

Q&A Overview for 2Q FY18/12 Results Briefing



Order Situation

Q1. The number of electrical discharge machine (EDM) orders received between January and June 2018 decreased compared with the same period in the previous year. What do you think are the factors behind this decrease?

A1. With regard to the Chinese market, there is a tendency for their orders to increase just after the Chinese New Year holiday, and then decrease in summer and autumn every year. While orders decreased last year after June, this year they have tended to decrease a month earlier in May, which causes us slight concern. As factors behind this decrease, the demand for smartphones seems to have fallen into a lull, and the product lead times for delivery of some EDM products have been prolonged due to the short supply of major components, resulting in a failure to receive orders.

<Reference>

For trends in the number of EDM orders received (monthly), refer to 2Q FY18/12 Results Briefing (p. 18).

https://www.sodick.co.jp/en/ir/pdf/results_briefing_2018_2q.pdf

For trends in the number of EDM orders received by region (quarterly), refer to 2Q FY18/12 Supplemental Data.

https://www.sodick.co.jp/en/ir/pdf/results_briefing_2018_2q_suppl.pdf

Q2. How much influence did the failure to receive orders caused by the short supply of components have on sales? Has the situation improved?

A2. There has not been any failure of orders in large-scale projects but there have been failures of dozens of orders in individual transactions. The components supply situation, apart from some special cases, is beginning to improve. Additionally, production is being adjusted between the plants to shorten delivery times.

Q3. According to industry statistics for June, demand for small-sized injection molding machines has plunged. How is the order situation of Sodick injection molding machines?

A3. Orders were sluggish between January and March partly impacted by the Chinese New Year holiday, but have somewhat recovered from April to June, and continue to slightly increase compared with the same period in the previous year.

FY18/12 Financial Results Projections

Q4. Regarding the EDM order forecast, how many orders would you consider to be a strong level?

A4. While strong levels differ by season, about 300 orders per month would be considered strong if there were no significant decreases in demand caused by trade friction, etc.

Q5. Income margin in the machine tool segment is progressing upward. What is the forecast for the full year?

A5. Income margin progressed upward in the 1st half thanks to productivity improvements, etc., but in the 2nd half, depreciation costs are projected to increase due to the new building for sales office in the US, the distribution center, the multi-factory at Kaga Plant, etc.

Q6. For which products will you increase production capacity when the multi-factory is completed at Kaga Plant?

A6. As a factory that can flexibly accommodate any changes in the business environment and markets, the multi-factory will produce EDMs, machining centers, metal 3D printers, and injection molding machines that are in high demand at the time.
In addition, the production of high-precision EDMs currently carried out at Fukui Plant is scheduled to be moved to the multi-factory.
As for metal 3D printers, satisfactory results have been achieved in metal molds for mass production. Since we are now able to meet the needs of customers more strongly, we hope to consider increasing the production.

Q7. Please let us know your stance on investment. Do you intend to further increase production capacity?

A7. Although we have no current plans to construct new plants, we do think there is a need to increase the overall production capacity. For example, orders in the food processing machinery segment have been progressing well. Factory expansion is underway, and increased production in China is being considered. Furthermore, we think there is need to reconstruct the production system in order to flexibly accommodate changes in the currency trend and market environment.