HITACHI

Reliable Solutions

Major questions and answers for the explanatory meeting for business results for the third quarter ended December 31, 2023

Date:	**Friday January 26, 2024, 16:30-17:30**	
Speaker:	Keiichiro Shiojima	Vice President and Executive Officer, CFO
	Hidehiko Matsui	Vice President and Executive Officer, CMO
	Eiji Fukunishi	Vice President and Executive Officer, President of Spare Parts & Service Business Unit
	Tooru Sugiyama	Executive Officer, Vice President of Mining Business Unit
	Tatsuya Kubo	President of Corporate Brand & Communications Group

※Some excerpts are included in this report.

1. Market Environment and Business Outlook

Q: How did the 3Q adjusted operating income compare to the internal plan? How are the 3Q results reflected in the upward revision of the full-year forecast? To what extent is the slowdown in Europe, Asia, and other regions factored into the forecast?

A: Shiojima: The 3Q results were largely in line with the internal plan. Our focusing business like the independent development in the Americas, mining, and value chain businesses are all expanding steadily. The 1-3Q revenue exceeded ¥1 trillion for the first time, and the adjusted operating income margin improved to 12%.

One of the shortfalls was that our inventories increased due to a temporary purchase adjustment by dealers (of HCM products) in North America in preparation for the year-end closing of accounts, resulting in a smaller-than-expected realization of unrealized income. In addition, there was a one-time increase in non-operating foreign exchange losses due to the strong yen at the end of December.

However, we do not view these factors negatively.

We are now forecasting annual revenue of ¥1.4 trillion and an adjusted operating income margin of about 12%, so we are confident in our direction.

In the 4Q, we are factoring in risks in light of the uncertain outlook for the business environment in Europe and other factors, but, overall, we believe we will be able to achieve steady growth in our forcus businesses.

Q: The number of days inventory on hand continues to increase. Will it decrease over the next fiscal year? Or will the status quo be maintained as the scale of the business continues to expand?

A: Shiojima: We are expanding our business at a rapid pace, and the growth driver is the Americas. The Americas (geographically) inevitably requires longer lead times. In addition, we are responding to the increased sales volume for the Americas with global production, which also leads to longer lead times. Inventory adjustments at North American dealers (of HCM products) in the 3Q are temporary, and the sales volume will continue to increase. The lead time is also increasing due to shipping delays and local machine modifications. Inventories have increased by more than ¥30 billion compared to the plan, and operating cash flow has fallen short of the plan. We hope to improve the level of inventories and improve cash flow a little more toward the end of the fiscal year.

Q: Is there a possibility of production adjustment in the current uncertain situation in regions other than the Americas?

A: Shiojima: We believe that high production levels can be maintained. The slowdown in Europe will be recovered by allocating to North America. The slowdown in Indonesia, which has major revenue in Asia, is considered to be transitory due to the impact of the election. Taking these factors into consideration, we will control inventories appropriately.

Q: I would like to ask about the downward revision to the forecast of net income attributable to owners of the parent for the fiscal year. What amount of increase in non-operating foreign exchange losses and restructuring costs do you expect, respectively?

A: Shiojima: Financial loss of ¥13.5 billion in the 1-3Q was largely due to increased borrowings due to balance sheet expansion and higher overseas interest rates (interest expenses increased by ¥4.7 billion year on year). In addition, a foreign exchange loss of ¥7.4 billion was recorded in the 1-3Q results, due to the foreign exchange loss on foreign currency-denominated assets caused by the strong yen at the end of December (approximately $1=¥141). In the 4Q, since we assume an exchange rate of $1=¥140, we have factored into our results the assumption that the foreign exchange loss at the end of December will be maintained. The actual exchange rate is weakening against the yen, so there is room for upward momentum.

Restructuring costs are expected to amount to ¥14.0 billion for the fiscal year. The main reason is that we plan to sell a non-core business at Bradken, and plan to record an impairment loss associated with this sale. We plan to make a large investment in its mainstay mill liner business in Peru and hope to use the cash inflow from the sale of the business for this purpose. Although we have revised net income downward by ¥10 billion due to foreign exchange losses and Bradken's restructuring costs, our core businesses are strong, and we will continue to aim for growth.

2. Comparison of Consolidated Income

Q: Regarding the factors behind the change in consolidated income for the 1-3Q, "Other model mix" among "Sales volume, model mix, & others" showed a large decrease of ¥6.4 billion for the 3Q. On the other hand, you expect a positive figure for the fiscal year. What are the revisions from the previous forecast?

A: Shiojima: One of the reasons for the increase in the 3Q income decline in "model mix & others" is the shrinkage of income related to unrealized inventory. Inventories have increased from the previous forecast amid business expansion, and this has affected cash flow. In the 3Q, unrealized income was a factor in the year-on-year decline of about ¥2.0 billion.

In addition, purely mix deterioration is also a factor. In addition to an increase in the sales ratio of compact products, which were not fully supplied in the previous fiscal year, sales volume was lower than expected in Europe and the Americas. In North America, dealers temporarily adjusted their purchases in December, as it is the end of the fiscal year, but this was only temporary and we expect to recover in the 4Q.

The forecast for the fiscal year has been revised downward by approximately ¥6.0 billion for "Other model mix." Likewise, the factor is shrinkage of income related to unrealized inventory. On the other hand, there are positive factors. "Other model mix" includes an increase in logistics costs. In the current forecast, logistics costs are analyzed to be a negative factor of ¥1.2 billion year on year, and the increase in logistics costs has been reduced compared to the initial forecast by self-help efforts.

A: Matsui: Last fiscal year, there were considerable inquiries from dealers in North America due to the start of independent business development and strong market conditions. This fiscal year, although the shortage of products has calmed down compared to last year, when the shortage was pronounced after the start of independent business development, we continue to receive strong inquiries, and we expect orders and sales to be firm from January onward.

Q: What is your view of the factors behind the change in consolidated income and loss for the 4Q? Is there a buffer factor included in the ¥18.2 billion loss from the change in sales volume? Also, what is the reason for the large increase in sales of your own business in the Americas during the 4Q?

A: Shiojima: Revenue for the 4Q is expected to be ¥-10.0 billion year on year, on a local currency basis. Excluding the increase in selling prices, this would effectively mean a decline in volume of about ¥20.0 billion year on year. The above figure is multiplied by the marginal profit ratio and incorporates risk as the change in volume. There has been almost no change from the previous forecast (for the fiscal year).

Regarding the 3Q, the growth rate of revenue from the own business in the Americas slowed to +9% year on year. This was due to a transient purchase adjustment by dealers in North America in the 3Q. On the other hand, the mining business is growing mainly in Latin America. We expect the purchase adjustment by North American dealers to return in the 4Q, leading to significant growth. Our local sales subsidiary is also bullish regarding the outlook for January and beyond.

Q: What is the reason for the downward revision of the selling price, which is a factor in the comparison of consolidated income for the fiscal year? Normally, there would be selling price revisions at sales companies and dealers at the beginning of the year, but have there been any changes in the trend? In the Americas, it should have been easy to raise selling prices last year, but will it be possible to raise them in the future as well?

A: Matsui: In the Americas, where sales are robust, we have been able to increase selling prices. The same applies to the Japanese market. In Europe and other regions where market uncertainty is increasing, we are raising selling prices in line with plans, but, in some areas, competitors are cutting prices to clear inventories, so we are also strictly reviewing our plans. The severe situation in China has not changed. We are firmly raising selling prices in areas where we can.

3. The Americas Business

Q: Are dealer inventories in North America in normal mode now that the restocking procedure after the start of your own business has run its course? Or is the inventory replenishment phase still continuing?

A: Matsui: The North American dealer inventory is still insufficient. The North American market is dominated by businesses in which dealers carried a reasonable amount of inventory, and dealers themselves conduct rental business, but inventory levels have not yet reached an appropriate level to make this possible. In 2024, we expect our sales to continue to be strong, including the amount of inventory to be fulfilled.

Q: What is your view of the demand environment in the Americas in FY2024, including infrastructure, housing, and mining? Is there any change in your outlook to increase supply to North American dealers more than demand growth?

A: Matsui: We expect the Americas business to remain as strong as it is now. In North America, inquiries from rental companies are strong. There is no extreme shortage of goods like last year; instead, the normal level of good conditions will be maintained. The housing market is also returning to normal. Dealers' inventories are not as full as expected.

A: Sugiyama: Mining market conditions are strongly related to resource prices. The prices of various resources are at appropriate levels or remain high, and there is no sense of slowdown. We have already received orders from oil sands mines in North America and copper mines in Latin America, and we expect orders to expand further.

4. Dividend Policy

Q: The year-end dividend forecast for this fiscal year remains undecided. Will you be able to provide a dividend forecast from the beginning of next year?

A: Shiojima: We understand the need. We would like to discuss this among the management and try to meet the expectations of the market.