Major questions and answers for the explanatory meeting for business results for the third quarter ended December 31, 2024

Date:	**Monday January 27, 2025, 17:00-18:00**	
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 Outlook

Q: What are your thoughts on the Q3 results and full-year plan? In particular, please tell us if there are any upsides or downsides from the previous Q2 plan (announced in October).

A: Shiojima: The Q3 results were generally in-line in terms of both revenue and adjusted operating income. However the favorable exchange rate had the effect of increasing revenue by ¥16 billion and adjusted operating income by ¥6 billion. These amounts were less than planned. Revenue in Australia and our own development of the Americas fell short of the plan. In Australia in particular, the mining business was favorable, but the construction market had cooled. The company did not revise its full-year forecasts for revenue and adjusted operating income, but it did revise the impact of the yen's depreciation on each region. By region, the company revised downward in Oceania, Europe, and Japan, while it revised upward in Africa, Latin America, and China. By product, the forecast for mining was revised downward slightly, while the forecast for Value Chain was revised upward.

Q: You mentioned that there has been movement in Indonesian demand, but I would like to ask for more details: has there been a boost in orders since Q3, or is the overall demand increasing due to policies?

A: Matsui: With the inauguration of the new president, the Food Estate projects aiming to increase food self-sufficiency have been launched, boosting demand for construction machinery. Some areas are about to receive approval for logging, so we expect demand to increase from Q4 of the current fiscal year through the next fiscal year. We are also preparing to receive orders.

Q: The full-year plan calls for improvements in the model mix and others in the Q4. As reasons for this, you mentioned growth in your own development of the Americas, including the effect of M&A, but is there any impact outside of the Americas? Also, what is the background to the improvement in unrealized profit?
A: Shiojima: The model mix & others for the three months of the Q4 will increase by ¥13.2 billion YoY. Of this amount, we expect an increase of ¥7.3 billion in the regional/product mix and others, taking into account the effect of our own development in the Americas, increased revenue in Asia, and reduced distribution costs (approx. ¥1.0 billion).
In addition, a ¥1.5 billion increase in income is factored in due to the model mix of the value chain business. The value chain ratio is expected to grow from 37% in Q4 of the previous year to 43% in Q4 of the current year. Unrealized profit is expected to increase by ¥4.4 billion YoY, although this is a downward revision from the original plan. This is due to the effect of curbing production volume and inventory reduction in light of the sales season in the Americas, Asia, and other regions.

Q: Regarding the production side, are there any quantitative changes in capacity utilization rates, etc.?
A: Shiojima: Since around Q4 last year, we have been operating at about 70% of production capacity. As a result, inventories shrank significantly in Q2 and remained unchanged in Q3. We do not expect any significant change from Q3 to Q4.

Q: What do you use as an indicator to make production decisions?
A: Matsui: One is the dealer’s inventory. In addition, we also check wholesale shipments and on-hand inventory. We recognize that the most significant influence is the demand environment.
A: Shiojima: We are controlling production at a level that can generate appropriate income.

Q: What scenario would you envision for the overall demand in the next fiscal year?
A: Kubo: We had expected demand to recover generally from FY2025 onward, but we are now reassessing the outlook as severe conditions will continue until the first half of the next fiscal year, and we are cautiously expecting the recovery period to be delayed as a whole.
A: Matsui: For construction, we expect a moderate recovery from the same level as in FY2024. We do not expect further deterioration in North America and Europe, but we believe the recovery period will be in the second half of the fiscal year. However, there are expectations for the Trump administration. In Asia and China, demand is currently growing in some areas, and we expect the overall demand to remain at about the same level.
A: Fukunishi: We expect mining demand for both excavators and dump trucks to be flat or slightly negative compared to the current fiscal year, assuming stable resource prices. Uncertainties remain regarding the impact of the Trump administration's foreign policy and energy policy on resource prices and the risk of a decline in mining demand, but no major changes are incorporated at this time. No major changes are expected in hard rock and large equipment for major mines. Given the high and stable prices of copper, gold, and other commodities, we expect demand to remain strong, supported by aggressive capital investment by mining companies in decarbonization and labor-saving projects.

2. The Americas Business

Q: More than two years after the start of your own development in the Americas, is there room for further market share expansion?

A: Matsui: The demand environment in the Americas is severe. Demand is decreasing due in part to high interest rates, but has stopped falling. In spite of this, retail sales of construction machinery are strong and our market share is increasing. We are also receiving inquiries from major rental companies.

We would like to receive orders ahead of schedule during this fiscal year for the sales season starting around April. We will raise the selling price compared to the previous year. Currently, the company is trying to secure volume by running an interest rate campaign.

A: Fukunishi: Demand for mining in the Americas in FY2024 is expected to decline slightly from the previous year. Regarding demand in North America, large mining excavators will see firm demand for oil sands and gold mines, but a decline in small mining excavators will result in a slight decrease in overall excavator demand. Demand for dump trucks for hard rock mining increased. Demand for both excavators and dump trucks in South America declined slightly from the previous year. Regarding the sales strategy, in North America, dealers are expanding inventories of small machines (100-ton class), and a system for immediate delivery of small machines has been established. The retail share of mining excavators in North America is more than 20%, and the company will continue to strengthen its immediate delivery system to increase its market share. In South America, we are steadily building a track record in Brazil, Chile, Colombia, and Peru. Although there will be some deviations from the initial forecast, we will work to expand both the region and the volume of products.

A: Kubo: Today, we announced the establishment of a regional headquarters company for Latin America, aiming for revenue of ¥100 billion in Latin America in FY2030.

(News release reference: https://www.hitachicm.com/global/en/news/press-releases/2025/25-01-27/)

Q: What effects have you seen from the alliance with the trading companies (ITOCHU and Marubeni)?

A: Matsui: We have established a finance joint venture with ITOCHU in North America, and are developing floor plans for dealers (interest rate plans for inventory) and retail plans. The retail plan has expanded to be used by about 80% of end users.

A: Fukunishi: We have had a cooperative relationship with Marubeni in the mining business and established a joint sales and services company in Brazil. It will begin full-scale operations from March 2025. We will accelerate both new machinery sales and value chain business.

Q: What is the breakdown of the expected revenue of just under ¥85 billion in Q4 of your own development in the Americas?

A: Shiojima: Compared to FY2023Q4, revenue of our own development is expected to increase by a little over ¥17 billion. The Americas have been difficult since last year's Q4, but we expect some improvement in the current fiscal year and have factored in increased revenues. In addition to the impact of the acquisition of Brake Supply, ACME, which became a consolidated subsidiary, has completed its PPA (Purchase Price Allocation) and is now fully engaged in the wholesale rental business, which will lift the majority of the revenue increase. In addition, orders for new machinery are also coming in, which is expected to replenish inventory at dealers, resulting in higher revenues.

Q: Is it correct to think of the FY2025 business plan as a quadrupling of the Q4 forecast for your own development in the Americas?
A: Shiojima: Q4 is the sales season, and the scale of revenue is larger than in other quarters. Market conditions have not recovered rapidly, but there are some bright spots. For example, there are orders and inquiries from wide-area rental companies and key accounts related to the gas pipeline to be built by the Trump administration.

Q: While there is an excess of dealer inventory in North American construction equipment, what are the trends in special demand due to industrial investment, wildfires, etc.? Are there also changes in the mining business, such as a change in administration and investment in resources?
A: Matsui: Demand for construction machinery remains sluggish, but there is a sense that it has bottomed out. We will keep a close watch on how much pipeline and other work the new administration will bring. We are receiving inquiries about disaster reconstruction, mainly for rentals, and we will catch up with them.
While our dealer inventory is adequate, we are increasing our retail market share and will replenish it as sales progress.
A: Fukunishi: I assume that the impact of the new administration will be positive for the mining industry.
A: Kubo: We are certain that inquiries for pipelines and other energy-related projects will be brisk, but we are still considering when they will lead to orders and revenue for our company.

Q: Brake Supply Co., Inc. is your company's first major acquisition in many years. I think it will be a weapon in your value chain business, including parts remanufacturing, but what are your aims?
A: Shiojima: The acquisition of Brake Supply was finalized in December, contractually an asset acquisition by way of business transfer. ¥16.4 billion of expenditure for business acquisition on the cash flow statement is applicable. The aim is to expand the scale of H-E Parts' business in North America, where it will have the largest market share outside of OEMs. The FY2024 forecast includes sales of 7 billion yen and adjusted operating income of just under 1 billion yen for Brake Supply.
A: Fukunishi: Brake Supply is engaged in the remanufacturing of components (cylinders, hydraulic parts, reduction gears, etc.) for mining excavators and dump trucks. More than 90% of its revenue is in North America. There is little overlap between H-E Parts' existing locations and Brake Supply's locations, which will enable the company to build an efficient and speedy service network and strengthen its product lineup.
For Brake Supply, this will provide new growth opportunities in South America, Africa, and Australia, where H-E Parts is already well established.