Financial Results for the 3rd Quarter of FYE2020
Analyst Briefing Q&A

February 5, 2020
SUBARU CORPORATION

Q：What is behind the SIA (U.S.) full-year production forecast being lower than the previous forecast?

A：Production could not proceed as planned due to a shortage of some parts. However, production will not decrease any further and is recovering.

Q：Why is the full-year forecast for warranty claim expenses ¥30.5 billion higher than the previous forecast?

A：At the time of the previous announcement (November 6, 2019), we explained that the assumption was that expenses related to recalls, service campaigns and so on would be about ¥16.0 billion or around 1% of revenue in the second half (compared to about ¥65.0 billion in the first half). However, expenses related to recalls, service campaigns and so on amounting to around ¥25.0 billion were recorded in the third quarter, and normal warranty expenses other than recalls associated with the increase in new car sales in the U.S. increased. We recognize quality as a very important issue and will continue to work on making improvements.

Q：What are the sales situations like for the new Legacy and Outback that were launched last fall?

A：Every year from late November to the end of the year, we hold a campaign called "Share the LOVE Event*," so during that time, we do not run television commercials highlighting specific models. We just started gradually rolling out television commercials for the new Legacy and Outback in January, so it's too early to evaluate the product and sales situations. On the other hand, television commercials had already been running in Canada, and sales are coming up steadily. We also expect sales to begin rising in the U.S.

*A campaign in which Subaru of America Inc. (SOA) donates $250 per vehicle to the charity of the customer's choice when they purchase a car.

Q：In the third quarter (three-month period), your incentives in the U.S. were low at $1,300 per vehicle. How do you see the trend going in the future?

A：In the fourth quarter (three-month period), the plan is for incentives of $1,700 per vehicle. We have largely shifted to selling 2020 models already, but as many of our competitors are trying to sell off their 2019 models, price competition from incentives is getting more intense. We have already enhanced the program for some models and will continue to monitor the competitive environment to establish the most effective interest rates and applicable periods (months) as we carefully manage incentives.

Q ：You have been saying that you want to return operating profit to ¥300 billion per year (assumptions: 110 yen to the dollar with expenses related to recalls, service campaigns and so on at around 1% of revenue) to achieve a sustainable level. Has there been any change in this thinking?

A ：We believe we have the sales capabilities to reach operating profit of ¥300 billion per year and hope to increase production a little next year to increase the number of vehicles sold. On the other hand, there are concerns about sharply rising material prices and intensification of incentive competition in the U.S., and things will depend largely on how much quality-related expense we incur. This fiscal year, we assumed expenses related to recalls, service campaigns and so on of around 1% of revenue. Unfortunately, however, we currently expect that the actual amount will be substantially higher. By continuing to work on making quality improvements and keeping quality-related expense down to a certain level, we hope to return operating profit to a level of around ¥300 billion per year as soon as possible.

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