Kubota Corporation

Results Briefing for FY2022

February 15, 2023

Event Summary

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[Participants]	150
[Number of Speakers]	7

Yuichi Kitao	President and Representative Director
Masato Yoshikawa	Executive Vice President and Representative Director, GM of Planning and Control Headquarters
Kazushi Ito	Senior Executive Officer, Deputy GM of Planning and Control Headquarters
Hideo Takigawa	Executive Officer, GM of Corporate Planning and Control Department
Wataru Kondo	Executive Officer, GM of Water and Environment Infrastructure Management Department
Hitoshi Sasaki	Executive Officer, GM of Farm and Industrial Machinery Strategy and Operations Department

	Issei Matsui	IR Section Manager of Corporate Planning and Control Department
[Analyst Names]*	Hikaru Mizuno	UBS Securities
	Tsubasa Sasaki	Mitsubishi UFJ Morgan Stanley Securities
	Tomohiko Sano	JPMorgan Securities
	Sho Fukuhara	Jefferies
	Yuichiro Isayama	Goldman Sachs

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

Matsui: We will now begin the presentation of financial results for the fiscal year ending December 31, 2022. Thank you very much for taking time out of your busy schedule to attend our information session today. My name is Matsui, Manager of Investor Relations, Corporate Planning Department. I will be your moderator today.

Today, President Kitao will give a half-an-hour presentation on the progress of the mid-term business plan, which is followed by another presentation on financial results by Mr. Yoshikawa, General Manager of the Planning Division. We will then open the floor for questions and answers for about 30 minutes. The meeting is scheduled to wrap up by 11:30 AM.

Please note that we posted today's presentation deck on our corporate website, under the investor relations section. Please keep it handy for your reference if you are attending the meeting via phone.

Let me now introduce the attendees. Mr. Kitao, President and Representative Director.

Kitao: My name is Kitao. Thank you for joining us today.

Matsui: Mr. Yoshikawa, Representative Director, Executive Vice President, and General Manager of the Planning Division.

Yoshikawa: Hello, this is Yoshikawa. Thank you.

Matsui: Mr. Ito, Executive Officer and Deputy General Manager of the Planning and Control Headquarters.

Ito: Hello, I'm Ito. Thank you.

Matsui: Mr. Takigawa, Executive Officer, General Manager of the Corporate Planning and Control Department.

Takigawa: Hello, my name is Takigawa. Thank you.

Matsui: Mr. Kondo, Executive Officer, General Manager of the Water and Environment Infrastructure Management Department.

Kondo: I'm Kondo. Thank you.

Matsui: Mr. Sasaki, Executive Officer, Farm and Industrial Machinery Strategy and Operations Department.

Sasaki: My name is Sasaki. Thank you.

Matsui: At this time, President Kitao will discuss the progress of the mid-term business plan.

Kitao: This is Kitao, the President of Kubota Corporation. Thank you very much for participating in our financial results briefing today. Today I would like to talk about the progress we made on the mid-term business plan. After my presentation, Mr. Yoshikawa, the General Manager of the Planning Division, will discuss the details of the financial results.

This is the agenda for today's presentation. I would like to briefly describe the results of FY2022 first then review the progress of the mid-term 2025 plan.

1. Results in FY2022

For Earth, For Life
Kubota

【Increase in revenue and decrease in profit】

- Revenue increased due to the yen depreciation and sales price increase.
- Profit decreased due to a deterioration in production efficiency and high costs such as material costs.

(Unit: billions of yen)		Year ended Dec.31, 2022	Changes	
			Amount	%
Revenue		2,678.8	+482.0	+21.9
	Domestic	602.4	-0.4	-0.1
	Overseas	2,076.4	+482.4	+30.3
Operating profit		8.2% 218.9	-25.6	-10.5
Profit attributable to Owners of the parent		5.8% 156.2	-18.6	-10.6

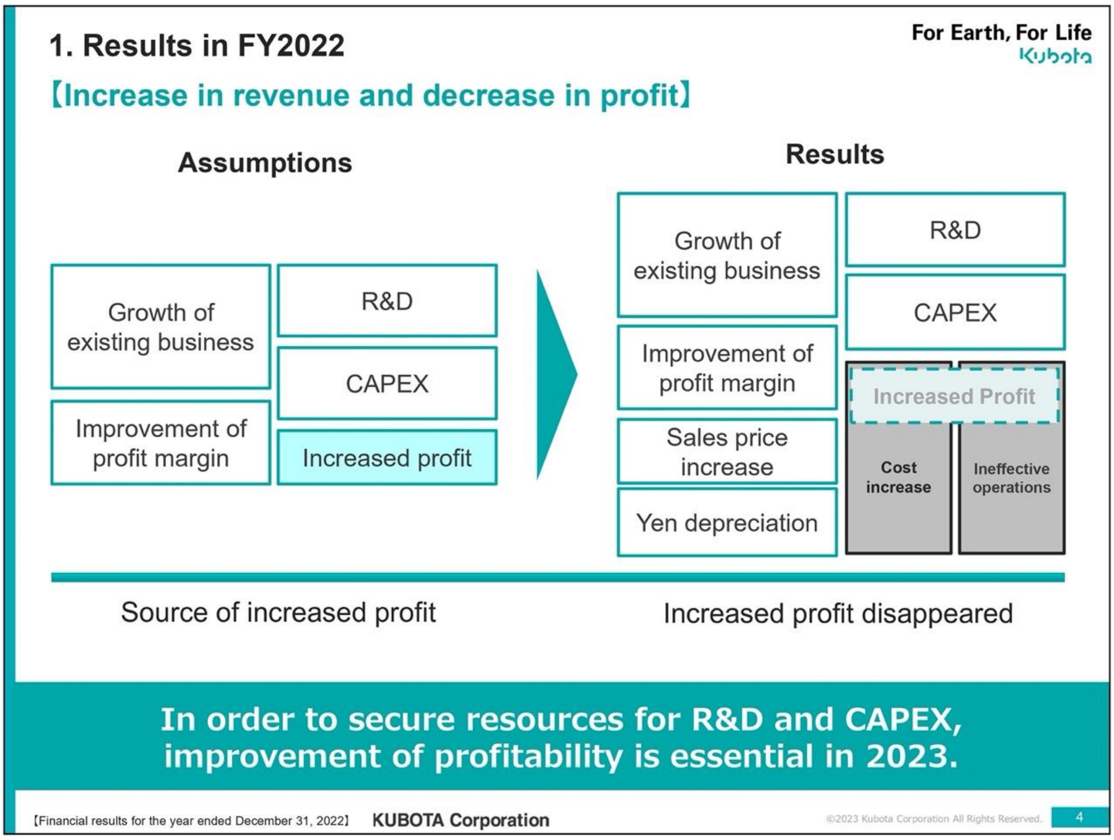
【Financial results for the year ended December 31, 2022】 KUBOTA Corporation

3

I would like to begin by reviewing the performance of FY2022. This is the summary of the results. Net sales increased significantly by JPY482 billion due to the effects of depreciation in the yen and price increases, as well as strong sales of construction equipment in North America and Europe.

Unfortunately, despite the positive effects of depreciation and price increases, profits declined due to deteriorating production efficiency, which was caused by supply chain disruptions, such as the Shanghai lockdown and higher material and other costs.

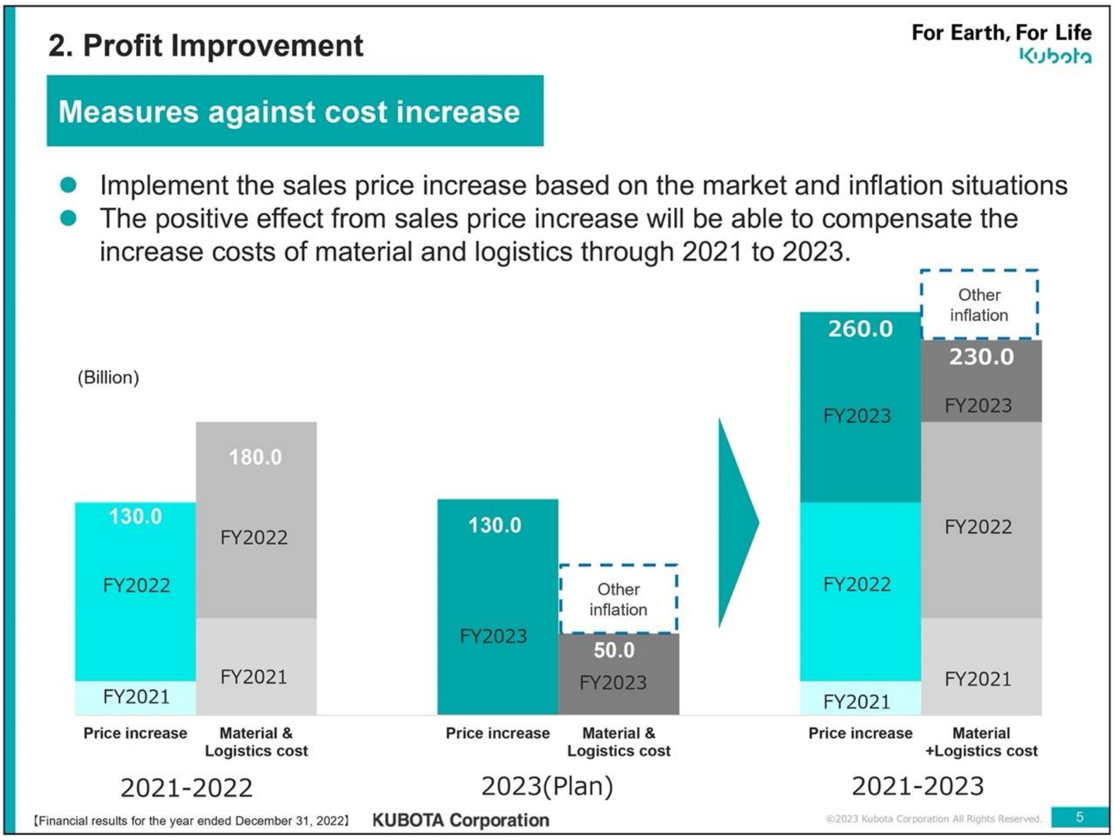
Due to supply chain disruptions, we struggled to procure parts and materials and were unable to secure sufficient production volume. In the North America and Europe regions, we were unable to supply sufficient inventory to meet demand.



The Mid-term Business Plan 2025 laid out the management policy, which is to secure profits by growing existing businesses and improving profit margins, to provide resources for R&D and capital investment. However, in 2022, due to cost increases and inefficient factory operations, the Company was unable to secure a higher-than-anticipated profit increase, resulting in a decrease in profit.

To achieve our GMB2030 vision, we aim not only to sell products and provide services, but also to become a solution provider that addresses a wide range of social issues.

To secure these resources, we will continue to make aggressive upfront investments in 2023, while controlling cost increases, taking firm measures to normalize operations, and improving profitability.

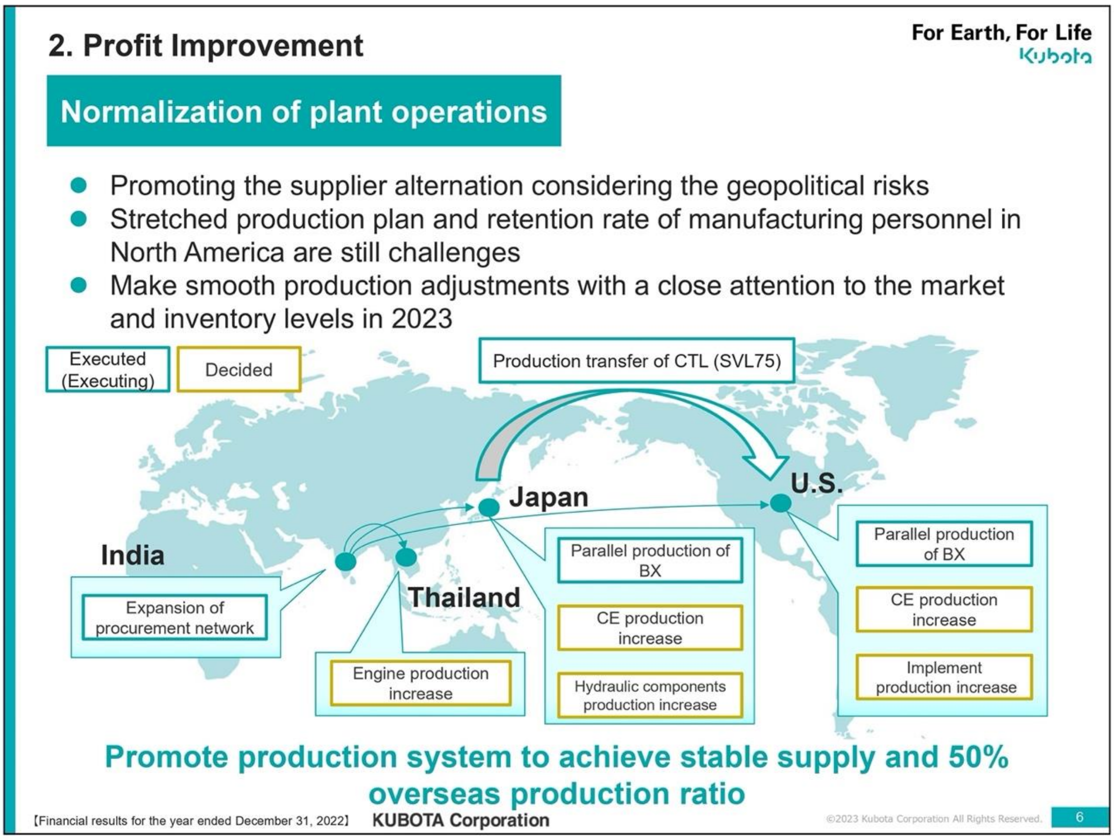


It is about improving profitability. First, I would like to look at cost countermeasures against rising material costs. In 2023, we will continue to raise prices according to market and inflation conditions. In response to cost increases starting in 2021, we have raised prices mainly in North America and Europe, but due to a time lag in the effects of price increases caused by back orders and other factors, the effects of the price increases could not keep pace with the fiscal year.

In 2023, we expect the effect of this price increase to outweigh the impact of cost increases in material and logistics costs from 2021, and cost measures will make significant progress.

Although we were initially concerned about the penetration of the price increase, it has been implemented since last year and has been accepted by dealers, leading to this. In January, we also raised our prices even further, to a level comparable to other companies. The dealers accepted this without any particular objections.

At the same time, however, the acceleration of inflation has led to a variety of additional cost-increasing factors, such as electricity, gas, and water, which means that the cost measures have not yet reached their conclusion. We will continue to monitor the situation closely and take appropriate measures.



Last year, we proceeded with an assessment to review our supply chain from the perspective of geopolitical risk, and began efforts to diversify our procurement sources. We tapped into Escorts for its procurement network in India for example.

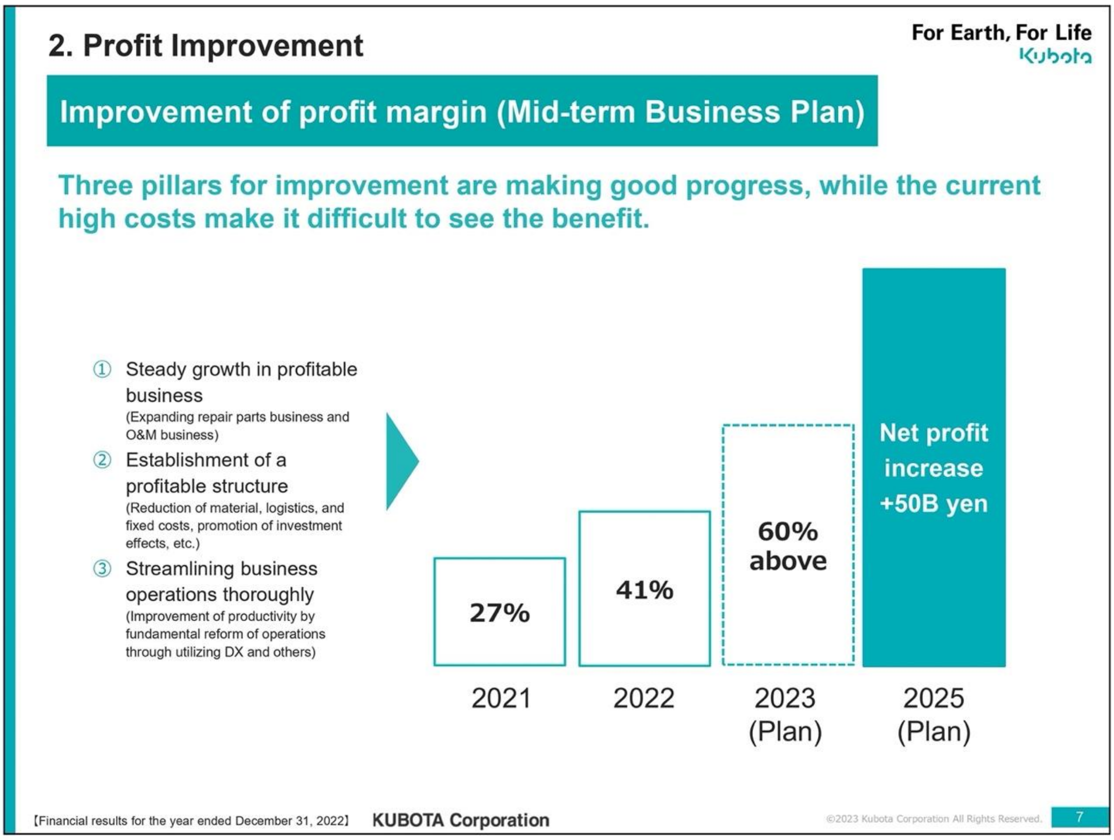
However, even that effort failed to mitigate the impact of the Shanghai lockdown and other factors. Various operational problems that occurred at the plant, such as a reduced ability to respond to problems due to production planning based on full capacity utilization assumptions and a lack of proficiency due to the low retention rate of manufacturing personnel in North America, have pushed down profits.

In the long term, we will promote the transfer of production overseas with the single goal of reducing the 70% production ratio in Japan, while at the same time mitigating geopolitical supply chain risks, with an overseas production ratio of 50%.

As you can see, last year we transferred production of some models of our compact track loader, CTL, from Japan to the US to shorten lead time. We also decided to increase production capacity at several overseas sites.

At the same time, we are taking flexible measures in response to the supply-demand situation, such as temporary parallel production of BX tractors in Japan to solve the shortage of inventory at dealers in North America, and will continue to build a production system that will enable flexible and stable product supply.

In 2023, we need to address each of these issues and return the production system to its original profitable state. This year, dealer inventories are more fully stocked than last year, which will give us more room for production. We will take this opportunity to smooth out factory operations to adjust production volume accordingly.



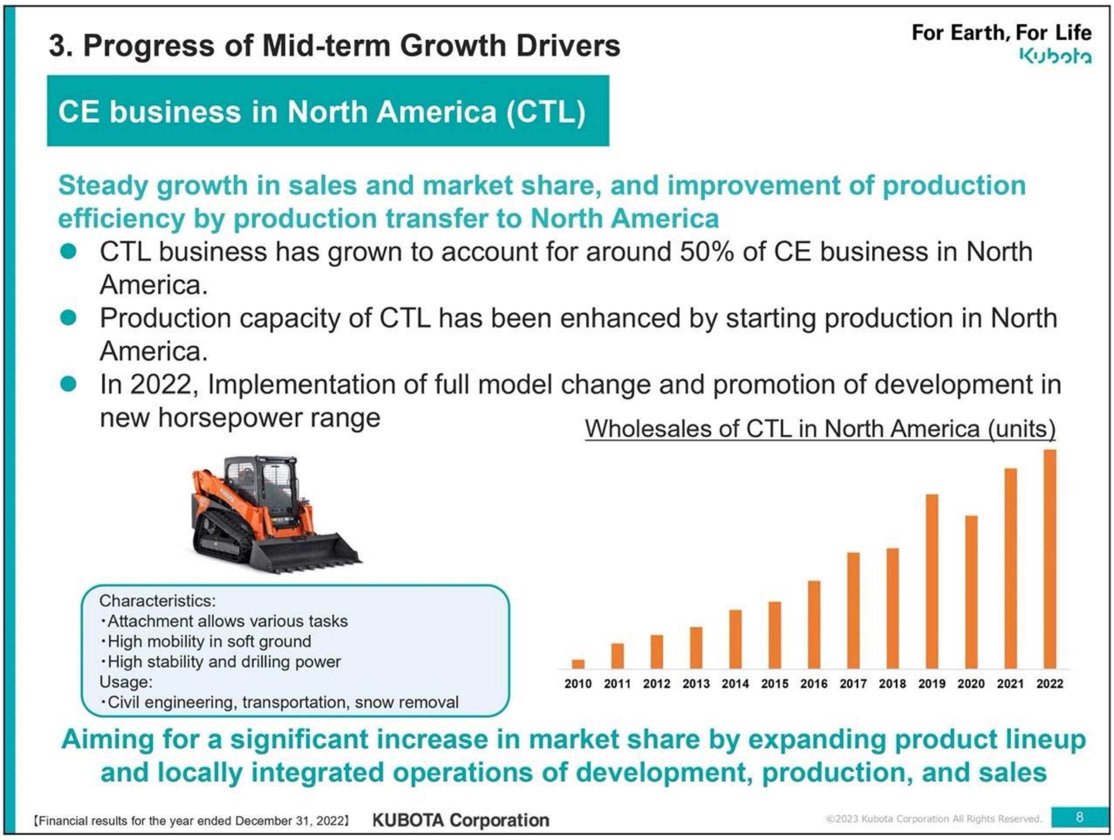
This is the improvement of profit margins that we are working on in our Mid-term Business Plan 2025. Although high costs have made it difficult to see the impact, these measures for profitability enhancement have been successful.

Let me review key measures. First, we ensure steady growth in high-margin areas. The component business and other businesses are growing. In the environmental business, new projects in the O&M business are also increasing.

Regarding the second measure, a profitable structure, it is difficult to assess the effect given the soaring raw material prices, however, we are making steady progress in cost reduction activities.

The third measure is the thorough streamlining of business operations. Digital transformation is becoming more widespread, but it will take some time before any tangible effects are seen.

This year, we will promote further improvement activities to achieve more than 60% of our target of JPY50 billion in net profit increase.

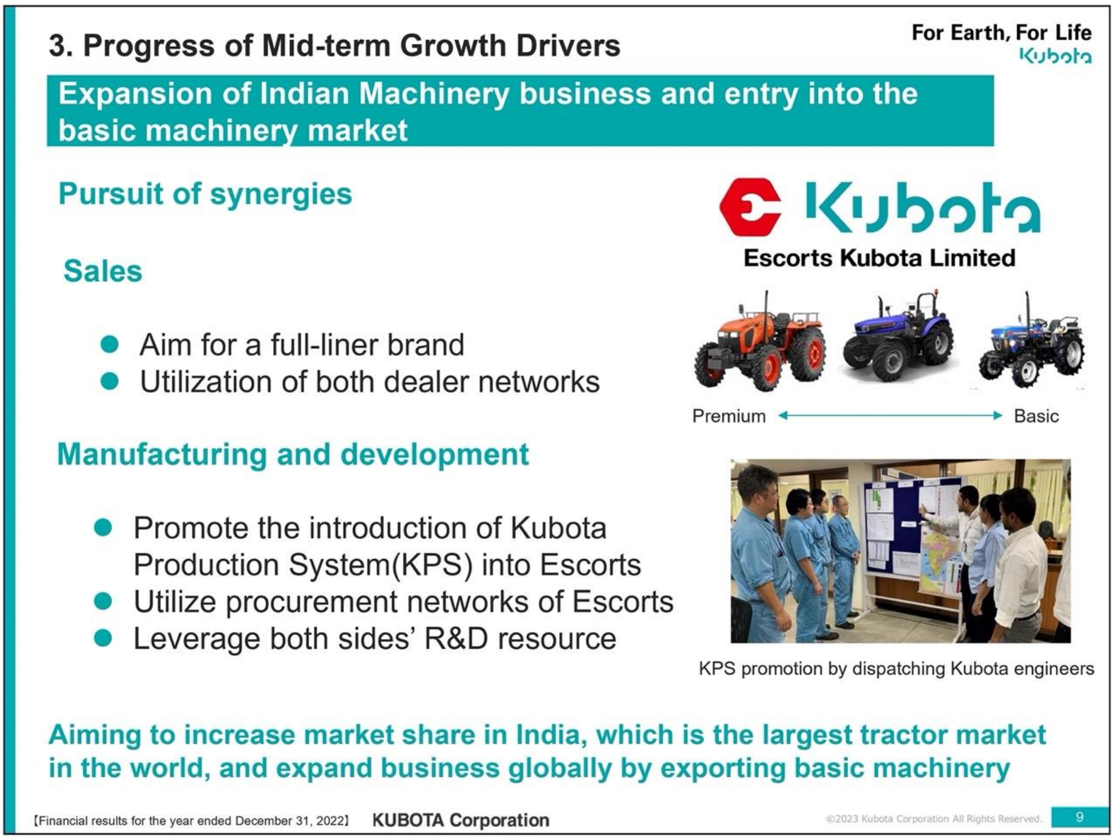


This section describes the progress of the medium-term growth drivers. First is the North American construction equipment business, which is expected to grow further in the future, including CTL, which has grown to account for 50% of our North American construction equipment business. Both sales and market share have been steadily increasing.

Last year, we transferred the production of some models from Japan to the US, increasing total CTL production capacity and shortening lead time. We are also working to update the competitiveness of our products through full model changes.

Meanwhile, on the development side, the North American construction equipment engineering department, which was established in 2021, is leading the development of new CTL models and smart attachments such as agricultural machine-linked implements.

We aim to expand our product lineup and increase our market share through integrated local management of development, production, and sales.



This is the expansion of our India business and entry into the basic market. By leveraging synergies with Escorts, which became a consolidated subsidiary in April 2022, the Company aims to expand its share in India, the world's largest tractor market, and to expand its business globally through exports of basic machines.

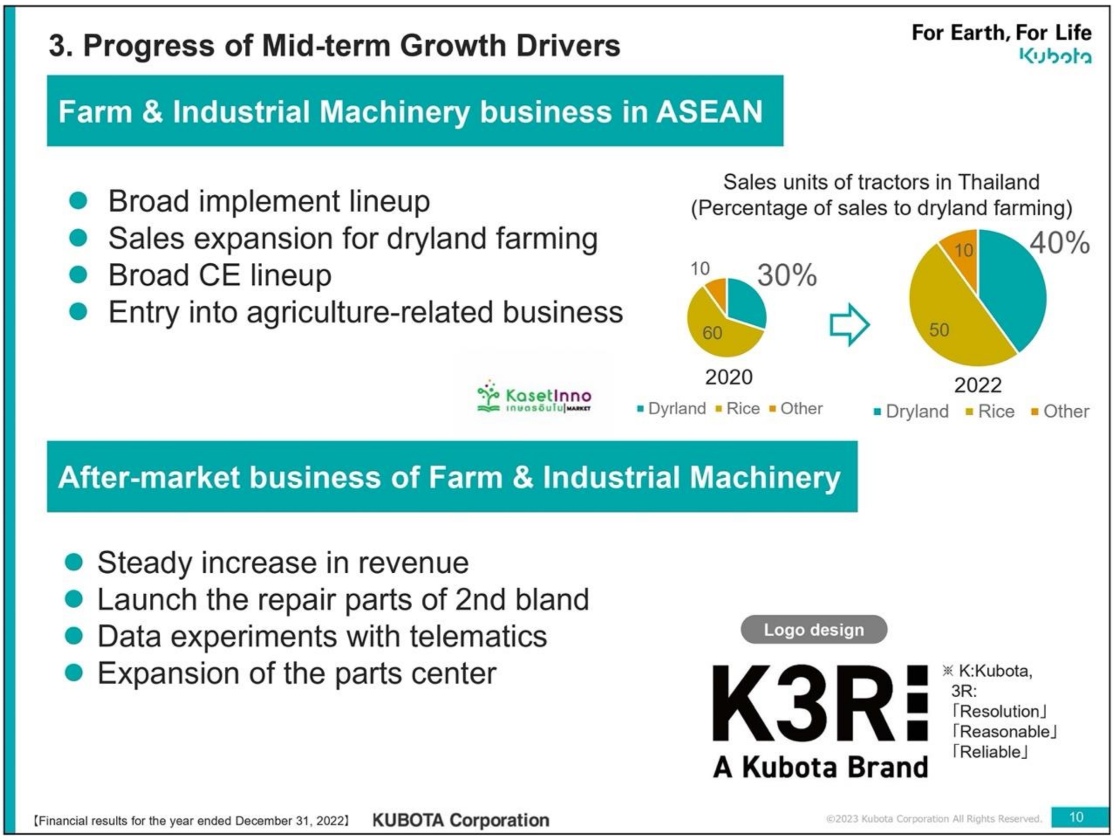
First, we will pursue synergies between Kubota and Escorts in sales, manufacturing, and development. In terms of sales, Kubota and Escorts will work together to create a full-liner brand, from basic to premium, to reach out to all customer segments. In addition, each dealer network will be utilized for efficient sales activities.

In terms of manufacturing and development, we transferred many engineers from Japan to Escorts in order to improve the manufacturing quality in the region. We introduced and promoted KPS, Kubota production systems.

At the same time, we worked to leverage the Escorts procurement network and incorporate low-cost parts and units into Kubota products, which enhanced cost competitiveness.

In addition, the speed of product development will be accelerated by utilizing the substantial R&D resources of both companies and exchanging engineers.

Through these activities, we aim to achieve a 24% market share in the India tractor market, which is estimated to reach JPY1 million units by 2030, twice the current market share, and JPY300 billion in sales, including exports to Europe, Africa, and other markets.



We are looking at the industrial machinery business in ASEAN, where demand for both agricultural and construction equipment is expected to further expand thanks to growing urbanization. The number of processes that can be mechanized is increasing due to the growing lineup of implements. We will continue to promote mechanization in the field crop market by developing a variety of agricultural implements locally, especially for field crops such as cassava, sugarcane, and corn.

In addition, we were able to expand sales of tractors with field crop specifications in line with the expansion of the field crop market. As for construction equipment, demand is expected to increase due to urbanization, we will continue to successively introduce products that meet market needs, such as 5-ton class machines.

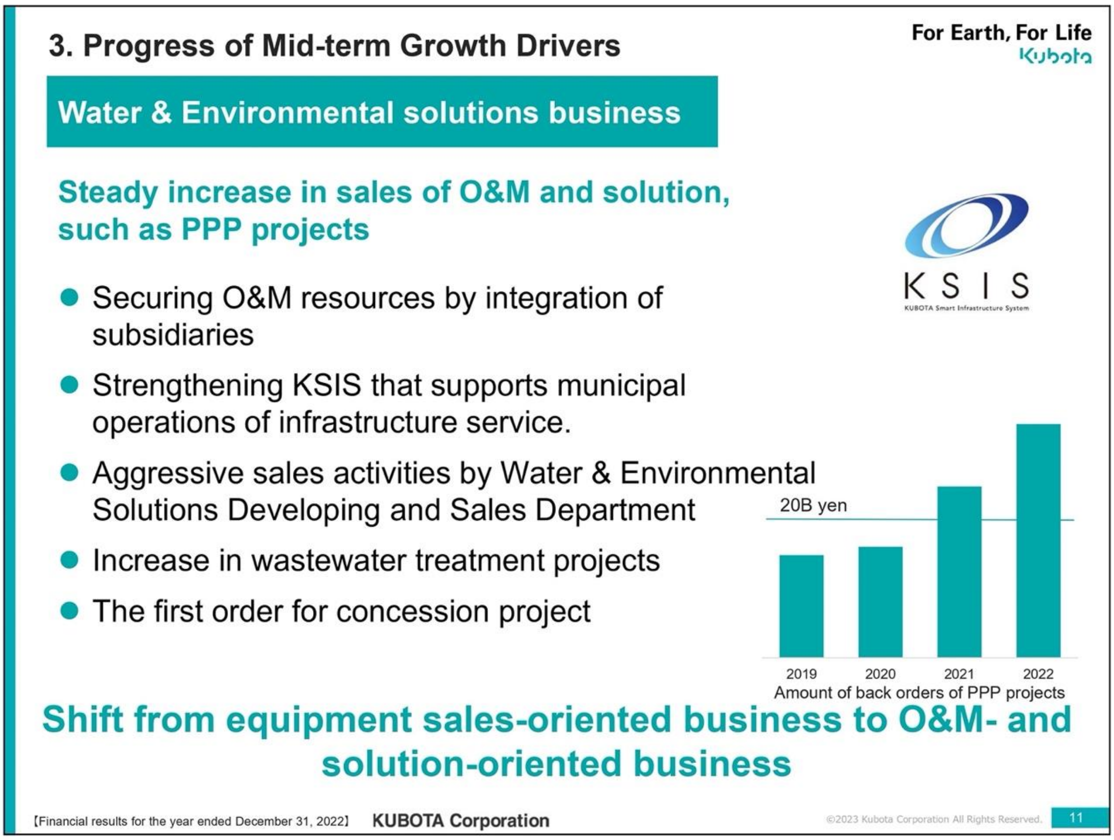
Other agribusinesses have begun to enter the agribusiness sector, including farm design and direct sales of agricultural products through KasetInno.

Next, I would like to discuss the machinery aftermarket business. There is significant room for business expansion by taking advantage of the abundance of operating equipment. Product sales growth has been strong due to special demand, and while the ratio of repair parts sales to products has remained flat, sales of components have steadily increased.

From 2023, we will introduce a second brand of locally adopted parts, K3R, whose concept differs from that of genuine parts in terms of price and quality. Those customers who own machines that have reached the end of their vehicle life can continue buying parts from K3R, rather than switching to cheaper competitor parts.

In addition, we have started a demonstration test in Japan to collect operating data on delivery times using telematics. We are working to devise a new service that recommends repair and maintenance parts based on customers' equipment operation data.

As for the infrastructure for supplying parts, the Europe Parts Center was completed last year, followed by the decision to invest in a new building for the East Japan Parts Center. We will reduce lead time by consolidating and streamlining dispersed storage and work areas.



This section discusses the water and environment infrastructure solutions business, which is aiming to transform from an equipment sales business to an O&M and solutions-focused business.

Sales of O&M and solutions, including PPP projects, are steadily increasing. In terms of organization, three subsidiaries in the water and environment business were integrated into Kubota Environmental Engineering, and efficient operation of management resources that had been dispersed in the operation and maintenance of facilities was initiated.

On the technology side, we will continue to strengthen the KSIS, Kubota Smart Infrastructure System, which supports the operation of municipal infrastructure projects, and will also support high-quality, low-cost infrastructure project operations by municipalities from the IoT aspect. We continue to make steady progress in development, with the sequential launch of new application services coming in 2023.

On the sales front, Water & Environmental Solutions Developing and Sales Department, established in 2020, is spearheading to increase collaboration among business units and expanding the solutions business. In addition, sales of orders received in the field of wastewater treatment for domestic factories increased. Together with air conditioning and feeders, we will strengthen business collaboration as a platform for supporting industrial society.

As a result of these activities, Kubota was awarded a concession project for the operation of the Miura City public sewage system. This is the first of its kind for the Company. In recent years, the private sector has been making a nationwide effort to introduce private-sector vitality to infrastructure facilities such as water supply and sewage systems, and we, as a comprehensive water solution company with a variety of products, technologies, and services in water supply and sewage systems, will leverage our comprehensive strengths to expand our business.

Other activities include expansion regarding agricultural solutions through aggressive M&A and investments. As mentioned earlier, Escorts will not only expand its lineup with basic tractors, but also expand into new businesses and new products, such as combines, implements, and construction equipment.

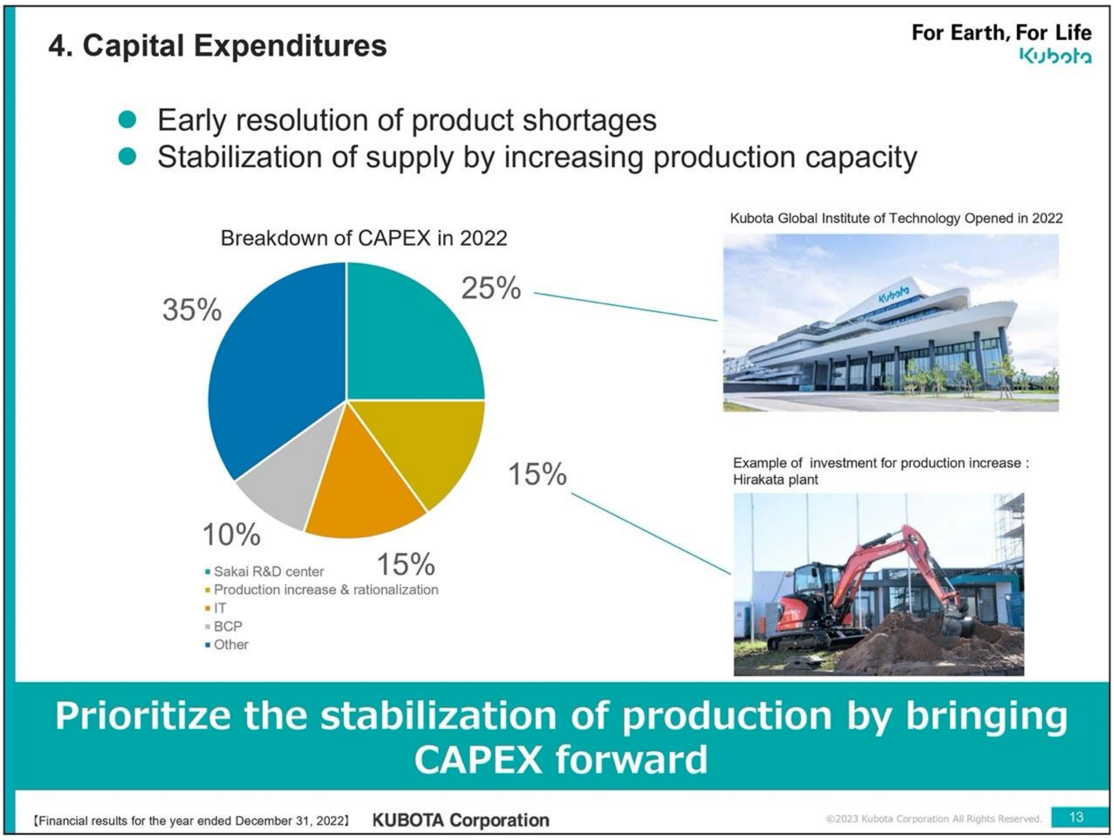
Gianni Ferrari, an Italian-based company, will be working to expand its lineup of mowers, including a large center grass-collecting front mower, which will be the top-of-the-line model for professionals.

ROC will continue to expand its lineup of weed collectors, which will allow for improved weed collection quality.

Fede, this is in Spain, will expand sales with a sprayer for fruit trees that can reduce pesticide use through efficient spraying.

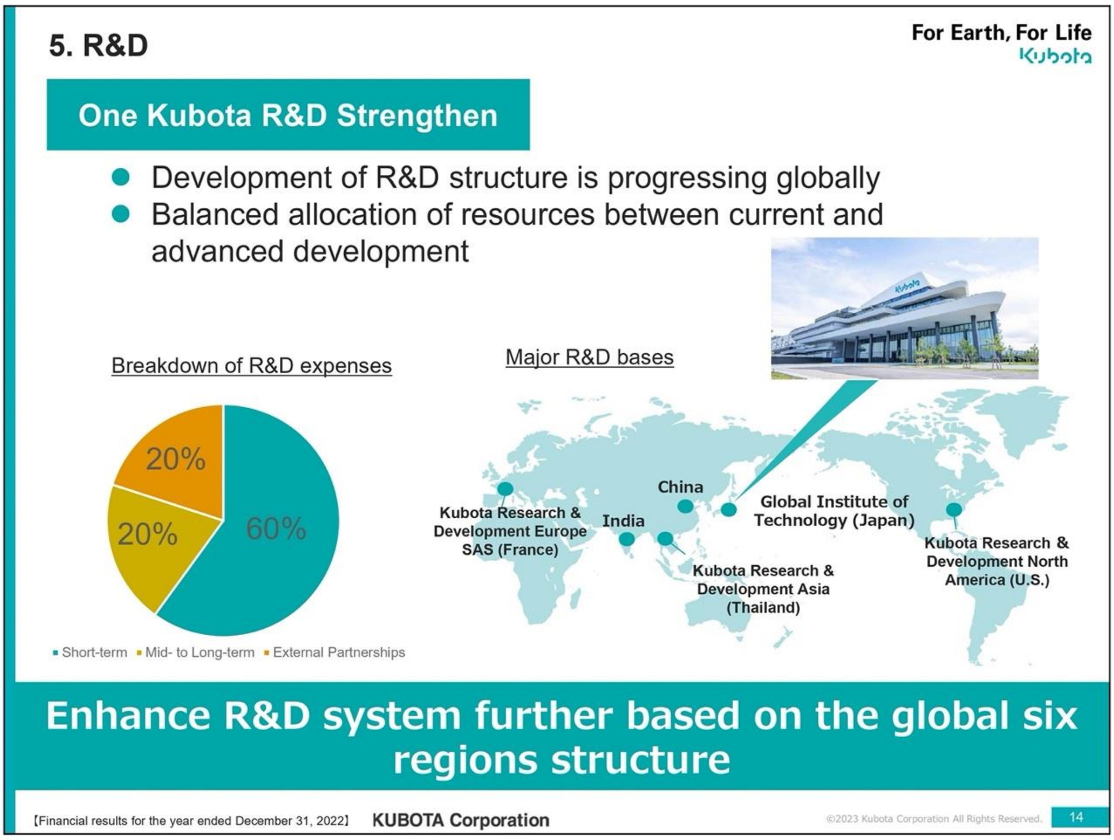
B.C. TECHNIQUE's strength lies in its weed treatment machines. Their environmentally-friendly machines do not use weed removers.

Through the above M&As, we will further aggressively consider M&As and investments in projects that have an affinity with our business, and will seek to expand our business by increasing synergy, including with existing products.



This is about capital investment. The previous year also saw the opening of the Kubota Global Institute of Technology, resulting in a large capital investment.

This year's capital investment will also be made ahead of the initial mid-term business plan, as our priorities are to quickly resolve last year's production and product shortages due to a lack of flexibility, and to stabilize production by increasing production capacity.



It is about research and development. In order to lay the foundation for GMB2030, we need to complete our research and development. It is no exaggeration to say that these results will determine our position in 10 years.

As mentioned above, last September we opened a global technology research center, KGIT, in Sakai City, Osaka Prefecture. By eliminating the dispersion and shortage of R&D resources in Japan, we will improve R&D efficiency. KGIT will play the role of a hub and strengthen the global R&D system so that R&D in the six international regions will function efficiently.

The R&D budget will be allocated in consideration of the balance between current projects and prior research. Specifically, we will focus on strengthening the development of three product solutions: decarbonization, smart autonomous system, and resource recycling.

The budget will be allocated 60% for those items that will reap results in the relatively short term, and 20% each for medium- to long-term development and external collaboration.

To achieve a carbon-neutral society by 2050, Kubota is conducting research and development from two perspectives: to reduce CO^2 emissions from the use of Kubota products, and to reduce society's greenhouse gases, including methane and nitrous oxide.

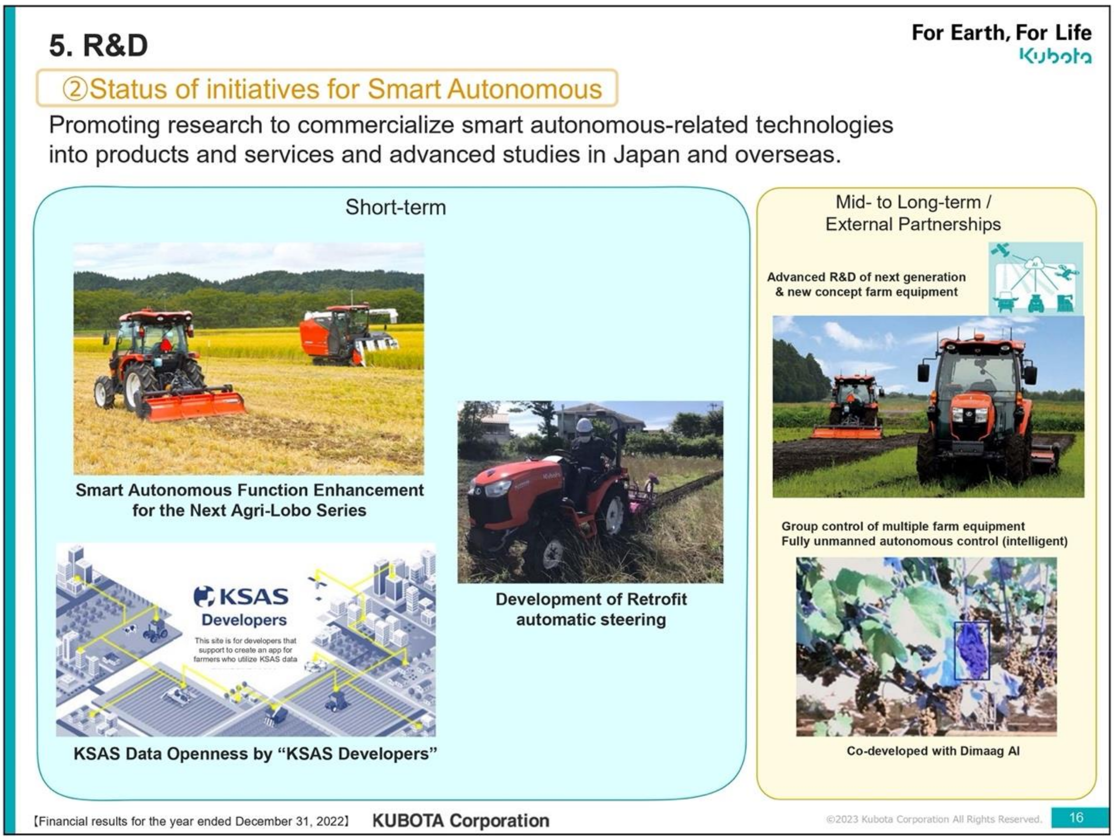
The main initiative for the former is electric small-sized agricultural equipment, some of which will be launched in 2024. We are also working on the development of hybrid engines, hydrogen, and other engines that are compatible with decarbonized fuels.

For tractors in the mid-size class and above, where the hurdle to battery EV is high with current technology, we are also developing FC tractors equipped with hydrogen fuel cells, and are currently conducting demonstration tests through a project with NEDO.

As an example of how society can reduce greenhouse gas emissions, we are working to develop technologies related to carbon fixation using agricultural residues. The carbon content in agricultural residues can be converted to CO^2, CH^4, and methane by decomposition and decomposition when returned to the soil as is, and carbon can be fixed in a stable form as biochar by the carbonization process under appropriate condition control.

In addition, we are also actively engaged in research and development related to carbon negativity, including surveys and research on the suppression of methane emissions, a greenhouse gas, from rice paddies, and research on materials that selectively adsorb, and separate CO^2 contained in the exhaust gas and the atmosphere.

GHGs generated by rice straw plowing in rice paddies are estimated to be about 10 million tons in Japan and 300 million tons in the ASEAN region in terms of CO^2 equivalent, and the agricultural sector is attracting attention as a field with great potential for reducing greenhouse gases.

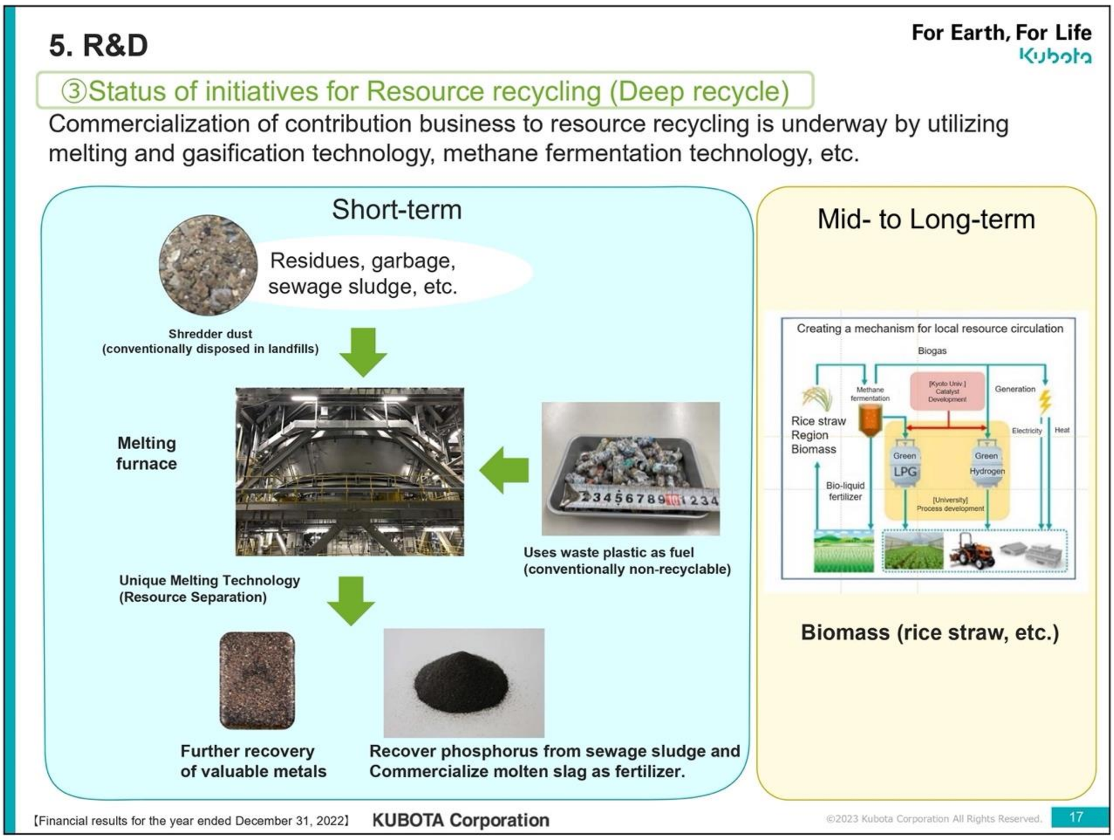


Research and development related to the smart autonomous system are divided into short-term, medium- to long-term, and external collaborations.

In the short term, we are currently conducting research and development on advanced automatic driving technology and improved safety performance for the next models of the agricultural robot series that includes tractors, combine harvesters, and rice transplanters, and are also developing a retrofit auto-steer for conventional machines without automatic driving functionality.

On the other hand, by opening the data accumulated in our farm service support systems, KSAS, Kubota Smart Agri System, to farm service software developers in Japan, we aim to activate mutual collaboration of data and promote domestic agricultural development and smart agriculture promotion. The data will be opened to developers of farm management support service software in Japan.

In the mid-to long-term, while envisioning the future of agriculture beyond fully automated Level III, we will also utilize external collaborations to promote group control of several farm machines, fully unmanned autonomous control, and advanced research and development of next-generation new-concept farm machines that are not bound by current farm machine forms, as well as the automation of the winery selection process.

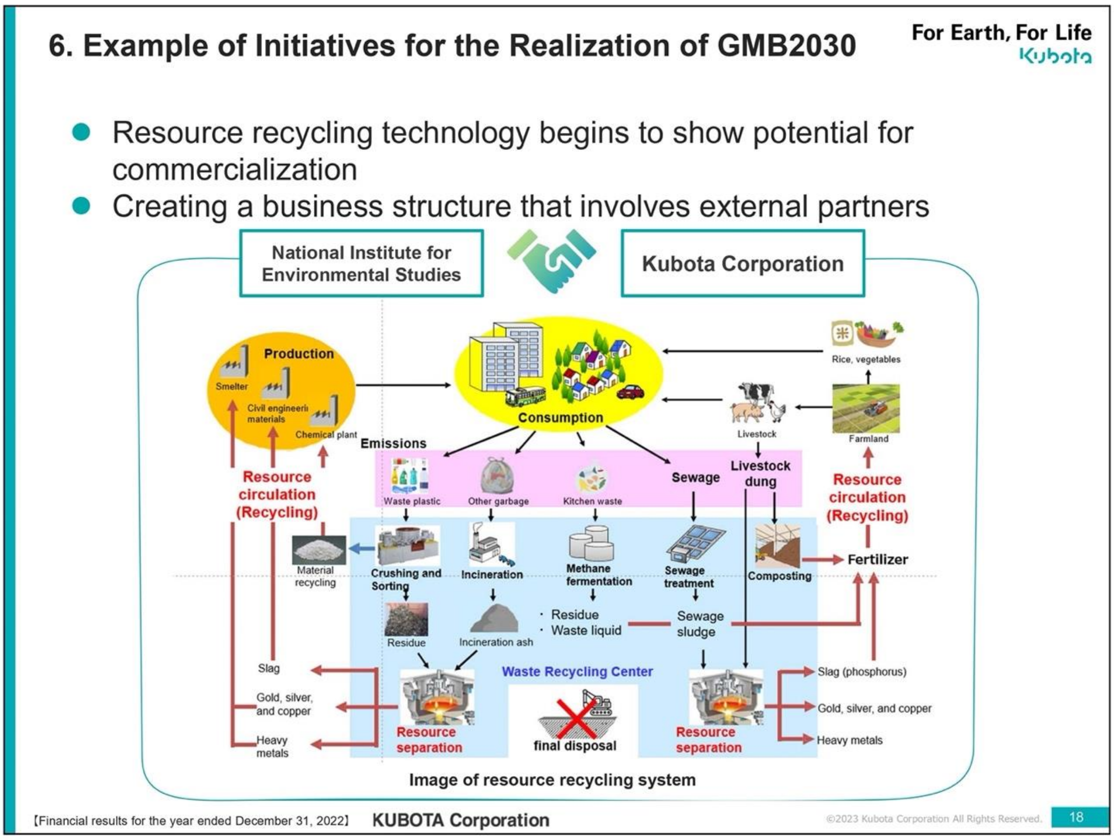


As for research and development related to resource recycling, deep recycling technology with melting technology at its core is in progress. Specifically, we were able to demonstrate a technology for selectively extracting and recovering valuable metals contained in waste materials by utilizing our proprietary separation technology. For example, we were able to demonstrate the recovery of trace resources in shredder dust, which was conventionally disposed of without recovery due to its low density and the presence of valuable metals.

In addition, as reported in the *Nikkei Shimbun* yesterday, we made progress in demonstrating technologies to effectively utilize phosphorus contained in molten slag as fertilizer in sewage systems and other operations that use waste plastics and no fossil fuels. We are making progress on recycling technology initiatives from all angles.

Although it is an approximate estimate, the value of metals contained in incinerator ash and recycling residues is estimated to be more than JPY140 billion per year. Currently, the residue is buried underground or otherwise disposed of, but we will make environmental conservation and business compatible through technology that recycles this non-recyclable nuisance into valuables.

Furthermore, in the mid to long term, through a public demonstration project commissioned by the Ministry of the Environment, we have begun development toward the establishment of a resource recycling system in communities centered on agriculture. Kubota will develop technologies to produce and use biogas and bio-fertilizer from rice straw using methane fermentation technology in this demonstration project, and establish a system to collect rice straw from fields and use bio-gas and bio-fertilizer in the community.



In R&D, we will work to achieve a resource-recycling society as outlined in GMB2030. About the aforementioned deep recycling technology with melting technology at its core, we are beginning to see solutions to technical issues related to resource recovery, and are now at the stage of verifying whether it can be used on a commercial basis and creating a formation for its commercialization.

In order to increase the number of partners to the project and create a business structure, we will use the joint research place with the National Institute for Environmental Studies as a platform to gather partners to promote resource recovery from waste with Kubota. We will continue to build a social system that recycles waste as a resource, with Kubota's melting technology at its core.

Finally, we promote K-ESG management. We will continue to promote business operations that place ESG at the center of management. Last year, we identified 12 materialities and are currently setting KPIs for each item, which we expect to disclose in the integrated report to be issued in this summer.

We would like to discuss our ESG management initiatives in the past year.

E, regarding the environment, we have raised our long-term targets for environmental protection. CO^2 emissions of the Kubota Group in 2030, Scope I and II, will be reduced by 50% from the FY2014 level, as shown in the figure below left. The target is 50%, based on a coverage ratio of 100%, including both domestic and overseas group offices.

Increase the percentage of sales of eco-certified products to 80% by 2030. We will promote the development of environmentally friendly products that save energy, have a longer service life, and are easier to maintain.

In addition, in response to the TCFD, the direction of financial impact through scenario analysis was provided in the Integrated Report 2022.

Next is the field of S, society. In our ESG, S includes the meaning of stakeholder. The scope of the engagement survey was expanded to identify and address issues to further improve job satisfaction.

KUBOTA AGRI FRONT is under construction to open this March in the Hokkaido Ball Park as a place where people can learn together about the appeal and potential of food and agriculture, which are indispensable for human life, and think about the future.

Next is the area of G, governance. We are promoting diversity in management, including the appointment of foreign nationals to the board of directors. Continuing from last year, we have continued our efforts to disseminate management policies through dialogues between management and employees and town hall meetings.

We will also establish a Risk Management Committee to shift from conventional rule-based to risk-based management so that we can prioritize and address risks.

The year 2022 was a difficult year for profits due to supply chain disruptions and a time lag in price increases in response to cost increases. In 2023, this year, we will first take firm steps to address these transitory factors that have contributed to the decline in profits, in order to secure the desired profit level.

We believe that securing a profit level is the most critical issue in order to secure funds for up-front investments that will determine our future position, such as research and development.

We will continue to accelerate research and development. At the same time, we must draw a blueprint for product commercialization and development projects that have been increasing over the past couple of years. In the initial stage, we pursued possibilities in various directions, and now that we made progress in our evaluation of those possibilities, we are going to prioritize them carefully and establish what will become the new seeds of business in 2025 and beyond, in addition to those that are short-term.

Thus, we hope that 2023 will be a year of change, a year in which we will make visible changes, such as an improvement in profit margins and a blueprint for new business development based on the results of our research and development efforts.

Finally, I would like to discuss the Mid-term Business Plan 2025. Although many variables make it difficult to predict the market outlook, once we do, we will revise our 2025 target based on the current business environment. The framework remains unchanged.

We aim to gain net sales in the range of JPY2.3 trillion and JPY3 trillion, which is in line with the initial target. For the operating profit, the initial target was JPY300 billion, or a 12% increase. We raise this goal to JPY360 billion or a 13% increase. These sales target reflects revenue increase due to price markups and other factors that were not part of the initial goal, such as consolidation of Escorts and other M&A activities.

On the other hand, the operating margin will be 12%, down by 1%. This is because the operating margin will slide down as a result of price increases to offset cost increases and the increase in research expenses due to carbon neutrality and other up-front investments. Operating profit margin will actually be lower than initially planned, but we have not given up. This is temporary. The achievement will be a little slower than initially expected, but 13% is the goal that will pursue.

During the period stipulated in the mid-term business plan, we will continue to solidify our foothold for the future, make great strides in our business, and strive to become a life-supporting platform committed to the cycle of an affluent society and nature to align with GMB2030.

This concludes the explanation of our mid-term business plan.

We hope that investors will understand our direction and continue to give us their guidance and encouragement. Thank you for your attention.

Matsui: Next, Mr. Yoshikawa, General Manager of the Planning Division, will discuss the consolidated financial results for the fiscal year ending December 2022.

Financial Summary

For Earth, For Life
Kubota

(Unit: billions of yen)	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes		Variance from previous forecast (Nov. 2022)	
			Amount	%	Amount	%
Revenue	2,678.8	2,196.8	+482.0	+21.9	+78.8	+3.0
Domestic	602.4	602.8	-0.4	-0.1	-1.6	-0.3
Overseas	2,076.4	1,594.0	+482.4	+30.3	+80.4	+4.0
Operating profit	8.2% 218.9	11.1% 244.6	-25.6	-10.5	-21.1	-8.8
Profit before income taxes	8.7% 233.9	11.4% 250.9	-17.0	-6.8	-20.1	-7.9
Profit attributable to owners of the parent	5.8% 156.2	8.0% 174.8	-18.6	-10.6	-16.8	-9.7

	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes
ROE	8.8%	11.1%	-2.3 p

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

2

Yoshikawa: I'm Yoshikawa, General Manager of the Planning Division. I would now like to discuss the actual results for the fiscal year ending December 2022 and our forecast for the fiscal year ending December 2023.

First, an overview of the Company. Net sales increased 21.9% YoY to JPY2.6788 trillion, operating profit decreased 10.5% to JPY218.9 billion, and net profit attributable to owners of the parent decreased 10.6% to JPY156.2 billion. As for ROE, it decreased by 2.3percentage points from the previous period to 8.8%.

Revenue by Reportable Segment

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Kubota

(Unit: billions of yen)		Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes Amount	Changes %
Farm & Industrial Machinery (Machinery)		**2,328.0**	**1,864.8**	**+463.2**	**+24.8**
	Domestic	302.6	310.5	-7.9	-2.5
	Overseas	2,025.4	1,554.3	+471.1	+30.3
Water & Environment (Water)		**327.6**	**305.4**	**+22.2**	**+7.3**
	Domestic	276.6	265.7	+10.9	+4.1
	Overseas	51.0	39.7	+11.3	+28.6
Other		**23.2**	**26.6**	**-3.4**	**-12.8**
	Domestic	23.2	26.6	-3.4	-12.8
	Overseas	0.0	0.0	-0.0	-18.8
Total revenue		**2,678.8**	**2,196.8**	**+482.0**	**+21.9**

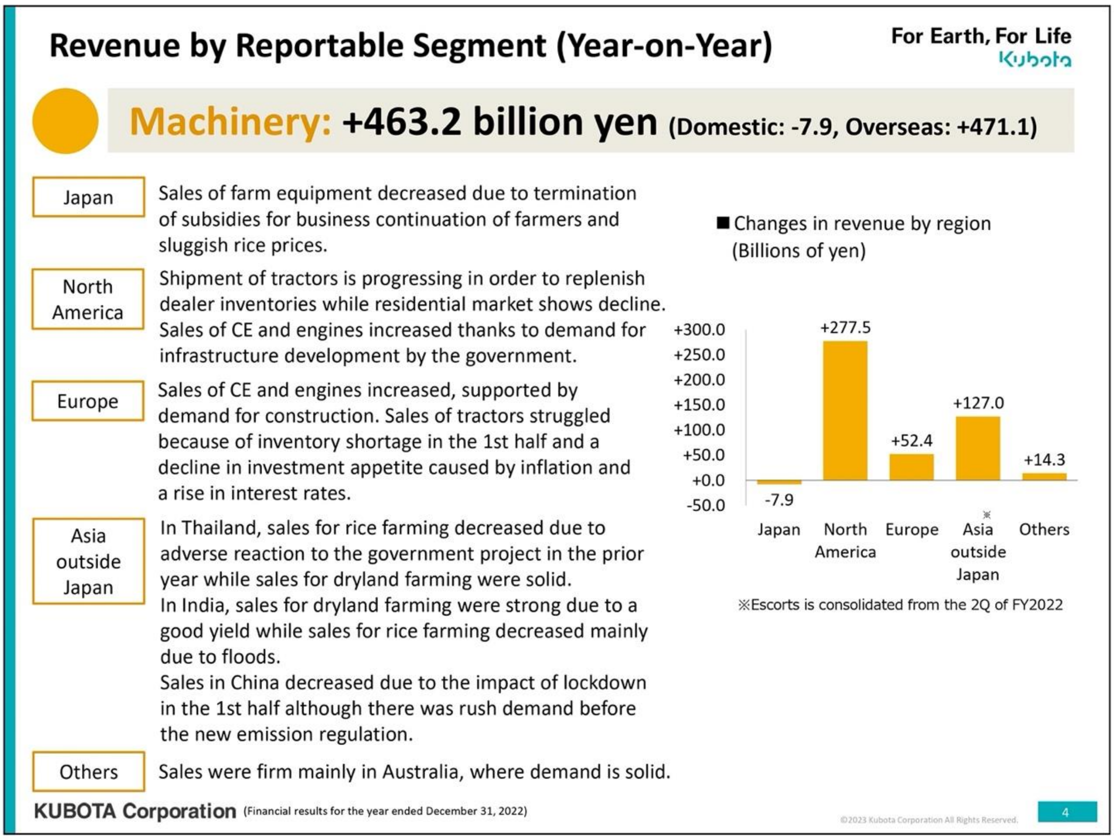
Domestic revenue	**602.4**	**602.8**	**-0.4**	**-0.1**
Overseas revenue	**2,076.4**	**1,594.0**	**+482.4**	**+30.3**

Excluding the effects of fluctuation in exchange [+238.0 billion yen], the increase rate in total overseas revenue is 15%.

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

3

The results by segment are as follows. For both the industrial machinery business and water environmental business, sales increased respectively. If the foreign exchange effect of about JPY238 billion were to be excluded, the increase in overseas sales would have been around 15%.



Sales from the industrial machinery business. Domestic sales decreased by JPY7.9 billion. This is a 3% decrease. Overseas increased by JPY471.1 billion, an increase of 30%.

In Japan, agricultural machinery sales declined as the market shrunk due to the termination of subsidies for business operations and sluggish rice prices. On the other hand, sales of construction equipment and engines remained firm due to the government's national land resiliency plan and many construction projects for urban development and other projects.

In North America, sales increased by JPY277.5 billion, or 34%. First, about tractors, the stay-home demand has ended, and due to the economic slowdown caused by rising interest rates and other factors, the residential market, which is mainly for individuals and homeowners, has begun to shrink.

On the other hand, we recognize that the agricultural market, such as beef and milk, and the commercial market, such as grass cutters, have remained relatively strong, and overall, the market has returned to the same condition we saw in 2019, pre-COVID-19. Although the market shrunk, sales increased as dealer inventories were filled.

The construction equipment market remained strong, supported by an abundance of construction work due to a large backlog of construction projects and government infrastructure projects, although we recognize that the housing market is entering a downward phase as the number of housing starts has begun to decline. Similar to construction equipment, engines also remained strong on the back of brisk construction and infrastructure construction.

Overall dealer inventory levels in the US at the end of December 2022 were 4.1 months, up from 3.1 months at the end of Q3. We recognize that dealer inventories of small tractors have generally been filled, but inventories of mowing equipment, utility vehicles, and especially construction equipment are still low and have not yet been filled. Therefore, in 2023, wholesale will continue to outpace retail as a whole.

As for Europe, sales increased by JPY52.4 billion. This is a 19% increase. Construction equipment sales remained strong due to strong demand for infrastructure investment and commercial construction, although some countries began to see some weakness in the housing market.

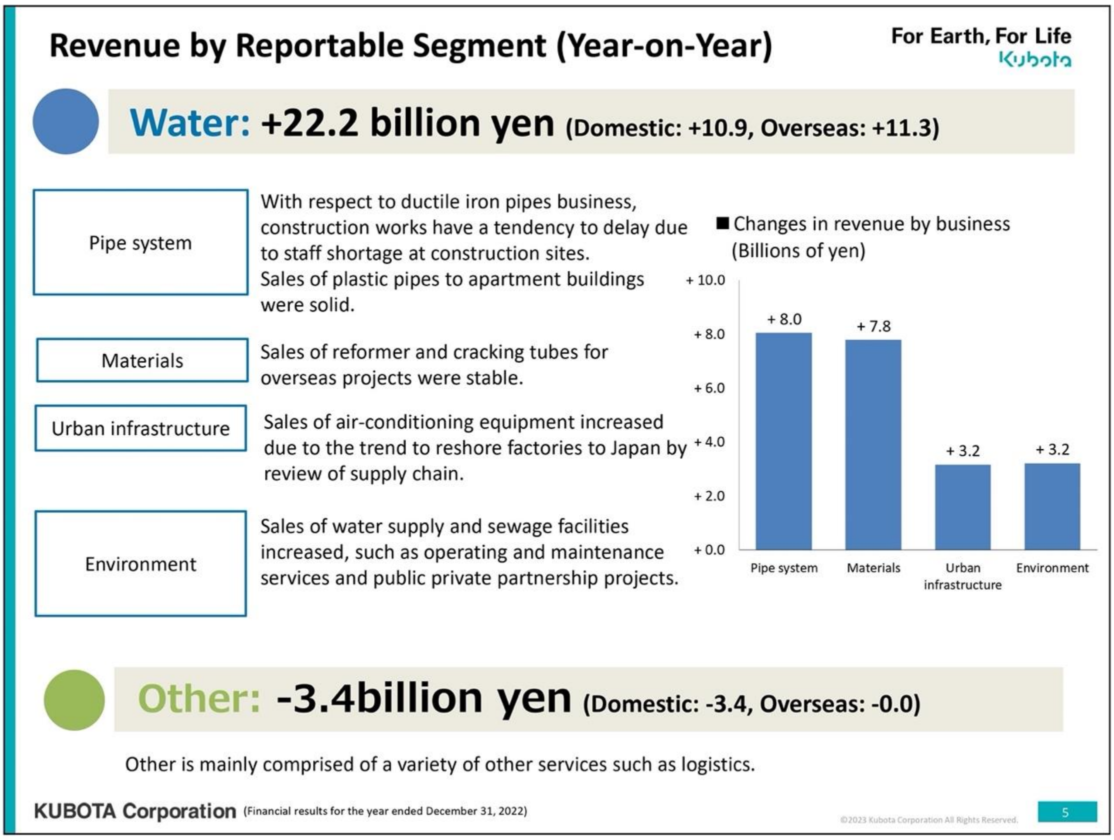
As for engines, sales of engines for construction and industrial machinery were strong due to an increase in the volume of construction work. On the other hand, the tractor market has been shrinking due to concerns about the economic slowdown and a declining appetite for investment due to rising interest rates. In addition, the Company struggled to generate sales, unable to secure enough product for the mowing season, resulting in several missed opportunities.

As for Asia, sales increased by JPY127 billion, equivalent to 33%. In Thailand, overall sales in local currency terms were below the previous year's level. Crop prices for field crops remained stable at high levels, and the development of the field crop market also progressed favorably. On the other hand, the market declined due to a reaction to the previous year's government grant aid program for rice cultivation and the flooding that occurred in Q4.

India saw a significant increase in revenues due to the consolidation of Escorts in Q2 of FY2022. Demand for tractors for rice cultivation declined due to the flooding, but tractors for field crops grew due to a bumper crop, partly due to higher prices for wheat and other grains and ample monsoon rainfall.

As for China, although there was a rush demand before the engine and vehicle emission regulation, the sales decreased on a local currency basis due to the impact of shipment stoppage caused by the lockdown in H1.

The rest of the world saw an increase of JPY14.3 billion, with Australia, in particular, holding steady, benefiting from stimulus measures, although the overheated housing market is subsiding.



The water and environment infrastructure business. Water and environment infrastructure increased by JPY10.9 billion, or 4%, in Japan. Overseas sales increased by JPY11.3 billion, or 29%.

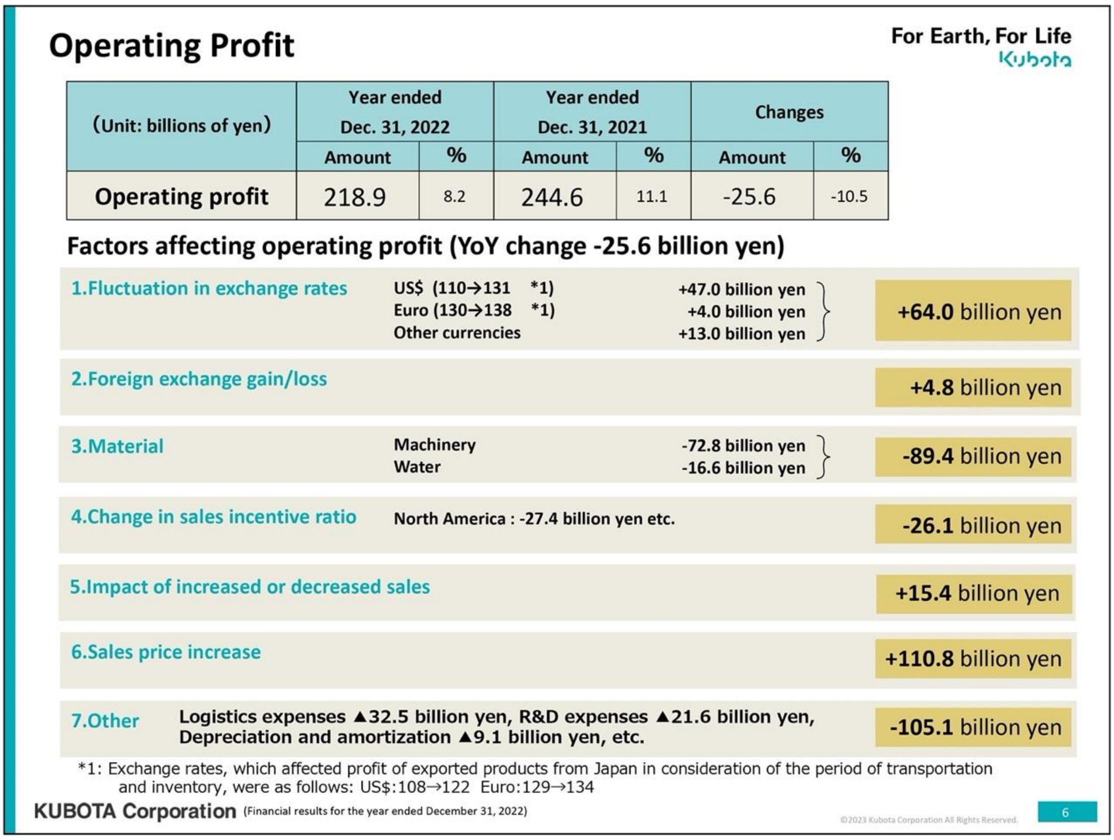
First, pipe systems are declining in the steel pipe market due to construction delays caused by plumbing contractor staffing shortages. Shipments of synthetic pipes to housing complexes in the Tokyo metropolitan area were strong.

In the field of forging materials, overseas projects for reaction tubes were favorable, contributing to sales growth against the weakening yen.

In the urban infrastructure-related sector, air-conditioning systems performed well as manufacturers moved back to domestic factories due to supply chain reviews.

In the environment-related business, O&M projects, which are also a focus of the mid-term business plan, are steadily increasing sales.

Others decreased by JPY3.4 billion. Others consist of various internal service businesses such as logistics.



I will discuss the contents of operating profit. Compared to the previous year, foreign exchange fluctuations and foreign exchange gains/losses contributed JPY64 billion and JPY4.8 billion, respectively. As for raw material prices, the increase in prices of purchased parts, steel products, PVC products. was a factor of JPY89.4 billion in the decrease in profit.

The change in the incentive rate was a negative factor of JPY26.1 billion due to a significant increase in the level of interest rates in the US.

The increase/decrease in sales was JPY15.4 billion, and product price increases of JPY110.8 billion, mainly in North America and Europe, were a factor in the increase.

The remaining JPY105.1 billion are in the other factor categories related to the decrease in profit. The breakdown is JPY32.5 billion for logistics, JPY21.6 billion for R&D, JPY9.1 billion for depreciation, and the remainder is JPY41.9 billion for personnel expenses and fixed cost increases.

The profit decreased by JPY21 billion compared with the forecast disclosed in Q3. Regarding foreign exchange, there is an approximately JPY9 billion impact from conversion due to the sharp appreciation of the yen that proceeded at the end of the year, as well as a JPY12 billion delay in efforts to take advantage of the effects of depreciation through exports due to a much higher than expected increase in transportation inventories caused by logistics delays. These are two major factors.

On the other hand, the effect of increased sales in North America and Europe is about JPY16 billion. In addition, an increase in raw material prices in Japan had a negative impact of JPY6.5 billion. There was also a cost increase of about JPY9.5 billion due to the composition difference and inflation, which offset the positive effect of the sales increase I just mentioned, and as a result, the negative effect related to foreign exchange remained, resulting in a decrease in profit compared to the forecast.

Operating Profit by Reportable Segment

For Earth, For Life
Kubota

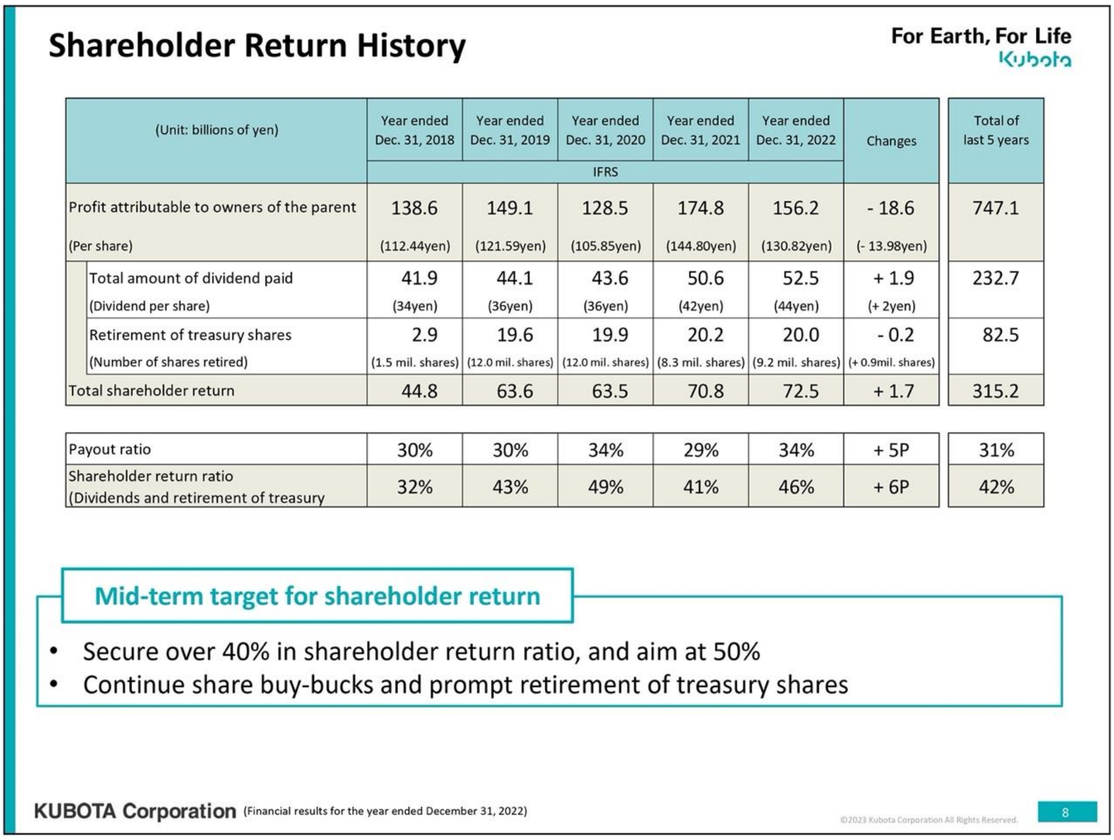
(Unit: billions of yen)		Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes
Machinery	Revenue	2,328.0	1,864.8	+463.2
	Operating profit	237.1	248.8	-11.7
	OP margin	10.2%	13.3%	-3.2P
Water	Revenue	327.6	305.4	+22.2
	Operating profit	17.3	22.3	-5.0
	OP margin	5.3%	7.3%	-2.0P
Other	Revenue	23.2	26.6	-3.4
	Operating profit	3.1	3.7	-0.6
	OP margin	13.3%	13.9%	-0.6P
Adjustment	Operating profit	-38.5	-30.2	-8.3
Total	Revenue	2,678.8	2,196.8	+482.0
	Operating profit	218.9	244.6	-25.6
	OP margin	8.2%	11.1%	-3.0P

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

7

Operating profit by business segment. The operating profit of industrial machinery decreased by JPY11.7 billion, and although we are raising prices in response to cost increase factors such as higher distribution costs and raw material prices, we have not yet fully caught up with the situation.

Water and environment infrastructure also saw a decrease of JPY5 billion. This was also due to cost increases caused by inflation and other factors.



Shareholder Return History

For Earth, For Life
Kubota

(Unit: billions of yen)	Year ended Dec. 31, 2018	Year ended Dec. 31, 2019	Year ended Dec. 31, 2020	Year ended Dec. 31, 2021	Year ended Dec. 31, 2022	Changes	Total of last 5 years
	IFRS						
Profit attributable to owners of the parent	138.6	149.1	128.5	174.8	156.2	- 18.6	747.1
(Per share)	(112.44yen)	(121.59yen)	(105.85yen)	(144.80yen)	(130.82yen)	(- 13.98yen)	
Total amount of dividend paid	41.9	44.1	43.6	50.6	52.5	+ 1.9	232.7
(Dividend per share)	(34yen)	(36yen)	(36yen)	(42yen)	(44yen)	(+ 2yen)	
Retirement of treasury shares	2.9	19.6	19.9	20.2	20.0	- 0.2	82.5
(Number of shares retired)	(1.5 mil. shares)	(12.0 mil. shares)	(12.0 mil. shares)	(8.3 mil. shares)	(9.2 mil. shares)	(+ 0.9mil. shares)	
Total shareholder return	44.8	63.6	63.5	70.8	72.5	+ 1.7	315.2

Payout ratio	30%	30%	34%	29%	34%	+ 5P	31%
Shareholder return ratio (Dividends and retirement of treasury	32%	43%	49%	41%	46%	+ 6P	42%

Mid-term target for shareholder return

- Secure over 40% in shareholder return ratio, and aim at 50%
- Continue share buy-bucks and prompt retirement of treasury shares

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

8

This chart shows the shareholder returns for the past five fiscal years. There is no change in the medium-term target for shareholder return. For the fiscal year ended December 2022, the Company has increased its dividend by JPY2, maintaining a total return ratio of more than 40%.

Statement of Financial Position

For Earth, For Life
Kubota

(Unit: billions of yen)	As of Dec. 31, 2022	As of Dec. 31, 2021	Changes	Changes excl. the effects of fluctuation in exchange rates
Cash and cash equivalents	225.8	258.6	- 32.8	
Trade receivables	779.4	574.3	+ 205.0	+ 148.6
Finance receivables	1,684.5	1,410.5	+ 274.0	+ 68.6
Inventories	644.5	510.1	+ 134.4	+ 77.0
Other	1,397.1	1,020.1	+ 377.0	
Total assets	4,731.3	3,773.7	+ 957.6	
Bonds and borrowings	1,611.1	1,094.5	+ 516.6	+ 365.4
Trade payables	454.8	392.3	+ 62.4	
Other	588.1	501.7	+ 86.4	
Total liabilities	2,653.9	1,988.5	+ 665.4	
Equity attributable to owners of the parent	1,883.3	1,678.0	+ 205.3	
Noncontrolling interests	194.0	107.1	+ 86.9	
Total equity	2,077.3	1,785.1	+ 292.2	
Total liabilities and equity	4,731.3	3,773.7	+ 957.6	

Net debt equity ratio	0.74	0.50	+ 0.24
Net debt equity ratio (excl. financial services)	-0.03	-0.21	+ 0.19

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

9

Next is the consolidated statement of financial position. Total assets increased by JPY957.6 billion from the previous period.

I would like to highlight key indicators. Trade receivables increased by JPY148.6 billion even in real terms excluding the effect of exchange rates. Accounts receivable increased due to higher revenues from the fulfillment of dealer inventories in North America. Financial receivables increased by JPY68.6 billion in real terms. The collection of financial receivables remains favorable.

Inventories increased by JPY77 billion in real terms and inventories in transit increased due to port congestion and other factors. Interest-bearing debt, both current and non-current, increased by JPY365.4 billion in real terms. The increase is due to the acquisition of shares of Escorts, Inc. and an increase in financing receivables.

The D/E ratio on a net basis is 0.74. On a basis excluding financial operations, the figure would be negative 0.03.

Statement of Cash Flows

For Earth, For Life
Kubota

(Unit: billions of yen)	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes
Net cash (used in) provided by operating activities	-7.7	92.5	-100.2
Profit for the year and Depreciation	261.6	260.9	+0.7
Increase in finance receivables	-77.2	-180.8	+103.6
Other	-192.1	12.4	-204.5
Net cash used in investing activities	-318.5	-127.4	-191.1
Payments for acquisition of property, plant, and equipment and intangible assets	-169.7	-125.7	-43.9
Other	-148.8	-1.6	-147.2
Net cash provided by financing activities	282.6	60.6	+222.0
Effect of exchange rate changes on cash and cash equivalents	10.8	10.0	+0.8
Net increase (decrease) in cash and cash equivalents	-32.8	35.7	-68.6
Free cash flow	-177.3	-33.2	-144.1

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

10

Next is the cash flow. Operating cash flow was a negative JPY7.7 billion. The breakdown is JPY261.6 billion in profit and depreciation, while JPY77.2 billion was used for an increase in financing receivables, and JPY192.1 billion was used for other items. Revenue decreased by JPY100.2 billion compared to the same period last year. The increase in accounts receivable was mainly due to the increase in revenues.

Cash flows from investing and financing activities are shown in the table below. Free cash flow was negative JPY177.3 billion, a decrease of JPY144.1 billion from the previous year.

Financial Services <Reference (unaudited)>

For Earth, For Life
Kubota

Statement of Financial Position

(Unit: billions of yen)	As of Dec. 31, 2022 Financial services	As of Dec. 31, 2022 Equipment operations	As of Dec. 31, 2021 Financial services	As of Dec. 31, 2021 Equipment operations
Total assets	1,954.9	2,946.2	1,636.6	2,404.0
Cash and cash equivalents	23.1	202.7	30.4	228.3
Trade receivables	29.3	752.1	30.7	544.6
Finance receivables	1,684.5	-	1,410.5	-
Inventories	-	644.5	-	510.1
Property, plant, and equipment	11.1	624.6	5.7	490.7
Other	206.9	722.3	159.4	630.4
Total liabilities	1,639.5	1,166.8	1,384.0	855.2
Total interest-bearing liabilities	1,544.8	157.1	1,301.6	-
Other	94.6	1,009.7	82.4	855.2
Total equity	315.4	1,779.4	252.6	1,548.7

Statement of Profit or Loss (Financial Services)

(Unit: billions of yen)	Year ended Dec. 31, 2022	Year ended Dec. 31, 2021	Changes	
	Amount	Amount	Amount	%
Revenue	115.1	89.8	+25.3	+28.1
Operating profit	43.4% 49.9	48.5% 43.5	+6.4	+14.7
Profit attributable to owners of the parent	25.1% 28.9	29.8% 26.8	+2.1	+7.8

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

11

For your reference, we have estimated B/S and P&L for the financial business and other businesses. Excluding the financial business, the Company has JPY157.1 billion in interest-bearing debt, but has JPY202.7 billion in cash and deposits, which means that the Company remains virtually debt-free.

The P&L of the financial business is also shown as a trial calculation, and as you can see, the business is sufficiently profitable.

Financial Forecast for the Year Ending December 2023

For Earth, For Life
Kubota

(Unit: billions of yen)	Year ending Dec. 31, 2023 (Forecast)	Year ended Dec. 31, 2022 (Actual)	Changes	
			Amount	%
Revenue	2,900.0	2,678.8	+221.2	+8.3
Domestic	638.0	602.4	+35.6	+5.9
Overseas	2,262.0	2,076.4	+185.6	+8.9
Operating profit	9.3% 270.0	8.2% 218.9	+51.1	+23.3
Profit before income taxes	9.6% 278.0	8.7% 233.9	+44.1	+18.8
Profit attributable to owners of the parent	6.4% 186.0	5.8% 156.2	+29.8	+19.1

Excluding the effects of fluctuation in exchange [-93.0 billion yen], the increase rate in total overseas revenue is 13%.

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

13

Next, I would like to discuss our forecast for the full year ending December 2023.

We expect the net sales to increase by JPY221.2 billion to JPY2.9 trillion, or 8.3%. Operating profit will increase by JPY51.1 billion to JPY270 billion, or 23.3%. Net profit for the period will increase by JPY29.8 billion, or 19.1%, to JPY186 billion. We are determined to achieve record sales and operating profit.

Next, I would like to review the forecast of the industrial machinery business. We expect an increase of JPY4.4 billion in Japan and JPY177.6 billion in overseas markets.

As for Japan, rice prices have begun to rise, but are still at low levels, and the agricultural machinery market is expected to remain difficult due to rising production costs such as fertilizers caused by inflation. On the other hand, for construction machinery and engines, the market is expected to remain firm, as it has been since last year, due in part to the National Land Development Plan and urban development construction projects.

Continuing on, overseas. Although the residential market has remained sluggish over the past year due to the slowdown in business confidence caused by rising interest rates, we recognize that it may hit the bottom anytime soon. As for retail sales, small tractors will remain at the same level as the previous year, but sales of mowers and utility vehicles are expected to increase due to a break from the previous year's considerable missed sales due to extreme inventory shortages. We expect the agricultural machinery and commercial markets to remain firm.

Regarding the construction equipment market, we believe that the housing market is entering an adjustment phase as the number of housing starts has fallen below 1.4 million. However, with the backlog of housing construction, the volume of construction work will be secured in H1, and with the expectation that infrastructure construction by the Biden administration will get underway in earnest, we expect the market to be somewhat steady, with some positive factors despite the negative ones.

Similar to construction equipment, engines are also expected to perform well given the robust construction demand and infrastructure development.

Continuing on, Europe. In the construction equipment market, although the housing market poses a risk of shrinking, we expect infrastructure investment in various countries and construction demand for commercial use to remain strong. Tax incentives such as accelerated depreciation in the UK and Italy also continue.

As for engines, we also expect strong sales of engines for construction equipment due to construction demand. Although the tractor market has become slightly more uncertain due in part to concerns of an economic slowdown, inflation, and a decrease in investment due to rising interest rates, the market is expected to increase, especially for small tractors, due to a recovery from the significant missed sales due to inventory shortages in the previous year.

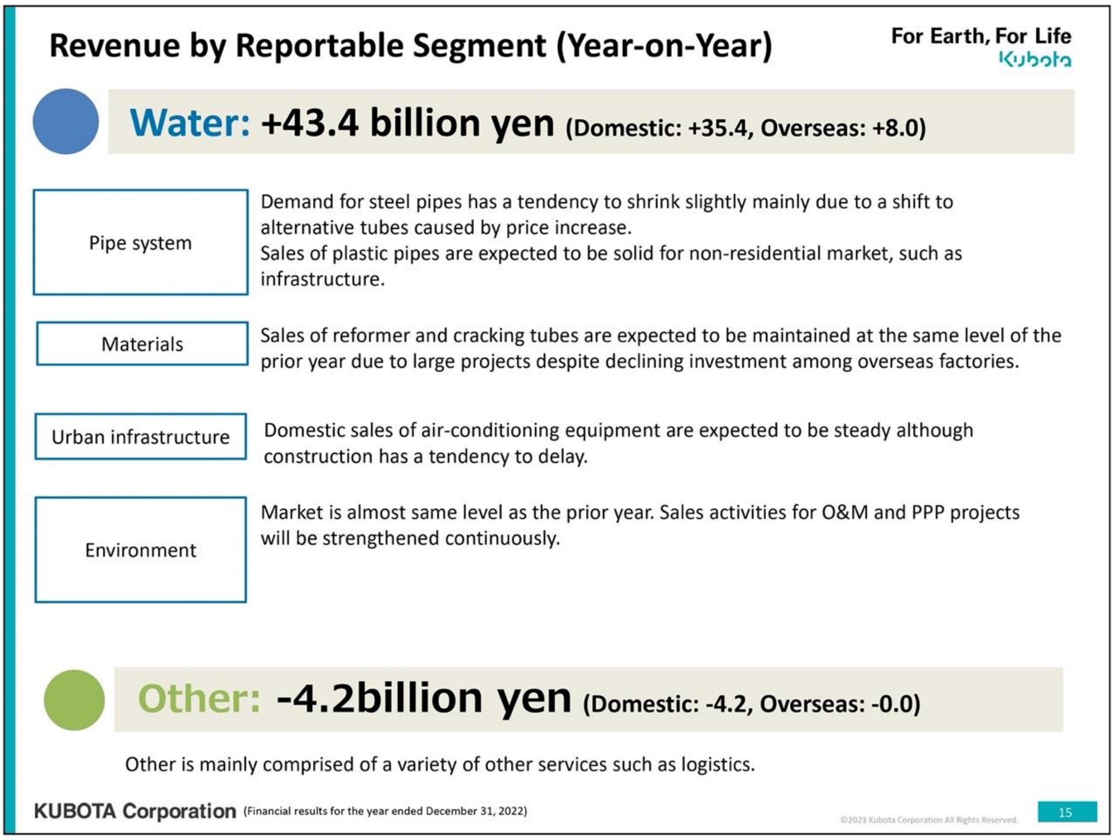
Next, Asia. As for Thailand, our main market, we expect the reactionary decline due to government bidding will start to improve. The rice market is on the road to recovery with a gradual rising in price. We expect the field crop market to continue to see stable crop prices and the mechanization of agriculture through market development.

We also expect sales in countries surrounding Thailand, especially Cambodia, to be at the same level as the previous year. On the other hand, there is still political unrest in Myanmar, and the situation is not expected to continue as a market.

In China, the market is expected to shrink in reaction to the rush demand for emission control in the previous year.

In India, we are expecting a strong start in the market, as the monsoon rains have blessed us with good rainfall, which has resulted in a larger winter crop.

In other regions, a slight decline in the residential market is expected in Australia due to rising interest rates.



For water and environment infrastructure, we expect a JPY35.4 billion increase in domestic sales and a JPY8 billion increase in overseas sales.

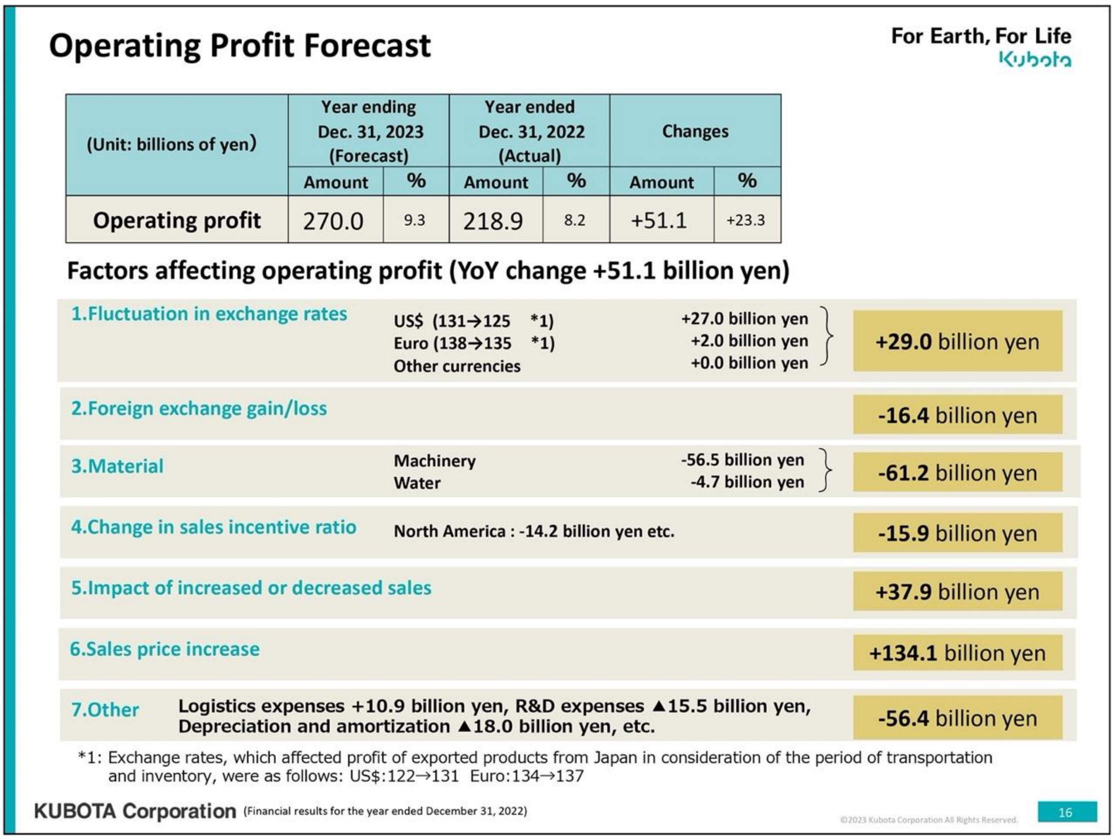
In pipe systems, steel pipes are shrinking due to a shift to alternative pipes as a result of rising prices, but on the other hand, synthetic pipes are expected to capture the need to replace steel pipes, and non-residential applications, such as infrastructure, are expected to remain strong.

Regarding profile materials, plant investment may decrease due to uncertainty in the global economy, but is expected to remain at the same level as the previous year due to the delivery of large-scale projects this year.

As for urban infrastructure projects, although there is a tendency for construction to be delayed, we expect the level to remain the same as in the previous year.

In the environmental business, industrial wastewater and O&M projects are expected to increase steadily.

Others are expected to decrease by JPY4.2 billion.



Operating profit is projected at JPY270 billion, an increase of JPY51.1 billion. Foreign exchange fluctuations will have a significant positive effect on the profit in H1 due to the delayed effect of yen depreciation in the previous year, and therefore, although this is assumed to appreciate overall, we expect a JPY29 billion increase in profit factor. On the other hand, foreign exchange gains and losses are expected to be a negative factor of JPY16.4 billion.

Raw material prices are expected to have a total negative impact of JPY61.2 billion, including JPY56.5 billion in the machinery business due to increases in purchased parts and steel prices, and JPY4.7 billion in the water/environment business due to price hikes in PVC and other materials.

Incentives are likely to bring JPY15.9 billion in the loss. Though the interest rate hikes in the US appears to settle down after February, the current high interest rate will drive incentives higher, which creates a deteriorating factor in comparison to that of the previous fiscal year.

We project JPY37.9 billion in increase/decrease sales. In addition, product price increases are expected to contribute JPY134.1 billion to profit growth, mainly in North America and Europe, as well as in water and environment infrastructure.

The remaining JPY56.4 billion are in other decrease factor category. As a breakdown, we expect logistics costs to improve by about JPY10.9 billion. On the other hand, R&D expenses increased by JPY15.5 billion, depreciation increased by JPY18 billion, and personnel expenses and fixed costs increased by the remaining JPY33.8 billion.

Operating Profit Forecast by Reportable Segment

For Earth, For Life
Kubota

(Unit: billions of yen)		Year ending Dec. 31, 2023 (Forecast)	Year ended Dec. 31, 2022 (Actual)	Changes
Machinery	Revenue	2,510.0	2,328.0	+182.0
	Operating profit	314.0	237.1	+76.9
	OP margin	12.5%	10.2%	+2.3P
Water	Revenue	371.0	327.6	+43.4
	Operating profit	24.0	17.3	+6.8
	OP margin	6.5%	5.3%	+1.2P
Other	Revenue	19.0	23.2	-4.2
	Operating profit	3.0	3.1	-0.1
	OP margin	15.8%	13.3%	+2.5P
Adjustment	Operating profit	-71.0	-38.5	-32.5
Total	Revenue	2,900.0	2,678.8	+221.2
	Operating profit	270.0	218.9	+51.1
	OP margin	9.3%	8.2%	+1.1P

KUBOTA Corporation (Financial results for the year ended December 31, 2022)

17

Operating profit by business segment. Corporate/elimination segment has increased costs due to foreign exchange losses and also due to increased research expenses.

CAPEX and R&D Expenses

For Earth, For Life
Kubota

■ CAPEX and R&D expenses

(Unit: billions of yen)	Year ending Dec.31 2023 (Forecast)	Year ended Dec.31 2022 (Actual)	Year ended Dec.31 2021 (Actual)
Capital expenditures	180.0	169.4	121.4
R&D expenses	103.8	88.3	65.3

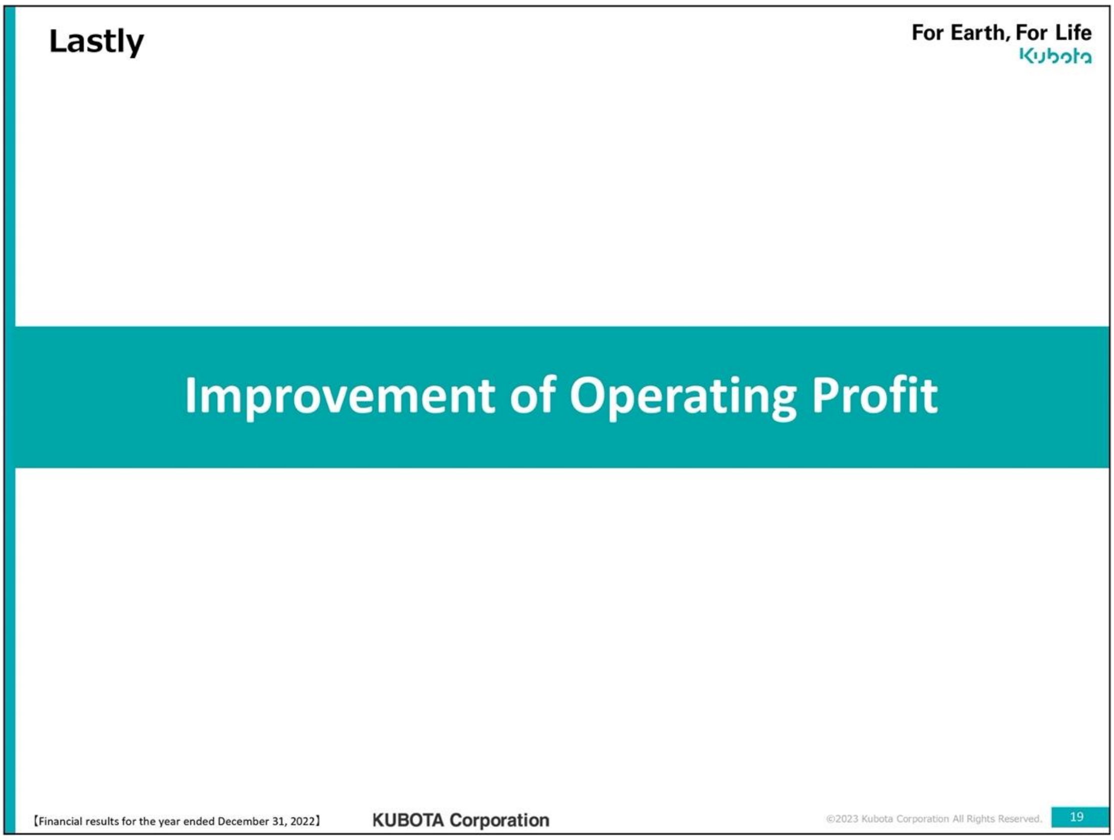
KUBOTA Corporation (Financial results for the year ended December 31, 2022)

18

Assumptions for capital expenditures. Capital investment is set at a maximum of JPY180 billion, but this includes investment delays from the previous year, so this year's new projects will be lower than the previous year. The main investments are in construction equipment in the US and in increasing production volume of implements, as well as in streamlining investments in Japan.

Research and development expenses are expected to amount to JPY103.8 billion. We will invest aggressively in R&D expenses in order to establish a firm foothold for the future and to make a leap forward in our business toward the attainment of GMB2030. The number is expected to increase with a focus on addressing decarbonization, smart autonomous systems, and resource recycling technologies.

As Mr. Kitao mentioned earlier, the acceleration of upfront investment cannot be attained without securing a solid profit. Reaching the current profit goal of JPY270 billion is our priority and the entire company will work together to achieve it.



Finally, I would like to discuss the improvement in operating profit. In addition to the expansion of the development system overseas, R&D expenses have increased significantly in recent years because we accelerated the timing of development related to decarbonization and powertrains, as carbon neutrality compliance is gaining stronger traction these days.

In addition, various cost increases, which are not limited to material and distribution costs, are escalating. There are more risks to be aware of, such as the strong yen trend and high US interest rates. We will continue to raise prices to absorb cost increases, but this will only increase net sales relative to profits, which will secure operating profit but push down the operating margin.

Accordingly, as the president mentioned earlier, we expect a slight delay in achieving the operating margin target of 13% in the mid-term business plan. Again, we have not lowered the target. We will rebuild our structure one by one and aim to achieve this operating margin of 13%. As a first step, we will focus all our efforts on achieving an operating profit of JPY270 billion for the current fiscal year. Thank you very much for your attention.

Question & Answer

Matsui [M]: At this time, I would like to move on to the question-and-answer session. We will be pleased to take your questions.

Moderator [M]: Let us take the first question from Mr. Mizuno, thank you.

Mizuno [Q]: Thank you for this opportunity. My name is Mizuno from UBS Securities Japan. Thank you. I have two questions.

The first one is regarding the FY2023 target. It is based on assumed sales growth in Europe and North America, excluding the effects of exchange rates and price increases. In achieving this goal, your company is aiming to make up for missed sales in FY2022 that were lost due to insufficient supply, but I'm slightly concerned as to how attainable it is. The macro environment is not optimistic, and in that economic environment, competition can be tough, and further price increases are expected. I would like to ask how much of the market share you lost exactly, and to what extent you are aiming to recover, quantitatively, in North America and Europe.

Also, I'm aware that incentives will not be increased much in Europe this fiscal year, and in that context, please discuss what measures you have in mind, other than a return to normal supply, as competition with startups is coming into view.

Kitao [A]: First, I would like to say a few words about Europe and the United States. The end of last year, of course, saw the largest growth in the construction equipment market. For the construction equipment, we expect retail sales of mini-backhoes to increase by more than 100% and wholesale sales will be probably like 120%.

In particular, CTL and other products were in extremely short supply, with dealers having only 0.6 months of inventory at the end of last year. In order to recover from such shortage, wholesale can grow more than retail. Retail, obviously an investment in market infrastructure. The dealerships are expecting a full-swing recovery. In addition to the more than one hundred percent growth, wholesale is expected to grow by 120% for mini-backhoes and 130% for CTL.

Residential, on the other hand, as you say, will certainly return to some extent though slightly, due to the recession. Our current view is that we should plan to return to 2019 levels. Among them, with regard to RTV, dealer inventory should normally be a minimum of four months for residential products, or about six months in standard terms, but at the end of last year, it was 1.2 months. This means that parts supply was short on the management side and production was not possible. We have also set up a two-shift production system at the plant, and are now in the process of increasing production.

Yoshikawa [A]: Mr. Mizuno, I would like to add something.

In particular, the largest market is North America, where we are not losing in terms of product competitiveness, and in fact, I believe we are maintaining our strength. Also, for FY2023, we do not necessarily expect the market to be larger than last year. After all, we will not be seeing the explosive demand for stay-home demand as there was in 2020-2021 so we are looking at this rather conservatively.

However, as I have mentioned before, over the past two years we have run out of store inventories of mowers, utility vehicles, and construction equipment in response to intense demand, and replenishment of these inventories will account for a sizable portion of our sales this year.

We are not planning to increase the number of tractors, but rather, we want to slightly reduce the number of tractors. However, production has not gone well, especially for US-produced products such as mowers or utility vehicles, and in a sense, dealer inventories have been reduced to an extreme degree in the last year and the year before.

In addition, most of the construction equipment is Japanese products, but we were not able to supply this as well due to the Shanghai lockdowns. In FY2019, retail sales of construction equipment were just under 25,000 units, but this figure increased to slightly less than 38,000 units last year. On the other hand, dealer inventories have decreased from 11,800 units to less than 4,000 units. Just to restore this extremely reduced inventory, we expect to see a considerable increase in sales this year, and since we have also factored in price increases, we hope you will understand that will lead to an increase in sales.

As Mr. Kitao mentioned earlier, we announced the price increase in North America in January, and I have heard that the increase has been going relatively smoothly. That's all from me.

Mizuno [Q]: Thank you very much.

Second question, please. On page 20 of the deck for President Kitao's presentation, there is a reference to a year of change, and I would like to ask him to comment on that. I understand the need to secure earnings for growth investments, and I believe you are already working on measures to improve earnings in your mid-term plan. I'm very curious as to what inspired the change.

Is it based on a sense of crisis not being able to meet the needs of customers as you transform into a global brand? Or is it a different kind of crisis where you must change the approach given the increasing pressure from the market to increase costs? Or perhaps, is it something to do with a gap in profitability between your company and competing manufacturers? Your company's performance appears to lag behind the others. Do you fear assessment from the market? I would like to see how the Company changes its direction in the future and I would appreciate comments from the president.

Kitao [A]: Thank you very much.

My thoughts right now are that production has been very stagnant over the past year or two due to various internal disruptions, factory disruptions, and supply chain disruptions, and also that we need to expand further overseas in the future, although our vision of GMB2030 remains the same. In these areas, we need to review in-house products and business portfolios first. In short, my sense of crisis is that our management resources run short without making a sound selection and concentration from now on. That is my priority.

In order to generate management resources, to take factories as an example, we must enhance productivity in operation. This requires the introduction of various IT systems, as well as streamlining of processes where applicable. We have not focused on these things for the past 10 years. We will focus on improving the efficiency of operations, including organizational efficiency and opening R&D. All these things help ensure we supply our customers in the market. We have also decided to make this a year of change in the hope of making even greater strides by strengthening our marketing and R&D efforts.

I believe we need to do this well from now on. In the past, we have been focusing on expanding the business, and because of that to be honest we have overreached. I would like to allocate resources to carefully selected businesses.

Mizuno [M]: I understand. Thank you. If possible, I would very much appreciate it if you could make an appearance once a year like this. Please consider this. Thank you.

Moderator [M]: Next question is from Mr. Sasaki.

Sasaki [Q]: My name is Sasaki from Mitsubishi UFJ Morgan Stanley Securities. Thank you. I would like to ask you two questions.

On the first question, I would like to follow up on Mr. Mizuno's question. This is something I would very much like to ask both Mr. Kitao and Mr. Yoshikawa.

Looking at the presentation deck and remarks by President Kitano, I think page six is quite important. Looking from the outside of the industry, frankly, given the economy right now, I get the impression that you are in a strong position. Construction equipment and agricultural machinery in Asia is a strong growth market. On the other hand, however, I think there is a challenge too. Your company focused so much on top-line growth that it has fully stretched and left for the past several years, which caused your company to delay in preparing countermeasures to recent supply chain disruptions and inflation.

Please don't be offended, but I have the impression that compared to other machinery manufacturers, such as Daikin Industries and Komatsu, you are actually behind in the establishment of global supply chains, market-optimal production, and perhaps the introduction of IT systems.

In this context, as you said you will turn your focus on the field left untouched. What are your thoughts on how, as top management, you can control the domestic and overseas business operations and set more strict but effective internal control? Could you please tell us frankly how you will pull through?

What concerns me, as an outsider, is the risk that the status quo lingers on unchanged, and Kubota will continue to stretch further. Thank you.

Kitao [A]: Thank you very much. Mr. Sasaki, you are correct.

I must admit, I have been thinking about it constantly for the past year or two. In our case, we are switching to a new IT system, a new office system, and we are trying to focus on properly linking these systems together. This change will impact all of the back-office operations, such as financial management, accounting, services, and factory operations, all will be involved. We have established a joint venture company with Accenture to implement digital transformation for this purpose, and it is important to establish a solid infrastructure for such a system.

As you know, Kubota has long been led by products, sales, and development under a divisional system, but now that the number of regions has grown so much, India will be added. It will be important to strengthen the regional axis of each region. We need to focus on these regional axes and include market-in, speed, locally-driven marketing activities, and development. The supply chain here and the factory operations are shown on this page. I'm aware that our immediate task is to reform these areas in order for Kubota to be truly recognized as a global company, as well as the development system I have just described.

As for us, we believe we have the resources. Kubota, as a company, has a wide variety of people who have worked in many different areas in food, water, and the environment. However, there are aspects where we cannot effectively utilize such human resources because of the extremely strong vertical axis that has been in place. We will increase efficiency through the thoughtful selection and focus approach I mentioned earlier. I would like to hire highly skilled local talents as well. Does that answer your question?

Sasaki [Q]: Thank you very much. In that sense, is IT your focal point compared to the past?

Kitao [A]: Of course, that is the first phase, but I think we need to do more than that, including organizational reforms and digital transformation of construction projects.

Sasaki [Q]: Thank you very much. If you don't mind, could I ask Mr. Yoshikawa to share his assessment?

Yoshikawa [A]: I would like to add to Mr. Kitao's comment.

The top line has never been our only focus as you know it. Fortunately, the markets we have poured efforts into, such as North America and Asia, have grown very much, and we have received many orders from our customers over the past few years.

We tried to keep up with it and satisfy the customers' needs. However, our business including supply chains has not yet exceeded JPY2 and to be honest overall this may be the reason for the decline in the operating margin.

Therefore, as mentioned at the beginning of the presentation, we have been swiftly reviewing our production system. Unfortunately, the results of this review have not reached the point of impacting the bottom line of FY2022. However, for FY2023, the growth has been moderate compared to the past two or three years. In a way, I think this would be a good opportunity to strengthen and stabilize the foundation. We have made various investments for this purpose, and the costs have been considerable, but we think that we will be able to achieve these results in 2023 and later.

The JPY270 billion operating profit target was announced yesterday, and although we have received quite optimistic comments from various analysts, it is also crucial that we execute the plan as expected and continue setting higher goals for 2024 and 2025. I would appreciate it if the market allows us a few several years with anticipation that the probability of our success is increasing. That's all from me.

Sasaki [Q]: Thank you very much.

The second question I would like to ask Mr. Yoshikawa for his perspective is on page seven. This is exactly what you are talking about, that there has been quite a bit of improvement in profit margins, although the actual results are not shown in the figures. Could you please add what exactly you think is an improvement on page seven? Thank you.

Yoshikawa [A]: I would like to say two or three things. The first is that, as I mentioned, as the volume increases, we are not necessarily optimizing production, or supply chain disruptions. Not only those issues, but I'm sure that there is still room to improve profitability in various areas, such as internal/external crop classification. One thing I believe is that there is still room to improve profitability by leveraging this JPY2 trillion to JPY3 trillion volume of sales. This is mainly in North America, Europe, Japan, and other existing places.

The other is India, an emerging market for us, where we have been working for 10 years and are now strengthening our operations with the addition of Escorts as a partner. In the past, this market did not necessarily contribute to profitability, but if we can expect to improve profitability in these areas as the volume increases, we will strengthen local production, and we will be able to see such improvements.

Also, as mentioned in the president's presentation earlier, there is room to increase profits in a slightly different way from what we have seen in the past, as we can utilize a unique procurement approach and other aspects.

Also, as mentioned earlier in the mid-term presentation, when it comes to service parts, aftermarkets, and solutions, we have to produce the right solutions. It's a quite profitable area. I believe that we will be able to improve our profit margin over the next three to five years as we increase the number of these products, and we will continue to work hard without lowering the 12% to 13% banner. That's all from me.

Sasaki [M]: I understand very well. I'm sorry it took so long. Thank you very much.

Moderator [M]: After this point, I would like to ask the participants to limit one question per person. I apologize if it causes any inconvenience. Mr. Sano, please go ahead.

Sano [Q]: Thank you. I'm Sano from JPMorgan Securities. Thank you for this opportunity.

Among the changes in operating profit for this fiscal year, the JPY134.1 billion price increase stands out as the most significant. I would like to know more details related to North America and Europe, as well as water and environment infrastructure. I would especially like to know if there is any difference between small tractors, medium and larger tractors, construction equipment, and UVs. in North America.

Yoshikawa [A]: I would like to take this question.

Of the JPY134.1 billion, JPY125.6 billion is machinery-related. In addition, for water and environment infrastructure, we expect a price increase effect of JPY8.5 billion. There is considerable variation by region, but of this JPY125.6 billion, a little more than half, or JPY74 billion, is in North America.

We will refrain from going into the model level details, as it would be too detailed and varied to keep track of the competition. Now, on average, about 5%, North America has raised its prices since this past January. In the rest of the world, Europe will be more than JPY30 billion, and the rest will be in other areas. Does that answer you?

Sano [Q]: Just more point, do you expect to achieve almost JPY74 billion or so with the price increase in North America since January? Or can you tell us whether you will still be raising prices in H2 to accomplish this?

Yoshikawa [A]: This JPY74 billion includes the price increase from this year, we raised the price twice in the middle of last year. The total amount is JPY74 billion, including the annual effective portion of this portion. The answer to your question is, of course, assuming that the volume will be so high, in a way that does not include additional price increases.

Sano [M]: I understand. Thank you. That's all from me.

Moderator [M]: Next question is from Mr. Fukuhara.

Fukuhara [Q]: My name is Fukuhara from Jefferies Japan. Thank you for taking my questions.

My question relates to research and development. JPY21.6 billion in FY2022, an increase over the previous year, and JPY15.5 billion this year. Is this JPY15.5 billion figure even more than it was three months ago? Or, in light of the current environment, has it actually been reduced from the original assumption? As we look at 2024 and 2025, will more be added in the future? Could you please discuss your future approach to this research and development expenditure?

Yoshikawa [A]: First, I would like to talk about the number.

The first is that we have not changed the general principles, including during Q3. Rather than making changes based on short-term up-and-downs in performance, we are moving forward with research and development to make sure that we are working on solid themes on a five-year or seven-year basis. Therefore, I hope you understand that the increase in 2022 or 2023, as you pointed out this time, is aligned with our expectations, or rather, within our original plan.

As for future increases, it may of course depend on future themes. We have been working on quite a few different themes over the past three years, and we will make careful selections and evaluation of the progress from various perspectives as the president mentioned earlier. So it is still unclear whether we can continue to increase JPY15 or JPY20 billion every year at this pace. As for research and development expenses, to a certain extent, we would like to steadily earn the funds while maintaining a good balance and achieving positive results.

Kitao [A]: This is Kitao, and I would like to add a few things. The number has increased due to the completion of the new research building in Sakai last year and the considerable investment made in that building. However, as I mentioned earlier, we will invest in themes such as smart autonomous systems, CO^2 reduction, and resource recycling.

On the other hand, we are considering allocating 60% for short-term themes, and 20% for medium- and long-term, including external collaboration, and 20% for long-term. We are now planning to conduct research on electrification and FCVs, including collaboration with outside parties. We would like to proceed in this regard.

However, overall, to some extent, the ratio of R&D has only just increased by 3.5% over the last year, and it is still not high compared to other companies. Within this range, we would like to proceed with our R&D investment in the future, keeping in mind that percentage and capping it. That's all from me.

Fukuhara [M]: I understand. Thank you. That's all from me.

Moderator [M]: Next, Mr. Isayama, please join us.

Isayama [Q]: This is Isayama with Goldman. Thank you.

I'm wondering if you could supplement this information on North America, especially on construction equipment. I'm sorry to ask a basic question, but I think you mentioned in your presentation that your company's construction equipment in FY2022 has been half CTL and half excavators. This is in the context of the discussion about housing market being weak, but your company is okay. Originally, I'm concerned about how much non-residential there is, since I'm pretty certain that small construction equipment is inevitably used mostly for housing purposes.

Also, I believe you mentioned that the inventory trend is 0.6 months CTL, so how much is the backhoe? I'm also wondering what the current level of lead time is for each of them. I would like to ask about this dealer inventory, order backlog, and stock because I'm concerned that the industry is accumulating dealer inventory a little bit at a time, and in a sense, is showing a similar trend to small tractors.

On the other hand, your company has missed quite a few sales, or rather, some of the periods from last year, so the demand part is tough, including construction equipment, but I have some doubts about whether this kind of outlook is possible because of the considerable amount of carryover from last year. This is my question as a general supplement to North American construction equipment. Thank you.

Kitao [A]: I would like to speak about the qualitative aspects of the market. First, in terms of usage, the mini-backhoe is certainly used somewhat more often in housing starts. However, the mini-backhoe is also used for various tasks such as roadside piping and conduit. As for truck loaders, they are used in road construction for excavation and transportation work, so my impression of truck loaders is roughly fifty-fifty.

According to the feedback from dealers, demand continues to be strong in those areas and is connected to the fact that social infrastructure investment is still coming from dealers and that there is a backlog. Regarding inventory levels, as I mentioned earlier, dealer inventories are only 1.8 months at the end of last year for mini backhoes and 0.6 months for CTL. Compared to the inventory level of the industry as a whole, I think ours is low, but I believe we are still in a position to make up for it in the future.

Yoshikawa [A]: This is Yoshikawa speaking, and I would like to address the question you just asked about lead time. Regarding construction equipment, all backhoes in North America are manufactured and shipped from Japan. As for CTL, we finally started some production in Kansas at the end of last year, but most of the products are still being brought from Japan.

All skid steer loaders are made in Georgia, and the lead time is relatively short for those made in North America, but a significant portion is still made in Japan and exported from Japan. In particular, last year, we had problems with ports on the West Coast and concessions on the East Coast, and although Q1 has been improving, the overall lead time from Japan was about four months in many cases.

As we improve this, we hope to increase supply as well. In the medium term, we would also like to increase production in North America to reduce lead time. That's all from me.

Isayama [M]: Thank you, Mr. Yoshikawa and President Kitao.

Kitao [A]: I have one additional point. Inventory share. In the mini-excavator, our inventory share was about 4% less than the retail share at the end of last year. Then, when it comes to CTL, we, we have less than half of the inventory share compared to the retail share, which means that we are very thin on inventory, and I think we can make up for this.

Isayama [Q]: Thank you very much.

In terms of the concept of order backlog, how much of the sales plan that you have put out for this fiscal year do you see? I can see the lead time you just mentioned is up to four months, and it would be fine if you can give us a number, or even just how much of the amount. I would like to know how much time your company sees as a high degree of certainty, and I would like to have some additional information on this as well, and if your comments are limited to North American construction equipment, I would still appreciate it.

Yoshikawa [A]: This is Yoshikawa speaking. I'm unsure if the order backlog answers your question, but we usually take orders from dealers about six months ahead. We are working hard to fulfill the backlog of orders and backorders, and we feel that it will continue to take at least six months to fully resolve the backorders. Therefore, it may take about six months to resolve the problem, which should be completed on time.

Isayama [M]: I understood very well. Thank you very much.

Moderator [M]: We still have more questions that we would like to answer, but unfortunately we have run over time, and we need to conclude the question-and-answer session at this point.

Matsui [M]: The time is 11:30 AM. We will now conclude the briefing. Thank you very much for participating in our financial results briefing today.

Kitao [M]: Thank you very much.

Yoshikawa [M]: Thank you very much.

[END]

Document Notes

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