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# GS Yuasa Corporation
# Summary of Q&A Session at Financial Results Briefing for the Fiscal Year Ended March 31, 2023 (FY2022)

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<Outline of financial results briefing >

Date: May 16, 2023 15:00-16:00

Description: Explanation of financial results for the fiscal year ending March 31, 2023 / Financial forecast for the fiscal year ending March 31, 2024

Explainer: Osamu Murao, President
Hiroaki Matsushima, Director and CFO

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*Please note that this "Summary of Q&A session" is not a verbatim transcript of everything said at the financial results briefing, but a concise summary at the Company's discretion.

*Abbreviations in the text

■Company Name

BEC: Blue Energy Co., Ltd.

LEJ: Lithium Energy Japan Ltd.

■Others

BEV: Battery EV

EV: Electric Vehicle

PHEV: Plug-in Hybrid Vehicle

HEV: Hybrid Electric Vehicle

LiB : Lithium-ion Batteries

ESS : Energy Storage Systems

Emergency Field : Used for emergency backup in data centers and communications base stations and other facilities

Regular Field : Used for continuous charging and discharging in renewable energy, energy management, and the like

[Question 1]
As you mentioned earlier, net sales in the Automotive Lithium-ion battery segment are expected to increase by 37.6 billion yen, or 57%. Could you break down the numbers between BEC and LEJ?
Following the easing of the semiconductor shortage, I understand how this will translate into an increase in sales volume. This year, car manufacturers announced the plan of an increase in its global vehicle production. As such, while these increases in HEVs and PHEVs are expected, a net sales increase of 57% is very high, so could you give us some background on this, in terms of price, the number of units, etc.

[Answer 1]
First, regarding the net sales forecast of 103 billion yen for fiscal year 2023, in terms of batteries for HEVs, we expect a sales volume increase due to the easing of the semiconductor shortage and an increase in the number of car models adopting these batteries. Regarding this point, I cannot give you the specific car models, but this is an increase factor for sales of batteries for HEVs from Blue Energy. Next are batteries for PHEVs, corresponding to Lithium Energy Japan, and here, too, we expect sales volume will increase due to the easing of the semiconductor shortage. Additionally, we have ESS, which are storage batteries in the Industrial Battery and Power Supply segment. We manufacture these at LEJ, and we expect a sales expansion for these as well.
We expect a sales increase for batteries for hybrid vehicles from Blue Energy, batteries for plug-in hybrids from Lithium Energy Japan, and ESS from Lithium Energy Japan.
The net sales forecast for the Automotive Lithium-ion battery segment is for an increase of close to 40 billion yen, a majority of which coming from Blue Energy. In concrete terms, we expect an increase in net sales for Blue Energy, on account of an increase in the number of car models adopting our batteries. We are therefore expecting a further increase in the supply of batteries to Honda Motor and Toyota Motor, both companies with which we have previous agreements.
On the other hand, regarding Lithium Energy Japan, while we expect an increase in the manufacturing and sale of cells for ESS batteries, this falls under eliminations for the segment and is recorded in the Industrial Battery and Power Supply segment. In actual terms, we expect an increase of approximately 7 billion yen in terms of batteries for plug-in hybrid vehicles.

We expect an increase in operating income of approximately 2 billion yen, as well. The increase in sales at Blue Energy has a very large impact in this regard. With that being said, I believe you perhaps feel this increase in operating income to be smaller than the accompanying increase in net sales. This is due to an increase in fixed expenses.

[Question 2]
My second question pertains to the joint venture with Honda Motor.
You mentioned the total amount for this business comes to 434.1 billion yen. Could you give us a definition for this amount? Does it refer to sales or to capital investment?
Also, would it be accurate to say that, of this amount of 434.1 billion yen, 158.7 billion yen are in government subsidies? This venture is accounted for using the equity method, so I would like to know about capital investment on GS Yuasa's consolidated results. I believe you mentioned 190 billion yen in capital investment over a period of three years, equivalent to approximately 60 to 70 billion yen each year. In addition to capital investment on a consolidated basis, will the company be carrying out capital investment on a non-consolidated basis of 60 to 70 billion yen? Would it therefore be correct to view this combined amount as the total amount in capital investment?
Of the 434.1 billion yen in total expenses of business, excluding subsidies leaves expenses of 270 billion yen. As you mentioned on a previous occasion, GS Yuasa will be carrying out 190 billion yen in capital investment over three years, so I would like to know the relationship between these two numbers.

[Answer 2]
Allow me to answer your question, pertaining to total expenses of 434.1 billion yen of business with Honda Motor, Blue Energy and GS Yuasa. These are the total expenses to be incurred toward 2027 (to 2030), in the form of the purchase of land, capital investment, and R&D costs. Government subsidies will correspond to half of the R&D costs and one-third of capital investment. Lastly, the purchase of land is outside the scope of government subsidies.
The current schedule is for the start of operations in April 2027, and full-scale mass production from October. Toward fiscal year 2030, we expect to set up production lines sequentially, and carry out mass production. The various items I just outlined therefore make up the 434.1 billion yen in total expenses, and also

include costs associated with the acquisition of land.
We expect to carry out 190 billion yen in capital investment over three years, within the scope of the Sixth Mid-Term Management Plan. As mentioned just now, this does not include investment in manufacturing equipment, as it pertains to batteries for BEVs. Part of this includes the purchase of land, among other things, and of the 434.1 billion yen in total expenses, capital investment over three years will be in the form of land and some construction. As such, the overlap between the 190 billion yen in capital investment over three years and the 434.1 billion yen in total expenses is very small.

[Question 3]
The first pertains to profits in the Automotive Lithium-ion battery segment. Could you give us more details on this front?
I believe the Company is expecting a significant increase in expenses, as this was also shown in the overall profit forecast. Looking at the details, GS Yuasa is expecting an increase in depreciation of approximately 400 million yen. In concrete terms, what types of expenses do you expect will increase going forward? Additionally, the Company is expecting a sales increase of approximately 30 billion yen from batteries for HEVs, although the increase in operating income will be less pronounced. Is this the result of the product mix? I would like to hear your thoughts on profits in the Automotive Lithium-ion battery segment.
I believe R&D costs will amount to several billion yen overall, and I also expect a significant increase in personnel expenses. What are your thoughts on human resources?

[Answer 3]
As shown here, we expect net sales to grow to 103 billion yen, and operating income to grow by 2 billion yen. While the increase in operating income is less pronounced than the increase in net sales, research and development for batteries for BEVs is included in this segment, so we expect an increase in R&D and other related expenses here. Additionally, profit margins aren’t all that high in the Automotive Lithium-ion battery segment to begin with, compared to lead-acid batteries, leading to the results expected in the forecast. As I mentioned earlier, we expect an increase in fixed expenses alongside an increase in net sales. Additionally, we expect an increase in the price of lithium over the coming months, so an important factor here will be to what degree we can revise prices to reflect

this increase. We are currently in talks with our clients, so we took a conservative approach in terms of the forecast when it comes to price revisions. As you mentioned earlier, in terms of the product mix, naturally we expect an increase in net sales, but also in fixed costs, R&D costs, and in the cost of raw materials. These factors weigh down somewhat in terms of operating income growth.
In terms of personnel expenses, as well, we are taking a bit of a conservative approach when it comes to the forecasts. As to the details, I am not at liberty to disclose these, as this contains information pertaining to the new joint venture, so we request your understanding on this front.

[Question 4]
The Company has a target three times the capacity of the previous year in terms of batteries for ESS. In light of this, these batteries are manufactured at LEJ and, additionally, as you mentioned, batteries for PHEVs are also expected to increase somewhat, so I would like to know if there aren’t any issues in terms of production capacity of LEJ.
Additionally, you mentioned the establishment of a manufacturing company together with Honda Motor, scheduled for a start of operations in April of 2027. What will the division of roles be like, including BEC and LEJ?

[Answer 4]
First, regarding batteries for ESS, these are manufactured at LEJ. Plug-in hybrids are the main category for batteries in LEJ, partially followed by batteries for BEVs and ESS. By improving takt time, raising utilization rate and improving yields, we will be more than able to meet supply figures scheduled for fiscal year 2023, in terms of batteries for ESS, although I am not at liberty to disclose specific figures.
Next is our joint venture with Honda Motor for batteries for BEVs. Given our relationship with Honda Motor for the manufacturing of batteries for HEVs, and the process of development and manufacturing, we believe development and expansion will have Blue Energy at the core.

[Question 5]
Recently, the Company's price-to-book ratio fell below 1. In light of this, I would like to know what kind of internal talks have been taking place at GS Yuasa in terms of improvements in capital efficiency, etc. The company has advanced certain initiatives like the reduction of policy shareholdings. I would therefore like

to inquire about this use of assets and about the Company's thoughts on balancing growth investment with returns to shareholders.

[Answer 5]
I believe your question pertained to the company's measures to raise its price-to-book ratio about 1 once again.
Against the backdrop of a large expansion in the adoption of BEVs worldwide, GS Yuasa announced its Vision 2035, and in this Vision we detailed our belief in the significant growth over the medium-to-long term of batteries for BEVs and batteries for ESS in the regular field. Additionally, we also announced our joint venture with Honda Motor and the use of subsidies from the Ministry of Economy, Trade and Industry. We believe we were able to illustrate the direction we expect our Company to take, and the first step toward growth. GS Yuasa reserves the option to carry out share buybacks, but we would like to apply capital toward growth investment. Through the understanding and anticipation of stakeholders for growth on the part of GS Yuasa, we expect to see an improvement in the stock price, market capitalization, and price-to-book ratio. Going forward, we are committed to doing our utmost to return further value to shareholders, through improvements in the stock price and market capitalization.
Executing shareholder returns while balancing this with growth investment is a very difficult task, but it is also a crucial aspect for us. A large amount of capital will be needed toward growth investment. With that being said, naturally, that doesn't mean we will be neglecting shareholder returns. We seek to execute robust shareholder returns, and on top of this carry out growth investment. We will be working to realize improvements in share price through an improvement in corporate value.

[Question 6]
First, I would like to know your thoughts about GS Yuasa's existing lead-acid battery business for this fiscal year. There have been price increases and a worsening of the mix - since it's a business model generating profits through replacement batteries. I understand these dynamics, but despite a significant increase in net sales, operating income is expected to go down, and I feel that perhaps the company could possibly deliver more in terms of operating income. Is there upside potential when it comes to lead-acid batteries in the domestic markets? Or does the current forecast already include all the potential?

[Answer 6]
First, regarding our existing lead-acid battery business, we expect profitability to decrease in fiscal year 2023. The replacement battery business did well during COVID, as there was a break in the production of new automobiles during this period. As such, we registered high profitability.
Since we expect the impact of the semiconductor shortage to be alleviated in fiscal year 2023, as you mentioned, this means a significant change in the composition between batteries for new automobiles and for replacement. As such, we expect profitability to decrease slightly. Additionally, while the weakening of the yen has worn off a bit, it's more like the yen has plateaued at a low level versus other currencies. As such, we expect the price of raw materials, especially lead, to trade at elevated levels. Taking into account the end of COVID-19, an alleviation of the semiconductor shortage, and a weaker yen, we believe the figures shown here to be a proper estimation of the profit margin. This therefore means we have taken various risks into account in formulating these forecasts.

[Question 7]
I would like to know the reasoning behind the inclusion of Blue Energy in this joint venture between GS Yuasa and Honda Motor. Does this mean R&D will take place and then the manufacturing plant will be a joint venture or through the equity method between Honda Motor and GS Yuasa? Additionally, where will be the site of this factory? Will it be close to Honda Motor?

[Answer 7]
I am not at liberty to discuss the details in terms of R&D and manufacturing and production, but given Honda Motor and GS Yuasa's collaboration over the years, as I mentioned earlier, we view Blue Energy as a core company with the most logical scheme. We would like to disclose more details as soon as they are agreed upon.
Additionally, currently, this is an R&D initiative, but in terms of a manufacturing company, the GS Yuasa Group is currently considering Shiga Prefecture as a location. As this joint venture hasn't been founded yet, this is the extent of the information I can disclose at the moment, so I would like to request your understanding on this front.