



# Action to Implement Management That Is Conscious of the Cost of Capital and Stock Price

SUBARU CORPORATION

March 15, 2024

# 1. Further Enhance SUBARU's Corporate Value

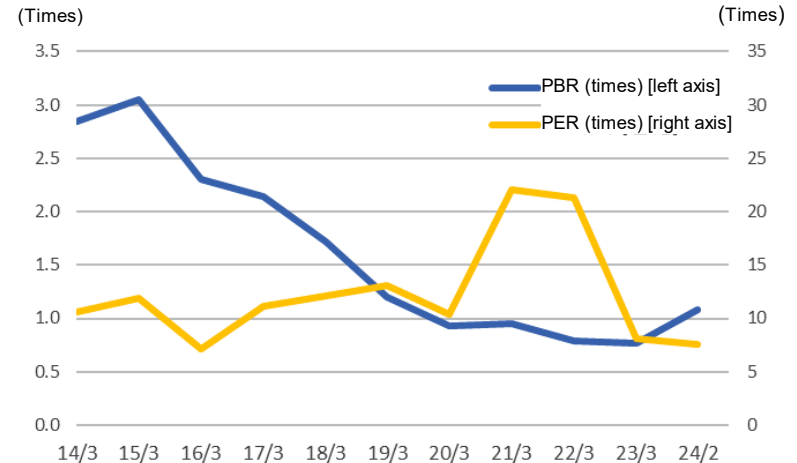
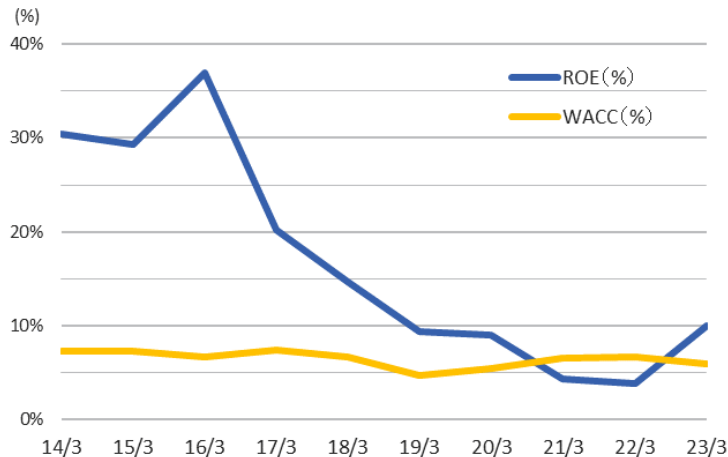
<b>Analysis of Current Situation</b>	<ul style="list-style-type: none"> <li>✓ Cost of capital (WACC) now stands in the mid-6% range (based on CAPM)</li> <li>✓ In and after the end of March 2020, when the COVID-19 pandemic broke out, PBR hovered around 0.8x but has since increased to around 1.0x more recently. At the same time, PER is 7-8x.</li> <li>✓ ROE has exceeded the cost of capital, except for FYE 2021 and FYE 2022, when semiconductors were in short supply.</li> </ul>							
<b>Policies and Targets</b>	<ul style="list-style-type: none"> <li>✓ Amid the rapid and nonlinear transformation of the automotive industry, we are making steady progress on the initiatives announced in our New Management Policy in August 2023. Our future strategy's internal/external dissemination is also proceeding as planned.</li> <li>✓ We are pursuing industry-leading profitability and an ROE of 10% or higher as long-term targets with an eye to 2030.</li> </ul>							
<b>Key Initiatives</b>	<table border="1"> <tr> <td data-bbox="285 587 490 823">                     Steadily implement the initiatives laid out in the New Management Policy                 </td> <td data-bbox="490 587 755 703">                     Improve ROE                 </td> </tr> <tr> <td data-bbox="285 823 490 939">                     Reinforce messaging and dialogue                 </td> <td data-bbox="490 703 755 823">                     Optimally allocate capital / Increase value per share                 </td> </tr> <tr> <td data-bbox="285 939 490 1034">                     Strengthen effectiveness                 </td> <td data-bbox="490 823 755 939">                     Improve PER                 </td> </tr> </table>	Steadily implement the initiatives laid out in the New Management Policy	Improve ROE	Reinforce messaging and dialogue	Optimally allocate capital / Increase value per share	Strengthen effectiveness	Improve PER	<ul style="list-style-type: none"> <li>✓ Steady implementation of world-leading “Monozukuri Innovation” and “Value Creation” (Monozukuri: Manufacturing)</li> <li>✓ Internal dissemination of the concept of capital cost (using in-house ROIC tree)</li> <li>✓ Achieve both growth investments and stable shareholder returns (Aim for total return ratio between 30% to 50%)</li> <li>✓ Effective share repurchase</li> <li>✓ Improve IR activities to enhance expectations for growth and to lower uncertainty</li> <li>✓ Reinforce ESG messaging (electrification, human capital, intellectual property, governance, etc.)</li> <li>✓ Revise the executive compensation plan (indicators: ROE, employee engagement, and relative TSR)</li> </ul>
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Strengthen effectiveness	Improve PER							

## 2. Analysis of Current Situation

- ROE has exceeded the cost of capital, except for FYE 2021 and FYE 2022 when performance was heavily affected by a drop in unit production due to the semiconductor shortage.
- In FYE 2023, profitability began improving, chiefly because production/sales environments normalized and foreign exchange rates had a positive impact, with PBR recently climbing to around 1.0x.
- Our PER (7-8x) looks low in comparison with the average of companies on the TSE Prime Market. It is difficult to raise expectations now, as the medium-/long-term prospects for electrification, etc., remain uncertain.

Maintain/improve profitability by steadily implementing the New Management Policy

Raise expectations for growth by reinforcing messaging and dialogue



### 3. Key Initiatives – Improve ROE (Return on Equity)

- Steadily implementing world-leading “Monozukuri Innovation” and “Value Creation” laid out in the New Management Policy as we pursue industry-leading profitability and an ROE of 10% or higher as long-term targets with an eye to 2030.

#### Monozukuri Innovation

- ✓ Promoting high-density monozukuri (manufacturing) through the integration of product development, production, and the supply chain
- ✓ Halving the development lead time, number of parts, and production processes to reduce the process and lead time in existing domains and strengthen our ability to respond to domains experiencing a nonlinear transformation.

#### Value Creation

- ✓ SUBARU creates value for society and the future by building strong bonds between the company, customers, retailers, and communities.
- ✓ To add more value to the products that are at the heart of this strong relationship, we will pursue enjoyment and peace of mind, as well as a “seamless & stress-free” user experience, in the age of the BEV and the realization of the “Retaining Value” approach unique to SUBARU.

#### Our Initiatives So Far

- ✓ Made organizational changes to achieve Monozukuri Innovation (Transferred major functions of the Development Prototype Department of the Engineering Division to the Monozukuri Division)
- ✓ Updated the development bases in Gunma and Tokyo areas, which drive our technological innovation (Gunma Plant: innovation hub)
- ✓ Established five new CXO positions to accelerate various initiatives and achieve overall optimization (effective April 1, 2024)

## 4. Key Initiatives - Achieve Both Growth Investments and Stable Shareholder Returns

- As investments in electrification keep increasing, we intend to return profits with a greater awareness of improving capital efficiency while maintaining financial soundness (equity ratio: 50% or higher) and stability (a reasonable net cash position).

### Growth Investments

Battery-related investments

Investments in development of production systems in Japan and the US

Investments related to development of EVs

- ✓ Invest 1.5 trillion yen for sustainable growth.
- ✓ 1.5 trillion yen is the maximum amount imaginable.
- ✓ Details of the plan are being assessed and will be disclosed when appropriate.

### Shareholder Returns

- ✓ The level of returns remains unchanged.
- ✓ With improved value per share in mind, effectively repurchase our own shares as an option for shareholder returns.

[Previous policy: - July 2023]

- ✓ Aim for consolidated dividend payout ratio: between 30% to 50%



[New Management Policy: August 2023 -]

- ✓ Aim for total return ratio: between 30% to 50%

## 5. Key Initiatives – Improve PER (Price Earnings Ratio)

- Raise expectations for growth and lower uncertainty by further reinforcing IR activities
- Continually disclose progress of sustainable growth strategy and reinforce the governance structure and disclosure/dialogue for investment in and use of intangible assets

Progress in the electrification strategy, a pillar of growth	Reinforce the governance structure that supports growth	Invest in and use human capital and the intellectual property (IP) that drive growth
<ul style="list-style-type: none"> <li>✓ Nurture a concrete image and certainty of Monozukuri Innovation and Value Creation</li> <li>✓ Strengthen the plausibility of achieving industry-leading profitability by 2030</li> </ul>	<ul style="list-style-type: none"> <li>✓ An operation system designed to achieve sustainable growth and activities by the BoD with a focus on a monitoring function</li> <li>✓ Reinforce risk management that factors in impact from electrification, environmental considerations, etc. (using in-house risk map)</li> </ul>	<ul style="list-style-type: none"> <li>✓ Construct a value-creation story by using human capital and intellectual property in a way that taps into our unique strengths</li> </ul>

### Outcomes of dialogues with shareholders/investors ⇒ Regularly reported to the Board of Directors

- ✓ CEO and CFO proactively engage in dialogue via financial results briefings, overseas roadshows (NA, Europe), etc.

Dialogue events	FY2022	FY2023*	One-on-one dialogue	FY2022	FY2023*
Financial results briefings	4 times	4 times	Dialogue with investors/shareholders (overseas investors/shareholders)	170 times (103 times)	214 times (116 times)
Small meetings	7 times	9 times	Dialogue with analysts	90 times	83 times
Securities houses' conferences	7 times	6 times			
Product/technical briefings, factory tours	5 times	3 times			

\* The sum of results up to the end of February 2024 and ones scheduled for March 2024

## 6. Key Initiatives – Revise the Executive Compensation Plan to Strengthen Effectiveness

- Add relative total shareholder return (TSR) (vs. dividend-included TOPIX growth rate), on top of the existing indicators, such as ROE and employee engagement improvement, to KPIs for the PSU\*1 portion of restricted stock compensation

\*1 Performance share unit (variable compensation type)

### Revisions to the restricted stock compensation plan

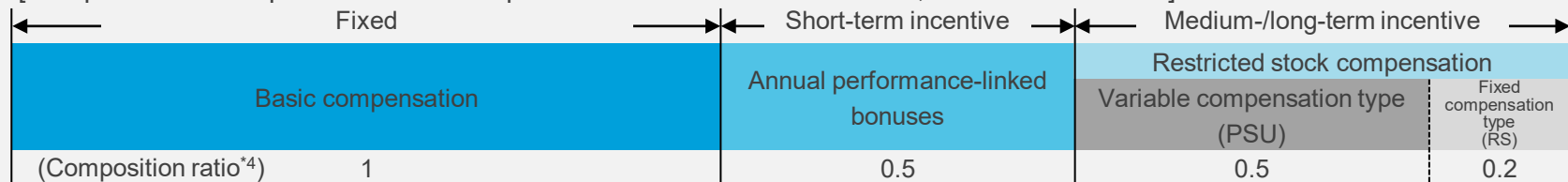
To provide more incentive for Company directors\*2 and executive officers for achieving sustained improvement of the SUBARU Group's value over the medium-/long-term, we will revise our restricted stock compensation plan\*3 as part of reviewing the executive compensation plan.

- ✓ Raise the ratio of stock compensation to total compensation to link improvements in the Company's corporate value more closely to compensation
- ✓ Add relative TSR (vs. dividend-included TOPIX growth rate), an indicator of improved corporate value, to KPIs for the PSU portion of the plan
- ✓ Introduce clawback provisions to enhance governance over compensation

\*2 Other than Outside Directors

\*3 The revisions to the plan are subject to approval at the 93rd Ordinary General Meeting of Shareholders to be held in June 2024.

[Composition of compensation of the Representative Director of the Board, President and CEO]



\*4 The ratios of annual performance-linked bonuses and restricted stock compensation (variable compensation type / fixed compensation type) are determined by assuming that of basic compensation being 1.



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