

Financial Results for the 3rd Quarter of FYE 2022 Analyst Briefing Q&A

February 7, 2022
SUBARU CORPORATION

Q : Due to production restraints brought about by semiconductor shortages, you have revised your forecast downward over the previous announcement (on November 5, 2021) and determined not to disclose production volume. What is the background behind this decision?

A : At the time of our last announcement, we forecast an easing on component supply constraints caused by structural semiconductor shortages throughout the industry and planned for production to recover from the third quarter onwards. However, supply constraints are continuing, and a sudden component supply shortage occurred at the end of January, which was more severe than expected. We had no choice but to suspend operations at our domestic production hub. As such, with continuing uncertainties over the future, we are renegotiating with our suppliers and revising our production plans to ensure production of as many units as possible even during sudden events. We thus made the decision not to disclose production volume.

Q : Why is it taking you longer to recover production volume compared to other companies?

A : We cannot speak on the situation at other companies, but we can say that we are one of the smaller companies in the industry in terms of size, with only two production hubs in Japan and the United States. We are also implementing a selection and concentration strategy, in which we are narrowing down our lineup of models and promoting use of common components. This strategy may have had greater impact on our current situation because of its nature, but we will not use this as an excuse. We will use our learnings from this case to brush up our strategy and boost our capabilities.

Q : This question is in regard to your recovery forecast for the next period onwards. You say your annual production capacity is approximately 1.15 million units—do you have a system ready to commence full-scale production when semiconductor and component shortages are resolved?

A : We are currently making a huge number of customers wait. Our aim is to increase production levels in line with the easing and resolution of component supply constraints, and we are constantly engaged in preparations to ensure we can do so. However, particularly in the United States, when looking at personnel shortages across the manufacturing industry, disruptions in logistics operations, and other issues, we think it will be difficult to return to full-scale production in the short term.

Q : In your full-year plan, you predict a decrease of 84.6 billion yen from material costs, etc., which is not offset by an increase of 38.0 billion yen through control of sales incentives. How do you plan to absorb skyrocketing material costs, etc.?

A : In addition to the control of sales incentives, we aim to absorb the rise in material costs by, among others, raising our sales prices and improving our model mix.

Q : Worldwide container shortages are causing steep hikes in shipping expenses. How do you see this impacting logistics costs?

A : For the time being, we will have to consider risks associated with these container shortages. On the other hand, we do not see any major impact on car carrier ships.

Q : Compared to the number of units produced in the third quarter (three-month period), consolidated automobile sales were approximately 30,000 units short. Is this because of logistics delays caused by container shortages or other factors?

A : In the third quarter, we produced 207,000 units, and our consolidated automobile sales stood at 173,000 units. Although there were partial delays in logistics caused by the pandemic, the number of units affected was limited. Consolidated inventory included inventory on ships due to production and shipment timings, which resulted in the sales shortage.

Q : In STEP, your mid-term management vision, you target an operating margin of 8%. Is this still feasible if production returns to normality?

A : If production recovers, we still believe we can achieve this target. While material costs, etc., continue to skyrocket, the price of vehicles is on a rising trend throughout the industry due to global inflation. In addition to reflecting these trends into our own prices and moving forward with the shift to high-grade models, we are also seeing a fall in quality-related costs, which have recently been having a huge impact on our financial results. As such, we will continue to work towards our target of a sustainable 8% operating margin.

Q : Do you have any measures in place to improve semiconductor procurement?

A : As described in our recent press release, we have increased the number of executive officers in our Purchasing Division from one to three. Therefore, executives exclusively in charge of the early resolution of semiconductor supply chain issues are focusing on response measures. Further, as we handle numerous components that are equipped with semiconductors, we are reinforcing our development structure to ensure stable procurement.

Q : As you work to achieve Level 2 plus autonomous driving technology between 2025 and 2030, the development of AI technologies at the SUBARU Lab in Shibuya will no doubt be incredibly important. How is development progressing, and what leading development initiatives are you engaged in? Further, what type of personnel are you hiring and are you working on any collaborations?

A : We have had numerous applications from those interested in working with us in Shibuya. We are starting to see results in terms of advanced development, such as programming work that has been extremely effective in increasing analysis speeds. Next-generation autonomous driving technologies are a key technology strategy for us, and so we are working on developments to bring all relevant elements up to date, including lenses, cameras, electric platforms, and CPUs. These developments will be essential to Subaru in the era of EVs, and we will reinforce our efforts accordingly but cannot currently disclose any details.

* Subaru to open “SUBARU Lab” AI development base in Shibuya, Tokyo
https://www.subaru.co.jp/press/news-en/2020_11_18_9243/

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