Financial Results for the 1st Quarter of FYE2020
Analyst Briefing Q&A

August 5, 2019
SUBARU CORPORATION

Q ：What is your evaluation of the first-quarter results?

A ：Our full-year forecast for operating profit in the fiscal year ending March 31, 2020 is ¥260 billion. In the three months of the first quarter, operating profit came in at ¥92.2 billion. On the positive side, our sales in the US market have remained very favorable, achieving the 92nd consecutive month on month growth in July. Additionally, although the Legacy and Outback are at the end of their model cycles with full-model changes coming in the fall, we were able to sell them with fewer incentives than anticipated. We see these reflect our true strength. From this fiscal year, we have adopted IFRS, and some of our R&D costs have been capitalized. An unexpected positive factor was lower R&D expenses because a higher percentage of the total R&D costs was capitalized than the previous year. Another positive factor was lower warranty claim expenses as there were no major recalls in the first quarter. Overall, in the first quarter, our main business of automobile sales performed very well, and there were also other favorable factors.

Q ：Looking at the analysis of the variance in first-quarter operating profit between this fiscal year and the previous fiscal year, within the sales volume & mixture and others, overseas sales contributed nearly ¥20 billion to profit. Could you provide an explanation, including the sales situation in the US?

A ：In regard to US sales, the increase in Ascent and Forester unit sales contributed in terms of profit. Profit per unit is down for the Forester due to the switch to the new generation model, but the volume increase offset that factor.

Q ：What can you say about the profitability of the new Legacy and Outback that will be sold in the US starting in the fall?

A ：As I mentioned in regard to the full-model change of the Forester last year, the selling price has not caught up to the higher costs for improving environmental and safety performance.

Q ：Please provide an update on domestic and US production.

A ：In Japan, the line speed has been reduced to give top priority to quality in production and inspections, but basically production is at full capacity. Up until now, we have been saying that speed will be restored on some lines starting in the second half. However, preparations, including equipment upgrades and hiring and training of employees, are coming along smoothly, so it may be possible to accelerate that timeline. That said, we have already incorporated the expected increase in the number of units in the second half, so even if that is achieved, the contribution to profit will be limited. In the US, production of the new Legacy and Outback has just started, but the launch has been planned carefully with top priority placed on quality. The current Legacy and Outback are selling very well.

Q ：When should we expect a balance to be achieved between supply and demand in US sales?

A ：US dealers' inventories at the end of July were a 14-day supply for Forester, a 30-day supply for Ascent, a 33-day supply for Outback, and a 35-day supply for Crosstrek, with an overall average of a 31-day supply, which is a low level. As for domestic production, the forecast is to increase in the second half compared to the first half, taking into account the recovery in line speed from the current reduced level. However, there is a global supply shortage for the Forester and Crosstrek, so the inventory shortages are unlikely to be resolved right away.

Q ：In the first quarter, per-unit incentives were down significantly by $750 year on year. Can you provide details? Could there be an opportunity to improve upon the full-year forecast of $2,200 per unit?

A ：There were two primary factors behind incentives being lower than anticipated in the first quarter. First, sales of the Legacy and Outback, which are at the end of their model cycles, were favorable, resulting in lower-than-anticipated incentives for those vehicles. Second, we had expected that interest rates might be raised, but that did not happen. The full-year forecast remains at $2,200 per unit. However, considering that the Legacy and Outback will switch to new models and that overall inventory levels for our vehicles are very low, as well as the supply situation going forward and other factors, I believe there will be opportunities to keep incentives down. On the other hand, the new Ascent, which came out last year, and the new generation model Forester will be in their second year, so depending on market conditions, we may have to revise current incentives.

Q ：Do you think the full-year forecast can be achieved even at the recent exchange rate of 106 yen to the dollar?

A ：Although US sales are very favorable and the fundamentals are good, there are many uncertain elements at this stage. Therefore, we did not change the forecast. The opportunity will be for incentives to be curbed. What could have a negative impact are exchange rates and raw material market conditions. Quality-related costs are also unpredictable. It will be difficult to significantly increase supply (production units), but we hope to achieve the forecast.

Q ：The analysis of the year-on-year variance in full-year operating profit shows that SG&A expenses will have a negative impact of ¥17 billion on profit, but only ¥1.2 billion was recorded in the first quarter. What is your outlook going forward?

A ：SG&A expenses were low in the first quarter, but the new Legacy and Outback models are about to be introduced in the US, so the main sales promotion expenses will be recorded in the second half. At this point in time, we do not expect a change in the full-year forecast for SG&A expenses.

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