

FY2023/12 Q2 Financial Results Briefing: Q&A

Date and Time: 11:00 to 12:05, Tuesday, August 8, 2023

No	Item	Q	A
1	Precision reduction gears	What changes in the external environment caused the downward revision from the initial forecast?	EV investment was strong until the first half of the second quarter, especially for large industrial robots. However, demand declined sharply in and after June. This was because demand for industrial robots significantly declined in China and settled down in North America. In addition, the excess inventory of robot manufacturers will take time to be consumed. Because the demand environment assumed at the beginning of the year has changed, we made a downward modification.
2	Precision reduction gears	How do you see the future demand outlook for precision reduction gear business?	Demand is unlikely to recover by the end of the year due to the decline in demand and excess inventories of the assembled robot manufacturers. We expect demand to start recovering again in the next fiscal year onwards.
3	Precision reduction gears	When will the Hamamatsu Plant start to operate?	The building of Hamamatsu Plant will be completed in September, but the specific start date has not yet been decided because equipment installation will be decided flexibly depend on demand. Since the concept of the Hamamatsu Plant is a smart factory with increased automation, we are also examining how profitability will improve by shifting production from the Tsu Plant under current demand level.
4	Precision reduction gears	Under the raw material price increase due to electric price increase, how is the price increase situation to customer?	Most of our customers have accepted the price increase corresponding to the soaring raw material costs in 2022. We have been progressing in line with the annual price pass-through target. One of CMP O.P. caused by the impact of lower revenues (less operation leverage). In 2023, procurement costs will increase more than our assumption due to the increase in electricity rates. We will pass on the portion of increased procurement costs of 600 million yen to selling prices during the current fiscal year and will pass on the remaining portion in the next fiscal year.
5	Precision reduction gears	To what extent do you expect to recover as you further carry out the price pass-through for precision reduction gears?	This year's increase in procurement costs due to higher electricity charges is more than we can absorb through our own efforts. Therefore, we will further negotiate with customers for price pass-through. However, since we have an annual contract with the robot manufacturers, it is not easy to pass on all increased costs to them within this fiscal year. Although negotiations were conducted in the midst of declining demand, we have gained a certain level of understanding from our customers.
6	Hydraulic equipment	When do you expect the Chinese market for hydraulic equipment to recover?	Our initial forecast at the beginning of the year assumed a 5% decline in total excavator demand in the Chinese market compared to last year, but we changed the forecast to a 25% decline regarding the total demand. We have been working on reviewing (to adjust the size of production facility) the fixed cost to improve profitability and will continue to address this issue.
7	Hydraulic equipment	With the Chinese market stagnant, what actions will be taken to further increase sales of hydraulic equipment?	We are focusing on expanding sales in the European, American, and Southeast Asian markets, striving to increase the installation rate of Japanese construction equipment manufacturers operating in these regions, and developing new customers from local construction equipment manufacturers. In FY2022, we opened a new sales office in Germany to strengthen our local sales activities. At the same time, we are promoting the development of new products compatible with electrification and expanding sales of applications other than excavators, such as cranes and forestry machinery.
8	Aircraft equipment	Demand is recovering in the private sector, but is Boeing's production rate also recovering?	Production rates have been increasing, mainly for 737MAX, 787, and 777X. We also expect an increase in MRO due to recovery in passenger demand.
9	Ovalo	Does the shift to EVs impose a structural risk for Ovalo?	Ovalo's initial forecast for the year was changed to downward. This was partly because production was adjusted due to a shortage of semiconductors and also because the models in which Ovalo's products are used are the ICE vehicles, which are not selling as well as expected due to the shift to EVs.
10	Ovalo	What kind of measures are you taking for Ovalo?	We will continue to work on improving profitability.

11	ACB	Why has operating income not been modified in the modified forecast despite the one-time costs incurred by ACB?	One-time costs were incurred in the second quarter due to additional construction work in an overseas platform door project, which resulted in recording a loss on the financial statement. However, these costs will be charged to the client and are expected to be reclaim in and after the next fiscal year. Operating profit has not changed in the revised forecast because the demand environment for automatic doors has been robust, and we will reclaim the loss incurred in FY2022 on the overseas platform door project by charging the cost to the client.
12	ACB	Why has operating income not been changed in the revised forecast despite the one-time costs incurred by ACB?	Since it is necessary to recognize the percentage of completion basis, (verify the cost items) for the platform door project every quarter, additional one-time costs may be incurred before construction is completed. However, we will negotiate additional to invoice with the client.
13	Corporate	It appears that price pass-through has not kept pace with the sharp rise in raw material prices. What is the current progress on that ?	Price pass-through for the hydraulic equipment business has been delayed in China due to secure market share under hard competition. However, price pass-through in other businesses has been progressing as planned.
14	Cash flow	Do you plan to use to buy-back from the sale of Harmonic Drive Systems shares ?	Our policy of using the cash on hands proceeds for investment in future growth remains unchanged. Although there are currently no plans to buy back shares, we will make decisions flexibly. We plan to return profits to shareholders by dividends following on the beginning of the fiscal year plan and stable dividends policy.
15	M&A	How will the Copas acquisition contributes to the Company's financial impact?	Copas is an automatic door sales company in France. We acquired the company to strengthen our European sales network. Its sales revenues are around 3-4 billion yen and have already been reflected in our initial forecast at the beginning of the year.
16	M&A	How will the DeepSea acquisition contribute to the Company's financial impact ?	DeepSea develops maritime software, including optimal route planning, and promotes DX in marine transportation. We will expand sales by combining their software services with our hard products.
17	M&A	Do you intend to divest any businesses units to outside parties or under new owner from a portfolio management perspective, including selling TS Precision?	Rather than portfolio management with a view toward divesting, but we will consider who would be the best owner for business their growth (for restructured businesses), some case, there is some possibility to divest a business from our portfolio in the future.
18	Portfolio management	You divided the business units into 36 in your portfolio management analysis. This seems like a lot. What are your thoughts about this?	We divided into 36 business units based on segmented classification by market and product point of view rather than by existing business units. Subdividing businesses into smaller segments makes it clear to the position of their business units and identify problems. We are examining whether all these business units are optimal portfolio components for Nabtesco.
19	Portfolio management	What do you take any measurement to the business units under EVA negative business	Generally, we do not sell or exit a business just because its EVA is negative. First, we will implement measures to improve the situation. We aim to form an optimal portfolio by conducting not only a financial evaluation but also a business feasibility evaluation, including an evaluation of potential and future prospects.
20	Disclosure	Do you plan to disclose the profitability of individual businesses?	We do not plan to do so at this time.