

Oct. 31st, 2024

TOYOTA BOSHOKU CORPORATION

## Summary of Q&A at FY2025 2<sup>nd</sup> Quarter Financial Results

**Q 1 : At the time of the 1st quarter financial results, I believe that some vehicle models were assumed to have extended suspension of operations in the Americas, and the impact of this was expected to worsen the model mix, resulting in a negative impact on profits. In fact, the actual results for the 2nd quarter show that profit did not decline, rather in China, revenue declined but profit increased compared to the previous year, which seems to be different from what we had assumed. Please explain about the 2nd quarter financial results including whether there were any transitory factors.**

A 1 : Operating profit for the three months from July to September in the 2nd quarter was 17.1 billion yen, which includes about 4 billion yen in transitory gains. Therefore, the actual operating profit is estimated to be around 13 billion yen. Transitory factors include approximately 5.5 billion yen on the positive side, of which approximately 2.0 billion yen is for tooling costs (Japan and the Americas) and approximately 3.5 billion yen is for recoveries from customers in the U.S., including those from previous years. On the other hand, negative factors included approximately 2.0 billion yen in losses due to the suspension of operations at some of the plants in the Americas. The net effect was an upward trend of about 4.0 billion yen.

**Q 2 : How did you view and make volume assumptions in response to Toyota's forecast?**

A 2 : In the 1st quarter, our group had assumed to produce 8.15 million seats for the full year, compared to Toyota's production level of 9.8 million units. This time, Toyota's production volume will be at the level of 9.6 million units, and our company's seat production volume will be slightly reduced to 8 million units. The breakdown of the regions where the number of seats was declined by 150,000 units was Japan, the Americas, and Asia, each of which decreased for 50,000 units. For China, we had already made a conservative estimate in the 1st quarter. In Japan, the decline was due to a customer certification issue. In the Americas, we had estimated at the time of the 1st quarter results that the number of units would decrease due to the shutdown of operations until October, and then return to the

normal volume from November. The latest information now is that it is expected to return gradually from the last week of October and return to the normal volume from January. The volume in the Americas has been lowered slightly for this reason. As for Asia, the economic slowdown in Thailand is a factor.

**Q 3 : Please provide supplemental information on risks and opportunities for the full-year forecast of 68.0 billion yen in operating profit.**

A 3 : We have information that Toyota's volume in Japan will increase in the 2nd half of the year, especially in the 4th quarter (January-March 2025), at a level of over 14,000 units per day. We believe there is a slight downward risk due to concerns about the overall supply chain, such as labor shortages and logistics issues. For opportunity, a certain amount of recovery as compensation for suspension of operations in the Americas was included in the forecast, we believe that it will have a positive impact on profits depending on the amount of actual recovery.

**Q 4 : Regarding the 2nd quarter results, compared to the forecast made at the time of the 1st quarter results, the results in China were considerably higher. The forecast of 100 billion yen in revenue and 5 billion yen in operating profit for the 1st half as a whole turned out to be 112.6 billion yen in revenue and 9.8 billion yen in operating profit. Please explain the factors behind this. On the other hand, revenue is expected to decline in the 2nd half of the year, and we would like to ask you to explain this again.**

A 4 : We had conservatively estimated the volume at the 1st quarter financial results, but there was not such a decline in the 1st half of the fiscal year. In addition to that, SUV and minivan volume increased, and the model mix was favorable. There were also transitory gains related to transactions in the previous fiscal year. The combined effect of these factors was roughly 4.8 billion yen. For the 2nd half, the most significant factor is that we are factoring in our own risk for Toyota's forecasted volume. In addition, we are assuming a lower level for both volume and profit due to the originally low number of operating days with the Chinese New Year in the 4th quarter in China.

**Q 5 : Regarding the China region, what are the changes in the competitive environment and what is the outlook for the future?**

A 5 : Regarding China, there was a small decline in volume in the 1st half of the year. Specifically, the volume in Tianjin was higher than expected, while Guangzhou is struggling. Another risk going forward is the possibility that China is building up

inventories in preparation for its fiscal year-end in December. We would like to see the January volume to see if the inventory will be cleared from January onward.

**Q 6 : In the comparison with the previous forecast on page 12 of the document, “Environmental changes” in “Mix” was minus 4.6 billion yen, while “Internal efforts” was plus 4.3 billion yen. Please tell us what items you are accumulating in “Internal efforts”.**

A 6 : The breakdown of -4.6 billion yen in environmental changes is: -1.0 billion yen from market fluctuations, -0.4 billion yen as new product effects, and about -3.2 billion yen excluding them is the pure difference in vehicle model mix. The plus 4.3 billion yen of internal efforts are all recoveries from customers, including recoveries of previous years' amounts in the Americas, recoveries of compensation for production cuts in Japan, and recoveries of tooling costs.

**Q 7 : You mentioned that you have been working on improving profitability in the Americas, but what is the current status of profitability on an actual basis? Based on this, what is the outlook for profitability in the next fiscal year and going forward?**

A 7 : In the 1st half of the year, the impact of the suspension of operation was a very large negative factor. There was a transitory positive factor of approximately 3.0 billion yen, but even with this factor, the 1st half results were a negative 0.3 billion yen. On the other hand, we have been working since the beginning of this fiscal year to improve profitability at our Kentucky plant as a model, with support from Japan. Daily KPIs are steadily improving, but due to the suspension of operation and other factors, it has not yet reached the point of being rolled out these improvements across our main plants. Once operations return to normal, we believe the positive effects of these initiatives will spread and improve overall profitability.

**Q 8 : In response to an earlier question, you mentioned that the KPI figures are getting better with respect to improving profitability in the Americas. Please tell us what KPIs you are monitoring.**

A 8 : Regarding KPIs for improvement in the Americas, for example, we are monitoring whether daily overtime hours are steadily decreasing as well as the percentage increase in productivity. In particular, overtime hours were reduced by about 30% in the 1st half of this fiscal year compared to the previous year through improvements in the manufacturing processes. In terms of logistics improvement,

we are reviewing routes and improving transportation efficiency. In addition, we are working to reduce the number of deliveries by improving loading efficiency. By solidifying these improvements, we aim to achieve profitability in the Americas for the current and next fiscal year onward.

**Q9 : Regarding the volume in the Asian region this time, I think we are expecting 770,000 units in the 1st half and 780,000 units in the 2nd half, with the volume remaining flat between the 1st and 2nd halves. On the other hand, there have been reports that Toyota's production in Thailand, Indonesia, and some others may be at risk of production cuts. How are you factoring in these risks of production cuts? Also, please tell us why you expect revenue and profit to be lower in the 2nd half than in the 1st half.**

A 9 : As you pointed out, there is a slight economic slowdown in Thailand and Indonesia. We have factored in the risk of a slight production cuts in Thailand. On the other hand, we expect sales expansion in India and Indonesia, which we have been working on continuously, to remain steady in the 2nd half of the year. With these positive and negative factors, we expect the volume in the 2nd half to be on the same level as the 1st half. One of the reasons why revenue and profit are expected to be slightly lower in the 2nd half is that we are assuming a slightly stronger yen in the 2nd half than in the 1st half. In addition, we expect a decrease in volume in Thailand and an increase in volume of small vehicles in Indonesia and other countries, and we expect profits to be slightly lower due to the difference in the vehicle model mix.

**Q10 : There have been some movements, such as a slight decrease in Toyota's EV production plan and the start of Toyota's BEV collaboration in India. Are there any changes in the outlook for receiving orders for the motor core business?**

A 10 : As for motor cores, we anticipate significant opportunities as electrification accelerates in North America and Asia which includes local procurement and production. In terms of potential sales, we believe it can be expected to grow four to five times that of 2022 by the year 2030 based on the growth of electric vehicles in Japan, North America, and Asia. We would like to expand sales not only to Toyota but also to strategic OEMs. Our motor core sales forecast for FY2025 is about double that of two years ago. In FY2021, two more years ago, sales were about 40% of that level, so sales are gradually increasing. Furthermore, we believe that there are significant opportunities in North America and India.