February 9, 2023
Isuzu Motors Limited

Q&A on the Third Quarter Results for the Fiscal Year Ending March 31, 2023

✧ Message from Mr. Minami, Division Executive

As for our CV business from October to December, we were able to improve the supply of vehicles mainly in Japan, North America, and Europe. This is due to the fact that the supply of semiconductor devices recovered compared to the previous year. However, the supply has not yet reached the level we have requested, and we apologize that it is still taking so long to deliver vehicles to our customers. On the other hand, LCV production in Thailand was able to maintain a high level of operation as the supply of semiconductor devices in Thailand improved as per our expectation.
Both our sales and profits reached record highs for a quarter. We believe that this was the result of our measures we had planned at the beginning of this fiscal year such as price realization etc. under the severe conditions of material costs soaring higher and higher. In addition, the weak yen also helped.

Regarding our forecast for the full year, we do not change the figures we announced in November for both sales and profit. Although the trends of foreign exchange rates and other factors remain uncertain, we will continue our efforts for the remaining two months in order to achieve the figures we presented.

As for the next fiscal year, we expect that the market environment, foreign exchange rates, and parts procurements will remain uncertain. However, we will aim to achieve the target of 250 billion-yen operating income of the final year of our mid-term business plan. For this, we are steadily implementing the measures set forth in the mid-term business plan, such as full--model change of ELF (N-series) and FORWARD (F-series), launch of new tractor head with enhanced product appeal as the first fruit of our cooperation with the Volvo Group, and reaping the fruit of the synergy between Isuzu and UD Trucks.

✧ Third-quarter Results/Full-year Forecast

Q. Is it correct to understand that your high earnings in the 3rd quarter (Oct.-Dec.) are the real strength of your company with no one-time factors? And, what is the reason for your forecast that the earnings will turn around and decline in the 4th quarter, even compared to the previous fiscal year?

A. In the 3rd quarter, our earnings became larger than our internal plan. Our sales volume decreased mainly due to the impact of Egypt. Further requests of price increase became a negative factor. However, the weaker yen, additional price realization of mainly our overseas CVs, and cost reductions, resulted in an increase of about 10 billion yen from our forecast, which allows me to say our high earnings are not due to one-time factors.

The gap in operating income between the 3rd and the 4th quarters of -53.6 billion yen, breaks down as follows: while our price realization will bring +4.5 billion-yen, steel, oil price etc. price fluctuation will bring -29.0 billion yen as the price increases are mainly reflected in the respective unit price contracts during the 4th quarter. Expenses such as development and sales promotion costs tend to get higher in the 4th quarter, which will bring -17.4 billion yen; and the impact of yen appreciation will bring -9.0 billion yen. In this way, the negative factors are expected to have a large impact in the 4th quarter, which will mount to the -53.6 billion yen.

As for the year-on-year comparison of the fourth quarter, we expect our price realization will bring +23.0 billion yen, and yen depreciation, +16.0 billion yen. However, steel, oil price etc. fluctuation will bring -38.0 billion yen and increase mainly in fixed costs, -10.5 billion yen, which will amount to the total of -6.5 billion yen in operating income.

Q. How do you view the FX environment?

A. The yen weakened against the U.S. dollar and Australian dollar in October and November, but has been appreciating since December. As for the 4th quarter, we are assuming the exchange rates of 130 yen against the US dollar and 90 yen against the Australian dollar, taking in account the current situation.

✧ Sales

Q. Please explain the current situation of the Thai market and what is the outlook for the next fiscal year and beyond?

A. Regarding LCVs, the tide of demand has changed, mainly for standard-grade workhorse vehicles. The demand has been declining due to stricter screening for financing, affected by rising interest rates and inflation. We will continue to watch this point closely. On the other hand, the demand for high-grade models and PPVs continues to be strong. Though it shall depend on procurements of semiconductors, for the next fiscal year, we forecast to maintain the same level of sales units as this fiscal year. As for CVs, carriers, mainly small-sized ones, have been unable to pass on the higher fuel costs to their customers and are beginning to restrain their vehicle purchases. The demand for construction vehicles is also slowing due to the impact of the flooding and other factors. We expect that such current situation will continue for some time, and high demand for the past one year or two will return to the level before the COVID-19 pandemic.

Q. You have revised downwardly the sales units outlook for Indonesia and Egypt. How do you view these markets?

A. In Indonesia, sales of medium- and heavy-duty trucks for mining use are strong as the prices of natural resources are soaring. But the demand for lightweight trucks has slowed down, partly due to the high fuel prices. For the next fiscal year, we expect a slight increase in the total of heavy- to light-duty trucks.

As for Egypt, we have lowered our volume forecast for this fiscal year due to the damage to their economy given by the situation of Ukraine. As for L/C opening, priority is being given to pharmaceuticals and foodstuffs, which restrains our transactions. The difficult situation will continue.

Q. Please tell us how your order backlog has changed since the end of September.

A. Regarding the domestic CVs, our backlog remains high at 45,000 units. As for the overseas CVs, our backlog is 30,000 units, of which 20,000 units are for North America and Europe and 10,000 units, for other regions. Due to the shortage of semiconductors, we have not been able to improve our vehicle supply for North America and Europe, for which the backlog remains unchanged since the end of September.

Regarding the LCVs, we have a backlog of 100,000 units in total which breaks down into 30,000 units for Thailand and 70,000 units for exports. Since the end of September, the backlog for Thailand has decreased by 20,000 units. The reasons are that the demand for workhorse vehicles has decreased and that we have been able to supply vehicles steadily. The backlog for exports has also declined by 10,000 units due to our steady vehicle supply.

Q. With some markets softening, what do you think of the sales volume of your overseas

CVs for the next fiscal year?

A. While demand is softening in Egypt and some ASEAN countries, we have a backlog of orders mainly for North America and Europe due to the shortage of semiconductors. Although there will be variations by destination market, we will be able to maintain the same level of overseas CV volume as the current fiscal year.

✧ Status of Semiconductor Supply

Q. Please tell us the current status of the supply of semiconductors for CVs?

A. Semiconductor shortage is continuing. As per our expectation, there was some recovery in the 3rd quarter. However, in this 4th quarter, the recovery is not proceeding and our procurement volume is still remaining at the same level as in the 3rd quarter. As a result, in the 4th quarter, we will have a shortage of about 5,000 pieces more than our expectation. As for the next fiscal year, we expect some procurement risk in the first half, but we expect the situation will improve in the second half for the following reasons: fully-model changed domestic trucks will use the semiconductor devices of suppliers different from the current ones; semiconductor devices with higher versatility now under development will become available; and some suppliers are planning to increase their production capacities.

Q. What is the status of parts procurement for your LCVs? Is the procurement risk in the next fiscal year due to shortage of semiconductors?

A. The parts shortage has largely been resolved, but it seems in the first half of the next fiscal year, there will be some shortage of the semiconductor devices for airbag control systems. Our purchasing department in Thailand is in discussions with suppliers in order to minimize the impact. We constantly have some risk of parts shortage, but our concern about semiconductor device shortage is higher than the other parts.

✧ Price Realization/Steel, oil price etc. fluctuations

Q. Could you give us the breakdown of the price realization effect in the third quarter and that for the full year, including the factors that allowed you to add to your initial assumption? Also, do you think further price realization is necessary in the future?

A. The breakdown of the +18.5 billion yen as the actual effect in the 3Q is as follows: from overseas CVs +12.0 billion yen, from LCVs +4.0 billion yen, and from industrial engines, components, and UD Trucks +2.5 billion yen. The price realization of our overseas CVs surpassed our expectations as our local distributors have benefited from the weaker yen.

The breakdown of the full-year’s +50.0 billion yen includes +33.0 billion yen from overseas CVs, +10.0 billion yen from LCVs, +1.5 billion yen from domestic CVs, and +5.5 billion yen from industrial engines, components, and UD Trucks. Although we are expecting an additional +10.0 billion yen mainly from our additional price realization of overseas CVs, it is difficult to offset the negative impact of steel, oil price etc. fluctuations within this fiscal. We shall strive to offset the negative impact in this and next fiscal year.

Q. As the demand soften, how are you planning to continue price realization in the next fiscal year?

A. Although demand is softening in some markets, we are aiming for having an effect of 60.0 billion yen higher than the current fiscal year. In addition to reaping the full effect of the price realization we carried out in this fiscal year, we are considering additional price realization of our domestic CVs based on the higher values of fully-remodeled products. We are also planning to further optimize the prices of our overseas CVs for each region.

Q. Is it correct to understand that the 60 billion yen increase in the next fiscal year is the full result of your price realization in this fiscal year?

A. In addition to the result of our price realization in this fiscal year, we are including the effect of our new model prices in Japan and the effect of the additional price realization we will carry out for our overseas CVs.

Q. You have mentioned that the impact of steel, oil price etc. fluctuations is significant reaching -130 billion yen this fiscal year. As for the next fiscal year, how much do you expect, taking into consideration that the market conditions for iron ores and others are calming down?

A. The unit prices of iron ore and coal remains high, and we do not expect them to get even higher in the next fiscal year. However, we are receiving strong requests for further price hikes, and most of the increase of negative impact of steel, oil price etc. fluctuations of -5.0 billion yen from our November announcement is due mainly to such requests. The same condition is expected to continue for the next fiscal year.

As for logistics cost, the price of container ships is on a downward trend as the supply-demand balance has settled down. On the other hand, there is a shortage of finished vehicle carriers. Since we use container ships at a higher rate, we expect a slight positive effect in the next fiscal year. Consequently, we are expecting about half of the -130 billion yen for the next fiscal year, although this year's negative impact will be reflected for the whole term in the coming fiscal year.

✧ Operating Profit Target for the Next Fiscal Year

Q. The operating income target of 250 billion yen for the next fiscal year seems lower than the market expectations. Are there any new negative risks that you are currently concerned about?

A. The risks in the next fiscal year will include shortages of parts supply, requests for further price hikes, and worsening of the FX environment. We will continue our efforts to exceed the 250 billion-yen target even a little, by pursuing additional price realization, full-year impact of this fiscal year's price realization, and pushing forward our cost reduction activities.

✧ Others

Q. Regarding the synergy between Isuzu and UD trucks, please tell us what specific activities do you think will bring benefit?

A. As a short-term initiative for a year or two, we have been promoting sharing in the areas of logistics, purchasing, production, parts, and overseas back-office operations, though the financial effect is not significant. The most significant effect is the reduction of our development costs through collaboration with UD Trucks and VOLVO. Take, for example, the tractor head we are introducing this time. In the past, we had to develop our tractor head, including the engine, on our own account. We are keeping our development budget as it was, allocating the reduced amount to other areas. In other words, we are not cutting our development costs. To make even greater savings, we are developing a common platform for heavy-duty vehicles toward the year 2025 or 2026. This will bring a significant benefit in the area of parts procurement.

Q. With your new tractor head, improved semiconductor supply, and production constraints on your competitors, what opportunities do you see in this situation for your domestic heavy-duty CV business? The new tractors will be made by UD Trucks; will that solve your semiconductor shortage?

A. Our remodeled straight trucks, launched in October 2022, are meeting the 2025 fuel efficiency standards for heavy-duty vehicles. Our new tractor models are scheduled to be introduced in March and April. We believe these will be major opportunities for us. Semiconductor supply shortage is still a problem, but we hope to see improvement in and after April. As for tractors, we are using semiconductor devices different from the past. We will continue dealing with the procurement risks, including the other parts.

Q. How do you see the future of your Russian business? Has there been any change since your last announcement?

A. We are still discussing with our local partner, and nothing has been decided yet.