



# **Financial Results for the 3<sup>rd</sup> Quarter of Fiscal Year Ending March 31, 2020**



**NS TOOL CO., LTD.**

January 31, 2020

(Securities Code: 6157)

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# **Consolidated Financial Results for 3Q FY3/20**



# Financial Results Summary for 3Q YTD FY3/20

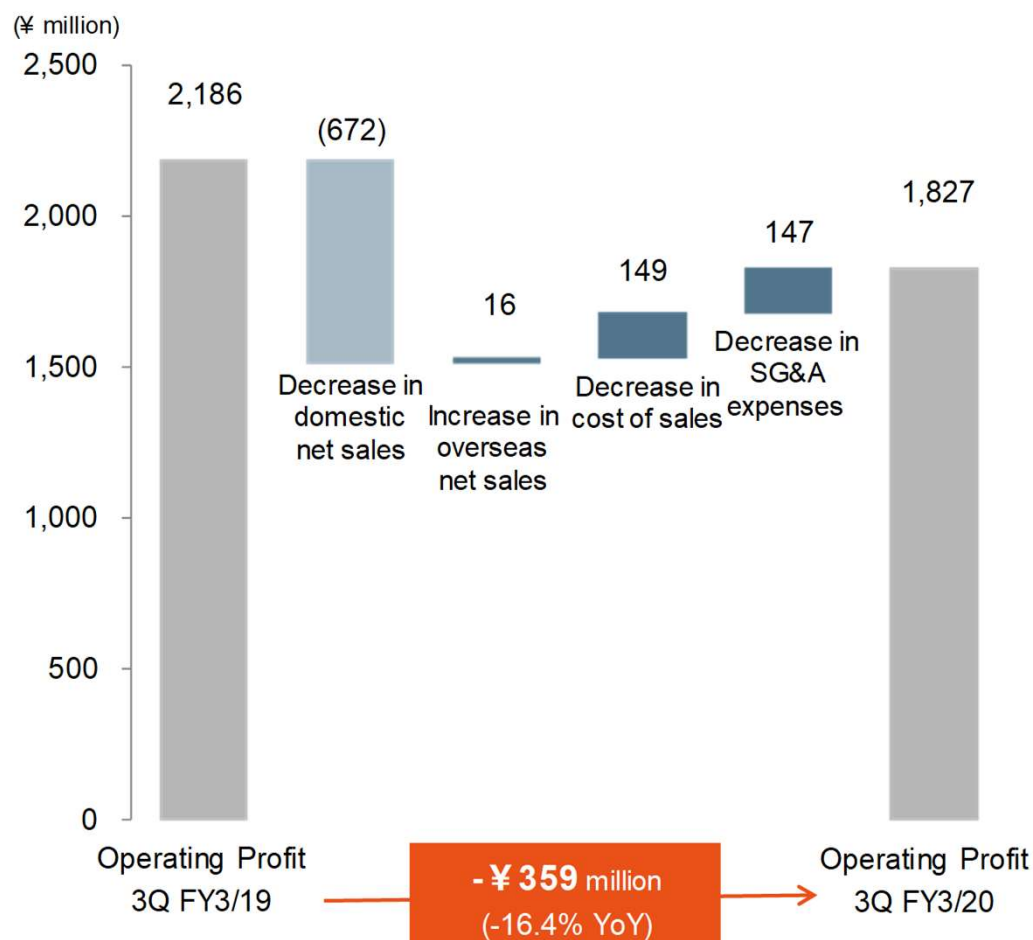
Net Sales and profits decreased due to slowdown in demand for tools.

Progress rate against full-year forecasts: net sales 76.3%, ordinary profit 84.8%.

(Unit: ¥ million)	3Q YTD FY3/19 Actual	3Q YTD FY3/20 Actual	Full-year FY3/20 Forecasts	Progress Rate
<b>Net Sales</b>	7,977	7,321	9,590	76.3%
YoY changes	+10.1%	-8.2%	-8.5%	
<b>Operating profit</b>	2,186	1,827	2,150	85.0%
YoY changes	+10.3%	-16.4%	-25.3%	
<b>Ordinary profit</b>	2,194	1,831	2,160	84.8%
YoY changes	+9.6%	-16.5%	-25.4%	
<b>Profit attributable to owners of parent</b>	1,496	1,226	1,460	84.0%
YoY changes	+5.0%	-18.0%	-25.9%	

- Demand for automobile-related devices, electronic parts, and other devices that use our products was affected by the sluggish exports accompanied by the intensified US-China trade friction and slow global economy. For those reasons, the demand for tools has been on the decrease. As a result, the consolidated net sales were ¥7,321 million, a decrease of 8.2% YoY.
- Consolidated ordinary profit was ¥1,831 million, a decrease of 16.5% YoY. The decline rate increased compared to 1H of the fiscal year. We achieved the progress rate against full-year forecast as high as 84.8%, which was revised downward in October. However, the cost will increase in the fourth quarter because there will be Private Show that is positioned as a prior investment for expanding the market.
- Ordinary profit margin was 25.0%, a decrease of 2.5 points from the level of 3Q FY 3/19.

# Factors for Decrease in Operating Profit



- Domestic net sales decreased by ¥672 million YoY (11.7% down YoY) while overseas net sales increased by ¥16 million YoY (0.7% up YoY). Total net sales decreased by ¥655 million YoY (8.2% down YoY) .
- With regard to the cost of sales, variable expenses such as material costs and subcontract processing expenses decreased by approx. 15% due to a decrease in production, but labor cost remained almost the same, production expenses increased by 4.7% YoY due to increase in depreciation, etc., and cost of products manufactured decreased by 4.0%. As a result, cost of sales decreased by 4.3% YoY to ¥149 million. However, the decrease rate was below that of net sales.
- SG&A expenses decreased by ¥147 million YoY (6.3% down YoY) in total due to decline in promotion expenses and advertising expenses.
- As a result, operating profit decreased by ¥359 million YoY (16.4% down YoY), while operating profit margin was 25.0%, a decrease of 2.4 points YoY.

# Summary of Statement of Income

(Unit: ¥ million)	3Q YTD FY3/19 Actual	3Q YTD FY3/20 Actual	YoY Changes
<b>Net Sales</b>	7,977	7,321	-8.2%
<b>Gross profit</b>	4,535	4,029	-11.2%
Ratio to net sales	56.8%	55.0%	
<b>SG&amp;A expenses</b>	2,348	2,201	-6.3%
Ratio to net sales	29.4%	30.1%	
<b>Operating profit</b>	2,186	1,827	-16.4%
Ratio to net sales	27.4%	25.0%	
<b>Ordinary profit</b>	2,194	1,831	-16.5%
Ratio to net sales	27.5%	25.0%	
<b>Profit attributable to owners of parent</b>	1,496	1,226	-18.0%
Ratio to net sales	18.8%	16.8%	
<b>Capital investment</b>	1,007	1,600	+58.9%
<b>Depreciation</b>	453	507	+11.8%
<b>No. of employees</b> (persons)	330	343	+3.9%

- Net sales were ¥7,321 million, a decrease of 8.2% YoY. Slow sales of automobile-related components etc. and electronics- and device-related products had impact on demand for tools.
- Gross profit was ¥4,029 million, a decrease of 11.2% YoY, due to decline in net sales, and gross profit margin was 55.0%, a decrease of 1.8 points YoY.
- Regarding SG&A expenses, personnel expenses and general and administrative expenses were able to be reduced, resulting in 6.3% decrease YoY. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 30.1%, an increase of 0.7 points.
- As a result, operating profit was ¥1,827 million, a decrease of 16.4% YoY. Operating profit margin was 25.0%, a decrease of 2.4 points.
- Capital investment increased by 58.9% to ¥1,600 million due to completion of construction of the new development center and new plant of a subsidiary. Depreciation increased by 11.8% to ¥507 million due to introduction of the new mechanical equipment.

# Summary of Balance Sheet

(Unit: ¥ million)	FY3/19-End	Composition Ratio	3Q FY3/20-End	Composition Ratio	vs FY3/19-End
<b>(Assets)</b>					
I Current assets	9,932	64.6%	9,077	58.6%	-8.6%
Cash and deposits	6,209	40.4%	5,350	34.5%	-13.8%
Notes and accounts receivable - trade	1,531	10.0%	1,379	8.9%	-9.9%
Inventories	2,056	13.4%	2,162	14.0%	+5.2%
II Non-current assets	5,449	35.4%	6,420	41.4%	+17.8%
Property, plant and equipment	4,685	30.5%	5,675	36.6%	+21.1%
Intangible assets	84	0.5%	61	0.4%	-27.1%
Investments and other assets	679	4.4%	683	4.4%	+0.6%
<b>Total assets</b>	15,381	100.0%	15,497	100.0%	+0.8%
<b>(Liabilities)</b>					
I Current liabilities	1,643	10.7%	1,066	6.9%	-35.1%
Accounts payable - trade	277	1.8%	228	1.5%	-17.7%
II Non-current liabilities	275	1.8%	254	1.6%	-7.6%
<b>Total liabilities</b>	1,919	12.5%	1,321	8.5%	-31.2%
<b>(Net assets)</b>					
<b>Total equity</b>	13,397	87.1%	14,052	90.7%	+4.9%
<b>Total net assets</b>	13,461	87.5%	14,176	91.5%	+5.3%
<b>Total liabilities and net assets</b>	15,381	100.0%	15,497	100.0%	+0.8%

## Current assets

A decrease of 8.6% because cash and deposit decreased due to acquisition of fixed property

## Non-current assets

An increase of 17.8% due to completion of construction of the new development center and new plant of a subsidiary.

## Liabilities

A decrease of 31.2% due to a decline in accounts payable - trade, income taxes payable, and provision for bonuses.

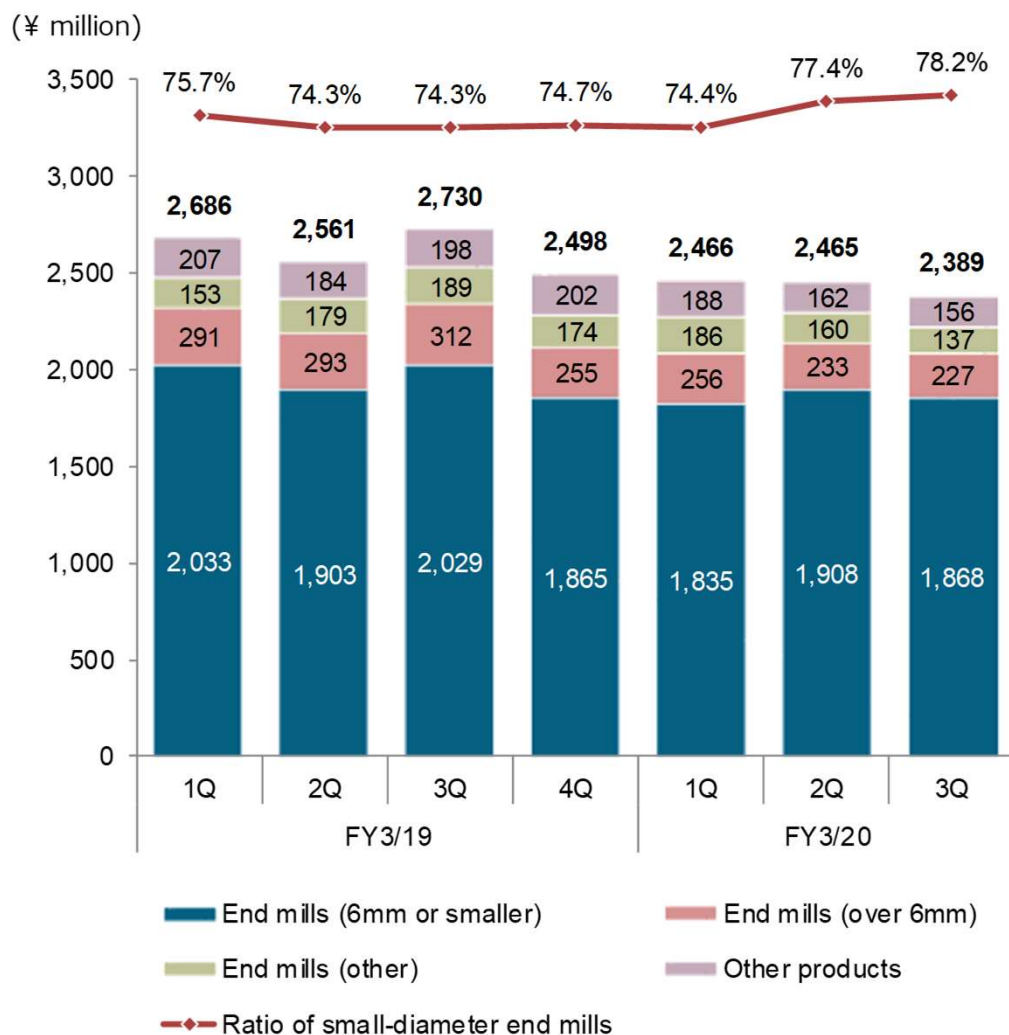
## Net assets

An increase of 5.3% due to increase in retained earnings, etc.; equity ratio increased by 3.6 points to 90.7% partly because of a decline in liabilities.

# Quarterly Business Performance

## (Trends of net sales (1) By product)

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



Regarding the automobile-related business, new car sales in Japan increased compared to year-on-year until September. However, the sales decreased after the consumption tax hike, a 1.5% decrease for the calendar year. In China, the largest market, sales for the calendar year decreased by 8.2%, a significant decrease. Regarding the semiconductor-related business, there was a movement in part of the manufacturing equipment in the beginning of fall. However, the sales did not increase so much. And, as for other electronic parts/devices-related business, though there were expectations for 5G, the sales were slow in general. As a result, demand for tools weakened.

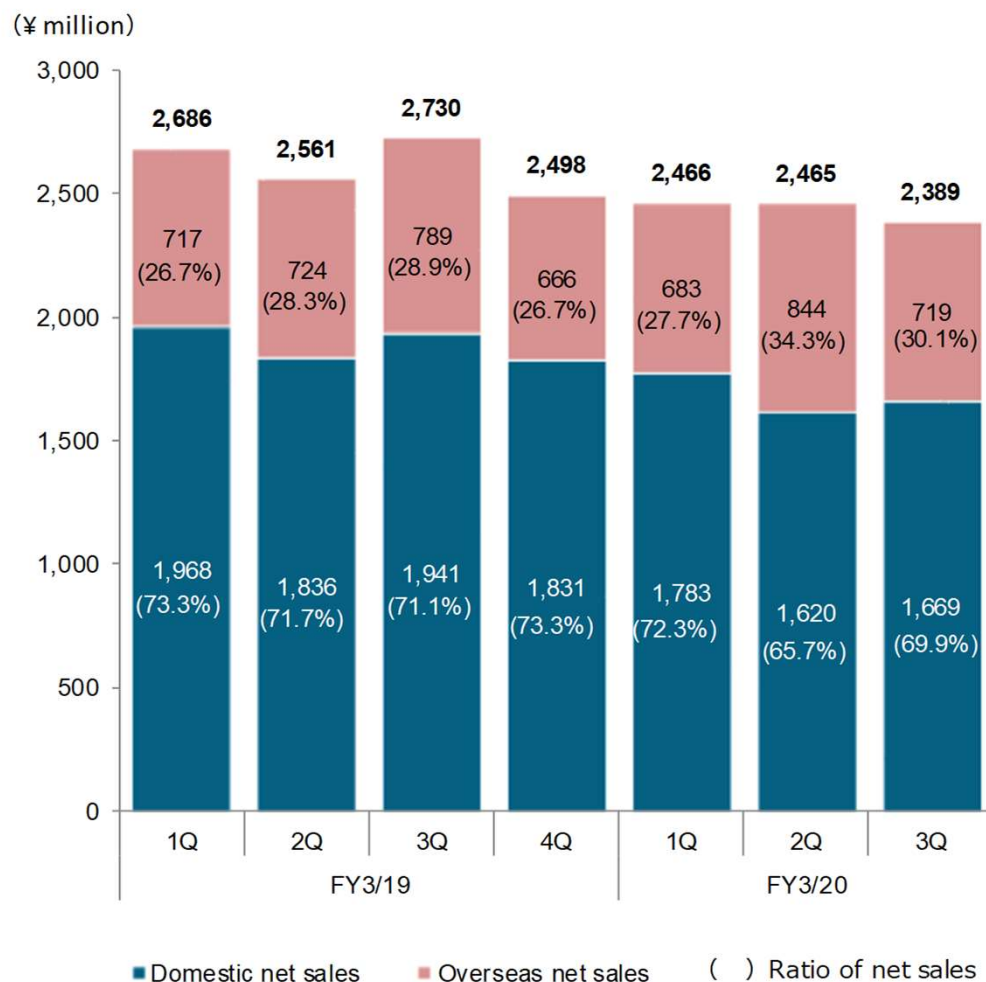
Net sales for end mills (6 mm or smaller), which are one of the key products, decreased by 7.9% YoY. However, net sales of end mills (over 6 mm) whose prices were raised two falls ago, decreased significantly by 27.2% YoY. Net sales for the end mills (other), most of which are special products made with specifications unique to each user, also, decreased by 27.6% YoY, and that for others such as tool case decreased by 21.2% YoY due to slow demand for tools in general. Every product was in the severe status compared to the previous quarter. Ratio of small-diameter end mills relatively increased by 3.9 points to 78.2%, because sales of products other than small-diameter end mills decreased further.



# Quarterly Business Performance

## (Trends of net sales (2) Domestic and overseas)

### Trends of domestic and overseas net sales

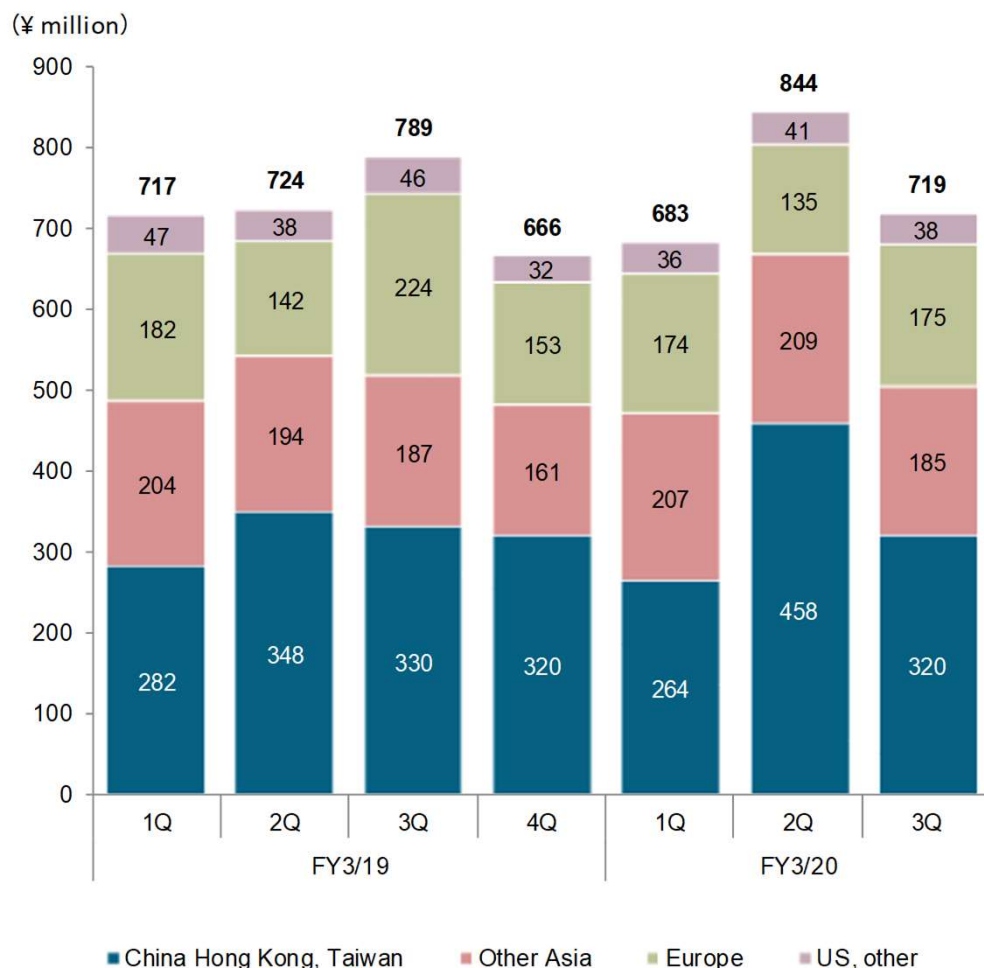


- Domestic net sales decreased by ¥271 million YoY (14.0% down YoY) to ¥1,669 million. 3.0% increase QoQ. Overseas net sales decreased by ¥69 million YoY (8.8% down YoY) to ¥719 million. 14.8% decrease QoQ, in which sales for China went well due to increase in the number of cameras loaded onto a smartphone.
- Ratio of overseas net sales increased by 1.2 points to 30.1% because decline rate of the domestic net sales YoY was larger .

# Quarterly Business Performance

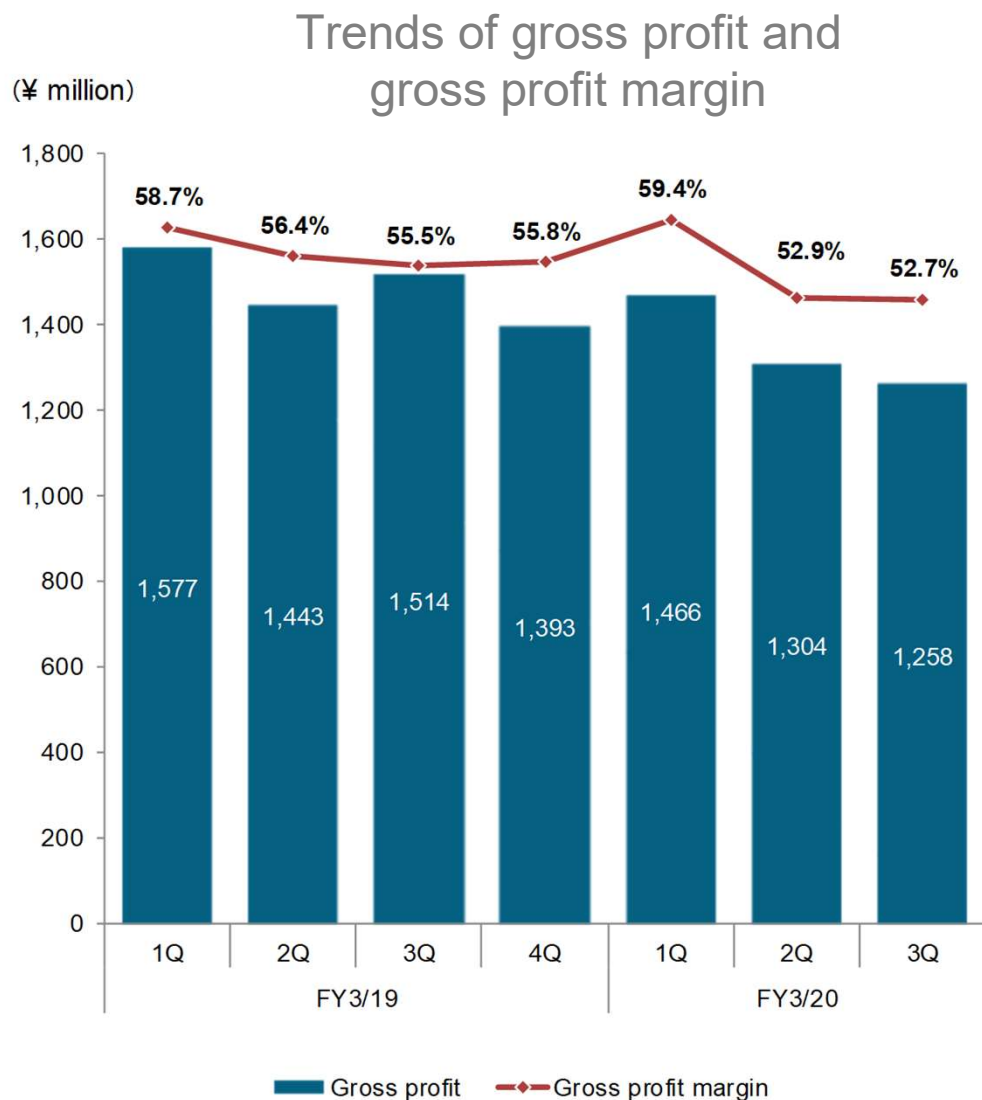
## (Trends of net sales (3) By overseas region)

Trends of net sales by overseas region

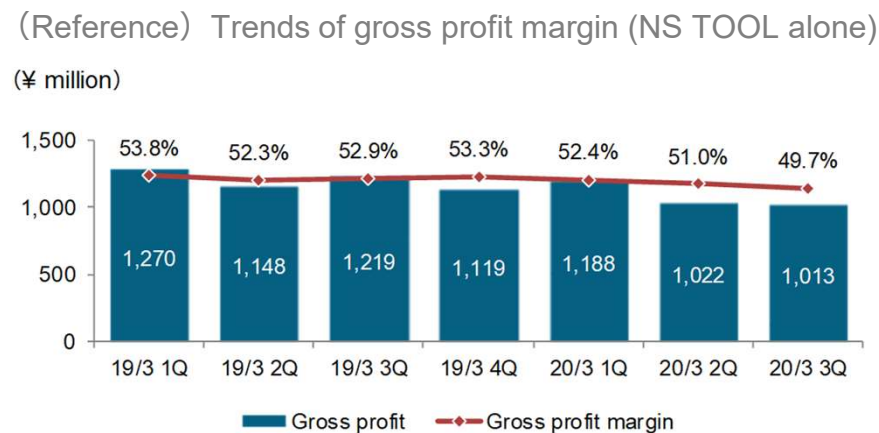


- Net sales in China, Hong Kong, and Taiwan decreased by 3.3% YoY to ¥320 million. 30.2% decrease compared to 2Q (results of 2Q for China cover the period from April to June due to consolidation of NS TOOL Hong Kong), in which demand for smartphone increased and there was an impact of increased number of cameras loaded onto a smartphone.
- Sales in other Asia decreased by 0.9% YoY to ¥185 million. Shift of production base from China is expected. However, it seems to take time in the areas of high-precision processing.
- In Europe, net sales decreased by 21.5% YoY, increased by 29.7% QoQ. However, large increase cannot be expected due to a decrease in export to China.
- Net sales in the U.S. and other continue to be small, accounting only for some 5% of total overseas net sales.

# Quarterly Business Performance (Trend of gross profit)

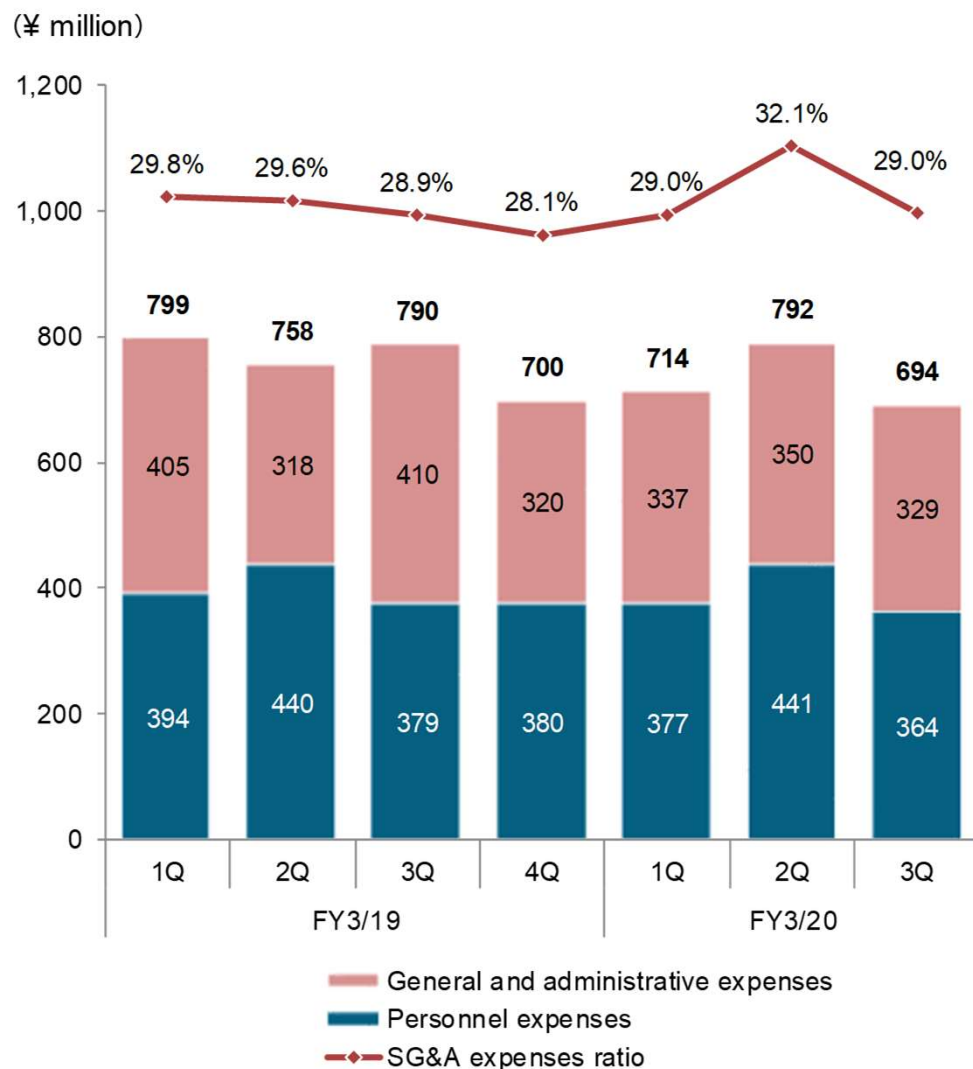


- Since production volume continued to be reduced YoY due to a decline in net sales, variable expenses such as materials costs and subcontract processing expenses decreased, resulting in a decrease of ¥119 million YoY (10.4% down YoY) of manufacturing cost. However, finished goods inventory decreased by ¥31 million QoQ. As a result, the sales cost decreased only by ¥85 million YoY (7.0% down YoY) to ¥1,130 million.
- Gross profit decreased by ¥255 million YoY (16.9% down YoY) to ¥1,258 million. And gross profit margin was 52.7%, a decrease of 2.8 points.



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

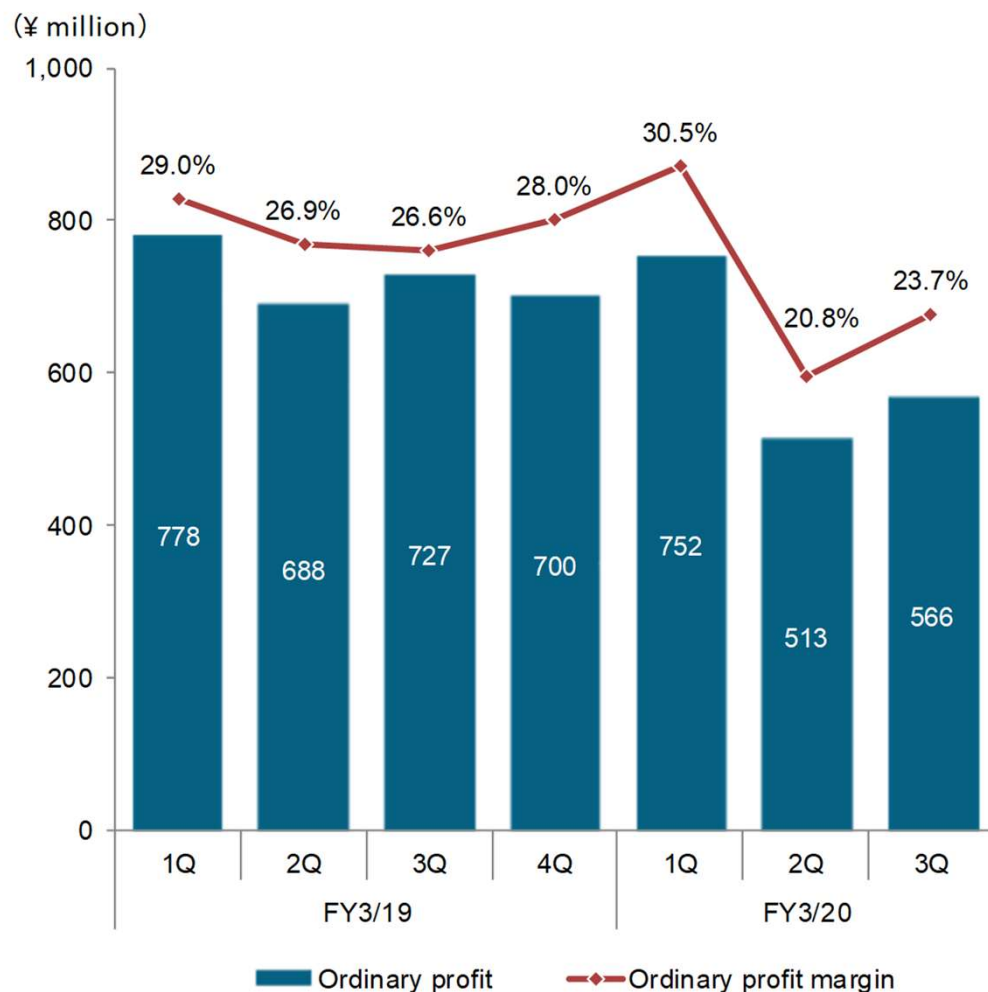
Trends of SG&A expenses and  
SG&A expenses ratio



- Labor cost decreased by 3.8% YoY to ¥364 million, because of decrease in bonuses and provision for bonuses accompanied by declining profit.
- Regarding the expenses, trade shows and advertising expenses were costly YoY due to participation in JIMTOF and preparation of the general catalogue. In addition, the expenses increased to as high as ¥410 million also due to repair and supplies expenses with relocation of the head office. However, there was no expense that draws attention in the current quarter, resulting in ¥329 million, a 19.8% decrease YoY.
- SG&A expenses decreased by 12.1% YoY to ¥694 million. SG&A expenses ratio was 29.0%, an increase of 0.1 point YoY, because net sales significantly decreased, though SG&A expenses decreased.

# Quarterly Business Performance (Trend of ordinary profit)

Trends of ordinary profit and ordinary profit margin



- Gross profit decreased by 16.9% because of reduced production in addition to a decrease of 12.5% in net sales YoY. SG&A expenses decreased by 12.1%, but operating profit was ¥564 million, a decrease of 22.0%.
- Regarding non-operating expenses (income), there were ¥3 million revenue because of sale of scraps and dividend income and ¥1 million loss caused by foreign exchange, resulting in ¥566 million of ordinary profit, that is, a 22.1% decrease.
- Ordinary profit margin was 23.7%, 2.9 points decrease YoY, while it was 2.9 points increase QoQ because share-based remuneration expenses were allocated. 3Q YTD ordinary profit margin was 25.0%, 2.5 points decrease YoY.

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



# Financial Forecasts

(Unit: ¥ million)	FY3/19 Actual	FY3/20 Forecasts	YoY Changes
Net Sales	10,476	9,590	-8.5%
Operating profit	2,879	2,150	-25.3%
Ordinary profit	2,894	2,160	-25.4%
Profit attributable to owners of parent	1,970	1,460	-25.9%
Capital investment	1,268	1,697	+33.8%
Depreciation	629	740	+17.7%
EPS (¥)	157.59	116.77	-25.9%
Dividend per share (¥)	45.00	45.00	—

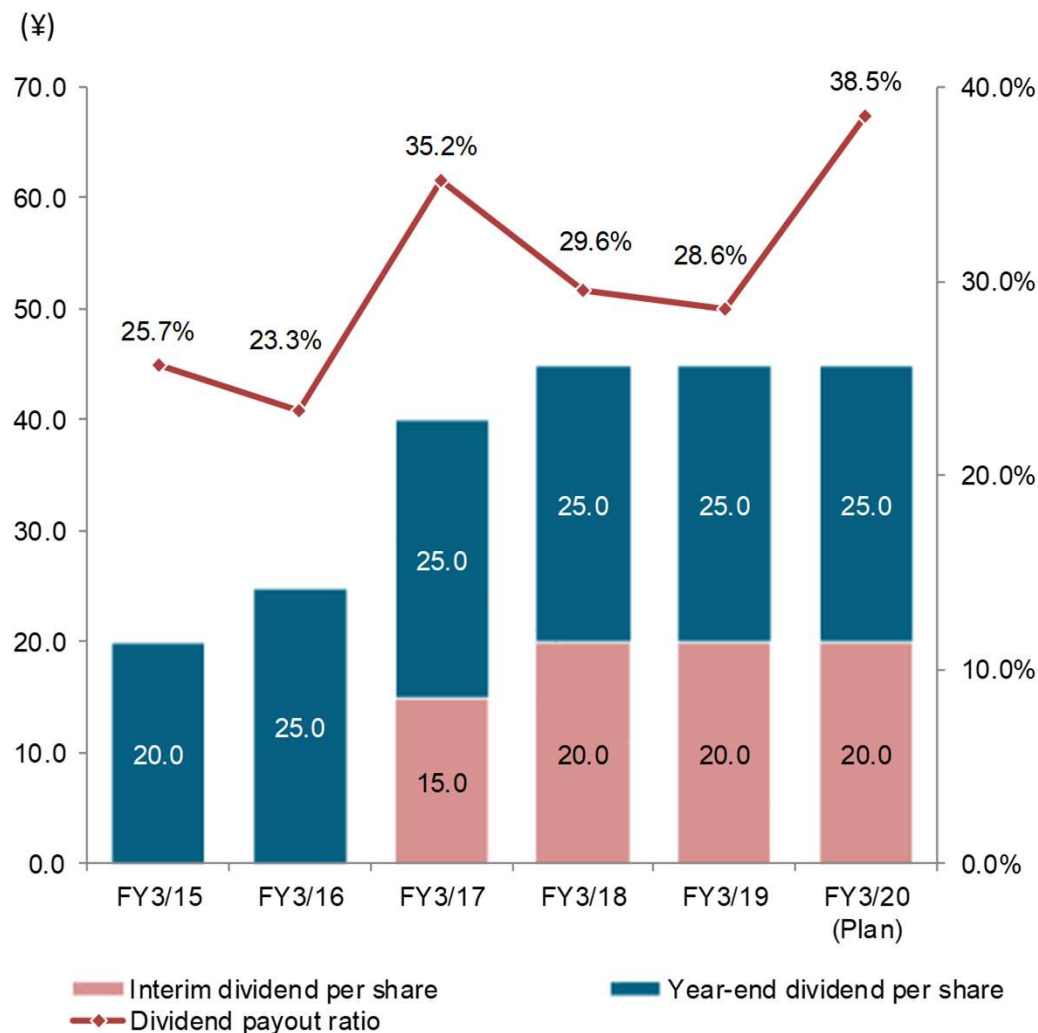
- It is projected that we can achieve the full-year forecasts, which was revised downward on October 31, 2019 because US and China signed the phase-one trade deal for the trade friction and recovery in semiconductor-related business is expected, though there are continued concerns about geopolitical risks such as US-China trade friction and issues in the Middle East.
- In the fourth quarter, rapid recovery in the production volume cannot be expected. And, in addition to the decline in gross profit margin due to reduced production, SG&A expenses increase due to prior investment in the unprecedented exhibition for the industry (NS TOOL Private Show 2020), which is hosted by a tool manufacturer. As a result, the forecast for the profit YoY is severer than that for net sales.
- Capital investment will hit the record level due to the completion of construction of new development center that introduces the mechanical equipment increasing the production capacity and enhancing the efficiency and adopts original “all-round seismic isolation” equipment combining multiple sets of seismic isolation equipment and “damper for micro vibration.” As a results, depreciation increases.
- Dividend per share continues to be ¥45 per year.

## 2H FY3/20 Forecasts and Progress Rate

(Unit: ¥ million)	FY3/20								
	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
<b>Net Sales</b>	4,657	—	2,389	—	51.3%	9,590	—	7,321	76.3%
YoY Changes	-10.9%		-12.5%			-8.5%		-8.2%	
<b>Operating profit</b>	886	19.0%	564	23.6%	63.7%	2,150	22.4%	1,827	85.0%
YoY Changes	-37.4%		-22.0%			-25.3%		-16.4%	
<b>Ordinary profit</b>	894	19.2%	566	23.7%	63.3%	2,160	22.5%	1,831	84.8%
YoY Changes	-37.3%		-22.1%			-25.4%		-16.5%	
<b>Profit attributable to owners of parent</b>	627	13.5%	394	16.5%	62.8%	1,460	15.2%	1,226	84.0%
YoY Changes	-37.1%		-24.8%			-25.9%		-18.0%	



# 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  
Dividend 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  
Dividend payout ratio for the financial forecasts: 38.5%

The level of FY3/19 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 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.

\* The impacts of the share splits on October 1, 2014 and January 1, 2017 were considered.

**Contact us:**

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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.