

FY2022/12 Q1 Financial Results Briefing: Q&A

Date and Time: 18:00 to 19:05; Thursday, April 28, 2022

No	Item	Q	A
1	Sales	Given the progress rate of Q1 results is low, how do you analyze the results compared to the internal plan? Why did you not revise the plan in the face of risks such as the impact of the Shanghai lockdown?	Although sales increased YoY, operating profit lagged behind the plan. The main reasons for this are increased labor and logistics costs to cope with the Covid-19 infection and production volume at the Japan plant in the precision reduction gears business, and delivery late due to customers' material shortages. The impact of the Shanghai lockdown is expected to have about 3 billion yen in lower sales for the consolidated for April. If the Shanghai lockdown continues, it will be necessary to revise the plan, but we did not revise the plan because end-market demand for precision reduction gears remains strong and we believe that the weak yen is a positive factor for the company wide that will offset the negative impact and allow us to catch up over the fiscal year.
2	O.P.	Regarding the HQ costs, the Q1 results show a low progress rate of 2.1 billion yen compared to the 10 billion yen planned for the company wide for the full year of 2022?	The current progress is due in part to the timing of expense accrual discrepancies. We plan to spend R&D expenses properly to achieve our long-term vision and mid-term plan.
3	CMP	I would like to know the breakdown of the factors behind the 2.1 billion yen decreased YoY in CMP's operating profit.	In addition to the decrease in operating profit due to the decline in sales, the impact of material price hikes was 0.6 billion yen, and a total of about 0.3 billion yen in increased labor and logistics costs.
4	Precision Reduction Gears	In order to avoid the impact of the Shanghai lockdown, if you deliver precision reduction gears from Japan, will you take measures to maintain profits, such as passing on prices to customers, even though logistics costs may increase?	In the case of alternative production, since it is a temporary measure, basically no price pass-through will be done, and it is planned to be considered when it becomes a permanent measure. On the other hand, we think ahead measures to deal with the impact of material price hikes, including a review of the supply chain with in-house parts production. As for the price pass-on to customers, we have already started negotiations and some of them have already approved the price increase.
5	Precision Reduction Gears	Is it possible to achieve the in-house production of components in a short term?	We have been working to bearings in-house production for several years. Rather than reducing procurement prices, we expect stable supply merit.
6	Precision Reduction Gears	In the situation of material prices hike, it seems difficult for some customers to pass on prices, but is it possible?	Regarding price pass-on, catalog-based sales to general industrial (FA) customers are relatively easy to negotiate, and we could have raised prices in actual. For robot manufacturers, we are also trying price negotiations for each individual model, and some of them have been approved price increases.
7	Precision Reduction Gears	Regarding the demand for precision reduction gears, how do you see the continuity of demand, whether it is in line with the actual demand for automation or whether it is temporary demand resulting from a shortage of parts?	We believe that demand for industrial robots is firm. This is due to stronger-than-expected capital investment in EVs and the fact that robot manufactures have received numerous orders and have reached a level where they have to select which orders should be taken. We expect this high demand trend to continue at least through the end of this year. Considering our lead time, robot manufactures do not need to give us temporary orders for precision reduction gears.
8	Hydraulic Equipment	The plan for FY2022 for hydraulic equipment includes sales expansion in China, but is it possible to expand sales in the face of weak demand in the Chinese market?	We had expected overall demand for excavators in the Chinese market to fall by about 20% from last year, but in actual it may be worse than that. However, in addition to anticipating increased spending on infrastructure investment, we will also expand sales in Europe, the U.S., and Southeast Asian markets to cover for the decline in the China. Our market share has not declined and we hope to expand it in the future.
9	Aircraft Equipment	I would like to know the background on the increase in aircraft equipment sales.	Due to increased production of Boeing 737 MAX as well as increased MRO resulting from increased demand mainly for short-haul operations of the aircraft. Boeing 787 is not expected to resume production. As for defense demand, we expect a positive impact due to the increase in the national defense budget.
10	Shanghai lockdown	The material state that the impact of the Shanghai lockdown is 3 billion yen, but does this refer to sales?	This figures refers to the company-wide sales decrease compared to the plan for April. We believe that the amount of decrease will be covered for by alternative production in other regions, changes in distribution routes, foreign exchange effect from weaker yen, and catch-up from May onward.
11	Shanghai lockdown	How long do you assume the risk of stagnation in the logistics will continue?	We are not sure exactly how long the lockdown will continue, as we cannot read the term. If demand arises from customers based outside of Shanghai, we will provide by alternative production in Japan or Thailand.
12	HDS shares	Regarding financial costs, a valuation loss has been recorded, but based on the current HDS share price, will there be a further negative impact? Will you have any changes of the dividend?	Since the revaluation will also occur at the timing of the Q2 results, there will be a possibility to record revaluation loss depending on the share price. Since this revaluation loss will not affect cash flow, we do not plan to change our dividend policy.
13	HDS shares	In Q1, revaluation loss was recorded for about 18 million HDS shares, but will the revaluation loss continue to be accounted for until the completion of the sale of the remaining half of the shares?	Until the completion of the sale of all shares, a valuation gain or loss will be record on the portion of shares held, and upon completion of the sale, a gain or loss on the sale of the shares will be recorded.