Financial Results for the 1st Quarter of FYE 2023
Analyst Briefing Q&A

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SUBARU CORPORATION

Q ：Can we have a summary of the first-quarter results?

A ：Due to the volatility of exchange rates and accounting factors, it has become difficult to get a clear picture. The provision for product warranties increased due to the sharp depreciation of the yen as of the final day of the first quarter. This and the rise in unit prices of vehicles in inventory led to a ballooning of elimination of unrealized gain, pushing down profits. We are neither optimistic nor pessimistic about this increase in elimination of unrealized gain, as we will see the effects on revenue going forward. One positive point is that production and unit sales rose by around 20,000 units year on year. With the impact of the semiconductor shortage continuing, the Shanghai lockdown resulted in our domestic production sites suspending operations temporarily for a total of four days, but we were able to devise various countermeasures to minimize the impact. With regard to soaring material costs, we aim to fight back with improvements in price & mixture, and have already made a move on pricing policies. As of the first quarter, our understanding is that we are in line with the full-year forecast of 200.0 billion yen in operating profit.

Q ：In the full-year forecast you have the impact of material cost, etc. at negative 104.2 billion yen, and you are aiming to partially offset this through the positive impact of price & mixture, at 90.6 billion yen. However, in first-quarter results you were only able to offset the negative year-on-year impact of 17.1 billion yen by 2.3 billion yen in improvements in price & mixture. Is it feasible to achieve 90.6 billion yen over the full year?

A ：The background to this is that the retail price revisions that we implemented in the U.S. market in February applied only to the three core models, and production of high-priced models was limited due to parts shortages and other factors. Going forward, we will begin to see the impact of the retail price provisions we implemented in April for almost all models in the U.S. market, in addition to which we are considering price revisions at the timing of the launch of the 2023 model year. So we think we can catch up in terms of improvements in price & mixture.

Q ：You have left your full-year forecasts unchanged. What is the background to this?

A ：At this point in time we have not changed our forecasts, which are based on achieving the challenge of hitting 1 million units of production, and assume consolidated sales of 940,000 units. Against the advantages of the weaker yen, we remain under pressure from the issue of semiconductor shortages and soaring prices of raw materials and so on. Because of this unpredictable situation, we are working to achieve operating profit of 200.0 billion yen without relying on exchange rates.

Q ：Material cost, etc. are forecast to have a negative impact on profit for the full year of 104.2 billion yen, against which in the first quarter the actual impact was only 17.1 billion yen. Has this changed the outlook going forward?

A ：During the same period of last year, precious metal prices were increasing sharply, but in contrast this year they have remained stable. On the other hand, there has been a general increase in steel, aluminum, resin, and other materials recently, and against this backdrop of rises in a wide range of costs, we expect pressure from suppliers to increase going forward. Because the outlook is unclear at this stage, on this occasion we have left our assumptions unchanged.

Q ：In the first quarter, warranty claims had a negative year-on-year impact of 24.6 billion yen, which pushed down profits considerably. What was the reason for this?

A ：Of the negative year-on-year impact of 24.6 billion yen, about 16.0 billion yen is the impact of foreign currency translation. Although recalls were conducted in the first quarter, expenses related to recalls, service campaigns and so on were less than approximately 1% of our revenue assumption from the beginning of the fiscal year. Because many of our provisions are denominated in U.S. dollars, they vary depending on the exchange rate at the end of each quarter.

Q ：At the time of the previous announcement you suggested that the supply of semiconductors would start to improve from around the summer. What is the current situation and how do you see it going forward?

A ：Basically, there has been no major change in the situation since our initial announcement, and we still have not received definite promises of supply from our suppliers. The tightness in automotive semiconductors continues, and this remains a risk.

Q ：My impression was that per-unit incentives in the U.S. were forecast to rise toward the second half, but in the first quarter these have already hit US$900 per unit, which is the forecast for the full year. Is there a risk that these could overshoot going forward?

A ：We have been affected by higher interest rates on funding, which resulted in the actual figure being higher than expected. In response to this, in July we began to ease back on the incentive program, which we expect to result in a decline in the percentage of customers using our program, and enabling us to control these costs. We will continue to work to control costs while keeping an eye on the competitive environment.

Q ：You say demand is extraordinarily strong even though there is a good deal of concern being expressed about a recession in the U.S. Has there been a change in the competitive environment in recent months? What is the response to price revisions and to the easing of the incentive program?

A ：Retail sales itself has not increased that much, but at this point there has been no impact from an economic slowdown, and orders are strong. Sales people on the frontline are telling us that they want as many vehicles as we can produce. We were concerned about the effect of selling price revisions and the easing of the incentive program, but there has been no significant impact, and sales in July were more or less as forecast.

Q ：When you announced results for the end of the previous fiscal year, you mentioned a reorganization of domestic production sites, but taking into account trends in the U.S. such as the proposed subsidy system for BEVs, would it not have been better to begin production of BEVs in the U.S. first?

A ：When we considered it from various angles, we came to the conclusion that it would be best to launch production of BEVs at the mother factory located in Japan. This was a comprehensive decision that included supply chain, cost, country of origin, and other factors. The overall vision of beginning internal production in the mid-2020s and then adding a dedicated production line is unchanged, and while watching BEV demand in the U.S. carefully, we will consider how to incorporate production in the U.S.

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