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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

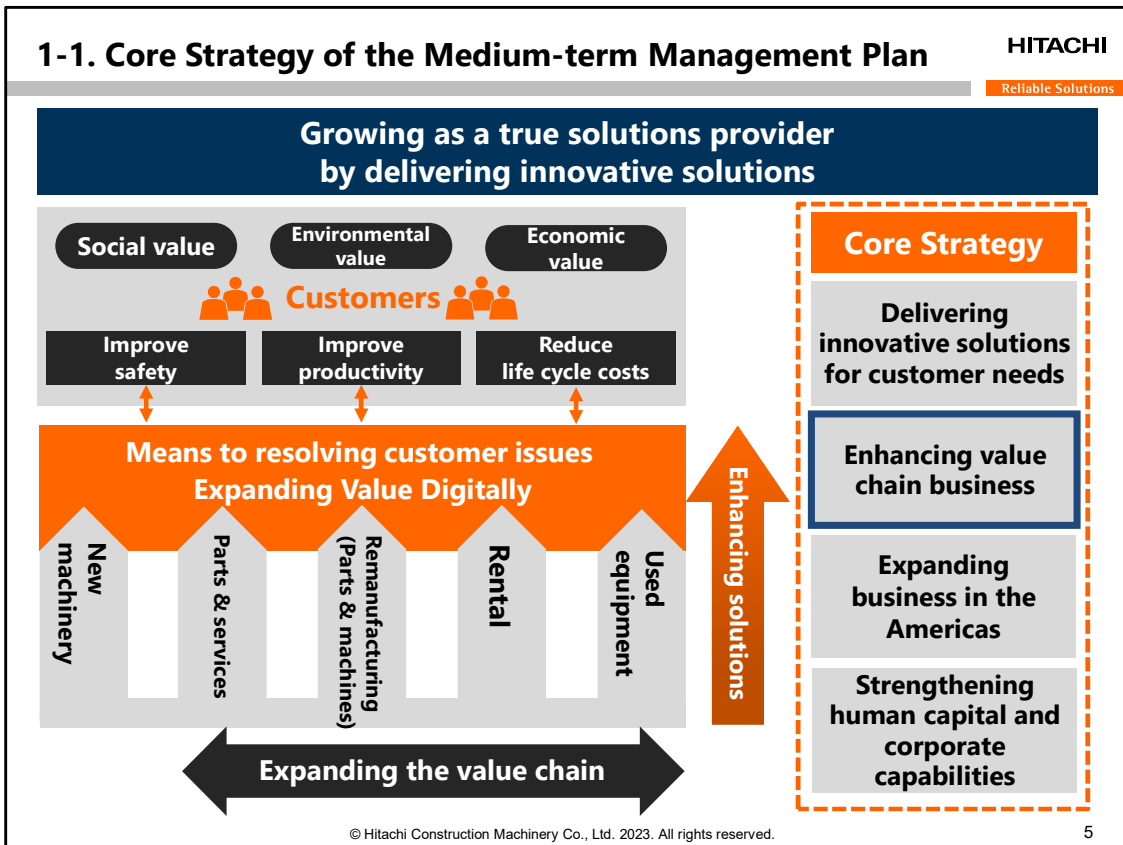
I am Senzaki, President and COO. Thank you for joining us in the hot weather today. There are four points in today's agenda.

First, I will explain the stability and future growth potential of the parts and services business.

Next, Fukunishi, Vice President and executive officer, President of spare parts and services business unit, will explain the business environment surrounding the parts and services business, priority measures in the parts and services business, and parts and services business strategy in the Americas market.

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

Let me start with stability and future growth potential of the parts and services business.



This slide shows the overview of the medium-term management plan of Hitachi Construction Machinery Group, that we present every time.

Enhancing value chain business is a part of the core strategy. We have been working on this over years and it is making the steady progress. And we will achieve the steady growth in the Americas market, enhancing our own value chain business.

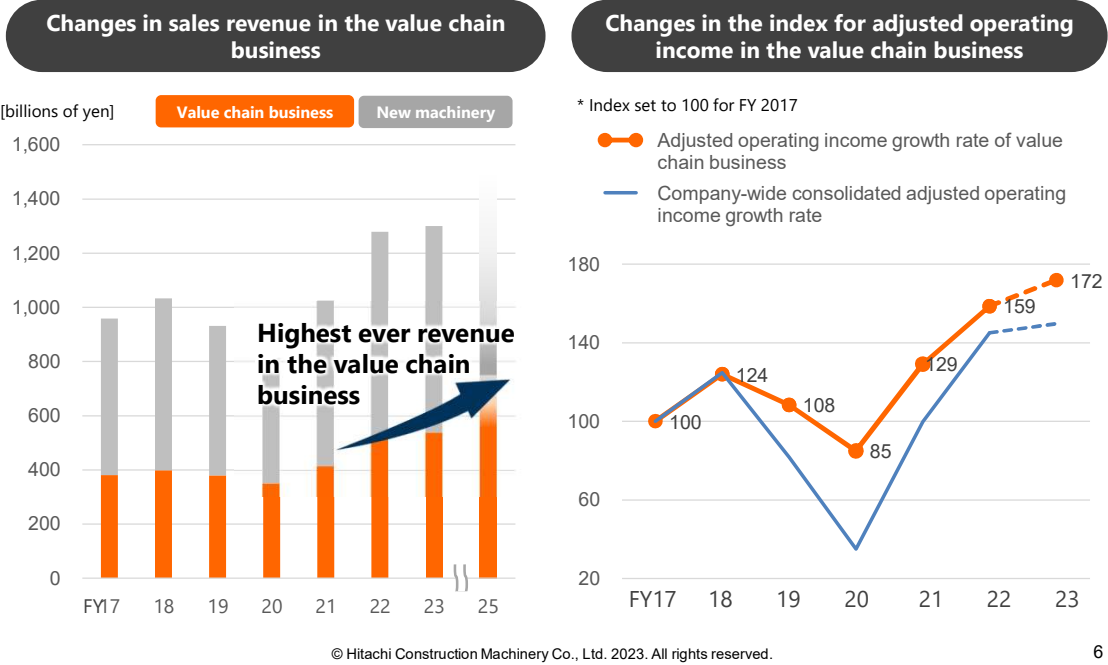
We hold this meeting, as we expect to deepen your understanding, our important stakeholders' understanding of the fact that parts and services business is the stable source of revenue that accounts for half of the value chain business sales revenues and has the prominent growth potential for the future.

1-2. Changes in Value Chain Business Performance

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



The chart on the left shows changes in the consolidated sales revenue in the value chain business. The value chain business is less affected by change in demand for new machinery and is a highly stable source of revenue based on the machinery population, which is the aggregate of the past sales volume. In FY2023, the record high revenue will be renewed following the previous year.

The chart on the right shows the changes in the index for adjusted operating income in the value chain business and the company-wide consolidated figure, with the index of 100 for FY2017.

The growth of value chain business tends to exceed that of the entire company, and value chain business makes great contribution to profit.

Impacted by the soaring raw material prices and the increase in logistic costs, Hitachi Construction Machinery raised the selling prices of construction machinery for the global market.

In the parts and services business that we explain today, we also revise price annually, and in FY2022, we revised price again in addition to the regular price revision.

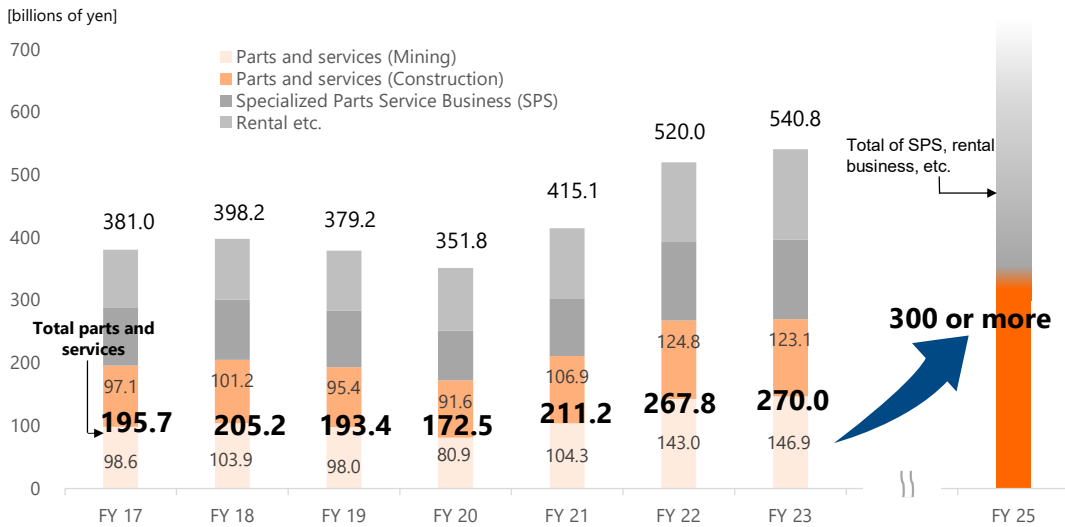
Going forward, we will improve profit by passing the increase in the material and logistic costs to selling prices.

1-3. Positioning of Parts and Services in Value Chain Business Sales

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



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

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This chart shows the positioning of parts and services in value chain business sales.

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

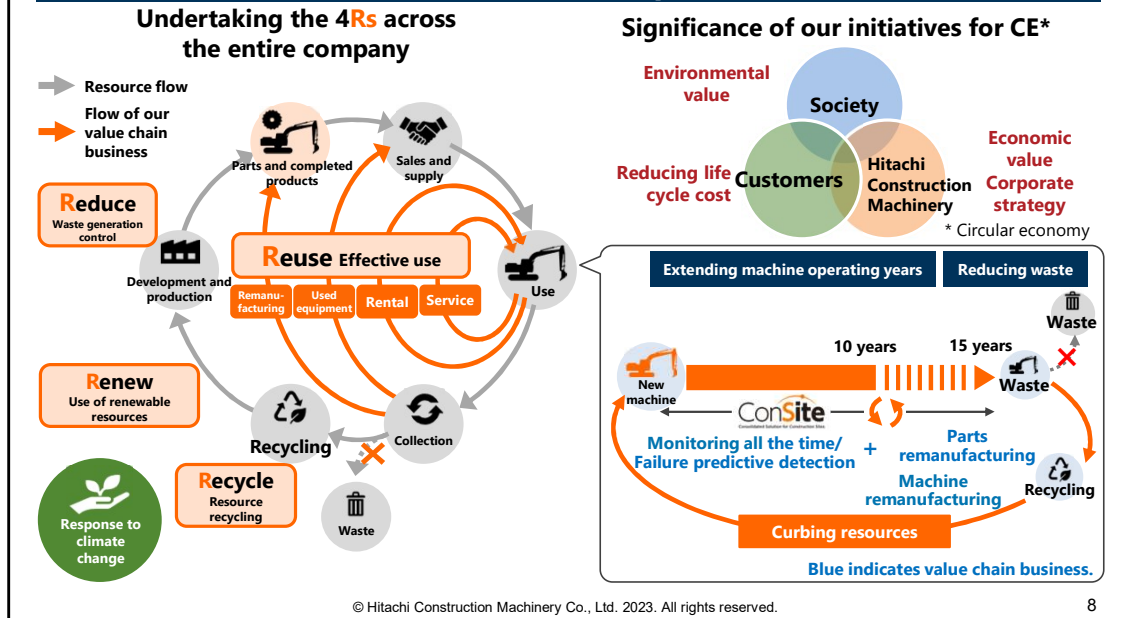
and we aim to achieve 300 billion yen or more of sales by parts and services business by the end of the current medium-term management plan.

1-4. Initiatives of the Circular Economy

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



This slide shows the initiatives of the circular economy that have been accelerated in this medium-term management plan.

On the left, resource circulation type business initiatives that we aim to undertake are presented. Through value chain of remanufacturing, used equipment, rental and service, we are working to reduce waste via 4 Rs in Hitachi Construction Machinery Group.

On the right, the initiatives in the various use process are described. By leveraging our strength of ConSite, parts remanufacturing and machine remanufacturing, we aim to extend the product life cycle 1.5 times, extending the machine operating years from 10 to 15 years.

This provides great benefit to customers and also make the great contribution to the circular economy. And for us it means to expand the value chain business, and this is the resource circulation type business that we aspire to achieve.

Next, Fukunishi will present the specific measures.

2. Business Environment Surrounding the Parts and Services Business

I am Fukunishi, Vice President and Executive Officer.

Let me present the business environment surrounding 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

First, I will explain the objectives of construction machinery maintenance services. Construction machinery has features of long term operation, large loads, operation in a wide range of environments and the variation of the operating environment with the change of work site.

As machine trouble leads to operating losses for customers, through preventive maintenance before trouble occurs and immediate response when trouble occurs, we are aiming to provide maintenance services to contribute to stable machine operation and to improve customer satisfaction.

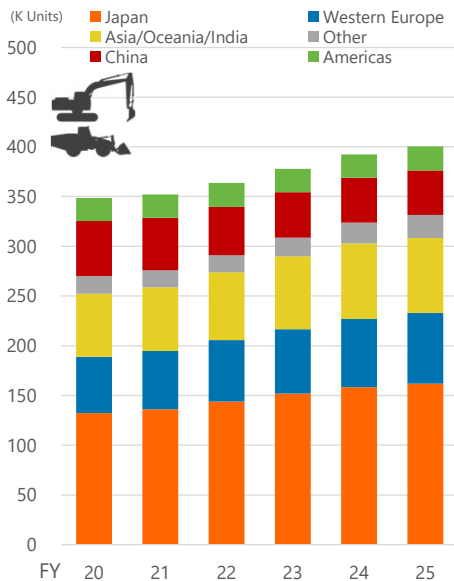
2-2. Changes in the number of Our Products in Operation

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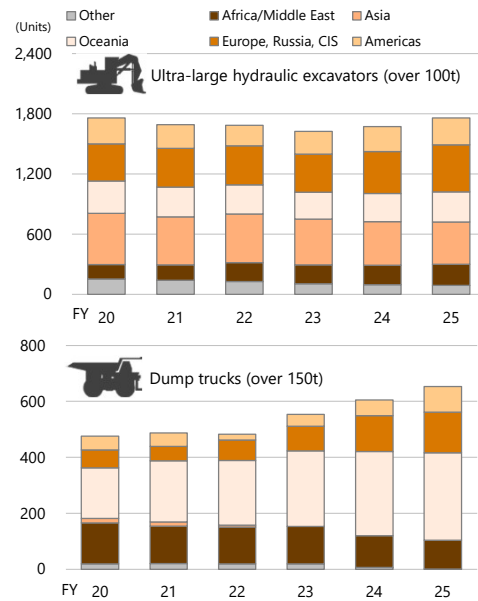
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Policy for increasing the number of machines in operation and expanding the parts and services business

Construction products



Mining products



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

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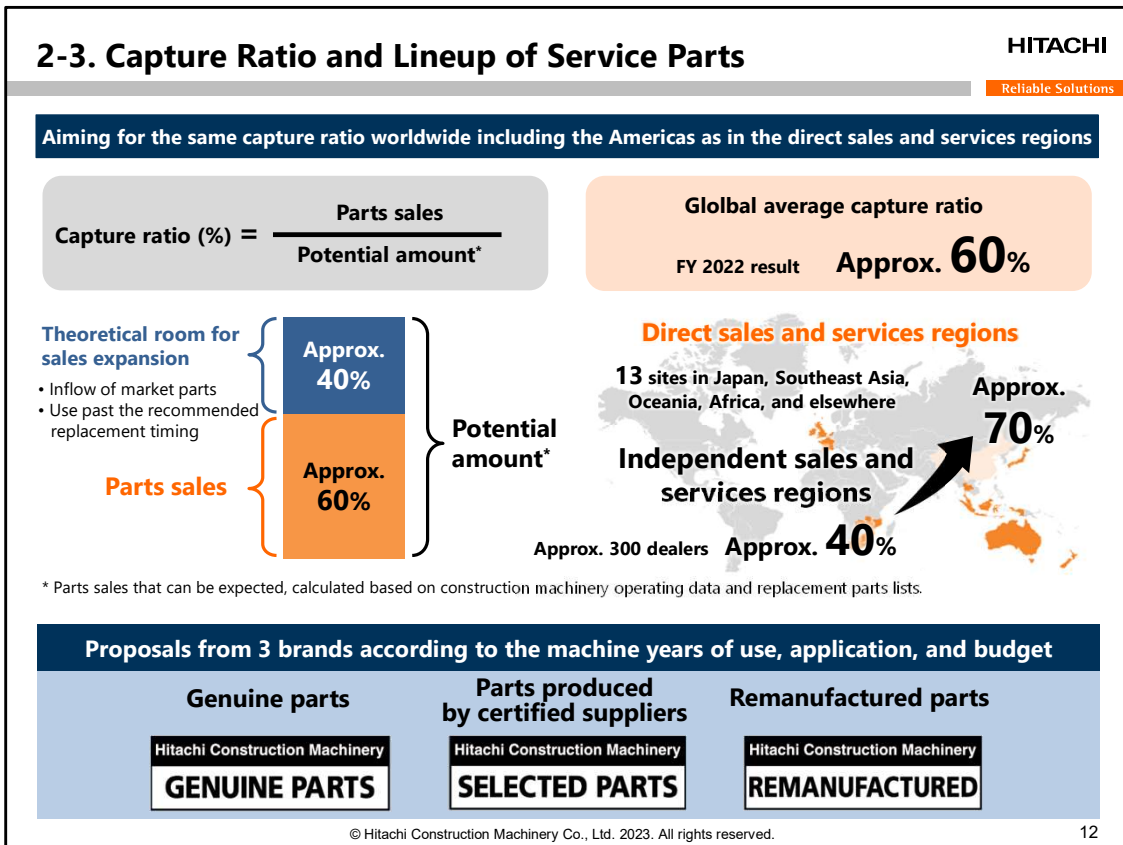
This slide shows the changes in the number of our construction and mining products in operation. Targeting not only the new machinery but also rental and the used equipment based on the operation data, we strategically propose the parts and services. And the chart includes the rental and the used equipment volume in operation.

As parts and services business supplies service parts for the operating machines and provides preventive maintenance, maintenance and repair services, in line with the increase in number of machines in operation, parts and services business will grow.

As of FY2023, approximately 360,000 construction products are in operation in the global construction machinery market, and 2,200 mining products, including the ultra-large hydraulic excavators and dump trucks, are in operation.

Overall operational volume of construction products is expected to grow as shown on the left. Americas market volume shown in green seems almost flat, but the operational volume of our own business sales will be doubling in FY2025 compared to FY2021 when the sales were only on wheel loaders.

In mining business, we will sustain the stable operational volume of ultra-large hydraulic excavator, and will increase the operational volume of dump trucks with the expansion of market share.



Next I will explain the important indicator in the parts and services business, capture ratio.

This capture ratio is calculated from the potential amount based on the operating data and replacement interval per unit and the actual parts sales. This is used as the indicator to grasp our position and to verify and analyze our strength and weakness.

The left figure shows the global capture ratio on average in FY2022. Capture ratio of approximately 60% indicates the theoretical room for sales expansion of 40%.

In Japan, Southeast Asia, Oceania, and Africa, we have established the network to directly provide sales and services through our employees, and we have a strength in these regions.

By region, capture ratio in direct sales and services region is about 70%, but in the sales and services regions through independent dealers, capture ratio remains approximately 40%.

By deploying the expertise and knowhows that we nurtured in direct sales and services region into the independent sales and services regions, we will raise the global capture ratio including Americas to the equivalent level of the direct sales regions, 70%.

In the markets, various parts are available besides the genuine parts. As a measure for parts available in the market, according to the machine years of use, application and budget, we are strategically proposing the optimized parts to customers from three brands of genuine parts, parts produced by certified suppliers and remanufactured parts.

By utilizing service solution ConSite, and offering the parts whose quality guarantee is provided by Hitachi Construction Machinery, we will develop the long-standing relationship with customers and improve the capture ratio.

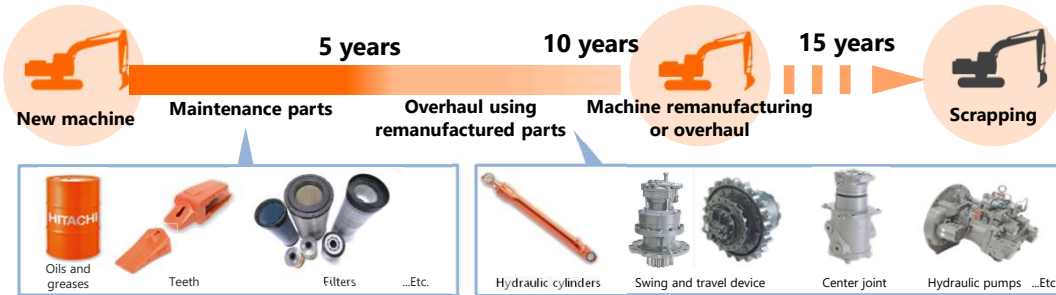
2-4. Extending product lifetimes

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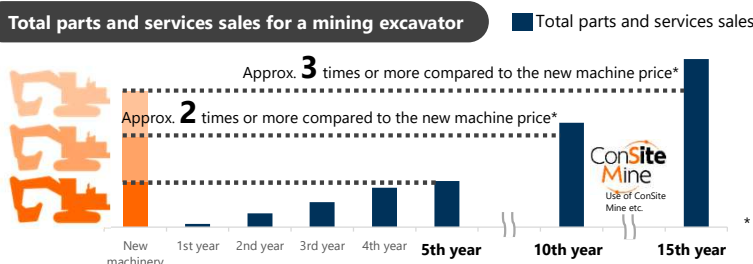
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Extending product lifetime not only reduces environmental impact but also contributes to increasing parts and services sales.

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)

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As Senzaki explained, we aim to extend the product lifecycle 1.5 times by utilizing ConSite, parts remanufacturing and machine remanufacturing.

Extending product lifetime not only reduces environmental impact but also contributes to increasing parts and services sales, as it has drawn great attention from customers in recent years.

Upper part shows the examples of replaced parts during the lifecycle of a hydraulic excavator from the purchase of new machine to scrapping. In the initial five years customers replace the maintenance parts, including oil and greases, teeth and filters. In the period from five to ten years, using remanufactured parts they overhaul the core parts and the entire machine. And by extending operation years from 10 to 15 years, we can expect the demand of further parts sales, repairs, and overhaul and maintenance.

Lower part shows how much parts and services will be required in the life cycle of mining equipment, with the example of the ultra-large hydraulic excavator EX5600. The chart is based on the specific parts used for replacement.

In the initial ten years from the purchase of new machinery, the total parts and services sales amount to 2 times or more compared to the new machine price.

By extending operation years from 10 to 15 years, we will increase the total parts and services sales to three times or more compared to the new machine price. Partly due to the request from customers, guaranteed operation hours tend to extend, and the shift to longer lifetime can be regarded as a new solution to meet customers' needs.

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**

The next section is on the priority measures in the parts and services business. We will provide explanations based on the categories of parts, services, and remanufacturing.

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**

First, we will discuss our strengthening of global parts supply system.

3-1. Strengthening of global parts supply system

Parts

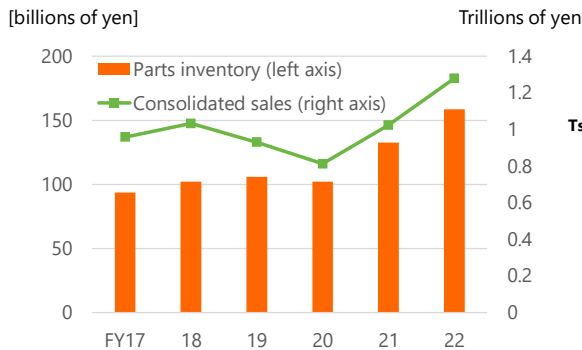
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Securing a parts inventory that can support expanding business results



Consolidated inventory parts
Approx.
400,000 parts



Logistics and management system for each part type

Centralized inventory management for primary components



Shipped to each site at the necessary times



Tsukuba Parts Center

Parts with high turnover rates (such as consumable parts)



Supplied at the appropriate times decided based on overall volume



Tsukuba Parts Center

Coordination between sites



An ID is assigned to each part, and the logistics and sales routes are traced.

Optimal parts inventory management with a global common management system

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We supply a variety of products globally, and our consolidated inventory of service parts is approximately 400,000.

The left-hand side of the slide shows the relationship between our consolidated sales and the amount of parts inventory.

We maintain an inventory of service parts to keep pace with our growing business performance.

Insufficient inventory makes it challenging to supply parts in a timely manner, while excessive inventory deteriorates management efficiency.

We utilize a global common parts management system to promote optimal inventory management according to the type of parts.

Major components such as hydraulic pumps are centrally managed at the Tsukuba Parts Center, which serves as a global parts control base, and are shipped and distributed to each site as needed.

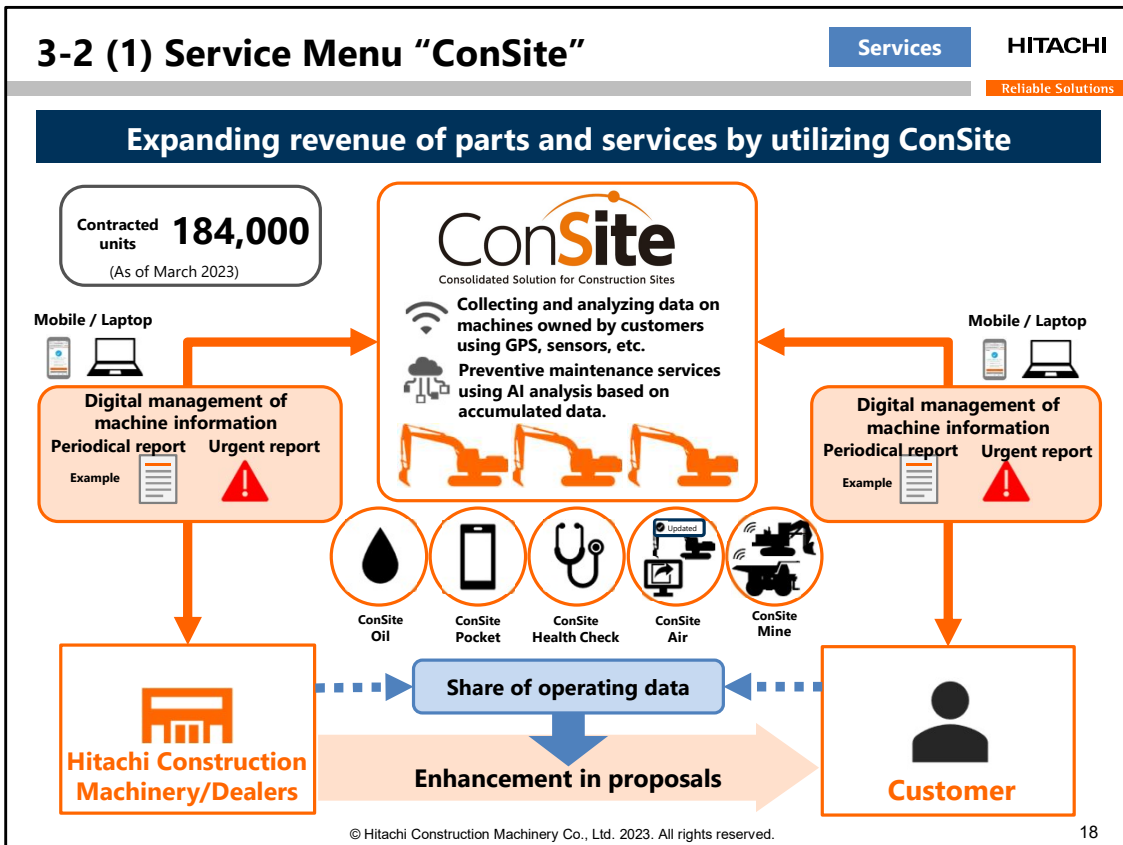
On the other hand, parts with a high turnover rate, such as consumable parts, are appropriately supplied from the Tsukuba Parts Center based on the overall global inventory, and are also flexibly transferred among the sites.

IDs are assigned to each part, and the distribution and sales routes from the Tsukuba Parts Center to each depot are traced in units of individual parts, in order to enhance traceability and enable determination of the authenticity of parts.

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

Next is our service strength for Long-Term Customer Relationships.



ConSite, a service solution that is one of our strengths, contributes to stable machine operation by proposing machine maintenance and parts replacement based on customers' construction equipment operating data.

We began rolling out ConSite in 2013, and currently we have 184,000 contracted units.

We have strengthened our ability to make proposals to customers by expanding not only the Periodical report and Urgent report delivery functions, but also the various applications shown here. As a result, ConSite has led to an increase in sales revenue from parts and services.

3-2 (2) Service Proposal Activities

Services

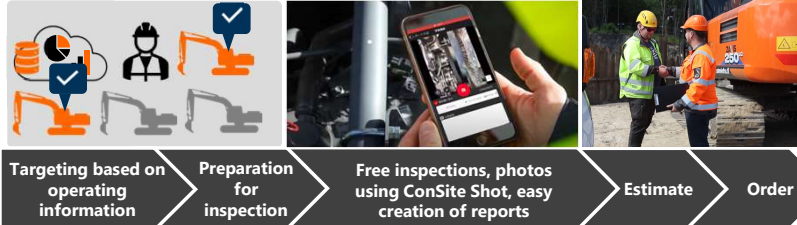
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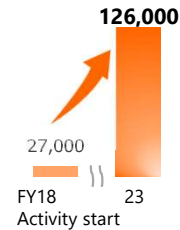
Expanding parts and services sales through proposal of strategic preventive maintenance and parts replacement/repair based on machine operating information

Compact & Construction

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



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.



Machines subject to service proposals



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This page shows the service proposal activities by Compact & Construction and Mining.

Compact & Construction has a large number of machines in operation, so we use operating data to efficiently target machines that need to be maintained and serviced. When service personnel inspect the targeted machines, they use ConSite Shot, an inspection report generation app, to strategically propose preventive maintenance, parts replacement, and repairs.

The graph on the right shows the number of inspections using ConSite Shot, which is expected to reach 126,000 in FY2023, meaning that service personnel are conducting service proposal activities for 10,000 machines under operation every month.

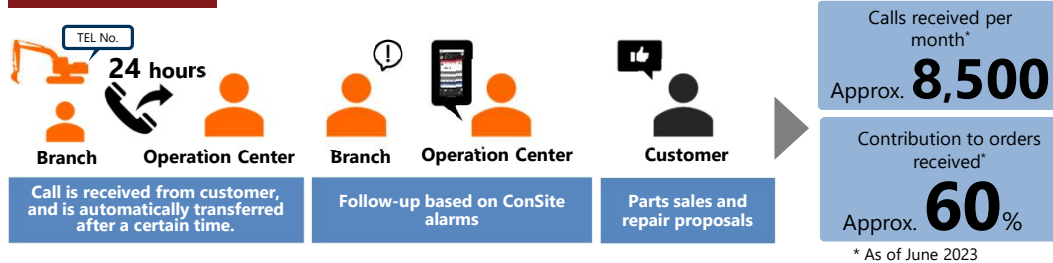
Mining equipment operates 24 hours a day, 365 days a year, requiring even greater reliability and durability. In service proposal activities, each machine goes through fine-tuned inspection, and parts and repairs are proposed by utilizing digital technology such as operating data and wear measurement.

The graph on the right shows the number of machines subject to service proposals. The number is expected to increase to approximately 2,100 units in FY2023, compared to approximately 1,300 units in FY2019 when we started this initiative. We will continue to accelerate these initiatives to increase sales revenue from parts and services.

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

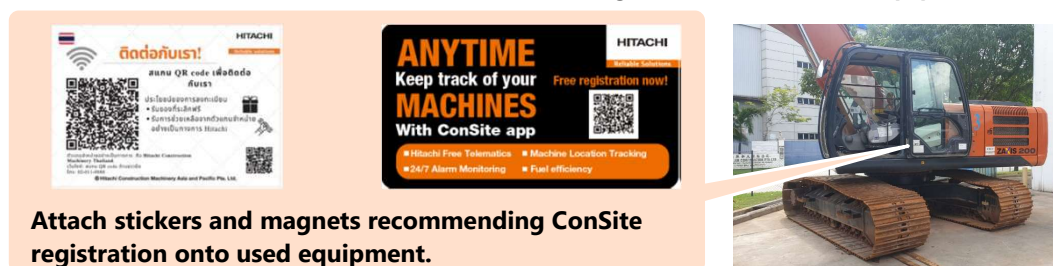
Australia

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



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.

Here are some examples of services for Long-Term Customer Relationships.

The upper row is an example of the Operation Center in Australia that operates 24 hours a day. In addition to receiving direct calls from customers, calls are automatically transferred to the Operation Center when service personnel at the branch do not answer the phone for a certain period of time.

If necessary, the Operation Center also follows up with the branch service personnel to ensure that they respond to ConSite alarms.

With such detailed follow-up, the Operation Center handles approximately 8,500 calls per month, and the Operation Center contributes to 60% of all parts and service orders received in Australia.

The bottom row is our initiatives to used equipment in Thailand and North America.

It is common for construction equipment to go through resale and change ownership over the course of a lifetime. Until now, when construction equipment was resold as used equipment, contact between the new owner and Hitachi Construction Machinery tended to be cut off.

Starting this fiscal year, stickers and magnets promoting ConSite registration have been attached to used equipment to create contact between the new owner and Hitachi Construction Machinery service personnel through ConSite.

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**

Finally, I would like to talk about strengthening the structure of the remanufacturing business and expanding its revenue.

3-3 (1) Remanufactured Parts Lineup and Sites

Remanufacturing

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Lineup of remanufactured parts

Mid-sized hydraulic excavators



Mining products



Global remanufacturing sites

● Hitachi Construction Machinery ● H-E Parts

22 sites in 11 countries



Perth, Australia



Balik Papan, Indonesia



Lusaka, Zambia

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

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Our remanufacturing business has a history of around 50 years, starting in the 1970s.

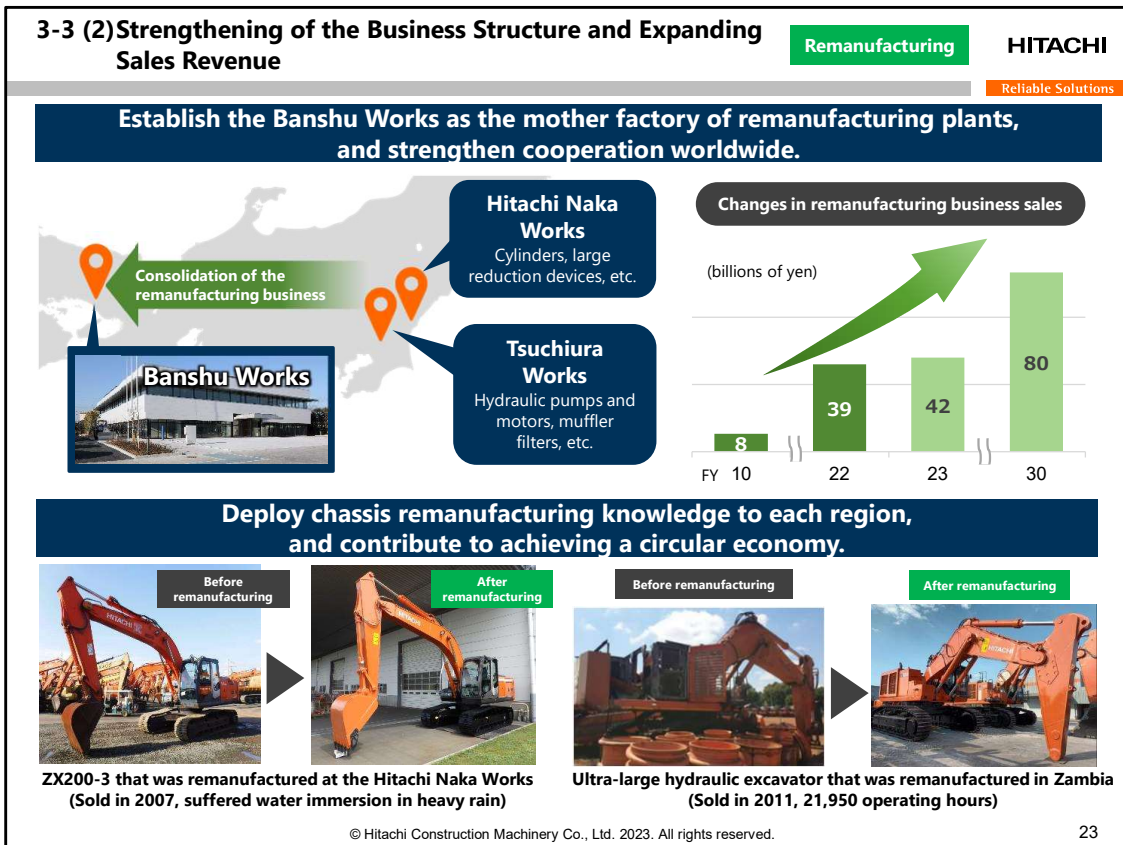
Over the years, we have expanded our product lineup and advanced our remanufacturing technologies.

The bottom row shows our global remanufacturing sites.

We began overseas expansion at an early stage, and now operate 22 sites, including those of H-E Parts in 11 countries, such as Australia, Indonesia, and Zambia.

We intend to further strengthen our remanufacturing business with the aim of creating a Recycling-Oriented business model.

The measures we have taken are explained on the following page.



I will explain how we are bolstering our remanufacturing business.

We will consolidate and integrate our remanufacturing plants, which are currently dispersed between Tsuchiura Works and Hitachi Naka Works, into Banshu Works in Hyogo Prefecture by the end of FY2024, in order to strengthen global collaboration as the mother plant for the remanufacturing business.

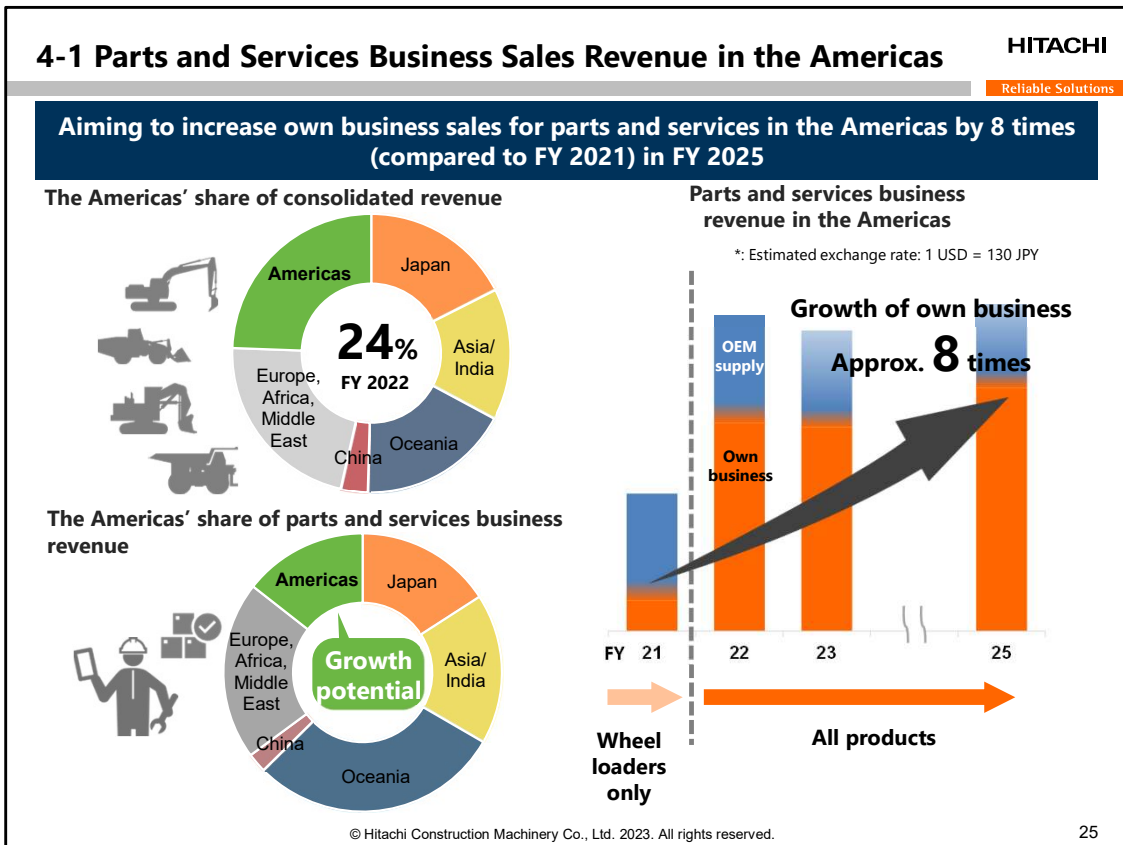
Sales revenue from the remanufacturing business was about 39 billion yen in FY2022.

The consolidation and integration will improve space constraints and increase the volume of remanufactured parts handled.

By proactively engaging in the remanufacturing of the machine, as shown in the bottom row, we plan to increase sales to approximately 80 billion yen in FY2030.

4. Parts and Services Business Strategy in the Americas Market

Next is on the Parts and Services Business strategy for the Americas market.



We have been developing our own business in the Americas market on a full-scale basis since March 2022. We will strengthen our parts and services business in the Americas market as well.

First, let me explain the revenue of parts and services in the Americas market.

The two pie charts on the left show consolidated revenue including new machine sales by region at the top, and parts and services revenue by region at the bottom.

Comparing the two pie charts, the regional share of parts and services revenue are equal or higher than the regional share of consolidated revenue in all regions except the Americas.

On the other hand, the Americas' share of consolidated revenue is 24%, while the Americas' share of parts and services revenue is still limited and has potential for growth.

The bar graph on the right shows the revenue trend of parts and services in the Americas, broken down by OEM supply and own business.

Until FY2021, parts and services revenue in the own business was generated only by wheel loader parts.

Since the start of own development for all products in FY2022, parts and services revenue has been growing, especially in North America.

In FY2025, we aim to increase revenue by approximately 8 times compared to FY2021, based on the sales of our own business alone.

4-2 Expanding the Parts and Services System in the Americas **Parts** **Services** **HITACHI**
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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

Jackson Parts Warehouse

McDonough Parts Warehouse

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

ConSite
 Consolidated Solution for Construction Sites

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I would like to explain three priority measures for parts and services system in the Americas market.

First, in addition to the Jackson and McDonough Parts Warehouses already in operation, we plan to build a new parts warehouse for western North America during the current mid-term management plan period. We will consider candidate sites for parts warehouses based on construction machinery demand data to strengthen our parts supply system for the western North American region.

Second, during the period of the medium-term management plan, we will establish a service support base in Mining to strengthen our parts and services system for the South American market.

Finally, thirdly, we will support our distributors in the Americas with the knowledge and knowhow we have gained in other regions, such as the utilization of ConSite and 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

This slide explains our plan for the remanufacturing business in the Americas.

Hitachi Construction Machinery Americas oversees the remanufacturing business in the Americas and develops it in cooperation with distributors by effectively utilizing the know-how of Group companies and existing facilities.

From October 2023, Hitachi Construction Truck Manufacturing plans to begin remanufacturing parts for large and ultra-large hydraulic excavators, dump trucks, and wheel loaders.

We will establish a system of local production for local consumption, where parts are remanufactured at the sites where the construction machinery is operating, to reduce supply lead time and costs.

5. Summary

This is a summary.

Conclusion: Main Points of Today's Presentation

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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.

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Finally, I would like to reiterate what I have communicated to you today.

First, in terms of the stability and future growth potential of the parts and services business, we are targeting more than 300 billion yen in FY2025 for parts and services as a stable revenue source to support our value chain business.

Second, in terms of the business environment surrounding the parts and services business, we aim to further expand the business by increasing the number of machines in operation, improving the capture ratio, and extending the product lifetimes.

Third, as for the Priority Measures in the parts and services business, we will strengthen the parts supply system and generate cash through appropriate inventory levels. We will enhance our capability to build long-term relationship with the customers by leveraging our strengths in ConSite and direct sales and services. We will expand revenue by strengthening our business structure and rolling out machine remanufacturing.

Fourth, in our parts and services business strategy in the Americas market, we aim to increase our own business parts and services revenue in the region by approximately 8 times in FY2025 compared to FY2021, which was before the dissolution of the JV.

This concludes my explanation.

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.

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END

September 19, 2023

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