May 14, 2024

Isuzu Motors Limited

Q&A for the Fiscal Year Ended March 31, 2024 Financial Results

【Message from Mr. Minami, President COO】

Under the previous mid-term business plan which ended this past March, we fulfilled targets set for sales, operating income and ROE, among other things. Although supported by tailwinds, we see it as a tremendous achievement as the numbers speak for themselves. Moreover, with an eye to the future this achievement has guided us firmly define the direction in which we are going. Specifically, we have begun to engage in well-defined projects for new products and technologies, set the direction for business transformation, and started to implement the business transformation such as in the Japanese and North American markets. The groundwork for the evolution has been laid, and we are now at the stage of moving forward to the next phase across the world.

The new mid-term business plan starting from this fiscal year sets targets for 2030 based on our future aspirations set forth in the corporate philosophy ISUZU ID, and these targets will be broken down to individual challenges. In addition to offering the current products, we will expand our solution services utilizing new technologies, aiming to create new value as a commercial mobility solutions company.

The aim is to grow our revenue to 6.0 trillion yen by the FY ending March 2031, but first we will focus on achieving targets set for the FY ending March 2027, which are 4.0 trillion yen in sales and 360.0 billion yen in operating income.

We also announced today that we will invest in and collaborate with Gatik in the US for its autonomous logistics business. This will help us transform our business in North America. We will pursue an extensive range of initiatives in three new technological areas: autonomous driving solutions, connected services and carbon neutral solutions.

Next, regarding short-term business results, in the FY ended March 2024, demand for pickup trucks in Thailand, our important market, decreased by 40% from the previous year, and there was a significantly negative impact on profit and loss, but both sales and profit recorded record highs. We believe that this is because our long-pursued activities to strengthen our business shored up the foundation, making us possible to build a stable income structure in Japan and other markets around the world. This is reflected in figures on after-sales revenues, market price realization, and cost reduction activities.

As for the FY ending March 2025, the forecast was made under the assumption that weak demand continues in Thailand and some emerging markets. Even under such circumstances, we will promote activities with the aim of generating a stable revenue. In particular, we expect an increase in revenues from our businesses in Japan and North America. We anticipate sales to remain flat, and so the operating income target is set lower than the previous year to 260.0 billion yen. Considering our plan to proactively implement investment and development for the future, we believe this is the bare minimum level that we must maintain. We have laid a path to attain 4.0 trillion yen in sales in 3 years, striving to ensure every step along the way without stretching ourselves too far.

With regard to shareholder returns, we decided to pay an annual dividend of 92.0 yen for the FY ended March 2024, up 6.0 yen from the previous forecast of 86.0 yen because our performance exceeded the plan. For the FY ending March 2025, as the decline in earnings is due to short-lived factors, and the growth scenario described in the new mid-term business plan remains solidly unchanged, we have kept 92.0 yen, the same as the previous fiscal year.

Finally, the ROE target is set at 15% for the FY ending March 2027. We aim to achieve this goal in twofold: by raising profit levels and creating shareholder value through buyback of treasury shares.

【Q&A】

<Full-year performance for the FY ended March 2024>

Q: While the number of unit sales decreased from the previous forecast, both sales and profit achieved the targets. To what extent did the weak yen environment contribute to it? Please also talk about risks that currency fluctuations pose to your business performance.

A: We benefitted from the exchange rate impact of 17.0 billion yen, which helped us in many ways. Even in the face of price realization, the weak yen provided a great tailwind for us. Also, in the North American market, the impact of the weak yen and the strong dollar allowed us to increase unit sales without having to offer substantial discounts.
Although we assume that the exchange rate for the FY ending March 2025 to be 145.0 yen to the dollar, we are promoting price realization, in case that the yen will rise in value. Even if the yen rises, the negative impact will be contained within the range of 17.0 billion yen, which we've gained this time.

Q: What transient factors are included in operating income in the 4Q? Please also tell us the items that are pushed back to the FY ending March 2025.

A: unit sales for 4Q of FY ended March 2024 decreased from forecast due to a decrease of 5000 units for domestic CVs and a shipping delay of 5000 units of LCVs to Australia, resulting in a decrease of approximately 5.0 to 6.0 billion yen in profit. These units have been rolled over to the FY ending March 2025.

Q: As for LCV sales for Thailand, please discuss the inventory level as of the end of the FY ended March 2024 and how it impacts on production and profit and loss for the FY ending March 2025.

A: At the end of the FY ended March 2024, LCV dealer and distributor inventory was 38,500 units, including 36,200 pickup trucks (hereafter PUP) and 2,300 pickup passenger vehicles (hereafter PPV). The number of months in stock is five months for PUP, while two months for PPV, and so the PUP stock is particularly high as we usually hold two months' worth of stock. In response to this situation, the plant is expected to operate at a low level in the 1H of this fiscal year, generally running in two shifts which may be reduced to one shift partially. Therefore, on profit and loss front, a corresponding negative impact is expected in the 1H, and it is assumed that while we target a full-year operating profit to be 260.0 billion yen, we will not reach half of the target in the 1H but will pull through it in the 2H.

＜Outlook for FY ending March 2025＞

[Profit & Loss]

Q: Despite the difficult business environment, you anticipate operating income for the FY ending March 2025 to reach 260.0 billion yen, the second highest on record. Isuzu is now a high profit generator. What has changed from the past?

A: This is mainly because we were able to develop strong revenue bases in several regions that are not easily influenced by sales volume and/or currency fluctuations.
The domestic after-sales business has grown to the phase where we are able to secure customer uptime by promoting preventive maintenance via connected technologies that enhance productivity, and encouraging customers to sign up for maintenance leases. Thus, the solid base is founded to generate revenue, not easily influenced by economic swings.
As for the CV business in North America, we are the only company to sell cab-over trucks because other companies withdrew from the market. It's become a niche market where we are able to secure unit sales of 30,000 to 40,000 per year, and also a strong profit base where we can expect a benefit from price realization and after-sales growth at the same time.
In addition, we are striving to expand not only new vehicle sales but also aftersales business in Australia, Africa and ASEAN countries. Although the business is small scale, each operation is capable of generating revenues in the order of 1.0 billion yen.

Q: What are the potential risks and/or opportunities?

A: We recognize uncertainty in emerging markets as a risk, while we see unit sales increase in domestic and North American markets due to a strong demand as an opportunity.

[Unit Sales]

Q: What's driving the increase in domestic CV unit sales?

A: The following are factored into the forecast: sales expansion through a fortified lineup of new models, the roll-out of 5,000 units of ELF mio, and the launch of new models which was pushed back to the FY ending March 2025 from FY ended March 2024 due to refinement of the quality.

Q: What is the current status of body-building capacity in Japan? Are there any opportunities for unit sales growth?

A: While the issue of body-building capacity has subsided to some extent, there is also a shortage of manpower, making it difficult to determine when the capacity will return to the previous level. Since the capacity limit is closely linked to unit sales, in order to maximize the use of limited capacity, we intend to promote leveling through a close communication with customers and body builders to minimize the impact. Depending on how things develop, this could be an opportunity for us, but it's unclear at this stage.

Q: In regards to sales fluctuation and model mix change for overseas CV, please explain what is the reason for a significant profit decrease of 22.0 billion yen when unit sales were declined only by 10,000 units? Also, please share the CV inventory status in Thailand and impact on profit and loss.

A: At the end of the FY ended March 2024, the CV inventory at dealers and distributors in Thailand was 12,200 units, equivalent to 12.4 months inventory. Due in part to transition to new emission regulations, the level is much higher than the standard five-month inventory. As a result of this increase in the inventory level, global unit sales, which are shipments from Japan to Thailand, are down by 7,000 units compared to the FY ended March 2024. Furthermore, shipments from the Thai Plant to distributors with large inventories are expected to decrease by 13,000 units to 7,000 units in this FY ending March 2025, when compared to 20,000 units in the FY ended March 2024. Therefore, the reason other than the decline in unit sales is factored in to reflect the decrease in profits.

Q: In the midst of severe market conditions across Asia, are there any specific factors contributing to the decline in LCV unit sales?

A: In Thailand, the low-grade category suffered greatly due to the difficulty in securing finance, but we expect a moderate recovery from the 2H of the current FY. As for other ASEAN regions high interest rates are causing a negative impact on sales. The similar situation is observed in the light-duty segment in Indonesia. In the case of heavy and medium-duty vehicles, our main customers are fleet companies, and thus the impact of financing is minimal.

Q: Is my following understanding correct? It's not so much that the competition among OEMs has gotten more intense, but it is rather that the industry as a whole is going through a touch time, and that all the OEMs have had a decline on unit sales in Thailand.

A: Exactly. Demand is there, but commercial-use customers with low regular income are unable to obtain financing, and thus, the unit sales are falling. Regarding the passenger car segment, although the presence of Chinese electric vehicles has increased, it seems that the situation has stabilized to some extent because the impact from interest rates is small. As for Isuzu, it's all about finance, not competition.

Q: What recovery scenario do you foresee?

A: In the past, the annual LCV production for the Thai market stayed at the level anywhere between 150,000 and 180,000, but in this fiscal year, we are expecting about 90,000 units, which is half the normal level and an extremely unusual situation. In fact, the actual demand is not that low, our production plan of 90,000 units is set in a conservative fashion. We expect the economy to recover from the second half of the current fiscal year, but we do not project a rapid recovery, and therefore, we are not optimistic. With the rising interest rates, this extremely difficult situation for small and medium sized businesses will not turn for the better for the time being, but we assume that government economic stimulus measures will be implemented in the future, so we expect a recovery in the medium term.

Q: In terms of the after-sales business, why do you expect the growth to slow down in the fiscal year ending March 2025? I would also like to know your approach in the emerging markets in the context of your goal of achieving the aftersales revenue of 600 billion yen in the fiscal year ending March 2027.

A: Due to the considerable growth in the fiscal year ended March 2024, the fiscal year ending March 2025 can be seen as a slightly more moderate growth, but there is no change in our policy of growth. As for activities in emerging countries, it is important to establish a structure that can reliably deliver service parts at the required time to meet the increasing demand as the sales volume of CVs and LCVs increases.

[Price realization, fluctuation of steel/oil price etc., etc., and cost reduction activities]

Q: Could you explain the breakdown of the price realization, and the degree of certainty to achieve the price realization?

A: The increase of 36.5 billion yen in price realization includes 16 billion yen from the Japanese CV business, 14.5 billion yen from the overseas CV business, 3 billion yen from the LCV business, and 3 billion yen from others such as the parts business. The CV business in Japan will benefit throughout this fiscal year, thanks to the full-model-changed vehicles launched in 2023. As for the overseas CV business, we will continue to raise prices through annual revisions. The LCV target is set factoring in the difficult market conditions in the Thai market and the severe environment for exports from Thailand. We intend to find out if customers understand the product values of our vehicles and, to what degree, they accept the vehicle price.

Q: What factors did you factor into the fluctuation of steel and oil price, etc.?

A: The impact of the cost increase of steel materials due to the price hikes of iron ore, coking coal, etc. and our response to requests from suppliers for their price increases are factored in. The logistics unit cost increase caused by the so-called 2024 overtime restriction problem is factored into the logistics cost.

Q: What is your stance for dealing with requests from suppliers for their price increases?

A: In the last fiscal year, we worked diligently with suppliers to reduce costs as a response to cost increases such as labor cost increases. We will continue to respond accordingly by actively communicating with suppliers.

Q: What is the background behind the low-ball estimate of cost reduction?

A: The amount of cost reduction is forecast to be lower than usual in both Japan and Thailand because the number of parts, etc. subject to cost reduction is projected to be small in Japan since it is just after the switch to the new vehicle models, and the degree of cost reduction is expected to be low in Thailand due to a drastic fall in unit sales.

<Mid-term business plan>

[Profits and losses]

Q: As for the fiscal year ending March 2027, both sales and profits seem to have increased only in proportion to the increase in the unit sales. What was Isuzu's intention in setting the targets in the business management perspective?

A: To achieve the net sales of 6 trillion yen in the fiscal year ending March 2031, we expect the net sales of 4 trillion yen to be achieved in 3 years based on our current products and business foundation. In a sense, this is only an extension of our current business, but we decided that showing the stakeholders that we will definitely achieve this goal of 4 trillion yen in the face of the economic downturn, especially in ASEAN countries, will lead to gain understanding from them.

Net sales of 5 trillion yen can be achieved by updating the current business mechanism, including the execution of capital investments, and boosting our products.

But, net sales of 6 trillion yen can only be achieved by developing a new solution business, and we hope to establish a concrete path towards the goal within 2 to 3 years. When the next three-year plan is released, we hope to start the preparation for it.

Q: What are the positive and/or negative factors you factored into your operating income for the fiscal year ending March 2027?

A: In terms of positive factors, we included positive factors such as the increase in unit sales and the price realization, which will continue to be implemented for the next two years up to the fiscal year ending March 2027, since the cumulative cost increases such as material costs have not been offset by the price realization as of the fiscal year ending March 2025. Negative factors include labor and depreciation cost increases as well as an R&D cost increase.

[Unit Sales]

Q: Regarding the unit sales targets for the fiscal year ending March 2027, what kind of market conditions do you assume?

A: The sales targets for fiscal year ending March 2027 are as follows: 100,000 units for domestic CV, 260,000 for overseas CV, 360,000 for overseas LCV, and 600.0 billion yen from after-sales revenue. Overall, we may sell more or less than the targets depending on markets, but we aim to achieve the targets by steadily implementing various measures.

Although demand for CVs in Japan is projected to remain at the current level or slightly decline due to the 2024 overtime restriction problem and other factors, we believe that unit sales in the order of 100,000 units can be achieved through expansion of new models and enhancement of after-sales service.

An increase in the unit sales of UD's heavy-duty vehicles, mainly tractors, is factored into our targets because we expect more unit sales through enhanced product competitiveness, promote them also under the Isuzu brand, and benefit from the alleviation of parts supply constraints. As for light and medium-duty vehicles, we aim to increase sales steadily by leveraging the completed lineup of new models. We also expect to sell 10,000 units of ELF mio in the fiscal year ending March 2027. Although the competitive environment is predicted to intensify as other companies will also offer a variety of products, we will unwaveringly promote sales expansion in all areas, including after-sales business.

Overseas CV unit sales are expected to rise mainly in Indonesia. The Indonesia market is currently sluggish, especially in the light-duty segment, affected by the situation surrounding financing as with the Thai market, but we expect a gradual recovery. We also anticipate an increase in unit sales for the African market.

Q: In Indonesia, which product categories do you expect unit sales to increase contributing to the projected rise in CVs?

A: We foresee that demand for light-duty vehicles, which is currently weak, will recover toward the fiscal year ending March 2027. In addition, we aim to increase unit sales by increasing the overall market share, whereby we fulfill our sales target: one in every three vehicles is an Isuzu.

Although demand for LCVs in Thailand is extremely severe, we predict the market to bottom out in the first half and begin to gradually recover from the latter half of the current fiscal year, and return to the level of the fiscal year ended March 2024 by fiscal 2027. In the past years, we sold vehicles in the range of 150,000 or 180,000 units a year, but we do not expect for it to recover to that extent, and thus set a relatively conservative forecast.

Q: Please share your assumption on the PUP market, which is expected to become tougher with the emergence of new manufacturers.

A: Regarding the competition from Chinese EV manufacturers, we don't see much impact since we target a different customer base. Therefore, we believe that we can achieve our unit sales target.

Q: Regarding LCVs for export markets, are you planning to bring forward the full-scale launch of BEVs in regions such as Europe and Australia, where environmental regulations will come into effect in 2026 or 2027?

A: Although CO2 and electrification regulations will be introduced in some regions, only a limited number of regions will be subject to the regulations as of 2027, and furthermore, the customers to whom we supply our BEVs will also be limited.

[Financial Strategy]

Q: How will you fund the 2.6 trillion yen investment indicated in the new mid-term business plan? Also, how will you work toward achieving the ROE targets for the fiscal year ending March 2027 and the fiscal year ending March 2031?

A: We should be able to sufficiently raise funds for the 2.6 trillion yen investment while maintaining the dividend payout ratio of 40%, as long as we secure the current profit level. Our net income stands at around 150.0 to 160.0 billion yen for each fiscal year, and with depreciation cost taken into account we raise 250.0 to 260.0 billion yen in cash from each fiscal year, totaling more than 2.0 trillion yen over eight years. Thus, we believe we can raise funds while ensuring continuous growth. We will consider measures including taking out short-term borrowings for our capital efficiency going forward, but basically, we have no concerns. We are firmly committed to achieving our ROE target of 15% for the fiscal year ending March 2027, although this target is one year behind the trajectory we have set in the previous mid-term business plan. We intend to conduct share repurchases to some extent at an appropriate time in order to achieve this target, and we would like to clarify our plan at an early stage.

<Others>

May 14, 2024

Isuzu Motors Limited

Q: What role will the investment in, and collaboration with, Gatik play in Isuzu's autonomous driving business going forward? Additionally, what are the technical advantages of Gatik?

A: We have already been working with Gatik for about three years, providing medium-duty trucks and working on the demonstration testing for autonomous driving. Specifically, we are working on the demonstration testing for the medium distance, and Gatik already conducts fully autonomous driving for some routes between distribution centers. Our aim includes owning the autonomous driving business model by improving and refining chassis to make them compatible with autonomous driving.

Q: Could you elaborate on the redundant chassis that works when equipped with an autonomous driving system?

A: Redundancy should be secured to make sure that a recovery can be made in some way if an autonomous driving software has a defect. For passenger vehicles, the software can handle defects. For commercial vehicles, on the other hand, the chassis needs to take care of a major part of the defect handling. Currently, Gatik provides vehicles to logistics operators, but when we think about a business model of the future, when there will be an increased number of autonomous driving vehicles, there is a possibility that an OEM like Isuzu will be involved.

Q: Could you explain about the sales market and the production base for the mass-produced redundant chassis?

A: The entire production process will be completed in North America. In Japan, we have been conducting demonstration testing for trucks on the Shin-Tomei Expressway as well as for autonomous driving of buses. When those projects enter the commercialization stage, learnings from North America such as how to manufacture redundant chassis might prove helpful.

Q: I understand the regulation on overtime hours for drivers was tightened this April in Japan, which marked the full-scale start of the 2024 problem. Would that change the market demand trend and your sales strategy?

A: Customers who conduct long-distance transportation would be the ones to be significantly affected by the overtime regulation, and each company takes various countermeasures. So far, there is no significant increase or decrease in truck demand, but we assume the heavy-duty trucks used for long-distance transportation would be the first to be impacted going forward. Efforts toward a resolution such as joint transportation and partnering between operators are seen in various areas, which would consequently impact the demand for trucks and parts. We will respond to this issue by increasing the payload capacity and providing vehicles that are safe and easy to drive in our medium and heavy-duty trucks as well as ELF mio.

Q: In light of the US tightening tariffs on China's import, will there be any impact on your business if and when the US-China conflict intensifies?

A: Our business in China is basically completed in China, and so the impact on import to and export from China is limited. If anything, our business would rather be influenced by the domestic situation in China. As for the BEV for North America, the first step will be to install the battery in Japan, but in the future, we will consider battery localization as necessary. The US-China conflict will also influence the economy of the ASEAN region, but because the economy in the region is already slow, it is unlikely that demand for commercial vehicles will decline further.