Q&A
Investor Conference Call for 1Q FY 3/2022
MinebeaMitsumi Inc.

Date & Time: Wednesday, August 4, 2021 17:30- JST
Speaker: Mr. Yoshihisa Kainuma, Representative Director, CEO & COO
Mr. Katsuhiko Yoshida, Director, Senior Managing Executive Officer

* Some parts have been added and modified for a clearer understanding.

Q: You announced an increase in ball bearing capacity. Do you feel that there will be some kind of change in the demand trend next year or thereafter? Three months ago, I believe the possibility of a reactionary decline in the second half came up in discussions, but some have noted that currently it appears that demand may be unexpectedly strong in the second half as well.

A: As a technical trend, the number of miniature and small-sized ball bearings is increasing structurally due to electrification of vehicles and increasing electrification. In fact, demand is currently up significantly.
We have previously explained that bearings will grow at a CAGR of around 8%, and this capital investment will be implemented in line with that. As a front runner in the industry, we understand that it is important to constantly move forward while thoroughly maintaining our supply capacity.

Q: Has the outlook for ball bearings in the second half improved?

A: We haven't done a close review, but there's a definite tug on the line.

Q: First half operating income forecast is up 2.0 billion yen in the Mitsumi business. What is the breakdown for that? Also, is the revised plan conservative?

A: The biggest factor in the upward revision in the first half was semiconductors. Optical devices and others are also up. The figures for the second quarter were revised based on the most recent information available, so we recognize that there is not a significant buffer there.

Q: At the presentation in May, the plan for camera actuators was to double sales this year compared to the previous year. As of now, is there any change in the outlook? Can you break down the explanation by customer, if possible?

A: The first half outlook for our major customers is better than anticipated, and production is being upped steadily. Aside from our major customers, we expect a slight downswing in sales for high-end Chinese smartphones. Putting these together, there is no change in the outlook for the first half or the full year.

There is also no change in our policy of going after business opportunities with non-major customers in the second half.

Q: The first half has been revised upward, but the second half has not. Is there a possibility that sales and profits could be stronger in the second half than in the first? Or are there some risks to consider in the second half?

A: At this time, it looks like sales and profits will be stronger in the second half.

There are reports that some automobile manufacturers will increase production starting in September, so overall, the recovery will be delayed. Particularly in the fourth quarter, as various delays are resolved, we feel that sales will be stronger than the normal seasonality.

For example, first quarter machined component sales came to 44.1 billion yen, and second quarter sales came to 46.9 billion yen. The second half forecasts have not been revised, so they remain 42.0 billion yen in the third quarter and 42.0 billion yen in the fourth quarter. However, based on the current trend in demand, it's difficult to envision third quarter sales falling below second quarter sales. On the contrary, we recognize that the recovery initially anticipated in the second quarter has been pushed back to the third or fourth quarter. The same goes for motors, and we believe the overall trend is the same.

We hope to provide accurate forecasts in November after determining the situation.

Q: Can you tell us about the special factors in the first quarter and their amounts?

A: On the plus side, we had just above 1.0 billion yen in revenue from recovery of costs from past fiscal years in electronic devices. On the minus side, there was around 0.4 billion yen in expenses in the U-Shin business due to increasing reserves in conjunction with combining retirement benefit plans. All together, the special factors came to just under 1.0 billion yen.

Q: Can you tell us about the background behind landing the large-scale door handle project in the U-Shin business as the first vendor and the reasons?

A: I can't get into specifics, but it should be seen as in line with our basic policy of withdrawing from lower priced products and focusing on high value-added products.

As for the reason the customer chose U-Shin, our understanding is that they recognized the diverse track record of MinebeaMitsumi, including in quality improvements related to automobiles, and our global supply system that includes Asia.

Q: In regard to the 100.0 billion yen over 10 years, is that the amount for your business?

A: If a second company makes an entry during that time, it could decrease, but that is what we anticipate at this time.

Q: Second quarter sales and income plans in the Mitsumi business seem weak. Can you tell us about the background behind that?

A: From the first quarter to the second quarter, we expect net sales increase of 25.5 billion yen and operating income increase of 3.4 billion yen in the Mitsumi business. Of that, we expect semiconductors to remain at a high level of profitability. Beginning in the second quarter, we expect the launch of new models to produce a substantial increase in income from optical devices. The figures for mechanical components are conservative.

Q: Were you conservative with the figures for mechanical components due to the semiconductor shortage?

A: I'm afraid that we're not in a position to comment on that.

Q: Can you tell us the reason why operating income will increase substantially from the first quarter to the second quarter in the U-Shin business?

A: There was a bit of a struggle in the first quarter with automotive products transferred from Mitsumi business to the U-Shin business this year, but we expect improvements in the second quarter.

Q: What is the background behind the anticipated improvements in automotive products in the second quarter?

A: The U-Shin business, including automotive products transferred from the Mitsumi business, is positioned as Tier 1. Customer production adjustments will impact the U-Shin business, but this is different from our other businesses. I can't provide details, but some customers have already come up with recovery plans, so we believe this will lead to a substantial improvement in revenue.

Q: In the first quarter, profitability of machined components was higher than the pre-COVID-19 level in FY3/20. Can you tell us what the factors were behind this improvement, such as the cost structure? Also, is there still room for further improvement in profitability?

A: We haven't disclosed separate profitability numbers for miniature/small-sized bearings, but once the volume bounces back, they will be very high. On the other hand, profitability of aircraft-related products is not that high. For that reason, when aircraft production bounces back, looking only at profitability, it will be a factor putting downward pressure on profitability. Currently, we are focusing our bearing-related investments where costs are lowest, so profitability should go even higher. One way is to enter new countries, purchase land, and train local employees from scratch, but right now we are investing in a multi-purpose plant in Bang Pa-in and focusing on places where there are existing buildings. For that reason, profitability is high, and I believe it will remain so. However, rather than focusing only on that, keep in mind that even if aircraft production bounces back putting downward pressure on profitability, machined components profitability as a whole will remain very high.

Q: In regard to the U-Shin business, can you tell us about progress on structural reform in the European region and your thoughts on the target of achieving operating income of 10.0 billion yen in the next fiscal year?

A: We believe that when the semiconductor shortage is resolved and European business customers are able to build them in, the actual value will be around 7.0 billion yen. We will then reach 10.0 billion yen by reducing personnel by 300 and eliminating low-priced products. At this time, structural reform is progressing as planned.

Q: Motor profits in the first quarter were on the same level as the previous quarter. When considering that sales are up relatively, does that mean that raw material prices had an impact? Also, in that case, how will you respond in the second quarter and beyond?

A: Our motors are small-sized, so it is assumed that the impact of raw material prices is smaller compared to other companies. In the first quarter, however, there was a proportionate impact primarily from copper. For the year, our costs will be up several billion yen. In response, we have come up with multifaceted measures such as increasing the utilization rate and adjusting prices with customers. We expect the effects to manifest in the third and fourth quarters.