Kubota Corporation

Financial Results Briefing for FY2024

February 14, 2025

Event Summary

[Company Name]	Kubota Corporation	
[Company ID]	6326-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for FY2024	
[Fiscal Period]	FY2024 Annual	
[Date]	February 14, 2025	
[Number of Pages]	43	
[Time]	10:00 – 11:20 (Total: 80 minutes, Presentation: 48 minutes, Q&A: 32 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	5	
	Yuichi Kitao	President and Representative Director
	Shingo Hanada	Representative Director and Executive Vice President, GM of Farm and Industrial Machinery Consolidated Division
	Hideo Takigawa	Managing Executive Officer, GM of Control Headquarters
	Wataru Kondo	Managing Executive Officer, GM of Water and Environment Infrastructure Consolidated Company
	Issei Matsui	IR Section Manager of Corporate Control Department
[Analyst Names]*	Kentaro Maekawa	Nomura Securities
	Tusbasa Sasaki	UBS Securities
	Satoshi Taninaka	SMBC Nikko Securities

Takeru Adachi	Goldman Sachs

*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.

For Earth, For Life
Kubota

Management overview and Business strategy

Yuichi Kitao
President and Representative Director
Kubota Corporation

February 14, 2025

Kitao: I am Kitao, president of the Company. Thank you very much for attending our financial results briefing today. I would like to begin by explaining our management overview and business strategy. Mr. Takigawa, GM of Control Headquarters, will explain the details of our financial results later.

Agenda

For Earth, For Life
Kubota

1. FY 2024 Financial Results / FY 2025 Financial Forecast
2. Strengthening the business foundation
3. Mid-term Growth Drivers
4. Toward the Final Year of the Mid-Term Plan

KUBOTA Corporation (Financial Results for FY 2024)

2

Turn to page two. Here is today's agenda.

1. FY 2024 Financial Results

For Earth, For Life
Kubota

[Decrease in sales and profit]

- Sales: European and North American markets slowed down and entered an adjustment phase
- Profit: Decreased due to lower sales

(Unit: billions of yen)	FY 2024	Changes	
		Amount	%
Revenue	**3,016.3**	**-4.4**	**-0.1**
Japan	632.5	-10.7	-1.7
Overseas	2,383.8	+6.2	+0.3
Operating profit	10.5% **315.6**	**-13.2**	**-4.0**
Profit attributable to owners of the parent	7.6% **230.4**	**-8.0**	**-3.4**

1USD (JPY)	152

KUBOTA Corporation (Financial Results for FY 2024)

3

Turn to page three. First, we look back at our financial results in FY2024. Overall results were lower both in terms of sales and profit. With regard to sales, overall sales decreased due to declines in the European and North American tractor markets, despite strong sales of construction equipment in North America. Revenue was down about JPY160 billion on a local currency basis, largely boosted by foreign currency conversion due to the weak yen. Operating profit benefited from the weak yen, but was significantly impacted by lower sales, resulting in an overall decrease in operating profit.

1. FY 2025 Financial Forecast

For Earth, For Life
Kubota

[Sales increase and decrease in profit]

- Expect sales increase, but profit declines due to a stronger yen assumption.
- Difficult to achieve 12% operating profit margin as our MTP target.

(Unit: billions of yen)		FY 2025 (Forecast)	Changes	
			Amount	%
Revenue		3,050.0	+33.7	+1.1
	Japan	658.0	+25.5	+4.0
	Overseas	2,392.0	+8.2	+0.3
Operating profit		9.2% 280.0	-35.6	-11.3
Profit attributable to owners of the parent		6.4% 196.0	-34.4	-14.9

1USD (JPY)	145

KUBOTA Corporation (Financial Results for FY 2024)

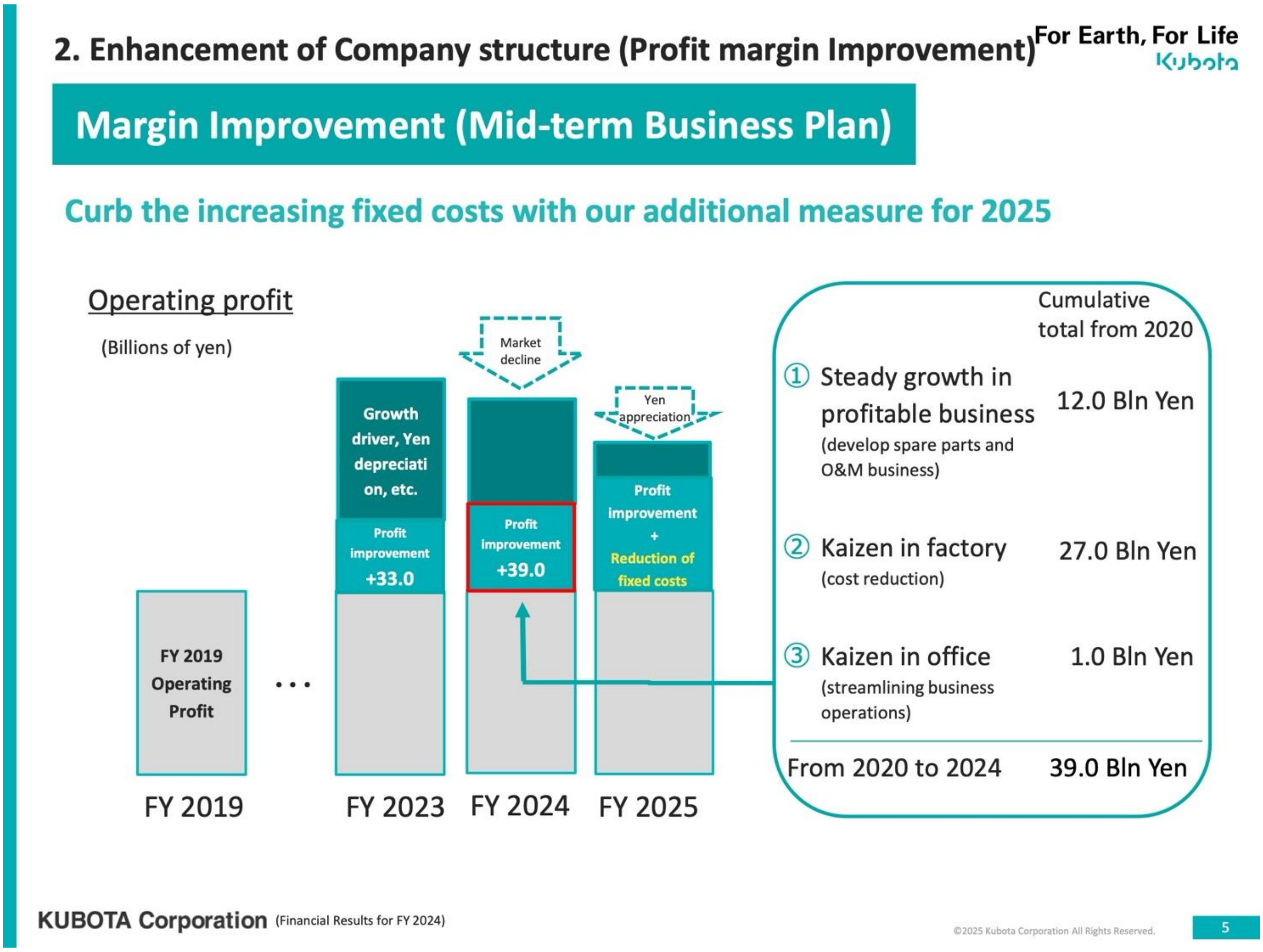
4

Turn to page four. This is our forecast for FY2025. We predict that sales will go up, but profit will go down.

Revenue in North America will be steady for construction machinery, although revenue from tractors are shrinking in North America. We do not see sales in Europe recovering, but we expect them to stabilize compared to the previous year. Meanwhile, in Asia, sales are projected to increase YoY due to the fact that the region is expected to recover from the drought.

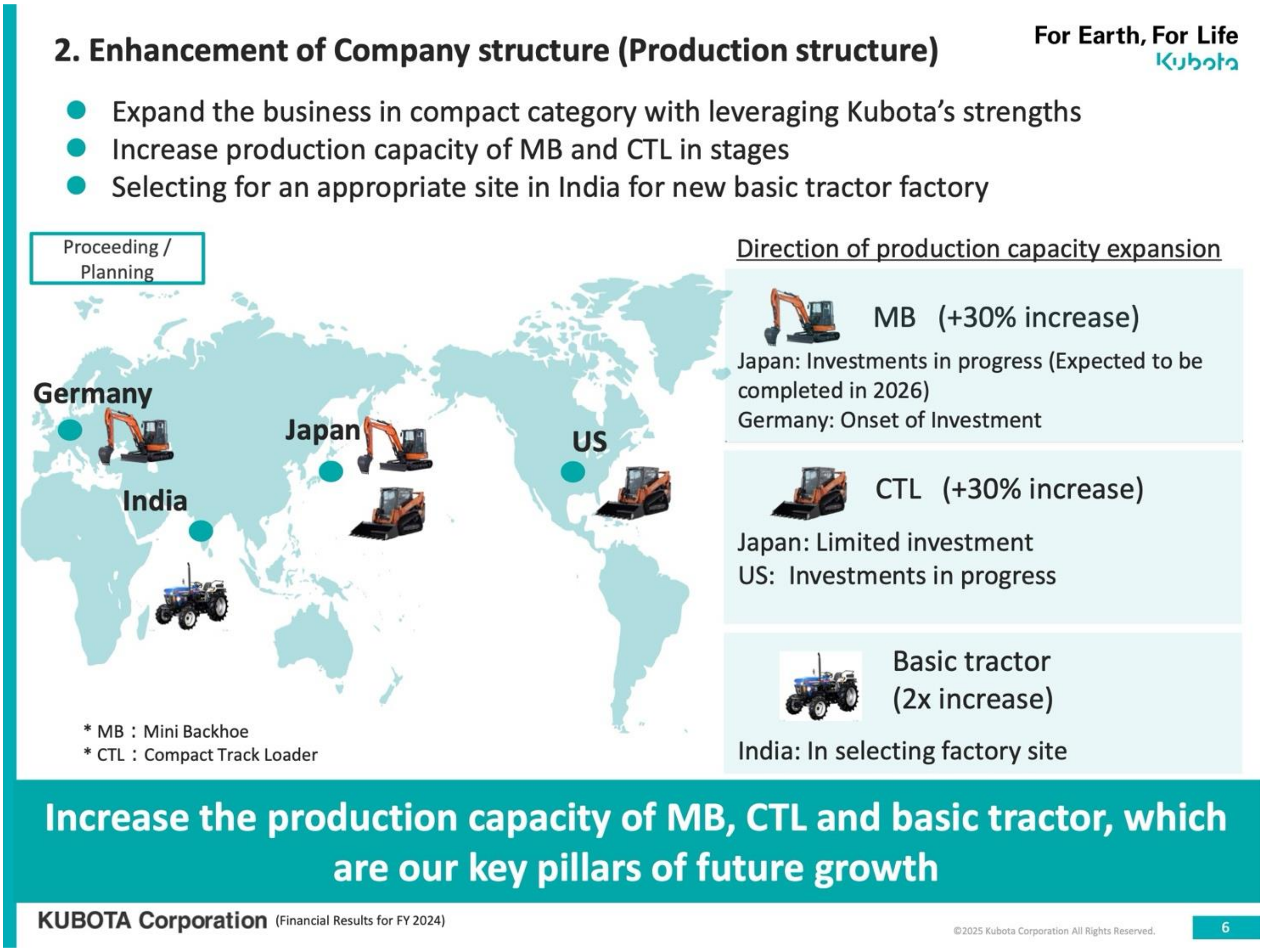
However, operating profit is expected to decrease owing to the appreciation of the yen. Our forecast for the US dollar is that it will be JPY145, JPY7 higher than in 2024. The impact of the additional tariffs being discussed in the US has not been factored in. If tariffs were to be implemented, there is a possibility of a decrease in profit of up to JPY10 billion, depending on the timing or rate of the introduction of such tariffs.

This year is the final year of our mid-term business plan 2025, and we expect to have difficulty achieving our operating profit margin target of 12%. This point will be explained later.



Turn to page five. This is about the reinforcement of our structure. First, we are working to improve the profit margin, which we are addressing in our mid-term business plan 2025. The cumulative contribution amounted to JPY39 billion, and although we were able to accumulate the effect in 2024, operating profit still slipped YoY due to reduced sales caused by the market declines. Operating profit is expected to decline in 2025 due to continued high levels of inflation, the projected appreciation of the yen, and the fact that no significant sales growth is expected.

Therefore, this year, in addition to our conventional manufacturing improvement activities, we will promote the reduction of fixed costs in order to absorb the rising costs due to inflation and to curb increases in fixed costs and expenses.

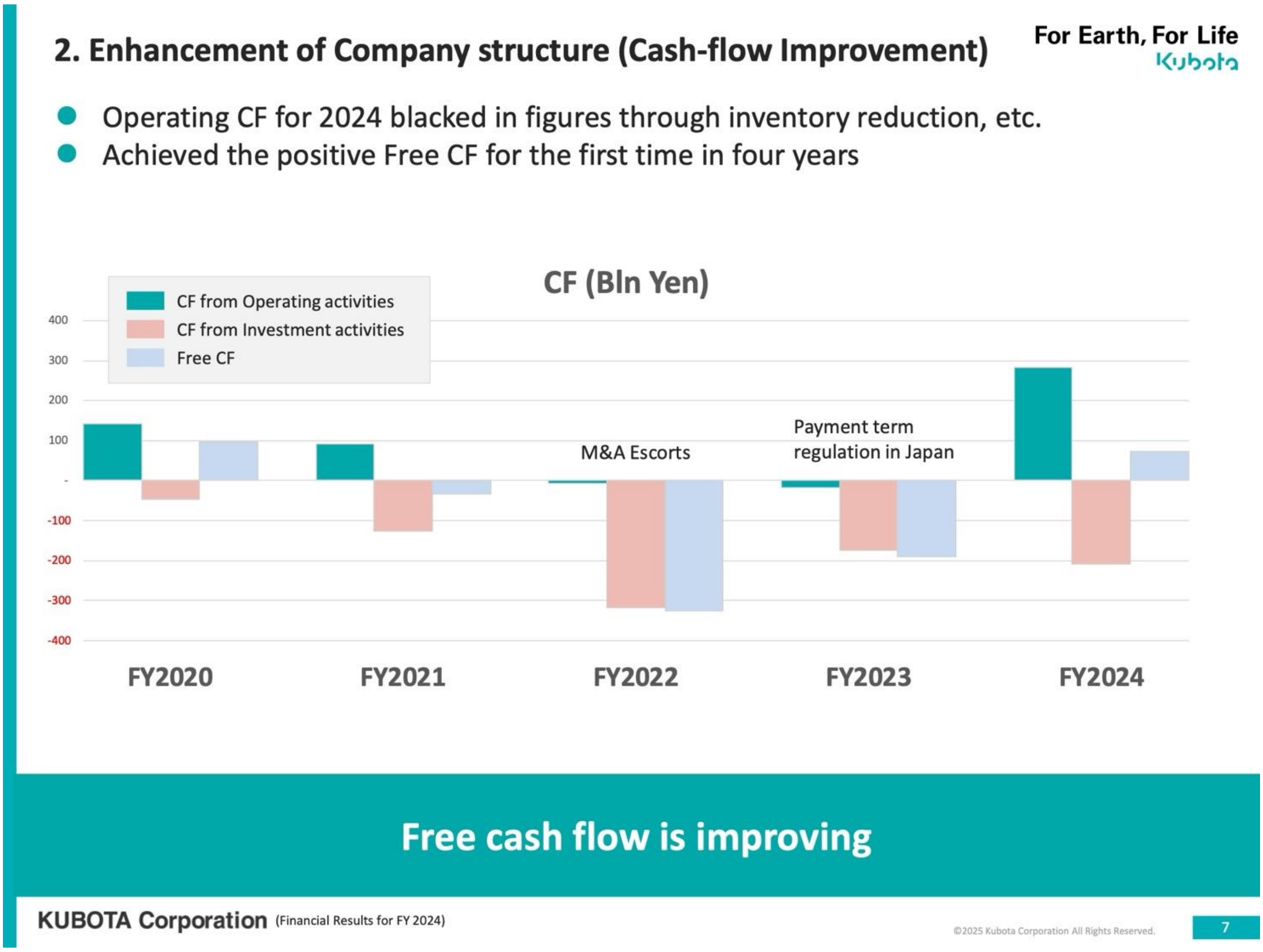


Turn to page six. This is about strengthening our production structure. We are working to increase production capacity of construction equipment and basic tractors, which are the pillars of our future growth.

With regard to the construction machinery business, it is currently in an adjustment phase, mainly in Europe, but we project our market will expand worldwide given the expected recovery in the market from 2026 onward, as well as the anticipated rise in our market share in North America and the formation of a new vehicle market in Asia. We are now working to ensure we have the production capacity for this purpose.

For Mini Backhoes, we have secured the neighboring land and building for the expansion of our plant in Germany at the end of last year. As for basic tractors, there is little room for growth in the current production capacity at the moment. Now, in order to boost our share in the Indian market in the future and for us to be able to take on exports from India, it is essential that we expand our production capacity. Although we once secured a factory site in 2024, we have had to start over due to administrative problems, including the inability to secure the necessary industrial water. But we intend to make a firm investment in this area.

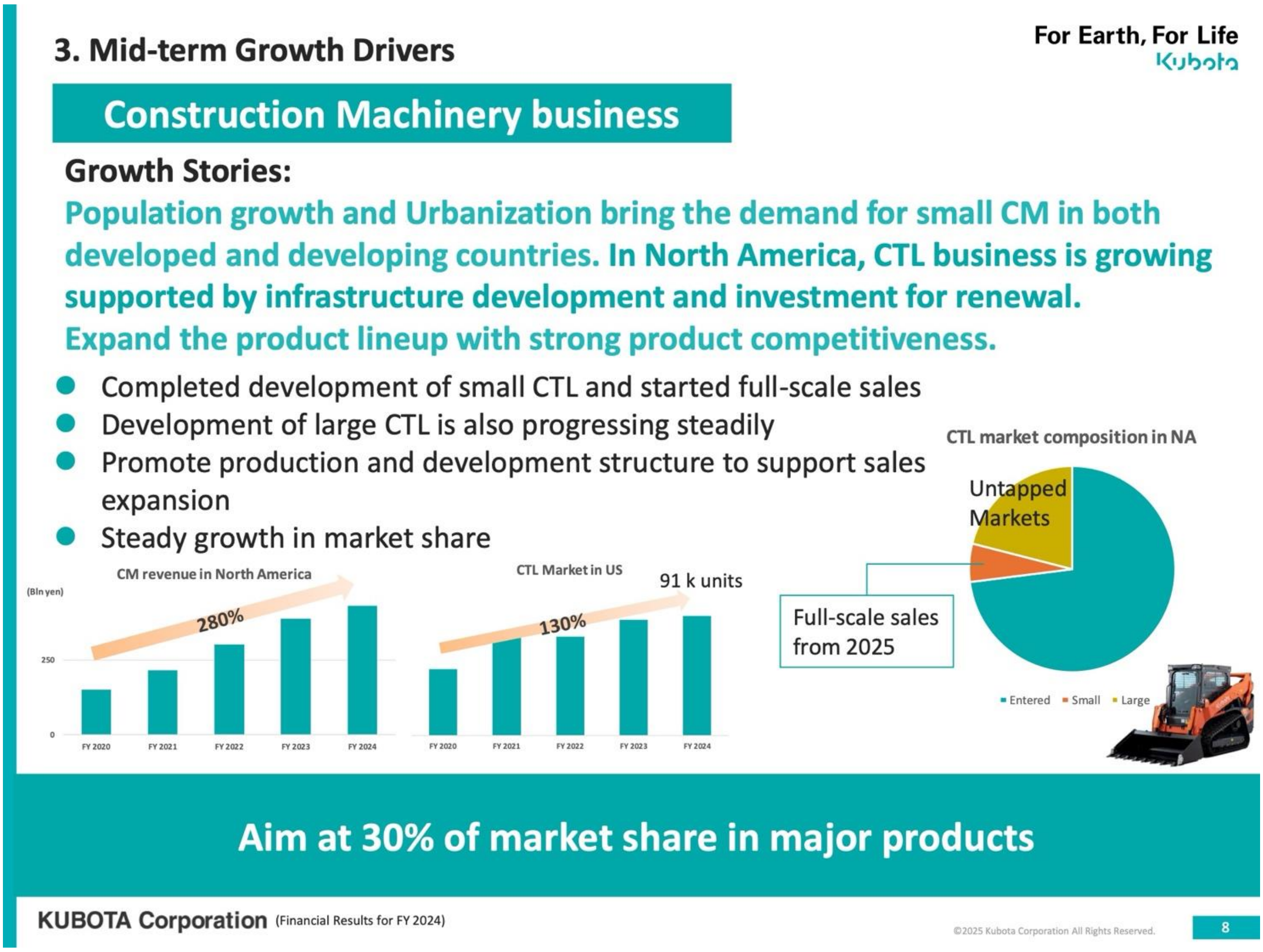
On the other hand, considering recent changes in the procurement environment, political issues, and inflation concerns, the current production system is no longer necessarily appropriate. Our business portfolio is changing, and with it, the growth potential of our businesses and regions. Taking these factors into consideration, we are in the process of reviewing our production system.



Turn to page seven. This is about improving cash flow. Due to the investment in Escorts in India in 2022 and the change in domestic payment terms in 2023, our free cash flow had been largely negative for the past two years and we were unable to cover upfront investments such as capital expenditures and research with earnings.

Free cash flow has improved significantly in 2024 as the temporary factors have also disappeared. Inventories are beginning to shrink as a result of logistics leveling and control, but with an increase in retail financing due to the growth of the North American construction machinery business, we still do not have sufficient operating cash flow. However, we believe we are making good progress in improving the situation.

The amount of capital expenditures will continue to increase due to the surge in construction costs caused by inflation. In 2024, our capital expenditures exceeded JPY200 billion due to the significant delay in construction from 2023, but we plan to have that amount stand at JPY160 billion in 2025.



Turn to page eight. I will explain the progress of each growth driver. First is the construction machinery business. Although the market is temporarily in an adjustment phase, expansion is expected in the medium to long term as urbanization continues in all regions of the world due to population growth. In particular, market growth is expected in the solid housing market due to population growth, in North America where governments are aggressively investing in public works projects, and in Asia where a gradual shift from used equipment to the new machinery market is expected. We also expect growth through further market share gains, supported by strong product competitiveness.

As for the most recent progress, we rolled out a new small model to expand the CTL lineup and kick off full-scale sales this year. Development of large CTL is also progressing smoothly, and we are sequentially expanding our product lineup with the goal of introducing them in FY2026. At present, we only have three models in our product lineup, but we would like to increase our market share by introducing four additional models, bringing the total to seven.

Both Mini Backhoe and CTL saw steady market share growth in North America last year. With CTL, in particular, we were able to increase our market share by 2.6 points over the last year. This year, with the introduction of small CTL, we expect to further increase our market share as we will be able to gain a market share in the new horsepower range. We will continue to build on our strong product competitiveness and firmly develop the production system and dealer network to support that.

Turn to page nine. We would like to explain our entry into the basic market as we expand our business in India.

Against the backdrop of food self-sufficiency issues worldwide, the mechanization of agriculture in developing countries will progress in the coming years. One of the obstacles in promoting mechanization is the high cost of agricultural machinery, so we hope to expand the market by lowering the purchase hurdle with the introduction of this inexpensive machine called the basic tractor.

First, we want to capture the Indian market, which is the main market for basic tractors, through product and manufacturing improvement activities, and then expand our business not only in developing countries but also in Europe and the US with better products.

Let us look at the progress in capturing the Indian market first. Although we were unable to increase our market share in the previous year, we began to reach out to customers we had not previously covered through the full-fledged launch of a new series of Farmtrac entry-level premium models in 2025.

The introduction of this model was spearheaded by the Escorts team, but Kubota also partially participated in marketing and development, making it the first collaborative model under the Escorts brand. Starting this year, we intend to accelerate the introduction of new models and increase our market share in the Indian market.

Meanwhile, improvement activities at our plants are progressing well. Going one step further from keeping things tidy and in order, we are pushing for such things as changing the layout of plants and setting up indicators to measure production efficiency. Factory productivity is rising due to factory visualization.

However, there is still room for improvement in the manufacturing process, so we will continue to improve the manufacturing line through generous support from Japan and promote the enhancement of product competitiveness through quality improvement and cost reduction.

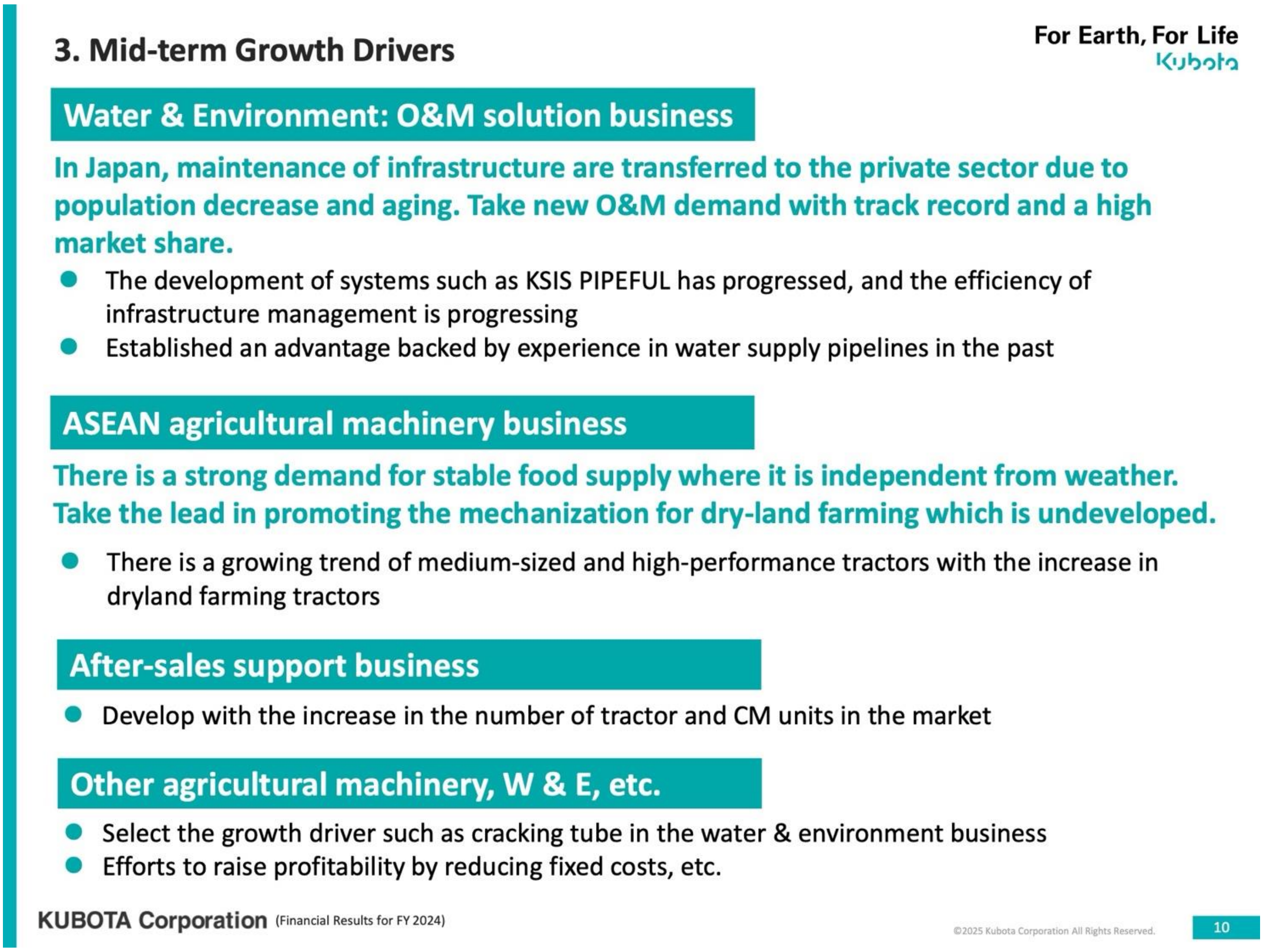
On the sales front, we have completed the establishment of a retail finance company, which is a powerful tool. It will begin to operate in stages starting this year. We will utilize the knowledge and experience we have gained from our retail finance companies in the US and Thailand and use this service as a sales promotion tool in India. It need not be said that the information will be used not only for sales promotion, but also for more user-oriented marketing, as we will have direct contact with our customers.

The next step is expansion as an export base. The number of EK tractors, which we have been jointly developing under the Escorts-Kubota brand, has been increasing. In the European market, where the low-end market is expanding due to inflation, this is a good first step in our approach to the market.

On the other hand, we would like to gradually expand our basic tractor, the Escorts Tractor, to Europe, Asia, and other regions after making sufficient cost and quality improvements. For the time being, we are focusing on quality improvement.

Regarding mutual utilization of resources, one of the major themes is the utilization of the Indian procurement network. We are evaluating suppliers one after another at the moment, and some parts have already started to be shipped to Thailand and North America. From 2025, we would like to further promote full-scale adoption of the product, and supply parts to Japan, Europe, and the US.

Through these activities, we aim to reduce costs and diversify geopolitical risks.



Turn to page 10. We are aiming to change our business from machinery sales to O&M and solution-centered business. This is our water and environment solution business. Against the backdrop of increasing demand for maintenance and renewal of aging facilities and a shortage of staff, the concession method, in which local governments retain ownership of public facilities while granting long-term operation rights to private companies, is beginning to take hold nationwide for infrastructure facilities such as water and sewage systems, and the market is expected to expand in the future.

On the product front, Kubota has developed a system called PIPEFUL, a comprehensive platform for pipelines, and it has evolved significantly and can now propose a more efficient management of pipeline infrastructure. Sales are steadily increasing, too. This system is backed by our many years of experience in pipeline management and facility construction and is more advanced than other companies' systems. It comes with PIPROFESSOR, and IT system for design and construction, and PIPISION, an IT system for maintenance management and renewal planning.

Next, I would like to discuss our machinery business in ASEAN, where we expect further expansion in demand for both agricultural and construction machinery against the backdrop of advancing urbanization. In Thailand, mainly for field crops, there has been a shift from the conventional horsepower range to a higher horsepower range and upgraded products, and cabin models are gradually beginning to penetrate the market.

In the neighboring countries of Vietnam, the Philippines, and Indonesia, field crops are also being developed, although they are not yet at that stage due to differences in purchasing power. We expect that as these countries grow, new demand will be generated again.

Next is the after-sales support business. Revenue from components have increased steadily, partly due to rise in the number of machines in operation in the market. However, product sales have grown significantly, and the ratio of component sales to products is still flat.

As for others, as I mentioned earlier, we are reviewing our portfolio in the water and environment sector, and we are looking at growth drivers within water and environment, including cast steel businesses such as cracking tubes, and the air conditioning business. We are also working to improve the profit margin in agricultural machinery, including combine harvesters and rice transplanters, implements, and engines, and are in the process of reducing fixed costs and transforming our operations efficiently.

4. Toward the Final Year of the Mid-Term Plan

For Earth, For Life
Kubota

Financial Targets

(Bln Yen)	Targets	FY 2025 FCST	Review
Revenue	3,000.0	3,050.0	✓ good
Operating profit / %	360.0 / 12%	280.0 / 9.2%	✕ Not good
ROE	11%	FY 2024 9.9%	A bit short
Shareholder return ratio	Over 40%	FY 2024 47.0%	✓ good
Operating Cash Flow (cumulative of 5 years)	880.0	600.0 ~	✕ Not good
Free Cash Flow (cumulative of 5 years)	280.0	~ ▲400.0	✕ Not good

Operating profit margin and CF continue to be our challenges

KUBOTA Corporation (Financial Results for FY 2024)

Turn to page 11. This shows our evaluation and forecast against targets for the final year of our medium-term business plan. Revenue is rated as good. Although the yen's depreciation has had an impact, we assess that the market has grown to a scale that is generally stable at around JPY3 trillion, even if the European market enters an adjustment phase. Operating profit is rated as not good. This will be explained later. ROE is 9.9% in 2024, rated with a triangle. The total shareholder return ratio is rated as good. It has exceeded 40% on average since 2021, and in 2024, we managed to raise the total shareholder return ratio to 47% through additional share buybacks.

Operating cash flow and free cash flow are rated not good. Although there were improvements in 2024, we still expect the results to be severe throughout the medium-term plan period owing to the significant effect of factors that were not initially anticipated, such as the acquisition of Escorts and the shortening of payment terms, and the considerable rise in investment amounts due to increased construction costs caused by inflation.

Overall, we believe that improving the operating profit margin and continuing to improve our free cash flow will be the key issues to be addressed in our next mid-term plan.

Turn to page 12. As we move forward with our mid-term business plan, the challenges of our management foundation have been highlighted. We have established the four projects you see here and are now in the process of reforming our management structure.

The first is the Management Structure Reform Project. As the ratio of overseas machinery business to the total sales of the Kubota Group has increased, the differences in business models between the existing machinery business and the water and environment business have become more pronounced, and there are also significant differences in business scale, making it difficult to manage them within the same framework.

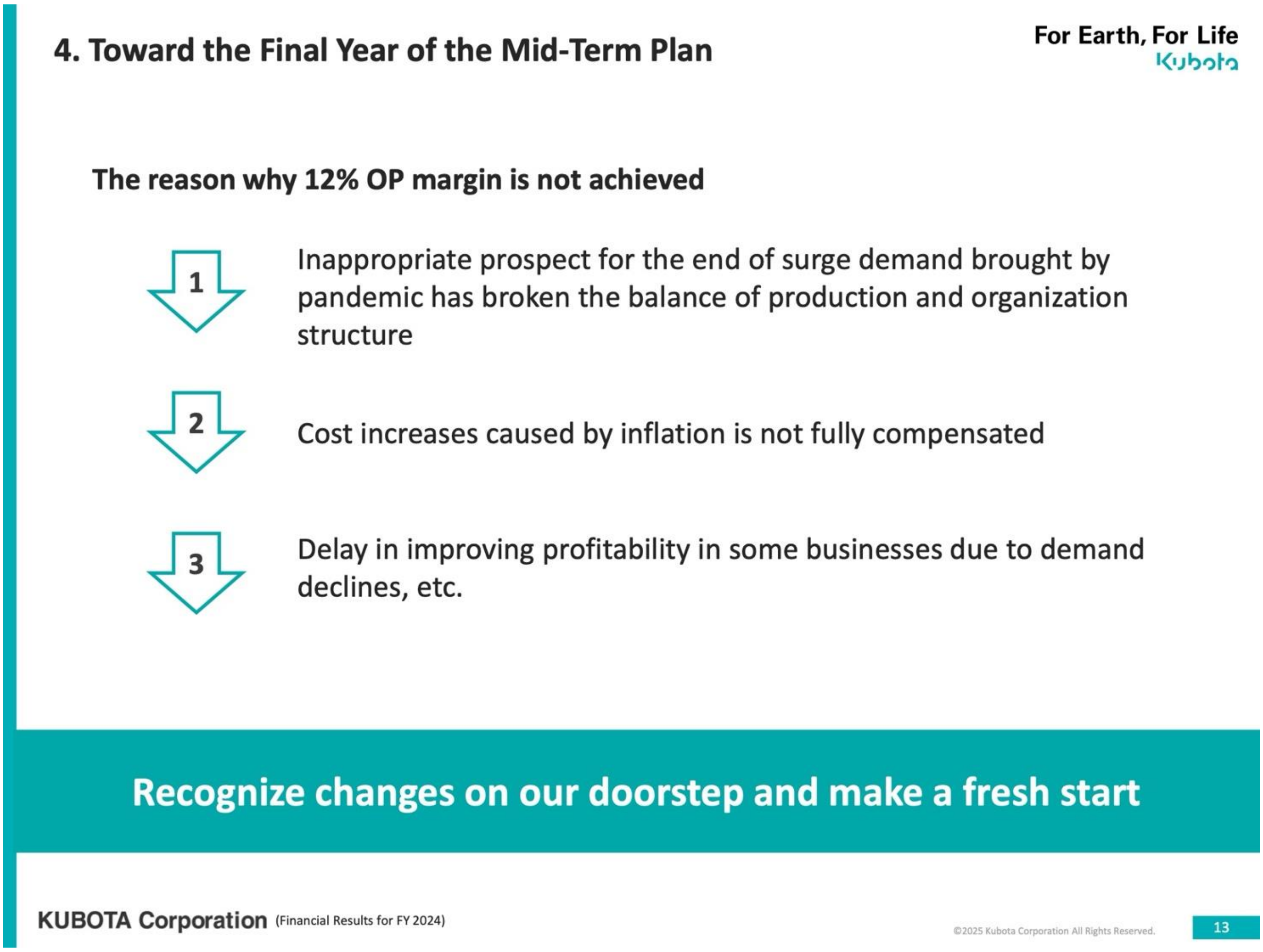
In particular, in the indirect divisions and the machinery business unit, the operations of the indirect divisions are also done by the machinery business unit in terms of sales composition, so I think there is waste in the overlap. This year, we have begun to reduce this waste and optimize resources by transferring many functions to the machinery business unit.

The second is the Development Reform Project, which aims to improve development efficiency by reforming the entire process from planning to development and production. In particular, we are making full use of analysis and other means, and I think that our activities to achieve the target 30% improvement are gradually taking shape.

The third is the Operation Reform Project. Using the tractors in the North American market as a model, we reviewed the business planning cycle and clarified the decision-making criteria for supply-demand adjustments, and based on these efforts, we have developed a supply-demand management system, which I believe has achieved some success. We believe that we have managed to control the reduction of inventories of tractor dealers in North America through appropriate inventory control and adjustment of production volume through these measures.

Finally, the Human Resources and Global Personnel Reform Project. Human resources are the key for any company to create value. Based on the fundamentals of human capital management, the HR division was established to promote employee growth and job satisfaction, as well as business operations based on diverse values.

We are now advancing the grand design plan for the entire machinery business, and in the process, we invited 55 global leaders from North America, Europe, and Asia to Japan for a week-long meeting in January. We are engaged in activities to deepen mutual understanding, such as understanding Kubota's culture and management exchange. Going forward, we will continue to work on transforming our corporate culture into one that is responsive and considerate, with diversity and engagement at the core.

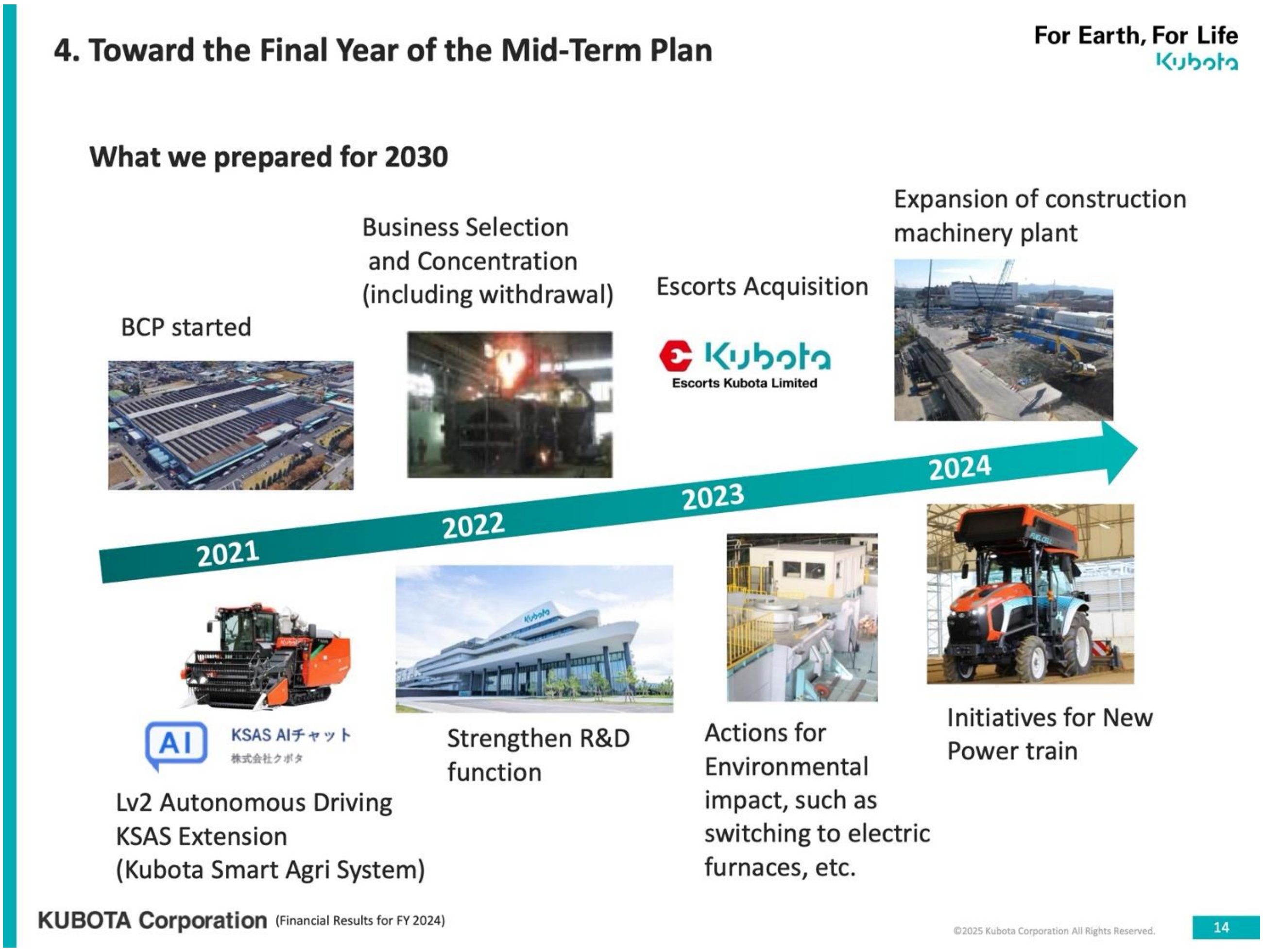


Turn to page 13. As mentioned on page four, let me explain a little about the causes of the sluggish operating profit margin. The first reason is that during the COVID-19 pandemic, there was a surge in demand, especially in North America. However, the various sales measures and investments we made backfired a little, and we misjudged the timing of convergence of special demand, causing an imbalance in production and organizational structure in some businesses in relation to actual demand.

With regard to the production system, we are now moving forward with activities to restore the system that was in place under the special demand, such as shifting from outsourcing to in-house production and adjusting the workforce at our North American plants to match the production volume. However, with various changes in the environment, we recognize that simply reverting back to the previous state is not enough, as we are now studying the possibility of reconsidering things on from a zero-base perspective. As for the organizational structure, as explained in the previous slide, we made major organizational changes in January of this year as part of management structure reform.

The second reason is the fact we have not been able to fully absorb the cost increases caused by inflation. Price increases in North America and Europe have helped to cover soaring logistics and material costs, but labor and other service costs continue to soar due to inflation, and we have yet to absorb all of these costs. We will continue our efforts to reduce fixed costs, curb personnel increases, and improve operations with the help of AI and IT.

The third reason is the delay in improving profitability due to demand slowdowns and changes in the environment. Our profitable businesses such as construction machinery are progressing steadily, while the improvement of our less profitable businesses such as large field crop machinery in Europe and domestic agricultural machinery is lagging behind. With regard to these businesses, we intend to clarify their framework reform policy by the end of this fiscal year. We have already begun to address these issues, but we recognize these changes in the business environment anew, and this year, we hope to formulate and work on the next medium-term plan starting in 2026.



Turn to page 14. I would like to offer a summary of what we have been promoting over the past four years. As for topics on the business side in the upper section, first, we embarked one the large-scale renewal of aging equipment. Since renewal demand has piled up considerably as a result of our move to limit capital expenditures in the past, we have begun liquidating legacy equipment so that it will not be postponed to the next five years. Construction is taking time to minimize the impact on production but is progressing smoothly.

Next, the impact of inflation due to the unanticipated pandemic temporarily caused a significant deterioration in the rate of return of the water and environment business. In response, we have raised product prices to help us recover to our original state, but we have also begun to select and concentrate our product portfolio and have taken a scalpel to the steel pipe business, our inherited business. As a result, we believe we are seeing signs of future improvement.

Next, we acquired Escorts as a growth move and then started a new basic tractor business for Kubota, which will be our next pillar of growth. It is a challenging business, but it has great potential, and we intend to expand it firmly.

And we have begun to accelerate the expansion of our construction machinery business, which is performing well in terms of sales, profits, and market share. Based on the idea of selection and concentration, we recognize that we have, to some extent, established a direction for the future.

As for the lower section, on the technology development front, we have started to expand our autonomous driving development technology and KSAS, which assists farmers, targeting the fields of Japan. The current level of autonomous driving is level two. An automatic combine harvester was recently selected as the best product by the Nikkei. In addition, the remote control of tractors is taking shape toward the realization of level three full automation. However, the spread of fully autonomous vehicles is expected to be pushed back a little because in addition to ensuring safety, there are issues such as the establishment of national road traffic regulations by the government.

The functionality of KSAS, a farm management support system, has been steadily enhanced through openness and linkage with various applications. This January, we started trial of the AI chat function that utilizes generative AI, so that users can make better use of KSAS. By utilizing the data accumulated in KSAS, we will brush up on accurate support for farm management.

In addition to conventional development, we will also need to address advanced agriculture, which will require faster research and development. So, we have established a new production base, the Kubota Global Institute of Technology, in Sakai in 2022. With a fully equipped facility that is annexed to a test course and a design office, we are working to improve development efficiency by 30%.

Next, on the environment front, progress has been made in reducing CO2 emissions in Japan within the scope of Scope 1 and 2. In the casting manufacturing process, which emits particularly large amounts of CO2, the switch from cupolas to electric furnaces has enabled us to advance environmental measures. We expect to be able to convert all cupolas to electric furnaces by 2027.

In addition, we have begun working on the development of new powertrains using electricity and hydrogen energy, and these are taking shape to some extent as basic research. It is still very difficult to create a market due to the high cost and other issues such as the capacity of battery and the location of charging stations. I think it will take a little more time for this to contribute to our business performance. We are confident that these technological advances will form the basis of our next mid-term plan.

Turn to page 15. I have said a lot so far, but in 2024, we worked to strengthen the power of our product brand that leverages Kubota's strengths through selection and concentration by pursuing Kubota's uniqueness. We reviewed our business portfolio and internal organizational structure, and although we still have some way to go, I believe we have put in place a structure that allows us to focus on Kubota's strengths.

This year, we would like to focus on the theme of product competitiveness, that is, creating hit products. It is undeniable that in recent years, we have been in a frustrating situation where we have not been able to produce such products. We have been working to create the organizational and business structure to bring out such products over that past four years under our current medium-term plan, and we would like to talk a little bit about further push in the future.

First, in the machinery business, each business unit and six regions around the world are taking the lead in strengthening our marketing activities. We formulated the grand design for future business and products. For example, in agricultural machinery, we will develop products that anticipate the development of smart agriculture in Japan through KSAS and precision agriculture in Europe and the US. In construction machinery, we will expand into new businesses with products, attachments, and ICT construction equipment to address accelerating urbanization and natural environmental issues.

In the water and environment business, recent earthquakes and heavy rain damage have increased the number of disasters involving water and sewage facilities, and the renewal and maintenance of aging facilities has become a social issue. With a new vision of being an infrastructure solution provider that contributes to solving these issues, we will continue to transform our business into ICT-based products and O&M based on these.

To support these developments, as I mentioned in my explanation of the Development Reform Project, we have established a global development system in six regions around the world, centered on a new research institute called KGIT, and as one of these initiatives, we are promoting the concept of a common platform for the entire world. One concrete example is the Global Innovative Tractor Project, or GIT, based in India. This is new product development that creates synergy by combining the frugal engineering expertise of Escorts with Kubota's high-quality, durable, and easy-to-operate technology.

Competition in the standard markets of North America, Europe, and the ASEAN region, which form the foundation of our compact tractor business, has become extremely intense in recent years. We are promoting a structural reform project that incorporates innovative product development, planning and development, and production systems in these areas. In the future, we hope to introduce hit products that offer superior cost competitiveness and product value to the ever-growing standard market worldwide.

While pushing the creation of such a system, we are also moving forward with the current developments in the Company. This year, we will introduce a small CTL, which is one of the main features of our mid-term business plan. As I mentioned earlier, Kubota's CTL has doubled its market share over the past 10 years, with only three models, while other companies have 10 models. We hope to further increase our market share over the two to three years, especially with the addition of four new models.

We would like to further strengthen our competitiveness under an organizational structure that enables us to make prompt decisions on a global basis so that we can speed up the release cycle of so-called hit products that are expected to be competitive and roll out many excellent products.

Kubota will continue to operate its company as a platform that supports life, committed to the cycle of abundant society and nature. This is the end of the explanation of our management overview and business strategy. Thank you very much for your attention.

Matsui: Next, Mr. Takigawa, GM of Control Headquarters, will talk about status of our consolidated financial results for FY2024.

For Earth, For Life
Kubota

Financial Results for FY 2024

Hideo Takigawa
Managing Executive Officer,
General Manager of Control Headquarters
Kubota Corporation

February 14, 2025

Takigawa: My name is Takigawa. I will now explain our full-year business results for 2024 and our full-year forecast for 2025.

Financial Summary for FY 2024

For Earth, For Life
Kubota

(Unit: billions of yen)	FY 2024 Full Year	FY 2023 Full Year	Changes		Changes from previous forecast (Nov. 2024)	
			Amount	%	Amount	%
Revenue	**3,016.3**	**3,020.7**	**-4.4**	**-0.1**	**+66.3**	**+2.2**
Japan	632.5	643.1	-10.7	-1.7	+5.5	+0.9
Overseas	2,383.8	2,377.6	+6.2	+0.3	+60.8	+2.6
Operating profit	10.5% **315.6**	10.9% **328.8**	**-13.2**	**-4.0**	**+5.6**	**+1.8**
Profit before income taxes	11.1% **335.3**	11.3% **342.3**	**-7.0**	**-2.0**	**+9.3**	**+2.9**
Profit attributable to owners of the parent	7.6% **230.4**	7.9% **238.5**	**-8.0**	**-3.4**	**+9.4**	**+4.3**
ROE	**9.9%**	**11.8%**	**-1.9 p**			
1USD (JPY)	152	141				
1EUR (JPY)	164	152				
1THB (JPY)	4.30	4.04				

The effect of foreign exchange rate on revenue against LY was +159.0 billion yen.

KUBOTA Corporation (Financial Results for FY 2024)

2

Please turn to page two. This is a summary of our financial results for FY2024.

Revenue stood at JPY3,016.3 billion, down 0.1% from the previous year, operating profit was JPY315.6 billion, down 4%, and profit attributable to owners of the parent was JPY230.4 billion, down 3.4%. Compared to the Q3 forecast, revenue increased JPY66.3 billion and operating profit jumped JPY5.6 billion.

As shown in the table below, the yen has generally depreciated against the US dollar, the euro, and other major currencies compared to 2023, which has a positive effect on profit and loss.

As Mr. Kitao mentioned earlier, the increase in overseas revenue includes about JPY159 billion in foreign exchange rate impact, resulting in a larger decline in sales on a local currency basis.

Revenue by Reportable Segment

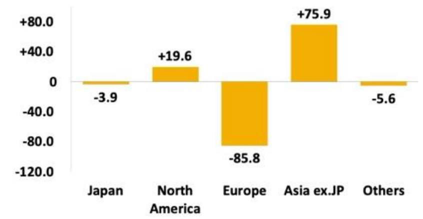
For Earth, For Life
Kubota

Machinery: 2,636.9 billion yen (YoY: +0.1)

Conditions in each market

Japan	The agricultural machinery market has been weak continuously because production costs is ahead of farmers income although rice prices have been recovering.
North America	The CE business was steady due to stable demand of infrastructure development although housing market is slightly soft. In the tractor business, the residential market has been slow due to slowdown in business sentiment. The agricultural market also slowed down due to crop prices decline.
Europe	The CE and Engine business continue to be down by weak economics and investments, but they are slightly improved in part. The tractor market has been weak continuously.
Asia except Japan	The Thailand market has recovered steadily mainly in the rice market although a part of dryland market was sluggish due to the flood. The Indian market also recovered from the drought thanks to the sufficient rainfall and harvest in the latter half.
Others	In Australia, both tractor and CE market has shrunk due to slowdown in business sentiment.

■ Changes in revenue by region
(Billions of yen)



	Japan	North America	Europe	Asia ex.JP	Others
Total	-3.9	+19.6	-85.8	+75.9	-5.6
Agricultural machinery *	-7.3	-44.4	-26.5	+59.4	-8.5
CE	-5.2	+42.4	-35.1	+1.9	+2.5

* Tractors, combine harvesters, and rice transplanters

KUBOTA Corporation (Financial Results for FY 2024)

3

Please turn to page three. For the FY2024 results, we will look at revenue by destination for the machinery business.

First, Japan. Japan is down JPY3.9 billion. That is minus 1%. The agricultural machinery market has seen an increase in rice prices since H2 of 2024, but it has not been able to offset the higher production costs to date and remains weak. On the other hand, construction machinery sales were generally favorable, although construction and redevelopment projects slowed down slightly due to construction delays.

Next, North America followed with an increase of JPY19.6 billion, up 2%. In the construction machinery market, housing demand has calmed down and declined compared to the beginning of the year, but housing starts stabilized at the 1.3 million level and the market as a whole remained strong, supported by demand for infrastructure development and long-term government projects.

As for Mini Backhoes, sales have dropped YoY due to the replenishment of the market inventory, but they have maintained a high level. Compact track loaders, or CTL, have increased their share owing to inventory replenishment demand, as well as the continued strong performance of model-change machines. As for tractors, in addition to the slowdown in business confidence, the residential market, which is dominated by consumer and homeowners, was weaker than expected due to the impact of anticipated demand during the pandemic. Due to the high level of market inventory, competition has become severe as companies are actively liquidating their inventories through incentives.

The agricultural market continues to shrink owing to the declining prices of wheat, milk, and other crops, but the livestock-related market, where Kubota has many customers, is also calm due to relatively stable beef prices. The commercial market for UVs and some mowers also remained stable, and sales of Kubota were able to recover as supply recovered.

As for the inventory situation of US dealers, the adjustment of tractor production has progressed steadily throughout 2024, with inventories at the end of December 2024 at 6.4 months. On the other hand, we were able to improve inventory levels of UV, or utility vehicles, which had been in short supply in the previous year, to five months. As for construction machinery, at 4.2 months, we conclude that the inventory has generally returned to near the right level. However, there are slightly more Mini Backhoes and a shortage of compact track loaders. With CTL, we believe that there will still be sufficient demand for inventory remaining in 2025.

In terms of production, the production adjustment due to production cutbacks has been come to an end in 2024, so in 2025, we intend to adjust production to meet actual demand.

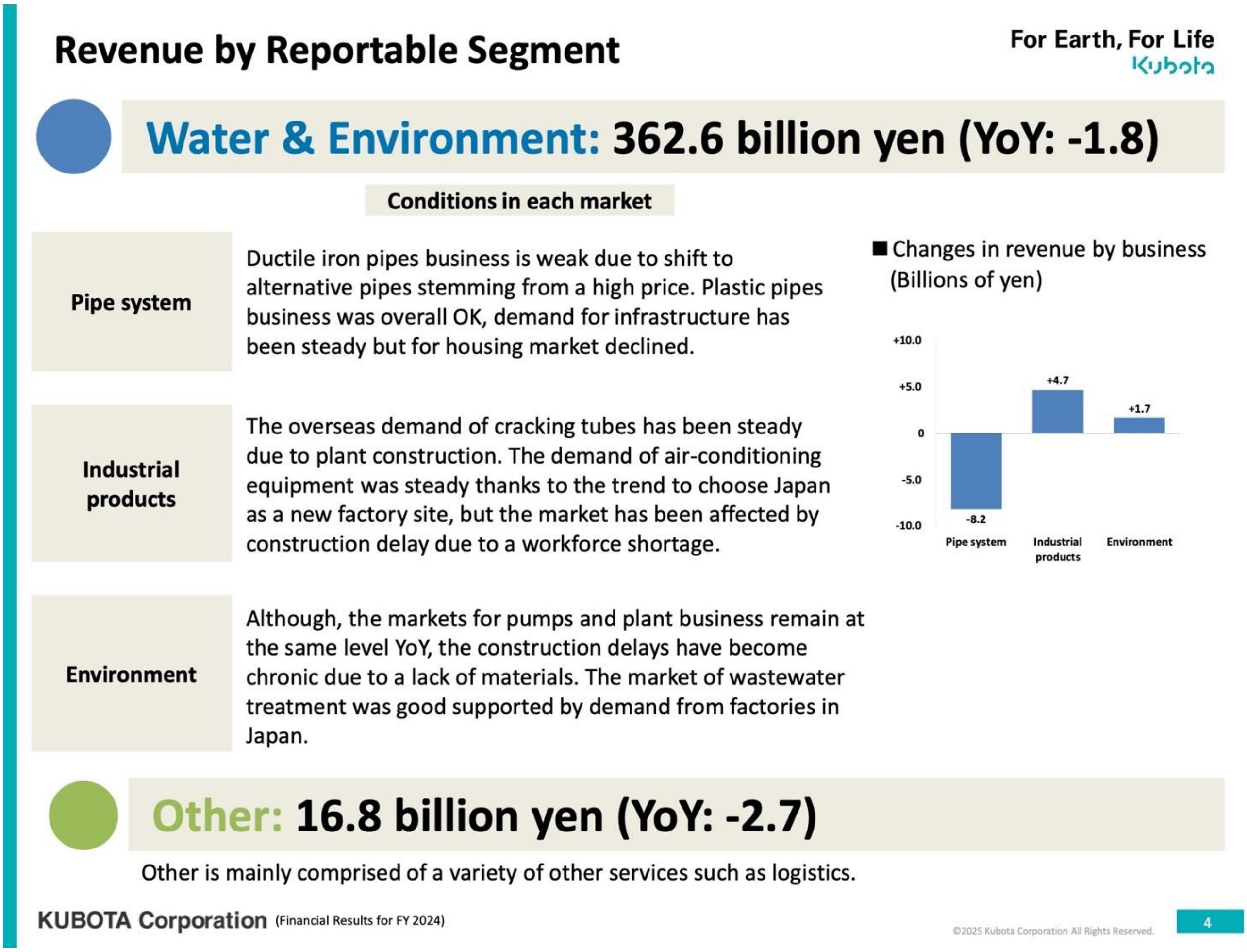
Next, Europe is down JPY85.8 billion. That is minus 21%. Both the construction equipment and engine markets contracted significantly due to a slowdown in the housing market and a decline in investment caused by high interest rates. Although the market contracted significantly in H1 of the year, we believe that the decline became a little moderate in H2 of the year due to the policy interest rate cut and the policy announcements. On the other hand, the tractor market continued to weaken due to investment slowdown.

Next, Asia increased by JPY75.9 billion, up 13%. In Thailand, cassava prices fell due to flood damage in the northern part of the country, and the field crop market was stagnant due to quality issues, but the rice market is steadily recovering from the effects of the drought caused by El Niño. In H2 of the year, sales of rice combine harvesters grew, coupled with rising rice prices, and sales recovered to a level higher than the previous year.

In India, the market contracted significantly in H1 of the year due to water shortage caused by the lack of rainfall resulting from the El Niño phenomenon, and the general election that stagnated conventional economic activities. However, H2 of the year saw a recovery due to sufficient rainfall and harvest volume, and sales recovered along with the market recovery, resulting in positive YoY growth.

China saw a slight recovery in the agricultural machinery market, but without an increase in subsidies, the situation remains weak. The construction machinery market also remained sluggish amid stagnant private sector demand, with the announcement of large-scale government intervention failing to translate into enforcement.

Others dropped JPY5.6 billion, down 6%. Our main market is Australia, where both the residential and construction machinery markets are shrinking due to the slowdown in business confidence.

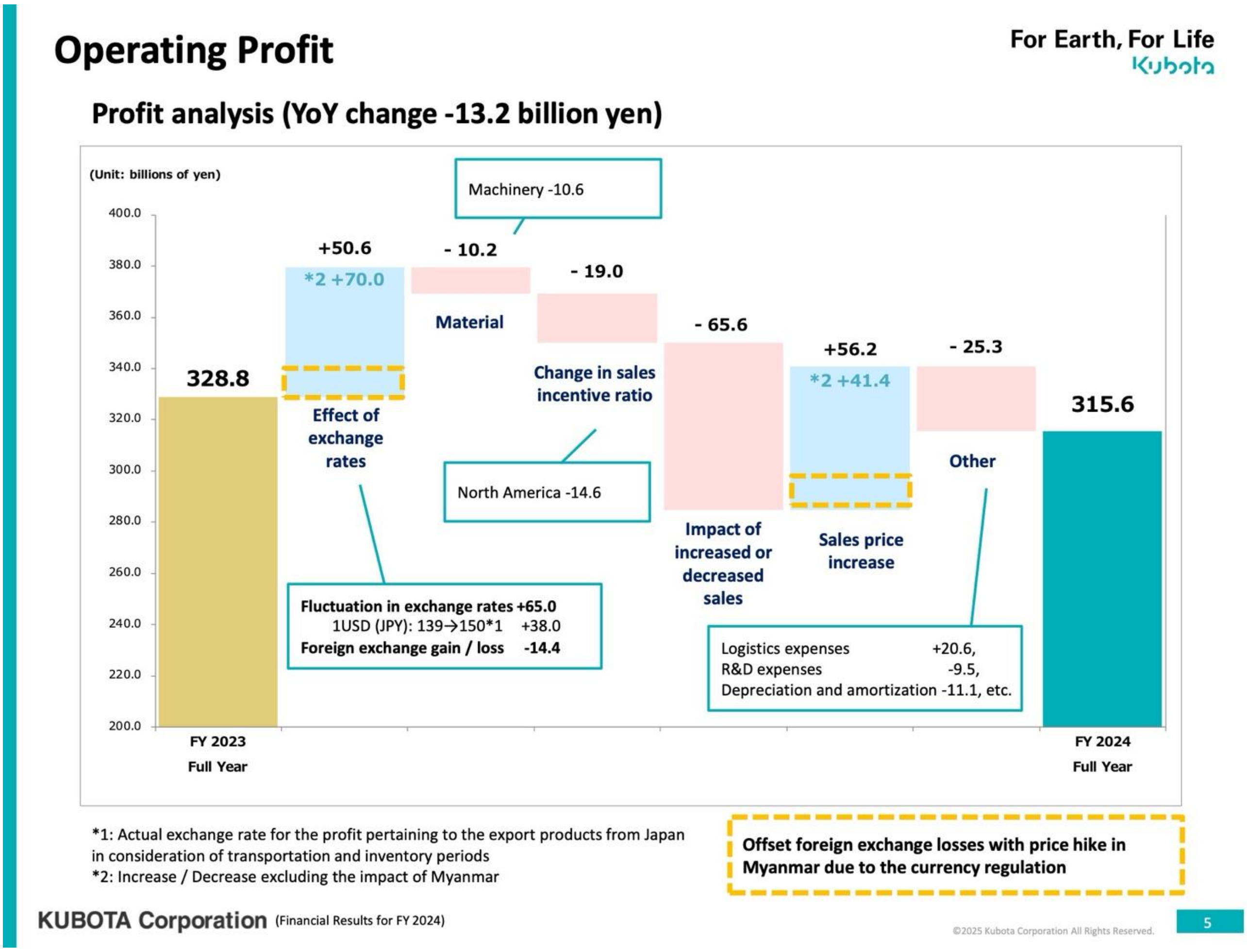


Please turn to page four. This shows the state of the water and environment segment. Water and environment dropped by JPY1.8 billion, down 1%.

In pipe systems, the market for steel pipes shrank due to a shift to alternative pipes in response to rising prices. In addition, the summer heat wave caused construction to be postponed again and again, resulting in significant delays in construction progress during the year. On the other hand, demand for synthetic pipes for infrastructure-related applications was firm, but demand for residential applications weakened due to the decline in housing starts.

Next are industrial equipment, materials, and urban infrastructure. Overseas demand for reaction tubes remained stable. As for air conditioning systems, orders from pharmaceuticals and semiconductor plants have been favorable due to a return to Japanese plants following a review of the supply chain.

As for the environment, the market for plant and pumps is on par with 2023, but construction delays due to material shortages have become chronic and deliveries have been delayed. In wastewater treatment, sales to domestic factories were strong, in line with the trend of returning to factories mentioned earlier. O&M has also been favorable. Others amounted to JPY16.8 billion, down JPY2.7 billion.

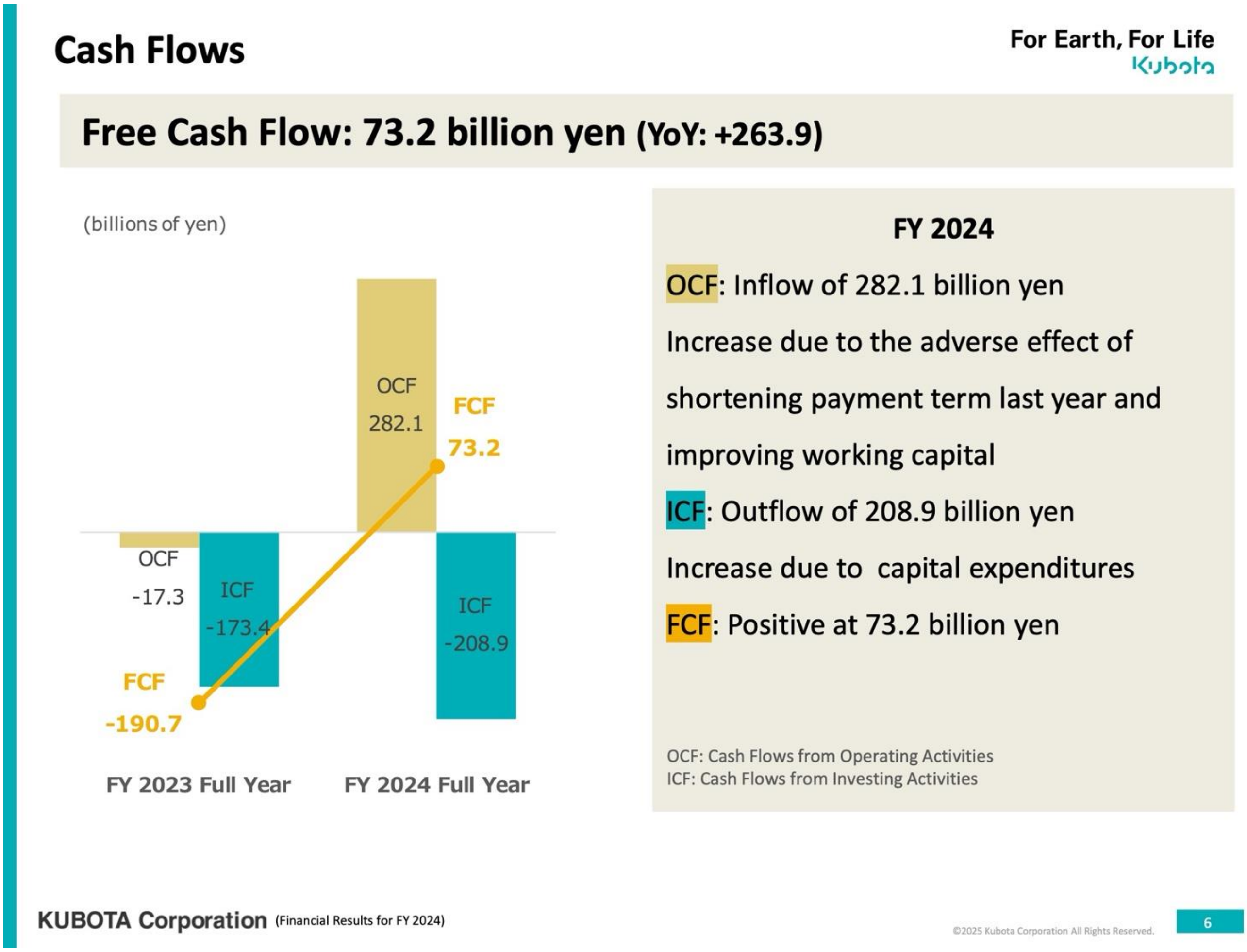


Please turn to page five. Let me explain what is in the operating profit. Compared to the previous year, operating profit fell by JPY13.2 billion. With regard to foreign exchange, the weak yen generated JPY50.6 billion, mainly due to the depreciation of the yen against the US dollar. Of this amount, foreign exchange gains and losses were higher than expected due to the impact of yen depreciation, but the negative impact of the market rate difference due to the Myanmar Kyat was significant and became a factor the drop in profit at negative PY14.4 billion. Regarding the impact of the Myanmar Kyat that I just mentioned, we have covered the exchange rate loss by raising prices.

Let us go to the raw material prices. Higher prices for purchased parts, steel products, and other items contributed to the JPY10.2 billion decline in our profit. Next, incentives continued to be reduced in H2 of the year due to interest rate cuts, but the actual market interest rates did not fall much, and we stepped up the discounts to optimize inventory in H1 of the year. These factors contributed to the JPY19 billion decline.

As for the impact of increase or decrease in sales, it dropped by JPY65.6 billion, mainly due to a decline in Europe and North America, where there is a reaction to inventory fulfillment. Meanwhile, product price hikes lead to a JPY56.2 billion surge in our profit, mainly in North America.

Others slipped JPY25.3 billion. As for the main breakdown of the others, logistics expenses improved and amounted plus JPY20.6 billion. R&D expenses dropped JPY9.5 billion, and depreciation and amortization fell JPY11.1 billion. As for the rest, personnel expenses and fixed costs rose, and given the composition difference due to an increase in construction machinery, it resulted in a significant increase here. Compared to the Q3 forecast, it was up JPY5.6 billion, mainly due to an increase/decrease in sales.



Please turn to page six. This shows the state of our cash flows. In 2024, as shown in the diagram, our operating cash flow was inflow of JPY282.1 billion and investing cash flow was outflow of JPY208.9 billion. As a result, free cash flow was positive at JPY73.2 billion, an improvement of approximately JPY260 billion compared to 2023.

Operating cash flow improved significantly due to the rebound from the decrease in accounts payable caused by the change in payment site last year. Working capital fell as the accounts receivable declined due to lower sales on a local currency basis. As for inventories, we have reduced their volume by strictly adjusting production and sales as mentioned earlier. Meanwhile, in terms of financial claims, we are also extending the site for some products through enhanced incentives. That led to the increase.

Investing cash flow increased as a result of concentrated receipt of capital expenditures. We have said that our critical theme for 2024 is to achieve positive free cash flow. So, we worked to improve our operations, and we were able to achieve positive free cash flow as planned.

Financial Forecast for FY 2025

For Earth, For Life
Kubota

(Unit: billions of yen)		FY 2025 (Forecast)	FY 2024 (Actual)	Changes Amount	Changes %
Revenue		3,050.0	3,016.3	+33.7	+1.1
	Japan	658.0	632.5	+25.5	+4.0
	Overseas	2,392.0	2,383.8	+8.2	+0.3
Operating profit		9.2% 280.0	10.5% 315.6	-35.6	-11.3
Profit before income taxes		9.7% 297.0	11.1% 335.3	-38.3	-11.4
Profit attributable to owners of the parent		6.4% 196.0	7.6% 230.4	-34.4	-14.9

1USD (JPY)	145	152
1EUR (JPY)	152	164
1THB (JPY)	4.20	4.30

The effect of foreign exchange rate on revenue forecast is -124.0 billion yen against LY.

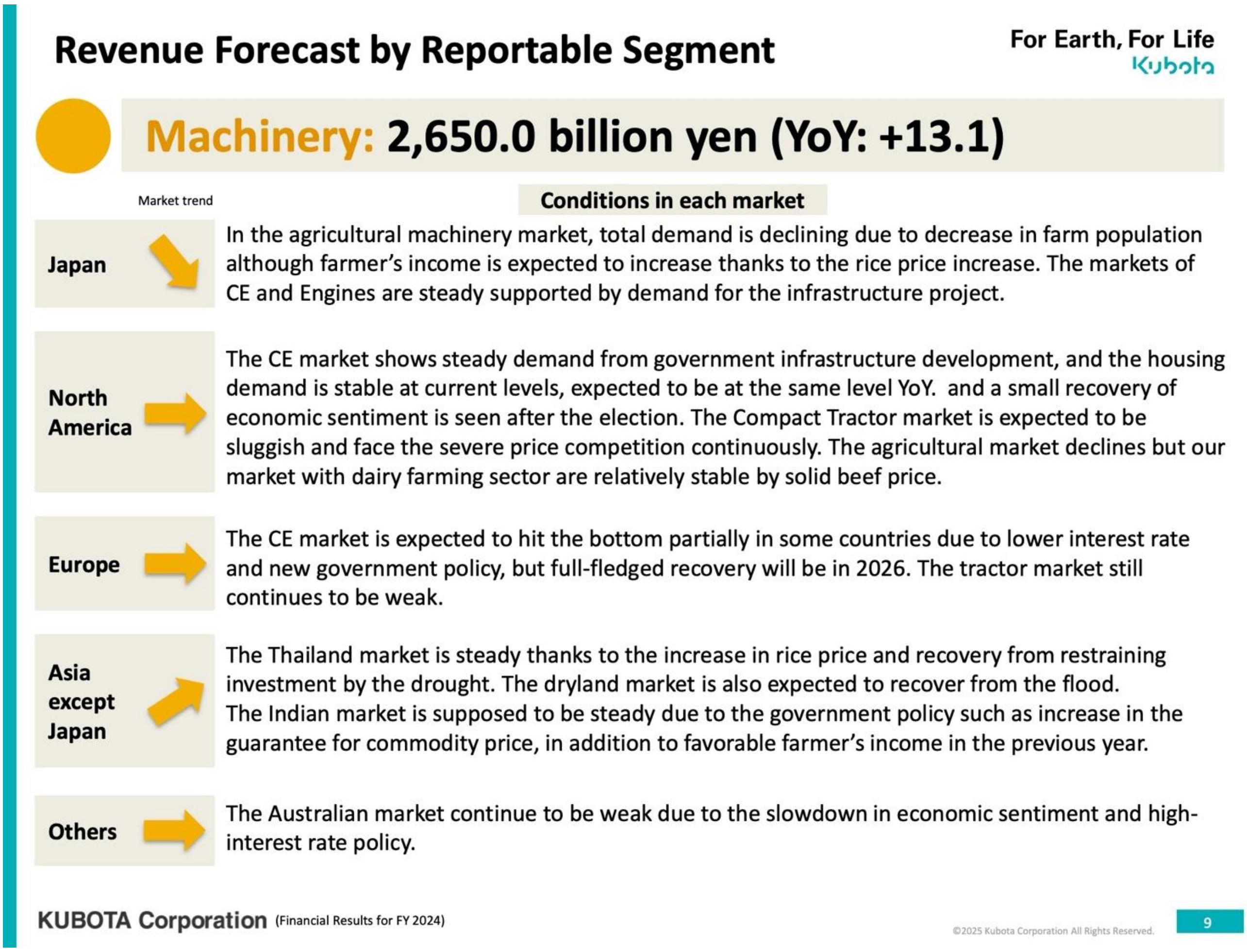
KUBOTA Corporation (Financial Results for FY 2024)

8

Continuing on, I would like to discuss our forecast for 2025. Please turn to page eight of the material.

First, revenue will increase by JPY33.7 billion or 1.1% YoY to JPY3,050 billion. Operating profit will reach JPY280 billion, down JPY35.6 billion or 11.3% YoY. Profit attributable to owners of the parent will decrease by JPY34.4 billion or 14.9% YoY to JPY196 billion.

These are the annual exchange rates. As you can see below, we have assumed a stronger yen against each currency, with the US dollar at JPY145, the euro at JPY152, and the Thai baht at JPY4.2. Since the impact of the foreign exchange rates on revenue will be approximately negative JPY124 billion, the actual sales increase will be about JPY160 billion YoY.



Next, I will explain the market trends by segment. Turn to page nine. Revenue in the machinery business is expected to hit JPY2,650 billion, an increase of JPY13.1 billion YoY.

First, in Japan, the agricultural machinery market is projected to see an increase in farmers' income due to the rising prices of rice, but the market is also expected to fall due to the preceding high production costs, such as fertilizers, and the accelerating decline in the number of farmers in Japan. Construction equipment and engines are expected to remain at the same level as the previous year thanks to the strong demand for infrastructure construction.

Continuing on, we have North America. We expect that the construction equipment market as a whole will be on par with the previous year, as demand for government infrastructure development stabilizes and the housing market, which had been contracting in 2024, has bottomed out and will stabilize. There has also been a slight recovery in business confidence following the US presidential election, and we believe there are some promising factors. With regard to tractors, the residential market remains weak, so we have low prospects for recovery there. We expect the competition to continue to be fierce and intense, with additional incentives being added by competitors. Revenue from general-purpose equipment such as mowers and utility vehicles will weaken slightly but will generally be on par with the previous year. We project that the agricultural market here will remain more stable than other agricultural markets as beaf prices continue to be stable and so forth.

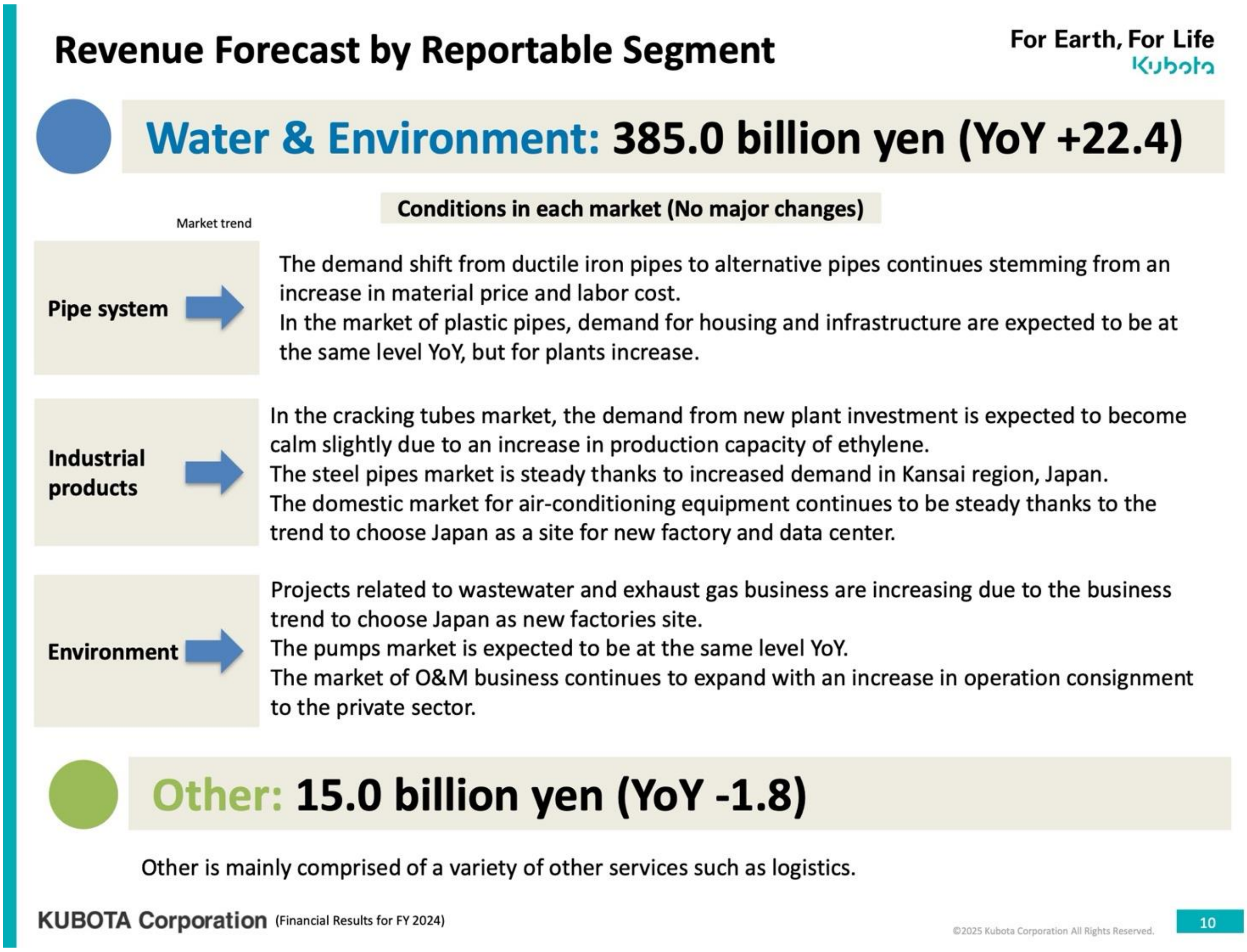
Next is Europe. While the construction market may bottom out in some countries, such as the UK and Italy, due to the implementation of further interest rate cuts and government policies, given the fact that recovery in some areas has been delayed due to political turmoil, we expect the overall market to remain sluggish without a full recovery. The tractor market is also expected to remain weak due to weak business sentiment.

Next, Asia. The Thai market is expected to recover as the drought eases, just like what happened in H2 of the previous year. In addition, we expect rice farmers' incomes to increase due to higher rice prices, and the field crop market to recover from flood damage in some areas. The construction equipment market is expected to remain firm, as the government budget is scheduled to be increased.

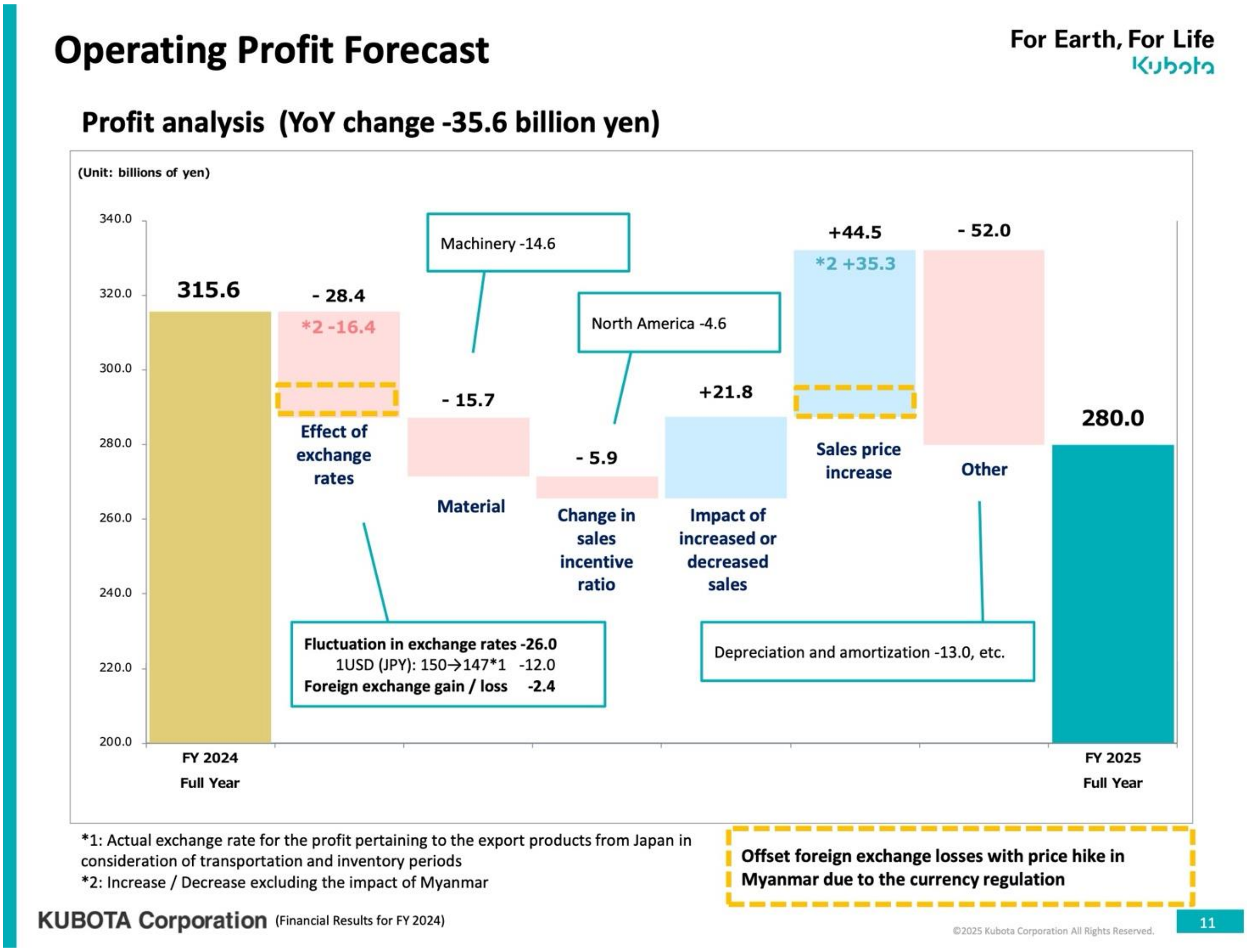
Continuing on, we expect the Indian market to remain strong since there will be no problems with rainfall and last year's bumper crop will prevail. In addition, there is also policy support expected, such as an increase in the amount of government purchase guarantees for agricultural products. We expect a positive YoY increase, including the impact of new products and the strengthening of our dealer network.

In China, we assume a slight recovery in the agricultural market thanks to stable subsidies. Meanwhile, when it comes to the construction equipment segment, we expect it to recover due to the announcement of a large-scale government budget, but we also believe that this will depend on the execution of the government budget.

For others, we expect Australia to remain sluggish due to weak business confidence caused by persistently high interest rates, but the market will not shrink.



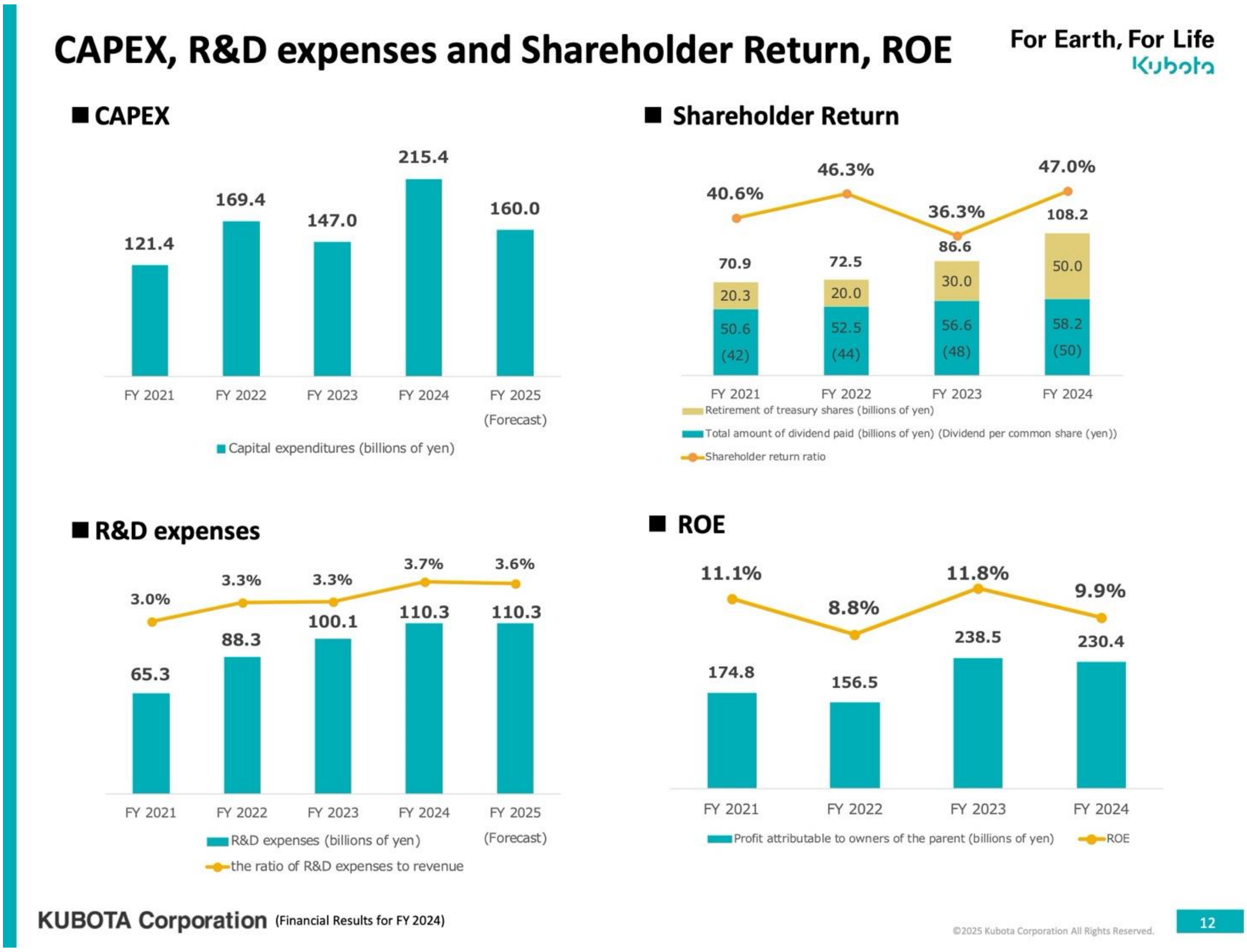
Turn to page 10. In the water and environment business, revenue is expected to reach JPY385 billion, an increase of JPY22.4 billion YoY. Overall, construction progress continues to be delayed due to manpower shortages on site and delays in equipment procurement, but we believe that the market conditions and orders will not change significantly from 2024 and will remain strong. We will continue our efforts to improve operating profit margin through growth in O&M and other areas. Others are expected to be JPY15 billion.



Continuing on, I will now explain the changes in our operating profit. Please turn to page 11. With the assumed exchange rate of JPY145 to USD1, we expect a drop in profit of negative JPY28.4 billion. As for raw material prices, we expect the rise in the prices of components purchased in Japan to continue, leading to an effect of negative JPY15.7 billion. Incentive changes will be a negative JPY5.9 billion factor in the decrease in profit, mainly in North America.

We have factored in interest rate cuts in the US but expect this to be exacerbated by the impact of the discount program, which was expanded from the middle of the previous year, throughout the year. On the other hand, we will try to find more efficient ways to use this and reduce costs while keeping an eye on competition.

The impact of increase or decrease in sales due to volume is positive JPY21.8 billion, while that of product price hike will be positive JPY44.5 billion, mainly in North America and Asia. For others, it will be negative JPY52 billion. Depreciation and amortization will be negative JPY13 billion and personnel and other expenses are expected to increase. Meanwhile, the composition difference I mentioned earlier will be eliminated this year, so although the increase in expenses itself is expected to be less than last year, other factors have a larger negative impact on the figures.



Please turn to page 12. With regard to capital expenditures, the delay from 2023 to 2024 was significant and exceeded 200 billion, but we expect it to reach JPY160 billion in 2025 as domestic repair investment settles down once again. We will keep the R&D expenses at JPY110 billion in 2025, the same level as in 2024.

These are the shareholder returns. For 2024, we have increased the year-end dividend by JPY1 YoY to JPY25 per share for a total annual dividend of JPY50 per share. The total shareholder return ratio, including buybacks, is 47%, hitting the medium-term target level of 40% or more on average. ROE was 9.9%, slightly below 10%, but the average was maintained at 10%, and we intend to keep it at the medium-term target level.

This concludes the explanation of our consolidated financial results for the full year of 2024 and our outlook for the full year of 2025. Thank you very much.

Question & Answer

Matsui [M]: Okay, we will now move on to the Q&A session.

Moderator [M]: Mr. Maekawa from Nomura Securities, please go ahead.

Maekawa [Q]: I would like to ask two questions. I think you mentioned earlier in the operating profit margin portion that you included fixed costs and capital expenditures. It is true that capital investment was JPY160 billion this fiscal year, which is less than the previous year, but I still think it is at a high level. In terms of fixed costs, labor costs continue to rise, and I suspect that selling expenses are still high as well.

We have already received the figures for this fiscal year, but I would like to know if there is room for further reduction in this area during the current fiscal year. Or, if we look ahead to next fiscal year and beyond, will it be necessary to further reduce fixed costs and capital expenditures? I would appreciate it if you could share your thoughts on controlling fixed costs and capital expenditures to improve the operating profit margin, not only for this fiscal year but also for the next fiscal year and beyond.

Takigawa [A]: With regard to capital expenditures, as Mr. Kitao explained earlier, we will continue to renew aging legacy facilities, so we expect these expenditures to remain at a high level. However, we will strictly evaluate the effects of investment to increase production, and we do not expect it to exceed JPY200 billion in the future.

As for selling expenses, as you mentioned, we would like to and must expect a certain amount of bearishness in personnel expenses since we will need to retain excellent talents. On the other hand, as Mr. Kitao mentioned earlier, the number of our personnel increased in some areas due to special demand after the pandemic, so we will be taking a closer look at these areas in the future.

We will try to reduce sales expenses as much as possible by following up with a close look at the budget.

Maekawa [Q]: Thank you very much. From next fiscal year onwards, for example, capital expenditures of JPY160 billion and other increases and decreases in profit due to rising fixed costs stand at negative 520 this year, but I think the composition difference is particularly flat, so should we assume that this negative 520 factor in the decrease in profits will continue from next fiscal year and beyond?

Takigawa [A]: I think it will continue to some extent, but we are thinking of managing the rate of increase more strictly. Looking at 2024 and 2025, the increase in fixed costs, including personnel, SG&A, and research expenses, is expected to be much smaller from 2024 to 2025 despite the increase in the volume of materials, so we would like to continue to work on reductions with this policy.

Maekawa [Q]: Okay, thank you. For my second question, I would like to ask about your business portfolio. You said that you are currently taking some measures in the water and environment segment, and that you are also tackling your inherited business of iron pipes, with no sacred areas. However, as you pointed out, the machinery business and the water and environment business are quite different in nature, so I think it would not be strange if a discussion were to arise about taking ownership of the water and environment business itself. It may be difficult to say how you approach the water and environment business, and I don't think it will be this fiscal year or anytime soon, but I would like to ask for your thoughts on this matter once again. Thank you.

Kitao [A]: Our company is engaged in businesses that firmly support the social infrastructure of food, water, and the environment, with Japan playing a leading role in water and the environment. Agriculture and water and environment are closely connected, and various synergies are emerging from there. If we look only at Japan, I believe that there can be synergies between agricultural machinery and water and environment.

We are reviewing our portfolios one by one in detail. However, as I mentioned earlier, we will need to support Japan's infrastructure even more by providing solutions, maintenance, and using IT. It is because the number of people in municipalities is decreasing and the number of full-time workers is falling. We are thinking about making a transition so that we can grow our business in those areas.

It is not a matter of how the water and environment business is in our portfolio, as I believe that we can expand our business by creating synergies within the domestic market.

Maekawa [Q]: In that sense, for example, is overseas water and environment positioned a little differently from domestic water and environment? Also, I don't think much investment is being made in water and environment, so I don’t think there is much room for investment restraint and other measures to be taken in water and environment, including cost. If there are any, please let me know.

Kitao [A]: In the water and environment business, it is true that we need to make some BCP investments, but in general, there are no new capital expenditures, and conversely, the ROIC level is not bad at all. In that sense, it is doing good. As for overseas, the only market expansion that we expect is for membranes and we would like to work in this area. Mr. Kondo, do you have anything to say about overseas?

Kondo [A]: Regarding overseas water and environment business, we have bases in North America and Europe for our membrane business. We have been expanding our business in North America over the past few years, and we expect to continue to do so in the future. In addition, we are considering making the ASEAN region a priority region, as we believe that we can roll out MBRs using membranes in the ASEAN region, as they offer the advantage of space-saving water treatment for industrial wastewater and industrial wastewater plants.

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

Moderator [M]: Thank you very much. Now, Mr. Sasaki of UBS Securities, please go ahead.

Sasaki [Q]: I would like to ask two questions. For my first question, since you presented the full-year results anyway, please share your thoughts on the stock price. As mentioned in the last slide, slide 12, in Mr. Takigawa's presentation, when we look at your company's ROE, we can see that you have managed to post an average double-digit ROE or more over the past four years, which indicates that you have been able to maintain a certain level of capital efficiency throughout the business cycle. On the other hand, if you look at the stock price, today's stock price is just under 0.9 times PBR, which means that while the Company has a certain degree of ROE, the stock price is below the 1 times PBR level set by the Tokyo Stock Exchange.

I think this kind of problem exists, but first of all, why do you think your company recognizes that it is under 1 times PBR even though it has ROE to some extent? If you would be so kind as to tell us what you think your company should do in the future to resolve this issue, I would be very interested to know. Thank you.

Kitao [A]: To be honest, I feel a bit embarrassed about our stock price. It just would not go up. We have been discussing within the Company for the past year to fundamentally reform our financial strategy and so forth, and to shift from P&L-centered management to a management structure centered on ROIC. We are looking closely at this. We are having various discussions on how to allocate capital costs and generate cash flow for this purpose, and what we want is to recover by setting out a direction that firmly links the business plan and financial strategy in the next medium-term, which starts next year, when we will be able to put this firmly in place. We hope that this will lead to an increase in PBR. Now, with regard to ROIC, it is being reflected in bonuses for directors and executive officers, and we have introduced a system to include such evaluations, and all of us executives have been working with this in mind.

The costliest is interest-bearing debt, especially in North American financing, which should contribute to improving PBR and ROIC. How can we improve that area? As I mentioned earlier, we have been working on measures to increase the operating profit margin by creating hit products and improving the tractor business, which is currently in a very difficult situation and suffering from a slight drop in earnings. We hope to show the figures for a solid recovery in the next medium term.

Sasaki [Q]: Thank you very much. For my second question, I would like to know what you think of your company's operating profit margin. I agree with President Kitao's explanation that the reason for the sluggish profit margin is that fixed costs have increased considerably and volume has not increased in some businesses. However, I would like to add that I think there is a need to boost the growth of the after-sales business a little more.

That is because, if we look at the mid-term strategy you laid out few years ago, the after-sales market was set out as one of your growth drivers. There were materials and explanations that the lower ratio of after-sales services compared to competitors is the cause of the difference in profit margins. Even if you look at other Japanese machinery manufacturers, such as Komatsu, the growth of the value chain centered on after-sales service has led to an improvement in profit margins. Therefore, I think the growth of after-sales service will be a major topic for improving profit margins.

In that regard, what is the current situation of this after-sales service, and how do you plan to expand it in the future? In the first half of the slide, there is also a discussion about the after-sales service, such as the JPY12 billion increase in profit, so I would appreciate it if you could provide a supplementary explanation on your thoughts about the after-sales service. Thank you.

Hanada [A]: It is true that our parts and after-sales businesses are lacking in some areas compared to industry standards. We are fully aware of this fact, and we are mounting activities with a very strong desire to improve the overall operating profit margin by expanding this area.

For example, in terms of regions, while the overall volume of our domestic business is decreasing, we intend to make the maintenance and parts business a pillar of our operations, and to this end, we are carefully selecting the investments necessary to increase the maintenance business as much as possible.

On the other hand, in Europe and the US, the parts business still accounts for only about 10% of machinery sales, but we are working on various activities to increase this to about 15% over the next five years or so. There are various ways to do this, but for example, we are using telematics to monitor the operating status of various machines and actively seek demand for after-sales parts, and we are also putting a lot of effort into activities that will bring in parts that are now being taken by third parties as a second brand.

We are also focusing on expanding our parts business through various alliances with after-sales parts companies and engaging in the e-commerce of parts, while conducting such overall activities. By doing so, we hope to boost our overall operating profit margin.

Sasaki [Q]: Thank you very much. To review, compared to the medium-term plan that you unveiled a few years ago, could you also tell us if this growth in after-sales business in line with that or not?

Kitao [A]: To be honest, I think we are a little behind. We are also working on this, but although the number of professional farmers and contractors is increasing, the majority of consumers, or residential consumers, are not getting service from our dealers. As I explained earlier, we would like to create various mechanisms to attract them.

Also, you might call them third parties, as they could procure inexpensive parts or, in the case of construction machinery, crawlers from inexpensive sources and expand sales of these parts. In any case, we are doing that for each part, and in Thailand, we are working with a third party to form a second brand, creating and then selling a new second brand. We are taking various measures according to the characteristics of each region and area, and although it may take a little more time, we would like to do it well.

Sasaki [M]: That was very helpful. Thank you very much.

Moderator [M]: Thank you very much. Mr. Taninaka of SMBC Nikko Securities, please go ahead.

Taninaka [Q]: I have two questions. The first point is about Escorts-Kubota. I believe you have positioned it as a growth driver, but I would like to ask you again about its business restructuring. Since you are separating out the railway business, did you include this impact in your plan for this fiscal year? Or better yet, how big is the impact expected to be in terms of scale? Also, I believe that the profitability of mobile cranes continues to be low overall, so I would like to ask again if it is possible for your company to take the lead in leveraging this mobile crane business. Thank you.

Takigawa [A]: I will answer the first question. In our business forecast for 2025, we do not anticipate effect from the sale of Escorts' railway business. The contract itself was signed in May, and we are considering a closing date of September or October. However, since the transfer of the manufacturing license from Indian Railways that Escorts now has will be applied for after the conclusion of the sales contract, we cannot foresee the timing of the final closing, or the timing of the complete change of ownership yet. Therefore, this is not included in the forecast. If we were to sell it, I think we would make a profit in the middle of billions of yen in terms of profit.

Kitao [A]: Mobile cranes business is a very small portion, and Kubota is not thinking of leveraging it.

Taninaka [Q]: Yes, I understand, thank you. My second question is about the autonomous driving combine harvester. What is the actual sales amount now? If you have any hints, please let us know. Also, I have the impression that it will take a long time considering domestic laws and regulations, so if it is possible to expand overseas, how competitive would you be and what kind of measures is your company taking? If you have any hints, please let us know.

Kitao [A]: Regarding unmanned automated combine harvesters, we are still at the level of several dozen units, so we are not yet at the level of a business. In Japan, there is a project called Accelerating Smart Agriculture Demonstration, in which about 200 to 300 farmers across the country are working together with the Ministry of Agriculture, Forestry and Fisheries to demonstrate smart agriculture, using tractors, combine harvesters, and the KSAS I mentioned earlier. Various reports are showing the effects of these efforts, and we expect to see an increase in such smart agriculture in the future, especially among carriers.

Although that will not ultimately reach level two or three autonomous driving, they will be level one, or semi-automatic system called go straight. There are machines that can go straight on their own while riding on a tractor or combine harvester, and currently, more than half of the rice transplanters, for example, are equipped with such devices. We are gradually moving towards smarter and more autonomous driving. Since we are still in that state, then it will take a little longer for the combine harvesters and other products to really contribute to our business.

Taninaka [Q]: Thank you very much. How should we think about this in terms of overseas business?

Kitao [A]: We are testing them overseas, but there is still a way to go. We are seeing the most advancement in Japan. Of course, things are also advancing in Europe and the US. In Europe and the US, tractor operation tests have begun in orchards and wineries, which is our specialty, and we would like to promote practical applications in these places.

Taninaka [M]: Yes, I understand, thank you. That's all from me.

Moderator [M]: Thank you very much. Mr. Adachi of Goldman Sachs, please go ahead.

Adachi [Q]: Let me ask you about tractors in general. First of all, how do you view the tractor market in North America? I think you said that there is not much demand for medium-sized tractors, and that it is fine because of livestock farming, but for small tractors, the competition is worsening as Indian and Korean companies, which are known as Tier 2 companies, are entering the market.

The retail market as a whole is also tapering off, so the environment is not yet in a phase where we can expect any improvement. In fact, I think there is a risk that this situation will continue and become the norm, so I would like to ask you first about your company's view on whether we can expect a recovery when looking at the outlook for future demand. Thank you.

Hanada [A]: In North America, we classify tractors with 40 horsepower or less as compact and those with more than 40 horsepower as midsize. As mentioned earlier, demand for midsize tractors is quite strong right now, and we are increasing our market share year by year.

On the other hand, while demand for 40 horsepower and below itself has expanded rapidly over the past five to 10 years, as you mentioned earlier in your question, it is also true that more and more competitors are entering the market. In this context, we have been trying to protect the market by focusing on maintaining our market share and using considerable incentives.

First of all, with regard to the market itself, there was a considerable upswing during the COVID-19 pandemic, but it has now returned to the level long before the pandemic. We thought it would return to the pre-pandemic level around this year or next year, but it has now dropped a little lower.

On the other hand, this class is based on housing starts. And since the population in the suburbs will not decrease at all, then we do not expect the market to go down in the long term. However, we strongly expect the competition to become tougher, and I think there are two ways in which we will be able to compete with what is considered Tier 2 companies in the future.

One is, as Mr. Kitao mentioned in his presentation earlier, through our fundamental activity that calls of the use of the various strengths of Escorts-Kubota in India, such as procurement power and various forms of cost competitiveness, to properly create a platform for the entire world, and to enhance the competitiveness of our products there.

In the short term, we were a little too conscious of Tier 2 and tried too hard to protect our market share, which we regret a little bit. In regard to that, I think that we should steer in the direction of achieving a balance with overall revenue and profit without incurring costs, even if it means losing a little bit of market share. That is how we would like to move forward in the future.

Kitao [A]: If I may add something, the number of small tractors under 40 horsepower is very close to the number of housing starts. For a period of time, in 2021, the number of housing starts increased greatly due to the special demand caused by the COVID-19 pandemic. The number of housing starts was originally around 1.4 million units in 2019, but if you look back at the last year, you will see that the number of housing starts was on par with 2019.

So now, the number of tractors has decreased slightly because of the demand reversal and rebate. In the future, however, the population of the US will increase, so if the number of housing starts rises, the market will recover. Under these circumstances, we are now moving forward while considering how to strengthen our competitiveness.

Adachi [Q]: About that, let me ask my second question. I think that is exactly what you just said, but I think the next issue is where to produce. Right now, you produce the small tractors in the US and medium-sized tractors in Japan. However, when we think about the allocation of bases in the future, I don't think there will be any change in your company's intention to increase the number of bases in India at least. But at the current stage, if this volume continues, you may need to reduce the number of bases because you will not return to your past margins, or you may need to automate more and reduce the number of people. You will also probably see areas that need to be bolstered.

I would appreciate it if you could tell us about the sense of surplus in bases and what kind of concrete measures you are currently considering to increase or decrease the surplus within the three main categories of Japan, the US, and Asia. This is in regard to tractor bases. Thank you.

Kitao [A]: Regarding tractor bases, one thing we did not anticipate was the depreciation of the yen. Now, to be honest, I would say that products from Japan are the most competitive. We have tried to produce and consume locally as much as possible, so that we can get what we need when we need it but given the various security risks, we will first have two bases.

For example, we are currently working on a concept that will enable us to manufacture the same L-type tractor in both Japan and Thailand, or in Japan and the US. We have been working on this to try to find a balance. There are also issues with exchange rates and now, with tariffs, but we would like to make our bases flexible by taking these things into consideration.

Now that we have a new base in India, of course we can procure at a very low cost there. We had been making tractors for India in Thailand, but now that we are making them in India together with Escorts, they have become about 20% cheaper, so the issue or theme we have to tackle is how to utilize this base.

As you said, how to allocate our bases among Japan, Thailand, India, and the US is a challenge that we are now facing. Our basic idea is to optimize production, procurement, and logistics so that we can flexibly respond to changes in the external environment.

Adachi [Q]: Thank you very much. Can I add just one point? I think you have emphasized the current flexibility several times, so regardless of which region has too much or too little capacity; in order to respond to these risks, it is necessary to have a certain amount of surplus rather than go with the optimal capacity as before. If that is the case, is it inevitable that production efficiency will decline compared to the past?

Also, when looking at products, there are various models, and among the small ones, there are several lineups. In those lineups, for example, this one is a best-seller and profitable, so you will keep it, but this one does not generate that much volume and not profitable, so you will stop its production. It seems that large ones are also struggling, so lastly, I would like to ask if you are considering making selections by lineup or size. Thank you.

Kitao [A]: It is difficult for large machinery businesses, in terms of profits alone, so we would like to think about what to do about such businesses. However, our core compact businesses being able to respond flexibly while having some spare production capacity in each region would be good for our future global strategy.

Our business, including tractors and consumers, will not decrease drastically in the future. In particular, as I mentioned earlier, in Asia and other developing countries, I think that after India, Africa will be next. Agricultural mechanization will definitely accelerate in those area, so we would like to consider the production layout while keeping this in mind.

North America has also been in a difficult situation for the past two to three years, but as I mentioned earlier, if housing starts increase, it will improve again. However, the most important issue is whether the products we are armed with are competitive. I believe that the next mid-term period will be the time to properly create a system that we should have, including production bases. So, since production is indeed temporarily down right now, it is true that we have more room in our production capacity. We would like to thoroughly review and consider such aspects of our business.

Adachi [M]: Noted. That's all from me. Thank you very much.

Moderator [M]: Thank you very much. We have received other questions, but we have reached the end of our scheduled time, so we will now conclude the Q&A session.

Matsui [M]: This concludes the briefing. Thank you for attending today's briefing.

Kitao [M]: Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been translated by SCRIPTS Asia.*

Disclaimer