

FY2018/12 Results Briefing: Q&A

10:00-11:10 Feb.18 2019

Classification	No.	Question	Answer
Corporate	1	Is there possibility that the total amount of capital expenditure over the period from 2017 to 2020 will exceed the amount planned in the medium-term management plan (77 billion yen)?	The actual amount of capital expenditure over the period from 2017 to 2018 and the budget for 2019 totals 66 billion yen. In 2020, we might also make investments in automation. Accordingly, the amount might exceed the amount planned in the medium-term plan.
	2	Please show the breakdown of capital expenditure for FY2019.	In the precision reduction gear business, we will make investments in automation. We might also invest in capacity enhancement depending on market demand. In FY2019, our annual production capacity for precision reduction gears will remain at the same level as in FY2018 (680,000 units per year in Japan and 160,000 units per year in China), but we might expand it to 1.06 million units depending on market demand. The global system to produce 1.2 million units per year might be completed during the period from 2020 to the end of 2021. We plan to introduce some new equipment in the aircraft equipment business. We will also make investments in mass production at OVALO. In addition, we will make investments to improve productivity and replace aged equipment at each of our plants.
	3	The actual amount of capital expenditure was 20.3 billion yen in FY2018 against the initial plan of 30.4 billion yen. Why?	In the precision reduction gear business, we invested in our plants in Japan for automation as well as for enhancement of production facilities and parking space for employees. In FY2018, demand for precision reduction gears was sluggish and so we postponed the introduction of machinery and equipment, which we had planned to do to enhance our production capacity. As a result, there was a difference of about 10 billion yen between the initially planned and actual investment amounts.
	4	In the medium-term management plan, you are committed to achieving "ROE: 15%." If you cannot fulfill this commitment through the core business, will you fulfill it by the buyback of shares?	Basically, we believe that we will be able to fulfill it by increasing profitability in each of our businesses. Buyback could be one of the means to return profit to shareholders when the stock price drops sharply and we need to stabilize it. However, we will give priority to capital investment in the future growth of our businesses rather than to returning profit to shareholders, since we believe in the growth potential of each of our businesses.
	5	For the hydraulic equipment business, please describe sales by region in FY2018 and the outlook for 2019.	For sales in FY2018, direct sales in the Chinese, Japanese and other markets accounted for 40%, 40% and 20% of our total sales, respectively. In FY2019 (ending December 2019), demand for excavators will be brisk, driven by infrastructure investment in the Chinese market, while demand for excavators will also be favorable in the Southeast Asian and North American markets. In Japan, sales will recover from the downturn that has followed a surge in demand before the enforcement of the exhaust gas regulations. Moreover, the acquisition of Hiest Corporation will help expand our product lineup and promote sales. Accordingly, sales are expected to increase by 12% year on year.

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CMP Segment	6	For the CMP segment, please describe the expected balance of sales between the first and second halves of FY2019. According to the Summary of Financial Statements, the ratio of operating income to net sales will be better in the latter half. Why?	Sales in the precision reduction gear business will be about 27 billion yen or 40% of the amount expected for the full year in the first half and will be about 39 billion yen or 60% in the latter half. For the full year, sales will remain at the same level year on year. Because sales are planned to be larger in the latter half, the operation rate at the plants will be higher than the first half, which will lead to a higher ratio of operating income to net sales.
	7	Please describe the operation rate at the plants for precision reduction gears in Q4 of FY 2018. Will you decrease the number of workers to reduce costs due to the lower operation rate predicted at the precision reduction gear plants in the first half of FY2019?	The annual utilization rate reached 100% in Q4 of FY 2018. In the latter half of FY2019, demand for precision reduction gears is expected to recover and we therefore need to keep up the number of workers. It will be important to minimize the cost of procuring materials, the prices of which are on the rise.
	8	Please describe the sales trends of robot manufacturers.	We cannot make any comments on the sales trends of robot manufacturers, who are our customers. According to the estimates announced by the Japan Robot Association at the beginning of 2019, the growth rate of the robot market will be up 4% year on year. The robot market will continue to expand on a medium- to long-term basis, being driven by investments in automation despite uncertainties regarding the US-China trade frictions.
	9	Will production during January to March 2019 be smaller than that in Q4 of FY 2018?	We cannot answer this question about what is going on now.

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TRS Segment	10	For FY2019, why is the ratio of operating income to net sales estimated to be not very high compared with that in the previous year, while the negative impact temporarily caused by OVALO will be eliminated and sales will increase in the aircraft equipment business? Will you record an impairment loss for OVALO also in FY2019?	For FY2019, we do not expect a very low operating income, apart from the negative impact caused by OVALO. However, sales in the railroad vehicle equipment business will decrease due to a decrease in sales in the highly profitable Chinese high-speed train business, which will in turn have a negative impact on our operating income. For FY2018, full-year sales in the Chinese market amounted to 8.9 billion yen, of which those in the high-speed train business and in the subway business accounted for 30% and 70% of the total, respectively. Sales in the Chinese market will be 8 billion yen in FY2019, and those in the high-speed train business and in the subway business will account for 10% and 90% of the total, respectively. We recorded an impairment loss for OVALO in FY2018 but will not record one in FY2019.
	11	Please tell us whether you have included the 777X mass production-related cost in the budget for FY2019.	Please let us refrain from unveiling the specific details. The launch of the mass production of 777X will not plunge us into deficit in terms of operating income. However, the mass production will make only a limited contribution to our profitability because the production quantity will still be small.
MFR Segment	12	For FY2019, while sales in the MFR segment are expected to increase, being driven by sales rising in the packaging machine business, the ratio of operating income to net sales is predicted to drop year on year. Why?	This is due to the influence of the product mix in the packaging machine business.