Answers to Main Questions for the Fiscal Year Ended March 31, 2019

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

A: For FY2018, we recorded ¥1,033.7 billion (8% year-on-year increase) in terms of revenue and ¥116.8 billion (25% year-on-year increase) in adjusted operating income. Sales increased by over ¥10 billion independently in both new vehicle sales and the value chain centering around parts and service in Japan, Asia, Oceania, and North America. The significant increase in income comes from parts services and mining business.

Looking at the financials, the number of days of inventories on hand increased by 18 days, which accounts for ¥324.8 billion, compared to that from the end of the previous fiscal year. This owes to the increase in mining machinery inventories that are scheduled to be delivered in the next fiscal year, the increase in work-in-process inventory due to increased production, and the increase in inventory from not loosening the sales conditions in China. The number of days of operating payables on hand decreased by 14 days compared to the previous year, 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: ¥25.7 billion in operating cash flow and ¥56 billion in free cash flow. This is due to the combination of exceeding expenditure of working capital and an increase in the payment of corporate taxes despite the increased profits for this term.

Q: How would you summarize the business forecast for FY2019?

A: As our market forecast for FY2019, we are expecting the global hydraulic excavator demand to decrease by 5% year-on-year by reason of unclear future prospects. On the other hand, we estimate the mining machinery demand to slightly increase year-on-year.

The forecast of our business performance consists of, assuming the above market conditions, a sales revenue of ¥950 billion (8% year-on-year decrease) and an adjusted operating income of ¥86 billion (26% year-on-year decrease). Net income attributable to owners of the payment is expected to be ¥48 billion, a 30% year-on-year decrease. The currency exchange rates that we used for this estimation are ¥100 per U.S. Dollar, ¥110 per Euro, ¥15 per Yuan, and ¥77 per Australian dollar, taking the bottom of the estimated fluctuation range. Aside from the influence of the stronger yen in the currency exchange rates, our sales revenue is expected to stay at the same level as the previous year while our adjusted operating income and other incomes are expected to increase.

As the final year of the Mid-term Management Plan “Connect Together 2019,” 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 toward achieving the plan goals. The necessary investment and overhead expenditures to carry out these measures will be determined and implemented while ensuring a good balance with sales income growth rate.

Q: What 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 increase by 6% from the FY2017 results, specifically to 234,000 units for FY2018. For FY2019, we expect a decrease due to the unclear market prospects in China, Asia-Pacific, and Western Europe; our demand forecast is 222,000 units, a 5% decrease worldwide, but it can also end up at the same level as that from FY2018 depending on future market conditions.

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

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 slightly increase compared to the previous year. In particular, we are receiving sizable orders for over-300 ton class operating mass ultra-large hydraulic excavators and dump trucks for major mines, which we expect to remain steady in FY2019. Of the forecast mining-related sales for FY2019, we have already received orders for approximately 50% for hydraulic excavators and 60% for dump trucks.