

Q&A (Summary)
Investor Meeting for 1Q of FY 3/2025
MinebeaMitsumi Inc.

Date & Time: Friday, August 2, 2024 17:30-JST

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

*This material has been summarized from the original dialogue.

Q: Upon revising your full-year forecast, please tell us how you have factored in positive and negative impacts from an overall perspective, such as whether there is potential for further upward swing due to the recovery in data centers, or whether there is a risk of further downward swing in the future, such as in automotive applications.

A: The upward revision reflects the upswing in the 1Q from the initial forecast. We believe that we can fully absorb the various risks at this stage. In 2Q onward, rather than a steady return of bearing volume for data centers, we expect short-term contributions to profits from sub-core businesses, such as an upturn in sales in the smartphone-related business due to AI installation and replacement demand. For example with bearings, although not all areas have achieved record highs, some areas have recovered compared to April. Our assumption is that we absorb risks in various areas and there is no need to be pessimistic.

Q: You mentioned that the launch of camera actuators for smartphones has been delayed a bit and that the market share is slightly declining. Could you explain what the problem is and when it will be resolved?

A: There was a little trouble with the launch of new models, which caused a slight decline in market share, but this trouble is being resolved at this point. We believe that we have been able to keep up with almost normal operations and production in 2Q, especially since August. Compared to the guidance, 1Q and 2Q are slightly higher even after factoring in the above. Especially from 1Q to 2Q, the seasonality of smartphone production is ahead of schedule. Since our overall volume forecast was quite conservative, even if our market share of one of the new models were to decline, it would not be a significant. Therefore, we do not expect it to have any impact on the full-year guidance.

Q: Is the reason for the large increase in inventory in 1Q related to start-up trouble for camera actuators, or is this a normal cycle?

A: The increase in inventories is not due to start-up troubles or market share decline, but rather to foreign exchange rates and the new consolidation of Minebea Power Semiconductor Devices

(formerly Hitachi Power Semiconductor Devices). Seasonal production of smartphones and game-related products peaks in the 2Q, and we are preparing inventories for this.

Q: You have revised down your profit forecast for Semiconductors & Electronics (SE) segment. Could you provide the breakup between semiconductors, camera actuators, games, etc.?

A: In the context of the overall company adjustment, Precision Technologies (PT) segment and Motors are expected to perform well, and Access Solutions is expected to be in line with the guidance, although there is some uncertainty due to production declines by some customers in China and other countries. Therefore, we forecast conservatively for the SE segment, and the figures have been slightly adjusted. There are no changes made to the semiconductors from the initial forecast, downward revision of about 1 billion yen in optical devices, and adjustments have been made in other areas.

Q: Please tell us about the 1Q results and the 2Q forecast for the FY3/2025 for ball bearing production and sales volume.

A: Volume are in million units, and the results for April to July and the forecast to September are as follows:

Production volume is 245, 268, 266, 281, 276, and 283. External sales volume is 217, 219, 232, 245, 229, and 240. Internal sales volume is 49, 46, 50, 55, 54, and 49.

Q: How do you expect the annual production plan for ball bearings to change from the forecast in May? Is it safe to assume that the external sales plan will remain unchanged from the initial forecast?

A: At present, we expect a gradual increase in volume, with 280 in the 2Q, 300 in the 3Q, and 316 in the 4Q (average). With regard to the sales, total sales volume including both internal and external sales will be 291 for 2Q, 295 for 3Q, and 309 for 4Q (average), in which we have constructed the overall figures so as to maintain inventory levels, and have taken into account the differences in operating days and other factors.

Stress is being placed on the external sales plan, and we expect a slight upward swing.

Q: Regarding SE segment, please tell us about the 1Q results and how they will change from the 2Q onward for mechanical components, semiconductors, and optical devices.

A: SE sales are 111,229 million yen in 1Q, 160,771 million yen in 2Q, and 272,000 million yen in 1H. Sales of semiconductors are almost as expected, mechanical components were very strong in 1Q, and optical devices are slightly higher than expected. 2Q sales of mechanical components are expected to be flat, while sales of optical devices are expected to increase by about double the 1Q level. For optical devices, we assume that sales will fall in 1Q, rise in 2Q, and level off in 3Q in FY3/25, compared to 4Q in FY3/2024.

On the profit side, the forecast is 4,700 million yen for 1Q, 10,300 million yen for 2Q, and 15,000 million yen for the first half of the year. Figures of mechanical components will be flat in the first half. For the second half, we expect a decline in the 3Q and a pullback in the 4Q. Optical devices will recover in 2Q along with production and sales increase, and in semiconductors, Minebea Power Semiconductor Devices, consolidated from May, will make a full contribution in 2Q.

Q: What is your progress toward a 10% operating margin for Motor Lighting & Sensing (MLS) segment?

A: Regarding MLS, we are aiming for an operating margin of 10% for motors thanks to the product mix in the FY3/2027, which is currently in the low single digits. We believe that 10% is achievable in the medium term as we increase the number of high value-added motors in the future. For the current fiscal year, we expect that there will be several months in which the margin exceeds 10%.

Q: Regarding inventories, how much has it actually increased in QoQ, and what is the effect of this on the profit/loss side of the business?

A: Inventories in 1Q increased about 60 billion yen in QoQ. Excluding the effects of foreign exchange and consolidation of Minebea Power Semiconductor Devices, inventories increased about 20 billion yen on a real basis. This increase is almost entirely due to increased production for game and smartphone applications. Although some work-in-process and other items are included for smartphones, there is no buildup of product inventories. In terms of the impact on profits, there is no significant increase in profits due to increased operations, but rather an increase in material inventories for smartphones and games in preparation for increased production while maintaining normal production conditions.

Q: Can I reconfirm whether the revised forecast this time is formulated by addition of the 1Q upswing from the initial forecast or by a revision of the 2Q-4Q figures?

A: In this revised forecast, we have added the amount by which the 1Q results exceeded the initial forecast. The figures for PT segment and MLS segment are slightly stressed because the current situation and profit level would be far from the actual situation if they were incorporated directly into the forecast. Since the PT and MLS forecast have been set bullish factoring in the overall situation, SE figures are conservative. The assumptions for foreign exchange rates have also changed, and the figures are based on a somewhat steady 2Q forecast.

Q: In Access Solutions (AS), you mentioned the Wing Handle. Could you give us the scale of new projects related to INTEGRATION and the effect in a time frame of a couple of years, as much as possible?

A: For example, flash handles basically incorporate motors. We define these as INTEGRATION projects, and we already have a 7-year, 100 billion yen project for a major European manufacturer.

We cannot distinctly disclose the scale of BMW project, but it will be quite large.

Q: With regard to AS, can you tell us again how you see the Chinese market risk?

A: It is impossible to measure exactly how much of that magnitude we will have in the future.

However, we believe that having deficits is an asset for our company and that this will be a business that will help us overall when we turn a profit. In terms of the overall picture, naturally there are things that will increase and things that will decrease. Certainly in automotive, the Chinese market is struggling, but motorcycle business is doing very well, and we will be building our plant in India. We will not know the exact magnitude of the slowdown in the Chinese market until we look back, but we believe that we will be able to fully absorb it in our various other businesses and regions.

Q: Regarding semiconductors in SE segment, what is your impression of market conditions on an organic basis, excluding the consolidation of Minebea Power Semiconductor Devices?

A: In our case, various companies have been integrated, including MITSUMI's semiconductor business, ABLIC, and Minebea Power Semiconductor Devices, and we are facing various bumps in the road in semiconductors.

Minebea Power Semiconductor Devices has to raise prices and catch up with lost orders from customers, and it will take some time to deal with these issues.

On the other hand, ABLIC supplies EEPROMs (electrically erasable and programmable ROMs), a high-value-added product for servers, and we believe that once this product recovers, there will be more than enough to cover various other areas.

MITSUMI is also experiencing some stagnation in power semiconductor systems, but there are also positive factors such as increasing smartphone volumes.

Q: With respect to automotive, AS has been your company's unique growth driver from the perspective of the turnaround of losses. What is your view on other bearings and motors?

A: Bearings will continue to increase. I believe that the electrification of automotive, both EVs and others, will continue to increase due to various factors such as comfortability. Some of them will use bearings and some will not, but in the big picture, we believe that the number of bearings will increase steadily.

Of course, the number of motors will also increase, and resonant devices and other devices will be used in a variety of automotive.