Financial Results for the 2nd Quarter of FYE 2019
Analyst Briefing Q&A

November 5, 2018
SUBARU CORPORATION

Q ：Taking into account the market environment in the US, and the level of inventory at dealers, supply is expected to lag demand, so why are incentives forecast to rise?

A ：Due to the launch of the Ascent and the new Forester, we have really been able to control incentives per vehicle. On the other hand, the Outback model is aging, and we are planning to maintain our 0% interest offer in an environment where interest rates have risen more than expected.

Q ：Why have production forecasts for the full year been cut from the original plan, both in Japan and overseas, despite strong retail sales in the US?

A ：Due to the ramping of the new paint factory in Japan, and the production ramp for the new model Ascent at SIA in the US, production in the first half did not proceed in accordance with our initial plans. Following these latest final inspection problems, we have decided for the second half to suspend production lines and review the operating conditions in Japan.

Q ：Will production normalize from next fiscal year onward?

A ：It is hard to say at this stage. The top priorities this fiscal year are to make solid improvements, ensure that we are achieving the right quality, and get the production line flowing properly. After fixing the areas where there were strains, we will strive to ensure that we are operating with good productivity, while maintaining employee motivation.

Q ：What has been the situation with material prices recently?

A ：In our initial plan, we had expected a significant increase in material prices, but although they have increased year on year, they are still lower than we assumed in our plans. We do not assume that prices will fall next fiscal year and beyond, and precious metals in particular are expected to rise.

Q ：How much will total recall-related costs come to this fiscal year? Could they rise further going forward?

A ：We do not normally comment on costs for individual recalls, but this fiscal year recall costs will include valve spring recall costs of 55.0 billion yen, and additional final inspection-related costs of 6.5 billion yen (6.0 billion yen posted in the first half, and 0.5 billion yen in the second half). It is difficult to give a precise prediction going forward, but for quality-related costs, SOA's warranty costs and provisions for product warranties, which are included quality-related costs, have increased.

Q ：Are costs likely to increase going forward as a result of initiatives taken to deal with the recalls related to final inspection, valve springs, etc.?

A ：There may be increases in personnel costs due to increases in the number of employees, or higher depreciation expenses associated with the acquisition of facilities or equipment, but fixed costs will not increase so significantly as to become an impediment to the business.

Q ：What is the schedule for the cash outflows related to each of the recall costs?

A ：We have additionally made provisions for recall costs in relation to the valve spring issue, the fuel gauges and the additional final inspection issue. The timing of the cash outflows will reflect the timing of the work itself. In relation to the valve springs, because the work required for each vehicle takes time to perform, and because the work itself is scheduled to begin, there will be a tendency for cash outflows here to lag those for the other recalls, but we plan to complete the work about a year after it begins.

Q ：Why is the operating margin seen falling below 10%, despite the second half not including a significant amount of quality costs? From the perspective of achieving the mid-term management plan goals, the second-half level seems a little too low.

A ：We have not incorporated any special costs in the second half, but we have revised down our production units forecast. As you say, at this rate it will be difficult to achieve the targets of the mid-term management plan. Because retail sales in the North American market are strong, it is likely that this revision to the production plans will result in the retailers being faced with insufficient inventories. We will work quickly and carefully to put in place a sustainable process and operational system for production to supply sufficient units to meet market needs, thus opening the way to a recovery in profit levels.

Q ：Please give us your forecast for the cash position at the end of this fiscal year, and your share repurchase plans.

A ：We do not disclose forecasts for the cash position. In terms of our approach to holding cash, there has been no change to the policy explained in the mid-term management vision, which was announced in July 2018. With regard to repurchase of our own shares, we will take this decision very carefully, after taking into account the business environment. We believe that it is important to maintain the annual dividend at 144 yen.

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