

Financial Results for the 3rd Quarter of FYE 2023 Analyst Briefing Q&A

February 8, 2023
SUBARU CORPORATION

Q : Based on performance in the third quarter and fourth quarter, what level of operating profit do you think is realistically achievable?

A : In the third quarter, relatively stable operations combined with the depreciation of the yen resulted in an extremely strong performance. On the other hand, at the end of December we had a relatively high level of inventory, and this led to an increase in elimination of unrealized gain. In the fourth quarter, operations have fallen slightly, and we are working to ensure that inventory is used for sales wherever possible. We are about to start scrutinizing plans for the next fiscal year, but even if the yen appreciates somewhat, we think we can achieve the same level of profit as in this fiscal year if we can reach 1 million units of production.

Q : You have revised down production forecasts for the full year. Please give us an update on the semiconductor shortage and the status of production sites in Japan and the U.S.

A : Of the downward revision of 90 thousand units, 20 thousand units are in the third quarter and 70 thousand units in the fourth quarter, so we forecast a significant impact in the fourth quarter. Shortages of semiconductors used in certain components are the reason for this, but we are engaged in negotiations and in developing substitute products, and by around June at the latest we expect to have resolved the shortages. Because the semiconductors used vary depending on the model, the impact on production in Japan and the U.S. depends on the situation at the time, but we are adjusting production between Japan and the U.S. with the aim of achieving an optimal balance in production relative to the state of parts supply.

Q : Has there been any change in the competitive environment in the U.S. market? I would like to know about incentive unit prices and the number of backorders.

A : I think demand for the market as a whole has begun to soften, but demand for SUBARU vehicles continues to be resilient. Recently the number of backorders has fallen, and is currently at about half the 50 thousand-unit level we saw in the first half of the fiscal year. The reasons for this decline include suspending taking orders for models for which production is constrained, the translation of stable operations in the third quarter into sales, and mismatches between the grades customers want to purchase and what is currently available to order. In the third quarter, incentives were \$1,100, and we plan for this to be \$1,300 in the fourth quarter. In November 2022 we raised the interest rate we offer by around 1%, and going forward we will continue to pay close attention to interest rate trends and the customers' circumstances and respond appropriately.

Q : Are further revisions to selling prices possible?

A : We have been revising selling prices in almost every market when switching from one model year to the next. In the U.S. in particular we have been gradually raising prices during model years, but in other markets we will watch the situation carefully and respond as appropriate.

Q : What are sales trends like in markets other than the U.S.?

A : In Canada, Australia, and Central & South America, backorders are still accumulating at high levels. We hope to manufacture as many units as possible in order to be able to deliver them quickly to our waiting customers. The impact of semiconductor shortages on products bound for Japan is not large and delivery times are stable. Global backorders continue to hover around the 100 thousand-unit level.

Q : I have heard that the number of ships and employees available will not be enough to allow you to reach production of 1 million units next fiscal year. Will this become a bottleneck? Also, you said that in the event that you are able to achieve 1 million units of production, you expect to be able to generate the same level of operating profit as this fiscal year (¥300 billion). On what assumptions is this predicated?

A : So far we have been able to manage the situation thanks in part to our relationships with shipping companies, but we will watch the situation very carefully going forward and take steps as needed. With regard to labor shortages in the U.S., we will address this in line with the production structure while keeping an eye on the situation at SIA and at suppliers. We believe prices for precious metals, steel and aluminum will improve, but suppliers also have to cope with increased energy costs, so at the moment this is a neutral factor. As for exchange rates, it is conceivable that interest rates will be cut in the U.S., so rather than the recent level of ¥130, we are expecting a slight appreciation of the yen. With a limited number of units available the model mix has recently been skewed towards the higher grades, but next fiscal year we expect the model mix to be more balanced.

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