Answers to Main Questions for the Second Quarter Ended September 30, 2018

Q: How would you summarize the business performance of the second quarter of FY2018?

A: For the second quarter of FY2018, we recorded a ¥50.1 billion year-on-year increase (+11%) in terms of revenue and a ¥19.1 billion year-on-year increase (+56%) in adjusted operating income. The increase in revenue is due to the increase both in the sale of new machines and provision of parts services, which is at the core of our value chain. The significant increase in income comes from the growing sales throughout the value chain, including parts service, the rental business, and used equipment business, in addition to the increase in the unit sales of new machines.

Looking at the financials, the number of days of inventories on hand increased by 13 days compared to that from the end of the previous fiscal year. This owes to the aggressive stock replenishment in order to respond to strong demand, the increased production buildup to respond to seasonal fluctuation factors, and a logistics backlog caused by the series of natural disasters that hit various part of Japan. The number of days of operating payables on hand decreased by 16 days, which is largely due to the implementation of the early supplier payment policy in Japan. As a result, over-expenditures were recorded in cash flow: ¥46.8 billion in operating cash flow and ¥58 billion in free cash flow.

Q: How would you summarize the business forecast for FY2018?

A: Our business forecast for FY2018 has been revised from the initial forecast made at the beginning of the fiscal year based on the business performance of the consolidated cumulative second quarter. With respect to the market outlook, we still maintain our previous forecast: a 4% year-on-year increase in worldwide hydraulic excavator demand and a 10% increase in mining machinery demand. Meanwhile our sales volume is expected to increase. As announced in the Mid-term Management Plan, we will deepen our value chain to improve our management efficiency as well as advance our development of cutting-edge technologies and IoT-related R&D. The necessary investment and overhead expenditures to carry out these measures will be determined and implemented while ensuring a good balance with the sales income growth rate.

Q: How do you expect the demand for construction machinery to be, in detail?

A: We estimate the global demand for hydraulic excavators, our flagship product, to decrease in Japan, Russia CIS, Central and South America, Middle East, and Africa for fiscal 2018. On the other hand, we expect growing demand in other regions, which include China, India, and North America. Collectively, we expect an overall 4% year-on-year increase, to about 229,000 unit sales. While the rate of increase in demand is smaller compared to the previous year, we expect the demand to be comparable to that in FY2010 (unit sales of 230,000, which is the highest level of demand ever), and the sales volume is also expected to increase alongside this trend.

Q: How do you expect the demand and orders for mining machinery to be?

A: The FY2018 demand for over-100 ton class ultra-large hydraulic excavators and over-150 ton class mining dump trucks—which we categorize as mining machinery—is expected to increase by around 10% compared to the previous year.

Notably the demand for the relatively small 100-ton class ultra-large hydraulic excavators have been seeing a steady increase since FY2015 and is expected to sustain at a high level. A clear upward trend has been observed during FY2017 in the relatively larger, over-200 ton class ultra-large hydraulic excavators and over-150 ton class dump trucks, which are generally used in large-scale mines. This trend is expected to continue in FY2018.

Reflecting such a business climate, we have been receiving a good number of orders particularly from the beginning of this fiscal year for our flagship range of products, namely the relatively larger ultra-large hydraulic excavators and dump trucks. As a result, we are currently 80% of the way to fulfilling the third- and fourth-quarter sales forecast, showing good progress.