

Financial Results Briefing for Q1 FYE Mar. 2024

Q: Given Toyota's production volume, the sales volume of powertrain units, and exchange rates in 1Q, I feel that the overall revenue results should have been better. Please tell us about upside opportunities in and after 2Q and your revenue expectations for each quarter.

A: Our revenue plan for each quarter is 30 billion yen for 1Q, 60 billion yen for 2Q, and 100 billion yen for 2H. Our plan has reflected a risk of about 10% regarding Toyota's production volume, and the 1Q results have exceeded the plan. With Toyota's production volume at this level, revenue is expected to continue to exceed the plan in and after 2Q. Recovery from resource price increases are planned separately for 1H and 2H, and 2Q results are expected to be better than 1Q results. The progress of recovery has been faster than the plan.

Q: Please tell us about the regional situation, such as the reason why the North America segment became profitable in 1Q and the downside risk of sales to China.

A: North America became profitable in 1Q despite the burden of investment for electrification as it worked to improve its business structure through manpower-saving, among other things, and benefited from higher-than-expected sales volume. We will work harder to improve its business structure going forward to achieve profit on a full-year basis. As for the outlook of the Chinese market, although our plan has taken into account the risk in Toyota's production volume, we will continue to watch the situation closely toward 2H.

Q: As the ratio of electrification units in sales volume increases, how much impact will it have on the overall product mix?

A: Electrification units currently account for approximately 20% of sales volume. While the volume is low, the profit margin tends to be low. However, electrification units are already profitable, and they are not expected to have a meaningful product mix impact. Changes within AT, which accounts for the remaining 80%, continue to have a larger impact.

Q: Please tell us how you are involved in Toyota's BEV strategy (Giga Press, eAxle, etc.) Does it represent an opportunity for sales increase?

A: Although we are not involved in the development of Giga Press, we have knowledge of large presses and coordinate with Toyota as necessary. As the market shifts to BEV, we can leverage our strengths by combining eAxle with brakes, cooling modules, batteries, aerodynamics, etc., rather than working only with eAxle, and there will be increasing opportunities for us.

Q: Please tell us about the profitability and future potential of the brake business.

A: Although we struggle with profitability due to large quality costs and investment for electrification, we are working to improve profitability. As for future potential, we understand that brakes play an important role in reducing electricity consumption, and their role is also expected to change as they coordinate with powertrain units. As there are few companies that have both, we would like to launch competitive products by adding value.

Q: What is the impact of the recently announced business divestiture on financial results? Will you continue to downsize mature businesses going forward?

A: Although Shower toilets accounted for a certain percentage of ES-related sales of 50 billion yen, LIXIL and the Company will focus more on their respective focus areas. Seat business transfer transactions over the last 10 years have amounted to approximately 120 billion yen in total, and the transfer has largely been completed with the latest transaction. We do not necessarily plan to downsize all mature businesses. We may continue such businesses if we are expected to benefit from our position in the industry as a major survivor. We also need to collaborate with external partners in some parts of the electrification and carbon neutrality areas, and we will accelerate our activities there.

Q: You said that you will promote business portfolio restructuring and asset reduction. What is the status of discussion on the reduction of shareholding, such as cross-shareholding with the Toyota Group?

A. We think that we need to review the holding purposes once again. If shareholding is indispensable for us to conduct business with our partners, we may continue to hold their shares. On the other hand, if the holding purpose has changed over a long term, we should review the significance of the shareholding.