

Nisshinbo Holdings Inc.

Summary of Q&A Session at 2Q Financial Results Briefing for the Fiscal Year Ended December 31, 2024

Summary by category of the main questions and answers from the financial results presentation for institutional investors held on August 7, 2024.

-
- Q1** The recovery of microdevices appears to be lagging. According to the initial plan at the beginning of the term, the first half of the term would be sluggish, the second half would improve, and the fourth quarter would return to the normal state, i.e., operating profit per quarter of 2 billion yen or more. Please explain this together with the assembly of the downward revision of the full-year operating income forecast from 3.9 billion yen to -2.4 billion yen.
- A** The initial plan was for recovery to begin around 3Q, but the forecast has been changed to reflect a delay until the end of the year. 2Q cumulative operating income is expected to be -2.7 billion yen, which is very difficult. 3Q will see some improvement, but the company is still in the red, and the forecast is for a return to profitability in 4Q to offset the 3Q loss and part of the 1H loss, resulting in a full-year loss of -2.4 billion yen.
From an industry perspective, we had expected a significant improvement in the automotive business at the beginning of the period, but it is almost flat. In industrial machinery, inventory adjustment is lagging far behind. We expect a recovery to occur in 2025. Consumer products have been recovering significantly since before summer, especially for Chinese smartphones, but the benefit has not yet been felt in orders and production, as distribution inventories are still being digested. We look forward to further progress.
-
- Q2** 3Q operating income is still in the red by about -1.5 billion yen, but 4Q operating income will turn profitable at 2.0 billion yen. Is this the outlook?
- A** Generally true.
-
- Q3** Is it correct to understand that the slow recovery in automotive and industrial equipment does not mean that your company's market share is declining, but rather that it is taking longer than expected to eliminate distribution inventories?
- A** That's right. The industry as a whole is suffering from a very sluggish economy, especially in industrial machinery.
-
- Q4** Is it correct to understand that the real estate business results are piling up because sales in Shizuoka Prefecture, which were not planned at the beginning of the period, were recorded in the second quarter?
- A** The Shizuoka Prefecture project recorded in the second quarter has been factored into the forecast since the beginning of the period. The upside to earnings is that the projects scheduled for sale in the fourth quarter exceeded the forecast. The bidding has been completed and prices are now available, but they are being bought up considerably. We have included that amount in our forecast.
-
- Q5** Real estate has raised its operating income forecast by the same amount as sales. Is it correct to understand that this is an increase in unit price without any change in volume? What is the outlook for next year?
- A** That is correct. The outlook for next year remains unchanged from the medium-term management plan announced in February. The plan is at the 10 billion yen plus alpha level.
-

<p>Q6 The full-year operating income forecast for the wireless and communications business remains unchanged from the initial forecast of 8 billion yen, but Japan Radio's solutions and special equipment business is struggling considerably. On the other hand, the marine systems business has accumulated quite a bit of earnings in the January-June period, but is it sustainable? Is it correct to understand that it is benefiting from the booming shipbuilding market?</p>	<p>A There were two reasons for the downfall in the solutions business: one was the backlog of projects and insufficient accumulation of orders. The other is that there were fewer projects in the highly profitable water and rivers business, and relatively more in the disaster prevention business, where the competitive environment is severe and profitability is difficult. In the special machinery business, special demand for radar systems had continued through the previous fiscal year due to the revision of the Radio Law, but this has slowed down in the current fiscal year. These factors caused a downward swing.</p> <p>In the marine systems business, sales of large-sized merchant vessels and workboats for the river market, mainly in Europe, were strong. In particular, the shipbuilding market for large-sized merchant vessels is extremely favorable in both China and South Korea and will continue to be so for some time. Demand in Europe also remains strong and is expected to continue.</p>
<p>Q7 The operating income of the Solutions and Defense business for the second quarter alone fell considerably from -1.4 billion yen to -2.5 billion yen, compared to the previous quarter. What are the factors?</p>	<p>A The drop in sales in the defense business, not the solutions business, is having an impact, but we have received a very large number of ship maintenance jobs due to the increase in defense spending, and we expect this to work as a recovery in the second half of the fiscal year. However, the decline in the defense business is a temporary one due to the completion of a round of projects that ended last year, and we have already secured projects for the next fiscal year and the year after that, so we are not particularly concerned.</p>
<p>Q8 Can we expect marketing synergies such as customer retention by combining Hitachi Kokusai's solution business and one-stop business with Japan Radio's local 5G?</p>	<p>A Specific initiatives are currently under consideration, but we would like to create a good complementary relationship with Japan Radio in local 5G and other areas. In addition, there are quite a few areas of overlap in public sector demand. We are considering collaboration by sorting out these areas and taking advantage of each other's strengths. On the other hand, there is potential for private-sector demand, particularly in the area of wireless communications and image processing technology. We plan to provide an opportunity to explain our business strategy for wireless communications within this year.</p>
<p>Q9 In the microdevices business, there is usually a pattern of earning in the first half of the fiscal year and then a weak or loss in the second half, but this fiscal year's forecast is the opposite of that. How confident are you of this?</p>	<p>A In past years, there was a cycle of strong sales until around the end of the year in anticipation of the Christmas shopping season and Chinese New Year, followed by a drop in the January-March period, but this cycle has become difficult to read since Covid-19. Currently, orders and business negotiations are increasing toward the end of the year and into 2025, and after a temporary increase from October to December, we expect a large increase next spring.</p>
<p>Q10 The sales forecast for this fiscal year is 31 billion yen for the first half and 47 billion yen for the second half, with flat sales in the 2Q and 3Q and an increase of about 10 billion yen in the 4Q?</p>	<p>A Generally true.</p>

<p>Q11 The microdevices business has already deviated significantly from the medium-term management plan announced at the beginning of the year and has fallen below the plan. There are concerns about the future. The competitive environment will become even tougher as Chinese semiconductors grow in the future. What is your outlook for this business?</p>	<p>A The semiconductor market itself has not changed its trend, which is always on the upswing, and while there was an extreme shortage of cutting-edge products in 2022, we were able to meet orders in the categories that we handle relatively well. Inventory adjustments are currently underway, and once these are completed, we believe that we will be able to ride the upward trend of the electronic components industry as a whole.</p> <p>To counter the rise of Chinese semiconductors, we intend to grow by shifting from single-functional components to complex components, adding more value, and providing solutions.</p>
<p>Q12 When we talk about compounding and value-adding, I think we have to narrow down the target customers to some extent. This is especially true for automotive. If so, how do you set up people, goods, money, and target customers?</p>	<p>A Such a way of thinking is acceptable. In the automotive industry, interest is shifting from conventional single-function products to ASICs and composite products. Currently, marketing activities are underway to develop a product line of application-specific standard products (ASSPs) that standardize ASICs and increase their added value. The company is in the process of reviewing its product portfolio, concentrating as much as possible on people, products, and money.</p>
<p>Q13 In that case, it would take about three years from specifying to commercialization; what scale do you see being realized in three years?</p>	<p>A It is difficult to mention the specific scale of the business at this time. As pointed out, it will take 3 to 5 years to commercialize ASICs and ASSPs for automotive applications. Until then, the company expects to fill the gap with module products and composite products for consumer and industrial equipment.</p>
<p>Q14 Hitachi Kokusai and Japan Radio have long had a competitive relationship. there may be various top-down initiatives in PMI, but is there cooperation at the field level?</p>	<p>A As pointed out, the two companies had been in a competitive relationship, so by the time the PMI began, the people onsite understood many things and had begun to communicate very well, especially in the local areas of the public sector demand business.</p> <p>After the PMI was completed, a growth strategy was prepared for the three areas of public and private demand and production system, involving not only top management and management but also front-line staff.</p> <p>Another important area is research and development. We have set various themes in the electronics field, centering on the wireless and telecommunications business, and are aiming for R&D that will not only grow the wireless and telecommunications business, but also change the business model of the entire Nisshinbo Group.</p>
<p>Q15 Are the pay scales of the two companies different?</p>	<p>A There is a slight difference in pricing because of the different systems, but since the companies belong to the same industry, there is not much difference.</p>
<p>Q16 Will the salaries be pulled one way or the other?</p>	<p>A It is difficult to move them to the middle because of Japan's wage structure. The only way is to move them up. In other words, the shared theme is to earn well.</p> <p>First of all, I think it is necessary to adjust the way we think about system design. We need to stop all seniority-based systems, and change both the role grading system and the personnel treatment system. It has been about five years since Nisshinbo HD implemented this system. Japan Radio has also introduced this system and is changing. Hitachi Kokusai has a different system, so I think we should take our time and take one step at a time.</p>