

Summary of Q&A for the financial results briefing for the 3Q of FY2022, ending March 2023

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JTEKT CORPORATION

Q1. How do you evaluate the results of the 3rd quarter? Furthermore, what is the progress toward achieving the FY2022 forecast: business profit of 60 billion yen?

A1. In the 3rd quarter, the progress in passing on material cost to customers and the ability to curb the negative impact of lower sales prices (customer APR) were the main factors behind the increase in profit. On the other hand, the appreciation of the yen and the decrease in volume were the main reasons for the decline in profit.

For the FY2022, in addition to the activities that have been undertaken so far, the company will make greater efforts than planned to pass on to customers prices for material cost increases. Therefore, the company expects to achieve its business profit target of 60 billion yen, leaving the announced figure unchanged.

Q2. Is the decline in 3rd quarter volume due to delays in recovery production by some customers? How much progress has been made in passing on higher material costs to customers?

A2. The situation of customer production is within the scope of the plan, and there is not much impact from the delay in recovery production.

The most significant factor for the decrease in physical volume is the re-expansion of novel coronavirus infections in China.

Negotiations with domestic customers for the first half of the year to pass on higher material costs to customers were mostly settled. Negotiations are currently underway, mainly in Europe and the U.S., regarding cost inflation of energy and logistics. Some of the results of negotiations may be carried over to the next fiscal year.

Q3. Does the business profit for the 3rd quarter include one-time factors such as retroactive sales price improvement for the first half of the year?

A3. No particular transitory or special factors have occurred.

Q4. To achieve the FY 2022 business profit of 60 billion yen, business profit of 27.9 billion yen, an unprecedentedly high level, is expected in the 4th quarter. We want to confirm the certainty of achieving this goal.

- A4. As in past years, sales and business profits tend to be biased toward the 4th quarter, partly due to seasonality factors. Another factor is that customers will be able to pass on higher material cost to their customers through the 4th quarter.
- In addition, cost improvement activities, which have been proceeding as planned, will accumulate their effects as the second half of the fiscal year progresses. As a result of the above, we expect to achieve business profit of 27.9 billion yen in the 4th quarter.
- Q5. Other income and expenses are expected to post a loss of 8 billion yen in the 4th quarter. Will this have an impact on the achievement (or target) of 100 billion yen in business profit for the next fiscal year, which is the goal in the mid-term management plan?**
- A5. Other income and expenses consist mainly of restructuring costs in Europe. In the next fiscal year, the effects of structural reforms and the improvement of the company's structure toward the break-even point target of 80% will be effective for business profit. The outlook for changes in the external environment and other factors remains uncertain and risky. Plans for the next fiscal year are currently being formulated, so we refrain from mentioning them here.
- Q6. What is the background behind the upward revision of the plan for the steering business unit compared to the Forecasts-Business profit Analysis at the time of the 2nd quarter?**
- A6. The plan for the steering business unit has been revised upward based on the steady effects of improvements being implemented in each region, the positive effects of increased sales in Japan and the ASEAN region, and the progress in passing on prices to customers for material cost increases.
- Q7. What is the background behind the lowering of plans for the drivelines business unit?**
- A7. Sales will increase, but there is a change in the product mix, which has been seen as such.
- Q8. I understand that about 60% of the sales of the bearing business unit are for the automotive industry, but why has the profit not improved as much as the steering business unit in the 3rd quarter?**
- A8. The bearing business unit includes many front-end processes such as heat treatment that are susceptible to the effects of cost inflation of energy.
- The sales price improvement to customers regarding cost inflation of energy is currently under negotiation, and the effect has not yet been reflected in the results.

Q9. What is the reason for the 1.9 billion yen decrease in profit in the machine tool business unit in the 3rd quarter?

On the other hand, for the FY2022, we are forecasting a company-wide increase in expenses of 1 billion yen. What is the background to this?

A9. This was due to exhibition and advertising expenses incurred in the North America region in the 3rd quarter.

The increase in FY2022 expenses is due in part to the inclusion of changes in the composition of regions and products (models, etc.) in the analysis of changes in business income.

Q10. I have the impression that revenue and profits in the machine tool business unit are usually skewed toward the 4th quarter, but why is this trend less pronounced in this fiscal year's plan than in previous years?

A10. In addition to machine tools themselves, the machine tool business unit includes domestic affiliates that manufacture heat treatment furnaces and other products.

There were no cost increases or lost orders, but rather these changes in the product mix have resulted in a different trend from previous years.

Q11. Please tell us about the progress of the improvement toward profitability in the North American region.

A11. The challenge in the North America region is that productivity has deteriorated due to the lack of employee retention since the spread of the COVID-19. Productivity has been improving to a level close to the target, with the effect of the Japanese assistance provided since last year, and the 3rd quarter saw a break-even level. In the future, productivity will be maintained and improved while continuing education. In addition, the company will reap the benefits of cost improvement and pass on higher material costs to customers, which is the path to returning the North American region to profitability.

Q12. What initiatives are needed to return the European region to profitability?

A12. In Europe, as in North America, structural reforms are progressing, but sales recovery is lagging. In addition, the impact of cost inflation of energy has been significant. The activities being undertaken in the automotive sector to increase sales are projects that will sprout 3-5 years down the road, and it will be difficult to achieve a quick recovery in sales. It is necessary to raise the level of structural reforms to another level and accelerate activities.

Q13. Please tell us about the relationship between cost increases and sales price improvement to customers (impact on profit/loss).

A13. Costs are incurred ahead of time because the customer accepts requests from suppliers before price negotiations with customers are settled.

Q14. Please let me know the status of cost increases due to inflation.

A14. Material costs are in line with the plan as of Q2, while logistics costs remain high. Cost inflation of energy is higher than expected, especially in Europe. Overall, the cost increase situation is unchanged from the forecast three months ago, but the rate of sales price improvement is more advanced than expected.

Q15. Are investments in human capital, wage increases, etc. included in Business profit Analysis?

A15. The cost inflation of labor costs in the North American region are already being reflected. We have not included wage increases in Japan in our forecast for the current fiscal year because negotiations with labor unions have just begun.

Q16. Are there any differences in the progress of cost improvement activities by business segment?

A16. All businesses are progressing as planned. For example, the steering business unit is continuing to promote VA/VE, and the bearing business unit is continuing to promote automation and reducing personnel.

Q17. Is the most recent announcement of information on production cuts from finished vehicle manufacturers included in your plans?

A17. The plan is based on the latest sales forecast.

Q18. We have heard in the past that you have "developed the ability to generate 20 billion yen in business profit per quarter." What is your current level of ability, do you think?

A18. The target for the break-even sales ratio for the current fiscal year is 83% of FY '19 sales. At this point, we expect to achieve our target, and our structure is now capable of generating business profit close to 20 billion yen per quarter. However, the company has not been able to consistently achieve the 20 billion yen level of business profit, due to its inability to cope with the negative impact of inflation and other external factors. We will further improve our structure by responding flexibly to changes in the external environment and accelerating cost improvement efforts.