

Briefing on Results for the First Half of the Fiscal Year ending March 31, 2017



Photo: Denyo United Machinery Pte Ltd (Singapore)

November 22, 2016

Denyo Co., Ltd.

I. Overview of Results for the First Half of FY2017/3

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 the First Half of FY2017/3

Highlights of Results for the First Half of FY2016/3 (Consolidated)

Key Point

Both Net sales and Net income decreased year on year.

(million yen)

	First half of FY2016/3		First half of FY2017/3		Rate of change (YoY)
Net sales	23,560	100%	22,894	100%	△2.8%
Operating income	1,743	7.4%	1,667	7.3%	△4.4%
Ordinary income	1,895	8.0%	1,784	7.8%	△5.9%
Net income	1,414	6.0%	1,103	4.8%	△22.0%
Capital investment	818		204		
Depreciation	598		605		
Net income per share	66.21 yen		51.61 yen		
ROE	6.0%	Annualized	4.6%	Annualized	
Interim dividends per share	14.0 yen		15.0 yen		

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators decreased 522 million yen ($\Delta 3.0\%$).
2. Sales of welders decline 456 million yen ($\Delta 16.7\%$).
3. Sales of compressors were up 68 million yen (12.6%).

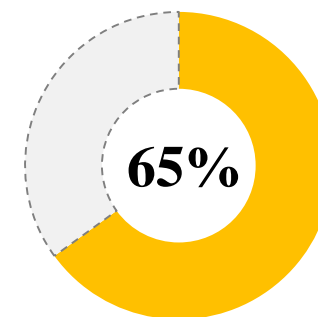
(million yen)

		First half of FY2016/3		First half of FY2017/3		Change (YoY)	Rate of change (YoY)
Net sales		23,560	100%	22,894	100%	$\Delta 666$	$\Delta 2.8\%$
By product	Generators	17,595	74.7%	17,073	74.6%	$\Delta 522$	$\Delta 3.0\%$
	Welders	2,731	11.6%	2,275	9.9%	$\Delta 456$	$\Delta 16.7\%$
	Compressors	539	2.3%	607	2.7%	68	12.6%
	Others	2,693	11.4%	2,938	12.8%	245	9.1%

Engine Generators (Consolidated)

	First half of FY2016/3	First half of FY2017/3	Rate of change (YoY)
Generators	17,595 million yen	17,073 million yen	△3.0%

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



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



Mobile-type generator



Stand-by generating sets

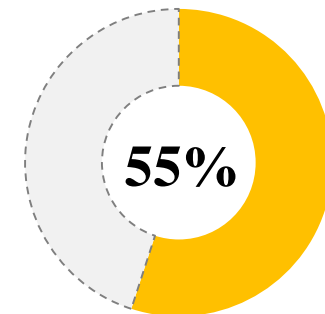
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 such as disaster prevention equipment and offices, etc.
- Power-supply vehicles, power light, etc.

Engine Welders (Consolidated)

	First half of FY2016/3	First half of FY2017/3	Rate of change (YoY)
Welders	2,731 million yen	2,275 million yen	△16.7%

- In Japan, the shipment decreased.
- Overseas, the shipment to the Europe increased while the shipment to America decreased.



Domestic market share of engine welders

*According to a Company survey



Engine welder

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

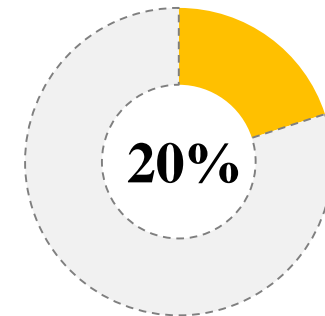
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.

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

Engine Compressors (Consolidated)

	First half of FY2016/3	First half of FY2017/3	Rate of change (YoY)
Compressors	539 million yen	607 million yen	12.6%

- For the full-fledged production in American factory started, shipment to America increased.



Domestic market share of engine compressors

*According to a Company survey



Engine compressor



Motor compressor

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

	First half of FY2016/3	First half of FY2017/3	Rate of change (YoY)
Others	2,693 million yen	2,938 million yen	9.1%

- Sales of self-propelled lifters and Parts etc. increased.

Sales of other products

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



Self-propelled lifter

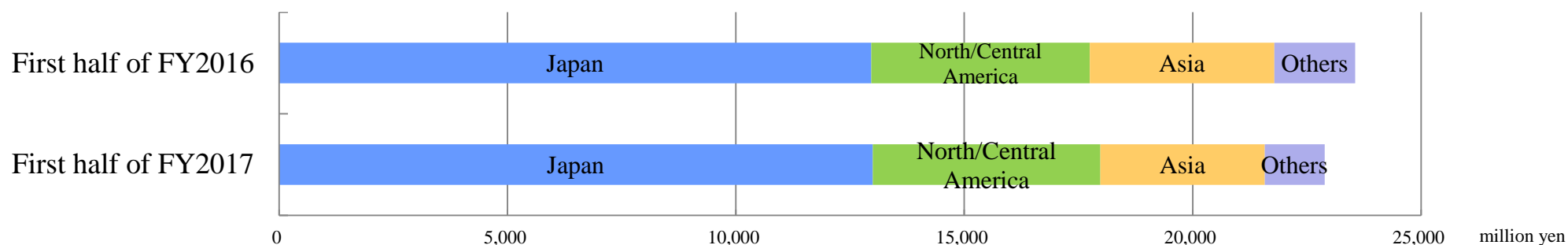


Load testing equipment

Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2016/3		First half of FY2017/3		Change (YoY)	Rate of change (YoY)
Net sales		23,560	100%	22,894	100%	△666	△2.8%
Domestic sales		12,962	55.0%	12,994	56.8%	32	0.2%
Overseas sales		10,597	45.0%	9,900	43.2%	△697	△6.6%
By region	North/Central America	4,785	20.3%	4,984	21.8%	199	4.2%
	Asia	4,041	17.2%	3,598	15.7%	△443	△11.0%
	Others	1,771	7.5%	1,316	5.7%	△455	△25.7%



Factor Analysis of Changes in Operating Income

Decrease in Operating Income

- It is mainly affected by the increase of the ratio of SG&A to sales.

(million yen)

	First half of FY2016/3	First half of FY2017/3	Change (YoY)
Operating income	1,743	1,667	△76
Operating income margin	7.4%	7.3%	△0.1 percentage points

	First half of FY2016/3	First half of FY2017/3	Rate of change (YoY)
Gross profit margin	24.5%	24.6%	0.1 percentage points
Ratio of SG&A to sales	17.1%	17.3%	0.2 percentage points
Ratio of operating income to sales	7.4%	7.3%	△0.1 percentage points

- Gross profit margin is improved by the import cost of raw materials decreased for the appreciation of the yen.
- Ratio of SG&A to sales increased due to increase of the personnel expense and etc.

Consolidated Balance Sheets

Overview

1. A 2,272 million yen decrease in current assets was mainly due to an decrease in trade notes and accounts receivables.
2. A 2,359 million yen decrease in current liabilities was mainly due to declines in trade notes and accounts payables.

(million yen)

	First half of FY2016/3	At the end of FY2016/3	First half of FY2017/3	Change from the end of FY2016/3
Current assets	38,597	42,246	39,974	△2,272
Non-current assets	25,219	24,747	23,544	△1,203
Total assets	63,817	66,994	63,519	△3,475
Current liabilities	10,217	12,455	10,096	△2,359
Long-term liabilities	4,165	3,726	3,366	△360
Total liabilities	14,382	16,181	13,463	△2,718
Total net assets	49,434	50,812	50,056	△756
Total liabilities and net assets	63,817	66,994	63,519	△3,475

Changes in Consolidated Cash Flows

Overview

1. A 1,711 million yen cash flow from operating activities was mainly due to an increase in net income before taxes.
2. Balance of cash and cash equivalents increased 276 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2016/3	First half of FY2017/3
I Cash flow from operating activities	1,506	1,711
II Cash flow from investing activities	△ 510	△ 550
I + II Free cash flows	996	1,161
III Cash flow from financing activities	△ 652	△ 458
IV Foreign currency adjustments on cash and cash equivalents	25	△425
V Net increase or decrease in cash and cash equivalents	368	276
VI Cash and cash equivalents, end of period	11,144	12,022

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 50.5 billion yen.
2. Assumed exchange rate is 105 yen/dollar.

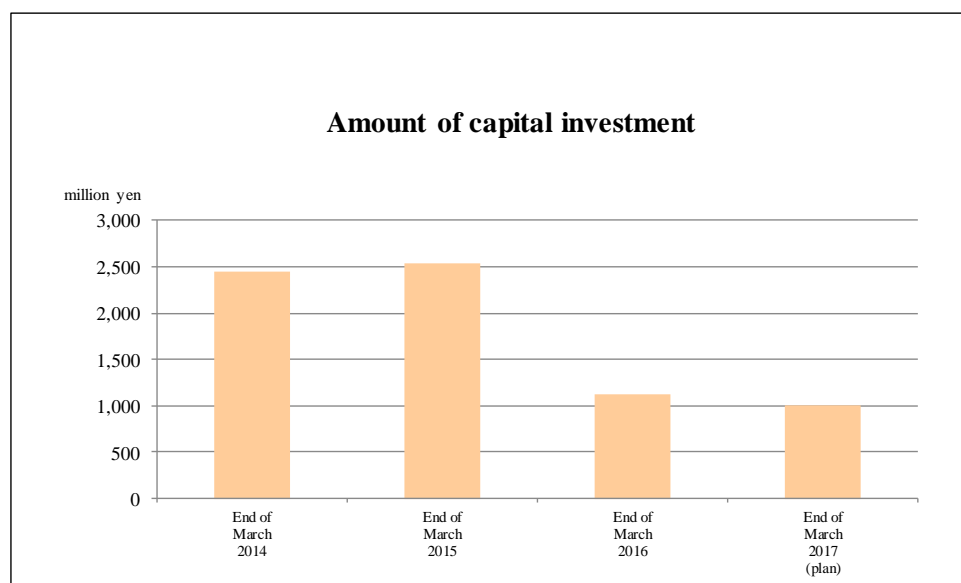
(million yen)

	FY2016/3		FY2017/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	50,419	100%	50,500	100%	81	0.2%
Operating income	4,097	8.1%	4,100	8.1%	3	0.1%
Ordinary income	4,494	8.9%	4,500	8.9%	6	0.1%
Net income	3,137	6.2%	2,900	5.7%	△237	△7.6%
Capital investment	1,125		1,000		△125	△11.1%
Depreciation	1,284		1,250		△34	△2.6%
Net income per share	146.8 ^{yen}		135.7 ^{yen}		△11.1 ^{yen}	
ROE	6.5%		5.9%		*Equity is calculated by using the amount of money at the end of FY2016/3.	
Cash dividends per share (yen)	30.0 ^{yen}		30.0 ^{yen}			

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 the 2nd factory

Outlook for Sales by Product (Consolidated)

Overview

1. Sales of generators are expected to increase by 106 million yen (0.3 %).
2. Sales of welders are anticipated to decline by 300 million yen (5.9%).
3. Sales of compressors are forecasted to be up by 196 million yen (17.8%).

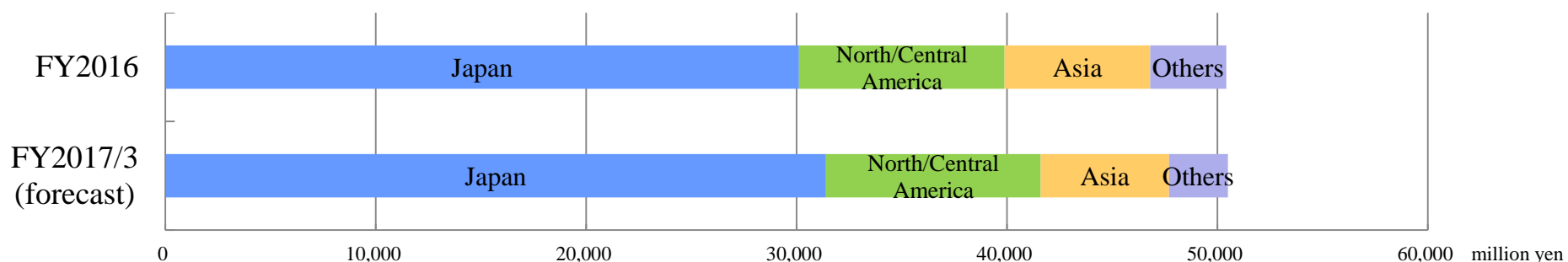
(million yen)

		FY2016/3		FY2017/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		50,419	100%	50,500	100%	81	0.2%
By product	Generators	38,294	76.0%	38,400	76.3%	106	0.3%
	Welders	5,100	10.1%	4,800	10.2%	△300	△5.9%
	Compressors	1,104	2.2%	1,300	1.9%	196	17.8%
	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%	50,500	100%	81	0.2%
Domestic sales		30,115	59.7%	31,400	62.2%	1,285	4.3%
Overseas sales		20,304	40.3%	19,100	37.8%	△1,204	△5.9%
By region	North/ Central America	9,776	19.4%	10,200	20.2%	424	4.3%
	Asia	6,921	13.7%	6,100	12.1%	△821	△11.9%
	Others	3,606	7.2%	2,800	5.6%	△806	△22.4%



Details of the Operating Income Forecast

Increase slightly in operating income

The operating income and the operating income margin are almost unchanged from the previous year.

(million yen)

	FY2016/3	FY2017/3 (forecast)	Change (YoY)
Operating income	4,097	4,100	3
Operating income margin	8.1%	8.1%	±0percentage points

	FY2016/3	FY2017/3 (forecast)	Change (YoY)
Gross profit margin	24.1%	24.6%	0.5percentage point
Ratio of SG&A to sales	16.0%	16.4%	0.4percentage point
Ratio of operating income to sales	8.1%	8.1%	±0percentage point

- The gross profit margin are expected to improve by the import cost of raw materials decreased for the appreciation of the yen.
- The ratio of SG&A to sales are expected to rise due to increase of the personnel expenses ,etc.

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:

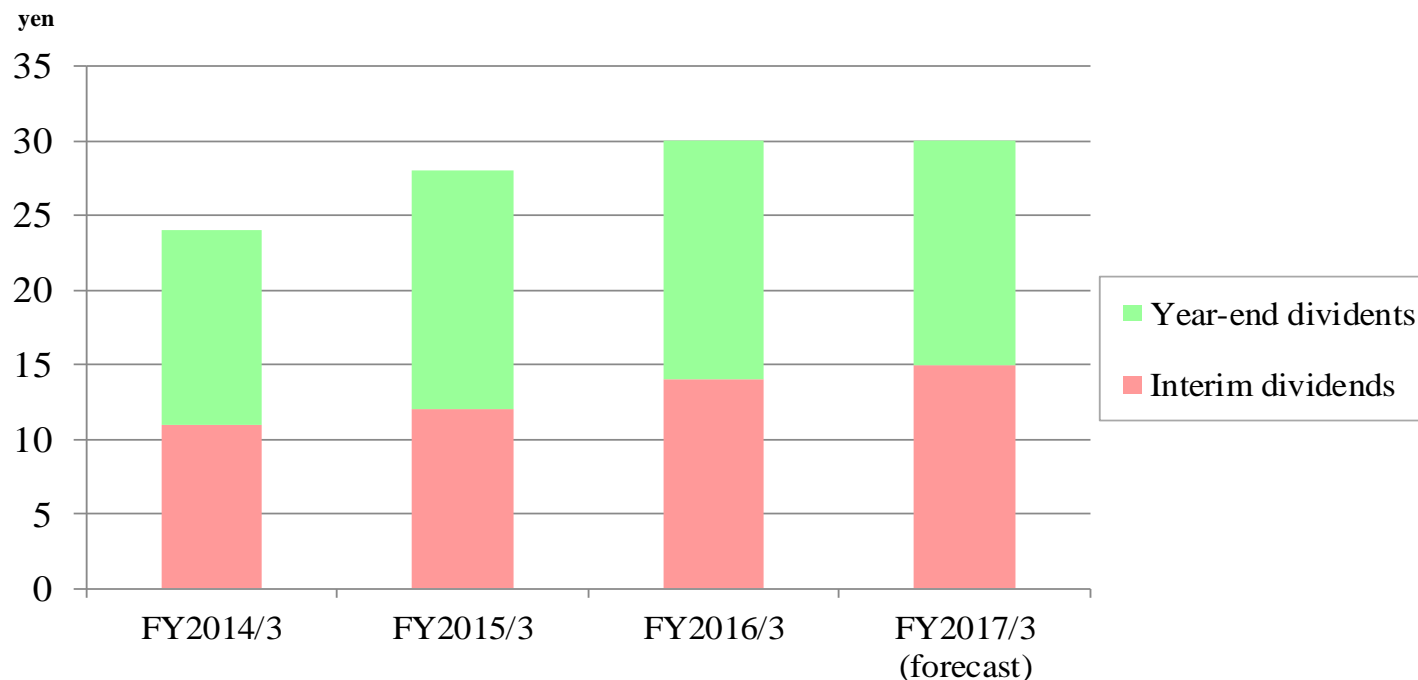
- (1) ROE: 8% or more **(6.5% in FY2016/3)**
- (2) Ratio of ordinary income to sales: 12% or more **(8.9% in FY2016/3)**

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



LEG standby generator

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 engine generators 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 November 10, 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 high-speed 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.

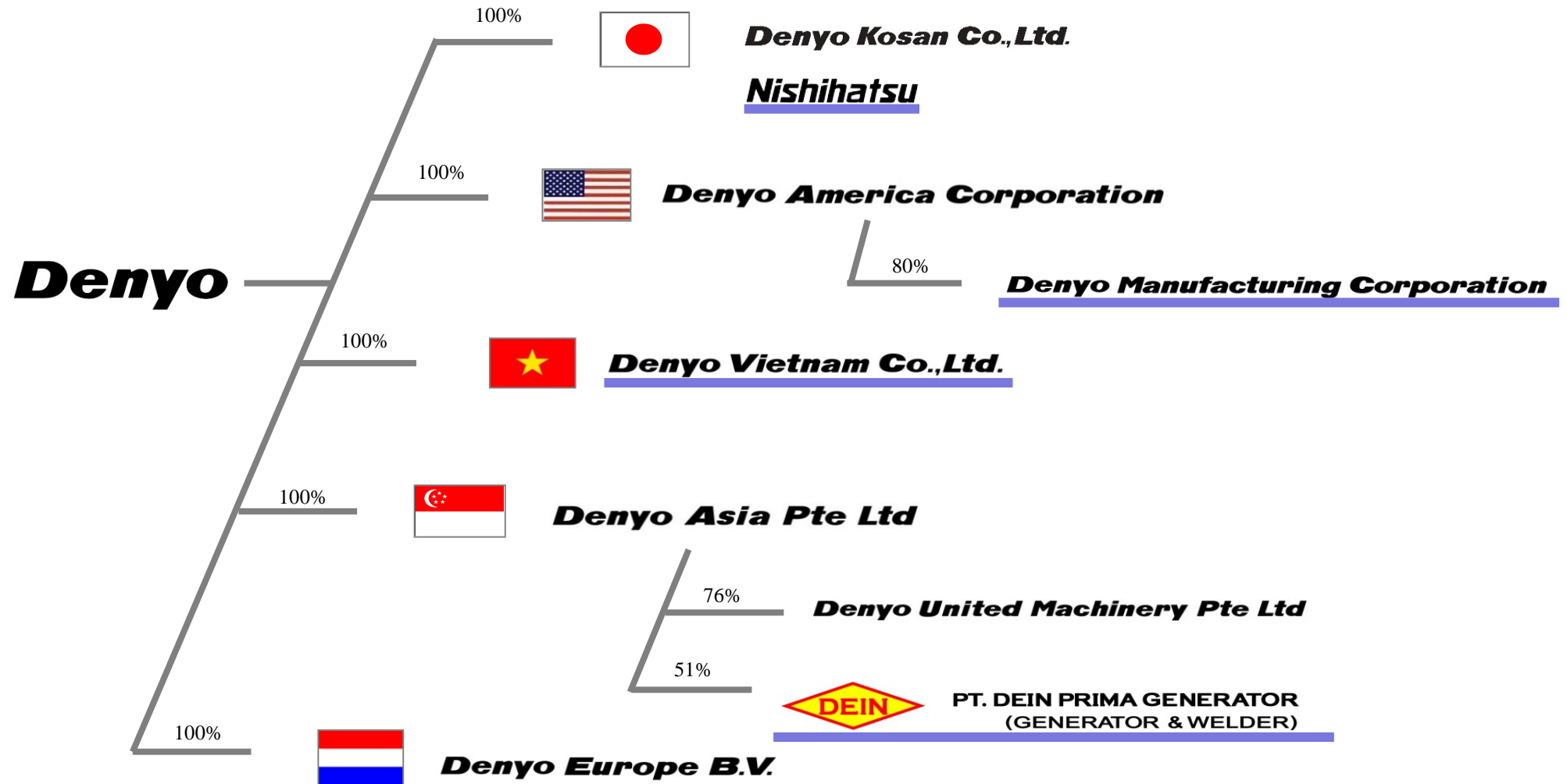
● Company size, etc. (FY2016/3 on a consolidated basis)

	(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



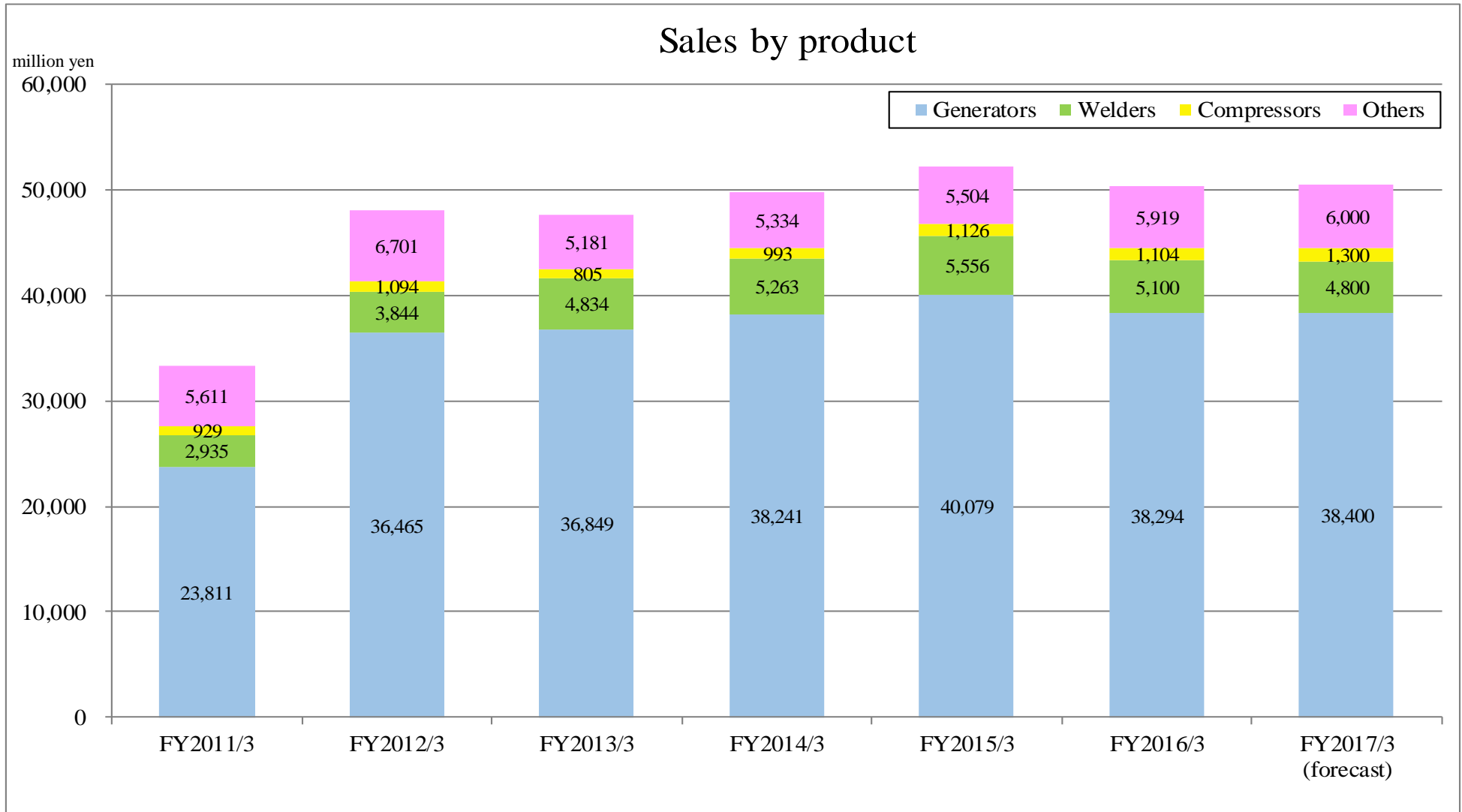
Head Office (Nihonbashi-Horidomecho)

The Group Companies

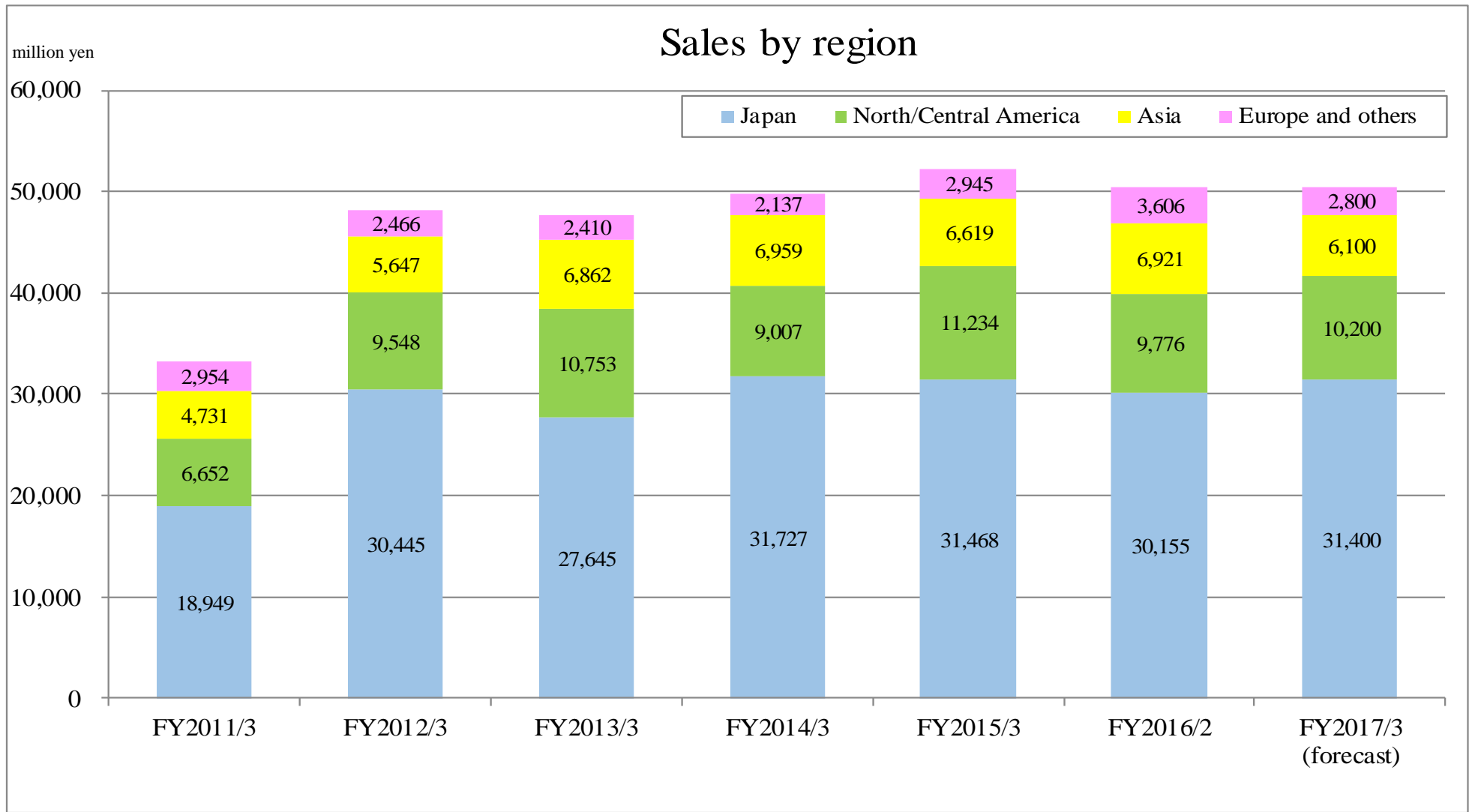


*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).
 2. Underlined companies are manufacturers.

Trends and Forecasts by Product Sales



Changes in Sales by Region and Forecasts



Changes in Results for the Last 30 Years

