

Earnings Briefing for First Quarter of Fiscal Year Ending March 31, 2025 (FY2024)

Condensed Transcript of Q&A Session

Date & time: Wednesday, July 31, 2024, 18:00–19:00

Attendees: Hideyuki Iwamoto, CFO
Yasushi Aida, Assistant to CFO
Shigeo Obata, Assistant to CSO

Q.What is the future outlook for the Africa Division in light of the current situation?

A.Excluding the impact of foreign exchange, earnings were almost flat from the previous fiscal year. There was a slight upswing with respect to automotive, but when looking at the details, performance varies from country to country. For example, in Cote d'Ivoire, where Suzuki vehicles performed well last year, sales are down, while in countries such as Nigeria, high-margin large vehicles such as the Land Cruiser are selling well. In addition, sales have been intentionally restricted in countries where there has been a change of government. Looking at Africa as a whole, West Africa has toned down compared with the situation in the previous quarter, and South Africa is underperforming as it was last year, but other countries, such as Nigeria, are growing to compensate for the weaker countries. From the outset, we did not expect further growth in Africa, which performed well in the previous year, and we expect that sales for this fiscal year will remain at about the same as last year's level or slightly higher. Once South Africa returns to normal, there will be another upward turn. South Africa's poor performance is due to a squeeze on financing for taxi companies. We are not pessimistic because demand will return once the new administration comes to power and the political situation stabilizes.

Q.What are the actions and ideas that can be implemented when cross-held shares are released by holders?

A.If the holding counterparty wishes to sell the shares in bulk, shares can be sold not on the market but to shareholders who want to hold the shares for a long time, as other companies do, or we may buy back our own shares depending on the market conditions. On the other hand, as of now, we have not been made aware of any intent of players to sell shares in a large lot.

Q.What is your general assessment of the first quarter results? Particularly in terms of the Africa and Mobility Divisions.

A.Profits were not as high as expected due largely to the fact that automobile production did not progress as expected. Regarding production volume, compared with the same period last year, production in Japan dropped by nearly 10%, and production in China also fell almost 20%. Compared with last year, when production was robust, production seems to have lagged behind in the first quarter of this fiscal year. On the other hand, while profits appear to be down year-on-year due to strong automotive retails in the first quarter of the previous fiscal year, demand is strong in

the Caucasus region and Papua New Guinea, and results for the first quarter of the current fiscal year were not bad. We are not pessimistic about Africa either, partly because sales in the previous quarter were too good, and we see only a slight slowdown in growth. If the production volume catches up from the second quarter onward, we believe the numbers will come out as expected.

Q.Regarding the issue of certification fraud in the Toyota Group, will business performance be impacted by the certification fraud newly found in seven models announced today? Meanwhile, how will the Toyota Group's decision to allow an increase in purchase prices to cover labor costs affect business performance? Are there any risks and opportunities for the full year ahead?

A.Regarding the impact of the suspension of shipments due to the certification fraud issue, there has been almost no impact to date, including those related to Daihatsu. However, the impact of the fraud concerning seven models newly announced today is unknown at this time. The main influence on our business performance is overseas production. It is important to know how many of the seven models concerned are produced overseas and in Japan. As to sorting out the risks and opportunities, we do not expect to take as much advantage from the yen's depreciation as we did in the first quarter from the second quarter onward. If the rate falls below the assumption of 145 yen per dollar used for the initial plan, that would be a negative factor. As for interest rates, since they are falling overseas, we believe the impact will be limited as it will be offset by the portion of rise in interest rates in Japan. Regarding geopolitical risks, the unstable Middle East market is not directly related to our business, but when resource prices rise, our business in developing countries, where we are strong, tends to be more profitable. Looking at labor costs, we are in the intermediary business, and if the prices of the products we handle increase, we expect a positive impact when converting such costs into a percentage of sales. In terms of other opportunities, a recovery in production volume in the second quarter and beyond would have a positive impact. As for sales, we expect a positive impact in both Africa and emerging countries from the perspective of model mix if sales of high-margin large vehicles, hybrid vehicles, and gasoline-powered vehicles remain strong.

Q.What is the current status of inventories of mobility sales, the outlook for the second quarter and beyond, and the impact on the full-year plan?

A.The status in the fourth quarter of the previous fiscal year was very poor, and the first quarter inherited that poor status in part, but we recognize that we are in a transitional period. Demand remains strong for the second quarter, so we expect to be able to sell while securing a margin for us. We have been seeing growth in the ride-hailing service from the fourth quarter of the previous fiscal year to the first quarter of this fiscal year. Although continued attention is needed, we expect sales to recover from the second quarter onward, as we have accumulated products to a certain extent.

Q.In mobility sales, I have the impression that the Company has been having a hard time securing enough vehicles. But does the fact that inventory is accumulating at the moment mean that the Company has taken some remedial measures and is now placing priority on the ride-hailing service?

A.Last fiscal year, we responded by selling cars for hailing to Russia in the Caucasus region. Through these efforts, we were able to demonstrate that demand in the Caucasus region and other neighboring countries is solid and that this is a market that will continue to grow in the future. The Company's efforts and results from last year have been well received, enabling us to secure vehicles for ride-hailing. We expect this trend to continue in the second quarter and beyond.

Q.In the Digital Solutions Division, what is the background to the large drop in in-vehicle electronics and the outlook for the second quarter and beyond?

A.This is mainly concerning NEXTY Electronics, but there are two factors of comparable size. One is the decline in earnings in reaction to the previous year's results and the other is the allocation of inventories held for a long period of time. A small amount of inventory allocation may occur in the second quarter and beyond, but the majority has been accounted for in the first quarter, and thus this has a strong transient implication. There are some areas where cargo movements are weak in line with the production volume, but we believe that earnings will increase from the second quarter onward, assuming that volume growth will be driven by recovering production. In-vehicle electronics were quite slow in the first quarter. The contracts are already in place, and since we handle tailor-made, non-cancelable, non-reschedulable (NCNR) products, there is low risk under the firm sales contracts.

Q.What impact do the buyers of electronics have in connection with the production of Toyota Motor and in which regions?

A.There are many Tier 1 manufacturers, but it is difficult to give out details as their connections with products made in which plant of Toyota are insider information. Looking at NEXTY's plans for the next three months and the next six months, sales are back in line with the original plan, so we believe sales will continue to progress.

Q.Could the certification suspension issue affect the sales volume?

A.In previous cases, the subject car models had little impact on the Company. We do not expect much impact this time either, if the issue applies only in Japan.

Q.What is the background to the decline in mobility sales in Papua New Guinea and the impact of political unrest?

A.Papua New Guinea is currently in a poor political situation, and we will carefully assess the circumstances. As for the first quarter results themselves, we believe they were affected mainly by the timing of budgeting the automobile purchase and gas prices. As for the outlook for the future,

we expect demand to rise if gas prices rise in the future due to the situation in the Middle East, despite the political unrest.

Q.Regarding NEXTY Electronics, while the handling of semiconductors for automotive applications is based, in principle, on NCNR contract terms, how much longer did the number of days in inventory become due to the weak inquiries this time? I would also like to know whether there is any risk of procrastination.

A.This time, the inventory period exceeded 1 year, so the inventory allocation treatment was applied. Inventory that is held until the end of production at the time of changing a vehicle model may be kept from 2 to 3 years to as long as 10 years in some cases, but on the whole, the number of days in inventory has not increased that much, and we consider this to be transient. Although inquiries for automotive applications were not good in the first quarter, this was influenced by overall automobile production. The overall market view of semiconductors for automotive applications going forward is that prices and margins will decline, but the number of semiconductors used per vehicle will increase, offsetting price and volume.