



*shaping your dreams*

# Financial Results for FY2017

January, 2018  
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

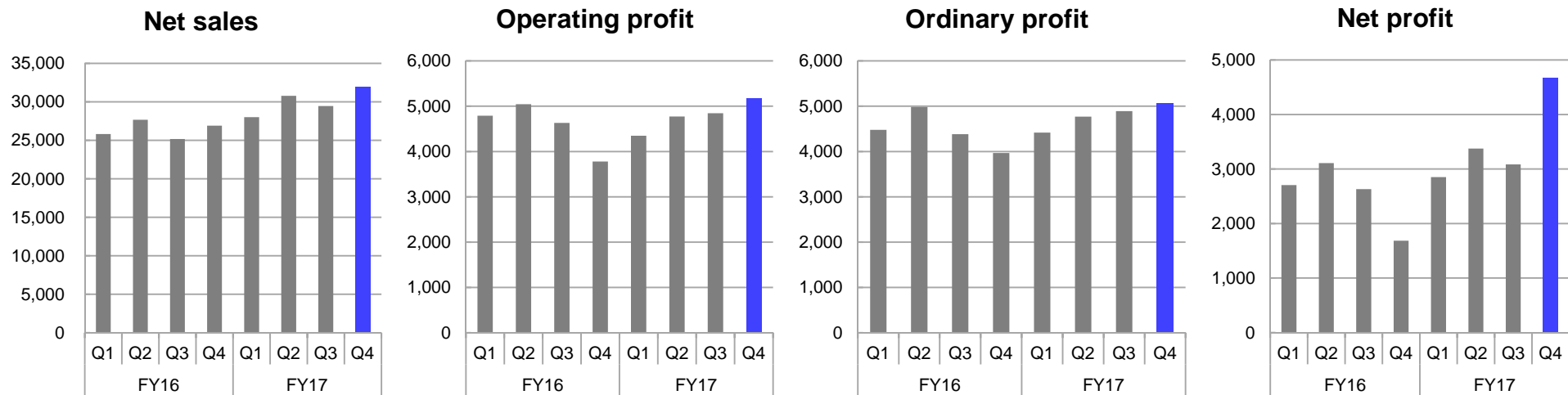
This material includes forward-looking statements based on information available at the time of release. The forecasts and other forward-looking statements are not guarantees of future performance. Actual financial results may differ from the above forecasts due to known and unknown risks, uncertainties,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

# Financial summary

(Millions of yen)

	FY16	FY17	Change	FY17 fcst. Annual *	Achivement percentage
Net Sales	105,561	120,198	+13.9%	118,000	102%
Operating Profit	18,246	19,137	+4.9%	19,500	98%
OPM	17.3%	15.9%	—	16.5%	—
Ordinary Profit	17,813	19,144	+7.5%	19,000	101%
Net Profit Attributable to OSG	10,134	13,993	+38.1%	11,500	122%
EPS(yen)	110.59	153.70	+39.0%	127.50	121%
ROE	10.4%	13.5%	—	—	—

\* Revised 12.July



# Review

## Net sales and net income record high. (Operating profits record the second highest.)

- Organic sales have increased. The addition of consolidated subsidiaries caused an increase in sales, and results exceeded our forecasts. Operating profits have also increased, however due to an increasing of an unrealized profits caused by inventory and a temporary labor cost in Korea, it didn't exceed our forecasts of 19.5 billion yen.

## Review by region

- Japan  
Domestic sales are showing an increasing trend; exports have performed well continuously.
- The Americas  
US market demand has been recovered. Mexico and Canada have performed well.
- Europe/Africa  
Market share is growing; the addition of consolidated subsidiaries caused substantial increases in sales. Putting efforts into synergy effect.
- Asia  
Greater China stayed strong. Asia's order booking are showing an increasing trend except in Korea.

## Index

- ROE 13.5% (3.1 point increase from the end of FY2016; record high)
- EBITDA 27.7 billion yen (23.1% to sales figures)
- Equity ratio 69.5% (10.4 point increase from the end of FY2016)

## Capital Investment Results

- CAPEX 9.5 billion yen (annual forecast of 9.5 billion yen)
- Depreciation 8.6 billion yen (annual forecast of 8.5 billion yen)

# Sales to Customer

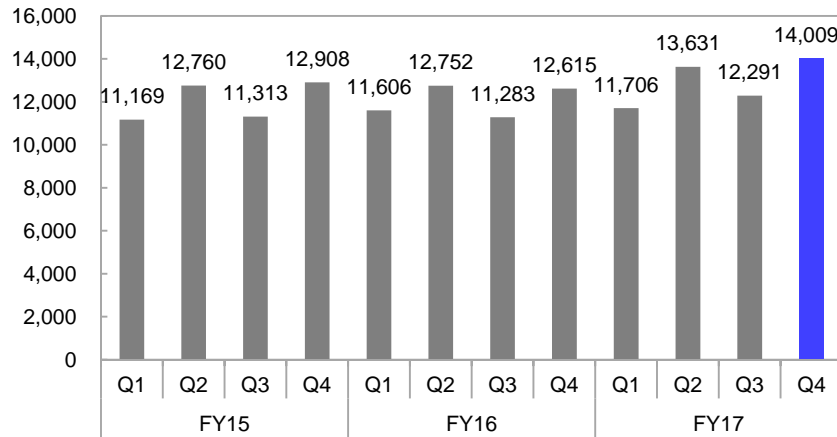
(Millions of yen)

	FY16	FY17	Change		Change in local currency
Japan	48,257	51,639	3,381	+7.0%	–
The Americas	19,478	21,413	1,935	+9.9%	+6.8%
Europe/Africa	12,268	18,177	5,908	+48.2%	+46.1%
Asia	25,556	28,968	3,411	+13.3%	+10.2%
Consolidated	105,561	120,198	14,637	+13.9%	+12.3%

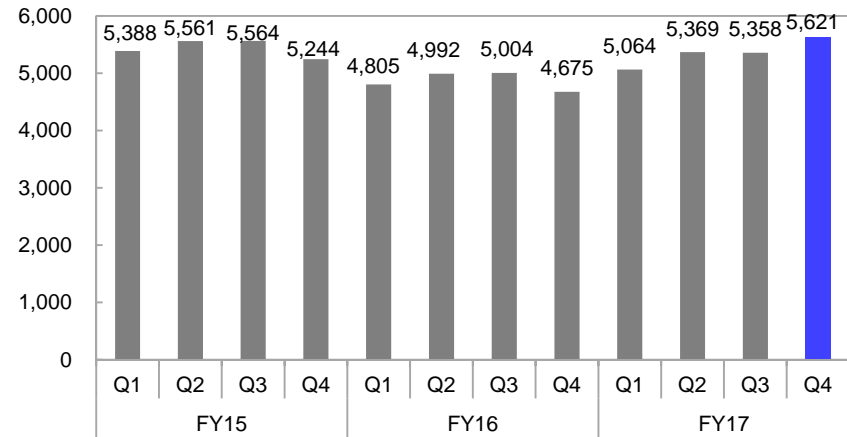
# Sales to Customer

(Millions of yen)

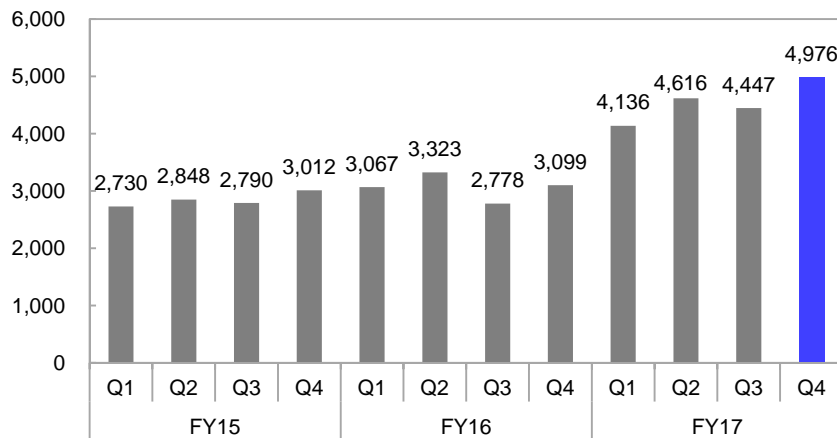
### Japan



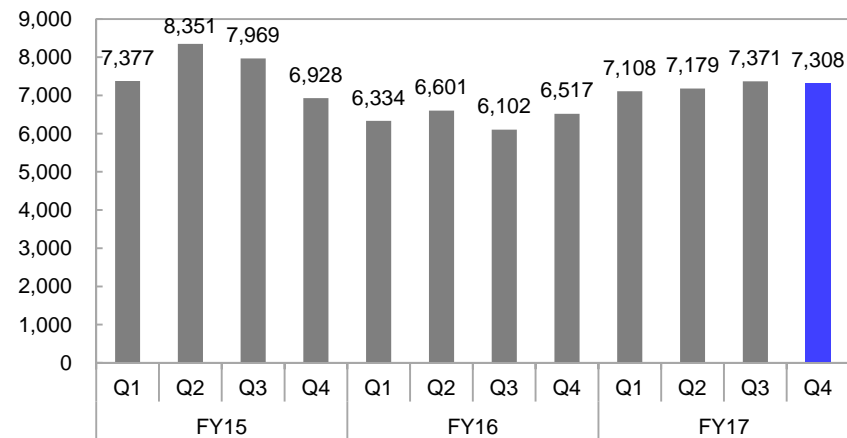
### The Americas



### Europe/Africa



### Asia



# Operating Income

(Millions of yen)

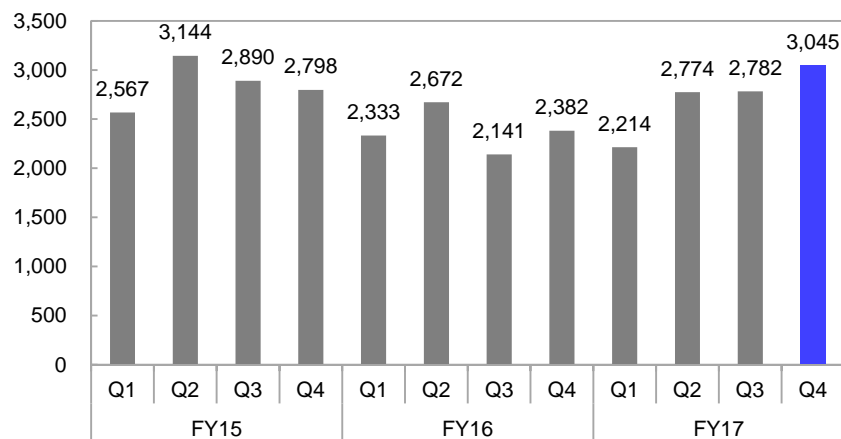
	FY16	Area percentage	FY17	Area percentage	Change		OPM *
Japan	9,529	53.5%	10,817	55.3%	1,288	+13.5%	15.4%
The Americas	2,471	13.9%	2,851	14.6%	380	+15.4%	13.2%
Europe/Africa	1,079	6.0%	1,194	6.1%	114	+10.6%	6.5%
Asia	4,734	26.6%	4,688	24.0%	-46	-1.0%	15.1%
Total	17,813	-	19,550	-	1,736	+9.7%	13.8%
Eliminations	432	-	-413	-	-845	-	-
Consolidated	18,246	-	19,137	-	890	+4.9%	15.9%

\* Operating profits margin  
as % of sales (external sales + interarea transfers)

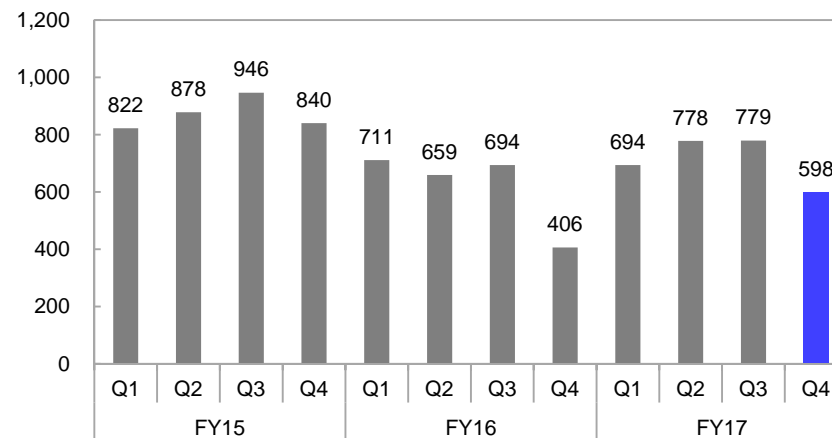
# Operating Income

(Millions of yen)

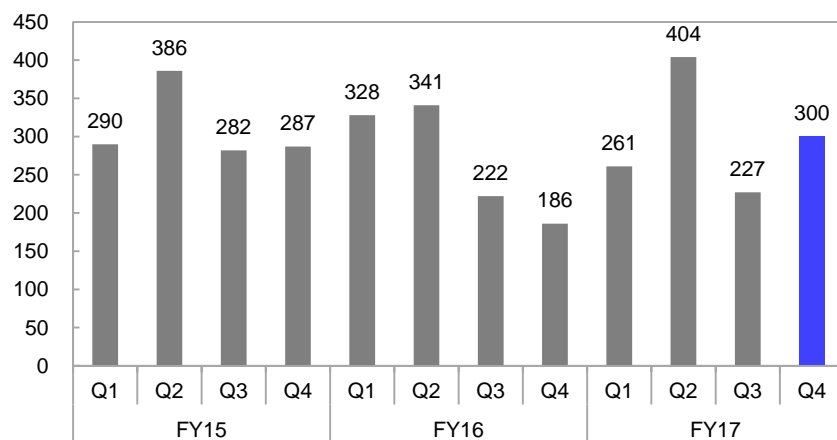
## Japan



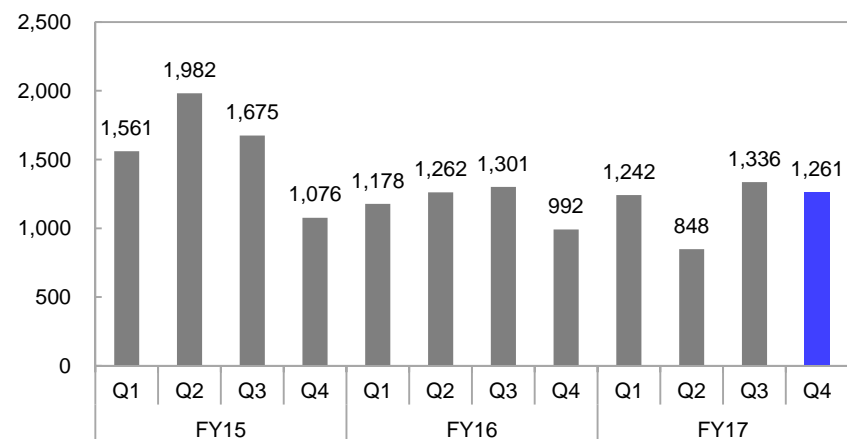
## The Americas



## Europe/Africa



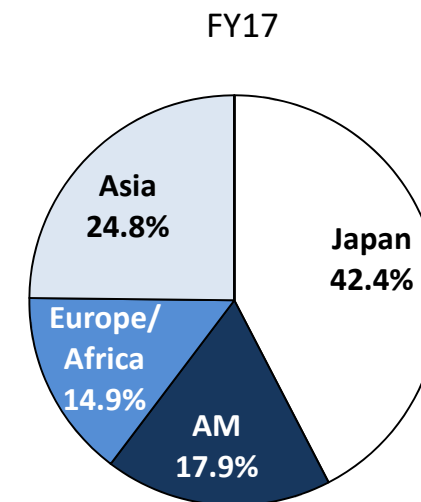
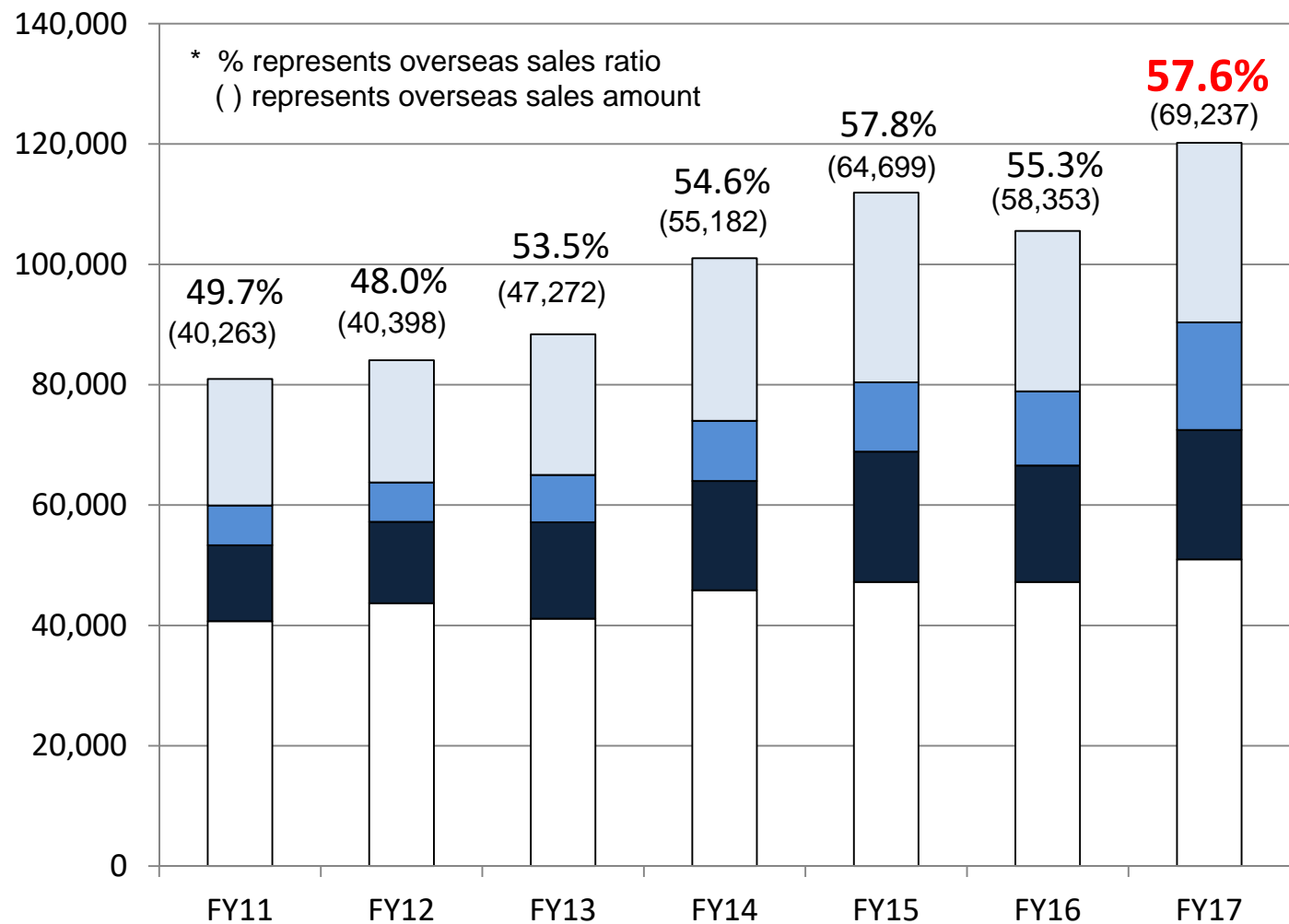
## Asia





# Overseas sales ratio

(Millions of yen)



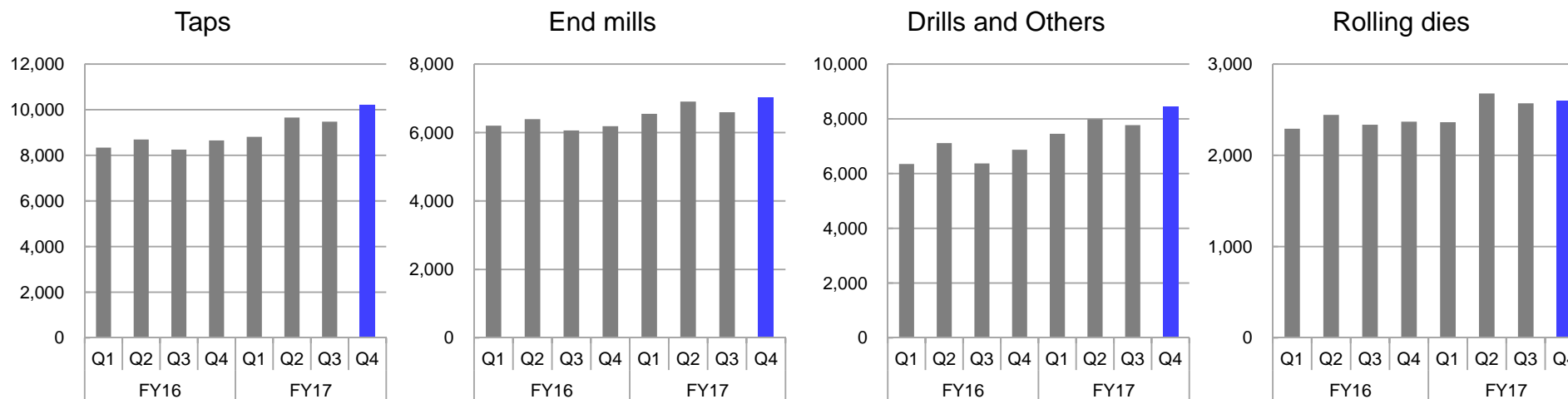
- Asia
- Europe/Africa
- The Americas
- Japan



# Net sales by product segment

(Millions of yen)

		FY16						FY17						Change	
		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total				
Precision Tools	Taps	8,340	8,696	8,254	8,657	33,948	32%	8,815	9,656	9,476	10,226	38,175	32%	4,226	12%
	End mills	6,200	6,391	6,060	6,184	24,837	24%	6,546	6,907	6,596	7,040	27,090	23%	2,252	9%
	Drills and Others	6,352	7,113	6,370	6,873	26,709	25%	7,457	7,983	7,771	8,450	31,662	26%	4,953	19%
	Rolling dies	2,292	2,444	2,336	2,369	9,443	9%	2,363	2,679	2,571	2,603	10,218	9%	775	8%
	Gauges	335	375	389	377	1,478	1%	363	403	423	435	1,625	1%	147	10%
		23,521	25,022	23,411	24,461	96,417	91%	25,547	27,630	26,838	28,756	108,773	91%	12,355	13%
Other	Machine	1,025	1,227	473	796	3,523	4%	556	1,489	685	1,260	3,991	3%	468	13%
	Other	1,266	1,419	1,282	1,650	5,619	5%	1,912	1,676	1,944	1,899	7,432	6%	1,813	32%
		2,292	2,647	1,756	2,446	9,143	9%	2,468	3,165	2,630	3,159	11,424	9%	2,281	25%
Total		25,814	27,670	25,168	26,908	105,561	100%	28,016	30,796	29,468	31,916	120,198	100%	14,637	14%



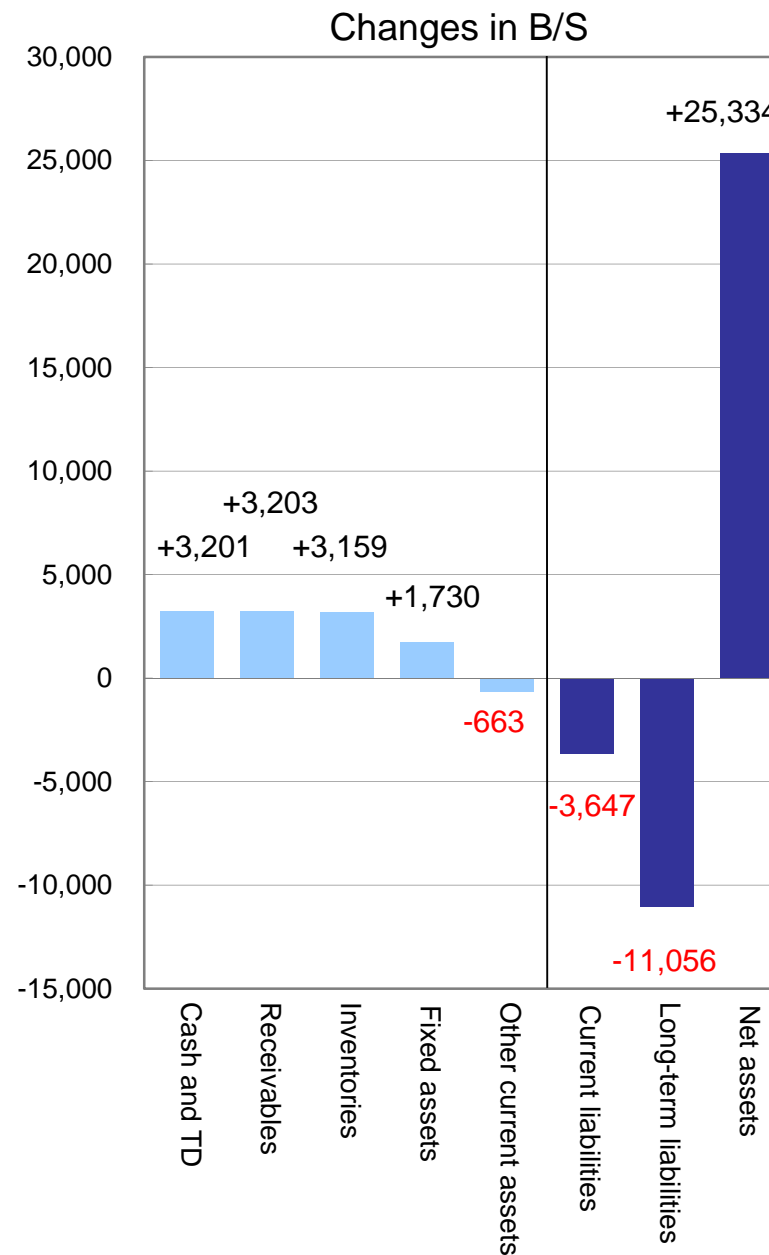
# B/S overview

(Millions of yen)

	16/11E	17/11E	Change
Cash and time deposits	18,003	21,204	3,201
Receivables	20,758	23,961	3,203
Inventories	31,691	34,850	3,159
Other current assets	4,715	4,051	-663
Fixed assets	80,912	82,642	1,730
<b>Total assets</b>	<b>156,081</b>	<b>166,712</b>	<b>10,631</b>
Total current liabilities	25,474	21,826	-3,647
Total long-term liabilities	27,547	16,491	-11,056
Total net assets	103,059	128,394	25,334
<b>Total liabilities and net assets</b>	<b>156,081</b>	<b>166,712</b>	<b>10,631</b>

Equity ratio	59.1%	69.5%	
Receivable turnover period	72	73	days
Inventory turnover period	3.7	3.5	months

Cash and time deposits	18,003	21,204	3,201
Debt	33,506	16,325	-17,181
Net Cash	-15,502	4,879	20,382

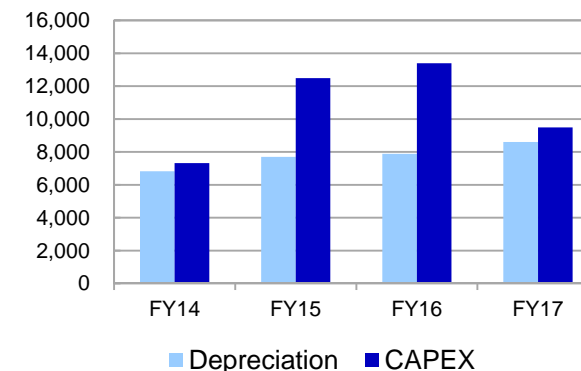


# Cash Flow Overview

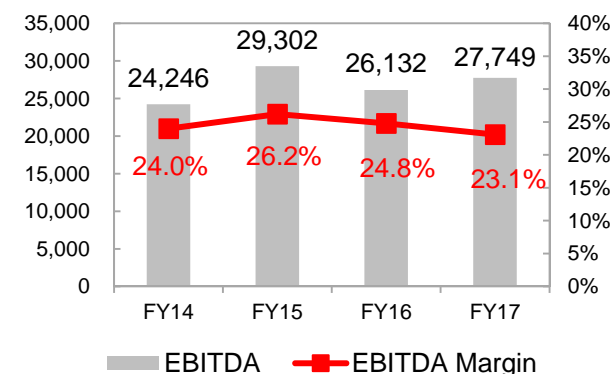
(Millions of yen)

	FY15	FY16	FY17	Change
Income before taxes	21,363	16,769	21,086	4,317
Depreciation	7,705	7,885	8,612	726
Change in A/R	226	-550	-1,690	-1,139
Change in inventories	-2,302	-2,471	-1,147	1,324
Change in A/P	592	321	-253	-575
Change in accrued expenses	109	-229	584	814
Other-net	-141	1,732	-1,846	-3,579
Income taxes paid	-7,964	-7,123	-4,525	2,597
<b>Operating cash flow</b>	<b>19,588</b>	<b>16,333</b>	<b>20,820</b>	<b>4,486</b>
Capital expenditures	-12,487	-13,394	-9,494	3,900
Purchase of subsidiaries' stock	-2,137	-3,330	-1,728	1,601
Payment of time deposits	-1,195	668	-86	-755
Other-net	-1,155	-786	3,742	4,529
<b>Investing cash flow</b>	<b>-16,976</b>	<b>-16,843</b>	<b>-7,566</b>	<b>9,277</b>
<b>Free cash flow</b>	<b>2,612</b>	<b>-509</b>	<b>13,254</b>	<b>13,764</b>
Change in interest-bearing debt	101	13,344	-6,132	-19,477
Purchase of treasury stock	-6	-9,834	-5	9,828
Cash dividends paid	-4,368	-3,884	-4,411	-527
Dividends paid to minority shareholders	-553	-417	-367	49
Other-net	-1,390	13	-219	-232
<b>Financing cash flow</b>	<b>-6,216</b>	<b>-778</b>	<b>-11,137</b>	<b>-10,359</b>
Foreign currency translation adjustments	-854	-1,917	540	2,458
Net increase(decrease) in cash	-4,458	-3,204	2,658	5,863
Cash of newly consolidated subsidiaries, beginning of year	182	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	-	-	-
<b>Cash, end of year</b>	<b>19,402</b>	<b>16,555</b>	<b>19,598</b>	<b>3,043</b>

## CAPEX and Depreciation



## EBITDA



# Forecast for FY2018

(Millions of yen)

## Financial forecast

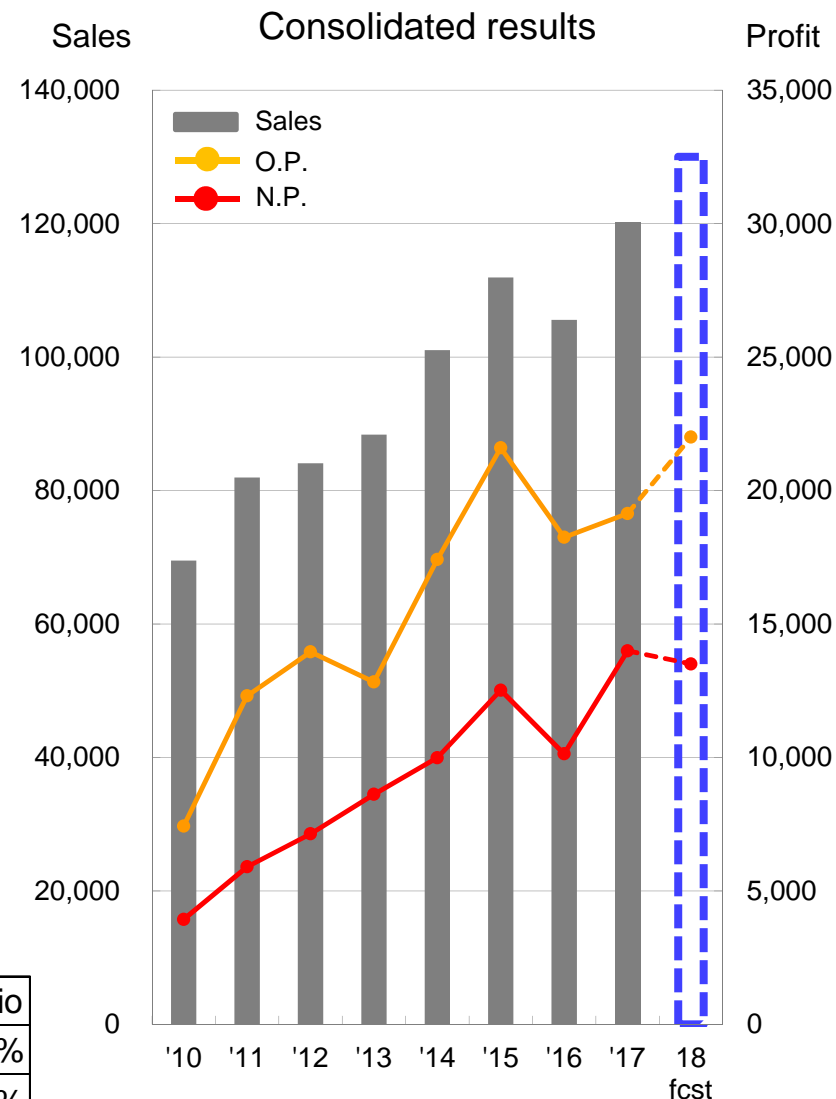
	Consolidated		Parent company	
	Amount	Growth	Amount	Growth
Net Sales	130,000	+8.2%	56,700	+4.2%
Operating profit as % of sales	22,000 16.9%	+15.0%	7,300 12.9%	+3.4%
Ordinary profit as % of sales	22,000 16.9%	+14.9%	9,500 16.8%	+8.6%
Net profit attributable to OSG as % of sales	13,500 10.4%	-3.5%	7,200 12.7%	-10.6%
EPS(yen)	138.91		74.07	
CAPEX	11,000			
Depreciation	9,500			

### Exchange rate

2016 result : 1US\$=109.78yen 1Euro=121.39yen  
 2017 result : 1US\$=112.33yen 1Euro=126.20yen  
 2018 forecast : 1US\$=110.00yen 1Euro=130.00yen

## Dividend forecast

Dividend per share (yen)	Interim	Year-end	Annual	Payout ratio
FY2017	21.00(fixed)	25.00	46.00	30%
FY2018	22.00	24.00	46.00	33%



# The change in our corporate governance

- **OSG Corporation became a company with audit and supervisory committee two years ago. We are planning to designate the role of directors.**
- **We are going to appoint seven directors including five outside directors (more than 2/3) and establish a structure to monitor operations by shareholder's points of view.**

	Current number	Number after shareholder's meeting
Directors	14	7
Outside directors	4	5
Directors with operations	8	1
Directors with audit and supervisory committee	6	6
Officers*	12	17

\* Including managing executive officers, executive officers and officers

# 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
Net sales	(mil.yen)	94,164	97,024	53,325	69,513	80,959	84,083	88,378	101,031	111,917	105,561	120,198
Sales growth	(%)	6%	3%	-45%	30%	16%	4%	5%	14%	11%	-6%	14%
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	69,711
Gross profit	(mil.yen)	36,004	36,574	14,122	24,907	32,519	34,702	35,601	42,970	50,051	46,382	50,486
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	31,349
Operating income	(mil.yen)	15,356	14,416	-2,735	7,524	12,305	13,954	12,827	17,415	21,597	18,246	19,137
Ordinary income	(mil.yen)	14,570	13,505	-2,703	6,699	11,374	13,695	13,910	17,568	21,510	17,813	19,144
Net income	(mil.yen)	8,013	7,376	-3,769	3,772	5,904	7,138	8,619	9,989	12,518	10,134	13,993
<b>Margins:</b>												
Gross profit margin	(%)	38.2%	37.7%	26.5%	35.8%	40.2%	41.3%	40.3%	42.5%	44.7%	43.9%	42.0%
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%	15.9%
Ordinary income	(%)	15.5%	13.9%	-5.1%	9.6%	14.0%	16.3%	15.7%	17.4%	19.2%	16.9%	15.9%
Net income	(%)	8.5%	7.6%	-7.1%	5.4%	7.3%	8.5%	9.8%	9.9%	11.2%	9.6%	11.6%
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	112.33
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	126.20
Total assets	(mil.yen)	127,044	122,383	113,382	105,635	104,373	121,689	134,503	142,302	155,129	156,081	166,712
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	115,810
<b>Per share:</b>												
Net income	(yen)	82.42	76.53	-39.22	39.34	62.18	75.16	90.76	105.20	131.78	110.59	153.70
Cash dividends (end of Q2)	(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	25.00 (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	1,191.65
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	91,044
<b>Key financial ratios:</b>												
ROE	(%)	12.9%	11.5%	-6.3%	6.7%	10.1%	11.5%	11.9%	11.7%	12.9%	10.4%	13.5%
Equity ratio	(%)	50.6%	52.5%	49.3%	54.1%	56.9%	53.0%	59.5%	64.3%	66.1%	59.1%	69.5%
<b>Cash flow:</b>												
Operating CF	(mil.yen)	16,733	10,653	6,049	14,095	11,344	12,286	16,171	19,688	19,588	16,333	20,820
Investing CF	(mil.yen)	-9,019	1,678	-4,633	-5,522	-8,195	-19,746	-2,972	-3,119	-16,976	-16,843	-7,566
Financing CF	(mil.yen)	-6,821	-4,500	5,470	-15,562	-5,855	8,643	-9,423	-12,813	-6,216	-778	-11,137
Cash flow margin	(%)	17.8%	11.0%	11.3%	20.3%	14.0%	14.6%	18.3%	19.5%	17.5%	15.5%	17.3%