Financial Results for the 2nd Quarter of FYE 2023 Analyst Briefing Q&A

November 2, 2022
SUBARU CORPORATION

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

A ：Issues with semiconductor supply are still occurring, and although we did not achieve a significant improvement in production and unit sales, these figures are the result of the procurement, production, engineering, sales, and other departments working to devise solutions. Our assessment is that it was a good performance. Despite the drastic impact of exchange rates and accounting factors, in the first half we managed to more or less offset the sharp rise in material costs and commodity prices through our pricing policy and other measures, and we also succeeded in controlling expenses such as incentives.

Q ：In the second half you are planning a high level of production, 540 thousand units. Is the recovery going well?

A ：It is not that we have been able to secure semiconductors. There are still some risks, so this is more of a stretch target. In the first half we worked on various initiatives and took a flexible approach to adjusting production in order to be able to manufacture and sell as many units as possible, and the effects of these measures are gradually becoming visible. In the second half also, we will continue to put in place measure after measure to build up the number of units.

Q ：What is your view on material costs and commodity prices?

A ：Precious metal prices have stabilized, but based on soaring prices for other raw materials and measures to mitigate the burden on suppliers, our full-year plan assumes a negative impact of 26.2 billion yen on profit compared to the previous plan. The burden on our suppliers of soaring energy costs and raw material prices is increasing, and they have also been affected by volatility in our own production. We are engaging in close discussions with suppliers, and at the same time, we are also working to improve the efficiency of our own production, because this is the area where we can make the greatest contribution to our suppliers with regard to the latter issue, so we intend to steadily move forward with this.

Q ：Is it possible to further revise selling prices?

A ：We are being very careful about revising selling prices. We will investigate whether further revisions are possible after looking closely at the product specs, pricing, and price revision trends for other brands, and comparing them to those of our own products.

Q：How are you responding to regulations and government policies, including the Inflation Reduction Act of the U.S.? Do you have any updated information on your electric vehicle strategy?

A ：Our current announced plan is to set up mixed and dedicated BEV lines in Japan, as disclosed in May 2022. As for our most important market of the U.S., we are discussing the production structure for the next step from various perspectives, taking into account BEV product and battery procurement planning and other matters, along with the Inflation Reduction Act, which we are looking into closely now.

Q ：In the event that you achieve production of 540 thousand units in the second half, would you expect that to result in a reduction in the number of backorders?

A ：Currently we have approximately 48 thousand units of backorders in the U.S., and around 100 thousand globally. As a result of the increase in production and shipments they have been gradually trending downward, but they are still at an extraordinarily high level. Sales momentum, primarily in the U.S. market, is strong, but if production goes smoothly in the second half we expect the number of backorders to decrease. The sales front line has become extraordinarily efficient at handling sales, even without the level of inventory that they used to have, and we will do what we can to get the vehicles to waiting customers as quickly as possible.

Q ：What is your assumption for total U.S. demand in CY2023?

A ：We expect demand in CY2022 to come in at 13.7-13.8 million units. Despite the concerns about recession that have been circulating, right now we don't see any evidence that auto demand has entered a slowdown. We expect demand in CY2023 to be stronger, and as things stand we think it might reach 14.0-14.5 million units.

Q ：My question is about incentives in the U.S. What is the background to the increase of $550 per unit in the second-half plan relative to the first-half figure? If demand is strong, and orders have also been built up, is there a need to raise incentives?

A ：Due to accounting factors that affected results in the first half, it is slightly lower than the actual figure. From the beginning of the fiscal year, we eased up on interest rates offered and our leasing programs while paying close attention to the competitive environment, and we plan to continue similar cost control in the second half. However, the scale of increase in interest rates on funding is expected to be greater than that, and so we expect a rise of $550 per unit in the second half.

Q ：I would like to confirm something about your approach to cash allocation. I understand that you have reconsidered your financial policy of ensuring net cash of two months' worth of revenue levels, and that going forward your policy will be to utilize net cash for growth investments, but your cash position exceeds 1 trillion yen.

A ：We sees the U.S. as our main battleground, and we hold more than 4.5 billion in U.S. dollars. Following the approximately 20-yen depreciation in the currency since the beginning of the fiscal year, this has increased by more than 100 billion yen. There has been no change in the financial policy. We believe it is necessary to prepare for investments in various options going forward, including 250 billion yen in investment over five years aimed at reorganizing the domestic production structure, as well as generating solid returns for shareholders. We consider cash allocation based on keeping the balance between these various factors.

Q ：Please confirm your approach to shareholder returns.

A ：There has been no change in our existing approach, which is to target payout ratios between 30% and 50%. Having taken into account first-half and full-year performance as well as the financial situation, and the fact that our plans for the second half constitute something of a stretch target, we are planning an annual dividend of 76 yen.

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