

# Financial Results for FY2019 (for the year ended March 31, 2020)

May 12, 2020

Kawasaki Heavy Industries, Ltd.



MEMBERSHIP

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# Summary of Financial Results

[Billion Yen]

	FY2018 Actual	FY2019		Change	
		Forecast in February	Actual	vs. FY2018	Forecast in February
Orders Received	※ 1,588.7	1,550.0	<b>1,513.5</b>	- 75.2	- 36.5
Net Sales	1,594.7	1,660.0	<b>1,641.3</b>	+ 46.5	- 18.7
Operating Income	64.0	60.0	<b>62.0</b>	- 1.9	+ 2.0
Recurring Profit	37.8	41.0	<b>40.4</b>	+ 2.5	- 0.6
Net Income Attributable to Owners of Parent	27.4	25.0	<b>18.6</b>	- 8.7	- 6.4
Before-tax ROIC	4.5%	4.8%	<b>4.2%</b>	- 0.3%	- 0.6%
ROE	5.8%	5.2%	<b>4.0%</b>	- 1.8%	- 1.2%

※ Revised order received of FY2018 due to a change and a refinement of calculation methods of order received in the Precision Machinery & Robot segment (1585.9 billion yen → 1588.7 billion yen)

<Weighted-average exchange rates>

Yen/US\$	110.77	107.00	<b>108.94</b>
Yen/EUR	128.33	118.00	<b>121.70</b>

## vs. FY2018

### • Orders Received

- Decreased mainly in Aerospace Systems and Ship & Offshore Structure segment

### • Net Sales

- Increased as a whole due to an increase in Aerospace Systems, Rolling Stock and other segments, despite a decrease in Motorcycle & Engine, Energy System & Plant Engineering and other segments

### • Profits

- Operating income decreased as a whole due to a decrease in Motorcycle & Engine, Precision Machinery & Robot and other segments, despite an increase in Aerospace Systems, Rolling Stock segment
- Recurring profit increased due to a decrease in payments for the in-service issues of commercial aircraft jet engines
- Net income attributable to owners of parent decreased due to the partial withdrawal of deferred tax assets, and other factors

### (Appendix)

#### Net Sales in Foreign Currencies for FY2019

[Billion]

US\$	EUR
2.00	0.44

# Financial Results by Segment

[Billion Yen]

	Orders Received			Net Sales			Operating Income		
	FY2018	<b>FY2019</b>	Change	FY2018	<b>FY2019</b>	Change	FY2018	<b>FY2019</b>	Change
Aerospace Systems	431.6	<b>414.9</b>	- 16.6	463.9	<b>532.5</b>	+ 68.5	32.6	<b>42.7</b>	+ 10.1
Energy System & Plant Engineering	263.5	<b>252.3</b>	- 11.1	253.0	<b>242.9</b>	- 10.0	11.6	<b>17.5</b>	+ 5.9
Precision Machinery & Robot	※ <sup>1</sup> 225.2	<b>218.8</b>	- 6.3	222.0	<b>217.3</b>	- 4.7	21.3	<b>12.2</b>	- 9.1
Ship & Offshore Structure	81.1	<b>56.2</b>	- 24.9	78.9	<b>71.6</b>	- 7.2	1.0	<b>-0.6</b>	- 1.7
Rolling Stock	136.0	<b>125.7</b>	- 10.3	124.6	<b>136.5</b>	+ 11.8	-13.7	<b>-3.8</b>	+ 9.9
Motorcycle & Engine	356.8	<b>337.7</b>	- 19.0	356.8	<b>337.7</b>	- 19.0	14.3	<b>-1.9</b>	- 16.3
Others	94.2	<b>107.5</b>	+ 13.3	95.1	<b>102.4</b>	+ 7.2	2.5	<b>1.2</b>	- 1.2
Eliminations and corporate <sup>※2</sup>	-	-	-	-	-	-	-5.7	<b>-5.3</b>	+ 0.4
Total	※ <sup>1</sup> 1,588.7	<b>1,513.5</b>	- 75.2	1,594.7	<b>1,641.3</b>	+ 46.5	64.0	<b>62.0</b>	- 1.9

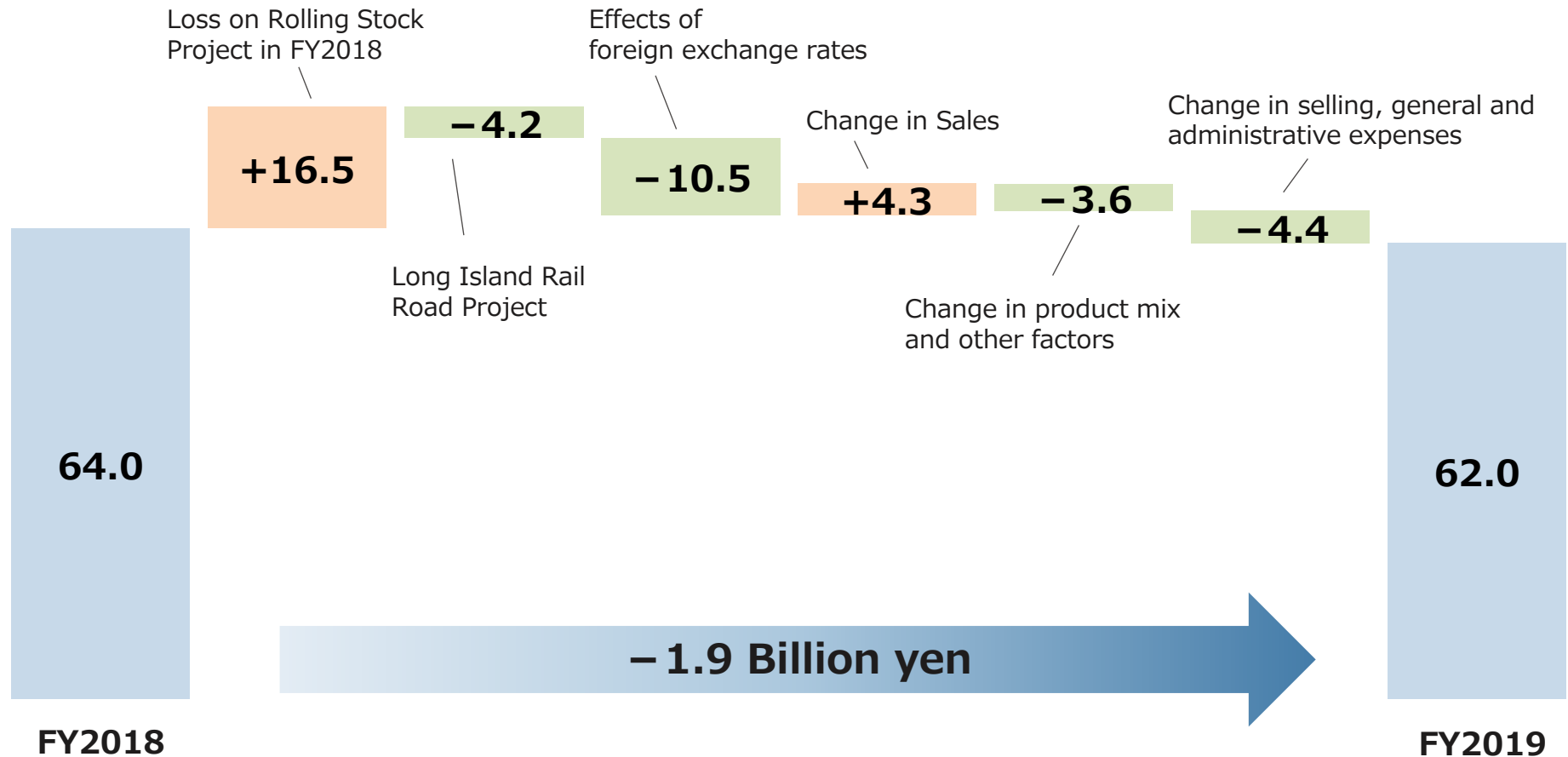
※<sup>1</sup> Revised order received in FY2018 of Precision Machinery & Robot segment due to change in calculation method of order received and refinement  
Precision Machinery & Robot (before) 222.4 (after) 225.2  
Total (before) 1585.9 (after) 1588.7

※<sup>2</sup> "Eliminations and corporate" includes some expenses incurred at Head Office which were not allocated to each industry segment for internal reporting

# Details of Change in Profit

## • Operating Profit

-1.9Billion yen (FY2018 64.0 Billion yen ⇒ FY2019 62.0 Billion yen)

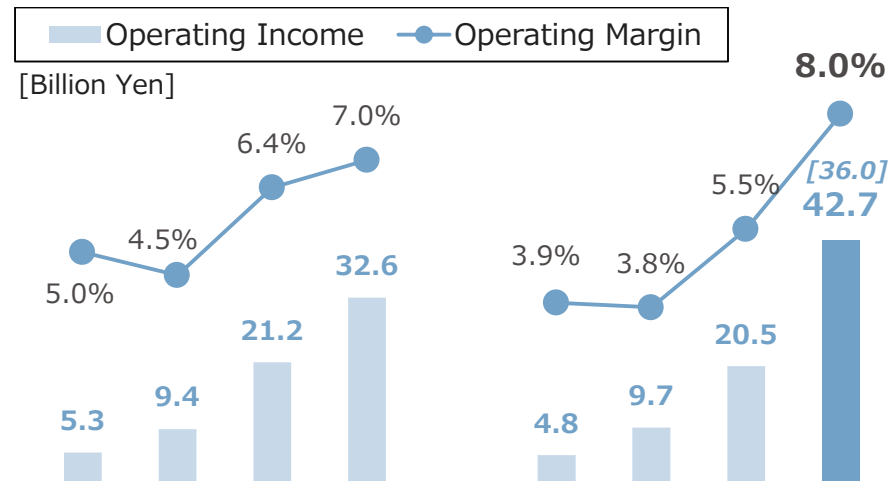
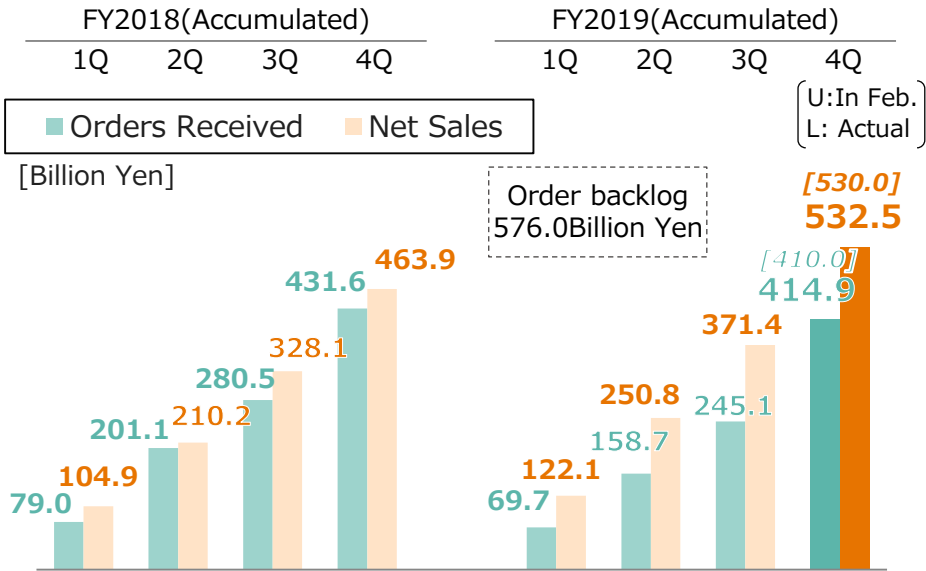


# Summary of Income Statement

			( FY2018 )	⇒	( FY2019 )
[Billion Yen]					
<b>Operating Income</b>	<b>- 1.9</b>	<b>(</b>	<b>64.0</b>	<b>⇒</b>	<b>62.0 )</b>
• Net Sales	+ 46.5	(	1,594.7	⇒	1,641.3 )
• Cost of sales	+ 44.1	(	1,326.6	⇒	1,370.8 )
• Selling, general & administrative expenses	+ 4.4	(	204.0	⇒	208.4 )
- Salaries and benefits	+ 1.6	(	54.9	⇒	56.6 )
- R&D expenses	+ 3.8	(	48.7	⇒	52.6 )
<b>Non-operating Income / Expenses</b>	<b>+ 4.5</b>	<b>(</b>	<b>-26.1</b>	<b>⇒</b>	<b>-21.6 )</b>
• Net Interest expense (incl. dividend income)	- 0.4	(	-2.2	⇒	-2.6 )
• Equity in income of unconsolidated subsidiaries and affiliates	- 0.3	(	1.5	⇒	1.2 )
• Gain and loss on foreign exchange	- 3.7	(	-4.7	⇒	-8.4 )
• Payments for the in-service issues of commercial aircraft jet engines	+ 3.3	(	-14.8	⇒	-11.5 )
• Others	+ 5.6	(	-5.9	⇒	-0.2 )
<b>Extraordinary Income / Losses</b>	<b>- 1.1</b>	<b>(</b>	<b>-</b>	<b>⇒</b>	<b>-1.1 )</b>
- Gain on sales of fixed assets	+ 1.2	(	-	⇒	1.2 )
- Loss on business withdrawal	- 2.3	(	-	⇒	-2.3 )

# Aerospace Systems

Main Products: Aircrafts for Japan Ministry of Defense(MOD), Component parts for commercial aircrafts, Commercial helicopters, Missiles, Space equipment, Jet engines, Aerospace Gearbox



## FY2019 (vs. FY2018)

- Orders Received:** Decreased due to a decrease in aircrafts for MOD and component parts for commercial aircrafts, despite an increase in component parts for commercial aircraft jet engines
- Net Sales:** Increased due to an increase in aircrafts for MOD, component parts for commercial aircrafts and component parts for commercial aircraft jet engines, and other factors
- Operating Income:** Increased due to an increase in sales and other factors

## Impact of COVID-19 (FY2020 forecast)

- A decline in demand for commercial aircraft and a decline in aftermarket sales of commercial aircraft jet engines are expected in accordance with a sharp decline in passenger demand

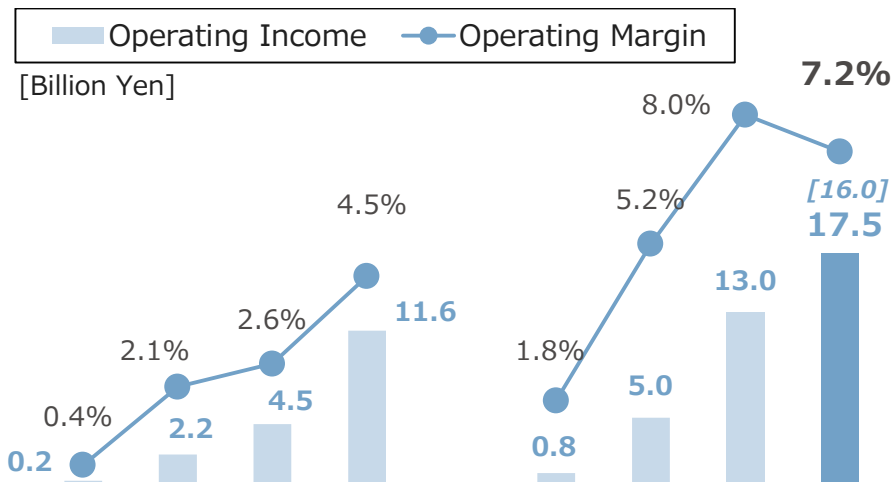
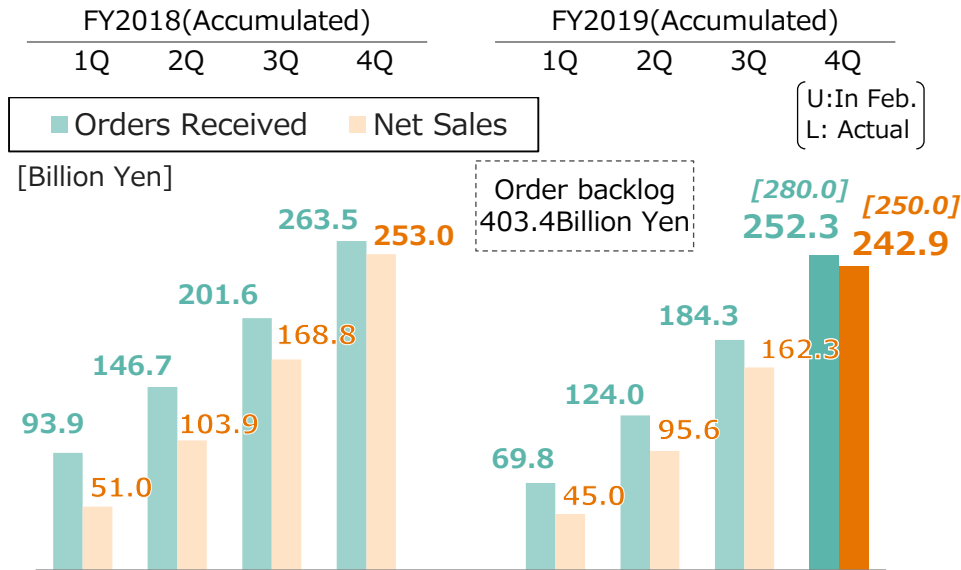
## Sales units of component parts for commercial aircraft [Unit]

	FY2018	FY2019
Boeing 767	31	34
Boeing 777	41	44
Boeing 777X	7	9
Boeing 787	146	167

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	5.0%	8.0%

# Energy System & Plant Engineering

Main Products: Industrial plants(cement, fertilizer and others), Power plants, LNG tanks, Municipal waste incineration plants, Tunnel boring machines, Crushing machines, Gas turbine co-generation system, Gas engines, Diesel engines, Gas turbines & steam turbines for marine & land, Marine propulsion system, Aero-dynamic machinery



※1. CCPP = Combined Cycle Power Plant

## FY2019 (vs. FY2018)

- Orders Received:** Decreased compared to FY2018 when received orders of energy products including CCPP and LNG tanks in the domestic market, despite orders received for domestic municipal waste incineration plants and other factors
- Net Sales:** Decreased due to a decrease in energy business and other factors, despite an increase in construction works of chemical plants for the overseas market
- Operating Income:** Increased due to an improvement in profitability of chemical plants for the overseas market, despite a decrease in revenue

## Impact of COVID-19 (FY2020 forecast)

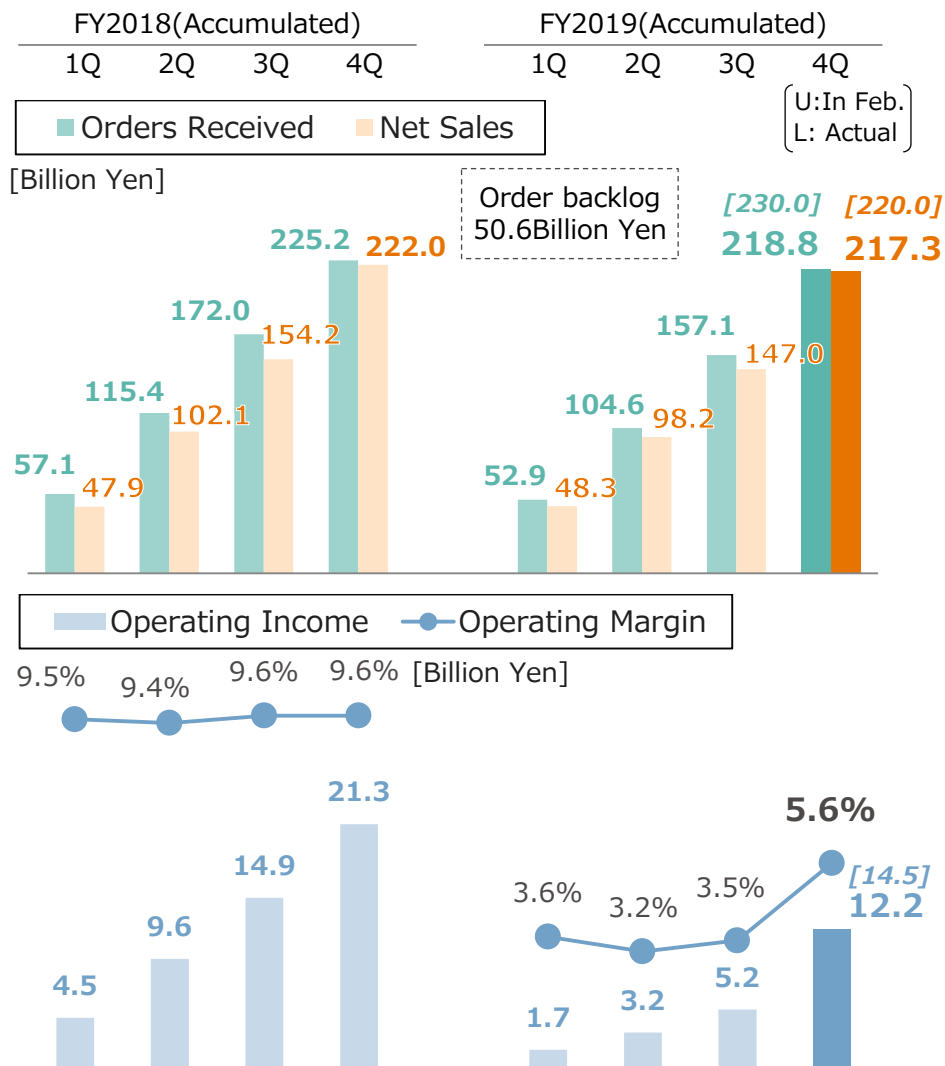
- There is a possibility that the customer's short-term capital investment decisions will be reviewed due to factors such as economic activity stagnation and resource price instability caused by movement restrictions inside and outside Japan
- Uncertainty in the future is strengthening due to delays in closing deals and a decrease in after-sales

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	9.3%	10.4%



# Precision Machinery & Robot

Main Products: Hydraulic components for construction machinery, Hydraulic components and systems for industrial machines, Marine application machines, Deck cranes and other marine deck equipment, Industrial robots, Medical and pharmaceutical robot



## FY2019 (vs. FY2018)

- **Orders Received:** Decreased due to a decrease in hydraulic components for construction machinery, despite an increase in each series of robots
- **Net Sales:** Decreased due to a decrease in hydraulic components for construction machinery
- **Operating Income:** Decreased due to a decrease in sales, an increase in R&D expense of hydraulic components for construction machinery, decrease in robots production in China, and other factor

## Impact of COVID-19 (FY2020 forecast)

- Although demand in China is recovering quickly, overall sales are expected to decline due to a review of capital investment plans and a decrease in demand for construction machinery in other regions including Europe and the US
- The market conditions for robots for semiconductor manufacturing equipment have been steadily recovering

### ※About revised order received in FY2018

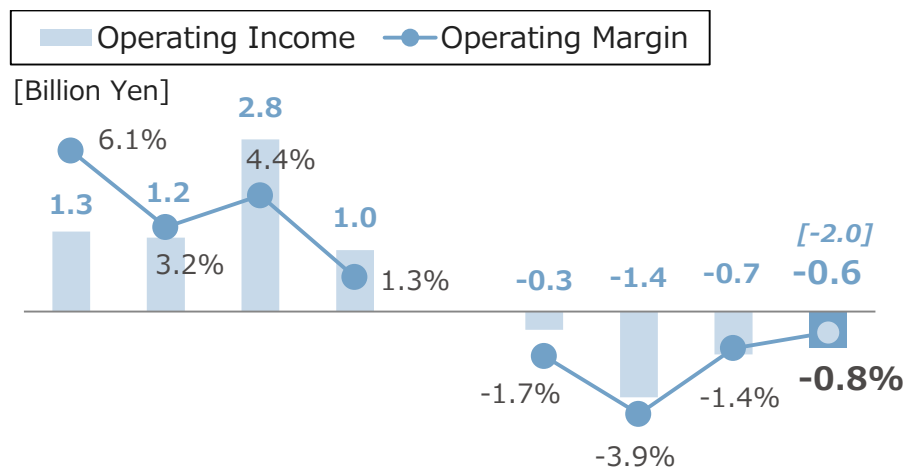
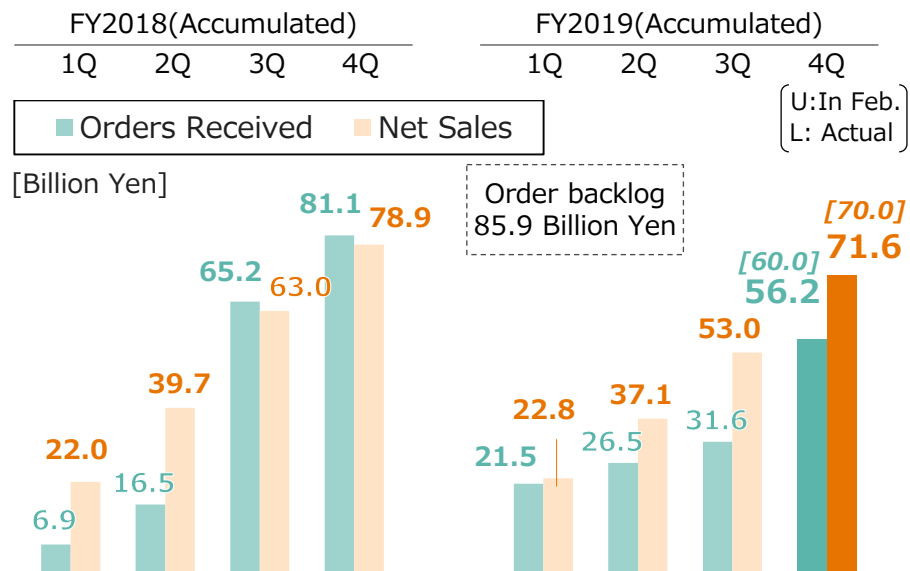
Revised order received in FY2018 as below due to change in calculation method of order received and refinement

	1Q	2Q	3Q	4Q
Before	50.9	104.8	157.3	222.4
After	57.1	115.4	172.0	225.2

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	19.8%	8.8%

# Ship & Offshore Structure

Main Products: LNG carriers, LPG carriers, Bulk carriers, Submarines, JETFOIL



## FY2019 (vs. FY2018)

- **Orders Received:** Decreased compared to FY2018 when received orders of submarines, despite received orders of LPG carriers
- **Net Sales:** Decreased due to a decrease in construction works of LNG carriers and LPG carriers
- **Operating Income:** Deteriorated due to a decrease in new building ships and operation losses, and other factors

## Impact of COVID-19 (FY2020 forecast)

- Although there is no request to extend the delivery date of ordered ships at this stage, there is concern that the contract closing date may be delayed due to delays in business negotiations
- The impact on business performance is limited

## Units of Orders Received and Sales of New Building Ships [Unit]

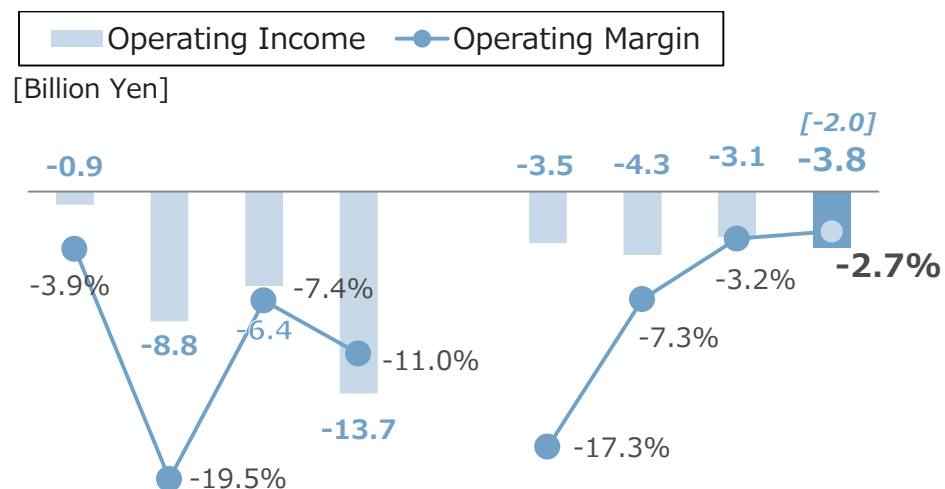
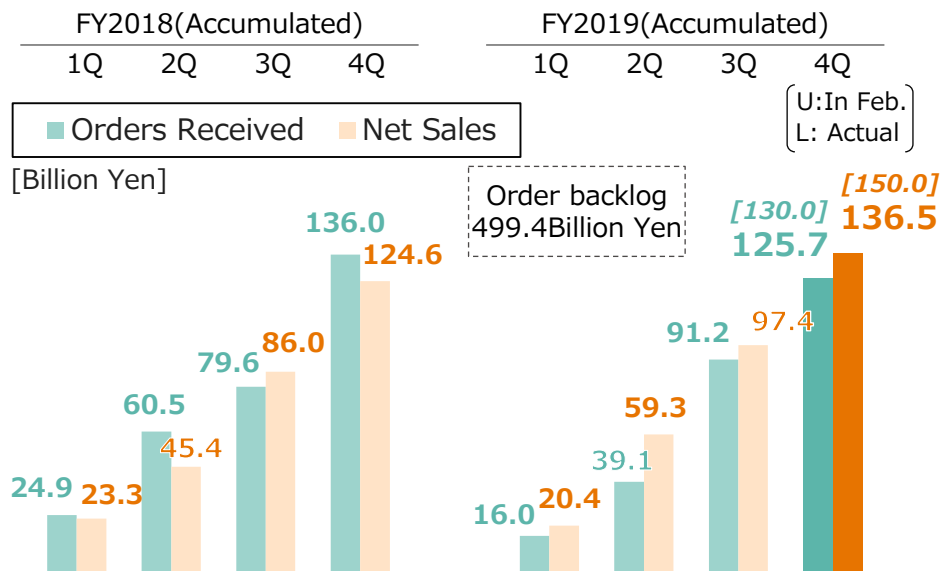
	Orders Received		Sales*		Orders Backlog
	FY2018	FY2019	FY2018	FY2019	FY2019
LNG carriers			5	2	
LPG carriers	1	4	6	6	5
Submarines	1		2	2	2
Others	3		2	4	3
Total	5	4	15	14	10

\*Sales includes units by percentage-of-completion method

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	3.2%	1.4%

# Rolling Stock

Main Products: Electric train cars (incl. Shinkansen), Electric and diesel locomotives, Passenger coaches, Bogies



## FY2019 (vs. FY2018)

- Orders Received:** Decreased compared to FY2018 when received orders of passenger cars for the US market, despite received orders of Shinkansen and subway for the domestic market
- Net Sales:** Increased due to an increase in passenger cars for the domestic and the US market, despite decrease in component parts for the overseas market
- Operating Income:** Improved due to an increase in sales, a decrease in temporary expense of the US projects incurred in FY2018, and other factors, despite time lag and cost fluctuation by the impact of COVID-19 for some projects

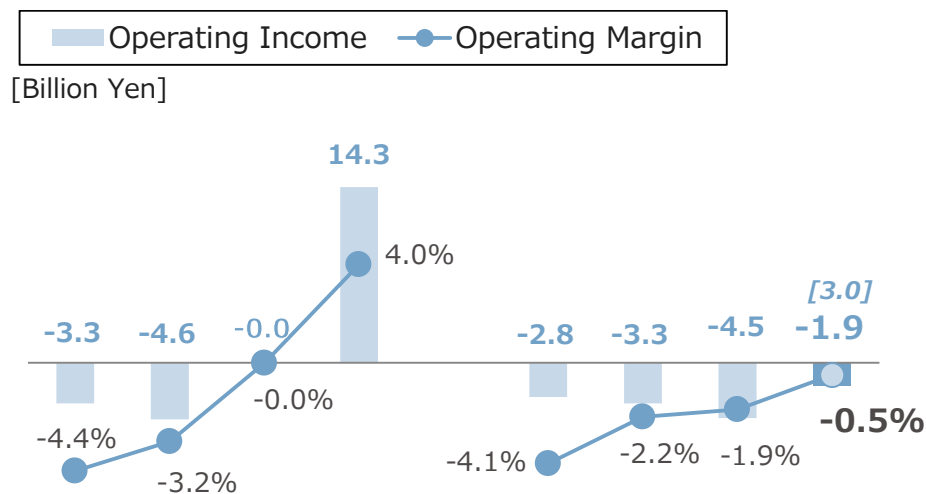
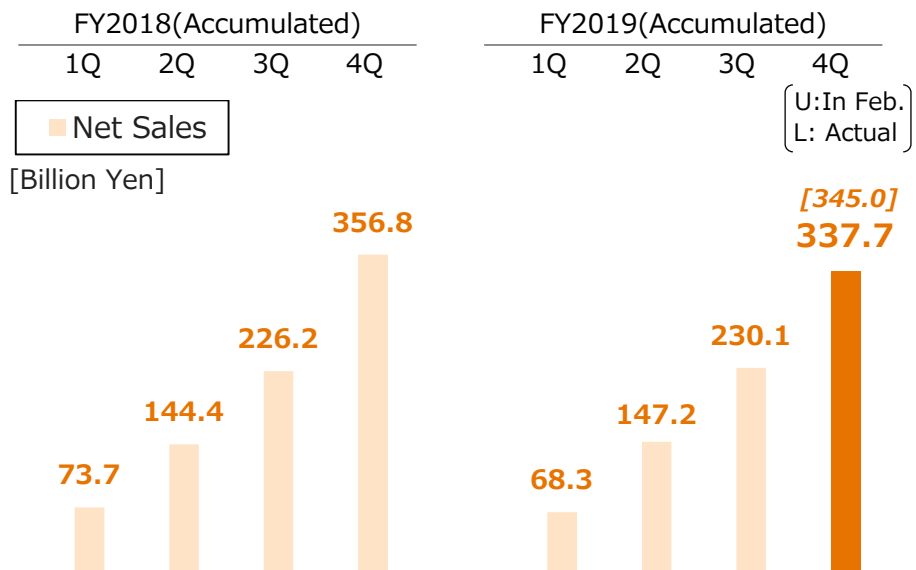
## Impact of COVID-19 (FY2020 forecast)

- In North America, although it is expected that delivery delays due to temporary production interruptions at local subsidiaries and temporary suspension of acceptance by customers, the impact on business performance will be limited

	FY2018 Actual	FY2019 Actual
Before-tax ROIC	-26.4%	-7.2%

# Motorcycle & Engine

Main Products: Motorcycles, Utility Vehicles, All-Terrain Vehicles(ATVs), Personal Watercraft, General-purpose Gasoline Engines



## FY2019 (vs. FY2018)

- Net Sales:** Decreased due to the impact of COVID-19, the appreciation of the yen against the euro and other currency compared to FY2018, and other factors
- Operating Income:** Decreased due to a decrease in sales and deteriorated due to an increase in manufacturing costs by appreciation of the Thai baht against the yen, recall of ATVs, and other factors

## Impact of COVID-19 (FY2020 forecast)

- Significant sales decline is expected due to the suspension of sales activities and demand drop around the world

## Wholesales by Product

[Thousands of units, Billion Yen]

	FY2018		FY2019	
	Unit	Amount	Unit	Amount
Motorcycles for developed countries	165	131.7	162	123.0
Motorcycles for emerging market	385	92.2	337	78.7
Utility Vehicles, ATVs & PWC	70	80.9	70	84.6
General-purpose gasoline engines		52.0		51.4
<b>Total</b>	<b>620</b>	<b>356.8</b>	<b>569</b>	<b>337.7</b>

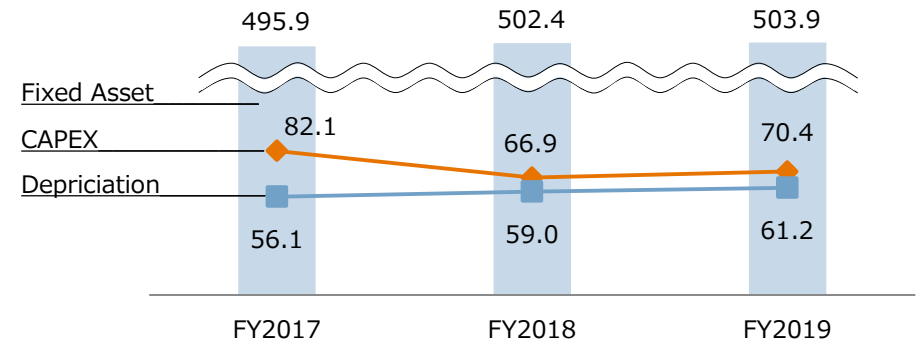
	FY2018 Actual	FY2019 Actual
Before-tax ROIC	8.4%	-2.6%

# Summary of Balance Sheet

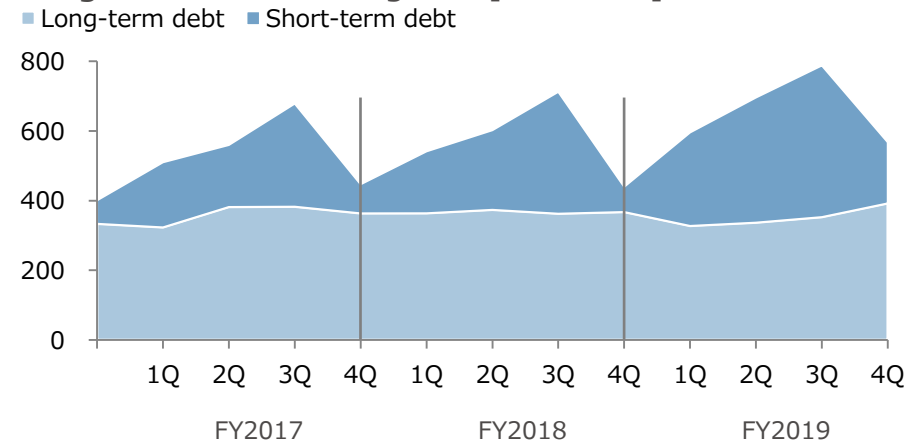
	[Billion Yen]		
	End of Mar. 2019	End of Mar. 2020	Change
Cash on hand and in banks	74.3	106.1	+ 31.7
Trade receivables	427.6	473.2	+ 45.5
Inventories	592.8	631.6	+ 38.8
Total fixed assets	502.4	503.9	+ 1.4
Others assets	241.5	242.9	+ 1.3
<b>Total assets</b>	<b>1,838.8</b>	<b>1,957.8</b>	<b>+ 118.9</b>
Trade payables	370.2	371.6	+ 1.4
Interest-bearing debt	439.4	567.4	+ 128.0
Advances from customers	181.4	148.6	- 32.8
Other liabilities	355.4	398.5	+ 43.0
<b>Total liabilities</b>	<b>1,346.5</b>	<b>1,486.2</b>	<b>+ 139.6</b>
Total shareholders' equity	483.5	485.5	+ 2.0
Other net assets	8.7	▲ 13.9	- 22.7
<b>Total net assets</b>	<b>492.2</b>	<b>471.5</b>	<b>- 20.6</b>
<b>Total liabilities &amp; net assets</b>	<b>1,838.8</b>	<b>1,957.8</b>	<b>+ 118.9</b>
Ratio of shareholders' equity to total assets	25.9%	23.2%	
Net D/E Ratio	76.6%	101.2%	

- Assets increased due to an increase in working capital in Aerospace Systems segment and other factors
- Liabilities increased as a whole due to an increase in interest-bearing debt by an increase in working capital
- Net assets decreased due to a decrease in payment of dividend and accumulated adjustment for retirement benefits, and other factors

Change in CAPEX and others [Billion Yen]



Change in interest-bearing debt [Billion Yen]



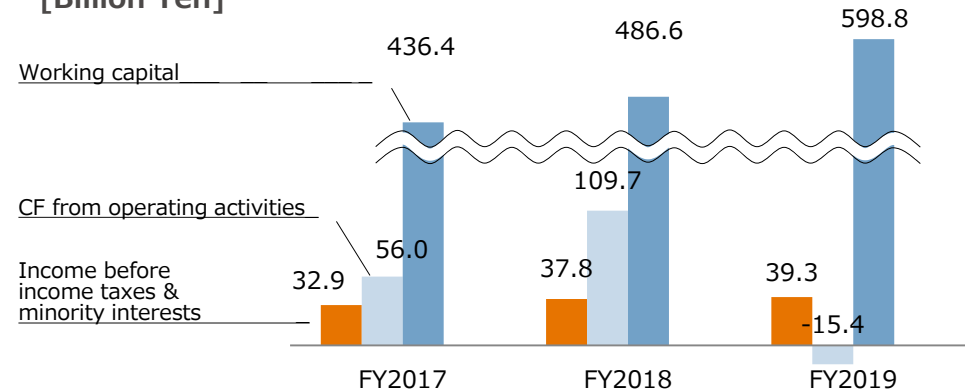
# Summary of Cash Flows

[Billion Yen]

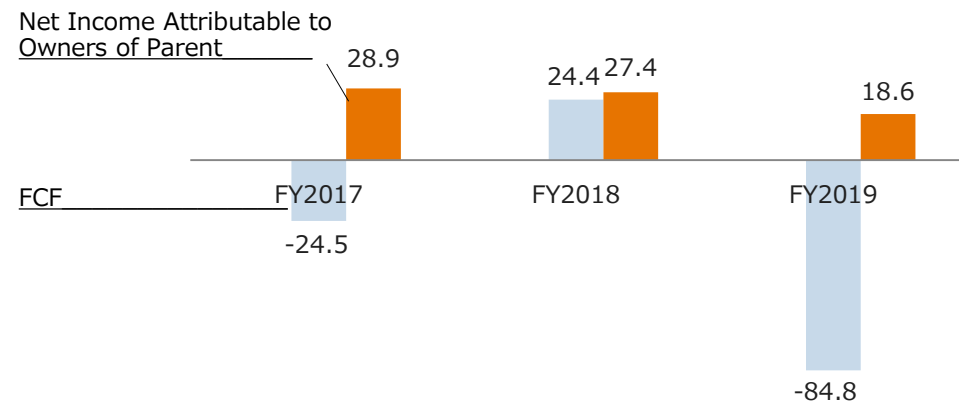
	FY2018	FY2019	Change
Cash flows from operating activities	109.7	-15.4	- 125.2
Cash flows from investing activities	-85.3	-69.4	+ 15.9
Free Cash Flows	24.4	-84.8	- 109.2
Cash flows from financing activities	-19.7	115.8	+ 135.5

- Cash flows from operating activities deteriorated due to an increase in working capital in Aerospace Systems segment
- Cash flows from investing activities improved due to a decrease in CAPEX in Aerospace Systems segment
- Given the above mentioned changes, free cash flows deteriorated

## Change in CF from operating activities & others [Billion Yen]



## Change in FCF & Net Income attributable to Owners of Parent [Billion Yen]



# R&D/CAPEX/Number of Employees

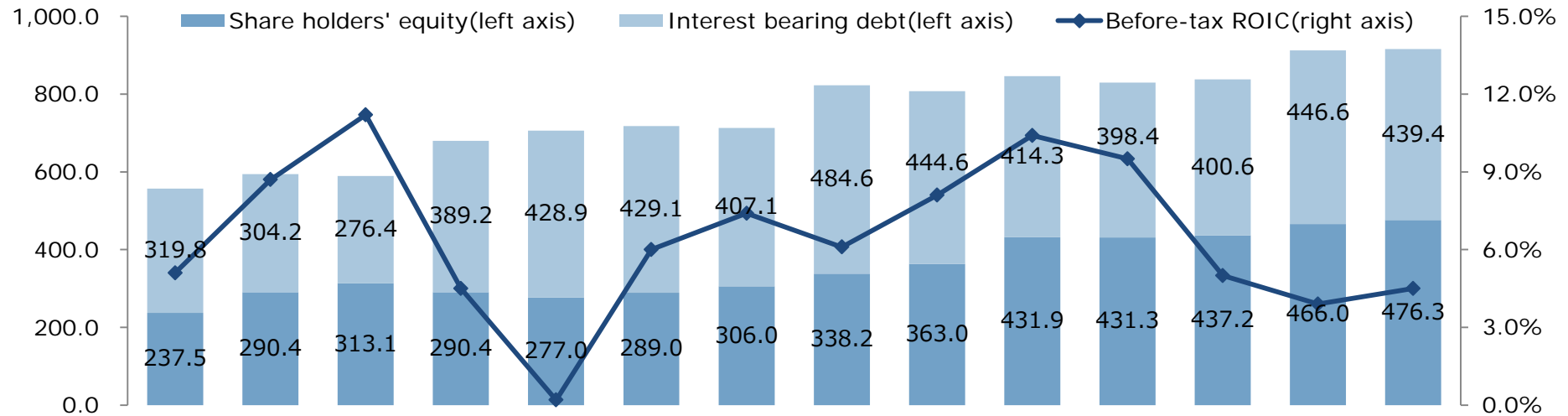
[Billion Yen/Persons]

	FY2018 Actual	FY2019		Change vs in February	
		In February	Actual		
R&D Expenses	48.7	56.0	52.6	–	3.4
CAPEX (Construction Base) <sup>※</sup>	66.9	77.0	70.4	–	6.6
Depreciation and Amortization <sup>※</sup>	59.0	61.5	61.2	–	0.3
	Domestic	26,171	26,800	26,616	– 184
	Overseas	9,520	9,800	9,716	– 84
Number of Employees	35,691	36,600	36,332	–	268

※Capex represents the total of newly recorded property, plant and equipment and newly recorded intangible assets.

Depreciation & amortization represents depreciation/amortization expenses for property, plant and equipment and intangible assets.

# Historical Data



[Billion yen]	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Before-tax ROIC	8.7%	<b>11.2%</b>	4.5%	0.2%	6.0%	7.4%	6.1%	8.1%	10.4%	9.4%	5.0%	3.9%	4.5%	4.2%
Invested Capital	594.6	589.6	679.7	705.9	718.2	713.2	822.8	807.6	846.3	829.7	837.9	912.7	915.8	1,023.0
Net Sales	1,438.6	1,501.0	1,338.5	1,173.4	1,226.9	1,303.7	1,288.8	1,385.4	1,486.1	1,541.0	1,518.8	1,574.2	1,594.7	<b>1,641.3</b>
Operating Profit	69.1	76.9	28.7	-1.3	42.6	57.4	42.0	72.3	87.2	<b>95.9</b>	45.9	55.9	64.0	62.0
Recurring Profit	49.0	63.9	38.7	14.2	49.1	63.6	39.3	60.6	84.2	<b>93.2</b>	36.6	43.2	37.8	40.4
Net Income Attributable to Owners of Parent	29.7	35.1	11.7	-10.8	25.9	23.3	30.8	38.6	<b>51.6</b>	46.0	26.2	28.9	27.4	18.6
Yen/US\$	117	115	101	93	86	79	82	99	109	118	108	110	110	108



# Market Overview (1/2)

## Aerospace Systems

- In military aircraft business, there is a certain demand within tight defense budget.
- In commercial aircraft business, although the demand for aircrafts and aircraft jet engines had been increased along with the increased number of air passengers, both aircraft and aircraft jet engine business demands will be expected to decline due to the impact of COVID-19.

## Energy System & Plant Engineering

- In Japan, the demand for major repair work on municipal waste incineration plants continues.
- In the medium- and long-term, the demand for distribute power plants in the domestic and overseas market, and for energy infrastructure development in emerging countries is strong.
- However, there is a possibility of customer short-term capital investment decisions will be reviewed due to factors such as economic activity stagnation and resource price instability caused by COVID-19.

## Precision Machinery & Robot

- In construction machinery markets, domestic customers reduced production due to Typhoon Nov. 19 (Hagibis).
- In addition, current sales in Korean market and emerging countries such as India and Indonesia are sluggish, however, whole in the demand is stable.
- Although the impact of COVID-19 is still uncertainty, Chinese market is recovering
- In China, robots markets is recovering from a tough situation based on the US-China trade friction.
- In semiconductor markets, demand is recovering due to Taiwanese and Korean major semiconductor manufacturers have restarted investment, despite uncertainty in the future caused by impact of COVID-19.
- Estimating that the demand for robots will steadily expand in the medium- to long-term.

# Market Overview (2/2)

## Ship & Offshore Structure

- New-build vessel price is on the path of moderate recovery and the demand for LNG fueled vessels increases along with strengthening environmental regulations.
- However, the competition is still intense due to the shipping market downturn in long-term ,continuation of assistance programs by South Korean Government, and other factors.
- For the impact of COVID-19, although there is no request to extend the delivery date of ordered ship at this stage, there is concern that the contract closing date may be delayed due to delays in business negotiations.

## Rolling Stock

- In the medium- and long-term, replacement demand for aging railcars is stable in Japan.
- In the US, including the focused market of New York, demand for new and replacement is expected.
- In Asia, the demand in the emerging market increases along with promoting infrastructure exports by Japanese Government.
- However, plans of delivery and order received in the domestic and overseas projects are expected to be reviewed caused by the impact of COVID-19

## Motorcycle & Engine

<Until the beginning of March 2020>

- In motorcycle market, moderate growth continues mainly in Europe however decreased in emerging countries.
- In utility vehicle and personal watercraft market, stable growth continues mainly in US.
- In general purpose engine business, market growth temporarily slowed down due to inclement weather and the US-China trade friction .

<After mid-March 2020>

- After COVID-19 expand rapidly in main market of Europe and around the world, the market has dropped significantly due to sales agents are closed caused by lockdown.

# Forecast

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## **For the Impact of COVID-19 (FY2020 forecast)**

- Several business are expected to be severely affected by stagnant global economic activity
- Especially in Aerospace systems segment which affected by the passenger demand drops sharply and Motorcycle & Engine segment which affected by lockdown and sluggish personal consumption
- There is the possibility to be in the red as the whole

## **For the Postponement of announcement of Consolidated Financial Forecast for FY2020**

- It is difficult to estimate forecast for each business at this stage
- In the future, we will carefully assess the impact on business results and will promptly announce it when it becomes possible to disclose rational forecasts

## **For FY2020 Dividend**

- Considering this business situation, the dividend forecast for FY2020 is yet to be determined (the year-end dividend for FY2019 is planned to be no dividend)

## **For the Medium-Term Business Plan (FY2019-2021)**

- Withdrawing the FY2021 management target in consideration of the current business and market environment

# Kawasaki, Working as one for the good of the planet

Figures recorded in the business forecasts are forecasts that reflect the judgment of the Company based on the information available at the time of release and include risks and uncertainties. Accordingly, the Company cautions investors not to make investment decisions solely on the basis of these forecasts.

Actual business results may differ materially from these business forecasts due to various important factors resulting from changes in the external environment and internal environment. Important factors that may affect actual business results include, but are not limited to, economic conditions, the yen exchange rate against the U.S. dollar and other currencies, the tax system, and laws and regulations.