

FY2021 Automotive & Mobility Group Business Segment IR Meeting: Q&A

【Date】 Wednesday, December 9, 2021

15:30~17:00

【Attendees】 Group CEO	Iwao Toide
General Manager,	Hisashi Ishimaki
Group CEO Office	
General Manager,	Haruki Umezawa
Group Administration Dept.	
Division COO,	Tatsuo Nakamura
Automotive Business Division	
Division COO,	Shigeru Wakabayashi
Isuzu Business Division	
Division COO,	Kyoya Kondo
Mobility Business Division	
General Manager,	Tatsuhiko Terada
Head of Investor Relations	

< Q&A >

Q.

On page 6, you mention how you plan to engage in more initiatives in the mobility service-related business going forward. How much will this business contribute to this year's Group profit forecast of 88 billion yen, as well as to your future profit goal of 100 billion yen?

A.

- We are currently promoting each of the new businesses in the area of mobility services, and expect to reach profitability in the mid 2020's.
- This means we plan to achieve the 100 billion yen profit from only the 2 Value Chains of the automotive businesses; the Automotive and the Isuzu Business Divisions.

Q.

In terms of the Thailand and Indonesia businesses on pages 8 and 9, you state how you have a broad coverage from upstream to downstream. You need to grow the profit from these businesses if you are to achieve the 100 billion yen target, but what will be the drivers of profit growth?

A.

- Thailand and Indonesia are representative examples, but we feel there is also much room for growth in the nearby ASEAN countries such as Vietnam. We are of course seeking to further deepen our businesses in Thailand and Indonesia as well.
- As for the Thailand business, our market share in pick-up trucks already exceeds 40%, and exceeds 50% for commercial vehicle sales overall. The key to growing further from here lies in strengthening the downstream business, which refers to sales, finance, insurance, and used car sales, and we have especially strong expectations for the used car sales business. The online marketplace for trucks is attracting a large number of users, and this strong customer base will become drivers of incremental profit. Moreover, we feel very strong potential in the exports of diesel pickup trucks to emerging countries.
- In Indonesia, similarly to Thailand, we will grow our existing business as well as enter into new businesses. In our existing business, the key strategy will be the shift to ASEAN, which we are considering with MMC. MMC has announced in the new mid-term plan that it will focus product launches in the ASEAN region, and we will make sure to monetize in 2023 onwards, which will be the execution phase of the strategy. As for new businesses, we will grow the seeds of revenue, as described on page 9 of the presentation, into pillars of revenue.

Q.

Today, the automotive industry is entering an era of significant change, and the development of next generation cars is in progress. How do you understand their EV strategies of MMC and Isuzu, and how can MC help them execute their strategies? Please share some information on the dialogue you are having with auto OEMs.

A.

- <Isuzu Business Division>
The roadmap to carbon neutrality differs by region, model and timeframe, and must be thought through carefully one by one. Our Division is engaged in the commercial vehicles business, and what is most important is to launch products in each region and timeframe that

matches the needs of logistics companies, which are focused on supporting their customers and not causing them inconveniences. The role of MC will be to analyze the situation in each region, thoroughly discuss with OEMs and think together with them about how to supply the most appropriate vehicles to make the economics work. Moreover, going forward, the discussions regarding powertrains and the fuel supply of cars will become extremely important.

- <Automotive Business Division>

Our discussions focus on strengthening the OEM's EV strategies, and what role MC will play.

- On the OEM's side, MMC has the track record of iMiEV, the world's first mass-produced EV, and has built up a certain level of expertise on EVs. The Outlander PHEV is popular, and PHEVs give the OEMs flexibility on accommodating both EVs and hybrids. Meanwhile, with the limits on MMC's capacity, we believe the business can become more competitive through the alliance with Nissan, with measures such as the standardization of components.
- For MC, the key will be how to respond to MMC's shift to the ASEAN region. Indonesia has declared carbon neutrality, but being an archipelago with 14,000 islands, it will take significant time to develop the infrastructure to cover the entire nation, and it is our role to come up with a workable solution. We are right in the midst of discussions about whether that solution is going to be hybrids, PHEVs, or battery EVs. However, EVs still have challenges in the economics, and we need to grow our profit through areas such as energy management. We will utilize MC's strength of having a broad coverage of all industries, and contribute to MMC, while at the same time creating a new business model for MC.

Q.

You have been contemplating the idea of expanding into ASEAN countries other than Thailand and Indonesia from the past. Please share the current profit levels in these countries, as well as which country/region is doing well.

A.

- In the ASEAN region other than Thailand and Indonesia, we are targeting Vietnam, the Philippines, Malaysia and Myanmar. The status of both Business Divisions is as follows:

<Automotive Business Division>

In the MMC-related business, we are expanding into Vietnam, Malaysia and Myanmar.

- The sales volume in Vietnam last year was 30,000, and around 25,000 this year due to the impact of Covid-19. We are positioned in the 3rd (largest) group following Toyota, Hyundai and Kia, and have been growing the profit contribution to MMC and MC. We have been expanding the business through domestic production in our production facility in south Ho Chi Minh, as well as imports of completed vehicles from Indonesia and Thailand.
- Our business in Malaysia used to be mainly the importing and sales of completed vehicles, but we have begun local assembly of the Expander, at the facility/plant/factory owned by DRB Hicom, a major local company which is the JV partner of our local distributor. Sales volume has reached a level exceeding 20,000 units per year, and our share among the Japanese makers has grown to the third position following Toyota and Honda.
- In Myanmar, we sold 250 vehicles per month since late last year to early this year, and are now in the stage of considering full-fledged expansion in the country, but with the coup taking place since then, we are currently monitoring the situation. Inquiries remain strong, and we are steadily selling around 50-60 vehicles every month.

<Isuzu Business Division>

- In the Philippines, we have a history of more than 20 years with Ayala as our business partner. Sales volume is now around 10,000 vehicles, but used to be 20,000-30,000 a year. We have a dominant position in the commercial vehicles market with 50% market share, and the question is how to maintain this strong position while capturing the future growth of the Philippines economy.
- In Malaysia, the sales volume of trucks and pickup trucks is currently

trending at around 10,000 units a year. Compared to the Philippines, the growth potential of the market is limited, and our strategy is to maintain high market share and profitability, despite the (relatively) small size of the business.

- As for Myanmar, although it is a region with growth potential, we are expecting it to take some time. However, in the dealership business which we are conducting through a 50:50 relationship with a local partner, our share in the local new truck market is above 50%, and we plan to build our brand and establish a sales and service network over the long term. Our business in Thailand took 60 years to build, and the strategy is to develop the infrastructure and trust from customers while acknowledging that the commercial vehicle business is a long-term business.

Q.

Looking at recent market trends, I get the impression that the gap between the strong and weak players is widening. Your cooperation with the OEMs is important, but on the other hand what are your own strengths that can be utilized in MC expanding in the downstream business, as well as into mobility services? How will you differentiate with others? And please explain what initiatives you are currently working on.

A.

- MC's strengths include our deep expertise in the local market, the (strong) customer base, and our network, built up over the years through the strong Value Chain business, as well as our high quality local talent nurtured through the management of various businesses.
- We are making use of these business assets built up through the Value Chain business, and working to develop the multiple brands downstream business that originates from the customers' standpoint instead of the OEM's.
- A good example is the EC business for repair & maintenance parts at SCO of Indonesia, which MC started from scratch, together with a local partner. It is an industry with a complex distribution structure, and while there is room for optimization using digital technologies, it is not easy to change/disrupt/break the relatively stable industry structure

that was built up over the years. Although there were various hardships and obstacles, we have been putting to use the expertise and know-how accumulated through the Value Chain business, provided reasonably priced and highly efficient services through e-commerce, and as a result acquired 1,000 customers in the past year.

Q.

Please share your views, as long-time partner, on why the revenue gap between Isuzu and MMC has widened so much, despite both companies focusing on the ASEAN region. As for MMC, with its U.S. revenues improving due to the shortage in inventory, will there be any changes to its focus/shift towards the ASEAN region?

A.

- The difference in revenue in our businesses with Isuzu and MMC over the years is due to issues unique to each company, both of which have long histories. As for last year, one major factor for MMC was that its revenue declined due to MMC being at a major turning point in its structural reforms. MMC has been developing its business in ASEAN based on its robust business platform, but due to issues with MMC as a firm, there is now a gap when compared with the business we conduct with Isuzu.
- MMC's focus on ASEAN will not waver. MMC, which we have a 20% stake in, is an important business partner, and we are communicating on a daily basis with their senior management about business strategy and other issues. In the highly competitive business environment, we must retain our focus on the ASEAN region where MMC can leverage on its strengths. MMC are highly determined on the shift to ASEAN, believing that there is no future unless they make this happen. MC, as business partner and shareholder, will firmly support the implementation of MMC's strategy.

Q.

I assume the OEMs are probably also interested in expanding business opportunities in the multiple brands downstream business. How should we think about the relative positioning of OEMs compared to trading

companies (like MC)? Why would a customer choose to work with MC rather than with an OEM?

A.

- That is precisely one of the things we discussed when considering the multiple brands downstream business. Automotives is one of the most representative examples of an industry in which each brand has its own vertical channel. However, not all brands can manufacture all products, and with the societal shift from “owning” to “using”, we believe there lies a big opportunity in providing what is best for consumers, in a way purchasing on their behalf based on their needs. Although the chances of a conflict with OEMs may not be zero, at the end of the day, we would like to manage the business by maximizing the satisfaction of the customer.

Q.

With your forecast of 88 billion yen this year, and as you aim to generate 100 billion yen on a stable basis from the next fiscal year onwards, does this mean you will take a sizeable exposure to grow businesses such as e-commerce in new business areas, and in the expansion of the multiple brands strategy? How will you improve asset and capital efficiency? Please explain from a profitability perspective.

A.

- We will focus our capital allocation on the downstream business and the mobility service-related business mentioned earlier. Meanwhile, we need to carefully watch our asset efficiency (which you pointed out). Our Group’s asset efficiency is high among MC’s 10 Business Groups, and when we promote our future business we will be mindful of the cyclical growth model and work on asset replacements.

Q.

In MMC’s mid-term plan last year, one of the strategies was to enter into the downstream business in regions such as China, Africa and South America, by strengthening the collaboration with partners. How is this linked to MC’s plans and scenario for expanding the downstream business?

A.

- We are of course considering which regions to expand into based on discussions with MMC and Isuzu, and the domains we focus on will naturally comply with our two partners. As mentioned earlier, our strength lies in the existing Value Chain of the automotive business, and we can certainly make use of the local network that we have built up over the years. We will make full use of this in the alignment with Isuzu, MMC and Mitsubishi Fuso, and we will continue promoting our business with them.

Q.

Your performance improvement last year was driven not only by Thailand, Indonesia and the equity method income from MMC, but from other factors as well. What were these other drivers? If your profit was strong due to the tight demand/supply balance for new cars, does this mean that your earnings will decline once supply picks up?

A.

- As you point out, it is true that our profit grew due to tightness in demand/supply. This applies not only to us but to the entire industry, regardless of region or maker.
- Moreover, the equity method income from MMC has been significantly affected positively by the results of structural reform as well.
- We are now able to generate a certain amount of revenue from Australia and Vietnam, instead of just Thailand and Indonesia.
- The strong profit includes some one-off factors from the tight demand/supply, but also includes positive effects of our efforts in boosting sales, such as digital marketing, and these will continue going forward.
- As for the next fiscal year onwards, we are not anticipating a drop from the 88 billion yen this year and then a recovery to 100 billion yen. Instead, we see this 88 billion yen as the starting point from which we will seek to grow to the 100 billion yen level.

Q.

As the Group targets a net profit of 100 billion, could there be changes to your stakes in the various companies related to the Value Chain business, including the 89% stake in TIS? Are there risks or uncertainties in achieving the 100 billion yen?

A.

- We do not expect to make changes at this moment. The 100 billion yen was formulated based on (the assumption that we will maintain) the current stakes.
- For example, the cooperative structure with Isuzu and the capital relationship shown in the Value Chain on page 8 are based on the roles played by each company from the past, and we expect this to remain unchanged.

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