Responding to Major Questions Regarding the Financial Results for the Third Quarter of Fiscal 2020

Q: Could you summarize the results of revenue in the 3Q of 2020?

A: Demand for hydraulic excavators in the consolidated cumulative 3Q was lower than that in the same period of the previous fiscal year in major regions except China and Japan. Mining companies restrained capital investment, thus demand for mining machinery, particularly from small and medium-sized mining companies, also continued declining.

Against this backdrop, our revenue fell 19% year on year to ¥558.7 billion, despite a year-on-year increase in in rental and used equipment sales in our value chain business, which we are focusing on. This was mainly due to a decrease in demand for hydraulic excavators, a decrease in sales for mining business of both new machinery and parts and service in line with restrained capital expenditures at mining companies due to sluggish resource prices and other factors, and the impact of the yen's appreciation compared to the previous fiscal year.

Q: Please tell us about the current situation and your marketing strategy for the future in China, where competition is intensifying.

A: In China, price competition is becoming increasingly fierce, involving not only domestic manufacturers but also foreign manufacturers. In this context, we believe that simply relaxing prices and sales conditions to pursue market share will not only have an adverse effect on our brand and our existing prime customer base, but also have no positive impact on our business performance. Therefore, we have not changed our previous policy.

Under these circumstances, in addition to our conventional multifunctional, high-priced premium models, we developed and launched hydraulic excavators specializing in civil engineering in the 6t class for the Chinese market in October, 12t and 20t class in December. In response to meet the needs of customers entering into the construction business by individuals in the high-volume zone of the Chinese market, we realize optimal specifications and structures for urban civil engineering, as well as high cost performance. In addition, rentals have started in China last year and are showing steady growth. We are accelerating the strengthening of our value chains, including rentals and parts and service, used equipment, and financing. We will firmly strengthen our business in China by reforming marketing activities in collaboration with local dealers.

Q: Could you summarize the outlook for Fiscal 2020, including the prospect of achieving the forecast for the 4Q?

A: In the cumulative 3Q, demand for hydraulic excavators decreased compared to the same period of the previous fiscal year in major markets such as North America, Europe, and Asia. However, due to a drastic increase in demand in China, we forecast that demand for hydraulic excavators will be approximately 201,000 units worldwide (a decrease of 7% year on year) after upward revision from the previous interim fiscal year (10/27).

Regarding the forecast for business results, we have left the previously announced figures unchanged, with revenue at ¥770 billion (a decrease of 17% year on year), adjusted operating profit at ¥40 billion (a decrease of 48% year on year), and profit attributable to owners of parent at ¥20 billion (a decrease of 51% year on year).

We factored the margin would be significantly improved in the 4Q. It is partly because inventory will be reduced in 4Q, as a result of replenishment of inventory to the dealers prior to the Chinese New Year sales season in China and spring sales seasons in Europe and North America. The other reasons will be sales to be realized in 4Q, which is from new mining equipment that have been already ordered till 3Q and improved tax rates. Furthermore, we will continue to work to strengthen cost management, including postponing plans for non-urgent investment projects, and make Group-wide efforts to achieve our performance forecasts.

Forecasts are based on foreign exchange rates from 4Q of ¥105 to the U.S. dollar, ¥120 to the euro, ¥15.0 to the yuan, and ¥72 to the Australian dollar. These forecasts of foreign exchange rates remain unchanged from the previous outlook.

Q: How do you forecast the future demand environment?

A: In fiscal 2020, China drove global demand, and signs of recovery were apparent earlier than initially expected. However, as there are still uncertainties in countries around the world, such as the re-expansion of COVID-19, we are cautious about the future outlook for the market.

Currently, compact is recovering, particularly in North America. In Construction, there are signs of recovery not only in China, but also in other regions. However, we currently anticipate a full-fledged recovery in demand in the 2H of FY2021, after taking into account all kinds of concerns. Regarding mining, although commodity prices are on an uptrend, we expect the full-ledged recovery will be in the 2H of FY2021. Although the recovery is now gradually appearing, we anticipate that it will gradually recover from inquiries for small machinery and lead to a full-fledged recovery in investing in large-sized machinery.