Financial Results for the 3rd Quarter of Fiscal Year Ending March 31, 2021

NS TOOL CO., LTD.

January 29, 2021

(Securities Code: 6157)

NS TOOL

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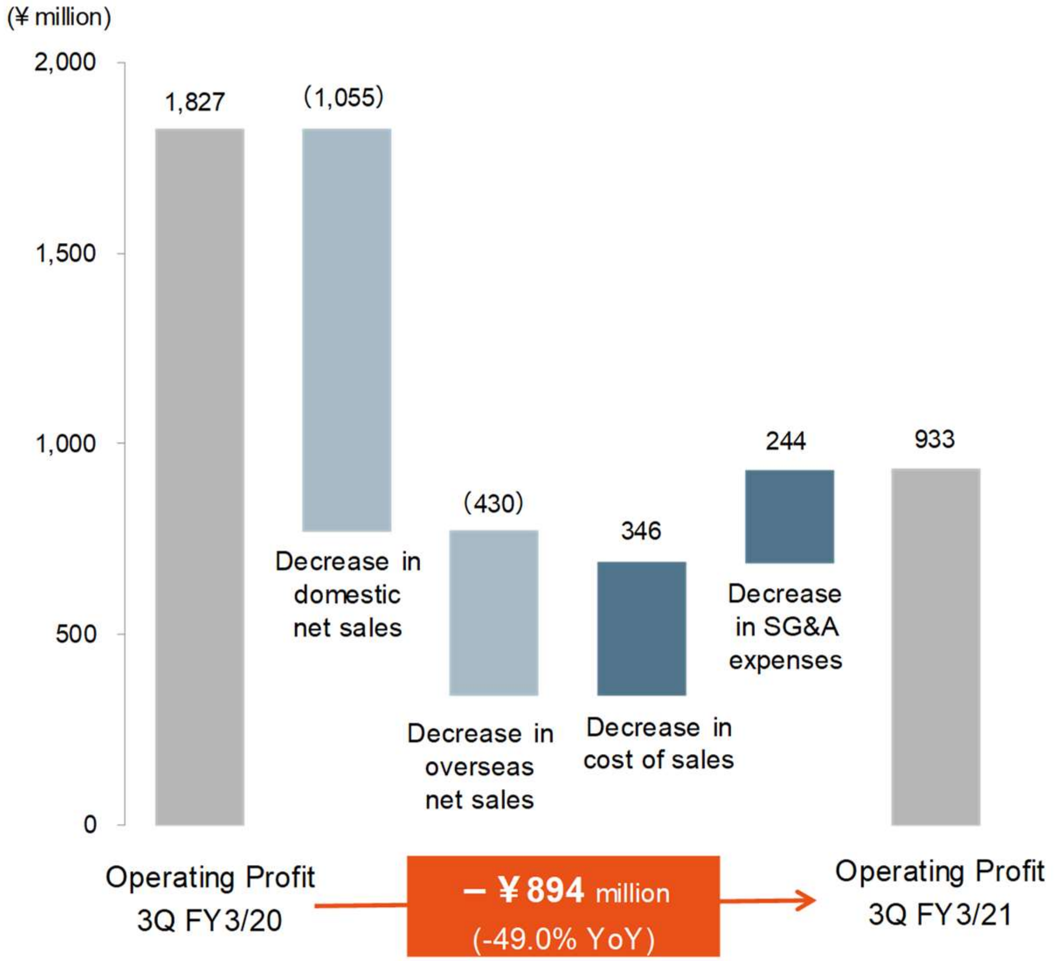
Financial Results Summary for 3Q YTD FY3/21

Net sales and profits are down significantly due to the impact from COVID-19, but are gradually headed toward recovery

(Unit: ¥ million)	3Q YTD FY3/20 Actual	3Q YTD FY3/21 Actual	Full-year FY3/21 Forecasts	Progress Rate
Net Sales	7,321	5,835	7,930	73.6%
YoY changes	-8.2%	-20.3%	-16.8%	
Operating profit	1,827	933	1,460	63.9%
YoY changes	-16.4%	-49.0%	-34.2%	
Ordinary profit	1,831	1,123	1,650	68.1%
YoY changes	-16.5%	-38.7%	-26.1%	
Profit attributable to owners of parent	1,226	760	1,150	66.1%
YoY changes	-18.0%	-38.0%	-25.6%	

- The economy is gradually recovering from the significant drop caused by COVID-19 pandemic. Adjustment of distribution inventory has softened since the beginning of 3Q. As a result, consolidated net sales ended with 20.3% decrease YoY to ¥5,835 million. While the level of sales was still significantly lower than previous fiscal year's, the rate of decrease narrowed compared to the 2Q (-26.3% YoY).
- Consolidated ordinary profit was ¥1,123 million, a decrease of 38.7% YoY. Although the profit decline is still significant, production volume is picking up and profits are also on a recovery trend.
- While the ordinary profit margin was 19.3%, a decrease of 5.7pp YoY, it marked an improvement from the 12.2% for the 2Q.

Factors for Decrease in Operating Profit



- Domestic net sales declined by ¥1,055 million, a decrease of 20.8% YoY, and overseas net sales declined by ¥430 million, a decrease of 19.2% YoY, with overall net sales down by ¥1,486 million, a decrease of 20.3%.
- As a result of reduced production, variable costs, such as materials cost and outsourcing expenses, declined over 30%, and fixed costs, such as labor costs and manufacturing expenses, declined by nearly 10%. Yet the cost of sales of ¥346 million declined only by 10.5% YoY, because cost of inventory sold is added to reduced production cost.
- SG&A expenses declined by ¥244 million, a decrease of 11.1% due to decreases in promotion expenses and advertising expenses.
- As a result, operating profit was ¥933 million, a decrease of 49.0% YoY, while operating profit margin was 16.0%, a decrease of 9.0 pp YoY.

Summary of Statement of Income

(Unit: ¥ million)	3Q YTD FY3/20 Actual	3Q YTD FY3/21 Actual	YoY Changes
Net Sales	7,321	5,835	-20.3%
Gross profit	4,029	2,889	-28.3%
Ratio to net sales	55.0%	49.5%	
SG&A expenses	2,201	1,956	-11.1%
Ratio to net sales	30.1%	33.5%	
Operating profit	1,827	933	-49.0%
Ratio to net sales	25.0%	16.0%	
Ordinary profit	1,831	1,123	-38.7%
Ratio to net sales	25.0%	19.3%	
Profit attributable to owners of parent	1,226	760	-38.0%
Ratio to net sales	16.8%	13.0%	
Capital investment	1,600	200	-87.5%
Depreciation	507	527	+4.0%
No. of employees (persons)	343	347	+1.2%

- Net sales were ¥5,835 million, a decrease of 20.3% YoY. There were signs of recovery after the beginning of 3Q, and the net sales decline slowed down.
- Gross profit was ¥2,889 million, a decrease of 28.3% YoY, due to the decline in net sales, and gross profit margin was 49.5%, a decrease of 5.5 pp YoY.
- SG&A expenses decreased by 11.1% YoY, because of lower personnel expenses and general and administrative expenses. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 33.5%, an increase of 3.4pp.
- As a result, operating profit was ¥933 million, a decrease of 49.0% YoY, with operating profit margin of 16.0%, down by 9.0pp.
- In addition to lack of large investment such as the new R&D center and new subsidiary plant in previous fiscal year, carryover of a portion of capital expenditures to the next fiscal year resulted in the amount of capital expenditures dropping by 87.5% to ¥200 million. Depreciation was ¥527 million, an increase of 4.0%, including the depreciation associated with the new R&D center.

Summary of Balance Sheet

(Unit: ¥ million)	FY3/20-End	Composition Ratio	3Q FY3/21-End	Composition Ratio	VS FY3/20-End
(Assets)					
Ⅰ Current assets	9,555	59.7%	10,113	63.2%	+5.8%
Cash and deposits	5,784	36.1%	6,937	43.4%	+19.9%
Notes and accounts receivable - trade	1,366	8.5%	1,263	7.9%	-7.5%
Inventories	2,201	13.7%	1,775	11.1%	-19.3%
Ⅱ Non-current assets	6,462	40.3%	5,878	36.8%	-9.0%
Property, plant and equipment	5,748	35.9%	5,349	33.5%	-6.9%
Intangible assets	52	0.3%	34	0.2%	-33.4%
Investments and other assets	661	4.1%	493	3.1%	-25.3%
Total assets	16,017	100.0%	15,991	100.0%	-0.2%
(Liabilities)					
Ⅰ Current liabilities	1,265	7.9%	859	5.4%	-32.0%
Accounts payable - trade	208	1.3%	140	0.9%	-32.6%
Ⅱ Non-current liabilities	254	1.6%	254	1.6%	-0.2%
Total liabilities	1,519	9.5%	1,114	7.0%	-26.7%
(Net assets)					
Total equity	14,374	89.7%	14,693	91.9%	+2.2%
Total net assets	14,498	90.5%	14,877	93.0%	+2.6%
Total liabilities and net assets	16,017	100.0%	15,991	100.0%	-0.2%

Current assets

Increased by 5.8% from the end of the previous fiscal year due to an increase in cash and deposits along with lower expenditures.

Non-current assets

Decreased by 9.0% from the end of the previous fiscal year due to lower new acquisitions and increase in depreciation expense.

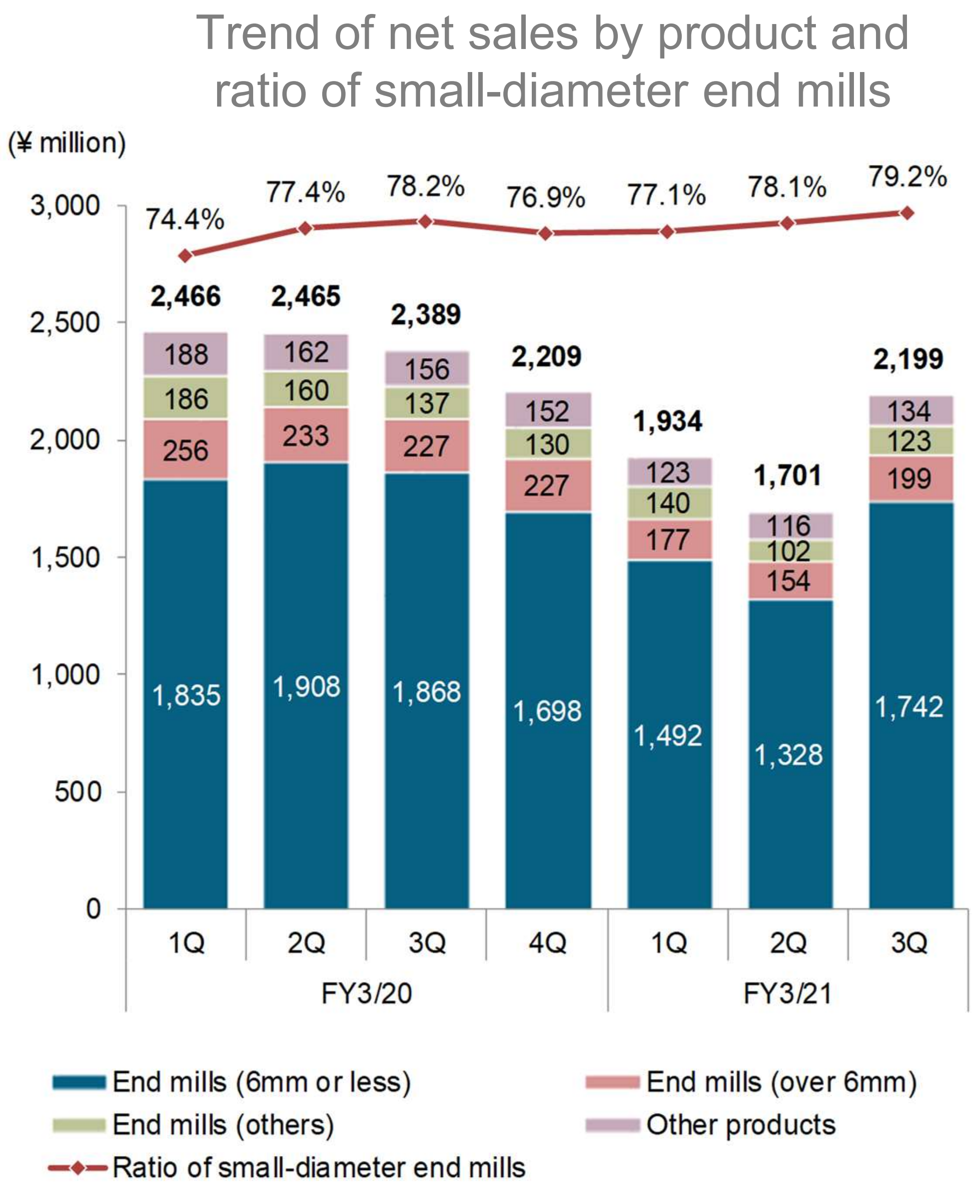
Liabilities

Decreased by 26.7% due to decrease in accounts payable - trade, income taxes payable and provision for bonuses.

Net assets

Increased by 2.6% YoY due to an increase in retained earnings, and the shareholders' equity ratio increased by 2.2pp to 91.9% with the decrease of liabilities.

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



- For automobile-related businesses, domestic unit production (passenger cars including mini vehicles) recovered to +10.0% YoY in October after 62.5% decline in May. Electronic components and devices related also stayed firm enhanced by launches of mainstay smartphone 5G compatible models in addition to growth in PCs for wide-spread teleworking. Demand for tools has been recovering gradually due to the recovery of major customers, and adjustment of distribution inventory has slowed down since the beginning of 3Q.

- Mainstay end mills (diameter 6mm or less) declined by 6.7% YoY, and end mills (diameter over 6mm) declined by 12.4% YoY, but increased QoQ by 31.2% and by 29.3%, respectively. Also, end mills (others), most of which are special tools made unique to each user, saw similar tends, however other products such as tool cases posted a slower recovery compared with other product categories, declining by 13.8% YoY and increasing by 15.6% QoQ. Due to the marked recovery of small-diameter products, the ratio of small-diameter end mills rose 1.0pp to 79.2%.

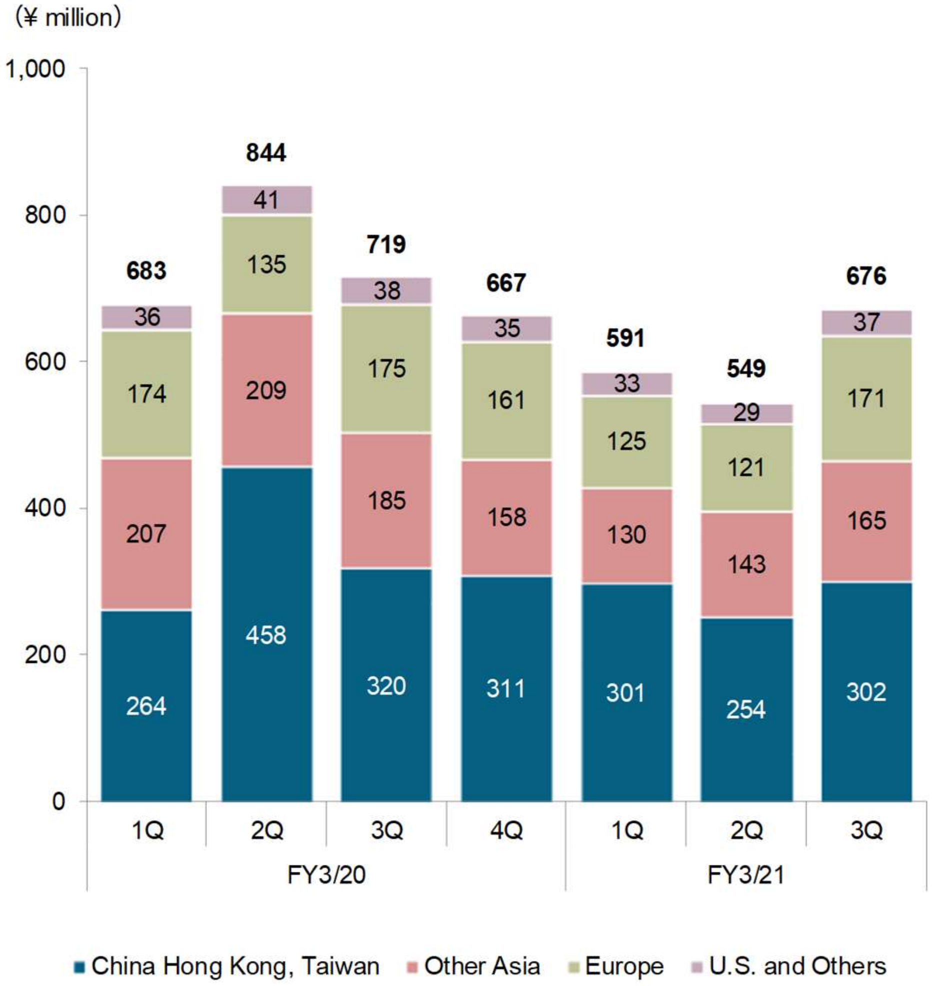
Business Performance (Trend of net sales (2) Domestic and overseas)

Trend of domestic and overseas net sales

- Domestic net sales decreased by ¥147 million, (8.8% down YoY) to ¥1,522 million, 32.2% increase QoQ. Overseas net sales decreased by ¥43 million, (6.0% down YoY) to ¥676 million, 23.2% increase QoQ.
- As the severe impact of distribution inventory adjustment was finally easing down, the recovery in domestic sales exceeded that of overseas sales, with the ratio of overseas net sales of 30.8% declining 1.5pp QoQ.

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

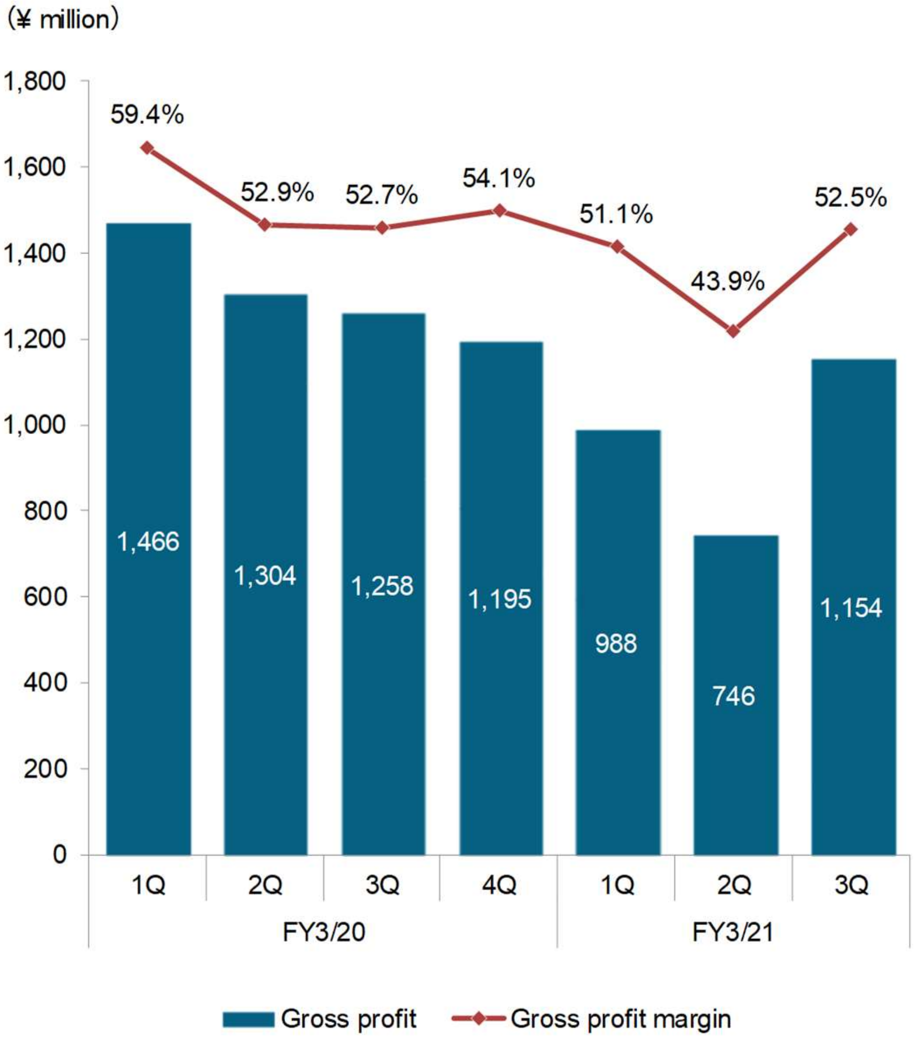
Trend of net sales by overseas region



- While the level of net sales was down YoY for all regions, 3Q posted the first QoQ increase since the 2Q of previous fiscal year.
- While our major users saw some recovery in demand related to new 5G compatible smartphone models in China, combined sales of China, Hong Kong and Taiwan declined by 5.7% YoY. EV-related demand is expanding, therefore we are urged to cultivate this new demand as the next largest market to smartphone-related.
- The Other Asia declined by 11.0% YoY. Although we heard some talks of production shift from China to those countries, the recovery is still behind other regions.
- Europe is down by 2.4% YoY. Although sales are returning to the level of the same period in the previous fiscal year, the spread of COVID-19 is a concern. All automakers are moving forward to EV development programs.
- The U.S. and Others remained almost the same, decline of 0.6% YoY.

Business Performance (Trend of gross profit)

Trend of gross profit and gross profit margin

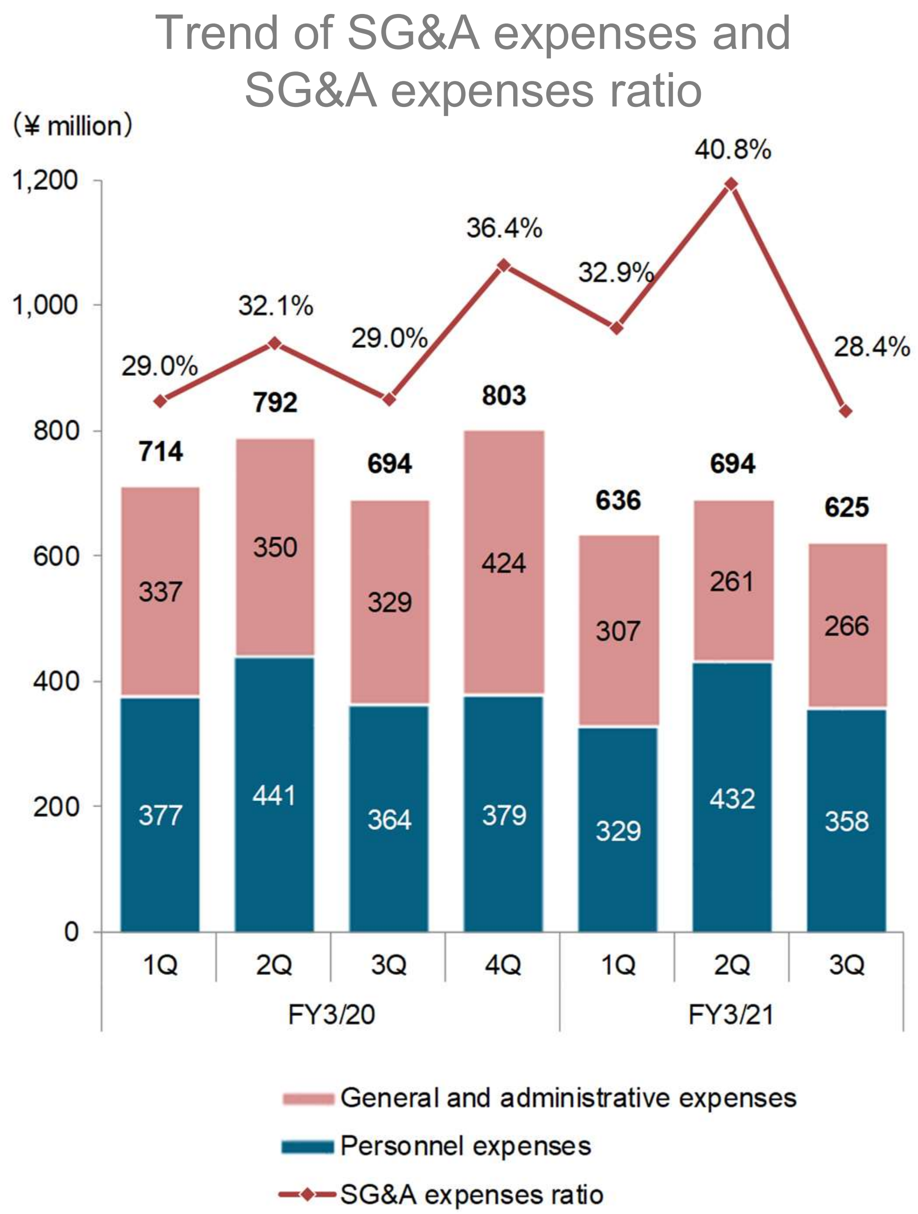


- In addition to the increase in net sales, the operating ratio also improved after the lift of production restraint midway in 3Q due to progress of in-house inventory adjustment. The gross profit margin recovered above 50%.

- Raw materials cost declined by 10.3% YoY due to the decrease in production volume, and outsourcing expenses declined by 27.0% YoY. The YoY decline of raw materials cost was lower than that of outsourcing expenses, which resulted in increased work in process. For fixed costs, labor costs declined by 4.4% YoY, and manufacturing expenses declined by 14.1%. All combined, manufacturing costs for the current fiscal year declined by 12.9%. Increase in work in process for production expansion also contributed to 22.5%YoY decrease in the cost of products manufactured.

- While production volume was up, higher sales volume led to the decrease in finished goods inventory and increase of the cost of sales, which only declined by 7.5%. As a result, gross profit decreased by 8.3% YoY to ¥1,154 million, and the gross profit margin declined by 0.2pp to 52.5%.

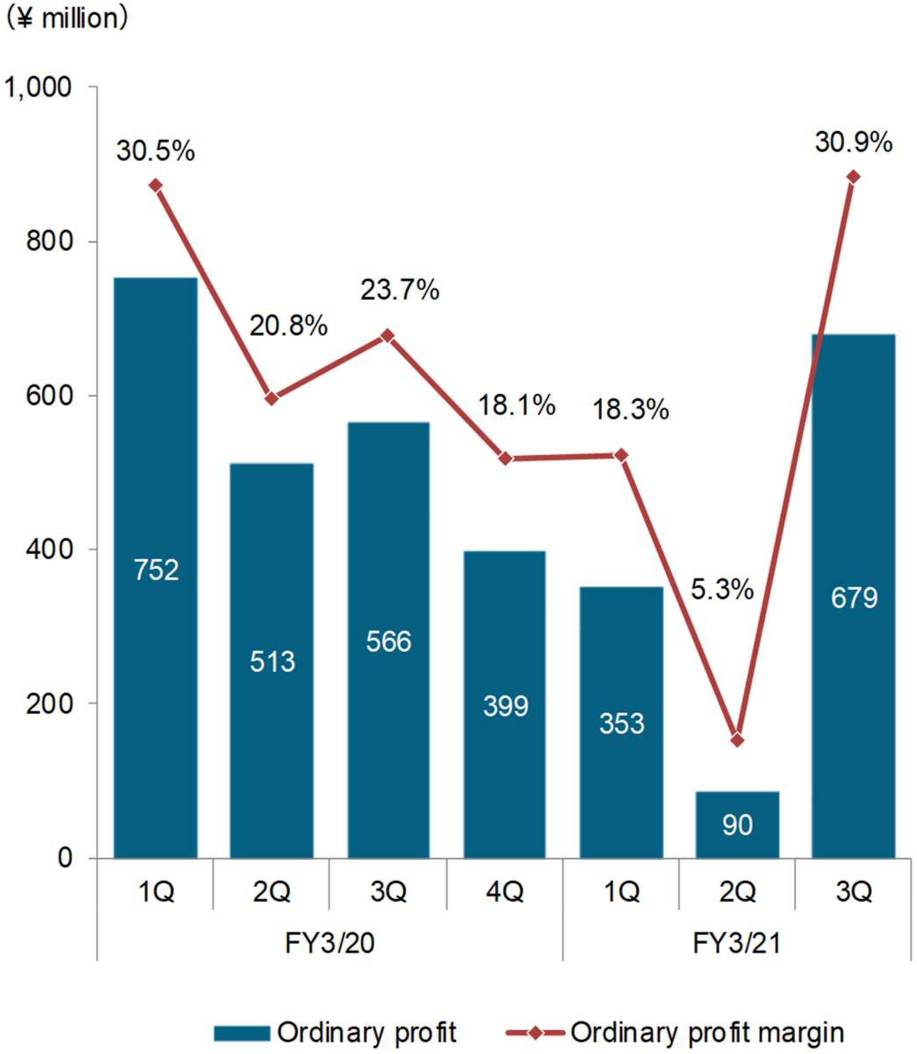
Business Performance (Trend of SG&A expenses)



- Personnel expenses of ¥358 million declined by 1.6% YoY due to a decrease in bonuses and provision for bonuses following the decline in profits.
- General expenses declined by 19.1% YoY to ¥266 million, due to cancellation of various trade shows and exhibitions, postponement of updating publication of general catalogs, and self-restraint of sales meetings.
- Overall SG&A expenses declined by 9.9% to ¥625 million. SG&A expenses ratio marked below 30% for the first time in 4 quarters, down by 0.6pp YoY to 28.4%.

Business Performance (Trend of ordinary profit)

Trend of ordinary profit and ordinary profit margin



- Although net sales decreased 8.0% YoY, operating profit decrease was 6.3% YoY to ¥528 million, due to the SG&A expenses decrease of 9.9% YoY.
- Ordinary profit rose 20.0% YoY to ¥679 million, mainly boosted by subsidy income of ¥25 million such as employment adjustment government subsidies and ¥122 million gain of surrender value of life insurance policies.
- The ordinary profit margin was 30.9%, 7.2 pp increase YoY. The ordinary profit margin for 3Q YTD was 19.3%, a decline of 5.7pp YoY, still below the target of 20.0%.

Consolidated Financial Forecasts for FY3/21

Financial Forecasts

(Unit: ¥ million)	FY3/20 Actual	FY3/21 Forecasts	YoY Changes
Net Sales	9,531	7,930	-16.8%
Operating profit	2,219	1,460	-34.2%
Ordinary profit	2,231	1,650	-26.1%
Profit attributable to owners of parent	1,545	1,150	-25.6%

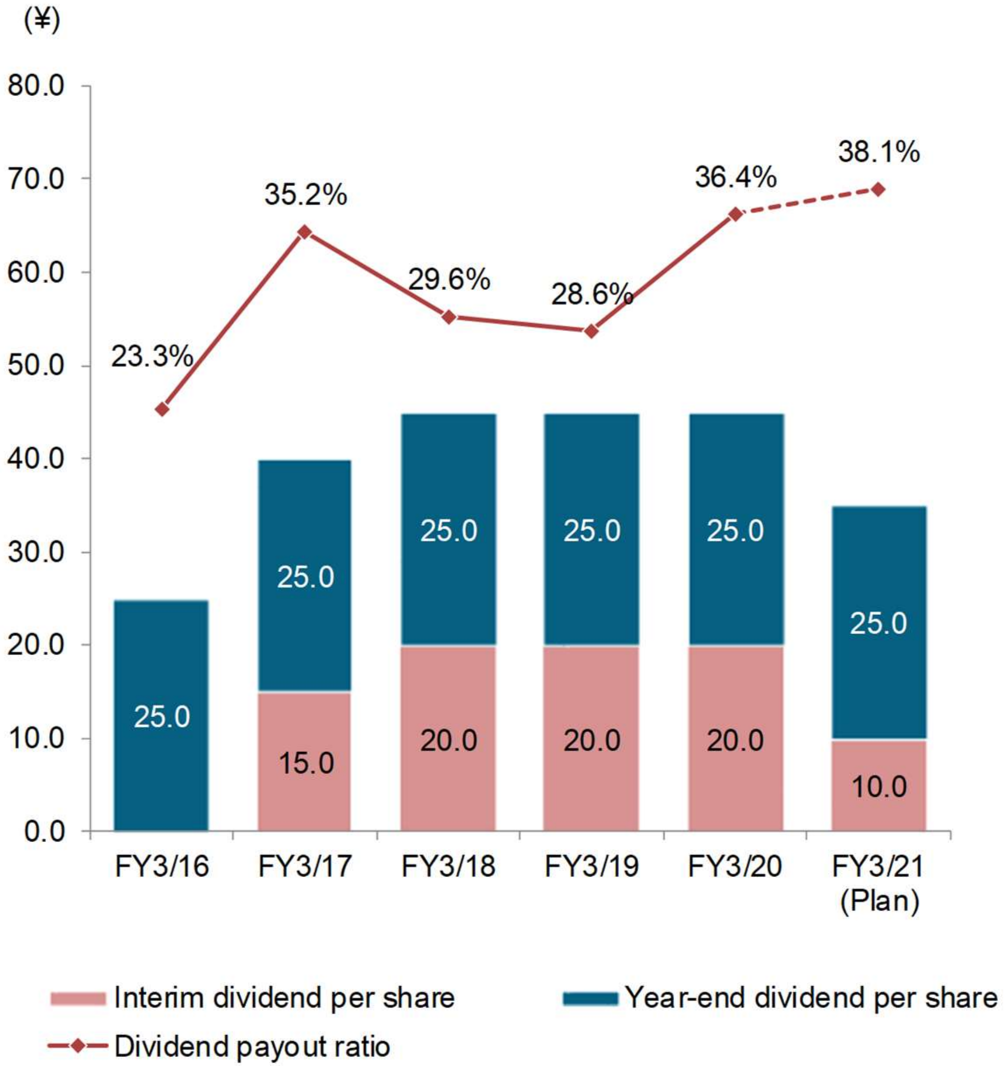
Capital investment	1,755	357	-79.6%
Depreciation	698	714	+2.3%
EPS (¥)	123.62	91.97	-25.6%
Dividend per share (¥)	45.00	35.00	-22.2%

- While the end of the COVID-19 pandemic is still unseen, there are concerns about stagnation of consumption and economic activity under stay-home restrictions. Nevertheless, there are favorable factors such as strong sales of new model 5G compatible smartphones and a recovery in auto production. While difficult conditions continue for the overall economy, we expect the manufacturing sector will continue to maintain a certain level of production.
- Capital expenditures are mainly focused on machinery and equipment for automation to improve product quality and raise production efficiency. High amount in FY3/20 is due to construction of the new R&D center. For the current fiscal year, the amount will be less than initial budget plan due to introduction of some equipment being carried over into next fiscal year.
- Regarding the year-end dividend, in the light of our financial forecasts, we are planning ¥25 per share, the same amount as previous fiscal year. Total DPS together with the interim dividend is estimated to decline from ¥45 to ¥35 this fiscal year. The dividend payout ratio will be 38.1%, up 1.7pp from 36.4% previous fiscal year.

3Q FY3/21 Results and 2H FY3/21 Forecasts

(Unit: ¥ million)	FY3/21								
	2H Forecasts	Ratio to net sales	3Q Actual	Ratio to net sales	2H Progress Rate	Full-year Forecasts	Ratio to net sales	3Q YTD Actual	Full-year Progress Rate
Net Sales	4,294	–	2,199	–	51.2%	7,930	–	5,835	73.6%
YoY Changes	-6.6%		-8.0%			-16.8%		-20.3%	
Operating profit	1,055	24.6%	528	24.0%	50.1%	1,460	18.4%	933	63.9%
YoY Changes	+10.4%		-6.3%			-34.2%		-49.0%	
Ordinary profit	1,205	28.1%	679	30.9%	56.3%	1,650	20.8%	1,123	68.1%
YoY Changes	+24.8%		+20.0%			-26.1%		-38.7%	
Profit attributable to owners of parent	874	20.4%	485	22.1%	55.5%	1,150	14.5%	760	66.1%
YoY Changes	+22.7%		+23.1%			-25.6%		-38.0%	

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.
Interim dividend: ¥20, Year-end dividend: ¥25
Dividend payout ratio: 36.4%

・Annual dividend per share for FY3/21 is planned to be ¥35.
Interim dividend: ¥10, Year-end dividend: ¥25
Dividend payout ratio for the financial forecasts: 38.1%

・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.