Overview

During the fiscal year ended March 31, 2020, in the global economy, the outcome of both the trade talks between the U.S. and China and the negotiations on the new trade agreement between the U.K. and the EU remained uncertain. In addition, with the worldwide spread of coronavirus since the end of 2019, the impact of legally-binding measures in many countries has meant that demand for the transportation of people and goods has declined. Moreover, corporate activities have significantly stagnated on a global level due to factors such as disruptions to supply chains, and there are strong concerns that this will adversely affect the real economy going forward.

Amid such an operating environment, the Group's orders received in the fiscal year ended March 31, 2020, decreased from the previous fiscal year, mainly in the Aerospace Systems segment and the Ship & Offshore Structure segment. Net sales increased overall, due to increases in the Aerospace Systems and the Rolling Stock segment and other segments, despite a decline in the Motorcycle & Engine segment, the Energy System & Plant Engineering and other segments. Operating income decreased due to decreases in the Precision Machinery & Robot and the Motorcycle & Engine segment and other factors, despite the improvement in the Aerospace Systems and the Rolling Stock segment. Recurring profit increased due to a decline in the payments for the in-service issues of commercial aircraft jet engines and other factors despite the decrease in operating income. Despite an increase in recurring profit, net income attributable to owners of parent decreased due to the partial reversal of deferred tax assets in light of the impact of the coronavirus outbreak and other factors.

As a result, the Group's consolidated orders received decreased ¥75.2 billion from the same period in the previous fiscal year to ¥1,513.5 billion, consolidated net sales increased ¥46.5 billion year on year to ¥1,641.3 billion, operating income decreased ¥1.9 billion year on year to ¥62.0 billion, recurring profit increased ¥2.5 billion year on year to ¥40.4 billion, and net income attributable to owners of parent decreased ¥8.7 billion year on year to ¥18.6 billion. ROIC* was 4.2%, while ROE was 4.0%.

* *Before-tax ROIC = EBIT (income before income taxes + interest expense) / invested capital (interest-bearing debt + shareholders' equity)*

Business segment

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Aerospace Systems

Regarding the business environment surrounding the Aerospace Systems segment, there is a certain level of demand from the Ministry of Defense in Japan amid the tight defense budget. Although demand for commercial aircraft airframes and jet engines was increasing in conjunction with the rise in the number of air passengers, demand for both aircraft airframes and jet engines is expected to decline due to the impact of the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥16.6 billion year on year to ¥414.9 billion due to decreases in component parts of airframes for Ministry of Defense and commercial aircraft, despite an increase in component parts of commercial aircraft jet engines.

Consolidated net sales increased ¥68.5 billion year on year to ¥532.5 billion due to increases in component parts of airframes for Ministry of Defense and commercial aircraft and component parts of commercial aircraft jet engines. Operating income increased ¥10.1 billion year on year to ¥42.7 billion due to an increase in sales.

Energy System & Plant Engineering

Regarding the business environment surrounding the Energy System & Plant Engineering segment, in Japan, there is ongoing demand for replacing aging facilities for refuse incineration plants, while over the medium to long term, demand for distributed power sources in Japan and overseas and for energy infrastructure development in emerging markets remains firmly rooted. On the other hand, uncertainty about the future is increasing, as customers' short-term capital investment decisions may be reviewed due to the impacts of sluggish economic activity and the destabilization of resource prices resulting from the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased ¥11.1 billion year on year to ¥252.3 billion. Although new orders were relatively strong, including an order for refurbishments of domestic waste disposal facilities, the year-on-year results reflect the non-recurrence of orders received for large projects in the previous fiscal year, including orders for a combined cycle power plant and an LNG tank for the Japanese market.

Consolidated net sales decreased ¥10.0 billion year on year to ¥242.9 billion due to a decline in sales of the energy system business and other factors, despite an increase in construction work volume on chemical plants for overseas customers. Operating income increased ¥5.9 billion year on year to ¥17.5 billion due to the improvement in profitability of a chemical plant for an overseas customer and the energy system business and the other factors, despite a drop in sales.

Precision Machinery & Robot

Regarding the business environment surrounding the Precision Machinery & Robot segment, in the construction machinery market, domestic customers reduced production due to the impact of Typhoon Hagibis in 2019, and sales in the South Korean market as well as emerging markets such as India and Indonesia were sluggish, but on the whole demand remained firm. There is uncertainty regarding the future impact of the coronavirus outbreak, but the construction machinery market in China is quickly recovering, and the Company will closely monitor future trends. In China, the robot market is recovering from the temporary deterioration of conditions resulting from the U.S.-China trade friction. In addition, although the impact of the coronavirus outbreak is uncertain, demand for robots for the semiconductor market has begun to recover due to the resumption of investment by major semiconductor manufacturers in Taiwan and South Korea, and demand is expected to steadily expand over the medium to long term.

Amid such an operating environment, consolidated orders received decreased ¥6.3 billion year on year to ¥218.8 billion due to decreases in hydraulic components for construction machinery market despite an increase in various robots.

Consolidated net sales decreased ¥4.7 billion year on year to ¥217.3 billion due to decreases in hydraulic components for construction machinery market. Operating income decreased ¥9.1 billion year on year to ¥12.2 billion as a result of factors including a decrease in the number of robots produced in China, increases in the R&D costs of hydraulic components, and a drop in sales.

Ship & Offshore Structure

While demand for gas-fueled vessels is being driven higher by tighter environmental regulations and LNG development projects are beginning to take shape, the Ship & Offshore Structure segment's operating environment remains adverse due to the prolonged slump in the marine transport market, the continuation of the South Korean government's policies supporting its shipbuilding industry, and other issues. As for the direct impact of the coronavirus outbreak, although there have been no requests to push back delivery dates or cancel orders for ships at this stage, there is concern that contract closing dates may be pushed back due to delays in business negotiations.

Amid such an operating environment, we received new orders for LPG carriers, but consolidated orders received totaled only ¥56.2 billion, ¥24.9 billion less than a year earlier when we received orders for submarines for Ministry of Defense.

Consolidated net sales decreased ¥7.2 billion year on year to ¥71.6 billion due to decreases in the volume of construction of LNG carriers and LPG carriers. The segment posted an operating loss of ¥0.6 billion, a ¥1.7 billion deterioration from operating income a year earlier. The main factors dragging down earnings were lower revenue from newly built ships and the posting of losses from operations.

Rolling Stock

Regarding the business environment surrounding the Rolling Stock segment, there continues to be stable demand in Japan for the replacement of aging railcars in the medium and long term. Overseas, demand for new and replacement railcars is expected to increase in the U.S., including in the core New York area market. Meanwhile, in Asia, we are planning projects for emerging markets in tandem with the Japanese government's efforts to promote infrastructure related exports. On the other hand, plans for deliveries and orders for domestic and overseas rolling stock projects are expected to be reviewed due to the impact of the coronavirus outbreak.

Amid such an operating environment, consolidated orders received decreased by ¥10.3 billion to ¥125.7 billion from the previous fiscal year when we received orders for railcars in U.S., despite orders for railcars for the Shinkansen and subway in Japan.

Consolidated net sales increased ¥11.8 billion year on year to ¥136.5 billion due to an increase in sales of railcars for Japan and U.S., despite a decrease in components for overseas customers. Consolidated operating loss improved ¥9.9 billion to an operating loss of ¥3.8 billion due to an increase in sales, a decrease in temporary expenses in the U.S. projects which were incurred in the previous fiscal year and other factors, despite some projects being delayed to the following fiscal year and being subject to cost fluctuations due to the impact of the coronavirus outbreak.

Motorcycle & Engine

Regarding the business environment surrounding the Motorcycle & Engine segment, until the beginning of March 2020, while the modest growth in motorcycle markets mainly in Europe was continuing, some emerging markets were weak. For utility vehicles and personal watercraft, the market grew stably, mainly in the North American market, but in the general-purpose engines market, market growth temporarily slowed down due to inclement weather and the U.S.-China trade friction. After the coronavirus began to spread rapidly in major markets around the world from mid-March 2020, starting with Europe and North America, the market declined significantly due to lockdowns, temporary distributor closures and so on.

Amid such an operating environment, consolidated net sales decreased ¥19.0 billion year on year to ¥337.7 billion due to the coronavirus outbreak and the appreciation of the yen, primarily against the euro and the other currencies, compared to the same period of the previous year. Operating income deteriorated, for a cumulative downturn of ¥16.3 billion year on year to an operating loss of ¥1.9 billion. This was due to the drop in sales and an increase in manufacturing costs due to the appreciation of the Thai baht against the yen and a recall of off-road four wheelers.

Other Operations

Consolidated net sales increased ¥7.2 billion year on year to ¥102.4 billion. Operating income decreased ¥1.2 billion year on year to ¥1.2 billion.

Consolidated financial position

(1) Assets

Current assets were ¥1,258.7 billion, a ¥122.4 billion increase from the previous fiscal year, due to an increase in trade receivables. Fixed assets were ¥699.0 billion, a ¥3.4 billion decrease from the previous fiscal year, due to a decrease in construction in progress. As a result, total assets were ¥1,957.8 billion, a ¥118.9 billion increase from the previous fiscal year.

(2) Liabilities

Interest bearing liabilities were ¥567.4 billion, a ¥128.0 billion increase from the previous fiscal year. Liabilities were ¥1,486.2 billion, a ¥139.6 billion increase from the previous fiscal year, due to the increase in interest bearing liabilities and other factors.

(3) Net assets

Total net assets were ¥471.5 billion, a ¥20.6 billion decrease from the previous fiscal year, due to the payment of dividends and a decrease in premeasurements of defined benefit plans.

Cash Flows

(1) Cash flows from operating activities

Operating activities used net cash of ¥15.4 billion, a ¥125.2 billion change from the previous fiscal year when operating activities provided net cash of a ¥109.7 billion. Major sources of operating cash flow included profit before income taxes of ¥39.3 billion and depreciation of ¥61.2 billion. Major uses of operating cash flow included expenditure of ¥48.0 billion due to an increase in inventory assets and ¥46.7 billion due to an increase in trade receivables.

(2) Cash flows from investing activities

Investing activities used net cash of ¥69.4 billion, which is ¥15.9 billion less than in the previous fiscal year, due mainly to the purchase of property, plant and equipment, as well as intangible assets.

(3) Cash flows from financing activities

Financing activities provided net cash of ¥115.8 billion, a shift of ¥135.5 billion from the previous fiscal year when financing activities used net cash of ¥19.7 billion. This was mainly due to an increase in short-term debt.

Given these changes in cash flows, cash and cash equivalents at end of year settled at ¥102.5 billion, up ¥34.2 billion from the beginning of the year.

Management of Liquidity Risk

To manage liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion based on reports from each business segment. In addition, measures are taken to diversify sources of financing, to adjust the balance of long- and short-term financing with consideration for financial conditions, to secure commitment lines, etc.

Key Performance Indicators

As key performance indicators, the Company has adopted Earnings (Operating income, Recurring profit, Profit attributable to owners of parent) and Return on Invested Capital [ROIC = EBIT (Income before income taxes + Interest expense) / Invested Capital (Interest-bearing debt + Shareholders' equity)] as indicators for measuring capital efficiency.

In order to quickly clear the ROIC hurdle rate (minimum required level is 8%) in the consolidated group as a whole, the Company will thoroughly manage profit margins in each business segment and aim to improve the enterprise value of the entire group.

With the improvement of these management indicators, the Company also seeks to improve its Return on Equity (ROE = Profit attributable to owners of parent / Shareholders' equity).

Dividends

As a basic management policy, the Company aims to increase corporate value by consistently generating profit exceeding the cost of invested capital. In line with this policy, the Company believes that one priority for management is to engage in cutting-edge research and development as well as innovative capital investment required to the achieve future growth and thereby return profits to shareholders by enhancing shareholder value over the long term.

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to the owners of the parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including its free cash flow, D/E ratio (debt-to-equity ratio) and other factors.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after the fiscal year-end. Interim dividends are authorized by the Board of Directors, while year-end dividends are authorized at the general meetings of shareholders.