Financial Results for the 3rd Quarter of FYE 2019
Analyst Briefing Q&A

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SUBARU CORPORATION

Q ：I would like to hear your assessment of the results for the third quarter of FYE 2019.

A ：Operating income for the third quarter was ¥98.6 billion, and the operating margin was 11.1%. Consolidated unit sales were a relatively high 280,000 units as sales were not yet fully affected by the decrease in production resulting from cases of improper conduct associated with final vehicle inspections and a defect in the Electronic Power Steering control unit. In addition, it should be taken into account that, in the third quarter, expenses such as R&D expenses and fixed costs tend to be low, and that no major recall expenses occurred. Nevertheless, we think these figures are useful as a reference when considering the Company's basic level of ability.

Q ：How much were incentives per vehicle for the third quarter(3 months) of FYE 2019? I would also like to hear your forecasts for next fiscal year.

A ：Incentives per vehicle for the third quarter were $2,000. Due to the introduction of the Ascent, the full model change of the Forester, and a low inventory level with reductions in supply, we were able to control incentives to a level below that planned. Going forward we will need to continue to use them for the Outback and Legacy, which are showing their age. However, considering that we will have opportunities to reduce incentives for model changes, and that interest rate hikes have halted, it is difficult to imagine incentives rising significantly.

Q ：You have revised your production forecast downward by 42,900 units compared to the previous plan announced on November 5, 2018. What is the breakdown of this reduction? Also, I would like an update on the recent operating situation, and on the schedule for recovery.

A ：The portion of the fall in production attributable to the defect in the Electric Power Steering control unit came to around 30,000 units. Because we need to allocate the remedied components both to mass production and to replacing parts in vehicles already manufactured, recent operating rates have fallen from their usual levels, but we project that we will be able to get to grips with this before the end of FYE 2019, and we do not expect there to be impact on next fiscal year (the one ending March 31, 2020). The remaining portion of the downward revision to production was caused by changes in the plant operations following the repeated improprieties, but we will continue to move forward carefully with this.

Q ：What do you expect inventory levels to be at the end of FYE 2019?

A ：Inventory at US dealers was around 64,000 units at the end of December, equivalent to 33 days of sales. At the end of January, it was approximately 76,000 units, or 42 days of sales, but we interpret this as being a temporary increase caused by seasonal factors. Due in part to the decline in production we have experienced, we expect inventory at the end of March to be lower than this.

Q ：What were the factors behind the downward revision of the full-year forecast for material prices and market conditions, etc. compared to the previous forecast? I would also like to hear your forecasts for next fiscal year.

A ：The main factors were deteriorations in the market conditions for palladium, steel, and particularly coking coal and naphtha. It is difficult to assume that this will improve next fiscal year.

Q ：How do you see quality-related expenses developing next fiscal year and beyond?

A ：Recall expenses make up the largest component in the breakdown of quality-related expenses, but another aspect of this is that as the number of vehicles owned increases in line with the increase in sales units, warranties and other quality-related expenses also rise. Going forward I expect some expenses to increase in line with the rise in unit sales, but we will focus on improving quality, which is an urgent issue for the Company, while implementing initiatives to control these costs.

Q ：How certain is the annual dividend of ¥144?

A ：At this point in time, we have no intention of changing the annual dividend of ¥144.

End