Chapter II Financial Strategy and Capital Policy

CFO's Message

We will promote an appropriate and agile financial strategy that entails reforming our portfolio in a manner that puts more weight on highly profitable core businesses while also carrying out highly effective M&As

Shuji Uehara
Director, Senior Managing Executive Officer
Chief of Tokyo Head Office, Officer in charge of Accounting & Corporate Finance Division, Officer in charge of Sustainability Management Division

Operating results for the fiscal year ended March 2019 and outlook for the fiscal year ending March 2020

During the fiscal year, MinebeaMitsumi was subject to effects of a drastic downturn in order receipts during the fourth quarter brought about by drastic changes in the external environment such that included trade friction between the United States and China. Working against this backdrop, we concentrated on cutting costs, creating high value-added products, developing new technologies, and enhancing our marketing approach to boost profitability further. As a result, net sales increased by 0.4% year on year to 884.7 billion yen, the highest since our founding. Operating income increased by 4.5% year on year to 72 billion yen, and profit for the year attributable to owners of the parent increased by 19.5% to 60.1 billion yen, both exceeded previous record highs.

In the next fiscal year, we expect net sales to be higher overall at a level topping 1 trillion yen as a result of achieving growth in business involving applications for automobiles and aircraft, and due to our business integration with U-Shin. We expect operating income to increase to 77 billion yen despite a strong sense of uncertainty largely with respect to trends in the foreign exchange and smartphone markets, amid the previously mentioned growth in business involving applications for automobiles and aircraft, in conjunction with increasing profitability primarily with respect to ball bearings.

Furthermore, we have voluntarily adopted International Financial Reporting Standards (IFRS) from the fiscal year.

Financial strategy for the next 10 years

Under our vision for the next ten years, we set new targets for net sales and operating income of 2.5 trillion yen and 250 billion yen, respectively. With its Eight Spear products newly including U-Shin's access products with the aim of achieving those targets, we are accordingly poised to strengthen its position as the world's mightiest INTEGRATION manufacturer of precision components by enhancing our ultra-precision and ultra-high quality core businesses. Meanwhile, we are considering options for flexibly allocating cash generated by these numerous highly-profitable No. 1 products to initiatives that involve carrying out M&As and enhancing shareholder returns with top priority placed on achieving organic growth, premised on the notion of maintaining financial discipline.

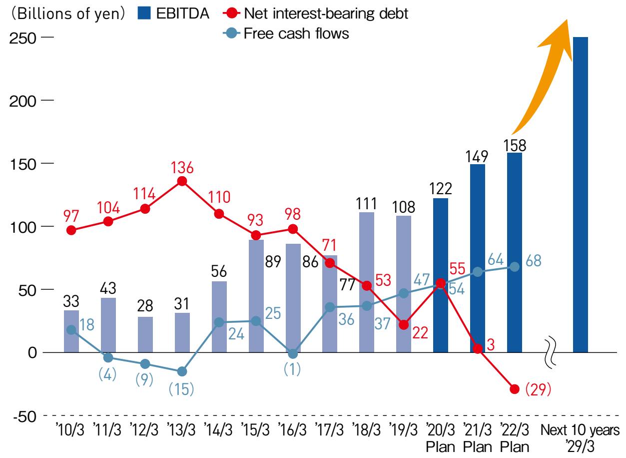
Vision over the next 10 years (fiscal year ending March 2029)

Net sales ¥2.5 trillion and/or Operating income ¥250.0 billion × EPS growth rate +15% or more Next 10 years CAGR × ROE 15% or more

Approach to allocating capital backed by ability to generate cash

Having made "strengthening our financial position" a key management policy, the MinebeaMitsumi Group now functions as an enterprise that is capable of generating cash amounting to approximately 100 billion yen on an EBITDA basis by taking various steps that include efficiently engaging in capital investment, managing assets, and reducing interest-bearing debt. It is worth noting that increases in cash flow are being driven by substantive profit gains, rather than capital investment. This seems to be due to our strategy of creating new added value by actively investing profits derived from our cash cow, sub-core businesses, into strengthening our core businesses. Moreover, the source of the Company's ability to generate cash flows rests with its non-financial strengths in terms of its employees and technologies that enable generating synergies through INTEGRATION that combines its core technologies and products among its Eight Spear products. We consider the notions of how such cash flows might be put to use in bringing about growth, and how they might be returned to our shareholders. This stands as the next challenge that the Company must address.

Results and plans: EBITDA/net interest-bearing debt/free cash flows



* Figures are subject to change upon implementation of large-scale M&As.
* Figures for periods up through the fiscal year ended March 2018 are based on JGAAP, and figures from the fiscal year ended March 2019 onward are based on IFRS.

Investment for growth

Under the current Midterm Business Plan (FY3/2020 - FY3/2022), we intend to generate a cumulative total of 370 billion yen in operating cash flow over three years and a cumulative total of between 800 billion yen and 1 trillion yen in free cash flow over the next ten years. Generated operating cash flows are to be preferentially allocated to R&D and capital expenditure to act as a driver of organic growth. Moreover, we are also considering options of carrying out effective M&As such as those we have initiated over the last ten years enlisting 50% of our free cash flows and borrowings, premised on the notion of maintaining financial discipline such that the debt/equity ratio falls within the 0.2 times range.

Allocating capital backed by ability to generate cash

Operating cash flows

We will allocate capital with the aim of achieving organic growth, backed by our ability to generate cash accompanying profit growth

Organic growth
- R&D expenses → 3% of net sales
- CAPEX → 50% of EBITDA

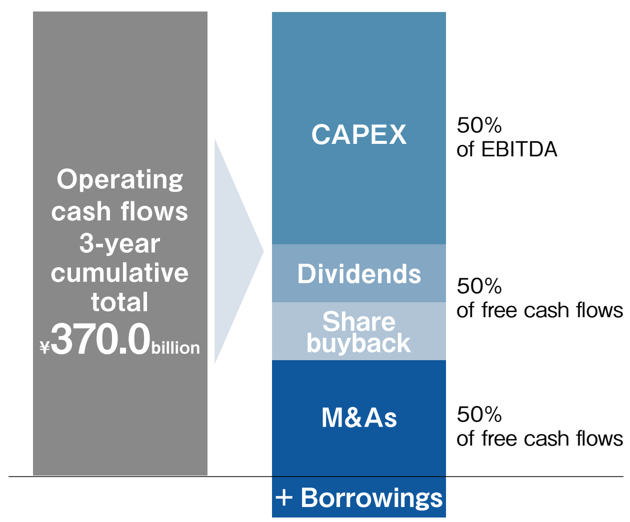
Free cash flows

We will flexibly allocate capital upon having secured resources necessary to achieve organic growth

M&A growth
- M&As geared to reducing earnings volatility
- 50% of free cash flows + borrowings
- Maintaining financial discipline (within 0.2 times D/E ratio)

Shareholder returns
- Dividends and share buyback
- 50% of free cash flows
- (Adjustments made to ratio of dividends to share buybacks depending on stock price levels; Share buybacks are to involve purchasing shares at appropriate thresholds)

Cash flows for the next 3 years



Between ¥800 billion and ¥1 trillion in cumulative free cash flow over the next 10 years

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Shareholder returns

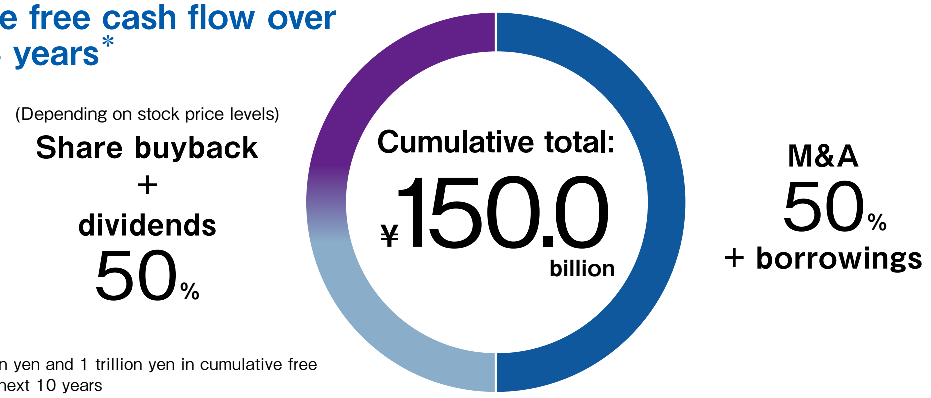
MinebeaMitsumi will take a flexible approach to buying back shares depending on stock price levels and paying out dividends aiming for a dividend payout ratio of around 20% on a consolidated basis, using around 50% of free cash generated over the medium to long term, while placing top priority on investment for growth.

We have decided to pay out 28 yen in dividends per share for the fiscal year ended March 2019, an increase of 2 yen per share, upon having placed consideration on factors such as our current financial standing and continuity of dividends, underpinned by our policy of enhancing returns to our shareholders. In addition to our 10.6 billion yen buyback of shares executed in November 2018, we also newly announced a share buyback amounting to a maximum of 15 billion yen in May 2019.

Going forward, while maintaining a continuous, stable profit distribution, MinebeaMitsumi gives top priority to improving the efficiency of shareholders' equity and distributing more profit to shareholders, thereby returning its profits to shareholders commensurate with its business performance.

Uses of free cash flows

Cumulative free cash flow over the next 3 years*



*Between 800 billion yen and 1 trillion yen in cumulative free cash flow over the next 10 years

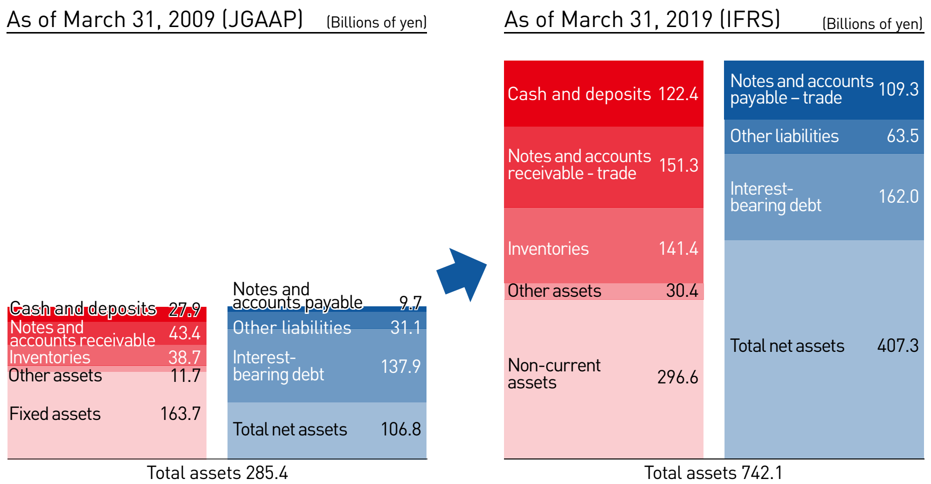
Financial Position

Backed by a strong performance and thanks to the ability to generate cash flow, the balance sheet has been growing and improving steadily for the past ten years.

Even with different accounting standards, comparing the results of the fiscal year ended March 2009, when Japanese GAAP was applied, to the ones of the fiscal year ended March 2019, when IFRS was applied, total assets increased by 456.7 billion yen to 742.1 billion yen over the span of ten years ago.

The main reasons for this were increases in cash and cash equivalents and property, plant, and equipment. Total liabilities were up 156.2 billion yen from ten years ago to 334.9 billion yen. The main reason for this was an increase in bonds and borrowings.

Total net assets came to 407.3 billion yen, and equity ratio attributable to owners of the parent was up 16.8 percentage points from ten years ago to 53.9%.



Financial base

It is our belief that securing a stable financial foundation is of the utmost importance when it comes to ensuring that we continuously provide returns to our shareholders. We have very favorable credit ratings, having been assigned an "A" rating from Rating and Investment Information, Inc. (R&I; up from an "A-" rating in October 2017) and an "A+" rating from Japan Credit Rating Agency, Ltd. (JCR; unchanged since December 2015). Although our equity ratio is subject to change in the short-term as a result of M&As, we aim to achieve a stable financial foundation by accordingly maintaining an equity ratio of at least 50% over the medium to long term.

Rating and Investment Information, Inc. (R&I) **A**

Japan Credit Rating Agency, Ltd. (JCR) **A+**

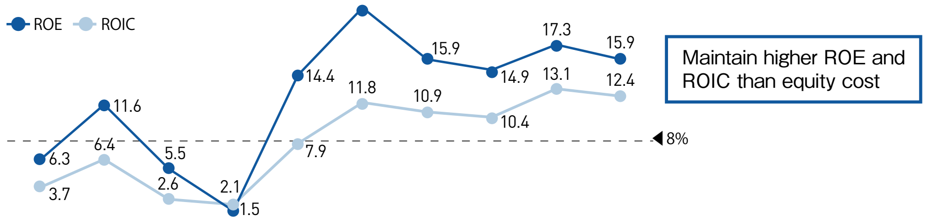
Initiatives for increasing corporate value

We maintain ROE and ROIC levels exceeding the upper limit of 8% of the expected capital cost, and heighten corporate value while increasing capital efficiency. We have defined as main KPIs to achieve in the next ten years an EPS CAGR (annual average growth rate) of at least 15% and an ROE of at least 15% by strengthening the core business of ultra-precision and ultra-high quality and by expanding sales of our top high-profit products.

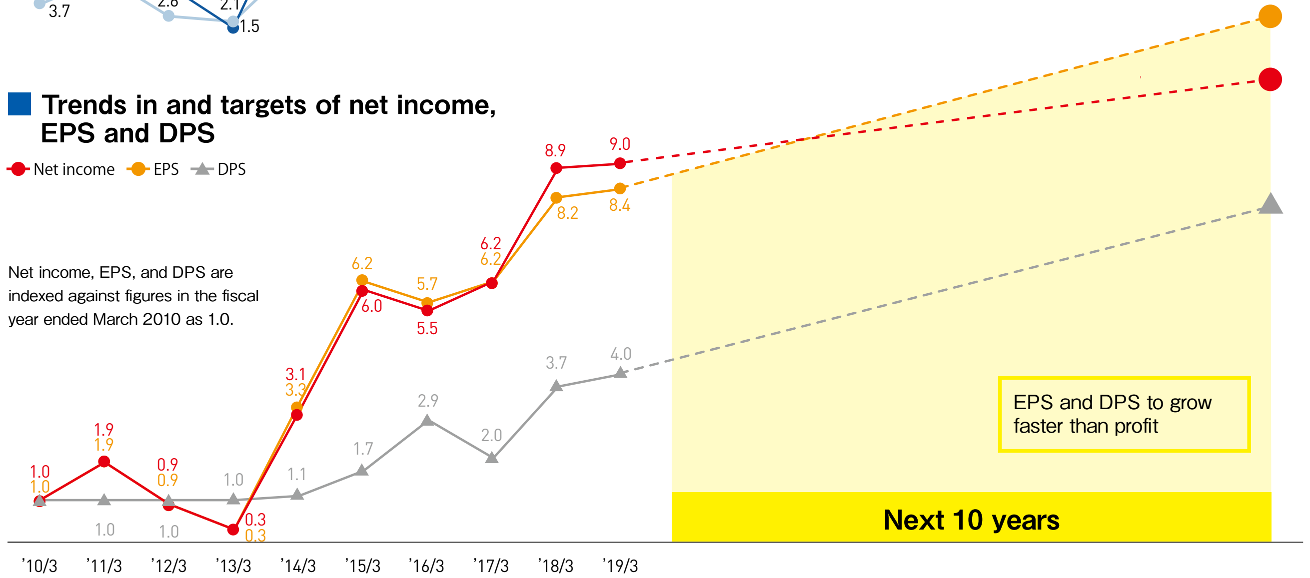
From the fiscal year ended March 2010, we strengthened the portfolio while making appropriate decisions on development, M&As, and business withdrawals. As a result, both ROE and ROIC have significantly improved with both levels exceeding the capital cost of 8%. During the same period, financial leverage decreased from 2.6 times to 1.9 times, however net income to net sales ratio rose from 2.9% to 6.9%, which led to the improvement of both profitability indicators.

Going forward, we will continue to improve our corporate value by implementing risk management to achieve sustainable ROE and ROIC that exceed expected capital costs and by reducing capital costs, while also tackling ESG issues.

ROE and ROIC



Trends in and targets of net income, EPS and DPS



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