

Briefing on Results for the First Half of the Fiscal Year ending March 31, 2019



Photo: Fukui Plant (Japan)

November 20, 2018

Denyo Co., Ltd.

I. Overview of Results for the First Half of FY2019/3

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II. Outlook for FY2019/3

Shoichi Shiratori, President

Overview of Results for the First Half of FY2019/3

Highlights of Results for the First Half of FY2019/3 (Consolidated)

Key Point

Both Net sales and Net income increased year on year.

(million yen)

	First half of FY2018/3		First half of FY2019/3		Change (YoY)	Rate of change (YoY)
Net sales	22,783	100%	25,258	100%	2,474	10.9%
Operating income	1,432	6.3%	1,435	5.7%	3	0.2%
Ordinary income	1,526	6.7%	1,657	6.6%	131	8.6%
Profit attributable to owners of parent	946	4.2%	1,107	4.4%	161	17.0%
Capital investment	336		594		258	76.8%
Depreciation	588		558		△30	△5.1%
Net income per share	44.56 yen		52.11 yen		7.6yen	16.9%
ROE	3.6%	Annualized	4.1%	Annualized		
Interim dividends per share	15.0 yen		20.0 yen			

Sales Trends by Product (Consolidated)

Overview

1. Sales of generators increased by 2,156 million yen (12.3%).
2. Sales of welders rose by 52 million yen (2.2%).
3. Sales of compressors were up by 75 million yen (15.5%).

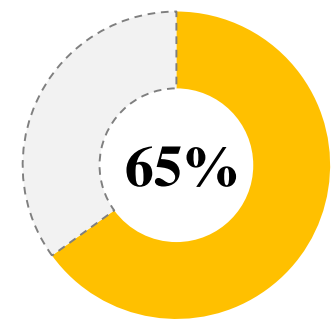
(million yen)

		First half of FY2018/3		First half of FY2019/3		Change (YoY)	Rate of change (YoY)
Net sales		22,783	100%	25,258	100%	2,474	10.9%
By product	Generators	17,505	76.8%	19,661	77.8%	2,156	12.3%
	Welders	2,365	10.4%	2,417	9.6%	52	2.2%
	Compressors	483	2.1%	558	2.2%	75	15.5%
	Others	2,429	10.7%	2,620	10.4%	191	7.9%


Engine Generators (Consolidated)

	First half of FY2018/3	First half of FY2019/3	Rate of change (YoY)
Generators	17,505 million yen	19,661 million yen	12.3%


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



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



Mobile-type generator



Stand-by generating sets

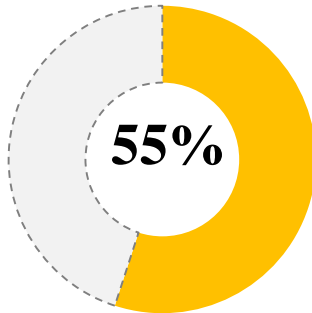
Manufacturing engine-driven generators with capacity from 1kVA to 1100kVA

- 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 for disaster prevention equipment and offices, etc.
- Power-supply vehicles, etc.

Engine Welders (Consolidated)


	First half of FY2018/3	First half of FY2019/3	Rate of change (YoY)
Welders	2,365 ^{million yen}	2,417 ^{million yen}	2.2%

- In Japan, the shipment of the small-type welder remain robust.
- Overseas, the shipment to America and the Europe 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.

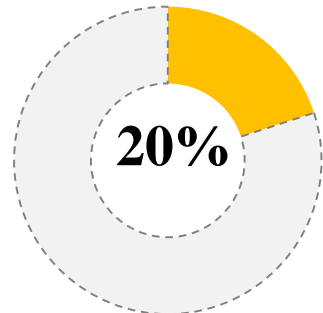
Ranging from 135A for welding light-gauge steel to a 500A engine-driven welder for heavy-gauge steel, a TIG welder and a CO2 welder, etc.

- 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 FY2018/3	First half of FY2019/3	Rate of change (YoY)
Compressors	483 million yen	558 million yen	15.5%

- The shipment to both Japan and overseas 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 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 FY2018/3	First half of FY2019/3	Rate of change (YoY)
Others	2,429 ^{million yen}	2,620 ^{million yen}	7.9%

- Sales of self-propelled lifters and parts sales etc. increased.

Sales of other products

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



Self-propelled lifter

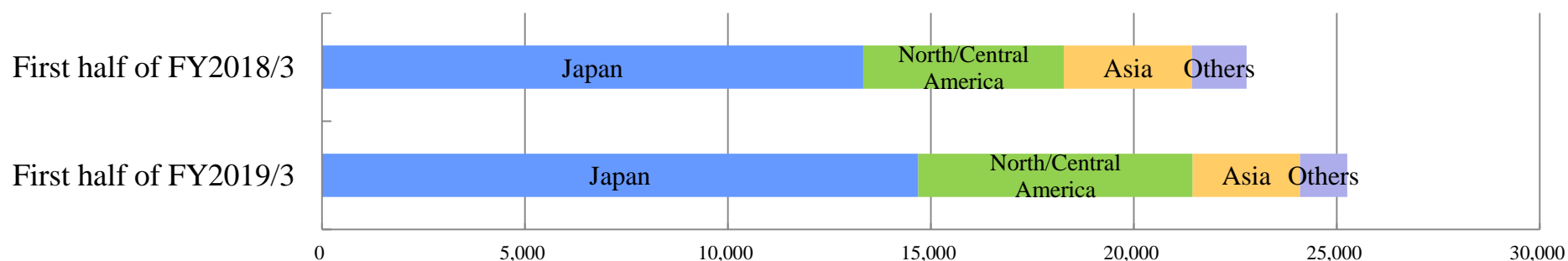


Load testing
equipment

Sales Trends by Region (Consolidated)

(million yen)

		First half of FY2018/3		First half of FY2019/3		Change (YoY)	Rate of change (YoY)
Net sales		22,783	100%	25,258	100%	2,474	10.9%
Domestic sales		13,337	58.5%	14,689	58.2%	1,352	10.1%
Overseas sales		9,446	41.5%	10,569	41.8%	1,123	11.9%
By region	North/Central America	4,936	21.7%	6,758	26.8%	1,821	36.9%
	Asia	3,164	13.9%	2,649	10.5%	△514	△16.3%
	Others	1,345	5.9%	1,161	4.6%	△183	△13.7%



Factor Analysis of Changes in Operating Income

Increase Slightly in Operating Income

Although the net sales increased, with the worsening of the gross profit margin, the operating income increased slightly.

(million yen)

	First half of FY2018/3	First half of FY2019/3	Change (YoY)
Operating income	1,432	1,435	3
Operating income margin (%)	6.3%	5.7%	△0.6 percentage points

	First half of FY2018/3	First half of FY2019/3	Change (YoY)
Gross profit margin	24.0%	22.8%	△1.2 percentage points
Ratio of SG&A to sales	17.7%	17.1%	△0.6 percentage points
Ratio of operating income to sales	6.3%	5.7%	△0.6 percentage points

- Gross profit margin is worsen due to an increase of the cost of the raw material and etc.
- Ratio of SG&A to sales improved 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 1,059 million yen increase in current assets was mainly due to an increase in cash and deposits, etc.
2. A 742 million yen increase in current liabilities was mainly due to an increase in trade payables, etc.

(million yen)

	At the end of FY2018/3	First half of FY2019/3	Change from the end of FY2018/3
Current assets	※ 46,337	47,396	1,059
Non-current assets	※ 25,872	25,995	122
Total assets	※ 72,210	73,391	1,181
Current liabilities	12,319	13,062	742
Long-term liabilities	※ 3,757	3,939	181
Total liabilities	※ 16,077	17,001	924
Total net assets	56,132	56,390	257
Total liabilities and net assets	※ 72,210	73,391	1,181

※From the first quarter of this fiscal year, [partial revision of [accounting standards of tax effect accounting]] is applied , these accounting standards apply to the previous year's figure retrospectively, thus the figure of the previous year is adjusted.

Changes in Consolidated Cash Flows

Overview

1. A 3,346 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 3,301 million yen from the end of the previous fiscal year.

(million yen)

	First half of FY2018/3	First half of FY2019/3
I Cash flow from operating activities	3,548	3,346
II Cash flow from investing activities	△ 882	480
I + II Free cash flows	2,666	3,826
III Cash flow from financing activities	△ 406	△ 376
IV Foreign currency translation adjustments on cash and cash equivalents	△ 92	△ 149
V Net increase or decrease in cash and cash equivalents	2,167	3,301
VI Cash and cash equivalents, end of quarterly period	14,387	17,013

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%).

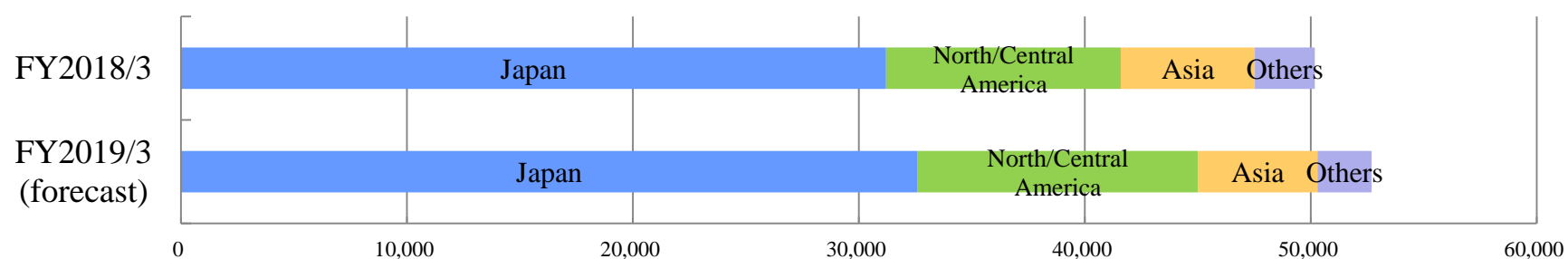
(million yen)

		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%	32,600	61.9%	1,389	4.5%
Overseas sales		18,970	37.8%	20,100	38.1%	1,130	6.0%
By region	North/ Central America	10,382	20.7%	12,400	23.5%	2,018	19.4%
	Asia	5,938	11.8%	5,300	10.1%	△638	△10.7%
	Others	2,648	5.3%	2,400	4.5%	△248	△9.4%



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.

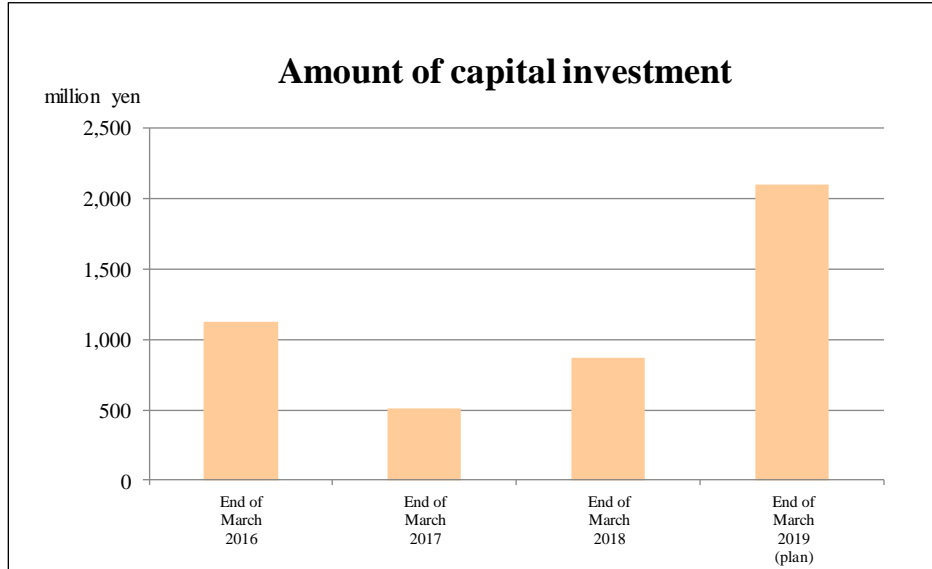
Changes in the Amount of Capital Investment

(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 ▪ Nishihatsu 80 ▪ Vietnam Plant 100 ▪ Singapore 280 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 100 ▪ Nishihatsu 50 ▪ U.S. Plant 250 ▪ Vietnam Plant 20 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 310 ▪ Nishihatsu 50 ▪ U.S. Plant 450 ▪ Vietnam Plant 20 ▪ Others 40 	<ul style="list-style-type: none"> ▪ Machinery of Fukui plant, etc. 830 ▪ Nishihatsu 70 ▪ U.S. Plant 930 ▪ Vietnam Plant 20 ▪ Others 250



Denyo Manufacturing Corporation (U.S.A.)

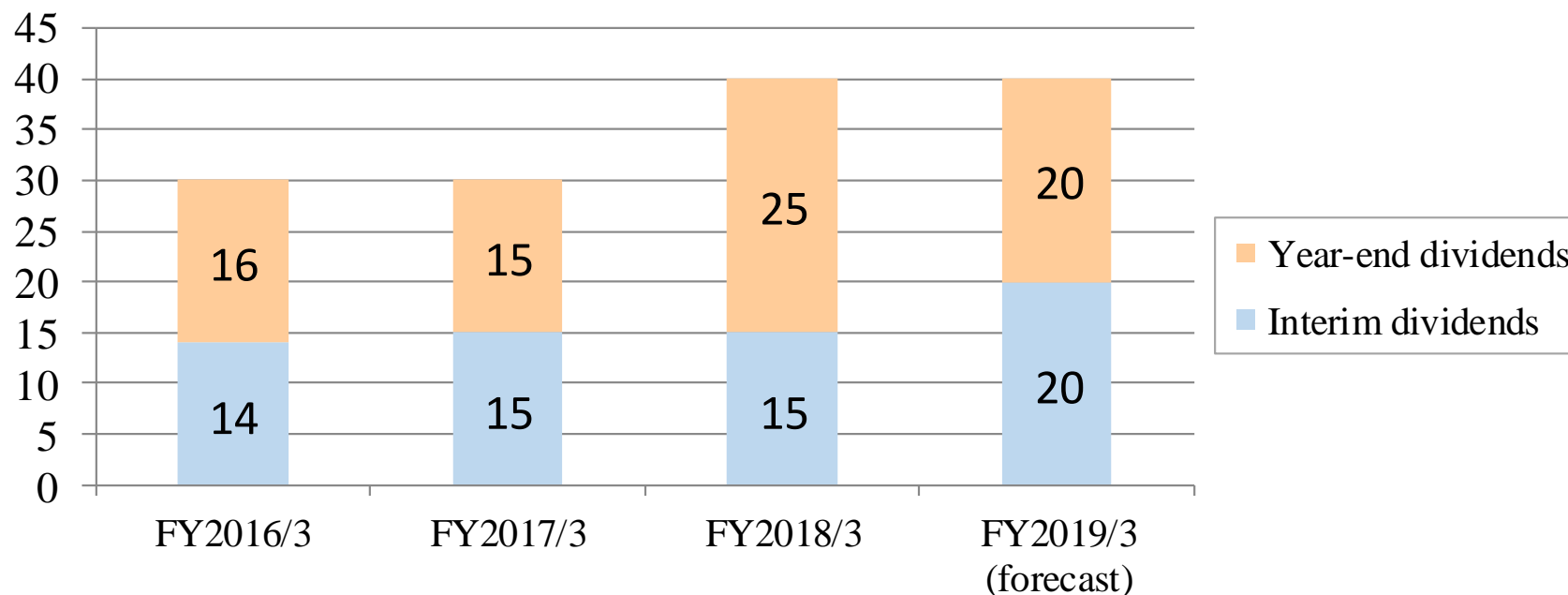


Profit Distribution Policy

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:

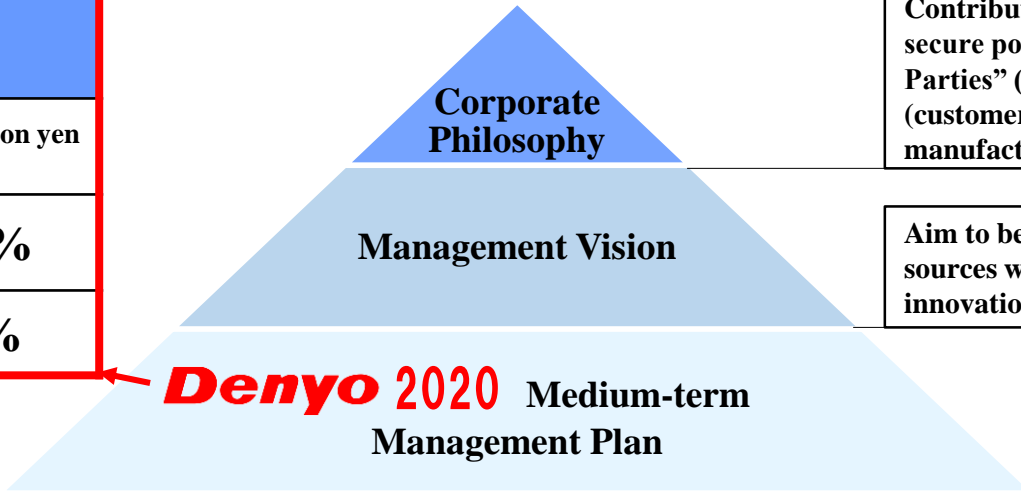
30 yen in FY2017/3 ⇒ 40 yen in FY2018/3 ⇒ 40 yen (forecast) in FY2019/3



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

Overview of the Medium-term Management Plan

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



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

This material contains assumptions and outlooks for the future and forecasts based on plans as November 8, 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.

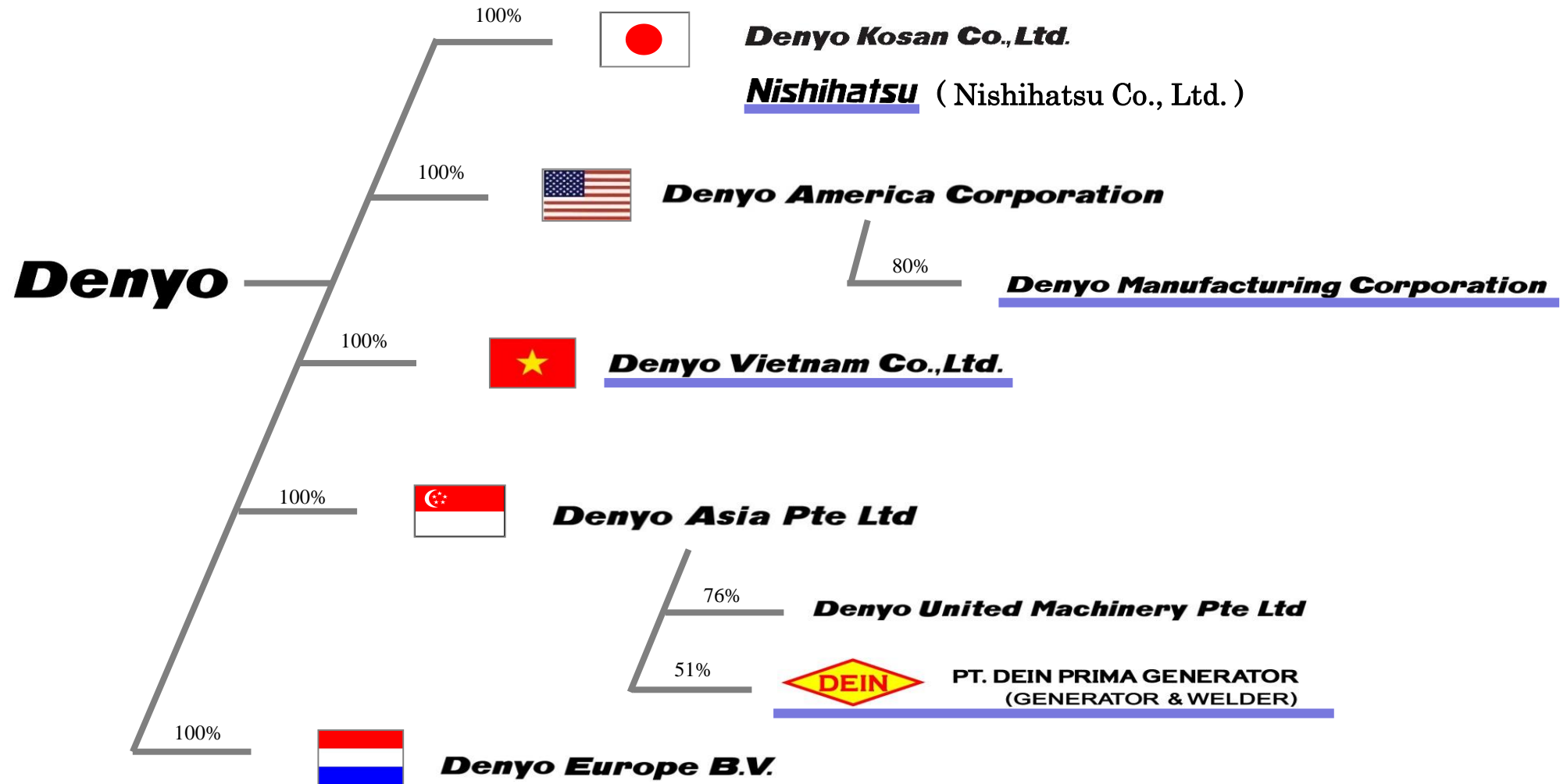
● Company size, etc. (FY2018/3 on a consolidated basis) (million yen)

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



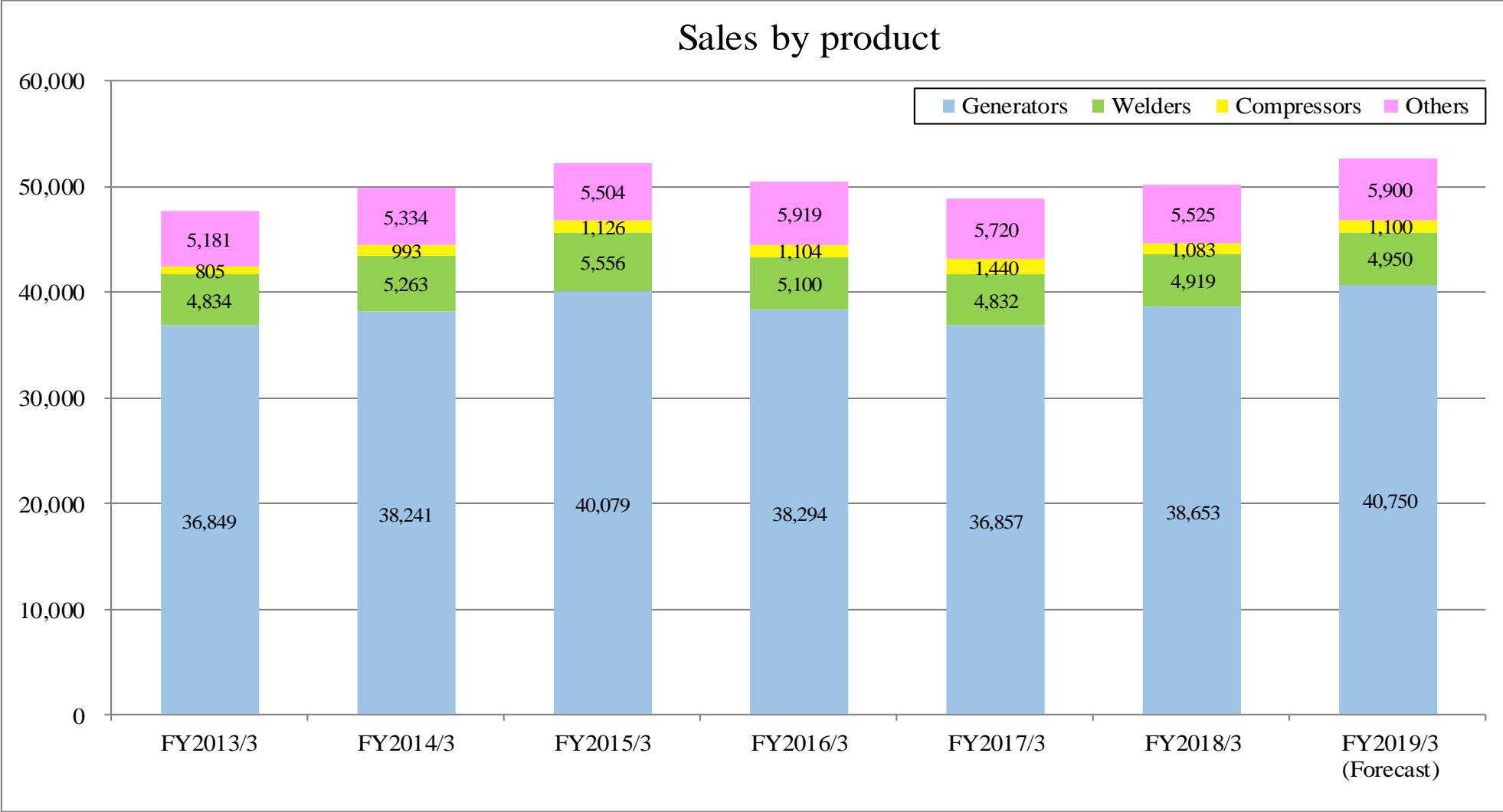
Head Office (Nihonbashi-Horidomecho, Tokyo)

The Group Companies

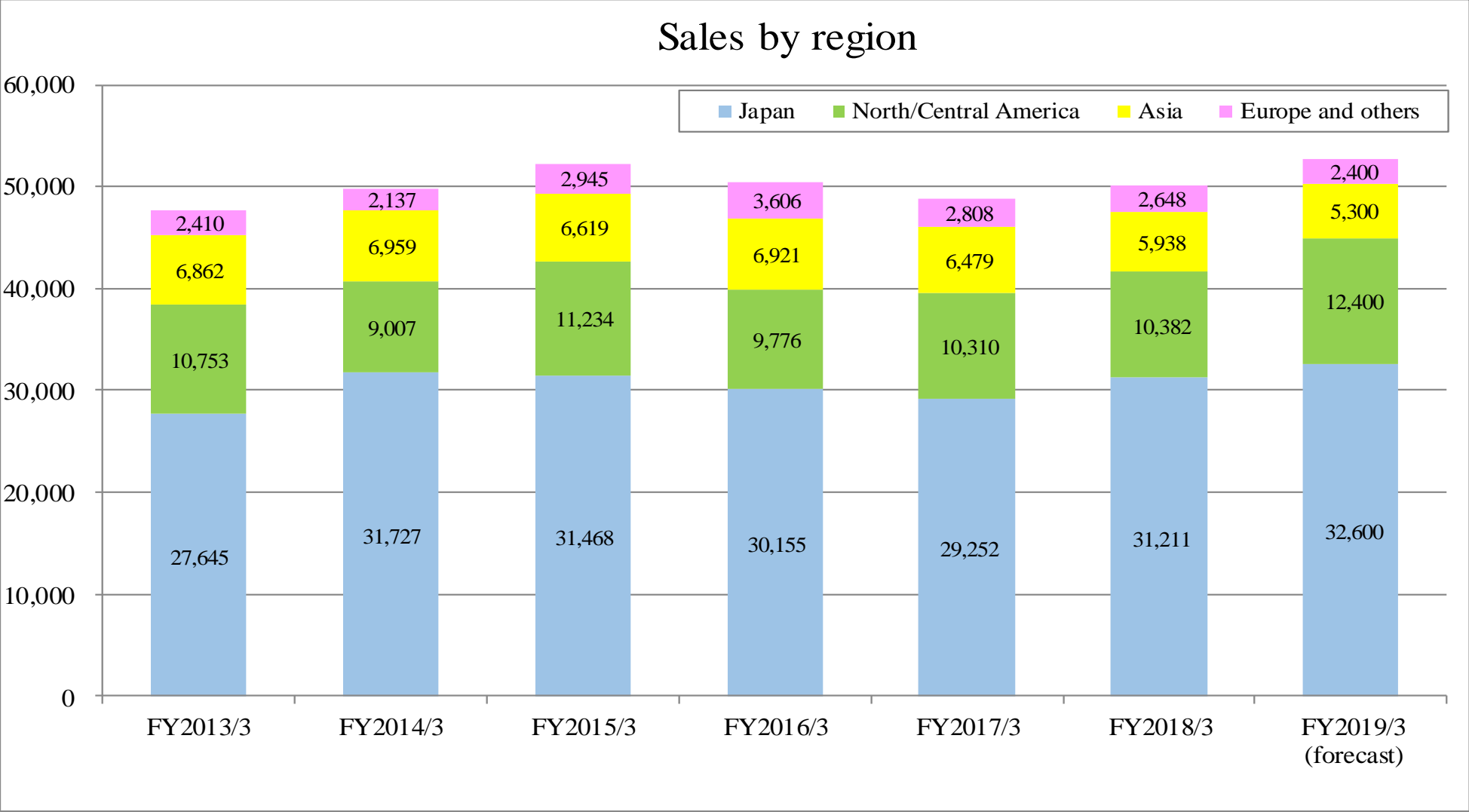


*1. Other than the above, the New Japan Machinery Corporation is an equity-method affiliate (investment ratio 15.7%).
 *2. Underlined companies are manufacturers.

Trends and Forecasts by Product Sales



Changes in Sales by Region and Forecasts



Changes in Results for the Last 30 Years

