November 4, 2022

NSK Q&A Summary of IR Financial Results Briefing for the Second Quarter of the Fiscal Year Ending March 31, 2023

◆Revised Full-Year Forecast

Q1

Please explain the reasons for the decrease in revenue, excluding the impact of foreign exchange rates, with respect to the revised forecast. Also, what is the breakdown of the negative figure in the other segments?

A1

Of the three segments of the industrial machinery business, E&E, which also includes the small motor business for automotive applications, has been severely affected by the decline in automobile production. Home appliances are also reflected in this forecast, as their volume is also falling due to the deteriorating business conditions. On the other hand, fan motors, IoT-related products, and miniature motors are doing relatively well.

Industrial machinery bearings and precision machinery products are close to the initial plan, while machine tools and semiconductor manufacturing equipment are currently experiencing a slowdown, but order levels are high and production is expected to continue at similar levels in the second half of the fiscal year.

In the automotive business, a slight decrease versus the forecast for automobile production is affecting automotive bearings and automotive components. We have reflected this in our forecast, as we expect a standstill in the first half, especially in China, and a more difficult second half. AT products in the automotive components segment are negative compared to the original plan. In other segments, sales of steel balls and BKV were down due to the impact of customers with business in Russia and Ukraine.

◆Inflation and price shifting

Q2

Can you pass on the increasing cost of inflation to price in a timely manner, and what is your outlook for the future?

A2

We are proceeding with price pass-on with a shorter time lag than in the past. We are working to recover the cost increase incurred in the current fiscal year and have included it in our full-year forecast. However, the situation is that we have not been able to catch up or recover our price pass-through to the cost increase in the last fiscal year. Inflation in areas other than steel, such as transportation and electricity costs, will require new negotiations, which will be difficult in some areas, but we believe it is important to continue negotiations. (Future inflationary conditions may necessitate additional price increases.

Q3

I understand that the lead time for price pass-on is short for the industrial machinery business, but is the price pass-on in the first half mainly in the industrial machinery business?

A3

The scale of price pass-on is about the same in both businesses, but the automotive business is actually slightly behind. We will continue negotiations to ensure that the selling price is reflected in the second half of the fiscal year.

Q4

We fear that it will take time to pass on energy and other costs to prices, as this is a negotiation that has never been done before. Is it correct that there is a strong possibility that it will be postponed to the next fiscal year?

A4

It is a difficult negotiation, but we would like to complete the negotiation for a firm price pass-on by the end of this fiscal year.

◆Market Conditions and Supply Chain in China

Q5

What is the second half forecast for machine tools and other areas in China, compared to the first half of the year?

A5

We have included a forecast for a downturn. Wind power is slightly up, but the market has been affected by high prices in machine tool equipment and semiconductor manufacturing equipment sectors, as well as in E&E's electrical equipment-related sectors. We are not optimistic about the outlook for the next fiscal year, including the possibility of continued zero-corona measures in China. Machine tool order intakes slightly weak.

Q6

You mentioned that the concept of procurement in China, including the Zero-Covid Policy, is difficult to plan for. Are there any changes regarding production bases and purchasing strategies?

A6

Basically, we are dealing with local production for local consumption, and there have been no major changes. Some items were exported from China, but some have been transferred after obtaining approval from customers. We will enhance the independence of our Chinese bases by following the basic line. We are not in a situation where we have to make changes because our global base is in China and we have to assume risks. (Regarding materials, some of them are purchased from China, so we are formulating BCPs for second source and third source.

◆**Automotive Business**

Q7

Any update on negotiations with ThyssenKrupp?

A7

We both agree on the significance of this project and that it is a major strategy, so there is no need for concern. The top management has a shared vision. We are unable to report today what the final scheme will be.

Q8

While global automotive production volume increased 3% in the first half of the year, the automobile business declined 1% in real terms.

A8

Since the market share is not uniformly the same, we see this as a positive sign that Japanese manufacturers with high market shares are preparing their systems. As for the future, it is important to see how many EVs that will be launched in the future will be equipped with our products, and we believe that we will be able to grow in line with the growth in the number of EVs.

Q9

Regarding the profitability of the automotive business, is it correct to think that profits can be secured for the next three years?

A9

The order situation is such that we can secure a solid profit against our target. At the start-up stage, costs, steel and otherwise, may be higher than originally estimated, but we will negotiate, so we are not pessimistic about the situation.

◆**Financials, other**

Q10

There was negative cash flow in the first half of the current fiscal year. Could you shed some light on cash flow for the full year?

A10

We believe that the negative free cash flow will be positive for the second half of the year, in line with the year-end landing schedule that we discussed in May.

Q11

While attractive to individual investors in terms of dividend yield, for institutional investors, the takeover defense measures seem to be one reason for the sluggish P/B ratio of 0.6. Should the measures be abolished? What kind of discussion is taking place on whether the takeover defense measures should be continued given the low approval rate of the chairperson and president at the June shareholders' meeting?

A11

As background for the large number of negative votes, we are aware that ROE has been below a certain rate for three consecutive years and that the negative votes from foreign institutional investors are concerned about the ratio of policy shareholdings to net assets. We are aware that the opposition to having takeover defense measures is a combination of those and we consider it important. We recognize this as an issue that needs to be answered.