Financial Results 3Q FY2020
Questions and answers in the briefing session for analysts

February 5, 2021
Suzuki Motor Corporation

(Electrification)

Q1: Recently, ultra-compact mobility and ultra-low-price EVs in China are being talked about as being a threat to mini cars. How do you plan to compete with them, as one of the most cost competitive companies?

A: Prime Minister Suga's speech about carbon neutral has given rise to a growing number of challenges, as we seek to reduce CO2 emissions in all sectors and domains in a way that is different from conventional regulatory measures. Up to now, Suzuki's electrification focuses on mild hybrids, but we think it is necessary to step up to so-called strong hybrids and accelerate the development of PHVs and EVs. We are examining how much of this will be included in the new mid-term management plan to be drawn up by the end of this fiscal year.

In particular, we are specialized in small cars, and small cars themselves are considered to be resource-saving and environmentally friendly in terms of LCA (life cycle assessment). While taking this as our "appealing point", we will work hard to advance technology, sales and production.

The biggest challenge is batteries. In particular, when speaking about mini cars, a price range that takes economic efficiency is required, so it is not enough to simply develop a product, but it must accompany a realistic price. In that sense, small, light and inexpensive mini cars will require batteries that satisfy these requirements. However, suzuki alone cannot make breakthroughs in this area, and it is necessary for all other Japanese companies to strive for such breakthroughs. The Carbon Neutral Action Plan by the Japanese government states that the development of automotive batteries should be tackled jointly by the public and private sectors. We eagerly request the development of such batteries, and we will speed up preparations so that they can be commercialized as soon as they are developed.

Q2: While we agree with the view that the penetration of EVs in India is still far considering the infrastructure status, what is the direction of Suzuki's Hybrid policy, including collaboration with Toyota?

A: As we mentioned earlier, we will first focus on the mild hybrids, but we are also working on so-called strong hybrids. However, as part of our business alliance with Toyota, who already has cutting-edge hybrid technology, we are continuing to further develop this technology while receiving various advice.

Therefore, regarding the global hybrids policy in the future, of course, we have

India in mind, but we are not limiting the countries in particular, and we are focusing on the development of small, ultra-high-efficiency engines while making the most of the advantages of the tie-up with Toyota. In short, the combination of electric power and internal combustion engine is important, and the burden of both can be reduced by improving both.

Furthermore, we believe that the most important challenge for our company's engineering staff is to thoroughly refine and adapt technologies other than those for powertrains and hybrid systems, such as weight reduction technologies based on the "Smaller, Fewer, Lighter, Shorter, and Neater" concept cultivated by our company.

(Domestic operations)

Q3: What is the latest demand trend in Japan?

A: Domestic demand is gradually recovering. For example, the number of visits to dealers has been increasing every month. Now, it is a matter of whether that will become sales contracts, and they are also showing signs of picking up, thanks to brisk models like Hustler and Spacia. In fact, orders for Hustler and the new Solio exceeded their monthly sales targets (Hustler: 6,000; Solio: 4,000).

On the other hand, in domestic sales, we began to engage in online enquiries. The new system of connecting a large monitor (examples of car body colors and equipment installation) online so that business negotiations to be conducted in the same way as if the customer had visited the dealer, is gradually installed to dealers. However, in the end, customers may want to see the car before making final decision, so we are taking all possible measures to prevent infection at the sales site, and we are flexibly responding to customer requests and demand trends.

In addition, the continuation of the Support Car Subsidy has been decided, and the sales field is making efforts to recover steadily by making good use of them.

(Business in India)

Q4: Suzuki maintained the full-year forecast for India, but isn't the latest sales trend picking up? Also, is the increase in raw material prices reflected in the price increase?

A: Cumulative 3Q demand for Indian automobiles (April - December) was 83.9% year-on-year, while demand for Maruti Suzuki was 81.6%. The recovery trend continues, and January sales figures were also very good. However, COVID-19 cases remain as world’s second largest and still increasing, and although it is desirable that the procurement of chips and other components will not affect production in India, there are still uncertain factors in March and April. In light of this uncertainty, we have left our previous full-year forecasts unchanged, including the number of units in India. The new Federal Budget in India was announced, which includes the scrapping policy for automobiles. It may not be effective immediately, but we hope the economy will recover as a whole.

Although it is difficult to pass on the surging prices of raw materials, we will closely cooperate with our suppliers while preparing for future increases in chip prices. Also, regarding the price increase so far, although there were some unfinished price increases that should have been done last year due to lockdown, etc., it was implemented in January and seems to be accepted by the market.

Q5: If demand returns to its peak, what is the current production structure and profitability? And what are the measures to complement the discontinuation of high-profit diesel due to non compliance with BS6 emission regulation?

A: The start of the Gujarat C plant, which has been delayed until now, is maintained at the latest plan from April. Once the plant operates properly, India's total production capacity would be 2.25 million units per year. The next step will be how to allocate the actual products to these capabilities. By further developing sales networks in rural areas where demand is expected to recover ahead of other areas, and by increasing the number of salespersons and other personnel, we aim to maintain current 50% market share nationwide. In addition, while it is necessary to assess the future energy policy of India, we consider it is essential to promote electrification. As for diesel alternative, we offer hybrid and CNG vehicles. It is true that the cost increase and securing profitability in this respect is also a challenge. We would like to ask you to wait until the mid-term management plan is announced for how to take these into account.

Q6: Suzuki announced the start of production of the new Jimny in India. In view of the current supply shortage, what is the concept of the global allocation of this car?

A: The Jimny, which underwent a model change in 2018, received a surprising number of inquiries in Japan, and has been well received globally as well. With a large backlog of orders and since production cannot keep up with growing demand, we decided to start production in India to strengthen our supply system. India, like Japan, has long been regarded as an important export hub, particularly to areas west of India, Africa and Latin America. As Indian-made vehicles have already been shipped to Latin America, the Middle East, Africa, and some of Asian countries, export of Jimny will occur having those destinations in mind.

(ASEAN business)

Q7: Why did you choose to produce the new Jimny overseas in India instead of Indonesia or Thailand, where the operating rates are low? What measures will be taken to expand production at the ASEAN plants in the future?

A: The primary reason to choose India as overseas production of the Jimny is that it is closer to Latin America and Africa, where it exports. As we have already mentioned, Indonesia needs to be repositioned as production base for Indonesia and ASEAN countries.

We believe it is necessary to fully complement Thailand and change the functions of each site, including the division of roles, consolidation of functions as needed, and allocation of production models. The mid-term management plan is also reviewing these points.

(Motorcycle business)

Q8: Suzuki achieved profitability in the 3Q (October - December). What is your assessment of the 3Q results and future profitability?

A: We need to aggressively introduce more "unique" Suzuki models, such as the new "Hayabusa" and, in doing so, we should focus on profitability.

Up until now, the lineup was more or less something-for-everyone, and development costs and expenses have not been rationalized. In this fiscal year, we will thoroughly review these aspects, and we hope to link them to profitability. In this fiscal year, we are thoroughly reviewing these aspects, and we hope to link them to profitability. At least in the second half of the fiscal year, we have been making efforts to return to profitability, and we are making internal efforts to make this a business that can achieve a steady profit margin in the next fiscal year and beyond.

(Miscellaneous)

Q9: Consolidated operating income has become stable at more than ¥50 billion on a quarterly basis. Do you have any specific factors on operating income?

A: In 3Q (October - December), there were no particular one-time factors in the increase or decrease in operating income. Operating income increase of +12.1 billion yen consisted of a decrease in miscellaneous expenses +10.4 billion yen, a decrease in costs +6.5 billion yen, and a decrease in depreciation +4.3 billion yen. Of the 10.4 billion yen decrease in miscellaneous expenses, the decrease in sales expenses linked to the decrease in sales, i.e., decreases in advertising expenses, sales incentives, and sales promotion expenses, accounted for 7.5 billion yen. Changes in the ratio of quality-related expenses to sales were 0.8% in the 1Q (April - June), 0.1% in the 2Q (July - September), 0.6% in the 3Q (October - December), and 0.4% in the (April - December).

Changes in the sales mix, etc., were limited to +800 million yen, but this included the impact of raw materials of -7.6 billion yen, which is our future concern.

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