Financial results 2Q FY2021
Questions and answers in the briefing session for analysts

November 11, 2021
Suzuki Motor Corporation

(Impact of Parts Shortages Including Semiconductors)

Q1: What are your thoughts behind the updated forecast with reduced production volume due to shortage of parts, including semiconductors?
New forecast seems rather conservative taking into accout the improving circumstances. In the first place, what was the standard of the company plan at the beginning of the period?

A. The updated forcast assumes production in Japan and India to proceed at the level of about 70% of the initial plan, from December onwards. On the other hand, it is also the fact that the production volume at Maruti Suzuki is showing gradual improvement of about 20% per month from September as the bottom line. However, in our communications with semiconductor manufacturers and suppliers, we are still in a situation where we cannot be confident about future supply, so we made a conservative estimate of the financial forecast. As for the global production plan at the beginning of the period, the figure for the first half was approximately 1.58 million units and for the second half was 1.65 million units, which was more than 3 million units for the whole year.

Q2: In the second half of the year, production volume in Japan is expected to recover slightly, while production in overseas plants is expected to decline. Do you priotize production locations? Does procurement from mega suppliers also affect the production reduction in India?

A. There is no priority in production between Japan and other countries, and all production facilities have the same conservative assumption of production at 70% of the initial plan from December onwards. In fact, we have not reached a state where we can prioritize or make allocation by region or by model.
We are making efforts to produce as much vehicles as possible by closely monitoring the situation of parts and semiconductors on a daily basis. However, we are not in a situation where we can intentionally give weight to any region. Also, in view of our circumstances, procurement suppliers who can also supply components locally in India is absolutely essential, so Japan, India and Europe are equally affected by supply from such mega suppliers.

Q3: What is the impact of parts shortages for mini vehicles in Japan? Also, the organization of the purchasing department was changed. What are the thoughts behind the reform?

A. In Japan, shortage of parts such as wire harnesses in addition to semiconductors is causing us restrictions on production including mini vehicles.

In the recent reform, the name of the purchasing department was changed to "Procurement Strategy" and the organization structure was also changed. We have learned a lot about what will happen due to semiconductor shortage and COVID. On the occasion of appointing a new organization, we clearly demonstrated the idea that procurement should be carried out with a solid strategy, rather than simply buying. For example, regarding the current shortage of semiconductors, there had been a problem where we were frequently changing the production plan, but for the future, we will place efforts to eliminate such changes. In addition, in order to firmly incorporate into our procurement strategy what kind of semiconductors should be used to develop vehicles, we will strengthen cooperation between procurement and engineering departments.

On the part of engineering departments, we will consider using general-purpose semiconductors instead of Suzuki specific or special-purpose designs that need to be newly developed. This is the kind of organization we have established this time, as we are going to work out the above matters including strategies.

Q4: What impact did production cuts due to parts shortages have on domestic dealers' earnings? Are there any special transient factors such as profits and losses of used cars?

A. The situation of the domestic distributors is also very difficult, as they have order backlogs while delivery from Suzuki is limited. They are struggling with the situation by selling the car that they received. Under these circumstances, they have secured basic profits by selling our products at a certain level in terms of both unit prices and profit margins. In addition, although the volume is rather limited due to the market conditions, used cars demand is also growing, and they are one of the profit sources. Furthermore, they are working to make profit also from service and maintenance workshops. While the absolute amount will inevitably decline in line with the supply of vehicles, they have been steadily earning profits.

(India business)

Q5: Market share of passenger cars in India is declining, and the delay in the launch of new SUVs could be one of the reasons. What is the future direction of the introduction of new models and what was the cause of the delay in the introduction of new models in the first hand? What are your observations on Indian SUV market?

A. It is true that our market share in Indian passenger car market has fallen to 42 ~ 43%. A large part of of the decrease owes to parts shortages including semiconductors but as you pointed out, the delay in launching products in the SUV segment is also a major factor. As we plan to launch multiple models in this fiscal year and beyond, we will focus on maintaining our 50% market share and continue to be the leader in the Indian market. The delay was partly due to poor communication between Maruti Suzuki and Suzuki. Although there were plans to introduce SUVs earlier, miscommunication prevented the introduction of products. We will work closely with Maruti Suzuki on product planning.

This is not an issue only between Maruti Suzuki and Suzuki, and we are promoting an initiative within our company to have a more robust communication between Sales and Engineering, Engineering and Production, Engineering and Quality Control. The SUV which was delayed due to lack of communication, is actually a model that exceeds 4 meters in length. Considering the Indian automobile tax structure, we believe that the market will continue to focus on low-tax models under 4 meters, but we are aware that some customers are moving to larger segment models. Therefore, we think it is necessary to introduce SUVs longer than 4 meters to the lineup, and it is not our intention to disregard the segment. With regard to these types of vehicles, we are working to introduce models that are suitable for the market, with the help of our partner Toyota.

(Miscellaneous)

Q6: Why did you revise your forecast for the full-year impact of raw materials from the previous forecast of minus 90 billion yen to minus 85 billion yen?

A. With regard to the outlook for the impact of raw materials, we have set such a figure in consideration of updated production volume and the recent rhodium market situation that seems to have somewhat stabilized. However, if the shortage of components such as semiconductors is resolved in the future, the market will soar again due to large-scale production increases by each company, and we do not think that the cost of raw materials itself will decrease, but rather that the situation will remain high.

In addition, the impact of steel and aluminum, which are rapidly rising, has already been factored into the previous forecast of minus 90 billion. Therefore, there is no change in the view that raw material costs will remain high throughout the year, including these costs.

Q7: How much of the rising cost of raw materials is being passed on to price increase in Japan and India? In particular, in India, is it not difficult for the price increase to be accepted sales wise, considering the decrease in market share?

A. India has already raised its retail prices three times this year. In addition, we believe it will be necessary to raise prices in the future replacement of year models. Japan, on the other hand, is making efforts to reduce various costs and budgets as much as possible because such price increases are difficult.

Also, we think there is a concern about the price increase having a negative effect on sales, but the main reason for the current share decrease is that the production is not done as expected. In addition, both Maruti Suzuki and dealers are running out of stock, and because of this, we believe that we are losing out to other companies in sales competition.

If the shortage of parts improves in the future and production takes off, the company will be able to steadily increase sales. In fact, the number of backorders has increased by about 50,000 from about 200,000 before the autumn festive season, so the key issue will be to figure out how we can increase production from now on.

Q8: In both Q1 (April-June) and Q2 (July-September), there was almost no profit contribution from India, but the company was able to make a solid profit mainly from the domestic business. Can we take this simply as an improvement in the earnings structure?

A. The reason why we were able to make a profit outside the Indian business is that we have been working to reduce expenses in the indirect divisions. In addition, the company successfully utilized its inventory in Europe and other countries to realize unrealized profits.

Q9: What is the content of the minus ¥13.7 billion in non-operating expenses related to the discontinuation of development?

A. In this context, the term "discontinuation of development" refers to a decision to discontinue projects related to technology that is not necessary for Suzuki in the future. We will focus on the technology we need in the future, and it's not a negative decision.

Q10: Why did the company record an impairment loss of 9.5 billion yen on assets leased in Japan? Also, does it affect the cash flow of the core business?

A. As you pointed out, this impairment loss was due to a write-down of land leased from the head office to the domestic distributors. This timing is due to the fact that our company, in accordance with the impairment accounting standard, calculates the assessed value of inheritance tax on the basis of the route price published in July and compares the posted price equivalent to the book value. Due to COVID-19 pandemic, the route price have been on a downward trend nationwide this year, and more than 30 out of 47 prefectures, especially commercial land, have been on a downward trend.

Under normal accounting standards, a decline of 50% or more is recognized as a loss, and this occurs when a loss exceeds that threshold. However, this loss has nothing to do with the cash flow of the company's core business and is recognized in accordance with the standard.

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