

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

Date & Time: Friday, February 4, 2022 17:30- JST

Speaker: Mr. Yoshihisa Kainuma, Representative Director, CEO & COO
Mr. Katsuhiko Yoshida, Director, Senior Managing Executive Officer

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

Q: What were the factors behind the upturn both in third quarter results and in the fourth quarter forecast for Mitsumi operating income? In particular, how have analog semiconductors, optical devices, and mechanical components changed from the previous estimates?

A: First, there was a happy mistake in the calculation for analog semiconductors. Currently, we are receiving large quantities of urgent trial manufacturing projects from various quarters at the Shiga Plant, so the operating loss is shrinking. At the same time, the operating margin for other Mitsumi/ABLIC semiconductors is on the rise. For that reason, revenue for the second half is up from the previous forecast.

Overall, around half of the amount of the upturn for Mitsumi in the third and fourth quarters is from optical devices, and the other half is from mechanical components and semiconductors.

Q: Can you break down the factors behind the improved operating income for electronic devices and U-Shin in the fourth quarter?

A: Electronic devices were impacted by the recent rise in various raw material prices. We have revised selling prices accordingly, so we expect to see improvement in the fourth quarter after the time lag. Additionally, we did not reach the expected level for automotive applications in the third quarter due to the semiconductor shortage, but that can be expected to improve to a degree in the fourth quarter. Our electronic devices for automobiles are relatively high-margin products, so we also expect an improvement in the sales mix.

U-Shin performance was sluggish in the third quarter due to the impact of decreased production by major customers, but we expect a recovery in the fourth quarter, particularly in Europe. We anticipate net sales to stay almost flat, but the percentage of high-profit products will increase, so we expect overall profitability to improve for U-Shin.

Q: As for U-Shin returning to profitability, is it visible to an extent in the fourth quarter?

A: March quarter will be down from the forecast as of last October, but improvements are still being made, so if sales bounce back when customer production recovers, we'll see an improvement in

profitability.

Q: In regard to solutions to social issues on Slide 16, I assume you should increase return on the invested capital as well. I guess the way you generate profits in the systems field is a little different from conventional manufacturing. What would you say in that regard?

A: As you point out, for example with infrastructure, it takes time, and there's no denying that there are price and budget issues even if you have the volume. However, what you see on the slide is only a small portion of the whole, so there are many other initiatives as well. To be sure, there is an aspect of you don't know if things are going to take off until you try. The most important thing is that we steadily put out parts for edge devices that can solve social issues. There is a risk in single-mindedness, so rather than staking everything on a single product, we hope to be able to respond no matter which product ends up growing. That has been a consistent strategy of ours, and we hope to apply it here, too.

Q: So it's not necessarily just systems but device sales, too.

A: Both are good. If we find something that sells well in systems, we'll go for it, and if we can find a customer and let go by selling it to them, that is good, too.

Q: How much of an upturn do you expect this year in camera actuators compared to the previous forecast from last November? Also, it says that next year you expect a further increase of 30% in sales. Can you break that down by customer?

A: We're engaged in various activities with smartphones in Greater China even as high-end models struggle. As of today, I'm afraid it would be a bit too early to go into detail.

Overall, net sales have gone up significantly for optical devices, and for the full year, we expect them to be up more than 10.0 billion yen from the previous forecast. Next year, based on that upturn, we expect net sales to be up at least 30%.

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

A: Production from October to December was 298, 319, and 294 million units, respectively. From January to March, it will be 320, 272, and 336 million units. External sales volumes from October to March are 232, 236, 229, 229, 228, and 244 million units, respectively. Internal sales volumes from October to March are 67, 67, 67, 59, 60, and 62 million units, respectively.

Q: How have the main applications of ball bearings changed compared to the forecast from last November?

A: For automobiles, we saw slowdown along with the market in the third quarter, but expect slight recovery in the fourth quarter. For home appliances and OA equipment, we saw minor recovery

in the third quarter, but expect a slight decrease in the fourth quarter due to the semiconductor shortage.

Q: As for Mitsumi business, games, camera actuators, and analog semiconductors have continued to improve and expand since the business integration in 2017. How will the business grow going forward? Will camera actuators and analog semiconductors continue to be the driving force next year and beyond? Also, how do you expect the MEMS technology at the Shiga Plant to contribute in the medium term?

A: We have been talking about Eight Spears for the future of the three businesses you mentioned. Out of these eight, Mitsumi has connectors/switches, power supplies, and IoT-related. The basic growth scenario involves applying the existing strategy to each field. The engineers at Mitsumi are also working on things that are not among the Eight Spears. For example, there are many applications in products that solve social issues, and it also includes the wireless component of SADIOT LOCKs. Although we don't know what is going to grow at this time, we're not being selective. The next growth driver will come from there. We also have some "stealth products" we are developing with customers. MEMS is an important product that must be grown. At this time, there are some limitations with human resources, but we will provide reinforcements and grow the product.

Q: Can you tell us about the factors behind the increase in inventory compared to three month ago and the management of cash flow for the next fiscal year?

A: The main factor behind the increase in inventory was an increase in raw material inventory. The production plans of our customers, including those related to automobiles, have changed significantly since the second quarter, and we had to secure the raw materials for those plans. As a result, our inventory has increased a little. We plan to lower our inventory levels significantly in the fourth quarter onwards as we expect various issues, including the semiconductor shortage, to work themselves out.

However, we have not been able to secure adequate inventory for analog semiconductors and bearings. In particular, bearing inventory has just barely increased in this third quarter. As for cash flow, we hope to optimize it by bringing inventory to healthy levels, including normalization of raw material inventory and securing of safe inventory.

Q: Isn't there any change in the policy of increasing capacity and maintaining a high operating rate even if ball bearing shipments drop?

A: No. As you are aware, bearing inventory is currently very low. We had planned to create inventory by increasing production ahead of time, but due to the slight decrease in operations and difficulty in procuring parts for new equipment in Southeast Asia caused by COVID-19,

unfortunately, we were unable to build sufficient inventory levels. Those problems have currently been resolved, so we will be able to continue full production, including installing new equipment.

Q: Analog semiconductors are in short supply worldwide. How is your order backlog?

A: At this point in time, we will need to maintain full-capacity operation next fiscal year as well.

Q: In that case, you may need to further increase capital investment. Do you have plans to do so?

A: Yes. We hope to increase our capacity while taking advantage of government subsidies as well. I believe we have to prepare for expansion to keep growing even after achieving net sales of 100 billion yen.