

# **YAMASHIN-FILTER CORP. Financial Results for the First Quarter of the Fiscal Year Ending March 2017**

**As the Chinese market recovered considerably, our sales and profits grew. We keep striving to strengthen development capabilities and optimize production system.**

**August 4, 2017  
(Stock code:6240)**



I

## FY2017 Q1 Actual Results

Considerable recovery of the Chinese market

II

## YVA “YAMASHIN Value Added”

Setting of KGI, KPI, and KSF

III

## Reference / FY2017 Full-year Forecasts

Persistent efforts in optimizing production system

# Executive Summary

Key Goal Indicator  
(KGI)

Key Performance Indicator  
(KPI)

Key Success Factor  
(KSF)

**YVA: YAMASHIN Value Added**  
Added value indicators of YAMASHIN

ROE  
Prv: 10.0%  
Cur: 20.9%

YVA spread  
Prv: 2.5%  
Cur: 11.7%

ROA  
Prv: 6.5%  
Cur: 13.6%

ROIC  
Prv: 8.5%  
Cur: 17.7%

WACC  
Prv: 6.0%  
Cur: 6.0%

P.20

Operating income on sales  
Prv: 9.6%  
Cur: 16.7%

Gross profit ratio  
Prv: 44.6%  
Cur: 45.7%

SG&A ratio  
Prv: 35.0%  
Cur: 29.1%

Turnover rate of capital investment  
Prv: 1.3  
Cur: 1.5

Turnover rate of operating fund  
Prv: 3.7  
Cur: 4.1

Turnover rate of fixed assets  
Prv: 3.7  
Cur: 3.5

Sales growth rate  
Prv: 5.8%  
Cur: 30.9%

Sales cost ratio  
Prv: 55.4%  
Cur: 54.3%

Depreciation and amortization ratio  
Prv: 2.9%  
Cur: 1.8%

R&D expense ratio  
Prv: 1.7%  
Cur: 2.1%

Personnel expense ratio  
Prv: 16.6%  
Cur: 12.5%

Turnover rate of accounts receivable  
Prv: 4.6  
Cur: 4.7

Turnover rate of inventory asset  
Prv: 6.8  
Cur: 7.9

Turnover rate of accounts payable  
Prv: 5.9  
Cur: 5.5

Turnover rate of tangible fixed assets  
Prv: 7.7  
Cur: 9.8

Turnover rate of intangible fixed assets  
Prv: 51.3  
Cur: 34.8

New product development  
Enhancement of P.5-7  
P.14-16

Enhancement of purchase capacity  
Yield ratio improvement P.8, 17

Investment plan P.18

Narrowing down themes  
Priority P.18

Optimal staffing P.19

Credit management P.9

Setting of appropriate inventory P.9

Debt management P.9

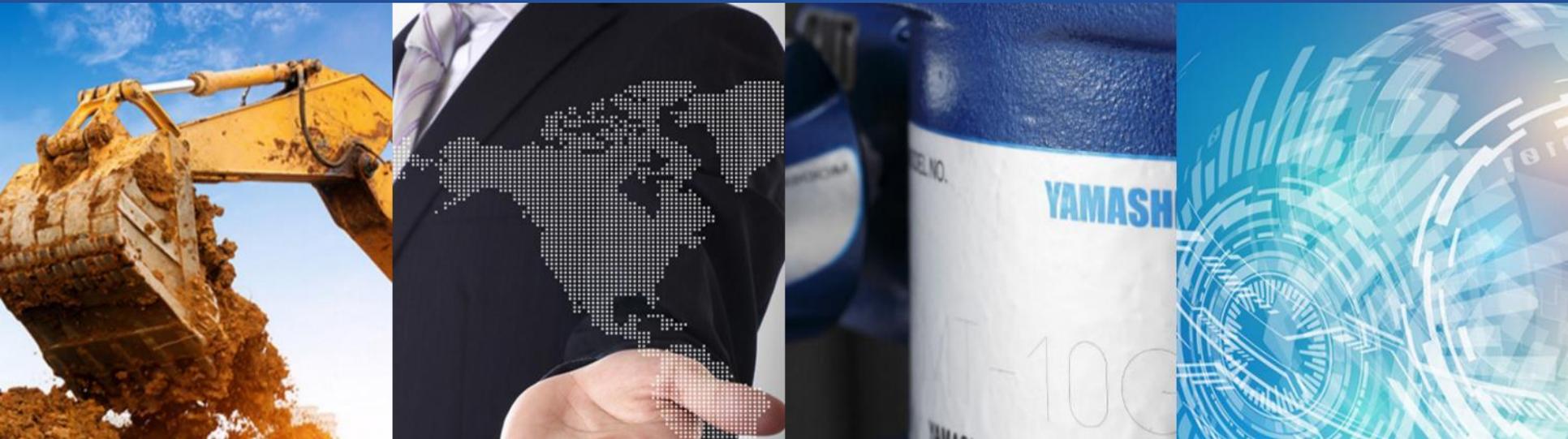
Equipment plan P.18

Investment plan P.18

Prv: Value as of FY2016 or YoY ratio  
Cur: Value as of FY2017 Q1 or YoY ratio (some of the PL figures are annualized)

# I . FY2017 Q1 Actual Results

## Considerable Recovery of the Chinese Market



# FY2017 Q1 Actual Results (Apr.-Jun. 2017)

- Sales and profits increased considerably mainly because of the recovery of the Chinese market.

		FY2016 Q1	FY2017 Q1	FY2017 Q1	YoY Change	
		Actual	Forecast	Actual	Amount	%
(Million yen)						
Net Sales		2,347	2,726	3,072	725	30.9%
Operating Income		192	267	512	320	166.4%
Net Income		159	179	355	195	122.6%
Exchange Rate	USD	108.2	115.0	111.1	2.9	2.7%
	EUR	122.1	120.0	122.2	0.1	0.1%

\* The actual exchange rates were based on the average value during the period

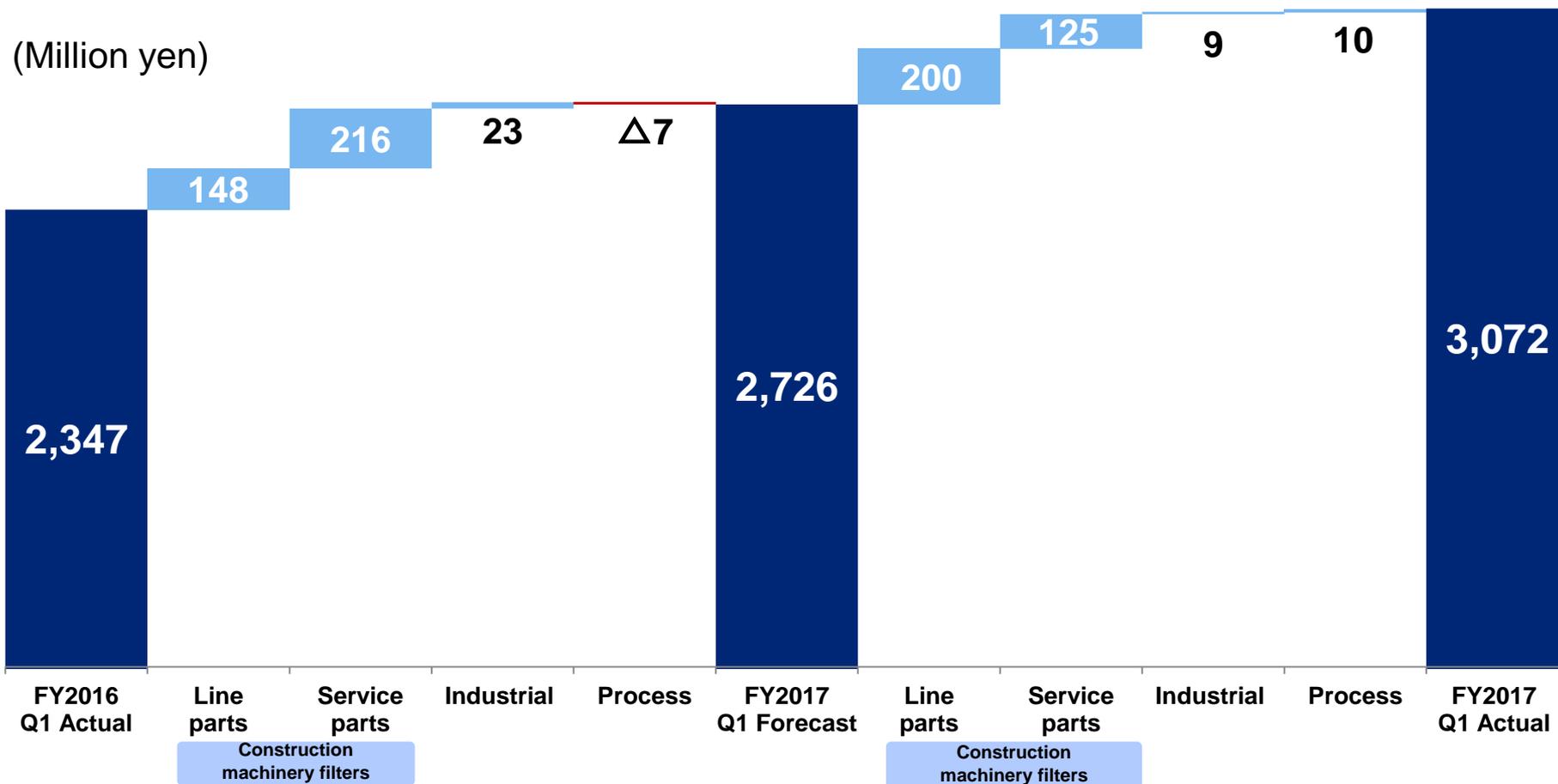
# Sales by Product

- The sales of line parts and service parts exceeded those in the previous term and the estimated ones.

	FY2016 Q1	FY2017 Q1	FY2017 Q1	YoY Change	
	Actual	Forecast	Actual	Amount	%
(Million yen)					
Construction Machinery Filters	2,052	2,415	2,741	689	33.6%
Line Parts	900	1,048	1,249	348	38.7%
Service Parts	1,151	1,367	1,492	340	29.6%
Industrial Filters	97	120	129	32	33.0%
Process Filters	197	190	201	3	2.0%
Total of Sales	2,347	2,726	3,072	725	30.9%

# Changes in Sales

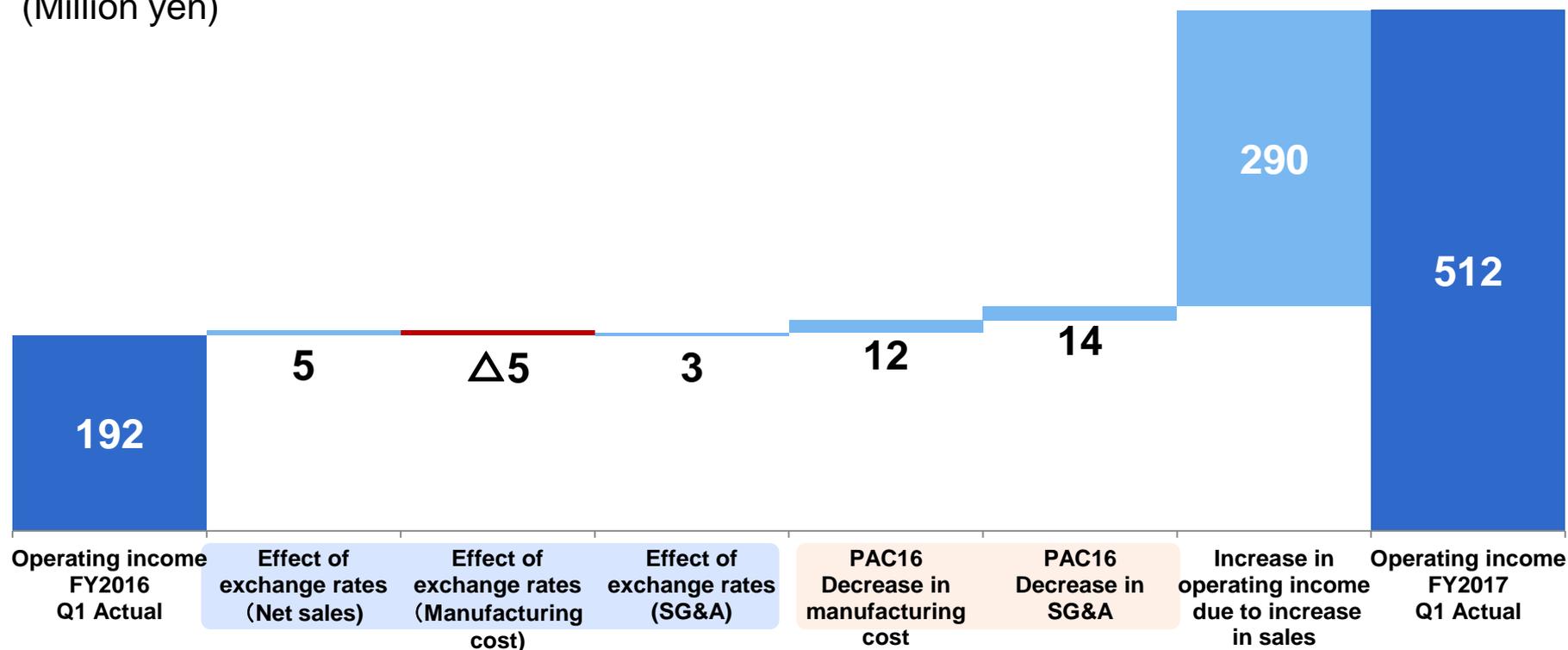
- The sales of line parts and service parts exceeded those in the previous term and the estimates.



# Changes in Operating Income

- Sales growth contributed to the significant increase in operating income.

(Million yen)



\*PAC (Promptly Activated Cost reduction): The company-wide cost reduction project

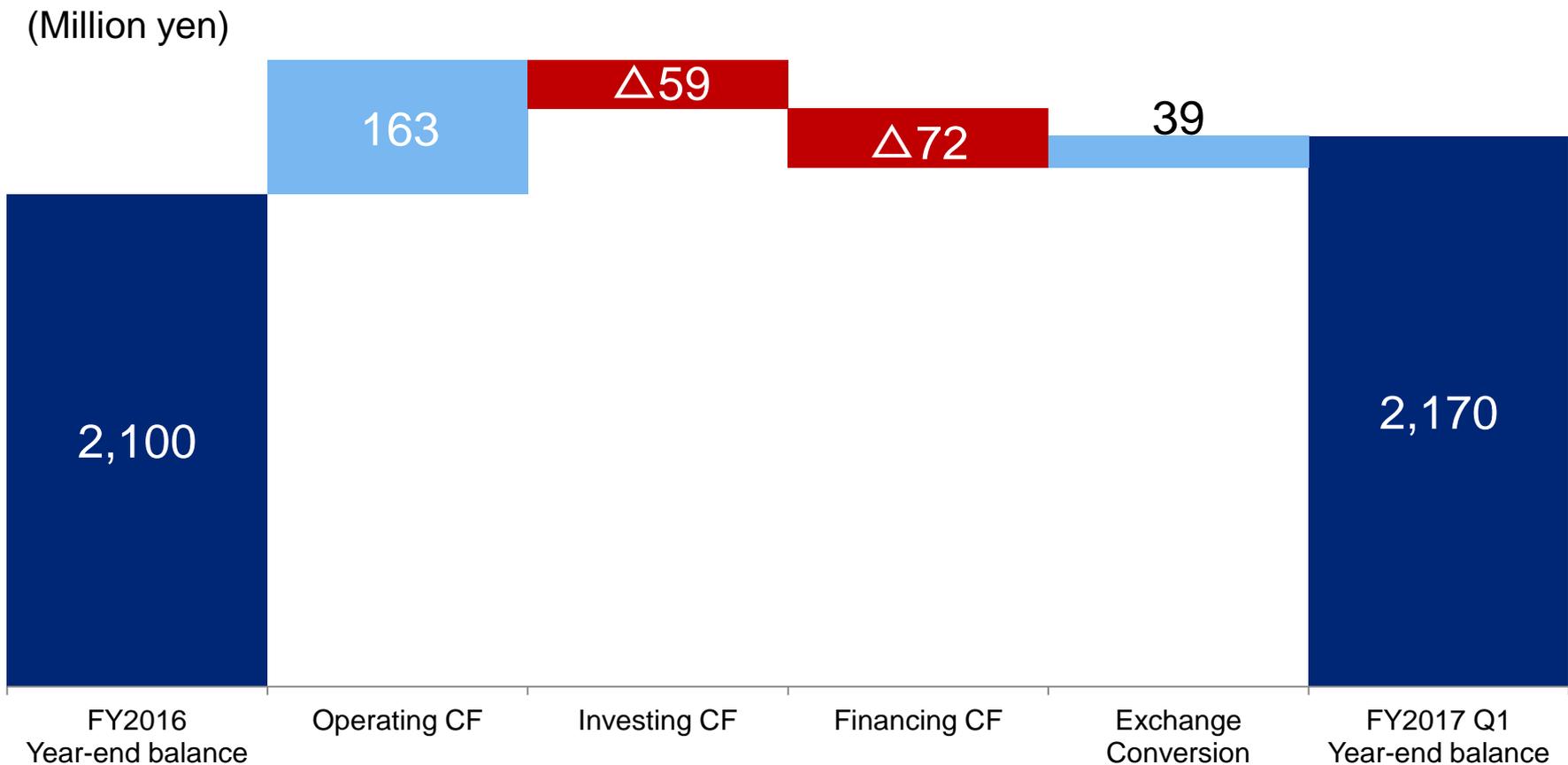
# Balance Sheet

## ● Shareholders' equity ratio for FY2017 Q1 was 65.2%

(Million yen)		End-FY2016	FY2017 Q1	Change	Change in ratio			End-FY2016	FY2017 Q1	Change	Change in ratio
Current assets		6,695	7,243	548	8.2%	Current liabilities		2,374	2,612	238	10.0%
	Cash and deposits	2,263	2,333	70	3.1%		Notes and accounts payable-trade	1,085	1,359	273	25.2%
	Notes and accounts receivable-trade	2,480	2,759	278	11.2%		Short-term loans payable, Current portion of long-term loans payable and corporate bonds	500	500	-	-
	Merchandise and finished goods, Raw materials and supplies	1,457	1,672	214	14.7%		Others	788	752	△ 35	△4.5%
	Others	493	478	△ 15	△3.1%		Fixed liabilities	1,131	1,118	△ 12	△1.1%
Fixed assets		3,462	3,467	4	0.1%		Corporate bonds	600	600	-	-
	Tangible fixed assets	1,272	1,239	△ 33	△2.6%		Long-term loans payable	150	150	-	-
	Intangible fixed assets	292	413	120	41.1%		Net defined benefits liability	173	173	-	△0.3%
	Investments and other assets	1,897	1,814	△ 83	△4.4%		Others	207	195	△ 12	△5.9%
Total assets		10,158	10,710	552	5.4%	Total net assets		6,652	6,979	326	4.9%
						Total of liabilities and net assets		10,158	10,710	552	5.4%

# Changes in Cash Flows

- The balance of cash and cash equivalents increased from the end of the previous term.



# Conditions of Operational Hedge – Marry and Netting

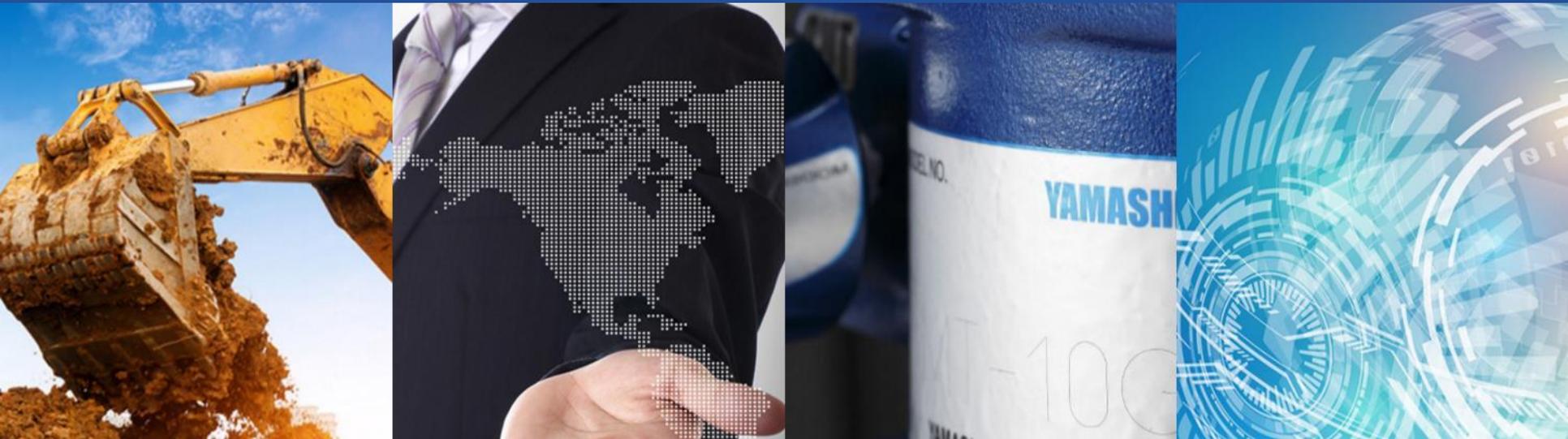
- More than 70% of the Group's business is traded in yen
- Other than yen, the trading currency is mostly US dollars; The transactions are mostly hedged with operational hedge – marry and netting

(Million yen)

Currency	Incoming			Outgoing			Net	Average rate in the term (JPY)	In case of appreciation of yen (10%)			In case of depreciation of yen (10%)		
	Each currency	Yen equivalent (JPY)	Composition ratio	Each currency	Yen equivalent (JPY)	Composition ratio			Average rate in the term ▲10% (JPY)	Rate difference	Affected amount (YTD)	Average rate in the term +10% (JPY)	Rate difference	Affected amount (YTD)
JPY	¥3,800.0	¥3,800.0	72%	¥3,400.0	¥3,400.0	67%	¥400.0	-	-	-	-	-	-	-
USD	\$11.8	¥1,307.6	25%	\$11.7	¥1,296.5	26%	\$0.1	¥110.8	¥99.73	¥-11.08	¥-1.11	¥121.89	¥11.08	¥1.11
EUR	€ 1.0	¥120.4	2%	€ 0.7	¥84.3	2%	€ 0.3	¥120.4	¥108.36	¥-12.0	¥-3.61	¥132.44	¥12.04	¥3.61
PHP	PP0.0	¥0.0	0%	PP122.9	¥273.2	5%	PP-122.9	¥2.2	¥2.00	¥-0.2	¥27.32	¥2.45	¥0.22	¥-27.32
THB	฿14.80	¥47.7	1%	฿5.50	¥17.7	0%	฿9.30	¥3.2	¥2.90	¥-0.3	¥-3.00	¥3.55	¥0.32	¥3.00
<b>Total</b>	-	¥5,275.7	100%	-	¥5,071.8	100%	-	-	-	-	¥19.61	-	-	¥-19.61

# II . YVA “YAMASHIN Value Added”

## -Setting of KGI, KPI, and KSF-



# Breakdown of YVA Spread (re-shown)

Key Goal Indicator (KGI)

Key Performance Indicator (KPI)

Key Success Factor (KSF)

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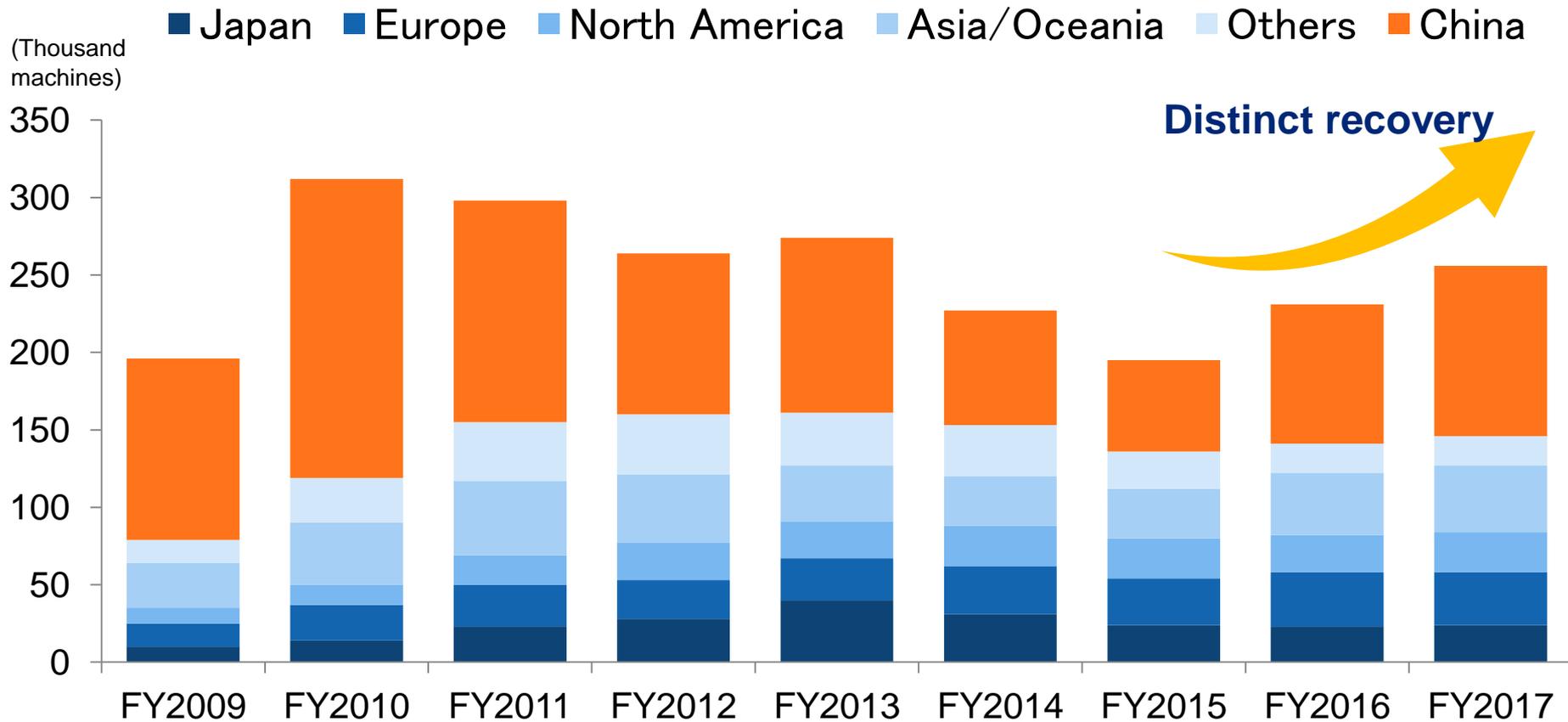
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# New Product Development, Enhancement of Genuine Products' Market Share

		Policy's Keywords	Results' Evaluation
Construction machinery filters	Line parts	Propose failure prediction feature and ICT technology	Collect actual machine's product data (currently in progress)
		Propose efficiency improvement efforts	Collect test data (currently in progress)
	Service parts	Retake market share from non-genuine products (i.e. imitations) market by holding seminars	Continue marketing activities that correspond the characteristics of Chinese markets and other geographical areas
Industrial filters		Strengthen cooperation with partners	Continue cooperation with partners; reduce the cost of existing products
Process filters		Diversify product series	Start the development of product lineup expansion

# Business Environment / Demand for New Excavators

- The construction machinery market in China is expected to continue to recover as a result of increased government investment.



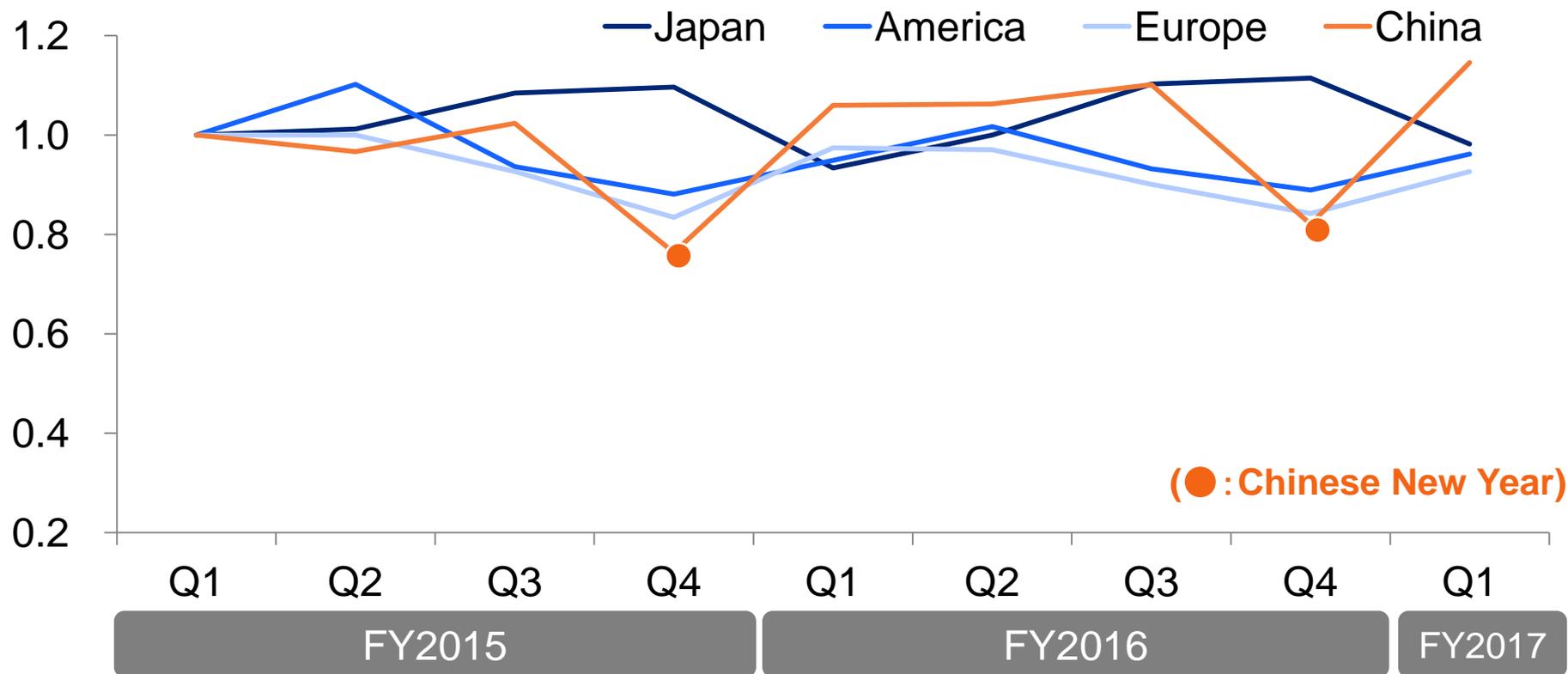
\*Figures are estimated by YAMASHIN-FILTER based on data from construction machinery manufacturers and industry associations

Forecast

# Construction Machinery Operation Hours

- Construction machinery operation hours in China for FY2017 Q1 are recovering compared to previous fiscal year

(Quarterly changes are shown in the graph below with the value of the quarter from Apr. to Jun. 2015 being set to 1.0 for indexation purposes)



(Reference) Prepared by YAMASHIN-FILTER based on the Nomura Securities analyst report

# Enhancement of Purchase Capacity, Yield Ratio Improvement

- PAC17 aims to reduce costs through “purchasing reformation” and “supply chain review”

## PAC17

### Targets

- Purchase reformation
- Supply chain review

### Specific actions

#### Actual results of measures implemented in Q1

- Find new Chinese suppliers
- Reduce labor costs through a shift in production from Saga to Cebu
- Outsource assembly of some products

#### Actual results of cost reduction achieved in Q1

- Manufacturing cost: 12 million yen (Achieved 6% against the annual target, 126% against the Q1 target)
- SG&A: 14 million yen (Achieved 30% against the annual target, 121% against the Q1 target)

### Full-year target reduction

Production cost: 210 million yen  
SG&A: 40 million yen

# Changes in R&D Expenses, Capital Investment, and Depreciation & Amortization

- Increased capital investment to increase future profitability

## Major investment projects

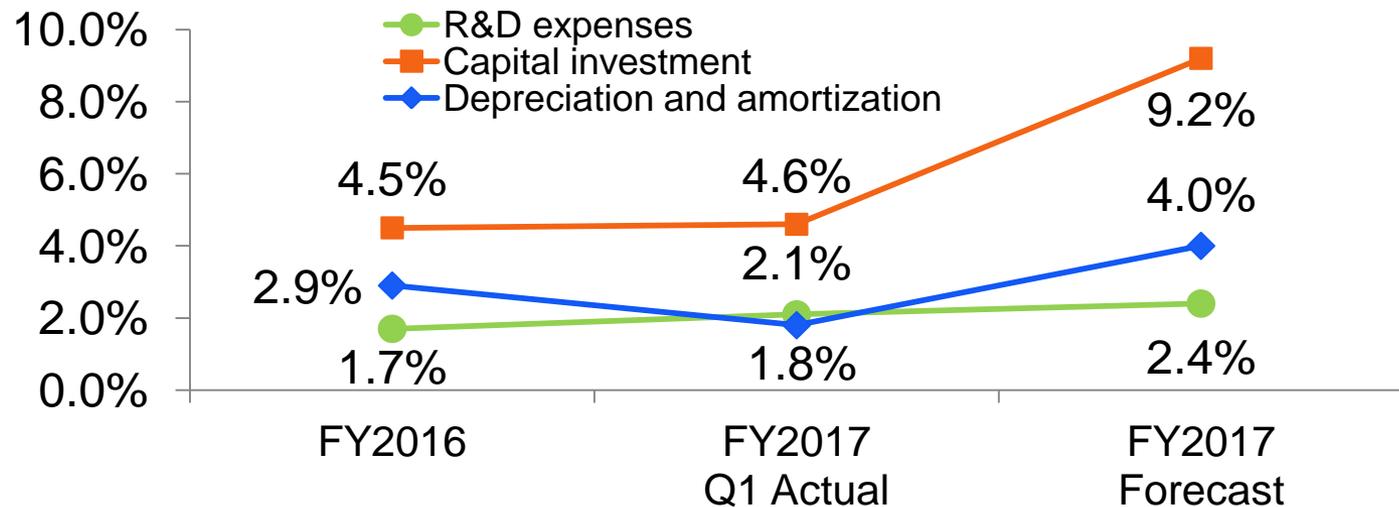
**FY2016**

ERP related:  
248 million yen

**FY2017**

Production facilities/  
R&D related, etc.:  
646 million yen

Ratio to sales



(Million yen)



R&D expenses

**172**

**66**

**267**



Capital investment

**448**

**140**

**1,017**



Depreciation and  
amortization

**294**

**56**

**444**

# Optimum Personnel Composition

- Continue to recruit and train capable executives for overall group management
- Reinforce cooperation between staff at operating bases to improve efficiency



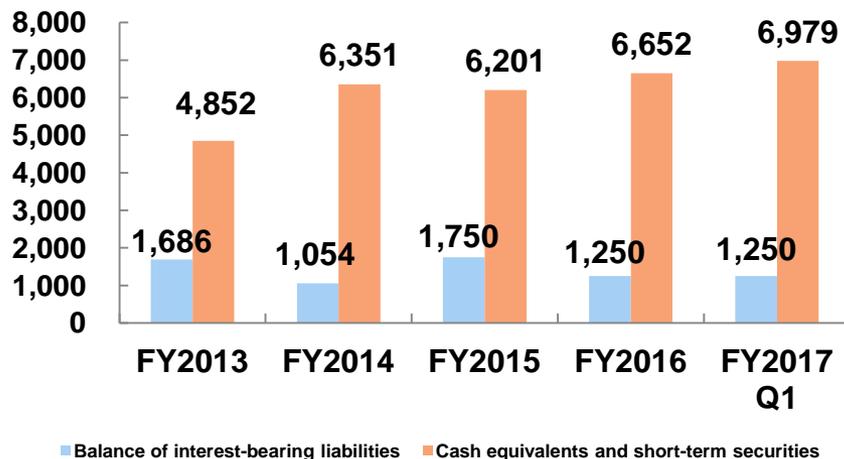
○ Reference: Composition ratio of personnel cost and labor cost

	FY2016	FY2017	YoY Change
	Q1 Actual	Q1 Actual	%
Sales	33.3%	32.4%	△1.0%
Development	20.3%	21.3%	1.0%
Manufacture	26.1%	27.0%	0.9%
Management	20.2%	19.3%	△0.9%
Total	100.0%	100.0%	-

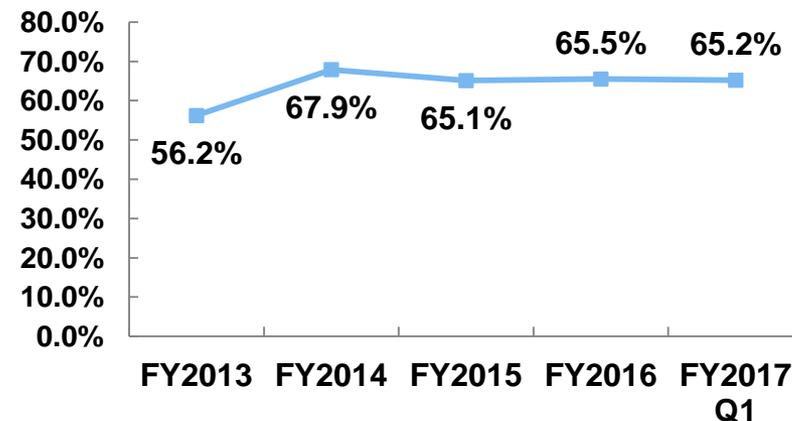
# Financial Highlights

## Interest-Bearing Debt and Shareholders' Equity

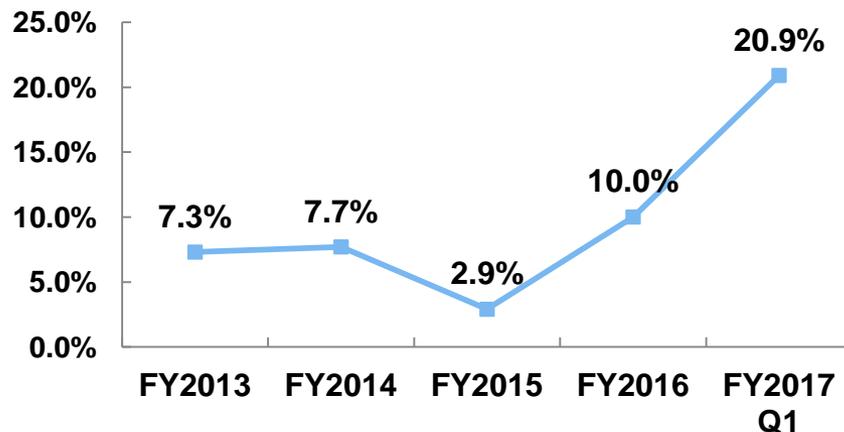
(Million yen)



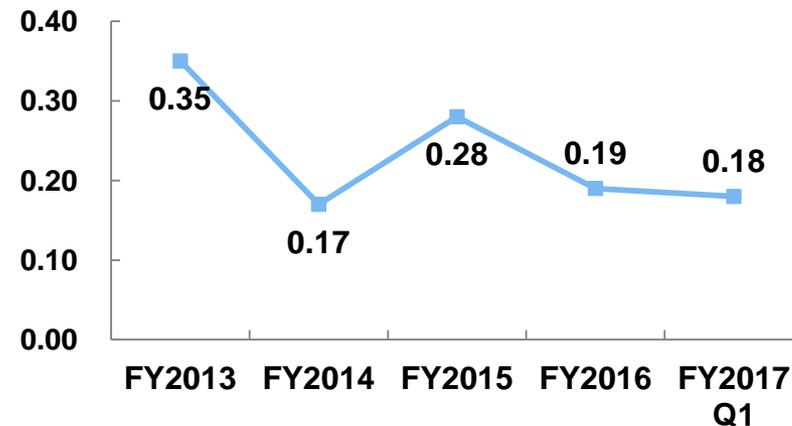
## Shareholders' Equity Ratio



## ROE

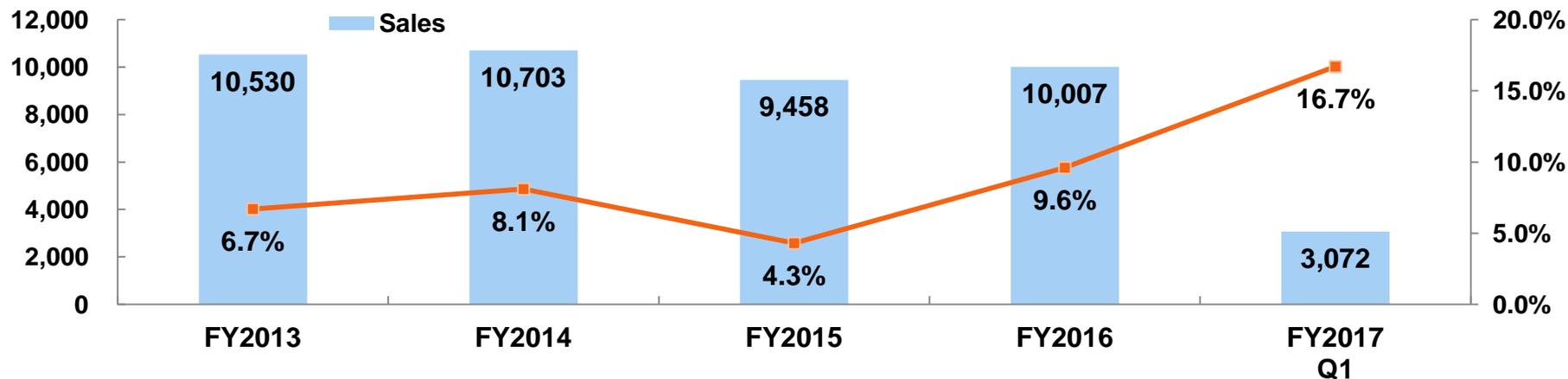


## D/E Ratio

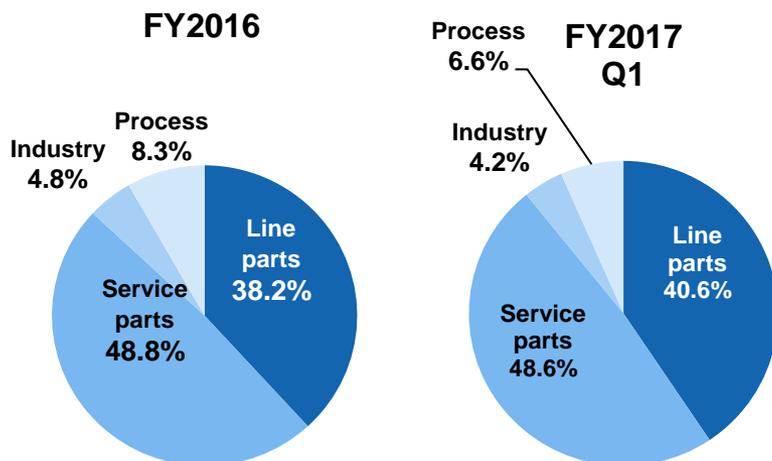


## Changes in Sales and Operating Income Margin

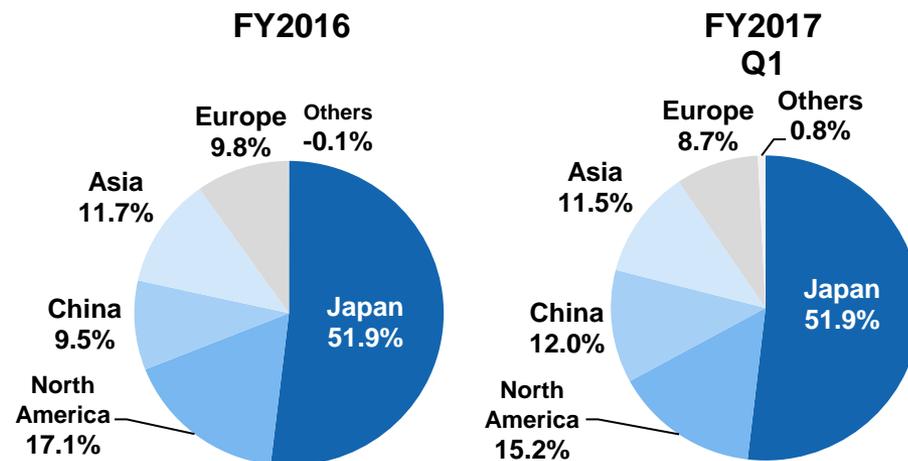
(Million yen)



## Sales by Product



## Sales by Region



# Ⅲ. Reference Materials/ FY2017 Full-year Business Forecasts



## Financial Statements Glossary

### Segments and KPI

- Filters for construction machinery are classified into “**line parts**” and “**service parts**”
- Line parts are the filters for new construction machines
  - The primary indicator is “**the number of new construction machines in demand**”
- Service parts are the filters for replacement
  - The primary indicator is “**the number of units in operation**” × “**operation hours**”

### Sales methods, regional trends, and cost reduction measures

- **Sales format**
  - The filters for construction machinery are sold to construction machinery makers (100%). In principle, we do not sell the products to end users directly
- **Regional trends**
  - Sales are calculated based on the destinations of our invoices, and so our data may differ from the actual regional market trends
- **PAC16 (Promptly Activated Cost reduction 2016)**
  - The company-wide cost reduction project due to the sluggish sales

# Sales by Region - Actual Results (Ref.)

- Since sales are calculated based on the invoices' destinations, data may differ from actual regional market trends

(Million yen)	FY2016 Q1		FY2017 Q1		YoY Change	
	Amount	%	Amount	%	Amount	%
Japan	1,195	50.9%	1,594	51.9%	399	33.4%
North America	376	16.0%	467	15.2%	91	24.2%
China	185	7.9%	367	12.0%	181	98.0%
Asia	259	11.1%	352	11.5%	92	35.7%
Europe	290	12.4%	265	8.7%	△ 25	△8.6%
Other (Middle East etc.)	39	1.7%	25	0.8%	△ 14	△36.3%
<b>Total of sales</b>	<b>2,347</b>	<b>100.0%</b>	<b>3,072</b>	<b>100.0%</b>	<b>725</b>	<b>30.9%</b>

# Breakdown of YVA Spread: Supplementary Info

Term	Formula
YVA spread	ROIC – WACC
ROIC	NOPAT ÷ Capital investment
Rate of return on capital investment	(Ordinary income + Interests paid) ÷ Capital investment
Turnover rate of operating fund	Net sales ÷ (Accounts receivable + Inventory asset – Accounts payable)
Turnover rate of fixed assets	Net sales ÷ Fixed assets
Turnover rate of accounts receivable	Net sales ÷ Accounts receivable
Turnover rate of inventory asset	Net sales ÷ Inventory asset
Turnover rate of accounts payable	Sales cost ÷ Accounts payable
Turnover rate of tangible fixed assets	Net sales ÷ Tangible fixed assets
Turnover rate of intangible fixed assets	Net sales ÷ Intangible fixed assets

\*The figures in the quarterly profit and loss statement are annualized.

\*The figures in the balance sheet are the averages of the initial and term-end figures.

# FY2017 Full-year Business Forecasts

- Net sales' expectation: Chinese market's recovery will have a positive impact on other Asian countries
- YoY increase in profits is expected to be smaller than that of the previous year because of upfront investment

		FY2016	FY2017	YoY Change	
		Actual	Forecast (May 12, 2017)	Amount	%
(Million yen)					
Net Sales		10,007	11,090	1,082	10.8%
Operating Income		957	980	22	2.3%
Net Income		640	660	20	3.1%
Exchange rate	USD	108.4	115.0	6.6	6.1%
	EUR	118.8	120.0	1.2	1.0%

# FY2017 Full-year Sales Forecasts by Product

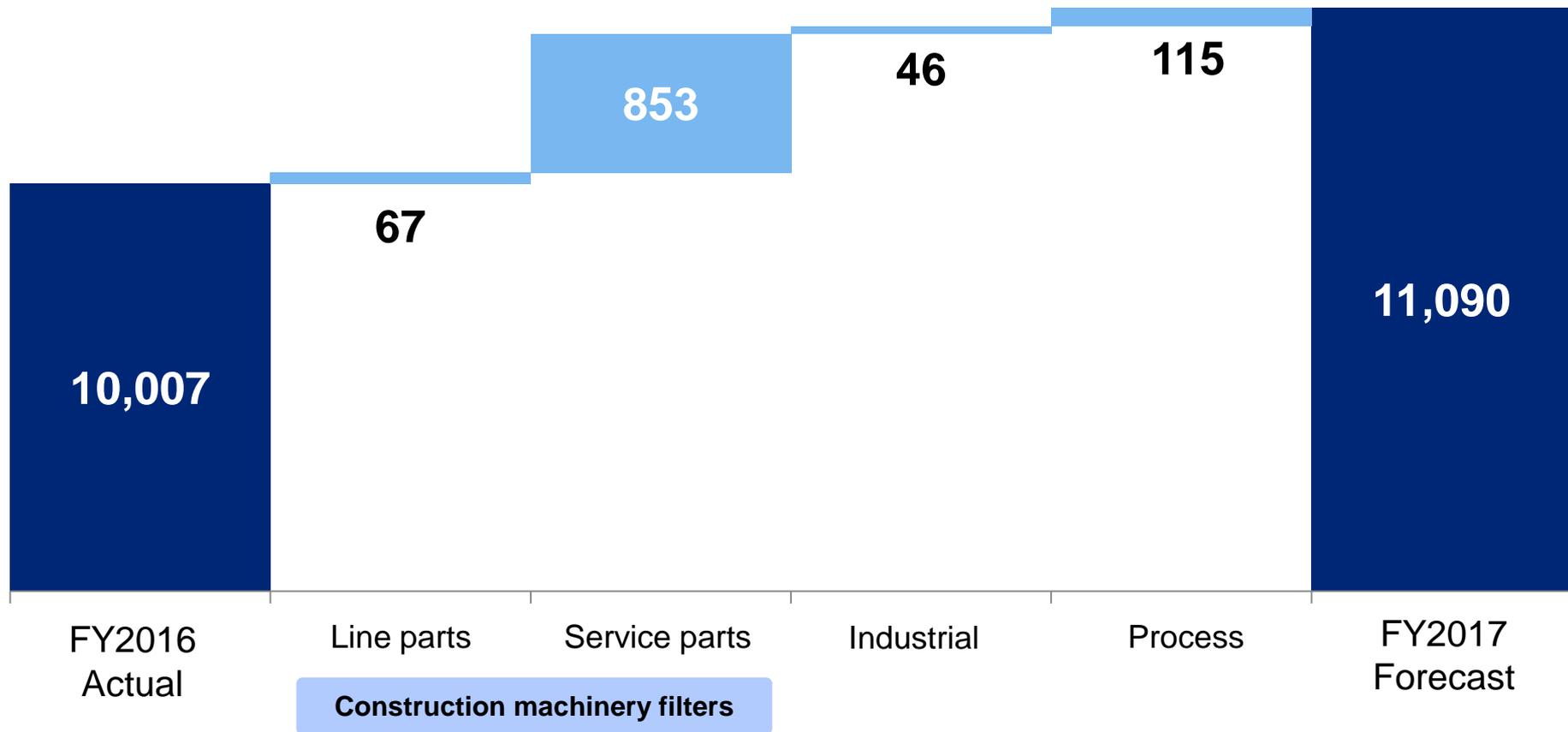
- Revenue from service parts is expected to increase in double-digit as a result of demand increase and promotion of after-sales market business by construction machinery manufacturers

	FY2016	FY2017	YoY Change	
	Actual	Forecast (May 12, 2017)	Amount	%
(Million yen)				
Construction machinery filters	8,705	9,626	921	10.6%
Line parts	3,825	3,893	67	1.8%
Service parts	4,879	5,732	853	17.5%
Industrial filters	475	521	46	9.8%
Process filters	826	941	115	13.9%
Total of sales	10,007	11,090	1,082	10.8%

# Changes in Net Sales

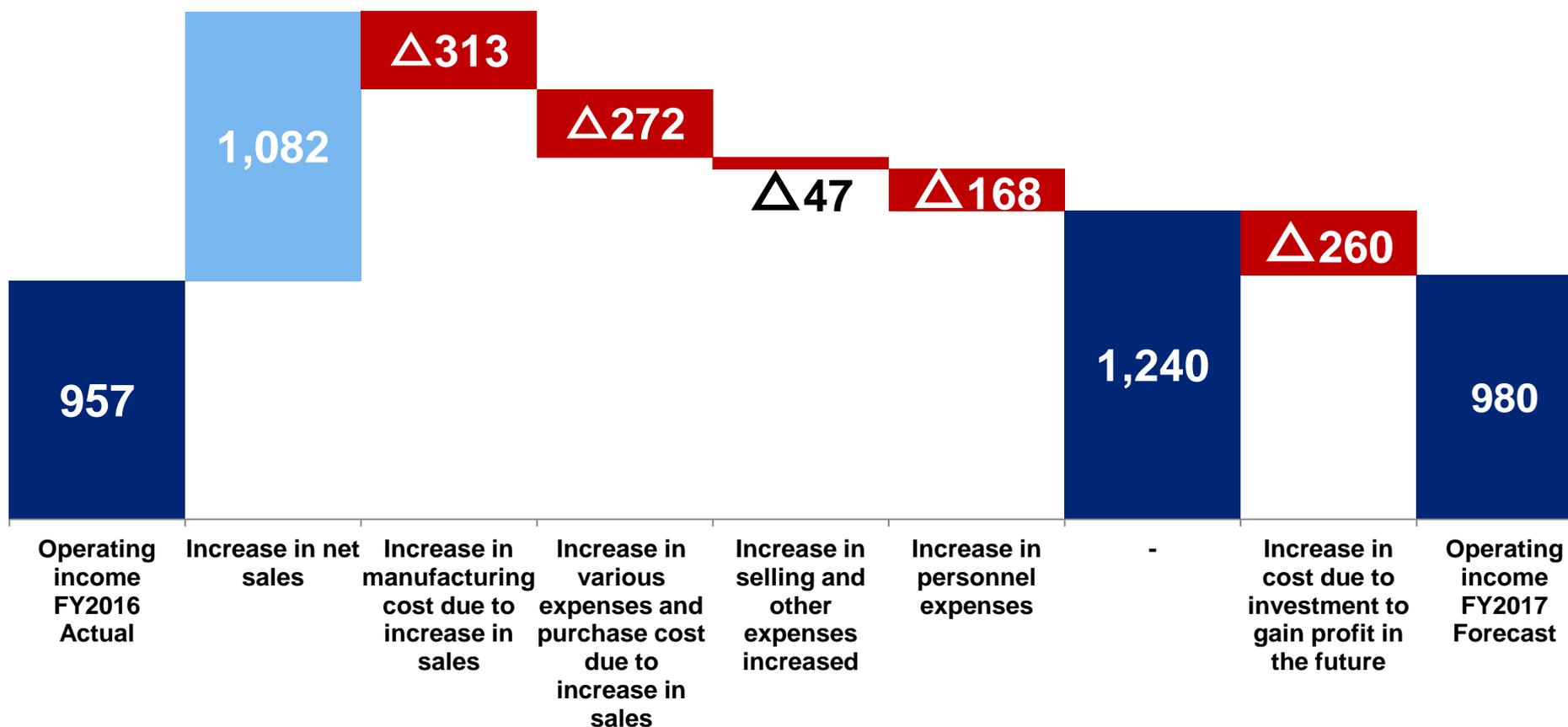
- Revenue from service parts is expected to increase in double-digit as a result of demand increase and promotion of after-sales market business by construction machinery manufacturers

(Million yen)



# Changes in Operating Income

- Increase in operating income will be small due to increase in investment cost.



# Shareholders' Return

- Annual dividend is 14 yen per share, consisting of interim dividend of 7 yen and year-end dividend of 7 yen per share

	FY2015	FY2016	FY2017
Dividend per share	10 yen	12 yen	14 yen
DOE	2.0%	2.3%	2.6%
Total return ratio*	74.1%	25.6%	31.6%

\*The figures for FY2017 are current estimated values.

\*Total return ratio = (Total dividend + Treasury stock acquired + Shareholder benefit) ÷ Net income

Forecasts regarding future performance presented in this material are based on information that was available at the time this material was released. Actual results may differ from the forecasts due to various factors such as market trends and business conditions etc.

For any inquiries regarding this materials,  
please contact below:

Management Planning Office, YAMASHIN-FILTER CORP.

TEL: +81-45-680-1680  
E-mail: [ir@yamashin-filter.co.jp](mailto:ir@yamashin-filter.co.jp)