

Business Results for First Quarter of Fiscal Year 2022

Analyst Briefing and Q&A Minutes

Business Overall

Regarding your evaluation of the results in the first quarter, I think profit levels are low, but when do you believe is the right timing to raise profits to achieve your 190 billion yen operating income target? What has been the effect of price revisions?

Sales grew but profits fell in the first quarter compared to last year, but were largely in line with our forecasts. Demand in each business continues to be strong. Negative factors include soaring raw material costs, reduced production due to semiconductor shortages, spiking logistics costs due to shortages of ships and shipping containers, and product warranty-related expenses. Positive factors include strong sales in Indonesia, Latin America, and China for the motorcycle business, and positive foreign exchange effects. In addition, each sales base continued to conduct break-even-point management and to pass on costs via price increases to help us cover for the negatives.

From the second quarter onward, we expect fluctuating unit volume, spiraling material costs, an increase in ocean freight rates, and—while minor—the direct sales impact from Russian and Ukrainian conflict to negatively impact figures in relation to our forecast. On the other hand, we expect to be able to achieve our 190 billion yen target by passing on prices, undergoing cost-cutting measures through break-even-point management, and benefitting from advantageous exchange rates. Outboard motors will be key. Products that have been stuck in transit should reach the U.S. in the second and third quarters. Seasonality in the U.S. begins to cool beyond July and August, so we are moving forward to deliver product before that. We aim to flip things back toward profit growth from the latter half of the second quarter to the first half of the third quarter. The effects of price revisions are still limited in the first quarter and we expect to begin seeing results from the high season second quarter onward as volumes build up.

Regarding the environment for future demand, is it safe to assume that you will be able to secure more unit sales of motorcycles and outboard motors if the shortage of semiconductors and other parts are resolved?

The robust demand for outboard motors continues, but while we are now able to ship product out, logistics issues have resulted in units becoming stuck in transit. We would be just about on schedule with motorcycles if there were no shortage of semiconductors and other parts. We saw the insufficient supply of semiconductors affect the model mix.

Please tell us the effects the Shanghai lockdown has had on parts procurement for each business. Also, has the impact of the semiconductor component shortage forced any changes to the plans you formed initially?

The Shanghai lockdown has impacted the electronic components used in our electrically power-assisted bicycles and motorcycles. We are starting to see ways to resolve the issue with some parts and expect the effects to be minimized from the second quarter onward. For semiconductor components, there is no change to our

plan to recover from the second quarter onwards, but the shipping and delivery situation varies for each component, and in working through allocation, we have not yet seen any major improvements. As we shift to products that are easy to manufacture, we are also moving to modify our products to use semiconductors meant for general consumers.

What have been the effects of the Russia and Ukraine situation on raw material prices?

The effects weren't yet apparent in the first quarter, but we are now expecting to see impacts from higher prices for iron, steel, plastics, and other materials in the future.

How will you respond to the logistics backlogs? Will there be any more problems from the second quarter onwards?

We will absorb the effects of cost increases by diligently incorporating their impacts on the business and pass on those costs through price increases on an ongoing basis. As it is likely this will be a prolonged situation, we will implement measures to minimize the impact and to avoid overlooking points of improvement as much as possible. We are considering alternatives for each region, including possibly utilizing non-logistics operators, as we take on the challenge of shipping products at the right time while keeping expenses at a reasonable level.

What led to the timing of the announcement of share buybacks in the first quarter? I believe it is related to the total payout ratio target stated in the Medium-Term Management Plan, but will there be any more buybacks made this year?

Under the new Medium-Term Management Plan, we have set a target of raising the total payout ratio to a cumulative three-year average in the 40% range, and we also announced a policy of flexibly purchasing treasury stock according to the range of our cash flows. The conditions are in place now, so the buyback we implemented this time was to show our new direction to deliver shareholder returns with the earliest timing possible. Going forward, we will actively pursue flexible share buybacks and provide shareholder returns while closely monitoring the condition of our cash flows.

Land Mobility Business

It is unfortunate the Land Mobility business experienced higher sales but lower profits. What were the main influencing factors? Also, I believe passing on costs through price raises will begin to show its effects from the second quarter onwards, but please explain how you expect profit margins to rise going forward.

From the second quarter onward, we expect our countermeasures to begin taking effect and for profitability to rise. In the motorcycle business, the challenge is to introduce substitute semiconductors to our high-value-added models and get production started. Since the recreational vehicles business has seasonality, an early second quarter response is required. The SPV business is being affected by the Shanghai lockdown as well as provisions for product warranties. Since warranty provisions are a cost in the process, they do not constitute a significant impact. If we can deal with the parts out of stock due to the Shanghai lockdown, we can achieve our sales plan.

Marine Products Business

If you exclude foreign exchange effects, the Marine Products business in actuality had lower profits. Will it recover from the second quarter onward? Furthermore, regarding unit volume, has the model mix improved but unit sales failed to grow due to logistics disruptions?

Our understanding is the same as yours. Market demand is strong and for outboard motors, shift to the large-horsepower models are occurring with the number of units sold, so if we can just supply the products still stuck in transit, the sales will come. With personal watercraft, we aim to increase the number of units available by implementing measures to address the shortage of parts and materials from the second quarter onward.

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