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

Q: Would you provide a summary of the results for Q2 of FY2021?

A: In the second quarter of the fiscal year under review, although the impact of COVID-19 continued in some regions, sales and profits significantly increased year on year due to the recovery of the market mainly in North America and Europe and the impact of depreciation of the yen. In addition, in the value chain business which we have been focusing on, rental and used equipment also increased steadily, and the mining business was also on a recovery trend, enabling us to secure a steady increase in sales. In conjunction with the decision to terminate and dissolve the joint venture relationship with Deere & Company announced in August 2021, the sales prices for the Americas, which had been provisionally recorded during the discussions, were determined, and the adjusted amount of ¥11.1 billion was recorded in FY21Q2 revenue and respective income items for this period under review. Revenue increased 31% year on year to ¥473.7 billion, and adjusted operating income increased 248% year on year to ¥38.1 billion, resulting in adjusted operating income margin of 8.0%.

Q: Would you provide a summary of the outlook for FY2021?

A: The outlook for the hydraulic excavator market for FY2021 remains unchanged from the time it was announced in April 2021, with a decline of 7% worldwide in total and a recovery in market conditions in regions other than China. As for our business performance, we expect an increase from the previous plan in sales and profits in the value chain business centered on parts services, and due to the decision to terminate and dissolve the joint venture relationship with Deere & Company, the adjustment amount of 11.1 billion was recorded in revenue and the respective income items for this period under review as mentioned above. In addition to the recording, approximately ¥8 billion, which will be generated as a gain on the transfer of the shareholdings in the joint venture with Deere in the fourth quarter, was reflected in this earnings forecast. On the other hand, taking into account a further increase in steel prices and an impact related to temporary increase in inventory for own business development in the Americas, we have upwardly revised our forecasts for revenue of ¥920 billion (an increase of 13% year on year) and adjusted operating income of ¥74 billion (an increase of 126% year on year). The assumed foreign exchange rates since Q3 have been left unchanged from the previous July assumptions of ¥105 to the U.S. dollar, ¥125 to the euro, ¥16 to the renminbi, and ¥80 to the Australian dollar.

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

A: The demand forecast for mining machinery in FY2021 is based on the recovery of the world's economies, proactive infrastructure investment in each country, and strong resource pricing. We expect an upward revision of the demand forecast for FY2021 from a 15% increase from the previous year, and an increase of about 21%. Our orders are strong, excavator sales are expected to increase, and truck sales are expected to be affected by a decrease in sales for the current fiscal year due to a revision of the sales plan from the initial plan. However, the total sales of mining in FY2021 are expected to increase by 23% year on year. The forecast for parts service is also expected to increase by 20% year on year. As of the end of the second quarter, orders for excavators and dump trucks accounted for 95% and 65%, respectively, of our sales forecast for mining in FY2021.

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: Although the impact of the rise in steel prices was factored into the FY2021 Q1 financial results, it is now factored into Q3 and beyond due to further increases in steel prices. In conjunction with this, we will raise the selling price of our orders not yet received, mainly for construction, worldwide. There is a time lag between rising material costs and rising selling prices, and this fiscal year we are unable to cover rising material costs. However, we will continue to raise selling prices in the following fiscal year and beyond.

With regard to the supply chain, the procurement of parts and materials continues to be extremely tight, but this does not have a major impact on the production plan for the current fiscal year. We will continue to work closely with suppliers to address this issue by raising the Hitachi Construction Machinery Group to minimize the impact on production and shipment. At this time, the scope of risks currently expected to be present, including these risks, is factored into the annual performance forecasts announced this time.