［Delayed］Action to Implement Management that is Conscious of Cost of Capital and Stock Price (Update)

ISEKI & CO., LTD.

〔Tokyo Stock Exchange Prime Market:6310〕

February 14, 2025



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1. Current State Analysis

Current State Analysis: Change in PBR, ROE & PER Over Time

- PBR has continued to remain significantly below 1, standing low at 0.30 as of December 31, 2024
- Regarding changes over time in ROE and PER, the components of PBR, ROE have remained below the target of 8%, and PER is below a multiple of 10. Capital profitability has not exceeded investors' expected cost of equity, and we are not adequately evaluated by investors
  * Based on interviews conducted for the current state analysis and evaluation, it was found institutional investors, with whom we are in regular contact, perceive our cost of equity to be approximately 8%

PBR = ROE × PER

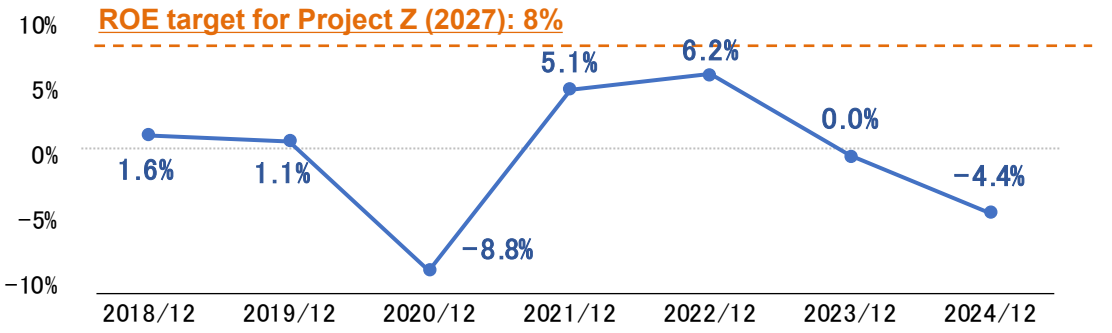
PBR (Multiple)



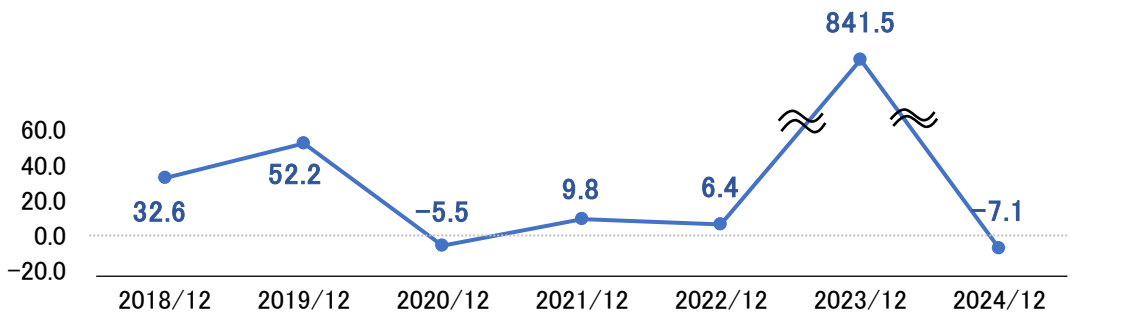
0.30 *1

ROE (%)

In-depth analysis on next slide



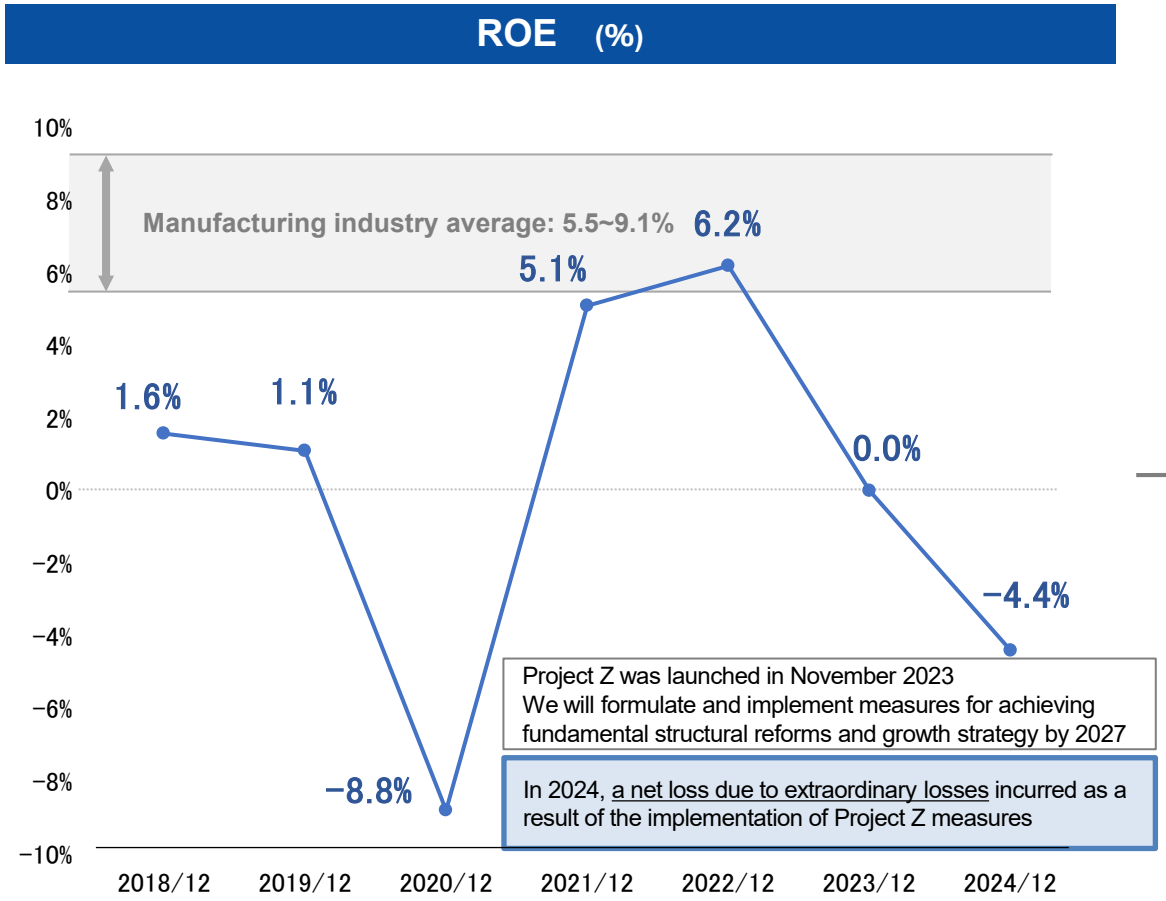
PER (Multiple)

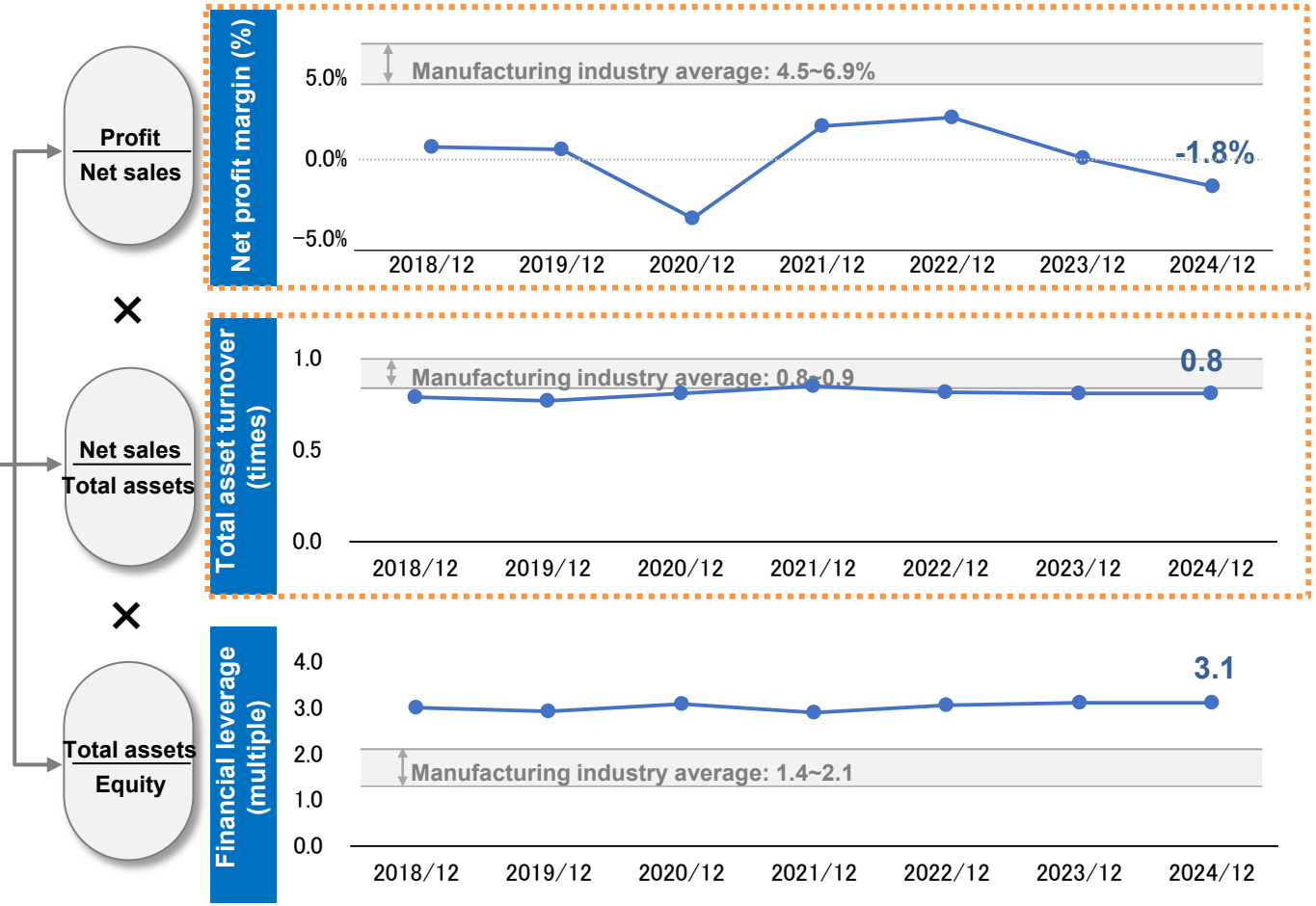


*1: As of December 31, 2024

Current State Analysis: ROE Analysis

- Factors identified as holding ROE down are our low net profit margin and total asset turnover.
  Product-specific profit margins and SG&A ratio are factors affecting the net profit margin. Inventories, capacity utilization rates, and other factors are affecting total asset turnover. In 2024, the net profit margin deteriorated due to extraordinary losses incurred as a result of the implementation of structural reform measures.





(Note) Manufacturing industry average represents a range of values from FY2017 to FY2022.

Current State Analysis: Summary

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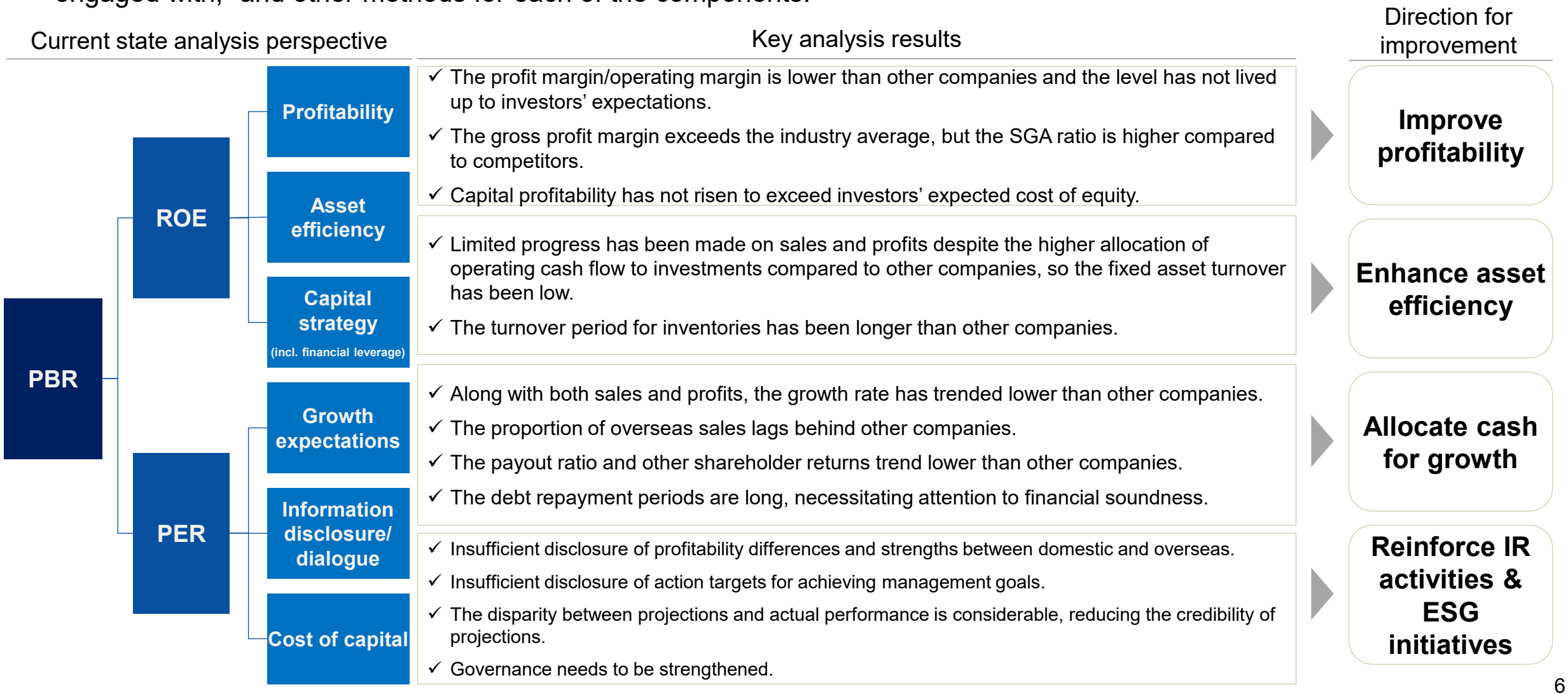
- PBR components were broken down, and factors contributing to the low level were arranged through analysis using “comparisons over time with other companies in same industry,” “opinions gathered from investors the company is engaged with,” and other methods for each of the components.



2. Striving to Improve PBR

Striving to Improve PBR: Direction for Improvement and the Progress of Initiatives (Summary)

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Our vision 2027

- ✓ **Consolidated operating margin : 5% or higher (Record-high operating income*)**
- ✓ **ROE : 8% or higher**
- ✓ **DOE : 2% or higher**

→ **PBR of 1 or higher**

<Direction for improvement and the progress of initiatives>

*The highest operating income ever recorded: 7.4 billion yen for the fiscal year ended in March 31, 2014
* For the progress of each measure, see “Progress of Project Z,” released on February 14, 2025

(1) Improve profitability	■ **Improve gross profit margin** •Fundamental structural reforms: “Optimization of production” and “Intensification of domestic sales” have progressed as planned. “Optimization of development” has experienced some delays in terms of profit margin improvement, but improvement of development efficiency progressed as planned. • Growth strategy: Initiatives have been progressing as planned both in Japan and overseas ■ **Improve SG&A ratio** •Optimize employee composition: The number of applicants for voluntary retirement was below plan, but the expected personnel cost level was secured • Cost reduction: There is a delay in some areas. We intend to make it up with a thorough review of operations
(2) Enhance asset efficiency	■ **Improve fixed asset turnover**: Curbed investment in reorganization of production sites (from 46.0 billion yen to 38.0 billion yen) Hurdle rates used as the basis for investment decisions were reviewed
(3) Allocate cash for growth	■ **Improve inventory turnover**: Turnover increased by 0.2 times in 2024 due to efforts to minimize stock of seasonal products and reduce inventory (-5.9 billion yen) • Operating cash flow returned to positive due to inventory reduction
(4) Enhance IR activities & ESG initiatives	• Initiatives to expand and advance dialogue and information disclosure progressed as planned • Initiatives to strengthen governance structure progressed as planned

(1) Profitability Improvement

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■ Improve profitability by implementing fundamental structural reforms (short-term focused measures) and pursuing a growth strategy

PJZ material P9

*For the progress of each measure, see P9 of the "Progress of Project Z" (PJZ material) released on February 14, 2025

PROJECT Z

Sweeping comprehensive business structural reforms

[Our vision (2027)]
✓ Operating margin: 5% or higher
✓ ROE: 8% or higher
✓ DOE: 2% or higher

✓ Improve gross profit margin

➢ Improve product profit margins
- Improve productivity by optimizing production
- Reduce product variable costs by 10% or more

➢ Focus management resources on growth segments
- Expand profitable businesses

* 2027 (compared to 2023): **+1.5 to +2.0%**

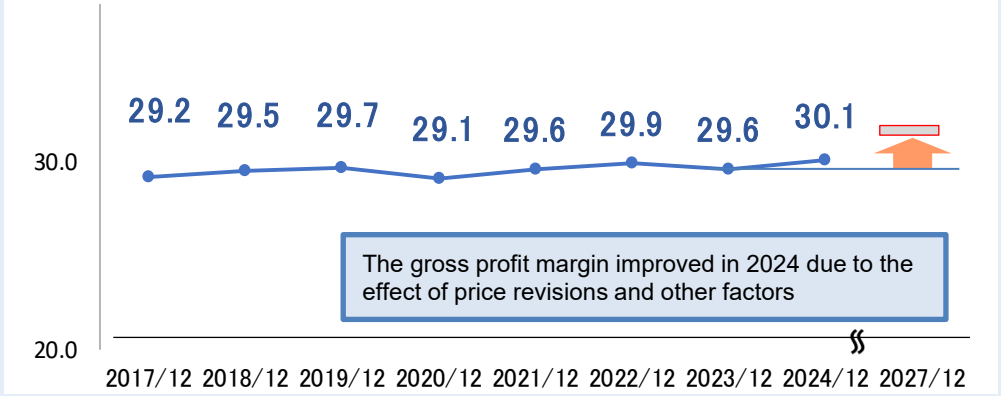
✓ Improve SG&A ratio

➢ Optimize employee composition
- Streamline non-operating departments
- Solicited applications for voluntary retirement in 2024

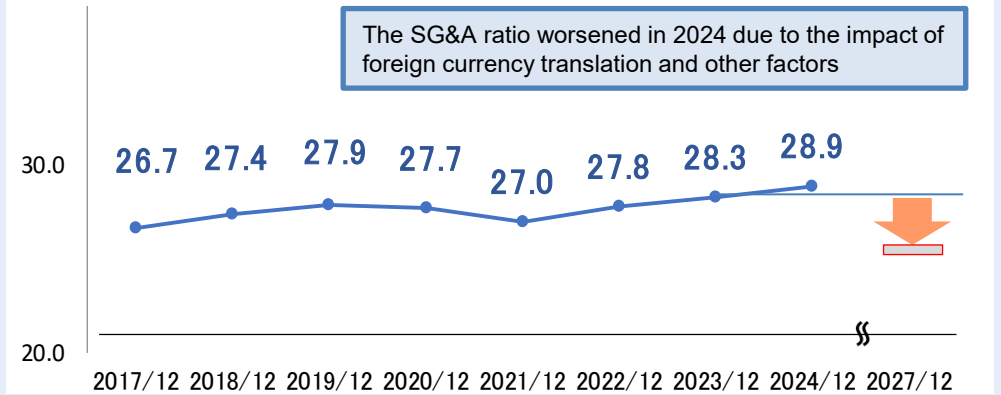
➢ Cost reduction
- Improve operational efficiency by integrating organizations and operations

*2027 (compared to 2023): **(2.5) to (3.0)%**

Gross profit margin (%)



SG&A ratio (%)



(1) Profitability Improvement [Project Z Measures and Their Progress]

- Among the fundamental structural reforms to be implemented through intensive short-term efforts, major measures such as the reorganization of production sites and the integration of sales companies have generally progressed as planned
- To realize our growth strategies, we took measures to expand our European business overseas and reorganized our sales companies in Japan

<Project Z measures and their progress>

*For the progress of each measure, see "Progress of Project Z" (PJZ material) released on February 14, 2025

Project Z measures

✓Implement short-term focused measures

- Management integration of manufacturing companies (Matsuyama and Kumamoto) and establishment of ISEKI M&D (July 2024)
- Reorganization of production sites: Consolidation of production assembly progressed as planned

- Improvement of product profit margins is lagging in some areas, but the shortfall will be recovered by deploying more resources
- Improvement will be seen gradually from the second half of 2025, and we aim to achieve the improvement targets in 2027
- Improvement of development efficiency progressed as planned

PJZ material P12, 24-26

- Management integration of domestic sales companies over a wide area, establishment of ISEKI Japan (January 2025)

- Optimization of employee composition: The number of applicants for voluntary retirement was below plan, but the expected personnel cost level was secured
- Cost reduction: Cost-cutting initiatives are behind schedule. We intend to make up for lost time with a thorough review of operations and concrete improvements

P13

✓Pursue a growth strategy

Concentrate management resources

- Overseas: Development of strategies specific to each region: Completed the consolidation process of our local distributor in the UK as a consolidated subsidiary (January 2025)

P15-18

- Domestic: Large, cutting-edge, environment, dry fields: Establishment of Large-scale Planning Section (January 2025)

✓Upgrade revenue management to narrow down focus areas

- Business portfolio

Disclosure of the results and targets of profitability by region (February 2025)

P10

(2) Asset Efficiency Enhancement

■ We will enhance asset efficiency through inventory reduction and investment decisions based on hurdle rates

PJZ material P19

PROJECT Z

Sweeping comprehensive business structural reforms

[Our vision (2027)]
- ✓ Operating margin: 5% or higher
- ✓ ROE: 8% or higher
- ✓ DOE: 2% or higher

✓Improve fixed asset turnover

- ➢ Make investment decisions based on hurdle rates
  - • Hurdle rate = Cost of capital + margin
  - • Asset management to be revised annually
- ➢ Reorganize business units and reassess production lines

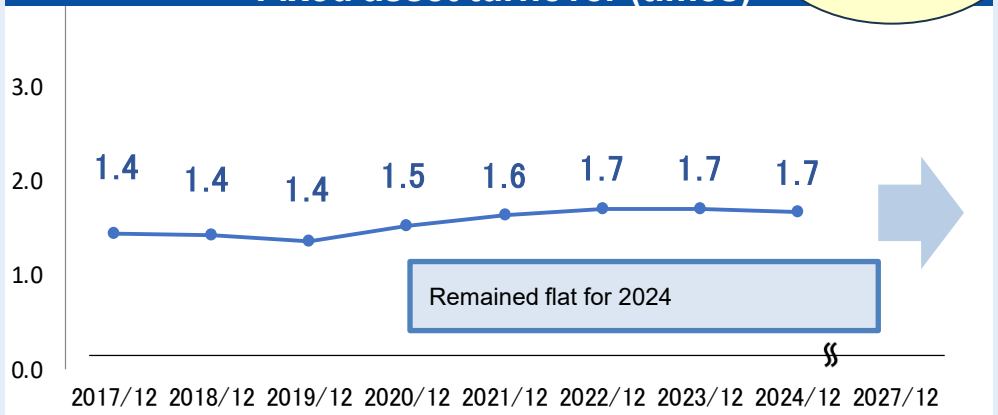
* Estimated to remain flat in 2027 due to growth investment

✓Improve inventory turnover

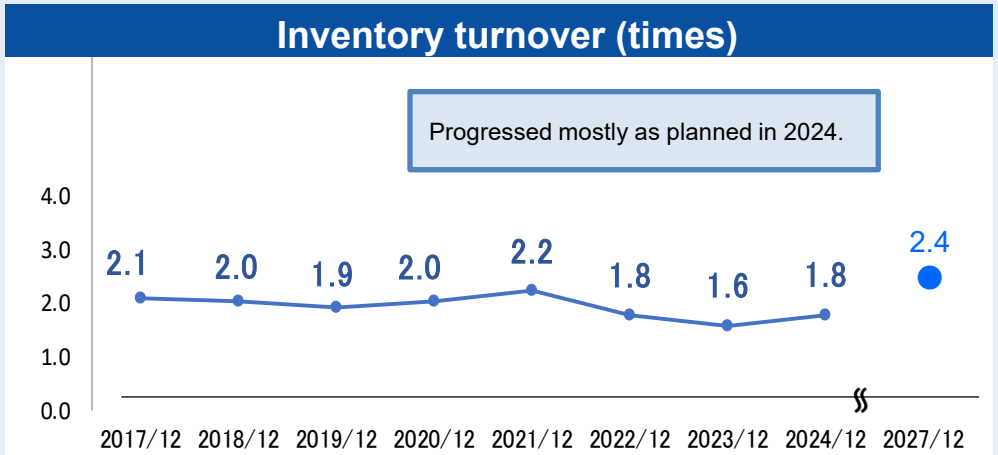
- ➢ Reassess distribution and procurement strategies
  - • Established SCM Promotion Section* (December 2024) to accelerate efforts to improve inventory turnover
- ➢ Consolidate production assembly, reorganize domestic sales companies, consolidate models and types, and increase shared use of components to reduce inventories

* Improve to 2.4 ASAP (two-month reduction)

Fixed asset turnover (times)



Inventory turnover (times)



* SCM: Supply Chain Management

(2) Asset Efficiency Enhancement [Balance Sheet Improvement]

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Vision for balance sheet improvement

PJZ material P20-21

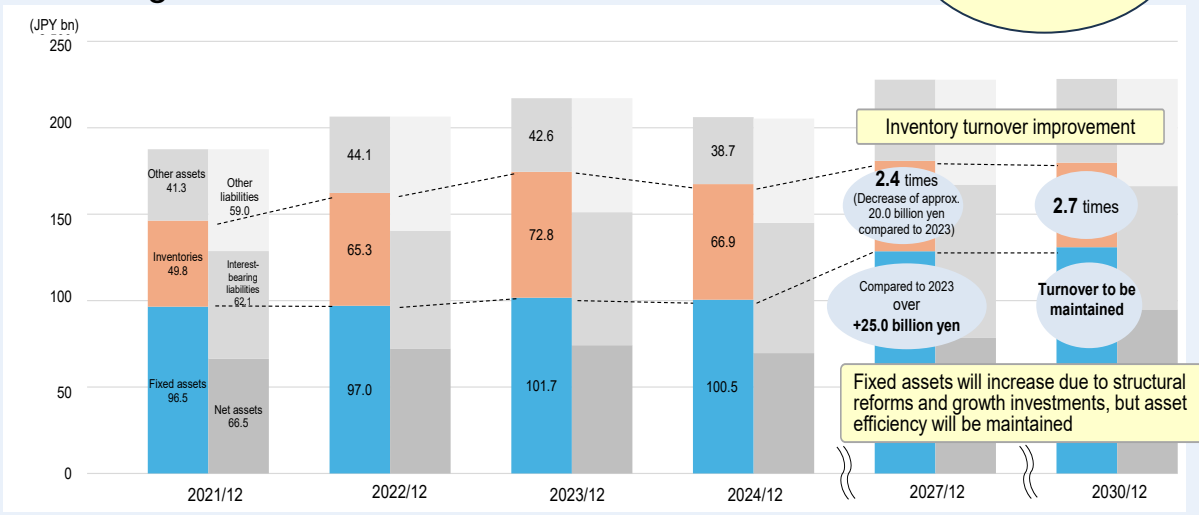
- Inventories increased significantly in 2023. We will reduce them by reassessing distribution and procurement strategies and through the effects of reorganization of business units, etc.
- Fixed assets increased due to investments in Project Z but will shift to assets with higher utilization rates by satisfying hurdle rates. Surplus assets resulting from structural reforms will be reduced through their sales

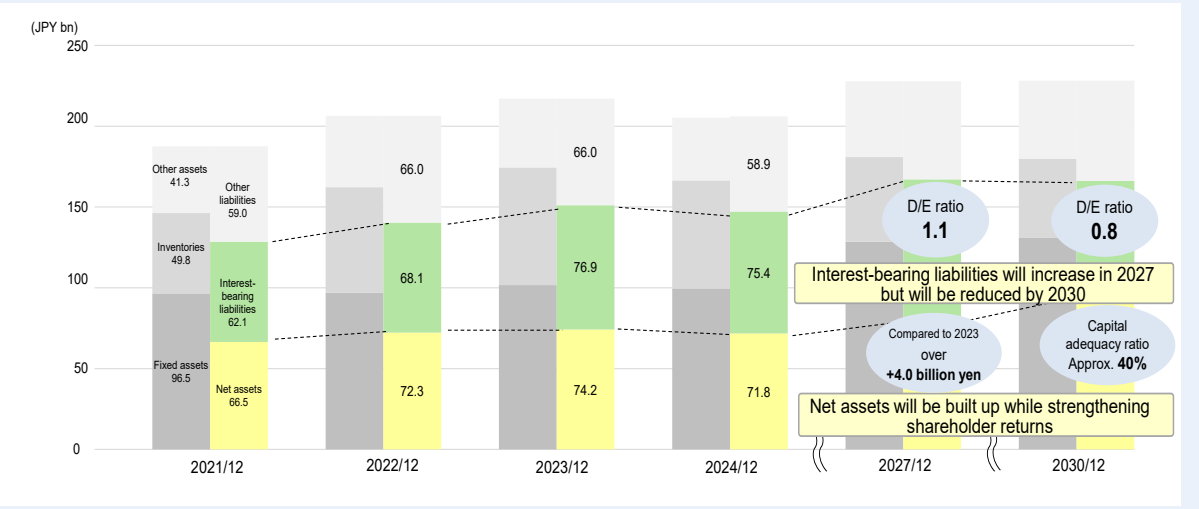
Inventory turnover: 2.4 times for 2027
2.7 times for 2030

- Interest-bearing liabilities will increase through 2027 due to increased capital expenditures but will be reduced moving forward to 2030
- Net assets will be built up while strengthening shareholder returns

D/E ratio: 1.1 for 2027
0.8 for 2030

■ Changes in balance sheet



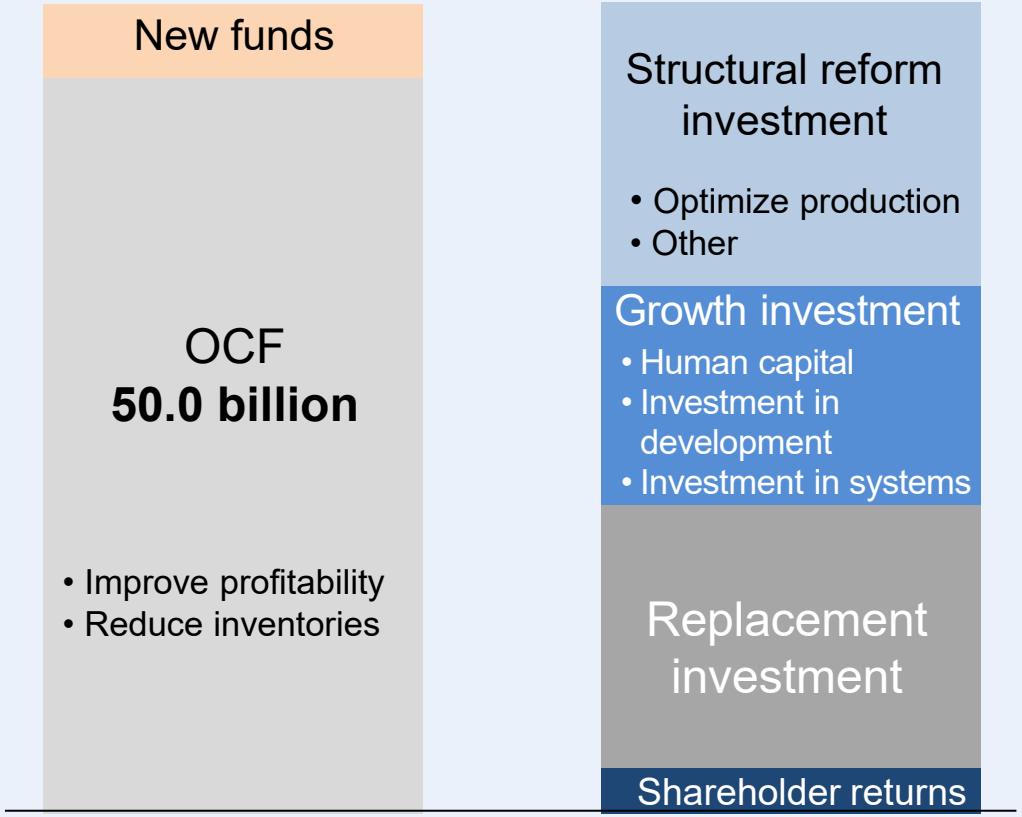


(3) Cash Allocation for Growth

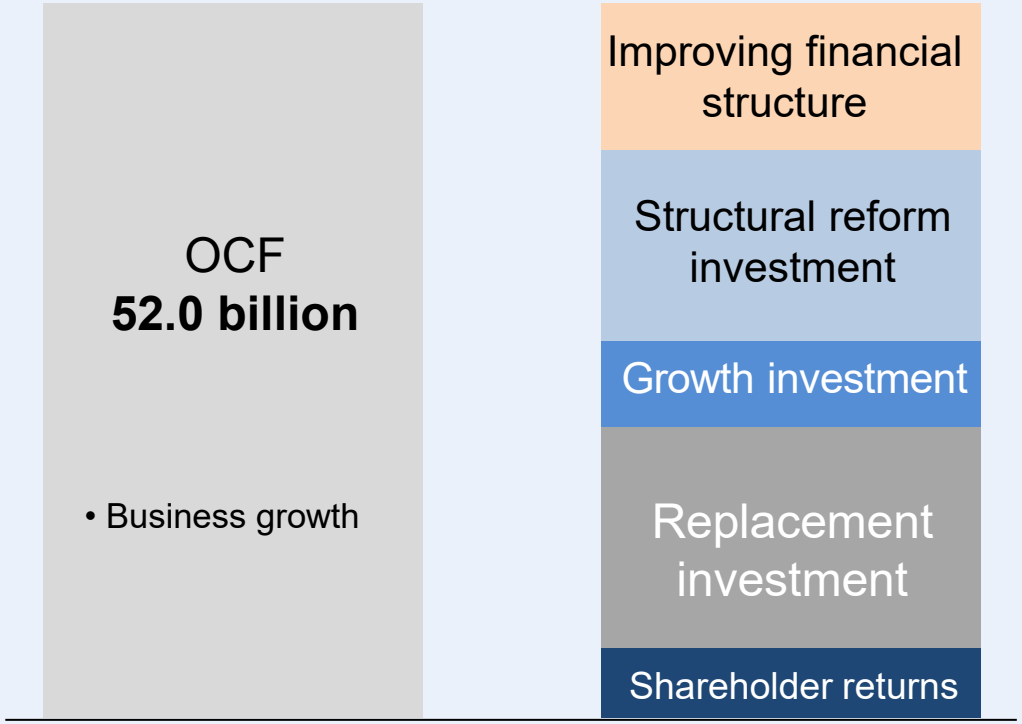
- Generate operating cash flows through improved profitability and enhanced asset efficiency
- By 2027, implement fundamental structural reforms and growth investment, with shareholder returns of DOE 2% or higher
- From 2028, improve shareholder returns from operating cash flow and reduce interest-bearing liabilities

PJZ material P22

■ 2024 ~ 2027 **(4-year cumulative total)**



■ 2028 ~ 2030 **(3-year cumulative total)**



(4) Enhancement of IR Activities & ESG Initiatives (PER Improvement)

■ We will improve PER by enhancing and strengthening activities to promote better understanding of our growth strategy and reduce the cost of capital

IR Activities

✓ **Expand and advance dialogue and information disclosure**

- ➢ Enhance disclosure of qualitative & quantitative information and enable visualization of progress
  - • Disclosed profits by region in "Progress of Project Z" (February 2025)
- ➢ Proactively initiate dialogue (individual meetings, facility tours, etc.)

ESG Initiatives

✓ **Strengthen governance structure**

- ➢ Revise directors' compensation system (FY2022~)
- ➢ Strengthen oversight functions (diversify the Board of Directors)
  - • Two female directors appointed, and total number of directors reduced (2024 and 2025)

IR Activities & ESG Initiatives

Enrich disclosure information
- **Upgrade revenue management (e.g. profits by region)**
- **Disclose information in English, etc.**

Diversify the composition of shareholders
- **Adopt a shareholder/investor specific approach**

ESG initiatives

Enrich dialogue
- **Presentations, tours, etc.**

Strengthen information dissemination
- **SNS, public relations, etc.**

(4) Enhancement of IR Activities & ESG Initiatives (PER Improvement)

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Initiatives by shareholders and investors: (1) individual investors, (2) domestic institutional investors, and (3) overseas institutional investors

- Individual investors: Increase awareness and build a following by strengthening information dissemination and holding briefings
- Domestic institutional investors: In addition to existing initiatives, strengthen the disclosure of information on the progress of “Project Z” measures and revenue analysis by region, etc.
- Overseas institutional investors: Strengthen information dissemination, including simultaneous disclosure in English

Step 1: Individual investors

◆ **Increase awareness**

- Strengthen information dissemination
  SNS, email distribution. etc.
- Hold briefings for individual investors
- Continue to hold tours for individual shareholders

Step 2: Domestic institutional investors

◆ **Continue existing initiatives and strengthen disclosure**

- Continue existing initiatives
- Explain the progress of Project Z in detail
- Provide a higher level of disclosure (e.g., revenue analysis by region)

Step 3: Overseas institutional investors

◆ **Strengthen information dissemination**

- Ensure simultaneous disclosure in English
- Collect information for the next step of implementing IR activities overseas

Comprehensive Chart of Efforts for Achieving a PBR of 1

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■ PBR analysis
Break down PBR components and arrange the factors contributing to the low level

- PBR
  - ROE
    - Profitability
    - Asset efficiency
    - Capital strategy (incl. financial leverage)
  - PER
    - Growth expectations
    - Information disclosure/ dialogue
    - Cost of capital

■ Improvement direction
Determine it based on analysis results

- Improve profitability
- Enhance asset efficiency
- Allocate cash for growth
- Reinforce IR activities & ESG initiatives

■ Core themes
Project Z measures and enhancement of IR activities and ESG initiatives

PROJECT Z

Fundamental structural reform
- Optimization of production
- Optimization of development
- Intensification of domestic sales
- Common (costs, etc.)

Growth strategy
- Overseas
  Developing region-specific strategies
- Domestic
  Focusing on growth areas

- Expand and advance dialog and information disclosure
- Strengthen governance structure

■ Implementation (KPIs setting)
Set KPIs in three steps. Incorporate “Action KPI” in these KPIs in order to ensure the implementation of measures and achieve KPIs through PDCA cycle based on monitoring

KGI

Consolidated operating margin: 5% or higher
ROE : 8% or higher
DOE : 2% or higher
→ PBR of 1 or higher

Project Management KPI

Most important KPIs for completion of Project Z

[7 KPIs]

Ex.)
- Consolidated net sales

Business KPI

Break down into key indicators that are aligned with business strategy

[26 KPIs]

Ex.)
■Domestic
- Sales volume of large agricultural machinery

■Overseas
- Net sales of individual companies in Europe and other

Action KPI

Break down into action levels

[KPI]

Ex.)
■Domestic
- Expansion of large-scale customers

■Overseas
- Expansion of sales networks and merchandise
- Adaptation to electrification and others

Monitoring

Monitor the progress of measures and KPIs
- Project Z meeting: weekly
- Directors’ Operation Committee meeting: monthly
- Board of Directors meeting: monthly

3. Dialogue with Shareholders & Investors

Dialogue with Shareholders & Investors (FY2024 Results)

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■ Dialogue Opportunities & ISEKI participants

Description	ISEKI participants	2024 Results	Method, etc.
Ordinary General Meetings of Shareholders	All directors and corporate auditors	1 meeting	Held in-person
Financial results briefing sessions	All executive directors	5 sessions	• Held online or hybrid • Briefing materials, videos and Q&A summary made available on website
Individual meetings	Director in charge of investor relations, Director in charge of finance, General Manager of Public & Investor Relations Section, General Manager of Financial Dept.	37 meetings (Target for 2025: 50 meetings)	Online or in-person dialogue
Business briefings	President and Representative Director, Director in charge of investor relations, etc.	1 briefing	Held in hybrid
Facility tours & new product launches	President and Representative Director, Director in charge of investor relations, etc.	2 events	Held in-person
Facility tours for individual shareholders	President and Representative Director, Director in charge of general affairs, etc.	1 tour	Held in-person
Inquiry responses	IR Section, General Affairs Dept.	As needed	Dialogue through website, telephone, email, etc.
(Reference information) Interviews with institutional investors and securities analysts	Handled by outside contractor	5 sessions (2023 result)	Online dialogue

Dialogue with Shareholders & Investors (FY2024 Results)

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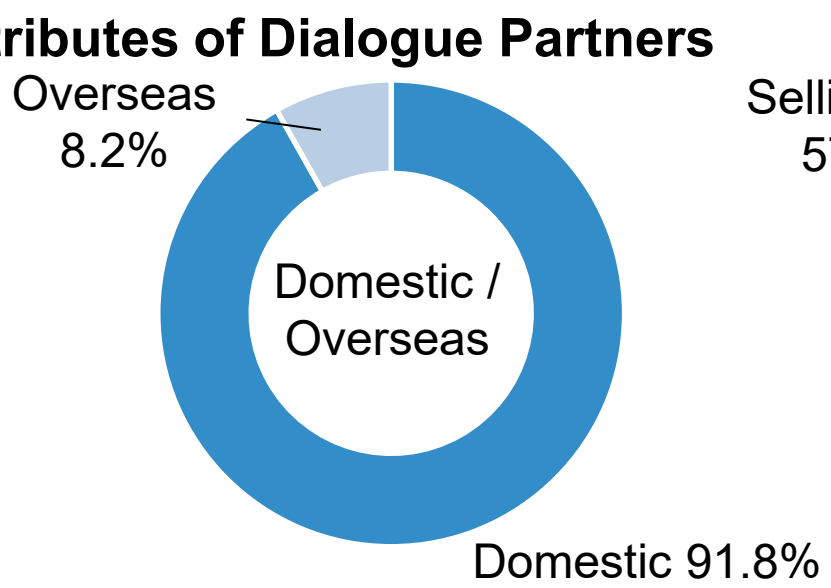
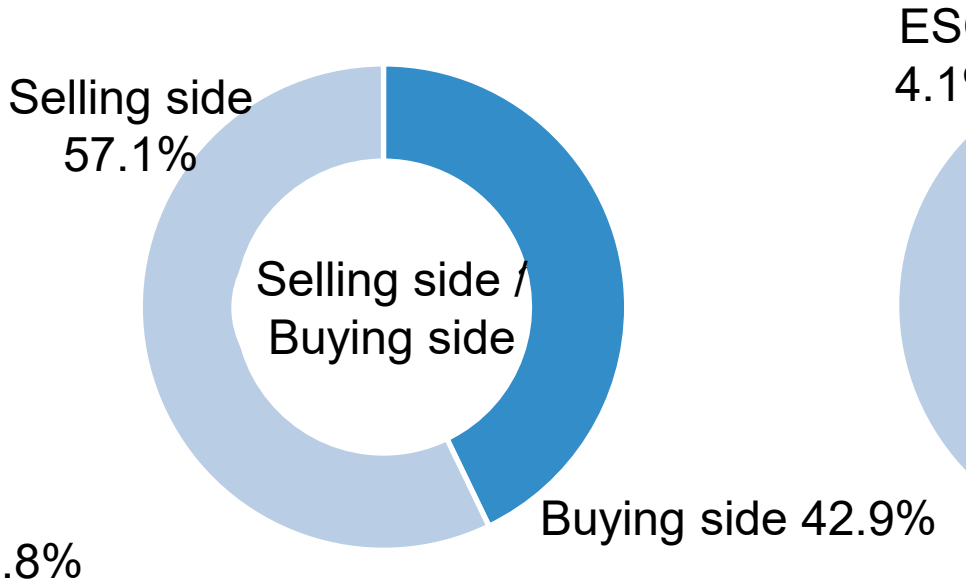
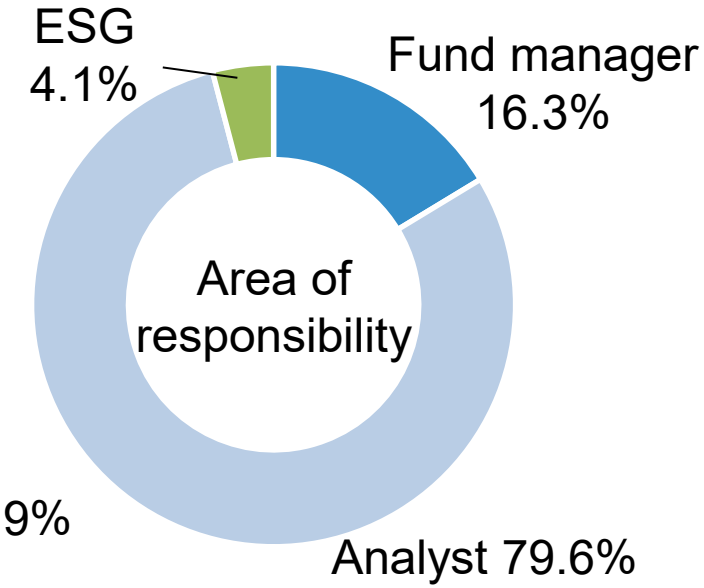
■ Attributes of Dialogue Partners







■ Principal Topics & Concerns

Performance Management strategy	• ISEKI Group's strengths • Business demand trends • Project Z measures and their progress • Management conscious of cost and efficiency of capital • Business portfolio-related management systems
ESG	• Status of climate change response • Status of human capital-related initiatives • Directors' compensation system
Share price & shareholder return	• Stock price & PBR challenges and responses • Direction of shareholder returns

Dialogue with Shareholders & Investors (FY2024 Results)

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■ Feedback Provided to Management

✓ Public & Investor Relations Section provides reports and feedback

- Opinions, interests, concerns, and other comments provided by shareholders and investors during dialogues are reported to management in a timely manner according to the context
- Feedback about our businesses is provided to the relevant business units as appropriate, which is then reflected in business activities to make improvements

Description	Reporting method	Frequency	Target
Individual meetings with investors and analysts Opinions, requests, etc. from shareholders and investors Share performance metrics & stock price information IR activity reports	Written reports detailing meeting summaries	Each occasion	All directors
	Reports detailing meeting summaries, stock performance, etc. discussed at public relations liaison meetings	Monthly	Members of Directors' Operation Committee
	Reports detailing meeting summaries, stock performance, etc. discussed at Board of Directors meetings	Quarterly	Members of Board of Directors
	Reports detailing topics of high concern to shareholders and investors as well as opinions voiced at high-level meetings	Monthly	President and Representative Director, Director in charge of investor relations
Other reports (related to shareholders and investors)	As necessary, reports detailing shareholder structure, stockholdings and other trends pertaining to institutional investors and others	Each occasion	Members of Directors' Operation Committee and others

■ Example of Comments Incorporated from Dialogue

Opinions, request, etc.	Our response
Disclosure of revenue status by region	・Clearly indicated revenue status by region in the Project Z material released in February 2025
Strengthen dissemination of IR information via SNS, etc.	・Posted videos of financial results briefings and disseminated information on existing SNS, etc. ・Enhanced opportunities for dialogue through disclosure media such as email distribution services and individual investor briefings from 2025

Notes on the Future Forecast

- The objective of this presentation document is to provide information and never intends to induce any action.
- The document was created by ISEKI with currently available information, and it involves potential risks and uncertainties. The forecast may not be consistent with actual results depending on fluctuation of the economic situation and market trends.
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