Precision Tsugami

...the #1 builder of Swiss type CNC lathes in the world
Precision Tsugami China (PTC)

An Integral Part of Tsugami’s Business Strategy
When People Think China

• They often think of this...
The Other China

• Modern world class factories
  – Produce sophisticated electronics, IT devices, and automotive components.
Tsugami’s Strategy

• Bring production closer to their largest market.
  - July-Sep 2012 Tsugami sold 3,400 units out of PTC. The majority went into the Asian market.
  - In July 2012 unit sales were 1,481. This is roughly equal to the entire CNC Swiss market in the US in a good year.
Tsugami’s Strategy

• China - Produce low mix high volume models
  - Turning
    - S205, S206
    - B074, B0123/124, B0203/0204
    - BM163/164/165
    - B0126/0206
    - B0265/266, B0325/326
    - B020M
    - M42J/50J, M42SD
  - Milling
    - VA1-II
  - Grinding
    - G300, G350
    - G18
• Thread Rolling
  - R7NC, R17NC
Tsugami’s Strategy

- Japan – High mix low volume
  - Turning
    • TMA8-IV
    • TMU1
    • TMB2
    • P013H/ 33H, P014H/ 34H
    • SS20/ 26/ 32/ 32L
    • SS207
    • SS327
    • SS20M
    • BH20Z, BH38
    • BH38-II
    • C180, CH154, C150, C220, C300-III
  - Various milling, grinding, thread rolling models
Tsugami’s Strategy

• Started in China nearly 10 years ago
  – Assembled simple two-axis lathe and three-axis Swiss
    • Initial units were only offered in China
  – Added
    • More complex models
    • Machining
    • Casting
    • Factory buildings
  – Began global exportation once they were up to speed and confident in their abilities
Tsugami’s Strategy

• **Vertical Integration**
  - Casting, machining, heat treat, fabrication, paint, assembly, packaging all on site.
  - *Complete control over quality and delivery*
  - Nothing is outsourced to outside Chinese companies
  - Expansion has been methodical and deliberate
  - Quality and efficiency are the goal, not low price at the expense of quality

• **Tsugami aims to be number one in every market**
  - The Asian market is the largest in the world
  - Tsugami is number one due to quality, delivery, and capabilities of their models, not low quality cheap machines
Quality & Training

• Employees at PTC go through the same training as employees in Japan
  - Early employees were trained in Japan

• Same ISO quality and environmental certifications as factories in Japan

• Large staff of experienced Japanese engineers on site
Staff

- Currently have just under 1,000 employees at PTC
- 32 additional Japanese Engineers will be moving to PTC in early 2013
Facilities

- Eight Buildings on 25 acres
- 11-1/2 acres (500,668 Sq ft) of mfg & office space
- Planned expansion: land area of 11-1/2 acres and three factory buildings totaling 188,370 ft sq
- Additional leased building nearby for shipping/receiving/parts stores of 84,000 ft sq
Facilities

• Capacity - Building toward 2k units/mo

Factories in China - low-mix high-volume production

Production capacity - units per month

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<th>Units</th>
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Net Sales

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<th>FY 2010</th>
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FY2012 Capital investment in China 2.4 bn yen
- Production machines and others 1.7
- Purchase of adjacent land 0.7

(FY2012 H1 result 0.9 bn yen)

Parts production lines being built

Purchase planned

Shinagawa Precision Machinery (Zhejiang)

Precision Tsugami (China) Corporation

China Factories Total Area
Land: 100,350㎡  Building: 47,071㎡

1 Factory
2 Office

Factory No.1
Office

Factory No.2

Factory No.3

Factory No.4

Factory No.5

Parts Storehouse nearby
Leasing an outside storehouse nearby
7,800㎡
Foundry
• Tsugami purchased more than $20,000,000 in new machinery in 2012
Machining
Machining

• 14 New OKK HMC’s 800’s & 630’s
Fabrication
Fabrication
Assembly
A Little Hand Scraping

• Hand scraping yields the ultimate in precision for sliding surfaces on machine tools
Training/Showroom

Roughly 10,000 foot²
Facilities

• New factory for spindle production to come online early 2013
• 32 Japanese engineers to transfer to PTC
Common Concerns

• Quality
  - PTC is a world class facility
  - Our experience is that quality is as good or better than that from Japan
  - Vertical integration insures complete control and better delivery times
  - New models are developed in Nagaoka, then production is transferred to PTC
Common Concerns

• Some Chinese company will steal Tsugami’s technology and designs
  - Vertical integration insures all intellectual property remains in Tsugami’s control
  - Copycat models from another builder are always a possibility but consider the investment required to duplicate PTC’s facilities and expertise
  - Tsugami will spend upward of $22,000,000 on R&D and new model development in 2012, good luck to the copycats trying to keep up.
Common Concerns

• What will happen to all the skill and knowledge in Japan?
  - Tsugami is still expanding and investing in Japan
    • Nearly $13,000,000 in 2012
  - Concentrate on high mix, low volume, complex models
  - Use their expertise to develop new models
Common Concerns

• My customers will object to a machine that is “Made in China”
  - They probably already own an iPhone or iPad, you can draw analogies there
  - This situation has many parallels to objections faced by salesman selling Japanese machine tools in the late 70’s through early 80’s. Salesman who embraced the change made a lot of money. Those salesman were often selling to people that fought the Japanese in WW II
  - **Vertical integration** removes the perceived “China” variable
Benefits of PTC to US Market

- Helps control the cost of models produced at PTC
- Better deliveries on models that sell in volume
- Rather than just producing low end machines at PTC, Tsugami will now offer midrange machines as well
  - Midrange 20mm capacity machines are the largest segment in the US market
  - Our competitors don’t have the cohesive strategy that Tsugami has in PTC. They use a hodgepodge of factories in Vietnam, Thailand, Taiwan, and China to produce castings and components
Benefits of PTC to US Market

- Very desirable new models that can be sold at competitive price points in the US market
  - B0126, B0206
  - B020M
  - B0325, B0326
- These will be sold in volume given the features to price ratio
Benefits of PTC to US Market

- Tsugami is now the number one builder of Swiss type CNC lathes in the world due to their successful PTC strategy
  - Aftermarket live tool builders now offering Tsugami attachments
  - All major Swiss tooling companies now list Tsugami in their catalogs
  - All of this results in free marketing and better brand recognition
  - Customers see the benefit of having more options
Benefits of PTC to US Market

- There is a strong market in the US for high end complex Swiss models
- Tsugami’s best Japanese engineers are now freed up to develop more sophisticated models that we can sell at higher margins
  - SS207
  - SS327
  - SS20M
  - BH38-II
Benefits to Your Customers

• They get state of the art, high quality, reliable machine tools at very competitive prices

• The 12 and 20mm B0 series models are some of the most popular models on the planet. They are well supported with parts and knowhow.
Benefits to Your Customers

- Tsugami’s strategy is allowing them to spend more money on R&D and invest in better, more efficient machinery and plants.
Conclusion

• Tsugami’s PTC strategy has been very successful and trouble free from REM’s point of view.

• The only negative is the occasional objection from customers that don’t understand that “Made in China” doesn’t have to mean low quality.

• When presented with all the facts, even the customers that have objections can see the benefits outweigh any imagined risk