February 10, 2023

(For your information)

Mazda Motor Corporation
FY March 2023 Third Quarter Financial Results Briefing (for analysts)
Main Q&A

Q1：What is your evaluation of operating income for the three months of the third quarter? I am particularly interested in your view of your operating margin of 5% with an exchange rate of ¥141 to the US dollar.

A1： In comparison with the second quarter, operating income declined to ¥54.3 billion in the third quarter from over ¥70 billion while wholesale volume remained about the same. Although volume & mix did not change much from the second quarter and there was a positive foreign exchange effect, the operating margin in the third quarter declined to 5.1% from 7.3% in the second quarter due to an increase in fixed costs including a provision for quality-related expenses. Our earning capability and profitability represented by variable profit ratio has not changed; therefore, we expect our profit to improve as wholesale volume increases.

Q2：Please give us an update on your production status. Do you think you can achieve the planned volume in the fourth quarter?

A2： We have already finalized most of our February production plan and are close to finalizing our March production plan as well. We expect production volume in the fourth quarter to increase from the third quarter. The shortage in carrier vessels previously had an impact on wholesale volume but we have already arranged most of the necessary vessel capacity for the fourth quarter. Therefore, we expect to achieve our planned wholesale volume unless unforeseen events occur at ports or markets we ship to.

Q3：Operating income in the fourth quarter is forecast at about ¥40 billion. Does this include any effects of foreign exchange or other one-off factors?

A3：In the third quarter, wholesale volume was 287,000 units and operating income was about ¥50 billion. We forecast wholesale volume in the fourth quarter to increase 63,000 units to 350,000 units. In the fourth quarter, however, profit growth will not be in proportion to volume growth due to the assumption of the negative impact of a stronger yen on profit, which will offset the improvement in volume & mix resulting from a volume increase. Furthermore, as we wholesale parts from Japan to China, a decline in volume of our joint venture business due to the economic slowdown in China and a significant deterioration in the profitability of wholesaling parts overseas are also impacting volume & mix. Fixed costs for the full year remain unchanged from our previous forecast with fixed costs in the fourth quarter expected to be at a high level more or less as planned. We are also continuing our efforts to improve fixed costs.

Q4：With regard to the change in full-year operating income from the November forecast, what are the reasons for the ¥14.8 billion improvement in volume & mix stemming from per-unit price improvement, despite a decline in wholesale volume?

A4：While we revised wholesale volume downwards by 13,000 units from the November forecast, as price revision has progressed more smoothly than we initially anticipated, we expect volume & mix to improve by ¥14.8 billion.

Q5：You made a downward revision to global sales volume. Your revision for the US and China was particularly significant. What are the factors behind this revision?

A5： The US volume was revised downward mainly due to the shortage of semiconductors and carrier vessels. As the robust momentum in Mazda sales continues, we will work on securing semiconductor supplies and carrier vessels so that we can meet as much of our US customers' demand for our products as possible.

In China, the total industry demand is flat year on year. However, demand for ICE vehicles is declining and demand for new energy vehicles is increasing as the shift to EVs and PHEVs accelerates. Mazda was affected by the lockdown in April and May as well as severe price competition for ICE vehicles, but we are currently in the process of integrating sales channels and reorganizing our sales network. At the same time, we are staying away from price competition as we focus on reorganizing our sales network and expanding sales capacity in our stores. Aiming for recovery and a turnaround, we will also introduce new products in China in the next fiscal year.

Q6: Please explain the current status and future outlook of the semiconductor shortage.

A6: As of the present, there are still no signs of a drastic improvement in semiconductor supplies. The situation is expected to be more or less the same in FY March 2024. Our efforts in response to this situation include design changes, switching to more readily available semiconductors, and additional sourcing. We are also talking with our suppliers and promoting various initiatives. Although the supply is beginning to stabilize gradually, we anticipate that we will need to continue to review our production plan on a biweekly basis for some time to come. We are working hard to deliver as many vehicles as possible to our customers as quickly as possible.

Q7: Please explain details of the estimated impact of hikes in raw material prices of about ¥150 billion.

A7: We estimate a negative impact of about ¥150 billion on full-year consolidated wholesale volume of 1.09 million units, with a per unit impact of about ¥140,000. This includes higher costs for semiconductors, logistics and raw materials. Compared to the original plan, precious metal prices have declined. Logistics costs are also expected to decrease gradually, although we have some annual contracts. On the other hand, prices of steel and other commodities are trending lower, but there are also some uncertainties. Although the negative impact for this fiscal year is currently estimated at ¥150 billion, we will continue to work on cost improvements.

Q8: Please give us more details about your revision of prices. How much of a full-year effect do you expect the price revision will have?

A8: Our price revision policy remains the same as before and we undertake price revisions taking into consideration the characteristics of each market, the timing of the introduction of new and updated models, the timing of model year changes, and the acceptance of price revisions by customers. In the third quarter, we revised prices in Japan, North America, Europe and Australia. Although material price increases are having a negative impact, we are expecting positive impacts from price revisions, reductions in incentives and the recovery of parts and accessory business including service parts business that declined during the COVID pandemic.

We usually consider customer receptivity and the competitive environment in each market when we revise prices, and in the US, we will continue to seize opportunities for revising prices at the time of model year changes and the introduction of new models. A look at Mazda's sales trend shows continued strong sales in volume but a change in the grade mix, with indications of a shift in popular-selling trims from high-end to mid-range models. We will continue our price revisions and production by appropriately assessing popular selling models. While maintaining our policy of producing and selling with a focus on a high turnover rate, we will continue to pursue opportunities to improve per-unit price.

Q9: Please tell us about your outlook for business performance in the next fiscal year.

A9: It is still too early to make projections about the next fiscal year and beyond, but we would like to steadily improve the variable profit margin as earning power. On the other hand, there are uncertainties regarding the outlook for high raw material prices and exchange rate movements. We will continue to closely monitor the situation. As for the next fiscal year, we intend to proceed with plans as stated in our recent update of the Medium-term Management Plan.

Q10: Please give us an update on the status of production at the plant in Alabama as well as the status on two-shift operations.

A10: At the plant in Alabama, people are working to improve process quality and stabilize operations. Quality is managed through quality criteria, and the standard of line off vehicles free of defects is steadily improving. In addition, processes have been re-designed to be more worker-friendly, and the retention rate of employees after hiring has gradually improved. We believe that the situation has improved considerably compared to the beginning. We will re-examine conditions before starting two-shift operations so that we can plan for the next fiscal year accordingly. As the CX-50 is a popular model, dealers are asking for more units as early as possible, so we will continue our efforts.

Q11: Please give us details of the sales performance of the CX-60 by market and powertrain type.

A11: The markets where the CX-60 have been introduced are Europe and Japan. We had incoming orders for a total of 25,000 units in Europe as of the end of January, of which 14,000 units have been delivered. In Europe, sales started with the plug-in hybrid model and almost all sales are for plug-in hybrid models. Incoming orders for the in-line 6-cylinder diesel engine model with a mild-hybrid system have reached approximately 2,000 units. In Japan, we had approximately 20,000 orders as of the end of January, of which 50% have already been delivered. In Japan, about half of the total orders are for the in-line 6-cylinder diesel model with a mild hybrid system and the plug-in hybrid model. Feedback on the CX-60 continues to be positive, and incoming orders are strong. The CX-90, the second of the Large Product Group, goes on sale in the next fiscal year. We would like to maintain this strong momentum with the entire Large Product Group.

Q12: Please explain the positioning of the CX-90 and CX-70, which are scheduled to be introduced in the US market next fiscal year.

A12: The CX-90 was recently unveiled in the US market and has been very well received by dealers and customers. The model is a mid-size SUV, which offers a wide body and three-row seats with a 340 hp engine in addition to an attractive interior and exterior design, to match the needs of American customers. The website has received 18 million views. The initial response has been very strong. This product is positioned in a higher price range than the current CX-5 and CX-50, and is accepted by family households who want three rows of seats, including customers who are transitioning from the current CX-9 to a higher-grade vehicle. The CX-70 is a two-row model with the same body. As Mazda has only offered three-row seats in mid-size SUVs, by offering both two-row and three-row SUVs, Mazda intends to increase its coverage, volume and mix of mid-size SUVs. We have high hopes for this new product in the next fiscal year.

Q13: You said the grade mix was showing a declining trend in the US. Please explain the situation.

A13: A decline in the grade-mix is occurring in each model or segment. We have a mechanism that allows us to identify which models are selling well in each market in a timely manner, and with the rise in interest rates, we started to see this trend from around the end of last year. In the current tight supply environment, however, there is no risk to our sales volume itself. We will identify any downward trend in the grade mix in a timely manner, and continue our policy of focusing on strong sellers, increasing the turnover, and securing wholesale volumes. We will introduce the CX-90 in the next fiscal year, for which the segment demand is very strong. The vehicle class is different from the CX-5 and CX-50, and there is strong demand including among CX-9 owners who may switch to the CX-90. We believe we can maintain a high number of sales.

Q14: Please tell us about the situation of sales in Australia and ASEAN markets, as well as the outlook for the future.

A14: In Australia, our market share and unit price are both high, and we will continue to focus on this market going forward. In the current fiscal year, there was a shortage of semiconductors and restrictions on the availability of transportation vessels, which had an impact on volume growth. From the beginning of the next fiscal year, however, we plan to launch Large products as they become ready. Leveraged by new product introductions, we anticipate gradual growth in Australia. With regard to ASEAN, we have transferred the production of the CX-3 to our plant in Thailand and put in place a local production system for highly profitable B cars and B-SUVs. In this fiscal year, we start local production of new models including production of the CX-30 in Malaysia. In addition, we will successively introduce updated products and continue our strategy to grow compact car sales. We do not plan to introduce our Large products in ASEAN, but we do plan to grow volumes by starting local production of models that are already on sale in developed countries, and also by leveraging product updates.

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