

Financial Results Briefing for FYE Mar. 2025

Q: Your forecast for FYE Mar. 2026 includes a tariff impact of 20 billion yen. What is your assumption here?

A: We export products produced in Japan, Mexico, Canada, Thailand, etc., to our local subsidiary in the U.S. These imports account for a little more than 30% of the total North American revenue of 1 trillion yen.

The impact has been calculated based on the assumption that tariffs will be imposed on all of them. All we know right now is that the tariffs will be 25% on the total import amount. Going forward, we will need to coordinate with our customers and to determine the scope of affected suppliers. As for the period, we assumed that we will be subject to the tariff impact of 25% throughout the year. However, the timing of when these tariffs will start and when they will end is uncertain. Therefore, we have calculated the impact of 20 billion yen on a trial basis for now.

Q: Regarding the background to the estimated tariff impact of 20 billion yen in your forecast for FYE Mar. 2026, to what extent does it reflect any direct and indirect impacts of tariffs and the outlook of price pass-throughs?

A: It is difficult to develop accurate assumptions about tariffs at this point, and we expect other companies also to be wondering how to estimate the impact. We have not currently reflected any decrease in demand in the automobile market due to these tariffs. In particular, it is difficult to predict trends in the U.S. market. In this situation, we will closely examine the import volume to the U.S. and the scope of parts on which tariffs will be imposed while striving to pass them on to prices through close consultation with our customers. In addition, we would like to sincerely respond to any requests from our suppliers.

SQ: Is it correct to assume that there's a prospect of price pass-throughs?

SA: Taxation through tariffs has already started for aluminum and other resources. When such taxation on auto parts begins, if the applicable tax rates differ with each product, price pass-throughs will take some time to implement. We expect that a delay in price pass-throughs until the next fiscal year will occur in some cases.

In comprehensive consideration of these circumstances, we have adopted a tariff impact of 20 billion yen as an assumption for developing our forecast for this fiscal year.

Q: While the demand for ATs and PHEVs/HEVs will increase going forward, you are expected to generate a total operating profit of more than 160 billion yen in 2030. Does this mean that the probability of achieving the target ROIC of 13% in 2030 has increased?

A: We plan to announce the next Medium-Term Plan and a long-term policy toward 2035 by the end of FYE Mar. 2026. As part of this process, we have disclosed our forecast on ATs and PHEVs/HEVs earlier based on current assumptions. In the next Medium-Term Plan, we should be able to disclose more detailed information also on other businesses, such as brakes and safe/comfort entry. By the profit contribution of these businesses, there is the prospect of achieving a ROIC of 13% and a ROE of 12%.

Q: Regarding the target operating profit of 80 billion yen or more by 2030 you have set for PHEVs/HEVs, are there opportunities in the Chinese market for you to increase orders going forward?

A: We understand that the Chinese market is a competitive market that requires high-speed development. Regarding PHEV demand, which is predicted to increase in China in the future, we would like to reduce costs by utilizing local suppliers to increase orders as we learn the Chinese way of doing things.

SQ: According to your plan, electrification units are expected to increase by 1 million units in FYE Mar. 2026. What is the breakdown of the increase?

SA: We expect an increase of about 500,000 units each for HEV and eAxe. As we expect sales to Toyota to continue to grow from FYE Mar. 2027, we expect these unit sales to increase further.

Q: Is your forecast operating profit of 205 billion yen for FYE Mar. 2026 based on conservative estimates, such as reflecting the tariff impact of 20 billion yen?

A: As the outlook for tariffs is highly uncertain, our base case operating profit of 225 billion yen does not reflect the tariff impact. The impact of corporate structure improvement/structural reforms of 79 billion yen accounts for a significant portion of the forecast operating profit, and we need to continue to work on these throughout the year. It is not easy, but we intend to accomplish it.

SQ: As Toyota reportedly intends to bear the tariff impact, it is expected that you can pass most of the impact on to prices in relation to Toyota. Do you expect the tariff impact of 20 billion yen to apply to other customers?

SA: As Toyota has not officially announced that, we will continue the dialogue with our customers, including Toyota. However, in some cases, we expect that payments to suppliers will be recorded in this fiscal year, and the corresponding price pass-throughs to customers will be recorded in the next fiscal year. Therefore, we estimate the impact to be 20 billion yen for now. We have already started dialogue with our customers.

Q: How much do you expect the number of PT units for Toyota to grow in FYE Mar. 2026? What is the reason for the flat revenue forecast while PT unit sales are expected to increase?

A: In FYE Mar. 2026, PT unit sales and unit sales to Toyota will increase, but revenue will remain flat due to the offsetting effect of exchange rates and price revisions.

Q: North America achieved a significant increase in operating profit in FYE Mar. 2025. I presume one of the factors is price pass-throughs, but what is the background to this? You also expect a slight decrease in profit for FYE Mar. 2026. Is this due to upfront investments?

A: North American results have exceeded the initial plan due to the following three factors. First, the recovery of higher resource prices and labor costs from customers progressed significantly more than initially expected. Second, although total unit sales did not increase significantly, the product mix improved. Third, we considered impairment risk for some bases that were not initially operated very well, but we did not actually need to recognize an impairment loss. As for the forecast for FYE Mar. 2026, although there is a tariff risk, North America's basic ability to generate profit is steadily increasing. Therefore, we expect that North America will continue to maintain high profit levels going forward.

SQ: Am I to understand that the tariff impact of 20 billion yen has been included in your forecast of operating profit of North America for FYE Mar. 2026?

SA: Yes, that's correct.

SQ: Have up-front expenses, such as preparation for production, been included?

SA: There are some investments in HEVs whose production is currently in preparation, which are included in the first half. However, such investments have mostly decreased to moderate levels.

Q: I understand that the production of next generation products of cooperative regenerative brakes system will start in FYE Mar. 2026. How much of a profit-boosting effect do you expect from them? Will they boost orders for cooperative regenerative brakes system also in the medium to long term?

A: As we have explained before, once the eighth generation is launched, profitability will improve. Preparations for production are going well, and we can expect a certain level of unit sales for car models that will be equipped with these brakes. Therefore, they will start contributing in the middle of FYE Mar. 2026 as planned. As we have also made progress in cost reduction for existing products, operating profit margin is also expected to rise toward levels that are close to the overall consolidated operating profit margin.

SQ: Can we expect that unit sales of cooperative regenerative brakes system will increase further as in the case of HEVs?

SA: As the number of car models in which they will be installed will increase, unit sales will also increase.

Q: You discussed the preparations for contract production of e-axis for BMW in Europe and China. I would like to confirm roughly how much costs will be incurred in that process. And is it expected to contribute to revenue in FYE Mar. 2026?

A: The total production preparation costs in these two regions is in the range of several billion yen. FYE Mar. 2026 is still in the production preparation period, and contribution to revenue is expected to start sometime in the second half of the 2020s.

Q: Regarding share repurchases, what is the background to your decision on the repurchase plan of 120 billion yen you have newly announced? Will you repurchase shares from the market or from your shareholders as they sell your shares as part of their efforts to reduce cross-shareholdings? I would like to ascertain your plan.

A: We established a share repurchase program up to a limit of 100 billion yen for FYE Mar. 2025, but actual repurchases amounted to only 83.9 billion yen because the maximum number of shares was reached first. In view of this result, the new share repurchase plan of 200 billion yen is intended to total 83.9 billion yen in FYE Mar. 2025 and 120 billion yen in FYE Mar. 2026.

As for the repurchase method, we are prepared to be flexible and accommodate either one depending on the situation.

Q: What are the current levels of operating profit from PHEVs/HEVs and ATs?

A: Operating profit for HEVs remains at lower levels than the target due to the production preparation costs for launching production lines in North America and other up-front costs, such as depreciation. As unit sales will increase toward 2030, profit levels will gradually increase. Operating profit for ATs is at the same level as the target due to a decrease in unit sales at our customers and delays in recovery of material costs. However, we expect this to increase over the next several years and gradually decrease thereafter.

Q: According to the latest demand forecast for powertrains, PHEVs/HEVs will experience growth while ICEs will remain at certain levels. While it is difficult to forecast medium- to long-term demand, how have you secured flexibility?

A: As demand for electrification fluctuates wildly, it is particularly difficult to estimate it for the next three years. We will continue to control our production capacity by maintaining it at the minimum level in consideration of any downward swing in demand, while ascertaining the proper timing of investments.

Q: I expect unit sales of PHEVs/HEVs and ATs to increase toward 2030. How confident are you that this will occur?

A: The latest PT unit sales are 10.5 million units, and unit sales of PHEVs/HEVs and ATs combined will be slightly less than 10 million units through 2030. As eAxle will be added on top of these, unit sales will increase.

Q: I understand that profit per unit differs between PHEVs/HEVs and ATs. What is the reason for the difference? Are PHEVs/HEVs more profitable?

A: I cannot generalize because it depends on the models and structures. If the ratio of in-house production of HEVs increases, our added value will increase.

Q: What are the factors behind the difference between the target operating profit of 300 billion yen in the Medium-Term Plan and your forecast operating profit of 205 billion yen for FYE Mar. 2026?

A: These factors include a decrease in unit sales at our customers, investments in human resources and the future, additional investments in enhancing the production systems in various regions, including PHEVs/HEVs, and the tariff impact.