Financial Results for the 1st Quarter of FYE 2019
Analyst Briefing Q&A

August 6, 2018
SUBARU CORPORATION

Q ：What is your assessment of the first quarter of FYE 2019?

A ：In terms of product life-cycles, the situation has been difficult, but this was as expected, and is in line with the plans announced at the beginning of the fiscal year. In particular, because we were not expecting the effects of newly introducing the Ascent in the North American market and the new Forester in the Japanese market to become significant until the second quarter, we had assumed that the first quarter would be difficult.
Actual operating income for the first quarter came to 57.6 billion yen, but if we substitute the actual rate of 108 yen to the US dollar with the forecast rate of 105 yen, it would have been around 50.0 billion yen. We did not quite achieve half of the operating income forecast for the first half of 110.0 billion yen, but we believe that the first quarter marked the bottom, and our perception is that we are more or less in line with the plan.
In terms of sales, consolidated unit sales, which link directly to results, posted year-on-year declines, but retail sales are positive year on year. In particular, retail sales maintained their strength in the key U.S. market, and inventories, equivalent to 1.1 months of turnover, are at a low level.

Q ：What is the reason for the increase in quality-related expenses?

A ：The main factor is an increase in SOA warranty costs and provisions for product warranties.

Q ：What is your view on the $2,500 in incentives per unit in the U.S. for the first quarter?

A ：Incentives per unit are expected to be $2,300 in the first half of FYE 2019, and $2,150 in the second half, for a full-year figure of $2,200. The actual figure of $2,500 for the first quarter may look a little high, but we see it as being roughly in line with our assumptions. Going forward, we believe we will be able to reduce this as a result of such factors as the introduction of the Ascent and the new Forester. Interest rates are still on a rising trend, but from the second quarter onward we will control incentives carefully, taking into account the current low level of inventories and so on, and eliminate the divergence from the initial forecast.

Q ：Progress towards FYE 2019 targets for consolidated unit sales in Europe has been good. What is the likelihood of an overshoot of full-year forecasts?

A ：Results for the first quarter were satisfactory, and exceeded those of the previous year, but Europe is a market in which we have struggled in the past, and the situation does not yet allow us to take an optimistic view, so at this point we have not revised our full-year forecasts.

Q ：Will you please provide some information on the progress of the various markets towards their retail sales targets for the calendar year.

A ：We are struggling slightly in the domestic market, undershooting both results for the previous year and forecasts for this year. We would not say that there has been absolutely no impact from the problem of nonconforming final vehicle inspections, but we believe that the main issue has been that the new model effect for the Impreza and the SUBARU XV has run its course. Both the U.S. and Canada are doing well, exceeding both previous-year results and forecasts for this year. Europe is also above both the previous year and forecasts. The regions that are having difficulties are China and Australia. China has been affected by consumers holding off on purchases ahead of the reduction in the import tariff in July, and results here undershot both previous-year levels and forecasts. In Australia, total demand has remained at previous-year levels, but one aspect of this is that fleet sales have supported the overall level of demand, and the sales environment has become more challenging.

Q ：If the U.S. can compensate for the decline in domestic sales, given the difference in profitability between Japan and the U.S., would that mean a significant impact to profits?

A ：In the past, the profitability of domestic sales was higher than that of U.S. sales, but currently there is no significant difference, and so we do not expect there to be a significant impact to profits.

Q ：How are orders for the Ascent in the U.S., and for the Forester in Japan?

A ：Both the Ascent and the Forester are doing well. For the Ascent, the proportion of high-grade vehicles is higher than forecast, so we have high expectations going forward. We do have some restrictions in production capacity, but we will do our best to overcome these so as to have a positive impact on sales units. The Forester is also steadily accumulating orders, and the proportion of high-grade vehicles, such as Premium and Advance, is higher than expected.

Q ：The grade breakdown of retail sales seems to be good, and inventories have been at low levels. Can we expect results to overshoot forecasts in the second quarter and beyond?

A ：Sales have been satisfactory, but there have been some issues on the manufacturing front. We have struggled to ramp the paint facilities at the Yajima Plant, and this has caused production delays. In combination with the strong sales, it is partly this that has caused the low inventories. The pace of production is already up to the forecast level, but because domestic production is almost at full capacity, the issue going forward is how we can squeeze out more units to make up for the delays.

Q ：How does the deterioration in raw materials compare to your initial assumptions?

A ：Compared to the first quarter of the previous year, market conditions for raw materials deteriorated by about 3.5 billion yen in the first quarter under review. Our initial forecasts assume a deterioration of 28.5 billion yen for the year, and it is not progressing at a level that would lead to that figure being exceeded. However, our view is that raw material prices, primarily those of precious metals and steel, will continue to trend upward over the medium to long term.

Q ：What measures do you plan to take to deal with the risk of an increase in U.S. tariffs?

A ：At this point in time, we have not been able to establish which products would be subject to increased tariffs or the tariff rate, so we cannot make specific comments. In our case, the U.S. is our largest market, so if these changes were implemented the impact would be significant. We will keep observe closely and consider how to deal with the situation.

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