

We aim to establish a Smart Distribution Infrastructure that goes beyond the framework of existing logistics systems and respond to increasingly sophisticated material handling system needs.



Masaki Hojo
President and CEO

Performance in Fiscal 2015
In fiscal 2015, ended March 31, 2016, we reported our sixth consecutive year of growth in net sales and net income and set new records for sales and operating income

Consolidated orders in fiscal 2015 rose 17.6% from the previous fiscal year, to 359.4 billion yen. Net sales increased 25.8%, to 336.1 billion yen, and operating income was up 40.3%, to 20.8 billion yen. Net income attributable to shareholders of the parent company rose 39.2%, to 13.6 billion yen. Sales were almost at the 340 billion yen

targeted in our revised four-year business plan and operating income was at a historically high level.

The factor leading to robust growth in performance in recent years has been the expansion in non-Japan sales, which account for 66% of total net sales. In fiscal 2015, orders received from customers in the semiconductor and flat-panel display (FPD) sectors, particularly in Asia, rose to a new record high. In response to needs for sophisticated, customized, made-in-Japan high-end systems, our core factory in Japan has supplied top-quality core products.

Meanwhile, the Daifuku Group has 8,600 employees in total according to the fiscal 2016 plan, of which a considerable number of 5,200 personnel outside of Japan are providing services in their home markets.

In the semiconductor, FPD, and automobile sectors, our customers are overwhelmingly from outside of Japan; however, in the case of general manufacturing and distribution, 56% of our customers are in Japan, and demand from them is expanding further. This is one of the factors that makes Daifuku strong against the stresses of currency fluctuations. Our

business has not been hollowed out at our home ground and we are continuing to steadily introduce innovations. Also, outside of Japan, we have structured frameworks that provide not only services but are also strong in sales, production, and installations, based on deep roots in the local markets.

Performance in fiscal 2015

	Billion yen		%
	FY2015	FY2014	
Orders received	¥359.4	¥305.5	17.6%
Net sales	336.1	267.2	25.8
Operating income	20.8	14.8	40.3
Net income attributable to shareholders of the parent company	13.6	9.8	39.2

**Daifuku's Strategic Directions
Going Forward
Evolving into Smart
Distribution Infrastructure**

We do not view our robust performance during fiscal 2015 as a temporary event because it is supported by strong business underpinnings.

It has become very easy for consumers to purchase goods via the Internet. Within the new e-commerce business model, the importance of our business activities is expanding by leaps and bounds. As the social presence of logistics and distribution companies, which are responsible for timely shipments of goods from delivery centers and reliable delivery of them to their customers, is rising, distribution is taking its place as a new infrastructure lifeline along with water, electric power, and gas. When we say "logistics," "distribution," and "material handling," only a limited number of people understand their meaning. For the past few years, I have spent much time considering how to explain what we do and reached the conclusion that the most-appropriate way of describing it is to say we are part of a new infrastructure. Even with manufacturing, describing the assembly line that conveys car bodies in automobile factories as a main highway fits this narrative well. The best phrase to express this would be Smart Distribution Infrastructure.

I believe Daifuku has an advantage in this field because we decided very early that the era of just moving things with conveyors was over and started tackling the challenge of developing the new e-commerce market.

**Performance and Strategy
by Region**

**Performance in Asia is robust,
and we are aiming for further
growth in the Americas and
Europe**

Daifuku's non-Japan sales during fiscal 2015 amounted to 221.9 billion yen, an increase of 25.7% over the previous fiscal year. This represented 66% of overall net sales. By region, the largest amount of sales was in Asia, where production centers for semiconductors and FPDs are concentrated.

On the other hand, there are no local distribution-related companies that are working to develop Smart Distribution Infrastructure. Even in South Korea, Taiwan, and China, distribution system solutions are spreading from Japan.

In China, we began to provide automated warehouses for factories and distribution centers in the pharmaceutical, food and beverage sectors, and then expanded to retailers and e-commerce in the distribution sector. Since China's population and land area are large, we believe it will become an even larger market. To enable consumers in China to "get their products

tomorrow, or even today" on a large-scale basis, it will be necessary to create a distribution infrastructure on a far greater scale than in South Korea and Taiwan.

In Thailand, Indonesia, Singapore, and Malaysia, new orders showed little growth, reflecting the unstable economic situation there, but the number of automated warehouses for food and beverages is increasing, and a promising future is expected. Recently, in Myanmar, we have provided the first-ever automated warehouse for a government pharmaceutical company.

In the United States, business conditions and the economic situation are favorable. We have been developing our position in North America, centered around conveyor systems for automobile production lines for many years, but we believe there is still room for further growth in systems for distributors. We will place increased emphasis on this area, expand volume, and strive to increase our market share.

In the European market, our principal businesses are providing services for systems for manufacturers and distributors and systems used in airports. Our equity-method affiliate in Austria, Knapp AG, is very strong in providing systems for the pharmaceutical, cosmetics, and other sectors and offering picking solutions for small items. By substantially deepening our

collaboration with this company, we will be working to strengthen our presence also in Europe where competition is intensifying.

**Issues to Be Addressed
and Approaches
Improving profitability
and raising technological
capabilities through M&A**

The initial target committed to in the four-year business plan for the operating income to net sales ratio was 7%. In fiscal 2015, we reached 6.2%, and, for the current year in progress, we are expecting to attain 6.4%; however, we will still strive to reach the 7% target.

Regarding issues to be addressed, we believe it will be important to place emphasis on achieving a balance among three types of activities: new large projects, small- to medium-sized projects, and services as an integral part of projects.

The merits of undertaking large projects are that the volume of

production will increase and our overall factory utilization rates will rise, bringing an increase in gross profit. However, for large projects, competitors will also enter the bidding, and price competition will become more intense; this may lead to a decline in profitability. Accordingly, it is vital for us to achieve a balance with small- to medium-sized projects where we can expect stable earnings and large-scale business undertakings.

Meeting with customers to gain a good understanding of their requests and then providing our solutions with appropriate in-depth content require time and money. Improving our organization, training personnel, raising awareness of Daifuku in the market, building networks for sales, installation and services, and other activities take a certain level of investments for future growth. For this reason, we will be more careful not to be overly concerned with increasing short-term profitability.

With respect to M&A, we will focus on M&A deals that have merits for technological reasons and on collaboration with universities. For example, in the field of robotics, picking up pieces individually requires sophisticated sensing technology. Robot manufacturers do a good job down to the arm of their robots, but, when hand and fingertip movements are necessary, they do not have sufficient understanding. In M&A deals, one approach would be looking for technology that can instantaneously identify products by shape, size, weight, and speed of the flow, and then transmitting this information to robots' hand(s) and fingertips.

Close to 30 years ago, we conducted joint research with the University of Auckland in New Zealand. This led to the development of the world's first electrified monorail system using noncontact power supply. As this technology is maintenance-free, it

Recent M&A, business alliance, and capital participation arrangements

Company Name*1	Year of Acquisition	Objectives
Jervis B. Webb Company	2007	Overall business expansion in North America, entry into the airport field
Knapp AG*2	2010	Future keystone of European operations
Logan Teleflex Group	2011	Strengthening technology in airport-related systems
Wynright Corporation	2013	Expansion of business for distributors in North America
BCS Group Limited	2014	Strengthening airport-related systems in Asia-Pacific

*1 Company name as of arrangement date
*2 Business alliance and capital participation

is in use for conveyance between processes in automobile factories. Also, it is used for transport systems in clean rooms in the manufacturing of semiconductors, FPDs, and other items. Based on the knowledge gained from this collaborative R&D, this past spring, we launched the “D-PAD” wireless charging system for electric forklifts. Similarly, our subsidiary BCS Group Limited in New Zealand has very unique software, and by combining this with the know-how of another company, BCS is showing strong in performing upgrades. In addition, DTx Inc. (now Contec DTx Inc.), a U.S. company acquired by our subsidiary Contec Co., Ltd., has developed a unique presence in the medical device field.

We believe that continuously creating new products and identifying new businesses through combining different technologies will enable us to offer smart solutions for our customers.

Aiming for Sustained Growth Contributing to society through initiatives to achieve “healthy growth”

Daifuku operates its business activities based on its management philosophy of “Provide the best solutions to benefit the global markets and the development of society.” Looking ahead, we are striving to achieve healthy, sustainable growth by aiming to be a company that is trusted by all its stakeholders.

In recent years, institutional investors, especially in Europe, have placed greater emphasis on “ESG” (environment, society, and governance) criteria. These investors are requesting greater transparency in management, corporate governance, initiatives related to the natural environment, and evidence of social contributions. If we think in depth about “healthy,” it boils down to ESG. Smart Distribution Infrastructure is a concept that goes well when tied to ESG.

Regarding the natural environment, we at Daifuku are aware of the need to reduce our environmental footprint, including from our customers and other stakeholders. Daifuku’s products and services are used not only in Japan but widely around the world, and we believe this provides us with opportunities to make major contributions. Expanding the range of our eco-friendly products is one example of our initiatives.

For corporate governance, we go through the PDCA (Plan, Do, Check, and Act) cycle with the main objective of improving the effectiveness of our corporate governance and have established Daifuku Corporate Governance Guidelines. To strengthen the independence and objectivity of our Board of Directors in matters such as the nomination of the management team and its remuneration as well as

accountability of management, we have formed an Advisory Committee that is chaired by an outside director. We receive timely advice and recommendations from our outside directors and Audit & Supervisory Board members, including information and points of view that we cannot obtain internally. For the internal management team, which tends to focus mainly on the business matters they are responsible for, this information is extremely valuable.

Financial Strategy and Allocation of Income Aiming for a well-balanced allocation between return to shareholders and investment for future development

In allocating income, we believe that achieving a good balance between paying dividends to shareholders and making investment for future growth is important. Under the four-year business plan Value Innovation 2017 also, we are aiming for a dividend payout ratio of 30% and levels of investment that will continue to increase Daifuku’s corporate value. Based on this allocation policy, we set dividends for fiscal 2015 at 30 yen per share. In fiscal 2016, we are planning to pay a dividend of 35 yen per share, including a 5 yen commemorative dividend to mark the 80th anniversary of Daifuku’s founding. In addition, going forward, as another means of returning

income to shareholders, we may consider purchases of treasury shares from the market.

From the perspective of strengthening our financial position, we are placing emphasis on increasing the balance of Daifuku’s net assets to prepare for investments in future growth. We will still insist on reaching a 7% operating income to net sales ratio with the aim to raise our bond rating from the current single A minus, while increasing trust in our corporate bonds. Through continuing these initiatives to increase the attractiveness of Daifuku to investors, I believe Daifuku’s stock will be naturally included in the JPX-Nikkei Index 400.

Thoughts on Management Our philosophy of being partners with our customers

Daifuku is a company that has been brought up and grown through transactions with the very top tier of companies in a wide range of industries. We have responded to the exacting requests of our customers for safety, quality, delivery, and costs and have been able to maintain sustained business relationships for the long term. This is a strength that has sustained Daifuku over the years and is one of our greatest assets. I believe we have a responsibility to listen earnestly and sincerely to the expectations of our customers, even as their requirements have changed from era to era, and



respond appropriately. Our company creed is *Hini Arata*, which means, “Today we are doing better than we were yesterday. Tomorrow we will be growing ahead of where we are today.” Daifuku’s philosophy is to advance and grow with our customers. Regardless of the era, this has always been true and will remain unchanged.

Based on our business philosophy, which is founded on advancing and growing with our customers and with Group companies and non-Group

companies, we will continue to fuse their unique technologies and information networks with Daifuku’s technology to provide the very best solutions to our customers in all industries and fields. Thereby, we will continue to contribute to the livelihood of customers and to society. We look forward to your continuing support.

Masaki Hojo
President and CEO
Daifuku Co., Ltd.