Aug 8, 2023

(Reference information)

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

Q1: What is your evaluation of the first quarter results?

A1: First quarter sales were up year on year. Our market share increased in North America, Europe, Australia, and Japan. The total volume was as we expected, but it is important to note the growth in our market share in these countries. Our Large products have been well received and continue to grow in popularity. The CX-90 was launched in North America in April, and its market share is increasing week by week. One-time quality costs were unexpected, and we are concerned about these. As for logistics, in-transit inventory was higher than we planned. In Australia in particular, which is one of Mazda's major markets, logistics disruptions due to port congestion had a serious impact. Wholesales finished 20,000 units below the plan. Production was normal in April, but we had fewer operating days in May. We tried to recover production in June, but units produced in June were not delivered to the market. The model mix in June was good, and we produced models with high profit margins; as a result, we had high unrealized profit in inventory.

There were foreign exchange benefits from a weaker yen against the US dollar and euro, but a stronger Thai baht and Mexican peso had a negative impact on profits, as we have local plants in Thailand and Mexico, which partially offset the benefit of the weaker yen. Sales were strong, but due to one-time quality costs and inventory from logistics constraints, we were not able to reach our profit goal. We should have done better in some areas, but there were also some unusual circumstances. Our plan now is to recover from the second quarter onwards.

Q2: How do you foresee the impact of logistics on earnings for the full year? How confident are you about profit recovery from the second quarter onwards?

A2: The impact of logistics is already included in our forecast, and we are taking action to address it. Inventory remains at the same level as at the last fiscal year end, but we believe we can reduce it in the second quarter. Per-unit variable profit is at a record high, and considering the effect of our Large products, the impact of exchange rates, and the production of 300,000 units in the second quarter, we are confident that we can make a recovery in the first half of the year. We would like to offset the impact of the one-time quality costs by improving the efficiency of fixed costs.

Q3: You have introduced the CX-90 in the US. Please tell us about your sales strategy, status of customer inquiries and other relevant details.

A3: The CX-90's powerful engine, design, craftsmanship and dynamic performance have been very highly rated by journalists and dealers alike. We are monitoring the CX-90's market share on a weekly basis. The market share has increased and in July exceeded CX-9's average share last year. The results are in line with our expectations.

Mid-size SUVs constitute a large segment of the market and the CX-90 appeals to a wide range of customers. We also expect an upshift from the CX-5 to the CX-9 by a significant number of customers. We believe that the CX-90's price and equipment are more attractive than other premium brands on the market. The top of the line model became the top seller immediately after its introduction. Inventory turnover is also improving. Per-unit profit is nearly double the average for Mazda vehicles, and we expect it to continue contributing to earnings in the future.

Q4: Sales in Australia were 25,000 units and appear to be on track for the full-year forecast. Based on dealer feedback on the new product, what is your projection for Australia in the future?

A4: The results have been good, with sales volume up 25% and market share improving. Overall industry demand may weaken slightly going forward, as government stimulus programs expired at the end of June. However, we have recently introduced the CX-60, which has been very well received by dealers and the media. We are on track to achieve our full-year forecast of 100,000 units.

Q5: You mentioned concerns about sales in China and ASEAN. What are the reasons? Can you offset sales there with sales in favorable markets like the US?

A5: We want to continue to increase profits in the US, where we are doing well, and compensate for conditions in China.
In China, we have been struggling in recent years, but in addition to the introduction of the CX-50, we are working closely with local partners to make improvements in anticipation of electrification. It may take time, but our plan is to recover.

Q6: Please tell us about the partnership with Panasonic Energy Co., Ltd. and its position in Mazda's strategy for procuring batteries.

A6: We are having discussions with Panasonic Energy to establish a medium- to long-term partnership in various areas including the supply of automotive cylindrical lithium-ion batteries. In addition to the production of batteries in Japan, we are also discussing with the company the possibility of their assisting with IRA (Inflation Reduction Act) requirements in the US. We intend to finalize plans in the future and will announce details at an appropriate time.

Q7: Mr. Guyton, this is your first time to present earnings as a CFO. Based on your experience, what kind of KPI do you intend to focus on? And also, what do you think your president Mr. Moro expects from you?

A7: My background is in both finance and operations. So I would like to grow the business both in sales volume and earnings by improving product appeal and sales strength in the markets. Mazda also needs to improve its cost base. Mazda sells cars in 130 countries around the world and has a very complex business structure. Consequently, the benefits that come with an economy of scale are modest. For the past six month to a year, we have worked to reduce the complexity, but we have yet to reap the benefits. The complexity of our business also tends to increase fixed costs. Therefore, we need to improve profitability and cash flow. Mazda's business offers a lot of opportunities, and there are a lot of challenges as well.
In addition to all of that, one of the things that Mr. Moro wants from me is to bring in the management approach he and I both used when we worked in the United States and Europe.