

FY2021/12 Q3 Financial Results Briefing: Q&A

Date and Time: 18:00 to 18:50, Friday, October 29, 2021

No.	Item	Q	A
1	Precision reduction gears	I would like to confirm the trend of demand for precision reduction gears from two perspectives: (1) short term and (2) medium to long term.	(1) Although the order level in Q3 dropped temporarily, it is expected that we will be able to catch up with the annual plan in Q4 in light of customers' production plans shared with us.  (2) Regarding the production adjustment at robot manufacturers caused by the shortage of parts, I think that the shortage of parts will be resolved to some extent next spring. We are in a strong demand environment for industrial robots for the automobile industry, especially electric vehicles (EVs). And we expect that our precision reduction gears will also witness continued high demand from the next fiscal year onward. We have heard that some robot manufacturers plan to increase their production capacity, and we will follow suit with a production capacity that meets their needs.
2	Precision reduction gears	Regarding your product deliveries to robot manufacturers, is there a structural reason why deliveries were not realized as planned?	Robot manufacturers conduct just-in-time (JIT) manufacturing and a delivery schedule that fits the production plan is required. We receive an unofficial production plan announcement up to several months ahead, but the actual receipt of orders (quantity to be delivered) will fluctuate depending on the customers' actual production.
3	Precision reduction gears	It seems that problems such as the shortage of parts have not been resolved, but what is the background to the recovery of orders from robot manufacturers in October?	In response to the problem of parts shortage, robot manufacturers have been struggling to procure parts in order to meet the strong demand for industrial robots. And I believe that now they are almost certain about the possibility to achieve their goals. Although the orders we receive are steadily increasing at this point, there are still some concerns about their sustainability.  I would like to emphasize that we have steadily captured the demand for precision reduction gears for machine tools and semiconductor-manufacturing equipments.
4	Hydraulic equipment	Please tell us about the background of the performance of the hydraulic equipment business. In particular, please tell us your views on the Chinese market, where other companies say demand is declining.	It cannot be denied that the outlook for the demand for construction machinery in the Chinese market is uncertain, but we anticipate an increase in demand in Q4 toward the Chinese New Year. Demand in regions other than China (Europe, the United States and Southeast Asia) is recovering, and we expect that our goal will be achieved as planned.  The chinese construction machinery demand for export to Southeast Asia and other markets also contribute our sales in directly.
5	Hydraulic equipment	If construction machinery exports increase from China, maintenance-free and high-price models are likely to increase. Will this situation be an advantage for Nabtesco?	If high value-added products increases, it could be an opportunity for us to gain more market share. As a basic strategy, we want to secure the order flow for Nabtesco, no matter which customer may gain market share in the global demand for construction machinery.  Although local hydraulic equipment manufacturers have been emerging in China, we still have an advantage in terms of durability and performance.
6	OVALO	Please tell us about the outlook for the OVALO's full-year sales plan and future demand trends.	The actual situation is that OVALO's main customer, an automobile manufacturer, is unable to increase its production due to the shortage of semiconductors. On the back of our customer's intention to increase production in the future, we expect growth in the medium to long term. However, the current environment is harsh and there remains a risk of failing to achieve the planned goal.

7	Corporate: Operating income	OPM declined in Q3, but is it due to increased costs arising from problems associated with supply chain disruption? How much is due to this?	<p>The decline of profitability is partly attributable to the decrease in operating profit which was caused by the decrease in production volume in Q3.  Cost increases such as soaring steel prices and increases in logistics costs are expected to bring a negative impact of approximately 700 million yen to 1 billion yen in the second half.  Among them, the influence in the CMP segment is the largest.</p> <p>Not only the higher logistics costs for procurement, but also the rise in transportation costs for delivery of our products has had a significant impact.  (In such cases where we normally transport by sea, we use air transportation.)</p>
8	Corporate: Operating income	How much is the shortfall between the revised plan and net sales and operating income, respectively, in the first nine-month period? Are you determined to achieve the revised plan even if you have to reduce some of the headquarters costs in Q4?	<p>It is true that both net sales and operating income failed to reach the planned goals in Q3, but it was within the scope of our estimate. Therefore, I think it is within the range that can be recovered in Q4.</p> <p>We will do our best to achieve the plan. We are also considering reducing head office costs for that purpose, and are scrutinizing R&amp;D costs and other necessary costs.</p>