

Financial results 2Q FY2024

Questions and answers in the briefing session for analysts

November 8, 2024
Suzuki Motor Corporation

(Domestic automobile business)

Q1: The level of profitability seems to have increased dramatically. What do you think about the sustainability of the Japanese business?

I would also like to know about price competition and demand for mini vehicles.

A. With regard to revenue levels, in addition to reviewing prices, we are working to improve earning power and individual power through the personnel system reform from April. We organize the skills required for each position, work to achieve them, and create an education system to support them. By improving the flow of information and speeding up the sharing of information within the company, we will strengthen our ability to earn profit.

Speaking about the introduction of Fronx in Japan, we conducted a variety of pre-launch initiatives such as test-drive event for journalists, exhibit of the actual Fronx at Hamamatsu Station, and utilization of social media and YouTube, all of which were first attempt for us. As a result, we received more than 10,000 orders at the time of launch on October 16, and also, we were able to attract customers who had not been interested in Suzuki vehicles, as well as young people, to our dealerships. From now on, in terms of sales, it is necessary to build selling power in the sense of sustainability of domestic business. Although not limited to automobiles, as the Chinese manufacturers' products are becoming as good as those of Japan in terms of performance, quality and appearance, we need to improve to a sales structure that don't rely on subsidies. We would like to improve our earning power by applying this example of Fronx not only to automobiles but also to motorcycles and marine businesses.

As for orders, each model has a certain volume of back orders, so we will improve our ability to produce them. Meanwhile, we want to increase profitability by strengthening sales capacity by means of both passive and aggressive initiatives so as not to reduce the number of orders.

Q2: How much has the profitability of domestic businesses, excluding exports, improved since you started raising prices in Japan?

A. The company has not disclosed specific figures for domestic earnings excluding exports, so this is just an image. In the domestic automobile business, there were periods, namely previous fiscal year and 2 years ago, in which production and sales did not go as expected due to the COVID-19 pandemic and semiconductor shortages. Now, production has stabilized, and sales are picking up. On the other hand, it is true that there was a difficult situation in terms of costs, such as an increase in raw materials, energy costs and R&D expenses, which made it difficult for products alone to generate profits and only when combined with the profits from spare parts and wholesale distributors, we were not in a deficit. At present, the situation has improved considerably because the production has stabilized, new models are gaining popularity, and the effects of improved mix and price increases have been brought about.

(India automobile business)

Q3: Sales during the festival season seemed to be strong, but what is the retail situation, regional trends, and the full-year sales forecast?

A. There are two peaks of retail sales in India in a year, one is the festive period before Diwali and the other is December in advance of the year model change. Since the supply side only has fixed production capacity, every manufacturer calculates how to build up inventory in anticipation of those sales seasons. The retail demand in the first half of the year was weaker than expected and inventories increased. Maruti Suzuki made production adjustments as soon as it realized. In October, retail sales increased by more than 20% from the previous year due to Diwali demand, and we were able to bring inventory to an appropriate level. In the Diwali season alone, retail sales increased slightly more than 10% year-on-year.

Region wise, the southern part of the country was affected by disaster and it was relatively slow, but I think the retail sales have recovered during this festive season. However, we are a little behind the plan in the first half due to production adjustments, etc., so we would like to achieve a level of slightly above the previous year in wholesale sales for the full year. In the run-up to December, the Dzire will undergo a full model change in mid-November, and the immediate interest is how much retail sales will be accumulated during the year-end sales season while accumulating wholesales. There will also be an Auto Expo in January next year, so I expect there will be a lot of excitement. In the next fiscal year, we will launch new cars, so we would like to take initiatives that will stimulate demand and put us on a growth path.

Q4: Does the situation of banks and non-banks have any impact on finance?

A. In the case of India, we deal with customer loans through business tie-ups with local banks and non-banks including a Toyota finance company.

I remember that there was a major problem in the non-bank sector in around 2019, but it has improved in many ways since then, and I understand that it is not directly driving down demand as a negative factor. As for the banking sector, there were problems such as non-performing loans in 2019, but since then there have been very strict regulations, so I understand that this will not be a major negative factor. On the contrary, I understand that the financial environment has shown slight improvement.

Q5: Exports from India are expanding, but how do you control the export business with limited production capacity?

A. Sales of Fronx is expanding rapidly, exporting to more than 70 countries and regions. Under such circumstances, we recognize that it is very difficult to expand production capacity. Equipment, land and factories can be bought with money, but it is difficult to develop human resources in a year or so. Therefore, we will strive to expand our export business by raising production capacity by training human resources at existing plants. Meanwhile, I don't see the Indian market going straight up to 4 million. Under such circumstances, I think it would be best if production and risk management could be complemented by export and domestic businesses.

(Consolidated financial results)

Q6: What are the one-time factors in the second quarter? I would also like to know the details of segment elimination.

A. One of the one-time factor is the impact of foreign exchange rates. In the first half of the year, the yen continued to weaken compared with the same period of the previous year. We revised the full-year forecast to 146 yen for the dollar and 160 yen for the euro. In the second half of the year, we have set the dollar at 140 yen and the euro at 154 yen. Looking at the current exchange rate, the yen has continued to weaken, but there are some uncertain parts that we cannot fully understand due to various factors such as the difference in interest rates between Japan and the United States, so we are monitoring the situation carefully.

Also, in terms of the difference from the previous year, the change in mix/price, etc. increased by 90.5 billion yen, and roughly half of this was realized gain of unrealized profit. Last year, there was a shortage of semiconductors at the beginning of the fiscal year, and production did not proceed as expected. However, the problem was gradually resolved, and we were able to accumulate more inventory. As a result, unrealized profit in the previous fiscal year were negative in terms of profit and loss, but this fiscal year they reversed. The remainder of the changes are mix improvements and price revisions, which come from from the popularity of new models such as the new Spacia and the price hikes we started last year.

As for segment eliminations, there is a similar unrealized impact in geographic eliminations. This comes from big differences in circumstances between this year and last year and it is unusual, and I don't think it will be this big if production and sales and inventories become stable.

Q7: The operating profit margin in the first half exceeded 11%. Can this high profit margin be maintained in the future?

A. While preparing for future EV development, carbon neutral development, and CASE development, we will invest firmly in efficient technology development. Achieving a profit margin of more than 10% isn't easy. Having said that, I would like to think carefully about the preparation for securing profit margins.

Q8: What is the breakdown of the change in mix/price, etc. of +71.8 billion yen in the second half forecast?

A. In the second half of the fiscal year as a whole, profit decreased by -40.6 billion yen from the previous year, and the impact of foreign exchange rates and fluctuations in raw material prices are viewed as negative. However, we will use fixed costs and R&D expenses where they should be spent, while cutting costs where they can be reduced. Among them, the change in mix/price, etc. increased by 71.8 billion yen. The change in the number of units is lowered as can be seen in the updated plan, but the change in mix/price is coming are expected to be positive due to the effects from introduction of new models, and the price revision of which the effect is slowly fading. We believe that the impact of unrealized profits will still have a positive impact, and we will continue to make efforts to exceed those of the previous fiscal year, although there will be few items to increase profits in the second half.

(Electrification)

Q9: What is the significance of the recently announced OEM supply of BEVs to Toyota?

A. The three companies including Daihatsu are working together on EV platform technology and design, which Suzuki is not yet well experienced. In this relationship, we are not only learning unilaterally from Toyota, but also sharing Suzuki's views and discussing in order to build a better platform. While we cooperate in development of the platform, we are firmly committed to compete with them in terms of vehicle.

As for our relationship with Toyota, we are working to complement each other in various models by offering compact cars from Suzuki, which Suzuki excels at, while receiving higher-grade cars from Toyota which they have advantage.

Q10: Regarding BEV collaboration with Toyota, what is the strength of selling BEVs made in India outside India?

A. As I heard during my business trip to Europe the other day, the infrastructure and customers are still not ready to accept EVs. Under such circumstances, it is difficult to determine whether the BEVs will actually sell well, so at this stage, we believe that concentrating BEV production will contribute to profits rather than dispersing it. By taking advantage of the cost competitiveness in India, we will provide our products globally with India as our supply base.

We have just announced the e VITARA in Europe. With this launch, Suzuki will grasp where the potential of EV lies and what customers are asking for, and we will use it for the next model development while discussing with Toyota and other related parties what kind of EV should be provided including infrastructure issues to be truly accepted in the market.

Q11: What are the measures to cope with the European CO2 regulations that will be strengthened from 2025?

A. As part of our efforts to reduce CO2 emissions, including pooling with Toyota and Volvo, we are working to further improve the fuel efficiency of EVs and HEVs, aiming to quickly achieve a situation where we can do without pooling. However, we are aware that selling EVs is a very difficult task, and we must respond to customer demands, infrastructure development, etc., and promote EVs while having them recognize their advantages. In terms of the use of ICE, we would like to take synthetic fuels and biofuels into consideration and make them more compliant with regulations while complementing the fuel efficiency of the original HEV models.

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