

Fiscal 2013 Results Briefing Q&A

Date: May 12, 2014, 10:00–11:30

Place: Daiwa Conference Hall 18th Floor

[Overall]

Q1: It seems that the increase in net sales for North America for FY 2016 is large in comparison with the regional sales composition in FY 2013. Can you explain the background for this?

A1: The factors expected to significantly boost net sales in North America include expansion of the automatic door business through M&A and growth in sales for the new energy business (solar tracking equipment and drive units for wind turbines). In addition, growth in sales for the packaging machines business, expanded sales for new applications in the precision reduction gears business and an increase in sales for hydraulic equipment applications are anticipated to contribute to the boost in sales in North America.

While the Company has approximately 20% of the global market share for automatic doors, the higher share is concentrated in certain regions such as Japan, Switzerland and some parts of North America. Our sales are currently focused on door engines; we will grow sales of main doors and MRO (Maintenance, Repair and Overhaul) in the future.

We also acquired a Canadian sales company last year for the purpose of growing sales in North America. We plan to take offensive moves using a similar M&A strategy in Europe.

Q2: Can you tell me the Company's overall net sales of MRO in FY 2013 as well as the target for FY 2016?

A2: Net sales of MRO in FY 2013 amounted to approximately 35.0 billion yen, and we aim to deliver 43.0 billion yen for FY 2016. However, as the overall net sales are anticipated to grow for FY 2016, the ratio of MRO is likely to drop. Since the MRO business is supported by our customers in the precision reduction gears business and hydraulic equipment business, the MRO ratio is really quite low in these areas.

[Precision Equipment Segment]

Q3: Net sales in the precision equipment segment increased by 1.3 billion yen year on year and operating income grew by 1.0 billion yen year on year. Drilling down on those figures,

can you provide details on net sales and operating income in the precision reduction gears business and the new energy business, which was newly commenced in FY 2013?

A3: For FY 2013, sales in the new energy business, which consist only of sales of drive units for wind turbines, amounted to 1.3 billion yen. With the current level of sales, the new energy business has a significant operating loss. Meanwhile, demand for precision reduction gears remained sluggish until the second quarter, picking up after the start of the third quarter. Consequently, production volume increased in accordance with the plan and profitability returned to the former level.

Q4: The operating margin of this segment for FY 2014 is projected to remain unchanged from the previous year. What is your plan to improve the new energy business, which is currently unprofitable?

A4: Net sales from the new energy business for FY 2014 are forecast to amount to 2.0 billion yen (for wind turbines only). While the business will remain unprofitable, the amount of loss is expected to decrease. If orders for solar tracking equipment, for which future growth is anticipated, grow at a constant rate, we will be able to realize profitability.

Q5: Can you tell me about future demand for industrial robots?

A5: Although equipment spending by automobile manufacturers, which are the largest users of robots, may fluctuate due to economic fluctuations, it is best to look at the situation over a period of three to five years.

According to the forecast by the International Federation of Robotics, the robot market is expected to grow at 6% per annum in the future.

Our precision reduction gears have attractive features for playback robots. Although demand for small-sized robots is likely to increase, they are outside the scope of our target. Our challenge is how to respond to economic fluctuations without compromising profitability. Although current demand looks solid for April and May, we believe that it will come to a halt in June.

[Aircraft and Hydraulic Equipment Segment]

Q6: Can you explain the request from construction machinery manufacturers to decrease prices for hydraulic equipment due to fierce competition in China and the accelerated depreciation of the yen?

A6: We set prices for some customers in the Chinese market at the beginning of the year. The prices for CY2013 were set at the end of CY2012. The impact of the cheaper yen was not so significant at that time. However, as the impact will be significant for CY2014, we have no choice but to respond to the request from our customers to cut prices.

Moreover, the construction machinery market in China peaked in CY2011, with excavator demand amounting to 170,000 units. However, excavator demand has declined since then to 110,000 units in CY2013. On the other hand, we have seen intensifying competition. The price-cut will have a negative impact on our operating income.

Q7: I heard that Doosan Corporation Mottrol (Korea), which licenses Nabtesco's technology, has been trying to increase its market share in China. Can you tell me about your defensive measures, if any?

A7: We still receive license fees from Doosan Corporation Mottrol. If Doosan Corporation Mottrol's sales increase, we should be able to benefit from that. Since Doosan Corporation Mottrol has plants in China and conducts businesses in various countries, it is our competitor in a sense. But it is hard to draw a clear line of segregation. We would like to select customers by leveraging our strengths and those of Doosan Corporation Mottrol. As we are planning to launch new products in the market, we will strive to maintain and expand our market share.

[Industrial Equipment Segment]

Q8: As a result of the depreciation of the yen, amortization of goodwill following the acquisition of Gilgen has been increasing in the automatic door business. This seems to be causing a negative impact on profits. How will you respond to the goodwill amortization when you carry out M&A in North America in the future?

A8: With regard to M&A, we have criteria to judge impairment risks (ROA, ROE, EBITDA, etc.) It is impossible to avoid goodwill in acquisition. However, M&A deals that we carried out

after the acquisition of Gilgen in the automatic door business were concentrated on the acquisition of small-scale sales companies and the amount of goodwill amortization has not been significant.

Goodwill amortization will not be recognized after the shift to IFRS that we are currently working on introducing.

Meanwhile, consecutive losses recorded by one of Gilgen's subsidiaries also had a negative impact on our profits. However, as we implemented restructuring measures last year, the situation is expected to improve after the current fiscal year.