August 9, 2023
Isuzu Motors Limited

Q&A for First Quarter Results for the Fiscal Year Ending March 31, 2024

<Message from Yamaguchi, Executive Vice President>

In the 1st quarter, the Fujisawa plant began production of the new *N-series*, light-duty trucks fully model-changed for the first time in 17 years, and the production switch has been going well. Customer inquiries and requests for negotiation are coming in, and an increase in vehicle registrations is expected in the coming months. Further, the new medium-duty *F-series* trucks are expected to go on sale this summer, and the preparation is underway.

The shortage of production parts is improving, and we will continue to do our best to deliver vehicles to our long-waiting customers as earliest as possible.

For the 1st quarter, we posted record sales, operating income and ordinary income. Overall, despite a lower sales volume vis-a-vis the same period last year due to downward demand in emerging markets, particularly Thailand, our business performance was steady even in the midst of rising material costs as we were able to capture the demand of developed countries as well as make it up by price realization and cost reductions.

As for the full-year volume, due to higher interest rates and inflation impacts, demand in emerging markets is low, leading us to revise our volume forecast, particularly LCVs for the Thai market. While demand in developed countries remains strong, the low demand may not be mitigated, and hence overall volumes declines.

The outlook for profit and loss is positive on the whole, due in part to the improvements in the destination mix and model mix plus lower-than-expected-costs such as material costs, but the initial outlook remains unchanged because of uncertain market conditions.

Last but not least, we will continue to improve profits and aim for this fiscal year’s ROE target of 12.5%.

【Q&A】

<1st Quarter Results>

Q: What is your view on the 1st quarter?

A: Up about 3.0 billion yen from the target plan of 65.0 billion yen. Profits grew thanks to improved parts supply for export LCVs, strong after-sales, lower-than-expected costs of materials etc., and yen depreciation, despite volume decline owing to low demand in emerging markets and shipping shortages. If it were not for the shortage, operating income would have landed at about 70.0 billion yen, so we see it as a decent start.

Q: Regarding the factors that increased the income of the 1st quarter, how did the destination and model mix improve?

A: As for CVs, unit sales in emerging markets declined, while unit sales in Japan and North America, where profits are higher, increased. Despite the decrease of unit sales in Thailand, mainly for low-grade models, profitability of LCVs improved as unit sales for export increased, mainly for high-grade models in Australia and other countries.

Q: How are your price realization measures progressing? Also, please explain the breakdown of price realization effect.

A: The breakdown of 16.0 billion yen achieved in the 1Q is as follows: while existing portion accounts for 12.5 billion yen, new portion accounts for 3.5 billion yen. Price realization measures for overseas CVs are progressing as expected, while measures for CVs for the Japanese market are expected to gain momentum from the 2nd half of the year. Sales negotiations tend to take longer due to higher prices, but are going well.

Q: Please explain the progress on the cost front.

A: R&D cost decreased by 2.6 billion yen compared with the previous year when the cost associated with new models were high, but overall progress is in line with our plan.

<Full-Year Forecast>

Q: Please explain why your full-year financial forecast remains unchanged despite the projected decline in unit sales of LCVs.

A: As for LCVs, unit sales of low-grade models for Thailand is expected to decline while unit sales of more profitable high-grade models for Australia and other countries is expected to increase. Similar to the 1st quarter, as this will result in the improvement of model mix, the impact of unit sales decline is predicted to be minimal. In addition, material and logistics costs are running at lower levels than expected. Foreign exchange rate also contributed to a positive impact of 2.0 billion yen vis-à-vis our plan in the 1st quarter. Therefore, if the current condition continues, we can expect an income increase of about 8.0 billion yen in Forex.

Q: Is price hike of LCVs for Thailand attainable amidst the decline in unit sales?

A: We devised our plan based on the presumption that we would be facing a tough market environment. Currently, we expect it to be in line with our plan.

Q: Please provide us with the details of improvements in material and other costs.

A: Prices for iron ore and coking coal have settled down further than we had initially expected. As for logistics costs, particularly those of containerships, which had soared in the previous fiscal year, have been lower than expected in the current period.

<Market Trends>

Q: What is the state of the Japanese market? Has it recovered to the levels before the pandemic and the semiconductor shortage?

A: We believe the market is strong. The 1^{st} quarter of the previous fiscal year was affected by the Shanghai lockdown and the chip shortage. On the other hand, in the 1^{st} quarter of this fiscal year, the unit sales increased, thanks to improvements in the parts shortages. In addition, we are in the middle of a model change transition, and the unit sales are expected to increase further in the 2^{nd} quarter onwards.

Q: What is the full-year unit sales outlook for CV?

A: The 1^{st} quarter result was lower than expected due to falling demand in emerging countries and shortages of ships, but the lost unit sales from the ship shortages is expected to recover in this fiscal year. For the full year, the unit sales in emerging countries, particularly Indonesia, are projected to be lower than expected, but the unit sales in countries such as North America and Australia are expected to be higher than expected. Although the overall unit sales are about the same as expected, the profits from both the destination mix and the model mix are improving.

Q: What is the LCV market environment in Thailand, and when will it recover?

A: Since the 2^{nd} half of last year, the Thai market has been subjected to stricter financial credit examination, which has impacted particularly on customers of low-grade LCV vehicles. The current situation continues to be difficult due to the increases in the proportion of loan applications rejected by the credit examination, and the loan loss ratio. We initially forecasted a market recovery in the 2^{nd} half of this fiscal year, but now assume that it would take longer than expected. However, the fundamentals of the Thai economy are not bad so that we are hoping for a recovery in the next fiscal year onwards.

Q: What is the full-year outlook of LCV unit sales?

A: Due to the expected unit sales decrease in Thailand, the production originally reserved for the Thai market will be reallocated to Australia, Europe and Mid/South America where backorders have piled up. Ship shortages is expected to recover within this fiscal year, although Australia has been disrupted by quarantine issues. Although demand in some emerging markets is weak, we believe that we can achieve our unit sales target.

<Other>

Q: What is the semiconductor supply situation in CV and LCV?

A: In CV, it is improving in line with our expectation made at the beginning of this fiscal year. There may be sudden changes in the future, but we assume production will not be greatly affected if they should happen. In LCV, we factored in the risks of chip shortages at the beginning of this fiscal year, but the situation has since improved.

Q: What is the status of your backorders at the end of June?

A: The backorders for our CVs for Japan totaled 36,000 units, of which 20,000 units were for heavy-duty and medium-duty trucks and 16,000 units for light-duty trucks. The backorders remain high due to limited capacity of rear body manufacturers as well as gradual shift of production lines towards new model production. For our overseas CV models, the backorders were 25,000 units, of which 14,000 units were for North America, 3,000 units for Europe, and 8,000 units for other markets. The status remains almost the same as at the end of March. For our LCV models, the number totaled 70,000 units, 20,000 units for Thai domestic market and 50,000 units for exports. The backorders decreased by 20,000 units from the end of March, by 10,000 units for Thailand due to lower demand and by 10,000 units for exports resulting from reallocation of production capacity from Thailand production to export production.

Q : What is the status of new light-duty *Elf EV* sales?

A: Registration of the new light-duty *Elf EV* has not started yet, but we have been receiving inquiries mainly from major logistics operators. Based on how EVs are used, we are working closely with our customers to determine effective delivery routes, the timing of charging, etc., utilizing the *E-Vision* program.

Q: Please tell us the progress of investment in innovation, including which categories the investment is allocated for.

A: We announced the allocation of the investment in innovation would be 500.0 billion yen for R&D, 200.0 billion yen for facilities and DX for logistics, and 300.0 billion yen for strategic investment. We will explain the specific initiatives and timing in our next mid-term business plan, but Isuzu have already started developing EVs under investment in innovation. Approximately 45.0 billion yen is included in our outlook for this fiscal year.

Q: What is the expected impact of Hino and Mitsubishi Fuso's announcement of their business integration, especially in markets where both companies have a high market share?

A: We believe that this could potentially change the framework of global commercial vehicle manufacturers. As a commercial vehicle OEM based in Japan, collaborative and competitive domains need to be clearly identified. The merger is a threat, but it is a time-consuming process. Isuzu and UD Trucks needs to brace ourselves up to establish a structure by then. Hino and Mitsubishi Fuso together account for about 70% of the total market share in Indonesia. We humbly accept that we are in the position of a challenger and continue to make efforts to expand our sales.