Q&A (Summary)

Investor Meeting Presentation for FY 3/2024

MinebeaMitsumi Inc.

Date & Time: Friday, May 10, 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: Your forecast for Semiconductors& Electronics (SE) for FY3/2025 is somewhat lower than my expectation. Could you give us the YoY change breakdown of into elements such as Minebea Power Semiconductor Devices (formerly Hitachi Power Semiconductor Devices, MPSD), and other existing optical devices, semiconductors, and mechanical components?

A: We assume that semiconductors will bottom out gradually, and that profit levels for MITSUMI and ABLIC will be flat on a YoY basis. On top of that, MPSD will be consolidated for about 11 months after the business integration on May 2, which will add about 45 billion yen in sales and about 10% of the sales in operating income.

For optical devices, the profit level for the FY3/2024 was considerably lower than that of the FY3/2023 and turned red due to the loss of market share of the then old model. As for FY3/2025, we have made the annual forecast on the assumption that we can secure about the same market share as the current market share, and we expect to add several billions of yen in YoY.

For mechanical components, we assume that sales will remain mostly unchanged from the previous year.

We also anticipate decrease in profit from switches for cell phones and others.

As a result, overall SE operating income is expected to be 38.0 billion yen in FY3/2025, compared to 35.4 billion yen in FY3/2024.

Although slight recovery in sales, fixed costs have risen a little due to capital investment. This will result in the decrease of profit margin, but the absolute level of profit is expected to remain at the same level as the previous fiscal year. We expect that the MPSD result will be added on to this.

Q: Chairman Mr. Kainuma explained in his presentation about the highly profitable and high value-added products. Could you give us some specifics on the products that are making the main contribution? Can we expect profit contribution in the current fiscal year?

A: If we consider by categories, "others" is one major driver. All industries, all the way down to medical were under inventory adjustment and have started to recover. In medical, we hear stories that people have become possible to purchase medical equipment, which were limited due to budget shortfalls amid COVID-19. Rather than one major factor, the situation is one of gradual recovery in various fields.

Automotive applications are also still performing strong and have been continuing to increase slightly.

I believe that there is an all-around improvement in the product mix, and there is also some influence of foreign exchange rates.

Q. What are your thoughts on the signs and timing of recovery in terms of data centers and fans?

A: Considering the current data center-related demand divided into AI servers and general servers, we see that demand related to AI servers is increasing at a considerable rate for fan motors and bearings. However, AI servers are not necessarily a major driver of overall data center and server demand.

Regarding the recovery of data centers as a whole, we assume that general servers will also recover, in the wake of changes such as the language model becoming a video model. Having said that, however, the signs of recovery in demand for general servers are not yet very large, and we have not factored this into the figures of FY3/2025.

We have factored into our figures in the second half of FY3/2025, with the expectation that inventory adjustments for general servers will be completed, and that there will be some recovery in response to the actual demand.

In terms of bearing recovery, we assume a full-fledged recovery in demand from FY3/2026 onward, not FY3/2025.

On page 54 of the reference in the investor meeting presentation material, the graph on the bottom right shows the image of the increase in server volume increase thanks to AI servers. According to our research, we expect the server volume to recover in line with the more active users. Without the AI, volume CAGR is expected to be around 5%. However, with the increase in use of AI, we believe that volume will eventually increase to a CAGR of 16.5%, if not immediately.

Q: Please tell us about the 4Q results for FY3/2024 and the 1Q forecast for FY3/2025 for ball bearing production and sales volume.

A: Volumes are in million units.

Production volume: 262, 245, 266, 245, 268, and 263.

External sales volume: 214, 203, 212, 217, 217, and 224.

Internal sales volume: 39, 38, 44, 46, 46, and 45.

By quarters for FY3/2025,

Production volume average: 259 in 1Q, 280 in 2Q, 298 in 3Q, and 316 in 4Q.

External sales average: 218 in 1Q, 233 in 2Q, 257 in 3Q, and 259 in 4Q,

Internal sales average: 46 in 1Q, 47 in 2Q, 48 in 3Q, and 50 in 4Q.

Q: For optical devices, you explained that ultra-wide-angle auto-focus will be in full-scale operation at the second Cebu plant. Will you only manufacture the existing products, not the periscope in the plant?

A: Yes, as you recognize.

Q: What is the best time to expect sales of mechanical components to increase or recover in full swing?

A: We cannot provide customer information in details, but our guidance and production plan assume that sales will gradually increase from the 3Q of FY3/2025.

Q: Regarding cooling systems for data centers, please tell us whether your company plans to support related products for immersion systems, and how your view on the system.

A: At this stage, we have no plans to launch products related to the immersion systems.
As for liquid cooling, it is the same as a radiator in a car, and some systems require a device to further cool the liquid needed for cooling, where a fan motor could be also necessary. As a bearing manufacturer, we believe that this is where we can add value. It is likely to be a bearing that is one size larger, and we would like to focus on this by leveraging INTEGRATION products.

Q: Regarding the Motor Lighting & Sensing (MLS) plan for FY3/2025, what are the factors behind the relatively strong increase in operating income compared to the sales?

A: The first is that high-end spindle motors are recovering. There is no dramatic momentum, but we have been seeing a phenomenon for several months now, where we are gradually receiving larger requests than what we had expected each month. As shown in the graph on page 54 of the presentation file, recovery for spindle motors for data centers will contribute to a very significant change in the mix.
The second is a change in the mix: motors that were not available 10 years ago, nor were they our main focus, are selling more and more and generating added value. We are now also putting a lot of effort into fans for servers.
Our biggest challenge right now is to achieve an operating income of 250 billion yen. If the sales continue to grow steadily, we expect to generate a record high for the 12th consecutive fiscal year, but our next challenge will be how to increase the profits in relation to the sales.
Over the past 15 years, we believe we have improved our business portfolio. We think that now it is time to show the results of the improvement.

Q: Regarding your thoughts on the Access Solutions (AS) profit margin, I understand that your plan for FY3/2025 is that the recovery trend in the second half of FY3/2024 will continue. I perceive that this is a conservative assumption based on China risk. As you are proceeding with PMI, what do you see as potential upside factors?

A: Since we have made two downward revisions to our forecasts for FY3/2024, our assumptions are conservative for FY3/2025.
We also believe that the Chinese market is getting worse by the day and should be stressed and assumed here.
As shown on page 26 of the presentation material, as of 2Q FY3/2024, we had assumed +9-11 billion yen in operating income for AS for FY3/2025 when the market recovers. (At that time, operating income for FY3/2024 was assumed to be 10.0 billion yen; operating income for FY3/2025 was assumed to be 19.0 billion yen to 21.0 billion yen.) If the Chinese market were not to deteriorate, we could expect an upside of 9-11 billion yen.

Q: As for PMC, your thinking seems to be changing from the conventional viewpoint of utilizing the reduced pivot assembly to actively extending the top line at present. Could you tell us the reason behind this?
A: The issue that pivot assemblies may disappear is not a problem of yesterday or today, but a longstanding issue that we have been working on for over 50 years.
This division specializes in ultra-precision machining, including cutting and grinding. In fact, M&A in this field is quite high margin although they are small in scale. Despite that we have tried several companies in the 30 billion yen range, we have not been able to achieve this until now.
However, being a high margin product, we once disassembled a car and did a thorough general inspection to see what parts were on it. After setting a certain target, we started conversations with customers about alternative products to the pivot, and orders started to come in after we showed them our facilities and technology and proved that we could meet their requirements.
I advocate that the essence of management is the risk management. As with backlights, we knew that the quantity of pivot assemblies would not disappear, but would decrease considerably, and I believe that we have been taking the proper measures to deal with this situation.

Q: With regard to optical devices in the 4Q of FY3/2024, I think there was generally a downward trend due to concerns about demand for high-end smartphones in North America, but what factors led to the higher-than-expected performance at your company and what is your outlook going forward?
A: Higher-than-expected performance in the 4Q of FY3/2024 does not mean the increase QoQ, but it means that the sales were up against our assumptions. We understand that smartphone sales results did not deviate significantly from the overall market sales volume, which was higher than ours.

Q: Is there an opportunity to apply and enter the market for liquid cooling system components for data centers by utilizing your company's ultra-precision machining technology such as PMC?

A: As shown on page 54 of the presentation material, the number of fan motors and bearings required per rack increases for rear door systems. We would like to capture these business opportunities.

In addition, the need for cooling is very high. We assume that the demand for fan motors or bearings with high revolution and high efficiency will increase. As a manufacturer capable of supplying high-quality bearings, we believe that business opportunities will increase.

In other areas, for example, there is a possibility of doing a storage battery module if a storage battery is attached to a server in a liquid cooling system, but we do not have any major figures to present at this time.