

Business Results for First Quarter of Fiscal Year 2020 **Minutes for Analyst Briefing and Q&A**

Overall

How has the COVID-19 pandemic affected net sales and operating income in the first quarter?

Nets sales were almost as projected throughout the January-February months, however fell sharply in March. Aside from outboard motors, which were intentionally adjusted for inventory purposes, this was mainly caused by the effect of the COVID-19 pandemic started in March. Out of operating income, around 3 billion yen has been affected by the COVID-19 impact.

In terms of the level of business, what would you estimate is achievable for the April-June period?

The number of motorcycles shipped in April fell by 70% compared with last year, and most of our factories are not operating - Therefore we are dealing with some severe numbers. This harsh reality where the factory utilization rate did not increase much, continued into May. However, in June, as we increase the operating rate of overseas factories, we anticipate demand to gradually start to pick up. In light of the current situation, we will try hard not to consume all income we made in the first quarter. However, on the assumption there may be further COVID-19 related lockdowns due to second and third waves, while controlling costs and investments based on risk levels, we will work positively to obtain any market opportunities that arise.

You mentioned freezing investments while concentrating on inventory levels - could you elaborate further on this?

The inventory situation is not as favorable as we would like due to the lockdowns occurring during inventory adjustments of outboard motors, which we had been working on since the beginning of the year. We will work to optimize this as soon as possible. Other than that, the Philippines has a lot of inventory. Their inventory levels have been accumulating since sales were stopped. However, now that the dealers have started selling again, we will slowly begin to operate the factory while making adjustments accordingly. We can also look at headquarter motorcycle production. Even though our factories are currently closed, we should be able to look at reopening them from June as we are seeing demand returning a little faster than expected.

We were told that new business would be concentrated on four areas (mobility services, low-speed autonomous driving vehicles, agriculture, and medical care); have any projects been abandoned? What will happen to EV motors for automobiles?

Although we were doing aerial equipment etc. in the search stage for new businesses, after some reassessment, we are now focusing on projects in these four areas and working towards their commercialization. EV-related investment is a core business and not a new area for us, and therefore remains a top priority.

Land Mobility Business

Could you explain the outlook for motorcycles in emerging markets such as in Indonesia, the Philippines and Vietnam?

Indonesia is in its Ramadan festival season, and therefore its factories and markets are all on hold for the meantime. Operation is scheduled to restart after June 2nd. Only 10 days of operation was achieved throughout May. Although the stores were open, retail levels remain stagnant. We will need to make our forecast once we have seen the situation after June. We expect our unit sales shipments in May and June to bottom out at 20% of the same time last year. The Philippines is at a level where lockdown can finally be lifted. In Vietnam, the COVID-19 impact has been minimal to date. Total demand is approaching the previous year and is recovering.

Is there a possibility that in developed and emerging markets people shift away from buses and trains toward the uptake of motorcycles to avoid COVID-19 infection?

In developed markets, as Germany lifted its lockdown restrictions early, we have seen stock running out due to increases in 125 cc class orders. There are also orders for 100-200 cc motorcycles coming from North America. In Japan, motorcycle commuting is being recognized again. Although we think consumers in emerging markets will feel the same, due to tougher financial screening measures taking place, it is still unclear whether the same shift occurs as in developed ones. However, as information from our dealers is currently not available, market movements remain unclear.

Marine Products Business

In terms of only the North American markets, what do you think about the return of demand for outboard motors? In addition, for large-sized models, can we assume that demand will return depending on when the boat builders can start operations again?

Although outboard motor sales in North America ceased in March, demand mainly for small and medium-sized models began to return in April. It could be seen that land-locked customers may have chosen to take their water activities to nearby lakes and rivers after the restrictions on going out have been lifted. Therefore, the demand for motor remounts has recovered. On the other hand, mainly due to the boat builder having just begun to return to work, the large-sized models' recovery remains slow. We therefore expect demand to increase as they ramp up their operations. In terms of inventory, as shipments were stopped from the beginning of the year due to inventory adjustments, and as the inventory levels on the boat builder side are low, we can expect the return to demand for larger models to be sluggish while the boat builder production rates were not risen.

Financial Services Business

What sort of levels of allowance have been allocated for doubtful accounts in the first quarter? And how much of the allowance is allocated for the risk in the second quarter onward? We would like some more information in terms of risk control.

Although I am unable to give you actual figures, we have allocated allowance in two countries, the US where the largest financial business is located, and in Brazil, which has risk factors. In terms of the US risk control, the subprime segment is only a small portion. Our stance is the acquisition of customers rather than income, and control is at a reasonable level because we have no plans to expand. The local debt quality is monitored daily and we are taking all necessary and timely measures accordingly. As we move forward, we will continue to take risks into account that can be reasonably foreseen in a timely manner.

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