

Financial Results FY2019

Questions and answers in the briefing session for analysts

26 May 2020
SUZUKI MOTOR CORPORATION

(Impact of COVID-19: Automobile market in Japan)

Q1. You explained that domestic production has also been halted due to issues such as parts procurement. What is the status of pre-COVID-19 orders that have accumulated so far? Also, how is the dealer traffic situation?

A. It is true that orders for April and May are not progressing as expected. In April, the figure was 65% compared with the same month last year, and in May, it was around 60%. Due to the effect of the COVID-19, the movement of customers seems to be limited in various ways. Under these circumstances, we believe it is necessary to make efforts such as establishing a product introduction system online that makes it look as if customers are looking at the actual product.

At the moment, we have more than 100,000 units backlog. Until now, parts procurement from countries such as the Philippines and India has been stagnant, and we are unable to produce as much as we planned. However, as the parts supply is expected to recover from the end of this month we plan to produce planned volume from next month and will place efforts to eliminate backlog.

The announcement of state of emergency affected the number of visitors to our subsidiary dealers. In May, for example, the number of visitors dropped to about 25% from the previous year in the first week, but recovered to about 80% in the fourth week. From this point of view, we believe that it is necessary to create an environment in which customers can easily come to the store by routine ventilation and other measures at the dealership.

The domestic production of minicars and compact cars is expected to reach about 28,000 units in April and about 34,000 units in May, but plans call for a dramatic increase to about 60,000 units in June. From March to May, we could not produce as much as we wanted due to the delay in parts, but we planned to produce 60,000 units as we will have sufficient volume of parts in stock from June. If all goes well in July, we plan to produce 60,000 to 70,000 units, and we hope to eliminate backlog during the first half of the year.

(Impact of COVID-19: Automobile market in India)

Q2. Are there any measures to increase market share during the recovery phase of the market? What advantages does the company have over its competitors, such as BS6 compliance and financing schemes?

A. First of all, we are focusing on expanding our sales network in India. Currently, our company has more than 3,000 outlets throughout the country. In Japan, we have about 900 outlets. The population in India is 10 times larger than that of Japan, so India theoretically needs 9,000 outlets, which means that we still need 6,000 outlets more. In particular, instructions were given to establish small outlets to be

built mainly in rural areas, and although the numbers are steadily increasing, it is still far from enough.

As for product planning, our company focuses on small cars. We need to secure a 50% share in each of segments A, B, and C, so we believe that product planning is still insufficient. We place our efforts on these areas. In any case, our target of "Securing 50% market share in India" remain unchanged and we will steadily proceed to achieve the target.

On the other hand, the outlook for demand in India is not bright for the time being. The COVID-19 pandemic is expected to last longer and wider than expected beyond the impact on financial situation.

With regard to the impact of the introduction of BS6, we cannot say for certain because of the spread of COVID-19, but in the case of Maruti Suzuki, almost all models comply with BS6 regulations, so it is not our case that the vehicle cannot be supplied or sold. Currently, about 60% of outlets are in operation, so we would place efforts to gain sales, and gain advantage over the competitors.

(Impact of COVID-19: Changes in Demand Trends)

Q3. Do you see any structural changes in the Japanese and Indian markets? In particular, there is a view that demand for motorcycles will increase as personal mobility to reduce risk of infection. What do you think?

- A. In the United States, for example, reports say that use of ride-share has fallen by more than 90% in less than a month. In this sense, we believe that the shared mobility will not grow unless routine sanitation process would be effectively incorporated. There are options such as motorcycle, automobile, or personal mobility in terms of consideration of such sharing, what hardware can be devised for it, and also in terms of avoid using public transportation as much as possible. There's also the possibility that usage will shift from sharing to owning or leasing. However, as there are many undetermined factors on these issues, we would continue to closely monitor the market trend.

On the other hand, in terms of demand for motorcycles, it is true that there is a strong demand in Japan for 50cc and 125cc models to reduce risk of COVID-19. In Europe, such small-displacement motorcycles are attracting attention, so we are considering development of attractive products to meet such demand. Meanwhile, there is also a possibility that wearing a helmet will become a barrier to such demand, and some people may say "If so, I prefer a minicar", so we would like to monitor the market demand from such perspective as well.

(Impact of COVID-19: Future Investment)

Q4. How do you view fixed expenses such as capital expenditure and R&D expenses in the future, as business performance is deteriorating?

- A. We will continue to steadily advance capital expenditure and R&D expenses. In terms of plant investment, it is necessary to make a judgment based on market trends, but in terms of R&D, as our company also learned various lessons during

the financial crisis in 2008, we are confident that it is necessary to steadily advance product development that will satisfy customers after COVID-19.

For the time being, our only choice is to cut fixed costs and implement austerity measures. We believe there is definitely a demand for a product with good basic performance at affordable price. In world with a new standard of maintaining "social distance", we will monitor the changes in demand for automobiles, as well as to evaluate possible requirements from the aspect of hygiene, which has not been particularly in the needs of customers till now.

(Motorcycle business)

Q5. How do you want to manage the motorcycle business from now, which has shifted back from the Motorcycle Company to the Motorcycle Operations?

- A. Since the financial crisis in 2008, our company's motorcycle business has been in the red for nearly 10 years because development of new products had been suspended and we were unable to offer products that meet customer needs. The purpose of the Motorcycle Company was to establish profitable business on a stand-alone basis, by thoroughly managing costs including reduction of fixed costs and review of sales system. Although there are still some shortcomings, sharing of common platform among products has advanced to a certain level and we are about to renew our product line now.

Under the current situation, and in view of the new perspective of personal mobility as mentioned before, we considered that it would be advantageous to strengthen our ties with the automobile business and to work together with them again. By doing so, we hope to develop more unique products.

(Others)

Q6. What is the status of quality-related expenses in FY2019?

- A. Among the factors that affected operating income for the full year, the decrease in miscellaneous expenses contributed to an increase of 28.2 billion yen, and the effect of quality-related expenses is included herein. Compared with the previous fiscal year, the cumulative total of quality-related expenses up to the end of the third quarter (April - December) was a negative of 6.1 billion yen, but the full fiscal year turned to a positive of 24.3 billion yen, since the recording in the fourth quarter (January - March) of the previous fiscal year ran up. This means that improvement was more than 30 billion yen in the fourth quarter alone. The ratio of quality-related expenses to consolidated net sales for the full year improved to 1.4% from 1.9% in the same period of the previous fiscal year.

We will continue our "quality first" efforts so as not to cause any inconvenience to our customers.

Q7. What is the policy behind commemorative dividend in the midst of the so-called "cash is king"? Also, the dividend payout ratio became roughly 30%, but will it continue?

- A. While the current level of cash reserves has been maintained at a constant level, there is a commitment line of 300 billion yen secured for earthquake countermeasures and BCP countermeasures. Although it is difficult to predict how long the COVID-19 impact will last, we are making efforts to secure funds in hand by taking further measures to secure bank loans.

The company celebrated its 100th anniversary and we have simply added 11 yen to the ordinary dividend as commemorative dividend. The dividend policy for the future will be discussed in the full-year forecast and the new mid-term management plan, but we will make decision based on a comprehensive assessment of the current financial situation, the direction of global shareholder returns, and the needs of investors.

End