

COMPANY RESEARCH AND ANALYSIS REPORT

ISEKI & CO., LTD.

6310

Tokyo Stock Exchange Prime Market

27-Apr.-2023

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FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Integrated manufacturer specializing in agricultural machinery headed toward its 100th anniversary of foundation in 2025. Made steady progress on various measures in FY12/22, the second year of its Mid-term Management Plan

ISEKI & CO., LTD. <6310> (hereafter, “the Company”) is an integrated manufacturer specializing in agricultural machinery that was founded in August 1926 under the principle of “free farmers from exhausting labor,” and has its Head Office in Matsuyama City, Ehime Prefecture. The Company is engaged in a wide variety of businesses and the development and manufacture, sales, and provision of after-sales service for cultivating and mowing machinery such as tractors and riding mowers, harvesting and processing machinery such as combine harvesters, and planting machinery such as rice transplanters and vegetable transplanters, and also sells items such as implements and parts and OEM products, centered on farmers and large farming corporations in Japan and the rest of Asia, and landscape developers, hobby farmers and general consumers in Europe and North America. For Japanese agriculture, the Company’s feature is that it provides products in all phases of farming from plowing to rice harvesting onto drying and conditioning.

The Company has three strengths: “technological capabilities,” “support capabilities to offer farm business proposals,” and “innovation based on collaboration.” In the number of published and registered patents by specialty field, the Company ranked No. 1 from 2000 to 2006 in “agriculture and fishery” and since 2007 in “other special machinery,” remaining in top place almost constantly since 2000 (it was in second place in 2018, 2020 and 2021). In recent years it has also focused on strengthening services aspects in addition to sales of agricultural machinery. The Company provides useful information for farmers, its customers, on its website and, in 2021, launched the Amoni farm business solutions portal website providing weather information and data related to growth forecasts. In 2015, the Company established the Dream Agricultural Research Institute under the slogan of “We will support new-age agriculture through assistance to farmers: Come and see advanced farm business technologies.” The Company conducts research, demonstrations and dissemination activities for smart agriculture in collaboration with outside stakeholders such as governments, research institutes, universities and companies.

The three strengths of the Company are combined with its two basic strategies of “providing the best solutions” and “Increase corporate value by strengthening earnings and governance” in the New Mid-term Management Plan as the Company lays the foundation for the next 100 years and achieve the goal of an operating margin of 5% by 2025, the 100th anniversary of its foundation.

As of December 31, 2022, the Company had share capital of ¥23,344mn. The total number of Group employees was 5,454 and its Group companies were 20 consolidated subsidiaries (9 domestic sales companies, 5 manufacturing-related companies, and 5 other companies, 2 in Japan and 3 overseas), and 1 equity-method affiliated company. The Company’s domestic sales network comprises 11 sales subsidiaries, including non-consolidated companies, and its overseas sales network has 8 companies as it rolls out business globally.

Summary

1. Overview of FY12/22 results

In the Company's FY12/22 consolidated results, net sales increased 5.3% year on year (YoY) to ¥166,629mn, operating profit decreased 14.8% to ¥3,534mn, ordinary profit decreased 19.7% to ¥3,762mn and profit attributable to owners of parent increased 28.9% to ¥4,119mn.

Net sales on a consolidated basis surpassed those of the previous fiscal year amid persisting favorable results in overseas business, and despite domestic net sales having underperformed those of the previous fiscal year due to factors that included production delays associated with supply chain disruptions and diminished customer willingness to make purchases due to low rice prices and soaring material prices. Meanwhile, the Company once again achieved record highs with respect to overseas net sales. In Europe, the Company achieved growth in earnings results in part because its sales were bolstered upon having made ISEKI-MASCHINEN GMBH DEUTSCHLAND ("ISEKI Germany") a consolidated subsidiary, and also because ISEKI Germany, PREMIUM TURF-CARE LTD. (U.K.), and ISEKI France spearheaded efforts to streamline the supply chain and strengthen the sales structure.

In terms of profit, the Company implemented sales price revisions both in Japan and overseas, but that did not fully make up for effects of soaring prices of raw materials. Supply chain disruptions also weighed on profits. The Company placed focus on sales of large-scale agricultural machinery and furthermore encountered strong interest in terms of inquiries from customers, but it ended up missing out on opportunities given a situation where parts were not delivered according to schedule.

2. Outlook for FY12/23

The outlook for FY12/23 consolidated results is for net sales to increase 5.9% YoY to ¥176,500mn, operating profit to increase 27.3% to ¥4,500mn, ordinary profit to increase 6.3% to ¥4,000mn and profit attributable to owners of parent to decrease 36.9% to ¥2,600mn. Whereas the Company envisions a decrease in profits only with respect to profit attributable to owners of parent in part given an absence of extraordinary income encountered in FY12/22 upon having made ISEKI Germany a consolidated subsidiary, it projects results exceeding those of the previous year when it comes to net sales and each of the other profit items. In Japan, despite the prospect of persisting effects of soaring material prices and other such factors, the Company anticipates higher sales YoY due to large-scale agricultural machinery and smart agricultural machinery sales as well as price revisions. Overseas, despite the likelihood that an adjustment phase will continue to weigh on the North American compact tractor market, the Company anticipates that the overseas business overall will continue to perform well due to higher sales in Europe and Asia.

3. Mid-Term Management Plan

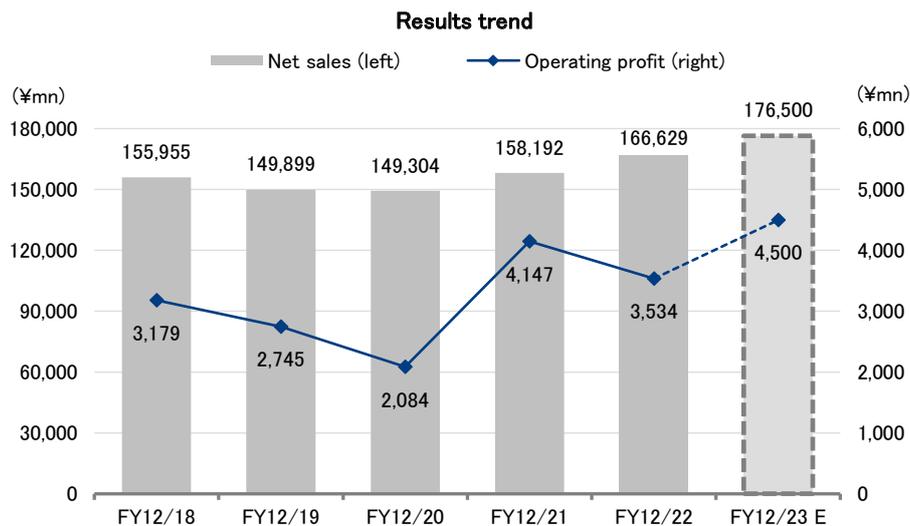
In FY12/21, the Company formulated the Mid-term Management Plan, which establishes FY12/25 as the final year of the five-year plan. The Company is seeking to transform its business activities enlisting the four approaches of "selection & concentration," "business model transformation," "improving profitability," and "ESG," underpinned by its two basic strategies of "providing the best solutions" and "increase corporate value by strengthening earnings and governance."

Summary

With these four approaches, we at FISCO are of the understanding that the Company has an appropriate perspective in terms of ascertaining the external environment changes encompassing it. "Selection & concentration" is one example. Agricultural management is shifting from small-scale farmers such as family-run or farmers also performing other jobs to large-scale management by organizations such as corporations, and this flow is expected to continue going forward. As this goes on, the Company is concentrating its resources to focus on large-scale agricultural machinery and smart agricultural machinery. For large products, the Company will probably be able to gain maximum benefit by focusing on sales of the Japan series, its mainstay large-scale machinery. Further business expansion is expected through steady implementation of the Mid-term Management Plan.

Key Points

- Integrated manufacturer specializing in agricultural machinery headed toward its 100th anniversary of foundation in 2025
- Higher sales yet lower operating profit in FY12/22 amid factors that included soaring material prices
- Steady progress achieved with respect to the Mid-term Management Plan and record-high net sales in the overseas business, thereby continuing the trend of the previous fiscal year



Source: Prepared by FISCO from the Company's financial results

Company profile

Integrated manufacturer specializing in agricultural machinery headed toward its 100th anniversary of foundation in 2025, supporting agricultural management for customers from both tangible and intangible aspects

1. Company profile

Founded in August 1926 under the principle of “free farmers from exhausting labor,” the Company has contributed to the modernization, laborsaving and efficiency improvement of Japanese agriculture, and also developing business overseas. Starting with the development of a fully-automated rice huller in 1926, the Company has developed many types of original agricultural machinery that have been world-firsts, or industry-firsts. In 2014, the Company began developing “smart agricultural machinery” using ICT such as robot tractors to make agriculture more laborsaving and more efficient. By utilizing ICT to promote greater laborsaving and efficiency, the Company aims to contribute to the realization of profitable agriculture and at the same time enhance the attractiveness of its agricultural machinery and its competitiveness. Moreover, the Company does not stop just at sales of agricultural machinery, but provides farm business support in various forms under the concept of “supporting agriculture full of dreams (i.e., profitable agriculture).” In 2015, it established the Dream Agricultural Research Institute and conducts research, demonstrations and dissemination activities for smart agriculture utilizing robotic technologies and ICT in collaboration with outside stakeholders such as governments, research institutes, universities and companies, in addition to the “Supporter for the farming industry full of dreams” group delivering useful farm business information to farmers through its website, producing an information magazine and helping farm producers to obtain JGAP* certification promoted by the Japan GAP Foundation. It can be said that one of the Company’s major features is that it supports the farmers who are its customers and its agriculture management from both tangible and intangible aspects.

* GAP is an acronym of good agricultural practices and refers to agricultural production process management methods recommended by the Ministry of Agriculture, Forestry and Fisheries (MAFF). Introducing the methods enables producers such benefits as standardization of agricultural management, enhanced trust as a farm and realization of stable business.

ISEKI's product development history

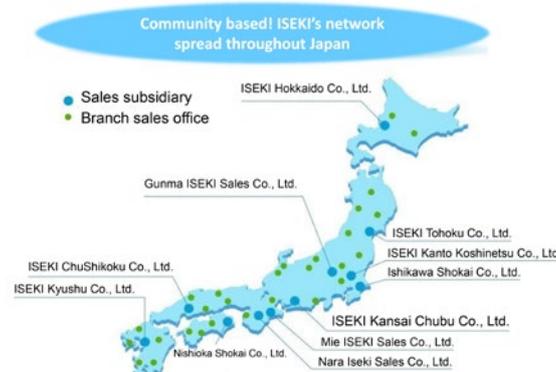
<p>1926> Established with fully-automated rice hullers "Iseki Farm Implement Trading Co." was established and a fully-automated rice huller was produced as the first product.</p> 	<p>1966> Development of world's first auto-threshing combine harvesters Enabled the process from reaping to threshing to finish 16 times faster. Popularity was achieved due to its high efficiency, small size and light weight, and reasonable price, with production unable to satisfy the high demand.</p> 	<p>1971> Development of two-wheel rice transplanters equipped with backward-tilting seeding tanks After much trial and error, succeeded in developing two-wheel rice transplanters equipped with backward-tilting seeding tanks that used a plastic float. Birth of name, a synonym for rice transplanters.</p> 	<p>1988> Birth of Naueru System for the mechanization of vegetable farming Developed our original "Naueru Pot Seeding" vegetable seedling that mainly used paper pots and nursery soil and the "Naueru PV101" fully-automated vegetable transplanter for planting the seedlings.</p> 	<p>2014> Center collect-type riding mower (lawn mower) for Europe A high horse power, Japan's first center collect-type front mower SF4 series with superior flexible maneuvering. ISEKI Group's flagship series of landscaping machinery for Europe that can respond to the needs of professional users.</p> 	<p>2015> Development of industry's first variable fertilizing rice transplanter Groundbreaking rice transplanter that adjusts to the appropriate amount of fertilizer while rice planting. Contributes to lower fertilizer costs and reduced plant lodging.</p> 
<p>1965> Tractor suitable for Japanese wet paddies Developed TB20, a Japanese tractor with exceptional performance that even climbed Mt. Fuji.</p> 	<p>1967> Sales of tillers to Europe Began export and sale of tillers, the start of ISEKI's European business. Deployment of technology fostered in Japan to overseas.</p> 	<p>1988> ISEKI's first riding mower (lawn mower) A full-spec riding mower installed with a diesel engine. It established ISEKI brand in the landscaping market of Europe.</p> 	<p>2009> Development of the industry's fastest auto-threshing combine harvesters Developed the industry's fastest combine harvester capable of six-row reaping with a maximum working speed of 2.0m/s. Also developed the industry's first combine harvester capable of seven-row reaping.</p> 	<p>2015> Development of industry's first plant growth diagnosis device Measures the photosynthetic abilities of plants and visualizes the conditions of plants invisible to the human eye. Contributes to optimal control and growing by preventing disease.</p> 	<p>2018> Development of manned monitoring-based robot tractors Realized significant labor saving in farming. This type of agricultural machinery was the first big step toward the future of agriculture.</p> 

Source: ISEKI Report 2021

Company profile

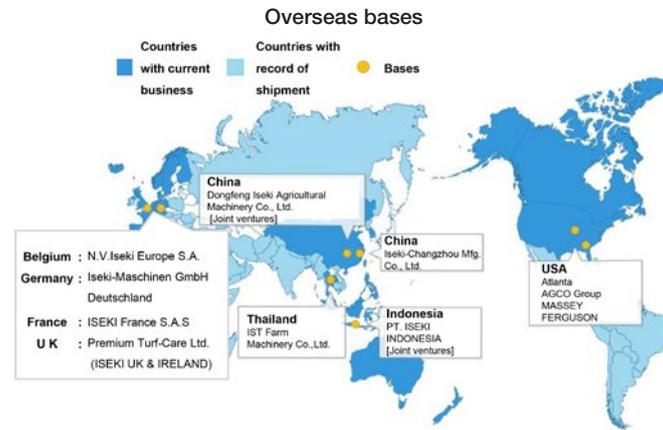
The Company is engaged in a wide variety of businesses and the development and manufacture, sales, and provision of after-sales service for cultivating and mowing machinery such as tractors and riding mowers, harvesting and processing machinery such as combine harvesters, and planting machinery such as rice transplanters and vegetable transplanters. It also sells items such as implements, parts and OEM products, mainly centered on farmers and large farming corporations mainly in Japan and the rest of Asia, and landscape developers, hobby farmers and general consumers in Europe and North America. For Japanese agriculture, the Company's feature is that it provides products in all phases of farming from plowing to rice harvesting onto drying and conditioning. In Japan, the Company has 11 sales subsidiaries (of which 6 companies are wide-area direct dealers) covering the entire country, selling agricultural machinery to customers throughout all of Japan and appropriately absorbing the needs of the front lines. Overseas, the Company develops business while stipulating the three key regions of North America, Europe and Asia. The Company is rolling out business globally through production bases such as PT. ISEKI INDONESIA (ISEKI INDONESIA) and has set up sales bases like N.V. ISEKI EUROPE S.A. (Belgium). For net sales by region in FY12/22, Europe was highest at ¥25.1bn, followed by North America at ¥19.5bn and Asia with ¥8.6bn. Although Asia currently trails Europe and the U.S. in terms of sales size, we at FISCO believe it is noteworthy as a growing market for the future. This is because the Company will be able to leverage the technological capabilities and experience it has cultivated in Japan against a backdrop of these countries where rice cultivation is popular and food culture resembles that of Japan, and governments in the countries having policies to promote the modernization of agriculture. In fact, the Company is steadily increasing its presence in the Asian region, having established ISEKI INDONESIA in 2012 to serve as a regional production base, making a subsidiary of its Thai sales agent, IST FARM MACHINERY CO., LTD. ("IST"), in 2020, and achieved strong results in South Korea in FY12/22. In environments similar to that of Japanese agriculture, the high quality of the Company's agricultural machinery has been well received by customers, and inquiries for the Japan series of large agricultural machinery have increased.

Sales companies in Japan



Source: The Company's website

Company profile



Source: The Company's website

History

Date	Major events
August 1926	Founded as Iseki Farm Implement Trading Co. in Aratama-cho, Matsuyama City, Ehime Prefecture
April 1936	Incorporated as ISEKI & CO., LTD. Commenced production of ISEKI rice hullers and automatic rice graders
May 1946	Established new plant in Yashiro-machi, Matsuyama City, Ehime Prefecture
October 1949	Newly constructed Kumamoto Plant in Kengun-machi, Kumamoto City, Kumamoto Prefecture
June 1961	Listed shares on the Tokyo Stock Exchange
March 1967	Started production of rice transplanters, combine harvesters and binders Accomplished mechanized integrated system for rice cultivation using those and tractors
February 1971	Established N.V. ISEKI Europe S.A. in Brussels
September 1972	Expanded Matsuyama Plant (Wake) and relocated Head Office to the same place
April 2001	Separated Matsuyama and Kumamoto plants and established Iseki-Kumamoto Mfg. and Iseki-Matsuyama Mfg. co., Ltd.
July 2011	Established Dongfeng Iseki Agricultural Machinery (Hubei) Co., Ltd. in Hubei, China
October 2012	Established PT. ISEKI Indonesia in Indonesia
October 2013	Established ISEKI SALES (THAILAND) Co., Ltd. in Thailand (now IST FARM MACHINERY) Established ISEKI Technical Training Center (ITC) inside ISEKI-Matsuyama MFG. Co., Ltd.
May 2014	Integrated Iseki-Changzhou Mfg. Co., Ltd. with Dongfeng Iseki Agricultural Machinery (Hubei) Co., Ltd and established Dongfeng Iseki Agricultural Machinery (Hubei) Co., Ltd.
July 2014	Acquired ownership of French sales agencies Yvan Beal S.A. and YB Holding S.A.S (now ISEKI France S.A.S.)
October 2015	Established Dream Agricultural Research Institute in Tsukubamirai City, Ibaraki Prefecture
April 2016	Established Iseki Basic Engineering Training Center (IETC) in the Tobe Office
January 2017	Established ISEKI Global Training Center (IGTC) in Tsukubamirai City, Ibaraki Prefecture
December 2020	Made a consolidated subsidiary of IST Farm Machinery Co., Ltd.
April 2022	Reorganized on the Tokyo Stock Exchange Prime Market
July 2022	Made a consolidated subsidiary of ISEKI - MASCHINEN GMBH DEUTSCHLAND, its German sales agent

Source: Prepared by FISCO from the Company's Securities Report and news releases

2. Business description

(1) Cultivating and mowing machinery

In the cultivating and mowing machinery category, the Company handles tractors and tillers used for soil cultivation before planting for agriculture, as well as high-clearance multipurpose vehicles used for pest control and other purposes. Sales of tractors for civil engineering use, tractors for landscaping and riding mowers have been strong, particularly among landscaping developers, hobby farmers and general consumers in Europe and the U.S., and accounted for 38.4% of Company-wide net sales in FY12/22, the highest ratio. Cultivating and mowing machinery accounted for 76.1% of all overseas net sales.

Company profile

Landscaping machinery and other machinery selling strongly overseas

Tractor for overseas markets
(for light civil engineering)



Tractor for overseas markets
(for landscaping)



Riding lawnmower



Source: ISEKI Report 2021

In the tractor category, the flagship model is the T. Japan (TJ) series. The lineup is comprised of the three series of TJV5, TJX3 and TJW3, ranging from 65 to 130 horsepower. In addition to being highly efficient, highly durable and high performance, a feature of this series is its installation of ICT. For example, the TJV5 series and TJW3 series can collect information on farm machinery using GPS antennas and communication terminals mounted on the machinery, as well as equipped with theft deterrent functions and operational information management tools. In the TJX3 series, ISEKI AGRI-SUPPORT, which provides work management support and machine maintenance support through the use of ICT, can be introduced to the machinery. Furthermore, the robot tractor TJV series equipped with the most advanced automated driving technology, allows the operator to select the mode that suits the situation from the following three operation modes: (1) robot mode, in which the tractor is operated without boarding and under manned monitoring; (2) auto mode, in which the operator boards the tractor and operates it automatically onboard; and (3) automatic steering mode, which assists the operator in straight travel operations. Launching agricultural machinery utilizing ICT onto the market has contributed significantly to greater efficiency and laborsaving in agricultural work. Furthermore, in June 2023, the Company plans to launch a new mid-sized class tractor, the BF Series, which is in the volume zone. These products offer improved ease of use and operational efficiency, and the Company will focus on expanding sales.

A robot tractor quipped with the advanced automated driving technology



Source: The Company's website

Company profile

(2) Harvesting and processing machinery

In the harvesting and processing machinery category, the Company handles such machinery as combine harvesters that combine grain harvesting and threshing, dryers for drying harvested rice, rice hullers and vegetable harvesting machinery. In FY12/22, the category accounted for 10.8% of Company-wide net sales, following the cultivating and mowing machinery and implements, spare parts and repair fees categories. In addition, it accounts for 3.5% of overseas sales, once again following the cultivating and mowing machinery and implements, spare parts and repair fees categories in size.

Product examples

Frontier Fighter
(auto-threshing combine harvester)



Common rail turbo engine



HC1153
(general purpose combine harvester)



Source: The Company's website

This category's flagship models are the HJ series of combine harvesters. Not only do HJ series combine harvesters offer high efficiency, durability and performance mirroring that of the Company's tractors, but they also come equipped with ISEKI AGRI-SUPPORT as a standard feature for enabling efficient work management and machinery management through the use of the latest ICT. Certain types of HJ series combine harvesters are also equipped with ISEKI REMOTE, which features remote monitoring to deter theft of agricultural machinery and management services for operational information. In December 2022, the Company launched its new HJ6130-Z combine harvester equipped with its straight-travel assist system, in response to mounting demand for agricultural machinery with automatic steering. Introduction of the straight-travel assist system reduces operator fatigue and helps give rise to a more comfortable agricultural work environment. The advent of straight-travel assist functionality in the Company's combine harvester category provides it with a complete lineup of straight-travel assist models across its main product categories of rice transplanters, tractors, and combine harvesters.

Japan HJ series are flagship models for combine harvesters



Source: The Company's website

Company profile

(3) Planting machine

The planting machinery category includes products such as rice transplanters used for transplanting seedlings into rice paddies and vegetable transplanters. In FY12/22 the category accounted for 5.6% of Company-wide net sales.

The flagship models of the category are the Sanae Japan PRJ8 and Sanae Japan PRJ8 robot rice transplanter. In addition to being highly efficient, highly durable and high performance, the Sanae Japan PRJ8 is equipped with the ISEKI straight travel and turning assisting system, a steering operation assisting system using GPS technology. In addition, the robot rice transplanter model is also equipped with a function that enables unmanned operation under remotely controlled manned monitoring.

The addition of the Japan series to the rice transplanter lineup in FY12/21 means that all of the Company's main product categories of tractors, combine harvesters and rice transplanters now feature products bearing the "Japan" name. These can all be classified as large-scale agricultural machinery. With the increasing size of agricultural land in the future, sales of Japan series products are expected to grow, contributing to greater efficiency and laborsaving in agriculture. Additionally, the Company has plans for market launch of its new Sanae PJ10 large-scale ten-row rice transplanter in April 2023. One distinctive characteristic of the new model is that it features a fundamentally redesigned body with the engine positioned at the front of the rice transplanter. Given that the Company has come up with this design concept of positioning the engine at the front with its sights set on global expansion, the Sanae PJ10 has potential when it comes to prospects for taking on overseas markets going forward.

Sanae Japan PRJ8, a flagship model of rice transplanter



Source: The Company's website

Main features of Sanae Japan PRJ8

■ Remote control switch

Use for automated operation. Visible color LCD display with a signal range extending to 300 meters.



■ Automatic differential lock

Maintains propulsive force when tire idling is detected when turning by activating an automatic differential lock.



■ Forced four-wheel drive control

Forced four-wheel drive control can be applied automatically when further propulsive force is needed. And this can be operated remotely.



Source: The Company's website

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

(4) Implements, spare parts and repair fees

Implements refers to work tools fixed to agricultural machinery, of which “Eco unemaze kun” ridge-making tool is one kind. Other operations at its maintenance bases throughout Japan include repairing breakdowns in agricultural machinery it has sold and maintenance repairs to prevent breakdowns from occurring. In FY12/22, the category accounted for a ratio of 28.2% of Company-wide net sales, giving it a sales size following the cultivating and mowing machinery category. The Company rigorously conducts maintenance repairs to prevent breakdowns and earn trust from customers, ensuring stable earnings unaffected by the external environment, such as unseasonable weather, and for that reason is focusing on incidental services such as repairs and maintenance, and increasing sales.

“Eco unemaze kun” implements attached to agricultural machinery



Source: The Company's website

(5) “Supporter for the farming industry full of dreams,” ICT for agriculture

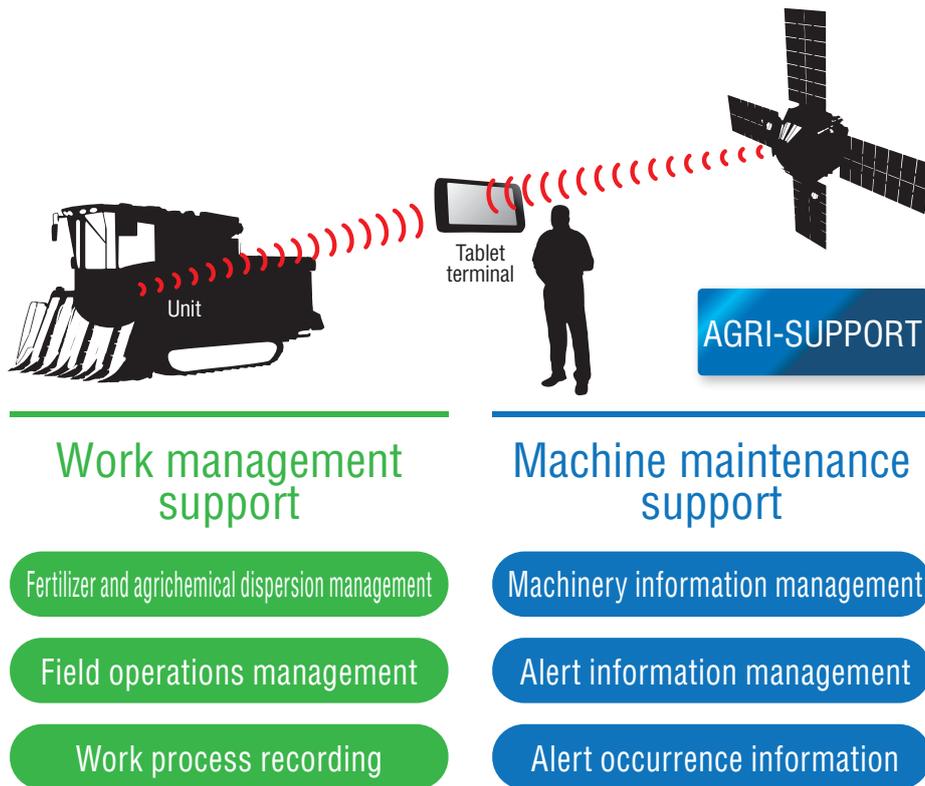
In addition to tangible aspects such as sales of agricultural machinery, the Company also focuses on intangible aspects such as disseminating beneficial farm business information. The “Supporter for the farming industry full of dreams” group is involved in activities to propose or support farm business mainly through the Dream Agricultural Research Institute under the concept of “supporting agriculture full of dreams (i.e., profitable agriculture).” Moreover, it uses its website to send out information related to low-cost rice cultivation technologies and proactively disseminates articles related to the latest technical trends on the Amoni farm business solutions portal website. Currently, the main objective of the activities is to transmit information to farmers and create contact points with them, but in the future, it has an eye on commercializing this in the form of consulting services.

Moreover, it also utilizes ICT proactively to make agriculture more labor-saving and more efficient. In addition to providing ISEKI AGRI-SUPPORT and ISEKI AGRI-SUPPORT linked with farm business support software agri-note as farm management systems and the ISEKI REMOTE service for remote monitoring, it also provides services such as IROHA drone related to growth management and that sends farm images taken by drone to be saved on the cloud, and Up-a-ray, which makes agricultural work more efficient by utilizing analyses of images taken by drone and satellite.

Company profile

The functions that ISEKI AGRI-SUPPORT provides can be divided into two major sections: work management support and machine maintenance support. Work management support helps achieve more efficient farming by breaking away from the conventional reliance on experience and intuition by recording, analyzing and managing data obtained through ICT-equipped agricultural machinery. Machine management support ascertains the state of agricultural machinery using data obtained from the agricultural machinery. These can be inspected and undergo maintenance in advance, making it possible to prevent breakdowns by stopping them before they can happen.

ISEKI AGRI-SUPPORT



Source: The Company's website

We at FISCO believe that farm business support utilizing ICT will become increasingly important in the future. According to a survey conducted by MAFF in 2021, 45.7% of respondents to a question of what they use to manage farm business information replied, "writing notes in a business diary or the like," which accounted for the highest ratio of responses. In addition, 84.9% said they are "not utilizing" smart agricultural machinery in their farm business. Meanwhile, 51.8% of respondents said they "intend to utilize" a farm business management system. The survey results show how much room there is to improve agricultural efficiency and how much room for growth there is through the use of ICT-based farm business support and smart agricultural machinery.

In light of this situation, the Company has indicated that it will focus on providing information-based services and new business creation in the Business Model Transformation section of its Mid-term Management Plan. For agriculture where ICT utilization has not made progress there are many areas where ISEKI AGRI-SUPPORT can contribute to making farm business more efficient, increasing the attractiveness of the Company's agricultural machinery and raising expectations of a contribution to expanding sales.

Company profile

3. The Company's strengths

The strengths that the Company has cultivated over a long business history since its founding in 1926 can be divided into three broad categories. There will be more in detail below on each of the strengths, but we at FISCO believe that the important point is that each strength works with and complements the others, creating a virtuous cycle.

The Company's three strengths

Technological capabilities	Capability as a front runner to develop groundbreaking agricultural machinery and landscaping machinery, and to create innovation
Support capabilities to offer farm business proposals	Capability to solve customers' issues from both tangible (agricultural machinery) and intangible (production management and advanced farm business technologies) aspects
Innovation based on collaboration	Capability to work together with partners in each field and each region in Japan and overseas to develop and provide groundbreaking products and services and create new value for new markets

Source: Prepared by FISCO from ISEKI Report 2021

(1) Technological capabilities

The first of the Company's strengths is its advanced technological capabilities that have enabled it to introduce to the market many "industry firsts" and "world firsts" since its founding in 1926. It has developed many products that have been industry leading from a functional aspect, starting in 1926 with its fully-automated rice hullers, the world-first autothreshing combine harvesters in 1966, its first riding mower in 1988 and the industry's fastest auto-threshing combine harvesters in 2009. The Company has also maintained its competitive edge through the technologies it has developed, and its consistent intellectual property strategy has been to acquire patents. In the number of published and registered patents by specialty field, the Company ranked No. 1 from 2000 to 2006 in "agriculture and fishery" and since 2007 in "other special machinery," remaining in top place almost constantly since 2000 (it was in second place in 2018, 2020 and 2021), and it has remained in the top 2 in the industry for patent allowance rates since 2004 (the patent allowance rate has consistently exceeded 90%. In 2021, it left an extremely high result of 97.2%)

The Company's position in the number of published and registered patents by specialty field and patent allowance rate

1. Number of patents registered in Japan by sector **Ranked No. 2 in the Other Special Machinery Sector**

Year	2000-2006	2007-2014	2016-2017	2018	2019	2020	2021
Statistics	Number of patents published by sector		Number of patents registered by sector				
Sector	Agriculture and Fishery		Other Special Machinery				
Rank	First			Second	First	Second	Second

2. Patent grant ratio **Ranked No. 1 in All Industries**

Year	2004-2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Patent grant rate	-	91.8%	94.7%	97.0%	99.2%	97.5%	100.0%	98.1%	96.4%	97.7%	98.7%	97.2%
Rank	First	Second	First					Second	First			

* Patent grant rate = Number of patents granted / (Number of patents granted + Number of patents applications refused + Number of patents applications withdrawn or abandoned)
 Number of patents applications withdrawn or abandoned = Number of patents applications withdrawn or abandoned after notice of reasons for refusal

Source: Japan Patent Office Annual Report 2022 (the Japan Patent Office)

Source: Annual Report on Patent Administration 2022 (Japan Patent Office)

Source: Prepared by FISCO from the Company's financial results presentation materials

Company profile

We at FISCO believe that the factors that made these advanced technological capabilities possible are the Company's R&D base, in-house systems and sales framework. On a daily basis, the Company conducts latest research as a matter of course at its R&D base in Ehime Prefecture and at the Dream Agricultural Research Institute in Ibaraki Prefecture, but it also proactively engages in invention proposal activities where employees in development departments submit ideas matching market needs, and invention creation activities in which veteran engineers pass on invention creativity know-how to younger engineers. These activities make it possible for young employees to come up with innovative ideas, while at the same time ensuring that expertise, which can tend to become tacit knowledge, is properly shared throughout all the Company's engineers, raising the level of innovation creation output overall. We at FISCO believe that the invention creation activities in particular, which are conducted to share tacit knowledge within the Company, and the company culture, are not something that competitors can imitate overnight, which gives the Company a powerful competitive edge. In recent years, as a result of these activities, the Company was able to develop and introduce to the market a variable fertilizing rice transplanter that plants rice at the same time as adjusts the amount of fertilizer applied by using a sensor (real-time sensing), as well as the Sanae Japan PRJ series equipped with advanced, straight travel and turning-assist functions.

Moreover, a sales network spanning nationwide also enables technological development that meets farmers' needs. Sales employees at sales stores communicate closely with farmers to accurately ascertain their needs and properly pass on that information to development departments, which enables development of technologies that are attractive to customers. Development departments also conduct direct market surveys, so efforts to ascertain market needs are also a feature.

Looking ahead, it seems that the Company wants to proactively engage in ICT-related R&D. In the belief that it should raise the rate of ICT-related invention proposals to 60% by 2025 (currently at approximately 40%), it is implementing in-house training and proactively employing outside expert human resources.

(2) Support capabilities to offer farm business proposals

The Company leverages the experience it has built up over many years of involvement in agriculture to proactively aid in achieving profitable agriculture. Specifically, this is support for farm business from intangible aspects such as providing information and proposals on low-cost agriculture via the "Supporter for the farming industry full of dreams" group, supporting acquisition of JGAP certification and delivering farm business information via its website. In addition, the Dream Agricultural Research Institute established in 2015 conducts research, demonstrations and dissemination activities for smart agriculture utilizing advanced farm business and robot technologies and ICT, then spreading information about this on the Amoni farm business solutions portal website.

It seems that one of the factors that enables the Company to realize advanced proposal and support capabilities is a sales network spanning nationwide. By having a wide network rooted in communities it enables frequent communication with customers and allows for rapid support and proposals on agricultural efficiency to be carried out. In addition to tangible sales, it is extremely important to also focus on intangible aspects. The Company can expand its contact points with customers and increase the number of its fans by showing an attitude of friendly support for agricultural management.

Company profile

(3) Innovation based on collaboration

The Company naturally engages in development of new technologies at its own R&D base, and aggressively conducts research, and development activities in collaboration with outside stakeholders such as governments, research institutes, universities and companies. We at FISCO believe that this will enhance the speed of R&D activities and add new perspectives within the Company, and it will also enable generation of groundbreaking innovation. (Generally, the effectiveness of open innovation is widely known.)

Actually, the Company has been proactively collaborating with Ehime University and set up the “Design Engineering for Horticultural and High-technology Greenhouse” endowed course in the university in 2010. As a result, it succeeded in the industry’s first commercialization of the “plant diagnosis system ‘PD6C’” in 2015. Going forward, the Company plans to deepen its collaboration with Ehime University in cutting edge technologies such as ICT and AI.

In recent years, the Company has furthermore been actively promoting ties with external entities upon having set new targets for giving rise to environmentally sound smart agriculture. In June 2022, the Company invested in Yukimai Design Co., Ltd. a startup company with which it has formed a business alliance involving development and sales of the Aigamo robot, an automatic weed control robot for use in rice paddies. Going forward, the Company seeks to further heighten its capacity to generate innovation while enlisting expertise held by venture companies.

Considering the Company’s strengths, the important thing about these three strengths is that they influence each other and are complementary. It is easy to understand how technological capabilities could improve by innovation based on collaboration, but if advanced technological capabilities are not used for developments that meet needs, they are a wasted treasure. By accurately absorbing front line needs during activities for farm business proposals and support and providing that information to development divisions it enables those advanced technological capabilities to be used in a form that meets needs.

Results trends

Sales increased but profits decreased in FY12/22, while making steady progress with respect to various measures under the Mid-term Management Plan. Achieved record-high net sales in the overseas business, continuing the trend of the previous fiscal year

1. Overview of FY12/22 results

With respect to the Company’s FY12/22 consolidated results, net sales to increased 5.3% YoY to ¥166,629mn, operating profit decreased 14.8% to ¥3,534mn, ordinary profit decreased 19.7% to ¥3,762mn and profit attributable to owners of parent increased 28.9% to ¥4,119mn. Net sales gained YoY amid strong performance of overseas business. In terms of profit, the Company engaged in initiatives to ensure adequate earnings in part by revising sales prices due to escalating costs, but surging prices of raw materials weighed on profits.

Results trends

Domestic net sales fell 4.1% YoY to ¥112,638mn. Under the Mid-term Management Plan, the Company focused on generating sales of large-scale agricultural machinery such as that of the T.Japan (TJ) series of tractors, the HJ series of combine harvesters, and Sanae PRJ8 rice planters. However, the Company encountered diminished customer willingness to make purchases due to factors that included low rice prices, soaring material prices, and adverse effects from the absence of government subsidies for business continuity that had been available in the previous fiscal year. The Company also missed out on opportunities due to supply chain disruptions. By product category, net sales of cultivating and mowing machinery such as tractors decreased 4.3% YoY to ¥22,908mn, net sales of planting machinery such as rice transplanters decreased 12.9% to ¥7,907mn, and net sales of harvesting and processing machinery such as combine harvesters decreased 3.3% to ¥16,090mn. Meanwhile, maintenance revenue such as that from parts and repair fees remained on par with levels of the previous fiscal year. As a result, net sales from implements, spare parts and repair fees decreased 3.1% YoY, thereby holding to ¥42,023mn.

Overseas net sales increased 32.3% YoY to ¥53,991mn for yet another record high after having done so in the previous fiscal year. In the North America region, whereas the compact tractor market entered into an adjustment phase, the Company's shipments rose as local inventory levels mounted a recovery. As a result, net sales increased 29.1% YoY to ¥19,500mn. In Europe, the Company achieved growth in sales mainly targeting consumers as a result of having tapped into market trends associated with changing lifestyles. In addition, sales targeting professionals also increased amid recovery in demand for landscaping. The addition of ISEKI Germany as a consolidated subsidiary also contributed to earnings growth. The Company's operations in Europe have been making steady progress in strengthening the sales structure and streamlining the supply chain, with such efforts spearheaded by ISEKI Germany, ISEKI France and PREMIUM TURF-CARE. As a result, European region net sales increased 57.9% to ¥25,100mn. In the Asian region, net sales decreased largely due to a lower volume of shipments of semi-finished goods to China, and despite a higher volume of shipments to South Korea amid strong performance of Japan series large-scale agricultural machinery. As a result, Asian region net sales decreased 5.5% to ¥8,600mn.

In terms of profit, the Company implemented sales price revisions with its sights set on ensuring adequate earnings both in Japan and overseas, but such measures did not fully make up for effects of soaring prices of raw materials. Moreover, profits also incurred downward pressure due to the Company having missed out on opportunities because it was unable to make deliveries to its customers amid supply chain disruptions. Profit attributable to owners of parent increased, despite recognition of impairment loss, as a result of the Company having recorded extraordinary income that included gain on change in equity associated with the addition of ISEKI Germany as a consolidated subsidiary and also associated with an equity method affiliate in China.

Overview of FY12/22 results

	FY12/21		FY12/22		YoY	
	Results	vs. Net sales	Results	vs. Net sales	Change amount	Change %
Net sales	158,192	-	166,629	-	8,437	5.3%
Gross profit	46,841	29.6%	49,890	29.9%	3,049	6.5%
SG&A	42,693	27.0%	46,356	27.8%	3,663	8.6%
Operating profit	4,147	2.6%	3,534	2.1%	-613	-14.8%
Ordinary profit	4,687	3.0%	3,762	2.3%	-925	-19.7%
Profit attributable to owners of parent	3,196	2.0%	4,119	2.5%	923	28.9%

Source: Prepared by FISCO from the Company's financial results

Results trends

Looking at noteworthy developments in FY12/22, the Company invested in start-up enterprise Yukimai Design Co., Ltd. as part of its efforts to promote environmentally sound smart agriculture in the domestic market. The Company has orchestrated market launches thus far of products equipped with automatic steering functions and rice transplanters capable of adjusting fertilization levels using sensors, in response to the Strategy for Sustainable Food Systems (MeaDRI) advocated by MAFF. Through partnerships with start-up enterprises, the Company aims to swiftly prompt innovation while incorporating external expertise, as it also advances the “business model transformation” cited in its Mid-term Management Plan. Meanwhile, Yukimai Design started selling its Aigamo robot in January 2023, and seeks to sell 500 units annually. Under its Strategy for Sustainable Food Systems (MeaDRI), MAFF aims to achieve a 25% increase in cultivated acreage devoted to organic farming by 2050. In March 2022, MAFF administered a survey looking toward the consumer perspective. Some 87.5% of those surveyed answered in the affirmative when asked if they feel it is important that they choose eco-friendly agricultural, forestry and marine products and food items (agricultural, forestry and marine products and food items that have low impact on the environment, including organic farm products grown without using pesticides or chemical fertilizers, and low-waste products without excess packaging). Looking toward the external environment, it also seems likely that the Company will encounter mounting interest in organic agriculture going forward. This scenario suggests that the Company is taking a proactive approach looking toward organic business development through its investment in Yukimai Design.

2. Progress on the Mid-term Management Plan

The Company has achieved steady progress with respect to various measures stipulated in its Mid-term Management Plan. It accordingly seems that the Company has firmly established foundations toward achieving objectives of its Mid-term Management Plan and further accelerating its growth.

(1) Providing the best solutions: Selection & concentration (domestic market)

In the domestic market, the Company has achieved a more extensive range of large-scale customers amid growth in sales of smart agricultural machinery. It has furthermore made progress in terms of improving its sales and service capabilities by deploying its Amoni farm business solutions portal website and also in terms of achieving revenue-expenditure structural reform of its sales subsidiaries by optimizing its operational bases and workforce enlisting an approach that entails a block-based business territory and sales strategy.

(2) Providing the best solutions: Selection & concentration (overseas markets)

With respect to its overseas markets, the Company achieved record-high net sales again this fiscal year, with such results driven by performance in Europe and North America. In Europe, the Company marked further progress in terms of streamlining its supply chain and strengthening its sales structure as a result of having made ISEKI Germany a consolidated subsidiary. In Asia, IST of Thailand secured an operating profit by making improvements to its profit structure. Meanwhile in Thailand, the Company expanded the product lineup by rolling out small-scale tractors manufactured by TAFE of India.

(3) Providing the best solutions: Selection & concentration (product and development strategies)

In addressing the shift to larger scale of farm operations and adoption of IT solutions, the Company has made steady progress in terms of upgrading its smart agricultural machinery. In Europe, the Company has been engaging in trial adoption of electric mowers amid a progressive shift to decarbonization in looking toward achieving carbon neutrality. Going forward, the Company seeks to commercialize products as it monitors market feedback.

Results trends

(4) Providing the best solutions: Business model transformation

The Company has achieved favorable results with respect to domestic maintenance revenue, and has been steadily working toward creating and establishing new businesses, which in part has entailed its investment in Yukimai Design. In addition, the Company has made progress in terms of introducing its i-Magazine cloud-based mobile tool, and has furthermore streamlined its sales activities and improved service quality through digital transformation (DX).

(5) Increase corporate value by strengthening earnings and governance: Improving profitability (structural reform and improvement of management efficiency)

The Company relocated production of certain products previously manufactured at its Matsuyama Plant in Japan to ISEKI INDONESIA. Rebuilding the production framework and supply chain centered around ISEKI INDONESIA has enabled the Company to establish a system capable of manufacturing products at optimal prices. In addition, the Company has been steadily improving management efficiency through structural reform, in part by discontinuing in-house development and production of dryers.

3. Financial condition and management indicators

With respect to the Company's financial condition at end-FY12/22, total assets were ¥206,491mn, for an increase of ¥18,806mn relative to end-FY12/21. Primary factors attributable to changes in the amount include a decrease of ¥4,101mn in cash and deposits, against increases of ¥6,037mn in notes and accounts receivable - trade, and contract assets and ¥15,460mn in inventories.

Total liabilities were ¥134,146mn, for an increase of ¥13,022mn. Primary factors attributable to the higher amount include gains of ¥6,221mn in trade payables and ¥6,164mn in short-term loans payable and long-term loans payable. Total net assets were ¥72,345mn, for an increase of ¥5,784mn. Primary factors attributable to the higher amount include gains of ¥3,440mn in retained earnings and ¥2,564mn in non-controlling interests. The Company's retained earnings in particular have been steadily increasing year after year, suggesting that the Company has progressively continued to generate profits.

Looking at management indicators, the Company's current ratio and fixed asset ratio are 111.4% and 142.8%, respectively. The equity ratio was 32.9%.

ROA and operating margin as of December 31, 2022, were 1.9% and 2.1%, respectively. Based on these indicators, FISCO deems there to be room for improvement in terms of the Company's profitability. In its Mid-term Management Plan, the Company has set as one of its objectives the aim of improving gross profit margin and operating margin through structural reform, improvement of management efficiency, and fixed cost optimization. These measures are likely to bring about higher ROA and operating margin (the Mid-term Management Plan sets an operating margin target of 5% for FY12/25).

Results trends

Consolidated balance sheets and management indicators

	(¥mn)				
	FY12/19	FY12/20	FY12/21	FY12/22	Change
Current assets	87,159	89,979	91,103	109,414	18,311
Cash and deposits	8,404	10,787	14,850	10,749	-4,101
Non-current assets	110,352	97,449	96,581	97,076	495
Total assets	197,511	187,428	187,684	206,491	18,806
Total liabilities	128,259	125,009	121,123	134,146	13,022
Net assets	69,252	62,419	66,561	72,345	5,784
Retained earnings	17,025	14,493	17,690	21,131	3,440
Stability					
Equity ratio	34.2%	32.4%	34.5%	32.9%	
Profitability					
ROA (return on assets)	0.6%	0.9%	2.5%	1.9%	
ROE (return on equity)	1.1%	-8.8%	5.1%	6.2%	
Operating margin	1.8%	1.4%	2.6%	2.1%	

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Sales and operating profit gains forecast for FY12/23. Higher sales both in Japan and overseas likely as the Company furthermore promotes various measures under its Mid-term Management Plan

1. Outlook for FY12/23

The outlook for FY12/23 consolidated results is for net sales to increase 5.9% YoY to ¥176,500mn, operating profit to increase 27.3% to ¥4,500mn, ordinary profit to increase 6.3% to ¥4,000mn and profit attributable to owners of parent to decrease 36.9% to ¥2,600mn. The Company anticipates sales gains both in Japan and overseas as it promotes various measures under its Mid-term Management Plan, and despite the notion that some degree of lingering uncertainty persists with respect to the external environment particularly in terms of the COVID-19 pandemic, supply chain disruptions, and soaring prices of raw materials. In terms of profit, the Company seeks to increase gross profit through higher sales and price revisions, and also intends to achieve greater profitability by further promoting structural reform and management efficiency improvement, which in part will entail undertaking revenue-expenditure structural reform of sales subsidiaries and establishing an optimal production framework centered on ISEKI INDONESIA.

Outlook

2. Domestic Business

In the domestic business, whereas the Company faces concerns such as those regarding how soaring material prices might affect agricultural machinery demand, the external environment is poised to remain strong. This is in part because adverse effects attributable to the discontinuation of government subsidies for business continuity have subsided and also given that rice prices are no longer heading lower. Amid these circumstances, the Company aims to achieve higher sales by steadily promoting various measures under its Mid-term Management Plan. The company will specifically focus on selling both large-scale agricultural machinery and smart agricultural machinery to address structural changes with respect to agriculture. In addition, the Company will set its sights on improving service quality by streamlining sales operations and providing appropriate information through its i-Magazine cloud-based mobile tool. The company also plans to engage in business activities in looking toward expanding its organic business and accordingly seeks to achieve Aigamo robot sales of 500 units. Furthermore, the company will continue to implement sales price revisions in response to effects of soaring prices of raw materials.

As a result of this scenario, the Company anticipates net sales of agricultural machinery products of ¥52,500mn, an increase of 11.9% YoY, and net sales from implements, spare parts and repair fees of ¥43,800mn, an increase 4.3%. In FY12/22, the Company focused on sales of large-scale agricultural machinery and smart agricultural machinery, but missed out on opportunities due to supply chain disruptions. In FY12/23, despite persisting uncertainties with respect to the external environment, the Company is poised to achieve better results as a result of efforts that entail effectively catering to market needs for large-scale agricultural machinery and other such products. In addition, maintenance revenue is likely to remain strong amid a scenario where the Company places focus on achieving greater results from its incidental services as one of its business model transformation initiatives.

3. Overseas Business

In the overseas business, although the North American compact tractor market is poised to remain in an adjustment phase, the Company projects net sales on par with those of the previous fiscal year as it proceeds with shipments geared to bringing local inventories up to appropriate levels. In Europe, earnings results are likely to remain favorable. The Company accordingly anticipates an increase in sales centered on the professional market encompassing products such as landscaping tractors for which the Iseki Group boasts a substantial presence. Meanwhile, budgets previously allocated to COVID-19 countermeasures are now being redirected to other areas such as landscaping as the impact of the pandemic gradually wanes. Given the likelihood of strong results brought about by recovery of budgets allocated to landscaping, the Company will seek to replenish distributor inventories, which were at low levels in the previous fiscal year. In FY12/23, the Company will furthermore proceed with customer assessments looking toward full-scale adoption of electric mowers, which it has started to sell on a limited basis. The Company will also move forward in extending its lineup of eco-friendly electric products for consumers. Efforts by the Company to extend its lineup of eco-friendly products in the environmentally advanced nations of Europe may contribute to enhancing the appeal of its product offerings. In Asia, the Company anticipates higher sales as a result of initiatives that entail having its Thai-based consolidated subsidiary IST and other such entities strengthen sales networks, and expanding sales of low-priced, small-scale tractors manufactured in India, which it began selling in Thailand during the previous fiscal year.

As a result of this scenario, the Company anticipates North American net sales of ¥18,800mn, a decrease of 3.6% YoY, European net sales of ¥26,200mn, an increase of 4.4%, and Asian net sales of ¥9,400mn, an increase of 9.3%. The Company made progress particularly in Europe with respect to streamlining the supply chain and strengthening sales structures during the previous fiscal year, thereby contributing to record-high overseas net sales. This favorable performance is likely to persist going forward.

Outlook

During the previous fiscal year, the Company established foundations for achieving objectives of its Mid-term Management Plan and attaining further growth in the future. FISCO envisions a scenario whereby the Company achieves greater earnings results in FY12/23, based on these accomplishments.

Medium- to long-term growth strategy

Aim to be a company that continues for another 100 years, and achieve its targets through the four main pillars of “selection & concentration,” “business model transformation,” “improving profitability” and “ESG” based on the keyword of “change”

1. Mid-term Management Plan: Establishing a foundation of “change” for the next 100 years

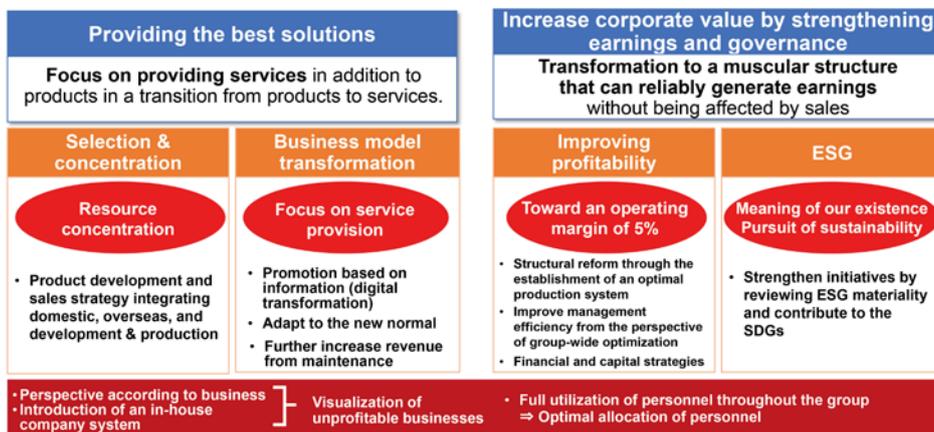
In FY12/21, the Company formulated the Mid-term Management Plan, which establishes FY12/25 as the final year of the five-year plan, in anticipation of the 100th anniversary of its foundation. A Companywide effort is being made to achieve the plan.

The keyword of the Mid-term Management Plan is “change.” The Company will aim to be one that continues for another 100 years beyond 2025, and the main objective of the plan is to lay a foundation for that purpose. It is largely divided into the following two basic strategies.

- (1) Providing the best solutions: Focus on providing not only products but also services from tangible to intangible
- (2) Increase corporate value by strengthening earnings and governance: Make a profitable corporate structure that can surely raise profits beyond sales ups and downs

Under these two basic strategies, the Company intends to move toward implementing a basic strategy encompassing the four perspectives of “selection & concentration,” “business model transformation” (these two are included in “providing the best solutions”), “improving profitability” and “ESG” (these two are included in “Increase corporate value by strengthening earnings and governance”).

Direction of the basic strategies and initiatives in the New Mid-term Management Plan



Source: The Company's New Mid-term Management Plan

We encourage readers to review our complete legal statement on “Disclaimer” page.

Medium- to long-term growth strategy

2. Selection & concentration

The first example of a concrete initiative is “selection & concentration.” The Company will aim to efficiently utilize the limited in-house resources in accordance with changes in the external environment.

In sales activities for the domestic market, as agricultural management entities continue to expand in scale, the Company has established further increases in large-scale farming customers and a focus on sales of the flagship model Japan series, which consists of large-scale agricultural machinery in the categories of tractors, combine harvesters, and rice transplanters, as its basic policies. Based on the recent flow of introducing ICT to agriculture, it is also planning to concentrate resources on sales of smart agricultural machinery such as robot tractor TJV series and Sanae Japan PRJ8 robot rice transplanter. By looking at data presented by MAFF, it can be seen that cultivated agricultural land is increasing in size as family-run management entities are decreasing and organizational management entities are on the rise.

In sales activities for the overseas market, the Company will focus on sales of products matched to demand in each region. In North America, it will focus on sales of products such as compact tractors from AGCO, a partner in its global strategy, in an aim to expand its share of the compact market. In Europe, it will aim to further expand its share of the landscaping market and intends to focus on sales of landscaping machinery tractors, as well as on new launches onto the market of electrified products in response to heightening environmental awareness. (Limited sales of electric mowers were launched in Europe in FY12/22). In addition, it made preparations to rebuild its sales network with an eye on consolidation to expand shares, making a consolidated subsidiary of ISEKI Germany in July 2022 and strengthening its sales structure in Europe. In the Asian market, it plans to expand and accelerate business with its Thai company IST as a starting point while developing the rice cultivation expertise and its agricultural machinery it has amassed in Japan.

In product development, particularly advanced development aimed at the future, the Company has set three important measures: “globally strategic machines,” “development of electrified products,” and “development of smart agricultural machinery.” For globally strategic machines, it intends to reduce costs and improve the efficiency of development by developing common platforms for the categories of tractors, combine harvesters, and rice transplanters. In development of smart agricultural machinery, it will focus on developing agricultural machinery adapted to Level 3 (fully unmanned and remotely monitored robotic agricultural machinery models) for full-scale use. Going forward, more efficient agriculture will become necessary as the size of farms increases, and there is a possibility that various new businesses based on data will be generated. Taking these and other factors into consideration, we at FISCO believe that focusing on the development of smart agricultural machinery will be extremely important.

3. Business model transformation

It is becoming widely recognized that business models to earn sales continually through services are superior to businesses in which items are completely sold off. Amid these conditions, the Company plans to shift from its existing business model focused on completely selling all its agricultural machinery to one in which it will continually increase earnings through the provision of services focused on “data,” repairs, and maintenance, etc.

Medium- to long-term growth strategy

Specifically, it provides a low-cost and advanced location information service (required to operate robotic agricultural machinery or agricultural machinery equipped with automatic steering functions) utilizing GNSS (Global Navigation Satellite System) for ¥3,300 per month that reduces the initial costs of antenna construction for customers. Furthermore, going forward, new businesses such as consulting services based on data obtained from smart agricultural machinery, outside sales of data and fee-based information provided by Amoni may be considered. The Company currently launches agricultural machinery equipped with ICT in the market, and establishes structures that enable it to collect data related to agricultural machinery and agricultural work. We at FISCO think that in the future, the Company will be able to generate a great number of businesses that turn data into earnings, depending on the idea.

The Company will also collect data from this type of ICT agricultural machinery, and accelerate the flow of use by customers. Alternatively, it will utilize data at sales sites and work to develop new services including maintenance, as well as bridge the data to improvements in work styles. It also intends to utilize data for product development and accelerate DX in such ways as improving productivity.

Additionally, it is engaged in steady expansion of sales of spare parts and repair fees, which are an after-sales service. In concrete terms, it is striving to transition to a service structure focused on large-scale maintenance bases and enhance these large-scale maintenance bases.

4. Improving profitability

The Company will work on structural overhaul to stably increase earnings unaffected by external environment.

In specific terms, it will improve the fixed cost ratio by consolidating functions, etc. that were overlapping at each production factory and review segregation of in-house and external production, reduce workloads by placing outside orders for a portion of parts, make business activities more efficient by introducing IT, and improve asset efficiency by reducing inventory. By doing so, the Company intends to achieve an operating margin of 5%, ROE of 8%, and operating cash flows of ¥60.0bn (5-year aggregate) by FY12/25.

5. ESG

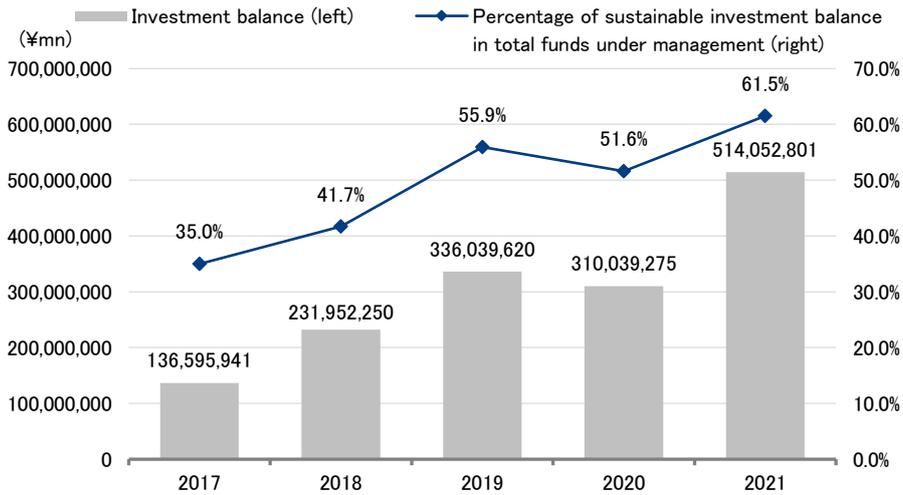
The fourth initiative is to conduct business with ESG in mind. In that regard, the Company previously established targets of achieving a 26% reduction in CO₂ emission volumes generated by production activities in Japanese manufacturing locations by 2030 compared to FY2013 (in 2019, the Company achieved a reduction rate of 12%, exceeding its target of 9%), and also of increasing its eco-product ratio in domestic net sales to 50% or more by 2030. Meanwhile, the Company will further promote environmental management underpinned by its endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Specifically, the Company's plans now entail achieving a 46% reduction in CO₂ emissions by 2030 compared with 2014 at its global manufacturing sites while also increasing its ratio of eco-products in domestic sales to 65% by 2025. In addition to promoting environmental management, the Company aims to contribute to realization of the SDGs through its business on three fronts: "supporting resilient agriculture," "landscaping for livable villages and towns," and "environmental conservation for a recycling-oriented society."

For in-house activities, the Company intends to increase employee engagement by enhancing the work-life balance and ensuring diversity, among other things.

Medium- to long-term growth strategy

ESG investment has been spreading rapidly in recent years among institutional and private investors in response to frequent natural disasters and human rights issues in supply chains, etc. In this environment, we at FISCO predict that companies that do not take ESG into consideration will experience increasing difficulty with funding in the future. In that sense, conducting business activities with ESG in mind will certainly be important.

Sustainable investment balance and percentage of sustainable investment balance in total funds under management

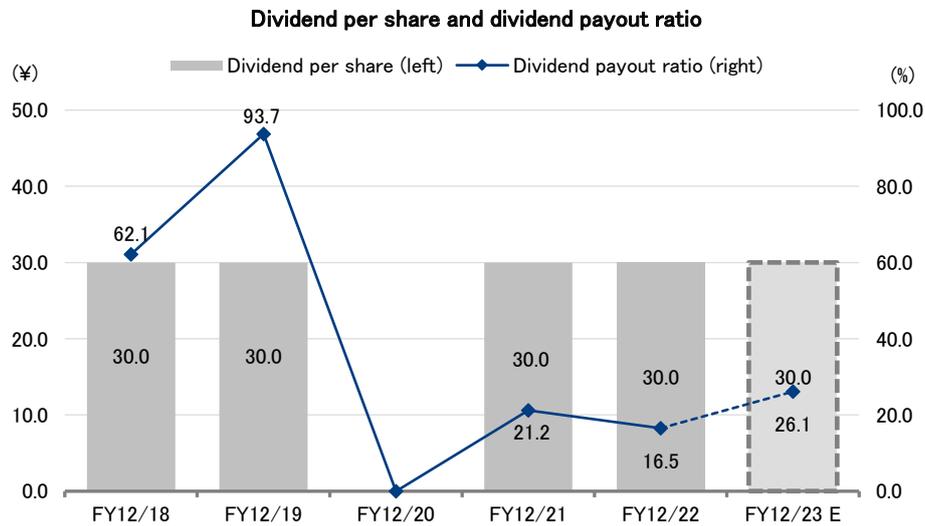


Source: Prepared by FISCO from the Japan Sustainable Investment Forum

Shareholder return policy

Positions shareholder return policy as a key policy, and pays stable dividends

As a policy for profit distribution, the Company positions the allocation of stable dividend payments to shareholders as a key policy. Dividends were ¥30 in FY12/18, ¥30 in FY12/19, ¥0 in FY12/20, ¥30 in FY12/21 and ¥30 in FY12/22. Due to the recording of a net loss in FY12/20, no dividend was paid, but a dividend of ¥30 has been paid during all other periods. The dividend payout ratio during these periods was respectively 62.1%, 93.7%, 21.2% and 16.5% (no dividend in FY12/20). For FY12/23, the Company plans to implement a stable shareholder return, paying a year-end dividend of ¥30 per share (dividend payout ratio 26.1%).



Source: Prepared by FISCO from the Company's financial results



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