Major Questions and Answers for the Explanatory Meeting for Business Results for the Year Ended March 31, 2024 and Progress of the Medium-term Management Plan

Date:	**Wednesday April 24, 2024, 16:30-18:00**	
Speaker:	Masafumi Senzaki	President and Executive Officer, COO
	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 Mining Business Unit
	Hiroshi Hosokawa	Executive Officer, President of Spare Parts & Service Business Unit
	Tatsuya Kubo	President of Corporate Brand & Communications Group

※Some excerpts are included in this report.

1. Market Environment and Business Outlook

Q: Why did net income for FY2023 exceed the plan?

A: Shiojima: Revenue exceeded the target due to an increase in volume, more than the effect of yen depreciation, while adjusted operating income slightly missed the target due to lower-than-expected inventory reduction in the 4Q and lower volume in Europe and Asia. As for each income listed below adjusted operating income, the company incurred additional expenses for structural reforms in Japan as well as expenses for the consolidation of a North American rental company, but was able to record a foreign exchange valuation gain in non-operating income.

Q: Why did you set the projected exchange rate for FY2024 on the basis of a stronger yen at ¥141 to the dollar?

A: Shiojima: In mid-March, our Foreign Exchange Committee gathered and reviewed a wide range of financial institutions' forecasts and adopted an intermediate figure. Although it appears cautious compared to the prevailing rate, at the time of the March hearing, the financial institutions believed that the policy rate would evolve toward a stronger yen in line with the easing trend.

Q: I suppose the main purpose of the increase in R&D spending is for electrification development, etc. What would be the impact if Mr. Trump were re-elected as U.S. president?

A: Shiojima: Regardless of the outcome of the U.S. presidential election, R&D spending is planned to include electrification, value chain business, and IT systems. If Mr. Trump is reelected, there is a possibility that he will reset the environmental policies of the current Biden administration, but, on the other hand, there are also factors that will be a tailwind for the U.S. business, such as the adoption of more economic stimulus measures. We currently export products to the U.S. from Japan, and high tariff barriers pose a threat. We will keep a close watch on the situation.

A: Senzaki: No matter what happens temporarily in the U.S., the trends of electrification, zero emissions, and circular economy will not be reversed. We aim to realize a circular economy through our value chain business, and we will also address new energy sources. We will invest in digital to become a solutions provider, and we will be conscious of R&D expenses at 3% of revenue.

Q: The mining business depends on commodity prices, but what are the demand trends?

A: Fukunishi: Demand from small and medium-sized mines and contractors is expected to decline, and we have set the overall demand forecast for mining machinery for FY2024 at 0 to -10% of the previous year's level. We expect a decline in demand for small-scale machines as thermal coal prices remain calm and small- and medium-scale miners are expected to be less willing to invest, while demand for ultra-large-scale machines for major mines and hardrock will remain firm. As resource prices are not expected to soar and remain at stable levels, we do not expect demand for machinery to be as overheated as in FY2022-2023, but we plan to increase sales in North America, as well as in Australia, which will lead our sales as in the previous year.

Q: What is the direction of inventories going forward?

A: Shiojima: Inventories were reduced in the 4Q due to increased sales and production adjustments. We will adjust inventories over the next two years while maintaining current production. Unrealized profit for FY2023 was over ¥10 billion, which pushed down profit, but, for FY2024, it is expected to remain flat year on year, which will be a positive factor. We expect FY2024 to be a leveling off of the global economy due to elections in various countries and high interest rates in the U.S. and Europe. However, if policy rates in various countries adjust in the second half of the year, demand is expected to increase.

2. Comparison of Consolidated Income

Q: What is the status of selling price in each region and business domain for FY2024?

A: Shiojima: We have factored in a selling price increase of about ¥10 billion in the Americas and about ¥5 billion in Japan. In the U.S., we have already determined to some extent the selling price increase for new models. By business segment, 2/3 of the price increase will be for new machinery and 1/3 for parts.

A: Matsui: Although selling price increases in Europe are a little weak, we will steadily implement them in accordance with the contracts with dealers.

Q: Regarding the selling price in FY2024, I think it would be good to have a little more upside.

A: Shiojima: In the Americas, we are taking a slightly more cautious outlook, factoring in the realization of last year's selling price increase. Considering the current business environment, we think the plan is at an appropriate level.

Q: Why do you expect non-operating income and expenses related to net income to improve in the FY2024 forecast?

A: Shiojima: In FY2023, we recorded an impairment loss on discontinued operations (non-core Specialized Parts & Service business). In FY2024, that impairment loss will be eliminated. In terms of each income listed below adjusted operating income, structural reform-related items were eliminated by FY2023, and we have factored in the improvement in FY2024. With the current cash flow, we plan to reduce its borrowings and improve its financial balance.

Q: What is your view of structural reform expenses for this fiscal year?

A: Shiojima: Regarding restructuring-related expenses, ¥4.8 billion was recorded last fiscal year. Impairment losses on non-core businesses in the Specialized Parts & Service business (approximately ¥12 billion was included in restructuring expenses as of the 3Q) were included in the 4Q results in the net loss from discontinued operations. Based on past experience, we forecast ¥4 billion in restructuring-related expenses for the current fiscal year, a decrease of ¥0.8 billion from the previous year, but we do not have a specific plan at this time.

3. The Americas Business

Q: What are the FY2023 results for the Americas business? Revenue was strong against declining demand, but construction fell short of the plan. How do you see the results for the Americas business in FY2023 based on the situation in the 4Q?

A: Matsui: In the 4Q of FY2022, the market was overheated due to a shortage of goods, but, in FY2023, the market returned to normal conditions. FY2023 4Q fell short of the plan, but we were able to ensure supply to dealers. The FY2024 demand level is expected to remain high and steady. Housing investment is soft, but infrastructure investment is strong, and we will steadily respond.

A: Senzaki: We will rebuild our supply system in response to the increase in sales volume in North America. Rental demand accounts for about half of the market, and we will support the rental business of dealers in addition to new machinery sales. We will also utilize the North American rental company, which has become a subsidiary. For the current fiscal year, we expect revenue in the Americas to grow by 20% year on year with developing own business.

A: Fukunishi: Mining in the Americas was strong in FY2023, and in FY2024 we have received more inquiries than in the previous year, which we will link to sales. In particular, we will focus on excavators in North America and dump trucks in South America. Support is important in expanding sales of mining machinery. In North America, we have started a remanufacturing business at Hitachi Construction Truck Manufacturing Ltd. and plan to launch a parts warehouse in the western region of the U.S. this fiscal year. In South America, we plan to establish a support base for remanufacturing and parts during the period of the medium-term management plan.

Q: Due to geopolitical risks, will the possibility of local production in North America increase?

A: Senzaki: At this time, we have sufficient production capacity for construction products at each of our bases, and we are not considering production in North America. If value-added enhancement, such as customization within the U.S., is necessary, we will consider a local plant. On the other hand, in Canada, we will begin production of dump trucks for the Americas.

Q: What are the assumptions for growth in the Americas business this fiscal year, broken down into inventory sufficiency and selling prices?

A: Shiojima: Overall revenue growth in the Americas in FY2024 is a 6% increase year on year. The breakdown is a slight decrease in OEM sales to Deere, and a 16% increase in developing own business. Construction revenue, excluding the mining and Specialized Parts & Service business, are expected to increase by 22% due to higher selling prices and volume, and revenue excluding the impact of yen appreciation is expected to increase by approximately 30%.

Q: At the 3Q results meeting, it was explained that there was a purchase adjustment at the North American dealers. What is their stance at this point?

A: Matsui: Each manufacturer is now able to provide a stable supply of machinery. Our North American dealers are not placing orders one after another due to a sense of shortage, and we believe that inventories have reached an appropriate level. Customers are now buying machinery in proportion to the volume of construction work. We plan to increase our sales volume in some areas where we have no dealer network.

4. Dividend Policy

Q: What is your intention in disclosing the dividend forecast, which you had not previously disclosed?

A: Senzaki: Two reasons: First, through dialogue with the capital markets, we are reminded of the importance of commitment as a management team; second, we have made good progress with our medium-term management plan, achieving record performance in FY2023 and gaining confidence in our commitment to ensure profitability in FY2024 despite the difficult market environment.

Q: I think disclosing the dividend plan from the beginning of the term is a big step forward.

A: Senzaki: Although there are still areas for improvement, we were able to achieve reasonable results in FY2023. We will continue to boldly take on challenges in the new fiscal year under the new structure. We will continue to emphasize dialogue with everyone as we move forward.

5. Others

Q: In April, you began commercializing the Autonomous Haulage System (AHS) for mining dump trucks. What are your expectations for AHS?

A: Senzaki: We have reached a certain level of success. Our AHS is open and can operate with other companies' machinery as well. We have begun talking with several potential customers and hope to report back to you in the near future.

Q: How do you see the impact of the overtime caps in the construction and logistics industries? I believe that remote solutions for hydraulic excavators will lead to a change in the way people work. What is your feeling?

A: Senzaki: Transportation costs from suppliers may increase, and we have factored this into our earnings forecast. For example, we will consider measures such as pickups that visit each supplier. With regard to remote technology, for example, we have reached a level where we can remotely operate between the Hokkaido test site and the Kanto exhibition site. We will respond to each customer's issues through collaborative creation.

Q: Are there any needs for the RBT series of hydraulic excavators in relation to the overtime limit regulations?

A: Senzaki: I don't feel that the market is expanding that much. However, the issue of personnel shortages is growing in the construction industry, and we and our partners will work together to provide training so that anyone can use ICT construction machinery to perform construction work.