Financial Results for FYE2020
Analyst Briefing Q&A

May 18, 2020
SUBARU CORPORATION

Q ：What is your evaluation of the results for the fiscal year ended March 31, 2020?

A ：Although our plant operations were suspended due to typhoon damages sustained at some of our suppliers, we assumed significant expenses related to recalls, service campaigns and so on, and there was a heavy impact from appreciation of the yen and rising material prices, US sales were favorable, and we were able to keep incentives lower than last year, so we recorded an increase in both sales and profit compared to the previous year.

As for the impact of COVID-19, our main market of the US was also hit hard, but the deceleration did not begin in the US market until mid-March, so the impact on profit and loss in the fiscal year ended March 31, 2020 was limited.

Q ：Can you provide an update on US sales and your outlook for the future?

A ：Overall demand was down 38% compared to the same period of the previous year in March 2020, but sales were down 47%, showing an even bigger decline. The main factor behind this was a significant slowdown in sales resulting from stay-at-home orders in the usually favorably performing snow belt in conjunction with the spread of COVID-19. Most recently, sales have been on the rise, reaching 60-65% of a year ago, but around 60% of our dealerships are still under restrictions of some kind, and there is a risk of a second wave of COVID-19 infections. The forecast for the fiscal year ending March 31, 2021 is yet to be determined. Sales trends in the US heavily impact our results, so I would like to hold off on a forecast a little longer to monitor market trends.

Q ：What is your forecast for incentives in the US?

A ：Amid the COVID-19 pandemic, our competitors are strengthening incentives to reduce inventory. We made the decision to suspend production at quite an early stage due to the uncertainties in the US market. Our inventory levels are temporarily high, but sales have begun bouncing back slowly lately, so we believe that they will return to ordinary levels relatively quickly. We will monitor competitor trends and engage in thorough management of our inventory levels, incentive program, and costs.

Q ：Have there been any results from your quality reform efforts?

A ：Our quality reform efforts have been steadily producing results. Take the quality of the most recent development vehicles. For example, the initial quality of the new Legacy and Outback, whose production was launched at SIA, has been trending at better scores than past development vehicles. Moreover, by reinforcing equipment, personnel, and other resources, we have improved the traceability and speed at which quality issues are addressed after discovery in existing vehicles. It’s one step at a time, but we’re moving steadily in a positive direction.

Q ：What will happen with cash in the event of sudden and significant decrease in production?

A ：Basically, if there are capital requirements arising from the COVID-19 pandemic in our supply and value chains, we will address them, so our capital requirements are expected to increase temporarily. For the time being, we believe we will be able to address any such requirements with the ¥100 billion in fundraising that has already been implemented and within the ¥350 billion limit that has been set. However, there may be cases where we would have to consider further fundraising, depending on the circumstances.

Q ：Has there been any change in your dividend policy? What are your thoughts on future dividends?

A ：Our stance on dividends is (1) to provide continuous and stable returns, (2) to maintain a payout ratio of 30-50%, and (3) to have a minimum of two months of sales in net cash. Our STEP mid-term management vision calls for a dividend of ¥144 based on an annual operating profit level of ¥300 billion. Due to the COVID-19 pandemic, we anticipate that net cash will fall below two months of sales, and our top priority will be preparing for the capital requirements, so the decision was made to lower dividends. That does not mean our stance itself has changed, however. The decision was made due to concern about sales in the US, which has the largest number of COVID-19 infections in the world and accounts for the majority of our sales, the high level of risk associated with a potential second wave of the virus and appreciation of the yen, and maintaining funds to support our suppliers and maintain employment within the Group. We appreciate your understanding in regard to this matter. Our stance on dividends remains unchanged. As for the dividends for the fiscal year ending March 31, 2021, please give us some time until the aforementioned risks become a bit clearer.

Q ：Has there been any change to the ¥300 billion/year target for operating profit?

A ：Disregarding the exchange rate, we have no intention of changing that target level. Several things need to happen for us to achieve that level. First, the COVID-19 pandemic has to come to an end. We also need to bring expenses related to recalls, service campaigns and so on, which have remained high the past two years, back down to normal levels, and take measures to absorb increased costs for addressing environmental and other regulations and improve per-vehicle profit.

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