TSUBAKI NAKASHIMA CO.,LTD.

1Q FY2018 Results Presentation

May 15, 2018

Tsubaki Nakashima Co, Ltd.

(TSE 6464)

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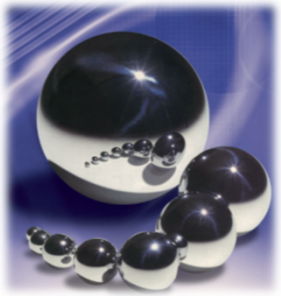
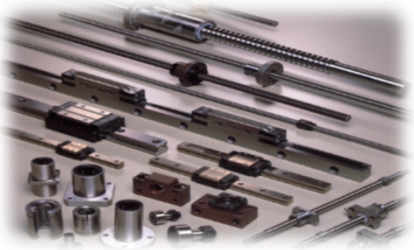


One ball, One heart

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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1. 1Q FY2018 RESULTS

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Highlights for 1Q FY2018

Integration with former PBC progressed well, both sales and Operating profit set a new record

Sales	■ Sales recorded a historical high of 19.5 billion Yen (YoY +93.6%)
Profits	■ Operating profit marked a historical high of 2.9 billion Yen (YoY +70.9%)
Cash	■ Generated FCF of 620 million Yen excluding one-time cost by continuous B/S management
Dividend	■ Keep guideline for annual dividend of JPY 79/share and interim dividend of JPY39/share (YoY+23.4% annualy)

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1Q FY2018 Consolidated results

Sales increased by 91.4% YoY to 19.5 billion Yen, w/o FX impact, setting a new record. Operating profit also reached record high of 2.9 billion Yen, YoY +70.5%, w/o One-time and FX impact.

(¥ million)

	FY2017 1Q	FY2018 1Q					
	Actual	Actual (※2)	One-time	After One-time	FX impact	Inc/dec (※3)	Inc/dec% (※3)
Sales	10,065	19,490	—	19,490	228	9,197	91.4%
Operating profit	1,705	2,914	▲29	2,943	36	1,202	70.5%
EBITDA	2,105	3,671	▲29	3,700	46	1,549	73.6%
EBIT	1,359	2,523	▲29	2,552	90	1,103	81.3%
Net profit (※1)	1,025	1,836	▲20	1,856	30	801	78.2%

(※1) "Net profit" on this slide refers to "Profit attributable to owners of the parent"
(※2) As former PBC results, Sales of 8,634 million Yen, OP of 925 million Yen, EBITDA of 1,286 million Yen, EBIT of 870 million Yen and Net profit of 643 million Yen are included in 1Q FY2018
(※3) "Inc/dec" and "Inc/dec%" exclude "FX impact" and "One-time" cost

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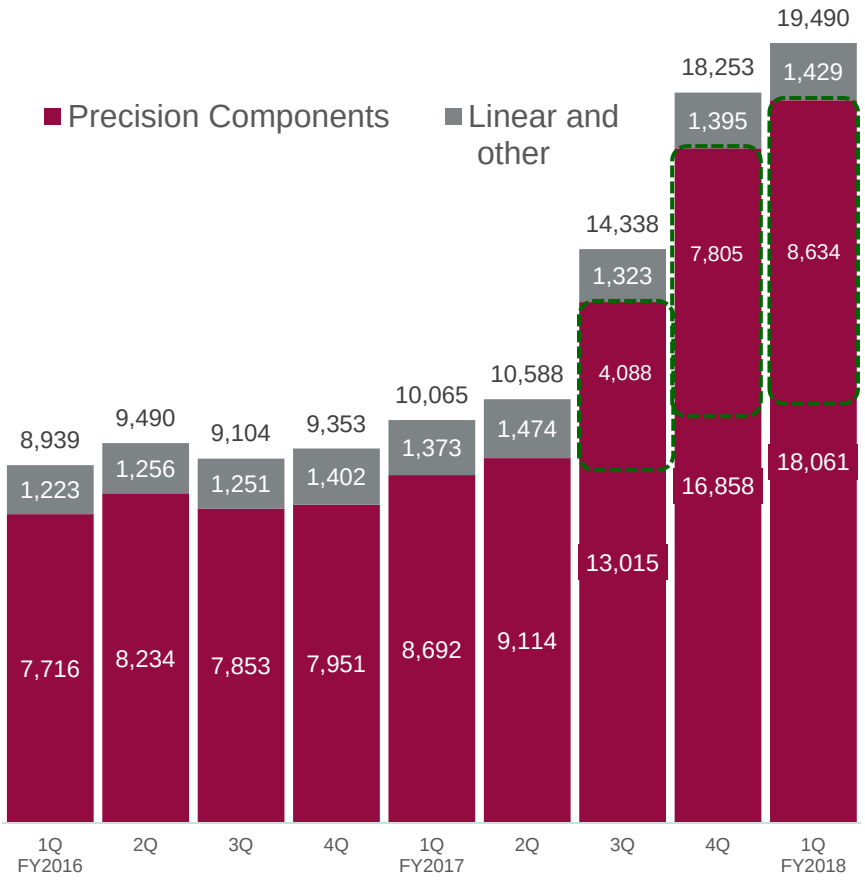
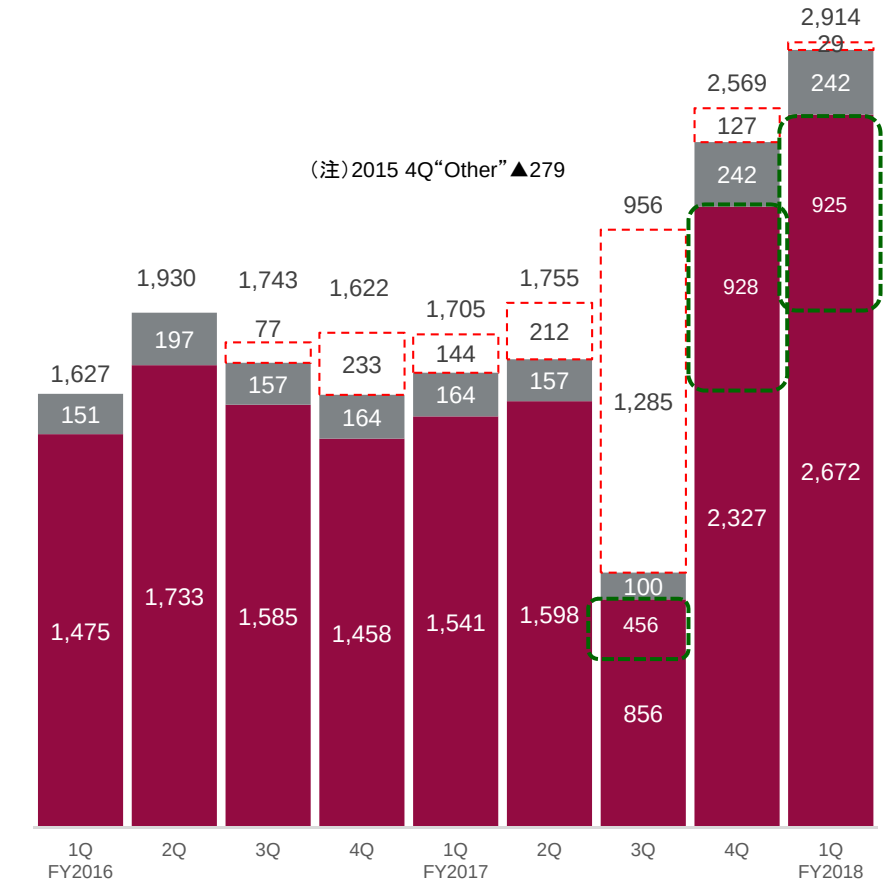
Sales and Operating margin trend by quarter

Sales (QoQ +6.8%) and Operating profit（QoQ +13.4%) recorded a historical high

Sales (¥ million)



Operating profit (¥ million)



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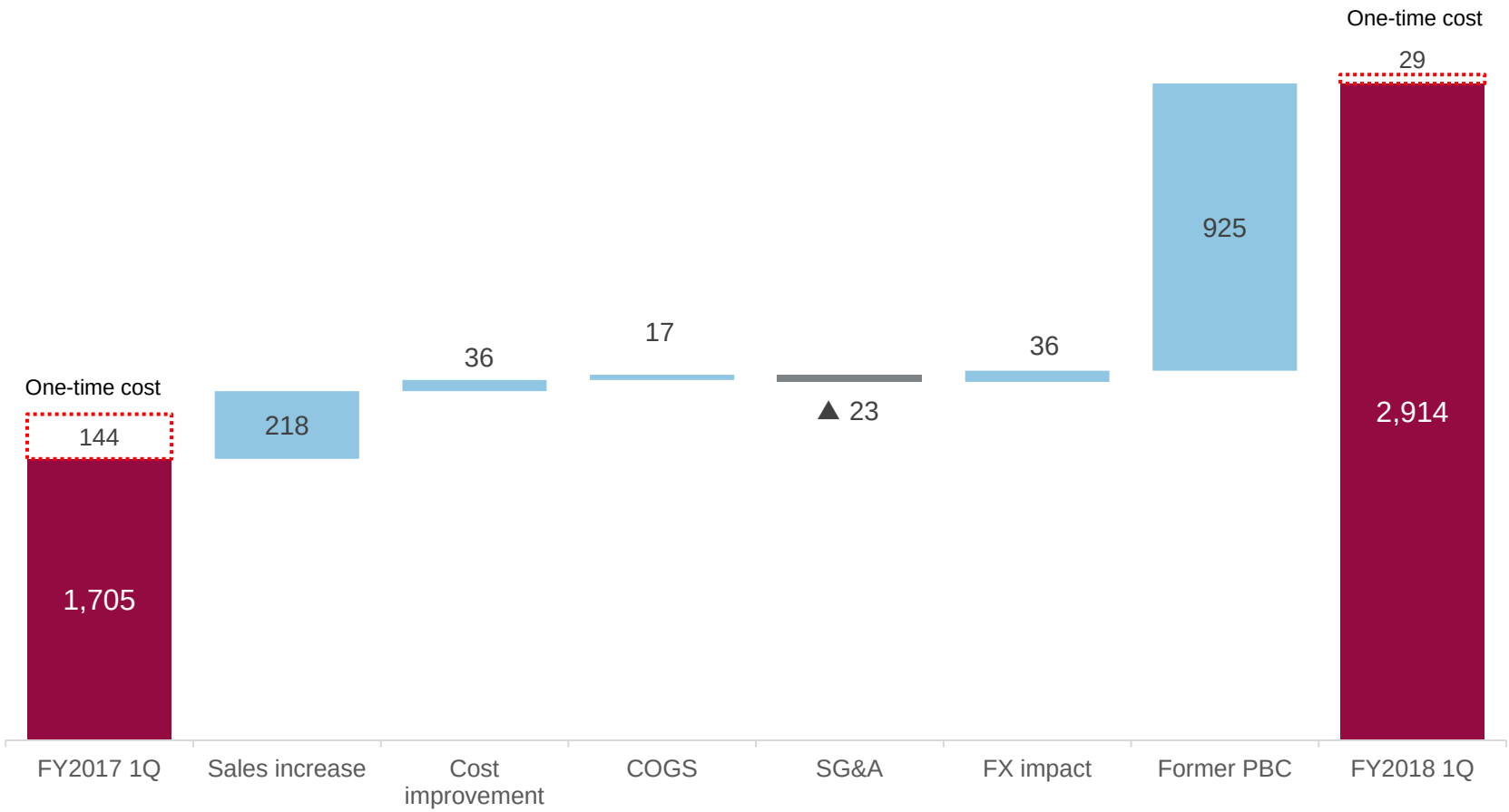
1Q FY2018 Operating profit bridge

Operating profit grew +70.9% YoY and reached 2.9 billion Yen

(¥ million)

Operating profit（YoY）



（※）As one-time cost, mainly records "Acquisition of former PBC“ in 1Q FY17 and "Expense related External Investigation Committee etc“ in 1Q FY18.

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1Q FY2018 Sales by segment
YoY

Precision Components segment significantly exceeded YoY results and reached record high sales.

	2017 1Q	2018 1Q			(¥ million)
	Actual	Actual	FX impact	Inc/dec (※1)	Inc/dec% (※1)
Consolidated	10,065	19,490	228	9,197	91.4%
Precision Components	8,692	18,061	225	9,144	105.2%
Linear and Other	1,373	1,429	3	53	3.9%

・Precision Components includes Precision Balls, rollers and stamped metals businesses
・Include sales of 8,634 million Yen of former PBC in Precision components of 1Q FY2018.
(※1)"Inc/dec" and “Inc/dec%" exclude “FX impact” and “One-time” cost.

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1Q FY2018 Sales by region
（Precision Components Business only）YoY

Exceptional growth in Europe, North America and Asia due to the acquisition of PBC plus strong growth in existing business.

	FY2017 1Q	FY2018 1Q			(¥ million)
	Actual	Actual	FX impact	Inc/dec (※1)	Inc/dec% (※1)
Japan	3,062	3,312	―	250	8.2%
North America	1,514	3,760	▲82	2,328	153.7%
Europe	1,713	7,696	200	5,783	337.5%
Asia	2,403	3,293	107	783	32.6%

In 1Q FY2018, include sales of former PBC in North America 2,132 million Yen Europe 5,659 million Yen and Asia 843 million Yen.
（※1）"Inc/dec" and “Inc/dec%" exclude “FX impact” and “One-time” cost.

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（For Ref.）1Q FY2018 Sales by region
YoY

(¥ million)

	FY2017 1Q	FY2018 1Q			
	Actual	Actual	FX impact	Inc/dec (※1)	Inc/dec% (※1)
Japan	4,336	4,577	―	241	5.6%
North America	1,514	3,760	▲82	2,328	153.7%
Europe	1,713	7,696	200	5,782	337.5%
Asia	2,502	3,457	109	846	33.8%

In 1Q FY2018, include sales of former PBC in North America 2,132 million Yen Europe 5,659 million Yen and Asia 843 million Yen.
（※1）"Inc/dec" and “Inc/dec%" exclude “FX impact” and “One-time” cost.

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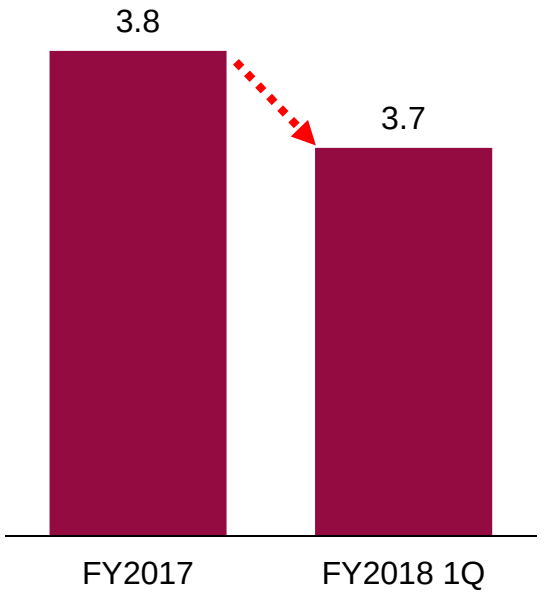
BS/CF

Sustained improvement in B/S management

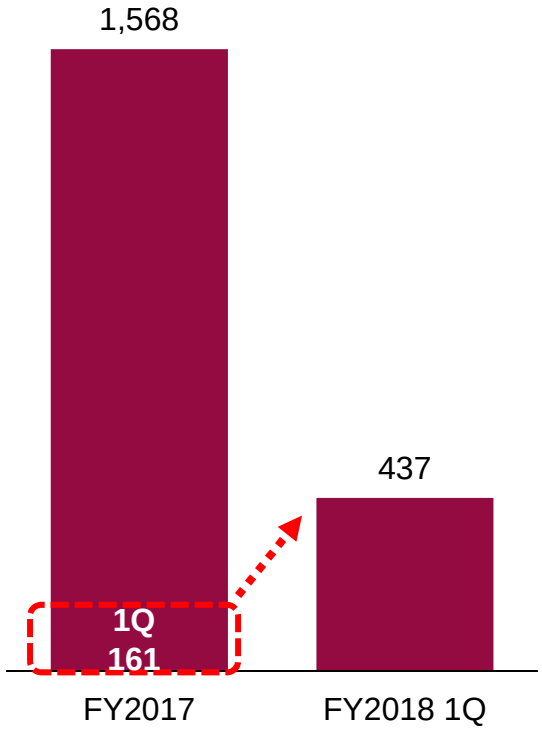
Inventory Turn-over (months)(※1)

- Improve inventory turn-over



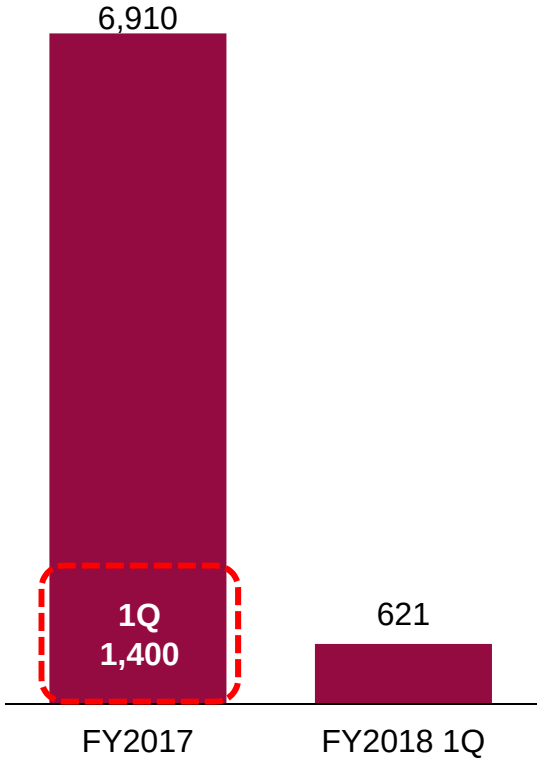
CAPEX(¥ million)（※2）

- Increased due to capacity expansion



Adjusted FCF (¥ million)(※3)

- Increase in A/R due to sharp increase in sales
- Increase in FCF expected after 2Q



（※1）Sales of the former PBC is calculated as a weighted average of 4.5 months
（※2）Include CAPEX of 263 million Yen (4.5 months）of the former PBC in 2017 and 170 million Yen in 1Q FY2018
（※3） Adjusted FCF excludes 44,053 million Yen of PBC share purchase, and its related cost of 1,560 million Yen in FY2017 and External investigative committee related cost of 29 million Yen in 1Q FY2018

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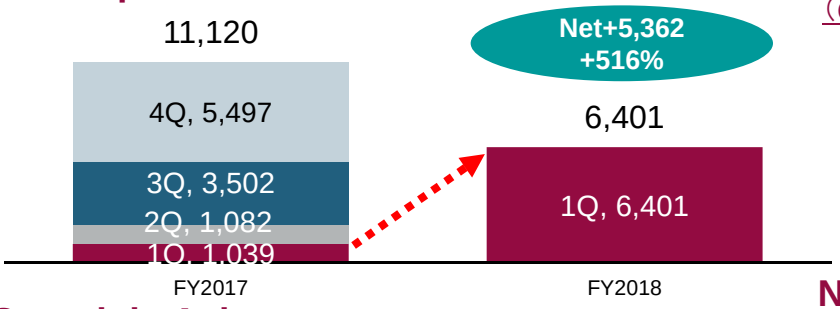
1Q FY2018 4（Existing）+2（New） progress

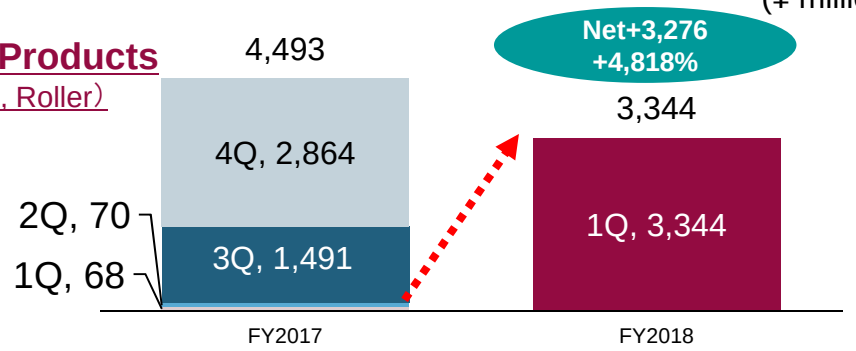
Execution of sales strategy progressed rapidly due to the acquisition of PBC, growth in existing business

(¥ million)

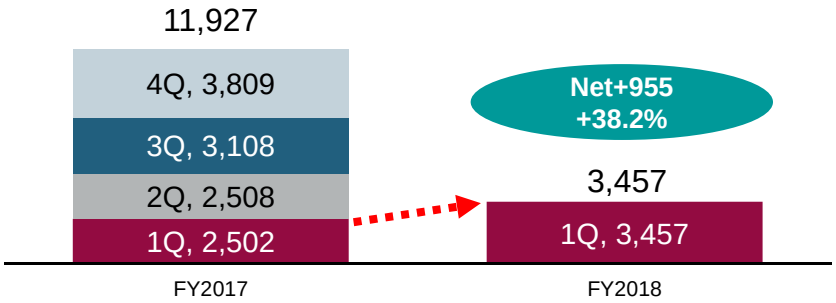
Non-Japanese Customers



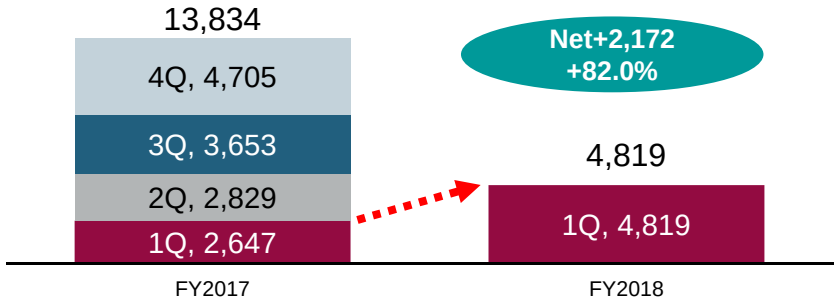
New Products
（Glass, Roller）



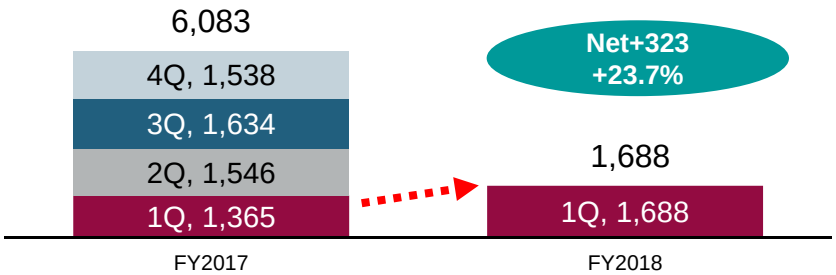
Growth in Asia



New initiatives
(Japanese and Non-bearing)



Ceramic Balls



※Include former PBC results in the above charts

Former PBC	2017 3Q (1.5months)	2017 4Q	2018 1Q
Non-Japanese	2,376	4,456	5,175
Growth in Asia	562	1,028	843
New products（Roller）	1,468	2,803	3,192
New initiatives	766	1,680	1,843

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2. APPENDIX

Summary of Consolidated results for 1Q FY2018
(Unaudited, abstract)
IFRS

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1. Unaudited Condensed Interim Consolidated Financial Statements

(1) Unaudited Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and cash equivalents	12,001	11,030
Trade and other receivables, net	17,017	18,108
Inventories	23,317	23,067
Other current assets	727	937
Total current assets	53,062	53,142
Non-current assets		
Property, plant and equipment, net	30,258	29,145
Intangible assets, net and goodwill	50,034	48,465
Investment property	3,755	3,755
Other investments	398	369
Deferred tax assets	176	163
Other non-current assets	98	95
Total non-current assets	84,719	81,992
Total assets	137,781	135,134
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	6,487	6,759
Current portion of loans and borrowings	155	155
Income taxes payable	1,108	965
Other current liabilities	3,477	3,608
Total current liabilities	11,227	11,487
Non-current liabilities		
Loans and borrowings, excluding current portion	72,441	71,134
Net defined benefit liability	2,905	2,861
Deferred tax liabilities	1,840	1,822
Other non-current liabilities	4,220	5,269
Total non-current liabilities	81,406	81,086
Total liabilities	92,633	92,573
Equity		
Share capital	16,459	16,501
Capital surplus	10,630	10,672
Treasury stock	(971)	(971)
Accumulated other comprehensive loss	(2,061)	(5,255)
Retained earnings	21,067	21,591
Equity attributable to owners of the parent	45,124	42,538
Non-controlling interests	24	23
Total equity	45,148	42,561
Total liabilities and equity	137,781	135,134

See accompanying notes to unaudited condensed interim consolidated financial statements

(2) Unaudited Condensed Interim Consolidated Statements of Profit or Loss and Other Comprehensive Income (Loss)

(Millions of yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Sales	10,065	19,490
Cost of sales	7,281	14,911
Gross profit	2,784	4,579
Selling, general and administrative expenses	1,115	1,669
Other income	36	33
Other expenses	—	29
Operating profit	1,705	2,914
Financial income	10	7
Financial expenses	356	398
Profit before taxes	1,359	2,523
Income tax expense	334	687
Net profit for the period	1,025	1,836
Net profit for the period attributable to.		
Owners of the parent	1,025	1,836
Non-controlling interests	—	—
Net profit for the period	1,025	1,836
Other comprehensive income (loss)		
Items that will not be reclassified to profit or loss		
Financial assets measured at FVOCI	—	(17)
Total items that will not be reclassified to profit or loss	—	(17)
Items that may subsequently be reclassified to profit or loss		
Foreign currency translation differences	(521)	(3,244)
Cash flow hedges	26	(73)
Hedges costs	—	139
Changes in fair value of available-for-sale financial assets	8	—
Total items that may subsequently be reclassified to profit or loss	(487)	(3,178)
Other comprehensive loss, net of tax	(487)	(3,195)
Total comprehensive income (loss)	538	(1,359)
Total comprehensive income attributable to.		
Owners of the parent	538	(1,358)
Non-controlling interests	—	(1)
Total comprehensive income (loss)	538	(1,359)
Earnings per share attributable to owners of the parent		
Basic earnings per share (yen)	25.97	46.12
Diluted earnings per share (yen)	25.39	44.89

See accompanying notes to unaudited condensed interim consolidated financial statements

(3) Unaudited Condensed Interim Consolidated Statements of Changes in Equity

For the three months ended March 31, 2017

(Millions of yen)

	Equity attributable to owners of the parent				
				Accumulated Other Comprehensive Income (Loss)	
	Share capital	Capital surplus	Treasury stock	Foreign currency translation differences	Cash flow hedges
Balance as of January 1, 2017	16,299	10,472	(971)	(1,968)	(332)
Net profit for the period	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(521)	26
Total comprehensive Income (loss)	—	—	—	(521)	26
Issuance of new shares	33	32	—	—	—
Dividends	—	—	—	—	—
Total transactions with owners and other	33	32	—	—	—
Balance as of March 31, 2017	16,332	10,504	(971)	(2,489)	(306)

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)					
	Changes in fair value of available-for-sale financial assets	Total	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of January 1, 2017	(5)	(2,305)	20,497	43,992	19	44,011
Net profit for the period	—	—	1,025	1,025	—	1,025
Other comprehensive income (loss), net of tax	8	(487)	—	(487)	—	(487)
Total comprehensive income (loss)	8	(487)	1,025	538	—	538
Issuance of new shares	—	—	—	65	—	65
Dividends	—	—	(1,302)	(1,302)	—	(1,302)
Total transactions with owners and other	—	—	(1,302)	(1,237)	—	(1,237)
Balance as of March 31, 2017	3	(2,792)	20,220	43,293	19	43,312

See accompanying notes to unaudited condensed interim consolidated financial statements

For the three months ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of the parent					
				Accumulated Other Comprehensive Income (Loss)		
	Share capital	Capital surplus	Treasury stock	Foreign currency translation differences	Cash flow hedges	Hedges costs
Balance as of January 1, 2018	16,459	10,630	(971)	(1,086)	(1,110)	—
Adjustment to apply IFRS 9 (after tax)	—	—	—	—	(130)	130
Adjusted balance as of January 1, 2018	16,459	10,630	(971)	(1,086)	(1,240)	130
Net profit for the period	—	—	—	—	—	—
Other comprehensive income (loss), net of tax	—	—	—	(3,243)	(73)	139
Total comprehensive Income (loss)	—	—	—	(3,243)	(73)	139
Issuance of new shares	42	42	—	—	—	—
Dividends	—	—	—	—	—	—
Total transactions with owners and other	42	42	—	—	—	—
Balance as of March 31, 2018	16,501	10,672	(971)	(4,329)	(1,313)	269

(Millions of yen)

	Equity attributable to owners of the parent					
	Accumulated Other Comprehensive Income (Loss)					
	Changes in fair value of available-for-sale financial assets	Total	Retained earnings	Total	Non-controlling interests	Total equity
Balance as of January 1, 2018	135	(2,061)	21,067	45,124	24	45,148
Adjustment to apply IFRS 9 (after tax)	—	—	—	—	—	—
Adjusted balance as of January 1, 2018	135	(2,061)	21,067	45,124	24	45,148
Net profit for the period	—	—	1,836	1,836	—	1,836
Other comprehensive income (loss), net of tax	(17)	(3,194)	—	(3,194)	(1)	(3,195)
Total comprehensive income (loss)	(17)	(3,194)	1,836	(1,358)	(1)	(1,359)
Issuance of new shares	—	—	—	84	—	84
Dividends	—	—	(1,312)	(1,312)	—	(1,312)
Total transactions with owners and other	—	—	(1,312)	(1,228)	—	(1,228)
Balance as of March 31, 2018	118	(5,255)	21,591	42,538	23	42,561

See accompanying notes to unaudited condensed interim consolidated financial statements

(4) Unaudited Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

	For the three months ended March 31, 2017	For the three months ended March 31, 2018
Cash flows from operating activities		
Profit before taxes	1,359	2,523
Depreciation and amortization	400	757
Increase (decrease) in net defined benefit liability	(40)	7
Interest and dividend income	(8)	(5)
Interest expense	107	200
Foreign exchange losses	229	133
Decrease (increase) in trade and other receivables	575	(1,875)
Decrease in inventories	(307)	(501)
Increase in trade and other payables	549	604
Other, net	(126)	285
Interest and dividends received	6	—
Interest paid	(118)	(123)
Income taxes paid	(1,000)	(883)
Net cash provided by operating activities	1,626	1,122
Cash flows from investing activities		
Payments for acquisition of property, plant and equipment	(228)	(437)
Payments for acquisition of subsidiary stock	—	(90)
Proceeds from sales of property, plant and equipment	—	1
Other, net	2	(3)
Net cash used in investing activities	(226)	(529)
Cash flows from financing activities		
Repayments of long-term loans and borrowings	(57)	(58)
Proceeds from exercise of subscription rights	66	86
Cash dividends paid	(1,258)	(1,312)
Net cash used in financing activities	(1,249)	(1,284)
Effect of exchange rate changes on cash and cash equivalents	(221)	(280)
Net decrease in cash and cash equivalents	(70)	(971)
Cash and cash equivalents at the beginning of the period	19,132	12,001
Cash and cash equivalents at the end of the period	19,062	11,030

See accompanying notes to unaudited condensed interim consolidated financial statements

Operating Segments

1. General information

(1) Basis of segmentation

The Group is composed of segments by product and service and there are "Precision component Business, "Linear Business" and "Others" as reporting segments.

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, for which discrete financial information is available and is subject to regular review by the Chief Executive Officer of the Group for assessing performance and making resource allocation decisions. The Company's operating segments consist of "Precision component business", "Linear business" and "Others business". These businesses offer different products and are managed separately because they require different technologies and marketing strategies.

The "Precision component business" segment engages in manufacturing and sales of various types of steel balls, rollers, cages and sheet metal parts. The "Linear business" segment engages in manufacturing and sales of ball screws and air blowers. The "Others business" segment engages primarily in the leasing of real estate.

Segment information is determined in conformity with the accounting policies used in preparing the condensed interim consolidated financial statements. Operating profit (loss) of each reportable segment is measured in a consistent manner with consolidated operating profit, which is profit before income taxes before finance income and finance costs. Pricing for the inter-segment transactions are determined on an arm's length basis.

During the third quarter of the previous consolidated fiscal year, we acquired TN TENNESSEE, LLC. and eight other companies in the scope of consolidation. The name of the segment has been changed from "Ball business" to "Precision component Business".

The reported segment information for the first quarter of the previous fiscal year is also shown as after the change.

(2) Segment Information

Segment information for the three months ended March 31, 2017 and 2018 is as follows.

For the three months ended March 31, 2017

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	8,692	1,280	93	10,065	—	10,065
Inter-segment sales	1	—	11	12	(12)	—
Total consolidated sales	8,693	1,280	104	10,077	(12)	10,065
Segment profit	1,541	79	85	1,705	—	1,705
				Financial income		10
				Financial expense		(356)
				Profit before taxes		1,359

Reconciling items to segment profit include elimination of inter-segment transactions and general corporate expenses not allocated to each reportable segment.

For the three months ended March 31, 2018

(Millions of yen)

	Precision component business	Linear business	Others business	Total	Reconciling items	Condensed interim consolidated financial statements
Sales						
External sales	18,061	1,337	92	19,490	—	19,490
Inter-segment sales	2	—	11	13	(13)	—
Total consolidated sales	18,063	1,337	103	19,503	(13)	19,490
Segment profit	2,672	157	85	2,914	—	2,914
				Financial income		7
				Financial expense		(398)
				Profit before taxes		2,523

Reconciling items to segment profit include elimination of inter-segment transactions and general corporate expenses not allocated to each reportable segment.

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