



# **Financial Results for the 1<sup>st</sup> Quarter of Fiscal Year Ending March 31, 2020**



**NS TOOL CO., LTD.**

July 31, 2019

(Securities Code: 6157)

# Contents

<b>1. Consolidated Financial Results for Q1 FY3/20</b>	P. 3	• • •	Financial Results Summary for Q1 FY3/20
	P. 4	• • •	Factors for Decrease in Operating Profit
	P. 5	• • •	Summary of Statement of Income
	P. 6	• • •	Summary of Balance Sheet
	P. 7	• • •	Business Performance
<hr/>			
<b>2. Consolidated Financial Forecasts for FY3/20</b>	P. 14	• • •	Financial Forecasts
	P. 15	• • •	Progress in Q1 FY3/20
	P. 16	• • •	Dividend Forecasts

---

# **Consolidated Financial Results for Q1 FY3/20**



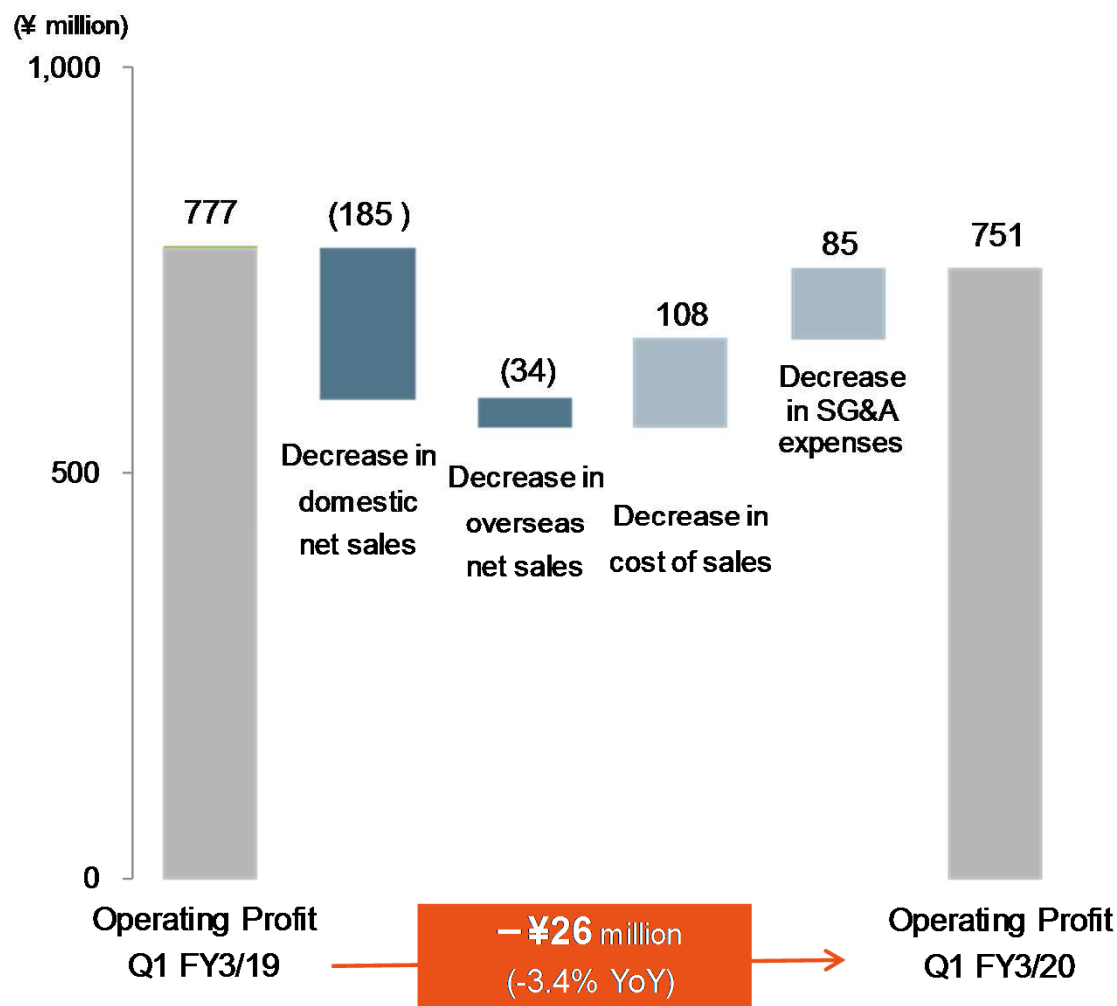
# Financial Results Summary for Q1 FY3/20

Both net sales and profits declined year on year, but progress rates with respect to profits are favorable.

( Unit: ¥ million)	Q1 FY3/19 Actual	Q1 FY3/20 Actual	1H FY3/20 Forecasts	Progress Rate
<b>Net Sales</b>	2,686	2,466	5,120	48.2%
YoY changes	+17.4%	-8.2%	-2.4%	
<b>Operating profit</b>	777	751	1,230	61.1%
YoY changes	+20.6%	-3.4%	-15.9%	
<b>Ordinary profit</b>	778	752	1,240	60.7%
YoY changes	+19.5%	-3.4%	-15.5%	
<b>Profit attributable to owners of parent</b>	486	481	840	57.3%
YoY changes	+18.1%	-1.2%	-13.6%	

- Demand for small-diameter tools has slowed down since the end of the previous year due to a decrease in global IT demand, intensified US-China trade friction, etc. As a result, consolidated net sales of this quarter were ¥2,466 million, which is a decrease of 8.2% compared to the level of the same period of the previous fiscal year that achieved the record quarterly net sales. Progress rate against the forecasts of the 1st half was 48.2%, which is slightly below the plan.
- Consolidated ordinary profit was ¥752 million, a decrease by 3.4% YoY. However, progress rate against the forecast of the 1st half was 60.7%, which goes more smoothly than net sales.
- Ordinary profit margin was 30.5%, an increase of 1.5 points from the level of the same period of the previous fiscal year.

# Factors for Decrease in Operating Profit



- Domestic net sales decreased by ¥185 million (9.4%) YoY, overseas net sales decreased by ¥34 million (4.8%) YoY, and total net sales decreased by ¥219 million (8.2%) YoY.
- Cost of sales decreased by ¥108 million (9.7%) YoY, because variable expenses including material costs and subcontract processing expenses decreased due to a decline in output, finished goods inventory increased, and amount of expenses subtracted at the time of consolidation of NS TOOL Hong Kong was large.
- SG&A expenses decreased by ¥85 million (10.7%) YoY in total due to a decline in advertising and sales promotion expenses.
- As a result, operating profit decreased only by ¥26 million (3.4%) YoY, while operating profit margin was 30.5%, an increase of 1.5 points YoY. However, there is a possibility that it works in reverse in the 2nd quarter, due to the impact of aforementioned consolidation of NS TOOL Hong Kong.

# Summary of Statement of Income

( Unit: ¥ million)	Q1 FY3/19 Actual	Q1 FY3/20 Actual	YoY Changes
<b>Net Sales</b>	2,686	2,466	-8.2%
<b>Gross profit</b>	1,577	1,466	-7.1%
Ratio to net sales	58.7%	59.4%	
<b>SG&amp;A expenses</b>	799	714	-10.7%
Ratio to net sales	29.8%	29.0%	
<b>Operating profit</b>	777	751	-3.4%
Ratio to net sales	29.0%	30.5%	
<b>Ordinary profit</b>	778	752	-3.4%
Ratio to net sales	29.0%	30.5%	
<b>Profit attributable to owners of parent</b>	486	481	-1.2%
Ratio to net sales	18.1%	19.5%	
<b>Capital investment</b>	117	743	+531.8%
<b>Depreciation</b>	142	166	+16.7%
<b>No. of employees</b> (persons)	332	343	+3.3%

- Net sales were ¥2,466 million, a decrease of 8.2% YoY. Slow sales of electronics- and device-related products, semiconductor manufacturing equipment, machine tools, etc. had impact on demand for tools.
- Gross profit was ¥1,466 million, a decrease of 7.1% YoY, due to a decline in net sales, while gross profit margin was 59.4%, an increase of 0.7 points YoY.
- SG&A expenses were kept as low as a decrease of 10.7% YoY due to reduction of advertising and sales promotion expenses. SG&A expenses ratio was 29.0%, a decrease of 0.8 points YoY.
- As a result, operating profit was ¥751 million, a decrease of 3.4% YoY. Operating profit margin was 30.5%. Absolute amount decreased due to a decline in net sales, however, operating profit margin increased.
- Amount of capital investment was ¥743 million, a 5.3-time increase YoY, because of payments related to under-construction new development center and plant of a subsidiary. However, depreciation was ¥166 million, an increase of 16.7%, because the construction has not been completed.

# Summary of Balance Sheet

( Unit: ¥ million)	FY3/19-End	Composition Ratio	Q1 FY3/20-End	Composition Ratio	YoY Changes
<b>(Assets)</b>					
Current assets	9,932	64.6%	9,154	60.6%	-7.8%
Cash and deposits	6,209	40.4%	5,472	36.3%	-11.9%
Notes and accounts receivable - trade	1,531	10.0%	1,452	9.6%	-5.1%
Inventories	2,056	13.4%	2,082	13.8%	+1.3%
Non-current assets	5,449	35.4%	5,940	39.4%	+9.0%
Property, plant and equipment	4,685	30.5%	5,181	34.3%	+10.6%
Intangible assets	84	0.5%	75	0.5%	-10.3%
Investments and other assets	679	4.4%	683	4.5%	+0.6%
<b>Total assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>15,094</b>	<b>100.0%</b>	<b>-1.9%</b>
<b>(Liabilities)</b>					
Current liabilities	1,643	10.7%	1,211	8.0%	-26.3%
Accounts payable - trade	277	1.8%	252	1.7%	-9.1%
Non-current liabilities	275	1.8%	254	1.7%	-7.6%
<b>Total liabilities</b>	<b>1,919</b>	<b>12.5%</b>	<b>1,465</b>	<b>9.7%</b>	<b>-23.6%</b>
<b>(Net assets )</b>					
<b>Total equity</b>	<b>13,397</b>	<b>87.1%</b>	<b>13,564</b>	<b>89.9%</b>	<b>+1.2%</b>
<b>Total net assets</b>	<b>13,461</b>	<b>87.5%</b>	<b>13,629</b>	<b>90.3%</b>	<b>+1.2%</b>
<b>Total liabilities and net assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>15,094</b>	<b>100.0%</b>	<b>-1.9%</b>

## Current assets

A decrease of 7.8%, because cash and deposits decreased due to payments of income taxes and bonuses.

## Non-current assets

An increase of 9.0% YoY, because of an increase in construction in progress due to construction of new development center and plant of a subsidiary.

## Liabilities

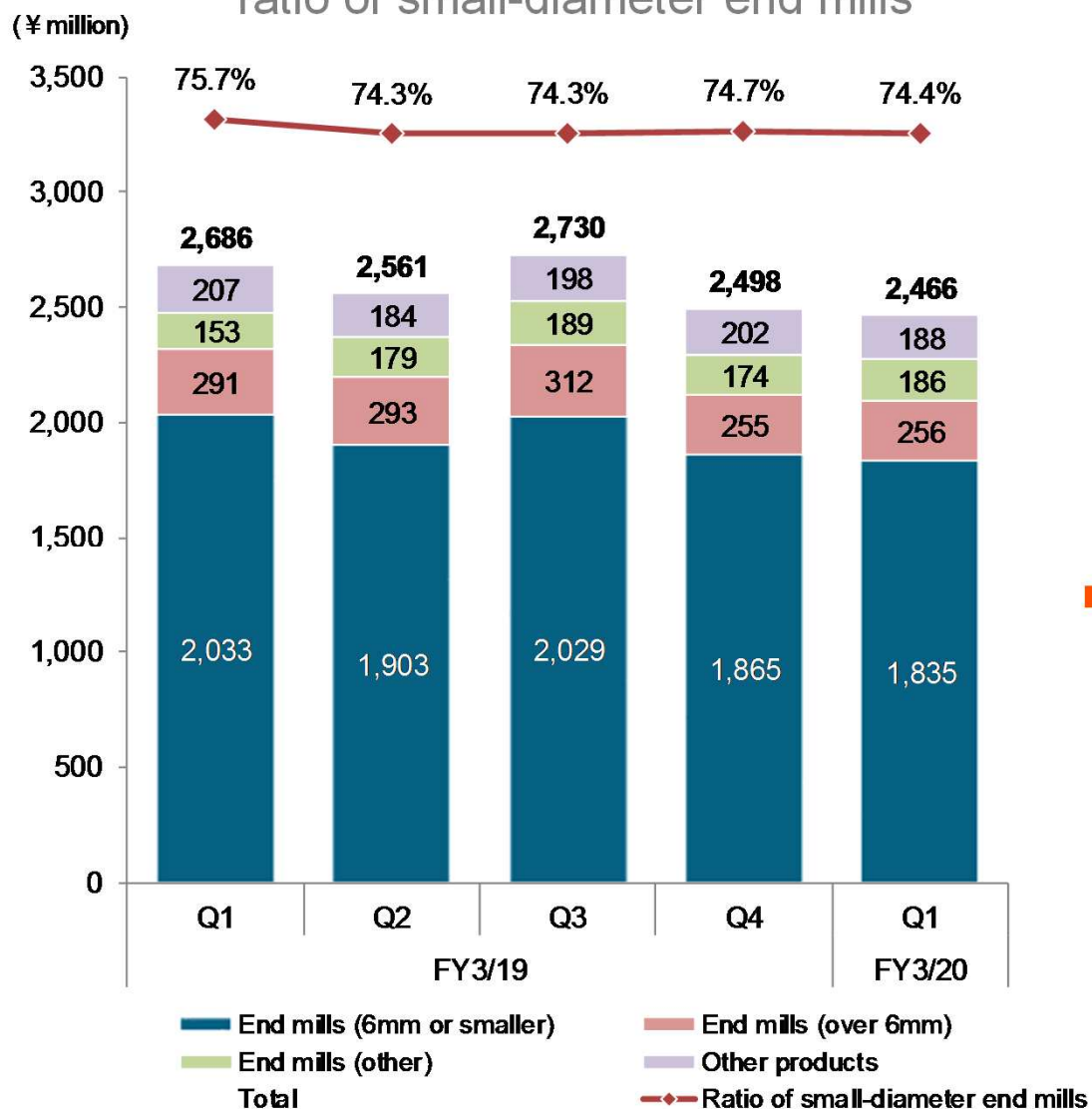
A decrease of 23.6% YoY due to a decline in income taxes payable and provision for bonuses.

## Net assets

An increase of 1.2% YoY due to an increase in retained earnings, etc. Equity ratio also increased to 89.9%, an increase of 2.8 points.

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

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



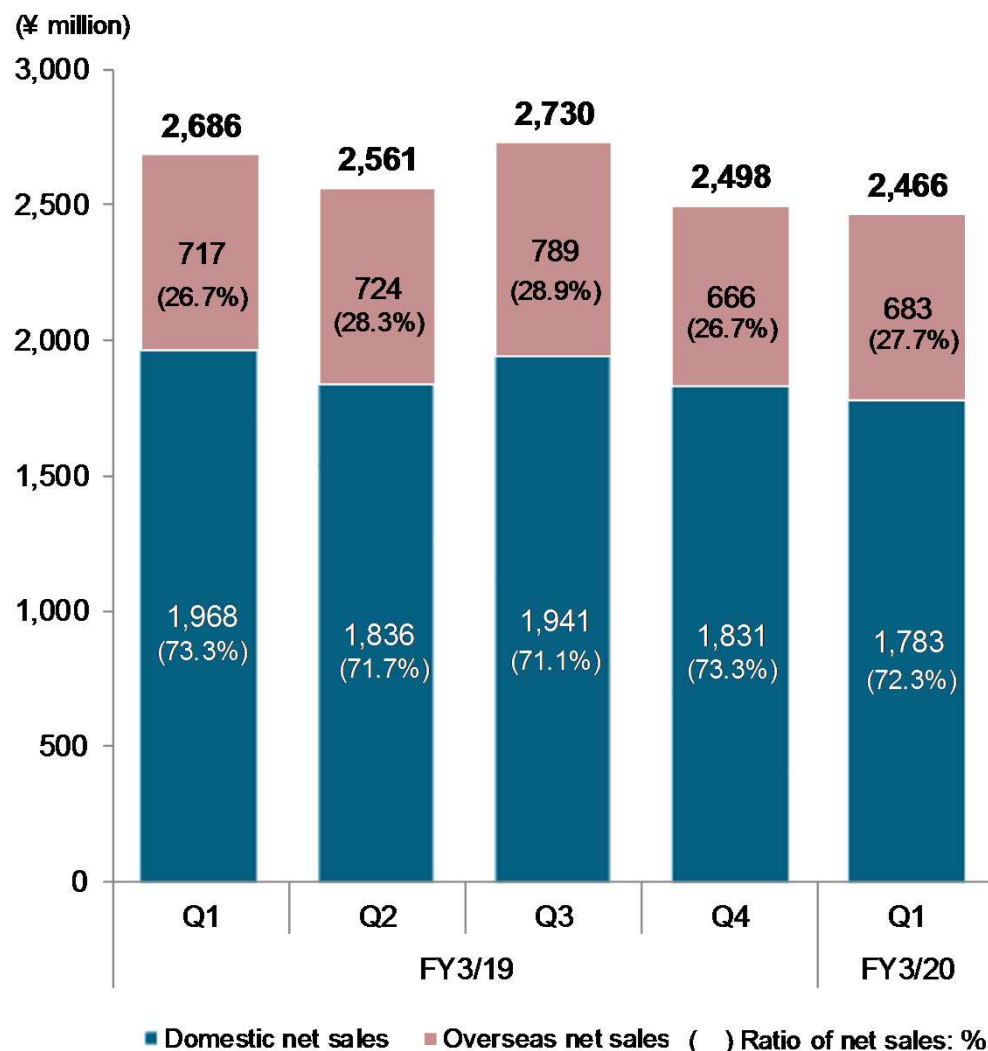
Automobile-related sales went relatively well owing to enhancement in safety equipment and introduction of new cars. However, situations of electronics- and device-related products, semiconductor manufacturing equipment, and machine tools have been harsh, due to sluggish sales of smartphones, which have continued since the 2nd half of previous fiscal year, and actions taken by the U.S., such as increasing customs values on China and sanction imposed on a Chinese communication device manufacturer. As a result, demand for small-diameter tools had been slow until the beginning of the previous fall. Consolidated quarterly net sales were ¥2,466 million, a decrease of 8.2% YoY, and a decrease of 1.3% QoQ.

By product, demand for end mills (6 mm or smaller), the key products, slowed down, which resulted in a decrease of 9.8% YoY. End mills (over 6 mm), whose prices were raised in the previous fall, decreased by 11.9% YoY. On the other hand, end mills (other), most of which are special products made with specifications unique to each user, increased by 21.3% YoY, because there was large demand. Other products including tool box decreased by 9.2% YoY, the same level of decrease as standard products. As a result, ratio of small-diameter end mills became 74.4%, a decrease of 1.3 points YoY.



## Business Performance (Trend of net sales (2) In Japan and overseas)

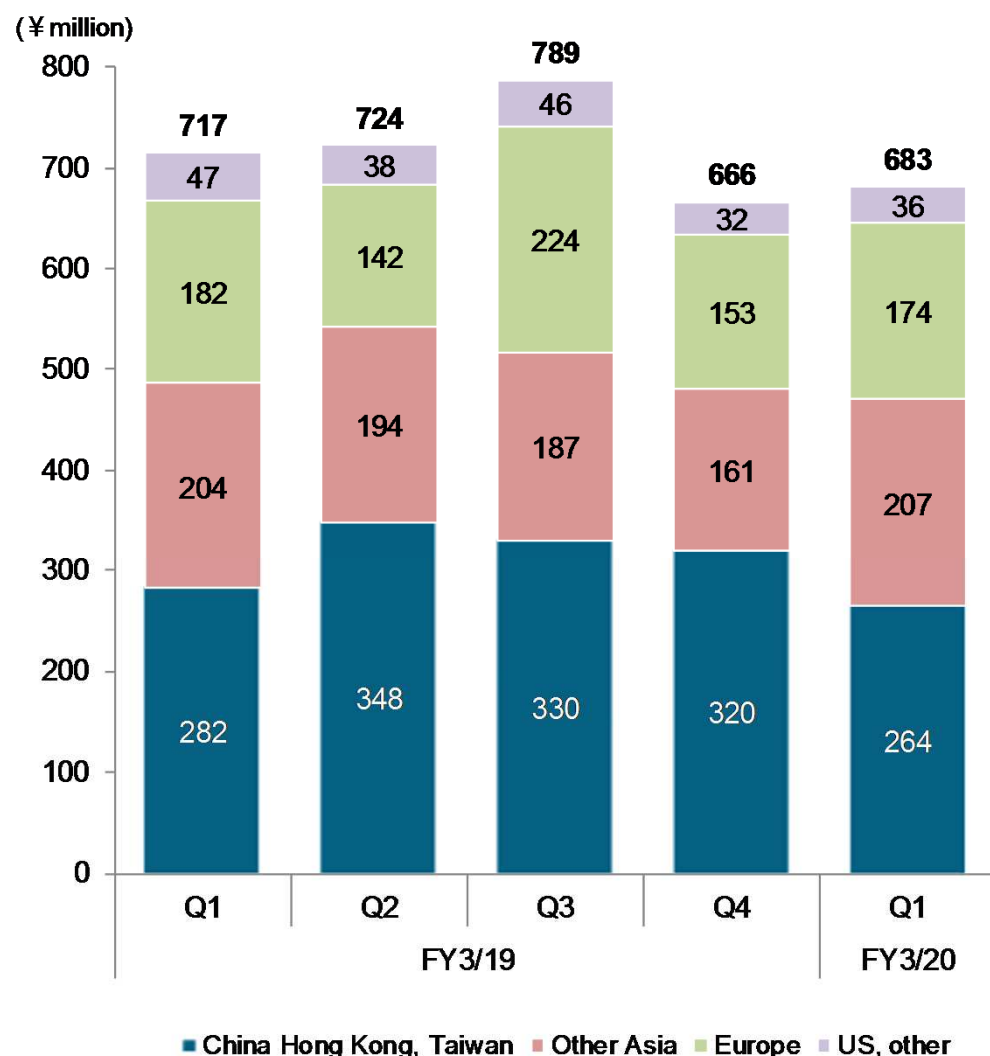
Trend of net sales in Japan and overseas



- Domestic net sales were ¥1,783 million, a decrease of ¥185 million (9.4%) YoY, while overseas net sales were ¥683 million, a decrease of ¥34 million (4.8%) YoY.
- Both fell below the level of the same period of the previous fiscal year, but ratio of overseas net sales to total net sales was 27.7%, an increase of 1.0 point.

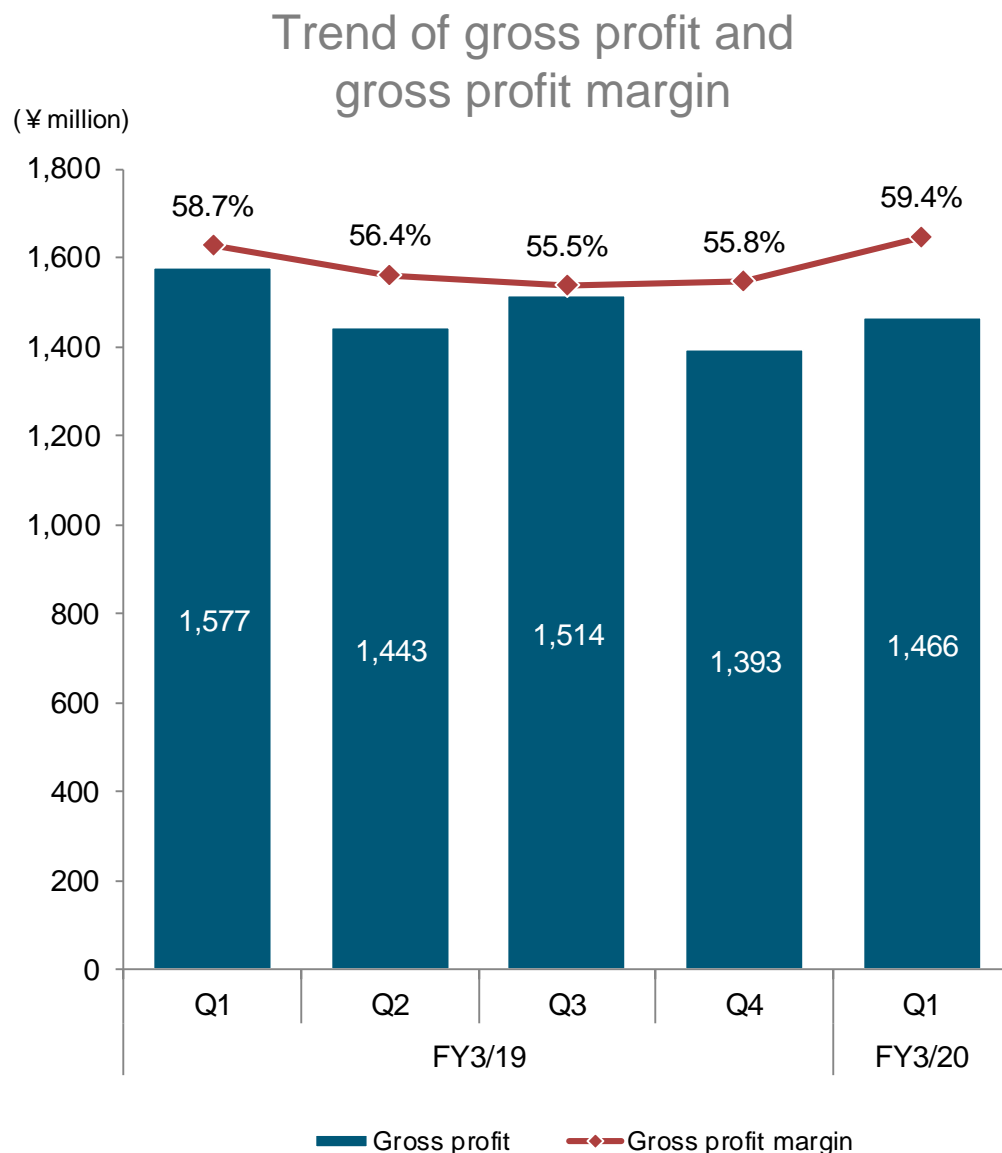
## Business Performance (Trend of net sales (3) By overseas region)

Trend of net sales by overseas region



- Net sales of China, Hong Kong, and Taiwan decreased by 6.6% YoY. Net sales results of China in this quarter were from January to March, due to consolidation of NS TOOL Hong Kong. Since the net sales in this period decrease every year due to Chinese New Year, net sales in this region resulted in a decrease of 17.6% QoQ, though other regions recorded increase in net sales when comparing to the same period.
- Other Asia increased by 1.7% YoY, and by 28.9% QoQ. Only this region exceeded the level of the same period of the previous fiscal year. Among the countries in this region, net sales of Thailand are the largest, though Indonesia is expanding the market gradually.
- In Europe, our products sell well in Germany, Italy, and Switzerland. A decrease of 4.5% YoY, but an increase of 14.2% QoQ.
- The U.S. and other countries account only for 5.3% of the total overseas net sales. We would like to increase the net sales in these regions.

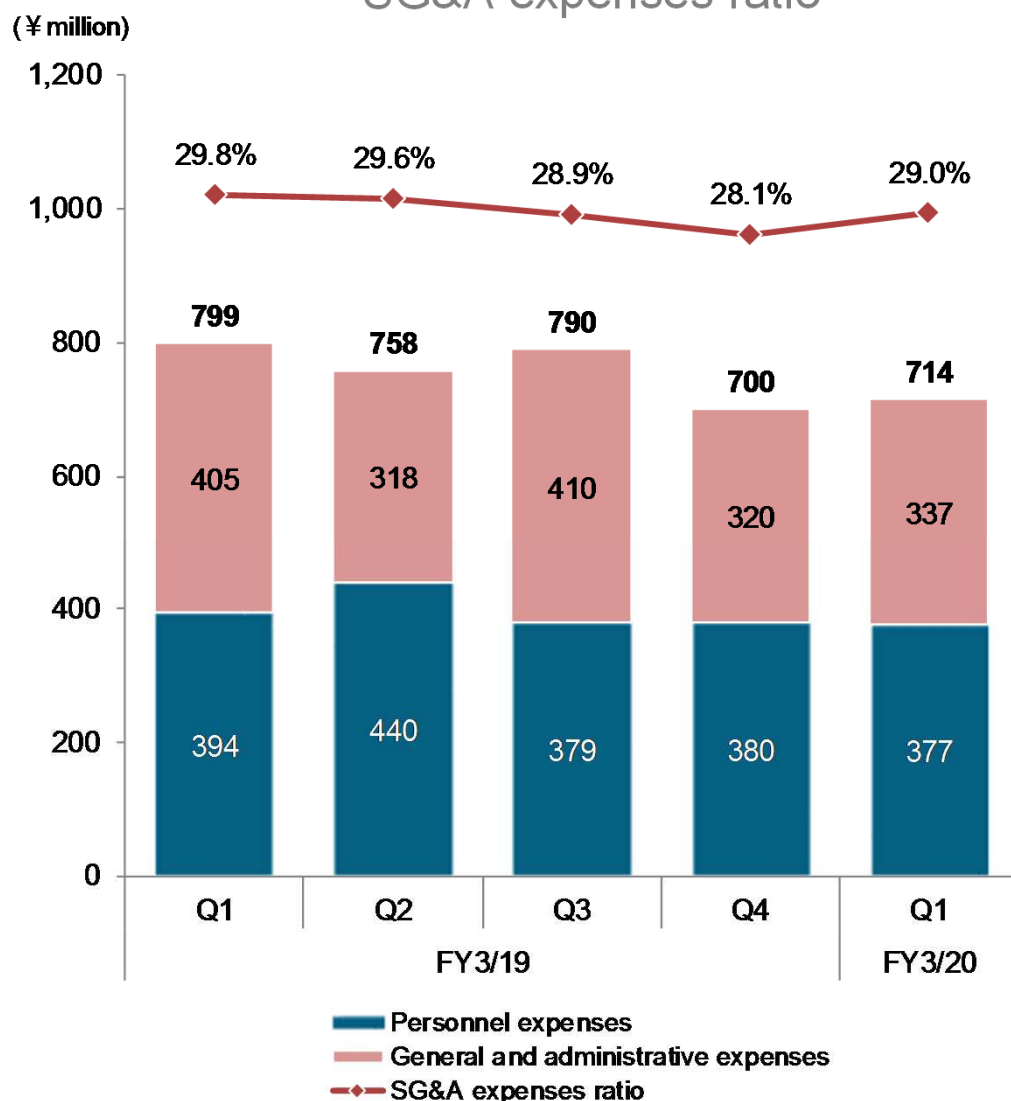
## Business Performance (Trend of gross profit)



- Cost of sales decreased by 9.7% YoY, recording larger rate of decrease compared to net sales, because variable expenses including material costs and subcontract processing costs decreased due to the fact that a decline in net sales required production volume to be reduced compared to the same period of the previous fiscal year; finished goods inventory increased; and amount of the expenses subtracted at the time of consolidation of NS TOOL Hong Kong was large.
- As a result, gross profit decreased by ¥111 million (7.1%) YoY, while gross profit margin was 59.4%, an increase of 0.7 points.
- However, since it is forecast that net sales of NS TOOL Hong Kong during the period from July to September will decrease compared to that from April to June, the gross profit margin seems to be slightly reduced in the 2nd quarter.

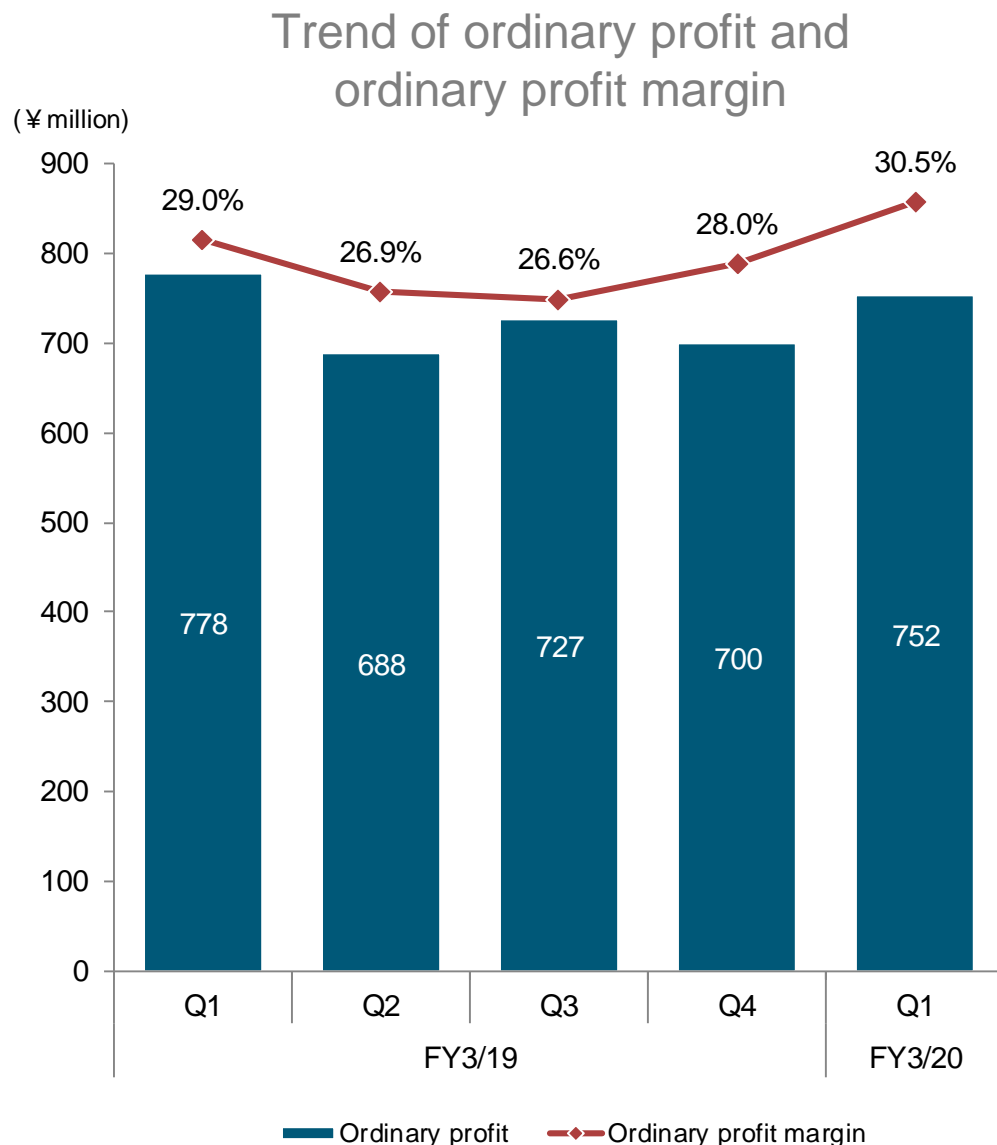
## Business Performance (Trend of SG&A expenses)

Trend of SG&A expenses and  
SG&A expenses ratio



- With regard to SG&A expenses, sales promotion expenses were decreased due to cancellation of some promotional measures, and advertising expenses, including project sponsorship money expenses and website-related expenses, decreased. As a result, the expenses decreased by 16.8% YoY.
- Personnel expenses also decreased by 4.4% YoY because there was no provision for retirement benefits due to abolition of retirement benefits for directors in last June and amount of provision for bonuses decreased due to a decline in projected profits.
- SG&A expenses ratio was 29.0%, a decrease of 0.8 points YoY.
- Since stock option as compensation was introduced with the abolition of retirement benefits for directors, there will be no provision for retirement benefits for directors, which had been allocated every quarter. However, share-based remuneration expenses will be allocated in the 2nd quarter.

## Business Performance (Trend of ordinary profit)



- A decrease of 8.2% in net sales YoY, but operating profit was ¥751 million, resulting in only 3.4% decrease YoY, because rate of decrease in cost of sales and SG&A expenses exceeded.
- With regard to non-operating expenses, gap between incomes and expenses was approximately several hundred thousand yen. As a result, ordinary profit was ¥752 million. A decrease of 3.4% YoY, same as operating profit.
- Ordinary profit margin was as high as 30.5%. However, we need to level the results, because there will be impact of consolidation of NS TOOL Hong Kong on cost of sales and increase in expenses for trade shows and other advertising activities from the 2nd quarter onwards.

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



# Financial Forecasts

( Unit: ¥ million)	FY3/19 Actual	FY3/20 Forecasts	YoY Changes
<b>Net Sales</b>	10,476	10,380	-0.9%
<b>Operating profit</b>	2,879	2,440	-15.3%
<b>Ordinary profit</b>	2,894	2,460	-15.0%
<b>Profit attributable to owners of parent</b>	1,970	1,690	-14.2%
<b>Capital investment</b>	1,268	1,697	+33.8%
<b>Depreciation</b>	629	740	+17.7%
<b>EPS (¥)</b>	157.59	135.16	-14.2%
<b>Dividend per share (¥)</b>	45.00	45.00	-

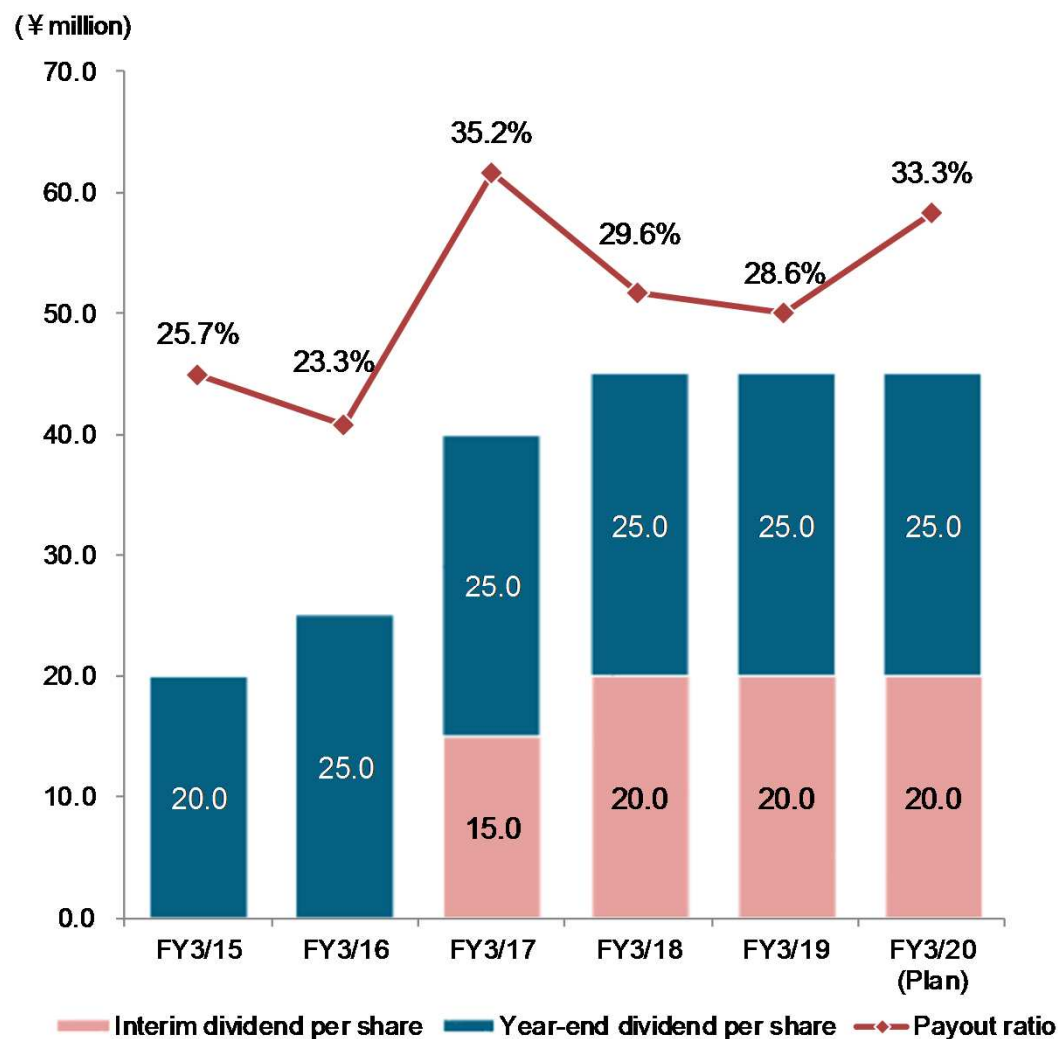
- With 5G spreading widely next year, demand for smartphones is expected to slow down within this year. In addition, there are concerns for global economy, such as US-China trade friction and Brexit, which may result in sluggish exports and capital investments. With regard to the automobile industry, demand for tools as a whole is forecast to be reduced, though increase in safety equipment, EVs and FCVs are expected.
- Profits are forecast to decline at a rate greater than net sales, because raise in raw material costs in the previous fall has impact throughout this fiscal year, and SG&A expenses are expected to increase due to completion of the new development center and holding of 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 also increased due to these completions.
- Annual dividend of ¥45 per share is maintained, though the profit results in decrease.

# Progress in Q1 FY3/20

( Unit: ¥ million)	FY3/20				
	Q1 Actual	1H Forecasts	Progress Rate	Full-year Forecasts	Progress Rate
<b>Net Sales</b>	2,466	5,120	48.2%	10,380	23.8%
YoY changes	-8.2%	-2.4%		-0.9%	
<b>Operating profit</b>	751	1,230	61.1%	2,440	30.8%
YoY changes	-3.4%	-15.9%		-15.3%	
<b>Ordinary profit</b>	752	1,240	60.7%	2,460	30.6%
YoY changes	-3.4%	-15.5%		-15.0%	
<b>Profit attributable to owners of parent</b>	481	840	57.3%	1,690	28.5%
YoY changes	-1.2%	-13.6%		-14.2%	



# 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  
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  
Payout ratio for the financial forecasts: 33.3%

The level of the previous fiscal year 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 shareholders who hold 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

# NS TOOL CO., LTD.

Corporate Planning Office

E-mail : [ir@ns-tool.com](mailto:ir@ns-tool.com)

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.