

Financial Results Briefing

May 2020

TADANO LTD.

Tadano Group Coronavirus Infection Prevention Measures



- In order to protect the health and safety of our employees, and their families, Tadano is taking the strongest possible measures.
- Tadano is also engaged in all necessary measures and initiatives for business continuity.
- **Prevention and Health Measures**
 - Wearing masks, washing hands, disinfecting, and ventilating thoroughly
 - Having employees stay home whenever they are feeling unwell or have a fever
 - Staggering lunch times for employee cafeterias, rearranging office seating plans to achieve better distancing
- **Measures Against the “3 C’s”**
 - Policy of cancellation or postponement of domestic and international business trips, as well as factory tours, meetings, and training sponsored by the company
Alternatively, carrying out any of the above via web applications
 - Encouraging employees to work remotely

Note: “3 C’s” means: (1) Closed spaces with poor ventilation, (2) Crowded place with many people nearby, (3) Close-contact settings such as close-range conversations.

【Effects on Production】

Supply Chain:

From the early stages, minimizing the supply chain risk by considering alternative parts and distributing orders among suppliers for components at risk from pandemic effects.

In Japan:

No major impacts at the present.

Outside Japan:

Temporary line stoppage at certain factories, temporary closures/short work hours at certain factories and office locations made unavoidable due to lockdowns and other government measures in certain countries.

Area	Measures at International Business Locations
Germany	▪3/23-31: Temporary closures of factories, offices ▪From 4/1: Short work hour measures, including temporary stoppages for certain factory lines
India	▪3/23-5/6: Temporary closures of factories, offices ▪From 5/7: Factory operating at 50% capacity
Thailand	▪4/25-5/3: Temporary closures of factories, offices ▪5/23~31 Temporary closures of factories, offices
USA	▪Factories operating as normal

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【Effects on Sales and Customer Support】

In Japan:

- No large effects, due to our sales and customer support teams taking care of customers via telephone
- Our service contractors are working at a very high utilization rate

Outside of Japan:

- Certain customers have requested shipping delays, delivery delays, or cancellations
- Temporary closures at certain distributors and sales/service subsidiaries made unavoidable due to lockdowns and other government measures in certain countries. However, these locations are responding to the situation through remote working activities.

⇒ Tadano is focusing on ongoing trends by collecting customer information and analyzing machine utilization rates worldwide

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- **Stealth, remarkable breadth/depth of disruptive power**
 - **The economic effects will follow the pattern of L (Local) → G (Global) → F (Financial Crisis) Chain Reaction, resulting in widespread, interrelated, and escalating effects**
 - **Will the degree of individual consumption in global GDP lead to delays economic recovery?**
 - **Variation in infection rates across countries and regions (Developed Nations → Emerging Nations, Developing Nations)**
 - **Effects on not just demand but also supply chains and logistics**
 - **Risk of a 2nd wave, timing of vaccines and effective medication development**
- ⇒ **Forecasting Difficulties**
Possibility of impact worse than Lehman Shock, long-term repercussions

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Reverse Oil Shock

- **OPEC-Plus production disagreement coinciding with the coronavirus disruption**
 - ⇒ **Drastic drop in oil prices ⇒ eventual oil production cuts (“mere drop in the bucket”)**
 - ⇒ **What next?**
- **Drop in demand for oil (as much as 30%) has even greater effect than supply-side problems**
Approaching world’s crude oil storage limit
- **Impact on crane industry?**
 - ⇒ **Large effect on upstream applications (production), but limited effect on downstream applications (refineries, petrochemical)**

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- **Basic Policy for the Tadano Group as we move forward into the unforeseeable**
 - **Proper preparations toward a predicted worst-case scenario of a 2-year, global economic disruption (1 year to contain the pandemic, and 1 more year for the economy to recover)**
 - **All people and businesses everywhere are in an equally severe situation.
Overcoming the difficulty by whatever means.
Turning the disruption into an opportunity.**
 - **Focus on grasping the situation as a whole**

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- **Shift toward cash flow-centric management**
- **We do not want to increase inventory, and yet we do not want to suffer from lost sales chances. We want to minimize the risk from each, but we must prioritize avoiding ballooning inventory above even preventing lost sales chances.**
- **Cost reductions, limit on investing (However, we will continue with expanding research and development activities)**
- **Achieve a remote working ratio of 80%
Thorough infection prevention measures at factories**

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- **Think and execute decisively on what we can and should do to anchor ourselves in the middle of this whirlwind**
- **Prepare for actions to take after the disruption ends**
- **Given the possibility that, after the disruption ends, the world could change drastically, put intense focus on where and how the Tadano Group can change**

⇒ **Focus on the Tadano Red Arrow!!**

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- When the coronavirus disruption ends, the crane industry should recover quickly
- The industry's demand cruising speed pre- and post-corona should not change drastically
 - Fiscal First Half Sales: $\Delta 5-10\%$
(Legacy Tadano: $\Delta 20-30\%$ YOY)
 - Fiscal Second Half Market: Core Markets (Japan, USA, Europe) will slowly recover | Strategic Markets (Emerging and Developing Nations) will continue in severe situation

FY 2020 Consolidated Business Forecast

The consolidated business performance forecast for FY 2020 has not yet been formulated due to the difficulty in reasonably assessing the impact of the novel coronavirus disease (COVID-19). The forecast will be disclosed after it becomes possible to assess these matters to a higher degree.

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FY 2019 Financial Results Overview

- ✂ Information for the Demag Mobile Cranes Business is treated as follows:
- FY2019 Consolidated Financial Statements: B/S as of 31st December and P/L from August to December are included

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Conclusion from FY 2019 Financial Results

- **Increased sales, decreased profits**
- **Record high sales due to the acquisition of Demag**
 - **On the legacy Tadano business basis, both revenues and profits increased**

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(Unit: millions of yen)

	FY2018		FY2019		Tadano (Legacy business)		Demag		Percent change
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	
Net sales	188,451	100.0%	227,949	100.0%	203,187	100.0%	24,762	100.0%	21.0%
Operating income	15,835	8.4%	15,623	6.9%	17,642	8.7%	-2,019	-8.2%	-1.3%
Ordinary income	15,604	8.3%	15,461	6.8%					-0.9%
Net income attributable to owners of the parent	11,462	6.1%	7,876	3.5%					-31.3%

	FY2018	FY2019
Capital investment	¥14,458 million	¥12,902 million
Depreciation	¥2,984 million	¥4,147 million
Exchange rate (USD)	¥110.43	¥109.05
Exchange rate (EUR)	¥130.42	¥122.07

* Figures for capital investments include leased assets.

* The exchange rates given above are average rates for the period from January to December. (Subsidiaries outside Japan undertake their settlement of accounts in December.)

⇒ Capital investment made in FY2019 includes ¥7,537 million related to Kozai plant construction.

◆ Revenues increased, but profits declined

Record high sales due to the acquisition of Demag.
On the legacy Tadano business basis, both revenues and profits increased.

◆ Sales increased both inside and outside Japan

⇒ Net sales in Japan: ¥97.0 billion → ¥104.5 billion (+7.7%)

Sales of Mobile Crane and Truck Loader Cranes increased,
and sales of Aerial Work Platforms remain unchanged.

⇒ Net sales outside Japan: ¥91.3 billion → ¥123.4 billion (+35.1%)

Sales increased in all regions

◆ Outside Japan sales ratio : 48.5% → 54.1%

◆ Operating income ratio: 8.4% → 6.9%

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Income Statement (vs. Previous Fiscal Year)

(Unit: millions of yen)

	FY2018		FY2019		Increase/ Decrease
	Amount	Percentage	Amount	Percentage	
Net sales	188,451	100.0%	227,949	100.0%	39,497
Cost of sales	137,579	73.0%	170,764	74.9%	33,184
Gross profit on installment sales	117	-0.1%	-69	-0.0%	-186
Gross profit	50,989	27.1%	57,116	25.1%	6,126
Selling, general, and administrative expenses	35,153	18.7%	41,493	18.2%	6,339
Operating income	15,835	8.4%	15,623	6.9%	-212
Non-operating income and loss	-231	-0.1%	-162	-0.1%	69
Ordinary income	15,604	8.3%	15,461	6.8%	-142
Extraordinary income and loss	614	0.3%	-1,956	-0.9%	-2,571
Income before income taxes	16,218	8.6%	13,504	5.9%	-2,714
Corporate taxes	4,728	2.5%	5,705	2.5%	977
Net income attributable to noncontrolling interests	27	0.0%	-77	-0.0%	-105
Net income attributable to owners of the parent	11,462	6.1%	7,876	3.5%	-3,585

[Key Changes]

◆ Cost of sales ratio: 73.0% → 74.9%

- Despite the efforts to maintain appropriate sales prices and cost reductions, cost of sales ratio went up by 1.9% from the previous fiscal year due to the increase in production cost and changes in the composition of sold cranes.

◆ Selling, general, and administrative expenses: ¥6,339 million increase

- Variable costs: + ¥607 million
- Personnel costs: + ¥1,363 million
- Other expenses: + ¥4,368 million

◆ Non-operating income and loss:

- Non-operating income: ¥537 million → ¥1,198 million
- Non-operating loss: ¥768 million → ¥1,360 million

◆ Extraordinary income and loss:

- Extraordinary income: ¥700 million → ¥511 million
- Extraordinary loss: ¥86 million → ¥2,468 million

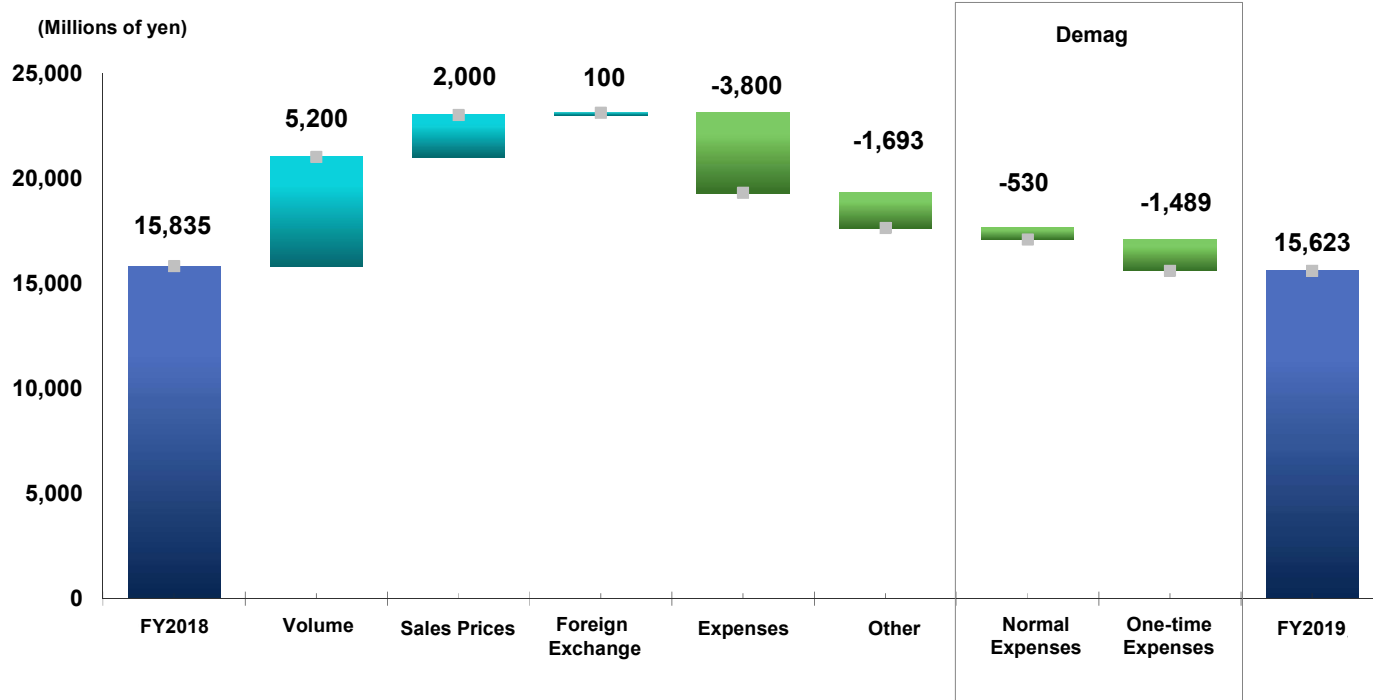
* Extraordinary loss includes ¥2.4 billion of valuation loss on investment securities.

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Income Statement

(Major Factors Leading to Change in Operating Income)

Despite sales growth, operating income decreased by ¥200 million due to increased costs and consolidation of Demag.



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Balance Sheet (vs. End of Previous Fiscal Year)

(Unit: millions of yen)

	FY2018		FY2019		Increase/ Decrease
	Amount	Percentage	Amount	Percentage	
Cash deposits	65,952	25.8%	57,075	18.3%	-8,876
Accounts receivable	50,836	19.9%	63,725	20.4%	12,888
Inventories	62,757	24.5%	97,457	31.2%	34,700
Other current assets	6,610	2.6%	11,723	3.8%	5,112
Total current assets	186,156	72.8%	229,982	73.7%	43,825
Tangible fixed assets	52,597	20.5%	66,417	21.3%	13,819
Intangible fixed assets	1,703	0.7%	1,705	0.5%	1
Investment and other assets	15,336	6.0%	13,942	4.5%	-1,394
Total fixed assets	69,637	27.2%	82,064	26.3%	12,427
Total assets	255,793	100.0%	312,047	100.0%	56,253

[Key Changes]

◆ **Accounts receivable increased:**
¥50.8 billion → ¥63.7 billion
 (¥63.7 billion total includes ¥7.2 billion at TDG)
 ⇒ The receivable turnover period improved.
 (FY2018: 98.5 days → FY2019: 88.7 days)

◆ **Inventories increased:**
¥62.7 billion → ¥97.4 billion
 (¥97.4 billion total includes ¥18.2 billion at TFG and ¥27.0 billion at TDG)
 ⇒ The inventory turnover period deteriorated.
 (FY2018: 121.5 days → FY2019: 135.6 days)

◆ **Interest-bearing debt increased:**
¥30.1 billion → ¥63.0 billion
 ⇒ Short-term: decreased by ¥0.1 billion
 Long-term: increased by ¥33.0 billion

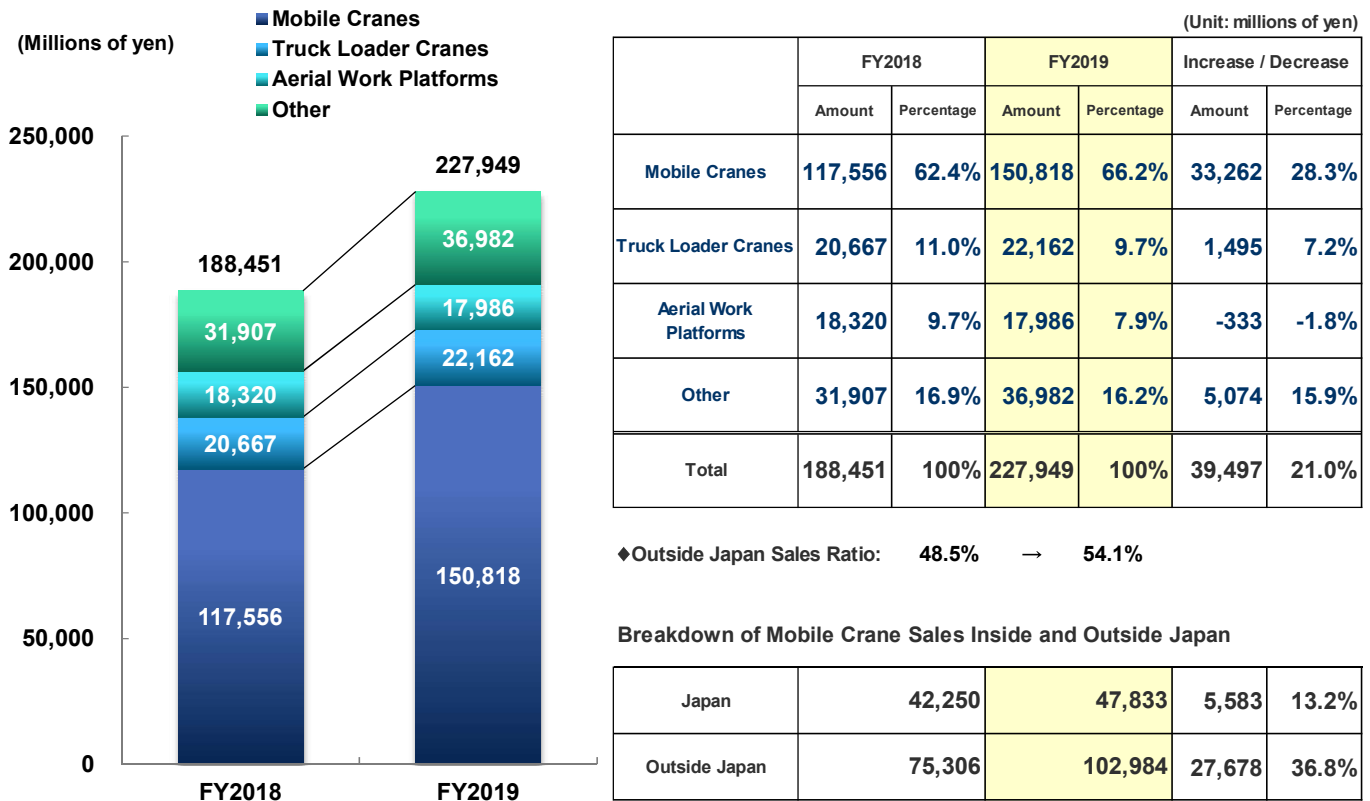
*Straight bonds below were issued on Dec 13, 2019.
 7-year bond : ¥15.0 billion
 10-year bond : ¥15.0 billion

◆ **ROA (Based on operating income)**
6.3% → 5.5%

◆ **ROE** **7.6% → 5.0%**

Accounts payable	41,792	16.3%	40,745	13.1%	-1,046
Interest-bearing debt	30,165	11.8%	63,070	20.2%	32,905
Other liabilities	28,810	11.3%	48,621	15.6%	19,811
Total liabilities	100,768	39.4%	152,437	48.9%	51,669
Total equity	155,025	60.6%	159,609	51.1%	4,583
Total liabilities and equity	255,793	100.0%	312,047	100.0%	56,253

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Produce Segment Status



Lifting your dreams

➤ Mobile Cranes

- Japan: Engaged in expanding sales of high-capacity products as demand stayed flat
- Outside of Japan: Increased sales in all regions

➤ Truck Loader Cranes

- Japan: While a rush demand arising from the new legislation making safety devices mandatory and regulation restricting engine emissions of small trucks had come to an end in the first half of this fiscal year, Tadano focused on sales expansion
- Outside of Japan: Focused on expanding sales in Southeast Asia and the Middle East

➤ Aerial Work Platforms

- Rush demand arising from regulations restricting engine emissions of small trucks came to an end in the first half of this fiscal year.

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Mid-Term Management Plan (20-22) Overview

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Previous Mid-Term Management Plan (17-19)
Review

 TADANO

Lifting your dreams

Mid-Term Management Plan (17-19) Basic Policy:

**Becoming a *Stronger Company*
(Focusing on the Tadano Red Arrow)**

Three Priority Points

- **Further Global Growth**
(One Tadano, Breadth & Depth)
- **Higher Resilience**
(Six Keys to Success)
- **Enhanced Competitiveness**
(A Manufacturer with Four Synergistic Strengths)

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	Mid-Term Targets		FY 2017	FY 2018	FY 2019
Sales	¥ 240.0 billion		¥ 173.7billion	¥ 188.4 billion	¥ 227.9 billion
Inside Japan	¥ 96.0 billion		¥ 97.5 billion	¥ 97.0 billion	¥ 104.5 billion
Outside Japan	¥ 144.0 billion		¥ 76.1 billion	¥ 91.3 billion	¥ 123.4 billion
Outside Japan Ratio	60.0%		43.8%	48.5%	54.1%
Operating Income	¥ 36.0 billion		¥ 15.5 billion	¥ 15.8 billion	¥ 15.6 billion
ROS	15.0%		8.9%	8.4%	6.9%
ROA(Operating Income /Total Assets)	13.0%		6.5%	6.3%	5.5%
Inventory Turnover Ratio	4.8		3.2	3.0	2.7

① **Improve Market Position**

(Enhance RT position, pursue AT competition, reestablish TC business, expand TM business, strengthen TBC business, grow AWP business)

⇒ **Maintained and improved on appropriate sales prices, acquired new customers, increased share of mobile crane sales in Japan and North America**

② **Enhance Product Competitiveness**

(Provide No.1 products and expand sales lineup)

⇒ **Developed high-capacity RTs for markets inside and outside of Japan, enhanced safety features & differentiated our products through incorporation of new technology**

③ **Pursue Global & Flexible Monozukuri* (Attain Flexibility)**

⇒ **Standardized design information, focused on modularization/communization, engaged in joint development activities within the Tadano Group**

④ **Provide Outstanding Quality & Service**

(Maintain consistent quality and service in the Tadano Group)

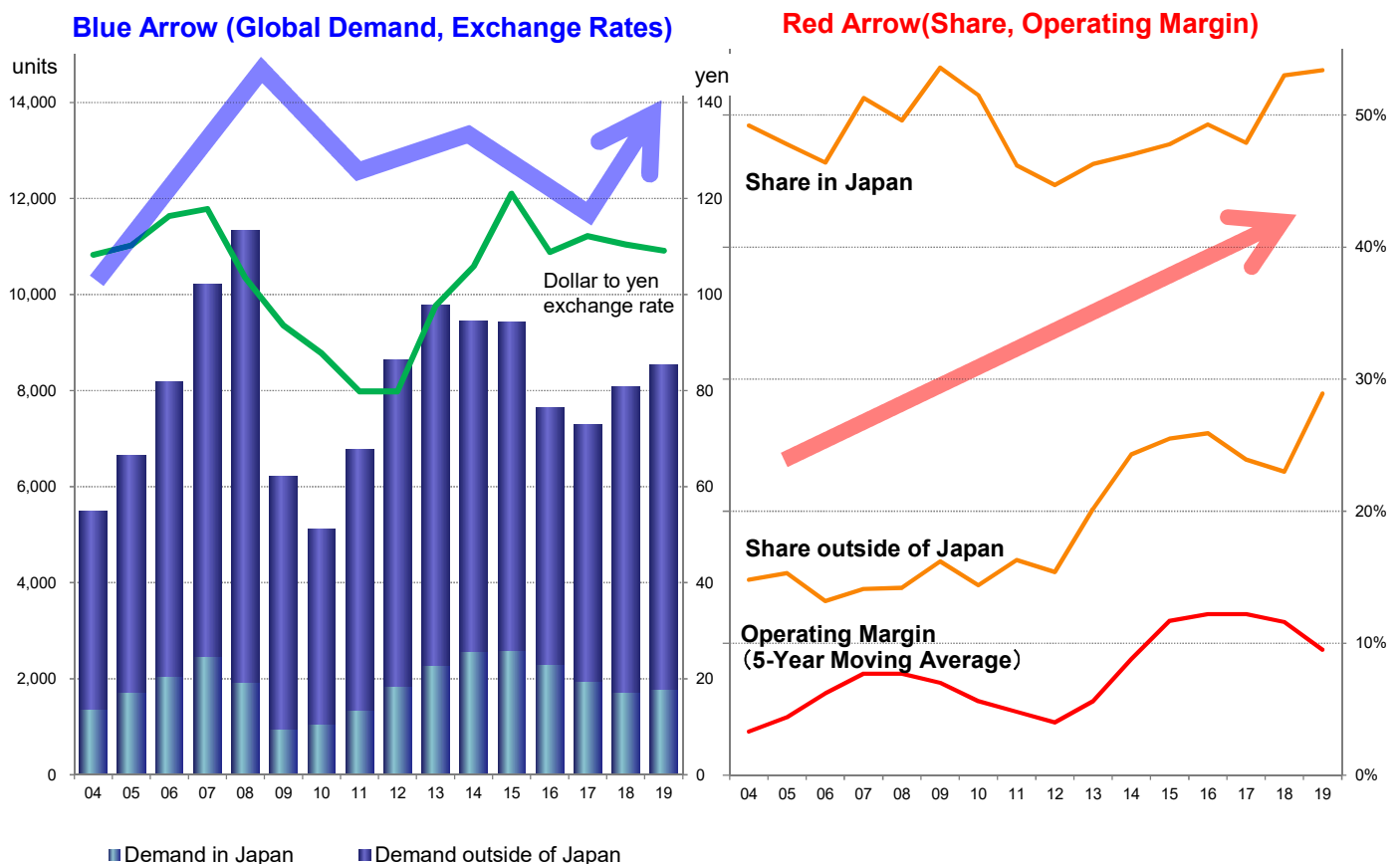
⇒ **Promoted Tadano Group standardized quality processes & KPI, enhanced global parts centers**

Notes: RT= rough terrain cranes, AT = all terrain cranes, TC = truck cranes, TM = truck loader cranes, TBC = telescopic boom crawler cranes, Monozukuri = Manufacturing with a focus on continuous improvement

- ⑤ **Improve Product Life-Cycle Value (Develop stock business)**
⇒ **Promoted global growth of used crane business, expanded and enhanced remanufacturing business**
- ⑥ **Develop Solution Business (i-Construction, IoT, Hello-Net, AI, ICT)**
⇒ **Expanded Hello-Net applications, promoted joint research with partners in related industries**
- ⑦ **Raise Level of Profitability and Asset Efficiency (CCC**)**
⇒ **Promoted SVE Activities (cost reductions), engaged in global cash flow management, established a CCC management system**
- ⑧ **Establish Growth Structure (Expand business locations and engage in M&As)**
⇒ **Acquired Demag Mobile Crane Business, established joint venture in India, constructed new Kozai Plant in Japan**
- ⑨ **Strengthen the Tadano Group & Global Management Structure**
⇒ **Developed human resources globally, promoted standardization of systems, added further structure to Tadano Group governance**

Notes: CCC = Cash Conversion Cycle

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MTP(20-22) Context:

Growing Organically Toward Becoming No. 1 Worldwide in the Lifting Equipment Industry

- **Next Steps Beyond Tadano's First 100 Years**
- **Developing a System to Become No. 1 Worldwide in the Lifting Equipment Industry**
- **Aiming for Long-Term Profit Growth**

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MTP (20-22) Basic Policy:

Pursuing Further Excellence (Focusing on the Tadano Red Arrow)

Four Priority Points:

- **Maximize Tadano Group Synergy (+TDG)**
- **Increase Resilience**
- **Enhance Competitiveness**
- **Engage in ESG* and SDGs****

*ESG = Environment, Social, Governance

**SDGs = Sustainable Development Goals

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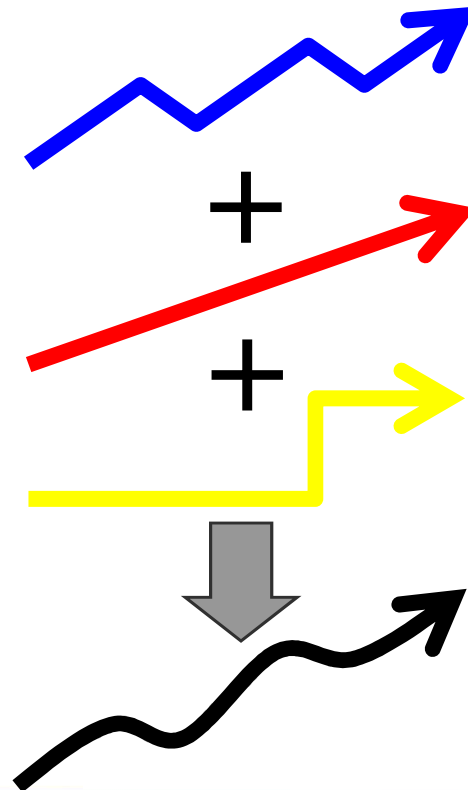
Focus on the Red Arrow

Markets
(Demand, Exchange Rates)

Self-Support Efforts

Large Investments
(New Plants, M&As)

Business Performance



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Mid-Term Management Plan (20-22) Strategies

- ① **Strengthen Market Position**
(Enhance RT Position and Intercept the Competition | Revitalize AT Business | Advance TC Business with Japan-Built and India-Built Products | Initiate CC Business | Rebuild TBC Business | Expand Loader Crane Business | Enhance AWP Business)
- ② **Enhance the Four Synergistic Strengths**
(Enhance Product Competitiveness | Pursue Outstanding Quality | Deliver Outstanding Service | Grow Used Crane Business Globally)
- ③ **Engage in Global and Flexible *Monozukuri****
(Power of Flexibility | Division of Work Responsibilities | Expanding Procurement Functions Globally)
- ④ **Improve Life Cycle Value (Expand Stock Business)**
- ⑤ **Develop New Technologies and Solution Business**
- ⑥ **Revitalize Profitability and Improve Asset Efficiency**
(Operating Margin | CCC**: Reducing Inventory)
- ⑦ **Strengthen the Tadano Group and Global Management Structure**
(One Tadano | Best Practices)
- ⑧ **Optimize Human Resource Utilization**

Notes: RT= rough terrain cranes, AT = all terrain cranes, TC = truck cranes, TM = truck loader cranes, TBC = telescopic boom crawler cranes, Monozukuri = Manufacturing with a focus on continuous improvement, CCC = Cash Conversion Cycle

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➤ Shareholder Returns

- Based on the principle of continuously providing stable shareholder returns, Tadano will consider and decide on matters such as consolidated results and dividend payouts in a comprehensive manner.
- We will also work to enhance internal reserves and maintain a sound financial structure.
- To every extent possible, we intend to maintain dividend payouts even if profits decline. We will consider dividend increases if profits increase.
(FY 2019 dividends per share = 28 yen, dividend payout ratio = 45%)

➤ Capital Efficiency

- Return on Assets (ROA) was one goal of MTP (17-19)
Given that our assets tend to swell, Tadano has focused on an increased scope of sales activities and prioritizing profitability, while maintaining awareness of the state of our total assets
- We plan to improve ROE through further increasing profits
- While the quantitative targets of MTP (20-22) have not yet been established, we will deliberate and set goals while maintaining a focus on cost of capital.

⇒ In order to overcome the Coronavirus Disruption, we will prioritize securing liquid cash, even if capital efficiency might deteriorate in the short term

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Demag Mobile Crane Business Integration

➤ Establishment of Cross Company Teams (CCTs)

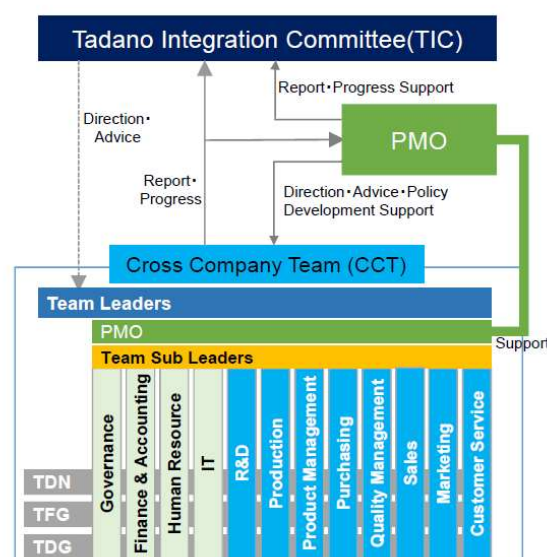
From Day 1 of the new business, we have engaged in a concrete integration roadmap by establishing cross company teams with members from Tadano Ltd., TDG, TFG, and other companies, as we have created functional synergies and locked in new structures and rules.

➤ Responding to Challenges

Through these structures and teams, we have responded to new challenges through appropriate, effective measures.

➤ Tadano Integration Committee (TIC) Leadership

The TIC has been providing efficient decision-making leadership in response to the plans drafted by the CCTs for overcoming challenges and accomplishing goals.



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Basic Policy : RISE

Revitalize

Integrate

Synergize

Expand



Quickly realizing group synergies by
working together as “One Tadano”

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➤ Main Cross Company Team Results

- Research and Development: R&D teams at TFG and TDG are carrying out joint development work for new products
- Supply Chain: TFG and TDG are using leverage from combined volumes to achieve higher cost savings
- Production: The factories at TFG and TDG are working on cooperative manufacturing and building processes for cross production
- Sales: Integrating the sales structure of the Tadano Group
- Customer Support:
 - Established the Tadano Demag Parts Center in Yokohama
 - Enhancing support capabilities for Tadano-brand and Demag-brand products

Notes: TFG = Tadano Faun GmbH, TDG = Tadano Demag GmbH, TAC = Tadano America Corp, RT= rough terrain cranes, AT = all terrain cranes, CC = crawler cranes

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Adversity makes one wiser.

Pursuing Further Excellence for the World and the Future.