

Financial Results Briefing for Q3 FYE Mar. 2024

Q: I have the impression that the quality-related cost of 63 billion yen is large given the recall of about 1.1 million vehicles. Does the cost include other things? Can the amount recognized for the third quarter cover most of the cost for the recall?

A: The recall was caused by a defect in occupant detection sensors that occurred during the six months in which we temporarily used a substitute component in production. Therefore, the scope of the recall will not expand any further. However, as we recognize quality as an important issue, we intend to go back to the basics of quality first to start anew.

Q: But for the quality-related cost, were the 3Q results better than expected? If they were as expected, the 4Q results can be expected to improve further. What are your expectations for the full-year results? As the medium-term plan target for FYE Mar. 2026 is operating profit of 300 billion yen or more, do you have a reasonable profit increase scenario for FYE Mar. 2025? Please tell us the profit growth drivers for FYE Mar. 2025.

A: The 3Q results were as expected. Although you have the impression that the 4Q forecast appears to be conservative compared to the 3Q results, we expect decreases in China and other Asian markets in the 4Q. We also need to consider potential risks associated with Daihatsu. For FYE Mar. 2025, we are conducting activities to improve the corporate structure in addition to an increase in volume. The increase in volume of HEVs is expected to be another factor to drive an increase in profit.

Q: Is the full amount of the quality-related cost of 63 billion yen included in the North American segment?

A: The IR presentation material has been prepared by excluding the impact of the quality-related cost.

Q: Please explain the 3Q results a little more in detail. According to the earnings results of other Toyota Group companies, their performance has been strong due to, among others, the retrospective settlement of the impact of inflation, including the past impact. Are there any such profit-boosting factors for Aisin?

A: There are factors contributing to profitability improvement in FYE Mar. 2024, such as progress in recovery of materials and logistics costs and improvement on loss on reduced production in the last year. Given these factors, we can expect a strong performance more or less similar to that of other Toyota Group companies.

SQ: What is the progress status in entering the 4Q toward achieving operating profit of 210 billion yen, excluding quality-related cost? Are you on track, supported partly by the effect of exchange rates?

SA: Yes, that's right. Given the effect of exchange rates and the trend of production volume of customers, we are largely on track.

Q: I understand that the profit margin of ATs for Chinese customers is high, and as volume increases, Aisin can generate a stable profit. What is your outlook for the Chinese market in FYE Mar. 2025?

A: Although production volume in the Chinese market as a whole is increasing, it remains below the past peak. The recent increase in volume in the China segment is mainly attributable to an increase in exports of conventional vehicles to a specific customer.

SQ: Has the recent increase in profit in the China segment been boosted by one-off factors?

SA: There are no such one-off factors. It has been driven purely by the increase in the number of vehicles.

Q: Do you plan to change strategies for expansion into the Chinese market in FYE Mar. 2025 and FYE Mar. 2026 in view of changes in strategies by other companies in response to the recent changes in the environment? Or will you continue the current approach?

A: We do not currently plan to change the approach to the Chinese market significantly. While there have been requests for price reductions for ATs, our responses have been limited to returns of a portion of the increased cost competitiveness achieved through increased local procurement, rather than easy discounts. As for investment, as we cannot satisfy all requests of Chinese manufacturers, we intend to take a balanced approach, including the effective use of existing assets and group assets, to make investments for electrification at the right time while monitoring developments in the market.

Q: While the importance of Advics and Aisin Takaoka is expected to increase going forward, do you plan to modify the capital structure in view of, among other things, the outflow of income attributable to minority shareholders? In addition, please tell us your approach to repurchase of own shares, including its priority.

A: The most important point is whether the support of shareholders is necessary for them to run their business properly. We may need to modify the capital structure if the support is unnecessary. If that is not the case, we do not plan to modify it unreasonably. We understand that the Group's capital structure and repurchase of own shares are two separate issues.

Q: You have given a message that Aisin will work to generate stable profit in the existing areas of ATs/HEVs, as indicated in the medium-term plan. However, while the shift to BEVs is said to be currently decelerating, what is the progress status of your efforts to take AT/HEV/PHEV products in from OEMs other than Toyota? For example, has a shift of production to Aisin from VW or Chinese OEMs been negotiated? There is a trend of growth in PHEVs among Chinese OEMs. Have you identified it as a new opportunity?

A: As only about six months have passed since the announcement of the medium-term plan, there has been no significant change. However, the certainty of what we have initially planned has been increasing.

SQ: Is it correct that the plan is being carried out as initially negotiated and there has been no change in the plan despite the deceleration of the BEV shift?

SA: As the speed of electrification varies with each country or region, we plan to be ready for either case.

While the progress of taking in conventional vehicles depends partly on the speed of the shift to BEVs, the progress to date has been in line with the initial plan.

SQ: Can you report specific progress in FYE Mar. 2025 at the earliest?

SA: As we explained our plan as the medium-term plan toward FYE Mar. 2026 at the medium/long-term business strategy briefing, we would like to report what has been determined around that time.

Q: Please give us an update of the order receiving status for eAxle. I understand that you plan to launch a small-size eAxle in 2027-2028. Are you already discussing it with European OEMs and other existing customers? As other companies are also talking about in-wheel motors, I would like you to give us an update also on them, if any.

A: At the medium/long-term business strategy briefing, we mentioned 20 inquiries from 10 companies. The situation has not changed significantly. However, they are not just simple inquiries, and we can now closely coordinate with them as we have built close relationships with them. While the range of products that we offer would vary depending on the situation of each customer, customer needs and the areas in which Aisin can contribute are becoming clearer. Although orders are steadily increasing, information disclosure will be a little later as we cannot discuss some of these orders now due to customer relations.

SQ: Are these orders for the third generation eAxle?

SA: Orders vary depending on each customer. We cannot discuss specifically at this point whether they are for the third generation eAxle.

Q: As for the impact of materials/logistics cost, you indicate +8 billion yen for the 3Q, -12 billion yen for the 4Q, and a negative impact for the full year. Do you have a conservative view on cost? Have recoveries progressed much in the 3Q? Please tell us how to interpret these figures.

A: The impact of materials arises from recovery and payment and should be compared on a full-year basis. In FYE Mar. 2023, recoveries concentrated in the 4Q. For this reason, FYE Mar. 2024 looks worse if we compare only the 4Q for these two years. However, in FYE Mar. 2024, recoveries are occurring faster as we have imposed rules on them. The impact is more favorable in FYE Mar. 2024 than in FYE Mar. 2023 on a full year basis.

SQ: Is it correct that recoveries this year have progressed faster as they have progressed evenly year-to-date while recoveries last year were concentrated in the 4Q?

SA: Yes, that's right. In FYE Mar. 2024, in addition to the recoveries, payments have also been relatively stable, which has also a positive impact.

Q: You indicated at the outset that profitability is improving in North America, and profit is expected to increase significantly in the 4Q. Why is that? May we also expect further profitability improvement going forward given the expected increase in HEVs in and after FYE Mar. 2025 and the scheduled launch of the third generation eAxle in FYE Mar. 2026?

A: In North America, higher personnel expenses due to inflation, deterioration of productivity, and start-up cost for electrification all occurred simultaneously in the last few years. Since the beginning of FYE Mar. 2024, productivity has been gradually improving, and sales performance in the North American market has been strong. As a result, productivity has been increasingly stable. In addition, recovery of raw materials has also been gradually improving through negotiations. However, we need to continue to take actions for improvement as manufacturing in North America, fundamentally speaking, continues to face many issues.

SQ: Is it correct that as the generation of eAxle becomes higher, such as the third generation, its size will be smaller, cost will be lower, and profitability will improve?

SA: As the generation changes going forward, we expect that the selling price will fall while we will work to reduce cost similarly to improve competitiveness.

Q: Is it desirable to increase the sales of HEVs? Is it correct that profitability has been improving compared to before?

A: The ratio of electrification products is currently over 20%, which means that we can now secure a sizable volume. In addition, we have increased the ratio of internal production to produce internally a considerable number of components other than inverters. As a result, profitability has improved compared to before. We expect that the profitability of HEVs will improve to a level comparable to that of ATs going forward.

Q: As for the trend for the dissolution of cross-shareholdings, the market appears to be wary of implementation through a secondary offering. What is your view on the current shareholder composition? Are you also considering repurchases of your own shares? If Toyota sells Aisin shares, what will you do?

A: We understand the trading volume of Aisin shares in the market is currently limited. If a secondary offering should occur, one option would be to take it as an opportunity to increase individual shareholders and new institutional investors. Our approach to shareholder return measures, such as repurchase of own shares, has not changed, and we will consider these measures depending on the circumstances as we continue to rebalance our business portfolio and to implement a balance sheet reform.

Q: As for the profitability of HEVs, is it correct that profitability is highest for 6-speed AT, followed by 8-speed AT, whose profitability is improving, and HEVs come next?

SA: Yes, that's right. However, as the volume of 8-speed AT is significantly above that of 6-speed AT, the difference between them is no longer as significant as before.

Q: Is it correct that the profitability of HEVs has been improving since the launch of the fifth generation THS for Toyota?

A: Its impact has been significant. While internal production of motors partly started with the fourth generation, the ratio of internal production is even higher with the fifth generation, which has resulted in higher profitability.

Q: Is it correct that the quality-related cost for the recall of about 1.1 million vehicles has amounted to 63 billion yen because it has been significantly affected by processing and labor costs for, for example, replacing seats due to the product characteristics of occupant detection sensors? Where has the cost been recognized on the balance sheet? Has the cost already been paid?

A: In a vehicle, multiple occupant detection sensors are attached to its seats at their rail part near one's feet. Therefore, it is correct that processing cost will be higher, and it will be even more so as it is in North America.

However, we are exploring a method to reduce cost as much as possible in cooperation with the car manufacturer.

The quality-related cost has not already been paid, but has been recognized as accrued expenses on the balance sheet.