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(For your information)

Mazda Motor Corporation

FISCAL YEAR MARCH 2020 FIRST QUARTER FINANCIAL RESULTS

(Speech Outline)

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Thank you for joining our earnings announcement today.

1. HIGHLIGHTS

In the first quarter, global sales were 353,000 units, down 12% year on year.
Revenue was ¥848.9 billion and operating profit was ¥7 billion due to impact of foreign exchange rates and a temporary increase in quality-related cost. Net income was ¥5.2 billion.
Full year forecasts of global sales volume and profits remain unchanged from the announcement in May. We will carefully monitor exchange rate movements and the results of initiatives from the second quarter.
The business environment is worsening more than expected as the yen appreciates and competition intensifies. We will take action to recover sales momentum in key markets.
As laid out in our medium-term management policy, we are continuing with our strategy of improving the quality of sales globally by leveraging the new Mazda3 to reduce incentives and improve transaction prices. At the same time, we continue to prepare for the launch of the CX-30, the second new-generation model.

2. FISCAL YEAR MARCH 2020 FIRST QUARTER RESULTS

In May, we initially planned for global sales in the first quarter of 377,000 units, down 7% year on year, considering the switchover to the Mazda3, a high-volume product globally, and the fact that key models in the high-volume China market are pre-update.
However, actual sales were 353,000 units, down 50,000 units or 12% year on year, as fierce competition among crossover SUVs and further decline in demand for sedan models resulted in lower-than-expected sales in Japan, the US and China.

Now I will talk about sales in each market.
In Japan, sales were 39,000 units, down 20% year on year. Registered vehicle market share was 3.9%, down 1.3 points year on year.
In May, we projected sales in the first quarter of 43,000 units, down 12% year on year, considering the Mazda3 model switchover and the reduction of the new-car effect for CX-8.

Although the new-generation Mazda3 has been popular and orders and sales exceeded the plan, sales of existing models were lower than expected and overall sales fell short of the May forecast by 4,000 units.

Sales in North America were 100,000 units, down 14% year on year.
In May, with respect to the US, we planned to maintain sales on par with the prior year by increasing sales of CX-5 and new Mazda3 while continuing to curb incentives, as we have been doing since late last year, and further reducing fleet sales.
However, sales fell short of the May forecast by 12,000 units, as sales of CX-5 and Mazda3 were lower than expected.
On the other hand, we continue striving to improve sales quality, and reducing incentives for CX-5 has improved per-unit profit.
Transaction prices for new Mazda3 topped the class thanks to substantially reduced incentives and the fact that sales of models in the higher price ranges exceeded the plan.
Sales in Canada were 19,000 units, down 17% year on year. Sales in Mexico were 13,000 units, up 1% year on year.

Sales in Europe were 67,000 units, on par with the prior year, in line with the May forecast.
Sales in Europe excluding Russia were 60,000 units, up 2% year on year.
Sales in Germany were 17,000 units, up 6% year on year. Sales in the UK were 8,000 units, up 8% year on year.
Sales of new Mazda3 were strong, and sales quality improved as incentives were down and high-grade models accounted for a higher ratio of sales.
Sales in Russia were 7,000 units, down 16% year on year due to demand decline because of a tax increase from January 2019.

In China, sales were 54,000 units, down 21% year on year.
In May, we projected sales of 58,000 units, down 15% year on year, in light of contracting demand, continuing fierce competition, and the fact that mainstay models are pre-update.
But the sales results fell short of the plan by 4,000 units as the declines in sales of CX-4 and Mazda3 were greater than expected.
With new product launches in the pipeline, we will firmly adhere to measures to improve sales quality, such as communicating product values and optimizing dealer inventory.

In other markets, sales were 93,000 units, down 10% year on year.
In Australia, sales were 27,000 units, down 9% year on year, in line with the May forecast.
We maintained market share on par with the prior year despite declining demand and intensifying competition.
Orders of new Mazda3 were strong with a higher ratio of high-priced models than planned, contributing to the acquisition of a good customer base and improved per-unit profit.

In the ASEAN region, sales were 29,000 units, down 11% year on year.
Sales in Thailand were 15,000 units, down 10% year on year, and sales in Vietnam were 7,000 units, down 3% year on year.
Revenue in the first quarter was down 3% year on year to ¥848.9 billion. Operating profit was down 79% to ¥7.0 billion, and ordinary profit was ¥9.1 billion. Net income was down 75% from the prior year to ¥5.2 billion.
Exchange rates were ¥110 to the US dollar. The euro was ¥7 weaker than the prior year at ¥124.

I would like to explain the key factors behind the operating profit decrease of ¥25.7 billion over the prior year.
Volume & mix deteriorated ¥6 billion due to the decline in wholesale volumes as well as a reduction in KD parts shipments for China, although efforts to improve our brand value are on track and we are starting to see the effects of reducing marketing expenses.
Foreign exchange rates deteriorated ¥10.8 billion in total mainly due to deteriorations from the euro and Australian dollar.
Variable costs improved ¥4 billion due to cost improvement efforts that were partially offset by a hike in raw material prices.
R&D costs increased ¥0.4 billion.
Other fixed costs deteriorated ¥12.5 billion due to a one-off cost related to a lawsuit over power steering, in addition to investments for growth such as depreciation costs and costs related to the new U.S. plant.

3. FISCAL YEAR MARCH 2020 FULL YEAR FORECAST

The full year forecast for FY March 2020 remains unchanged from the May announcement.
In the first quarter, the business environment worsened more than expected as the yen appreciated and competition intensified.
We will take action to recover sales momentum in key markets. We will carefully monitor exchange rates and other changes in the business environment as well as the results of our actions for sales.

4. PROGRESS OF KEY INITIATIVES

New Mazda3 has successfully increased the ratio of higher-grade models and per-unit revenue in markets where it has been introduced.
As laid out in our medium-term management policy, we are reducing incentives – one of the outgoings that lower brand value – as planned globally, and promoting sales focused on the communication of productive values.
We started building the CX-30, the second new-generation product, at the Hiroshima Plant in April, and are steadily preparing for its rollout in Europe this summer.
At the joint-venture manufacturing plant in the US, foundation work has been completed and steel frame construction has begun. Preparations are on track for start of operations in 2021.

5. INITIATIVES FROM SECOND QUARTER

Now, I will explain the initiatives in key markets from the second quarter.
In Japan, we will enhance trade cycle management and take advantage of high residual values to improve repurchase rates and increase conquest sales.
We will effectively communicate Mazda's unique points, such as the high-quality feel and the appeals of the diesel CX-5 and CX-8 to improve sales trends.
In the US, to increase the momentum of sales of new Mazda3, we will strengthen value communication activities, including creating test drive opportunities at dealers so customers can experience the appeal and value of our new-generation products.
For our mainstay model, CX-5, we will enhance communications and undertake efficient sales promotion actions tailored to each region to improve the sales trend.
We will continue to promote sales network reforms, working with dealers willing to engage with Mazda to drive business model transformation.
In China, we will continue sales focusing on the communication of product values. We aim to turn the business around through the introduction of new Mazda3 and updated models.

Globally, we will continue and strengthen initiatives to improve sales quality by reducing incentives and shifting to a higher price zone.
We will enhance efforts such as sales actions to address the stronger yen, additional cost improvements, and fixed cost efficiency.
In parallel, we will ensure the successful launch of the second new-generation product, CX-30.
We plan to start production of the CX-30 at the Mexico Plant by the end of the year.
While the tough business environment is expected to continue, the whole company will pull together to continue improving the sales approach and use new-generation products to drive per-unit revenue and profit improvement as laid out in our medium-term management policy.

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