

May 16, 2018

# OKADA AIYON CORPORATION

(TSE1 6294)

Corporate Presentation Materials

Toshiyuki Kanda, President



## Contents

- Business Summary
- FY3/18 Business Results
- Medium-to Long-Term Management Plan – Rolling Plan



**OKADA AIYON CORPORATION**

# ■ Business Summary

## Corporate Profile

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[End-FY3/18]

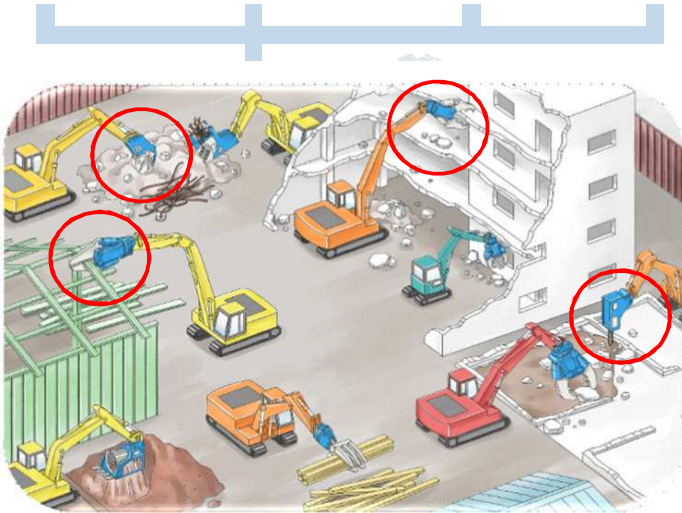
<b>Company name</b>	<b>OKADA AIYON CORPORATION</b>
<b>Founded</b>	<b>July 1938 (established in 1960)</b>
<b>Head office</b>	<b>4-1-18 Kaigan-dori, Minato-ku, Osaka</b>
<b>Capital</b>	<b>2,221 million yen</b>
<b>Sales</b>	<b>15,399 million yen (end-FY3/18, consolidated)</b>
<b>Fiscal year</b>	<b>March 31</b>
<b>Employees</b>	<b>402 (consolidated)</b>
<b>Business</b>	<b>Manufacture, sales and repair of construction machinery</b>
<b>Listing</b>	<b>TSE1 (6294)</b>
<b>Shares issued</b>	<b>8,378,700 shares</b>



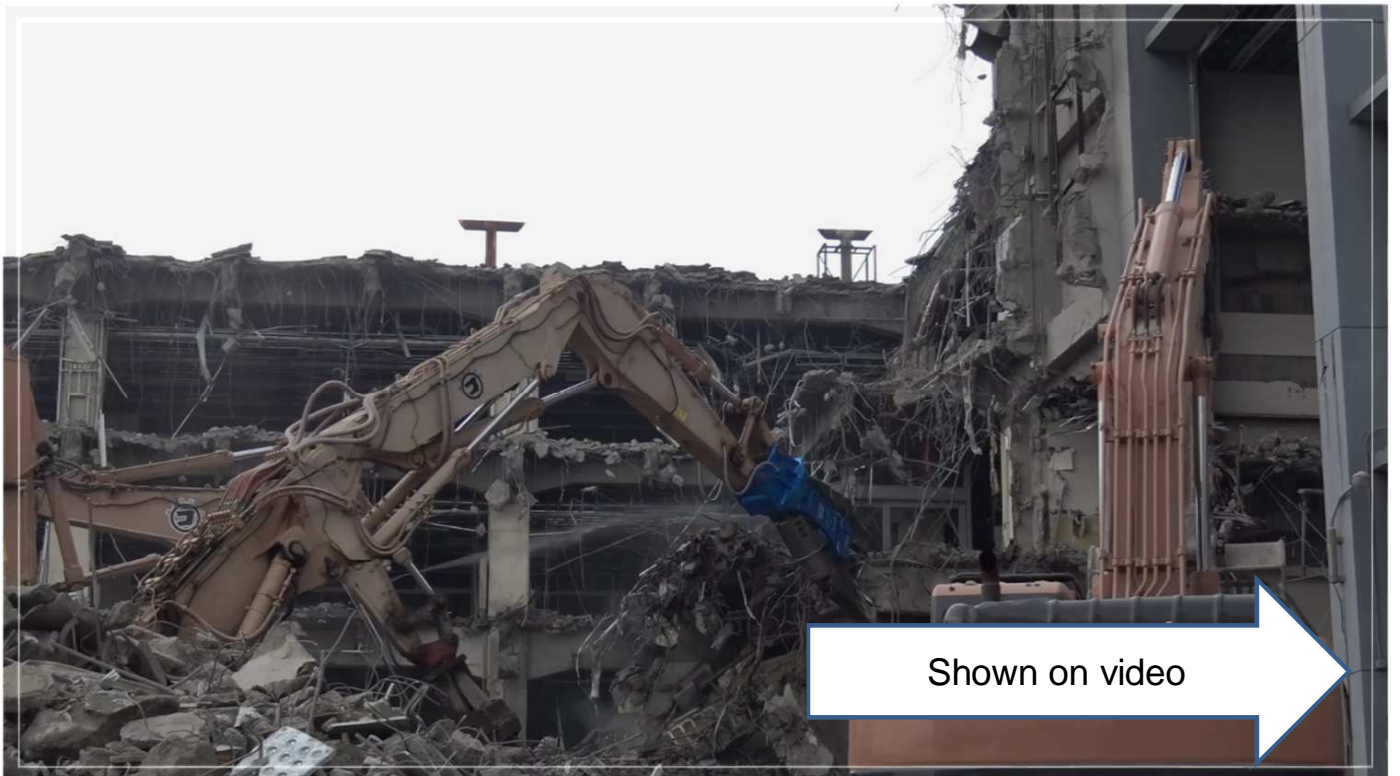
## Demolition attachment (Tip of hydraulic shovels)



## Environmental machinery (Wood grinders)

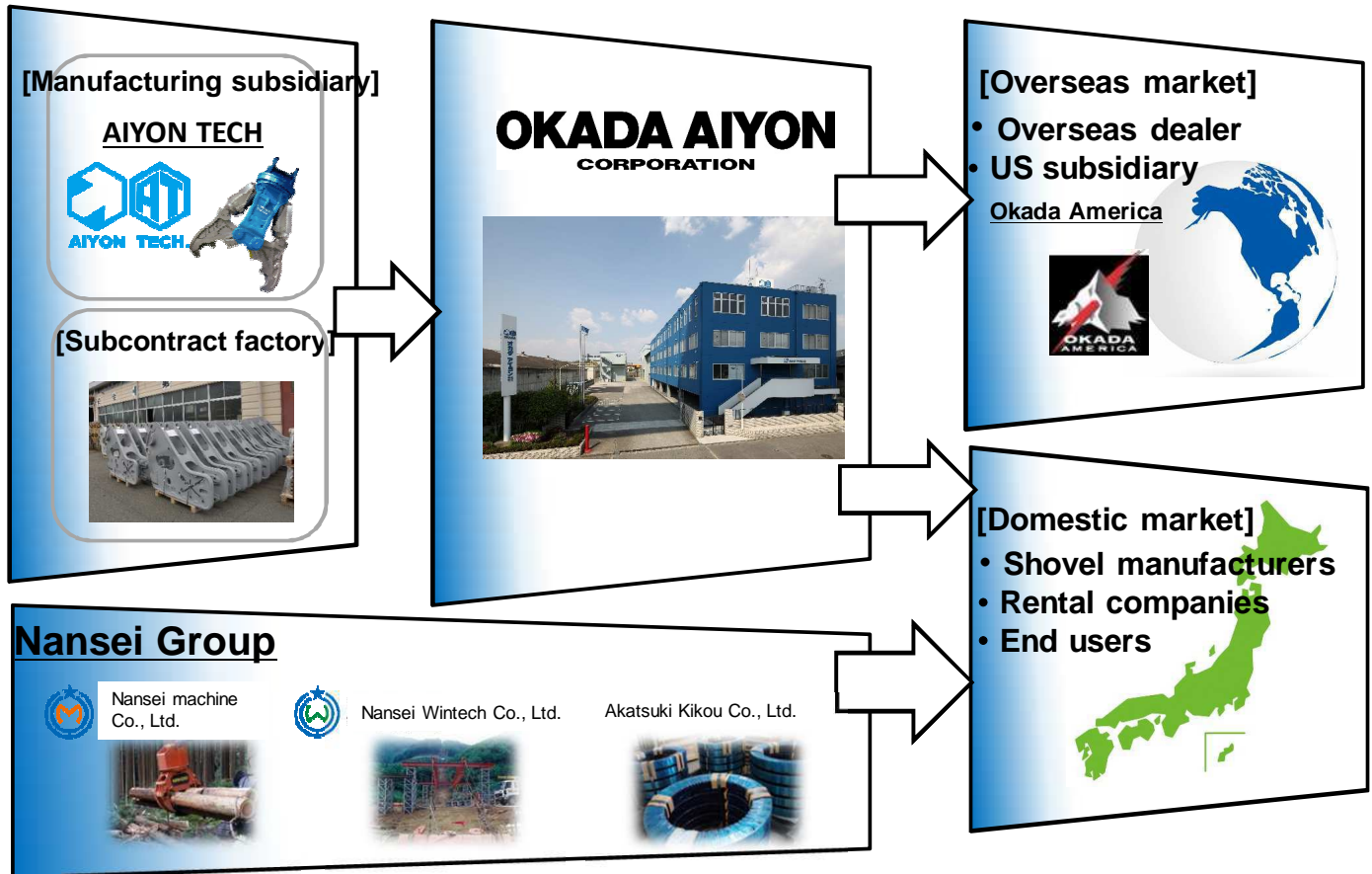


# Primary Crushers TS-WB Crusher



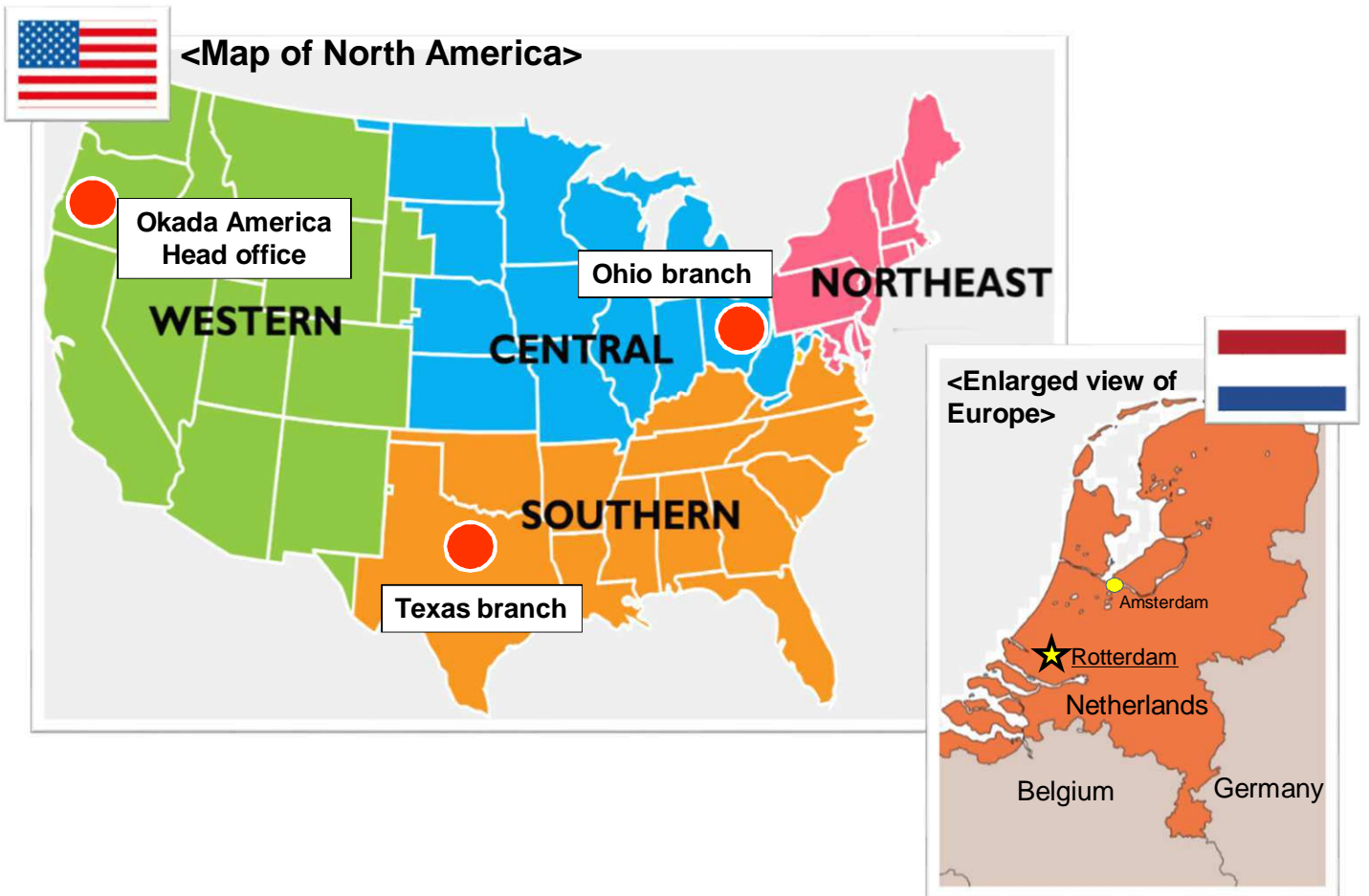
## <Manufacture/procurement>

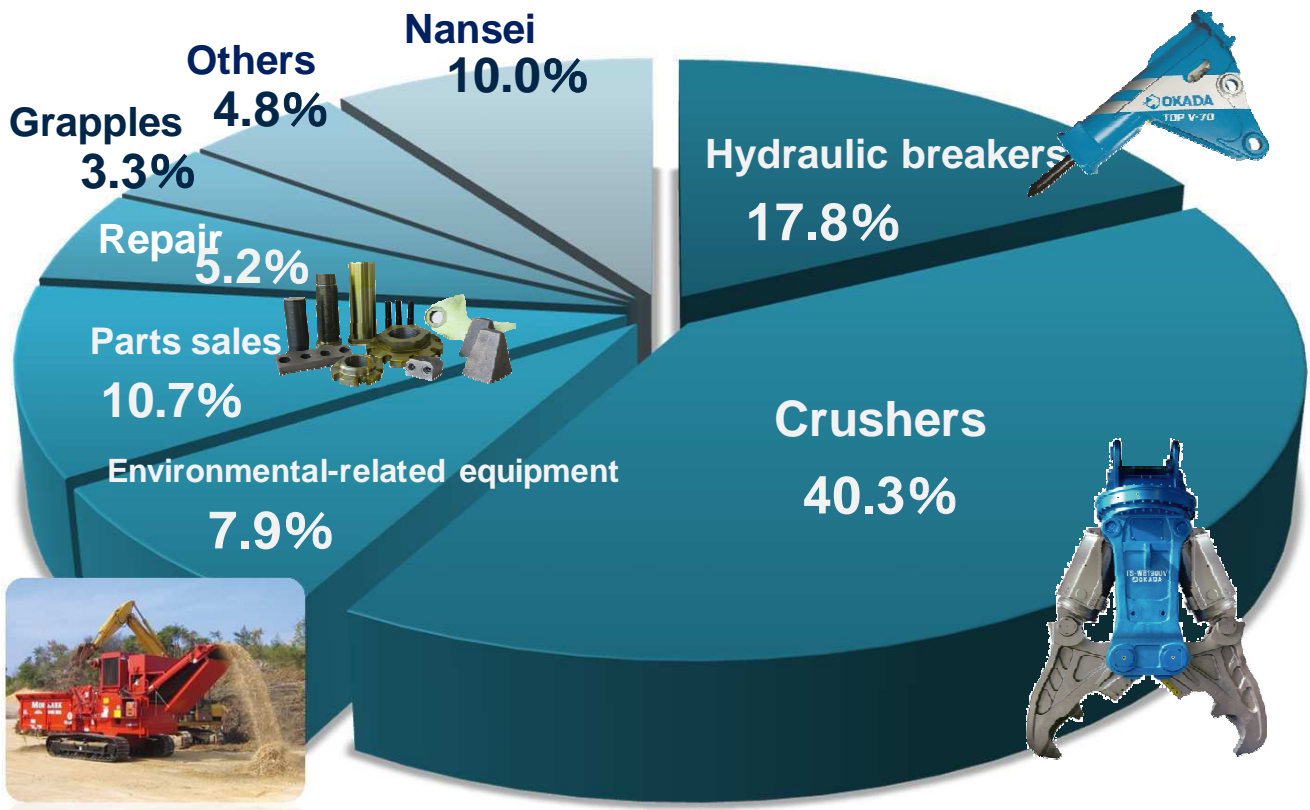
## <Development/sales/repair>



## Domestic Business Locations (12 Sales Offices, 1 Manufacturing Base)





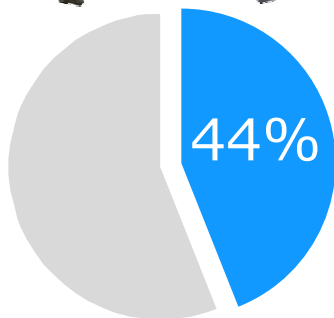


\*Our sales composition ratio from April 2017 – March 2018

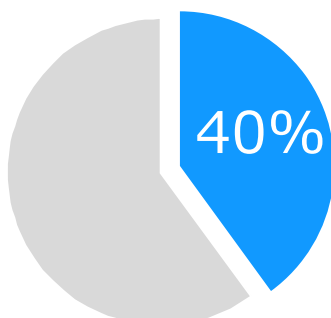
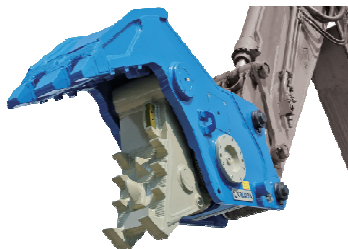
## Our Strengths



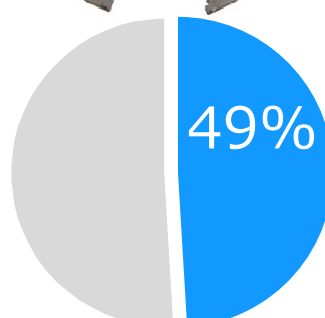
## Primary crushers



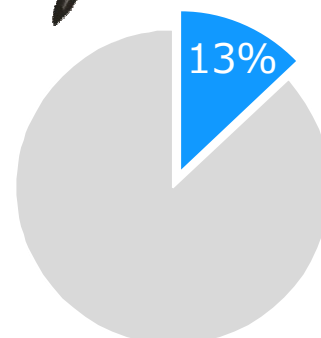
## Pulverizers



## Cutters



## Hydraulic breakers



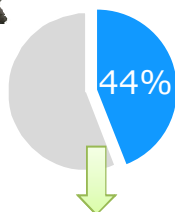
Prepared by our Company based on the Japan Construction Equipment Manufacturers Association's presentation materials (April 2017 – March 2018 total)

# Tokyo Area Main Products and Domestic Shares

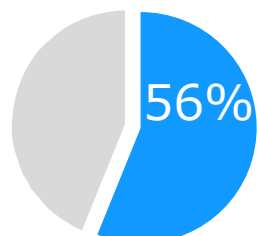
## Primary crushers



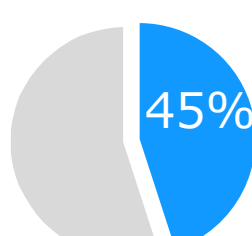
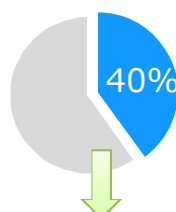
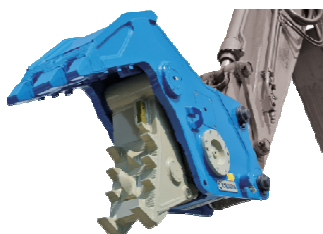
National average



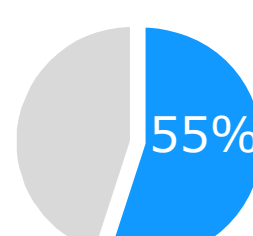
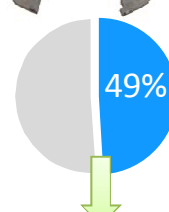
Tokyo area



## Pulverizers



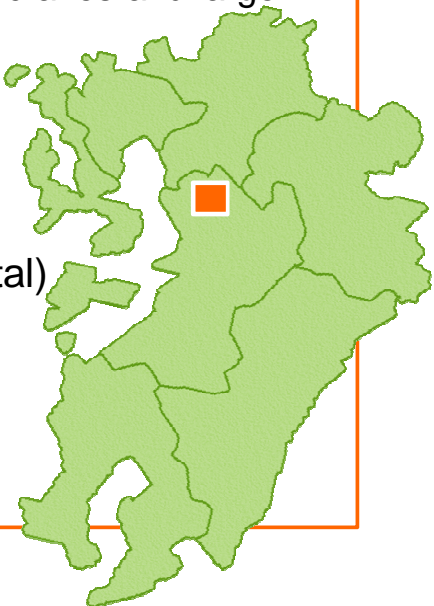
## Cutters



Prepared by our Company based on the Japan Construction Equipment Manufacturers Association's presentation materials (April 2017 – March 2018 total)  
Tokyo area: Tokyo, Saitama, Chiba, Kanagawa

[End-FY3/18]

Name	Nansei machine Co., Ltd., Nansei Wintech Co., Ltd., Akatsuki Kikou Co., Ltd.
Business	Design, production and sales, etc. of forestry machines, scrap machines, cable cranes and large winches, etc.
Location	Kikuchi-shi, Kumamoto
Founded	1948
Net sales	1,532 million yen (6 months total)
No. of employees	180



## Main Products of the Nansei Group



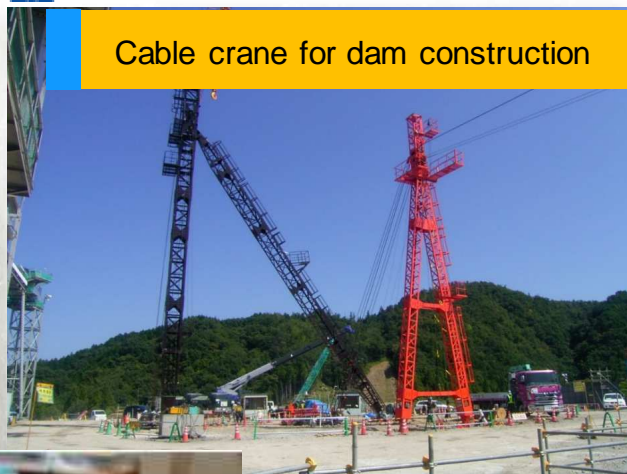
Nansei machine Co., Ltd.



Forestry grapple



Nansei Wintech Co., Ltd.



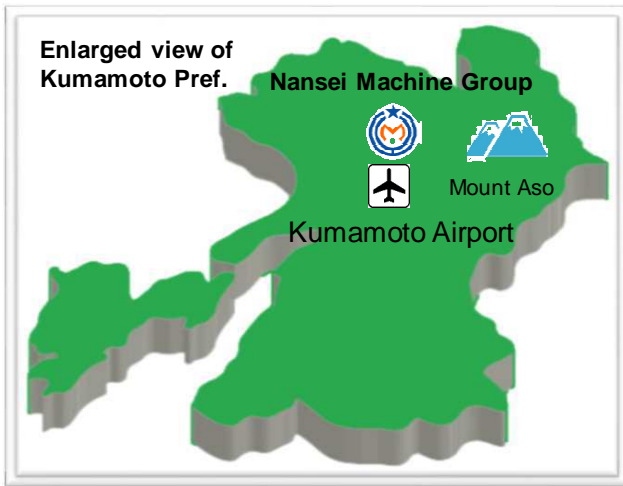
Cable crane for dam construction

Akatsuki Kikou Co., Ltd.

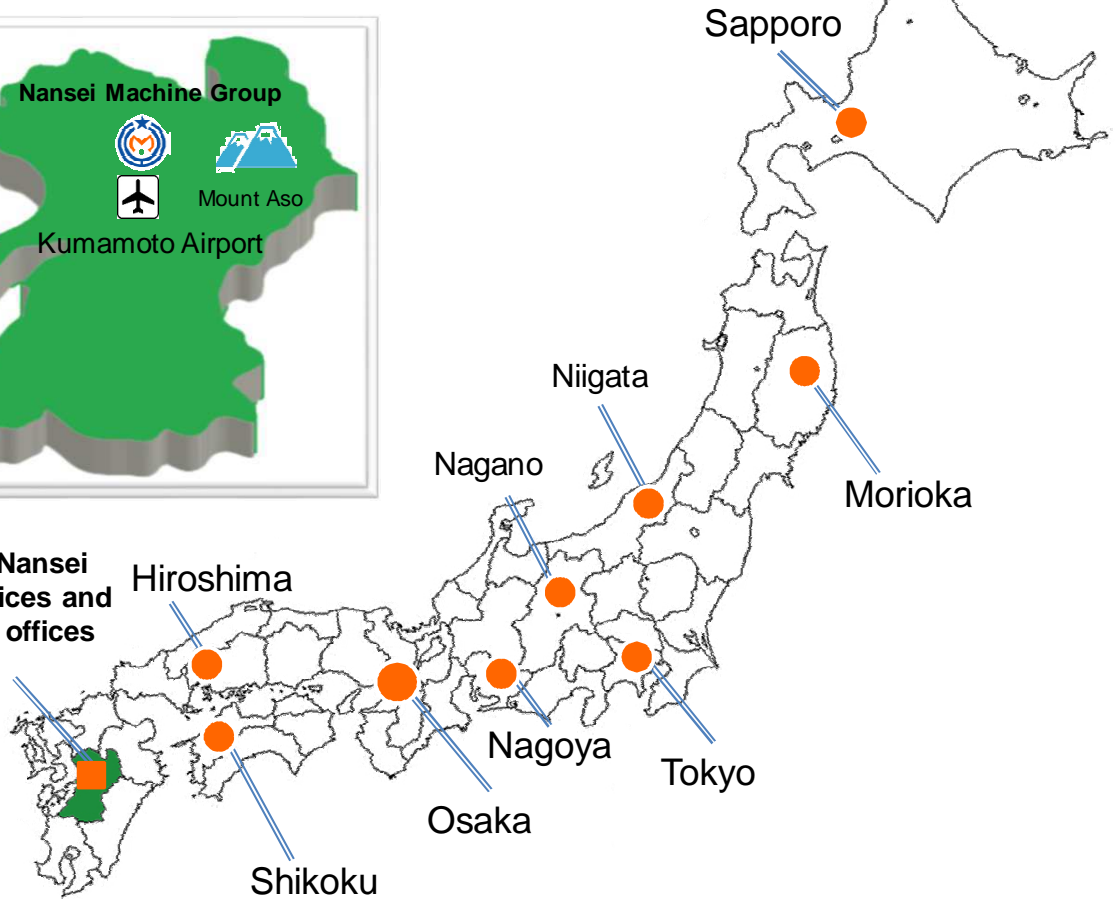


Sales of parts and tools

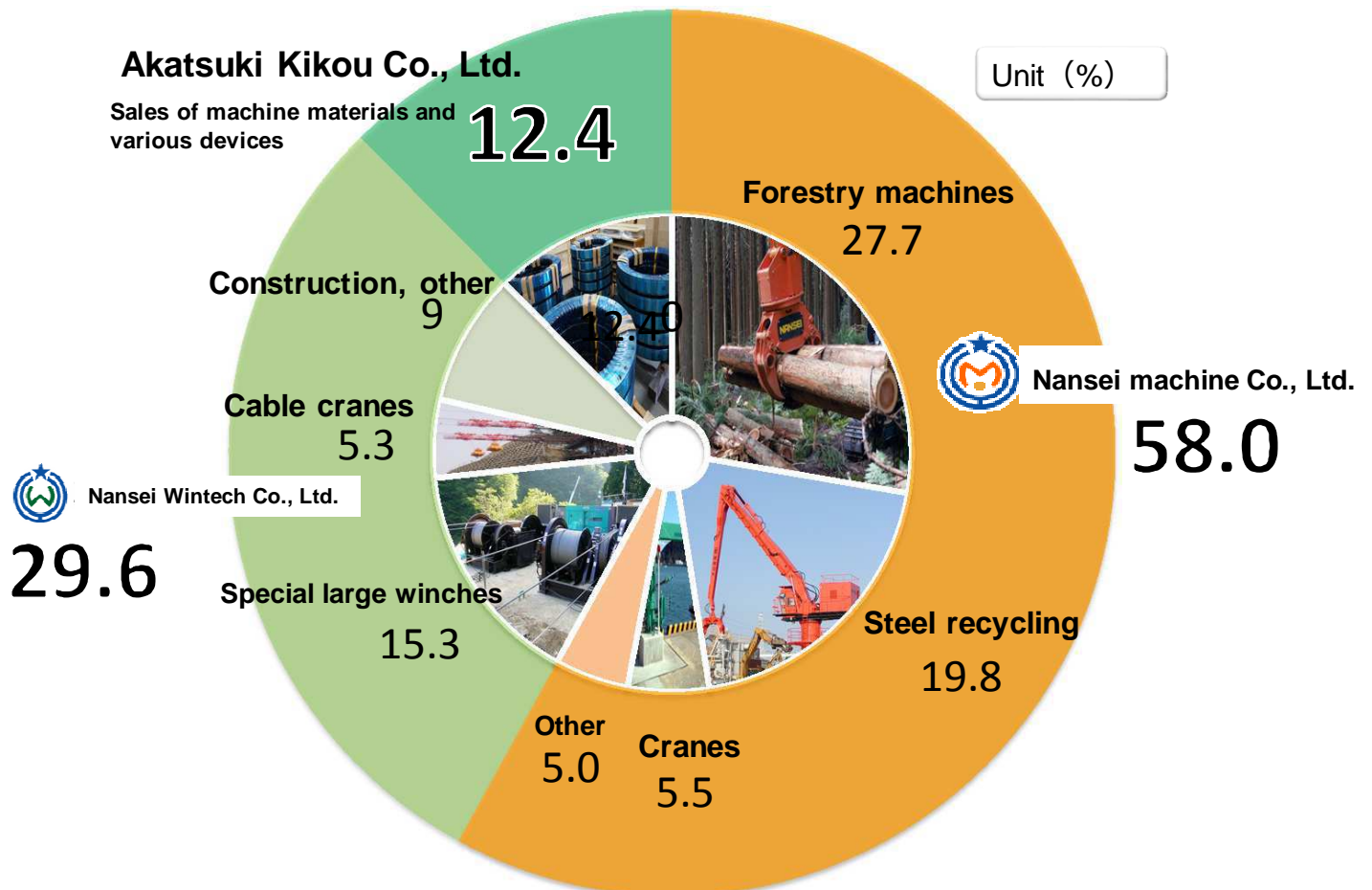




Nansei machine/Nansei Wintech head offices and Kumamoto sales offices  
Akatsuki Kikou



Sales Composition (FY3/18) 18



\* Nansei Machine Group sales composition from October 2017 to March 2018



## OKADA AIYON CORPORATION

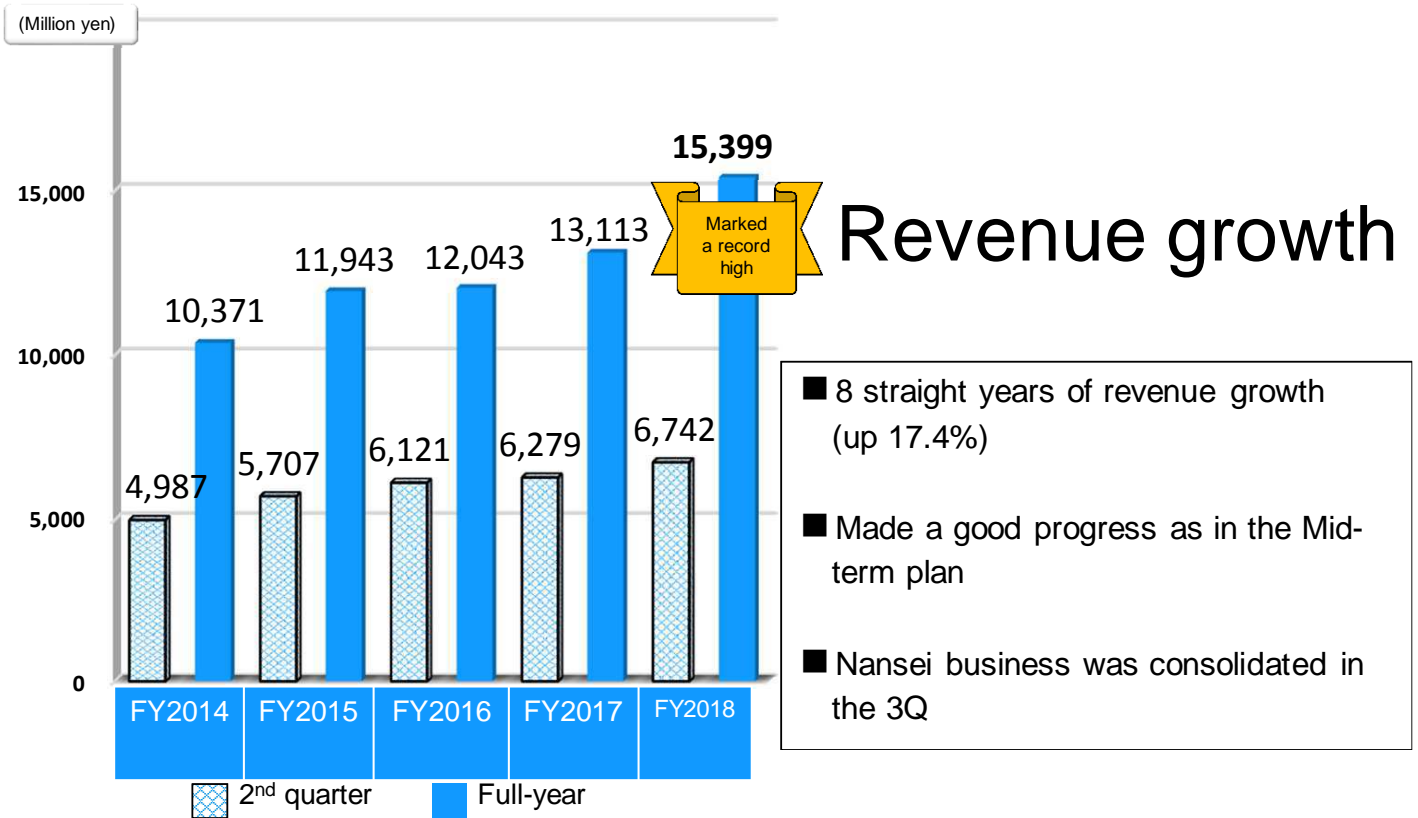
# ■ End-FY3/18 Business Results

### End-FY3/18 Consolidated Business Results (Key Points)

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\*Parentheses represent YoY comparisons

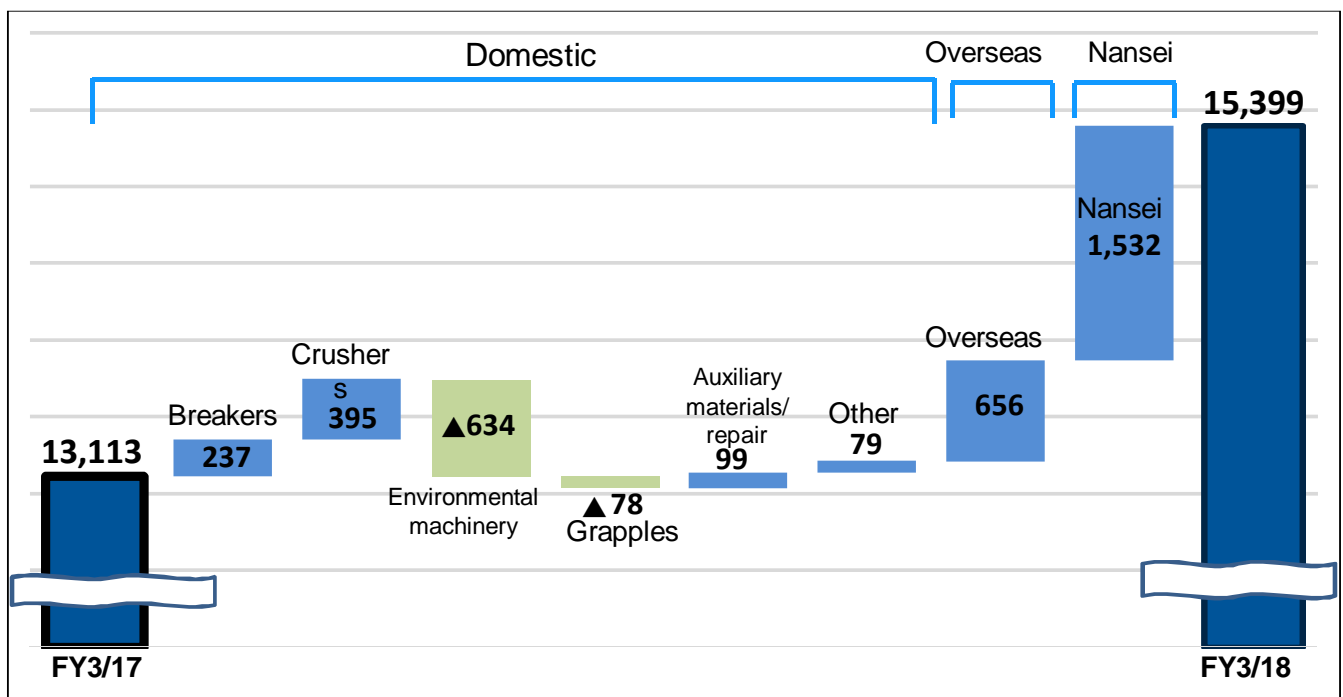
- Consolidated net sales was 15,399 million yen (up 17.4%)
- Ordinary income was 1,270 million yen (up 16.4%)
- [Domestic] Both sales of crushers and hydraulic breakers increased due to strong demand for redevelopment and reconstruction but sales of wood smashers decreased due to the effect of emission control  
Sales of 11,114 million yen (up 0.9%)
- [Overseas] Sales increased to 2,752 million yen (up 31.3%) due to a recovery of rental demand in North America, expansion of agents in Asia and launch of representative office in Europe
- [Nansei] Sales of Nansei business which was consolidated in the 3<sup>rd</sup> quarter was 1,532 million yen (6 months total) as a result of selling forestry machines, steel scrap machines and various winches, etc.

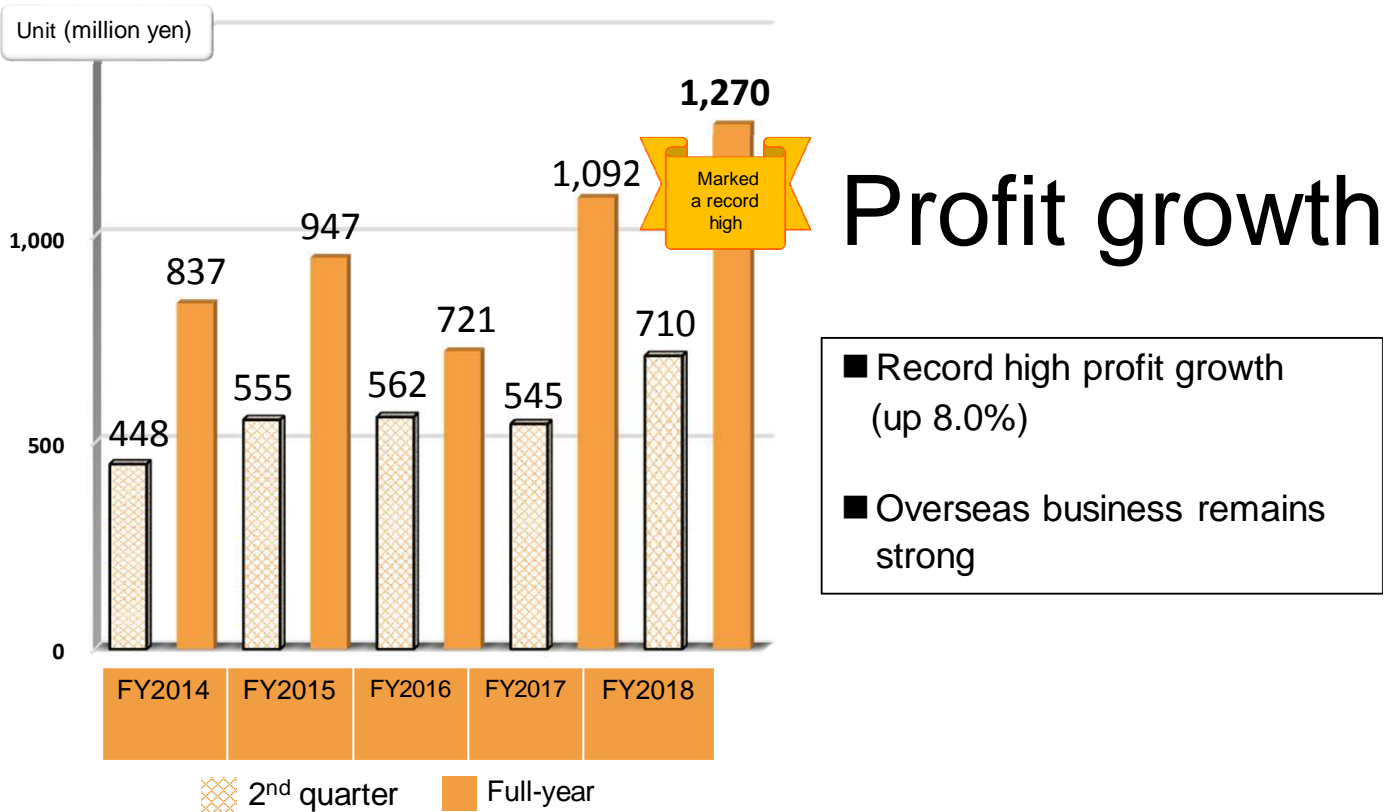


## Factors for Changes in Net Sales at End-FY3/18

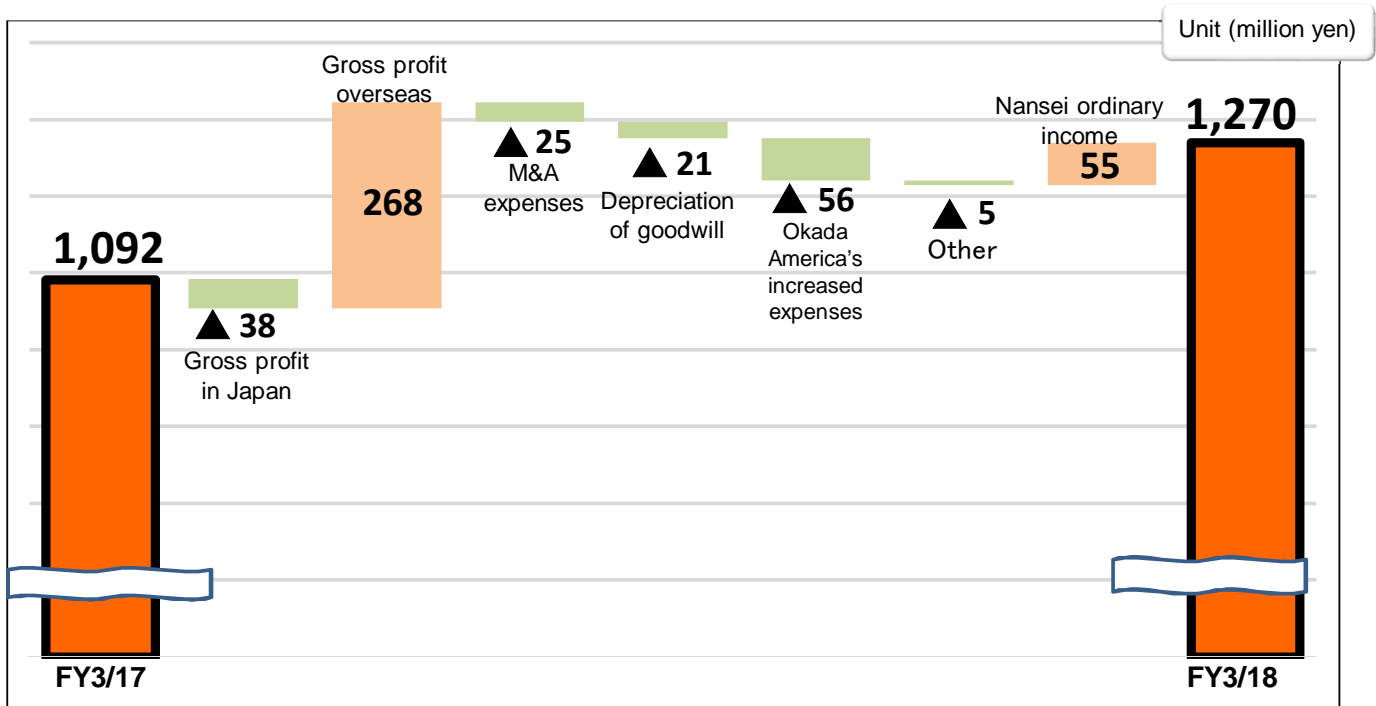
- In Japan, sales of strategic hydraulic breaker products were strong in addition to the continued rise in the core crusher shares. However, environmental machinery sales decreased significantly due to the effect of emission control
- Overseas sales increased in North America, Asia and Europe

Unit (million yen)





- Gross profit in Japan remained the same mainly because of the increased cost rate due to the depreciation of the yen
- Gross profit overseas continued to increase due to increased sales
- M&A expenses and depreciation of goodwill increased in the SG&A expenses



Unit (million yen)

<b>Loss on liabilities for guarantee</b>	<b>117</b>
<b>Provision of allowance for doubtful accounts</b>	<b>32</b>
<b>Loss on retirement of fixed assets</b>	<b>18</b>
<b>Other</b>	<b>28</b>
<b>Total</b>	<b>197</b>

## Highlights of Public Offering

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- Procured about 1,480 million yen through public offering
- Mainly used for funds for M&As (1.3 billion yen), investment in repairing large machinery (50 million yen), rebuilding of Hiroshima sales office and factory (50 million yen)

<b>No. of shares issued</b>	<b>1.15 million shares</b> <b>(of which OA 150 thousand shares)</b>
<b>Estimated total amount of proceeds</b>	<b>1,483 million yen</b>
<b>No. of shares outstanding after capital increase</b>	<b>8,378,700 shares</b>
<b>Capital after capital increase</b>	<b>2,221 million yen</b>

Arch 2020



# Medium-to Long-Term Management Plan 2<sup>nd</sup> Stage Rolling Plan (2018 – 2020)

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## Outline of Medium-to Long Term Management Reforms “Arch 2020 Strategy”

“Arch 2020 Strategy” (FY2015 – FY2020)

Build a bridge over the Year 2020 aiming for triple “1.”

Sales target <b>triple “2”</b>	Financial target <b>triple “10”</b>
① Consolidated net sales 2 times (20 billion yen)	① Sales growth rate (average) 10% or more
② Domestic shares of main products Up 20%	② Operating income margin 10% or more
③ Overseas sales 2 times	③ Return on equity (ROE) 10% or more

### Company target **triple “1”**

[Topnotch] Topnotch professionals will offer

[First-rate] First-rate products and services

[Strength] Aiming for the industry’s No.1 enterprise group

# Progress of Medium-to Long-Term Management Reforms “Arch 2020 Strategy”

## Medium-to long-term management plan Arch 2020

### 1<sup>st</sup> stage (2015 – 2017) results

Million yen	FY2015	FY2016	FY2017
Net sales	12,043	13,113	15,399
Ordinary income	721	1,092	1,270

### Growth + Building a framework

Production system: Expansion of main factory
Domestic operation: Establishment of new locations in Tokyo area
Aftermarket: Improvement of service factory system
Overseas development: Establishment of new locations in North America and Europe
New business development: Management integration with the Nansei Group
Strengthen management base: Listing on the TSE 1 <sup>st</sup> section

### 2<sup>nd</sup> stage (2018 – 2020) Medium-term management plan

FY2018	FY2019	FY2020
17,500	18,500	20,000
1,500	1,700	2,000

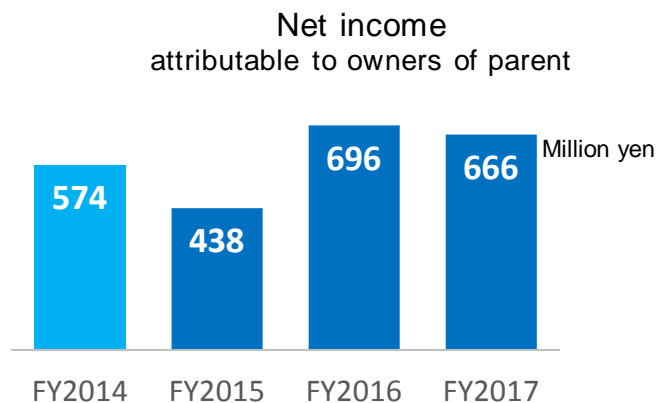
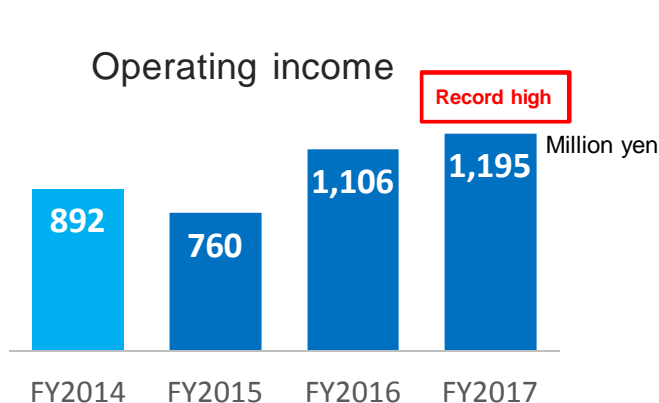
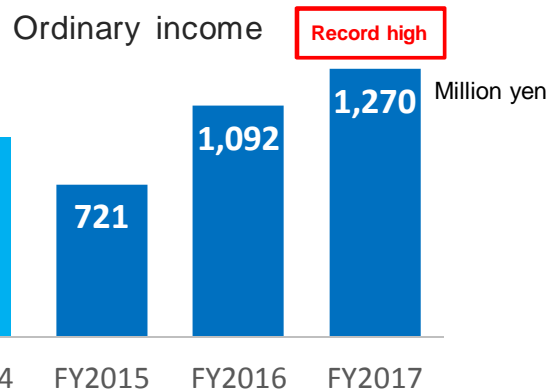
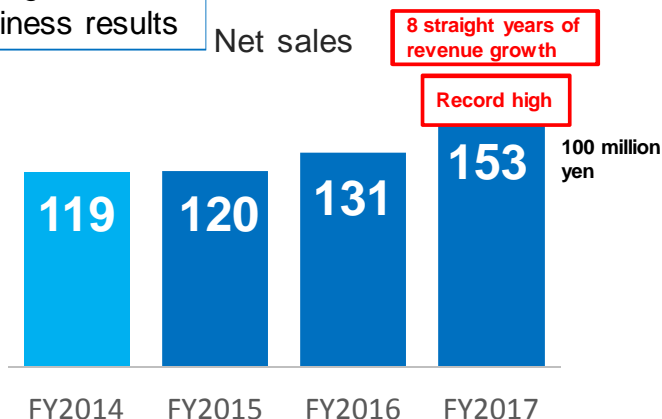
### Further growth + Quality improvement

Domestic	Integration with the Nansei Group → Chemical reaction
Overseas	Establishment of North America-Europe-Asia trilateral framework
Management base	Efforts toward work-style reforms

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## Changes in the 1<sup>st</sup> Stage (FY2015 – FY2017) Business Results

### Changes in business results



## Review of the 1<sup>st</sup> Stage (FY2015 – FY2017)

### Major measures

Item	Contents
<b>Production system</b>	Built a system to increase production by rebuilding and expanding Asaka factory through purchase of an adjacent land (April 2016) and strengthening relationship with subcontracting company.
<b>Domestic operation</b>	Establishes two locations to strengthen Tokyo area. Yokohama sales office (April 2015, Tsuzuki-ku, Yokohama-shi) Tokyo office (August 2015, Kasumigaseki, Chiyoda-ku)
<b>Aftermarket</b>	Set up an aftermarket department to strengthen the system (April 2015). Started a designated service factory system to strengthen cooperation with subcontracted factories (October 2016). Now locating large cranes at sales locations in response to large construction machinery.
<b>Global development</b>	Established the Texas Branch (January 2016), the third location in the U.S. Established a representative office (August 2017) in Europe (Rotterdam, the Netherlands).
<b>New business development</b>	Advanced into the forest machinery field by management integration with the three Nansei group companies (October 2017).
<b>Strengthened management base</b>	Changed the listing to the Tokyo Stock Exchange 1 <sup>st</sup> Section and strengthened management base (March 2016).

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## Progress of the 1<sup>st</sup> Stage (FY2015 – FY2017) Management Target

### Financial target

	FY2014	FY2015	FY2016	FY2017	Self-assessment
Net sales	11,943	12,043	13,113	Million yen <b>15,399</b>	○
Sales growth rate	17.4%	0.8%	8.9%	<b>17.4%</b>	
Operating income margin	7.4%	6.3%	8.4%	<b>7.8%</b>	△
ROE	9.2%	6.5%	9.8%	<b>7.9%</b>	△

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## Progress of the 1<sup>st</sup> Stage (FY2015 – FY2017) Management Target

### Overseas sales

	FY2014	FY2015	FY2016	FY2017	Self-assessment
				Million yen	
Overseas sales	1,890	2,313	2,095	<b>2,752</b>	○
Overseas sales ratio	15.8%	19.2%	16.0%	<b>17.9%</b>	—
				Million dollar	
(Reference) Okada America dollar-based sales	12.2	13.4	12.2	<b>16.2</b>	○

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## Progress of the 1<sup>st</sup> Stage (FY2015 – FY2017) Management Target

### Changes in domestic shares of major attachments

	FY2014	FY2015	FY2016	FY2017	Self-assessment
Primary crushers	37%	39%	42%	<b>44%</b>	○
Tokyo area	45%	47%	52%	56%	◎
Cutters	41%	47%	40%	<b>49%</b>	○
Tokyo area	54%	49%	43%	55%	◎
Pulverizers	41%	39%	39%	<b>40%</b>	△
Tokyo area	46%	41%	42%	45%	○
Hydraulic breakers	16%	12%	13%	<b>14%</b>	×
Tokyo area	16%	11%	8%	10%	×

\*Estimated by our Company based on the Japan Construction Equipment Manufacturers Association's materials (Tokyo area: Tokyo, Saitama, Chiba, Kanagawa)

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# 1st Stage Progress of Major Measures

## Production upgrade



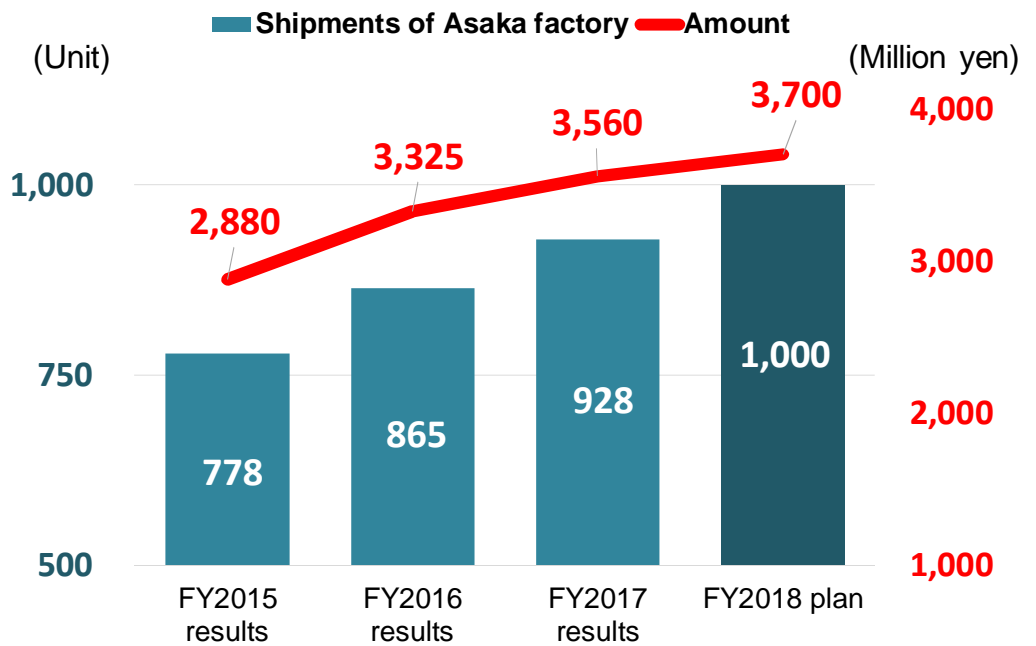
April 2016 Full-scale operation of new factory



Respond to increased large machinery production

## System to increase production

Rebuilding and expansion of Asaka factory (Asaka-shi, Saitama Pref.)



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# 1st Stage Progress of Major Measures

## Aftermarket



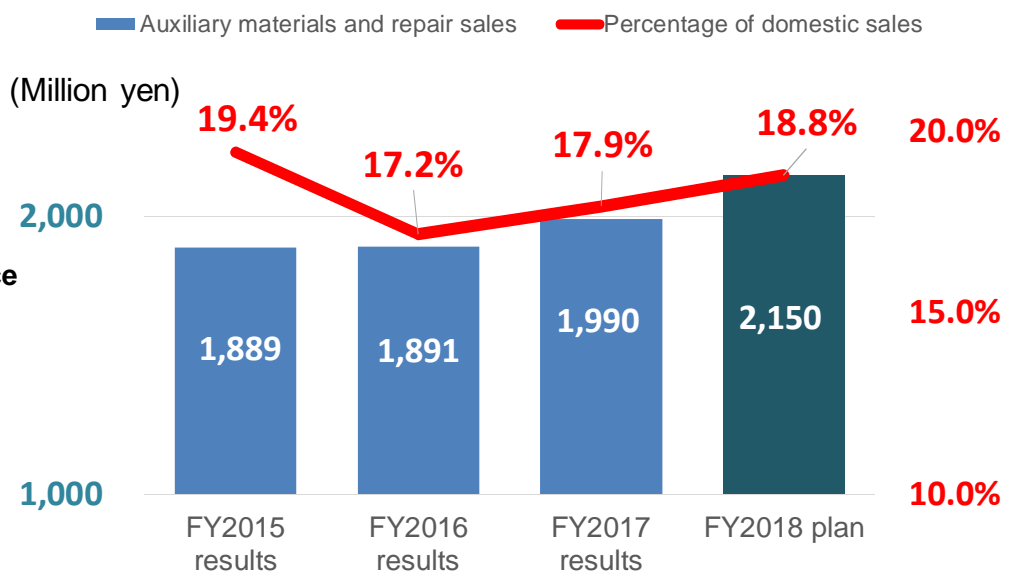
Improvement of maintenance system



44 designated service factories nationwide

## Enhanced auxiliary materials and repair

Focused on auxiliary material management and expansion of designated service factories



\*Calculated by OKADA AIYON (Nansei Group excluded)

# 1st Stage Progress of Major Measures

## Strengthen Tokyo area



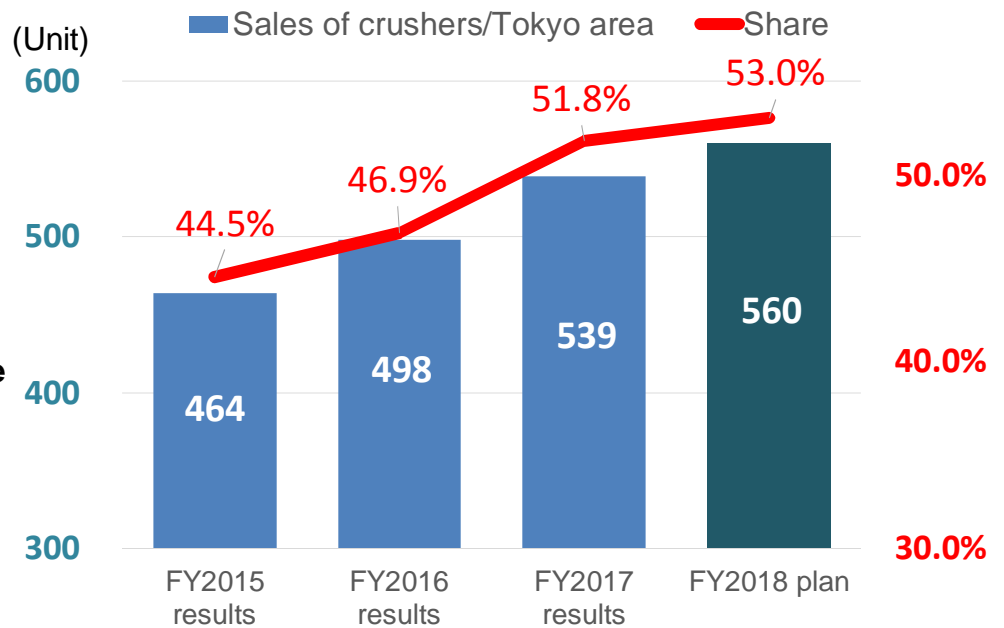
August 2015 Tokyo office



April 2015 Yokohama sales office

## Establish new locations

Strengthen support by setting up Yokohama sales office and Tokyo office



(Tokyo area: Tokyo, Saitama, Chiba, Kanagawa)

\*Calculated by OKADA AIYON (Nansei Group excluded)

# Major Measures for the 2nd Stage (FY2018 – FY2020)

### Domestic

#### Integration with the Nansei Group → Chemical reaction

Maximize integration effect by strengthening value chain using the strengths of both parties and enhancing product lineup

### Overseas

#### Establishment of North America-Europe-Asia trilateral framework

Establish trilateral framework and strengthen overseas selling system by establishing a subsidiary in Europe and a location in Southeast Asia

### Management base

#### Efforts toward work-style reforms

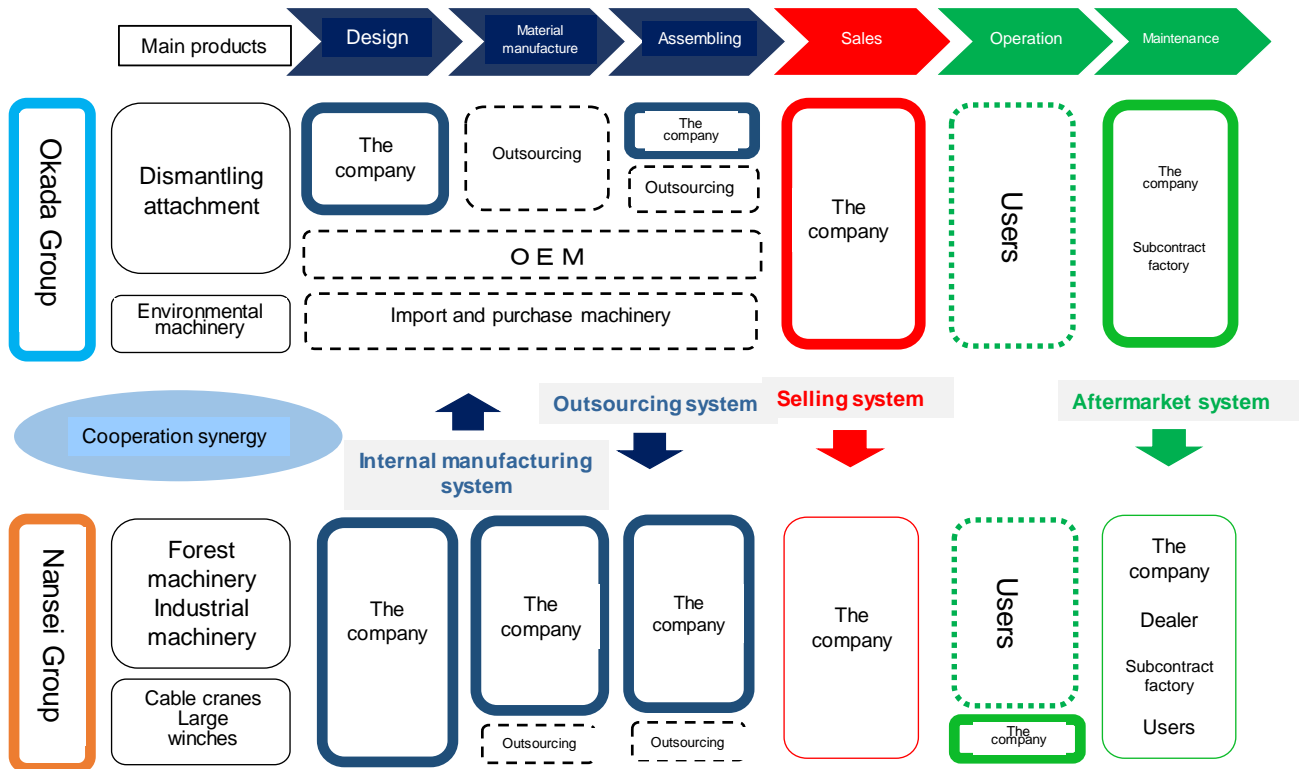
Aim for “a company where it is pleasant to work, where it encourages to work and where it is worth working” for sustainable growth and realization of employee satisfaction

# Integration with the Nansei Group → Chemical reaction

Strengthen value chain

Choose the best practice using the strength of each company

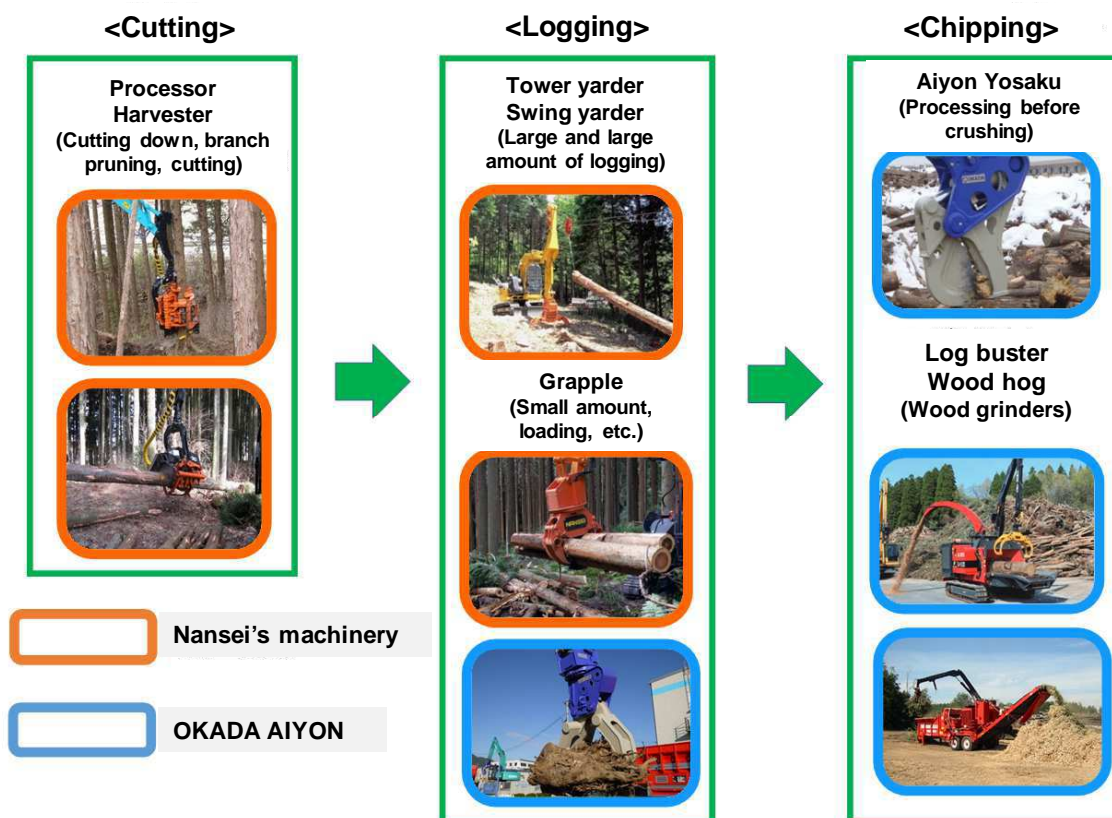
(The thick frames of the diagram below show the strength of each company)



# Integration with the Nansei Group → Chemical reaction

Strengthen capability to handle forest machinery

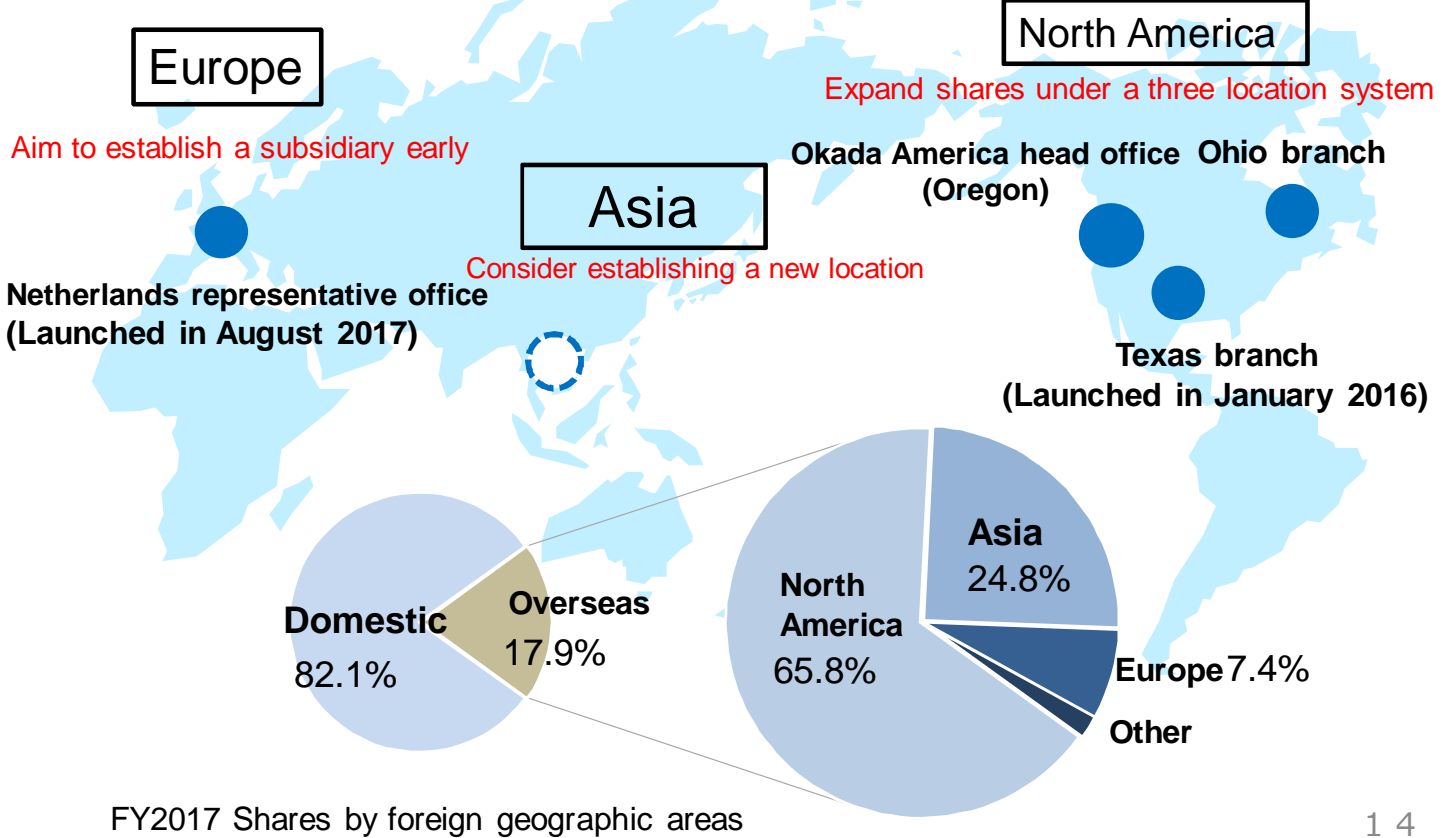
Our Group can handle forest machinery in a one-stop fashion



# Establishment of North America-Europe-Asia Trilateral Framework

Establish overseas trilateral framework

Expand locations in Europe and Asia

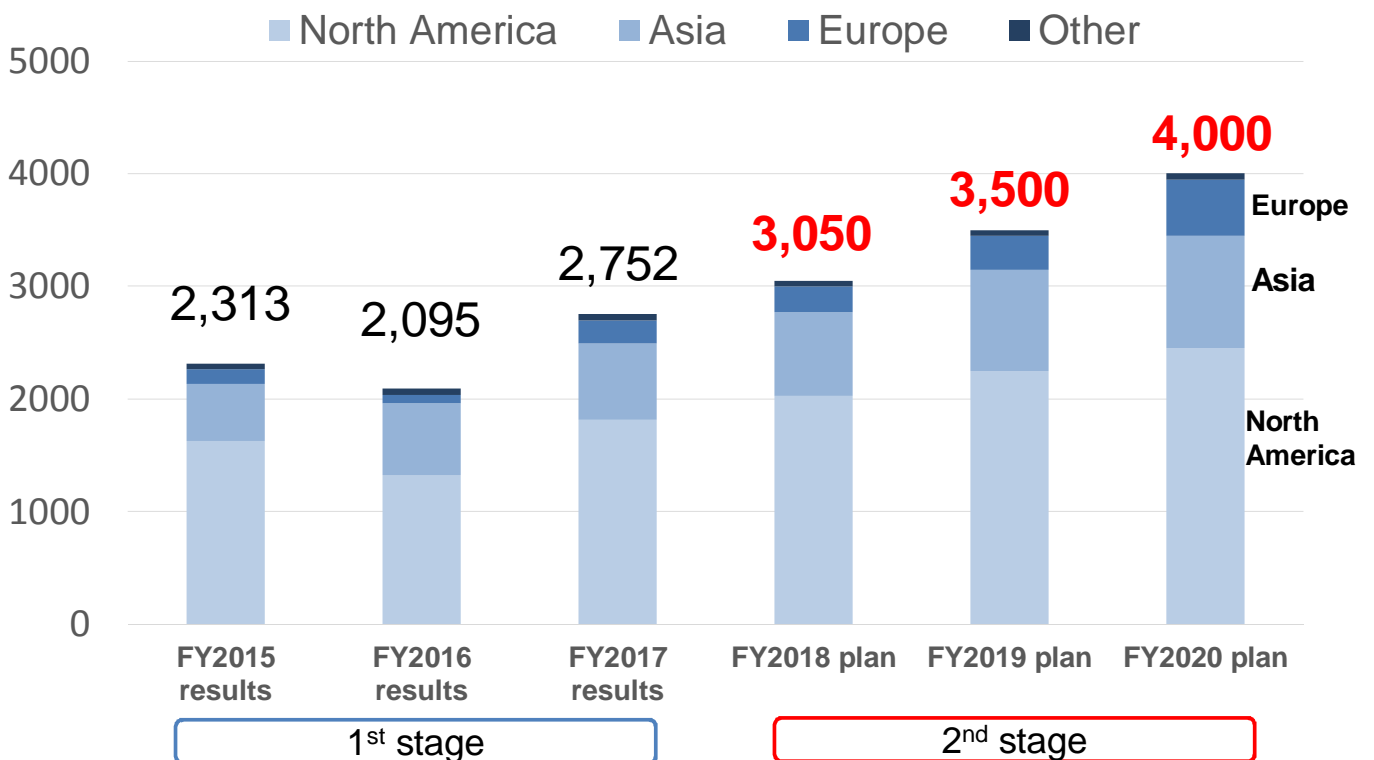


# Establishment of North America-Europe-Asia Trilateral Framework

Plan by foreign geographic areas

Aim to achieve twofold increase

Million yen



# Efforts toward Work-Style Reforms

## Commitment

“A company where it is pleasant to work, where it encourages to work and where it is worth working”

## Targets

- ① Productivity improvement
- ② Improvement in employee satisfaction

## Major efforts up to now

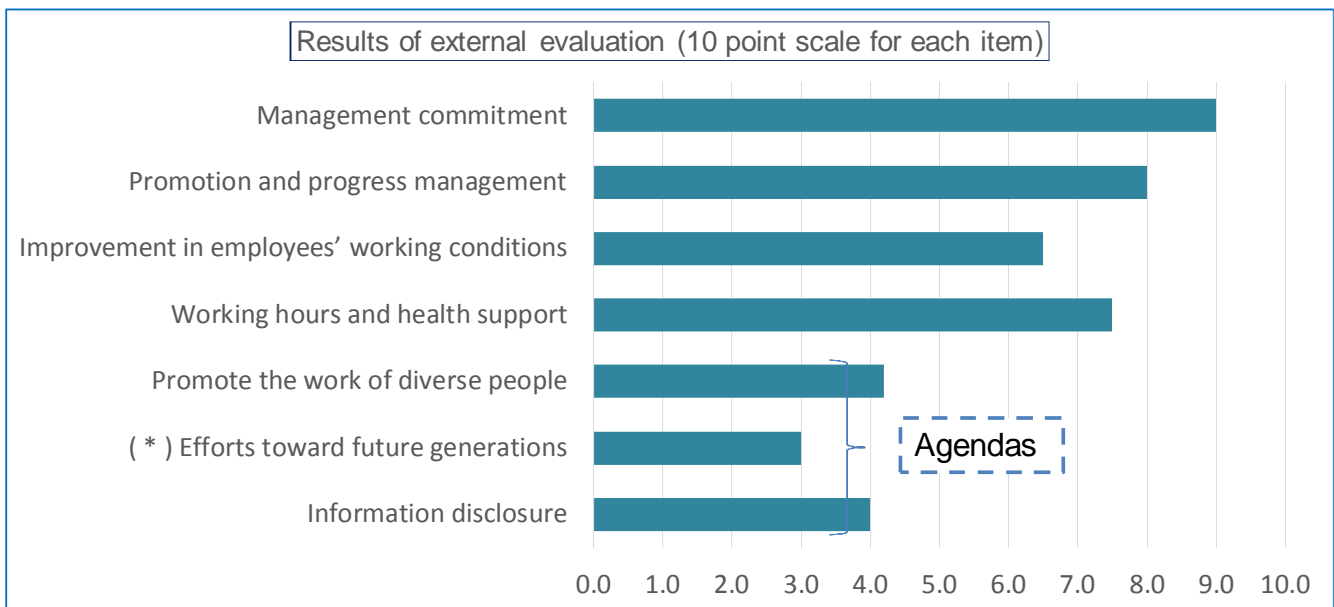
- ① Launched work-style reform project  
Review of business process, management of overtime work and improvement of personnel and labor systems, etc. now underway.
- ② Review employment system for the elderly  
Regarding the re-employment after retiring at the age of 60, the Company introduced a fixed wage system so that they will have the same job and same pay as the regular employees.
- ③ Improvement in non-regular employees' working conditions  
Encouragement of shifting to a regular employee, participation in in-house training, grant of stock options, etc.

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# Efforts toward Work-Style Reforms

## Agendas

Accept the results of external evaluation and continue efforts aimed at achieving our targets.



(\*) Efforts toward future generations

...Incorporation into personnel evaluation, efforts made through supply chain, social contribution activities, etc.

External evaluation: The Japan Research Institute, Limited (SMBC work style reform finance)

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## Keyword

Integration → Chemical reaction

## The three C's

- 1. CONNECTED** Further build a new connection to visualize synergy
- 2. CHANGE** Respond to changes (change and make a change)
- 3. CHALLENGE WITH CHECK** Have high aspirations and new challenge but don't forget to check

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## The Three C's and OKADA Eight Plans

### **CONNECTED** Further build a new connection to visualize synergy

- ① Integration with the Nansei Group and chemical reaction
- ② Increase sales and profits by increasing production capacity including subcontracting company

### **CHANGE** Respond to changes (change and make a change)

- ③ System reconstruction...Productivity improvement and promotion of efficiency
- ④ Work style reforms.....Improvement in employee satisfaction and securing of personnel

### **CHALLENGE WITH CHECK** Have high aspirations and have new challenge but don't forget to check

- ⑤ Further development of foreign market
- ⑥ Securing of stability by promoting aftermarket
- ⑦ Increase employees' level through active recruitment of human resources, OJT and training
- ⑧ Strict compliance and risk management

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## 2<sup>nd</sup> Stage (FY2018 – FY2020) Numerical Plan

### 3-year business plan

(Million yen)

	1 <sup>st</sup> stage results			2 <sup>nd</sup> stage medium-term management plan		
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Net sales	12,043	13,113	15,399	17,500	18,500	20,000
Operating income	760	1,106	1,195	1,500	1,700	2,000
Ordinary income	721	1,092	1,270	1,500	1,700	2,000
Net income attributable to owners of parent	438	696	666	930	1,050	1,250
Overseas sales	2,313	2,095	2,752	3,050	3,500	4,000
Overseas sales ratio	19.2%	16.0%	17.9%	17.4%	18.9%	20.0%

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## 2<sup>nd</sup> Stage (FY2018 – FY2020) Numerical Plan

### 3-year business plan (vs. initial plan)

[vs. plan] Upper stand: Compared to the rolling plan in the previous year (prepared in 2017)

Lower stand: Compared to the initial Arch 2020 strategy (prepared in 2015)

(Million yen)

	Results		2 <sup>nd</sup> stage medium-term management plan					
	FY2017	vs. plan	FY2018	vs. plan	FY2019	vs. plan	FY2020	vs. plan
Net sales	15,399	+1,399 +399	17,500	+2,500 +1,000	18,500	+2,500 +500	20,000	- 0
Operating income	1,195	▲55 ▲155	1,500	+150 ▲50	1,750	+250 0	2,000	- 0
Ordinary income	1,270	+20 ▲80	1,500	+150 ▲50	1,750	+250 0	2,000	- 0
Net income attributable to owners of parent	666	▲144 ▲134	930	+50 ▲20	1,050	+70 0	1,250	- +50

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## 2<sup>nd</sup> Stage (FY2018 – FY2020) Numerical Plan

Financial target 3-year plan

	Target	1 <sup>st</sup> stage results			2 <sup>nd</sup> stage medium-term management plan		
		FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Sales growth rate	10.0%	0.8%	8.9%	<b>17.4%</b>	<b>13.6%</b>	<b>5.7%</b>	<b>8.1%</b>
Operating income margin	10.0%	6.3%	8.4%	<b>7.8%</b>	<b>8.6%</b>	<b>9.2%</b>	<b>10.0%</b>
ROE	10.0%	6.5%	9.8%	<b>7.9%</b>	<b>9.5%</b>	<b>9.9%</b>	<b>10.8%</b>

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### Precautions

The plans and forecasts in these materials have been prepared based on the information currently available to the Company and certain assumptions that the Company deems to be reasonable, and embody risks and uncertainties.

Therefore, the Company gives no assurances or guarantees regarding future planned figures and realization of measures.

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