



# **Financial Results for the 2<sup>nd</sup> Quarter of Fiscal Year Ending March 31, 2020**



**NS TOOL CO., LTD.**

October 31, 2019

(Securities Code: 6157)

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# **Consolidated Financial Results for 2Q FY3/20**



# Financial Results Summary for 1H FY3/20

Net Sales and profits decreased due to slowdown in demand for tools.

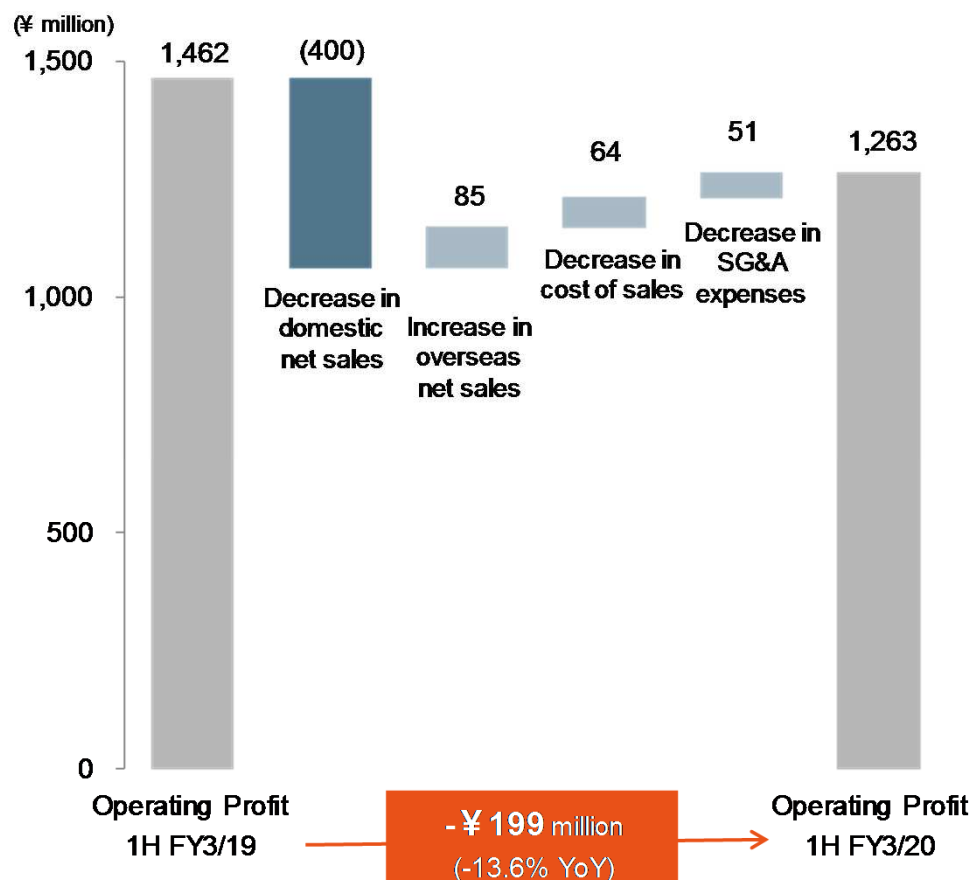
Net sales decreased by 3.7% compared to the forecast.

Profits were roughly the same as the forecasts.

( Unit: ¥ million)	1H FY3/19 Actual	1H FY3/20 Actual	1H FY3/20 Forecasts	Progress Rate
<b>Net Sales</b>	5,247	4,932	5,120	96.3%
YoY changes	+11.9%	-6.0%	-2.4%	
<b>Operating profit</b>	1,462	1,263	1,230	102.7%
YoY changes	+19.3%	-13.6%	-15.9%	
<b>Ordinary profit</b>	1,467	1,265	1,240	102.1%
YoY changes	+18.1%	-13.8%	-15.5%	
<b>Profit attributable to owners of parent</b>	972	832	840	99.1%
YoY changes	+7.2%	-14.4%	-13.6%	

- Demand for small-diameter tools became stagnant due to a slowdown in exports associated with deceleration of global economy and delay in recovery of IT demand in the world. In particular, the decline has been accelerated since August. Consolidated net sales for the 1H were ¥4,932 million, a decrease of 6.0% YoY. Progress rate against the 1H forecast was 96.3%, which was 3.7% below the forecast.
- Consolidated ordinary profit was ¥1,265 million, a decrease of 13.8% YoY. However, the progress rate against the 1H forecast was 102.1%, which was roughly as expected.
- Ordinary profit margin was 25.7%, a decrease of 2.3 points from the level of 1H FY 3/19.

# Factors for Decrease in Operating Profit



- Domestic net sales decreased by ¥400 million (10.5%) YoY while overseas net sales increased by ¥85 million (5.9%) YoY. Total net sales decreased by ¥315 million (6.0%) YoY.
- With regard to cost of sales, variable expenses such as materials costs and subcontract processing expenses decreased by a little more than 10% due to decrease in production, but labor cost remained almost the same, production expenses increased by 9.2% YoY due to increase in depreciation, etc., and cost of products manufactured decreased only by 0.7%. Cost of sales decreased by 2.9% YoY because of increase in finished goods inventory. However, the decrease rate was below that of net sales.
- SG&A expenses decreased by ¥51 million (3.3%) YoY in total due to decline in expenses for sales promotion, trade shows, etc.
- As a result, operating profit decreased by ¥199 million (13.6%) YoY, while operating profit margin was 25.6%, a decrease of 2.3 points YoY. The level was as high as 30.5% in the 1Q because of consolidation of NS TOOL Hong Kong. However, the consolidation worked in reverse in the period from July to September, reducing the cumulative total profits.

# Summary of Statement of Income

(Unit: ¥ million)	1H FY3/19 Actual	1H FY3/20 Actual	YoY Changes
<b>Net Sales</b>	5,247	4,932	-6.0%
<b>Gross profit</b>	3,021	2,770	-8.3%
Ratio to net sales	57.6%	56.2%	
<b>SG&amp;A expenses</b>	1,558	1,507	-3.3%
Ratio to net sales	29.7%	30.6%	
<b>Operating profit</b>	1,462	1,263	-13.6%
Ratio to net sales	27.9%	25.6%	
<b>Ordinary profit</b>	1,467	1,265	-13.8%
Ratio to net sales	28.0%	25.7%	
<b>Profit attributable to owners of parent</b>	972	832	-14.4%
Ratio to net sales	18.5%	16.9%	
<b>Capital investment</b>	382	958	+150.6%
<b>Depreciation</b>	291	335	+14.9%
<b>No. of employees (persons)</b>	325	337	+3.7%

- Net sales were ¥4,932 million, a decrease of 6.0% YoY. Slow sales of electronics- and device-related products, semiconductor manufacturing equipment, automobile-related components, etc. had impact on demand for tools.
- Gross profit was ¥2,770 million, a decrease of 8.3% YoY, due to decline in net sales, and gross profit margin was 56.2%, a decrease of 1.4 points YoY.
- Regarding SG&A expenses, personnel expenses and general and administrative expenses were able to be reduced, resulting in 3.3% decrease YoY. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 30.6%, an increase of 0.9 points.
- As a result, operating profit was ¥1,263 million, a decrease of 13.6% YoY. Operating profit margin was 25.6%, a decrease of 2.3 points.
- Amount of capital investment was ¥958 million, a 1.5-time increase YoY, because of payments related to under-construction new development center and plant of a subsidiary. Depreciation was ¥335 million, an increase of 14.9%, because, in FY3/19, it had cost more than usual to introduce mechanical equipment.

# Summary of Balance Sheet

( Unit: ¥ million)	FY3/19-End	Composition Ratio	1H FY3/20-End	Composition Ratio	YoY Changes
<b>(Assets)</b>					
Current assets	9,932	64.6%	9,741	61.8%	-1.9%
Cash and deposits	6,209	40.4%	6,080	38.6%	-2.1%
Notes and accounts receivable - trade	1,531	10.0%	1,391	8.8%	-9.1%
Inventories	2,056	13.4%	2,174	13.8%	+5.8%
Non-current assets	5,449	35.4%	6,012	38.2%	+10.3%
Property, plant and equipment	4,685	30.5%	5,257	33.4%	+12.2%
Intangible assets	84	0.5%	69	0.4%	-17.6%
Investments and other assets	679	4.4%	686	4.4%	+1.0%
<b>Total assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>15,754</b>	<b>100.0%</b>	<b>+2.4%</b>
<b>(Liabilities)</b>					
Current liabilities	1,643	10.7%	1,466	9.3%	-10.8%
Accounts payable - trade	277	1.8%	271	1.7%	-2.1%
Non-current liabilities	275	1.8%	254	1.6%	-7.6%
<b>Total liabilities</b>	<b>1,919</b>	<b>12.5%</b>	<b>1,720</b>	<b>10.9%</b>	<b>-10.3%</b>
<b>(Net assets)</b>					
<b>Total equity</b>	<b>13,397</b>	<b>87.1%</b>	<b>13,910</b>	<b>88.3%</b>	<b>+3.8%</b>
<b>Total net assets</b>	<b>13,461</b>	<b>87.5%</b>	<b>14,033</b>	<b>89.1%</b>	<b>+4.2%</b>
<b>Total liabilities and net assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>15,754</b>	<b>100.0%</b>	<b>+2.4%</b>

## Current assets

A decrease of 1.9% because cash and deposits decreased due to payments of income taxes and bonuses

## Non-current assets

An increase of 10.3% YoY due to increased construction in progress for constructing new development center and plant of a subsidiary

## Liabilities

A decrease of 10.3% YoY due to decline in provision for bonuses for directors and provision for bonuses

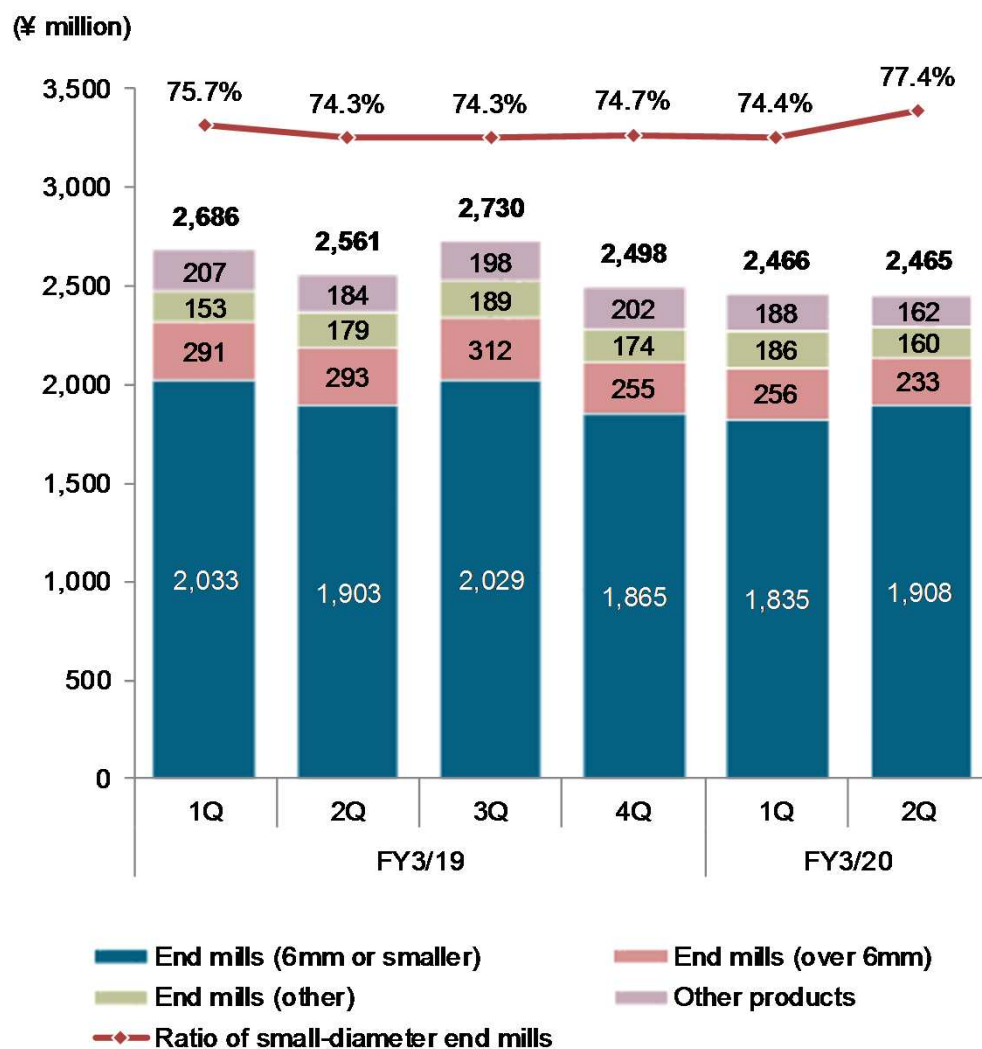
## Net assets

An increase of 4.2% YoY due to increase in retained earnings, etc.; equity ratio increased to 88.3%, an increase of 1.2 points

# Quarterly Business Performance

## (Trends of net sales (1) By product)

Trends of net sales by product and ratio of small-diameter end mills



Regarding the automobile-related businesses, since the beginning of this year, new car sales in Japan has increased compared to the previous year. However, the sales for local manufacturers in China, the largest market, dropped significantly and impacted on the sales of manufacturers in Japan which provide components. As for the electronic parts/devices-related businesses, the sales for on-board electronic parts and devices increased, while the shipment of smartphones tended to decrease. As a result demand for tools weakened.

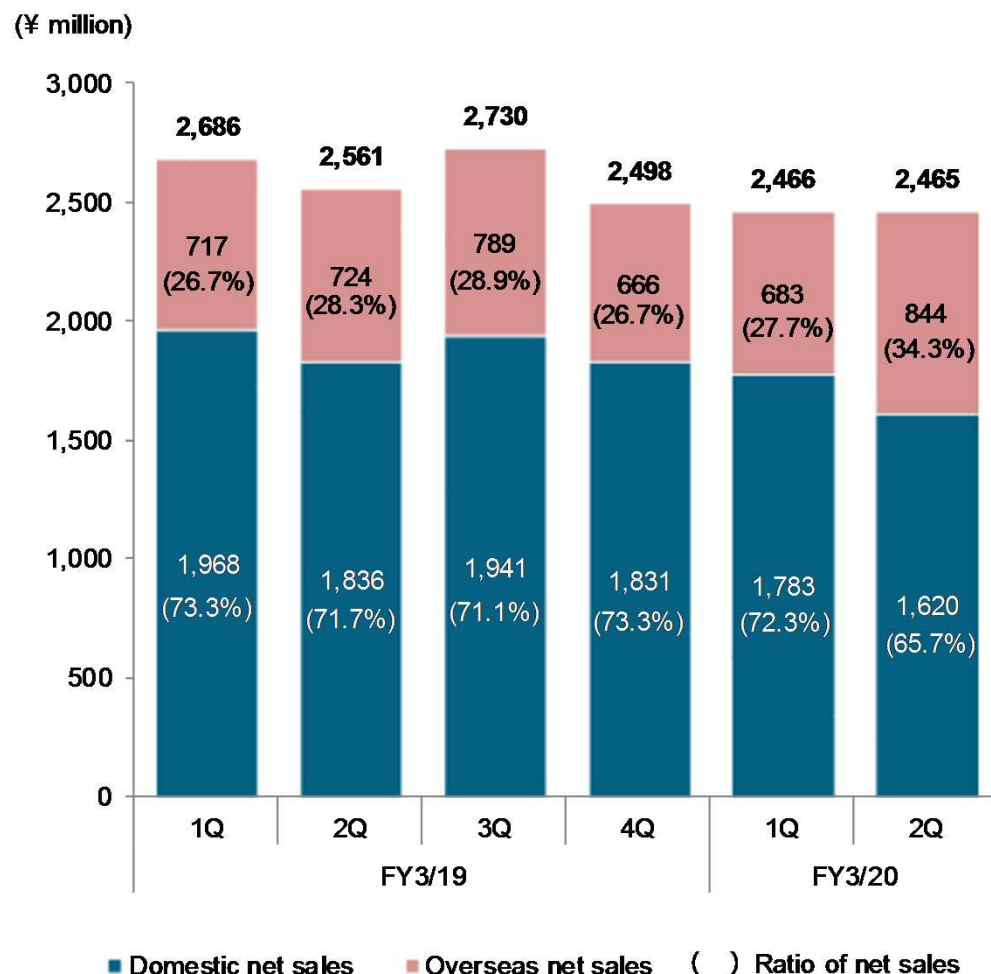
Net sales for end mills (6 mm or smaller), which are one of the key products, maintained the level of FY3/19 with 0.3% increase YoY. However, those for end mills (over 6 mm), whose prices were raised in the previous fall, significantly decreased by 20.3% YoY. Net sales for end mills (other), most of which are special products made with specifications unique to each user, also decreased by 10.7% YoY, and those for other products such as end-mill cases decreased by 12.0% YoY due to a decrease in demand for tools in general. Ratio of small-diameter end mills increased proportionally due to a decline in demand for the products other than small-diameter tools, resulting in 77.4%, an increase of 3.1 points YoY.



# Quarterly Business Performance

## (Trends of net sales (2) Domestic and overseas)

Trends of domestic and overseas net sales

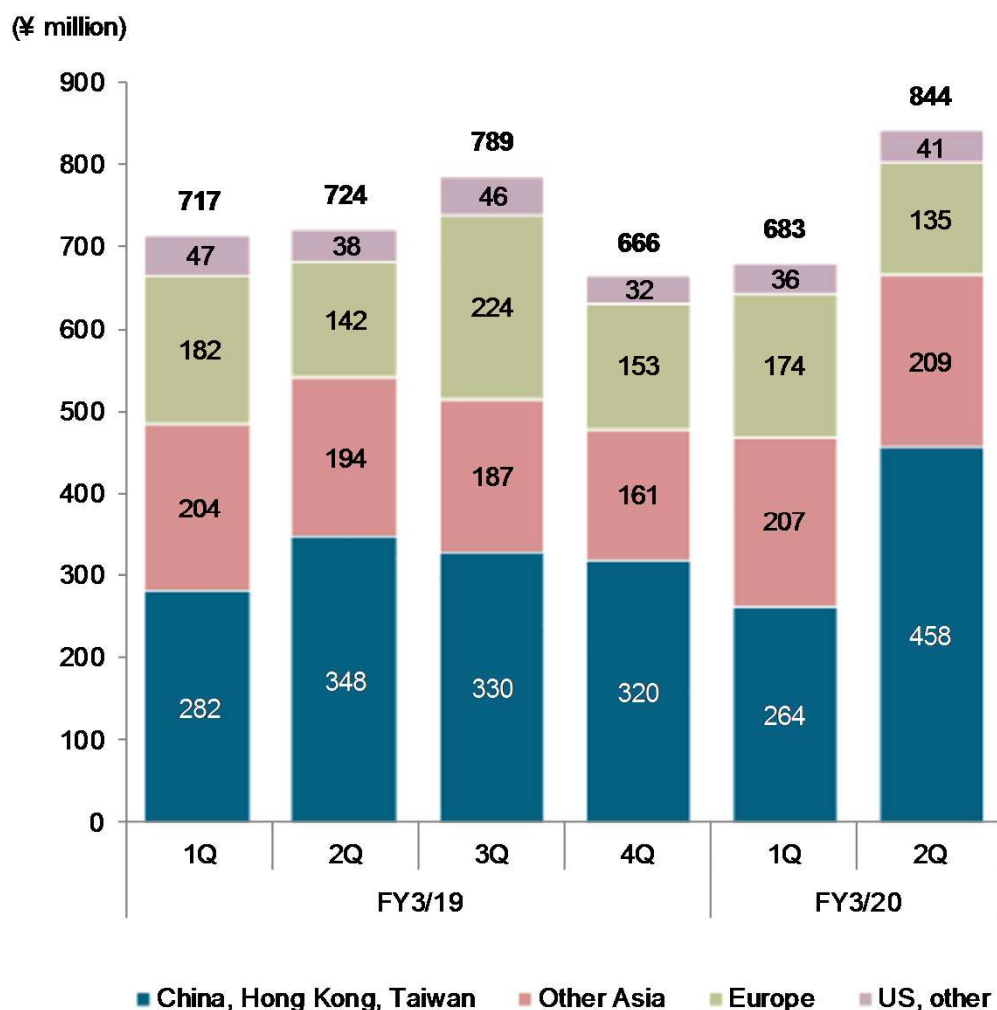


- Domestic net sales were ¥1,620 million, a decrease of ¥215 million (11.7%) YoY, while overseas net sales were ¥844 million, an increase of ¥120 million (16.6%) YoY.
- Ratio of overseas net sales increased by 6.0 points to 34.3% because domestic net sales decreased by 11.7% while overseas net sales significantly increased YoY thanks to the fact that net sales of NS TOOL Hong Kong kept the high level from April to June (the financial figures of the subsidiary are booked with three-month delay for consolidated accounting).

# Quarterly Business Performance

## (Trends of net sales (3) By overseas region)

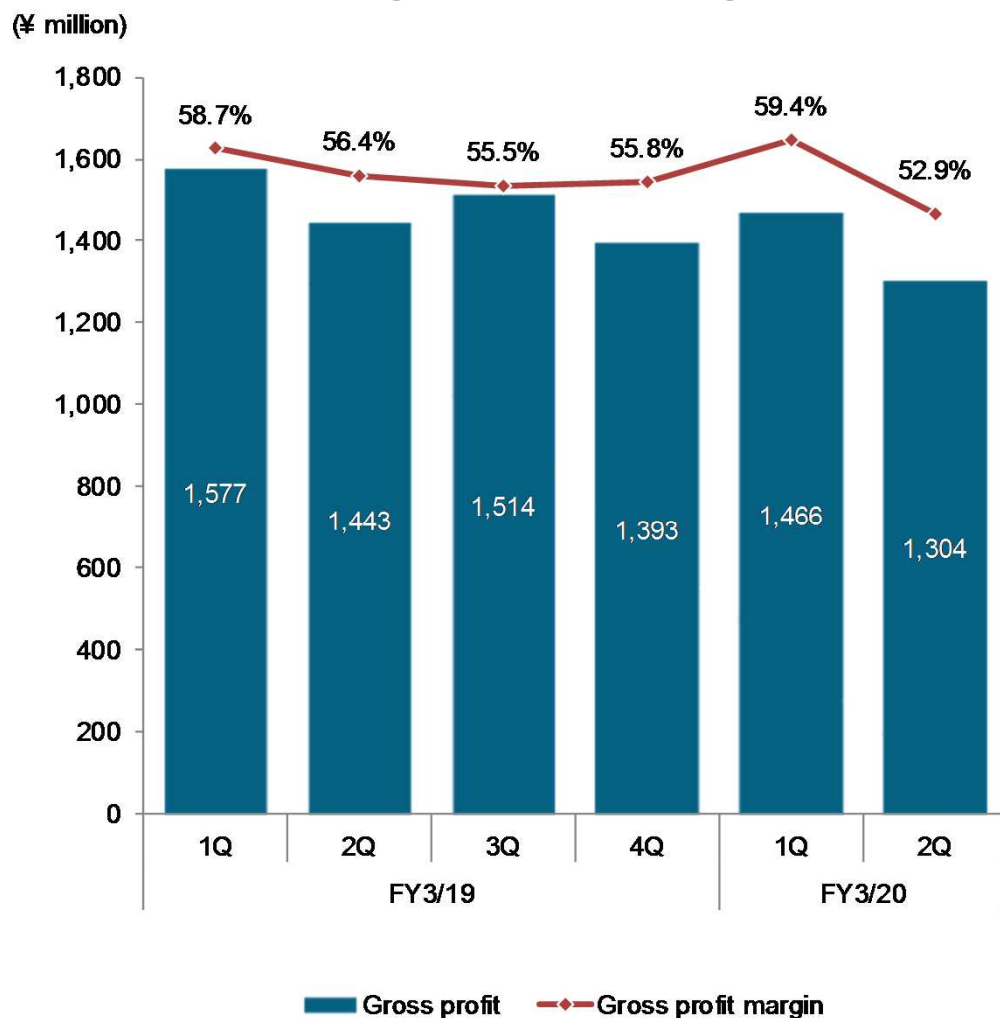
Trends of net sales by overseas region



- Net sales in China, Hong Kong and Taiwan were ¥458 million, an increase of 31.4% YoY, which largely exceeded the quarterly record. While demand for smartphones in China has a seasonality to achieve a peak in the April-June period, demand seems to have increased more because of increased number of cameras loaded onto smartphones and front-loaded demand due to the U.S.-China trade friction (sales for the 2Q, July-Sept., of China are the figures of April-June period due to consolidation of NS TOOL Hong Kong).
- Net sales in Other Asia increased by 7.9% YoY to ¥209 million. We have not acquired information on the specific movement of transfer from China to this region. However, there may be some impact of the movement, because net sales in the countries like Thailand have been steady since the beginning of this fiscal year.
- Net sales in Europe decreased by 4.7%, the only region that went below the level of 2Q FY3/19. It seems that decrease in exports to China had an impact.
- Net sales in the U.S. and other continue to be small, accounting only for some 5% of the total overseas net sales.

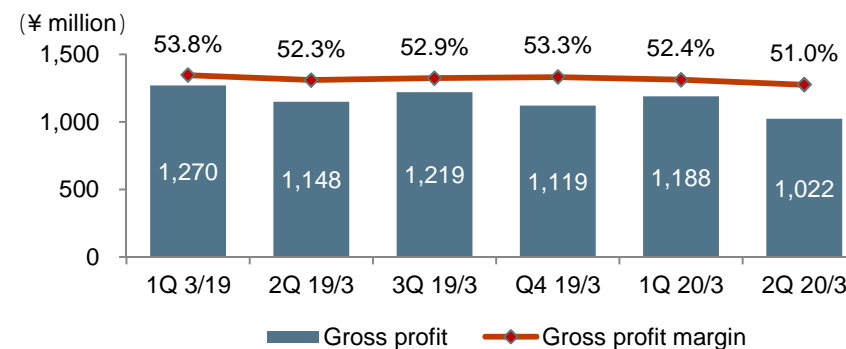
# Quarterly Business Performance (Trend of gross profit)

Trends of gross profit and gross profit margin



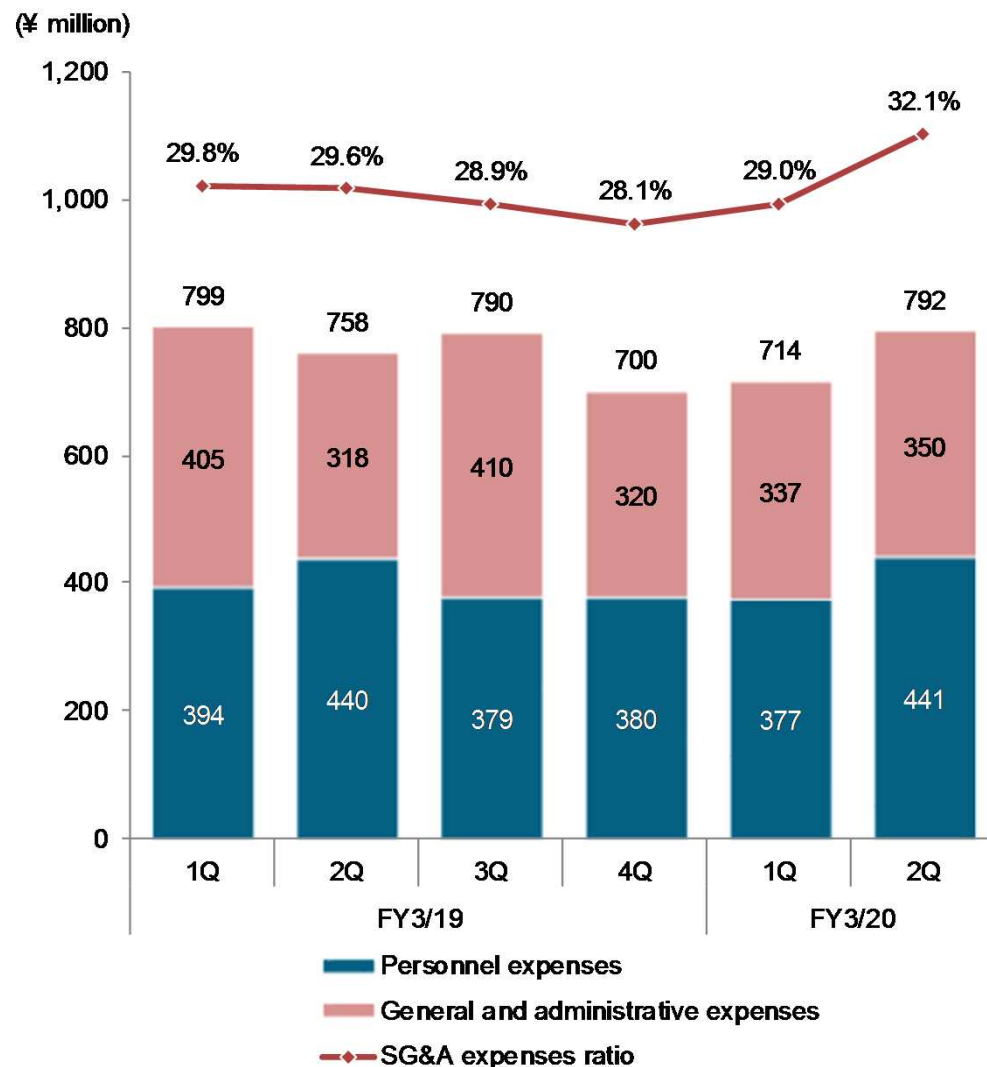
- Since production volume declined YoY due to a decline in net sales, variable expenses such as materials costs and subcontract processing expenses decreased, resulting in a decrease of ¥58 million (5.3%) YoY in cost of products manufactured. In addition, ¥100 million and more was added to cost of sales YoY due to consolidation of NS TOOL Hong Kong. As a result, cost of sales increased by 3.9% YoY to ¥1,161 million.
- Gross profit decreased by ¥139 million (9.7%) YoY and gross profit margin was 52.9%, a decrease of 3.5 points, accordingly.
- 2Q gross profit margin of NS TOOL alone was 51.0%, which is a 1.3-point decrease from 52.3% in the 2Q FY3/19.

( Reference ) Trends of gross profit margin (NS TOOL alone)



# Quarterly Business Performance (Trend of SG&A expenses)

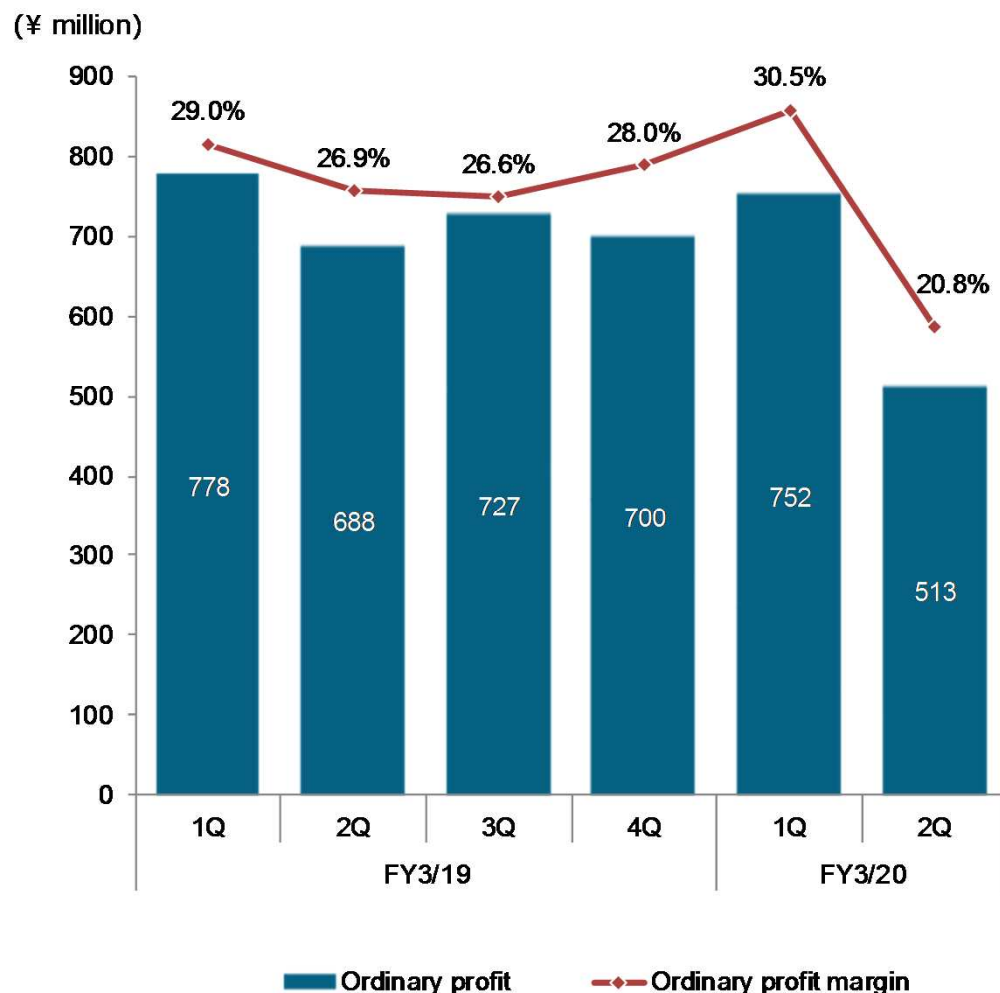
Trends of SG&A expenses and  
SG&A expenses ratio



- Regarding SG&A expenses, general and administrative expenses were ¥350 million, 10.2% increase YoY, due to raise in rent expenses caused by transfer of the head office in last November, preparation of brochures of new products, and increased R&D expenses including coating-related one.
- In the meantime, personnel expenses remained almost the same level of ¥441 million, an increase of 0.3% YoY.
- SG&A expenses ratio was 32.1%, 2.5 points increase YoY, due to decrease in net sales and increase in SG&A expenses.

# Quarterly Business Performance (Trend of ordinary profit)

Trends of ordinary profit and ordinary profit margin



- Operating profit was ¥511 million, 25.3% decrease YoY, because, in addition to 3.7% decrease in net sales YoY, cost of sales increased due to reduced production and the consolidation of NS TOOL Hong Kong, as well as increased SG&A expenses.
- Regarding non-operating expenses, there were ¥4 million gain on sale of scrap and ¥2 million foreign exchange losses, resulting in ¥513 million of ordinary profit, that is, 25.5% decrease in profit.
- Ordinary profit margin was 20.8%, 6.1 points decrease YoY, and 9.7 points decrease QoQ. There are four main reasons for the result: production volume and inventory level were controlled compared to the 1Q; impact caused by the difference in timing associated with consolidation of NS TOOL Hong Kong resulted in increased cost of sales, in contradiction to the 1Q; 1Q advertising expenses shifted to the 2Q which increased SG&A expenses; and share-based remuneration expenses increased SG&A expenses. 1H ordinary profit margin was 25.7%, 2.3 points decrease YoY.

# **Consolidated Financial Forecasts for FY3/20**



# Financial Forecasts

( Unit: ¥ million)	FY3/19 Actual	FY3/20 Forecasts	YoY Changes
Net Sales	10,476	9,590	-8.5%
Operating profit	2,879	2,150	-25.3%
Ordinary profit	2,894	2,160	-25.4%
Profit attributable to owners of parent	1,970	1,460	-25.9%
Capital investment	1,268	1,697	+33.8%
Depreciation	629	740	+17.7%
EPS (¥)	157.59	116.77	-25.9%
Dividend per share (¥)	45.00	45.00	

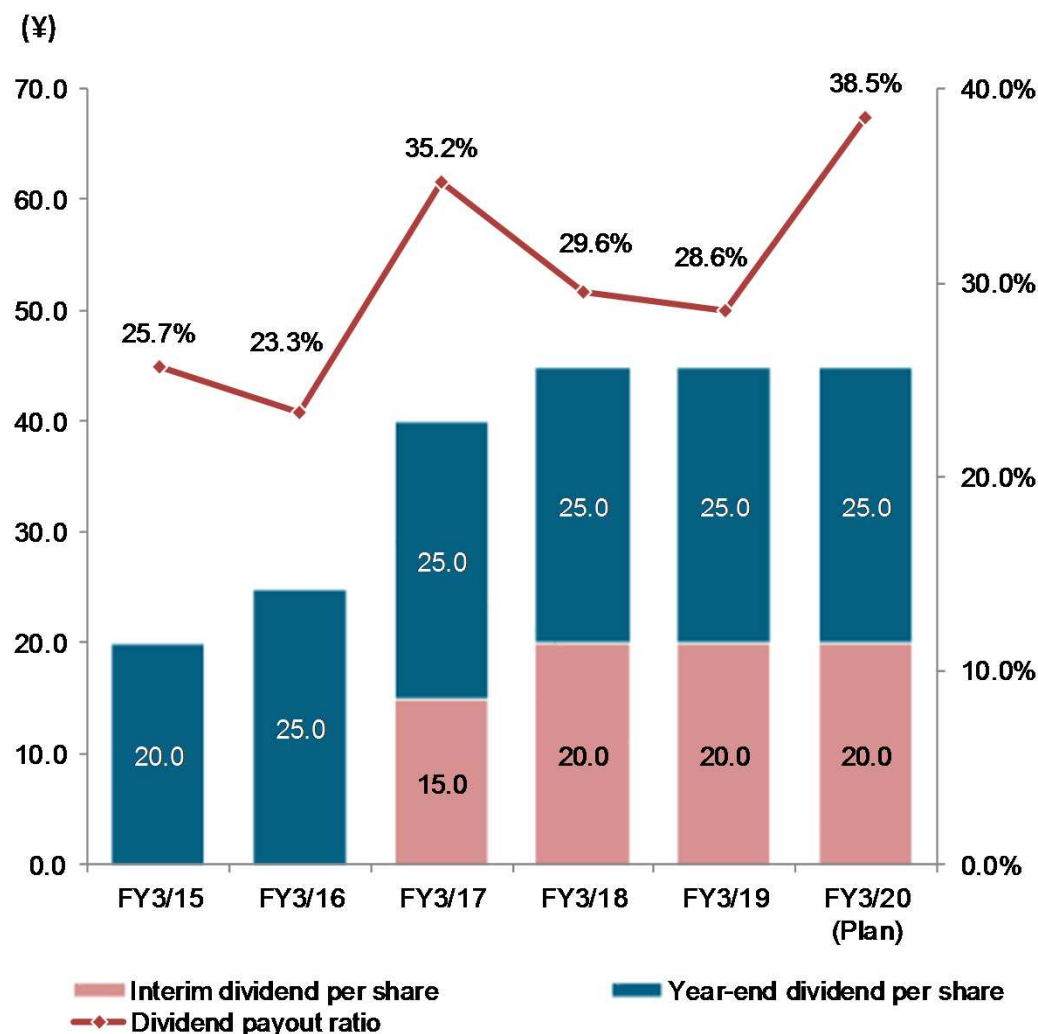
- Against the backdrop of intensified and prolonged U.S.-China trade friction, we are in the situation that is harsher than expected in the beginning of this fiscal year, because there is a high possibility that exports and capital investments slow down due to slower exports associated with stagnant overseas economy and delay in recovery of IT demand in the world.
- Regarding the automobile industry, demand for tools as a whole is forecast to decrease because slow sales in China have an impact on component manufacturers in Japan, while enhancement in safety equipment and increase in EVs and FCVs are expected.
- In the 2H, profits are forecast to decline at a rate greater than net sales, because production efficiency is considered to deteriorate due to reduced production volume, and SG&A expenses increase due to completion of the new development center and holding of a private show.
- Capital investment is assumed to mark record high because of construction of the new development center and plant of a subsidiary, in addition to ordinary mechanical equipment. Depreciation increases due to completion of these constructions.
- Dividend per share continues to be ¥45 per year.

# 1H FY3/20 Results and 2H FY3/20 Forecasts

( Unit: ¥ million)	FY3/20					
	1H Actual	Ratio to net sales	2H Forecasts	Ratio to net sales	Full-year Forecasts	Ratio to net sales
<b>Net Sales</b>	4,932	-	4,657	-	9,590	-
YoY Changes	-6.0%		-10.9%		-8.5%	
<b>Operating profit</b>	1,263	25.6%	886	19.0%	2,150	22.4%
YoY Changes	-13.6%		-37.4%		-25.3%	
<b>Ordinary profit</b>	1,265	25.7%	894	19.2%	2,160	22.5%
YoY Changes	-13.8%		-37.3%		-25.4%	
<b>Profit attributable to owners of parent</b>	832	16.9%	627	13.5%	1,460	15.2%
YoY Changes	-14.4%		-37.1%		-25.9%	



# Dividend Forecasts (Shareholder Returns)



## 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  
Dividend payout ratio: 28.6%
- Annual dividend per share for FY3/20 is planned to be ¥45.0.  
Interim dividend: ¥20.0; Year-end dividend: ¥25.0  
Dividend payout ratio for the financial forecasts: 38.5%

The level of FY3/19 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 every shareholder who holds one share unit (100 shares) or more and whose name is registered in the shareholder list as of March 31 of each year.

An additional ¥1,000 card is presented to shareholders who hold the shares for three years or more.

\* The impacts of the share splits on October 1, 2014 and January 1, 2017 were considered.

**Contact us:**

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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.