

Major questions and answers for the explanatory meeting for business results for the first quarter ended June 30, 2024

Date:	Friday July 26, 2024, 4:00-5:10 p.m.	
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 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 Performance

Q: When do you expect a recovery in Europe and Asia, which were factors in the decline in income in the 1Q?

A: Matsui: In Europe, dealers' inventories have remained high due to the economic slowdown. We expect dealers' inventories to recover from around 4Q as they become more appropriate. Monetary easing will also be a tailwind. In Asia, the presidential election in Indonesia has ended, but construction demand has been slowing down in anticipation of the local mayoral election. A recovery is expected once the impact of the election subsides.

Q: Regarding China, the real estate market continues to be sluggish and business confidence is severe. What is your outlook for the future?

A: Matsui: Conditions in China remain difficult, including the real estate recession. 1Q demand picked up somewhat due to government agricultural land reforms, etc. We expect a moderate recovery from around Chinese New Year in 4Q. In China, we are expanding sales of large machines, mainly to mines. We are receiving positive feedback on the strength of our products.

Q: Regarding the mining business, why has the BB ratio dropped? The mining revenue forecast appears to have been revised downward on a local currency basis, what is the background? Is mining also a factor in the increase in inventories?

A: Fukunishi: The BB ratio was below 100% for both excavators and trucks. For excavators, the ratio is over 100% for small models, but below 100% for ultra-large models. Major mining and resource majors are the main customers for ultra-large models. Business negotiations with them for FY25 and beyond are currently underway. We believe the current decline in the BB ratio is temporary and will gradually improve in the future.

A: Shiojima: Inventories increased about ¥20 billion from the end of the previous fiscal year on a local currency basis. Most of this increase was due to an increase in unit inventories, mainly for the Americas. Sales expansion and increased lead time in the Americas had an

impact. In addition, there was also the impact of delayed sales of new mining machinery in Australia and Africa. The revenue forecast for mining was revised downward for North America considering the order situation, but upward for Latin America. The forecast for the Americas was revised downward slightly. In Asia, the outlook for mining parts and services was revised downward due to the current severe demand environment.

A: Kubo: In mining, parts and services remain strong overall. The mining revenue forecast has been revised downward due to the delay in sales timing, but there is no major change in the trend.

Q: How did 1Q revenue and adjusted operating income compare to the internal plan? Is it correct to say that the annual plan is achievable, but if you look at 1Q alone, you fell short of the internal plan?

A: Shiojima: Although these were both within and outside of our expectations, we were generally within our expectations to achieve the full-year forecast. Compared to the internal plan, we did slightly better in absolute terms, but we also benefited greatly from the weaker yen exchange rate. The impact of the severe demand environment, especially in Asia, where demand fell more than expected, is undeniable. Overall, 1Q results were within a reasonable range.

Q: Do you take any measures against fluctuations in foreign exchange rates, such as forward exchange contracts, currency hedges, etc.?

A: Shiojima: Regarding the outlook for the exchange rate, around March of this year we gathered a wide range of forecasts from domestic and overseas financial institutions and securities firms and used the median of these as the assumed rate. Although the yen has been appreciating slightly in recent days, the deviation from the assumed rate is still large. As has been our policy, we are hedging against foreign exchange fluctuations. Almost 100% of incoming payments are hedged on a non-consolidated basis, except for minor currencies. For foreign currency-denominated revenue forecasts, up to 60% are hedged by forward exchange contracts and options as appropriate.

2. Comparison of consolidated income

Q: In the comparison of consolidated income forecast, "other model mix" is positive. Why is that negative in the 1Q but positive from the 2Q onward?

A: Shiojima: 1Q's other model mix is -¥7.4 billion, but this includes an adjustment for unrealized profit on inventories. We posted manufacturing profit on a non-consolidated basis. To realize this profit on a consolidated basis, sales to third parties by consolidated group companies are necessary. Products held in inventory at consolidated group companies must defer manufacturing profit for consolidated accounting purposes. Unrealized profit fluctuates with the amount of inventory and the profit margin on a non-consolidated basis. In the previous fiscal year, more than ¥10 billion was deferred as unrealized profit for the full year due to an increase in inventories resulting from business expansion. In 1Q last year, unrealized profit was in the realization phase and was a factor in YoY income growth, but this year, inventories are increasing due to deteriorating market

conditions. There was also a delay in the timing of mining sales. As a result, unrealized profit was generated in 1Q, resulting in a decrease in income of over ¥7 billion.

However, for the full year, we plan to keep inventories at the same level as the previous year, so no unrealized profit will be generated. As a result, unrealized profit will be a factor of over ¥10 billion in income increase compared to the previous fiscal year.

A: Kubo: Inventories increased in 1Q due to delayed sales; please understand that unrealized profit is also expected to improve as sales are recognized in 2Q and beyond.

Q: What about “other model mix” other than unrealized inventory profits?

A: Shiojima: Unrealized profit accounts for most of the total. Although there was an increase in transportation costs (YoY -¥0.2 billion) in 1Q, it was not a large amount. The annual forecast for transportation expenses remains unchanged from the previous forecast at -¥2.4 billion, but it is unclear whether it will increase to this level. In terms of the pure regional mix, we expect a decline in sales in Europe and Asia to be a factor in the decline in income by about -¥1.0 billion.

Q: Is the increase in unrealized profit in 1Q within your expectations?

A: Shiojima: We did not expect unrealized profit to be this large. This was due to a decrease in the volume mainly in Asia. On the other hand, the weak yen in exchange rates lifted 1Q income. As a result, overall 1Q results were largely in line with the forecast.

Q: The annual forecast for the value chain composition difference was lowered from the initial plan of ¥9.6 billion to ¥6.0 billion. Has the Specialized Parts & Service (SPS) business been affected by the severity of the situation?

A: Shiojima: The downward revision of the forecast for the value chain composition difference was due to the downward revision of value chain revenue and changes in the sales composition ratio, etc. The SPS business was revised downward by about ¥4 billion in local currency terms. The used equipment business has also been revised downward. The SPS business includes Bradken and H-E Parts, and Bradken's business is strong, while H-E Parts is strong in Australia, but struggling in the Americas.

Q: You have revised the SPS business revenue downward by about -¥4 billion by lowering its outlook for H-E Parts. Is that not a significant impact on profit?

A: Shiojima: We have not changed our forecast for adjusted operating income of ¥165 billion. On the other hand, 1Q results had a larger-than-expected upward impact due to foreign exchange effects. Reflecting this result, we have revised downward the forecast for the value chain composition difference as an adjustment to keep the profit forecast for the fiscal year unchanged despite the lift in foreign exchange rates in 1Q.

3. Americas Business

Q: What do you think of the impact of the U.S. presidential election?

A: Shiojima: Regardless of the outcome of the presidential election, market conditions in the US are firm. Infrastructure investment projects that have been in the works for several years have entered the execution phase and there is a volume of construction. In addition, there has been a rush of construction as the administration is attracting factories. Monetary easing by the Fed will also take place in the second half of the year and beyond.

If Donald Trump were to become president, there are strong indications that infrastructure investment will increase as he seeks to revitalize the domestic manufacturing industry. We see this as an advantage for the Company. On the other hand, there is also the risk that he may erect tariff barriers. We believe there will be merits and demerits in this case. If Kamala Harris becomes president, we believe that the current policy will be maintained, and the situation will improve in the second half of the year.

Q: Please explain the trends in the construction business in the Americas, divided into the own developing business and supply to Deere. Inventories are increasing and we are concerned about production adjustments.

A: Shiojima: The 1Q results for the own developing business in the Americas showed a slight YoY increase in sales. As a breakdown, sales to Deere grew steadily, while sales of the own developing business increased slightly. In terms of the own developing business, last year there was a need for dealers to load up their inventories, but now it appears to have been filled and supply is settling down. However, on a retail basis, the market share is firm, increasing by about 2 percentage points. Mining sales in the Americas increased in 1Q, but the SPS business struggled and sales declined. As a result, sales in the Americas were only slightly higher YoY, as growth in construction and mining was offset by a slowdown in the SPS business. Construction is expected to grow significantly for the full year.

A: Matsui: Dealers' inventories in North America are filled to appropriate levels. In addition, interest rates continue to be high, and wide-area rental companies, in particular, are holding off on purchases. However, since wide-area rental companies need to replace their assets in order, we expect them to move ahead with purchases through 4Q. In addition, the market share is steadily increasing on a retail basis.

Q: Regarding the own development of the Americas, isn't revenue down year on year on a local currency basis? Progress against the full-year forecast is weak.

A: Shiojima: 1Q sales in the Americas declined year on year on a local currency basis, largely due to the decline in SPS business. 2Q-4Q revenue is expected to recover mainly in the construction business, and we plan year-on-year revenue growth for the fiscal year.

Q: Looking only at the construction business in the own developing business of the Americas, would you say that revenue increased year on year on a local currency basis?

A: Shiojima: It is a subtle point, but there is a decrease in revenue.

Q: What is the background behind the struggling SPS business in the Americas?

A: Shiojima: H-E Parts' performance has slowed down due to a tough competitive environment for rebuilds in mining in the Americas, especially in engine and component repairs. We expect some improvement from 2Q onward.

Q: Progress in own developing business in the Americas appears to be weak. At what point will demand recover for the full year? What is your strategy for expanding dealers, etc.?

A : Matsui: 1Q demand for hydraulic excavators in North America was -9% YoY, but for the full year we expect -5% and assume a recovery in the second half. The outlook for lower interest rates in the second half and beyond is also positive. Construction volume is firm, and retail sales are expected to be favorable. We also have promotional campaigns in the finance sector. We believe that sales can be secured toward 4Q.

A: Shiojima: If monetary easing is realized in stages from the second half of the year, dealers' inventory restraint will ease. Also, sales to wide-area rental companies got off to a poor start, but their earning results are solid compared to the past. Therefore we believe that they are currently adjusting their machinery purchases in light of concerns about the future impact of the election and other factors, as well as the interest rate situation.

A: Kubo: In the first half, some parts of the business are in an adjustment phase, but overall the business is firm in the Americas, mining, parts and services, and other areas. For the full year, we are maintaining our profit increase plan, excluding foreign exchange. We feel that we can continue to grow despite the difficult market conditions, and we would like to ask for your continued support.