

Financial Results for FYE 2024 Analyst Briefing Q&A

May 13, 2024
SUBARU CORPORATION

Q : What is your assessment of financial results for FYE 2024?

A : Despite the suspension of plant operations and production adjustments following an industrial accident that occurred in February, and the sudden depreciation in the yen toward the end of the fiscal year, the Group worked together as one to accelerate shipping from inventory and reduce expenses, leading to results exceeding the previously announced forecast.

Q : Your operating profit forecast for the fiscal year ending March 31, 2025, is 400 billion yen (assuming an exchange rate of ¥142/USD), which is lower than the figure for the previous fiscal year. What was the thinking behind this year's plan?

A : This fiscal year we forecast our operating profit to decrease on the assumption that the yen will tend to appreciate. However, it is important to secure R&D capital for the BEV and ICE product lineups going forward, and to invest steadily with the objective of improving the competitiveness of the next-generation HEV (e-BOXER) models. In addition, we expect that the U.S. market environment will become increasingly competitive, so there is our strong sense of this being a year for putting the business on a more solid footing for the future.

Q : What is the background to production being forecast to fall relative to that of the previous year? Is it correct to think that the impact of the suspension of plant operations in February 2024 will not be recovered going forward? I would like some more detail on the production plan, including inventory by region.

A : In the U.S., our main market, inventory is at an appropriate level. Although sales in North America markets are strong, the situation in other markets varies, and after taking into account sales trends and current inventory levels in these markets, we made the decision to plan for a decrease of 10,000 units year on year, to 960,000 units.

Q : This fiscal year the impact of material cost, etc. is forecast to have a negative impact on profit of more than 10 billion yen in both Japan and the U.S. compared to the previous year. What is the background to this, including support for supplier?

A : We drew up our plans after taking into account our discussions with suppliers in relation to labor and energy costs, and the impact of exchange rates. Last fiscal year the significant decline in prices of rare metals had a positive impact, but this fiscal year there is less room for improvement than there was last year, so we assume that there will be a considerable negative effect driven mainly by measures to mitigate the impact on suppliers.

Q : How are sales in the U.S.?

A : Inventory levels and incentives have been rising across the industry since the beginning of the year and the sales environment has become more challenging, but thanks to our strong customer base we continue to have extremely strong sales momentum. Currently we are in the phase of raising incentives to sell out the inventory of the existing Forester in preparation for the switch to a new model, and as a result of this measure we are getting through inventory more quickly than we expected. The new Forester is a very competitive product, and we believe that we can sell healthy volumes even while keeping incentives at a low level. We are planning retail sales of 680,000 units for 2024 compared to actual sales of 632,000 units in 2023. On the other hand, because recent inventory at retailers has recovered to 40-45 days' supply, which is the pre-COVID-19 level, we expect wholesale sales units to be the same level as in the previous year. Progress in retail sales units for January to April was in line with the target of 680,000 units, but we intend to continue watching the situation closely.

Q : What kind of effect do you think the introduction of the new Forester has? What are your expectations for improvement in profitability as a result of the unit forecast and the increase in price of around 10%?

A : The current model of the Forester is doing extremely well, ranking continuously in the top 20 and selling in numbers close to the previous record. The new Forester will be the key model of this fiscal year, and we are confident that we have made substantial improvements to the competitiveness of the product, including its design, so we hope to be shipping some solid volumes. I cannot give specific figures due to the need to balance them with production capacity, but we will be sure to supply the planned number of units as we aim for 680,000 retail units as forecast for the U.S. in 2024. The price is a very sensitive element, but after comprehensively assessing competing models from other brands we have set the price at a level that enables us to improve profitability per unit. Ultimately the market will decide, but taking into account the decrease in incentives as we switch to the new model, we expect profit per unit to exceed that of the current model.

Q : What were incentives in the U.S. in the Q4 of the previous fiscal year? What are your thoughts regarding the amount of incentives this fiscal year?

A : In the Q4 incentives were \$1,800 per unit due to enhancing the financial support program for the current Forester, and for the full year they were \$1,200 per unit. This fiscal year, assuming that interest rates do not fall that much, we are planning \$1,600 per unit. We intend to devise carefully thought-out measures tailored to each vehicle.

Q : What is your aim in beginning production of the Forester in the U.S.?

A : We are moving forward with preparations to put in place production capacity to support about 400,000 units of BEV sales in 2028, but it is still difficult to read the market shift toward electrification, so we will ensure that we can reliably supply ICE products, including the next-generation HEV models, in accordance with market trends. Meanwhile, as we plan to use the Yajima Plant to start BEV production and supply part of it to Toyota, we are advancing our plans for U.S. production of the Forester, one of Subaru's key models, so that we will be able to utilize production capacity in both Japan and the U.S.

Q : You plan to halve the number of production processes using Monozukuri Manufacturing Innovation in 2028 and beyond. Up to that point, what steps will you take to secure profits?

A : We are still at the dawn of the BEV age, and the risk associated with spending massive amounts on R&D to develop and launch a BEV on our own is extremely high. For that reason both Subaru and Toyota are contributing our knowledge, sharing R&D expenditures, and mutually supplementing each other's production facilities and supply to enable both companies to ride out the uncertainties of this period. The development of the next-generation HEV models is currently in an important crucial stage. It's important that we proceed with cost reduction efforts so that HEV models will contribute to profitability.

Q : HEVs are becoming more popular in the U.S. Production of the transaxle for the next-generation HEV models is scheduled to begin in the autumn of 2024 at the Kitamoto Plant, but has there been any change in the roadmap for electrification? Have there been many inquiries about HEVs from U.S. retailers?

A : There has been no change in the roadmap. We will finally be introducing the next-generation HEV models that we have been developing continuously until now. Initially demand for BEVs was extremely strong but recently more attention has been paid to the next-generation HEV models, and even in private showings with retailers the positive response has far exceeded our expectations. I get the sense that for the time being we can build a good sales mix that will include the next-generation HEV models.

Q : Since you announced 1.5 trillion yen in investments in electrification by 2030 last year, the environment has changed considerably. What sort of discussions are you having about electrification investments at the moment?

A : R&D expenditures are the key issue for the next-generation HEV models, but these have already been included in the 1.5 trillion yen, and our approach to investing in electrification has not changed significantly. However, about half of that 1.5 trillion yen consists of investments related to batteries, and this calculation is based on the assumption that we will bring all production in house. We are currently scrutinizing these issues and discussing them with our partners.

Q : My understanding is that the repurchase of own shares will be conducted in accordance with the basic policy. Should we take it that your target for total shareholder returns going forward is 140 billion yen? I would like some idea of the background to your decision on the scale of this repurchase and the discussions that you had internally.

A : On this occasion we are targeting a total shareholder return of 140 billion yen, and as a result of repeated discussions taking into account the balance between dividends and share repurchases, we settled on approximately 60 billion yen for the buyback. As our approach is to aim for a total return ratio of between 30% and 50% in accordance with the basic policy, we do not intend to fix the total return amount.

Thank you.