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(For your information)

Mazda Motor Corporation

FISCAL YEAR MARCH 2020 SECOND QUARTER FINANCIAL RESULTS

(Speech Outline)

Tetsuya Fujimoto
Managing Executive Officer in charge of Finance

Thank you for joining our earnings announcement today.

1. FISCAL YEAR MARCH 2020 SECOND QUARTER RESULTS

Revenue decreased 1% year on year to ¥1,706.6 billion. Operating profit was down 14% year on year to ¥25.8 billion, ordinary profit was ¥34 billion, and net income was down 30% year on year to ¥16.6 billion.
Exchange rates were ¥109 to the US dollar, ¥2 stronger than a year ago, and ¥121 to the euro, ¥8 stronger than a year ago.

Operating profit deteriorated ¥4 billion from the previous year, from ¥29.8 billion to ¥25.8 billion.
Despite decreased wholesales volume, volume and mix improved ¥31.2 billion reflecting approximately ¥30 billion improvement from accelerated reduction in marketing expenses and improvement of per-unit profit, in addition to a mix improvement of approximately ¥10 billion.
Foreign exchange rates deteriorated ¥37.5 billion in total due to deteriorations mainly from the euro and Australian dollar.
Variable costs improved ¥10.5 billion, as the deterioration of approximately ¥4 billion from increased raw material prices was offset by the effects of cost improvement efforts.
R&D costs increased by ¥4.7 billion.
In terms of other fixed costs, investment for growth increased and we booked a one-off ¥8 billion quality cost related to power-steering litigation in the first quarter. However, we worked to streamline other fixed costs and, as a result, they only decreased profits by ¥3.5 billion.

We prioritized efforts to improve sales quality for the future, including reducing marketing expenses and improving per-unit profit, despite declining industry demand worldwide. As a result, global sales volume was 731,000 units, down 8% year on year.

2. FISCAL YEAR MARCH 2020 FULL YEAR FORECAST

Operating profit is revised to ¥60 billion, down ¥50 billion from the May forecast of ¥110 billion.
Ordinary profit is revised to ¥70 billion, and net income to ¥43 billion.

Foreign exchange rates are revised to reflect the current market levels, considering the trend of the yen's appreciation against key currencies.

Operating profit is projected to decrease ¥22.3 billion year on year from ¥82.3 billion to ¥60 billion.
Volume and mix is expected to improve ¥47.7 billion. As we continue reducing marketing expenses and improving per-unit profit, including through price increases, we aim to achieve an approximately ¥50 billion improvement. Together with a mix improvement of approximately ¥15 billion, this will significantly outweigh the impact of wholesale volume decline.
Foreign exchange rates are forecast to deteriorate ¥79.9 billion due to stronger yen against all currencies.
Variable costs are projected to improve ¥21.1 billion reflecting cost improvement efforts, despite a deterioration of approximately ¥9 billion from increasing raw material prices.
R&D costs are projected to increase ¥4.3 billion.
We will work to cap and reduce fixed costs and forecast a deterioration of only ¥6.9 billion despite increased investment for growth and a one-off quality cost related to power-steering litigation.

I will explain why we have revised our forecast operating profit down ¥50 billion from the May forecast of ¥110 billion to ¥60 billion.
We expect consolidated wholesale volume to fall short of the May forecast by approximately 60,000 units as we prioritize improving sales quality for the future, in addition to declining industry demand worldwide. But the impact of the volume decline will be offset by an improvement of approximately ¥30 billion; about ¥6 billion in reduced marketing expenses and about ¥24 billion in per-unit profit improvement, including from pricing increases.
Exchange rates will deteriorate profits ¥63.2 billion as exchange rate assumptions are revised to reflect the appreciation of the yen.
The effects of cost improvement efforts are expected to improve variable costs by ¥1.3 billion.
Despite the quality cost related to the power-steering litigation, other fixed costs are forecast to improve ¥11.9 billion thanks to streamlining and early implementation of fixed cost reduction actions.

Global sales volume is revised to 1,550,000 units, down 68,000 units from the May forecast of 1,618,000 units.
Volume forecast is revised down mainly in Japan, North America, China, and ASEAN to reflect the sales results in the first half.

Kiyoshi Fujiwara
Representative Director and Executive Vice President

3. <u>MEDIUM-TERM MANAGEMENT PLAN</u>

Firstly, I would like to quickly recap the Medium-Term Management Policy which we announced in

May.
The auto industry is entering an era of once-in-a-century transformation.
To satisfy the era’s requirements in the areas of CASE (Connected technology, Autonomous driving technology, Shared services, and Electrification technology), we need a major transformation of the way we do business.
From planning, development, manufacturing, sales, to customer care including after-sales maintenance, every single operation needs transformation and new collaboration with different industries.
This reflects a dramatic change in customers’ needs. We must satisfy increasingly broad and higher-level requirements than ever.
We now have to implement these transformations on a global scale and all at one time.

In such a transformational era, the Medium-Term Management Policy and Plan are our guides to ride out this critical time for Mazda.
As we celebrate our centennial anniversary next year, with this plan we will begin the first stage of the next 100 years.
Towards the long-term vision for 2030-2040, the Medium-Term Management Policy and Plan cover a period of 6 years, the same length of time it takes to introduce a full product generation.

The basic philosophy is Co-Creating with Others. For Mazda to persevere as a small player, we will work together with all stakeholders, think of others first, and never become self-satisfied.
Co-Creating with Others, Mazda’s Uniqueness- this is our basic philosophy.

We set out three management themes: “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”. From these perspectives, I am now going to explain the Medium-Term Management Plan.

Let me start from major initiatives.
The first topic is investment for brand value improvement. As mentioned at the beginning, we have made steady progress in technology and product development, including efforts to meet the requirements of the CASE era.
We presented Next-Generation Technology Communication & Launch Plan in our Tech Forum held in autumn 2018.
As of today, we have slightly revised the introduction timing of our “Large Architecture”, Skyactiv-D Generation 2, and Plug-in Hybrid technologies.
In other areas, we have developed products and completed launch preparations.
We also made advanced investments, including in collaborations with partners.

Mazda3 is a result of such advanced investment. It is the first in a new generation of products and

has been rolled out to all markets in the world now that it has been introduced in China in September.
This vehicle adopted connectivity technologies for Japan and the US. An electrified mild-hybrid model is also available. As automated driving technology advances, safety features have been upgraded.
We invested in these technologies to meet CASE requirements and now such technologies are incorporated into this vehicle.

This year, we are starting to launch CX-30, the second model of the new generation.

We unveiled our first mass-produced EV at Tokyo Motor Show. Its market launch is next year.
We invested in technologies required for CASE era. Product launch with these technologies is progressing successfully.

When we introduced the new generation of products, we aligned the names of our models globally, except for MX-5.
We want people to say that they drive “a Mazda.” Instead of a series of individual vehicles, we offer a unified Mazda lineup that works as a group to raise the value of the brand. This is our strategy as a small player.
We hope that, whatever model they drive, people will sense Mazda’s vehicle development philosophy, enjoy safe and comfortable driving, and feel the joy of driving.

Let me explain how we think about competing against “big players,” who have more models in their lineup.
In a single model, we offer a wide range of powertrains, including electrification, so that we can cater to global customers’ diverse usage patterns and preferences.
Also for the current-generation products, we incorporate the latest technologies developed by bundled planning, into in-cycle product updates to keep them as competitive as new-generation products.
Even as we transition to a new generation of cars, we want to present Mazda products to customers as a unified group.

Earlier I said that we want to offer powertrains, including electrification, to cover a wider range of options, but that does not mean that Mazda wants to become a luxury brand. I would like to explain our sales strategy and our pricing policy.

Let me use Mazda3 as an example.
For the entry-level model, we adopted CASE technologies and features and reflected them into the minimum pricing.
To ensure that customers would feel value on par with this pricing reflection and find the price

persuasive, we especially focused on improving quietness, audio system performance, and interior quality.
In addition, we attempted to increase pricing coverage by offering a wide range of powertrains.
In Japan and Europe, we offer Skyactiv-X with Mild Hybrid. In the US, we are offering AWD to try to increase the pricing coverage.

In Europe, Mazda3 Skyactiv-X models accounted for about 60% of initial orders, making for a good start.
In Japan, Skyactiv-X was approved on October 30. I'm very pleased with how it has turned out and look forward to getting the model on the market.
In the US, AWD has successfully increased our price coverage as intended.
Models in the high-volume price ranges are currently under-performing, but we have already taken actions for the 2020 model year.

Based on the explanations so far, I would now like to talk what we want to achieve with our "Large Architecture" products.
Mazda is a brand that never stops challenging and our brand position is not fully established yet.
For the Mazda brand to remain successful, it is important to offer an extremely high-value product at a persuasive price. We need development capability including design to deliver highly competitive products. We need technical and procurement capabilities to build such products at a reasonable cost. The technologies to deliver highly competitive products include longitudinal engine layout, straight-six engine, and plug-in hybrid. These are required technologies for "large" products. We also recognize that we need communications and sales capabilities so that customers can see the value of the products and find the price convincing.
For these points, we don't stop but keep challenging ourselves to strengthen the brand.

This challenger's spirit can be seen in all Mazda's past achievements.
Let me speak about CX-5 as an example. This product was launched as completely new model in Japan in 2012.
At launch, the 2-liter gasoline model's entry price started at ¥2.05 million. Diesel models started from ¥2.58 million. The highest trim was ¥3.19 million.
With outstanding torque of 420Nm, good fuel economy, and design, value and price were balanced at very high level.
As many customers chose high-end models, we could achieve higher revenue per unit.
Later, we updated the products with necessary advanced technologies and new design.
As we raised the entry price and offered better high-grade models, the average transaction price went up and revenue growth was achieved.
During this process, the high residual value was maintained. With fixed-RV loan offers, we could encourage customers to replace with a new model in a short cycle.

This is the kind of product that we want to offer once again on a global scale. And we want to achieve it with our “Large Architecture” products. The high-value product will be offered at a persuasive price so that, for example, the owner of a CX-5 2.2L diesel model can buy it.
Also with mild-hybrid, plug-in hybrid, and AWD, we will increase our pricing zone coverage and be the choice of various customers around the world who will be delighted to have such a good product at a reasonable price.

Let me add some actions we take from the standpoint of Monotsukuri, to sum up our investment in brand value improvement.
We have been working on: Monotsukuri Innovation through bundled product planning, model-based development, common architecture, and flexible production since 2012.
And achieved flexible mix production of longitudinal and transversal-layout engines on the same assembly line, including the assembly of engines and transmissions.
The excellence we have built up since 2012 is evident in the offering of both longitudinal and transversal architectures with minimum inefficiency.
With only a small investment, we can develop “large” products, either transverse or longitudinal engines, within the program’s necessary investment.
And now, to further improve development efficiency, we are progressing with bundled planning and development as well as model-based development for CASE technologies.
And we are taking a model-based approach in the planning and concept development phase with other industries, with which we have little experience.
We will enhance our strengths to survive as a small player, and make investment to transform how we work to be more efficient.

Also, we are making progress on the development and investment of main technologies for CASE although the timing of some projects has been changed.
Market launch of “small” products such as Mazda3, CX-30, and MX-30 is on track.
Preparations are also on track for the U.S. production site and new crossover product for the U.S.
On the other hand, we are not aiming to command a high price with our “large” products.
We are challenging ourselves to build our unique brand value by offering products that exceed customer expectations at a price they find reasonable.

Next, I will talk about our non-product actions to raise our brand value, such as how we communicate values and experiences to our customers.
We want customers to look, touch, drive, and be convinced of our car before they sign-up, despite the digital shift of the purchasing process these days.
For that, we will accelerate our investment in both digital and real-world tools to optimize this evolution.
Our first focus is on investment for front-line sales staff. We will free up their time so that they can spend more time with customers.

Using IT for more efficient administrative procedures, staff training, development of operational processes, introduction of team system, and other real-world improvements will be made to support outstanding customer care.
Meanwhile, showroom facilities will undergo renovations to ensure they offer comfortable spaces.
In addition, we will promote customer events and experiences unique to Mazda in order to strengthen our bond with customers.
Through these investments for both digital and real spheres, we will make sure that our products and brand will be experienced in the best environment.

Next I would like to talk about how we will curb expenses that depreciate brand value.
First of all, as mentioned in the first half earnings presentation, we continue to accelerate the improvement in sales quality while trying to achieve volume growth.
By fusing digital and real tools, we will innovate the communication of product values.
While communicating the common values of the Mazda brand by mass media, we will customize the communication of specific models and details to every customer.
We want to connect digital experiences with real ones and test-drives to advance sales based on product values and accelerate the improvement of sales quality.
Specifically, as we have already begun “Keep Me Informed” in Europe, and we want to do more for interactive communications.
In addition, we want to maintain high residual values, as the car is the customer’s asset.
We will minimize inventory with innovative sales and production systems that can deliver a product when the customer wants it. Also we will continue annual product updates to properly meet the changing needs of the market.
With high residual values and partnerships in sales finance, we will respond competitively to diversifying payment methods around the world.
These initiatives will enable us to curb variable and fixed marketing expenses and we will strive for improvement of sales quality and quantity at the same time.

Reducing quality issues is another challenge.
Due to technological advancement, automotive quality issues are becoming more complex. It is important to reproduce the issues quickly to find root causes.
And the results of such analyses must be fed back to R&D quickly to find and execute most appropriate solutions.
As a preventive measure, we use model-based development technology to validate complex systems. We are also adopting a common architecture for software.
To detect and fix problems early, we use Mazda Connect to collect driving data and other information through a communication device.
This helps us to detect early signs of trouble and take corrective actions quickly, so we can save costs.
Of course, we will continue our conventional efforts in quality improvement.

From here, I would like to talk about investment in the areas in which we need to catch up.
As investment in infrastructure, construction of new US plant is on track.
As a part of Mazda Digital Innovation II, we are investing in IT systems, including connectivity.
At the same time, we are enhancing the IT environment in areas such as sales support, model-based development and model-based research.

In the area of partnership, we continue co-creation activities to meet the high-level requirements of CASE.
We have also begun collaborations in auto sales finance in Japan, the US and Australia.
Collaborations with universities, local business and governments are in progress.
Also, we are engaged in the discussions about potential collaborations for next-generation automobiles.
We will say more about this at an appropriate time.

Regarding investment in people and environments, we plan to improve work environments in our factories and offices.
As we celebrate our centennial anniversary, we once again remind ourselves to raise our people's motivation and efficiency in order to maximize their contribution for total optimization.
We believe this can address long-term challenges such as work-style reforms and aging population.
Our contribution to the local community will continue.

From here I will explain the financial metrics of Medium-Term Management Plan, which we developed based on the ideas I just explained.
During the first three years of the six years of Medium-Term Management Plan period, we will make investment in new generation products including for new requirements represented by CASE, and while advancing our current-generation lineup, we will nurture the "small" products of the new generation into a solid base to support our profitability over the same period.
In other words, it will be a period of solidifying our foundations, and ROS will stay at around 1.5% to 3%.
In the latter three years, we will introduce the "large" products and reap the rewards of the earlier investments.
And we are planning for growth to achieve ROS of more than 5% as presented in the Medium-Term Management Policy metrics for FY March 2025.

Let me explain the volume shift.
In the first three years, our lineup will be mainly made up of new-generation "small" products and updated models of the current generation.
In the latter three years, "large" products will be introduced, with which we plan to increase the

volume gradually through to the final year.
We will take firm steps to proceed steadfastly, and although it is gradual, we assume that we will reach 1.8 million units in the final year of the Medium-Term Management Plan.

When we announced in April 2018, we said our sales target was 2 million units, comprising 1.2 million “small” models and 800,000 “large” models.
We will solidify our business base with “small” and current-generation products. Once our “large” products are launched, we will increase their ratio for the ideal product portfolio.

By market, in the latter half of the medium-term plan we will start to greater percentage of sales in the North American market as our efforts to enhance the sales network in the US begin to strengthen the business of our dealers there.

The immediate initial stage is to build solid base. In this period, we need R&D investment and capital expenditure for new-generation products to meet new requirements such as CASE. We will also make investment for the new US plant.
As shown in the metrics for FY March 2025 in our Medium-Term Management Plan, we are going to keep investment at 7-8% of revenue, averaged over the six years.

The targets for the final year remains unchanged from those we presented in the management policy.

As we celebrate the anniversary next year, the following 6 years are a critical period for us to build a solid foundation for the next 100 years. We are determined to strive for new growth.

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