

Q&A (Summary)
Investor Meeting for 2Q of FY3/2024
MinebeaMitsumi Inc.

Date & Time: Tuesday, November 2, 2023 17:30-JST

Speaker: Mr. Yoshihisa Kainuma / Representative Director Chairman CEO
Mr. Katsuhiko Yoshida / Director, President COO & CFO

* This material has been summarized from the original dialogue.

Q: Please tell us the synergies with Hitachi Power Semiconductor Device. Are there any synergies such as increasing utilization rate by leveraging the pre-process owned by Hitachi Power Semiconductor Device? In which applications do you expect the most sales thanks to the acquisition of packaging technology?

A: Currently, their business is mainly fabless in the pre-process, and the contractors are not limited to MinebeaMitsumi. We are almost in full production for the contracts we have received. However, what generates synergies is rather our Shiga Plant, which we acquired from OMRON and expanded.

Our company work on the post-process in the Philippines and Akita. Although post-process is profitable, we have only worked on 20% of the post-process internally, and the rest have been outsourced to outside fab. Through this business integration, we would like to vertically integrate the pre-process and bring the profits from it into our company. Although we are still in a conceptual stage, since Hitachi Power Semiconductor Device possess dedicated packaging plant in Yamanashi, we intend to use that technology in Cambodia and other areas by using clean energy. IGBT and SiC will be sold not as chips or packages, but as modules.

Through this business integration, we were able to acquire module technology that is indispensable for sales to the automobile and railroad industries.

Q: Will all the products of Hitachi Power Semiconductor Device produced by fabless be manufactured at the Shiga Plant?

A: No, the fabless will probably remain. Despite the business expansion, other contract manufacturers are also in full production and do not actively receive orders. We will produce this increased volume at our Shiga Plant. We already had the concept of this business integration in mind when we acquired the Shiga plant from OMRON, and we have been preparing for the expansion of production capacity in Shiga. We are implementing the initiatives as planned since the business integration with MITSUMI in 2017.

Q: Regarding Access Solutions (AS), what is the probability of a jump in profits from 2Q to 3Q?

A: The first point is the aspect that, as in all manufacturing industries, once the break-even point is exceeded, everything but the cost of materials becomes profit, and the profit is generated as sales rise. We consider it a common problem for a company characterized by mass production that the break-even point is so high that if sales drop slightly, the profit margin drops significantly. On the other hand, there is a dilemma that if the break-even point is lowered, the supply capacity drops and the company cannot meet customer demands. The break-even point is determined in such an adjustment.

In addition, since all of our U-Shin and Minebea Access Solutions lines are specialized ones, if sales of a particular model drop, the operation will also drop. Regarding foreign exchange rates, since we produce in the vicinity of our customers, we do not benefit from producing and selling in yen in Japan, for example. Therefore, the business structure is such that profits will not recover unless OEM production volume recovers.

Second, we have implemented various reforms, including structural reforms in Europe.

The third point is the price adjustment. We have been raising prices after properly explaining the situation to our customers and gaining their understanding.

The profit plan for the 3Q and 4Q is constructed according to these three points. The reason production has risen above the break-even point can be attributed to the launch of newly acquired business. This means that the turmoil in the past has finally been resolved and production is back on track.

AS alone has 32 factories worldwide, some of which are not performing well in their operations and vice versa. As in the case of MITSUMI's management integration, we are concentrating resources on the factories that are not performing well and working to improve them. This time, it took some time due to the large number of locations and the different languages and culture, but we believe that if the production volume of automobile OEMs does not drop, we will be able to generate the figures as planned, thanks to the result of the above initiatives.

Q: Regarding Semiconductors & Electronics (SE), sales and profits increased significantly in the 2Q QonQ, but sales and profits decreased YonY. Could you explain the background for each product? In addition, given the plan to increase profits from the first half to the second half, what are the changes and details from 2Q to 3Q and 4Q? Finally, please tell us about the changes that will take place over the next fiscal year.

A: There are three factors that contributed to the decline in profit margin compared to the 2Q of previous year. First, although the profit margin for semiconductors remained at a high double-digit level, it declined on a YoY basis. Secondly, at the timing of new optical device launch, decrease in prices lead unable to secure the profits. The third point is that the sales of games are almost on a par with the previous year.

The SE sales plan is 153 billion yen for 3Q, 108.2 billion yen for 4Q, and profit of 15 billion yen for 3Q, 8.9 billion yen for 4Q, and 37 billion yen for the full year. Since 3Q is the peak production period for smartphones in North America, we expect the operating margin and operating income amount to increase compared to 2Q.

It is too early to say that semiconductors have recovered, whereas the BB ratio is still around 1. Having said that, however, we secure the same level of orders for the second half as in the first half. Looking ahead to the next fiscal year, we assume that the market will recover as inventory adjustments progress. However, we believe that we are not yet at a stage where we can clearly explain our assumptions about market trends, areas of recovery, and levels.

Q: Please provide us with the actual and projected production and sales volumes of ball bearings.

A: Actual figures are provided from July to October, and projected figures are from November to December. Production volume in million unit units: 248, 246, 246, 246, 260, and 253. External sales volume: 195, 196, 210, 220, 220, and 211. 2Q average is 200 and 3Q average is 217.

The 4Q average of external sales volume shown in Mr. Kainuma's presentation material (p26) is 229 at this point, but it still needs to be investigated.

Internal sales volume: 41, 40, 35, 35, 38 and 38.

This is due to the fact that the pivot assemblies has not yet recovered, and we assume that after January, the pivot assemblies will recover to a level above 50 million units at this time.

Q: Have the inventory adjustment of ball bearings is almost completed by September and the production is switching to meet the actual demand?

A: Yes, we plan to align production and external sales on a quarterly or semi-annual basis. Basically, difference in the operating days and months that have high customer demand result in some unevenness when viewed on a single month basis.

Q: Please tell us about the quarterly results and forecasts for sales of parts supplied for fee for mechanical components from the 2Q onward. What are the reasons behind the decrease in sales and increase in profits from 2Q to 3Q in SE? Do you expect the decline in sales of mechanical components which include parts supplied for fee and the increase in sales of optical devices contribute to improvement in sales mix?

A: The figures are 28.2 billion yen in 2Q, 14.0 billion yen in 3Q, and 8.6 billion yen in 4Q. Your understanding is right that we expect some improvements in the sales mix.

Q: Regarding SE, while sales are expected to decrease significantly from 3Q to 4Q, could you explain why profit is expected to decrease only about 6 billion yen?

A: Since products with relatively high profit margins are performing well and products with low profit margins are declining, we assume that profit margins will improve in terms of sales mix.

For optical devices, although production will decline, we expect to secure some volume. For semiconductors, we expect a slight improvement from 3Q to 4Q.

Q: I believe you have acquired a very good business regarding the M&A you have presented. Is EV in a scope of your target? Please also provide the expected profit margin.

A: With regard to EVs, as long as we can secure some profit margins and our products are differentiated, we would like to work only in niche areas. However, please understand that EVs are not our main target.

The production volume of 8-inch wafers, including the Shiga Plant, is about 10,000 wafers, which is not that large. However, since the area is 25% smaller, the number of chips that can be produced from a single wafer is higher, and the cost per wafer will be decreased.

The profit margin of Hitachi Power Semiconductor Device is lower than that of MITSUMI and ABLIC.

If you could imagine, we have the financial discipline to use an EV/EBIT multiple of 10x in M&A.

Q: What is your target market after the business integration?

A: In addition to the traditional railroads, we also have an eye on power supplies. We would like to create the latest products using our own IGBTs and SiC in the areas of “4 Highs”, i.e., High Voltage, High Current, High Frequency, and High Speed. We would also like to use IGBTs in our final and SOGO (=integration) products, which have performance that can utilize our proprietary technology to some extent, like bearings in motors. In the future, robots and other products will be powered by electricity, which will require short-time charging and higher voltage. To meet these needs, we believe we can supply power supplies that utilize our own IGBTs to enable short-time charging at high voltages and currents.

We launched an organization called the Tech Board about a year ago and let its members handle the technical side of the business. The Tech Board is beginning to come up with ideas of new products that we can supply to the huge power market mentioned above.

Q: You mentioned that analog semiconductors improved from 1Q to 2Q and expect to remain flat from 3Q onward. Could you tell us the trend by application?

In addition, what are the assumptions of your plans for the second half? Do you expect the profit level of the 2Q to remain the same in the second half?

A: Although there was significant growth in Chinese smartphones in 2Q, we do not factor in that total demand will grow for the full year. Neither our company nor our customers assume that production will grow for the full year.

Automotive products are strong. In addition, we are also in various niche areas such as medical, which is covering the seasonality of smartphones, especially the decline in Chinese smartphones. Thanks to the North American smartphone business heading toward its peak and benefiting from

foreign exchange rates, we believe that the second half of the year will be flat from the first half and maintain profitability at 2Q levels.

Q: With regard to optical devices in SE, you said that sales in 2Q exceeded your expectation and will not drop much in 4Q. Could you elaborate on this, including the market share?

A: We would like to refrain from the topic of market share because we are not in the position to do so by all means.

The production of smartphones in North America itself is picking up, and new models are ramping up smoothly. 4Q sales forecast has some unstable elements, but the current plan is based on the assumptions we had previously made.

Q: Regarding the quarterly volume of ball bearings, you mentioned that it will increase as it bottoms out. In which application do you expect to increase?

As of the data center, I think that there will be changes in cooling methods, but can you tell us whether you expect it to recover to the same level as before, and when do you expect it to exceed its peak?

A: Regarding data centers, while bearings for fan motors are recovering, there is no clear indication of a significant recovery in demand or customer production rates. The current perception is that the inventory adjustment that the entire supply chain had been holding is beginning to end and has most likely started to bottom out. However, it is still unclear in what direction it will go. Regarding liquid cooling, we recognize that the demand for bearings will not disappear and that not all servers will be liquid cooled. At this time, we do not believe that liquid cooling itself will become a threat to the overall cooling fan market. Although some areas will become liquid-cooled, we believe that business opportunities for bearings can be secured within the refrigerant cooling mechanism.

The current clear recovery for bearings is in the automotive sector. The recovery is expected to be driven by the recovery of production rates and content growth of automotive OEMs, and sales for automotive application is expected to reach record high.

Q: What is the current status of M&A related to connectors? As the semiconductor and AS businesses are expanding leveraging M&A, I think connectors need to take a similar initiative as the next step.

A: After the business integration, we are now in a situation where we have created an organization to work together on sales activities and such after dividing roles among HONDA TSUSHIN KOGYO, Minebea Connect (formerly SUMIKO TEC), and MITSUMI. It will take some more time to see the effects, but we are working with great enthusiasm. We will introduce you if any changes occur.

MITSUMI's connector business is now fully profitable after being red for some time, and double-digit profits can be expected.