Q&A Session at Results Briefing Meeting for the fiscal year ended December 31, 2015
Time and Date: From 10:00 a.m. to 11:00 a.m., Thursday, February 18, 2016
Venue: 18th floor, Daiwa Conference Hall

[Group-wide basis]

(Impact of foreign exchange)

Q. Please explain the impact of foreign exchange on the forecast of net sales of 250 billion yen for the fiscal year ending December 31, 2016.

A. A fluctuation of 1 yen will affect net sales by 330 million yen against 1 USD, 940 million yen against 1 RMB, and 190 million yen against 1 CHF.

[Precision equipment segment]

(Precision reduction gears business)

Q. In the precision reduction gears business, you expect a 10% increase for the fiscal year ending December 2016, while expected growth in the industrial robot market is 6%. What is the reason for this discrepancy?

A. We have a world market share of 60% for precision reduction gears for industrial robots, but we expect growth potential regarding the market share of the products for factory automation, which remains relatively small. We anticipate 10% growth on the back of the possible growth in sales of new actuators, which we launched in 2015 for factory automation.

Q. As for the precision reduction gear business, the volume of orders received as recorded during the period of September–November 2015 was on a downward trend compared with the previous year. What are the reasons for this situation?

A. The first reason was due to inventory adjustment by European and U.S. customers. The second reason was shrinking volume of order receipts in the Chinese market during September and October, but we consider that this trend was just temporary, as we have observed a recovery in orders received after January. However, we need to watch this trend carefully, as growth in industrial robots depends significantly on the Chinese market.

Q. As for the expected growth of 6% in the industrial robot market for 2016, please explain if the growth rate varies depending on region.

A. Sales of industrial robots to developed countries will remain strong. As for the Chinese market, we conducted an inspection tour before the Chinese New Year holidays, and shared information with local sales companies. They expect year-on-year growth of 30% in the Chinese market. However, this forecast includes small robots like parallel link robots using small-sized reduction gears, which competes little with our products. In this small robot field, there are some manufacturers that copy the small-sized reduction gears. For the automobile industry, while reduction gears used to require significantly high precision and rigidity, current high-end robot prices will not be commercially viable considering the higher labor cost in China and the tendency to evade tough working conditions. Therefore, we expect that a new trend will emerge in the future.

[Transport equipment segment]

(Concerning the transport equipment segment)

Q. With respect to the business plan for the current fiscal year, operating margin of the transport equipment segment will post a year-on-year decrease. What is the reason for this? Also, please show us the amount of net sales of railroad vehicle equipment for China.

A. For the fiscal year ending December 2016, while we expect 12.5 billion yen in net sales from China, sales in the railroad vehicle equipment business will remain almost unchanged despite a slight decrease in profit. The reason for this is due to the products mix in sales. The marine vessel equipment business is expected to post an increase in profit. In the overall view, profitability remains the same, but it looks like as if profitability fell in this segment due to increased burden of allocated selling and general administrative expenses of the Head Office. The increase in selling and general administrative expenses of the Head Office is attributable to an increase in expenses for the improvement of our business bases toward future growth.

(Railroad vehicle equipment segment)

Q. With regard to the railroad vehicle equipment business, what was the factor behind the delayed Chinese high-speed railway project, for which sales had been expected to be recorded for the fiscal year ended December 2015?

A. We often find China projects difficult to push forward as planned even if business plans are submitted in advance. Furthermore, even if there were delayed portions, they will be postponed successively without any additional orders in the next fiscal year. If such a case occurs frequently, we should not consider the submitted plan as being exactly correct. Railroad products company is in charge of the management of these plans.

Q. What do you think of the risk involved regarding in-house production of the railroad-related components in China?

A. We recognize the risk of in-house production with respect to the high-speed railways business. With respect to the high-speed railways project in Indonesia, China is not permitted, in accordance with the agreement, to export railway vehicles that use components made by Japanese manufacturers, including us. Therefore, in-house production is necessary to comply with the international agreements.

[Aircraft and Hydraulic Equipment segment]

Q. In the aircraft and hydraulic equipment business, your plan for the fiscal year ending December 2016 indicates a year-on-year increase of 2 billion yen in profits. Please explain the breakdown.

A. The restructuring of the hydraulic equipment business (such as consolidation of plants and impairment loss) contributed to an improvement of profits.

(Hydraulic equipment business)

Q. Please explain why impairment of the assets of the Chinese subsidiary engaging in the hydraulic equipment business has an impact on the increase in profit. I understand that is an extraordinary loss.

A. It is exactly an extraordinary loss, but it contributed to an improvement in operating income due to a decrease in depreciation.

Q. With regard to the increase in sales in the hydraulic equipment business for the fiscal year ending December 2016, please provide us with the relevant data by region, if any.

A. It is difficult to explain by region. The increase in sales in the hydraulic equipment business is attributable to two factors: an increase in sales as a result of the acquisition of Hyest Corporation; and an increase in sales due to improvement of the balance of actual demand for sales and production in the construction machinery market in China.

(Aircraft equipment business)

Q. With respect to the aircraft equipment business, please explain your prospects for future growth based on the new additional program.

A. In the new program, considering the limited profits gained from Original Equipment Manufacturing sales, we can expect to generate profits once Maintenance, Repair and Overhaul services begin. Therefore, we anticipate that the new program will have favorable effects on profits in 2022 or 2023 at the earliest. Furthermore, with respect to the B737 MAX aircraft, we expect that this program will become the first for us to generate volume efficiency, as we will receive orders for a large number of aircraft. For the purpose of production with higher efficiency, we have introduced industrial robots for the first time as part of the facilities expansion at the Gifu Plant.

[Industrial Equipment segment]

(Automatic doors business)

Q. As for the automatic doors business, please give us a breakdown of the year-on-year increase of approximately 10 billion yen in sales according to the plan for the fiscal year ending December 2016. Is it attributable to organic growth or M&As?

A. We anticipate that organic growth in the automatic doors business will be at the same level as the Gross Domestic Product, and the remaining growth in sales will be attributable to M&As. As for the automatic doors business, we will proceed with a growth strategy through the expansion of sales channels, in which the M&A conducted in the fiscal year ended December 2015 will contribute to sales on a full-year basis; and a new acquisition to be implemented for the fiscal year ending December 2016 is also included.