Financial Results for the 3rd Quarter of Fiscal Year Ending March 31, 2023

NS TOOL CO., LTD.

January 31, 2023

(Securities Code: 6157)

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Financial Results Summary for 3Q FY3/23

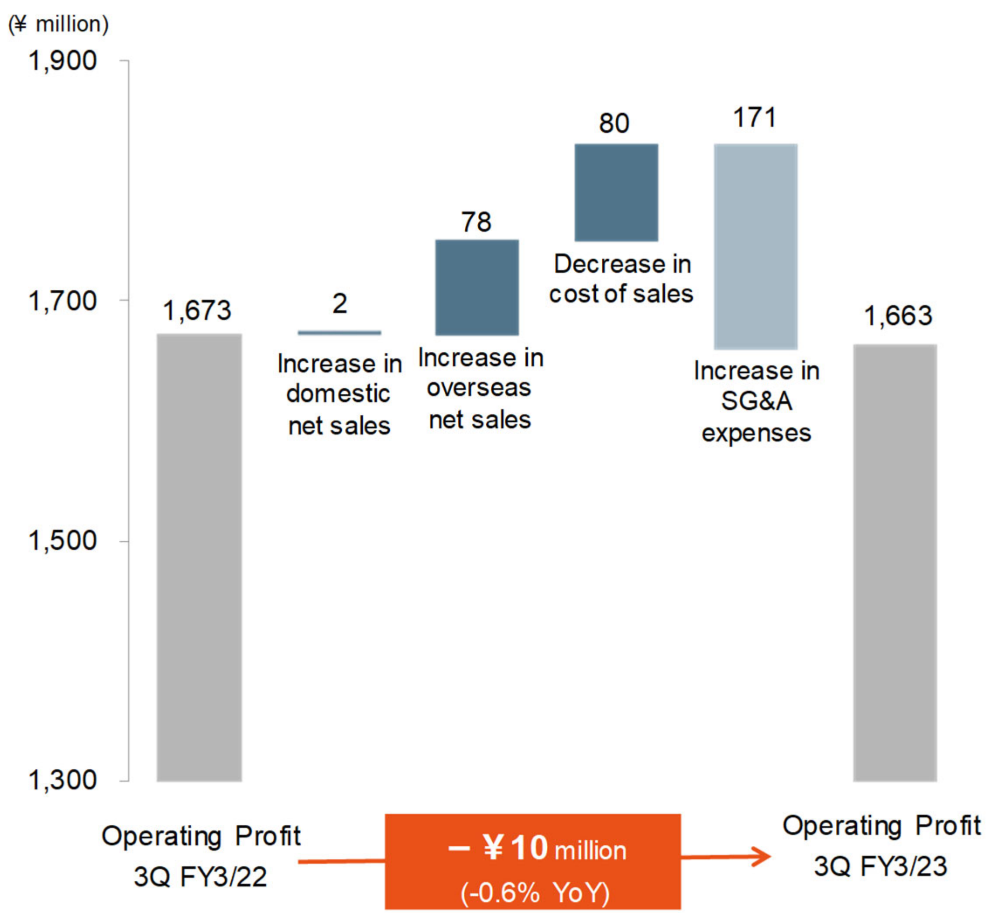
Increased in net sales and decreased in profits YoY

Progress rate in profits relative to full-year financial forecasts is high

(Unit: ¥ million)	3Q YTD FY3/22 Actual	3Q YTD FY3/23 Actual	Full-year FY3/23 Forecasts	Progress Rate
Net Sales	7,279	7,360	9,370	78.6%
YoY changes	+24.8%	+1.1%	-1.6%	
Operating profit	1,673	1,663	1,790	92.9%
YoY changes	+79.4%	-0.6%	-15.2%	
Ordinary profit	1,707	1,653	1,790	92.4%
YoY changes	+52.0%	-3.1%	-17.0%	
Profit attributable to owners of parent	1,181	1,120	1,210	92.6%
YoY changes	+55.4%	-5.2%	-20.5%	

- Recovery in the automotive industry has been delayed due to continued production cutbacks following the impact of semiconductor and some parts shortages. The market of semiconductor and electronic components and devices generally remained strong, despite lower demand for smartphones and PCs that had been brisk.
- Consolidated net sales were ¥7,360 million, up 1.1% YoY. We saw some rush demand prior to the price increases for some products implemented from November orders.
- Consolidated ordinary profit was ¥1,653 million, down 3.1% YoY. Ordinary profit margin was 22.5%, down 1.0 pp YoY.
- Progress rate to the financial forecasts for the full-year exceeded 90%.

Factors for Decrease in Operating Profit



- Domestic net sales increased by ¥2 million, up 0.1% YoY, while overseas net sales increased by ¥78 million, up 3.4% YoY. Overall net sales increased by ¥80 million, up 1.1% YoY.
- Cost of sales decreased by ¥80 million, down 2.3% YoY, while gross profit margin was 53.6%, up 1.7 pp YoY.
- SG&A expenses increased by ¥171 million, up 8.1% YoY. Selling expenses, including exhibition costs and advertising expenses, increased by 45.1% YoY due to displays at the in-person large-scale exhibitions such as JIMTOF and IMTS.
- As a result, operating profit decreased by ¥10 million, down 0.6% YoY, to ¥1,663 million. Operating profit margin was 22.6%, down 0.4 pp YoY.

Summary of Statement of Income

(Unit: ¥ million)	3Q YTD FY3/22 Actual	3Q YTD FY3/23 Actual	YoY Changes
Net Sales	7,279	7,360	+1.1%
Gross profit	3,780	3,941	+4.2%
Ratio to net sales	51.9%	53.6%	
SG&A expenses	2,107	2,278	+8.1%
Ratio to net sales	28.9%	31.0%	
Operating profit	1,673	1,663	-0.6%
Ratio to net sales	23.0%	22.6%	
Ordinary profit	1,707	1,653	-3.1%
Ratio to net sales	23.5%	22.5%	
Profit attributable to owners of parent	1,181	1,120	-5.2%
Ratio to net sales	16.2%	15.2%	
Capital investment	287	523	+82.1%
Depreciation	507	495	-2.3%
No. of employees (persons)	352	351	-0.3%

- Net sales were ¥7,360 million, up 1.1% YoY, due to some rush demand prior to the price increases implemented to pass on some of the increased costs to our prices. The impact of price increases on financial results is expected to be from 4Q onward.
- Gross profit was ¥3,941 million, up 4.2% YoY. Cost of sales decreased by 2.3% YoY, mainly due to the success of cost reduction by improvement activities, and gross profit margin was 53.6%, up 1.7 pp YoY.
- SG&A expenses increased by 8.1% YoY in line with the rise in selling expenses such as exhibition costs, and SG&A expenses ratio was 31.0%, up 2.1 pp YoY.
- As a result, operating profit decreased by 0.6% YoY to ¥1,663 million and operating profit margin was 22.6%, down 0.4 pp YoY.
- Capital expenditures were ¥523 million, up 82.1% YoY due to the expansion of production facilities based on the initial forecast. Depreciation decreased by 2.3% YoY due to the start of operations of some equipments installed is delayed.

Summary of Balance Sheet

(Unit: ¥ million)	FY3/22-End	Composition Ratio	3Q FY3/23-End	Composition Ratio	VS FY3/22-End
(Assets)					
Ⅰ Current assets	11,807	66.1%	12,103	66.6%	+2.5%
Cash and deposits	8,543	47.8%	8,578	47.2%	+0.4%
Notes and accounts receivable - trade	1,322	7.4%	1,377	7.6%	+4.1%
Inventories	1,840	10.3%	2,066	11.4%	+12.2%
Ⅱ Non-current assets	6,066	33.9%	6,060	33.4%	-0.1%
Property, plant and equipment	5,435	30.4%	5,457	30.0%	+0.4%
Intangible assets	32	0.2%	27	0.2%	-16.2%
Investments and other assets	598	3.4%	575	3.2%	-4.0%
Total assets	17,874	100.0%	18,163	100.0%	+1.6%
(Liabilities)					
Ⅰ Current liabilities	1,483	8.3%	1,065	5.9%	-28.2%
Accounts payable - trade	249	1.4%	274	1.5%	+10.0%
Ⅱ Non-current liabilities	224	1.3%	224	1.2%	—
Total liabilities	1,708	9.6%	1,289	7.1%	-24.5%
(Net assets)					
Total equity	15,950	89.2%	16,657	91.7%	+4.4%
Total net assets	16,165	90.4%	16,873	92.9%	+4.4%
Total liabilities and net assets	17,874	100.0%	18,163	100.0%	+1.6%

Current assets

Increased by 2.5% from the end of previous fiscal year due to an increase in inventories such as merchandise and finished goods and raw materials.

Non-current assets

Decreased by 0.1% from the end of previous fiscal year due to a slight increase of property, plant and equipment, and a decrease of investments and other assets due to the posting of a valuation loss on investment securities.

Liabilities

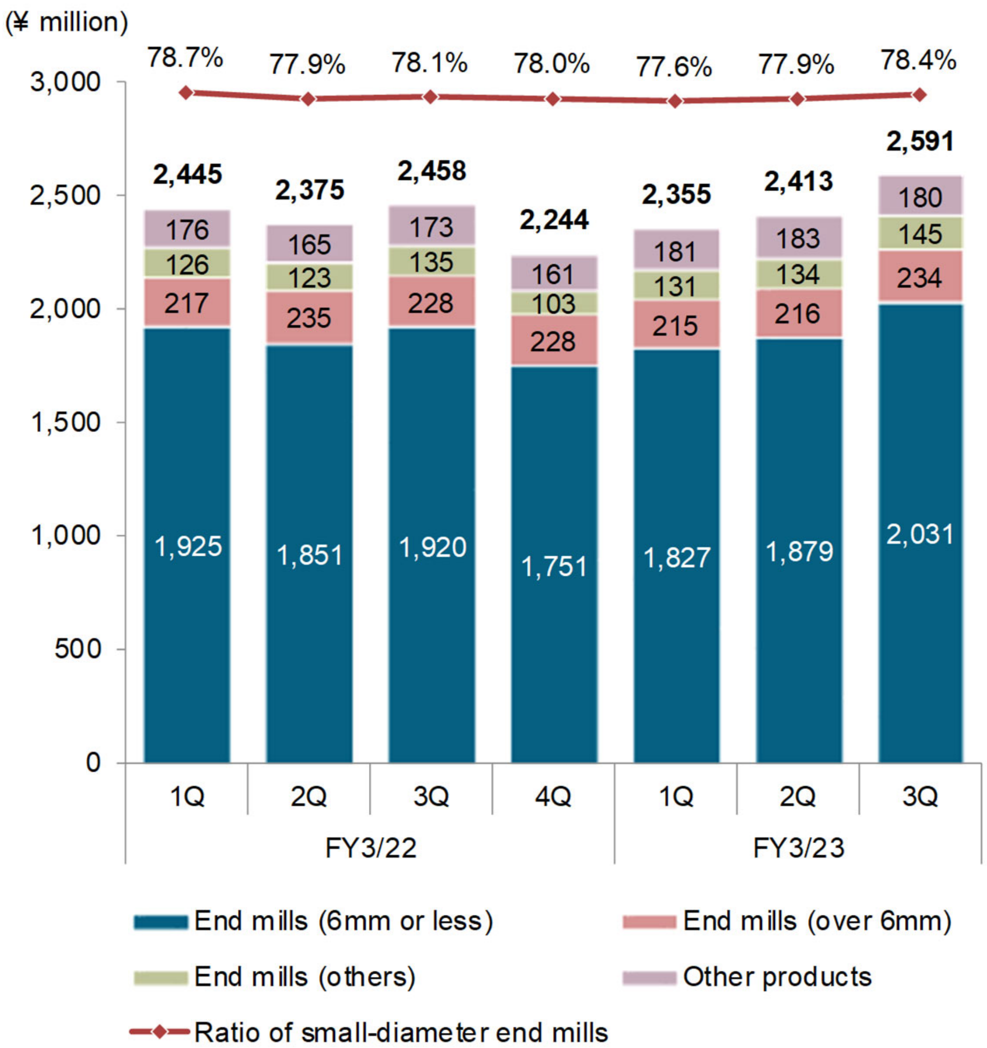
Decreased by 24.5% from the end of previous fiscal year due to a decrease in income taxes payable and provision for bonuses.

Net assets

Increased by 4.4% from the end of previous fiscal year due to an increase in retained earnings, etc. Equity ratio was 91.7%, up 2.5 pp from the end of previous fiscal year.

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

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



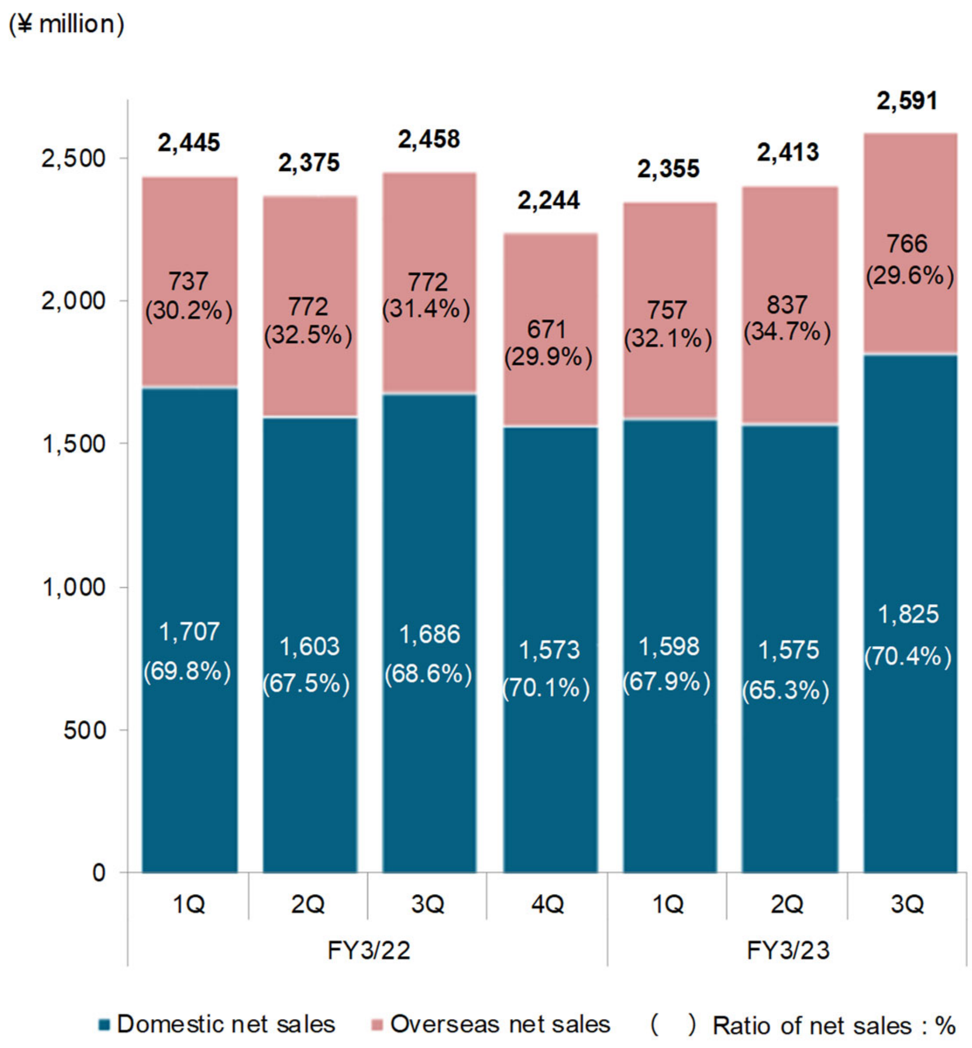
- In the automotive industry, the production volume of major automakers has not recovered due to semiconductor and parts supply shortages. The market of semiconductor and electronic components and devices generally remained strong, despite lower demand for smartphones and PCs that had been brisk. In addition, orders for some electronic components increased.

- Net sales in 3Q(October-December) were ¥2,591 million, up 5.4% YoY. It also increased by 7.4% compared to 2Q(July–September) QoQ. There was some rush demand prior to the price increases from November orders.

- By product, net sales for mainstay end mills (diameter 6mm or less) increased 5.8% YoY, and end mills (diameter over 6mm) increased by 2.5% YoY. End mills (other), mainly special products custom-made to users, increased by 7.6% YoY, other products such as tool cases also increased by 3.6% YoY. The ratio of small-diameter end mills was 78.4%

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

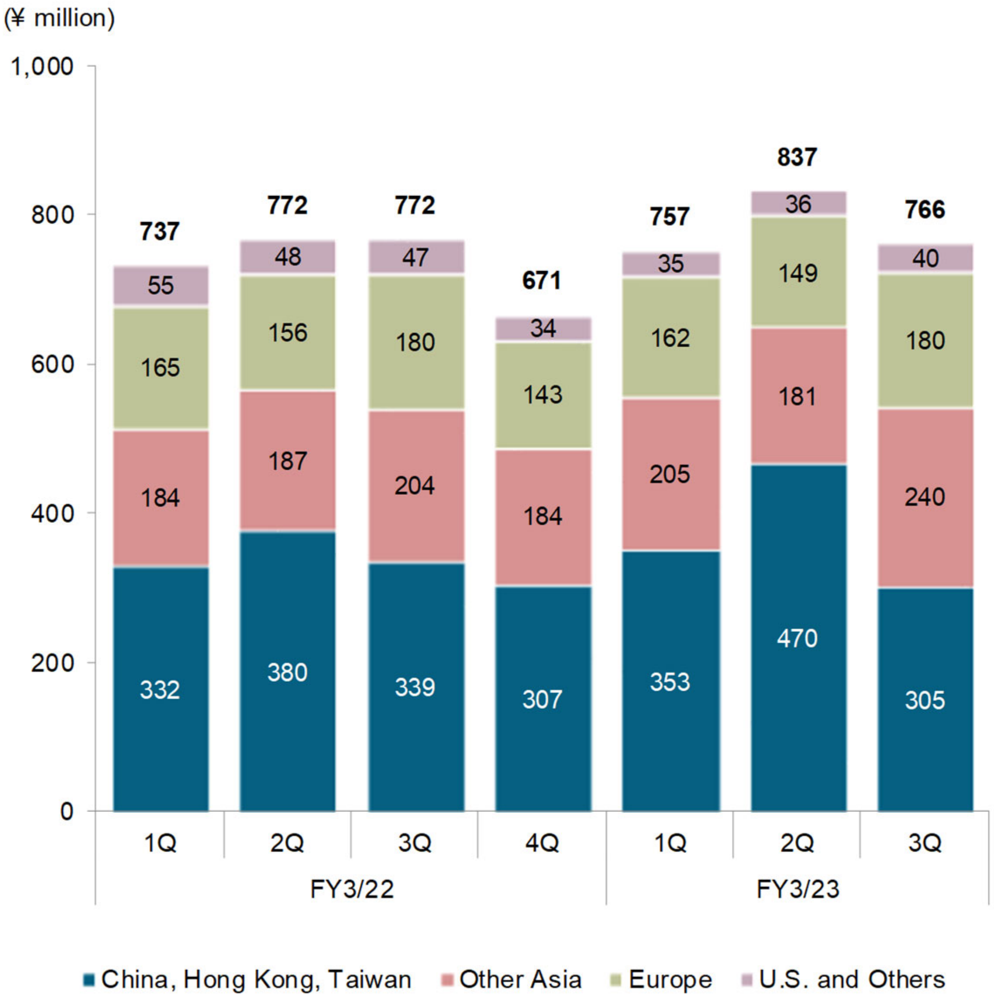
Trend of domestic and overseas net sales



- Domestic net sales increased by ¥139 million, up 8.3% YoY, to ¥1,825 million. The rush demand prior to the price increases contributed.
- Overseas net sales decreased by ¥6 million, down 0.8% YoY, to ¥766 million. In account consolidation of NS TOOL Hong Kong Ltd. into 3Q results, figures for July-September are combined for China. Net sales in Greater China decreased, which demand for smartphones increased in April-June.
- The overseas net sales ratio declined by 1.8 pp YoY to 29.6% due to domestic net sales increased.

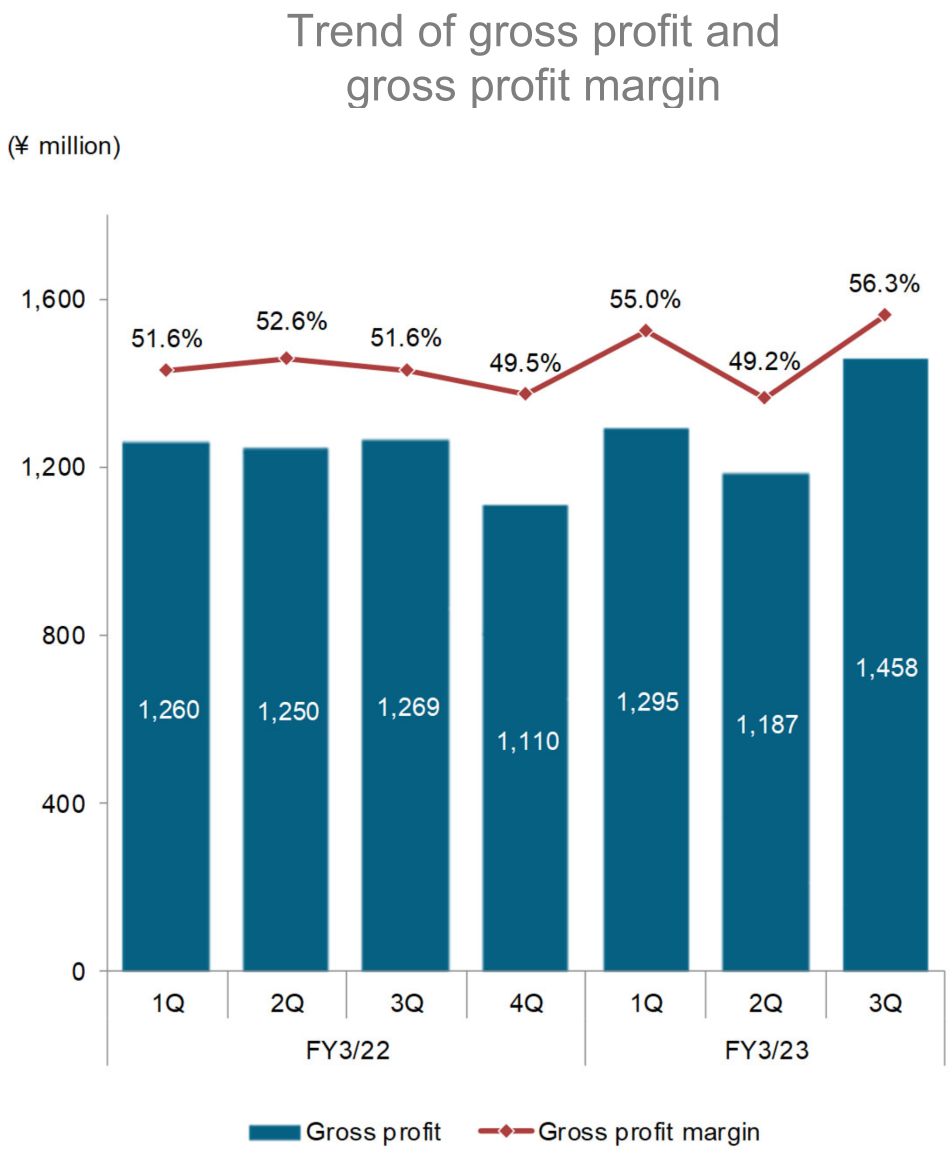
Business Performance (Trend of net sales (3) By overseas region)

Trend of net sales by overseas region



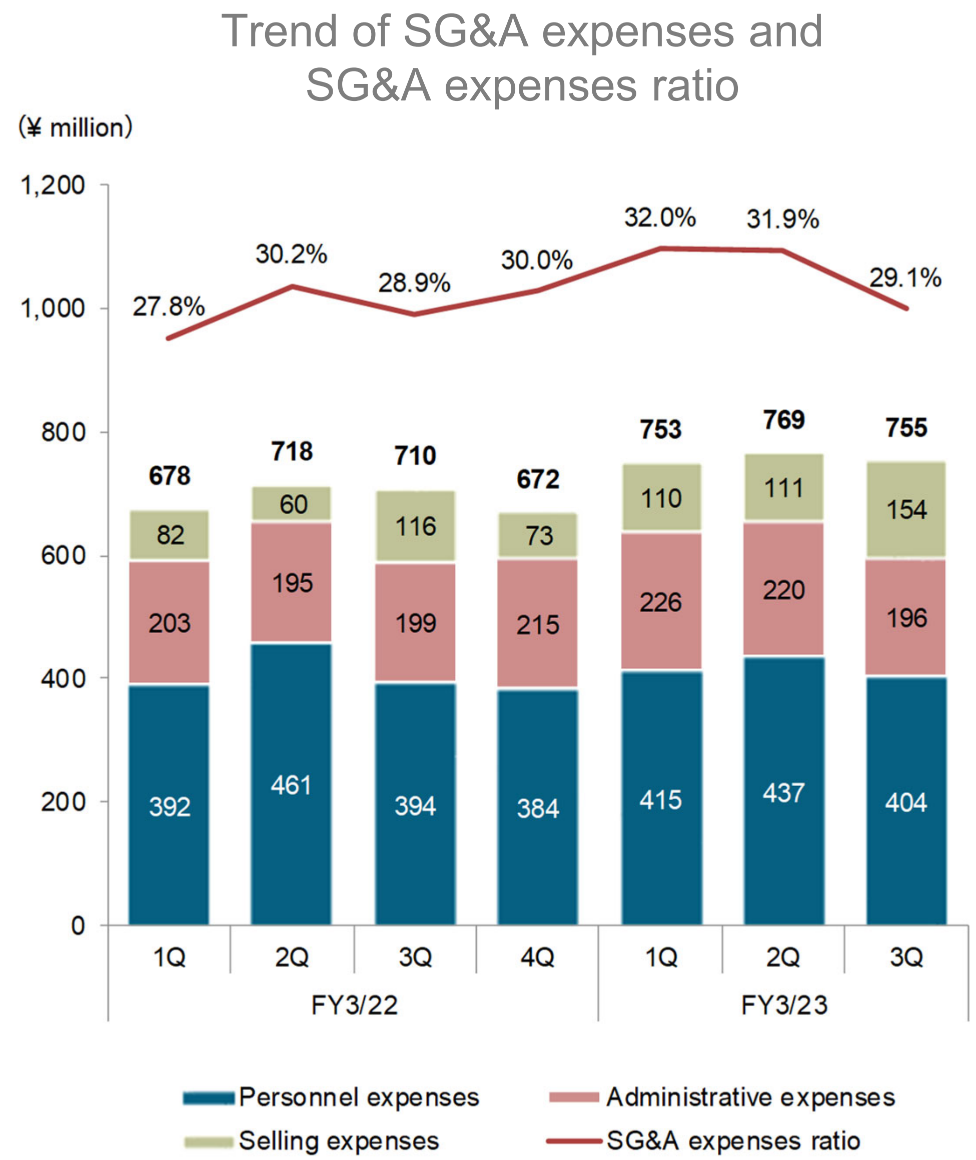
- Combined net sales of China, Hong Kong and Taiwan decreased by 10.1% YoY to ¥305 million. In Taiwan, optical lens-related products continued to perform well. On the other hand, net sales to China and Hong Kong were from July to September, but demand for tools decreased due to a pause of demand for smartphones and a decrease with plant utilization rate of users.
- Other Asia increased by 17.5% YoY to ¥240 million. Semiconductor and parts shortages improved in some areas, and production recovered in automotive industry.
- In Europe, although there were moves to restrain the work volume due to soaring fuel prices caused by the situation in Ukraine, some demand recovered. As a result, net sales were ¥180 million, flat YoY, but increased 20.8% compared to 2Q(July-September) QoQ.
- U.S. and Others decreased by 15.6% YoY to ¥40 million. NS TOOL USA, INC., which was established last year, started accepting orders in August. Orders are being transferred, and full-scale operation is scheduled to begin in 2023.

Business Performance (Trend of gross profit)



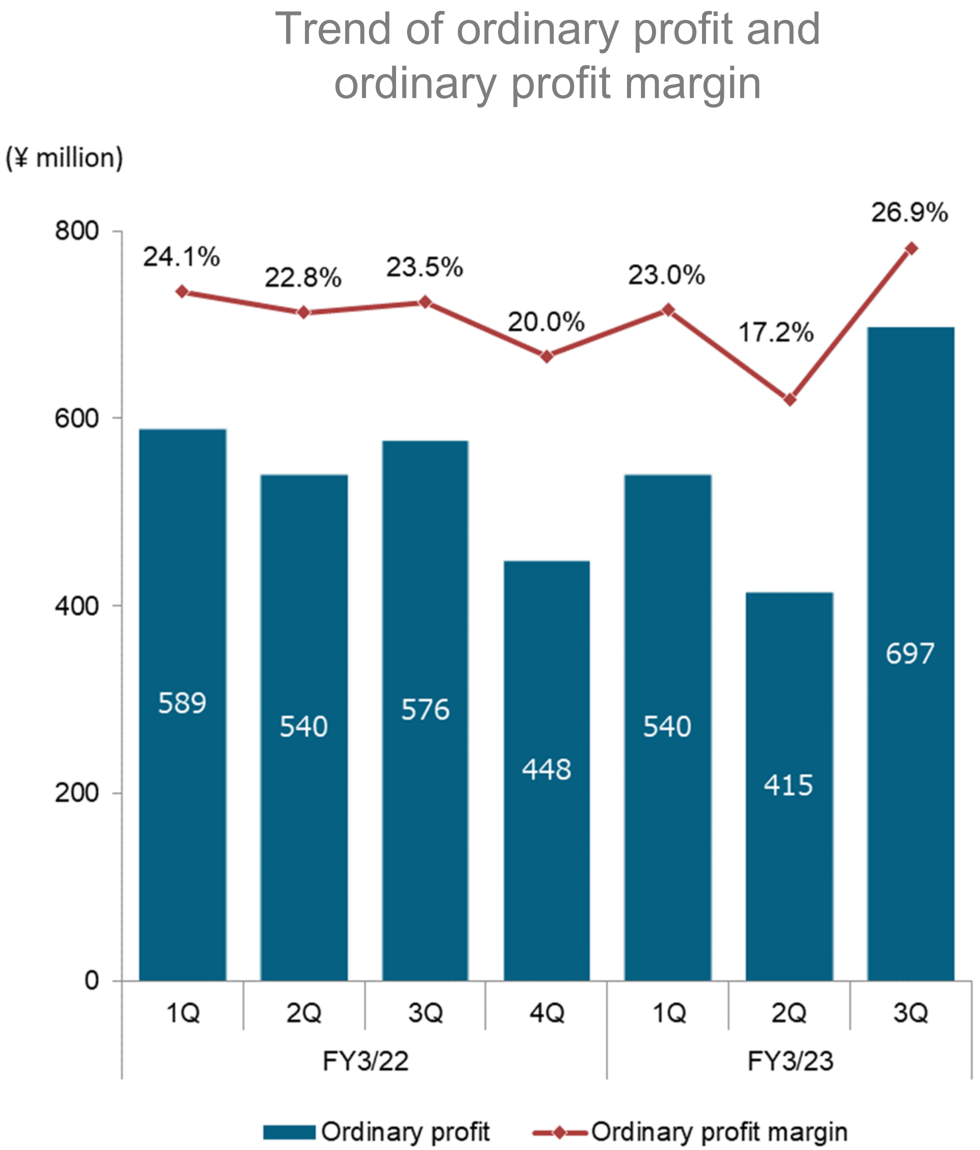
- Raw material cost and labor costs increased slightly. On the other hand, while electricity cost rose by about 50% YoY, cost of products manufactured decreased YoY as a result of a decrease in outsourcing expenses and manufacturing expenses due to the promotion of in-house production and cost reduction.
- In addition to the above, cost of sales decreased by 4.7% YoY due to the impact of the addition of cost of sales for the July-September period when net sales were low in light of the consolidation of NS TOOL Hong Kong Ltd.
- As a result, gross profit increased by 14.9% YoY to ¥1,458 million and the gross profit margin was 56.3%, up 4.7 pp YoY.

Business Performance (Trend of SG&A expenses)

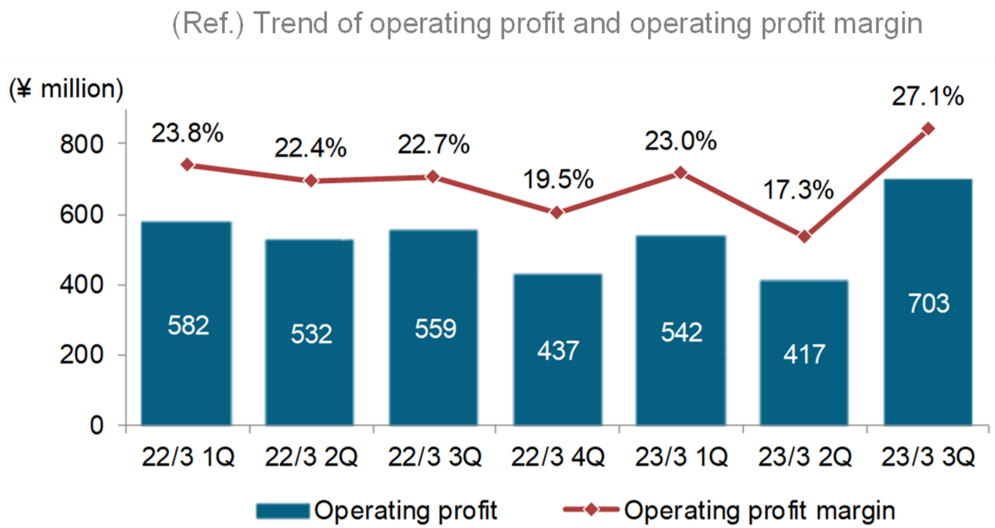


- As for selling expenses, exhibition expenses increased due to display at Japan's largest machine tool fair. Advertising expenses also increased due to catalogue revisions and the production of pamphlets in line with this. As a result, selling expenses increased by 32.6% YoY to ¥154 million.
- Personnel expenses were ¥404 million, up slightly YoY.
- SG&A expenses as a whole increased by 6.3% YoY to ¥755 million, while SG&A expenses ratio rose by 0.2 pp YoY to 29.1%, and down 2.8 pp compared to 2Q(July-September) QoQ.

Business Performance (Trend of ordinary profit)



- Operating profit increased by 25.7% YoY to ¥703 million due to an increase in gross profit, despite an increase in SG&A expenses.
- Ordinary profit increased by 21.0% to ¥697 million, partly due to foreign exchange losses of ¥10 million in non-operating income and expenses.
- Ordinary profit margin was 26.9%, rose by 3.4 pp YoY.



Consolidated Financial Forecasts for FY3/23

Financial Forecasts

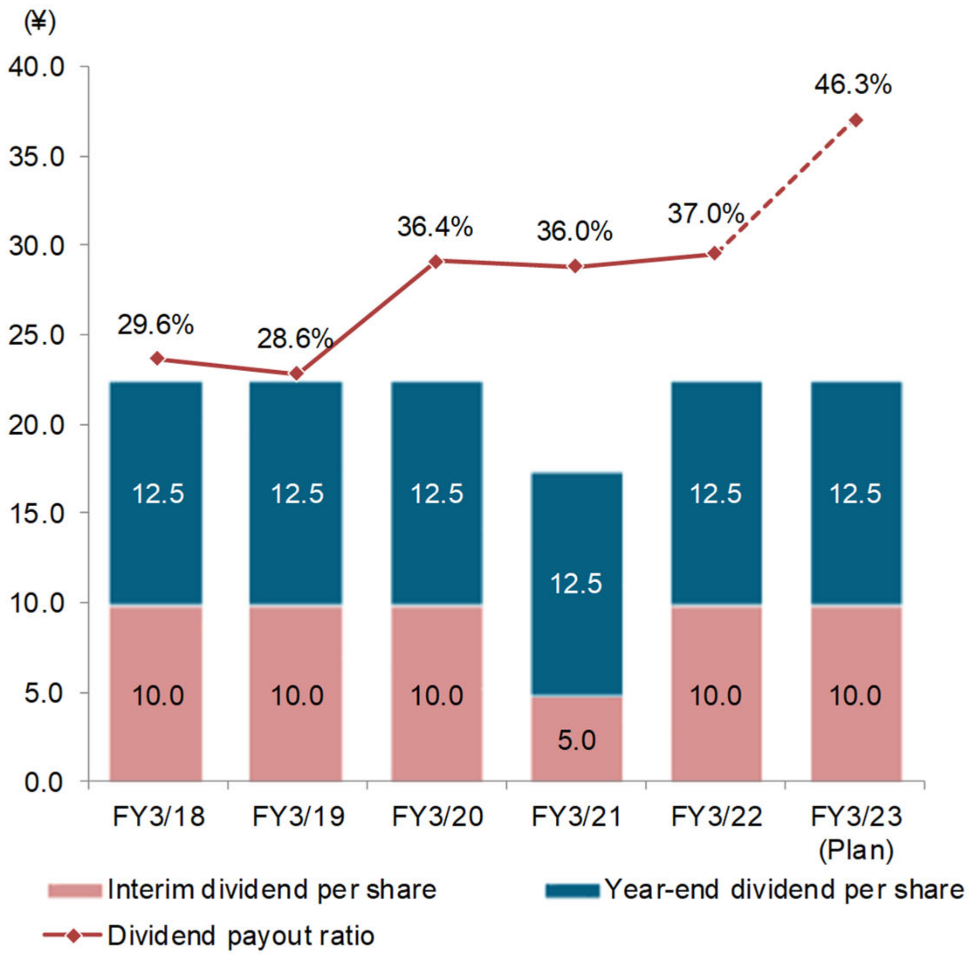
(Unit: ¥ million)	FY3/22 Actual	FY3/23 Forecasts	YoY Changes
Net Sales	9,524	9,370	-1.6%
Operating profit	2,111	1,790	-15.2%
Ordinary profit	2,156	1,790	-17.0%
Profit attributable to owners of parent	1,522	1,210	-20.5%
Capital investment	659	1,064	+61.4%
Depreciation	692	780	+12.8%
EPS (¥)	60.89	48.56	-20.2%
Dividend per share (¥)	22.50	22.50	–

- Concerns about an economic recession remain after the start of the year, production cutbacks in the automotive industry are expected to continue, demand for semiconductor-related is expected to stabilize, and demand for tools is expected to remain somewhat sluggish. Costs are expected to increase further, particularly for raw materials and electricity cost due to the high resource prices and the depreciation of the yen.
- Price increases for some products were implemented from November orders to pass on some of the increased costs to our prices, and there was some rush demand prior to the price increases.
- Net sales are forecast to decrease by 1.6% YoY to ¥9,370 million, and operating profit is forecast to decrease by 15.2% YoY to ¥1,790 million, and ordinary profit is forecast to decrease by 17.0% YoY to ¥1,790 million. Although the progress rate as of the end of 3Q was high, the impact of price increases, including a reaction to the rush demand, is expected to be from 4Q onward. In addition, both cost of products manufactured and SG&A expenses are expected to increase, so the financial forecasts remain unchanged.
- Capital expenditures remained unchanged from the investment plan for facilities expansion, etc.
- Dividends per share are planned to remain unchanged. Annual dividend of ¥22.5, including an interim dividend of ¥10, is maintained.

Financial Forecasts for 2H FY3/23 and Progress Rate

(Unit: ¥ million)	FY3/23								
	2H					Full-year			
	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	4,601	—	2,591	—	56.3%	9,370	—	7,360	78.6%
YoY Changes	-2.2%		+5.4%			-1.6%		1.1%	
Operating profit	829	18.0%	703	27.1%	84.7%	1,790	19.1%	1,663	92.9%
YoY Changes	-16.8%		+25.7%			-15.2%		-0.6%	
Ordinary profit	834	18.1%	697	26.9%	83.7%	1,790	19.1%	1,653	92.4%
YoY Changes	-18.7%		+21.0%			-17.0%		-3.1%	
Profit attributable to owners of parent	589	12.8%	500	19.3%	84.8%	1,210	12.9%	1,120	92.6%
YoY Changes	-21.5%		+21.7%			-20.5%		-5.2%	

Dividend Forecasts (Shareholder Returns)



*The impact of the share split on 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 FY3/22 was ¥22.5.
  Interim dividend: ¥10.0; Year-end dividend: ¥12.5
  Dividend payout ratio: 37.0%

- Annual dividend per share for FY3/23 is planned to be ¥22.5.
  Interim dividend: ¥10.0, Year-end dividend: ¥12.5
  Dividend payout ratio to the revised financial forecasts: 46.3%

- 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.