February 9, 2024

Isuzu Motors Limited

Q&A for Third Quarter Results for the Fiscal Year Ending March 31, 2024

<Message from Yamaguchi, Executive Vice President>

As part of product updates, in October 2023, we announced that the *D-MAX* pickup truck designed for domestic use in Thailand underwent a model changeover to strengthen its product capabilities. In January this year, we launched the *ELF mioEV*, a light-duty BEV truck that can be driven with a standard Japanese driver's license, also planning to start selling the diesel engine model this summer. For the *ELF* light-duty truck, the Space Cab offering an expanded interior space behind a cabin was added to a lineup to help improve the working environment for drivers. As per our initiatives to realize carbon neutrality, in December 2023 we started demonstration runs with the *GIGA FUEL CELL*, a heavy-duty fuel cell truck on public roads, and are making steady progress.

Turning to the 3Q business performance, market conditions remain challenging in emerging economies due to rising interest rates and inflation. Sales units of both CV and LCV decreased from the same period of the previous year, while, on the profit and loss front, net sales and all profit levels for the first nine-month period marked all-time high thanks to well-balanced destination and model mix ratios on back of strong demand in advanced economies, price realization, cost reduction activities, growing aftersales and weaker yen.

As for the full-year forecast, market conditions are expected to remain tight in emerging markets, and thus sales volumes of both CV and LCV are adjusted downward from the forecast made in November.

As for domestic CV sales, in addition to not being able to find solutions to previously reported lengthy lead time from sale negotiations to sales , we are experiencing a production delay because we opted to take time to thoroughly optimize the quality of new models, but even under these circumstances domestic CV sales units are expected to be partially carried over to the next fiscal year, because demand remains solid.

LCV demand for domestic use in Thailand is lower than expected, but unit sales forecast is kept unchanged considering the new emission regulation coming to effect in April.

As for profit and loss, we expect the decline in sales to be offset by price realization, cost reduction activities and weaker yen. We have kept the full year forecast unchanged and have high confidence in achieving the target.

On the other hand, business environment for the next fiscal year seems extremely uncertain, particularly the Thai LCV sales. Thai LCV sales, which account for a large portion of our business, is in a difficult situation with no prospect of recovery in the next fiscal year. Regarding export

LCV, while sales are kept up because of backorders being fulfilled this fiscal year, is expected to go into a correction phase in the next fiscal year.

Finally, regarding the so-called 2024 issue, although the law is coming to effect in April and there is no going back, we are determined to move forward with our activities with the aim of making dedications through our products and connected services as we have always done, while keeping a close eye on the impact on the market.

[Q&A]

<3Q Results>

Q: What is the internal evaluation of October to December results?

A: Compared to the internal forecast, the October-to-December performance brought an increase of about 10.0 billion yen. The breakdown is as follows: Positive factors include 8.0 billion yen increase in foreign exchange due to the exchange rate assumed to be 140 yen to the US dollar, 1.0 billion yen plus in price realization, 3.0 billion yen plus due to changes in material costs, etc., and 2.0 billion yen increase in cost reduction and decrease in costs, etc., while a negative factor includes unit sales reduction of 4.0 billion yen due to fall in sales units of CV and LCV.

Q: Please elaborate on your price realization strategy and aftersales growth, which are the factors that secured revenue against a decline in sales units during the nine-month period.

A: We have aimed to secure profitability through price realization in response to the surge in resource prices over the past two to three years, but due to a timing gap, our price realization did not catch up with the pace last year and the year before. In the current fiscal year, the effect of price realization has been more profound, partly because resource prices have calmed down. There has been a continued progress in the CV price realization for overseas markets, while the domestic CV price realization is being implemented in tandem with the new model roll-out. Regarding aftersales, we are generating a stable source of revenue by diligently providing services such as repairs and vehicle inspections.

Q: Is the growth in aftersales a result of an increase in domestic market share?

A: There is a correlation with the share, but this will not generate an immediate impact, but rather it will gradually come out. The growth has been driven by diligently increasing lease agreements, which led to service-related transactions such as repairs and vehicle inspections.

Q: What is the reason behind the slower production establishment of new vehicle models in the Japanese market?

A: The production establishment of the new vehicle models was delayed due to our quality refinement. The normal situation is expected to return next fiscal year.

Q: Could you explain the backlog situation?

A: The backlogs for Japan and North America remain to be high. As of the end of Dec. 2023, the Japanese backlogs account for 35,000 units, up 3,000 units from the end of Sept., and the North American backlogs are 14,000 units, down 2,000 units from the end of Sept. The CV and LCV backlogs for overseas markets excluding North America remain unchanged from the end of September and have returned to normalcy.

<Full-Year Forecast>

Q: Why didn't you revise the full-year outlook upwardly?

A: We maintained the operating income of 280.0 billion yen unchanged due to the following reasons: we expect a decrease in unit sales in 4Q and a big deficit in material cost due to a later-than-expected recording of price-increase requests from suppliers, and fixed costs such as R&D and general expenses are concentrated in 4Q more than usual. Our predetermined foreign exchange rate for 4Q is 140 Japanese yen to the US dollar, and therefore, a better-than-forecast result could be possible depending on the foreign exchange rate.
We recognize that it is highly probable that we will be able to achieve the operating income target of 280.0 billion yen and shall aim to increase profits through activities such as cost reduction in the remaining period.

Q: Why have you revised your full-year unit sales outlook every quarter since the 1st quarter of this fiscal year? What is the reason why it was difficult for Isuzu to accurately predict the full-year outlook?

A: In addition to the deterioration of market conditions in countries where we sell our products, production capacity of rear-body makers did not return to the pre-COVID levels at which we had anticipated previously. Plus, the following factors surrounding the new vehicle models are also the reasons: period from sales negotiation start to order taking has become longer and there were delays in the production establishment.

Q: Price realization has been upwardly revised by 3.0 billion yen from 72.0 billion yen to 75.0 billion yen. Could you explain the breakdown?

A: The breakdown of the 3.0 billion yen increase is the following: the increase of 3.0 billion yen comes from improvement in gross margin through detail-oriented CV sales activities in Japan, the increase of 2.0 billion yen is due to temporary price increases suitable for each overseas markets where we sell our CVs. On the other hand, sales environment is severe in LCV, and therefore, we expect a decrease of 2.0 billion yen.

Q: What kind of temporary factors are included in the change in sales/model mix in the period between 3Q and 4Q?

A: As usual, due to seasonality, the number of CVs registered in March in Japan is due to increase, which results in a significant increase expected for 4Q. Unit sales of CVs for overseas markets are forecasted to significantly decrease due to a unit sales decline in North America and emerging markets. Regarding LCV, the unit sales are expected to fall in both Thailand and export markets, and the unit sales of industrial engines are also projected to drop due to parts shortages in 4Q.

<Next Fiscal Year's Business Environment>

Q: What is your rough numeric target in CVs in the Japanese market next fiscal year?

A: In this fiscal year ending March 31, 2024, we expect our full-year outlook to be 68,000-unit sales of Isuzu-branded trucks and 10,000-unit sales of UD Trucks-branded ones, which are lower unit sales than we previously predicted partly due to the production delays. However, in the next fiscal year outlook, as new vehicle models will be fully available in the market, we are formulating a business plan with a view to 80,00- unit sales of Isuzu-branded vehicles and 10,000+ unit sales of UD Trucks-branded ones.

Q: Will the prolonged sales lead time continue into the next fiscal year? When do you expect it to return to normal?

A: We understand that the lead time of both rear-body installation and sales negotiation with customers has been prolonged. We expect this situation to continue into the next fiscal year because the rear-body makers are most likely to not increase their production capacity in a short period of time, and we will take sufficient time to communicate with customers in our sales negotiations as the prices of our new vehicle models are higher than before.

Q: What kind of business environment do you predict for your overseas CV business in the next fiscal year? The unit sales forecast in North America have fallen this fiscal year. Has the demand weakened?

A: Advanced economies such as North America and Australia have remained strong, and we believe that this situation will not deteriorate significantly in the next fiscal year. In North America, the unit sales forecast has dropped slightly this fiscal year, but this is due to logistics adjustment. Therefore, there has been no change in the current strong market situation. As for the next fiscal year, we aim for the same level of result as this fiscal year, as we still have backlogs. On the other hand, the business environment for emerging countries, especially ASEAN countries, will be severe. There will be a change in exhaust emission regulations for

CVs in Thailand similar to that of LCV, a switch from Euro3 to Euro 5. Therefore, we assume that these changes will result in a reactionary reduction in CV unit sales more than LCV.

Q: Please tell us about the assumption for the LCVs unit sales for Thailand for the next fiscal year, including the impact of a new emission regulation.

A: Forecast for unit sales for the current fiscal year remains unchanged due to the impact of Euro 5 emission regulation coming into effect in April, but should there be no regulation changes, we would have further lowered the unit sales forecast considering the recent challenging sales conditions. For the next fiscal year, although we were expecting to see a recovery from the second half, we anticipate the market will not recover at an early stage and remain tight throughout 2024, given that sales were exceptionally sluggish in December, which is typically the peak month, monetary tightening remains in place, and the ratio of household debt to GDP is around 90%. The LCV volume exported to Australia has exceeded our underlying strength this fiscal year, driven by backorder deliveries. It is expected to return to the normal level in the next fiscal year. Overall, we foresee a more challenging environment compared with this fiscal year due to significant drop in LCV unit sales for Thailand.

Q: Regarding CVs and LCVs for Thailand, how much impact is anticipated on inventory levels by the new emission regulations? Please tell us about the current inventory levels, those at the end of March, and the timing to adjust the LCV inventories.

A: Total inventories at dealers and distributors at the end of December 2023 was 12,000 units, 7.4 months' worth (typically 5 months) for CVs, and 28,000 units, 3.5 months' worth (typically 2 months) for LCVs. The inventory levels are already higher than our usual and are expected to increase further at the end of March. As for the LCV inventory adjustment, Euro 4 LCVs, which will be manufactured and stocked until the end of March, will be rolled out to market from April, therefore, we anticipate that the plant operation will be quite low in the first half of the next fiscal year. The operation in 3Q and 4Q will depend on market conditions, but some recovery is expected.

Q: How much will the price increase due to the new emission regulation?

A: We would like to refrain from disclosing prices, but engine manufacturing cost is expected to increase by about 10% to meet the new standard.

Q: What are the positive and negative factors of profit and loss for the next fiscal year, including front-loading expenses to the current fiscal year?

A: While we aim to smooth out the gap in profits between the current fiscal year and the next, but the impact of LCV volume decrease for Thailand, caused by a new emission regulation coming into place, will inevitably lead to a profit gap between the current and the next fiscal years. As a positive factor of profit and loss, we will continue to implement price realization in the next fiscal year as it has not been able to cover the negative effects of fluctuations in material costs for the past three years. We will also continue to promote cost reduction activities as usual. Material costs, on the other hand, will be a negative factor as suppliers are expected to continue to request for price increase next fiscal year, although coal and iron ore markets remain calm.

< Demand Trends and Competitive Environment >

Q: Since the beginning of 2024, we hear a lot about the weakening trend of new orders in Australia. Are the market conditions changing?

A: We have not heard of any deterioration in the market conditions, but it is difficult to capture the actual demand since we are now fulfilling backorders for LCVs and cannot readily accept new orders. We will check the demand situations when we make business plans for the next fiscal year.

Q: Does the fact that Chinese manufactures are increasing their BEV unit sales in Thailand have any impact on your LCV unit sales?

A: Although BEVs are enhancing their presence in the passenger car segment, this trend is unlikely to lead to any major changes in the LCV segment in the future, as many of the BEV buyers appear to be so-called early adopters who have relatively high incomes, have charging infrastructure at home, and use the vehicles for city driving, for example picking up and dropping off family members. Therefore, customers in this segment do not consider purchasing pickup trucks and PPVs (Pick-up Passenger Vehicles) in the first place.

Q: How do you evaluate the pickup truck for Thailand, which underwent minor changes last October?

A: Although the pickup truck has been very well received by customers, it unfortunately will take some time before it leads to an increase in sales, as there are quite a few customers who are willing to make a purchase but cannot obtain the financing.

Q: Please explain the status of orders for your EVs, such as ELF mioEV launched in January this year.

A: EV unit sales for the current fiscal year will be limited as we are meticulously carrying out sales negotiations, including providing instructions on how to use the EVs to avoid causing inconvenience to our customers. However, in the next fiscal year we are aiming to sell approximately 1,000 units of EVs per annum, while leveraging subsidies and other advantages.

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<The Next Medium-Term Business Plan>

Q: Please let us know what kinds of discussions are taking place internally regarding the next medium-term business plan (hereafter referred to as the next mid-term BP).

A: We are discussing how we should grow in relation to what we should aim for in 2030 by back cast. Our discussions are based on the direction that we will underpin our growth trajectory by stabilizing our existing businesses more than ever while steadily carrying out investment in carbon neutrality. On the other hand, in the next fiscal year, which will be the first fiscal year of the next mid-term BP period, it will be important to see how far we can absorb the negative impact inflicted by the severe market conditions in Thailand. Since we do not think that the demand structure in Thailand has changed, we expect that the market conditions will eventually recover. Thus, we are discussing the mid-term BP based on the determination to return to the growth trajectory we originally planned either toward the final fiscal year of the next mid-term BP period or toward 2030. We would like to present the details of the mid-term BP in this spring.

<Others>

Q: It has been almost three years since the acquisition of UD Trucks. Please tell us about your evaluation at this point.

A: With large number of parts being imported from Europe, the strong euro and weak yen have caused negative impact on procurement, but the expected level of profit has been secured. We are on track to meet our target of 13.0 billion yen from synergy effects, and cost reduction effect is particularly significant in development. We expect that from the next fiscal year and beyond, the effects from the integration of sales bases will be even greater than in the current fiscal year.

Q: Are there any specific changes in demand attributable to the 2024 issue? Please explain what kinds of sales measures you are considering.

A: We are offering new models that are easy to drive, safe, and less stressful for drivers, and the pricing of these models is accepted by our customers. As for the ELF mio, which can be driven with a standard Japanese driver's license, we have been selling the BEV model ahead of the diesel engine model, but the diesel engine model planned to launch this summer is also receiving high expectations. We do think that there are expectations toward full trailers and other models as solutions to improve transportation efficiency. However, as business operators are currently taking a wait-and-see attitude, there has not been any major movement in demand yet.