Financial Results for the Fiscal Year Ended March 31, 2019

NS TOOL CO., LTD.

May 2019
(Securities Code: 6157)

Contents

Consolidated Financial Results for FY3/19

Financial Results Summary

Record-high profits for the fifth fiscal year straight

(Unit: ¥ million)	FY3/19 Forecasts	FY3/19 Actual	Changes vs. Forecasts
Net sales	10,520 (+7.7%)	10,476 (+7.3%)	-43 (-0.4%)
Operating profit	2,750 (+2.0%)	2,879 (+6.8%)	129 (+4.7%)
Ordinary profit	2,780 (+1.7%)	2,894 (+5.9%)	114 (+4.1%)
Profit attributable to owners of parent	1,910 (+0.3%)	1,970 (+3.5%)	60 (+3.2%)

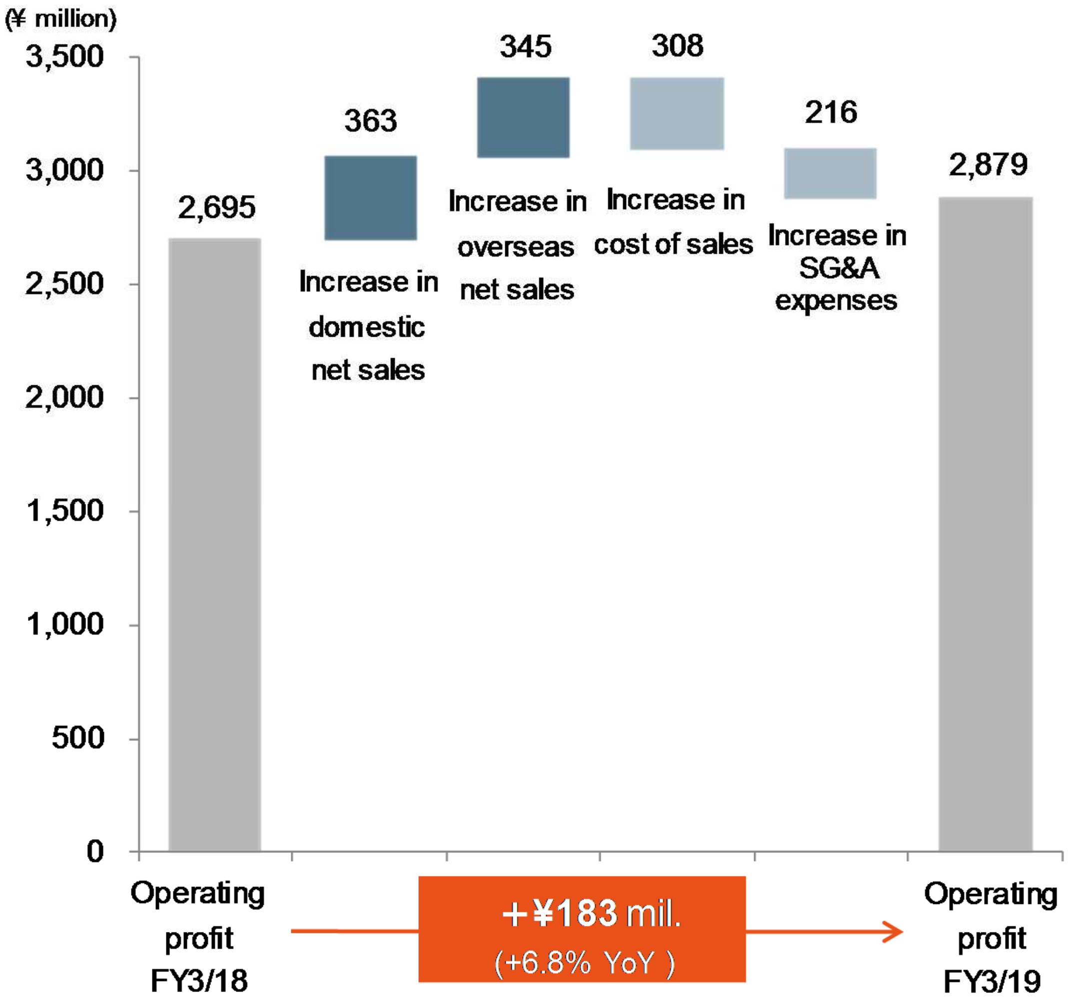
* Figures in parentheses indicate increase or decrease from the previous fiscal year.

- With regard to the market environment, overseas economies remained steady. As a result, our business performed well in the first half of the fiscal year. However, we experienced a decline in our business from the early fall due to slowing exports resulting from the sluggish economy in China and intensified US-China trade friction.

- Regarding the situation of our customers, for the automobile industry, the number of new cars sold in the domestic market increased by just 0.7% YoY, yet our sales grew steadily partly because of increased sales of parts related to driver-assistance systems. Meanwhile, demand for electronic parts and devices slowed down in the second half of the fiscal year because demand for smartphones had already peaked and US action to exclude Chinese communication devices had a negative impact.

- Amid this environment, operating profit was ¥2,879 million (up 6.8% YoY), which exceeded the forecast and was a record-high profit for the fifth fiscal year straight, though net sales was ¥10,476 million (up 7.3% YoY), which was slightly lower than the forecast made at the beginning of the fiscal year.

Factors for Increase in Operating Profit



- Domestic net sales increased by ¥363 million (5.0%) YoY and overseas net sales increased by ¥345 million (13.5%) YoY. Growth of overseas net sales overtook that of domestic net sales. Total net sales increased by ¥709 million (7.3%).
- While net sales increased by 7.3% YoY, the cost of sales increased by ¥308 million (7.3%) YoY. In the second half of the fiscal year, production volume slightly decreased, partly because demand slowed down and we focused on small-lot products. As a result, the gross profit margin for the second half decreased by 2.0 points YoY. The gross profit margin for the full year was 56.6%, the same level as the previous fiscal year.
- SG&A expenses increased by ¥216 million (7.7%) YoY due to relocation of the head office, participation in JIMTOF, revision of the general catalogue, etc.
- Those factors contributed to an operating profit of ¥2,879 million, up by ¥183 million (6.8%) YoY, and the operating profit margin of 27.5%, down 0.1 point from the previous fiscal year.

Summary of Statement of Income

(Unit: ¥ million)	FY3/18	FY3/19	YoY Changes	Comments
Net sales	9,767	10,476	+7.3%	In the first half, the business expansion trend, which started in 2017, continued. However, there was a slight slowdown in the demand for tools after the early fall, due to the economic slowdown in China, the impact of trade friction between the U.S. and China, etc.
Gross profit (%)	5,528 (56.6%)	5,929 (56.6%)	+7.2%	Although the cost of sales ratio slightly increased because of reduced production volume in the second half, a high gross profit margin equivalent to the previous fiscal year was secured for the full year.
SG&A expenses (%)	2,833 (29.0%)	3,049 (29.1%)	+7.7%	Costs increased due to relocation of the headquarters, participation in JIMTOF, revision of the general catalogue, etc. However, the ratio of SG&A expenses to net sales was 29.1%, maintaining the level of the previous fiscal year.
Operating profit (%)	2,695 (27.6%)	2,879 (27.5%)	+6.8%	The cost of sales and SG&A expenses increased along with the increase in net sales. As a result, operating profit increased by 6.8% YoY, and the operating profit margin was 27.5%, maintaining the same level as the previous fiscal year.
Ordinary profit (%)	2,733 (28.0%)	2,894 (27.6%)	+5.9%	In this fiscal year, there were no revenues such as the subsidies that we received in the previous term. In addition, the foreign exvchange losses of overseas subsidiaries increased. As a result, the ordinary profit margin sales fell below the growth rate of operating profit.
Profit attributable to owners of parent (%)	1,903 (19.5%)	1,970 (18.8%)	+3.5%	In this fiscal year, there was no extraordinary income. However, since extraordinary loss exceeded extraordinary income, the profit margin fell below the growth rate of ordinary profit.
Capital investment	663	1,268	+91.3%	Construction in progress increased because of the installation of machinery and equipment and groundbreaking for a new development center. ¥408 million is allocated in this fiscal year to this center.
Depreciation	625	629	+0.6%	Depreciation remained almost constant, as we continued to invest in machinery and equipment, excluding the above-mentioned construction in progress, etc.
No. of employees	338	343	+1.5%	We started mid-career recruitment to strengthen human resources in sales and factories.

- Figures in parentheses indicate the ratio to net sales (margin).

Summary of Balance Sheet

(Unit: ¥ million)	FY3/18-End	Composition Ratio	FY3/19-End	Composition Ratio	YoY Changes
(Assets)					
Ⅰ Current assets	9,702	67.1%	9,932	64.6%	+2.4%
Cash and deposits	6,325	43.7%	6,209	40.4%	-1.8%
Notes and accounts receivable - trade	1,508	10.4%	1,531	10.0%	+1.5%
Inventories	1,745	12.1%	2,056	13.4%	+17.8%
Ⅱ Non-current assets	4,764	32.9%	5,449	35.4%	+14.4%
Property, plant and equipment	4,010	27.7%	4,685	30.5%	+16.8%
Intangible assets	156	1.1%	84	0.5%	-45.9%
Investments and other assets	598	4.1%	679	4.4%	+13.5%
Total assets	14,467	100.0%	15,381	100.0%	+6.3%
(Liabilities)					
Ⅰ Current liabilities	1,961	13.6%	1,643	10.7%	-16.2%
Accounts payable - trade	281	1.9%	277	1.8%	-1.2%
Ⅱ Non-current liabilities	503	3.5%	275	1.8%	-45.2%
Total liabilities	2,465	17.0%	1,919	12.5%	-22.1%
(Net assets)					
Total equity	12,002	83.0%	13,397	87.1%	+11.6%
Total net assets	12,002	83.0%	13,461	87.5%	+12.2%
Total liabilities and net assets	14,467	100.0%	15,381	100.0%	+6.3%

Current assets

2.4% increase compared with the end of the previous fiscal year mainly because of an increase in inventory.

Non-current assets

14.4% increase because of an increase in construction in progress due to groundbreaking for the new development center.

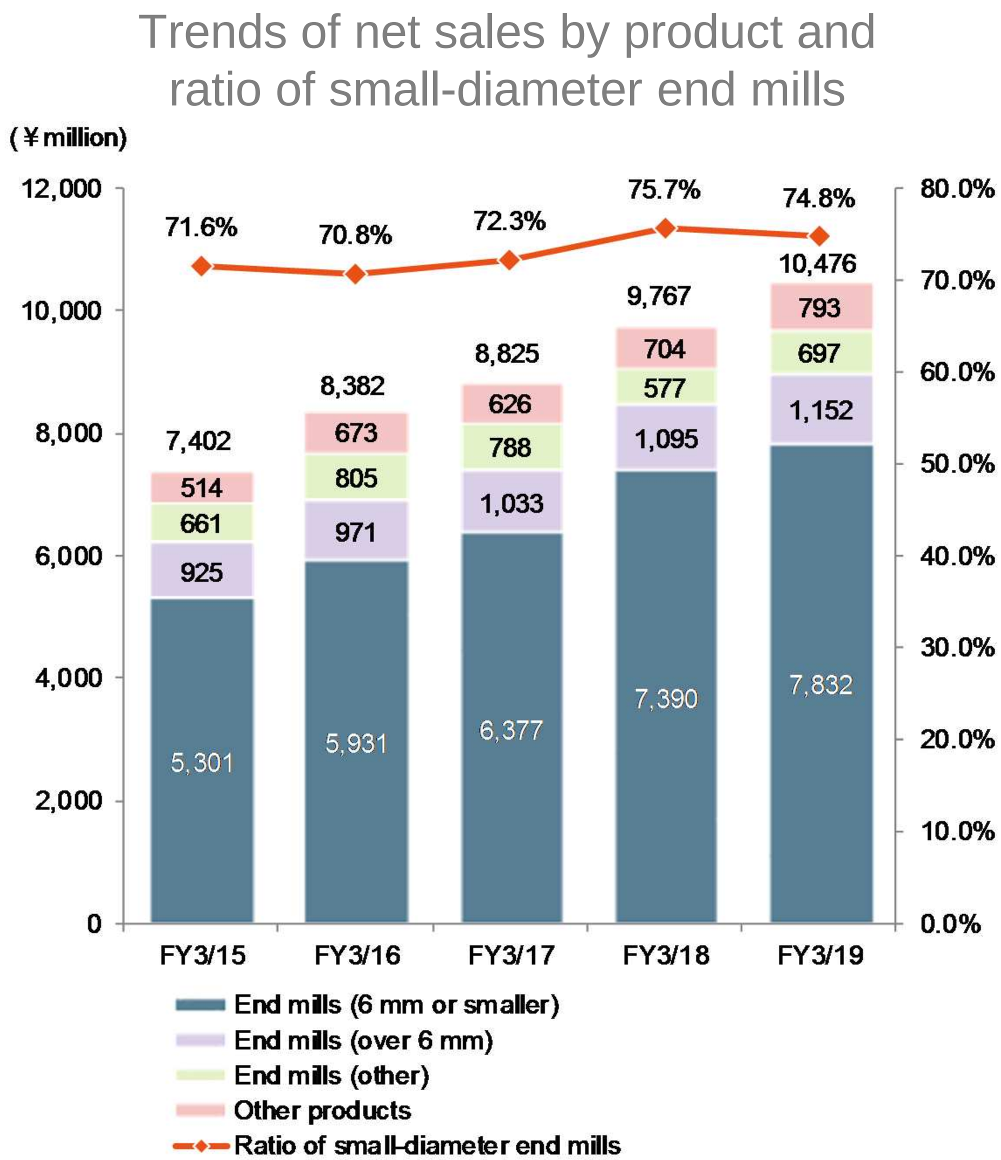
Liabilities

22.1% decrease due to a decrease in income taxes payable, etc.

Net assets

12.2% increase due to an increase in retained earnings, etc. equity ratio increased to 87.1% (up 4.1 points).

Business Performance (Trend of net sales (1) By product)



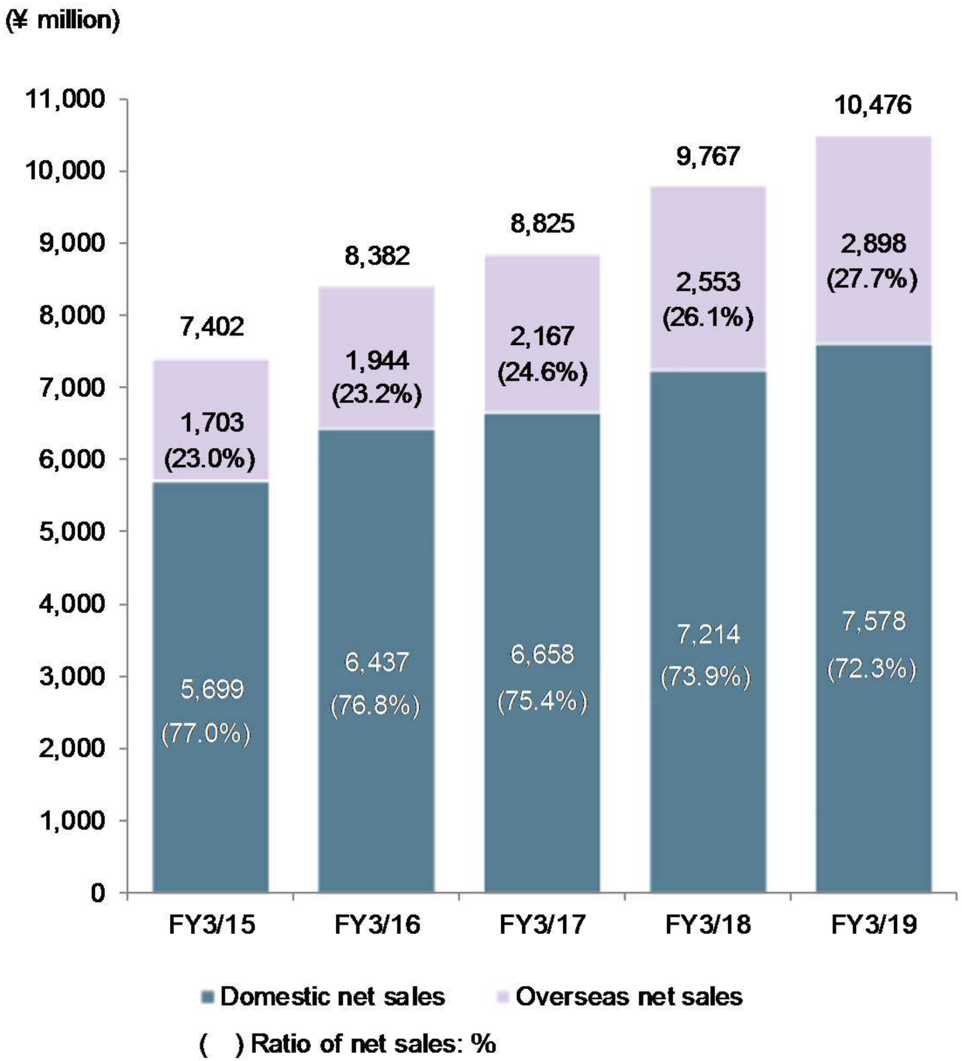
- Demand for products related to electronic parts and devices used for smartphones started to slow down in the early fall, due to the impact of the sluggish economy in China and intensified US-China trade friction. However, the growth rate, though slow, was supported by the demand for automobile-related products and exceeded the level of the previous fiscal year.

- Consolidated net sales were ¥10,476 million, a 7.3% increase YoY and a record high for the seventh fiscal year straight. For the first time, consolidated net sales exceeded ¥10 billion.

- By product, end mills (6 mm or smaller) increased by 6.0%, end mills (over 6 mm) increased by 5.3%, end mills (other) increased by 20.8%, and other products increased by 12.7% YoY, respectively. Sales of each product group increased. Small-diameter products accounted for 74.8% of the total, a 0.9-point decrease from the previous fiscal year's 75.7%, because the growth rate of end mills (other) in particular and other products increased.

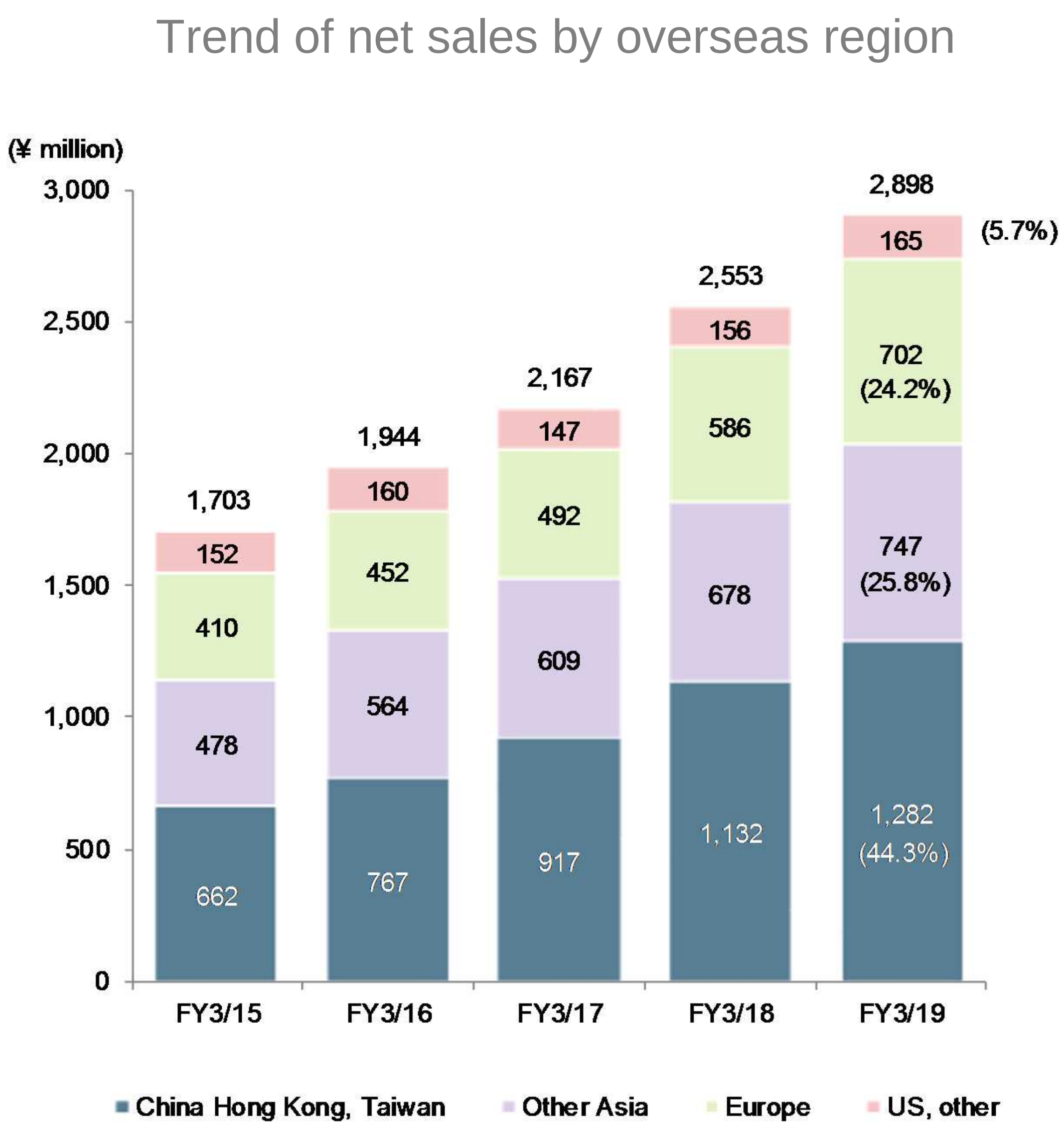
Business Performance (Trend of net sales (2) In Japan and overseas)

Trend of net sales in Japan and overseas



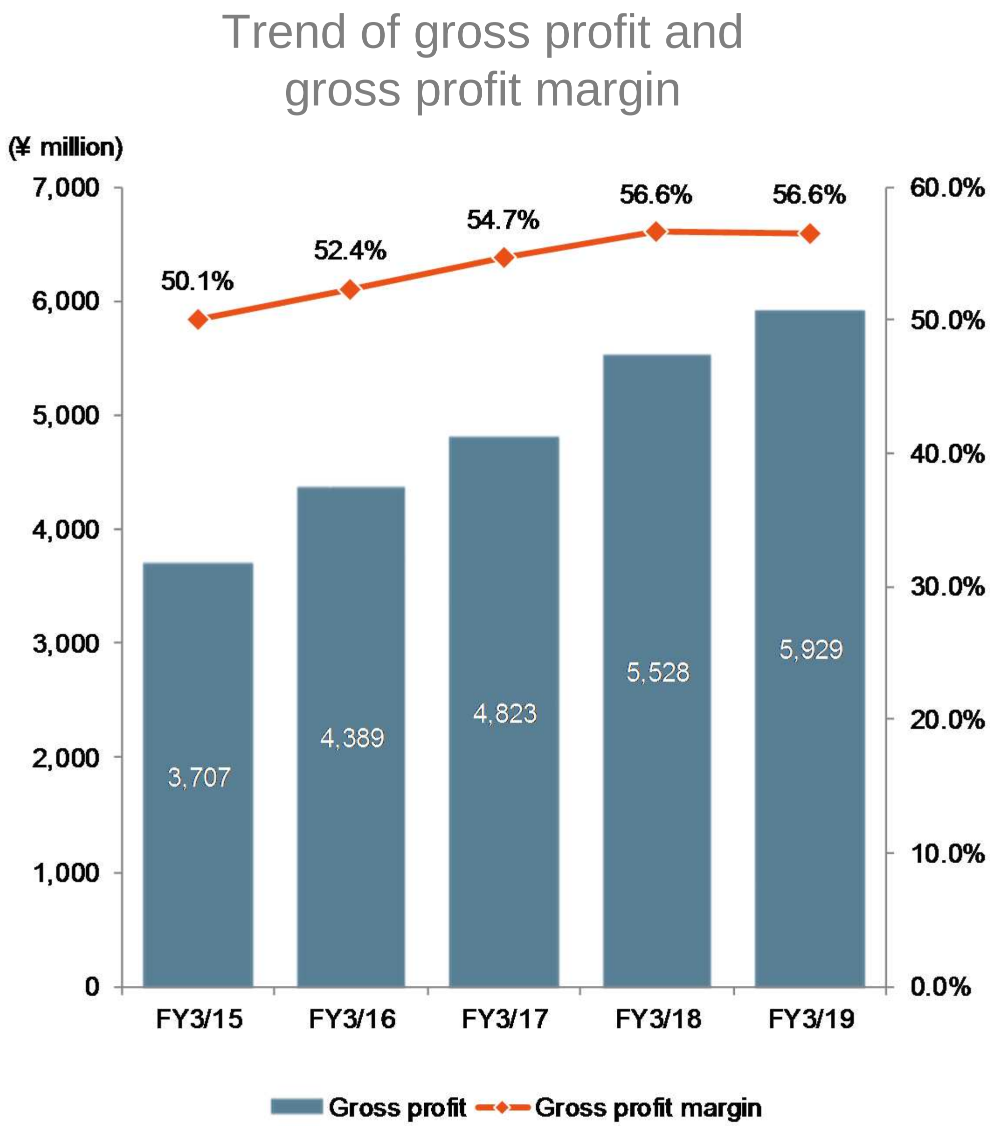
- Overseas net sales increased by 13.5% YoY, the second straight year of double-digit growth.
- Domestic net sales, too, steadily increased by 5.0%, although by less than the overseas growth rate. The ratio of overseas net sales increased to 27.7%, continuing to increase even amid unstable factors such as business in China.

Business Performance (Trend of net sales (3) By overseas region)



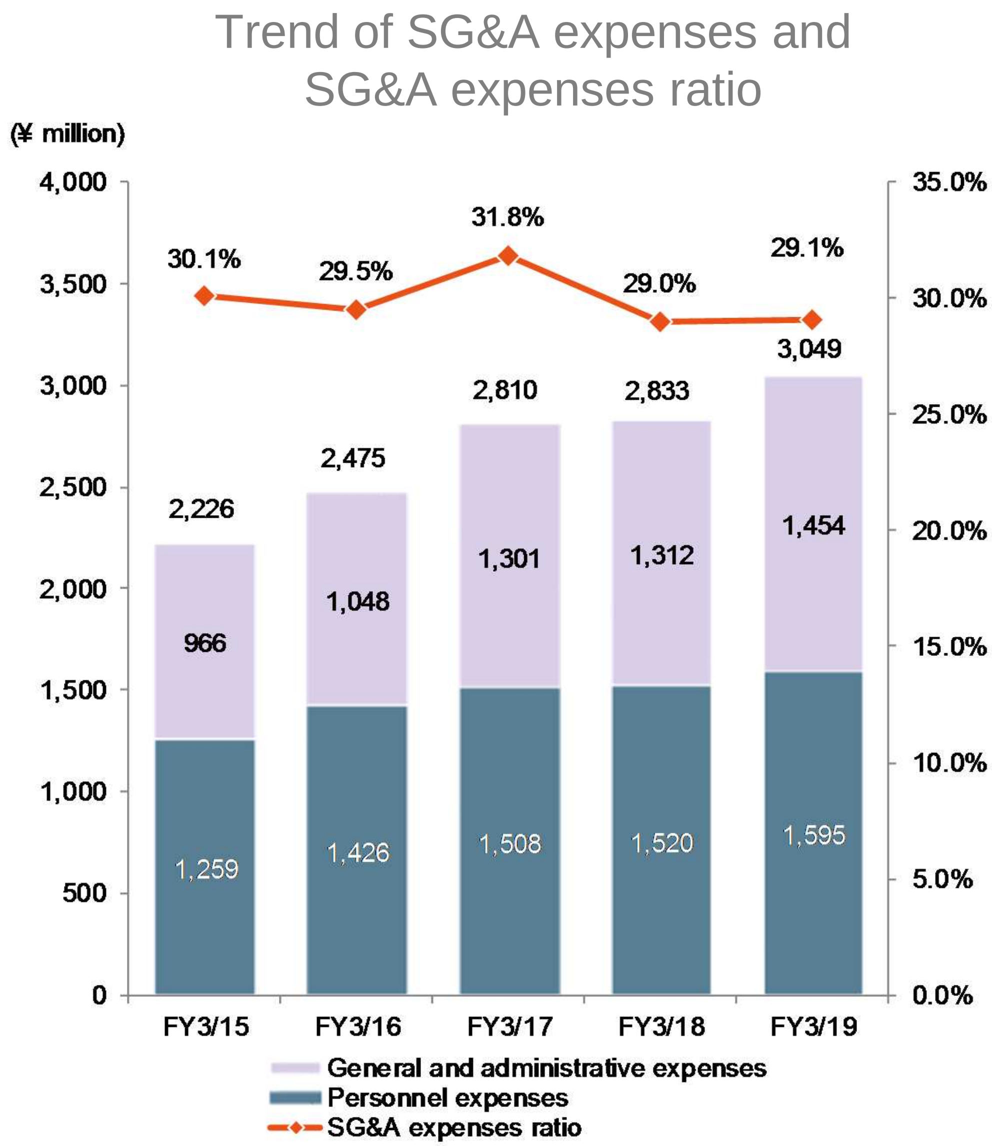
- With regard to net sales by overseas region, China, Hong Kong, and Taiwan achieved ¥1,282 million, a 13.3% increase YoY. Demand did not fall by as much as expected, though there were impacts of the sluggish economy in China, US-China trade friction, etc. The ratio of the above region to overseas net sales was 44.3%, accounting for almost half of the total overseas net sales, as in the previous fiscal year.
- Among other countries in Asia, net sales in Thailand increased by 10.3% YoY, reaching ¥747 million.
- Net sales in Germany, Italy, Switzerland, and other countries in Europe increased by 19.8%, achieving steady growth.
- The U.S. and other countries posted a 5.6% increase, but the scale is still small. We would like to expand the market in the future.

Business Performance (Trend of gross profit)



- Cost of sales, as well as net sales, increased by 7.3% YoY. Gross profit was ¥5,929 million, a 7.2% increase, and the gross profit margin was 56.6%, maintaining the same level as the previous fiscal year.
- Growth in revenue accounted for almost all of the ¥400 million increase in gross profit. The improvement of profitability had almost no impact.
- We continue to engage in automation through increasing and improving in-house developed machines, etc. However, automation now accounts for a major part of our production, making it difficult to produce a dramatic effect. Our focus on small-lot products in the second half also affected the results.

Business Performance (Trend of SG&A expenses)

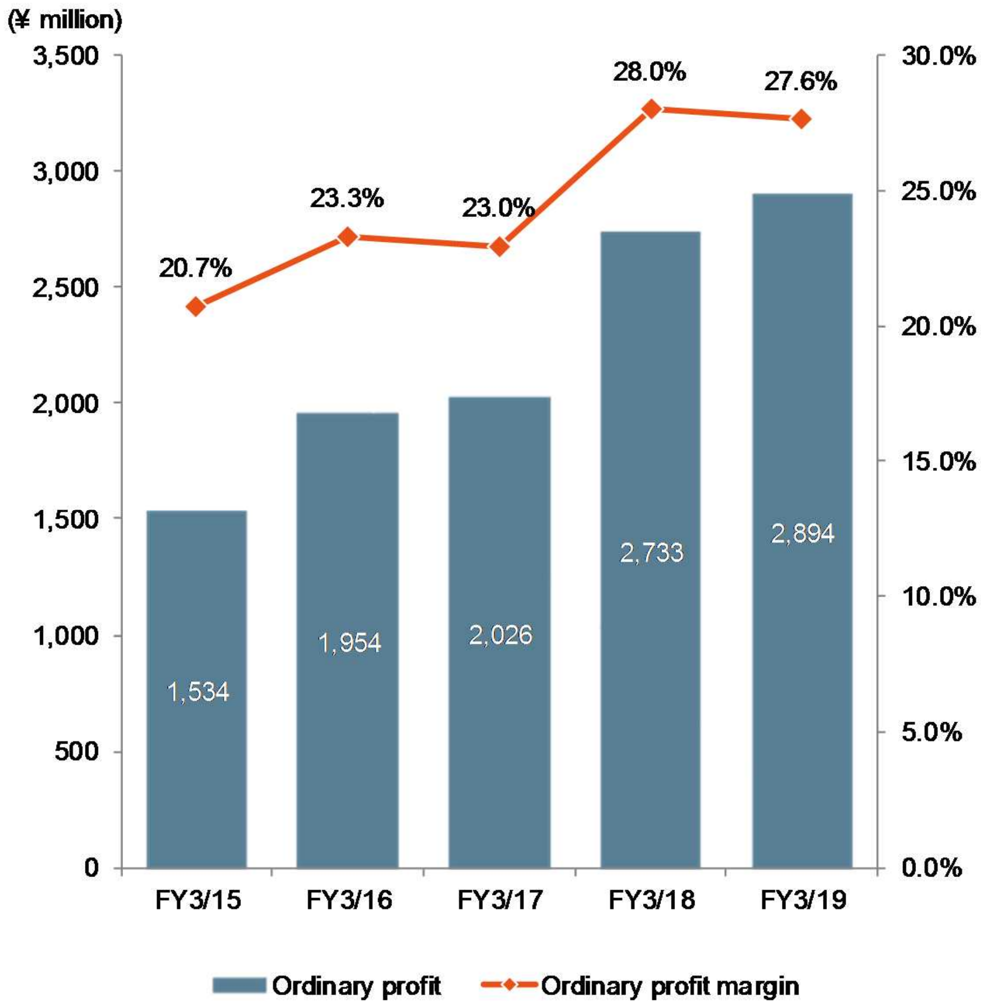


- SG&A expenses increased because of a ¥141 million (10.8%) increase in general costs compared with the previous fiscal year. This increase in general expenses was due to: participation in JIMTOF, the largest machine-tool-related trade show in Japan which is held biannually; revision of the general catalogue, which was carried out in line with participation in JIMTOF; increase in rent expenses on land and buildings associated with relocation of the head office; and increase in expenses for repairs and supplies.

- Nevertheless, the SG&A expenses ratio was 29.1%, an increase of only 0.1 point from the previous fiscal year.

Business Performance (Trend of ordinary profit)

Trend of ordinary profit and ordinary profit margin



- Operating profit was ¥2,879 million, up ¥183 million (6.8%) YoY, because, while gross profit increased by ¥400 million (7.2%) YoY, SG&A expenses also increased by 7.7%.
- With regard to the non-operating expenses (income), in this fiscal year, there were no revenues such as subsidies which we received in the previous fiscal year. In addition, the foreign exchange losses of overseas subsidiaries increased. As a result, ordinary profit was ¥2,894 million, up 5.9% YoY.
- The ordinary profit margin was 27.6%, a 0.4-point decrease YoY, though it significantly exceeded 20%, the target ratio.

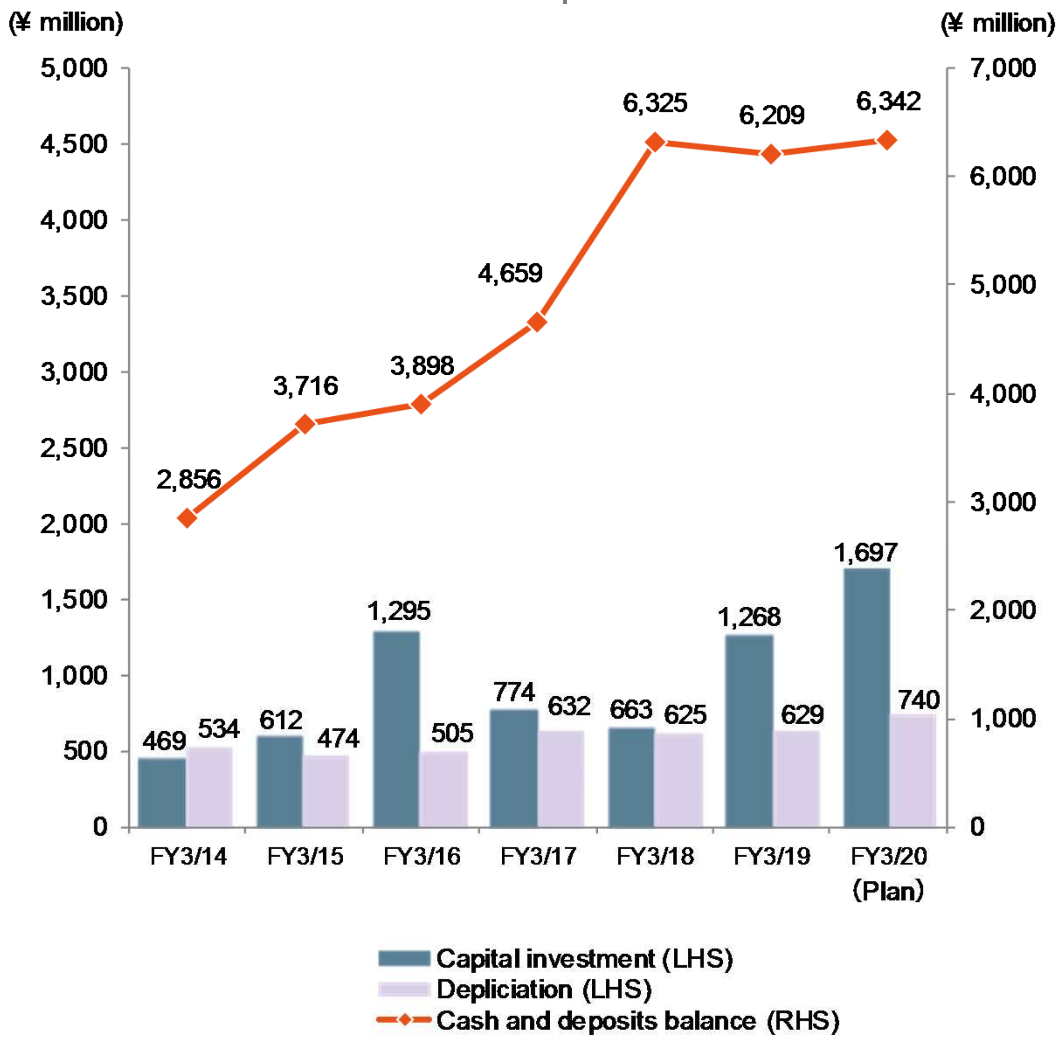
Consolidated Financial Forecasts for FY3/20

Financial Forecasts

(Unit: ¥ million)	FY3/19 Actual	FY3/20 Forecasts	YoY Changes	Comments
Net sales	10,476	10,380	-0.9%	Considering the many causes of concern, such as the outlook for the US-China trade friction and the possibility of a no-deal Brexit, and also considering that smartphones are shifting to 5G, demand for small-diameter tools is expected to level off, mainly in the first half of the fiscal year.
Operating profit	2,879	2,440	-15.3%	We expect an impact from the continuing increase in material costs throughout the year, as well as an increase in depreciation for the private show (to be held in January 2020) and for completion of the new development center.
Ordinary profit	2,894	2,460	-15.0%	Same as above.
Profit attributable to owners of parent	1,970	1,690	-14.2%	Same as above.
Capital investment	1,268	1,697	+33.8%	We expect an increase in capital investment for construction of the new development center and installation of development-related systems, for construction of a new building in a subsidiary’s plant, and for continuous renewal of production systems, etc.
Depreciation	629	740	+17.7%	Same as above.
EPS (¥)	157.59	135.16	-14.2%	—
DPS (¥)	45.00	45.00	—	We forecast the annual dividend to be ¥45, the same as the previous term, considering the stability of dividends, though the profit level is expected to fall.

Trend of Capital Investment and Depreciation

Trend of capital investment, depreciation, and cash and deposits balance



Factors for increase/decrease

FY3/16

Annual capital investment hit a record high due to expansion of the plant and front-loaded installation of machinery and equipment.

FY3/18

Capital investment, including machinery and equipment, was ¥663 million, slightly less than planned. Depreciation also slightly decreased.

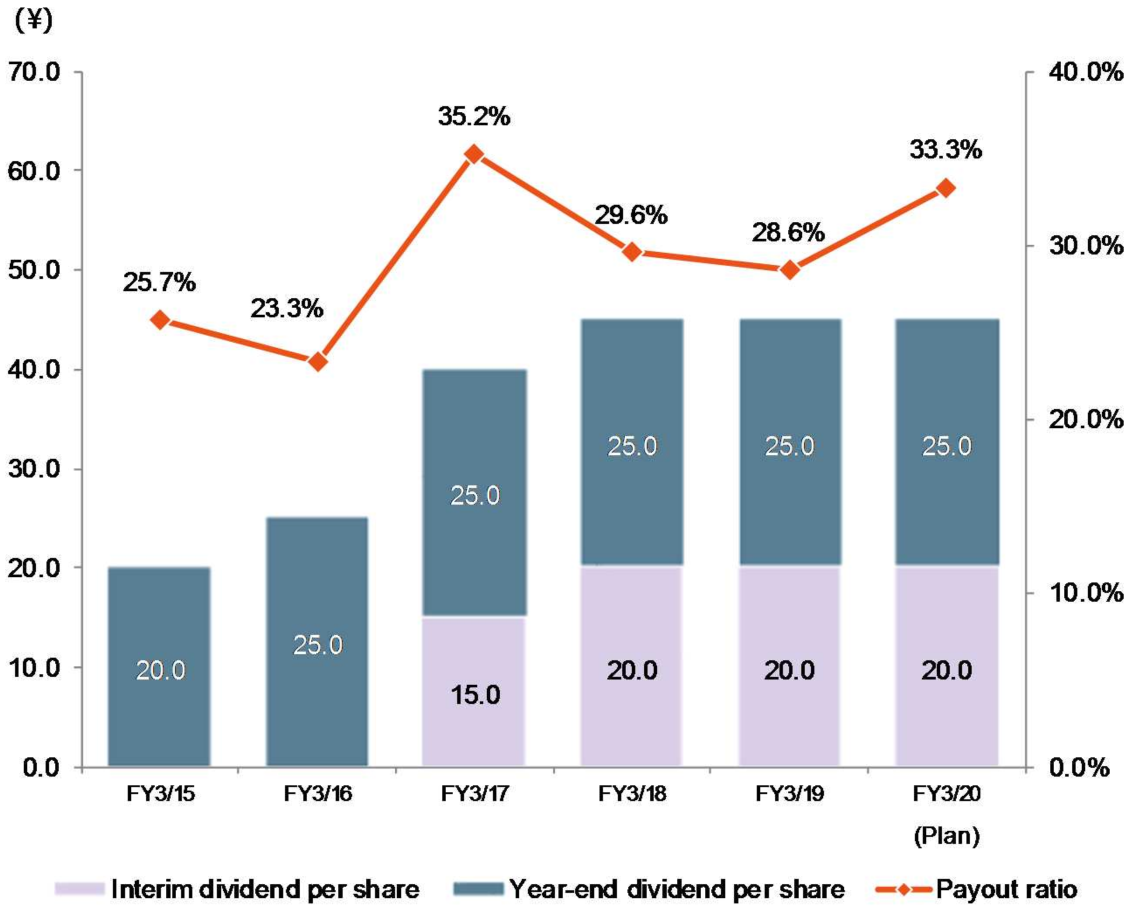
FY3/19

Increased due to construction in progress, such as continuous expansion of production facilities and groundbreaking for the new development center.

FY3/20 (Plan)

We expect an increase in capital investment for construction of the new development center and installation of development-related systems, for construction of a new building in a subsidiary's plant, and for continuous renewal of production systems, etc.

Dividend Forecast (Shareholder Returns)



* The impact of the share split on October 1, 2014 and January 1, 2017 was considered.

Return of profit according to business performance

- Annual dividend per share for FY3/19 was ¥45.0.
  Interim dividend: ¥20.0; Year-end dividend: ¥25.0
  Payout ratio: 28.6%

- Annual dividend per share for FY3/20 is estimated to be ¥45.0.
  Interim dividend: ¥20.0; Year-end dividend: ¥25.0
  Payout ratio for the earnings forecast: 33.3%
  The level of the previous fiscal year is kept, considering the stability of dividends, though the profit level is expected to fall.

- Shareholders benefits
  An original Quo card, worth ¥1,000, is presented to shareholders who hold one share unit (100 shares) or more and whose name is registered in the shareholder list as of March 31 of each year.

  From March 31, 2019, an additional ¥1,000 card is presented to shareholders who hold the shares for three years or more.

Our policy is to put priority on dividends rather than share buy-backs.

Contact Us

NS TOOL CO., LTD.

Corporate Planning Office

E-mail：ir@ns-tool.com

Note: The descriptions concerning the future and projections are based on targets and forecasts, and do not constitute an assurance or guarantee.
Please note that the results may differ from the projections.