

Answers to Main Questions on Financial Results for Fiscal 2020 (Year Ended March 31, 2020)

Q: Could you provide a summary of the results for Fiscal 2019?

A: Revenue for Fiscal 2019 decreased by 10% year on year to ¥931.3 bn, adjusted operating income decreased by 34% year on year to ¥76.6 bn, with a profit margin of 8.2%. This was mainly due to the decrease in demand for hydraulic excavators caused by the worsening impact of the new coronavirus infections (COVID-19) spreading worldwide in the 4Q, the decrease in demand for mining machinery from small-and medium-sized mining companies due to the impact of falling resource prices, the delay in shipments due to typhoons in Japan that occurred in the 3Q, and the appreciation of the yen. Revenue of new mining machinery increased by 21% year on year, and overall mining revenue increased by 4% year on year to ¥166.8 bn, taking into account the appreciation of the yen.

On the financial side, inventories decreased by ¥23.6 bn from the previous fiscal year-end to ¥301.2 bn. Viewing the number of days of inventory on hand, trade receivables decreased by 1 day from the previous fiscal year-end, while inventories increased by 3 days to 118 days, and net working capital on hand increased by 16 days from the previous fiscal year-end to 171 days. As a result, interest-bearing debt increased by ¥34.1 bn from the previous fiscal year-end, but total equity decreased by ¥17.6 bn. Regarding cash flow in Fiscal 2019, net cash provided by operating activities improved by ¥48.4 bn year on year to a profit of ¥22.7 bn due to an improvement in working capital. However, free cash flows showed an over-expenditure of ¥12.1 bn, partly due to an increase in cash used in investing activities.

Q: Would you provide a summary of the outlook for Fiscal 2020?

A: Regarding the market outlook for Fiscal 2020, we expect the global demand for hydraulic excavators to decrease by 23% year on year, reflecting current conditions. Demand for mining machinery is also expected to decrease as new investment is expected to be restrained due to the global economic uncertainty. Demand from major mining companies that own large-scale mines is relatively firm, but demand from small-and medium-sized mining companies is expected to decline sharply due to falling resource prices.

We forecast revenue of ¥770 bn (down 17% year on year), adjusted operating income of ¥40 bn (down 48% year on year), and profit attributable to owners of parent of ¥20 bn (down 51% year on year). These forecasts are based on foreign exchange rates of ¥105 to the U.S. dollar, ¥120 to the euro, ¥15 to the yuan, and ¥72 to the Australian dollar.

Q: To what extent do you expect the impact of COVID-19 to have on results for Fiscal 2019 and forecasts for Fiscal 2020?

A: With regard to COVID-19's impact on earnings, in the 4Q of Fiscal 2019, net sales were down by ¥26.3 bn, and adjusted operating income was down by ¥7.3 bn. For the Fiscal 2020 forecast, we have factored in net sales being down by ¥160 bn and adjusted operating income will be down by ¥47 bn. Taking the demand forecast for the hydraulic excavators as a premise, we believe that demand will drop to approximately 70% of the previous year in the 1H of 2020, followed by a gradually recovery to approximately 90% of the previous year in the 2H of 2020, but it will not return to the same level in the previous year. By region, China is recovering faster and, although not as large as usual, the sales season of Fiscal 2019 after the Chinese New Year Holidays has come several weeks later. In the Oceanian market, mining has been designated as an "essential business," and the impact on our businesses is expected to be relatively minor. Regarding other regions, regulations are being eased in developed countries, which had already implemented anti-infectious disease measures, but we are preparing to respond swiftly to changes by closely looking for emerging market trends and whether such trends will be affected by second-or third-waves, etc.

Q: The detailed announcement of the new medium-term management plan had been postponed this time: What is your outlook for the future?

A: Due to the impact of COVID-19 on business activities and the results of operations, detailed measures and numerical targets for the Medium-Term Management Plan, which began this fiscal year, are currently difficult to calculate in a reasonable manner. Therefore, we have decided not to announce them. Looking ahead, the direction of our new medium-term corporate strategy will be to further strengthen the businesses in the value chain, provide solutions that are in depth at every point of contact with customers using digital technologies, and build a corporate structure that is resilient to change. Details will be disclosed as soon as calculations become possible in the future.