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Implementing Management Structure Reform, Business Reform, and a Culture of Dialogue to Continue Fulfilling the Kubota Group's Mission

Review of 2024 and outlook for 2025

For the fiscal year ended December 31, 2024, the Kubota Group posted revenue of 3,016.3 billion yen and operating profit of 315.6 billion yen, reflecting a decrease in both metrics relative to the results for the preceding fiscal year. Despite foreign exchange gains due to the depreciation of the yen and increased profits from higher product pricing, the decline in demand, primarily in Europe, coupled with rising raw material costs and increased fixed expenses due to inflation, resulted in a significant decrease in profits. Before last year, free cash flow had been negative as a result of special factors such as changes in payment terms in Japan and the acquisition of Escorts Ltd., but improvements in working capital related to inventory reduction eventually returned us to positive free cash flow. However, these improvements have not been

sufficient, so we will continue to seek advances in this area.

As we do not expect a significant market recovery in the fiscal year ending December 31, 2025, we will remain focused on profit improvement by curbing the increasing fixed costs. However, assuming the yen maintains its strength relative to other currencies, we forecast sales of 3,050 billion yen, operating profit of 280 billion yen, and an operating profit margin of 9.2%. While we expect to achieve the revenue targets set in our Mid-Term Business Plan, achieving an operating profit margin of 12% is expected to be challenging due to the imbalance between our production system and actual demand, our inability to fully absorb inflation-driven cost increases, and delays in improving profitability in some business segments as a result of declining demand.

Implementing a more agile business strategy through management structure reform

As part of our efforts to strengthen our management system over the medium and long terms, we have been promoting reform of our management structure, development, operations, and human resources and global personnel systems since 2024. I would like to take this opportunity to provide a more in-depth explanation of our management structure reform efforts.

Over the past decade, as the overseas revenue ratio of Farm & Industrial Machinery has increased in proportion to our Group's total revenue, the differences between the business models of our Farm & Industrial Machinery business and our Water & Environment business have become more

pronounced. Consequently, managing these segments under the same framework is no longer an optimal approach. Therefore, going forward, we aim to create a structure in which our Farm & Industrial Machinery business and Water & Environment business can operate independently and fully benefit from their respective advantages. In January 2025, we launched a major organizational reform as the first step in creating the structure required to achieve this goal.

In the Farm & Industrial Machinery business, we will move away from an organization and structure focused on Japan and create a structure that allows for nimble, finely tuned, and efficient management with clearly delegated authority and

responsibilities that are more closely aligned with the relevant business, functions, and region. As a first step, we will transfer some corporate functions to the Farm and Industrial Machinery Consolidated Division, and over the course of 2025, we will proceed with further functional transfers and a review of the authority of the regional management structure. This will enable us to reduce overhead costs by eliminating functional redundancies and implement an agile decision-making structure that will outpace the competition.

Within the Water & Environment business, a structure enabling independent operation was already being established, so this year it will be launched as the Water & Environment Infrastructure Consolidated Company, an in-house company. By shifting to a structure that allows for agile decision-making through delegation of authority, we will accelerate our entry into the solutions business and aim to become an infrastructure solutions provider.

Corporate functions will be scaled down and reorganized to align more closely with the business. By retaining only the bare minimum functions of strategy, finance, governance, and communications, we will put in place a proactive structure

that can swiftly recognize and respond to external trends and requests.

In terms of development reform, we have initiated discussions encompassing the three axes of region, product business, and technology to review the product development roadmap. To improve development efficiency, we will accelerate our efforts toward our goal of a 30% increase in efficiency by making full use of analysis and other methods. This will ensure comprehensive reforms in processes ranging from planning to development and production. In a similar vein, in order to accelerate initiatives leading to innovations that are more locally rooted, the Kubota Global Institute of Technology (KGIT) has begun accepting personnel from R&D centers in other countries in an effort to develop personnel from around the world while initiating reciprocal efforts to improve technical capabilities. The growth of our Farm & Industrial Machinery business has been supported by bestselling products that successfully fulfill current needs. In order to lead the world in technological innovation, we strive to develop such successful products by enhancing the interconnections between the three axes of region, product business, and technology.

we plan to expand from our base in India into emerging countries and eventually into Europe and the U.S. In 2025, we have launched a new series of entry-premium models to reach customers who were not previously served. Our subsidiary, Escorts Kubota Ltd., has led the introduction of this model, assisted by input from Japan related to marketing and development, making this the first collaborative model under the Escorts brand. Additionally, we are advancing a variety of initiatives such as the launch of a retail financing business and improvements to manufacturing productivity. In short, we are steadily expanding our business footprint in markets that hold great potential.

In our Water & Environment business, orders for O&M (Operation and Maintenance) and other solutions are increasing. Our aftermarket business and ASEAN Farm & Industrial Machinery business are now in catch-up mode, but we are working hard to ensure they keep pace to the greatest extent possible.



Compact Track Loader (CTL)

Improving capital efficiency by reviewing product and business portfolios and promoting growth drivers

Our initiative aimed at improving capital efficiency requires that we continue to enhance our return on sales and invested capital turnover ratio, but our progress in these areas has been slow. We intend to address this issue by shifting management focus to profitable businesses through a review of our product and business portfolios. We have already taken the necessary steps in our Water & Environment business, and signs of improved operating profit margin are beginning to appear. This progress has been achieved through the withdrawal of some cast steel products for the steel machinery market, the cessation of the manufacture and sale of bathtub products, and the withdrawal of our production subsidiary from Saudi Arabia. However, we have not yet implemented a full-scale effort in the Farm & Industrial Machinery business, and we will need to review our product and business portfolios going forward. As review of our products and portfolios is an important element of our next Mid-Term Business Plan, we plan to work diligently on this task throughout this year.

Our focus on improving our capital efficiency also relies on the expansion of growth drivers, which are highly profitable businesses and represent a pillar of our current Mid-Term Business Plan. Although the current growth rate of the Farm & Industrial Machinery business has declined slightly due to fluctuations in demand, we have been steadily increasing the market share of our North American construction machinery business; moreover, our introduction of compact track loaders (CTLs) is expanding the market domain we have entered. Development of larger CTLs is also progressing as expected, with the goal of introducing them in 2026. Currently, we offer only three CTL models, but we intend to add one small model this year as we take a systematic approach to gradually expand our offerings to seven models in all, widening our market domain as well as our market share.

Regarding our business in India, initially we plan to capture the domestic Indian market with low-priced machines designated as basic function tractors. Eventually,

Toward the final year of our mid-term business plan

Our current Mid-Term Business Plan 2025 has been positioned as a means of laying the foundation for implementing our Long-Term Vision “GMB2030;” that is, becoming an “Essentials Innovator for Supporting Life,” committed to a prosperous society and cycle of nature by 2030. Consequently, we have been focusing on various themes related to this objective. Under the theme of “expanding existing businesses,” we acquired Escorts Ltd. (currently Escorts Kubota Ltd.) and made investments in support of our construction machinery business. The theme of “selection and concentration” was addressed earlier. Under “ESG management,” we have reduced CO₂ emissions by switching to electric furnaces in our casting manufacturing process, and we have developed new power sources for our tractors and construction machinery. In terms of “infrastructure development,” we established the Kubota Global Institute of Technology, our latest research and development center. While we believe that our research and development efforts will take time to bear fruit that will be reflected in our performance, we are confident that these efforts have laid the

foundation for success under our next Mid-Term Business Plan.

Our Long-Term Vision “GMB2030” was born from a sense of crisis springing from two expectations: first, that agriculture will persist into the future, but agricultural machinery will either disappear or, at the very least, continue to be used in some other form; and second, that water will remain essential forever, but iron pipes may disappear or, at the very least, be replaced by some other type of pipe. In order to adapt to such change, we must recognize the importance of developing the courage to change and evolve on our own. We are currently considering the details of the changes and evolutions that will be highlighted in our next Mid-Term Business Plan, but we intend to stand firmly on the foundations we have established to date. We will work together as a unified Group to fundamentally restore our profitability, improve the efficiency of our overall management, and develop a system that continues to generate added value as we promote our growth drivers.

Initiatives for innovation incorporating AI and other advanced technologies

Repeating our successful participation in 2024, we presented an exhibit at CES® 2025, the Consumer Electronics Show held in the U.S. in January 2025. There, we demonstrated KATR, the all-terrain vehicle with a stable cargo deck platform that won the Best of Innovation Award at the CES Innovation Awards® 2025. We also exhibited automated electric agricultural machinery. At the same time, we took advantage of the opportunity to tour exhibition booths of different industries, including those of our competitors, to monitor the latest trends in autonomous driving and AI. This gave us a glimpse of a future in which technology will enable us to offer



KATR

many innovative products. As I mentioned earlier, agricultural machinery may undergo great change in form, so we must also evolve. One type of future agricultural machinery that incorporates the latest technology is being exhibited at the Future City Pavilion at Expo 2025 Osaka, Kansai. We are exhibiting futuristic versatile platform robots that can perform various tasks completely autonomously. We invite all to visit and view what we call the planetary-conscious* future of food and agriculture.



Expo exhibition area

We believe that the key to our continued competitiveness is success of utilizing both AI and big data. For example, in January 2025, a sewer pipe was damaged in the city of Yashio in Saitama Prefecture; although the cause of the incident is yet to be determined, many are concerned about the aging of sewerage facilities, given past roadway collapse incidents. As the aging of water and sewerage systems in Japan has become a serious issue, we are working to develop an AI-based system that can diagnose the deterioration of water pipes and predict failure in the event of a disaster. With an awareness that the years 2024 and 2025 are being recognized as the first and second years of AI, we are pursuing various initiatives that will incorporate AI and other advanced technologies to spark innovation and realize the goals of our “GMB2030” vision.

* “Planetary conscious” expresses a state in which a prosperous society and the sustainability of the global environment are simultaneously achieved within the “planetary boundaries,” which are the limits of the Earth.

Fulfilling the mission of the Kubota Group under the “One Kubota” concept

As I have mentioned in our previous integrated report and other media, I remain aware of the need to maintain contact with our employees through town hall meetings and other such events in order to improve job satisfaction. This approach is grounded in a commitment to engagement and to transforming our corporate culture into one that emphasizes dialogue. In 2024, as part of this effort, I gathered a great many of our employees at our plants in Japan, explained my experiences and their connection to our corporate philosophy, and answered their questions. In turn, I encouraged the assembled employees to think about these issues. Those in attendance reacted favorably to this event. Regarding our personnel outside Japan, while our main aim is human resource development, we are presenting a six-month training exercise we call the Global Talent Development Program (GTDP). This is part of a leadership development effort intended to lead our Group globally. I took the stage at the opening and closing sessions and presented lectures on our management policy, Long-Term Vision “GMB2030,” our founder’s spirit, and other topics. I also exchanged opinions and engaged in dialogues with a range of participants who came from many countries.



Global Talent Development Program (GTDP)

I firmly believe that, in order to realize the concept of “One Kubota,” continuing such dialogues is essential. In addition, I believe that a corporate culture that values dialogue—the foundation of human capital management—requires that its employees remain healthy both physically and mentally. I therefore intend to promote health management to ensure we maintain vibrant workplaces in order to strengthen and expand the very sources of our value creation.

Our company is likely to undergo a major transformation in 2025, including the completion of management restructuring and the formulation of our next Mid-Term Business Plan. At this time of change, there are four important principles that everyone, including myself, should cherish and convey within our Group. These principles are as follows: ensuring that all participate in our transformation and creation; communicating across all levels of the organization; engaging in both a top-down and bottom-up approach with diligence; and visiting and interacting with customers in a down-to-earth and sincere manner that is engaging at a personal level. These principles represent our strengths and are embedded in our DNA.

In conclusion, the Kubota Group’s corporate philosophy and mission will remain unchanged. Moreover, they will become increasingly essential as societal issues grow more complex in the years ahead. We remain dedicated to our mission of contributing to solving food, water, and environmental issues as “One Kubota.” We look forward to the support of all stakeholders as we work to implement our Long-Term Vision “GMB2030.”