Answers to Main Questions for the Second Quarter of Fiscal 2020

Q: Could you provide a summary of the results for the 2Q of Fiscal 2020?

A: In the cumulative 2Q, revenues from rental and used equipment increased year-on-year, but overall revenues decreased by 25% year on year to ¥360.9 bn. This was mainly due to a decrease in sales of new machinery and parts & services due to a deterioration in the market caused by COVID-19, a decrease in sales of new mining machinery and parts & services due to restrained capital expenditure due to sluggish resource prices and other factors, and the impact of the yen's appreciation compared to the previous fiscal year.

Q: The interim dividend is ¥10. Please tell us about your policy and approach to shareholder returns.

A: Our dividend policy is in principle, we pay dividends from retained earnings linked to consolidated performance twice a year, as the interim and year-end, aiming dividends and aim to achieve a consolidated dividend payout ratio of approximately 30% or more. Although the current environment surrounding us is extremely challenging, in light of the annual consolidated results forecast, in the sense of expressing our gratitude for the daily support of our shareholders, we decided to pay a portion of the dividend at the interim time, although it will be significantly higher than the dividend policy described above.

Q: In the Chinese market, sales seem to be sluggish in response to the growth in cumulative 2Q demand. Please tell us the backdrop of this.

A: China's demand for foreign manufactures increased by 43% year on year, while our sales in China remained slightly positive excluding the impact of foreign exchange rates. In China, price competition is becoming increasingly fierce, involving not only domestic manufacturers but also foreign manufacturers. We believe that pursuing market share in a simple price competition will have an adverse effect on our brand and existing blue-chip customer base. We do not enter into simple price competition, and we have not adopted a policy of changing our sales stance and relaxing conditions to take market share.

Under these circumstances, in addition to our conventional multi-functional, high-priced models, in October we developed and launched a machine dedicated to civil engineering with a narrow function of 6t class for the Chinese market. Based on preliminary test marketing, we have achieved optimal specifications and structures for urban civil engineering and high cost performance in order to meet the needs of individual charter customers, which are on the rise in the Chinese market. At the same time, we will steadily strengthen our business in China by further accelerating the strengthening of our value chains, including parts & services, rentals, used equipment, and financing.

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

A: In the fiscal year ending March 31, 2021, we forecast that demand for hydraulic excavators will be upwardly revised from a decrease of 23% year-on-year, to approximately 195,000 units worldwide (a decrease of 10% year-on-year), because demand decrease for hydraulic excavators during the cumulative 2Q was limited compared to the original forecast, although there are concerns about the second wave of COVID-19. In mining machinery demand, in addition to the delay in the global economic recovery, the impact of falling resource prices is becoming increasingly pronounced, and the previous forecast has been downwardly revised from a decrease of 35% year-on-year to a decrease of 40% year-on-year.

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 3Q onward of ¥105 to the U.S. dollar, ¥120 to the euro, ¥15.0 to the yuan, and ¥72 to the Australian dollar.

Q: There were reports that the parent company, Hitachi Ltd., is selling Hitachi Construction Machinery. Please comment on this.

A: This matter has not been officially announced by Hitachi Ltd. or us. Immediately after the news articles, Hitachi Ltd. has issued timely disclosures to the Tokyo Stock Exchange that those articles were not based on Hitachi's disclosed information.

We have been implementing a new medium-term management plan that began this fiscal year, and we believe it is of utmost importance to increase corporate value not only for our customers, but also for our employees, shareholders, and other major stakeholders by deepening the solutions that we provide at every point of contact with customers using digital technologies in our value chain business, which we have focused on up to now. We look forward to your support as before.