

# Briefing on Results for the First Half of the Fiscal Year ending March 31, 2020



Photo: Fukui Plant (Japan)

November 27, 2019

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

## **I. Overview of Results for the First Half of FY2020/3**

**Toshiya Tozawa,** Director and Managing Executive Officer,  
Chief Executive, Administration Division

## **II. Outlook for FY2020/3**

**Shoichi Shiratori,** President

# **Overview of Results for the First Half of FY2020/3**

# Highlights of Results for the First Half of FY2020/3 (Consolidated)

## Key Point

Both Net sales and Net income increased year on year.

(million yen)

	First half of FY2019/3		First half of FY2020/3		Change (YoY)	Rate of change (YoY)
Net sales	25,258	100%	30,176	100%	4,917	19.5%
Operating income	1,435	5.7%	2,649	8.8%	1,214	84.6%
Ordinary income	1,657	6.6%	2,646	8.8%	989	59.6%
Profit attributable to owners of parent	1,107	4.4%	1,828	6.1%	721	65.1%
Capital investment	594		741		147	24.7%
Depreciation	558		579		21	3.8%
Net income per share	52.11 yen		87.22 yen		35.11yen	67.4%
ROE	4.1%	Annualized	6.8%	Annualized		
Interim dividends per share	20.0 yen		22.0 yen			

# Sales Trends by Product (Consolidated)

## Overview

1. Sales of generators increased by 4,505 million yen (22.9%).
2. Sales of welders rose by 16 million yen (0.7%).
3. Sales of compressors decreased by 46 million yen (8.3%).

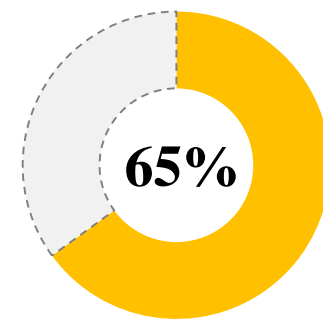
(million yen)

		First half of FY2019/3		First half of FY2020/3		Change (YoY)	Rate of change (YoY)
Net sales		25,258	100%	30,176	100%	4,917	19.5%
By product	Generators	19,661	77.8%	24,167	80.1%	4,505	22.9%
	Welders	2,417	9.6%	2,434	8.1%	16	0.7%
	Compressors	558	2.2%	512	1.7%	△ 46	△ 8.3%
	Others	2,620	10.4%	3,061	10.1%	441	16.8%

# Engine Generators (Consolidated)

	First half of FY2019/3	First half of FY2020/3	Rate of change (YoY)
Generators	19,661 million yen	24,167 million yen	22.9%

- In Japan, shipment to the rental industry remain robust and shipment of the generators for handling the blackout increased.
- Overseas, shipment to America increased.



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



Simul generator



Stand-by generating sets

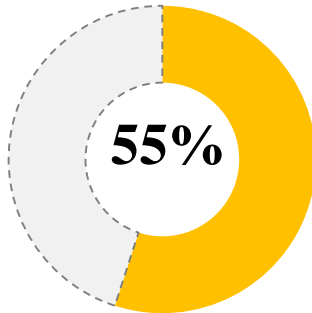
## Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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)

	First half of FY2019/3	First half of FY2020/3	Rate of change (YoY)
Welders	2,417 <sup>million yen</sup>	2,434 <sup>million yen</sup>	0.7%

- In Japan, the shipment of the small-type welder remain robust.
- Overseas, the shipment to the Middle and near East 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.**

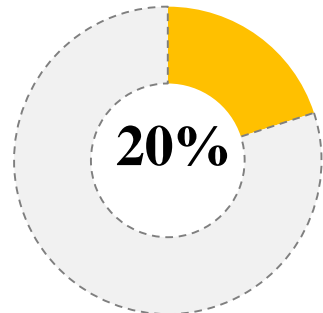
**Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.**

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

# Engine Compressors (Consolidated)


	First half of FY2019/3	First half of FY2020/3	Rate of change (YoY)
Compressors	558 million yen	512 million yen	△ 8.3%

- The shipment to the domestic market decreased.
- Overseas, the shipment to America 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 1.7 m<sup>3</sup>/min to 45.3 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)

	First half of FY2019/3	First half of FY2020/3	Rate of change (YoY)
Others	2,620 <sup>million yen</sup>	3,061 <sup>million yen</sup>	16.8%

- Sales of self-propelled lifters and the purchased merchandise etc. increased.

## Sales of other products

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



Self-propelled lifter

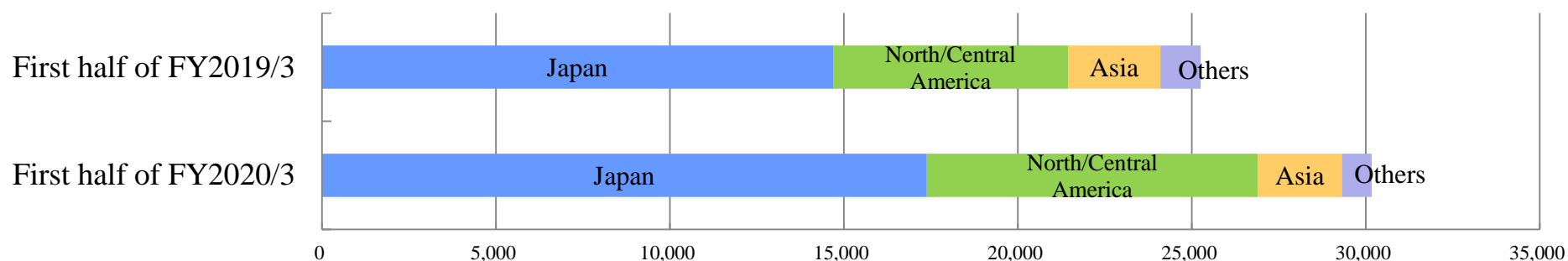


Load testing equipment

# Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2019/3		First half of FY2020/3		Change (YoY)	Rate of change (YoY)
Net sales		25,258	100%	30,176	100%	4,917	19.5%
Domestic sales		14,689	58.2%	17,386	57.6%	2,696	18.4%
Overseas sales		10,569	41.8%	12,789	42.4%	2,220	21.0%
By region	North/Central America	6,758	26.8%	9,509	31.5%	2,751	40.7%
	Asia	2,649	10.5%	2,423	8.0%	△ 226	△ 8.5%
	Others	1,161	4.6%	856	2.8%	△ 305	△ 26.3%



# Factor Analysis of Changes in Operating Income

## Increase in Operating Income

The operating income increased because of an increase of the net sales and the improvement of the operating income margin.

(million yen)

	First half of FY2019/3	First half of FY2020/3	Change (YoY)
Operating income	1,435	2,649	1,214
Operating income margin (%)	5.7%	8.8%	3.1 percentage points

	First half of FY2019/3	First half of FY2020/3	Change (YoY)
Gross profit margin	22.8%	*23.2%	*0.4 percentage points
Ratio of SG&A to sales	17.1%	*14.4%	*△ 2.7 percentage points
Ratio of operating income to sales	5.7%	8.8%	3.1 percentage points

\* As a result of reviewing the scope of the cost accounting in some overseas subsidiaries, the classification of some expenses has been reorganized from SG & A expenses to the cost of sales.

- **Gross profit margin is affected by the impact of reviewing the scope of cost accounting in some overseas subsidiaries (Δ0.6%), and improved by an increase of the sales of the profitable machines.**
- **Ratio of SG&A to sales is improved by the impact of reviewing the scope of cost accounting in some overseas subsidiaries (Δ0.6%), and also decreased because of the rate of the fixed cost decline which is caused by an increase of the net sales.**

# Consolidated Balance Sheets

## Overview

1. A 853 million yen increase in current assets was mainly due to an increase in cash and deposits, etc.
2. A 528 million yen decrease in current liabilities was mainly due to a decrease in accounts payables, etc.

(million yen)

	At the end of FY2019/3	First half of FY2020/3	Change from the end of FY2019/3
Current assets	49,849	50,702	853
Non-current assets	24,236	23,728	△ 508
Total assets	74,085	74,430	344
Current liabilities	14,624	14,096	△ 528
Long-term liabilities	3,170	3,238	67
Total liabilities	17,794	17,334	△ 460
Total net assets	56,290	57,096	805
Total liabilities and net assets	74,085	74,430	344

# Changes in Consolidated Cash Flows

## Overview

1. A 3,842 million yen cash flow from operating activities was mainly due to a decrease in trade receivables, etc.
2. Balance of cash and cash equivalents increased 2,581 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2019/3	First half of FY2020/3
I Cash flow from operating activities	3,346	3,842
II Cash flow from investing activities	480	△ 446
<b>I + II Free cash flows</b>	<b>3,826</b>	<b>3,396</b>
III Cash flow from financing activities	△ 376	△ 758
IV Foreign currency translation adjustments on cash and cash equivalents	△ 149	△ 55
V Net increase or decrease in cash and cash equivalents	3,301	2,581
VI Cash and cash equivalents, end of quarterly period	17,013	18,752

# **Outlook for FY2020/3**

# Outlook for FY2020/3: Consolidated Income and Loss

## Key points

1. Net sales are expected to be 59.5 billion yen.
2. Assumed exchange rate is 110 yen/dollar.

(million yen)

	FY2019/3		FY2020/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	55,554	100%	59,500	100%	3,946	7.1%
Operating income	4,201	7.6%	5,200	8.7%	999	23.8%
Ordinary income	4,592	8.3%	5,400	9.1%	808	17.6%
Profit attributable to owners of parent	3,166	5.7%	3,600	6.1%	434	13.7%
Capital investment	1,499		1,900		401	26.8%
Depreciation	1,132		1,300		168	14.8%
Net income per share	149.8yen		171.7yen		21.9 yen	
ROE	5.9%		*6.6%			
Cash dividends per share	42.0yen		44.0yen			

\* Equity is calculated by using the amount of money at the end of FY2019/3.

# Outlook for Sales by Product (Consolidated)

## Overview

1. Sales of generators are expected to increase by 4,040 million yen (9.3%).
2. Sales of welders are anticipated to decrease by 115million yen (2.2%).
3. Sales of compressors are anticipated to decline by 59 million yen (5.6%).

(million yen)

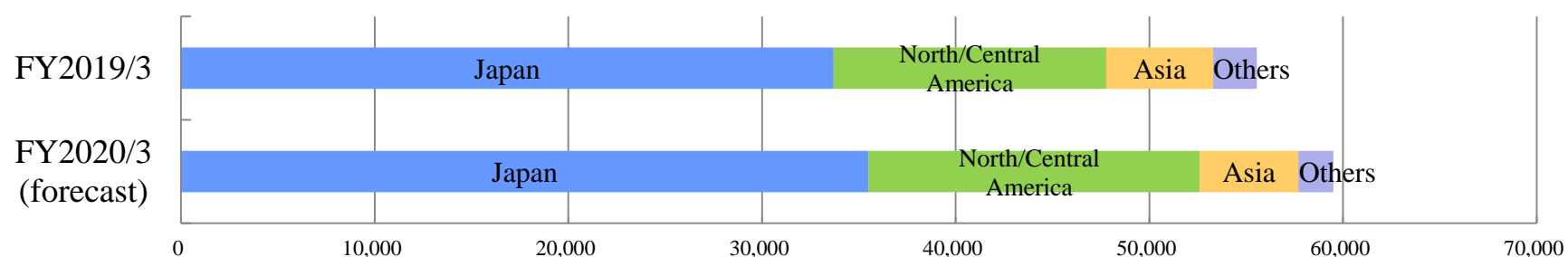
		FY2019/3		FY2020/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		55,554	100%	59,500	100%	3,946	7.1%
By product	Generators	43,660	78.6%	47,700	80.2%	4,040	9.3%
	Welders	5,115	9.2%	5,000	8.4%	△ 115	△ 2.2%
	Compressors	1,059	1.9%	1,000	1.7%	△ 59	△ 5.6%
	Others	5,719	10.3%	5,800	9.7%	81	1.4%



# Outlook for Sales by Region (Consolidated)

(million yen)

		FY2019/3		FY2020/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		55,554	100%	59,500	100%	3,946	7.1%
Domestic sales		33,693	60.6%	35,500	59.7%	1,807	5.4%
Overseas sales		21,860	39.3%	24,000	40.3%	2,140	9.8%
By region	North/ Central America	14,080	25.3%	17,100	28.7%	3,020	21.4%
	Asia	5,527	9.9%	5,100	8.6%	△ 427	△ 7.7%
	Others	2,252	4.1%	1,800	3.0%	△ 452	△ 20.0%



# Details of the Operating Income Forecast

## Increase in operating income

With the implement of the medium-term management plan, operating income is aimed to increase.

(million yen)

	FY2019/3	FY2020/3 (forecast)	Change (YoY)
Operating income	4,201	5,200	999
Operating income margin	7.6%	8.7%	1.1 percentage point

	FY2019/3	FY2020/3 (forecast)	Change (YoY)
Gross profit margin	22.3%	22.9%	0.6 percentage point
Ratio of SG&A to sales	14.8%	14.1%	△0.7 percentage point
Ratio of operating income to sales	7.6%	8.7%	1.1 percentage point

- The gross profit margin is aimed to be improved by enhancement of the sales in the profitable product and the cost reduction activities.
- The ratio of SG&A to sales are expected to be improved because of the rate of the fixed cost such as personnel expenses decline which is caused by an increase of the net sales.

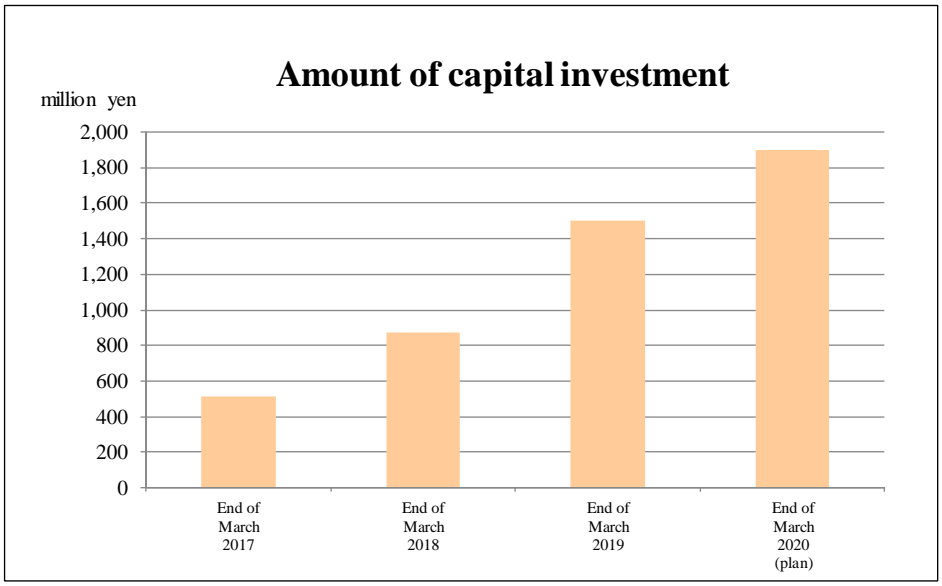
# Changes in the Amount of Capital Investment

(million yen)

	End of March 2017	End of March 2018	End of March 2019	End of March 2020 (plan)
<b>Cost of equipment</b>	<b>511</b>	<b>870</b>	<b>1,499</b>	<b>1,900</b>
<b>Main uses</b>	<ul style="list-style-type: none"> <li>•Machinery of Fukui plant, etc. 100</li> <li>•Nishihatsu 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. 310</li> <li>•Nishihatsu 50</li> <li>•U.S. Plant 450</li> <li>•Vietnam Plant 20</li> <li>•Others 40</li> </ul>	<ul style="list-style-type: none"> <li>•Machinery of Fukui plant, etc. 730</li> <li>•Nishihatsu 50</li> <li>•U.S. Plant 670</li> <li>•Others 40</li> </ul>	<ul style="list-style-type: none"> <li>•Machinery of Fukui plant, etc. 1,500</li> <li>•Nishihatsu 40</li> <li>•U.S. Plant 260</li> <li>•Vietnam Plant 40</li> <li>•Others 60</li> </ul>



Denyo Manufacturing Corporation (U.S.A.)

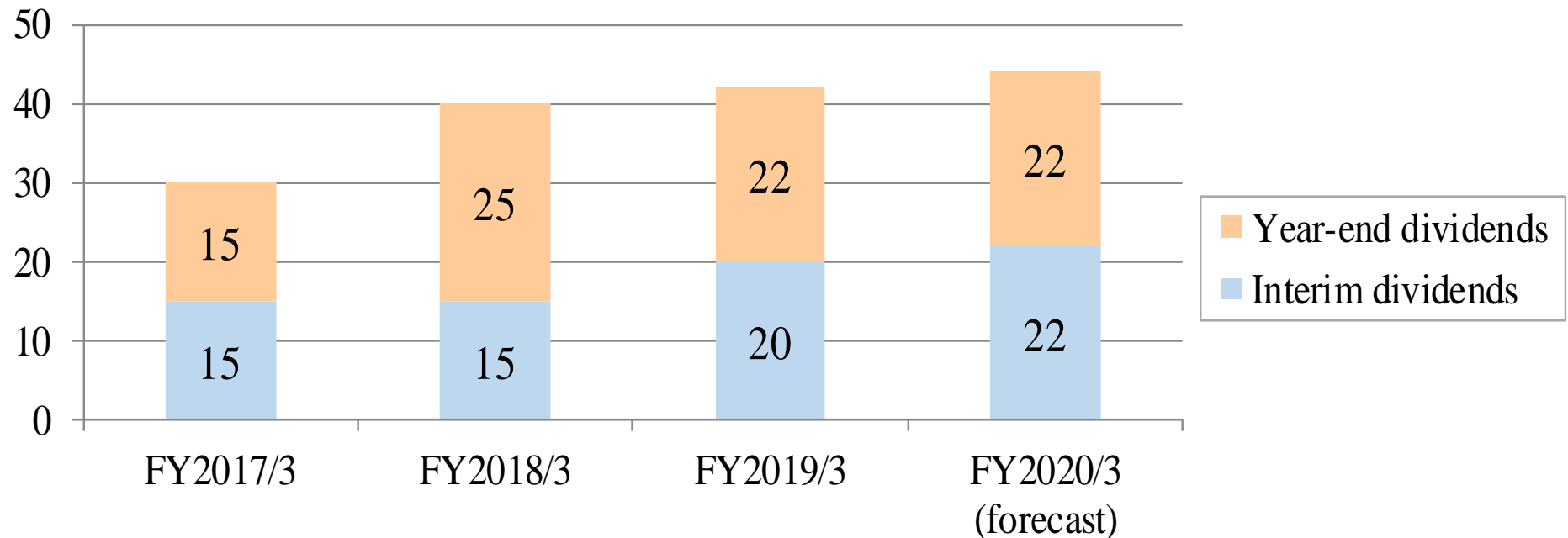


# Profit Distribution Policy

**Profit distribution:** Denyo recognizes the importance of making further efforts to return profits to shareholders, while aiming to strengthen the company's financial structure and profitability, and we will implement an interim and term-end dividend payouts of distribution of results comprehensively calculated by achievement and payout ratio.

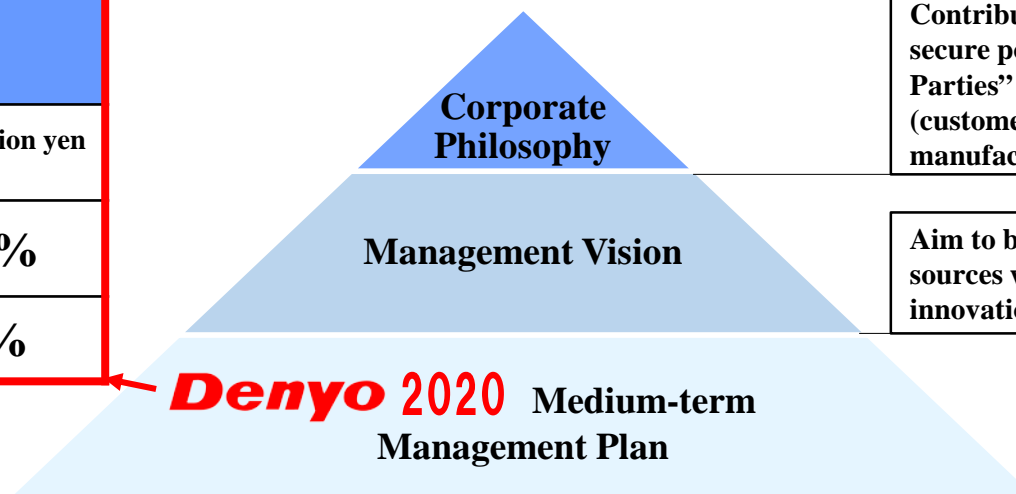
## Changes in cash dividends:

**40 yen in FY2018/3 ⇒ 42 yen in FY2019/3 ⇒ 44 yen (forecast) in FY2020/3**



# Overview of the Medium-term Management Plan

FY2021/3 Business Objectives	
Consolidated Net sales	<b>58.0</b> billion yen
Ordinary income margin	<b>11.0%</b>
ROE	<b>7.0%</b>



Contribute to enriching society by providing safe, secure power sources based on “Benefits for Three Parties” (which expresses our aim to see the user (customer), the seller (dealership), and the manufacturer (Denyo) prosper together).

Aim to be the global No1 brand of high-quality power sources with creativity and constant technological innovations.

## Basic Policy

Establish a profit structure that is resistant to changes in the environment, by increasing the ratios of non construction-related products as well as products for overseas markets, while firmly maintaining our position as the leading provider of high-quality power sources in the construction-related sector.

## Strategies in the Domestic Market

### Construction-related sector

- ◇ Maintain market share by reliably promoting a review of the sales structure and development of new products based on customer needs.

### Non construction-related sector

- ◇ Aim to increase market share by reviewing the Group’s sales system through closer cooperation with Nishihatsu Co., Ltd. and enhancing sales activities based on comprehensive proposals.

## Strategies in Overseas Markets

### Overseas sector

- ◇ Be proactive in Asia, including the rental market which is expected to expand in the future. Step up activities for strengthening sales and service capabilities in regions including Asia and elsewhere (such as Europe and the Middle and Near East, etc.). Strengthen cooperation with local distributor in the America.
- ◇ Confirm the specifications demanded in each target market and establish a system for producing and selling stationary generators in Asia and the Middle and Near East.
- ◇ For welding machines, enhance the lineup of products that each target market demands and focus efforts on developing highly maintainable products.

## Reinforcing the Operating Foundations

### Development

- ◇ Identify market needs accurately and develop competitive products promptly. Step up measures for stationary generators in Japan and other countries.

### Production

- ◇ Further promote production in optimal locations to supply high-quality products, reduce cost, and ensure quicker delivery.

### Human Resource Development

- ◇ Further enhance the training system with a special emphasis on developing globally competitive human resources.

# Notes on Our Outlook

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This material contains assumptions and outlooks for the future and forecasts based on plans as November 14, 2019.

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. (FY2019/3 on a consolidated basis) (million yen)

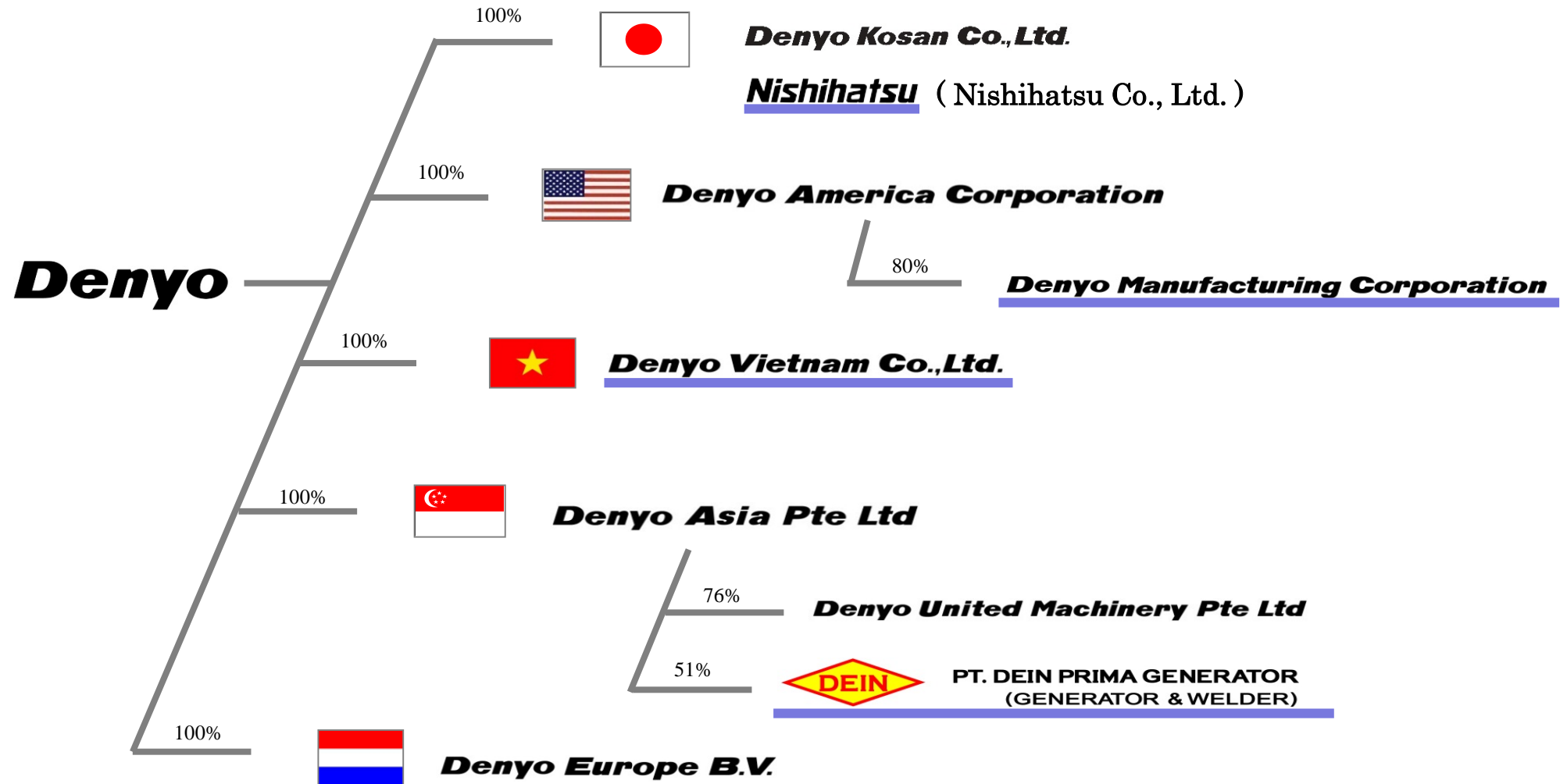
Net sales	55,554
Overseas sales	21,860
Ordinary income	4,592
Profit attributable to owners of parent	3,166
Total assets	74,085
Net assets	56,290
Market capitalization (as of March 31)	31,295
Number of employees	1,350persons



Head Office (Nihonbashi-Horidomecho, Tokyo)

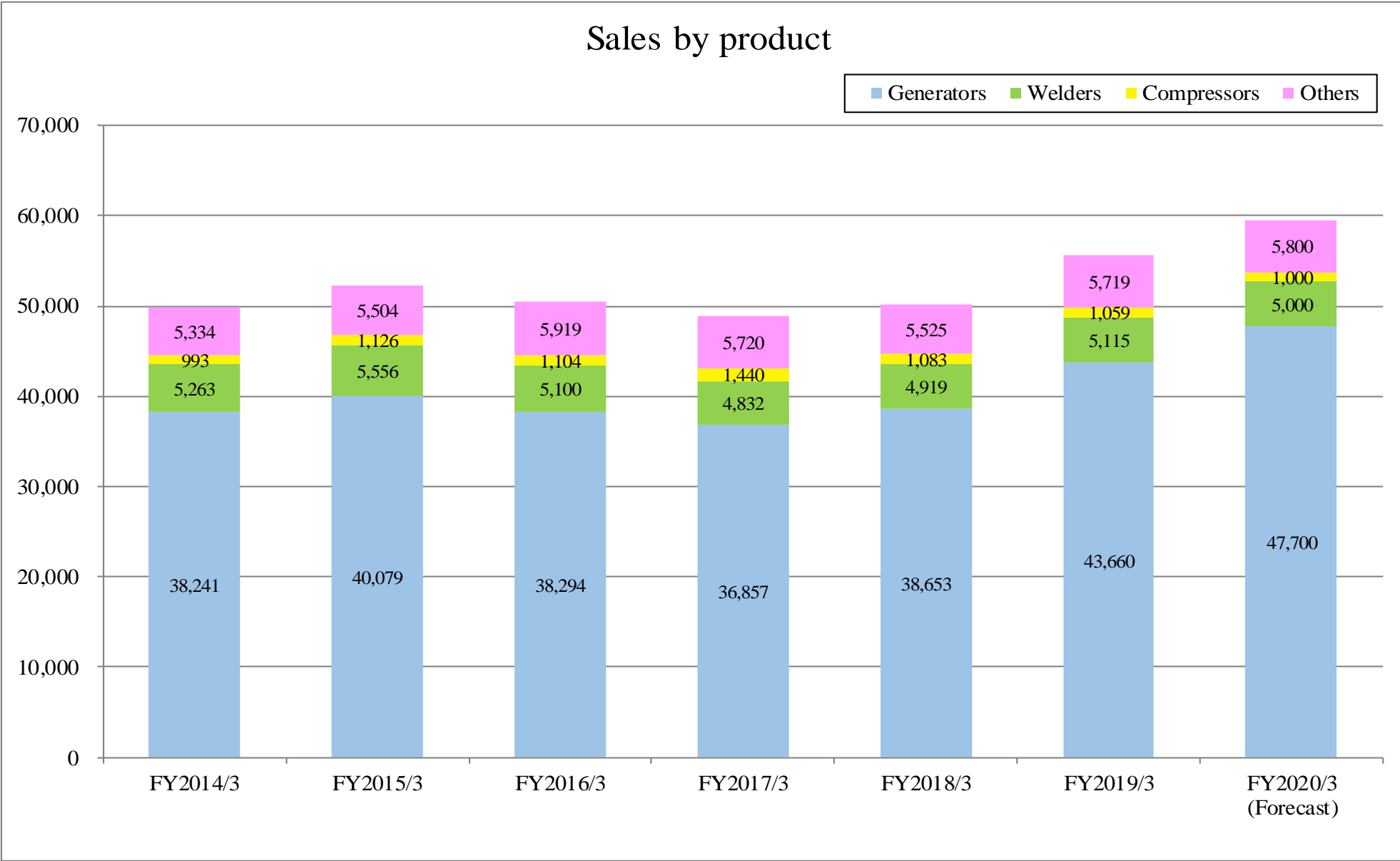


# The Group Companies

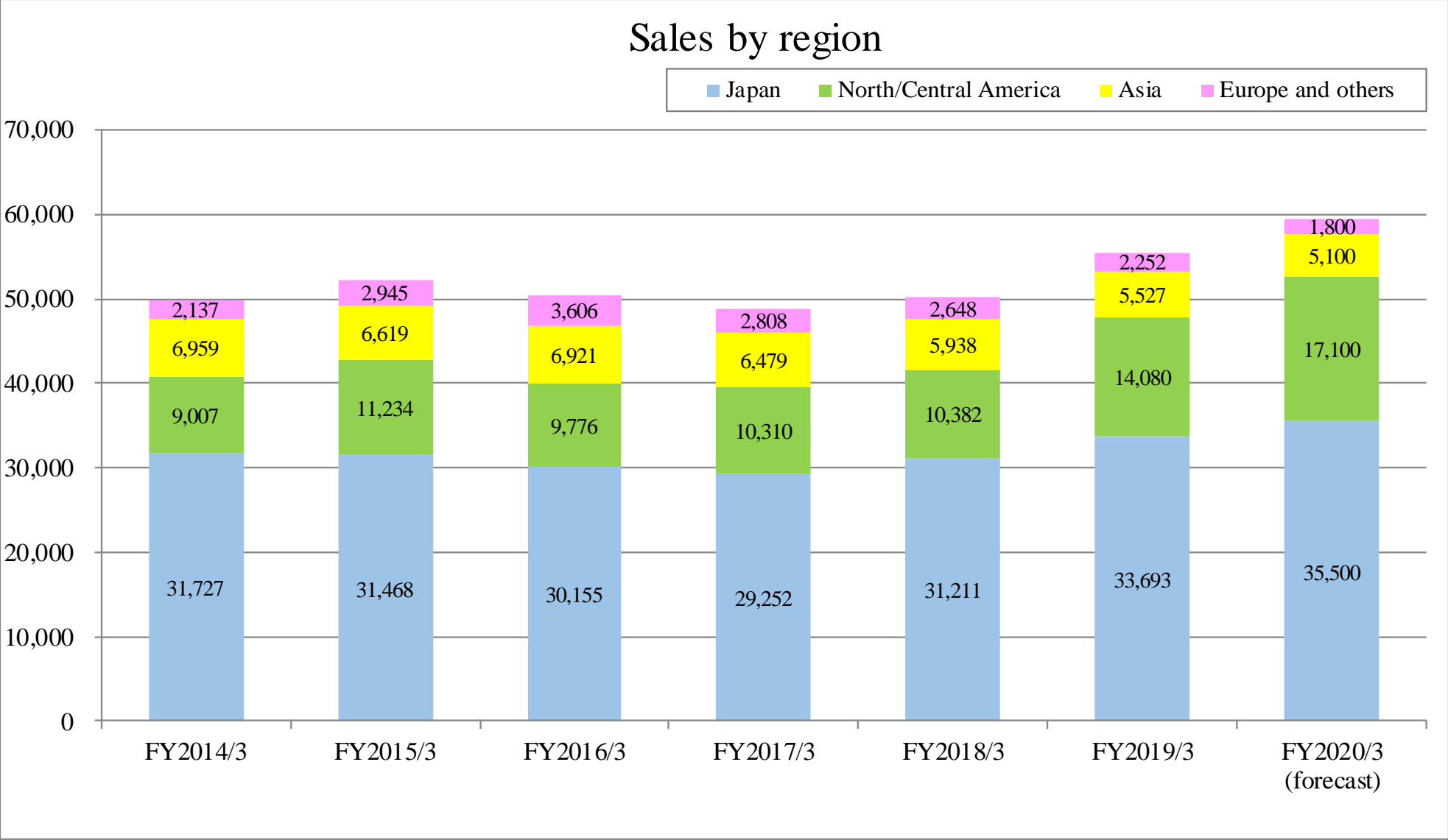


\*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).  
 \*2. Underlined companies are manufacturers.

# Trends and Forecasts by Product Sales



# Changes in Sales by Region and Forecasts



# Changes in Results for the Last 30 Years

