

Summary of Q&A at FY2021 1st Half Financial Results

Q 1 : Are there any transient factors such as employment adjustment subsidies, mold profits, and selling price adjustments in the 2Q results?

A 1 : The employment adjustment subsidy has not been fully completed yet, but it is included. The mold profits, which was included in several models in the previous term, has decreased in this term and is negative compared to the previous year. Regarding the selling price, we negotiated with the customer so that no adjustment would occur because the situation in 1Q was severe. The major factor as a transient factor is the year-on-year rate of change, and it is largely due to the fact that the amount of funds outflow in Europe was -3.3 billion yen in the previous fiscal year.

Q 2 : Please tell us the assumptions for the number of units in the full-year plan.

A 2 : The number of vehicles in the full-year plan is based on 8.2 million units based on announcement (Toyota Lexus brand) received from Toyota Motor Corporation in early September. The number of vehicles was -680,000 in 1Q and -820,000 in 2Q compared to the initial total. Looking only at 2Q, partly due to the recovery of Toyota Motor's production, it was -140,000 units (of which -110,000 units were in the Asian region excluding China). Outside of Asia, it has recovered significantly and is approaching the initial annual plan.

Q 3 : Please let us know if there are any risk factors such as cost increases in the second half.

A 3 : Regarding the risk factors in the second half, fixed costs will increase slightly compared to the first half due to the delay in the project in the first half. In China's 4Q, due to the influence of the Chinese New Year, the number of units and operating profit are expected to be lower than those up to 3Q. Although cost reductions were made considerably in 1Q, net income was in a difficult situation, so fixed cost efficiency and productivity improvement have been thoroughly implemented in all regions since 1Q. Since this effect has come out significantly in the recovery of the number of units in 2Q, we will continue to respond.

Q 4 : Cost control has been quite effective for the full year, but how much is likely to return after next year?

A 4 : The annual emergency response is expected to be 5 billion yen. There is a part that gradually returns to the second half from the place where there were no various events or overseas business trips in the first half.

Q 5 : Is the cost reduction due to the advancement of items such as factory slimming and profit improvement measures using IoT, or is it due to the newly implemented cost reduction items?

A 5 : There are both. In particular, it was a new remark to the latter that there are many things can be done by online such as events, domestic business trips, and sales activities. As for overseas production preparation support, immigration restrictions are strict for a while and it is not possible to send people, so everyone below the top realizes that support work can also be digitalized and remoted while digitizing and remoting as much as possible.

Q 6 : Is the cost reduction plan of about 3 billion yen in the second half the minimum target value, or is it the target value that can still be aimed at?

A 6 : The forecast as of 1Q was a target value of -7.3 billion yen for the full year. At the time of 2Q, we are considering a reduction level of -7.3 billion yen in the first half and -3.1 billion yen in the second half, which is a full-year reduction of 10.4 billion yen. Based on this, we will work to further improve efficiency through work style innovation (reduce overtime work by utilizing telework, remote meeting, etc.).

Q 7 : The Americas will have a rate of return of 4% in the second half, but is there room for further improvement in the future?

A 7 : In the second half, although there is a temporary profit such as supply and demand of subsidies, the model change of major models from 2018 has come to an end, production preparation costs have decreased, and new product effects have come out, so the number of units is increasing recently. I would like to take in the effects of the above and improve the profit level.

Q 8 : Is it possible to increase the rate of return in the Americas to 4% or more by your own efforts, or is it dependent on the number of units?

A 8 : We would like to aim for further improvement based on these two factors, the change in the vehicle model composition in the Americas and the efficiency of the production system. In the Americas, the number of vehicle models such as crossovers, SUVs, and MPVs is increasing from the conventional sedans and fleets, so we would like to take advantage of these changes and improve profitability. The challenge for that is that it is becoming difficult to secure employment in Indiana, but we would like to suppress the increase in personnel in the Indiana area as much as possible and improve the efficiency of the production system while utilizing the southern part as well.

Q 9 : Looking at China and other countries in the Asia-Oceania region, what will the future rate of return be in China and ASEAN?

A 9 : In Asia as a whole, it is expected that the situation will continue to be severe, with the first half of the year being -190,000 units and the second half being -250,000 units. Among them, China is a plus, so the slump in Asia is very noticeable. Looking at the number of units in the second half, production is increasing mainly in China, but in 4Q, the number of working days will decrease due to the influence of the Chinese New Year, but labor costs will be incurred, so we think that profits will drop compared to 1st to 3rd quarters. In Asia, there was some type profit as a one-time profit in the first half, and in China there was a reduction or exemption of social insurance premiums, so it may seem that operating profit has not increased so much in the second half compared to the increase in the number of vehicles.