February 2, 2023

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

Q1. The full-year operating income forecast is 22.0 billion yen for the aftermarket business and 8.0 billion yen for the industrial machinery business, both of which are record highs since 2011. Are those businesses promising in the next fiscal year?

A1. The aftermarket business is experiencing strong demand, and the industrial machinery business has improved its operating margin by reducing costs and raising the prices of unprofitable products ahead of other businesses. We believe this will continue in the next fiscal year.

Q2. Other companies have declined inventories and orders for industrial machinery and it seems that the business slows down. How about NTN?

A2. Due to the desynchronization of parts caused by the semiconductor shortage, some industries are experiencing delays in production, and our work-in-process inventory is increasing accordingly. It is difficult to foresee how the semiconductor shortage will be resolved in the future, but if it is resolved, the production will be on a steady rise, and we consider to have inventory for that time. In addition, there are various forecasts for the global economy, and we will carefully assess them, including their impact on our company.

Q3. You have revised downward the full-year operating income forecast for the automotive business. What is the background behind the revision?

A3. We have revised our full-year operating income for the automotive business downward due to the delay in recovery production caused by the semiconductor shortage and the delay in price pass-on measureas and reducing personnel costs in some regions .

Q4. Vehicle production is not expected to grow significantly next fiscal year. What will be the key points for price pass-on measures and securing operating margins?

A4. We expect operating income to remain on the positive side in the future. Further, we intend to reduce the number of unprofitable products and create a structure in which profits increase as sales increase. In addition, we will work with customers to develop driveshafts and hub bearings for EVs, and we will strive so that customers recognize the added value of our technology in products including for e-Axle. We can turn this into a business with profit and volume.

Q5. You have lowered the target for price pass-on measures in this fiscal year, but what is the fisibility of achieving it? Also, what is your thinking on costs that you could not pass on to customers?

A5. Currently, out of the 34.7 billion yen that we expect to be able to pass on to customers in the current fiscal year, there are a few costs that have not yet been determined. We are continuing negotiations on these costs. For those that we are unable to achieve in this fiscal year, we intend to pass the full amount on to our customers in the next fiscal year.

Q6. What are the fixed costs and how likely is it that you will achieve the 3.2 billion yen increase from fixed cost reductions (personnel costs and expenses) in the 4Q?

A6. For the full year, personnel costs and expenses increased by 19.5 billion yen year on year. Personnel costs in North America, which are subject to price pass-on measures, were in line with expectations. Fixed costs include higher shipping rates, amortization of core system, productivity deterioration in North America, and logistics disruptions in Europe. Going forward, we expect to improve productivity in the North America and resolve logistics disruptions in Europe to reduce fixed costs in each region and achieve a positive 3.2 billion yen in the 4Q.