

Q & A Session at the Financial Results Briefing for Analysts on November 28, 2022
(Financial Results for 1st half of the Fiscal Year Ending March 2023)

Q. I would like to confirm the prerequisites for the production volume of automobiles. Please let us know whether the numbers are consistent with those of SUBARU, in particular, and other OEM manufacturers.

A. Our plan incorporates downside risk with respect to the numbers for OEM manufacturers. Our initial full-year plan was 8.2 million units for the whole of Japan and 550,000 units for SUBARU. The forecasts are 280,000 and 320,000 units in the first and second half of the fiscal year, respectively, and 600,000 units annually. Although there is a production adjustment risk due to the shortage of semiconductor supply, we expect that production will generally proceed as planned.

Q. Is there any room for an upward revision to the full-year plan if negotiations are successful in passing on the higher cost of raw materials?

A. The settled part of the negotiations has been factored into the plan, but part of the negotiations for the previous and first half of the fiscal year has not been settled, so there may be room for some upward revision depending on the outcome of the negotiations. However, I would like to refrain from answering this question because the level of new cost increases in the second half of the fiscal year is unpredictable.

Q. I hear that there will be a volume adjustment for HDD suspensions in the second half of FY2022. Please tell us about the accuracy of the plan.

A. The production volume in the first half of the fiscal year was lower than originally planned, and it is also expected to decrease in the second half of the fiscal year.

In FY2021, orders from HDD manufacturers increased, which led to a significant increase in the production volume of Nearline HDDs, our main product line. In this fiscal year, after the inventory adjustments planned for the October–December and January–March periods, the volume is expected to return from April onwards. Basically, the capacity of HDDs for data centers is increasing year by year, and the demand for HDDs is expected to grow. Although there is a trend of replacing HDDs with SSDs, we expect that the demand for HDDs will continue to grow because the cost per unit of data capacity is significantly lower for HDDs. I would like to refrain from answering the question about the accuracy of the plan due to uncertainties in market trends and the impact of foreign exchange rates.

Q. Regarding metal substrates, I would like additional information on future potential, share, and differentiation from competitors.

A. Compared to ceramic substrates, metal substrates are much easier to use and have the

same level of heat dissipation and durability. Therefore, ceramic substrates may be replaced with metal substrates. Because the entirety of a metal substrate has the capacity to both store and dissipate heat energy, we believe that metal substrates are the most suitable for automobiles. Currently, we are working on getting orders for power control units, the most important parts of electric vehicles (HEVs, FCEVs, and BEVs), from Tier 1 manufacturers. If we successfully receive orders, we will expand our production capacity by enhancing the Malaysia Plant, acquiring the land adjacent to the Komagane Plant, and increasing the capacity of production facilities. We are not yet at the stage where we can talk about our current market share, but are now at the stage of challenging ourselves to capture as much production volume as possible in a market that is likely to expand in the future. In terms of differentiation from competitors, one of our strengths is that we, as an automotive parts manufacturer, are able to develop products smoothly with our customers because we are well versed in the steps of the development process.

Q. What are the target markets for metal substrates?

A. The first is the market for automotive power transistors. When driving a motor or charging a battery, a power transistor is needed to convert DC to AC. Transistors that use large amounts of power always need a substrate with high heat dissipation. The second is the market for industrial applications. High-power power transistors are essential components in control boards for solar power generation equipment, etc. that require a large amount of power.

Q. Please tell us about the current profit ratio of metal substrates and the target profit ratio a number of years from now.

A. Profit ratio targets differ between automotive and industrial applications. At least approximately 20% is desirable for industrial applications. For automotive applications, we aim to achieve a profit ratio two to three times higher than that of our existing automotive suspension spring and automotive seating businesses. Since this business requires new investments, we would like to achieve firm profit ratios.

Q. Please tell us about the status of sales expansion in the motor core business.

A. The market is in a rather chaotic state. We are considering a large number of possible patterns, such as whether to incorporate magnets or even wiring, so that we can cater to various customer needs. We are striving to secure production capacity at our own risk because we need to secure a certain level of production capacity to meet orders and it takes time to prepare facilities and equipment.

Q. What is the competitive situation in the motor core market? Tell us also about why you are working on capacity expansion in advance.

A. Not only is the technical competition fierce, but also the structural competition regarding who will engage in the design of motor cores. We are analyzing competitors and making technology investments to enhance our production, design, evaluation, and other relevant technologies. In fact, the Electrification Business Promotion Department has been working on design and development of motors and prototype production.

Q. According to the plan, the operating income rate of the seat segment in the second half of FY2022 will be improved to 4.5%. Is this due to the recovery in the volume for SUBARU, and taking measures such as the review of business in North America?

A. As pointed out, the recovery of business for SUBARU is significant. In addition, the operating income rate is expected to improve significantly compared to the previous fiscal year as a result of streamlining our North America business.

End