Business Results for Second Quarter of Fiscal Year 2016
Minutes for Analyst Briefing and Q&A

Overall
With regard to securing stable profit from this to next fiscal year, it can be considered that the exchange rate will be a significant factor in decreasing income next year as well. You are looking to expand growth investment, and there are concerns about Brexit, but should we understand that you will cover that with profitability?

Regarding exchange rates, a positive turn is anticipated in emerging markets. In developed markets, we anticipate negative effects on income until the first half of next year. In the 2016 forecasts, we anticipate a total of 36 billion yen of profitability improvements. This is comprised of approximately 23 billion yen from platform cost reductions and product mix improvements in emerging markets, and approximately 13 billion yen from product mix effects mainly in marine products in developed markets. Through achieving even greater profitability improvements next year, the company aims to increase income by absorbing the foreign exchange effects forecast of developed markets to continue until the first half of next year.

For research and development expenses, both the first half results and annual forecast amount are decreasing. In the medium-term management plan, you planned to invest 350 billion yen over three years. Does this reduction mean there has been a change in approach?

There have been no changes in the framework amount and initiative content from the time we announced the Medium-term Management Plan. However, the actual costs may vary a little as we advance the research and development process.

Regarding SG&A Expenses in Factors Impacting Operating Income in the annual revised plan, they were ▲16.7 billion yen in the initial plan, but ▲5.6 billion yen in the annual revised plan. This means a total reduction in expenses of approximately 11 billion yen. Please tell us about the relevant breakdown.

The main cause of the difference to the initial plan is the reduction in SG&A Expenses caused by the decreased sales volume. By item, the reduction in Publicity and Advertising Expenses was particularly large.

We would like to ask about the details of net income attributable to parent company shareholders in the annual revised plan, from operating income through ordinary income. Please tell us about the approach to dividends based on this.

I would firstly like to discuss the difference between operating income and net income for the half year attributable to parent company shareholders as at the end of the first half-year. There are three main causes for the difference of 33.0 billion yen between the first half-year operating income of 65.4 billion yen and the net income for the half year attributable to parent company shareholders of 32.4 billion yen.

The first is the difference between operating income and ordinary income of approximately 10 billion yen, which is due to foreign exchange losses.

The second is the total of approximately 16 billion yen of corporation tax.

The third is the deduction of income attributable to non-controlling shareholders of approximately 6 billion yen.

Based on these matters, the approach in the annual revised plan is the same, with the approximately 10 billion yen difference in operating income and ordinary income being due to the effect of foreign exchange losses, and the difference between ordinary income of 95.0 billion yen and net income attributable to parent company shareholders of 60.0 billion yen being mainly due to corporation tax and the effect of the deduction of non-controlling shareholdings.

We also indicated that the annual dividend would be 60 yen per share, and that the income per share would be 172 yen. Our dividend policy is to “aim for a payout ratio of 30% level”. We are making steady progress on the measures in the current Medium-term Plan, with a forecast of securing stable profit. We have therefore set a dividend of 60 yen per share, at a payout ratio of 35%.
Motorcycles

Strengthening expansion into the Indian mass market could cause a decrease in average unit price and deterioration in profitability. What will you do to counter this?

There is the view that as the expansion into the mass market strengthens, the unit price by simple calculation will decrease. However, our clear focus is on urban areas. Increasing sales there will also lead to expanding sales in rural areas etc. of models such as the new 110cc Saluto RX. We are not thinking of lowering unit prices, rather planning to secure income in the future as well. In the longer term, we want to aim for an operating income ratio of 10%.

The Indonesian market environment has been harsh for several years now, but you are forecasting a reversal in this trend next year. Could you tell us the basis for this forecast? Please also let us know your thoughts about factors such as the market shifting from motorcycles to cars.

Looking at unit sales by region, the extent of decline compared to the previous year in the urban areas of Java has been small. However, the drop-off in Sumatra and Kalimantan (whose economies rely on primary commodities) is still significant. Sulawesi is recovering to be on a similar level to the previous year. Moving forward, we anticipate that the struggle in Sumatra and Kalimantan will continue a little longer, and that Java etc. will rebound. We have heard that the Indonesian car market decline is alleviating due to the effects of new product launches. For motorcycles, products in the low price range in particular are slumping, but we see that gradual recovery is beginning from high price range products.

2016 unit sales in Indonesia are forecast to decrease to 1.40 million units. What effect will this have on the operations of local factories? You have reported ¥7.5 billion yen for the first half-year and ¥8.9 billion yen for the entire fiscal year of sourcing effects related to currency depreciation in emerging markets. From around when should we expect foreign exchange effects to reverse in trend?

Recently, exports of global models (around 200,000 units) have been increasing, but, even when added to the domestic sales forecast of 1.40 million units, it is clear that units have decreased from the times of the “3 million units sales structure.” In terms of foreign exchange, in Indonesia there is around three months’ lag in its effects due to revisions to sourcing contracts etc. Effects may linger for the first three months of the next fiscal year, but we believe that we can expect income to rise after that.

Power Products

Please tell us about the first half-year ROV unit sales and retail sales, and the annual plan. We have heard that retail is struggling even though sales of the YXZ1000R have been favorable. We would like your comments regarding the inventory adjustment and production situation, as well as the retail situation.

Unit sales in the first half-year were approximately 10,400 units, retail sales were approximately 9,200 units, and the annual forecast is for approximately 26,000 units. We have discussed how the YXZ1000R has been struggling since the first quarter, and this situation is clearly continuing. To this end, we are conducting production and shipment adjustments. Therefore, the annual plan has been revised from the initial 33,000 units to 26,000 units. The YXZ1000R was initially highly rated, but (perhaps because it is a manual transmission model), it will require continued steady promotional initiatives in order to have customers use it.

Please tell us about your view of the early takeup of the new paddle-shift model (YXZ1000R-SS).

Shipments have only just begun in June, and we are not yet able to judge the retail response. As this model has industry-first functionality, we will be focusing our marketing initiatives on penetration among the customer base for this model as well.
Operating income for the entire power products segment in the second quarter was 2.7 billion yen, lower than anticipated. With the inventory adjustment for the YXZ1000R being completed in the first half-year, and the effect of new model launches expected in the second half-year, should we expect this business segment to continue to have growth potential in the future?

The main reason that operating income for the entire power products segment in the second quarter was 2.7 billion yen was the warm winter and sluggish sales in Russia etc. leading to a decrease in snowmobile sales. However, snowmobiles will recover in the second half-year. The causes of the decreased annual income forecast are the production and shipment adjustments of ATVs, ROVs, etc. This year's annual forecast is temporarily low, but we believe that expectations can be revised upwards for the next year and onwards.

**What volume scale do you anticipate from the alliance with Yanmar Co., Ltd.?**

We plan to begin OEM supply from December this year. The current plan is for a few hundred units this year, but for 5,000 units or so by 2020.