November 10, 2023

Isuzu Motors Limited

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

<Message from Yamaguchi, Executive Vice President>

In the first half, the production and sales of the *new N-series LD truck* were launched, followed by the *new F-series MD truck*. The development of BEV LCV pickup was started and announced. At the Japan Mobility Show, we showcased a well-going development of all-round products and solutions that contribute to carbon neutrality, such as *ERGA EV* a BEV route bus with a fully flat floor, *EVision Cycle Concept* a battery-swapping solution, and *GIGA FUEL CELL* a fuel cell truck.

In terms of sales, Isuzu and UD Trucks opened the first collaboration base in Ayabe City, Kyoto Prefecture, and continue to work together in various ways as we continue to look into each region.

As for the first half of the year, net sales and all profit levels marked an all-time high. Although sales volume of both CVs and LCVs decreased year over year as the market was in a difficult situation in emerging economies due to the impact of rising interest rates and inflation, demand in advanced economies continued to be strong, and initiatives such as capturing aftersales demand, price realization, and cost reduction contributed to yielding the result.

Looking at the outlook for the fiscal year, we expect market conditions to remain challenging in emerging markets, and consequently revised sales volume downward from the previous forecast announced in August. Particularly, we had no choice but to further revise down our full-year forecast for LCV unit sales in Thailand due to tight financial screening.

Turning to the business performance, we adjusted operating income up by 20.0 billion yen from the previous forecast. Despite the impact of decline in sales, we expect to see an increase in profit since we are making a steady progress in price realization and cost reduction activities, in addition to the favorable factors, such as that prices of materials and other costs have not risen as expected and that the yen continues to weaken.

As announced today, we will acquire treasury stock during the current fiscal year. The plan is to buy back up to 50.0 billion yen of the stock and cancel all acquired stocks. The aim is to improve capital efficiency as well as the return of profit to shareholders. We will continue to always examine if the capital maintains an appropriate level, and acquire treasury shares as seen fit. Dividend for the fiscal year is expected to increase by 6 yen to 86 yen per share, in line with the policy of the current mid-term business plan ending this fiscal year, which states a 3-

year average payout ratio of 40%. As a result, the total shareholder return ratio of the 3-year mid-term plan is expected to reach 51.8%.

Finally, as also announced today, IJTT Co., Ltd. (hereafter, IJTT), our consolidated subsidiary and important supplier, will undergo a business restructuring under the framework of a new business with SPARX Group Co. Ltd. (hereafter SPARX) as a partner. After becoming private, IJTT is planned to become an equity-method affiliate. Amid varying power sources like electrification, together with a new partner, IJTT will continue to deepen the existing businesses and expand into new areas.

[Q&A]

<1st Half Results >

Q: What is your internal evaluation of the first half results? Please also tell us about the impact of the ship shortage that has been occurring since the first quarter.

A: Compared to the internal forecast, there was an increase of about 15.0 billion yen. The breakdown is as follows: Positive factors include 11.0 billion yen increase in foreign exchange fluctuations, 10.0 billion yen increase in material costs, etc., which did not rise as expected, 3.0 billion yen increase each in price realization, 3.0 billion yen increase due to cost reduction and decrease in expenses, while a negative factor includes unit sales reduction of 12.0 billion yen. As for the shortage of ships, delivery that could not be made in the first quarter was addressed and recovered in the second quarter, but the shipment delay was still observed in the second quarter. In particular, the delay in LCV shipment from Thailand to Australia was slow, causing negative impact of about 3.0 billion yen.

Q: In the segment by geographic region, the ratio of operating income to sales in Asia increased to 13% in the second quarter. What is the reason behind the increase from the first quarter?

A: While LCV unit sales in Thailand decreased, model mix improved due mainly to an increase in export sales volume. The exchange rate was also positive compared to the first quarter.

<Full-year forecast>

Q: An upward revision was made to the full-year forecast. Will it be a second consecutive record high?

A: Yes, we are expecting record highs in net sales and all profit levels this fiscal year again. In addition to successful measures, such as price realization and cost reduction activities, material costs did not rise as expected, and the yen continued to depreciate.

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Q: What are the risks and opportunities in aiming for the ROE target of 12.5% from the current outlook of 12.2%?

A: We foresee no major risks following the downward revision to unit sales. Regarding opportunities, we hope to see the aftersales business outperform our forecast in the second half as it did in the first half.

<Market Trends>

Q: Please explain the reasons behind the downward revisions to unit sales in your full-year outlook by segment. Additionally, when do you expect the Thailand LCV demand to start recovering?

A: Although unit sales in Japan were revised downwardly due to a prolonged lead time to sales, demand has remained robust. Overseas CV unit sales were revised downwardly particularly in Asia such as Indonesia and Vietnam due to rising interest rates and inflation in emerging markets. On the other hand, demand has remained strong in developed markets such as North America and Australia. Thailand LCV unit sales were revised downwardly as the market conditions is unlikely to recover even in the latter half of the current fiscal year and the full calendar year industry sales for all vehicles will be low at around 800,000 units. We expect Thailand's industry sales to pick up from the latter half of the next fiscal year.

Q: What is the reason for the prolonged lead time to sales in Japan and what is the outlook?

A: The prolonged lead time is attributable to the following reasons: we are dedicating time to appeal our pricing and product strength to our customers because we implemented the first full model change in more than 10 years; the time between sales negotiations and an order intake tends to take longer due to higher prices; and the production capacity of rear-body manufacturers has not recovered as much as expected. We predict that the production capacity will recover to some extent in the future but most likely not to pre-pandemic levels given the current labor shortage, and rear-body manufacturers are more oriented towards securing profitability rather than increasing production volume.

Q: What are your measures to shorten the delivery time?

A: We will further work with our customers to optimize delivery times and also with rear-body manufacturers to enhance delivery time management for each unit.

Q: Why did you revise the full-year CV unit sales for Thailand upwardly despite the severe market conditions? In addition, what is the outlook going forward?

A: The market condition is not good as with LCV, as there have been cases where small-scale/low volume customers cannot obtain financing. However, we revised the unit sales owing to an expected last-minute purchase before the regulation change from Euro 3 to Euro 5 in April 2024. CV industry sales are expected to decline year on year to around 32,000 units, but the decline is assumed to be limited compared to pickup trucks. Conversely, we are prepared for a certain level of reactionary fall in the next fiscal year.

Q: To what extent are the risks factored into the downward revision of your full-year industrial engine shipment?

A: The downward revision is because of the rebound in demand in the Chinese market owing to the reactionary recovery from the impact of COVID-19 was not as strong as we had expected. As we have factored in all the risks, we do not expect industrial engine shipment to fall further.

Q: Please explain the level of backorders at the end of September and at the end of FY3/2024.

A: The backorders in Japan and North America remain high, while those in the rest of the world have generally normalized in response to the deteriorating market conditions. In Japan, although the CV backorders came down to 32,000 units at the end of September showing improvement from 37,000 units at the end of March 2023, the level is still high. In North America, backorders stood at 16,000 units at the end of September, up from 12,000 units at the end of March 2023. We aim to eliminate the backorders in Japan and North America by the end of March 2024, but predict that some will remain. For the other regions, the backorder normalization is progressing. Regarding LCV backorders, those for export markets, mainly for Australia, remained as of the end of September, but overall, normalization is on track, partly due to the worsening market conditions in Thailand.

Q: What is the background behind the remarkable growth in aftersales in recent years, which is considered as a stable growth business?

A: In the leasing business, we are working to increase the rate of vehicle intakes at Isuzu dealers' workshops by increasing the number of maintenance lease contracts. Continued steady sales efforts, such as leveraging connected services solutions to provide customers preventive maintenance services have been effective, and UD Trucks is also increasing its rate of units received for maintenance at their dealers' workshops. On the cost side, given the rising cost of parts and labor, we increased amount of fees charged to customers and expected a negative impact from this in our initial plan devised at the beginning of the fiscal year. However, we saw steady progress which resulted in our upward revision. We are hoping to see aftersales revenue to exceed our plan in the second half of the fiscal year as well.

Q: Did the aftersales business account for about 1/3 of the operating income in the first half of

FY3/2024?

A: The percentage of aftersales has risen somewhat due to increase in the revenue from the aftersales business from the previous fiscal year, but the percentage has not jumped significantly.

<Price Realization and Material Cost etc. Fluctuation>

Q: What is the reason behind the increase in the operating income from price realization in the latest full-year outlook while Isuzu revised the unit sales downwardly?

A: Even in the current situation where demand is severe, we have been working accord to our policy of recovering the increase in materials cost by price realization, and the effort has definitely bore fruit.

Q: What are the assumptions about the prices of materials and others for the second half of the fiscal year?

A: We base the second half prices on the assumption that the price level from Sep. to Oct. will persist. Compared to the previous fiscal year, we expect to see a negative impact from the price increase from the second half of the previous fiscal year to the first half of this fiscal year.

Q: If the cost of materials has been lower than expected, then is it correct to assume that the price increase of new models may be causing a negative impact on sales?

A: The prices for materials and others have not risen as much as expected in this fiscal year, but they soared in the last fiscal year and the year before. Therefore, the price realization has not yet caught up on the previous cost rise. The price increase we have set in our products are not higher than the cost increase of materials and others, and we are explaining sincerely to our customers so that they can understand our pricing.

<Shareholder Returns>

Q: What discussions were made prior to the share buyback in considering a balance between the money to be used for stock repurchase and the money to be used for the necessary investments?

A: In May, we announced a new corporate philosophy, aiming to become an innovation leader. We had discussed in meetings such as board of directors’ meetings as to what should be done to ensure that the company's capital efficiency is competitive not only with Japanese commercial vehicle makers but also with global commercial vehicle makers. After these discussions, we decided on the stock repurchase based on the company policy to promote stock repurchases when appropriate, aiming for an adequate capital level while securing necessary funds for growth and financial soundness. We will continue such discussions and promote shareholder returns and capital efficiency.

Q: Are there any companies other than Mizuho Bank, Ltd. from which you plan to purchase Isuzu shares?
A: There are no companies other than Mizuho Bank.

<Business Restructuring>

Q: With regard to the business restructuring associated with IJTT, please tell us the purpose of this transaction and the reason for the timing.
A: In order to improve the corporate value of IJTT, we had been considering the necessity of not only deepening its existing business as an Isuzu group company, but also broadening new business areas with various partners. IJTT aims to be a commercial mega-supplier that plays a role in the foundation of manufacturing in Japan. The agreement was reached this time that IJTT shares the ambition with SPARX to foster and maintain Japanese manufacturing through a new partnership with SPARX. SPARX owns the Japan Monozukuri Mirai Investment Limited Partnership (hereafter, Japan Monozukuri Mirai Fund), which is also funded by Toyota Motor Corporation. Through cooperation with these partners, IJTT aims to improve its corporate value via activities including changes and reorganization of its business structure for electrification. It also pursues to take actions quicker by becoming a non-listed company and non-subsidiary of the Isuzu Group. Referring to the timing of this announcement, this reorganization had been discussed for some time, and after the agreement was reached, we promptly carried out the plan.

Q: What are the details of the new business areas mentioned above?
A: At present, as an Isuzu supplier, 70% of the IJTT business comes from Isuzu Motors Limited. Only, because IJTT has started to invest in the robotics business, the contribution that Isuzu can make for IJTT in the future will be limited. Toyota is the lead investor of Japan Monozukuri Mirai Fund, which will become the parent company of IJTT, and we hope that Toyota will present opportunities for IJTT to collaborate with various companies and other industries in the future. We hope that IJTT will become a mega-supplier in commercial vehicle together with other suppliers who face similar situation as IJTT in the Japanese industry amid the rapid transformation into electrification.

Q: What is Isuzu's intent behind the 33.3% capital investment?
A: Regarding the flow of the transaction, firstly, IJTT will purchase the IJTT shares owned by Isuzu through a share repurchase. Then, Isuzu will invest 33.3% in the new company which

will obtain IJTT shares through a TOB. While IJTT is a very important supplier to Isuzu, IJTT cannot expand its business if Isuzu remains its parent company. Isuzu alone will not be able to support the new business areas IJTT aims to explore in the future. To Isuzu to continue to support IJTT in many ways while owing the maximum amount of IJTT shares and avoiding business impacts from Isuzu on IJTT, the capital investment structure of SPARX as the major shareholder was decided. In the future, if the new IJTT grows and its corporate value enhances, a re-listing of the company on the stock market might be an option. In that case, Isuzu will re-examine whether to increase its holding of the shares considering the business environment or sell the shares at the time of the re-listing.

Q: What is the impact in terms of earnings and cash?

A: As for the profit and loss, although a decrease in the equity ratio (from 43.19% to 33.3%) will negatively affect the earnings in the short term, the loss can be fully recovered in the medium to long term by enhancing corporate value and increasing profitability. We expect an extraordinary loss of 6.0 billion yen for this fiscal year, the difference between the book value and the sale price of IJTT stock.

In terms of cash, we plan to sell all of our IJTT shares to IJTT for approximately 13.0 billion yen, then invest about 3.0 billion yen, equivalent to a 33.3% stake, in the new company. This will result in a net cash inflow of about 10.0 billion yen, which will be utilized mainly for future investment in innovation.

<Business Environment in the Next Fiscal Year and the Next Medium-Term Business Plan>

Q: Could you tell us about the business environment for the next fiscal year, including demand trends and price realization?

A: Demand for the next fiscal year is expected to be strong in developed economies but somewhat challenging in emerging countries.

In Japan, we aim to increase the volume from this fiscal year as we have a complete lineup of full-model changed vehicles. In North America, while backorder fulfillment is high in volume this fiscal year, the market remains strong, and we strive to maintain high volume. Emerging economies, on the other hand, will continue to experience tough market conditions. LCV demand for Thailand is expected to recover from the second half of the next fiscal year as we see the potential in the market. The LCV volume exported to Australia this fiscal year is larger than the actual capacity resulted from backorder deliveries, but it will settle in the next year. The rest of the world has no factors to bring the volume significantly higher from this fiscal year, and we aim to increase the unit sales by steadily expanding the market share. In terms of profit and loss, we will continue to work on price realization in a bid to cover the rise in material costs in recent years. In Japan, as we will observe positive effects of pricing on new models from the second half of the current fiscal year, we expect to see the effect on a full scale in the next fiscal year.

Q: What principles are you basing on in developing the next mid-term business plan?

A: As a basic procedure, we are not only forecasting based on the current performance, but we are also back casting on what needs to be done in the next 3 to 5 years to achieve the ideal state for 2030 while anticipating how the world will be like in 2040. I would also like to explain the details of 1.0 trillion yen of investment in innovation, the development of various products, and the necessary capital investment. We are also discussing of developing KPIs and indicators for capital efficiency and shareholder returns to some extent.

< Others >

Q: What is the reason you posted an impairment loss of your subsidiary in China? Will you continue your business in China?

A: We determined an impairment loss on the production facilities of a subsidiary that manufactures diesel engines for trucks due to a slowdown in operations amid the economic downturn since the COVID-19 pandemic. We are not considering withdrawing our business in China and will continue to work with our partner to expand our business.

Q: In Chinese market, we have seen the advancement of electrification. What is the current status of commercial vehicles and plans for introducing EVs in China?

A: We anticipate that about 70% of the commercial vehicles in China is expected to be diesel for the near future. With the electrification trend, our partners are already selling EVs as their own products. Looking ahead to market trends, we will consider releasing EVs under Isuzu brand, but diesel will be the main product for now.

Q: What is the timeline for the electrification of pickup trucks in Thailand?

A: Pickup trucks are used in various ways as carrying large loads, driving long distances, and towing in some cases. The current battery performance is not sufficient to meet all customer needs. BEVs will be developed for customers with specific use, but diesel engines will stay in the mainstream for the time being.

In Thailand, while BEVs, especially passenger cars, have been rapidly increasing, but they are reportedly purchased by individuals owning multiple vehicles for using in commuting and picking up family members, rather than driving long distances. These individuals face no issues on financing.

Electrification trend in passenger cars is expected to extend to pickup trucks in the future, and BEV development is in progress to launch them at the appropriate time. We would like to launch BEV pickup trucks in Europe first, and then roll them out to Thailand and other countries in the future.