

Financial Results for FYE 2018 Analyst Briefing Q&A

May 11, 2018
SUBARU CORPORATION

Q : How will you control incentives in US sales going forward?

A : The financing programs we offer customers (credit/leasing) have not changed significantly, even though interest rates on borrowing have been increasing little by little. The main factor behind the increase in incentives is that the cost is being borne on the sales side. The plan for full-year incentives in FYE 2019 is up \$200 per vehicle year on year to \$2,200 per vehicle, but the numbers in the plan go down slightly in the second half compared to the first half. This is in consideration of the launch of the Ascent in early summer and the all-new Forester in the fall. We hope to control incentives carefully and in detail while closely observing the competitive environment.

Q : How has the reception been for the Ascent from dealers, the media and consumers? How do you see the new model's contribution to earnings?

A : Dealer reception has been very favorable with respect to riding and overall comfort, the performance of the 2.4L turbocharged engine, handling and other features. In the breakdown of pre-orders that have already come in, the percentage of high grade vehicles is higher than originally anticipated. We have expectations with respect to sales and earnings, but production capacity, including parts supply, is going to be a challenge.

Q : Are there any concerns about cannibalization with the introduction of the Ascent?

A : This model targets customers that were not covered by existing Subaru models, so we're not worried about cannibalization.

Q : Tell us about fluctuations in material costs and warranty claims in the plan for FYE 2019.

A : In regard to material costs, prices have risen overall since last year, including iron, oil, precious metals, aluminum and copper. We expect prices to continue to go up a little. As for warranty claims, the elimination of approximately 45 billion yen in transient factors that were present in FYE 2018 (recall expenses of approximately 25 billion yen related to nonconforming final vehicle inspections and other expenses of approximately 20 billion yen) is a partial factor behind the 34.2 billion yen increase in income.

Q : My question is about R&D expenses. The plan for FYE 2019 is 120 billion yen, which is about at the same level as the results from FYE 2018. Is this sufficient in an environment marked by rapid changes in technology?

A : There are limits to our resources in terms of development personnel, so there are also limits to the amount of development that can be done. We are in no way keeping R&D expenses down to protect income. This level represents what we have budgeted for the current plans of the Engineering Division.

Q : To what extent is the impact of nonconforming final vehicle inspections incorporated in the domestic sales plan for FYE 2019?

A : Domestic Subaru sales are down year on year, but we believe the main factor behind this is that the new model effect of the Impreza and the Subaru XV has run its course.

Q : What is the background behind the extreme difference between the first and second halves in FYE 2019?

A : The outlook is dire for the Outback and Forester in the first half due to their age, but in the second half, we will be introducing highly profitable products such as the Ascent and the new Forester model.

Q : My question is about observations regarding the reduction of tariff rates by China. How will it impact Subaru's business?

A : We're keeping a close eye on the timing and how much the tariffs are reduced. At the same time, however, Subaru's struggle in China is not solely because of tariffs, so we believe it will be necessary to rework our strategy in line with the Chinese market, including our marketing approach.

Q : In terms of income, is there anything we should pay particular attention to when you adopt IFRS from the next fiscal year (FYE 2020)?

A : The deduction of sales incentives from net sales and the change from the declining balance method to the straight-line method for depreciation of fixed assets will be implemented beginning this fiscal year (FYE 2019). Also, starting next fiscal year (FYE 2020), R&D expenses associated with developing mass production models will be capitalized and amortized. It's mainly these three things.

Q : With the changes to the US tax code, what were the results for the last fiscal year (FYE 2018), and what is the outlook for this fiscal year (FYE 2019)?

A : We do not have a captive finance company in the United States, so there is no reversal of deferred tax liabilities or anything like that. There hasn't been a substantial impact. Last fiscal year it was several billion yen with three months impacted. This fiscal year it will be all 12 months, so the impact will be bigger, but we still expect it to be within two digits.

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