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Toshio Okayama
President, Oiles Corporation

Promotion of Local Materials Procurement and Seismic Isolation of the Group's Major Production Facilities

◆Bearing Division Achieves Record High Net Sales

The financial results for the second quarter of the fiscal year ending March 2014 showed a 3.8% year-on-year (YoY) increase in consolidated net sales, a 2.7% YoY rise in operating income, and 8.9% YoY growth in net income. Meanwhile, the ratio of overseas net sales surpassed 30% for the first time to reach 31.5% (5.8 points YoY increase). As for changes by region, only Japan fell by 4.3%, while Asia, North America and Europe each grew by over 20%.

Net sales were 27,679 million yen (1,002 million yen YoY increase), with a rise in the bearing division despite a decline in the structural division. In addition to the Japanese yen, Oiles deals in the US dollar, Euro, Thai baht, Chinese yuan, Czech koruna, and Indian rupee, against all of which the yen weakened. Therefore this figure includes 1,373 million yen due to the depreciation of the yen. The gross profit margin also improved YoY by 0.7 points.

Meanwhile, vigorous sales activities and overseas development saw SG&A expenses rise. Operating income was 2,725 million yen, ordinary income was 3,091 million yen, and net income was 1,849 million yen. Compared to operating income, the 11.7% YoY increase in ordinary income was substantial; this was due to 164 million yen generated by a foreign exchange gain.

Regarding the earnings results by segment, the bearing division posted record high net sales of 19,881 million yen (7.7% YoY increase). While general industrial machinery products were on par with YoY levels, strong sales of vehicle products in overseas markets contributed to this result. The gross profit margin of 39% was also the highest level in the past five years. Operating income was 2,784 million yen, and the ratio of operating income to net sales was 14%.

In the structural division, the decline in sales of products for bridges was attributable to a deteriorating situation in the orders environment and a decline in jobs for building new bridges, among other factors. Meanwhile, products for buildings also saw a fall in sales due to the postponement of certain properties scheduled for sale in the first half to the second half. This and other factors resulted in overall net sales of 4,258 million yen (9.6% YoY decrease) and operating income of minus 208 million yen. Delays in the progress of construction work are the primary cause of faltering sales of products for buildings. Specifically, reconstruction in the Tohoku region has now progressed to the construction of buildings; however, as labor costs have skyrocketed from 2 to 2.3 times the initial amount, each general contractor is lagging behind in its construction work. Also, in addition to an unusually high frequency of typhoons, there were also problems in large-scale jobs that had soil which needed to be rectified, and these factors also impacted the progress of work. Consequently, the backlog of orders was higher than usual. There is currently a backlog of orders accumulated that is worth 10 times of average monthly sales, which has been scheduled to be cleared from the second half of the year to the following fiscal period.

As for the architectural division, despite a rise in renovated window operators (smoke exhaust devices), which is a core product, sales remained flat due to a decline in new jobs. However, as the profit margin on renovation work is relatively high, the ratio of operating income to net sales has remained at 5%. These jobs are mainly maintenance work on old and deteriorating products, but also include large-scale projects of around 90 million yen.

◆Structural Division Set for Recovery in the Second Half; Forecast for Record High Full-Year Consolidated Net Sales

The consolidated balance sheets show total assets rose by 3,222 million yen over the previous fiscal year-end, with current assets and fixed assets increasing by 1,600 million yen, respectively. The growth in fixed assets is centered on the expansion of factories in America, Suzhou in China, and Thailand, while the increase in current assets is mainly attributable to a rise in cash and deposits from income and depreciation. In contrast, liabilities grew by around 100 million yen only. Net assets were 54,784 million yen (3,122 million yen increase over the previous fiscal year-end) due to a rise in retained earnings, in addition to an increase in the foreign currency translation adjustment from the weakened yen and growth in unrealized gains on available-for-sale securities from higher share prices. As a result, the equity ratio rose by 0.7 points to 79.7%.

Operating cash flow remained steady, sourced from income before income tax and minority interest and depreciation expenses. Although there was approximately 2,600 million yen in cash outflows due to concentrated investment in the first half for bolstering the production capacity of mainly overseas subsidiaries, the redemption of investment in securities generated 1,000 million yen in cash inflows. Subsequently, cash and cash equivalents grew by approximately 1,300 million yen.

Full-year consolidated net sales are forecast to reach 58,800 million yen (9.8% YoY increase) and surpass the record high level of fiscal 2007. The outlook for the bearing division is net sales of 40,000 million yen, gross income of 15,300 million yen and gross profit margin of 38.3%, and operating income of 5,250 million yen (4.8% YoY increase) and ratio of operating income to net sales of 13.1%. The structural division is expected to recover net sales in the second half, and achieve a full-year operating income of 450 million yen.

In the architectural division, although net sales and gross income are both forecast to slightly exceed levels of the previous period, a rise in SG&A expenses due to vigorous sales activities is expected to see operating income decline marginally. Traditionally, the division has mainly dealt in smoke exhaust devices for use during fires, but it has recently been shifting the business content to ventilation systems that can be installed in the walls and shutters of houses. From hereon, it will increase spending on advertising and setting up displays in home centers in order to raise the recognition of this new ventilation system as a consumer good.

As for causes of changes in operating income, in the bearing division, growth in net sales is forecast to account for a 2,420 million yen rise, while the exchange rate effect will generate a 310 million yen increase and cost reductions will boost operating income by 80 million yen. Meanwhile, negative factors include a spike in personnel costs, an increase in depreciation expenses from active investment, a rise in administrative expenses, a fall in sales prices, fluctuations in materials prices, and changes in the product composition. In the structural division, growth in net sales, cost reductions, and fluctuations in materials prices are factors contributing to an increase in operating income, while a fall in sales prices, changes in the product composition, an increase in depreciation expenses, a spike in personnel costs, and a rise in administrative expenses are all factors leading to a decrease in operating income.

◆Understand Local Needs and Analyze the Competition

Oiles has elevated its goal to being a Global Excellent Company, with the guideline for corporate conduct, “Learn more, think more, and act promptly until the last.” By carrying out its mission of understanding customer needs, proposing the distinctive EK/System, training personnel and reinforcing the organization, and developing a global infrastructure, Oiles is promoting the development of world-first and world-best products, tribology and damping technology, process and innovation, NPS improvement, and technical direct sales. Its management principle is to be a world leader as a general manufacturer of oil-less bearings, and contribute to society through its technology.

In its three-year medium-term plan (2011-2014), Oiles is working to strengthen its functions, develop new products that meet customer needs, expand sales and improve profitability, and strengthen its global development. The sales strategy for fiscal 2014 is to understand local needs and analyze the competition in order to capture infrastructure markets in Japan, China and other regions of Asia. Meanwhile in America and Europe, it will focus on bolstering sales to local car manufacturers and global companies.

As for its production strategy, Oiles will facilitate the BCP of the Group’s major production facilities within Japan. Currently it has six factories set up overseas, all of which receive key materials from Japan; consequently, if the Japanese factories are suspended due to an earthquake or other event, operations in all of the overseas factories will also be halted. To avoid such a situation, Oiles is moving ahead with the seismic isolation and seismic control of its domestic facilities, while also promoting the local procurement of materials for its overseas factories. Some production lines in the Shiga factory have already been seismically isolated, and work on the localization of production facilities in China is progressing smoothly. Machinery manufactured at the newly established Production Technology Center in Suzhou is being delivered to factories in Suzhou, Shanghai, Thailand, and India.

Oiles has also developed a new product called the “Sliding leg,” which is simple seismic equipment of a disk-shaped pad that is positioned under the legs of display cabinets and other furniture, etc. The pad allows for seismic performance in minor to major tremors, and is thus being increasingly used in a range of situations.

◆Actively Expanding Sales to Non-Japanese Companies

Regarding the business conditions of Oiles’ global bases, the India factory was completed in October 2012 and became operational from the spring of 2013. Construction work on factories in Thailand and America was completed in June and August 2013, respectively, with both expanded to 1.6 times their original size. Also, work to expand the floor space of the Suzhou factory by 3.4 times was completed in September 2013. This construction work is designed to cope with growing demand in these areas, and is part of Oiles’ efforts to actively expand sales to non-Japanese companies.

Looking at the ratio of overseas net sales to Japanese and non-Japanese companies, local car manufacturers in Europe are increasingly using Oiles products, and the proportional ratio of sales to non-Japanese companies in this fiscal period is forecast to exceed 60%. Of the 56 projects currently in progress, 36 are concluded and are expected to contribute approximately 540 million yen to net sales in fiscal 2014. In Asia, sales of general industrial machinery to Japanese companies grew in the previous fiscal period, with non-Japanese companies forecast to account for about half of sales this fiscal period. Sales of vehicle products are still overwhelmingly to Japanese companies, although there is potential for purchases by non-Japanese companies. As for North America, the impact of the Great East Japan Earthquake has resulted in a decline in sales to Japanese companies during the fiscal period before last. However, production in Japanese companies has been recovering since the previous fiscal period, and sales to Japanese companies are expected to reach about 70% in this fiscal period.

So far, the average amount paid for our products per vehicle has been displayed at around the 1,000 yen; however, after taking into account the knock-down parts and reviewing the figures, the amount was listed as 972 yen and 977 yen in fiscal 2012 and fiscal 2013, respectively.

Oiles capital policy has been to carry out the acquisition and retirement of treasury stock, and stock splits. It has set a dividend payout ratio of at least 30%, and is expected to pay a year-end dividend of 30 yen this fiscal period. As a result, the annual dividend will be increased by 10 yen over the previous fiscal period to 50 yen, and the total amount of dividends paid is forecast to reach 1,443 million yen with a dividend payout ratio of 36.5%.

◆Question and Answer Session◆

Please explain the advantages of seismic isolation equipment.

While a significant amount of seismic isolation equipment uses rubber, only Oiles products feature a lead plug in the center.

What is the main focus of Oiles until the fiscal year ending March 2015?

We will focus on the sale of applications for vehicles to non-Japanese companies. Our intention is to dispatch equipment and staff for technical development on site and make inroads with Western and local manufacturers. We are also working on the seismic isolation of the Group's production facilities, and hope to expand the use of this technology in the equipment of other companies, so we can help to protect Japanese industry.

Please elaborate on your capital investment plan.

We are planning on approximately 4,000 million yen in capital investment and 2,700 million yen in depreciation expenses for this fiscal period. Investment will be pared back this period, and although depreciation expenses will slightly increase during the fiscal year ending March 2015, it is forecast to begin decreasing after that.

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＊The materials of today's briefing are available at the following URL.

http://www.oiles.co.jp/en/ir/result.html