February 17, 2025

Tsubaki Nakashima Co., Ltd.
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Notice Concerning Formulation of Mid-Term Business Plan

We are pleased to announce that we have decided on our “Mid-Term Business Plan” covering the five-year period from the fiscal year ending December 31, 2025 to the fiscal year ending December 31, 2029.

For details of the Mid-Term Business Plan, please refer to the attached “Mid-Term Business Plan 2025-2029”

Disclaimer：The English translation is only for reference purposes. When there is any discrepancy between original Japanese version and English translation, the original Japanese version always prevails.

TSUBAKI NAKASHIMA

Tsubaki Nakashima CO.,LTD.
Prime Market of TSE 6464



Mid-Term Business Plan 2025-2029

February 17, 2025

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Action to Implement Management that is Conscious of Cost of Capital and Stock Price P.19

Company Overview

Tsubaki Nakashima is a global top player of precision balls and precision rollers

Company Overview

Company Name	Tsubaki Nakashima Co., LTD.
Established	June 1936 (Founded in 1934)
Representative	CEO Itaru Matsuyama
Employees	2,936 (as of Dec. 2024)
Capital	171 oku yen (as of Dec. 2024)

Main Products



Precision Steel Balls



Precision Ceramic Balls

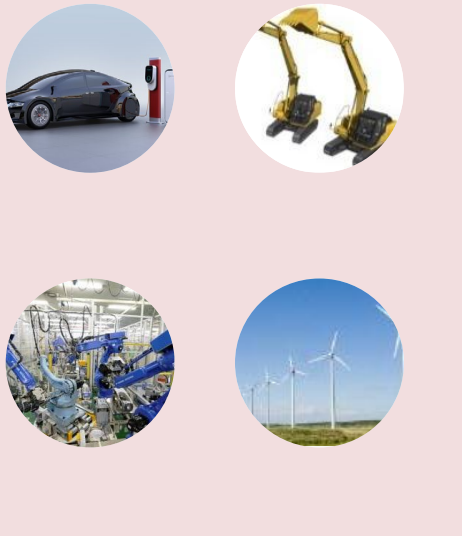


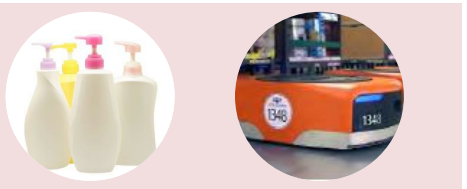
Precision Rollers



Engineered Plastic

End applications (Example)





Approx. 30%[1] Steel Ball Global Share

21 Global manufacturing plants

Over 90yrs production

1. Global steel ball + ceramic ball market; estimate

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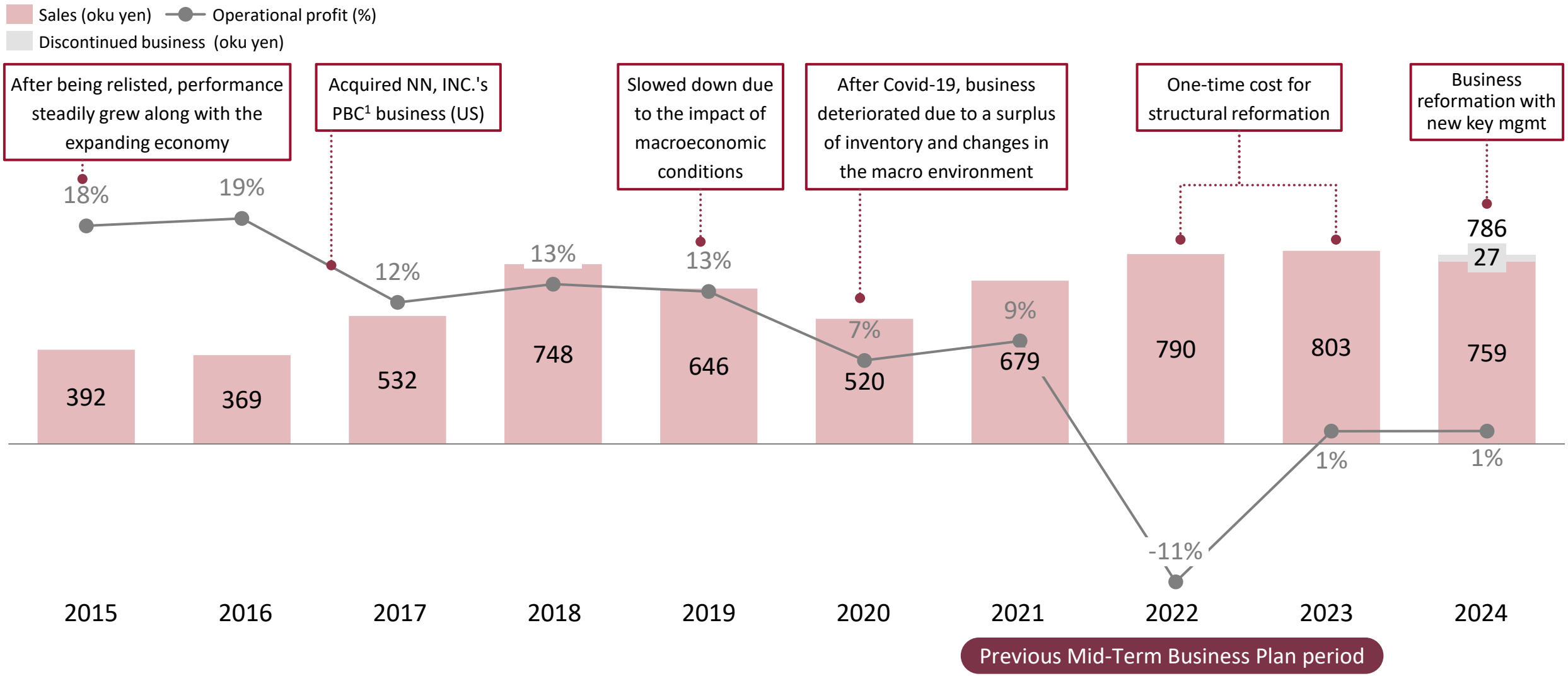
Performance Trends Over the Past Ten Years

Despite constant growth in sales, worsening business environment and reformation costs stagnated OP in the recent years



1. Precision Bearing Components

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Review of Previous Mid-Term Business Plan (FY21-23)

Only sales target achieved due to severe business environment

Achievement of key financial targets (FY23)

Achieved | Not achieved

	Initial Target		Result
Sales (oku yen)	750	»	803
Operational profit (oku yen)	115	»	8[1]
Free cash flow (oku yen)	75	»	-35
Dividend (yen/share)	98	»	35

1. Incl. 60 oku yen structural reformation cost

Review of past three years

Sales growth strategies achieved certain results and overall sales targets were achieved

- Ceramic balls: FY20: 53 oku yen => FY23: 98 oku yen (FY23 target: 83 oku yen)
- Medical devices: FY20: 7 oku yen => FY23: 17 oku yen (FY23 target: 40 oku yen)
- Asia region: FY20: 29 oku yen => FY23: 41 oku yen (FY23 target: 50 oku yen)



Structural reforms were implemented to drastically improve profit margins

- Reorganization of US steel ball plants
- Closed stamping plant in Netherlands, and Netherlands roller production transferred to Bosnia Plant, as part of roller business restructuring
- Agreement reached on sale of unprofitable linear business



On the other hand, profitability declined significantly due to intense competitive environment and sluggish market, and profit targets were not achieved

- Price competition intensified due to growing presence of Chinese and Indian players
- Demand decreased in automotive and machine tool markets due to sluggish European economy, etc.
- Profits declined due to rising material costs and labor costs caused by inflation



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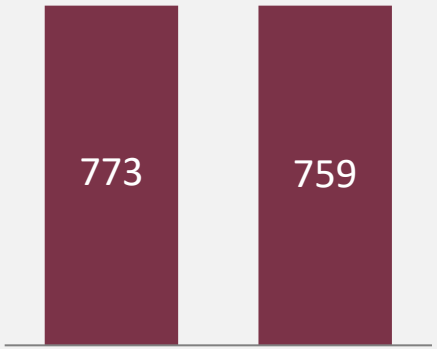
Review of FY24

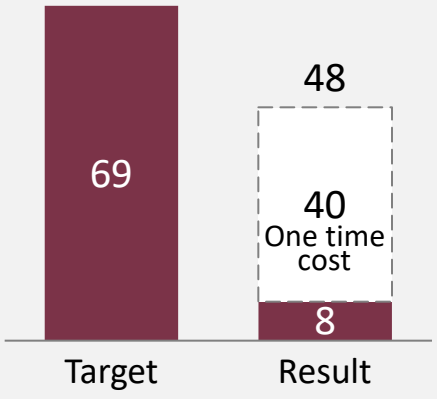
FY24 OP target unachieved; TN strengthened organization and leadership for a new MTBP development / execution

FY24: Initial financial targets not achieved

Sales (oku yen)



Operational profit (oku yen)



Although there is an increase due to the weaker yen, the volume-based figures have significantly declined

- Suspension of production and shipments by some Japanese auto OEMs
- Delayed recovery in global demand for general industrial equipment and machine tools
- Impact of slowdown in EVs on ceramic ball business

Operational profit fell far short of target

- Deteriorating profits due to intensifying price competition with Chinese players, etc.
- Impairment losses on non-current inventory to improve asset efficiency
- Excluding one-time factors (40 oku yen), operational profit is 48 oku yen

Significantly strengthened organizational and leadership structure to develop and execute new MTBP

- Key mgmt. such as CEO, CFO, and CHRO were brought in from outside the company
- New global commercial organization and manufacturing supply chain organization were established, with dedicated executives assigned to each organization
- New Mid-Term Business Plan discussion started from August 2024. New Global Leadership Team (GLT) members have been leading it as owners, and plan was finalized through intensive discussions among GLT members
- Dedicated position to oversee transformation (Transformation Director) newly set, and expert on topic was hired from outside the company

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Business Environment in this Mid-Term Business Plan Period (FY25-29)

Anticipating further intensifying competitive environments. However, growth opportunities exist at the segment level

Deterioration of customer business environment

- Shift to BEV automobiles has progressed to certain extent, and Chinese OEMs are expanding their share of automobile market
- As a result, Chinese players are also expanding their influence in bearing market
- Presence of Chinese players is increasing at both OEM and bearing manufacturer layers

Further intensification of competitive environment in ball market

- Presence of price-competitive Chinese and Indian players in ball bearing market is expanding further
- Chinese and Indian players are 1) highly cost-competitive by utilizing local materials, and 2) have strategy of focusing on volume rather than profit

Market growth in individual segments

- India: Growth of market itself and global shift in automotive and bearing production are driving growth of Indian steel ball market
- Aero & Defense: Market for bearings for aerospace and defense is expanding especially in US and Europe
- Ceramic balls: Although competitive environment will become tougher, market will grow in 2nd half of the MTBP due to penetration of EVs
- Engineered plastics: Markets for medical devices, robotics, and dispensers are expanding

Further accelerating macro environment change

- European economy remains weak, with recovery unclear
- New US administration could impose further tariffs, accelerating inflation in US

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Direction of the New Mid-Term Business Plan (FY25-29)

Premise



It will be difficult to recover to past profit levels by continuing conventional practices

- Growing presence of Chinese and Indian players intensified price competition in ball market more than previously expected
- Expansion of Chinese players also had impact on bearing market layer (our customers), and on OEM layer
- In as-is scenario, operational profit in FY29 will be negative

For Tsubaki Nakashima to regain high profitability, it is essential to significantly transform its business and cost structure and generate cash

Direction



Tsubaki Nakashima will be reborn as a company that places the highest priority on cash generation as a KPI

- Until now, company has pursued sales and operational profits
- Cash indicators will also be incorporated into mgmt. evaluations and compensation

FY25-26 will be positioned as a "seed-sowing" period for regrowth and high profitability, and achieving cash generation

- In addition to thorough initiatives to reduce procurement and production costs, we will push reduction of inventory, accounts receivable, and accounts payable
- Significantly improve FCF by reducing working capital in FY25 (FY24 10 oku yen → FY25 50 oku yen)
- In parallel, we will make necessary investments to achieve growth and high profitability structure in second half of the MTBP

In the second half of the MTBP, we will significantly improve profits from cost and growth initiatives, and secure operating cash flow for shareholder returns

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Strategic Direction in the New Mid-Term Business Plan (FY25-29)



Thoroughly strengthening cost competitiveness

- Optimize production allocation based on global footprint and reorganizing production footprint (Global production optimization without focusing on “local production for local consumption”)
- Increase purchasing power through global procurement and reduce procurement costs through best-cost country sourcing
- Improving productivity by streamlining and automating production operations



Redefining TN's competitive domain

- Focus on growth segments (India, Aero & Defense, Ceramic balls, and Engineered plastics)
- Optimize prices and withdraw from unprofitable businesses/products



Strengthening cash generation capabilities

- Prevent future dead stock and optimize level of liquid inventory by establishing SIOP[1] system
- Furthermore, significantly reduce working capital by optimizing AP and AR

1. Sales, Inventory, and Operation plan

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Mid-Term Business Plan Summary

1 Key targets (FY29)

- **870 oku yen** FY29 Sales
- **100 oku yen** FY29 OP
- **11 %** FY29 OP margin
- CCC[1] **175 days** 261 days (FY24)

2 Strategic directions

- **Thorough cost optimization** to enhance competitiveness in the severely contested markets
- **Redefine business portfolio** to maximize add-value and growth across products
- **Cash flow improvement** to ensure future innovation and growth

3 6 pillars in MTBP

- (I) Global Manufacturing footprint optimization
- (II) Procurement cost reduction by global sourcing
- (III) Productivity enhance-ment by operational improvement/ automation
- (IV) Focus on growth segments (India, A&D, Ceramic ball, and Engineered plastic)
- (V) Price optimization and rationalization of low-profit segments
- (VI) Working capital reduction by inventory optimization and AP/AR reduction

4 Enabler/ Foundation

- Global Manufactuing /Procurement Organization
- Global Commercial Organization
- Strategic KPI tracking
- Employee engagement/ organization enhancement
- SIOP[2] process establishment
- System to ensure financial/process transpacency

1. Cash Conversion Cycle, DIO+DSO-DPO; 2. Sales, Inventory, and Operation plan

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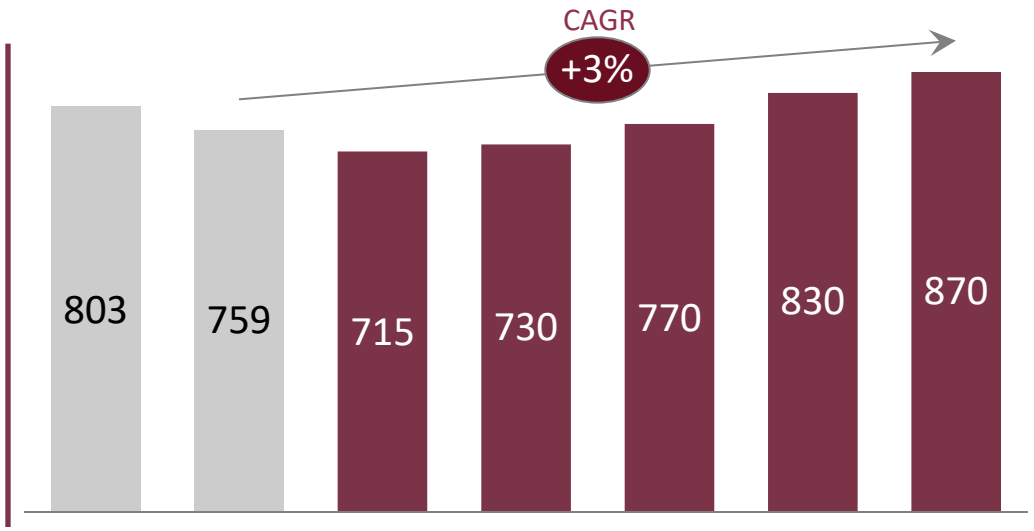
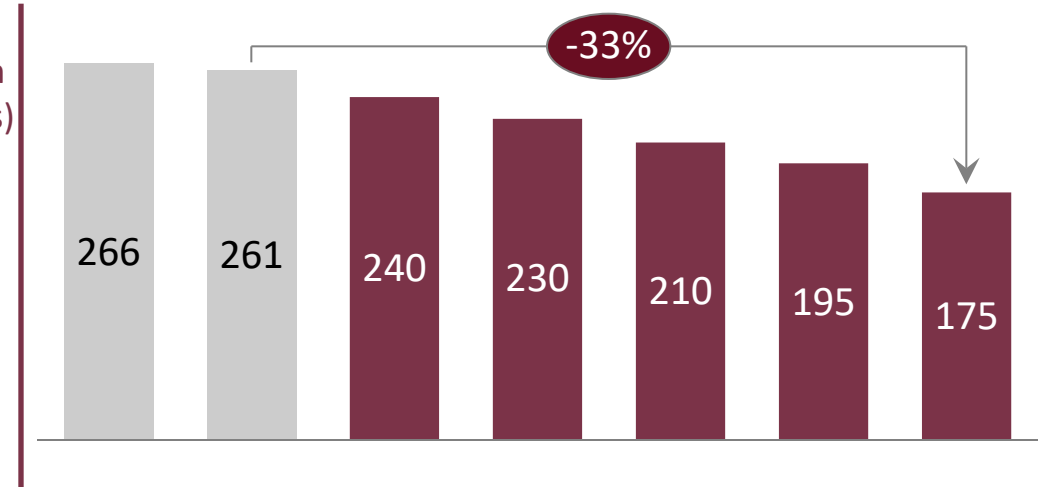
1

Financial Target in this Mid-Term Business Plan

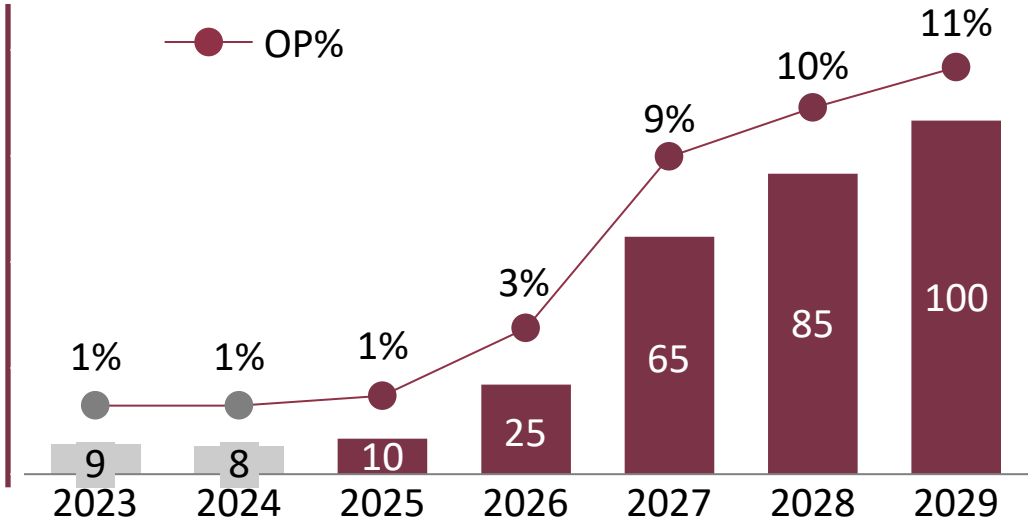
Sales[1] (oku yen)



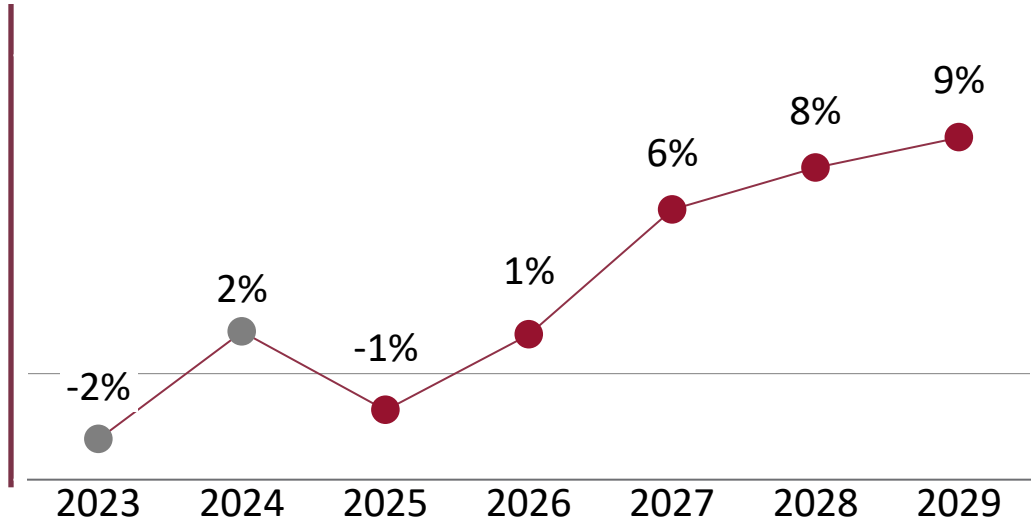
Cash Conversion Cycle (days)



OP[1] (oku yen)



ROE (%)



1. From FY24 onward, we will use figures for continuing operations only.

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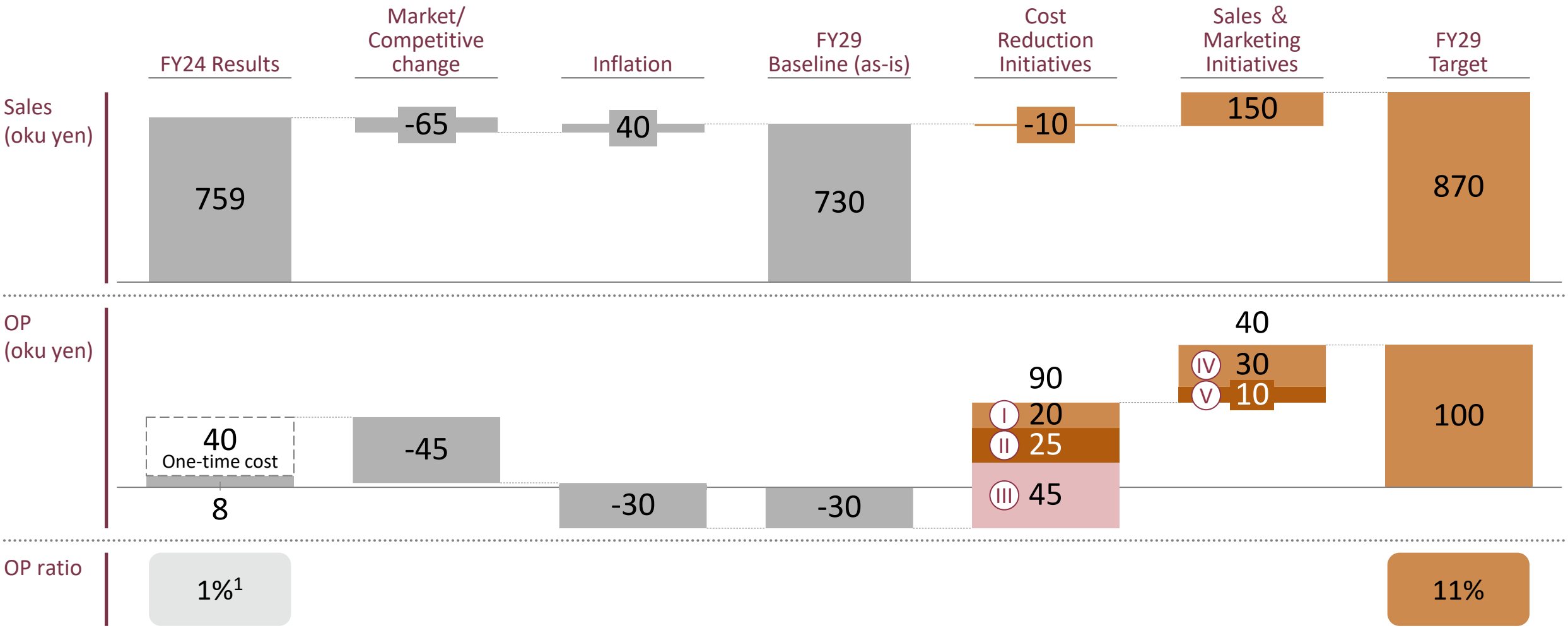
1

Sales and Profit Improvement Plan until Final Year of Mid-Term Business Plan



1. 6% when excluding one-time costs

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Strategic Direction ①: Thoroughly Strengthen Cost Competitiveness

I Global production footprint optimization



- Moving away from traditional "local production for local consumption" approach
- Utilizing India as supply base for Europe and US
- Reorganizing production footprint

II Cost reduction by global procurement optimization



- Reduce costs of direct and indirect materials
- Global bulk procurement
- Horizontal deployment of indirect materials between plants

III Improving productivity by efficient operation & automation



- Improving productivity of direct & indirect headcount
- Streamlining and automating production operations
- Reducing costs and material usage associated with production

FY29 Profit Contribution (vs. FY24)	+20 oku yen	+25 oku yen	+45 oku yen

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Strategic Direction ②: Business Portfolio Redefinition

IV Focus on growth segments

Market CAGR('24-'29)

	Indian Market	Aero & Defense	Ceramic Balls[1]	Engineered Plastic
	+5%	+14%	+8%	+6%~
				
FY29 Sales Contribution (vs. FY24)	**+20 oku yen**	**+30 oku yen**	**+35 oku yen**	**+25 oku yen**
Ref.) FY24	*23 oku yen*	*8 oku yen*	*88 oku yen*	*35 oku yen*

V Optimize pricing and rationalize low-profit products

Strategic pricing based on product segmentation



FY29 Profit Contribution (vs. FY24): **+10 oku yen**

1. Excl. Aero & Defense ceramic balls

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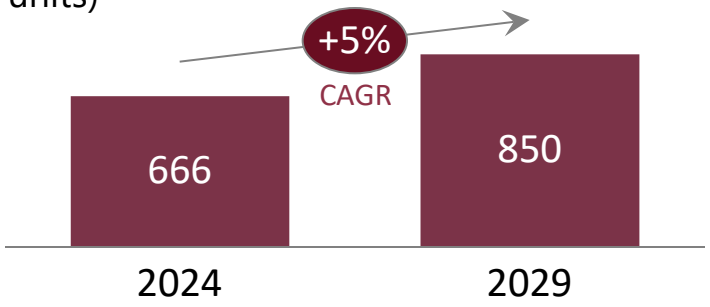
Strategic Direction ②: Business Portfolio Redefinition - Ⅳ Growth Segments

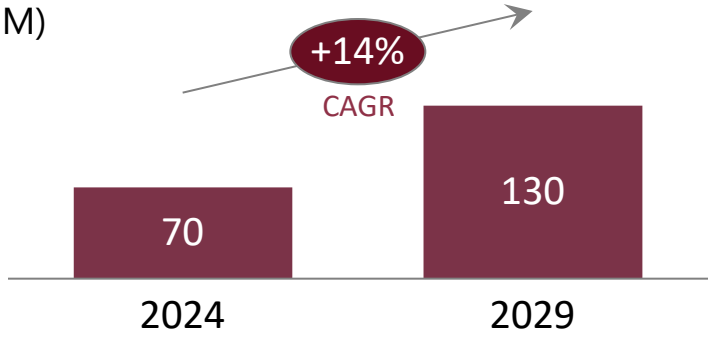
Indian Auto Production

(k units)



Aero & Defense Ball Bearing Market

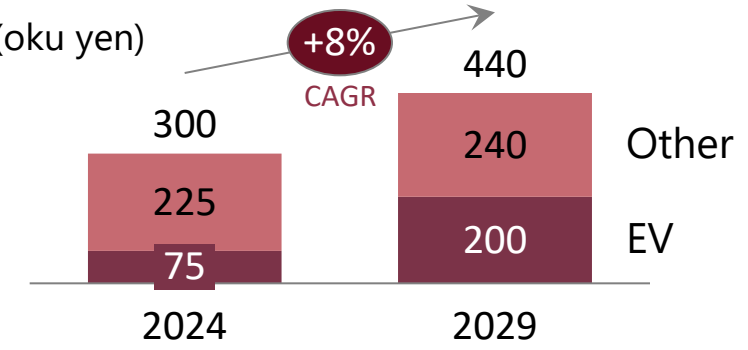
($M)



Ceramic Ball Market



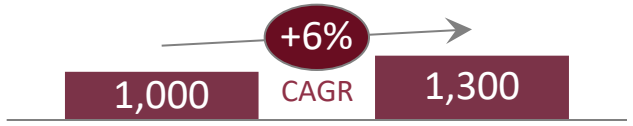
(oku yen)



Medical Injection Molding Market



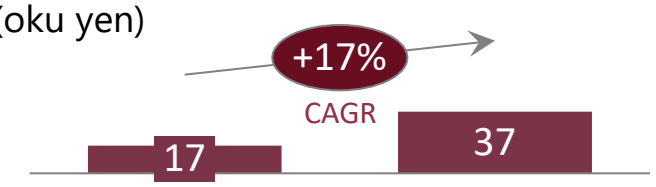
(oku yen)



Robotics & Industrial Plastic Ball Market



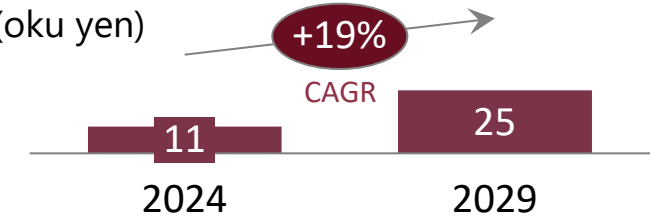
(oku yen)



Plastic Balls for Dispenser Market



(oku yen)



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Strategic Direction ③: Strengthening Cash Generation Capabilities

Ⅵ

Cash Conversion Cycle (CCC)

	End of FY24	End of FY29	
Inventory turnover period • Set "should-be" inventory levels • Establish the SIOP system	197 days	136 days	30% reduction
Accounts receivable turnover period	97 days	87 days	14% reduction
Accounts payable turnover period	35 days	48 days	36% Improvement

End of FY24	End of FY29
259 days	175 days

Working capital reduction Impact (Excluding Sales growth impact)

170 oku yen

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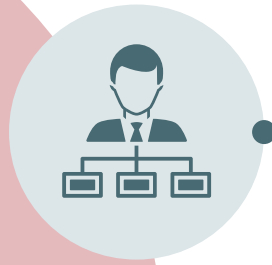
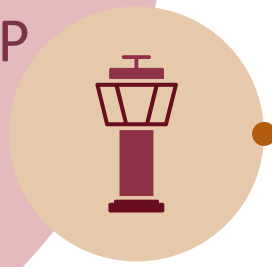
Organization & Governance Structure of this Mid-Term Business Plan

Strong structure to ensure achievement of this MTBP



Strong global leadership & organizational structure

- Invite experienced/competent talents to key mgmt. positions
- Establish global/cross-business functional organizations (production, supply chain, sales/marketing)



Strict program governance

- Transformation Director, reports directly to CEO, will oversees program
- Clarification of action plans and responsible people
- Monthly monitoring of KPIs/actions by CEO
- FCF will be incorporated into executive compensation scheme

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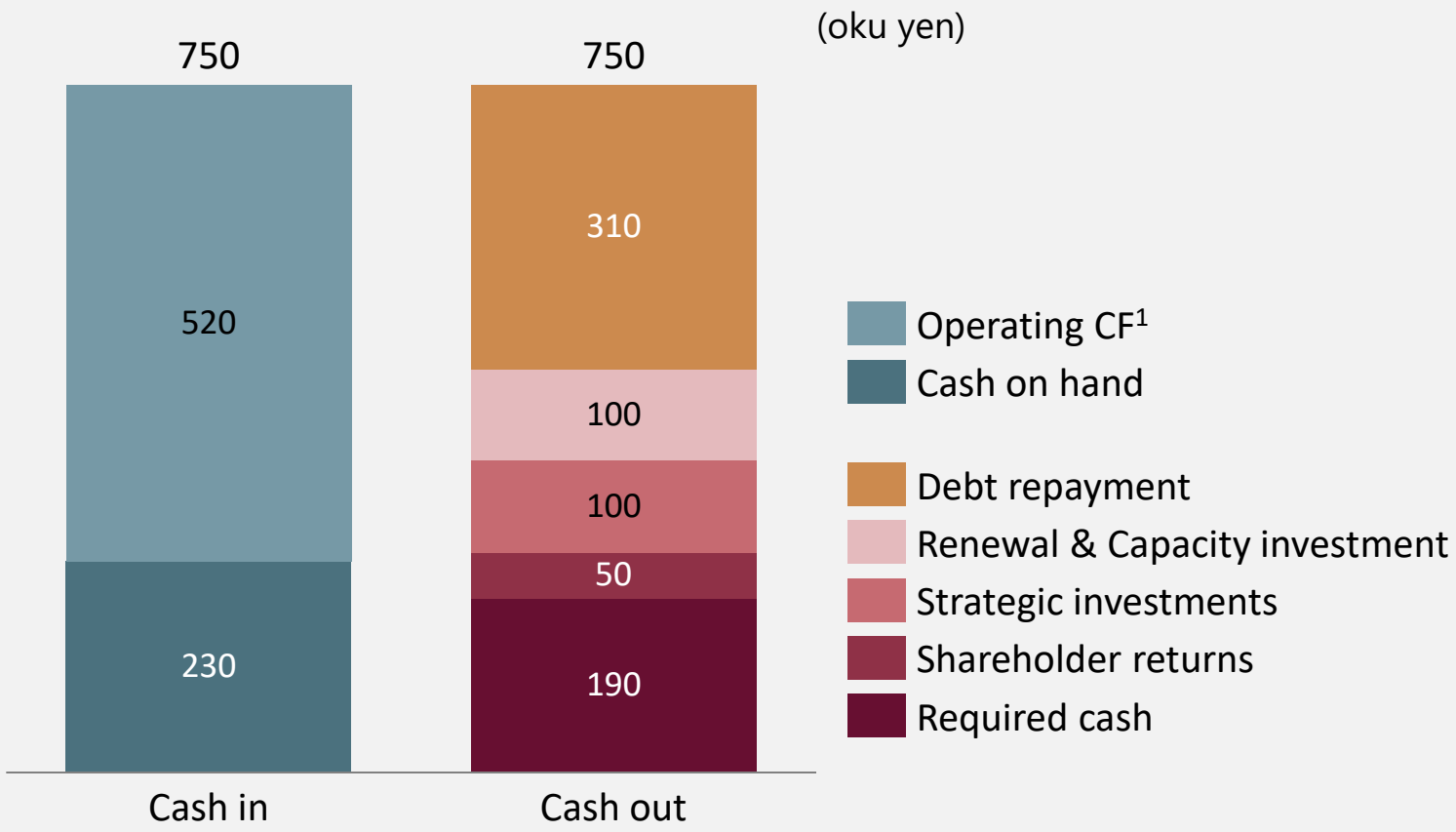
Capital Allocation during this Mid-Term Business Plan

Five-year Mid-Term Business Plan cash flow



Capital Allocation Direction

- In first half of Mid-Term Business Plan, we will limit shareholder returns and make investments necessary for value creation
- In addition to operating cash flow obtained through value creation, we will generate cash by thoroughly improving working capital
- Cash generated will be used to improve financial soundness through debt repayment and to fund shareholder returns from FY26 onward

1. Incl. improvement of working capital

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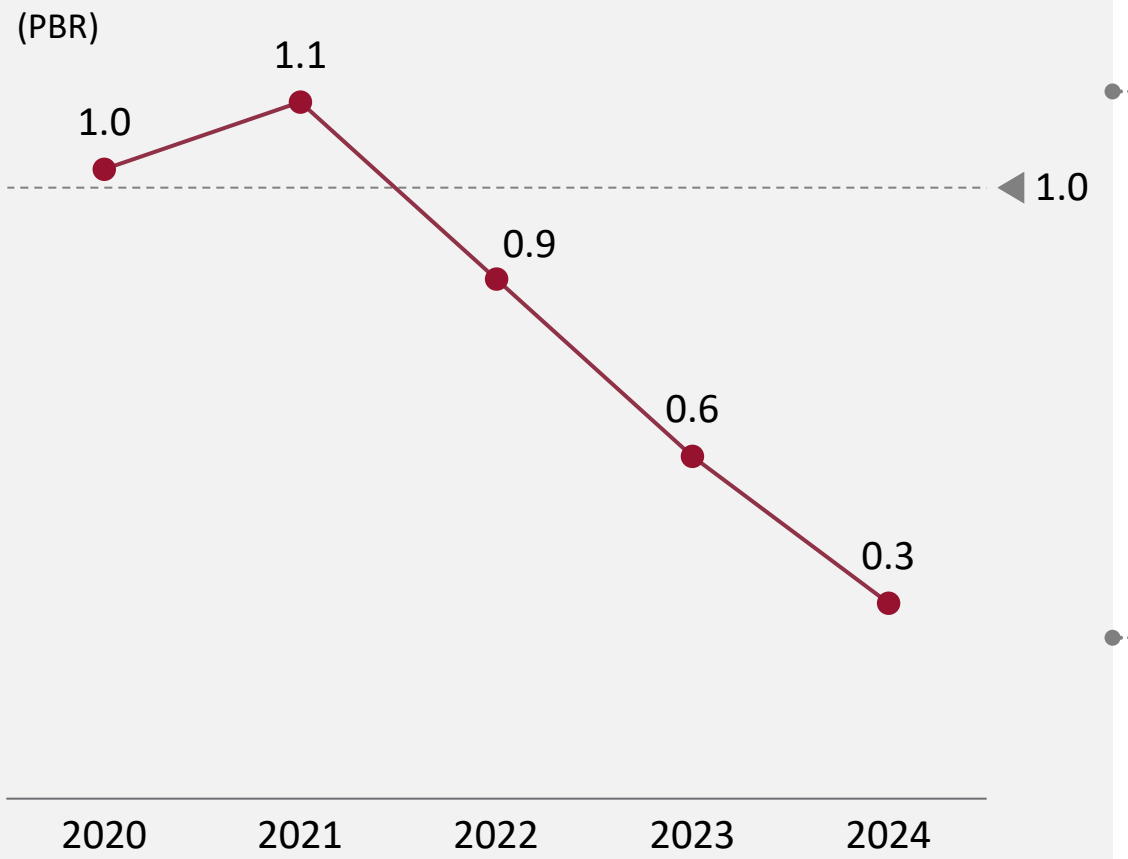
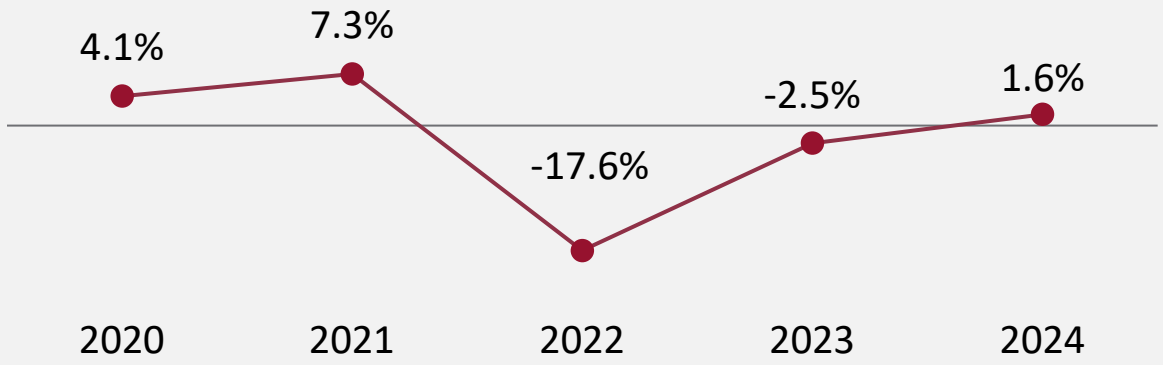
PBR and ROE Trends

Capital profitability has not exceeded the cost of capital, and the PBR has remained below 1 for the past three years

PBR trends over the past 5 years



ROE trends



Recognition of cost of capital

8~10%
Cost of equity (reference)

Risk-free rate	1.2%
β	1.1~1.2
Market risk premium	6~8%

Note: PBR, ROE as of FY year end

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Initiatives to Enhance Corporate Value

In addition to ROE impr. with this MTBP, reduce the cost of capital by strengthening IR activities and governance



ROE improvement

Achieving 10% ROE at an early stage, regardless of the MTBP period, through the execution of this strategy

- Improve profitability by ensuring the implementation of value creation initiatives
  - Thoroughly strengthen cost competitiveness
  - Expand sales in growth areas

Reduction of cost of capital

Strengthen IR activities and governance

- Strengthen engagement with investors (No. of interviews in 2024: 115)
- Improve governance
  - Performance-linked executive compensation, monthly monitoring by CEO
- Strengthen ESG initiatives in line with the strategy

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ESG Initiatives



Environment

- **42% reduction in GHG emissions** by 2030 based on SBTi (vs. 2022)
- TN electricity consumption to be **100% renewable energy** across its operations by 2040
- Maintain a **CDP rating of B or higher** - Carbon Disclosure Project **climate change score**
- **TN Strategy (2025-2029)**
  - **Reduce energy** consumption
  - Install **photovoltaic** systems
  - Purchase **green energy** using RECs
  - Improve **efficiency** of the plants through improved utilization rates
  - **Electrification** of plants



Social

- **Commitment to people**
- **Employee engagement**
- **Drive for high performance**
- **Knowledge transfer**
- **Upskilling with TN Academy**
- **Zero injury severity and frequency**
  - Aim for zero injury frequency and severity
  - Strengthen application of Global Sustainability System.



Governance

- **Strengthen** its highly transparent and objective **Integrated Corporate Governance System**
- **Strengthen the Risk Management Committee**
- **Promote compliance:** Strengthened Internal Audit Division that is committed to providing even more value-added internal audits
- **Strengthen the application of Corporate Governance:** Manual of Compliance, Code of Business Ethics and related policies

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