

Financial Results 3Q FY2019

Questions and answers in the briefing session for analysts

7 February 2020
SUZUKI MOTOR CORPORATION

(Domestic Automobile Business)

Q1: In 3Q (October-December), the domestic sales mix seems to have deteriorated significantly. Can you update us on the sales situation? Meanwhile, what are the market responses and incoming orders for the new Hustler?

A. Domestic net sales in the 3Q (October-December) decreased significantly by ¥ 34.3 billion year-on-year. The first half was almost the same level as the previous year, but this was the result of efforts to maintain sales and profits, such as reducing demo car leasing, as production was affected by the final inspection problem. However, in the second half of the year, sales of both mini and small cars were seriously hit by natural disasters such as typhoons and the consumption tax hike, leading to a significant decrease in sales.

The number of incoming orders fell significantly in October with the only exception of Jimny, but since November it has been gradually returning, so we will continue to make efforts to increase sales to the same level as the previous year.

On the other hand, production and shipment of the new Hustler was suspended from 24 January due to the problem of irregular noise from the engine, and the cause was being investigated. As it is not a safety issue, shipments have resumed for the vehicles with no problems since the 31st. As the production is being carefully checked, we would like to resume production soon.

Q2: There are new models of mini vehicles such as the Hustler, but there are no new compact cars. As the number of competitors increases, what is the profitability for compact car business in Japan?

A. It is true that the number of compact cars decreased significantly compared to mini vehicles, and the number of incoming orders is affected as well. We set the target of 120,000 units annual compact car sales, and we were focusing on the figure beyond a little while ago. But today, we are struggling to achieve more than 120,000 units. Since the budget for Support Car Subsidy has passed the Diet, we will firmly promote and sell vehicles equipped with such safety equipment.

(India business)

Q3: According to Maruti Suzuki, it seems that the current sales environment has improved to some extent. Is there any sign of actual bottom-out situation such as sales finance?

A. It is difficult to find a clear evidence of improvement of the economic situation in India. Loan utilization rate for Maruti Suzuki's new car buyers is 80%, of which 70% is bank loans, 30% is non-bank loans. Among bank loans, half is government banks and the other half is private-sector banks. Therefore, the financial situation affects our sales to some extent, and credit is still hard to pass. Since last fall, we asked more than 10 financial institutions to set up loans with no or reduced down payment and are making efforts.

We consider that there were other negative impacts on sales, such as raising insurance premiums, but the biggest issue was the compliance with BS6 emission regulations. We will minimize the price increase due to this and firmly appeal our models as environment-friendly cars. Unfortunately, the recently announced Union Budget did not include measures such as scrap incentives, but we are looking forward to improvement through reduction of income tax. In any case, Maruti Suzuki will strive to find potential demand on its own efforts, rather than just relying on such government measures.

Q4: Do you maintain the concept of 50% share in the Indian market? We note that discounts seem to be increasing significantly, how do you balance profitability and market share?

A. We are in the midst of drafting the new medium-term management plan, and "secure 50% market share in India" is the core part of the plan and the prime issue. However, with the Indian market having more and more new entrants, such concept can be quickly disrupted without continued efforts. So there is much to do on the contrary. In particular, we need to cooperate with dealers in developing and expanding sales network while training sales and service personnel takes time as well.

On the other hand, while the Modi administration is focusing on raising incomes in rural areas, it is also conceivable to create employment in small taxi businesses and create demand. In any case, we already have NEXA stores mainly in cities and rural outlets mainly in rural areas. In addition, we started to develop a slightly smaller outlet since last autumn. Going forward, we will steadily expand our sales and service network.

(Europe business)

Q5: What is the cost impact on 4Q (January to March) due to the strengthening of CO₂ regulations in Europe? You maintained the full-year forecast, but the difference cannot be all for the penalty amount, is it?

A. We believe that penalties should be recorded in 4Q (January to March). On the other hand, the full-year forecast of consolidated operating income of 200 billion yen announced last autumn does not take into account such penalty. However, even if it was included, 200 billion yen is the minimum target, and we do not consider there is no need to revise it.

We would like to draw your attention to the fact that since January this year, mild hybrid vehicles with 48V system have been launched in Europe for models such as Vitara and S-Cross, and we will continue to place efforts, including further electrification in the future. We have to refrain from disclosing the specific penalty amount assumed for the current term.

Also for the next period, as it relates closely to the model mix and future product plans, we refrain from making detailed comments.

(Others)

Q6: What are the factors that have caused the change in the sales composition, etc. in 3Q (October-December) period alone?

A. Of the change in the sales composition in 3Q (October-December), roughly half of the decrease of 23 billion yen is due to a decrease in sales in Japan. As mentioned above, despite the decrease in production volume in April-September, sales and inventory efforts helped maintain sales, but sales volume after October fell sharply. The other half of sales decline is in Europe and Asia.

Q7: On the contrary, what makes the expenses for 3Q (October-December) alone, which is a factor of increasing profit by nearly 10 billion yen?

A. Various expenses for the nine months (April-December) were the cause for the profit down by ¥ 5.0 billion, and amongst the expenses, quality related expenses account for profit decrease by ¥ 6.1 billion, which is mainly the factor. On the other hand, in Q3 (October-December) alone, various expenses contributed to increase of profit by 9.9 billion yen, of which quality-related expenses were 7.7 billion yen. For your reference, in the current period, consolidated sales decreased, while total quality-related expenses increased slightly, resulting in 1.6% of sales.

We are working to normalize the issues of final inspection by the end of this fiscal year. In order to supervise overall quality, we have also implemented a system reform of the Customer Quality and Service Departments through an organizational revision on 16 January to ensure early detection, recurrence prevention, and quality. We strongly believe that quality issues for future models must be reduced.

Q8: Progress of R&D expenses against budget seems low. Should this be considered as being controlled, or is it result of not being able to recruit sufficient engineers, or is it being restricted due to reduced sales?

A. R&D expenses for the first nine months of this fiscal year (April-December) were 105.6 billion yen, compared to 111.4 billion yen in the same period of the previous year, a decrease of about 5.8 billion yen. Looking at the full year, the forecast for the current term is 170 billion yen, an increase of 11.9 billion yen from 158.1 billion yen in the previous year. Naturally, this assumes a new technology including CASE, but in 4Q (January to March) alone, the calculated amount would be 64.4 billion yen, which is a considerable increase compared to the previous term, and we understand your concerns on this point. However, R&D expenses do not incur 25% each quarter, and as seen in the past, there is a tendency for figures to be biased in 4Q (January to March).

In addition, there are alliances or collaborations with Toyota, so we will work on new environmental and safety technologies while improving existing technologies, so just because profits are particularly severe, it does not mean that it is suppressed.

Q9: What is your internal assessment of consolidated operating income of 51.8 billion yen and operating income margin of 6% in 3Q (October-December)?

A. This is exactly the focus of the next medium-term management plan currently being formulated or the budget for the next fiscal year. To be honest, it is necessary to re-examine whether the movement (declining trend) for the past year is temporary or that there are structural issues remaining within the Group. For example, quality-related costs which we are struggling to reduce or the issues that relates to the fact that we are specialized in small cars, that is to say pricing strategy, and as a bigger issue, capability to reduce cost are the key issues. In that sense, we have to consider ways to generate profits while pursuing sales and volume to take advantage of volume. We understand that it is difficult, but we need to strengthen our position in India, and to eye on African market in the long run. In the next medium-term business plan, we will try to find out how far we can increase profits while keeping these factors in scope.

Q10: What are the effects of coronavirus?

A. We withdrew from China market for automobiles, with small license production in Chongqing. We have production and sales of motorcycles, but we have no factories in Wuhan or Hubei Province. We have eight expatriates who have temporarily returned to Japan before the Chinese New Year, and are currently paying close attention to the situation.

The operation of each company's factory will be extended slightly in February after the Chinese New Year to around 10 February, but it may be further delayed depending on the situation. Our suppliers are not so many, including automobiles and motorcycles, but we are closely watching the situation every day.