

# To Build “Global Major Brand Kubota” - Management Policy over the next three years



**Masatoshi Kimata**  
President and Representative Director  
**Kubota Corporation**

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1. Kubota's Vision
2. Initiatives over the Past Three Years:  
2014 to 2016
3. Initiatives over the Next Three Years:  
2017 to 2019
  - Basic Policies
  - Financial Policies

## Mission (= business areas)

- |             |   |
|-------------|---|
| Food        | The abundant and stable production of food by streamlining of agriculture               |
| Water       | Supply and to restore reliable water by enhancing water infrastructures                 |
| Environment | Create and preserve a comfortable living environment by enhancing social infrastructure |

## Long-term objective

To build "Global Major Brand Kubota."

"Global Major Brand" means that

The most-trusted brand by its customers = The most-beneficial brand to society

In addition to competing with the world's top brands in revenues and profits

## With target revenues of ¥2 trillion in 2017

Enhanced expansion of business areas and globalization of management functions

### < Consolidated Results >

Forecast not to attain the target revenues of ¥2 trillion

(Billion yen)	Same period 2 years ago (Jan. 2014 - Dec. 2014)	Same period last year (Jan. 2015 - Dec. 2015)	Year ended Dec. 31, 2016 (Jan. 2016 - Dec. 2016)	Year ended Dec. 31, 2017 (Jan. 2017 - Dec. 2017)
	(Actual)	(Actual)	(Actual)	(Forecast)
<b>Revenues</b>	1,566.6	1,688.6	1,596.1	1,680.0
Domestic	590.0	580.3	551.4	573.0
Overseas	976.6	1,108.3	1,044.7	1,107.0
<b>Operating income</b>	13% 207.3	13% 222.9	12% 188.8	12% 198.0
<b>Net income attributable to Kubota Corp.</b>	9% 139.3	9% 149.4	8% 132.5	8% 138.0

#### Foreign exchange rate

¥/US\$	106	121	109	110
¥/Euro	140	134	120	115

\* Due to the change in the fiscal year-end from March 31 to December 31, the results of operation before 2015 have been reclassified as a reference. Note that operating results before 2015 are unaudited.

### ◇ Expansion in business areas (three-year period)

- Full-scale entry into the farm machinery market for upland farming
  - ✓ Sales of 170 hp class large-scale tractors, M 7 series
  - ✓ Acquisition of Great Plains Mfg, Inc.(GP), an American farming implement manufacturer
  - ✓ Sales of multi-purpose tractors: in India and wheel drive combine harvesters: in China
- Full line up of compact construction machinery in North America
  - ✓ Sales of skid-steer loaders (SSLs)
- Expansion of Water & Environment business in Asia

### ◇ Globalization of management functions (three-year period)

- Strengthen R&D structure
  - ✓ Expand R&D facilities :in Thailand and Japan
- Expansion of local production
  - ✓ Establish manufacturing plant for large-scale tractors :in France
  - ✓ Establish manufacturing plant exclusively for utility vehicles: in United States
- Promote “Kubota Production System (KPS)”
  - ✓ Establish basic policy → Start promoting activities globally

## The Main Point Remains Unchanged. Attain the Revenue of ¥2 trillion by 2019

### ◇ Expansion in business areas ⇒ Pursue new growth opportunities

- Challenge new businesses and new markets (geographical) → Nurture businesses and markets that can be core business in 10 years from now
- Strengthen existing and peripheral businesses → Pursue synergies and diversify business models

### ◇ Maximize income ⇒ Secure resources for growth through concentration of group power

- Increase profitability in Water & Environment → Secure business volume and strengthen business position
- Reform in low-profit businesses → Make effective use of the resources and clarify the business fields
- Streamline back-office divisions → Redefine mission and improve management efficiency

### ◇ Globalization of management functions ⇒ Structure foundation for “GMB Kubota”

- Establish global R&D structure → Structure product development systems in four major regional poles: Japan, U.S., Europe, and Asia
- Strengthen global production systems → Expand localized production and review manufacturing bases in Japan
- Promote “KPS” → Reduce total lead-time and inventory
- Accelerate utilization of IT → Provide support for regional strategies and promote business reforms
- Apply IFRS → Improve management efficiency by unifying group accounting treatment

### ◇ Expansion in business areas (Challenge new businesses and new markets (geographical))

- Put large-scale agricultural machinery business on track as soon as possible

Evolve from No. 1 manufacturer of rice cultivation machinery in Asia to the world's top-class comprehensive manufacturer of agricultural equipment

- ✓ Establish business base for M7 Series
  - Further improve sales systems, products and services, expand product lineup, consider production in the United States as well
- ✓ Develop larger-scale series (170+ hp tractors)
- ✓ Respond to the movement toward precision farming



Corresponding ISOBUS all in one terminal monitors



Large-scale tractors M7 series

### ◇ Expansion in business areas (Challenge new businesses and new markets (geographical))

#### ➤ Expand the construction machinery business

Make construction machinery a main pillar of Kubota's business along with agricultural machinery

- ✓ Capture top share in compact construction machinery market in North America
  - Enhance its product lineup of SSLs and Compact Truck Loaders (CTLs)
- ✓ Consider active entry into new businesses

#### ➤ Strengthen overall capabilities in the engine business

While maintaining Kubota's agricultural and construction machinery business by providing engines which are the core of them, become the world's No. 1 manufacturer of industrial engines (200 hp or less)

- ✓ Strengthen development of engines used in Kubota's equipment and expand lineup of engines for external sales
  - Development of large-scale, high-powered engines and a variety of compact engines (including low-priced units for emerging countries)
  - Prompt and accurate response to gas emission regulations and other environmental restrictions in each country



◇ Expansion in business areas (Challenge new businesses and new markets (geographical))

- Tackle challenges in overseas markets (Regions)
  - ✓ India (=priority market): Accelerate business growth
    - Improve competitiveness of multi-purpose tractors (strengthen sales systems and Q.C.D.), etc.
  - ✓ Strengthen presence in neighboring countries of exiting business areas
    - Poland, Turkey, Mexico, Myanmar, etc.
  - ✓ Search for new emerging markets
    - South America: Brazil; Sub-Sahara (Kenya), etc.



Multi-purpose tractors



Opening ceremony for “KUBOTA Myanmar Co., Ltd.” an farm machinery sales company

◇ Expansion in business areas (Strengthen existing and peripheral businesses)

➤ Develop comprehensive agricultural services business (domestic agricultural machinery)

Agricultural machinery + peripheral machinery + maintenance/service + solutions

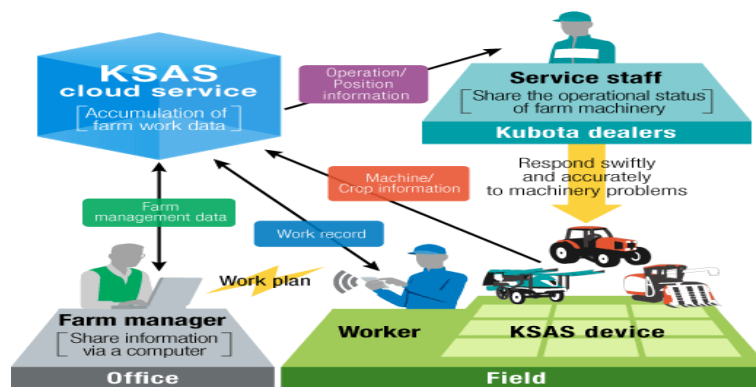
⇒ Comprehensive agricultural services business

✓ Upgrading of KSAS (Kubota Smart Agri. System) and expansion of “Kubota’s Farm”

「KSAS」

Services with integration of farm equipment and ICT. Contributing to improvement of productivity and quality, and cost reduction

“Kubota’s Farm” A testing plant for KSAS, large-scale agricultural machinery and new Farming methods. Suggest expansion of sales channel through producer-direct sales, rice export, and sixth industry promotion



Brown rice paste and brown rice bread which are group company, Naka Kyushu-Kubota, manufactures and sales

## ◇ Expansion in business areas (Strengthen existing and peripheral businesses)

### ➤ Expand implement business

KV + GP + Kubota and others

⇒ Becoming a World Top-Class Implement Manufacturer

✓ Pursue synergies between Kverneland AS (KV) :suited for European farming and Great Plains Mfg, Inc.(GP) :suited for U.S. farming

✓ Develop new markets

– Implement for non-agricultural uses (GP)

Implement for upland farming in Asia (SIAM KUBOTA Corp. Co., Ltd. (SKC))

### ➤ Expand business of mowers and UVs

✓ Mower      Expand customer base to cover the range from homeowners to professional contractors

✓ UV          Strengthen approach to the market for leisure use



Utility vehicles (UV)

## ◇ Maximize profit (Increase profitability in the Water & Environment Business)

### ➤ Restructure of domestic businesses

Shift from “priority on growth” to “priority on profitability” and structure businesses to respond to changes in the operating environment

#### ✓ Strengthen the organization

- More market-oriented → Shift from organization by product to organization by market
- Improve flexibility and efficiency → Consider realignment, cooperation and other approaches, including subsidiaries

#### ✓ Reform the business model

- Strengthen operation and maintenance business → Transition from “manufacturing and sales business” to a “comprehensive service business”
- Escape from following the crowd in market share competition → Make appeal for Kubota’s original technologies and services

### ➤ Review overseas businesses

Suspend positioning as a pillar of “business expansion”

#### ✓ Review Water & Environment business in Asia and pursue new developments

- Further develop business operations with a strong focus on improving profitability in existing businesses (even involving withdrawal from businesses where turning a profit is difficult) and emphasis on priority regions and priority products (membranes and pipe systems)

### ◇ Maximize profit (Increase profitability in the Water & Environment Business)

#### ➤ Restructure low-profit businesses

Restructure all low-profit businesses (except what will be discontinued) within three years

- ✓ Reduce expenses and cut back on fixed costs
  - Increase productivity, strengthen production technology, reform procurement and distribution, etc.
  - Improve efficiency of back-office and sales departments
- ✓ Focus more sharply on target markets
  - Reconfirm “strengths” and “weaknesses.” Concentrate on markets where we can draw on our strengths

#### ➤ Discontinue low-profit businesses

Discontinue businesses without prospects for increasing profitability or business expansion within 1 or 2 years

- ✓ Selling nursing care business (completed) → Clarify business areas
- ✓ Other → Make effective use of resources

#### ➤ Transition to “small back-office” organization

- ✓ Redefine the back-office functions that are necessary for “GMB Kubota”
  - Elimination, optimization, and/or outsourcing of back-office functions (including transfer to subsidiaries)

## ◇ Globalize all aspects of management

(Establish global R&D structure, strengthen global production structure)

### ➤ Expand R&D bases (especially in North America and Europe)

#### ✓ Structure product development systems in four major regional poles

Japan → Mother R&D base

Thailand → Equipment for upland farming in ASEAN markets

North → Mowers and related

Europe → Large-scale tractors

America → equipment, Utility Vehicles

- \* Examine establishment of R&D bases in China (economy tractor models and wheel drive combine harvesters), and in India (multi-purpose tractors)

### ➤ Expand localized production and review manufacturing bases in Japan

#### ✓ Expand local production mainly in North America and Asia

(→ promote the basic policy of “local production for local consumption”)

– In North America, focusing on primarily construction machinery. Utilization of GP. Start to examine local production of large-scale tractors and engines

– In Asia, including China, primarily general-purpose combines. Start to examine new production plant for construction machinery

#### ✓ Restructure manufacturing bases in Japan

– Effective use of assets and improving production and logistical efficiency

– Shift production overseas and respond to (concerns about) decline in demand

– Secure supply chain to handle future disaster

## ◇ Globalize all aspects of management

(Develop KPS, Accelerate utilization of IT, Adoption of IFRS)

### ➤ Develop KPS (Kubota Production System)

Realize Manufacturing that exceed “customers’ needs” at speeds beyond “customer’s expectations”

- ✓ The principle is “JUST IN TIME” and “Automation” as to realize the thorough elimination of waste
- ✓ The foundation is “Priority Onsite(5-Gen-ism)” and “Customer-First Principle”
- ✓ The target is “Halve inventory” and improve productivity significantly by reducing total lead-time → Establishment of “MADE BY KUBOTA” Q.C.D.

### ➤ Accelerate utilization of IT

- ✓ Restructure the Group’s IT operation system

– Strengthen SCM foundation

→ Reduce total lead-time and improve business efficiency

– Strengthen CRM system

→ Strengthen sales, marketing and service capabilities

– Integrate IT infrastructure and standardize it → Establish global ICT foundation with high security and low cost

- ✓ Develop IoT technology and promote its use

→ Upgrade KSAS and Kubota Production System

### ➤ Adoption of IFRS

- ✓ We plan to implement IFRS as early as possible in and after 2018.

### Establish Financial Base to Support Growth and Increase Return to Shareholders Based on Earning Growth

#### ◆ Steady improvement in operating income margin and ROE

Establish business structure to secure operating income margin and ROE even in a strong yen environment

#### ◆ Improve operating cash flows

Improve operating cash flows → Reduce inventory and account receivable

Improve investment cash flow (except financial businesses) → Enhance efficiency in capital investment and reduce equity securities held for purposes other than pure investment

#### ◆ Sound management of interest-bearing liabilities

Restrain interest-bearing liabilities in “non-finance” businesses and make effective use of interest-bearing liabilities in finance businesses

#### ◆ Expand return of profits to shareholders

Ensure and improve a consolidated dividend payout ratio and continue purchase and retirement of own shares



### ◇ Steady improvement in operating income margin and ROE

#### ➤ Increase profitability

- ✓ Reduce cost and lowering fixed expenses → Companywide systematic promotion of cost reduction activities
- ✓ Enhance product competitiveness → Expand of R&D structure and reinforce product quality
- ✓ Improve profitability of new business (such as large-scale farm equipment) → Promote development of new markets and cost reduction simultaneously
- ✓ improve its productivity centered on KPS (From Priority measures)
- ✓ eliminate unprofitable businesses and reduce of back-office expenses (From Priority measures)

#### ➤ Restrain foreign exchange sensitivity

- ✓ Secure flexible response to foreign exchange rate fluctuations → Expansion of overseas production and global procurement (teamwork among the four major regional poles)

#### ➤ Effective use of debt leverage (Sales finance businesses)

- ✓ Support sales promotion and secure financial income → Expand sales finance business and strengthen rigorous risk management

#### ➤ Adjust shareholders' equity

- ✓ Reduce valuation difference on equity securities → Promote sales of equity securities held for purposes other than the pure investment (wind down cross-shareholdings)

### ◇ Improve operating cash flows

- Improve cash flows from operating activities
  - ✓ Reduce inventory (at sales companies and manufacturing plants)  
Present goal is inventory level at “less than 60 days in sales companies and less than 30 days in manufacturing plants.” Ultimate goal for manufacturing plants is inventory level at “less than 5 days”
    - Promote KPS relentlessly → Expand KPS from domestic sites to overseas sites, suppliers, and back-office
    - Reduce lead time across the board → Reduce operations lead time for all processes from receipt of orders to sales (collection)
    - Improve productivity in domestic sales companies and efficiency in inventory by streamlining the organization
    - Streamline number of product models, parts, and manufacturing processes, and downsize long-term inventory
  - ✓ Reduce accounts receivable
    - Reduce overseas accounts receivable (= dealer inventory), etc.
- Improve investment cash flows (except financial business)
  - ✓ Enhance capital investment efficiency
    - Give priority to investment related to overseas Farm & Industrial Machinery business and R&D activities
    - Restrain investment for the Water & Environment business
  - ✓ Reduce equity securities held for purpose other than the pure investment

## ◇ Sound management of bearing liabilities

### ➤ Restrain interest-bearing liabilities in “non-finance” businesses

- ✓ Reduce inventories and accounts receivable
- ✓ Proceed with sale of some assets (equity securities, land, etc.)
- ✓ Restrain capital investments
  - Keep annual capital investments (on a local currency basis) not to substantially exceed actual 2016 levels

### ➤ Make effective use of interest-bearing liabilities in finance businesses

- ✓ Do not restrain interest-bearing liabilities related to sales finance businesses → Promote sales expansion of large-scale agricultural machinery and others
- ✓ Reduce funding risk and secure low-cost funding → Diversify funding methods, obtain credit rating, etc.
- ✓ Maintain and increase profitability in the sales finance businesses → Avoid interest rate fluctuation risk, etc.

<Equipment operations and financial services in the year ended Dec. 31, 2016 (unaudited)>

(Billion yen)	Equipment operations	Financial services	Consolidated
Net interest-bearing debt	▲ 63.7	732.2	648.6
Shareholders' equity	1,105.4	114.8	1,198.8
Net debt equity ratio	▲ 0.06	6.38	0.54
Finance receivables		752.5	752.5
Revenues (Finance income)	1,545.2	51.0	1,596.1
Net income attributable to Kubota Corp.	119.1	13.3	132.5
Net income margin	7.7%	26.2%	8.3%

## ◇ Maintain and expand shareholder return

Dividend payout ratio: 30% as a target  
 Purchase and retirement of own shares\*: Carry out every year

Shareholder return ratio: over 30%

\* Continue share buy-backs and prompt retirement of treasury stock. The proceed from sales of assets such as equity securities, is appropriated to the resource of share buy-backs so as to control the balance of interest-bearing debt.

< Shareholder return history >

(Billion yen)	Year ended Mar. 31, 2013	Year ended Mar. 31, 2014	Year ended Mar. 31, 2015	Nine months ended Dec. 31, 2015	Year ended Dec. 31, 2016	Total of last 4 years and 9 months
Net income attributable to Kubota Corp.	77.8	132.7	139.5	110.1	132.5	592.6
Total amount of dividend paid	21.4	35.1	34.9	34.9	37.3	163.5
(Dividend per common share)	(17yen)	(28yen)	(28yen)	(28yen)	(30yen)	-
Retirement of own shares (Billion yen)	19.2	10.0	7.7	2.5	6.0	45.4
Total shareholder return	40.5	45.1	42.6	37.4	43.3	208.9

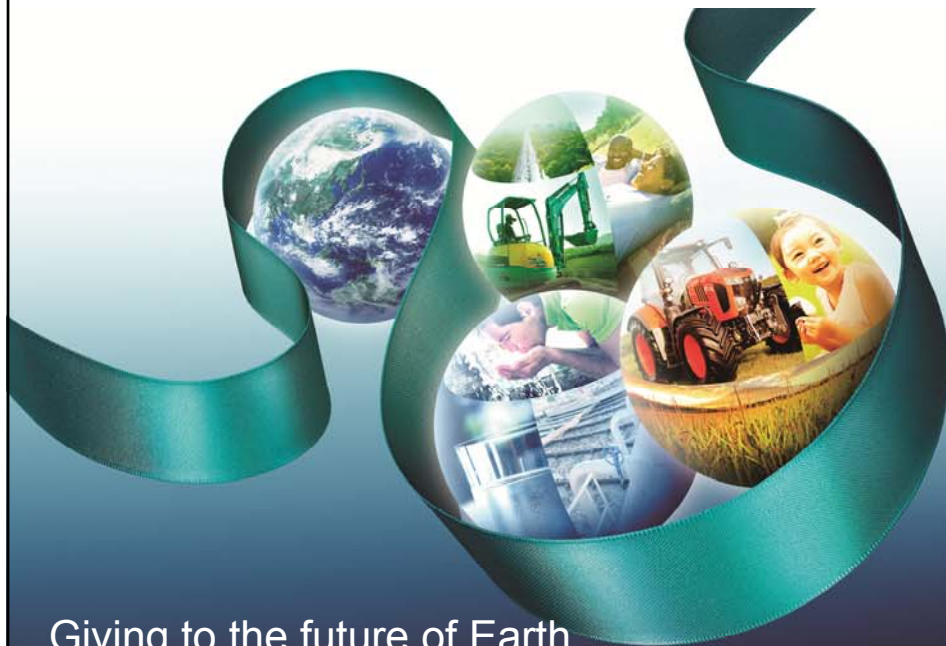
Payout ratio	27.5%	26.5%	25.1%	31.6%	28.1%	27.6%
Shareholder return ratio (Dividends and retirement of shares)	52.1%	34.0%	30.6%	33.9%	32.7%	35.3%

## ◇ Financial target in 2019

	Year ended Dec. 31, 2016 (Actual)	Year ending Dec. 31, 2019 (Target)
Revenues (billion yen)	1,596.1	over 2000.0
Operating margin	11.8%	14%
Net income margin	8.3%	10%
Return on equity (ROE)	11.3%	14%
Payout ratio	28.1%	30%
Shareholder return ratio	32.7%	over 30%
Foreign exchange rate		
¥/US\$	109	110
¥/Euro	120	115

## 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. These statements are not guarantees 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, including, without limitation: general economic conditions in the Company's markets, particularly government agricultural policies, levels of capital expenditures both in public and private sectors, foreign currency exchange rates, the occurrence of natural disasters, continued competitive pricing pressures in the marketplace, as well as the Company's ability to continue to gain acceptance of its products.



**For Earth, For Life**  
**Kubota**

Giving to the future of Earth