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6282 OILES

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Capital investments and implementation of innovation for future growth

◆Steady increase in sales

During FY2014 (fiscal year ended March 31, 2015), net sales were 61,897 million yen (up 4.2% year on year), operating income was 6,084 million yen (down 1.8%), ordinary income was 6,637 million yen (down 6.8%), and net income was 4,300 million yen (up 2.3%). While both gross income and the gross income margin increased, operating income and ordinary income decreased due to an increase in SG&A expenses. The number of employees in Japan has increased slightly since FY2012, reaching 1,700 employees as of the end of the current fiscal year. While the number of employees overseas was 601 in FY2012, subsequently the bearing factories in Thailand, America, and China grew by two to three times each, accounting for 782 employees by the end of the current fiscal year. The ratio of employees overseas to the total number of employees for FY2015 is 34.0%, which is projected to be nearly in line with the overseas net sales ratio.

In terms of the balance sheets, total assets were 75,322 million yen (up 3,477 million yen). As part of efforts to provide return to shareholders, treasury stock was acquired in September. The total acquisition amount was approximately 2.5 billion yen, and approximately 965 thousand shares were acquired. As a result, cash and deposits decreased, and current assets were 40,963 million yen (down 712 million yen). As a result of active capital investments and an increase in investment securities, fixed assets were 34,358 million yen (up 4,190 million yen). Total liabilities were 15,111 million yen (up 2 million yen). The foreign currency translation adjustment increased by 1,562 million yen due to yen depreciation, while the valuation difference on available-for-sale securities grew by 1,103 million yen. As a result, net assets were 60,210 million yen (up 3,475 million yen).

Cash flows from operating activities were 6,545 million yen (up 2,138 million yen) as a result of an improvement in demand for working capital. Cash flows from investing activities were a negative 3,827 million yen (up 400 million yen). While capital investments fell, they remained at high levels. Cash flows from financing activities were a negative 3,787 million yen (down 3,279 million yen), mainly due to the acquisition of treasury stock. As a result, the balance of cash and cash equivalents at the end of the fiscal year was 11,196 million yen (down 694 million yen). This represents approximately two months of net sales, which is a generally reasonable level.

◆Sales expanded by leveraging strong fields

In terms of results by segment, in the bearing division net sales were 43,057 million yen (up 5.3%). Sales of automotive products increased on the back of greater business with overseas automakers in addition to an expansion of new business in emerging markets. In addition, sales of general industrial machinery products were solid against the background of the recovery of corporate earnings. While gross income increased, operating income was 5,587 million yen, mainly due to an increase in personnel expenses. The operating margin fell from 13.6% to 13.0%. Estimated net sales for FY2015 are 46,200 million yen. The forecast for operating income is 6,200 million yen, and the operating income margin is expected to improve to 13.4%.

In the structural division, net sales were 11,308 million yen (up 5.5%). Structural equipment consists of products for bridges and products for buildings. Sales of products for bridges declined due to a drop in new orders and delays in earthquake recovery construction projects. In sales of products for buildings, there was significant growth in sales of seismic isolation devices using our proprietary sliding technologies, as well as the steady adoption of damping walls that function as vibration control devices. While gross income increased, operating income was 192 million yen, mainly due to an increase in expenses such as business investments. While products for bridges accounted for 70% of sales in the past, currently products for buildings account for 70% and products for bridges account for 30%. As there are no longer any newly developed highways or Shinkansen lines, the amount of bridge work in the market has decreased to about one-third of the levels in the 1990s. While there is reconstruction demand in the Tohoku region over the medium term, no significant increase is expected over the near term. Under this environment, sales of products for buildings have grown and revenue growth has been secured. Going forward, the Company will work to increase the size of its strongly performing seismic isolation devices. Seismic isolation devices are normally used for low- to medium-rise buildings up to 14 to 15 floors high, while vibration control devices are used for high-rise buildings. Although it was not possible to use seismic isolation devices for high-rise buildings using conventional technologies, this will be made possible by increasing the size of seismic isolation devices. In order to increase the size of these devices, it is necessary to gather the data required for materials certification, and preparations are underway for tests such as the production of test samples. There are plans to introduce equipment such as testing machines and evaluation equipment in the future. In addition, the lineup of seismic isolation devices has been expanded with the adoption of sliding technologies developed through bearings. By combining seismic isolation devices using rubber and lead with those using sliding technologies it will be possible to achieve total cost reductions while gaining the functionality of both. Approximately 160 million yen in technology development costs were invested in this segment alone for these efforts. Net sales of 12,000 million yen and operating income of 300 million yen are projected for FY2015.

In architectural division, net sales were 6,356 million yen (down 3.8%). Sales of natural ventilation systems grew as a result of orders for large properties. While sales of core window operator products were in line with the previous year, sales of residential products declined. While domestic properties accounted for the majority of business in this segment in the past, multiple orders were received for properties in Shanghai, China during the fiscal year under review, and approximately 95 million yen was recorded as a result. Projected net sales for FY2015 are 6,500 million yen.

Net sales for other divisions were 1,174 million yen (up 2.2%). Projections for FY2015 are 1,300 million yen.

In terms of the sale composition ratio for non-Japanese customers, European customers accounted for 64.0% and North American customers accounted for 30.4%. While Asian automotive customers accounted for 8.0%, this is projected to become 17.8% in FY2015. While business is strong with Japanese companies in Asia, non-Japanese companies also possess strong track records in China and India. The localization of technology development is being pursued in order to respond to these needs. Currently we have 28 engineers at four locations in America, Germany, Suzhou, and Shanghai. Manufacturers active in China and India are European and North American joint ventures, and it is necessary to approach headquarters in Europe and North America in order to capture this demand. While sales and the sales rate growth are highest in Asia, in order to grow sales in Asia, it is necessary to approach customers in North America and Europe.

In regards to capital policy, a stock split was implemented in October. Including this, four stock splits have been implemented since FY2005. Each was a 1 to 1.2 stock split. There have been seven share buybacks in which a total of 5,935 thousand shares have been acquired. There have been three cancelations of treasury stock in which a total of 5,500 thousand shares have been canceled. A dividend of 50 yen per share was paid during the fiscal year under review, and a dividend of 50 yen per share is scheduled for FY2015 as well.

◆ Medium- to Long-term Plan

The Group Management Policy is to become a world leader as a general manufacturer of oil-less bearings and serve society through technology. The long-term vision is “Take the Challenge to Be a Global Excellent Company.” For this reason, the Company is working to establish the Oiles brand in global markets and to master technologies involving tribology (friction, wear and lubrication) and damping (vibration control). Another aspect of the vision is building a corporate group that achieves sustained growth. The long-term plan for the nine years until FY2022 will be implemented through medium-term steps that last three years each. Phase 1 from FY2014 to FY2016 is for “Kaikaku” (Innovation). Phase 2 from FY2017 to FY2019 is for Seichou” (Growth). Phase 3 from FY2020 to FY2022 is for “Hiyaku” (Significant Progress). Aiming to achieve the targets for FY2022, innovation will be implemented during Phase 1 for all aspects including technology, products, sales methods, production methods, and systems. The current increase in SG&A expenses is a result of investments for this innovation.

In order to achieve this innovation, the Company will restructure business strategy through collaboration in manufacturing, sales and technology, and establish a development framework geared toward conceiving world-first, world-best products. However, even if the Company’s products are world-first and world-best, this means nothing if there is no value for the customer. The Company’s intent is for its technologies and products to enable the products of customers to function as world-first and world-best products. In addition, the Company will work to improve asset efficiency.

In bearing division, strategies are being established separately for both the general industrial field and the automotive field, and for Japan and overseas. In the automotive field, while non-Japanese customers have been the focus, Japan is the base for development themes. The Company will aim to profit from the results of this development overseas. In structural division, because the overwhelming majority of business is domestic, strategy has been divided based on the classifications of existing businesses and new businesses. In addition, goals have been stipulated for the innovation phase for architectural equipment, research, production, and headquarters. In

the process of the business environment changing significantly as a result of innovation, it will be necessary to look at the Company overall and determine where resources should be concentrated. The headquarters or management will display leadership, allocate management resources appropriately, and pursue growth strategies.
In terms of the result projections for FY2016, net sales of 72,000 million yen and operating income of 8,000 million yen are projected. The targets for FY2022 are net sales of 100,000 million yen and operating income of 15,100 million yen. If growth continues at the current pace, while it is expected that net sales will be achieved, the operating income target will not. During this innovation phase, capital and human resource investments will be pursued for future growth, and the earnings structure will be improved.
The Company’s seismic isolation devices have a strong track record not only for buildings, but also for bridges. The Company aims to pursue seismic isolation for manufacturing facilities going forward. Many factories had to suspend production due to the Great East Japan Earthquake. If manufacturing activities are suspended in the event of a similar large-scale earthquake occurring in a location such as the Tokyo metropolitan area in the future, it would not only cause economic losses, but also have a serious impact on the lives of people engaged in the manufacturing industry. In the manufacturing industry, if a situation in which production is not possible continues for even one month, it may not be possible to acquire the same demand as before once manufacturing is resumed. Accordingly, seismic isolation devices for manufacturing facilities are important, and the Company would like to make a contribution in this manner.

◆ Question and Answer Session◆

Please tell us your specific overseas strategy for bearing division under the Medium- to Long-term Plan.
In the general industrial field, the Company is focusing on social infrastructure facilities centered around hydroelectric power generation in Southeast Asia and South America. Hydroelectric power generation accounts for approximately 70% of power in Brazil, and in Southeast Asia there is demand in locations such as Laos and Malaysia. There is also demand in China, which the Company will continue to consider. In the automotive field, because there are close connections on a global level, the Company will make an overall global response rather than focusing on individual regions.
(May 26, 2015; Tokyo)
＊The briefing materials used in this presentation can be viewed at the following

website.
http://www.oiles.co.jp/ir/library/material.html