

FY2022/12 Q3 Financial Results Briefing: Q&A

Date and Time: 18:00 p.m. to 19:00 p.m., Monday, October 31, 2022

No	Item	Q	A
1	Precision Reduction Gears	As for the demand environment for precision reduction gears, would like to know about the order forecasts, lead times, and operations level.	The demand environment is favorable, especially for EV investment, and we expect high demand to continue at least through the first half of FY2023. Lead time remains 4 weeks despite the high volume of orders. Operations will remain high at existing plants until the Hamamatsu Plant will come on line.
2	Precision Reduction Gears	As for the higher raw material costs at CMP as a reason for the downward revision, what was the gap with your assumption?	Since demand for precision reduction gears is high and our first priority was to manufacture gears to meet customer demand, we had no choice but to tolerate the higher raw material costs for the time being in order to manage our supply chain. We intend to pass on the higher raw material costs to customers in the future.
3	Precision Reduction Gears	Couldn't the impact of the rise in raw material costs have been anticipated as of the second quarter?	We had expected that the price increase would be passed on to customers a little earlier than expected. However, there are cases in which product prices will be revised starting from deliveries in 2023 due to annual contracts. Therefore, it is difficult to realize the full effect of the price pass-through this fiscal year, and the raw material price hikes have directly contributed to the decrease in O.P. margin.
4	Precision Reduction Gears	What is the status of price pass-through to robot manufacturers? To what extent do you expect to recover the cost?	Major robot manufacturers have accepted a significant portion of our requests, but some are still under negotiating. The extent to which prices will retroactively reflect the sharp rise in raw material prices differs from customer to customer. We are now closely examining how much profit we can expect in the FY2023.
5	Precision Reduction Gears	Could you give us an idea of the annual production capacity of precision reduction gears in FY2023?	In the past, there have been times when the capacity utilization rate has been raised significantly above the regular production capacity through overtime and rearrangement of shifts, such as the 120% utilization rate level. Due to the constraints of labor conditions, we will continue to adjust personnel resources while manufacturing to meet high demand. As of October 2023, when the Hamamatsu Plant begins operations, global production capacity will be 1.46 million units, but the Hamamatsu Plant will only operate for the fourth quarter (October-December) of 2023, and we see FY2023 as a transitional period.
6	Hydraulic Equipment	This was the second consecutive quarterly downward revision, but was it difficult to revise as of the second quarter?	The main reason for the downward revision was a slower-than-expected recovery in demand for hydraulic equipment in China market. Against the backdrop of a sluggish real estate market and slowdown in infrastructure investment in China, demand from local excavator manufacturers has fallen sharply, and especially we believe the main reason is a decline in demand for mid-large sized in which we have a high exposure.
7	Hydraulic Equipment	Has the hydraulic equipment share of the Chinese market declined? Are its sales prices also declining?	Rather than we are losing market share, the decline in demand for mid-large-sized excavator has had a greater impact than that for small-sized , and demand is not expected to recover unless infrastructure investment resumes. It appears that excavator manufacturers also had substantial inventories of mid-large sized excavator, and we have been affected more than by the decline in demand.
8	CMP Segment	What factors will enable the CMP to achieve its full-year plan?	In hydraulic equipment, we will further reduce costs in anticipation of sluggish demand in the Chinese market. In the precision reduction gears business, the challenge is to achieve full production in response to the accumulated orders, and we expect to achieve the plan by taking all possible measures, including personnel measures. We expect to achieve the planned level of profit by digesting the backlog of orders.
9	ACB Segment	How much was the cost increase in the ACB, which was a factor in the downward revision, and will it be recovered in the next fiscal year? What factors will enable the ACB segment to achieve its full-year plan?	There are two main factors contributing to lower O.P. margin at ACB. The first is that we were unable to sell the MRO better than expected due to a shortage of electronic components, but we expect to make up for the delay since we have secured electronic components for the 4Q. As for the cost increase in the platform door project as the second reason, 300 million yen of the 800 million yen is expected to be recovered by the end of this fiscal year, with the remaining will be recovered in the FY2023.
10	Full year plan	Please explain in detail the impact of the downward revision of ¥5.0 billion in O.P. decline, which can be divided into two categories: the impact of reduced demand and the impact of one-time factors.	Of the ¥5.0 billion, ¥2.0 billion is due to the impact of reduced demand for hydraulic equipment. We see that the CMP raw material cost hike and ACB cost increase are one-time factors and expect to reap the benefits of price pass-on as profit in FY2023.
11	Forecast for FY2023	I would like to know about the business environment for the coming year, by business, with regard to upside and downside risks.	TRS is expected to improve, especially in railroad vehicle equipment and aircraft equipment, due to recovery from Covid-19. Marine vessel equipment continues in favorable; ACB is expected a high demand, especially for buildings doors, due to the development of metropolitan areas in Japan. As for the CMP, precision reduction gears will continue to be in extremely high demand. In hydraulic equipment, the decline in the Chinese market is not expected to recover rapidly, but the level has reached the bottom, and we do not see any major downside risk.