Q&A Overview for 2Q FY17/12 Results Briefing

2Q FY17/12 Financial Results

Q1. In the 2Q, the machine tool segment and industrial machinery segment maintained high income margins. What factors contributed to this?

A1. The income margin in the machine tool segment significantly improved because sales of electrical discharge machines (EDMs) surged and the net sales surpassed the break-even-point in this 2Q. Meanwhile, the high income margin in the industrial machinery segment resulted from good sales of products with higher profit margins such as vertical injection molding machines and silicon molding machines as well as our cost reduction efforts.

<Reference> Operating income margin by segment for the 2Q (quarterly basis):
Machine tool segment 17.3%, industrial machinery segment 12.3%
* For details of financial performance by segment (quarterly basis), see the supplementary explanatory materials in the following website:
https://www.sodick.co.jp/en/ir/pdf/tmp/20171124141514.pdf

Q2. How are sales of metal 3D printers?

A2. With regard to metal 3D printers, we projected to sell more than 50 units at the beginning of this term, but sales were a little slower than expected as of the end of the 2Q. This was mainly because metal 3D printers are subject to export controls and it takes considerable time and labor to export them to China and other Asian countries, which resulted in fewer number of orders received. We will raise the awareness of metal 3D printers in the market and expand sales by actively leasing them to universities and research institutions.
We are now selling metal 3D printers mainly for use in molding applications, but we plan to sell them to bigger markets requiring parts processing, particularly, aircraft industries, which have demand in titian and Inconel processing. We will enhance our research and development activities to respond to their needs by expanding product line-ups, improving processing performance and speed and increasing variation of metal powders.

Q&A Overview (2)

Sodick

Orders and Production of EDMs

Q3. Why is the number of EDM orders received in the 2Q fewer compared with the 1Q?

A3. In the 1Q, we received a largely increased number of orders especially from the automobile and smartphone-related industries in the context of a favorable background to upgrade and automate manufacturing industries as well as subsidies from the Chinese Government. In the 2Q, although the number of orders received slowed down compared with the 1Q because the product lead time until delivery prolonged and some of the major components of EDMs was in short supply, the orders are still at a higher level than before. With regard to the Chinese market, there is a tendency for their orders to increase just after the Chinese New Year and decrease in autumn and winter every year, which, we believe, was one of the factors behind the fewer number of orders in the 2Q.

Q4. Please explain the forecast for the Chinese market.

A4. We get many inquiries from Chinese customers, and their demand is continuously strong. We expect to receive many orders the next term, too, as needs for upgrading and automation of Chinese manufacturing industries promoted by Chinese Government seemingly continue to increase.

Q5. How do you plan to expand the production capacity in response to increasing orders?

A5. We are now expanding production capacity in Japan, Thailand and China to respond to increasing orders received.
We plan to build a new production line at the 2nd factory in Thailand and a multi-purpose factory at our Kaga Plant in Japan to manufacture various products, including not only EDMs but also injection molding machines, machining center and metal 3D printers, etc. by which, we will enhance our production capacity.

FY17/12 Financial Results Projections

Q6. Both sales and profits in the 3Q (Oct - Dec) are forecasted to decrease compared to the results of the 2Q. Why?

A 6. The number of orders received decreased toward the 2Q because some of the major components of EDMs was in short supply and the product lead time until delivery was prolonged. Consequently, both net sales and profits in the 3Q are forecast to decrease compared with those of the 2Q.

Q7. Please explain your projection of facility investments, depreciation costs and R&D expenses.

A 7. The amount of facility investments will be a little beyond our original budget that is approx. 3,400 million yen because of construction of a new R&D building at the Yokohama HQ, a logistic center and a multipurpose factory at Kaga Plant and equipment expansion of the 2nd Factory in Thailand and a new building of the North America sales company. As the depreciation costs of these facility investments will have effect from the next term, we project approx. 2,100 million yen for depreciation costs and 3,000 million yen for R&D expenses, which are almost the same as planned.