November 7, 2023

(Reference information)

Mazda Motor Corporation
FY March 2024 Second Quarter Financial Results Briefing (for analysts)
Main Q&A

Q1: You said the first-half production and wholesales fell below your internal target, but was the first-half profit better than your plan, excluding exchange rate effects?

A1: If we weren't hampered by logistics constraints, I think we would have increased our wholesales by a further 10,000 to 20,000 units, further boosting profits. On the cost side, we had a one-time fixed cost increase in the first quarter. Despite the significant weakening of the yen, foreign exchange did not contribute to profit as much as exchange rate fluctuations due to the impact of inventories.

Q2: Based on the factors affecting operating profit in the three months of the second quarter, volume and mix seem to have had a greater impact than other factors. Do you believe this is an effect of Large products such as the CX-90 in North America? Do you expect this effect to continue in the second half of the year?

A2: The operating income ratio in the second quarter was 8%, indicating a significant improvement in profitability. The improvement in mix contributed to profit growth more than the effect of the weaker yen. This was due to an increase in the wholesale volume of Large products and the highly profitable model CX-5, mainly in the US. We raised the price in the US, but the growth was mainly due to strong demand in the market. We expect to see a volume and mix improvement in Large products in the second half of the year as well. We hope to be able to achieve both volume and market share growth of the CX-90. The CX-50 is also expected to contribute significantly to profit growth as we started second shift operations at the Alabama Plant. We will continue to work on volume and mix improvements in the second half, but fixed costs are likely to increase. As we anticipate the yen to appreciate toward the end of the fiscal year, we are expecting our full-year operating income to be 250 billion yen.

Q3: You raised the full-year sales forecast in the US to 389,000 units, but US sales appear to be slightly down at present. What is the reason for this, and how confident are you of achieving your full-year forecast?

A3: The first-half sales in the US were up 38% year on year. Because of logistics constraints and low inventories of both the CX-5 and CX-30, we were not able to sell as many vehicles in the second quarter as we planned. Most recently, despite efforts to secure and improve vehicle transport capacity, the inventory of some fast-moving grades was low as we switched to a new model year for some key products. In addition, our competitors stepped up their advertising campaigns with their new model year launches, making conditions more difficult for us. However, we are maintaining the momentum of the past year, and our dealer partners are confident. As we secure more inventory and increase sales with the new model year launch, we believe we can achieve our full-year forecast.

Q4: Can you elaborate on the impact of the vessel shortage on your first-half results and your forecast for the second half of the year? Can you make up for the vessel shortage in the first half with your shipments in the second half?

A4: In the first half of the year, we experienced vessel shortages and other logistics constraints in many parts of the world. To address these issues, we are making efforts to speed up logistics in many regions. As we are securing additional vessels, we assume the environment will be better in the second half than in the first half of the year. We expect to be able to secure enough vessels to meet our internal target in the second half.

Q5: Sales in China seem to be very difficult, but you said that you would maintain your sales base until the launch of BEVs and PHEVs from the second half of next year. Could you please reiterate your views on business in China?

A5: Demand in China is expected to remain flat from this fiscal year to next fiscal year due to the current uncertain economic situation. The market share of new energy vehicles in October grew to about 37%. Mazda sales are on a recovery track after bottoming out in October, thanks to the contribution of the CX-50 as well as price and equipment revisions to the CX-5 and Mazda3. There is no change in our policy of maintaining a certain level of operation at local plants and the sales network as a transition plan for electrification. The company will continue to operate at a lower level for the next one to two years, but there is currently no need for any major business restructuring.

Q6: How are the CX-50 and CX-90 being evaluated and sold? Also, please tell us about your future product strategy.

A6: Sales of the CX-50 are maintaining a high turnover rate, and we are currently increasing production volume. As for the CX-90, it is the highest grade model in the Mazda lineup, and against the backdrop of rising interest rates and other factors, some people feel that its price is too high. Also, the CX-90 is a 3-row SUV, and although currently two-thirds of its customers are male, there are opportunities for more families and women to buy the model. In view of the current situation, we will plan and execute appropriate marketing measures. The CX-90 has been highly acclaimed in recent tests conducted by local media comparing it with competing models, and we are confident that we can sell this product with a premium finish at an attractive price.
In Europe and Japan, sales of the large model CX-60 are strong. In Europe, the model continued to rank high in the premium PHEV segment, although this was impacted by the end of PHEV incentives in Germany. The CX-70 will be introduced in the US next spring, and the CX-80 is scheduled to go on sale in Europe and Japan next year. Compared to our previous product lineup, we are confident that we will be able to drive business in the high-end segment.

Q7: The United Auto Workers (UAW) of America has tentatively agreed with the major US automakers on wage increases. How do you think the increase in labor costs at the US production site will affect Mazda's overall business?

A7: We do not believe there will be any direct impact on Mazda. There have been various reports, some of which report no significant differences in actual pay, benefits and working conditions between unionized and non-unionized employees. Mazda offers competitive wages and an attractive working environment. This policy will continue in the future as well. The US plant is a joint venture with a capacity of 150,000 units and accounts for about 10% of Mazda's production. Workers in the US are highly mobile, and conditions vary from state to state. We believe it is important to continue to provide an attractive working environment and attractive working conditions in each region.

Q8: You have newly established the Electrification Business Division. What has changed from the previous approach and what is the aim in establishing this division?

A8: The difference from our existing Monotsukuri (manufacturing) divisions is that we implement business, monotsukuri and value creation as one team. The purpose is to speed up decision-making and eliminate a vertically segmented culture. In the age of electrification, the people we work with will change. So we aim to realize quicker decision-making and operations by separating the division from the normal state of operations of the company so that we can keep pace with the speed of IT and digital companies. With this division as the core, we will change the way we work, and as electrification progresses in stages in the future, we believe we will gradually shift people from the current R&D departments. In the four centers we have created, there are no general managers, which we normally have, so the four centers can operate flexibly with flat teams.

###