations.

The basic approach is that in the event that a tariff is imposed, we would propose the increase of selling price to our customers. At the same time, we would like to offer a supply chain that avoids this. The current supply chain is subject to this tariff, but we have prepared a response in the form of offering an alternative option.

However, when adopting an alternative supply chain, our customers will tell us to conduct tests before they can approve it, so there will inevitably be a time gap during this process.

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We believe that we have no choice but to negotiate and reflect the cost increase during this time gap in the selling price. This is the basic concept. That is all.

Ito [Q]: Thank you. Have you made any estimate of the cost increase, say 5 billion yen or billions of yen per year?

Ukai [A]: We are currently conducting various simulations to see what kinds of cases might arise in the future, similar to the current situation.

It is very difficult to think about the estimate now and discuss this quantitatively, but it is true that we conducted the simulations.

However, we don't know whether that will be the case, and as I mentioned earlier, we basically hope to discuss the additional costs that will arise with our customers and pass on the costs to the final price.

Ito [M]: Yes, thank you for your answer. That's all from me.

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

Now Mr. Tai of Daiwa Securities, please ask your questions.

Tai [Q]: My name is Tai. I wanted to ask you about the impact of changes in the external environment.

First, about the Honda-Nissan case. This could have both positive and negative effects, and there are also many uncertain factors. If you have any simulations in your head at the moment, I would like to hear about them.

Second, on the procurement side, Nippon Steel has announced the takeover of Sanyo Special Steel. I believe your company sources a significant amount from Daido Steel. Do you see any positive or negative impacts from this?

I'm sorry to say that there are a lot of questions, but regarding Tsubaki Nakashima, I understand that the company is currently in a difficult situation. Could you provide an update on any potential impacts?

Ukai [A]: Thank you for your question. I would like to answer.

First of all, regarding the integration of Nissan and Honda, both of these companies are major automotive customers for us. We have had dealings with each of them. We have been entrusted to supply parts that used to be manufactured in-house, and our new high-efficiency CVJs have been adopted. Since each customer adopt our new value and technologies, we believe that we will be able to expand further in the future.

Other items, such as ICE transmissions and engines, assuming that those will remain, used parts may be partially integrated, but fortunately or unfortunately, they are not our main items, so the impact on us is minimal.

In particular, for CVJ and hubs in the axle/drivetrain system, these are areas where the characteristics of each manufacturer are strongly reflected, and even if the integration progresses, we believe that there will be no significant impact on us because of our high level of involvement.

Next, regarding the second question about Nippon Steel acquiring Sanyo Special Steel, various changes to the management structure are already underway at Sanyo Special Steel, including the appointment of a new president from Nippon Steel, and we recognize that the integration is actually progressing quite well.

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There are certain products that can only be manufactured by Sanyo and are produced in small lots, making them less attractive in terms of business. Nevertheless, they continue to supply these products to us. In the future, however, there is a possibility that Nippon Steel might decide to discontinue the production of these products. For this reason, we are currently preparing countermeasures, including where to find alternative suppliers.

We think we can almost handle such changes because we have been doing the preparations for some time now, not just today.

And regarding Tsubaki Nakashima's steel balls and ceramic balls, we also manufacture them in-house. We have the ability to manufacture steel balls and ceramic balls in-house, and we are also utilizing various supply chains that are more competitive than ours, one of which is Tsubaki.

In the unlikely event that various things happen to Tsubaki, or if its cost competitiveness or price competitiveness becomes lower than other companies, we have plans to switch to alternative suppliers. Therefore, we do not expect a significant impact on our business. That is all.

Tai [Q]: Thank you very much. Lastly, regarding structural reforms, I have two questions. First, is it correct to understand that this fiscal year's structuring reforms are progressing within the budget of JPY8.0 billion?

Second, when can we expect to learn more details about the specific contents of these reforms?

I am hoping that one day we will be able to get more concrete information, not only on the number of personnel or other sensitive topics, but also on details like where and what specific initiatives have been implemented.

Ukai [A]: Yes. I would like to answer. As of today, I will say as much as I can say. First, last year we closed our constant velocity joint plant in Brazil, South America.

In Europe, we have announced the closure of our plant in Germany, and we have already explained this to our employees last April and are taking steps towards the future closure of the factory.

Also, we have decided to close one of our plants in France, and we are currently working on that.

We have also made a recent announcement to the employees of the plant in Canada, the labor union, and the government.

It will take about two years before we can completely close the plants. Since each factory has users and customers, we cannot suddenly cut off the supply chain. With this in mind, we have set a certain period of time, and we plan that it takes about one plant two years to close.

Additionally, in China, we plan to relocate all axle bearing equipment from Nanjing to Shanghai and integrate axle bearing production there.

In Europe, we also made an official announcement that the main CVJ plant in Le Mans will be downsized, as well as the CVJ plant in Germany.

It is quite worldwide. In Japan, we are also taking steps, but since there are aspects that we have not disclosed yet, I won't go into details at this time. However, similar actions are being taken across nearly all regions. That is all.

Tai [Q]: Okay. I understand that everything is proceeding within this year's budget of JPY8.0 billion.

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Ukai [A]: In total, it is JPY8.0 billion originally with an additional JPY7.0 billion, bringing the total to JPY15.0 billion as mentioned in the previous IR briefing, which remains unchanged.

Tai [M]: Okay. I understand. Thank you very much. That's all from me.

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

Please continue with your question, Ms. Wang of Nomura Securities.

Wang [Q]: I am Wang from Nomura Securities. Thank you very much for your time today.

First, I would like to ask you about the progress you have made in price pass-through and reducing costs. Was the progress better than expected or was it in line with your forecast?

Yamamoto [M]: Okay. Is this on an October to December basis or on a cumulative April to December basis? Or is it based on how it compared to the initial forecast in December?

Wang [M]: Yes, that's right. If possible, please base it on the full-year forecast.

Yamamoto [A]: Yes, I understand. The sales price pass-through is a positive factor, mainly in CVJ/Axle and the Americas, compared to the initial forecast.

Variable costs are also positive from the initial forecast, mainly overseas, and both are several hundred million yen higher than originally forecast. Is this answer correct?

Wang [Q]: Yes, thank you. Is there any potential for improvement in Q4?

Yamamoto [A]: This is very challenging, but because negotiations to raise prices inevitably take until the very end of the fiscal year, we are sticking to our initial forecast for now.

Wang [Q]: Thank you very much. Secondly, you mentioned earlier that a testing period would be necessary when proposing changes to the supply chain due to the tariffs. I was wondering how long this would be?

Ukai [A]: It depends on the item and subject.

For example, when changing materials or heat treatment, we refer to these as "special processes." Some aspects can be measured and confirmed, such as dimensions, roughness, or roundness, which can be checked through measurement. However, there are other characteristics that can only be assessed by destruction, such as heat treatment, where a cut is required to evaluate the result. This applies to materials as well. In such cases, automotive manufacturers often request testing on a real car as the final step.

This is always the case, especially when using manufacturers and suppliers with no proven track record, and in such cases, it can take another year or more. The same is the case with construction machinery, etc.

For other changes, such as replacing a part, the customer's requirements may vary depending on the specifics of the change. If the change is straightforward and can be handled with just documentation, it can be completed in one month or two. In some cases, it takes at least six months to test something, and up to 1.5 years more from there. This is a case-by-case basis. That is all.

Wang [M]: Thank you very much for the details. That's all from me.

Ukai [M]: Thank you.

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Yamamoto [M]: Thank you very much.

Nagao [M]: Yes, thank you Mr. Wang.

If anyone has any other questions, please let us know. Okay. Thank you.

Since there seem to be no other questions, I would like to conclude the IR briefing of NTN's Q3 financial results.

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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