Financial Results for the 3rd Quarter of FYE 2021
Analyst Briefing Q&A

February 5, 2021
SUBARU CORPORATION

Q：What is your evaluation of 3rd quarter (3 months) results?

A：Operating profit was ¥67.6 billion, which was a favorable result. However, the large amount of shipments to make up for the inventory shortages in the US provided a boost. Although COVID-19 continues to have a slight impact, expenses related to recalls, service campaigns and so on came in at the anticipated level of 1.5% of revenue. Additionally, the significant transient factors such as container delays and semiconductor shortages were not included in the 3rd quarter results, so there were no major abnormal values to contend with.

Q：Can you tell us about the impact of container delays and semiconductor shortages on the number of units produced and sold? Also, what is the current situation with semiconductor supply, and do you have an idea about future procurement?

A：We revised the full-year production plan downward 58,000 units from the previously announced 881,000 units to 823,000 units. The November and December container delays resulted in a roughly 10,000-unit decrease at SIA and we expect the shortage of semiconductors starting in January to result in a 48,000-unit decrease for the US and Japan combined. As such, the plan for consolidated unit sales also dropped 42,700 units. The suspension of operations last spring continued to impact US dealer inventory for a while, and it was difficult to make up for it, but as of the end of January, inventory had recovered to our normal level of around 45 days' supply. The supply will be constrained as a result of decreased production since January, but we will make every effort to ensure that it does not impact retail sales. It is still unclear what will happen with the supply of semiconductors. We have already put together our production plan for February and March and hope to avoid a further decrease. We will look into how to recover from the impact while keeping an eye on the situation.

Q：Why is the semiconductor shortage hitting you harder than other companies?

A：Compared to the big players in the industry, the scale of our operations is smaller, and we have narrowed our models down to SUVs and sports cars in the C and D segments. We also engage in streamlined development and production while sharing parts, keeping development costs and overhead down as part of our business model. Furthermore, the burden of diversifying procurement of parts at our scale of operations is significant, so we believe that the logical procurement strategy is to keep investment costs associated with design and quality control down and maximize the cost reduction effect by concentrating our orders. We try to maintain appropriate inventory levels, taking into account our experience during the Great East Japan Earthquake, model changes, and fluctuations in the number of units, but we will take another look at the current circumstances, including whether we need to consider future inventory levels or diversifying procurement.

Q：What is your forecast for the overall US market in 2021?

A：We expect between 15 and 16 million units. However, the key for us will be the trend in the retail market excluding fleet from total demand. In 2021, we aim to capture a 5% share of the retail market. We expect the retail market to drop below 14 million units this year, so we set a target for retail sales of 660,000 units in 2021. While keeping an eye on the sales situation, we will make efforts to increase the number with the lower limit of 660,000 units.

Q：What about your incentive plan in the US?

A：In the 4th quarter plan, we basically hope to achieve the level of $1,300 per vehicle as in the 3rd quarter, but we expect it to be a little higher at $1,600 per vehicle due to various factors. In particular, in the 1st half of this year, inventory will basically be on the decline as production tightens due to COVID-19 or the shortage of semiconductors, so we will control the balance with costs.

Q：What is the sales situation in Japan?

A：Sales of the new LEVORG are favorable. In addition to the increase in the number of units sold, the higher grades are selling very well. In those sales, more than 90% of vehicles have EyeSight X installed, and about 60% are graded as STI Sport, so this is in line with our aim of selling added value. Also, looking at 3rd quarter (3 months) results, sales of passenger vehicles are up 23% year on year. In Japan, we aim to sell 10,000 units of these vehicles per month, and next year, we will work on reaching our target.

Q：What is the background behind the revision of full-year operating profit downward by ¥10.0 billion? The revenue forecast for the 4th quarter (3 months) is lower. Are there any special factors involved?

A：The impact of 58,000-unit decrease in full-year production was very big, so the content of the associated loss of profit has changed significantly, causing us to revise the figure from the previous plan. The 4th quarter operating profit will be down substantially compared to the 2nd and 3rd quarters, but the main factors behind the decrease are the decreased production resulting from the semiconductor shortage, the drop in sales, the exchange rate, and the increase in expenses related to recalls, service campaigns and so on. As for expenses related to recalls, service campaigns and so on, the cumulative total for the first nine months was relatively lower, but the timing of recalls is not something that can be controlled. Also, the amount can vary significantly depending on what is affected and how many vehicles are subject to the recall. After a comprehensive consideration of the current circumstances, we left the amount at 1.5% of annual revenue, the same level as at normal times and the difference has been incorporated into the plan for the 4th quarter.

Q：What kind of progress has been made on the ¥300.0 billion target (assuming an exchange rate of 110 yen to the dollar) for operating profit?

A：Based on the current trend in the exchange rate and considering the 3rd quarter (3 months) operating profit of ¥67.6 billion (105 yen to the dollar) and consolidated unit sales of 270,000 units (1.08 million units annualized), we will need to increase the number of units sold to reach

¥300.0 billion in operating profit. Furthermore, as the environment continues to gradually change, the price of precious metal and the cost of addressing environmental changes are rising all the more. The circumstances have changed so that hitting the ¥300.0 billion target for operating profit will not be that easy. On the other hand, we are working on efforts to be able to provide customers with high value-added, quality products and services at low cost as set forth in our STEP mid-term management vision as we seek to improve profitability.

Q：Discussions are headed in the direction of stricter environmental regulations in the main markets of the US and Japan as well as other regions. Do you have plans to update your environment-related product and technology strategies?

A：We recognize that regulations are being enacted a little earlier than anticipated in each country, but at this stage, there is no change to what was announced at our technology briefing held in January 2020. As for BEV, which we plan to introduce in the first half of the 2020s, we believe that the tremendous advantage provided by motorization will be a major source of differentiation as it allows faster and more precise transmission of torque to the motor, giving the four wheels better grip on the ground, which is one of our strengths. We are steadily moving forward on development of the elemental technologies and are steadily accumulating technology to be used even further down the road. At the same time, we have to carefully consider future market trends from the standpoint of business feasibility, so we are unable to communicate a more specific time frame for product introduction. We are supported by the customers that share the SUBARU value of providing "Enjoyment and Peace of mind", and that desire a fulfilling life with various experiences. We continually turn our ears toward feedback from those customers, but there still does not seem to be that much desire for going electric. We believe that the trend will continue toward electric, first among distribution and commercial vehicles and corporate demand, but the situation is likely to change in the near future. We will respond appropriately at the right time while accurately identifying signs of change as we continue conversing with our customers.

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