

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

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Date:	Thursday, July 28, 2022, 16:00-17:00	
Participants:	Keiichiro Shiojima	Vice President and Executive Officer & CFO
	Hidehiko Matsui	Executive Officer & CMO
	Eiji Fukunishi	Executive Officer & President of Spare Parts & Service Business Unit
	Toru Sugiyama	Executive Officer & Vice President of Mining Business Unit
	Tatsuya Kubo	Senior Officer & President of Corporate Brand & Communications Group

※Some excerpts are included in this report.

### 1. P/L in general, market conditions

**Q: The exchange rate was revised upward in the direction of the yen's depreciation, but why did 1Q results excluding the impact of the exchange rate fall short of expectations? What has changed from three months ago?**

A. Shiojima: In the 1Q results, both revenue and adjusted operating income exceeded expectations in terms of absolute amounts. Excluding China, market conditions were favorable, particularly in North America, Europe, Asia, and Australia. Revenue in Russia also increased year on year as orders were shipped. Both the Mining and Value Chain were good, and the Value Chain showed a record high. The sharp rise in material costs was largely covered by the rise in selling prices that had been implemented since the second half of last year. The risks that materialized compared to three months ago were delays in procurement and frequent disruptions in logistics. Although production is operating at full capacity, delays in procurement caused inventories of semi-finished products and other products to increase significantly and the company was unable to capture all of its manufacturing profits. In addition, the confusion in logistics caused ocean freight to rise more than expected, pushing down profits.

**Q: With the risk of an economic recession increasing, do you feel any shifts in demand?**

A. Matsui: Intuitively, demand is strong except for some regions such as China. Europe, North America, Japan, and Oceania are particularly strong. On the other hand, there is also a decrease in demand due to the impact of the situation in Russia and Ukraine and the impact of the supply chain. In North America, stagflation is also a concern, and we are closely monitoring the situation.

- A. Sugiyama: Regarding the mining market, recent iron ore prices have declined slightly due to the impact of the lockdown in Shanghai (decrease in infrastructure investment), but it is expected to be temporary, and the price will recover. Very high prices are being maintained for thermal coal. Therefore, if resource prices will remain at a high level overall, the mining business is expected to achieve high sales in both new machinery and parts services.
- A. Shiojima: The previous fiscal year forecast announced in April was evaluated by market participants as conservative compared to other companies. Its forecast is based on the assumption that the decline in demand due to the prolonged situation in Russia and Ukraine will spread to other regions. This time, we took a more conservative view of procurement and logistics risks and factored them in. We would like to make this plan the minimum level to be achieved.

**Q: Regarding “Sales volume, model mix, and others ” in the FY2022 outlook, the previous forecast was revised downward to ¥-17.5 billion, which was ¥-1.9 billion before. What is the breakdown of the deviation of ¥-15.6 billion? In addition, while there is a view that the confusion in logistics is easing, what is the background to the sudden rise in transportation costs and supply chain disruption?**

- A. Shiojima: An additional risk of ¥-15.6 billion, which includes procurement and logistics risk of ¥-10 billion and rising ocean freight rates of ¥-6 billion (from ¥-3 billion in the last forecast to ¥-9 billion this time), has been factored in. Until last year, we were able to manage transportation costs, but it suddenly increased in 1Q. Against this background, the supply and demand balance of logistics is collapsing due to the situation in Russia and Ukraine and the increase in the export volume of EVs from China. The risk of soaring transportation costs, such as the arrangement of chartered ships, became apparent in 1Q. Although there have been delays in the delivery of parts in the past, we have managed to make amends by shipping semi-finished products and installing the parts at the destination. As shown in the B/S, semi-finished products are increasing, but we would like to reduce inventories as planned and raise the income margin.

**Q: Regarding the FY2022 forecast of the consolidated income, compared to the previous plan in April, adjusted operating income will increase by about ¥30 billion due to the revision of the assumed exchange rate. On the other hand, additional factors such as procurement risks and rising ocean freight rates are factored in, and adjusted operating income is expected to decrease by approximately ¥15 billion compared to the previous plan due to differences in “Sales volume, model mix, and others.” I recognize that the**

**difficulty of procurement is easing in the current situation, and there is a sense of abruptness.**

- A. Matsui: Originally, it was assumed that logistics would be delayed to some extent. For example, there have been delays in local modification and procurement of attachments, and the impact is greater than initially expected.
- A. Shiojima: There have been shipping delays since last year, but the amounts were not particularly large. Shipment delays have become apparent since 1Q, and semi-finished product inventories have surged. Risks have been factored in, assuming that the difficult situation in 1Q will continue throughout the fiscal year.

**Q: Where are logistics disruptions occurring? Can we think of 1Q's performance as the lowest?**

- A. Shiojima: Logistics disruptions are occurring in many areas.
- A. Kubo: We continue to receive requests for products from overseas local companies. On the other hand, due to procurement and logistics risks, the smooth supply of products from Japan has become impossible, and inventories are accumulating. From 2Q onwards, we will strive to optimize inventory levels, improve income margins, and ensure that we achieve the plans announced this time.

## **2. Business by region**

**Q: What is the response to the progress of the North American business?**

- A. Shiojima: The ramp-up is very good. In the previous fiscal year, revenue from the independent development was more than ¥30 billion in a year, but, in the 1Q results, over ¥20 billion was for independent development, and revenue was strong including for mining parts, etc. The number of distributors is also increasing. A sub-subsubsidiary of ITOCHU Corporation's Tokyo Century Corporation has expanded its finance menu "ZAXIS Finance" throughout the United States, which has helped boost revenue.

**Q: Regarding the 1Q performance in North America, it is said that only independent developed revenue was more than ¥20 billion, and that there were various factors, such as the impact of the dissipation of the profit share and the additional price increases for OEM for Deere. Please analyze and explain again.**

- A. Shiojima: Breaking down 1Q revenue in North America, we see that independent development was over ¥20 billion, the solution business was over ¥10 billion, and the rest was OEM for Deere. Full-year revenue are expected to be slightly less than ¥90 billion due to the large

contribution of independent development, and the solution business is expected to reach around ¥40 billion. It will be roughly flat compared to the previous year. This is the plan after including the total loss of about ¥30 billion in profit share and price adjustment for Deere posted last year. The price increase for North America is expected to be more than ¥4 billion compared to the previous year.

**Q: Revenue in Russia/CIS of 1Q was ¥12.0 billion, and the full-year forecast is ¥19.7 billion. In the previous April forecast, the full-year forecast was ¥13.6 billion, so why did 1Q alone realize revenue of ¥12.0 billion in this situation?**

A. Shiojima: New orders in Russia have been suspended as announced. Products for which there is an obligation to fulfill the contract for orders already received are shipped to the extent possible. Prior to the downturn in the Russian and Ukrainian situation, the Russian market was fairly brisk, with a large backlog of orders and as many sales as possible in 1Q. However, there are also cases in which orders for products have been received but we have been unable to sell them due to export restrictions. This also affected the full-year plan, and despite the upward revision of the full-year forecast for Russia/CIS revenue compared to the previous forecast, the impact of the strong ruble was significant, and, excluding the exchange rate, the forecast will be revised downward.