Development of New Mid-Term Management Vision


Reasons for Developing a New Mid-Term Management Vision

- Main goals of Motion-V achieved ahead of schedule
- Significant changes in business conditions following faster-than-expected growth (stepping into a new stage)
- Growing need for accelerated response to changes in the business environment, such as tighter environmental regulations
- Resetting of management objectives with a view to further growth

Pursue the goal of sustainable growth and development by boosting competitiveness and building a solid business platform at a new stage
### Development of New Mid-Term Management Vision

#### Review of Motion-V

<table>
<thead>
<tr>
<th>Five Pillars</th>
<th>Achievement Review</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Confidence in Motion</td>
<td>Key Achievements</td>
</tr>
<tr>
<td>2. Provide distinctive Subaru experience</td>
<td>■ XUV/SUV strategy succeeded</td>
</tr>
<tr>
<td>3. Accelerate sales expansion</td>
<td>■ Boosted sales through US-oriented product development</td>
</tr>
<tr>
<td>4. Solidify operational foundation</td>
<td>■ Highly-rated collision safety and EyeSight</td>
</tr>
<tr>
<td>5. Improve quality of management</td>
<td>■ Cost reduction activities paid off</td>
</tr>
<tr>
<td></td>
<td>■ Achieved low-incentive sales</td>
</tr>
<tr>
<td></td>
<td>■ Achieved highly efficient production (“stepwise” capacity increase)</td>
</tr>
<tr>
<td></td>
<td>Key Issues Remaining</td>
</tr>
<tr>
<td></td>
<td>□ Compliance with future environmental regulations</td>
</tr>
<tr>
<td></td>
<td>□ Production capacity shortages</td>
</tr>
<tr>
<td></td>
<td>□ Responding to the needs of new customers</td>
</tr>
<tr>
<td></td>
<td>□ Sensitivity to currency fluctuations</td>
</tr>
</tbody>
</table>

#### Quantitative Targets

<table>
<thead>
<tr>
<th>Targets for FYE2016</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales volume</td>
<td>Targets achieved ahead of schedule in FYE2014</td>
</tr>
<tr>
<td>850,000 units</td>
<td>Sales volume</td>
</tr>
<tr>
<td>(Shipment-based incl. OEM and CKD products)</td>
<td>850,000 units</td>
</tr>
<tr>
<td>Consolidated operating income</td>
<td>Consolidated operating income</td>
</tr>
<tr>
<td>120 billion yen</td>
<td>326.5 billion yen</td>
</tr>
<tr>
<td>Consolidated operating margin</td>
<td>Consolidated operating margin</td>
</tr>
<tr>
<td>6% level</td>
<td>13.6%</td>
</tr>
</tbody>
</table>
## Vision for 2020

<table>
<thead>
<tr>
<th>Corporate vision</th>
<th>Specific goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not big in size, but a high-quality company with distinctive strengths</td>
<td>No. 1 for customer trust</td>
</tr>
<tr>
<td></td>
<td>Strong brand</td>
</tr>
<tr>
<td></td>
<td>Among the most profitable companies in the industry</td>
</tr>
<tr>
<td></td>
<td>Sales volume: 1.1 million-plus units</td>
</tr>
</tbody>
</table>

## Direction for New Mid-Term Management Vision

As a small-sized automaker, FHI will focus on two activities to grow sustainably and achieve its corporate vision.

- Pursue added-value business → **Enhancing the Subaru brand**
- Increase tolerance to changes in the business environment → **Building a strong business structure**

## Changes in the Business Environment

- Stricter environmental and safety regulations
- Increased use of information technology in vehicles and society
- Aging population
- Growth of emerging markets
- Changes in trade environment

## Review of Motion-V (on current status)

- Quantitative key targets accomplished
  → Performance aided by favorable conditions - **Business structure not yet solid**
- Steady progress on five pillars
  → With changes in business environment - **Some of key challenges remain to be addressed**

## Development of New Mid-Term Management Vision

- A compelling company with a strong market presence and a “customer-first” philosophy at its core

---

**Management Philosophy (Unchanged)**

A compelling company with a strong market presence and a “customer-first” philosophy at its core.
**Prominence 2020: New Mid-Term Management Vision**

Faster-than-expected growth

<table>
<thead>
<tr>
<th>Motion-V</th>
<th>Prominence 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>2014</td>
</tr>
</tbody>
</table>

**Sustainable growth**

**Enhancing the Subaru brand**

- Increase product appeal
- Take customer relationship to a new dimension
- Six initiatives to enhance the Subaru brand

**Building a strong business structure**

- Focus resources on key products and markets
- Reduce total costs and increase productivity
- Eight initiatives to build a strong business structure

**Vision for 2020**

- Not big in size, but a high-quality company with distinctive strengths
  - No. 1 for customer trust
  - Strong brand
  - Industry-leading high profitability
  - Vehicle sales of 1.1 million-plus units
Prominence 2020: Enhancing the Subaru Brand

Brand Strategy

Confidence
Display self-assurance in all our auto-making activities and maintain an appealing presence

Value that Subaru offers to customers:

“Enjoyment and Peace of Mind”

Confidence in Motion
Surge ahead as a brand with high emotional value; Generate innovative thought and action for a new era

Subaru will continue to pursue engineering excellence and offer its customers “Enjoyment and Peace of Mind”.

Put “Confidence in Motion” into practice

More Subaru fans
Subaru’s key mission is to achieve prominence with “Enjoyment and Peace of Mind”

Focus on six initiatives

- Overall performance
- Safety
- Design
- Environmental friendliness
- Product quality
- Service

No. 1 for overall safety
No. 1 for “Enjoyment and Peace of Mind”
Top-level quality and service
Elevating the brand-customer relationship to a new level
Top-level environmental performance

New Subaru design

Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

1. Overall performance

Fundamental driving performance and quality are the starting points for Subaru’s pursuit of “Enjoyment and Peace of Mind”

- Launch next-generation platform with all-new design: Subaru Global Platform (SGP)
- Introduce next generation of Boxer power unit (upgrade all vehicles to direct fuel injection)
- Achieve high-level balance of three integrated elements: SGP, Boxer power unit, and Symmetrical AWD
- Achieve prominence with distinctive Subaru quality

Fundamental performance

Enjoyable driving that makes emotional connection with drivers based on high maneuverability

Static and dynamic quality

Enhance Subaru quality in all areas, including steering stability, ride comfort, noise and vibration suppression, sound, exterior look, and interior

Low center of gravity
Boxer power unit
Symmetrical AWD
SGP
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

1. Overall performance

Launch SGP beginning with next generation of vehicles

- **Enhance overall performance**
  - Maintain world-class collision safety (comply with the latest collision safety standards throughout the world)
  - Achieve dynamic quality of a higher-class vehicle with practical structural layout
  - Achieve high maneuverability with new suspension geometry (agility, stability, and hazard avoidance)
  - Maximize interior space with highly efficient packaging

- **Standardize platform design concept for every model from Impreza to Outback**
  - Achieve much greater efficiency in development
  - Ensure flexible production in Japan and overseas
Six Initiatives to Enhance the Subaru Brand

Maintain position as No.1 brand for overall safety

Primary safety
- Field of vision designed for security
- Comfortable driving position
- User-friendly interface

Active safety
- Symmetrical AWD
- Low center of gravity
- Reassuring chassis

Pre-crash safety
- EyeSight (Significant enhancement toward automated driving)

Passive safety
- Protect passengers
- Protect pedestrians

Progress in every aspect of Subaru All-Around Safety
Protecting the lives of all passengers and pedestrians
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

2. Safety

Maintain position as No.1 brand for overall safety

- Maintain the leading position of EyeSight technology
- Create distinctive, safety-focused Subaru automated driving systems

Ongoing evolution of EyeSight

Progressively introduce enhanced EyeSight ver. 3, beginning with Levorg

Avoid not only frontal collisions, but also collisions from any direction

Achieve distinctive Subaru systems for automated driving

Future EyeSight

EyeSight (ver. x)

EyeSight (ver. 3)

EyeSight (ver. 2)

ADA (Active Driving Assist)

2010 2014 2020
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

3. Design

New “dynamic & solid” design concept
to make Subaru vehicles instantly recognizable

“Enjoyment and Peace of Mind” / New Subaru distinctive design

DYNAMIC

Sport and performance
Refined edge
Rugged beauty
Driving pleasure

SOLID

Forms backed by functions
Beauty stripped of excess
Expressive forms of Subaru’s technology
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

4. Environmental friendliness

Achieve top-level environmental performance by 2020

- **Enhance internal combustion engines**
  - Rigorously pursue improvements in the fuel economy of the internal combustion engines expected to represent the greatest volume of sales for the time being ⇒ Net thermal efficiency: achieve top level in segment with 40% or more
  - Fuel efficiency improvements with other enhancements (Body weight reduction with the SGP, aerodynamics improvements, and friction reduction in transmissions etc.)
  - Looking beyond 2020, study the development of new-generation environmental strategy vehicle
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

Achieve top-level environmental performance by 2020

- **Advance vehicle electrification**
  - Integrate world-class environmental technology through alliances to develop hybrid vehicles true to the Subaru identity
  - Progressive development starting with compliance with US zero-emission vehicle (ZEV) regulations
  - Examine development of a new generation of electric-technology-based vehicles to comply with stricter environmental regulations

Advance vehicle electrification
Expand development

Develop new generation of electric-technology-based vehicles
Progressive development of next-generation hybrid vehicles
Launch next-generation Plug-in hybrid vehicles compliant with North American ZEV regulations

2016 2020
Prominence 2020: Enhancing the Subaru Brand

Six Initiatives to Enhance the Subaru Brand

Become a trusted brand that continues to be chosen by customers for the quality of its products and services

- **Product quality**
  - Strive to enhance fundamental product quality (fewer defects or breakdowns than any other manufacturer)
    ⇒ Raise quality to achieve level of product quality that will excite customers

- **Service**
  - Urgently build service networks and facilities to satisfy new customers
    ⇒ Improve responsiveness to provide trusted services from customers
Six Initiatives to Enhance the Subaru Brand

6. Communication

New efforts to reinforce brand strategy

Propose new value based on stronger ties with customers through the kind of closer communication that only a small, distinctive brand can achieve

"Life is More Enjoyable with Subaru"

Expand “Enjoyment and Peace of Mind” to lives and leisure experiences of Subaru customers

Launch Subaru Next Story (SNS) project
### Eight Initiatives to Build a Strong Business Structure

<table>
<thead>
<tr>
<th><strong>Subaru Business</strong></th>
<th><strong>Other Businesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business strategy</strong>&lt;br&gt;Prioritize allocation of management resources to key products and markets</td>
<td><strong>Business strategy</strong>&lt;br&gt;Aerospace</td>
</tr>
<tr>
<td><strong>Stronger foundations</strong>&lt;br&gt;Absorb increases in fixed costs by reducing total costs and increasing productivity</td>
<td><strong>Aerospace</strong></td>
</tr>
<tr>
<td>1. Product strategy</td>
<td>6. Aerospace</td>
</tr>
<tr>
<td>2. Market strategy</td>
<td>7. Industrial products</td>
</tr>
<tr>
<td>3. Production strategy</td>
<td></td>
</tr>
<tr>
<td>4. Total cost reduction</td>
<td></td>
</tr>
<tr>
<td>5. Alliance</td>
<td></td>
</tr>
<tr>
<td>8. Human resource development, organizational structure, and corporate culture</td>
<td></td>
</tr>
</tbody>
</table>
### Eight Initiatives to Build a Strong Business Structure

1. **Product strategy**

- Enhance product lineup focusing on strengths in XUV/SUV segment
- Full model change for key models with continuous launch of new products
- Expand use of the STI brand and progressively develop environmentally friendly products

#### Add new products

<table>
<thead>
<tr>
<th>2014</th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Levorg</td>
<td>North America: new SUV</td>
<td></td>
</tr>
</tbody>
</table>

#### Enhance key models

<table>
<thead>
<tr>
<th>2014</th>
<th>2016</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>WRX</td>
<td>Legacy</td>
<td>Next-generation strategic vehicles</td>
</tr>
<tr>
<td>Outback</td>
<td>Upgrade platforms and power units</td>
<td>Continuous launch of new models</td>
</tr>
</tbody>
</table>

#### Boost brand value

- Enhance STI brand

#### Enhance environmental performance

- Lead the internal combustion engine segment with direct fuel injection on all vehicles and other new technologies
- Progressively develop world-class hybrid vehicles
- New-generation electrification technology
Prominence 2020: Building a Strong Business Structure

Eight Initiatives to Build a Strong Business Structure

- Sustainable growth toward sales of 1.1 million-plus vehicles
- 600,000 units projected for the top-priority North American market and 320,000 units for the second-pillar markets of Japan and China
- Reinforce efforts on Russia and Southeast Asia, where wealthy consumers are expected to increase

<table>
<thead>
<tr>
<th>Region</th>
<th>Key measures to build stronger business</th>
</tr>
</thead>
</table>
| North America| • Launch a new SUV exclusive to North America  
                  • Efforts on Sunbelt sales growth  
                  • Increase local production to raise competitiveness |
| Japan        | • Strengthen marketing as Subaru brand’s home market  
                  • Lift quality of overall sales activities |
| China        | • Expand sales networks and strengthen dealer sales capabilities  
                  • Aim for sales of 120,000-plus units with exports from Japan for the time being |
| Australia    | • Important market where Subaru presence should be further increased  
                  • Continue efforts on brand enhancement |
| Russia       | • Steadily expand market share by reinforcing sales networks |
| Southeast Asia| • Build a strong business foundation  
                          • CKD production expansion, Local office setup |
| Europe       | • Comply with European CO₂ regulations |

Consolidated Global Unit Sales Forecast (Units in 10 thousands)

- North America
- Japan
- China
- Australia
- Russia
- Southeast Asia
- Europe

FYE2014: 83  
FYE2015: 92  
FYE2016: 95  
FYE2017: 100  
FYE2021: 110

0 20 40 60 80 100 120

FYE2014: 4  
FYE2015: 18  
FYE2016: 48  
FYE2021: 60

FYE2014: 83  
FYE2015: 92  
FYE2016: 95  
FYE2017: 100  
FYE2021: 110

FYE2014: 4  
FYE2015: 18  
FYE2016: 48  
FYE2021: 60

2. Market strategy
Production capacity increase up to 1.07 million units level.

Maintain domestic production capacity while increase overseas production to around 40% of total capacity to reduce foreign exchange sensitivity.

- SIA: Capacity increase planned for FYE2017. Increase up to 400,000 units level according to necessity.
- Malaysia CKD production: Add the Forester production

<table>
<thead>
<tr>
<th></th>
<th>FYE2014</th>
<th>FYE2017</th>
<th>FYE2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gunma Plants (Main Plant and Yajima Plant)</td>
<td>60</td>
<td>63</td>
<td>65</td>
</tr>
<tr>
<td>Overseas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US (SIA Plant)</td>
<td>17</td>
<td>31</td>
<td>40</td>
</tr>
<tr>
<td>Malaysia CKD</td>
<td>0.5</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Production capacity (standard operations)</td>
<td>78</td>
<td>96</td>
<td>107</td>
</tr>
</tbody>
</table>

(Unit: 10 thousand vehicles)
Prominence 2020: Building a Strong Business Structure

Eight Initiatives to Build a Strong Business Structure

Achieve total cost reduction of 20% by 2020

Reduce direct materials costs:
Absorb costs of enhancing the Subaru brand by reducing unit costs by 20%

- Wide-ranging advances toward streamlined design structures
  - SGP: Standardize components, achieve economies of scale, and reduce number of parts
- Work with suppliers to improve productivity and thrive together
- Strive for optimum unit costs in Japan and the US

Improve overall productivity:
Launch company-wide activities to achieve 20% improvement in overall productivity by 2020

C (Create) 20-20

- In addition to direct material cost reduction, improve manufacturing productivity and manufacturing investment efficiency by 20%
- Reduce development, logistics, sales, and indirect costs by 20% and improve investment efficiency by 20%
- Reform work processes and develop IT infrastructure required to reach this goal
Prominence 2020: Building a Strong Business Structure

Eight Initiatives to Build a Strong Business Structure

5. Alliance

Advance Collaboration with Toyota Motor Corporation

- Further advance product/technology collaboration that leverages each company’s strengths to increase medium/long-term competitiveness

<table>
<thead>
<tr>
<th>Year</th>
<th>PHASE 1</th>
<th>PHASE 2</th>
<th>PHASE 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>Complement each other</td>
<td>[ Joint development of BRZ/86 ]</td>
<td>[ Generate further synergies ]</td>
</tr>
<tr>
<td>2008</td>
<td>Contract production of Camry</td>
<td>Create new value</td>
<td>Study/discussion underway with focus on environmental technology areas (incl. vehicle electrification)</td>
</tr>
<tr>
<td>2014</td>
<td>Engineer exchanges</td>
<td>Compact vehicle OEM</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td>Mini vehicle OEM</td>
<td></td>
</tr>
</tbody>
</table>
Eight initiatives to Build a Strong Business Structure

Enter a new stage - from autonomy to growth

**Autonomy** < Financial Strength >
- Boost operating margin
- Improve asset turnover
- Ensure sound cash flow

**Growth** < New business initiatives >
- Net sales of over 100 billion yen plus more from new businesses
- Maintain operating income at 10 billion yen level

"Global key player that continues to create new value"

Defense sector < Build solid technology base >

Commercial sector < Expand profitability >

Source: Ministry of Defense

Source: The Boeing Company, Airbus S.A.S
Achieve growth in both vehicle and general-purpose engines

Pursue Japanese manufacturing excellence with matching technology common in both fields

**Added value**
- Pursue manufacturing excellence that meets customer trust
- Technical support structures that exceed customer expectations.
- Aim to be industry leader for user-friendliness

**Targets**
- Operating income of over 2 billion yen (at 95 yen/US$)
- Expand sales to cover more than 120 countries worldwide
Human Resource Development

Personnel Required
- Every employee who demonstrates integrity in their work recognizing that they are creating products that people entrust their lives in our hands
- Every employee who can make the most of its individual strength and who has its own expertise
- Every employee with tenacity

Organizational Structure and Corporate Culture
- Build management structures and processes to support sustainable growth
- Foster a culture that values challenge, individuality, and creativity
- Reform corporate systems to create an environment where discussion is thorough and decisions are fully implemented once made
Prominence 2020: Profit Projection for 2020

- Steadily achieve high level of operating margin within the industry
- Grow sustainably to achieve sales volume of 1.1 million-plus vehicles and net sales of 3 trillion-plus yen
Prominence 2020: Mid-Term Three-Year Profit Plan and Financial Policies

Three-Year Business Operation / Profit Plan

- Establish a foundation for the future by expanding R&D spending and capital expenditures during FYE2015–17 period.
- Maintain profit levels by having added-value enhancement and total cost reduction absorb rises in fixed costs due to increased investments.

<table>
<thead>
<tr>
<th>FYE2015-2017 (3 years)</th>
<th>(95yen /US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>8 trillion yen</td>
</tr>
<tr>
<td>Operating income</td>
<td>1 trillion yen</td>
</tr>
<tr>
<td>Operating income ratio</td>
<td>12.5%</td>
</tr>
<tr>
<td>R&amp;D expenses</td>
<td>250 billion yen (159%)</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>330 billion yen (171%)</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>200 billion yen (122%)</td>
</tr>
</tbody>
</table>

Financial Policies

- Financial policy
  - Prioritize allocation of cash flows to investment for sustainable growth.
  - Implement a well-balanced strategy with attention to investment efficiency, financial health, and shareholder returns.

- Shareholder Returns
  - Profits are returned to shareholders basically in the form of dividends with business results for each term, investment plans, and the business environment taken into account.
  - Basic policy is to provide continuous dividend payments which are linked to business performance of the company.
  - Decide dividends for each fiscal year in view of circumstances, based on a consolidated dividend payout ratio of 20–40%. 

( ): vs. previous 3-year period
Thank You!