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New Medium- to Long-term Plan for FY14-20 Established

◆Ratio of overseas net sales rises to 30.7%

The financial results for the fiscal year ended March 2014 showed a 10.9% year-on-year (YoY) increase in net sales and a 31.7% YoY rise in operating income.

By segment, sales in the bearing division rose 14.2% YoY, while sales of automotive products were strong, backed by increased production among Japanese automakers and growth in business with overseas automakers. Sales of products for general industrial machinery recovered to levels exceeding those in the previous fiscal year, despite ongoing harsh conditions with business slow to react to economic recovery.

Sales in the structural division were up 1.7% YoY. Sales of seismic isolation devices for buildings are on the rise, supported by a growing need for seismic isolators, however labor shortages and climbing material costs meant that sales of devices for some planned buildings could not be posted in this fiscal period. Sales of products for bridges exceeded results in the previous fiscal year due to new orders of such products for large structures, even though business conditions remained harsh due to a downturn in new construction and an environment less conducive to new orders.

Sales in the architectural division were up 8.1% YoY, as core window operator products benefited from continued firm results in building renovations, as well as orders involving large properties brought in by year-end.

Consolidated net sales totaled 59,380 million yen, a record high. Overseas net sales amounted to about 18,200 million yen, with the ratio of overseas sales exceeding 30% for the first time, at 30.7%. The yen weakened against all of the foreign currencies used by overseas offices, and the yen weakened by more than 20% against five currencies, excluding Indian Rupee. Oiles forecasts record-high net sales of 63,300 million yen in the fiscal year ending March 2015.

The gross profit margin improved to 35.4% in the fiscal year under review. SG&A expenses increased, but the ratio of SG&A expenses to net sales was almost flat over the previous fiscal year, so operating income increased. The difference between operating income and ordinary income was about 1,000 million yen, but this consisted primarily of foreign exchange gains and subsidies for factory construction and other.

◆Aiming for improved profit margins in structural division

The consolidated balance sheet shows that total assets exceeded 70,000 million yen for the first time to reach 71,845 million yen. The breakdown indicates that current assets increased about 5,500 million yen due to a rise in notes and accounts receivable as a result of the sharp rise in sales of seismic isolation and vibration control devices through the end of the fiscal year under review. Fixed assets grew by about 3,000 million yen, primarily due to the major expansion of factories by overseas subsidiaries in Thailand, America and Suzhou in China.

On the liability side, fixed liabilities increased 1,600 million yen due to higher loans payable following ESOP trusts introduced in May 2013 and changes in accounting for retirement benefits. Net assets increased 5,100 million yen, and in addition to higher retained earnings, comprehensive income rose 1,700 million yen due to the weak yen and strong stock market. As a result, the equity ratio fell from 79% in the previous fiscal year to an77.2%, but remained high.

Operating cash flow was substantial, sourced from income before income tax and minority interest and depreciation expenses. However, factors related to working capital had a negative effect, and operating cash flow was only 4,407 million yen. Although capital investments kept cash outflows for investing activities in line with the previous fiscal year's levels, operating cash flow made up for it.

Looking at earnings trends by segment, the bearing division posted 40,902 million yen in net sales, 5,562 million yen in operating income and a 13.6% operating profit margin in the fiscal year under review. We forecast net sales of 43,000 million yen, 5,950 million yen in operating income and a 13.8% operating profit margin in the fiscal year ending March 2015.

In the structural division, net sales totaled 10,722 million yen and operating income was 197 million yen in the fiscal year under review. The operating profit margin came in at 14.3% in the fiscal year ended March 2011, surpassing that in the bearing division, but fell to 1.8% in the fiscal year under review. We forecast net sales of 12,000 million yen in the fiscal year ending March 2015, and large projects scheduled include the Shin-Meishin and Ken-o Expressway bridges. We also anticipate approximately 600 million yen in sales for damping walls for the redevelopment of the area in front of Nagoya Station and about 300 million yen for damping walls for office buildings in Otemachi and Marunouchi. We forecast 510 million yen in operating income, and expect that changes in the product category mix will restore the operating profit margin to 4.3%.

◆Expanding ratio of sales to non-Japanese companies in Europe

The bearing division's overseas net sales ratio stands at 39.5%, and we forecast a ratio of 44.8% in the fiscal year ending March 2015. Since the fiscal year ended March 2011, sales to non-Japanese companies have continued to surpass sales to Japanese companies in Europe, and we expect sales to non-Japanese companies to reach 67.6% in the fiscal year ending March 2015. Moreover, the majority of sales are to automakers, with sales to general industry about 10% overall. In Asia, we have a factory in Shanghai supplying products for general industry, and total sales have increased since the fiscal year ended March 2013 to surpass sales in North America in the fiscal year under review. We expect further growth in the bearing division in the fiscal year ending March 2015, with non-Japanese companies accounting for a higher percentage of sales of general industry machines and Japanese companies continuing to account for a very high percentage of sales to automakers. In North America, there have been no major fluctuations, and sales to Japanese companies account for about 65% of overall sales.

In Europe, we have ramped up our sales activities directed at local manufacturers, and have succeeded in increasing the number of inquiries from non-Japanese companies from 56 as of November 2013 to 69, and orders from 36 to 48. In addition, the Indian factory, which began operating at full scale in April 2013, secured orders from non-Japanese companies, and currently has had seven inquiries and five orders.

Sales to Japanese automakers are on the rise. In the fiscal year ended March 2014, sales totaled 21,939 million yen, and we forecast 22,503 million yen in sales in the fiscal year ending March 2015. Domestic sales began to decline from the fiscal year ended March 2014, but this was due to an increase in overseas production by our customers, and we expect sales from overseas subsidiaries to increase going forward.

Fluctuations in operating income for the bearing division in the fiscal year under review can be attributed to a 2,936 million yen increase in sales and a 380 million yen gain due to exchange rates. In addition, cost-cutting and changes in the product mix improved income. However, higher personnel costs, operating costs, depreciation expenses and material costs and a decrease in sales prices all served to lower operating income. We expect gains from exchange rates to decline to about 80 million yen in the fiscal year ending March 2015.

In the structural division, higher sales boosted operating income by only 70 million yen, which was not enough to absorb higher operating costs and lower sales prices, resulting in lower operating income. However, we hope to post operating income gains in the fiscal year ending March 2015 as a result of higher sales, lower material costs and cost-cutting.

Net sales in the architectural division totaled 6,606 million yen in the fiscal year under review. The operating profit margin fell to 2.6% in the fiscal year ended March 2011, but the percentage of renovation projects, which have a relatively high profit margin, increased, while structural reforms got underway, and this subsequently brought the operating profit margin above 5%, to reach 6.5% in the fiscal year under review. We expect 6,900 million yen in sales and an operating profit margin of 6.1% in the fiscal year ending March 2015.

In regards to capital policy, Oiles has acquired treasury stock six times, retired treasury stock twice and carried out stock splits three times since the fiscal year ended March 2005. We target a dividend payout ratio of at least 30%, and plan to pay annual dividends of 50 yen per share for the fiscal year ended March 2014 (dividend payout ratio of 33.9%).

◆Establish brand in global market

We established a new long-term business plan covering fiscal 2014 to fiscal 2022. Our long-term vision is to take the challenge to be a global excellent company, and we aspire to establish the Oiles brand in global markets. In addition, we aspire to master tribology (friction, wear and lubrication) and damping (vibration control) and build a corporate group that achieves sustained growth.

In the first phase (fiscal 2014-2016), our medium-term management policy focuses on “innovation,” and in this phase we will restructure business strategy through collaboration in manufacturing, sales and technology. We will focus on establishing a development framework geared toward conceiving world-first, world-best products, improving asset efficiency and developing the skills of our workforce. The theme of the second phase (fiscal 2017-2019) is “growth,” and during this period we aspire to establish a business platform by selecting target markets and manufacturers and focusing our business resources on these targets. In addition, we will forge new areas of business and reinforce the revenue structure. The theme of the third phase (fiscal 2020-2022) is “significant progress,” during which we will pursue core technologies and speed up innovation to achieve the top ranking in global markets. We will strengthen our competitiveness in marketing, technology and manufacturing.

In terms of quantitative targets, we aim for 72,000 million yen in sales and an 11% operating profit margin in the first phase, 85,000 million yen in sales and an 11.9% operating profit margin in the second phase, and 100,000 million yen in sales, a 15% operating profit margin, ROE over 10% and an overseas net sales ratio over 50% in the third phase. We are targeting 70,000 million yen in third-phase sales in the bearing division, 18,000 million yen in the structural division, 10,000 million yen in the architectural division and 2,000 million yen in other division. In third-phase operating income, we are targeting 11,800 million yen in the bearing division, 2,100 million yen in the structural division, 1,150 million yen in the architectural division and 50 million yen in other division.

Our business strategy for the bearing division aims to significantly shift business resources overseas and achieve major growth globally. Specific measures include taking advantage of opportunities involving key components for non-Japanese manufacturers in the automotive market. We also aspire to expand sales to Japanese manufacturers by developing new applications and materials. In the non-automotive sector, we will pursue global business by offering new forms of value. We will also forge new markets by developing differentiated products that offer better precision, higher performance and greater added value.

The structural division will offer customers safety and a sense of security through advanced and original seismic isolation and vibration control technologies. Specific measures in the buildings sector include gaining a competitive edge by developing new products, cutting costs and other initiatives, while in the bridges sector, we will introduce systems designed to reduce overall property-related costs. In the new market, we will pursue opportunities in business involving seismic isolation equipment that supports facilities enabling non-stop production. In the architectural division, we will develop external venetian blinds and ventilation and smoke exhaust systems that will provide convenience, safety and a sense of security.

Our overseas development has focused on the bearing business, but the structural business is shifting overseas as well, and in April 2013 we set up a representative office in Hanoi. We have also begun to present at exhibitions and participate in academic conferences in Turkey, where demand for seismic isolators is growing. The architectural division, which currently only operates in Japan, is beginning to attract attention in China for its external venetian blinds, and we expect our ventilation and smoke exhaust systems to also be introduced.

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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