Financial results 1Q FY2023
Questions and answers in the briefing session for analysts

August 4, 2023
Suzuki Motor Corporation

(Domestic business)

Q1: What is the current domestic profitability? How far can the price increase bring it back to previous level? Also, how much is the current domestic backlog?

A. Suzuki specializes in and will continue to supply cars that focus on economy, including mini vehicles. In Japan, various prices have risen, and consumers have become somewhat defensive. We have taken a cautious stance on domestic price hikes, but since we are a car manufacturer, we have to make money from finished cars. Therefore, we are gradually starting to raise prices as far as consumers can accept.

On the other hand, the Board of Directors also discussed that there is still room to improve efficiency through constant corporate efforts, such as DX, and to reduce costs in various areas in terms of sales and production. Therefore, it is necessary not only to raise prices but also to make such corporate efforts.

Domestic backlog at the end of the first quarter were 162,000 units, down about 27,000 from the end of the previous quarter. Basically, we are trying to eliminate backlog as soon as possible, but the main reason for the decrease in backorders is the increase in supply due to the improvement in the impact of semiconductors. However, we will keep a close eye on future orders considering the aforementioned customer minds.

(India automobile business)

Q2: What is the state of the Indian market? SUV is doing very well, but how come your market share has not reached 50% share yet?

A. The Indian automobile market remains strong. In fact, the overall market for the month of July was a record high for the month of July alone (wholesales of passenger cars: 352,000 units (+3.1% year on year)).

Demand for SUVs also remained strong, with our company introducing four models, two last year and two this year. In the months of April and May, supply was not sufficient due to semiconductor impact, however, with the gradual increase of semiconductor supply, we believe it is possible to increase market share by increased product supply from June-July onwards.

In July alone, we became the leading SUV brand with 24% market share. We will continue to work hard to expand this.

Q3: There are some possible new entrants in the EV market, but will there be any subsequent updates to the 150 billion yen battery investment?

A. There has been a lot of discussion and talk of new entrants to EVs. Tesla is rumored to be entering the market, but it doesn't seem to have reached a concrete conclusion yet, and while the EV market itself is slowly increasing, it's not yet in a position to explode.

We are also preparing to launch an EV in fiscal 2024, so please give us some time to update. The EV battery plant is being prepared for operation in 2026.

Q4: What is the longer-term outlook for the Indian market? Is it fair to assume that strong demand is still expected from the viewpoint of the macro environment and government policy?

A. In the Indian government, the phrase "Amrit Kaal (period of prosperity)," which Prime Minister Modi used in his speech on Independence Day on August 15, 2022, is popular and there is a strong sense that "In the next 25 years, India will enter a period of prosperity." In 2047, which marks the 100 year anniversary of India's independence, India was presented with a rather

ambitious mission to make its GDP 10 times the current level, making it the second largest GDP in the world. We expect that society as a whole will move in this way through economic policies and other measures aimed at achieving this goal.
On the other hand, there will be a general election next year, and Prime Minister Modi is of course looking forward to his third term. Such political developments need to be followed closely, but as the government has set out its broad mission of industrial development and economic expansion, we expect that India will undoubtedly expand.

(Consolidated financial results)

Q5: What is your evaluation of 1Q consolidated operating profit, and what are the transient factors?

A. As a transient factor, the impact of foreign exchange rates was significant, and the yen's depreciation was more than our initial estimate, resulting in an increase of 10 billion yen. In addition, the impact of the increase in sales volume resulted in increase of 17.9 billion yen.
On the other hand, increase of labor costs are becoming apparent, such as one-time bonus at Maruti Suzuki, and as is the case in Japan and other countries, the increase in labor costs associated with wage increases.

Q6: What is the breakdown of eliminations of -22.3 billion yen by geographical region?

A. Elimination of -22.3 billion yen by geographic region consists of positive impact of change in volume, mix/price, and negative effect of deferral of unrealized profit in the geographic region, as large as nearly -25 billion yen.
Although it is result of the consolidated closing process, it is true that the inventory itself is increasing. As production normalization showed some progress, low inventories returned to somewhat normal, there happened to be offshore inventories at the end of the period, the profit margin per inventory increased due to price hikes, and the impact of an increase in inventory valuation due to the depreciation of the yen.

Q7: R&D spending* seems to be slow. In previous years, at the briefing, there was always a remark about encouraging employees to make progress. How is the situation?

A. In terms of the progress rate, it is 18%, and we do not recognize this as a major delay, since R&D expenses tend to be slightly low in the first quarter of each year.
We are gradually building up the development costs for electrification, and so far the development is proceeding according to the company's plan.
On the other hand, as many people have pointed out in the past, increasing profits due to delay in digestion of development costs is like to put the cart before the horse. It is most important to spend necessary expenditures and make output to contribute to the growth strategy.
If this would not be achieved, the company will become far behind competitors in CASE including electrification and autonomous driving. Therefore, not only the management but also each employee is taking the initiative of putting their own targets into the targets for the year to be determined, and linking them to the results as a company-wide initiative, leading to the realization of the growth strategy.
In addition, since the budget is administered by the first half and the second half of the fiscal year, there is a tendency that the appropriation of expenses is slightly biased between the July-September and January-March quarters. Therefore, we will consider the realization of growth strategies as a management issue, while taking these aspects into account, and achieve results.
*41.5 billion yen in 1Q against 230 billion yen for the full year (18% progress rate)

Q8: What are the risks and opportunities other than foreign exchange reflected in the upward revision to the full-year forecast? Why is production volume revised up while sales volume revised down?

A. The biggest impact is foreign exchange, the decline in sales volume is about -8 billion yen. Indonesia has seen some difficulty in getting loan approvals, while Pakistan has seen a slight downward revision as well. Pakistan's currency restrictions have now been lifted, but recovery will take a little longer. India's initial plan to achieve growth of above 5~7% increase in overall demand growth, is unchanged.

The upward revision in production volume but downward revision in sales volume reflects the fact that the impact of the semiconductor shortage in the last fiscal year on production has become quite normal, while the sales side incorporates a sense of slowdown in some regions. Stocks, which had remained fairly limited due to production constraints until last year, have returned to normal levels due to normalization. The downward revision in sales volume is limited to some regions, but the situation is still unpredictable.

(Miscellaneous)

Q9: Please explain the recently announced transfer of shares of Suzuki Motor Gujarat (SMG) to Maruti Suzuki, including the transfer method?

A. The purpose of establishing SMG as a separate company from Maruti Suzuki was to establish the current system of 750,000 units capacity as soon as possible. In fact, without the capacity of 750,000 units at this stage, we could hardly keep up with the demand. SMG launched the first line in 2017 and the third line in about 5 years. It was Suzuki's direct involvement that enabled the plant to be established with such speed. As a result, the establishment of the system of 750,000 units marked a break in the initial objectives between the two companies.

Maruti Suzuki began preparations last year to build a plant with a capacity of 1 million units in Kharkhoda, but this is still not enough for fiscal 2030. Maruti Suzuki would need another 1 million units, enabling a total capacity exceeding 4 million units. This means that the production side needs to be well integrated.

In the end, Suzuki and Maruti Suzuki discussed and decided to transfer SMG under the umbrella of Maruti Suzuki in order to integrate and manage production and improve efficiency. However, we will have to decide whether the transfer will be by cash or by other means sooner or later, so please allow us some more time.

Q10: We are concerned that Suzuki's message about improving the valuation gap with Maruti Suzuki is not getting through to the market. What are your thoughts on improvement in terms of corporate actions, balance between net cash levels and future investment?

A. It was a topic of discussion at today's Board of Directors meeting, and we agreed that management will be very conscious of issues such as stock price, PBR and capital cost, which are often pointed out.

We also believe we have to work harder. We will do each and everything we can, such as efforts to improve the series of information disclosures. It is important to raise the corporate value of Suzuki and to improve the effectiveness of its growth strategy. This will lead to expectations for our company, and will be reflected in the stock price.

For the time being, we are not in a position to change the way we hold money. While holding a certain amount of cash reserves, we want to divide them into two parts: one part to invest in the future and the other part to continue the business. While discussing various matters such as future capital allocation and capital cost, we want to strike a balance between raising corporate value and ensuring that actual funds are properly distributed.

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