Business Results for First Half of Fiscal Year 2021
Analyst Briefing and Q&A Minutes

Business Overall

<u>Do you have a breakdown by product and business illustrating the uptick in performance? Also, I would like you to explain the background to the rebate reductions and comment on its continuance.</u>

Almost all our businesses posted higher figures. With motorcycles for developed markets, supply was unable to keep pace with demand due to production and logistics delays brought on by part shortages, leading to results at a level mostly as we expected and a successful return to profitability. The rebates were unnecessary because of the lack of product inventory. What will become important from here is whether the rebate levels of 2021 can be maintained when our inventory levels are back to normal. We are currently reviewing our discounting and rebate approaches.

<u>What risks are you assuming with the gap in performance between the first and second halves of the fiscal year? The impact of raw material costs is significant, but what is the breakdown of those costs? It is also expected that sales-related expenses will increase in the second half, but are there any elements that will also return to previous levels besides logistics expenses?</u>

Raw material cost increases and semiconductor procurement will continue to be significant factors affecting the second half. The biggest impact on raw material costs comes from the rare metal rhodium, and while the price has recently stabilized, it was more than double that for a time. The steep rise in aluminum prices is also significant. For sales-related expenses, we are having our main bases enact extensive cuts to bring them down.

Land Mobility Business

<u>The motorcycle business in developed markets achieved profitability in the first half, but how can we look at things for the full year? Also, have there been any changes in the approach for improving profitability over the medium to long term?</u>

While we were able to achieve profitability in the first half, our plan expects to see losses in the second half, with us unable to raise production numbers due to issues such as supply shortages of semiconductor parts. If we can produce the number of units that the market wants in the second half, it will be possible to turn an annual profit, so we want to make a strong recovery that will bring the business closer to profitability for the year. The business environment this fiscal year is benefiting from factors such as a weaker yen, a reduction in rebates from depleted market inventories, and the curbing of activity expenses amid the spread of COVID-19. However, we do not believe this situation will continue into the next fiscal year and beyond. Accordingly, there is no change in the Company's approach of continuing to implement structural reforms, such as reviewing our global production scheme and reorganizing factory operations in Japan.

With COVID-19 infections on the rise again, I would like to know about the retail sales and production situation of motorcycles in emerging markets by country. Also, how has the unit sales plan changed with the switch to premium models?

Government lockdowns and restrictions on movement and activity in each country have affected our retail, wholesale, and production operations. Product inventory is tight, but currently leveling out. Malaysia faces the strictest controls, with only 10% of employees allowed to come to the factory, hence production has been on hold for about a month. Next is Indonesia, which allows 50% of company employees to physically go to work. There are also restrictions on movement in effect, which are causing retail sales to decline. Restrictions on movement and going to work have also recently emerged in Thailand, Vietnam, and the Philippines. For the second half of the fiscal year, we have made plans with these factors in mind, but cannot know how things will develop going forward. Regarding the shift to premium pricing, the sales price per vehicle in each country has been rising. In addition to the price rise, the ratio of sales of high price models is also increasing and this is a prime factor. We are seeing the shift to premium models becoming more popular in most emerging market regions.

Marine Product Business

Please tell us in detail about the demand environment and your outlook for future demand. What will you do with production capacity to increase sales? And with logistics, are there any prospects for improvement for the season in the next fiscal year?

Over the course of the year, we see demand exceeding our initial forecasts and expect it to be strong next year as well. Regarding production capacity, we have augmented our capacity for producing large outboard motors from 2018 to 2019, and believe the current situation is sufficient. Should demand grow even further in the future, we will increase capacity in a timely manner so as not to miss opportunities. In terms of logistics, things have improved for products destined for Europe, but products headed to North America have yet to see significant logistics improvements. As the situation goes from being affected by COVID-19 to more normal operations, we expect the struggle to secure shipping containers to continue. Although we cannot stock up on inventory, what we get shipped is successfully being sold, so we would like this situation to continue. We believe things will have calmed down by the beginning of next year.

Competitors expect it will take until 2023 for outboard motor inventory levels to return to normal in North America, so why does the industry-wide demand forecast show things becoming stronger each quarter?

Indeed, demand is higher, the number of first-time buyers is increasing, and the customer base is getting younger, indicating a clear broadening of the industry. We share this perspective, and while the supply capacity among those in the industry varies, we have sufficient production capacity and will also improve on the logistics front in the future, so we do not think it will take a large amount of time to get inventory back to normal.

The electrification of marine products was shown in the technical briefing, with the Marine Product business showing an electrification target of 21% by 2030, but in what areas will this be tackled in? Please tell us about any competitive advantages and earnings you expect to see as electrification progresses.

Our goal is to reduce CO_2 emissions from a life-cycle assessment perspective. While development for electrification is ongoing, we believe fuel cells to be a more feasible solution for large outboard motors. For small outboards, quietness and clean emissions may be recognized as their value. The majority of demand for small outboards in emerging markets is for commercial fishery and since electrification is less attractive for these customers, 4-strokes remain a more realistic solution. Regarding competitive advantages, we don’t know the R&D undertakings of other companies and thus cannot comment on this. Things will be difficult in terms of cost, but we would like to clearly show the added value of our products at a convincing price.

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