Jul. 31st, 2026
TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2027 1st Quarter Financial Results

Q 1 : Please provide an update on progress against internal targets for the first quarter and any one-time factors.

A 1 : Operating profit for the first quarter was JPY 15.8 billion. While there were various factors affecting profitability, we believe results came in largely in line with our internal plan. In China, seat production volumes were below plan, but we absorbed the resulting profit impact through improvements in expense management and fixed-cost efficiency. One-time factors included the impact of rising market prices associated with the situation in the Middle East, as well as a retroactive price adjustment related to prior fiscal years of approximately JPY 1.0 billion. Excluding these one-time factors, we estimate underlying operating profit to have been approximately JPY 18.0 billion.

Q 2 : Please explain the impact of Toyota's cancellation of Lexus-related BEV development.

A 2 : Regarding the impact of the cancellation, development costs that had been planned for this fiscal year will no longer be incurred. Meanwhile, discussions with Toyota regarding the recovery of previously incurred costs have only just begun. As a result, no impact from this matter has been incorporated into our full-year profit and loss forecast. Looking ahead, the recovery of previously incurred costs could have a positive impact on profits. On the other hand, a negative impact could arise from a review of the valuation of assets recognized on the balance sheet.

Q 3 : Please provide details on the first-quarter financial results and full-year profit and loss forecast for the Americas region, as well as the impact of the RAV4 and the new plant.

A 3 : Although profits in the Americas region declined year on year in the first quarter, we do not believe the actual level of profits was significantly weak.

Regarding the new-model effect of the RAV4, although profitability has not yet reached the level originally planned, the shortfall has been largely offset by other factors. The reason for raising our first-half forecast by JPY 1.0 billion is the improvement expected in South America, driven by higher production volumes and progress in reducing fixed costs. On the other hand, we have not revised our first-half forecast for North and Central America.

For the second half, we have lowered our forecast for North America by JPY 1.0 billion. This reflects not only the RAV4 but also the fact that efficiency at the new TBWK plant has not yet reached the desired level, as well as a certain degree of risk associated with unrecovered tariff costs.

While the new-model effect of the RAV4 is not included in our full-year forecast, we would expect it to begin contributing meaningfully from the second half onward.

Q 4 : Please explain why the RAV4 in the Americas has not yet achieved its planned profitability and the potential for future improvement.

A 4 : With respect to the RAV4, sales prices and direct material costs have been largely in line with the original plan, and we believe performance has improved compared with the previous model. On the other hand, we believe the primary reason profitability has not reached the planned level lies in our in-house manufacturing costs.

Specifically, we are facing challenges in production efficiency during the launch phase, including not being able to produce with the planned workforce level and not consistently completing operations within standard cycle times. In addition, we have adopted a new supply structure under which seat frame components are sourced from the new TBWK plant, where start-up inefficiencies have also occurred. We believe profitability can return to the originally planned level as variable in-house manufacturing costs improve and efficiency at TBWK increases.

Q 5 : Please explain why the new-model effect was particularly significant in the first-quarter results for Japan and your outlook for this effect going forward.

A 5 : In the first-quarter results for Japan, the new-model effect made a significant contribution to profits, with the RAV4 accounting for the majority of that impact. Unlike in North America, profitability in Japan has improved largely in line with the original plan, including in-house manufacturing, resulting in a significant contribution to profits.

On a global basis, we expect the new-model effect to contribute more than JPY 8.0 billion for the full year. Of this amount, the RAV4 in Japan is expected to account for approximately JPY 6.4 billion, making it the primary driver of this fiscal year's new-model effect. As the RAV4 was launched in December of last year, the contribution recorded in the first quarter cannot simply be annualized by multiplying it by four. Nevertheless, we expect this positive effect to continue going forward.

Q 6 : Please explain the reasons for the downward revision of the full-year profit and loss forecast and your outlook for production volumes in China.

A 6 : The primary reason for the downward revision of our full-year profit and loss forecast was a further reduction in planned seat production volumes in China by approximately 150,000 units compared with our initial assumption, consisting of a reduction of about 20% in the first half and about 10% in the second half.

Even in our initial plan, we had already incorporated a certain degree of risk relative to Toyota's annual production plan. However, actual production volumes in the first quarter came in below our expectations. Given our view that a rapid recovery is unlikely, we have revised our assumptions to reflect lower production volumes and lowered our operating profit forecast from JPY 80.0 billion to JPY 76.0 billion.

Q7 : Please explain why operating profit in China is projected to increase from JPY 4.0 billion in the first half to JPY 7.0 billion in the second half, as shown on page 13 of the presentation materials.

A7 : We expect the introduction of new products in the second half to improve sales prices and have a positive impact on profitability. The anticipated contribution from the new-model effect is the primary reason why operating profit is expected to be higher in the second half than in the first half.

In addition, the reduction in production volume assumptions reflected in this latest revision is greater for the first half. In the second half, the downward revision is relatively limited at approximately 10%, partly due to the introduction of new products. As a result, we expect production volumes in the second half to decline less than in the first half.

Q 8 : Please provide more details on the model mix and market price impact included in the factors affecting the full-year profit and loss forecast shown on page 11 of the presentation materials.

A 8 : The model mix impact is mainly attributable to changes in the model mix. For example, in Asia, IMV production for the Middle East is declining, while production of Suzuki vehicles for India is increasing. We understand that these changes in the model mix are the primary reason for the unfavorable model mix impact.

Regarding the impact of market prices associated with the situation in the Middle East, the net impact remains unchanged from our initial forecast, although the gross impact has changed significantly. At the beginning of the fiscal year, we had incorporated only JPY 1.5 billion for April. However, we now expect the cost impact to exceed JPY 20.0 billion for the full year and assume that this will be offset through price pass-through and our own cost reduction efforts.

With regard to price pass-through, we believe that more than half of the impact can likely be addressed under existing agreements. On the other hand, approximately 40% falls outside those arrangements and will need to be absorbed globally through negotiations with customers, reviews of procurement costs, and reductions in fixed costs.

Q9 : Please provide more details on the improvement in overhead costs and the breakdown of the "Others" category included in the changes from the previous forecast shown on page 11 of the presentation materials.

A9 : The improvement in overhead costs compared with the previous forecast reflects company-wide efforts to review expenditures in light of the challenging business environment, including the impact of market prices associated with the situation in the Middle East and lower production volumes in China. Through ongoing fixed-cost reduction activities, such as postponing or reviewing non-essential expenditures, we expect an improvement of approximately JPY 3.0 billion.

As for the "Others" category, the difference mainly reflects the accumulation of several smaller items, including a negative impact of approximately JPY 0.5 billion from a retroactive sales price adjustment in the Americas and a negative impact of approximately JPY 0.4 billion from idle capacity losses.

Q10 : Please explain the first-quarter results by region relative to the internal plan.

A 10 : Relative to our internal plan, we believe first-quarter results fell short of expectations in China and the Americas, while Japan and Asia outperformed the plan. In particular, Japan delivered a significant outperformance. Although Europe and Africa remained loss-making in the first quarter, this was in line with our original expectations. As a result, we believe performance was largely in line with the plan.

Q11 : On page 13 of the presentation materials, the forecast for Japan has been revised upward from JPY 8.0 billion to JPY 9.0 billion for the first half, while the forecast for the second half has been revised downward from JPY 11.0 billion to JPY 10.0 billion. Please explain the balance between first-half and second-half profits.

A11 : In Japan, we expect fixed-cost reduction efforts to have a particularly strong positive impact in the first half. On the other hand, in the second half, certain models will be subject to temporary production stoppages associated with the transfer of production within Japan. We have incorporated these impacts and revised the balance of our profit forecast between the first and second halves accordingly.