Financial Results for FYE2017
Analyst Briefing Q&A

May 9, 2017
SUBARU CORPORATION

Q：In your FYE2018 plan, there is almost no change in operating income year on year. Can you please comment on the lack of growth in income despite the increase in unit numbers?

A：Rather than giving priority to improving operating income, we believe that it is important for us to do what we need to do in R&D and other areas to enhance our capability. Until now various factors have made a positive contribution to operating income, growth in income excluding foreign exchange continued. This fiscal year there will be a decline in income even excluding foreign exchange. We are determined to direct our efforts toward doing everything that we should be doing for future growth. This includes increasing capital investments and R&D expenses to enhance the Subaru brand and to be able to generate operating income through our capability.

Q：In the U.S. calendar-year retail sales plan already announced, you are looking at 670 thousand units. In contrast, consolidated sales units of 688 thousand units for the fiscal year which were recently announced seem somewhat weak.

A：We intend to carefully monitor sales trends including the competitive environment. In regard to incentives, we are expecting two interest rate rises but it is not clear how actual sales will progress, including the continuation of interest-free loans. Our company has few models to which interest-free loans apply and the terms of such loans are short. If we did not offer these arrangements at all, however, our dealerships would have a very difficult time selling. We do not believe there is a need to pursue a sales target at any cost and we intend to value the views of those at the sales front, who want to increase sales in a sound manner. Furthermore, we still have not lowered our goal of 670 thousand units.

Q：Are you planning to decrease the number of sales units for the Outback?

A：Because unit sales of the Outback are grouped with the Legacy line, it looks as if the number of sales units has declined, but it is actually the Legacy that has been adjusted. In the United States, the competitive environment for D segment sedans is extremely severe but we have no intentions to go so far as to concentrate our efforts on competing on prices in an attempt to increase sales. Although our efforts involve incentives and interest-free loans, we are watching market trends very cautiously and believe that the phase of momentum in U.S. sales is changing, but we want to sell each and every vehicle with care as we have done to date.

Q：Can you please give us an assessment of inventory in the United States by model?

A：As of the end of April, dealer inventory stood at 51 days. For the Legacy, however, it was 90 days. Going forward, we believe that sales/inventory adjustment of Legacy is one issue we need to address.

Q ：The payout ratio this time has been raised from 20 to 40% to the 30 to 50% range, but is there any change in your plans for return to shareholders?

A ：We are planning on a 39.4% payout ratio this fiscal year, and forecasting a 38.7% payout ratio the next fiscal year. Bearing in mind the significant decline in business results in FYE2017 and changes taking place in the business environment of the automobile industry as a whole, we have kept the dividend at 144 yen. Nevertheless, operating income of 410 billion yen and an operating margin ratio of 12.4% (next fiscal year's plan is 12.0%) are not low, and the capital-to-assets ratio has risen to 52.8%. Therefore, to strengthen ongoing returns to shareholders, we have raised the payout ratio to the 30 to 50% range.

Q ：Please tell us about trends in demand in regions other than the United States. According to the next fiscal year's plan, it seems that you are expecting a fall in sales from the second half in regions such as Japan and Australia. Do you foresee changes in inquiries from customers and dealers?

A ：Sales are brisk in Canada. The same goes for Australia, where we are aiming to set an all-time record in 2017.
On the other hand, conditions in Europe and China are severe. In the mid-term management vision, we set a goal to sell 50 thousand vehicles in China but discount competition due to oversupply is having an impact on the market environment, making conditions for Subaru extremely tough.
Until now we have been in situations where we were in short supply and unable to deliver vehicles. In the near future, however, we believe this situation will be gradually resolved. In the future, we also hope to expand our sales in small markets, despite their lack of scale.
In Japan, where our customers have a two and a half month wait for delivery, the situation remains the same at present but we believe that in the near future we will be able to deliver at around the one-month mark.

Q ：R&D expenses have increased. Can you tell us about your future plans for R&D?

A ：Compared with other car makers in the industry, our company's investment until now has been too low. In recent years, however, our investment in R&D has risen to a level comparable to the industry average. In the next fiscal year, we are forecasting R&D expenses of approximately 130 billion yen. We are looking at comparisons of net sales ratios with other companies but it is unlikely that our company alone will soar ahead of other companies.

Q ：Please tell us about recall expenses other than those related to airbags in FYE2018?

A ：The appropriation is not for any issue that has already been determined but we are looking at expenses for the full year equivalent to the amount confirmed in the first half of FYE2017. We estimate that expenses will increase 9 billion yen year on year.

Q：Is it your view that the introduction of the Ascent in the United States will not have much noticeable effect on improving the model mix in the current fiscal year?

A：The effects of introducing the Ascent will be evident from FYE2019 onwards. Both the rank and the price of the Ascent are high, so it probably will not cause a deterioration in the mix in the next fiscal year.

Q：Please tell us more about incentives in the U.S. market?

A：In an environment where interest-free loans have become customary practice, it is difficult for Subaru alone to stop offering such loans. After stepping up the program last summer, there was a noticeable increase in the rate of use of leases and loans. The plan in the new fiscal year will not change but we have factored in the impact of two interest hikes and a year-on-year increase in the rate of use.

Q：I feel that the incentive plan you announced is somewhat conservative. Am I to understand that incentives will increase more or less according to the plan, provided that there are two interest rate rises?

A：We are not persisting with the interest-free program because we want to. However, it is a trend that other companies are following. On the assumption that there will be no softening in the financial programs that are being implemented at present, if there are two interest rate rises, we believe the figures will be close to our plan.

Q：In technologies such as electrification, autonomous driving and connected services, which of these have greater priority?

A：Electrification, of course, is a must, and we have already announced our plans to release PHEV and EV. We understand we are now in an era when it is no longer good enough to simply produce an EV and that our discussion should focus on determining what a Subaru-like EV should be for our EV in 2021 in particular. It is with this understanding that we intend to move ahead with discussions. In automated driving, although it is not driverless technology, we are considering how to make developments in EyeSight, which we intend to release in 2017 and 2020, attractive in the context of today's driving technology. In connected services, we are aware that we are lagging and that we must make a company-wide effort to catch up. To achieve this goal, we have established an organization and appointed a CIO.