Feb 3rd, 2023
TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2023 3rd Quarter Financial Results

Q 1 : On pages 21, in the Americas region, the operating loss has been growing in relation to the level of seat assembly production volume. Please explain the background behind the increase in volume but decrease in profit, including transitory factors.

A 1 : We continued positive operations in first-half, but struggled slightly in Q3 due to the impact of temporarily reducing production of luxury SUV that underwent a model change. On the other hand, this model is expected to return to increased production in Q4, so the composition is expected to improve. As a one-time expense, we have begun using some of the production preparation costs for new products and models that will be launched in the next fiscal year.

Q 2 : In China region, the seat assembly production volume was decreased to 400,000 units in Q3 from 440,000 units in Q2. But the 3Q's profits in China region are increased. Your seat assembly production volume has not dropped as much as Toyota's volume drop. Is there any change in the model mix as the reason for this?

A 2 : We recognize that the amount collected from customers was around 1 billion JPY in Q3.

Q 3 : How do you evaluate the progress made in Q3 against the full-year plan? Do you see the progress of operating profit in Q3 as good or bad against the plan for the full year?

A 3 : Although the number of units produced in each region and the mix of several grades were slightly different from the plan, we prioritized and streamlined the use of expenses to secure profits. In order to achieve the announced figures, the company evaluated that it had progressed almost as planned.

Q 4 : Regarding the formulation of Q4, the company has not changed its plan for the number of seats, but looking at Toyota's production volume in January-February, your production volume will not seem to increase compared to the previous quarter. Even if Toyota's March production remains weak and falls below 9.2 million units, are these numbers somewhat in range? In some cases, if collection proceeds, is there room for upside? Please tell us what nuance you should think about this fourth quarter.

A 4 : Based on information from Toyota, we are building up the number of cars by looking at the number of cars per day and the grade of each car. If the number of units per day does not change drastically, we expect to land on our prospects. As for the composition, the model mix and grade mix that can be assumed at present are applied. I would like to keep an eye on February and March as well.

Q 5 : In Japan region, is it appropriate to understand that sales and operating profit improve as a result of the increase in the number of units? I think that Toyota intends to shift production capacity to Japan by reducing the backlog of orders as much as possible. If Toyota's production in Japan will increase, I see that the product mix in Q4 will improve compared to your previous forecast assumptions as well as Q2 and Q3 results. Have you factored such an improvement in the product mix into your forecast?

A 5 : For Q4 in Japan region, the number of vehicles is expected to increase by about 100,000 units compared to the previous plan, but the model mix is not expected to improve very much. We are conservatively seeing that the mix of cars and the grade mix will probably be a little worse. If these mixes do not deteriorate, there is a possibility of upside.

Q 6 : Europe & Africa region is expected to become profitable from Q3 and to remain profitable for the year. What kind of background makes the profitability better?

A 6 : In Europe & Africa region, the full-year forecast for unit sales has not changed from the previous forecast of 850,000 units, but operating income has been revised from a negative JPY2 billion to a positive JPY1 billion due to favorable compact SUV and a better mix of models, as well as the accumulation of new-product benefits.

Q7 : Toyota's production volume in 2023 was lower by 9.5 million units and higher by 10.6 million units. As domestic production increases, I believe there is a risk of production fluctuations. In entering the new fiscal year, I would like you to explain your stance as a business entity, such as personnel or production systems, and in particular your thinking about the domestic market.

A7 : Based on the major direction of 10.6 million units from Toyota, we are currently discussing our business plan and what to do with our global structure. Firstly, it verifies the ability to accommodate 10.6 million units in terms of staffing, equipment capacity, and the ability to switch to new products. The most important points are securing personnel in each country, and then securing personnel throughout the supply chain. We conduct capacity surveys, including those in the global supply chain. Last year and this year, the company employment maintenance costs has been incurred, but it has been able to leverage its expertise in responding to production reduction risks, such as providing opportunities to learn about a flexible system internally. In terms of the business plan, in order to be able to cope with production cutbacks, we intend to draft a slightly more severe plan in terms of the number of units, and firmly implement the plan with a minimum line so that if the effects of increased production are generated, only that amount will be effective on the side of increased profits.

Q８ : As a result of self-help efforts to improve the efficiency of expenses, even in the analysis of the factors behind changes in profits, the increase in various expenses has been reduced over the course of the year, compared with the previous view. I would like to see examples of specific activities and confirm whether such efforts can be continued from next term onward.

A８ : As we explained earlier, we do not intend to significantly reduce our investment spending. We will continue to invest with the strong conviction that this is for our future growth. On the other hand, we prioritize cost reductions by examining costs in each business unit and region. In doing so, we carefully identify cost items that can be reduced or delayed. This allows us to continue to invest in our operations while keeping total costs down. These efforts will continue in the next fiscal year. Although the overall cost total will grow, we will continue to streamline and prioritize our costs as we did this year, and our commitment in doing so will be shared by all parties within the Company.

Q９ : On pages 23, in Asia & Oceania region, sales and operating profit are expected to decline in Q4, despite an increase in unit production. I want you to tell me the factors.

A９ : For Q4, we expect volume to be higher than Q3. This is because sales of new vehicles are increasing in Indonesia and India, and we expect to see an increase in production as a result. On the other hand, since most of the models to be produced are slightly more compact, the profit earned on production capacity utilization will be somewhat lower.

Q10 : The outlook for the number of cars in the China region is rather harsh, but I would like you to tell me the specific model, whether it is in the northern or southern region. Also, I would like you to tell me about the background of this, such as whether it is a supply-side problem such as a shortage of semiconductors or a lock-down by Corona, or the demand-side, and how you perceive it.

A10 : In the China operations, production itself has increased compared to last year. However, production is declining in some areas. Specifically, production of sedan models in inland China and middle sedan models in northern China is now sluggish. Because of these concerns, we anticipate lower volumes in China. We think there are both of the factors you just mentioned, but there are also other factors that we are keeping an eye on. In China, the percentage of battery electric vehicle, or BEV, sales are rapidly increasing, and since BEVs are in competition with the models of our customers, an increase in BEV sales will also affect our production volume. We need to monitor the sales expansion of these electrified vehicles. We will continue our operations after carefully considering how we will respond to these trends.

Q11 : Regarding Q3 revenues, is there any other one-time factor than the retroactive adjustment of 1 billion JPY in the China region? Looking at the next fiscal year when the third quarter is viewed as an actual figure, if there are any things that you must be careful of, please point out.

A11 : We are currently passing on more costs to our customers than we expected in Q2. We are recovering our profits by passing on the price increases of our suppliers onto our customers, and this recovery rate for Q3 was higher than in Q2. On the other hand, we also need to protect our global supply chain, so we are accepting suppliers' price pass-through to us more quickly. In that sense, the speed at which our suppliers pass on costs to us in prices may be faster than the speed at which we recover those price increases from our customers. We will have to continue to monitor the impact of such a situation on our profitability.

Q12 : On pages 11, the product mix impact was originally projected to be minus 14.7 billion JPY, but the forecast for that impact has now been expanded to 18.3 billion JPY. Please explain the background to this. I ask this because I believe that an improvement in the impact of the product mix will be a factor that will boost your performance in the next fiscal year.

A12 : The biggest reason is that the number of SUVs and MPVs in the Japanese market is smaller than we had expected. Also, according to the data we have, the grade mix is deteriorating. However, we expect these factors to improve in the next fiscal year.