

Management Reform Plan toward the new “Shibaura Machine”

～Manifestation toward change to a profitable company～

Toshiba Machine Co., Ltd.

February 4, 2020

TOSHIBA MACHINE
Shibaura Machine

Background and Framework of the Management Reform Plan Formulation

- The Company formulated a **mid-term management plan “RE-10”** on May 15, 2019. Currently being implemented, with the basic policy of enhancing corporate value through enhanced profitability, strengthened product appeal, and growth investments.
- However, in addition to US-China trade friction, with the rapid deterioration and heightened uncertainty of the market against the background of opaqueness due to continued geopolitical risks, the Company faces **harsh management environment**.
- In order to respond to such management environment, and to proceed further toward the next era and to be reborn as a new company, the **“Management Reform Plan”** was formulated.
- Based on the “Management Reform Plan”, new “Shibaura Machine” aims for an **8% operating profit ratio and 8.5% ROE** in year 2023.

*The Company will change the company name into “Shibaura Machine Co., Ltd.” on April 1, 2020.

Framework of Management Reform Plan

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Quantitative target

Target value for FY 2023
Consolidated basis

Sales
135 billion
yen

Operating profit
ratio
8.0%

Payout ratio
Prospect of 40%
(during the period of the
Management Reform Plan)

ROE
8.5%

Specific measures

【Management reform centered on reorganization】

- (i) Abolish the “**division system**” which produced specific optimization issues, and adopt a “**company system**”
- (ii) Establish an “**R&D Center**” and a “**Production Division**” which bear enhancement of production efficiency and QCD* as common functions.
- (iii) Conduct **personnel relocation** and **voluntary retirement** toward optimal resource allocation and reduction of fixed costs.

【Promotion of growth investments aimed for expansion of purposes to fields expected to grow in the future】

- (iv) Promotion of **growth investments** aimed for expansion of purposes to fields expected to grown in the future

*QCD : Quality · Cost · Delivery



【Implementation of financial strategies aimed for enhancement of return on equity (ROE)】

- (v) Allot cash-on-hand to investments towards change into a profitable company, and **enhance profitability** and **capital efficiency**

Investment plan/ Financial strategies

Outline of the Effects of the Management Reform Plan

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Realize an **ROE 8.5% ROE** and a **40% payout ratio** in fiscal year 2023
through a total investment of 30 billion yen

Investment summary

Total investment <small>Accumulated amount from FY2019 to 2023</small>	30 billion yen
Structural reform	3 billion yen
Capital investment	25 billion yen
R&D/ Personnel investment	2 billion yen

Quantitative target for FY2023

Sales	135 billion yen
Operating profits <small>(operating profit ratio)</small>	10.8 billion yen <small>(8.0%)</small>
ROE	8.5%
Payout ratio <small>(during the period of the Management Reform Plan)</small>	Prospect of 40%

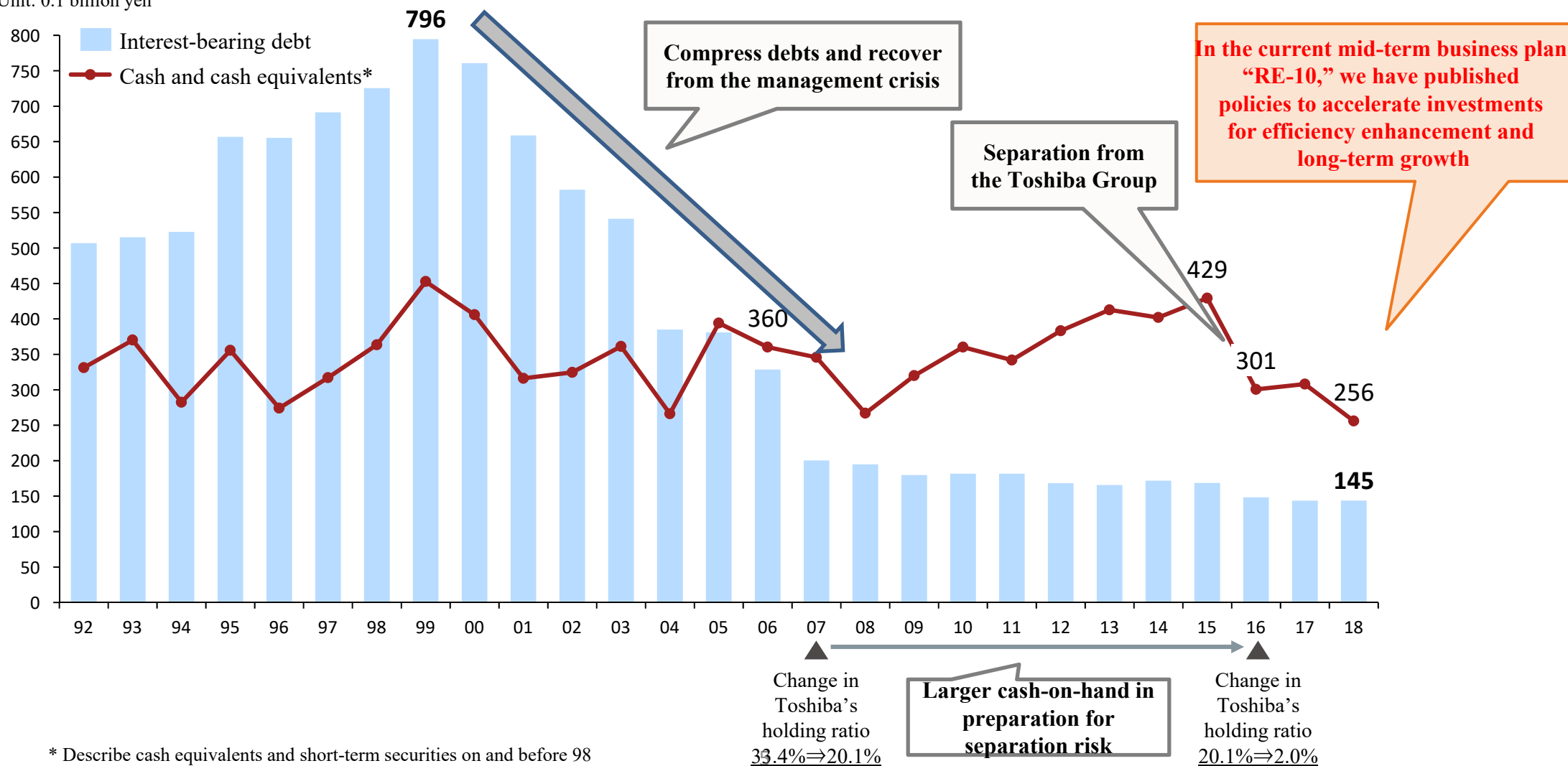
Changes in Financial Strategies

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Engaged in **long-term enhancement of financial structure**, and **held larger cash-on-hand** in preparation for separation from the Toshiba Group in recent years

Changes in interest-bearing debt, cash and deposits and equivalents

Unit: 0.1 billion yen



Rapid Fall in Orders Received by the Machinery Industry

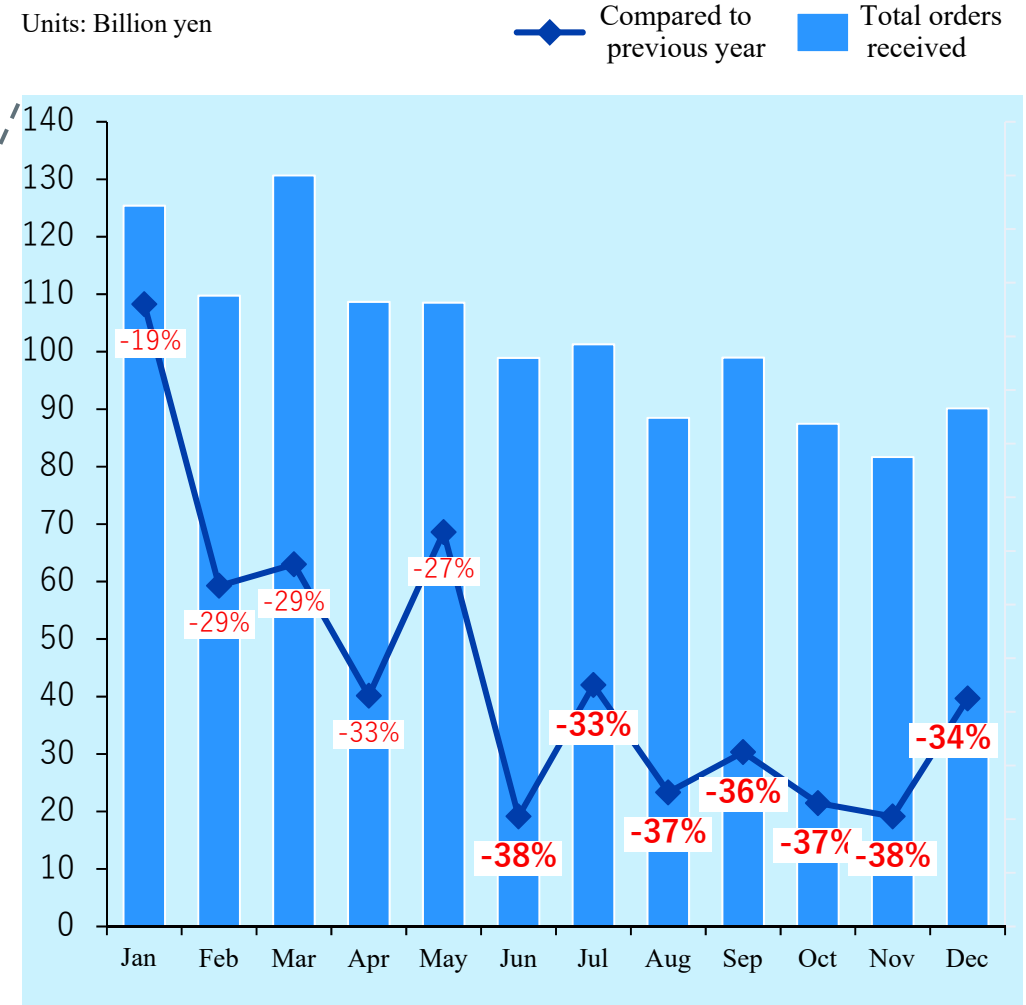
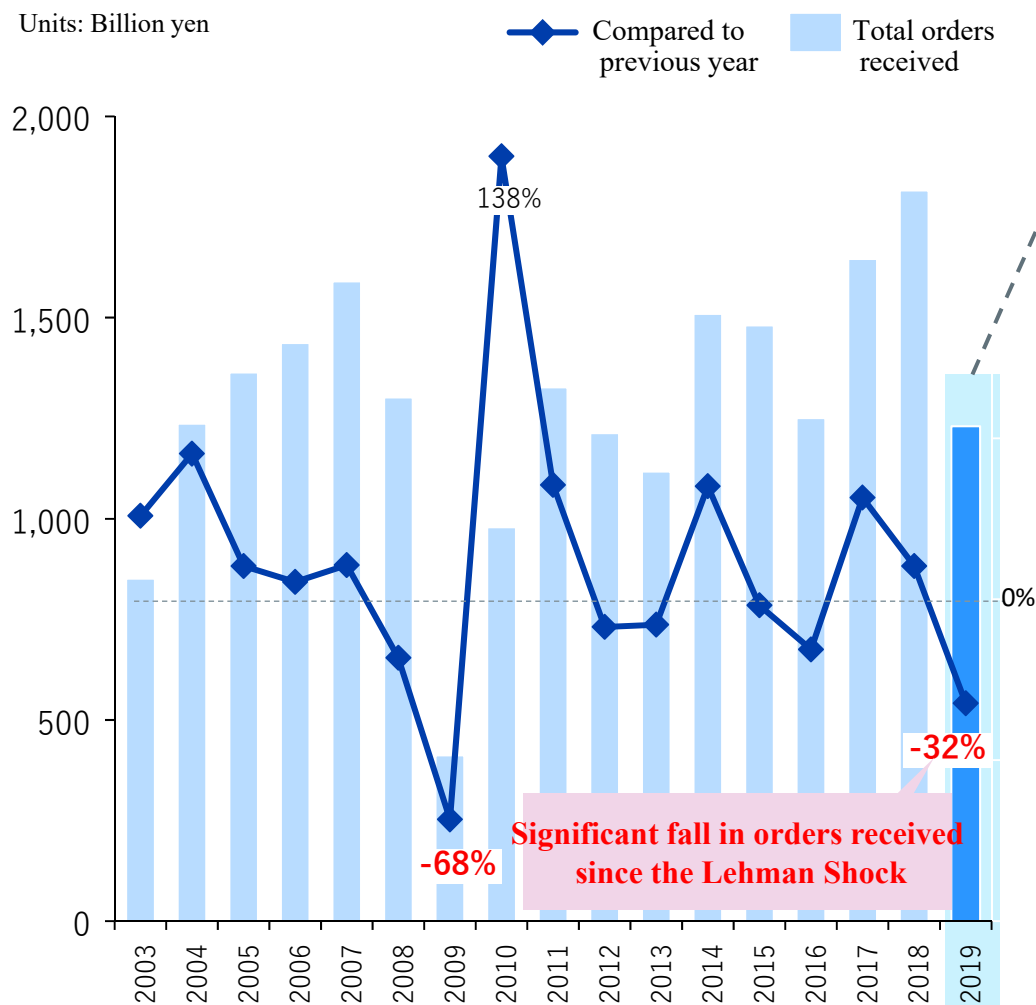
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Due to intensified US-China trade frictions, orders received for machine tools, which are the leading indicator in the industry, are rapidly decelerating, and 2019 represents a **significant fall since the Lehman Shock**.

Particularly, **June and onward are prominent**

Changes in orders received by machine tools industry
(annual)

Changes in orders received by machine tools industry in 2019
(monthly)



Rapid fall in machine industry

- ✓ Due to intensified US-China trade friction, **the entire machine industry** is faced with **a fall in receiving orders since the Lehman Shock**
- ✓ There is an unprecedented decrease in orders received by the Company, and **enhancement of profitability is a pressing need.**

Cash-in and loss of equity interest in connection with the sale of NuFlare Technology (NFT) shares

- ✓ While enhancement of the profitability of the core business became a pressing need, **one-step-further structural reform and securing of the revenue source was determined to be necessary**, and sale of NFT shares was determined
- ✓ On the other hand, as equity interests were lost, **revenue decline accelerated**

Management Reform Plan formulation

Rebirth from low profit structure to a profitable company

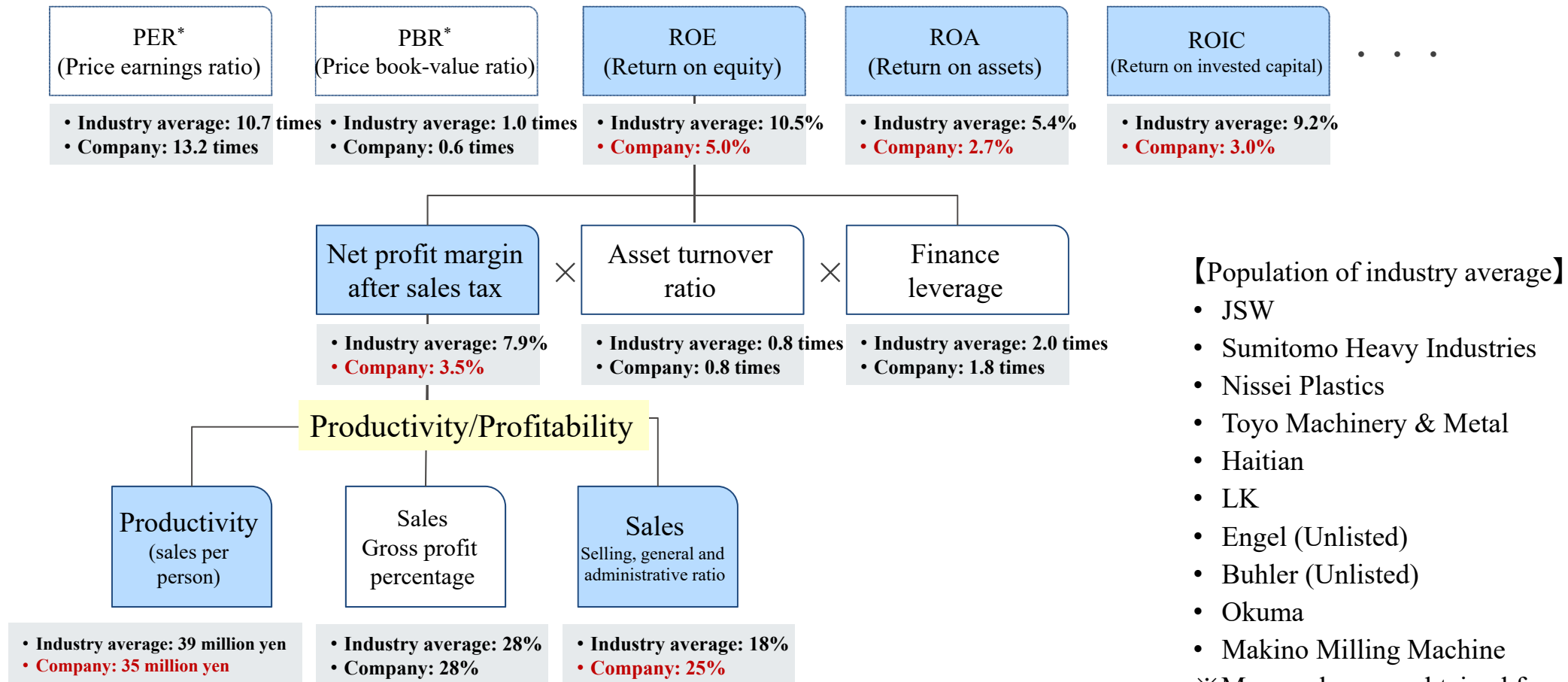
Revision of capital strategies

The Company's Financial Issues Recognition

Compared to competitors in terms of financial aspects, **productivity**, and **selling, general, and administrative ratio** are subordinated

Shareholder indicator (numerical value for FY2018)

*Calculated from share value as of March 29, 2019



【Population of industry average】

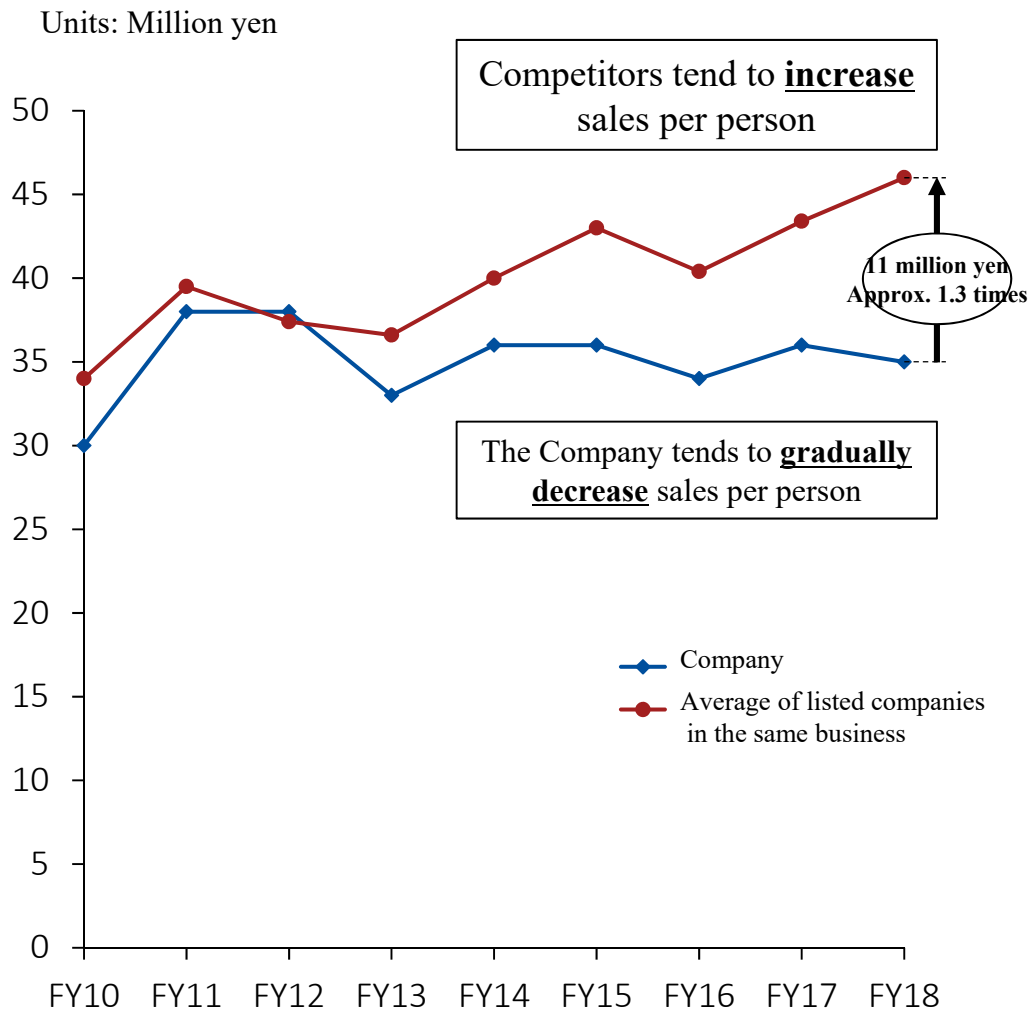
- JSW
- Sumitomo Heavy Industries
- Nissei Plastics
- Toyo Machinery & Metal
- Haitian
- LK
- Engel (Unlisted)
- Buhler (Unlisted)
- Okuma
- Makino Milling Machine

※Mean value was obtained from information obtainable for each index from the above

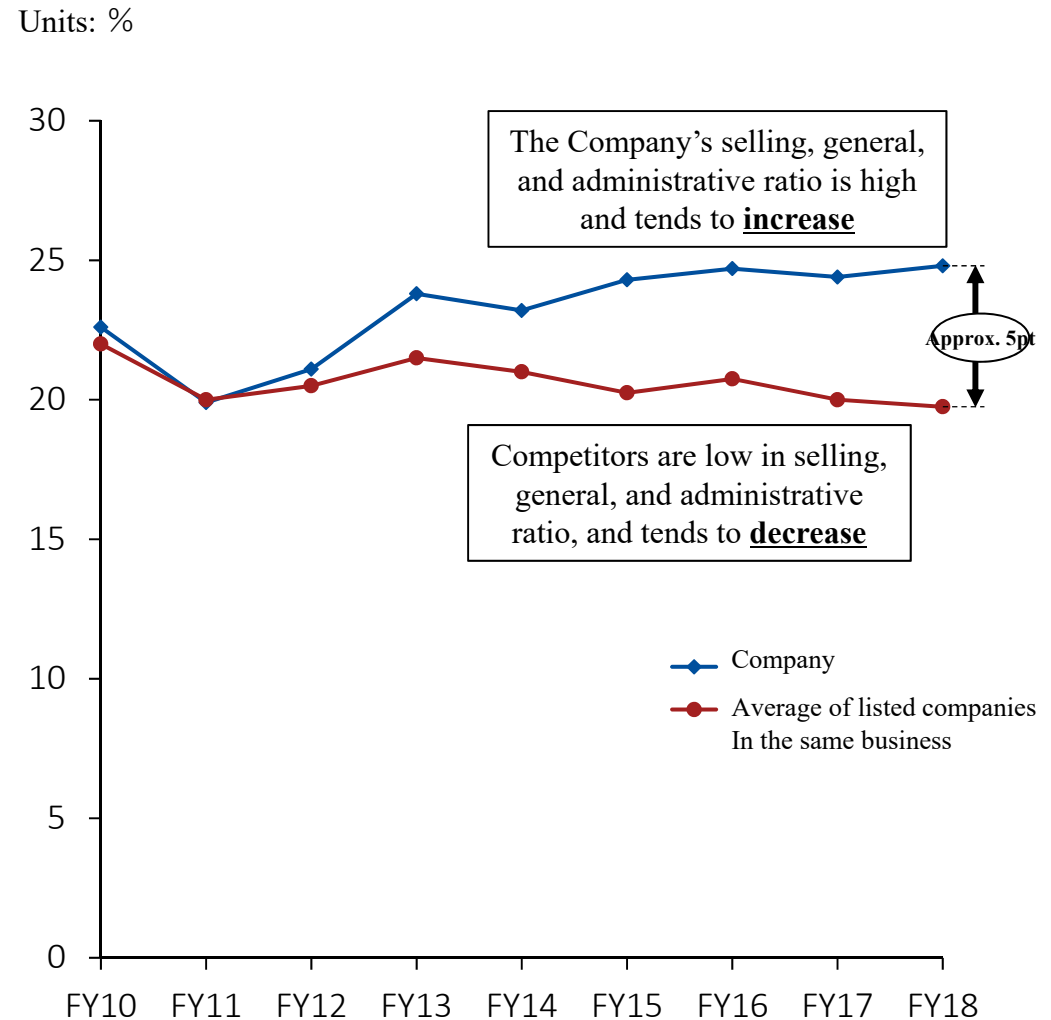
Factors for the Low Profit Structure

Productivity is low, and selling, general, and administrative ratio is high compared to competitors

Comparison in productivity (sales per person)



Comparison of selling, general, and administrative ratio in comparison of sales



Outlines of the Management Reform Plan

(1) Adoption of the Company System

Up to Date

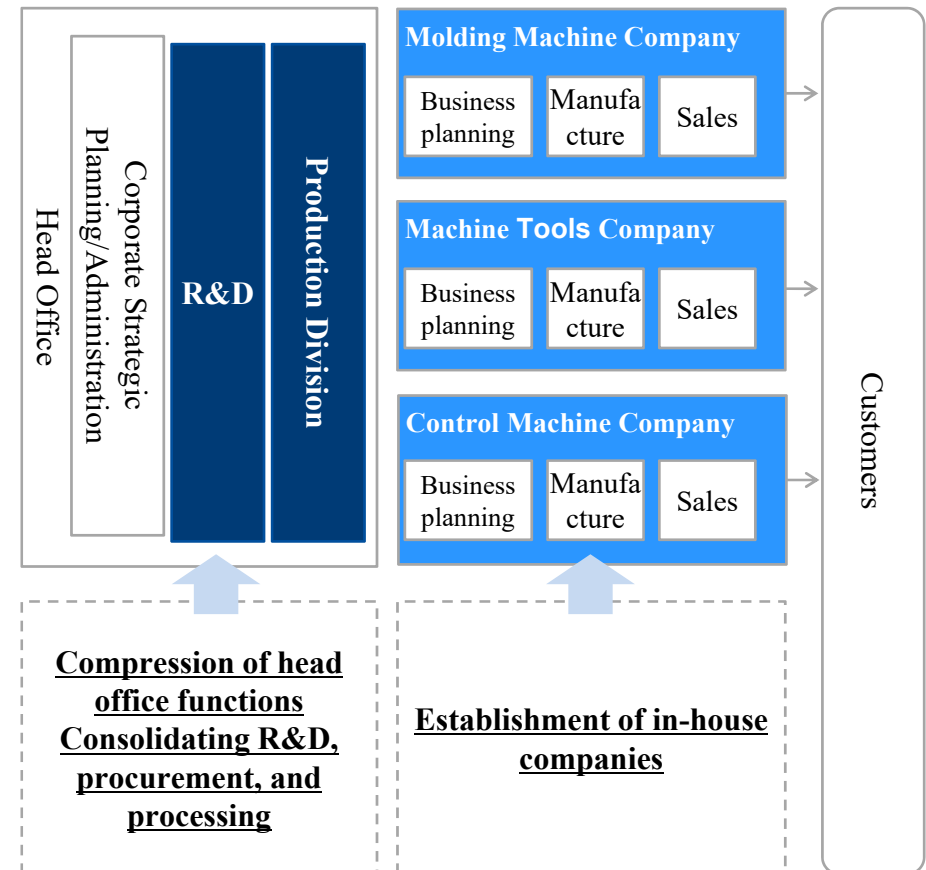
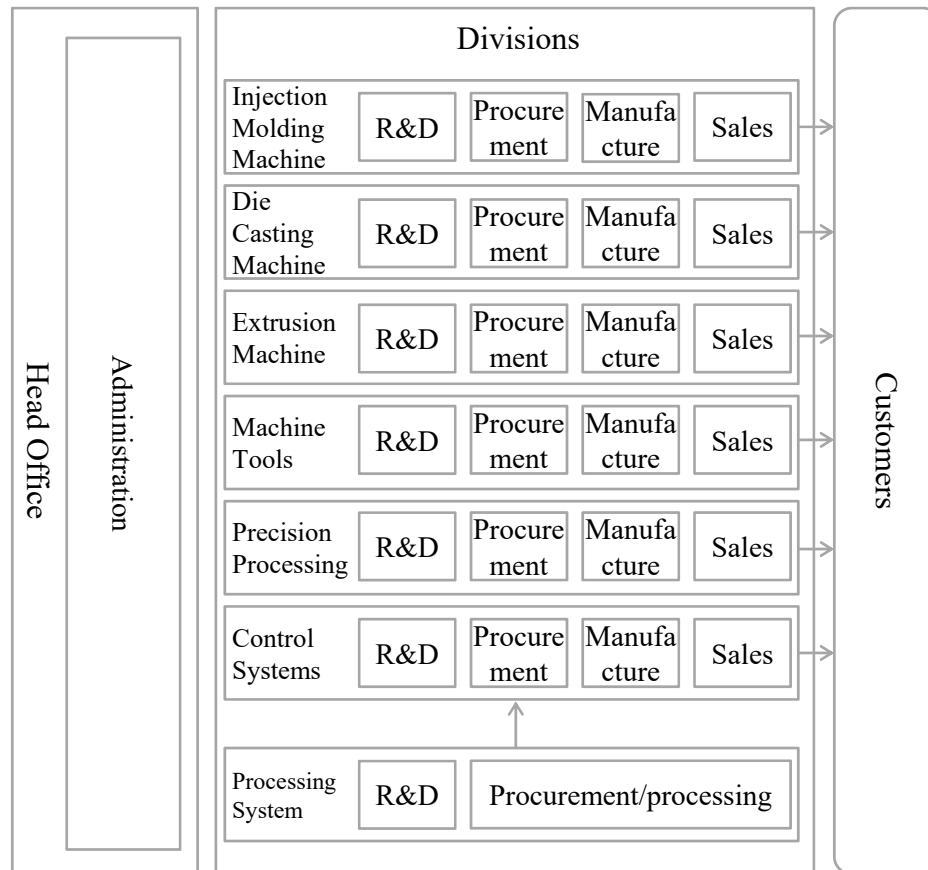
- Business environment under which **markets for specific businesses grow**
 - Strong relationship is established **at the sites/positions close to customers**
- **The strategy that maximizes sales/profits of specific businesses has been successful**

From Now On

- **We are entering a more uncertain business environment** under which China and other **markets' growth stagnates**; and some of the Company's businesses begin experiencing a situation where the growth of the sales of the top-of-the-line products cannot be expected as much as was expected in the past
- **It is essential to clarify the businesses to be prioritized, re-allocate personnel, and make the Company's constitution more resilient**

Business Environment

Image of Organization



(2) Establishment of the R&D Center

Establish a center that will be the core for the development of technology by the new “Shibaura Machine”
It will lead the Company’s development of technology for **both software/hardware**

R&D Center’s missions

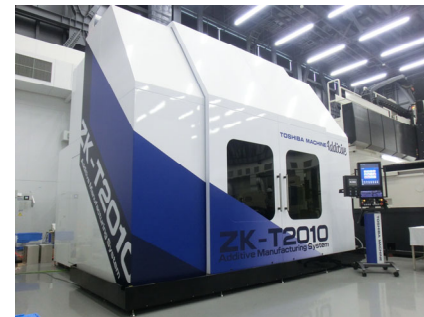
<Consolidate R&D functions/improve mobility by constructing a new building>

Break away from specific optimization and integrate base technologies in a cross-company way
Select core technologies for the future based on the movements of the market/technologies (intellectual property, introduction of the IOT, technical M&A)

<Foster/allocate specialists, alignment with employment of highly-professional human resources>

<Accelerate digitalization, standardization>

Develop products/components, develop IT control technology, develop systems, develop the CAE technology



(2) Establishment of the Production Division

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Cost/profit center for production/manufacture of the new “Shibaura Machine”
It will **control the Company’s global production bases** and realize optimal productivity

Production Division’s missions

<Construct optimal global production structure>

<Reduce procurement cost by integrated purchasing; procure parts and materials of optimal specification>

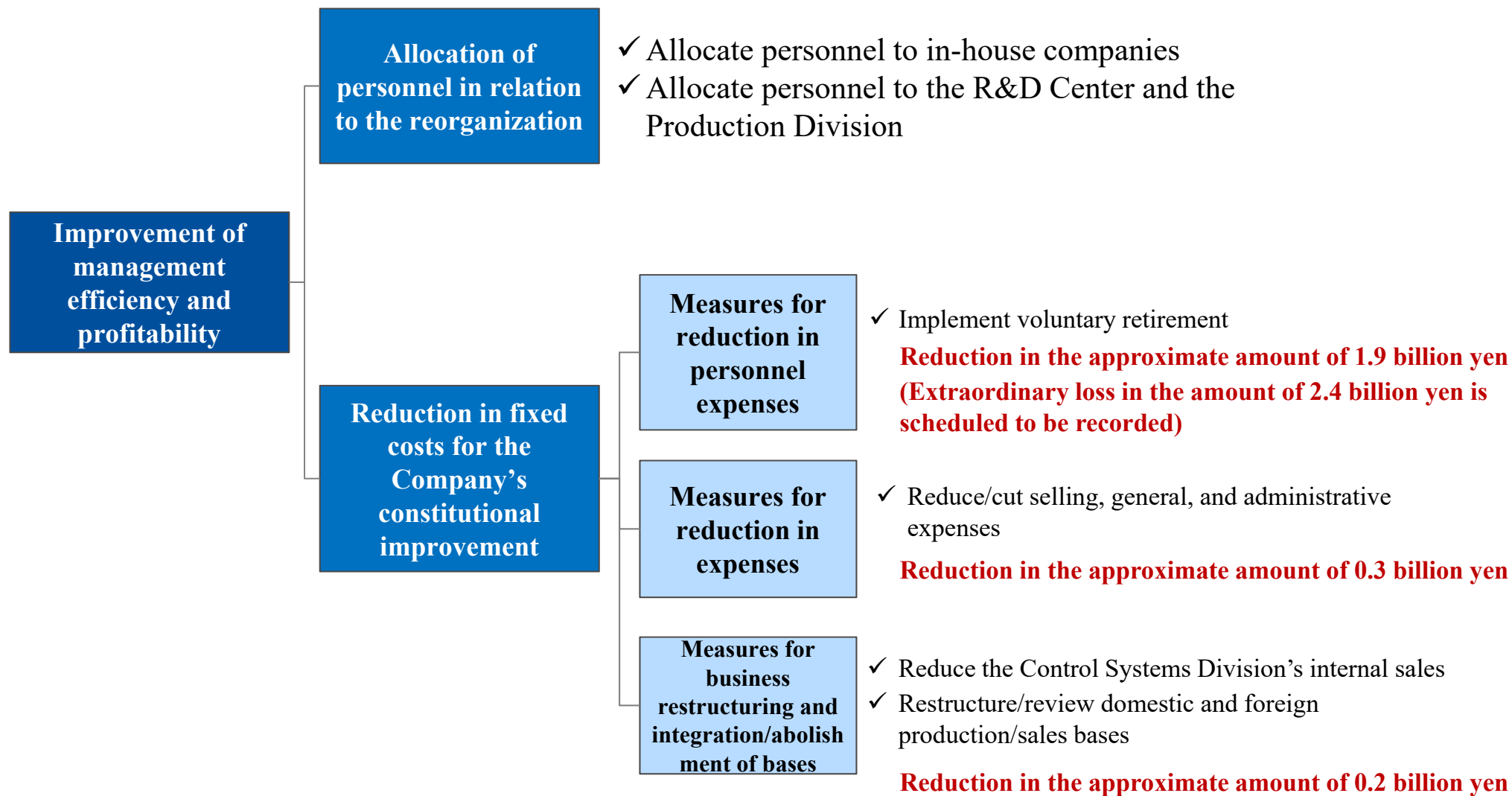
<Alignment with the R&D Center>

Improve production-technology capabilities and promote shifting to smart factories



(3) Measures for Optimal Resource Allocation and Reduction of Fixed Costs

Resource allocation aimed at improving management efficiency and profitability of the new “Shibaura Machine”



(3) Outlines of the Voluntary Retirement Measures

1. Reason for implementation of voluntary retirement measures

- In order to be reborn as the new “Shibaura Machine,” the Company will implement the voluntary retirement measures during the course of implementation of the reorganization

2. Outlines of the implementation of voluntary retirement measures

- (1) Eligible persons: All employees of Toshiba Machine Co., Ltd. and its affiliated subsidiaries
- (2) Number of persons invited: Approximately 200 to 300
- (3) Inviting period: From the middle of March 2020 to early April 2020 (as scheduled)
- (4) Retirement date: From April 1, 2020 to September 30, 2020 (as scheduled)
- (5) Details of assistance: “Special additional retirement bonuses” will be offered in addition to the normal retirement allowance; furthermore, outplacement support will be provided to persons to whom these measures were applied and who submitted an application for the support.

3. Impact on the business performance

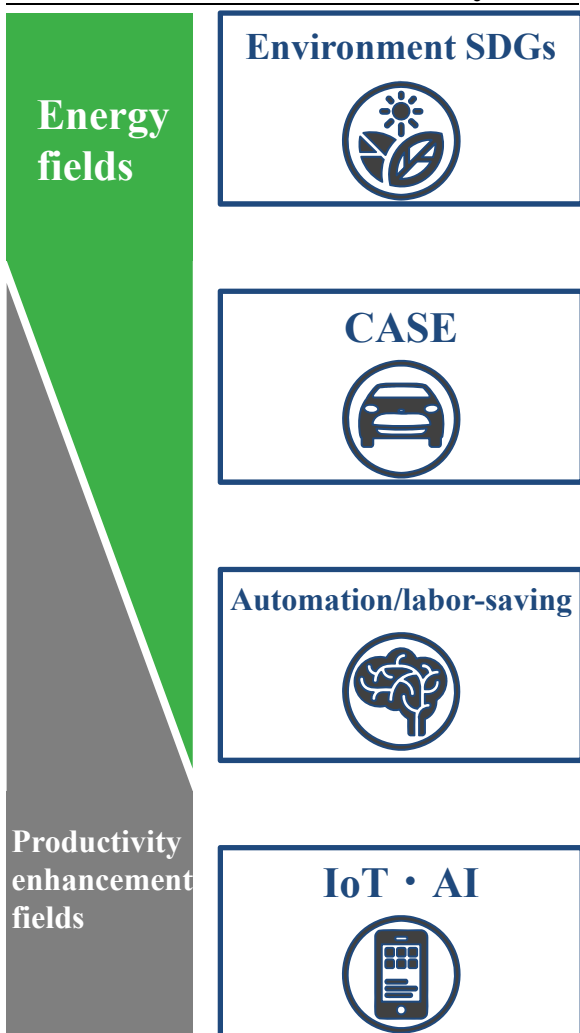
- The special additional retirement bonuses and other expenses to accrue in relation to the implementation of the voluntary retirement measures at this time are scheduled to be recorded as expenses (extraordinary loss) for the fiscal year ending in March 2020 and the fiscal year ending in March 2021.

The impact on the consolidated forecasts for the full fiscal years will be announced promptly after it is determined.

(4) Promotion of Growth Investments

Set a portfolio with **energy related businesses** and **productivity enhancement** as an axis of growth in the future

Investment fields and keywords



Business opportunity

Molding Machine Company	<ul style="list-style-type: none">✓ Films for renewable energy and new material to replace existing plastics✓ Large thin parts necessary for making automobiles into EVs/light-weight✓ Base film for aluminum and machinery base of base stations regarding 5G diffusion
Machine Tools Company	<ul style="list-style-type: none">✓ High precision molds responding to intelligent and/sophisticated automobiles✓ Mold demands in connection with the update of electronic devices responding to 5G
Control Machine Company	<ul style="list-style-type: none">✓ Vertical multi-articulated robots and human-collaborative robots for the purpose of productivity enhancement and solving personnel shortage✓ Control devices responding to IoT/AI

(4) Technology Development for the Portfolio Aimed At

Create and continue to provide products matching needs by constantly staying close to the customers

Development keywords

Energy fields

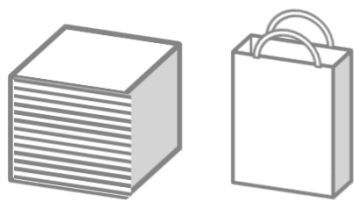
Productivity enhancement fields

Environment SDGs

CASE

Automation/labor-saving

IoT · AI



Stone paper



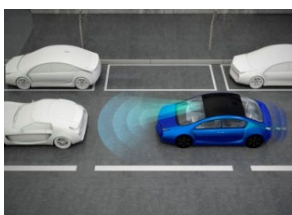
Sheet film manufacturing extruders



Glass replacement plastic



High sear device



Camera lens for automatic driving



Lens mold



High-precision machine tools for high-performance lenses



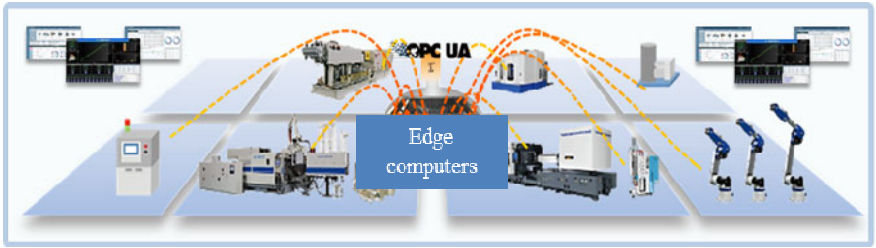
Full-automation by robots



Articulated robots



Human-collaborative robots



Edge computers



Controllers for machinery control

– Investment Plan / Financial Strategies

Basic Policies to Achieve 8.5% ROE

Return

- ✓ Build a “**structure to generate profits**” through investments in improvement of production efficiency, and reduction in fixed costs, such as personnel reduction/restructuring of bases.
- ✓ Enhance the “**operating profit ratio**” through the improvement of profitability in the latter half of the Management Reform Plan, and the effect of the increase in sales of molding machines, etc.
- ✓ Aim at a **further expansion of earnings** through the implementation of new businesses and M&A.

Equity Purpose of use of funds

- ✓ Use **30 billion yen** for structural reforms, capital investment, and R&D/personnel investment.
- ✓ Allocate **about 15 billion yen** for dividends, from cash flow resources by FY2023, **targeting a 40% payout ratio** on a consolidated basis.
- ✓ Maintain and ensure **financial soundness** from the perspective of the impact of the separation from the Toshiba Group (the reduction in fundraising capability) and disaster responses (securing of working capital in an emergency).
- ✓ On the premise of the above, in the case of M&A, consider **making borrowings according to the scale of a project**.

(5) Structural Reform / Capital Investment Plans

Promote investments in structural reforms, productivity improvement, and strengthening of production capacity.

	Purpose	Investment details	Classification of expenditure	Estimated amount
Structural reform	1 Reduction in fixed costs	Implementation of voluntary retirement measures	One-time expenses	
	2 Increase in operational efficiency	Introduction of RPA to automate staff operations	One-time expenses	3 billion yen~
	3 Increase in operational efficiency	Integration of information systems between the headquarters and overseas subsidiaries (replacement of ERP)	Capital expenditure	
Capital investment (entire Company / in house companies)	4 Improvement of production capacity, enhancement of QC (injection/DC)	Injection molding machines/die casting machines: additional construction in and expansion of India Plant (buildings)	Capital expenditure	
	5 Improvement of production capacity/productivity (injection/DC)	New construction of machine shop buildings in Thailand Plant (construction of buildings, production equipment)	Capital expenditure	
	6 Improvement of productivity	Rebuilding of/replacement of equipment in Numazu Plant (current: extrusion molding machine buildings)	Capital expenditure	About 12 billion yen
	7 Improvement of productivity	Rebuilding of/replacement of equipment in Numazu Plant (current: precision processing machine buildings)	Capital expenditure	
	8 Restructuring of overseas bases	Review of Shanghai Plant/Thailand Plant, expansion of assembly plants in Thailand	Capital expenditure	
	9 Restructuring of domestic bases	Restructuring of domestic bases, including Numazu, Sagami, and Gotemba Plants (relocation of each company)	One-time expenses	
Capital investment (Production Division)	10 Increase in production efficiency	New construction/replacement of processing equipment, layout change, introduction of IoT	Capital expenditure	
	11 Increase in production efficiency	New construction of processing plants	Capital expenditure	
	12 Increase in production efficiency	New construction of marshalling center	Capital expenditure	About 10 billion yen
	13 Increase in production efficiency	Integration of production management processes, introduction of information (production/procurement) systems	Capital expenditure	

(5) R&D Relations / Personnel Investment Plans

Plan to invest in the **establishment/introduction of facilities, acquisition of new technologies, and human resources**, to advance R&D activities.

Purpose		Investment details	Classification of expenditure	Estimated amount
Capital investment (R&D Center)	14 Establishment of facilities	Construction of R&D Center research buildings (in Sagami Plant)	Capital expenditure	About 3 billion yen
	15 Transfer of facilities	Transfer of equipment from the development bases of each division	One-time expenses	
	16 Establishment of facilities	Introduction of OA equipment and various fixtures	One-time expenses	
	17 Establishment of equipment	Development of IT infrastructure	Capital expenditure	
	18 Establishment of digital bases	Introduction of digital tools (3D-CAD, CAE, etc.)	Capital expenditure	
	19 Development of R&D environment	Introduction of R&D experimental machines (including in-house production)	Capital expenditure	
	20 Development of R&D environment	Introduction of various inspection/evaluation equipment (microscope, gas analyzer, laser scanner, etc.)	Capital expenditure	
	21 Development of R&D environment	Installation of environmental testing/accelerated testing facilities (clean room, constant temperature and humidity room, etc.)	Capital expenditure	
Additional R&D expenses	22 Development of new technology	Succession of R&D activities of former Engineering Development Division (IoT/edge computers, 3D metal laminate, preparations for new materials, etc.)	Stationary expenses (annual budget)	About 2.5 hundred million yen
	23 Development of new technology	Acceleration of development of core technology in accordance with the Company-wide strategy		
Personnel investment	24 Strengthening of core technology	Acquisition of control software engineers	Stationary expenses (annual budget)	About 2.5 hundred million yen
	25 Acquisition of new technology	Acquisition of IT/IoT personnel to promote shifting to smart factories		
	26 Strengthening of operating resources	Increase in overseas sales staff		
	27 Strengthening of recruitment	Adoption of recruitment plan responding to highly-skilled professionals, etc.		

(5) Investment in New Business / M&A

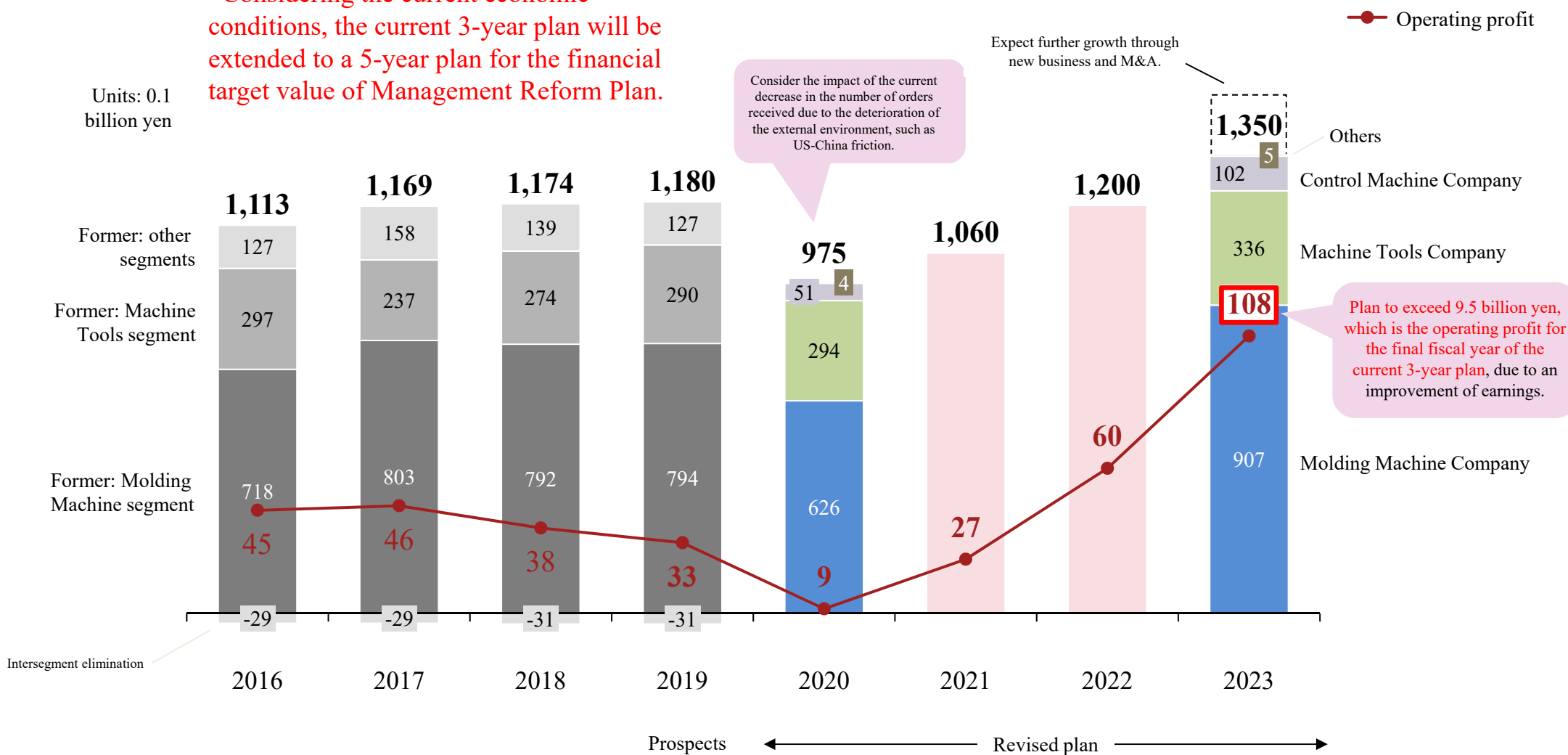
Establish an “R&D Center” for new businesses, and an “M&A Promotion Division” for M&A/alliances, to **promote investments to enhance the business value of each company.**

<p>Molding Machine Company</p>	<ul style="list-style-type: none"> • Injection molding machines • Die casting machines • Extrusion machines 	<ul style="list-style-type: none"> • Investment in/alliance with local companies in Europe and China to expand sales channels. • M&A/alliance with specialized manufacturers to promote in-house production of components for existing product lines such as extrusion machines, film manufacturing equipment, and coating machines. • Seeking of M&A/alliance in the areas of laminated film and vinyl chloride, into which the Company has not yet entered. • Alliance with materials/chemicals manufacturers to catch up with the leading-edge material technology and develop products.
<p>Machine Tools Company</p>	<ul style="list-style-type: none"> • General-purpose machine tools • High precision processing machines 	<ul style="list-style-type: none"> • Increase in production efficiency/promotion of transfer of businesses through integration with specialized manufacturers of general-purpose machines. • M&A in the precision processing machines area, to acquire precision drilling technology and horizontal MC technology. • Investment/alliance to acquire sales channels in European region.
<p>Control Machine Company</p>	<ul style="list-style-type: none"> • Control machines • Robots 	<ul style="list-style-type: none"> • Alliance with Siers/development companies of robots to acquire technologies required in the growing areas of robots, such as vertical multi-articulated robots and human-collaborative robots. • Creation/expansion of new businesses in the system engineering area, where the Company utilizes its comprehensive strengths.

Goal of Management Reform Plan (Sales / Operating Profit)

Plan to achieve 135 billion yen sales and 10.8 billion yen operating profits in the final fiscal year of the Management Reform Plan.

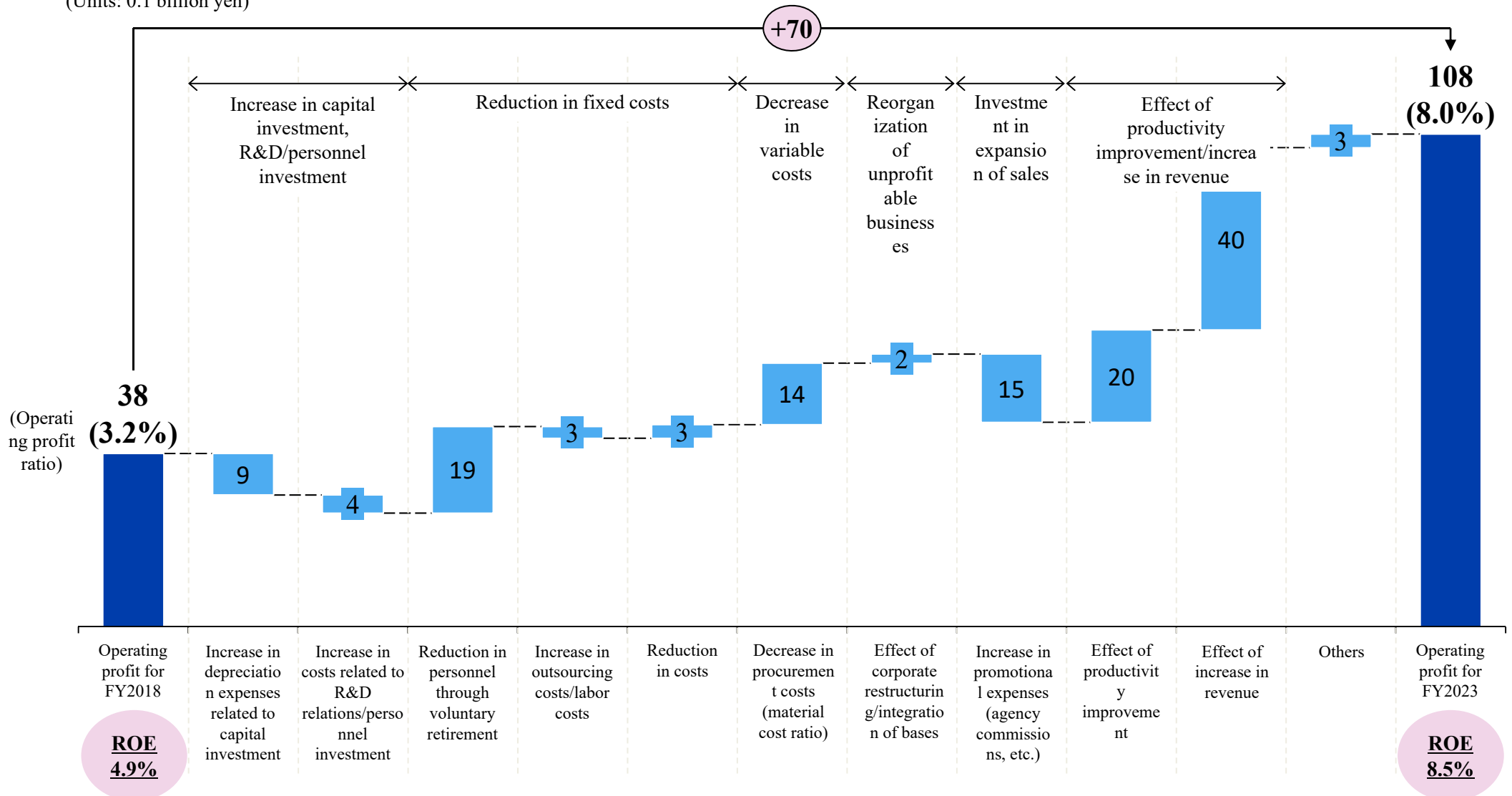
*Considering the current economic conditions, the current 3-year plan will be extended to a 5-year plan for the financial target value of Management Reform Plan.



Implementation of Measures and Expected Effects (Operating Profit Impact)

Aim to achieve 10.8 billion yen of operating profits in the fiscal year 2023, by steadily implementing measures focusing on reduction in fixed costs and decrease in procurement costs, in connection with management reform centered on reorganization.

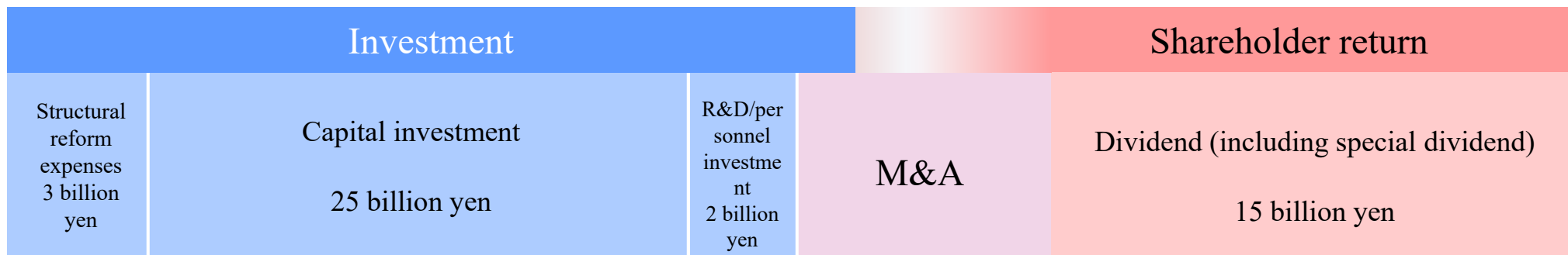
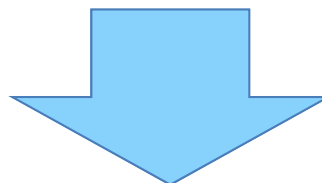
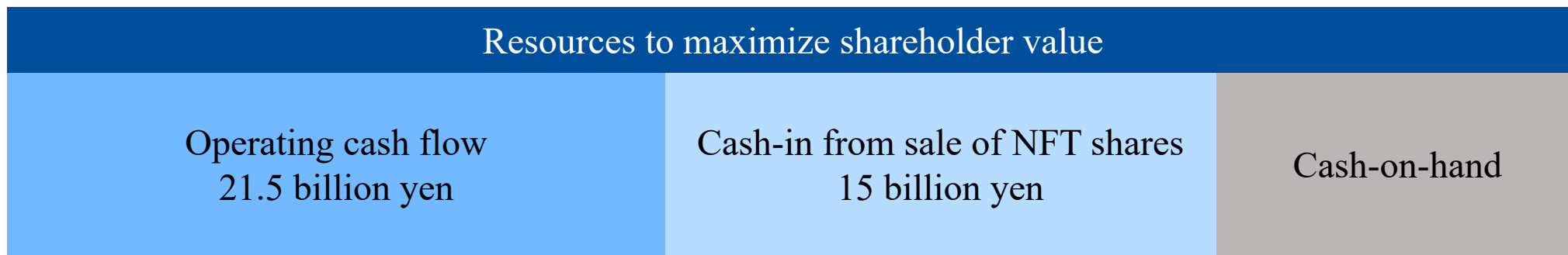
(Units: 0.1 billion yen)



Uses of Cash Flow Between FY2019 and FY2023

A policy to **return a total of 15 billion yen to its shareholders** by making a total of 30 billion yen capital/personnel investment and implementing appropriate M&A, with an aim to achieve 135 billion yen sales/8.5% ROE in the fiscal year 2023.

Resources to maximize shareholder value



In the next fiscal year, the Company plans to pay 3 billion yen of special dividends during a period up to the payment of interim dividends which eliminate the impact on the TOB, in addition to regular dividends at the same level as this fiscal year.

Contact for inquiries concerning IR

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TOSHIBA MACHINE



“Shibaura” is where everything started.

Shibaura Machine

We support Japan and the world through our customers.
This spirit of manufacturing at Shibaura remains
unchanged today.

TOSHIBA MACHINE CO., LTD.

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