Major questions and answers for the explanatory meeting for business results for the second quarter ended September 30, 2024

Date:	**Friday October 25, 2024, 16:30-17:30**	
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: What are the key points in your revised earnings forecast?

A: Senzaki: First of all, I would like to give you an overview of our financial results. In July, we thought that the 1H of the year would be a difficult period in terms of demand, but that there would be a certain recovery in the 2H. However, due to factors such as the delay in interest rate cuts and the situation of major customers such as rental companies, particularly in the Americas, we have decided that the recovery in demand will be delayed until next year, and we have lowered our earnings forecast for the 2H of the year in the United States. However, even in the face of a difficult market, we are forecasting growth in the development of our own business, and our retail market share is steadily increasing.

Q: The other model mix in comparison to consolidated income was negative in the 1H, but it is assumed that it will be recovered in the full year. I would like to know how the Americas and others are performing.

A: Shiojima: The decline in the Americas was greater than expected in the 1H, and the decrease in the North American sales volume pushed down the results, therefore we lowered the sales volume in the Americas for the full year. However, we are factoring in an increase in sales of our own developing business in the 2H compared to the previous year, and we expect to have a positive effect on the other model mix in the 2H. In addition, although ocean freight costs, which are included in the other model mix, have been on an upward trend in recent years, they have fallen this time, and this will have a positive effect (as a factor increasing profits). Taking this into account, we expect the product mix to improve in the 2H.

Q: To what extent has the positive impact of ocean freight rates been incorporated into the forecast?
A: Shiojima: As of April, we were anticipating a high level of ocean freight rates, particularly on European routes, and we were expecting a ¥2.4 billion decrease in profits. In this plan, however, we have turned this into a ¥4.2 billion increase in profits. In addition to container ships, the prices of conventional ships have also fallen, and there has also been an impact from the reduction in the volume for Europe.

Q: The selling price in comparison to consolidated income has been revised downward for the full year. How is the price increase being accepted?
A: Shiojima: We are forecasting an improvement of ¥13.4 billion in sales price fluctuations for the year. In the 1H, the figure was close to ¥9 billion, but we have slowed the pace in the 2H. Due to the severity of the situation in the Americas, we will be particularly flexible in managing and increasing sales prices. We have also lowered our forecast for Japan. We have lowered our forecasts for these two regions, but we have factored in a reasonable improvement for the 2H of the year.

Q: When can we expect to see a contribution to earnings from the recovery in demand for mining, including our own developing business in the Americas?
A: Fukunishi: At present, we are seeing a decline in demand for small-sized machinery. This is linked to the price of resources, particularly coal. As companies that handle hard rock minerals and major resource companies make medium- to long-term investment plans, demand for large-sized machinery is still strong at present and we do not expect it to decline. As for the timing of a recovery in demand for small-sized machinery, coal prices for both coking and thermal coal have been stable recently, and we believe that demand will recover when customers begin to invest.

Q: You haven't changed your demand forecast for mining, but when forecasting next term's performance, can we expect sales of mining machinery to increase?
A: Fukunishi: While the demand forecast has not changed since the previous forecast in July, the sales forecast has been revised downward, particularly for trucks. This is due to the change in sales method from direct sales to rental sales. The sales forecast for excavators has also been revised downward due to the impact of sales being delayed and differences in model composition. Sales of small mining excavators in China have been strong, and we expect them to remain steady in the next fiscal year as well. In the Americas, where demand for hard rock mining machinery is expected to remain strong, we expect sales of both trucks and excavators to grow, particularly in South America. In addition, we have established a sales and service company in Brazil in a joint venture with Marubeni. We are also planning to quickly establish parts warehouses, remanufacturing bases, training centers, etc. in order to increase our presence in other regions of South America as well.

Q: Demand in the Indian market is sluggish, but why do you expect sales to increase, albeit only slightly?
A: Matsui: We expect demand to decrease due to delays in budget approval by the coalition government and a decrease in projects such as expressways. Demand in the 1H of the year was higher than expected, but due to factors such as the monsoon, we are taking a conservative view at the moment. We are catching up with demand and taking market share.
A: Senzaki: India is an important market where we have the largest market share, and our relationship with our dealers is good. We are able to supply the volume of machinery we need by consulting with our dealers. It is difficult to predict demand, but based on our relationship with our dealers, we expect to be able to achieve this level of sales.

2. The Americas Business

Q: Local machinery utilization is not bad, but the dealer inventory is said to be sufficient. Will this inventory stagnation end in the 2H of the year, or will it continue until the 1H of next year?
A: Matsui: We had expected the Americas market to recover a little earlier, but due to factors such as the delay in interest rate cuts, the recovery in housing is slow. Dealer inventory was injected last year, but it is now at an appropriate level. The retail market share has increased by 2% year on year to around 6%. Now we expect to sell wholesale the volume of the retail sales. Rental company sales have not fallen, but they are holding back

on introducing assets compared to last year. I think this is due to the interest rate issue, but asset replacement is necessary, and we are looking forward to their investment in the next fiscal year and beyond.

Q: You have lowered your full year revenue forecast for North America, but you are maintaining your plan for increased revenue from the development of your own business. You mentioned a delay in the recovery period, but does this mean that the recovery will be delayed, or will sales increase next term?
A: Shiojima: Last year, there was a special demand for the fulfillment of dealer inventories, but that part has fallen away now that the inventories have been fulfilled. However, retail market share is increasing, so sales volume is definitely increasing. Since the 2H of last year, the dealers' inventory has been replenished, and we have been selling according to retail sales. Compared to the 2H of last year, sales will increase by the amount of the market share increase. In the Americas, we recognize that the delay in interest rate cuts is lowering customers' purchasing sentiment. We believe that if interest rate cuts are implemented in stages, customers' purchasing sentiment will also recover, as there is still a strong demand for construction investment and investment to attract factories. We also expect to see a recovery in purchases by wide-area rental companies.
A: Matsui: We have been able to sign dealer agreements in parts of California, Washington and Oregon, which were previously blank, and our coverage rate has improved to 87%. We will increase sales by adding these new shipping destinations.

Q: Regarding the development of our own business in the Americas, I have calculated that wholesale sales decreased by 13% year on year in the 1H of the year on a local currency basis, but retail market share increased by 2%. Is it correct to understand that the difference is due to a decrease in dealer inventory?
A: Matsui: Yes, that's correct. We are working to optimize dealer inventory, so the amount of retail sales will be met by wholesale sales. We are also running interest rate campaigns, and we hope to see results.

Q: As of the end of September, dealer inventory was appropriate and there was no further build-up, but will your sales increase as a result of growth in retail sales? Is there any risk of an increase in inventory?
A: Senzaki: As you understand, retail sales are generated from dealer sales, so as long as dealers sell only the amount we wholesale, there will be no increase in inventory.

At present, the dealer inventory level is appropriate, and only the amount sold by the dealers is sold wholesale. If the retail share increases from 4% to 6%, the volume will increase by 1.5 times. As a result, our sales will increase. In addition, we expect growth in the Specialized Parts and Service business and other businesses in the 2H of the year.