JTEKT

Summary of Q&A for the financial results briefing for the 1Q of FY2023, ending March 2024

August 1, 2023
JTEKT CORPORATION

Q1. What is the reason that operating profit and net profit were higher than business profit?

A1. Operating Profit increased due to partial reversal of provision for warranty (About 5 billion yen). Net Profit increased due to improvement of Operating Profit and financial resulted by favorable yen currency rate.

Q2. Did revenue and business profit in the 1Q exceed from your forecast disclosed in the beginning of this fiscal year?
As you keep your full-year forecast unchanged, how does your 1Q result affect your full-year forecast?

A2. <Revenue>

In the 1Q, sales in China were less than our forecast due to market changes from the impact of the demand shift to EV, while sales in other regions were generally in line with our forecast.
We reflected sales volume decline in China under current market condition, however, considering sales recovery in Japan, we maintain our full-year forecast unchanged from those disclosed in the beginning of this fiscal year.

<Business profit>

In the 1Q, although the sales increased or decreased in each region, the profits were generally in line with our forecast.
We maintain our full-year forecast unchanged from those disclosed in the beginning of this fiscal year, however, our forecast is conservative in some factors such as the impact of foreign exchange rate.

Q3. Why has profitability in North America improved significantly?

A3. In addition to the sales recovery, our profitability was improved by various plant activities against declined productivity caused by personnel shortages, and sales price improvement activities to minimize negative impact of cost inflation.

Q4. Earnings in Europe continue to be sluggish, how is the progress of restructuring activities?

A4. Restructuring activities are on schedule. However, the operations in Europe are still making loss, because the sales volume has not fully returned due to the severe market condition. The negative impact of cost inflation is greater than in the other regions, and sales price improvement activities are not working well with some customers as we expected. To stop making loss, we plan to further restructuring activities, including the restructuring of the organization for productions.

Q5. Why can you remain profit in China under severe market condition for sales?

A5. Despite declining sales and demanding hard discounts from customers, we could keep our profit due to sales price improvement activities to minimize negative impact of material and other cost inflation successfully.

Q6. How will the revision of each OEM's volume impact on your full-year forecast?

A6. In the 1Q, sales were almost in line with our forecast because we had anticipated some production cutbacks due to the shortage of semiconductors. In our forecast, we have reflected production cutbacks, especially in China, while we have also expected production recoveries in TMC in Japan. We believe that the overall condition is becoming brighter than the forecast in the beginning of this fiscal year. We are also making steady progress in cost reduction and sales price improvement activities, and we will continue our activities to achieve the profit target 75 billion yen. However, in this fiscal year, we have additional challenge to recover the impact of labor cost increase from the customers.

Q7. TMC has announced that they will dissolve group cross-holding stock. Are you discussing in this matter? If TMC decides to sell your shares, do you consider share buyback?

A7. Not only TMC, but several financial institutions are beginning to consider doing the same. We are also considering reducing cross shareholdings without exceptions. Share buybacks should be one of our options, however we do not have a decided detailed policy yet. We are in the process of discussing several scenarios now. We will discuss further about this issue including the ideal composition of our shareholders in the future.

Q8. How will you be involved in "TMC BEV Factory"?

A8. All of our business units are involved. In our automotive business unit, we are conducting the necessary development to meet the trend toward electrification and automation, and some of our products have already been adopted by customers. And we are also working to develop competitive products as an e-Axle parts manufacturer.

In the machine tool business unit, we are proceeding with the development of battery manufacturing equipment.

Q9. What impact do you expect the widespread use of steer-by-wire on your earnings?

A9. BEV products are also undergoing price-cutting competition like existing products, therefore steer-by-wire is not only product that is particularly profitable. Including the existing EPS products, we will promote cost reduction improvement activities steadily to ensure a stable profit margin of 6% or more in the automotive business unit.

Q10. What is the reason why your current full-year sales forecasts excluding the effect of foreign exchange rates were lower than that disclosed in the beginning of this fiscal year in North America and Asia, not only in China?

A10. In North America, there are cautious views on economic trends and demand in the second half of the fiscal year. Therefore a slight downward revision has factored into our forecast with reflecting recent customer demands and production plans.

In Asia, we have factored into our forecast a downward revision in production volume due to stricter loan conditions in Thailand, cost inflation, and other factors. Export of EV vehicles from China to Thailand is also an important point and we will continue to monitor that carefully.