

# Kubota Corporation

## Result Briefing for FY2021 ended December 31, 2021

### Q & A Session (February 18, 2022)

**Q. Please tell us about the balance between cost and profit. While it is assumed that both R&D expenses and capital expenditures will increase, I think revenue and operating profit is likely to achieve Mid-term Business Plan ahead of schedule. Can I take it as a message that you will spend more R&D expenses because the profit target is likely to be achieved ahead of schedule?**

A. We are considering whether the target of Mid-term Business Plan can be achieved ahead of schedule and will be revised. Revenue certainly has increased, but the reason includes some effects from the yen depreciation and sales price increase. As for profits, there are various negative factors, and we are currently examining them carefully. I can't say anything definitely yet, but we will not change the outline of the Mid-term Business Plan. I would like to add one remark. We mentioned that one of the reasons for the lack of increase in profits in this fiscal year is an increase in R&D expenses of 21.0 billion yen, so you think it seems to be a little conspicuous. However, this kind of upfront investment is included in our Mid-term Business Plan, and I hope you understand that it is on schedule. It does not necessarily mean that we will use it because we have secured a profit. As to R&D, there is a point where we can't use it even if we want to do until the theme is fixed to some extent. In this sense, I hope that you can understand this increase in cost is a result of progress. It may seem that the cost goes ahead, but I hope that you can understand that what we incorporated in the Mid-term Business Plan has been realized.

**Q. There was a detailed explanation of the additional investment in R&D this time, but the focus was on the content of the mid- to long-term perspective. The effect may not be visible immediately, but I would like to tell us when and how much effect you expect, including figures.**

A. I think it is difficult to estimate the feedback of the business figures of the preceding fields in R&D. However, sales related to smart agriculture are gradually increasing, so I think the business volume will be a certain level in 2025. I mentioned that the global market of smart agriculture will be about \$22.0 billion, and we are trying to take a certain market share. In addition, we are also working on resource circulation and decarbonization initiatives, including alternative fuels. Regarding EVs, compact construction machinery and tractors are planned to be introduced by the end of 2023. However, the current cost technology is not profitable. As we noted in the announcement of Mid-term Business Plan last year, the effects from these upfront investments are not reflected in revenue and bottom-line results in FY2025. Amid rapid changes in the world, I would like to take the opportunity to explain how this will take effect in 2025, or soon after, after making some progress.

**Q. You mentioned considering two-site production from the perspective of risk management. I would like you to explain again what this scale you are considering. In line with this, I would like you to tell us if there is anything that can be linked to figures such as capital investment.**

A. The pandemic and supply chain disruptions are making things difficult. Most of construction machinery in North America is exported from Japan, but we plan to promote local production for local consumption in the future. On the other hand, we aim to diversify risk by manufacturing compact BX tractors at domestic plant this year. As for compact tractors and medium-sized tractors, three sites of Japan, Thailand, and the United States are under the production system to produce basic compact tractors. We want to promote these things little by little. As for BX tractors, we plan to produce 10,000 units at our domestic plant this year, and we will try to balance the number of units while taking into account the global situation. In addition, we produce transmissions for RTV and tractors for garden in Japan, but it is considering manufacturing them in Thailand and the United States in the future, and it is considering promoting local production for local consumption where it is best.

**Q. I have an impression of high domestic production ratio. What kind of figures are you aiming for in the future?**

A. The idea is that we want to manufacture advanced engines and some powertrains that are the core components of products in Japan as much as possible, and for the rest, we want to produce and consume locally. While overseas revenue ratio is currently about 70%, overseas production ratio is about 30%. This is a matter for the future, but I would like to aim for about 50%.

**Q. You explained about enhancement and acceleration of R&D related to carbon neutral. I think that the trend toward carbon neutral is advancing in the world, but I would like to ask you to share your views and background on the issues that you intend to strengthen in these fields at this time.**

A. With regard to carbon neutral, I believe that Japan has made a major shift, beginning with former Prime Minister Suga's remarks the year before last. Of course, we have been conducting R&D on electrification, etc., but unlike automobiles, farm equipment and construction machinery work under load all day long, which makes it impossible to recover sufficient regenerative energy. It is difficult to mount a battery in reality in terms of both volume and weight, and we have considered developing a hydrogen engine and synthetic fuels. On the other hand, the rapid acceleration of the global trend towards carbon neutral has led to the conclusion that we need to accelerate our development a little more. For example, in Silicon Valley, Ian Wright, co-founder of Tesla, is working on a project to bring electrification to tractors. In farm machinery, it is necessary to accelerate electrification and alternative fuels in fields where we are good at, such as orchards. Because costs will incur in various fields, the current state is that we added this as R&D budget. We will continue to work on this so that we can lead the industry.

**Q. For example, in the sector of passenger cars, I feel that market changes seem to be accelerating due to the emergence of game changers and the strengthening of regulations in Europe and other countries. Are there any points in the agricultural and housing markets where you feel changes in competitive relationships and acceleration of regional demand changes?**

A. Our company's competitors are doing a lot too. Regionally, in Europe, the movement toward electrification is advancing in major cities, including diesel regulations in Paris. We have also taken steps to respond to this situation, but I feel that the United States has changed its policy especially since the change of government took place and the situation has changed significantly. For example, there are CARB regulations in California, and I hear that they are considering to eliminate the machines with engine in 2027 or 2028. This background is accelerating very rapidly.

**Q. What is your future strategy for expanding product lineup of CTL in North America?**

A. As for the CTL, our company has only 3 models with 65, 75 and 95 horsepower. Since other companies have 7 models or 8 models, we plan to sequentially develop and launch products in the horsepower range, which is insufficient compared with other companies.

**Q. You said that there was a temporary tailwind from government projects in 2021 and that there would be a rebound in Thailand market. How much impact would that have?**

A. Although we cannot give specific figures, the market itself is solid, and we estimate that a decrease in sales in Thailand this fiscal year will be the impact of the government projects.

**Q. I understand that there is a time lag in the effect from sales price increase in this fiscal year, but how will it have the impact in the first half and the second half? I would also like to know the percentage by the segment and the impact in North America. In addition, the positive effect from sales price increase is expected to be about 100.0 billion yen in the previous and current fiscal years amid a negative effect of more than 100.0 billion yen mainly from material prices and logistics expenses. Are you going to actively pass on sales price against the cost increase in the future?**

A. The positive effect from sales price increase is expected to be 76.0 billion yen, of which 60.0 billion yen is for

Farm & Industrial Machinery (Machinery) and 16.0 billion yen is for Water & Environment. As for the impact in the first half and the second half, there is a considerable time lag in Machinery, so it will have more impacts on the second half. With respect to Water & Environment, the effect in the second half is also expected to be larger than that in the first half because of the price increase in this fiscal year in addition to that announced in the previous year. In the North American market, each company has raised sales prices by about 3% every year. We plan to raise sales price this year by 6% in tractors and 5% in construction machinery, depending on the model. We are also considering raising sales price by 3% to 5% in Europe. The effect in Japan has not yet been included in the plan, but it is considering whether to raise sales price. In North America and Europe, other companies are also raising sales prices considerably, and dealers and users are becoming more aware of the rising prices to some extent. Therefore, I think we can do something about the penetration of the sales price increase. However, we raise sales price in consideration of market competition, so we don't do it uniformly for each model. We will reduce the impact on sales by carefully examining each model while taking into account the competitive situation in the market. While costs are rising mainly due to material prices, we can't just raise the cost unnecessarily. Especially in North America, we were able to increase retail sales thanks to cooperation from dealers amid lack of dealer inventories, so we plan to raise prices as far as we can get their approval.

**Q. I heard that the figure of Escorts is not included in the forecasts, but what kind of situation will it be if it is treated as a consolidated company in this fiscal year? In addition, you mentioned that the target of revenue for 2030 in India is 300.0 billion yen. What about profitability?**

A. Consolidated totals for Escorts are not included at this time. We are about to start TOB toward the end of March, and depending on when it ends, if we can obtain the majority share, it will be added to our revenue and operating profit as early as the second quarter. The 300.0 billion yen means that we aim to more than double our current revenue in India, including that of Escorts. Naturally, we intend to improve our profit margins by improving productivity through the introduction of KPS (Kubota Production System) and arranging procured components in India, but I cannot tell you the profit structure for 2030 at this point. Since the Indian market expanded last year, we would like to elaborate more on how we can expand the Escorts' and our products. I would like to explain in a timely manner what kind of numbers we can expect this fiscal year, next fiscal, and beyond, and how much we can add in FY2025, together with the review of Mid-term Business Plan.

**Q. The results of Water & Environment in this fiscal year is expected to be an increase in revenue and a decrease in profit. The cost increase of materials will be mostly offset by the sales price increase, so please tell us the background of this. And which products are growing in sales?**

A. As you asked, the impact of material costs will be offset by sales price increase. The reason for the decrease in profit is because many drainage pump vehicles, which are mobile pumps used to facilitate recovery from flooding, were ordered and shipped profitably in the previous fiscal year, which are expected to decrease in this fiscal year. On the other hand, the revenue is expected to increase due to an increase in shipments related to plants in the environmental business. The difference in the model composition has resulted in the increase in revenue and the decrease in profit. Rather than saying that some business is getting worse or better, I would like you to understand the timing and model composition.

### **Cautionary Statements with Respect to Forward-Looking Statements**

This document may contain forward-looking statements that are based on management's expectations, estimates, projections, and assumptions as of February 18, 2022 (result briefing for the FY2021 ended December 31, 2021). These statements do not constitute a guarantee of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results may differ materially from what is forecast in forward-looking statements due to a variety of factors.