May 12, 2023
Isuzu Motors Limited

Q&A for the Fiscal Year Ending March 31, 2023 Financial Results

✧ Message from Mr. Minami, President

To meet the needs of our customers and addressing social issues even in the amidst of a once-in-a-century transformation in the automobile industry. That is our determination, and to fulfill it, we need to enhance our efforts to the level Isuzu has never experienced before, not only in Japan but also around the world. Therefore, we have changed our corporate philosophy to "Moving the World - for You". Under the new philosophy, all the Group companies and employees around the world have begun to look in the same direction and unite their respective strengths to embark on new initiatives to provide new transport value. In addition, we have set forth "Investment in Innovation", defining it as R&D expenditures and CAPEX for areas other than our existing technologies and products. The budget is approximately 1 trillion yen over the eight years to 2030. We will work out the details along with specific initiatives over the next year and announce them in our next mid-term business plan.

Last fiscal year, although we could not produce satisfactory number of vehicles due to parts shortages and faced negative factors such as soaring material, logistics and energy costs, we managed to do the best operation possible with our limited inventory and pursued initiatives for price realization. Helped by the FX benefits, our efforts were paid off by the record highs in both sales and earnings.

This fiscal year, we expect our production to normalize as the chip crisis is coming to an end. We will restore our delivery schedules to normal as soon as possible and will strive to receive more orders especially for the new models in Japan. We have forecasted our operating income to be 260.0 billion yen, only a slight rise from last fiscal year's level. The background is; our production volume and sales inventory will normalize, but costs of raw materials are still increasing and there is a possibility of further cost pass-through. In addition, there is a concern that the demand may decrease in part of our overseas markets. We will work to eliminate such risk factors.

This fiscal year is the final year of our current mid-term business plan. Regarding the outcomes of our specific activities and businesses, we will exceed the targets we set forth in the plan, and based on which we will formulate our new mid-term business plan.

We increased the dividend for FY2023 by 7 yen, from the previously announced 36 yen to 43 yen per share based on results of our profit attributing to owners of the parent. The total annual dividend will become 79 yen per share. The forecast of annual dividend for FY2024 will increase by 1 yen to 80 yen per share.

【Q&A】

＜Outlook for FY2024＞

Q: What is the reason for your forecast that your operating income will be 260.0 billion yen this fiscal year, only a slight rise from last fiscal year's level, while your sales will significantly exceed the mid-term business plan target? Are there upside potentials you see at the moment?

A: Our net sales increased significantly thanks to the depreciation of the yen sharper than our assumption, the accumulated effects of our price realization measures, and the improved model mix. Helped by effects of our price realization measures, improved model mix and depreciation of the yen, operating income exceeded the mid-term business plan target by 10.0 billion yen though the material, logistics and energy-related costs have soared to the historically high level. Regarding impact of fluctuations of material costs which will reach 200.0 billion yen within the mid-term business plan period, we will overcome it mainly by our price realization efforts, keeping an eye on the market situation. Regarding upside potentials, the forecast includes possible further risks of high material costs and part shortages. Plus, we would like to engage in new improvement activities to increase our profitability

＜Future Business Direction＞

Q: Please tell us the future direction of your business, now that you have a new management structure?

A: We achieved the net sales of 3 trillion yen last fiscal year. As shown by that, the measures we have taken in Asia, India, Africa, Central America, and South America, are bearing fruit with the end of the COVID-19 pandemic.

Looking ahead to the year of 2030, we will continue making investments in carbon neutrality for some time, and simultaneously, we would like to expand our earnings by further raising the level of our operations. For that purpose, we have established the new corporate philosophy.

Q: What potentials are there for the growth of your earnings?

A: Regarding the Japan market, we have worked on increasing our earnings by combining connected services with our maintenance lease service. We aim to increase the profitability of our aftersales business by further utilizing connected services. In addition, we are promoting the segregation of sales channels and collaboration between UD Trucks and Isuzu. We will aggressively invest in our domestic outlets in order to further increase profitability.

As for overseas markets, our investment in the distribution bases and assembly plants are progressing to further raise the level of our operations. For some countries, we will introduce connected services to strengthen aftersales business and future electrification.

Regarding products, we will promote product commonality with UD Trucks, seeking more synergy, and will introduce a wide variety of specifications utilizing I-MACS (Note: Isuzu's modular design concept), mainly in emerging countries.

As for LCVs, we have been investing in Thailand, India, and South Africa that have formed our solid revenue footing. We will strengthen our operations at each of these bases and promote segregation from Thailand. For the next two to three years, we will especially strengthen our operations in Africa, India, and Middle East areas.

Q: What businesses are in your scope to capture new profits?

A: One example is GATEX, a connected service infrastructure that we have been offering since last year. By adding logistics providers' programs, driver management systems, and third-party logistics applications into GATEX, it will be possible for us to provide value-added services that we have not been able to engage in before.

＜Market trends＞

Q: Regarding sales/model mix, why do you expect your profits to increase despite the forecast that your unit sales will remain at the same level as last fiscal year?

A: While our unit sales of CVs for overseas markets and LCVs will decline, our CV unit sales in Japan will increase largely as the production constraints are getting eased. While we expect our total sales to be flat from last fiscal year, our sales mix amount shall increase due to contributions of Japan models with high added value.

Q: You’ve forecasted that the demand this fiscal year for overseas CVs will slow down. Does it reflect the current situation or is it based on risks you are anticipating?

A: The forecast reflects the current conditions such as inflation in Thailand and other Asian countries that lead to decline in demand and a need for inventory adjustments.

Q: What is the outlook for the CV market in North America like?

A: At this point of time, there are no negative impacts from the rising interest rates and inflation. We expect our production volume to increase as the production constraints are getting eased. We will work to eliminate the back orders that have been piling up.

Q: Regarding the Thai LCV market, your sales volume has continued to fall significantly below last year's level since the beginning of the year, but forecast of the annual demand will not drop that much. How do you view the Thai market? If the market shrinks further, are you going to decrease the production volume? Or do you think you can cover the shrinkage with your LCVs for export?

A: In Thailand, financial screening has become stricter, resulting in a decline in demand, mainly for low-grade models. Unit sales in the Thai domestic market has remained below last year's level through April, but we expect the market to recover in the second half of this fiscal year due to the strong Thai baht and the Thai economy supported by the tourism demand recovering after the end of the COVID-19 pandemics. As for our LCV production, we will be able to cover the decline in our unit sales in the Thai market with our exports for some extent, since backorders for our export models amount to 60,000 units as of the end of March 2023.

＜Backorders＞

Q: What is the status of your backorders?

A: The backorders for our Japan models totaled 37,000 units at the end of March 2023, of which 21,000 units were for the models of 4 tons or over and 16,000 units for those under 4 tons. Compared to the end of December, the numbers slightly decreased due to the progress of registrations in the second half of last fiscal year, but are still high.

The backorders for our overseas CV models totaled 25,000 units, of which 12,000 units were for North America, 3,000 units for Europe, and 10,000 units for other markets. Our shipments, mainly to North America, progressed in the fourth quarter, which decreased the backorders by approximately 5,000 units from the end of December.

The number of the backorders for our LCV models totaled 90,000 units, of which 30,000 were for Thai domestic market and 60,000 for exports. The number decreased by 10,000 units from the end of December, because the supply of vehicles for exports progressed steadily. On the other hand, the backorders for our Thai domestic models did not diminish smoothly as the demand for high-grade models is still high.

<Impact of chip shortages>

Q: Please update us on the impact of chip shortages. Also, what is the impact on your EV production like?

A: As for CVs, we believe that the impact of chip shortages will be alleviated along with the progress of switchover to our new light-duty models for the Japan market. We expect our production to normalize within the first half of this fiscal year as the switchover to the new models is expected to be almost complete. Our EV production will not be affected.
For LCVs, we expect the negative impact of the chip shortages to be 15,000 units during the first half. We are working on minimizing the impact at our production site in Thailand.

<Price Realization/Fluctuation of Material Cost, etc.>

Q: Regarding price realization, are you sure you can achieve the +70.0 billion yen outlook when the demand is softening?

A: In Japan, we began working on price realization along with the introduction of the new ELF and FORWARD. We are continuing activities to gain customers' understanding. Regarding the CVs for overseas markets, we have made steady progress with price realization from last fiscal year, and we have back orders mainly in North America. We will continue our efforts this fiscal year without losing momentum. As for LCVs, the Thai market is softening, but our vehicle manufacturing cost is rising, so we will continue to carefully proceed with price realization while maintaining a dialogue with the market.

Q: About the balance between material costs and price realization effects. You forecast that the impact of soaring material costs will reach 200.0 billion yen over the three years of the current mid-term business plan, but the price realization effect will be only 60-70% of that amount. How do you intend to strategically balance the two in the future?

A: We are aware that we cannot absorb all the impact of the soaring material costs during the mid-term business plan period with our prices. We will continue our price realization efforts for next fiscal year and beyond, keeping dialogues with the market.

Q: What is the breakdown of the -64.0 billion yen forecast of material cost etc. fluctuations of material and other costs? What steps are you taking against suppliers?

A: We expect the impact of the material cost will be -67.0 billion yen which breaks down as follows: iron -22.0 billion yen, nonferrous metal -21.0 billion yen, and price pass-through by suppliers -24.0 billion yen. We will continue to work with the suppliers on their price reviews as we did in the previous fiscal year. In addition to those, we have factored in the impact of electricity and gas cost at -7.0 billion yen and that of the logistics cost at +10.0 billion yen.

＜R & D expenditures/CAPEX＞

Q: What are the reasons for the increase in your R&D cost and CAPEX? Will the total amount be the highest ever?

A: The R&D cost is expected to be 125.0 billion yen, an increase of 10.0 billion yen from the mid-term business plan target. The upward pressure of various costs and some investment in innovation are the reasons.

We expect our CAPEX to be 140.0 billion yen, a 40.0 billion yen increase from the mid-term business plan target. The reasons for the increase are investments to streamline our production facilities have been delayed to cope with the impact of the chip crisis and that we need to make investments in our outlets in Japan to strengthen aftersales services. That is, the main reason is the delay of expenditures which should have been done in the past two years, and thus the scale of investment planned at 300.0 billion yen for the three years of the current mid-term business plan has not changed. The total amount is expected to be the highest ever.

Q: What is the breakdown of the 1 trillion yen investment in innovation and what impact does it have on your financials?

A: The 1 trillion yen breaks down into; 500.0 billion yen for R&D in new areas different from diesel engine vehicles, 200.0 billion yen for facilities related to that, and 300.0 billion yen for newly required connected services and related business. Until now, our R&D cost for current business has been at the 120.0 billion-yen level and CAPEX at a little under 100.0 billion yen, for a total of just over 200.0 billion yen per year. On top of this, an additional 1 trillion yen, or a little over 100.0 billion yen per year, will be required over the next eight years until 2030. However, we will gradually decrease our investment for current business. Therefore, the 100 billion yen will not be a net increase as it is, though the exact amount is under scrutiny. For this fiscal year, our planned investment in innovation is several tens of billions of yen.

Q: How are you going to manage the resources related to investment in innovation?

A: We will more efficiently run our R&D resources by having UD Trucks concentrate on heavy-duty trucks and Isuzu on medium- and light-duty trucks and LCVs. As for the resources for innovation, we will use the resources saved by the effects of our digital development and I-MACS, while effectively utilizing the alliances to secure resources. The challenge for the future is how to secure resources for the new areas such as the software aspects of electrification.

＜UD Trucks＞

Q: Please give us an update on the synergy with UD Trucks and their profit/loss status.

A: Last fiscal year, we were able to reap the targeted synergy of 6.0 billion yen, which was reflected in our results. For this fiscal year, we are aiming for the synergy of 13.0 billion yen through reducing R&D expenditures, enjoying the merit of scale in material procurement and logistics, and improving the efficiency of sales activities.

UD Trucks' profits for last fiscal year was more than the 20.0 billion-yen EBITDA assumed at the time of acquisition, despite the negative impacts of parts shortages and FX.

＜Shareholder Returns＞

Q: Regarding shareholder returns, the dividend payout ratio of your company is 40%, but your PBR is less than one. What do you think of this in preparing for your next mid-term business plan?

A: We are aware that our PBR is below one. We think it is important to present our business and financial strategies to maximize our corporate value and steadily implement them, believing that the share price/market capitalization will follow as a result of improvement in our corporate value.

The one trillion yen investment in innovation we have announced today is part of our business strategy. For our financial strategy, as the final year of the mid-term business plan, we will exceed our operating income outlook of 260.0 billion yen. We will continue to consider how to achieve our ROE target of 12.5%.

Q: How do you view the ROE target of 12.5%?

A: The ROE target of 12.55 is an external promise we made in our mid-term business plan. We do acknowledge that we will not achieve it even if we take in account of the outlook announced today. We would like to take some more time to decide on future actions. We need to carefully assess whether we should buy back our own shares or increase profits to fulfill the promise, in view of the investments we need to make. Delaying fulfillment of the promise is one option, but we will not give up and will continue our deliberations.

Q: It would have been possible for you to achieve ROE of 12.5% last fiscal year if you bought back your own shares. Is my understanding correct that you did not do so because you are confident that you would achieve 12.5% this fiscal year through enough profit.

A: We are aiming to exceed the operating target of 260.0 billion yen, but we have yet to identify how much we can. We will decide on share buybacks after ascertaining the level of our profitability.

<Others>

Q: We have an image that your aftersales business occupies 40% of your operating income. Is this image still correct about last fiscal year? Has there been any changes to the profit ratio of the aftersales business?

A: The price realization of our service parts has not been able to catch up with the soaring material costs. Thus, the profit ratio as a whole is in a difficult condition. As our vehicle business is in the same situation, the image that the aftersales business occupies 40% of our operating income has not changed.

Q: How does increase in your vehicle sales in Japan affect your aftersales business? How do you plan to grow the aftersales business?

A: The increase in the unit sales will have an immediate effect on our aftersales business as commercial vehicles receive inspections every year in Japan. We will improve the productivity and profitability of our maintenance shops through controlling the number of vehicles coming in by utilizing our connected technology, as the demand for preventive maintenance is growing.

Q: What is the background to your posting of the loss related to the Russian business?

A: We recognized an impairment loss of approximately 1.7 billion yen on the assets of our subsidiary in Russia last fiscal year, because we do not expect the business to resume. We have factored in extraordinary losses of several billion yen for the outlook of this fiscal year as well. The direction of the Russian business is still under consideration.

Q: How do you plan to cope with the Year 2024 problem?

A: The 2024 problem is one of the targets of the new models we launched in March that boast expanded safety equipment and enhanced drivability. We are also scheduled to introduce trucks that can be driven with the new standard motor vehicle license. By continuing to develop vehicles easy to handle, we will contribute to the improvement of drivers' working conditions as well as the diversification of the workforce. In addition, by evolving our connected services, we will promote information linkage among carriers, shippers, and warehouse operators and contribute to reduction of cargo waiting time and drivers' working hours.