

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

Date & Time: Friday, February 3, 2023 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: Please help me understand the one-off gains and structural reform costs included in the fourth quarter forecast. How much is included in what segments?

A: On the positive side, in addition to negative goodwill, there was a gain on the sale of the Tokyo Headquarters building, which together amounted to around 35 billion yen. We anticipate about 20 billion yen in structural reform costs, about 80% of which will be for impairment of production equipment and other assets. The remainder will be for withdrawal from the business in Russia and environmental measures in the United States.

Q: In the fourth quarter forecast, how much of sales and profit does Minebea AccessSolutions (formerly Honda Lock) account for? Also, is it correct to say that in the next fiscal year you expect sales of 100 billion yen and an operating margin of about 5% at Minebea AccessSolutions?

A: We made it a consolidated subsidiary on January 27, so for the two months of February and March, we are anticipating sales of 22 billion yen and operating income of 2 billion yen. In the next fiscal year, as Mr. Kainuma explained, we will create various kinds of synergy, so we believe that an operating margin of around 5% is somewhat conservative.

Q: How do you think the semiconductor supply situation and the ball bearing business will recover in the future?

A: There is still a shortage of semiconductors, and that is holding back our customers' production. I have heard that our customers are making design changes so that they will be able to use different semiconductors, but I think there is credence to the suggestion that it will be around July or August before the results of those efforts become apparent. As such, conservatively, I believe that things will start returning to normal little by little in the first half of the next fiscal year, and then be fully back to normal in the second half around October or September. There are two reasons for the ball bearing business falling short of expectations. One is that although there is quite a volume for automobiles, we had anticipated more growth. Automobile production has not bounced back, so the growth we had expected from that did not materialize. Sales actually have remained almost flat, and there have been significantly fewer orders than the

number of preliminary orders. I think it is safe to say that automobile production will bounce back as soon as the semiconductor supply returns to normal, so the timing of recovery of bearings for automobiles will probably be around September or October, the same as for semiconductors. The other reason is that the absolute number of ball bearings for data centers dropped significantly. This is due in part to the economic downturn in China on top of adjustments like the GAFA workforce reductions. The same goes for HDDs, but in part because many of the customers are foreign companies, production adjustments were drastic. However, my understanding is that customer production adjustments have been completed, so now it depends on how much inventory there is in the supply chain. Looking back, there was strong demand from our customers last May and June to create more BCP inventory. At the time, there was some concern about HDDs as well based on the semiconductor shortage, so I think the whole industry probably built up inventory. At this stage, it is hard to tell when this situation will be resolved. However, in January, we received an order of around 1.5 times that of December and have received unofficial orders that will gradually increase from there, so I feel that things will likely return to normal around May to July next year.

Also, digitalization itself is progressing when you look at medium-term trends, and with advances in automated driving, the volume of data will continue to increase, so I believe there is some latent demand.

Q: Please help me understand the forecast for operating income in each business next year.

A: The forecast for the machined components segment is 50 to 55 billion yen. We will not reach the initial forecast of 51 billion yen this year, but with aircraft components recovering, if ball bearings recover, this range would be easy to achieve. In the motor business, the operating margin for spindle motors dropped significantly this fiscal year due to the difficult situation with HDDs, and we even posted an operating loss in December, but if things recover, I think overall operating income for motors will exceed 20 billion yen. Conservatively, I believe analog semiconductors will bring in around 25 billion yen. On top of this, OIS and other optical devices and access products will help and the impact of forward exchange contracts will be eliminated, so I think it will be over 100 billion yen even after subtracting head office expenses.

Q: Can you tell us when you expect your main products such as ball bearings, motors, backlights, semiconductors, games, and OIS to hit bottom and when you expect them to recover?

A: We believe ball bearings bottomed out in the fourth quarter, hitting the lowest in January around the lunar New Year, and expect them to starting to bounce back in February. As for motors, our understanding is that motors for HDDs bottomed out in December and have been recovering quite rapidly since January. Meanwhile, sales of motors for automobiles have been steady, partly due to content growth, and motors for other applications have bottomed out in the fourth quarter. As for semiconductors, orders have bottomed out when you look at factors such as the BB ratio, so the

fourth quarter sales and profit will be the lowest. We are conservative in our fourth quarter forecast for backlights, OIS, and games due to the seasonality of their respective applications.

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

A: The results for October to December and the forecasts for January to March are as follows:

External sales volumes of 239, 228, 207, 195, 200, and 219 million units, respectively.

Internal sales volumes of 39, 39, 33, 35, 37, and 35 million units, respectively.

Production volumes of 304, 296, 264, and 240 million units, respectively for October to January.

The numbers for February and later are still under review.

In regard to production volumes, we are currently reviewing production levels to avoid excessive operations while maintaining optimal inventory levels to avoid air charges.

Q: Can you tell us about your strategy for sales and profit by quarter for MITSUMI's main products of optical devices, games, connectors, and semiconductors?

A: Both sales and profit were up from the second quarter to the third quarter for optical devices and games. There was a particularly significant upswing in games in the third quarter. Connectors were mostly on par with the market, but the consolidation of HONDA TSUSHIN KOGOYO and Minebea Connect (formerly SUMIKO TEC) gave us a boost. Both sales and profit were down for semiconductors, but we have maintained a high margin in the third quarter, so the operating margin is well above double-digits.

As for the fourth quarter, we expect sales and profit to be down for both games and optical devices due to seasonality. We expect semiconductor sales to fall again, and we are slightly conservative on the profit margin.

Overall in the MITSUMI business, we expect full-year operating income of 50 billion yen.

Q: Please provide a comparative analysis of operating income between the previous forecast (as of November 2022) and the current forecast.

A: In the third quarter, the forecast for operating income was 34 billion yen. The actual result was 26.4 billion yen, a 7.6 billion yen shortfall. However, when the 1.7 billion yen in negative goodwill from Minebea Connect (formerly SUMIKO TEC), a one-off factor, is excluded, the shortfall was 9.3 billion yen. The previous forecast for fourth quarter operating income was 40.4 billion yen. This has been reduced to 32.9 billion yen, a 7.4 billion yen decrease. However, this includes 22 billion yen out of the 35 billion yen in positive one-off factors, excluding the gain on the sale of the Tokyo Headquarters, 20 billion yen in structural reform costs, and 2.3 billion yen in expected contribution to operating income from Minebea Connect and Minebea AccessSolutions, which were consolidated through M&A. When these are excluded, the downward revision is 11.7 billion yen. Note that the gain on the sale of the Tokyo Headquarters is included in the fourth quarter in both the previous and current forecasts.

Q: Is it safe to say that operating income excluding one-off factors is the so-called actual ability?

A: We anticipate a small drop in operations to optimize inventory levels for spindle motors and others in the fourth quarter, so it includes so-called non-operating loss. Also note that this year's numbers reflect the negative impact of forward exchange contracts. In addition, we expect that operating income from the companies that were consolidated through M&A will begin fully contributing in the next fiscal year.

Q: Please give us a breakdown of structural reform costs by segment and the effects you expect in the next fiscal year.

A: We are currently reviewing the breakdown of the 20 billion yen in structural reform costs. We expect the effects of structural reforms to boost operating income to an extent, but I am unable to give specific figures at this time. The 20 billion yen in structural reform costs and the negative goodwill associated with the integration of Minebea AccessSolutions (formerly Honda Lock) are now included in the Headquarters adjustments to make the figures easier to understand. The negative goodwill from Minebea AccessSolutions will ultimately be recorded in the U-Shin segment.

Q: What is the current situation in the semiconductor business?

A: IGBT and medical-related remain in full operation, and demand from customers is very strong. On the other hand, production for smartphones, such as battery protection ICs, has declined, and there are different levels depending on the field. As for the fourth quarter forecast, we are slightly conservative in our estimates compared to the previous forecast.

Q: How do you think camera actuators will perform in the next fiscal year?

A: We are preparing to expand our production capacity, including a second plant in the Philippines (Naga Plant), so we still expect continued growth.

Q: Will there be a change in the price of semiconductors? Also, what will the operating rates be like in the second half and beyond?

A: There is no change in the trend toward higher average unit prices. This is because semiconductors for IGBT and medical use, which have relatively higher unit selling prices, continue to perform well, and many of our products are in niche markets where we are able to request price adjustments from our customers.

We are not in full 24/7 operation as we were through the second quarter, but there will not be any significant reductions in operating rates as we are reviewing the outsourcing allocation and other parameters.