July 30, 2024

NSK Ltd. Q&A Summary – Fiscal 2024 Q1 Financial Conference (Fiscal Year Ending March 31, 2025)

◆ FY24 Q1 Results and Future Outlook

Q1:

Regarding the breakdown of the increase/decrease in operating income in Q1, did cost reductions and productivity improvements progress more than expected? Also, what was better or worse than expected, internal initiatives or changes in the external environment?

A1:

Compared to the previous year, we believe that we were able to achieve results that exceeded the negative impact of the decrease in production volume through cost reductions. In terms of costs, we believe that electricity costs have decreased compared to the previous year, but wages have risen as expected, so we will continue to work on passing on the cost to sales prices.

Q2:

How do you expect the recovery in volume in Q2, the upward swing due to the depreciation of the yen, and the occurrence of one-time expenses to affect your performance? What are your expectations for passing on wage increases to prices? And when do you think you will be able to do this?

A2:

We expect the recovery in volume to start in Q3 of FY24. We expect one-time expenses to total approximately 2.5 billion yen in Q2 and 5 billion yen for the year. Although there are differences depending on the region and customer, we have received more understanding than in the past, so we will continue negotiations. Based on past trends, we expect negotiations to be settled by the end of Q3 overseas and by the end of Q4 in Japan.

Q3:

When will the effects of structural reforms be seen?

A3:

As stated on page 20 of the FY23 full-year business results presentation materials, we expect to see effects of 1 billion yen in FY24, 6.5 billion yen in FY25, and 9 billion yen in FY26, and thereafter we expect to see annual effects of 9 billion yen.

Q4:

In addition to the 9 billion yen in structural reform impact, I believe there were plans for business portfolio reform and other measures to reduce fixed costs. Please tell us about any initiatives in Q1.

A4:

In the automotive business, we are steadily launching products for electric vehicles. While the BEV market is at a standstill, we are steadily capturing the shift in the market towards HEVs, and we are seeing the results of this. In the industrial machinery business, as shown on page 5 of Q1 business results presentation materials, the results of the changes in our portfolio are not yet visible, but we are promoting the expansion of sales of aftermarket products as the overall volume of goods returns and we will continue to produce results.

◆Industrial Machinery Business

Q5:

I think you mentioned that machine tools and injection molding machines are doing well, and you have the trend chart on page 8 with a number of sectors showing an upward trend. Regarding these sectors, which do you feel that a recovery is certain? Also, what kind of risks do you foresee?

A5:

Based on information from our customers, we believe that there is a high probability of a recovery in demand for semiconductor manufacturing equipment, and that orders for machine tools will also increase. In other sectors too, customers are making progress with inventory adjustments, and we expect H2 of the year to be higher than H1.

Q6:

As for the general situation in China in Q1, while there is talk of demand-stimulating measures such as subsidies aimed at promoting equipment renewal, it is difficult to grasp the actual situation because there are still some weak sectors, so I would like to know how you see the business situation in China.

A6:

We think it is important to respond to the economic situation while watching what kind of policies are taken in China. We need to be cautious, but in terms of demand trends, demand for bearings for motors in the E&E sector is returning more than expected, and there are also signs of recovery in other industries. Orders for railcars have been increasing for some time now, and the situation is stable at a high level. Overall, there are some differences in intensity, and we think it is important to continue with careful management and to be flexible enough to respond to sudden increases in demand.

◆Automotive Business

Q7:

There is the impression that the preliminary figures for domestic automotive production are lower than expected, so should we be considering the risk of operations not reaching your expected level in Q2?

A7:

There is a risk that the volume of production will decrease, but we will take measures to ensure that a decrease in volume does not lead to a deterioration in profitability. It is important to operate with fixed costs that are in line with or lower than the volume of production, and it is necessary to take action as soon as possible. In addition, activities to raise prices will become more important. However, we expect that the number of vehicles produced in H2 of FY24 will be higher than in H1, as planned.

Q8:

Although the number of vehicles produced in H1 and H2 will not change significantly, we expect to see an improvement in sales in H2. Please tell us if there is any possibility that the assumptions made at the beginning of the term regarding profitability will change, such as the transfer of increasing costs to sales prices, fixed costs, and cost of sales.

A8:

So far, we have been able to pass on price increases and control fixed costs as planned. Since most of the sales price negotiations are settled in H2 of the fiscal year, that is when we see the effect. Also, we expect vehicle production volume to be higher in H2.

◆Other

Q9:

It seems that it took a long time to make the decision to sell the European production subsidiary, Neuweg. Why did you decide to do it now?

A9:

Since we acquired it, we have been operating it without any profit-related problems, but in addition to the increase in energy costs and labor costs in Europe, problems such as the aging of facilities have also become apparent, and as a result of repeated discussions over the past few years, we have reached this agreement.

Q10:

Will the transfer of shares in the Indian subsidiary of the steering business result in a capital gain? Referring to the item mentioned on page 9 of the FY24 Q1 financial results presentation materials.

A10:

We do not expect it to have a significant impact on our business performance.

Q11:

What sense of crisis is there within the company in response to the results of the exercise of voting rights at the general meeting of shareholders in June this year?

A11:

We are taking the issue of our low ROE very seriously, and the Board of Directors and other management are operating with a strong sense of crisis. At the recent Board of Directors meeting, we reflected on the General Meeting of Shareholders and discussed how to overcome the current issues. On the executive side, we are working to break through the current situation and raise profits and achieve results through monthly checks and various other initiatives.