

Q&A for the Analysts from the November 28 Briefing on Financial Results (Financial Results for the Second Quarter of the Year Ending March 2019)

Q. When you demarcate the operating profits from the first quarter with those of the second, you see that the operating profits from the second quarter were lower. What are the reasons for this? What sort of changes took place in the second half of the year versus the first?

A. Profits for the automotive suspension spring business declined versus that from the first quarter, falling largely in line with that found in the initial plan.

The automotive seating business saw a drop in profits versus the first quarter, and sales also declined versus the initial plan due to the effects of the drop in volume in Japan. Moreover, while sales grew in North America and other regions, the rise in fixed costs led to a decline in operating profits.

As for the precision springs and components business, this experienced a drop in both income and profits due to a faltering in volume versus the first quarter, while the results for the industrial machinery and others business were on par with those from the first quarter.

Regarding the conditions from the second half of the year compared with those of the first, while the automotive suspension spring business is expected to see an increase in income, both its income and profits will fall versus the initial plan due to a drop in volume. The automotive seating business will see an increase in profits due to a rise in volume, while the precision springs and components business will see profits decline due to a fall in volume for HDD-related components. As for the industrial machinery and others business, while sales will increase, operating profits are expected to be on par with those from the first half of the year due to the rise in fixed costs, primarily from the construction of a new factory.

Q. In what ways will the businesses in North America continue to improve in the future?

A. The points of improvement differ depending on the business.

The automotive suspension springs business has been affected by the slump in sales of sedans. For this, we will continue to promote improvements to production lines and automation.

The automotive seating business is in something of a hard-fought battle as a result of factors like the model composition for the vehicle models we are receiving orders for and the rising labor costs resulting from the increase in our job turnover rate. In response to this, we will work to cut fixed costs by boosting our retention rate and via streamlining.

For the precision springs and components business, we will continue to improve productivity and perform streamlining.

Q. Please inform us if there have been any improvements, such as trends in the orders received versus the mid-term plan for the automotive suspension spring business, as an example.

A. In Hungary, there has been no change regarding the trends in the orders received versus the initial plan. However, our launch is slightly behind schedule, and therefore sales are expected to increase beginning from the year ending March 2021.

As for Mexico, the situation has changed significantly compared with the mid-term plan and is thus unpredictable. But our expectation is that sales will continue to increase on into the future.

Q. Please tell us the reasons for why fixed costs fell in the first half for each of the businesses. Furthermore, is the plan for fixed costs in the second half a conservative one?

A. Fixed costs for the automotive suspension springs business fell due to the drop in volume.

Regarding the automotive seating business, discrepancies arose in some of the fixed costs generated between the first and second halves of the year.

For the precision springs and components business, discrepancies arose in the depreciation costs that were generated as a result of the misalignment in the time periods in which capital investments were made. However, the rise in volume for HDD-related components led to an increase in fixed costs versus the initial plan, and thus an increase in fixed costs across the precision springs and components business as a whole.

For the industrial machinery and others business, discrepancies arose in the depreciation costs that were generated as a result of the misalignment in the time periods in which capital investments were made. On account of this, and the curbing of fixed costs at domestic subsidiaries, the discrepancies in the fixed costs generated between the first and second halves of the year, and other factors, fixed costs fell on the whole.

For each business, the second half of the year is expected to go largely according to the revised plan.

Q. The profits margin for the seat business is currently sitting at 2%. While I understand that profit margins fall due to a complex host of factors, do you view this as a deterioration in the earning power that forms the base of the company?

A. For the automotive seating business, profit margins vary drastically for each model. I see this less as a deterioration in our earning power, and more as a decrease in the number of units produced for models ordered that offer our company high profitability.