

# Briefing on Financial Statements for the First Half of the Year Ending March 2015



November 12, 2014

<http://www.tsugami.co.jp>

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## 1. Long-term vision

### The Group's long-term vision

**TSUGAMI will continue to provide the world's best high-precision, high-speed and high-rigidity machine tools.**

## **PRECISION TSUGAMI**

### Strong technical capability

#### **TSUGAMI Japan**

Precision technologies developed since TSUGAMI's foundation in 1937

### Strong productivity

#### **TSUGAMI China**

One of China's largest mass-production factories for manufacturers of Small Machine Tools

Stable quality,  
High cost competitiveness and  
High supply capabilities

### Strong financial structure

#### **TSUGAMI Group**

Strong B/S  
High capital adequacy ratio  
ROA

## 2. Medium- and long-term management strategies

### ■ Product development strategy

#### ➤ **Launching new products in growth fields**

Enhance the main products and accelerate launches of new products

- for IT and Electronic components: Continuing to focus on core markets
- for Automobile parts: Increasing sales level based on its stable demand
- for Complicated parts (Medical equipment, Aircraft components etc.)
- Other new products

### ■ Regional strategy

#### ➤ **Business strategy targeting growing areas**

Enhance production and sales in global markets

- Expanding the production categories of machinery manufactured and further strengthening production efficiency in China.
- Raising volume production and Reinforcement of sales system in India:  
Developing markets with TSUGAMI India
- Strengthening sales capabilities in Europe: Increasing sales and service staff at  
TSUGAMI Germany

### 3. Business performance for the First Half of the Year Ending March 31, 2015

#### (1) Changes in Financial Results

##### First half operating results for FY2014

**[Net sales]** +14.1bn yen (+91%)YoY; +3.7bn yen (+14%) vs. Initial forecast

Large IT-related demand and New products for automobile parts contributed.

**[Income]** Net income: +2.5bn yen (+385%) YoY; +0.8bn yen (+31%) vs. Initial forecast

Sales rose, while costs declined as sales of new products were getting on track.

	FY2013 ('13/4 - '14/3)			H1 of FY2014 ('14/4 - '14/9)			
	H1	H2	Full-year	H1	Year-on-year	Initial forecasts	Difference from initial forecasts
Net sales	15.6	16.6	32.2	29.7	+14.1	26.0	+3.7
Gross profit	3.7	3.4	7.1	8.0	+4.3	--	--
(Gross profit margin)	(23.9%)	(20.3%)	(22.0%)	(27.0%)	(+3.1%)	(--)	(--)
Operating income	0.8	0.4	1.2	4.8	+4.0	4.0	+0.8
(Operating income margin)	(5.1%)	(2.4%)	(3.7%)	(16.0%)	(+10.9%)	(15.4%)	(+0.6%)
Ordinary income	1.4	0.5	1.9	4.9	+3.5	3.8	+1.1
(Ordinary income margin)	(9.0%)	(3.2%)	(6.0%)	(16.4%)	(+7.4%)	(14.6%)	(+1.8%)
Net income	0.9	-0.6	0.3	3.4	+2.5	2.6	+0.8
(Net income margin)	(5.7%)	(-3.2%)	(1.1%)	(11.5%)	(+5.8%)	(10.0%)	(+1.5%)
Net income per share	12.1 yen	-7.4 yen	4.7 yen	47.2 yen	+35.1 yen	35.9 yen	+11.3 yen

Billion yen

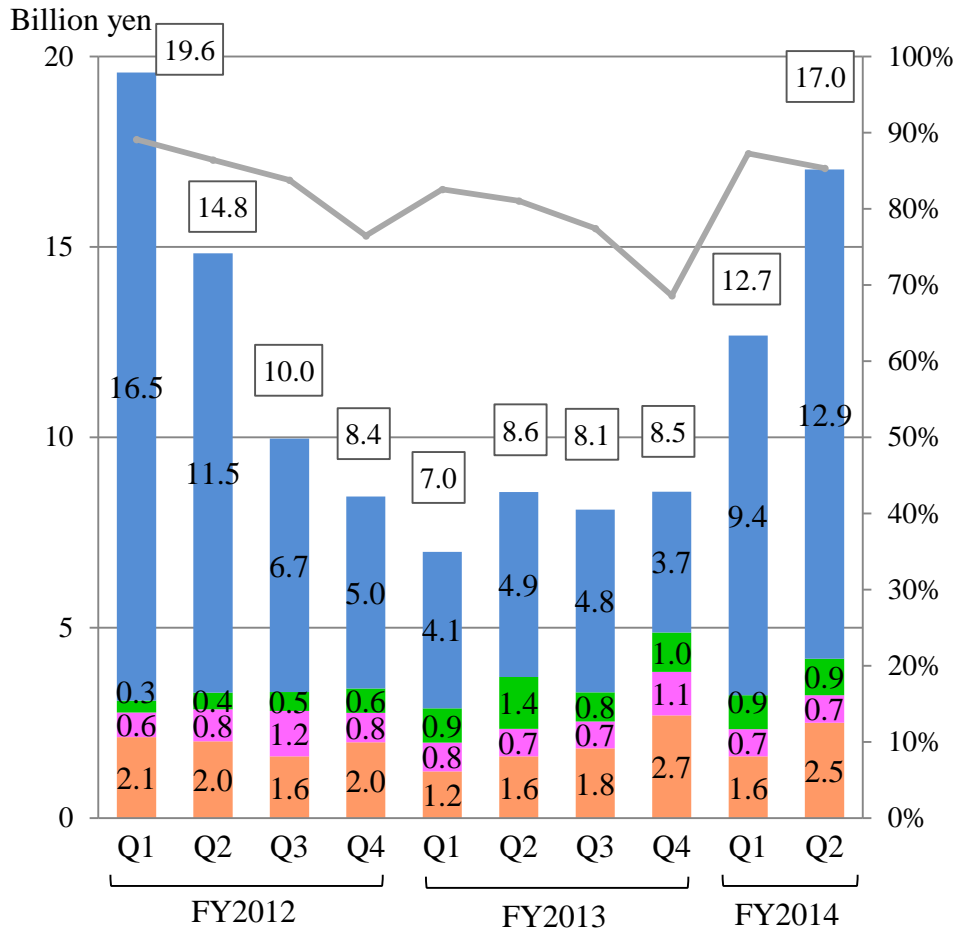
## (2) Changes in Financial Results - Quarterly -

Billion yen

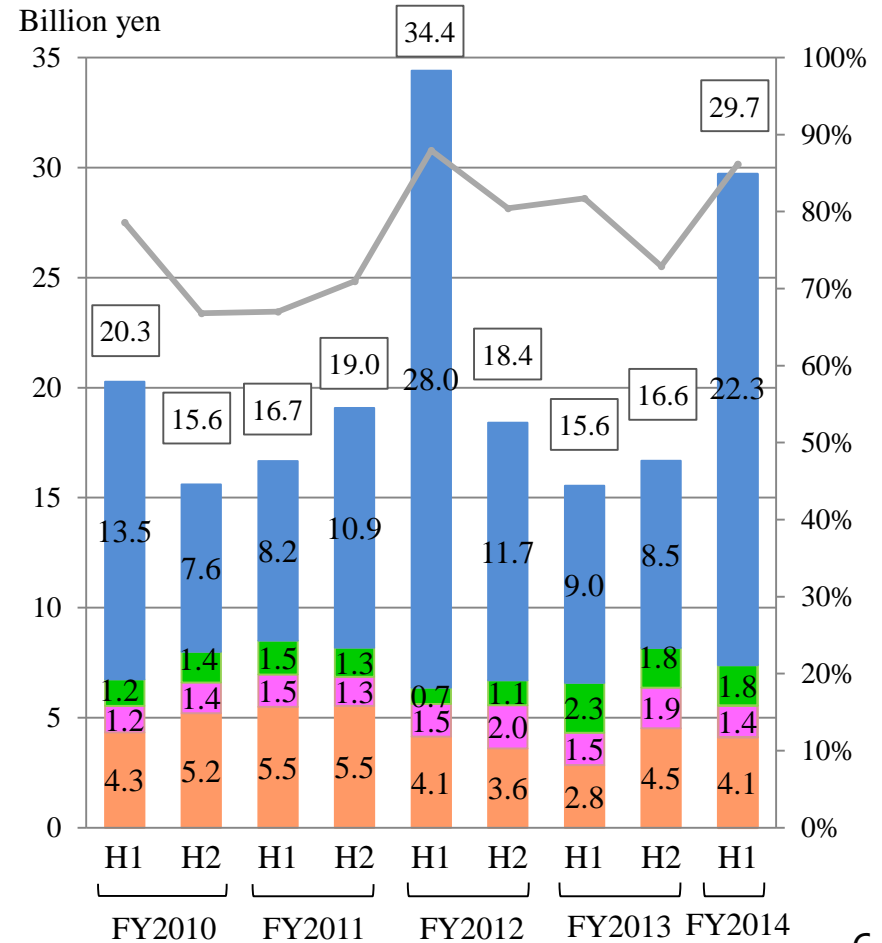
	FY2012 ('12/4-'13/3)				FY2013 ('13/4-'13/9)				FY2014 ('14/4-'14/9)	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Net sales	19.6	14.8	10.0	8.4	7.0	8.6	8.1	8.5	12.7	17.0
Gross profit	4.8	3.9	3.4	2.6	1.8	1.9	1.7	1.7	3.4	4.6
(Gross profit margin)	(24.3%)	(26.5%)	(33.9%)	(31.2%)	(26.3%)	(22.0%)	(20.5%)	(20.0%)	(26.9%)	(27.1%)
Operating income	3.3	2.3	1.8	1.0	0.4	0.4	0.0	0.4	1.9	2.9
(Operating income margin)	(16.9%)	(15.7%)	(17.3%)	(12.9%)	(5.9%)	(4.4%)	(0.5%)	(4.1%)	(15.0%)	(16.7%)
Ordinary income	2.8	2.2	1.6	0.2	1.1	0.3	0.6	-0.1	1.7	3.2
(Ordinary income margin)	(14.5%)	(14.5%)	(16.3%)	(2.3%)	(16.0%)	(3.2%)	(7.9%)	(-1.2%)	(13.2%)	(18.8%)
Net income	1.8	1.3	0.9	0.2	0.8	0.1	0.4	-1.0	1.1	2.3
(Net income margin)	(9.3%)	(8.8%)	(9.0%)	(2.1%)	(11.9%)	(0.6%)	(5.3%)	(-11.3%)	(8.6%)	(13.6%)

### (3) Net Sales by Regional Segment

#### Quarterly



#### Semi-Annually

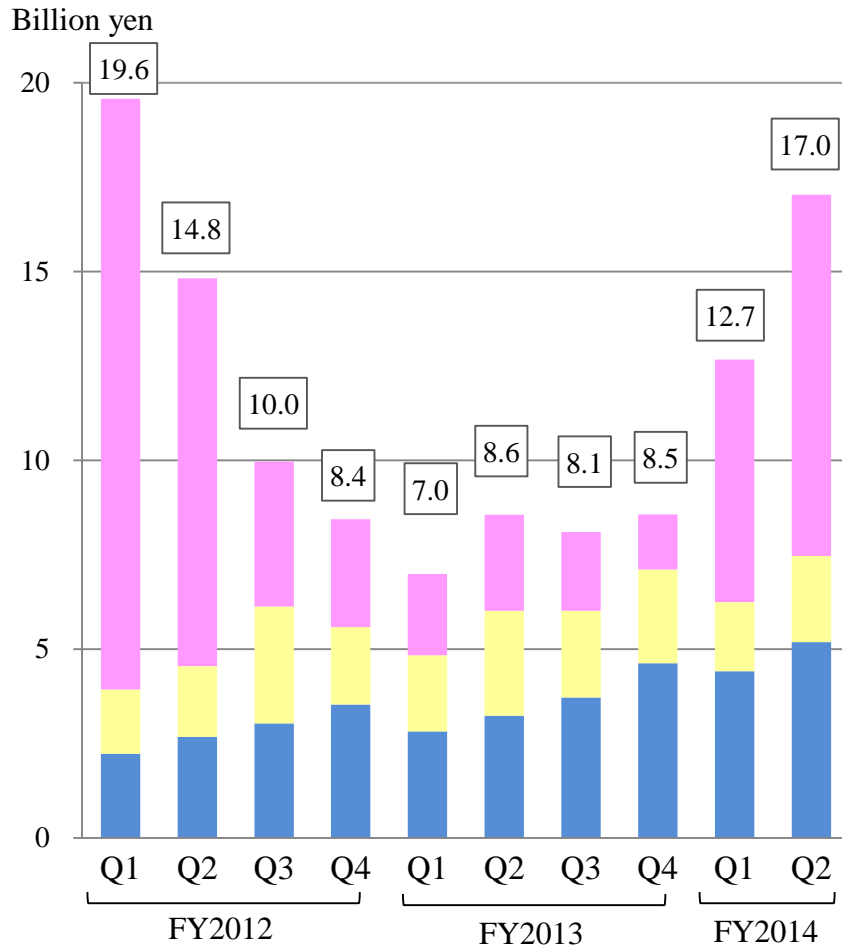


## (4) Net Sales by Business Segment

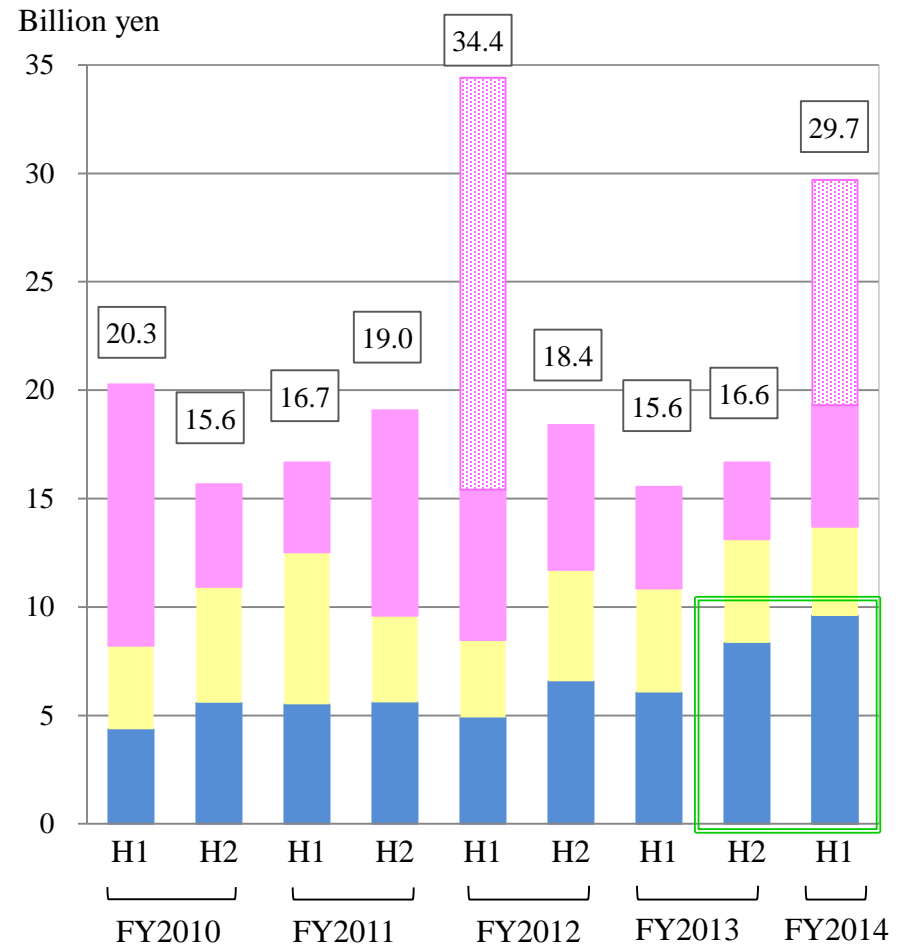
Aiming to improve earnings result by launching new products for automobile parts in 3Q/FY2013. Continuing to promote sales.

- IT
- Other (hydraulic and pneumatic equipment, medical equipment and others)
- Automobile

### Quarterly



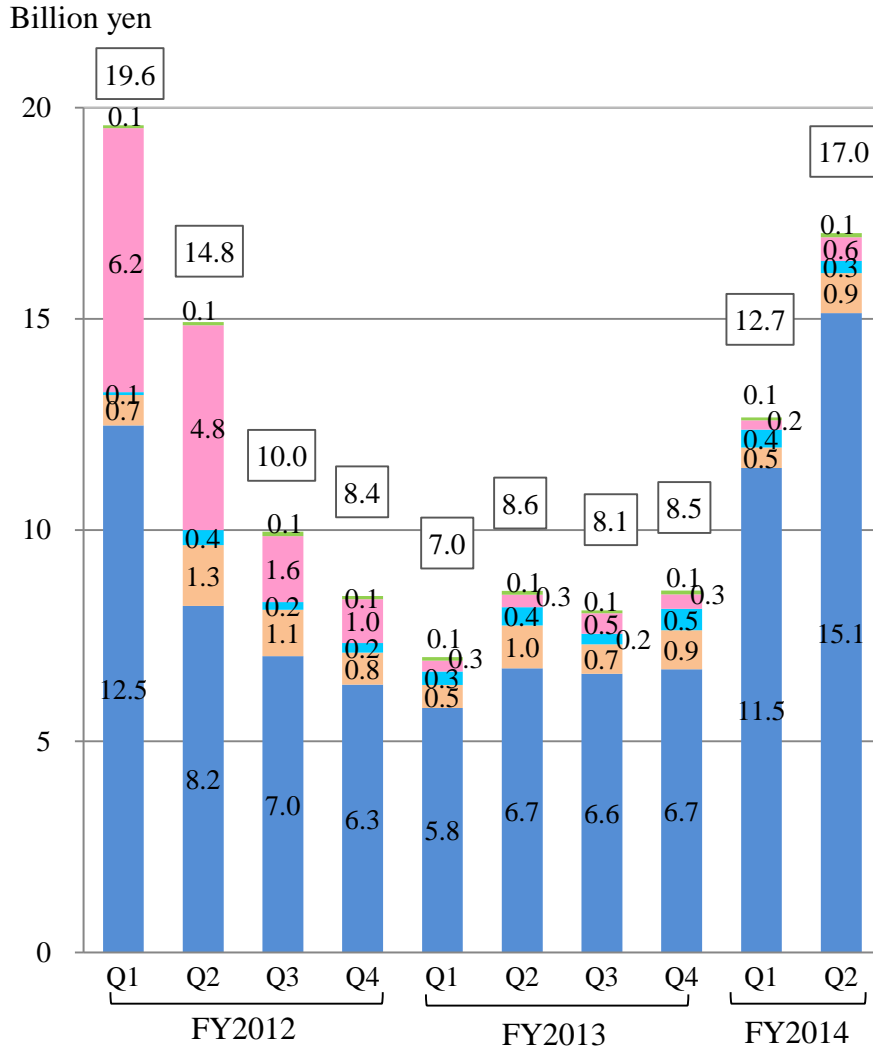
### Semi-Annually



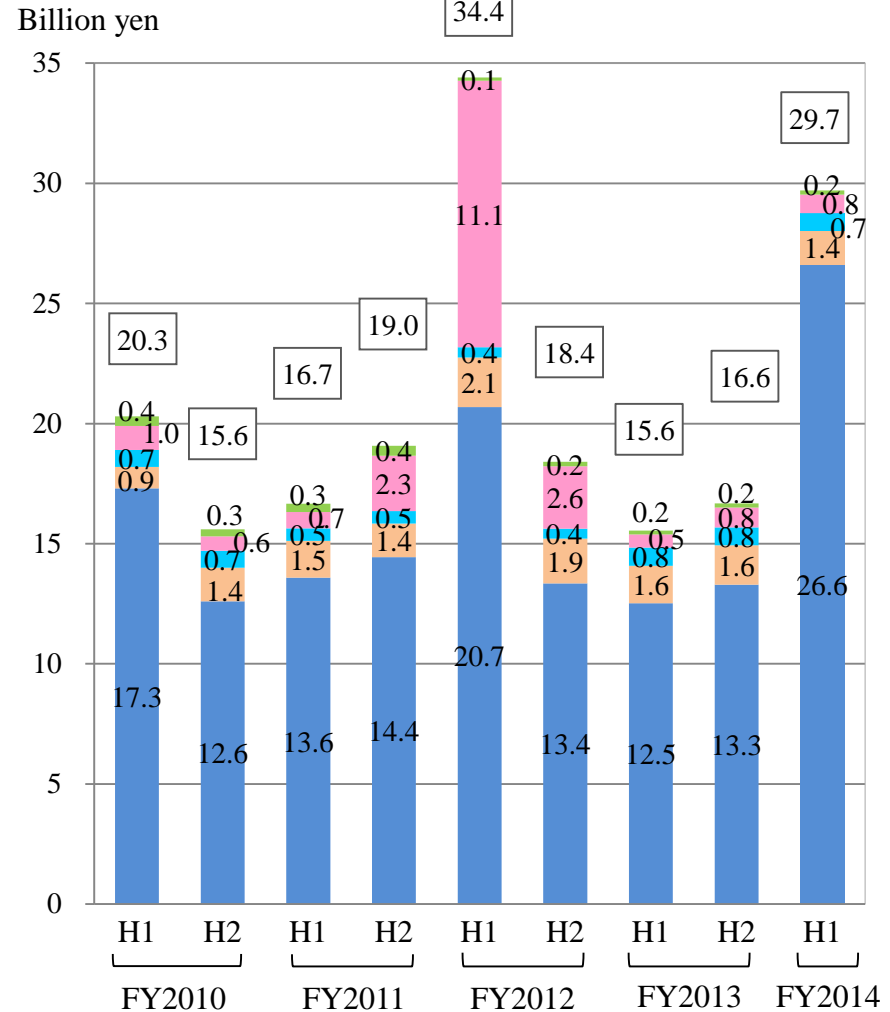


# (5) Net Sales by Machinery Category

## Quarterly



## Semi-Annually



## (6) Balance Sheets

Billion yen

	2013/9E	2014/3E	2014/9E	Difference from 2014/3E
<b>Total assets</b>	<b>46.0</b>	<b>52.3</b>	<b>60.9</b>	<b>+8.6</b>
<b>Current assets</b>	<b>30.6</b>	<b>36.0</b>	<b>43.3</b>	<b>+7.3</b>
Cash and deposits	6.8	6.2	3.8	-2.4
Trade notes and accounts receivable	5.4	6.7	14.4	+7.7
Inventories	17.2	21.0	23.5	+2.5
Deferred tax assets and others	1.2	2.1	1.6	-0.5
<b>Fixed assets</b>	<b>15.4</b>	<b>16.3</b>	<b>17.6</b>	<b>+1.3</b>
Tangible fixed assets	10.1	10.4	11.1	Note 1 +0.7
Intangible fixed assets	0.3	0.3	0.7	Note 2 +0.4
Investments and other assets	5.0	5.6	5.8	+0.2
<b>Total liabilities</b>	<b>13.7</b>	<b>20.7</b>	<b>25.7</b>	<b>+5.0</b>
<b>Current liabilities</b>	<b>12.5</b>	<b>19.3</b>	<b>24.3</b>	<b>+5.0</b>
Trade notes and accounts payable	6.7	10.6	13.0	+2.4
Short-term borrowings	4.1	6.1	8.5	+2.4
Accrued income tax and others	1.7	2.6	2.8	+0.2
<b>Long-term liabilities</b>	<b>1.2</b>	<b>1.4</b>	<b>1.4</b>	<b>+0.0</b>
<b>Total net assets</b>	<b>32.3</b>	<b>31.6</b>	<b>35.2</b>	<b>+3.6</b>
Common stock, Capital surplus	18.2	18.2	18.2	0.0
Retained earnings	12.4	11.4	14.5	+3.1
Treasury stock	-1.0	-1.1	-1.2	-0.1
Unrealized gains on marketable securities	1.2	1.4	1.6	+0.2
Translation adjustments and others	1.5	1.7	2.1	+0.4
<b>Capital adequacy ratio</b>	<b>69.2%</b>	<b>59.3%</b>	<b>56.7%</b>	<b>-2.6%</b>

Note 1:

China factory new building No.8: +0.3

Production machines: +0.2

New factory acquired in China: +0.3

Effect of exchange rate: +0.4

Depreciation and others: -0.5

Note 2:

Land-use rights for new factory  
of China: +0.4

## (7) Cash flows

Billion yen

	FY2013 H1 ( '13/4-'13/9)	FY2013 H2 ( '13/10-'14/3)	FY2014 H1 ( '14/4-'14/9)	
Cash flows from operating activities	1.8	-1.1	-2.8	Note 1:
Income before taxes, depreciation and amortization	1.7	1.1	Note 1 5.4	Income before taxes: 4.83
Gross working capital	0.9	-1.5	Note 2 -6.7	Depreciation and amortization: 0.53
Corporate and other taxes	-0.8	-0.7	-1.5	
Cash flows from investing activities	0.0	-0.7	-1.0	Note 2:
Capital investment in Japan factory	-0.1	0.0	-0.1	Notes and accounts receivable: -7.48
Capital investment in China factory	-0.5	-0.5	Note 3 -1.0	Notes and accounts payable: 1.91
Capital increase in affiliate in India	--	-0.4	--	Inventories: -1.74
Sales of investment securities and others	0.6	0.2	0.1	Other current assets: 0.62
Cash flows from financing activities	-0.8	1.2	1.4	Note 3:
Short-term borrowings	0.4	1.9	2.0	China factory new building No.8: -0.24
Redemption of corporate bonds	-0.15	-0.15	--	New factory acquired in China: -0.30
Dividends paid	-0.4	-0.5	-0.4	Land-use rights for new factory of China: -0.37
Purchase of treasury stock	-0.6	-0.1	Note 4 -0.3	Production machines: -0.10
Translation differences for cash and cash equivalents	0.2	0.1	0.06	Note 4: 514 thousand shares purchased
Net increase (decrease) in cash and cash equivalents	1.3	-0.6	-2.4	
Cash and cash equivalents at the end of the term	6.6	6.0	3.6	

## 2. Business Conditions and Outlook

### (1) Outlook for Fiscal Year Ending March 31, 2015

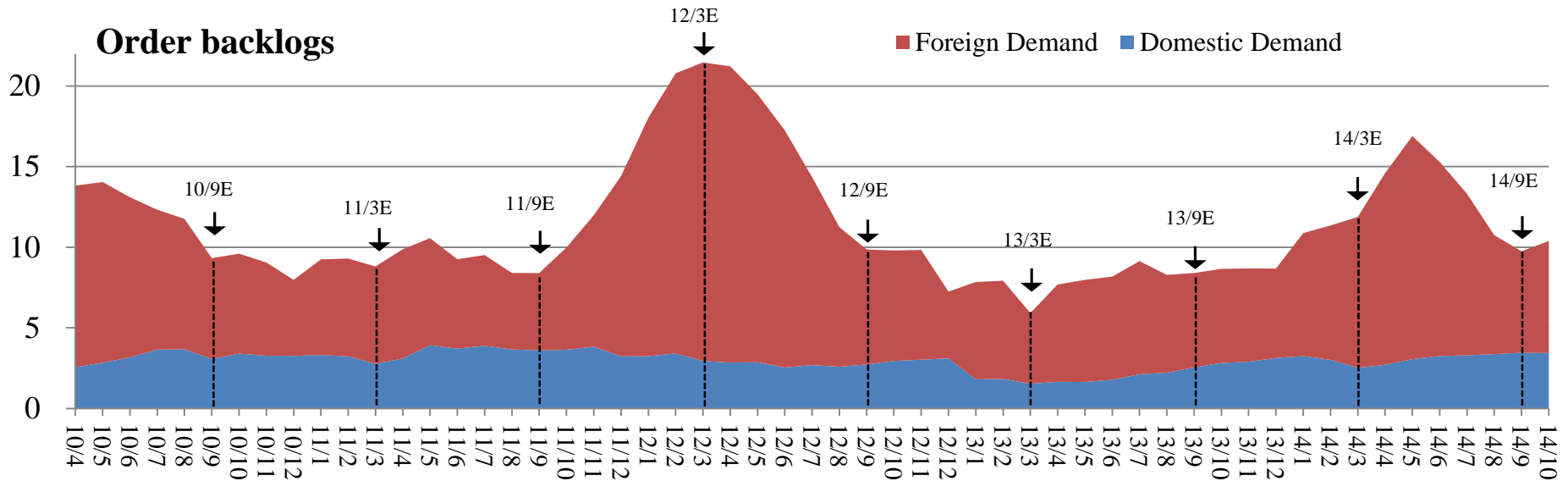
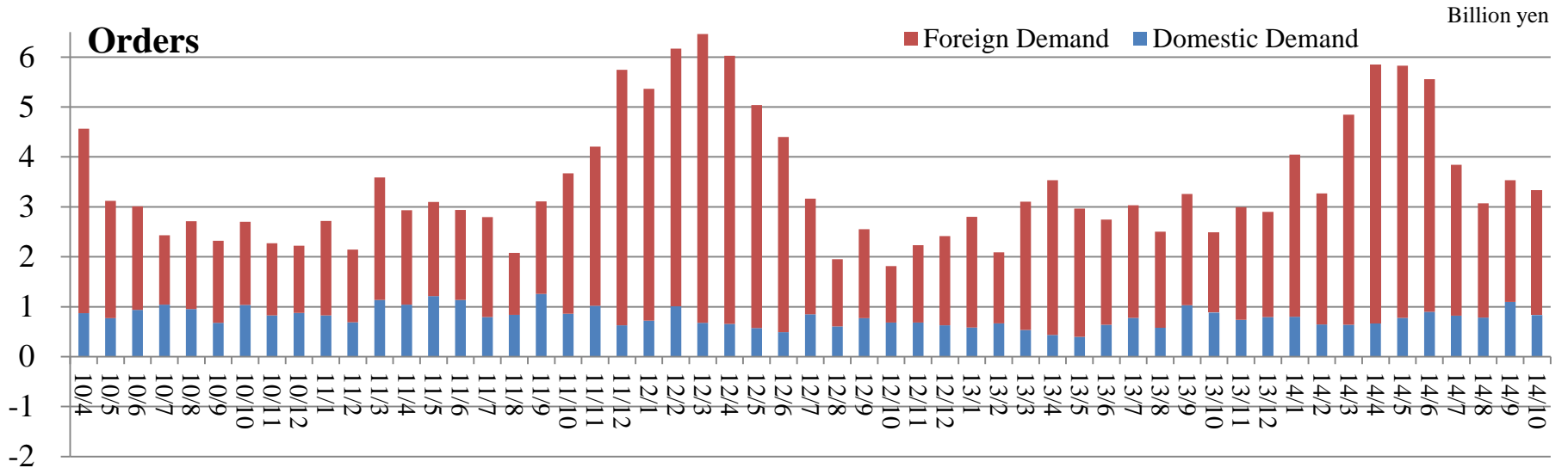
#### Outlook for FY2014

- Recovering moderately in Japan, Europe, the United States, China, and other markets. However, there is invisible over demand related IT, including smartphones, which have been a driving force, and no upward revisions in the 2nd half.
- New products for automobile parts are expected making steady contributions.

Billion yen

	Semi-annually				Full-year				
	FY2013 H1	FY2013 H2	FY2014 H1	FY2014 H2 Revised forecasts	FY2013	FY2014 Revised forecasts	Year-on- year	FY2014 Initial forecasts	Difference from initial forecasts
Net sales	15.6	16.6	29.7	20.3	32.2	50.0	+17.8	46.0	+4.0
Operating income	0.8	0.4	4.8	1.9	1.2	6.7	+5.5	6.0	+0.7
(Operating income margin)	(5.1%)	(2.4%)	(16.0%)	(9.6%)	(3.7%)	(13.4%)	(+9.7%)	(13.0%)	(+0.4%)
Ordinary income	1.4	0.5	4.9	1.6	1.9	6.5	+4.6	5.8	+0.7
(Ordinary income margin)	(9.0%)	(3.2%)	(16.4%)	(8.0%)	(6.0%)	(13.0%)	(+7.0%)	(12.6%)	(+0.4%)
Net income	0.9	-0.6	3.4	1.2	0.3	4.6	+4.3	4.0	+0.6
(Net income margin)	(5.7%)	(-3.2%)	(11.5%)	(5.9%)	(1.1%)	(9.2%)	(+8.1%)	(8.7%)	(+0.5%)
Net income per share	12.1 yen	-7.4 yen	47.2 yen	16.6 yen	4.7 yen	63.8 yen	+59.1 yen	55.3 yen	+8.5 yen

## (2) Orders Received and Order Backlogs



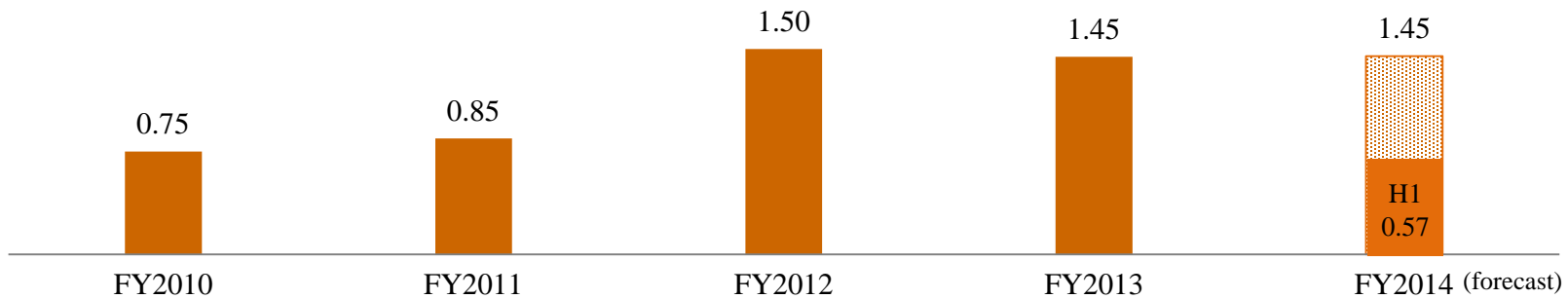
### (3) New Products

		Orders start	Main target
Released in FY2013	M06J, M08J, M06SY, M08SY	July 2013	Automobile parts and Others
	M06D, M08D, M06SD, M08SD	January 2014	Automobile parts and Others
	M06JC	February 2014	Automobile parts and Others
	B020M	June 2013	IT, Automobile small sized parts and Others
	B038T	June 2013	Automobile small sized parts and Others
	VA3	July 2013	IT, Automobile small sized parts and Others
	G350-750 (2 types)	July 2013	Automobile parts and Others
Scheduled for release in FY2014	Automatic lathes B0203/B0204/B0205/B0206-III, B0123/124/125/126-III, B073/74/75-III	Q4 / FY2014	IT, Automobile small sized parts and Others
	Automatic lathes B0208W, C300-IV, C300H	Q3 / FY2014	IT, Automobile small sized parts and Others
	Turning center TMA8J, TMA8H	Q3 / FY2014	Automobile parts and Others

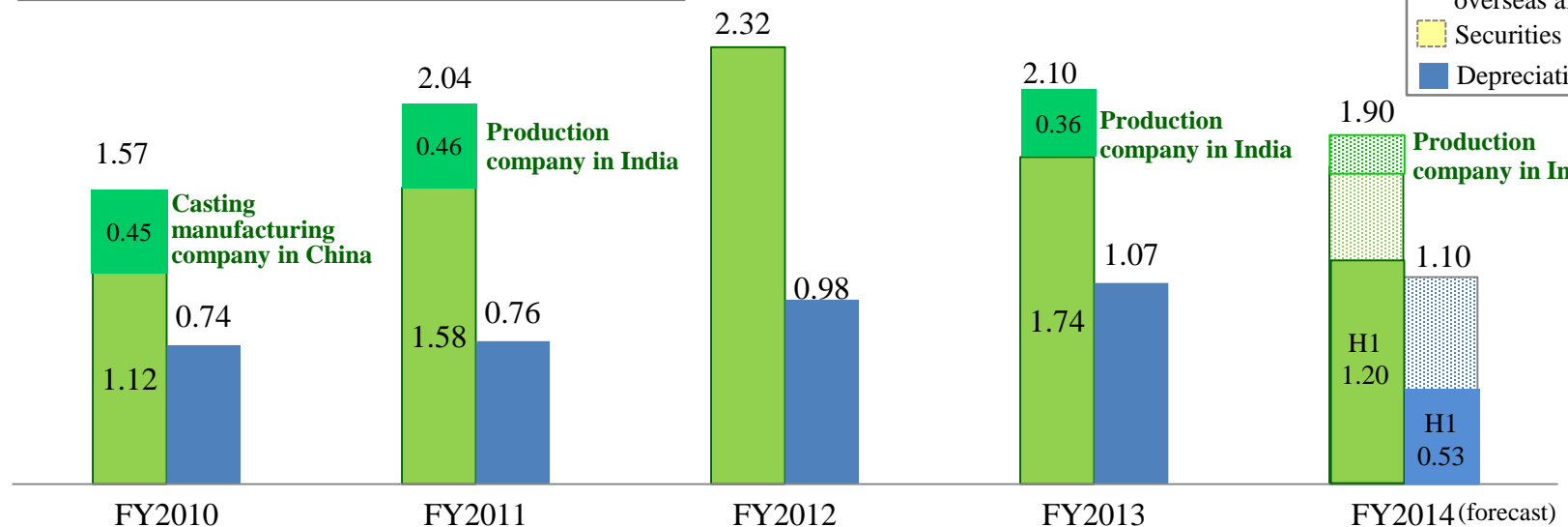
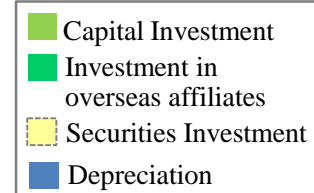
## (4) R&D Expenditures, Capital Investment and Depreciation

### R&D Expenditures

Billion yen



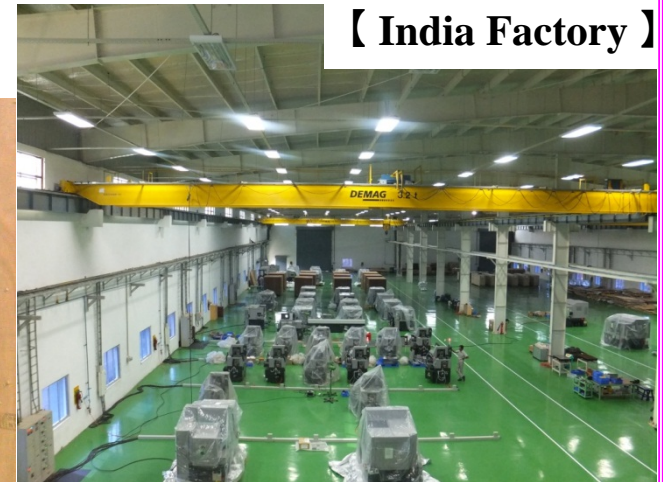
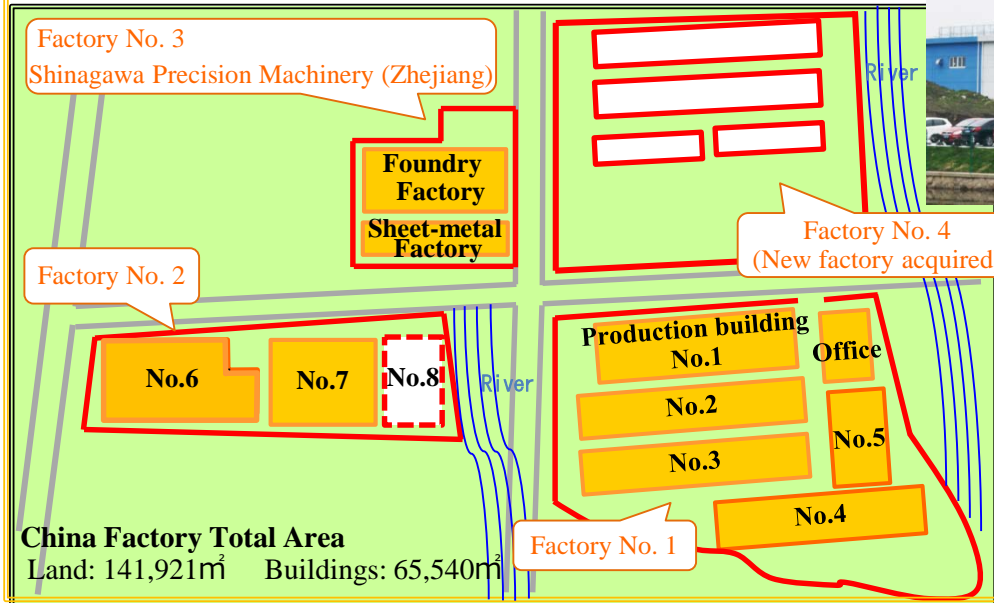
### Capital Investment and Depreciation



Investments in China peaked in the past five years, and the Group is focusing on improving production efficiency. The Group is gearing up to start mass production in India. However, the investment will not be large.

# Overseas factories

## 【 China Factory 】





The content in this material is premised on various assumptions and does not ensure or guarantee the realization of the planned figures and/or future policies stated herein.