

# Briefing on Results for the First Half of the Fiscal Year ending March 31, 2018



Photo: Denyo Manufacturing Corporation (U.S.A.)

November 22, 2017

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

## **I. Overview of Results for the First Half of FY2018/3**

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

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

**Shoichi Shiratori,** President

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# **Overview of Results for the First Half of FY2018/3**

# Highlights of Results for the First Half of FY2018/3 (Consolidated)

## Key Point

Both Net sales and Net income decreased year on year.

(million yen)

	First half of FY2017/3		First half of FY2018/3		Rate of change (YoY)
Net sales	22,894	100%	22,783	100%	Δ0.5%
Operating income	1,667	7.3%	1,432	6.3%	Δ14.1%
Ordinary income	1,784	7.8%	1,526	6.7%	Δ14.4%
Profit attributable to owners of parent	1,103	4.8%	946	4.2%	Δ14.2%
Capital investment	204		336		
Depreciation	605		588		
Net income per share	51.61 yen		44.56 yen		
ROE	4.6%	Annualized	3.6%	Annualized	
Interim dividends per share	15.0 yen		15.0 yen		

# Sales Trends by Product (Consolidated)

## Overview

1. Sales of generators increased by 432 million yen (2.5%).
2. Sales of welders rose by 90 million yen (4.0%).
3. Sales of compressors decreased by 124 million yen (20.4%).

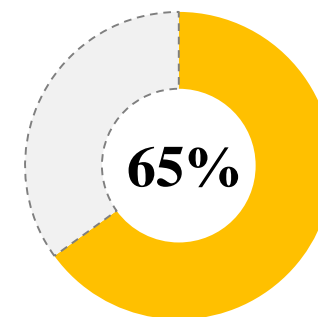
(million yen)

		First half of FY2017/3		First half of FY2018/3		Change (YoY)	Rate of change (YoY)
Net sales		22,894	100%	22,783	100%	Δ111	Δ0.5%
By product	Generators	17,073	74.6%	17,505	76.8%	432	2.5%
	Welders	2,275	9.9%	2,365	10.4%	90	4.0%
	Compressors	607	2.7%	483	2.1%	Δ124	Δ20.4%
	Others	2,938	12.8%	2,429	10.7%	Δ509	Δ17.3%

# Engine Generators (Consolidated)

	First half of FY2017/3	First half of FY2018/3	Rate of change (YoY)
Generators	17,073 million yen	17,505 million yen	2.5%

- In Japan, shipment to the major rental industry remain robust and shipment of the emergency generators 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



Silent generator "Malie"



Stand-by generating sets

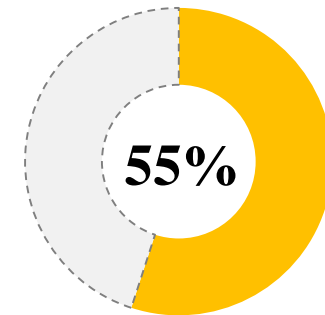
## Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 FY2017/3	First half of FY2018/3	Rate of change (YoY)
Welders	2,275 million yen	2,365 million yen	4.0%

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



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.**

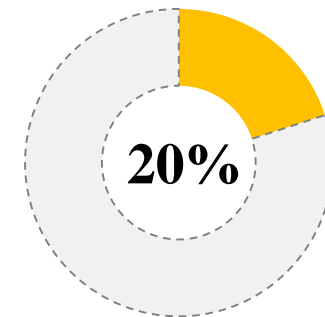
**Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.**

- 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 FY2017/3	First half of FY2018/3	Rate of change (YoY)
Compressors	607 <sup>million yen</sup>	483 <sup>million yen</sup>	△20.4%

- In Japan the shipment increased, but the shipment to America decreased.



Domestic market share of engine compressors

\*According to a Company survey



Engine compressor



Motor compressor

**Manufacturing compressors with air discharge amounts from 1.6<sup>m<sup>3</sup></sup>/min to 42.4<sup>m<sup>3</sup></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)

	First half of FY2017/3	First half of FY2018/3	Rate of change (YoY)
Others	2,938 million yen	2,429 million yen	△17.3%

- Sales of self-propelled lifters and Repair sales etc. decreased.

### Sales of other products

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



Self-propelled lifter

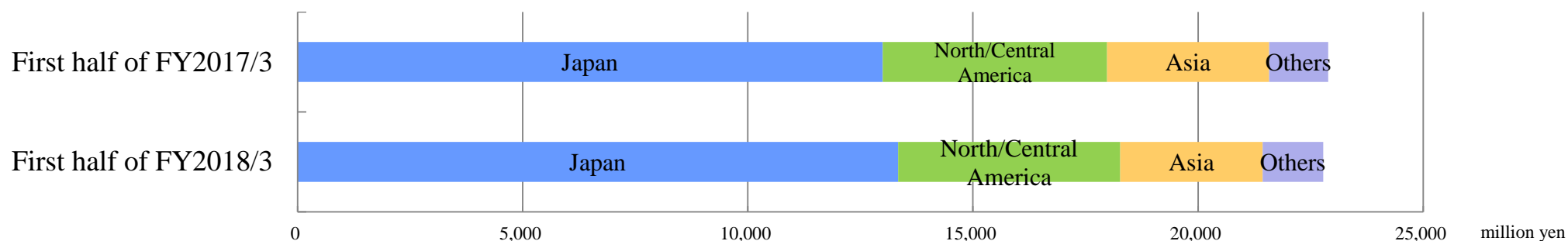


Load testing equipment

# Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2017/3		First half of FY2018/3		Change (YoY)	Rate of change (YoY)
Net sales		22,894	100%	22,783	100%	△111	△0.5%
Domestic sales		12,994	56.8%	13,337	58.5%	343	2.6%
Overseas sales		9,900	43.2%	9,446	41.5%	△454	△4.6%
By region	North/Central America	4,984	21.8%	4,936	21.7%	△48	△1.0%
	Asia	3,598	15.7%	3,164	13.9%	△434	△12.1%
	Others	1,316	5.7%	1,345	5.9%	29	2.2%



# Factor Analysis of Changes in Operating Income

## Decrease in Operating Income

- It is decreased due to the worsening of the gross profit margin and the ratio of SG&A to sales.

(million yen)

	First half of FY2017/3	First half of FY2018/3	Change (YoY)
Operating income	1,667	1,432	△235
Operating income margin	7.3%	6.3%	△1.0 percentage points

	First half of FY2017/3	First half of FY2018/3	Rate of change (YoY)
Gross profit margin	24.6%	24.0%	△0.6 percentage points
Ratio of SG&A to sales	17.3%	17.7%	0.4 percentage points
Ratio of operating income to sales	7.3%	6.3%	△1.0 percentage points

- Gross profit margin is worsen due to a decrease in the shipment of the large-sized machine with relatively high profitability to overseas market.
- Ratio of SG&A to sales increased due to an increase of the personnel expense, etc.

# Consolidated Balance Sheets

## Overview

1. A 68 million yen increase in current assets was mainly due to an increase in cash and deposits, etc.
2. A 538 million yen decrease in current liabilities was mainly due to declines in tax income payable, etc.

(million yen)

	First half of FY2017/3	At the end of FY2017/3	First half of FY2018/3	Change from the end of FY2017/3
Current assets	39,974	43,814	43,883	68
Non-current assets	23,544	24,863	25,866	1,003
Total assets	63,519	68,678	69,749	1,071
Current liabilities	10,096	11,596	11,058	△538
Long-term liabilities	3,366	3,936	4,361	425
Total liabilities	13,463	15,532	15,419	△112
Total net assets	50,056	53,145	54,330	1,184
Total liabilities and net assets	63,519	68,678	69,749	1,071

# Changes in Consolidated Cash Flows

## Overview

1. A 3,548 million yen cash flow from operating activities was mainly due to a decrease in trade receivable, etc.
2. Balance of cash and cash equivalents increased 2,167 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2017/3	First half of FY2018/3
I Cash flow from operating activities	1,711	3,548
II Cash flow from investing activities	△ 550	△ 882
<b>I + II Free cash flows</b>	<b>1,161</b>	<b>2,666</b>
III Cash flow from financing activities	△ 458	△ 406
IV Foreign currency adjustments on cash and cash equivalents	△425	△92
V Net increase or decrease in cash and cash equivalents	276	2,167
VI Cash and cash equivalents, end of period	12,022	14,387

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

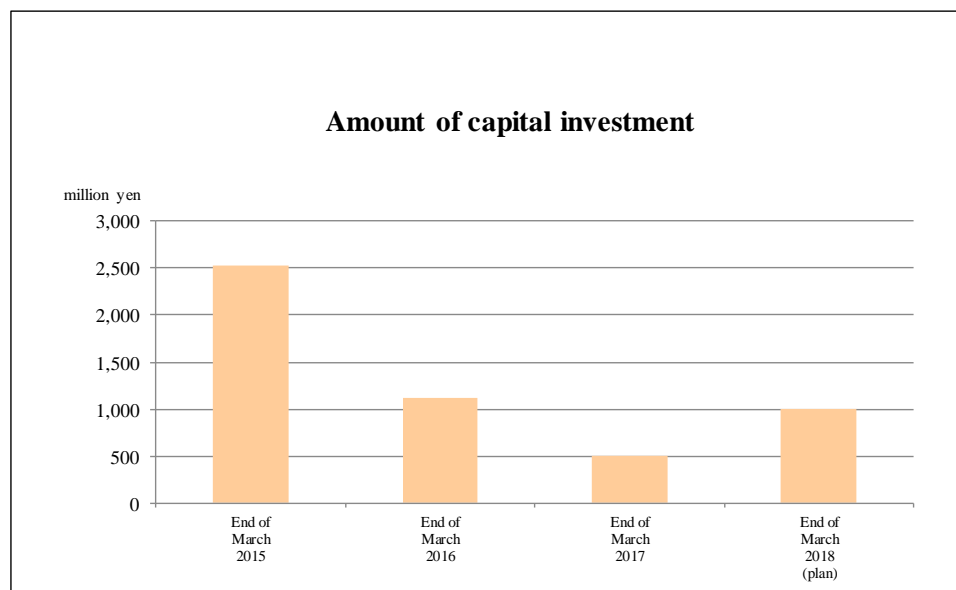
(million yen)

	FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	48,851	100%	50,500	100%	1,649	3.4%
Operating income	4,247	8.7%	4,000	7.9%	△247	△5.8%
Ordinary income	4,526	9.3%	4,200	8.3%	△326	△7.2%
Profit attributable to owners of parent	2,867	5.9%	2,600	5.1%	△267	△9.3%
Capital investment	511		1,000		489	95.7%
Depreciation	1,211		1,200		△11	△0.9%
Net income per share	134.2 <sup>yen</sup>		122.4 <sup>yen</sup>		△11.8 <sup>yen</sup>	
ROE	5.7%		5.1%		*Equity is calculated by using the amount of money at the end of FY2017/3.	
Cash dividends per share (yen)	30.0 <sup>yen</sup>		30.0 <sup>yen</sup>			

# 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>• Vietnam Plant 250</li> <li>• Singapore 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 the 2<sup>nd</sup> factory



## Outlook for Sales by Product (Consolidated)

### Overview

1. Sales of generators are expected to increase by 1,943 million yen (5.3 %).
2. Sales of welders are anticipated to increase by 418 million yen (8.7%).
3. Sales of compressors are forecasted to be down by 290 million yen (20.1%).

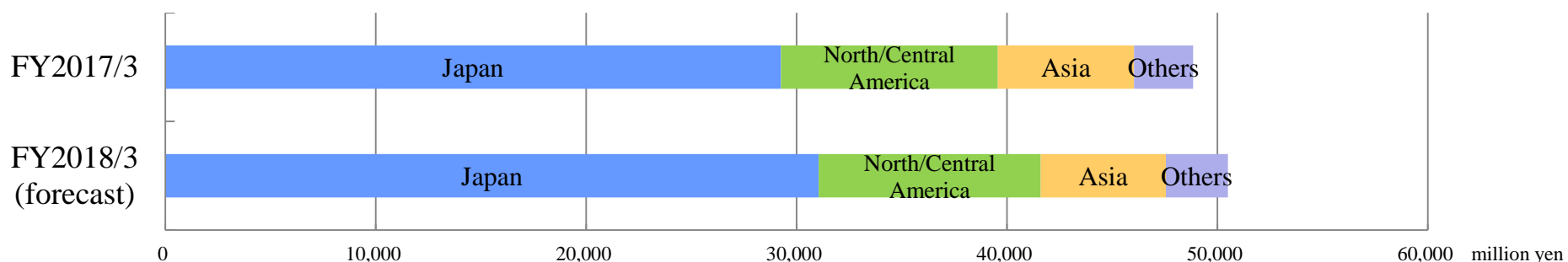
(million yen)

		FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		48,851	100%	50,500	100%	1,649	3.4%
By product	Generators	36,857	75.4%	38,800	76.8%	1,943	5.3%
	Welders	4,832	9.9%	5,250	10.4%	418	8.7%
	Compressors	1,440	2.9%	1,150	2.3%	△290	△20.1%
	Others	5,720	11.7%	5,300	10.5%	△420	△7.3%

# Outlook for Sales by Region (Consolidated)

(million yen)

		FY2017/3		FY2018/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		48,851	100%	50,500	100%	1,649	3.4%
Domestic sales		29,252	59.9%	31,050	61.5%	1,798	6.1%
Overseas sales		19,599	40.1%	19,450	38.5%	△149	△0.8%
By region	North/ Central America	10,310	21.1%	10,550	20.9%	240	2.3%
	Asia	6,479	13.3%	5,950	11.8%	△529	△8.2%
	Others	2,808	5.7%	2,950	5.8%	142	5.1%



# Details of the Operating Income Forecast

Decrease in operating income

The operating income is expected to decrease by 247 million yen

(million yen)

	FY2017/3	FY2018/3 (forecast)	Change (YoY)
Operating income	4,247	4,000	△247
Operating income margin	8.7%	7.9%	△0.8percentage points

	FY2017/3	FY2018/3 (forecast)	Change (YoY)
Gross profit margin	24.5%	24.1%	△0.4percentage point
Ratio of SG&A to sales	15.8%	16.2%	0.4percentage point
Ratio of operating income to sales	8.7%	7.9%	△0.8percentage point

- The gross profit margin is expected to be worsen due to the shipment of large-sized machine to overseas market decreased.
- The ratio of SG&A to sales are expected to rise due to increase of the personnel expenses ,etc.

# Future Management Policy

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## 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:

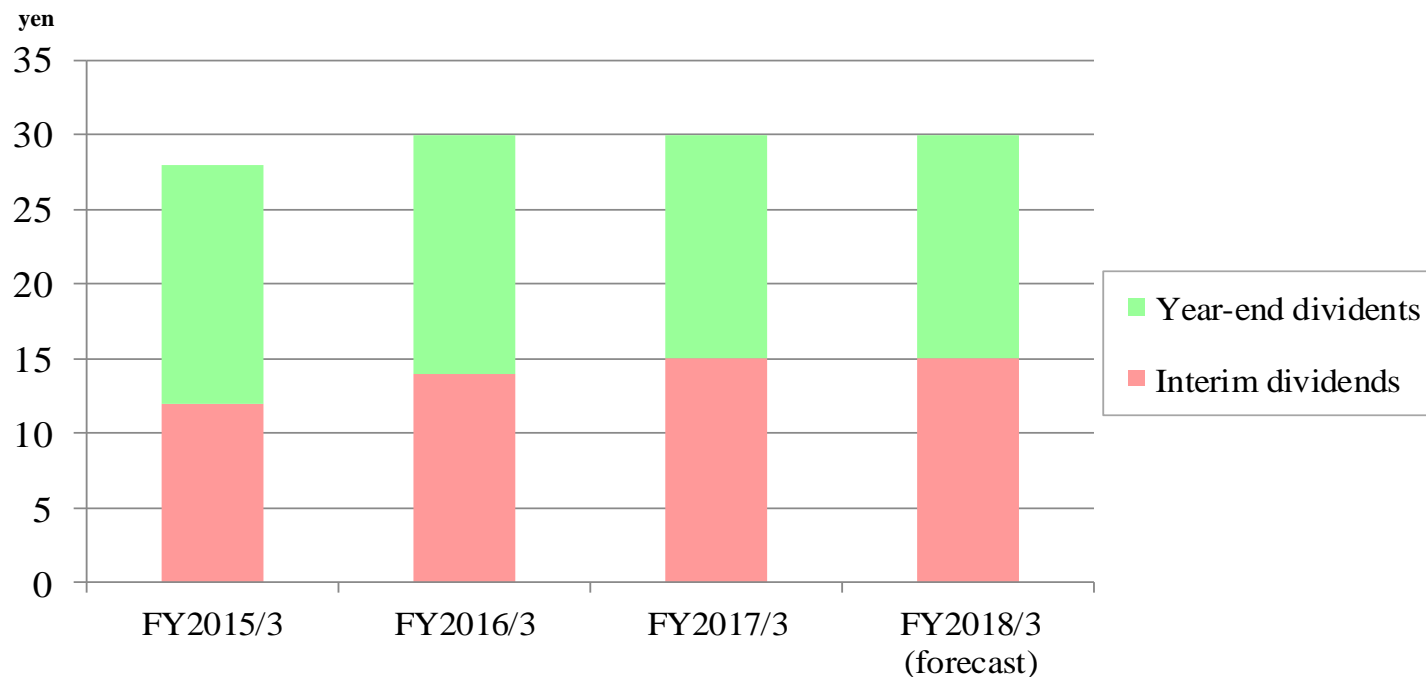
- (1) ROE: 8% or more **(5.7% in FY2017/3)**
- (2) Ratio of ordinary income to sales: 12% or more **(9.3% in FY2017/3)**

# 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 engine generators at the Vietnam Plant to respond to the robust Asian market.

## Notes on Our Outlook

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This material contains assumptions and outlooks for the future and forecasts based on plans as November 9, 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.

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# 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.

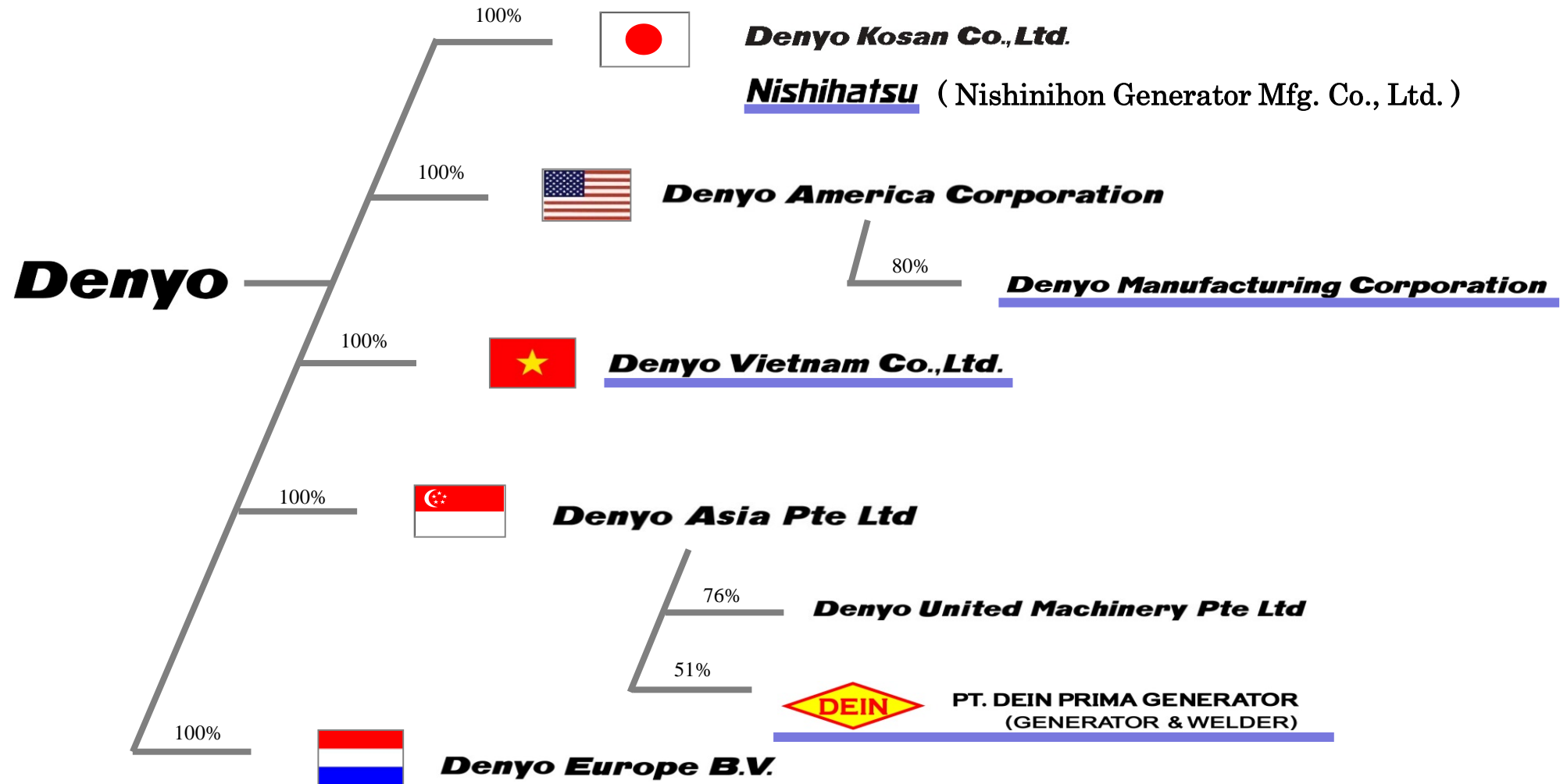
● Company size, etc. (FY2017/3 on a consolidated basis)

	(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



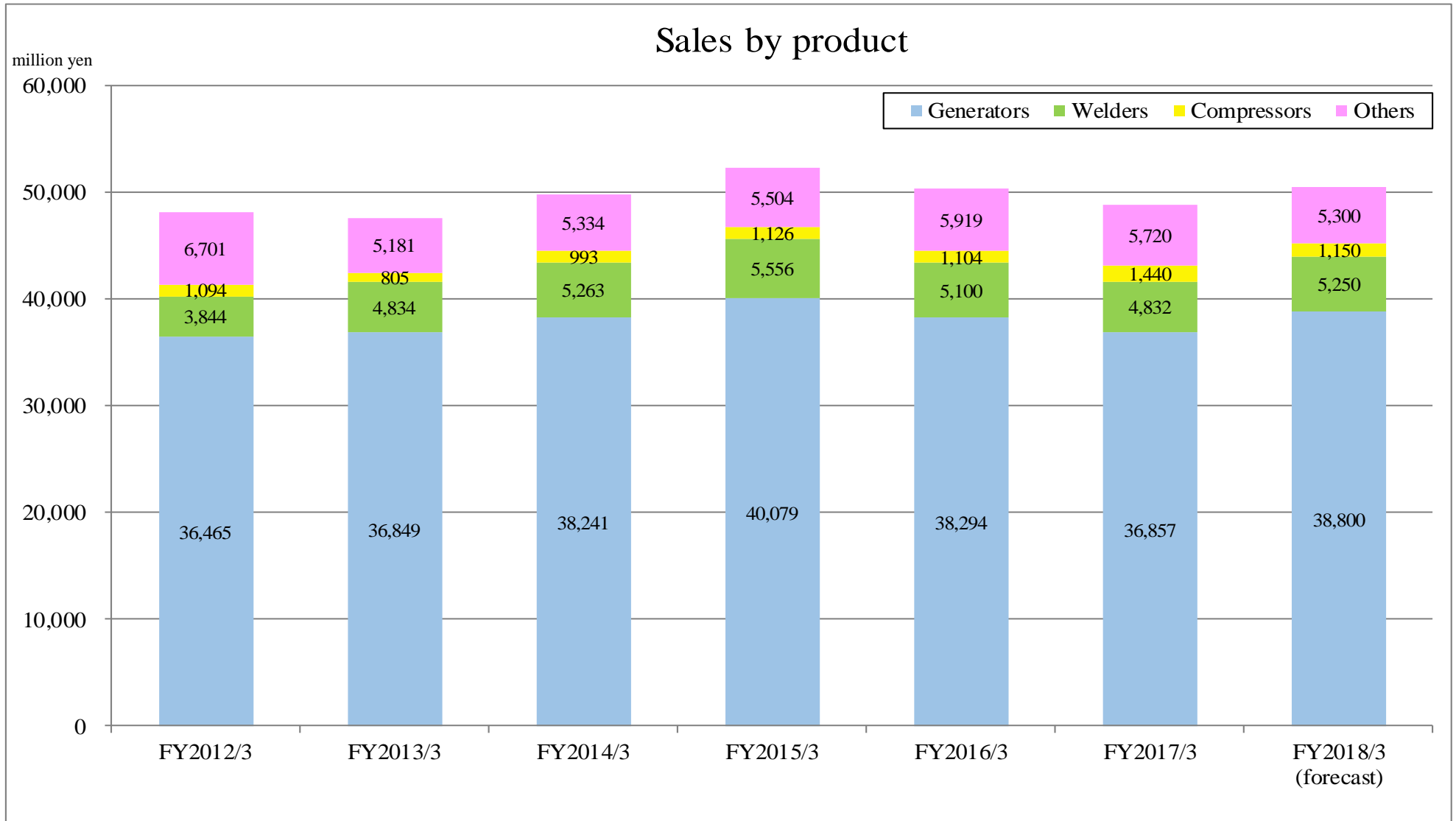
Head Office (Nihonbashi-Horidomecho)

# The Group Companies

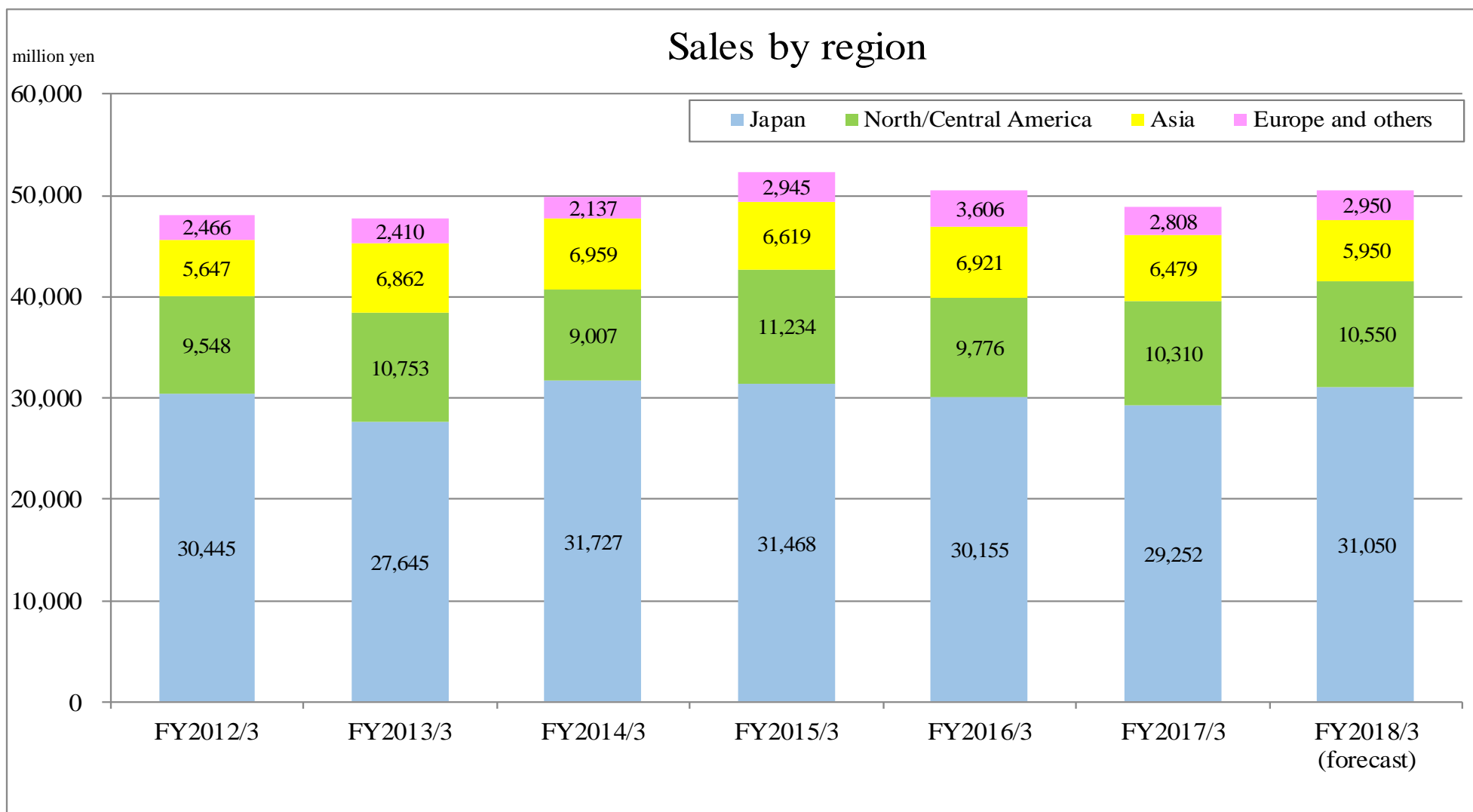


\*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).  
 \*2. Underlined companies are manufacturers.

# Trends and Forecasts by Product Sales



# Changes in Sales by Region and Forecasts



# Changes in Results for the Last 30 Years

