

Financial Results for the 1st Quarter of FYE 2018 Analyst Briefing Q&A

August 3, 2017
SUBARU CORPORATION

Q : It seems progress has been better than the plan for the first quarter results, and how do you appraise this internally?

A : The sales situation struggled in some markets such as China but in the US market we recorded a 68-month consecutive year-over-year increase. For January to June, while total demand was 97.9% that of the previous year, SUBARU posted 109.1% that of the previous year. In single month results for July, while total demand was 93.0% that of the previous year, SUBARU has been performing well at 108.7% that of the previous year. We consider profit to have been almost in line with the projection. As an absolute value, we posted an increase in profit compared to the previous year, however, considering the fact that the recall-related expenses for airbags of 30.5 billion yen that accrued in the first quarter of the previous year were no longer present, and plus 1.6 billion yen gain on currency exchange, in actual value it can be called a 14.3 billion yen decrease in profit. However, our appraisal is that, even in the situation where the sales environment in the US is tough and sales costs have been expanding, still we were able to work hard to increase our sales and show results with a 14% overall operating margin (OPM).

Q : What is the sales and inventory situation in the US market? Additionally, what is the progress on the calendar year 670,000 unit sales plan?

A : US dealer inventories are at the level of approx. 1.6 times monthly sales as of the end of July. Legacy had excess inventory until two months ago, but now it has also toned down to 1.6 times the monthly sales level. At present there is no model with extremely high inventory, and also no model is out of stock, so the inventory level has been kept appropriate. Since the posted number of units sold increased in the 2nd half of the year as a result of production capacity increase of SIA last year, it is not easy to maintain growth compared to the previous year, however, we would like to grow sales of the new Crosstrek model (Japanese name: SUBARU XV), for which sales are to start, maintain steady sales, and aim to achieve 670,000 units.

Q : US Incentives increased over plan for the 1st half 1,750 dollar/unit, as actual performance for the first quarter was 1,800 dollar/unit. Was there any change in programs? In addition, what is the plan for the second quarter and thereafter, including the issue of continuation of zero interest loans?

A : Although results increased somewhat compared to the plan, there was no major change in incentive programs, and for the full year as well 1,850 dollar/unit has not been changed. We are assuming another Fed rate hike, and we consider there to be a possibility of a slight increase in actuality, however, we do not think there will be a major increase, and we will try not to allow that to happen.

Q : In the first quarter results, cost reduction was plus 300 million, and considering the fact that the plan for the 1st half was - 4.9 billion yen and for the full year was minus 7.1 billion yen, does this mean raw material prices will turn negative going forward?

A : Although the direction of the trend for steel is to the downside, on the other hand we predict precious metals will be tough. As a whole, for market conditions, we consider there is a possibility of these being more favorable than the yearly projection.

Q : Are there any items for which progress was poor compared to the plan? You said sales were favorable but were overall in line with the plan.

A : We see no particular items for which progress will be delayed significantly. Although sales have been favorable and there is an opportunity in raw material prices, considering the fact that R&D costs or fixed costs will increase in the second quarter and thereafter, and there is a possibility that sales costs in the US may increase going forward, we have not changed the yearly forecast.

Q : Domestic passenger car sales for April to July seem to be good. Is there any possibility of an upward swing after August?

A : Thanks to the effects of the introduction of the new SUBARU XV model, performance has been very good. In addition, going forward, for Levorg and WRX, in which the new "Touring Assist" function for EyeSight will be introduced, we consider momentum to be strong. However, compared to foreign markets, in domestic market fluctuations the number of units is drastic, so we will keep careful watch on the trends.

Q : What is the progress on R&D expenses? Have you been able to spend the portion for the full year plan? I think the bulk of this will be personnel costs, etc., and is R&D progressing well, including personnel hiring?

A : Although R&D expenses is primarily personnel costs, otherwise, outsourcing costs and development investment costs, etc. are included. Progress seems to be slow, and it is necessary to conduct R&D steadily for future growth, so there will be no large decrease.

Q : In the switchover of model years going forward, do you have any plan to discontinue the zero interest loan programs?

A : We have to judge this by looking at the competition environment in the market and competitiveness, however we will try to hold down costs as much as possible.

Q : Do you have any plan to expand the "Touring Assist" function of EyeSight to other domestic models or introduce it to overseas in the future?

A : Although it is still pre-release, it's being very well received. We would like to refrain from answering about future product deployment plans.

Q : About the sales situation and the competition environment for Outback and Forester in

the United States. While the inventory shortages have been solved and with a normal competition environment becoming evident, isn't there some effect from other companies starting to be felt?

A : The competition environment has not significantly changed, and both Outback and Forester continue to sell well.

Q : The incentive amount per unit increased from the fourth quarter of the previous fiscal year. What are the factors in this?

A : The primary factor is the increase in procurement interest rates as a result of higher interest rates in the United States. In addition, when the sales ratio of leases and loans, which have higher costs, increases, the incentive amount per unit increases.

Q : It is starting to be pointed out that a recall may be necessary for airbag inflators with desiccating agents, and if the total volume with desiccating agents as well are subject to a total recall, how much would be the response measures?

A : About the recall of inflators with desiccating agents, if we cannot verify safety before the end of December 2019, we will have to recall. If we end up doing a recall, we cannot say there will be absolutely no impact on SUBARU, however, the scale will be less than for the recall of models without desiccating agents, 4.3 million units.

Q : It seems sales in the China market have been struggling. How do you recover China sales in the future?

A : SUBARU does not conduct on-site production, so in the midst of tough price and discount competition, we have been in an extremely hard fight. Besides, we cannot enjoy the benefits of tax reduction measures for small-model cars. However, although there may be no measures that are instantly effective, in the world's largest market, we will work constantly to have our cars be the ones chosen by customers who favor individualistic and unique cars like SUBARU.

Q : Excluding recall expenses in relation to airbags, warranty claims increased year on year. Please give us an explanation about the trends of warranty claims other than airbag-related in the first quarter, and a forecast of future warranty claims.

A : The primary breakdown items in increasing expenses are warranty costs for SOA and the product guarantee reserve, etc., and as a result of the increase of sales units in the US, and we see these increasing in the future as well accordingly.
We predict 11.5 billion yen as recall expenses in relation to airbags for this year.

End