Answers to Main Questions on Financial Results for the First Quarter of Fiscal 2020

Q: Could you provide a summary of the results for the 1Q of Fiscal 2020?

A: Revenue in the 1Q decreased by 27% year on year to ¥170.2 bn, despite an increase in rental revenue in the value chain business that we focus on, mainly due to the decline in demand for hydraulic excavators, which was affected by the impact of the new coronavirus infections (COVID-19), and the impact of the yen's appreciation compared with the previous fiscal year. Adjusted operating income decreased by 87% year on year to ¥2.9 bn, and the profit margin decreased significantly to 1.7%, mainly due to the decrease in revenue and the impact of the appreciation of the yen.

Q: What about the balance sheet and cash flow?

A: On the financial side, inventories increased by ¥9 bn from the end of the previous fiscal year to ¥310.3 bn, mainly due to the impact of foreign exchange fluctuations. Viewing the number of days of inventory on hand, trade receivables decreased by 8 day from the previous fiscal year-end, while inventories increased by 13 days to 131 days, and net working capital on hand increased by 8 days from the previous fiscal year-end to 178 days. Interest-bearing debt increased by ¥4.9 bn from the previous fiscal year-end. On the other hand, net interest-bearing debt decreased by ¥3.9 bn due to the accumulation of cash and deposits of ¥8.8 bn, and ultimately total assets decreased by ¥11.7 bn. Net cash provided by operating activities was positive at ¥21.4 bn, an improvement of ¥37.8 bn from the same period of the previous fiscal year, and net cash used in investing activities was down ¥1.7 bn to ¥9.3 bn. As a result, free cash flow reached a total inflow of ¥12.2 bn, an improvement of ¥39.5 bn.

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

A: The market outlook for Fiscal 2020 remains unchanged from the announcement in May. Demand for hydraulic excavators worldwide is projected to continue decelerating due to the impacts of COVID-19, and in many regions, demand for hydraulic excavators will decline significantly from the previous fiscal year, falling 23% year on year. Demand for mining machinery is also expected to decline by 35% year on year due to the impact of falling coal prices in addition to COVID-19.

Under these circumstances, we have left our business forecasts unchanged from the previous forecast, with revenue of ¥770 bn (down 17% y-y), adjusted operating profit of ¥40 bn (down 48% y-y), and profit attributable to owners of parent of ¥20 bn (down 51% y-y). These forecasts are based on foreign exchange rates for the 2Q onward of ¥105 to the U.S. dollar, ¥120 to the euro, ¥15 to the yuan, and ¥72 to the Australian dollar.

Q: Could you tell us more about the outlook for the demand environment for construction machinery?

A: Demand for hydraulic excavators was within our expected range in the 1Q results, and it will decline by 25% in the 1H and by 20% in the 2H year on year. It is assumed that there will be no positive change over the previous year during this fiscal year. By region, in China, the market recovered as a result of the falling back of the sales season after the Chinese New Year Holidays, returning to the same level of demand as usual. On the other hand, while demand in Japan was roughly flat year on year in the 1Q, the second wave of COVID-19 and economic uncertainty caused by the impact of the wave raised concerns about the future. In Europe and the United States, despite deregulation trends, we also concerned about the impact of the second wave on the economy. We will continue to make preparations to respond swiftly to changes by closely monitoring the ramp-up of market in the future and whether such trends will be affected by second-and third-waves, etc.

Q: Please tell us about the demand environment for mining machinery and the status of orders.

A: Demand for new mining machinery is expected to decline as customers are expected to curb new investment due to the global economic uncertainty. Although mining operations have not decreased significantly except for some regions, the impact of the expansion of COVID-19 on demand remains uncertain, and also demand for mining business has been affected by the decline in coal prices in the Americas, Indonesia, Russia/CIS, and other regions. As of the end of the 1Q, we received orders approximately 50% of our mining sales forecast for Fiscal 2020 for both hydraulic excavators and dump trucks. Although the progress is slow compared to the same period in a typical year, it is based on consideration of various inquiries, and we intend to accurately grasp customer needs and respond to them in order to achieve the forecast.