November 5, 2025

NSK Ltd. Q&A Summary – Fiscal 2025 Q2 Financial Conference (Fiscal Year Ending March 31, 2026)

◆FY2025 H1 Results

Q1:

How do the H1 results compare to the initial forecast? Also, please explain the factors behind why operating income was ¥6 billion higher than the forecast. Compared to Q1, the Automotive Business's Q2 operating income improved significantly to 5.4% from Q1. How should we interpret this?

A1:

The ¥6 billion increase in profit over our initial forecast includes a ¥3 billion positive impact from temporary gains related to the consolidation of the Steering Business subsidiary. Additionally, while there was a ¥0.7 billion negative impact from tariffs, this was offset by improved profitability in the Automotive Business. Cost containment and foreign exchange effects contributed a further ¥3 billion positive impact.

Regarding the H1results, we feel that improvement in the Industrial Machinery segment has stalled somewhat, while the Automotive Business has shown slightly more progress. However, within Automotive, the recovery between Q1 and Q2 was not linear; the effects of price negotiations and other factors were concentrated in Q2. Not all of the 5.4% represents improvement isolated in Q2; for the H1 as a whole, the figure is slightly below 5%.

Q2:

Regarding the aftermarket, you mentioned Europe is struggling. What is the situation in the US?

A2:

For the H1 results, the US has seen a slight year-on-year increase in sales volume. However, sales have not reached our initial forecast.

Q3:

Please provide details on the business environment in China. We heard that volume increased in the H1 due to government stimulus policy effects, but could you elaborate further, breaking it down between the Industrial Machinery Business and the Automotive Business?

A3:

In the Industrial Machinery Business, we are starting to see a recovery in investment for machine tools. However, demand for home appliances, including air conditioners for the housing sector, remains relatively weak. The demand situation for different sectors is somewhat uneven, and the impression is that a full-fledged recovery has not yet been achieved. In the Automotive Business, while the slump among Japanese automakers persisted in the H1, projects expanding sales to local Chinese manufacturers contributed positively. For the H2, we anticipate inventory adjustments, making it difficult to assess the automotive market in tandem with broader consumption. Beyond customer production volumes, the current period saw positive contributions from expanded sales driven by the start of mass production for new projects for ball screws used in electric brakes.

Q4:

Please provide the H1 results for ball screws for electric brakes. Also, is China the main region for these products?

A4:

In the H1 sales reached approximately ¥9 billion, and full-year results are projected to be around ¥20 billion. China is the primary region.

◆Full-Year Forecast

Q5:

For the Industrial Machinery Business, operating income is projected to increase from ¥4.9 billion in the H1 to ¥8.1 billion in the H2. Is it correct to understand this is due to a certain degree of demand recovery? Also, for the Automotive Business, with volume remaining flat, the profit increase excluding one-time (non-recurring) expenses is due to operational improvements and the effect of passing on increasing costs to sales prices, correct? Please explain the shift from the H1 to the H2 for both the Industrial Machinery Business and the Automotive Business.

A5:

For Industrial Machinery, the ¥8.1 billion figure incorporates a gradual demand recovery from the H1 to the H2, along with improvements for structural reforms. For Automotive, a ¥3.5 billion one-time expense for structural reforms is included. Excluding this, the forecast reflects a slight improvement over the H1, similar to Industrial Machinery.

Q6:

What specific elements can be improved in the Automotive Business from the H1 to the H2?

A6:

The composition of our product portfolio will improve as high-margin products gain traction through initiatives like expanding sales of ball screws for electric brakes and boosting sales in North America. Additionally, as part of structural reforms, we are reviewing production lineups and optimizing labor in Europe and China. The effects of these measures are factored into our current forecast.

Q7:

Please provide the outlook for free cash flow this fiscal year. While the full-year forecast has been revised upward, it seems a missed opportunity that the dividend remains unchanged. Is the decision to keep the dividend unchanged due to a strict view on cash flow?

A7:

The total annual dividend amount is just under ¥17 billion. The free cash flow outlook is just over ¥20 billion, and we are also generating operating cash flow, enabling investments within that range. Therefore, we believe the ¥34 dividend is at a sustainable level. Our dividend policy is based on stable dividends, a payout ratio of 30-50%, and a DOE (Dividend on Equity) of 2.5%. After revising the forecast, the DOE is hovering around 2.5%, after comprehensively considering these factors we determined the dividend to be appropriate.

◆Steering Business

Q8:

The Steering Business has long pursued a strategy of seeking strategic partners. Could you please clarify the current strategy for the Steering Business?

A8:

There is no change to our policy of seeking a strategic partner and approaching the Steering Business as an independent unit. We continue to aim to improve profitability and enhance corporate value.

Q9:

On page 20 of the presentation, for the Steering Business you show sales of ¥180-190 billion and operating income of 3-4%. Is this target set low? Or is 3-4% realistic?

A9:

Sales are calculated based on projected order intake volumes through fiscal 2028. Regarding profits, while exchange rate assumptions vary, we anticipate a gradual improvement in profitability.

◆Response to U.S. Tariff Policy

Q10:

Regarding transferring the cost of tariffs to sales prices, please also explain the background that allowed for this to already take partial effect in the H1. In the H2 you project a cost increase of ¥7.9 billion and expect to be able to transfer ¥7.6 billion to sales prices, so almost all will be passed on. Please indicate the likelihood of achieving this.

A10:

We were able to act early, particularly in addressing steel and aluminum tariffs. This was achieved by proactively disclosing data and engaging in sincere discussions and negotiations with our customers. We believe we can achieve the full-year forecast level in the H2 as well.

◆Next Mid-Term Management Plan

Q11:

What should we expect from the next mid-term plan? How will NSK evolve? Will structural reforms restore the company to an operating income of 10%? Might it be necessary to address overly large assets? Please share what themes management is discussing internally.

A11:

For the next mid-term plan, we believe the key tasks are to achieve operating income of 8-10% (excluding the Steering Business) and to raise PBR to over 1x. We are currently engaged in daily discussions, sharing targets across all business divisions and functional headquarters, aiming for an announcement in May 2026. We consider it crucial to advance efficiently and with a sense of urgency, particularly through structural reforms, and to communicate this effectively.