Jan. 31st, 2025

TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2025 3rd Quarter Financial Results

Q 1 : You mentioned earlier that performance was good compared to the plan for this quarter, but I'd like to confirm if there were any transitory factors.

A 1 : With operating profits of JPY18.1 billion for the three months from Oct to Dec in this 3rd quarter, we think the actual operating profit strength is about JPY21.5 billion. Transitory factors include a negative impact of JPY4.7 billion from customers' shutdowns, of which negative JPY4.1 billion is due to the Indiana shutdown in the Americas including a loss of profit and shutdown losses, and negative JPY600 million in production compensation to suppliers in Japan. In addition, there was an impairment loss about JPY1 billion on fixed assets to strengthen the company's structure in China.

The positive impact was about JPY2 billion, of which about JPY1 billion in tooling cost recovery in Japan and Asia, and about JPY1 billion in recovery from customers in Japan for previous year's costs.

Q 2 : In North, Central, and South America, the seat production volume increased from 2nd quarter to 3rd quarter, but the loss has been expanding. I believe there was a loss from the shutdown of operations in Indiana in the Americas in the 2nd quarter, but is there any factor in Indiana that is causing the loss to increase in the 3rd quarter while the production volume is coming back up?

A 2 : Losses from the shutdown of operations in Indiana in Americas were negative JPY5.4 billion in the 2nd quarter (Jul-Sep) and negative JPY4.1 billion in the 3rd quarter (Oct-Dec), and are still affecting the 3rd quarter as production volume has been gradually returning to normal since the latter half of October.

However, we have heard that the production volume will return to almost the original level from February. Since the loss from the shutdown is having a significant impact on the Americas region this fiscal year, we are negotiating with customers for compensation for the shutdown, and we expect to receive compensation in the 4th quarter, which will break even on operating profit and loss in North, Central, and South America for the full fiscal year.

Q 3 : Regarding the business situation in China, we understand that the sales volume in the 3rd quarter exceeded the forecast due to the impact of subsidies, etc. What is your view of the sales environment in the 4th quarter? As some companies are starting to accumulate structural reform costs, I would like to know once again what your company plans to do with the business in China in the future.

A 3 : As for the situation in China in the 4th quarter, we see a general downward trend in production, with fewer operating days due to the Chinese New Year vacations, as is usual in the past years. In addition, we believe that there was a considerable increase in production due to special demand in the 3rd quarter, where the termination of the subsidies program may or may not be in place. Compared to the 3rd quarter, we expect a slight decrease in production volume in the 4th quarter due to the operating days and the settlement of special demand.

As for our view on the future of the Chinese market, we believe that we need to incorporate a certain level of risk while gathering information because the sales volume of Chinese capital OEMs is very strong and Japanese OEMs are relatively struggling. Since our products are manufactured in plants located near our customers, it is difficult to consolidate production sites. We are promoting various in-process improvements, such as autonomations and automated warehouses, and we would like to respond flexibly in this way.

Q 4 : Is it correct to understand that the basics of the full-year forecast have not changed since the previous announcement?

A 4 : Although there is no overall change, there is a change in the breakdown of revenue by region, from JPY200 billion in the previous report to JPY220 billion in China, and conversely, from JPY940 billion in the previous report to JPY920 billion in Japan.

Q 5 : **Although the full-year forecast seems a bit conservative, is it correct to assume that if the volume exceeds expectations, the profit will also exceed expectations? I would like to confirm this point because the recovery production in Japan is expected to start, and the Indiana plant will fully restart in February in the Americas as commented earlier, while the forecast for production volume will decrease in the 4th quarter compared to the 3rd quarter.**

A 5 : Regarding the total production volume for the full fiscal year, we have kept the previous forecast unchanged for now. However, we believe that there is an upside opportunity in Japan, Americas and China, where we think the production volume might be a bit higher if things go as planned.

On the other hand, the profit forecast includes the recovery from customers of compensation for operation shutdowns in the Americas, however, the amount and timing of recovery may differ from the forecast as negotiations are still underway.

Q 6 : In terms of your perspective on the business environment for the next fiscal year, what are your views on the level of production volume, regional mix, as well as the risk and opportunity?

A 6 : We are looking at trends by region and by vehicle model, and are now preparing production plans for the next fiscal year while considering whether risks need to be factored in. Some regions are expected to recover strongly. There is also the issue of whether our production capacity, including that of our suppliers, will be able to keep pace, and the uncertainty of geopolitical risks. We would like to proceed with a flexible production system that allows us to be more alert and to take actions as early as possible.

Q 7 : As we consider the figures for the next fiscal year, we would like to ask how the U.S. tariffs will affect. Basically, we do not think there will be much impact since your company manufactures locally near your customers' plants, but we would like you to explain, for example, how much is exported to the U.S. from regions such as Mexico and Canada, and how should we consider the impact?

A 7 : We have large manufacturing facilities in Canada, the U.S., and Mexico, respectively. As for Canada, we have a manufacturing plant near our customers, and exports from Canada to the U.S. are not very large amounts.

While we assemble the seats in the U.S. and Canada, we sew the seat covers, which are a component of the seats, in Mexico, so we are a bit concerned about what the tariffs will be on these transactions from Mexico to the U.S. However, in the past, the sewing process for these seat covers was transferred from the U.S. to Mexico, and now that the production equipment and skills are no longer in the U.S., we would like to maintain operations from Mexico for a while and see what the timing or period will be.

In coordination with our customers, we are once again considering where to manufacture from the viewpoint of the right people in the right places, including production planning.

Q 8 : I'd like to know what the current actual strength is like in the Americas. I think North, Central, and South America have been struggling with profitability until now, but in the midst of various rationalizations since the beginning of the year, could you show us how much profitability has improved in terms of actual strength? It would be very helpful if you could tell us this for considering next year's profit.

A 8 : The entire company in the Americas is currently engaged in improvement activities, but the effect of these improvement activities is hard to see because the scale of production cuts has been so large. In terms of actual strength for the cumulative total up to 3^{rd} quarter (Apr-Dec), we see it as still not reaching a positive level even without production cuts. The improvements we initially mentioned are gradually showing results, but we haven't quite reached the level of the targeted effect yet. We think there are still more measures we can take. For the next fiscal year, operations will return to normal, and new plants will also start up, so we'd like to contribute to profits while steadily advancing improvement activities.