TSUBAKI NAKASHIMA CO.,LTD.

1H FY2017 Results Presentation

August 8, 2017

Tsubaki Nakashima Co, Ltd.

(TSE 6464)

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Introduction

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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.

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Progress after IPO (16 Dec, 2015)

Expand business by realizing each strategic initiative

16 Dec, 2015	IPO at 1st section of Tokyo Stock Exchange
27 Oct, 2016	Announced Mid-term Corporate Strategy – Target sales of 50billion yen and OP of 10billion yen in 2019
10 July, 2017	Announced acquisition of the PBC (Precision Bearing Components）of NN, Inc.

Leapfrog to 2nd phase of Tsubaki Nakashima's Growth Strategy after IPO

1. 1H FY2017 RESULTS

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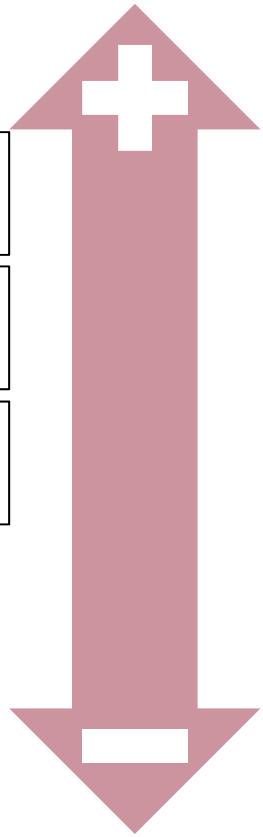
1H FY2017 Summary

Achieved higher than macro growth by steady execution of growth strategies (disclosed in Mid term Plan on October 27, 2016)

External factors	TSUBAKI NAKASHIMA CO.,LTD.	Internal factors
Recovery in demand in Machine tool sector		Sales exceeding macro due to steady execution of growth strategies
Auto related business grew as forecasted		Increased FCF due to effective B/S management
Slight Yen appreciation compared to 1H FY2016		Operating Margin slightly below on YoY basis due to lag in recovery of raw material price increase and need for rapid increase in production (improvement measures in place)



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Highlights for 1H FY2017

Sales

- Sales for the quarter and the half year are at a historical high showing a growth of +12.1% YoY(w/o FX +13.8%)
- Achieved sales growth exceeding macro due to execution of growth strategies
- Ball business grew at **+11.6% YoY**(w/o FX**+13.7%**)

Profits

- Achieved Profit attributable to owners of the parent (Net profit) of **+13.0% YoY**(w/o One-time cost and FX **+12.3%**)
- Margin was slightly below on YoY basis due to lag in recovery of raw material price increase and need for rapid increase in production. Improvement measures already in place and gradual recovery expected

Cash

- Generated **2.9 billion Yen FCF** due to constantly effective B/S management(**+19.3% YoY**)

Dividend

- Interim dividend of 31JPY/share will be paid on 1st of Sep as planned
- Annual dividend expected at 64JPY/ share as planned

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1H FY2017 Consolidated results

Sales increased by 12.1% (13.8% w/o FX) to a record high of 20.7 billion yen. Net profit increased by 13.0% to 2.3 billion yen (up 12.3% YoY, w/o one-time cost and FX)

(¥ million)

	1H FY2016	1H FY2017				
	Actual	Actual	FX impact	One-time	inc/dec (w/o FX & One-time)	inc/dec% (w/o FX & One-time)
Sales	18,429	20,653	▲319	—	2,543	13.8%
Operating profit	3,557	3,460	▲143	▲356	402	11.3%
Operating margin	*19.3%*	*16.8%*	—	—	—	—
EBITDA	4,372	4,256	▲153	▲356	393	9.0%
EBITDA margin	*23.7%*	*20.6%*	—	—	—	—
EBIT	2,659	3,094	391	▲356	400	15.0%
Net profit（※1）	2,014	2,276	258	▲244	248	12.3%

（※1）“Net profit” on this slide refers to “Profit attributable to owners of the parent”

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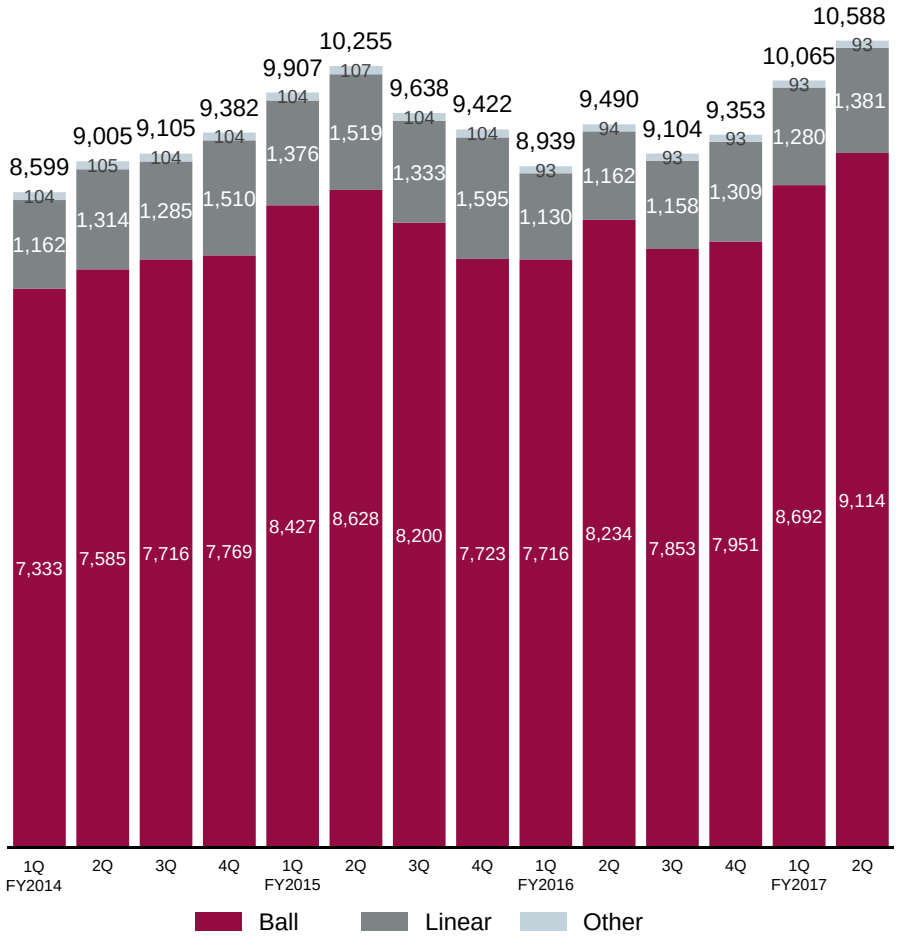
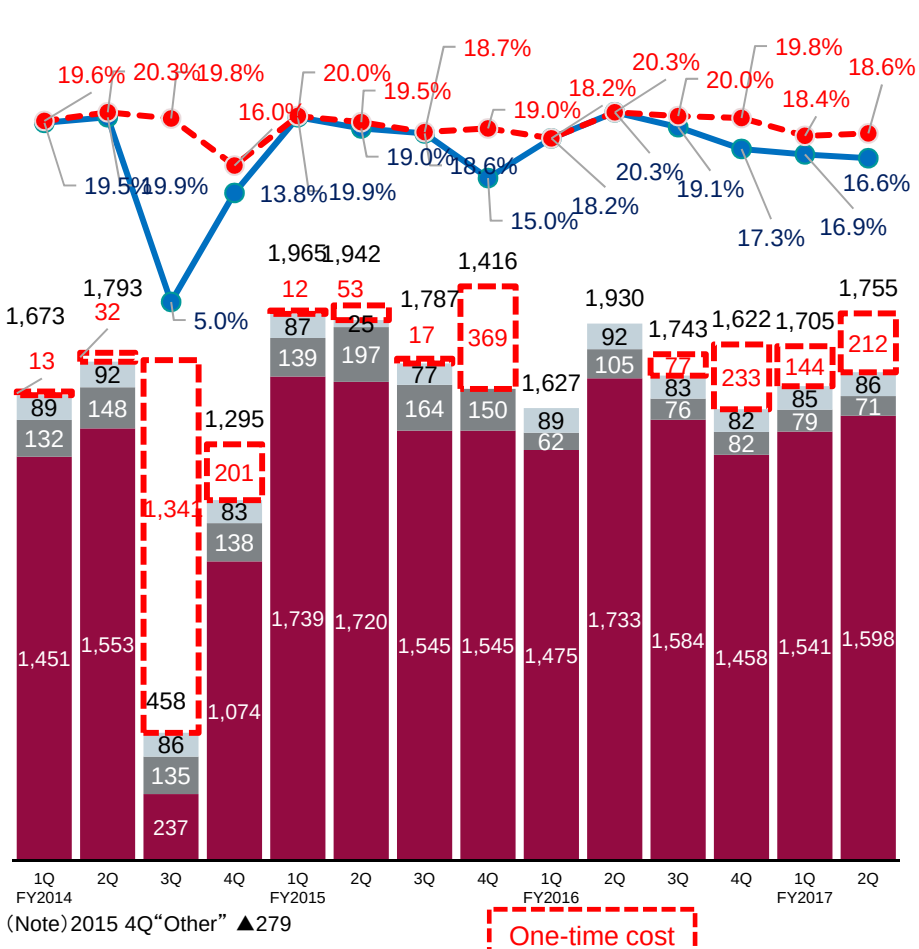
Sales and Operating margin trends by quarter

Quarterly sales reach record high and profitability remains stable with high margins as in the past

Sales（¥ million）



Operating profit･Operating margin（¥ million,%）



（Note）2015 4Q“Other” ▲279

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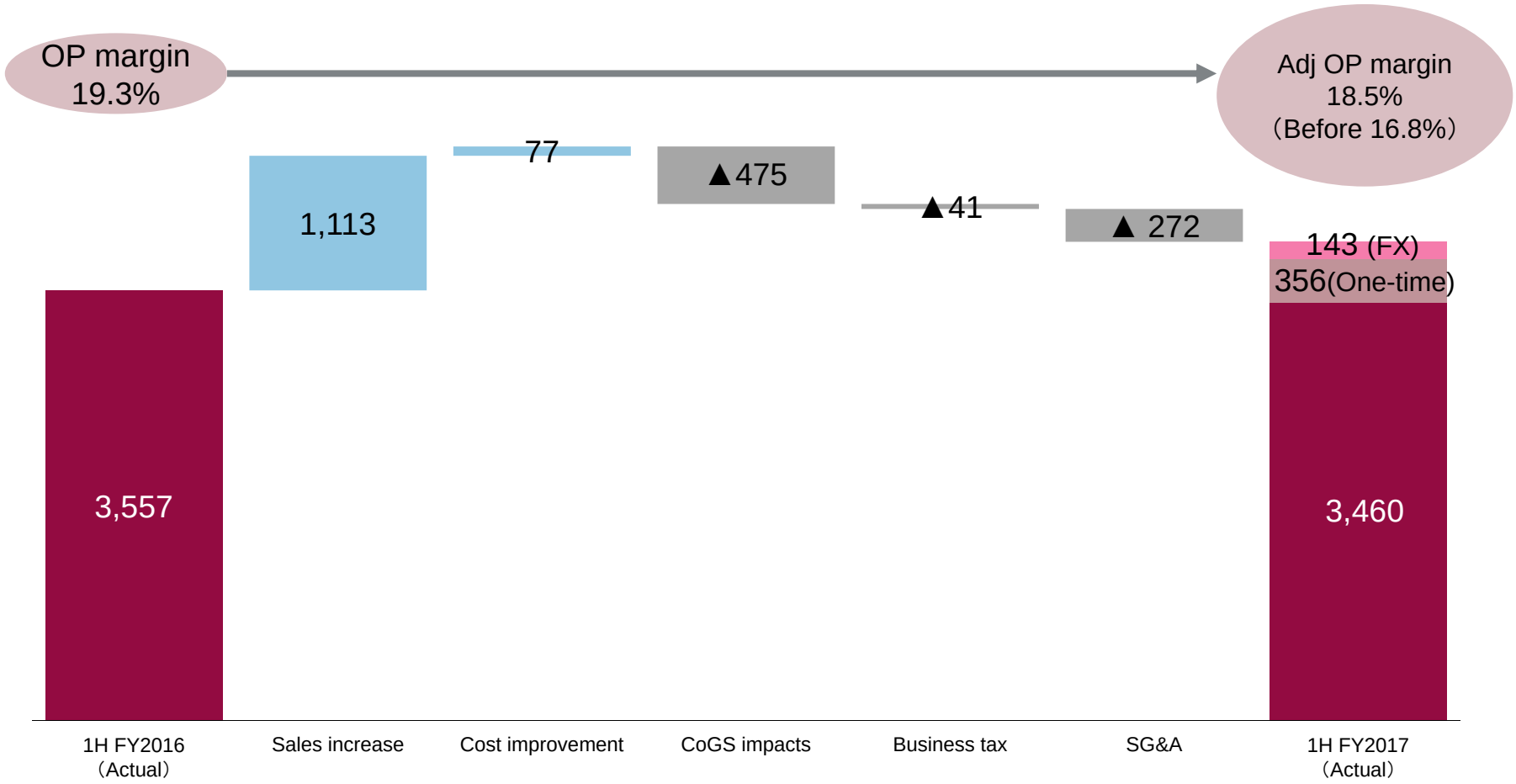
1H FY2017 Operating profit bridge

Op.Profit grew +11.3% YoY w/o one-time cost and FX. Margin was slightly below on YoY basis. Improvement measures in place and gradual recovery expected

(¥ million)

Operating profit（vs 1H FY12/2016）



（※）Adj OP margin excludes “Prevention” and “Project related cost”

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1H FY2017 Sales by business segment vs 1H FY2016

Both Ball and Linear business recorded strong growth in first half on YoY basis and contributed to record high sales achievement

(¥ million)

	1H 2016	1H FY2017			
	Actual	Actual	FX impact	inc/dec (w/o FX)	inc/dec% (w/o FX)
Consolidated	18,429	20,653	▲319	2,543	13.8%
Ball business	15,950	17,806	▲335	2,191	13.7%
Linear business	2,292	2,661	16	353	15.4%
Other	187	186	—	▲1	▲0.7%

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1H FY2017 Sales by region（Ball business only）
vs 1H FY2016

Ball business showed steady growth on global basis, Europe and Asia region showed strong growth momentum (China + 26.5%, India + 44.5%)

(¥ million)

	1H 2016	1H FY2017			
	Actual	Actual	FX impact	inc/dec（w/o FX）	inc/dec%（w/o FX）
Japan	6,124	6,470	―	346	5.6%
North America	2,865	3,065	15	185	6.5%
Europe	3,113	3,485	▲222	594	19.1%
Asia	3,848	4,786	▲128	1,066	27.7%

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（For reference only）1H FY2017 Sales by region
vs 1H FY2016

(¥ million)

	1H 2016	1H FY2017			
	Actual	Actual	FX impact	inc/dec (w/o FX)	inc/dec% (w/o FX)
Japan	8,525	9,092	—	567	6.6%
North America	2,865	3,065	15	185	6.5%
Europe	3,113	3,485	▲222	594	19.1%
Asia	3,926	5,011	▲112	1,197	30.5%

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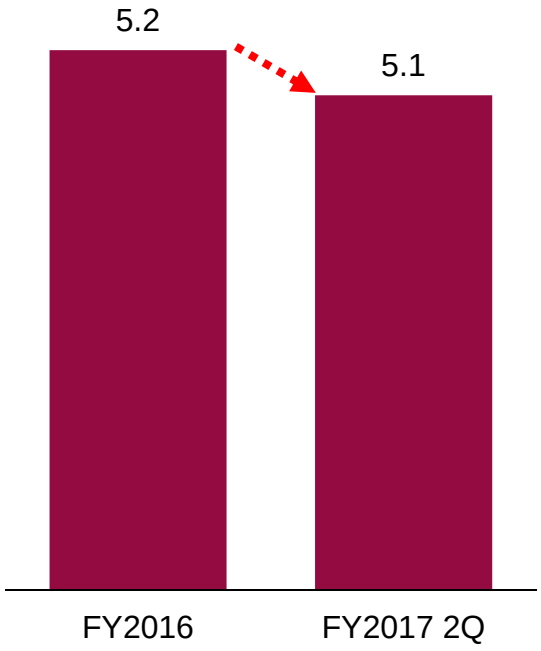
BS／CF

Steady increase in cash flows from constant improvement of BS and CF

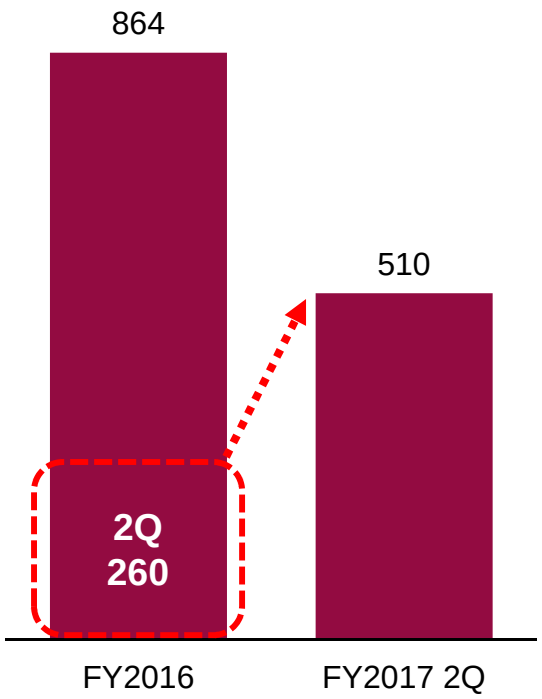
Inventory Turn-over（months）

■Exceed last year end level



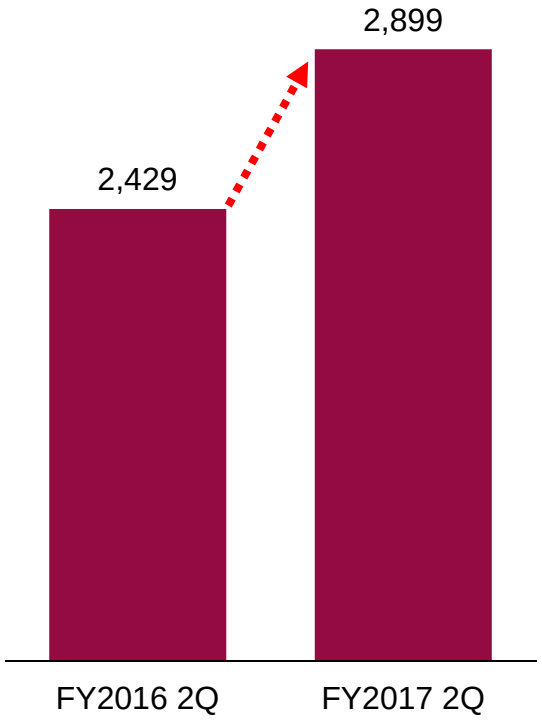
CAPEX(¥ million)

■Keep appropriate level



FCF(¥ million)

■Generate Cash flows constantly

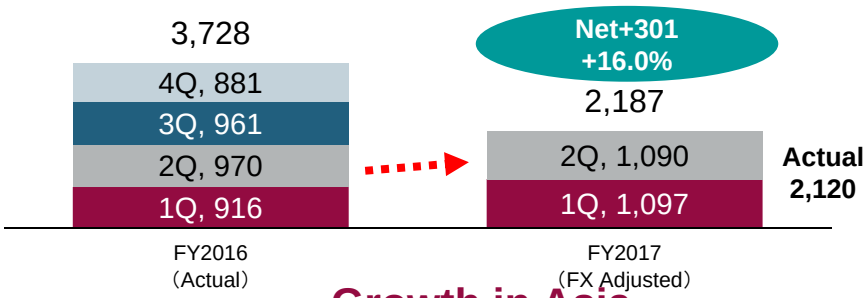


1H FY2017 4（Existing）+2（New） progress

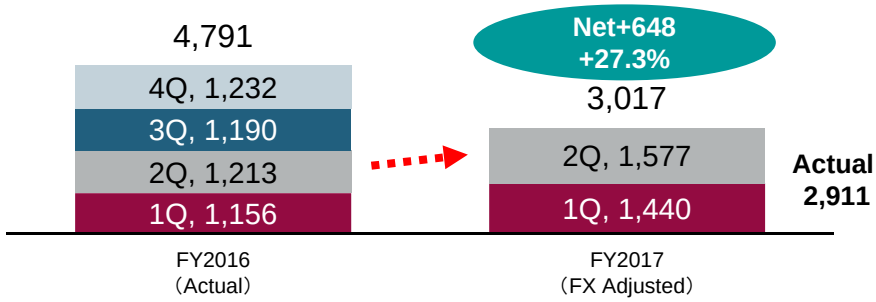
Future initiatives will be revised in the new mid-term strategy after completion of PBC business acquisition

(¥ million)

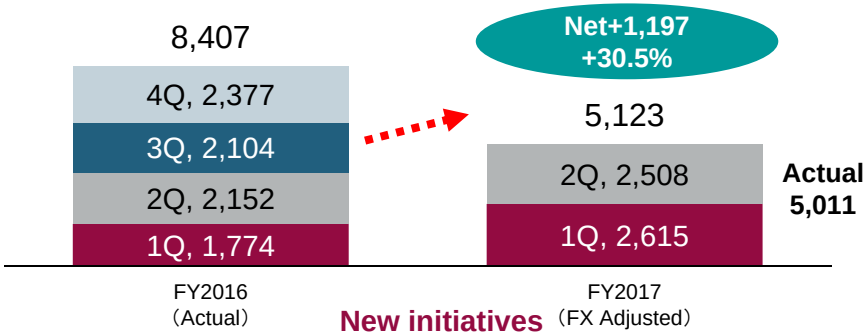
Sales to Non - Japanese Customers



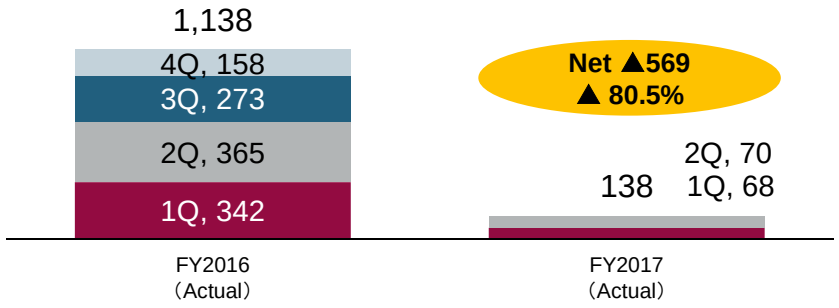
Ceramic Balls



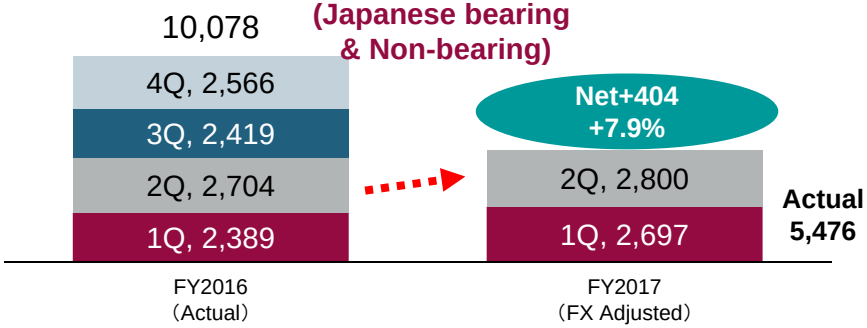
Growth in Asia



New Products



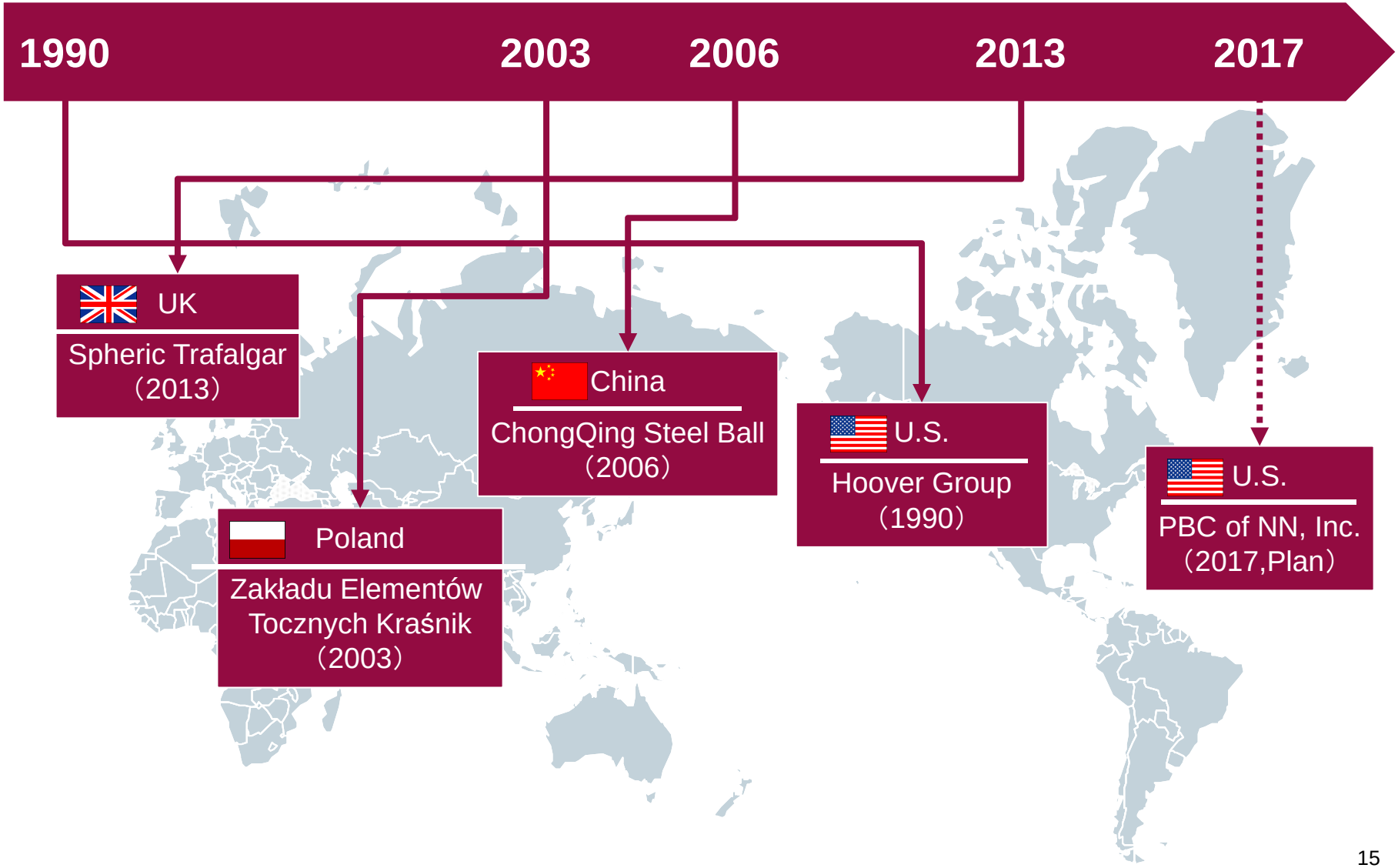
New initiatives (Japanese bearing & Non-bearing)



2. ACQUISITION OF THE PBC BUSINESS OF NN, INC.

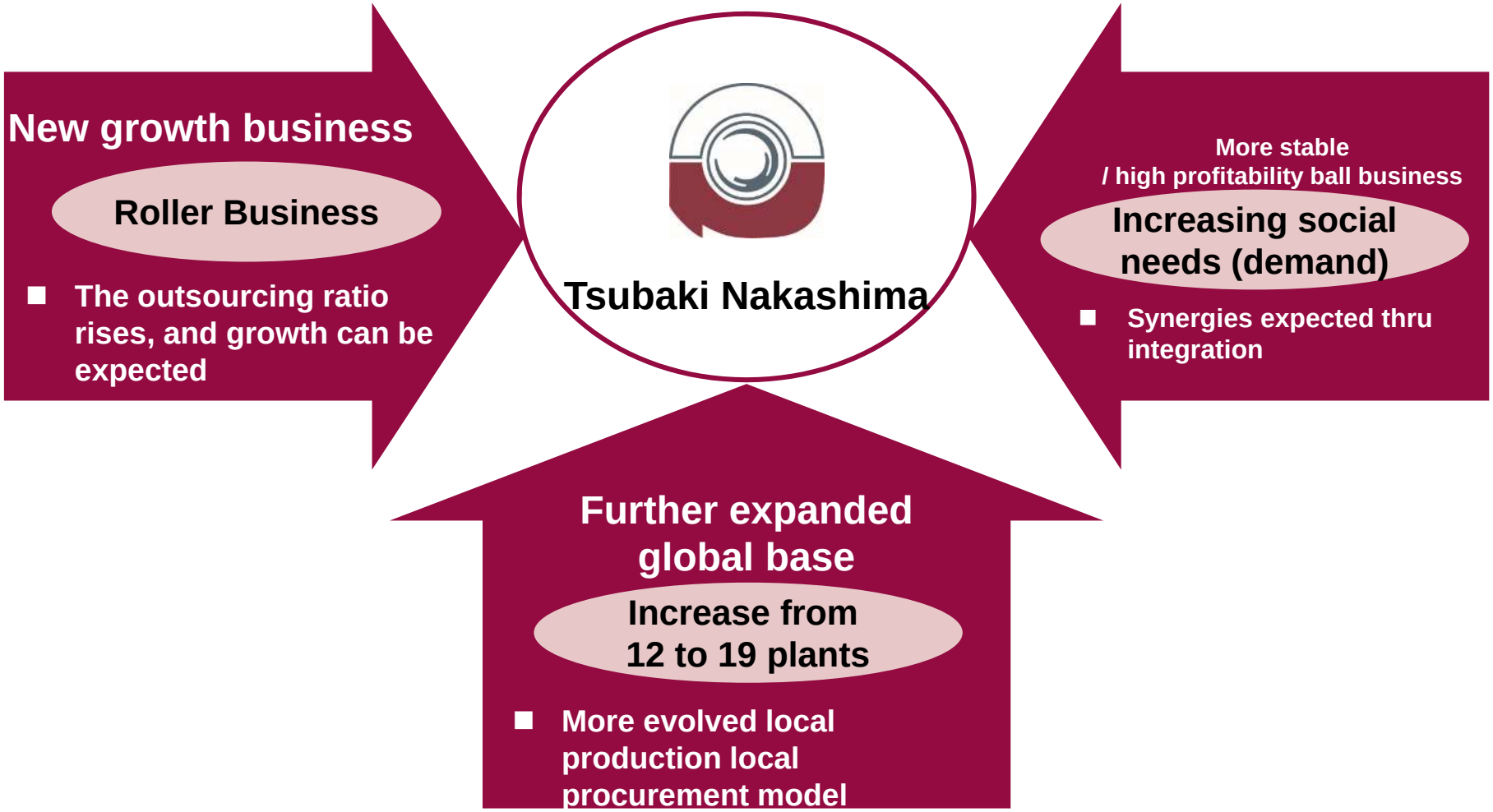
Promotion of growth strategy by our past M&A

M&A has been a growth strategy even in the past



What we acquire through this acquisition

We will aim for leapfrog growth by further strengthening business foundation to meet increasing demand from changes in infrastructure



Transaction Overview

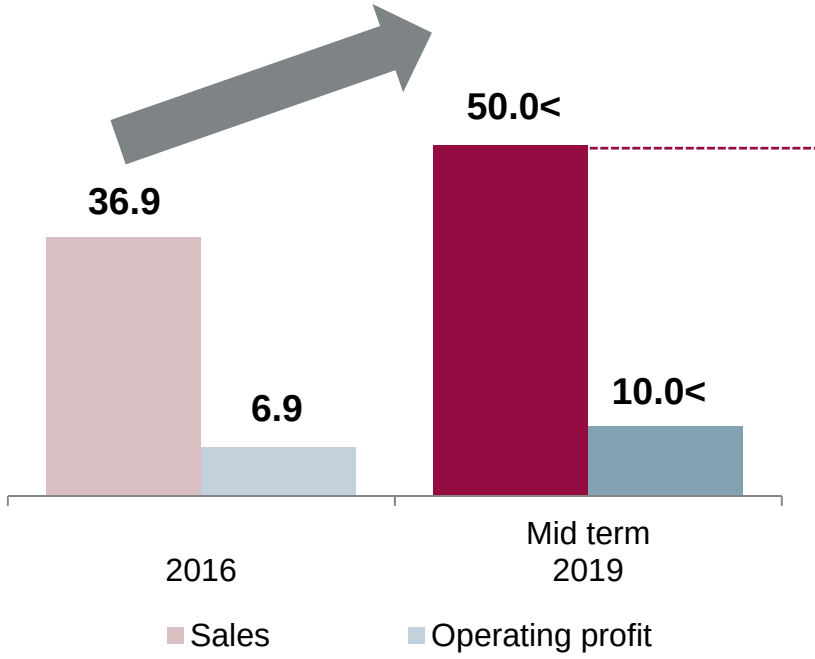
Purchase Price (※1)	• US$375 million (Approx. JPY42.5 billion)（※1） • EV/EBITDA＝9.5x (FY2016)（※2） (Ref.) Tsubaki Nakashima EV/EBITDA＝12.6x (FY2016)
Acquisition Scheme	• Acquisition of shares to be paid in cash • Acquisition of PBC business spin off as a NewCo in US, and a European company holding PBC business in other regions
Acquisition Financing	• Funded by the Company's own funds and LT borrowing from financial institutions
Timetable to the Completion of Acquisition	• July 10: Signing of definitive agreement • During FY2017 Q3 (planned) (※3)
Other	• Payback period ：Approx. 10 years • Internal Rate of Return (IRR)： Approx. 8%

(※1) On a cash free debt free enterprise value basis. FX rate: US$1 = JPY113.28 (as of July 7)
(※2) Based on Normalized EBITDA
(※3) Subject to regulatory approval and the satisfaction of other closing conditions specified in the Transfer Agreement

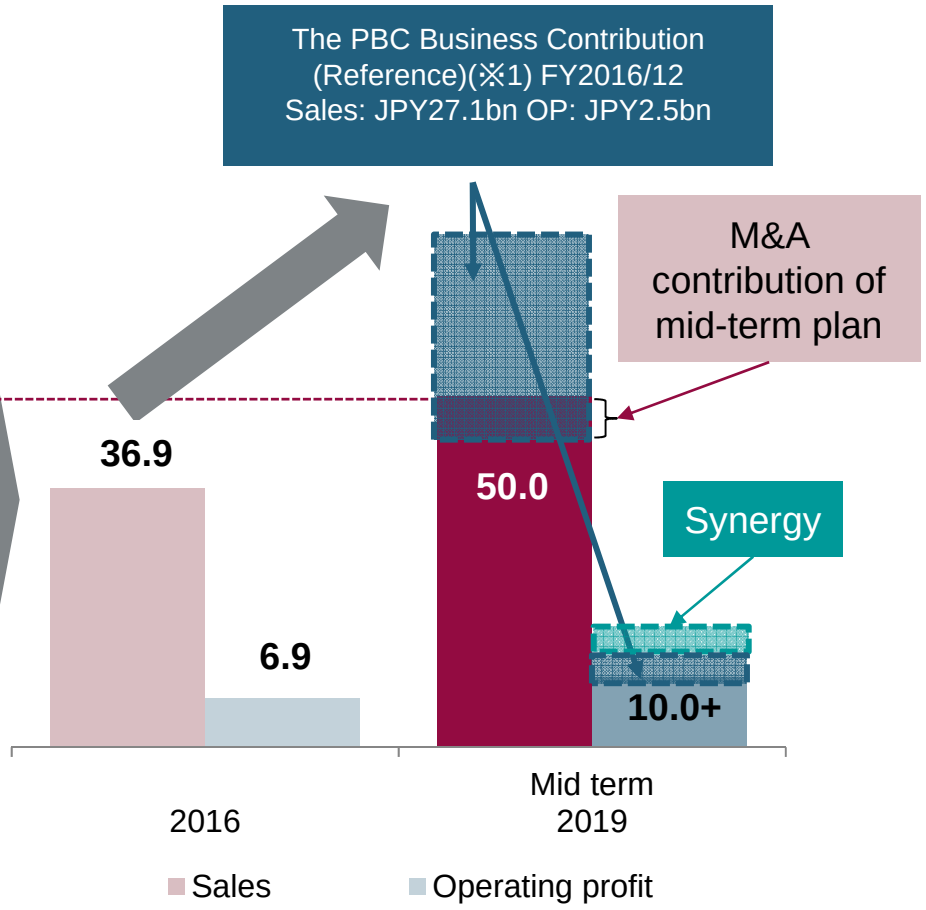
Leapfrog to further profitable growth

By the acquisition, we can achieve FY2019 target (JPY50bn sales, JPY10bn operating profit) ahead of schedule.

Mid-term Strategy



Post Acquisition (Illustration)

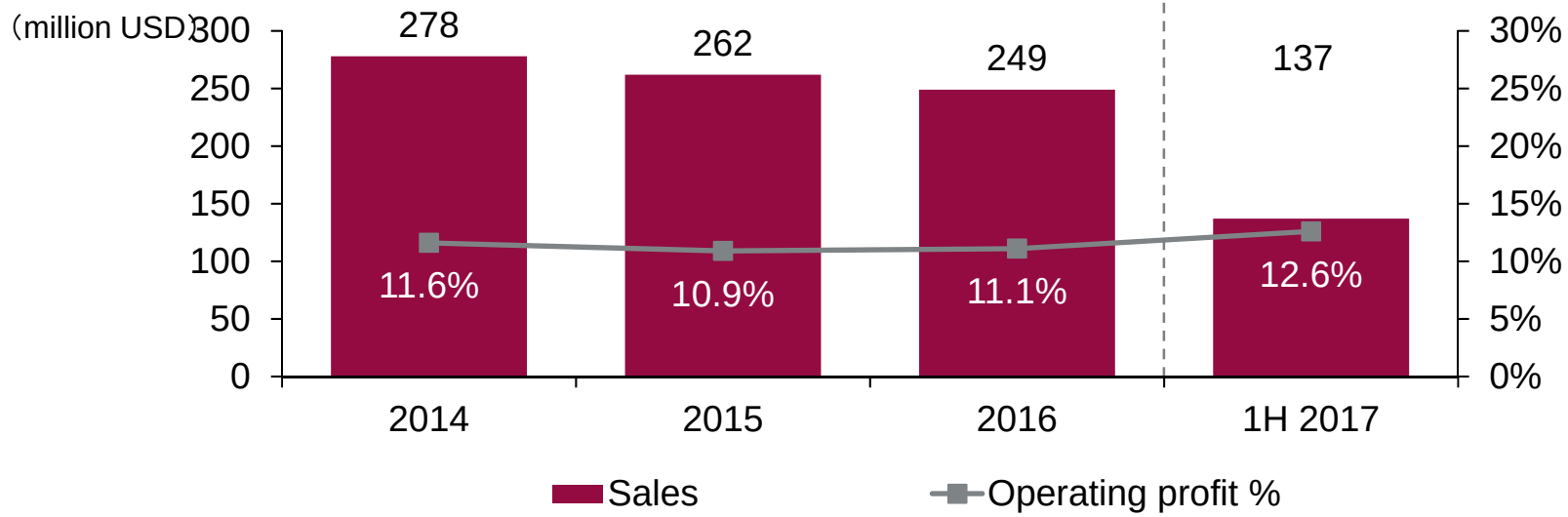


(※1) NN, Inc. annual report (10-K, USGAAP) financials converted using Tsubaki Nakashima's FX rate (1USD=JPY108.84)

Performance of PBC business

Beginning 2017, performance enters recovery phase

	2014	2015	2016	1H 2017
Sales（million USD）	278	262	249	137
Operating profit（million USD）	32	28	27	17
Operating profit margin	11.6%	10.9%	11.1%	12.6%



（Note）

・Sales and operating profit of the PBC business are based on segment figures of NN's annual and quarterly report (10-K and 10-Q, USGAAP)

・Operating profit and operating profit margin of the PBC business are adjusted "Restructuring and integration“ which is one-time cost to segment figures of NN's annual and quarterly report (10-K and 10-Q, USGAAP)

Illustration of sales composition after completion of acquisition （FY2016 by addition method)

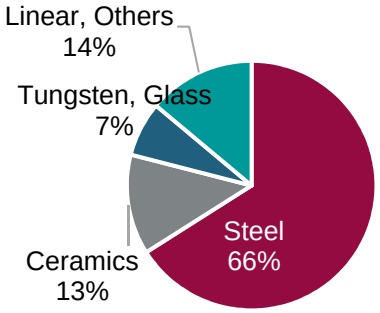
TN and PBC business have strong complementary relationship with each other

Enhancement of ball and acquisition of rollers

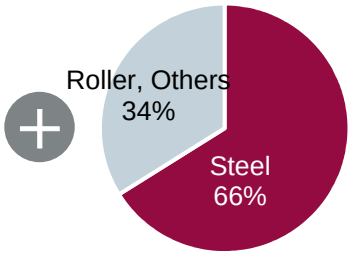
Strong complementary relations in NA and EU

Present

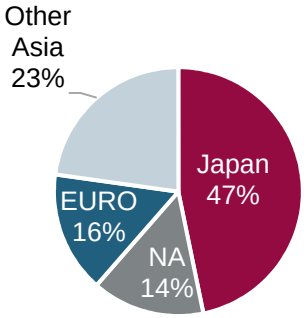
TN（Present）



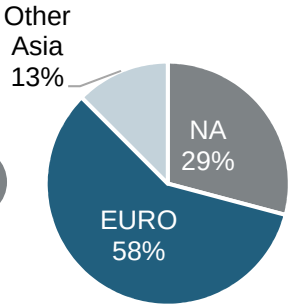
PBC



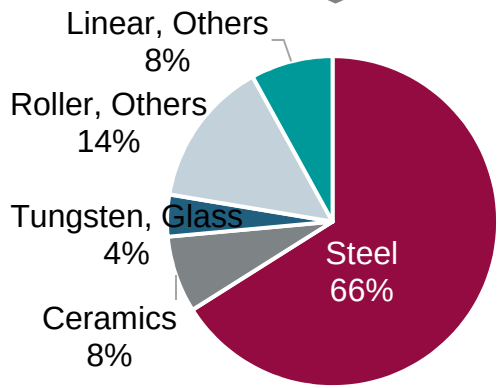
TN（Present）

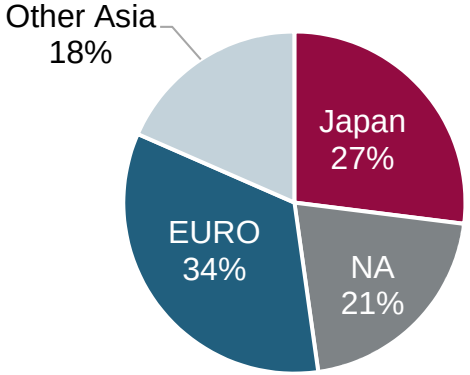


PBC



Pro-Forma（By addition）





(Note) NN PBC financials converted using Tsubaki Nakashima's FX rate (1USD=JPY108.84)

Global Footprint After the Acquisition

Additional manufacturing facilities to further evolve “local production / local procurement” business model for customers

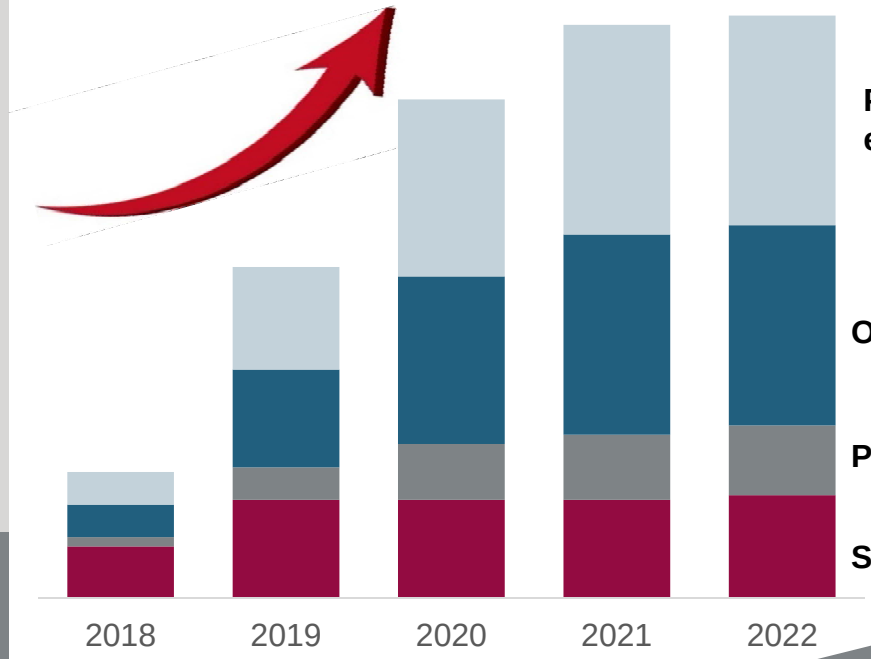


	TN	PBC	Total
NA	2	2	4
Europe	1	4	5
Asia（ex Japan）	5	1	6
Japan	4	0	4
Total	12	7	19

Towards realization of synergy

Aim for reliable capture of synergy effect thru global "One operation"

Synergy creation image



Product efficiency

- Adapting best practices
  - Product technology, production technology, field management

Occupancy

- Optimal production sharing among factories, leveling of load

Procurement

- Reduction of procurement cost by integration of global purchasing activities

SG&A

- Delivery efficiency
- Efficiency and quality of back office operations

ISC (Integration and Synergy Committee)

Chairman : Takamiya CEO, Vice Chairman : Manzagol SVP

- Strategy planning
- Target setting
- Follow up, Execution support

Appropriate global management control

- Global governance
- Global compliance
- Global management accounting

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