

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

Date and time: Thursday, May 11, 2023 at 5:30 p.m.

Speaker:	Representative Director, Chairman & CEO	Mr. Yoshihisa Kainuma
	Director, President COO & CFO	Mr. Katsuhiko Yoshida

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

Q: Can you go over the forecast as of February and the change in the actual results with respect to the figures for the special factors in the previous fiscal year?

A: As for the results, the positive side amounted to 40.4 billion yen, while the negative side came to 17.2 billion yen, for a net positive of 23.2 billion yen. The forecast as of February is for 36.7 billion yen on the positive side, consisting of 1.7 billion yen from negative goodwill in the third quarter and approximately 35.0 billion yen from negative goodwill and gain on the sale of the former head office building in the fourth quarter. Meanwhile, the negative side was projected to be 20.0 billion yen, resulting in an expected net positive of 16.7 billion yen. That means there was an upswing of around 6.5 billion yen* in special factors. *Includes 1.5 billion yen in exchange contracts

Q: Please talk about the likelihood that the operating income forecast for this fiscal year is biased toward the second half.

A: First, we anticipate that operations will remain lean in this first quarter to reduce inventory. In addition, we recognize an asymmetry between the first and second half of the year due to ongoing adjustments related to automobile production and data centers, smartphone seasonality, and the impact of reduced production of older models of smartphones. However, we expect things to bounce back in the second half.

In regard to motors, we expect a recovery in the second half, as adjustments continue for HDD motors, and we expect substantial growth in in-vehicle motors through the second half due in part to the increased number of motors used per vehicle.

As for Access Solutions, while inventory adjustments will accompany the decline in automobile sales in China, we anticipate a gradual recovery of the automotive market, so the figure is not unattainable.

Q: When looking at the next fiscal year and beyond, how would you categorize the businesses you have gained confidence in over the past three months and those you feel are out of control?

A: I am confident that analog semiconductors and Access Solutions will drive the next recovery. Access Solutions reported that the former U-Shin's European operations will recover first and are

expected to turn profitable in May and June. The large sales volume makes it a treasure trove of opportunities for improvement, and we believe this gives us leeway to take on many challenges. As for analog semiconductors, we believe the measures we have implemented to date will begin bearing fruit. The machines ordered last year will start coming in later this year, allowing us to produce sufficient numbers of IGBTs and other products. In addition, despite the Shiga Plant operating at a loss, analog semiconductors have generated such a high level of profit overall that we can expect things to change further as we make improvements in that regard. There are no businesses that I feel are out of control. We have always believed we could handle our businesses.

Q: Can you talk about the developments in the main products of the former MITSUMI segment?

A: Optical devices grew significantly from the year ended March 31, 2022 to the year ended March 31, 2023. Meanwhile, mechanical components and analog semiconductors remained mostly flat. In the year ending March 31, 2024, we expect sales and profit to be down in mechanical components based on conservative estimates of customer cycles, and we expect sales and profit to be up slightly in optical devices.

On a quarterly basis, we expect a plodding start for operating income in the first quarter at 1.0 billion yen, increasing to 10.5 billion yen in the second quarter. We expect the first quarter to be a low point in the model cycle for optical devices and for there to be a decrease in the production of previous models. In addition, the BB ratio for analog semiconductors has started to recover and exceeds 1, but we have not yet increased production. However, we expect improvements to be made in both these areas in the second quarter. In addition, there is seasonality when it comes to mechanical components. All of the main products are in the off-season in the first quarter, but they will bounce back starting in the second quarter.

Q: In regard to analog semiconductors, when do you see them bottoming out?

A: We believe the situation is gradually improving. In internal meetings, some business units have expressed a desire to increase production because they are running out of inventory, and one of those is ABLIC's analog semiconductors. The fog is definitely beginning to lift.

Q: In regard to Analog Front End (AFE), you said net sales would be 70 billion yen in 2030. What do you estimate net sales and operating income to be for analog semiconductors in total then?

A: We have been engaging in mergers and acquisitions, and we believe that our net sales would be around 200 billion yen if that were not taken into account. As for operating income, a 40-50% margin like famous American manufacturers might be out of reach, but we can achieve a high margin.

Q: Please tell us about the status of integration of the connector business and what measures you are thinking about for the future.

A: There are areas where we can achieve synergy and areas where we cannot. First, regarding the latter, we have begun the process of selecting whether or not to proceed with mass production support for the numerous inquiries. We are considering bringing production in-house connectors for resolver which is performing well because of their high added value. However, it will still take time because they are for automobiles, and the current sales target is only around 50 billion yen. We might engage in mergers and acquisitions, or a hit product might emerge. The key point is whether we can make our presence felt where distinctive features such as waterproofing and high-speed transmission are required.

Q: I would like to ask how your fourth quarter operating income, excluding special factors, compared to the February forecast and how inventory adjustments affected the results.

A: If special factors are excluded, and we assume operating income was 87 billion yen, then in the fourth quarter, it was 14.4 billion yen. The previous explanation put it at 19.4 billion yen, so this represents a downward revision of around 5 billion yen. One of the factors behind the downswing was related to HDD. Sales did not recover to the level expected after adjustments in the third quarter, so production did not bounce all the way back due to inventory adjustments required to level out production. Similarly, in the external sales of ball bearings, the situation remained very harsh for data center applications, i.e. for fan motors.

As for inventory, we made fairly significant adjustments for almost all products to bring them back to appropriate levels at the end of March. The resulting decrease in operations had a significant impact.

Overall, the adjustment phase has been slightly protracted, including customer circumstances, so we have gotten off to a somewhat slow start in this first quarter. Moving forward, we will have to carefully consider the right time to step on the gas.

Q: Can you tell us what kind of opportunities there have been for the analog semiconductor business over the past one or two years with the disruptions in the semiconductor supply chain?

A: We call ourselves a global niche top in analog semiconductors. In a niche market, there are few market participants, and even if any, it can be challenging for customers to allocate the order to another participant. We believe that by actively identifying and pursuing such business opportunities, we can continue to achieve both growth and profitability.

Q: In the smartphone market, in addition to the slowdown in North America and China, there is price pressure and competition for market share, etc. Amid those circumstances, how certain are you of an increase in profit in OIS for the full year ending March 31, 2024, and what is your reasoning?

A: We are basically unsure about smartphone sales trends, but at this time, we expect both production and sales to be on par with the previous year. Price pressure has grown tremendously, but there are not really that many competitors, so if we keep making things and steadily providing high-quality products, we should be able to secure sufficient profits.

I can't comment on market share, but we do not have any significant concerns.

Q: Would it be correct to assume that OIS profit can increase even if the number of smartphones remains flat YoY because you are making improvements to productivity and costs?

A: Yes. I believe we will see various efforts will come to fruition.

Q: Regarding analog semiconductors, you mentioned that the BB ratio has exceeded 1.3, and inventory has been eliminated for some ABLIC semiconductors. Please tell us in what areas you are seeing recovery, and is it sustainable?

A: IGBT, medical-related, and others. We're also seeing a recovery in orders for smartphones from China.

The BB ratio presented in the second quarter was based on volume, and smartphones were a major cause of the drop. For mobile devices such as smartphones, the market share of lithium-ion protection ICs is high, making the sensitivity appear high when it comes to a volume-based BB ratio.

As for sustainability, it is uncertain whether smartphones will sell well. However, if the adjustment phase is somewhat longer, there could be demand for replacing them with new models. It all depends on what that timing might be.

Q: In your Medium-Term Business Plan, you mention adding to net sales and profits through M&A. What areas are you currently considering when it comes to M&A?

Also, the operating income adjustment in the current year's plan is 22 billion yen, which is a larger amount than the previous year's result. Please tell us whether this factors in M&A preparations and such or if it is simply a buffer.

A: There has been no change to our M&A policy. We plan to continue actively looking for opportunities, targeting businesses having a high affinity with our eight spear products, including connectors.

It depends heavily on the seller's timing and thoughts, but we were able to close four M&A deals in the year ended March 31, 2023. We are working on establishing a system for closing around the same number of deals every year.

The adjustments incorporate some M&A expenses but are not tied to specific targets.