



SBS Business Report

For the year Ended December 31, 2017
(Security Code:2384)



Special Feature

Special Conversation

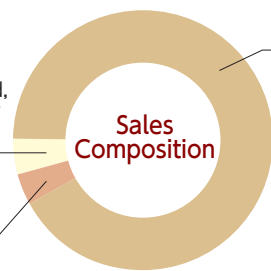
The Past and Next 30 Years
of the SBS Group

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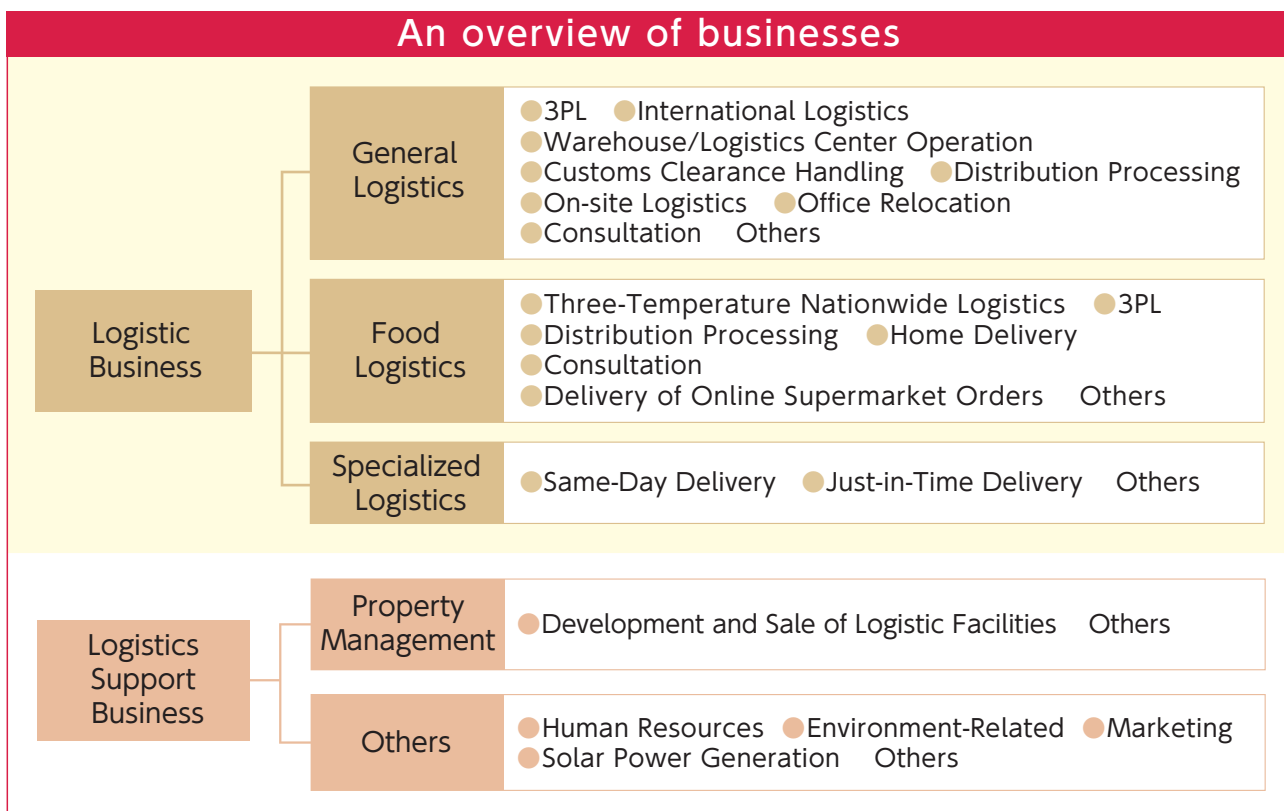
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SBS Group meets the various logistics needs with the utmost quality.

Performance of the current fiscal year

<ul style="list-style-type: none"> ■ Net Sales ¥ 152.8 billion ■ Operating Profit ¥ 6.2 billion ■ Ordinary Profit ¥ 6.4 billion ■ Net Income Attributable to Owners of Parent ¥ 4.4 billion ■ Dividend per share ¥ 21 	<p>Other 4.4% (Human resources, environment-related, marketing and solar power generation)</p> <p>Property Management 3.8%</p>	 <p>Sales Composition</p> <p>Logistics 91.8%</p>
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Adding logistics support business to our core logistics business, providing logistics services with high added value

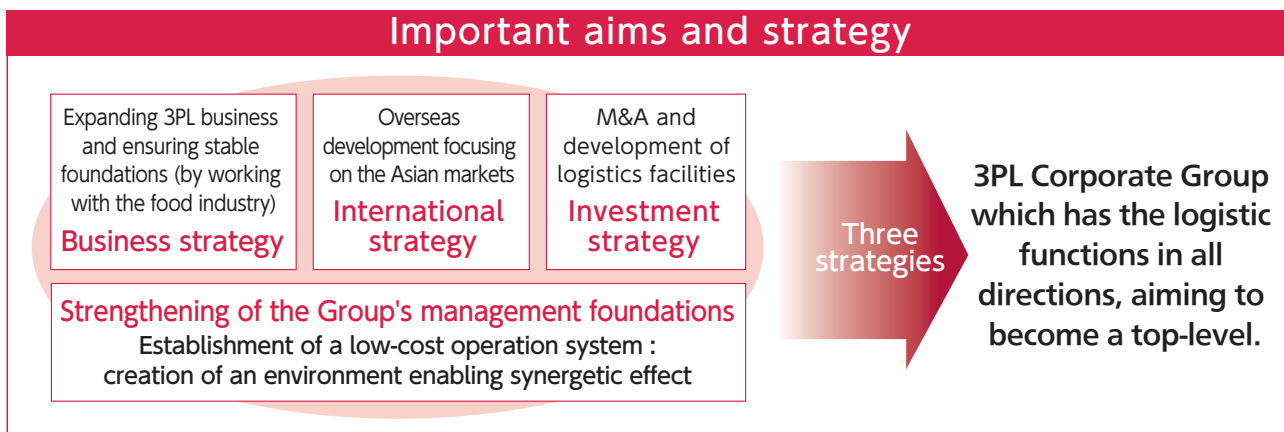


Logistics Support Business

- Property Management

 - Development and Sale of Logistic Facilities Others
- Others

 - Human Resources ● Environment-Related ● Marketing
 - Solar Power Generation Others



*The statements made in connection with the forecasts present in these materials are based on assumptions, which include information available at the present time and uncertain components, which may affect future business results. The actual business results may differ from the forecasts due to various causes that may affect them in the future.

While absorbing the pressure from rising costs, the operating income from our logistics business reached a record high. Ahead of our second foundation, we put in place systems to go onto the offensive.

President
Masahiko Kamata

In the course of its business activities in the fiscal year ended December 31, 2017, the SBS Group organically promoted activities designed to gain orders for new 3PL projects. At the same time, we worked to quickly stabilize and streamline operations at a new logistics space that was established and commenced operations from fiscal 2016 and over fiscal 2017. In addition, as measures to combat a shortage of labor, we disseminated easy-to-understand information by upgrading and expanding our Internet-based content and took steps to put in place systems that would enable personnel to select from diverse workstyle options. As a result of these initiatives, in the logistics business, we absorbed the pressure of upswings in labor, vehicle hiring and fuel costs, and posted record-high operating profit for the third consecutive year.

With regard to our investment strategy, having sold our trust beneficiary rights in two facilities, in Saitama and Nagano prefectures, and commenced the construction of a logistics center accommodating three temperature zones

(with a total floor space of roughly 9,000 square meters) in Ami-machi, Inashikigun, Ibaraki Prefecture, and of the tentatively named Osaka Nanko Logistics Center (with a total floor space of roughly 59,400 square meters) located in Suminoe-ku, Osaka, our investment and recovery pipeline is progressing according to plan. Both of these logistics facilities are developing marketing activities with the aim of reaching fully occupied operations at the same time as completion.

Thanks to you and all concerned, the SBS Group celebrated its 30th anniversary on December 16, 2017. I would like to take this opportunity to express my sincere gratitude to all of our stakeholders for their support. The year 2018 will thus mark our second foundation. We have put systems in place that will bring about enhancements in our resources from both the financial and sales standpoints and increase the speed at which we can go onto the offensive. In anticipation of your continued support, I look forward to the changes that the SBS Group will undergo in the years to come.



30th
Anniversary

Special Dialogue

Kenichi Iriyama

Managing Director and
Managing Executive Officer
SBS Holdings, Inc.

Masahiko Kamata

President
SBS Holdings, Inc.



The Past and Next 30 Years of the SBS Group

Interviewer : Hisao Inoue (Journalist)

In 2017, the SBS Group marked 30 years since its foundation. What would you say are the factors that have accounted for its survival in the intensely competitive logistics industry?

Kamata Our growth was accelerated by having been able to break away from being a business owned by individuals to becoming a



corporation. I believe that the public offering in 2003 was also one of the turning points. SBS Holdings is generally referred to as an owner-run company, but we do not think of the company as our own private property. While aware that, as a company, we are a “public entity of society,” we have become a competitive organization by placing an emphasis on having employees demonstrate the potential they possess to the full.

Iriyama I changed jobs from a financial institution to this company in 2002, in the year before listing. To speak frankly of my impressions at that time, I wondered whether we could really be listed, as there were no written internal regulations or approval documents. But the company changed with tremendous speed. This was the result of strong determination and the commitment of senior management to list at all costs.

If I remember correctly, you forecast the achievement of net sales of ¥200 billion under the Medium-Term Management Plan, which ran from 2014 to 2017, but this target has not yet been achieved. Where did you fall short?

Kamata I had been making good on my promises on the targets, set at the time of our establishment, of ¥10 billion in the 10th year and ¥100 billion in the 20th year, and it was regrettable that, in the end, the ¥200 billion targeted in the 30th year since our establishment was unfortunately not achieved. The main contributory was our withdrawal from a subsidiary in India in 2015. We had been expanding the scale of our business by bringing about successes in M&A, but since this failure we have had to refrain from M&A activities.

In retrospect, I think that a certain amount of pride arose from our experiences of success in past M&A. To achieve the goal of ¥200 billion there was only one overriding thought in my head, and that was I wanted to implement this M&A at all costs, and thus there were aspects where we neglected to make careful preparations. However, I do believe that we learned a lot from that experience, which will surely stand us in good stead in terms of our future growth.

Iriyama We did not achieve the target, but I think that we possess the capability to grow on our own even without M&A. After withdrawing from the subsidiary in India, once we had reorganized our strategy and rebuilt the systems, we found ourselves in the situation of being on the offensive again. It will be better, however, to think that we will reach ¥200 billion as a result of continuing with the M&A necessary for the SBS Group's business, and not as a target of ¥200 billion yen.

Looking back over the past 30 years, what aspects you would like to see passed on as a lasting legacy in terms of, for example, corporate culture?

Kamata I like the idea of a “multinational force.” During the company growth process, we



have actively accepted human resources from a wide range of industries outside logistics. Companies that employ talented human resources with diverse values are resilient and do not collapse in crisis situations. Even if something does happen, the springs to repel the crisis come into play and the company will bounce back. Even when we withdrew from the previously mentioned situation in India, there was quite a range of frank opinions expressed within the company, which I feel are proof positive of a sound organization. To bequeath such a corporate culture, it is important to be able to discuss matters freely and openly in a non-confrontational environment.

Iriyama Referred to as the “Soldier of Fortune” of the logistics industry, the SBS Group has been trying out a succession of new ideas in the industry. On the other hand, we do emphasize the safeguarding of long-term employment and do not terminate employees. In that respect, as a venture business, I think it is rare for an organization to combine innovation and a kindly attitude toward matters concerning personnel affairs. As this is something that is typical of the SBS Group, I would like it to be cherished.



I would like to ask about the next 30 years. What is your future sales target? And what changes do you see in the logistics industry, including the SBS Group?

Kamata As it is best to aim high, we are targeting net sales of ¥1 trillion. When sales were at ¥3 billion, we were laughed at when floating the idea of putting an advertisement in the newspaper stating that our target was ¥200 billion. However, this target is already within sight. Since that time, our sales have ballooned in size to nearly 70 times that amount. As ¥1 trillion is only five times as much as ¥200 billion, given our performance over the past 30 years, even thinking of that as a target is not a pipe dream.



Iriyama I think that aiming at ¥1 trillion over the next 30 years is a realistic figure that can be achieved by growing several percentage points per year and will not even require a high growth rate.

Kamata In the coming years, the reorganization in the logistics industry will gain pace. The logistics industry is one in which scale is said to be what counts. Companies at around the ¥100 billion mark are being weeded out and eliminated due to business succession problems. If the SBS Group deploys an M&A strategy based on this trend, it should approach the ¥1 trillion in net sales mark. When that happens, we will be among the top five in the Japanese logistics industry.

There is another even more important matter, and that is to remain aware that the coming big wave of technological innovation will also impact

the logistics industry. In the times to come, the technologies involved in autonomous vehicles and drones will evolve, and there will be dramatic changes in the ways that trucks and warehouses are managed. We have to thoroughly research and invest in these areas. A different dimension in competition has already begun, and so in a few years' time, people who are not at all involved in logistics may be at the top of this industry.

Fortunately, logistics is not a task that will die out due to technological evolution. This is because even if the number of actual stores decreases, and the number of e-commerce transactions made virtually via smart phone instead of in showrooms increases, "real things" will remain. We will remain aware that our business model will need to combine the virtual and the real.

Under the circumstances you have explained, what type of company is the SBS Group aiming to become?

Kamata It's fine to be a company that hits a home run even after being struck out. The times are changing, and the risks involved in not facing up to challenges becoming ever greater. I am aiming for us to be a company that steadily advances one step at a time by trial and error. Either way, I would like to have talented employees, who will launch in-house ventures and put together businesses, face up to new challenges with a readiness to accept that they would be allowed to fail. I think that the next generation of managers will emerge from among the people with that kind of experience.

Iriyama The birthrate is declining, the proportion of elderly people in the population is increasing, and consumption styles will change. Accordingly, the structure of logistics will change, too. What might be the correct answer has yet to be seen, but we would like to firmly grasp and respond to those trends.

Kamata For short periods of time, we have to raise our optimal pricing, that is to say our tariff levels. Significant price increases are continuing to be realized in home delivery businesses, in which three major companies have formed an oligopoly. Aside from these three, there are roughly 66,000 other companies competing ruthlessly in the transportation industry, and it is currently hard to raise prices, but we are reaching a situation that customers will understand. If we do not work toward improvements in wages and investment in education and training, far from service improvements it will be to the detriment of the business itself.

In your response to globalization, what kind of developments will we see in the 3PL business, which up to now has been regarded as a strength?

Kamata We have been keeping an eye on ASEAN, but a broader global response will be required in the years to come. The globalization of shipper's customers is also accelerating. In the case of the 3PL business, which is entrusted with general logistics operations, such as packing, transportation and storage, we have to go to every location where customers' bases are located, regardless of the region.

Iriyama Improving our brand image is also important. If you say *kuroneko* (black cat), for example, that has become synonymous with a parcel home delivery service. However, there is not yet anything to bring service or quality to mind from the mere mention of the SBS Group name. When that association is made, we will truly be among the top companies.

And finally, do you have any messages for shareholders?

Kamata From now on, there will be dramatic changes in the times, to the extent that the frameworks of industries themselves, including that of the logistics industry, will become meaningless. Precisely because of such times, if employees remain at a company that enables them to think for themselves and where they can work to realize their dreams and ideals, results will come of their own accord. No matter when the era, the industry will continue to exist in a state of dislocation, as it always has done in the past. We aim to become a leading company that contributes to society at large as an entity that is responsible for innovation in logistics as a whole. Please expect changes at and the growth of the SBS Group in the years to come.

Three years ago, I interviewed President Masahiko Kamata on two occasions for an article in the weekly magazine published by Toyo Keizai and also covered the inner workings of the company. In my line of work as a business journalist, I visit many companies. Even though owner companies have a distinctive atmosphere, including that brought about by "top-down" management and the judging of others, my first impression of SBS was that it was a company where I could be say that the "owner smell" was absent.

When I conveyed this unexpected observation to Kamata, he replied that, "When you do work having only asked for an opinion face to face with your boss, you become an employee who cannot think for yourself. When the number of that type of employee increases, individuals cannot demonstrate the abilities they possess, and their performance will not improve either. In the end, it is me, the shareholder, who loses out." I was aware of trying to erase my company owner face.

Is this tenacity the trick to survive in the competitive logistics industry? No, that is not all. His parent's business went bankrupt when Kamata was in the second grade at elementary school. After graduating from high school and a spell as a truck driver, he started a business without any means. At a time when it seemed that the business would grow steadily, the bubble burst and he became a hard-working person who excelled at borrowing from his mother's savings.

He seemed to have a talent for linking a setback to the next step. Not reaching the sales plan of ¥200 billion may be a small setback when compared with the hardships of Kamata's early life. However, it is precisely because of the developments that followed the setbacks that the power of this company's DNA should be freely demonstrated. Net sales of ¥1 trillion are by no means beyond the bounds of possibility.

Introducing the Interviewer



Hisao Inoue

Journalist

Having worked at a major electronics manufacturer, in 1992 Hisao Inoue joined The Asahi Shimbun Company, where as a financial reporter he was responsible for covering companies that included Toyota and Nissan. Having left the Asahi Shimbun in 2004, he currently writes on a wide range of subjects for a variety of media.

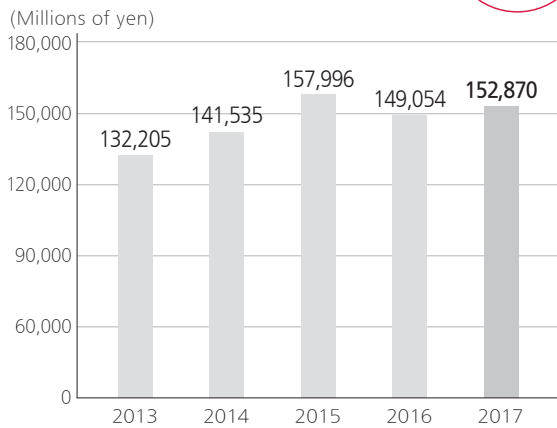
CONSOLIDATED OPERATING PERFORMANCE IN THE CURRENT FISCAL YEAR

Consolidated Financial Results for Year Ended December 31, 2017

In the logistics business, demand increased due to the upswing in e-commerce activities, but the operating environment was increasingly harsh due to increases in personnel and outsourcing expenses—caused by a shortage of labor, including of drivers—and other factors, such as the onset of higher oil prices. As measures to rectify the shortage of labor and stabilize our overall competitiveness, we are endeavoring to secure talented personnel by flexible workstyle systems, which enable a variety of ways of working, and by upgrading and expanding the recruitment information on the Internet and disseminating easy-to-understand information.

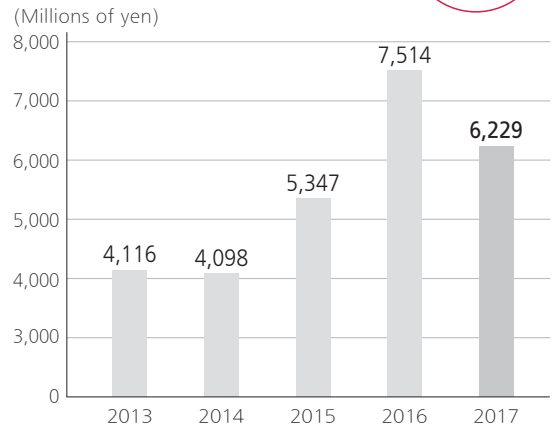
■ Net Sales

YOY
Change
**2.6%
UP**



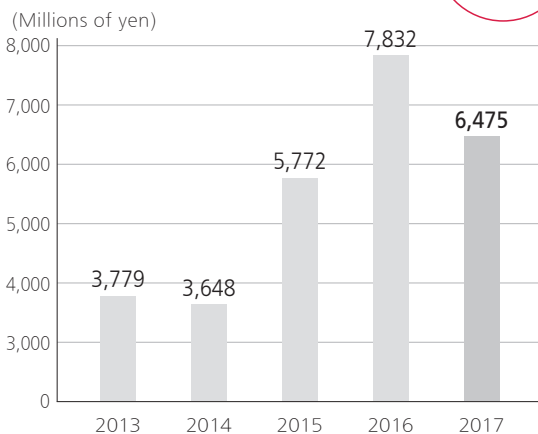
■ Operating Profit

YOY
Change
**17.1%
DOWN**



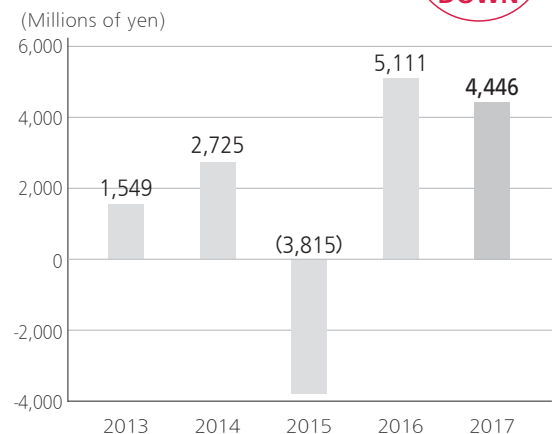
■ Ordinary Profit

YOY
Change
**17.3%
DOWN**



■ Net Income Attributable to Owners of Parent

YOY
Change
**13.0%
DOWN**



■ Performance by Segment

(Millions of yen)

	Year Ended December 31, 2017		Year Ended December 31, 2016	
	Net Sales	Operating Profit	Net Sales	Operating Profit
Logistics	140,422	2,692	132,487	2,266
Property Management	5,745	3,278	10,278	5,108
Other	6,703	413	6,288	321
Adjustment	—	(154)	—	(182)
Total	152,870	6,229	149,054	7,514

● Logistics Business :

SBS Logicom Co., Ltd., SBS Flec Co., Ltd. and SBS Sokuhaisupport Co., Ltd., made steady progress in acquiring new orders and expanding business from existing customers, increased sales and contributed to growth in logistical volumes as of the end of the year. Despite an upswing in labor, vehicle hiring, and fuel costs, earnings were favorably impacted by freight rate adjustments and steps aimed at strengthening cost reduction endeavors.

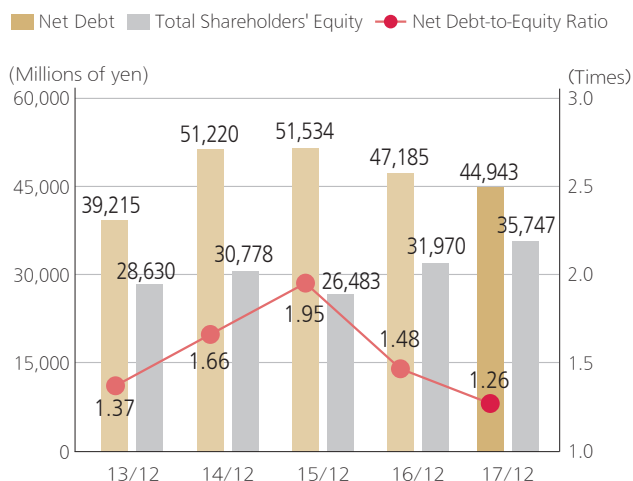
● Property Management Business :

The Group sold its interests in two buildings—a logistics center in Yoshikawa, Saitama Prefecture, and a logistics facility in Chikuma, Nagano Prefecture—but even if both are combined, the scale of sales activities fell short of the level of logistics facility sales undertaken during the previous fiscal year, thus the property management business suffered declines in revenue and earnings.

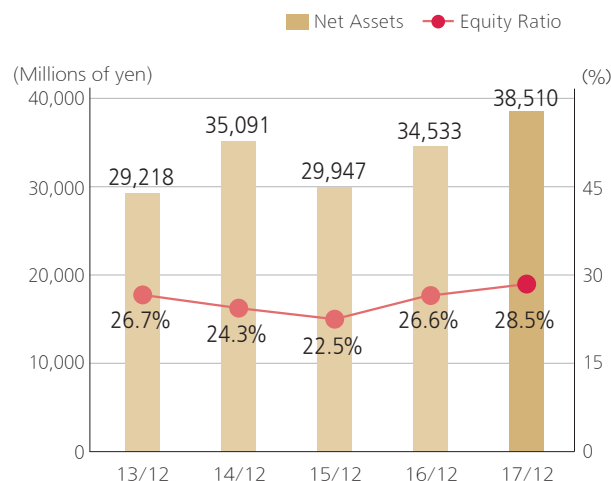
● Other Business :

In the other business, the Group’s human resources, marketing, and solar power generation businesses grew steadily and recorded increases in revenue and earnings.

■ Net Debt, Total Shareholders' Equity (left), Net Debt-to-Equity Ratio (right)

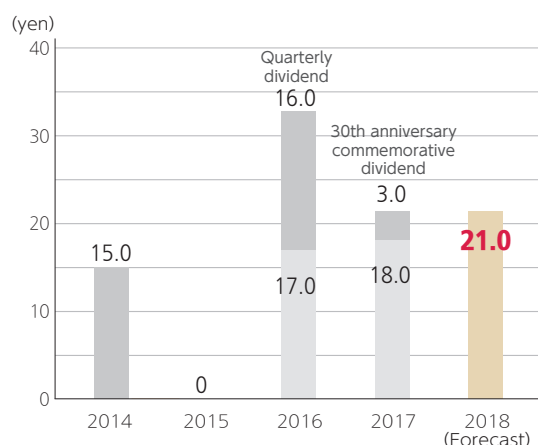


■ Net Assets, Equity Ratio



Notes: Net debt = long-term loans + short-term loans + bond - cash and deposits
 Net debt-to-equity ratio = net debt/total shareholders' equity

■ Dividends per Share



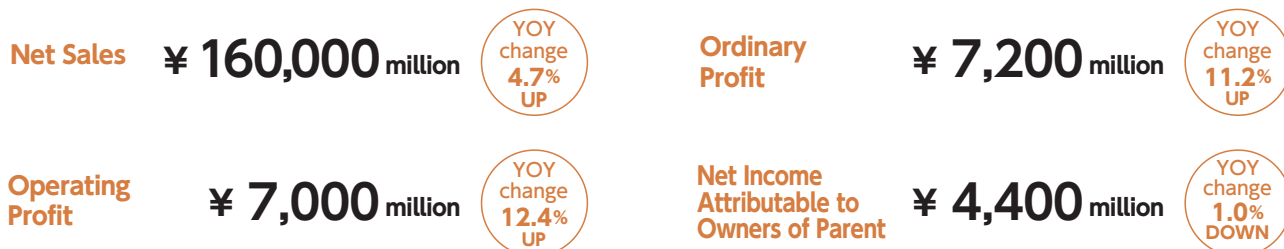
Basic Policy on Profit Distribution

The SBS Group considers the return of profits to shareholders an important management objective. Accordingly, our basic policy on profit distribution calls for the maintenance of stable dividends and efforts to increase dividend levels in line with operating performance, balanced against augmenting internal reserves to ensure a stronger management base.

The Company is planning a period-end distribution of ¥21 per share for the fiscal year ending December 31, 2018.

Notes: The Group conducted a three-for-one split of common shares on June 1, 2014.

PERFORMANCE FORECASTS (For the Year Ending December 31, 2018)



■ By Segment

(Millions of yen)

	Logistics	Property Management	Other	Adjusted Total
Net Sales	145,500	7,500	7,000	160,000
YOY Change	3.6%	30.5%	4.4%	4.7%
Operating Profit	3,250	3,450	500	7,000
YOY Change	20.7%	5.2%	21.0%	12.4%
Operating Margin	2.2%	46.0%	7.1%	4.4%

■ Corporate Profile

Company name	SBS Holdings, Inc.
President	Masahiko Kamata
Founded	December 16, 1987
Paid-in Capital	¥3,920.75 million
Net sales	¥152.8 billion (consolidated) *For the year ended December 31, 2017
Head office	4-1-3 Taihei, Sumida-ku, Tokyo 130-0012, Japan Tel: +81-3-3829-2222(main) Fax: +81-3-3829-2822
Lines of Business	Logistics, property management, marketing, human resources, etc.
Consolidated Subsidiaries	

■ Domestic	<ul style="list-style-type: none"> — SBS Freight Service Co., Ltd. — Nippon Record Center Co., Ltd. — SBS Global Network Co., Ltd. — SBS Logicom Kitakanto Co., Ltd. — SBS Logicom Minamikanto Co., Ltd.
	<ul style="list-style-type: none"> — SBS Flec Co., Ltd. — SBS Flecnet Co., Ltd. — SBS Zentsu Co., Ltd. — SBS Sokuhai Support Co., Ltd. — SBS Staff Co., Ltd. — SBS Finance Co., Ltd. — SBS Asset Management Co., Ltd. — L-MAX Co., Ltd. — Marketing Partner Co., Ltd.
■ Overseas	<ul style="list-style-type: none"> — SBS Logistics Singapore Pte. Ltd. (Regional Headquarter of Asia)

■ Directors and Auditors (As of March 28, 2018)

President	Masahiko Kamata
Senior Director	Kenichi Iriyama
Directors	Taiji Masato Yoshitsugu Sato Jiro Iwasaki Tetsuya Sekimoto
Audit & Supervisory Board Member	Yasuhiro Yamashita (full-time) Shigetaka Shomatsumoto Masahito Takeda

Notes: Jiro Iwasaki and Tetsuya Sekimoto are outside directors.
Shigetaka Shomatsumoto and Masahito Takeda are outside
audit & supervisory board members.

■ Stock Information

Number of shares authorized	154,705,200 shares
Number of shares issued	39,718,200 shares including 1,422 fractional shares
Unit Stock System	Yes (100 shares)
Number of shareholders	3,702

■ Major Shareholders

Shareholder	Shares Held	Ratio of Shares Held (%)
Masahiko Kamata	14,888,400	37.48
Japan Trustee Services Bank, Ltd. (trust account)	4,271,200	10.75
SBS Holdings Employee Share Ownership Association	1,486,100	3.74
SMBC TRUST BANK Designated Securities Trust	1,200,000	3.02
TOBU Properties Co., Ltd.	954,800	2.40
Junichi Ouchi	875,000	2.20
The Master Trust Bank of Japan, Ltd. (Trust Account)	825,400	2.07
STATE STREET BANK AND TRUST COMPANY 505224	675,000	1.69
BNP Paribas Securities	642,200	1.61
NORTHERN TRUST CO. (AVFC) RE IEDU UCITS CLIENTS NON LENDING 15 PCT TREATY ACCOUNT	468,800	1.18

Note: The ratio of shares held against number of shares issued is truncated after the third decimal place.

■ Distribution of Shares by Shareholder Type

Number of share issued: 39,718,200 shares

