

Briefing on Results for the Fiscal Year ending March 31, 2016



Photo: Denyo Europe B.V.

May 20, 2016

Denyo Co., Ltd.

I. Overview of Results for FY2016/3

Toshiya Tozawa, Senior Executive Officer, Chief Executive
Administration Division

II. Outlook for FY2017/3 and Future Management Policy

Shoichi Shiratori, President

Overview of Results for FY2016/3

Highlights of Results for FY2016/3 (Consolidated)

Key Point

Net sales and Net income decreased.

(million yen)

	FY2015/3		FY2016/3		Change (YoY)	Rate of change (YoY)
Net sales	52,267	100%	50,419	100%	△1,848	△3.5%
Operating income	5,348	10.2%	4,097	8.1%	△1,251	△23.4%
Ordinary income	5,757	11.0%	4,494	8.9%	△1,263	△21.9%
Net income	3,857	7.4%	3,137	6.2%	△720	△18.7%
Capital investment	2,531		1,125		△1,406	△55.6%
Depreciation	999		1,284		285	28.5%
Net income per share	179.4yen		146.8yen		△32.6yen	△18.2%
ROE	8.6%		6.5%			
Interim dividends per share	28.0yen		30.0yen			

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators decreased by 1,785 million yen (4.5%).
2. Sales of welders declined by 456 million yen (8.2%).
3. Sales of compressors went down by 22 million yen (2.0%).

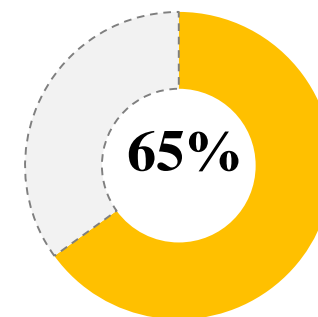
(million yen)

		FY2015/3		FY2016/3		Change (YoY)	Rate of change (YoY)
Net sales		52,267	100%	50,419	100%	Δ1,848	Δ3.5%
By product	Generators	40,079	76.7%	38,294	76.0%	Δ1,785	Δ4.5%
	Welders	5,556	10.6%	5,100	10.1%	Δ456	Δ8.2%
	Compressors	1,126	2.2%	1,104	2.2%	Δ22	Δ2.0%
	Others	5,504	10.5%	5,919	11.7%	415	7.5%

Engine Generators (Consolidated)

	FY2015/3	FY2016/3	Rate of change (YoY)
Generators	40,079 million yen	38,294 million yen	Δ4.5%

- In Japan, shipment to the major leasing and rental industry decreased.
- Overseas, shipment to Asia and Middle and Near East remain robust, and shipment to America decreased.



Domestic market share of engine generators (mobile-type) *According to a Company survey (5-year average)



Mobile-type generator



Stand-by generating sets

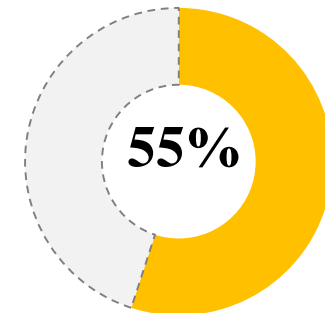
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- Mobile-type generators
 - Power source on a construction site and for civil engineering work and disaster recovery/restoration, etc.
- Stand-by generating sets (stationary type)
 - Back-up power source for disaster prevention equipment and offices, etc.
- Power-supply vehicles, etc.

Engine Welders (Consolidated)

	FY2015/3	FY2016/3	Rate of change (YoY)
Welders	5,556 million yen	5,100 million yen	△8.2%

- In Japan, even the shipment of TIG welders increased, the shipment of small welders decreased.
- Overseas, the shipment to Europe decreased.



Domestic market share of engine welders

*According to a Company survey (5-year average)



Engine welder

The Company developed the first engine-driven welder for outdoor work in Japan.

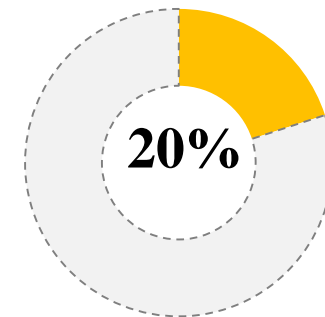
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.

- Welding of steel construction for buildings, condominiums and bridges.
- Welding of important structures such as petroleum storage tanks and pipelines.

Engine Compressors (Consolidated)

	FY2015/3	FY2016/3	Rate of change (YoY)
Compressors	1,126 million yen	1,104 million yen	Δ2.0%

- In Japan, the shipment to the leasing and rental industry decreased.
- Overseas, the shipment increased.



Domestic market share of engine compressors

*According to a Company survey (5-year average)



Engine compressor



Motor compressor

Manufacturing compressors with air discharge amounts from 1.6m³/min to 42.4m³/min.

- Breaking-up of roads and ground improvement work of roads
- Mortar spraying work for preventing landslides of mountain roads.
- For artificial snow machines on ski slopes, etc.

Others (Consolidated)

	FY2015/3	FY2016/3	Rate of change (YoY)
Others	5,504 million yen	5,919 million yen	7.5%

- Sales of self-propelled lifters and parts, etc. increased.

Sales of other products

- Self-propelled lifters
- Water-related Equipment
- Parts
- Secondhand equipment and purchased merchandise
- Repair sales, etc.



Self-propelled lifter

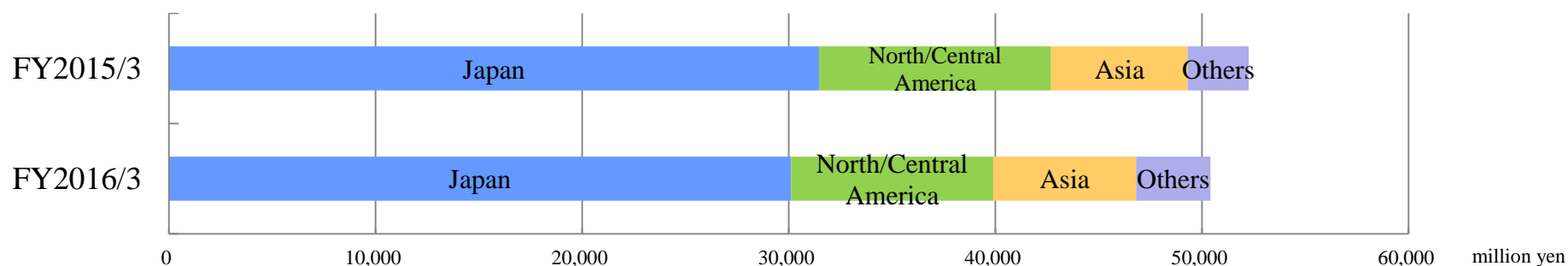


Load testing equipment

Sales Trends by Region (Consolidated)

(million yen)

		FY2015/3		FY2016/3		Change (YoY)	Rate of change (YoY)
Net sales		52,267	100%	50,419	100%	△1,848	△3.5%
Domestic sales		31,468	60.2%	30,115	59.7%	△1,353	△4.3%
Overseas sales		20,799	39.8%	20,304	40.3%	△495	△2.4%
By region	North/Central America	11,234	21.5%	9,776	19.4%	△1,458	△13.0%
	Asia	6,619	12.7%	6,921	13.7%	302	4.6%
	Others	2,945	5.6%	3,606	7.2%	661	22.4%



Factor Analysis of Changes in Operating Income

Decrease in Operating Income

Cost rate and ratios of SG&A to sales increased.

(million yen)

	FY2015/3	FY2016/3	Change (YoY)
Operating income	5,348	4,097	△1,251
Operating income margin (%)	10.2%	8.1%	△2.1 percentage points

	FY2015/3	FY2016/3	Rate of change (YoY)
Gross profit margin	25.1%	24.1%	△1.0 percentage points
Ratio of SG&A to sales	14.9%	16.0%	1.1 percentage points
Ratio of operating income to sales	10.2%	8.1%	△2.1 percentage points

- Gross profit margin worsened due to a fall in the shipment of profitable products and a rise in fixed cost in Denyo Vietnam.
- Ratio of SG&A to sales increased due to a rise in personnel expenses, and it is increased compared to the previous term due to a reversal of various reserve fund is recorded in FY2015/3.

Consolidated Balance Sheets

Overview

1. Current assets increased by 1,390 million yen mainly due to an increase in cash and cash equivalents.
2. Non-current assets decreased by 1,721 million yen mainly due to devaluation of investment in securities.

(million yen)

	At the end of FY2015/3	At the end of FY2016/3	Change from the end of FY2015/3
Current assets	40,856	42,246	1,390
Non-current assets	26,468	24,747	△1,721
Total assets	67,324	66,994	△330
Current liabilities	13,396	12,455	△941
Long-term liabilities	4,732	3,726	△1,006
Total liabilities	18,128	16,181	△1,947
Total net assets	49,195	50,812	1,617
Total liabilities and net assets	67,324	66,994	△330

Changes in Consolidated Cash Flows

Overview

1. Cash flow from operating activities was 2,973 million yen, mainly due to an increase in receivable and inventory assets.
2. Balance of cash and cash equivalents increased by 969 million yen from the end of the previous fiscal year.

(million yen)

	FY2015/3	FY2016/3
I Cash flow from operating activities	5,078	2,973
II Cash flow from investing activities	△2,642	△ 775
I + II Free cash flows	2,436	2,198
III Cash flow from financing activities	△1,788	△ 1,181
IV Foreign currency adjustments on cash and cash equivalents	297	△ 47
V Net increase or decrease in cash and cash equivalents	944	969
VI Cash and cash equivalents, end of period	10,776	11,745

Outlook for FY2017/3 and Future Management Policy

Outlook for FY2017/3: Consolidated Income and Loss

Key points

1. Net sales are expected to be 52.0 billion yen.
2. Assumed exchange rate is 110 yen/dollar.

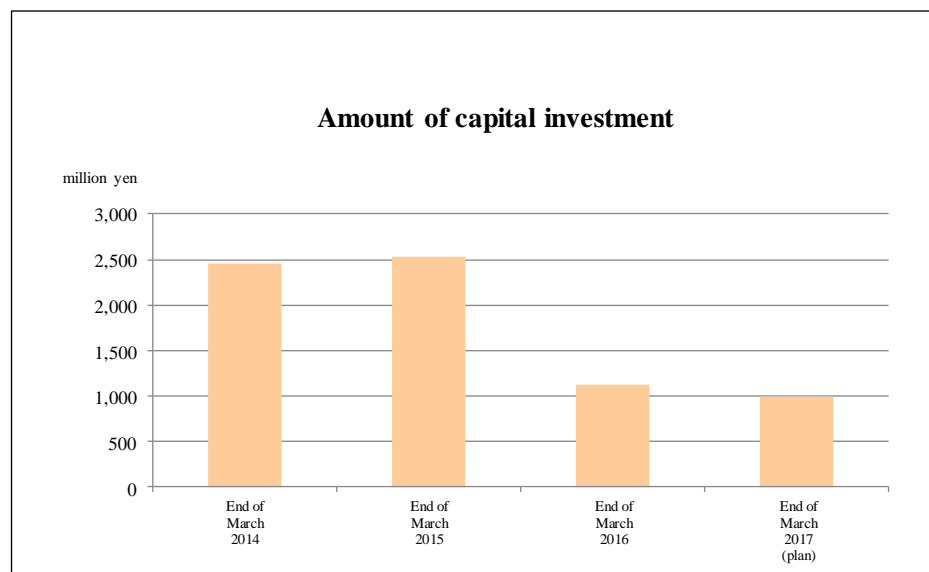
(million yen)

	FY2016/3		FY2017/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	50,419	100%	52,000	100%	1,581	3.1%
Operating income	4,097	8.1%	4,300	8.3%	203	5.0%
Ordinary income	4,494	8.9%	4,600	8.8%	106	2.3%
Net income	3,137	6.2%	3,000	5.8%	△137	△4.4%
Capital investment	1,125		1,000		△125	△11.1%
Depreciation	1,284		1,250		△34	△2.6%
Net income per share	146.8yen		140.4yen		△6.4yen	
ROE	6.5%		6.1%		*Equity is calculated by using the amount of money at the end of FY2016/3.	
Cash dividends per share (yen)	30.0yen		30.0yen			

Changes in the Amount of Capital Investment

(million yen)

	End of March 2014	End of March 2015	End of March 2016	End of March 2017 (plan)
Cost of equipment	2,453	2,531	1,125	1,000
Main uses	<ul style="list-style-type: none"> • Machinery of Fukui plant, etc. 480 • Nishinohon Generator Mfg. 270 • Vietnam Plant 440 • Singapore 1,100 	<ul style="list-style-type: none"> • Machinery of Fukui plant, etc. 440 • Nishinohon Generator Mfg. 160 • U.S. Plant 50 • Vietnam Plant 1,630 • Singapore 180 	<ul style="list-style-type: none"> • Machinery of Fukui plant, etc. 430 • Nishinohon Generator Mfg. 80 • Vietnam Plant 100 • Singapore 280 	<ul style="list-style-type: none"> • Machinery of Fukui plant, etc. 500 • Nishinohon Generator Mfg. 100 • U.S. Plant 300 • Others 100



Denyo Vietnam

Outlook for Sales by Product (Consolidated)

Overview

1. Sales of generators are expected to increase by 1,406 million yen (3.7%).
2. Sales of welders are anticipated to rise by 200 million yen (3.9%).
3. Sales of compressors are forecasted to be down by 104 million yen (9.4%).

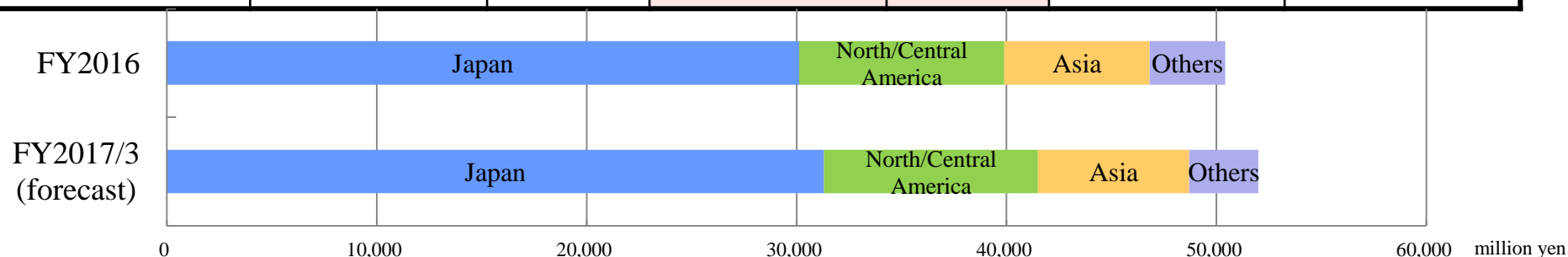
(million yen)

		FY2016/3		FY2017/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		50,419	100%	52,000	100%	1,581	3.1%
By product	Generators	38,294	76.0%	39,700	76.3%	1,406	3.7%
	Welders	5,100	10.1%	5,300	10.2%	200	3.9%
	Compressors	1,104	2.2%	1,000	1.9%	△104	△9.4%
	Others	5,919	11.7%	6,000	11.5%	81	1.4%

Outlook for Sales by Region (Consolidated)

(million yen)

		FY2016/3		FY2017/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		50,419	100%	52,000	100%	1,581	3.1%
Domestic sales		30,115	59.7%	31,300	60.2%	1,185	3.9%
Overseas sales		20,304	40.3%	20,700	39.8%	396	2.0%
By region	North/ Central America	9,776	19.4%	10,200	19.6%	424	4.3%
	Asia	6,921	13.7%	7,200	13.8%	279	4.0%
	Others	3,606	7.2%	3,300	6.3%	△306	△8.5%



Details of the Operating Income Forecast

Increase in operating income

The operating income margin slightly increased from the previous fiscal year and the operating income is expected to increase by 203 million yen.

(million yen)

	FY2016/3	FY2017/3 (forecast)	Change (YoY)
Operating income	4,097	4,300	203
Operating income margin	8.1%	8.3%	0.2percentage points

	FY2016/3	FY2017/3 (forecast)	Change (YoY)
Gross profit margin	24.1%	24.0%	Δ 0.1percentage point
Ratio of SG&A to sales	16.0%	15.8%	Δ 0.2percentage point
Ratio of operating income to sales	8.1%	8.3%	0.2percentage point

- The gross profit margin are expected to be unchanged from the previous year.
- The ratio of SG&A to sales are expected to be improved slightly due to increase of sales.

Future Management Policy

Management philosophy:

Devoting our attention to manufacturing products focusing on safety, economy and environment under the theme of power sources while pursuing
“benefits for three parties”
(so those who use, sell and manufacturer will benefit).



Management strategies:

- (1) As a pioneer in power sources, we aim to become the leader in the high performance generator market, employing our strong technical capabilities and extensive sales network.
- (2) Enhancing the peripheral businesses of generators.
- (3) Entering into new related businesses.

Target management indicators:

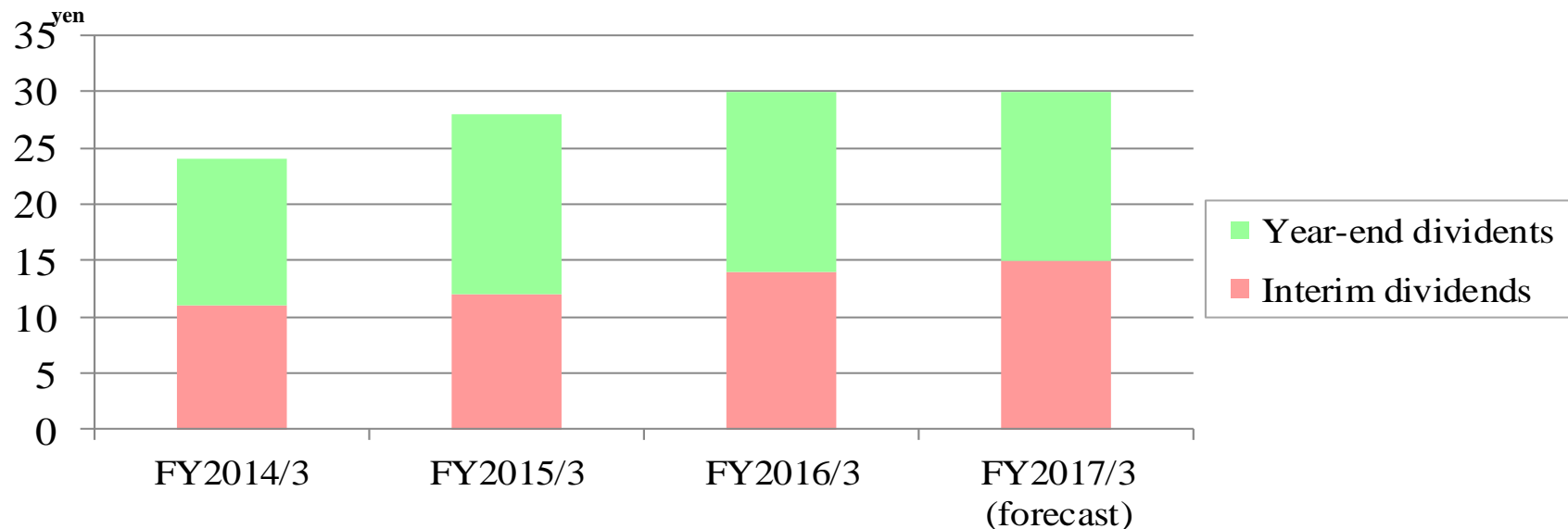
- (1) ROE: 8% or more **(6.5% in FY2016/3)**
- (2) Ratio of ordinary income to sales: 12% or more **(8.9% in FY2016/3)**

Profit Distribution Policy

Profit distribution: Denyo recognizes the importance of returning profits to shareholders, while aiming to strengthen future competitiveness and profitability, and we will implement an interim and term-end dividend payouts of distribution of results comprehensively calculated by achievement and payout ratio.

Changes in cash dividends:

28 yen in FY2015/3 ⇒ 30 yen in FY2016/3 ⇒ 30 yen (forecast) in FY2017/3



Future Business Strategies

Key Points

- Enhancement of products for other than construction-related markets
- Development of products with high environmental performance
- Strengthening of overseas business strategies



Eco-base generator

Enhancement of products for other than construction-related markets

↓
Enhancement of the stand-by generating set business
Sales expansion of power-supply vehicles



Stand-by generating sets

Development of Product with high environmental performance

↓
Contributing to the protection of the environment by manufacturing a series of standard feature eco-based (ecologically-minded) generators, welders and compressors.

Strengthening of overseas business strategies

- ↓
- Selling products in the American, Asian and European markets in a balanced manner.
 - Manufacturing finished products at the Vietnam Plant to respond to the robust Asian market.

Notes on Our Outlook

This material contains assumptions and outlooks for the future and forecasts based on plans as May 12, 2016.

Actual results may differ materially from projected values due to future economic changes and competition.

This material is prepared for the purpose of providing information and is not meant to solicit investment in securities issued by the Company.

Investors are responsible for making their own final investment decision.

Reference Materials

Overview of the Company

The leading manufacturer of outdoor power sources such as engine generators and engine welders

History:	July 2, 1948	Established as Japan Power Welding Machine Co., Ltd.
	1959	Developed and launched Japan's first engine-driven welders.
	1961	Began to manufacture and sell engine-driven generators.
	1966	Developed soundproof engine-driven generators. Changed its corporate name to Denyo Co., Ltd.
	1983	Listed on the Second Section of the Tokyo Stock Exchange.
	2000	Listed on the First Section of the Tokyo Stock Exchange.

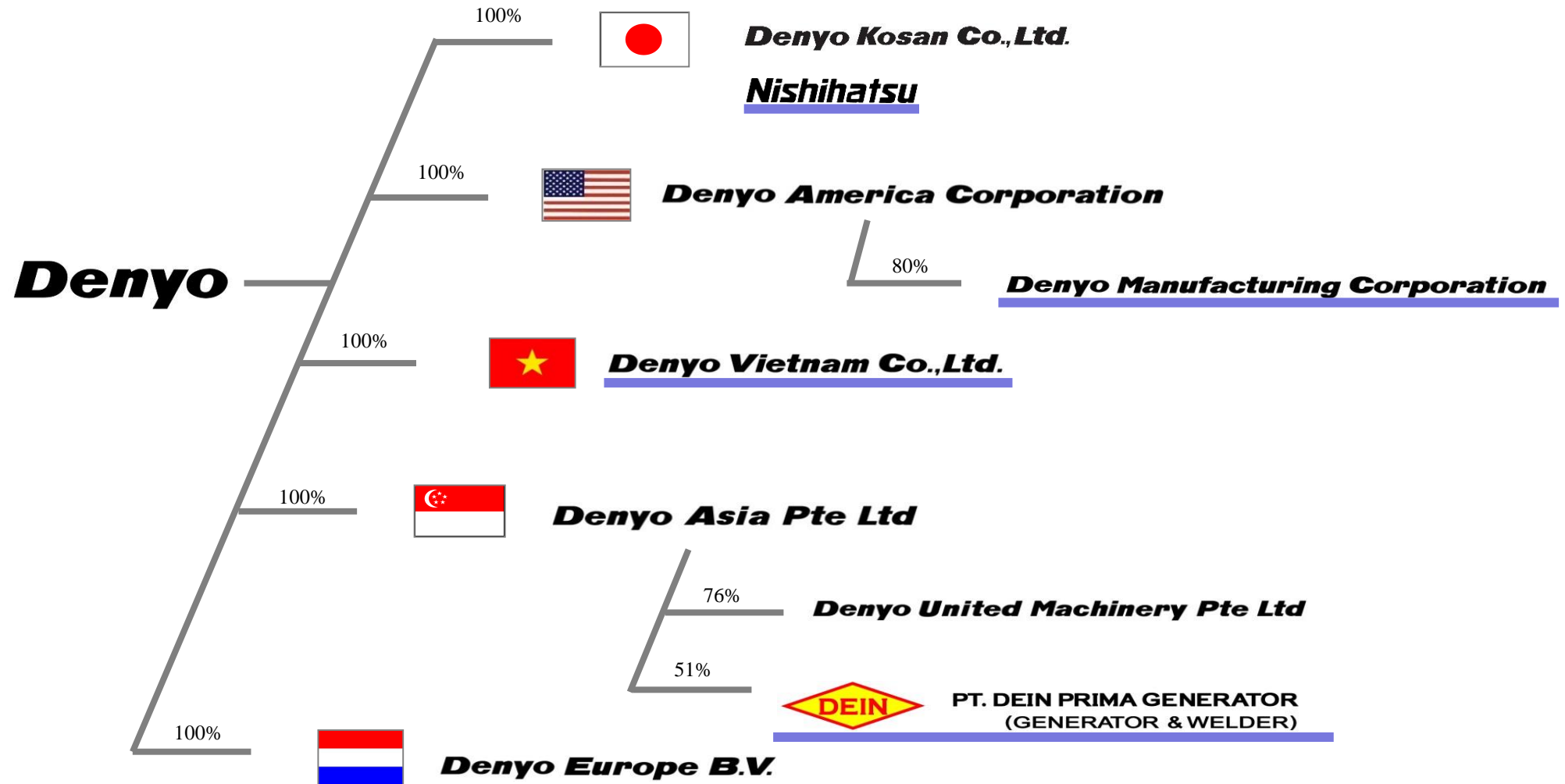
● Company size, etc. (FY2016/3 on a consolidated basis)

	(million yen)
Net sales	50,419
Overseas sales	20,304
Ordinary income	4,494
Net income	3,137
Total assets	66,994
Net assets	50,812
Market capitalization (as of March 31)	26,494
Number of employees	1,165 persons



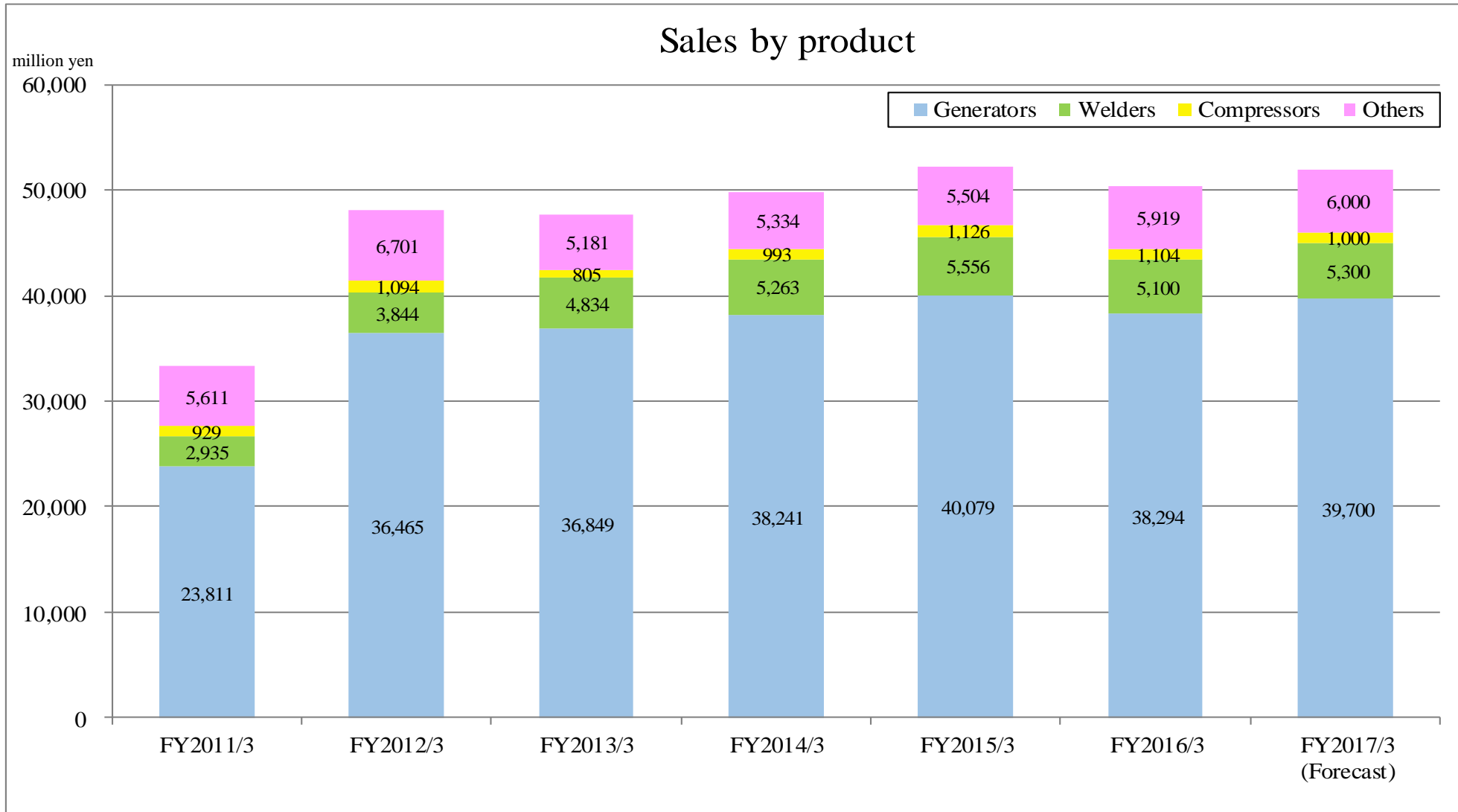
Head Office (Nihonbashi-Horidomecho)

The Group Companies

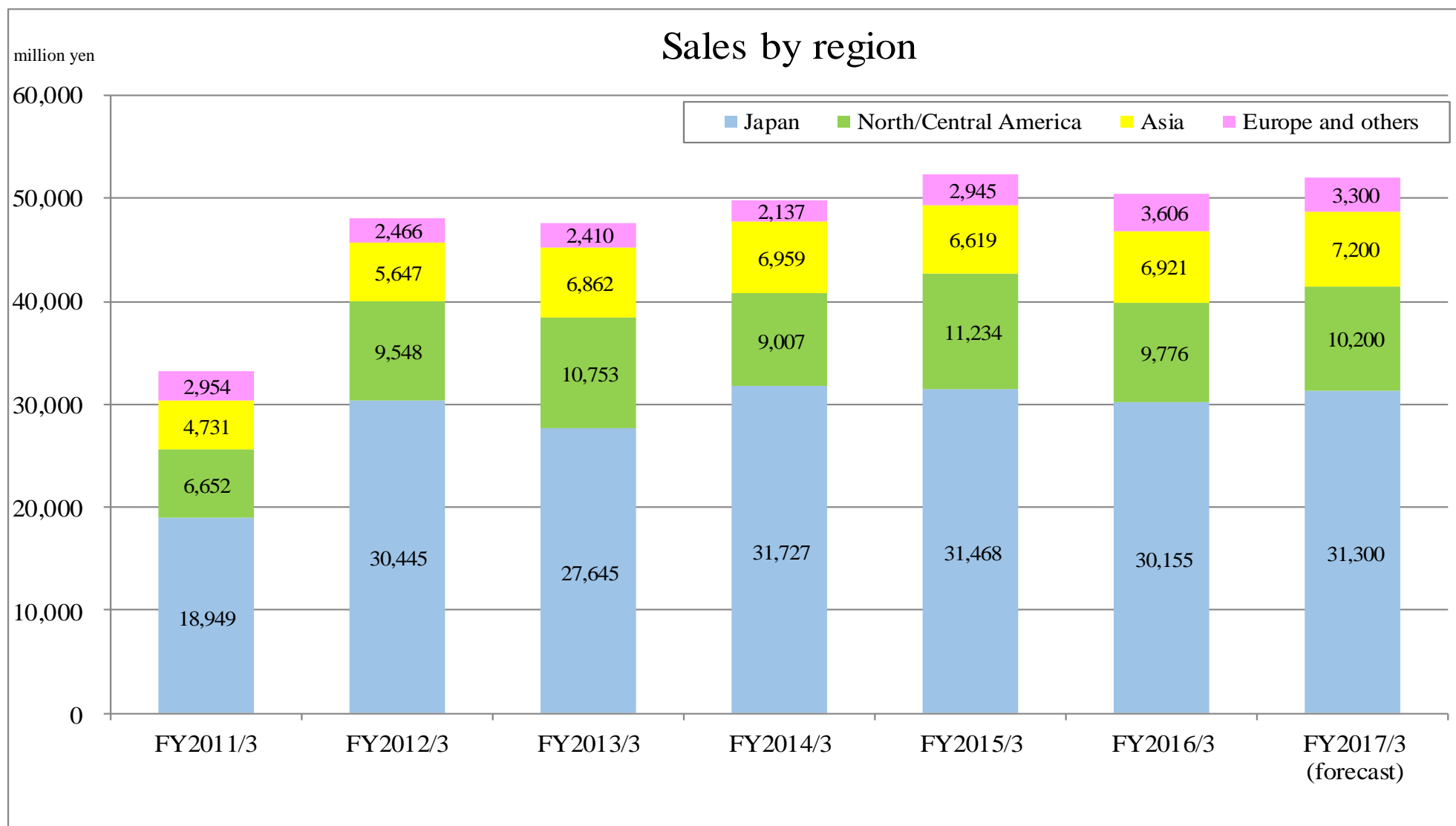


*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).
 *2. Underlined companies are manufacturers.

Trends and Forecasts by Product Sales



Changes in Sales by Region and Forecasts



Changes in Results for the Last 30 Years

