Q&A for FY 2021 Financial Results and Mid-Term Business Plan 2024

✧ Q&A concerning FY2022 outlook

Q. Sales units in FY 2022 full year outlook indicate a very large volume. How much volume is anticipated as a stretch target? Please explain the details including the market status by region and inventory optimization status.

A. In the first half of FY2021, the sales units were greatly reduced due to COVID-19 pandemic impact. In FY 2022 ending March 2023, the forecasted volume is larger than the sales volume in FY 2021 ended in March 2021 in each segment. For overseas CV business, the sales units have already been on a recovery trend in markets such as Vietnam, Australia, Russia, and Kenya based on the pre-COVID level. Furthermore, sales units are expected to recover in North America and Malaysia in FY 2022. In addition, inventory levels in markets are getting low as sales have been recovering, for which inventories need to be replenished. Backed by these factors, we are expecting a record high volume. For LCVs, the inventory level is low in Thailand, and new pickup trucks (PUPs) are positively received in Australia, which are the reasons why a large sales volume is estimated in the outlook. Thus, it is not particularly a stretch target.

Q. Please tell us your outlook for the impact of semiconductor shortage.

A. The situation is in flux where the order is confirmed only for the next two weeks' supply for both CVs and LCVs. Reduction in production is a risk factor for both CVs and LCVs mainly in the first half of FY 2022. In order to minimize the impact for the full year in FY 2022, we will enhance operation including the operation hours. Production at Fujisawa plant has not been impacted at this point in time. No impacts are expected on the future production volume, and we will release updates if situation changes.

Q. Regarding the analysis of change for consolidated operating income described in page 21, please explain risks and opportunities.

A. As for risks, in terms of foreign exchange rate, AUD has a huge impact both against JPY and THB, which could significantly affect profits. Impact on production volume due to a semiconductor shortage is also a concern. In terms of economic fluctuations, we forecast about 15 billion yen for a steel price increase and about 5 billion yen for a logistics cost increase, which will be closely monitored into the future. As for opportunities, it is hard to build up further with sales/model mix, but we aim to increase cost reduction activities from the forecasted 16 billion yen.

✧ Q&A concerning mid-term business plan

Q. With regard to the outlook of sales volume stated in page 12 of the new mid-term business plan, tell us the story you have in mind to help us understand how you predict the volume to increase or decrease by year and by segment.

A. With regard to the domestic market trends, the industry demand is expected to decrease due to driver shortage and improved efficiency in logistics. As for overseas commercial vehicle sales, in addition to the sales volume we have captured so far, we plan to increase the sale of lightweight trucks and sales units in China. The lightweight truck we launched in Indonesia about three years ago was rolled out to the Philippines in the following year. We are selling it in the emerging markets looking for low-cost vehicles. Though the profit margin remains low, we have achieved a high volume of sales. Then in China, we used to sell our trucks through a single distributor, but we added one more distributor that now distributes our trucks. A large volume increase is expected from there as well.

Moreover, plans are lined up to launch fully-model changed light-duty and medium-duty commercial vehicles. We aim to further raise sales volume after March 2024, i.e. beyond the period of the new business plan. As for LCVs, the demand in Thailand will be recovered to the pre-COVID-19 level, but it is not expected to last long and begin to decline slightly around 2024. An increase in demand for industrial engines is largely due to the recent demand explosion in China. Its demand peak will come down eventually, but because industrial engine manufacturers are disappearing globally, our business will continue to some extent by capturing demand that is no longer attended by them.

Q. Net sales of 2,750 billion yen is forecasted in FY 2024 ending March 2024, increased by 250 billion yen from FY 2022 ended March 2022. Please explain the details by segment including market shares and market related factors.

A. Volume increase resulting from markets' recoveries and growth is one factor. In addition, in the previous mid-term business plan, we implemented close-to-market approach mainly in overseas bases and made direct and indirect investments. These efforts have proved effective, translating into prospective market share increase. We also expect that new pickup models to be further rolled out in overseas markets will contribute to increase in net sales. Also, an increase of 80 billion yen is estimated from consolidation of UD Trucks on a full-year basis.

Q. According to the new mid-term business plan, Isuzu plans an annual capital investment of approximately 100-billion-yen level. Is this level of investment sufficient enough to sustain your manufacturing capacity when you are expecting a significant increase in volume? Please share your thought on this.

A. Our plant capacity in Japan has reached almost its full capacity. During the period of the previous mid-term business plan, a large capital investment was made in overseas -sites. The new plan, on the other hand, also schedules a sizable capital investment to improve efficiency at Fujisawa plant so as to raise its capacity. Also, over the next three years we aim to make use of overseas facilities which include UDT's.

Q. It appears that R&D expenses has not been increased much in the new mid-term business plan period from FY2022 to FY2024. Please explain the background.

A. During the new mid-term business plan (BP) period, R&D expenses will be allocated mainly to the model change for LD and MD trucks and a common platform of HD trucks for Isuzu and UD Trucks utilizing Volvo Group's expertise. Annual R&D expenses allocated for CASE development is estimated to be 30 billion yen. The CASE related development expenses account for a small portion of a total R&D expenses as it is still in the validation phase.

Q. The operating income (OPI) target for FY 2024 ending March 2024 is 250 billion yen while the OPI is targeted at 170 billion yen for FY 2022 ending March 2022. Please give us the breakdown of an increase amount of 80 billion yen between these periods.

A. With 170 billion yen for FY 2022 as a baseline, the breakdown of an increase of 80 billion yen is as follows: sales volume increase of 37 billion yen, cost reduction activities of 36 billion yen, synergies with UDT of 13 billion yen, offset by cost increase of 6 billion yen.

Q. Please explain again the functions of three LCV production footprints in Thailand, South Africa, and India, including whether there have been any changes since the previous mid-term business plan period.

A. In India, production of the previous LCV model will continue. Workhorse models will be shipped from India where vehicle unit price is low. New vehicle models will be exported from Thailand to Mid-East and vehicles of the previous model from India. In Egypt, the export volume from India has already posted 10,000 units, and about 20,000 units are expected in FY 2022 ending March 2022. A plant in South Africa will serve as a production footprint of new pickup truck models and complement the production capacity of a manufacturing plant in Thailand. Export destinations from South Africa will be discussed in the future, and it will take another year to see these efforts contribute to the revenue.

Q. The dividend payout ratio is set to average 40%, which is substantially higher the one stated in your previous plans. In parallel, you plan to buy back shares. Please explain the standards for a future buy back of shares.

A. The total return ratio targeted at 30% in the previous business plan, it was, while the payout ratio target is raised to 40% in the new plan. We are keenly aware of the importance of shareholder returns. As for our plan to buy back shares, we have built a steady financial foundation and expect to generate sufficient cashflow to buy back shares. Instead of further increasing internal reserves, we intend to enhance the capital efficiency. Having said that, we have not formulated the decision criteria in details yet. We mentioned it in the new plan as we anticipate that our business environment will allow us to make such decisions.

Q. What global strategies will Isuzu roll out for EVs?

A. CVs and PVs are different in various aspects. For example, heavy-duty trucks require large batteries, which will pose a challenge in terms of loading capacity. We will tackle this issue by employing options such as fuel cell vehicles (FCVs) and internal combustion engines (ICEs) running on carbon-neutral (CN) fuel. Meanwhile, for light-duty trucks, accounting for a large share of Isuzu's business, we will pursue battery electric vehicles (BEVs) and others as highly viable solutions. Materials published Information announced by other global manufacturers show similar trends and approaches towards 2030 to 2040.

Q. What specific points will Isuzu consider improving in terms of human resource utilization?

A. We regard utilization of human resources is a very important subject, and implementation plans to change HR management system has already been under discussion. We have seen an increasing number of cases which cannot be sufficiently covered by Isuzu's existing education system. Given the importance of diversity in working with Cummins, Volvo, and Isuzu's overseas bases, we will leverage global talents and further harness talents based on a gender equality principle while at the same time promoting workstyle reform. While workstyle diversity is important as can be seen by membership-type employment and job-focused employment styles, so is teamwork in the manufacturing industry. These aspects are to be materialized in our talent utilization.

✧ Q&A concerning aftersales

Q. Do you foresee that the revenue portion of your aftersales-related business continues to climb up when the total revenue is examined in the long-term context. Do you anticipate a significant increase in the domestic service-in rate when a synergy with UD Trucks is emerged in full and common connected platform is developed with Hino and Toyota, resulting in your revenue portion of aftersales to increase?

A. The majority of the aftersales revenue comes from the domestic sales. If we combine UD Trucks', there are more than 400 service sites throughout the country. By optimizing the effective use of the resources, we seek to maximize synergy effects. In terms of what percentage aftersales will account for the total sales, it is expected to come down as we anticipate an increase in vehicle sales, but we are confident that the profit will grow surely and steadily.

✧ Q&A concerning UD Trucks

Q. In P20, I understand the increase in aftersales business revenue includes the sales increase resulting from UD Trucks consolidation. Please tell us the estimated revenue.

A. Out of 400 billion yen in aftersales revenue in FY 2022, approximately 80 billion yen is estimated as a revenue of UD Trucks. As for UD Trucks' aftersales earnings rate, operating income ratio of slightly more than 20% is forecasted.

Q. Now the acquisition of UD Trucks has been completed. Please summarize once again the synergy effect you expect from it.

A. We explained previously that the alliance with UD Trucks and Volvo would create a synergy effect of about 50 billion yen. We expect to raise about 20 billion yen by consolidating UD Trucks as a subsidiary into the Group. The UD Trucks' business plan ending March 2022 forecasts a combined revenue from the domestic and overseas markets to be about 20 billion yen on the EBITDA basis upon which we will build synergies. The EBITDA 20 million yen is included in the Isuzu's forecast of 170 billion yen. First, in addition to the synergy expected to be created from the aftersales business we explained earlier, we will work in tandem to optimize, for example, the logistics of the domestic plants, back office functions and purchasing to boost synergies. We also expect to see a large reduction in development costs. Since UD Trucks and Isuzu both design and develop heavy-duty trucks, we will explore cost-sharing opportunities. We strive to realize the synergies over the next five years. In three years from now, we anticipate a synergy benefit of about 13 billion yen. To sum up, we have 20 billion yen as a starting base plus 13 billion yen generated from the synergy. Further down the line, 13 billion yen will grow to a cumulative 30 billion yen, and ultimately the synergy expects to raise as much as 50 billion yen in total.