Financial Results for the 2nd Quarter of FYE2020
Analyst Briefing Q&A

November 6, 2019
SUBARU CORPORATION

Q ：How do you rate second quarter (three months) results versus first quarter (three months) results?

A ：Our second quarter operating profit of ¥2.6 billion was low compared to our first quarter operating profit of ¥92.2 billion. The main factors behind this were the increase in expenses related to recalls, service campaigns and so on, and the roughly 22,000 unit decrease in consolidated sales mainly due to the low supply of the new Legacy and the Outback which are produced at SIA (US plant). Sales in the US, which is the main market, remain strong, so our profitability in selling cars hasn't changed significantly since the first quarter.

Q ：Do you think if there are any opportunities or risk factors in the second half?

A ：If our competitors enhance their incentive programs commensurate to the drop in interest rates in the US market, we might have to do the same to a certain extent. (The drop in interest rates will not result in an equal increase in profit.) Based on this situation, the per-unit incentive plan in the second half is slightly higher than in the first half. But, we see an opportunity, here.

Q ：Please give an update on the new car sales situation in the US.

A ：Production of the new Legacy and Outback at SIA was launched carefully according to plan with quality as the top priority. At the same time, retail sales remained favorable, and the Outback broke a monthly sales record in July (monthly sales record grew from March to July). Due to greater-than-anticipated sales of the previous model, inventory levels dropped. The Forester and the Crosstrek, which are exported from Japan, also performed very favorably, so inventory levels remained low. Inventories of other models produced at SIA have also become depleted, so as of the end of August, there was a 22-day supply. As a result, the 93-month run of year-on-year growth came to an end with September sales, but October sales exceeded those of the previous year. Additionally, beginning-of-the-month inventories recovered to a 28-day supply as of the end of October, and SIA production has just about reached the stable production speed we expected, so we believe that the Legacy and the Outback will drive sales from the second half. We hope to work on wholesale sales now and tie that into achieving 700,000 units of retail sales in the 2019 calendar year.

Q ：Given that costs for addressing environmental regulations and safety standards have been rising, why don't you set higher prices to secure per-unit profit?

A ：The market determines prices, so ultimately, the customer will judge the value and decide whether or not to make a purchase. It's important to carefully ascertain what the customer will pay for the value we provide and price our vehicles properly. If we can do that, we will be able to maintain low incentives and high residual value. This is the business model we have built over the years, and we have no intention of changing that policy. What's important for securing per-unit profit is to streamline development and keep costs down.

Q ：The "STEP" mid-term management vision calls for a standard production capacity of 1.15 million units and a full production capacity of 1.29 million units (including Asia CKD) by FYE 2021. Will those numbers be updated?

A ：We do not have any numbers to announce at this point in time though we think the numbers should be reviewed. We had slowed production starting in the fall of last year to give top priority to quality in production and inspections, but the production speed was returned to its previous level around mid-September this year. We believe that we currently have a capacity to produce around 1.15 million units by adding some overtime and holiday work at this production speed.

Q ：Is it possible to increase production capacity for the next stage by improving existing facilities and equipment? Or is it necessary to build a plant?

A ：We're looking into various things, but nothing has been decided. It would be difficult to greatly increase capacity at the Gunma Plant in Japan. If we had room for increased capacity, it would be in the US. But there is also a projection that new car sales in the US will struggle in the future, so we're going to keep a close watch on sales trends.

Q ：Why did you choose intercorporate stockholding, which runs contrary to current trends, to complete the capital tie-up with Toyota Motor Corporation (Toyota)? Was it requested by Toyota? Also, are there plans for Toyota to increase its investment ratio in the future?

A ：There are no plans to further increase the investment ratio. Furthermore, the intercorporate stockholding was not a request made by Toyota. We have had an alliance with Toyota for almost 15 years since 2005 and have worked together on various things. However, in order to make it through a period of structural change that we are faced with for the first time in 100 years, we are required to further solidify our cooperative relationship. We made the decision to form a new business and capital alliance to achieve a breakthrough in our relationship and truly join forces.

Q ：What is the opportunity in doing joint development of electric vehicles with Toyota?

A ：There are still some uncertainties about how fast the market for electric vehicles will grow, how far the cost of batteries will come down, and so on. Under these circumstances, we believe there is an opportunity in efficiently using our relatively limited resources as an automobile manufacturer in model development by switching from in-house development to joint development. We will engage in joint development of a platform dedicated to battery electric vehicles (BEVs) for midsize and large passenger vehicles, and a

C-segment-class BEV SUV model. In SUV development, we hope to leverage our strengths in areas like all-wheel drive and control.

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