

## Major questions and answers for the explanatory meeting for the business results for the second quarter ended September 30, 2022

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Date: **Wednesday, October 26, 2022, 16:00-17:00**

Participants: Kotaro Hirano                      President and Executive Officer & CEO  
Keiichiro Shiojima                      Vice President and Executive Officer & CFO  
Hidehiko Matsui                      Executive Officer & CMO  
Toru Sugiyama                      Executive Officer & Vice President of  
Mining Business Unit

※Some excerpts are included in this report.

### 1. P/L in the general·Earnings forecast

**Q : What is the reason for the upward revision of the full-year earnings forecast?**

**Are the upward revisions only reflecting the upside in the 1H results? The global demand forecast for hydraulic excavators remains unchanged, but are there any signs of a slowdown in demand in 2H?**

A : Shiojima : The 1H results exceeded the internal forecasts as of 1Q. In the 2H outlook, we also factored in the risk of lower volume due to delayed procurement and lower demand, but the procurement status in 2Q three months improved. Therefore, in the current forecast, the risks in the 2H were reduced, and the outlook for 2H was also revised upward. In particular, we had factored in the risk of business in Russia, assuming that the impact of the Ukraine situation would spread not only to Russia but also to Russia's neighboring countries, but we have reduced this risk in light of the fact that orders in all regions except China have been firm up to the present time.

**Q : How much did the adjusted operating income of ¥31.5 billion for the 2Q three months exceed the internal plan? Has the 2Q three months of results been boosted by 2Q shipments of machinery that could not be shipped in the 1Q due to procurement risk? Or should adjusted operating income for the 2Q three months be understood as the actual value?**

A : Shiojima : Adjusted operating income for the 2Q three months exceeded internal forecasts. Despite the impact of the yen's depreciation, we considered the performance as the actual value. This is largely due to the fact that concerns of

procurement risks have ended up being unfounded. On the other hand, inventories in transit and inventories at sales subsidiaries remain at high levels, and these will lead to sales from 3Q onwards.

**Q : The forecast for the full-year adjusted operating income is ¥94.0 billion for July and ¥110.0 billion for this time. Excluding the exchange rate, the forecast is revised upward by approximately ¥10 billion. Dividing this into 1H and 2H, what is each one?**

A : Shiojima : There was an improvement of ¥10.7 billion from the previous forecast excluding exchange rates. Among this, the 2Q three months improved by less than 40%, and an improvement of approximately 70% is planned in 2H.

**Q : Please tell us the difference from the previous plan about the deducted amount as assumed risks in the earnings forecast.**

A : Shiojima : A considerable amount of risk was factored in as of July. Currently, risks have been reduced from initial expectations, so we reduced them by around half on revenue basis and by around one-third on an adjusted operating income basis. Since uncertainty, including procurement risks, continues in 2H, a certain degree of risk remains.

Hirano : As of July, based on the logistics confusion, we had assumed that it would continue to be risky to procure from 2Q onwards. However, at present, the shortage of components from China has been eliminated, and production was recovered in the 2Q three months, which led to sales. The current outlook incorporates procurement risks and the risk of soaring logistics costs in 2H. However, the current status of both orders and production is favorable. We consider the current fiscal year outlook to be the bottom.

**Q : "The risks have been reduced by around one-third on an adjusted operating income basis," you mentioned, but the risk that you expect this time is around the ten billions of yen and over ?**

A : Shiojima : We incorporate more risk than the ten billions of yen and over.

**Q : Regarding "Sales volume, model mix & others" of "Comparison of consolidated income forecast," notation of presentation material has changed since the last time, so please tell me how the figures were changed.**

A : Shiojima : The profit share of the Americas business, which had been included in “Sales volume, model mix & others” and the Americas price adjustment, which had been included in “Selling price,” were separated as “Americas business restructuring in FY21.” In July forecast, the full-year forecast for “Sales volume, model mix & others” was -¥17.5 billion, but the current forecast is ¥4.9 billion. The only component that changed from the previous forecast in “Sales volume, model mix & others” is “other model mix,” which excludes profit share. The -¥8.8 billion “other model mix” forecast as of 1Q consisted of -¥15.5 billion in profit share and ¥6.7 billion in logistic costs and other regional product mix differences. This time, the profit share of -¥15.5 billion was excluded from “other model mix,” and the risk of rising logistics costs, etc. was additionally factored in, resulting in “other model mix” of -¥5.3 billion.

**Q : What is the reason for the reduction in the full-year forecast of material costs? Is it due to the easing of material cost hikes?**

A : Shiojima : On an actual basis, material cost hikes have eased from the initial forecast. We are reducing costs through negotiations at the global procurement stage to mitigate the impact of rising material costs.

**Q : The difference in the value chain composition is +¥11.4 billion (previous +¥23.3 billion) as a factor in the change in consolidated income forecast for FY2022. Is the value chain income margin smaller than initially expected? What is the background to the revision of the value chain composition difference?**

A : Shiojima : (Due to a decrease in the value chain configuration ratio.) The value chain business is growing, and income is not estimated to be small. In the solutions business, 1H of the year saw a significant impact on Bradken’s income due to the rising cost of materials, but the overall income of the value chain is increasing. Within the value chain, the amount of income from parts and services for the construction and mining, and the solutions business is growing.

**Q : I would like to confirm when the effects of logistics costs, material costs, and yen depreciation will become apparent in your business performance.**

A : Shiojima : Regarding logistics costs, it has become easier to obtain containerships, and prices have fallen. The easing tightness in container shipping will be felt from 2Q to 2H. On the other hand, prices have been rising recently for RORO ships and chartered vessels, which are difficult to arrange, and costs are rising. The next step

is to pass on the price to customers. This time, an increase in logistics costs was factored in by an additional -¥5.0 billion as “other model mix.” Material costs will have a positive effect on performance in 2H of the year and beyond, as prices did not rise as much as initially forecast and the effects of cost reductions were factored in. There is no time lag in the effect of exchange rates. If the prevailing exchange rate results in more than expected yen depreciation, it will be an external upside factor.

**Q : Will unrealized profits be realized in the future?**

A : Shiojima : Although unrealized inventories have increased in the 1H results and have been factored into the earnings forecast in a negative way, the realization of unrealized profits will be one upward swing factor.

**2 . Situation By Region and Business**

**Q : I would like to confirm the progress of the Americas business. I have a good impression of progress in 1H, including mining.**

A : Matsui : We are experiencing strong performance, including dealer agreements. The market has a good impression of the company and orders are strong. Customers and dealers enjoy our hydraulic excavators, mini excavators, and wheel loaders, therefore we are working hard to ensure a smooth supply of products, and orders are increasing.

Sugiyama : Mining has completed the signing of dealer agreements and is actively engaged in sales activities, which has led to positive results. Specifically, the main focus is on hydraulic excavators and parts and services. Parts and services are strong, especially with the increased closeness to dealers and the contribution of ConSite development and other services.

Shiojima : After deducting the one-time price adjustments and profit share included in the same period of the previous year, Deere’s OEM portion remained almost flat and slightly increased including the impact of foreign exchange rates. In 1H of FY2022, sales from independent business development will be approximately ¥60 billion (¥30 billion in the same period of the previous year), an increase of more than doubling YoY.

**Q : With regard to profitability in the Americas, are you able to generate profitability above the company-wide average?**

A : Shiojima : We are getting close to the numbers.

**Q : Regarding the mining business environment, I would like qualitative comments on the willingness of mining customers to invest by coal and hard rock compared to three months ago.**

A : Sugiyama : Continuing from 1Q, resource prices are still at a high level, which is a tailwind. Although prices for iron ore and coking coal have declined somewhat, this may be temporary, due to the economic slowdown caused by the lockdown in China and the decline in crude steel production, the current price level is still high enough. Conversations with customers indicate that there is no slowdown in capital investment. Demand remains high.

**Q : Regarding the FY2022 forecast of ¥514.6 billion for the value chain business, are the unique measures working, or is it a movement in the industry as a whole? What is the outlook for the future, including the next fiscal year?**

A : Hirano : The value chain is growing in all of business such as parts and services, rental, used equipment, and remanufacturing. Regional factors include the Americas, which is performing well due to its own business development. The introduction of ConSite service solutions and the presence of designers, especially in direct contact with mining customers, has led to an increase in parts and services sales by supporting the improvement of product operation. Overall, the company's global efforts, including rental and used equipment, are paying off. The goal is to increase the value chain as a percentage of overall sales to 50%, and to further enhance the solutions offered to customers.

### 3. Management Plan

**Q : What kind of discussions are you having now for the next medium-term management plan starting next fiscal year? We are concerned about future demand trends. Do you have any unique measures to cover even if demand is weak?**

A : Hirano : We are developing measures for the new medium-term management plan starting next fiscal year, including group companies. The promotion of the Americas business will be a key point. In particular, the turnout in North America has been very strong, and we are providing products and services through our dealer network, centering on compact and construction. The next important step is Latin American mining, especially dump trucks. Mining operations in Latin America will take time to prepare, and preparation will need to take the form of expanding H-E Parts and Bradken bases. In Latin America, we are aiming to expand sales of dump trucks in particular. Around the year after next, we are considering having our fully electric dump trucks used on a trial basis at our customers' mine sites. If the fully electric dump trucks proceed well, they will be an advantage at mine sites in Latin America, where

there are large differences in elevation. The electrification response is currently centered on Europe, but we will consider expanding the response to Japan and North America in the future. In addition, we will develop value chain businesses such as ConSite on a global basis. We are currently considering various investment plans and hope to announce them at the appropriate time.