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(For your information)

Mazda Motor Corporation

FISCAL YEAR MARCH 2021 FINANCIAL RESULTS

(Speech Outline)

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Managing Executive Officer in charge of Finance

1. Fiscal Year March 2021 Results

Global sales volume was down 9% from the prior year to 1,287,000 units. The US and Australia both showed strong sales, outpacing the demand recovery and posting year over year volume increase. On the other hand, markets such as Europe and ASEAN saw the impact of COVID-19 lockdowns continue throughout the second half of the year, resulting in a year over year decline in global sales.

Next is the financial metrics. Net sales were ¥2,882.1 billion, operating profit was ¥8.8 billion, and net loss attributable to owners of the parent was ¥31.7 billion. Our efforts to cut back fixed costs resulted in better profit levels than forecast in February and we were able to achieve approximately ¥10 billion of operating profit.

Exchange rates were ¥106 to the US dollar, ¥3 stronger than a year ago, and ¥124 to the Euro, ¥3 weaker than a year ago. Consolidated wholesales volume was down 242,000 units year on year to 990,000 units.

I will now explain the factors behind the year-on-year operating profit change of ¥34.8 billion. Volume and mix deteriorated by ¥108.5 billion due to declines in wholesales volume, and the impact of reduced sales of parts & accessories and KD parts for China. Other sales-related factors had a negative profit impact of ¥22.6 billion due to increased environmental regulation compliance costs, reduced OEM supply vehicles, and low use of Thailand plant. Foreign exchange deteriorated by ¥9.3 billion as Russian Ruble and other emerging market currencies appreciated against the yen compared to the prior year. Variable costs improved by ¥8.8 billion despite the impact from hikes in raw material prices, which was more than offset by cost improvement.

Fixed costs improved by ¥76.3 billion due to our continued maximum efforts for cost cutbacks, which could more than offset the increase in investments for future growth. Advertisement costs decreased by about ¥30 billion with continued efforts to improve cost effectiveness, including transitioning to digital ads. R&D costs improved by about ¥7 billion reflecting the improved efficiency of model-based development. Quality-related costs decreased by about ¥24 billion, as we had power-steering litigation costs last year, quality issues of current-generation products are coming to a closure, and the initial quality of new-generation products has stabilized. Other fixed costs including overhead costs improved by about ¥17 billion.

I would like to talk about significant profit improvement in the second half, which drove the profit turnaround for the full year. Looking at this year-on-year comparison of operating profit in the second half of the fiscal year, you can see that improvements in volume and mix and the curbing of fixed cost made a substantial contribution to this turnaround. Volume and mix improved ¥25.1 billion. While the U.S. and Australia saw an increase in both sales and wholesales, total wholesales increased by 11,000 units. Wholesales in the U.S. and Australia increased by 7,000 units and 19,000 units respectively. In the U.S. and Australia, efforts to reduce incentives and improve residual value and cooperation with sales financing are progressing, resulting in increased sales volume and improved sales quality. Fixed cost improved by ¥26.9 billion thanks to improved efficiency in various areas including advertisement costs, overhead costs and R&D costs. Despite the deterioration of foreign exchange and the hikes in raw material prices, the profit structure was significantly improved. As a result, operating profit in the second half improved by ¥43.9 billion year on year.

2. <u>Fiscal Year March 2022 Forecast</u>

Global sales volume for FY March 2022 is projected to be 1.41 million units, up 9% year on year, and retrieving the level of sales volume in FY March 2020. Consolidated wholesales are estimated at 1,135,000 units, up 15% year on year. The semiconductor supply issue is assumed to affect about 100,000 units of production, but we will fully leverage available inventory to minimize the impact on the wholesales to about 70,000 units. In addition to the impact of the semiconductor shortage, taking into consideration price hikes in raw materials such as precious metals, operating profit is projected at ¥65 billion.

Looking at the trends in consolidated wholesale volume, operating profit and break-even volume over three years, in the prior fiscal year, variable profit improvement and fixed cost reduction contributed to steadily lower the break-even volume. For this fiscal year, we will continue these efforts to lower the break-even volume to reach the Medium-term Management Plan’s target-level of 1 million units. We will continue to make steady improvements in absolute terms by reducing costs and improving productivity throughout the supply chain.

I will now take you through our global sales forecast. Although we expect to make a recovery in each market from the volume drop caused by the COVID-19 outbreak in the last fiscal year, global sales volume is projected to be 1.41 million units, up 9% year on year in light of future uncertainties, such as the shortage of semiconductor supply. While maintaining the sales momentum seen in the previous fiscal year, we aim to achieve sales recovery for the full fiscal year in Europe and China, but also globally.

Next, I will go through our financial metrics forecast. Net sales are forecast to increase 18% from the prior year to ¥3.4 trillion. Operating profit is forecast at ¥65 billon, and net income attributable to owners of the parent at ¥35 billion. As for foreign exchange rates, the yen is projected to weaken ¥3 to ¥109 to the US dollar, and weaken ¥5 to ¥129 to the Euro compared to the prior year. Consolidated wholesale volume is forecast to be 1,135,000 units, up 145,000 units from the prior year.

I would like to go through the factors behind the forecast of a ¥56.2 billion year-on-year change in operating profit. First of all, the ¥20.5 billion extraordinary loss resulting from the suspension of operations last year will negatively impact the year-on-year operating profit change this fiscal year. Volume and mix is expected to improve by ¥74.7 billion as a result of an increase in wholesale volume as well as a reduction of marketing expenses and sales mix improvement. Foreign exchange is expected to contribute to ¥33.5 billion profit increase thanks to a weaker yen against key currencies compared with the prior year. Variable cost is projected to deteriorate by ¥33.5 billion as the impact from substantial price hikes in raw materials prices, such as precious metals, outweighs cost improvements. In response to the price hike in precious metals, we have started taking technical measures, which include reducing the usage of said metals. Fixed cost and others will improve by ¥2.0 billion, remaining at a similar level to the prior year. Investments for future growth, including costs related to the new US plant, are projected to grow, while being offset by continuing and strengthening efforts to curb fixed costs and other expenses.

Akira Marumoto
Representative Director, President and CEO

3. <u>Financial Results Summary</u>

In FY March 2021, we suffered a considerable impact from COVID-19, primarily in the first half. We made every effort to cope with the impact, including emergency fund procurement and weekly monitoring of pipeline inventories to support timely production and sales. Above all, the entire company made focused and continuous efforts to lower the break-even point by pushing for sales recovery, fixed cost reduction and variable profit improvement. As these structural reforms begin to bear fruit, the second-half operating profit came in at ¥61.7 billion with 3.5% operating ROS, and the break-even volume was just under 500,000 units. In this way, we are steadily strengthening our earnings structure and will continue to improve it further. For the full-year, we achieved approximately ¥10 billion operating profit thanks to recovery in profit during the second half of the year. Free cash flow for the full year was positive ¥41.2 billion with operating cash flow improving through inventory reduction and collection promotion. As for the Balance Sheet, we maintained a sound financial position with an equity ratio of 41%, with efforts to reduce assets and loans while going through with emergency fund procurement.

In FY March 2021, we accelerated and enhanced structural reform. As a result, we achieved sales improvement and accelerated the streamlining of fixed cost. Operating profit also turned out to be much better than forecast in July.
In terms of sales, thanks to our efforts to steadily recover volume after the impact of the pandemic, volume increased mainly in the US and Australia. As we continued to focus on sales quality improvements through marketing expense cutbacks and sales mix improvements, we achieved much better volume and mix results than expected. Fixed costs also improved more than expected by establishing and enhancing efficiency improvements in all areas including advertisement costs, overhead costs, and R&D costs. In this way, we are making good progress in profit structure enhancement, while accelerated efforts for corporate-wide structural reform following the COVID-19 outbreak are paying off.

I will now go through FY March 2022 forecast. Operating profit is expected to be ¥65 billion, better than the operating profit of about ¥40 billion two years ago. Net income attributable to owners of the parent is expected to be ¥35 billion. We forwent dividend payment last fiscal year, but we plan to pay a year-end dividend of ¥15 per share, exceeding 25% payout ratio.
We announced the Medium-term Management Plan in November 2020 and forecast the operating profit target to be as good as FY March 2019. Considering our efforts for profit structure enhancement that have started to pay off in the last fiscal year, we believe it is likely that this target will be achieved. On the other hand, in this fiscal year, we projected the operating profit to be ¥65 billion accounting for both the impact of the semiconductor shortage and risks of material price hikes such as precious metals. However, we will stick to the target of the Medium-term Management Plan. To achieve further improvement during this fiscal year, we will both continue and enhance the structural reform, which we have been refocusing on since the start of the pandemic.

In this fiscal year, although uncertain situations such as the semiconductor shortage and rising prices of raw materials may continue, we will make steady progress on the key initiatives of the Medium-Term Management Plan, such as investing in products/technologies and sales/customer experience, as well as lowering the break-even volume. Thanks to the company-wide cross-functional activities, these initiatives have started to gain momentum. With regard to the update of our electrification strategy and actions for carbon neutrality that we presented in February, we are making progress in developing the specifics and plan to provide a briefing at an appropriate timing. We are committed to continue making all-out efforts to achieve the targets of the Medium-Term Management Plan and concretize Mazda's uniqueness.

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