

# Kubota Corporation

## Result Briefing for FY2020 ended December 31, 2020

### Q & A Session (February 22, 2021)

**Q. Would you tell us what strategies you will take to achieve the targets of revenue in North America and ASEAN, which you set in the Mid-term Business Plan?**

A. As for construction machinery (CE) in North America, there are still some products whose lineups are limited, and we believe that we can increase our market share of CTL, SSL and MB by about 4 to 5% by expanding our product lineup. The increase in revenue of CE will account for a large portion of the overall increase in revenue in North America. In addition, demand for attachments for CE manufactured by Great Plains Manufacturing, Inc. is also growing. We can grow after-service business such as maintenance along with an increase in the number of sales unit of CE because attachments are consumable items. Including these, we expect that CE business in North America will grow significantly. As for business in ASEAN, our market share is currently high mainly in the market for paddy agriculture. However, it cannot be denied that there are some countries, where the markets for tractor and combine harvester have already been large and gradually matured. On the other hand, mechanization for upland farming is not yet advanced enough, and the market is expected to grow greatly in the future by locally developing and producing harvesters for crops such as corn and sugar cane, as well as implements for upland farming.

**Q. You plan to increase operating profit in FY2025 by about JPY100.0 billion compared to FY2019. Would you tell us how you specifically plan to achieve the target?**

A. We have set the target of revenue in FY2025 of JPY2.3 trillion, an increase of JPY380.0 billion from FY2019. I hope you will understand that this increase in revenue will cover a large portion of the increase in operating profit of JPY100.0 billion. On the other hand, we must work various initiatives that need large amount of investment to realize GMB2030. In addition, we must promote investment related to ESG and R&D at a higher level from now on. Therefore, in order to generate the investment resources, we will generate a net increase in profit of JPY50.0 billion by strengthening the business foundation in the mid-term. We will actively invest these resources in new business development and aim for a two-handed management style that simultaneously develops new businesses and strengthens existing businesses. In initiatives to strengthening the business foundation in the mid-term, we will generate profits by transforming to a more efficient business operation structure through steadily expanding profitable businesses, such as repair parts business in Machinery business and O&M business in Water & Environment business, reviewing the way of production and operations, and reconsidering all cost categories, and aim for the net increase in profit of JPY50.0 billion. During the 5 years of Mid-term Business Plan, we will transform various things.

**Q. ESG has been pointed out in Mid-term Business Plan. Would you tell me any KPIs about it?**

A. In Mid-term Business Plan, I mentioned earlier that we will position the environment (E), society and stakeholders (S), and governance (G) at the core of management. While specific initiatives are to be discussed from now on, we established ESG Management Strategy Meeting, which is composed of internal directors and management, and guidelines for K-ESG initiatives will be discussed in the meeting. In addition, we also established ESG Promotion Department as the secretariat. With regard to E, first, we will improve the environment of society through our business of food, water, and the environment. Our main focus on this plan is the initiatives to achieve carbon neutral by 2050. We would like to disclose KPIs related to scope 1 and 2, such as CO2 emissions, water consumption, and the amount of waste in the future. We are also considering how to contribute to carbon neutral toward 2025 and 2030 in Environmental Management Strategy Meeting. We would like to contribute to carbon neutral even in our business through the provision of new power sources to replace diesel engines, which are

currently our products, and next-generation engines using new fuels, and solutions for resource recycling cycles that recover resources from waste. I would like to create KPIs regarding these initiatives as well. With respect to S, we recognize growth of Kubota's business as solutions for social issues. In addition, we continue to carry out a variety of social contribution activities, such as tree planting in Tokyo (Forest of Kubota), educational support in China, and support for farm communities in India. I would like to discuss whether we will use a certain amount of profit for such social contribution as a KPI internally. As for G, we established Compliance Headquarters newly and plan to implement reform of awareness about compliance. We conduct a CSR awareness survey of our employees on a regular basis every year, and we would like to strengthen our employees' awareness of corporate governance by strengthening communications on corporate governance using new tools.

**Q. In Mid-term Business Plan, what kind of returns will you give to shareholders and investors who supply risk money?**

A. I feel that world and society are facing a turning point. The economy has ever grown under capitalism with an emphasis on the economy, but I think that society will not be able to sustain itself if this trend continues. I think that we will not be able to achieve sustainable growth by simply focusing on economic growth, given the growing interest in ESG outside us, including the spread of ESG investment among investors. I think that it is the best return to shareholders and investors to respond to these changes in global and social conditions and contribute to the realization of a sustainable society in our business area of food, water, and the environment. In addition, albeit qualitatively, I believe it is also a return that we gain understanding and empathy about our initiatives to resolve social issues and get participation in opportunities to resolve social issues by stakeholders. I believe that we can give returns to our shareholders and investors by involvement in our business through their investment and our earnest effort to various measures pointed out in GMB2030. In addition, since our shareholders and investors have invested risk money in us, we would like to achieve shareholder return ratio of more than 40%, and aim for even higher in the mid- to long-term. In order to achieve shareholder return ratio of more than 40%, we believe it will be important to grow steadily our business result, which are base of the returns, over the mid- to long-term. What we would like to emphasize in this Mid-term Business Plan is that we will engage in a two-handed management style, through which we work to steadily secure business result over the next 5 years and steadily implement various initiatives, such as investment and development, toward the further next 5 years and 2030.

**Q. Would you tell me a little more detail about initiatives to secure candidates of growth drivers for the next generation? Up to now, Kubota has been strengthening smart farming, Indian business, and large-scale farm equipment business for upland farming. What kind of things should I consider important as growth drivers for the next generation?**

A. As for smart farming, we are currently working on KSAS (Kubota Smart Agri System). I think that future farming will not be able to survive simply by cultivating and harvesting with machines. Especially in Japan, in order to improve productivity to respond aging farmers, it is necessary to make farming more visible by accumulating and utilizing data using ICT, IoT, AI, etc. From now on, I think that agricultural business will change significantly by not only sale of machines, but also accumulation of data through the entire agricultural system and the utilization of these data. We will develop an agri-platform such as KSAS and is considering how the business will develop while seizing the rage from the entrance to the exit of agriculture as our business. We believe that this will become a growth driver of the next generation. Currently, , we are working to integrate machines that automate a variety of agricultural tasks such as harvesting, conditioning, sowing, and plowing, as well as AI-powered systems, farming data, and weather and health information into agriculture through Innovation Center. They also believe there is room for improvement in agricultural methods. For example, there is a major problem in rice paddies in which methane and carbon dioxide are generated by plowing rice straw. This can be done by direct sowing of dry fields and producing new fuel using rice straw, thus reducing the generation of carbon dioxide. We believe we have the opportunity to grow significantly in the future using the technology we have in our business area of food, water, and the environment. I would like to create future business growth by growing the agricultural business while considering it as a way to solve social issues, rather than simply recognizing it as mechanization.

In Water & Environment business, we have been dealing with products, such as water purification plants and ductile iron pipes as a single product. However, from now on, the issues for local governments are an aging population, a decreasing population of rural areas, and urban problems in local areas. In addition, the number of local government employees and engineers is decreasing. Therefore, there is an opportunity to create a cooperative system between the public and private sectors by providing total solutions, which include not only selling equipment, but also creating an overall plan for renewing equipment, and dealing with construction, operation, and maintenance, in order to address these situations. We have system called KSIS (Kubota Smart Infrastructure System), which proposes total water solutions from water supply to sewage, including agricultural water. I think these are the future growth drivers.

**Q. How do you analyze the background of the low level of revenue in the after-market business in machinery business, one of the growth drivers of Mid-term Business Plan? Is it because Kubota has not made efforts so far? Or is it because the number of large-sized machinery has been small? For example, I think the ratio of the repair parts business is higher when the equipment such as CE is larger. In addition, how will you tackle the after-market business to grow and how much time will you take?**

A. There are several reasons why the ratio is low. For example, in North America, which is our main area, our machines such as compact tractors have been used on weekends by consumers, so operating time throughout the year was relatively short. In addition, our products have fewer breakdowns. As a result, the ratio of revenue from repair parts has been low. On the other hand, there are two trends that change these situations these days. The first trend is that the unit price of repair parts is increasing and operating time of products become longer along with a gradual increase in the horsepower of our products from compact tractors. The number of units in operating machineries is also increasing, so there is a possibility that revenue will increase by even taking advantage of market opportunities steadily. Second, we explained that CE business in North America is one of the growth divers in Mid-term Business Plan. Operating time of products is growing because the number of products used by commercial customers are increasing. One of the reasons for the recent increase in revenue from repair parts business is because sales of repair parts for consumer products are increasing along with the increase in the number of units in operating machineries and commercial customers are increasing. I think there is room to increase sales of repair parts by steadily supplying them to commercial customers. The difference between our competitors and us is whether the number of commercial customers such as large farmers is many or few, or whether the size of the product is large or small. In addition, I think there is a difference in the number of units in operating machineries accumulated for many years. However, I feel there is a lot of room to expand sales of repair parts because we have changed our content of business so much. So, we have listed it as one of the growth drivers. From now on, I think it will be important to maintain machines so that the downtime can be reduced to zero as much as possible until the machine is scrapped based on the idea of lifetime cost rather than just focusing on selling the products. We have described “A society where the marginal cost of products is close to zero” in the megatrends, but machineries will not be disposable but be used for a long time or reused as well. Under these circumstances, what we are working on in the field of farm machinery is to maintain aggressively by using KSAS, which incorporates a system to monitor the operation status of machineries. In addition, we have been selling only genuine parts in the past. But we would like to expand our business by actively entering the aftermarket market and making various proposals to reduce the total lifetime cost of customers.

**Q. You have not pointed out large-sized farm equipment business in Mid-term Business Plan. Please tell me the strategy for large-sized farm equipment business.**

A. We have not described large-sized farm equipment, which we had explained since before, in Mid-term Business Plan because Mid-term Business Plan focuses on new initiatives. However, we have introduced models up to 210 horsepower, and will continue our efforts to expand large-sized tractors. On the other hand, although profitability has gradually improved, the business is still in a difficult situation in terms of profitability, and there

is uncertainty as to whether it can reach the stage where the business can generate sufficient profits during the period of Mid-term Business Plan. We are still strengthening and improving our profit structure of it. We still consider the large-scale farm equipment market to be an important market and will continue to work on it.

**Q. In the revenue target of Mid-term Business Plan for 2025, you aim to increase revenue in Water and Environment business by about JPY70.0 billion from FY2019. However, looking at the past trends, I felt that the hurdle might be high. Although you have listed O&M business as a growth driver, it is unlikely that O&M business generates higher revenue for a single fiscal year than large plants. I think it is appropriate for me to imagine that increasing after-sales will not increase revenue much, but will increase profit margins. Would you explain its background?**

A. The target of revenue in Water & Environment business may seem challenging, but each business has room for grow, including current equipment sales. On the other hand, one of the reasons why we have pointed out O&M business as a growth driver is that the situation of local governments, which are our customers, has also changed amid a lot of operating facilities like machineries and we believe that there are many opportunities to expand the O&M business. In order to do so, we must provide and propose new digital technologies that have never been provided before, but we believe that we can build O&M business as a source of revenue and raise the profit margin of Water & Environment business a little more from 8% of the current level. Although the volume of Water & Environment business is smaller than that of Machinery business, the share of each product is very high. We believe we have the opportunity to grow by proposing various proposals more proactively than before and profit margins can be sufficiently increased by transforming the contents of products into solutions as well. I believe that we will be able to achieve the target of revenue in Water & Environment of JPY400.0 billion if we can steadily grow our various businesses. For example, solutions include the pipeline solution. The water leakage rate has increased recently, and demand for renewal of earthquake-resistant pipes is expected to increase in the future. In response to these issues, for example, our subsidiary has a variety of new construction methods, such as Danby and Mini-shields, which do not require excavation of the ground during pipe renewal. We believe that we can expand these construction businesses including pipeline solution business. In addition, the facility for reducing the volume of radioactive waste in Futaba Town, Fukushima Prefecture, has been in operation since last year, and such projects are expected to increase in the future. We believe that the business of such solutions will be able to grow in the future.

**Q. I would like you to tell us the breakdown of the target of revenue in North American for the FY2025 by product. Considering that revenue in FY2021 will increase significantly from the prior year and CE business will become a growth driver, I felt that revenue in 2025 would increase a little more.**

A. First, please understand that dealer inventory was too low at the end of FY2020 and inventory restocking to dealers will largely impact on revenue in FY2021. So, revenue in FY2020 and FY2021 should be considered together. Please understand that revenue in North America in FY2021 exceeds actual business situation. Therefore, in this Mid-term Business Plan, the target in FY2025 is compared with the result in FY2019. Although we would like to refrain from disclosing detailed figures of revenue in FY2025 due to uncertainty, we expect that an increase in revenue from CE business will account for more than 40% of an increase in revenue in North America of JPY187.0 billion. However, sales of tractors and repair parts business that I mentioned earlier are also expected to increase, and we took into account that the increase in each product will fluctuate up and down from the forecast and estimated the figures in Mid-term Business Plan. I hope you will understand that we see CE business as a growth driver in these situation.

**Q. Operating profit in FY2025 is expected to increase by JPY100.0 billion compared to FY2019. If possible, would you tell me how much profit increase is expected by region? In addition, I would like to know if the target of operating profit will be achievable even if revenue in 2025 will not reach the target of JPY2.3 trillion.**

A. We think operating profit is expected to increase in accordance with the increase in revenue by region because the increase in revenue from FY2019 will be the source of the increase in operating profit. On the other hand, the strengthening of the business foundation described in Mid-term Business Plan is to review the content of

all operations, and it is not appropriate to allocate the effects from it by region. So it is difficult to disclose them by region. Amid changes in the market and social environment, there is a possibility that we will not be able to carry out investment and development to secure sufficient future growths only by the resources from increased revenue in existing business alone, while enhancing profit margins. To generate such resources, we believe it is necessary to generate a net increase in profit of JPY50.0 billion by strengthening the business foundation in the mid-term. In addition, it should be noted that the JPY50.0 billion does not necessarily cover only the upfront investment. If revenue fall short of JPY2.3 trillion in FY2025, or even if revenue reaches JPY2.3 trillion, operating profit does not reach the target of JPY300.0 billion for some reasons, we naturally think that a portion of this JPY50.0 billion will support profits to achieve the target. We aim to achieve both JPY300.0 billion and steady work on initiatives to be taken, such as R&D.

**Q. Would you tell me how you balance ESG initiatives with performance growth? I would like to confirm whether initiatives related to ESG will lead to improvement of Kubota's performance.**

A. I believe that balancing ESG and business growth is a major challenge for society and companies in the future. I think that society will not be able to survive, if we focus only on economic growth, and we understand that how to achieve this balance is a challenge for our managements. It is very difficult to explain in detail how to achieve a balance in today's briefing session. However, the managements will have a thorough discussion on this issue and finalize the content in ESG Management Strategy Meeting, basically considering ESG as the core of management. Our business of food, water, and the environment lead to ESG matters, particularly E-related issues, and I strongly believe that the relationship between business growth and ESG is not a dilemma that we cannot work on both of them at the same time. We believe that the development of new technologies and the incubation of new businesses are the keys to achieve this goal, and we will steadily work on them. In Water & Environment, environmental equipment such as ductile iron pipes and incinerators are expected to change significantly along with changes in needs and challenges of the society. We are currently taking stock of the technologies we possesses, and I think we will work on ESG by linking it to solving social issues. I also think that we would like to achieve higher margins strongly as well.

**Q. R&D expenses are expected to increase in Mid-term Business Plan. Please tell us how you plan to develop smart farming by investing funds. While other companies are spending more on R&D expenses, do you consider this level of investment is sufficient, or are you considering M&A related to smart farming, which is not included in the figure?**

A. All R&D expenses disclosed are internal R&D investments. The largest project in Mid-term Business Plan is the establishment of R&D bases in Sakai, Japan and in North America. R&D bases in Thailand and Europe have already been completed and are in operation. In addition, we will also invest in R&D personnel. A considerable amount of expenses is expected in consideration of securing necessary personnel for future R&D. On the other hand, in the aspect of realization of solutions, for example, since it is difficult to achieve smart farming entirely within the Kubota group, we would like to form alliances and collaborate with external companies that possess new technologies. We have been investing in a variety of startups through Innovation Center since two years ago, and the increase includes acceleration of this initiatives further more. I would like to increase R&D expenses in the future, and we plan to undertake M&A and invest in various technologies if necessary.

**Q. I would like to know what kind of view you have about electrification in machineries in the future. I think that manufacturing engines in-house may become a risk of assets in the long run. Including this, please tell us what is being discussed on changes in driving generators internally. Are you also considering setting a target for electrification?**

A. At the dealer meeting in Kyoto last year, we exhibited an electric compact tractor and a mini-excavators. In Europe, diesel regulation in 2024 will prohibit the entry of diesel vehicles into Paris. We are currently developing products and testing it locally in response to the regulation. In my opinion, electrification of machinery is expected to progress gradually from small equipment such as mowers, compact tractors and mini-excavators. On the other hand, I think utilization of hydrogen including fuel cells will progress as well, we are conducting

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basic research on it. These products are expected to increase toward 2030, and we think our major challenge is how to respond to this trend. In addition, we have been developing our business based on our strength in diesel engines. While electrification may change a part of our strength, initiatives to development of carbon-neutral green fuel, which is named e-fuel using hydrogen produced by water decomposition, has been tackled in the society. By using such fuels, internal combustion engines of us are expected to play an active role. Biofuels are the only type of such fuels at present. However, there is a lot of attention from the world to the further evolution of biofuels and fuels that utilize not only organic materials but also hydrogen, which can be extracted from water in the future. We also believes that it will be possible to contribute to reducing carbon emissions by tackling these technologies toward 2030. We are currently creating an environmental vision internally, and we think we would like to disclose our targets in the vision.

#### **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 22, 2021 (result briefing for the FY2020 ended December 31, 2020). 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.