

Financial results 1Q FY2021

Questions and answers in the briefing session for analysts

August 5, 2021

Suzuki Motor Corporation

(Semiconductor shortage)

Q1: What is the reason for assuming semiconductor risk for the full year more severe than other companies? What is your picture of the quarterly impact? Do you expect recovery in the second half?

A. The impact in our company was greater than you thought. There are several reasons, one example was some suppliers having informed us that they see “no problem” turned out to be “impacted by shortage”. In order to cope with this situation, team of related executives, headed by the president was organized and has been in contact with related parties, however, the team is still yet to normalize production.

In addition to such domestic influences, Maruti Suzuki posted timely disclosure yesterday (August 4), that the Gujarat plant cancelled 3 Saturday shifts in August (August 7, 14 and 21), and A and B plants operate in one shift for time being. In other words, the impact of semiconductor shortage is becoming apparent in India as well. We cooperated with Renesas Electronics Corporation in the restoration from the fire, and the situation has finally become foreseeable. However, since Renesas is not the only semiconductor manufacturer, we are in contact with various suppliers every day to minimize the impact. But for now, we expect the situation to continue through the end of the year.

While there are no quarterly forecasts available for disclosure, we calculated the impact as much as 350,000 units production decrease from the initial full year budget. Although we place efforts to make up for the delay in the first half of the year in the second half, in light of existing circumstances, we believe that such production cuts will have to continue at least until the end of the fiscal year, even if efforts are made to make up for the delay, such as by shifting production to models capable of full production.

Although the impact of semiconductors varies from component to component, it began in Japan and then eventually spreaded to global markets through the export model. At first, we thought there would be little impact on India, but now that things are starting to show up, we need to have conservative view on this issue as well.

(Semiconductor shortage: India business)

Q2: We understand that the decrease of 80,000 units in the 1Q (April-June) in India is not related to the semiconductor shortage. What is the balance between the semiconductor effect expected in the future and the sales forecast for the full year in India (+ 11% YoY)?

A. Production in India decreased by 80,000 units in the 1Q compared to the initial plan of 447,000 units. However, this is not due to the semiconductor shortage, but rather to the plant shutdown in response to the shortage of oxygen for medical use, and this is due to COVID-19 pandemic. In other words, there was almost no semiconductor impact in the 1Q in India, but as mentioned above, we have no choice but to expect the impact from now on.

The breakdown of the 350,000 units decrease compared to the initial budget for global production is 250,000 units decrease in domestic production and 100,000 units decrease in overseas production, including India. The impact of semiconductors and the corona are basically considered separately.

Demand in India, on the other hand, continues to be strong, with backlog remaining at 170,000 units and the ratio of urban to rural sales remaining at around 6:4. Therefore, Maruti Suzuki is also working to establish a system that will allow it to develop new business and create demand in rural areas.

Meanwhile, in July, the price was raised for the third time this year. The price hikes of 1.3% in January, 1.6% in February, and we presume a little in July, but even Maruti Suzuki says it is difficult to pass on all the costs of the soaring raw materials prices. As the soaring raw materials prices are seen to continue until the end of next year, there is a limit to raising the price without hindering demand.

Demand momentum itself is strong, we will try to deliver vehicles, without losing market share. In fact, there has been a decrease in market share recently, so Suzuki and Maruti Suzuki will cooperate to cope with the situation through supply constraints caused by a shortage of semiconductors, while strengthening the lineup of SUVs and other measures. However, a third wave of the COVID-19 is also a concern in India and should be recognized as a risk.

(Electrification)

Q3: Competitors are moving to introduce mini EVs, meanwhile what is your view on the Japanese EV market in the future and what are your plans in this regard?

A. As stated in the New Mid-Term Management Plan, electrification is a top priority issue. In particular, we will accelerate R&D focusing on EVs, PHEVs, and Suzuki Hybrid Systems, and hope to complete the development by 2025. We plan to launch them in order when mass production is in sight. When it comes to mini vehicles, it is a question of whether

the price will be acceptable to consumers, and it will be a battle against battery procurement costs. In addition, the JAMA has been asking the government to establish a charging infrastructure. Amid these challenges, we are developing mini EVs not only for passenger use but also for commercial use. The key is how to achieve prices that are easily accessible to customers.

(Miscellaneous)

Q4: Impact of raw materials for the full year - What is your view on 90 billion yen? On the other hand, Maruti Suzuki has also announced a series of price hikes. What are the coverage of input cost up by these positive factors?

A. First of all, about half of the ¥20 billion negative impact of the rise in raw material prices in the 1Q (April to June) was due to the impact of precious metals such as rhodium, and the increase was particularly sharp this year. Behind this is a decline in mining operations and stagnation in logistics due to the COVID-19 pandemic since last year, and a rise in demand for private ownership of automobiles due to the spread of the infection, which led to a rise in market prices. At present, however, the semiconductor shortage caused a decline in global automobile production, leading to a temporary downturn in the market. Nevertheless, the market is expected to remain at a higher level than before, with the full-year negative impact of ¥90 billion.

On the other hand, as mentioned above, we cannot pass on all the impact of price increases, so we will also continuously work on cost reduction in order to offer inexpensive products to the market.

Q5: Given that R&D expenditure is assumed to be 190 billion yen for the full year, 1Q progress is quite low. How do you see this increase in the future? Also, is there any aspect that can be suppressed by collaborating with other companies?

A. In the 1Q (April to June), R&D expenditure was ¥35.7 billion, equivalent to 19% of the annual budget. While there are certain advantages to accelerating the pace, the progress in the first quarter of previous year was also about 20%. As we made commitment to an annual R&D expenditure of ¥200 billion for the New Mid-term Management Plan, we will place efforts to expand the expenditure toward the end of the fiscal year. To this end, we are firmly carrying out the PDCA management of progress and results mainly by the officer in charge of the automobile engineering at monthly meetings and management meetings.

Roughly 40% of this year's R&D expenditure is related to electrification, and the remaining 60% is others including CASE, connected and driving support systems. In any case, we will shift to a performance-based approach to avoid situation that failing to use up R&D expenditure consequently increasing operating profit.

Q6: 1Q Operating profit was high at 54.5 billion yen, was there any temporary factor involved? On the other hand, this time, quality-related expenses are said to be a factor in the decline in profits, so please let us know the details.

A. Compared with the same period of the previous year, the biggest factor was the increase of ¥108.2 billion due to the change in sales composition, a rebound from the harsh 1Q last year. Others include ¥12.5 billion increase due to the impact of foreign exchange rates, while as a negative factor, a decrease of ¥20 billion from raw material prices, a decrease of ¥13.3 billion from depreciation expenses due to the start of operations at the Gujarat C Plant and the TDSG battery plant, and a decrease of ¥30.2 billion yen from various expenses due to increases in shipping and operating expenses associated with increased sales.

As for quality-related expenses, in 1Q FY2021, they increased by ¥8.2 billion from the same period of the previous year (a factor causing a decrease in profit), and accounted for 1.4% of net sales. The same was 0.8% in the previous period and 2.4% a year before, so it was a slight increase over the previous period. As stated in the Mid-Term Management Plan as a priority issue, we will work to strengthen quality measures. In addition, although the impact of various expenses in the full-year forecast is zero, we will gradually reduce costs by taking measures to prevent the occurrence of defects, early detection, and outflow prevention, by maintaining quality from the customer's point of view through this quality measures.

On the other hand, the impact of various expenses in 1Q (April to June) was already minus ¥30.2 billion. This includes an increase in shipping costs associated with a significant increase in sales from the same period of the previous year and the aforementioned increase in quality costs, but for the full fiscal year, the impact of various expenses was zero, taking into account the effects of efforts to address the aforementioned quality issues and the continued promotion of cost-cutting activities.

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