

Q&A Summary of the Explanatory Session for Institutional Investors and Analysts
for 2Q of FY ending March 2025

[Greetings from Yamaguchi EVP]

In the first half of the fiscal year, both revenue and profit decreased from the same period of the previous year. This was due to a significant inventory reduction implemented by dealers and distributors for LCVs for the Thai market due to the sluggish economy and backorders from the previous fiscal year returning to normal levels mainly in North America, Europe and Oceania. On the positive side, though, operating income increased by approximately 24.0 billion yen from the internal plan due to the following factors: volume remained roughly in line with expectations and positive effects from yen depreciation, price realization, cost reduction activities and reduced expenses.

As for the full-year outlook, both revenue and profit are expected to decline from the previously announced forecast to revenue of 3,250.0 billion yen, operating income of 230.0 billion yen and net income of 135.0 billion yen.

Regarding unit sales, the forecast was revised downward to 49,000 units, nearly half of the initial forecast of 90,000 units, as the recovery of the LCV market in Thailand is not in progress. Also, downward revision was made to overseas CV and LCV for export due to uncertain market conditions and intensified competition.

As for profit and loss, higher-than-predicted parts procurement costs were factored in, as well as the decline in unit sales. Despite positive impacts arising from the group-wide efforts on price realization, cost and expense reduction activities along with positive effects from weaker yen, operating income was revised down to 230.0 billion yen, a decrease of 30.0 billion yen from the previous forecast. To address rising parts procurement costs, we will continue to engage in activities centered around price realization, aiming to enhance profitability.

Efforts to improve shareholder returns and capital efficiency will be pursued as planned at the beginning of the fiscal year, since the future growth scenario presented in the Mid-Term Business Plan remains unchanged. There is no change in the forecast dividend of 92 yen. Regarding the share buyback plan of 750.0 billion yen, shares worth 38.3 billion yen have been repurchased as of the end of October.

Projects under the Mid-Term Business Plan have started smoothly. In particular, solid progress has been made in the area of autonomous driving. As announced last August, we signed a strategic partnership agreement with the US company Applied Intuition to jointly develop a Level 4 autonomous truck. This November, we commenced a public road verification test of a heavy-duty autonomous truck on the New Tomei Expressway.

We will continue to strengthen our existing businesses and work to cultivate new businesses.

[Q & A]

<Result of First Half of FY ending March 2025 >

Q: How were the first half results viewed internally?

A: Operating income increased by 24.0 billion yen compared to the internal plan. The breakdown includes positive foreign exchange effects of 16.0 billion yen, price realization and cost reduction activities of 4.0 billion yen and reduced material costs and expenses of 4.0 billion yen.

< Forecast for FY ending March 2025 >

-Profit and Loss-

Q: What is the background to the downward revision of the full-year outlook? What is the reason behind the large profit loss relative to reduced volume?

A: In terms of the volume, a significant reduction is anticipated due to an additional downward revision made to LCV unit sales for Thailand and unit sale decline in profitable markets, such as CV for North America and LCV for the Middle East and Oceania. Also contributing to the downward revision is a rise in parts procurement costs that is much higher than initially projected.

Q: Please share risks and opportunities you have identified.

A: [Risk]

We have lowered our full-year outlook for CV for the US market due to a recent slowdown in orders. The impacts from interest-rate movement and presidential election are making things uncertain, casting risks in the forecast volume.

[Opportunity]

Although forecast in LCV unit sales for Australia was lowered after the review, dealers and distributors are feeling that the slowdown in orders has been bottomed out, expecting unit sales to recover. As for CV, sales in the Middle East and Africa remain strong, so we are aiming to further increase CV unit sales.

Q: What is the reason for the increase in material costs?

A: While iron prices are expected to decline as iron ore and coking coal prices have stabilized, the prices of nonferrous such as copper and platinum are forecast to rise, and so they are likely to be offset. The recent hike in costs reflects increases in the costs of parts procured from suppliers and logistics costs, mainly due to a rise in container shipping prices caused by congestion at ports in various countries.

Q: What are the factors behind the 28.4 billion yen difference in operating income between the first and second half?

A: A positive impact owing to a unit sales increase is estimated to be 23.0 billion yen, whereas negative impacts are predicted to come from a decrease of 15.0 billion yen in foreign exchange rate (152 yen to a USD in the first half assumed to be 145 yen in the second half), a decrease of 15.0 billion yen in rising material and logistics costs and a decrease of 20.0 billion yen in R&D costs and expenses, the majority of which are posted toward the fiscal year end.

- CV Business -

Q: Regarding the CV unit sales in Japan, please tell us why the decrease of 4,000 units caused by the production delay in the first half cannot be recovered in the second half.

A: As a consequence of the production delay caused by typhoons and lightning strikes last August and September, vehicle registrations which would require manpower resources were concentrated at the end of September. Due to insufficient manpower, we were not able to process all the registrations, resulting in a decrease in unit sales. In order to recover the unit sales loss in the second half, we need to secure manpower for the vehicle registration, but we see risks there. In addition, regarding the preference of transmissions, demand for AT (Automatic Transmission) vehicles was higher than expected, and our AT manufacturing capacity is a bottleneck as it requires reinforcement to meet such demand. Due to this reason, instead of forcing us to recover from this situation, we aim to promote the reduction of an excess level of inventories, and, therefore, factored in a decrease of 4,000 units.

Q: Please explain what has changed in the market environment for overseas CVs since the 1Q financial results were announced.

A: As for overseas CVs, demand in the Middle East has been strong. In contrast, orders in North America did not grow as much as projected in the July to September period, partly due to expectations for interest rate cuts in the region and the mood to wait and see the outcome of the presidential election.

- LCV Business -

Q: Please describe the current situation of the Thai market with regard to the deterioration in market conditions and financing environment.

A: Although the Thai policy rate was steered toward a rate cut in October, the financing environment still shows no signs of improvement. In addition to providing benefits to low-income groups, the new administration has indicated a policy to strengthen measures in the agriculture and manufacturing sectors, which account for a large proportion of Thailand's GDP and working population. We expect market conditions to recover as a result of these measures, but we have yet to see any positive effects.

Q: What are the current situation and outlook for retail and inventory reduction in Thailand?

A: Inventories at the dealers and distributors came down to 20,000 units at the end of September due to an inventory reduction made in the first half, the volume is expected to be reduced to around 10,000-unit level toward the third quarter. The retail unit sales for the fiscal year ending March 31, 2025, is expected to be approximately 70,000 units, 35,000 units each for the first and second half. Though we anticipate shipments in the second half to be slightly lower compared to retail unit sales, they should rise or fall depending on the growth momentum of retail unit sales.

Q: Regarding the LCV production at the Gateway Plant in Thailand, when do you plan to resume two-shift operation?

A: We are preparing to resume two-shift operation in late November when the inventory reduction is to be completed.

Q: What is the background behind the downward revision of LCV unit sales for the Middle East and Australia?

A: We factored in a decrease of 7,000 units for the Middle East market, not due to the impact of low-priced models launched by competitors but due to the severe competitive environment resulting from price cuts. For the Australian market, we reassessed the market conditions and factored in a decrease of 2,000 units, but there are signs that the slowdown has bottomed out in the market, which we expect to be an opportunity.

<Full-year outlook for FY2026 ending March 31, 2026>

Q: In fiscal 2026, if assumingly the business environment of the second half of this fiscal year continues, will the starting point of the operating income target be set at 200 billion yen, which means twice the second half operating income prediction of 100 billion yen? Could you explain how you look at the operating income of the fiscal year 2026?

A: In terms of the unit sales in the fiscal 2026 period, we expect the LCV sales in Thailand and other markets to increase from the level in the second half, considering inventory reduction at dealers. We will work to further increase the unit sales. In terms of profitability, there is no change in the company's policy to make up for the increase in parts procurement costs by price realization initiatives. We do not think that 200 billion yen, twice the operating income forecast in the second half, will be the starting point of our fiscal 2026 target.

<Mid-term business plan related>

Q: As a result of this downward revision, there is a big gap to fill to meet the operating income target of 360 billion yen set for the fiscal year 2027 ending March 31, 2027. Is there any change ahead in your approach to achieving this mid-term business plan target?

A: In the current fiscal year, we have revised our earnings forecast downward due to the increased negative impacts, namely the market condition deterioration more serious than we had expected mainly in Thailand, and cost fluctuations such as material costs increase. In Thailand, in particular, the market conditions remain severe. The current total industry demand for automobiles in Thailand is at extremely low level, approximately 600,000 units, the same level as at the time of the global financial crisis, and the total industry demand for LCV is at a significantly low level, below 200,000 units, the same level as in 2001. However, the demand for LCVs is still strong, and the problem is that customers want to purchase LCVs but cannot borrow money from banks due to tightening credit. As the government's measures are gradually implemented and the financing problem is resolved in the future, the target of 130,000 LCVs for the Thai domestic market in the fiscal 2027 will not be a bullish target, but an achievable one.

The positive impact of the full-model-changed vehicles are steadily being seen in the Japanese CV market. For overseas CVs, we expect a temporary decrease in the unit sales due to the model change in the current fiscal year, but the unit sales will return to normal levels from the next fiscal year onward.

Regarding CV sales in North America, although we will have to pay close attention to the demand trend under the next new government administration in America, we expect the CV unit sales to be firm at this moment. Although we have revised downward both earnings and unit sales for the current fiscal year, our policy of putting the company on a recovery track for the next fiscal year and the following fiscal year remains unchanged, and we will steadily build up toward the targets set in the mid-term business plan. At the same time, we will carry out investment plans for the future and intend to frontload some of them.

<Shareholder returns>

Q: If the business environment becomes more severe from the next fiscal year onward, will your shareholder return policy change?

A: If the total industry demand for LCV in Thailand remains at the same level as the current fiscal year or if the total industry demand structure in Thailand changes significantly in the next two fiscal years, then we will have to revise the current mid-term business plan, but this is not expected at this stage. In the US market, even if there is a major US government policy shift, the impact is not expected to be as large as that on the passenger car manufacturers. Therefore, as long as there is no significant impact on our business management in the future, the current efforts to improve shareholder returns and capital efficiency will not be changed, nor will dividends be reduced.