

Financial Results Briefing for 2Q FYE Mar. 2025

Q: The 2Q results show a significant decline in profits in the Japan segment. Is this due to a one-time factor?

A: The large decline in the Japan segment is mainly attributable to losses caused by reduced production due to the typhoon. The cost of such losses is expected to be eliminated as production returns to normal. In addition, some fixed costs, such as quality costs, were incurred in the first half of the year, but these costs are expected to remain roughly in line with the initial plan over the full fiscal year.

SQ: If the full-year forecast is 200 billion yen, you need a profit of 140 billion yen in the second half.

Is progress on track?

SA: We believe it is on track. The reason why a large amount of profits will be recorded in the second half of the year is because, as in the previous fiscal year, recovery of increases in resource prices and other expenses will be concentrated in the second half of the year. We will steadily push forward with structural reforms and other measures to achieve our plans.

Q: Will the partnership with Mitsubishi Electric focus mainly on Xin1?

Does this mean that development in the areas of HEVs and PHEVs, on the other hand, will proceed in cooperation with Denso?

A: By collaborating with Mitsubishi Electric, we are planning to first move forward with the development of Xin1. HEVs and PHEVs will be considered in the future within the framework of BluE Nexus.

SQ: Can you give us any updates on the status of inquiries about HEVs and PHEVs and their market launch schedule?

SA: The number of inquiries is steadily increasing. These inquiries are expected to lead to market launch around 2027 to 2028.

Q: Regarding the operating profit forecast for the second half of the year of 140 billion yen, what will be the drivers of the increase in profits?

A: We expect to recover production to a certain extent in the second half of the year in both Japan and North America, and we will continue to recover increases in resource prices and other expenses while completing structural reforms. With these drivers, we aim to achieve the operating profit target.

Q: What is the sales outlook for PT units by customer and region for next fiscal year?

A: We expect that unit sales will increase from this fiscal year. In addition, new HEV products launched in North America this year are expected to enter full production and electrified product sales will increase. The product changeover for European OEMs has been completed, and demand for CVTs and 6-speed ATs for South America is expected to increase going forward. It is expected that exports to Chinese companies overseas will remain strong next year. Overall, we expect shipments to Japan, North America, and emerging countries to continue to increase going forward.

Q: There has been talk of a recovery of increases in labor cost and resource prices from the first half to the second half of the year. Please tell us the balance between payments in the first half and recoveries in the second half.

A: Regarding high resource prices, we expect an improvement of 5 billion yen compared to the previous fiscal year (improvement from -49.5 billion yen last year to -44.5 billion yen this year, balance of +5 billion yen). Given the first half result of -55 billion yen and the second half forecast of +10 billion yen, the second half results are expected to be about 60 billion yen higher than the first half.

SQ: Does this mean that there is a high probability of a recovery of increases in resource prices as planned because negotiations with customers are expected to be successful to a certain extent?

SA: The situation was similar last year, and we were able to achieve recovery. Therefore, we believe there is a high probability of successful recovery.

SQ: Can we expect this situation to be sustainable going into next year?

SA: When prices rise, payments will increase first, but because we manage our income and expenditure carefully, it doesn't affect us significantly.

Q: You mentioned that you have repositioned HEVs and PHEVs in your business portfolio as growth areas. How will this change the unit mix and profitability per unit? Will there also be any change in the allocation and total amount of the investment?

A: Sales per unit will be about 10% higher than for conventional vehicles. While there will be an increase in sales of individual units, when considering sales in combination, including cooperative regenerative brakes, the increase will be even greater. Therefore, we believe that this will contribute to both sales and profits. In terms of profitability, we are currently producing both fourth and fifth generation models, but will gradually shift to fifth generation models, which have higher profit margins, and profitability will increase as a result. Regarding investment, we have declared our intention to establish a production system for 4.5 million electric drive units under a full lineup strategy. We are making steady progress with this investment and plan to continue it.

SQ: I understand that you are shifting from EVs to HEVs, etc. Is it correct to understand that this will lead to an improvement in the mix in terms of profits?

SA: Yes, that's right.

SQ: What is the difference in added value between HEVs and PHEVs?

SA: Although it is hard to generalize, HEVs that use our new system have a high affinity with PHEVs, and we will pursue our uniqueness and try to sell them at a higher price.

SQ: You mentioned that the number of inquiries is increasing. What is the situation by region and customer?

SA: In terms of region, the increase is happening mainly in ASEAN and India. North America is also strong. We believe it is necessary to respond according to local needs and PT mix.

Q: Regarding the probability of achieving an operating profit of 200 billion yen in the current fiscal year, please tell us about the conditions for achieving it this fiscal year, including risks and opportunities.

A: We are expecting the exchange rate to be 140 yen in the second half of the year. The yen is currently weak at 152 yen, and if this situation continues, there will be an opportunity as far as the exchange rate is concerned. Regarding the production volume of customers, if production continues to recover in Japan and North America and volume increases, it will also be an opportunity. In addition, while cost recovery from domestic customers is progressing smoothly, the question is how much more we can increase cost recovery from overseas customers. Here we are

making extra efforts.

SQ: Please tell us your assumptions about Toyota volume. How do they compare to the unofficial announcement?

SA: We are taking a conservative approach given the risks in the Chinese market. Regarding Japan, we believe that the lower-than-expected results in the first half of the year will be recovered to some extent.

Q: Regarding the operating profit of 300 billion yen indicated in the medium-term plan, the exchange rate and other conditions have changed since then. For example, how much production volume is needed to achieve this? Please tell us about the impact of internal efforts and production volume on reaching the 300 billion yen target.

A: There is a 100 billion yen gap between the 200 billion yen for the current fiscal year and the 300 billion yen for the next fiscal year. The original idea behind the medium-term plan was to fill the gap by completing structural reforms and capitalizing on the increase in production volume of customers. The structural reform portion has been progressing smoothly so far, and we believe that it is possible to achieve 300 billion yen based on the assumed production volume of 11 million units. On the other hand, based on what we can see now, we think it may be a little difficult for production volume to reach 11 million units. While the production volume will depend on market and customer trends, we will continue to make steady progress without relaxing our own efforts.

SQ: I believe the structural reforms include improvements in HEVs. Do you need to be concerned that their benefits will be diminished due to fluctuations in production volume of your customers?

SA: Improving the mix by introducing new products is also part of the structural reforms, so if the production volume of such products increases, there will be an impact. However, we will continue to monitor market trends and work to improve overall profitability so that a decline in the production volume of our customers will not directly lead to a decline in our profits.

Q: Regarding the partnership with Mitsubishi Electric, has the plan to establish a joint venture been canceled for the time being? Or will negotiations continue?

A: The idea of establishing a joint venture has not been canceled, and negotiations will continue going forward. Meanwhile, we have decided to enter into this business partnership in order to accelerate the speed of concrete product development.

Q: What are the current status and future outlook for unit prices and profit margin for each model and capacity of HEVs?

A: Larger products with more components and greater added value have higher unit prices. When comparing FF and FR, we believe that FR can secure a relatively high profit margin. As production begins in North America, the contribution to overall profits is expected to become greater once the production volume increases.

Q: How did the first half results fall short of the plan? Will there be any changes to the original plan for the second half?

A: The plan for the first half was around 80 billion yen, and although there was a positive exchange rate effect, profits fell by around 20 billion yen due to a decrease in unit sales. The second half results are expected to be in line with the initial forecast although with some regional differences. Therefore, the full-year forecast has been revised downward to the extent of the decrease in profits in the first half of the year.

Q: Has there been any obstacle to establishing a joint venture with Mitsubishi Electric?

Did it take time to make adjustments due to your relationship with BluE Nexus?

A: We discussed with Mitsubishi Electric what kind of company the joint venture should become in the long term. However, we decided to start our partnership off as a business partnership in order to be able to respond quickly to inquiries. We believe that this business partnership will strengthen BluE Nexus' competitiveness and product lineup.

Q: If you divide the 140 billion yen for the second half into 3Q and 4Q, will there be any quarterly difference?

A: Profits are expected to be higher in 4Q as the recovery of increases in resource prices in the second half of the year will be concentrated in February and March.

Q: Will changing HEVs into a growth area affect your division of production with Toyota for PT units?

A: Discussions with Toyota are ongoing, but there are no major changes at this stage.