

Briefing on Results for the Fiscal Year ending March 31, 2018



Photo: Denyo Europe B.V.

May 24, 2018

Denyo Co., Ltd.

I. Overview of Results for FY2018/3

Toshiya Tozawa, Senior Executive Officer, Chief Executive
Administration Division

II. Outlook for FY2019/3

Shoichi Shiratori, President

Overview of Results for FY2018/3

Highlights of Results for FY2018/3 (Consolidated)

Key Point

Net sales is more than the previous fiscal year, operating income, ordinary income and profit attributable to owners of parent are less than the previous fiscal year.

(million yen)

	FY2017/3		FY2018/3		Change (YoY)	Rate of change (YoY)
Net sales	48,851	100%	50,182	100%	1,331	2.7%
Operating income	4,247	8.7%	3,902	7.8%	△345	△8.1%
Ordinary income	4,526	9.3%	4,187	8.3%	△339	△7.5%
Profit attributable to owners of parent	2,867	5.9%	2,762	5.5%	△105	△3.7%
Capital investment	511		870		359	70.3%
Depreciation	1,211		1,198		△13	△1.1%
Net income per share	134.2 ^{yen}		130.0 ^{yen}		△4.2 ^{yen}	△3.1%
ROE	5.7%		5.3%			
Cash dividends per share	30.0 ^{yen}		40.0 ^{yen}			

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators increased by 1,796 million yen (4.9%).
2. Sales of welders increased by 87 million yen (1.8%).
3. Sales of compressors decreased by 357 million yen (24.8%).

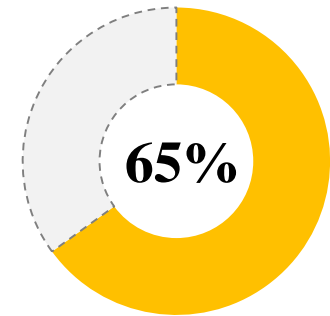
(million yen)

		FY2017/3		FY2018/3		Change (YoY)	Rate of change (YoY)
Net sales		48,851	100%	50,182	100%	1,331	2.7%
By product	Generators	36,857	75.4%	38,653	77.0%	1,796	4.9%
	Welders	4,832	9.9%	4,919	9.8%	87	1.8%
	Compressors	1,440	2.9%	1,083	2.2%	△357	△24.8%
	Others	5,720	11.7%	5,525	11.0%	△195	△3.4%

Engine Generators (Consolidated)

	FY2017/3	FY2018/3	Rate of change (YoY)
Generators	36,857 ^{million yen}	38,653 ^{million yen}	4.9%

- In Japan, shipment to the major rental industry increased, and shipment of the stand-by generating sets remain robust.
- Overseas, shipment to America remain robust, and shipment to Asia and the Middle and near East decreased.



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

Silent generator "Mälie" Stand-by generating sets

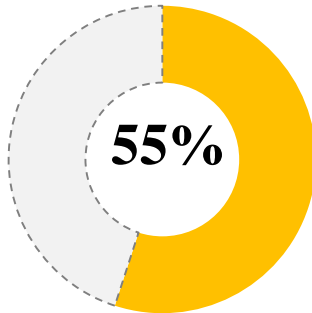
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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)

	FY2017/3	FY2018/3	Rate of change (YoY)
Welders	4,832 ^{million yen}	4,919 ^{million yen}	1.8%

- In Japan, shipment is unchanged from the previous year
- Shipment of the small-type machine to America and Europe increased slightly.



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.

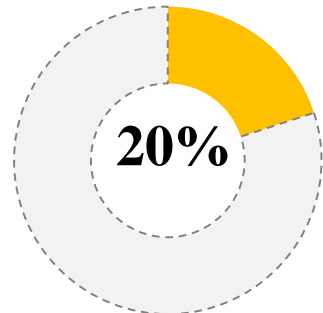
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.

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

Engine Compressors (Consolidated)


	FY2017/3	FY2018/3	Rate of change (YoY)
Compressors	1,440 ^{million yen}	1,083 ^{million yen}	△24.8%

- The shipment to the domestic market increased and the shipment to America and Asia decreased.




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)

	FY2017/3	FY2018/3	Rate of change (YoY)
Others	5,720 ^{million yen}	5,525 ^{million yen}	△3.4%

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

Sales of other products

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



Self-propelled lifter

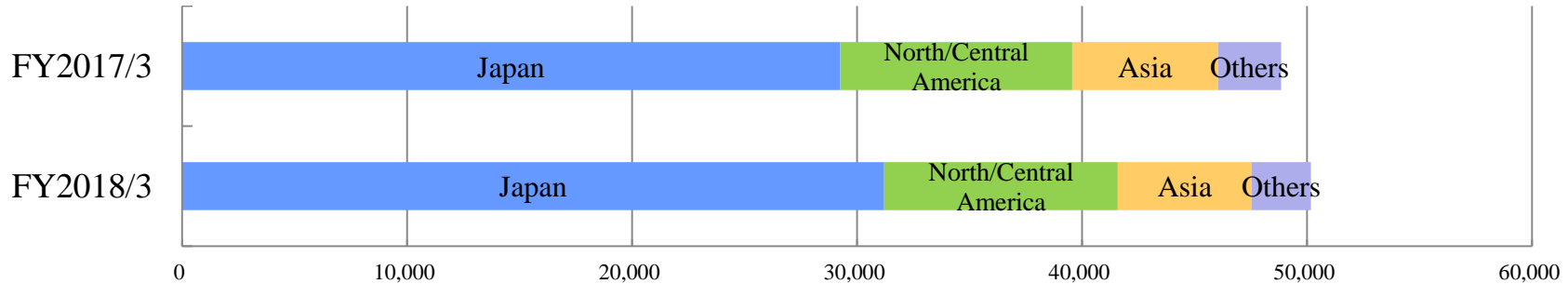


Load testing equipment

Sales Trends by Region (Consolidated)

(million yen)

		FY2017/3		FY2018/3		Change (YoY)	Rate of change (YoY)
Net sales		48,851	100%	50,182	100%	1,331	2.7%
Domestic sales		29,252	59.9%	31,211	62.2%	1,959	6.7%
Overseas sales		19,599	40.1%	18,970	37.8%	△629	△3.2%
By region	North/Central America	10,310	21.1%	10,382	20.7%	72	0.7%
	Asia	6,479	13.3%	5,938	11.8%	△541	△8.4%
	Others	2,808	5.7%	2,648	5.3%	△160	△5.7%



Factor Analysis of Changes in Operating Income

Decrease in Operating Income

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

(million yen)

	FY2017/3	FY2018/3	Change (YoY)
Operating income	4,247	3,902	△345
Operating income margin (%)	8.7%	7.8%	△0.9percentage points

	FY2017/3	FY2018/3	Rate of change (YoY)
Gross profit margin	24.5%	24.1%	△0.4percentage points
Ratio of SG&A to sales	15.8%	16.3%	0.5percentage points
Ratio of operating income to sales	8.7%	7.8%	△0.9percentage points

- **Gross profit margin is worsen by a decline in the sales of the large-type engine generators with relatively high profitability to overseas market.**
- **Ratio of SG&A to sales increased due to an increase of the office expense and the personnel expense, etc.**

Consolidated Balance Sheets

Overview

1. Current assets increased by 3,011 million yen mainly due to an increase in trade receivables, etc.
2. Current liabilities decreased by 723 million yen mainly due to an increase in trade payables, etc.

(million yen)

	At the end of FY2017/3	At the end of FY2018/3	Change from the end of FY2017/3
Current assets	43,814	46,825	3,011
Non-current assets	24,863	25,762	899
Total assets	68,678	72,588	3,910
Current liabilities	11,596	12,319	723
Long-term liabilities	3,936	4,136	200
Total liabilities	15,532	16,455	923
Total net assets	53,145	56,132	2,987
Total liabilities and net assets	68,678	72,588	3,910

Changes in Consolidated Cash Flows

Overview

1. Cash flow from operating activities was 3,315 million yen, mainly due to the recording of the income before income taxes, etc.
2. Balance of cash and cash equivalents increased by 1,493 million yen from the end of the previous fiscal year.

(million yen)

	FY2017/3	FY2018/3
I Cash flow from operating activities	2,948	3,315
II Cash flow from investing activities	△ 1,253	△ 1,121
I + II Free cash flows	1,695	2,194
III Cash flow from financing activities	△ 1,080	△ 738
IV Foreign currency translation adjustments on cash and cash equivalents	△ 141	37
V Net increase or decrease in cash and cash equivalents	473	1,493
VI Cash and cash equivalents, end of period	12,219	13,712

Outlook for FY2019/3

Outlook for FY2019/3: Consolidated Income and Loss

Key points

1. Net sales are expected to be 52.7 billion yen.
2. Assumed exchange rate is 110 yen/dollar.

(million yen)

	FY2018/3		FY2019/3 (forecast)		Change (YoY)	Rate of change (YoY)
Net sales	50,182	100%	52,700	100%	2,518	5.0%
Operating income	3,902	7.8%	4,600	8.7%	698	17.9%
Ordinary income	4,187	8.3%	4,900	9.3%	713	17.0%
Profit attributable to owners of parent	2,762	5.5%	3,200	6.1%	438	15.9%
Capital investment	870		2,100		1,230	141.4%
Depreciation	1,198		1,300		102	8.5%
Net income per share	130.0yen		150.6yen		20.6 yen	
ROE	5.3%		5.8%			
Cash dividends per share	40.0yen		40.0yen			

Outlook for Sales by Product (Consolidated)

Overview

1. Sales of generators are expected to increase by 2,097 million yen (5.4 %).
2. Sales of welders are anticipated to increase by 31 million yen (0.6%).
3. Sales of compressors are forecasted to be up by 17 million yen (1.6%).

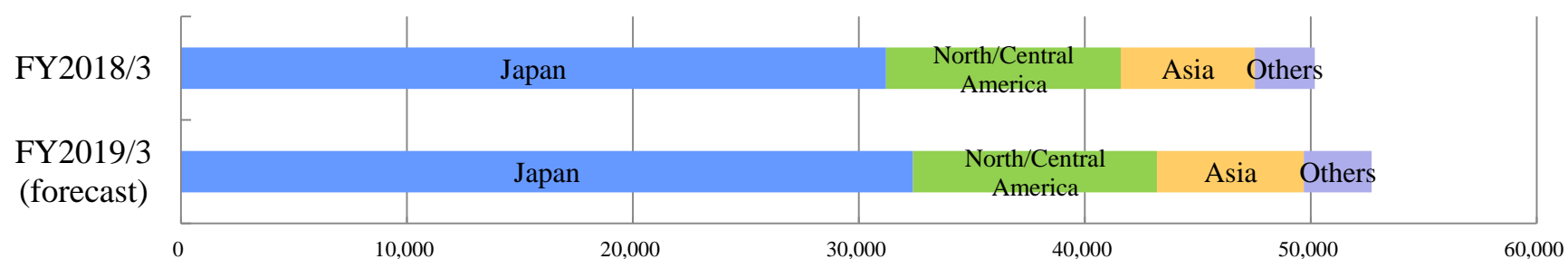
(million yen)

		FY2018/3		FY2019/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		50,182	100%	52,700	100%	2,518	5.0%
By product	Generators	38,653	77.0%	40,750	77.3%	2,097	5.4%
	Welders	4,919	9.8%	4,950	9.4%	31	0.6%
	Compressors	1,083	2.2%	1,100	2.1%	17	1.6%
	Others	5,525	11.0%	5,900	11.2%	375	6.8%

Outlook for Sales by Region (Consolidated)

(million yen)

		FY2018/3		FY2019/3 (forecast)		Change (YoY)	Rate of change (YoY)
Consolidated sales		50,182	100%	52,700	100%	2,518	5.0%
Domestic sales		31,211	62.2%	32,400	61.5%	1,189	3.8%
Overseas sales		18,970	37.8%	20,300	38.5%	1,330	7.0%
By region	North/ Central America	10,382	20.7%	10,800	20.5%	418	4.0%
	Asia	5,938	11.8%	6,500	12.3%	562	9.5%
	Others	2,648	5.3%	3,000	5.7%	352	13.3%



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 by 698 million yen.

(million yen)

	FY2018/3	FY2019/3 (forecast)	Change (YoY)
Operating income	3,902	4,600	698
Operating income margin	7.8%	8.7%	0.9 _{percentage point}

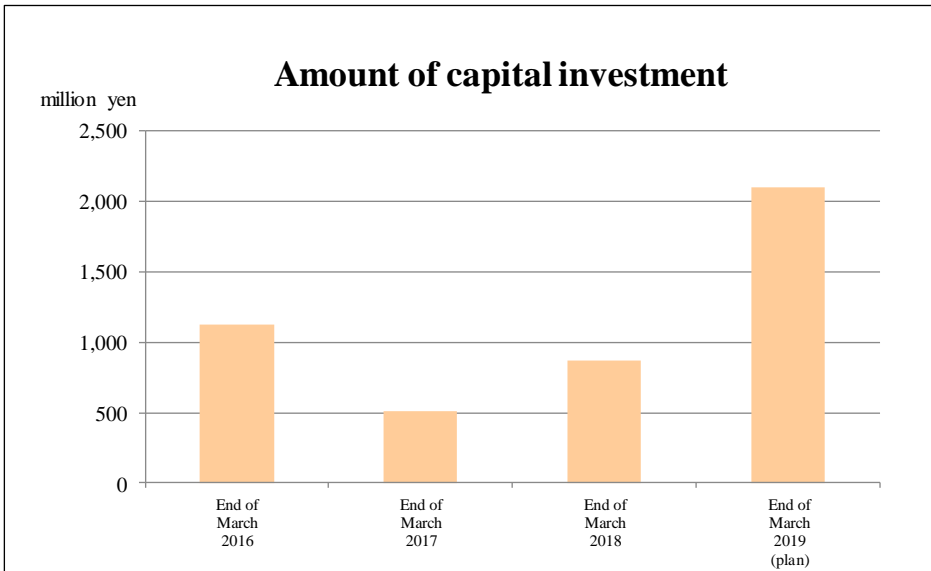
	FY2018/3	FY2019/3 (forecast)	Change (YoY)
Gross profit margin	24.1%	24.5%	0.4 _{percentage point}
Ratio of SG&A to sales	16.3%	15.7%	△0.6 _{percentage point}
Ratio of operating income to sales	7.8%	8.7%	0.9 _{percentage point}

- 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 by the decrease in the fixed cost rate which is caused from the increase in the sales.

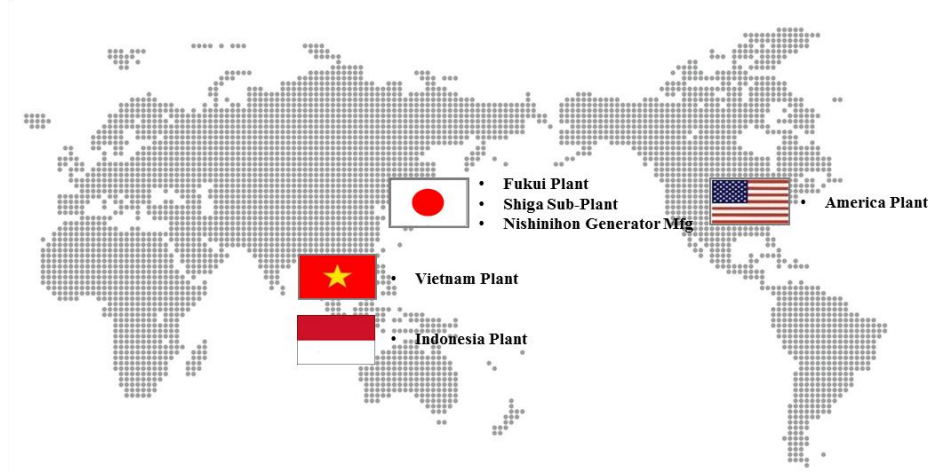
Changes in the Amount of Capital Investment

(million yen)

	End of March 2016	End of March 2017	End of March 2018	End of March 2019 (plan)
Cost of equipment	1,125	511	870	2,100
Main uses	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 430 ▪ Nishinohon Generator Mfg. 80 ▪ Vietnam Plant 100 ▪ Singapore 280 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 100 ▪ Nishinohon Generator Mfg. 50 ▪ U.S. Plant 250 ▪ Vietnam Plant 20 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 310 ▪ Nishinohon Generator Mfg. 50 ▪ U.S. Plant 450 ▪ Vietnam Plant 20 ▪ Others 40 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 830 ▪ Nishinohon Generator Mfg. 70 ▪ U.S. Plant 930 ▪ Vietnam Plant 20 ▪ Others 250



Production Sites:

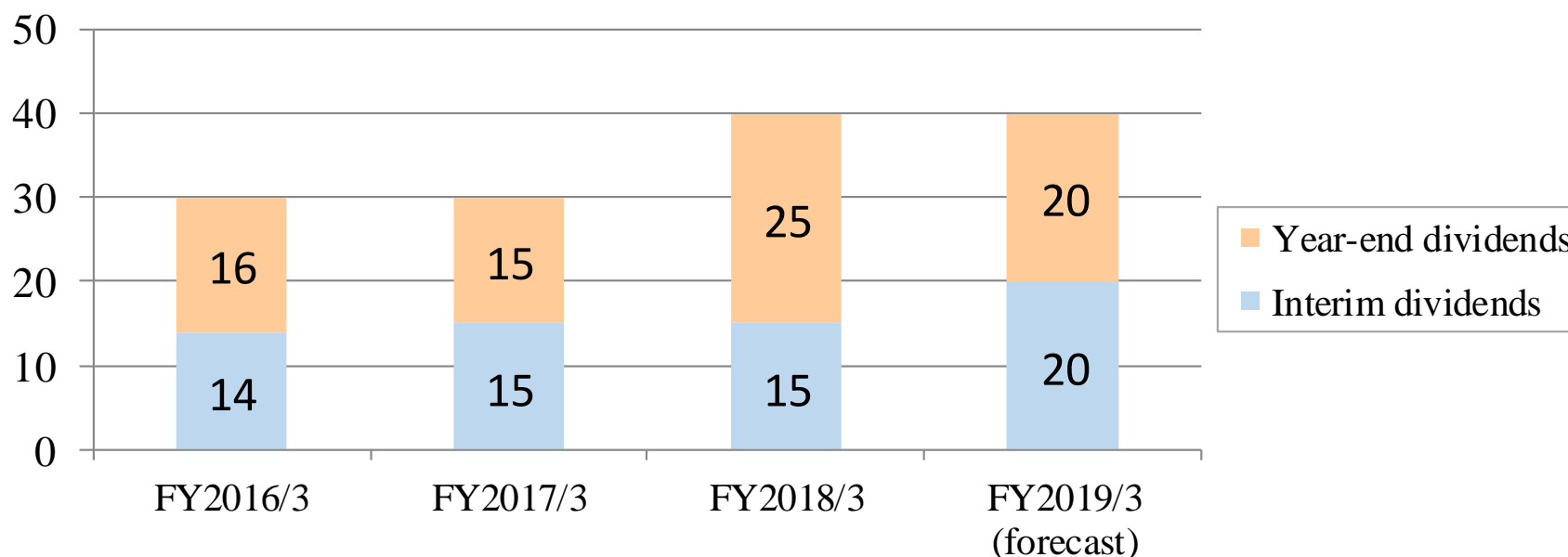


Profit Distribution Policy

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:

30 yen in FY2017/3 ⇒ 40 yen in FY2018/3 ⇒ 40 yen (forecast) in FY2019/3



※Breakdown of the year-end dividends in FY2018/3: Ordinary dividends 15.00 yen
Commemorative dividends 10.00 yen

For the details please refer the [Notice Regarding Commemorative Dividends for the 70th Anniversary of the Establishment] announced on March 8, 2018.

Notes on Our Outlook

This material contains assumptions and outlooks for the future and forecasts based on plans as May 10, 2018.

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.

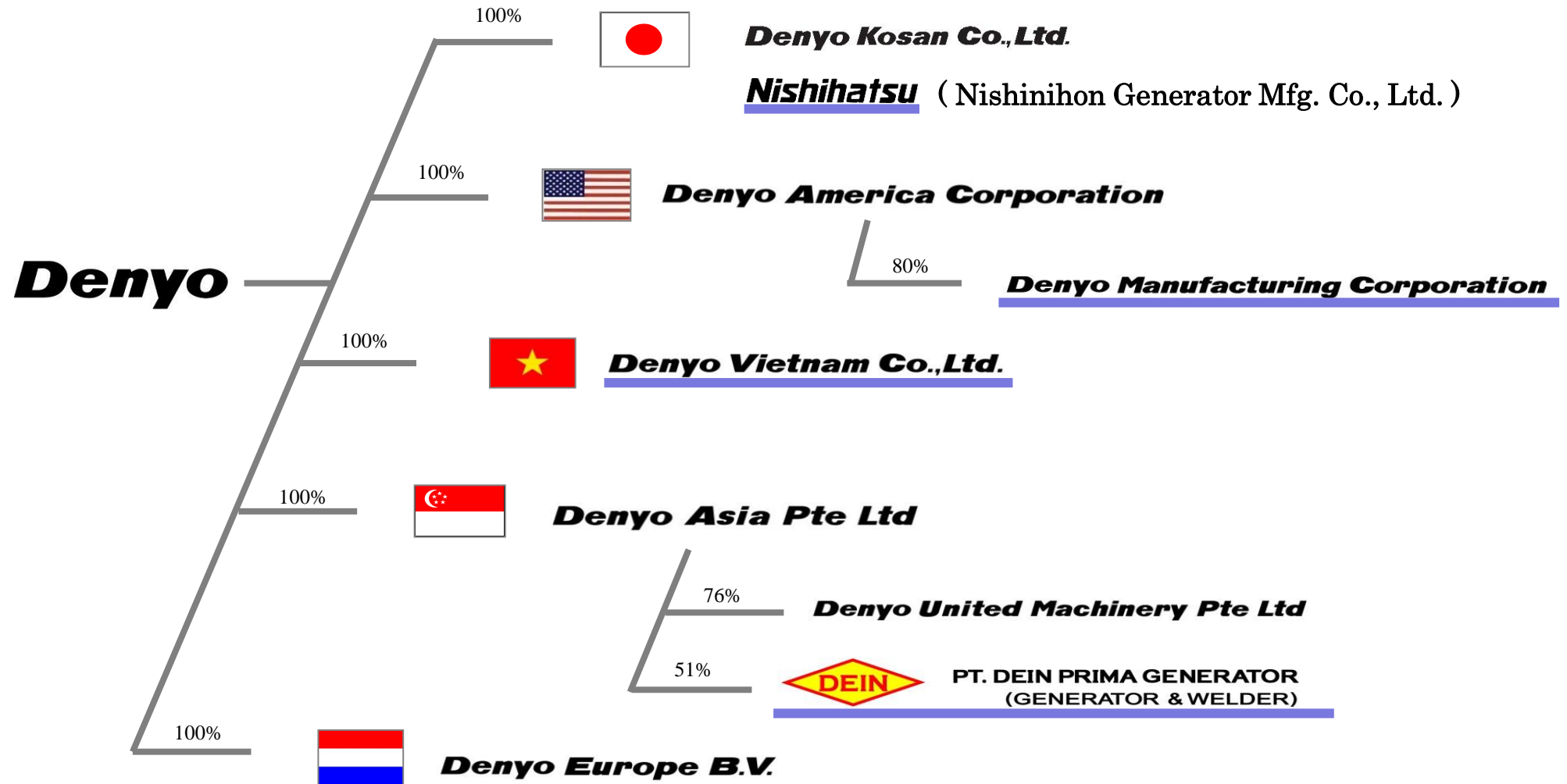
● Company size, etc. (FY2018/3 on a consolidated basis) (million yen)

Net sales	50,182
Overseas sales	18,970
Ordinary income	4,187
Profit attributable to owners of parent	2,762
Total assets	72,588
Net assets	56,132
Market capitalization (as of March 31)	43,456
Number of employees	1,277 persons



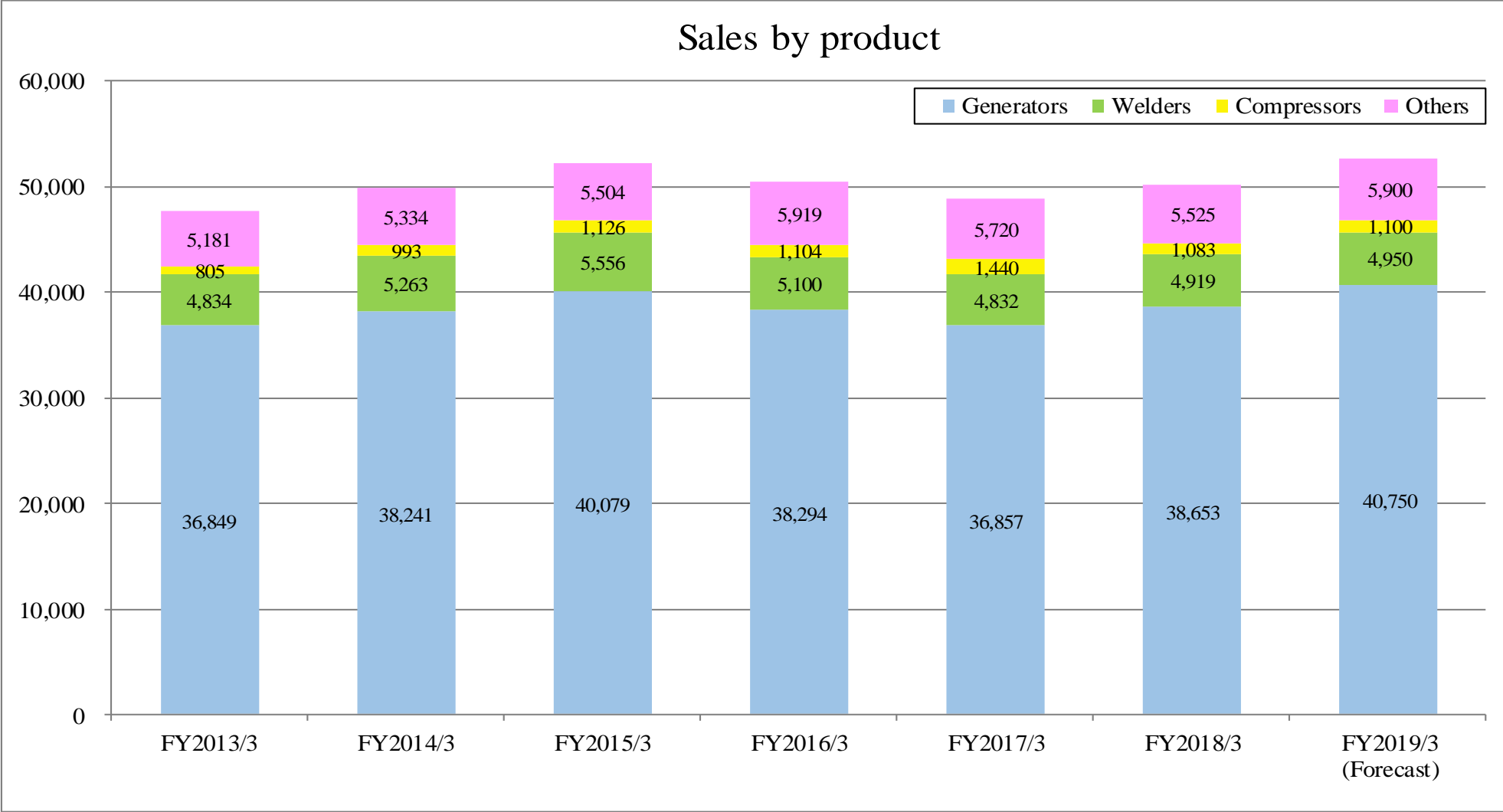
Head Office (Nihonbashi-Horidomecho, Tokyo)

The Group Companies

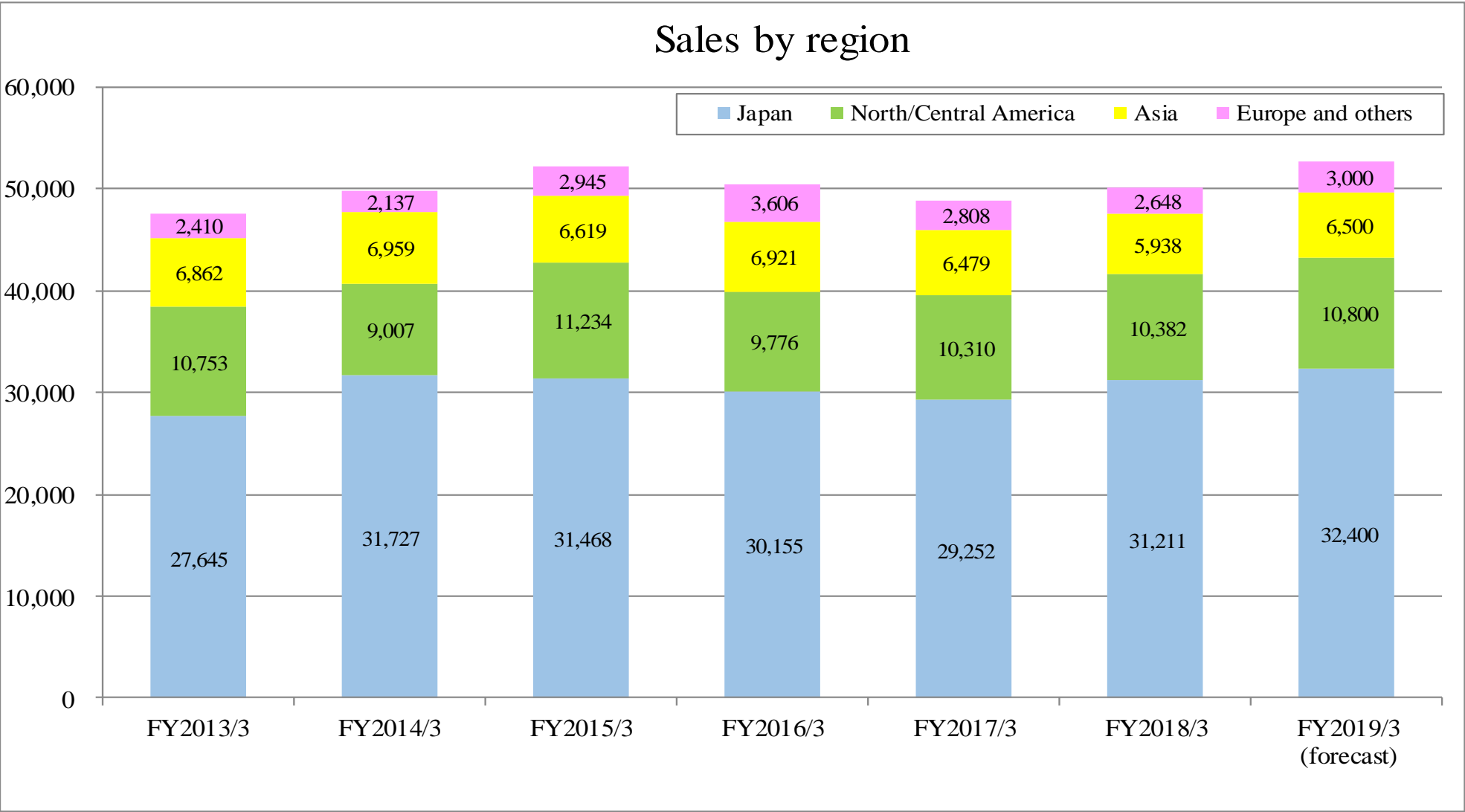


*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).
 *2. Underlined companies are manufacturers.

Trends and Forecasts by Product Sales



Changes in Sales by Region and Forecasts



Changes in Results for the Last 30 Years

