



**Furusato**

# Furusato Earnings Presentation

2Q FY2011 Ended September 30, 2011  
(April 1 to September 30, 2011)






Friday, November 4, 2011  
Top of the Square UTAGE, Otemachi



# Consolidated Results Summary

(Millions of yen)

	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Net sales	30,117	34,388	4,271	14.2%
Gross profit	4,203	4,988	785	18.7%
Gross profit margin	14.0%	14.5%	+0.5P	—
SG&A Expenses	4,121	4,107	(13)	(0.3%)
Operating income	82	880	798	973.0%
Ordinary income	239	1,015	776	324.8%
Net income	164	553	389	236.9%

Points	Details
<ul style="list-style-type: none"> <li>■ [Net sales] Machine Tool +52%, Industrial Equipment +11%, Steel Frame Building Supplies (In-house Product) +26%</li> </ul>	 P.3-8
<ul style="list-style-type: none"> <li>■ [Gross profit margin] Equipment and Tools +0.3P, Construction and Piping Products +2.4P</li> </ul>	 P.9
<ul style="list-style-type: none"> <li>■ [SG&amp;A Expenses] Reversal of allowance for doubtful accounts ¥(25)M</li> </ul>	 P.10
<ul style="list-style-type: none"> <li>■ [Extraordinary income] Gain on sales of investment securities ¥15M</li> </ul>	 P.11
<ul style="list-style-type: none"> <li>■ [Extraordinary loss] Loss on disaster ¥6M</li> </ul>	 P.11



# Consolidated Net Sales

## <Segment Breakdown>

(Millions of yen)

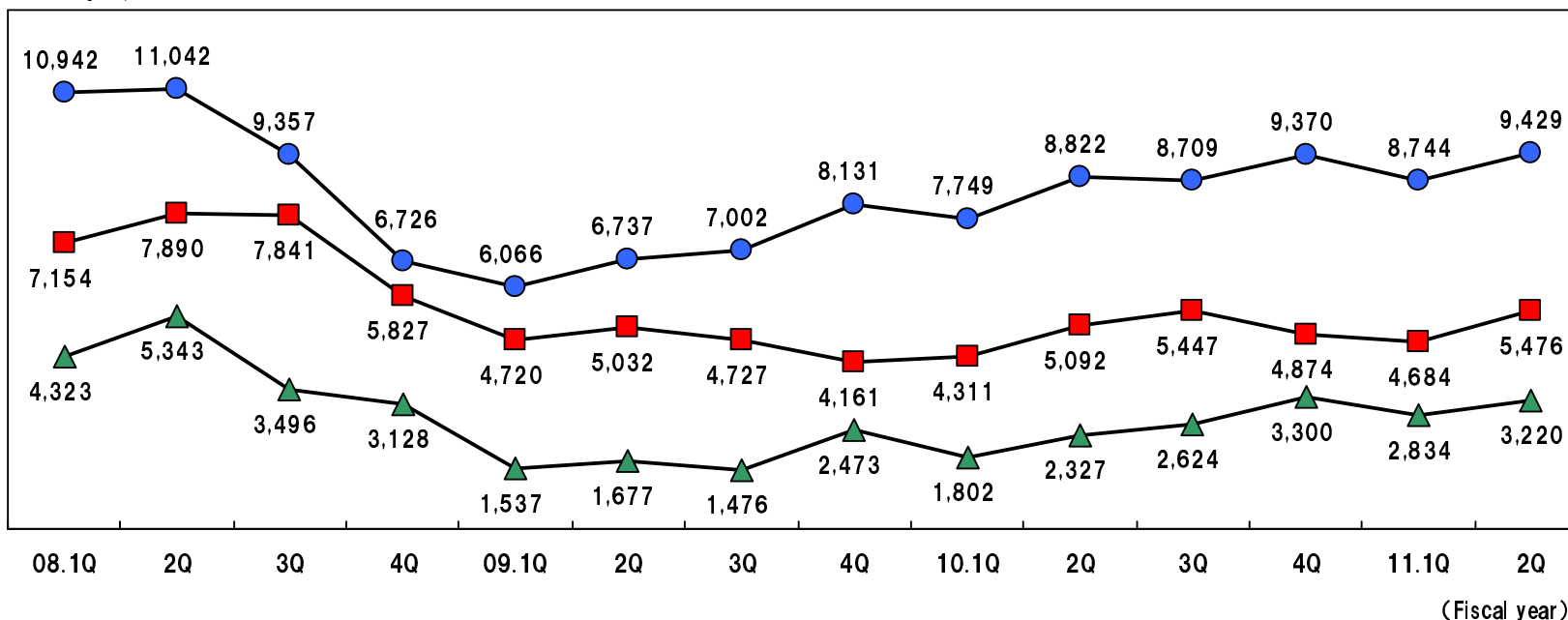
	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
<b>Equipment and Tools</b>	<b>16,572</b>	<b>18,173</b>	<b>1,601</b>	<b>9.7%</b>
Industrial Equipment	12,541	13,983	1,441	11.5%
Machine and Tools for Automotive	1,920	1,955	34	1.8%
Housing Equipment	1,771	1,797	26	1.5%
Overseas	63	149	86	135.6%
Other	274	287	12	4.6%
<b>Machine and Facility</b>	<b>4,129</b>	<b>6,054</b>	<b>1,924</b>	<b>46.6%</b>
Machine Tool	2,941	4,471	1,529	52.0%
Factory Automation	1,188	1,582	394	33.2%
<b>Construction and Piping Products</b>	<b>9,404</b>	<b>10,160</b>	<b>756</b>	<b>8.0%</b>
Steel Frame Building Supplies	7,627	8,200	572	7.5%
[In-house Products]	[1,959]	[2,475]	[515]	[26.3%]
[Procured Supplies]	[5,668]	[5,725]	[57]	[1.0%]
Piping Products	1,776	1,959	183	10.3%
Other	11	—	(11)	—
<b>Total</b>	<b>30,117</b>	<b>34,388</b>	<b>4,271</b>	<b>14.2%</b>



# Consolidated Net Sales

<Segment Breakdown / Quarterly Base>

(Millions of yen)



- Equipment and Tools +6.9% vs. 2Q FY10, +7.8% vs. 1Q FY11  
 ⇒Steady growth on a trend with peaks in 2Q and 4Q
- ▲ Machine and Facility +38.4% vs. 2Q FY10, +13.6% vs. 1Q FY11  
 ⇒Rapid recovery on a trend with a peak in 4Q
- Construction and Piping Products +7.5% vs. 2Q FY10, +16.9% vs. 1Q FY11  
 ⇒Turn to a slight upward trend with peaks in 2Q and 3Q



# Equipment and Tools Business

## <Business Environment / Net Sales and Operating Income>

(Millions of yen)

	1H FY10	1H FY11	Y-o-Y(%)
<b>Net sales</b>	<b>16,572</b>	<b>18,173</b>	<b>9.7%</b>
Business	Industrial Equipment	12,541	13,983 11.5%
	Machine and Tools for Automotive	1,920	1,955 1.8%
	Housing Equipment	1,771	1,797 1.5%
	Overseas	63	149 135.6%
	Other	274	287 4.6%
<b>Operating income</b>	<b>125</b>	<b>369</b>	<b>194.9%</b>

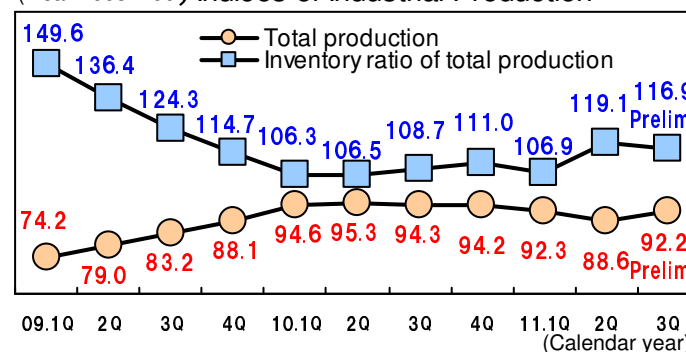
### Business environment

- Industrial production ] Fell in Mar. and Apr., recovered from May, in August, reached the level before the Great East Japan Earthquake occurred in March
- Motor vehicle parts ] Substantially declined in Mar. to May, recovered rapidly in Jun., in August, reached the level before the earthquake.

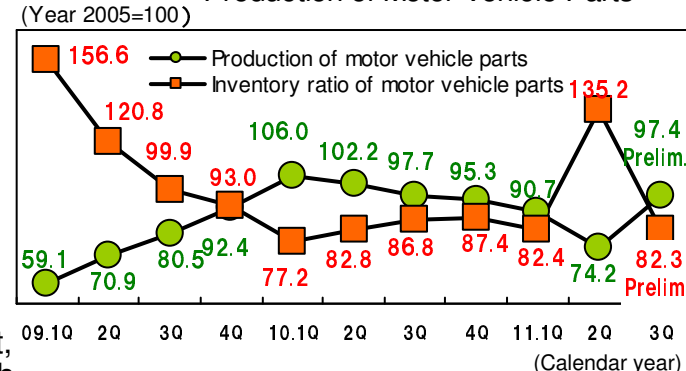
### Results by business

- Industrial Equipment ] Sales increase, reflecting early recovery in domestic manufacturing sector and favorable sale of energy-and electricity-saving products.
- Machine and Tools for Automotive ] Sales decreased in 2Q due to production cutback in automotive industry
- Housing Equipment ] Sales decreased in 1Q due mainly to delayed delivery by the earthquake.

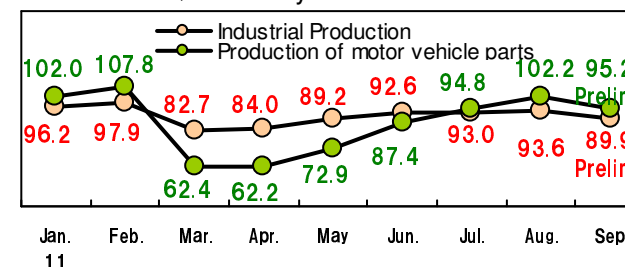
(Year 2005=100) Indices of Industrial Production



Production of Motor Vehicle Parts (Year 2005=100)



(Year 2005=100) Monthly Industrial Production





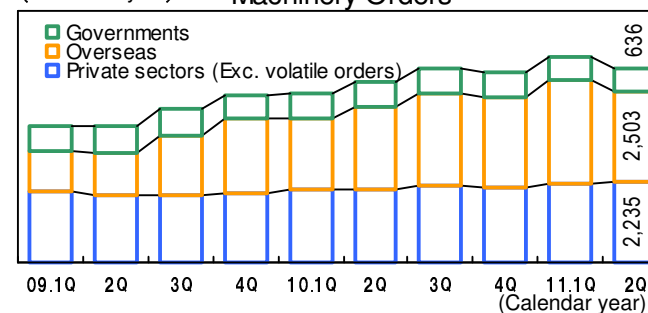
# Machine and Facility Business

## <Business Environment / Net Sales · Operating Income>

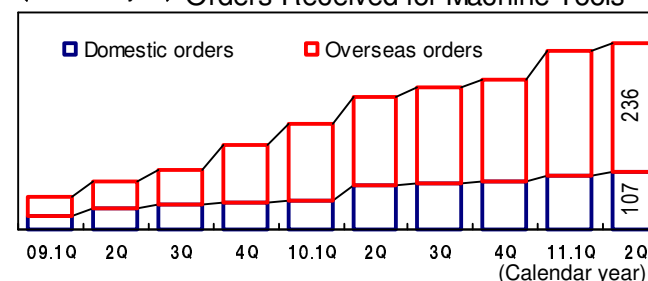
(Millions of yen)

		1H FY10	1H FY11	Y-o-Y(%)
Net sales		4,129	6,054	46.6%
Business	Machine Tool	2,941	4,471	52.0%
	Factory Automation	1,188	1,582	33.2%
Operating income		(38)	92	—

(Billions of yen) Machinery Orders



(Billions of yen) Orders Received for Machine Tools



### Business environment

- [Machinery orders] The leading indicator of private capital investment, “Private sectors (Exc. Volatile orders) up vs. both 2Q FY10 and 1Q FY11
- [Orders received for machine tools] The Jan. to Jun. period rebounded to 85% of the volume in the same period of 2007, a peak in volume, still led by overseas orders (Domestic orders 57%, overseas orders 112%)

### Results by business

- [Machine Tool] Sales increased by order-taking activities targeting at leading manufacturers
- [Factory Automation] Metal-cutting machine tools, tools, consumer supplies, other facilities favorably increased respectively.



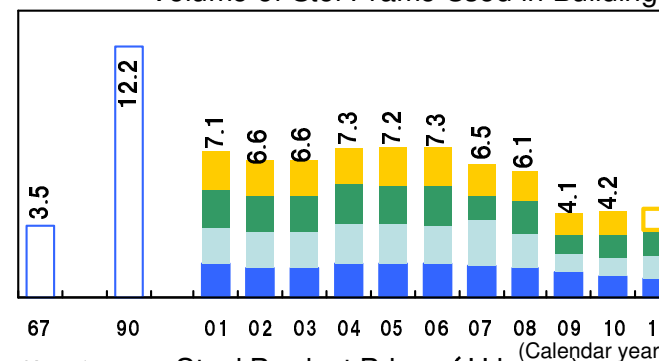
# Construction and Piping Products Business

## <Business Environment/Net Sales and Operating Income>

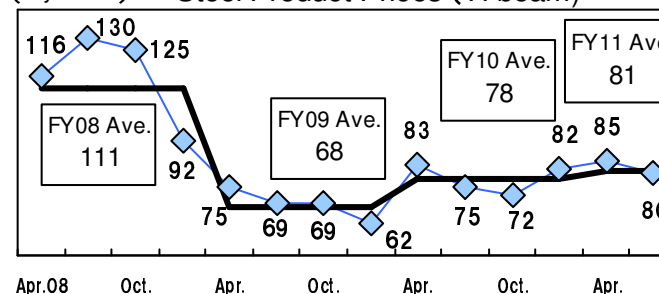
(Millions of yen)

		1H FY10	1H FY11	Y-o-Y(%)
Net sales		9,404	10,160	8.0%
Business	Steel Frame Building Supplies	7,627	8,200	7.5%
	[In-house products]	[1,959]	[2,475]	[26.3%]
	[Procured supplies]	[5,668]	[5,725]	[1.0%]
	Piping Products	1,776	1,959	10.3%
Operating income (loss)		(61)	364	—

(Million ton) Volume of Steel Frame Used in Building



(K yen/ton) Steel Product Prices (H-beam)



### Business environment

- [Volume of steel frame used in building] Turned to a Y-o-Y increase in the Apr. to Jun. period (+10.5%), 1H (Jan. to Jun. 2011) +4.4%
- [Steel market price] Blast furnace steel manufacturers up due to high raw material price, but electric furnace steel manufacturers down due to declining scrap price. Polarization in prices.

### Results by business

- [Steel Frame Building Supplies (In-house Products)] Substantial sales increase in 1Q, led by demand for turnbuckle braces for temporary housing in the affected area by the earthquake.
- [Steel Frame Building Supplies (Procured Supplies)] Y-o-Y decrease in 1Q due to sluggish demand, but Y-o-Y increase in 2Q, led by sales of machines used for restoration.
- [Piping Products] Double-digit sales growth in 1H by purchasing reinforcement strategies



# Construction and Piping Products Business

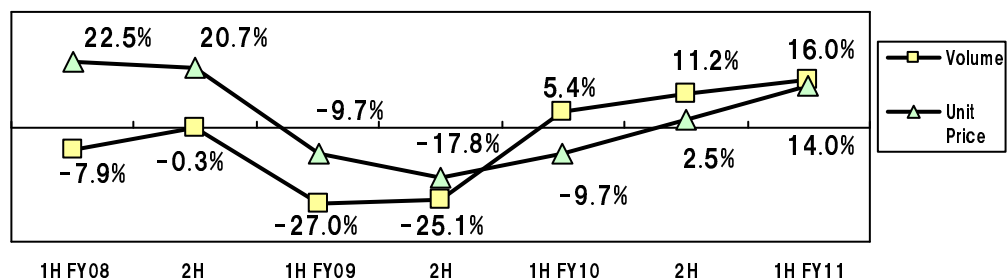
## <Volume / Average Selling Price>

### Turnbuckle brace

Net sales +31.3% Y-o-Y

Volume +16.0%

Unit price +14.0%

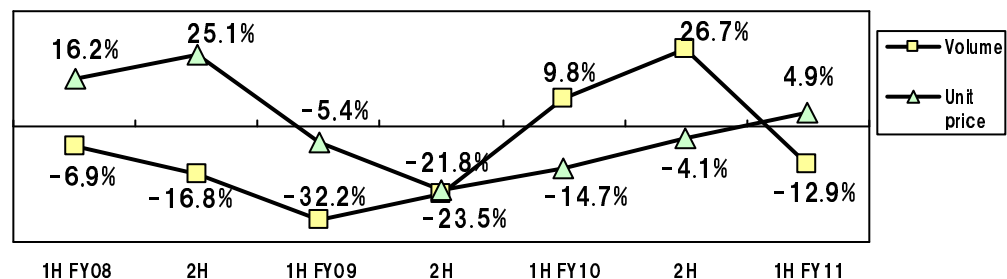


### High strength bolts

Net sales - 8.6% Y-o-Y

Volume - 12.9%

Unit price +4.9%

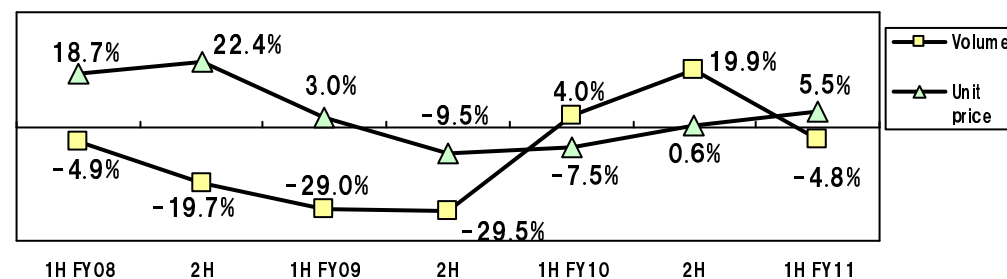


### Welding supplies

Net sales +0.4% Y-o-Y

Volume - 4.8%

Unit price +5.5%





# Gross Profit <Segment Breakdown>

(Millions of yen)

	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Equipment and Tools	1,936	2,182	245	12.7%
(Gross profit margin)	11.7%	12.0%	+0.3P	
Machine and Facility	349	496	146	41.9%
(Gross profit margin)	8.5%	8.2%	-0.3P	
Construction and Piping Products	1,908	2,310	402	21.1%
(Gross profit margin)	20.3%	22.7%	+2.4P	
Other	8	—	(8)	—
Adjustment	(0)	(1)	—	—
<b>Total Gross Profit</b>	<b>4,203</b>	<b>4,988</b>	<b>785</b>	<b>18.7%</b>
<b>Gross Profit Margin</b>	<b>14.0%</b>	<b>14.5%</b>	<b>+0.5P</b>	

## Gross Profit Margin

- [Equipment and Tools] +0.2 P, driven by expanding product lines of private brand products together with value-added proposals in the Industrial Equipment Business
- [Construction and Piping Products] +7.5 P, led by improved factory operating ratio in the Steel Frame Building Supplies Business (In-house Products)
- [Construction and Piping Products] +0.8 P by purchasing and inventory strategies and appropriate adjustment on selling prices in the Piping Products Business



# SG & A Expenses <Consolidated>

(Millions of yen)

		1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Selling expenses		<b>510</b>	<b>493</b>	<b>(16)</b>	<b>(3.2%)</b>
Items	Freightage and packing expenses	<b>421</b>	<b>448</b>	<b>26</b>	<b>6.4%</b>
	Provision of allowance for doubtful accounts	<b>46</b>	<b>(25)</b>	<b>(72)</b>	<b>—</b>
	Other	<b>41</b>	<b>70</b>	<b>28</b>	<b>69.3%</b>
General administrative expenses		<b>3,610</b>	<b>3,613</b>	<b>3</b>	<b>0.1%</b>
Items	Personal expenses	<b>2,580</b>	<b>2,583</b>	<b>2</b>	<b>0.1%</b>
	Other	<b>1,029</b>	<b>1,029</b>	<b>0</b>	<b>0.0%</b>
Total		<b>4,121</b>	<b>4,107</b>	<b>(13)</b>	<b>(0.3%)</b>
<b>By segment</b>					
Business	Equipment and Tools	<b>1,811</b>	<b>1,812</b>	<b>1</b>	<b>0.1%</b>
	Machine and Facilities	<b>388</b>	<b>403</b>	<b>15</b>	<b>4.0%</b>
	Construction and Piping Products	<b>1,969</b>	<b>1,946</b>	<b>(23)</b>	<b>(1.2%)</b>
	Adjustment and other	<b>(47)</b>	<b>(55)</b>	<b>—</b>	<b>—</b>

- [ Provision of allowance for doubtful accounts ] Reversal of allowance for doubtful accounts for the impact by the Great East Japan Earthquake in the previous fiscal year
- [ Selling expenses-other ] Increase by sales commission and advertizing expenses

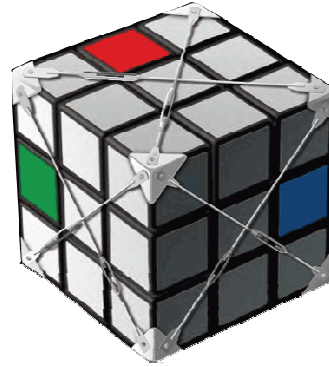


# Net Sales <Consolidated>

(Millions of yen)

		1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Ordinary income		<b>239</b>	<b>1,015</b>	<b>776</b>	<b>324.8%</b>
Extraordinary income		<b>86</b>	<b>15</b>	<b>(70)</b>	<b>(82.2%)</b>
Items	Reversal of allowance for doubtful accounts	12	—	(12)	—
	Insurance premiums refunded cancellation	73	—	(73)	—
	Gain on sales of investment securities	—	15	15	—
Extraordinary loss		<b>6</b>	<b>6</b>	<b>(0)</b>	<b>(9.6%)</b>
Items	Loss on disaster	—	6	6	—
	Loss on adjustment for changes of accounting standard for asset retirement obligations	6	—	(6)	—
Income before income taxes		<b>318</b>	<b>1,024</b>	<b>706</b>	<b>221.8%</b>
Total income taxes		<b>154</b>	<b>471</b>	<b>316</b>	<b>205.7%</b>
Net income		<b>164</b>	<b>553</b>	<b>389</b>	<b>236.9%</b>

- [Extraordinary income] Gain on sales of shares of electric power companies ¥15M
- [Extraordinary loss] Special payment for disaster ¥6M
- [Net sales per share] ¥37.06



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# FY2011 Forecast



# FY11 Forecast

<Revised on Oct. 27>

(Millions of yen)

FY11	1H Actual result Apr.-Sep. 11	Y-o-Y (%)	2H Forecast Oct.11-Mar.12	Y-o-Y (%)	Full-year Forecast Apr. 11~Mar. 12	Y-o-Y (%)
Net sales	<b>34,388</b>	14.2%	<b>34,012</b>	(0.9%)	<b>68,400</b>	6.1%
Gross profit	<b>4,988</b>	18.7%	<b>4,762</b>	(1.7%)	<b>9,750</b>	7.8%
SG&A expenses	<b>4,107</b>	(0.3%)	<b>4,161</b>	0.1%	<b>8,269</b>	(0.1%)
Operating income	<b>880</b>	973.0%	<b>600</b>	(12.4%)	<b>1,480</b>	92.9%
Non-operating income	<b>264</b>	2.6%	<b>253</b>	(3.5%)	<b>517</b>	(0.6%)
Non-operating expenses	<b>129</b>	28.5%	<b>118</b>	6.0%	<b>248</b>	16.6%
Ordinary income	<b>1,015</b>	324.8%	<b>735</b>	(12.0%)	<b>1,750</b>	62.8%
Net income	<b>553</b>	236.9%	<b>287</b>	(29.1%)	<b>840</b>	47.5%

- [2H Forecast] Almost the same as the previous forecast from net sales to ordinary income due to uncertainty in business environment
- [Full-year net income] ¥840M [Net income per share forecast] ¥56.43



# Forecast by Segment

## <Equipment and Tools Business>

(Millions of yen)

		2H Forecast	Y-o-Y(%)	Full-year Forecast	Y-o-Y(%)
Net sales		<b>18,219</b>	<b>0.8%</b>	<b>36,392</b>	<b>5.0%</b>
Business	Industrial Equipment	<b>13,660</b>	<b>1.1%</b>	<b>27,643</b>	<b>6.1%</b>
	Machine and Tools for Automotive	<b>2,075</b>	<b>0.0%</b>	<b>4,030</b>	<b>0.9%</b>
	Housing Equipment	<b>1,960</b>	<b>(1.4%)</b>	<b>3,757</b>	<b>0.0%</b>
	Overseas	<b>194</b>	<b>(1.8%)</b>	<b>343</b>	<b>31.7%</b>
	Other	<b>330</b>	<b>6.2%</b>	<b>617</b>	<b>5.4%</b>
Operating income		<b>349</b>	<b>1.6%</b>	<b>718</b>	<b>53.2%</b>

### Business environment forecast

- Moderate pace of recovery to meet demand after the completion of supply chain restoration. The reconstruction demand is expected while the risk in export is heightened mainly by the strong yen.
- There are risk factors, such as decelerating overseas economy and the strong yen in the transport equipment sector.

### Business plan by segment

- [Industrial Equipment] Respond to reconstruction demand, sales increase by intensive sales promotion on energy-and electricity-saving related products.
- [Machine and Tools for Automotive] Dispersing risks by expanding the domain to fields other than the automotive sector under concerns about decreasing exports
- [Housing Equipment] Further development of remodel market by eco-life products in sluggish demand for new housing.



# Forecast by Segment

## <Machines and Facility Business>

(Millions of yen)

		2H Forecast	Y-o-Y(%)	Full-year Forecast	Y-o-Y(%)
Net sales		<b>5,801</b>	<b>(2.1%)</b>	<b>11,855</b>	<b>17.9%</b>
Business	Machine Tool	<b>4,345</b>	<b>(1.7%)</b>	<b>8,816</b>	<b>19.8%</b>
	Factory Automation	<b>1,456</b>	<b>(3.4%)</b>	<b>3,038</b>	<b>12.7%</b>
Operating income		<b>73</b>	<b>(23.1%)</b>	<b>165</b>	<b>191.8%</b>

### Business environment forecast

- Orders received for machine tools in the period from Jan. to Sep. ¥990B, Full-year estimated ¥1,300B. Favorable sales of high performance machines to North America and China
- Domestic demand is expected to continue on the upward trend, supported by resuming long-term capital investment .
- The favorable demand for machine tools mainly to emerging countries prolongs the lead time

### Business plan by business

- [Machine Tool] Acquiring demand by shortening lead time, holding sales exhibitions and fairs of CAD/CAM and machines, and reinforcing sales dealers network
- [Factory Automation] Focusing on sales base expansion through intensive approach to excellent leading users by utilizing strength of direct sales.



# Forecast by Segment

## <Construction and Piping Products Business>

(Millions of yen)

		2H Forecast	Y-o-Y(%)	Full-year Forecast	Y-o-Y(%)
Net sales		<b>9,992</b>	<b>(3.2%)</b>	<b>20,152</b>	<b>2.2%</b>
Business	Steel Frame Building Supplies	<b>7,798</b>	<b>(6.3%)</b>	<b>15,998</b>	<b>0.3%</b>
	[In-house Products]	[2,186]	[ (0.5%) ]	[4,661]	[12.1%]
	[Procured Supplies]	[5,612]	[ (8.4%) ]	[11,337]	[ (3.9%) ]
	Piping Products	<b>2,194</b>	<b>9.8%</b>	<b>4,153</b>	<b>10.1%</b>
Operating income		<b>126</b>	<b>(34.3%)</b>	<b>490</b>	<b>275.8%</b>

### Business environment forecast

- The steel frame used in building 400K t/month after June, estimated 4.5M t/year, up approx. 7% Y-o-Y
- Steel product price flat, the price of construction orders received is expected to improve
- According to the Tankan, production facility investment indicated positive in current and future conditions in all manufacturing sectors, but dropped from the previous survey.

### Business plan by business

- [Steel Frame Building Supplies Business] Securing sales volume and raising and adjusting prices in the timing of improving demand
- [Steel Frame Building Supplies Business (In-house Products)] Improving utilization of quake-resistant standard products, responding to high awareness of earthquake-proof structure after the Great East Japan Earthquake.
- [Piping Products Business] Increasing market share by improving in price competitiveness of main piping products, such as pipe joints and reinforcement of sales force by introducing new supplies.



# Furusato Group Basic Policy

<Steel Frame Building Supplies Business>

## Turnbuckle braces for buildings

- Structural products to give elasticity to steel frame building
- Preventing buildings from corruption by extending themselves without fracturing in huge earthquakes.
- Playing an essential role to protect human life in case of emergency cases.

➔ Defined manufacturing methods and specifications by JIS standard

※The picture showed turnbuckle braces not to meet qualifications of the JIS standard. They did not have necessary performance, which resulted in fracturing before the corruption of buildings. All of them were not manufactured by a method to extend the entirety, so that they fractured around bolts.



## Mission as a top brace manufacturer

- Manufacturing and providing only JIS standard products (excluding those for certain clients)
- Taking actions to explain to building designers in order to improve utilization of JIS products
- Pursuing a good balance between realization of buildings in which people can live without fear and expansion of demand for JIS products



# Furusato Group Basic Policy

<Industrial Equipment Business>

Potential problems

➔ Problems of which users are not aware = Demand

For example...

Unable to improve energy-saving efficiency after high efficient compressors installed if the air is leaking from compressed air piping.

Proposal of energy-saving diagnosis with air leak test



Air leak test

Mission as a machine and tool trading company

= Clarifying potential demand

- Selecting appropriate products from broad product lines from various manufacturers
- Creating marketing tools to introduce solutions and effective models for every theme
- Realizing marketing activities not to involve price competitiveness by problem-solving proposals
- Enhancing presence by satisfying users and sales dealers



# Furusato Group Basic Policy

<Piping Products Business>

Mid-term target = Fiscal 2016

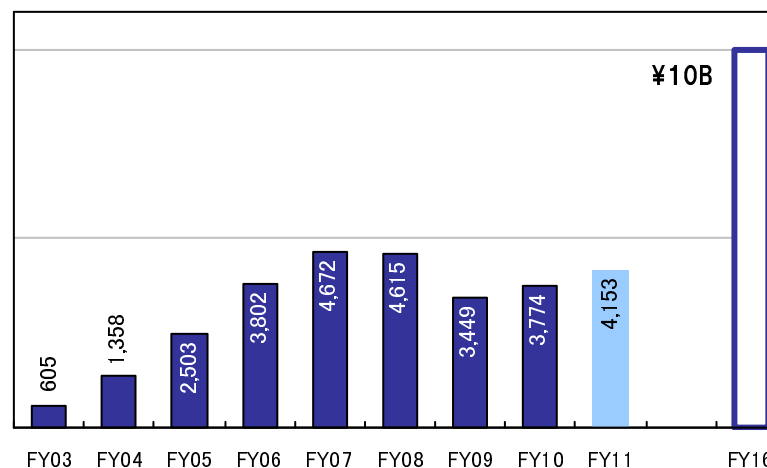
(The year ending March 31, 2017)

Net sales ¥10B

➔ Focusing as a growth business

※ Rapid growth, achieving ¥4.6B for 5 years after launch of the business in 2003, but stagnant due to the impact by the Lehman's fall and the Great East Japan Earthquake.

Again, work hard to get back to the growth track, targeting at ¥10 B after 5 years.



Mission as a supply retailer

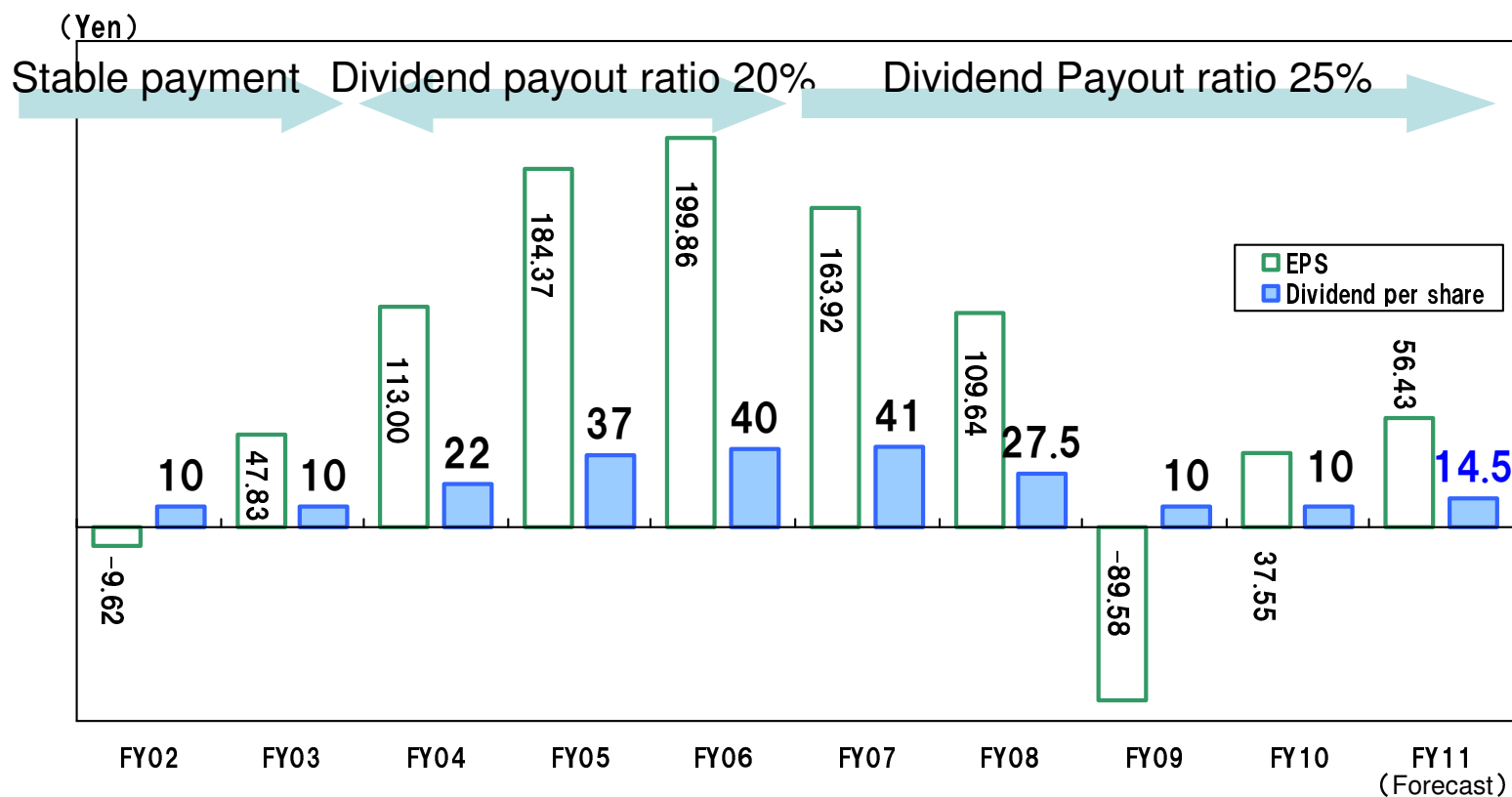
= What customers need

- Not only piping products but various supplies including processing machinery, fastening products and welding materials.
- Pursuing convenience for customers by utilizing nationwide local sales and logistic networks
- Reinforcing competitiveness by making the most of purchasing routes including G-net
- Differentiating from competitors by investment in systems to improve customers' satisfaction



# Dividends Per Share

- Dividend payout ratio: Consolidated net income × 25%
- In case that the annual dividend per share based on the above dividend payout ratio is less than ¥10; Annual dividend per share ¥10





# Reference

<Non-consolidate P/L/Furusato>

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(Millions of yen)

	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Net sales	9,411	10,169	758	8.1%
Gross profit margin	1,908	2,310	402	21.1%
SG&A expenses	1,969	1,946	(23)	(1.2%)
Operating income (loss)	(61)	364	425	—
Non-operating income	154	142	(11)	(7.6%)
Non-operating expenses	46	57	10	21.6%
Ordinary income	46	450	403	869.2%
Extraordinary income	—	15	15	—
Extraordinary loss	6	4	(2)	(32.2%)
Net sales before income taxes	39	460	421	1064.5%
Total income taxes	46	217	170	365.1%
Net income	(7)	243	250	—



# Reference

<Non-consolidate P/L/G-net>

**Furusato**

(Millions of yen)

	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Net sales	19,166	22,745	3,579	18.7%
Gross profit margin	2,002	2,384	382	19.1%
SG&A expenses	1,941	1,977	36	1.9%
Operating income (loss)	60	406	346	571.0%
Non-operating income	179	196	17	9.5%
Non-operating expenses	96	113	17	18.3%
Ordinary income	144	490	345	239.7%
Extraordinary income	—	—	—	—
Extraordinary loss	—	1	1	—
Net sales before income taxes	144	488	344	238.6%
Total income taxes	80	222	141	176.3%
Net income	63	266	202	317.0%



# Reference

<Non-consolidate P/L / Gifu Shoji>

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(Millions of yen)

	1H FY10	1H FY11	Y-o-Y	Y-o-Y(%)
Net sales	1,922	1,956	34	1.8%
Gross profit margin	284	294	9	3.5%
SG&A expenses	257	238	(18)	(7.3%)
Operating income (loss)	26	55	28	108.4%
Non-operating income	20	22	2	12.6%
Non-operating expenses	0	0	0	1050.2%
Ordinary income	46	77	30	65.8%
Extraordinary income	86	—	(86)	—
Extraordinary loss	—	—	—	—
Net sales before income taxes	132	77	(55)	(41.9%)
Total income taxes	39	31	(7)	(19.2%)
Net income	93	45	(48)	(51.5%)



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## **Forward-Looking Statements**

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