

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

Business Overall

Please explain in greater detail the factors behind the changes in operating income in the third quarter (July–September).

Entering the third quarter, the effects of passing on cost increases have become pronounced due to the switching of the model year and the timing of model updates. In addition, the sharp rise in raw material costs seems to have come to a pause and the yen continues to weaken against the U.S. dollar, something we had not anticipated. In light of this situation, third quarter performance was significantly above our projected targets. We expect the effects of passing on higher prices and the lull in raw material price hikes to continue. In line with this, we have also made upward revisions to our forecast to reflect foreign exchange gains, assuming the fourth quarter exchange rate to be 145 yen to the U.S. dollar.

Are there any updates you can give us on the market environment and the timing of inventory optimization?

Demand in both the Land Mobility and Marine Products businesses were very much in line with our plans. On the other hand, the Robotics business performed slightly below expectations due to limited investment in China and the ban on microchip exports by the U.S. Regarding our inventory, in the motorcycle business in emerging markets, we have been unable to build up a sufficient stock of premium segment models and this is likely to continue into 2023. For the Marine Products business, shipments from Japan are making progress and we expect further improvements toward the end of the year. Demand for recreational vehicles and water vehicles is robust, but we have been unable to catch up due to production delays.

What was the degree of impact from the worsening model mix?

On slide 8, “FY2022 First Nine Months – Operating Income Factors (by factor),” the “Prices raises, etc.” of 30.9 billion yen under the breakdown for “Sales increase” includes the positive effects of price raises, which were at least 46 billion yen, but it also includes the deterioration in the model mix, which had a negative impact of around 14 billion yen.

With the exception of the Robotics business, it looks like every business is seeing upward trends in profit, but are there any factors to take note of?

The effects of passing on prices materialized clearly in the third quarter and will continue into the fourth quarter as well as into the next fiscal year. Regarding demand, we are closely monitoring whether or not rising U.S. interest rates will have a negative impact on sales of lower-priced products. We have no information that the situation will suddenly cool. Our current stage is still to restock inventory to meet demand, but we will continue examining demand trends toward the end of the fiscal year while closely communicating with each subsidiary.

Land Mobility Business

Please tell us the results of the premium model strategy for the motorcycle business in emerging countries.

Demand from consumers switching from public transport to personal mobility in emerging economies continues. We still have back orders for premium models and expect stable demand in fiscal 2023 as well. Production of low-priced models is growing amidst semiconductor supply constraints, but supply has not kept pace with demand in the premium model segment. In Indonesia, Thailand, India, and other markets, if we can stabilize the supply of premium segment models, we are sure to reap solid profits. In particular, India is gradually transitioning to a profitable structure second only to Indonesia.

Motorcycle profit margins in the third quarter (July–September) exceeded 7%. Is it likely to grow further as supply constraints fade?

The third quarter (July–September) results include the effects of foreign exchange rates, but if we can amplify sales of premium models, we can also aim for high profit margins. We will pursue our premium segment strategy in order to increase our profitability.

Is there a general idea of the number of motorcycles sold and the proportion of their value in major countries?

Taking India as an example, premium-priced motorcycles account for about 20% of unit sales, and the price per unit changes between 20,000 to 30,000 rupees. Entry-level sport models are the mainstay and the market makeup is different from other Asian markets. Market demand for these is around 2–3 million units, and while this is small compared to the low-priced segments, it is extremely large compared to the numbers seen in developed markets as a whole, so this will be effective in terms of profits.

Are rising gasoline prices in Indonesia affecting demand?

Since each company is still at the stage of trying to meet market inventory levels, we think the impact on demand will be limited. Once inventory is abundant and demand is being met, gasoline prices will likely begin to have an effect.

Marine Products Business

If outboard motor demand levels off next fiscal year, what do you expect the effect on the company's business performance will be? Will the results you expect to post this fiscal year continue from 2023 onward? Is there a specific basis for the company's forecast of strong marine demand amid the macroeconomic feel of the recession?

Demand this current fiscal year is a carryover from the previous year and expected to continue in 2023. It is mounting despite the current situation of not having ample inventory. Demand for large outboard motors is particularly strong and we expect it to escalate even further in the summer of next fiscal year. If the work to address back orders and market inventories continue until summer, that may also contribute to net sales. We previously answered that whether inventory could be delivered to the market would depend on the situation with loading ships and other factors. As for elements that have changed, we are closely monitoring the stagnation of financing

due to the rise in interest rates, but as orders for large outboard motors have not been canceled, we see the strong demand continuing. We have not received any negative information on demand trends in 2023 at this stage.

Robotics Business

Regarding the market environment for the Robotics business, I understand that the automotive sector has been strong, but what is the current outlook?

Due in part to the Russia–Ukraine conflict and U.S. microchip export restrictions, demand is declining in China, Taiwan, and South Korea, where we had received continuous orders. The economic policies enacted at the National People’s Congress in 2023 will also alter the likelihood of investment, but we see the current situation as a severe one. On the other hand, automotive- and CASE-related demand in developed economies was firm. Since there is fundamental demand, we will read changes in trends and adjust our production system to match.

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