



shaping your dreams

Financial Results for FY2017 – Q2

July, 2017

OSG Corporation



OSG at a glance

1. Products

- Consumable cutting tools used in machine tools
- Taps account for a 30% market share (world leader)

2. Strengths

- High-value cutting tools
- Excellent after-sales service
- A global sales & service network across 33 countries

3. Dividend policy

- Maintain over 30% payout ratio (consolidated)

4. Growth strategies

- Major end-users
- Catalogue item sales
- M&A



Note regarding forecast

This material includes forward-looking statements based on information available at the time of release. The forecasts and other forward-looking statements are not guarantees of future performance. Actual financial results may differ from the above forecasts due to known and unknown risks, uncertainties, and other factors.

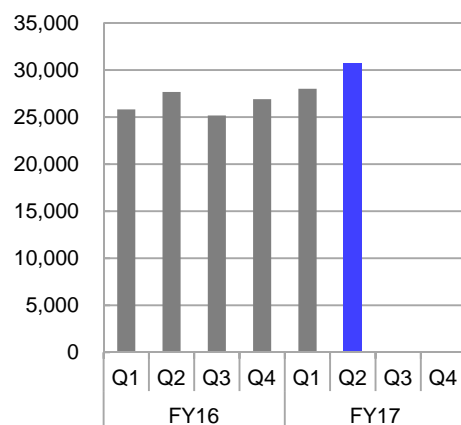
(Millions of yen)

Financial summary

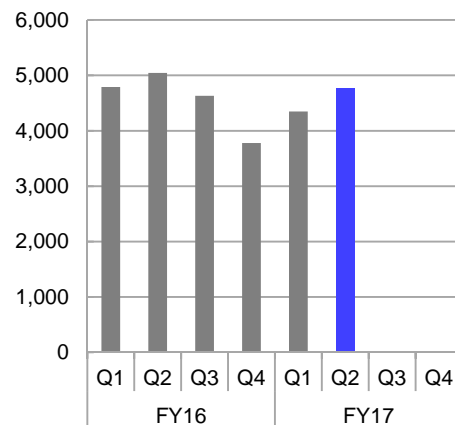
	FY16-1H	FY17-1H	Change		FY17 fcst. ※ Annual
Net Sales	53,484	58,813	5,328	+10.0%	118,000
Operating Profit	9,835	9,121	-713	-7.3%	19,500
OPM	18.4%	15.5%	-	-	16.5%
Ordinary Profit	9,462	9,187	-274	-2.9%	19,000
Net Profit Attributable to OSG	5,816	6,229	413	+7.1%	11,500
EPS(yen)	62.52	69.19	6.67	+10.7%	127.74

※Revised

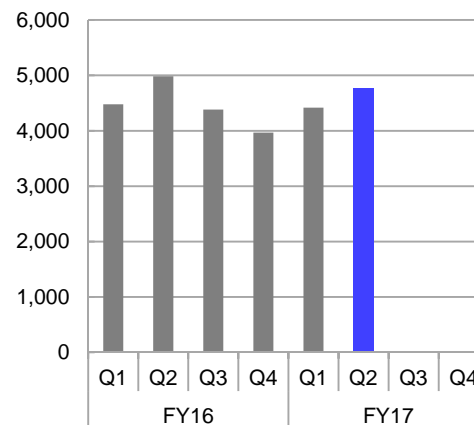
Net sales



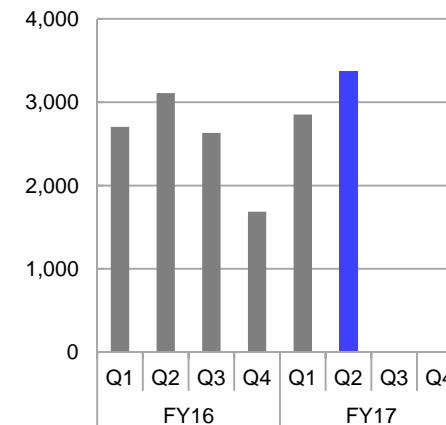
Operating profit



Ordinary profit



Net profit



Review

Increase in sales, decrease in profits

- Organic sales were increased. The addition of consolidated subsidiaries caused increase in sales, and results exceeded our forecasts. However operating profits didn't reach our budgets due to a temporary labor cost in Korea.

Stable financial condition

- Equity ratio 60.4% (1.3 point increase from the end of FY2016)
- EBITDA 13.2 billion yen (22.5%)
- ROE 10.4% (As of the end of FY2016)

Review by region

- Japan
Domestic sales are showing an increasing trend; exports have performed well.
- The Americas
US sales has been on track to recovery. Mexico and Canada have performed well too.
- Europe/Africa
Market share is growing; the addition of consolidated subsidiaries caused substantial increases in sales.
- Asia
Greater China has been on track to recovery. Korea was flat. South Asia's sales and profit have increased.

Capital Investment Results

- CAPEX 5.5 billion yen (annual forecast of 9.5 billion yen)
- Depreciation 4.1 billion yen (annual forecast of 8.5 billion yen)

Sales to Customer

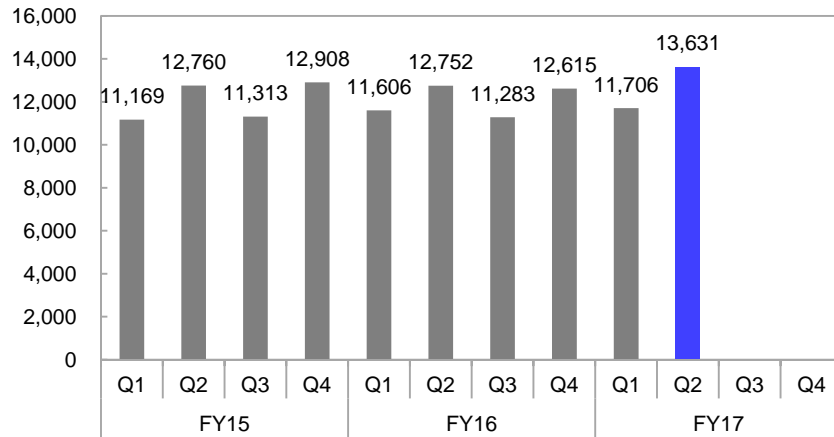
(Millions of yen)

	FY16-1H	FY17-1H	Change		Change in local currency
Japan	24,358	25,338	979	+4.0%	–
The Americas	9,797	10,433	635	+6.5%	+7.2%
Europe/Africa	6,391	8,753	2,362	+37.0%	+43.5%
Asia	12,936	14,288	1,351	+10.4%	+12.7%
Consolidated	53,484	58,813	5,328	+10.0%	–

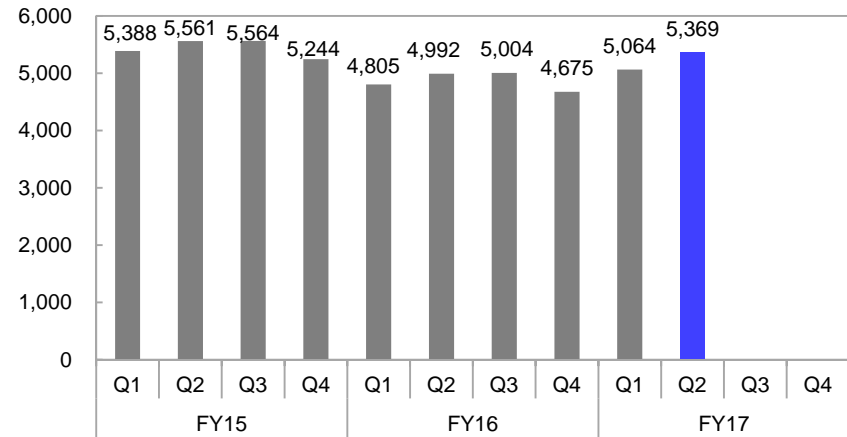
Sales to Customer

(Millions of yen)

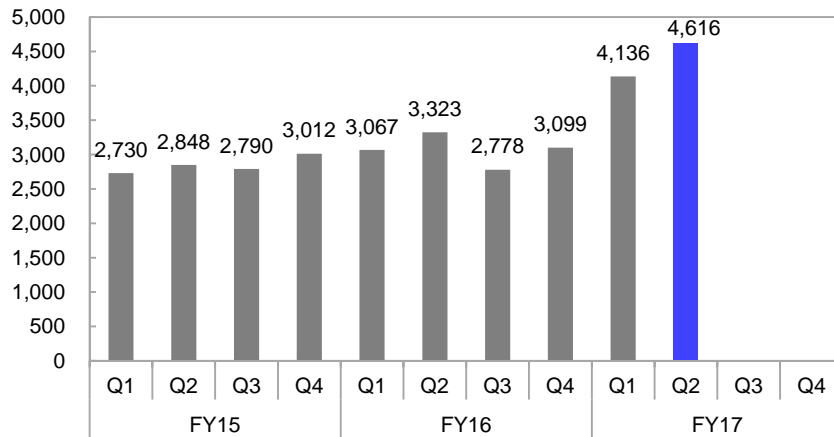
Japan



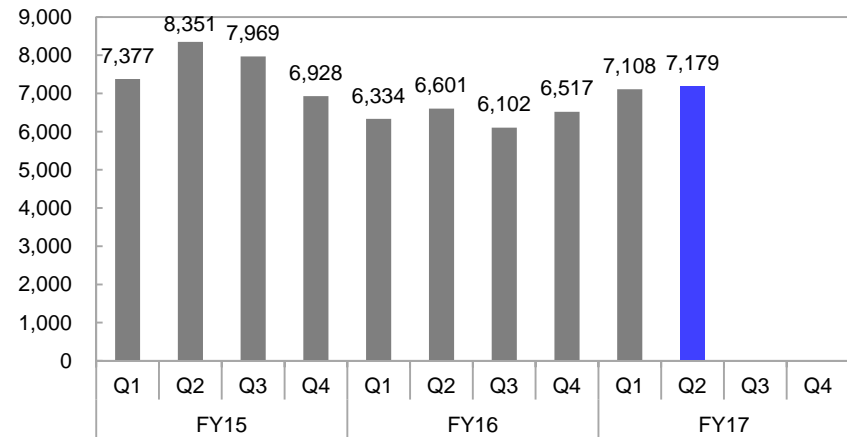
The Americas



Europe/Africa



Asia



Operating Income

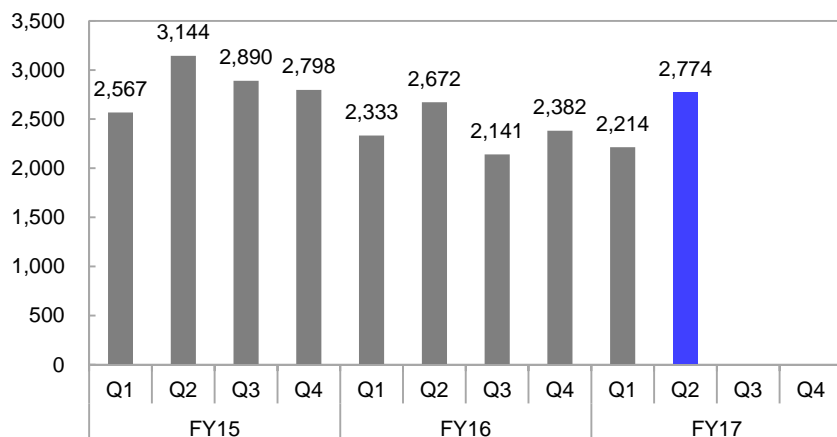
(Millions of yen)

	FY16-1H	FY17-1H	Change	
Japan	5,005	4,989	-16	-0.3%
The Americas	1,370	1,473	102	+7.5%
Europe/Africa	669	665	-4	-0.6%
Asia	2,440	2,090	-350	-14.4%
Total	9,486	9,218	-268	-2.8%
Eliminations	348	-96	-445	-
Consolidated	9,835	9,121	-713	-7.3%

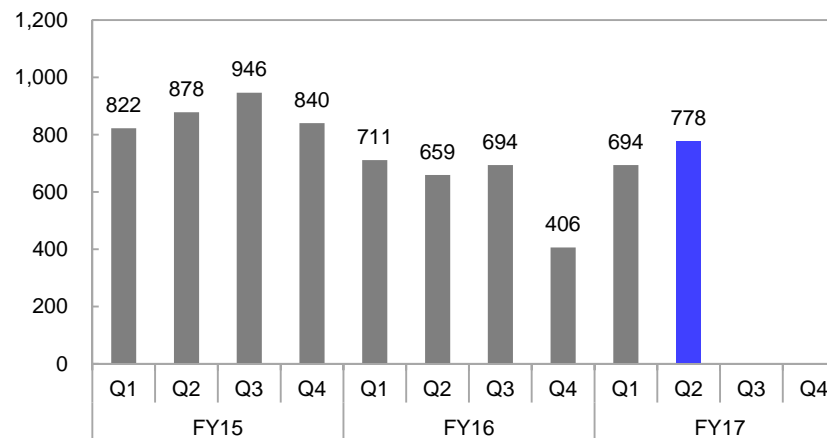
Operating Income

(Millions of yen)

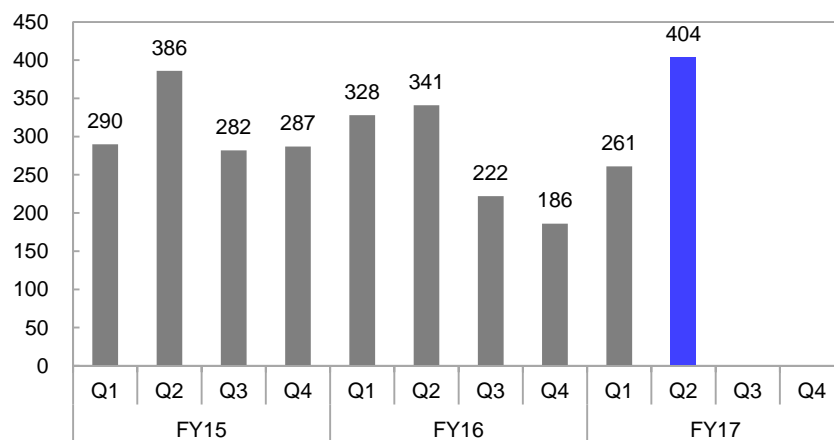
Japan



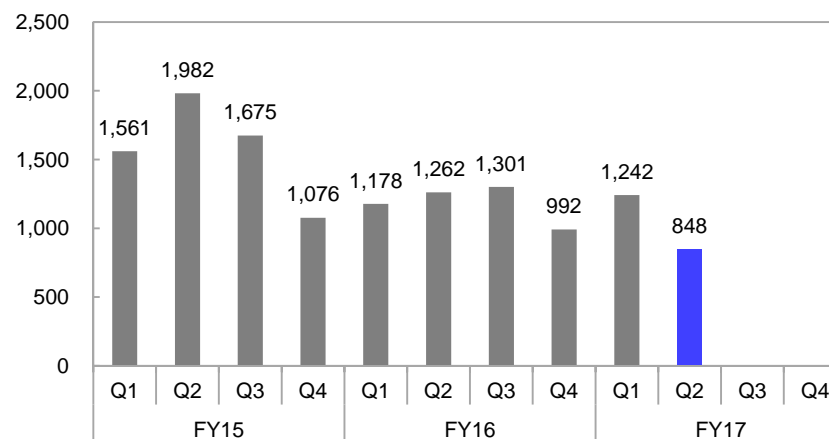
The Americas



Europe/Africa

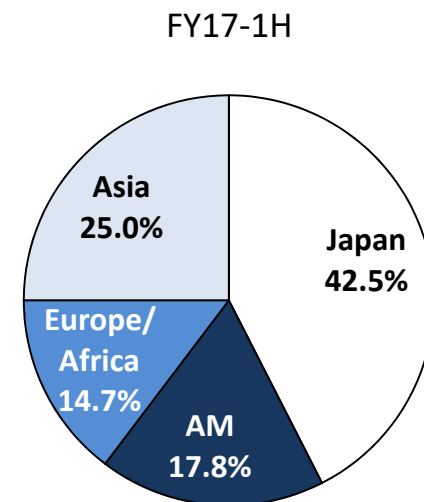
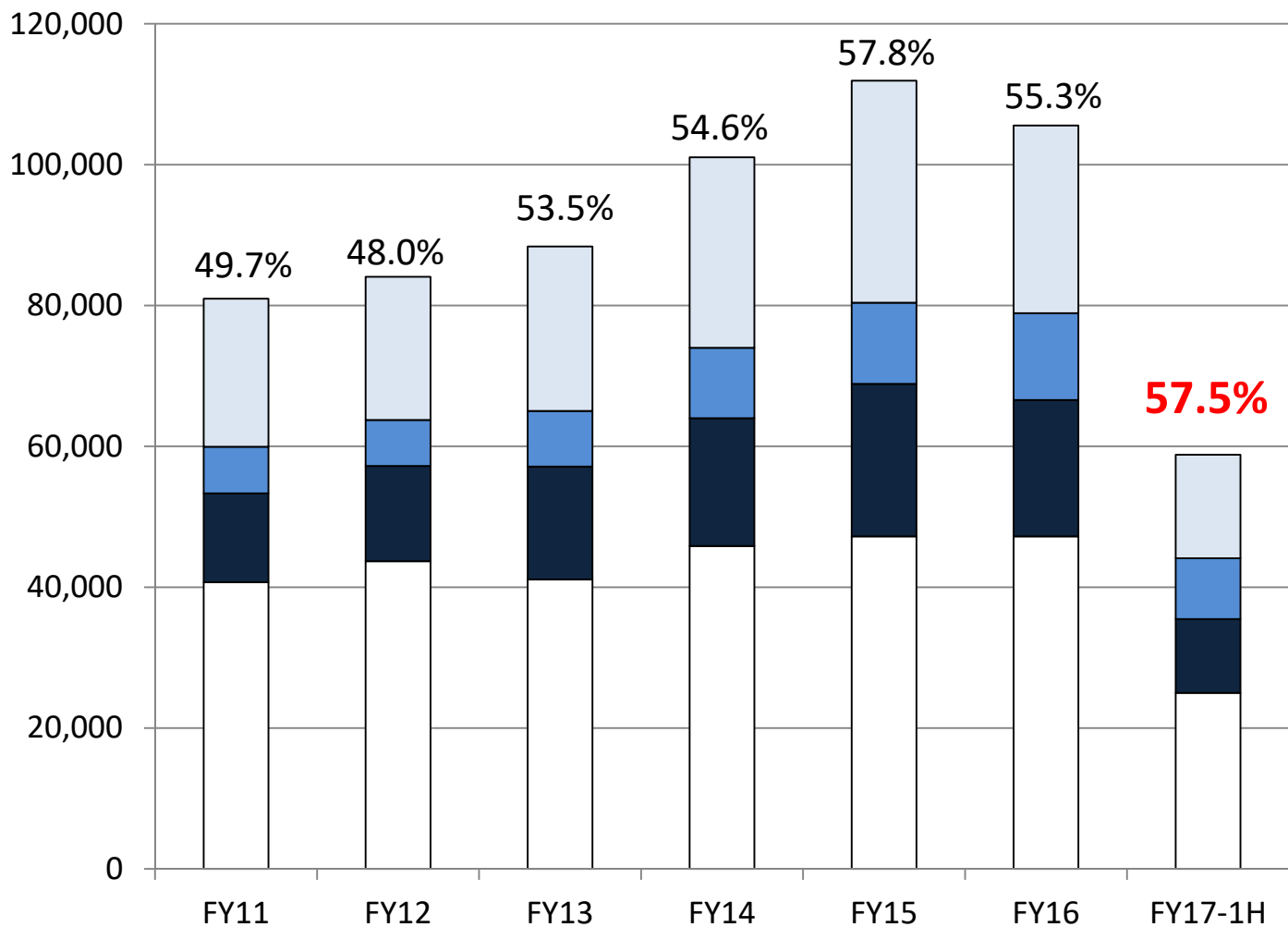


Asia



Overseas sales ratio

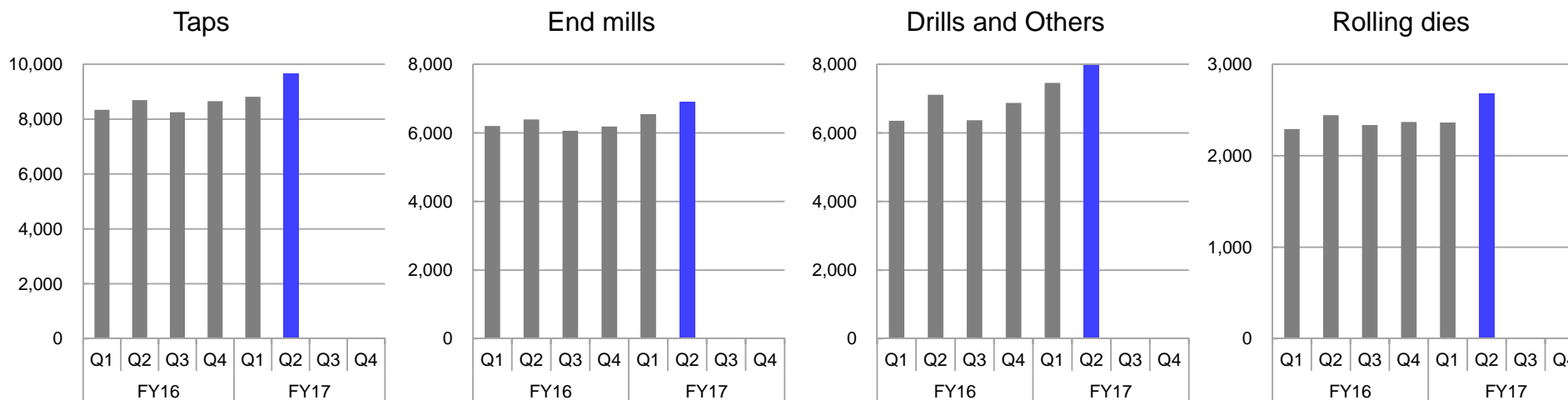
Millions of yen



Net sales by product segment

(Millions of yen)

		FY16						FY17				Change	
		Q1	Q2	Q3	Q4	1H	Q1	Q2	1H				
Precision Tools	Taps	8,340	8,696	8,254	8,657	17,037	32%	8,815	9,656	18,472	32%	1,435	8%
	End mills	6,200	6,391	6,060	6,184	12,591	24%	6,546	6,907	13,453	23%	861	7%
	Drills and Others	6,352	7,113	6,370	6,873	13,465	25%	7,457	7,983	15,441	26%	1,975	15%
	Rolling dies	2,292	2,444	2,336	2,369	4,737	9%	2,363	2,679	5,043	9%	306	6%
	Gauges	335	375	389	377	711	1%	363	403	767	1%	55	8%
		23,521	25,022	23,411	24,461	48,544	91%	25,547	27,630	53,178	91%	4,634	10%
Other	Machine	1,025	1,227	473	796	2,253	4%	556	1,489	2,045	3%	-207	-9%
	Other	1,266	1,419	1,282	1,650	2,686	5%	1,912	1,676	3,588	6%	902	34%
		2,292	2,647	1,756	2,446	4,940	9%	2,468	3,165	5,634	9%	694	14%
Total		25,814	27,670	25,168	26,908	53,484	100%	28,016	30,796	58,813	100%	5,328	10%



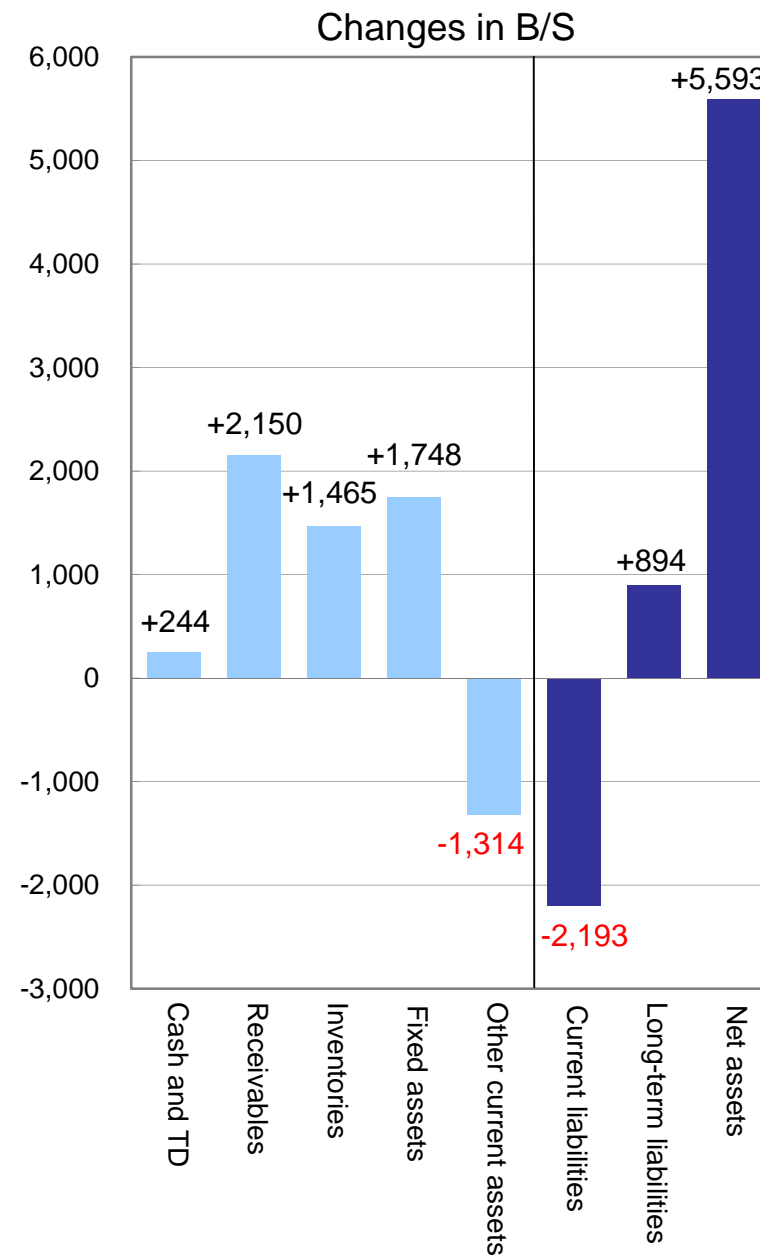
B/S overview

	16/11E	17/05E	Change
Cash and time deposits	18,003	18,248	244
Receivables	20,758	22,908	2,150
Inventories	31,691	33,157	1,465
Other current assets	4,715	3,400	-1,314
Fixed assets	80,912	82,661	1,748
Total assets	156,081	160,376	4,295
Total current liabilities	25,474	23,281	-2,193
Total long-term liabilities	27,547	28,441	894
Total net assets	103,059	108,653	5,593
Total liabilities and net assets	156,081	160,376	4,295

Equity ratio	59.1%	60.4%	
Receivable turnover period	72	71	days
Inventory turnover period	3.7	3.4	months

Cash and time deposits	18,003	18,248	244
Debt	33,506	32,507	-999
Net Cash	-15,502	-14,258	1,243

(Millions of yen)

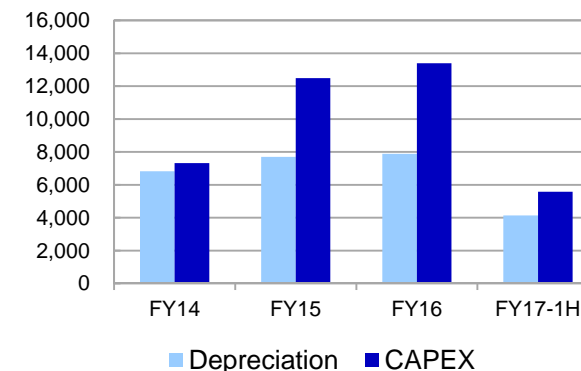


Cash Flow Overview

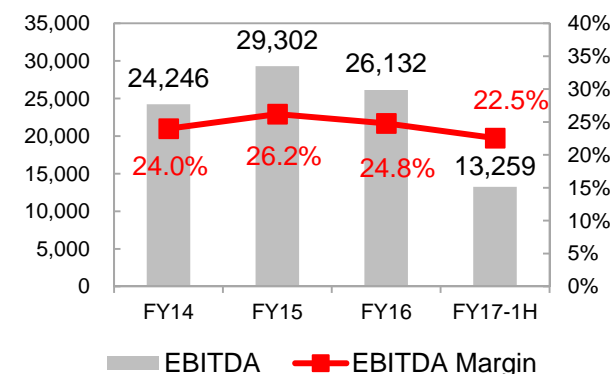
(Millions of yen)

	FY15	FY16	16/1H	17/1H	Change
Income before taxes	21,363	16,769	9,462	9,502	40
Depreciation	7,705	7,885	3,806	4,137	330
Change in A/R	226	-550	147	-1,242	-1,390
Change in inventories	-2,302	-2,471	-1,978	-131	1,847
Change in A/P	592	321	202	-593	-795
Change in accrued expenses	109	-229	-432	-10	421
Other-net	-141	1,732	255	-716	-971
Income taxes paid	-7,964	-7,123	-3,721	-1,739	1,982
Operating cash flow	19,588	16,333	7,742	9,207	1,465
Capital expenditures	-12,487	-13,394	-6,737	-5,581	1,155
Purchase of subsidiaries' stock	-2,137	-3,330	-2,882	-880	2,002
Payment of time deposits	-1,195	668	411	1	-410
Other-net	-1,155	-786	-207	1,430	1,637
Investing cash flow	-16,976	-16,843	-9,416	-5,030	4,385
Free cash flow	2,612	-509	-1,673	4,177	5,851
Change in interest-bearing debt	101	13,344	12,671	-1,542	-14,213
Purchase of treasury stock	-6	-9,834	-9,333	-2	9,331
Cash dividends paid	-4,368	-3,884	-1,899	-2,492	-592
Dividends paid to minority shareholders	-553	-417	-259	-194	65
Other-net	-1,390	13	-989	-151	989
Financing cash flow	-6,216	-778	188	-4,383	-4,572
Foreign currency translation adjustments	-854	-1,917	-1,597	77	1,674
Net increase(decrease) in cash	-4,458	-3,204	-3,081	-128	2,953
Cash of newly consolidated subsidiaries, beginning of year	182	357	357	300	-57
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	-	-	-	84	84
Net increase in cash resulting from change in fiscal period of consolidated subsidiaries	2,204	-	-	-	-
Cash, end of year	19,402	16,555	16,678	16,812	134

CAPEX and Depreciation



EBITDA



Forecast for FY2017 (Revised)

(Millions of yen)

Financial forecast (Revised)

	Consolidated		Parent company	
	Amount	Growth	Amount	Growth
Net Sales	118,000	+11.8%	53,000	+4.1%
Operating profit	19,500	+6.9%	6,500	+10.0%
as % of sales	16.5%		12.3%	
Ordinary profit	19,000	+6.7%	7,800	-5.4%
as % of sales	16.1%		14.7%	
Net profit attributable to OSG	11,500	+13.5%	5,700	-9.9%
as % of sales	9.7%		10.8%	
EPS(yen)	69.19		63.30	
CAPEX	9,500			
Depreciation	8,500			

Exchange rate

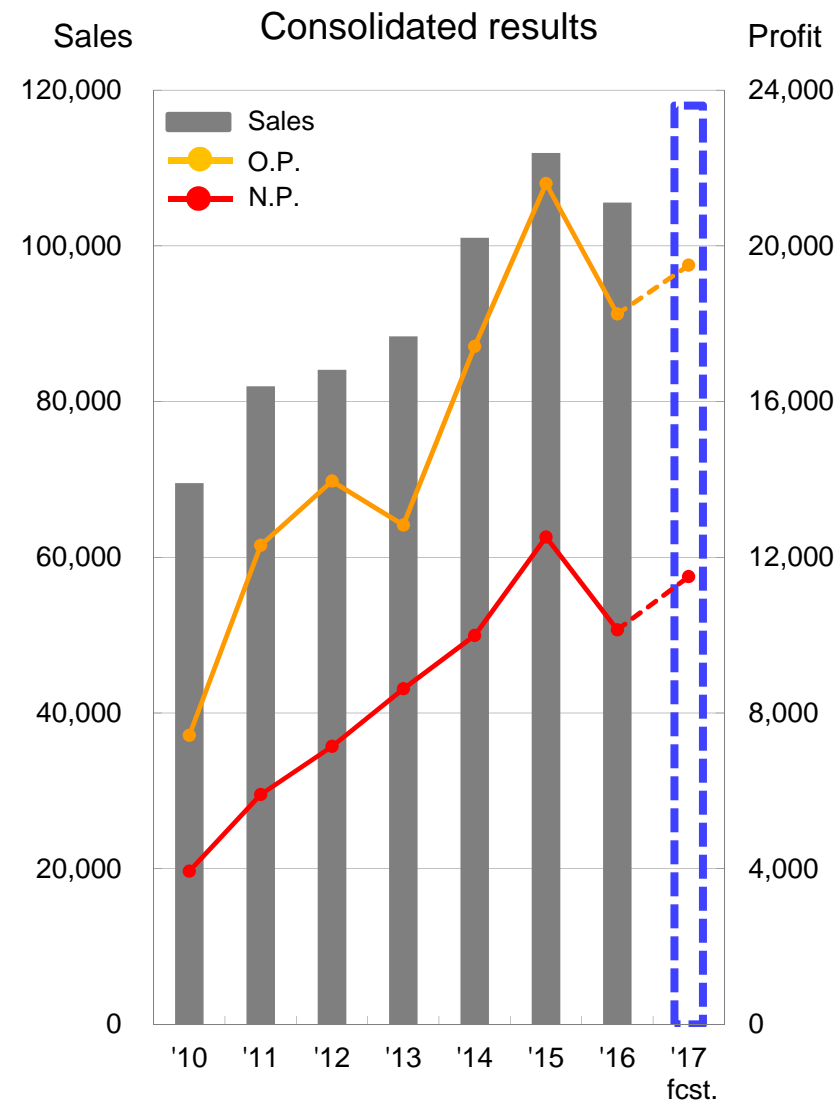
FY16-1H result : 1US\$=114.75yen 1Euro=127.25yen

FY17-1H result : 1US\$=112.88yen 1Euro=121.34yen

FY17 forecast : 1US\$=111.44yen 1Euro=120.67yen

Dividend forecast

	Interim	Year-end	Annual	Payout ratio
Dividend per share (yen)	21.00	23.00	44.00	34.4%



Expansion of overseas business



- Sales & Manufacturing Locations
 - Sales Locations 33 countries
 - Manufacturing Locations 17 countries
- Technical Center 6 countries

Appx.1 Selected financial data (consolidated)

		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017-1H
Net sales	(mil.yen)	94,164	97,024	53,325	69,513	80,959	84,083	88,378	101,031	111,917	105,561	58,813
Sales growth	(%)	6%	3%	-45%	30%	16%	4%	5%	14%	11%	-6%	10%
Cost of sales	(mil.yen)	58,159	60,449	39,203	44,605	48,439	49,381	52,777	58,061	61,865	59,179	34,336
Gross profit	(mil.yen)	36,004	36,574	14,122	24,907	32,519	34,702	35,601	42,970	50,051	46,382	24,476
SG&A expenses	(mil.yen)	20,647	22,158	16,857	17,383	20,214	20,747	22,774	25,554	28,454	28,135	15,354
Operating income	(mil.yen)	15,356	14,416	-2,735	7,524	12,305	13,954	12,827	17,415	21,597	18,246	9,121
Ordinary income	(mil.yen)	14,570	13,505	-2,703	6,699	11,374	13,695	13,910	17,568	21,510	17,813	9,187
Net income	(mil.yen)	8,013	7,376	-3,769	3,772	5,904	7,138	8,619	9,989	12,518	10,134	6,229
Margins:												
Gross profit margin	(%)	38.2%	37.7%	26.5%	35.8%	40.2%	41.3%	40.3%	42.5%	44.7%	43.9%	41.6%
SG&A as % of sales	(%)	21.9%	22.8%	31.6%	25.0%	25.0%	24.7%	25.8%	25.3%	25.4%	26.7%	26.1%
Operating income	(%)	16.3%	14.9%	-5.1%	10.8%	15.2%	16.6%	14.5%	17.2%	19.3%	17.3%	15.5%
Ordinary income	(%)	15.5%	13.9%	-5.1%	9.6%	14.0%	16.3%	15.7%	17.4%	19.2%	16.9%	15.6%
Net income	(%)	8.5%	7.6%	-7.1%	5.4%	7.3%	8.5%	9.8%	9.9%	11.2%	9.6%	10.6%
Average FX rate: 1USD	(yen)	118.89	107.32	94.94	89.29	80.71	78.89	93.16	102.98	121.03	109.78	112.88
Average FX rate: 1Euro	(yen)	159.00	161.90	128.83	120.65	112.80	102.63	122.62	139.37	134.92	121.39	121.34
Total assets	(mil.yen)	127,044	122,383	113,382	105,635	104,373	121,689	134,503	142,302	155,129	156,081	160,376
Total shareholders' equity	(mil.yen)	64,295	64,251	55,931	57,117	59,367	64,482	80,024	91,458	102,566	92,216	96,908
Per share:												
Net income	(yen)	82.42	76.53	-39.22	39.34	62.18	75.16	90.76	105.20	131.78	110.59	69.19
Cash dividends (interim)	(yen)	12.00	12.00	0.00	4.00	6.00	10.00	10.00	14.00	26.00	22.00	21.00
(year end)	(yen)	14.00	12.00	3.00	8.00	12.00	13.00	20.00	20.00	20.00	28.00	23.00 (fcst.)
Total shareholders' equity	(yen)	667.01	666.71	582.19	601.44	625.14	679.01	842.71	963.15	1,079.12	1,024.34	1,076.05
Average number of shares	(ths)	96,393	96,371	96,071	94,969	94,967	94,966	94,963	94,959	94,991	91,640	90,029
Key financial ratios:												
ROE	(%)	12.9%	11.5%	-6.3%	6.7%	10.1%	11.5%	11.9%	11.7%	12.9%	10.4%	—
Equity ratio	(%)	50.6%	52.5%	49.3%	54.1%	56.9%	53.0%	59.5%	64.3%	66.1%	59.1%	60.4%
Cash flow:												
Operating CF	(mil.yen)	16,733	10,653	6,049	14,095	11,344	12,286	16,171	19,688	19,588	16,333	9,207
Investing CF	(mil.yen)	-9,019	1,678	-4,633	-5,522	-8,195	-19,746	-2,972	-3,119	-16,976	-16,843	-5,030
Financing CF	(mil.yen)	-6,821	-4,500	5,470	-15,562	-5,855	8,643	-9,423	-12,813	-6,216	-778	-4,383
Cash flow margin	(%)	17.8%	11.0%	11.3%	20.3%	14.0%	14.6%	18.3%	19.5%	17.5%	15.5%	15.7%