

Yokogawa Electric Corporation

*Transformation 2017*

# Financial Results for 1<sup>st</sup> Half of Fiscal Year 2017

November 7, 2017

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**Junichi Anabuki**

Director, Senior Vice President  
Accounting & Treasury Headquarters

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- Current situation / Plan for final year of TF2017 -

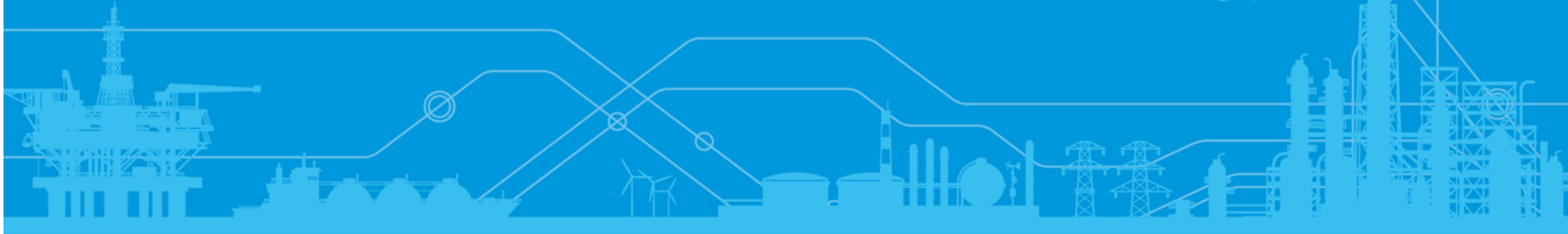
**Takashi Nishijima**

President and Chief Executive Officer

Yokogawa Electric Corporation

Transformation 2017

# Financial Results for 1<sup>st</sup> Half of Fiscal Year 2017



**November 7, 2017**

**Junichi Anabuki**

Director, Senior Vice President  
Accounting & Treasury Headquarters

# Summary of FY17 1H Results

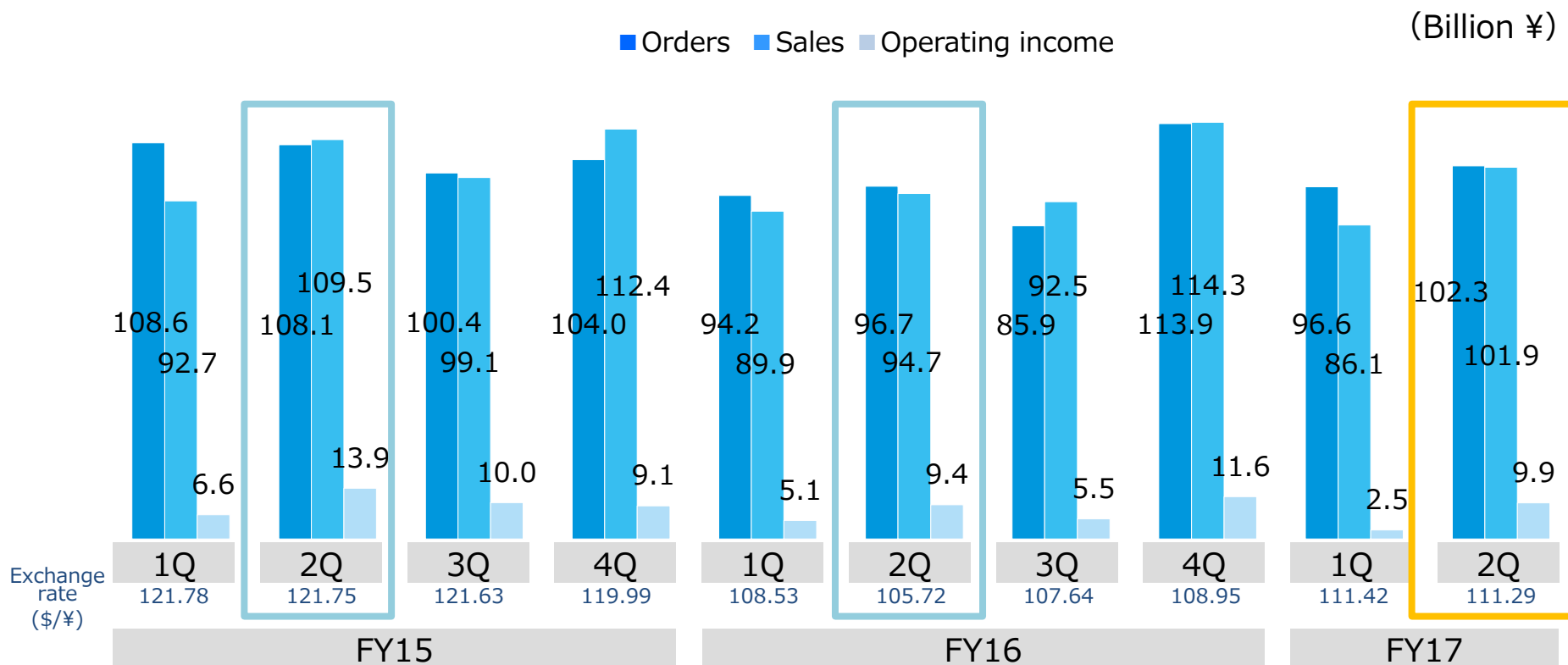
- Orders and sales were up, due mainly to the weak yen.
- Operating income was down due to a decrease in the gross margin ratio and an increase in the SG&A ratio.
- Impact of the weak yen:  
→ Orders +¥7.8 billion, sales +¥7.3 billion, operating income +¥1.4 billion

(Billion ¥)

	FY16 1H	FY17 1H	Difference	Growth rate	Impact of exchange rate
Orders	190.9	<b>198.9</b>	+8.0	+4.2%	+7.8
Sales	184.6	<b>188.0</b>	+3.4	+1.8%	+7.3
Operating income	14.5	<b>12.4</b>	(2.1)	-13.3%	+1.4
Ordinary income	14.9	<b>12.3</b>	(2.6)	-16.3%	+1.7
Profit attributable to owners of parent	10.3	<b>9.6</b>	(0.7)	-6.5%	+1.5
Exchange rate (¥)	1 U.S. dollar	<b>111.29</b>	+5.57	-	-

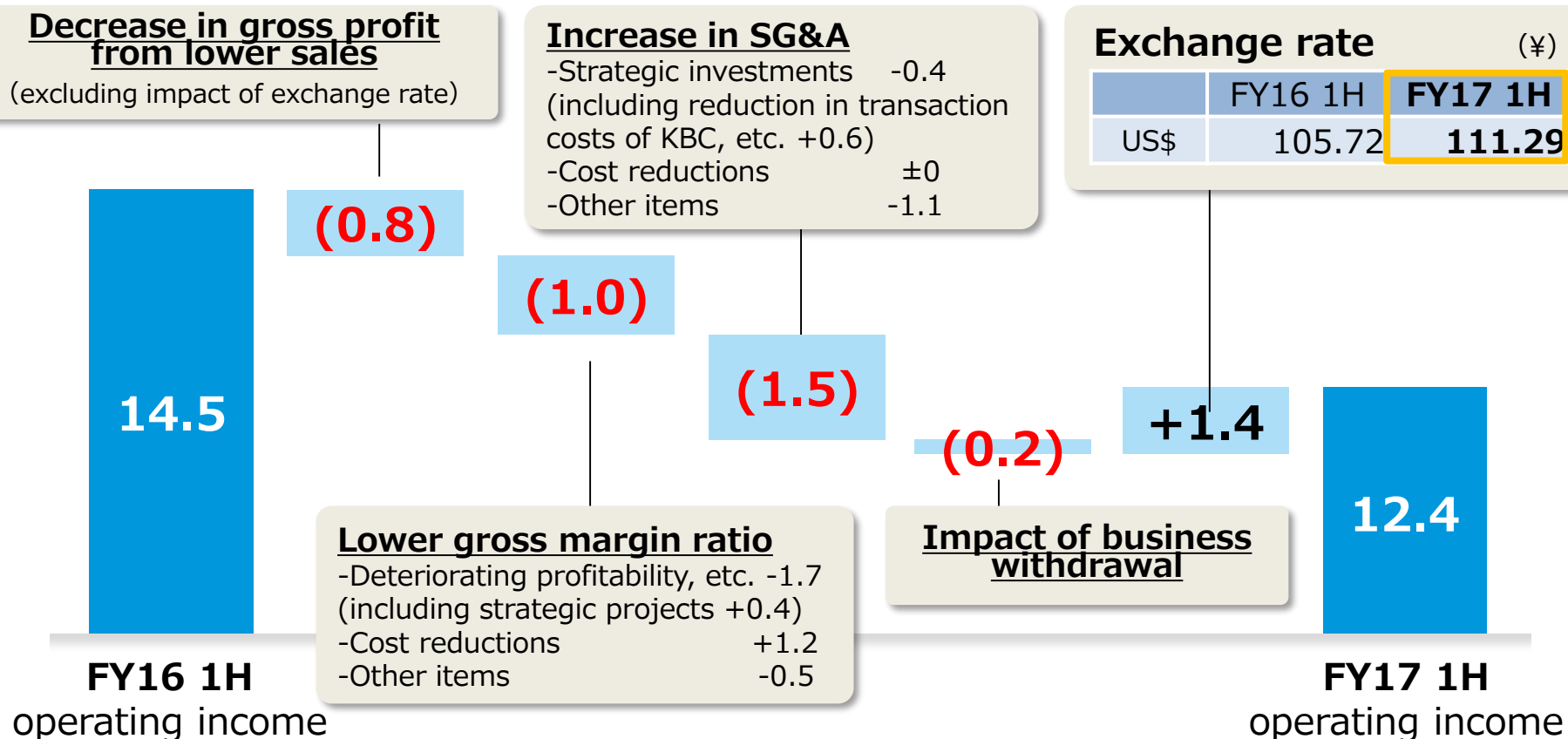
# Quarterly Financial Results

- Sales and operating income tend to be higher in 2Q and 4Q, and this trend is particularly strong in the Japanese control segment.



# Analysis of Operating Income (FY16 1H/FY17 1H comparison)

(Billion ¥)



# Non-operating/Extraordinary Income and Expenses

(Billion¥)

	FY15 1H	FY16 1H	FY17 1H
Operating income	<b>20.5</b>	<b>14.5</b>	<b>12.4</b>
Non-operating income	1.7	1.5	1.6
Non-operating expenses	1.2	1.1	1.7
Ordinary income	<b>21.0</b>	<b>14.9</b>	<b>12.3</b>
Extraordinary income	0.9	0.2	2.5
Extraordinary expenses	0.2	0.1	0.1
Income before tax	<b>21.7</b>	<b>15.0</b>	<b>14.7</b>
Tax, etc.	5.6	4.7	5.1
Profit attributable to owners of parent	<b>16.1</b>	<b>10.3</b>	<b>9.6</b>

→ FY17:  
 - Gain on sale of non-current assets: 1.8  
 - Gain on sale of investment securities: 0.7

(Effective tax rate)

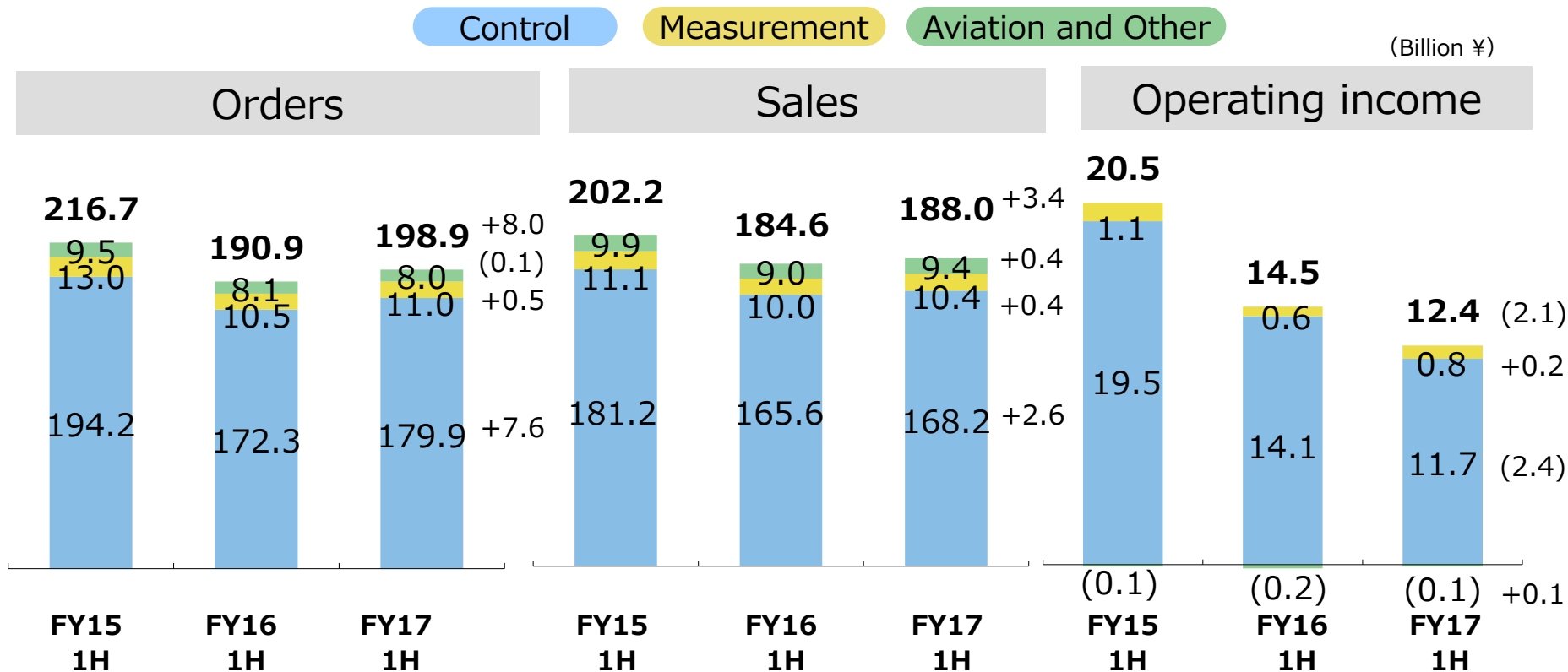
22.2%

28.4%

30.0%

# FY16 1H/FY17 1H Comparison for Orders, Sales, and Operating Income by Segment

- Control: Orders and sales were up, due mainly to the weak yen, but operating income was down due to deteriorating profitability and an increase in SG&A expenses, which included transient items, etc.
- Impact of the weak yen:
  - Orders +¥7.4 billion, sales +¥6.9 billion, operating income +¥1.3 billion
- Measurement/Aviation and Other: Orders, sales, and operating income were nearly unchanged from FY16 1H.



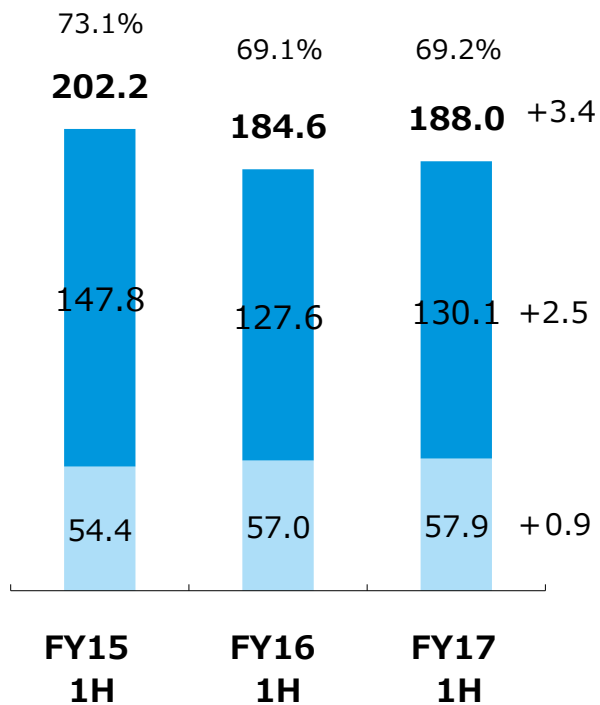


# Trend of Global Sales

-The percentage of sales generated outside Japan was up due to the weak yen.

## Total (Billion ¥)

■ Japan ■ Outside Japan



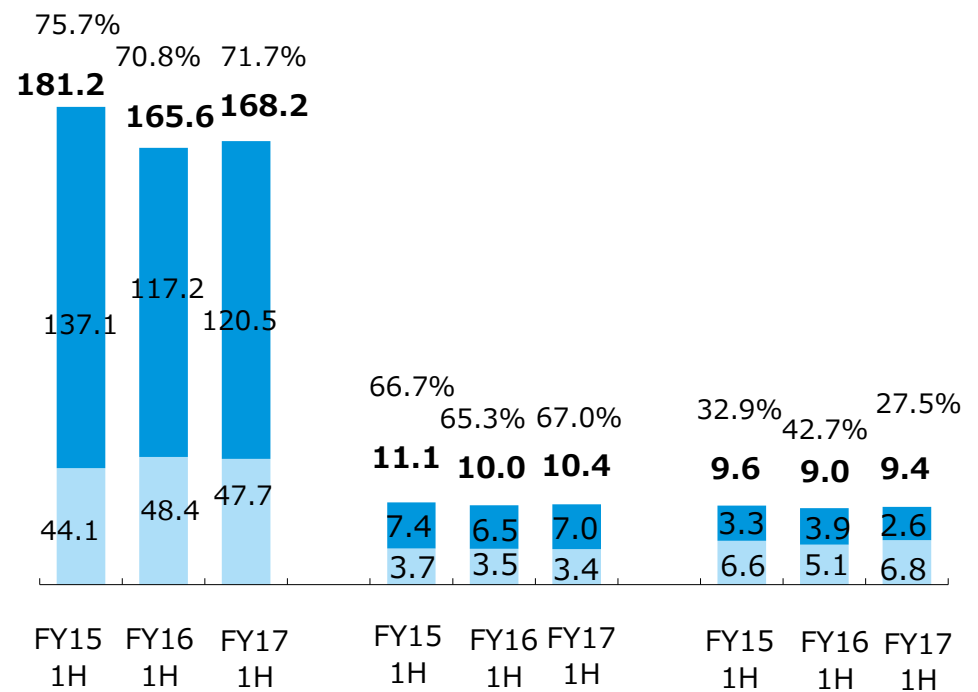
## By segment (Billion ¥)

Control

Measurement

Aviation and Other

■ Japan ■ Outside Japan

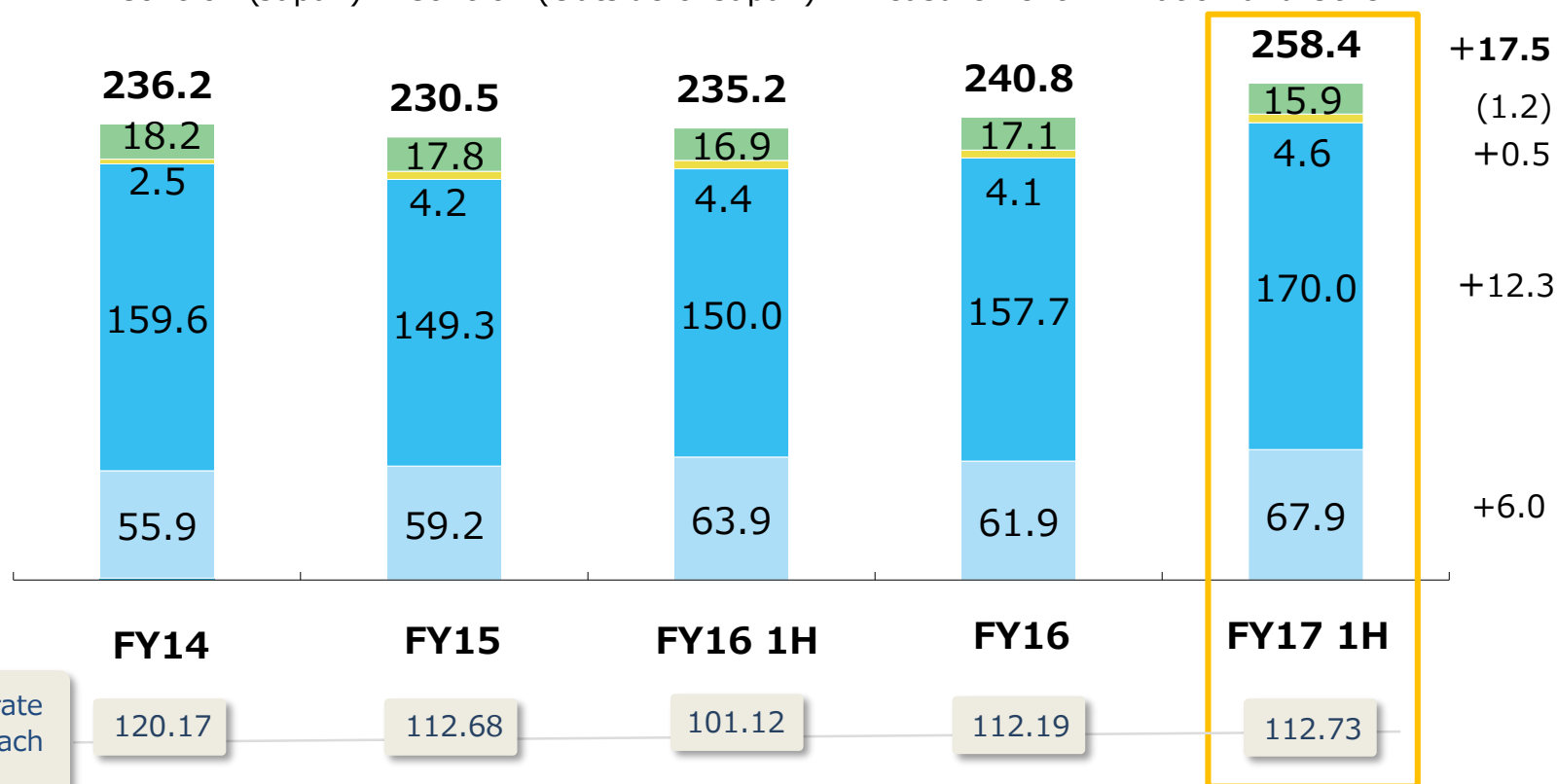


# Order Backlog Trend by Segment

- We continue to have a large order backlog.

(Billion¥)

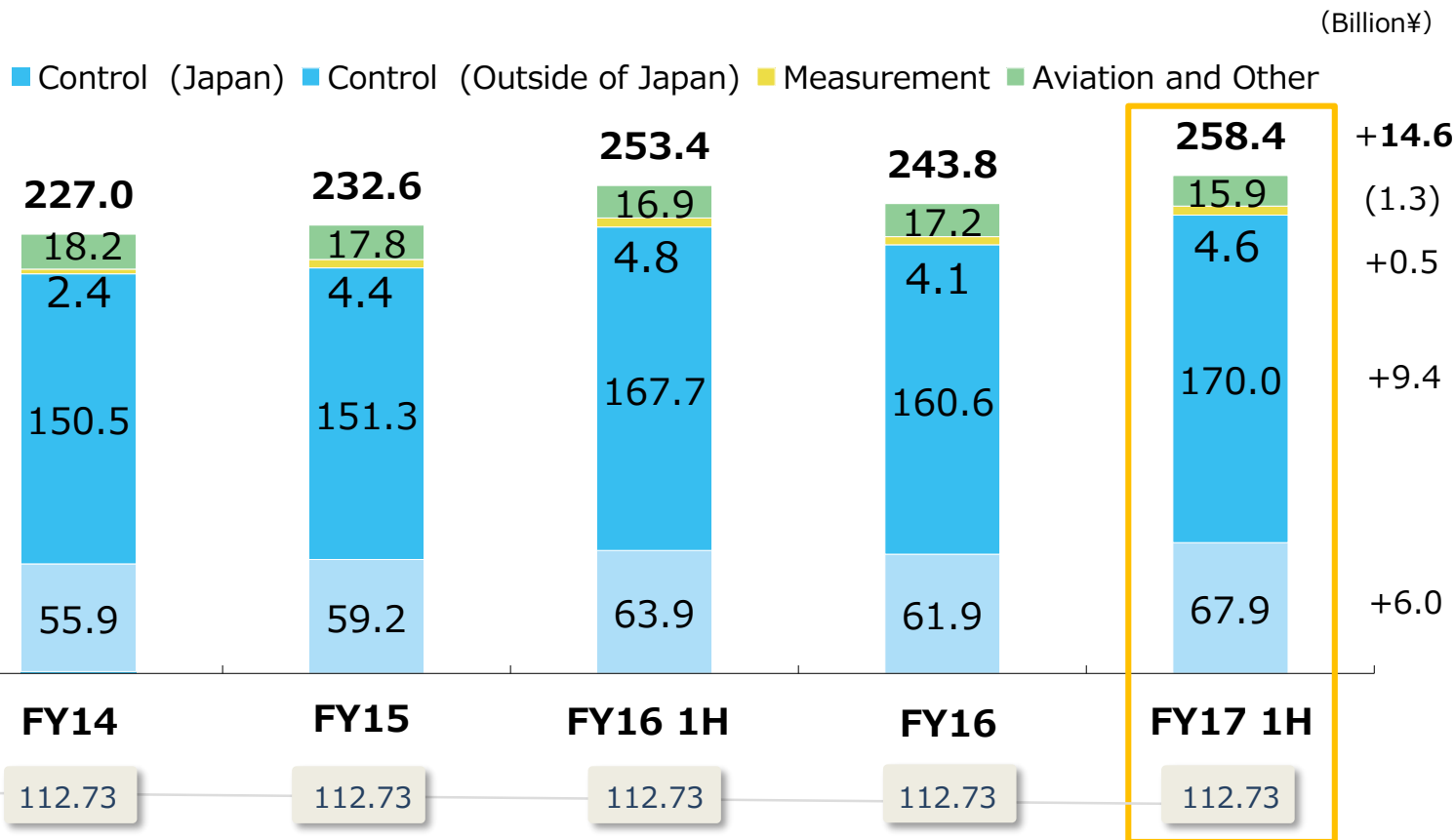
■ Control (Japan) ■ Control (Outside of Japan) ■ Measurement ■ Aviation and Other



\* Destination-based

# <Reference> Order Backlog Trend by Segment (Using FY17 1H exchange rate)

- Also when the impact of the exchange rate is excluded, the order backlog shows the same general upward trend.



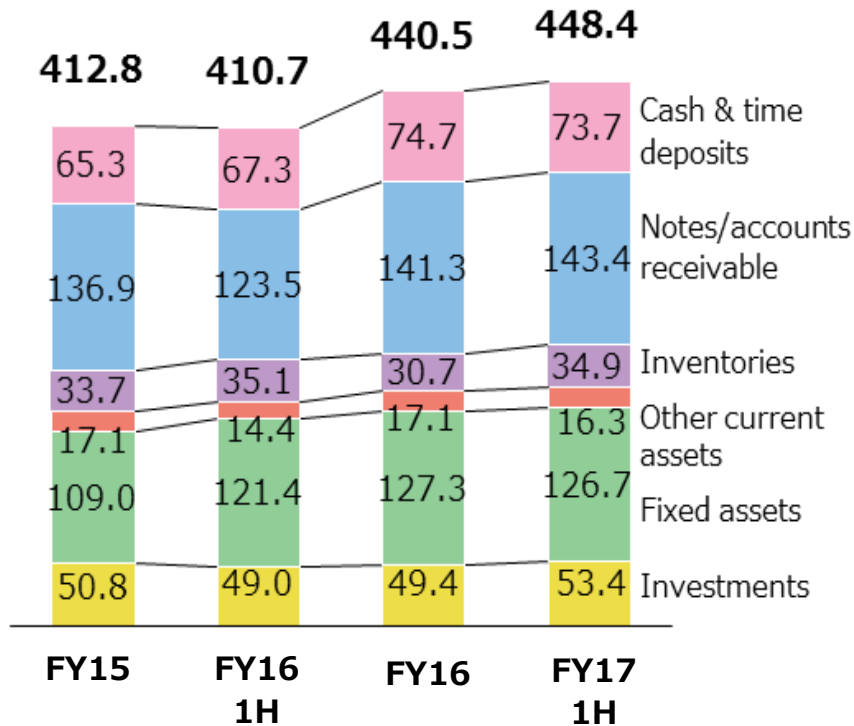
\* Destination-based

# Trend of Balance Sheet

- There were no significant changes.

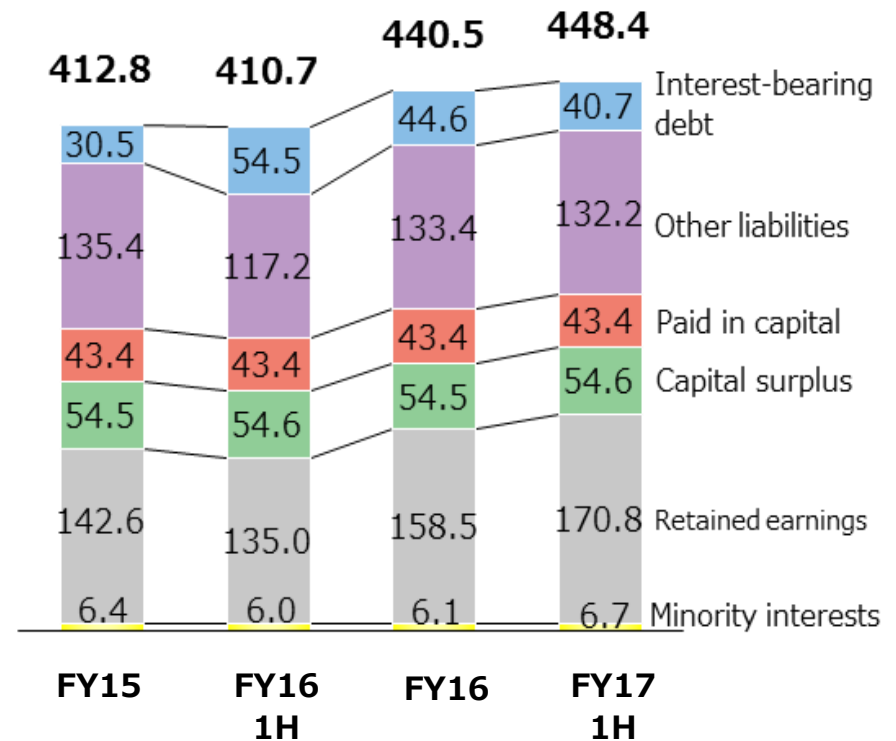
## Assets

(Billion ¥)



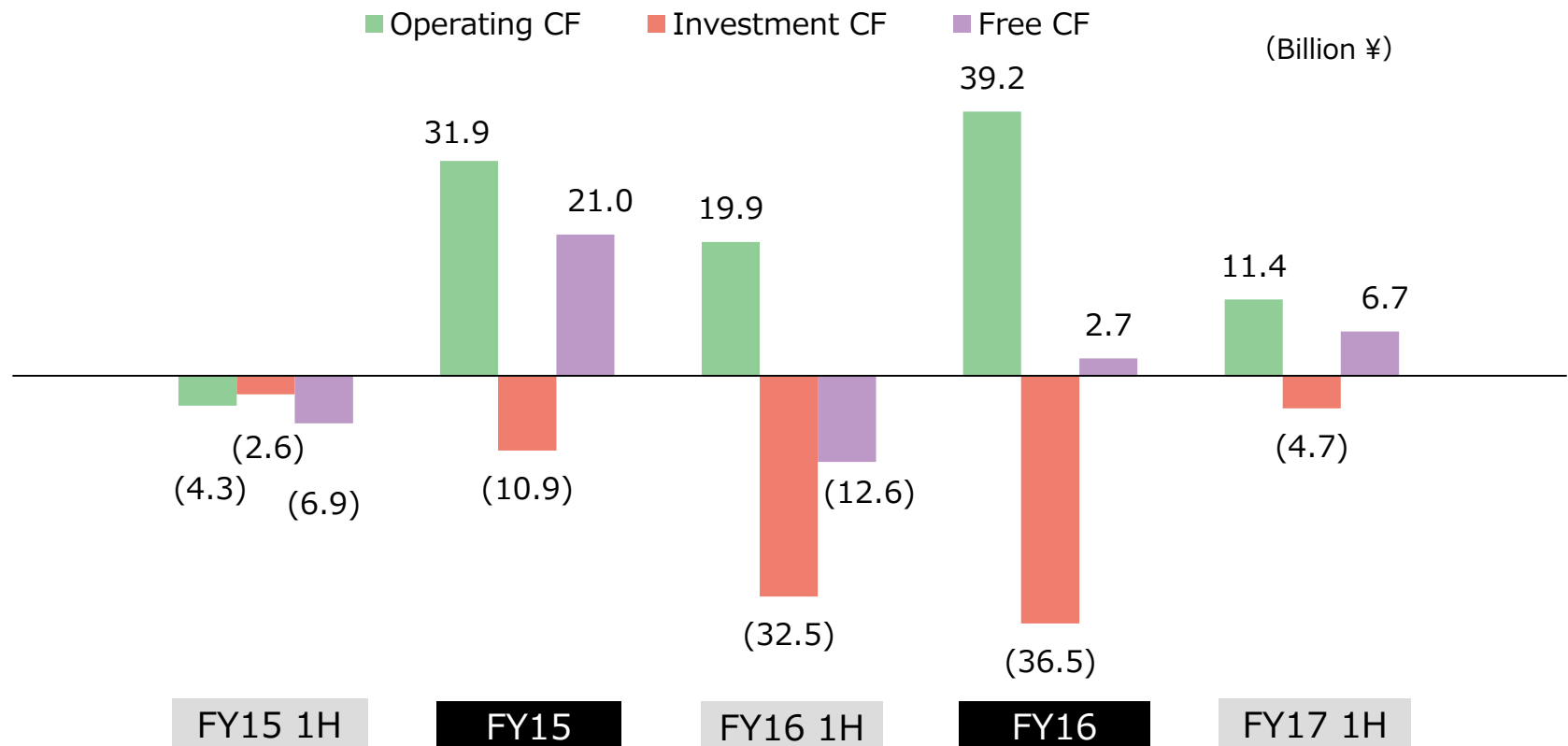
## Liabilities and equity

(Billion ¥)



# Trend of Cash Flow

- The investment cash flow for FY16 1H was impacted by the KBC acquisition (26.6 billion yen).



# FY17 Forecast (No change)

- We are projecting a year-on-year increase in orders, sales, and profits.

(Billion¥)

	FY15 (A)	FY16 (B)	FY17 forecast(C)	Difference (C-B)	Growth rate (C÷B-1)
Orders	421.1	390.7	<b>400.0</b>	+ 9.3	+ 2.4%
Sales	413.7	391.4	<b>400.0</b>	+ 8.6	+ 2.2%
Operating income	39.6	31.6	<b>36.0</b>	+ 4.4	+ 13.9%
ROS (%)	9.6	8.1	<b>9.0</b>	+0.9 pts	—
Ordinary income	40.7	33.0	<b>35.5</b>	+ 2.5	+ 7.5%
Profit before income taxes	41.9	35.5	<b>37.5</b>	+ 2.0	+ 5.6%
Tax, etc.	11.7	9.7	10.5	+0.8	+8.2%
Profit attributable to owners of parent	30.2	25.8	<b>27.0</b>	+ 1.2	+ 4.8%
EPS (¥)	114.01	96.44	<b>101.04</b>	+ 4.60	—
Exchange rate	1\$ = ¥119.99	¥108.95	<b>¥110</b>	+ 1.05	—

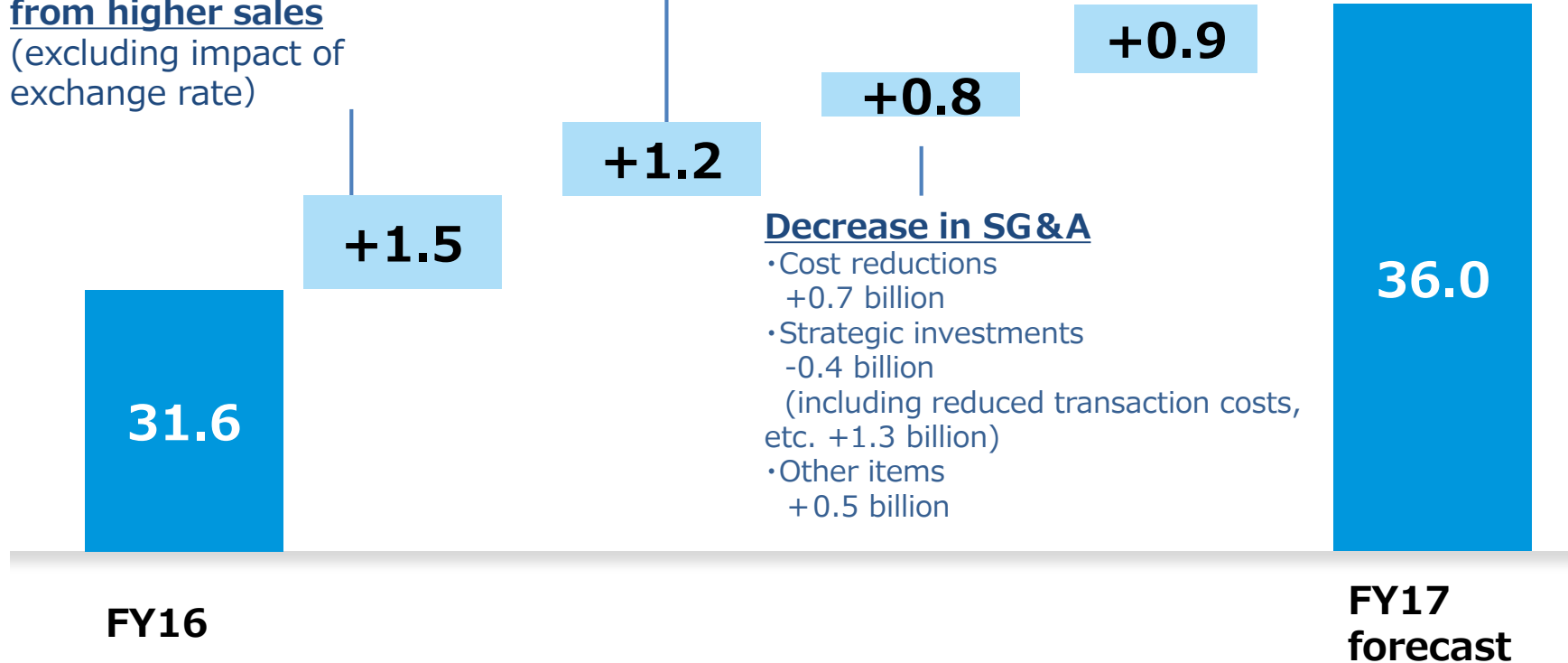
# Factors Accounting for Increase/Decrease in FY17 Operating Income (No change)

## Gross profit improvement

- Cost reductions +2.5 billion
- Strategic projects 0.0 billion
- Intensifying competition -1.3 billion

## Increase in gross profit from higher sales (excluding impact of exchange rate)

(excluding impact of exchange rate)



## Exchange rate

(Billion¥)

	FY16	FY17 forecast
1 U.S. dollar	108.95	<b>110.00</b>

\$/¥ exchange rate sensitivity: approx. ¥0.6 billion per year for each ¥1 change

**+0.9**

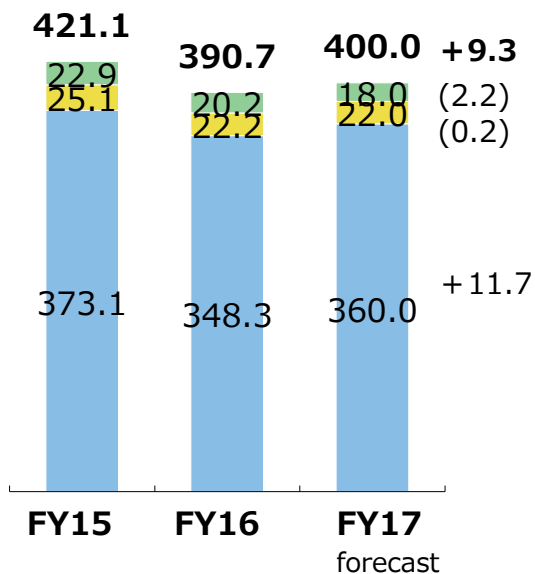
# FY17 Forecast for Orders, Sales, and Operating Income by Segment (No change)

- Control: We are projecting a year-on-year increase for orders, sales, and profits.
- Measurement: Orders and sales are expected to remain unchanged year on year, while profit is expected to increase.
- Aviation and other: Orders and sales are projected to decline due to factors such as a decline in demand for marine navigation instruments.

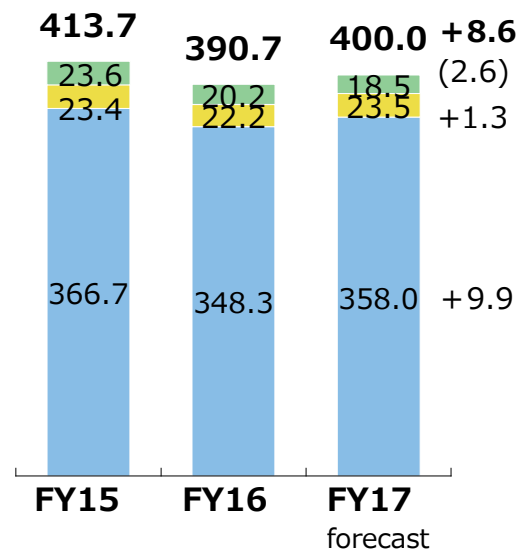
■ Control ■ Measurement ■ Aviation and Other

(Billion¥)

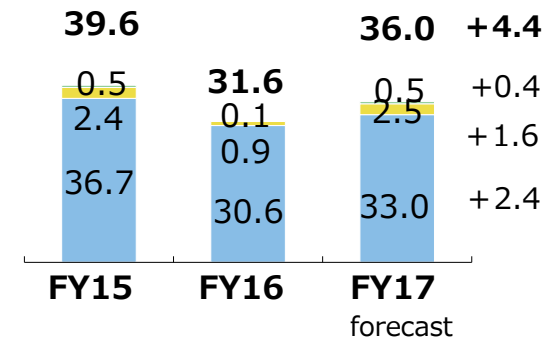
## Orders



## Sales



## Operating income



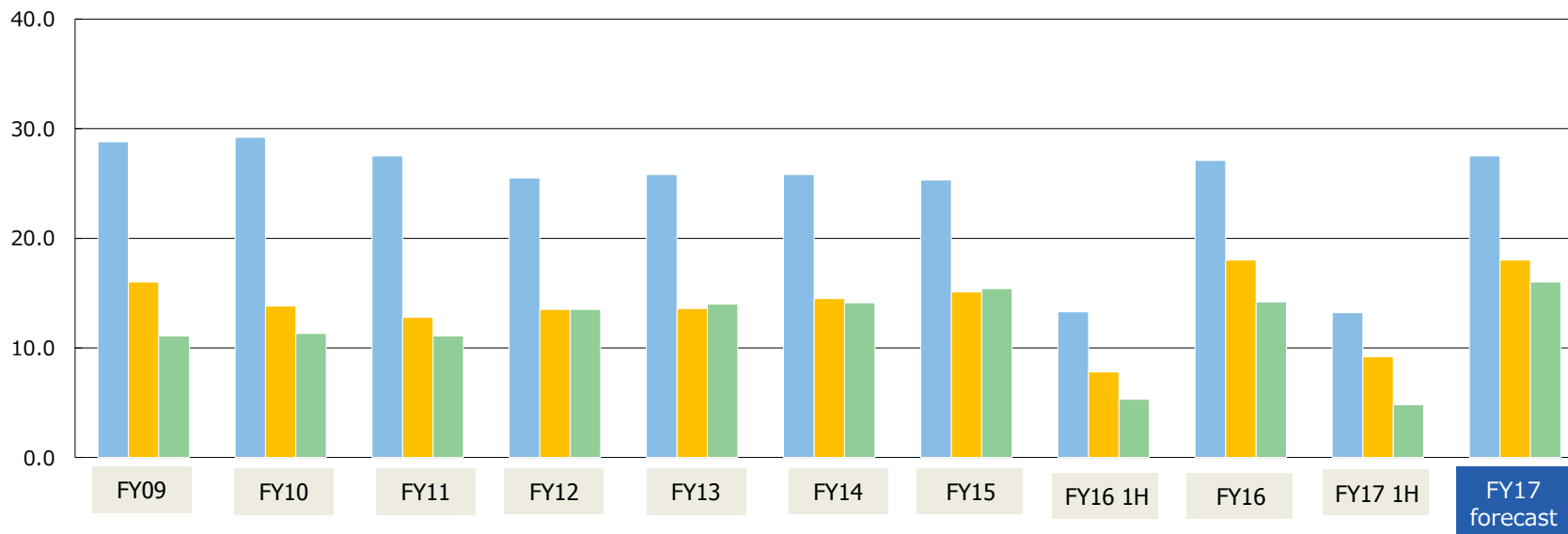


# Trend of R&D Expenses, Depreciation, and CAPEX

- Progressing as planned

(Billion¥)

■ R&D ■ Depreciation ■ CAPEX



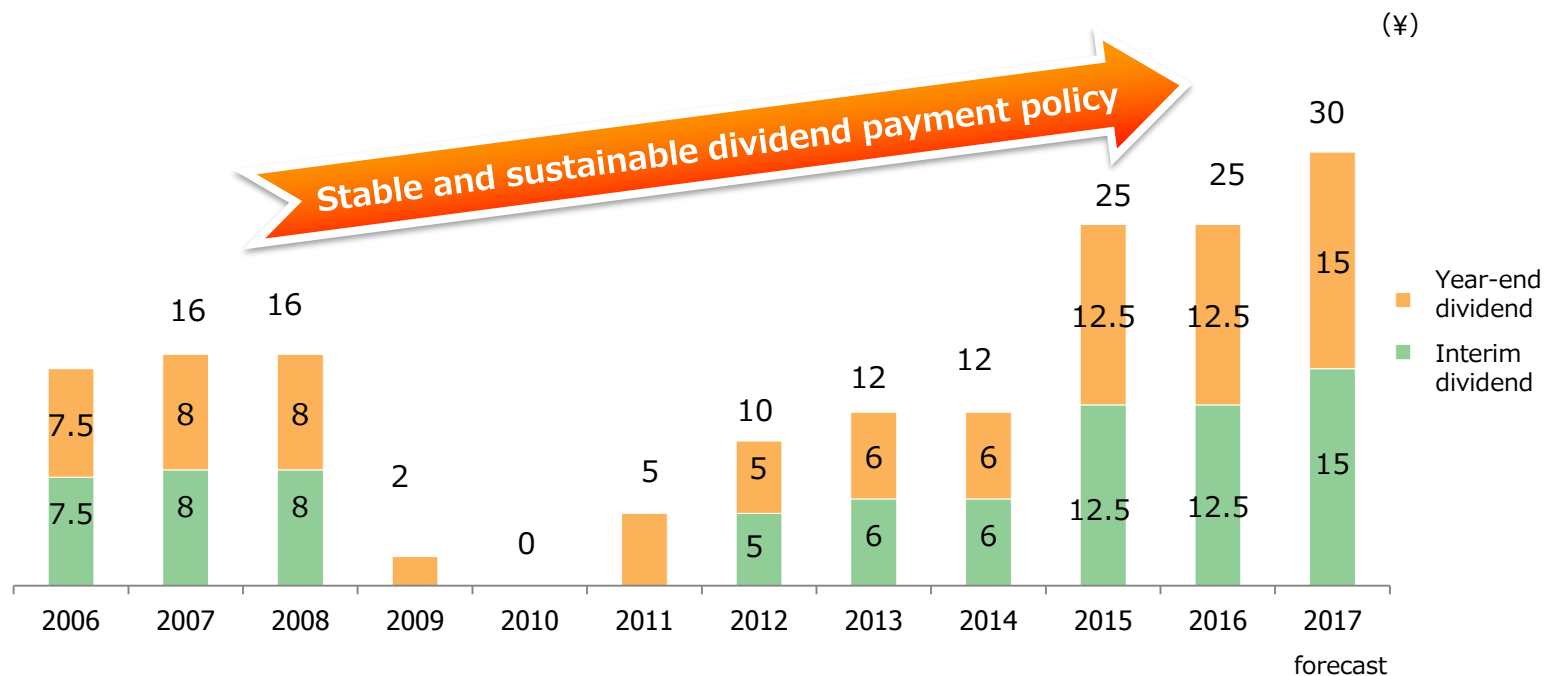
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16 1H	FY16	<b>FY17 1H</b>	FY17 forecast
R&D expenses (% of sales)	28.8	29.2	27.5	25.5	25.8	25.8	25.3	13.3	27.1	<b>13.2</b>	27.5
	9.1%	9.0%	8.2%	7.3%	6.6%	6.4%	6.1%	7.2%	6.9%	<b>7.0%</b>	6.9%
Depreciation (% of sales)	16.0	13.8	12.8	13.5	13.6	14.5	15.1	9.1	18.0	<b>9.2</b>	18.0
	5.1%	4.2%	3.8%	3.9%	3.5%	3.6%	3.6%	4.9%	4.6%	<b>4.9%</b>	4.5%
CAPEX (% of sales)	11.1	11.3	11.1	13.5	14.0	14.1	15.4	5.3	14.2	<b>4.8</b>	16.0
	3.5%	3.5%	3.3%	3.9%	3.6%	3.5%	3.7%	2.9%	3.6%	<b>2.6%</b>	4.0%

# Dividend

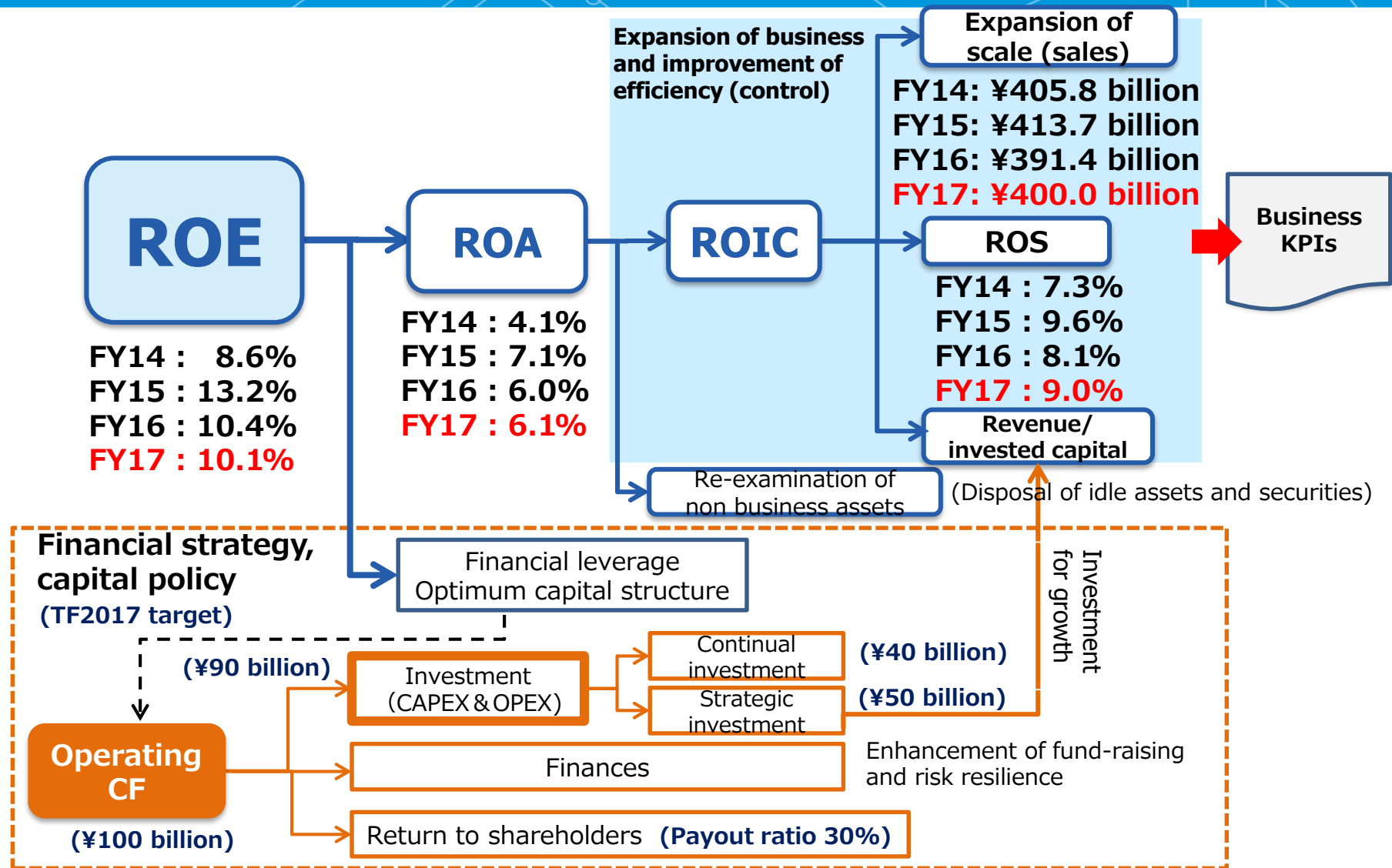
- Interim dividend set at ¥15.0

**FY16: ¥25 (payout ratio 25.9%)**

**FY17: ¥30 (payout ratio 29.7%)**



# KPIs (No change)



Yokogawa Electric Corporation

# Transformation 2017

- Current situation / Plan for final year of  
TF2017 -

- Current situation
- Review of FY17 action plan
- Plan for final year of TF2017

**November 7, 2017**

**Takashi Nishijima**

President and Chief Executive Officer

# Current Situation

- Based on our assessment of the order trend and other factors, the market appears to be bottoming out.
- Prospects for our business remain unclear due to domestic / international political and economic concerns.

## Market conditions

OPEX related investment by our customers to improve the profitability of manufacturing operations is picking up, but CAPEX is down and FIDs\* have been postponed due to the prolonged decline in crude oil prices.

## Industries

Our downstream business (chemicals, petrochemicals, etc.) is stable, but some of our customers in the upstream segment are increasingly cautious about making investments.

## Regions

Regional differences: Market conditions are strong in Japan and mixed overseas. Orders are up (excluding impact of business transfers and foreign exchange).

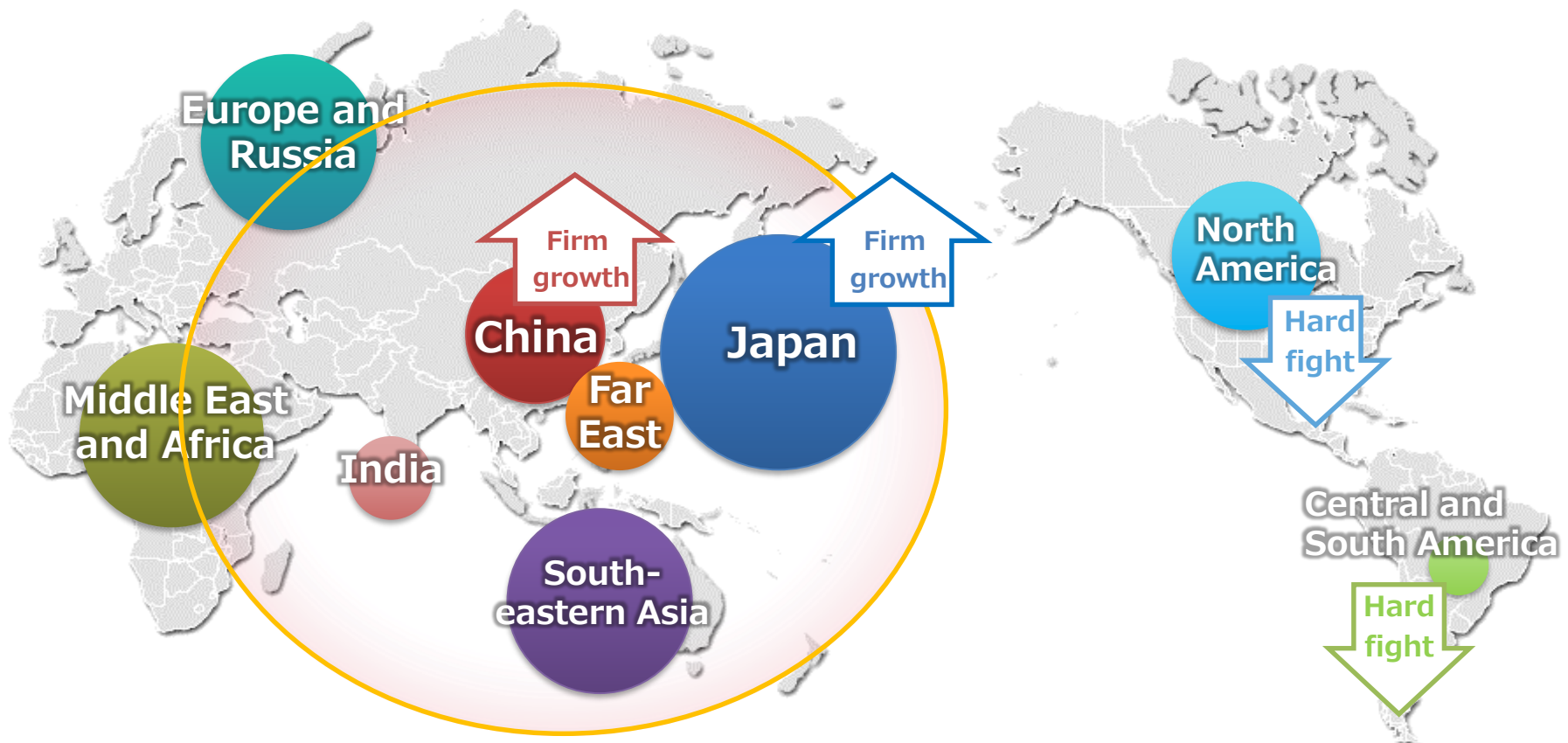
**\* FID=Final Investment Decision**

# Trend of Control Business Orders by Region

Industries

Regions

- Japan: Continued strong growth
- Middle East and Africa: Project orders remain unchanged, but competition is intensifying
- China: Market conditions remain strong
- North America: Product business has recovered, but continue to be in hard fight due to the shrinking big projects



Source: Company data

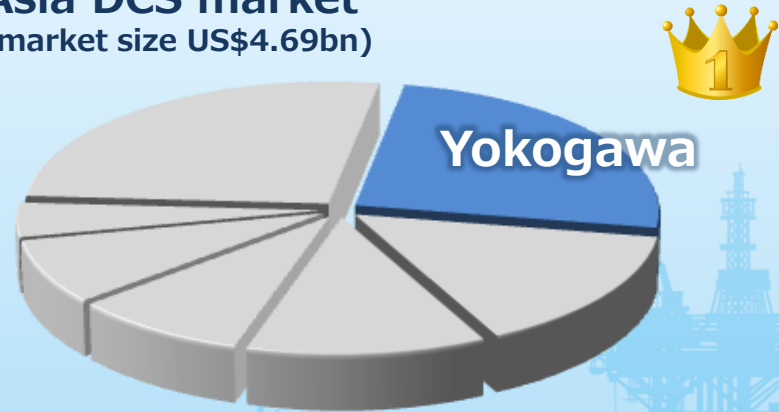
# 2016 DCS Market Share/Industry Breakdown

Industries

**Global DCS market**  
(market size US\$14.21bn)



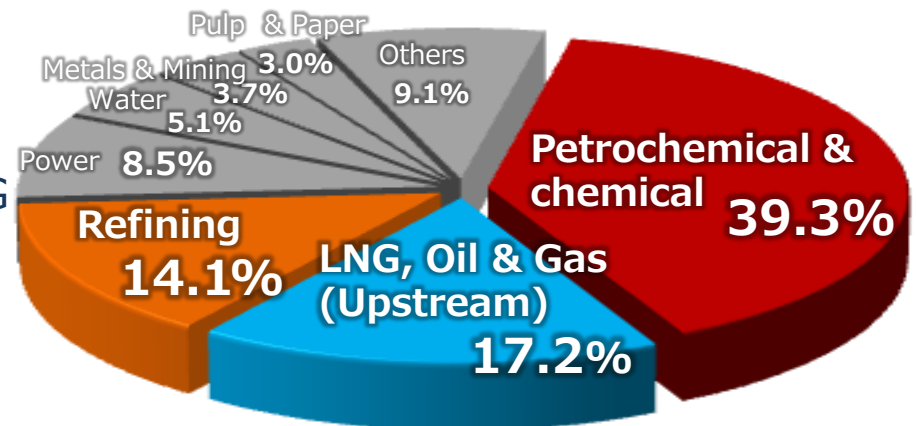
**Asia DCS market**  
(market size US\$4.69bn)



Source: ARC Distributed Control Systems Global Market Research Study

## <Yokogawa DCS sales>

- 54% of total control business
- Includes engineering, software, etc.
- Strongest in downstream industries
- Half of upstream sales (17.2%) are LNG related
- Installed base of more than 25,000 systems in approx. 100 countries



Source: Company data

# FY17 Management Policy

– Aiming to further growth by accelerated transformation –

## Three commitments

**1**

**Increasing orders**

Focusing on our customers  
(Business solution capability)

**2**

**Improving profitability**

Cost reduction

**3**

**Strategic investment**

Value creation



# Action Plan

## Three commitments

### 1 Increase sales

- Make full use of the Group's capabilities to provide business solutions (through synergy with KBC and other organizations)
- Target more industries in Japan and roll out Japan success cases in other markets
- Focus on the global chemical market

### 2 Improve profitability

- Reduce costs by optimizing global logistics
- Reduce SG&A expenses by eliminating redundant functions in overseas RHQs
- Increase efficiency by upgrading IT infrastructure (CRM and other systems)

### 3 Make strategic investments

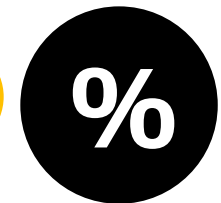
- Create IIoT platform for Yokogawa's forte businesses
- Launch GRANDSIGHT (value co-creation environment) in Japan
- Start co-innovation activities

## Progress & assessment

Concentrate in 2H  
Recoverable



Concentrate in 2H  
Reinforce monitoring



Cost advance  
Emphasis on return



# Priority Action Plan

## - Final cost reduction targets -

- Focus on reducing costs in areas not related to sales

	FY14 results	FY15 results	FY16 1H results	FY16 results	FY17 1H results	FY17 revised target	FY17 initial target
Cost reduction (In relation to FY14)	—	¥5.7 billion	Cumulative result ¥7.2 billion (¥1.5 billion)	Cumulative result ¥10.8 billion (¥5.1 billion)	Cumulative result ¥11.8 billion (¥1.2 billion)	Cumulative target ¥14 billion (¥3.2 billion)	Approx. ¥20 billion (¥10 billion)
COGS ratio	58.3%	57.3%	56.0%	56.8%	56.5%	56.5%	57% or lower
SG&A ratio	34.4%	33.1%	36.1%	35.1%	<u>36.9%</u>	34.5%	32.8% or lower (excluding strategic investment)
Operating income-to-sales ratio	7.3%	9.6%	7.9%	8.1%	6.6%	9.0%	10.2%

# Plan for Final Year of TF2017

- Although our sales target is aggressive, we will aim to maximize top line by steadily accumulating sales.



- We will accelerate our efforts to reduce costs, and thereby establish a basis for our business that is not dependent on increasing sales.

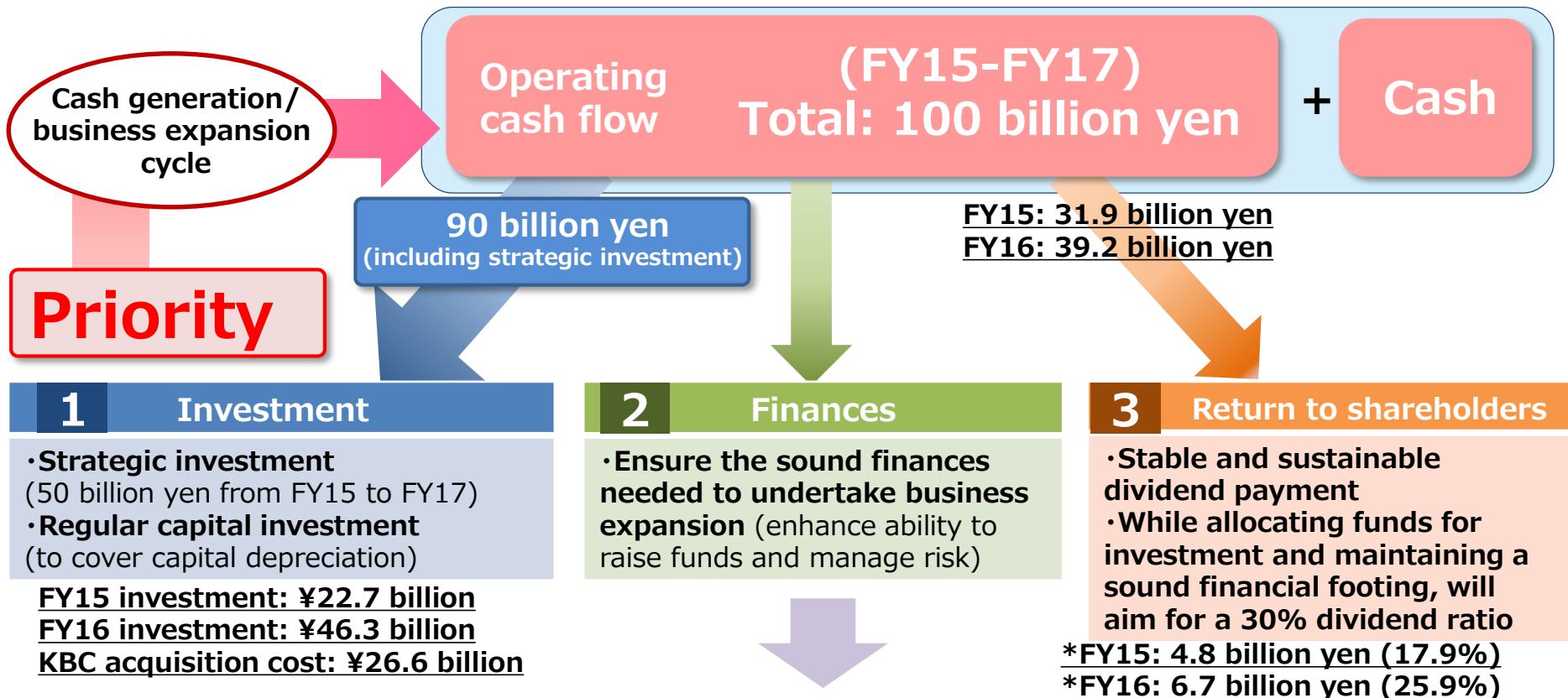


- We will achieve the initial targets of ROA: more than 6% and EPS: more than 100 yen, and will then proceed to the next stage.

# Appendix

- **Financial Strategy, Capital Policy**
- **News**
- **Trend of Stock Price**

# Appendix: Financial Strategy, Capital Policy (No change)



## Optimum capital structure

- ◆ Maintain ability to generate the funds needed to invest for growth
- ◆ Keep single A credit rating with Japanese rating agencies

# Appendix: News (From August 9 to November 7)

-Yokogawa Solution Service Corporation releases Data Driven Modeling for Optimization (DDMO) solution in Japan to systematize expertise of skilled plant workers and thereby minimize manufacturing costs and maintain quality

-Release of CV8000 high-throughput cytological discovery system for the faster discovery of new drugs and improved efficiency in biomedical research

-Yokogawa Electric Corporation included in Dow Jones Sustainability Asia Pacific (DJSI Asia Pacific), a global environment, social, and governance (ESG) stock index



CellVoyager® CV8000

MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM

-Yokogawa Electric Corporation, Yokogawa Solution Service Corporation, and NTT Communications launch trial to demonstrate use of IoT/AI technology in an advanced manufacturing operation

-Release of CENTUM® VP R6.05 integrated production control system with new processor module and enhanced engineering function

-Yokogawa Electric Corporation rated A<sup>-</sup> (second highest grade) in Carbon Disclosure Project (CDP) climate change report

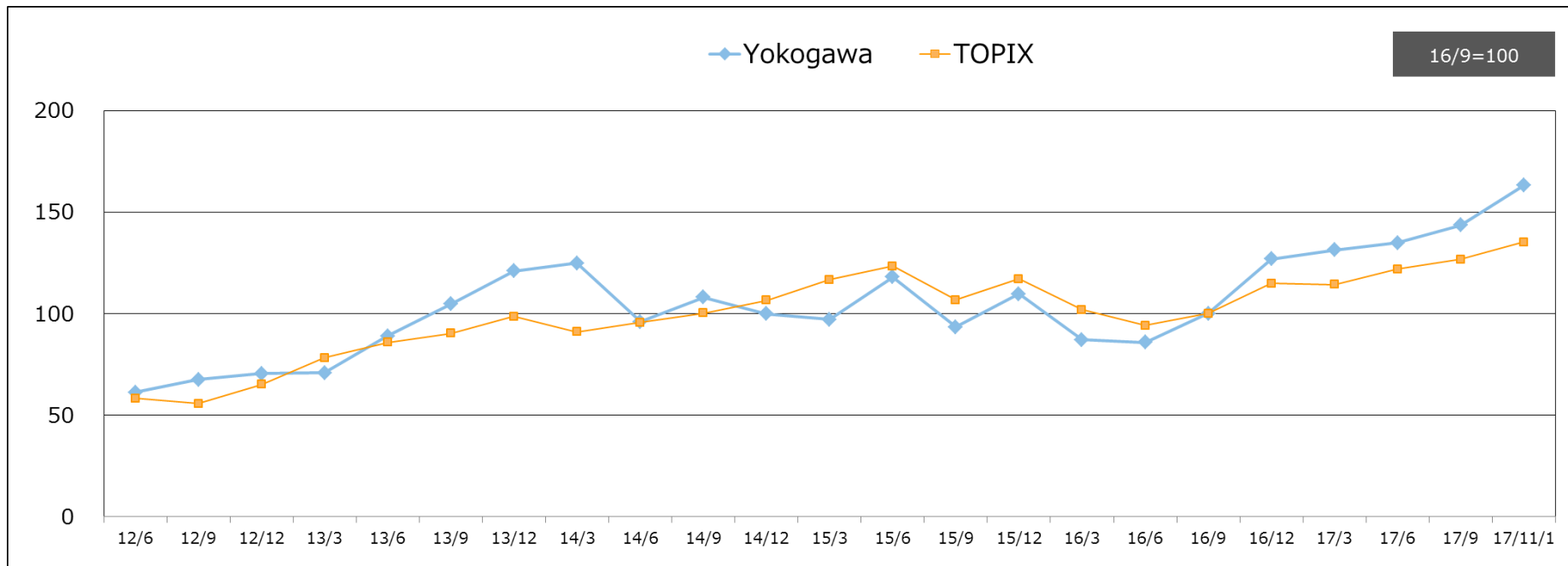


CENTUM® VP R6.05

-Announcement of Synaptic Business Automation concept for industrial automation and control business

Note: The month for each news item indicates when it was published.

# Appendix: Trend of Stock Price



(¥)

	12/6	12/9	12/12	13/3	13/6	13/9	13/12	14/3	14/6	14/9	14/12	15/3	15/6	15/9	15/12	16/3	16/6	16/9	16/12	17/3	17/6	17/9	17/11/1
Yokogawa	818	902	941	946	1,187	1,398	1,615	1,667	1,281	1,442	1,333	1,295	1,574	1,247	1,465	1,163	1,146	1,335	1,693	1,752	1,801	1,916	2,178
TOPIX	770	737	860	1,035	1,134	1,194	1,302	1,203	1,263	1,326	1,407	1,543	1,630	1,411	1,547	1,347	1,245	1,322	1,518	1,512	1,611	1,674	1,786

	12/6	12/9	12/12	13/3	13/6	13/9	13/12	14/3	14/6	14/9	14/12	15/3	15/6	15/9	15/12	16/3	16/6	16/9	16/12	17/3	17/6	17/9	17/11/1
Yokogawa	61	68	70	71	89	105	121	125	96	108	100	97	118	93	110	87	86	100	127	131	135	144	163
TOPIX	58	56	65	78	86	90	98	91	96	100	106	117	123	107	117	102	94	100	115	114	122	127	135

# Disclaimer

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The information pertaining to our business plans and forecasts that has been provided in this presentation and at analyst meetings contains forward-looking statements that are based on our management's current knowledge and require the making of assumptions about future events.

As such, it cannot be guaranteed that these statements will not differ materially from actual results.

Yokogawa undertakes no obligation to publicly update or revise any forward-looking statements after the issue of this document except as provided for in laws and ordinances.

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The information has not been restated to reflect the revision of the initially allocated acquired costs that was decided upon finalization of the tentative accounting treatment.

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