Apr. 26th, 2024

TOYOTA BOSHOKU CORPORATION

Summary of Q&A
at FY2024(ending March 2024) Financial Result

Q 1 : Looking at the P&L in the financial statements, other expenses between SG&A and operating profit amounted to about JPY15 billion for Q4 alone. What consists of this amount of cost? It might include constitutional strengthening cost. Again, please assume current actual ability.

A 1 : As shown on page 21, operating profit is JPY1.9 billion in Q4 of FY2024, however, we estimate that our current actual ability is approximately JPY10.7 billion. As for the breakdown, on the positive side, the early recovery of tooling costs and the recovery of design change costs have had a positive effect. On the negative side, the valuation loss was recorded as other expenses approximately JPY6.0 billion for restructuring our subsidiary fabric company into a JV with European fabric company. We take this as "strengthening of the structure" and is now being carried out with a more positive view. In addition, we have been aggressively approaching to get non-Toyota business, where we find risks of uncollectible debt especially in China region. Therefore, we have recorded an allowance for doubtful accounts approximately JPY1.1 billion.

Q 2 : In P&L, other expenses in Q4 were about JPY15 billion. Are there other expenses that are a bit larger?

A 2 : The cost related to TB Kawashima is about JPY6 billion. In addition to that, the allowance for doubtful accounts is JPY1.1 billion. Another item of major other expenses includes the negative impact of inflation accounting in Argentina.

Q 3 : If Q4 current actual ability is around JPY10.7 billion, the plan seems conservative. Is this due to a conservative estimate of Toyota's production volume and price pass-through, and that there is room for a little more upward swing?

A 3 : About price path-through our labor costs, we have been able to have positive discussions with Toyota based on their understanding of our situation. In that sense, though have not achieved yet, we expect to recover a significant portion of the expenses in the Japan region. As for other regions, there is room for actual results to be higher than planned through continued negotiations. This has not been factored into the forecast at this time because of its uncertainty. However, I believe that Toyota has taken it positively, and we see it as an opportunity. Regarding the volume assumption in FY2025, based on Toyota's announced plan, only production in China is to decrease. If actual production numbers are same as expected, this will be an opportunity. In addition, fixed costs will be incurred in terms of preparation for the future. Specifically, labor costs will increase by about JPY6 billion as an investment in human resources. This is an investment to strengthen various functions and increase personnel for the future. Also, we are making various institutional changes, mainly in Japan. For example, in the midst of a talent shortage, we are increasing base wages for rehired employees to encourage them to play an active role, and government-initiated higher levels of pay raises, which will incur these types of costs. In addition, there are several new subsidiary companies with respect to alliances, which will increase fixed costs. Development costs will also increase by billions of yen toward 2030 for the development of BEVs, the Interior Space Creator and new businesses. In addition, strategic fixed costs for new production site in the US, DX, carbon neutrality are factored in, which reduces the profit amount. However, we have said that we are aiming for an operating margin of 6% to 7% by 2025. While investing in preparation, we aim to gradually increase profitability toward our 2030 target.

Q４：In Q4, other expenses amounted to about JPY15 billion. Of this amount, approximately JPY6 billion is for expenses related to TB Kawashima and JPY1.1 billion is for allowance for uncollectible accounts in China region, summing up JPY7.1 billion. Considering seasonality, if we assume that other expenses usually occur in Q4 in the range of JPY2 billion to JPY3 billion, am I correct in understanding that the remaining JPY6 billion to JPY7 billion or so is the impact of Argentina's inflation accounting?　I think previous JPY93 billion forecast at 3Q did not include the impact of inflation accounting, so the actual value for Q4 will exceed JPY10.7 billion.

A４：The cost in Argentina is a little less, but you can understand it approximately that way. The impact might seem rather huge, but actual inflation from Jan. to Mar. had been so significant that it enlarged the adjustment amount. By the way, this impact in other expenses is to be offset with operating profit which also has positive side impact by the inflation.

Q 5 : Is my following understanding correct?
Volume mentioned on slide 4 reflects negative impact due to less production of Toyota Industries Corp and another less production of Tsutsumi plant which was impacted by recall matter. It also led negative impact on mix factor as it included volume reduction of higher segment vehicles like the Alphard.
Looking at FY2025 forecast, products-mix has positive impact of JPY3billion. Could we have some explanations of its premise including reginal factors?

A 5 : Volume reduction of Alphard can explain most of volume impact on slide 4. As for products-mix impact in FY2025 forecast, on one side, grade-mix would go worse due to calming down from higher grades to middle ones. On the other hand, we expect positive change in model-mix thanks to production stabilisation of large SUVs which launched lately. Another positive factor we plan is cost improvement at newly joined affiliate companies.

Q 6 : Could we have some explanations about volume decrease and operation profit decline in Europe&Africa region mentioned on slide 15?

A 6 : Europe&Africa region plans volume decrease of 110K, and other factors that lower operating profit. A model will have EOP in non-Toyota business. Another factor is the minimum wage rise of about 40% in Turkey led by Turkish government. On the other hand, on a positive note, we are now putting a great deal of effort into activities to win non-Toyota businesses, so that we have factored in an increase in personnel for this purpose and some costs related to production preparation. An additional factor is that results for FY2024 included a recovery of tooling costs of about JPY2.5 billion, resulted in many profits in FY2024.

Q 7 : On page 16, about plan in FY2025 in China, the outlook for H2 of this fiscal year is stronger than that for H1 of the year, while China region normally has less volume in H2 due to the Chinese New Year. Could you please explain the

background of this, whether the cause is the volume or the improvement of the mix?

A 7 : We forecast some production recoveries in H2 in China for FY2025. A new model of SUVs will be launched in Chengdu. However, since the situation is uncertain, we will continue to monitor this closely.

Q 8 : The overall strategy direction, is it simply a temporary drop in earnings due to factors such as valuation losses and the production suspension, which will not have much of an impact going forward? Or, this time, you have increased capital investment and talked about human capital. Do you think that focus your attention on 2030 rather than JPY100 billion operating profit in 2025? Please let us know of any such changes in strategic direction.

A 8 : The volume forecast will not change significantly between FY2024 and FY2025. In this sense, I believe that capabilities of MONOZUKURI will increase further, including in efficiency. On the other hand, the labor costs that we are now referring to as human investment include a variety of measures, not simply labor cost increases. We are now facing the antinomic problems of how to become more competitive while resolving and overcoming labor shortages in the auto parts and auto industries. In this sense, human investment expenses are incurred ahead of profit. In some cases, there have been concrete discussions with customers, including Toyota, about pass-through labour cost rise into prices. We recognize the importance of how to overcome the problems that the automotive industry is facing right now, together with OEMs and the supply chain as a whole. We will take the measures that need to be taken, but at the same time, we have received a major directive that improving competitiveness is a top priority for us. We will be considering what steps to take in FY2025 and FY2026 to address these somewhat antinomic issues. In this context, capital investment, especially large investments, will be made in the US and China. We will make new investments while considering new factories that include autonomation aimed at improving logistics efficiency. This includes investments to reduce manpower where people have traditionally been involved such as inspection processes, etc. I believe that the results of these investments will be seen FY2026 and beyond. About the return on investment and cost-effectiveness, as we continue to make fairly large investments, we would like to explain this in a more organized and easier-to-understand manner. I believe that we will not be able to reach our 2030 target unless we complete this task, and we will make a company-wide effort to achieve this target.

Q 9 : About China region, on page 24, we can see that earnings are indeed getting tougher. However, thinking not 1 year, but 2, 3, or 4 years down the road, what does the China base, which was a source of revenue, mean for your company? What measures should be taken? I would appreciate your frank opinion.

A 9 : Regarding China region, looking at the next 2 to 4 years, I think the market environment will become increasingly difficult. As mentioned on page 24, our profit margin figures are slowly declining as we move forward to FY2023 to FY2025. However, over the 20-plus years since we entered business in China and have formed partnerships with rather long history there. It is an important region that we will continue to focus on. Not only Toyota, but all foreign OEMs are losing market share to Chinese OEMs. We need to make a profit in this tough business environment where the price of the vehicle drops considerably amid tremendous price competition, not only for BEV and HEVs, but also for gasoline-powered vehicles. Under such circumstances, we are now building a new base in Guangzhou and are aggressively investing for the future. We would like to improve the efficiency of the investment itself, and when the next BEV model is launched, we would like to work together with Toyota to increase profitability. This time, we have incurred an allowance for uncollectible accounts. However, for us, China's BEV are quite a learning area. We are working to complete appealing products, including the seats and interior. We would like to utilize this opportunity to expand our sales and continue to focus on BEV in China region.

Q10 : Please let me confirm how the funds will be used. I am sure that a lot of the money will be used for capital investment such as automation, but besides that, are you considering, for example, dissolving cross-shareholdings or buying back shares in the event of future sales? We also hear that along with the dissolution of cross-held shares, Toyota is considering strengthening its "home & away" strategy and strengthening cooperation within the Group companies. Please tell us if your company is doing anything within the Group companies.

A 10 : We will consistently and firmly make investments in facilities and R&D for the future. There are situations where alliances will be needed in the future for 2030. With this in mind, we will use our cash allocation as described in the guidance for the Mid-Term Business Plan 2030, and first of all, we will earn a solid base operating profit. We do not deny the possibility of share buybacks. At the same time, the group companies were selling their shares, we also bought back our own shares. There is no change in our view that we will continue to buy back our own shares, if necessary, in necessary amounts, based on the perspective of liquidation and the stock price. As of the end of March, our major shareholders have changed slightly. The number of individual shareholders has increased very much. Therefore, we would like to communicate with our individual shareholders.
On the “home & away” strategy, although the Toyota Group has held shares in our company, we believe that capital and business have traditionally been separated. For example, we are in a very competitive situation in the US region, and the same is true in China. In this sense, we have never been in a situation where we receive orders simply because they own our shares. I think it is important for us to have our competitiveness evaluated more highly, and to preserve the value of our existence. The Toyota Group Vision was also announced. I think the key to our future is to recognise this vision properly, and from there, what kind of proposals we can make and how we can transform ourselves into a company that will be appreciated by Toyota and the Toyota Group. We will continue to build our competitiveness so that we can firmly increase our presence as a leader in interior design. Initiatives within the Group companies, at this time, we do not have anything going on that we can comment on.