Answers to Main Questions for the First Quarter of Fiscal Year 2019

Q: How would you summarize the business performance of the first quarter of FY2019?

A: For the first quarter of FY2019, in light of the stronger yen against all currencies except the U.S. dollar, we recorded ¥234.7 billion (2% year-on-year decrease) in terms of revenue, ¥22.9 billion (17% year-on-year decrease) in adjusted operating income, and a profit margin of 9.8%. Out of the total revenue, new mining machines increased by 26%, and overall mining business sales increased by 8%. Looking at the financials, our inventories increased by ¥12.7 billion, to ¥337.5 billion yen. The number of days of trade receivables on hand decreased by 5 days compared to the end of FY2018, but the number of days of inventories on hand was extended by 5 days, to 120 days. The number of days of net working capital on hand was extended to 160 days, which is an increase of 5 days compared to the end of FY2018. For these reasons, interest-bearing debt increased by ¥28.5 billion compared to the end of FY2018, and the total equity also marked a decrease of ¥11.5 billion mainly as a result of the effects of the exchange rate changes on foreign operations*, due to the stronger yen in the currency exchange rates.

As for cash flow, there was a ¥10.5 billion year-on-year improvement in the operating cash flow, but there was also ¥16.3 billion in over-expenditures and an increase in capital cash flow expenditures. As a result, there was ¥27.3 billion in over-expenditures in the free cash flow.

*Foreign operations: Subsidiaries, affiliated companies, joint ventures, and branches whose operations are based in countries other than those where we are located, or on currencies other than the currencies of the countries where we are located (Japan).

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

A: Due to unclear future prospects, our FY2019 market forecast estimates that the global hydraulic excavator demand will range from staying flat at approximately 0%, to decreasing by as much as 6% year-on-year. On the other hand, we estimate the mining machinery demand to remain generally unchanged from the previous year. This is basically the same as our initial FY2019 business forecast that we announced in April 2019. Assuming the conditions announced in our initial fiscal year forecast, the forecast for our business performance consists of sales revenue of ¥950 billion (8% year-on-year decrease) and an adjusted operating income of ¥86 billion (26% year-on-year decrease). The net income attributable to owners of the parent is expected to be ¥48 billion (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 these currency exchange rates, our sales revenue is expected to decrease by 2%, while our adjusted operating income and other incomes are expected to remain at the same level as the previous year.

In FY2019, which is the final year of the midium-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: Regarding the global demand for hydraulic excavators, our flagship product, the first quarter of FY2019 recorded a year-on-year decrease in China, the Asia-Pacific, and the Middle East, and an increase in Japan, Europe, North America, and Russia-CIS. As for the entire FY2019, we expect a decrease in the market due to unclear prospects in Western Europe, China, Asia, and other areas; our demand forecast is 222,000 units, a 6% decrease worldwide, which is the same as our forecast in April 2019. However, we still believe it is possible to end up at the same level as that of FY2018.

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

A: The FY2019 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 remain at about the same level as that of the previous year. In particular, we are continuing to receive sizable orders for ultra-large hydraulic excavators and dump trucks for major mines, which we expect to remain steady in FY2019. Furthermore, in terms of the mining-related sales that were forecast for FY2019, we have already received orders for approximately 60% for hydraulic excavators and 70% for dump trucks, as of the end of the first quarter.