



# **Midterm Corporate Strategy**

## **~Further Profitable Growth~**



October 27, 2016

Tsubaki Nakashima Co, Ltd.

(TSE 6464)

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## Contents

1. Management Principles ..... P3
2. Outlook for the past ..... P5
3. Outlook for MT Plan ..... P9



### **One ball, One heart**

To put our whole heart and soul into crating a single steel ball.



### **One spirit (precision), one heart (sincerity)**

Sincerity is having a true heart, and the same Chinese character stands for both precision and sprit. To put our whole heart and soul into our work and produce excellent, precisely-made products.



# **1. MANAGEMENT PRINCIPLES**



# Management Principles

Realize "Further Profitable Growth," aiming to be a shining example of a company which continuously seeks improvement





## **2. OUTLOOK FOR THE PAST**



# Company's Strengths and Achievements

We have established a firm leadership position in the Ball Market

## Manufacturing Prowess

- ✓ Mass production of high quality balls at low cost owing to excellent technological capabilities
- ✓ Exceptional roundness of ball (accuracy of 0.1μmm, within manufacturing process 0.01μ)
- ✓ Balls produced from a variety of materials
- ✓ #1 in Industry to use self designed and produced machines in production

## Company's Strength

- ✓ Corporate culture to continuously improve QCDS (Quality, Cost, Delivery, Service)
- ✓ Industry leader in global footprint
  - Plants and Offices: Japan 4, USA 2, China 2, EU 2, India 1, Thai 1, Taiwan 1, Singapore 1, South Korea 1
- ✓ Industry Leader in product Line up
  - Steel, Cemented Carbide, Ceramic, Glass ball lens etc.

## Market Related Strength

- ✓ As an independent maker, many years' of trust based relationship with various customers
- ✓ Optimum balance of automotive and non-automotive related business
- ✓ Healthy mix of Domestic and Foreign Business

## Global Management Structure

- **FY 2015 Sales: JPY 39.2 B, EBITDA<sup>1</sup>: 9.3 B (Margin 24%), Op.Profit<sup>1</sup>: 7.6 B (Margin19%), Net Profit<sup>1</sup>: 5.2 B**
- **2013-2015 CAGR: Approx. 14%**

1. After adjusting one time items

# Strategic and Organizational Initiatives Raise Trajectory of Growth



Achieved a higher than market growth by responding to market needs through strategic and organizational initiatives

## Market Trends for Last 3 Years

Robust demand for Automobile

Favorable Industrial machinery and Hand tools demand

Growth in Emerging Markets (China/India/ASEAN)

Globalization of Customers

Sophistication of technology / Demand for high-spec product

## Strategic Initiatives

Overseas expansion enables optimum use of Global production-consumption model

### 4 Growth Initiatives

①Sales to Non-Japanese customers, ② Ceramic Balls, ③Growth in Asia, ④New Frontiers

Cost Competitiveness Further strengthen Cash Flow



## Organizational Initiatives

Establishment of global management / organization

Successful Listing of Stock on TSE ( December 2015)

Foundation for further growth





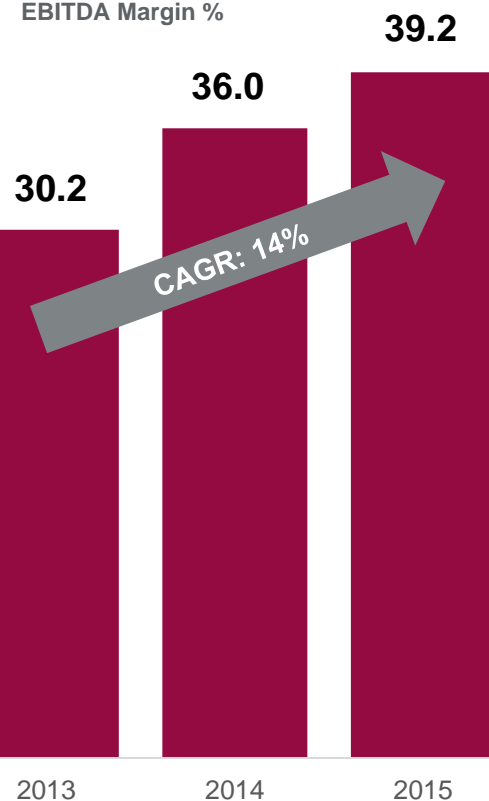
# Execution of Profitable Growth

## Realized profitable growth from 4 Growth Initiatives

(Sales in JPY Billion)

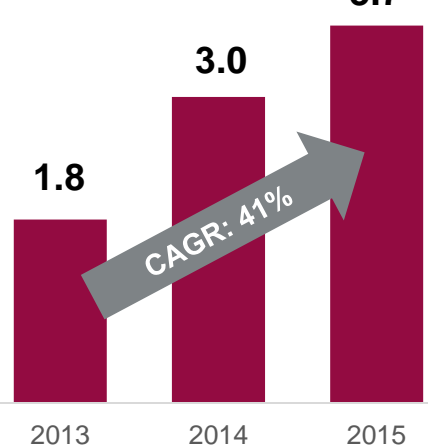
### Consolidated Sales

23.5% — 23.6% — 23.8%  
EBITDA Margin %

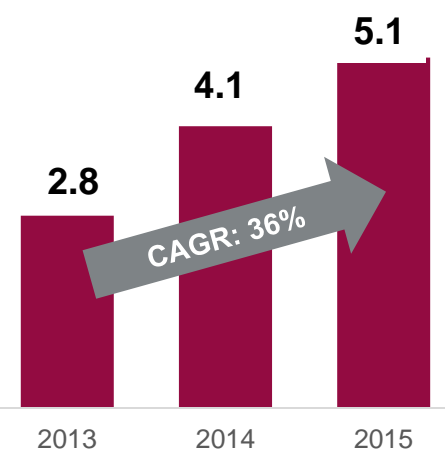


EBITDA% (After one time adjustments)  
※EBITDA% before adjustment, 2013-22.7%, 2014-19.2%, 2015-22.7%

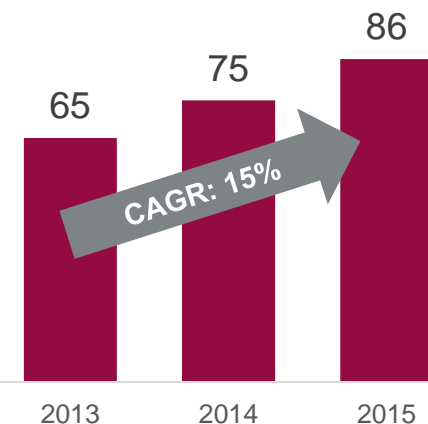
### Sales to Non-Japanese Customers



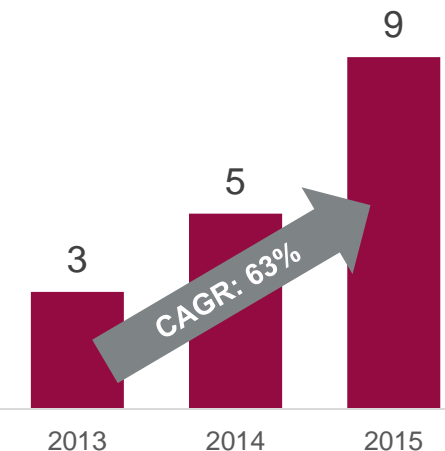
### Ceramic Balls



### Growth in Asia



### New Frontiers





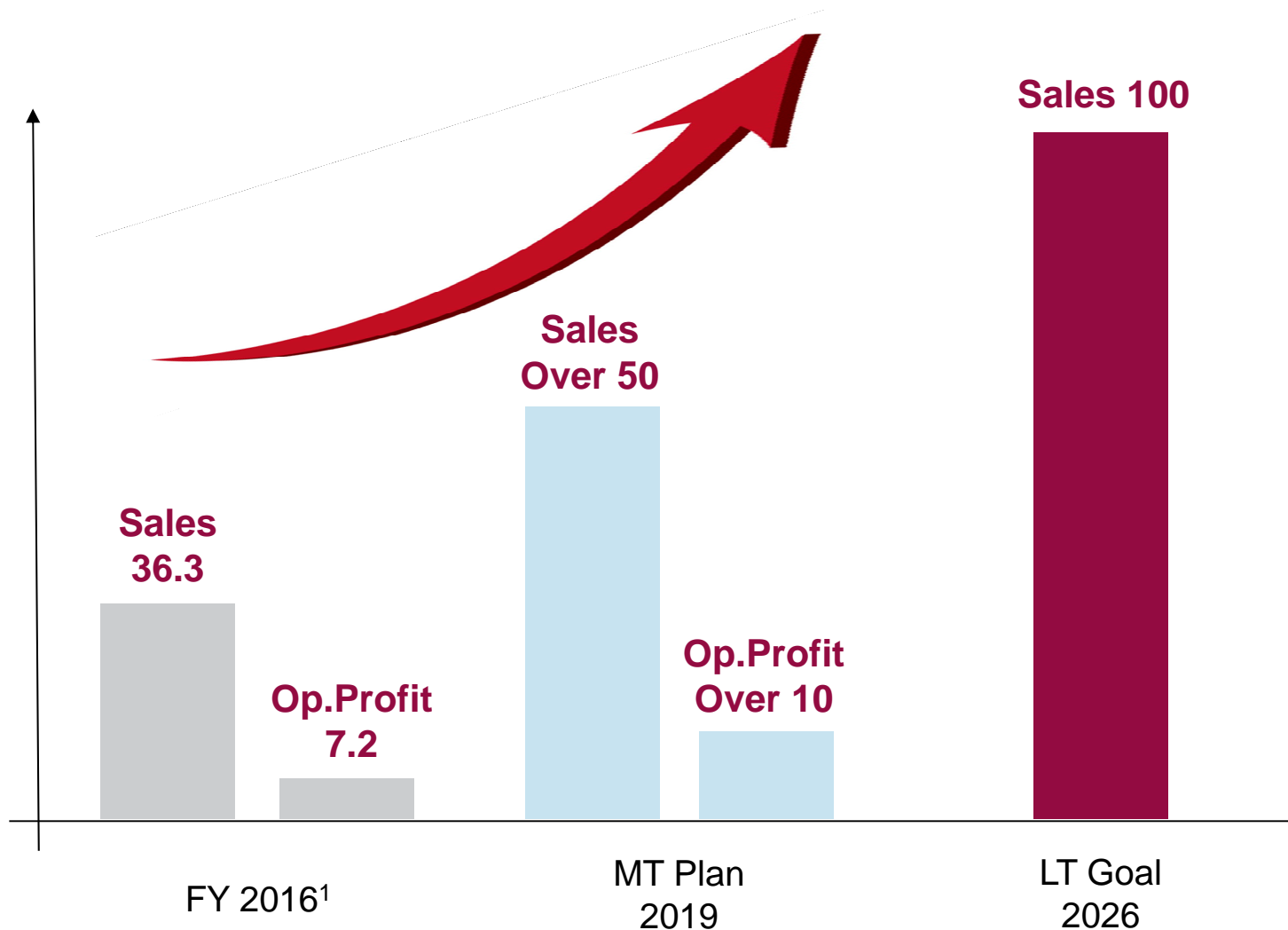
### **3. OUTLOOK FOR MT PLAN**



# Sales Target over MT Plan

Enduring Profitable Growth:  
JPY 50 Billion by 2019 and JPY 100 Billion by 2026

(JPY Billion)

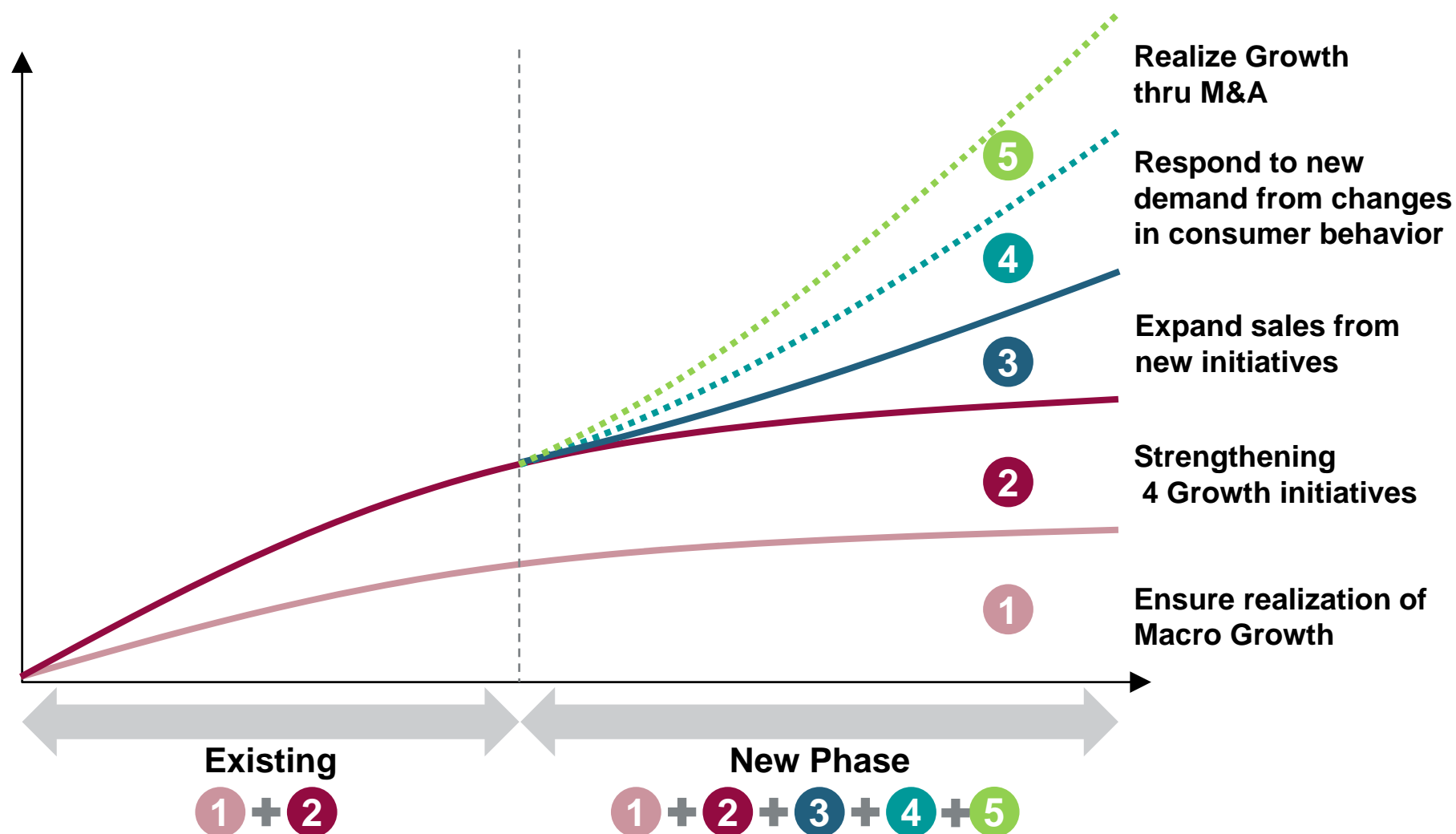


1. Forecast



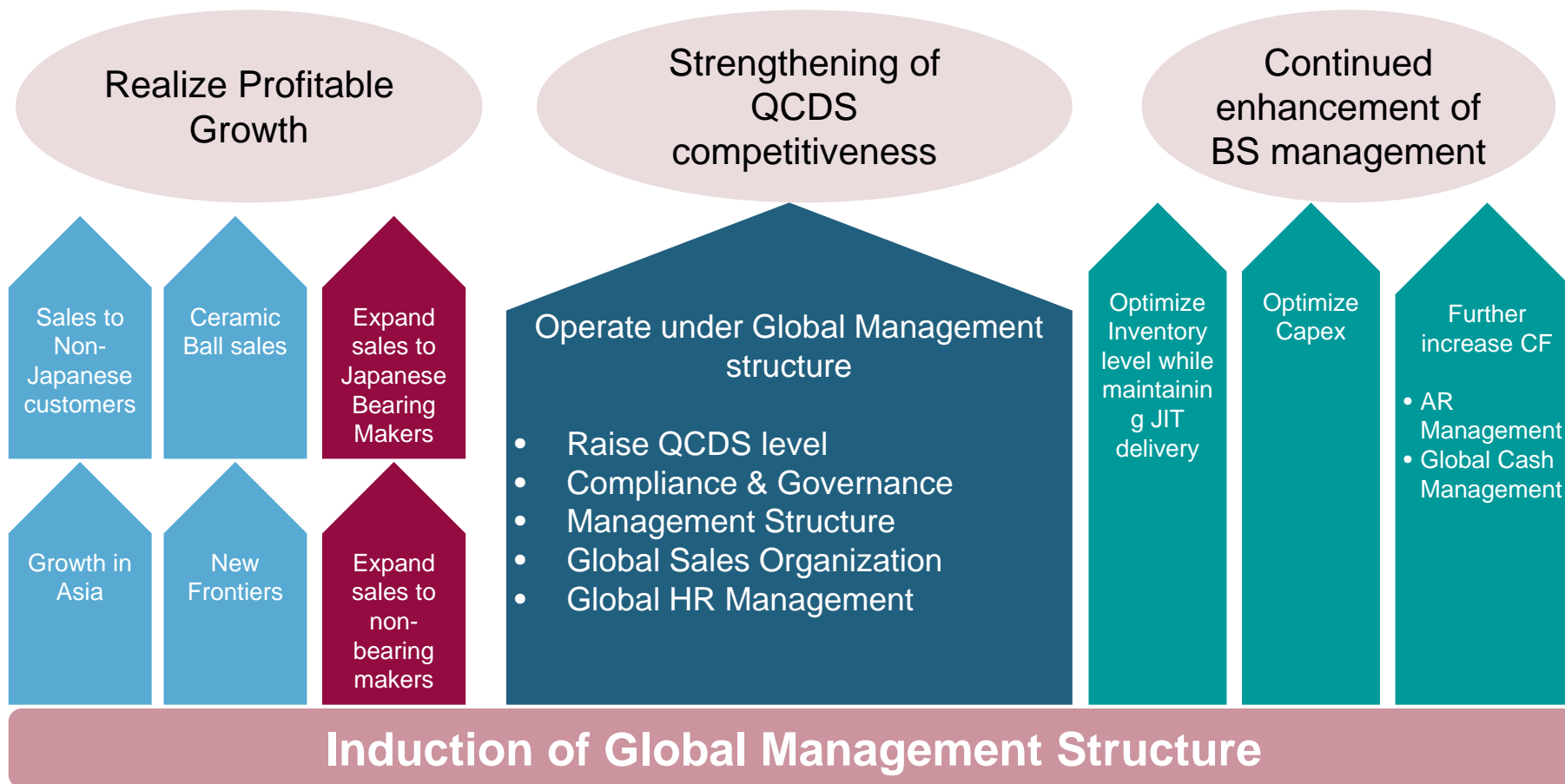
# Vision of Further Profitable Growth

Accelerate growth strategies for further profitable growth





# Initiatives for Further Profitable Growth



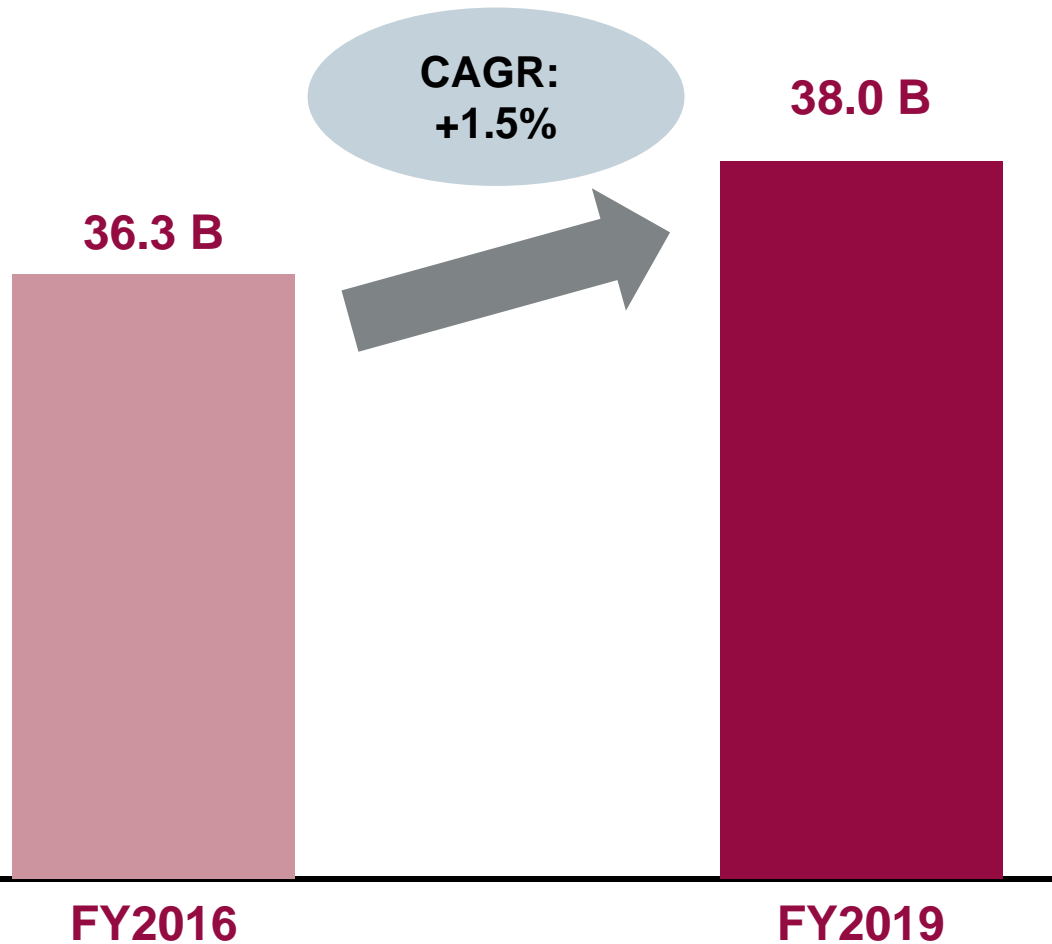
- ✓ **Continuity of Profitable growth leads to increase in EV**
- ✓ **Continuity of High CF**
- ✓ **Continuity of Over 50% pay out policy**

1

# Ensure realization of Macro Growth



Continued strengthening of Sales Execution



## Continuous Macro Growth

Macro Details  
CAGR(2016-19)

- Automobile 2.8%
- Industrial Machinery 0.8%

## Ensure realization of Macro Growth

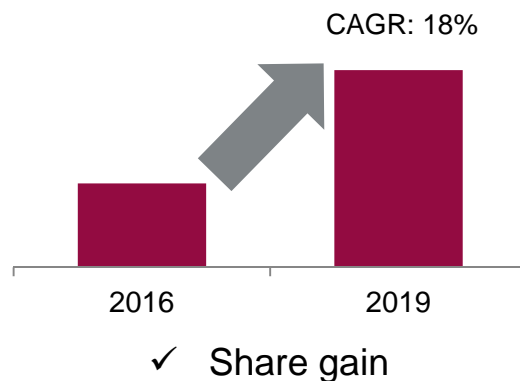
- Keep existing business
- Enhancement of QCDS

## 2 Strengthening 4 Growth initiatives

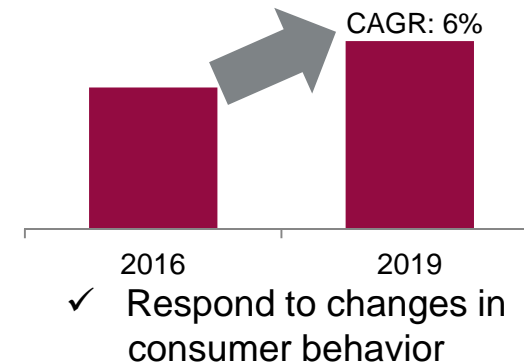


Continue execution of 4 growth initiatives

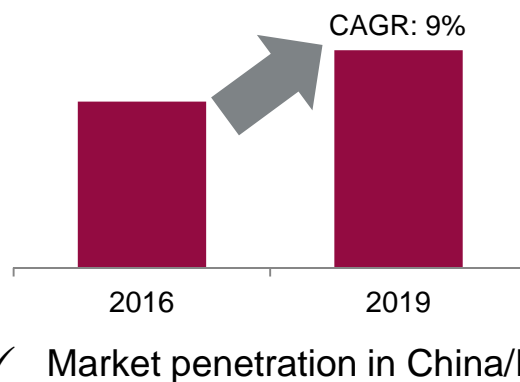
### Sales to Non-Japanese Customers



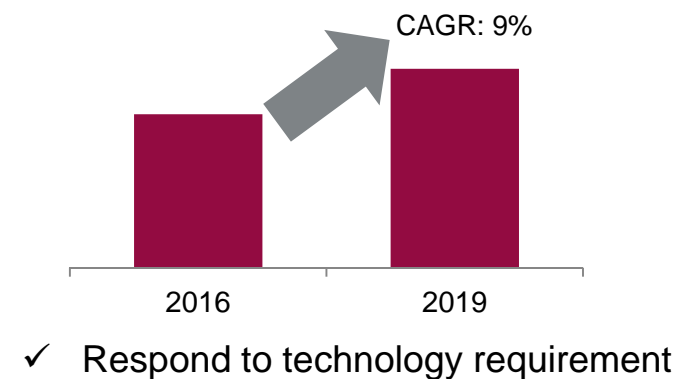
### Ceramic Balls



### Growth in Asia



### New Frontiers



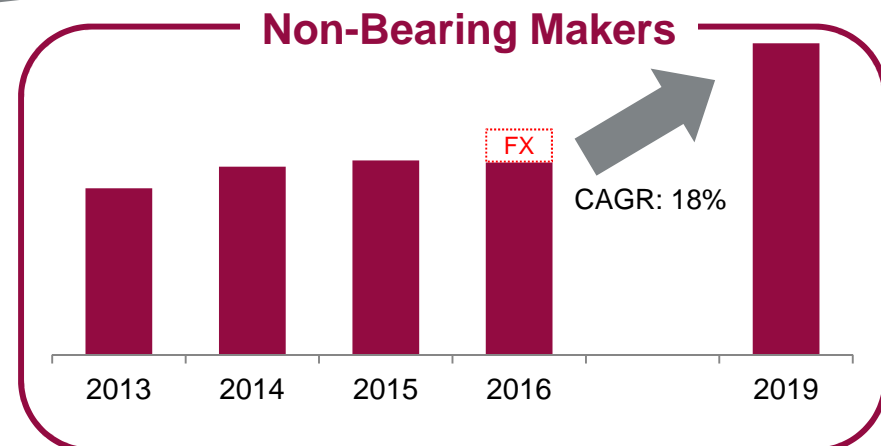
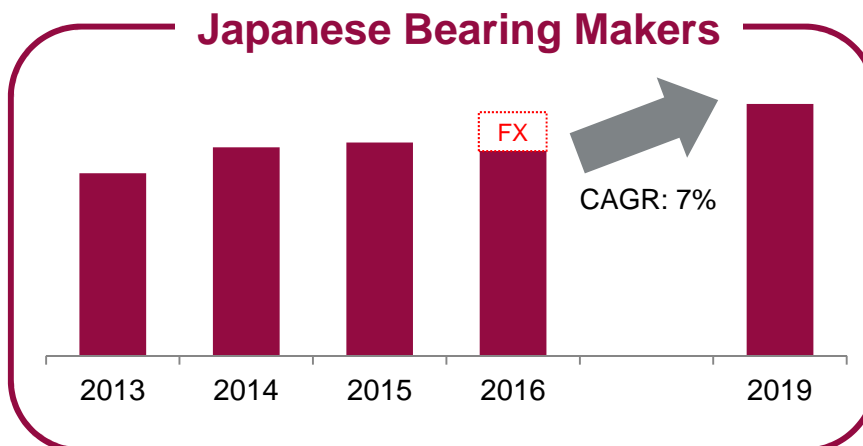
## 3

## Expand Sales from new initiatives



Take advantage of the outstanding QCDS and global network to further expand sales to the Japanese bearing and non-bearing manufacturers

| Existing                                                                                                                                                                       | Changes in Customers' Needs                                                                                                                                                                                                                                                                                                   | Our Response                                                                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>Drive sales on the back of QCDS and diverse product line up</li> <li>Respond to local procurement by using our local network</li> </ul> | <ul style="list-style-type: none"> <li>Buying decision-making at global</li> <li>High precision balls with more functionality</li> <li>Safety, convenience / comfortable, lightweight drive demand</li> <li>High performance bearings by use drive demand</li> <li>Continue to expand production in growth regions</li> </ul> | <ul style="list-style-type: none"> <li>Enhance global sales organization</li> <li>Appoint more global account manage</li> <li>Global Reach/Local Depth</li> <li>Enhance QCDS level at global</li> </ul> |





4

# Respond to new demand from changes in consumer behavior

~ Safe, Convenient, Effective, Eco-Friendly Products



High precision balls usage to expand with demand for safe, convenient , effective, and eco-friendly products



**Drone**

Precision ball helps realize long flight and lightweight



**Satellite**

Reliable precision ball is essential for harsh conditions in space



**Advanced Medical**

High performance precision ball helps realize high speed high accuracy diagnostic



**Futuristic Cars**

High performance balls new usage continues to expand



**Robots**

High precision balls are widely used in moving parts and help realize low energy usage and high efficiency



**Cutting edge products**

Light weight precision ball helps realize low noise high speed rotation which is MUST for consumer electronics



**High-speed rail**

In high speed transportation, high performance precision ball is essential



**Fiber Network**

Expansion of High speed optical fiber network driving demand for glass ball lens



**Wind Power**

High performance and durable ball is essential in wind turbines

**IoT**  
(Internet of Things)

**Age of Eco-Friendly, Safe, Convenient, Effective Products**

**AI**  
(artificial intelligence)

**IoE**  
(Internet of Everything)

4

## Respond to new demand from changes in consumer behavior

~ Safe, Convenient, Effective, Eco-Friendly Products



### Global Consumer Needs

- Eco-friendly
- Safe
- Convenient
- Effective



### Quick Market Response

- IoT(Internet of Thing)
- IoE (Internet of Everything)
- AI(Artificial intelligence)

### Expansion of High Precision Ball Usage

#### Increase in volume

- From Manual to Auto  
“Auto” means more demand for bearings  
⇒ increase in usage of high precision balls

#### Rising quality bar

- Energy saving / automation trend will lead to increased demand for low friction, corrosion resistive high performance precision ball.
- Need for small / lightweight, small-diameter precision ball will lead to high demand for precision ball of light material

**Era of safe, convenient, effective, and eco-friendly products  
⇒ Further Profitable Growth**

# 4

## Respond to new demand from changes in consumer behavior

~ Safe, Convenient, Effective, Eco-Friendly Products



As a specific example, the need for high precision ball will further grow as power source diversification advances in automobiles

### Existing demand with steady growth

#### HV (Hybrid) / PHV (Plug in Hybrid)

- ✓ Necessity of high performance motor will continue to drive demand for high precision balls

#### HUB

- ✓ High precision balls usage in HUB (Axle) is a growing trend and will continue irrespective of type of vehicle

#### CVJ (Constant Velocity Joint)

- ✓ CVJ used in powertrain system of vehicles will continue to adopt high precision balls



### Growing demand from new technology

#### EV (Electric Vehicle) / FCV (Fuel Cell Vehicle)

- ✓ Since ball bearings are not used in Gasoline engine, the change in engine has limited impact on ball usage

#### Convenience

- ✓ Growing adoption of air conditioning, power windows, power seat, power steering, auto sliding doors in vehicles will drive demand for high precision balls

#### Self Driving

- ✓ Change from driver assist to self driving will require usage of small motors which in turn will create demand for high precision balls

#### Next Gen Powertrain

- ✓ Stringent fuel economy regulations creating need for Next Gen powertrain systems which has lower friction. This in turn is expected to push switching from roller intensive to high precision durable ball

## 5 Realize Growth thru M&A



Optimize cash usage thru a M&A where synergy can be realized

|                        | FY2016<br>(FCST) | FY2017-19<br>(Outlook) |
|------------------------|------------------|------------------------|
| Cash<br>(JPY Billion)  | 16.4             | 23.0                   |
| CAPEX<br>(JPY Billion) | 1.0              | 3.5                    |
| Pay out Ratio          | >50%             |                        |
| Net D/E Ratio          | 0.5x             | 0.3x                   |

※After Dividend pay out

Cash usage  
optimization

**M&A**

**AND/OR**

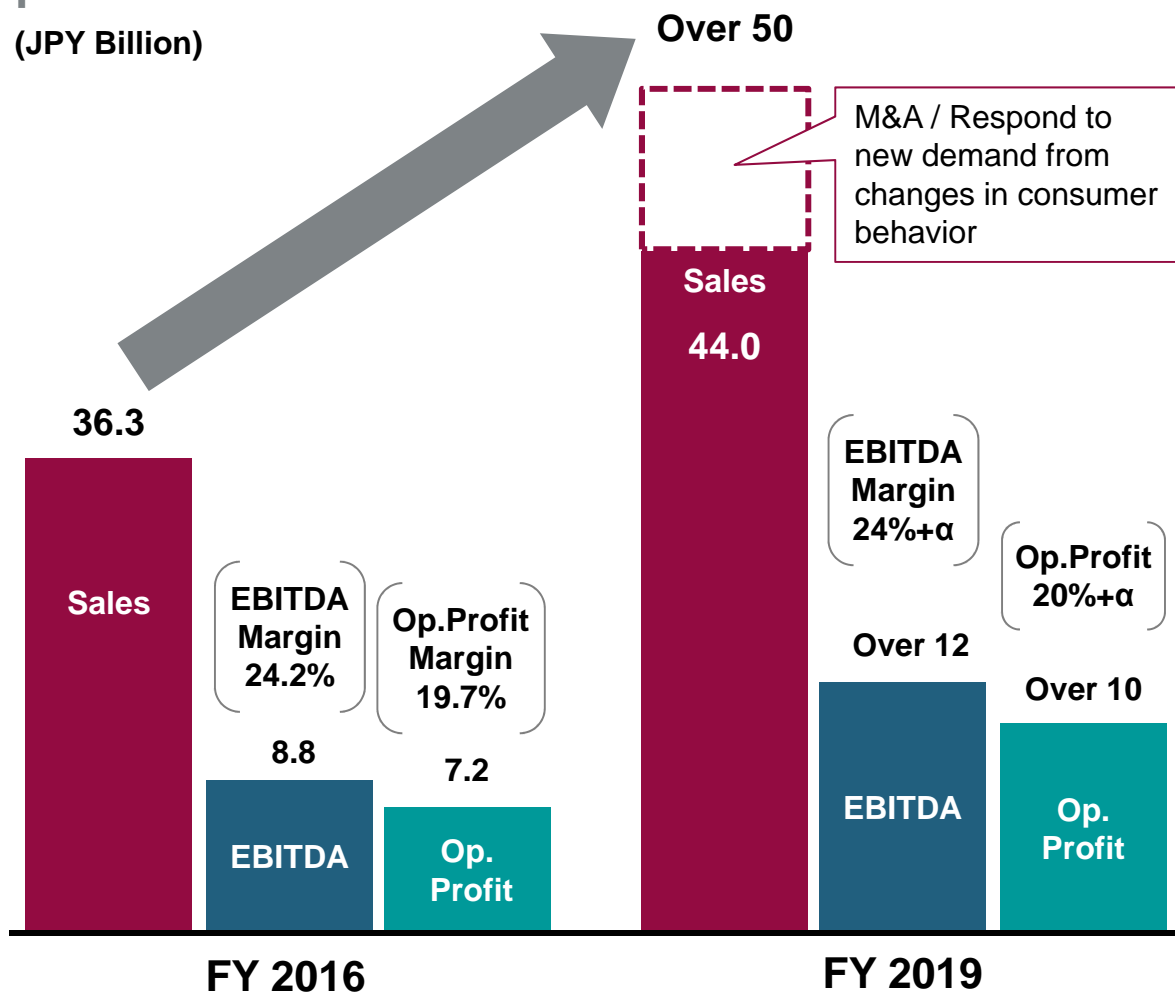
**Enhanced  
Shareholder  
Returns**



# MT Plan Quantitative Goals

Realize enduring profitable growth, target sales of 50 billion and operating profit of 10 billion

(JPY Billion)



| (JPY B)    | FY 2016 (FCST) | FY 2019 (Target) |
|------------|----------------|------------------|
| Sales      | 36.3           | 50.0             |
| EBITDA     | 8.8            | 12.0             |
| Op. Profit | 7.2            | 10.0             |