

# Briefing on Results for the Fiscal Year ending March 31, 2017



Photo: Denyo Europe B.V.

May 25, 2017

***Denyo Co., Ltd.***

## **I. Overview of Results for FY2017/3**

**Toshiya Tozawa,** Senior Executive Officer, Chief Executive  
Administration Division

## **II. Outlook for FY2018/3 and Future Management Policy**

**Shoichi Shiratori,** President

---

# **Overview of Results for FY2017/3**

# Highlights of Results for FY2017/3 (Consolidated)

## Key Point

Net sales is less than the previous fiscal year, Operating income and Ordinary income are more than the previous fiscal year.  
 Profit attributable to owners of parent decreased due to the extraordinary income (300 million) incurred on the previous fiscal year.  
 (million yen)

	FY2016/3		FY2017/3		Change (YoY)	Rate of change (YoY)
Net sales	50,419	100%	48,851	100%	△1,568	△3.1%
Operating income	4,097	8.1%	4,247	8.7%	150	3.7%
Ordinary income	4,494	8.9%	4,526	9.3%	32	0.7%
Profit attributable to owners of parent	3,137	6.2%	2,867	5.9%	△270	△8.6%
Capital investment	1,125		511		△614	△54.6%
Depreciation	1,284		1,211		△73	△5.7%
Net income per share	146.8yen		134.2yen		△12.6yen	△8.6%
ROE	6.5%		5.7%			
Interim dividends per share	30.0yen		30.0yen			

# Sales Trends by Product (Consolidated)

## Overview

1. Sales of generators decreased by 1,437 million yen (3.8%).
2. Sales of welders declined by 268 million yen (5.3%).
3. Sales of compressors increased by 336 million yen (30.4%).

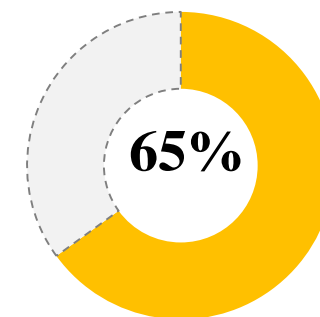
(million yen)

		FY2016/3		FY2017/3		Change (YoY)	Rate of change (YoY)
Net sales		50,419	100%	48,851	100%	△1,568	△3.1%
By product	Generators	38,294	76.0%	36,857	75.4%	△1,437	△3.8%
	Welders	5,100	10.1%	4,832	9.9%	△268	△5.3%
	Compressors	1,104	2.2%	1,440	2.9%	336	30.4%
	Others	5,919	11.7%	5,720	11.7%	△199	△3.4%

# Engine Generators (Consolidated)

	FY2016/3	FY2017/3	Rate of change (YoY)
Generators	38,294 <sup>million yen</sup>	36,857 <sup>million yen</sup>	△3.8%

- In Japan, shipment to the major leasing and rental industry stay strong and the shipment of emergency generator weakened.
- Overseas, shipment to America remain robust, and shipment to resource-rich countries weakened.



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



Mobile-type generator



Stand-by generating sets

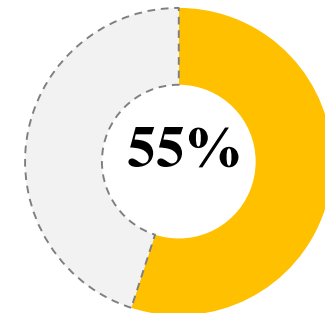
## Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 for disaster prevention equipment and offices, etc.
- Power-supply vehicles, etc.

# Engine Welders (Consolidated)

	FY2016/3	FY2017/3	Rate of change (YoY)
Welders	5,100 million yen	4,832 million yen	△5.3%

- Overseas, the shipment to Europe increased and the shipment to the domestic market 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.**

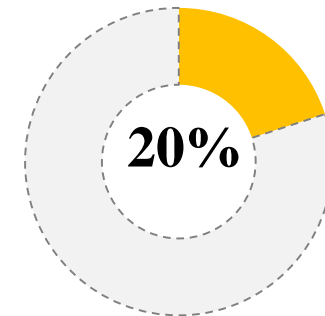
**Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.**

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

# Engine Compressors (Consolidated)

	FY2016/3	FY2017/3	Rate of change (YoY)
Compressors	1,104 million yen	1,440 million yen	30.4%

- The shipment to the domestic and overseas market both 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 1.6 m<sup>3</sup>/min to 42.4 m<sup>3</sup>/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)

	FY2016/3	FY2017/3	Rate of change (YoY)
Others	5,919 million yen	5,720 million yen	Δ3.4%

- Sales of self-propelled lifters, etc. decreased.

### Sales of other products

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



Self-propelled lifter

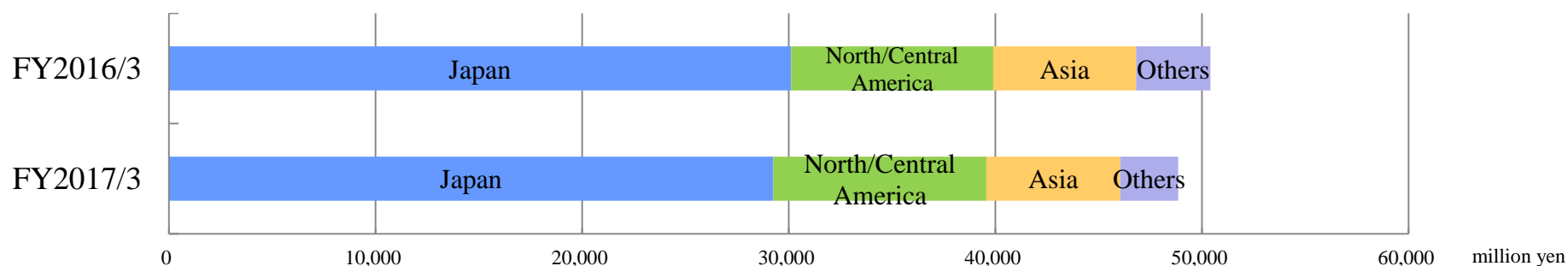


Load testing equipment

# Sales Trends by Region (Consolidated)

(million yen)

		FY2016/3		FY2017/3		Change (YoY)	Rate of change (YoY)
Net sales		50,419	100%	48,851	100%	△1,568	△3.1%
Domestic sales		30,115	59.7%	29,252	59.9%	△863	△2.9%
Overseas sales		20,304	40.3%	19,599	40.1%	△705	△3.5%
By region	North/Central America	9,776	19.4%	10,310	21.1%	534	5.5%
	Asia	6,921	13.7%	6,479	13.3%	△442	△6.4%
	Others	3,606	7.2%	2,808	5.7%	△798	△22.1%



# Factor Analysis of Changes in Operating Income

## Increase in Operating Income

Operating income increased by the improvement of Gross profit margin and ratios of SG&A to sales.

(million yen)

	FY2016/3	FY2017/3	Change (YoY)
Operating income	4,097	4,247	150
Operating income margin (%)	8.1%	8.7%	0.6percentage points

	FY2016/3	FY2017/3	Rate of change (YoY)
Gross profit margin	24.1%	24.5%	0.4percentage points
Ratio of SG&A to sales	16.0%	15.8%	△0.2percentage points
Ratio of operating income to sales	8.1%	8.7%	0.6percentage points

- Gross profit margin improved by the stable production in Vietnam plant and an increase in the shipment of relatively profitable large-sized machines.
- Ratio of SG&A to sales improved by a decrease in the shipping cost and a rise in personnel expenses is covered by it.

# Consolidated Balance Sheets

## Overview

1. Current assets increased by 1,568 million yen mainly due to an increase in cash and deposits, etc.
2. Current liabilities decreased by 859 million yen mainly due to a decrease in trade payables.

(million yen)

	At the end of FY2016/3	At the end of FY2017/3	Change from the end of FY2016/3
Current assets	42,246	43,814	1,567
Non-current assets	24,747	24,863	115
Total assets	66,994	68,678	1,683
Current liabilities	12,455	11,596	△859
Long-term liabilities	3,726	3,936	209
Total liabilities	16,181	15,532	△649
Total net assets	50,812	53,145	2,333
Total liabilities and net assets	66,994	68,678	1,683

# Changes in Consolidated Cash Flows

## Overview

1. Cash flow from operating activities was 2,948 million yen decreased mainly due to a decrease in trade payables .
2. Balance of cash and cash equivalents increased by 473 million yen from the end of the previous fiscal year.

(million yen)

	FY2016/3	FY2017/3
I Cash flow from operating activities	2,973	2,948
II Cash flow from investing activities	△ 775	△ 1,253
<b>I + II Free cash flows</b>	<b>2,198</b>	<b>1,695</b>
III Cash flow from financing activities	△ 1,181	△ 1,080
IV Foreign currency adjustments on cash and cash equivalents	△ 47	△ 141
V Net increase or decrease in cash and cash equivalents	969	473
VI Cash and cash equivalents, end of period	11,745	12,219

---

# **Outlook for FY2018/3 and Future Management Policy**

# Outlook for FY2018/3: Consolidated Income and Loss

## Key points

1. Net sales are expected to be 52.0 billion yen.
2. Assumed exchange rate is 105 yen/dollar.

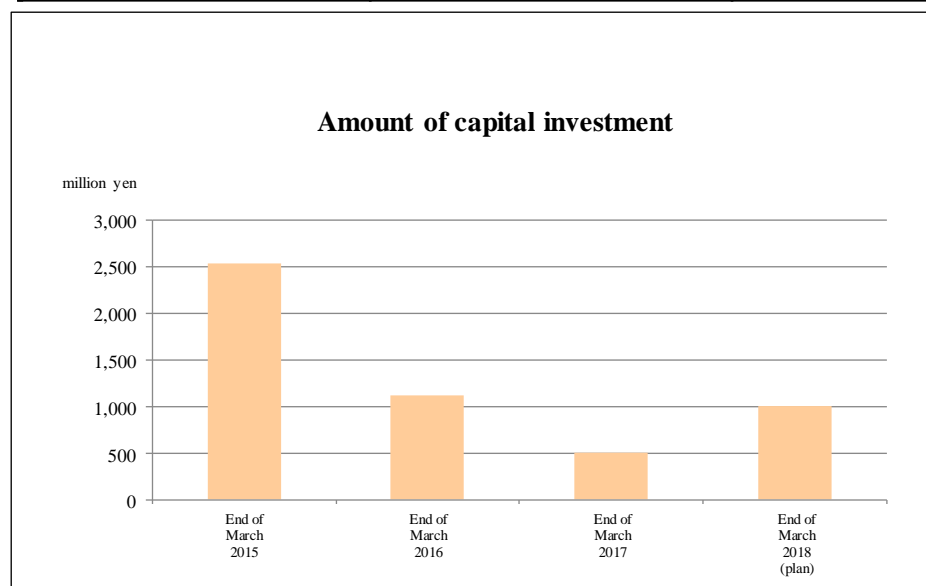
(million yen)

	FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	48,851	100%	52,000	100%	3,149	6.4%
Operating income	4,247	8.7%	4,600	8.8%	353	8.3%
Ordinary income	4,526	9.3%	5,000	9.6%	474	10.5%
Net income	2,867	5.9%	3,150	6.1%	283	9.9%
Capital investment	511		1,000		489	95.7%
Depreciation	1,211		1,200		△11	△0.9%
Net income per share	134.2yen		148.3yen		14.1yen	
ROE	5.7%		6.2%		*Equity is calculated by using the amount of money at the end of FY2017/3.	
Cash dividends per share (yen)	30.0yen		30.0yen			

# Changes in the Amount of Capital Investment

(million yen)

	End of March 2015	End of March 2016	End of March 2017	End of March 2018 (plan)
Cost of equipment	2,531	1,125	511	1,000
Main uses	<ul style="list-style-type: none"> <li>• Machinery of Fukui plant, etc. 440</li> <li>• Nishinohon Generator Mfg. 160</li> <li>• U.S. Plant 50</li> <li>• Vietnam Plant 1,630</li> <li>• Singapore 180</li> </ul>	<ul style="list-style-type: none"> <li>• Machinery of Fukui plant, etc. 430</li> <li>• Nishinohon Generator Mfg. 80</li> <li>• Vietnam Plant 100</li> <li>• Singapore 280</li> </ul>	<ul style="list-style-type: none"> <li>• Machinery of Fukui plant, etc. 100</li> <li>• Nishinohon Generator Mfg. 50</li> <li>• U.S. Plant 250</li> <li>• Vietnam Plant 20</li> </ul>	<ul style="list-style-type: none"> <li>• Machinery of Fukui plant, etc. 600</li> <li>• Nishinohon Generator Mfg. 70</li> <li>• U.S. Plant 200</li> <li>• Vietnam Plant 100</li> <li>• Others 30</li> </ul>



Denyo Vietnam



## Outlook for Sales by Product (Consolidated)

### Overview

1. Sales of generators are expected to increase by 2,143 million yen (5.8%).
2. Sales of welders are anticipated to rise by 568 million yen (11.8%).
3. Sales of compressors are forecasted to grow up by 60 million yen (4.2%).

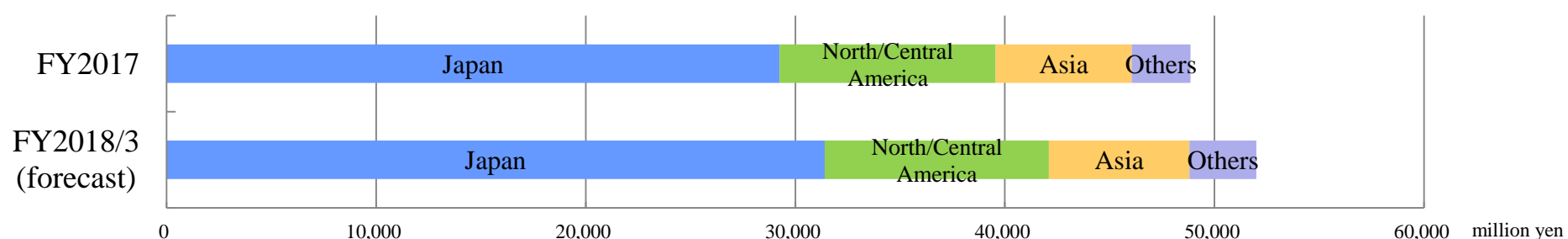
(million yen)

		FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		48,851	100%	52,000	100%	3,149	6.4%
By product	Generators	36,857	75.4%	39,000	75.0%	2,143	5.8%
	Welders	4,832	9.9%	5,400	10.4%	568	11.8%
	Compressors	1,440	2.9%	1,500	2.9%	60	4.2%
	Others	5,720	11.7%	6,100	11.7%	380	6.6%

# Outlook for Sales by Region (Consolidated)

(million yen)

		FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		48,851	100%	52,000	100%	3,149	6.4%
Domestic sales		29,252	59.9%	31,400	60.4%	2,148	7.3%
Overseas sales		19,599	40.1%	20,600	39.6%	1,001	5.1%
By region	North/ Central America	10,310	21.1%	10,700	20.6%	390	3.8%
	Asia	6,479	13.3%	6,700	12.9%	221	3.4%
	Others	2,808	5.7%	3,200	6.2%	392	14.0%



# 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 353 million yen.

(million yen)

	FY2017/3	FY2018/3 (forecast)	Change (YoY)
Operating income	4,247	4,600	353
Operating income margin	8.7%	8.8%	0.1percentage points

	FY2017/3	FY2018/3 (forecast)	Change (YoY)
Gross profit margin	24.5%	25.0%	0.5percentage point
Ratio of SG&A to sales	15.8%	16.2%	0.4percentage point
Ratio of operating income to sales	8.7%	8.8%	0.1percentage point

- The gross profit margin are expected to be improved by an increase in the profitable product and the improvement of production efficiency.
- The ratio of SG&A to sales are expected to be worsen due to an increase of personnel expenses and shipping cost, 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:

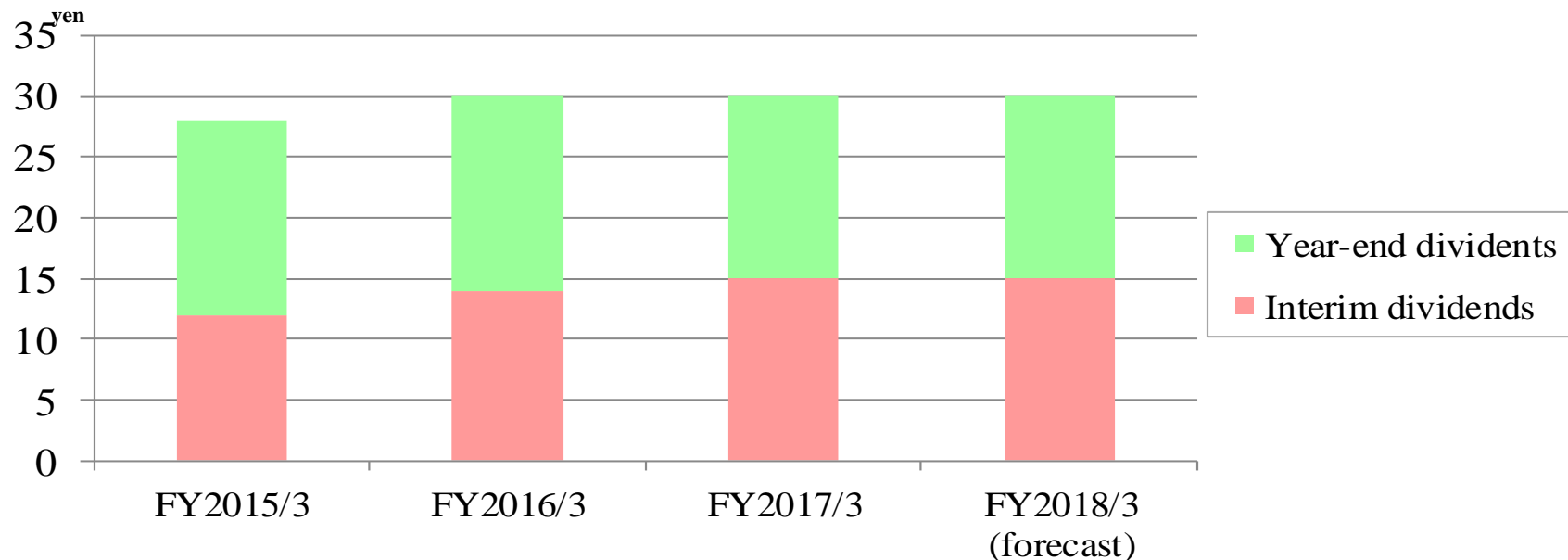
- (1) ROE: 8% or more **(5.7% in FY2017/3)**
- (2) Ratio of ordinary income to sales: 12% or more **(9.3% in FY2017/3)**

# 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:

**30 yen in FY2016/3 ⇒ 30 yen in FY2017/3 ⇒ 30 yen (forecast) in FY2018/3**



# 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 10, 2017.

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.

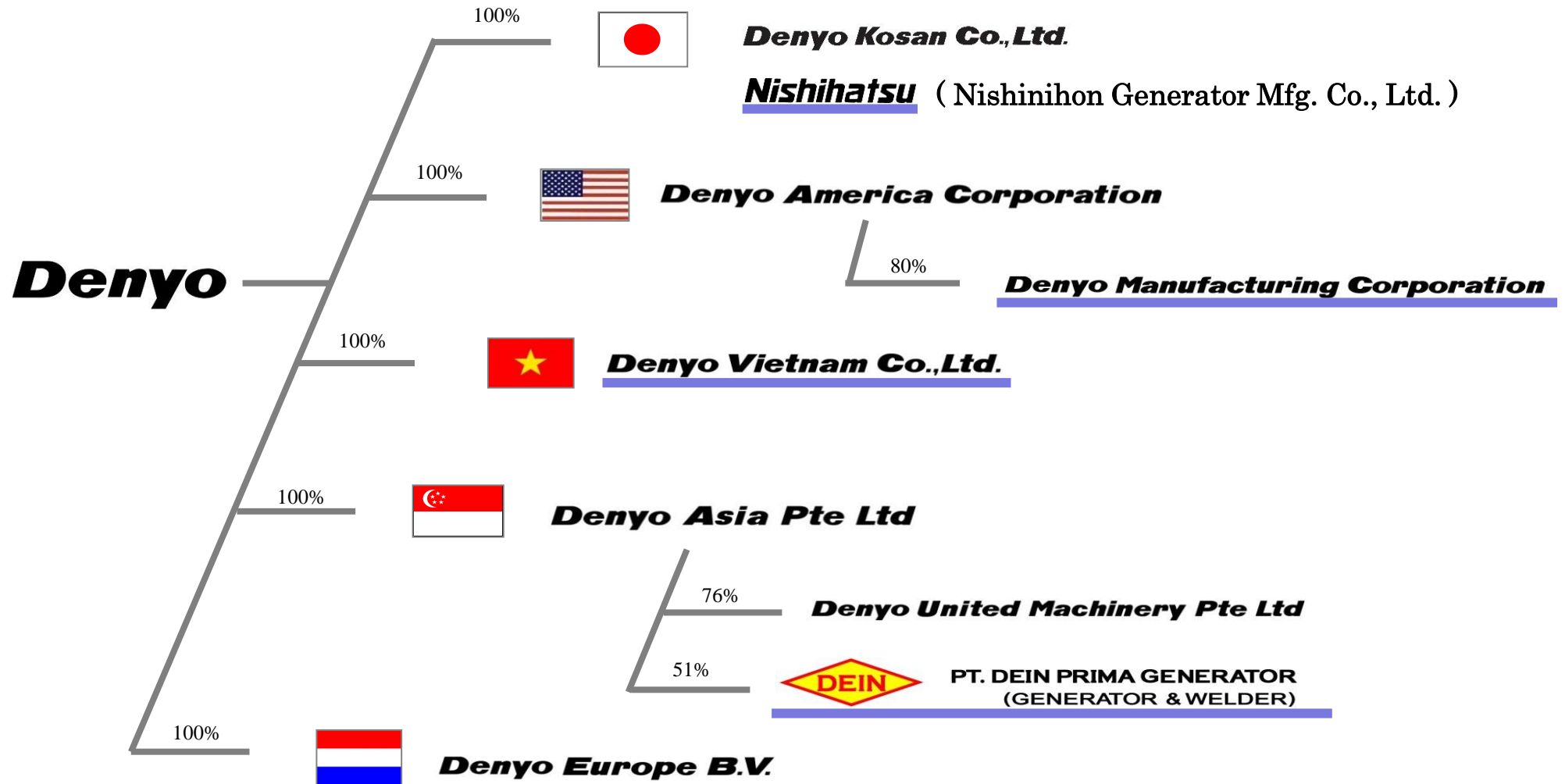
● Company size, etc. (FY2017/3 on a consolidated basis)

	(million yen)
Net sales	48,851
Overseas sales	19,599
Ordinary income	4,526
Net income	2,867
Total assets	68,678
Net assets	53,145
Market capitalization (as of March 31)	38,496
Number of employees	1,215 persons



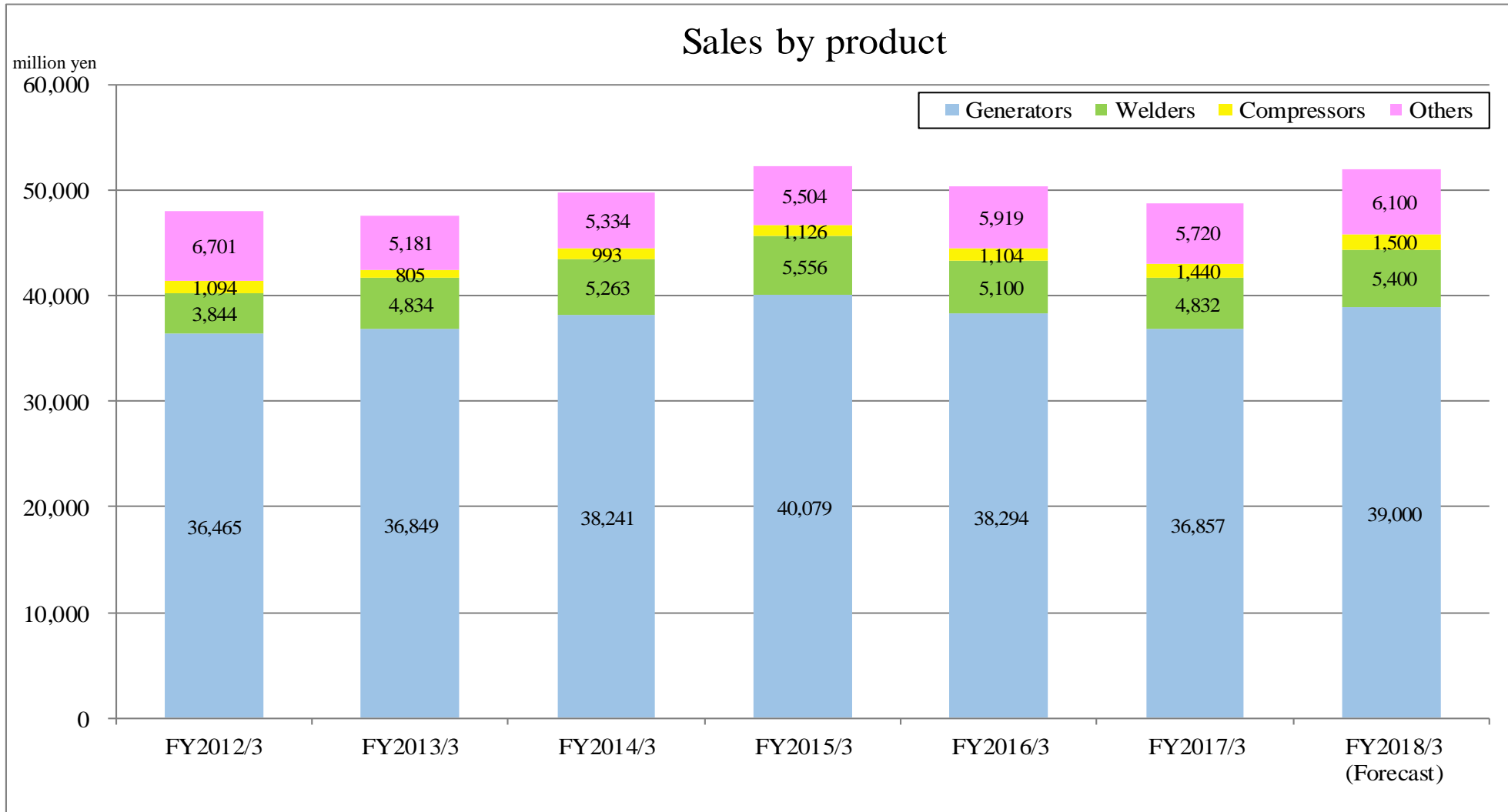
Head Office (Nihonbashi-Horidomecho)

# The Group Companies

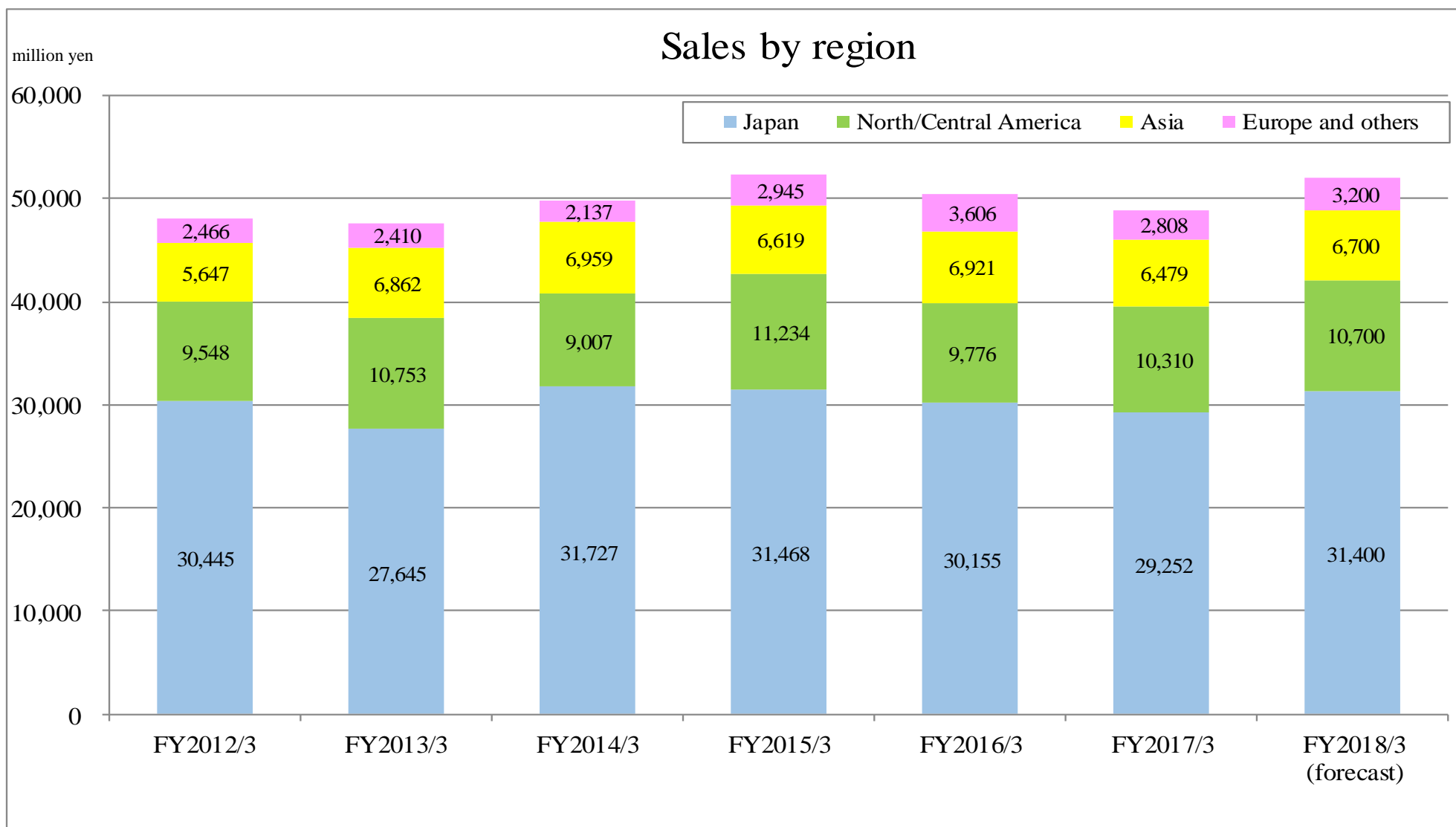


\*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).  
 2. Underlined companies are manufacturers.

# Trends and Forecasts by Product Sales



# Changes in Sales by Region and Forecasts



# Changes in Results for the Last 30 Years

