

Q&A (Summary)
Investor Meeting for 1Q of FY 3/2023
MinebeaMitsumi Inc.

Date & Time: Friday, August 5, 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: You expect the financial performance of the electronic devices and components business to significantly bounce back in the second half, but how big of a recovery and increase in prices do you foresee for motor sales?

A: Operating income for electronic devices and components was 0.2 billion yen in the first quarter, and is projected to be 4.3 billion yen in the second quarter, 8.0 billion yen in the third quarter, and 7.5 billion yen in the fourth quarter. In the first quarter, sales and profit for backlights dropped largely due to declining production of smartphone models with LCD screens. Our motor business was affected by the Shanghai plant's reduced operations as well as production cutbacks by customers due to the Shanghai lockdown. Our targets for the rest of the fiscal year should be well within reach since we will be moving forward to pass on higher business costs, including material costs, to customers, and prices for some raw materials will be lower.

Q: Do you expect to achieve your overall targets for the second half given all the ups and downs, or does it look like you can reach them with the electronic devices and components business alone?

A: Although demand and sales currently remain high, it's not all that easy to make projections for the second half. Once the semiconductor shortage is resolved, it looks like we should be able to achieve our targets with electronic devices and components alone, given the exchange rates, selling prices, and downward trend in raw material prices.
Since there are always some ups and downs, as you pointed out, it's difficult to provide an outlook for each business, but I believe we are generally on track.

Q: When sales for the connector business hit 50 billion yen, what will be the breakdown of sales by application? Also, don't you think your operating margin target of 10% is on the conservative side?

A: Sales should exceed this target once automobile production gets back on track. We could aim for a higher operating margin, but in light of all the various uncertainties, we would rather keep the projection low for now and actually achieve a higher figure.
As long as everything goes well with PMI, the operating margin could go beyond 10%, but rather

than giving you a higher target figure here, I would rather report it as actual results when we look back in the future, as we did with MITSUMI and semiconductors. I want you to look at our track record and determine whether or not we are going to come out on top or not with an eye to the big picture of what's happening in the industry and the world as a whole instead of getting caught up in the minutiae of all the small alleys along the way.

Q: Regarding the PMI of the three connector companies, do you think it will be more like the PMI of the analog semiconductor business or MITSUMI?

A: Neither. If we can operate in our cost-conscious way, such as mass production in large factories, we should be able to generate a large profit.

Q: It seems like you are acquiring Honda Lock with an eye to expanding operations and increasing synergy by adding it to U-Shin rather than solving social issues. Since operations can depend on how your customers are doing, and the operating margin is likely to remain low, what's your plan? Can you talk about its positioning and significance?

A: First of all, as I explained earlier, it's a platinum ticket to doing business with Honda Motor.

Becoming Honda Motor's Tier1 supplier will open the door to new business opportunities.

For example, door latches are an integral part of cars and will be increasingly electrified. Honda Lock doesn't make latches, but U-Shin already has the technology to do it. Boosting the recognition of our technologies in this way will broaden the horizon of business opportunities. Cultivating channels is a necessary step to selling products, and I see it as part of my job. Now that we've paved the path, we need to reach out to customers.

Secondly, the motor, wireless, key set, and other technologies that have become standard in automobiles will be regular features in people's homes. For example, thermal efficiency is a big issue in housing today. Even when front doors or other doors are properly closed, there are gaps that allow heat to escape. You can apply automotive latch technology there to make them more airtight and increase thermal efficiency, enabling air conditioning and heating systems to work more effectively. This could be one solution to the issues society is currently facing. In this way, we can use our technologies to steadily provide solutions to emerging problems the world is facing, which I believe will enable us to grow by leaps and bounds in the future.

While solar power offers a solution to climate change, it's also important to improve energy efficiency as much as possible. That's the mission given to housing manufacturers, and it would be great if we could contribute.

Q: You project the MITSUMI business will see a decline in sales and an increase in profit this fiscal year. What kind of changes are you seeing for each product compared with three months ago?

A: Our sales forecast is a little conservative. We revised the operating income forecast slightly upward since the MITSUMI business isn't affected by the factors impacting the automobile industry or the Shanghai lockdown, which caused profits to decline in the first quarter, and also due to the strong interest we are currently seeing for MITSUMI products.

Looking at operations by product, we are experiencing a slowdown in semiconductor sales to the smartphone market as well as others, which is being offset by IGBTs and automotive power supplies, but overall our forecast is on the conservative side. We kept the forecast for mechanical components conservative. We expect sales of optical devices to remain firm since production has been moving along steadily and also due to foreign currency effects. There aren't any other major changes right now.

Q: Your operating margin target of 10% for access products seems too high in light of the past performance of U-Shin and Honda Lock. How are you going to boost profits?

A: If you just look at U-Shin, it may indeed seem difficult to achieve, but its access products will increasingly employ motors, antennas, analog semiconductors, sensors, and various other products. That means our other business divisions will be able to supply U-Shin their products, which was the whole purpose of the M&A deal to begin with. Without going into specifics, if you simply look at door handles being made today, you'll see that they are quite sophisticated as well as high priced and employ various products like those I just mentioned, giving many of our business divisions a foot in the market. On top of that, as I mentioned earlier, we can sell those products as a Tier1 supplier. You run the risk of underestimating our access product business if you don't take all these aspects into consideration.

If we only dealt in access products, we would come up short. It's our other operations that make this scenario possible. We know the direction in which CASE and other technologies are headed, so as long as we are headed to that same direction, we will be sure to succeed.

Q: Can you give us the actual as well as estimated monthly ball bearing sales volumes?

A: The figures, in millions of units, for April, May, and June were 192, 228, and 245 for external sales, 50, 53, and 56 for internal sales, with totals of 242, 281, 301 respectively. July, August, and September external sales will be 245, 251, and 276, with internal sales of 52, 47, 55, totaling 297, 298, and 331 respectively. Orders have been strong.

Q: What are the factors behind the upswing and downswing in the first quarter results versus the initial forecast?

A: The Shanghai lockdown took a toll on the ball bearing, motor, and sensing device businesses due to reduced operations at the Shanghai plant. Significant production cutbacks by our customers, especially automakers, also brought our sales and profit down.

If you look at the differences between segments, those that are more exposed to automotive-related risks were hit harder. U-Shin was affected the most, followed by the automotive motor business. Some bearing operations were also affected. The results for the MITSUMI business were higher than projected across all sub-segments. In electronic devices and components, sales of electronic devices fell below the initial forecast due to the significant decline in the production of smartphone models with LCD screens.

Q: How big were the foreign currency effects?

A: As I noted earlier, they brought operating income up by 2.4 billion yen quarter on quarter and by 4.7 billion yen year on year. The MITSUMI business was most affected, especially by the exchange rates between the dollar and the yen. We make semiconductors mostly in Japan and sell about 50% of them in dollars.

Q: If you take into account the negative factors from the Shanghai lockdown and the positive factors from currency fluctuations, would you say you had the capability to generate about the same amount of profit as initially projected?

A: It is not easy to determine how our business was impacted by rising business costs and the pass-through of these costs to prices, the lockdown, the Ukrainian issue, etc., but I believe that the Shanghai lockdown had the greatest impact on our operations. Although we made a gain on foreign exchange as I explained earlier, I don't think it was enough to make up for the decline in sales. We are just about on track when it comes to making up for the rising business costs and passing them on to our customers.

Q: You emphasized that you would gain North American locations and access to Honda Motor through the acquisition of Honda Lock. Do you expect it will generate other synergistic effects, such as gaining new underlying technologies or new sales channels?

A: Honda Lock has several products that U-Shin doesn't make, most notably door mirrors. It is expected that about 20% of cars will be equipped with e-mirrors by around 2030, so we will find technological synergy there and in many other areas as well. As I mentioned earlier, Honda Lock doesn't make latches, but U-Shin does, so they will complement each other.

Q: Can you tell us about the balance between the declining demand for MITSUMI's analog semiconductors in the smartphone market and the growing demand for IGBTs? Will it change the Shiga plant's product mix?

A: Despite recent significant production cutbacks of products for Chinese smartphones, we allocated production capacity to IGBTs, automotive products, power supplies, medical products, and other strong areas to keep production going full swing, and we should be able to run our plants at full

capacity for a while. We are on track with our sales target of over 80 billion yen for the semiconductor business.

We are making steady progress on getting the Shiga plant's operations up and running. Due to the nature of analog semiconductors that are designed to be combined with other products, we won't be able to start production at full capacity right away, but this characteristic of analog semiconductors makes them hard to replace and prevents newcomers from entering the market. We are looking forward to starting the plant up between the second half of this fiscal year and next fiscal year.

Q: Please tell us about the progress you've made in the first quarter on the pass-through of rising raw material costs, as well as how you think it will affect your bottom line in the second quarter and beyond.

A: Looking back, we first saw the price of copper rise last year followed by rising prices for steel, plastic resins, and other raw materials. In order to deal with the situation, we began negotiating with customers on passing the rising costs onto them, but ended up falling behind. We are now making adjustments, so it's as if the cost adjustments are being carried over. While the cost pass-through will eventually generate a gain, I believe that we've made up for the overall cost increase for now since the material prices didn't rise as much as we had expected at the beginning of the fiscal year, with some prices beginning to fall.

Since cost adjustments will be carried over again in the second quarter and onward, that may even boost profits somewhat, but we will lower prices again at some time in the future as I explained previously when I referred to this as a surcharge system. However, we expect that automobile production will be back to normal by then and that our plant operations will also be back on track. Based on this assumption, we should see better profitability or a boost to our bottom line.

Q: How would you rate HONDA TSUSHIN KOGYO and SUMIKO TEC as connector business partners?

A: HONDA TSUSHIN KOGYO, to begin with, is very technologically advanced and makes products that can add value, but its main focus is on domestic production and sales, not overseas, due to the size of the company.

SUMIKO TEC is similar in terms of its production infrastructure, doing business that is profitable within that framework, and its strength lies in domestic manufacturing. The merger with MinebeaMitsumi will enable them to make products overseas at a lower cost and help boost their profitability. HONDA TSUSHIN KOGYO, SUMIKO TEC, and our connector business can work together to share technologies and supply products, as we create synergy.

Q: SUMIKO TEC specializes in insert molding, right?

A: Yes, it's one of the technologies the company possesses. I heard that they get various requests for special connectors. SUMIKO TEC has the ability to design and make samples, but can't mass produce them in Japan due to its production capacity. Those connectors can be mass produced at a low cost in one of our large-scale plants. Even though SUMIKO TEC is able to quickly make samples that meet customers' requirements, it has been unable to mass produce them and has customarily outsourced manufacturing to another company it provides with drawings. Soon it will be able to do everything in house.

Its customer base includes a lot of automobile companies, and telecommunications companies as well. While we make simple-shaped connectors, SUMIKO TEC specializes in connectors with complex shapes that don't even look like connectors. The key is to make their products more competitive than other companies' products by adding our mass production technology.