Business Results for First Half of Fiscal Year 2022
Analyst Briefing and Q&A Minutes

Business Overall

<u>The operating income forecast was revised upward by 10.0 billion yen. Was this because there was a significant difference between your original forecast and the actual result in the first half or more because of your projections for the second half?</u>

While the content has been changed, results in the first half were mostly in line with the original forecast. The upward revision of 10.0 billion yen to operating income reflects an upside with foreign exchange rates.

<u>In the analysis of the factors behind the rise or fall in operating income, the effect of price raises in the initial forecast was 77.0 billion yen, but this was revised to 55.0 billion yen. If the semiconductor shortage is resolved, are you expecting profits to rise?</u>

The 77.0 billion announced at the beginning of the fiscal year included improvements in the model mix and price increases. This revision to 55.1 billion yen is comprised mostly of price raises. The current forecast incorporates further price pass-throughs to mitigate cost increases, inflation, and higher logistics costs. There is irreversibility in the price and it is highly unlikely the price will be lowered once it has been raised. We hope that this will help regain a little product profitability.

<u>In the second half, exchange rates, raw materials, shipments, and price pass-throughs are expected to work in your favor, but why do you think profits will not rise as much as the first half?</u>

While exchange rates, cost reductions, and a recovery with semiconductors are factors, the cost of raw materials remains high. Risks have been heavily factored into the second half of the fiscal year. In addition, domestic logistics in the U.S. are improving and shipments are progressing, but costs are still a problem. Labor costs in the U.S. are also soaring. After factoring in all these issues, we have set our operating income forecast at 200.0 billion yen and we will keep trying to grow our top line.

<u>Regarding the impact of rising interest rates and inflation on demand, are there signs of a slowdown in demand at present?</u>

While we are closely monitoring market trends, we have not received any reports that a slowdown in demand has occurred recently. The marine products business in the U.S. is our most profitable one and the situation has not changed with either our dealers or boatbuilders. The sport bike business in Europe has so many back orders that we can’t see the full picture with retail sales. Emerging market businesses have not been affected.

<u>Has there been any change in your market share?</u>

Motorcycle market conditions vary from country to country depending on supply pipelines, production bases, and logistics layout, but every player in the industry is facing challenges so there has not been a general change in share. With personal watercraft and ATVs/ROVs produced in the U.S., the competition is also facing the same circumstances. We are not able to produce as much and factory utilization rates have declined, and while this has an impact on profits, our market share is up.

What is the current situation you face with semiconductors? Around when do you think things will get better?

At the beginning of this year, things were expected to improve from the second half, but at present, the situation has pushed expectations for that back to 2023 or later. The switch to alternatives is progressing, but some parts are not compatible. Multi-supplier procurement and the development of alternatives are continuing, and negotiations are underway to ensure a greater supply of semiconductors.

I heard that it would be easier to pass on price hikes with the increase in sales of premium segment models in ASEAN markets, but the progress with sales in the first half does not seem to be that good. From here on, in which segments will it be possible to pass through cost increases?

Prices for raw materials and other resources have been mounting from the beginning of the year, but we can't raise prices on several months' worth of back orders. Once we have attended to these back orders, the effects of price increases will manifest so the timing will be slightly delayed. We have been working on this with motorcycles since the first half, but the second half is when the full amount will take effect. In addition, since the next model year for the marine industry will be from August, the effects of price increases for outboard motors and marine products in the first half of the year will hardly enter the frame, and those price increases will begin to show their effects in the second half of the year.

What was the inventory level at the end of December? Are there any products that you think will need a buildup in inventory next year?

Hopefully, outboard motor inventory at the end of this fiscal year will approach the level we consider appropriate, but we do not expect motorcycles to recover to the same level of inventory by the end of this fiscal year. Inventory levels at the end of June have declined further since the end of March. Premium segment models use a lot of semiconductors and because of that, we are short on inventory there. It's quite a tight situation for developed markets.

Please tell us the opportunities and risks you see in the coming year.

In terms of opportunities, motorcycles primarily in emerging markets have not yet fully returned to pre-COVID-19 demand levels. In particular, the shift to personal mobility continues in Indonesia, the Philippines, and India, and demand is expected to remain firm next year. In developed markets on the other hand, we are monitoring overall demand as we feel it presents some risks, but no negative information has been received at this point. On the earnings front, we expect raw material prices to remain high this year, but to hopefully stabilize a little next year.

Land Mobility Business

Is the reason for the decline in the model mix with this current forecast because you could not manufacture enough premium segment models?

The model mix has deteriorated significantly from the fact that we have not been able to produce premium segment models due to semiconductor shortages.

Please share any updates regarding structural profit improvement initiatives for the motorcycle business in developed markets.

For developed markets, favorable exchange rates from the second quarter helped us roughly break even in terms of profits for the first half overall. In the second half, the Company plans to prioritize allocation of semiconductors to big-displacement bikes more than last year, and to produce and ship 10 to 20,000 more units than the previous fiscal year. As these are destined for Europe and the U.S., exchange rates will also yield positive effects. We will strive to take a profit-generating approach in the second half of this fiscal year.

Marine Products Business

Regarding the outboard motor business, although the results in the first half fell a little short of the initial forecast, it remains unchanged for the second half. Do you see risks with logistics and demand? Concerns of a recession are growing stronger, so please tell us the situation.

Sales in the first half appear to have fallen short of the original forecast, but this is due to a long lead time and our production is steady. The time it takes for a shipment to arrive at a U.S. port has grown considerably and domestic transport in the U.S. is also taking time. We expect these supply pipelines to improve in the second half. Unrealized profits with outboard motors are also having an impact, but if logistics in the U.S. improves, that will disappear in the second half and onward.

For outboard motors, please tell us your estimates for North America's inventory levels for the end of this fiscal year. Will you achieve the original plan? Or once achieved, will sales rise in response to the ever-increasing demand?

From the beginning of the year, there were issues in the supply chain, including both shipments from Japan and with local logistics in the U.S. Shipments from Japan had progressed by the end of June, but in actuality, they remained as in-transit inventory and not led to retail sales, thus actual inventory has remained almost unchanged from the beginning of the year. Logistics is expected to be smoother from October onward when preparations for the intense Christmas sales season will be complete. There is risk of strikes at U.S. ports, but if actual inventory stabilizes, it will lead to sales, so the Company is focusing on realizing this plan.

I understand that there are no shadows emerging with the demand for boats and outboard motors purchased by high-income earners in North America, but are there also no changes in demand for the personal watercraft, recreational vehicles, and off-road bikes often bought by middle-class earners?

Because each company is unable to manufacture product, there is not nearly enough stock and so many back orders logged to the extent that we honestly don't know how long retail demand will continue.

Robotics Business

There are concerns about a slowdown in demand for products outside automotive applications. What is the outlook for shipments of surface mounters in the second half and next year in particular?

Sales are high this year, but they especially grew last year. In the first half, sales to China, which had been performing well, slowed due to the impacts of the Shanghai lockdown and the Chinese economy. On the other hand, sales to Japan, Europe, and the U.S. are gradually increasing. In the second half of the fiscal year, the Company forecasts an increase in automotive- and 5G-related products, and as orders are expected, we will increase our manufacturing capacity and ship out products. Still, ensuring enough semiconductors remains a challenge.

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