

Financial Results for the 2nd Quarter of FYE 2018 Analyst Briefing Q&A

November 6, 2017
SUBARU CORPORATION

Q : What are the impact of “inappropriate practices in relation to final inspections” on sales results and sales unit volume for the current term?

A : Regarding expenses, about 5 billion yen is factored in for both the 1st half and the 2nd half, that is, 10 billion yen is incorporated annually. At our press conference held on October 27, we reported about 5 billion yen as recall-related expenses (target number of 255,000 units ×20,000 yen cost per unit). However, since we have not yet decided on specific implementation methods, we are concerned that if only the amount of expenses is determined in advance, this will constitute an internal constraint on setting countermeasures, and a budget is forecast in this full-year of 10 billion yen. Therefore, we would like you to understand that 10 billion yen is an approximate number, and that not all of the uses have yet been determined. The outlook is uncertain as to the impact on sales in the current situation. Therefore, there is no inclusion of the impact of the completion inspection issue regarding domestic passenger car sales in the 2nd half of the plan.

We intend to do everything we can to assuage customer anxiety as quickly as possible.

Q : About the sales plan for the United States, the number of sales volume was down by approx. 20,000 units for the annual plan announced previous time. There is some notion of increasing sales by increasing incentives, however, the incentive amount per unit is unchanged. We have a grasp of the SUBARU business model, which stresses profits, but what is your thinking on the balance between profits and sales volume?

A : We would like to maintain the SUBARU business model going forward as well. Although the situation is a tough one, other makers are shifting the core of sales from the sedan to the SUV market and running up incentive amounts on SUV models, SUBARU is not thinking about doing this with incentives to increase the number of sales units. Perhaps some might say that we could drive up the number of sales further, however, our idea is to continue to grow with proper inventory and under controls so as not to increase the burden on dealers as much as possible. We would like to maintain overall growth while carefully keeping an eye on the competitive environment with other companies and inventory levels.

Q : How is it going with the 1.2 million units-plus sales, which was announced in the mid-term management vision?

A : When we look at the numbers by market, generally these are in line for the North America market. For China, we revised the numbers downward to 30,000 from the approx. 50,000 for last year's results, and it's more difficult than we assumed. For Europe as well the situation is tough. In the United States, we are planning to introduce Ascent in the coming year and conduct a full model change for existing car models, and we think

things will proceed almost as planned, possibly with some margin for fluctuation. After this, we are planning to sell EVs in 2021, and considering the current trend of shifting to EVs, we would like to review and verify the current plan and be able to explain perfectly about how we will fight onward after 2021.

Q : Compared to the actual results for the 1st half, for the 2nd half plan, although the unit plan is at the same level, the operating margin has really deteriorated. What are the factors in this?

A : The main factors are that various expenses including fixed costs, R&D and SG&A expenses have increased little by little. Regarding US incentives, we spent 1,800 dollar per unit in the 1st half, and we are planning an increase of about 150 dollar per unit for the 2nd half, and regarding R&D expenses, because there was not much outlay in the 1st half, we are expecting more in the 2nd half. Fixed costs are also expected to increase in the 2nd half in the 10 billion yen range.

Q : What is your thinking on how you will hold funds and issue shareholder returns in the future?

A : For the current term the dividend plan is forecast to be over the guideline of 50%, but there will be no change from the initial plan and the same amount will be maintained. Together with the product plan, for the future, we will think this over again to enable us to give out guidance.

Q : The range has fallen further from the numbers the stock market expects. What are the factors in the increase or decrease in numbers? How would you portray the next fiscal year?

A : As one factor in this divergence from the forecast values, there is the point that the unit numbers for the highly profitable Legacy and Outback have decreased while the unit number of Impreza is increasing, and so profit has not increased in step with the increase in unit numbers. The next reason is the market outlook for materials like precious metals. Additionally, since for the increase of fixed costs due to the increases we have made in R&D and Capex, going forward this will not change structurally as well, and we would ask you to regard this as conditional also for the next fiscal year. Ascent is a model that will provide additional numbers in units, but we think that it will be necessary to carefully consider pricing from the customer's standpoint going forward. Next fiscal year, a full model change for models with a higher profit unit price than Impreza will begin. At the same time, if the tough sales competition continues in the future, SG&A expenses may increase.

Q : Forester sales unit volume is dropping -- what is your thinking about the price competition environment for SUV models in the US market?

A : Even brands for which sedans were the main sellers have shifted their core sales to SUVs, and going forward as well we think competition will become stiffer. Although the unit sales numbers for Forester had been declining YOY, last year there were months in which

it set new monthly sales records -- even in the fourth year since the full model change. So, compared to past models that deteriorated with time, Forester continues to sell extremely well. We believe we should not overreact to the price competition environment in the SUV segment and conduct sales in such a way as to harm the Forester value. Together with the other models we would like to carry on the steady growth of the overall SUBARU brand over the previous year.

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