November 10, 2022

(For your information)

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

Q1: Your net sales and profit for the first half increased year on year. Operating income was ¥55.2 billion, which was very good despite a reduction in volume. Volume and mix was the main factor for operating income increase from the previous year. Can you tell us the breakdown of mix, price impact, etc?

A1: In the first half, volume and mix included ¥40 billion negative impact from a reduction in wholesale volume and deterioration in mix, which was offset by ¥55 billion positive improvement through price adjustments and marketing expense reductions. Wholesale volume was down 30,000 units to 450,000 units. Price change, model mix improvement, incentive reductions, and other actions improved per-unit profit. In the last fiscal year, we allocated more units to the US as its economy recovered from the pandemic much faster than other markets due to its high vaccination rate. This year, however, we are allocating the products equally to all our markets in the world, resulting in deterioration in coutry mix. In the second half, we will have a higher mix of new products CX-50 and CX-60 and roll out facelifted and updated models in some markets. By offering these attractive products, we plan to take vehicle price revisions and improve profit.

Q2: Operating margin reached 7.3% in the second quarter, but it is projected to decline to 3.8% in the second half. What is your view on profitability in the second half?

A2: Despite a significant volume decline in the first quarter, operating income improved by ¥55 billion in the first half through improvements in per-unit profit and others. We worked to offset the impact of volume decline through efforts in all areas such as improvements in per-unit profit and mix as well as reduction in variable and fixed marketing expenses, which resulted in a high operating margin in the second quarter.

In the second half, however, we anticipate that the business environment will be highly volatile with rising raw material prices, logistics issues including a shortage of carrier vessels, and a risk of recession in the US and Europe. If the foreign exchange rates remain at the current levels, there will be a positive impact on per-unit profit. Further, over the medium term, we will launch Large products, our big profit pillar, in key markets and will work to improve profitability in all areas, so that momentum should continue into the second half of the fiscal year and onwards.

Q3: The impact of rising raw material prices has been revised in your full-year forecast. I would like to know which specific items you changed your forecast for and your countermeasures.

A3: At the beginning of the fiscal year, we forecasted that raw material price increases would gradually ease towards the end of the fiscal year. However, seeing the recent rises in prices of naphtha, copper, and steel materials, we reflected further price increase in the cost impact. General cost improvement is being made gradually through our co-creation activities with suppliers, but it cannot generate results overnight. We are promoting company-wide cost reduction activities that can be implemented and be effective not only this year but over the long term.

Q4: What is the outlook for production in the second half given the procurement situation of semiconductors?

A4: The situation of semiconductor procurement continues to be unstable although it has relatively stabilized for some components as we took various measures including engineering changes to use general-purpose products and multiple sourcing strategy. Our current monthly production is more than 100,000 units. In the second half of the year, we will try and continue to produce at this level while improving per-unit profits and earning profits in regions that generate higher per-unit profits such as North America.

Q5: I would like to ask your view on the outlook for the industry demand in the US. Interest rates have been rising and the risk of an economic recession has emerged. What is your projection of the industry demand in the US?

A5: The industry demand from January to October this year declined by 10%, but since August it has turned to a year-on-year increase every month. Our sales in October also seem to have been strong. The current auto loan interest rate is about 7% and it seems that demand is still strong. Cars are necessities in the US, but supply has been tight over the past two years including used cars. We expect the current sales status of every wholesale unit being retailed to continue until the end of the year. If the auto loan interest rate becomes 10% or higher driven by the movement of interest rates next year, there are concerns that sales will be affected. We will carefully monitor how the US government controls inflation.

Q6: What is the status of CX-50 production in the US? You explained that Mazda is working on quality while it is difficult to hire and retain workers. What is the outlook for an increase in production in the future?

A6: We are finding it difficult to hire workers and retain existing employees due to a mismatch between labor supply and demand in the US. Alabama's unemployment rate is quite low at 2-3%, and our team in Alabama is working hard to retain employees. At present, we are continuing with a one-shift operation to achieve stable operation at a certain level, and the introduction of the two-shift operation is slightly delayed with respect to the original plan. Sales of the CX-50 are very strong and we keep ourselves committed to producing and supplying quality products.

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