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(For your information)

**Mazda Motor Corporation**

**FISCAL YEAR MARCH 2021 FIRST QUARTER FINANCIAL RESULTS**

(Speech Outline)

**Akira Koga**
**Director, Senior Managing Executive Officer,**
**Oversight of Corporate Planning Domain, Corporate Liaison and MDI & IT**

Thank you for joining our conference call today.
Before we start, we would like to express our heartfelt sympathy to those who have been suffering from the novel coronavirus outbreak and extend our deepest condolences to bereaving families. All of us at Mazda will continue to do our best to ensure the safety and health of our employees and all those involved in our business.

## 1. Fiscal Year March 2021 First Quarter Results

I will take you through the FY March 2021 first quarter results.
Global sales were 244,000 units, down 31% year on year, due to the rapid decline in demand caused by the spread of the novel coronavirus.
Since business activities re-opened, our sales in each market have been gradually picking up, and so has our production volumes.
Consolidated wholesales were 114,000 units, down 63% year on year.
Our inventory levels, which were excessive at the end of March due to the rapid drop in demand, balanced out to an appropriate level thanks to sales recovery and production adjustments.
With regard to financial results, net sales were ¥376.7 billion, down 56% year on year. Operating loss was ¥45.3 billion and net loss attributable to owners of the parent was ¥66.7 billion.
Also, accounting for the production loss from suspended operations, we booked ¥20.5 billion as an extraordinary loss.
Free cash flow was negative at ¥151.1 billion.

Let me now go through the emergency response measures we have taken so far to cope with the changes in the business environment due to the COVID-19 crisis.
We enhanced inventory management throughout our entire pipeline by adjusting production weekly in light of the suspension of sales operations at dealers and plummeting demand.
We worked to improve cash flow by implementing emergency measures such as reducing spending and accelerating sales in line with the pace of dealers re-opening and the recovery of demand.

Also, we procured ¥290 billion of funds before the end of June to secure liquidity.
We have been continuously holding discussions with suppliers and partners about their employment preservation and cash management.

Global sales were 244,000 units, down 31% year on year.
As economic activities were stagnant globally due to lockdowns and restrictions on outings, all major markets experienced sales decline, except for China.
Sales in China for the first quarter increased year on year, as the economic activities re-opened early and economic support measures were in place.

I would like to look at financial metrics.
Net sales were ¥376.7 billion, down 56% year on year. Operating loss was ¥45.3 billion. Ordinary loss was ¥41.8 billion. As ¥20.5 billion was recorded as extraordinary loss caused by suspended plant operations, net loss attributable to owners of the parent was ¥66.7 billion.
Exchange rates on average were ¥108 against the US dollar, ¥2 stronger than the prior year, and ¥119 against Euro, ¥5 stronger than the prior year.
Consolidated wholesale volume was 114,000 units, down 197,000 units year on year.

I will now explain factors behind the changes in operating profit from the prior year.
Volume and mix deteriorated ¥104.4 billion due to a decrease of wholesales by 197,000 units and of parts and accessary sales.
Foreign exchange deteriorated ¥3.2 billion due to a stronger yen against the key currencies.
Variable cost improved ¥0.3 billion as cost improvement activities were limited in light of the COVID-19 crisis.
Fixed costs and other costs improved by ¥34.5 billion.
Fixed marketing cost was reduced by approximately ¥17.0 billion by improving spending efficiency in light of sales activity restrictions due to the COVID-19 pandemic. In addition, considerable reduction in overhead cost was achieved. Quality-related cost was reduced by approximately ¥13.0 billion resulting from a return of approximately ¥8.0 billion booked last year as expenses related to the power steering litigation, containment of quality concerns with the current generation of products, and the stabilization of initial quality for the new generation of products. In addition, ¥20.5 billion production loss from suspended operations was moved over to extraordinary loss.

**<u>2. Fiscal Year March 2021 Full Year Forecast</u>**

I would like to go through the full year forecast for the FY March 2021.
Global sales volume will decline 8% year on year to 1.3 million units. Global sales are expected to be down 14% from the prior year, excluding China, where COVID-19 was contained earlier than in other countries.
Consolidated wholesales are projected at 1 million units, down 19% year on year.
Net sales will decline 17% year on year to ¥2,850 billion. Operating loss will be ¥40 billion and net

loss attributable to owners of the parent ¥90 billion.
We will continue to take thorough action to recover sales and reduce fixed costs in order to minimize the business impact of the COVID-19 crisis.
Domestic production over the full fiscal year is projected to be down approximately 20% year on year as production will be back to normal from August, despite it being down approximately 80% in the first quarter due to production adjustments.
We will forego dividend payout for this fiscal year in light of harsh business performance for this fiscal year and possible financial risks that may materialize if the COVID-19 crisis prolongs.

Global sales volume is projected to be down 8% year on year to 1.3 million units, or down 14% year on year excluding China.
Despite global uncertainties, the increasing number of new COVID-19 cases in some markets, and the risk of a second wave of infection after a temporary slow-down, customers are recognizing the unique values of Mazda products, and sales reforms including the strengthening of our sales finance business are beginning to take effect. As for the sales volume plan, we will take into account demand recovery trends in each market. By country, sales in China and the US are projected to be up year on year.
As planned, adjustments to the sales mix in Europe are underway to comply with environmental regulations. The recovery of other markets including ASEAN and Latin America is projected to be an uphill struggle.

We will look at the full-year financial forecast.
Net sales are projected at ¥2,850 billion, down 17% year on year, operating loss at ¥40 billion, ordinary loss at ¥34 billion, and net loss attributable to owners of the parent at ¥90 billion.
The US dollar is assumed to be at ¥107, ¥2 stronger from the previous year; and the Euro to remain at ¥120.
Consolidated wholesale volume is projected at 1 million units, down 233,000 units or 19% year on year.

Now, I will present factors behind changes in the operating profit forecast from last year.
Volume and mix is projected to deteriorate by ¥130 billion due to lower wholesale volume, lower parts and accessories sales, and sales promotion in line with the market environment.
In addition, other sales-related factors making an impact of ¥30 billion are expected. These include higher cost to comply with environmental regulations, lower OEM supply, and one-time impact from low use of our plant in Thailand.
Foreign exchange is projected to deteriorate by ¥20 billion, considering the recent appreciation of the yen against key currencies.
Variable costs will improve by ¥10 billion thanks to cost improvement efforts.
We aim to improve fixed costs and other costs by ¥65.9 billion.
Advertisement costs will be streamlined to reduce costs by approximately ¥30 billion. This will be

done by shifting from traditional mass media to digital media and placing greater focus on customer experience, while undertaking cost reduction and cost-effectiveness improvement.
R&D cost will be improved by ¥5 billion by boosting overall efficiency through the enhancement of Monotsukuri with the use of model-based development, and through reviewing the work is carried out amid the COVID-19 crisis.
Furthermore, we aim to achieve approximately ¥20 billion in cost reductions by lowering overhead costs by refraining from going on business trips or holding events as well as by reviewing outsourcing costs. We also plan to reduce overtime work through work style reforms, and reduce directors' remuneration and salaries of managers in Japan and overseas.
As for quality related costs, we estimate that a reduction of approximately ¥20 billion is possible with the return from the power steering litigation in the previous year, resolution of quality issues with the current generation of products, stable initial quality of the new generation of products as well as improvement of the repair methods already in place and early problem detection and resolution using Mazda Connect.
US plant and other investments for future growth is approximately ¥10 billion.
With the aforementioned improvements of approximately ¥75 billion, an improvement to fixed costs of approximately ¥65 billion in total is planned.

This brings us to the summary of this fiscal year's initiatives.
Despite the uncertain circumstances, we hypothesize the auto demand will gradually recover in this fiscal year. As the industry rebounds, we will make sure to capture sales opportunities to achieve sales recovery.
Global sales volume in the first quarter was down 30% year on year, but we expect the reduction from the prior year to be 10% in the second quarter and to be minor in the third quarter.
Subsequently, we plan to achieve year-on-year growth in the fourth quarter.
Consolidated wholesale volume was down 60% in the first quarter to optimize inventory, but the year-on-year reduction is projected to be 20% in the second quarter. It is expected to be flat in the third quarter and better in the fourth quarter than the prior year.
Along with sales recovery, we will take thorough action to reduce fixed costs.
We will continue to make efforts to cut fixed costs by improving efficiency of advertisement cost, overhead cost and R&D cost, and reducing of quality related expenses.
By making utmost efforts to recover sales and to reduce fixed costs, we expect the profit level to gradually recover and deliver positive results in the second half of the fiscal year.
If the COVID-19 crisis majorly impacts our business in any other additional way, we will respond flexibly and with all our might.

**Akira Marumoto**
**Representative Director, President and CEO**

## 3. Direction of Medium-Term Management Plan Revision

I will be talking about the direction of the medium-term management plan revision including lessons learned from the COVID-19 crisis.

While the COVID-19 crisis had an enormous impact on the business environment, it also gave us the opportunity to think about numerous things every day and learn lessons from the experience. Amid ever-changing conditions, we concentrated on making prompt decisions and implementing emergency measures to minimize risks, including measures to prevent infection among our employees, group companies and local communities. As a manager, I think this crisis presented me with the opportunity to review the past, analyze the current situation, and consider the outlook of the future. I believe it was also an opportunity for our employees and officers to think through the best measures to take.

I would now like to talk about lessons we learned and actions we have taken.

First is work style. We understood that expanding on flexible working styles such as working from home is a great opportunity to significantly improve work efficiency. We started mapping out work that should be discontinued and work that should be modified by taking inventory of work processes as well as clearly outlining inputs, interim processes and outputs of work on a corporate-wide basis.

Second is fixed costs spending. We have realized that our efficiency improvement efforts so far have not been sufficient. We have taken the global pandemic as an opportunity to speed up comprehensive improvements to efficiency, through corporate-wide measures I would explain later and the refinement of work processes I mentioned earlier.

With sales plummeting, we took swift actions to balance inventory and production volume by capitalizing on what we learned from the global financial crisis. We were able to draw an in-depth understanding of our entire pipeline's in real time and make swift decisions. We will incorporate this into our routine operations to further reduce cash that is tied up in inventory.

Considering the uncertain outlook of demand and the possible changes in consumer behavior, we are looking to generate maximum effect from the smallest step-by-step investments as possible as well as fully utilizing our existing assets, both in facilities and in products.

Lastly, reforming our work approach. We started cross-functional initiatives which involve corporate-wide participation from all areas to solve corporate issues, as a measure to ensure overall optimization instead of individual optimization. For example, when improving efficiency, simply improving efficiency in a single organization may lead to individual optimization, but the effectiveness of such an improvement is limited. For instance, to improve the efficiency of Monotsukuri (manufacturing), the entire process: development, production engineering, manufacturing, supplier and quality, must be considered as one value chain that works together as one team to improve overall efficiency.

Other than what I just mentioned, we have been putting into practice much more things that we have learned. To speed up decision making and execution, we have carried out large scale delegation of authority from myself to directors and executives.

Please allow me to reemphasize the initiatives of this fiscal year.
From lessons learned from the COVID-19 crisis, all of us are reacquainting ourselves with the “One Mazda” principle and focusing on “timely decision-making and execution”.
As a small player, this is one of our strengths. Capitalizing on this, we will implement the following three actions:

- Continuing efficient investment for future growth.
- Streamlining fixed costs by keeping them thoroughly in check and improving efficiency.
- Steadily improving sales and production by managing inventory levels in line with demand recovery.

I will now explain the direction of the Medium-Term Management Plan revisions based on this year's initiatives.
In May 2019, we defined the Medium-Term Management Policy: “Investment in unique products and customer experience”, “Curb expenses that depreciate brand value” and “Investment in the areas in which we need to catch up”.
We believe it is extremely important to strengthen our unique value of “co-creating with others”, for Mazda to continue doing business.
We will maintain this policy and make every effort to improve efficiency, reviewing scaling and timing.
We will continue investment for future growth to create unique value. Investments in areas such as product/technology development, global IT, the new US plant and sales network will be sustained as efficiently and level as possible.
Environment, safety and connectivity are the call of the times and among the most important challenges for our survival. We will keep strengthening alliances and collaboration with other companies while continuing investment to create unique value.

In addition to the initiatives explained in “Lessons Learned in COVID-19 Crisis”, several revisions will be made to the Medium-term Management Plan, under the premise of uncertain demand.
Here are five key points for the course of action of revisions made.

1. We are considering to postpone the timing to achieve targets under the Medium-term Management Plan by about one year. However, net sales and profit target for the final year remain unchanged and we aim to deliver on them.
2. We will accelerate the streamlining of fixed costs and cost reductions in all areas, thereby lowering our breakeven sales volume, to build a resilient business structure capable of surviving any future crisis.
3. We will continue investment for future growth with improved efficiency. In parallel, we will

level out and balance the spending timing to maximize investment efficiency.

4. As for products, we will launch new products and derivatives step by step, while considering the introduction timing of regulations, and monitoring demand recovery and sales performance.
5. We will enhance alliances for CASE technologies and deepen collaboration with suppliers.

Specifics regarding the revisions of the Medium-term Management Plan will be announced in autumn this year or later.

Now I would like to explain the key initiatives during and after this fiscal year.

1. For R&D investment, we will maximize investment efficiency while freezing spending on long-term elemental technology development for two years. To achieve this, elemental technologies will be shifted to virtual development using model-based research and model-based development. Ultimately, they will be recovered with actual unit verifications at an appropriate time.
2. Regarding capital expenditures, we will fully utilize assets of existing and new generation products, enhance production engineering technologies and plan to make staggered and efficient investments in Large products rather than investing all in one go.
3. Fixed marketing costs will be shifted from mass media to digital, and from nationwide to regional, in order to maximize the effectiveness of commercial promotions and attracting customer traffic.
4. For quality improvement, we will strengthen model-based development, which is one of our strengths, as well as our quality inspection to minimize issues that outflow to the public. We will also resolve field quality issues quickly by utilizing the information we obtain through the vehicles' on-board systems.
5. Given the low productivity of overseas plants compared to domestic plants, we will fundamentally improve their productivity during the Medium-term Management Plan period to make them on par with those in Japan today.
6. Environmental regulations, especially the $CO_2$ regulations in Europe, are an imminent issue. Based on the actual $CO_2$ performance and improvement plans of each product/powertrain, we developed plans to reduce our $CO_2$ penalty by adjusting the balance in pricing and improving the mix of low $CO_2$ products as well as SKYACTIV-X. We will also take on a challenge of bolstering the sales of MX-30, our first mass-production EV model, for which strong inquiries are coming in. We will proceed with actions to achieve the targets set by Sustainable Zoom-Zoom 2030, and will add some enhancements to the plan in order to cope with green regulations in each country.
7. We will continue to balance our inventory in accordance with demand, and as the next step going forward for inventory, we aim to increase sales by improving our inventory turnover rate.
8. We will continue to ask each employee to review his/her work tasks and improve

processes until such reviews will take root in all areas as a basic action, aiming to avoid rework and both maintain and improve employee motivation. The cross-functional team activities, where multiple organizations and regions work together to improve overall efficiency for total optimization and to resolve company-wide issues, will continue until they become a strength for Mazda as a small player.

That is it for lessons learned from the global pandemic and the direction of the Medium-term Management Plan revisions.
The actions being taken at Mazda cover a wide range and are being undertaken with all our might. We will institutionalize these corporate-wide activities, rather than individual activities. Amid current uncertainty, we aim for flexible, timely decision-making and execution.

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