

Financial Results for the 1st Quarter of FYE 2025 Analyst Briefing Q&A

August 5, 2024
SUBARU CORPORATION

Q : Please provide a summary of Q1 (3 months).

A : It was more or less in line with expectations, but results undershot slightly. This was caused by the following four factors.

- (1) The decline in consolidated unit sales that occurred as a result of reducing the pace of production until April, putting the safety and peace of mind of employees first following the workplace accidents that occurred in February
- (2) The increase in eliminations of unrealized gains caused by the recovery in inventory levels at the end of the Q1 following the normalization of production, compared to the low inventory level within the Group at the end of the previous fiscal year
- (3) The impact of foreign currency translation on dollar-denominated provisions for product warranties following the depreciation of the yen to ¥161/\$ at the end of the Q1 (increase in warranty claims)
- (4) The increase in incentives for the U.S. market due to the impact of persistently high interest rates and other factors

We plan to recover consolidated unit sales going forward, and eliminations of unrealized gains and the impact of year-end foreign currency translation depend on the situation at the end of the fiscal year. With regard to incentive management, we need to consider this in the context of interest rates and the competitive environment going forward, but we will work to increase profits in the expectation that the new Forester will also make an impact.

Q : What sort of reception has the new Forester received?

A : The response from customers and retailers has been positive, and they perceive the value of improvements in product competitiveness. Sell-through of the 24MY Forester has progressed more quickly than we expected, which in some regions has led to shortages of new Forester inventory and prevented sales being recorded in July, but given these circumstances it has been a strong start and we plan to grow volumes going forward.

Q : You mentioned that incentives had been higher than expected in the Q1. Taking into account the market environment, do you anticipate further increases going forward?

A : With the introduction of the new model, we expect incentives for the Forester to decline going forward. At this point we are not thinking of further reinforcements to financial support programs for other main models. We need to carefully watch and evaluate the competitive environment and trends in interest rates in the U.S. which may require us to change sales policies, but it will not be easy to control the level to the initial plan of \$1,600 per unit.

Q : Generally speaking, penetration of financial support program is rising at other companies. What is the rate at your company? Is it right to think that if interest rates decline and penetration of that program declines as well, the incentives will be reduced?

A : Previously the percentage of loan and lease program penetration was slightly above 50%, but recently this is around 70% with an increase in loan program usage. This may be because interest rates in the U.S. are high and the penetration of the financial support program has increased as customers work to optimize their cash management. As market interest rates decline, we believe the penetration of the financial support program declines as well, coupled with the reduced burden of interest rates, and the cost of incentives also decreases.

Q : What kind of progress are you making toward your CY2024 retail sales target of 680 thousand units in the U.S.?

A : Compared to actual retail sales last year of 632 thousand units, this is an increase of 7.6%. Cumulative retail sales for January to June are around 322 thousand units, which is +6% year on year. To reach 680 thousand units we will need to achieve year-on-year growth of 9% in the second half of the year, which we consider to be a challenging target in terms of the figures. However, the new Forester that we have introduced this year has been well received by customers, and we are working toward achieving our plans.

Q : What are sales trends like in markets other than that of the U.S.?

A : Sales performance in Canada is strong. It is the only market globally where consolidated unit sales increased year on year. In the Japanese market the Crosstrek and the Impreza won the Best Award 2023 in JNCAP, and the attention for the EyeSight is increasing again. As a result, we see an increase in orders from customers switching from another brand, which has been one of our initiatives. In other markets, it is not easy to expect growth in units.

Q : Are you making progress in cost-reduction activities?

A : While its effect was not so significant for the Q1, cost-reduction activities are proceeding according to plan. This is a very important point, and while engaging in dialogue with suppliers, the whole company is working together as one to build win-win relationships through optimization activities such as parts consolidation and so on.

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