

Financial Results Briefing FY 2020 3rd Quarter

January 31st, 2020
AISIN SEIKI Co., Ltd.

Q1. According to the results of 3Q, quality-related costs exceeded the previous forecast. What caused it? Was the cost incurred in ADVICS? Also, why hasn't the full-year quality-related cost forecast changed from the previous?

A1. Quality-related cost was incurred in ADVICS. This was caused by the increase in recall-related costs of brake products for North America.

A part of the cost planned for 4Q was incurred in 3Q, and in addition to it, the cost increased and exceeded our assumption. However, the expected full-year quality-related cost does not change due to revisions of cases other than brake, as well as impairment.

Q2. Sales to China's local companies deviated slightly above the previous forecast. Please give us an update on the current situation. Is the situation changing because of coronavirus?

A2. The number of ATs sold in the Chinese market on 3Q is 2.27 million, and it is 90,000 units bigger than the previous forecast of 2.18 million.

This is mainly due to the increase in China local manufacturers' sales of new cars. The prediction has not taken into account the effects of coronavirus.

Q3. Does it mean that the sales deviated slightly above the previous forecast, because of completion of adjustments in inventories caused by China's local manufacturers? Or should we think that China market have started recovering, increasing sales steadily towards the next term?

A3. Adjustments in inventories completed in the first half. Sales in the future are still uncertain and we will make decisions while watching the situation.

Q4. TOYOTA says that they will postpone production and Chun Jie holidays in China. What is AISIN's local situation?

A4. We will restart production at the same timing as TOYOTA.

Q5. Competitors are accelerating restructuring for electrification, etc. Please give us an update on the synergetic effects of the integration with AISIN AW.

A5. In the CASE field, AISIN Group companies have cooperated with each other from before through the virtual company system. Now, our collaboration has accelerated due to the announcement of integration with AISIN AW, in October last year. At the same time, we will proceed with optimization of fixed cost. For example, we unified the procurement department of two companies in November last year ahead of the integration.

Q6. Are effects of rationalization being achieved as scheduled?

A6. Yes.

Q7. Among the causes of operating profit fluctuations, let us know the reasons to -3.7 billion yen of “Sales fluctuation”.

Regardless of the increase in China by 90,000, the forecast of AT units did not change. Let us know the areas which number of ATs has decreased.

A7. The value of “sales fluctuation” is negative due to unfavorable sales in Asia and other areas, such as Thailand, Indonesia, India, etc.

The number of ATs decreased by 30,000 in Europe and 60,000 in ASEAN.

Q8. Regarding annual forecast for operating profit, ADVICS Group decreased by 10 billion yen from October forecast, while AISIN SEIKI Group increased by 6.8 billion yen. Let us know its reason together with how quality-related costs explained earlier affects this fluctuation.

A8. Results of ADVICS Group deteriorated due to the increase of quality-related cost in North America, as we have explained earlier. Meanwhile, due to revision of other issues, quality-related cost of AISIN SEIKI Group decreased.

Q9. Annual forecast of capital investment is 315 billion yen, 5 billion lower than the forecast in October. We assume that there are items to increase in the next fiscal year, while items that should decrease such as investments related to China. For reference on future fixed cost, let us know your ideas on capital investment in the next FY and further.

A9. In relation to this term’s 315-billion-yen capital investment, we are now implementing a group-wide investigation on investment, in response to decrease of AT units. In the future, we aim to reduce the ratio of amortization

cost to 6% or less. Also, for the next FY we target 300 billion yen or less for capital investment.

Q10. Regarding the ATs destined for China, if there is a difference in trend between the local manufacturer and others, let us know about it.

A10. Regarding the ATs destined for China, we expect 90,000 units increase from the forecast in October, most of them destined for local manufacturers.

Q11. May we understand that the results of 3Q do not contain loss on business liquidation? Also, since there are no reviews made to the total cost for non-ordinary factors, may we understand that there are no significant changes?

A11. You may understand so.

Q12. You announced that you would raise fund by the issuance of hybrid securities amounting to 250 billion yen. If there were significant changes from 300 billion yen announced in October, please let us know.

A12. In October, we informed you of raising 300 billion yen. The total amount has not changed from then. However, due to investigation on our rating, we determined that we need not to raise all fund by issuance of hybrid securities. Now, we are planning to raise about 250 billion yen by the issuance of hybrid securities, and the rest by borrowing normally.

Q13. Regarding fluctuations of 3Q operating profit, should we think that the decrease in “Sales fluctuation” was caused by unfavorable sales in ASEAN countries, similar to that of annual forecast? Also, what is the content of “Carry over”?

A13. Similar to the annual forecast, sales are decreasing in Asia and others. Also, various costs amounting to 4.2 billion yen originally planned for 3Q were postponed to 4Q.

Q14. Large quality-related costs have been recorded continuously. We are afraid of it reoccurring in the future. What is the progress of the countermeasures?

A14. In recent years, the cost is generated mainly in ADVICS. Therefore, we are reinforcing them.

As a brake manufacturer, we are deeply sorry to have caused quality problems

on products connected directly to customers' safety. Now, streamlining of such quality related problems has been set as our highest priority. We are reforming the corporate culture for penetration of the fundamental of works, i.e. meeting expectations with sincerity. The whole company is working on thorough pursuance of the true causes of each quality problem and completion of the countermeasures. We are working on so that such problems do not occur in the next FY and later.

Q15. Should we think that there are structural tendency to generate the quality-related cost or that such problems just happened to occur concurrently in these two years?

A15. We agree with the later recognition. If we say they just happened to occur, it is misleading. However, the situation is concurrent occurrence of problems in one spot.

Q16. Explain us the progress of measures to reduce fixed cost. In October you announced the reduction of 30 billion yen as an effect of integration with AISIN AW. Could you let us know the progress of structural reform and the measures to reduce fixed cost? Are the accumulated effects of them increasing?

A16. In October we explained a 45-billion-yen reduction of fixed cost towards 2023 including 30-billion-yen reduction by integration of AISIN SEIKI and AISIN AW. Now, we have identified the items to streamline for each department / function towards the reduction of fixed cost. At present, we are challenging to reduce our total working hour. We reviewed all operation throughout the company, identifying business that can be eliminated. The effect of this activity has already appeared in this FY, contributing to a slightly positive fluctuation on 'structural reforms'. In addition, subsidiary throughout the world is under consideration of merging to achieve reduction goal.

Q17. May we consider that the reduction is being materialized?

A17. Yes, you may.

Q18. You said that there are signs that Chinese market is bottoming out. Could you let us know the number of ATs destined for China by quarter?

A18. 510,000 in 1Q, 470,000 in 2Q, 680,000 in 3Q, and 600,000 in 4Q. The number of ATs in 4Q is smaller than 3Q because of a seasonal factor (Chun

Jie).

Q19. Regarding 6-speed ATs, have their demands bottomed out? How about sales MIX of 6-speed ATs and 8-speed ATs?

A19. Compared to our forecast in October, the number of ATs increased by 90,000 in China. Most of them were 6-speed ATs. Considering the sales MIX of 6-speed ATs and 8-speed ATs, the ratio of 6-speed decreased while 8-speed increased, resulting in an almost equal AT sales ratio.

Q20. What is the current situation of 6-speed ATs global market, including China?

A20. Although the number of 6-speed ATs is increasing slightly in China, it is decreasing in the overall market.

Q21. Let us know the effects on AISIN regarding electrification implemented by OEM manufacturers of China and Europe. We hear that other companies have received orders of eAxle from joint venture partners, Geely Automobile and Guangzhou Automobile. We are concerned that this may cause AISIN's business to shrink in the next 3~4 years. In such situation, what is your action on transmission related business with the OEM manufacturers in China and Europe?

A21. We aim to supply excellent products to various customers in addition to 6-speed ATs and 8-speed ATs by improving the lineup of electrification products such as HV, EV. We also desire to increase our competitiveness by reducing costs.

Q22. Are there any changes in timing to start production by the joint venture with Geely Automobile and Guangzhou Automobile, investment amount, production volume, etc.?

A22. We are adjusting the optimum production capacity and the startup timing while hearing partners' requests. We would like to withhold the specific information because of the relationship with them.

Q23. Regarding profitability of 8-speed FF, you said in October that you could expect 1% improvement in this first half and 3% improvement in this FY. Let us know its progress and the possibility of further improvement in future.

A23. Cost reduction is in progress as scheduled and we are capable of achieving the annual 3% improvement. We will continue on cost reduction activities from the viewpoint of supplying excellent products to the world. We will promote the activities further to increase our competitiveness.

Q24. Regarding integration with AISIN AW, let us know its synergetic effects on operating activities that we can expect.

A24. In the past, AISIN SEIKI and AISIN AW had conducted their operating activities separately. Now, we can share customer channels together, resulting to new customers. Such operating activities will accelerate after the integration. Although the exact amount has not been calculated, we are planning to include it in the midterm plan.