November 9, 2022

Isuzu Motors Limited

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

✧ Message from Mr. Minami, Division Executive

During the first-half period, the number of CVs supplied to Japan, North America and Europe largely declined due to the ongoing semiconductor supply shortage. In addition, the impact of the Shanghai lockdown that occurred in May was so severe that we needed time to rectify the disruptions in our sales pipeline, including inventory matching and truck body building. We are very sorry for not being able to give a clear delivery date to each of our customers who are waiting for their vehicles, due to such reasons.

We had expected that our business environment would be tough, however both our sales and profits exceeded our initial forecast. The exchange rate was certainly the main factor of improvement, but our measures to shift CV production from the Japan models facing production constraints to the overseas models worked well. Also, the aftersales business was another large element that supported our performance. As to the LCVs, our production improved gradually maintaining a high level of utilization rate, despite affects by the semiconductor device shortage. This is also another large factor that contributed to our performance.

Procurement of semiconductor devices will continue to be the biggest difficulty in the second-half period. Although the devices in short supply have been narrowed down and their supply volume is improving, the volume we need has yet to be met. Even if we take in to account the countermeasures we are taking, we shall need to wait until the next fiscal year for the supply of semiconductor device to normalize.

As to the outlook for our full-year results, we have revised our performance forecast upward. This is because though our plants has not been able to operate at full capacity, our first-half results improved despite the difficult environment and we can expect the same level of earnings in the second-half period. Net sales are expected to reach 3,100 billion yen, operating income 230 billion yen, and net income 140 billion yen, all record highs. The dividend payout ratio is expected to increase to 72 yen per share, based on our commitment to the average of 40% during this mid-term business plan period.

✧ First-half results/Full-year forecast

Q. How do you evaluate the first-half results compared to your plan? What are the risks and opportunities for the operating income forecast revised upward to be 230 billion yen?

A. The first-half results were about 15-16 billion yen higher than planned. Most of the increase is due to foreign exchange, but there are also such factors to consider as improvement of our model mix, increase in aftersales business, decrease in costs, and the impact of further rise of raw materials. In the second half, we expect the same level of upward revision compared to the initial forecast. The risks to the 230 billion-yen forecast include a deterioration of the FX trend, a further rise in material costs, and a deterioration in semiconductor supply. The opportunities, which are the flip side of the risks, include a further depreciation of the yen, accelerated recovery of semiconductor supply, and additional price realization.

Q. Associated with the full-year operating income forecast, what is behind the improvement in your sales/model mix despite the volume decline? As for LCVs, won't the sales mix deteriorate by shifting from the profitable Thai market-bound models to the export models?

A. We are shifting our LCV production to more profitable high-end models among the export models of which supply had been lagging, and we expect an increase of about 3 billion yen in profit. This became possible as the supply of parts has improved partly. Also, we are expecting an increase of about 5 billion yen in profit from our vehicle life cycle business.

✧ Status of semiconductor supply

Q. What is the current status of semiconductor supply and the future outlook?

A. We had expected that the supply of semiconductor devices for CVs would normalize during the second half of this fiscal year. However, the normalization is lagging, and it seems we have to wait until the first half of the next fiscal year. We may plan to procure semiconductor devices from suppliers other than the current ones, for a part of the new models launching next fiscal year. Accordingly, we expect the shortage to be alleviated. Regarding LCVs, the supply of semiconductor devices has been resolved in general except for certain parts.

Q. You said the timing of semiconductor supply normalization for CVs will be delayed until the next fiscal year. However, the change in your global CV sales outlook was just by -2,000 units compared with the previous forecast. How are you covering the difficulty?

A. The impact of our further production cutback due to the delay in normalization of semiconductor shortage is factored into our forecast as -10,000 units for CVs. As for Japan, the impact of the production cutback is assumed to be -5,000 units. However, we have also factored an increase of 3,000 units as the effect of our shortening the lead time before sales. As for North America, the impact of semiconductor shortage is expected to be -5,000 units and the impact of the disruptions in the local logistics to be -2,000 units.

✧ Price realization/oil, steel price etc. fluctuations

Q. Could you give us an update on the progress of your price realization measures for this fiscal year?

A. Against the full year forecast of +40 billion yen, +8.5 billion yen in the first half period is in line with our plan. Our overseas CV business is showing a favorable progress, thanks to the price increases implemented for some markets from April. Our LCV business has back orders, so the effect of pricings will not be seen until the second half of this year. Our domestic CV business is also showing a stable effect from our profitability improvement efforts.

Q. Is it correct to say that the progress toward the target of 50-60 billion yen set for the next fiscal year is in line with your plan? In the domestic CV business, new cars are sold at a reasonable price and the aftersales service is the main source of revenue. What magnitude of effect do you expect?

A. The progress is on track. We anticipate that the effect of this fiscal year's price increases will be seen for the full year in the next fiscal year. As for the domestic CVs, we will reflect the upgraded value in the price of new models planned to be introduced in the next fiscal year.

Q. What is the breakdown of the operating income decrease due to steel, oil price etc. fluctuations? What is the change from your forecast at the beginning of the period?

A. The breakdown of the number, -62 billion yen in the first half includes -31 billion

yen due to price fluctuation of steel, -15 billion yen due to nonferrous metals, -6 billion yen due to price hikes, and -10 billion yen due to logistics costs.
The full year forecast of -125 billion yen includes steel -51 billion yen, nonferrous metals -34.5 billion yen, price hikes -17.5 billion yen, electricity and gas -2 billion yen, and logistics costs -20 billion yen. This forecast shows a deterioration of -20 billion yen from our forecast we announced in May this year. The breakdown is as follows: steel -3 billion yen, nonferrous metals -2.5 billion yen, price increase -12.5 billion yen, and electricity and gas -2 billion yen.

Q. What is the current status of your logistics costs?
A. Although surcharges are added to ocean freight rates, the peak has passed. The Isuzu Group, including UD Trucks, is working together to reduce logistics costs in Japan.

Q. Are you raising your vehicle prices as a measure to cope with the soaring raw material and logistics costs?
A. We expect that our price measure will bring the effect of +40 billion yen this fiscal year, against the number, -125 billion yen due to steel, oil price etc. fluctuations. We will not be able to recover the negative effect of rise in raw materials etc. fully in this fiscal year, but we hope to cover the rest in the next fiscal year.

✧ Status of production/sales
Q. Please update us on each country's market trends.
A. There has been no significant change in the market conditions since our announcement of first quarter results in August. The demand for both CVs and LCVs is strong, except for Egypt, which was affected by the situation between Russia and Ukraine, and China, which was affected by the Shanghai lockdown. Although there is a possibility of a slight slowdown in the next fiscal year due to interest rates and other factors in some regions, we do not expect a major drop in sales units based on the current order receiving situation.

Q. What is the status of your back orders as of the end of September?
A. The domestic backorders totaled 47,000 units, up 10,000 units from the end of June due to the shortage of semiconductors. The backorders for overseas CVs remained unchanged from the end of June at 30,000 units, of which 15,000 units

were for North America, 5,000 units for Europe, and 10,000 units for other areas. Stable demand continues for LCVs, thus the backorders for Thailand were 50,000 units and 80,000 units for export, up 10,000 units from the end of June.

Q. How do you view the domestic sales environment?

A. In the first half of this fiscal year, the number of registrations of both our heavy-duty and light-duty vehicles remained at 60-70% of the previous year's level due to the impact of the semiconductor shortage. Due to the impacts of the Shanghai lockdown, our plant operation rates decreased in May. As a result, the flow from body building to delivery was disrupted and took time. Therefore, we focused our efforts on clarifying a delivery date of each vehicle for each customer. Our inventory showed an increase at the end of September, and we shall deliver the vehicles to our customers from October onward. Therefore, our delivery time and registration share will gradually improve. However, our top priority is to deliver vehicles as quickly as possible to our customers who have been waiting due to the semiconductor shortage. Under this condition, we have not been able to cover other OEMs' production constraints.

Q. Are you receiving inquiries?

A. It seems there are inquiries from users of other makers' vehicles, although not many. As for heavy-duty vehicles, we analyze that UD Trucks' increasing share is a result of acquiring customers from our competitors. As for light-duty vehicles, on the other hand, our production has not been able to keep up with the demand, and we are losing our market share.

Q. What is your current order receiving status in Japan?

A. The backlog of orders is large at 47,000 units, and our biggest concern is how to deliver our products to our customers as quickly as possible. Our market share will increase as a result of our efforts to shorten the lead time to registration for each vehicle. However, the most important of all is to increase our production volume, which is still depending on the supply of semiconductors.

We are in a special situation with the changeover of regulations and upcoming launch of our full-model changed vehicles. Due to the changeover of regulations, our current models must be registered by September 2023. Therefore, we have already closed orders for our current heavy-duty models as they need long delivery time and are currently taking orders for the new models instead. Regarding light-duty vehicles, we will launch the full-model changed vehicles at the end of this fiscal year. Despite these special circumstances, the situation is, generally speaking, not bad for us to take orders. The point will be when the vehicles can be registered.

Q. How are you working to shorten the lead time to vehicle registration?

A. As a countermeasure to the semiconductor shortage, we are assembling some vehicles skipping semiconductor device installing processes. We then mount such semiconductor devices just before shipment. We are also taking measures such as readjusting the shipment timing of each vehicle according to each customer's situation.

Q. What is the background of shifting the LCV production from the Thailand models to the export models?

A. We have back orders for both the Thailand models and the export models. However, since the parts supply for some of the models is expected to improve, we have prioritized shipments to Australia and others to which we had not been able to ship sufficient number of vehicles thus far.

Q. What is the reason for the upturn in your after-sales business?

A. Our sales of service parts are growing both in Japan and overseas as users are using their current vehicles longer, since new vehicles are not in sufficient supply. In addition, we are working to expand our maintenance leasing business. The percentage of customers who choose leasing in our new car sales rose to 24.7% in the July-September period, and more than 60% of these customers are under maintenance lease contracts, which is contributing to the growth of the aftersales business.

✧ Operating income target for the next fiscal year

Q. Given the upward revision of the forecast for this fiscal year's performance, what are your thoughts on the 250-billion-yen operating income target for the next fiscal year?

A. In the next fiscal year, we will see the full effect of our pricing measures being implemented in this fiscal year. We also be able to add to our operating income the gains from our cost reduction activities. If the current FX trend continues, we will be able to achieve the figures exceeding the 250-billion-yen target.

✧ Others

Q. How do you assess the trend of the EV market in Southeast Asia?

A. We are planning to introduce a light-duty BEV truck in Japan during this fiscal year, and then gradually introduce it into North America and Europe. As for electric pickup trucks, we are assuming that it will start with developed countries, but the demand will eventually come also from Southeast Asia, including Thailand. Since pickup trucks are often used in harsh environments, we expect that their switch to EVs will be slower than for other vehicle types, but we are preparing for the switch in any case.

Q. What is the current status of the production in Russia and what is the future direction?

A. Since we made the announcement on the suspension of vehicle production in Russia, we have been examining various possibilities, but nothing has been decided at this point.