

Financial results 3Q FY2022

Questions and answers in the briefing session for analysts

February 7, 2023
Suzuki Motor Corporation

(Growth Strategy for FY2030 (Announced on Jan. 26, 2023))

Q1: In the recently announced growth strategy, the company set a high sales target of 7 trillion yen, while it set a low operating margin target of 5%. Inside the company, what discussions were held regionwise such as India and Japan?

A. We have set the number of vehicle sales at 4.5 million ~ 5 million in fiscal 2030. While the overall Indian market is expected to be 6 million units, we put sale assumption at 3 million units. Sales in Japan are at around 800,000 units, while sales in Europe are at 200,000 ~ 300,000. Those numbers are built on the assumption of a 50% market share in India, and a 30% share of minicars in Japan. The president gave a profit forecast of about 5%. That's a minimum achievement, and we have to pile up the profit even more.

As there are also discussions of electrification and BEV adoption, we put Indian powertrain ratio of BEV at 15%. There are many unclear points, such as factors for cost increases, but we will take on these challenges while thoroughly studying how to secure profits, including future cross-industry exchanges and collaboration with startups.

With India in particular, we need to examine how we will maintain or expand their current revenue levels. At the same time, the cost increase associated with electrification is significant, so it is important to balance this with the increase in volume. As mentioned by the president at the briefing, for the Indian market, our policy is not only to shift to BEV, but also to incorporate multiple options in fiscal year 2030.

The growth policy for biogas and biofuels mentioned in the recent announcement of the Indian government's Union Budget 2023-24 overlapped considerably with the growth strategy announced by Suzuki. Therefore, we would like to secure profitability while strengthening such areas.

Q2: The cumulative R&D investment of 2 trillion yen in the growth strategy is calculated to increase from the current 200 billion yen annual base to 250 billion yen, but can't you control your spending through alliances with other companies?

A. As described in the materials for the growth strategy briefing, there are various themes in technology, such as future technologies, advanced technologies, and mass production technologies. Suzuki in Japan, including the Yokohama Lab., is in charge of these. Maruti Suzuki's engineering team will focus on mass production technology. Moreover, the newly established Indian R&D center, which is 100% owned by Suzuki, is expected to raise the level of overall technology, including advanced development. Of course, we will reinforce that, including partnerships with Toyota and others.

As for the cumulative investment of 4.5 trillion yen, it is necessary to invest in batteries or factories for them during the process of electrification, as well as various other investments, including factory investment in mass-production vehicles. We will continue to focus on this in the future, as we work to achieve our goals for fiscal 2030.

(Impact of Parts Shortages Including Semiconductors)

Q3: The company revised down its full-year global production of automobiles by 94,000 units, but what is the image of a production cut from the internal plan? What are the effect on existing backlog?

A. We currently have nearly 190,000 backlogs in Japan. India also has close to 360,000 units, and we are committed to coordinating with our suppliers to gradually recover from a situation where there is an insufficient supply of semiconductors or a sudden shortage of components, through repeated dialogue with them. Both India and Japan continue to face a similar situation, in which both have not always produced enough of the models they want to produce.

Q4: Although the impact of the production cut is seen at minus 94,000 units, volume change seems to contribute to profit among the operational profit in the full year forecast. Does it mean that only production is affected and the impact on shipping is limited?

A. As you pointed out, the impact on the change in sales mix and other factors is expected to be small, with sales of - 18,000 units compared to - 94,000 units in production. This is partly due to the fact that there was a planned gap between production and sales due to the fact that inventory was already quite low, and partly due to the fact that the time difference between production and sales, for example, sales of cars to be produced in the second half of March, does not necessarily translate into sales in the current period. Moreover, there is naturally a gap between wholesale and retail sales. In this context, we are working to minimize the impact on sales by making adjustments, including inventory, while selling cars that sell well. On the other hand, of course, we are making every effort to minimize the risk of semiconductors procurement, while gradually reducing the impact on the number of production units, so although there is a gap between production and sales, we would like to minimize the impact on profits and losses as much as possible.

We also believe that the impact of production cuts will be greater in Japan, but it is difficult to foresee because there are also concerns in India, where the volume is large. It's worth noting that this figure is based on a worst-case scenario, so we'll actually try to improve it.

Q5: Are the effects of the semiconductor and car carrier shortages improving compared to three months ago?

A. With regard to semiconductor procurement, one year has passed since the Procurement Strategy division was established, and the communication system with suppliers, including the officer in charge, has been considerably strengthened. It turned out that we had a lot to reflect on and for the first time in the dialogue, we were able to share the circumstances of the semiconductor industry itself, and the circumstances of the suppliers. We have no choice but to walk on our own feet to gather information, and we are getting pretty good at that. In addition, we believe that the ability to procure from the supplier's point of view, such as implementing orders over a long period of time or taking back all orders once placed, has improved.

However, there are still some uncertain situations around the world, such as the allocation of consumer and automotive products in the semiconductor industry, so we will do what we can on the part of the automobile industry, while also obtaining such information. Through such communication, improvements are being made, including the early implementation of alternative procurement.

On the other hand, the problem of the shortage of car carriers proved that it was not easy to increase the number of ships when the officers in charge visited the shipping companies and inquired about the situation. Executives continue to lead steady efforts, such as placing long-term orders. We are just beginning to see how we can secure vessels for the next fiscal year.

(Domestic business)

Q6: Regarding cost inflation, the impression is that price revisions are going smoothly overseas, but what is your view on price increases in Japan?

A. It is true that in Japan, too, parts suppliers as well as energy providers are requesting price increases. Minicars, on the other hand, are used as daily transportation in rural areas, and we have to be a little more careful if we want to raise prices as we do overseas.

In the case of changes associated with the introduction of new laws and regulations, we believe that price increases are necessary because this is a case of necessity.

For the time being, we believe it is necessary to make corporate efforts, such as making a strong push to eliminate waste through DX even for internal cost reductions, and we believe that the only way forward is through a comprehensive strategy that includes cost reduction efforts and efforts, including communication with suppliers.

(India business)

Q7: What is the latest update on demand and interest rate trends in the Indian market?

Any change from the previous quarter? Also, can we expect growth for the next fiscal year?

A. On February 1, the Union Budget 2023-24 for India was announced, and it was a large budget of 45 trillion rupees, 14% more than the previous year. As for the contents of the budget, I believe that it was very industrial-friendly and motivated to stimulate the economy, and that the budget was backed by a growth strategy.

In the automotive sector in particular, there are active support measures for various capital investments and localization associated with electrification and BEV transformation, as well as references not only to BEV transformation but also to a wide range of multiple energy options, and measures to encourage growth into biogas, biofuels, etc. While this is within our assumptions, we have included and evaluated related infrastructure investments.

Based on current sales figures, the overall market posted its biggest increase ever in January and that the Indian auto market will continue to grow. In fact, in calendar year 2022, India overtook Japan to become the world's third-largest market of automobiles, much to Japan's dismay. In response, many on the ground say that India will grow much more. Despite all the changes and concerns that the world is hearing in 2023, we are hopeful that India will be able to maintain some level of growth. Although the Bank of India is expected to raise the key interest rate* again soon, we presume that the situation will not lead to a rapid cooling of the economy.

*The Indian government raised policy rate from 6.25% to 6.5% on February 8, after Suzuki's financial results were released.

Q8: With two new models added to the booming new SUV lineup, can we expect a boost in earnings next fiscal?

Also, how are customer reactions to the new SUV and trends in orders and bookings?

A. With the new Brezza and Grand Vitara introduced last year, as well as the recently announced Fronx and Jimny 5-Door, we will continue our efforts to increase profitability in the next fiscal year. There are concerns about production constraints due to the shortage of semiconductors, but we will continue our efforts to produce and sell new vehicles.

The existing backlog of Brezza and Grand Vitara totals 120,000 ~ 130,000 units. In other words, new SUVs account for slightly more than 30% of the total backlog of 360,000 vehicles. At the same time, there is strong demand for CNG vehicles, which we focus on, and CNG vehicles account for 30% of the backlog.

Production of Fronx and Jimny 5-Door, which were just announced in January, is scheduled to begin in the spring of this year and introduce to the market, but even though no specific price has been announced yet, we have already received 15,000 ~ 16,000 bookings for both models,

and we feel that the customer response has been very good. We hope that the launch of mass production and price announcements in the future will provide further momentum.

(Motorcycle and marine business)

Q9: The image of the motorcycle business is that it will be profitable mainly in developed countries, but is high profitability sustainable amid fears of an economic slowdown in developed countries? At the same time, marine business focuses its sales in the United States. Their production capacity was increased by shifting factory operations to work 2 shifts, but what are the thoughts about market trend?

A. At one time, our company's motorcycle business tended to have a big dip in revenue, especially in the third quarter. Since the third quarter of the fiscal year ending March 2021, basic efforts such as inventory reduction and price hikes in developed countries, as well as reforms to keep earnings, have advanced. In addition, improved earnings in the Indian motorcycle industry helped the company post solid profits in 3Q. We need to work hard to regain our market share, but it is a strength that we have basically improved profit profile.

In the marine business, demand for small outboard motors in the overall market appears to have calmed from the high demand during the pandemic, but demand for large outboard motors above 150 horsepower, mainly from the wealthy, remains strong. The level of backlog is also high, and we will speed up supply by taking flexible measures, such as switching from small- to medium-sized production to large-sized production, in addition to introducing two shifts.

In our growth strategy, we also want to come up with ideas for how the synergy between automobiles, motorcycles and marine businesses can be combined to create more and more unique Suzuki characteristics.

(Miscellaneous)

Q10: Is there a transient factor in the high earnings in 3Q (Oct-Dec)? In contrast, 4Q (Jan-Mar) earnings look quite conservative. In particular, what is the background for making a large estimate of the increase in various expenses in 4Q (Jan-Mar)?

A. The strong earnings in the third quarter (Oct-Dec) were due to higher sales, especially in India, and price hike in overseas, as well as yen depreciation. The only thing that can be said to be transient is exchange rates, and nothing else. The impact of the foreign exchange rate, although the yen has been on the rise since the end of last year, contributed significantly to the profit growth of 20.6 billion yen in 1Q, 28.9 billion yen in 2Q and 31.6 billion yen in 3Q.

On the other hand, the company's profit for the fourth quarter (Jan-Mar), which was revised this time, is small, but we do not expect any particular transient factors here. In addition to fully factoring in the risk of the impact of the current semiconductor shortage, factors such as foreign exchange rates, various expenses and R&D expenses are being reviewed. In fact, due to the recent appreciation of the yen, the foreign exchange rate of + 30 billion in 3Q is expected to almost disappear in 4Q, and the R&D expenses is expected to increase by 11.4 billion yen from 3Q to 58 billion yen in 4Q due to the difference from the annual budget. Since various expenses are also expected to increase by nearly 20 billion yen compared to the third quarter, the combined various expenses are expected to decrease profits by 60 billion yen compared to the third quarter, falling from 100 billion yen to the 40 billion yen level.

The actual number of units will increase in 4Q rather than 3Q*, so we expect a positive figure for that, but other than factoring in the risk of a semiconductor shortage as much as possible, we have not factored in any particular negative factors or slowdowns.

*Global sales: 747,000 units in 3Q (Oct-Dec), revised downward to forecast of 812,000 units in 4Q (Jan-Mar).

Q11: What is your view on the impact of cost inflation, especially on logistics costs and raw material costs for the coming fiscal year?

A. The impact of various expenses in the fourth quarter is a factor in the decline in earnings by nearly 20 billion yen compared to the third quarter, but it tends to be larger in the fourth quarter. Shipping costs, in particular, are certain to rise. Quality-related expenses also happened to be lower in 3Q, but are expected to increase slightly in 4Q.

In addition, raw material prices are still showing a year-on-year decline in profits in the third quarter. In the first quarter, 1/3 of the total impact was said to be in India and the rest in Japan, but since then, India has been improving and of the total raw material impact of - 84.4 billion yen in April-December, more than half was in Japan. For Suzuki Japan alone, steel prices have calmed down a bit, but of course they are still quite high quarter-on-quarter.

The improving trend of steel prices in India was mentioned in the financial results briefing in India, and if the yen appreciates further, the corresponding improvement in Japan may be expected, but on the other hand, it is possible that rising demand will affect raw material prices once again following the lifting of the zero Covid-19 policy in China, so we will keep a close watch on that.

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