AISIN Corporation

Financial Results Briefing for 1Q FYE Mar. 2027

Q: I would like some clarification about the evaluation of the 1Q results and the progress toward the annual plan. You explained that the results are largely in line with your expectations, and I understand that profits are heavily weighted towards the second half of the year. On the other hand, looking at the progress rate at the end of 1Q, it doesn't necessarily look like a comfortable start. Please explain to what extent such factors as PT unit sales, exchange rates, and rising raw material prices due to the situation in the Middle East were factored into the plan and what the main differences were between the plan and the actual results.

A: We had projected an operating profit of 40.3 billion yen for 1Q. The main differences between the plan and the actual results are the worsening net sales growth and the significant impact of exchange rates. Although a decrease in PT unit sales to China had been factored into the plan from the outset, the actual decrease exceeded the plan. On the other hand, the yen depreciated against other currencies, which partially offset the impact of that.

Regarding raw materials and logistics costs, although aluminum prices rose at a faster pace than initially anticipated, the impact compared to the plan was limited to around 1 billion yen, and overall, these costs remained largely within the planned range. Furthermore, while raw materials and logistics costs are incurred upfront in 1Q, a price revision mechanism is in place for aluminum, which accounts for the majority of these costs. Although there are differences depending on the customer, the changes in these costs are generally expected to be reflected in the selling price within three to six months, and at this point, there are no major changes to the assumptions of the initial plan.

Regarding cost structure improvement, the results exceeded the plan by approximately 2 billion yen. Regarding the impact of tariffs, there have been delays in the timing of price pass-through to and recoveries from some customers, resulting in a negative impact of 1.9 billion yen compared to the plan. Our biggest concern right now is the demand trends in the Chinese market. Due to the economic slowdown and the impact of rising fuel prices, there is uncertainty regarding the sales trends of ATs. We will continue to monitor the situation closely.

Q: I would like to know the impact of the Kumamoto earthquake. I recall that the 2016 Kumamoto earthquake had a significant impact because door checks were produced in a highly centralized manner. I understand that since then, you have been implementing business continuity measures, such as diversifying production bases. Please explain whether there are any components that could be a potential bottleneck at this point, how the production system is divided up, and how the measures implemented based on the previous earthquake have been effective this time.

In addition, regarding the impact of the Kumamoto earthquake, please tell us what aspects can be incorporated into the full-year financial forecast at this point and what risks you perceive.

A: In Kumamoto, our subsidiaries, such as AISIN Kyushu Co., Ltd., are conducting business. Although we have experienced tremors even stronger than those of the 2016 Kumamoto earthquake this time, we believe that the countermeasures we implemented based on our previous experience were effective.

The 2016 Kumamoto earthquake caused significant damage to our plants, including damage to press machines due to the collapse of overhead cranes and the overturning of racks. Moreover, damage to the power lines and piping disrupted the energy supply, affecting plant operations for approximately four months.

Based on these experiences, we have implemented measures to prevent equipment from falling or tipping over. As a result, there has been no serious impact this time on the overall operation of the plants, and we believe that these measures were effective.

In terms of production systems and alternative procurement, the centralized production of door checks in 2016 became a bottleneck, and it affected OEM production. Based on this experience, we have diversified 20-30% of our production to other locations and implemented business continuity measures in terms of equipment. At this point, we believe that door checks are unlikely to be a bottleneck, and we have begun testing in preparation for alternative production. In addition, while ensuring adequate inventory of other critical components, we have continuously conducted research on alternative suppliers and simulations to prepare for emergencies. The responses we are taking now are partly owing to these measures.

AISIN Kyushu currently has approximately 1,400 employees. While injuries were reported in this earthquake, there were fortunately no life-threatening incidents. On the other hand, in areas where employees live, houses have been completely or partially destroyed, and we have already dispatched support teams. We are providing support for the lives of our employees and their families, including securing housing and assisting with the restoration of essential services.

Regarding the recovery support system, AISIN has dispatched approximately 130 personnel, primarily focusing on equipment maintenance. In addition, we are receiving support from approximately 60 people from our customers and equipment manufacturers. AISIN Kyushu employees and a total of 200 support members are working towards a swift recovery and stabilization of production.

At this point, it is difficult to reasonably estimate the impact of the Kumamoto earthquake. We will disclose the costs related to recovery and restoration after carefully estimating them. However, at this time, we do not anticipate an impact that would necessitate a revision of our full-year plan, and we are not considering a downward revision of our financial forecasts due to the Kumamoto earthquake.

Q: Could you tell us about any one-off factors that occurred in 1Q, such as the impact of Toyota's cancellation of next-generation BEV development?

A: There were no major one-off factors in 1Q. Regarding the cancellation of BEV development at Toyota, while some equipment has been capitalized on our balance sheet, much of it can be repurposed for other projects. Therefore, the impact remains insignificant.

Q: Could you tell us how much PT unit sales in 1Q fell short of the plan?
In addition, sales volume fluctuations had a negative impact of 11.7 billion yen compared to the plan, which appears to have been significant. Is this because there was a significant decrease in sales of ATs in China, which are expected to have relatively high profit margins?

A: PT unit sales in 1Q were 210,000 units lower than planned, mainly in China. While sales in China account for slightly more than half of our PT unit sales, we do not believe that the decrease in sales in China is particularly worsening the mix.

Q: Are there any concerns about falling short of the annual target of 10.7 million PT unit sales? While 1Q progress does not look good, do you think it is unnecessary to revise the annual unit sales target?

A: Since we are 210,000 units below the plan in 1Q, one might imagine a four-fold decrease in the full year, but the reality is not like that. While it is true that demand in China has been weak, PT unit sales in other regions remain robust, and we believe that they will help compensate for the decline in unit sales in China.

There is some upside potential due to HEVs demand, mainly from Toyota, and ATs for the South American market. Since we anticipate a recovery in unit sales from 2Q onward, we don't see the need to make any major changes to our annual plan at this time.

Q: Are unit sales of electrification units falling short of the plan? On the other hand, I think eAxle sales to Toyota are increasing. Does this have any impact on revenue?

A: Regarding eAxle, unit sales have been slightly delayed due to the current demand environment. Furthermore, demand for HEVs from European and American OEM customers is falling short of expectations. Meanwhile, unit sales to Toyota, particularly for HEVs, have remained strong, and further expansion in unit sales is expected. Overall, unit sales of electric units are progressing roughly as planned. As for the impact of the increase in eAxle unit sales, we do not expect any impact on revenue.

Q: Could you tell us about the current level of interest in new products, such as PT units and brakes?

A: We expect an increase in unit sales of HEVs and ADVICS' cooperative regenerative brakes, primarily in North America, and we believe that progress is in line with the plan.

Q: You explained that cost structure improvement is progressing more than planned, but when you look at the progress against the annual target of 82 billion yen, it seems to be behind schedule. Please explain the reasoning behind your assessment that cost structure improvement is progressing more than planned.

A: When we make cost structure improvement efforts, their effects accumulate over time. Therefore, the effects tend to become apparent in second half of the year. As we have been making cost structure improvement efforts for some time, those that show results in a short period of time have already progressed to a considerable extent. Many of the themes we are working on this fiscal year require time to show results, and we set our internal plans taking these points into consideration.

Q: How do you evaluate the market conditions for aluminum prices from 2Q onward?

A: Regarding aluminum, there are primary ingots and secondary ingots. As for primary ingots, as their refining facilities are located in the Middle East, we had anticipated from the beginning this fiscal year that prices would rise. However, their market conditions are starting to stabilize. As for secondary ingots, although we did not initially anticipate a price increase, their prices are rising, similarly to those of primary ingots. Going forward, we expect that the market price for secondary ingots will stabilize in conjunction with the market price for primary ingots. Furthermore, we anticipate that market fluctuations in second half of the year will generally remain within our expectations, and we believe that the impact on profits from aluminum price fluctuations will decrease as recoveries from our customers will progress.

Q: Regarding e-axle for BMW, is there a risk that the failure to secure the planned unit sales will affect cost recovery?

A: Regarding the e-axle for BMW, we are proceeding with production preparations for launch in or after second half of FYE Mar. 2027. At this point, we cannot definitively say that there are no risks in securing unit sales as planned. On the other hand, regarding capital investment, we have been proceeding with a policy of minimizing investment from the planning stage while taking into account the risk of fluctuations in demand. We are mindful of creating a business structure that minimizes the impact on profits even if unit sales fall short of expectations.

Q: You have explained that business with European and Chinese customers is still in a transitional period. Why is the current situation perceived as a transitional period?
Also, could you tell us when you anticipate demand and production will normalize? We are aware that the market environment and customer strategies have changed significantly compared to one or two years ago, and we would like you to explain the outlook, taking into account any changes from the initial assumptions and current customer trends.

A: We view the current situation as a transitional period because the shift towards electrification primarily is still ongoing among our European customers, and unit sales have temporarily decreased due to the decline in demand for ICEs. On the other hand, demand itself will not disappear. In addition to the shift to HEVs, demand will shift to markets where ICE demand is expanding, such as South America, and we anticipate a recovery in unit sales in the medium to long term.
Furthermore, while demand for ATs from BMW has decreased, the adoption of electrification-related products has expanded. Given that we are in a transitional period in terms of product mix and market structure, we believe the bottom will be around FYE2026-2027. After that, we expect that we will return to a growth path toward FYE2031, driven by expanding sales of electrification products and increasing regional demand.

Q: I understand that ATs sold to Chinese customers are mainly installed in their export vehicles. While the number of vehicles exported by Chinese manufacturers is currently increasing, this growth does not appear to be fully reflected in the increase in AISIN's PT unit sales. Could you explain whether this is due to customer factors or to the adopted model or product mix? Also, please explain again how you plan to achieve growth in your business in China going forward.

A: Currently, the expansion of exports by Chinese customers has not directly translated into an increase in our PT unit sales. The background to this is that the composition of the vehicles exported by them is shifting towards PHEVs and BEVs in response to the rise in fuel prices due to the situation in the Middle East. As our business does not align with those trends, quantitative benefits have been limited.
Meanwhile, price competition in the Chinese market is intensifying, making it difficult for us to maintain competitiveness by simply continuing with past business operations. Therefore, we are working to optimize our production and business structure in China and transition to a leaner and more efficient operational structure. Despite these efforts, we plan to maintain and strengthen relationships with customers with whom we should continue doing business, such as Japanese OEM customers and OEM customers with whom we have local joint ventures. We are also working to expand the sales of PT units produced by these joint ventures to other customers. We are already receiving inquiries regarding these proposals, and we intend to expand this business further in the future.
While the environment surrounding the Chinese market is changing dramatically, our policy is not to withdraw from the Chinese market, but rather to maintain and strengthen our competitiveness by transforming our business model in line with the changing market structure.

Q: Could you give us an idea of what your operating profit for 2Q might look like? We would also like to confirm whether the situation in China is expected to continue to worsen in 2Q.

A: Due to factors such as rising raw material prices, operating profit is expected to remain skewed towards second half of the year, as in typical years. Cost structure improvement efforts are progressing smoothly, and we believe that by recovering the impact of rising raw material prices and tariff costs as planned, we will be able to secure a steady profit in second half of the year. For 2Q, while the situation will remain difficult for our business with Chinese customers, there are areas where we can expect a recovery, particularly in North America and ASEAN. For this reason, we do not expect the operating profit level in 1Q to continue into 2Q and beyond.