

# **The New 3-year Business Plan**

**Isuzu Motors Limited**

**October 25, 2002**

## Preface

**In August '02, Isuzu Motors Limited announced that it was developing a "New 3-year Business Plan" - - - a new plan that facilitates Isuzu to accelerate and extend the reach and scope of the V-Plan initiatives; that allows Isuzu to strengthen its collaborative relationship with GM; that directs Isuzu toward fundamental restructuring of North American SUV businesses.**

**After the announcement, Isuzu carried out specific studies by receiving kind assistance of General Motors Corporation and Mizuho Corporate Bank, and completed the compilation of the New 3-year Business Plan. The contents of the Plan received agreements and support from GM, Mizuho CB and other financial institutions. And, Isuzu reached a basic agreement with Fuji Heavy Industries Ltd.**

# **I . Outline of the New 3-year Business Plan**

# Gist of the New 3-year Business Plan

## Wipe out uncertainties

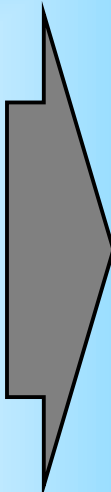
- Review/restructure North American businesses
  - Create new power-train engineering JV with GM
- 
- Reduce overall employment (VER)
  - Consolidate manufacturing infrastructures, etc.

## Reinforce management control system

- Exc. VP and Rep. Director from GM
- Exc. VP from Mizuho CB
- Establish full-time function to promote 3-year Plan

## Re-capitalization

- Debt-for-equity conversion (DEC)
- Capital decrease/increase (Retire GM's shareholding without consideration)
- New money



Re-focus, and shift to CV-specialist with DE as "Core technology"

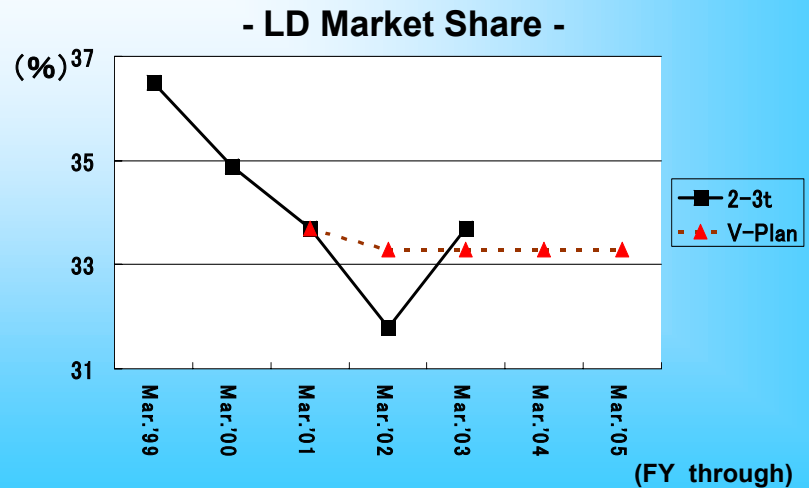
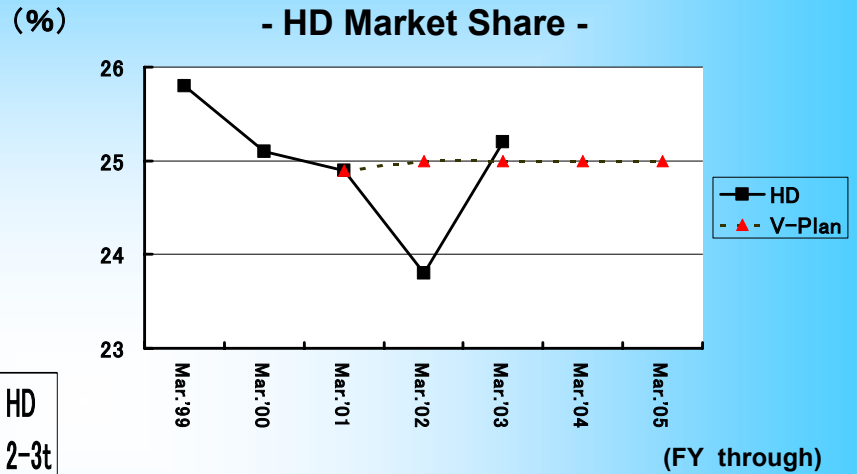
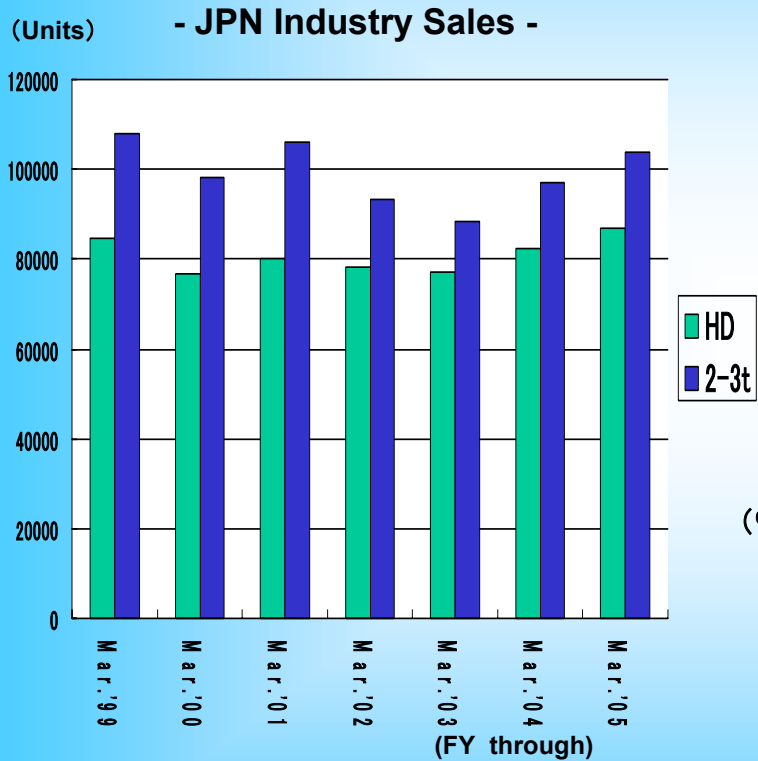


Cooperation from GM and financial institutions

## **FY101-H1 Performance**

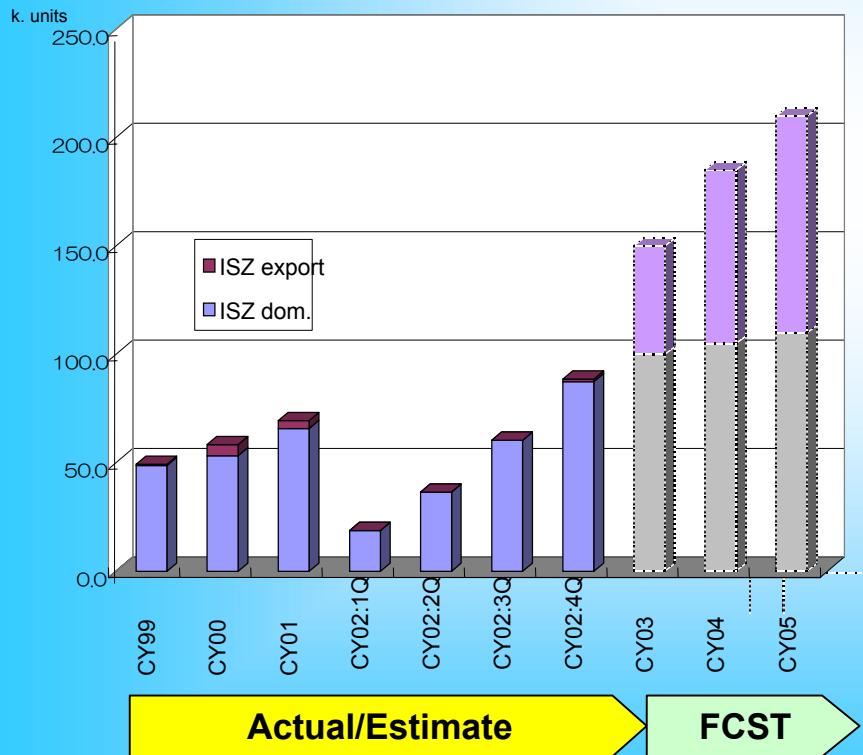
- **Market conditions surrounding CV businesses continue to be extremely severe. Against this backdrop, Isuzu has exerted corporate endeavor on structural reform since it embarked upon the V-Plan. The Company's operating performance has steadily been showing year-on-year improvements.**
  - ◆ **Market share improvement in Japan, despite significant industry sales decline**
  - ◆ **Impressive sales performance of new pick-up truck in Thailand, boosting market share**
  - ◆ **HD truck sales increase in various overseas markets**
  - ◆ **Stronger operating cash flow**
  - ◆ **Reduction of total debt, and inventory**
  - ◆ **Earnings improvement of domestic dealers and profit turnaround in consolidated subsidiaries**

# For reference: CV sales in Japan

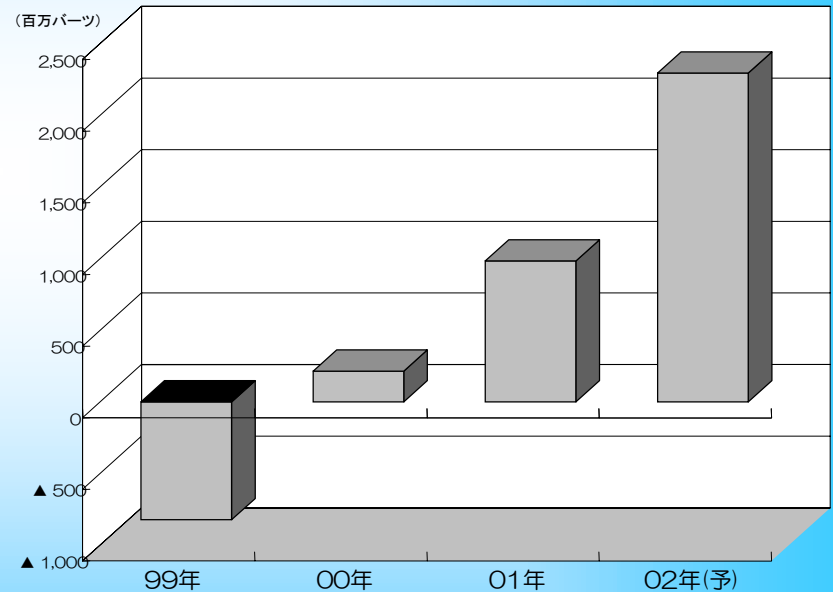


# For reference: Business Performance in Thailand

Pick-up truck sales  
(including export from Thailand)



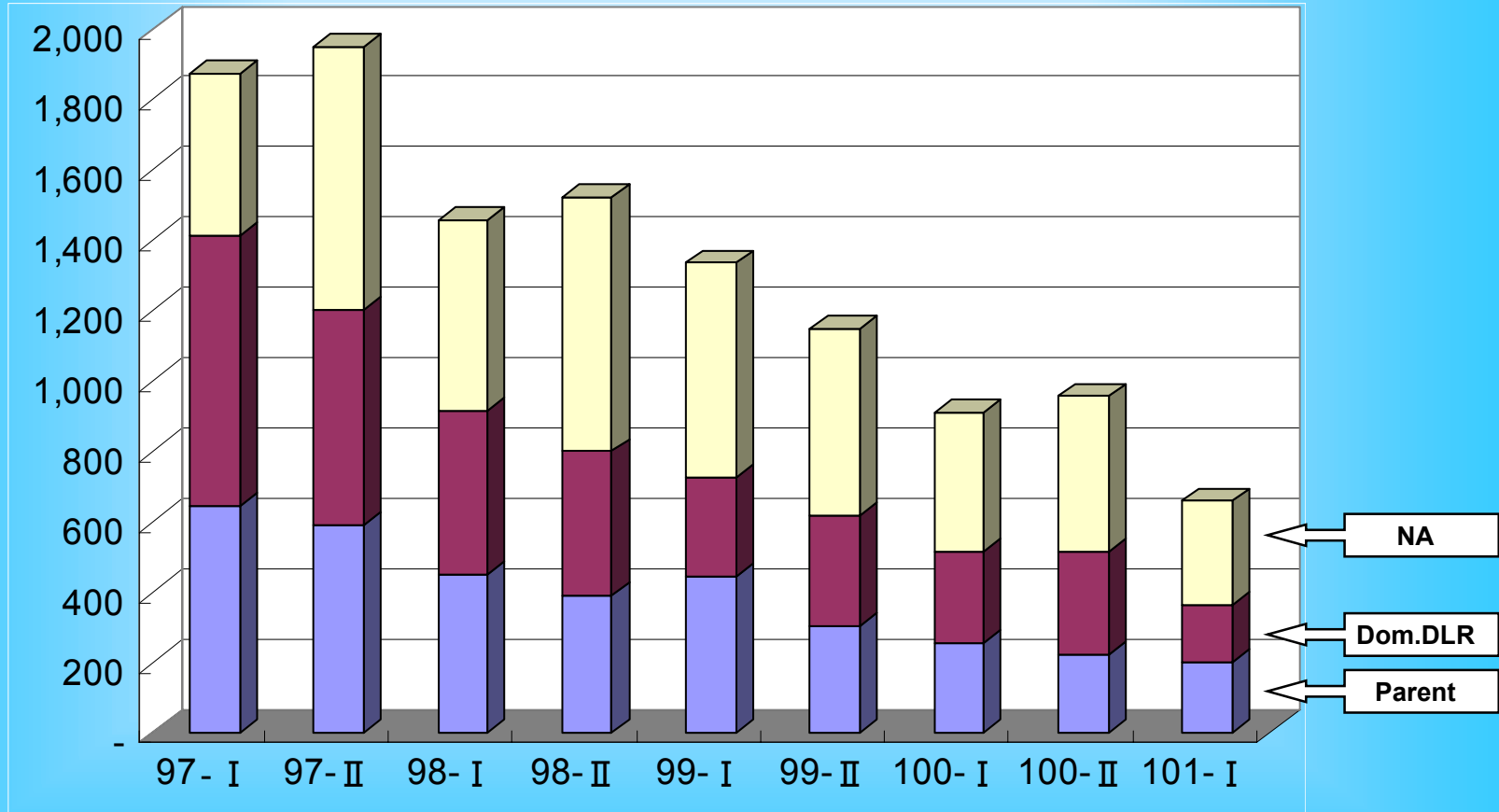
Profit/Loss Position  
(5 local companies)



# For reference: Inventory Performance

(Y00 mil.)

- SUP Inventory -





## II. Review of Business Structure

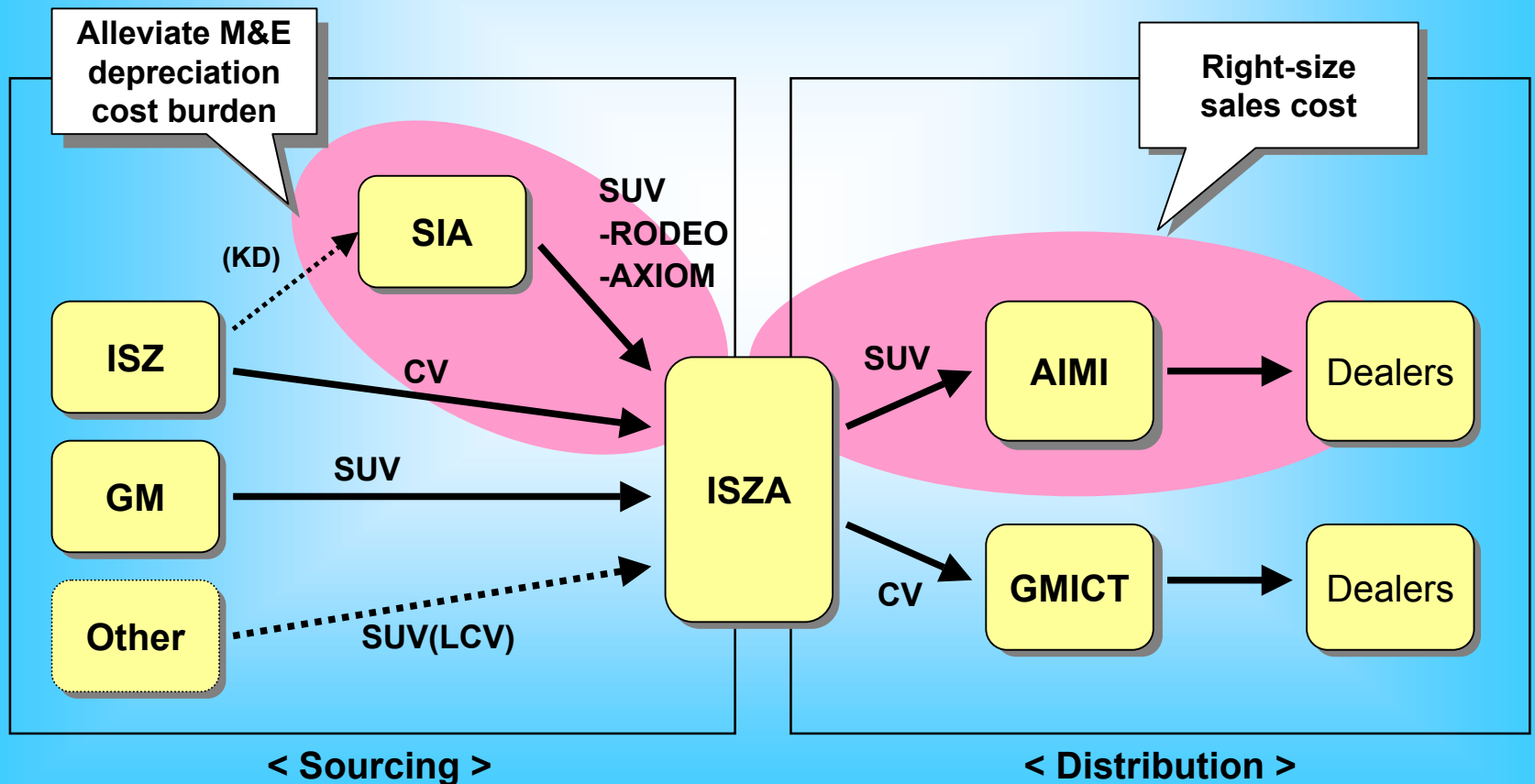
# SUV Businesses in North America -1-

➤ Commensurate with decreased SUV sales volume, review and right-size the scale of business operations.

1. Adjust manufacturing capacity (incl. review of product sourcing, ie OEM, etc.)

2. Review sales cost and organization to match sales volume

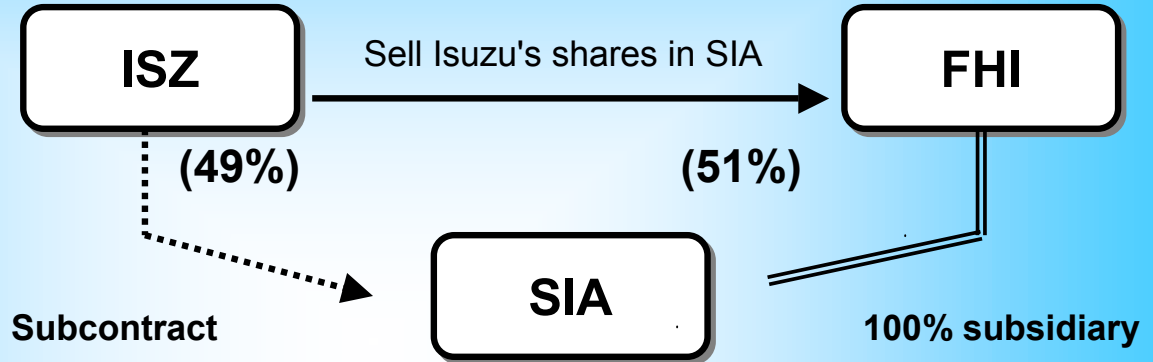
\* Areas in red.



# SUV Businesses in North America -2-

Manufacturing operations (SIA)

- Dissolve SIA JV, and subcontract assembly



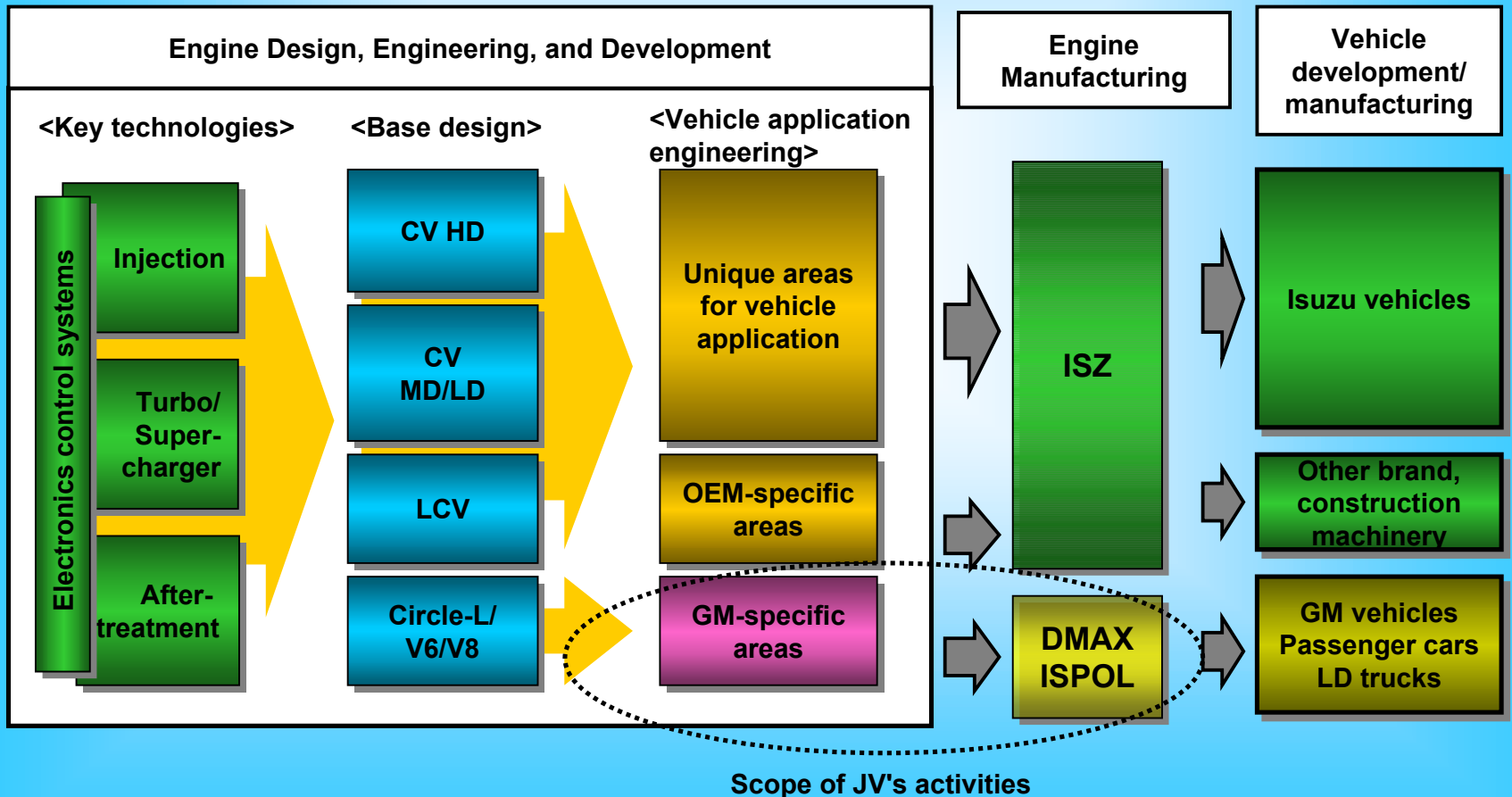
※ Isuzu to recognize valuation losses on M&E upon dissolving JV

Sales operations (ISZA/AIMI)

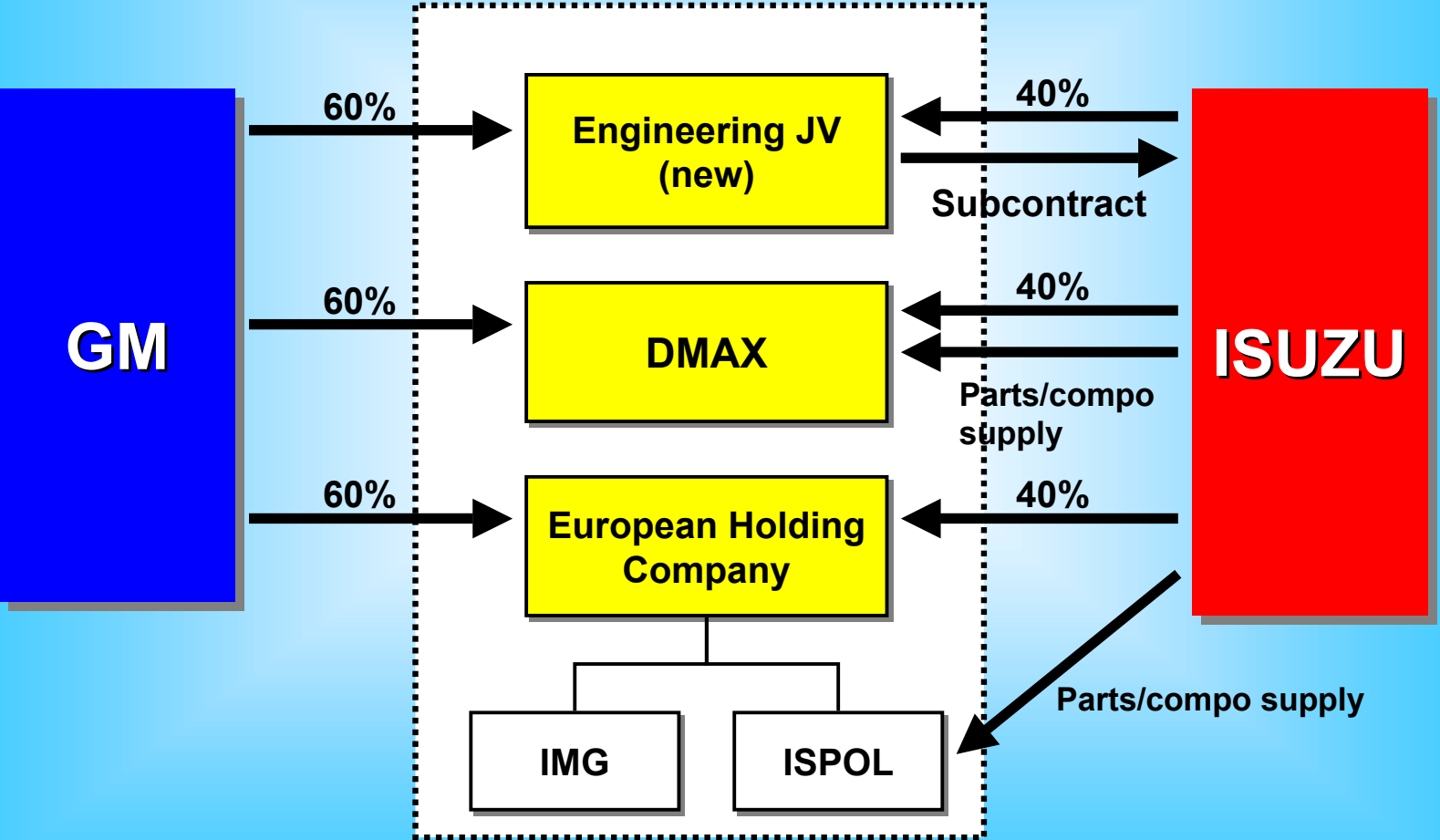
- Reduce SUV sales cost
  1. Reduce sales cost: Cut back SUV workforce to less than half
  2. Reduce inventory: Target at 90-day supply
  3. Review ad&promo, incentive
  4. Consolidate functions: Review number of offices and workforce assignment
- On top of Ascender, Isuzu will receive another OEM vehicles based on TrailBlazer from GM.

# GM-Isuzu Power-train Engineering JV -1-

- Create a new power-train engineering JV with GM to engage in engineering and manufacturing of DE for GM vehicle application



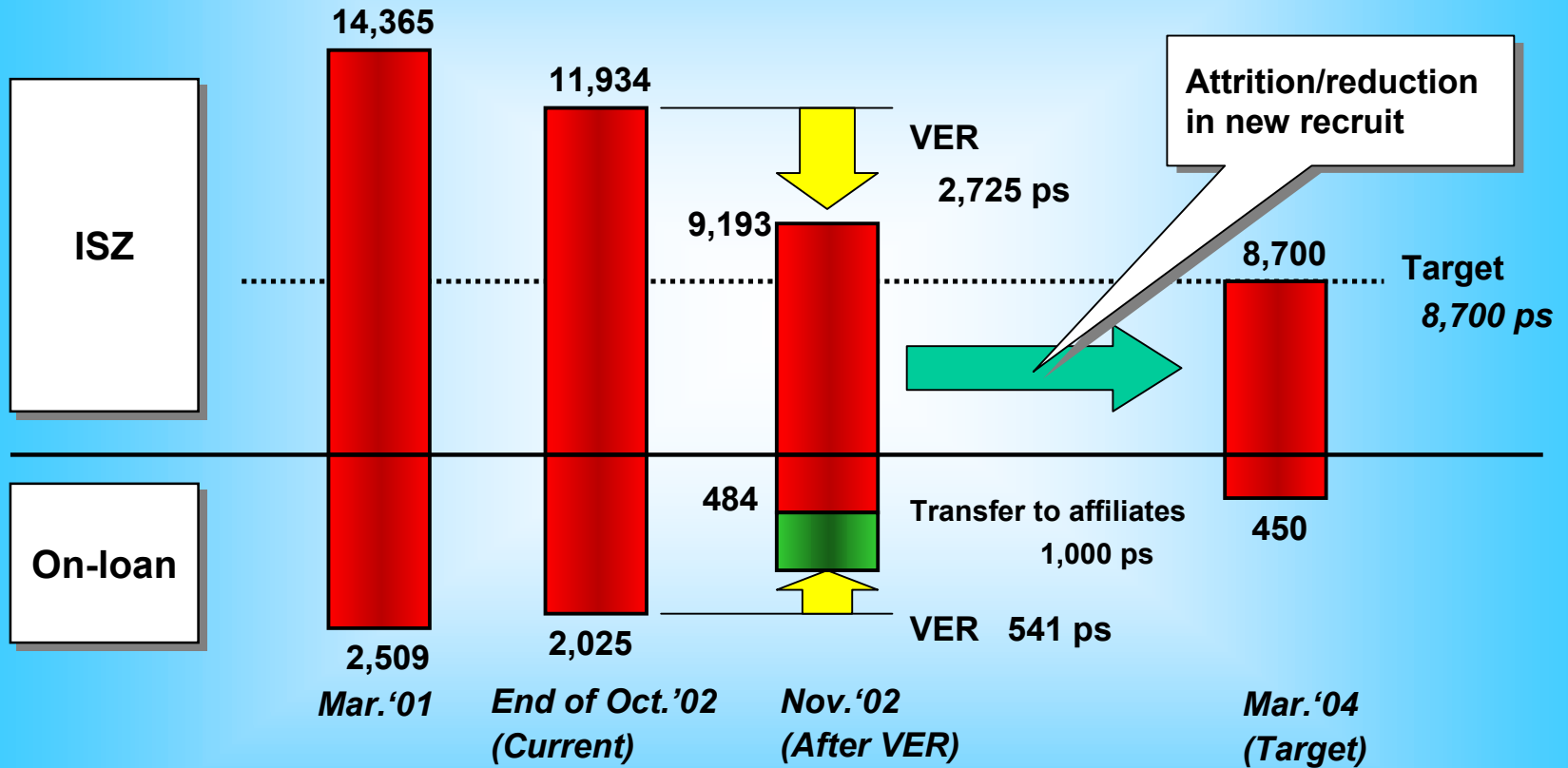
# GM-Isuzu Power-train Engineering JV -2-



\* IMG to provide services to Engineering JV on consignment basis

# Right-sizing Overall Employment

- Voluntary Early Retirement program was implemented earlier than original plan to ensure achievement of the V-Plan target (ie 8,700-person organization in March '04: on Isuzu payroll)



4,266 persons applied and accepted for voluntary early retirement (incl 1,000 transfer).  
 <Plan: 3,700 persons, incl. 700 transfer>

# Restructuring Charges and Improvements

- In current fiscal year through March '03, Isuzu will take approximately Y140.0 billion charges. However, effects of restructuring will largely contribute to earnings in ensuing years.

Initiatives	Positive effects (as compared to actual results through March '02)			
	Charges	Mar.'03	Mar.'04	Mar.'05
Review/restructure North America	(91.0)	+6.0	+38.0	+38.0
- Revaluation of investments in subsidiaries	(34.0)			
- Revaluation of under-performing facilities in SIA	(47.0)			
- Restructuring at Isuzu-America	(10.0)			
Headcount reduction	(22.0)	+8.0	+21.0	+21.0
Exit domestic RV business	(3.0)	+1.0	+1.0	+1.0
Recognition of latent losses, etc.	(25.0)			
<b>Total</b>	<b>(141.0)</b>	<b>+15.0</b>	<b>+60.0</b>	<b>+60.0</b>

### **III. Reinforcement of Management Control**



# **Reinforce Management Control/ Activity Promotion Organization**

- **Exc. VP & Rep Director from GM**
- **Exc. VP from Mizuho CB**
- **Promote New 3-year Business Plan**
  1. **Full-time organization to monitor progress**
  2. **Profit-control by product/business line (VLE)**
  3. **Centralize management over consolidated subsidiaries**

## IV. Re-capitalization

# Improve Financial Fundamentals

## - Cooperation from GM, Shareholders and Financial Institutions -

### GM

1. Retirement of shares
  - Cancellation without consideration (619 million shares)
2. Total injection of approx. Y60.0 billion for:
  - JV with Isuzu, capital increase in Isuzu PT units
  - Intellectual property
  - Subscription to new shares of Isuzu (for 10.0 billion: 12% equity)
3. Consolidation of PT companies and assumption of approx. Y40.0 billion debt (est. a/o Dec '02)

### General shareholders (excluding GM)

1. Reduction of capital stock: Y89.8 billion, including cancellation of GM's shareholding without consideration.
  - \* Note: Number of issued shares to general shareholders remain unchanged.

### Financial institutions

1. Debt-for-equity conversion: Y100.0 billion of debt with major banks (to be converted to new issues of preferred stock) → To restore Isuzu net worth
2. New money
  - Bond redemption funds: financing request, to cover redemptions during the period
  - Headcount reduction funds: financing request to 5 major banks
3. Financial support from other banks
  - Roll-over of existing credits: Based on request to major banks to step up cooperation, other financial institutions are also requested to accept roll-over

## **V. Future Vision, Business Strategy**

# Strategic Direction

	Direction	Product/Technology	Market	Business Focus
CV	<ul style="list-style-type: none"> <li>❖ Concentrate resources on CV as core business</li> <li>❖ Maximize revenue/volume</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce new engine (10-liter, L6)</li> <li>• Full model change of 2- to 4-ton</li> </ul>	JPN	<ul style="list-style-type: none"> <li>• Reform of sales structure/Expand sales to major cargo fleet</li> </ul>
			China ASEAN NA	<ul style="list-style-type: none"> <li>• Aggressive sales expansion, leveraging brand equity</li> <li>• Enrich product line-up</li> <li>• 3rd-party alliance</li> </ul>
LCV	<ul style="list-style-type: none"> <li>❖ Pursue maximum efficiency in return on investment</li> <li>- Centralize production in Thailand</li> <li>- Tie-up sales operation with MC</li> </ul>	<ul style="list-style-type: none"> <li>• Introduce P-up derivative</li> <li>• Introduce new L4 DE</li> </ul>	Thailand	<ul style="list-style-type: none"> <li>• Maintain No.1 market share</li> <li>• Reinforce alliance with MC</li> </ul>
			ASEAN, etc.	<ul style="list-style-type: none"> <li>• Increase vol with derivative vehicle</li> <li>• Aggressive sales in GM territories</li> </ul>
SUV	<ul style="list-style-type: none"> <li>❖ Minimize business risks</li> </ul>	<ul style="list-style-type: none"> <li>• Add OEM models</li> <li>• V6 gas engine</li> </ul>	NA	<ul style="list-style-type: none"> <li>• Review operational structure to suit sales vol.</li> </ul>
PT	<ul style="list-style-type: none"> <li>❖ Secure business stability through creation of JV with GM</li> </ul>	Improve product: V6, V8, L4	NA	<ul style="list-style-type: none"> <li>• Capacity increase at DMAX</li> </ul>
			Europe	<ul style="list-style-type: none"> <li>• Max. vol operation (300k)</li> <li>• Expand other OEM sales</li> </ul>

# CV Business: Product/Market

Product Group/Engine		Market	
		Japan	Overseas
HD	<b>New 14-liter</b> - High output - High torque	<ul style="list-style-type: none"> <li>◆ Adopt on CVs for heavy cargo carrier/construction use</li> </ul> <p>Secure stable growth as Isuzu's stronghold</p>	<ul style="list-style-type: none"> <li>◆ Ally with third-party for manf./sales operations</li> </ul> <p>Capture CV market opportunity in China whose construction/public works are booming</p>
	<b>New 10-liter</b> - Energy efficient - Light weight	<ul style="list-style-type: none"> <li>◆ Enrich cargo CV offering with new engine (meeting the need for greater cargo-load efficiency and higher fuel efficiency)</li> </ul> <p>Boost market share of cargo types, with the 1st in class output and fuel efficiency</p>	<ul style="list-style-type: none"> <li>◆ Introduce as "Asian Truck"</li> </ul> <p>Pursue volume merit through regional complementation in manf., and consolidation of smaller-scale markets</p>
LD/LCV	<b>New 3-liter</b> <b>New 2.5 liter</b> - High output - Light weight	<ul style="list-style-type: none"> <li>◆ Enrich LCV line-up by adopting new engines on ELF</li> </ul> <p>Ensure absolute advantage over competition by meeting market needs thoroughly</p>	<ul style="list-style-type: none"> <li>◆ Expand new engine adoption covering pick-up derivative and LCV</li> </ul> <p>Leverage the strengths as the world No1 light-weight, biggest volume LCV</p>

# Material Cost Reduction

Generate cost saving through volume merit, on part-by-part basis

CV

- Commonize next generation MD and LD cab ( -30%)
- Volume merit from HD and MD truck ( -15%)
  - In short-term, reduce domestic supplier prices by leveraging China/ASEAN volume (eg. extensive use of dies)
  - In mid-term, expand procurement from China/ASEAN to achieve further cost reduction
- Drastic de-proliferation : vehicle variations, engine series
  - HD: 500 --> 200
  - MD, LD: 5,000 --> 2,000
  - Engine: 9 --> 7 series

LCV

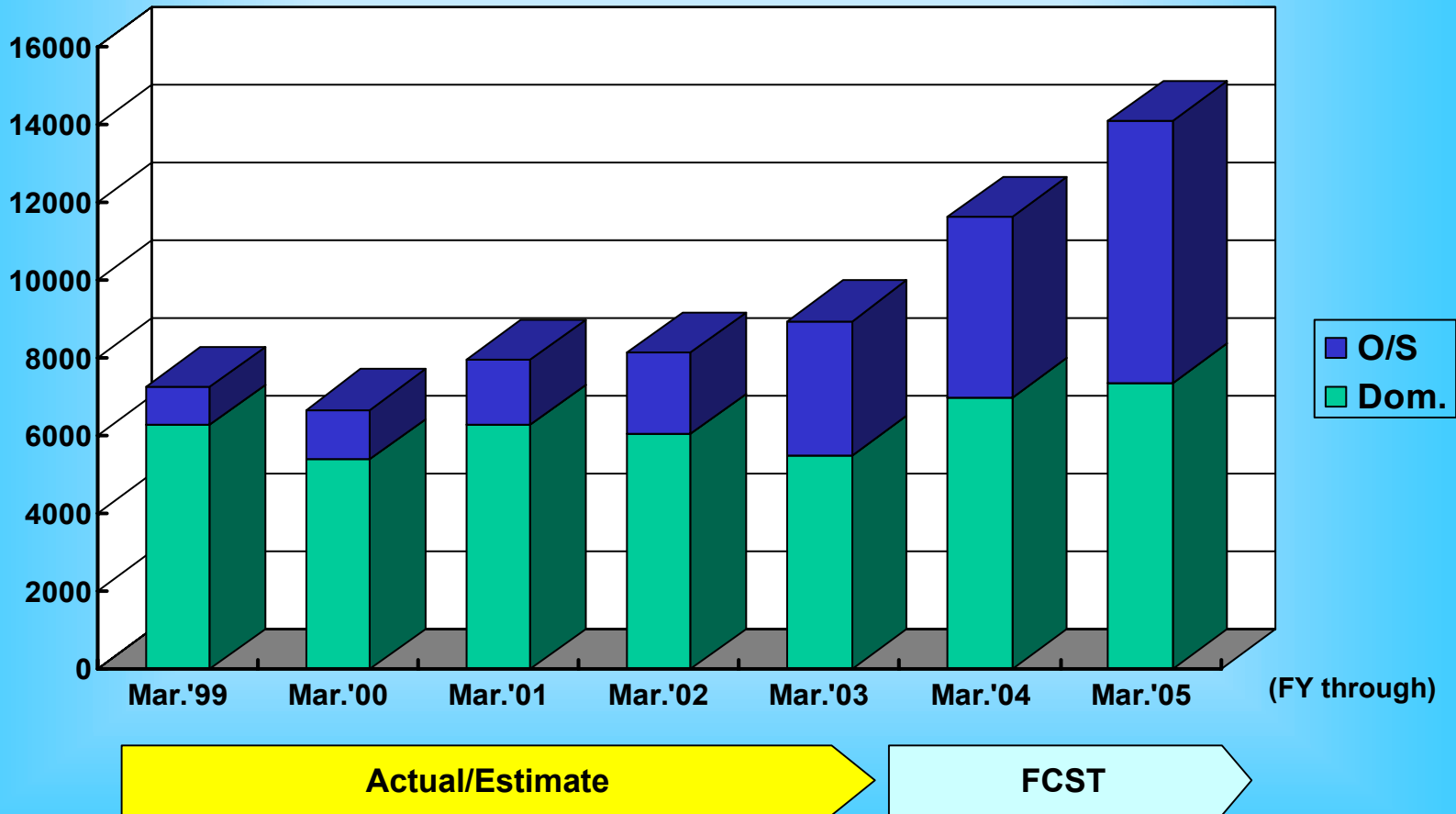
- Combine purchase volume with US-produced GM volume (WWP program)
- Review manf. footprint plans for new engine (Japan, China, Thailand)
- Secure re-quotation and/or re-source based on increase volume including derivative models (10%)

Unconventional Approach (esp. leverage alliance)

- Joint purchasing with GM Alliance Partners (FHI, SZK, GM): 13 commodities +  $\alpha$
- Collaboration with keiretsu body-builders: Integrate chassis & body engineering (body: 10%)
- Supply component to 3rd parties (GM, domestic competitors, etc)
  - Suspension, T/M, Transfer
- Reinforce complementary relationship with non-keiretsu suppliers

# For reference: HD Sales

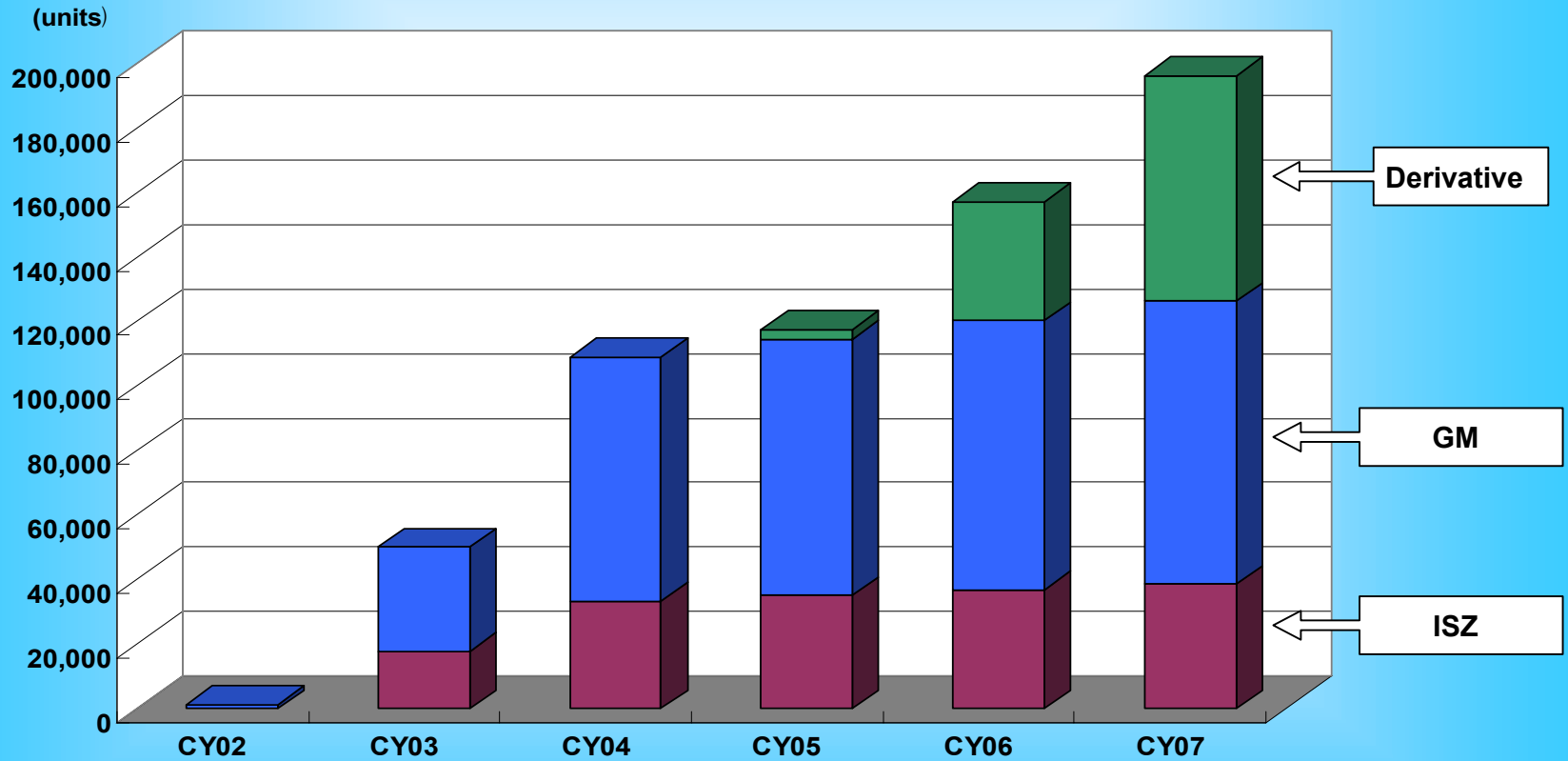
(units)





# For reference: P'up

## Export Forecast -Excl. Sales in Thailand-



## VI. Quantitative Targets

# 1. Volume Assumption

## - Shipment Volume from Isuzu -

(k. units)		<u>Mar.'02</u>	<u>Mar.'03</u>	<u>Mar.'04</u>	<u>Mar.'05</u>
<b>SUP</b>	JPN	64	57	66	68
	NA	25	20	14	17
	Other	137	143	90	77
	<b>Total</b>	<b>226</b>	<b>220</b>	<b>170</b>	<b>162</b>
<b>KD set/ Compo.</b>	NA	69	33	35	34
	Thailand	57	100	143	199
	Other	77	105	100	82
	<b>Total</b>	<b>203</b>	<b>238</b>	<b>278</b>	<b>315</b>
<b>JPN Industry Sales</b>	HD	78	74	82	87
	(Mkt. share%)	23.8	25.0	25.2	25.2
	LD	93	86	97	104
	(Mkt. share%)	31.8	33.7	33.7	33.7
<b>FX(Y/\$)</b>		125	120	120	120

## 2. Revenue/Earnings

(Ybil.)		<u>Mar. '02</u>	<u>Mar. '03</u>	<u>Mar. '04</u>	<u>Mar. '05</u>
<b>Sales Revenue</b>	<b>Cons.</b>	<b>1,597.7</b>	<b>1,270.0</b>	<b>1,220.0</b>	<b>over 1,270.0</b>
	<b>Incl. CV</b>	<b>594.7</b>	<b>710.0</b>	<b>730.0</b>	<b>over 760.0</b>
<hr/>					
<b>Operating Profit</b>	<b>Cons.</b>	<b>15.1</b>	<b>5.0</b>	<b>50.0</b>	<b>over 60.0</b>
	<b>Incl. CV</b>	<b>18.1</b>	<b>18.0</b>	<b>42.0</b>	<b>over 50.0</b>
<hr/>					
<b>Net Income</b>	<b>Cons.</b>	<b>(42.9)</b>	<b>(170.0)</b>	<b>35.0</b>	<b>over 50.0</b>

## 2- (1) Parent Company

		<u>Mar. '02</u>	<u>Mar. '03</u>	<u>Mar. '04</u>	<u>Mar. '05</u>
Sales volume	HD	33.6	32.0	38.7	41.9
(k. units)	LD	94.7	97.4	101.3	110.4
<hr/>					
Sales revenue (Ybil.)		761.9	740.0	700.0	700.0
Operating profit		8.1	11.0	40.0	50.0
Net income		(56.2)	(181.0)	30.0	40.0
<hr/>					

### <Variance analysis (Operating Profit) >

\* as compared to actual results through March '02

Vol/Mix	(23.0)	(11.0)	(9.0)
Material cost reduction	5.0	15.0	22.0
FX	(2.0)	(2.0)	(2.0)
Labor cost	22.0	27.0	28.0
Expense	0.9	2.9	2.9

## 2-(2) Domestic Consolidated Dealers

		<u>Mar. '02</u>	<u>Mar. '03</u>	<u>Mar. '04</u>	<u>Mar. '05</u>
Sales volume	HD	11.9	11.5	12.0	12.4
(k. units)	LD	30.0	28.5	29.3	29.7
<hr/>					
Sales revenue		357.0	340.0	350.0	360.0
Operating profit		(5.0)	3.0	5.0	6.0
Net income		(17.0)	(7.0)	-	-
<hr/>					

### <Variance analysis (Operating Profit) >

\* as compared to actual results through March '02

-Gross profit improvement, etc.		2.0	2.5	3.5
-Fixed cost reduction		6.0	7.5	7.5
(incl. labor cost)		4.5	6.0	6.0
<hr/>				
-Number of employees (aver.) ps		7,031	6,811	6,811
-Revenue per head (Ymil.)		48.8	51.4	52.3

## 2-(3) North American Subsidiaries

		<u>CY01</u>	<u>CY02</u>	<u>CY03</u>	<u>CY04</u>
Sales volume	CV	21.4	21.8	22.8	22.8
(k. units)	SUV	82.9	40.3	39.4	40.3
<hr/>					
Sales revenue (mil.\$)		6,810	3,700	3,700	3,700
Operating profit		(150)	(200)	-	20
Net income		(190)	(250)	(40)	4
<hr/>					

### <Variance analysis (Operating Profit) >

\* as compared to actual results through March '02

Gross profit improvement	80	75
(Included: effects of OEM)	50	70

Sales cost reduction	120	145
(incl. labor cost)	30	30
(incl. ad.promo exp.)	40	60

### 3. Consolidated Cashflow

(Ybil.)

	<u>Mar. '02</u>	<u>Mar. '03</u>	<u>Mar. '04</u>	<u>Mar. '05</u>	
<b>CF</b>	<b>Operating CF</b>	<b>59.0</b>	<b>13.0</b>	<b>50.0</b>	<b>64.0</b>
	<b>Severance allowance</b>	<b>(14.0)</b>	<b>(42.0)</b>		
	<b>Investing CF</b>	<b>6.0</b>	<b>13.0</b>	<b>(15.0)</b>	<b>-</b>
	<b>Free CF</b>	<b>65.0</b>	<b>26.0</b>	<b>35.0</b>	<b>64.0</b>
	<b>Financing CF</b>	<b>(123.0)</b>	<b>(34.0)</b>	<b>(43.0)</b>	<b>(65.0)</b>
	<b>Total</b>	<b>(58.0)</b>	<b>(8.0)</b>	<b>(8.0)</b>	<b>(1.0)</b>

<b>Main Items</b>	<b>Debt</b>	<b>738.7</b>	<b>560.0</b>	<b>510.0</b>	<b>450.0</b>
	<b>Total equity</b>	<b>61.0</b>	<b>2.0</b>	<b>39.0</b>	<b>91.0</b>
	<b>Capex</b>	<b>67.6</b>	<b>29.0</b>	<b>28.0</b>	<b>26.0</b>
	<b>D&amp;A</b>	<b>73.6</b>	<b>34.0</b>	<b>32.0</b>	<b>31.0</b>



**ISUZU**