Financial Results for the Fiscal Year Ended March 31, 2021

NS TOOL CO., LTD.

May 14, 2021
(Securities Code: 6157)

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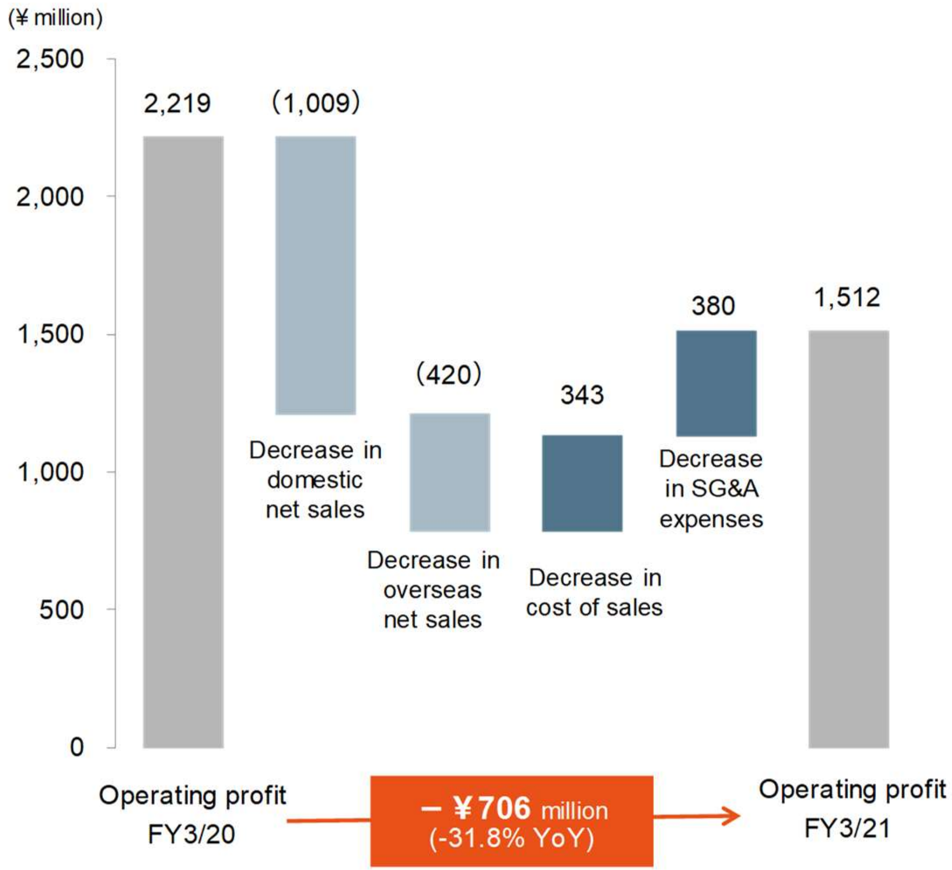
Financial Results Summary

Despite the recovery trend in the 4Q, full-year net sales decreased by 15.0% and ordinary profit decreased by 23.3%

(Unit: ¥ million)	FY3/21 Forecasts	FY3/21 Actual	Changes vs. Forecasts
Net Sales	7,930	8,100	170
YoY changes	-16.8%	-15.0%	+2.1%
Operating profit	1,460	1,512	52
YoY changes	-34.2%	-31.8%	+3.6%
Ordinary profit	1,650	1,712	62
YoY changes	-26.1%	-23.3%	+3.8%
Profit attributable to owners of parent	1,150	1,214	64
YoY changes	-25.6%	-21.4%	+5.6%

- Production activities stagnated worldwide in the 1H due to the COVID-19 pandemic, however the 2H was in a recovery trend led by the launch of PC-related devices and 5G compatible smartphones, in addition to automobile-related business. Consolidated net sales were ¥8,100 million, which surpassed our revised forecast in January. However, it was 15.0% decrease YoY.
- Consolidated operating profit was ¥1,512 million, a decrease of 31.8% YoY. Consolidated ordinary profit decreased by 23.3% YoY to ¥1,712 million, due to ¥203 million of non-operating income caused by subsidies and insurance cancellations, etc.
- Operating profit margin was down to 18.7%, a decrease of 4.6pp YoY. Ordinary profit margin was 21.1%, a decrease of 2.3pp YoY, but it maintained the level above 20%.

Factors for Decrease in Operating Profit



- Domestic net sales declined by ¥1,009 million, a decrease of 15.3% YoY, and overseas net sales were also down by ¥420 million, a decrease of 14.4% YoY, with overall net sales down by ¥1,430 million, a decrease of 15.0% YoY.
- With regard to the cost of production, variable cost declined more than net sales in ratios, such as, raw materials cost decreased by 20.4% YoY and outsourcing expenses by 25.1% YoY both due to production cuts. However, labor costs declined only by 2.2% YoY, and manufacturing expenses only by 9.5% YoY. As a result, cost of sales declined only by ¥343 million, a decrease of 8.0% YoY, and the decline ratio was below that of net sales.
- In total, SG&A expenses declined by ¥380 million, a decrease of 12.7% YoY, because personnel expenses decreased by 2.7% YoY due to reduction of employees' bonuses and provision for bonuses for directors (and other officers) and decrease in general expenses by 23.4% YoY due to cancellation of trade shows and business trips restraints.
- As a result, operating profit declined by ¥706 million, a decrease of 31.8% YoY, while operating profit margin was 18.7%, a decrease of 4.6pp YoY.

Summary of Statement of Income

(Unit: ¥ million)	FY3/20	FY3/21	YoY Changes
Net Sales	9,531	8,100	-15.0%
Gross profit	5,224	4,137	-20.8%
Ratio to net sales	54.8%	51.1%	
SG&A expenses	3,005	2,624	-12.7%
Ratio to net sales	31.5%	32.4%	
Operating profit	2,219	1,512	-31.8%
Ratio to net sales	23.3%	18.7%	
Ordinary profit	2,231	1,712	-23.3%
Ratio to net sales	23.4%	21.1%	
Profit attributable to owners of parent	1,545	1,214	-21.4%
Ratio to net sales	16.2%	15.0%	
Capital investment	1,755	462	-73.7%
Depreciation	698	707	+1.3%
No. of employees (persons)	338	339	+0.3%

- Net sales were ¥8,100 million, a decrease of 15.0% YoY. It was significantly affected by the global spread of COVID-19 pandemic.
- Gross profit was ¥4,137 million, a decrease of 20.8% YoY, due to the decline in net sales, and gross profit margin was 51.1%, a decrease of 3.7pp YoY.
- Regarding SG&A expenses, personnel expenses declined by 2.7% YoY and general and administrative expenses by 23.4% YoY, resulting in 12.7% decrease YoY. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 32.4%, an increase of 0.9pp YoY.
- As a result, operating profit declined by 31.8% YoY to ¥1,512 million. Ordinary profit decreased by 23.3% YoY to ¥1,712 million with non-operating income of ¥203 million from the receipt of subsidies for employment adjustment following the implementation of temporary leave and subsidies for energy conservation support projects, as well as the cancellation profit of insurance policies.
- Lack of large investment such as the new R&D center and new subsidiary plant in previous fiscal year, together with controlled machinery and equipment investment, capital expenditures declined by 73.7% YoY to ¥462 million. Depreciation was ¥707 million, an increase of 1.3%, including the depreciation associated with the new R&D center.

Summary of Balance Sheet

(Unit: ¥ million)	FY3/20-End	Composition Ratio	FY3/21-End	Composition Ratio	YoY Changes
(Assets)					
Ⅰ Current assets	9,555	59.7%	10,895	64.3%	+14.0%
Cash and deposits	5,784	36.1%	7,674	45.3%	+32.7%
Notes and accounts receivable - trade	1,366	8.5%	1,312	7.7%	-3.9%
Inventories	2,201	13.7%	1,758	10.4%	-20.1%
Ⅱ Non-current assets	6,462	40.3%	6,040	35.7%	-6.5%
Property, plant and equipment	5,748	35.9%	5,477	32.3%	-4.7%
Intangible assets	52	0.3%	34	0.2%	-34.3%
Investments and other assets	661	4.1%	529	3.1%	-19.9%
Total assets	16,017	100.0%	16,936	100.0%	+5.7%
(Liabilities)					
Ⅰ Current liabilities	1,265	7.9%	1,385	8.2%	+9.5%
Accounts payable - trade	208	1.3%	220	1.3%	+6.0%
Ⅱ Non-current liabilities	254	1.6%	224	1.3%	-11.7%
Total liabilities	1,519	9.5%	1,609	9.5%	+5.9%
(Net assets)					
Total equity	14,374	89.7%	15,142	89.4%	+5.3%
Total net assets	14,498	90.5%	15,326	90.5%	+5.7%
Total liabilities and net assets	16,017	100.0%	16,936	100.0%	+5.7%

Current assets

Increased by 14.0% from the end of previous fiscal year due to an increase in cash and deposits resulting from proceeds of insurance cancellations and controlled capital expenditures.

Non-current assets

Decreased by 6.5% from the end of previous fiscal year as depreciation exceeded controlled capital expenditures.

Liabilities

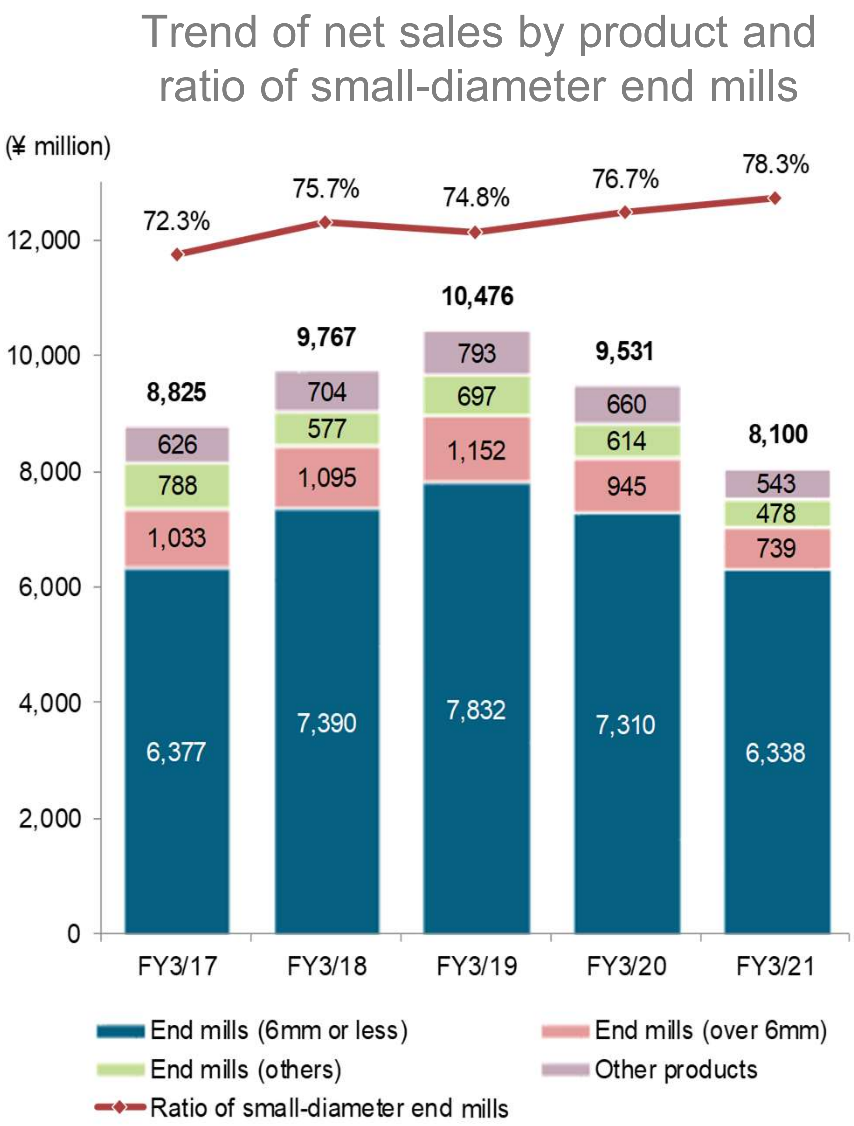
Increased by 5.9% from the end of previous fiscal year due to an increase in accrued consumption taxes*.

*Tax amount payable was low in previous fiscal year because of new R&D center construction payment

Net assets

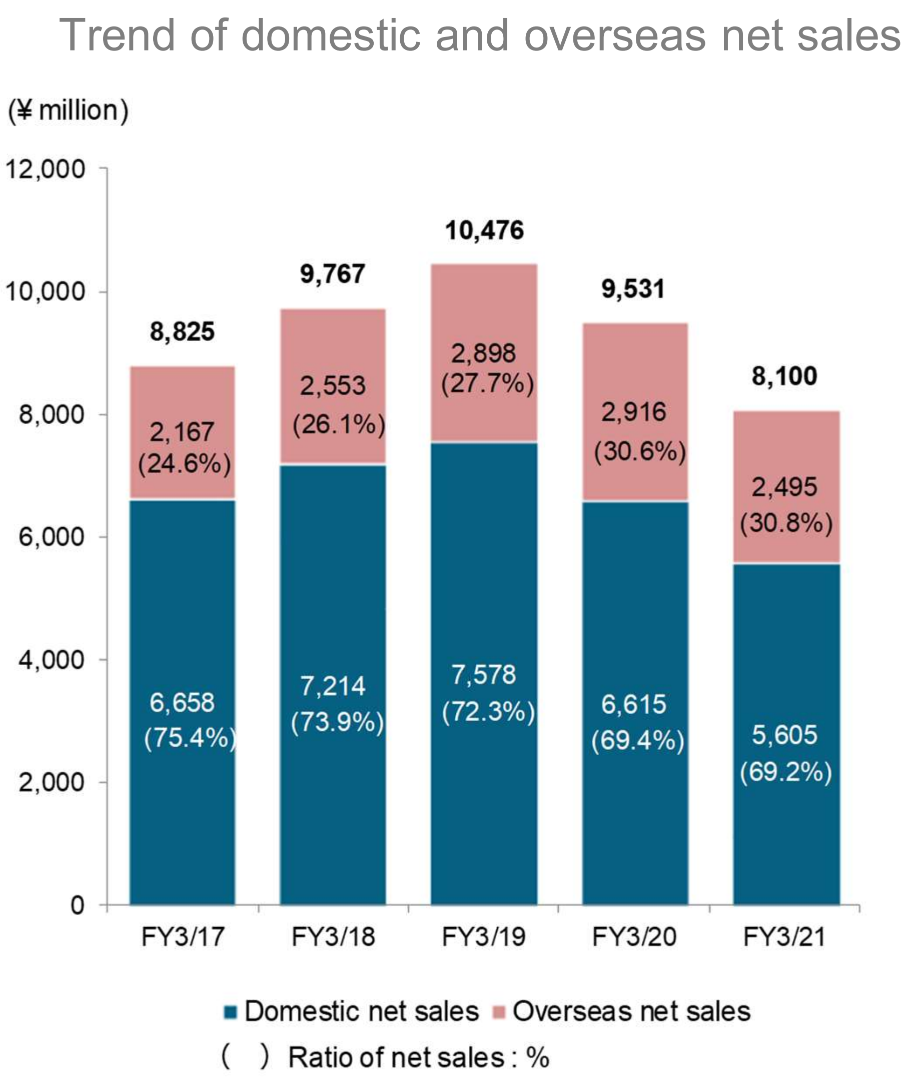
Increased 5.7% from the end of previous fiscal year due to increase in retained earnings, etc.; equity ratio declined to 89.4%, a decrease of 0.3pp due to an increase in liabilities.

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



- For automobiles-related business, trends became severe after monthly production unit volume temporarily halved of the level of the same month of the previous year, but later, it turned around due to leading car manufacturers' policy to maintain production levels and demand recovery in the U.S. and China. Electronic components and devices related business stayed firm, enhanced by launches of mainstay smartphone 5G compatible models in addition to growth in PCs and related devices for wide-spread teleworking, which led to demand recovery for cutting tools. While we saw sales recovery of our products toward fiscal year-end after the market adjustment of distribution inventories, the decline in the 1H was significant, therefore, net sales declined by 15.0% YoY to ¥8,100 million.
- Net sales for mainstay end mills (diameter 6mm or less) finished with 13.3% decrease YoY, end mills (diameter over 6mm) decreased by 21.8% YoY, and end mills (others), mainly special products custom-made to users, also decreased by 22.1% YoY. Other products such as tool cases decreased by 17.7% YoY due to sluggish tool demand overall. The ratio of end mills (diameter 6mm or less) increased relatively, rising by 1.6pp YoY to 78.3% due to poor performance of other end mills .

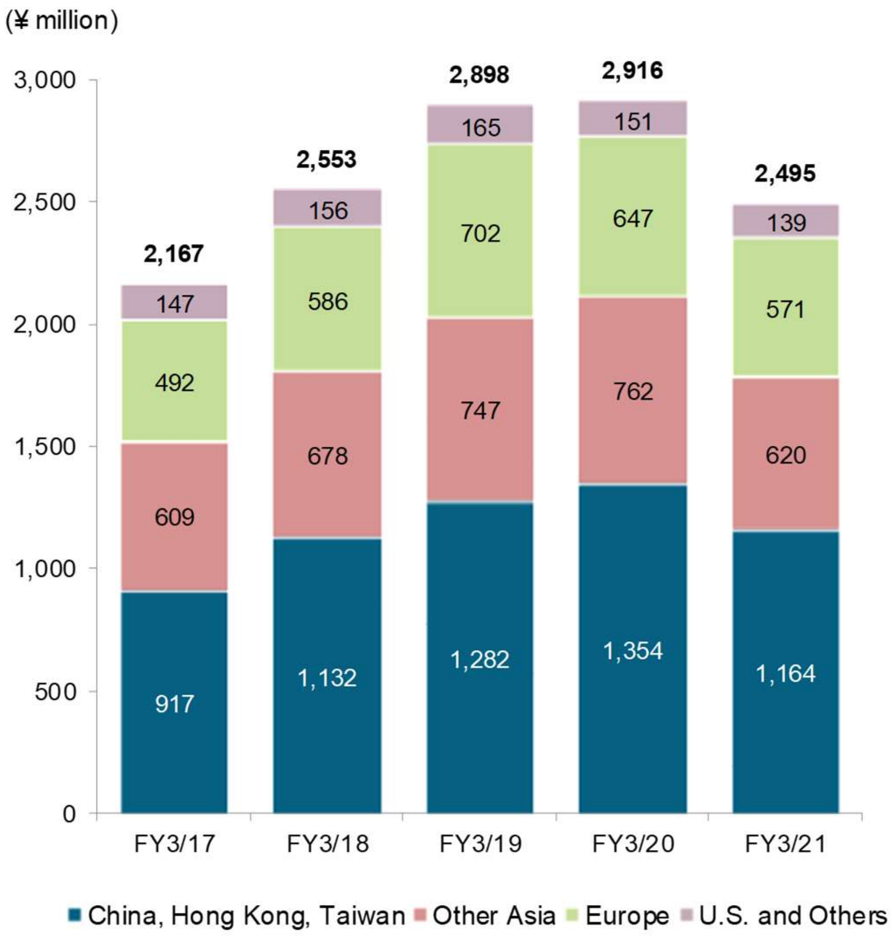
Business Performance (Trend of net sales (2) Domestic and overseas)



- Domestic net sales decreased by ¥1,009 million YoY, a decrease of 15.3% YoY, to ¥5,605 million. Net sales declined for two consecutive fiscal year, returning to the level of FY3/15 (¥5,699 million).
- Overseas net sales also declined by ¥420 million YoY, a decrease of 14.4% YoY, to ¥2,495 million. Previous fiscal year was a record high, but in this fiscal year sales declined in all regions due to the impact of the global spread of COVID-19 pandemic, falling below FY3/18 (¥2,553 million) level.
- Overseas net sales decreased but the domestic decline in net sales was large, and the ratio of overseas net sales increased by 0.2pp YoY to 30.8%. Uptrend in ratio of overseas net sales continued despite the declining phase.

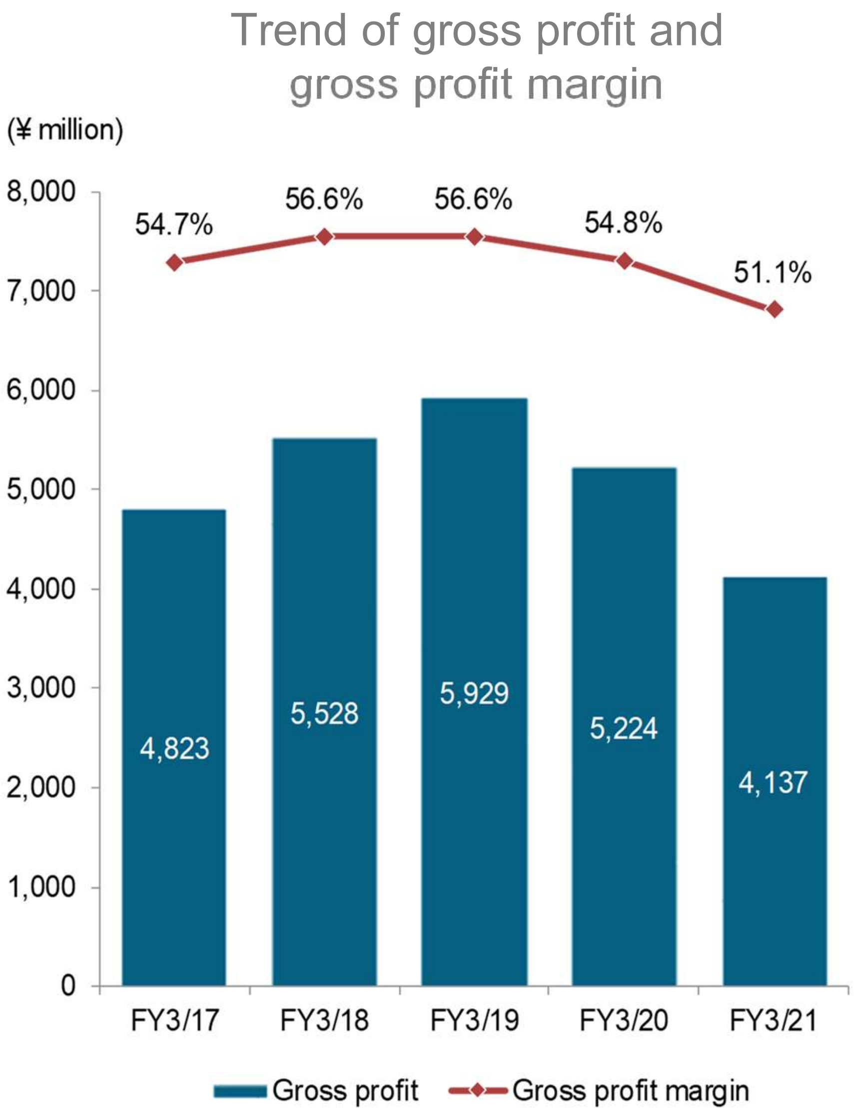
Business Performance (Trend of net sales (3) By overseas region)

Trend of net sales by overseas region



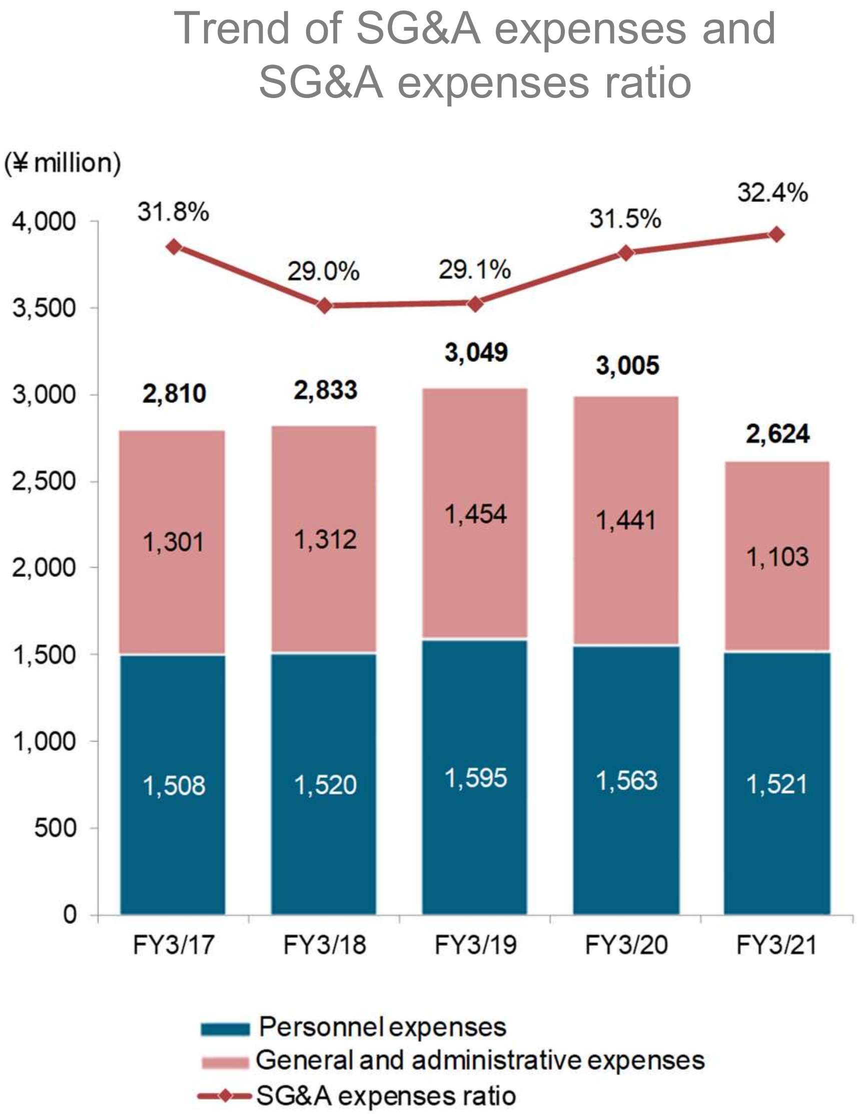
- Combined sales of China, Hong Kong and Taiwan decreased by 14.1% YoY to ¥1,164 million. While recovery from the impact of the COVID-19 pandemic was quicker than other regions, momentum of the previous two fiscal years was absent, partially due to the tighter U.S. sanctions on the major Chinese telecommunications equipment manufacturers.
- Other Asia decreased by 18.7% YoY to ¥620 million, posting the largest decline. For Thailand, which accounts for the majority of net sales in the region, much of the demand is automobile-related, the decrease in exports was significant due to the impact of the COVID-19 pandemic.
- In Europe, net sales decreased by 11.8% YoY to ¥571 million. While there was some special demand for medical care sector in the 1H, results were severe due to the impact of lockdowns in many countries. The rate of decrease narrowed in the 2H supported by the recovery trend of automobiles.
- U.S. and Others decreased by 7.8% YoY to ¥139 million.
- For the composition ratio of each region in overseas net sales, other regions respectively increased reflecting the slight decrease for Other Asia, but the levels were virtually unchanged from the previous fiscal year.

Business Performance (Trend of gross profit)



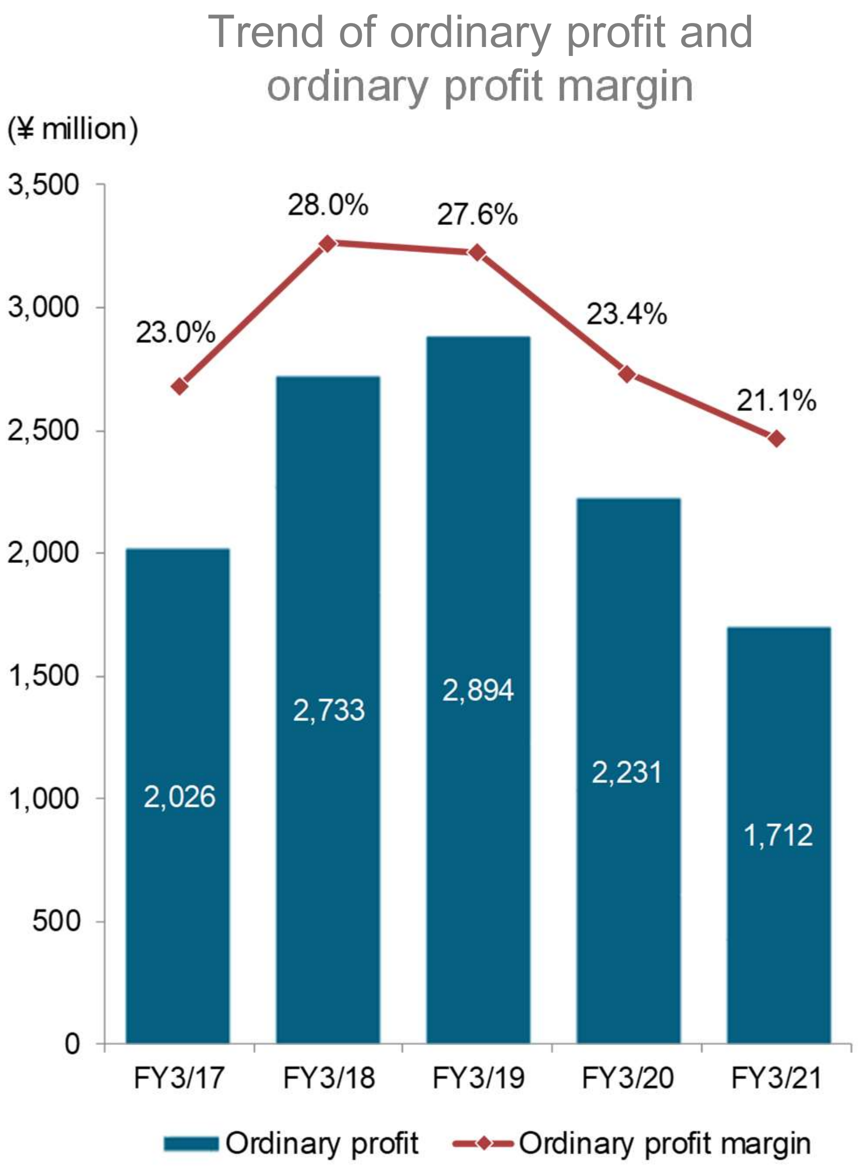
- Since production volume was cut down more than the decrease in sales volume to reduce in-house inventory level, variable costs decreased, such as raw materials cost down by 20.4% YoY and outsourcing expenses down by 25.1% YoY. However, labor costs decreased only by 2.2% YoY and manufacturing expenses decreased only by 9.5% YoY, and reduced inventory, by 20.1%, attributed to the cost of sales. As a result, cost of sales declined only by ¥343 million, a decrease of 8.0% YoY, to ¥3,962 million.
- As a result, gross profit declined by ¥1,086 million, a decrease of 20.8% YoY, to ¥4,137 million, and the gross profit margin declined by 3.7pp YoY to 51.1%.

Business Performance (Trend of SG&A expenses)



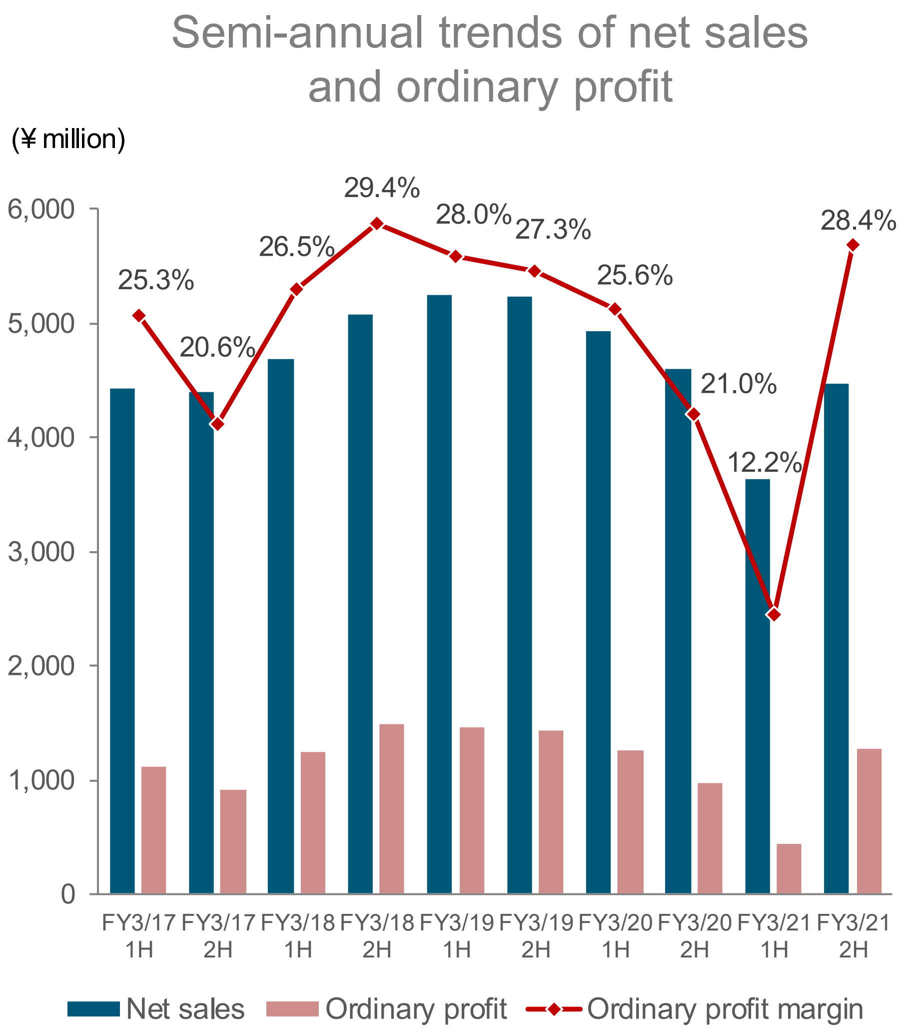
- Personnel expenses decreased by 2.7% YoY to ¥1,521 million, because of decline in employees' bonuses and provision for bonuses for directors (and other officers) accompanied by declining profit.
- General expenses declined by 23.4% YoY to ¥1,103 million due to cancellation of trade shows and restraint of sales activities from spread of the COVID-19.
- Overall SG&A expenses declined by 12.7% YoY to ¥2,624 million. Although SG&A expenses declined, decrease in net sales were higher at 15.0% YoY, resulting in 0.9pp increase in the SG&A expenses ratio to 32.4% compared to the previous fiscal year.

Business Performance (Trend of ordinary profit)



- Operating profit declined 31.8% YoY to ¥1,512 million due to 15.0% decline in net sales YoY, 20.8% decline in gross profit YoY caused by production cuts, and only 12.7% decline in SG&A expenses.
- For non-operating income, receipt of subsidies for employment adjustment following the implementation of temporary leave and subsidies for energy conservation support projects, as well as the cancellation profit of insurance policies, resulted in non-operating income of ¥203 million, a 9.5-fold increase YoY.
- As a result, ordinary profit declined 23.3% YoY to ¥1,712 million and ordinary profit margin declined 2.3pp to 21.1% compared to the previous fiscal year, but maintained the level above 20%.

Reference: Semi-Annual Business Performance
(Net sales and Ordinary profit)



- While both net sales and profits decreased due to the COVID-19 pandemic worldwide, the impact of the 1Q decline was particularly significant, due to the factory suspension at the beginning of the fiscal year in many manufacturing sectors including automobiles as a result of lockdowns in Europe and other countries.
- For manufacturing industries, production has gradually recovered since the 2Q, however our Group suffered from the market movement to reduce distribution inventories, so the bottom was in the 2Q. In addition, since we decided to reduce in-house inventory by cutting down production volume to be lesser than sales volume, the decline in production utilization rates resulted in the 1H ordinary profit margin down to 12.2%.
- From the 3Q onward after inventory adjustment was completed, net sales recovered due to the recovery trend of the manufacturing industry. As a result of continuing cost reduction activities carried out throughout from the production cut phase to the production hike phase, profit margins improved, and with the help of insurance cancellations profit and the receipt of subsidies, the 2H ordinary profit margin recovered to 28.4%.

Consolidated Financial Forecasts for FY3/22

Financial Forecasts

(Unit: ¥ million)	FY3/21 Actual	FY3/22 Forecasts	YoY Changes
Net Sales	8,100	8,740	+7.9%
Operating profit	1,512	1,770	+17.0%
Ordinary profit	1,712	1,780	+3.9%
Profit attributable to owners of parent	1,214	1,210	-0.4%

Capital investment	462	589	+27.6%
Depreciation	707	713	+0.9%
EPS (¥)	48.55	48.38	-0.4%
Dividend per share (¥)	17.50	20.00	+14.3%

*The impact of the share split on April 1, 2021 was considered.

- The direction of the COVID-19 pandemic continues to be a key point. While there are concerns about the spread of variant strains more contagious with more severe symptoms, vaccinations has begun in Japan, and restrictions on economic activities is expected to be lifted gradually as vaccinations progress. In addition, it is assumed that export-driven manufacturing sectors will mainly remain firm based on relatively strong economic trends in the U.S. and China.
- Net sales are forecast to increase by 7.9% YoY to ¥8,740 million, operating profit to increase by 17.0% YoY to ¥1,770 million, and ordinary profit to increase only by 3.9% YoY to ¥1,780 million as the boost in non-operating income in the previous fiscal year disappears.
- Capital expenditures are mainly focused on machinery and equipment to improve product quality and productivity. Although in FY3/21, capital expenditures were suppressed because of production cuts, it is expected to return to the level in normal years in FY3/22.
- Annual dividend per share for FY3/22 is planned to be ¥20.0 with interim dividend of ¥10.0, and year-end dividend of ¥10.0.

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 amount of annual capital expenditures increased due to plant expansion and frontloaded introduction of machinery 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 completion of the new R&D center, introduction of R&D-related equipment, construction of a new building at a subsidiary plant and ongoing renewal of production equipment.

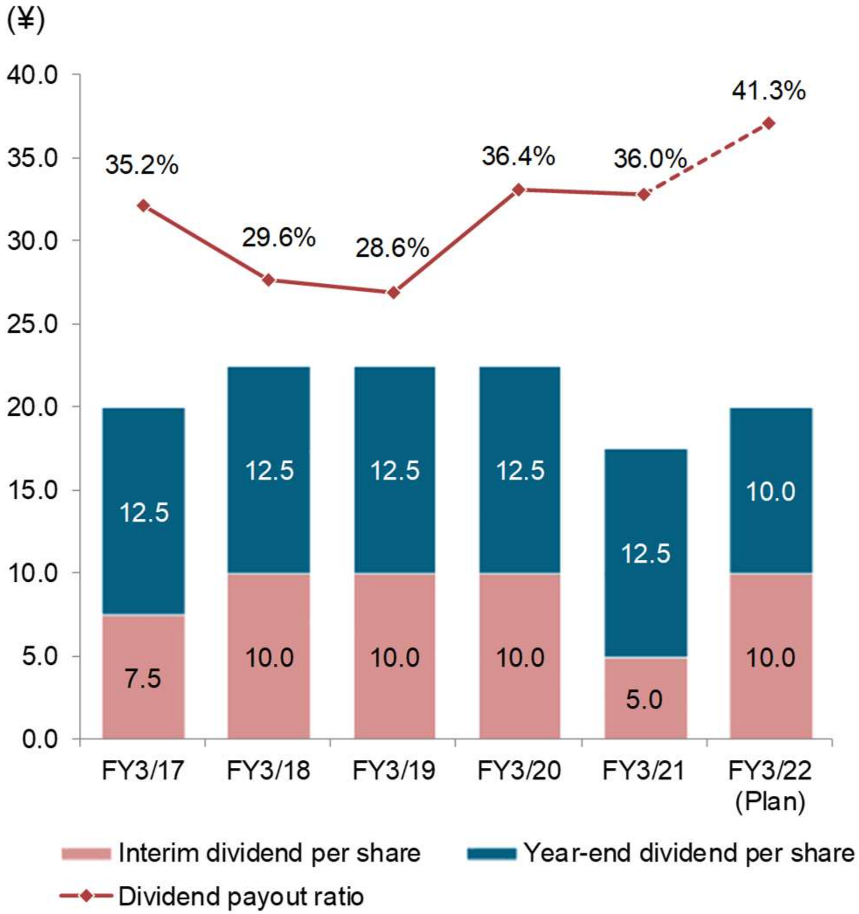
FY3/21

Due in part to the decline in utilization rates, the introduction of some equipment was carried over into the next fiscal year, resulting in a decrease compared to the initial plan.

FY3/22 (Plan)

Planned to increase slightly reflecting the carry-over portion from the previous fiscal year.

Dividend Forecasts (Shareholder Returns)



*The impact of the share split on January 1, 2017 and April 1, 2021 was considered.

We take holistic approach by evaluating business performance and dividend payout ratio, while paying attention to stability and sustainability of shareholders return

・Annual dividend per share for FY3/21 was ¥17.5.
Interim dividend: ¥5.0, Year-end dividend: ¥12.5
Dividend payout ratio: 36.0%
*The impact of the 2-for-1 share split on April 1, 2021 was considered.

・Annual dividend per share for FY3/22 is planned to be ¥20.0.
Interim dividend: ¥10, Year-end dividend: ¥10
Dividend payout ratio for the financial forecasts: 41.3%

・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.