

Q&A Overview for FY19/12 Second Quarter Results Briefing



Order Situation

Q1. The number of EDM orders received between April and June dropped below the level of the same period of the previous year. Was the number of orders for injection molding machines the same?

A1. The level of injection molding machine orders received was lower than the previous year, but it was on a recovery trend for the second quarter compared with the first quarter.

Q2. Was it mainly because of the decline in demand for automotive-related sectors in China?

A2. As for the demand situation in China, it is true that the level of orders received for the automotive-related sector dropped. We received orders from the electronic component-related sector last year and the year before last, but this year demand declined in this sector as well.

Q3. You stated that capital investment by customers was postponed during the first half year because of the U.S.-China trade conflict. Do you mean that this is an indefinite postponement?

A3. It means that any investment for inquiry will be postponed at present. It may be restarted at the right time and there is a case where it has got started and we have received an order.

Q4. Did that customer place an order after its plant was completed, or when the building had been built but only the installment of machinery was postponed?

A4. Basically, it seems that the building has been built but the customer wants us to wait until the customer resumes investment because it is bad time to invest now.

FY19/12 Financial Results Projections

Q5. In what business do you find signs of increasing demand in the future?

A 5. Currently, demand may be increasing for the base station of 5G related sectors.

Q6. Is your 5G-related capital investment only for injection molding machines, or is it related to EDMs?

A 6. It is also related to EDMs, but our product-related investment is for injection molding machines.

Q7. Could you specify 5G-related injection molding machines?

A 7. For example, optical connectors for the base station.

Q8. There are concerns about an economic slowdown due to additional U.S. tariffs on China in September. When the situation becomes more severe in the future, do you postpone capital investment, or do you make investment as planned with a view to the next year and beyond? Please explain how to strike a balance between the pursuit of profit and investment.

A 8. If the economic outlook worsens, we believe that we need to make a judgment on whether or not to implement not only ordinary cost reduction but also capital investment after prioritizing them.

Q9. EDM orders received in China seem to have declined between May and June. Do you expect that they will recover in the second half year from the level in June?

A 9. Although we received many orders at the CIMT exhibition (held in April), they gradually declined between May and June. On the other hand, we have received new orders for the telecommunication-related and lens-related sectors, so we expect that orders between July and August will not fall by as much as what we saw in June.

Overall orders received in June were around 190 EDMs because of a decrease in orders in Japan due to some orders waiting for manufacturing subsidies. In the second half year, we expect around 200 to 240 or 250 EDMs per month.

Revision of Full-year FY19/12 Projections

Q10. You stated that both sales and profit decreased compared to your initial forecast. Could you specify what fell short of the initial assumption?

A 10. In the initial plan, we expected sales in China would drop by 30 percent compared with the previous year, but they actually reduced by half. Production of automobiles halted, which spread to Germany, and as a result, our sales in Europe also dropped. In addition, regarding our automotive-related sales in China, sales of precision molds and molding machines, which were relatively solid, also declined owing to inventory adjustments. For ceramic components, customers' investment decision was postponed.

A combination of these various factors seems to have caused the overall decline. We saw signs of recovery in March and April, but it has been losing momentum since May.

Q11. With respect to the machine tool operation, while sales and operating income for the second quarter were 10 billion yen and 0.67 billion yen respectively, your plan of sales and operating income for the second half year are 20 billion yen and 1.7 billion yen respectively. What is the difference in income between the second quarter and the second half year?

A 11. Sales in the second quarter were sluggish partly because there were some orders waiting for subsidies in Japan. Most of our domestic products have higher sales unit prices and higher profit ratios than those overseas. Due to the decline in domestic sales, the profit level for the second quarter was low. We expect that domestic sales will pick up and that the profit ratio will recover in the second half year.

Food Processing Machinery Operation

Q12. With regard to orders that were postponed from the first half year to the second half year or later, what is the background of customers' decision of postponement?

A 12. The impact of the U.S.-China trade conflict cannot be denied as customers mainly in China are cautious about investment. We have already received expected orders for this fiscal year, but sales booking depends on the time of inspection and acceptance.

Review of Production System and Cost Reduction

Q13. According to the analysis of factors of change in the first half year, you seem to have started cost reduction. Do you plan to review the production system for the second half year?

A 13. There is a factory where the number of employees has actually decreased because of a freeze on hiring new employees.
In addition, in line with long holidays in Japan such as Golden Week holidays and summer vacation, we have reduced working days at some overseas bases as well.