

Financial Results for the 2nd Quarter of FYE 2024 Analyst Briefing Q&A

November 2, 2023
SUBARU CORPORATION

Q : Your production plans for the second half are at the same level as results for the first half, despite the gradual improvement of semiconductor shortages. What is the background to this? Are there any opportunities for increasing the number of units this fiscal year? What is the outlook for the next fiscal year?

A : Supply issues with semiconductors and logistics constraints for finished vehicles are continuing, but we are successfully controlling them to minimize their impact. We will continue to implement various measures this fiscal year, and although there is room for an upswing, our first objective is hitting the target of 1,010 thousand units. Our current production capacity is around 1,100 thousand units, and while on the one hand there will be opportunities if we can continue to successfully control the risks next fiscal year and beyond, on the other hand growth is slowing in some markets in response to the rise in policy interest rates, so we will be paying close attention.

Q : There has been no change in full-year consolidated unit sales since your previous forecast, but have there been changes by market or in model mix?

A : At the time we made our initial plans, we assumed that this fiscal year the proportion of shipments to the U.S. market would decline relative to the previous fiscal year, and that sales of grades other than high-end grades would increase. However, as the demand in the U.S. market remains extremely strong, and we have revised our plan to increase shipments to the U.S.. As a result, the impact of market mix deterioration in the first-half results was smaller than in our initial plan. Going forward, it is possible that this trend will continue, but the key issue will be how we address logistics constraints. Demand in the Canadian market is also extremely strong, but vessels are being delayed off the West Coast, and we have been unable to ship products smoothly. We are taking a flexible approach to working toward our production and sales targets, and even if there is a little variation in the plans, we do not think it will have a negative impact on profits.

Q : What is the reason for the cut in the domestic unit sales plan relative to the previous full-year forecast?

A : Due to the impact of production constraints and limited success in attracting customers from other brands, the first half was slow. In the second half we are planning to use the Levorg Layback announced the other day to win customers from other brands and achieve our sales target of 100 thousand passenger cars.

Q : What is the background to the significant increase in SG&A expenses, etc. compared to the previous forecast?

A : Of warranty claims of -35.7 billion yen, the impact of currency exchange was approximately -20.0 billion yen. The other main reasons for the increases were changes to schemes and increases in wage rates. SG&A expenses are expected to have a negative impact on profit of -15.7 billion yen, due to increases in expenses associated with shortages of freight space and the costs of responding to environmental regulations in each country, as well as other factors.

Q : Are there opportunities in the U.S. market in terms of volume and pricing?

A : Currently we believe that the automobile industry as a whole and Subaru itself continue to have extremely strong momentum. We intend to leverage this momentum and aim for at least 630 thousand units in retail sales in the U.S. for CY2023. While there are concerns about an economic downturn, requiring continued careful attention, we believe we can grow sales units next fiscal year as well, given the current level of sales momentum.

Q : What is your view on the current situation regarding retail inventories in the U.S., and on the outlook?

A : As of the end of September, there were approximately 28 thousand units of retail inventory, equivalent to around 16 days' supply. Currently the inventory level has rebounded a little, and customers have become able to choose vehicles at the retailer, but demand is so strong that inventories have been slow to increase. Before COVID-19 the appropriate level of inventories was about 45 days' supply, but as a first step we would like to get back to 30 days' supply. Beyond that point, we will discuss inventory levels with retailers.

Q : Please share your thoughts on the competitive environment and future sales and profit trends in the U.S.

A : SUVs are the main part of our business, and the Outback, Forester, and Crosstrek are always ranked in the top 20 of the SUV category in the U.S. The Forester in particular was hit hard by insufficient supply of parts last year, but we have been increasing production since the start of this year. In the current forex environment the profitability of vehicles made in Japan is extraordinarily high, but rather than using high profits as a reason to increase production, we would prefer to match supply and sales to demand going forward.

Q : In terms of manufacturing, sales, or costs, have you seen any impact from the UAW strike?

A : At this point we have not been directly affected, but we will continue to watch the situation closely. At our U.S. manufacturing site, Subaru of Indiana Automotive, Inc., we have maintained dialogue for more than 30 years, while deepening mutual understanding and building relationships between management and labor. Rather than focusing simply on higher wages, we engage in wide-ranging discussions that include health insurance, employee benefits, and other factors, and we will continue this positive communication with employees going forward.

Q : What measures will you implement to improve profits in the aerospace business going forward?

A : Our shipments to Boeing, which declined as a result of COVID-19, are on a gradual recovery trend, and we are confident that we will see improvement in commercial business. As for defense business, we believe the move to increase the defense budget provides an opportunity to expand the business. In addition to defense and commercial business, we have designated the helicopter business as one of the pillars of our operations, and we plan to increase the number of units in the future. By approaching growth in the respective areas as an opportunity, we will build a structure that allows the business to become profitable. We aim to get into the black in the second half of this fiscal year and to grow steadily next fiscal year and beyond, and to these ends we are currently making an all-out effort to strengthen the business foundation.

Q : What was the backdrop to your decision to increase the dividend in the form of a commemorative dividend?

A : Our basic policy is to deliver consistent and stable dividends while taking into account performance, investment plans, and the business environment. We also monitor the share price, ROE, and cash flow and implement share buybacks as necessary to achieve a total return ratio of 30-50%. If the current fiscal year goes according to plan then the total return ratio will not reach 30%, but after the close of the fiscal year we will consider how to address that in accordance with policy. This time we announced a large upward revision to the earnings outlook, but given that forex was a significant driver of the increase, we have taken the approach of a commemorative dividend.

Q : What are the future prospects for the Subaru Air Mobility Concept exhibited at the Japan Mobility Show?

A : We exhibited a concept model that was almost the same as a demonstrator that we actually fly. This project was proposed by young employees belonging to the Aerospace Company, and it started about two years ago on condition that they fly a 1:1 scale model, and that they develop it ourselves. With the involvement of the automotive development division, they are moving forward with electrification technology for the batteries, motors, and so on, and with collision analysis simulation to ensure safety performance. It is unclear whether it will be commercialized in the future, but these technologies and mechanisms themselves will lead to the development of unmanned aircraft and the electrification of aircraft.

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