Kubota Corporation

Results Briefing for FY2023

February 15, 2024

Event Summary

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[Participants]	120
[Number of Speakers]	7

Yuichi Kitao	President and Representative Director
Masato Yoshikawa	Representative Director and Executive Vice President, GM of Planning and Control Headquarters
Shingo Hanada	Director and Senior Managing Executive Officer, GM of Farm and Industrial Machinery Strategy and Operations Headquarters
Hideo Takigawa	Executive Officer, Deputy GM of Planning and Control Headquarters
Wataru Kondo	Executive Officer, GM of Water and Environment Infrastructure Management Headquarters
Koji Wada	Executive Officer, GM of Corporate Planning and Control Department

	Issei Matsui	IR Section Manager of Corporate Planning and Control Department
[Analyst Names]*	HIkaru Mizuno	UBS Securities
	Tomohiko Sano	JPMorgan Securities
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	Yoshinao Ibara	Morgan Stanley MUFG Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Presentation

Matsui: We will now begin the presentation of the full-year financial results for FY2023. Thank you very much for taking time out of your busy schedule to attend our information session today. My name is Matsui, IR Section Manager of Corporate Planning and Control Department, and I will be your moderator today.

Today's schedule. First, Mr. Kitao, President, will give a 30-minute presentation on management overview and business strategies, followed by 30-minute presentation on financial results by Mr. Yoshikawa, General Manager of Planning and Control Headquarters Then followed by questions and answers for 30 minutes. We schedule to end for 11:30 AM.

The materials for today's presentation are available on our website for investors. Please take a look at those documents as well.

Let me now introduce our attendees. This is Mr. Kitao, President and Representative Director. This is Mr. Yoshikawa, Representative Director and Executive Vice President, GM of Planning and Control Headquarters. This is Mr. Hanada, Director and Senior Managing Executive Officer, GM of Farm and Industrial Machinery Strategy and Operations Headquarters. This is Mr. Takigawa, Executive Officer, Deputy GM of Planning and Control Headquarters This is Mr. Kondo, Executive Officer, GM of Water and Environment Infrastructure Management Headquarters. This is Mr. Wada, Executive Officer, GM of Corporate Planning and Control Dept.

First, Mr. Kitao, President, will give an overview of the Company's management and business strategies.

Kitao: I am President Kitao. Thank you very much for attending our financial results presentation today.

I would like to begin by explaining our management overview and business strategy. Mr. Yoshikawa, General Manager of the Planning and Control Headquarters, will explain the details of the financial results later.

Today's agenda. I would like to explain six themes, from previous year's results to the progress of our mid-term plan.

1. FY2023 Financial Results

For Earth, For Life
Kubota

【Increase in revenue and profit】

- Revenue : Increased by yen depreciation and price hike
- Profit : Increased by offsetting cost increase by price hike and yen depreciation

(Unit: billions of yen)	FY2023 Full Year	Changes	
		Amount	%
Revenue	**3,020.7**	**+343.7**	**+12.8**
Japan	643.1	+40.8	+6.8
Overseas	2,377.6	+303.0	+14.6
Operating profit	10.9% **328.8**	**+114.4**	**+53.4**
Profit attributable to owners of the parent	7.9% **238.5**	**+82.0**	**+52.4**

KUBOTA Corporation (Financial Results for FY 2023)

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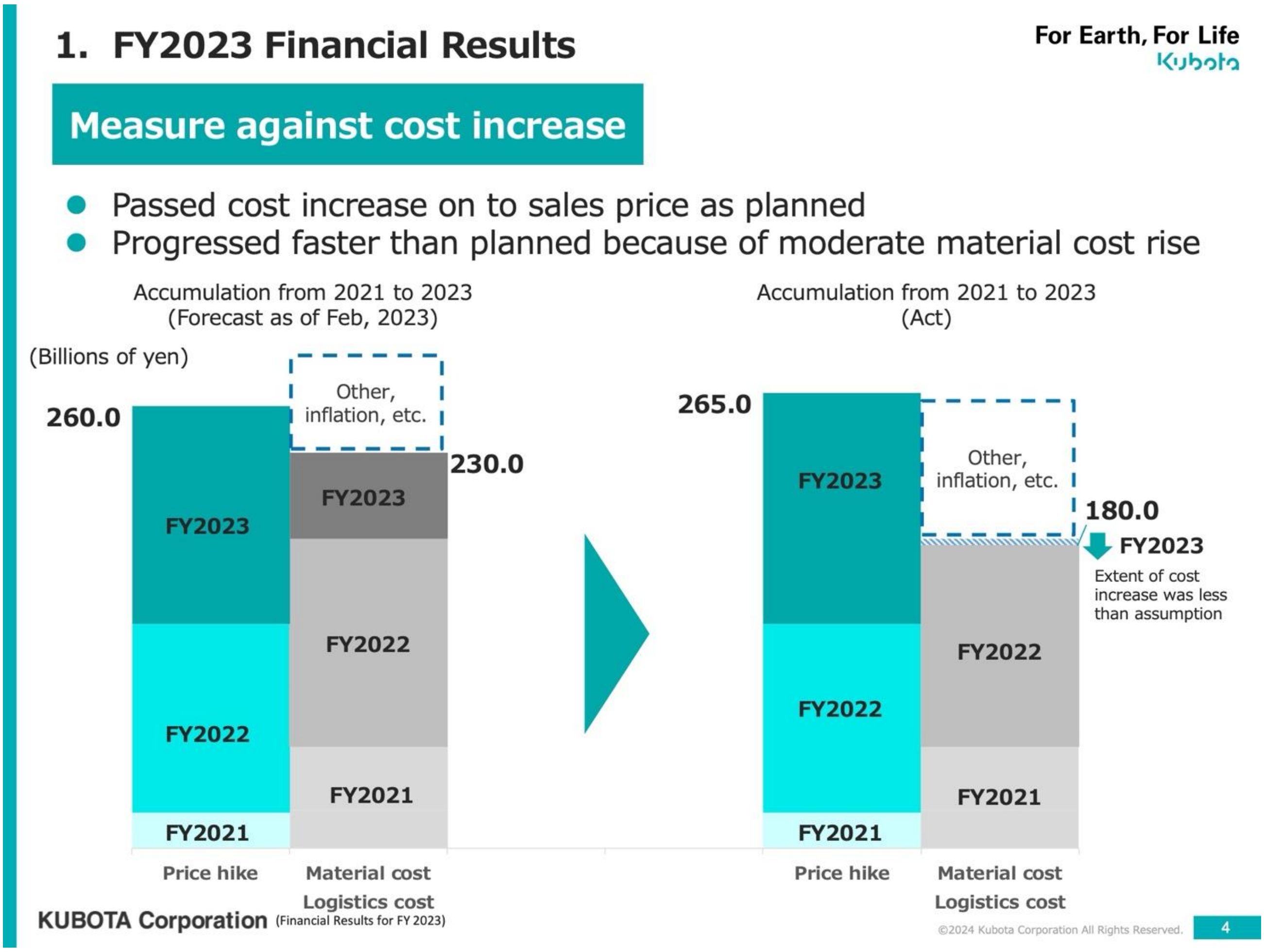
First, here are the results for the previous fiscal year. As you can see, overall results showed an increase in both sales and income. Despite a slowdown in the Thai market due to drought conditions, sales volume remained robust for construction equipment in North America. Net sales saw an increase due to the impact of price hikes resulting from exchange rate differences caused by the weaker yen and higher unit selling prices.

Operating profit increased due to significant progress in absorbing cost increases resulting from price hikes and the yen depreciation.

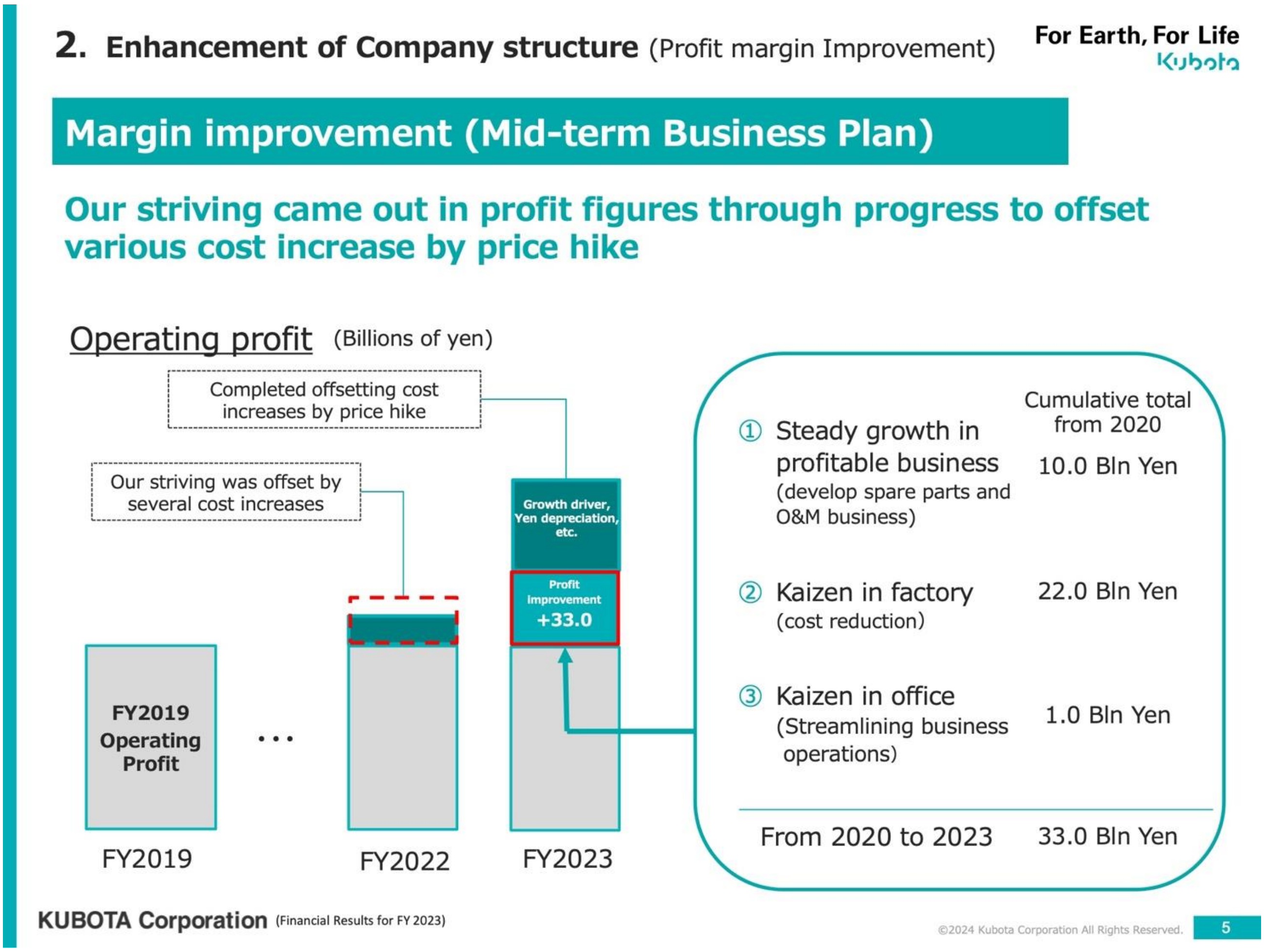


Status of cost-increasing measures. We have been trying to offset the increase in material and logistics costs from 2021 by raising prices, mainly in North America and Europe.

However, the speed of cost increases has been so fast that it has been difficult to keep up with price increases for the past two years. Finally, the effect of sales price increase caught up last year in 2023.

In addition, raw material costs did not deteriorate as much as expected in 2023, which helped offset items that we initially thought would be difficult to cover, such as labor and infrastructure costs.

Logistics costs have begun to stabilize, but labor costs and infrastructure costs such as electricity and gas have increased more than expected, and costs are still rising. We will continue to monitor the situation closely and take appropriate measures in 2024.



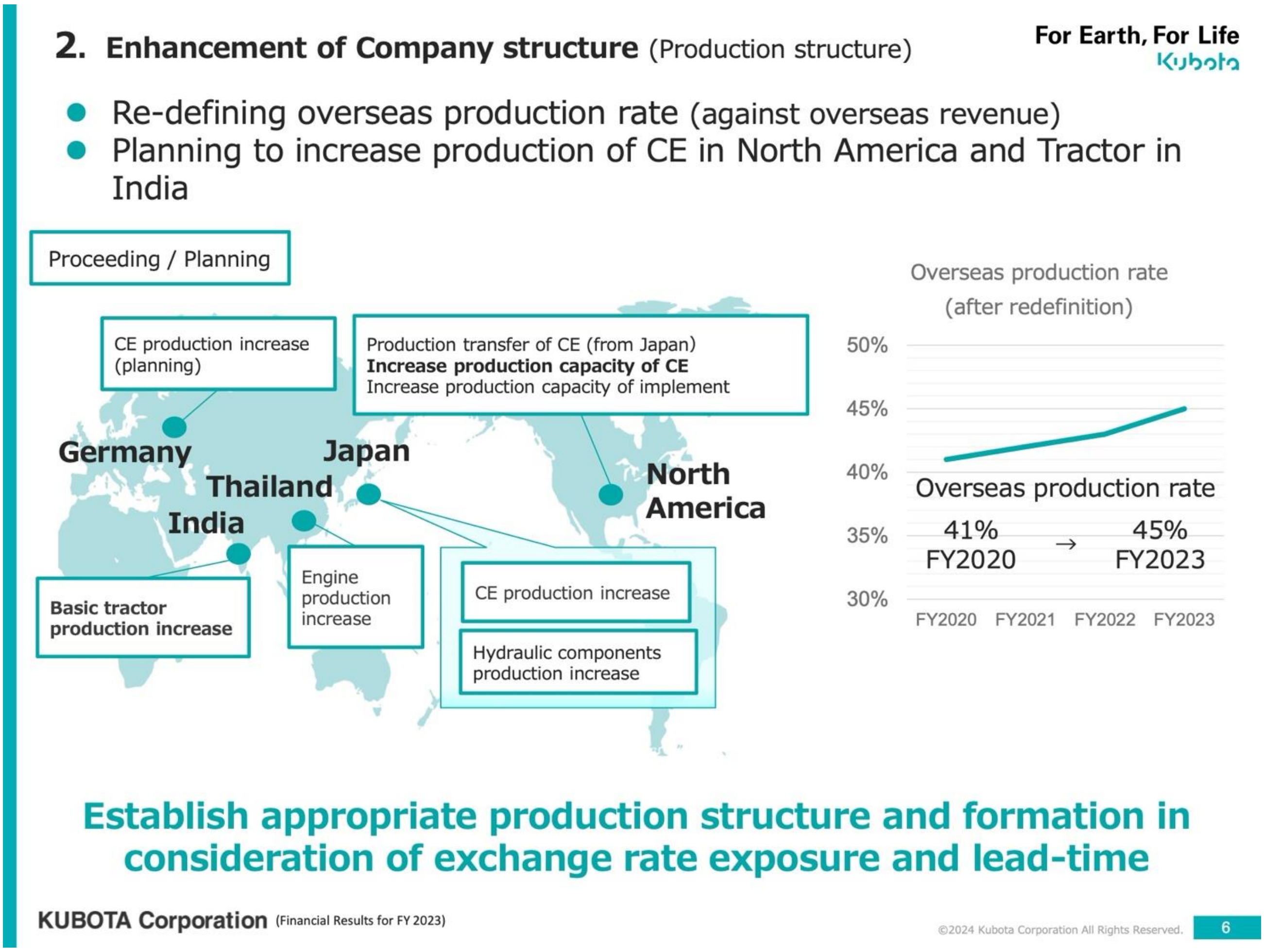
Next is about strengthening the constitution. First, I would like to discuss the improvement of profit margins that we are working on in our Mid-term Business Plan 2025.

It was not clearly visible how it was contributing to profit as the negative factor from cost increases was significant until 2022. However, we were able to absorb the past cost increases and other factors in FY2023, and the contribution of improvement activities to profits is now starting to become visible.

The breakdown is steady growth in high-margin areas, with the parts business growing, and new projects are increasing in the O&M business of the environment business. The effect of these measures is JPY10 billion.

Then, in regard to manufacturing improvement activities, we were able to build up the cost reduction that we had been steadily promoting every year to JPY22 billion compared to 2019.

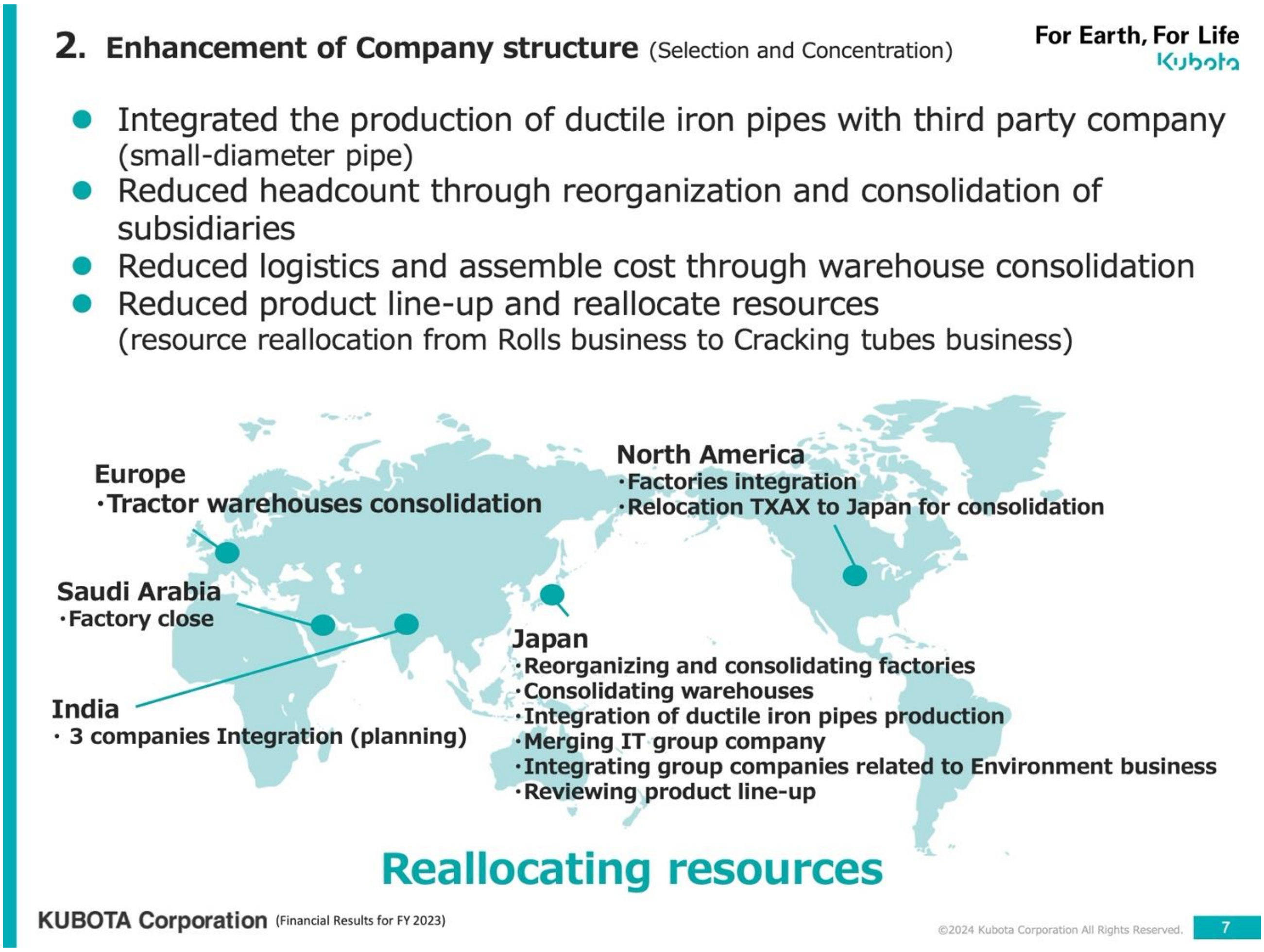
The third point, business improvement activities and the use of DX have become quite penetrated. Still, it will take some time before we see visible results. We will continue to promote improvement activities.



Now, I would like to talk about the status of the production system. In response to current trends, we have established an optimal production system that reduces supply chain risks while considering resistance to exchange rate fluctuations and shortening lead times.

Regarding the overseas production ratio, we have been explaining that it is around 35%. However, this figure refers to the ratio of overseas production to total sales including Japan. Since the ratio of overseas production using overseas sales as the denominator is more appropriate to indicate non-localisation risk, we have redefined the calculation method for this calculation.

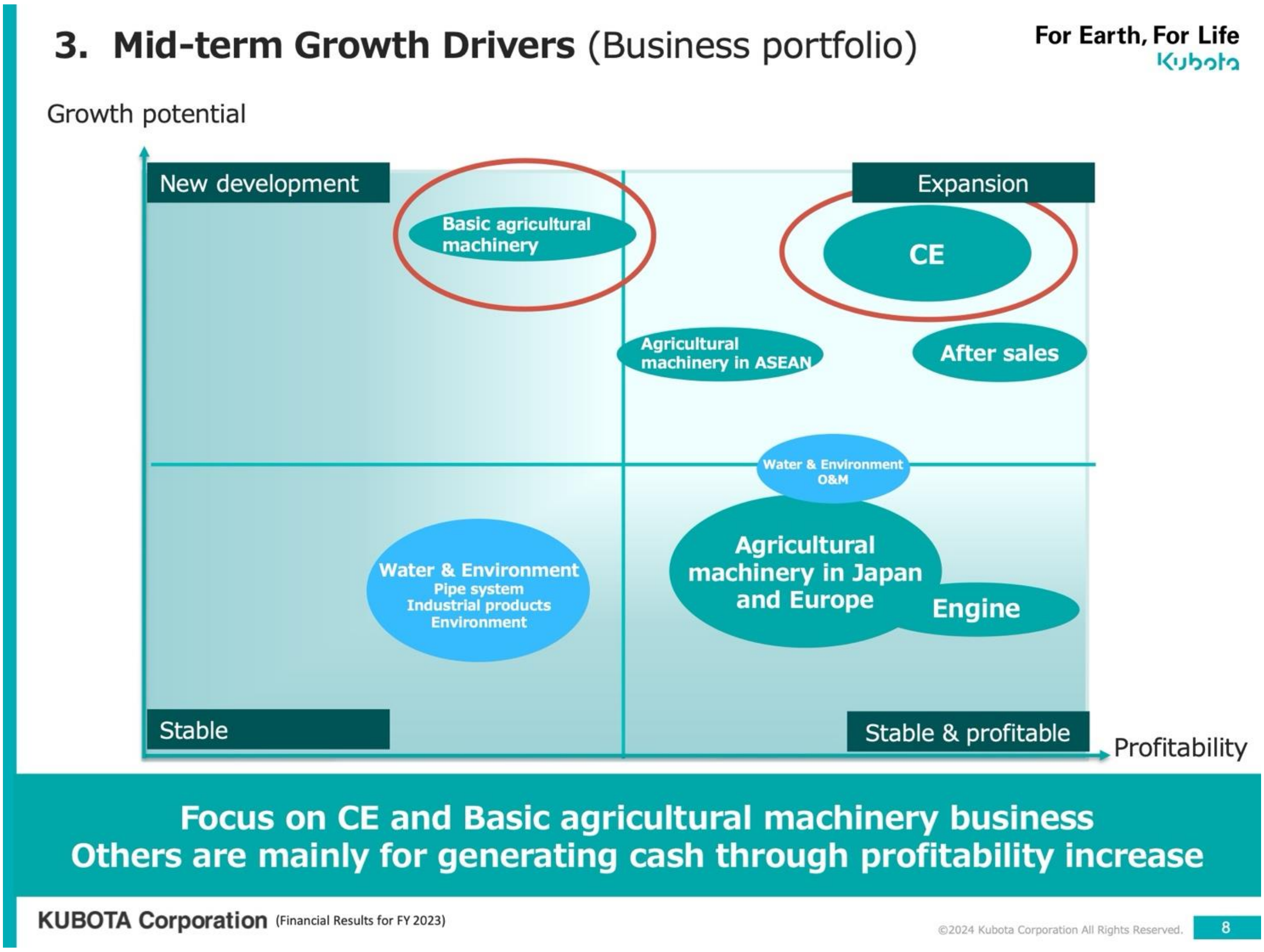
After the redefinition, the current overseas production ratio is 45%, and we believe that risk hedging has progressed to a certain level.



I would like to talk about the activities based on selection and concentration that I mentioned in last year's management policy. We are promoting organizing resources to focus on growth businesses. In regard to our business portfolio, we are reviewing it, taking into account the business environment, balancing sales and production costs, and sizing our business to a sustainable scale.

In August 2023, we announced to switch some processes from in-house to outsourcing for our ancestral iron pipe product line. With this production restructuring, Kubota will continue to contribute to the sustainable development of the water business by ensuring the stable supply of steel pipe products through improved production efficiency, while also promoting measures to achieve carbon neutrality.

We intend to reallocate the resources generated by these activities to ensure efficient operations.

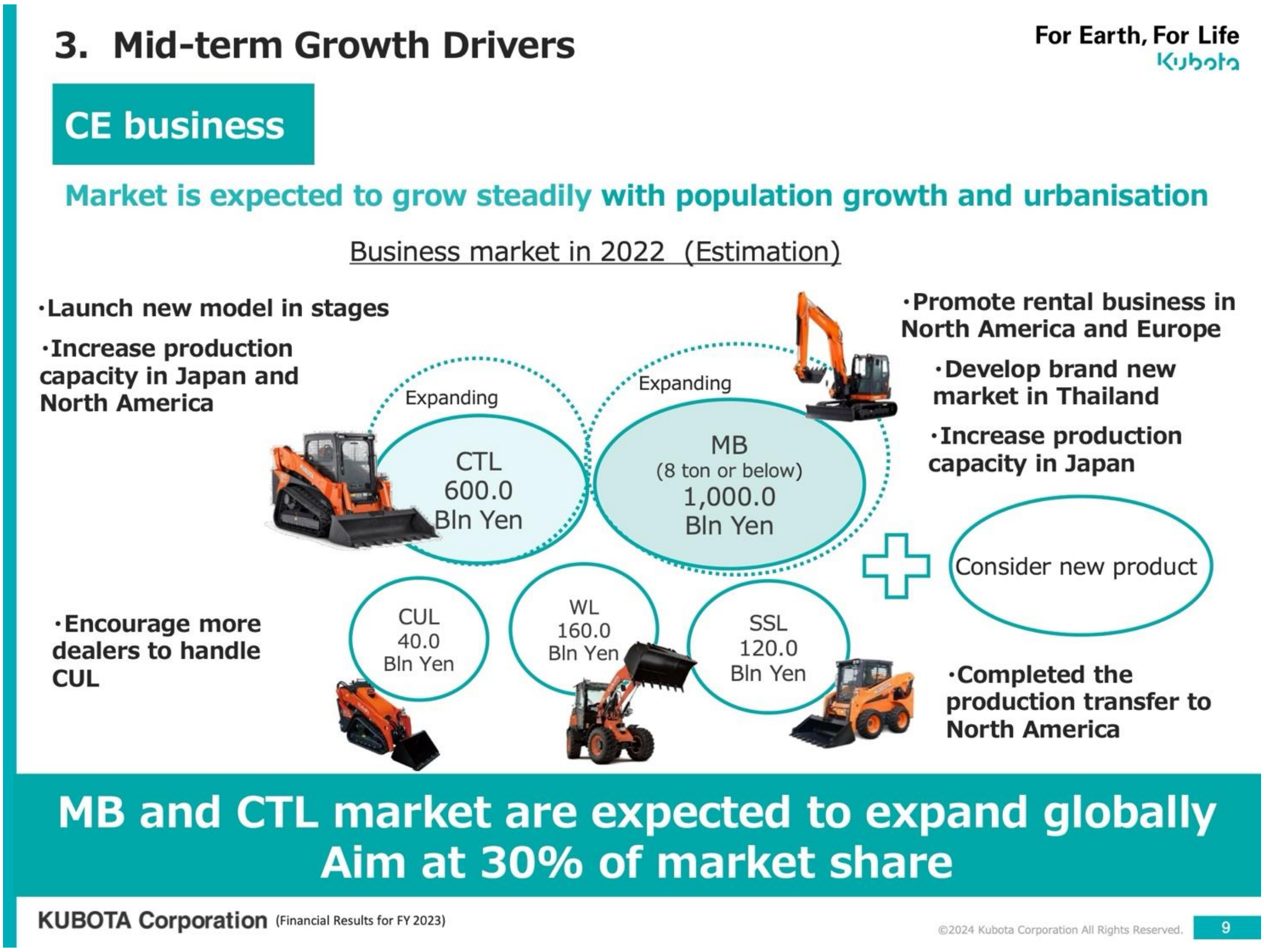


I would like to talk about medium-term growth drivers. The table shows the current portfolio, including medium- and long-term growth drivers.

There are basically five growth drivers. The potential of each has become clear in the first three years. Going forward, the construction equipment and basic agricultural machinery circled in red will be the pillars of our growth. We will aggressively invest in these two areas, as the market for these products is expected to expand significantly.

For the agricultural machinery in ASEAN, aftermarket, and the water and environment O&M businesses, we see there is room for business expansion and improvement in profitability, so we will continue to make firm efforts in these areas.

We believe that traditional agricultural machinery, engines, and the water and environment businesses will play roles in supporting growth areas by focusing on generating profits and cash through improving profitability as a source of growth.



I will continue to explain the progress of each growth driver.

First is the construction equipment, CE, business. We believe that CE market is expected to grow steadily over the medium to long term due to urbanization in all regions of the world as a result of global population growth. The table here provides an estimate of the size of the worldwide market in 2022. The market has expanded even more in 2023.

The market for construction equipment has great potential in North America, where the housing market is firm, and the government is aggressively investing in public works. Also, in Asia, where a gradual shift from used equipment to new equipment is expected. The total market potential is JPY2 trillion written in here, but we expect it will be about JPY3 trillion scale in 2030. These markets are expected to become the core businesses that will support Kubota in the future.

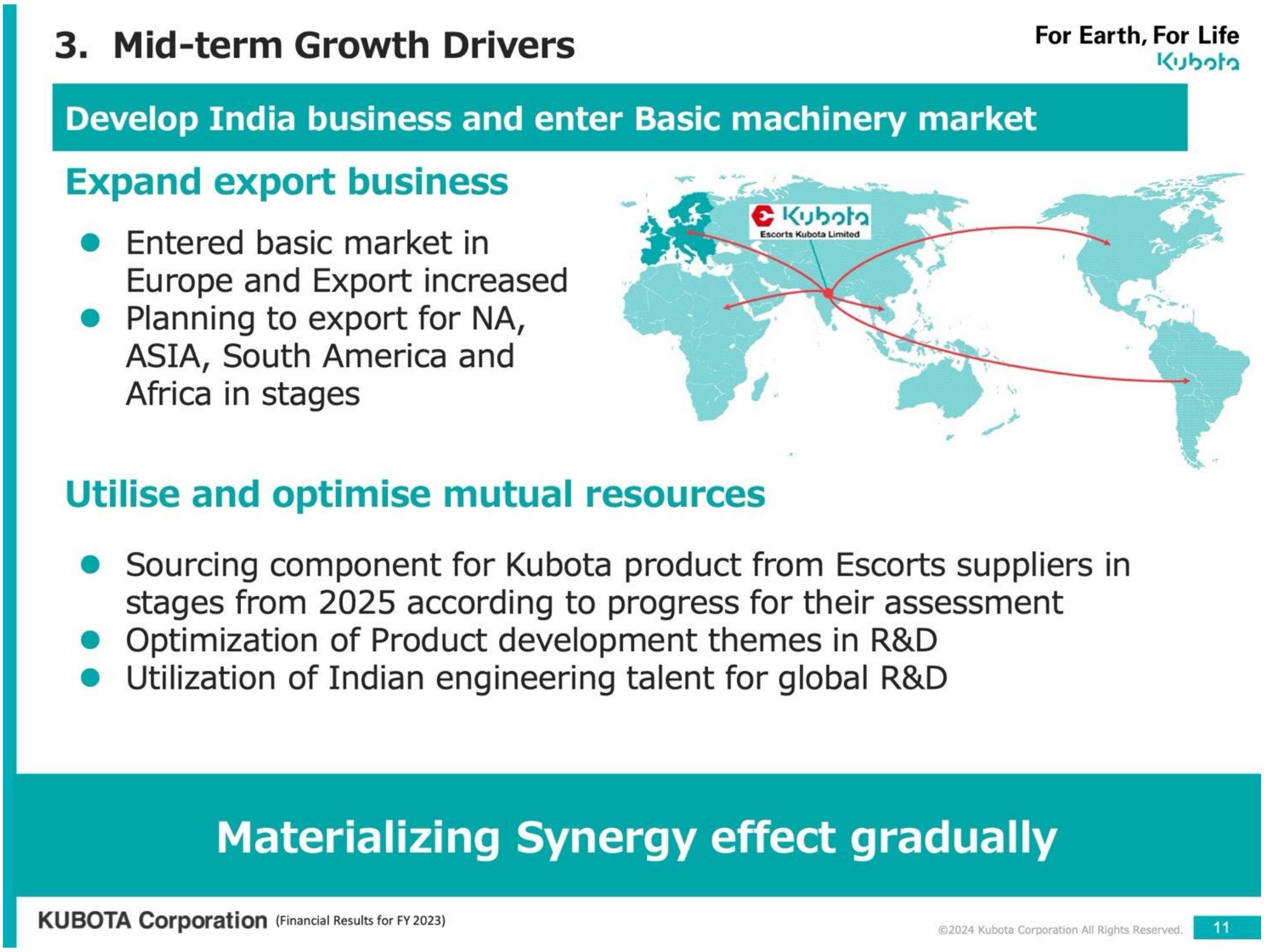
We also believe that there is ample room to increase market share. Although we do not yet have a complete product lineup and currently hold a little over 20% of the market, we intend to make various efforts to achieve 30% share in the global market.

Next, I would like to explain about expanding operations in India and entry into the basic market. First, I would like to talk about increasing our market share in the Indian market. Based on the acquisition of Escorts, we have been working to improve productivity and optimize line locations, starting from Escorts' plants, based on the 5-gen principle. This has helped visualize condition of product lines and its issues.

From Kubota's perspective, there is still room for improvement in the manufacturing process, and we will continue to improve the production line through generous support from Japan. And we are trying to promote the enhancement of product competitiveness through quality improvement and cost reduction. Even in the past year or two, utilization rates and productivity have increased enormously, and quality has improved.

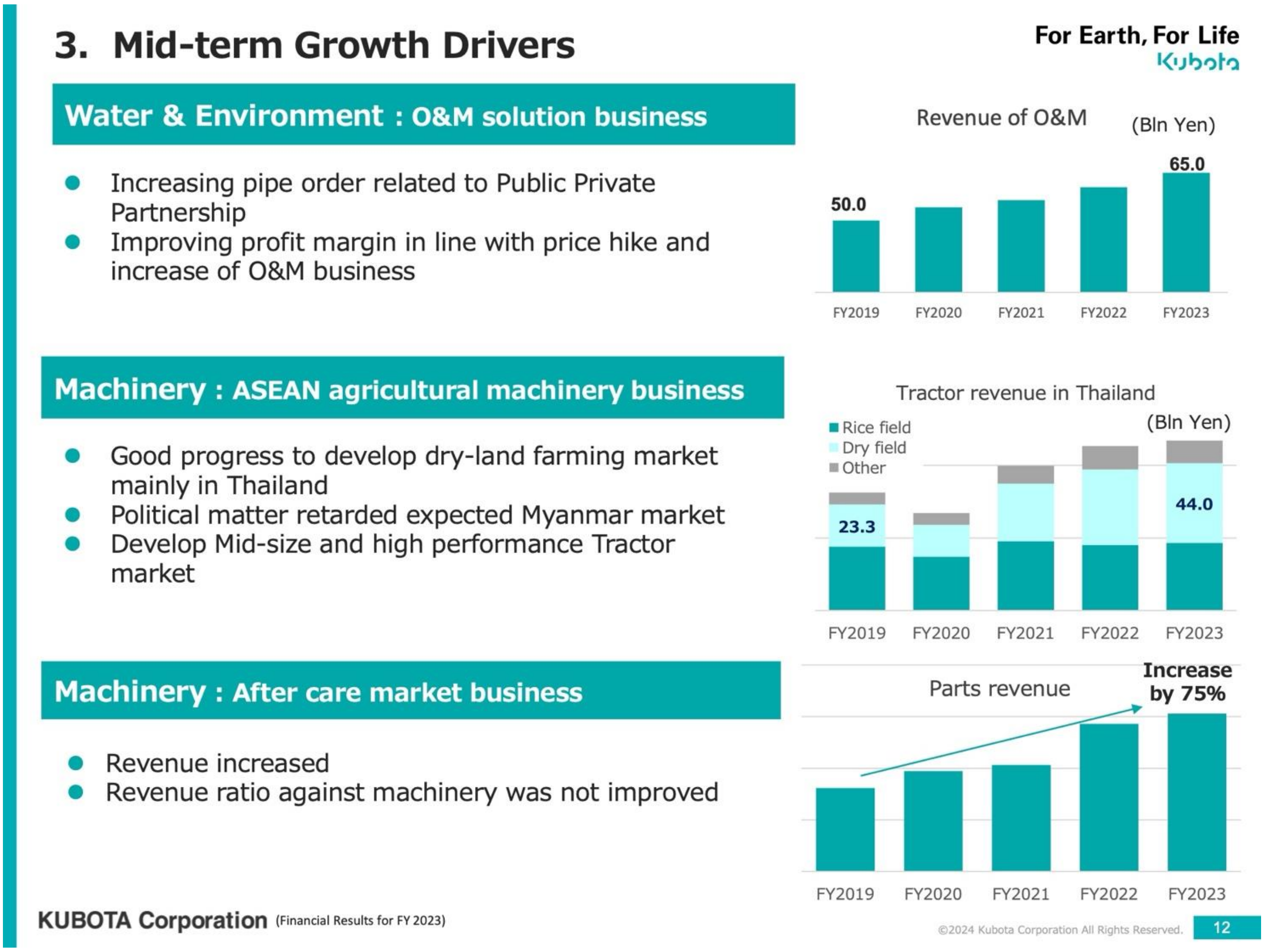
On the sales front, we have decided to establish our own retail finance company to strengthen our tractor business, which is a powerful tool, and are preparing to start operations.

Currently, third-party retail financing schemes exist. In India, where large volumes are expected in the future, we believe that in-house operations will enable us to reduce intermediary costs and provide flexibility. We would also like to make use of the experience we have accumulated in the US and Thailand by having direct contact with customers, which will allow us to utilize very effective information for marketing.



Next, I will explain the synergies with Escorts. First, we are in the process of increasing exports from India of a tractor called the EK brand, which we are already working on. In the European market, the low-end market is expanding due to high costs caused by inflation. We are just getting off to a good start as the first step in our approach to the low-end market.

Next, regarding the mutual utilization of resources, one of the major themes is the utilization of the Indian procurement network. Evaluation of Indian suppliers is progressing sequentially, and we are working on quality improvement as we go along. For some manufacturing components, we plan to adopt for Kubota products starting next year in 2025. Through these activities, we believe we can promote cost reduction and diversify geopolitical risks. At the same time, mutual exchanges in R&D are also becoming more active. We are trying to organize R&D themes on both sides and promote the recruitment of excellent Indian human resources. Through these efforts, we believe we have laid the foundation for global business development by expanding our market share in India, the world's largest tractor market, and by expanding exports of basic machinery and basic agricultural machinery, which are expected to grow in the future.



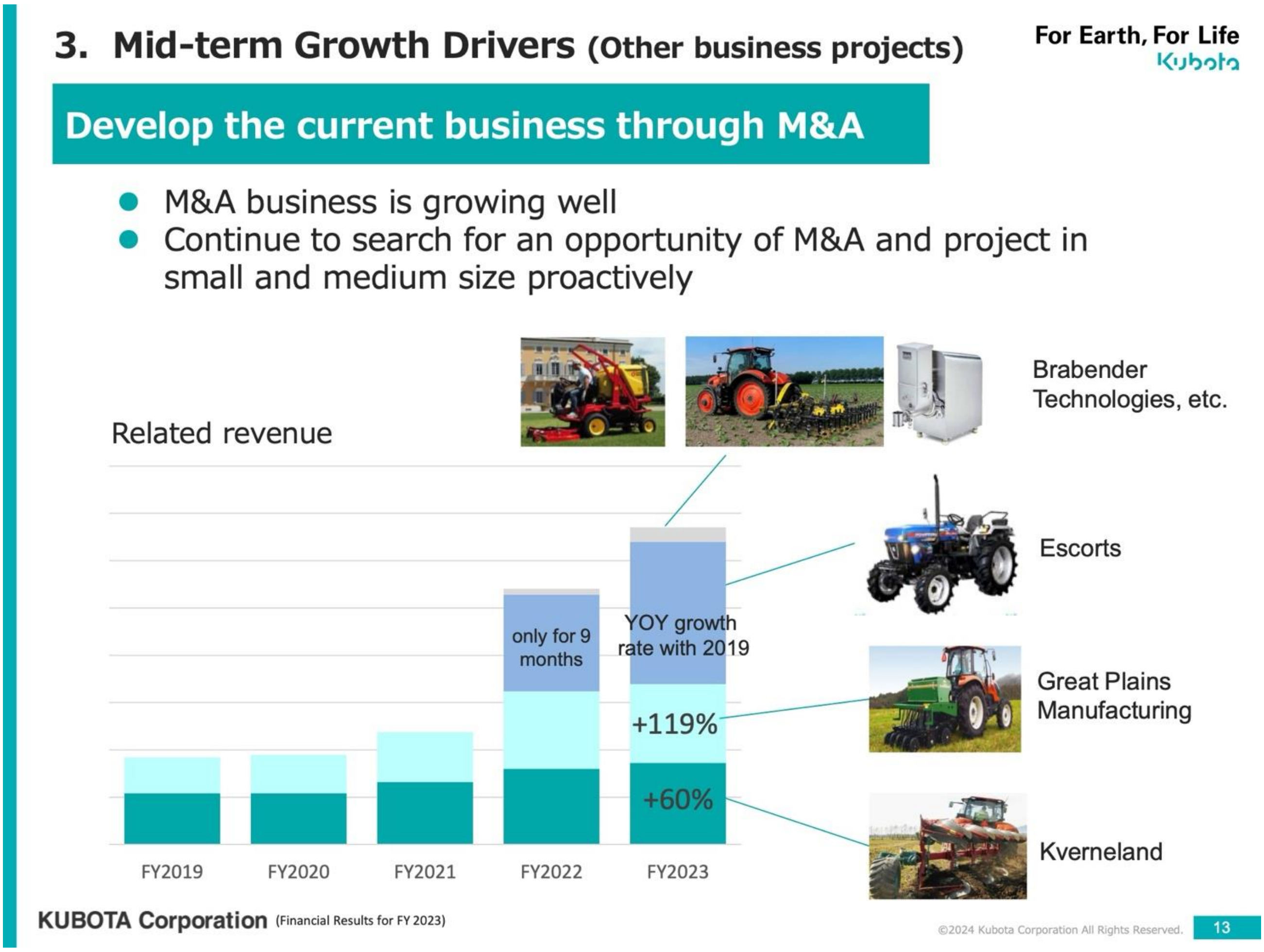
This section discusses progress on medium to long-term growth drivers, and others. This is about the water and environmental business, which is aiming to shift its business development focus from equipment sales to an O&M solution.

Against a backdrop of aging facilities, increasing demand for maintenance and renewal, and staff shortages, concession schemes are being promoted nationwide for water and sewage infrastructure facilities. This means that while local governments retain ownership of public facilities, granting the right to operate them to private operators. This market is expected to grow in the future. We are in the process of steadily increasing orders for such PPP projects.

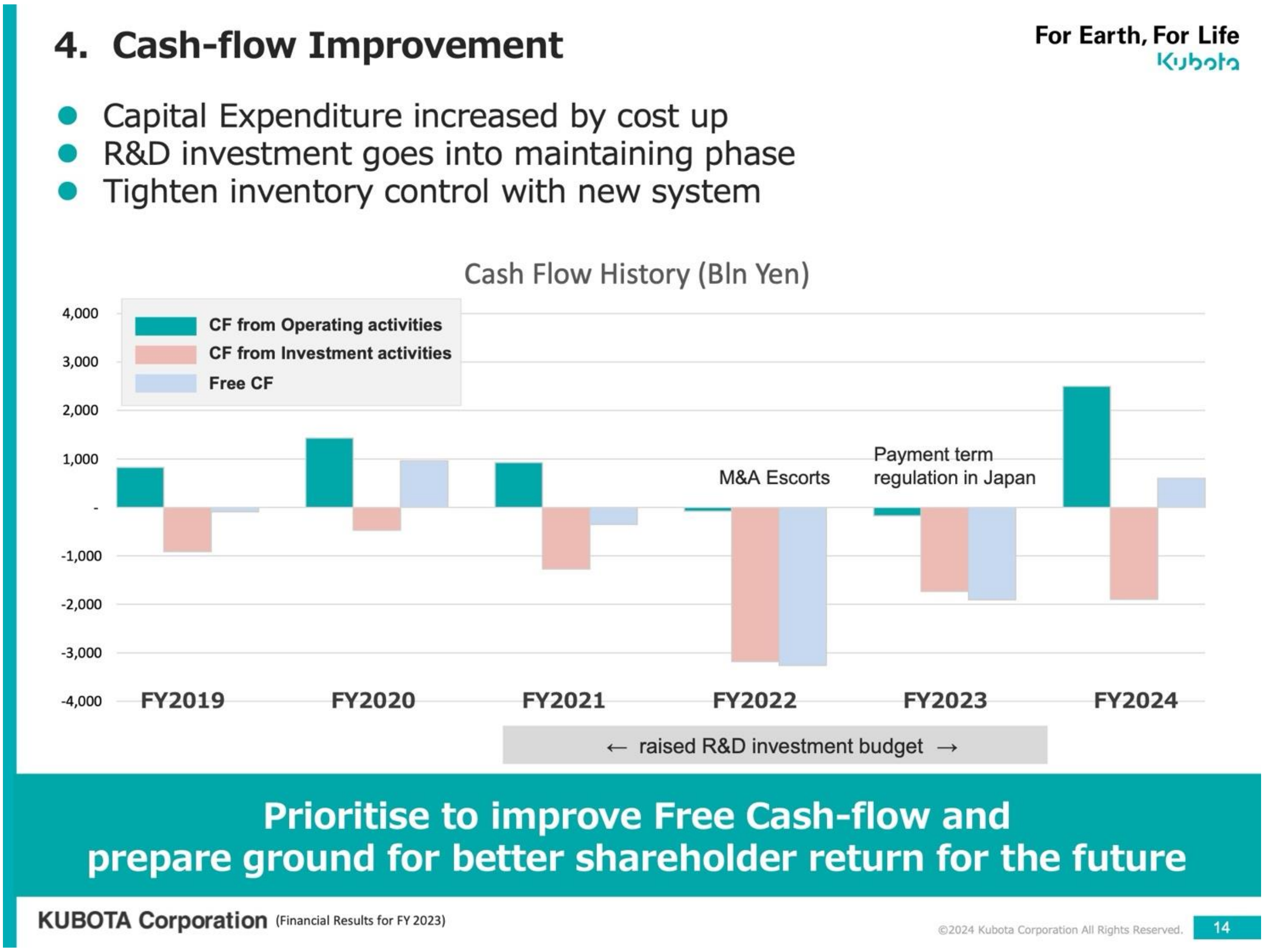
Next, I would like to talk about the machinery business in ASEAN, where demand for both agricultural and construction machinery is expected to further expand against the backdrop of growing urbanization. The development of the field crop market has progressed significantly over the past five years. So, sales have grown significantly for field crops, especially in Thailand,

In Myanmar, where we had high expectations, the market has been set back due to political changes. In other neighboring countries such as Vietnam, the Philippines, and Indonesia, sales of field crops are growing steadily, though perhaps not as fast as in Thailand. We intend to continue our efforts to increase the mechanization rate through the development and demonstration of implements.

Third, I would like to discuss the aftermarket business, where there is significant room for business expansion by taking advantage of the abundance of operating equipment in the market. Component sales have been increasing steadily over the past few years, but the share to total product sales is still flat, so we need to continue our efforts.



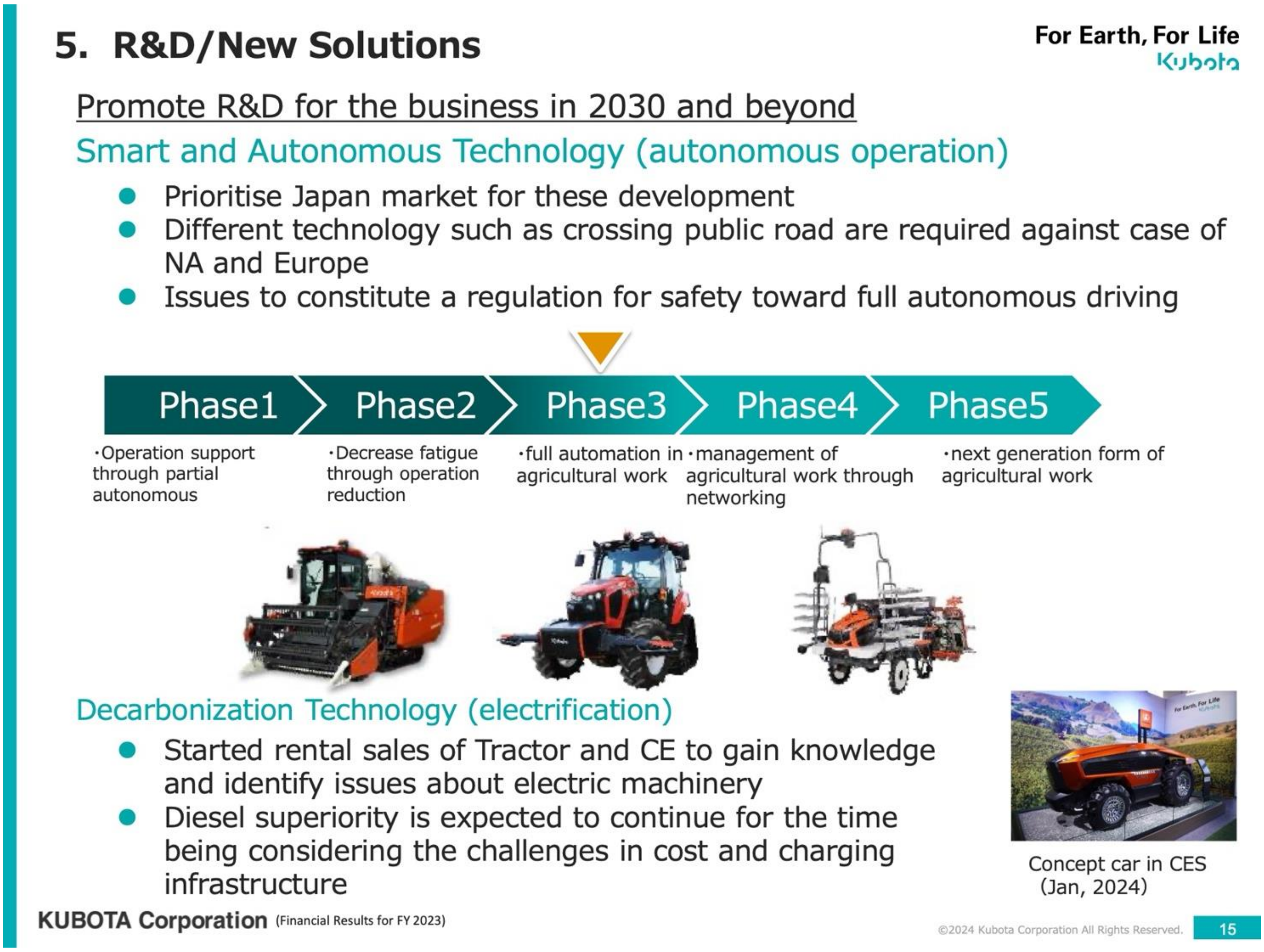
The status of M&A. We acquired Kverneland in 2012 and Great Plains in 2016 which became part of the Kubota Group. Both businesses are showing steady growth, mainly through the utilization of Kubota's North American sales network. We are also expanding our business domain. Then, Escorts joined the group in April 2022. It will create synergies and grow well like Kverneland and Great Plains.



Next is about improving cash flow. There has been a significant negative status of free cash flow for the last two years, primarily due to investments made in Escorts in India in 2022 and changes in payment terms in Japan in 2023. Earnings continued to be unable to cover upfront investments in facilities and research. In 2024, we will work to quickly return to positive free cash flow, as there are no transitory factors expected this year.

As for capital investment, although the number of investments is on a downward trend from last year, the amount of investment is expected to increase due to higher construction and procurement costs caused by inflation and the difference in yen conversion of overseas investment projects caused by the weaker yen. We have raised R&D to JPY100 billion in stages, and now that we have reached our target level, so we intend to maintain it.

By further strengthening inventory control, we intend to reduce excess inventory and promote improvement in operating cash flow. We will work to improve free cash flow with this in mind as we look to strengthen shareholder returns in the next mid-term plan.



Next is about research and development. As for automated driving technology, we are developing it by targeting Japanese farmland to differentiate our technology from that of other companies. In addition, the automatic driving technology we are developing now has reached Phase III. Remote tractor work is taking shape. However, it will take some time to fully automate the system because, national regulations for safety assurance will also need to be developed.

On the other hand, for electrification technology, we started rental deal of electric tractors and small construction equipment in order to gain knowledge of the issues and challenges of electric products through market feedback. We will see how recharging facilities will function in an environment where workplaces are not fixed, as well as observe issues concerning battery cost, lifespan, connection, and duration. Until the surrounding social infrastructure and environment are established, we anticipate diesel tractors to continue dominating for the foreseeable future. However, we are firmly committed to developing for the future.

In January 2024, Kubota exhibited a concept tractor for the first time at CES in the US. We are also in the process of conducting various studies on the ideal form of agriculture in the future.

5. R&D/New Solutions

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Smart Agriculture (Solution for improvement of productivity and safety of food)

- Expanding KSAS function thanks to open architecture and progressing data stack in Japan
- There is a view that the number of farmers will be half from 2020 to 2030 and these technology development are necessary
- Progressing experiment of autonomous operation in specialty crop field overseas

Resource recovery (Solution for promotion of circulation of water resource and waste material)

- Melting furnace technology has been established
- 10.0 bln yen scale of business in incineration recycling business is coming to be feasible
- Cooperating with Terrarem, a group company of Kubota, to expand market coverage

Water Environment IoT (Solution for establishment of safe and secure infrastructure)

- Expand KSIS function related to water supply work and make it more autonomous and effective with ICT
- Workers decrease and the market of Public Private Partnership in water pipes industry is expected to expand sharply after 2030 and become 500.0 bln yen scale in 2040

KSIS
KUBOTA Smart Infrastructure System

KUBOTA Corporation (Financial Results for FY 2023)

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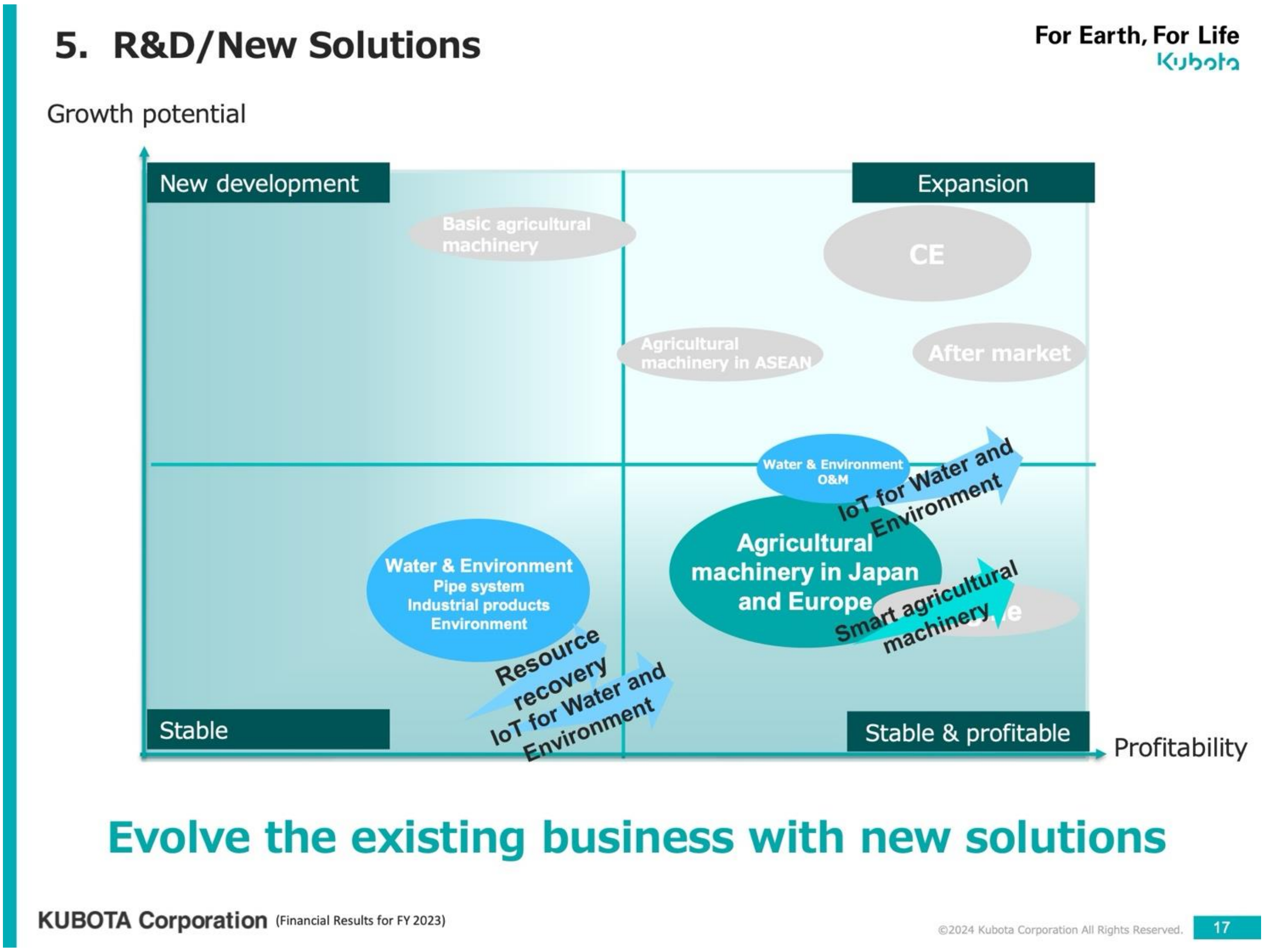
Progress on solutions for the next generation. As for the smart agriculture, which is first and foremost targeted in Japan, KSAS openness has been steadily expanding its functions and data accumulation has progressed. There is also a projection that the number of agricultural workers will decline by another 40% between 2020 and 2030. As the amount of arable land per person increases, we believe the need for smart agriculture will continue to grow. So, we will continue to promote this type of development investment.

Regarding the second, resource recovery business, our melting furnace technology has already been established, and we are making final adjustments to commercialize it. In cooperation with the Terrarem Group, in which we invested as minority, we intend to expand the scope of our resource recovery business using melting technology and to promote the construction of a social system for waste and resource recycling.

Third, regarding the water environment IoT, we have developed KSIS BLUE FRONT, a platform for streamlining operation and maintenance management of water supply and sewage facilities. We have also expanded the functionality of our water pipeline platform, KSIS PIPEFUL. This is the first service in Japan to provide DX for drawing and documentation work associated with waterworks projects. Furthermore, the data and knowledge we have accumulated over the years on water pipes, soil, etc., and the use of AI technology such as this, have enabled us to make steady progress in diagnosing the current state of aging and simulating future leakage accident rates.

With the decrease in the number of employees in the utility sector, the public-private partnership market in the water supply sector is expected to continue to grow rapidly after 2030, reaching JPY500 billion by 2040. Through the expansion of KSIS, Kubota hopes to contribute to the construction of this infrastructure that efficiently supports society.



By promoting these solutions, we aim to transition our domestic agricultural machinery business, environmental business, and O&M business, which are new, into more attractive ventures.

I would like to offer an interim evaluation of the third year of our mid-term plan. This section describes the progress of the five main themes.

The first is the promotion of ESG management. The Company evaluates that it is going well. Environmentally conscious activities have become more and more active with an environmental vision and then vision with establishment of targets. CO2 emissions from Scope 1 and 2 are steadily decreasing as planned, and we expect to achieve 50% reduction by 2030. In addition, we received the highest rating of A in two areas last year, climate change and water security, from CDP, a British NGO that evaluates the environment. Only about 1% of the more than 20,000 companies in the world really have this certification and Kubota has acquired it. I think we are making good progress.

In terms of employee diversity, the percentage of women has increased, and the number of foreign nationals in management has also increased. I feel that we are now able to discuss issues from a variety of perspectives. Meanwhile, we are in our third year of employee engagement surveys. Although we are steadily increasing the number of employees step by step, we feel that the engagement score is still low when we increased the number of survey targets. To increase engagement, we will continue to improve it by deepening mutual understanding through town hall meetings and one-on-one meetings, where we engage in dialogue with our employees.

Regarding the second, establishment of the foundation for GMB2030 that supports the next generation, we have passed the evaluation. As for the recycling business that selectively collects valuable metals contained in waste, as mentioned earlier, commercialization of the business is beginning to be seen, thanks to the evolution of deep recycling technology centered on melting technology.

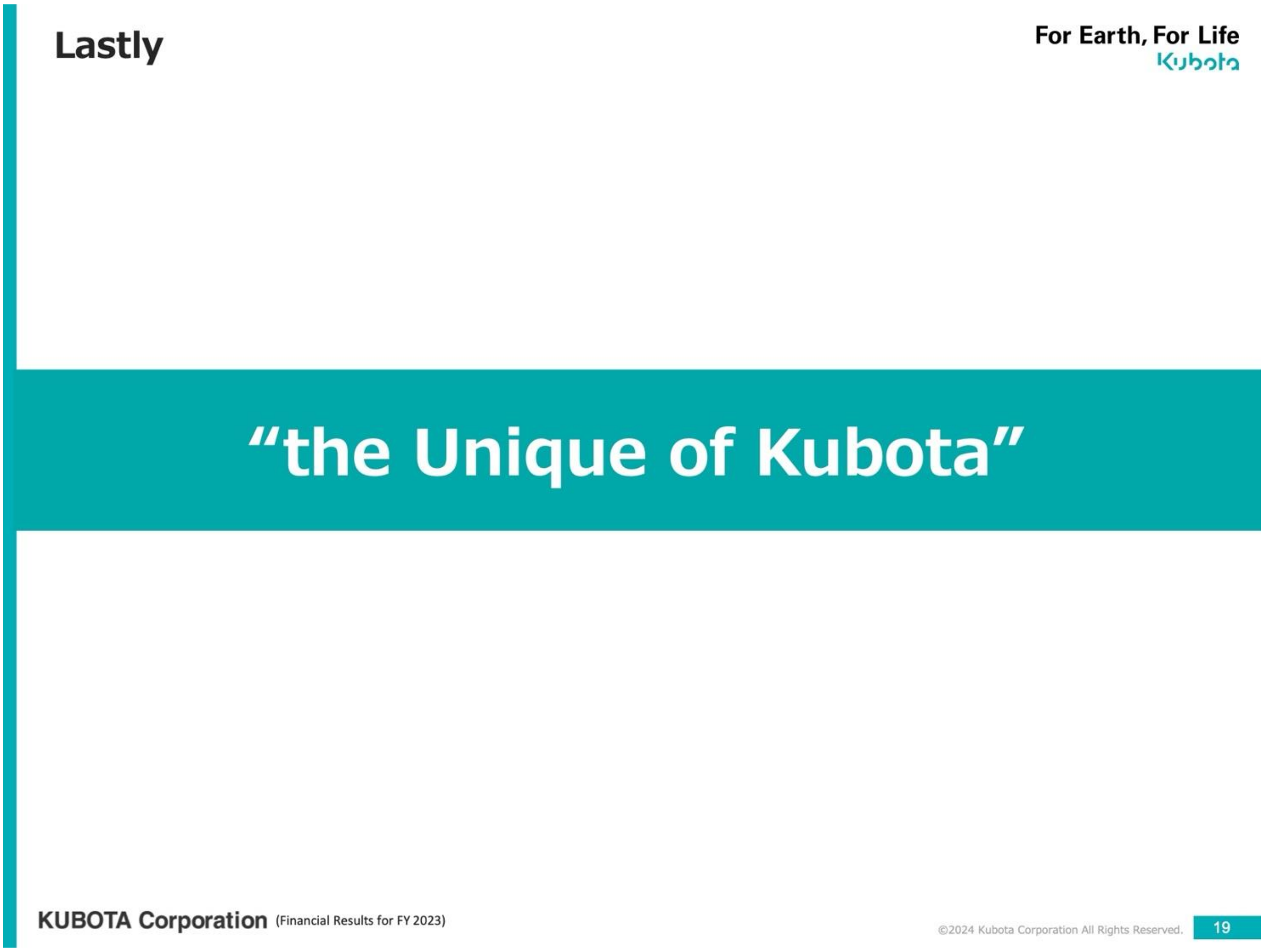
In addition, the development of elemental technologies for other solutions is progressing, and we are approaching the stage where commercialization is being considered, and we are seeing a certain level of progress in all areas.

Third, we rate the expansion of existing business sales as passed. Among the five growth drivers I mentioned, I am convinced that the pillars that will support the next stage of growth have been firmly established, especially in the construction equipment and basic tractors. Steady growth was also seen in other drivers, and they have become more stable as revenue sources.

Fourth, we will discuss the improvement of profit margins. This is still considered in progress. We started our efforts to improve profit margins, but the immediate aftermath of the pandemic shattered various assumptions. The, we were forced to deal with inflation and logistical disruptions, and things continued to not progress as we had originally planned. However, as I explained earlier, we have made progress in passing on higher costs to our customers, and we are now in a position to deliver the benefits we had originally planned.

The fifth, infrastructure development to support sustainable growth, is also in progress. The integrated core system connecting the various regions is running a little later than planned. An operation began at one plant in Japan in 2023. It took several months to stabilize but is now well under way. In the future, we intend to expand the system in stages to enable timely control of the balance between demand, production, and inventory, which will lead to inventory compression and improved cash flow.

In addition to the integrated core system, the introduction of systems to improve operational efficiency and the sharing of information are progressing. However, we have not yet reached the stage of operational reform and innovation, and we believe that continued improvements are necessary. Overall, we are making some progress, but there are a few things that are lagging behind, and we will work to turn things around for 2025.



Last but not least, I would like this year to be a year of pursuing Kubota's uniqueness.

Last year, we positioned 2023 as a year of change, a year to lay the foundation for the realization of GMB2030 through selection and concentration. Under the Mid-term Plan 2025, the period up to the year 2025 has been designated as the period for laying the foundation for the realization of GMB2030. We will work on the six main themes, K-ESG, securing next-generation growth drivers, expanding existing businesses, improving profitability, developing infrastructure to support sustainable growth, and promoting DX.

I have mentioned each detail. In summary, we believe that we have begun to recover from the slow start in improving profitability due to the turmoil from the pandemic. Then, we have expanded the construction equipment market as a next-generation growth driver, laid the groundwork for entry into the basic tractor market, and are beginning to see the entry into the resource recycling business.

In terms of our business portfolio, we concentrated and selected our resources on the three solutions businesses, which are the next-generation growth drivers, while also reviewing our domestic business. We believe that we have started management aimed at improving revenue and operating margin by incorporating perspectives such as capital efficiency and ROIC.

This year, 2024, we will accelerate these efforts by building a global management structure, improving the efficiency of operations and R&D, and investing in human capital in pursuit of a unique Kubota. When I say uniqueness, it is to understand Kubota's superiority and not taking number one in everything, but about improving the value of the Kubota brand by proposing the most value-added solutions for customers with targeted products, quality, and after-sales service.

This will require competing through innovation and increasing the speed of business operations. This year, we launched four reform projects within the Company. These are management structure reform, development reform, operational reform, and global human resources reform. Within the Company, we will build a strong foundation by linking individual self-realization and growth with the corporate philosophy and vision, and by aiming to create a rewarding and energetic workplace of Kubota.

We will continue to make progress in our mid-term plan, solidify our foothold for the future, and leap our businesses forward. Also, we will strive to become an essentials innovator for supporting life, committed to a prosperous society and cycle of nature, as stated in GMB2030.

This is a summary of our management overview and business strategy.

We hope you, investors, will understand our direction and continue to give us guidance and encouragement. Thank you very much for your attention.

Matsui: Next, Mr. Yoshikawa, General Manager of Planning and Control Headquarters, will explain the consolidated financial results for the full year of FY2023.

Financial Summary for FY 2023

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(Unit: billions of yen)	FY 2023 Full Year	FY 2022 Full Year	Changes		Changes from previous forecast (Nov. 2023)	
			Amount	%	Amount	%
Revenue	3,020.7	2,677.0	+343.7	+12.8	+70.7	+2.4
Japan	643.1	602.4	+40.8	+6.8	+11.1	+1.8
Overseas	2,377.6	2,074.6	+303.0	+14.6	+59.6	+2.6
Operating profit	10.9% 328.8	8.0% 214.4	+114.4	+53.4	+33.8	+11.5
Profit before income taxes	11.3% 342.3	8.6% 231.2	+111.1	+48.1	+35.3	+11.5
Profit attributable to owners of the parent	7.9% 238.5	5.8% 156.5	+82.0	+52.4	+33.5	+16.3
ROE	11.8%	8.8%	+2.9 p			
1USD (JPY)	141	131				
1EUR (JPY)	152	138				
1THB (JPY)	4.04	3.75				

The effect of foreign exchange rate on revenue against LY was +145.0 billion yen.

KUBOTA Corporation (Financial Results for FY 2023)

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Yoshikawa: I am Yoshikawa, General Manager of the Planning and Control Headquarters. We will explain the actual results for the previous year FY2023 and the forecast for the current year FY2024.

This is summary for FY2023. Net sales increased 12.8% YoY to JPY3,020.7 billion, operating profit rose 53.4% to JPY328.8 billion, and profit attributable to owners of the parent rose 52.4% to JPY238.5 billion. ROE increased 2.9% YoY to 11.8%.

Net sales and operating profit exceeded the previous forecasts by JPY70.7 billion and JPY33.8 billion, respectively.

Regarding foreign exchange rates, the yen generally depreciated against the previous year, including the major currencies of the USD and EUR, which had a positive impact, including the effect of conversion. The increase in overseas sales includes about JPY145 billion in foreign exchange effects.

Revenue by Reportable Segment

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Machinery: 2,636.7 billion yen (YoY: +310.5)

Japan: Although the agricultural machinery market has continued to be weak due to rice price decline, sales in the high horsepower range increased.

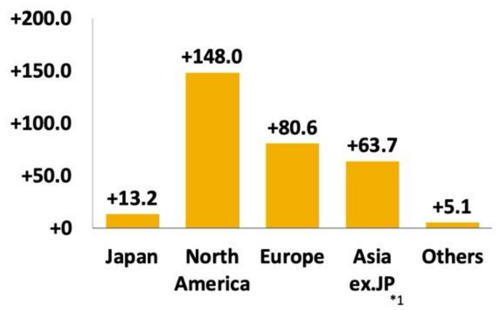
North America: The residential market of tractors has been slow due to slowdown in business sentiment. The agricultural market shifted downward due to crop prices decline.
The CE market was good thanks to solid demand of housing construction and infrastructure development.

Europe: The CE and engines market were good by demand for public construction although it started being slow from the second half. Tractor market was weak but replenishment of dealer inventory had progressed well.

Asia except Japan: Thailand sales decreased due to weak mind for investment caused by the drought.
In India, the dryland market condition was good supported by the good yields in the first half.
In China, the market shrank due to adverse reaction to the rush demand before implementation of emissions regulations in the previous year.

Others: The market was firm in Australia, but it started to be slow from the second half.

■ Changes in revenue by region
(Billions of yen)



	Japan	North America	Europe	Asia ex.JP *1	Others
Total	+13.2	+148.0	+80.6	+63.7	+5.1
Agricultural machinery *2	+1.3	+19.8	+28.1	+34.4	+1.8
CE	+5.8	+86.2	+28.6	+14.0	+0.0

*1 Escorts has been consolidated since FY 2022 2Q
*2 Tractors, combine harvesters, and rice transplanters

KUBOTA Corporation (Financial Results for FY 2023)

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We would like to look at the machinery business by region. The first one is for domestic, an increase of JPY13.2 billion, a 4% YoY increase.

As for the agricultural machinery, although the market has continued to be weak due to rice price decline and termination of subsidies of business management, sales in the high horsepower range increased resulting in sales increase. As for the construction machinery and engines, the progress of the Fundamental Plan for National Resilience and infrastructure construction remained steady, which contributed steady growth.

North America saw 14%, or JPY148 billion increase. In tractors, the residential market, mainly for individuals and homeowners, was weaker than expected due to the slowdown in consumer confidence as well as an impact from the preemptive demand occurred during the pandemic.

The agricultural market also remained strong in H1 of the year, but crop prices began to decline, and the market began to slow down in H2. The market for construction equipment remained strong due to firm housing demand, including back orders from the previous year, and government infrastructure development projects. Overall, sales were strong due in part to the effect of dealer inventory fulfillment.

Europe saw an increase of 24% YoY or JPY80.6 billion. Both construction equipment and engines performed well, supported by public projects. However, a slowdown began to be seen in the housing markets of various countries in H2 of the year. This slowdown is now spreading to the construction equipment market as a whole.

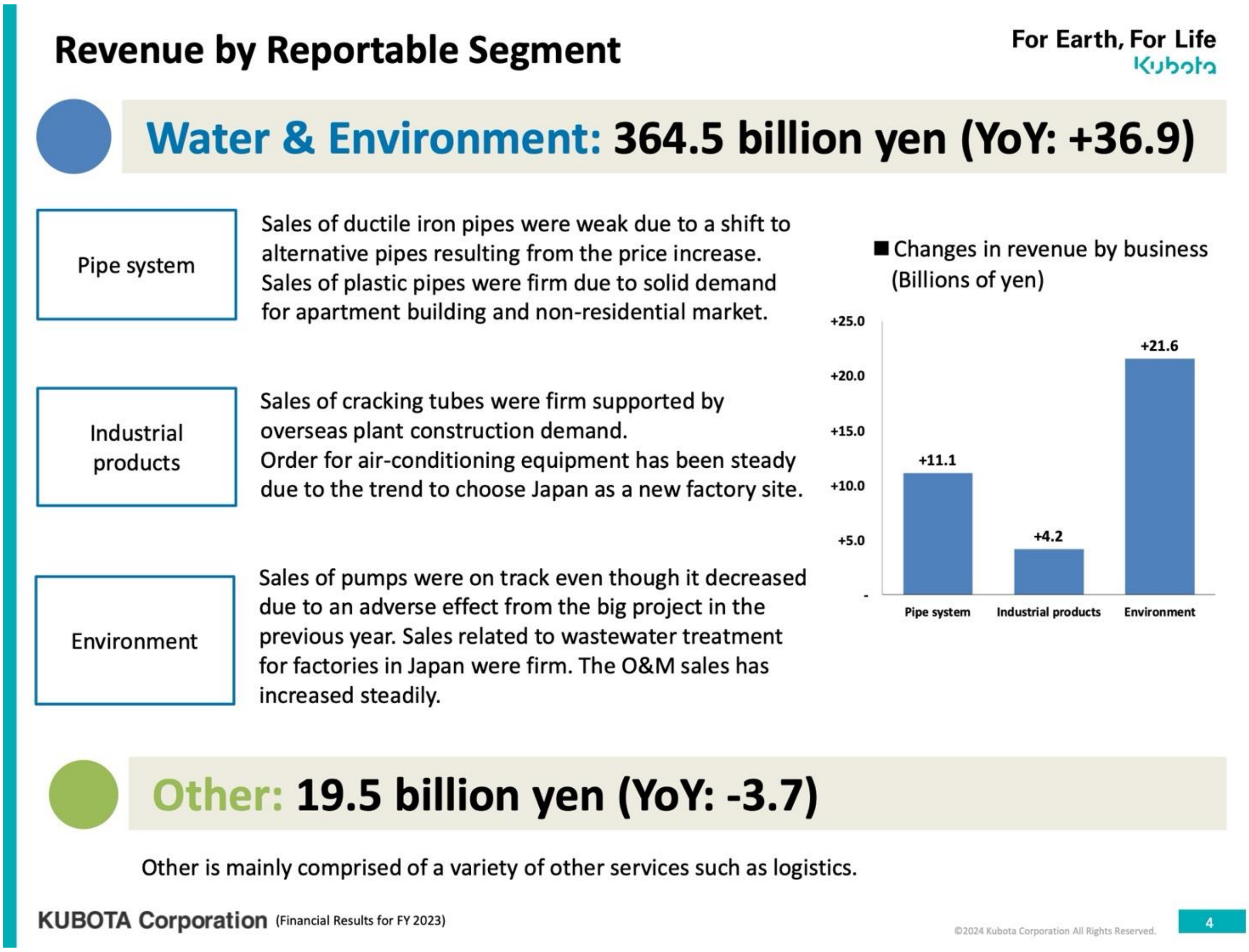
As for the tractor market, crop prices have remained high. At the same time, the market has weakened due to rising interest rates and a lack of investment due to economic uncertainty. Sales were favorable compared to the previous year due to the elimination of inventory shortages.

In Asia, it saw an increase of 12% YoY or JPY63.7 billion. In our main market of Thailand, we saw a more substantial decline than anticipated in both rice and field crop production, attributed to farmers' hesitance to purchase amid the drought. The El Niño phenomenon has resulted in lower precipitation compared to previous years.

In India, the field crop market has been strong throughout the year, although harvest volume has declined slightly in the fall compared to the spring.

As for China, the agricultural machinery market declined significantly in 2023 in reaction to the enforcement of emission regulations at the end of 2022, which led other companies to release of large inventories. The construction equipment market also remained sluggish without any specific government policies amid stagnant private sector demand.

In the other areas, revenues increased by JPY5.1 billion. The market remained firm, especially in Australia, but it is beginning to show signs of slowing down in H2.

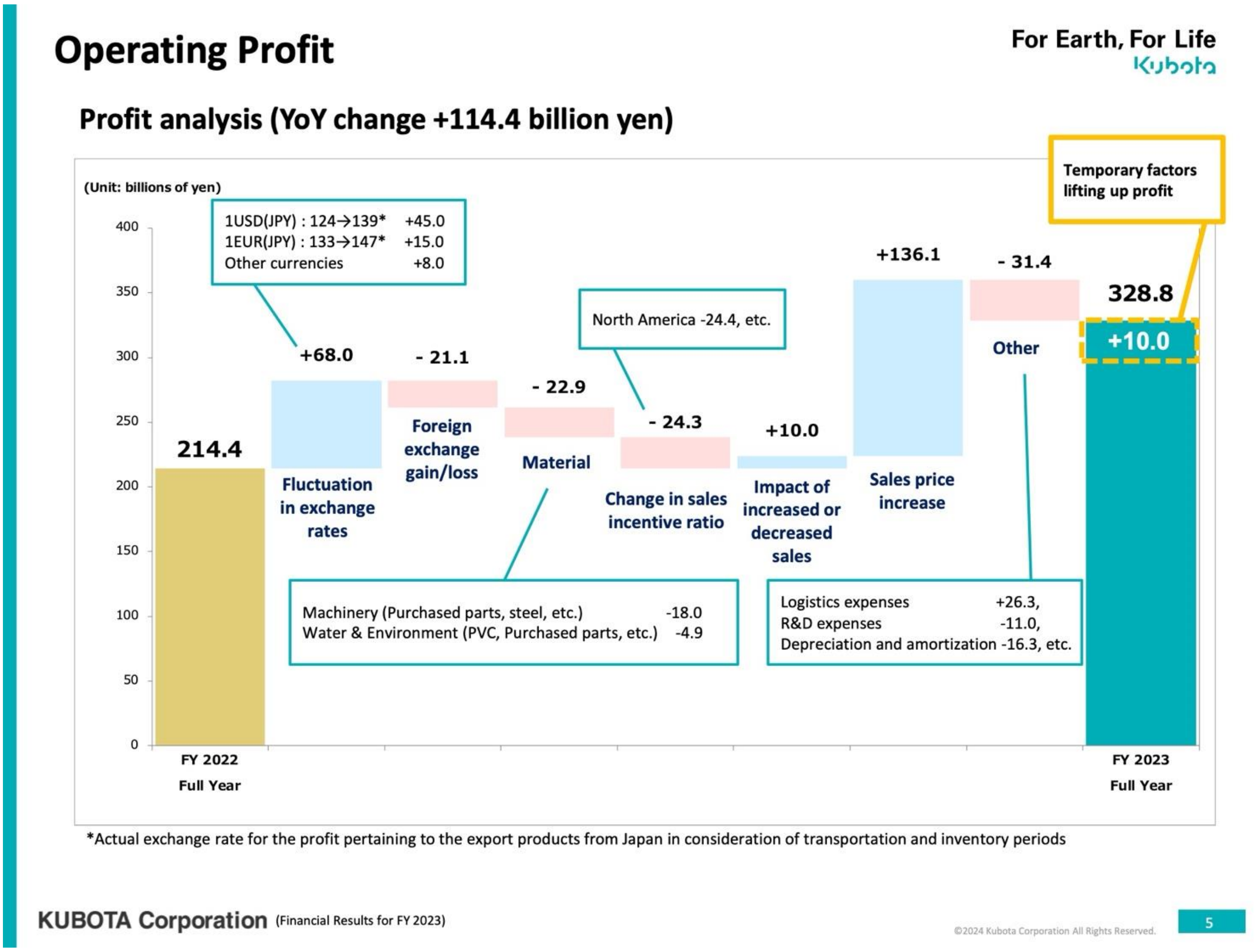


For the water and environment, sales increased by JPY36.9 billion, an 11% increase YoY. In the pipe system business, the market is weakening due to a shift to alternative pipes in response to rising steel pipe prices. Meanwhile, demand from the private sector for synthetic pipes has been favorable, driven by a shift from steel pipes and the resurgence of housing complexes and factories in the domestic market.

The industrial products are a field that was formerly referred to as materials and urban infrastructure. In the industrial products, overseas projects for cracking tubes remained steady. In the air-conditioning, orders for pharmaceuticals and semiconductor plants have been favorable due to the trend of returning to domestic plants in line with the review of supply chains.

In the environment business, sales of pumps were down from the previous year due to a decrease in large projects compared to the previous year. However, sales remained steady compared to the plan. In the wastewater treatment, sales from domestic factories have been strong, in line with the trend of returning to domestic factories, that I just mentioned. O&M business is also steadily increasing.

Others amounted to JPY19.5 billion, down JPY3.7 billion from the previous year.



I would like to explain about the operating profit. Compared to the previous year, foreign exchange fluctuations contributed a JPY68 billion increase. In addition, foreign exchange gain and loss was a negative factor of JPY21.1 billion. The foreign exchange gain and loss are compared to 2022, which was a positive factor. There has been depreciation of currencies progressing in some regions, and these factors have contributed to the decrease in profits.

Material price was a negative factor of JPY22.9 billion due to higher prices for purchased parts, steel products, and PVC resin. The change in sales incentive ratio was a negative factor of JPY24.3 billion due to the increase of interest rates in the US. The impact of increased/decreased in sales was a negative factor of JPY10 billion. Increases in product prices were a positive factor of JPY136.1 billion, mainly in North America and Europe, together with the increase in the water and environment.

The remaining JPY31.4 billion of the decrease is attributed to other factors. The breakdown is as follows: a positive factor of JPY26.3 billion in logistic expenses. On the other hand, R&D expenses increased by JPY11 billion, depreciation increased by JPY16.3 billion, and the remainder was due to increases in personnel expenses and fixed costs, which contributed to the decrease in profit.

In addition, there was a change in the estimate of retirement benefit liabilities due to the extension of the retirement age. These and other one-time accounting factors resulted to earnings about JPY10 billion. These are mitigating the other factors that have contributed to the decline in profits. Therefore, we recognize that operating profit on an actual ability basis is approximately JPY318.8 billion, which is JPY10 billion less than JPY328.8 billion.

Operating Profit by Reportable Segment

For Earth, For Life
Kubota

(Unit: billions of yen)		FY 2023 Full Year	FY 2022 Full Year	Changes
Machinery	Revenue	2,636.7	2,326.2	+310.5
	Operating profit	355.8	232.6	+123.2
	OP margin	13.5%	10.0%	+3.5P
Water	Revenue	364.5	327.6	+36.9
	Operating profit	30.5	17.3	+13.3
	OP margin	8.4%	5.3%	+3.1P
Other	Revenue	19.5	23.2	-3.7
	Operating profit	1.5	3.1	-1.6
	OP margin	7.7%	13.3%	-5.6P
Adjustment*	Operating profit	-59.0	-38.5	-20.5
Total	Revenue	3,020.7	2,677.0	+343.7
	Operating profit	328.8	214.4	+114.4
	OP margin	10.9%	8.0%	+2.9P

*Adjustment includes administrative expenses, basic research expenses, and foreign exchange gain/loss at the parent company.

KUBOTA Corporation (Financial Results for FY 2023)

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Operating profit by business segment. Operating profit for the machinery increased by JPY123.2 billion. The effect of yen depreciation and the penetration of product price increase have contributed to this result.

For the water and environment, we saw JPY13.3 billion increase. Cost increases have been passed on steadily, and the operating profit margin has recovered.

Statement of Financial Position

For Earth, For Life
Kubota

(Unit: billions of yen)	As of Dec. 31, 2023	As of Dec. 31, 2022	Changes	Changes excl. the effects of fluctuation in exchange rates
Cash and cash equivalents	222.1	225.8	- 3.7	
Trade receivables	945.5	779.4	+ 166.1	+ 115.2
Finance receivables	1,901.5	1,684.5	+ 217.0	+ 87.5
Inventories	668.0	644.5	+ 23.6	- 19.0
Other	1,622.1	1,430.9	+ 191.2	
Total assets	5,359.2	4,765.1	+ 594.2	
Bonds and borrowings	1,990.2	1,611.1	+ 379.1	+ 282.2
Trade payables	300.9	454.8	- 153.9	
Other	652.1	596.7	+ 55.4	
Total liabilities	2,943.2	2,662.6	+ 280.6	
Equity attributable to owners of the parent	2,175.8	1,874.5	+ 301.3	
Noncontrolling interests	240.3	228.0	+ 12.3	
Total equity	2,416.1	2,102.5	+ 313.6	
Total liabilities and equity	5,359.2	4,765.1	+ 594.2	

Net debt equity ratio	0.81	0.74	+ 0.07
Net debt equity ratio (excl. financial services)	0.09	-0.03	+ 0.12

KUBOTA Corporation (Financial Results for FY 2023)

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Statement of financial position. Total assets increased by JPY594.2 billion YoY. Let's look at the main accounts.

First, trade receivables increased by JPY115.2 billion in real terms excluding the exchange rates effect. Accounts receivable have increased due to an increase in sales resulting from the fulfillment of dealer inventories in North America.

Financial receivables increased by JPY87.5 billion in real terms. It should be noted that the collection the financial receivables is in healthy condition. . Inventories decreased by JPY19 billion in real terms. We were able to turn the decline without major logistics congestion.

Bond and borrowings increased by JPY282.2 billion in real terms, including current and non-current liabilities. For 2023, there is an increase in financial burden due to the change in payment sites, resulting in an increase in borrowings.

The debt-equity ratio on a net basis was 0.81, and on a basis excluding financial services was 0.09.

Statement of Cash Flows

For Earth, For Life
Kubota

(Unit: billions of yen)	FY 2023 Full Year	FY 2022 Full Year	Changes
Net cash used in operating activities	-17.3	-7.7	-9.6
Profit for the year and Depreciation	367.3	263.7	+103.6
Increase in finance receivables	-92.5	-77.2	-15.2
Other	-292.1	-194.2	-97.9
Net cash used in investing activities	-173.4	-318.5	+145.1
Payments for acquisition of property, plant, and equipment and intangible assets	-172.5	-169.7	-2.8
Other	-1.0	-148.8	+147.9
Net cash provided by financing activities	178.4	282.6	-104.2
Effect of exchange rate changes on cash and cash equivalents	8.6	10.8	-2.2
Net decrease in cash and cash equivalents	-3.7	-32.8	+29.2

Free cash flow	-190.7	-326.2	+135.5

KUBOTA Corporation (Financial Results for FY 2023)

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This is a summary of cash flows. Net cash used in operating activities was JPY17.3 billion, of which JPY367.3 billion came in from profit and depreciation, JPY92.5 billion was used to increase financing receivables, and JPY292.1 billion was used for other items. Compared to the same period last year, expenditures increased by JPY9.6 billion.

As I mentioned earlier, the change in payment site has resulted in a large decrease in accounts payable, and both operating cash flow and free cash flow are negative. Operations are normalizing and some items are beginning to show signs of improvement, such as inventories starting to decline.

Financial Services <Reference (unaudited)>

For Earth, For Life
Kubota

Statement of Financial Position

(Unit: billions of yen)	As of Dec. 31, 2023		As of Dec. 31, 2022	
	Financial services	Equipment operations	Financial services	Equipment operations
Total assets	2,237.9	3,378.3	1,952.2	2,946.2
Cash and cash equivalents	33.7	188.5	23.1	202.7
Trade receivables	27.3	919.0	29.3	752.1
Finance receivables	1,901.5	-	1,684.5	-
Inventories	-	668.0	-	644.5
Property, plant, and equipment	16.7	710.3	11.1	624.6
Other	258.7	892.4	204.3	722.3
Total liabilities	1,867.7	1,312.3	1,680.0	1,166.8
Total interest-bearing liabilities	1,764.1	362.1	1,544.8	157.1
Other	103.6	950.2	135.2	1,009.7
Total equity	370.1	2,066.0	272.2	1,779.4

Delinquency rate of retail financial receivables

(Unit: billions of yen)	As of Dec. 31, 2023	As of Dec. 31, 2022	Changes	
	Amount	Amount	Amount	%
Balance of receivables	1,926.1	1,684.5	241.6	+ 14.3
Over 90 days delinquent payment	15.0	11.3	3.7	+ 33.2
Delinquency rate	0.8%	0.7%	-	+ 0.1P

KUBOTA Corporation (Financial Results for FY 2023)

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This section supplements the financial services that we provide mainly in North America and Thailand. On this page, we estimate B/S separately for the financial business and other businesses.

Most of the interest-bearing liabilities is used to finance retail finance, ensuring that the amount of interest-bearing debt is limited on a core business basis, excluding the finance business. With respect to the risk of financial receivables, we recognize that it maintains a sound quality of receivables with a delay rate of 0.8% for 90 days or more.

Financial Forecast for FY 2024

For Earth, For Life
Kubota

(Unit: billions of yen)	FY 2024 (Forecast)	FY 2023 (Actual)	Changes	
			Amount	%
Revenue	3,050.0	3,020.7	+29.3	+1.0
Japan	647.0	643.1	+3.9	+0.6
Overseas	2,403.0	2,377.6	+25.4	+1.1
Operating profit	10.5% 320.0	10.9% 328.8	-8.8	-2.7
Profit before income taxes	10.9% 333.0	11.3% 342.3	-9.3	-2.7
Profit attributable to owners of the parent	7.4% 226.0	7.9% 238.5	-12.5	-5.2

1USD (JPY)	140	141
1EUR (JPY)	153	152
1THB (JPY)	4.00	4.04

The effect of foreign exchange rate on revenue forecast is -14.0 billion yen against LY.

KUBOTA Corporation (Financial Results for FY 2023)

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Next, I would like to move on to the financial forecast for FY2024. Net sales are projected at JPY3,050 billion, up JPY29.3 billion from the previous year; operating profit at JPY320 billion, down JPY8.8 billion; and profit attributed to owners of the parent at JPY226 billion, down JPY12.5 billion.

The machinery business is expected to generate JPY2,654 billion, an increase of JPY17.3 billion YoY.

This is market trend by regions. First, in Japan, the agricultural machinery market is expected to take some more time to fully recover, as high costs for fertilizers and other products at farmers are still ahead of the market, although rice prices have started to rise steadily. We forecast that sales of construction equipment and engines will remain at the same level as the previous year, partly due to progress in infrastructure construction.

North America. As for tractors, we expect it stays at adjustment phase for small tractors in the residential market and competition will intensify. On the other hand, the general-purpose products are expected to gradually recover as the supply volume recovers. As for the agricultural market, demand is expected to a downward trend due to the decline in agricultural commodity prices since H2 of the previous year.

The construction equipment market is expected to remain firm on the back of solid demand for housing and government demand for infrastructure development. We expect the market is to be on par with the previous year. We are having a view that the number of housing construction will remain stable at the 1.3 million to 1.4 million level in recent years.

In Europe, the construction equipment market is expected to shrink as the declining appetite for investment due to rising interest rates has become clearer since H2 of the previous year. We expect the tractor market to continue weakening for the same reasons. In terms of sales, we anticipate a decline in the current fiscal year due to the shrinking market and a response to the demand for dealer inventory buildups in the previous year.

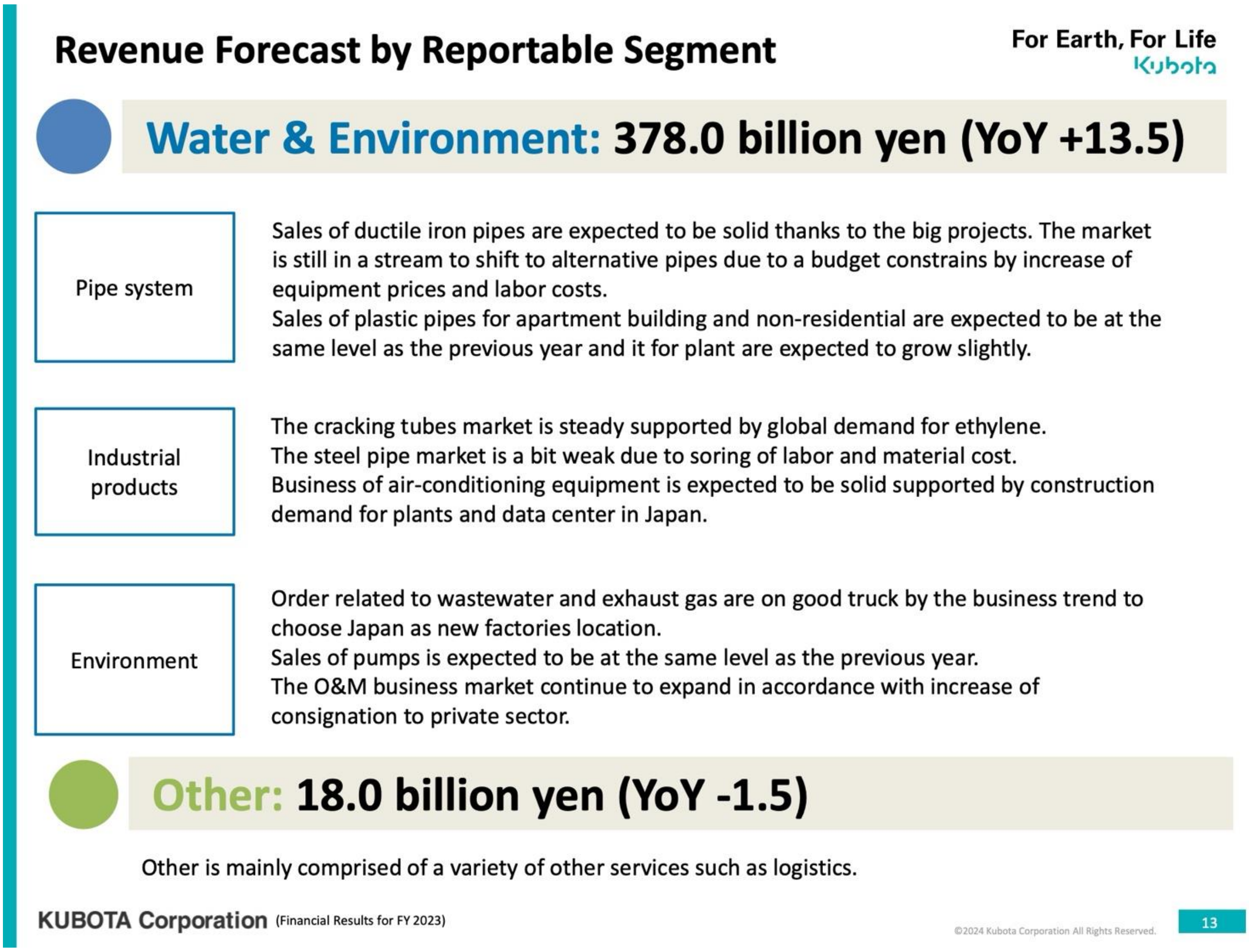
Asia. In our main market of Thailand, there are still no signs of the drought caused by El Niño abating. We anticipate that both rice and field crops will continue to be affected by ongoing hesitancy to buy. As for rice price, it is on an upward trend. Although it depends on the weather, we believe that a recovery can be expected if the drought is resolved.

As for construction equipment, we have high expectations for this market in the future, as infrastructure work is being recovered from the delays caused by the pandemic. Also, a market for new small construction equipment is forming, whereas used equipment has traditionally been the main market.

The Indian market is expected to continue to be affected by the lack of rainfall from the monsoon last year and the continued weakness in the areas of rice farmers thereby. On the other hand, we believe that there will be an overall moderate growth because of economic growth and then progress in mechanization.

In China, we expect a gradual recovery from the rush demand caused by emission regulations, but we are having a view that the recovery will be limited due to possible reductions in subsidies. As for the construction equipment market, the government announced plans to issue government bonds to stimulate demand for infrastructure construction projects. However, we believe that a recovery is unlikely due to the sluggish real estate market.

As for other regions, we see weakness in the tractor market due to a slowdown in consumer confidence in the Australia with rising interest rates.



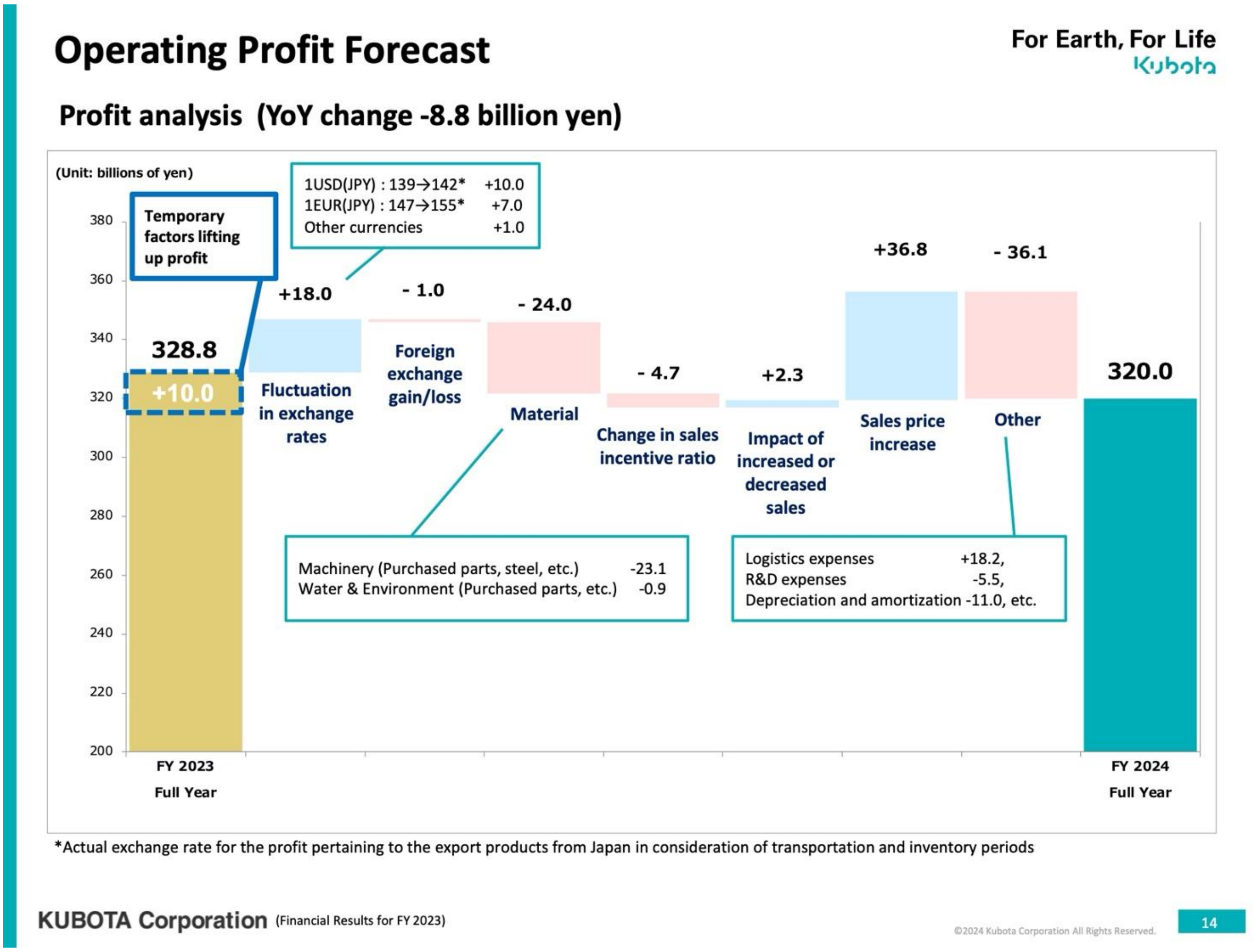
Sales in the water and environment business are expected to be JPY378 billion, an increase of JPY13.5 billion YoY. Overall, we expect no major changes in market conditions from the previous year, although there have been various project delays due to worker shortages and procurement issues.

For the pipe system, we are having a view that unit costs for equipment and labor continue to rise for iron and cast-iron pipes, and that this will continue the trend of shifting to alternative pipe systems. However, we believe that the business is expected to remain firm due to the delivery of large-scale projects. In synthetic pipes, we expect sales for residential and non-residential applications to remain flat YoY. However, we expect to see some growth in sales for plant construction and other applications.

In the industrial products, we expect the cracking tubes market is steady supported by global demand for ethylene. The steel pipe market is weakening due to rising labor and material costs, but we expect it to remain stable. Air-conditioning is expected to remain firm, supported by domestic demand for semiconductor plants, data center construction and such.

In the environment, treatment facilities for wastewater and exhaust gas are on the rise as manufacturers return to the domestic market. As for the pump market, we are looking for it at the same level as the previous year. In addition, the O&M market is expected to expand along with the increase in private outsourcing.

Other areas are expected to be JPY18 billion.



Next, the increase/decrease in operating profit. Foreign exchange fluctuations will be a positive factor of JPY18 billion increase, while foreign exchange gain and loss will be a negative factor of JPY1 billion decrease. We anticipate that foreign exchange fluctuations will contribute to our profit increase for the full year, largely due to the yen's depreciation effect in the fourth quarter of the previous year.

Raw material prices are expected to be a negative factor of JPY24 billion as a whole due to a significant increase in the price of parts purchased domestically.

The incentive rate change is expected to be a factor of JPY4.7 billion decrease in profit, as we have factored in some interest rate decline in the US but expect to maintain a somewhat strong level of incentives due to an increasingly competitive environment.

The impact of increased/decreased sales will be a positive factor of JPY2.3 billion, sales prices increase will be a positive factor of JPY36.8 billion, mainly due to the effect of price hikes in North America.

The reminder of JPY36.1 billion decrease will be a negative factor in others.

Operating Profit Forecast by Reportable Segment

For Earth, For Life
Kubota

(Unit: billions of yen)		FY 2024 (Forecast)	FY 2023 (Actual)	Changes
Machinery	Revenue	2,654.0	2,636.7	+17.3
	Operating profit	358.0	355.8	+2.2
	OP margin	13.5%	13.5%	-0.0P
Water	Revenue	378.0	364.5	+13.5
	Operating profit	31.0	30.5	+0.5
	OP margin	8.2%	8.4%	-0.2P
Other	Revenue	18.0	19.5	-1.5
	Operating profit	1.0	1.5	-0.5
	OP margin	5.6%	7.7%	-2.2P
Adjustment*	Operating profit	-70.0	-59.0	-11.0
Total	Revenue	3,050.0	3,020.7	+29.3
	Operating profit	320.0	328.8	-8.8
	OP margin	10.5%	10.9%	-0.4P

*Adjustment includes administrative expenses, basic research expenses, and foreign exchange gain/loss at the parent company.

KUBOTA Corporation (Financial Results for FY 2023)

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Operating profit forecast by segment. Operating profit for the machinery will be JPY358 billion, an increase of JPY2.2 billion. The water and environment is expected to increase by JPY0.5 billion to JPY31 billion. Others are expected to be JPY1 billion, and adjustment items are expected to be a negative of JPY70 billion.

CAPEX, R&D expenses and Shareholder Return History

For Earth, For Life

■ CAPEX and R&D expenses

(Unit: billions of yen)	FY 2024 (Forecast)	FY 2023 (Actual)	FY 2022 (Actual)
Capital expenditures	190.0	147.0	169.4
R&D expenses	105.5	100.1	88.3

■ Shareholder Return History

(Unit: billions of yen)	Year ended Dec. 31, 2019	Year ended Dec. 31, 2020	Year ended Dec. 31, 2021	Year ended Dec. 31, 2022	Year ended Dec. 31, 2023	Total of last 5 years
Profit attributable to owners of the parent	149.1	128.5	174.8	156.5	238.5	847.3
Total amount of dividend paid (Dividend per share)	44.1 (36yen)	43.6 (36yen)	50.6 (42yen)	52.5 (44yen)	56.6 (48yen)	247.4
Retirement of treasury shares	19.6	19.9	20.3	20.0	30.0	109.7
Total shareholder return	63.6	63.5	70.9	72.5	86.6	357.1
Shareholder return ratio (Dividends and retirement of treasury shares)	43%	49%	41%	46%	36%	42%

Mid-term target for shareholder return

- Secure over 40% in shareholder return ratio, and aim at 50%
- Continue share buy-bucks and prompt retirement of treasury shares

KUBOTA Corporation (Financial Results for FY 2023)

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Capital expenditures are assumed to be JPY190 billion. The total includes approximately JPY33 billion carried over from the previous year, and this overall adjustment accounts for the significant upward revision in capital expenditures for the current fiscal year. Research and development expenses totaled JPY105.5 billion, almost unchanged from the previous year.

Regarding shareholder returns, we increase by JPY2 from the year-end dividend of the previous year to JPY24. For the full year, dividend is increased by JPY4 to JPY48.

In the previous fiscal year, we repurchased share buyback for JPY30 billion. The total return ratio is 36% including this. Although the result is below 40%, partly due to the impact of a one-time accounting treatment, the 40% target outlined in the current mid-term plan has been achieved when considering the three-year average.

Finally, I would like to say a few words about increasing corporate value. In 2023, the Tokyo Stock Exchange has asked listed companies with low P/B ratios to improve their P/B ratios. Although Kubota's P/B ratio is not below 1x, it is still low. We, the management team, are concerned about this issue. We believe that one of the reasons for the stock price where it is at is because we have not been able to explain Kubota's growth story well enough.

As the president explained earlier, we are aware that the resolution of the medium-term growth drivers has increased considerably. In addition, as we review our business portfolio, the size of our demand potential is becoming clearer. We believe that we are beginning to see that the construction equipment business, which I mentioned earlier, as well as the basic tractor business and the Indian market, will be the pillars that will support our business for the next five years.

In addition to focusing on these growth drivers, we intend to make sustainable growth possible by nurturing the solutions business, which will be the seed for the next generation of business aimed for 2030.

In terms of free cash flow, the five-year period of the medium-term plan has been challenging due to significant upfront investments in construction equipment and basic tractor businesses, carbon neutrality research, and the integration of research bases for that purpose. However, as mentioned in the presentation by the president earlier, we are planning to improve this free cash flow starting in 2024.

We intend to expedite the collection of investments made in the construction equipment and basic tractor businesses. Additionally, we are focused on improving cash flow through intensive inventory control, thereby establishing a foundation that will strengthen shareholder returns and increase ROE in the next mid-term plan.

We are committed to work firmly improving our overall corporate value, not only by ensuring sustainable growth while maintaining financial stability, but also by considering our cost of capital and stock price.

I have explained the results for the previous year, FY2023, and the forecast for FY2024. Thank you very much.

Question & Answer

Matsui [M]: I will now move to the question-and-answer session.

Moderator [M]: Mr. Mizuno from UBS Securities, please.

Mizuno [Q]: Thank you. My name is Mizuno from UBS Securities.

The first question is about an ability to generate cash flow, which is also related to corporate value. You say that this area is being strengthened, but could you please explain more quantitatively whether we can really expect an improvement and if so to what degree?

You mentioned plans to increase the ratio of local production and introduce a core system as initiatives. Specifically, you mentioned that free cash flow will improve from 2024, but to what extent are you envisioning this improvement?

Yoshikawa [A]: As I indicated in my presentation, our operating cash flow was deficit of JPY17.3 billion in 2023. However, this includes about JPY130 billion in shortened payment sites in Japan, which has a negative operating cash flow impact for 2023. Therefore, excluding this, operating cash flow is expected to be slightly more than JPY100 billion in positive figure. We expect operating cash flow to be quite positive. Although there will be an increase in depreciation and amortization expenses for 2024, we believe that we will be able to absorb this increase and achieve almost the same level of profit, which will result in a considerable increase in operating cash flow.

Also, up until last year, despite production during the pandemic was in a rather chaotic situation and thanks to the fact that we were operating at full capacity on some models, we prioritized the provision of products to customers. This meant that our inventories and those of our dealers in North America became our accounts receivable, and these items were a bit large. Therefore, this year, the market situation seems to be flat or generally flat, so I am wondering if there will be room for inventory and accounts receivable to be optimized or even squeezed a bit more in this context.

In that case, we believe it would be possible to further enhance the operating cash flow in addition to the items I just mentioned. Free cash flow for 2023 is a deficit of JPY190.7 billion. However, excluding the shortening of the site, free cash flow is around JPY60 billion. So, we expect to clear this deficit with the items I just mentioned, while generating a positive free cash flow at the tens of billions of yen level.

Mizuno [Q]: In that case, just on page 14 of the president's presentation material, there is a slide showing cash flow of JPY60 billion is expected for FY2024.

Meanwhile, I believe the target was originally set at JPY280 billion over five years in the mid-term plan. So, my understanding is that although you will not go that far, you would like to steadily increase the amount by several tens of billions of yen. Is it correct? However, if that is the case, I am afraid that you will probably never reach the figure of 50% total return ratio. Please add your thoughts on how you would balance that as well.

Yoshikawa [A]: First of all, the acquisition of Escorts and the shortening of the site I mentioned earlier were not included in the mid-term business plan. Furthermore, compared to that time, we are taking various measures such as increasing the inventory of parts from the perspective of risk management. Including such items, I think it is undeniable that the amount of free cash flow is a little lower than what we had seen in the mid-term plan.

However, as I mentioned earlier, we would like to return to be surplus in 2024 and accelerate the increase in cash flow in 2025. Do we are determined to maintain financial discipline while steadily making up-front investments.

As for the 50% total return ratio that Mr. Mizuno just mentioned, our first step is to achieve our commitment of 40%. It was 36% in FY2023, and we have not been able to increase shareholder returns in the face of a deficit in free cash flow. Therefore, I hope that you will understand that we have not lowered our banner, and we will continue to aim for a total return ratio of 40% as a minimum and 50% as much as possible as we steadily increase the amount of free cash flow to a positive level.

Mizuno [Q]: One more thing, let me ask you about growth potential. I was looking at the matrix on page eight of the president's presentation. Regarding exporting from India, I believe uniqueness, one of the keywords mentioned by the president, is an element that applies.

I don't quite understand it yet, so I would like to know if you have any internal estimates of what pace exports have already penetrated and how much they are likely to grow in the future, say from India. In addition, the matrix shows that the basic agricultural machinery is positioned slightly below average in terms of profitability. I would like to know if we do not have to concern it that can put a downward pressure slightly on the overall profit structure within the Company.

Kitao [A]: We have already exported about a thousand or so units of basic agricultural machinery, I'll let someone else answer for more details, but we are already doing it. Basically, the Indian market is roughly a 30 to 60 horsepower tractor market. Now, we can approach part-time farmers in Europe or the residential market. We are focusing on this market because it is a small market where Kubota can establish a presence and excel.

I would like to begin by highlighting that Escorts has been in business for a long period and has consistently maintained an operating profit margin of around 10% in India. While the positioning of this matrix graph may not appear great, it is not a bad number by all means. Furthermore, we expect that the profit margin will further increase if we bring this to Europe, North America, and other regions. Since these figures have not yet been included in this report, we hope to increase them in the future. In fact, there are at least 1,000 or 2,000 units in Europe right now. We will increase these number by adding more in the future.

Naturally, the sales volume will be about 250,000 units by doubling our market share in the future in India, as I mentioned earlier. We believe that there is still room for further improvement in the profit margin, such as productivity improvement at our plants and the KPS, Kubota Production System. We would like to further increase the current profit margin of around 10% for the domestic Indian market.

Yoshikawa [A]: To clarify about the positioning, it's important to note that it's more of an image than an exact scale.

The other thing is that if anything, construction machinery in ASEAN is basically Thailand. It has very good profitable products in there. On the other hand, as explained earlier, we have only just begun to talk about exports from India. So, I think it would be better to wait a little longer before counting them as a major source of profit increase at this point. The potential is tremendous, though.

It takes that position in the presentation material, but as Mr. Kitao mentioned, I would like to add that we do not recognize this as a business with a poor profit margin at all.

Mizuno [M]: Thank you very much for your explanation. Thank you for taking my questions.

Kitao [M]: Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Sano of JPMorgan Securities, please begin.

Sano [Q]: Thank you for taking my questions. My name is Sano from JPMorgan. Two points, please.

The first point is that construction equipment in North America which is positioned as a growth driver for the medium term, and your comments seem favorable. On the other hand, wholesale sales for the current fiscal year are generally flat and on par with the previous year, although I think the colors are slightly different for mini-backhoes and CTL.

I was wondering if the localization of North America, and the timing and impact of the introduction of new horsepower, is not very promising for the current fiscal year. Can you tell us a little more about the path you plan to take in the current and next fiscal years to achieve a market share of 30%?

Hanada [A]: Regarding construction equipment in North America, you pointed out that the situation may be a little different for mini-backhoes and CTL. As for the mini backhoe, we have seen considerable progress in filling dealer inventories by 2023, in general, although some of the best-selling models have not progressed, whereas dealer inventories are still low for CTL even today. In this sense, we will have to further fill dealer inventories of CTL for 2024. That is the first difference.

The reason to increase number of CTL is because the market itself is growing and is still growing. In response to this, we have been short in overall production volume and capacity, and as I explained earlier, we are expanding the capacity of our plant in Kansas. This is a basic assumption.

On the other hand, we still have a smaller lineup than our competitors. Moreover, there are still about 550 dealers only in the US that currently carry the entire line of construction equipment. However, for the past three years, we could not proceed with dealer development due to the product shortage. By going forward with this, we hope to increase the number of dealers to about 700 in the medium term. Therefore, in the construction machinery market, the market itself is bumpy but growing, and there is still a lot of room for growth within our dealer network, with highly motivated dealers waiting for our supply. We believe that we will be able to increase our market share by responding to this situation.

Sano [Q]: The second question is about the medium-term growth drivers of your business, of agricultural machinery in ASEAN. I was expecting to see a slight recovery in Thailand from the last year's drought and such, but I am not seeing much momentum in Thailand, the three countries surrounding Thailand, and Southeast Asia.

On the other hand, there is a trend in many countries to increase food self-sufficiency in the food supply chain, with factories relocating from China to Southeast Asia. Hence, governments are afraid of farmers become shortage. In terms of efficiency improvement, I think this is an area of great promise, and I believe this is one of Kubota's unique characteristics.

In response to these things, can you tell us a little more about the growth rate and expectations for the agricultural machinery business in ASEAN, and whether they are going up or can be raised?

Kitao [A]: In ASEAN, the rice market accounts for about 60%, and our tractors, combine harvesters, and other products have been affected by the drought, because the rate of mechanization in the rice market has increased. On the other hand, field crops have also been affected by the drought, of course, but the mechanization rate is still low. We are currently developing various harvesters and transplanters, including their implementations.

The shift to the field crop is now taking place in Thailand and other countries. The market for cash crops is expected to grow in this direction. We have a local development base and production plant, of course. So, we see that we can still expand by developing and selling such field crop machinery.

Also, you mentioned the value chain. We are also working with a new start-up company to support farmers using such a new, connectivity or communication, just as we are doing with KSAS in Japan. I would like to explore such things and expand them in the future.

Yoshikawa [M]: I would like to add one point. In ASEAN, mainly in Thailand, there has been a significant increase in tractor horsepower compared to the past, or adding cabin, as mentioned earlier in Mr. Kitao's presentation.

So, the unit price will increase, and in the future, precision agriculture will also increase. So, I believe that the scale and growth potential of our business in ASEAN cannot be measured by the number of tractors alone. We are looking to expand our business throughout ASEAN, including qualitatively.

In addition, as I mentioned earlier, the use of construction equipment is increasing not only for infrastructure development but also for agricultural and civil engineering projects. I hope you understand that our major policy for the medium term remains the same, which is to promote business growth throughout the ASEAN region, including these types of equipment.

Sano [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Maekawa of Nomura Securities, please ask your question.

Maekawa [Q]: My name is Maekawa from Nomura Securities. Thank you very much for your explanation.

I would like to ask you about one question in terms of the medium-term plan and the profit margin perspective. Maybe it is too early to talk about the year 2024, which just started. I believe that 2025 will be the final year of the mid-term plan, which is calculated to be JPY3 trillion or 12%, or JPY360 billion in operating profit. Your plan for this fiscal year seems to have stalled a bit on this improvement in the operating margin itself. I think that means that volume growth will be difficult to reach that level this year.

As the market recovers, can we expect the 12% target for 2025 to remain the same? I believe that JPY3 trillion in sales has already been achieved. So, using this approach, can we expect sales of more than JPY3 trillion in 2025, and then apply a higher profit margin above 12%? I would appreciate it if you could give me some hints on how you can achieve an operating profit of JPY360 billion even if the profit margin improvement is somewhat unsuccessful, taking into account the profit margin.

Yoshikawa [A]: Basically, we want to take on the challenge . The market was going well with a tailwind until last year. Now, I wouldn't say it has shifted to a headwind, but rather the wind has died down. Given these circumstances, we are striving to increase sales this year, but we are also focused on inventory reduction efforts, such as reducing stock levels at stores, while remaining mindful of free cash flow, as mentioned earlier. Therefore, if this works, there will be room for a slight increase in sales next year, even if the market does not recover and remains flat. We will steadily implement these and the O&M and after-market initiatives that I mentioned in the mid-term progress report.

We have also been working to strengthen our profit base in various ways, but to be honest, we have not necessarily been able to reduce costs or strengthen our structure sufficiently in the past three years, as we have prioritized production and manufacturing in the face of extremely strong orders during the pandemic. So, I am still thinking that I would like to absorb these aspects and aim for this 12%.

However, the market environment is difficult to control. Therefore, no matter what the market environment becomes, we would like to maintain the current level of sales and profits. At least secure operating profit in excess of JPY300 billion, while aiming for an operating profit margin close to JPY360 billion, even if sales are JPY3.1 trillion.

Maekawa [Q]: I would like to add a question about the shareholder return. You mentioned that you would like to raise it as part of the free cash flow improvement mentioned earlier. Now, in the midst of going from 40% to 50%, some have not reached 50%.

Is aiming for a total return ratio of 50% a part of strategy to improve free cash flow? Since you mentioned you will aim for the improvement in the next mid-term plan, should I have an image that you aim for 50% in current situation, and once it hits 50%, will the policy keep expanding? I would appreciate it if you could tell me about this area, if possible.

Yoshikawa [A]: As I said earlier, we are secure over 40% and aiming for 50%. We would like to provide stable returns to shareholders, so we would like to start it within free cash flow. Therefore, one thing I would like to consider is when and how soon we can move closer to 50% from 40% while watching the growth of free cash flow.

Furthermore, we will see a balance between two key aspects of shareholder return: dividends and the retirement of treasury stock. We'll maintain this balance between cash flow and stable return, aiming to foster consistent and incremental returns, not only in percentage terms but also in terms of overall amount.

We would like to achieve 50% as soon as possible. For now, we would like to achieve stable operating profit and secure free cash flow, then achieve 50% as soon as possible. We apologize for the lack of clarity, but this is answer from me.

Maekawa [M]: Thank you very much.

Moderator [M]: Thank you very much. Mr. Ibara of Morgan Stanley MUFG Securities, please.

Ibara [Q]: My name is Ibara from Morgan.

I would like to ask a few things about India. For one thing, I think Escorts' share of the domestic market is about 10%, but its share of exports is a bit low at about 6%. What is your company's perspective on the reasons for the lack of exports? Perhaps, it is because Mahindra is marketing in the US so this part is relatively low, but could you tell me about your thought in this area?

Also, the number of exported machines has been approximately 4,300 in the last nine months or so. As Mr. Yoshikawa mentioned earlier that it is still on the way, but from an external perspective, this figure still does not seem enough to be discussed as a significant driver in the serious tone. Do you really expect this to reach 20,000 or even 30,000 units as a potential?

Lastly, although Escorts is also involved in construction equipment, I imagine that it would be difficult to generate synergy with your construction equipment since the products they are involved in are completely different. Looking at this year's figures, I see more growth in construction machinery. So, could you tell us if there is any room for expansion on the construction machinery with Escorts?

Kitao[A]: I think Escorts' export business, like that of many Indian manufacturers, attempted to enter the US market 20 years ago. However, all Indian manufacturers faced challenges, including quality issues and various other reasons, leading to their withdrawal from the market, unfortunately. This is why the export business has not seen significant growth.

However, Mahindra and other companies have improved on these issues and are now in various markets, including the US. We think that Escort did not have an ability in that area, and I believe that if Kubota joins, works together and provides strong support, they will become a big export market as large as that of other companies.

The key point is that the basic market, encompassing specifications and price ranges below the standard market, which aligns with our product line, is expanding worldwide. The numbers don't show it clearly now, but the same is true in Europe, in the US, and in Africa. In Africa alone, there is a market of about 20,000 units. Now that we have the conditions in place, we have the opportunity to enter such a market. So, we think that future number becomes very large, not just the current numbers.

If the 40 to 50 horsepower models are going to be used in both North America and Europe, we believe that we will be able to develop new markets, and we should be able to expand our business in these markets.

As for construction equipment, what Escorts is doing is a backhoe loader, which is a slightly different machine from ours. Like in the US, the market was dominated by backhoe loaders 20 years ago, and mini backhoes were not in the market at all. Back then, around 20 years ago, our mini backhoe sales were only about 500 units, while backhoe loaders sold around 50,000 to 60,000 units.

As the world undergoes changes in construction practices, particularly with the progression of urbanization, we anticipate a definite increase in the demand for mini-backhoes We plan to manufacture construction equipment and mini-backhoes at the Escorts' plant. With this move, we anticipate we can dig the market and an increase in demand for construction equipment. In this context, we believe that there is a great deal of synergy and merit in utilizing Escorts and working together with them.

Ibara [M]: I understand very well. Thank you very much.

Matsui [M]: That concludes the financial result briefing. Thank you very much for attending today's information session.

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