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Record-high overseas net sales achieved, with particularly high sales in Asia and Europe

◆Overview of financial results for the cumulative second quarter of the fiscal year ending March 2015

During the first half of the fiscal year ending 2015, although net sales and operating income increased year-on-year (YoY), ordinary income and net income decreased. By segment, in the bearing division, sales of general industrial machinery products were on par with the previous period, while sales of vehicle products increased as they were strong abroad. In the structural division, while sales of products for bridges decreased due to factors such as a downturn in new construction, sales of products for buildings increased supported by a steady adoption of damping walls. In the architectural division, sales increased due to an increase of sales in core window operator products and the contribution of natural ventilation systems for large properties.

Net sales totaled 29,514 million yen, with sales of 20,800 million yen in the bearing division, sales of 5,161 million yen in the structural division, sales of 3,001 million yen in the architectural division, and sales of 551 million yen in the other division, and as a result growth in sales has continued since the fiscal year ended March 2011. Net sales grew by 1,834 million yen (6.6%) YoY, and in terms of sales by region, growth was highest in Asia, particularly China, India, and Thailand, where sales grew 17%, followed by Europe, where sales grew 13%. Sales also grew over the previous fiscal year in North America and Japan. However, because sales were pushed up by 541 million yen due to the effects of changes in foreign exchange rates, the actual increase in earnings was 1,293 million yen if it is assumed that foreign exchange rates are the same as in the previous fiscal year. The ratio of overseas net sales was 33.4% at a record-high. However, the ratio is 32% if recalculated based on the foreign exchange rates from the previous fiscal year. Although the gross income increased along with the increase in earnings, growth in operating income was held back by the 9.9% increase in SG&A expenses. Both ordinary income and net income decreased YoY. By segment, in the bearing division operating income margin decreased YoY from 14.0% to 12.9%, due to an increase in fixed costs such as personnel expenses. In the structural division, although sales increased immediately after the earthquake, the number of projects started gradually to decrease subsequently and an operating loss was recorded in the same period of the previous fiscal year. However, because sales significantly increased during the first half, this loss was converted to a profit. Although orders have continued to be strong, due to some postponements some sales will be carried forward to the following period. As a result, as of the first half, the order backlog of 6,300 million yen was more than half of annual sales. In the architectural division, despite difficult market conditions, net sales, gross income, and operating income have been maintained since the fiscal year ended March 2013. This was due to highly profitable renovation projects and the market for goods other than window devices compensating for a decrease in properties.

In terms of balance sheet assets, recovery progressed of notes and accounts receivable–trade, mainly in the structural division that were accumulated at the end of the previous fiscal year, while cash and deposits decreased due to a 2,500 million yen purchase of treasury stock. Although capital investments increased considerably during the previous fiscal year due to aggressive expansions of overseas plants, the expenditures came full circle during the first half. In terms of liabilities and net assets, net assets decreased by nearly 1,400 million yen due to factors including a decrease in current liabilities due in part to the payment of taxes and an acquisition of treasury stock. Note that there are currently 4.06 million treasury shares held.

Cash flows from operating activities were substantial as a result of income before income tax and depreciation and amortization, and a decrease in notes and accounts receivable–trade. Although the cash flows from investing activities were slightly less negative due to capital investments reaching a level on par with depreciation, cash flows from financing activities were considerably negative due to dividend payments and the acquisition of treasury stock. As a result, the balance of cash and cash equivalents at the end of the first half was on par with the same period of the previous fiscal year. As they were equivalent to approximately 2.5 months of net sales, this is believed to be an appropriate level.

◆ Forecast for full fiscal year

We forecast consolidated net sales to increase 5.6% YoY to 62,700 million yen for the full fiscal year. This increase will be due to growth in the bearing and structural divisions. In terms of performance by segment, it is expected that the same growth trend will be maintained in the bearing division as in the first half. Regarding the structural division, in addition to the increase in sales of damping walls for the Nagoya Station front building during the first half and reconstruction projects in the Otemachi office district of Tokyo during the second half of the fiscal year, sales will also grow further with the adoption of seismic-isolation equipment for large warehouses along National Route 16. In terms of the products for bridges, these products are being used in the development of the Metropolitan Inter-City Expressway and there are plans to use them in several road development projects in the second half of the year. Although performance for architectural division has been on par YoY, the sales composition has changed considerably. Although devices that open windows for releasing smoke in the event of a fire had accounted for the majority of the sales composition in the past, recently contributions to sales have been made by Ecoraters that let in outside air from slits in order to save energy. Although these devices have been ordered by several Japanese clients in the past, orders were received from the first overseas client during the first half for the installation of 850 units in large buildings in Shanghai. Work is currently underway, scheduled for completion in June of next year. Due to recently increased focus on energy saving in China, orders have already been secured for three properties in the same area. The average amount is 80 million yen per project.

While operating income is expected to increase 5.7% YoY, positive factors are the reduced costs in addition to an earnings increase effect of 1,755 million yen, and effects of changes in foreign exchange rates have decreased significantly. Negative factors include an increase in personnel costs and operating costs due to large expansions of plants in Suzhou, Thailand, and the United States during the second half of the previous fiscal year. By segment, because expanded overseas factories all belong to the bearing division, this is a factor that has caused downward pressure on operating income, which was 520 million yen for the first half and is expected to be 800 million yen for the full fiscal year. In the structural division, although operating costs are expected to increase by 300 million yen for the full fiscal year, this is due to large-scale investments such as testing equipment for the development of new products and technologies for seismic isolation and vibration damping.

In terms of sales by region, sales to non-Japanese companies in Europe exceeded last fiscal year's 60% and are expected reach 64% this fiscal year. In Asia, the sales composition for sales of general industrial machinery products such as industrial machinery and construction machinery to non-Japanese companies is in the 40% range and is approaching 50%. For sales to auto manufacturers in Asia, Japanese companies still account for a high percentage of sales, and the ratio of sales to non-Japanese companies in this sector is only expected to reach about 9.8% this fiscal year. In the United States, Japanese companies account for about 70% of sales in this sector. The company has four business locations in Asia, namely India, Thailand, Suzhou, and Shanghai. Sales in Asia have grown rapidly from the previous year, and have already exceeded sales in the United States and are approaching 10,000 million yen. Significant growth is also expected in Europe from 2016 to 2017. Sustained efforts have been made to strengthen sales to European auto manufacturers, and we currently make deliveries to Volkswagen, Daimler, BMW, Fiat, Audi, Peugeot/Citroën, and Renault/Nissan, etc. There are three types of products, namely suspension products, steering products, and accessories. Accessories include air conditioning compressors and belt tensioners. In terms of new transactions for 2016 and onward, those with Volkswagen are expected to total 446 million yen, with BMW to grow significantly to 651 million yen, and with Daimler to total 271 million yen. Sales are expected to decrease slightly for Daimler compared to 2015 due to an uncertain outlook for sales of some products to China, a trend that could continue. These figures have been arrived at by adding to past projects, and total performance since 2012 has been 4,920 million yen. In term of sales from orders received from last year to this year by local automobile manufacturers by region, sales were 620 million yen for Europe, 171 million yen for the United States, and 277 million yen for China.

◆ Medium-term plan

We have established a new medium to long-term business plan, with the current fiscal year as the first year of the plan. It is a nine-year plan that will end in fiscal 2022. The plan is divided into three phases: “Kaikaku” (Innovation as Phase 1), “Seichou” (Growth as Phase 2), and “Hiyaku” (Significant Progress as Phase 3). In terms of quantitative targets, we aim for 100,000 million yen in net sales, a 15% operating profit margin; ROE over 10%; and an overseas net sales ratio over 50% by fiscal 2022. Since results consisted of net sales of 59,400 million yen, an operating profit margin of 10.4%, ROE of 7.9%, and an overseas net sales ratio of 30.7% as of the end of fiscal 2013, the hurdle is high for net sales and operating profit margin, and it will be impossible to achieve these figures by simply expanding strategies that have been used up to now. In order to increase net sales to 72,000 million yen by fiscal 2016 when Phase 1 ends, the plan anticipates particularly significant growth for the bearing division, with a significant contribution by the bearing division for operating income as well. As a measure to achieve this, overseas deployment of bearing division with a focus on Europe and Asia will be accelerated. In the structural division, business involving seismic isolation equipment that supports facilities for enabling non-stop production even if there is an earthquake is positioned as a new market that will serve as the third business pillar following buildings and bridges. In the architectural division, we will pursue convenience, safety and security, and the creation of comfortable spaces from the perspectives of the environment and energy conservation. For example, China suffers from air pollution with PM values of 2.5, and it is not possible to simply let in external air as is. For this reason, we are considering deploying ventilation systems in China that incorporate dust collectors utilizing electrostatic removal. This mechanism is the same as that used for smoking rooms and smoking areas in Japan, and it automatically processes smoke through electrostatic removal without emitting any smoke externally. We must continue penetrating untapped markets in this way by developing products that meet local needs. In regards to capital policy, a 1:1.2 stock split was implemented for shareholders as of the end of September. In addition, cancellation is being considered from treasury stock that have been acquired.

A ranking of top building materials and equipment manufacturers was announced in the most recent issue of Nikkei Architecture Magazine. We were ranked first in the seismic isolation and vibration control materials for buildings category. This ranking began three years ago, and we have been ranked first for the third consecutive year. We were also ranked third in the vibration control materials for detached housing category. Although in the past most of our products were for large buildings and we did not actively pursue products for detached housing, as a result of efforts to strengthen sales activities since the year before last, we went from being outside the ranking last year to third place this year. Because we have pioneered the seismic isolation and vibration control market in Japan, we believe that we must work to establish a number-one position within this market. However, because most competitors in seismic-isolation equipment are companies larger than our own, we believe that it is necessary to make aggressive investment in advanced technologies in order to successfully compete with these companies.

◆ Question and Answer Session◆

What kind of upfront investments are being made in the structural division?

Our proprietary LRB equipment that was approximately one meter until now is being expanded. If the number of seismic-isolation equipment products is reduced, the number of foundation pillars will also be reduced, allowing for larger spaces and an increased degree of design freedom. It will also be possible to use them in large high-rise buildings. In addition to LRB units, we are also considering decreasing the number of LRBs through combination with the slipping technologies we excel in, so that we can control property prices overall and improve cost competitiveness.

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＊The briefings materials used in this presentation can be viewed at the following website.

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