

Financial Results for the 3rd Quarter of FYE 2018 Analyst Briefing Q&A

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SUBARU CORPORATION

Q : What is the reason for the U.S. incentive cost per unit increasing by \$150 over the previous plan?

A : The recent rising interest rates were the main reason for this, but strengthening the program also had an effect. The market is in the period of changeover from the 2017 to the 2018 models, and although this is more than 90% complete for us, depending on the brand, there are many 2017 models that are being sold with heavy incentives attached. In these circumstances, while we compete we are also fine-tuning our program specifics, such as with the launch of 0% interest for 2018 models, and extending the period of applicability somewhat. We are still not doing cash incentives.

Q : How are domestic orders trending?

A : The order status for passenger vehicles in January 2018 is 75% that of the previous year. This time last year was a busy period for registrations and orders for Impreza, which went on sale in October of 2016. The plan we drafted internally takes into consideration the effects of the new models last year, and this is mostly in line with this plan.

Q : The plan for delivery from SUBARU to the United States in 4th quarter is negative compared to the same period year-on-year. Retail sales in January were barely positive compared to the same period last year, but what is the forecast going forward? What is in the background of the large downward revision for Forester?

A : Inventory shortages continued for some time in the United States, but with the increased production capacity in the year before last, we attempted to optimize inventory levels. For that reason, the numbers for vehicles delivered to United States last year were greater than for retail sales. For this fiscal year, since inventories are at appropriate levels and hence the number of delivery is not increased, the results for last year are better. Retail sales in January recorded results greater than the same month year-on-year for the 74th consecutive month. Although Forester sales has started to decline due to the passage of time, Crosstrek, which was introduced last year, compensates for this and our plan is to continue beating the record in the future as well.

Q : What is the appropriate inventory level?

A : The appropriate inventory level is about a month and a half of sales.

Q : What is the impact of the U.S. corporate tax revision?

A : Since specific regulations have yet to be announced, we cannot calculate this precisely, but there will be no major impact because we don't own a financing company.

Q : With respect to quality-related expenses, please give us a summary of the recall costs in relation to "nonconforming final vehicle inspections" In addition, what are the major quality-related expenses expected for the fourth quarter?

A : We are forecasting the recall expenses for " nonconforming final vehicle inspections " at about 25 billion yen. At the time of the last announcement, the plan was for about 5 billion for the first half and about 10 billion for the fiscal year, but we posted a total for the fiscal year of about 25 billion yen, this time.

The reason for quality-related expenses being high for the fourth quarter is that, due to system improvements, we are able to more precisely estimate the provision for product warranties, so we are incorporating an increase of about 20 billion yen in provision. This is transient, so from next period it will return to the normal base.

Q : Please give us a summary of overall quality-related expenses.

A : We posted 56.7 billion yen in recall costs related to airbags for the past fiscal year. For this fiscal year, since airbag related recall costs were treated as extraordinary losses, the same amount will be a factor in increasing profits. But, the costs associated with warranty claims for this fiscal year will be improved by 13.9 billion yen over the previous year. In other words, there will be 42.8 billion yen in extra costs. Recall costs related to "nonconforming final vehicle inspections" (about 25 billion yen) and the addition of provision for product warranties (about 20 billion yen) are the primary factors.

Q : Regarding the sales situation for Outback in the United States. Numbers were down from last year, and the incentive amount increased, so how do you see the competition environment?

A : When the sales results for 2016 and 2017 are compared, because supply drastically jumped with the strengthened production capacity in 2017, the comparison from the year before is large; however, in 2018 the supply situation has already been straightened out so the numbers should not be much different from the year previous. We are approaching the latter half in model life as well, and there is also the situation with SUVs where competition is becoming tougher as well. Meanwhile, the environment is slowly changing as the incentives are being suppressed for some brands in which the transition from the 2017 to 2018 models has settled down. Although we must not be unguarded and the tough environment will continue, Outback sales for January set a new January single month record. Going forward we will hold on and maintain competitiveness while controlling incentives.

Q : How do you see the trend of sales incentives in United States for the next period and thereafter.

A : Interest rates are forecast to keep rising, and the most recent long-term and short-term rates have been rising. It's said that the federal fund rate will be hiked three or four times, and if they go up 25 basis points each time, long-term rates and our funds procurement rates will also probably rise. The average incentive per unit for the industry was \$3740 for January, and was up \$289 year-on-year, and down \$240 from the previous month. As the amount borne on the company side, around \$4000 per unit is the limit, we thus believe that the some companies will re-think this at the time of the new model change, or at another time – nevertheless, the current level may continue for some time.

Q : Although the operating income for the Aerospace Company was quite good for the third quarter (3 months) at 7.4 billion yen, were there any transitory factors in this? Can you expect improvement of profitability for the next year and thereafter as well?

A : A factor in this is that overhead charge portion of the fixed cost for the Boeing 787 delivery was finished and the profit per unit improved. We cannot specify it in detail, but there was a transient profit.

Q : Could you comment on the suspicion on “rewriting data in fuel economy testing conducted as part of the sampling vehicle inspections” which was covered at the end of last year?

A : This is now under investigation, and we hope to announce the investigation findings by the end of March.

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