NTN Corporation

New Medium-Term Management Plan Announcement

May 31, 2024

Event Summary

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[Participants]	
[Number of Speakers]	8

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Hideaki Miyazawa	Director, Representative Executive Officer, Executive Officer, Corporate General Manager, CVJ & Axle Bearing Business HQ
Masaaki Yamamoto	Director, Executive Officer, CFO
Shumpei Kinoshita	Director, Executive Officer, Deputy Corporate General Manager, Group Management HQ
Yoshiyasu Nakano	Executive Officer, CTO (Chief Technology Officer)
Etsu Harima	Executive Officer, Corporate General Manager, Bearing Business HQ
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*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Nagao: Now that the time has arrived, we will begin the briefing on NTN Corporation's new medium-term management plan. Thank you all very much for taking time out of your busy schedules today to participate in the presentation of our new medium-term management plan.

First, let me introduce the attendees.

Ukai, President and Chief Executive Officer.

Ukai: This is Ukai. Thank you for your cooperation.

Nagao: Yamamoto, CFO, Executive Officer.

Yamamoto: I am Yamamoto. Thank you for your cooperation.

Nagao: Miyazawa, Executive Officer and Corporate General Manager of the CVJ & Axle Bearing Business HQ.

Miyazawa: My name is Miyazawa. Thank you for your cooperation.

Nagao: Nakano, Executive Officer and CTO.

Nakano: My name is Nakano. Thank you for your cooperation.

Nagao: Kinoshita, Executive Officer, in charge of Group Management HQ.

Kinoshita: This is Kinoshita. Thank you for your cooperation.

Nagao: Harima, Executive Officer and General Manager of the Bearing Business HQ.

Harima: My name is Harima. Thank you for your cooperation.

Nagao: I, Nagao, and Kouge of the Corporate Communications Department, will serve as today's secretariat. Thank you for your cooperation.

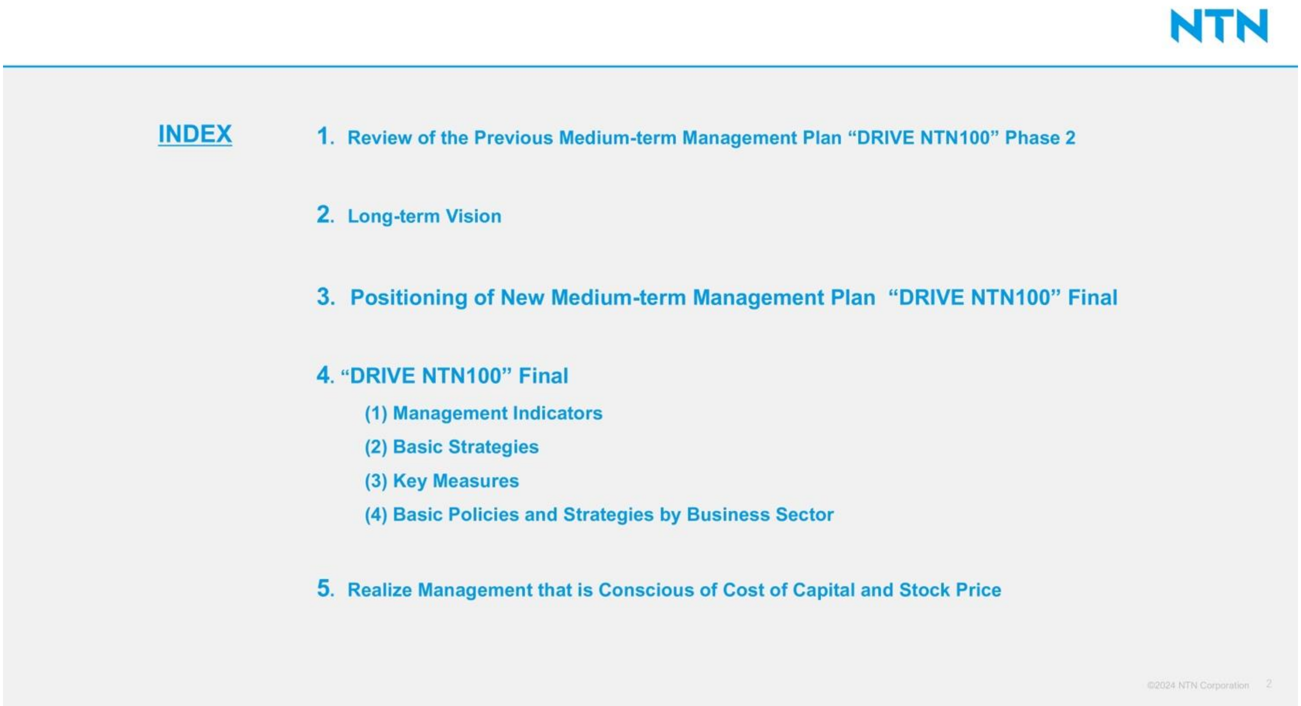
Kouge: Thank you very much.

Nagao: Today's briefing will follow the briefing materials that we distributed to your pre-registered e-mail address. The documents are also available on our website, if anyone does not have them, please confirm it.

Today, President Ukai will first review the previous mid-term business plan and explain the new mid-term business plan, followed by CFO Yamamoto's presentation on achieving management that is conscious of the cost of capital and stock price. After the presentation, a Q&A session will follow, with the meeting scheduled to end at 3:30 PM.

Please note that the press, analysts, and institutional investors are invited to attend this briefing, and we will separate the Q&A session for analysts and institutional investors from the press.

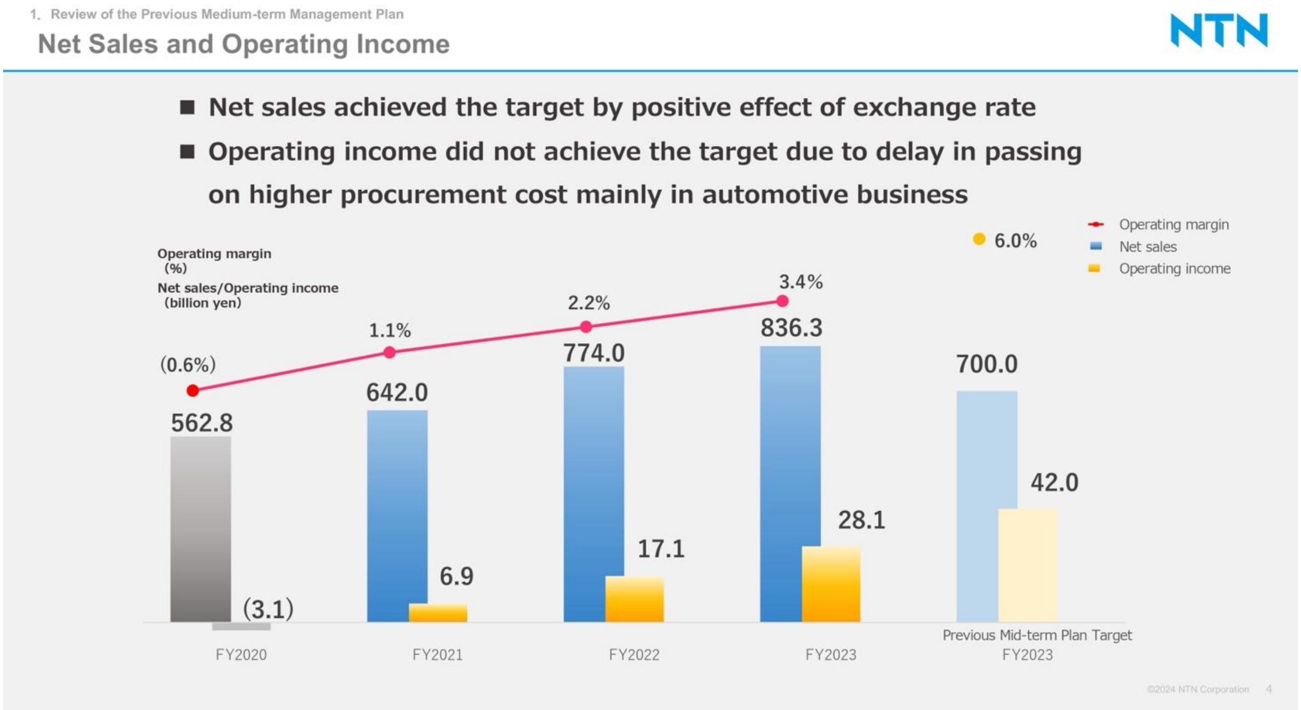
Now, we will begin our explanation. President Ukai, please go ahead.



Ukai: Once again, my name is Ukai. Thank you all very much for taking time out of your busy schedules today to attend the briefing on our new medium-term management plan.

See page two.

I, Ukai, will explain items one through four, and Mr. Yamamoto, CFO, will explain item five, "Management that is conscious of the cost of capital and stock price."



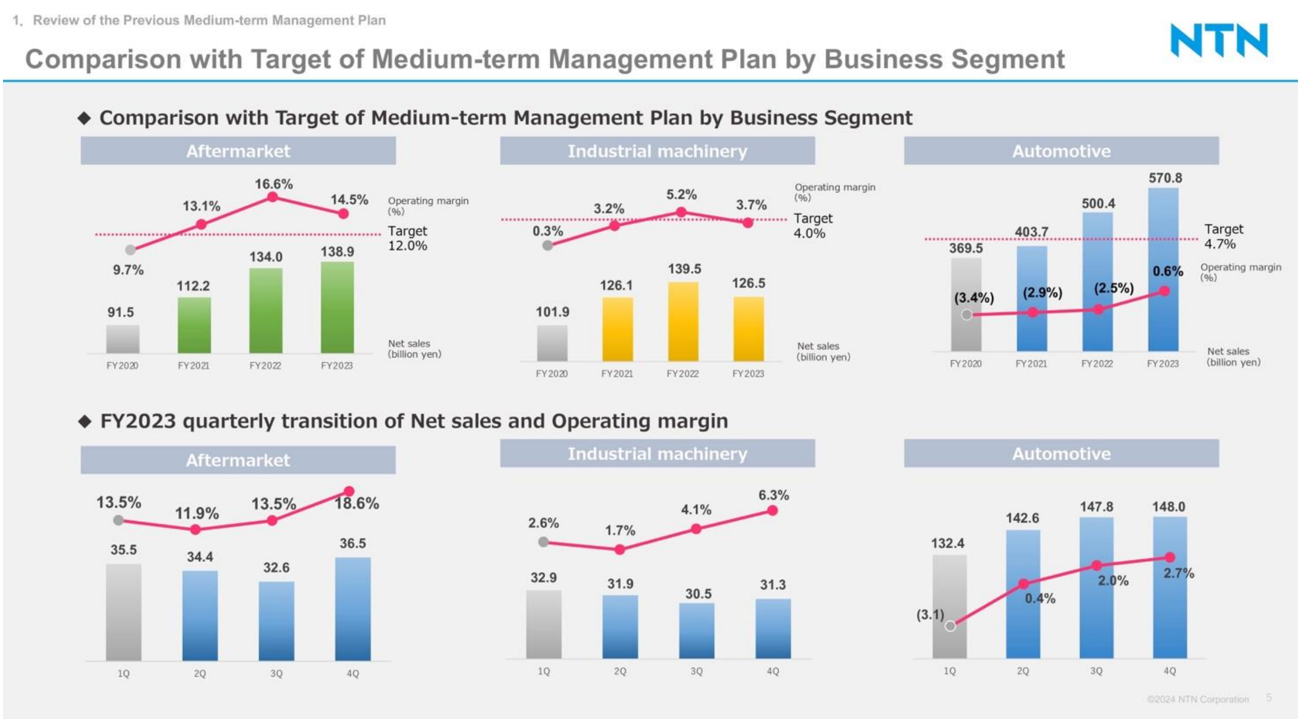
See page four. This is a review of the three-year mid-term management plan, DRIVE NTN100 Phase 2, up to last fiscal year.

Although the Group celebrated its 100th anniversary in 2018 and set a policy to accelerate the transformation of its business structure for the next 100 years, business activities stagnated due to the economic slowdown triggered by the US-China trade war as well as the spread of COVID-19. Profit margins declined, free cash flow fell, and the financial position deteriorated rapidly.

Therefore, in “DRIVE NTN100” Phase 2, which began in the fiscal year ended March 31, 2022, we have not changed our policy of accelerating the transformation of our business structure, but have continued to improve profits and strengthen the financial position of existing businesses. However, in the automotive business, which accounts for 70% of our sales, the prolonged shortage of semiconductors had a significant impact on our group's performance.

In the final year of “DRIVE NTN100” Phase 2, sales exceeded the target, partly due to the elimination of the semiconductor shortage and the effect of the weaker yen.

On the other hand, we were unable to achieve our operating income margin target of 6% due to delays in scaling back or withdrawing from unprofitable businesses and in optimizing fixed costs in response to demand fluctuations in North America and Europe, which account for approximately 50% of our total sales.

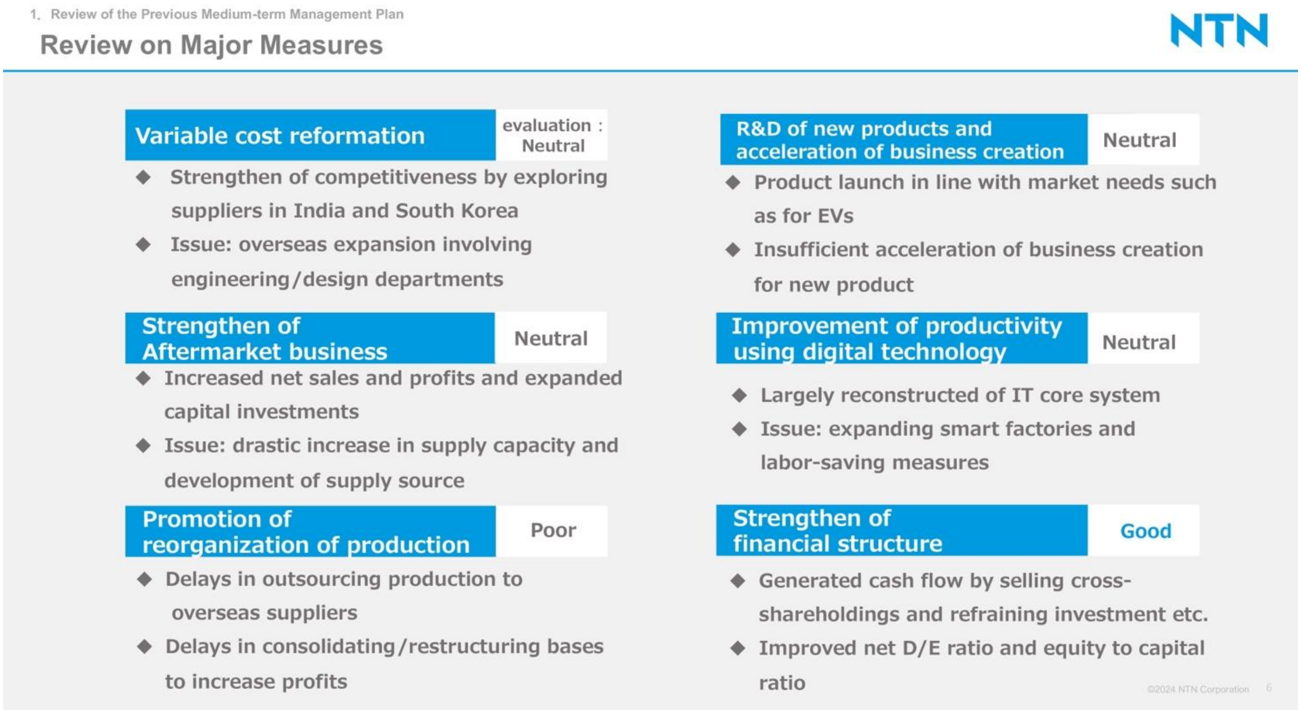


See page five. This is a comparative analysis of goals and actual results by business.

In both the aftermarket and industrial machinery businesses, price optimization progressed, including the passing on of cost increases, and with the tailwind of foreign exchange rates, we achieved our profit margin target ahead of schedule in the second year of the fiscal year ended March 2023, achieving record-high sales and operating income.

In the third and final year of the plan, the fiscal year ended March 31, 2024, the slump in the industrial machinery market affected both the aftermarket and industrial machinery businesses, causing their profit margins to decline for the full year compared to the previous fiscal year. However, as shown in the graph below, we steadily recovered each quarter, and from Q3 onward, we again exceeded the profit margin targets of the medium-term management plan.

The automotive business had been posting operating losses until the fiscal year ended March 31, 2023, but with the semiconductor shortage resolved in the fiscal year ended March 31, 2024, the volume of products increased, and the cost increase was passed on to selling prices, resulting in an improved profit margin each quarter and an operating profit for the full fiscal year.



See page six. A review of the main measures will be explained.

Procurement reforms included the hiring of new suppliers in India and Korea, which contributed to improved profits in the automotive business and the Americas. Going forward, we intend to increase our cost competitiveness by involving our engineering and design departments to come up with ideas that are not bound by conventional standards.

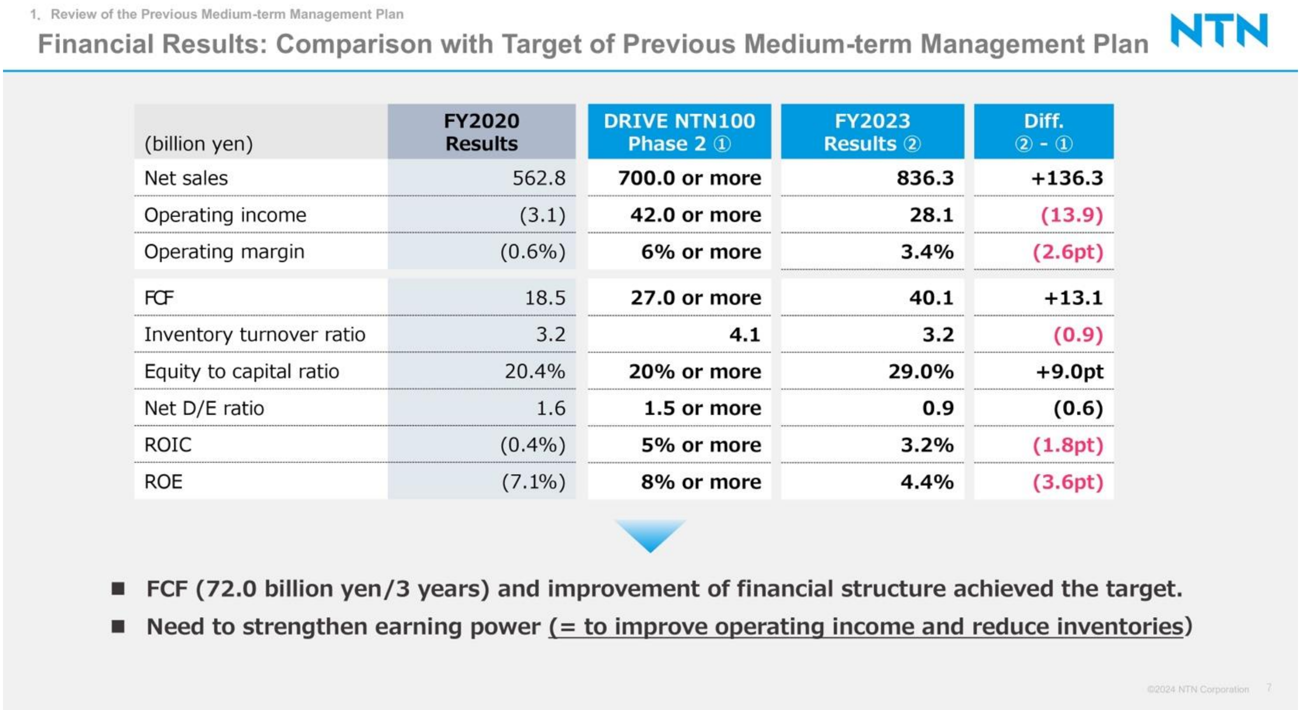
In strengthening the aftermarket business, we were able to achieve our sales and operating income targets, but further business expansion will require such measures as strengthening supply capacity.

In the promotion of production restructuring, although we proceeded with the outsourcing of bearing production, there were delays from the original plan. In the future, production will be reorganized according to the markets in each region.

In the area of accelerating R&D and commercialization of new products, we were able to develop and launch new products such as the High Efficiency Fixed Yype constant velocity joint "CFJ" for automobiles, which are increasingly being shifted to EVs. On the other hand, challenges remained in the development of new products that would lead to new commercialization.

In the area of productivity improvement through the use of digital technology, we have completed the renewal of our core IT system. At the same time, the challenges are to generate profits through operational reforms using the new system and to horizontally expand the Smart Factory being promoted at the newest Wakayama Works.

With respect to strengthening our financial position, we were able to improve our net debt-to-equity ratio and equity to capital ratio by generating cash flow through the sale of almost all of our cross-shareholdings, curbing investments, and improving profits.



1. Review of the Previous Medium-term Management Plan

Financial Results: Comparison with Target of Previous Medium-term Management Plan

NTN

(billion yen)	FY2020 Results	DRIVE NTN100 Phase 2 ①	FY2023 Results ②	Diff. ② - ①
Net sales	562.8	700.0 or more	836.3	+136.3
Operating income	(3.1)	42.0 or more	28.1	(13.9)
Operating margin	(0.6%)	6% or more	3.4%	(2.6pt)
FCF	18.5	27.0 or more	40.1	+13.1
Inventory turnover ratio	3.2	4.1	3.2	(0.9)
Equity to capital ratio	20.4%	20% or more	29.0%	+9.0pt
Net D/E ratio	1.6	1.5 or more	0.9	(0.6)
ROIC	(0.4%)	5% or more	3.2%	(1.8pt)
ROE	(7.1%)	8% or more	4.4%	(3.6pt)

- FCF (72.0 billion yen/3 years) and improvement of financial structure achieved the target.
- Need to strengthen earning power (= to improve operating income and reduce inventories)

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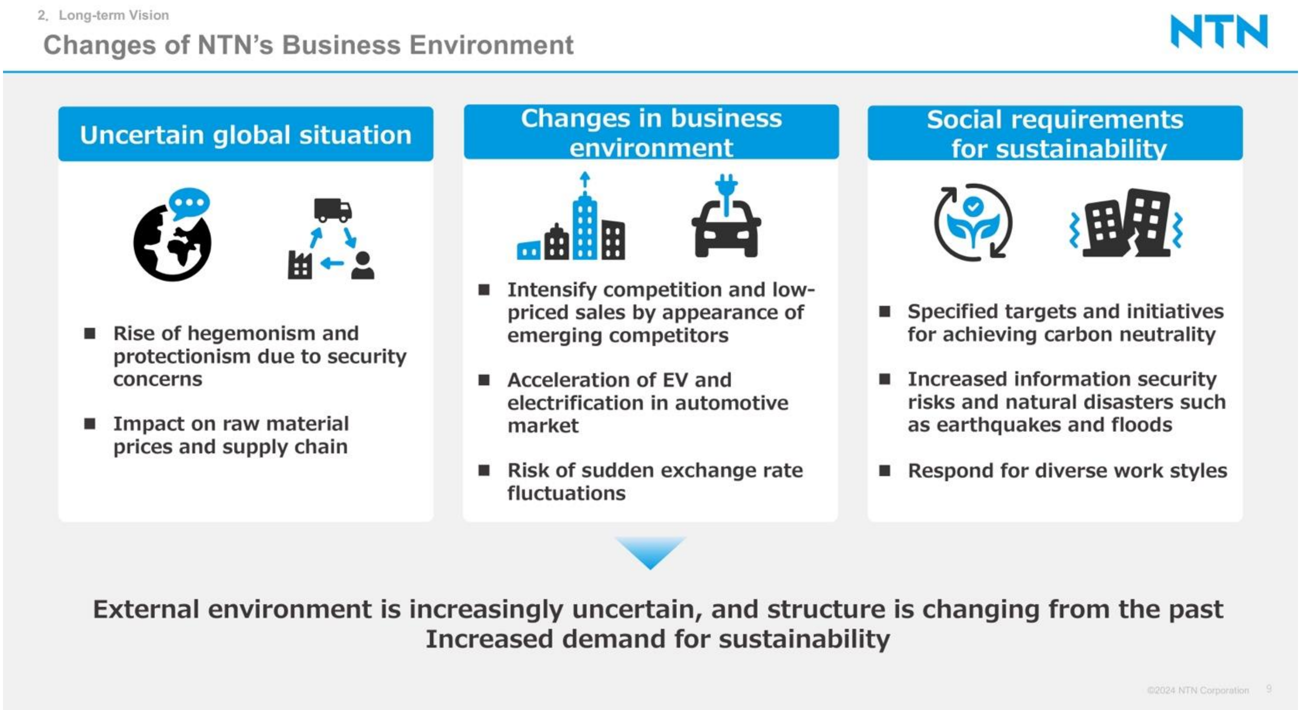
See page seven.

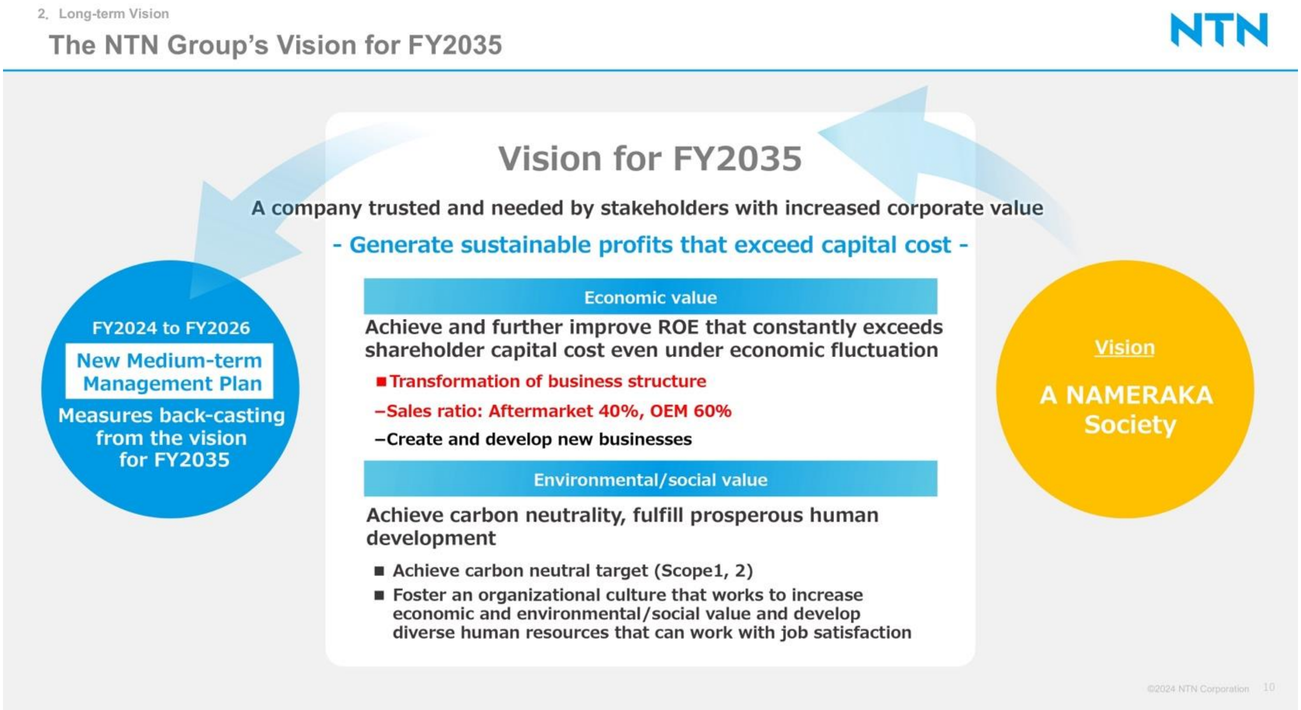
Looking back over the past years, the biggest challenge for the Group is to strengthen its earning power, that is, to improve its operating margin and inventory turnover ratio.



See page nine.

The external environment is more uncertain than ever before, and competition in the marketplace continues to change.

On the other hand, as global warming and its effects are becoming more visible, the roles and responsibilities of corporations are becoming even greater.



See page 10.

By practicing our corporate philosophy of "We shall contribute to international society through creating new technologies and developing new products," our group aims to contribute to solving social issues surrounding the world and to realize a "NAMERAKA Society" where people can live in harmony with nature and in peace of mind and prosperity.

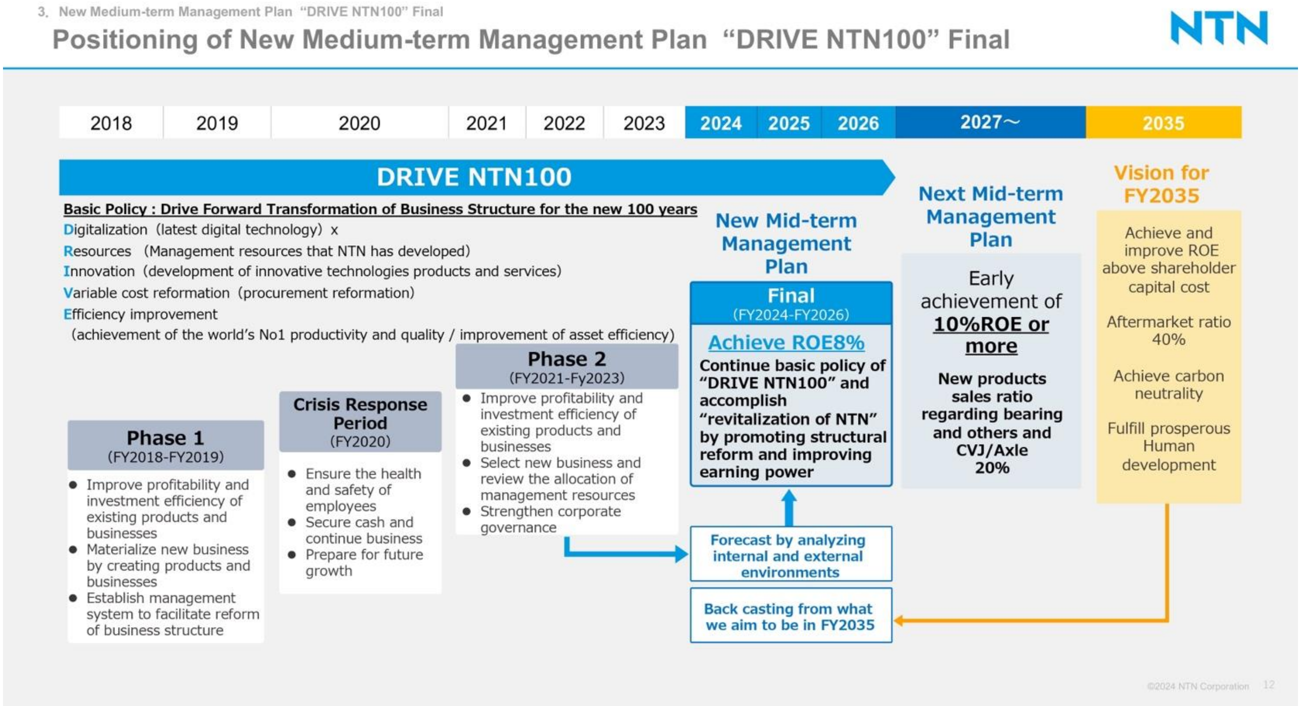
In order to realize this "NAMERAKA Society," we have set a new long-term vision for the year 2035.

In our vision for FY2035, we will enhance our corporate value by improving both economic value and environmental and social value together with our group's stakeholders.

In terms of economic value, we will work to achieve ROE that consistently exceeds the cost of shareholders' equity even during economic fluctuations, and to further improve ROE, we will work to reform our business structure so that the aftermarket business accounts for more than 40% of our sales.

In terms of environmental and social values, we will achieve carbon neutrality in Scopes 1 and 2.

In addition, we will foster an organizational culture that works to improve economic, environmental, and social value, and aim to develop a diverse workforce with a sense of fulfillment in their work, thereby realizing the creation of a prosperous human resource.



See page 12.

By back casting from the long-term vision of FY2035 and simultaneously forecasting from a review of the past, we have formulated a new three-year medium-term management plan, "DRIVE NTN100" Final. We named the plan "DRIVE NTN100" Final because of our strong determination to improve earning power and to complete the revitalization of NTN, which was not accomplished in the previous medium-term management plan.

Since past capital investments, etc. no longer fit the current market environment, resulting in stagnant business, we will complete structural reforms over the next three years, first aiming to achieve ROE of 8%, which we were unable to achieve in Phase 2.

(1) Management Indicators: Management Indicators of "DRIVE NTN100" Final

NTN

Target Management Indicators (billion yen)		FY2023 Results ①	FY2024 Forecast	FY2025 Target	FY2026 Target ②	Diff. ② - ①
Net sales		836.3	860.0	840.0	**830.0**	(6.3)
Operating income		28.1	32.0	44.0	**50.0**	+21.9
Operating margin		3.4%	3.7%	5.2%	**6.0%**	+2.6pt
Extraordinary income(loss)		(3.4)	(8.0)	(17.5)	**(5.0)**	-
Net income		10.6	5.0	9.0	**21.5**	+10.9
Inventory turnover ratio		3.2	3.6	4.0	**4.5**	+1.3
ROIC		3.2%	3.9%	5.4%	**6.2%**	+3.0pt
ROE		4.4%	2.1%	3.7%	**8.0%**	+3.6pt
Equity to capital ratio		29.0%	27.9%	29.5%	**30.0%**	+1.0pt
Net D/E ratio		0.9	1.1	0.8	**0.7**	0.2pt improved
Exchange rate	1USD	¥144.5	¥145.0	¥140.0	¥140.0	(¥4.5)
	1EURO	¥156.7	¥160.0	¥150.0	¥150.0	(¥6.7)

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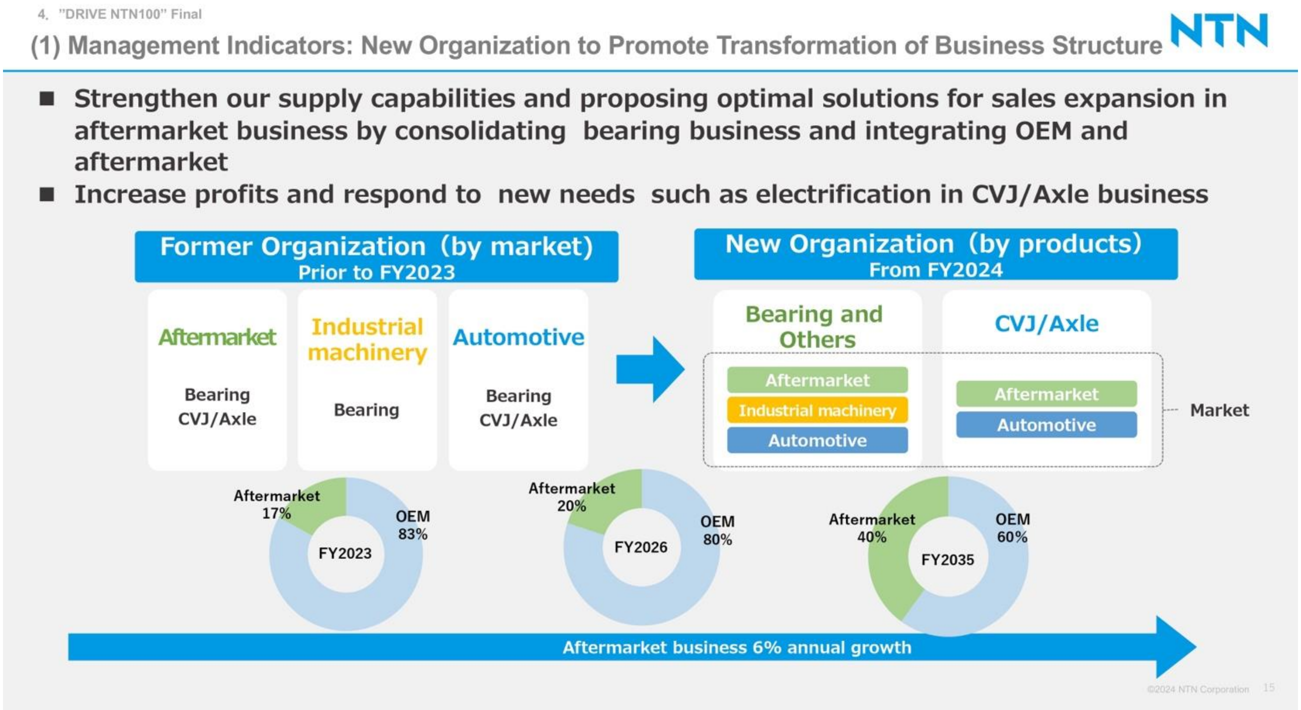
See page 14. This section shows the management objectives of the "DRIVE NTN100" Final.

We plan a decrease in net sales due to structural reforms and an assumed appreciation of the yen compared to the most recent exchange rate, while expanding our aftermarket business.

On the other hand, operating income and inventory turnover ratio will steadily improve every fiscal year.

As for extraordinary income/loss, we will book most of the restructuring costs in the first two years, and in the third year, we aim for net income of JPY21.5 billion and ROE of 8%.



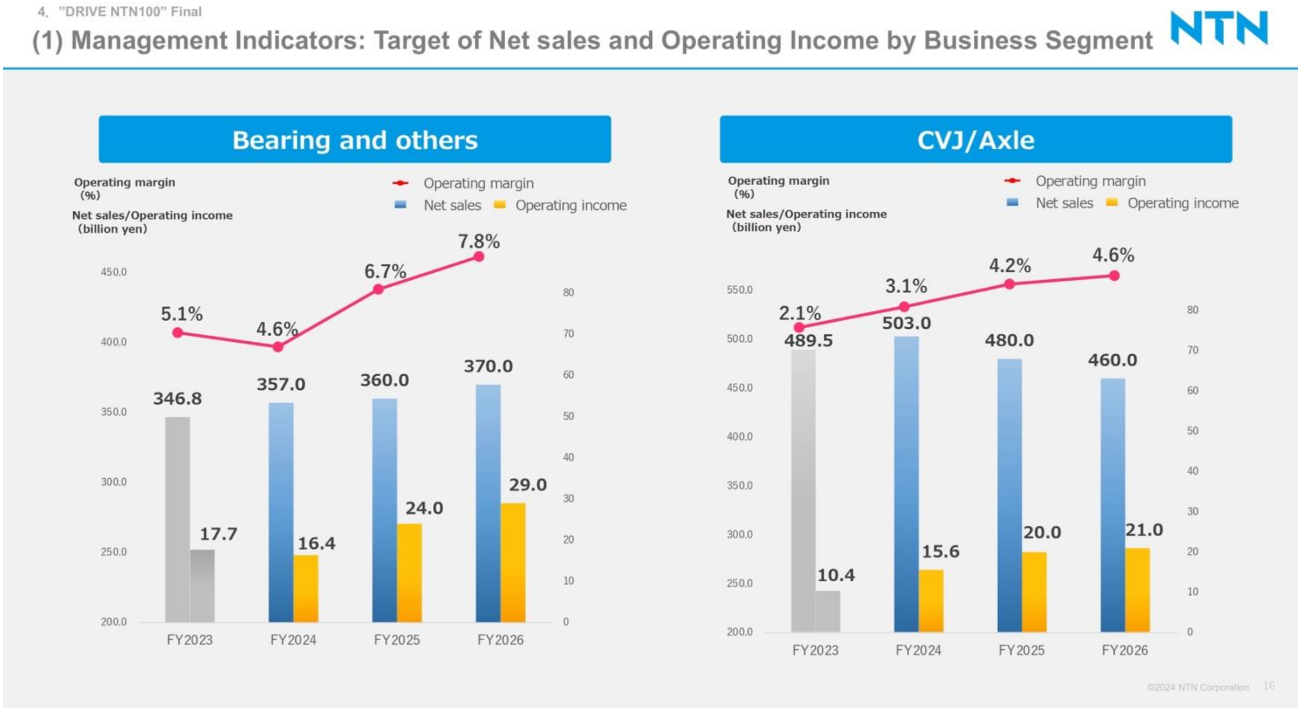
See page 15.

Effective April 1, 2024, we have changed our organization from the current market-oriented to a product-oriented structure in order to expand our aftermarket business and promote responses to changes in the industrial structure, electrification, and the shift to EVs.

We will consolidate our dispersed bearing business, strengthen our service and supply capabilities, and aim to generate profits by integrating aftermarket and OEM operations.

CVJs and axles will also be concentrated as product axes to respond to new needs such as electrification and to build a muscular business foundation.

Currently, sales to the aftermarket business account for 17% of total sales, but we aim to increase this to over 20% by FY2026 and to 40% by FY2035.

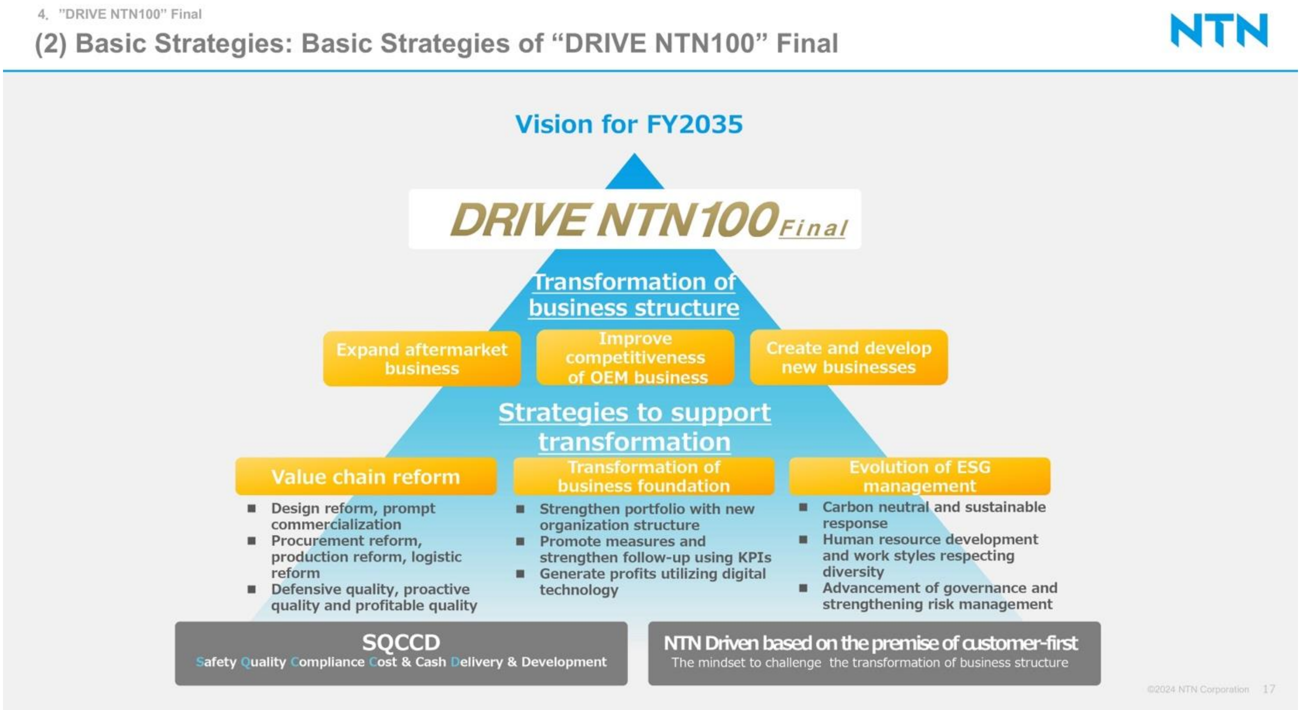


See page 16. The graph shows the sales and operating profit targets for the past three years for each of the new business forms.

For bearings and others, we plan net sales of JPY370 billion, operating income of JPY29 billion, and an operating margin of 7.8% for the fiscal year ending March 31, 2027, mainly incorporating the expansion of the aftermarket business.

CVJ & Axle plans net sales of JPY460 billion, operating income of JPY21 billion, and an operating margin of 4.6% in the third year by shifting to more profitable business areas and downsizing unprofitable businesses, while continuing to improve its structure through structural reform.

From FY2027 onward, we will further grow the business by improving the sales mix by increasing the ratio of high-value-added products such as CFJ for battery EVs and large, high-angle CVJ.

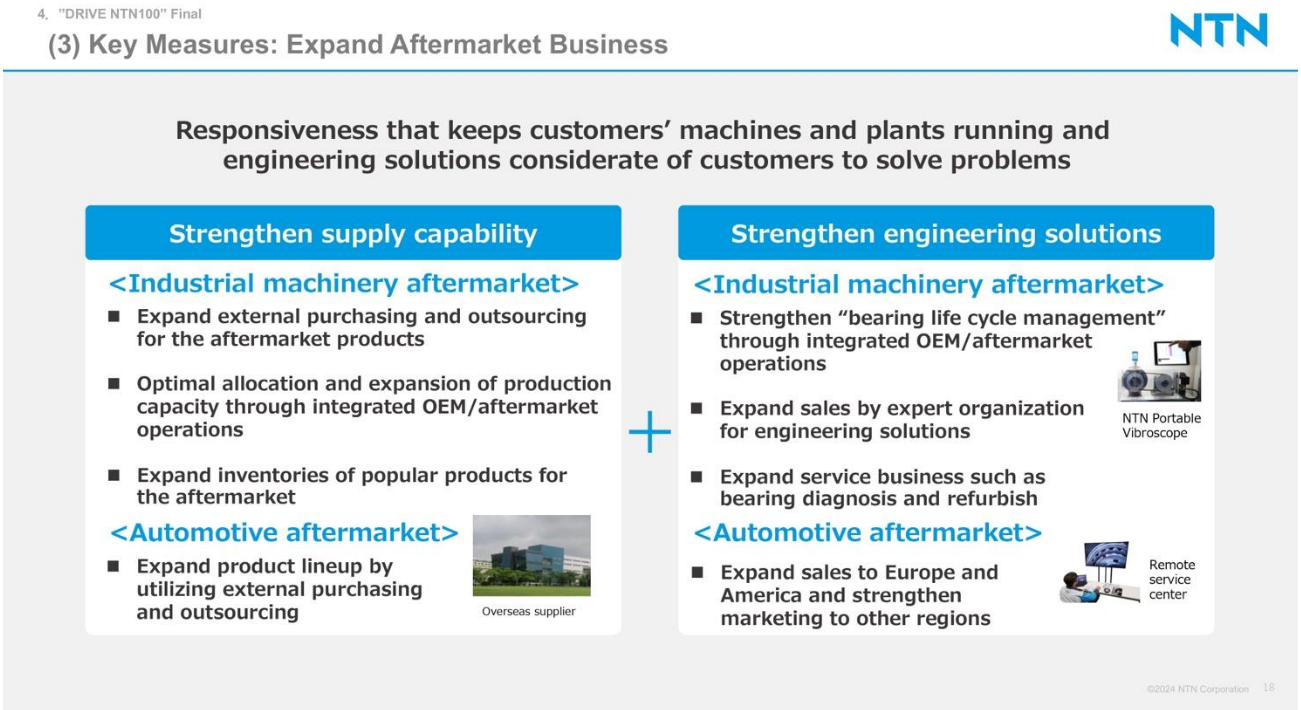


See page 17. The following chart shows the basic strategies and key measures of "DRIVE NTN100" Final.

What I have repeatedly communicated within the Company as a mindset for taking on the challenge of transforming the business structure is the "SQCCD" approach to work and the "NTN-driven," based on the premise of customer-first.

By spreading these ideas and mindsets throughout the Group, the entire company will work together to reform the business structure.

We will now describe each of the measures in detail on the pages that follow.

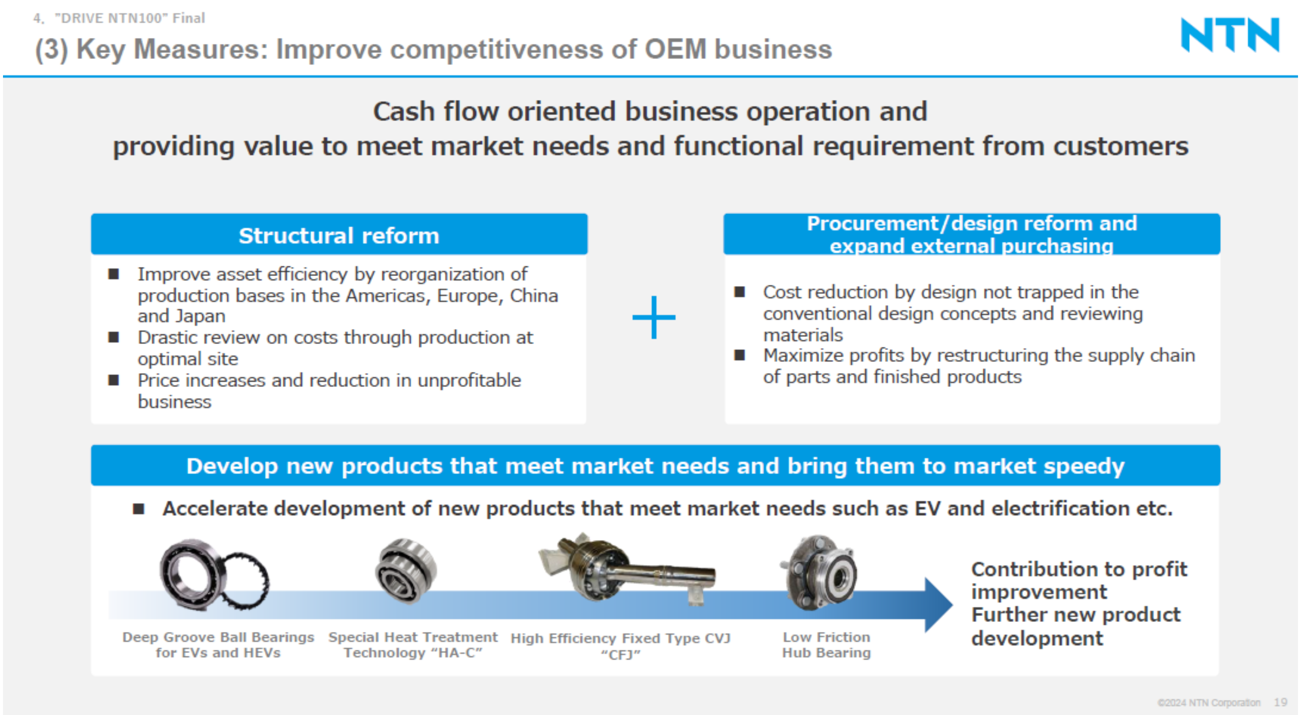


See page 18. The first important measure is to expand the aftermarket business.

What is needed here is the ability to respond immediately without stopping the customer's machine or plant, and to provide engineering solutions considerate of customers to solve problems.

In order to improve the promptness of supply, we have been outsourcing production to overseas partner manufacturers, and we will further expand this trend. In addition, while production capacity for the aftermarket business has been insufficient in the past, we will optimally allocate production capacity through integrated operations with OEMs starting this April, and promote the expansion of our best-selling inventory.

For engineering solutions, OEMs and the aftermarket will work together to develop a system to support and service the bearing lifecycle from start to finish. In the automotive aftermarket business, we will expand sales mainly in Europe and the United States, and also strengthen marketing in China, ASEAN, the Middle East, and Africa.



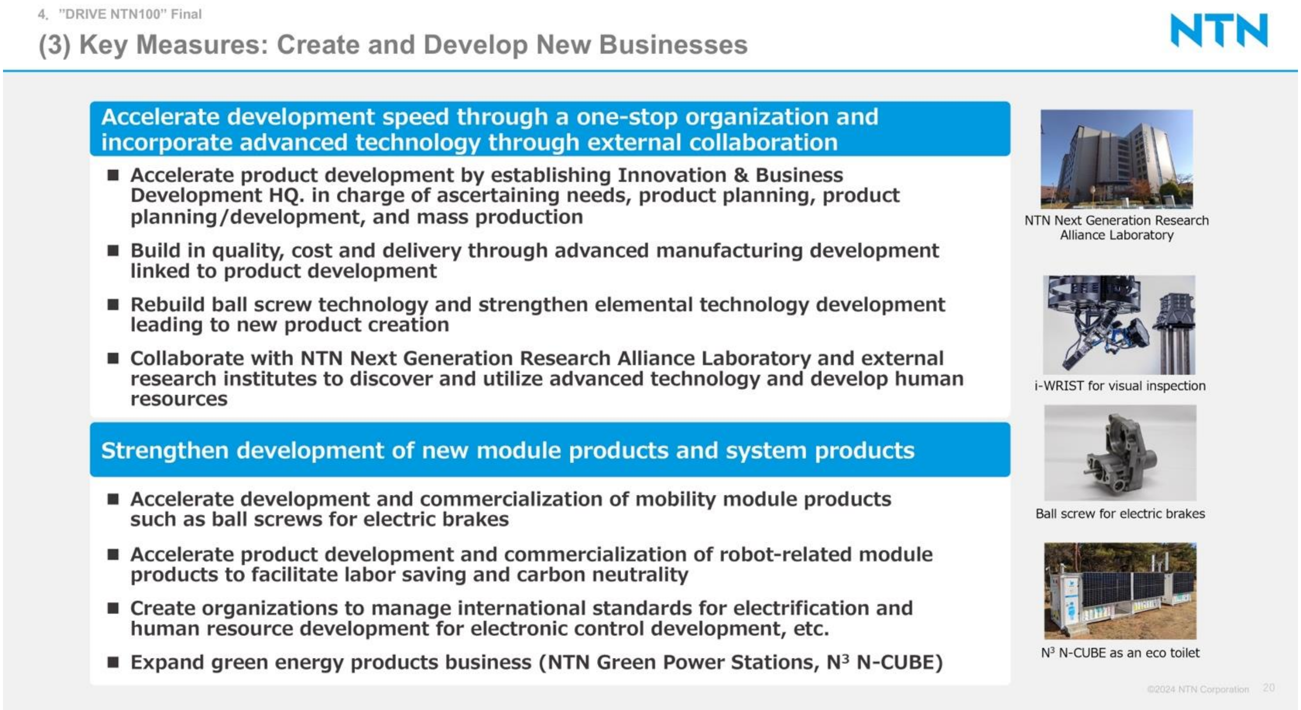
See page 19. The second important measure is to strengthen the competitiveness of the OEM business.

Here, we will work on structural reforms, as it is necessary to optimize fixed costs in line with market conditions and demand.

Following the closure of the CVJ site in South America, we will improve asset efficiency by reorganizing production in the Americas, Europe, China, and Japan.

In addition to the development and expansion of the use of competitive partner manufacturers that we have promoted in the past, we will also increase the effectiveness of cost reduction by reviewing designs and materials based on ideas not bound by conventional thinking, while satisfying customers' required specifications.

It is also important to respond to electrification, which has taken the lead in the automotive industry and is spreading to industrial machinery. We will develop new products that meet these market needs, propose them to our customers with speed, and introduce them to the market. Some of these new products have already been adopted by customers, and further expansion of these products will contribute to improved profits in the overall OEM business.

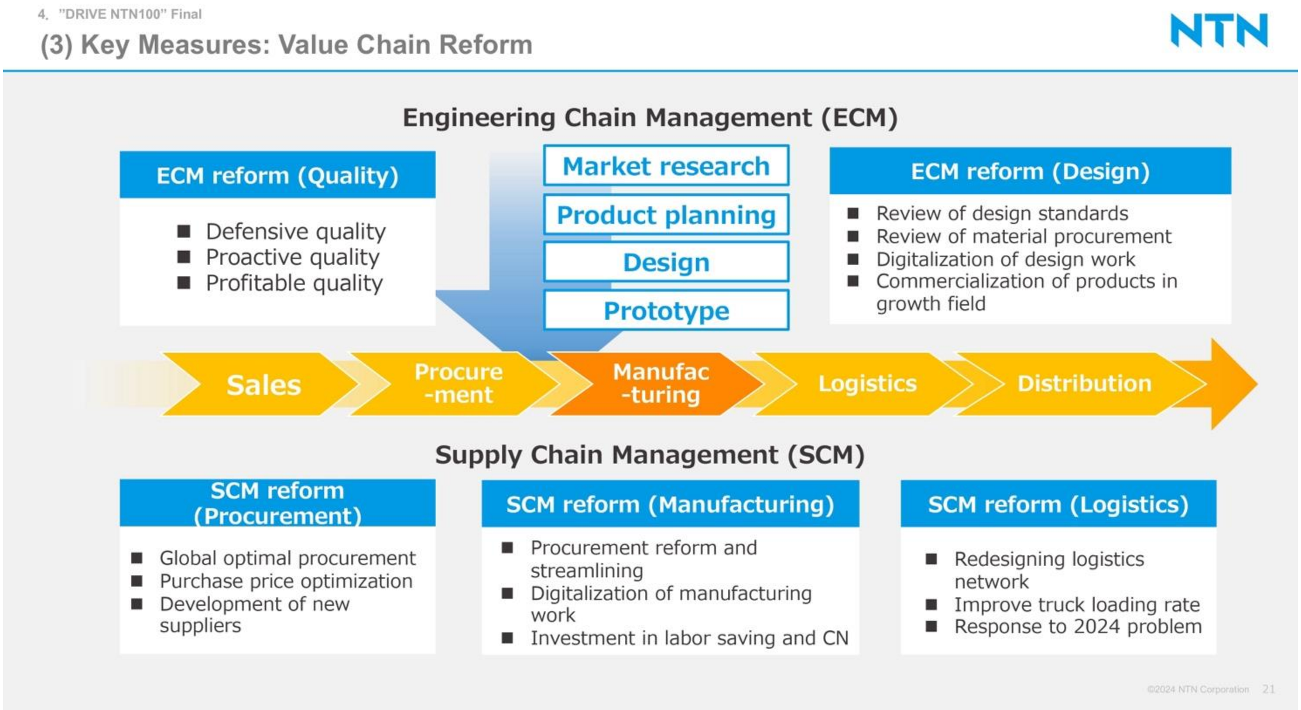


See page 20. The third important measure is to create new products and foster new businesses.

Until now, functions such as planning and development of new products, engineering, and manufacturing have been specialized through the division of labor. In April of this year, we established a new organization, Innovation & Business Development HQ. , which will be responsible for all of these functions in one place, and will simultaneously carry out multiple processes in order to accelerate the speed of development while balancing quality, cost, and delivery time.

In addition, NTN will accelerate the discovery and utilization of cutting-edge technologies and the development of human resources through collaboration with external research institutions such as the NTN Next Generation Research Alliance Laboratory.

With this structure, we will strengthen the development of new module and system products and promote their commercialization.



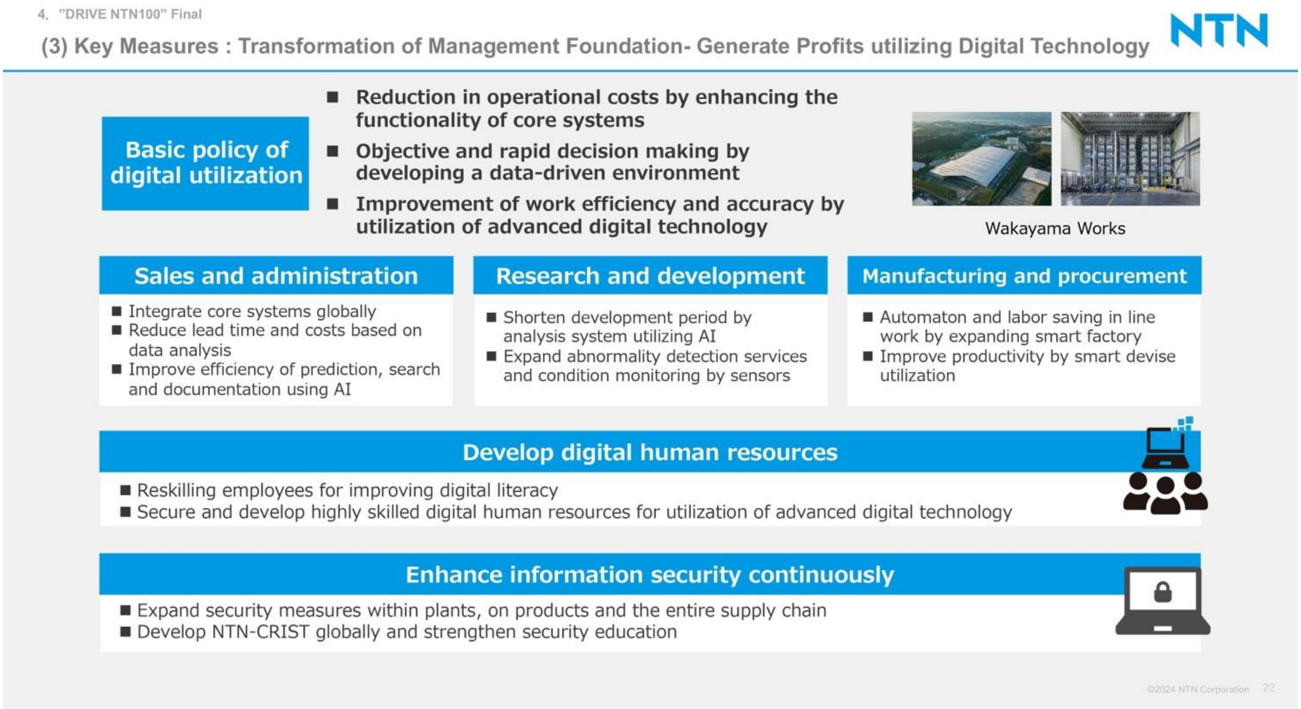
See page 21. The fourth important measure is to promote value chain reform.

In addition to reforms in SCM areas such as procurement and production, which we have been working on, we will promote reforms in the entire value chain by expanding the scope to include design and quality areas.

In the area of quality, we will develop and expand the NTN brand quality management system for external procurement and outsourced production, which will expand in the future.

In the design area, we will promote manufacturing methods and procurement of parts and materials that contribute to cost reduction by reviewing conventional design concepts and ideas while meeting customers' required specifications.

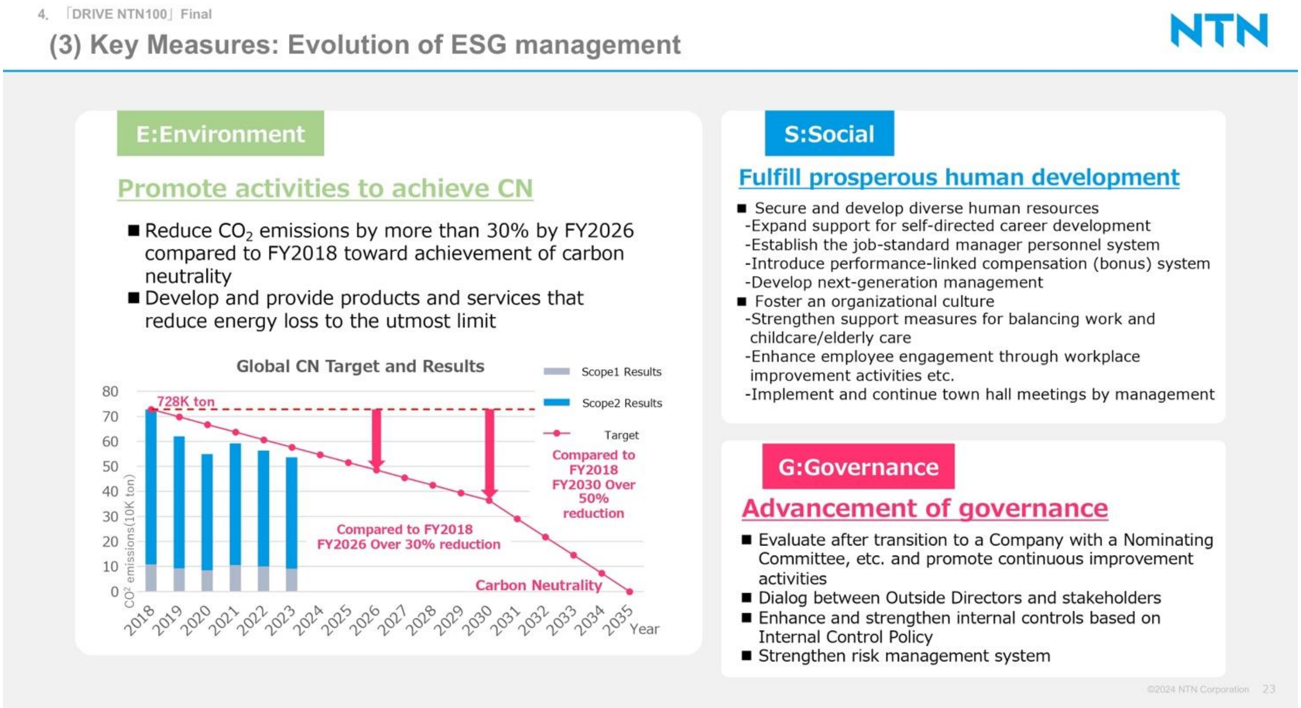
By promoting these reforms throughout the value chain, we will support the expansion of the aftermarket business and the strengthening of the competitiveness of the OEM business, as mentioned earlier.



See page 22. The fifth important measure is the use of digital technology to generate profits.

We will enhance the functionality of the revamped Japanese core system, develop a data-driven environment, and improve operational efficiency and reduce operational costs through advanced digital technologies such as generative AI.

To accelerate these measures, we will work to strengthen digital human resource development and information security. In particular, cyberattacks are a serious management risk, and we will continue strengthening information security from both hardware and software perspectives, including measures within our plants, products, and supply chain as a whole, as well as employee training.



See page 23. ESG management initiatives will be explained here.

On the environmental front, in May of last year, we announced our goal of achieving carbon neutrality by FY2035 for Scope 1 and Scope 2, and by FY2050 for Scope 3, which covers the entire supply chain.

As we promote carbon neutrality globally, we have established a roadmap with CO_2 emission reduction targets for each region by FY2035. In accordance with this roadmap, we will continue to make necessary investments while making reductions.

Next is the social side of the project.

We are committed to promoting diversity, that is, creating a rewarding work environment that respects the diversity of our employees.

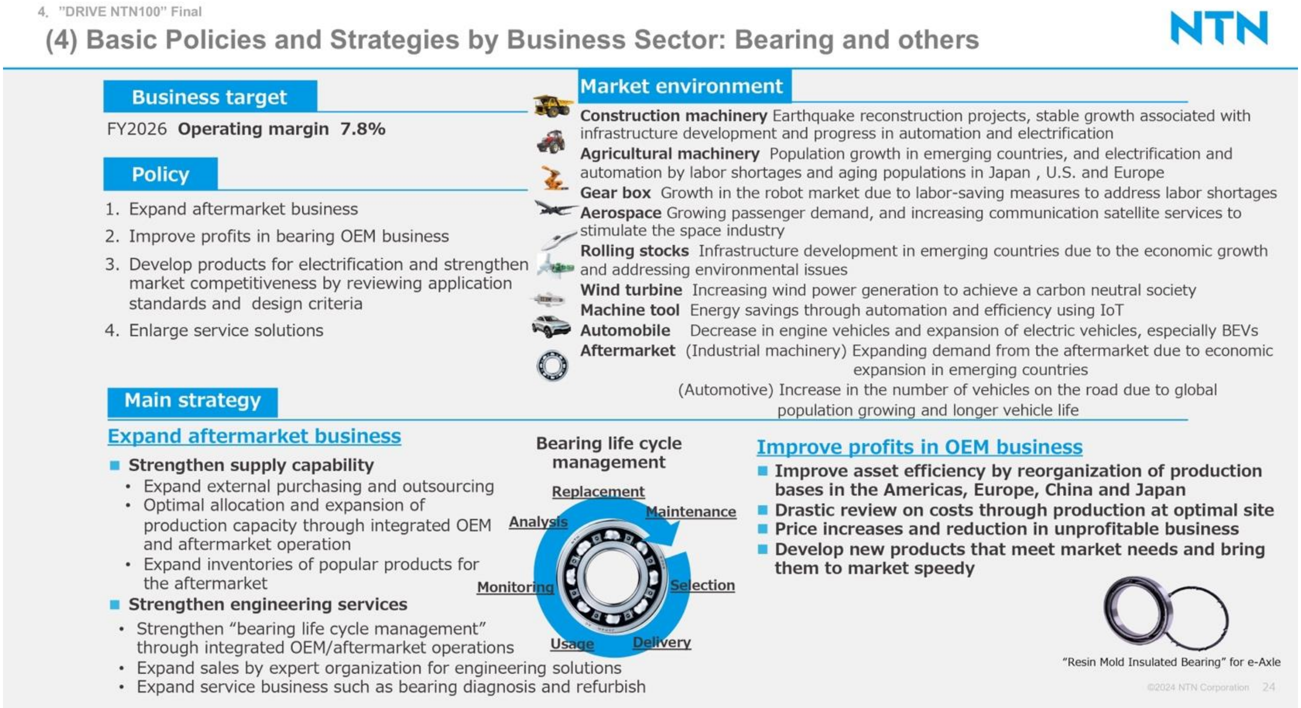
Finally, there are governance initiatives.

The Company transitioned to a Company with a Nominating Committee, etc. in 2019 and has been working to strengthen management oversight and transparency ever since.

Since June 2022, a female outside director has been appointed as chairperson of the Board of Directors, which supervises the executive bodies.

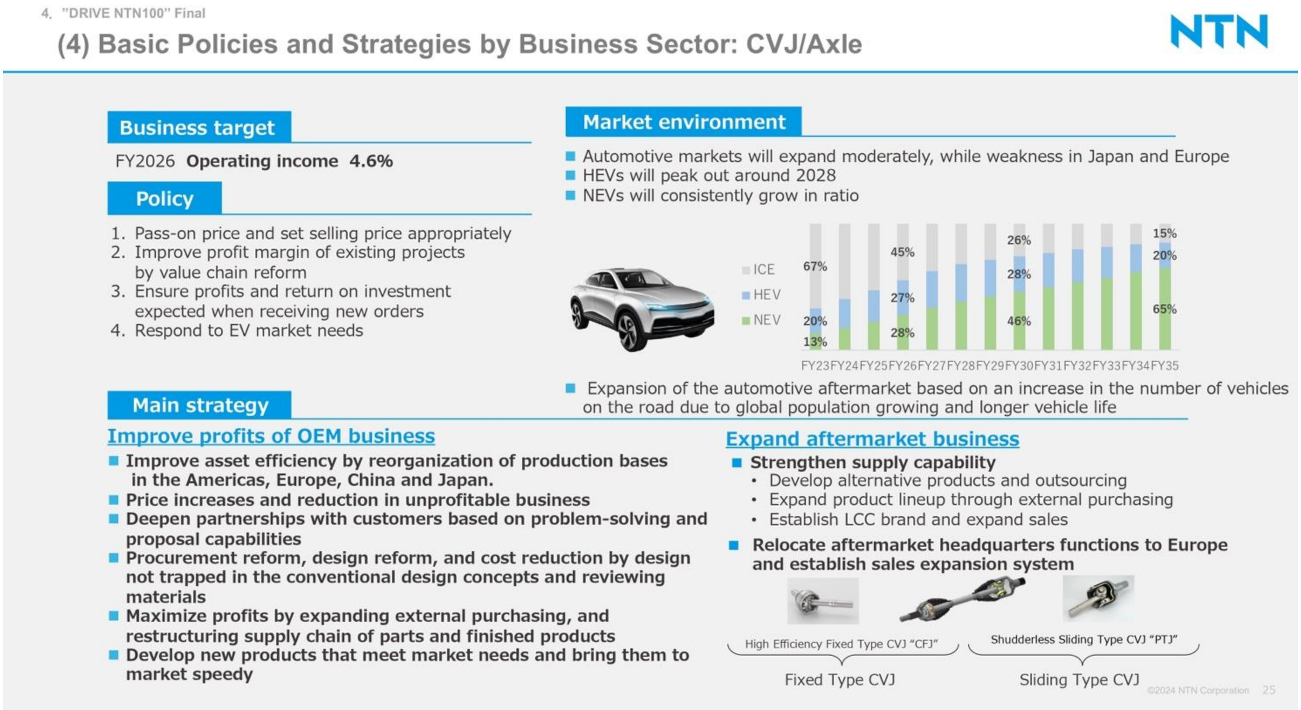
At ESG briefings, we actively engage in dialog with our stakeholders, with top executives from both the executive and supervisory sides explaining the Company's initiatives from their respective perspectives.

We will continue to strengthen our ESG management.



See page 24.

This page summarizes the key measures we have described so far with respect to bearings and others.



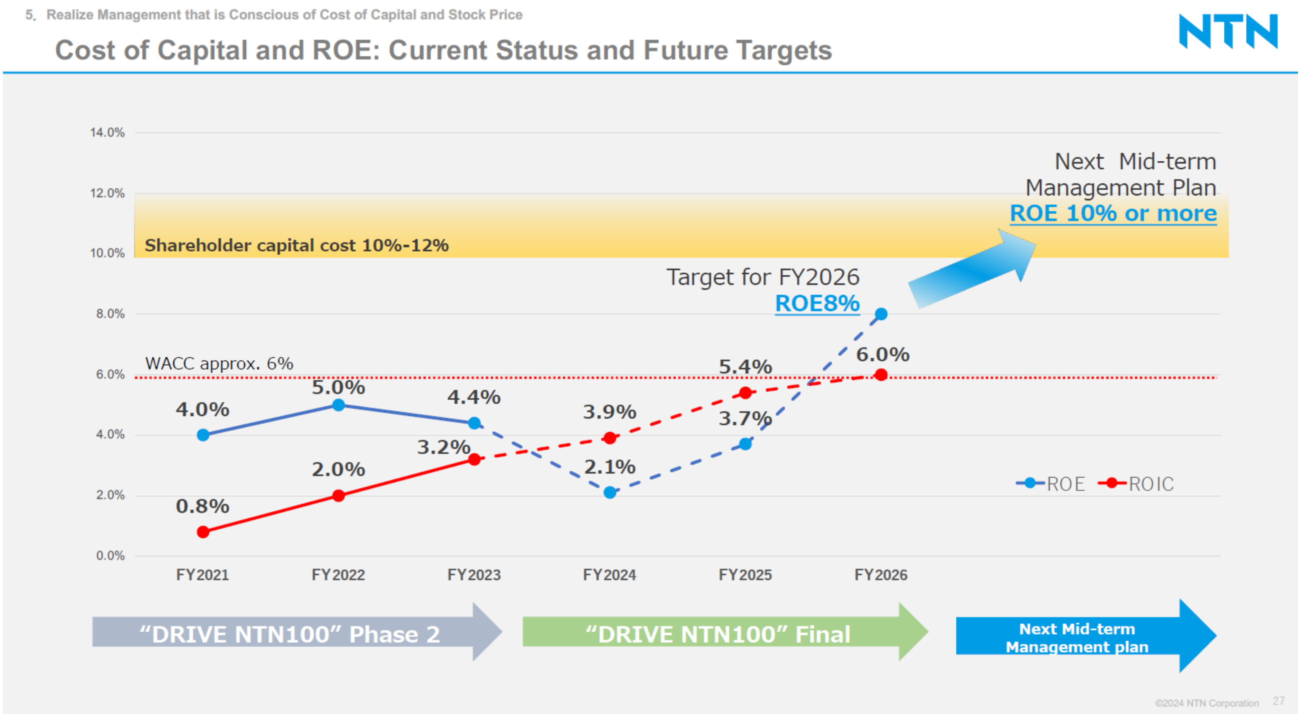
See page 25.

As with the previous page, this one is also a summary of the CVJ axle, so we will skip the explanation.

That is all from me.

Nagao: Thank you, President Ukai.

Continuing on, CFO Yamamoto, please explain the points in section five regarding cost of capital and stock price conscious management.



Yamamoto: I will explain from here.

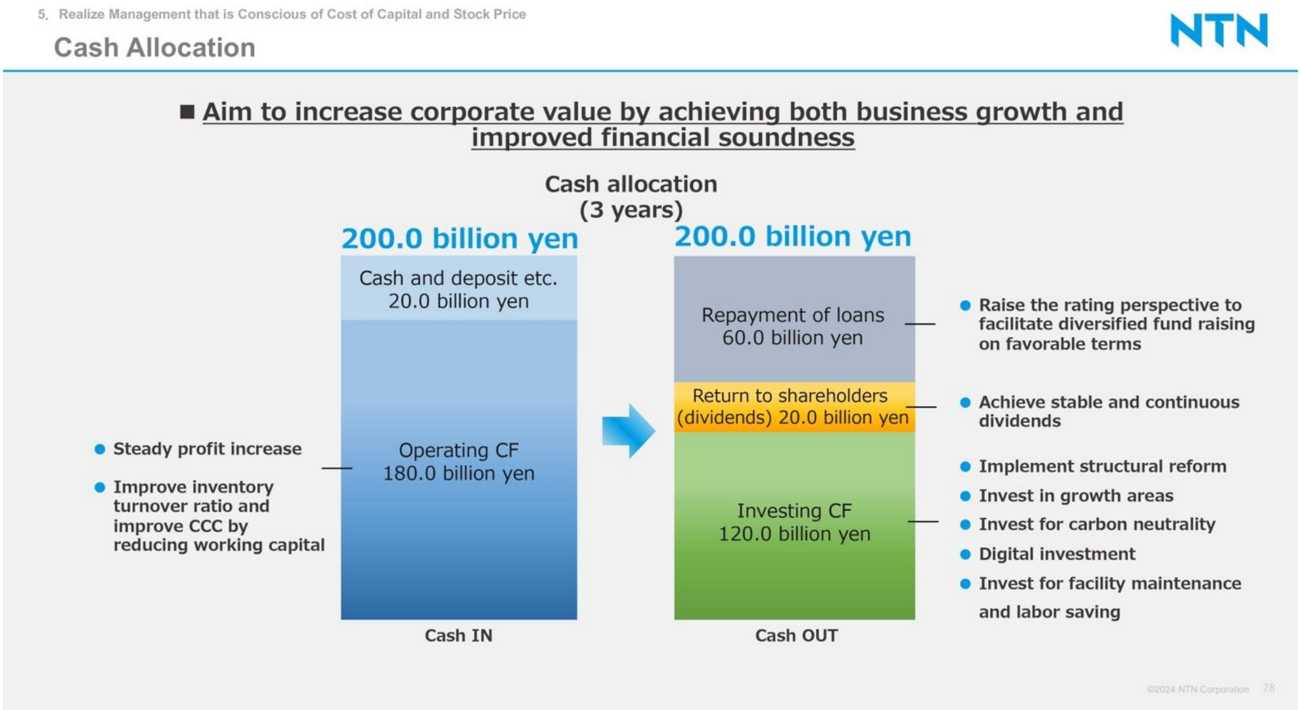
See page 27. Our cost of shareholder's equity and WACC estimates, as well as our ROE and ROIC results and targets.

At the top of the table is the cost of shareholders' equity, which we estimate at 10% to 12%, based on interviews with capital market participants.

As for the WACC in the middle row, it is estimated to be around 6%.

The blue line graph shows ROE, and the red line graph shows ROIC. The ROE and ROIC for the fiscal year ended March 2024 are 4.4% and 3.2%, respectively, below the cost of capital.

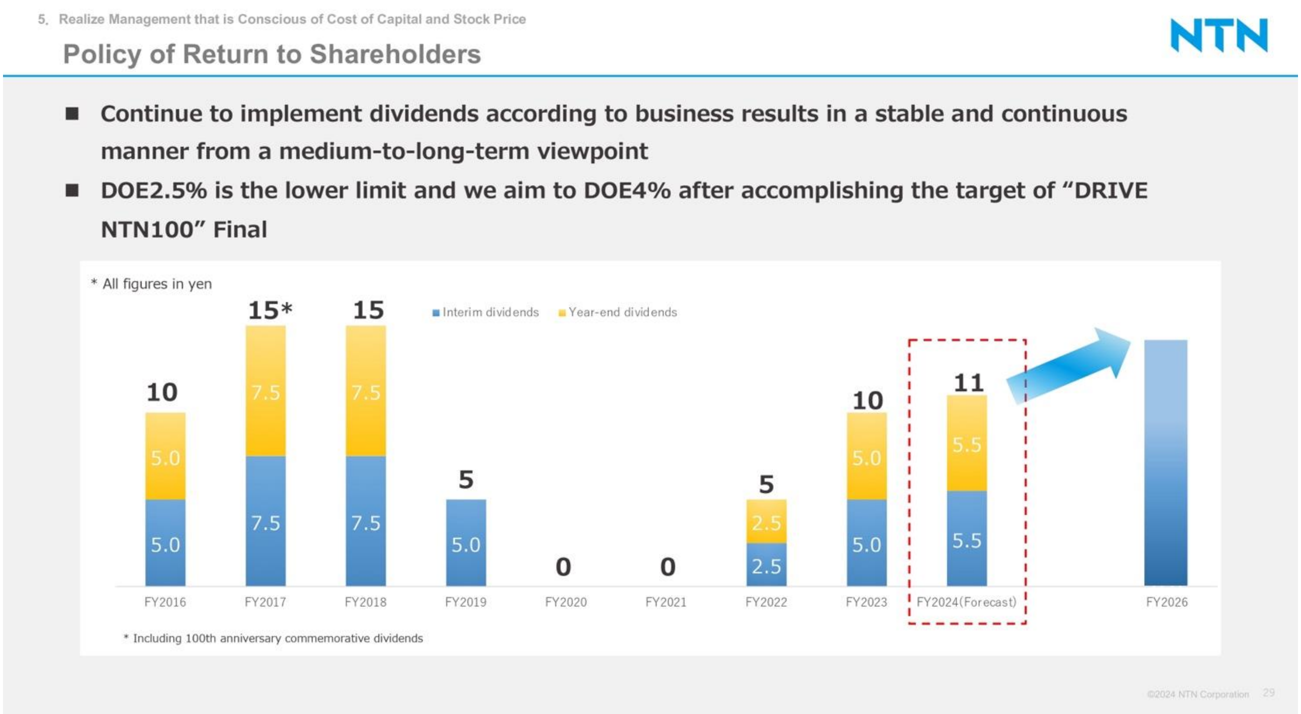
Under the new medium-term management plan, we aim to steadily improve ROIC every fiscal year, with a target of 6% in the fiscal year ending March 31, 2027. On the other hand, ROE will decline during the first two years of structural reform, but we aim to achieve 8% in the fiscal year ending March 31, 2027, and 10% as early as possible in the next medium-term management plan.



See page 28. This is the cash allocation for the three years of the new medium-term management plan.

While we curbed investments in the previous medium-term management plan, in the new medium-term management plan, we plan to make investments that lead to structural reforms and business growth to the extent that they are almost equal to the total amount of depreciation and amortization.

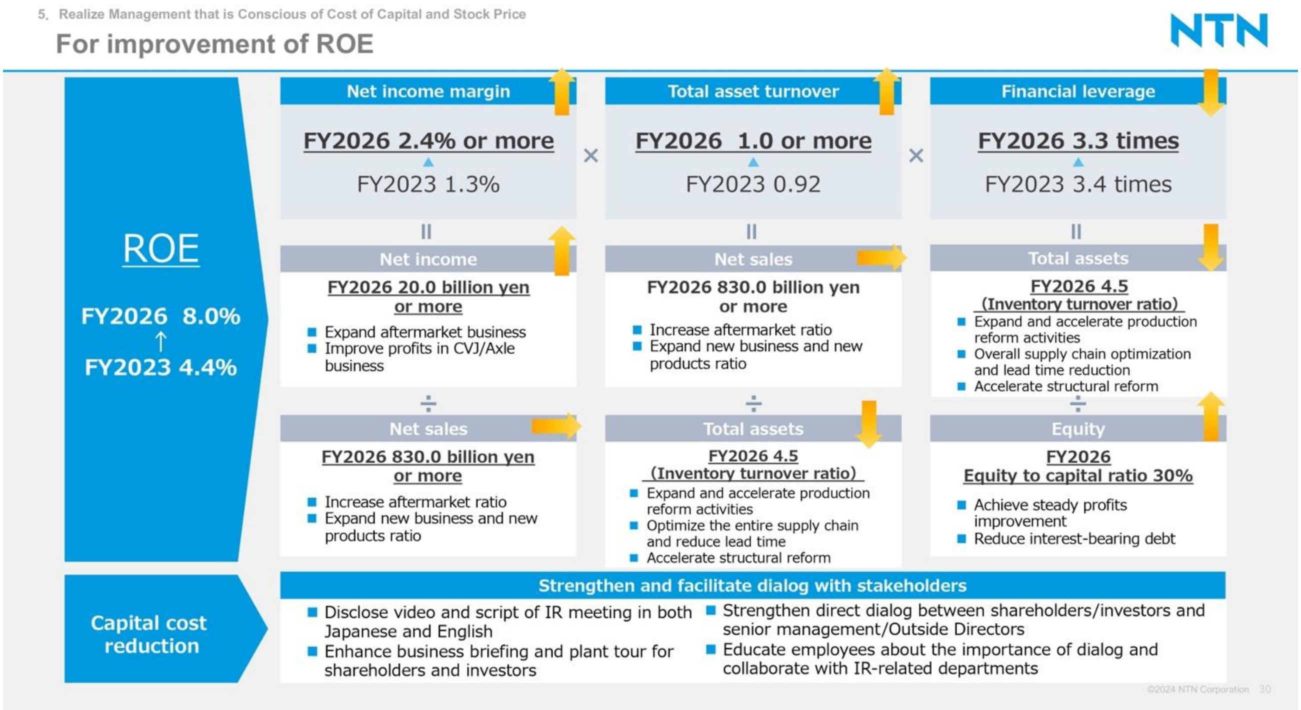
Cash inflow on the left side is planned to be JPY200 billion, consisting of JPY180 billion in operating cash flow and JPY20 billion in reduction of cash and deposits, and cash outflow on the right side is planned to be JPY200 billion, consisting of JPY120 billion in investing cash flow, JPY60 billion in reduction of interest-bearing debt, and JPY20 billion in return to shareholders.



See page 29. This is our shareholder return policy and our dividend.

Under the previous medium-term management plan, we were able to resume dividend payments in the second year, starting in the fiscal year ended March 31, 2023. For the current fiscal year ending March 31, 2025, we plan to pay interim and year-end dividends of JPY5.5 each, for an annual dividend of JPY11.

Under the new medium-term management plan, based on the policy of stable and continuous dividend payments, we will set DOE at 2.5% as a lower limit as a general guideline, although there are some foreign exchange assumptions, and target DOE of 4% after the completion of the medium-term management plan.



See page 30. The measures and targets described so far are described for each of the elements that break down ROE in order to improve ROE.

The Group's top priority is to improve profitability and asset turnover. We aim to resolve this issue and achieve an ROE of 8%. We will also strive to reduce the cost of capital through enhanced dialog with stakeholders.

We appreciate the continued support of our shareholders, investors, and other stakeholders.

That is all from me.

Nagao: Thank you very much, CFO Yamamoto.

Question & Answer

Nagao [M]: We will now open for questions.

We would like to spend about 40 minutes now with analysts and investors, followed by questions from the press. During the Q&A session, the secretariat will designate the person with questions.

So, first of all, analysts and investors, please ask your questions.

Mr. Sasaki of Morgan Stanley MUFG Securities, please go ahead with your questions.

Sasaki [Q]: My name is Sasaki from Morgan Stanley. Thank you very much for your time today. Thank you for your cooperation. I would like to make three points.

The first question is the concept of business profit by segment. If you look at slide number 16, I believe one of the key points of this medium-term plan is on this slide. I think if you could tell me a little bit about this slide, whether it is bearings or CVJ axles, CVJ axles in particular have increased profits despite the fact that sales are projected to decrease. While sales are not expected to increase much for bearings, the profit margin is expected to improve significantly.

Normally, in the manufacturing industry, a decrease in sales would result in a decrease in marginal profit, which would mean that the company would face a difficult situation in terms of profit. I would like to know what the logic and structure of your company's profit improvement is based on the assumption that sales will either decrease or not increase.

Ukai [M]: Thank you very much. Since Miyazawa and Harima, who are in charge of this part are here today, I would like to have Miyazawa answer about CVJ axles and bearings and others from Harima, respectively. Best regards.

Miyazawa [A]: My name is Miyazawa.

I would now like to explain a little about CVJ axles.

As Mr. Sasaki just pointed out, looking at the next three years, the top line is unfortunately expected to decrease in size, but this result is the result of the past three years of business competition. This is the result of our efforts over the past three years to shift to a high-profit zone, mainly by downsizing and withdrawing from unprofitable businesses. Looking at the past three years and the next three years, there will certainly be a decrease in the size of the top line, but the product mix will improve considerably. In this sense, the top line will be slightly lower, but the profit will improve accordingly.

Harima [A]: Next, I will explain about bearings and others.

This time, the bearing business is shown in a bar graph and a line graph, with the automotive, industrial machinery, and aftermarket segments added together. In the near term, the situation for the current fiscal year is that although demand for automobiles is firm, demand for industrial machinery and the aftermarket is not so good. In this situation, the automotive business is not earning operating income. Although the top line is on the positive side, operating income has fallen a little.

From the next fiscal year onward, we will improve profits from automotive bearings, including recovery in industrial machinery. We will aggressively proceed with cost reductions and pass on the higher costs to selling price to our customers, so we are forecasting a steady increase in operating income.

Sasaki [Q]: Thank you very much.

I would like to ask you, Mr. Miyazawa, if I understand correctly, that your company has been working to win orders with an emphasis on profitability. In that sense, would it be correct to say that the improvement of the model mix in the automotive parts business is highly visible?

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

As Mr. Sasaki just pointed out, as I explained earlier, we are withdrawing from unprofitable businesses in South America, and we are restructuring or adjusting areas, especially in Europe and Americas, where we are not making good profits, to achieve this kind of change in the mix.

Sasaki [Q]: I understand. Thank you very much.

Second, what is your approach to aftermarket business? As you can see from the review of management measures mentioned by President Ukai at the beginning of this presentation, the evaluation was neutral, and the aftermarket business will increase by 20% in the final year, as shown on page 15. Why is there a high probability that aftermarket sales will grow during the three years of the new medium-term management plan, and what additional initiatives will you take to expand aftermarket sales? Could you elaborate a little more on your thinking on this?

Ukai [A]: Ukai will answer your question.

First of all, let me tell you why we have replaced the bearings and other products business. In particular, bearings account for almost 70% of the aftermarket and other products for industrial machinery, but until March, there was no manufacturing unit under the Aftermarket Business Division in our organization. By looking at both OEM customers and aftermarket customers through the product of bearings, we will be able to control sales and manufacturing in a single integrated manner. One of the ways we intend to change the mix in the future is to achieve the best mix within this single business.

There are two major conditions that must be met in order for the aftermarket business to grow. One is in terms of availability, and that is to strengthen our global immediate delivery system. We have already begun this process, and we will further strengthen our global immediate delivery system by maintaining a certain volume of what we call "FIRST" inventory of standard products as a buffer for our best-selling products.

The other is solutions. In order to increase the strength of our brand in the market, we must improve our solutions to our customers' problems. This is not something that can be done overnight, and requires the strengthening of our technical service network, including our distributors. Through recruitment, training, and then experience, we will instill this in our customers.

In our explanation today, I think there is a question as to whether it will take that long to achieve the aftermarket sales ratio of 17% to 20% in three years, and 40% in 10 years from now. In particular, the latter part, providing solutions to increase brand value, will also take time. However, we have made this organizational change based on the expectation that by doing so, we will be able to further improve the operating profit margin in the aftermarket business and at the same time increase the sales ratio, which will lead to an improved profit structure.

Sasaki [Q]: Thank you very much.

I would like to confirm this with President Ukai, but I believe that in the past, NTN wanted to increase the aftermarket service, but the aftermarket service did not increase because the OEM took over the production and the capacity of the aftermarket. I believe that this was the case in the past. However, as President Ukai mentioned, the organizational restructuring this time has added capabilities under the Aftermarkte Division, so I wonder if we can confirm whether we can assume that NTN will be able to really produce products in the Aftermarket Division.

Ukai [A]: As Mr. Sasaki just mentioned, the premise for this is that we have been an OEM-oriented company for 100 years, and we have been trained in technical and various aspects by our OEM customers, which is why we are where we are today as a manufacturer. It means that we can make our technology more responsive depending on the OEM customer. The second is that we need to develop the production capacity to be able to buy certain quantities. We will continue to firmly respond to these two demands from our customers.

However, we will gradually shift the product mix from OEM customers to the aftermarket. In other words, as I mentioned earlier, by increasing the ratio of the aftermarket while maintaining the two strengths of improving technology and maintaining and improving production capacity, we will be able to respond to the sales price in the aftermarket while maintaining a cost structure that can respond to OEM customers. This will enable us to increase our margins in the aftermarket business.

Sasaki [Q]: Thank you very much.

Finally, as to my third point, I believe that one of the goals of the medium-term plan is the inventory turnover ratio. This has been an issue for some time, and I believe it has been difficult to improve. However, what exactly is different in the new medium-term business plan from the past that will improve the inventory turnover ratio? I wonder if you could share your thoughts on this point with us. That's all from me.

Ukai [A]: As related to pages 17 and 21, three years ago, we started what is commonly known as "Just in Time Management" or production based on pull information in order to firmly reduce in-process inventories in our manufacturing processes in order to achieve cash flow management. This is what we internally call production reform. This is the third time we have tried this, and we are now moving forward with a strong determination not to stop until we have fully completed the process. By doing so, we will first reduce the amount of work in process in the manufacturing process, thereby increasing the cash flow and throughput of our in-house manufacturing process.

At the same time, we will work together with our partner companies and suppliers in the front-end processes of our value chain. This will allow them to manufacture products based on information pulled from us and strengthen the management of work in process in the logistics process, which has not been handled well in the past, before and after the product is shipped from the factory until it reaches the customer. For example, for overseas factories, parts are sent from Japan, so some parts are shipped, and for example, in the US, some parts are shipped to the West Coast and then transported overland by rail or truck. We are planning to strengthen our management of these items to bring them to the best possible condition.

However, there are many disturbances out there. Logistics lines will change due to strikes at ports, railroad strikes, or, as is happening this time, problems with the Suez Canal and the Panama Canal, etc. From the perspective of various BCPs, how much safety rate to watch and how to respond are matters that are foreshadowed in various ways. We need to think about this.

Therefore, although it is not an easy task, we are working on how we can achieve cash flow management throughout the entire value chain, from the before and after where NTN gets involved, from the purchase of materials, to the delivery of products to customers. We will continue to make sure that this also continues in the future. I believe that we will gradually reap the rewards of these achievements from now on.

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

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

Please continue with your question, Mr. Sano of JP Morgan Securities.

Sano [Q]: My name is Sano from JPMorgan. Thank you.

First of all, I understand that you are planning a negative JPY30 billion in extraordinary gains and losses, including structural reforms, over the next three years. Please tell us about the main uses of each type of money and whether the minus JPY5 billion in the fiscal year ending March 31, 2027 will be the final amount, as the theme of the medium-term plan suggests.

Yamamoto [A]: Yamamoto will answer your question.

First of all, regarding structural reforms, it is very difficult to provide details, but I will explain the framework by region.

First of all, as you know, the profit margin in the European region is still not very good. Looking ahead, we expect that the entry of Chinese capital into the European market will prevent a significant increase in our automotive sales in the future. In order to strengthen our cost competitiveness, we plan to consolidate our manufacturing bases in Germany and France, where labor costs are high, and to transfer our operations to Eastern Europe, where we have a business site in Romania. At the same time, we plan to invest in things such as aircraft and linear motion, which have high profit margins. These are about our business in Europe.

Next is the Americas, where cost competitiveness is still a major issue. In order to strengthen our cost competitiveness, we will continue to firmly promote global procurement of semi-finished products and parts, as I have explained in the past. In line with this, we are planning to downsize and consolidate some of the pre-processes that we have in-house.

In China, as you know, Chinese automakers are already dominating the EV market, and the slump of Japanese automakers is becoming apparent. Since exports from China to Europe are possible, the surplus production capacity will be used for the time being to export semi-finished products to Europe, etc., but we believe that it will be necessary to integrate production bases.

Lastly, in Japan, the declining population is gradually making it more difficult to recruit, and the nature of business is also changing. Under such circumstances, it is still necessary to reduce the scale of production of unprofitable businesses. Specific plans will be developed in the future, but we will formulate and implement a plan that includes the consolidation and elimination of locations.

The Company will set a policy for them for the current and next two years, and will record losses there. The last year is to account for the portion not placed there, so we are projecting JPY5 billion for the final year, then JPY8 billion for the first year, and JPY17.5 billion for the fiscal year ending March 31, 2026.

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

The second point I would like to ask President Ukai. I would like to ask you about your outlook for the aftermarket business to account for 40% of your total sales in FY2035. I am aware that bearing and automotive parts manufacturers have been working to expand their aftermarket business for a long time, and I think that there is a trend that some of them, including your company and other leading overseas manufacturers, are re-emphasizing the expansion of the aftermarket business. If there are any obstacles to this, what are they, and what are NTN's important efforts to address these risks in its renewed efforts to expand the aftermarket business?

Ukai [A]: Thank you very much.

In order to increase our aftermarket business to 40% of our total sales in 10 years, we have been working to increase the supply capacity of parts and products, mainly for aftermarket, since last year. However, that is not enough at all. We have already started purchasing bearings under our own brand name from overseas bearing company with which we have a technical tie-up, as we have been doing since last year. We have also started to purchase products with our brand name from other companies that can ensure the quality and technology of their products. In order to increase our supply capacity, which we have not been able to do so far, our issue is how to increase the additional production besides our own production, and I think our biggest challenge is to expand sales while gaining the understanding of our customers regarding such changes in production routes. However, we are now working on a firm plan for this and will do so sequentially, so we believe we can overcome this challenge.

Sano [Q]: I understand.

I would like to ask additionally, if the aftermarket business expands, is it correct to assume that the concept of inventory turnover and concept of turnover that you have set forth for this fiscal year, next fiscal year, and the fiscal year after that, if we go to 2035, will also change the way the balance sheet is used?

Ukai [A]: For example, if we were to accumulate JPY250 billion in inventories now, more than half of it would be work in process. As I explained earlier, semi-finished goods in process, including logistics, account for the majority of the total. In this context, we believe that appropriate inventory that is truly necessary to grow the aftermarket should be held as strategic inventory, rather than the other way around.

Whether this amount is JPY10 billion or JPY15 billion, for example, may vary slightly depending on the time of year, but we will continue to strengthen our activities to secure minimum inventories at all times while securing inventories of finished goods that will not cause loss of sales, while reducing inventories of work in process and semi-finished goods. In this scenario, the total inventory reduction will remain unchanged in the balance.

Sano [Q]: Thank you very much.

One last point, please. I feel that the track record of the medium-term plan so far has not necessarily been high, although I believe it has been affected by the external environment. On the other hand, in terms of the way compensation is linked to business performance and governance that leads to the creation and improvement of corporate value, we would like to know if you have any ideas on how to strengthen governance in such areas as creating a mechanism to link the compensation of directors to the stock price.

Ukai [A]: Thank you very much.

As mentioned in our earlier explanation, we became a Company with a Nominating Committee etc. in 2019. There are three committees within it. These three are: the Nominating Committee, the Compensation Committee, and the Audit Committee. The Compensation Committee is in the process of thoroughly discussing the performance-linked remuneration for directors that you just mentioned, and although we currently have a performance-linked system, we will review this ratio and take other measures to strengthen governance.

I cannot discuss specifics at this time, but we are working together with outside directors on this committee to strengthen governance, especially since they make up the majority of the committee.

Sano [M]: Thank you very much.

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

Now, Mr. Ito of Mizuho Securities, please continue with your question.

Ito [Q]: My name is Ito from Mizuho Securities. Thank you for your explanation. There are two main questions.

As to the first question, what I would like to confirm with this Q&A or briefing material is that I would like to ask how much lower fixed costs and costs will contribute to profits. In the case of bearings and CVJ axles, I think it is on page 16, but in the case of CVJ axles, I would like to know how much cost reduction effect will be added to the profit if you take the measures that have been mentioned in the Q&A session, etc., in response to the fact that sales have not increased much and profit has remained flat.

Yamamoto [M]: CFO Yamamoto will answer.

As a comparison, may I give you the rough amounts as a comparison between FY2023, FY2024, and the final year?

Ito [M]: Yes, please.

Yamamoto [A]: First of all, the proportional cost effect is considerably larger for CVJ axles. As I have explained in the past, we expect to add about slightly over JPY8 billion to the CVJ axle business by changing the forging process and others.

We also estimate that the cost of bearings and others will be approximately less than JPY4 billion.

Next, in the area of fixed costs, I have already mentioned that we will restructure our business in the Americas and Europe. Including this effect, CVJ Axle expects a profit increase factor of over JPY5 billion.

On the other hand, in bearings and others, we expect a decrease in profit of less than JPY3 billion, including the investment of human resources to expand sales for aftermarket . Then, the question arises as to why profit from bearings will increase. However, we expect an increase of about JPY10 billion at the selling price level, including an increase in the aftermarket ratio.

That is all.

Ito [Q]: Yes, I understand. So there is no particular selling price effect on CVJ's part?

Yamamoto [A]: In the first year, we expect to take up the amount that we could not take up in the previous year, which is approximately less than JPY5 billion.

Ito [Q]: I understand. Thank you very much.

I would like to ask you an additional question. With the change in the product axis, I believe that it will be divided into the aftermarket, industrial machinery, and automotive segments. But in the end, in terms of bearings and other segments, in terms of increasing performance and profits over the next three years, if you divide them into aftermarket, industrial machinery, and automotive, what kind of sales, or rather profits, do you imagine will grow?

Yamamoto [A]: We have not given a breakdown of the conventional breakdown of automotive and industrial machinery, for example, but as I mentioned earlier, we will increase the total aftermarket ratio from the current 17% to over 20%, and the majority of this will be contributed by bearings.

Ito [Q]: I understand. Thank you very much.

My second question is regarding each market, I would like to confirm how your company can penetrate the selling price. I have been looking at page 24, and I understand that you are trying to capture the aftermarket. However, if you look at, for example, construction machinery, agricultural machinery, and aircraft by market environment, please tell us if there are any areas where you expect to see further growth or improvement in sales prices over the next three years.

Harima [A]: I, Harima, who is in charge of bearings, will answer your question.

If I may talk a little bit about each industry, as you can see at the bottom, the ratio of sales to total sales is still overwhelmingly dominated by automobiles. As I mentioned earlier, as the shift to EVs continues, the mix of products in the market will change significantly, and the future strategy for automobiles is to introduce products with higher added value and competitive advantage to the market.

We are also focusing on construction machinery and gear box, which are our strongest industrial machinery products, and these are areas where the customers mainly rely on robots. In these areas, we are already focusing on how to lower costs, especially proportional costs. Over the next three years, we will work to create a more profitable structure.

In addition, we will make further efforts to increase our market share in areas that have traditionally been profitable, such as rolling stocks and machine tools.

We are going to increase the percentage of aftermarket business, and since it is a business where operating margin exceeds 15%, we believe that we are making efforts to increase the percentage here.

Ito [M]: Thank you for your explanation. That's all from me.

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

Are there any other questions from analysts or investors? Any? Thank you very much.

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

Hirosuke Tai [Q]: My name is Tai.

First, I would like to ask Mr. Yamamoto. I am a little confused about the breakdown of the increase/decrease in profit that you gave in your previous explanation. I think you said that CVJ's proportional cost was plus JPY8 billion and the selling price was plus JPY5 billion. Can you tell me what the another JPY5 billion was from?

Yamamoto [A]: That is fixed cost.

Hirosuke Tai [Q]: Is this also a plus JPY5?

Yamamoto [A]: Yes, it is. As I mentioned earlier, we will also be implementing structural reforms, so we are considering eliminating various fixed costs there.

Hirosuke Tai [Q]: That would give a total positive effect of JPY18 billion, but when was this compared to? Is this in contrast to last year?

Yamamoto [A]: It is a comparison between FY2023 and the final year.

Hirosuke Tai [Q]: I understand. So, would it be JPY28 billion, and then minus JPY7 billion in other miscellaneous items, which would bring the total to JPY21 billion?

Yamamoto [A]: It contains the effect of reduced scale.

Hirosuke Tai [Q]: I understand. Thank you very much.

Also, on a slightly different note, the other thing I was wondering is what size of total assets, if any, are you looking at in three years? Since you have given us various figures, some of them may come out if we calculate backwards, but I was wondering if you could tell us roughly what size of assets you are planning to have.

Yamamoto [A]: I understand.

As you are well aware, Mr. Tai, the figure is subject to change depending on the impact of foreign exchange rates, but we are projecting a little less than JPY900 billion.

Hirosuke Tai [Q]: I see. I understand. Then, not much has changed, has it? There was JPY910 billion at the end of March, and there will be a decrease in the exchange rate.

Yamamoto [A]: At the end of March, the yen was quite weak for the CR. The base we have on hand is over JPY150 in US dollars, and then over JPY163 in euros. In the case of our company, we have many fixed assets overseas, so when the yen depreciates at the end of the period, total assets inevitably swell, which is why the figure at the end of the previous period was high.

Hirosuke Tai [Q]: On the other hand, since the medium-term plan is based on the assumption that the exchange rate will be JPY140, I think there will be a decrease in the amount of the decrease, but on the other hand, considering what you said earlier about various structural reforms, I thought it would be smaller, but in reality, is it assumed that there will be almost no change except for the exchange rate?

Yamamoto [A]: As I mentioned earlier in the investment section, we have been holding down investment in parallel with structural reforms, but we expect investment to be almost equal to depreciation expenses, and we expect investment cash flow to be about JPY120 billion over the three years. I believe that the decrease and increase in investment cash flow will offset each other.

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

One more last question, regarding the aftermarket business, I would like to ask about slide 18. I am not sure what you mean by "external purchases" here, but do you have to purchase from an external source and then attach the NTN brand to it to capture market share? I am not sure that this is a necessary business to do. If the business is such that the cost would not pay for itself without outside purchases, then I guess you don't need to do it anymore. I understand that using a third party in the production process is beneficial as a cost reduction measure, but is it still a good idea to keep doing OEM and ODM procurement and sales as a business? This is my last question.

Ukai [A]: I will answer your question.

In the past, Japanese manufacturers had a considerable advantage in production, but many very promising manufacturers are growing up around the world, and we have actually found some of them with a cost structure that is very competitive compared to ours. We are now in a situation where receiving supplies from these suppliers is an option, and it is more competitive than making products under a cost structure in which we have to invest on our own.

Naturally, we will provide technology to meet the needs of our customers, and at the same time, as I explained earlier, we will use our capabilities in the value chain, not only along the horizontal axis of the supply chain, but also along the vertical axis to provide quality and technology throughout the entire value chain. We will supply products from a variety of supply sources, including this one. Aftermarkets are very varied and require a wide variety of items to be handled in small lots, so we have determined that it is necessary to have a variety of supply sources for such areas.

Hirosuke Tai [Q]: I understand. Is this a Chinese company?

Ukai [A]: No, not necessarily China. We are also in India and Europe, and in many other countries.

Hirosuke Tai [M]: I understand.

Ukai [A]: Of course, we have those in China, but we also need to have a variety of foreshadowing in terms of US–China risk and global BCP in the future. Therefore, in supplying products for aftermarkets, we will naturally handle the main parts on our own, but we will also consider how we can meet customers' needs in other areas and work together with those areas where we can maintain brand value with.

Hirosuke Tai [M]: I see. Thank you very much. That is all.

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

I am very sorry, but we have reached the end of our time, so we will now conclude the Q&A session with analysts and investors. Thank you very much. If anyone has additional questions, please contact the Investor Relations Group in our Corporate Communications Department.

Thank you very much for your patience. Next, we would like to take questions from the press.

Now, Mr. Tai of the Nikkan Kogyo Shimbun, please state your question.

Tai [Q]: This is Tai from Nikkan Kogyo Shimbun. Best regards. I have one or two items to ask.

I would like to know what the total size of the capital investment plan is expected to be in the new three-year plan, and how it compares to the actual results of the previous three years. This is my first point.

Yamamoto [A]: Yamamoto will answer.

First of all, the previous medium-term management plan called for an investment of about JPY80 billion over a three-year period, including property, plant, and equipment and intangible assets. In contrast, amortization expenses were more than JPY120 billion over three years, so as I mentioned in my explanation, we were in a situation where investment was considerably reduced.

On the other hand, with regard to the new medium-term management plan, as explained in the cash allocation sheet, we are considering an investment of about JPY120 billion over three years. In contrast, amortization expenses are approximately JPY120 and several billions, so our thinking is that we are using the amount of amortization to invest in growth and other areas that are almost equivalent to the amortization expenses.

Does that answer your question?

Tai [Q]: Thank you.

One more point, as explained in the structural reform, in Europe, the consolidation will be done in Germany and France and transferred to Romania. Am I correct in understanding that this would be like CVJ, where Germany and France would be eliminated for certain production, and this would be transferred to Romania within three years?

Yamamoto [A]: First, we will do a reorganization as a whole. In this context, we will bring low value-added products to Romania. In France and Germany, labor costs are high, so in Germany, we will close the plant that currently makes axle bearings. We are considering taking those axle bearings to a place with a bit lower labor costs and restructuring the entire process along those lines.

In France, we are considering a reorganization in which one of our small factories will be closed, and the products will be transferred and eventually gradually shifted to Romania.

Tai [Q]: Thank you. Does this mean that axle bearings made in Germany will also be transferred to Romania?

Yamamoto [A]: The axle bearings in Germany will be eliminated, not in Romania, in fact, we are now making the third generations of axle bearings at two locations, so it is hard to say where it will be, but we are consolidating them in one place.

Tai [Q]: I understand. I won't ask specifically where it's going to be, but is it safe to understand that it will be in Europe?

Yamamoto [A]: Yes.

Tai [M]: Thank you very much.

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

Please continue with your question, Mr. Tsuge from Nihon Keizai Shimbun.

Tsuge [Q]: My name is Tsuge from Nikkei. Best regards.

This is slightly related to the last question, but you mentioned that you are considering restructuring unprofitable areas, mainly in the automobile industry, and that you are also considering restructuring in Japan. What are the specific areas that will be considered over the next three years?

Ukai [A]: This is Ukai.

We have already built a new plant in Wakayama, where we are manufacturing new bearings. We still have space here, and we believe that the main focus of this project is to plan for the consolidation and elimination of domestic bearing factories in order to create efficient manufacturing methods or production lines.

Tsuge [Q]: So you are saying that bearings will be the main focus?

Ukai [A]: Yes. Mainly bearings for domestic sales.

Tsuge [Q]: I understand.

Also, in the area of raising the profit margin, I think you mentioned that you will thoroughly reduce the cost of goods sold to the automobile industry, while at the same time increasing the transfer of selling prices and aftermarket business. How do you plan to proceed with raising prices in this area? For example, what sales channels will you use and what kind of products will you deliver to increase aftermarket business, and how can you negotiate to raise prices?

Ukai [A]: This is Ukai.

I think it would be better to answer your current question in two parts. I would like to respond with two points: one is to talk about how to expand the automotive aftermarket, and the other is how to promote price shifting for automotive OEMs.

Tsuge [M]: It's okay. Please.

Ukai [A]: First of all, regarding the first part, automotive aftermarket, in Japan, we are not able to sell our bearings to the aftermarket because of the contractual restrictions we have with our customers. We deliver our products to automobile companies not as OEM, but as OES, or service parts, which are then sold by the automobile companies.

In Europe, however, there are no such restrictions, and we can sell directly to the aftermarket. The U.S. is following that. Regulations with customers differ by region and country in the world, and our first priority is to expand our business where we can do so.

Regarding the price of the other item, I will have Mr. Miyazawa answer.

Miyazawa [A]: Now, Miyazawa will explain about the automotive OEM prices.

So far, we have been proceeding with the idea of basically passing on all of the costs, including inflation costs, to the selling price.

Price negotiations are very lopsided by region and customer, but we have generally been able to reach the point we expected in the Americas and Japan. However, the fact is that Europe is in a very difficult situation. We are going to negotiate hard with them, basically within the scope of the contract, including supply restrictions and delivery details, and we are planning to revise the overall price as well.

Tsuge [Q]: When you say that Europe is struggling, do you mean for European automakers, or do you include things like the decline in Europe by Japanese and American manufacturers?

Miyazawa [A]: Negotiatons to European brand manufacturers are struggling.

Tsuge [Q]: Is that because of the influence of the Chinese manufacturers that you mentioned earlier that have entered the market? Or, it doesn't matter much?

Miyazawa [A]: Rather than competition with Chinese manufacturers, there are many cases where they take a very hard-line stance compared to Japanese or American manufacturers. We have some customers who have no choice but to negotiate with us, including the imposition of delivery deadlines.

Tsuge [M]: I understand. Thank you very much.

Nagao [M]: Thank you, Mr. Tsuge.

Does anyone from the press have any other questions?

This is the end of the briefing on NTN Corporation's new medium-term management plan, although it is a little earlier than the announced end time.

Thank you very much for your long participation today.

[END]

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Document Notes

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