

Financial Results for the 1st Quarter of FYE 2021 Analyst Briefing Q&A

August 4, 2020
SUBARU CORPORATION

Q : How did you put the full-year plan together?

A : The numbers were calculated based on information currently available to us in an environment still rife with uncertain elements as well as the strong determination of management to achieve that level.

Q : Considering the numbers of units produced and shipped in the second quarter and beyond (nine months), the ¥80 billion target for full-year operating profit seems conservative. What are your thoughts on this?

A : First quarter operating profit is pushed up by tens of billions of yen due to how consolidated accounting is handled (adjustment for unrealized gain on inventory). It is from the significant drop in inventory levels in the first quarter. In the second quarter and beyond, inventory levels will return to normal, pushing operating profit downward, so we do not see this as a conservative plan in any way.

Q : Looking at US retail sales results in July, the pace of recovery has slowed somewhat compared to May and June. Is this due to low dealer inventories? When will the situation with excessively low inventories be resolved?

A : Inventory levels dropped severely, particularly for the well-selling Forester and Crosstrek, so July results fell more than the decline in overall demand from the same period of the previous year. Dealers have the ability to efficiently sell with low inventory levels, so the impact on the momentum of orders received is minor. As operations are returning to normal at production facilities both in the US and Japan, and models produced in Japan will make their way to dealers around mid-August, we hope sales will take a favorable turn.

Q : What was the approach used for the figures in the full-year forecast for US incentives?

A : Normally, the second half is when we hold the Share the LOVE Event* and sell out of current models before model year changes, so incentives are higher than in the first half. For this reason, in the full-year forecast we see them being higher in the second half than in the first. We do not anticipate further strengthening of incentives but rather hope to set them based on actual sales and market trends.

*A campaign that Subaru of America, Inc. (SOA) has held from mid-November to the end of the year since 2008. SOA donates \$250 per vehicle to the charity of the customer's choice when they purchase a car.

Q : What level of net cash do you anticipate at the end of the fiscal year based on the full-year forecast? When will the level of net cash return to two months' worth of sales?

A : The balance between accounts payable and accounts receivable is expected to improve in the second quarter and beyond, and the numbers of units produced and sold are expected to recover. On the other hand, we anticipate cash outflows already allocated for recalls from conducting repairs and other work, so it will remain at the current level for some time. As such, it will take some more time for the level of net cash to return to two months' worth of sales.

Q : The dividend payout ratio is around 70% this time. Has there been a change in your stance on dividends? Also, has the year-end dividend been finalized at 28 yen?

A : In regard to dividends, there is no change to our basic stance of ensuring stable and continuous dividends after securing cash on hand. We will also continue to consider a payout ratio of 30%-50% linked to performance. The year-end dividend has not been finalized at this point, so it could change depending on the circumstances. The future remains uncertain due to the impact of COVID-19, so we continue to prioritize securing cash on hand this fiscal year.

Q : Has management changed anything or determined that anything needs to be changed as a result of COVID-19?

A : We are promoting activities to significantly change how we work in the midst of COVID-19. Various things that are unnecessary or non-urgent have been uncovered when it comes to meetings, expenses, business trips, and other matters, so we have accelerated moves to promote improvement and streamlining of expenditures and investments wherever possible with a focus on balance. We plan to continue this work after the COVID-19 situation comes to an end, and I believe it will lead to structural reform of our fixed costs and yield results in the future.

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