

Business Results for Full Fiscal Year Ended December 31, 2023

Analyst Briefing and Q&A Minutes

Business Overall

Today, exchange rate assumptions are constantly changing compared to when you first announced the current Medium-Term Management Plan. In that context, what do you believe is your real earning power based on the company's actual performance?

While there are highs and lows depending on the business, it bears noting that, overall, we have been able to maintain the over 9% operating income margin of the Medium-Term Management Plan. Working to cut costs and utilizing shared platforms for our model lineup has significantly raised our earning power as a result.

In the Marine Products business, efforts to enhance value under our Marine CASE Strategy so that customers can enjoy a comfortable marine lifestyle has resulted in stronger earning power.

With the motorcycle business, our plan was to raise earning power by achieving growth with our premium segment models, but semiconductor constraints lasted longer than we expected. Semiconductor supply returned to normal from the latter half of 2023, so we plan to secure solid earnings from here onward. On the other hand, we raised our market pricing to account for soaring raw material prices and ocean shipping rates, and that strengthened our earning power as well.

With regards to the Recreational Vehicles (RV) business, reorganizing the factory and restructuring our supply chain reinforced our foundations and upped earning power, but in terms of sales, the market has begun returning to normal and we see the resulting intensification of competition driving up costs more than expected.

In the Smart Power Vehicles (SPV) business, the current overstocking of eBike inventory has necessitated production adjustments, but we are working to set up and prepare our production, sales, and service operations for when the market recovers in order to quickly capitalize on demand.

The Robotics business has been facing a very challenging business environment since the middle of 2022 all through 2023. However, immediate demand for generative AI applications is on the rise and we are upping production capacity as well as shifting to offering more high value-added models. Furthermore, we believe the cross-selling strategy we have been pursuing for some time now will start to show results in the near future.

For businesses with overstocked inventory, please share when you think things will return to appropriate levels.

With our motorcycles, we see Thailand's inventory returning to normal by the time the main sales season begins in March and April. In Vietnam, inventory levels are quite high and the market is not showing signs of recovery, hence we expect it will not be until the end of 2025 that things are normal again. With outboard motors, we began making adjustments at the end of 2023, but did not provide rebates to push

stock out and instead intentionally curbed retail sales and shipments. We will return outboard inventory to appropriate levels within the year. At the same time, we will be ramping up production of large outboard motors like the new F350 model. Lastly, we expect to see surface mounters recover in the second half of 2024.

Please elaborate on the breakdown of the sales growth effects in your 2024 forecast and how to view these figures.

“Pricing” is the sum of price increases and price reductions, but we are currently experiencing partial overstocking and a price war is arising in developed markets. Price reductions have a heavy impact on outboard motors and motorcycles in Europe and we anticipate the effects exceeding that of price increases. Although the effect of unrealized profits is also large, for outboard motors and motorcycles in Europe, where we have surplus inventory, we plan to recoup unrealized profits by lowering prices and spending more on sales promotions while reducing product stock at our major subsidiaries.

Toward achieving an ROE in the 15% range, please explain what you believe to be medium- to long-term risks and opportunities.

While it is possible for us to temporarily lower capital equity and improve ROE through shareholder returns and share buybacks, at this time, we want to continue making improvements to our profitability and raise our income margin to better show our commitment.

Please explain your current stock price level and what you are doing to improve it.

Our current stock price is at the highest levels we have seen since becoming listed and while this is not a bad thing, we are not satisfied with our current P/E ratio of 7x. It is said that companies with a P/E ratio of 10x or higher are poised for future growth, so we interpret ours of around 7x to mean that people are not expecting much growth from us in the future. On the other hand, if looking at the Japanese automotive industry, 7x would put us in the middle of the pack. We think that due to Japanese automakers falling behind in working to achieve carbon neutrality, they are being evaluated poorly. In the motorcycle business, we believe it is crucial that we pursue not only battery electric vehicles but also alternative R&D pathways with internal combustion engines and other formats in order to deliver results.

I would like to know where the risks are in your operating income forecast for 2024.

Our Land Mobility business encompasses our motorcycles, recreational vehicles, and SPVs, but our 2024 budget is conservative overall. In the Robotics business, on the other hand, we expect to see more unfilled orders for our semiconductor post-processing equipment from the second half of 2024 due to generative AI demand as well as for back-end SMT equipment to also recover, albeit with some delay. This is why we view a delayed market recovery as a risk. For the Marine Products business, we expect the launch of our new model in the 350 hp class to generate solid profits, but because most of our unrealized profits are from outboard motors, if the inventories at our main subsidiaries have not leveled off by the end of the season (around the end of September), we also see this as posing a risk.

Land Mobility Business

Your 2024 forecast for the motorcycle business shows a decrease in profits. Despite your projections of a 100 billion yen increase in sales, what are the expected causes of this decline in profit?

The main reasons are higher market inventories and intensifying competition. We have been raising prices to offset the rising costs of raw materials and ocean shipping rates, but our competitors are cutting prices, so we need to increase our spending on sales promotions in response. Once inventories have returned to appropriate levels and demand stabilizes from 2025 onward, we believe things will not develop into a prolonged price war.

Marine Products Business

Compared to your projections three months ago, what is the demand for large outboard motors in the U.S. like so far in 2024? The rate of growth is rather slow compared to 2023.

The target customer segment for large outboard motors is high-income earners, and even they are feeling the effects of rising interest rates and prices to a certain extent. We have strengthened our market competitiveness by introducing a new model, which is lightweight, compact, and powerful. We believe it will be a prime driver of our performance this year.

What level of growth are you expecting from the release of your new 350 hp model?

We have received so many orders that our current production capability is struggling to keep up. We are moving forward with augmenting these capabilities, and if we can ramp up production, we believe we can outpace the market's expected growth rate of at least 3%.

Robotics Business

To what degree does demand for generative AI applications affect the top line of your surface mounter business?

First of all, it has a noteworthy effect on our semiconductor post-processing equipment. While we cannot provide specific figures, we can say that it also heavily impacts our operating income numbers.

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