

Responding to Major Questions Regarding the Financial Results for FY2020

(Year Ended March 31, 2021)

Q: Could you summarize the results of FY2020?

A: In the market environment for FY2020, demand for new hydraulic excavators, our mainstay product, rose overall from the previous fiscal year, mainly due to a significant recovery in China. However, in major regions such as Europe and the United States, demand declined from the previous fiscal year due to the impact of COVID-19. In mining, mining companies continued to curb capital investment, and in particular demand from small and medium-sized mining companies declined.

In the value chain business, which we are focusing on, sales of rentals and used equipment increased compared with the previous fiscal year. However, sales of new machines and parts and service declined due to deteriorating market conditions caused by the impact of COVID-19. Sales of new mining machinery and parts and service declined due to customers' restrained capital expenditures. As a result, overall sales were 813.3 billion yen (a decrease of 13% of year-on-year), affected by the yen appreciation and other factors.

As for consolidated results, adjusted operating income was 32.7 billion yen (a decrease of 57% year-on-year) due to a decrease in revenue, a rise in the cost of sales ratio as the result of a significant production adjustment in the first half of the fiscal year, and the impact of yen appreciation.

Profit attributable to owners of the parent company was 10.3 billion yen (a decrease of 75% year-on-year) mainly due to a decrease in adjusted operating income, a decrease profits of investments accounted for using the equity method and affiliates, and an increase in contribution of non-controlling interests.

Q: Could you summarize the forecast for FY2021?

A: In the market environment for FY2021, compared to the previous fiscal year, demand for new hydraulic excavators is expected to increase in many regions as the economy recovers. However, we expect a large decrease in China due to a recent surplus in the number of operating units. As a result, we expect a slight decrease in the world.

In mining, demand for new mining machinery continues to be challenging at present, but signs of recovery are visible in some regions, and we expect this to turn upward gradually from the second half of this fiscal year.

In FY2020, some mining operations were shut down due to the outbreak of COVID-19, and our parts and service and solutions businesses were on a downward trend. In FY2021, however, we expect a gradual recovery in the willingness of mining companies to invest as the global economy recovers.

Based on the above market forecasts, the Company forecasts revenue of ¥880 billion (an increase of 8% year-on-year), adjusted operating income of ¥62 billion (an increase of 90% year-on-year), and net income attributable to owners of the parent of ¥32.3 billion (an increase of 212% year-on-year).

Forecasts are based on foreign exchange rates of ¥105 to one U.S. dollar, ¥125 to one euro, ¥15.5 to one yuan, and ¥73 to one Australian dollar.

Q: The alliance with ABB, a major electronics company, has been announced, but could you give us an outline and explain future developments?

A: Hitachi Construction Machinery Co., Ltd. has signed a Memorandum of Understanding (MoU) with ABB Ltd. to explore opportunities for mine operators to target net-zero emissions from mining machinery.

We will apply ABB's electrification, automation, and digital technologies to our mining machinery to propose solutions that will streamline and optimize overall mine operations for decarbonization.

Through this alliance, we will also access ABB's strong customer base in the mining industry and pursue further value propositions that combine optimization solutions.

In recent years, the trend toward automation, autonomy, and electrification has been accelerating in mining machinery as well, and there is a growing need for solutions to improve and optimize the efficiency of operations not only of mining machinery but also of the entire mine site.

We will respond to these needs and further accelerate our technological development.

Q: You have announced the details of the medium-term management plan that had been postponed this time. Please tell us about measures and numerical targets.

A: Under the medium-term management plan for FY2020 to FY2022, we will deepen the solutions we provide at every point of contact with customers by utilizing digital technologies in the value chain business that we focused on under the previous medium-term plan.

To this end, we will review our investment plans and strengthen our R&D capabilities to reduce CO₂ emissions and improve safety by promoting electrification measures.

Major performance targets are FY2022 sales of ¥1 trillion, a value chain sales ratio of 50%, an adjusted operating income ratio of 10% or higher, and an ROE of 10% or higher, assuming demand at the same level as in FY2021.

We will increase customer satisfaction by providing optimal solutions for a variety of issues.

We will take advantage of market changes, customer changes, and our changes as opportunities to further expand our business.