Financial results 2Q FY2023
Questions and answers in the briefing session for analysts

November 7, 2023
Suzuki Motor Corporation

(Domestic automobile business)

Q1: Does the domestic price increase not cover the increase in raw materials? Also, what is your view on future price increases, considering market perception?

A. Basically, we want to secure a certain profit margin, and we would like to implement it on the occasion of minor changes and full model changes. Please understand that this is not a case of making exorbitant profits, but is part of efforts to absorb increases in raw materials and employee wages.
In the first half of the fiscal year under review, specific price increases in Japan and India were 11.7 billion yen (including export through triangular trade) and 6 billion yen, respectively, compared with the same period of the previous fiscal year, and we acknowledge effect of price increases to certain extent.

Q2: How do you see the market environment for mini vehicles?

A. In Japan, not only the automobile market but also prices are rising markedly in general, and customers' lives are becoming difficult. Therefore, it is somewhat likely that customers are hesitating to spend money to replace cars. On the other hand, as petrol prices rise, fuel-efficient mini vehicles are becoming candidates for replacement.
In providing cars that are closely related to daily life, we will not only prepare the diverse product offering, but also offer comprehensive care in the field of sales and service. For example, in the face of rising petrol prices, efforts must be made to educate customers through dealerships that driving maneuver affects fuel-efficiency. For example, when comparing fuel consumption at 80 km/h, 100 km/h, and 120 km/h on highways, data show that driving 80 km/h improves 22~23% compared to 100 km/h and 44~45% compared to 120 km/h. We will also encourage use of cars by making the load as light as possible, not repeating acceleration and deceleration, and adjusting the tire pressure. We would also like to link these activities to contribute to increase sales of mini vehicles.

(India automobile business)

Q3: With the recent backlogs down to 250,000 units, did the demand, including entry cars weaken?

A. This year's festive shopping season will continue throughout the week (Diwali on November 12), and reports indicate that sales are also strong. The company sales rose by double digits in the current fiscal year, recovering from a decline in the year before last due to the COVID-19 pandemic. However, due to the return of production from the improvement in the supply of semiconductors, backlogs themselves, including those of other companies, are on a downward trend and the market is on the way to normalizing.
Therefore, although we do not expect the same large growth as in the previous fiscal year or this fiscal year, we expect continued solid growth, and we will continue to introduce new vehicles and aim to increase market share.
While it is true that sales of small cars are on a downward trend as the market shift to SUVs, the cost increase caused by stricter environmental regulations has become a relative burden for small cars, which have low price tags. We believe it is important to reduce costs while planning new products in the future, and also to promote customer understanding of such products through communication.

Q4: Can the strong financial results for the second quarter (July-September) continue?

A. We do not believe that Maruti Suzuki's earnings were too high in the second quarter (July-September), but it is also true that the market has entered a partial adjustment phase. However, as you know, India has a general election coming up next year (April to May 2024), so we can expect the government's economic measures at least until the first half of next year.

As I explained at the JMS conference the other day, I believe that the Indian automotive industry as a whole will basically grow upward over the next 25 years, albeit with some bumps in the road, and we will continue to invest in factories to keep up with the market. In fact, the new plant is scheduled to start operating in the spring of 2025, and we expect the economy to pick up at that time.

Q5: What is the competitive environment in India, such as SUVs and demand for small and medium-sized vehicles?

A. We are aware of the increased competition for SUVs. We cannot disclose future product plans, but are preparing new products. In addition, we are working to improve profitability, including product launches, pricing, and after-sales, while considering how to raise overall revenue.

As you pointed out, midsize and larger SUVs with a total length of more than 4 meters tend to be more popular. However, as the market matures, we believe that there will be more variety in customer preferences. Therefore, it is our view that we should plan not only large models but also small models.

Fortunately, we have an alliance with Toyota, so we would like to expand our product lineup in the future, including the option of supply from Toyota for particularly large models.

(Marine business)

Q6: The outboard motor market is slowing down for small and medium size models. Are these temporary production adjustments responsible for the decline in marine business profits? Do you expect that to continue for the foreseeable future?

A. In the outboard motor market, in addition to the main North American market, the leisure market including Europe has been declining. However, there are views that in the medium to long term, the impact is expected to be minimal if future demand growth in Asia is taken into account, so we will continue to monitor market trends.

We are certainly adjusting production now, but for the next fiscal year, we are once again assessing the inventory status of boat builders and trying to understand the overall sales status. Based on such information, we would like to determine the production volume for the next fiscal year.

In our product group, marine business is the first to be affected by the economy, but we will closely monitor and respond to the trend including automobiles and motorcycles as well.

(Electrification)

Q7: There have been reports that India will be a strategic base for global EV expansion of Suzuki. I would like to ask again about the concept of EV production in the Growth Strategy for 2030?

A. We are indeed preparing to commence EV production in India. But whether or not it will become a global production base is a separate issue. EV batteries are heavy and difficult to transport, so they basically need to be locally produced and consumed. For example, the EV for mini vehicles should be produced in Japan, but this is not a clear decision. We would like to assess the status of EV adoption in each country and determine how much demand are there.

On the other hand, as mentioned in JMS, Suzuki has no intention of integrating into EV. Practical use of biofuels using cow dung is also considered to be an effective option for carbon neutrality in the future. We want to go with a multi-pathway policy while offering right mobile solution for the right people.

(Consolidated financial results)

Q8: What is the breakdown of fixed costs and material price changes among the factors for profit and loss of the upward revision to the earnings forecast? At the beginning of the fiscal year, it was said that the annual fixed cost increase of 80 billion yen would be fully used up, but what happened?

A. Regarding the increase and decrease in raw material prices, prices of precious metals, steel materials, aluminum, etc. were on a downward trend in the first half of the fiscal year, but in Japan, the effect of the increase in the prices of self-supplied materials from suppliers has continuously affected since the latter half of the previous fiscal year. On the other hand, in India, the impact of raw materials on decreased prices of precious metals and steel materials contributed to profit increase by 3.5 billion yen in the first half of the fiscal year. We reviewed the situation and reduced the impact of raw materials for the full year from -20 billion yen to -5 billion yen.

As for the increase in fixed costs, we revised the initial forecast of -80 billion yen for the full year to -70 billion yen. This is also the result of reducing the amount that can be reduced in the budget for the second half based on the results of the first half.

If we add up the upward revision made in the first quarter and the current revision, the total for the first half was an upward revision of 100 billion yen in consolidated operating income from the initial forecast. The main component is the impact of exchange rate of +80 billion yen, and others include volume + change in sales composition as 0 net, impact of raw materials of +15 billion yen, and cost reduction of -5 billion yen. We will continue to review areas that need to be reviewed on a quarterly basis and make firm earnings forecasts.

Q9: The forecast for full-year production has been revised downward. Does this mean that Pakistan's production cuts have had an impact?

A. We would like to explain the background of the reduction in the full-year production forecast. As a result of the semiconductor shortage in India in particular, we have increased production of vehicles that are not temporarily affected by the shortage, and the inventory of such vehicles has increased. Currently, we are increasing the production of vehicles affected by the semiconductor shortage as a result of the ease of the semiconductor shortage, and we have also reduced the production of vehicles that had accumulated inventory. As a result, we have lowered our full-year production forecast.

Therefore, the current situation is that there is a discrepancy between production and sales volume assumptions because we will be selling vehicles that have intentionally accumulated inventory while lowering global production volume.

(Shareholder returns)

Q10: Why is the annual dividend forecast changed to "TBD" from "100 yen or more" at the beginning of the fiscal year? Is it something related with the transfer of the Gujarat plant to Maruti Suzuki?

A. As the global situation, including the situation in Palestine as well as in Ukraine, has become increasingly uncertain, the main reason is the rise in risk factors. The depreciation of the yen, which was one of the driving forces behind the upward revision of earnings forecasts, may reverse in the future, and the effects of economic downturns in Europe and the United States, trends in raw material prices, and the rise in global oil prices should also be taken into account. Behind the "TBD", there is no relationship with Gujarat plant as you pointed out.

Q11: Is it correct to understand that the company is undecided on the assumption that it will maintain a full-year dividend of 100 yen or more?

A. That's right. In addition to the current difficult situation, the future is very difficult to read, but there is no change in the company's intention toward achieving a full-year dividend of 100 yen or more.

The company's basic policy for shareholder returns is not to reduce dividends. We believe that shareholder returns are a really important initiative, so we will place efforts not to disappoint you.

Q12: The term "total payout ratio" has been newly introduced in relation to shareholder returns. Will the share repurchase conducted at the beginning of the period be continued?

A. At the presentation of the financial results, we stated that the total payout ratio will be a part of the study. The acquisition of 20 billion yen of treasury stock announced at the end of the previous fiscal year has already completed. Although there is currently no clear policy on whether it will continue to be implemented in the future, it will continue to be considered.

Q13: The previous target for a shareholder returns was a dividend payout ratio of 30%. Do you mean to aim for a total payout ratio of 40%?

A. There is currently no clear target for the total payout ratio. As you pointed out, we have set a dividend payout ratio target of 30% for the final year of our medium-term management plan. On the other hand, as far as industry trends are concerned, we understand that the average total payout ratio of other companies is 40% as a guideline. At present, we are in the stage of internal discussions including those points.

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