

FY2021/12 Q2 Financial Results Briefing: Q&A

Date and Time: 10:00 to 11:00, Tuesday, August 10, 2021

No	Item	Q	A
1	Corporate	Other companies are experiencing a slowdown in production and shipping due to a shortage of semiconductors and container ships, as well as negative effects of rising transportation costs and steel prices. Has Nabtesco been affected? If you have not been greatly affected, what efforts are contributing to that?	<p>While the impact on the results for the first half was not significant, we expect a certain impact on a full-year basis.</p> <p>For example, the shortage of container ships affected transportation to Europe in the precision reduction gears business. The shortage of semiconductors has not had a significant direct impact on our production. However, several businesses, such as those providing equipment for marine vessels, have confirmed delays in the delivery of boards, and in some cases, customers have been affected by the shortage. This situation is expected to continue for some time, and we are taking measures such as placing orders as early as possible, using parts inventory, and searching for alternative supply chains.</p> <p>In terms of cost, there were the effects of rising steel prices in each business, as well as the increase in costs for switching from container ships to air transportation.</p> <p>The impact on full-year operating results is as disclosed in the Analysis of Factors Causing Changes in Operating Profit on page 14. Combined with the amount recorded as an increase in costs and some of the increases in indirect expenses, the total is about 1.0 billion yen.</p>
2	Precision reduction gears	Can we expect that sales of precision reduction gears will grow to the 100 billion yen level in the future? If so, when is that likely to be?	<p>When the business achieved significant growth in 2008 and 2017, demand continued to increase for seven to eight straight quarters. Currently, the business has been growing for four quarters in a row, and the growth could last a little longer if past trends continue.</p> <p>As can be seen from the construction plan for the second plant in Hamamatsu, we believe that medium- to long-term growth is also highly probable, as we can expect demand for robots due to the progress of automation and demand for machine tools that use our reduction gears.</p>
3	Precision reduction gears	Where did the demand increase significantly by customer and region?	<p>Between Japanese and European manufacturers, Japanese manufacturers achieved more significant growth. From the perspective of demand from final destinations, demand remained robust in China, Europe and North America.</p>
4	Precision reduction gears	What is the background of investment to increase the production of precision reduction gears? Are there any changes in production lead times?	<p>When demand was strong in 2017, the operation rate reached 140%, but at that time, there was a lot of overtime work and the burden on employees was very heavy, so we gradually increased our production capacity. Subsequently, the pace of investment was slowed due to a pause in demand in 2019. Demand began to recover around the fourth quarter of 2020, and the plant operation rate in the second quarter reached 120%, so we resumed investment.</p> <p>The plant operation rate in the second quarter was as follows. Tsu Plant in Japan (approx. 120%) China Plant (approx. 115%)</p> <p>We have maintained a lead time of about four weeks from order to shipment.</p>
5	Precision reduction gears	Did the number of employees at the Tsu Plant increase during the first half?	<p>In FY2020, we responded to the timing of the decline in demand due to the impact of COVID-19 without reducing the number of employees, as far as possible, so we have been able to respond flexibly to the current increase in demand. In line with the increased production, we are planning to increase the number of employees including the transfer from the aircraft equipment business.</p>
6	Hydraulic equipment	What are the factors behind the downward revision of sales projections for the hydraulic equipment business in the second half? What are the prospects by region?	<p>As for China, sales of excavators in China were strong until April, and although sales of excavators have declined year on year since May, full-year sales are expected to reach the same level as in the previous year. Our plan is based on the assumption that orders will increase in Europe, the United States and other regions on the back of strong demand for construction machinery.</p>
7	TRS segment	What are the factors behind the decrease in operating profit for the second half in the revised plan, despite an increase in sales of the TRS segment for the second half? Will you be able to achieve the plan for the second half in light of risks such as a decrease in customer production in the aircraft business?	<p>The figures are based on the forecasts by each business in light of market trends and other factors, while taking into account product composition differences in sales. This also reflects sluggish demand for railroad vehicle equipment, which has been incorporated into the plan. As the aircraft business has progressed in accordance with the plan, we believe that we will be able to achieve the plan on the whole.</p>
8	OVALO	What are your prospects for OVALO's full-year earnings?	<p>Earnings in the first half have been in line with the plan. Sales activities targeting new customers have been implemented steadily, and we plan to leverage the development capabilities of OVALO and its subsidiary adcos across the Nabtesco Group.</p>