

Briefing on Results for the First Half of the Fiscal Year ending March 31, 2016



Photo: Denyo United Machinery Pte Ltd (Singapore)

November 19, 2015

Denyo Co., Ltd.

I. Overview of Results for the First Half of FY2016/3

Shoichi Shiratori, Director and Managing Executive Officer
Administration Division

II. Outlook for FY2016/3 and Future Management Policy

Shigeru Koga, President

Overview of Results for the First Half of FY2016/3

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

Key Point

Net sales, etc. decreased year on year, while Net income increased year on year.

(million yen)

	First half of FY2015/3		First half of FY2016/3		Rate of change (YoY)
Net sales	24,281	100%	23,560	100%	△3.0%
Operating income	1,951	8.0%	1,743	7.4%	△10.7%
Ordinary income	2,123	8.7%	1,895	8.0%	△10.7%
Net income	1,398	5.8%	1,414	6.0%	1.2%
Capital investment	858		818		
Depreciation	480		598		
Net income per share	65.00 yen		66.21 yen		
ROE	6.4%	Annualized	6.0%	Annualized	
Interim dividends per share	12.0 yen		14.0 yen		

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators decreased 611 million yen ($\Delta 3.4\%$).
2. Sales of welders decline 269 million yen ($\Delta 9.0\%$).
3. Sales of compressors were up 24 million yen (4.7%).

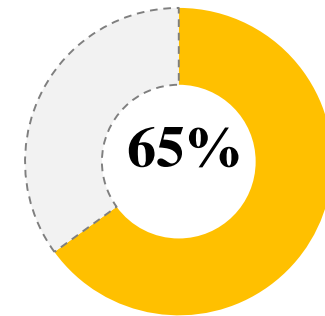
(million yen)

		First half of FY2015/3		First half of FY2016/3		Change (YoY)	Rate of change (YoY)
Net sales		24,281	100%	23,560	100%	$\Delta 721$	$\Delta 3.0\%$
By product	Generators	18,206	75.0%	17,595	74.7%	$\Delta 611$	$\Delta 3.4\%$
	Welders	3,000	12.4%	2,731	11.6%	$\Delta 269$	$\Delta 9.0\%$
	Compressors	515	2.1%	539	2.3%	24	4.7%
	Others	2,560	10.5%	2,693	11.4%	133	5.2%

Engine Generators (Consolidated)

	First half of FY2015/3	First half of FY2016/3	Rate of change (YoY)
Generators	18,206 million yen	17,595 million yen	△3.4%

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



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



Mobile-type generator



Stand-by generating sets

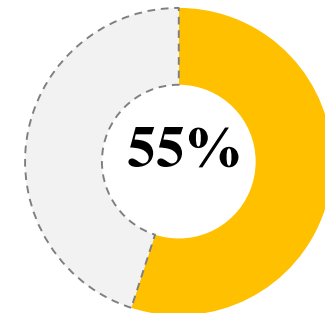
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 FY2015/3	First half of FY2016/3	Rate of change (YoY)
Welders	3,000 million yen	2,731 million yen	△9.0%

- In Japan, the shipment is essentially unchanged from the pervious year.
- Overseas, the shipment to the Europe 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.

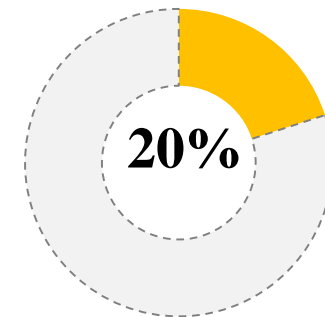
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.

- 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 FY2015/3	First half of FY2016/3	Rate of change (YoY)
Compressors	515 million yen	539 million yen	4.7%

- Shipments to the overseas market increased slightly.



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 FY2015/3	First half of FY2016/3	Rate of change (YoY)
Others	2,560 million yen	2,693 million yen	5.2%

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

Sales of other products

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



Self-propelled lifter

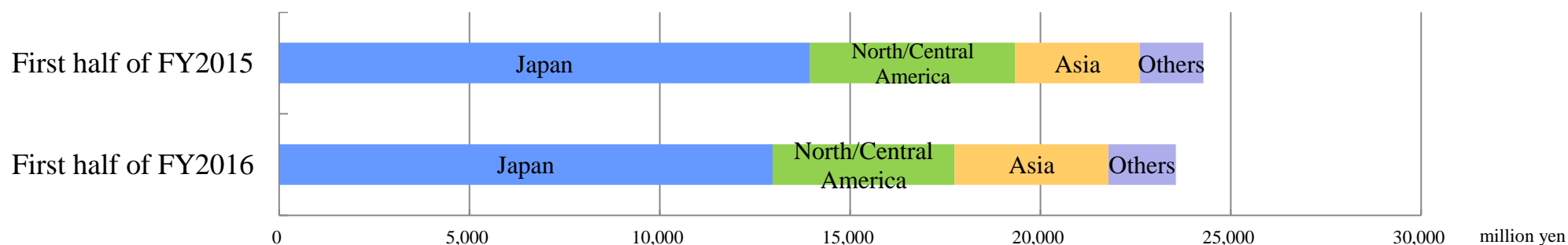


Load testing equipment

Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2015/3		First half of FY2016/3		Change (YoY)	Rate of change (YoY)
Net sales		24,281	100%	23,560	100%	△721	△3.0%
Domestic sales		13,951	57.5%	12,962	55.0%	△989	△7.1%
Overseas sales		10,330	42.5%	10,597	45.0%	267	2.6%
By region	North/Central America	5,388	22.2%	4,785	20.3%	△603	△11.2%
	Asia	3,270	13.5%	4,041	17.2%	771	23.6%
	Others	1,671	6.9%	1,771	7.5%	100	6.0%



Factor Analysis of Changes in Operating Income

Decrease in Operating Income

- It is affected by the increase of depreciation expense and personnel expense.

(million yen)

	First half of FY2015/3	First half of FY2016/3	Change (YoY)
Operating income	1,951	1,743	△208
Operating income margin	8.0%	7.4%	△0.6 percentage points

	First half of FY2015/3	First half of FY2016/3	Rate of change (YoY)
Gross profit margin	23.9%	24.5%	0.6 percentage points
Ratio of SG&A to sales	15.9%	17.1%	1.2 percentage points
Ratio of operating income to sales	8.0%	7.4%	△0.6 percentage points

- Gross profit margin is improved to an increase in the shipment of highly profitable products in U.S. and the contribution of a weaker yen.
- Ratio of SG&A to sales increased due to increase of the depreciation expense and personnel expense.

Consolidated Balance Sheets

Overview

1. A 2,259 million yen decrease in current assets was mainly due to an decrease in trade notes and accounts receivables.
2. A 3,179 million yen decrease in current liabilities was mainly due to declines in trade notes and accounts payables.

(million yen)

	First half of FY2015/3	At the end of FY2015/3	First half of FY2016/3	Change from the end of FY2015/3
Current assets	38,129	40,856	38,597	△2,259
Non-current assets	24,875	26,468	25,219	△1,249
Total assets	63,004	67,324	63,817	△3,507
Current liabilities	12,257	13,396	10,217	△3,179
Long-term liabilities	4,918	4,732	4,165	△567
Total liabilities	17,176	18,128	14,382	△3,746
Total net assets	45,828	49,195	49,434	239
Total liabilities and net assets	63,004	67,324	63,817	△3,507

Changes in Consolidated Cash Flows

Overview

1. A 1,506 million yen cash flow from operating activities was mainly due to a decrease in trade notes and accounts receivable.
2. Balance of cash and cash equivalents increased 368 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2015/3	First half of FY2016/3
I Cash flow from operating activities	2,347	1,506
II Cash flow from investing activities	△ 1,254	△ 510
I + II Free cash flows	1,093	996
III Cash flow from financing activities	△ 1,000	△ 652
IV Foreign currency adjustments on cash and cash equivalents	△ 75	25
V Net increase or decrease in cash and cash equivalents	16	368
VI Cash and cash equivalents, end of period	9,848	11,144

Outlook for FY2016/3 and Future Management Policy

Outlook for FY2016/3: Consolidated Income and Loss

Key points

1. Net sales are expected to be 55.0 billion yen.
2. Assumed exchange rate is 110 yen/dollar.

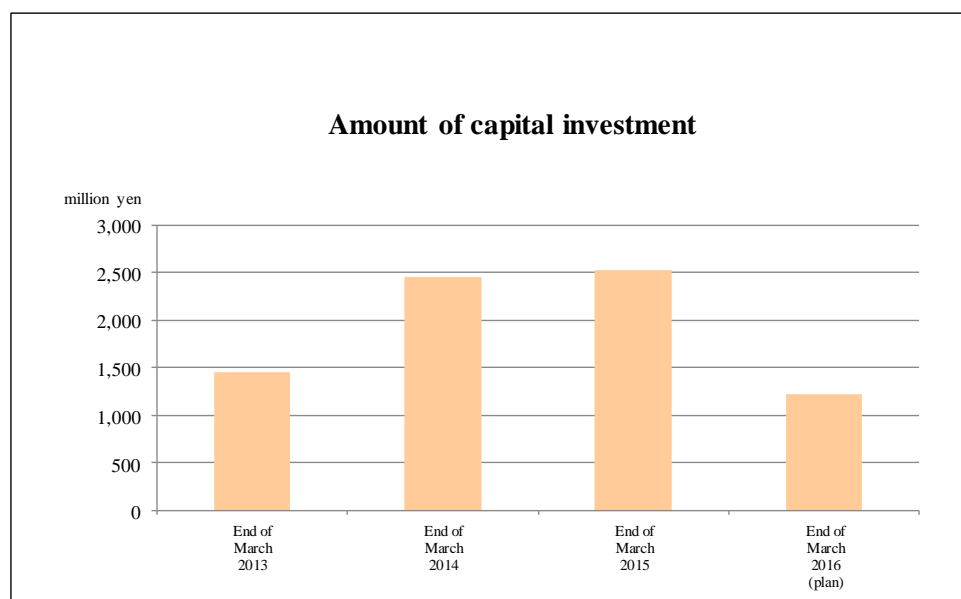
(million yen)

	FY2015/3		FY2016/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	52,267	100%	55,000	100%	2,733	5.2%
Operating income	5,348	10.2%	5,500	10.0%	152	2.8%
Ordinary income	5,757	11.0%	5,800	10.5%	43	0.7%
Net income	3,857	7.4%	3,600	6.5%	△257	△6.7%
Capital investment	2,531		1,200		△1,331	△52.6%
Depreciation	999		1,300		301	30.1%
Net income per share	179.4 ^{yen}		168.5 ^{yen}		△10.9 ^{yen}	
ROE	8.6%		7.3%			
Cash dividends per share (yen)	28.0 ^{yen}		28.0 ^{yen}			

Changes in the Amount of Capital Investment

(million yen)

	End of March 2013	End of March 2014	End of March 2015	End of March 2016 (plan)
Cost of equipment	1,457	2,453	2,531	1,200
Main uses	<ul style="list-style-type: none"> Laboratory & Training Center 814 Machinery of Fukui plant, etc. 150 U.S. Plant 237 Vietnam Plant 127 	<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. 450 Nishinohon Generator Mfg. 35 Singapore 255 Vietnam Plant 85 Others 375



Denyo Vietnam the 2nd factory

Outlook for Sales by Product (Consolidated)

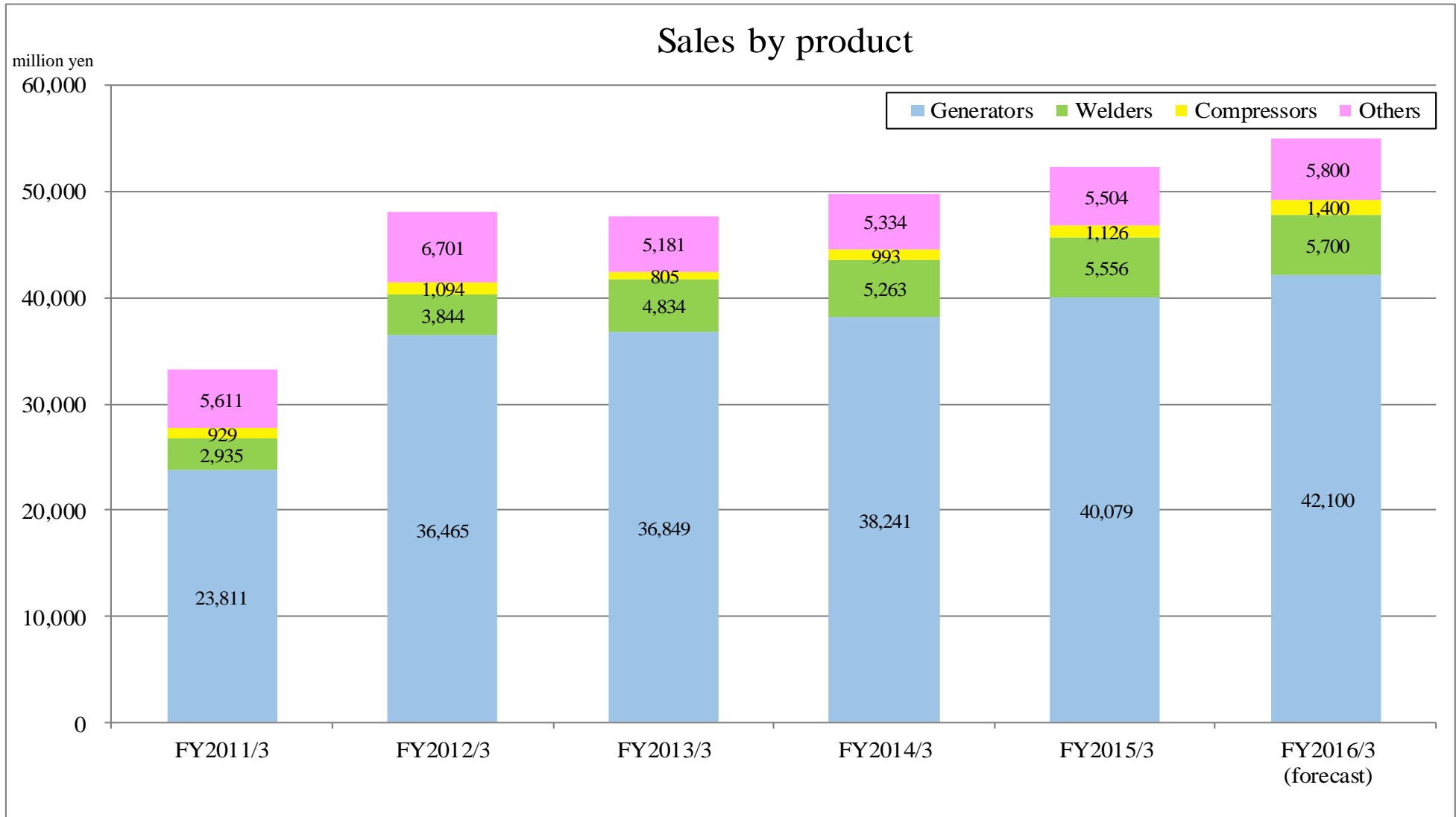
Overview

1. Sales of generators are expected to increase by 2,021 million yen (5.0 %).
2. Sales of welders are anticipated to rise by 144 million yen (2.6%).
3. Sales of compressors are forecasted to be up by 274 million yen (24.3%).

(million yen)

		FY2015/3		FY2016/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		52,267	100%	55,000	100%	2,733	5.2%
By product	Generators	40,079	76.7%	42,100	76.5%	2,021	5.0%
	Welders	5,556	10.6%	5,700	10.4%	144	2.6%
	Compressors	1,126	2.2%	1,400	2.5%	274	24.3%
	Others	5,504	10.5%	5,800	10.5%	296	5.4%

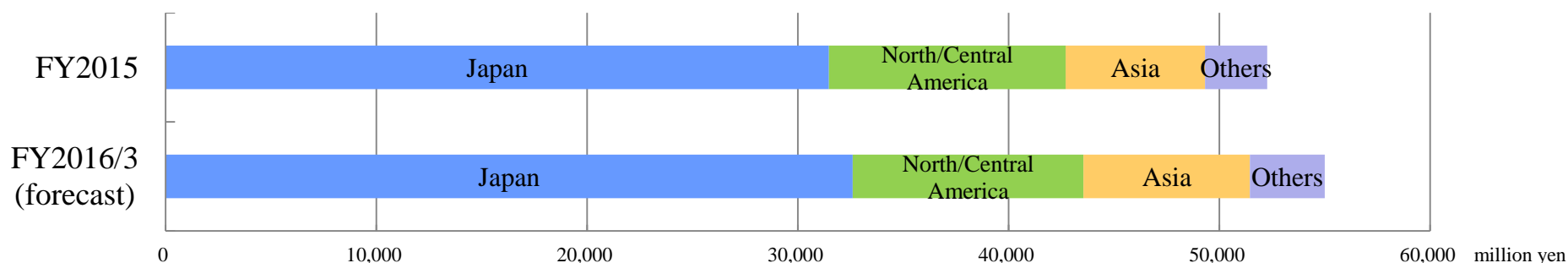
Trends and Forecasts by Product Sales



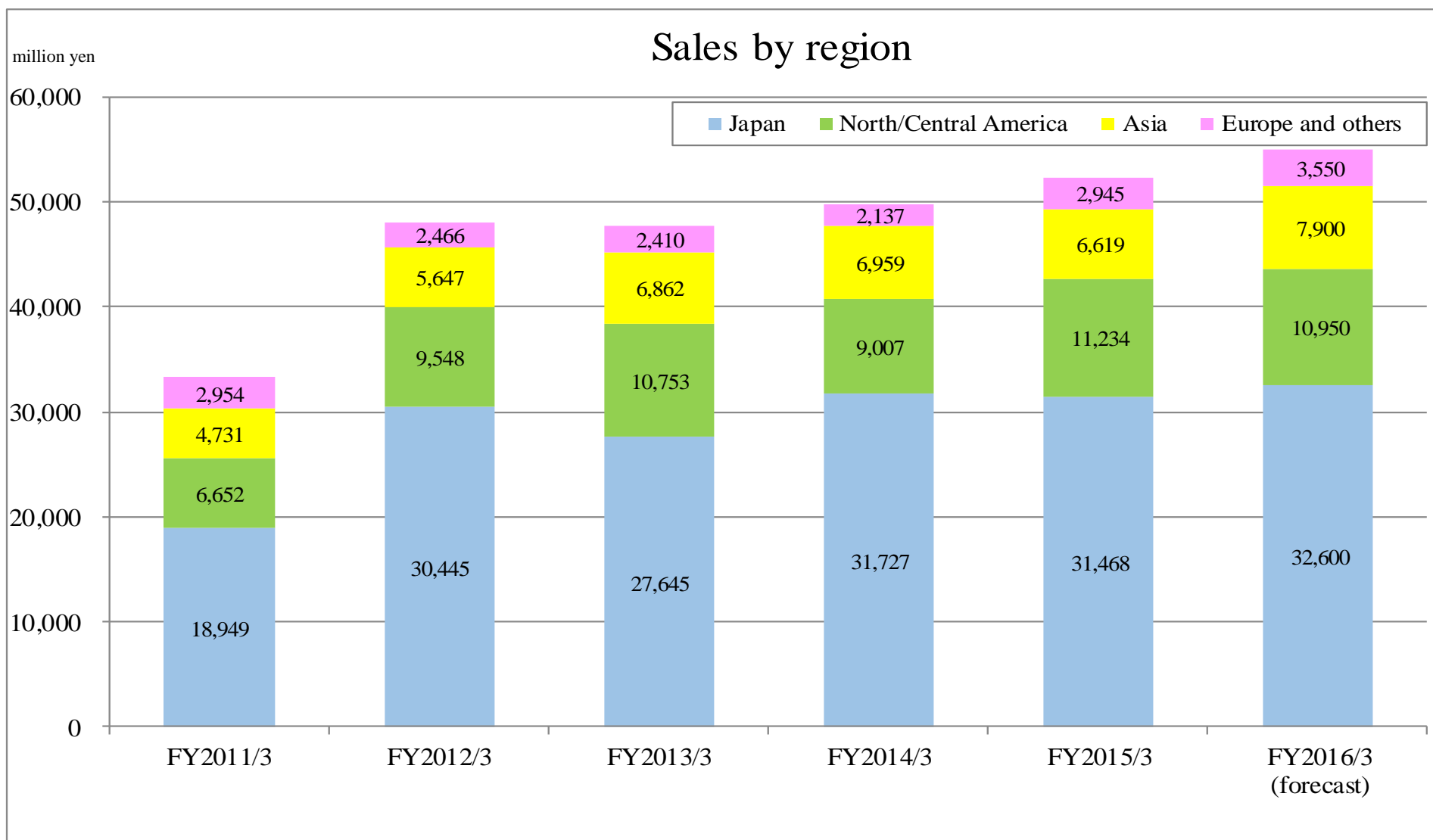
Outlook for Sales by Region (Consolidated)

(million yen)

		FY2015/3		FY2016/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		52,267	100%	55,000	100%	2,733	5.2%
Domestic sales		31,468	60.2%	32,600	59.3%	1,132	3.6%
Overseas sales		20,799	39.8%	22,400	40.7%	1,601	7.7%
By region	North/ Central America	11,234	21.5%	10,950	19.9%	△284	△2.5%
	Asia	6,619	12.7%	7,900	14.4%	1,281	19.4%
	Others	2,945	5.6%	3,550	6.5%	605	20.5%



Changes in Sales by Region and Forecasts



Details of the Operating Income Forecast

Increase in operating income

The operating income margin slightly decreased from the previous fiscal year and the operating income is expected to increase by 152 million yen.

(million yen)

	FY2015/3	FY2016/3 (forecast)	Change (YoY)
Operating income	5,348	5,500	152
Operating income margin	10.2%	10.0%	Δ0.2percentage points

	FY2015/3	FY2016/3 (forecast)	Change (YoY)
Gross profit margin	25.1%	25.5%	0.4percentage point
Ratio of SG&A to sales	14.9%	15.5%	0.6percentage point
Ratio of operating income to sales	10.2%	10.0%	Δ0.2percentage point

- The gross profit margin are expected to improve due to an increase in the shipment of highly profitable products in Japan and U.S.
- The ratio of SG&A to sales are expected to rise due to increase of depreciation expenses and personnel expenses ,etc. year on year.

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:

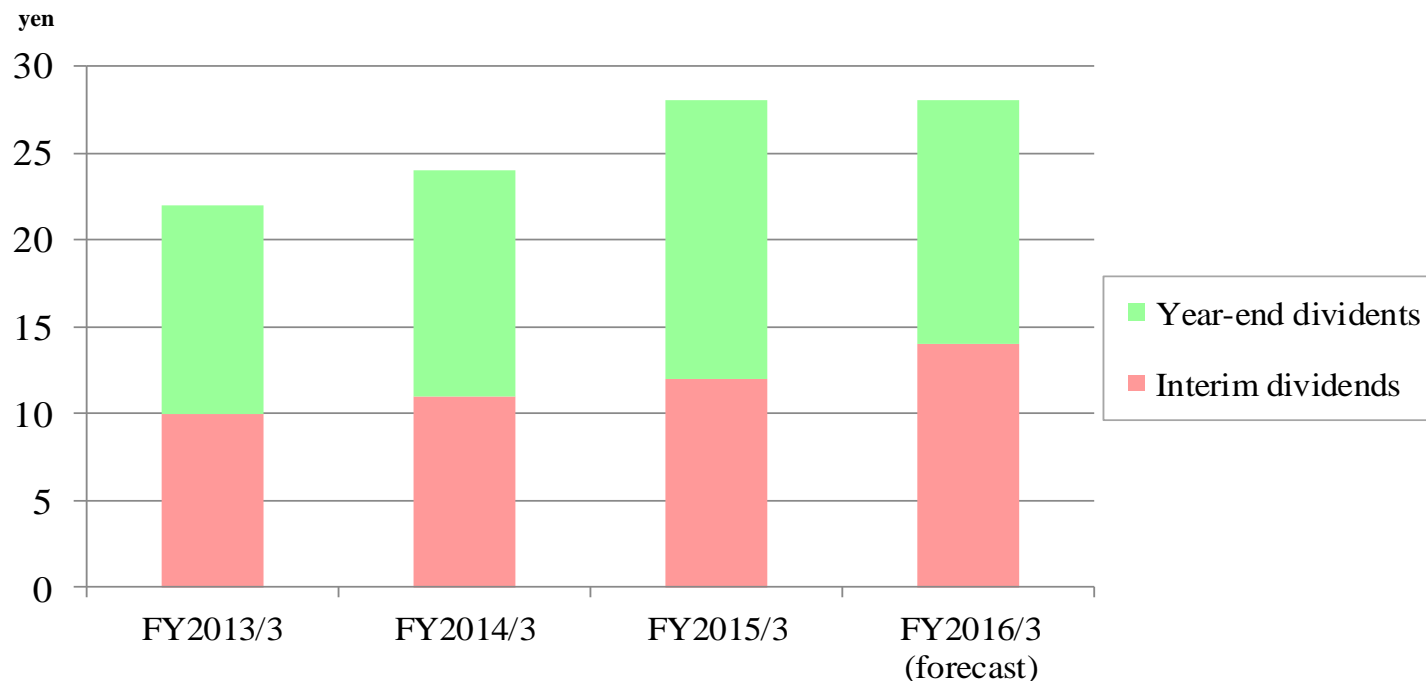
- (1) ROE: 8% or more **(8.6% in FY2015/3)**
- (2) Ratio of ordinary income to sales: 12% or more **(11.0% in FY2015/3)**

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:

24 yen in FY2014/3 ⇒ 28 yen in FY2015/3 ⇒ 28 yen (forecast) in FY2016/3



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.
 - Start 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 November 19, 2015.

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.

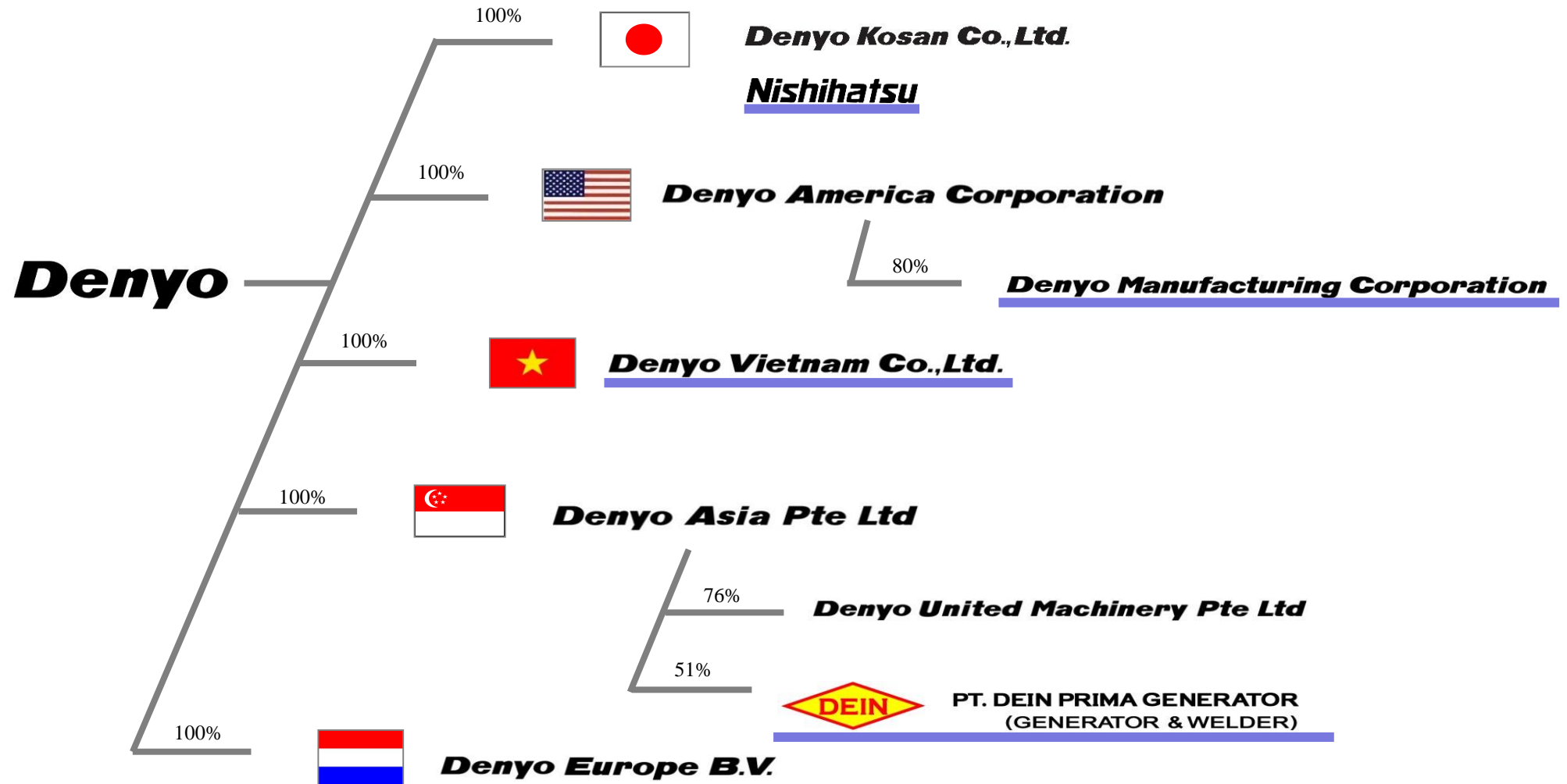
● Company size, etc. (FY2015/3 on a consolidated basis)

	(million yen)
Net sales	52,267
Overseas sales	20,799
Ordinary income	5,757
Net income	3,857
Total assets	67,324
Net assets	49,195
Market capitalization (as of March 31)	41,010
Number of employees	1,121



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.

Changes in Results for the Last 30 Years

