

# Financial Results Briefing for the Third Quarter Fiscal Year Ending December 2017

ISEKI & CO., LTD.

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November 15, 2017



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# 1. Overview of Financial Results of the Third Quarter Fiscal Year Ending December, 2017

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# Financial results Highlights

## Situation of Jan.- Sep. (Y o Y change)

<p><b>Sales subsidiaries in Japan</b></p>	<p><u>Net sales of agricultural machinery are on the recovery trend. Improvements in revenue-expenditure structure have been continued.</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Net sales 102%, Contract basis 104%</li> <li><input type="checkbox"/> The effect of improvements in the revenue-expenditure structure in direct dealers: Operating income + 1.0 billion yen</li> </ul>
<p><b>Manufacturing subsidiary in Indonesia (PT ISEKI INDONESIA)</b></p>	<p><u>The company produced profitability. Its business improved substantially.</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Improved profitability in Indonesian business : Operating income +0.8 billion yen (Consolidated basis including Indonesia business of the parent and plants in Japan)</li> </ul>
<p><b>Equity method affiliate in China (Dongfeng Iseki)</b></p>	<p><u>The company returned to profitability. Profit or loss of entities using equity method improved.</u></p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Improvement in the share of profit or loss of entities using equity method: Ordinary income + 1.0 billion yen</li> </ul>

# Overview of Consolidated Financial Results

(JPY bn,%)

	3Q of FY ended Dec.16		3Q of FY ending Dec.17		y o y Change
	Actual	%	Actual	%	
Net Sales	118.4	100.0	120.5	100.0	2.1
(Domestic)	91.9	77.6	94.3	78.3	2.4
(Overseas)	26.5	22.4	26.2	21.7	(0.3)
Operating Income	2.8	2.3	4.6	3.8	1.8
Ordinary Income	1.6	1.4	5.4	4.5	3.8
Profit attributable to owners of parent	0.7	0.6	3.3	2.8	2.6
Exchange rate	US\$	109.6	112.0		2.4
	Euro	122.9	123.7		0.8

# Breakdown of Domestic Sales

(JPY bn.)

		3Q of FY ended Dec.16 Actual	3Q of FY ending Dec.17 Actual		y o y Change	
					Note	
Agricultural Machinery Related	Agricultural Machinery	Cultivating & Mowing Machinery	21.3	22.5	1.2	Tractors : 1.1
		Planting Machinery	7.4	6.6	(0.8)	Rice trans planters : (0.6)
		Harvesting & Processing Machinery	14.3	13.9	(0.4)	Rice husker : (0.3)
		<b>Total</b>	<b>43.0</b>	<b>43.0</b>	-	
		Farming Implements	14.9	15.5	0.6	
		Spare parts	10.9	11.2	0.3	
		Repair fees	3.9	4.1	0.2	
		<b>Total</b>	<b>29.7</b>	<b>30.8</b>	<b>1.1</b>	
	<b>Total</b>		<b>72.7</b>	<b>73.8</b>	<b>1.1</b>	
	Construction of Facilities		4.3	5.6	1.3	
Others		14.9	14.9	-		
<b>Total</b>		<b>91.9</b>	<b>94.3</b>	<b>2.4</b>		

Revenue of agricultural machinery are in line with the previous year.

Revenue of Farming implements, spare parts and repair fees keeps high level.

# Breakdown of Overseas Sales

(JPY bn.)

	3Q of FY ended Dec.16	3Q of FY ending Dec.17	y o y Change	Note
	Actual	Actual		
North America	9.4	6.0	(3.4)	Tractors : (3.3)
Europe	7.5	8.5	1.0	Tractors : 0.5 Lawn mowers : 0.5
China	2.4	3.0	0.6	Rice trans planters : 0.9
ASEAN	2.5	3.3	0.8	Combine harvesters : 1.1
Others	1.6	2.1	0.5	Tractors : 0.5
Product Sales Total	23.4	22.9	(0.5)	
Parts & Others	3.1	3.3	0.2	
Total	26.5	26.2	(0.3)	
Overseas Sales incl. Chinese Businesses	30.9	29.3	(1.6)	※The subsidiary in France only adopts the end of September as its fiscal year end. (The results from Oct. to Jun. are posted for the 3rd quarter.)

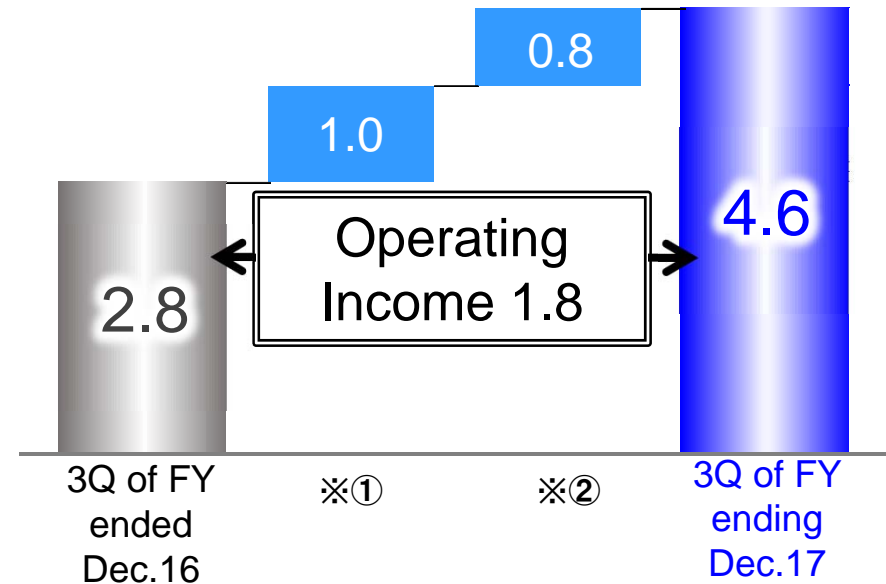
Ratio of overseas net sales	25.2%	23.7%
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While revenue in other regions increased,  
revenue in North America decreased due to partial changes to the business terms.

# Operating Income

(JPY bn,%)

	3Q of FY ended Dec.16 Actual	3Q of FY ending Dec.17 Actual	y o y Change
Net Sales	118.4	120.5	2.1
Gross Profit	34.6	36.0	1.4
Gross Profit Margin	29.2%	29.9%	0.7%
S.G&A. Expenses	31.8	31.4	(0.4)
Personnel expenses	18.6	18.4	(0.2)
Other expenses	13.2	13.0	(0.2)
Operating Income	2.8	4.6	1.8



- ※① Improvements in the revenue-expenditure structure in domestic direct dealers
- ※② Improved revenue in the Indonesian business

## 【Effects of forex move(JPYbn,)】

Net sales	Cost of sales	S.G&A. Expenses	Operating Income
0.9	(0.5)	(0.2)	0.2

Improvements in revenue-expenditure structure in Japan and improvements in performance of Indonesian business contributed



# Effect of improvement in revenue-expenditure structure of domestic direct dealers

[Trend of sales of farming implements/ spare parts/ repair fees] (3Q cumulative)

(JPY bn)

	3Q of FY ended Sep.15	2Q of FY ended Sep.16	3Q of FY ended Sep. 17	Y o Y FY ended Sep. 16	Change from
Farming implements	13.8	14.9	15.5	0.6	1.7
Spare parts	10.5	10.9	11.2	0.3	0.7
Repair fees	3.6	3.9	4.1	0.2	0.5
Total	27.9	29.7	30.8	1.1	2.9

## Changes in agricultural structure

- ▶ Large-scale farming
- ▶ Crop conversion



- Increased revenue from farming implements, spare parts and repair fees
- Development of sales bases mainly by major maintenance facilities, efficient personnel reallocation

Building up revenue-expenditure structure that is less affected by market trend

# Ordinary Income and Net Income

(JPY bn.)

	3Q of FY ended Dec.16 Actual	3Q of FY ending Dec.17 Actual	y o y Change
Operating Income	2.8	4.6	1.8
Balance of Financial Income	(0.5)	(0.5)	-
Other Non-operating Income	(0.7)	1.3	2.0
<b>Ordinary Income</b>	<b>1.6</b>	<b>5.4</b>	<b>3.8</b>
Extraordinary Income	1.2	0.1	(1.1)
Extraordinary Losses	(1.3)	(0.6)	0.7
<b>Income before Income Taxes</b>	<b>1.5</b>	<b>4.9</b>	<b>3.4</b>
Taxes, Deferred Taxes	(0.8)	(1.6)	(0.8)
<b>Profit attributable to owners of parent</b>	<b>0.7</b>	<b>3.3</b>	<b>2.6</b>

## Non-operating Income

Favorable turn in foreign exchange gains / losses	0.7
Upturn in the share of profit or loss of entities using equity method	1.0

## Extraordinary Income

Decrease in gain on sales of investment securities	(1.1)
Decrease in loss on disaster	1.1
Penalty	(0.4)

Improvement in the share of profit or loss of entities using equity method(Dongfeng ISEKI) and favorable turn in foreign exchange gains/losses

# Balance Sheet

(JPY bn,)

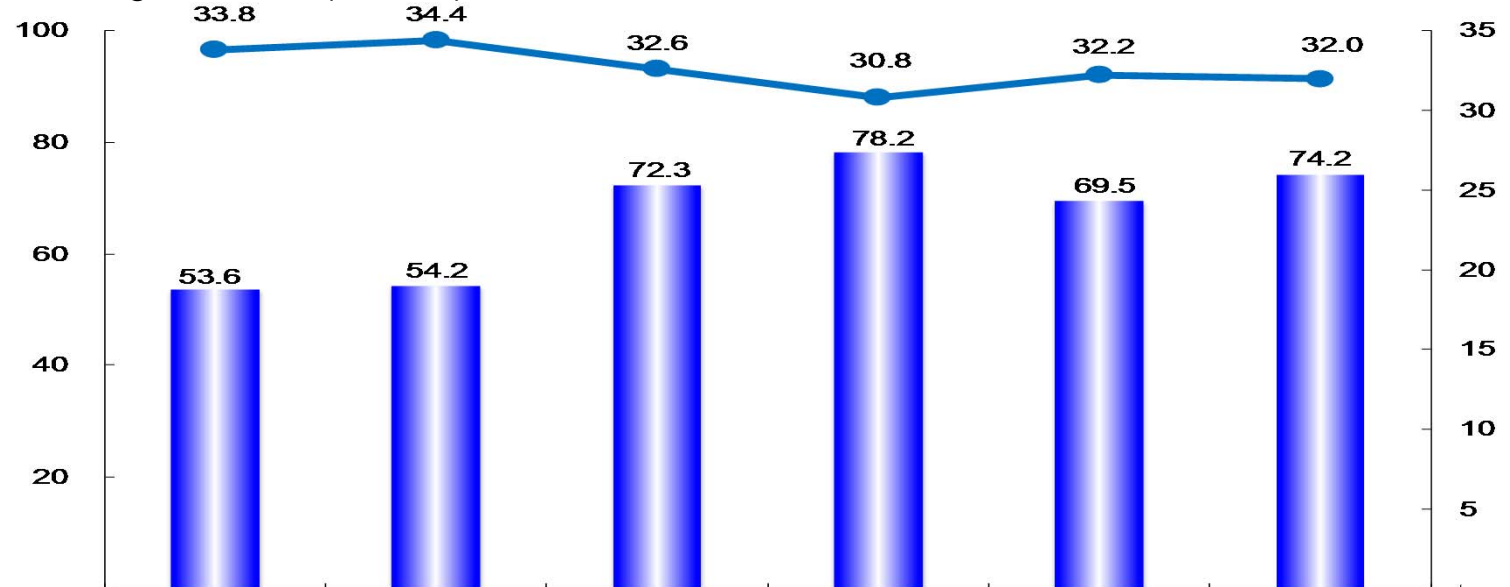
	As of Sep.16	As of Sep.17	y o y chang e		As of Sep.16	As of Sep.17	y o y chang e
Cash & Deposits	14.5	8.5	(6.0)	Accounts Payables	40.2	46.4	6.2
Accounts Receivables	33.6	36.8	3.2	Interest Bearing Liabilities	78.2	74.2	(4.0)
Inventories	47.2	55.3	8.1	(loans payable)	69.7	67.1	(2.6)
(Merchandise and finished goods)	40.0	47.6	7.6	Other Liabilities	24.1	23.8	(0.3)
Other Current Assets	3.8	4.8	1.0	Total Liabilities	142.5	144.4	1.9
Total Current Assets	99.1	105.4	6.3	Net Assets	65.8	70.5	4.7
Non-current Assets	97.8	96.2	(1.6)	(Retained earnings)	13.9	17.0	3.1
Investments and other assets	11.4	13.3	1.9	(Valuation difference on available-for-sale securities)	0.5	1.5	1.0
(Investment securities)	5.2	6.6	1.4	(Foreign currency translation adjustment)	0.3	1.0	0.7
Total Non-current Assets	109.2	109.5	0.3	Total Liabilities and Net Assets	208.3	214.9	6.6
Total Assets	208.3	214.9	6.6				

Inventories increased due to pre-production before the introduction of new emission regulation in Japan and due to rise in inventories in North America

# Interest Bearing Liabilities & Equity Ratio

Balance of Interest Bearing Liabilities (JPY bn)

Equity Ratio (%)



	Sep.2013	Sep.2014	Sep.2015	Sep.2016	Dec.2016	Sep.2017
loan payable, corporate bond	46.9	46.2	63.1	69.7	61.4	67.1
Lease obligations	6.7	8.0	9.2	8.5	8.1	7.1
<b>Total</b>	<b>53.6</b>	<b>54.2</b>	<b>72.3</b>	<b>78.2</b>	<b>69.5</b>	<b>74.2</b>
<b>D/E Ratio</b>	<b>0.81</b>	<b>0.79</b>	<b>1.05</b>	<b>1.19</b>	<b>1.04</b>	<b>1.05</b>

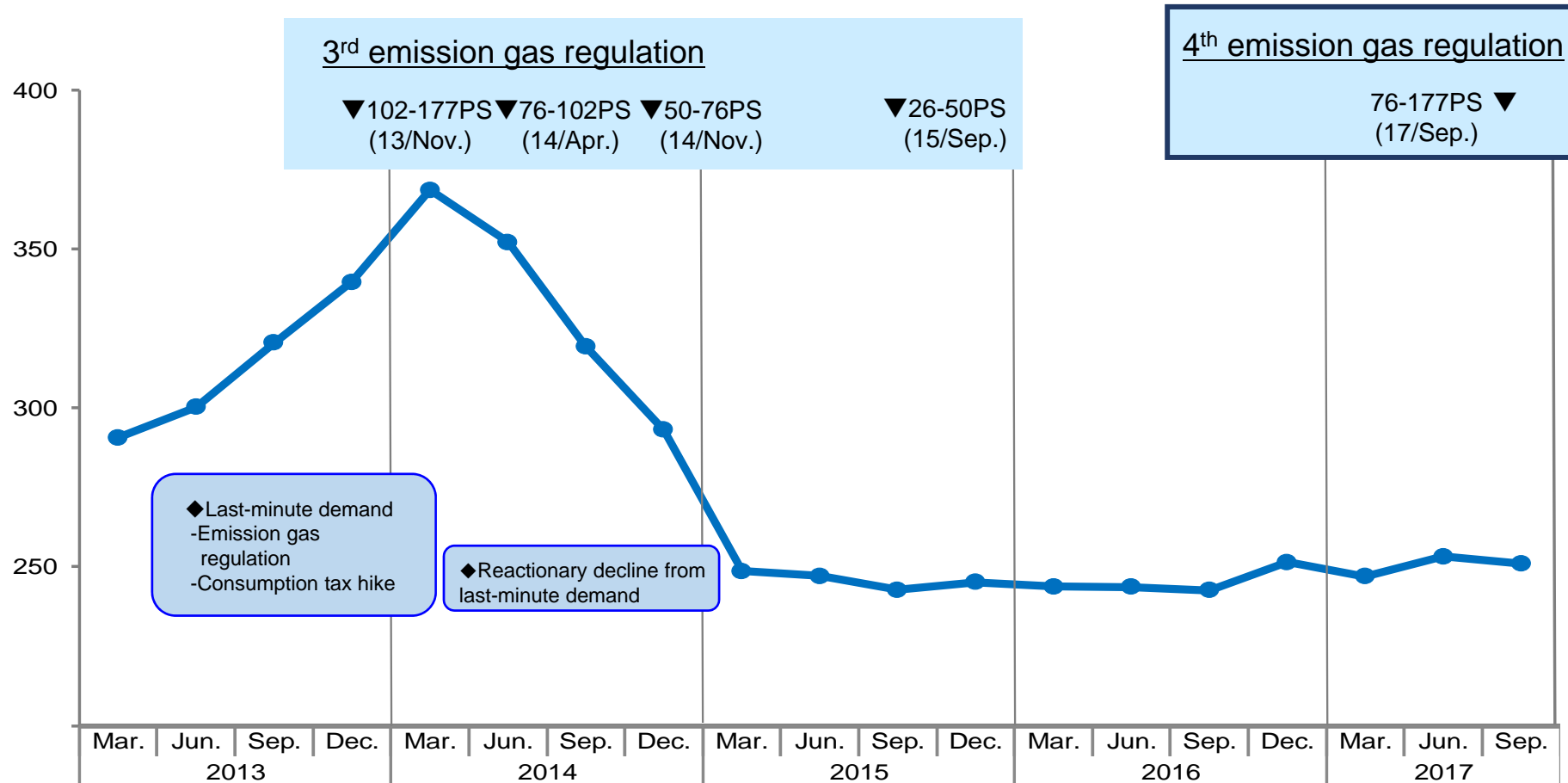
Although our investment in growth will be continued,  
D/E ratio will be below 1.0 at the end of the fiscal year

## 2.Recent Development in Domestic and Overseas Markets

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# Trend of Domestic Market

## Agricultural machinery demand [Industry shipment] (9 principal machinery, moving annual total)



Shipment slightly increased due to emission regulation

# Industry Shipments and Sales Result

Growth rate of 9 principal products(year-on year) our estimate  
 (%)

		Sep. 14	Sep. 15	Sep. 16	Sep. 17
Industry	Shipment value	100	76	100	104
ISEKI	Sales Value	97	89	98	96

Shipment rose due to the emission regulation.  
 Our sales shows gradual decline.

# Domestic Changes in agricultural structure and our initiatives

## Changes in agricultural structure

Aging and reduced agricultural population

⇒ Large scale farming

Crop conversion of staple food rice

⇒ Increased demand for vegetables/dry field farming



## Our initiatives

- Strengthening product appeal
  - ▶ Low priced simple machinery
  - ▶ Advanced technologies (Robots)
- Strengthening unique proposals
  - ▶ Dream Agricultural Research Institute, etc.

Strengthen our initiatives for principal farmers



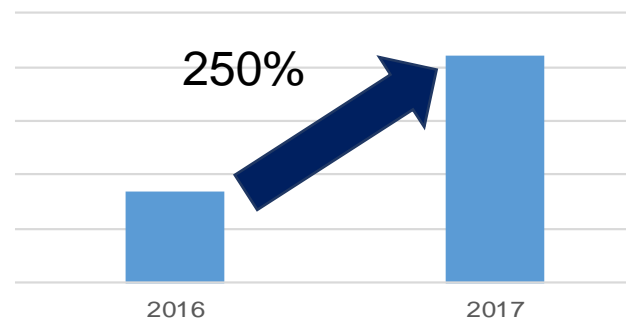
# Low price/Simple model

## Large tractor TJX series

- ▶ Price reduction by 20%
- ▶ Adopted by JA Group as a low price model



<Growth rate of effective unit sales of TJX series (Jan.-Sep.)>



Reduced material cost ⇒ Further increase in needs for low price machinery

# Application of advanced technologies

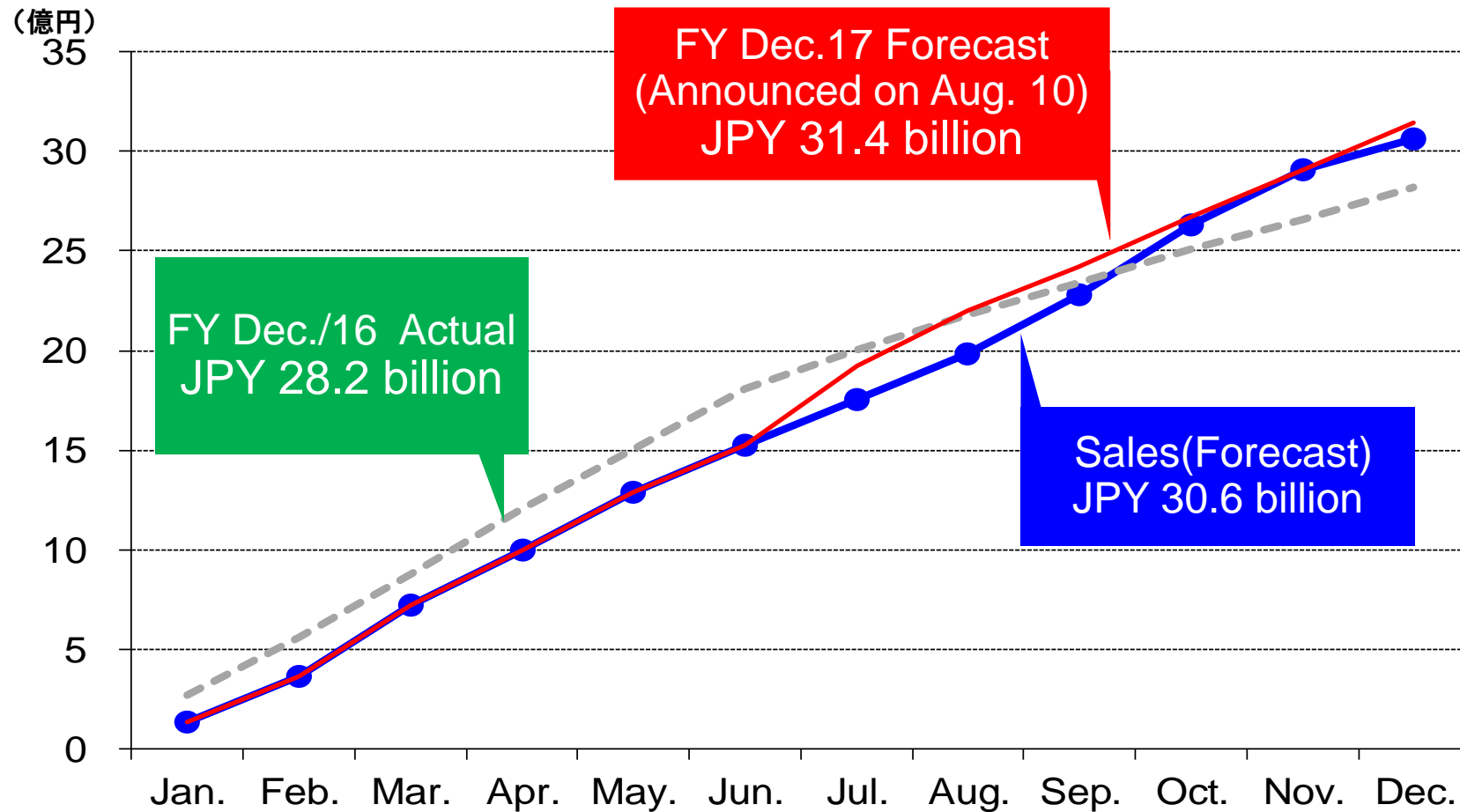
## Autonomous tractor

- ▶ Shortage in labor
- ▶ Shortfall of skilled operators



Manned monitored type to be commercialized and launched in 2018

# Recent Market Trend in Overseas



※The results of "Parts & Others" are not included.

Year-on-year sales exceeded the previous year  
In spite of a slight shortfall of the forecast.

# Market Trend (North America)

## 1. Trend in the market

(Unit: 1000, %)

Category (PTO HP)	Utility tractors (40-100HP)		Compact tractors (40HP and lower)		Large class tractors (100PS and above)	
	USA	Canada	USA	USA	USA	Canada
Jan-Sep, 2016	42.7	3.5	46.2	105.1	8.4	113.4
Jan-Sep, 2017	42.2	3.9	46.2	113.2	10.3	123.5
Difference (%)	99%	111%	100%	108%	123%	109%

(Source: AEM statistics)



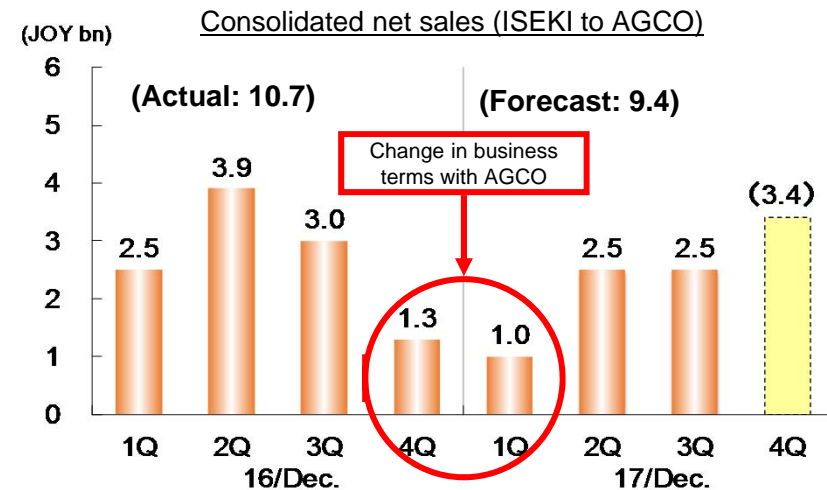
## 2. Situation of AGCO (OEM partner)

Unit sales (17/Jan.-Sep.)

- Utility tractors : higher than last year
- Compact tractors : higher than last year

## 3. Our situation of sales/orders received

Order & Shipment : lower than last year



While the sales of AGCO remains robust, we expect our sales to be slightly lower than last year due to change in business terms and decline in shipment of utility tractors.

# Market Trend (Europe)

## 1. Trend in European Market

Landscaping market: Poor lawn growth due to dry weather.  
Sluggish demand for lawn mowers.

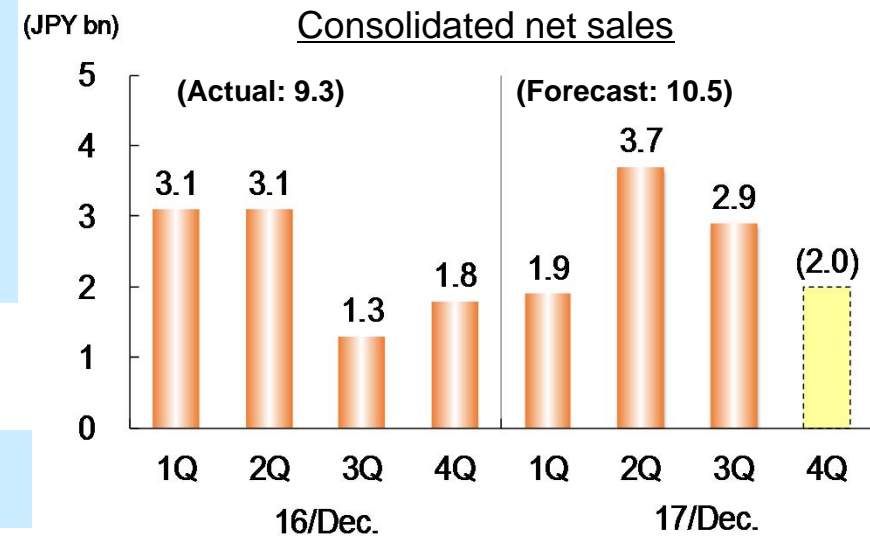
## 2. Situation of distributors

### ➤ Unit sales

- Distributors (Jan.-Sep.) : higher than last year
- ISEKI France S.A.S. : higher than last year  
(Consolidated subsidiary)

## 3. Our situation of sales/orders received

Order & Shipment (Jan.-Dec.) : lower than last year



Shipment will increase in the second half due to completion of inventory control in France & Germany.

ISEKI France will remain robust and its sales is expected to exceed the previous year.

# Market Trend (ASEAN: Thailand)

## 1. Trend in the market

In spite of effects from floods in various regions and self-restraint by the state funeral, future increase in rice price is expected due to increasing amount of rice export.

## 2. Situation of ISEKI (Sales) Thailand

(Mitsubishi Corporation 80%, ISEKI 20% investment)

Tractors strategically marketed in ASEAN

- Unit sales (17/Jan.-Sep.) : higher than last year

- Start of sales of tractors by newly acquired dealers
- Local sales remains robust. We expect orders to be increased.



# Market Trend (ASEAN: Others)

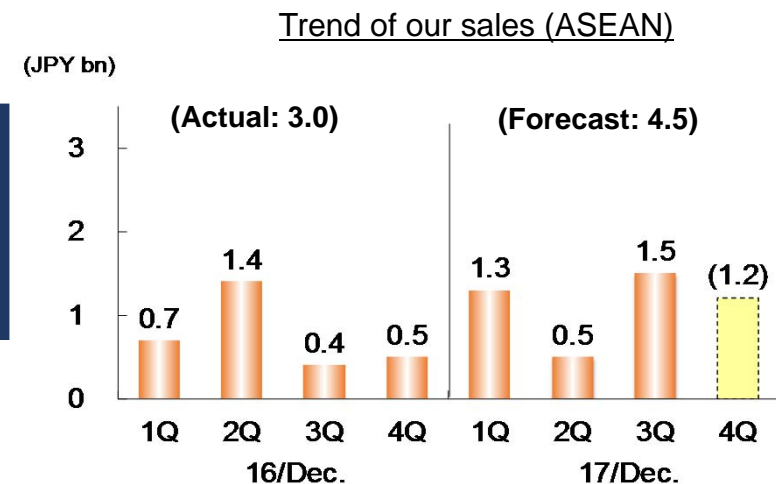
## ■Indonesia

Market trend: Support for adoption of agricultural machinery through ongoing governmental mechanization drive since 2015  
 Our situation: Orders of all-purpose combine harvesters remain favorable.  
 Sales other than tender business have increased as well.

## ■Others (Myanmar, etc.)

Market trend: Demand expected to rise by progressing mechanization.  
 Our situation: Orders for tractors & all-purpose combine harvesters increased. We aim at further business expansion.

- Increase in demand from progress in mechanization
- Substantial increase in sales centering on Thailand



# Improved profitability of business in Indonesia

## Production volume forecast in PT. ISEKI INDONESIA

(Units)

	2014 Actual	2015 Actual	2016 Actual	2017 Plan
Production Volume	1,100	3,900	7,300	8,300

2017	
Jan.- Sep. Actual	Annual forecast
6,150	8,500

Production model	North America	●Economy tractor (small)	●Economy tractor (large)
	Europe	●Economy tractor	
	ASEAN	● Strategically marketed tractor in ASEAN	

<PT. ISEKI INDONESIA moves towards increased production>

Current production capacity: **10,000 units /year**

**15,000 units/year in 2019**

**20,000 units/year in 2021**

Construction of plant extension (Approx. 8,200m<sup>2</sup>) started in October to reach 15,000units/year production in 2019.

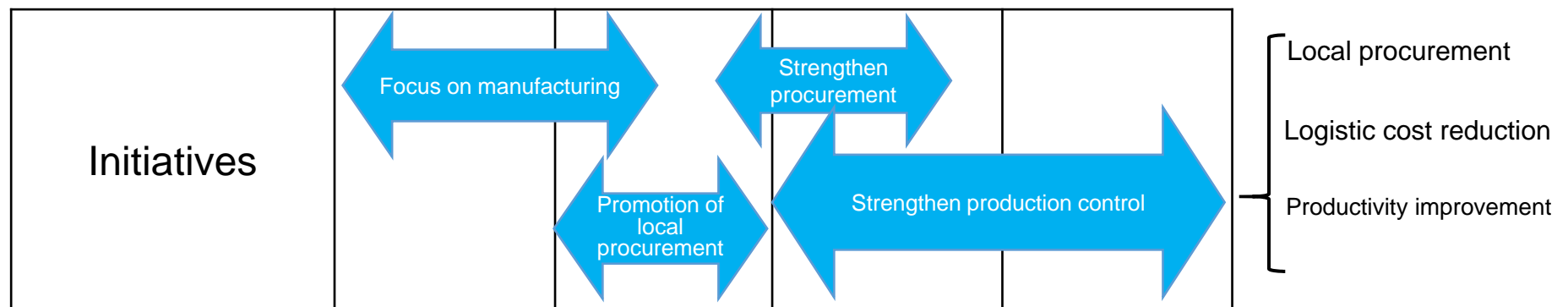


# Improved revenue in the Indonesian business

## Initiatives in PT. ISEKI INDONESIA and current earnings

(Million dollars)

	2014 Actual	2015 Actual	2016 Actual	2017 Plan	2019 Jan.-Sep.
Net sales	12	37	68	88	61
Operating income	(3)	(3)	(2)	4	2



We will strive to enhance productivity such as optimal procurement of materials and strengthen production control system.

➔ We plan to ensure a single year profit in FY2017.

# Market Trend (China)

## 1. Trend in Chinese market

Overall demand in agricultural machinery market remained sluggish due to decreased government subsidy and dropped crop price.

### ■ Government subsidy

(Yuan bn)

2012	2013	2014	2015	2016	2017
21.5	21.75	23.8	23.8	23.7	18.6

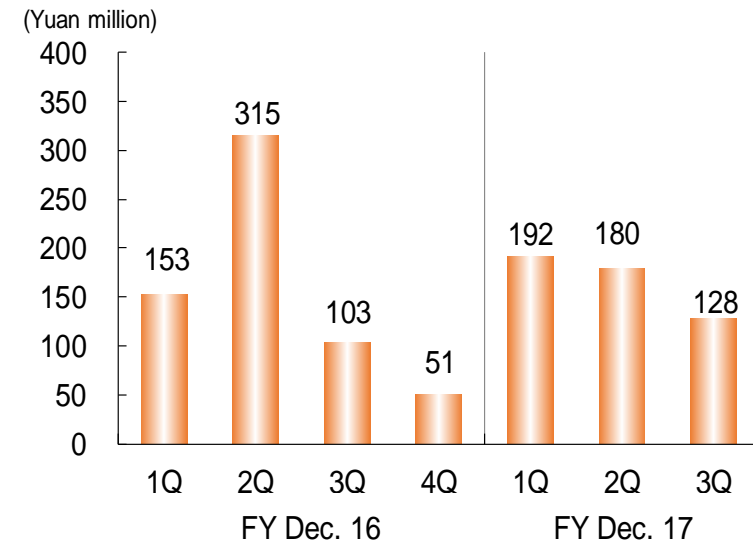
## 2. Situation of Dongfeng Iseki

Unit sales of Dongfeng Iseki (Jan.-Sep.)

- Rice transplanters (ride-on) : lower than last year
- Combine harvesters : higher than last year

Returned to profitability

### Net sales of Dongfeng Iseki (local currency base)



## 3. Performance Forecast For the Fiscal Year Ending December, 2017

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# Performance Forecast for FY ending Dec.17

(JPY bn)

	FY ended Dec.16		FY ending Dec.17		(Reference)	
	Actual	Latest forecast	y o y Change	Previous forecast	Diff.(previous / latest forecast)	
Net Sales	153.1	160.5	7.4	160.5	-	
(Domestic)	121.0	125.5	4.5	124.3	1.2	
(Overseas)	32.1	35.0	2.9	36.2	(1.2)	
Operating Income	2.5	4.0	1.5	4.0	-	
Ordinary Income	1.6	4.1	2.5	4.1	-	
Profit attributable to owners of parent	0.9	2.9	2.0	2.9	-	
※Year-end Dividend(yen)	1.5	30	-	30	-	
Foreign exchange sensitivity	US\$	15	13	(2)	13	-
(JPY million Operating Income)	Euro	17	18	1	18	-

※The Company has consolidated shares of its common stock (one-for-ten share consolidation), effective July 1, 2017.

• Previous forecast : Announced on Aug 10  
 • The assumed exchange rates for the fourth quarter are ¥112 per U.S.dollar and ¥128 per euro

## No revision to the performance forecast and year-end dividend

## (Reference) Quarter of the year another change

(JPY bn)

	FY ended Dec.15 Restated				FY ended Dec.16 Actual				FY ended Dec.17 Forecast			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Net Sales	35.6	40.7	41.4	39.1	37.7	43.3	37.4	34.7	36.7	43.5	40.3	40.0
(Domestic)	26.9	33.2	32.9	32.4	28.2	33.1	30.6	29.1	28.5	34.3	31.5	31.2
(Overseas)	8.7	7.5	8.5	6.7	9.5	10.2	6.8	5.6	8.2	9.2	8.8	8.8
Operating Income	(2.0)	2.6	0.5	(0.9)	(0.4)	2.1	1.1	(0.3)	(0.3)	3.1	1.8	(0.6)

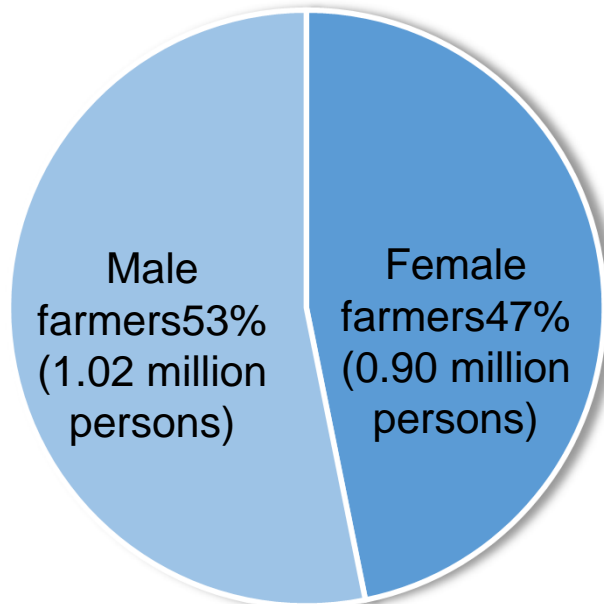
4<sup>th</sup> quarter is subject to seasonal decline in demand and apt to fall into the red

## 4. Topix

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# Active female participation in the farming industry

## Population of agricultural production



\*MAFF "Statistics on agricultural workforce"

Female farmers constitute 47%  
Indispensable in agriculture  
and local activities

MAFF's "Nougyou-Jyoshi(Female farmers) Project" started in 2013

The number of female farmers participated: 37 persons ⇒ 612 persons in 2017

# Support for female farmers

## *Nougyou-Jyoshi*(Female farmers) project (Sponsored by MAFF)

- Product development reflecting opinions from female farmers
- Training for female farmers  
Hosting continually in various locations
- Exhibition





# Our latest approach



□ Had a booth at Marunouchi Farm (Sponsored by MAFF)  
from November 4<sup>th</sup> to 5<sup>th</sup>

# Support for active female participation by agricultural machinery industry



Participants to the 1<sup>st</sup> workshop

□ Japan Agricultural Machinery Manufacturing Association Workshop for active female participation network

We are going to hold an event in Tsukuba-Mirai Office on 5<sup>th</sup> December.

# Support for active female participation within our Group



Training scene

Have trainings within group  
Enrich training facility, etc. for women

## Tsukuba-Mirai Office

Dream Agricultural Research Institute



IGTC



Accommodation facility for women

# Notes on the Future Forecast

- The objective of this presentation document is to provide information and not intended to induce any action.
- This document is prepared by ISEKI based on currently available information. It involves potential risks and uncertainties, and may differ from actual results due to changes in the economic situation and market trends.
- When using this information, investors are requested to make their decisions based on their own judgment. ISEKI will not be liable for any losses or damages incurred by investment decision made using the financial results forecast or targets provided in this document.



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 いま選ぼう。

ISEKI Group joins the nationwide action called “COOL CHOICE” run by the Ministry of the Environment, the Government of Japan. The action promotes “smart choice” for the global warming, and as a proposal, we develop and deliver environmental-friendly products including “Eco Products.”