Financial Results for the 2nd Quarter of Fiscal Year Ending March 31, 2021

NS TOOL CO., LTD.

October 30, 2020

(Securities Code: 6157)

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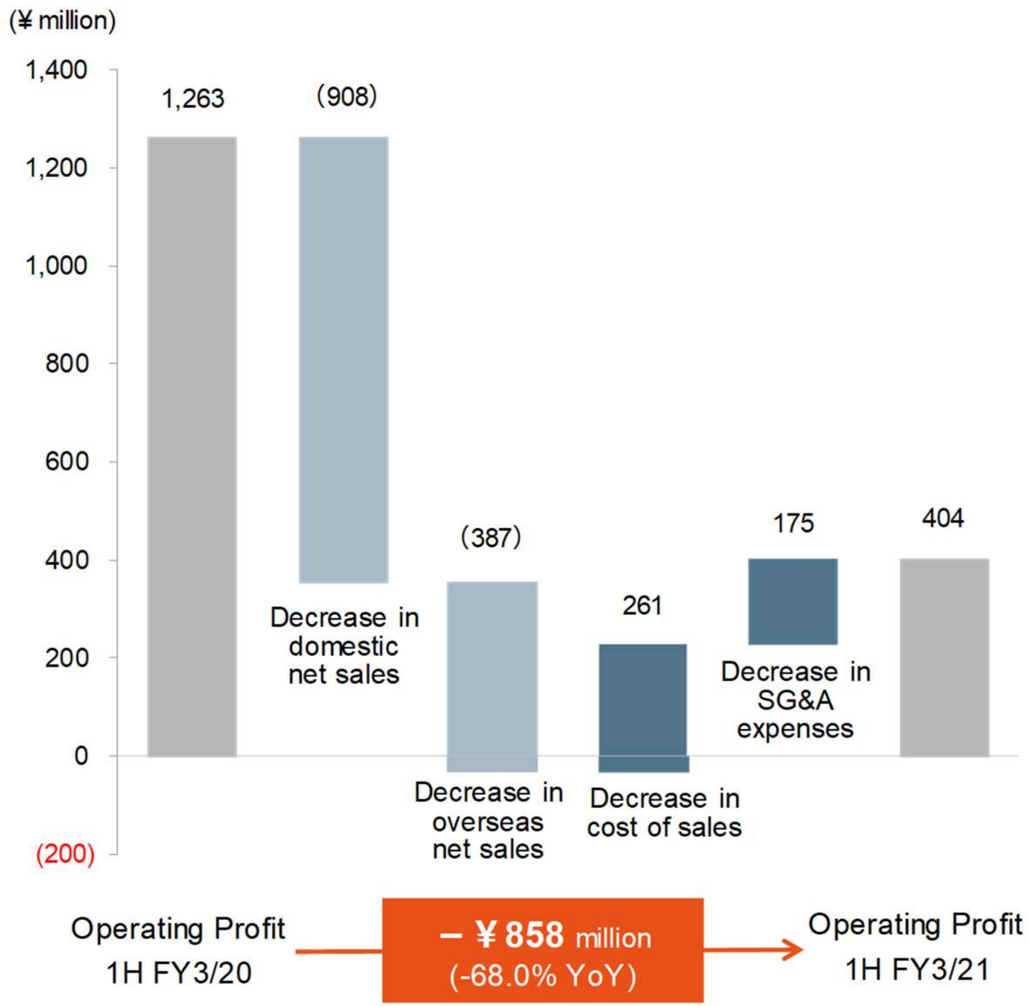
Financial Results Summary for 1H FY3/21

While the decrease in demand has bottomed out, the recovery is limited

(Unit: ¥ million)	1H FY3/20 Actual	1H FY3/21 Actual	1H FY3/21 Forecasts	Progress Rate
Net Sales	4,932	3,635	3,600	101.0%
YoY changes	-6.0%	-26.3%	-27.0%	
Operating profit	1,263	404	280	144.3%
YoY changes	-13.6%	-68.0%	-77.8%	
Ordinary profit	1,265	444	285	155.8%
YoY changes	-13.8%	-64.9%	-77.5%	
Profit attributable to owners of parent	832	275	163	168.8%
YoY changes	-14.4%	-67.0%	-80.4%	

- Economic activities have stagnated globally due to travel bans and urban lockdowns as a result of the COVID-19 pandemic, and the manufacturing sector was significantly affected. Production activity has shown a gradual recovery trend since its bottom in May, however, the recovery is limited due to a rebound of infections.
- Demand for tools appears to have bottomed out, but the recovery of net sales is sluggish due to inventory consolidation in the distribution channel.
- Consolidated net sales were ¥3,635 million, a decrease of 26.3% YoY, and consolidated ordinary profit was ¥444 million, a decrease of 64.9% YoY.
- Ordinary profit margin was 12.2%, down by 13.5pp.
- The progress rate to the 1H forecasts was 101.0% for net sales and 155.8% for ordinary profit, because the 2Q (Jul.-Sep.), where loss was expected in the forecast, finished with profits.

Factors for Decrease in Operating Profit



- Domestic net sales declined by ¥908 million, a decrease of 26.7% YoY, and overseas net sales declined by ¥387 million, a decrease of 25.4% YoY, with overall net sales down by ¥1,296 million, a decrease of 26.3%.
- In addition to the high ratio of fixed costs in cost of products manufactured, finished goods inventory was reduced by ¥111 million from the end of last fiscal year. As a result, cost of sales decreased only by 12.1% YoY, or by ¥261 million.
- SG&A expenses declined by ¥175 million, a decrease of 11.7% due to decreases in exhibition costs and advertising expenses, while there were increased expenses such as additional depreciation associated with the inauguration of the new R&D center and real estate acquisition tax.
- As a result, operating profit was ¥404 million, declining by ¥858 million, a decrease of 68.0% YoY.

Summary of Statement of Income

(Unit: ¥ million)	1H FY3/20 Actual	1H FY3/21 Actual	YoY Changes
Net Sales	4,932	3,635	-26.3%
Gross profit	2,770	1,735	-37.4%
Ratio to net sales	56.2%	47.7%	
SG&A expenses	1,507	1,331	-11.7%
Ratio to net sales	30.6%	36.6%	
Operating profit	1,263	404	-68.0%
Ratio to net sales	25.6%	11.1%	
Ordinary profit	1,265	444	-64.9%
Ratio to net sales	25.7%	12.2%	
Profit attributable to owners of parent	832	275	-67.0%
Ratio to net sales	16.9%	7.6%	
Capital investment	958	150	-84.3%
Depreciation	335	352	+5.2%
No. of employees (persons)	337	344	+2.1%

- Net sales were ¥3,635 million, a decrease of 26.3% YoY. While many manufacturing industries are believed to have bottomed out, they have not returned to the previous level prior to COVID-19. Therefore the situation remained severe for our Group products, also affected by inventory consolidation in the distribution channel in 1H.
- The cost of sales ratio increased due to the decline in net sales, production slowdown and inventory reduction, resulting in a 37.4% YoY decline to ¥1,735 million. Gross profit margin declined by 8.5 pp to 47.7%.
- In total, SG&A expenses decreased by 11.7% YoY, because personnel expenses decreased by 6.9%, and general expenses, by 17.3%, YoY. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 36.6%, an increase of 6.0pp.
- As a result, operating profit was ¥404 million, a decrease of 68.0%, with operating profit margin of 11.1%, down by 14.5pp.
- Capital expenditures were ¥150 million, a decrease of 84.3% YoY, after the completion of the new R&D center last year. Depreciation was ¥352 million, an increase of 5.2%, with the inauguration of depreciation associated with the new R&D center.

Summary of Balance Sheet

(Unit: ¥ million)	FY3/20-End	Composition Ratio	1H FY3/21-End	Composition Ratio	VS FY3/20-End
(Assets)					
Ⅰ Current assets	9,555	59.7%	9,383	60.4%	-1.8%
Cash and deposits	5,784	36.1%	6,221	40.1%	+7.6%
Notes and accounts receivable - trade	1,366	8.5%	1,027	6.6%	-24.8%
Inventories	2,201	13.7%	2,025	13.0%	-8.0%
Ⅱ Non-current assets	6,462	40.3%	6,145	39.6%	-4.9%
Property, plant and equipment	5,748	35.9%	5,458	35.2%	-5.0%
Intangible assets	52	0.3%	37	0.2%	-28.3%
Investments and other assets	661	4.1%	648	4.2%	-1.9%
Total assets	16,017	100.0%	15,528	100.0%	-3.1%
(Liabilities)					
Ⅰ Current liabilities	1,265	7.9%	754	4.9%	-40.4%
Accounts payable - trade	208	1.3%	100	0.6%	-51.9%
Ⅱ Non-current liabilities	254	1.6%	254	1.6%	-0.2%
Total liabilities	1,519	9.5%	1,008	6.5%	-33.7%
(Net assets)					
Total equity	14,374	89.7%	14,336	92.3%	-0.3%
Total net assets	14,498	90.5%	14,520	93.5%	+0.2%
Total liabilities and net assets	16,017	100.0%	15,528	100.0%	-3.1%

Current assets

Decreased by 1.8% from the end of the previous fiscal year due to the decline in net sales and associated decrease in accounts receivable – trade.

Non-current assets

Decreased by 4.9% due to lack of major capital investment and increase in depreciation.

Liabilities

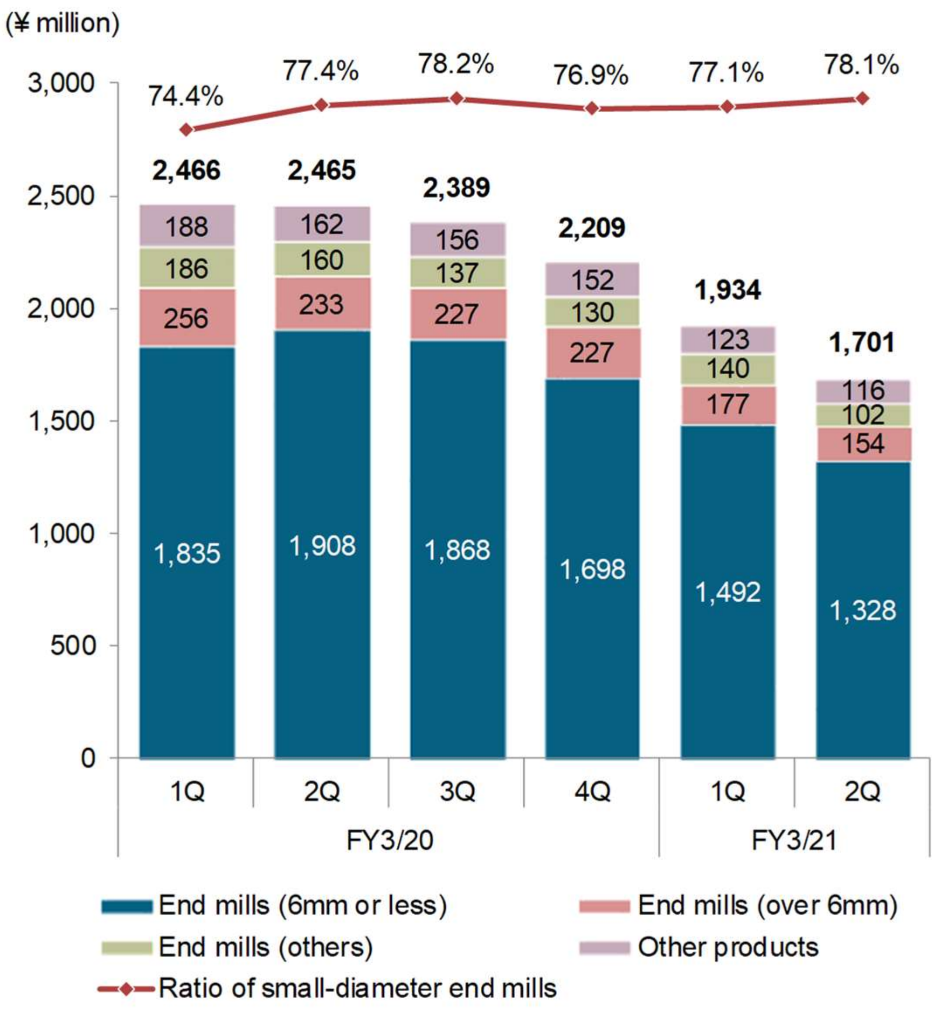
Decreased by 33.7% due to decrease in income taxes payable and provision for bonuses for directors and senior officers.

Net assets

Increased by 0.2% YoY due to an increase in retained earnings minus payment of dividends. The equity ratio increased by 2.6pp to 92.3% with the decrease of liabilities.

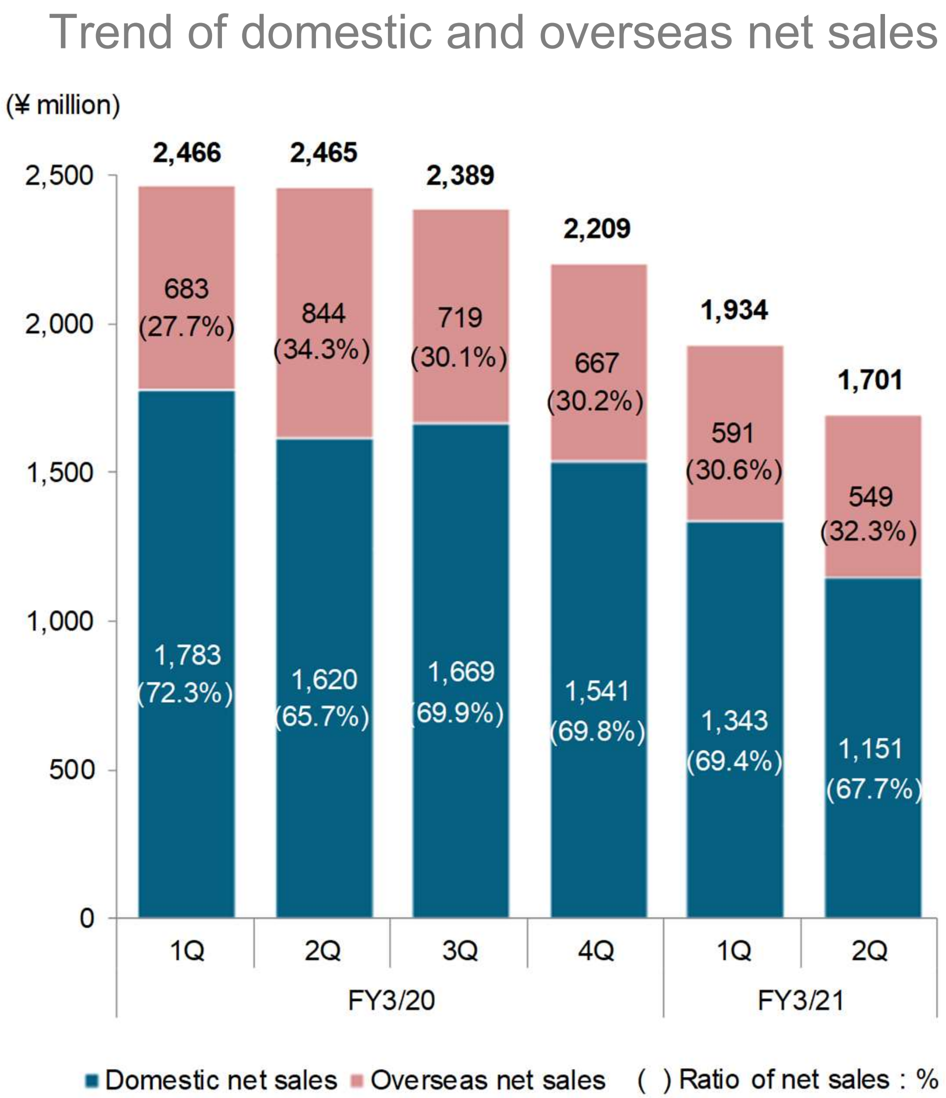
Business Performance (Trend of net sales (1) By product)

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



- While domestic automobile production bottomed out in May and entered a recovery trend, the recovery remained to roughly 80% of the previous year's, and the demand for tools decreased as a result of reduced operating rates in many manufacturing industries due to extended summer holidays. Together with the inventory consolidation of our Group products in the distribution channel, 2Q consolidated net sales declined by 31.0% YoY, or by 12.1% QoQ, to ¥1,701 million.
- By product, mainstay end mills (diameter 6 mm or less) posting a decrease of 30.4% YoY, and end mills (diameter over 6 mm) also decreased by 34.1% YoY. Also, end mills (others), most of which are special tools made unique to each user, decreased by 36.3% YoY. Other products such as tool cases decreased by 28.2% YoY. Since it was an overall decline, the ratio of small diameter end mills increased by 0.7pp to 78.1%, virtually unchanged.

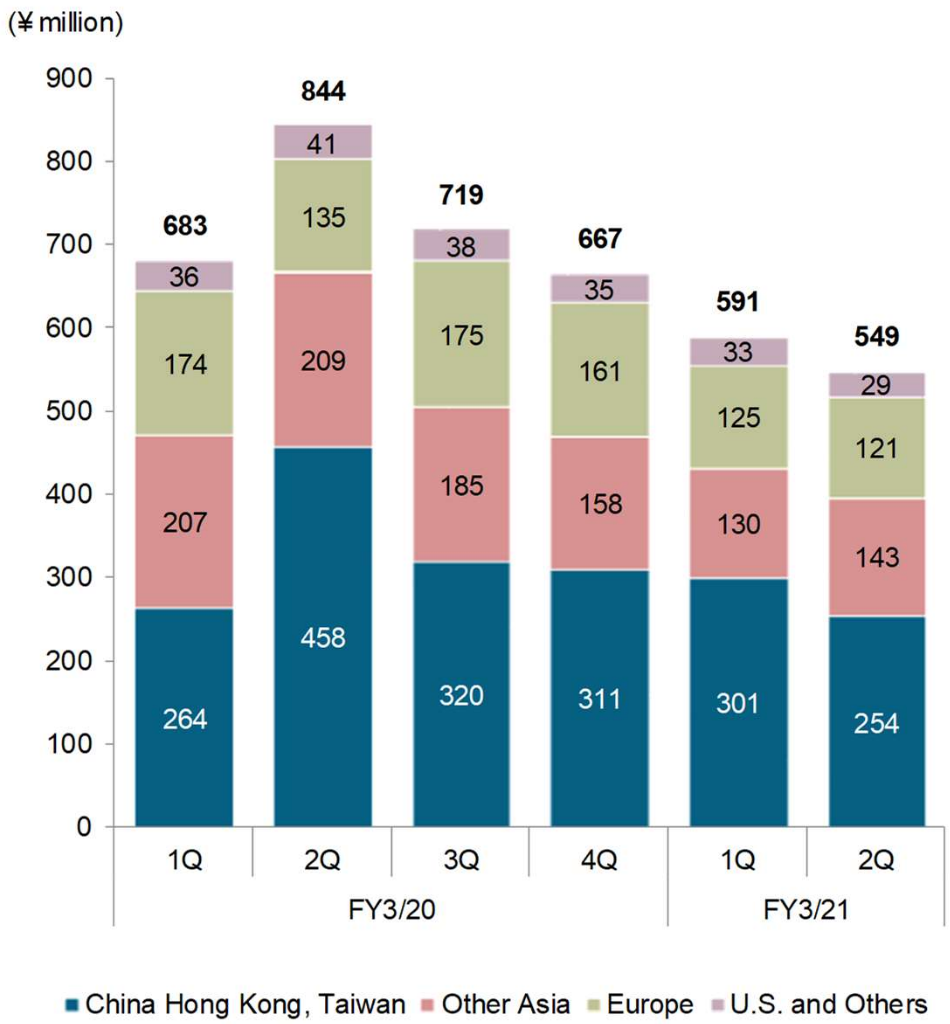
Business Performance (Trend of net sales (2) Domestic and overseas)



- Domestic net sales of ¥1,151 million declined by ¥468 million, a decrease of 28.9% YoY, while overseas net sales of ¥549 million declined by ¥295 million, a decrease of 35.0% YoY.
- Both sales declined YoY, especially the ratio of overseas net sales was down to 32.3%, dropped by 2.0pp, affected by the absence of strong sales figures in Greater China last year.

Business Performance (Trend of Net Sales (3) By overseas region)

Trend of net sales by overseas region



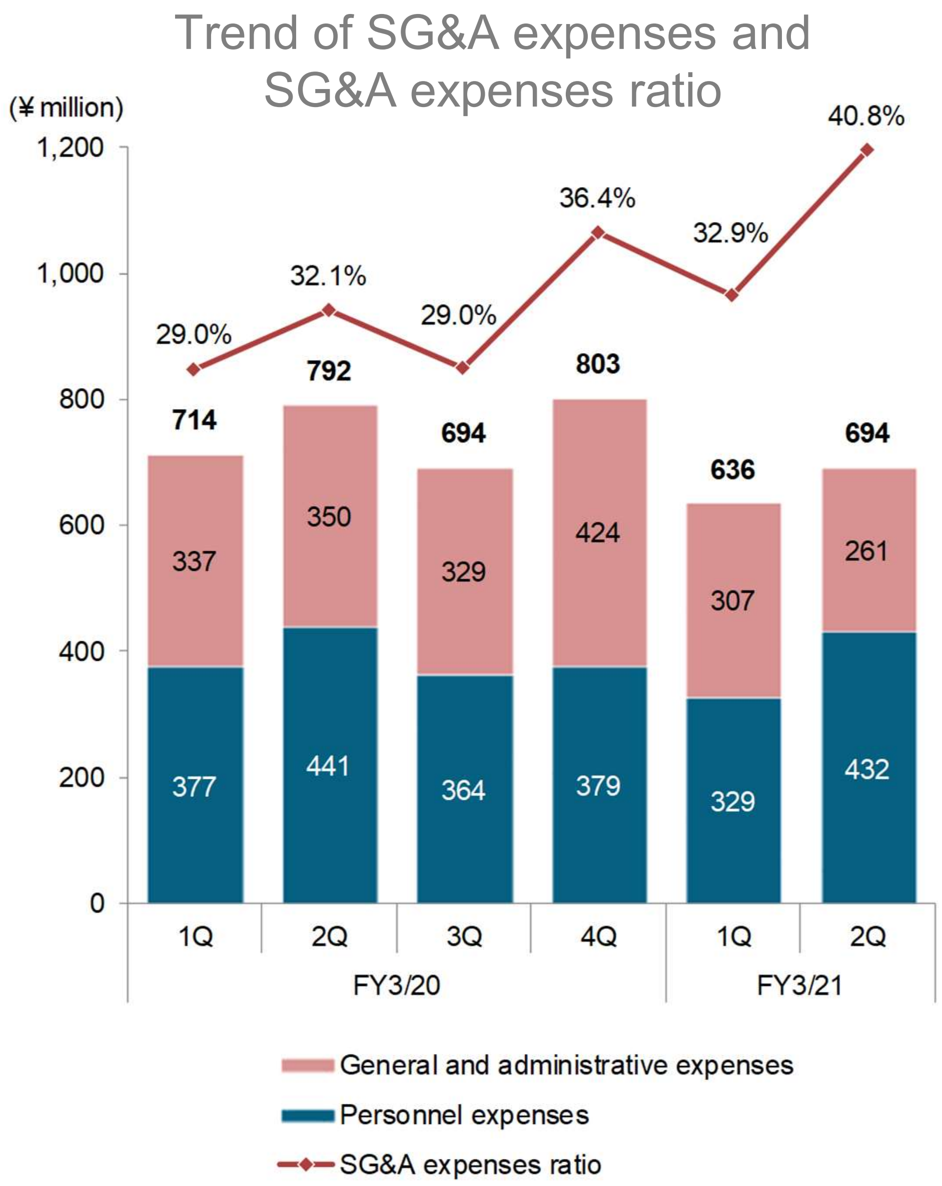
- China, Hong Kong and Taiwan decreased by 44.5% YoY. 2Q figures of Greater China is correspond to Apr.-Jun. results because of the consolidation lag of NS TOOL Hong Kong Ltd., and since the figures last fiscal year were extremely high, they halved.
- The Other Asia declined by 31.8% YoY, and this region has many Japanese affiliate local factories, so it suffered a similar impact as in Japan.
- For Europe, users include medical equipment makers and household goods makers which had a relatively small impact under the COVID-19 pandemic, and the decline was only 10.0% YoY.
- The U.S. and Others declined by 27.3% YoY, but the impact overall was minimal due to the small absolute amount.

Business Performance (Trend of gross profit)

Trend of gross profit and gross profit margin

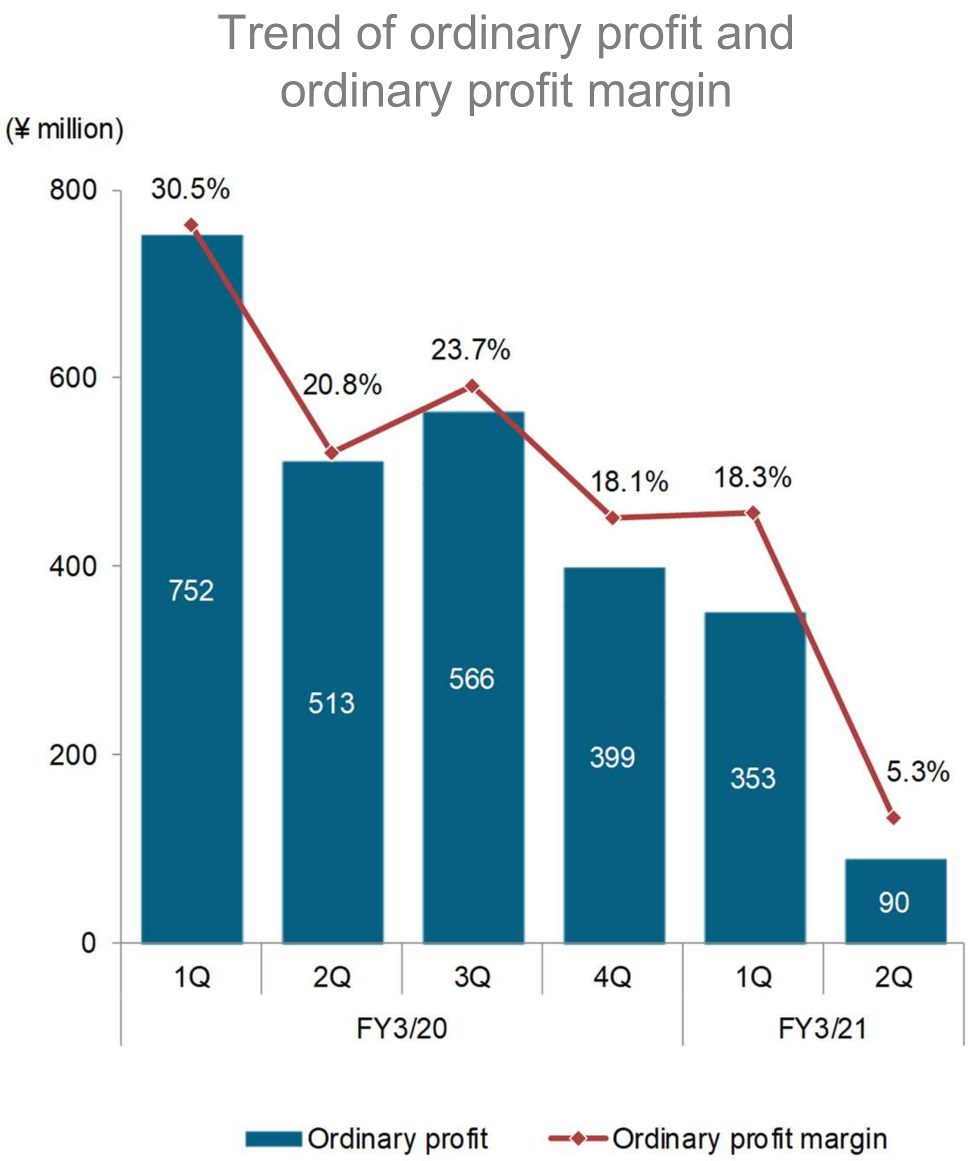
- Production volume was held down due to the decline in net sales and intended reduction of inventories. As a result, variable costs declined, including materials costs reduced by 46.2% YoY, and outsourcing expenses reduced by 45.3%. However, labor costs reduced only by 10.2%, and manufacturing costs reduced only by 12.0%. In total, the cost of products manufactured decreased by 28.2%. In addition, cost of sales only decreased by 17.8% because finished goods inventory is down ¥211 million YoY while last year it increased by ¥37 million.
- As a result, gross profit decreased by 42.7% YoY to ¥746 million, and the gross profit margin declined by 9.0pp to 43.9%.

Business Performance (Trend of SG&A expenses)



- As for SG&A expenses, while there was increased depreciation associated with the inauguration of the new R&D center, general expenses declined by 25.4% to ¥261 million due to decreases in exhibition costs, and advertising, travel and entertainment expenses as a result of cancelled exhibitions and restraint of business trips and sales activities.
- In addition to stock-based compensation being booked every year in July, the provision for bonuses was newly added because the level of 2Q profits exceeded original forecast, therefore personnel expenses of ¥432 million declined only by 2.1% YoY.
- Overall SG&A expenses declined by 12.4% to ¥694 million, however, due to the significant decline in net sales, SG&A expenses ratio rose by 8.7pp to 40.8% against net sales.

Business Performance (Trend of ordinary profit)



- In addition to the 31.0% YoY decrease in net sales, the increase of both the cost of sales ratio and SG&A expenses ratio resulted in operating profit of ¥52 million, a decrease of 89.8% YoY, down sharply.
- As a result of non-operating income of ¥39 million for employment adjustment government subsidies associated with temporary leave, and non-operating expenses of ¥1 million for foreign exchange losses, ordinary profit declined by 82.4% YoY to ¥90 million.
- The ordinary profit margin of 5.3% was an extremely depressed level.

Consolidated Financial Forecasts for FY3/21

Financial Forecasts

(Unit: ¥ million)	FY3/20 Actual	FY3/21 Forecasts	YoY Changes
Net Sales	9,531	7,410	-22.3%
Operating profit	2,219	850	-61.7%
Ordinary profit	2,231	1,025	-54.1%
Profit attributable to owners of parent	1,545	700	-54.7%

Capital investment	1,755	357	-79.6%
Depreciation	698	714	+2.3%
EPS (¥)	123.62	55.98	-54.7%
Dividend per share (¥)	45.00	25.00	-44.4%

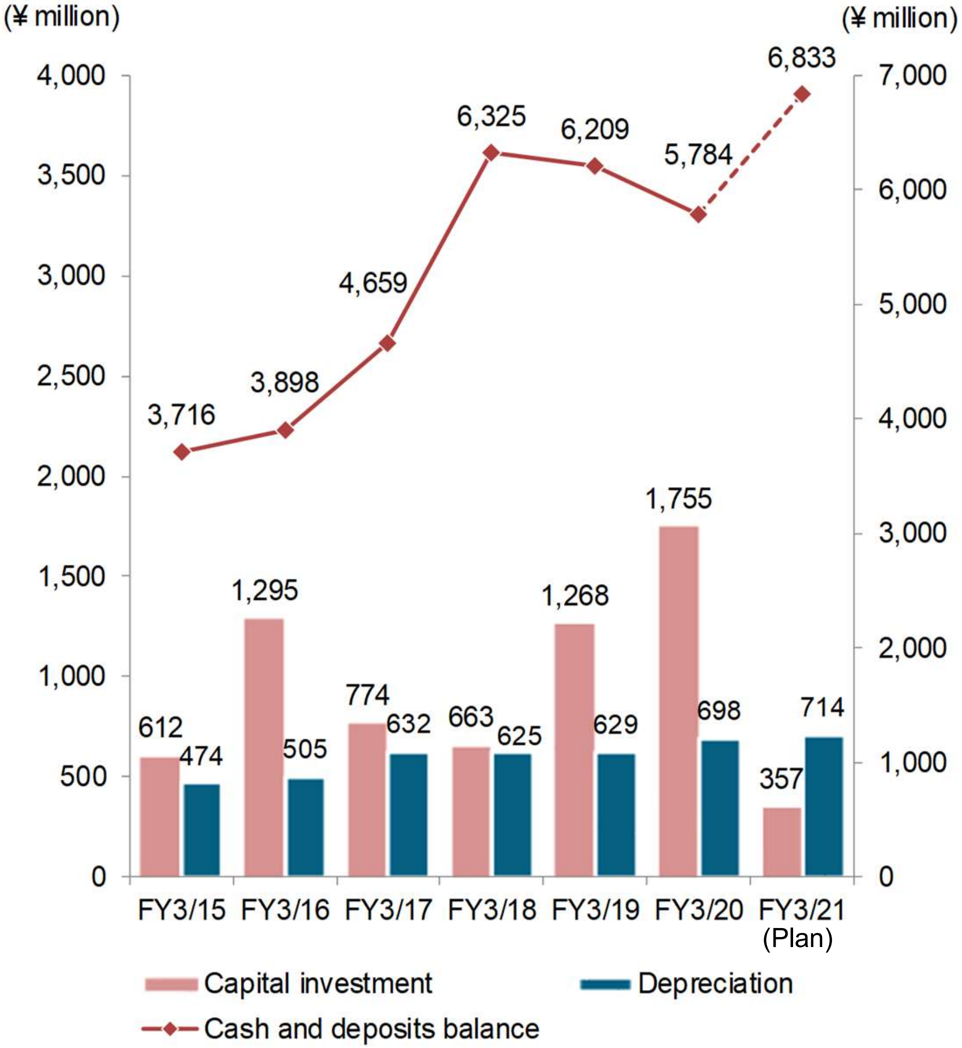
- While growth of 5G compatible smartphones is expected, not to mention high potential for stagnation of consumption and the economy due to rebound of COVID-19 infections, the impact on world trade from intensifying conflict between the U.S. and China has a negative impact on the global economy, and even if there is not a rapid drop like one in May, severe conditions for the manufacturing sector will continue for the time being, and it is assumed the recovery in demand for tools will be delayed.
- Capital expenditures are mainly focused on machineries and equipment for automation to improve product quality and raise production efficiency. Figures in FY3/20 are due to completion of the new R&D center. For the current fiscal year, the amount will be less than initial plan due to carryovers of some equipment into the next fiscal year.
- In consideration of financial forecasts, year-end dividend per share will be at ¥15. Total dividend per share together with the interim dividend will decline from ¥45 last year to ¥25. The dividend payout ratio relative to financial forecasts will be 44.7%, up 8.3pp from 36.4% last year.

1H FY3/21 Results and 2H FY3/21 Forecasts

(Unit: ¥ million)	FY3/21					
	1H Actual	Ratio to net sales	2H Forecasts	Ratio to net sales	Full-year Forecasts	Ratio to net sales
Net Sales	3,635	–	3,774	–	7,410	–
YoY Changes	-26.3%		-17.9%		-22.3%	
Operating profit	404	11.1%	445	11.8%	850	11.5%
YoY Changes	-68.0%		-53.4%		-61.7%	
Ordinary profit	444	12.2%	580	15.4%	1,025	13.8%
YoY Changes	-64.9%		-39.9%		-54.1%	
Profit attributable to owners of parent	275	7.6%	424	11.3%	700	9.4%
YoY Changes	-67.0%		-40.4%		-54.7%	

Trend of Capital Investment and Depreciation

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



(Capital investment/Depreciation(LHS), Cash and deposits balance(RHS))

Factors for increase/decrease in capital investment

FY3/16

The annual amount of capital expenditures increased as a result of factory capacity expansion and frontloaded installation of machineries and equipment.

FY3/19

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

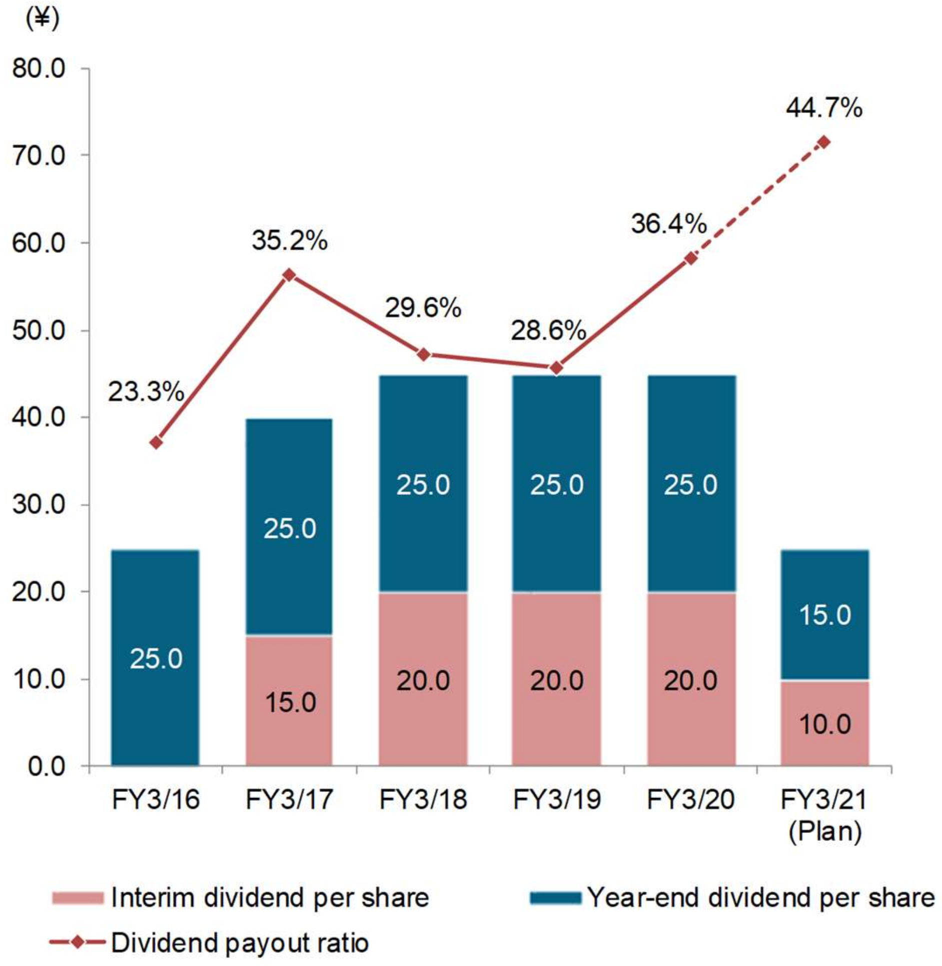
FY3/20

Increased due to construction of the new R&D center and new building in a subsidiary’s plant, and continuous renewal of production facilities.

FY3/21 (Plan)

The amount will be less than initial plan due to carryovers of the installation of some equipment into the next fiscal year due to the decline in operating rates.

Dividend Forecasts (Shareholder Returns)



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

Return of profit according to business performance

・Annual dividend per share for FY3/20 was ¥45.0
Interim dividend: ¥20.0; Year-end dividend: ¥25.0
Dividend payout ratio: 36.4%

・Annual dividend per share for FY3/21 is planned to be ¥25.0
Interim dividend: ¥10.0; Year-end dividend: ¥15.0
Dividend payout ratio for the financial forecasts: 44.7%

・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.

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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.