

Q&A (Summary)
Investor Meeting for 2Q of FY 3/2023
MinebeaMitsumi Inc.

Date & Time: Wednesday, November 2, 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 was the impact of exchange contracts in the second quarter? Also, as you work towards achievement of the second half targets, what do you expect the exchange rates to be?

A: We have secured dollar-yen and dollar-baht exchange contracts. Our initial assumptions for the exchange rates were 115.00 yen to the dollar and 33.05 baht's to the dollar, whereas the actual exchange rates in the second quarter were 135.32 yen to the dollar and 35.70 baths to the dollar. The impact of the exchange rate on second quarter operating income was an estimated plus 8.4 billion yen, while the impact of exchange contracts was an estimated minus 3.0 billion yen. As a result, operating income is estimated at 29.4 billion yen when the impact of exchange contracts is disregarded.

The dollar-yen exchange contracts had an impact on some semiconductor results and aircraft components, but the overall impact was limited due to strong revenue in each business. Dollar-baht exchange contracts had an impact on the motor business as most production is in Thailand. As shown on slide 9, the impact of exchange contracts on operating income from motors was minus 1.8 billion yen. Operating income is estimated at 5.1 billion yen when the impact of exchange contracts is disregarded.

We assume the exchange rate in the second half will be 140 yen to the dollar. We do expect an effect from the weaker yen in other businesses besides motors, but we are leaving the forecast for operating income as-is at 102.0 billion yen, excluding the gain on the sale of Tokyo Headquarters, taking into account some fields such as bearings for automobiles that have not grown as much as anticipated. By segment, we have revised the forecast for electronic components downward and the forecast for the favorably performing MITSUMI business upward.

Q: Will the impact of exchange contracts continue in the second half?

A: We have entered into exchange contracts for the second half as well, so the figures in the financial forecast reflect the impact of these contracts.

Q: On slide 26, it appears that orders received and the order backlog for semiconductors have declined quite a bit. What are your assumptions going into the next fiscal year?

A: The market growth rate for analog semiconductors were upwardly revised and we believe that growth areas such as IGBT will be our drivers. In addition, the Shiga Plant's operations will fully commence in the next fiscal year, so please also understand that the shipment volume will increase.

Q: Can you provide information on any specific results or product lines that might lead to sales and profits with the involvement of software engineers from HONDA TSUSHIN KOGYO now that the business has been integrated?

A: For example, when it comes to automotive parts, we will be able to handle ECU units and other products that we could not handle in-house before. This will allow us to increase our presence with automobile manufacturers, and that will become a growth driver.

Q: Your forecast is for increased sales and income in the MITSUMI business in the second half, but can you provide the current situation and second half outlook for the four main products of camera actuators, games, analog semiconductors, and connectors? Also, what impact will the newly integrated HONDA TSUSHIN KOGYO and Minebea Connect (former SUMIKO TEC) have on this year's results?

A: In the MITSUMI business, we are expecting sales to be 168.0 billion yen for the third quarter, 117.8 billion yen for the fourth quarter, 285.8 billion yen for the second half, and 510.0 billion yen for the full year. As for operating income, we expect 17.0 billion yen for the third quarter, 10.2 billion yen for the fourth quarter, 27.2 billion yen for the second half, and 52.0 billion yen for the full year.

As for camera actuators, this year's peak production will be in the third quarter, which we believe will drive performance. As for games, customer sales are strong, so we expect our production to remain strong as well. Analog semiconductors continue to perform well, but our forecasts are conservative.

In the connector business, we made HONDA TSUSHIN KOGYO a consolidated subsidiary on September 16, and it is included in the results as of the second quarter. In the second half, we expect HONDA TSUSHIN KOGYO to contribute just under 1.0 billion yen to operating income based on its published figures. At this time, Minebea Connect is not included in the financial forecasts. We will carefully review the figures for inclusion.

Q: Is my understanding correct that the decrease in sales and income in the MITSUMI business from the third to the fourth quarter is mostly due to camera actuator seasonality?

A: Camera actuators and games are the two factors.

Q: Out of the operating income forecasts by segment, only the one for electronic components was revised downward. Is the main factor behind this the slump in HDD motors? What are your assumptions for LED backlights?

A: Motor sales have been revised downward from the initial forecast of around 300.0 billion yen to 275.5 billion yen. The lockdown in Shanghai had an impact on some motors in April, but most recently, the plant has returned to full operations, so we do not have significant concerns about motors other than those for HDDs. As for HDD motors, there are some differences in levels of sales and production at our major customers, so we expect inventory adjustments and other factors to have a somewhat bigger impact this fiscal year than usual. What is behind the sharp decline in the HDD market is the so-called “legacy” domain, which includes PCs. We expect overall growth in the mass capacity field, which includes our main market of data centers, despite some declines in China and other countries. Once inventory adjustments have been completed, we do not believe there will be any significant problems in the next fiscal year and beyond. As for backlights, production for North America is currently a little sluggish. We have secured plenty of business opportunities for smartphone-related LED backlights for the next fiscal year and beyond. As for in-vehicle products, LCDs are being re-evaluated in contrast to OLEDs in cluster panels and other applications, so we believe we can expect growth in the next fiscal year. However, we are conservative in our forecasts.

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

A: The figures, in millions of units, for July, August, and September were 245, 244, and 264 for external sales, and 52, 47, and 47 for internal sales. Again in millions of units, for October, November, and December, we are forecasting 239, 249, and 255 for external sales, down slightly compared to the second quarter. The numbers for internal sales will be 38, 41, and 37. When it comes to internal sales, we are expecting a deceleration in HDD pivot assemblies. Also, in regard to in-vehicle products and data centers, rather than a decrease, we just expect growth to be lower than assumed. Appliances and others will remain at a lower level than usual, so on a quarterly basis, we see the sales volume being down slightly.

Q: What is your outlook concerning analog semiconductors from the second half going into the next fiscal year? Looking at slide 26, it seems as though there is a risk of falling below the current level. Is that the case? I do not believe there are any concerns over the medium-term direction, but I think the stock price may move with cyclical fluctuations. What is your opinion?

A: On the slide, you can see that after bottoming out, the rebound will come fast.

We have received sufficient orders, and based on the trends, we do not expect a decline. We see the situation being satisfactory this fiscal year. Moreover, the equipment will be installed at the Shiga Plant for IGBT production to begin, and orders will be coming in, so we believe we will see growth in the next fiscal year.

Q: What about motors? There will probably be a considerable decline in HDD motors, but since you are maintaining a certain sales volume, I am thinking that there must be an increase somewhere else. Have there been any changes in your assumptions concerning the launch of new projects, primarily for automobiles, which are driving that?

A: Our assumptions have not changed. Automobile motor operations are starting up steadily. Even for HDDs, the decrease is in low-end components, so the impact on income is limited. I think there has been a reaction to the semiconductor shortage and the buildup of BCP inventory for supply chain disruptions, so adjustments will likely continue through the end of the year, but we believe that high-end HDDs will gradually recover starting in the next fiscal year.

Q: Does slide 26 show orders received in the MinebeaMitsumi semiconductor business or orders received in the industry as a whole? Also, as orders decline, what is your outlook for pricing and operating rates?

A: Slide 26 shows the results for ABLIC. The situation up to now has been one of ups and downs in the volume of orders. Looking at this, it may seem like we are in a low period, but with this slide, we are showing that, given this cycle, there is no need to worry about analog semiconductors. As for pricing, we are focused on the niche market of semiconductors, so the average unit price has remained high. With battery protection ICs, there are some commodity-like products, but we have maintained a very high share of the market, so we can keep our prices where they are. Although some capacity has been reduced for maintenance purposes, demand for IGBTs and other products is extremely strong, so we are generally maintaining high operating rates.

Q: In regard to machined components, you explained that internal sales of bearings will be slightly down from the second quarter going into the second half. What are the factors, then, behind the increase in operating income in the second half? Is it from maintaining the operating rates, the impact of the exchange rate, the recovery in aircraft components, or something else?

A: When it comes to the operating rate for bearings, we assume that basically full operations will be maintained. Although there is a sense of uncertainty about the external environment in the next fiscal year and beyond, we believe it is appropriate to strategically build up inventory in preparation for future increases in demand, such as content growth arising from automobile model changes.

As for exchange rates, we expect to benefit from them because exchange contracts do not have the same impact as they do on motors.

We also expect aircraft components to benefit from exchange rates, but we have also received a great deal of inquiries. Production rates are picking up, especially among European aircraft manufacturers, so we expect a recovery in both bearings and rod ends for aircraft.

Based on these factors, we believe that we will be able to achieve full-year operating income of 51 billion yen.