

February 7, 2024

**NSK Ltd. Q&A Summary – Fiscal 2023 Q3 Financial Conference
(Year Ending March 31, 2024)**

◆Industrial Machinery Business

Q1

Can you go more in depth into the market conditions and customer inventory adjustments for industrial machinery bearings and precision machinery products? Our outlook is that there will be strong downward pressure in the industrial machinery market in the next fiscal year, what is your basis for your ability to increase sales next year?

A1

We believe that machine tool and semiconductor equipment manufacturers are not yet at the stage where orders will start to increase, as their parts inventories are not necessarily decreasing. However, given the situation of our customers, we do not expect market conditions to deteriorate further, and we believe that they will recover in the second half of FY2024. Capital investment in semiconductors may recover rapidly, so we are always prepared to respond. In addition, demand from the railroad industry is still substantial and is expected to remain high in the next fiscal year. We are also in the process of expanding sales in the aftermarket.

Q2

We would like to confirm the certainty of achieving profit in the industrial machinery business for the full year of FY2023. Assuming demand remains flat, can NSK achieve an improvement in profitability in Q4? Also, can NSK achieve its past profit level in the future if the actual volume of goods were to recover to the same as two years ago (FY2021)?

A2

Since we plan to capture aftermarket demand in Q4, we have factored in an improvement in profitability due to improved mix. In addition, although not large in terms of monetary scale, CMS (Condition Monitoring System) projects have been accumulating, and these projects are expected to contribute to improved profits. If the volume of goods returns to the same as two years ago, we are certainly able to generate the same level of profit as before, and we believe that we will be able to even increase our profit margins after factoring in the improvements that we are currently working on.

Q3

E&E sales are sluggish in China for consumer electronics, etc. How do the Q1 to Q3 sales figures compare with the same period in the previous year?

A3

Not all of E&E is for industrial machinery, but about half is also for automobiles, but sales for the past nine months have fallen by about 7-8%.

◆Automotive Business

Q4

I believe that automotive sales in China are returning, partly due to NSK-specific factors, but I would like to confirm whether this trend can be sustained in the next fiscal year. Also, Q3 profits were good, but will they continue to rise steadily?

A4

It is true that Japanese and European automakers are struggling in China compared to other makers and we have been affected by this. On the other hand, the fact that we have been able to win projects from automakers with a large share of the EV market, and not just Chinese automakers, is contributing positively to our China business. The profit margin for Q3 was 7% due in part to the retroactive adjustment of sales prices, but the retroactive adjustment amounted to less than 1 billion yen for Europe and the United States combined, so excluding this, the profit margin would be 5-6%. On the other hand, we expect the launch of new EV projects in the next fiscal year to have a positive effect on earnings.

Q5

What is NSK's sales ratio between Japanese and non-Japanese automakers in China as of FY2023 Q3?

A5

Non-Japanese sales account for about 60% of the total sales of the automotive business within China, half of which are Chinese.

Q6

We have heard that profits for EV components are higher than for existing bearings and automotive components, but the EV market is becoming increasingly competitive; is there any risk that profitability will decline in the future?

A6

The orders we have received for EV projects are the result of recognition of the superiority of our technology and we believe that there will be no impact on prices at the moment. We are also taking steps to respond to future developments in the EV market in 5 to 10 years, when the market is expected to expand and replacement demand for current EVs will begin.

◆Other

Q7

What is the status of structural reforms in Europe? And will the effects start to emerge in the next fiscal year?

A7

We are making changes to our production system. For example, we are consolidating production of some products in other regions and selling them in Europe. The effects of these changes are expected to begin to emerge from FY2024 onward, with the full effect expected in FY2025.

Q8

If I recall correctly, actual free cash flow was about 7 billion yen, how do you see this?

A8

It is a bit complicated to decipher because of the large increases/decreases in cash flow from investing activities, but we have temporarily allocated about 40 billion yen of cash to investments of longer than three months. If this is included in free cash flow, we can provide returns to shareholders, such as dividends and share buybacks, within the scope of free cash flow, so we recognize that we are managing the situation well.

Q9

What is the projected ROE and ROIC for the current fiscal year? Also, how do you plan to achieve the 10% ROE and 8% ROIC targets in the mid-term management plan? We would like to see an update on asset efficiency, not just operating income. Rather than conceding to demand trends, I would like you to show us what plays that only NSK can make within the current market context.

A9

Based on the full-year operating income forecast of 3.8% for the current fiscal year, ROE and ROIC are between 2-3% each, and we believe that it will be difficult to make a quick improvement from the current profitability. Though the retroactive price increases are included in the profit of the Automotive Business in the Q3, price negotiations are ongoing, which will contribute to future profitability, and we will reap the benefits of new orders for EV and EV projects going to scale. In the industrial machinery business, aim to expand sales in high-profit areas and promote profit improvement. We would like to present specific measures in the future after determining the timing and scope of disclosure.

Q10

Is there any prospect of negotiations to pass on higher labor costs to sales prices? And how much can we expect?

A10

Although each customer has a different approach, we will continue negotiations to achieve sustainable wage increases. We hope to gain the understanding of our customers as we present the necessary data for negotiations in April of the next fiscal year and beyond.