Financial Results Briefing for Q2 FY2023 Ending in March

October 28, 2022

AISIN CORPORATION

Q1. Regarding the result for operating profit, how much progress has been made in the internal plan? I would also like to know about temporary expenses and the status of negotiations on raw material prices.

A1. Operating profit for the first half was estimated to be around 35 billion yen in our internal plan, without including the impact of raw material prices on selling prices. Despite a significant decrease in sales due to reduced production volume, we were able to keep the decrease in profit to around 10 billion yen thanks to the depreciation of the yen, cost reduction efforts in line with the drop in production, and the recovery of some raw material expenses. We did not have temporary expenses during the first half. But in addition to the soaring prices of raw materials such as steel and aluminum, and transportation costs, we have been absorbing and paying costs in advance to help address some of the difficulties faced by suppliers. While some of the price revisions agreed may be reflected in the next fiscal year, we will proceed with negotiations with our customers in the second half including the impact incurred during the first half.

Q2. The full-year forecast for operating profit remains unchanged. I would like to know about the assumed production volume and the impact of raw material prices from the perspective of risks and opportunities in the second half.

A2. In the first half, the production volume leveled off due to the lockdown in Shanghai and the shortage of semiconductors. But we assume the figure for the second half as initially planned. The forecast for January to March is set at a high level. So if the impact of the shortage of semiconductors, etc. lasts, the figures may be lower by around 100,000 units per month. We will take steady action in response to fluctuations in production volume. The impact of raw material prices was 65 billion yen in the first half. We will not only aim to balance it out in the second half, but also make efforts to reduce the impact on our business performance while carefully discussing the issue with our customers and suppliers.

Q3. You said at the beginning of the year that you would recover around half of the rise in raw material and transportation costs. Have there been any changes in your forecast? And how far has the recovery progressed?

A3. While spot aluminum prices and transportation costs have been stabilizing, the prices of steel and energy are rising. We expect that we will be able to recover around half of the losses from price rises for the full year, including rises since the beginning of the year. Therefore, there is no change to the initially estimated impact of 65 billion yen on profit/loss for the year.

Q4. How is the situation in North America? Faced with rising labor costs and setup costs, what action will you take for profits in the second half and for the future?

A4. Due to soaring labor costs, it is difficult to recruit workers in line with sales increases. We are making efforts, based on a long-term perspective, to achieve manpower savings, automation, and reduction of production losses. We plan to advance manpower savings of 400 people annually over the next three years upon the launch of new products or updating facilities. The production preparation and depreciation expenses resulted from investments for the future. The effects will be reflected after the launch of the products next year.

Q5. Regarding operating profit for the first half, are there any changes from the initial plan other than changes in the sales mix? Did you pay more for raw materials/transportation compared to the initial plan?

A5. We have not decelerated investment in key areas or production preparation for electrification. We have also been advancing efforts to improve or reform our corporate structure as planned (though in a smaller quantity) so as to ensure steady results. Despite the positive factors, namely the weakening yen, advancement in reflecting the rise in raw material prices in selling prices, and the efforts to review costs according to the reduced production, the impact of the lower-than-expected production volume was significant. The impact of the payment for raw materials and transportation costs in the first half was greater than in the previous year but it was within the range estimated in the initial plan.

Q6. Regarding the full-year forecast for sales by customer, I would like to know the situation of each market.

A6. We have lowered the sales volume of powertrain units by 400,000 units to 10 million units from the forecast announced in April of 10.4 million units. By market, the forecast was lowered by 340,000 units for China, 140,000 units for Europe, 60,000 units for North America and 20,000 units for Japan. For other markets (Asia/Oceania, South America, etc.), the figure was raised by 160,000 units. By customer, the revision comprises decreases of 210,000 units for Chinese OEMs, 160,000 units for Stellantis, and 20,000 units for VW/AUDI.

Q7. As overseas production increases along with the spread of electrification, what will happen to the current low profitability of the North America business? And are you thinking of starting local production in Europe?

A7. In a production system for 4.5 million electric drive units per year to be established by 2025, sales will increase in China and North America more than in Japan. We will replace existing bases with electrification bases. The soaring labor costs in North America will be solved by the introduction of automated lines. The new automated lines will no longer be affected by labor costs. In view of the trend toward carbon neutrality, it is certain that BEVs will be produced and used locally. We are now examining the possibility of local production in Europe, and we will talk about the results of our research at a later date.

Q8. Please explain the situation about the inventory of powertrain units in China and at other customers.

A8. Powertrain units in our inventory are only for Europe. Inventory for ocean lead time has increased. In the past, inventory adjustments for China were a problem. But it was about the inventory of our customers, which we are continuing to monitor. At the same time, if their internal forecast seems too high, we set the number of units in view of vehicle sales and incorporate it in the plan.

Q9. Profitability in Thailand and other Asia segments is high. I would like to know the reasons.

A9. Unlike North America and China, these segments have not yet entered the phase of investment and production preparation for electrification. With AT-related investments mostly completed, production volume has been growing, resulting in high profitability.

Q10. Your forecast for the second half is 160 billion yen with an operating profit margin of around 6%. Assuming that this includes around 30 billion yen as the impact of material costs in the first half, is it right to think of 130 billion yen as the real figure? Then operating profit margin is around 5%.

A10. If the conditions of production volume, exchange rates, and materials are fixed, it is right to think of it as the real figure. For the FY2024 target of 7%, we have changed the preconditions. But we are advancing efforts to improve or reform our corporate structure as planned.

Q11. Regarding your foreign exchange sensitivity, I think the sensitivity is too low considering that exports from Japan account for 70%, or 1 trillion yen of sales.

A11. Finished AT products exported directly from Japan to customers are on a yen basis. And deficits in North America contribute to lowering the sensitivity.

SQ11. Does that mean AT prices have declined for customers trading on a yen basis?

SA11. Yes. We are using it as a bargaining chip in negotiations on raw materials and transportation costs.

Q12. Your forecast for the second half of this fiscal year is at a high level even compared to the second half of FY2021, when we saw a sharp recovery from COVID-19. How do you assess this real-term performance?

A12. In the second half of FY2021, production rapidly recovered from the standstill due to COVID-19, and we were not able to secure sufficient workers but had to increase overtime hours. So please understand that the performance results for that period was achieved with such limited production resources. The impact of fluctuations in raw material prices was about 100 billion yen, including the impact of the last fiscal year, which serves as a negative factor for our performance. However, thanks to the accelerating structural reform, profitability has not worsened.

Q13. I would like to know about your future business mix, including the direction for the die casting business.

A13. For the die casting business, as the shift to BEVs accelerates, we will abandon the idea of producing everything internally, from small to large, and focus on areas in which we have competitive advantage while setting a cap on capital investment. Since it is related to powertrain units, we will consider what we should do with development and design. For production, the situation of suppliers varies among regions. We will make comprehensive decisions taking into consideration these factors. In reviewing the business mix, we will promote initiatives for BEVs, such as shifting the production focus to battery-related products, such as EA lockers, taking advantage of our extrusion technology.