Financial Analysis

Overview of the fiscal year ended March 31, 2023

Analysis of operating results

For the fiscal year ended March 31, 2023, while Honda's order production volume declined, new orders from other companies' sales contributed to sales, and changes in material unit prices and foreign exchange effects resulted in net sales of ¥314.3 billion (up 32.9% YoY). As for profits, operating profit was ¥12.8 billion (up 17.4% YoY) as a result of cost reduction efforts and continued cost containment, while we also strengthened our ability to respond to rapid production fluctuations. Ordinary profit was ¥14.3 billion (up 14.0% YoY), mainly due to share of profit of entities accounted for using equity method. Net profit attributable to owners of parent was ¥10.3 billion (up 15.7% YoY).

Overview of financial position

Total assets at the end of the fiscal year ended March 31, 2023 increased by ¥6.2 billion YoY to ¥288.7 billion. Total liabilities decreased by ¥6.6 billion YoY to ¥112.0 billion. Total net assets increased by ¥12.8 billion YoY to ¥176.7 billion.

Overview of cash flows

The balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2023 increased by ¥4.3 billion YoY to ¥40.2 billion.

[Net cash provided by (used in) operating activities]

Net cash provided by operating activities amounted to ¥37.3 billion. Major inflows were profit before income taxes of ¥14.2 billion, depreciation of ¥17.4 billion, and a decrease in inventories of ¥9.0 billion. This was an increase of ¥23.2 billion YoY. The principal factors were decreases in inventories and in trade receivables to a decrease in inventories and a decrease in trade receivables.

[Net cash provided by (used in) investing activities]

Net cash used in investing activities amounted to ¥16.0 billion. The major outflow was purchase of property, plant and equipment of ¥17.2 billion. This was a decrease of ¥2.8 billion YoY. The principal factors were decreases in inventories and in trade receivables to inflows arising from withdrawals from time deposits.

[Net cash provided by (used in) financing activities]

Net cash used in financing activities amounted to ¥17.6 billion. Major outflows were repayments of short-term borrowings of ¥9.7 billion and of long-term borrowings of ¥13.8 billion. This was a decrease of ¥30.1 billion YoY. The principal factors were decreases in inventories and in trade receivables to the repayment of borrowings.

Forecast for the fiscal year ending March 31, 2024 (disclosed on November 7, 2023)

We forecast net sales of ¥337.0 billion (up 7.2% YoY). In terms of profits, we forecast operating profit of ¥13.5 billion (up 5.2% YoY), ordinary profit of ¥14.5 billion (up 1.5% YoY), and net profit attributable to owners of parent of ¥9.3 billion (down 9.4% YoY).

We assume exchange rates of ¥140.00 to the US dollar, ¥19.30 to the Chinese yuan.

Basic policy on profit distribution and dividends for the next fiscal year

The Company's basic policy is to maintain a level of shareholders' equity that allows for investment in growth and risk, and to provide stable and continuous returns to shareholders, with the aim of achieving sustainable growth and increasing corporate value over the medium to long term.

We have set a DOE (dividend on equity) target of 3.0% for the fiscal year ending March 31, 2031. We will continue to live up to the expectations of long-term investors by continuing our basic policy.

For the fiscal year ending March 31, 2024, we plan to pay an interim dividend of ¥32 per share and a year-end dividend of ¥33 per share, for an annual dividend of ¥65 per share, an increase of ¥7 from the previous year.

Based on the above policy, we will continue to increase dividends toward achieving the target, while maintaining liquidity on hand and securing funds for dividends, taking into comprehensive consideration the Group's performance trends, earnings and financial base, business environment, etc.

Reference

https://www.g-tekt.jp/ir/management/risk.html

Summary of net sales by business/customer

Results for the fiscal year ended March 31, 2023

By business segment, net sales in the auto body components business were ¥268.8 billion, up ¥70.5 billion YoY. There was some impact from production cutbacks, but this eased in the second half and results reflect unit price revisions for materials and the impact of foreign exchange rates, etc. Car model development increased ¥8.4 billion YoY to ¥37.9 billion. This reflects an increase in the number of new models launched. Net sales for transmission parts totaled ¥7.5 billion, up ¥0.8 billion from the previous year.

Honda cut back production at the beginning of the fiscal year due to the impact of semiconductors and other factors, but with the exception of the China region, towards the end of the fiscal year it was trending toward recovery. Due in part to the impact of foreign exchange and other factors, net sales were ¥175.8 billion, up ¥38.4 billion YoY. Toyota and SUBARU were relatively unaffected by semiconductors, and their production volumes rose for the full year, which together with the impact of foreign exchange, etc., resulted in net sales of ¥71.5 billion and ¥22.7 billion, respectively. An expansion of new orders in Japan and overseas contributed to sales to Toyota in particular. European manufacturer Jaguar Land Rover launched new models, leading to an increase in order production volume and a rise in net sales.

(Unit: 100 millions of yen)

	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020		Fiscal year ended March 31, 2021		Fiscal year ended March 31, 2022		Fiscal year ended March 31, 2023		**Plan for fiscal year ending March 31, 2024**
[Main exchange rates]											
USD	110.94		108.80		106.05		112.36		135.48		**140.00**
RMB	16.72		15.61		15.66		17.50		19.74		**19.30**
Net sales	**2,556**		**2,283**		**2,094**		**2,365**		**3,143**		**3,370**
[Net sales by customer]											
	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	Amount	Composition ratio	
Honda	1,688	66.0	1,444	63.3	1,332	63.6	1,374	58.1	1,758	55.9	
Number of units orders received (10,000 units)	494.3	–	441.3	–	424.0	–	381.0	–	354.5	–	
Toyota	327	12.8	317	13.9	343	16.4	515	21.8	715	22.8	
SUBARU	213	8.3	202	8.9	147	7.0	151	6.4	227	7.2	
European manufacturers (Jaguar Land Rover, BMW)	70	2.7	106	4.6	93	4.4	132	5.5	185	5.9	
Other	258	10.1	214	9.3	179	8.6	193	8.2	258	8.2	

* The above figures have been rounded to the nearest 100 million yen.

Overview of capital investment and R&D

Capital investment results

The Group's capital investment is formulated by comprehensively taking into account factors including the development of new models, economic forecasts, and investment efficiency.

The total amount of capital investment for the fiscal year ended March 31, 2023 was ¥24.5 billion. This includes ¥14.9 billion for investment in models to launch new models, and ¥9.7 billion for basic investment including installation of demonstration facilities for the EV-related business, expansion of production capacity, and other matters.

R&D results and outlook

The Group engages in R&D activities related to the development and manufacture of lightweight and highly rigid auto body components. Among these activities, the Department of the R&D Operations of the G-TEKT Tokyo Lab is responsible for the research and development of advanced technologies and new products related to environmental regulations, safety, and vehicle electrification. The total amount of R&D expenses for the fiscal year ended March 31, 2023 was ¥1.5 billion, and the main R&D themes were as follows.

[Research and development for EV vehicle bodies]

Leveraging the whole-vehicle body analysis technology that has evolved as part of our process of co-creative development of vehicle bodies with automotive OEMs, we continue to promote R&D aimed at EV vehicle bodies. Because the battery housing that contains the battery and the body structure of EVs are expected to become very important components with multiple functions, advanced design capabilities are required to build specifications. To address these issues, we will drive the further evolution of the whole-vehicle body analysis technology that we have developed and use it as the basis for comprehensive analyses of the vehicle body, battery housing, chassis and other parts, building specifications that result in the optimal distribution of functions to each component. The main contents of the development are as follows.

● Building a flexible structure that can easily be configured to meet the needs of individual OEMs ● Selecting and building specifications for manufacturing methods with high productivity and low environmental impacts ● Proposal for battery housings with expected increase in production volume ● Acquisition of performance evaluation capability in the area of chassis components that connect the body and powertrain ● Construction of optimal specifications for a single vehicle, taking into consideration collision safety and reduction of environmental impact as an EV vehicle ● Investigating the application of parts manufacturing technology that makes use of a high level of integration ● Investigating the application of closed-profile structures to vehicle body members

The need for electric powertrain-related components is expected to grow rapidly in line with the global increase in demand for EVs, and the Group is moving ahead with the development of mass production technologies for new business areas, such as drive motors and drive train reduction system-related components, where G-TEKT can contribute by leveraging its fundamental technologies. We will continue to move forward with the task of establishing original technology.

[Advanced technology development]

In response to environmental requirements and the accelerating shift to EVs, we are working on the early mass production of processing and joining technologies for new materials for conventional car body frame parts.

We are also using alliances and so on with other companies and universities to develop elemental technologies in order to meet strength and weight-reduction requirements, which will become increasingly stringent with the shift to EVs. Specifically, we are pushing ahead with themes such as the following.

● High-speed continuous joining with low distortion ● Dissimilar material joining technology ● Adhesive joining ● Tailored properties ● Development of molding technology for high-strength and lightweight materials (steel/aluminum/composite materials) for EVs, which are increasing in weight ● Development of lightweight and inexpensive structural members that can be used as substitutes for parts using extrusion molded aluminum ● Selection of manufacturing methods and construction of demonstration lines, etc. necessary to support the shift to EVs ● Survey of future technologies from the LCA perspective and formulation of CO_2 emission evaluation criteria

(Unit: 100 millions of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020	Fiscal year ended March 31, 2021	Fiscal year ended March 31, 2022	Fiscal year ended March 31, 2023	**Plan for fiscal year ending March 31, 2024**
Capital investment	224	301	216	142	245	**161**
Model investment	149	133	85	77	149	**51**
Basic investment	75	168	131	66	97	**110**
Depreciation	213	196	197	152	174	**180**
Research and development expenses	24	24	24	24	26	**34**