

Financial Results Briefing for 2Q FY2021

October 29, 2020
AISIN SEIKI Co., Ltd.

Q1. You have not changed your full-year forecast, but what is your impression of the second half compared to your initial plan?

A1. It means that we are committed to achieving operating profit of at least ¥50 billion. Looking at 2Q, while we felt there was progress in emergency measures and structural reforms, there are still uncertainties due to COVID-19. There has been no deterioration in our corporate structure or any new risks after July. We have kept our full-year forecast unchanged due to uncertainties that include the impact of COVID-19. We intend to carry out structural reforms that we can maintain control of, instead of depending on the external environment.

Q2. Hybrid vehicles will increase in the next 25 to 30 years. How will it affect your revenue structure?

A2. Currently, electric driving units account for around 7% of the total. A year ago we said that we hoped to increase the ratio to 30% by 2025, and we will accelerate this effort. In both China and Europe, the gap created by the restrictions on gasoline vehicles will be filled by EVs or hybrids. OEMs' revenues come from gasoline cars, hybrid cars and EVs, in this order. Therefore, an increase of hybrids is expected. This will be a business opportunity for us since we can meet customers' needs with our full lineup of hybrids, which include both FF and FR for 1MHVs and 2MHVs. There are actually talks that PSA will increase their standard number of 1MHVs. We are currently considering switching from the existing 8-speed and will provide a strategic update after the turn of the year.

SQ2. If you have a competitive edge in hybrids, perhaps you will enjoy high profitability like you did with the 6-speed AT in the Chinese market?

SA2. We are not sure if things will turn out the way they did with the 6-speed AT, but we will continue to increase our competitiveness through efforts such as manufacturing motors internally.

Q3. How is the recovery of AT sales by market and customer? What is the breakdown of the 100,000-unit increase for the full year?

A3. In the first half, sales in Asia and Others were -500,000 units, in North America -330,000 units, in Europe -230,000 units, and in China +180,000 units, which add up to -910,000 units in total. By

customer, sales for the Toyota Group were -500,000 units, for European manufacturers -290,000 units, for other Japanese companies -100,000 units, and for GMFCA -60,000 units, which add up to -910,000 units in total. The increment of 100,000 units for the full year is due to the relatively strong recovery in ASEAN, while it was difficult to foresee increases at individual customers last time.

Q4. What is the progress of your emergency measures, structural reforms and corporate structure improvement efforts? How much of the progress do you think will continue after next year?

A4. Six months have passed since we began our emergency measures and structural reforms, and we feel that the precision of our efforts has improved. The ¥30 billion reduction in costs, which we have been saying from the start is due to the structural reforms, is mainly attributable to the integration of AW and subsidiaries and will remain after next year. We also feel that half of the ¥60 billion reduction due to reduced overtime pay, which began as an emergency measure, will remain in the future. Of the ¥92 billion reduction, ¥60 billion in reductions will continue to be effective next year. We have determined the necessary fixed costs, and we will manage the costs within this limit.

Q5. What is the breakdown of the -¥27.6 billion due to fixed costs and others for the full year? How accurate is this forecast?

A5. Although it is not based on any specific event, we expect -¥10 billion for quality-related risks and around -¥7 billion for costs related to the integration with AW. Other costs include depreciation and preproduction costs. Although the accuracy is high except for quality-related risks, we will scrutinize the costs related to the integration.

Q6. Is there room for growth of AW's installation rate even if the sales volume of China's local manufacturers do not increase?

A6. I will refrain from commenting since it has to do with customer information, but we will provide quality products that satisfy customers' expectations. Sales have been recovering recently due to the recovery of sales volumes. We will make sure to increase our sales when consumers switch to new cars.

Q7. Last time you did not disclose regional forecasts, but is there anything you can disclose in terms of changes to the previous forecast announcement?

A7. Last time we could not assume regional figures due to the uncertainties surrounding COVID-19. The situation in Asia is severe, but we have received news that IMV is recovering in Thailand, and we are hopeful there. Indonesia continues to be difficult. North America is seeing the effects of corporate structure improvement. We will make sure to reap profits there.

Q8. What are the percentage mixes and profitability of 6-speed and 8-speed AT?

A8. 8-speed AT saw a 3% year-on-year improvement in profitability by reviewing the design and specifications, leveraging existing equipment, and selecting suppliers. As we continued our cost

reduction efforts in the period under review, 8-speed has reached a level similar to that of the general 6-speed. As for percentage mix, we do not expect a large difference from last year on an annual basis.

Q9. How are orders looking for each electric product, including hybrids and eAxle?

A9. We have secured new orders for several vehicles with BlueE. I cannot disclose customer details, but they are a local manufacturer in China. The product is a hybrid.

Q10. How is the profitability of eAxle for BEVs? What will be the sales per unit ultimately?

A10. We intend to propose entire systems of electrification and EV, including [thermalheat](#) management and the cooperative regenerative brake system, instead of a simple comparison between AT and eAxle. We will strive to achieve per unit sales and profit that are comparable to those of gasoline vehicles. e-Four is a product that has a similar structure to eAxle. Most of its sales have been to Toyota, but inquiries from other manufacturers have been increasing. It is a motor mechanism for the rear wheels of hybrid vehicles, such as SUVs, and is delivered in units. With BlueE, we are considering strengthening our competitiveness and increasing sales.

Q11. How do your electric products compare with competitors' for similar car types?

A11. Profitability is generally the highest with gasoline vehicles, followed by hybrids and EVs, in this order. This can be said for competitors too. Hybrids have a greater added value than gasoline vehicles and are equivalent in terms of profitability. EVs are still low in profitability due in part to the small number of vehicles. We intend to improve their profitability.

Q12. What is your approach to dividends? Is there a possibility that they will increase depending on second-half results, or will the current amount be the final level, considering the payout ratio?

A12. We sought to achieve a balance with financial soundness due to the procurement of treasury share purchase funds at AW. Our policy of maintaining a consolidated payout ratio of 30% and stable dividends has not changed. We expect year-end dividends to be ¥40 per share but will decide the amount in consideration of operating results.

Q13. What is the reason for the expected drop in sales to VW in the second half?

A13. It is due to car GPSes being replaced by systems and the wearing off of the new model effect of the low-price brand.

<Final note>

We will launch our medium/long-term strategies after the turn of the year. We appreciate your

continued support.