

FY2022 Full Year Results Briefing: Q&A

Date and Time: 10:00 a.m. to 11:30 a.m., Friday, February 17, 2023

No	Item	Q	A
1	Precision Reduction Gears	What caused the drop in the consolidated amount of orders received in the fourth quarter of FY2022?	For the period from the second to third quarters of FY2022, we received an extremely large number of orders from overseas robot manufacturers, who subsequently reduced their orders in the fourth quarter. We regard this as the cause of the slowdown. However, for this first quarter of FY2023, the amount of orders received has been at the level that we aimed for at the beginning of the fiscal year.
2	Precision Reduction Gears	What factors were behind the shortage of labor, which caused the delayed production of precision reduction gears? Could a similar problem happen again in FY2023?	The pandemic has made it difficult for us to hire and retain staff (including temporary workers) for the production of the gears. The situation seems to have been improved recently, but we need to pay attention to this issue also in FY2023 and will promote measures against this problem.
3	Precision Reduction Gears	Specifically what are you doing to address the issue of labor shortage?	We are providing our manufacturing staff with more substantial education and training as a means to retain the workers.
4	Precision Reduction Gears	Won't the drop in the amount of orders received, which was recorded for the fourth quarter of FY2022, affect the performance for the first and second quarters of FY2023?	Presently, we are receiving orders as planned at the beginning of the term. Based on the trends shown by Japanese industrial robot manufacturers, we expect that demand from EV manufacturers will continue to be brisk in the market, and accordingly, our precision reduction gear business will remain favorable at least for the first half of FY2023.

5	Precision Reduction Gears	Relative to the demand forecasts made for robots by the International Federation of Robotics (IFR) and the Japan Robot Association, you are expecting a higher growth rate for sales of your precision reduction gears in FY2023. Why?	<p>We have independently estimated the sales of our precision reduction gears based on the demand forecasts provided by our customers. Demand from EV manufacturers will remain brisk for industrial robots, including the products that robot manufacturers were unable to manufacture within FY2022 due to the shortage of components.</p>
6	Hydraulic Equipment	You are promoting sales in each region. What is the local situation in each region?	<p>Europe and US markets: At present, we cannot say that our local market share will increase, but we are implementing measures steadily. We will further promote local sales by establishing a new base in Europe and by making more effective use of our precision reduction gear base in the United States.</p> <p>Southeast Asian market: Although we cannot expect a substantial growth of the business in this market, we are steadily implementing measures to promote local sales, including enhancing and making more effective use of our base in India.</p> <p>Chinese market: Even while we were suspending production due to the lockdowns, local construction machinery manufacturers were continuing their production activities. During this period, some of them might have started to produce hydraulic equipment internally or replaced us with a local hydraulic equipment manufacturer. Regarding these possibilities, we are conducting investigations, including checking our latest market share.</p>

7	Hydraulic Equipment	Will your sales increase or decrease in each of the regions according to your plan for FY2023?	Our net sales will decrease slightly as a whole if the impact of currency fluctuations is not considered. This is mainly due to a decrease in demand in the Chinese market. We expect favorable sales in other markets, including the Europe and US.
8	Hydraulic Equipment	In your plan for FY2023, you aim to increase sales in the Europe and US markets. What risks are posed to the achievement of this target in addition to the impact of inflation?	Inflation is one of the risks. Another risk is that we expect to expand sales in the Europe and US markets and have high sales targets.
9	Hydraulic Equipment	Has the profitability of your hydraulic equipment business dropped due to the demand trends and the intensification of competition in the Chinese market? Are you implementing measures to increase profitability?	<p>It is true that a decrease in our sales volume in the Chinese market has caused a drop in profitability. In response, we are working to implement measures to achieve the following two targets:</p> <p>(1) Develop more cost-competitive products and release them in the market as soon as possible</p> <p>(2) Reduce fixed costs by measures such as reassigning staff engaging in the business to other businesses in which we are achieving favorable results, such as the precision reduction gear, aircraft equipment and marine vessel equipment businesses, thereby increasing the entire Group's cost efficiency.</p>

10	CMP Segment	In the FY2023 plan, you aim for record-high sales in the segment but do not expect that operating margin will also hit a record high. Why?	<p>This is mainly because of the following three elements:</p> <p>(1) Decrease in profit due to decreased sales in the hydraulic equipment business.</p> <p>(2) Sharp rises in materials and personnel (outsourcing ) costs. Note: We plan to offset the rises in the costs recorded for FY2022 to some extent in FY2023, but costs will continue to increase also in FY2023.</p> <p>(3) Increase in depreciation due to investments made in the Hamamatsu Plant and others.</p>
11	CMP Segment	Will operating margin remain at a low level in the CMP Segment?	<p>For (2) in Item No. 10, we are working to raise our prices to offset the rises in costs, but cannot offset them all. Compared with the period in which we achieved record-high results, our profitability has decreased structurally due to (1) and (3). However, we will work to make improvements and recover profitability by expanding production to increase profit and by improving productivity for higher profitability.</p>
12	Aircraft Equipment	What kind of business will you develop through the capital tie-up with SPACE ONE?	<p>We have just started to cooperate with the company, but we will be able to demonstrate our strength for rocket flight attitude control based on our technologies developed for flight control actuation systems. We will also be able to develop a data service business by making use of satellites and other space technologies.</p>

13	OVALO	Could you outline the business performance of OVALO for FY2022 and the FY2023 plan for the company?	<p>OVALO posted sales of 1.7 billion yen and an operating loss of 1.1 billion yen for FY2022.</p> <p>Its customers changed their production plans due to the shortage of semiconductors, and as a result the company was unable to deliver its predictive active suspension systems to the customers in the initially planned quantity.</p> <p>For FY2023, we expect sales of 3.1 billion yen and an operating loss of 600 million yen for OVALO. The company will thus record some deficits also for the fiscal year.</p>
14	ACB Segment	You have revised your forecast for profit in this segment because of an overseas platform door project. What factors are behind this? Will the project continue to exert an influence over the business performance in and after FY2023?	<p>We posted a loss because of delayed installation and raised materials costs for one of our overseas subsidiaries for the third quarter of FY2022, and the accounting firm subsequently pointed out a problem regarding the precision of our calculation when we were preparing for the announcement of the financial results for the full year. We therefore reviewed the revenue calculation results according to the percentage of completion method in the fourth quarter of FY2022.</p> <p>Also for the installation of our platform doors in and after FY2023, we recognized a loss allowance in the fourth quarter of FY2022 and expect no additional loss at present.</p> <p>We will ask the customer to bear the relevant costs, but the platform door project in question will be completed (in Sydney) in FY2024 at the earliest and so the recovery of loss will not be completed before FY2024.</p>
15	ACB Segment	For profitability in the ACB Segment for FY2023, what changes do you expect relative to FY2022 (excluding the revision of profit made due to the overseas platform door project)?	<p>In FY2022, we faced increases in materials costs, which were caused by the shortage of electronic components. However, we were able to raise our prices to offset the rises in the costs thanks to the understanding extended to us by our customers. Accordingly in FY2023 profitability will improve in the segment.</p>

16	Medium-term Management Plan	For operating income in the CMP Segment, you need to increase the income by 10 billion yen to attain the target set for the final year of the medium-term management plan. How will you achieve this?	We have not yet made detailed examinations regarding our plan for FY2024, but it is true that we are facing more difficulties, which is partially due to the changes in the hydraulic equipment market.
17	Medium-term Management Plan	Are you making progress as planned in terms of capital investment? You announced that you would make capital investment totaling 88 billion yen (including environmental investment of 26 billion yen) and growth investment amounting to 66 billion yen for the achievement of the long-term vision. Is the plan for FY2023 aligned with this investment plan?	For FY2023, we are making progress as planned, including the progress that should have been made within FY2022. For growth investment to achieve the long-term vision, we have been steadily implementing M&A, CVC and other measures although the investment size is not very large.
18	Corporate	To what extent have you offset the rises in costs by raising your prices?	For FY2022, the overall offsetting rate was 25%. The rate differs by business, but we have gained understanding for our price rises from our customers in general and will work to further raise the offsetting rate in FY2023.
19	Corporate	I would like to know about the background to increases in the R&D cost and the head office cost.	We are now implementing the medium-term management plan "Time for Challenge" to achieve our long-term vision for 2030 and are facing difficulties in our business. However, we distributed enough resources to R&D, M&A, CVC and others to foster innovation for our future growth.
20	Corporate	As for free cash flow, you predict a decrease of about 27 billion yen for FY2023, but in FY2024, or the final year of the management plan, you aim to achieve a year-on-year increase for the cash flow, don't you?	Yes, indeed.

21	Corporate	<p>According to the data about the past performance of the company, the profitability level has not improved since FY2017. Why is this?</p> <p>What measures are you implementing to deal with this situation?</p>	<p>The major causal factor was that we were unable to respond successfully to the substantial changes in the external environment, such as the outbreak of the pandemic and the war in Ukraine.</p> <p>Our strength lies in the fact that we hold top spots in niche markets in multiple businesses, but this also means that we are sensitive to changes in the end market.</p> <p>Against this, we need to create new businesses and broaden our business domain, which we will achieve through the implementation of the long-term vision and the medium-term management plan.</p>
22	Corporate	<p>Nabtesco seems to have been unable to manage risks and respond to changes in the external environment in an appropriate manner in recent years. How will you respond to inflation and geopolitical risks going forward?</p>	<p>We regard it as one of our management challenges to enhance our ability to respond to changes in the external environment. We will not brief on each of the measures today, but we are taking actions to build a more resilient corporate structure in each of the businesses.</p>