CFO Message

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CFO and CRO

Generating results in a favorable business climate through proactive investments

Daifuku seeks to enhance its financial strength as well as its asset and capital efficiency. We also strive to raise ROE by improving the ratio of net income to net sales and total assets turnover.

Basic views of financial strategy

We work to maintain an optimal balance of assets and liabilities, paying constant attention to the debt-to-equity (D/E) ratio and return on asset (ROA). This approach is essential given our need to access substantial working capital and funds to fulfill the orders we receive for plant projects including installations. In addition, from the standpoint of financial strategy, careful cash flow management is vital for the Daifuku Group, including the parent company and its 53 affiliates worldwide, to accommodate various local business practices, conditions, and individual customer payment circumstances.

As we follow financial discipline, such as keeping our D/E ratio at 0.5 or lower, we also proactively take steps to lay the foundation for the Group's future growth. A rock-solid consolidated financial condition is the basis for improving management efficiency indicators such as ROE and ROA and for raising corporate value.

The 2017 public offering

We planned to expand our production capacity and strengthen our financial position. In particular, with the proceeds from the latest public offering, we are focusing on increasing the in-factory production ratio at our U.S. affiliate Wynright Corporation (Chart 1: Use of funds raised). We are aiming to boost Wynright's production capability to include a wide range of Daifuku products with the main objective of receiving more orders from the high growth potential e-commerce sector. Enhancing Wynright's effectiveness will have a ripple effect boosting Group-wide earnings.

Net income attributable to shareholders of the parent company and return on shareholders' equity (ROE)

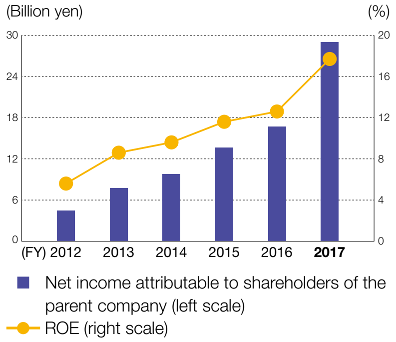


Chart 1: Use of funds raised

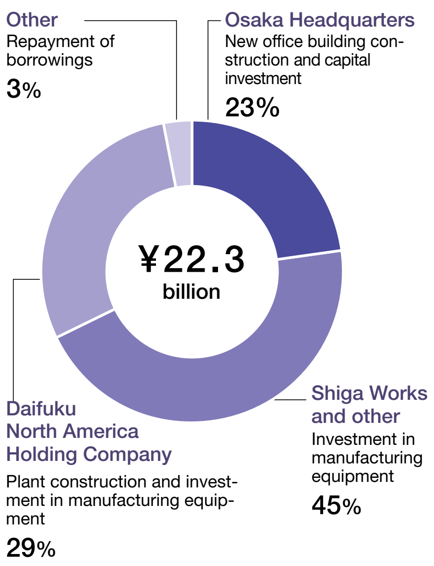


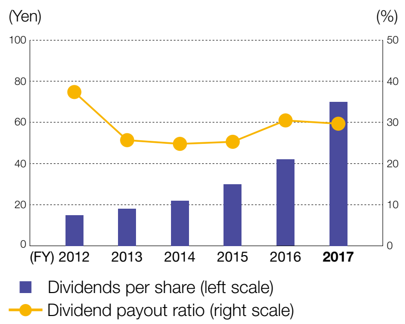
Table 1: Factors for increasing ROE

	FY2014	FY2015	FY2016	FY2017
ROE*	9.6%	11.6%	12.6%	17.7%
Return on sales	3.67%	4.06%	5.22%	7.16%
Total asset turnover (times)	1.03	1.19	1.07	1.20
Financial leverage (times)	2.51	2.33	2.18	1.99

* ROE = Net income ÷ Shareholders' equity x 100
= Return on sales x Total asset turnover x Financial leverage

$$= \frac{\text{Net income}}{\text{Net sales}} \times \frac{\text{Net sales}}{\text{Total assets}} \times \frac{\text{Total assets}}{\text{Shareholders' equity}}$$

Chart 2: Dividends per share, dividend payout ratio



Our bond rating at present is single A, and we wish to raise it yet another level. Another objective of the public offering was to expand our net assets.

Investments in human resources are also important

We will establish a software development center at our headquarters in Osaka to further strengthen the capabilities of our software department. It is also a key investment to create a comfortable work environment that attracts talented software developers.

We are implementing a workstyle reform by introducing RPA (robotic process automation) to enhance in-office productivity.

Allocating funds to increase ROE

At each monthly meeting, the Board of Directors assesses the status of the Group's net operating assets. Such stringent oversight has helped raise our operating margin and total assets turnover and has successfully supported the ongoing increase in ROE (Table 1: Factors for increasing ROE). As required, we will consider temporary financing to implement productive M&A and developments to acquire technologies that are complementary to ours, such as sensors and AI.

To be sure, a 10% operating margin is rather high for a plant supplier like us. We realize we need to change our business portfolio to increase profits. That is why we are focusing on developing the devices business, which generates greater profitability.

My targets as CFO

Raising corporate value through a blend of income gain and capital gain is fundamental to shareholder return (Chart 2: Dividends per share, dividend payout ratio). We have responded to shareholders' expectations for shareholder return through increased dividends via our dividend policy of maintaining our benchmark consolidated dividend payout ratio of 30% and by offering opportunities for additional return to investors.

As a result of providing increasingly attractive shareholder returns and improving our capital efficiency, our dividend on equity ratio is increasing. Through the increase in capital from the public offering, we will strive to provide enhanced investment opportunities for shareholders, improve our performance to more than offset any dilution in stock value, and, thereby, have positive affect on our stock price.

A further vital way to raise corporate value is to strengthen corporate governance and compliance. We are stepping up our engagement not only with shareholders and investors but with all of our stakeholders. We will also fulfill our corporate social responsibility by being compliant with tax regulations, including those related to transfer pricing, in the countries where we do business.

In January 2018, the price of our Company shares surpassed 8,000 yen, and our market capitalization briefly reached one trillion yen. I believe our growth as a company is on the cusp of a completely new stage. We will continue strengthening our corporate governance and compliance to continue raising our corporate value.