May 12, 2023

NSK Ltd. Q&A Summary – Fiscal 2022 Financial Conference (Year Ended March 31, 2023)

◆ Steering Business

Q1

When did you decide to halt negotiations with thyssenkrupp AG and switch to Japan Industrial Solutions No. 3 Investment Limited Partnership (JIS)? What is the plan moving forward? Will NSK buy out JIS's investment in the future?

A1

We had hoped to settle the joint venture discussion with thyssenkrupp within fiscal 2022. Discussions failed to bear fruit as expected, leading to the recent agreement with JIS. But there is no change to our policy of reforming the steering business to make it profitable and independent, and to move forward to create new alliances with new strategic partners. There is a buy-out clause in the contract.

Q2

In the forecast, the profit of the steering business in fiscal 2023 shows an improvement of 8.2 billion yen year-on-year. How do you see the probability of achieving this goal? The Steering Business forecast for the first half of the year is in the red, while the second half is in the black, can you elaborate on the factors at play here?

A2

We believe our forecast is fully achievable. The breakdown of 8.2 billion yen is about half an increase in volume, and half an improvement in profitability through structural reforms and the transfer of increasing costs to sales prices in areas we have not yet fully covered. In terms of differences between the first half and the second half, in the first half, we will incur various one-time costs in energy and other items, while in the second half more cost increases will be reflected in sales prices. From the second quarter, we will no longer be the majority stake in the steering business, but this is the plan we are working to achieve at this time.

Q3

What do you envision for the steering business in the future?

A3

In addition to finishing up structural reforms, we will work with JIS to further increase the value of the business for the future, and aim to for the business to become an independent steering company through a joint venture with a new strategic partner.

◆ Industrial Machinery Business

Q4

Regarding the outlook for fiscal 2023, the industrial machinery business is forecasting lower sales and profits compared to the previous year. Is it correct to understand that excluding exchange rate effects, profits will decrease due to the impact of lower sales? Also, compared to the slowdown in precision machinery products, the impact of the decline in sales does not appear to be significant for industrial machinery bearings as a whole, please elaborate on your forecast here.

A4

The biggest factor affecting sales and profits, is the decrease in real volume of approximately 14 billion yen. In addition, there is a slowdown in demand for semiconductor manufacturing equipment and machine tools, which means a decline in demand for relatively high-margin precision machinery products, among other factors affecting mix, as well as currency exchange rates.

As for general industrial machinery, the sluggish situation will continue in the first half of fiscal 2023 and is expected to gradually pick up in the second half of the year. Although we are taking a slightly stricter view than in the previous year, the forecast for Electrical & Electrification (E&E), which slowed more than expected in the fourth quarter, includes a portion driven by the recovery of the automotive market. Excluding the effects of exchange rates and sales prices, we forecast that E&E will be almost unchanged year-on-year.

◆ Automotive

Q5

For the Automotive Business excluding the Steering Business, what capital expenditure do you have planned and what measures will you implement to improve profitability? How much will depreciation and capital expenditure total? When will you be able to achieve operating income of 10%?

A5

We will continue to take in increasing demand for eAxle and electrification bearings, and capitalize on market expansion for ball screws for electric-hydraulic brakes. For these ball screws, due to newly implemented regulatory requirements, orders are steadily increasing and will exceed 10 million units a year. We will need to invest to increase production of these products, but since demand for AT and ICE products is declining, we plan capital expenditure within the scope of depreciation expenses.

We are expanding sales by differentiating our technologies in bearings for EVs and HEVs, and are receiving orders for new products such as ball screws for electric-hydraulic brakes at higher margins than existing products. For the time being, there are fixed costs for existing production facilities for ICE products and capital expenditure necessary for new products in electrification.

The scenario we envision is first aiming for a recovery to 8% and then move up to 10% in the future.

◆ Costs and Profitability

Q6

Can you detail the impact of inflation and transferring increasing costs to sales prices separately for the Automotive Business and Industrial Machinery Business? You expect that price negotiations will mostly be settled in the fourth quarter, does that mean that Automotive profits will decrease in the first half and increase in the second half of the fiscal year?

A6

Transferring increasing costs to sales prices is relatively balanced across both businesses, basically along the lines of the ratio of sales each business makes up of the company's sales overall. However, there are some small differences depending on the region. As you stated, Automotive profits will increase in the second half as our initiative to transfer increasing costs to sales prices takes effect. We recognize that settling price negotiations in a timely manner is a challenge and will continue to work with customers on this issue.

Q7

Based on the current financial results, what are the changes ahead? The big challenge, seems to be how to improve profitability in the European business.

A7

In terms of regions, the highest priority to begin improving is Europe. The deterioration in earnings in Europe is due to rapid inflation and larger fixed costs for operations and plants. We will continue to improve profitability mainly by making structural improvements to European headquarter functions and plants. The largest part will begin this fiscal year and is expected to be completed next fiscal year.

Q8

Regarding "inflation and labor cost increase" category shown on page 12 of the financial conference presentation, is there risk of further increases in steel or energy costs? And what are the challenges in this area?

A8

We expect procurement costs for both steel and energy to continue to rise. The environment in Japan and globally is different, and we will need to understand the situation of each production site in each region. In addition to cost reductions, we need to account for labor cost increases, whether in Japan or overseas, by transferring increasing costs to sales prices.

◆ **Other**

Q9

Regarding the establishment of the Steering Business joint venture, is there any money coming into NSK as cash flow?

If so, how much is that and is it connected to the planned share buyback?

A9

The amount has not been finalized, but cash will come into NSK since we will receive a dividend. Note that there is no cash flow connection between the Steering Business and the share buyback. We are merely moving forward with the share buyback as the appropriate conditions were met.

Q10

What shareholders are looking for is how NSK will use the money we have entrusted the company to make your next move. What do you have planned?

A10

We are working to strengthen managerial resources, such as investing in digital technology and ultra-stabilization of production, as well as developing new products for electrification and strengthening supply capacity, mainly in the Industrial Machinery Business. We have detailed our plans in these areas in the mid-term management plan. In addition, we would like to use cash on joint ventures and M&A in the Industrial Machinery Business.

Q11

I would like to ask you about your approach to share buybacks, which is part of your mid-term initiatives to improve PBR. It looks like you are changing gears with share buyback plans and aim for a P/B ratio of 1. Please tell us about the background behind your decision, not only this time, but also your thoughts on future buyback policy.

A11

One reason buybacks weren't previously implemented is that we were in joint venture discussions with thyssenkrupp. Now that such restrictions have been removed and other conditions have been met, we have decided to move forward with the buyback. From next year onward as well, depending on the business environment, we intend to implement buybacks in a flexible manner. We believe that we need to continue our efforts to improve our corporate value.