

Jul. 31st, 2024

TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2025 1st Quarter Financial Results

Q 1 : I understand that operating profit for the 1st quarter was higher than planned, but please give me a summary and tell me if there are any transitory factors.

A 1 : It has been a challenging three months, operationally due to the suspension of operations in Japan and reduced production in China. As a transitory factor, the previous year's amount of 2.0 billion yen in recovery activities related to the soaring costs of materials, energy, and labor, were implemented in this fiscal year's amount.

Q 2 : Are there any points that could be considered as opportunities in the forecast you have revised this time?

A 2 : We are reviewing the entire budget as part of our profit improvement activities. After a close analysis of the delayed execution and whether or not it will occur this fiscal year, there will be an upward revision of about 7 billion yen for the full year. In terms of operations, some of our customers' factories in the Americas have suspended their production, and there is a certain risk that it may take a little more time to reach stable production, so we now forecast a full-year loss of 1 billion yen for profits in the Americas. If this is a needless fear of ours, we believe that this part will be an opportunity.

Q 3 : When looking at the seat production volumes for the full year forecast announced this time, it seems that reductions are not only in the Americas but also in other regions. Does this mean that additional risks have been considered?

A 3 : Please refer to page 11 of the presentation. Our current assumption for seat production volumes is 8.15 million units. Initially, we had projected 8.55 million units, so we have lowered our forecast by 400,000 units. Breaking down this reduction by region, we have lowered the Americas by 80,000 units, China by 200,000 units, and Japan by 110,000 units. The impact on operating profit is -16.6 billion yen as shown in the "environmental changes" of the "volume" section on page 12 of the presentation. Of this total, almost half is in the Americas, about one-third in China, and the remainder in Japan. The models for

which we suspect the resumption of operations in the Americas will be postponed have a significant impact on our profits because they have a high selling price and profit per unit. Although we do not have solid information yet, we have decided that we must factor this into our forecasts and have revised them accordingly.

Q 4 : Regarding the dissolution of cross-shareholdings within the Toyota Group, the annual securities reports shows that Denso shares have been sold, and Denso has also sold Toyota Boshoku shares. As for Toyota Boshoku 's shareholders, it seems that all the companies except Toyota Motor, Toyota Industries, and Toyota Fudosan have been sold shares. Could you tell us what kind of discussions are going on within the Toyota Group?

A 4 : As of the end of March FY2025, our former major shareholders, including Denso and Toyota Tsusho followed by Aisin, have sold their shares in our company. We understand that the reduction of strategic shareholdings is progressing among each company, as reported recently, and we are monitoring the situation. If there is any movement, we will listen to them, accept their decision, and make our best judgment. Regarding the strategic shareholdings we own, we have sold five stocks by the end of FY2024. We now hold only two listed stocks. We will continue to evaluate the significance of holding these shares and aim to improve capital efficiency.

Q 5 : Regarding the total of approximately 7 billion yen: +3.7 billion yen for "internal efforts" under "expenses" and +3.4 billion yen for "internal efforts" under "others" on page 12 of the presentation, we understand these are your cost control efforts in this challenging environment. If the production volume were to increase from the assumed level, what kind of movement could be expected in the sections of "expenses" and "others"?

A 5 : It is a little difficult to distinguish, but essentially, we are reviewing and controlling the development schedule and cost related to Toyota's efforts to strengthen its work foundation. Expenses will be controlled while reviewing the scale and timing of those items that cannot be delayed. Regarding production, we have decided not to target this for reductions. So, it will be executed firmly, and even if Toyota's volume increases, we are working internally with the intention of keeping them as the same level, and I understand all directors and executive officers share this commitment and are proceeding with the same approach. Therefore, if production volume increases, we believe the corresponding marginal profit would also increase.

Q 6 : On page 16 of the presentation, you have disclosed your projections for the 1st half, which allows us to infer the 2nd quarter (July - September) forecasts. Please give us the background behind the forecasted decrease in revenue and profit compared to the 1st quarter. Is this primarily due to the impact of reduced production in the Americas, which you mentioned as a risk that you have incorporated independently?

A 6 : We expect production reductions in Japan, the Americas, and China. The significant factor is how we interpret the production numbers in the Americas, and we have currently factored in a substantial reduction.

Q 7 : Regarding the -1 billion yen operating profit forecast in the Americas region for full year, please tell us about the current situation in the Americas region and how much profit will be generated once production volume returns to normal as your profit outlook?

A 7 : The reason for the forecasted decrease in profit was almost entirely due to the impact of the production reduction in volume. Without this production reduction, the full year results for the Americas region would have been well above our initial forecast of 3 billion yen. We have established a dedicated support structure also in Japan to intensively support the Americas. We have come up with many specific items for increasing productivity, and I believe we will be able to improve productivity when production volume return to normal. Our capabilities are recovering in manufacturing area, and we will continue to make sure to keep you informed of our progress.

Q 8 : The revision of the full year performance came as a bit of a surprise since the 1st quarter results were relatively good. I would like to confirm what has significantly changed compared to three months ago.

A 8 : To summarize what has changed in the last three months, the major shift has been our assumptions regarding production volumes in the Americas. This is the main significant change. We decided to make a downward revision this time in the 1st quarter since we have realized the impact will be quite large for us due to the high added value per unit of these models which we expect to reduce production volume.

Q 9 : Please let us know your assumptions regarding the incorporation of the production reductions in the Americas into your financial forecast. Also, will there be any compensation from Toyota for the suspension of operations?

A 9 : News reports indicate that production will be halted until early August, but we estimate that it will be postponed until a little later in the interim period. The compensation is included in the financial forecast based on the assumption that we will recover the amount lost in order to maintain production due to the suspension of operations.

Q 10 : In the comparison between the previous and the current forecasts on page 12, you mentioned a 5.6 billion yen negative impact from “environmental changes” and a 5.4 billion yen improvement from “internal efforts” in “mix” section. Could you explain what specific external environmental changes are included in the negative impact and what internal measures you are taking to offset these and improve the mix?

A 10 : About half of the -5.6 billion yen in "environmental change" under "mix" was due to the difference in the outlook for recovery of market conditions, which had a negative effect on profit. Also, the effect from delays in the ramp-up of certain Toyota models are included in the reduced effect of new product launches. On the other hand, efforts to recover costs from our customers are included in the 5.4 billion yen of “internal efforts” under “mix”. We also factor material cost improvements and reductions in direct personnel costs, which are standard improvement areas where we have considerable expertise. These are the areas where we specialize in making improvements, and we will continue to build on our strengths to achieve these improvements.

Q 11 : Please let me know about the Americas region. On page 16 of the presentation, we see an operating loss of 1 billion yen in 1st half and zero in 2nd half. This likely means a 3-billion-yen loss in 2nd quarter (July - September). The revenue improves by 20 billion yen between 1st and 2nd half while the profit only improves by 1 billion yen. I would like to know if there will be more growth in some cases. Could you explain more about how you assumed the profit for the 2nd half of the year?

A 11 : Regarding the discrepancy in profit recovery between 1st and 2nd half in the Americas region, the 1 billion yen loss for the Americas in 1st half includes about 2 billion yen of transitory profits, such as retroactive recoveries from previous years and increased tooling cost recoveries. Without these transitory gains, the underlying performance showed a loss of 3 billion yen. In the 2nd half of the year, production reductions and other factors will gradually improve, and we expect a

recovery in performance. Also, the costs associated with the new Kentucky plant, which will start operating in 2025 are factored in the 2nd half.

Q12 : Please let me know about the Asia. Profits were generated in the 1st quarter, and the operating profit forecast for the full year has been raised this time. Please explain in more detail how the performance is improving.

A12 : Looking at each country in the Asia, Thailand is facing challenges such as high interest rates and stricter loan screening, which have caused a slight underperformance in profit compared to our expectations. On the other hand, India and Indonesia have shown strong performance. We have been actively securing orders for models other than Toyota, resulting in new product order effects contributing significantly to our profitability. India, in particular, remains a rapidly growing market, and we consider it a key country. We are actively discussing various strategic initiatives internally to capitalize on this growth.