

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

November 1, 2024
SUBARU CORPORATION

Q : Please provide a summary of Q2 and explain the risks and opportunities associated with this revision to full-year forecasts.

A : Results in the first half were affected by the fall in production and consolidated unit sales that took place in Q1, and in the U.S. market the increasingly competitive environment led to a larger increase in incentives than we had expected, but results for Q2 did not contain any particularly significant special factors. We succeeded in introducing the new Forester to the U.S. market as planned, and the reception to it as a product has been extraordinarily positive. We incorporated a decline in unit sales, rising incentives due to intensifying competition and persistently high interest rates in the U.S., and measures to mitigate the burden on suppliers of higher labor costs into our full-year forecasts, and we will strive to raise unit sales, control incentives, and compress SG&A expenses, etc.

Q : What is the outlook for the U.S. market?

A : Our retail forecast for calendar 2024 was year-on-year growth of 7%, to 680 thousand units, but we revised this to 660 thousand units. The virtuous cycle of “Right Price, Low Inventory, Low Incentives, High Residual Value” is the strength of our U.S. business, but it was also to avoid breaking this business model that we revised the figures, after taking into account the balance between units and incentives. The figure of 660 thousand units itself represents a year-on-year increase of 4%, so this revision represents not a slowing in the sales trend, but a reduction in the level of the challenge we are taking on. For calendar 2025, we estimate overall demand of around 16 million units. While staying in close communication with SOA, we will work unceasingly to increase units and control incentives.

Q : Please provide a recap of incentives in the U.S. in the first half, and your approach to the full-year forecast. I think you have no choice but to follow the trend of the industry as a whole, but with some other companies strengthening incentives, is your forecast within the range that you can control?

A : By controlling incentives following the introduction of the new Forester, we succeeded in reducing incentives by \$300 in the second quarter relative to the first, to \$1,750 per unit, which gave a result of \$1,900 per unit for the first half. Despite the intense competitive environment, we have maintained a position below the industry average. Based on the level of incentives at other companies, we think we can keep to the full-year forecast of \$2,000 per unit going forward (\$2,100 per unit in the second half).

Q : Last fiscal year you recorded approximately 30 billion yen in expenses related to environmental regulations. What do you expect for this year and beyond?

A : Going forward, we expect expenses associated with strengthened environmental regulations to increase, and this fiscal year we are forecasting a year-on-year increase of just under 10 billion yen. In some aspects the impact of these expenses will vary depending on trends in BEV demand for customers, but basically we are aiming to comply with regulations by expanding sales of BEV products and SHEVs that we will introduce going forward, in addition to the Solterra.

Q : What kind of flexibility and extensibility do you intend to give the battery plant? Given the number of models, will you narrow down the options for cell shape and the cathode material, or will you have a wide range of different types to allow you to respond flexibly to future demand?

A : Rather than allowing for flexibility through the preparation of many different types, we plan to focus on a single cylindrical specification. By doing so, we will incorporate, develop, and grow ongoing innovations in batteries going forward. While enhancing the safety, performance, and cost of batteries to refine them into something more competitive, we will also take a flexible approach in updating the vehicle side so that we can incorporate those improvements as needed. It is for that reason that we are not simply buying batteries, but collaborating with Panasonic Energy to work for the great cause of building the next hundred years by leveraging the technology and knowledge of each company to achieve cost and performance that are on the cutting edge globally. This collaboration is in itself an extremely powerful driver of competitiveness, and it is within that framework that we will secure flexibility in performance, price, and production.

Q : What is the outlook for SHEV profitability in Japan and the U.S. market?

A : In the domestic market we expect to be able to set prices in such a way as to compensate for the higher cost of SHEVs, and we are confident that we can achieve profitability. On the other hand, the U.S. market is still at the phase where only certain models have been rolled out and HEVs account for around 10% of the total industry volume, although awareness should increase going forward. We assume that, compared to the domestic market, it will be challenging to achieve profitability at the point of introduction, but we will aim to maximize profits through a comprehensive approach that includes not only pricing and cost reduction but also how we use incentives.

Q : What are the changes to the previous investment plans and capital policies given on p.12 of the Subaru Business Update materials?

A : At the time of the announcement made in August 2023, we indicated that the total electrification investment would come to no more than 1.5 trillion yen. As this became more concrete, although on the one hand we estimate that the battery investment would be smaller, on the other hand we take into account soaring prices for construction materials and rising personnel costs for investments in domestic production, so we have left the total figure of approximately 1.5 trillion yen unchanged at this point in time. In addition, with regard to our investments in the U.S. we are ascertaining the appropriate timing for investments as we closely observe market trends such as the speed with which BEVs are penetrating the market, but we are still moving forward with those investigations.

Q : I understand that you are on the brink of major investments, but it is hard to believe that all of this investment will be completed by 2030. In the event that the investment period is extended, will you continue to maintain your current net cash level, which stands at about 1.1 trillion yen after including time deposits? Investors have high expectations for shareholder returns, so I would like to hear your views on this, including a comment on the level of cash holdings.

A : Essentially, we base our response on our existing capital and returns policies. The market is highly uncertain, but if we can get some more clarity on environmental regulations and the demand gap for BEVs, and so get a view on profit forecasts for the next few years, we hope to be able to consider adding to the current level of returns.

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