November 01, 2024

NSK Ltd. Q&A Summary – Fiscal 2024 H1 Financial Conference (Year Ending March 31, 2025)

◆ FY24 First Half Results and Outlook

Q1:

What is the background behind the amount of transfer of increasing costs to sales prices being lower compared to the original plan?

A1:

This is because the impact of cost inflation was less than originally expected. In terms of transferring increasing costs to sales, we are making progress as planned.

Q2:

What will be the timing of one-time expenses related to restructuring in the second half of FY24? What further efforts are underway?

A2:

For FY24, we plan for 1 billion yen in Q3 and 2 billion yen in Q4. With the decline in volume in Europe, the low capacity utilization of some lines in Japan, and surplus capacity in China, we are reorganizing and optimizing production location based on production capacity, customer location, and other factors.

Q3:

What is the breakdown of the 7 billion yen cost reduction/productivity improvement shown on page 11 of the financial results presentation? What did you do to achieve this?

A3:

The breakdown is 3 billion yen in cost reductions and 4 billion yen in productivity improvement. For example, we are reducing procurement costs through the procurement of local materials in China.

Q4:

According to the fact book, some regions have reduced the number of employees, but how are you keeping employees motivated?

A4:

We strive to maintain motivation by fostering understanding through dialogue.

Q5:

Looking at NSK's location information published in the past, I think there are about ten or so manufacturing sites in China, but isn't that a lot in terms of production capacity?

A5:

We are currently using about 80% of our capacity, so our facilities are not being maximized. We are monitoring the situation and considering whether this needs revision while exploring how to utilize the capacity.

Q6:

We hear that demand for consumer electronics is increasing in China due to the stimulus package, what is your view on this?

A6:

Although the first half of FY24 saw positive year-on-year growth in China in areas such as home appliances and EMS products, there are concerns that some of these products are not being converted to final consumption and are instead being held in inventory, and we believe that this will lead to inventory adjustments in the second half of the year.

◆ Industrial Machinery Business

Q7:

On page 15 of the financial results presentation, you mentioned that you will increase aftermarket sales. What is the percentage of sales in the Americas and India to total sales and how much will you increase it in the future? What is your current progress or concrete results in this area?

A7:

In FY24, the Americas and India together will account for about a third of total sales. We have been able to increase sales by about 1.5 times over the past three years, and we hope to further increase them by another 30% by FY26. Specifically, we signed a collaboration agreement with a major U.S. distributor, and have also been able to increase our market share in other areas, mainly in the Americas, including South America. In India, we are developing our MRO, machine tools, and railcar-related businesses, which are steadily yielding results.

Q8:

How do you see the market recovering in the short term for the first half of FY25 in terms of sales expansion of precision machinery products? What strategies will be used to increase market share and sales price?

A8:

In the current market, demand for machine tools has returned to 80% of its peak level, and demand for semiconductor manufacturing equipment is expected to recover, albeit gradually, from the second half of FY24 to FY25. We are strong in these areas and have secured some market share, but we will further differentiate ourselves through technology, quality, and delivery time. We will also make press releases to promote new products and achievements as appropriate, and have a lineup of products that will meet the challenges of our customers.

◆ **Automotive Business**

Q9:

Are bearings for eAxle more profitable than bearings for ICE even though there are many Chinese EV manufacturers?

A9:

Our products for eAxles feature electric erosion prevention, quiet operation, low torque, and other features. Profitability is increased compared to ICE products because they meet strict requirements. However, in the near future, considering the possibility that we could be required to lower our prices, although we will avoid following excessive price competition, we are considering how we can reduce the unit cost of our products that protect against electrical erosion through VA/VE. We would also like to secure sales by proposing new solutions such as products that prevent electrical erosion by guiding the flow of electricity to escape a certain direction.

◆ **Other**

Q10:

Why did a loss occur from the sale of the Indian steering subsidiary mentioned on page 5 of the financial results presentation? The Indian automotive market is growing, so I assume it would have been profitable.

A10:

Although we must refrain from giving specific details because of the nature of the contract, the negotiated deal with Rane Holdings Limited resulted in a loss. In terms of profitability, the past few years have been difficult.