

May 15, 2024

**NSK Ltd. Q&A Summary — Fiscal 2023 Financial Conference
(Year Ended March 31, 2024)**

◆ Progress on Mid-Term Management Plan

Q1:

Looking at the V-chart on p. 20 of the financial results presentation, I think NSK's challenge is how to break away from a business structure that is susceptible to fluctuations in the volume of goods. What is your plan to address this?

A1:

While it is true that the volume of goods is a significant factor since our work is closely tied to various manufacturing/equipment industries, mitigating volatility in is an important theme to be addressed. Our first initiative here is to improve productivity through the use of digital technology (such as the ultra-stabilization of production), which will promote labor savings and control fixed costs. The second is business portfolio reform. We will build a business model within the industrial machinery business that intertwines aftermarket sales and CMS, to develop a relatively stable income base that will make up more than 40% of the industrial machinery business, or over ¥150 billion. Third, we will build up a stable cycle of new product creation.

Q2:

What products or services can we expect to see in the new product category?

A2:

In the automotive business, we are moving steadily toward 10 million ball screws for electro-hydraulic brake systems and 50% market share, as shown on p. 25 of the financial results presentation. For electric actuators, we will expand beyond brakes to industrial machinery, which will lead to new business in industrial machinery and automotive. Another new initiative is related to our efforts to develop our condition monitoring and PLM business. We aim to provide not only scale, but also diverse value based on our core technologies. Overall, we will be bringing to market new products for robots, new energy, special environments, as well as other areas such as food oil degradation suppression filters.

Q3:

Will there be one-time expenses for structural reforms and other items in FY2025?

A3:

As noted on p. 20 of the financial results presentation, FY2025 will also have one-time expenses of ¥1 billion, which, combined with the ¥5 billion in FY2024, will bring the cumulative total for the period of the mid-term plan to ¥6 billion.

Q4:

Will operating income recover in stages against the original FY2026 target and will the original target be achieved? Or will we be seeing a jump in results toward the end of the plan?

A4:

Volume and market recovery is expected to be gradual from the end of FY2024 through FY2025. We will target 6-7% operating income in FY2025, and achieve our targets in F'2026 with further improvement beyond that.

◆ Industrial Machinery Business

Q5:

I would like to hear your perspective on sales under the PLM business model for FY2023 and FY2024. And what were aftermarket sales over the past 5 years? We also feel that growth in PLM will be key in the future, but the speed of growth seems slow. How does NSK differ from its competitors outside Japan?

A5:

Five years ago, the aftermarket business was at a level of less than ¥90 billion. At its peak in FY2022, including CMS, it was just under ¥120 billion, and we are targeting ¥130-150 billion a year by the end of the mid-term plan. We believe that the boundary between aftermarket and CMS businesses will disappear. In addition, compared to our competitors outside Japan, our proportion of aftermarket sales has been relatively low, with our strength lying in OEM. We acquired BKV and are using the synergies to expand sales, and in the industrial machinery business we are accelerating resource allocation to the CMS business to achieve the desired effect.

Q6:

Is E&E the focus of structural reform in Europe? What will be done to improve profitability?

A6:

Structural reforms in Europe will be carried out mainly in E&E. We will improve profitability and return to profitability by bringing plant operating structure in line with the scale of demand, including through the transfer of products produced at the plant in Poland. We will also procure parts from different regions and reorganize on a global basis.

◆ **Automotive Business**

Q7:

What is the probability of achieving the FY2026 target of ¥410 billion and 7% segment income in the automotive business? I think there are some difficult aspects due to customer policy on price reductions, but can the targets be achieved by raising unit price? Also, to what extent will new products contribute?

A7:

We will improve profitability by securing orders for new products and new projects with higher margins than before. We are looking at a ¥2.5 billion improvement in segment income driven by an increase in global automotive production volume from 90 to 92 million vehicles a year, representing a small increase in volume, and an improvement of ¥3 billion due to new projects. We will further increase our profitability by approximately ¥10 billion over the period of the mid-term plan including approximately ¥4 billion from fixed cost reductions and DX initiatives.

Q8:

What is the outlook for transferring increasing costs to sales prices in FY2024? I think the Automotive Business has made progress in transferring costs to sales prices, but is there still room to negotiate further?

A8:

We believe there is still room for negotiation. For labor costs, we have not been able to pass on 100% of the cost increases to customers in the previous fiscal year, but the industry as a whole is gradually coming to understand the concept of reflecting inflating costs in sales prices, and we believe that negotiations are possible.

◆ **Other**

Q9:

Looking at the V-chart on p. 12 of the financial results presentation material, for the transfer of increasing costs to sales prices, what is the breakdown by business? Are they fixed or variable costs?

A9:

Of the 11 billion, 8 billion is related to increasing labor costs, so fixed costs. The breakdown by business segment is generally similar to our sales ratio. We are negotiating with customers for both variable and fixed costs.

Q10:

On p. 24 of the financial results presentation, it says “Continue Stable Shareholder Returns” with ¥100 billion over 5 years, but the portion remaining after the first half of the mid-term plan is on the scale of annual dividends, does this mean that there is no further possibility of a share buyback?

A10:

In the financial results presentation, the amount is stated as ¥100 billion or more, meaning that the company will provide stable shareholder returns in excess of ¥100 billion. Share buybacks can't be implemented at will at any time, so we must implement them flexibly depending on the situation.

Q11:

Other companies are saying that the Chinese market is showing promising signs, but how does NSK see it?

A11:

Although we have not yet reached the point where we can say with certainty that the situation is bright, we believe that inventory adjustments are progressing, sales are showing signs of recovery, and the situation in FY2024 Q1 will recover in line with our expectations.