

# TRANSFORM NEXT2023

*Precision for a Changing and Sustainable world*

## FY2022 Results Presentation

February 20, 2023

Tsubaki Nakashima Co., Ltd.

(Prime Market of TSE 6464)



# TRANSFORM NEXT<sup>2023</sup> FY2022 Management Policy

In 2021, despite the impact of COVID-19, market volatility, and rising raw material and energy costs, we increased sales, but we failed to generate profits as planned due to temporary problems in quality and inventory control. In 2022, we will solve the above problems and recover with a growth strategy as the core.

## Growth Strategy

Capture the macro recovery and enhance sales both in quantity & quality through growth strategies

- Accelerated growth of Ceramic Business
- Expansion of sales in Medical Device Business / Asian markets

## Sales · Profits

- Based on established cost improvements, resolve various issues for FY2021 and restore/improve earning power : Sales ¥77 billion (+13.4% YoY) , Operating Profit ¥5.65 billion (▲2.9% YoY)

## Building a Foundation for the Future

- ① Restructuring of European Roller Business (Withdrawal the roller business from the Netherlands → Gaining cost competitiveness by consolidating Bosnia)
- ② Laying the groundwork for India's second plant completed
- ③ Major expansion of ceramic ball supply capacity to support rapid progress in EV
  - Major expansion of production capacity in Thailand
- Securing of raw materials and diversification of sourcing
- ④ Monozukuri Innovation at Mother Factory (Katsuragi, Japan)

## Shareholder Return

- Persistence of dividend policy : Aiming for an annual dividend of ¥30 per share

## Looking back at FY2022

- ¥13.6 billion Impairment loss: ¥9.6 billion for tangible fixed assets and others of the U.S. business and ¥4.0 billion for goodwill of the linear business
- Failure to meet the scheduled date for disclosure of financial results
- While sales grew and quality and inventory control issues were resolved, OP was below plan for second consecutive year, mainly due to the inability to absorb the full impact of cost inflation such as energy and others
- In 2023, strong initiatives to pass on cost inflation to sales price are undertaken and recover OP through a growth strategy centered on Ceramics Business
- Restructuring of European Roller Business was completed on schedule and turned into a profitable structure.
- Ceramic Business → Accelerated growth
- Medical Device Business → still in the process of developing new business
- Sales expansion in Asian markets → Steady

Sales ¥79 billion

Operating Profit ▲¥9.07 billion Substantial OP ¥7.5 billion (pre-impairment loss ¥4.5 billion + ¥3.0 billion in restructuring expenses)

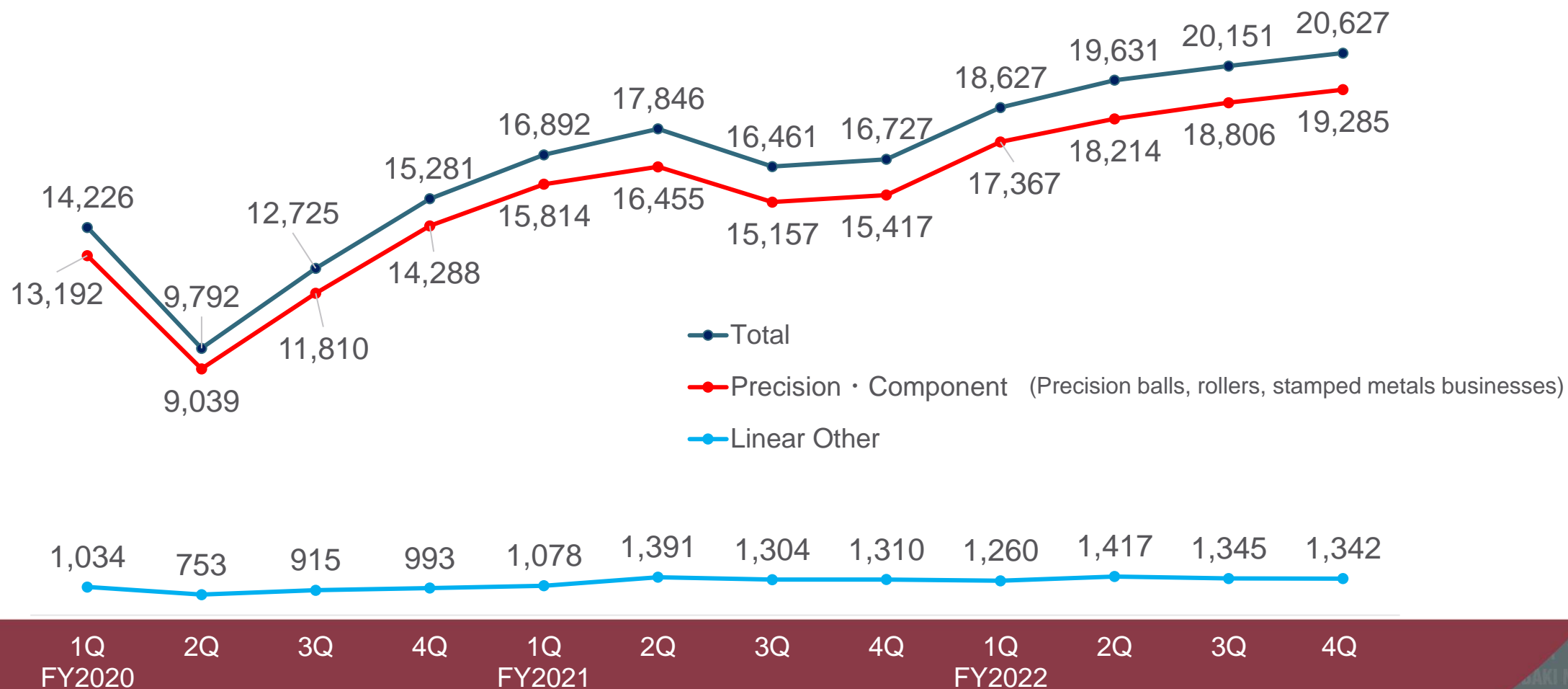
Cost improvements are firmly performed

- ① Restructuring of European Roller Business: Production in the Netherlands ended in 2022, while full operation in Bosnia is being promoted at a rapid pace
- ② Laying the groundwork for a second plant in India: Preparations for quality and production are on track. Working to achieve quality of sales (profit margin and customer mix) and production volume commensurate with plan
- ③ Massive expansion of ceramic ball supply capacity: Massive expansion of production capacity in Thailand is on track. Measures to secure raw materials have been taken in the medium-term perspective. Diversification of sourcing is underway
- ④ Monozukuri Innovation at Ball Mother Plant (Katsuragi, Japan): Automation of inter-process transfer and sorting processes being implemented in stages
  - Dividend : Plan to pay a year-end dividend of ¥17 per share. Annual dividend ¥30 per share (Interim dividend ¥13)

# Sales by Quarter

Sales of Precision Components increased by 25.1% YoY, 2.5% QoQ

Sales of Linear Other increased by 2.4% YoY, decreased by 0.2% QoQ



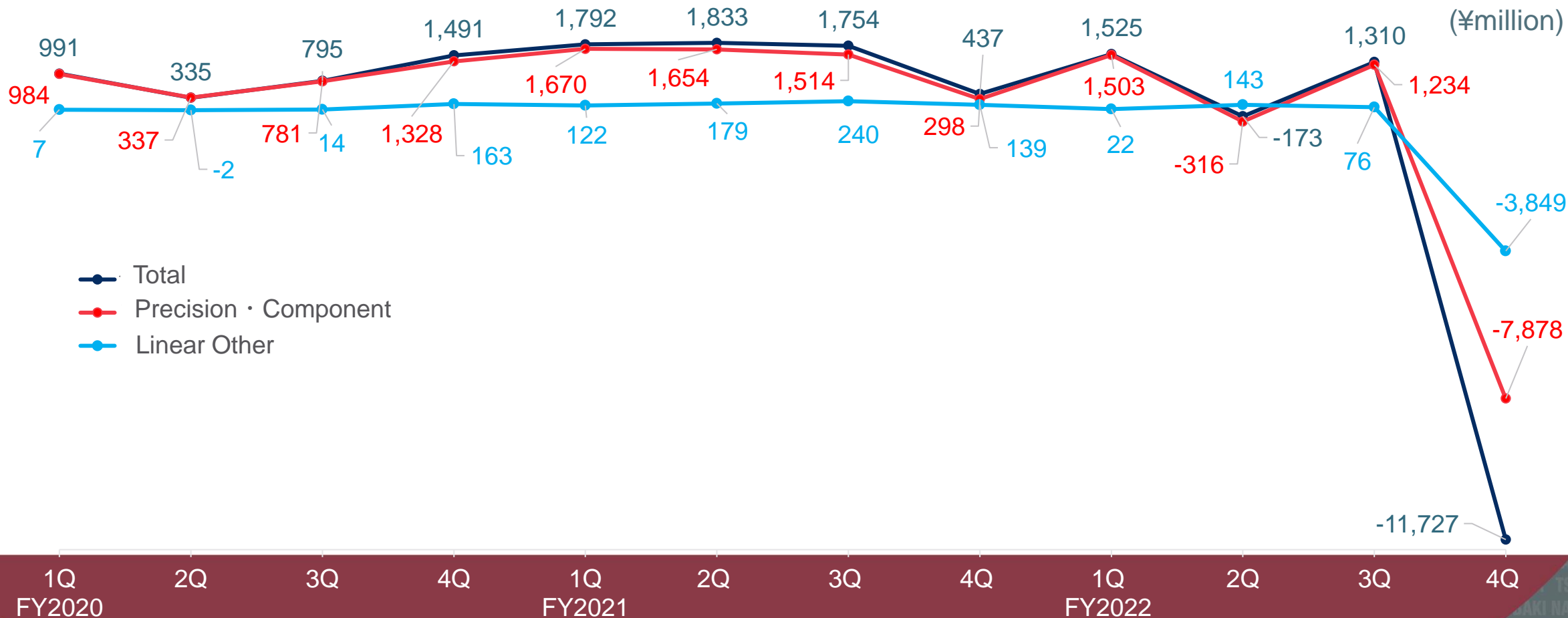
# Operating profit by Quarter

## Precision Components

(OL=Operating Loss)

:OL ¥7.878 billion due to impairment loss ¥9.546 billion in 4Q

Linear Other: OL ¥3.849 billion due to impairment loss ¥4.016 billion in 4Q



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# FY2022 Consolidated results

Sales (excluding FX impact) increased by 6.3%

OP (ditto) was in the red due to an impairment loss of ¥13.6 billion

(¥million)

	FY2021	FY2022			
	Actual	Actual	FX impact	Inc/dec <sup>※1</sup>	Inc/dec% <sup>※1</sup>
Sales	67,926	79,036	6,845	4,265	6.3%
Operating profit	5,816	▲ 9,065	375	▲ 15,256	—
OP%	8.6%	▲ 11.5%	—	—	—
(reference)					
Operating profit <sup>※2</sup>	5,816	7,449	375	1,258	21.6%
OP% <sup>※2</sup>	8.6%	9.4%	—	—	—
EBITDA	9,224	8,155	690	▲ 1,759	▲ 19.1%
PBT	5,008	▲ 9,648	375	▲ 15,031	—
Net profit	3,554	▲ 9,089	244	▲ 12,887	—

※ 1 “Inc/dec” and “Inc/dec%” exclude “FX impact”

※ 2 Excluding “impairment loss (¥13,562 million)” and “restructuring expenses (¥2,952 million)”

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# FY2022 Segment/Region Sales

(¥million)

	FY2021	FY2022			
	Actual	Actual	FX impact	Inc/dec <sup>※1</sup>	Inc/dec% <sup>※1</sup>
Consolidated	67,926	79,036	6,845	4,265	6.3%
Precision Components <sup>※2</sup>	62,843	73,671	6,702	4,126	6.6%
Japan	12,929	13,495	—	566	4.4%
North America	12,533	14,915	2,516	▲ 134	▲ 1.1%
Europe	22,614	27,319	1,615	3,090	13.7%
China	12,834	14,841	2,050	▲ 43	▲ 0.3%
Asia(ex. China)	1,934	3,106	520	652	33.7%
Linear and Other	5,083	5,365	143	139	2.7%

※1 “Inc/dec” and “Inc/dec%” exclude “FX impact”

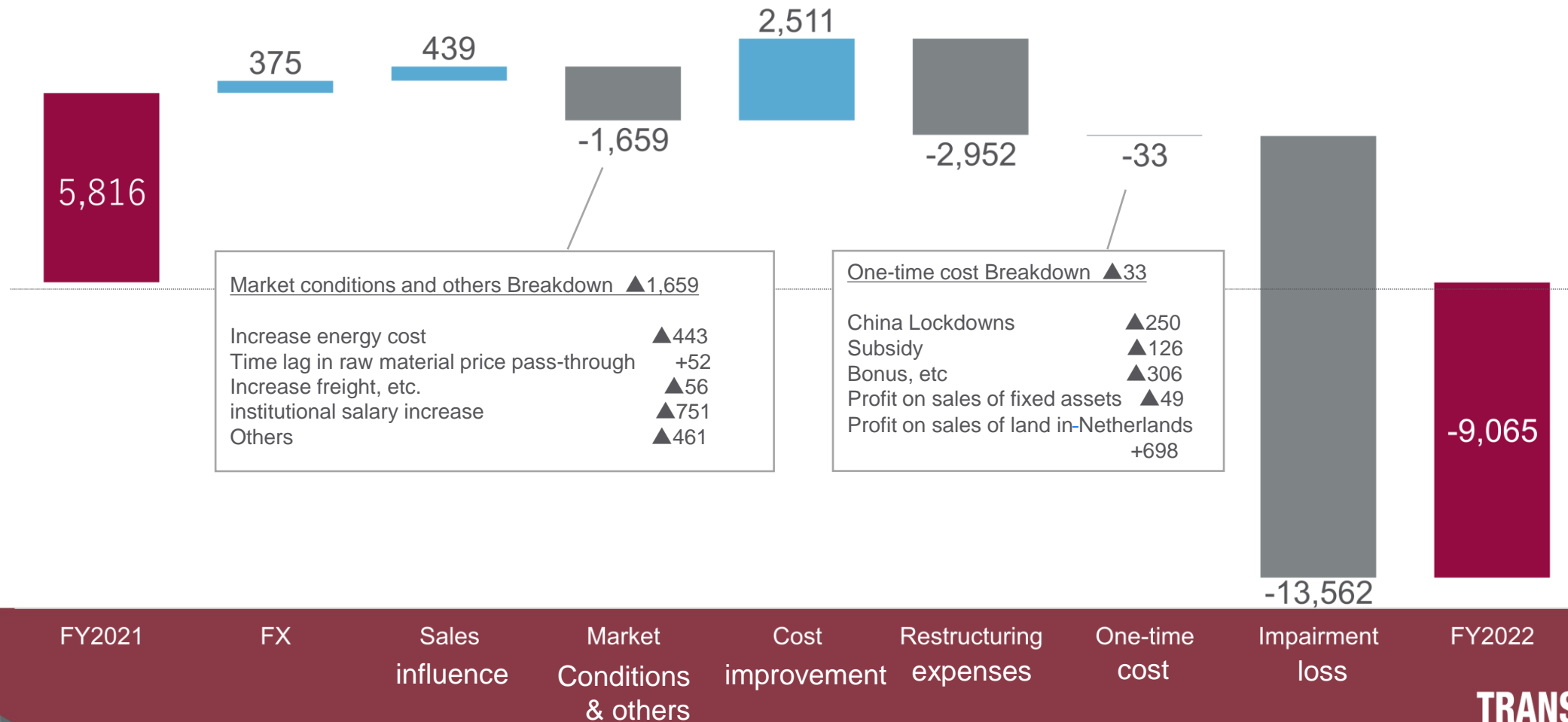
※2 Excluding inter-segment profit

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# FY2022 OP bridge vs FY2021

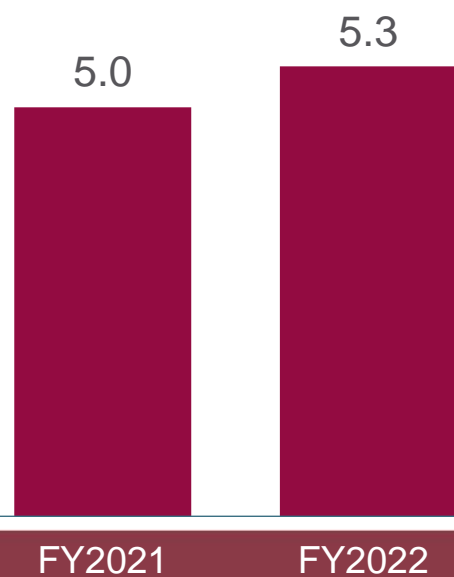
Despite the increase in sales, OP decreased ¥14,881 million from FY2021 to an OL of ¥9,065 million due to soaring energy prices, impairment losses, and one-time cost such as restructuring expenses. (¥million)



# BS/CF

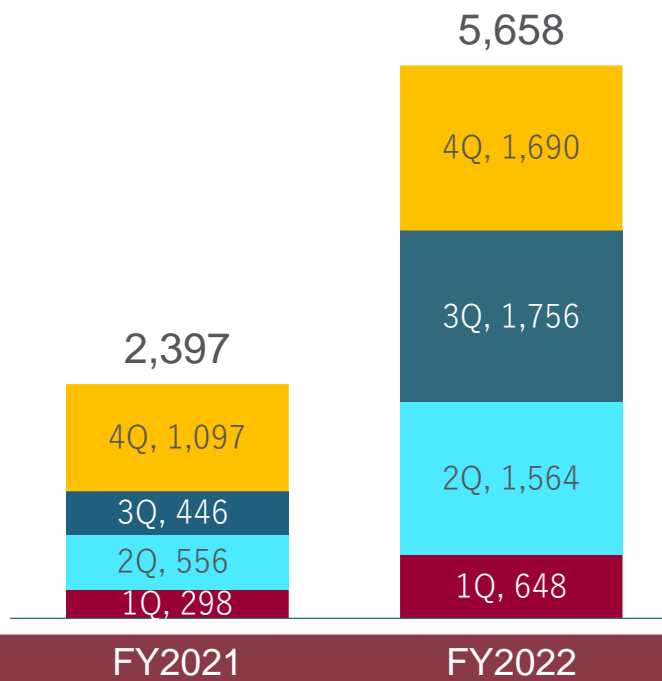
## Inventory Turn-over (months)

Increase in inventory towards sales expansion forecast for FY2023 (0.5month improvement from 3Q)



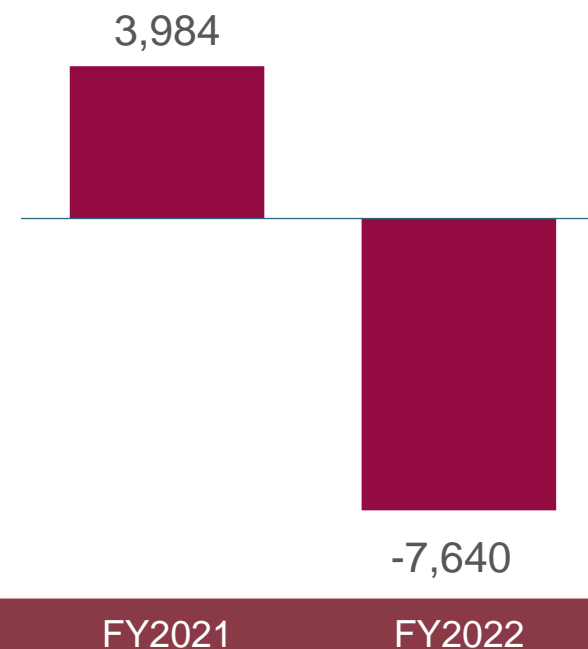
## CAPEX (¥million)

Promoting capital investment for future growth



## Free CF (¥million)

Increased inventory and CAPEX associated with future growth





# Growth Strategies (FY2022)

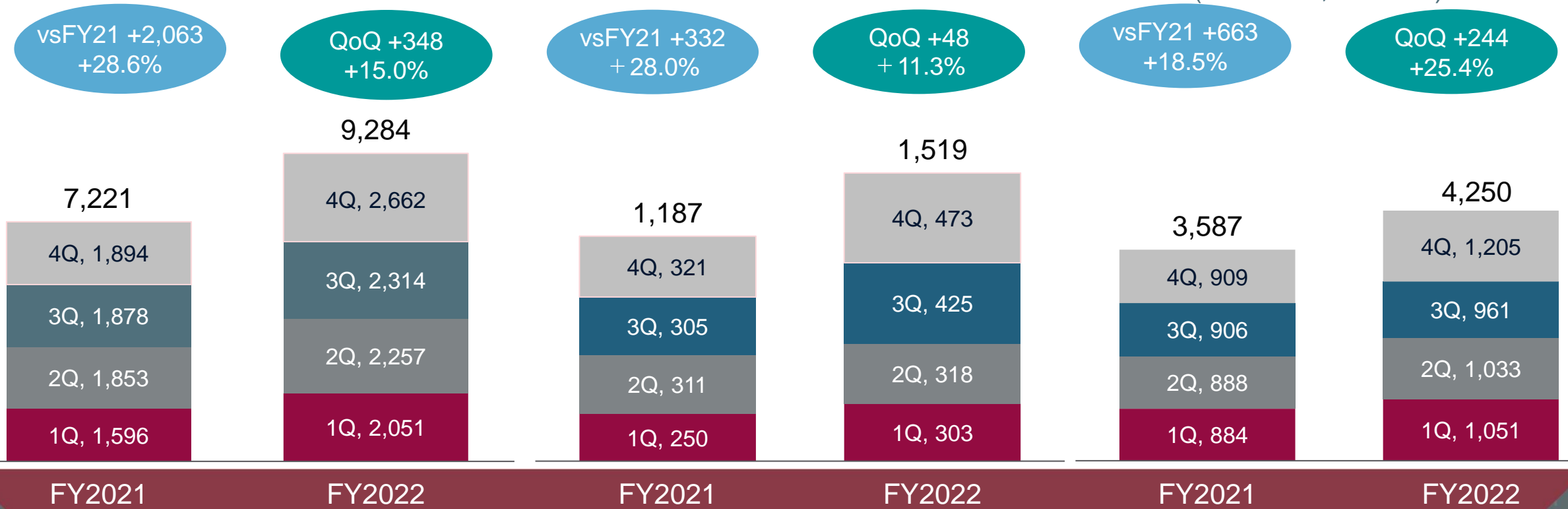
In the three growth strategies, each strategic division performed well  
Sales of Ceramic balls increased by 28.6% vs FY2021

(¥million)

## Ceramic balls

## Medical Device

## Growth in Asia (ex. China, ceramic)



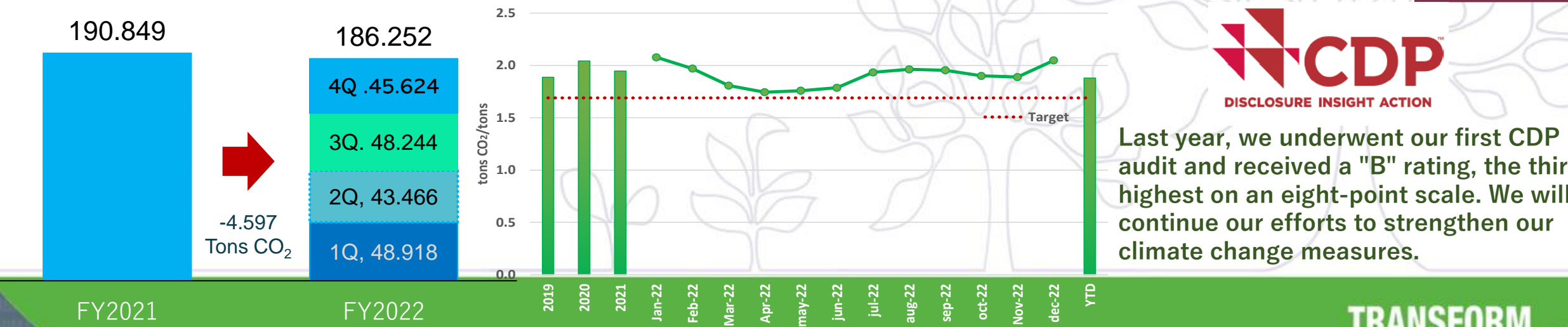
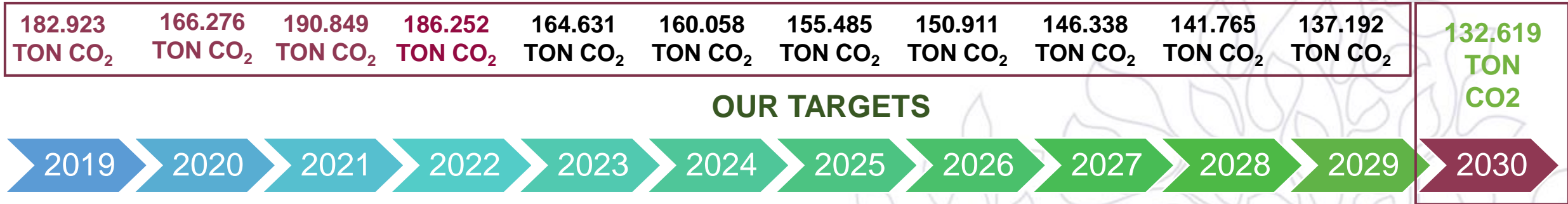
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# Sustainability Initiatives

## CO<sub>2</sub> Emission Reduction Targets



- -27.5% Ton CO<sub>2</sub> by 2030 compared to 2019
- Aiming to achieve carbon neutrality by 2050



Last year, we underwent our first CDP audit and received a "B" rating, the third highest on an eight-point scale. We will continue our efforts to strengthen our climate change measures.

# ESG Strategy

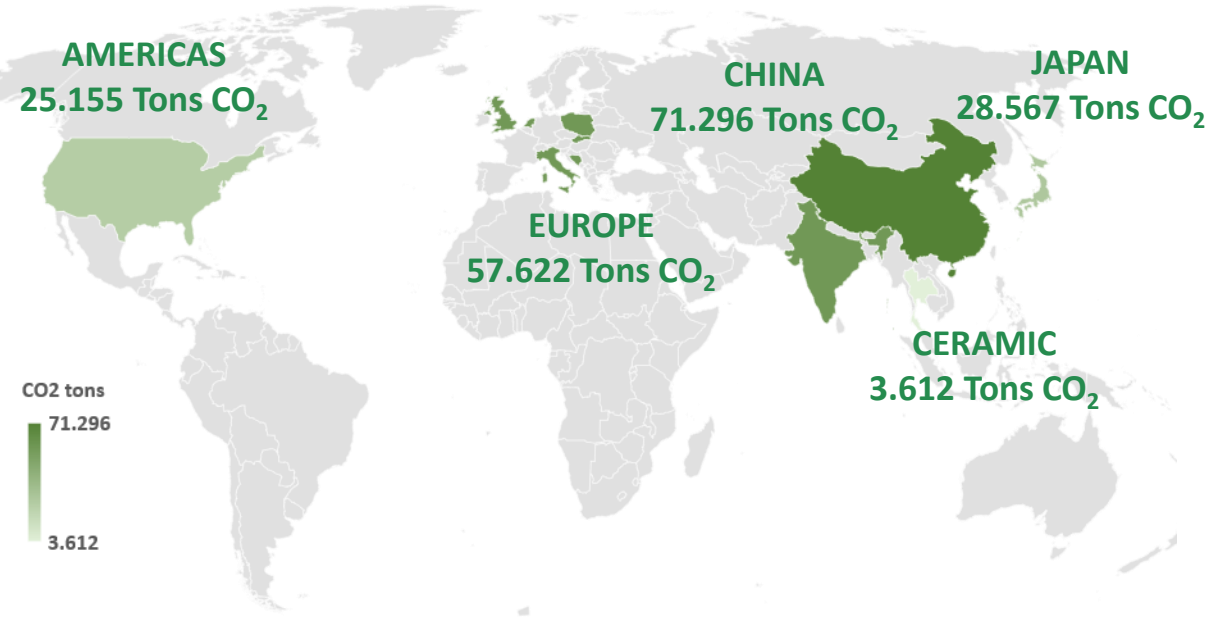
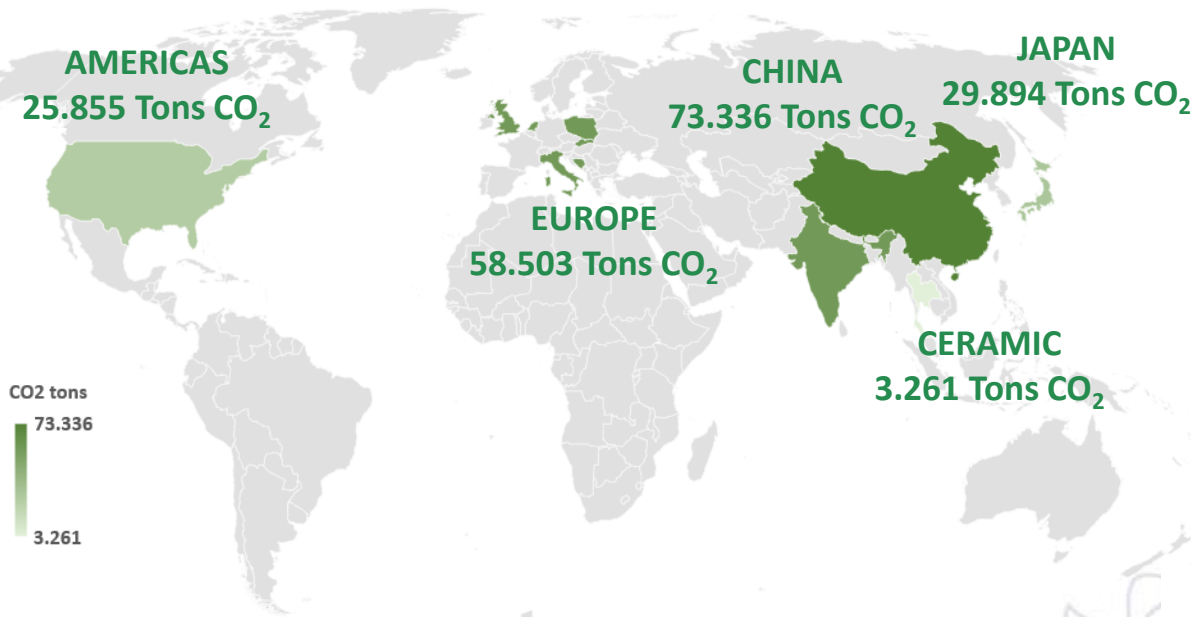
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# Sustainability Initiatives

## Total CO<sub>2</sub> Emission (Scope1+Scope2)

2021

2022



 **TSUBAKI NAKASHIMA** 190.849 Tons CO<sub>2</sub>  **TSUBAKI NAKASHIMA** 186.252 Tons CO<sub>2</sub>  
- 4.597 Tons CO<sub>2</sub>

# ESG Strategy

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# FY2023 Management Policy

## Sales · Profits

- Recovery of earning power
  - Strengthen sales content (review unprofitable products/not pursue sales volume)
  - Thoroughly pass on cost inflation (raw materials, energy, etc.) to sales prices
  - Americas Business: President changed in September 2022 + Bringing in a dedicated team /Accelerate reforms and put the company on a revival track under the direct control of the CEO from February 2023.
  - Linear Business: CGO is appointed as a head from February 2023, combined outside professional resources with our employee to rebuild the business drastically by reshuffling and reforming overall business with a focus on Monozukuri

## Growth Strategy

- Sales ¥86 billion, Operating profit ¥9 billion
- Accelerate growth of the ceramics business: contribution to customer strategy, diversification & Increase in Customers
- Medical Device Business: Improve earnings and expand sales channels in existing business and develop new markets
- Asian markets: Expanding presence
- Toward “Best in Class” Monozukuri Companies

## Building a Foundation for the Future

- Increase development speed/ Streamlining and strengthening development resources
- Investment in human resources
- Strengthening DX initiatives
- Building a Global Roller Business → Business expansion with an eye on European & North American markets

## Shareholder Return

- In order to implement growth strategies such as ceramics, technological innovation, and ESG investments, to maintain the necessary credit ratings for long-term financial stability and stable financing, and to achieve sustainable growth, in FY2023 and beyond, the Company intends to maintain an annual dividend of ¥30 per share in principle as a stable dividend regardless of profit level, while maintaining a stable dividend payout ratio of 35%.

# FY2023 Guidance

(¥million)

	FY2022		FY2023			
	Actual	% of Sales	Guidance	% of Sales	Inc/dec	Inc/dec
Sales	79,036	100.0%	86,000	100.0%	6,964	8.8%
Operating profit	▲ 9,065	—	9,000	10.5%	18,065	—
PBT	▲ 9,648	—	7,700	9.0%	17,348	—
Net profit	▲ 9,089	—	5,400	6.3%	14,489	—
EPS (Yen)	▲ 225.35	—	133.89	—	359.24	—
DPS (Yen)	30	—	48	—	18	60.0%

Exchange rate assumption : 1USD 130Yen, 1EURO 130Yen, 1RMB 18.6Yen

(2022 Actual average rate : 1USD 131.43Yen, 1EURO 138.04Yen, 1RMB 19.48Yen)

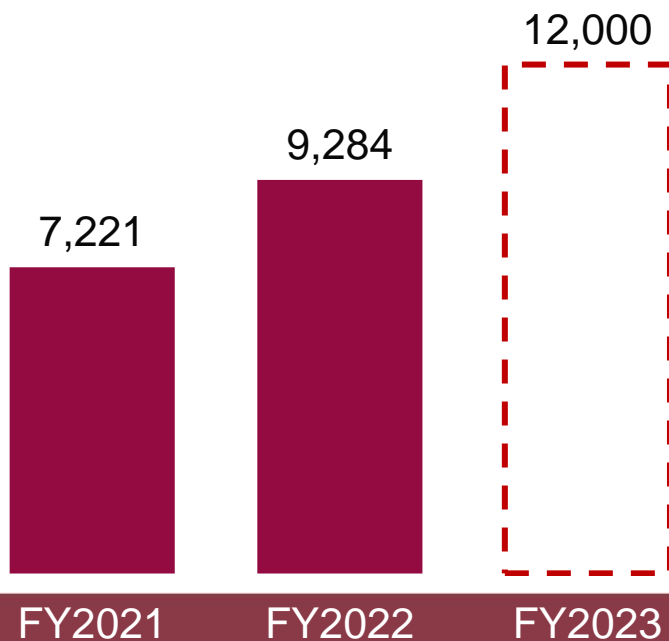
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# Growth Strategies (FY2023)

In the three growth strategies, all strategic divisions are expected to perform well  
Ceramic balls, the driving force, aims to increase ¥2.7 billion (+29%) YoY

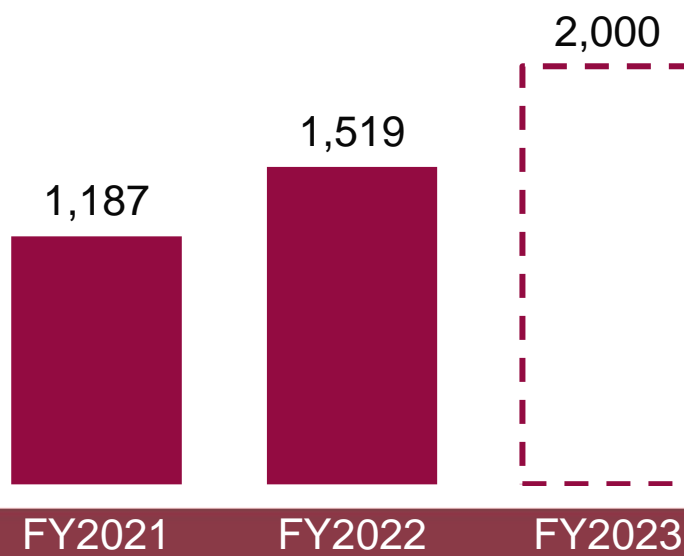
## Ceramic balls

YoY +2,716  
+29%



## Medical Device

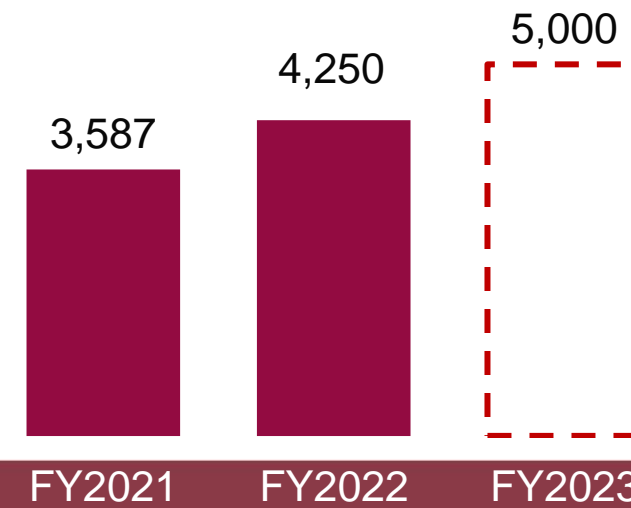
YoY +481  
+ 32%



## Growth in Asia (ex. China, ceramic)

(¥million)

YoY +750  
+18%



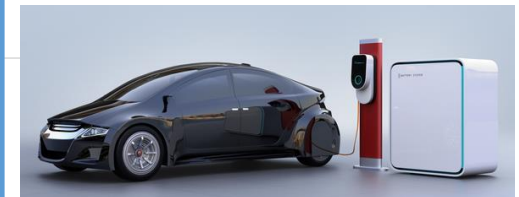
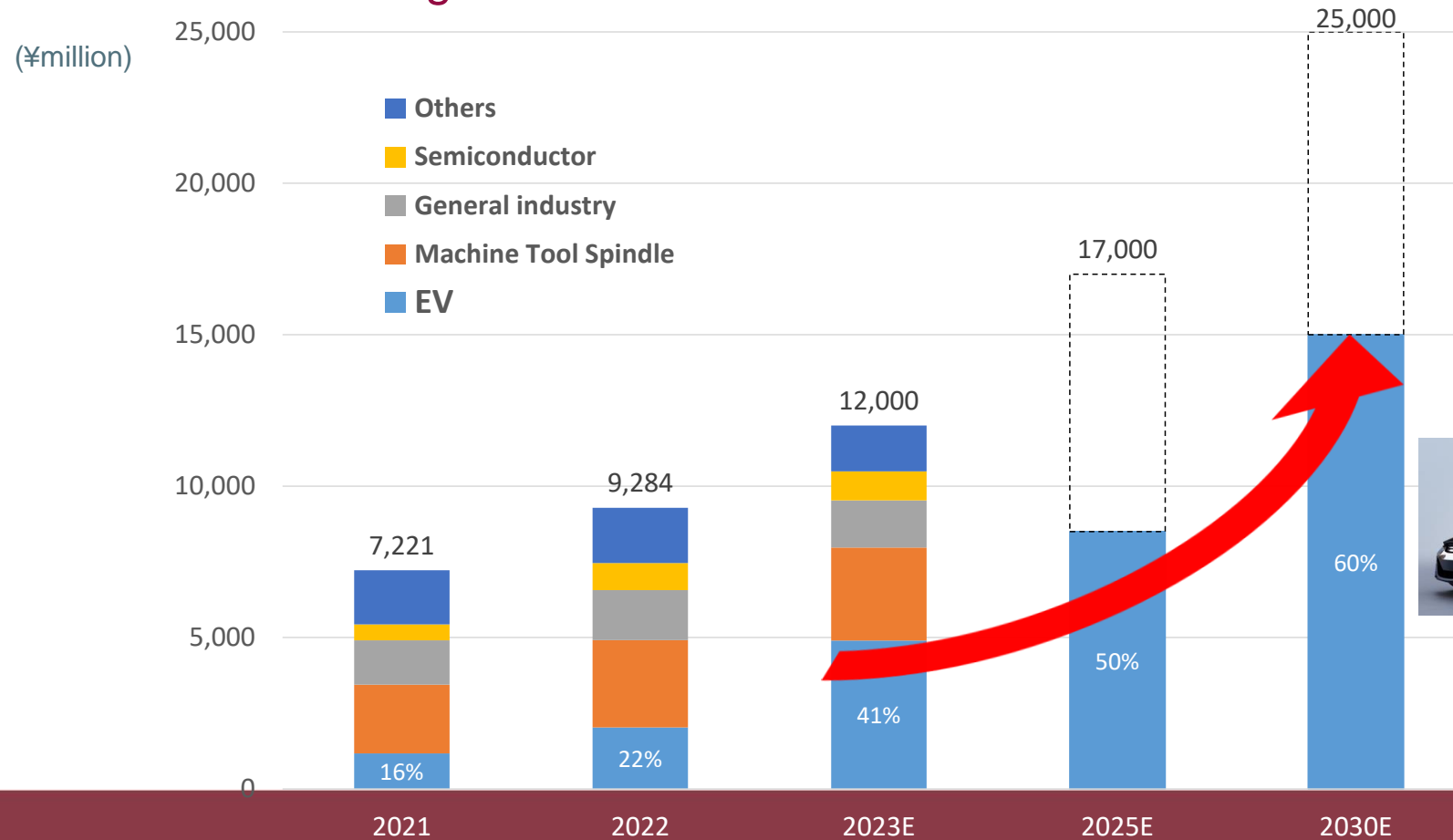
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# Ceramic Ball Sales Trend / Forecasts by Application

Ceramic balls driven by EV applications. In 2023, EV applications will overtake machine tool spindle applications and reach the top share (41%) .

Ceramic ball sales are targeted at ¥17 billion in 2025 and ¥25 billion in 2030



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