

Briefing on Results for the First Half of the Fiscal Year ending March 31, 2023



Photo: Fukui Plant (Japan)

November 10, 2022

Denyo Co., Ltd.

I. Overview of Results for the First Half of FY2023/3

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Chief Executive, Administration Division

II. Outlook for FY2023/3

Shoichi Shiratori, President

Overview of Results for the First Half of FY2023/3

Highlights of Results for the First Half of FY2023/3 (Consolidated)

Key Point

Net sales increased year on year, incomes decreased year on year.

(million yen)

	First half of FY2022/3		First half of FY2023/3		Change (YoY)	Rate of change (YoY)
Net sales	24,836	100%	28,271	100%	3,434	13.8%
Operating income	1,615	6.5%	1,083	3.8%	△ 531	△ 32.9%
Ordinary income	1,689	6.8%	1,157	4.1%	△ 532	△ 31.5%
Profit attributable to owners of parent	1,173	4.7%	800	2.8%	△ 372	△ 31.8%
Capital investment	219		967		748	△ 341.6%
Depreciation	674		606		△ 68	△ 10.1%
Net income per share	56.25 yen		38.64 yen		△ 17.61 yen	△ 31.3%
ROE	4.0%	Annualized	2.6%	Annualized		
Interim dividends per share	22.0 yen		23.0 yen			

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators increased by 3,986 million yen (20.7%).
2. Sales of welders decreased by 361 million yen (14.4%).
3. Sales of compressors increased by 1 million yen (0.5%).

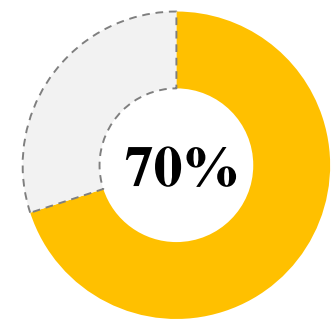
(million yen)

		First half of FY2022/3		First half of FY2023/3		Change (YoY)	Rate of change (YoY)
Net sales		24,836	100%	28,271	100%	3,434	13.8%
By product	Generators	19,297	77.7%	23,284	82.4%	3,986	20.7%
	Welders	2,499	10.1%	2,138	7.6%	△ 361	△ 14.4%
	Compressors	383	1.5%	385	1.4%	1	0.5%
	Others	2,654	10.7%	2,461	8.7%	△ 192	△ 7.3%

Engine Generators (Consolidated)

	First half of FY2022/3	First half of FY2023/3	Rate of change (YoY)
Generators	19,297 ^{million yen}	23,284 ^{million yen}	20.7%

- In Japan, shipment to the rental industry remain robust.
- Overseas, shipment to America and Asia increased strongly.



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



Soundless generator "Mālie"



Generator with operational data recording function

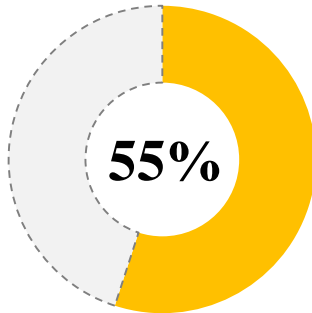
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 FY2022/3	First half of FY2023/3	Rate of change (YoY)
Welders	2,499 ^{million yen}	2,138 ^{million yen}	△ 14.4%

- Shipment to Japan and overseas market decreased due to the shortage of parts.



Domestic market share of engine welders

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



CO₂ welder

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

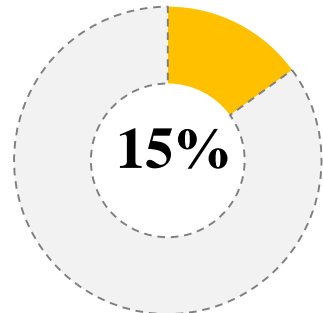
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO₂ welder, etc.

- 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 FY2022/3	First half of FY2023/3	Rate of change (YoY)
Compressors	383 million yen	385 million yen	0.5%

- Shipment to America increased slightly.




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 m³/min to 45.3 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 FY2022/3	First half of FY2023/3	Rate of change (YoY)
Others	2,654 ^{million yen}	2,461 ^{million yen}	△ 7.3%

- OEM products and load testing equipment decreased.

Sales of other products

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



Self-propelled lifter

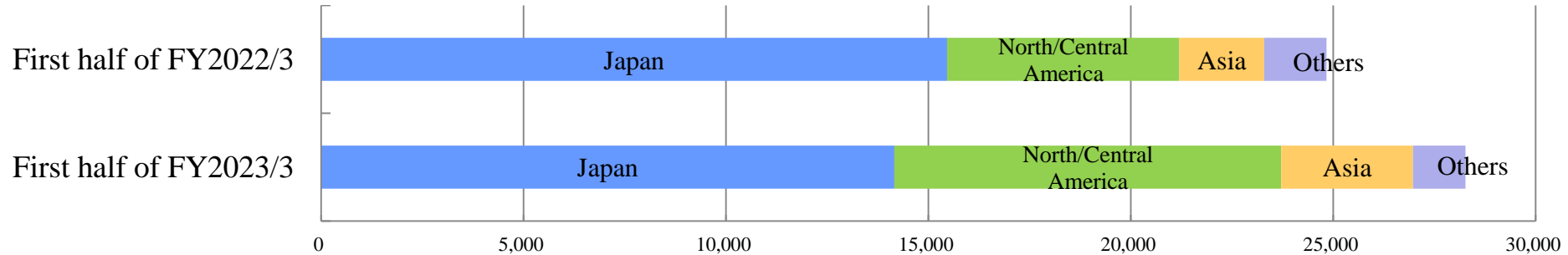


Load testing
equipment

Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2022/3		First half of FY2023/3		Change (YoY)	Rate of change (YoY)
Net sales		24,836	100%	28,271	100%	3,434	13.8%
Domestic sales		15,465	62.3%	14,164	50.1%	△ 1,300	△ 8.4%
Overseas sales		9,371	37.7%	14,106	49.9%	4,735	50.5%
By region	America	5,736	23.1%	9,551	33.8%	3,815	66.5%
	Asia	2,095	8.4%	3,258	11.5%	1,162	55.5%
	Others	1,539	6.2%	1,296	4.6%	△ 242	△ 15.8%



Factor Analysis of Changes in Operating Income

Decrease in Operating Income

The operating income decreased mainly due to higher cost of sales ratio.

(million yen)

	First half of FY2022/3	First half of FY2023/3	Change (YoY)
Operating income	1,615	1,083	△ 531
Operating income margin (%)	6.5%	3.8%	△ 2.7 percentage points

	First half of FY2022/3	First half of FY2023/3	Change (YoY)
Gross profit margin	22.4%	19.2%	△ 3.2 percentage points
Ratio of SG&A to sales	15.9%	15.3%	△ 0.6 percentage points
Ratio of operating income to sales	6.5%	3.8%	△ 2.7 percentage points

- Gross profit margin declined due to rising raw material costs prior to the price pass-through for products.
- The ratio of SG&A to sales was improved due to the increase in sales, despite increased logistics costs and expenses associated with the recovery of sales activities.

Consolidated Balance Sheets

Overview

1. The 2,891 million yen increase in current assets was mainly due to increases in work-in-progress, raw materials and supplies, etc.
2. The 1,349 million yen increase in current liabilities was mainly due to increases in accounts payable and short-term loans payable, etc.

(million yen)

	At the end of FY2022/3	First half of FY2023/3	Change from the end of FY2022/3
Current assets	56,872	59,763	2,891
Non-current assets	23,902	25,285	1,383
Total assets	80,774	85,049	4,274
Current liabilities	14,269	15,619	1,349
Long-term liabilities	2,744	2,959	215
Total liabilities	17,013	18,579	1,565
Total net assets	63,760	66,470	2,709
Total liabilities and net assets	80,774	85,049	4,274

Changes in Consolidated Cash Flows

Overview

1. The 2,536 million yen cash flow from operating activities was mainly due to the recording of quarterly net income before taxes and the decrease in trade receivables, etc.
2. Balance of cash and cash equivalents increased by 1,190 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2022/3	First half of FY2023/3
I Cash flow from operating activities	2,633	2,536
II Cash flow from investing activities	△ 307	△ 1,030
I + II Free cash flows	2,326	1,506
III Cash flow from financing activities	△ 905	△ 399
IV Foreign currency translation adjustments on cash and cash equivalents	279	83
V Net increase or decrease in cash and cash equivalents	1,699	1,190
VI Cash and cash equivalents, end of quarterly period	24,613	24,548

Outlook for FY2023/3

Outlook for FY2023/3: Consolidated Income and Loss

Key points

1. Net sales are expected to be 60.0 billion yen.
2. Assumed exchange rate changed from 110yen/dollar to 130 yen/dollar.

(million yen)

	FY2022/3		FY2023/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	55,168	100%	60,000	100%	4,832	8.8%
Operating income	3,653	6.6%	3,400	5.7%	△ 253	△ 6.9%
Ordinary income	4,029	7.3%	3,500	5.8%	△ 529	△ 13.1%
Profit attributable to owners of parent	2,753	5.0%	2,400	4.0%	△ 353	△ 12.8%
Capital investment	839		3,700		2,861	341.0%
Depreciation	1,361		1,300		△ 61	△ 4.5%
Net income per share	132.0yen		115.8yen		△ 16.2yen	
ROE	4.6%		3.9%			
Cash dividends per share	47.0yen		48.0yen			

* Equity is calculated by using the amount of money at the end of FY2022/3.

Outlook for Sales by Product (Consolidated)

Overview

1. In Japan, demand is expected to remain robust, but our supply constrains for some products and the impact of postponement of construction due to soaring construction material prices are expected.
2. Overseas, sales to America and Asia are expected to recover.

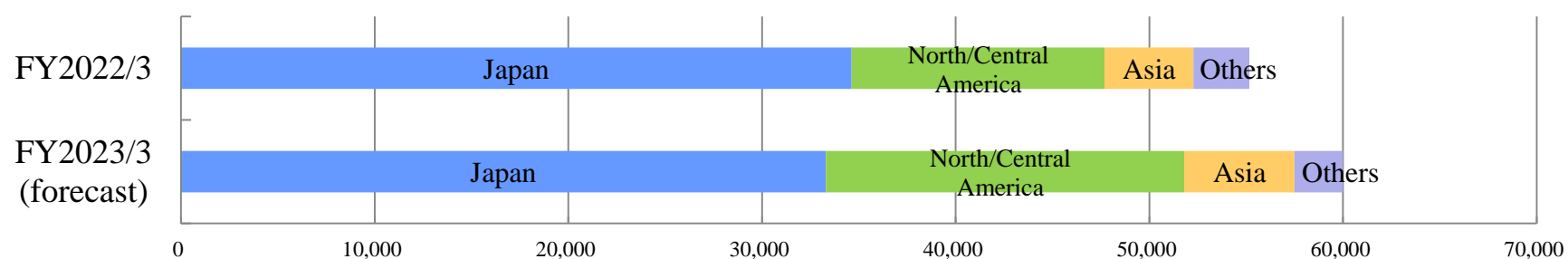
(million yen)

		FY2022/3		FY2023/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		55,168	100%	60,000	100%	4,832	8.8%
By product	Generators	43,754	79.3%	49,600	82.7%	5,846	13.4%
	Welders	4,829	8.8%	4,100	6.8%	△ 729	△ 15.1%
	Compressors	727	1.3%	800	1.3%	73	10.0%
	Others	5,856	10.6%	5,500	9.2%	△ 356	△ 6.1%

Outlook for Sales by Region (Consolidated)

(million yen)

		FY2022/3		FY2023/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		55,168	100%	60,000	100%	4,832	8.8%
Domestic sales		34,632	62.8%	33,400	55.7%	△ 1,232	△ 3.6%
Overseas sales		20,536	37.2%	26,600	44.3%	6,064	29.5%
By region	America	13,052	23.7%	18,300	30.5%	5,248	40.2%
	Asia	4,596	8.3%	5,800	9.7%	1,204	26.2%
	Others	2,886	5.2%	2,500	4.2%	△ 386	△ 13.4%



Details of the Operating Income Forecast

Decrease in operating income

Profits are expected to decrease due to factors such as rising raw material costs.

(million yen)

	FY2022/3	FY2023/3 (forecast)	Change (YoY)
Operating income	3,653	3,400	△ 253
Operating income margin	6.6%	5.7%	△ 0.9 _{percentage point}

	FY2022/3	FY2023/3 (forecast)	Change (YoY)
Gross profit margin	21.2%	20.3%	△ 0.9 _{percentage point}
Ratio of SG&A to sales	14.6%	14.6%	0 _{percentage point}
Ratio of operating income to sales	6.6%	5.7%	△ 0.9 _{percentage point}

- The gross profit margin is expected to decline due to a slight delay in passing on the increase in raw material costs to selling prices.
- The ratio of SG&A to sales is expected to be on par with the previous fiscal year.

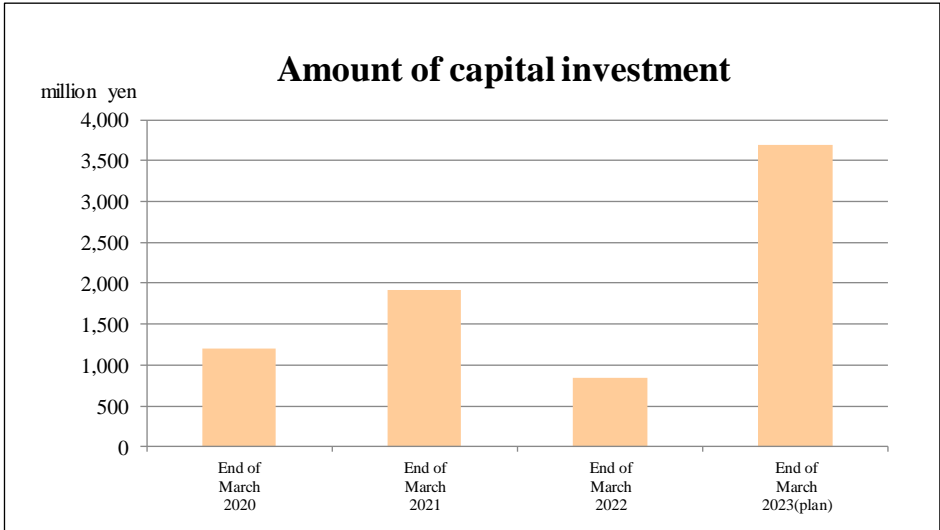
Changes in the Amount of Capital Investment

(million yen)

	End of March 2020	End of March 2021	End of March 2022	End of March 2023 (plan)
Cost of equipment	1,201	1,918	839	3,700
Main uses	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 810 ▪ Nishihatsu 20 ▪ U.S. Plant 290 ▪ Vietnam Plant 10 ▪ Others 70 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 1,450 ▪ Nishihatsu 110 ▪ U.S. Plant 30 ▪ Vietnam Plant 20 ▪ Others 300 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 290 ▪ Nishihatsu 50 ▪ U.S. Plant 20 ▪ Vietnam Plant 20 ▪ Others 460 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 540 ▪ Nishihatsu 1,400 ▪ U.S. Plant 160 ▪ Vietnam Plant 100 ▪ Others (repair base, etc.) 1,500



Large repair base under construction(Sakura City, Chiba Prefecture)

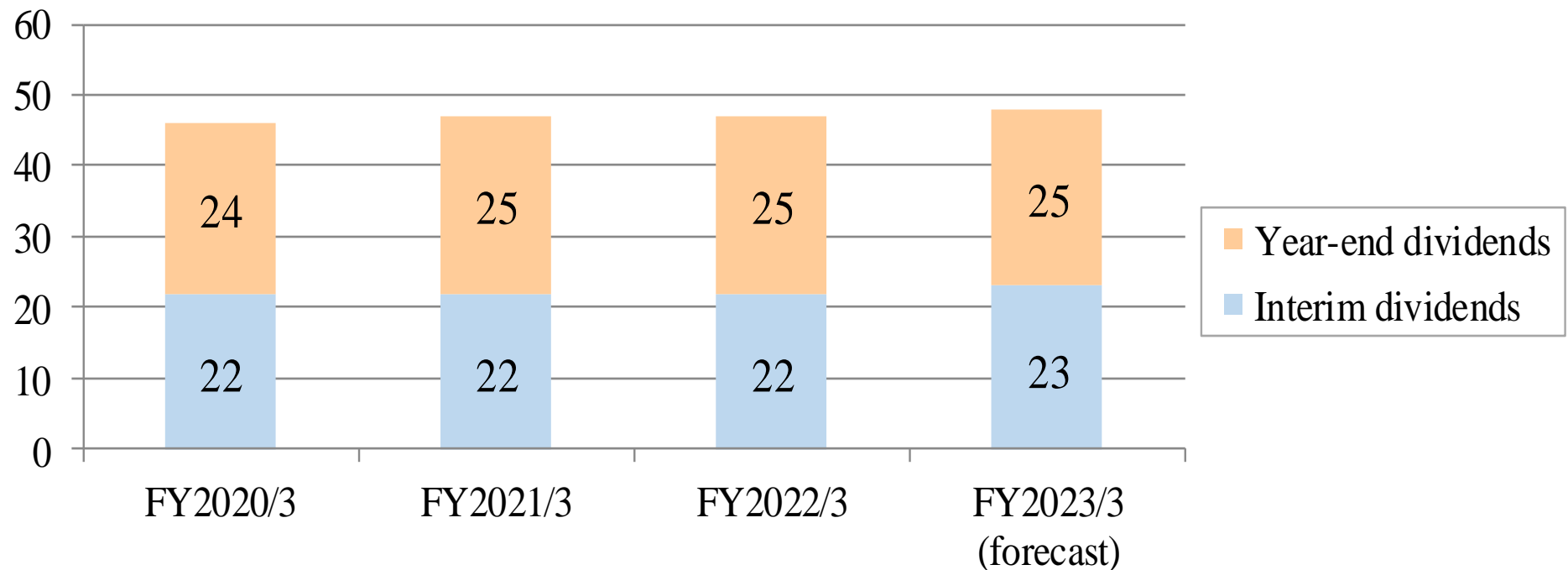


Profit Distribution Policy

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:

47 yen in FY2021/3 ⇒ 47 yen in FY2022/3 ⇒ 48 yen (forecast) in FY2023/3



Future Business Strategy (Overview of the Second Medium-term Management Plan)

Denyo 2023 ~Powering up for the future~

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.

Business Objectives/FY2023

Consolidated Net Sales

billion yen
61 +a

Ordinary Income

billion yen
6.2

ROE

6.5% or more

Our SDGs (ESG) Commitment

E : Help protect the environment

- Development and provision of products with the highest environmental performance.
- Reduction and recycling of waste, and reduction of GHG emissions, etc.

S : Realize a sustainable society

- Contribution to the prosperity of society through the development of infrastructure and disaster management and disaster mitigation products.
- Provision of safe and secure products, etc.

G : The Long-term enhancement of corporate value

- Compliance with laws and regulations, social norms, ethics, internal regulations and other relevant rules.
- Promotion of fair business activities, etc.

Strategies in the Domestic Market

【Construction-related sector】

Aim to maintain and increase share of the domestic market focusing on top brand products such as engine-driven generators and welders

- ① Strive to increase market share and expand market by launching new products which meet customer needs
- ② Aim for more efficient, more sophisticated sales activities

【Non-construction-related sector】

Focus on laying the foundations for further expanding sales of stand-by generating sets

- ① Enhance training structure to improve specialist knowledge
- ② Strengthen cooperation among group companies
- ③ Enhance product maintenance structure

Strategies in the Overseas Market

【Overseas Sector】

Aim to increase presence in targeted high quality market

- ① Aim to develop new markets by seeking to enhance product lineup through market research and enhancement of functions and other features
- ② Seek to increase sales capabilities by strengthening sales network in each country and enhancing training structure
- ③ Strengthen marketing capabilities and increase contact with customers
- ④ Continue to develop markets through the release of a series of stationary generators

Reinforcing the Operating Foundation

【Development】

Develop market-leading products as the pioneer of high-quality power sources

- ① Identify market needs accurately and seek to speed up development
- ② Step up action for the development of innovative products

【Production】

Build a globally competitive production system

- ① Establish a flexible and highly efficient production structure by strengthening production site capabilities and promoting the use of IT
- ② Seek to develop more sophisticated production sites in Japan

【Organization】

Create a structure which enables the career advancement of diverse human resources

- ① Aim to achieve both job satisfaction and ease of working through further enhancement of the training structure and a review of personnel systems
- ② Pursue computerization in every process

Efforts toward carbon neutrality

Denyo regards global environmental problems as a key management issue, and engages proactively in environmental initiatives. We consider initiatives aimed at creating a hydrogen-based society (such as through the use of hydrogen fuel cells) to be one effective means of reducing CO2 emissions and preventing atmospheric pollution, with the aim of preventing global warming.



Fuel-cell Portable Generator

- Selected by Japan's Ministry of the Environment as a "Low Carbon Technology Research and Development Program"
- Developed a new power conditioner especially for fuel cells, and installed it in the generators
- Demonstration operation will start in June 2021

Intended use

- Civil engineering and construction sites
- Houses without power after a disasters
- Location where TV reporters are reporting, and event sites, etc.



Hydrogen-light oil mixed combustion Generator

- Operates with a light oil/hydrogen mixing ratio of 50%
- 50% reduction in CO2 emissions compared to using only light oil as fuel
- Aiming for mass production of 250kW hydrogen-light oil mixed combustion generator in 2023

Intended use

- Private consumption using byproduct hydrogen
- Back-up power source in a power outage, etc.

Efforts toward carbon neutrality



Dedicated Hydrogen Generator

- Uses only hydrogen as fuel and does not emit CO2
- Starting with the development of the 45kVA class , which is the volume zone
- Aiming for market launch after 2025

Intended use

- Civil engineering, construction sites , harbor construction
- TV broadcasting, various events, leisure, etc.



Mobile Battery LED floodlights

- Quiet and no CO2 emissions
- Uses a detachable cartridge-type lithium-ion battery
- Long operation possible

Intended use

- Night construction, events, etc.

Notes on Our Outlook

This material contains assumptions and outlooks for the future and forecasts based on plans as November 10, 2022.

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.

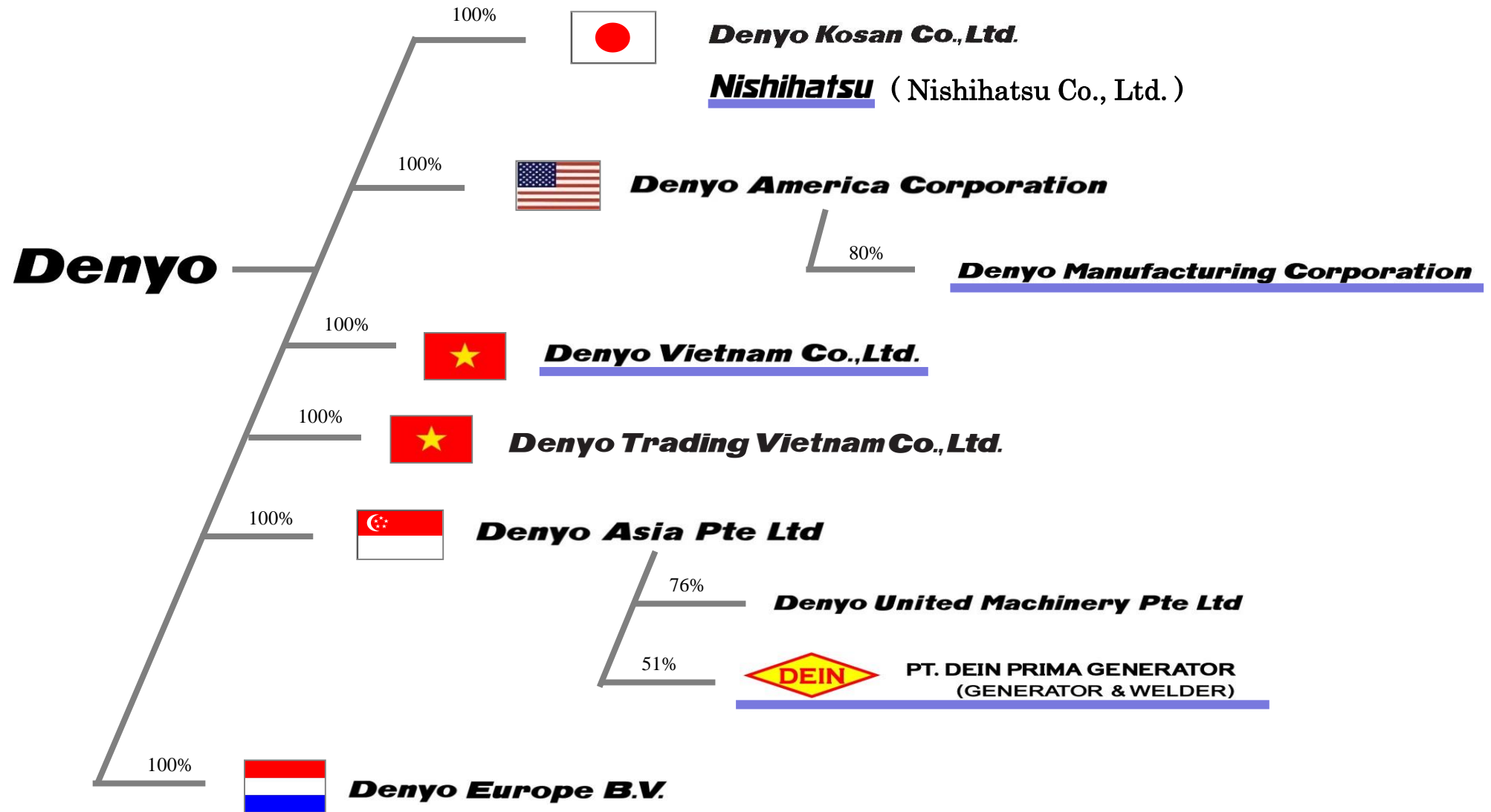
● Company size, etc. (FY2022/3 on a consolidated basis) (million yen)

Net sales	55,168
Overseas sales	20,536
Ordinary income	4,029
Profit attributable to owners of parent	2,753
Total assets	80,774
Net assets	63,760
Market capitalization (as of March 31)	37,398
Number of employees	1,359persons



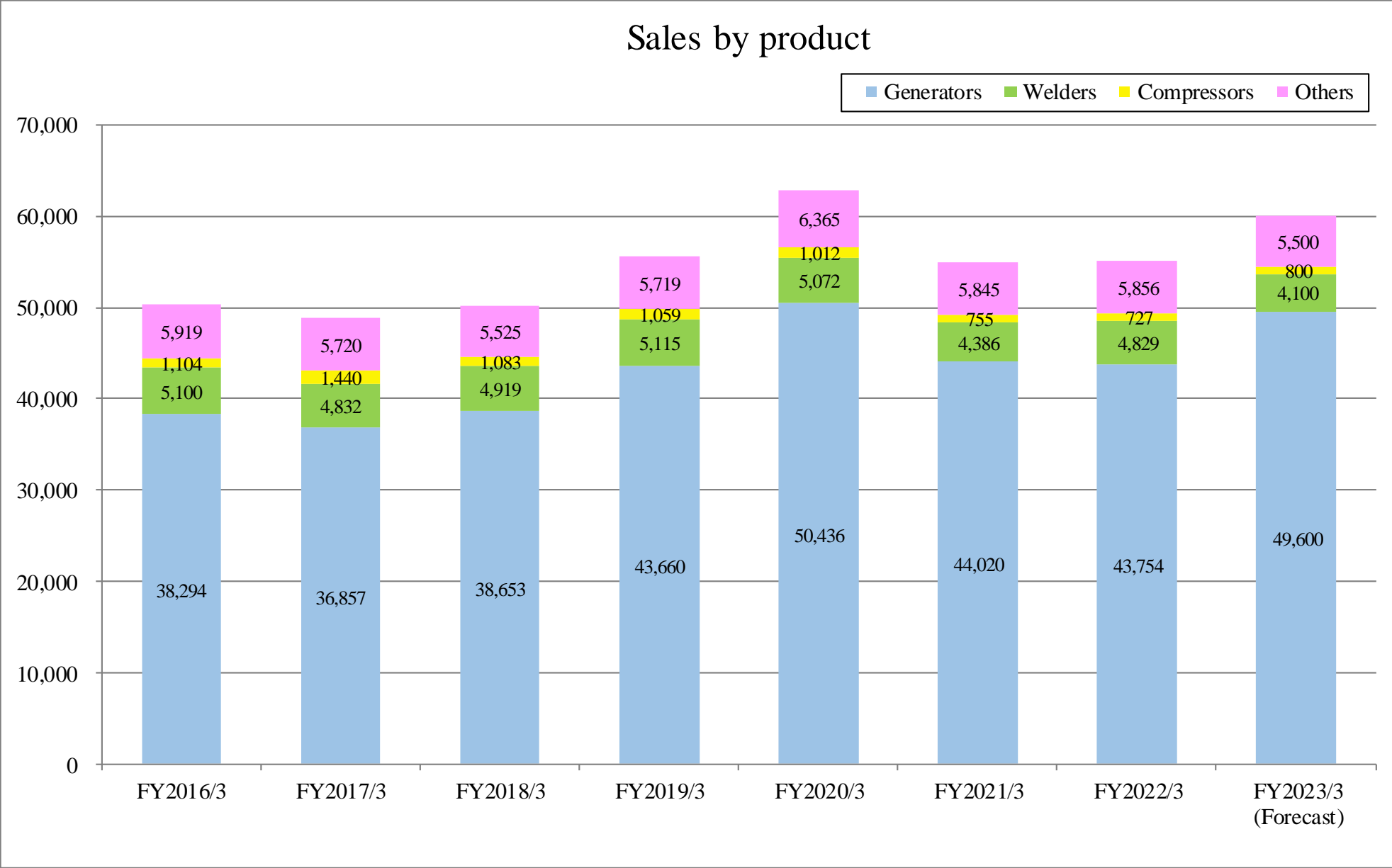
Head Office (Nihonbashi-Horidomecho, Tokyo)

The Group Companies

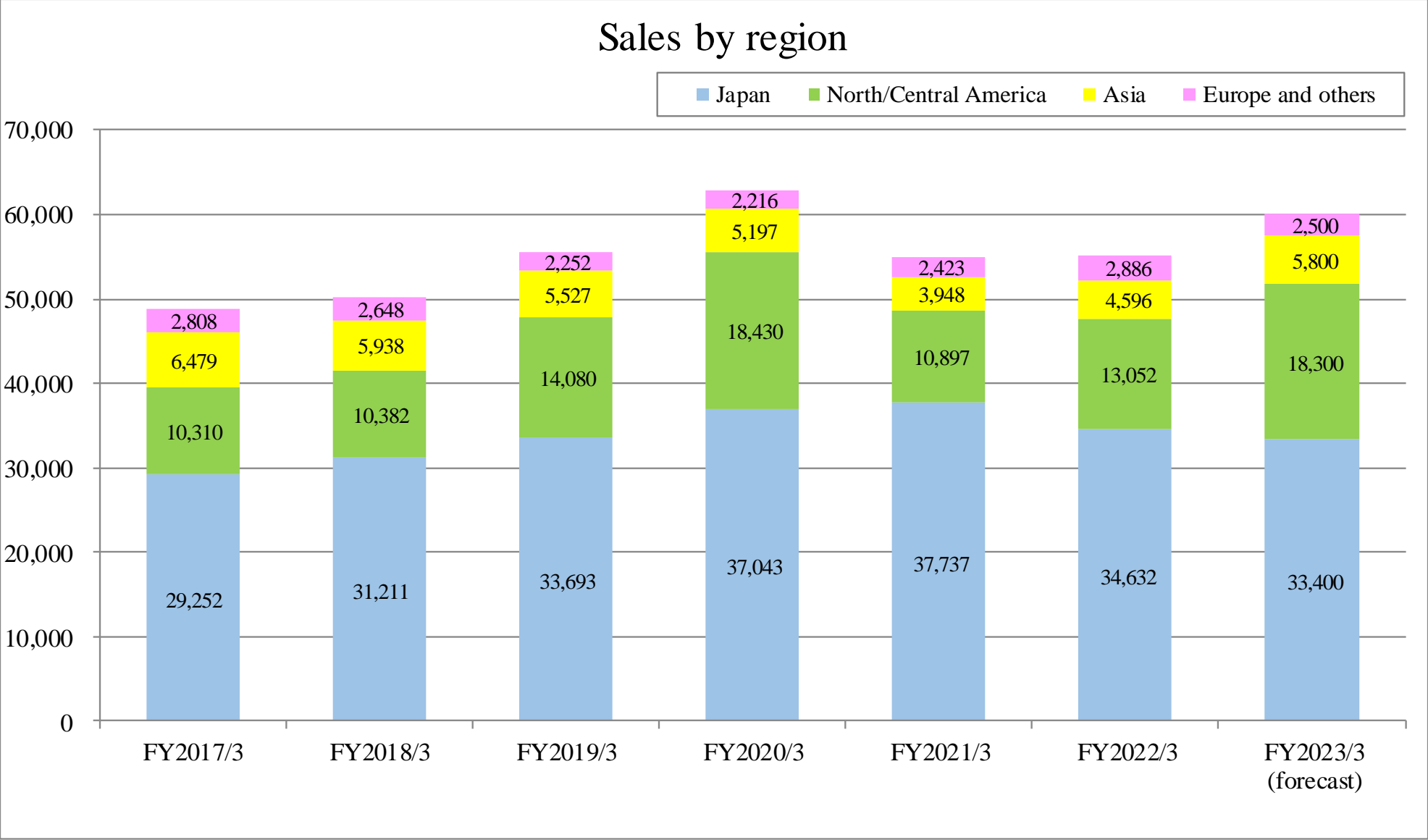


*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).
 *2. Underlined companies are manufacturers.

Trends and Forecasts by Product Sales



Changes in Sales by Region and Forecasts



Changes in Results for the Last 30 Years

