

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

### ◇ Message from Minami, Division Executive

In the first quarter of this fiscal year, we were directly affected by the rising material and logistics costs. In addition, due to the delayed recovery from the semiconductor shortages and the impacts from the Shanghai lockdown, our production volume in Japan dropped significantly in May. However, our profit and loss results were satisfactory, helped by the favorable exchange rate. Though the financial results progressed according to our plan, I would like to take this opportunity to apologize for unable to supply sufficient number of vehicles and all the inconvenience we are causing our customers.

As for the outlook for the full year, we expect our production volume to increase gradually as the semiconductor supply will recover accordingly toward the second half of the year.

Regarding pricing, we have raised prices of our trucks for overseas markets, and the effects of such price changes should start to accumulate. As for the domestic market, we will reduce our sales promotion expenses. The effects of such streamlining efforts will become more visible in the second half of this year during which our production volume is to be bettered. Therefore, we evaluate that we are on track to achieve the initial forecast of the full-year operating income of 200 billion yen.

We are not sure how much we can add to this initial forecast in the latter half of this year until we finish examining the semiconductor supply situation closely. Therefore, at this point, let us leave our profit and loss forecast unchanged.

While our ordinary income decreased only by 3.4 billion yen, net income declined by 10.3 billion yen compared with the same period last year. This is mainly because the first quarter results for the previous fiscal year included a one-time gain from tax effect accounting.

### ◇ First Quarter Results/Full-Year Forecast

Q. I understand that your first quarter results were good thanks to the positive impact of the weaker yen and despite the negative effect from the Shanghai lockdown. Could you please elaborate?

A. Our first quarter operating income was 54.8 billion yen. Positive effect from

foreign exchange became larger than our assumptions due to the weaker yen. Other factors were in line with our plans. The impact of the Shanghai lockdown, which we had already been factored into our forecast announced in May, was almost in line with our expectations. If the Shanghai lockdown had not taken place, we believe we could have added another 10,000 units to sales volume and about 10 billion yen to operating profit.

Q. Your forecast for the full-year operating income is 200 billion yen. Is there any possibility of revising the figures upward?

A. It depends on the semiconductor supply situation, but if the current exchange rate trend continues, there is a possibility of an upward revision.

✧ Semiconductor Supply Situation

Q. You said that you expected the supply of semiconductors to normalize during the second half of this fiscal year. How do you define normalization and how certain are you about the expectation? Has there been any change in the supply of semiconductors for LCVs?

A. We define normalization as a condition in which all of the quantities we normally order is to be delivered. The outlook remains uncertain, and honestly saying, it is difficult to express that the above expectation has a high possibility. The situation for LCVs is in line with the assumption we had at the beginning of the period, and we are planning a high level of production volume, although the supply of some parts continues to be unstable.

Q. What specific measures are you taking to resolve the semiconductor shortage?

A. We are purchasing semiconductors from the market, utilizing those of one generation earlier, and shifting production to vehicles for emerging countries as they do not need semiconductors of the types now in short.

✧ Production/Sales Situation

Q. Has there been any change in demand in the last three months? You are planning to sell a record number of units for both CVs and LCVs this fiscal year, and you say that the current demand is firm. However, looking at the

latest macroeconomic situation, it is difficult to shake off the feeling of uncertainty. Please tell us the latest situation.

A. Demand for both CVs and LCVs is generally firm. However, there are signs of a slowdown in Egypt due to the Russian/Ukrainian situation, and a slowdown in China due to the Shanghai lockdown. Demand in other regions is firm. In North America, we are keeping a close eye on the market due to rising interest rates, but the demand has not declined at this point.

Q. Let me ask about your domestic CV production. In May, your CV production volume halved from the same period last year to 8,000 units, mainly due to the impact of the Shanghai lockdown. However, your June production volume increased up to 23,000 units, which is on par with the previous year. Is this merely a temporary rebound in reaction to the decline in May? Or will you be able to maintain this production level in the future?

A. Since we operated at about 50% of our production capacity in May, our production in June increased including the rebound. As for July and beyond, we are planning to keep our production volume at the same level as June. The shortage of semiconductors continues, and we are sorry for keeping many of our customers waiting for their new vehicles. Under such circumstances, we are taking measures such as shifting our production to vehicle for markets that do not require semiconductors.

Q. As for the domestic market, sales of light-duty trucks, which Isuzu is originally strong in, are in a difficult situation due to the shortage of semiconductors. What sales strategy do you have in mind for the future, when competition is expected to be further intensified?

A. Shortage of semiconductor devices for after-treatment systems is critical. We are struggling as light-duty trucks have short lead times. We cannot receive orders unless we can guarantee delivery timing at the time of contract. Accordingly, our shares have plummeted. In order to acquire more semiconductor devices, we will introduce those of previous types. Also, from the latter half of this fiscal year, we will start to utilize the semiconductor devices acquired for other vehicle types for the sake of our light-duty truck production. In addition, semiconductor necessary will change when we fully model change our mid and light-duty trucks, scheduled some time in 2023. In any case, we assume operations will be difficult. We will explain the

progress of such measures when we announce our second quarter financial results.

Q. Please tell us of the number of your back orders for LCVs.

A. As of the end of June, we had back orders for 40,000 units for the Thai domestic market and 80,000 units for export, both of which continue to enjoy strong demand.

✧ Price Realization/Steel, Oil Price etc. Fluctuations

Q. On the page of the year-on-year analysis of first quarter operating income, you say that the impact of your price realization ended up being an increase of 3 billion yen, while the impact will expand to be a 40 billion yen increase for the full year. What specific pricing actions are you taking and how are they progressing? What are the prospective impacts for the next fiscal year?

A. Since we have a large backlog of orders, the effect of price realization will become visible from the second half of this fiscal year. As for our CVs for overseas markets, we have raised the prices by 3% to 5% for shipments from Isuzu Motors and local distributors has followed. As for our LCVs, we are now requesting for a price increase while closely watching the market. For now, we are making progress as planned. In Japan, we will launch new models at the end of this fiscal year, and we would like to reflect the bettered value of the new models on their prices. For the next fiscal year, we are aiming for a larger effect than this full year's effect of 40 billion yen, that is, an increase of 50 to 60 billion yen.

Q. On the page of the year-on-year analysis of first quarter operating income, you say that the negative impact of steel, oil price etc. fluctuations ended up accumulating to 27 billion yen. Please tell us the breakdown of the 27 billion yen and do you think there would be any deviation from the full-year forecast of 105 billion-yen?

A. Of the 27 billion yen, 21 billion yen came material cost, while the remainder of 6 billion yen came from logistic fees. The impact from material cost consists of a 12 billion impact pertaining to steel and a 9 billion yen impact from non-ferrous metal. The impact of steel, oil price etc. fluctuations in the first quarter became as we expected, because the contract prices were fixed to some

extent at the beginning of the period. As for the forecast for the full year, we currently expect no deviation, considering that iron ore and coking coal prices are slightly lower than our assumptions, but our suppliers are requesting price hikes larger than our forecast.

Q. Has there been any change in the situation of the rising marine freight cost? How are you tackling the problem?

A. The situation is still severe. We are continuing negotiations to secure shipping capacity and stable prices, but the situation has not improved.

✧ Operating Income Target for the Next Fiscal Year

Q. I understand that your operating income target for the next fiscal year is 250 billion yen. How do you look at the target at this point? Also, what are the positive and negative factors that you are aware of?

A. We believe the 250 billion yen target is within our reach as the effect of price realization in the next fiscal year shall be larger than this year's 40 billion yen increase. Regarding positive and negative factors, the exchange rate can be a positive factor, if the current FX trend continues. Material cost is already high, and it shall be a negative factor if it should go up further. Another negative factor is the supply of semiconductors. We expect the supply of semiconductors to normalize in the latter half of this fiscal year, but we cannot deny the uncertainty in the outlook.

✧ Measures to Cope with Shortage of New Trucks in Japan

Q. The shortage of semiconductors and the current status of your competitors is troubling customers who require new trucks throughout Japan. As a major truck manufacturer, what is your approach to resolving the shortage of new trucks?

A. As for heavy-duty trucks, our first priority was to deliver products to our customers as we suffer from chip shortage. We had no leeway to approach other companies' customers. However, given the current situation, we are beginning to think that we must increase our production even if we have to overstretch ourselves. We will have to operate very differently from usual such as starting body installation without semiconductor devices, so that we can

ship vehicles immediately as soon as the semiconductor devices arrive. As body builders and suppliers concerned will also be involved in this challenge, we need to consider various measures to cope with the situation.

Q. What do you think about supporting your supply chains that overlap with those of your competitors?

A. A certain level of volume is necessary for the truck industry as a whole to maintain the supply chains. Therefore, Isuzu and UD Trucks will focus on increasing production volume. Our first priority is to procure semiconductors, and we have no choice but to ask Tier 1 suppliers who provide semiconductor devices to make further improvement and efforts. We are considering of providing support to maintain the supply chains.

✧ About UD Trucks

Q. One year has passed since your acquisition of UD Trucks. I would like to ask about the presence of UD Trucks within the Isuzu Group and how the synergy between the two companies is progressing.

A. Since the previous fiscal year, we have been dividing the Group's domestic heavy-duty truck business with UD Trucks, so that UD Trucks can concentrate on tractor-heads and special purpose trucks that are their fortes.

As a result of such steps taken from the latter half of the previous fiscal year, we were able to obtain a high market share in the first quarter. I would like to emphasize that this was not due to the influence of our competitors' current status, but the fruit of the activities we have continued for the past six months. UD Trucks' morale is very high after gaining high market share, and the effect of the division of business between the two companies is beginning to be materialized in a positive manner. Regarding the synergy, we expect to achieve an effect of several billion yen this fiscal year through the cooperation in logistics, partly in production, and aftersales service. When the cooperation in research and development goes into full swing, the effect will be even greater.

✧ Others

Q. It seems that there has been a large increase in profit from your aftersales

business. Have the earnings from repair and service business and used vehicle business temporarily increased under the situation that new vehicles cannot be shipped due to semiconductor shortages?

A. The shortage of new vehicles has had some impact, but we recognize that the increase in profits in our aftersales business is essentially the effect of the measures we had been taking. First, market quality of our products has stabilized, allowing our dealers to shift their service work from vehicle repair to inspection and preventive maintenance. Second, penetration of connected vehicle technology has allowed the dealers to control vehicles when to come for service. And third, aggressive promotion of maintenance leasing has increased the number of vehicles to come to our dealers for service. These efforts have resulted in a significant increase in productivity at our domestic dealers. The current semiconductor shortages and COVID-19 pandemic has given us a chance to expand our aftersales business. Therefore, the profit increase is not something temporary.

Q. You are suspending shipments of sightseeing buses. How does the suspension affect your financial results? If the suspension is prolonged, how do you think it will affect the industry?

A. Demand for sightseeing buses has decreased the COVID-19 pandemic and has recorded one-tenth of its peak level in 2020. The production volume planned for this fiscal year is small, accordingly the impact on our performance shall be very small. We apologize for any inconvenience the suspension may cause to our customers. We hope that they will continue to use their current vehicles for as long as possible or actively utilize used vehicles.