Financial Results Briefing for 3Q FY2021

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AISIN SEIKI Co., Ltd.

Q1. In the 3Q results, are there any one-off factors that boosted profits in terms of both SG&A and productivity, such as a temporary improvement due to an increase in production?

A1. We manage our fixed costs strictly as emergency and structural measures. For example, we have been promoting the integration of functions that not only includes companies in Japan but also overseas regional supervisory companies and research companies. These efforts are beginning to produce results. In terms of corporate structure improvement, we have seen a reduction in costs for 8-speed AT and have achieved profitability in North America, which had long struggled in terms of productivity. Our steady efforts have begun to appear in the figures.

Q2. How much semiconductor risk have you incorporated in your forecasts? If the situation returns to normal next term, how will you do against the annual operating profit of 200 billion yen, which you have mentioned before?

A2. In addition to semiconductors, we have incorporated risks such as uncertainties in customers' plans, including a reactionary drop after the Chinese New Year and the shortage of containers. As a result, we assume annual AT sales of 8.7 million.

We will make 60 billion yen of the 95 billion yen of emergency measures and structural reforms permanent. Some of the remainder are fixed costs that were reduced in an emergency, so they will disappear, but we believe we have enough structural strength to achieve 200 billion.

Q3. What is the breakdown of the +38.1 billion in sales fluctuation and +7.5 billion in fixed costs & others of your full-year forecasts against the previous forecast?

A3. +28.1 billion in net sales, a little less than +4.0 billion in product mix, and +7.0 billion in production on the back of full operation at production sites. For fixed costs & others, +3.0 billion is quality costs, which is 7.0 billion compared to the 10.0 billion buffer in the previous forecast. There are also reductions in integration-related costs.

SQ3. Are there any specific items estimated in quality-related costs?

SA3. We hope there will be no more of these.

Q4. Is ADVICS seeing progress in quality improvement? Their presence should increase due to electrification, but what is the situation?

A4. The quality side is beginning to settle as a result of incorporating manpower to introduce solid measures. In terms of margin, the transfer of control brakes has virtually completed, resulting in an improvement in added value in internal manufacturing. We hope to maintain this level. Cooperative regenerative brake systems and electric-assisted parking brake are the products we are looking forward to with electrification.

Q5. What is the fluctuation by market and customer of the +200,000 full-year AT sales (from 8.5 million to 8.7 million)? Does the container risk specifically refer to Aisin's containers?

A5. By market, Europe is +90,000, Asia and others +60,000, China +40,000, North America +20,000, and Japan ±0. By customer, China's local manufacturers are +90,000, other European manufacturers +70,000, and VW +60,000. As for risks, we do not reflect individual risks but take into account the reactionary drop after the Chinese New Year, the semiconductor impact and the container shortage, among others.

Q6. What is the relationship between the 90 billion yen in structural reforms and the 45 billion yen that you mentioned before for the integration with AW, etc.?

A6. 45 billion yen is the 15 billion yen which we expect to achieve this term ahead of schedule plus the 30 billion we expect to achieve in and after FY2021. There is no change in this portion of the target. We hope to cover the emergency reductions and the resources for CASE with the 30 billion yen integration effect in and after 2021. When we announced the figure of 45 billion yen, COVID-19 had not yet appeared. We had been implementing workstyle reforms and the utilization of digital technologies then, but they were somewhat challenging. As a result of reviewing our work completely in the wake of the pandemic, we feel confident that we can do more than we assumed.

Q7. How fast do you think you can achieve the 30 billion yen integration effect in and after FY2021?

A7. We hope to achieve it in 1 or 2 years. We will reduce overlapping fixed costs between AI and AW not only through integration in Japan but also at overseas supervisory companies and research companies. Since we cannot reduce fixed personnel costs in Japan rapidly, we will reduce them systematically through measures such as refraining from replacing employees who have retired.

Q8. What specific efforts are you making in terms of additional improvements in 8-speed AT and North America?

A8. To thoroughly carry out the basics such as the "5 Ss." We are beginning to see the results of the activities we have been working on since around two years ago as the 3 core activities, which include thorough enforcement of standard work. These have led to a reduction in costs of losses.

Our costs were high initially at start-up due to specification changes in response to customers' requests. We have been making cost reduction efforts by reviewing items to be improved in design and production engineering. We have now achieved similar profitability as for the regular 6-speed AT.

Q9. How do you calculate the percentage of sales of electrification products that contribute to CO_2 reduction, which is 13% in 2020 and more than 50% in 2030? What is the actual amount of the 50% in 2030?

A9. The numerator is the sales of electrification products such as electric drivetrain units, electric WPs and regenerative brakes. The denominator is the total sales of related areas, which are the powertrain, chassis & vehicle safety systems, and ICT & electronics businesses. We will specify the actual amount of the 50% in 2030 and the sales mix in our medium-term plan going forward.

Q10. How should we view margins and fixed costs in considering AT for the next year and onward?

A10. In terms of fixed costs, we have been increasing the injection of resources into CASE while reducing total fixed costs through emergency and structural measures. We expect to make investments following the switch to 8-speed, HV, and EV. We will reduce administrative costs through our integration with AW, all the while making investments for the future at the same time. In terms of development costs, the costs for CASE are expected to increase from 30% in 2018 to 50% in 2020. As for capital expenditure, we will increase investment with a focus on cooperative regenerative brake systems, electric driving units and motors going forward.

Q11. How do you view the future of China's local manufacturers, based on the merger situation, the progress of electrification, and internal manufacturing by customers?

A11. Since peaking in 2018, they have experienced the U.S.-China trade friction and the impact of the coronavirus. We expect current levels to continue for some time, but we have been making proposals to customers continuously such as on the timing of new vehicles. We believe it is important to bring our costs down to a level that can compete with internally manufactured products.

Q12. Can you achieve sales of electrification products that contribute to CO_2 reduction of 50% while maintaining a 7% operating margin?

A12. In the near term, we will reap the benefits of the reduction in fixed costs, which is the result of structural reforms. 7% is the target for FY2023. In addition to drivetrain units, we will provide a wide range of electrification products, such as electric WPs and cooperative regenerative brake systems.