

Q&A (Summary)
Investor Meeting Presentation for 2Q FY 3/2022
MinebeaMitsumi Inc.

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* There may be difference between this summary and simultaneous English interpretation.

Q: The income forecasts for the third and fourth quarters in the machined components business segment are not very different from the second quarter. Considering the impact of COVID-19 on the plant in Thailand in the second quarter and the fact that production of ball bearings will increase, won't these numbers be a little higher?

A: As you noted, we will ramp things up in the third and fourth quarters in terms of production volume. At the same time, however, the current trend in automobile production remains very uncertain, so we have been a little conservative when it comes to operating income. The forecasts are 12.0 billion yen and 12.2 billion yen for the third and fourth quarters, respectively.

Q: What do you see happening with income in the U-Shin business in the second half?

A: In some ways, it depends on the production situation at automobile manufacturer customers. It's difficult to explain individual circumstances, but we have been told by automobile manufacturers that their policy is to work on recovery production in the third and fourth quarters—the fourth quarter in particular—so our assumptions are based on that.

Q: Can you tell us about the picture for next year and beyond as seen on slides 23 and 24? First, I'm sure that motors will be the growth driver, but how do you plan to improve profitability next year and beyond to achieve the target operating margin of 10%? Also, please tell us about the background behind the explanation that optical device sales will be 1.3 times higher next year.

A: We hope to bring the operating margin up to 10% for motors, but this year there were various problems, including the sharp rise in the price of materials such as copper wire and electrical steel, shipment restrictions arising from distribution issues, and the semiconductor shortage. Once those kinds of structural problems are resolved, we will be able to raise the level of our profits, but first, we need to build a certain status by supplying more motors to the market. I can't go into specifics about optical devices, but we expect sales to continue to increase next year. We have also been providing various customers with proposals, and we're getting some tugs on the line.

Q: Is it correct to say that there is some kind of positive factor impacting optical devices and that it's not just that the results next year will be double the second half of this year?

A: I will say that we can see the numbers for next year to an extent. In addition to increased volumes among existing customers, we expect to gain new customers in the medium to long term.

Q: You have expressed your commitment to reducing CO₂ emissions with specific numbers. What kind of impact will this have in terms of competitiveness in the marketplace or changes in your business?

A: Although it's still in the future, there will come a time when everyone has to take a serious approach to environmental issues, including carbon neutrality and Beyond Zero. The national government has made its own commitment, and there is a remarkable trend among investors to invest in such companies.

I also believe that customers will begin looking for environmental performance. It would otherwise be difficult to strive for zero carbon emissions, and I think people will eventually stop buying things just because they are less expensive. If we take the lead now, that combined with our supply capabilities will lead to the conclusion among our customers that they can only use our bearings. That is our strategy.

When I first introduced QCDESS in May, I believe I said that it would be central to our strategy. As a parts manufacturer, we will work diligently on QCDESS going forward and will be recognized by our customers for those efforts. Moreover, achieving higher sales and profits will allow us to change over to equipment that reduces our power consumption even further. We hope to create a virtuous cycle like that.

I don't think customers fully understand yet that our bearings can improve the energy efficiency of their products. As soon as we verify the mass productivity of these precision-improved bearings or super bearings, we hope to prepare sales talks and materials that highlight them.

Q: Can you tell us about the ball bearing production and sales volumes and the forecasts?

Also, have there been any changes in non-automotive applications compared to what you expected in August?

A: Production from July to September was 312, 296, and 295 million units, respectively. From October to December, it will be 298, 330, and 324 million units, and from January to March, it will be 324, 295, and 336 million units. External sales volumes from July to next March are 245, 237, 240, 232, 241, 248, 251, 234, and 250 million units, respectively. Internal sales volumes for the same period are 69, 64, 65, 67, 71, 68, 66, 61, and 68 million units, respectively.

By application, in qualitative terms, the external sales volume is slightly lower than we expected in August, and this is due primarily to the slowdown in automotive applications. We are slightly

conservative in our expectations for the third quarter and thereafter in light of the semiconductor shortage, which is affecting non-automotive applications as well.

Q: Can you give us a breakdown by product of the changes that have occurred in the Mitsumi business since August in terms of results and forecasts? Also, what was the amount of sales of parts supplied for a fee?

A: Parts supplied for a fee came to 22.4 billion yen in the second quarter. In the third and fourth quarters, we expect the amounts to be 14.9 billion yen and 9.1 billion yen, respectively. Net sales increased from 76.7 billion yen in the first quarter to 111.0 billion yen in the second quarter. Optical devices showed the highest growth, coming to more than 40.0 billion yen in the second quarter. Semiconductors and mechanical components are also growing steadily. Confusion in the supply chains of some of our customers has led to some delays in smartphone-related products, but we expect those problems to be resolved in the third and fourth quarters. The situation remains very favorable for semiconductors. Although there has been a slowdown at some Chinese smartphone customers, orders have been solid in other domains. We expect semiconductors to show very strong profits and a solid performance from optical devices as well.

Q: What will camera actuator performance look like in the third and fourth quarters compared to the second?

A: We anticipate that sales will increase further in the third quarter. There will be some seasonal deceleration in the fourth quarter, but we expect it to be less than usual.

Q: In regard to risk, if there were to be a cyclical peak in the market overall, how would that impact your business results? Considering that bearing inventories are low, I think the impact might not be significant. Is that correct?

A: Basically, we are pursuing growth in various fields. If everything were to crash like it did during the 2008 financial crisis, that would be different, but looking at our track record, I think in general, when something deteriorates, something else gets better. Consider the reason for such a peak. For example, if it were COVID-19, the aviation industry and related industries would become active once things settled down. In this way, when something gets pushed downward, something else gets a boost, so we are not that concerned.

On the other hand, when it comes to automobiles, the number of various electronic components such as motors used in each vehicle is increasing due to electrification. In addition, if the environmental response I mentioned earlier becomes top priority, precision parts manufacturers like us will surely grow in esteem.

We have been putting together such a portfolio, starting small and working our way up little by

little, making that precision the core of our competitiveness. For that reason, as we go from small to big rather than big to small, it's no exaggeration to say that even if something peaks, we will always be able to stay at the forefront with our competitiveness in terms of environmental performance.

Q: The explanation on the Shiga Plant acquired from Omron was that it will begin contributing next year. Can you tell us how it will contribute to your business results?

A: We will actively work on various measures. Analog semiconductors are difficult in that you have to make minor adjustments one at a time from the first process to the end of the front-end processes, but on the other hand, that is where our competitiveness lies, and it will not be easy for a competitor to replace us.

As for what we will do at the Shiga Plant, we worked everything out on the desk before the acquisition. We didn't start looking for something to do after the acquisition was decided. We already had an idea what we wanted to do, and that is why we wanted Omron's plant. It won't all happen at once, but we will gradually get things going.

Also, Omron had previously been more aggressive in the MEMS business. We think we can revive those efforts quickly and are currently working on that.

Based on these current activities, I believe that the Shiga Plant will begin to contribute to profits to an extent in the latter half of the next fiscal year.

Q: Sales have dropped significantly in the U-Shin business due to decreased automobile production. Meanwhile, profits held steady in the second quarter, and a return to profitability is expected in the second half. Is this simply from a recovery in production at your major customers, or have your structural reform efforts had an effect in terms of costs?

A: I'd say it's both. We are, of course, implementing various cost reduction measures, but with orders falling 20 to 30%, some things are unavoidable. If semiconductors bounce back and the necessary number is supplied, automobile production will pick up, and our production will as well, so the key will be making sure that we can increase our profits when that happens.

Q: Earlier you said that you were thinking about M&A in the semiconductor field. Can you tell us specifically what kinds of M&A you are considering? Are you thinking about buying other plants like Omron's or are you thinking about a new entry into the semiconductor field?

A: I can't go into details, but we are considering M&A to further strengthen our current analog semiconductor business. There is no need to just buy a plant. We will acquire businesses that will keep going. With the Omron plant, we took over the plant, its manufacturing engineers, and some MEMS development engineers, but there was no sales function. The focus of our M&A will be on technical capabilities and, if possible, the related production capabilities to allow for future

growth.

What I would like to say is that strengthening semiconductors will enhance the structure of the Mitsumi business. Ball bearings were the backbone of the former Minebea. It was because of ball bearings that we were able to take on various challenges and engage in various acquisitions. Ultimately, we were able to do many things thanks to ball bearings.

In the same way, to put top priority on a product that will not go away easily, is not volatile and, as mentioned earlier, tackles social challenges head on, for Mitsumi, that would be analog semiconductors. My point is that we take this seriously.

Q: How much do you expect sales of optical devices, mechanical components, and analog semiconductors to increase this year compared to last in the Mitsumi business?

A: We expect optical device sales to almost double compared to last year. Our forecast for mechanical components is in line with customer sales forecasts, but ours is a little more conservative. We expect analog semiconductor growth to be at least in the double digits.

Q: If optical devices go from the upper 130 billion yen range this year to 140 billion yen, that would be a fairly significant growth in sales next year. Does this include a fairly high level of confidence in sales to major customers? Or will the number of new customers increase?

A: I can't give details due to our duty of confidentiality toward our customers, but I can say that there is a basis for the numbers.

Q: What is your analysis of the competitive environment with analog semiconductor manufacturers in China? China has made it a national policy to strengthen analog semiconductor production, and their presence is rapidly increasing in automotive and consumer applications.

A: Right now, there is no competition from Chinese manufacturers. This is because our quality is on a different level. Chinese manufacturers are also manufacturing an enormous amount of bearings, but the quality doesn't compare to ours. That is why we keep getting orders and are increasing production. The same goes for analog semiconductors. At this time we feel no threat from China.