Answers to Main Questions on Financial Results for the First Quarter of Fiscal 2021

Q: Could you provide a summary of the results for Q1 of fiscal 2021?

A: In Q1 of the fiscal year under review, both sales and profits significantly increased year on year, reflecting a rebound in demand due to the convergence of COVID-19 and the impact of the yen's depreciation. By region, sales increased in all regions other than China. In particular, the recovery in North America and Europe was significant, and we secured higher sales in India and Asia, where there is still concern about the spread of the second wave of infections of COVID-19. In addition, we were able to secure a steady increase in revenue from mining sales and value chain sales, which we are focusing on. Revenue increased 34% year on year to ¥228.1 billion. Adjusted operating income increased 303% year on year to ¥11.8 billion, resulting in a profit margin of 5.2%.

Q: Would you provide a summary of the outlook for fiscal 2021?

A: The demand outlook for the hydraulic excavator market for fiscal 2021 remains unchanged from the previous announcement in April, at 220,000 units worldwide. Against a backdrop of rising crude oil and other commodity prices, we expect demand to improve in Russia, the Middle East, and some Asian regions, such as Indonesia. Demand is also expected to increase in North America due to robust demand for housing starts. However, we anticipate a decline of 7% worldwide from the previous fiscal year and a rise of 2% excluding China, on the assumption that the scale of the decline will be higher than in the previous fiscal year due to a reactionary decline following the sharp increase in demand from FY2020 in the Chinese market.

Based on the above situation, we have left the previously announced figures unchanged and have set revenue at 880 billion yen (an increase of 8.2% year on year) and adjusted operating profit at 62 billion yen (an increase of 89.5%). Assumptions for these forecasts are based on exchange rates from Q2 onward of ¥105 to the U.S. dollar, ¥125 to the euro, ¥16 to the Chinese yuan, and ¥ 80 to the Australian dollar. The breakdown of revenue is an upward revision of 11.4 billion for the strong value chain in the rental and solutions business but a downward revision of 11.4 billion for new machinery sales, reflecting factors contributing to the decline in sales in China, India, and other countries.

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

A: The demand outlook for mining equipment in FY2021 has been on a recovery trend backed by the global economic recovery, aggressive infrastructure investment in each country, and rising crude oil and other commodity prices. We have revised upward our previous forecast, which was 5% higher than the previous forecast, and are forecasting an increase of around 15%. Despite an improvement in our orders, we have kept the previous forecast for mining machinery sales in FY2021, increasing 23% from the previous fiscal year, and increasing 6% from the previous fiscal year for parts and service, due to careful consideration of the re-spread of COVID-19 infection and environmental risks. As of the end of Q1, approximately 90% of ultra large hydraulic excavators and 50% of dump trucks of our mining sales in FY2021 have already been ordered.

Q: Please tell us about your company's strategy in China and Asia, where competition is intensifying.

A: In China, price competition is becoming increasingly fierce, involving not only domestic manufacturers but also foreign manufacturers such as ours. Among them, we have determined that simply relaxing prices and sales conditions to pursue market share would not only have an adverse effect on our brand and our existing prime customer base, but also have no impact on our business performance. Therefore, we have not changed this policy as in the past. Under these circumstances, we began introducing excavators for civil construction use to the Chinese market in October 2020, which met market needs. In FY2021, we will further investigate customer needs and promote the development of machines compliant with emission regulations that will be enforced at the end of CY2022. In addition, in Asia, there are many uses other than civil construction use, such as forestry and agriculture, and we have been conducting user tests of machinery for customers, which are mainly for civil construction use, since April 2021, while further differentiating ourselves from our prime customer base, which is highly regarded for the quality of parts and services we provide. We will examine the optimal specifications and structures for urban civil construction and reflect customer opinions in product development.

Q: Please tell us about the impact of currently reported increases in steel prices, logistics risks due to the shortage of containers, and procurement risks due to the shortage of semiconductors.

A: In response to the recent large rise in steel prices, we have factored in the impact from the rise in steel prices, which could not be factored into the previous financial results, from Q2 onwards. In conjunction with this, we will partially implement a selling price increase. In addition to the lack of containers, transportation costs have risen, but the impact on business results is expected to be minimal. At the same time, the impact on suppliers of the worldwide shortage of semiconductors is expected to have an impact on the production and supply of some products. The Hitachi Construction Machinery Group will take measures in close cooperation with suppliers to minimize the impact on production and shipments. At this point, the risks that can be expected to be present, including these risks, are forecasts for the fiscal year that have already been factored into the business results.