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

Overall

With an operating loss of 6.3 billion yen in the second quarter, you achieved a better result than expected. How did this compare with your internal forecasts? Based on this, how is it that the bottom line for the second half will likely be a mere 1.0 billion yen? Can you also tell us about any opportunities or risks that exist for the full-year plan of 20.0 billion yen?

At the end of the first quarter, we expected all margins from the first half to disappear, however we were able to see some upward trending due to the revenge spend phenomenon on leisure focused products in developed markets which led to a recovery quicker than expected there, and less of a downturn in the Marine Products Business.
The main reason for the second half income only reaching 1.0 billion yen is predominantly due to sales levels not bouncing back in regions such as Indonesia and in the Philippines, and production recovery from shutdown closures being slower than the return of total demand in North America is also a large contributing factor.
Opportunities for the full-year plan are trending upwards in the marine area, in Indonesia, and the Philippines. In July, we saw a slight progression on the opportunity side. One of the potential risks we see is the return to lockdown orders in the United States and in emerging markets. This would definitely cause a serious problem if further lockdowns were actually to occur, but we do not feel that this is the case right now.

There was talk that there may be a review of the medium-term management plan, but will the policy now change due to the influence of the COVID-19 pandemic? Please tell us where your efforts will be placed going forward, such as in the areas of deepening structural reforms or discovering new growth opportunities etc.

Regardless of COVID-19, our basic policy has not changed; our focus is, as it was before, placed on new business initiatives for growth as well as on areas of structural reforms in businesses where profitability issues exist.

Can you tell us more about the thought process behind the dividend policy of 15 yen?

Our basic approach is to achieve three things: maintaining a level within the cash flow range, having a payout ratio of 30%, and providing steady dividends. Even though net income for the current term is zero, from a cash flow perspective, we decided that dividends could be paid up to 15 yen while we reduced investment and considered growth investment.

Land Mobility Business

Please tell us about the second half outlook for Indonesia, Vietnam, and the Philippines, which your income is heavily dependent upon.

The reason why Indonesian wholesale sales have not progressed much is that total demand has not returned. The background to this is in the tightening of finance, a rising unemployment rate, and stay-at-home orders. Even though the current situation will remain low as forecast for the second half of the year, we expect to see improvements coming in the future. We expect that Vietnam will have a high figure of 110% year-on-year in the third quarter, mainly due to the fact it had a low third quarter last year. We originally thought that the effect of the COVID-19 pandemic would be relatively low, however as the number of infections has increased recently, it is necessary to keep a watchful eye on the situation.
In the Philippines, we have seen a return of retail sales faster than the return of wholesale sales. Wholesale should eventually be at the same level as retail, but this will take time.

Marine Products Business

It was explained that the sudden return of total outboard motor demand in North America might be only transient. Is that also true for large outboard motors? Please tell us if you think that total demand will continue to increase from next year as the trends return to those of past levels.

For small and medium-sized outboard motors, revenge spending and rising demand before summer vacation, coupled with the timing of subsidy payments, have led to a sharp return of total demand, which we believe is only temporary. On the other hand, for large outboard motors, subsidies seem to have little effect on the purchasing power in this sector, and we believe that the trend in total demand will continue to rise as US market-based share prices return.

Is there any need to consider the risk of losing customers to competitors if extended lead times continue? Or is it that we can expect a big jump in supplies from next year?

I do not think that we can completely rule out the possibility of losing customers to competitors, but I don't think there will be any loss on orders unless the boat builder's production plan dramatically fails to meet the requirement.

Financial Services Business

Initially, the planned operating income was 12.0 billion yen. The allowance for doubtful accounts increased in the first half. Is this a preventive measure against any risk of credit loss in the second half? Can you also tell us anything about the current bad debt situation?

The initial plan was 12.0 billion yen, but the situation was much tighter at the end of the second quarter. As a result of a detailed risk calculation, the allowance for credit losses increased to higher-than-normal levels in the United States. However, the actual loss caused by the situation did not occur, and the current loss rate is within the usual range.