

February 3, 2023

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

◆Improvement of earnings and sales price shift

Q1

You have revised your full-year forecasts downward, but how do you plan to recover your business performance in the face of a difficult business environment? Also, how do you view profitability for the next fiscal year?

A1

First of all, we have caught up in passing on selling prices for cost increases due to inflation. We will continue to negotiate with our customers, as we expect not only steel and energy costs but also labor costs to rise in the next fiscal year. On top of that, in the Automotive Business, we will complete structural reform of the steering business as planned and aim to improve profitability by acquiring new projects. As for the bearing business, we believe it is necessary to adjust fixed costs that we have been carrying on the assumption that production volume will recover. In addition, we will embark on a plan to improve profitability in the European region. In the Industrial Machinery Business, although the current market environment is difficult, we aim to expand sales and improve profitability in growth markets such as electrification, semiconductors, and robots over the medium term.

Our long-term goal of 10% operating margin remains unchanged. We will work with an eye to securing at least 5%, regardless of the business environment.

Q2

What is the probability of achieving the sales price shift plan in Q4? Also, will there be a lull in the impact of inflation in the next fiscal year?

A2

We believe that what is reflected in the V-chart is quite accurate. Regarding the next fiscal year, we expect steel prices to remain high in Japan, although some steel prices are settling down in other regions, or the base cost of steel products will rise in response to rising energy costs. In addition, labor costs will rise, and we will do our best to absorb these costs through internal efforts while passing on selling prices to the market.

Q3

Competitors are also making strong efforts to pass on selling prices. What is NSK's approach to this?

A3

We believe that our concept of passing on inflation to the selling price is similar to that of our competitors. In the case of special part numbers and specifications, some will take the form of resourcing, and we believe that selling prices can be improved. Basically, the key will be technological superiority, especially in EVs, and how much they can contribute to fuel efficiency.

◆EV conversion support

Q4

Are you accelerating your efforts for HEVs and EVs?

A4

We have been able to receive orders with relatively high profitability so far, and the results will be seen in the latter half of FY23-FY24. The use of ceramic balls for eAxle bearings to prevent electrical corrosion and lower-torque designs have been recognized as value-added in the market. As explained in 2Q, orders were progressing at around 70%, but in the last three months they have gone up again and are now up to nearly 80%.

Q5

Are there any EPS projects for Volkswagen's EV platform that will have a positive impact on profits, such as the accelerated launch of EPS projects or new products?

A5

The EPS project for EVs will be a plus for us if it is brought forward. As for new products, orders for ball screws for brakes are steadily piling up ahead of schedule, and we believe that we will be able to achieve our 10-million-unit plan as soon as possible.

◆Steering business

Q6

Do you plan to complete the negotiations with ThyssenKrupp by March 2023? Also, is there any change in the scenario of forming an equity method affiliate?

A6

Negotiations are continuing with the end of March of this year as our target, and we are considering the scenario in accordance with the assumptions we initially made. In parallel, we are proceeding with structural reform of the steering business.

◆Industrial Machinery Business

Q7

Can you shed light on the deteriorating performance of the Industrial Machinery Business?

A7

First, there has been a slowdown in Chinese orders for home appliances, machine tools, and semiconductor manufacturing equipment. Second, there is an order backlog, but it has been affected by some adjustments that have pushed back delivery dates.

◆Competitive Environment

Q8

Is the decrease in volume due to a slowdown in demand? Are we losing market share?

A8

We regularly check market share and there is no evidence of a loss of market share. In this fiscal year, there was a decrease in volume, including inventory adjustments by Tier 1 and Tier 2 such as unit makers, as well as the impact of the mix of customer regions.

Q9

Is the growth rate small compared to global competitors?

A9

Although there are differences in the portfolio by region and industry, we do not think that there is that much difference when compared between industrial businesses.

◆Others

Q10

We believe that the balance sheet is ballooning, but do you have any plans to revise it in the future? For example, is it possible to stop investing in digital transformation (DX) activities?

A10

The balance sheet has been discussed intensively by the Board of Directors and the issues have been identified. Naturally, it is possible to make a decision not to invest funds if the situation becomes critical, but we will continue to consider DX investment as an issue that must be implemented.

Q11

How does having Amatsuji Steel Ball Mfg. as a group company affect you in the current business environment?

A11

In addition to the market expansion backed by electrification, the growth potential of value-added products such as ceramic balls is expected to contribute to earnings, which will have a positive effect. In addition, costs due to inflation should be reflected in selling prices.