

November 2, 2023

**NSK Ltd. Q&A Summary – Fiscal 2023 Q2 Financial Conference  
(Year Ending March 31, 2024)**

**◆Industrial Machinery Business**

**Q1**

**Regarding the outlook for the industrial machinery business in the second half of FY23, how do you see a recovery in the second half of FY23, given the current sluggish demand?**

**A1**

In machine tools, a certain level of demand continues, while customers' inventory adjustments are expected to continue through the end of the year, our view is that signs of recovery will begin to appear in the fourth quarter. In addition, demand from the railcar industry is strong, and we will increase capacity to meet demand, while in E&E, the recovery in the automotive industry will have a positive effect. Although demand for aftermarket products has been sluggish, we will respond with shorter lead times for some in-demand products and aim to receive spot orders.

**Q2**

**If inventory adjustment continues in machine tools and semiconductor manufacturing equipment applications, will the second half of FY23 be worse?**

**The profit margin for the industrial machinery business is projected to be 4.4% in the second half of the year, compared to 2.7% in the first half. What is the background here?**

**A2**

Although the forecast was not made with all orders for the next six months in sight, we do not see any major changes in the market in the first or second half, and we see little risk of a further slowdown. We have revised our forecast on the assumption that we will further optimize our production system to meet demand and improve profitability.

**Q3**

**Regarding the structural reorganization of the industrial machinery business noted on page 16 of the financial results presentation, does this include productivity improvement and withdrawal from unprofitable products, in addition to E&E reorganization? What is the breakdown of the 4.0 billion yen effect of structural reorganization?**

**A3**

The 4.0 billion yen effect will be from improvements in the E&E business as a whole, centered on our plant in Poland. Currently, volume in the E&E business is decreasing globally, and we will proceed with profit improvement measures along with the recovery of physical volume by FY25. In addition, we have already begun to withdraw from unprofitable products and hope to reap the benefits in the next fiscal year. We will also aim to absorb the increase in labor costs by improving

productivity and reducing procurement costs through digitalization and ultra-stable production. We will be prepared to explain in more detail when presenting the next fiscal year's forecast.

#### ◆Automotive Business

##### Q4

**It seems the 4.4% profit margin for the automotive business in FY23 Q2 is largely due to the impact of foreign exchange and production recovery, but what is the actual current value? Can we expect further recovery in the second half of FY23 beyond the revised forecast? Wouldn't a further depreciation of the yen provide a tailwind?**

##### A4

The automotive business has restored its ability to achieve a profit level of 4% to 5% on a sales level of 200.0 billion yen in the second half of FY23. A further depreciation of the yen would provide a tailwind.

##### Q5

**While there is a strong sense of stagnation among Japanese manufacturers in their EV-related business in ASEAN and China, and we do not hear anything encouraging, NSK's automotive business appears to be doing better in these regions. Regarding the status of new orders for EVs in China, what kind of products have you received orders for? For what areas and technologies is NSK being adopted? Also, what are the strengths of NSK's technological capabilities?**

##### A5

Orders are being received for EV projects from local Chinese manufacturers, and the effect is beginning to be felt throughout the full year in line with efforts to expand our customer portfolio. Bearings for eAxles and hub bearings (wheels bearings) are our main products, and orders for our new product, ball screws for electric-hydraulic brakes, are being received from European and American manufacturers. We are particularly strong in low-torque technology in hub bearings, technology for eAxles that we cultivated in our experience in ICE transmissions, and electric erosion resistance technology.

##### Q6

**With regard to the forecast for the automotive business, why is the revision of segment income small compared to the upward revision of sales?**

##### A6

Sales would have increased by 3.0 billion yen excluding the effect of the revised exchange rate. However, the reason for the comparatively smaller increase in profit is that some of the products in the automotive business are produced for the industrial machinery business, and the plant utilization rate is declining. Excluding this effect, the revision is generally in line with the increase in volume.

◆Overall situation (inflation/transferring increasing costs to sales prices, etc.)

**Q7**

**Regarding “transferring increasing costs to sales prices” shown on page 11 and 12 of the financial results presentation. We would like to know NSK's policy on this for the next fiscal year amidst the current changes in business environment.**

**A7**

Of the 13.5 billion yen in sales price transfers listed on page 12, 60-70% is for automotive. We are negotiating with our customers to reflect inflating costs in our prices. In the past, we were not able to reflect the inflation of electricity and transportation costs in sales prices, but now that negotiation of these are possible, we have made a step forward. The increase in labor costs have been absorbed through cost reduction activities, but from now on, it will be necessary to negotiate with customers to reflect the unabsorbed labor cost inflation in sales prices. Another issue is that profit margins cannot be recovered simply by passing on cost increases to sales prices.

**Q8**

**The financial results presentation on page 11 shows -11.0 billion yen in transfer of costs to sales prices, does this represent a struggle on this topic? How much pressure is there to reduce the transfer of costs to sales prices due to weak demand in the industrial machinery business? EV manufacturers have been cutting vehicle prices, has this or price cuts from competitors impacted NSK?**

**A8**

On page 11, the amount of “transfer of increased costs to sales prices” has been adjusted in conjunction with “inflation/ labor cost increase”, since the cost increase due to inflation has been smaller than originally planned. Effectively these wipe each other out. We are also seeing the impact of price reductions by competitors in some markets and products, so we expect price pressure to intensify in the future, not only for EVs. The countermeasure will be to receive orders by differentiating our products with highly functional technologies such as low torque, which are in strong demand by our customers, and in the future we will take cost reductions one step further.

◆Financial

**Q9**

**What is your cash flow projection for FY23?**

**A9**

The cash flow projection for FY23 is about 80.0 billion yen in EBITDA, since operating income is expected to be 30.0 billion yen and depreciation and amortization is expected to be about 50.0 billion yen. In addition, cash has been generated from the return of a portion of our retirement benefit trust, and we expect to be able to conduct capital investment and secure stable shareholder returns, including share buybacks.