Overview

In fiscal 2016 (the twelve months ended March 31, 2017), the global economy continued to grow modestly, with growth centered on the U.S., where the real economy remains strong. On the other hand, the global economy is relatively lacking in vigor due to languishing crude oil prices, the economic slowdown in emerging countries and resource-rich countries and other factors. In addition, future prospects for the real economy have become increasingly uncertain as a result of factors including the turmoil in international financial markets due to Brexit, concerns about an expansion of protectionist policies and other factors. Going forward, these risks with the potential to drag down the global economy must continue to be watched.

The Japanese economy remains at a standstill due to the deterioration in the external demand environment, lackluster personal consumption and other factors. Going forward, the economy is expected to grow modestly overall due to steady improvement in the income and employment environments, but there is a possibility that economic policies enacted by countries around the world, especially the U.S., geopolitical risks in the Middle East and the Korean Peninsula and other factors could result in both rapid and significant fluctuations in foreign exchange rates. As a result, foreign exchange rates must continue to be watched carefully.

Amid such an operating environment, the Group's orders received in fiscal 2016 declined from the previous fiscal year, mainly in the Aerospace, Ship & Offshore Structure and Plant & Infrastructure segments. Net sales during fiscal 2016 were on par with the same period of the previous fiscal year overall as increases in sales in the Plant & Infrastructure and Precision Machinery segments were offset by the impact of the yen's appreciation, the assignment of the construction machinery business during the previous fiscal year, and other factors. There was a decline in operating income, recurring profit, and profit attributable to owners of parent due to a deterioration in the Ship & Offshore Structure segment and a decline in profits in the Aerospace segment and other segments.

As a result, the Group's consolidated orders received declined ¥344.9 billion from the same period of the previous fiscal year to ¥1,348.7 billion, consolidated net sales declined ¥22.2 billion year on year to ¥1,518.8 billion, consolidated operating income declined ¥50.0 billion year on year to ¥45.9 billion, and profit attributable to owners of parent declined ¥19.8 billion year on year to ¥26.2 billion. ROIC* was 5.0%, while ROE was 6.0%.
*Before-tax ROIC = EBIT (income before income taxes + interest expense) / invested capital (interest-bearing debt + shareholders' equity).

Results of Operations

Net Sales

As noted, consolidated net sales decreased by ¥22.2 billion from the previous fiscal year to ¥1,518.8 billion. Overseas sales totaled ¥870.6 billion. By region, sales in the United States were ¥371.2 billion, sales in Europe accounted for ¥177.9 billion, sales in Asia outside Japan contributed ¥220.9 billion, and sales in other areas added ¥100.6 billion. The ratio of overseas sales to consolidated net sales decreased by 1.4 percentage points to 57.3% from 58.7% in the previous fiscal year.

The following sections supply additional details on the consolidated performance of each business segment. Please note that operating income or loss includes intersegment transactions.

Ship & Offshore Structure

Consolidated orders received fell ¥61.4 billion year on year to ¥36.9 billion due to the downturn in demand for newly-built ships.

Consolidated net sales increased ¥8.3 billion to ¥103.2 billion due to an increase in the amount of shipbuilding and repairing of vessels for the Ministry of Defense, and other factors.

Consolidated operating income declined ¥13.4 billion year on year to an operating loss of ¥21.4 billion attributable to an increase in the amount of allowance for doubtful accounts on trade receivables from the joint venture in Brazil, an increase in provision for losses on construction contracts resulting from the appreciation of the yen, an increase in costs and other factors.

Rolling Stock

Consolidated orders received increased ¥26.4 billion year on year to ¥158.5 billion, as despite the decline for overseas markets, orders for linear-motor subway cars were received from the Tokyo Metropolitan Bureau of Transportation along with other factors.

Consolidated net sales declined ¥9.4 billion year on year to ¥137.1 billion due to a decline in sales to Asia, including Taiwan and Singapore, and other factors.

Consolidated operating income declined ¥5.8 billion year on year to ¥3.4 billion due to a drop in sales, a decline in highly profitable projects, an increase in costs and other factors.

Aerospace

Consolidated orders received declined ¥227.2 billion to ¥237.0 billion. The year-on-year decline was due to the fact that a bulk order for patrol aircraft was received from the Ministry of Defense in the previous fiscal year.

Consolidated net sales declined ¥21.9 billion year on year to ¥329.9 billion due to the effect of the appreciation of the yen and other factors, despite an increase in sales to the Ministry of Defense.

Consolidated operating income fell ¥20.6 billion year on year to ¥25.0 billion due to the appreciation of the yen and a decline in profitability of component parts for commercial aircraft along with other factors.

Gas Turbine & Machinery

Consolidated orders received declined ¥28.5 billion year on year to ¥260.3 billion. This decline was attributable to a drop in orders for items such as marine machinery and compressors, as well as due to the fact that a bulk order was received in the previous fiscal year for a new project for aircraft engine components.

Consolidated net sales increased ¥5.5 billion year on year to ¥241.9 billion due to the increase in sales of commercial aircraft jet engine component parts, an increase in work on gas engine power generation systems and other factors, despite the impact of the yen's appreciation.

Consolidated operating income declined ¥1.6 billion year on year to ¥15.2 billion due to the effect of the appreciation of the yen, an increase in depreciation of development costs of new commercial aircraft jet engine projects and other factors.

Plant & Infrastructure

Consolidated orders received fell ¥43.7 billion year on year to ¥95.0 billion due to a decline in municipal refuse incineration plants for the domestic market along with other factors.

Consolidated net sales increased ¥25.2 billion year on year to ¥160.8 billion due to an increase in the volume of construction work on a chemical plant for an overseas market.

Consolidated operating income declined ¥5.9 billion year on year to ¥2.6 billion due to the provision for losses on construction contracts in LNG tanks for overseas markets and other factors despite an increase in sales.

Motorcycle & Engine

Consolidated net sales declined ¥20.5 billion year on year to ¥313.0 billion due to the impact of the yen's appreciation, a decline in sales of general-purpose gasoline engines and motorcycles to emerging countries and other factors despite an increase in sales of motorcycles and automobiles for developed countries.

Consolidated operating income declined ¥4.0 billion year on year to ¥11.7 billion due to a drop in sales.

Precision Machinery

Consolidated orders received increased ¥33.6 billion year on year to ¥166.8 billion due to an increase in orders for hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated net sales increased ¥22.1 billion year on year to ¥155.2 billion due to an increase in sales of hydraulic components for construction machinery and various industrial robots, along with other factors.

Consolidated operating income increased ¥4.5 billion year on year to ¥13.1 billion due to the increase in sales.

Other

Consolidated net sales fell ¥31.4 billion year on year to ¥77.4 billion due to the assignment of the construction machinery business in the same period of the previous fiscal year.

Consolidated operating income increased ¥0.2 billion year on year to ¥3.1 billion.

Cost, Expenses, and Earnings

Cost of sales increased by ¥25.2 billion from the previous fiscal year to ¥1,278.9 billion. As a result, gross profit decreased by ¥47.4 billion to ¥239.9 billion while the gross profit margin decreased by 2.8 percentage points to 15.8% from 18.6% in the previous fiscal year.

Selling, general and administrative expenses increased by ¥2.5 billion from the previous fiscal year to ¥193.9 billion.

Operating income decreased by ¥50.0 billion to ¥45.9 billion. The decrease in operating income was due to the effect of the appreciation of the yen, decreases in profit in Ship & Offshore Structure and Aerospace segments and other factors. The ratio of operating income to net sales decreased by 3.2 percentage points to 3.0%, from 6.2% in the previous fiscal year.

Other expenses, net improved to ¥10.8 billion from ¥21.5 billion in the previous fiscal year, when there was a loss on overseas business.

As a result, after deduction of profit attributable to non-controlling interests, profit attributable to owners of parent decreased by ¥19.8 billion from the previous fiscal year to ¥26.2 billion. The ratio of profit attributable to owners of parent to net sales decreased by 1.2 percentage points to 1.7% from 2.9% in the previous fiscal year. ROE (calculated using average total shareholders' equity) decreased by 4.6 percentage points to 6.0% from 10.6% in the previous fiscal year.

Capital expenditures came to ¥82.7 billion, up from ¥76.3 billion in the previous fiscal year. R&D expenses were ¥43.6 billion, the same level of the previous fiscal year.

Financial Conditions

Total assets at March 31, 2017 were ¥1,687.3 billion, a 4.1% increase from March 31, 2016. Current assets increased 5.8% year on year to ¥1,077.8 billion, mainly attributable to an increase in trade receivables. Fixed assets increased 1.1% year on year to ¥609.5 billion, primarily due to an increase in holdings of property, plant and equipment due to capital investment.

Consolidated liabilities increased 5.2% year on year to ¥1,236.0 billion at March 31, 2017. The increase was mainly attributable to an increase in advances from customers and other factors.

Consolidated net assets increased 1.2% year on year to ¥451.3 billion as the increase from the posting of profit attributable to owners of parent was partly offset by dividend payments and other factors.

The ratio of shareholders' equity to total assets decreased by 0.7 percentage points to 25.9% from 26.6% at the end of the previous fiscal year. In addition, the net debt-to-equity ratio improved 3.6 percentage points from 82.5% to 78.9% as of March 31, 2017.

Cash Flows

Operating activities provided net cash of ¥93.5 billion, a ¥7.4 billion increase from the previous fiscal year. Major sources of operating cash flow included income before income taxes of ¥38.8 billion and depreciation and amortization of ¥51.5 billion. Major uses of operating cash flow included expenditure of ¥13.1 billion for cash paid for income taxes and expenditure of ¥64.6 billion due to an increase in trade receivables.

Investing activities used net cash of ¥64.8 billion, ¥9.3 billion less than in the previous fiscal year, mainly to acquire property, plant and equipment as well as intangible assets.

Free cash flow, which is the net amount of cash from operating and investing activities, showed a net inflow of ¥28.6 billion, up from a net inflow of ¥11.8 billion in the previous fiscal year.

Financing activities used net cash of ¥15.8 billion, ¥7.5 billion less than in the previous fiscal year. The cash outflow was mainly the result of cash dividends paid.

Given these changes in cash flows, cash and cash equivalents at end of year settled at ¥50.7 billion, up by ¥12.8 billion from the beginning of the year.

Management of Liquidity Risk

To manage our liquidity risk comprehensively, the Finance Department formulates and renews financial plans in a timely fashion based on reports from each business segment. In addition, measures are taken to diversify sources of financing, adjust the balance of long- and short-term financing with consideration for financial conditions and secure commitment lines (credit limit of ¥54.0 billion, immediate activation possible) and commercial paper (issuance limit of ¥150.0 billion).

Management Indicator

As target management indicators, the Company has adopted Earnings (Operating income, Recurring profit, Profit attributable to owners of parent) and Return on Invested Capital [ROIC = EBIT (Income before income taxes + Interest expense) / Invested Capital (Interest-bearing debt + Shareholders' equity)] as an indicator for measuring capital efficiency.

The Company's group-wide businesses are segmented and subdivided into Business Units (hereinafter referred to as "BUs"), and ROIC management has been applied to each and every BU. Those BUs not clearing the ROIC hurdle rate (minimum required level) are required to take practical actions for clearing the hurdle rate early. On the other hand, those BUs already clearing the ROIC hurdle rate are encouraged to achieve the ROIC level for the top market leader and, while taking initiatives to enhance Economic Value Added (EVA), improve the enterprise value of the entire group.

With the improvement of these management indicators, the Company also seeks to improve Return on Equity (ROE = Profit attributable to owners of parent / Shareholders' equity).

Dividends

As a basic management policy, the Company aims to increase corporate value by consistently generating profit exceeding the cost of invested capital. In line with this policy, the Company believes that one priority for management is to engage in cutting-edge research and development as well as innovative capital investment required to achieve future growth and thereby return profits to shareholders by enhancing shareholder value over the long term.

In order to maintain a good balance between enhancing shareholder value and returning profits to shareholders through dividends, the Company has set a medium- to long-term consolidated payout ratio standard of 30% corresponding to the consolidated profit attributable to owners of parent and in light of both the outlook for future earnings and a comprehensive examination of its financial condition, including free cash flow, the D/E ratio (debt-to-equity ratio) and other factors.

The Company has a basic policy of distributing surplus retained earnings as dividends twice a year, once after the fiscal second quarter and once after the fiscal year-end. Interim dividends are authorized by the Board of Directors; year-end dividends are authorized at the general meetings of shareholders.