

Company Profile | North American Service

KUBOTA CORPORATION



JANUARY 2017



YENGST ASSOCIATES

Machinery Market Research



COMPANY PROFILE NORTH AMERICA

KUBOTA CORPORATION JANUARY 2017

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KUBOTA CORPORATION

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North America:	Kubota Tractor Corporation 3401 Del Amo Blvd. Torrance, California 90503 Telephone: (310) 370-3370
Internet:	www.kubota.com www.kubota-global.net
Major Global Product Offerings:	Farm equipment includes tractors, tillers, combine harvesters and rice transplanters. Construction equipment includes mini-excavators, wheel loaders, compact track loaders, skid steer loaders and other construction machinery related products. Other products include iron ductile pipe; steel pipe; environmental control systems; vending machines and building/housing materials.
Major Farm, Construction and Engine Products Offered in North America	Tractors, Hay Tools, Spreaders, Utility Vehicles, Crawler Excavators, Compact Construction Equipment: Mini-Excavators; Compact Track Loaders; Skid Steer Loaders; Backhoe Loaders and Wheel Loaders, Diesel/Gas Engines, Diesel/Gas Gensets.
Manufacturing Area	Global: approximately 1,338,000 sq. meters Global Farm & Industrial Machinery: approximately 903,000 sq. meters North America: Roughly 2,700,000 sq. feet in Gainesville and Jefferson, Georgia combined.
Kubota 2015 Consolidated Net Sales:	US\$13,949 million*
Estimated Sales in North America (Year-end December 31, 2015)	US\$ 3,962 million*
Kubota Employees: (as of December 31, 2015)	36,233 Consolidated 26,026 Farm and Industrial Machinery
Fiscal Year	January 1 to December 31
Ownership:	Publicly Held Company (NYSE: KUB)

*US dollar amounts represent the translation of Japanese Yen (¥121.056 = \$1US) avg. 2015.



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FARM, CONSTRUCTION AND ENGINE OPERATIONS**

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**EXECUTIVE
SUMMARY**

Kubota Corporation's farm machinery business has concentrated on machinery used for rice growing markets in Asia since its inception. Today, headquartered in Osaka, Japan, Kubota Corporation is one of Japan's leading suppliers of farm equipment and engines for agricultural use. Kubota management introduced its first tractor to the United States in 1969 as a means to increase its global footprint. Since then, Kubota Tractor became the largest single importer and leading marketer and distributor of tractors rated below 120 horsepower to the U.S. Over the years it expanded its North American offering to include compact construction machinery and began supplying engines to competing manufacturers' for their machines.

Kubota management continues to look to increase the company's global footprint and derive more revenues outside of Japan. The company has had a multi-decade commitment to supply North American market first with tractors and then with certain compact construction machinery. Most recently, in 2016, it entered into the North American skid-steer loader market. In fact, since our last report the company has invested in:

- ❧ 502,000 sq. foot KMA manufacturing facility in Gainesville, GA
- ❧ 618,000 sq. foot expansion in its National Distrib Center in Jefferson, GA
- ❧ 765,000 sq. foot North American Distribution Center in Edgerton, Kansas
- ❧ Acquired Great Plains Manufacturing, Inc. a farm implement manufacturer in July 2016
- ❧ 193,000 square foot new corporate headquarters on Grapevine, Texas

Kubota, with a 22 percent market share, was the largest supplier and importer of **farm and industrial tractors** to North America in 2015. Its greatest strength lies in under 40 horsepower machines where it had an estimated 28 percent of the market. We estimate that approximately 70 percent of Kubota's 2015 tractor units sold were in the under 40 horsepower category. Kubota imports finished tractors and tractors whose final assembly takes place in North America, currently in either

Jefferson or Gainesville, Georgia, from Japan. It had imported model L4600 tractors from Thailand from 2011 to 2014 and imported fewer than 10 units of its largest tractor series, three M7000 models, with power ratings up to 168 hp thus far in 2016. The company's position in North America through 2016 is still much like it was in 2015, although at the time of this writing, 2016 statistics were not available.

The company enjoys great success in North America where revenues increased each of the last five years. It is a growing player in the North American **construction equipment** market. Kubota's 2015 market share of all types of compact equipment it offers, except compact wheel loaders, exceeded the prior year's sales. Kubota supplied the largest number of compact backhoe loaders and the second largest number of mini-excavators and compact track loaders in the industry during 2015. Management has indicated that North American sales are expected to have modest growth in 2016. Increases in construction equipment sales do not include the sale of industrial or utility tractors.

Kubota manufactures most of the products it sells in North America in six plants in Japan. However, Kubota Tractor makes the BX and L series compact tractors in Georgia. We estimate that domestic compact tractor production exceeded 20,000 units in 2015 and likely again in 2016. Kubota Corporation has manufacturing facilities outside of Japan including the U.S., Europe, China and several other Southeast Asian countries. Kubota sells and services its equipment in the U.S. and Canada through a network of 1,100 Kubota dealers. In addition, it supplies diesel engines to European and North American original equipment manufacturers (OEMs).

Japan's farm equipment market has been depressed for the past several years. Management realized that there is four times as much arable land for upland crops (wheat, corn and soybean) globally than is used for growing rice. Much of this land is in the U.S. and Europe. Kubota management seized the opportunity of introducing a high horsepower tractor for upland crop growers as a logical extension of their current product line. Kubota designed the new **M7000 Series** with precision farming, which improves yield and quality at a lower cost through technology, in mind. These tractors are equipped with the technology needed for precision farming applications. Production for the M7000 series, large-scale tractors, began in April 2015 at its Kubota Farm Machinery Europe, Dunkirk, France manufacturing facility. The output is for Western European, North American, Australian, and Japanese markets. Initial orders exceeded expectations. Kubota management expects to expand its line-up of larger machines further in order to fill the need for even larger-class tractors, although this move will likely be slowed relative to weak global market demand, which prevails today.

Kubota imports all the **engines** it sells in North America from Japan. It has a good reputation and its engines are very well respected. Caterpillar and Kubota entered an agreement in 2012 where Kubota provides Caterpillar specified and branded engines for much of its compact equipment line. Caterpillar's demand for Kubota's engines is growing. This is good for Kubota as the company was hurt in 2012

when Doosan Bobcat, its biggest customer in North America, announced that it would source its diesel engines for most of its compact equipment starting in 2014. Kubota sources other OEM's engines as well as for its own machinery.

Two significant changes in Kubota's operations are moving its corporate headquarters to Texas and changing its fiscal year to a calendar year. Kubota Tractor's new corporate headquarters is going to be located in Grapevine, Texas, approximately 25 miles from Dallas, Texas and the move should occur in the first quarter of 2017. Kubota Corporation changed its fiscal year-end from March 31 to December 31 beginning January 1, 2016. Thus far, in 2016, the company has restated 2015's quarterly results so one can compare how the company is doing year-over-year. It has not restated any information prior to January 2015.

**TABLE 1: KUBOTA CORPORATION
FARM & INDUSTRIAL MACHINERY FINANCIAL HIGHLIGHTS**

Billions of Yen	Fiscal Year Ended 3/31		Nine Months Ended			Calendar	
	2014	2015	9/30/15	9/30/16	% Chg	2015	2015 \$ mil
Consolidated Revenue	¥1,510.5	¥1,584.3	¥1,255.0	¥1,181.4	(6)	¥1,688.6	\$13,949
Domestic Revenue	484.1	561.2	438.9	413.1	(6)	580.4	4,794
Overseas Revenue	870.2	1,025.7	816.0	768.2	(6)	1,108.3	9,155
U.S. Sales	236.5	386.4	302.2	298.3	(1)	441.4	3,646
Farm & Ind. Machinery	1,153.1	1,215.0	996.0	946.8	(5)	1,340.9	11,076
Domestic Revenue	332.6	257.6	235.1	216.3	(8)	302.7	2,500
Overseas Revenue	820.5	957.4	760.9	730.5	(4)	1,038.1	8,576
Operating Income	¥203.9	¥203.1	¥169.7	¥148.0	(14)	¥222.9	\$1,841

Source: Company Information

Table 1 offers a snapshot of Kubota's financial results for Fiscal 2014 (year-ended March 31) through September 30, 2016. The company's business segments are Farm & Industrial Machinery, Water & Environment and Other. Kubota's **Farm and Industrial Machinery** segment is comprised of two product groups: Farm Equipment and Engines, and Construction Machinery. Farm Equipment and Industrial Machinery represented 79 percent and 80 percent respectively of total consolidated revenues in calendar 2015 and for the nine months ended September 30, 2016. Note that we calculated both calendar 2015 and hypothetical fiscal 2016 results based on quarterly information provided by Kubota management.

Kubota's **consolidated** revenue increased for the sixth consecutive year in pro forma fiscal 2016, twelve months ended March 31, 2016, to ¥1,650 billion. Official fiscal 2015 consolidated revenue was ¥1,584 billion and domestic and overseas Farm & Industrial Machinery sales increased. **U.S.** sales of farm and industrial machinery increased significantly to ¥438 billion in pro forma fiscal 2016 up from ¥298 billion in fiscal 2015. It increased 63 percent year-over-year in fiscal 2015 and was flat to down in the first nine months of 2016. Increased demand for construction equipment offset lower tractor sales.

Kubota's unit sales of 40 to 120 horsepower tractors declined approximately three percent year-over-year in the first half of 2016 and the company market share of

compact tractors declined in the period due to intense competition from competitors. Industry sales for ag. equipment in the U.S. and Canada are forecast to decline five to 10 percent in 2017. Both large and small model unit sales face a decline. U.S. sales represented 33 percent of Farm and Industrial Machinery sales and 26 percent of total consolidated calendar 2015 revenues for the company.

Construction equipment revenue is a small and growing part of Kubota's overall revenue and represented approximately 12 percent of 2015 revenues. North American construction equipment revenue increased significantly due to favorable market demand and new products offset by lower sales of tractors caused both by stagnation in the agricultural markets and the delay of shipments in the first half of the year. We estimate that construction equipment represented approximately 17 percent (\$606 million) of Kubota's U.S. 2015 revenue in dollars.

COMPANY OPERATIONS

Kubota manufactures products and parts for its Farm and Industrial Machinery segment in six plants in Japan and various manufacturing subsidiaries in the United States, China, Germany, Thailand, Indonesia and Vietnam. Kubota recently completed a new agricultural equipment production facility in Dunkirk, France for its new line of large tractors with power ratings ranging from 128 to 168 hp. In 2015, it started an expansion of its national distribution center in Jefferson, Georgia, and a new 502,000 KMA production facility in Gainesville, Georgia for RTV-Series utility vehicles.

Outlook

At the outset of 2016, management expected fiscal 2016 (calendar year) consolidated revenues of ¥1,750 billion yen, approximately 10 percent more than 2015 results. As per its financial reporting for nine months ended September 30, 2016, Kubota management expects full year 2016 consolidated revenue of ¥1,600 billion, a nine percent decline below earlier projections and about 5 percent below actual 2015 revenues. The company is now projecting Farm & Industrial Machinery revenue of ¥1,300 billion for 2016, a slight decline from 2015 results. Estimated domestic revenue declined because of a stagnant farm economy and pre-buying machinery in anticipation of changing emission regulations; overseas and NA sales growth declined more than initially expected. These forecasts are based on the assumption of exchange rates of ¥108=US\$1. (The current exchange rate at the time of this report is ¥116 = US\$1.)

Sales Analysis

Table 2 summarizes Kubota's Farm & Industrial segment financial performance by segment for fiscal years 2014 and 2015 (ended March 31), calendar 2015 and the first nine months of fiscal 2015 and 2016. It is Kubota's largest operating segment and represented 79 percent of calculated calendar 2015 consolidated revenues. This operating segment is comprised of farm equipment and engines and construction machinery segments.

Kubota Corporation enjoyed solid growth over each of the last five fiscal years. It changed its fiscal year from twelve month ended March 31 to a calendar year

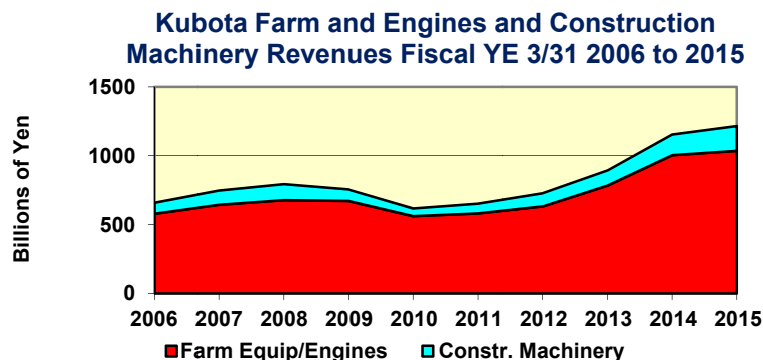
beginning in January 2016 so we are not able to make year-over-year comparisons except for calendar 2015 that we calculated based on public information.

**TABLE 2: KUBOTA CORPORATION
FARM & INDUSTRIAL MACHINERY SEGMENT FINANCIAL PERFORMANCE**

	Fiscal Year Ended March 31,		Calendar	Nine Months Ended September, 30	
Billions of Yen ¥	2014	2015	2015	2015	2016
Farm and Ind. Machinery	1,153.1	1,215.0	1,341	996.0	947.1
Domestic	332.6	257.6	303	235.1	216.3
Overseas	820.5	957.4	1,038	760.9	730.5
Farm Equip and Engines	1,102.9	1,032.0	1,111	819.5	770.0
Domestic	291.7	215.1	229	180.6	174.7
Overseas	711.2	816.9	882	638.9	595.3
Construction Machinery	150.2	180.3	200	153.4	156.6
Domestic	40.8	42.3	46	32.7	22.5
Overseas	109.3	137.8	154	120.7	134.1

Source: Company Information

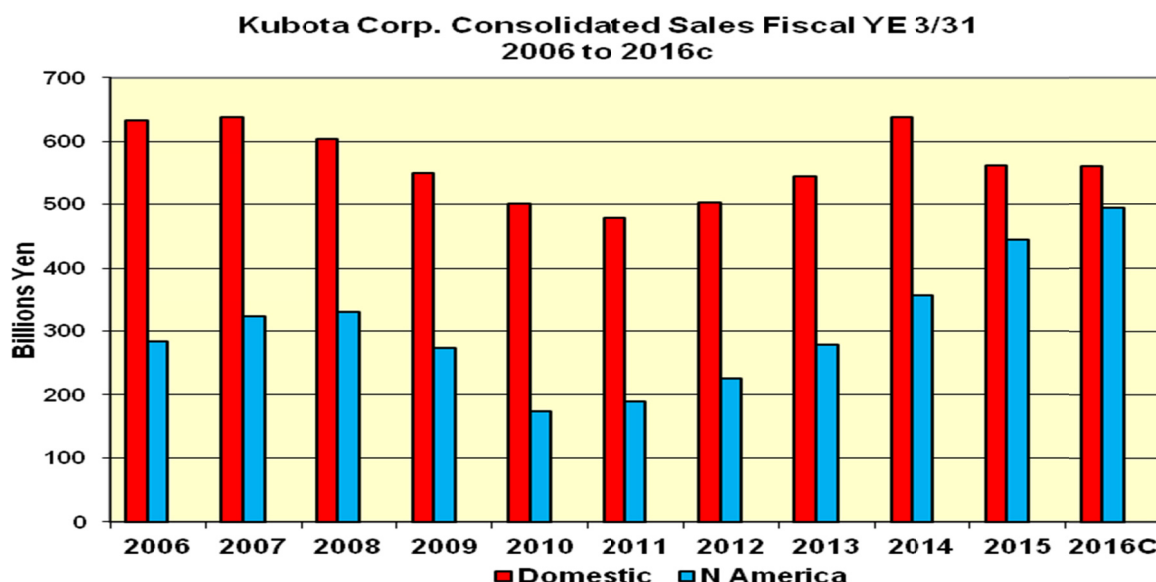
Farm equipment and engine revenues represented 66 percent of Kubota's total consolidated 2015 revenues, 79 percent of which were from overseas. Overseas sales represented 52 percent of consolidated calendar 2015 revenues and increased for



each of the last five fiscal years ending March 31. However, in the first nine months of 2016, they declined six percent year over year reflecting the decline in tractor demand. **Construction Machinery** revenues represent a small, but growing, part of Kubota's revenues; 12 percent of total consolidated calendar 2015. As a percent of total consolidated sales, construction machinery sales have increased from six percent of consolidated sales in 2010 to 12 percent. Approximately 77 percent of construction machinery sales went to overseas markets.

Geographic Sales

Japan is Kubota's largest market, followed by North America, Asia excluding Japan, Europe and Other Areas. Kubota's **domestic sales** increased from fiscal 2011 through 2014, as illustrated in the following chart; sales declined for two consecutive years in fiscal 2015 and 2016 due to fluctuations and lesser demand for farm equipment. Domestic sales as a percentage of total consolidated sales declined from 54 percent of total in fiscal 2010 to 34 percent in 2015. Prior to fiscal 2010, domestic sales were at least 50 percent or more of total consolidated sales in most or all years.



North America and the U.S. in particular, is Kubota's second largest single market in the world. **North American sales**, as a percent of total consolidated revenue, increased from 19 percent of total in fiscal 2010 to 30 percent in fiscal 2016 and calendar 2015. The United States alone represented 16 percent of consolidated sales in fiscal 2010 compared to 27 percent in fiscal 2016 and approximately 26 percent in calendar 2015.

TABLE 3: KUBOTA CONSOLIDATED REVENUE BY GEOGRAPHIC REGION

Billions of Yen ¥	FY ended 3/31			Nine Months Ended		Calendar	
	2014	2015	2016*	9/30/15	9/30/16	2015*	2015 \$ millions
Revenues							
Japan	¥638.3	¥561.2	¥560.9	¥438.9	¥413.1	¥580	\$4,791
North America	356.9	443.4	494.5	347.7	337.0	499	4,122
U.S.	236.5	386.4	438.6	302.2	298.3	441	3,645
Canada	37.7	57.0	55.9	45.5	38.7	57	477
Europe	177.5	208.6	205.0	156.0	147.0	207	1,710
Asia¹	284.0	304.6	317.3	254.9	236.7	326	2,693
Other Areas	51.9	66.5	72.4	57.4	47.5	75	620
Consol. Total	¥1,508.6	¥1,584.3	¥1,650.1	¥1,254.9	¥1,181.3	¥1,687	\$13,936
Cons. Op. Inc	¥202.4	¥203.1	¥224.4	¥169.6	¥148.0	¥222	\$1,834

Source: Company Information; \$1 US = ¥121.056 avg. in 2015; * calculated pro forma

Consolidated revenues for the **nine months ended September 30, 2016** declined six percent year-over-year and in every region as outlined in Table 3. Domestic Japanese and overseas sales declined at approximately the same rate. North American sales during this period declined three percent while U.S. sales declined just over one percent year-over-year.

Employment

Kubota's consolidated headcount increased significantly for the last five consecutive years as outlined in Table 4. Farm and Industrial Equipment segment employment grew 54 percent during that same time. Consolidated revenues increased 70 percent from fiscal 2011 through fiscal 2015 (from ¥934 billion to

¥1,584 billion). Farm & Industrial revenue increased more than 86 percent over that period (from ¥652 billion to ¥1,215 billion).

TABLE 4: KUBOTA EMPLOYMENT DATA FISCAL 2011 TO DECEMBER 31, 2015

Division	2011	2012	2013	2014	2015	12/31/15
Consolidated Company	25,409	29,185	31,436	33,845	35,487	36,233
Farm & Ind. Machinery	15,519	19,142	20,825	22,660	23,951	26,026

Source: Company Information

Some of the employment increases resulted from expansion of manufacturing operations in countries outside of Japan, and most of the job increases occurred in the Farm & Industrial Machinery segment as shown above. We expect that employment will be relatively stable during 2016 since global demand is not growing and manufacturing additions are less of a factor.

Corporate Leadership

The Company adopted the Executive Officer System in January 2016. There have been several changes in management leadership since our last report. Table 5 lists current company leadership and U.S. officers. Masatoshi Kimata is the President and Representative Director of Kubota Corporation. The Board includes the Representative Director and Executive Vice President, Director and Senior Managing Executive Officer, and two Executive Officers. A new board is scheduled to be installed in March 2017, with Mr. Kimata continuing to be President.

TABLE 5: COMPANY LEADERSHIP OF KUBOTA CORPORATION

President and Representative Director	Masatoshi Kimata
Representative Director and Executive VP	Toshihiro Kubo
Executive Officer	Yasuo Nakata
Executive Officer	Dai Watanabe

Source: Kubota Corporation

KUBOTA OFFICERS IN THE UNITED STATES

Kubota Tractor Corporation President	Masato Yoshikawa
Senior VP, Marketing & Dealer Development	Greg Embury
Vice President Ag. And Turf Division	Todd Stucke
Vice President Const. Eq. and Northern Division	Ted Pederson
Kubota Manufacturing of America Corporation President	Hironobu Kubota
Kubota Engine America Corporation President	Tomokazu Matsushita
Vice President of Sales and Marketing	Kevin Keyes
Kubota Credit	David Sutton

Source: Company information

CORPORATE STRATEGY

The Company's strategy for the last couple of years is to transition to global operations, outperform market growth and develop large-scale agricultural machinery business and products for upland farming applications. In an effort to achieve this, management has created marketing and product development systems for its products in each region, expanded its production outside Japan and created systems capable of developing and launching product lineups that meet

the needs of various regions. Its core growth strategies in this time of global economic weakness include:

- ⌘ Accelerating business development in its **farm machinery** segment by introducing large-scale tractors for use in upland farming (wheat, corn and soybeans) applications by expanding its line-up of products to include larger tractors, expanding European and American sales and service networks and acquiring an upland farming implement manufacturer. It opened its new manufacturing facility in Dunkirk, France in September 2015 where it is building its new M7000 series of tractors (130 to 170 horsepower) for export to Australia, Europe, Japan and North America.
- ⌘ Looking for growth in its overall farm equipment business with equipment intended for rice paddy cultivation, an expected growing market.
- ⌘ Revitalizing its Japanese farm equipment business. Declining rice consumption, the declining number of farm households, the aging of the agricultural population and other structural factors are all factors that contributed to the decline in domestic revenues. The updated strategy emphasizes strengthening its service capabilities and implementing a new operation of “smart agriculture” through technological development.
- ⌘ Introducing skid steer loaders to its North American compact construction equipment offerings in 2016. This was initiated and is expected to help expand market share of compact construction equipment in North America.
- ⌘ Evaluating and restructuring its R&D activities as it expands international business operations. Management bases operations on the “regional production for regional consumption” principal and will expand overseas production to meet growing demand. Aggressively promote the localization of operations.
- ⌘ Changing the fiscal year of Kubota Group in an effort to align the company and its reporting standards with many of its competitors. It is working to integrate business operations in an effort to increase operating efficiency.
- ⌘ Developing **KUBOTA Smart Agri System (KSAS)**, a fusion of agricultural machinery and information and communication technologies (ICT), to support large-scale farmers, introduced in June 2014. Introduced new model combine harvesters, rice planters, and tractors compatible with KSAS operations.
- ⌘ Moving Kubota Tractor headquarters to Grapevine, Texas, approximately 25 miles from Dallas, to take advantage of its central location within continental U.S. This move from its previous California location is being completed during the first quarter of 2017.
- ⌘ Building a 502,000 square foot manufacturing facility in Gainesville, Georgia. It will increase production capacity by 60 percent over the next five years. The goal is to start production of Kubota’s RTV series utility vehicles in January 2017. It will ultimately be able to produce 50,000 machines annually.

In our opinion, Kubota is largely on track to meet the above goals. Management is dedicated to making the company one of the leading suppliers of farm and

industrial equipment and to be a leading contender in compact construction equipment globally. We expect the move into larger tractors will be taken slowly, with product technology, reliability, and competitive pricing being the primary drivers to gain market acceptance in the various regions where the products will be sold.

NORTH AMERICA

Farm and utility tractors and engines make up most of Kubota's North American sales. Construction machinery sales account for a small but growing portion of total sales. Demand for small-scale construction machinery increased the last couple of years because of the economic recovery and strong housing. Kubota added skid steer loaders to its product lineup in 2016, a product, which serves a broad range of construction and farming applications. These machines are currently made in Japan and exported to North America; however, depending on sales performance, management might consider a local domestic production site in the U.S. later.

North American Operations

Kubota Tractor Corporation (KTC), established in 1972 and headquartered in Torrance, California until recently, is Kubota's main subsidiary in the United States. As already stated, the company is moving its U.S. headquarters to Grapevine, Texas, which is currently in progress during the first quarter of 2017. Kubota Tractor Corporation is the leading supplier of "under 40 horsepower" tractors in North America. It has made its L-Series compact tractors in Jefferson, Georgia since 2013 and recently added production of its BX line there as well. It also makes turf equipment and recreational vehicles in North America, but we do not follow those machines as part of our subscription services.

KTC's North American Distribution Center (NADC) is located in Edgerton, Kansas. The facility has 765,000 square feet of space and serves as the primary distribution hub for Kubota's parts and wholesale goods across the U.S. and Canada. It also serves as a worldwide source for many Kubota parts. Nearly all construction equipment sold in the U.S. will pass through the NADC. KTC has four division offices and warehouses located in Lodi, California (Western Division); Ft. Worth, Texas (Central Division); Columbus, Ohio (Northern Division); and Suwanee, Georgia (Southeast Division) that continue to provide regional support to local Kubota dealers. KTC distributes and markets Kubota branded equipment including a complete line of tractors up to 168 PTO horsepower and compact construction machinery throughout the United States. KTC also distributes and markets Kubota's power generation units.

Kubota Manufacturing of America's (KMA) manufactures and assembles Kubota lawn tractors, zero-turn mowers, sub-compact tractors, utility vehicles and certain implements in Gainesville, Georgia. Kubota manufactures approximately one-half of what it sells in the U.S. in Gainesville. It markets its products in the U.S., Canada, Australia, Europe, Africa, Asia, and Japan.

Kubota Credit Corporation (KCC), founded in Torrance, California in 1982, offers financing alternatives to prospective buyers through Kubota dealers. It also offers personal credit counseling and competitive financial products.

Kubota Industrial Equipment (KIE), located in Jefferson, Georgia, manufactures L and BX Series compact tractors, tractor implements, including backhoes and loaders, and reassembles Kubota tractors made in Japan for sale in the U.S.

Kubota Engine of America Corporation (KEA), located in Lincolnshire, Illinois, oversees the sale of engines, generators and service parts. The majority of its business comes from other North American OEMs. Kubota sells its diesel engines for use in a large number of low-horsepower construction and industrial machines (see Table 16). It also supplies a large number of diesel engines to non-construction product areas. For example, Kubota supplies engines to the Carrier Corporation (a subsidiary of UTC Corporation) for its refrigeration units in commercial trucks and truck trailers and to Caterpillar for much of its compact equipment product line. It has over 800 dealer locations in the U.S., Mexico, Central America, South America and the Caribbean.

Marketing and Distribution

Kubota Tractor Corporation has more than 1,100 dealer locations selling utility tractors and other machinery throughout North America. The Kubota web site, www.kubota.com, lists dealer names and locations. The company handles its Canadian tractor and construction machinery sales through Kubota Canada Limited. A list of Kubota dealers in Canada is on the Canadian website, www.kubota.ca. Kubota Engine relies on an extensive engine and generator distribution network, along with over 800 dealers in the United States, Canada, Mexico, Central America, South America, and the Caribbean.

Management is fine-tuning its North American distribution system as it adds more production and new products to its North American offerings. It opened a 765,000 square foot **North American Distribution Center (NADC)** in Edgerton, Kansas in August 2015. It will be the primary distribution hub for Kubota parts and whole goods distribution across the U.S. and Canada. It serves as the wholesale source for many Kubota parts; nearly all Kubota Construction Equipment sold in the U.S. will travel through NADC. KTCs current divisional distribution centers located in Suwannee, Georgia; Fort Worth, Texas; Columbus, Ohio; and Lodi, California continue to provide regional support to local dealers. It is currently expanding the Jefferson, Georgia **National Distribution Center (NDC)** approximately 618,000 square feet, valued at \$16 million. The will triple its logistics space, improve operating efficiencies and help with increasing production levels for its compact tractor, utility vehicle and turf product markets and should be complete by July 2017.

PRODUCT ANALYSIS

Most of Kubota's activities in North America are through Kubota Tractor Corporation (KTC), Kubota Industrial Equipment (KIE) and Kubota Engine America (KEA). Kubota Tractor and Industrial Equipment sell and distribute the company's

farm tractors, compact construction equipment, electrical generator sets, turf equipment and various other accessories through a network of more than 1,100 Kubota dealers. Kubota Engine America focuses on the distribution of the company's diesel and gas engines.

North American Machinery Production

Kubota has a few manufacturing operations in North America. As we have discussed previously, **KIE** manufactures certain compact tractors for the North American market in its Jefferson, Georgia facility (500,000 plus square feet) opened in April 2013. It also manufactures tractor implements, including backhoes and loaders, and reassembles tractors imported from Japan for sale in the U.S. there. We think Kubota currently produces approximately 22,000 units per year, the operating capacity of the plant. It manufactures small garden type tractors and RTV Series machines in Gainesville, Georgia however; we do not include these machines in our subscription service.

Kubota imports many of its small farm and industrial tractors either fully or partially assembled from Japan. The company performs limited assembly, adding wheels and various accessories to the core machines and for its new M-Series tractors in the Lodi, California and / or Gainesville, Georgia facilities. Assembly is limited to installing wheels and optional accessories after which finished machines are shipped to dealers. Kubota does not produce any engines or construction equipment in North America.

North American Machinery Sales

Kubota, known for its compact machinery, is the leading supplier of tractors, especially compact tractors, in North America. It has held approximately 22 percent or more of the tractor market for a number of years through 2015. In 2015, it was the largest supplier of compact backhoe loaders, second largest supplier of mini-excavators, third largest supplier of compact track loaders, and third in compact wheel loaders. Table 6 outlines the company's sales position with its core machinery products relative to industry sales in North America in 2013 through 2015. We estimate that U.S. 2015 tractor sales represented approximately 58 percent, or \$2.1 billion, of Kubota's U.S. revenue in dollars.

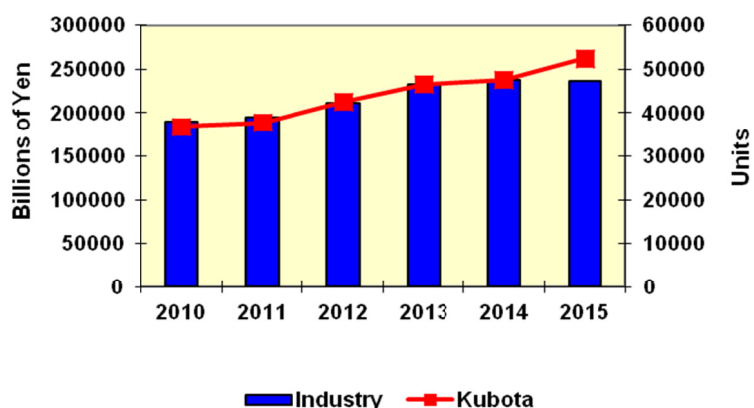
TABLE 6: NORTH AMERICAN EQUIPMENT SALES KUBOTA CORP. VS. TOTAL INDUSTRY: 2013 - 2015

Products	2013			2014			2015		
	Industry Units	Company Units	%	Industry Units	Company Units	%	Industry Units	Company Units	%
Farm Tractors	232,875	46,500	20	238,200	47,500	20	236,500	52,500	22
Wheel Loaders (<80hp)	2,755	460	17	3,300	510	15	3,900	520	13
Mini-Excavators	24,900	5,160	21	28,625	5,780	20	32,600	6,760	21
Crawler Excavators	24,415	500	2	25,500	510	2	26,075	600	2
Compact Backhoes	2,100	1,430	68	2,300	1,550	67	2,300	1,600	70
Compact Track Loaders	29,550	3,340	11	35,410	3,430	10	41,125	5,550	13
Total	316,595	57,390	18	333,335	59,280	18	342,500	67,530	20

Source: Yengst Associates

Kubota introduced skid steer loaders in North America in 2016. We think that it will take a couple of years before the company has a sizeable market share of skid steer loaders, as was the case with other compact construction machinery it introduced in earlier years. We have not included 2016 data in the above table as the information has not yet been developed for 2016 at the time of this writing.

Kubota Tractor Unit Sales Compared to North America Industry Tractor Unit Sales 2010 to 2015



Farm / Industrial Tractors

Kubota surpassed Deere in 2015 to become the largest single North American supplier, and the largest importer, of farm and industrial tractors when it sold 52,500 units in North America. It represented approximately 22 percent of the North American market. CNH (Case and New Holland combined) was the largest supplier in 2015 selling 76,000 units. CNH and Kubota combined sold approximately 55 percent of the total units sold in the United States and Canada in 2015. Add Deere, the second largest single supplier in 2015, and the three companies held 77 percent of the market. All of Kubota's tractors have Kubota diesel engines and the lower power rating machines carry a hydrostatic transmission. M and L Series tractors for the most part carry mechanical synchronized transmissions with options for HST or CVT transmissions. Most tractors have four-wheel drive capability. Kubota continually updates its tractors to meet the competitive and technical aspects of the market.

TABLE 7: KUBOTA FARM / INDUSTRIAL TRACTORS OFFERED IN NORTH AMERICA

Model (Series)	# of Models	Mfg Location	# of Wheels	Engine Mfg.	Hp Range	Transmission Type
TLB Series	3	Japan	4	Kubota	24 - 63	HST
B Series	5	Japan	4	Kubota	17 - 33	HST
BX Series	4	Georgia	4	Kubota	18 - 26	HST
L Series: 2wd/4wd	5	Georgia	4	Kubota	25 - 62	FST/GST/HST
M Series: Utility	11	Japan	4	Kubota	46 - 168	Gear/HST
M Series Ag	15	Japan/France	4	Kubota	100 - 168	Gear/CVT

Source: Company Information

Industry tractor sales have increased steadily since 2010, although most of the growth since 2013 has come in compact tractors, while large row crop tractor sales

have been declining since 2014 because of declining or weak commodity prices and reduced farm income. These trends continue in the most recent Industry data, namely the nine months ended September 30, 2016 (Table 8), when tractor sales in each size category declined except under 40 horsepower models, which grew 12 percent year-over-year.

Table 8 reflects Industry tractor sales for calendar 2013 through 2015 and the company's first three quarters ended September 30 (2015 and 2016) based on Kubota's current year, which coincides with the calendar year.

TABLE 8: INDUSTRY TRACTOR UNIT SALES 2013 THROUGH 2015 AND NINE MONTHS ENDED SEPTEMBER 30, 2016.

Units	Calendar Year			9 Months ended September 30		
HP	2013	2014	2015	2015	2016	% Chg
2 WD						
< 40	114,218	123,533	131,140	94,172	105,144	12
40>100	63,700	68,305	65,502	44,690	42,749	(4)
100+	42,928	37,853	28,318	18,102	13,995	(23)
Total 2WD	220,846	229,691	224,960	156,964	161,888	3
4WD	8,470	6,329	3,990	2,169	1,467	(32)
Total Tractors	229,316	236,020	228,950	159,133	163,355	3

Industry tractor unit sales for the first nine calendar months of 2016 followed a trend in tractor demand we have seen since 2014: unit sales for all size categories decreased except the under 40 horsepower segment. The largest decrease occurred in the 4WD size category (32 percent), a size category Kubota does not compete in, followed by the 100+ horsepower category (23 percent). Kubota offers three models in this size category (M7 Series) and expects to add to it in the coming years. Consumer type machines fall in the under 20 horsepower category; compact tractors refer to under 40 horsepower machines that are often found on small farms and in specialty agricultural industries (for example dairies and landscaping applications). Unit sales in the under 40 horsepower category increased 12 percent year-over-year in the first nine months of 2016.

Kubota sold approximately 28 percent of all under 40 horsepower tractors sold in 2015. We estimate that approximately 72 percent of total tractors it sold in North America were compact tractors. This explains why Kubota's North American sales are holding up relative to other major tractor OEMs. In 2015, Kubota sales even beat the Industry trend. Kubota management did state, in its most recent financial filings, however, that the company had lost some market share in North America. Approximately 26 percent of Kubota's 2015 tractor sales were in the 40 to 100 horsepower category, a market segment that declined a few percent in 2015 and is down modestly in 2016.

As we mentioned earlier, management expanded its tractor line to include "upland" farming, what we would refer to as "row crop", machines. Kubota makes the M7 Series machines in Dunkirk, France and exports them to North America. We have not seen many of these machines imported here as of yet. *Production for the M7 Series began in the spring of 2015. Kubota management expects to expand its line-up of larger machines further in order to fill the need even larger-class tractors.*

Management plans to produce 3,000 units annually in the European factory beginning in 2017, but that will depend largely on global orders with very depressed markets in most geographic locations for the larger machines..

Yengst Associates' Equipment Analysis on Farm and Industrial Tractors is currently being updated and will be available early in 2017.

Compact Wheel Loaders

Wheel loaders are broken into two segments: standard (greater than 80 hp) and compact (less than 80 hp) machines. The compact wheel loader market is competitive; most large construction equipment OEMs offer compact wheel loaders. The Industry reached record high sales of 3,900 units in 2015, helped by rental industry purchases.

Kubota offers four compact wheel loader models in North America. We estimate that it supplied the third largest number of units in 2015, 520 units or 13 percent of the market. Caterpillar and Deere are the two major competitors in this small wheel loader market and together accounted for about 40 percent of the market. Kubota's machines use Kubota axles, hydrostatic (load sensing) transmissions and diesel engines, rated from 37 to 64 net horsepower. The company manufactures and imports its wheel loaders from Japan.

TABLE 9: COMPACT WHEEL LOADERS OFFERED IN NORTH AMERICA

Model	# Models	Mfg Location	Operating Weight	Lift Capacity	Engine	Net HP	Transmission Type
R Series	4	Japan	7,450 – 10,229	8,505	Kubota	37 - 64	LST

Source: Company Information

Yengst Associates' Wheel Loader Equipment Analysis Report dated October 2015 provides an in-depth analysis of the North American market.

Mini-Excavators

The North American mini-excavator market is extremely competitive. Mini-excavator sales peaked in 2015 at 32,600 units and marked the seventh consecutive year of increased unit sales. Kubota imports its mini-excavators to the United States and Canada. Kubota offers 11 tracked models weighing between one and six metric tons with Kubota diesel engines that range from 10 to 48 net horsepower.

Kubota's divides its mini-excavator line into two design groups: KX Series, seven models, have conventional tail swing and the U Series, four models, have "zero tail swing".

TABLE 10: MINI-EXCAVATORS OFFERED IN NORTH AMERICA

Series	# Models	Operating Weight (lbs)	Mfg Location	Engine Mfg	Engine Model	Net HP	Max Dig Depth (ft)
U Series	4	3,703 - 12,535	Japan	Kubota	Various	15 - 48	7.6' -11.9'
KX Series	7	2,200 - 12,400	Japan	Kubota	Various	10 - 48	5.7'- 12.7'

Source: Company Information

Kubota is the second leading mini-excavator supplier in North America, following Bobcat's 23 percent of the market. The company sold 6,760 units in 2015, approximately 21 percent of the market. Kubota's 2015 sales were spread out evenly (approximately 20 percent) among the four reported size categories. Kubota machines are in high demand by independent contractors and in the sewer and water industry as well as commercial and residential construction, landscaping and the rental market. The top two players in the mini-excavator market (Kubota and Doosan Bobcat) accounted for 44 percent of the overall 2015 market.

Yengst Associates' Mini-Excavator Equipment Analysis Report dated August 2015 provides a comprehensive analysis of the mini-excavator market in North America.

Crawler Excavators

Kubota offers one crawler excavator model, KX080, with an operating capacity greater than six metric tons. It has either a "power utility" or "super double boom". As with its mini-excavators, Kubota makes the Model KX080 in Japan. We estimate that the company had approximately two percent of the 2015 hydraulic excavator market when it sold 600 units. We have not heard mention of Kubota expanding its excavator line further in the near future, although the company could easily develop a machine at 10 tons that would carry many of the same components and engine as the Model KX080-4, already on the market. We doubt that the company will try competing in machines rated above 10 metric tons any time soon.

TABLE 11: CRAWLER EXCAVATORS OFFERED IN NORTH AMERICA

Series	# Models	Operating Weight (lbs)	Mfg Location	Engine Mfg	Engine Model	Net HP	Max Dig Depth (ft)
KX080-4	1	18,280 - 19,140	Japan	Kubota	V3307DI-T	62	15.1'

Source: Company Information

Yengst Associates' Hydraulic Excavator Equipment Analysis Report dated October 2016 provides a comprehensive analysis of the mini-excavator market in North America.

Compact Backhoe Loaders

Kubota is one of only three compact backhoe loader suppliers in North America, down from eight in 2009. Kubota offers three models in its TLB Series (tractor/loader/backhoe). They are actually utility tractors equipped with attachable backhoe and loader implements and are a sub-segment of Kubota's B and L Series compact tractors. These machines have power ratings between 23 and 62 horsepower and powered by Kubota diesel engines. Kubota manufactures its machines in Osaka, Japan, while backhoe and loader attachments are sourced in the company's Gainesville, Georgia facility.

TABLE 12: COMPACT BACKHOE LOADERS OFFERED IN NORTH AMERICA

Model	Mfg Location	Ldr Lift Cap (lbs)	Max Digging Depth (ft)	Engine Mfg	Net HP	Transmission Type
TLB Series						
B26	Japan	1,102	8.2'	Kubota	23	HST
L47	Japan	2,848	10.0'	Kubota	47	HST Plus
M62	Japan	3,960	14.0'	Kubota	62	HST Plus

Source: Company Information

Kubota is the single largest supplier of compact backhoe loaders in North America. The company sold 1,600 units in 2015, a 70 percent market share. Terramite and Waldon are the second and third largest suppliers to North America; both manufacture their offerings domestically. One should note that most if not all compact tractors can be configured as a backhoe loader; all it requires is the proper attachments and hydraulic connections to the machines involved. We have no way of knowing how many straight tractors act as backhoe loaders in the marketplace, as the owners convert the machines after their purchase.

Yengst Associates' Equipment Analysis on the Backhoe Loader market dated September 2016 provides an in-depth analysis for the North American market.

Compact Track Loaders

The North American CTL market is very competitive one; CTL loader demand has outstripped mini-excavator demand since 2010. There are 15 suppliers offering CTL machines in North America. Bobcat and Caterpillar hold the largest market share in terms of unit sales. Kubota entered the North American compact track loader (CTL) market in June 2010 and was the third largest supplier by 2015. It imports its compact track loader line from Japan.

TABLE 13: COMPACT TRACK LOADERS OFFERED IN NORTH AMERICA

Series	# Models	Mfg Location	Op. Cap (lbs)	Engine Mfr	Gross HP	Transmission Type
SVL	3	Japan	2,300 – 3,200	Kubota	74 - 96	HST

Source: Company Information

Kubota introduced its third compact track loader model, SVL95-2s, in early 2016. It now offers machines in each reported size category. All Kubota machines have vertical lift. We estimate Kubota sold 5,550 units in 2015, approximately 13 percent of the market. Sales for 2016 are still not known.

Yengst Associates' Equipment Analysis on the Compact Track Loader market dated July 2016 provides an in-depth analysis of the North American market.

Skid Steer Loaders

Kubota introduced its two vertical-lift skid steer loaders in October 2014. Like the North American compact track loader market, the North American SSL market is very competitive. The company recorded its first North American unit sale in 2016. We expect it will take a year or two for the company to get its footing in this market.

TABLE 14: COMPACT TRACK LOADERS OFFERED IN NORTH AMERICA

Series	# Models	Mfg Location	Op. Cap (lbs)	Engine Mfr	Gross HP	Transmission Type
SSV	2	Japan	1,950 – 2,690	Kubota	61 - 74	HST

Yengst Associates' Equipment Analysis on the Skid Steer Loader market dated July 2016 provides an in-depth analysis for the North American market.

Diesel Engines

Yengst Associates estimates that Kubota is one of the largest suppliers of diesel engines in North America based on unit volume, and it is one of the largest suppliers worldwide based on its sales in all global markets. We estimate that engine sales represented approximately 25 percent of Kubota's 2015 U.S. revenue. KEA manufactures and supplies diesel, gasoline and dual fuel engines to the marketplace. The company sells diesel engines to small utility and industrial equipment machinery markets and directly to OEMs through more than 800 dealer outlets in the U.S., Mexico, Central America, South America and the Caribbean. It manufactures all of its engines in Japan and exports them to North America. The company sells a high portion of its engines to other OEMs producing machines and other industrial equipment in North America.

Kubota Engine introduced its full line of spark-ignited engines in February 2016. They are available in gasoline, propane, natural gas or dual fuel options for manufacturers of construction and industrial equipment. The spark-ignited line is modeled after Kubota's Compression Ignited diesel engine line and offers similar levels of power and torque. Spark ignited engines are not subject to Tier 4 or anticipated Tier 5 requirements.

Table 15 outlines Kubota's wide range of diesel engines available in the North American marketplace. Its diesel engine lineup consists of more than 17 models ranging from one to four cylinders and six to 116 horsepower. The Super Mini Series through the V3 Series engines are the most popular models sold. The company also sells engines to non-machinery customers such as small diesel engines used in refrigeration equipment on commercial trucks.

TABLE 15: KUBOTA ENGINE PRODUCT LINE

Engine Series	# Models	Tier	# Cylinders	Rated Speed Range (rpm)	Gross Power (hp)
Compression Ignited Diesel:					
Super MINI	4	4f	2 - 3	3200 - 3600	13 - 25
05 Series	4	4f	3 - 4	2300 - 3200	23.5 - 25
03 Series	2	4f/ Stage IIIB	3 - 4	2700	37 - 65
07	2	4f/ Stage IIIB	4	2600 - 2700	71 - 74.3
V3	1	Int. 4/ St IIIB	4	2200 - 2600	74 - 116
BG	11	3 - 4	2 - 4	1800 - 3600	12 - 40
EA	1	4f	1	3000	7
OC	2	4f	1	3600	6 - 9.4
Spark Ignited:					
WG (Gas)	1	n/a	3	3600	25
WG (Dual Fuel)	7	n/a	3 - 4	2600 - 3600	25 - 87
DG (Nat. Gas)	1	n/a	3	3600	25

Source: Kubota Corporation

Kubota started to make Cat specified and branded C3.8 engines found in certain models of Caterpillar's compact equipment product lines in 2012. Caterpillar's: **compact wheel loader** Models 906H, 907H, and 908H (power ratings from 70 – 79 hp); **skid steers** and **compact track loader** lines with 2.2L, 3.3L and 3.8 L diesel engines, and E Series **mini-excavators** (1.8L, 2.4 L and 3.3L) all have Caterpillar branded Kubota-made engines.

Doosan Bobcat switched from Kubota engines to Doosan-built diesel engines beginning in early 2014 for its construction equipment line. Kubota engines currently power a small portion, if any, of Bobcat products. Bobcat continues to provide parts, service and warranty on Kubota engines found in Bobcat equipment.

Table 16 summarizes the major types of equipment and OEM's for those products that use Kubota engines. Diesel engines are the largest percentage of Kubota's total North American unit sales.

TABLE 16: MAJOR EQUIPMENT MANUFACTURERS USING KUBOTA DIESEL ENGINES IN NORTH AMERICAN MARKETS

Machinery Type	Major Manufacturers
Aerial Work Platforms	Haulotte Group, JLG, MEC, NiftyLift, Skyjack, Snorkel, Terex, Teupen
Asphalt Pavers	LeeBoy, Mauldin, LB Performance
Compactors	Ammann US, BDS Mfg., Bomag Americas, Compac Equipment, Dynapac, Hamm, JCB, VT LeeBoy, Sakai America, Shannon Chastain Ent., Terex, Volvo CE, Corniver Tech., Chicago Pneumatic
Compact Track Loaders	Caterpillar, Kubota, Takeuchi, Rayco
Directional Drills	Ditch Witch, TT Technologies, Vermeer
Farm Tractors	Kubota
Hydraulic Excavators	Kubota
Compact Backhoe/Loaders	Kubota, Terramite, Waldon
Mini-Excavators	Caterpillar, Hyundai, Kubota
Motor Graders	Basic Equipment, Laser-Grader Mfg.
Portable Air Compressors	Chicago Pneumatic, Kaeser
Skid-Steer Loaders	Caterpillar, Kubota
Trenchers	Ditch Witch
RT Lift Trucks	AUSA, Dieci, Manitou
Lighting Towers	Terex, Allmand Bros., Boss, Coleman, Frontier, Doosan, Wacker
Wheel Loaders	Caterpillar, Compact Giant, Kubota, Kawasaki

Source: Yengst Associates

KUBOTA CORPORATION

COMPANY PROFILE | NORTH AMERICAN SERVICE

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