

Parts and Services Business Strategy Explanatory Meeting

September 19, 2023

 **Hitachi Construction Machinery Co., Ltd.**

Public Relations & Investor Relations Dept.

Corporate Brand & Communications Group



President and Executive Officer,
COO

Masafumi Senzaki



Vice President and Executive Officer,
President of Spare Parts and
Service Business Unit

Eiji Fukunishi

1

Stability and Future Growth Potential of the Parts and Services Business

2

Business Environment Surrounding the Parts and Services Business

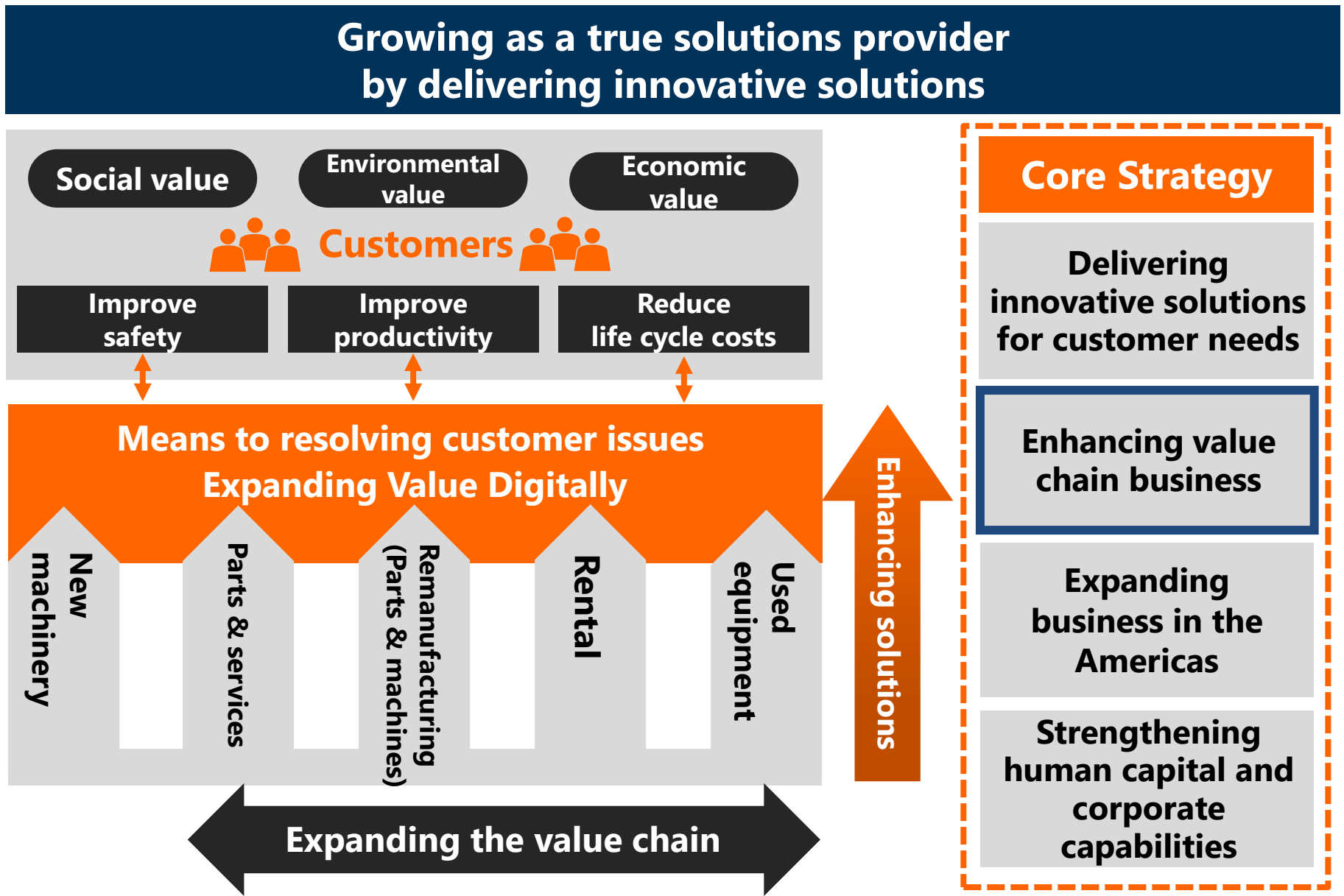
3

Priority Measures in the Parts and Services Business

4

Parts and Services Business Strategy in the Americas Market

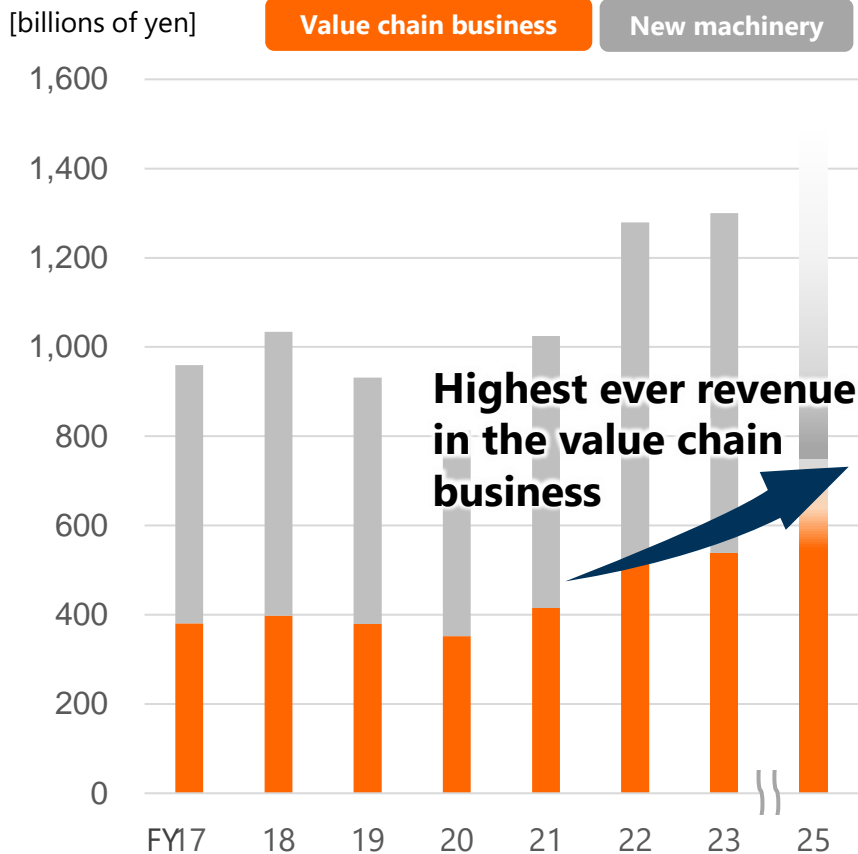
1. Stability and Future Growth Potential of the Parts and Services Business



1-2. Changes in Value Chain Business Performance

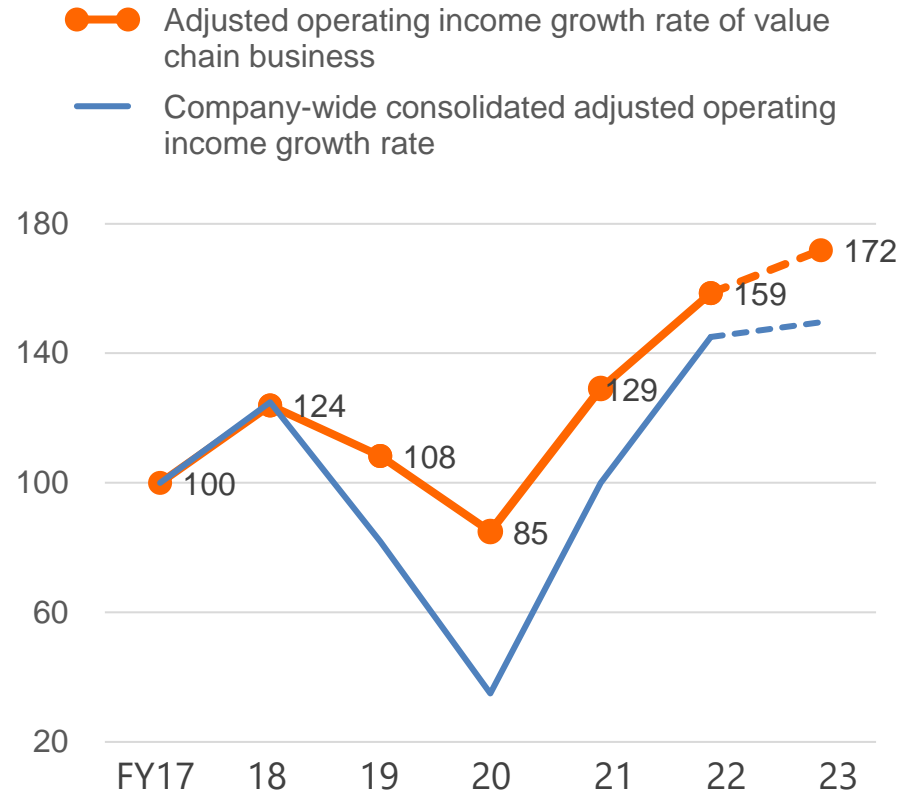
The value chain business is a highly stable source of revenue that is unaffected by changes in demand for new machinery

Changes in sales revenue in the value chain business



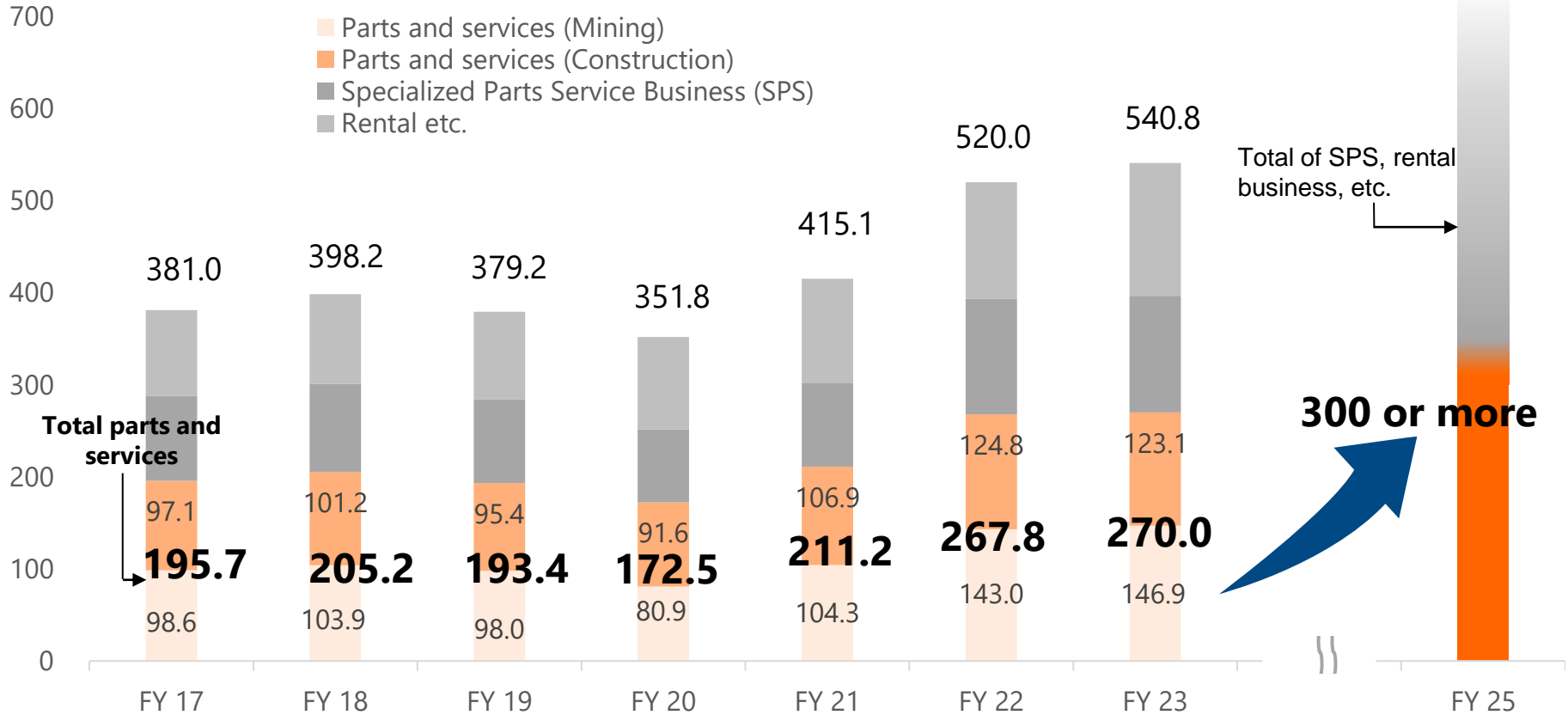
Changes in the index for adjusted operating income in the value chain business

* Index set to 100 for FY 2017



Parts and services are a stable source of revenue that account for half of the value chain business

[billions of yen]

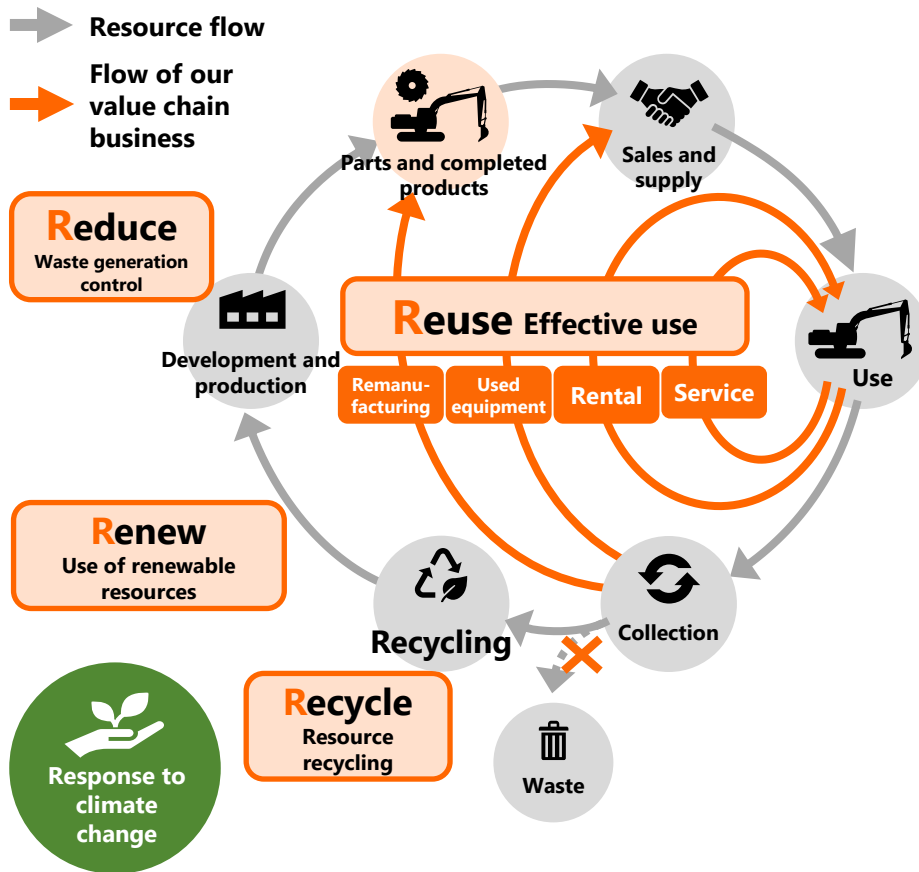


Aiming for parts and services sales of 300 billion yen or more in FY 2025

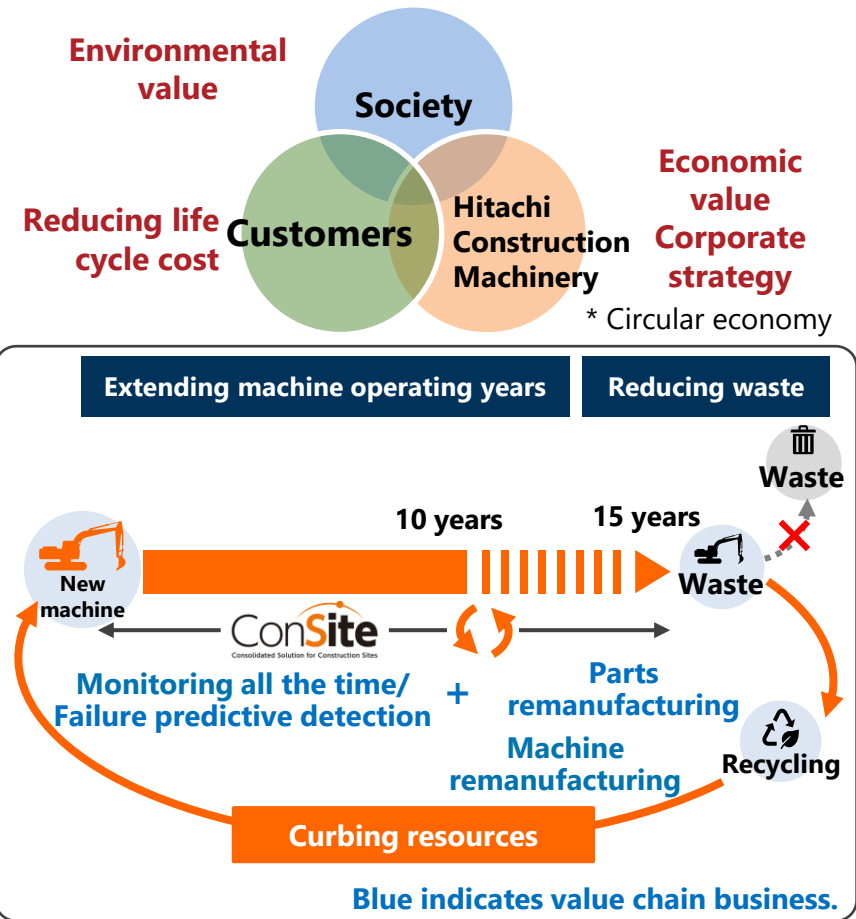
* Value chain: Total of the business other than new machinery sales consisting of parts and services, specialized parts and service business, rentals, and other business

Expanding value chain business to extend our product life cycle one and a half fold, and then maximizing customer value and minimizing resource consumption

Undertaking the 4Rs across the entire company



Significance of our initiatives for CE*



2. Business Environment Surrounding the Parts and Services Business

Features of construction machinery

(1) Operate for long term.

Operate for at least 10 years, or in some cases 30 years or more.

(2) Subject to large loads.

Mining machinery can remove 70tons of earth in a single scoop.

(3) Operate in a wide range of environments.

Dust, rain and wind, vibration, temperature (-50 to +50°C)

(4) The operating environment varies.

The operating location changes with each work site.



Machine trouble leads to operating losses for the customers

Objectives of construction machinery maintenance services

Preventive maintenance before trouble occurs

Immediate response when trouble occurs



Stable machine operation and improved customer satisfaction

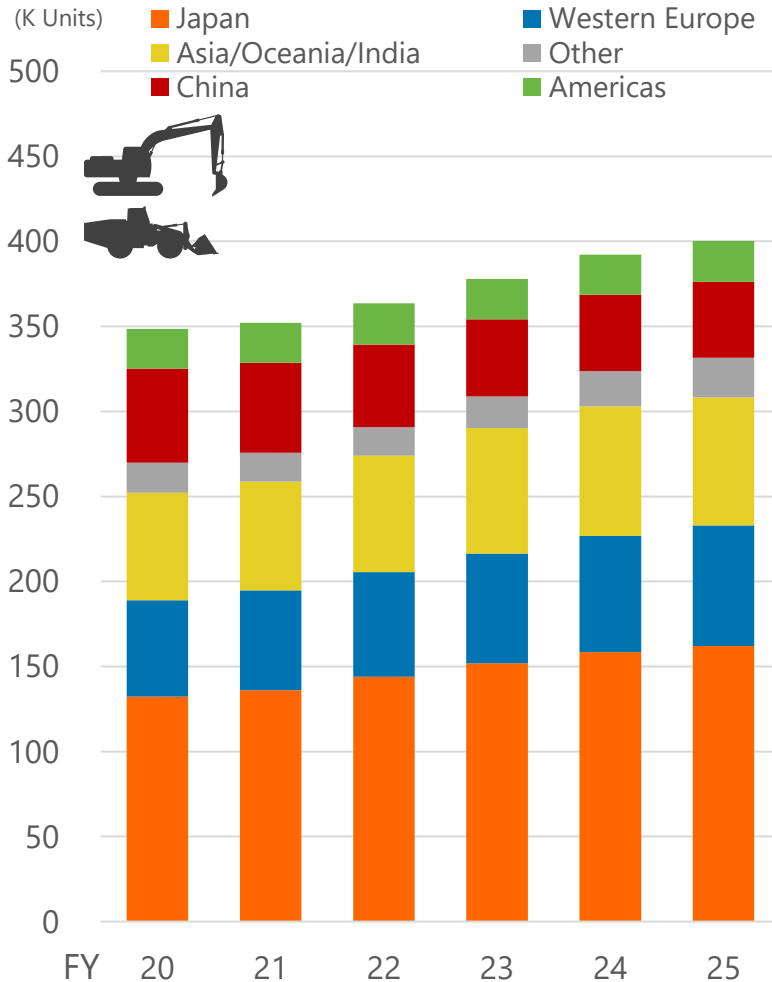


Hitachi Construction Machinery Customer

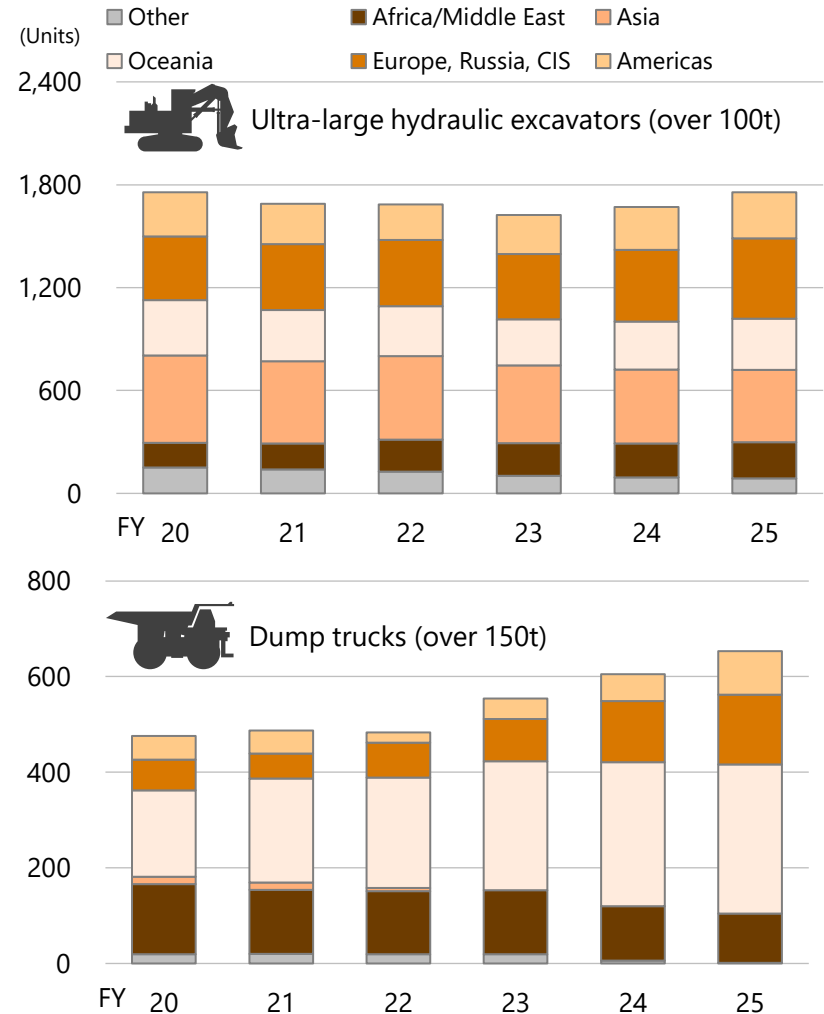
2-2. Changes in the number of Our Products in Operation

Policy for increasing the number of machines in operation and expanding the parts and services business

Construction products



Mining products



* The number of machines in operation is an estimate by our company. Deere brand and OEM products are not included.

2-3. Capture Ratio and Lineup of Service Parts

Aiming for the same capture ratio worldwide including the Americas as in the direct sales and services regions

$$\text{Capture ratio (\%)} = \frac{\text{Parts sales}}{\text{Potential amount}^*}$$

Global average capture ratio

FY 2022 result **Approx. 60%**

Theoretical room for sales expansion

- Inflow of market parts
- Use past the recommended replacement timing

Parts sales

Approx. 40%

Approx. 60%

Potential amount*

Direct sales and services regions

13 sites in Japan, Southeast Asia, Oceania, Africa, and elsewhere

Independent sales and services regions

Approx. 300 dealers **Approx. 40%**

Approx. 70%

* Parts sales that can be expected, calculated based on construction machinery operating data and replacement parts lists.

Proposals from 3 brands according to the machine years of use, application, and budget

Genuine parts

Hitachi Construction Machinery

GENUINE PARTS

Parts produced by certified suppliers

Hitachi Construction Machinery

SELECTED PARTS

Remanufactured parts

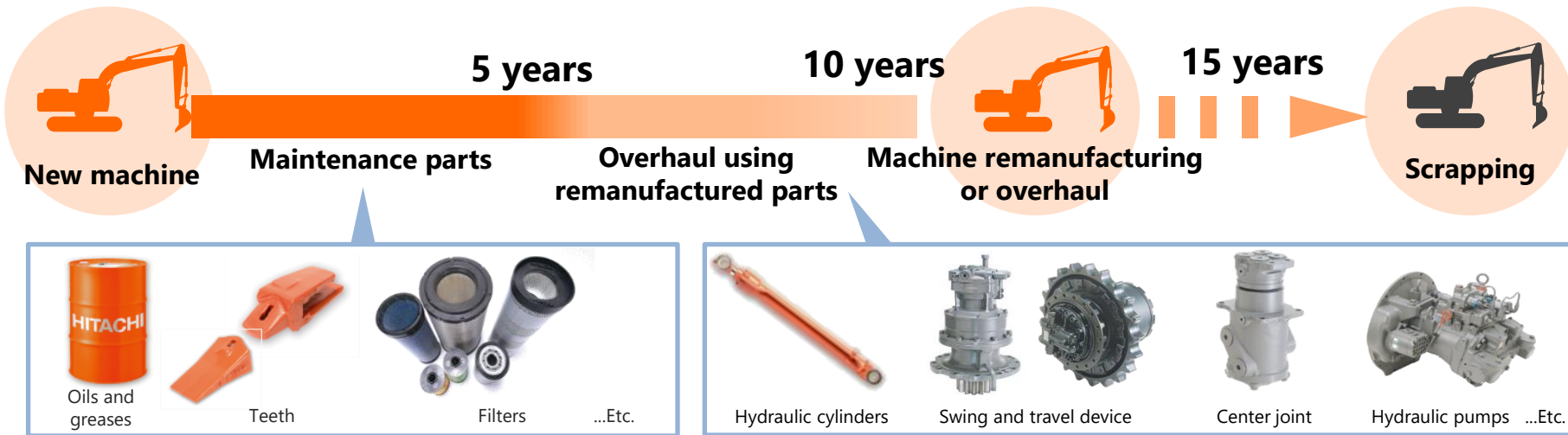
Hitachi Construction Machinery

REMANUFACTURED

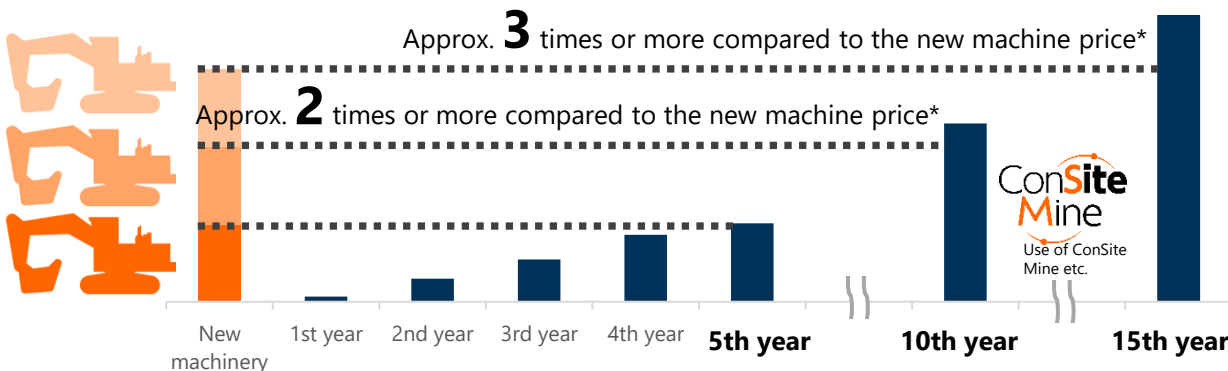
2-4. Extending product lifetimes

Extending product lifetime not only reduces environmental impact but also contributes to increasing parts and services sales.

Examples of replaced parts during the lifecycle of a hydraulic excavator



Total parts and services sales for a mining excavator



* The EX5600-7 ultra-large hydraulic excavator is assumed to operate 6,000 hours a year.
(Hitachi Construction Machinery estimates)

3. Priority Measures in the Parts and Services Business

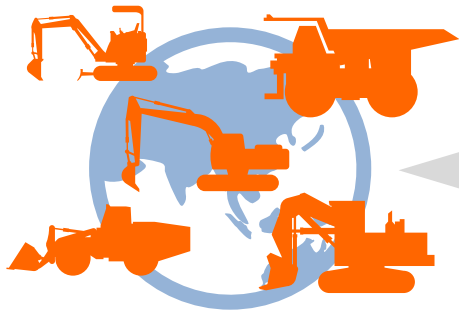
- 3-1. **Parts** **Strengthening the Global Parts Supply System**
- 3-2. **Services** **Service Strength for Long-Term Customer Relationships**
- 3-3. **Remanufacturing** **Strengthening of the Business Structure and Expanding Revenue**

3. Priority Measures in the Parts and Services Business

- 3-1. **Parts** **Strengthening the Global Parts Supply System**
- 3-2. **Services** **Service Strength for Long-Term Customer Relationships**
- 3-3. **Remanufacturing** **Strengthening of the Business Structure and Expanding Revenue**

3-1. Strengthening of global parts supply system

Securing a parts inventory that can support expanding business results



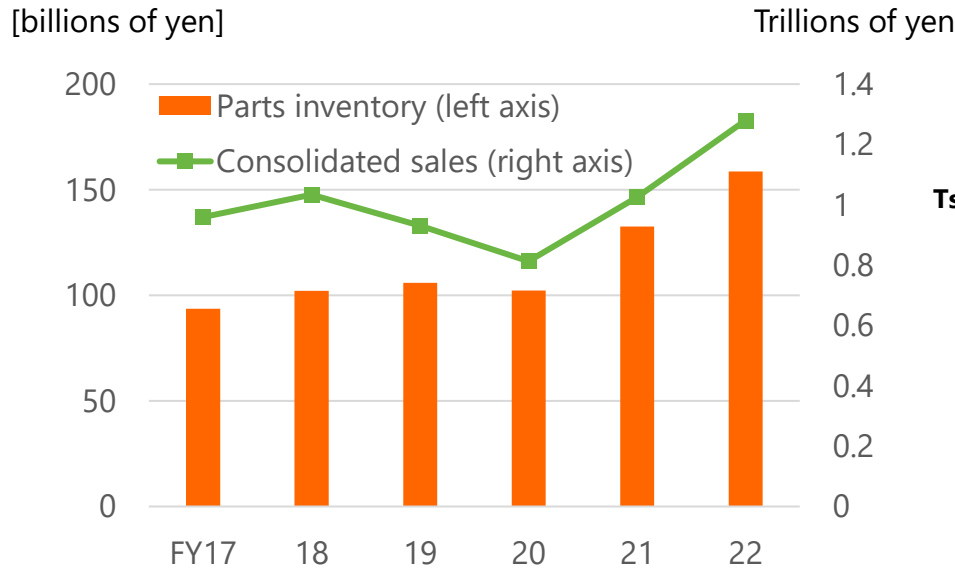
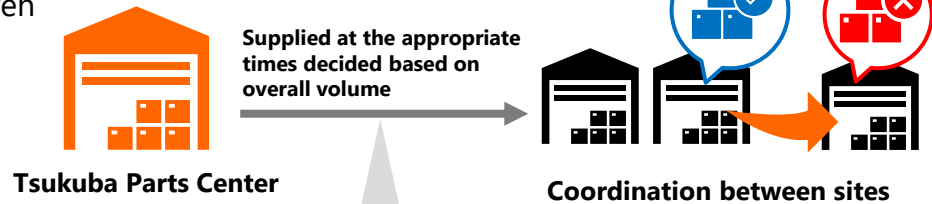
Consolidated inventory parts
Approx.
400,000 parts

Logistics and management system for each part type

Centralized inventory management for primary components



Parts with high turnover rates (such as consumable parts)

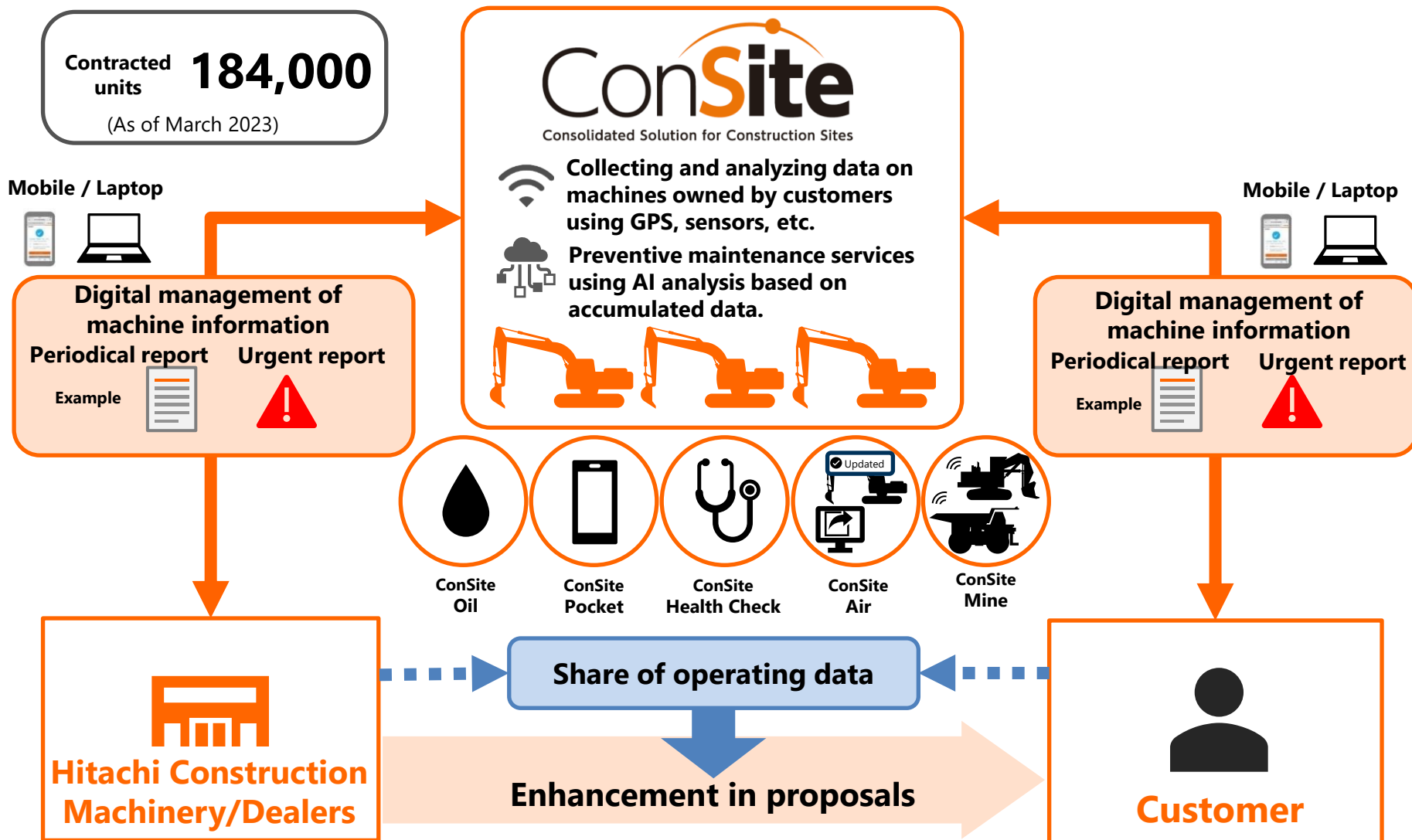


Optimal parts inventory management with a global common management system

3. Priority Measures in the Parts and Services Business

- 3-1. **Parts** Strengthening the Global Parts Supply System
- 3-2. **Services** **Service Strength for Long-Term Customer Relationships**
- 3-3. **Remanufacturing** Strengthening of the Business Structure and Expanding Revenue

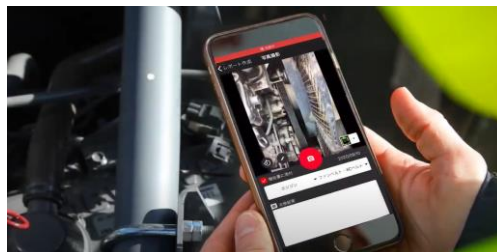
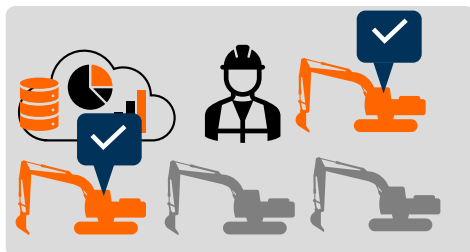
Expanding revenue of parts and services by utilizing ConSite



Expanding parts and services sales through proposal of strategic preventive maintenance and parts replacement/repair based on machine operating information

Compact & Construction

Due to the large number of machines in operation, utilize operating data to efficiently conduct inspections.



Targeting based on operating information

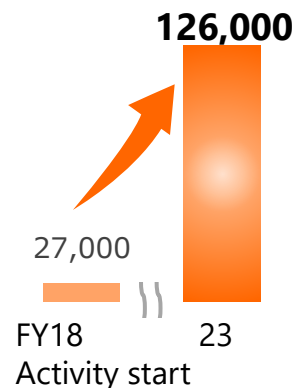
Preparation for inspection

Free inspections, photos using ConSite Shot, easy creation of reports

Estimate

Order

Number of ConSite Shot inspections



Mining

For mining machines that operate 24 hours a day, 365 days a year, inspect each machine and utilize digital technologies including operating data and wear measurement to propose parts and repairs.



Targeting based on operating information

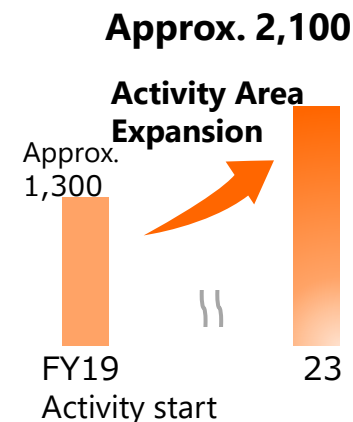
Preparation for inspection

Inspection using ConSite Mine Shot, and proposals for repair and parts replacement

Estimate

Order

Machines subject to service proposals



Work for establish service superiority through services tailored to customer needs and fine-tuned follow-up.

Australia

The order ratio of the Operation Center is 60% of all parts and services orders.



Calls received per month*
Approx. **8,500**

Contribution to orders received*
Approx. **60%**

* As of June 2023

Thailand, North America

Parts and services proposals are made even when the machine owner changes due to resale of used equipment.



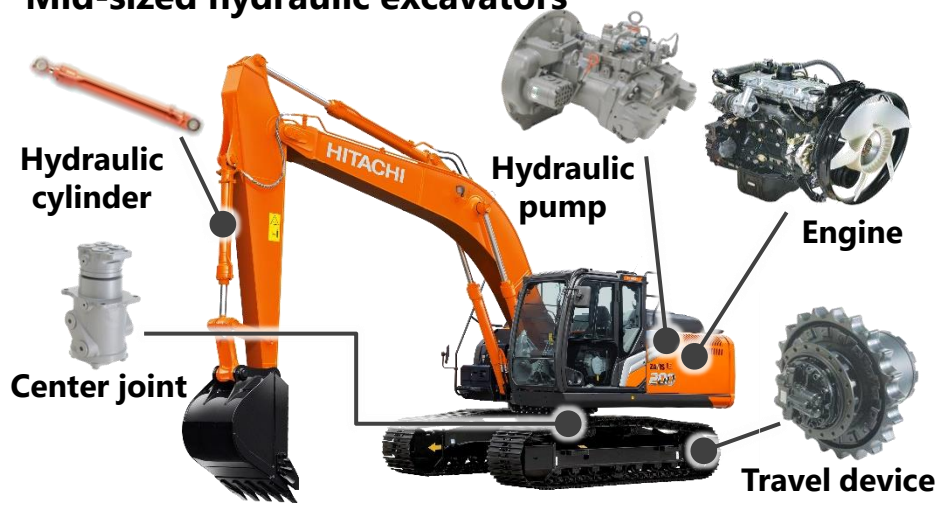
Attach stickers and magnets recommending ConSite registration onto used equipment.

3. Priority Measures in the Parts and Services Business

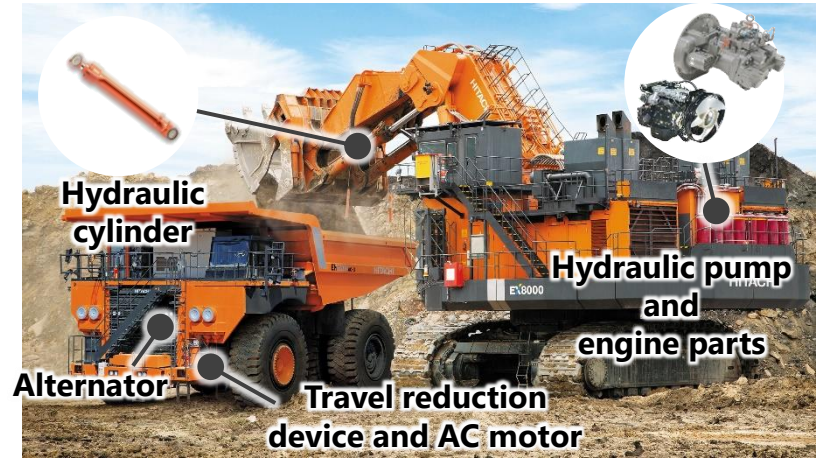
- 3-1. **Parts** Strengthening the Global Parts Supply System
- 3-2. **Services** Service Strength for Long-Term Customer Relationships
- 3-3. **Remanufacturing** **Strengthening of the Business Structure and Expanding Revenue**

Lineup of remanufactured parts

Mid-sized hydraulic excavators



Mining products



Global remanufacturing sites

● Hitachi Construction Machinery ● H-E Parts



Perth, Australia



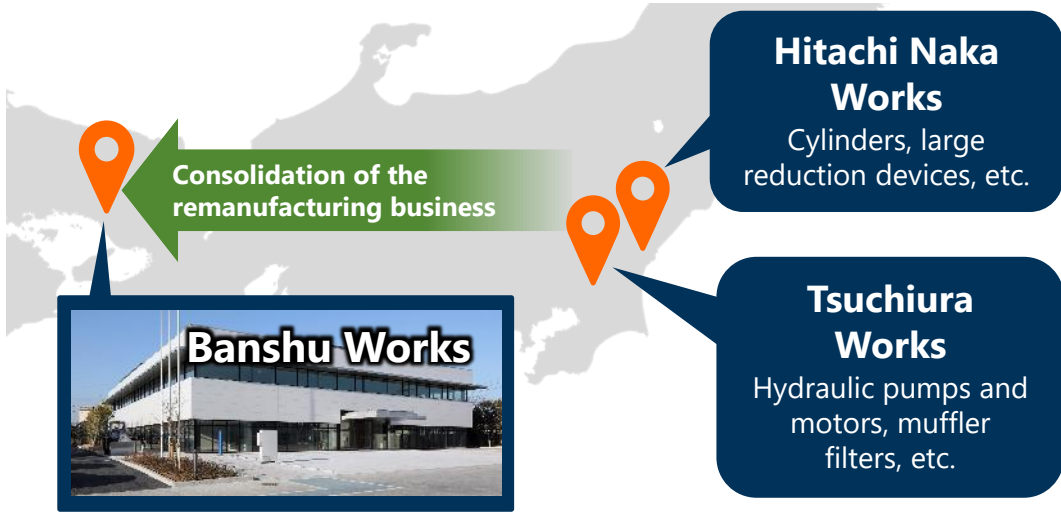
Balik Papan, Indonesia



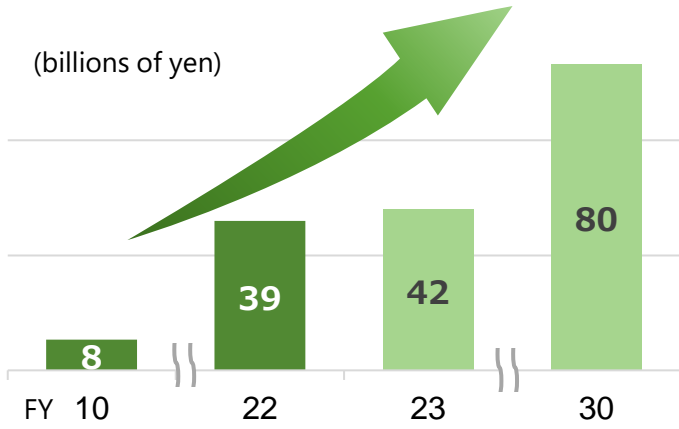
Lusaka, Zambia

Further strengthen the remanufacturing business, aiming for a recycling-oriented business model.

Establish the Banshu Works as the mother factory of remanufacturing plants, and strengthen cooperation worldwide.



Changes in remanufacturing business sales



Deploy chassis remanufacturing knowledge to each region, and contribute to achieving a circular economy.



ZX200-3 that was remanufactured at the Hitachi Naka Works (Sold in 2007, suffered water immersion in heavy rain)



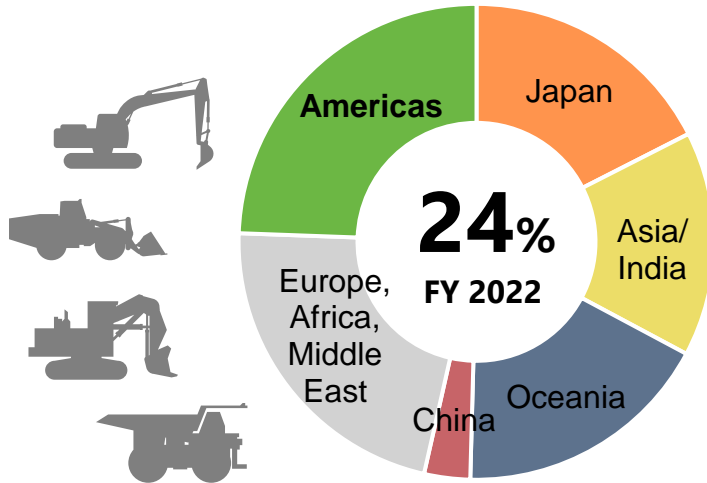
Ultra-large hydraulic excavator that was remanufactured in Zambia (Sold in 2011, 21,950 operating hours)



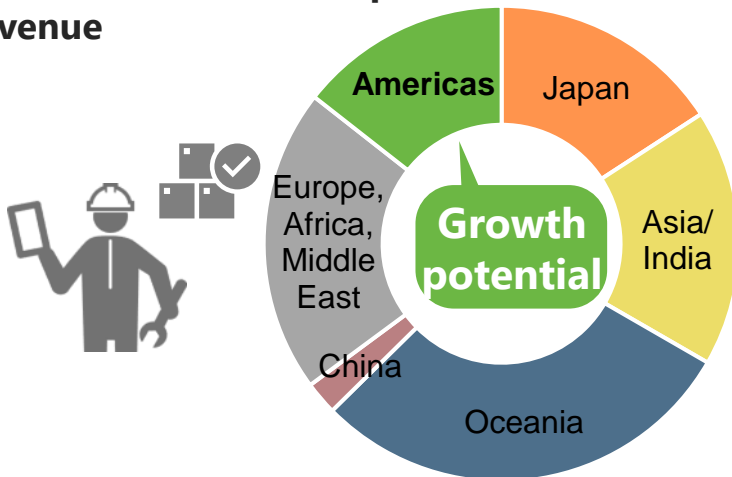
4. Parts and Services Business Strategy in the Americas Market

Aiming to increase own business sales for parts and services in the Americas by 8 times (compared to FY 2021) in FY 2025

The Americas' share of consolidated revenue

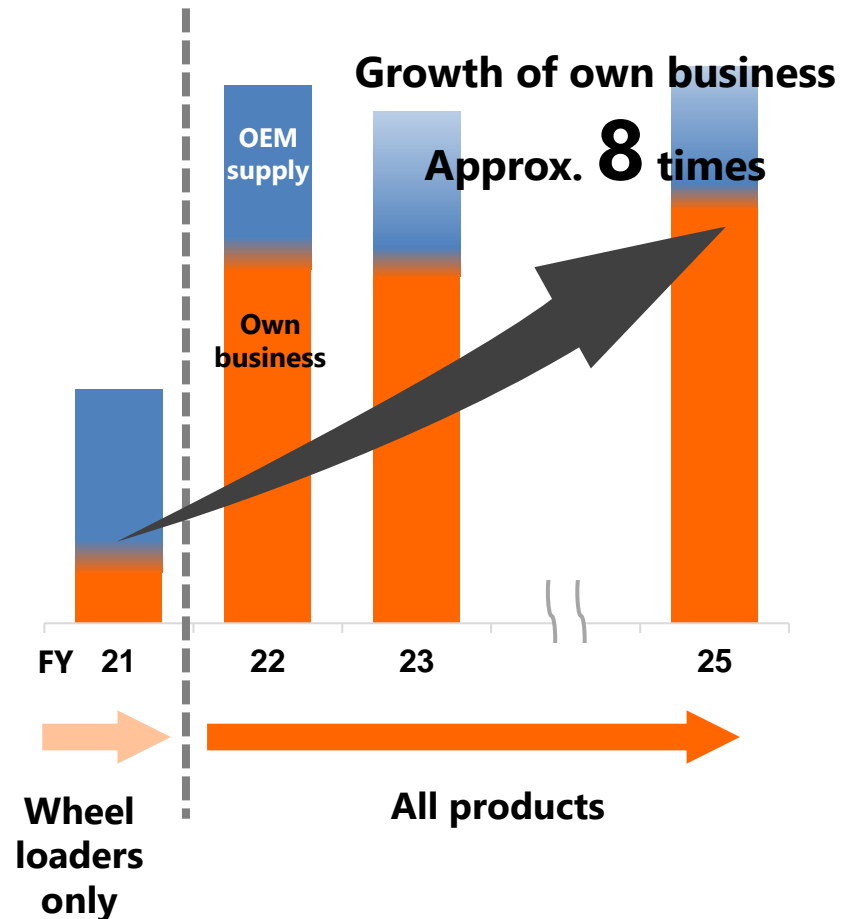


The Americas' share of parts and services business revenue



Parts and services business revenue in the Americas

*: Estimated exchange rate: 1 USD = 130 JPY



Measure 1

Construction of a new parts warehouse for western North America

Consider candidate sites for the parts warehouse based on demand data for construction machinery.

Hitachi Construction Machinery Americas



Measure 2

Strengthening the parts and services system in the South America market

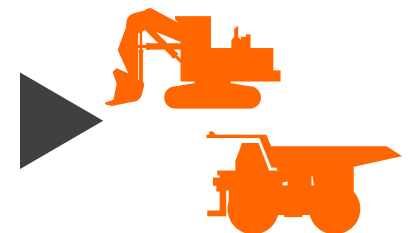
Measure 3

Support for American dealers based on knowledge and expertise of the parts business gained in other regions

Use of operating data



Expansion of parts sales in cooperation with Bradken



Construct a local parts remanufacturing system, and shorten supply lead time and cost.

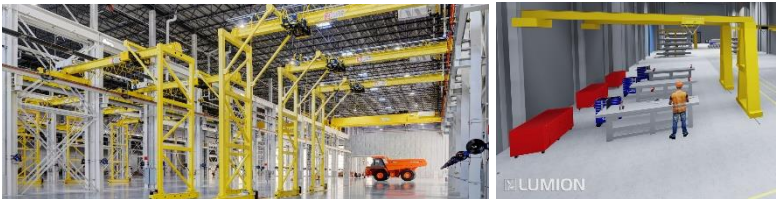
Hitachi Construction Machinery Americas

Manages remanufacturing business across the Americas

Hitachi Construction Truck Manufacturing

Operation will start in sequence beginning from October 2023.

Remanufacturing of parts for large and ultra-large hydraulic excavators, dump trucks, and wheel loaders



H-E Parts

Remanufacturing of cooling systems and engines for mining machinery



● H-E Parts remanufacturing and servicing work sites

5. Summary

1

Stability and Future Growth Potential of the Parts and Services Business

We are aiming for 300 billion yen or more in parts and services in FY 2025, serving as a stable source of revenue that supports the value chain.

2

Business Environment Surrounding the Parts and Services Business

We are aiming for further growth in the parts and services business by increasing the number of machines in operation, increasing the capture ratio, and extending product lifetimes.

3

Priority Measures in the Parts and Services Business

Parts

We will strengthen the supply system and generate cash with appropriate inventory levels.

Services

We will construct long-term relationships with the customers, using ConSite and direct sales/services as our strengths.

Remanufacturing

We will expand sales revenue by strengthening the business structure and by full-scale deployment of chassis remanufacturing.

4

Parts and Services Business Strategy in the Americas Market

We are aiming to increase parts and services business revenue from own business in the Americas by 8 times in FY 2025 compared to before the dissolution of JV.

Cautionary Statement

This material contains forward-looking statements that reflect management's views and assumptions in the light of information currently available with respect to certain future events, including expected financial position, operating results, and business strategies. Actual results may differ materially from those projected, and the events and results of such forward-looking assumptions cannot be assured.

Factors that may cause actual results to differ materially from those predicted by such forward-looking statements include, but are not limited to, changes in the economic conditions in the Company's principal markets; changes in demand for the Company's products, changes in exchange rates, and the impact of regulatory changes and accounting principles and practices.

Trademark notice

ConSite is registered trademark of Hitachi Construction Machinery Co., Ltd.

END

September 19, 2023

 **Hitachi Construction Machinery Co., Ltd.**