



Financial Results Briefing for 3Q FY2022

February 2, 2022
AISIN CORPORATION

Q1. You forecast an operating profit of 80 billion yen for 4Q (3 months), but the general consensus seems to be that production volume will fall short of expectations. How do you plan to make up for it? Are inventory levels of customers appropriate?

A1. Changes in the production volume of customers continue to be difficult to forecast. Customers continue to inform us of their optimistic production volume forecasts, but we expect that the volume will be affected by the shortage of semiconductors and COVID-19 also in March as it is now. As for how to make up for it, although we will not stop upfront investments, some other expenses can be reduced or eliminated. We consider expense reduction as part of structural reform and will review expenses from scratch. Expense reduction may include the temporary elimination of certain expense items, but if we can successfully eliminate them permanently, it is indeed a structural reform. We will review expenses thoroughly for the next two months.

SQ1. Do PT unit sales of 2.7 million for 4Q (3 months) fully reflect Toyota's forecast of 1 million for March?

SA1. No, we do not assume that Toyota will achieve 1 million. Our forecast reflects some downside risk.

Q2. Assuming that Toyota will achieve 11 million for the next fiscal year, what profit levels do you expect?

A2. If Toyota is to actually manufacture 11 million, it would be an unprecedented production increase, and we, including our suppliers, intend to match it closely. We have started an internal process to formulate a profit plan for FY2022 and will discuss the plan properly in consideration also of the status of passing on the surge in raw material prices and logistical disruption to prices.

SQ2. How do your profit expectations compare with the operating profit of 95.9 billion yen for 4Q of the previous fiscal year?

SA2. It is difficult to compare them due to differences in the situation. Last year, we handled any increase in production volume by working overtime without increasing the workforce given the uncertainty in outlook. This year, we increased the workforce in expectation of a production increase, and then we faced a production decrease. On the other hand, if the production volume increases significantly, we should be able to sufficiently benefit from the effect of the production volume increase.

Q3. Could you give us some supplementary information on your plan in North America for 4Q (3 months)?

A3. Although we cannot expect the shortage of containers and the surge in raw material prices to moderate yet, as new production lines start production, production preparation costs will no longer be incurred and sales will start to be recognized. We will also make other efforts internally, including through cost reduction, to improve operating results.

SQ3. How will the surge in raw material prices be passed on to your selling prices?

SA3. It depends on the customer and the material, but it will be a little while before we can recover the costs, and we are discussing the shortening of the period in which the costs will be reflected in selling prices. As it will affect the ultimate selling prices of vehicles, passing the costs on to selling prices, even if it is possible, would not be sufficient. It is important for us to make efforts to reduce the volume of materials used by streamlining the design.

Q4. Are the 10 target companies for sales expansion of electrification mainly existing AT customers? May I understand that the current unit sales of 10 million are steadily being transitioned to electric units?

A4. Existing AT customers means all OEMs. We mean that we have opportunities to propose electric units to our customers. You can understand that the target is existing customers. We will not achieve immediate results in light of the national and regional circumstances, such as energy policies, and the situation of each customer. We do expect that 2025 will be a turning point and have set our development milestone in the year. However, we will switch existing development resources and facilities while watching the progress of switching processes at the regional and customer levels.

SQ4. Am I correct in understanding that you are confident of receiving orders for electric units by leveraging your existing customer base?

SA4. We are confident in that prototypes have actually been developed internally and are demonstrated to customers during business talks with them.

Q5. As for the results in China for 4Q (3 months), are there any one-off factors that could cause a decrease in profit?

A5. One of the factors is the increase in production preparation costs mentioned in the presentation, which is an internal factor. As an external factor, we also need to watch the operation status closely during the period of the Olympics. There will be no one-off factor for the quarter.

Q6. As for VW-G sales and unit sales, decreases due to the shortage of semiconductors are understandable, but aren't they also caused by the shift to electric units?

A6. In the long run, electrification will progress, but the decreases this year are due to the shortage of semiconductors. Unit sales decreased both in North America and China.

SQ6. Can we expect a recovery for the next year also with customers other than Toyota?

SA6. The current situation in which the number of units each customer tells us they want to manufacture is different from the number of units for which they actually asks us for a price quotation is expected to continue next year. It is difficult to say when this situation will be corrected as it is the same as predicting when the shortage of semiconductors will be over, but we expect that the situation will continue for some time. We will discuss the profit plan internally to prevent profit from continuing to slide down as in this year.

Q7. Have you revised your development roadmaps for the timeline through 2024 including drive units and heat management? Toyota and other OEMs have been tilting their focus drastically toward EV. If the shift to EV advances further in the world, and the previously expected shift from ICE to HEV at non-Toyota customers turns out to be a shift to BEV, wouldn't the impact be huge?

A7. Both HEV and BEV are mainly for Toyota until 2025. Sales expansion will start in earnest from the second-generation eAxle onwards. We are analyzing on a daily basis how electrification will pan out at both Toyota and other customers. AISIN will be prepared to respond regardless of how the trend of electrification pans out.

SQ7. If they are mainly for Toyota for the time being, is it correct to understand that the level of value added would be more or less the same for ICE, HEV, and BEV.

SA7. As there are product groups, such as rear wheel eAxle and cooperative regenerative brakes, that will be mounted more in HEV and BEV, it will not be changed significantly from ICE vehicles.

Q8. Please tell us about your efforts to address the problem of logistical disruption next year. The cost of ocean freight should rise considerably.

A8. It is easy to discuss the surge in raw material prices with customers as there are prior agreements with them on such prices. As for ocean freight, we need to discuss any issue with it from scratch as there has been no clear agreement on ocean freight. For the time being, we cope with any rise in ocean freight costs with inventories in the pipeline.

SQ8. For how many months have the inventory levels been increased? Am I correct in understanding that ocean freight will rise next year?

SA8. As you can see from the balance sheet, we have increased inventories from the end of the previous fiscal year. The shortage of containers this year mainly arises from the problems in North American harbors and the use of air freight instead of ocean freight as ocean freight would not be in time. Due to the existence of contracts for ocean freight, any cost impact will be delayed for some time, and we will need to discuss ocean freight with customers and shipping companies from now on. We will clarify the impact in the profit plan.

Q9. What is the difference between second-generation eAxle and third-generation eAxle?

A9. Both have strengths in high efficiency and smaller size, but the mountability will be improved drastically with the third-generation. As a result, the area of its application will be expanded to include rear wheels and smaller cars. We can propose either generation to customers depending on the timing of development.

Q10. Toyota has recently announced that the volume will be below 9 million. Does AISIN use the same assumption? What is the factor driving the increase in sales to Stellantis?

A10. Based on the latest unofficial indication, we take into consideration some downside risk in view of the current situation. As for Stellantis, CVT is selling well in South America.