



Financial Results Briefing for 2Q FY2022

October 29, 2021
AISIN CORPORATION

Q1. Sales for the July–September period were stronger than the health of the external environment, and AT shipments also increased on a year-on-year basis. What is the background to this? I am concerned about the possible negative impact in 2H, since this has resulted in inventory at OEMs.

A1. Actually, our feeling is that shipments fell short of our expectations. In view of the fact that the impact of the COVID-19 pandemic still remained in 2Q last year, it is not a surprise that this year's shipments will exceed last year's. With regard to the inventory levels of Chinese OEMs, demand remains strong, and we believe this is a supply-side issue, such as the shortage of power and semiconductors. We do not think the increase in shipments has led to inventory, since this was not as significant as we expected.

Q2. If Toyota's production volume is 9 million, is there a possibility that you will exceed the 180 billion yen you achieved in 2H last year?

A2. We achieved last year's figure through excessive methods such as overtime work, and although we showed our potential, it would be difficult to continue this in terms of our production system. This year we will see the effects of a rise in costs to secure personnel in accordance with production fluctuations and a surge in raw material prices.

SQ2. Are you assuming a production volume for Toyota of 9 million?

SA2. We are assuming a little more than 9 million, based on forecast from the customers.

Q3. Please elaborate on the change in the powertrain unit sales. Are there no problems in the trend of the 1H results, the 2H plan by customer, or the 2H plan compared to current forecast?

A3. The main breakdown of the decrease of 540,000 units vs the figure previously announced in 1H is -200,000 units for the Toyota Group, -60,000 units for the VW Group, -80,000 units for Stellantis, -90,000 units for other European manufacturers, and -60,000 units for Chinese OEMs. The main breakdown of the increase of 590,000 units in 2H vs 1H is +260,000 units for the Toyota Group, +130,000 units for Stellantis, +110,000 units for other European manufacturers, and +90,000 units for Chinese OEMs.

Q4. What is the actual value in terms of profitability? Is it fair to say that your operating margin is 6.5% when excluding the impact of raw materials? Will you pass on the rise in raw material prices to your selling prices?

A4. We believe that our actual value is seeing steady progress toward the 7% target for FY2023. We might face temporary impacts such as from raw materials. In terms of passing on the raw materials cost rise to prices, it is generally possible, but the timing will differ between customers. The fact that the OEMs bear the cost means that the prices of cars will rise. In order to prevent this, we will strive to reduce costs and contribute to improved car manufacturing. Efforts in carbon neutrality are one way.

Q5. Please elaborate on the deterioration of revenues in North America. What is the cause? You intend to recover the drop in 2H, but is there a downside risk if the shortage of containers persists?

A5. North America is prone to be affected by a decline in operation. We faced a significant loss due to a production decrease in terms of securing personnel. However, we believe this will be eliminated if sales recover. Whether the shortage of containers and the surge in raw material prices will be resolved in 2H remains an issue.

SQ5. Is there a difference between businesses, such as bodies and brakes?

SA5. There is no difference between businesses. I would like to add that the powertrain plant in Texas has been making solid investments as a future center of electrification.

Q6. Sales to the VW Group appear to be strong in terms of sales by customer, but do the sales comprise a mix of models? Will sales to European customers decrease if electrification progresses?

A6. We recognize that we lack information dissemination on electrification. We are planning an ESG briefing in November, when we intend to explain our initiatives in electrification from the perspective of contributing to the environment through our products, as part of our efforts in "E," the environment. Although sales to European customers are declining, we do not think this is a direct result of BEV. We recognize it as largely due to the impact of the semiconductor problem.

Q7. What kind of responses are you getting for eAxle? What is the situation of BluE?

A7. As BluE also handles hybrids, we intend to focus on providing a full product lineup.

Q8. If Toyota's production volume were 9 million units, would it be a negative factor for the 220-billion-yen profit target, or would you be able to make up for it with sales to other customers?

A8. If that happened, we would not be able to recover all of the 1H shortfall in 2H. We would face difficulty if Toyota's production volume reached 9 million.

SQ8. When you say "difficult," do you mean it would be difficult to achieve the profit target?

SA8. If the production volume actually reached 9 million, we would not have enough sales. Since we also face a surge in raw material prices that must be made up for, we will have to raise our effort level one more notch.

Q9. If your operating margin is 6.5% when excluding the raw materials impact in 2H, will you be able to achieve the 7% target for FY2023 ahead of schedule?

A9. Our intention is to be able to achieve 7% stably. Currently there are still fluctuations. We hope to achieve 7% constantly through cost reduction and structural reforms. The reason for setting the timeframe to 2023 is because we aspire to reduce labor costs and depreciation by attrition through a shift in resources over three years.

Q10. With regard to software, it is reported that the Toyota Group will increase its software engineers to 18,000. What are the details of Aisin's 3,800? How will you share roles with Toyota and Denso with regard to software?

A10. Our engineers started off as GPS and electronic components personnel. The figure 3,800 includes outside resources that we have secured. We have not reached a conclusion within the Group concerning the sharing of roles for the entire ADAS. What we can say at the moment is that we own product groups for driving, turning and stopping, and that vehicle dynamics control will be possible with actuators to a certain extent. Tier 0.5 is an actuator-based approach.

Supplementary information after the meeting: the 3,800 figure is made up of 40% from within the Aisin Group and the rest from outside resources.

Q11. What are the reasons for the robust year-on-year sales for the July–September period in China and Asia & others, and the decrease in profits for the July–September period in China vs the April–June period?

A11. There are no special reasons. On a year-on-year basis, China has not been hit by the semiconductor impact relative to other regions during this period. The reason for the strength in Asia was that the region was slow to recover from the pandemic last year. The decrease in profits in China vs the previous quarter was due to an increase in production preparation costs.