

Briefing for Fiscal Year 2023 Second Quarter Q & A

《Q2 Financial Results》

Q1 : In the stamping and plastic molding business, profitability has increased with an operating profit margin of 8.5% in 2Q; from July to September. How do you see Q2 results? Were there any temporary factors that will push up profits?

A1: There were no temporary factors. In the second quarter, Toyota's production volume recovered to a high level, mainly in Japan and the United States, and we were able to minimize losses and maintain in our Japanese and overseas steady manufacturing operations. In addition, due to the change in the durable years of stamping equipment in the United States from 7 years to 15 years starting this fiscal year, depreciation expenses decreased by 0.8 billion yen in the first half of the year compared to the previous year. These two factors led to a steady profit growth.

《Forecast for the second half》

Q2 : The profit level and profit margin are expected to decline significantly in the second half compared to the first half. What are the factors? Also, I would like to know the actual value of how much profit margins can actually increase.

A2 : A new plant at the Higashi-Ogaki area will begin operation in the second half of the year. As a result, we are expecting approximately 0.7 billion yen in depreciation costs for buildings and equipment, and approximately 0.4 billion yen in production preparation expenses and expenses related to land and buildings, which will be a factor in lower profits in the second half. Additionally, there are several hundred million yen in expenses that were originally scheduled for the first half but have been postponed to the second half. This is also a factor in reducing profits in the second half. Regarding ordinary income, while the first half includes foreign exchange gains, the second half is calculated without foreign exchange gains. There is a possibility that profits will increase due to the continued depreciation of the yen. However, regardless of exchange rate trends, we are working to minimize losses and maximize profits both domestically and internationally, so that we can achieve results that exceed the announced figures.

Q3 : What is the Toyota's Japanese production volume assumptions for the second half forecast? This seems like a conservative. Is it correct to understand that if production continues at the same level as the first half, profits will rise in tandem with the increase in production volume, other than the factors contributing to the difference between the first half and the second half?

A3 : Basically, Toyota's production volume assumptions have not changed significantly from the 1Q announced figures. For the United States, we are forecasting an annual increase of around 3%, and for China we are forecasting a slight decrease. If the number of units produced increases, the marginal profit will be added to the profit.

Q4 : How are labor costs, expenses, and sales prices factored into the second-half forecast? In addition, with regard to depreciation costs, an increase in depreciation costs at the Higashi-Ogaki Plant in Japan was offset by a decrease in depreciation costs as a result of changing the depreciation period in the United States. Is it okay to understand that it is plus or minus zero in terms of increase/decrease factor analysis?

A4 : Labor costs are expected to increase compared to the previous forecast, assuming higher wage rates in countries such as the United States. Sales prices are unchanged from the 1Q forecast, but in the stamping and plastic molding business, we plan to periodically revise prices, and in the valve business, we are aiming to reduce price reductions while passing on rising material prices to sales prices. As you understand, the depreciation expense is plus or minus zero.

Q5 : Material prices continue to have a negative impact on profits, but will profits be recovered in the next fiscal year?

A5 : The biggest factor is the IC price of the TPMS business. Since purchases are made from overseas in euros, purchase prices are expected to continue to rise amid the current situation of strong euros and weak yen, which is expected to have a negative impact on profits. Next, regarding the unit price of scrap in the stamping business, the sales price of scrap is on a downward trend, so we have reflected this impact in our forecast. These are the differences from last time.

Brass prices in the valve business also remain high. As for passing on prices to customers, we have achieved some results this fiscal year, so we will continue to negotiate with customers so that we can pass on the increase in material prices into next fiscal year.

《About mid to long-term initiatives》

Q6 : Please tell us about the progress in developing and promoting sales of electric expansion valves for Europe and the United States.

A6 : As battery EVs continue to grow, we believe that electric expansion valves will be an extremely important product for our company. At the same time as we begin deliveries to Japanese manufacturers, we are proceeding with development and expand sales in cooperation with sales and development members at our French and American base. During development, we have a backup system of Japanese development members, who communicate well and share information as we move forward. Although we have not yet begun deliveries, our technology has been highly evaluated by our customers and recipients. The thermal management system uses not only the electric expansion valve that we have started producing, but also multiple other electric expansion valves, so the entire group is working hard to receive additional orders.

Q7 : Looking at your outlook for next fiscal year, when and how much profit contribution do you plan to make from the launch of the new stamping plant and electric expansion valves?

If you have any stories about how sales and profits will increase due to factors other than Toyota production volume and exchange rate fluctuations, please tell us.

A7 : Regarding the start-up of the new stamping plant, we plan to install a total of six presses, but only a portion of them will be fully operational next fiscal year. Next fiscal year, as not all equipment will be operating at full capacity, we still expect the contribution to earnings to be negative.

Regarding valves and electric expansion valves, production has begun in this term and is still small. It will still be a small in 2024, and it is assumed that the amount will gradually increase from 2025 onwards. Regarding other factors, we are also expanding sales of TPMS, and I think we will see results from next year onwards. Regarding the valve business, since our products are not dependent on specific customers, the biggest impact on our company is how the market, including Europe and the US, expands. I think this is the bottom, and I look forward to next year and beyond.

Looking at the current situation by region, in the Chinese market, Japanese manufacturers are struggling to hold on, and we predict that the difficult situation will continue from next year onwards. The Thai market is down about 20% from the 1Q forecast, making it difficult to predict the future. If we can increase the number of units produced by our customers in Japan and the United States, which account for 70% of our sales profit, and increase profits, we will be able to report good consolidated earnings. We will continue to build a solid business foundation.

Q8: Regarding Gigacast, at the time of the 1Q results, you said that you would be closely monitoring the impact going forward. Did Toyota share any information with suppliers after that? If Gigacast is adopted, please tell us about the impact on business.

A8 : No new information has been released. We are continuing to monitor trends based on information obtained during daily business activities and official information dissemination. Gigacast targets parts for the front and rear parts of a vehicle's underbody. Since we have almost no ordered parts in that area, we believe that Gigacast will not have much of an impact on our company. Although there will be no direct impact, we believe that competition may intensify as parts suppliers in the Gigacast field continue to aggressively expand sales of remaining stamped parts. I don't think we will introduce Gigacast. There are still many areas in which our specialty areas, including ultra-high tensile strength and aluminum stamping products, can contribute to the need for weight reduction, so we will further strengthen our efforts.

Q9 : Local Chinese auto manufacturers are also increasing their numbers considerably. Please tell us about the direction of sales expansion, including whether you will develop Chinese manufacturers.

A9 : Basically, we are thinking about expanding sales mainly to Japanese manufacturers, but for some products, we are also conducting sales expansion activities to local Chinese manufacturers.