



# Financial Results for the Fiscal Year Ended March 31, 2020



**NS TOOL CO., LTD.**

May 15, 2020  
(Securities Code: 6157)

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



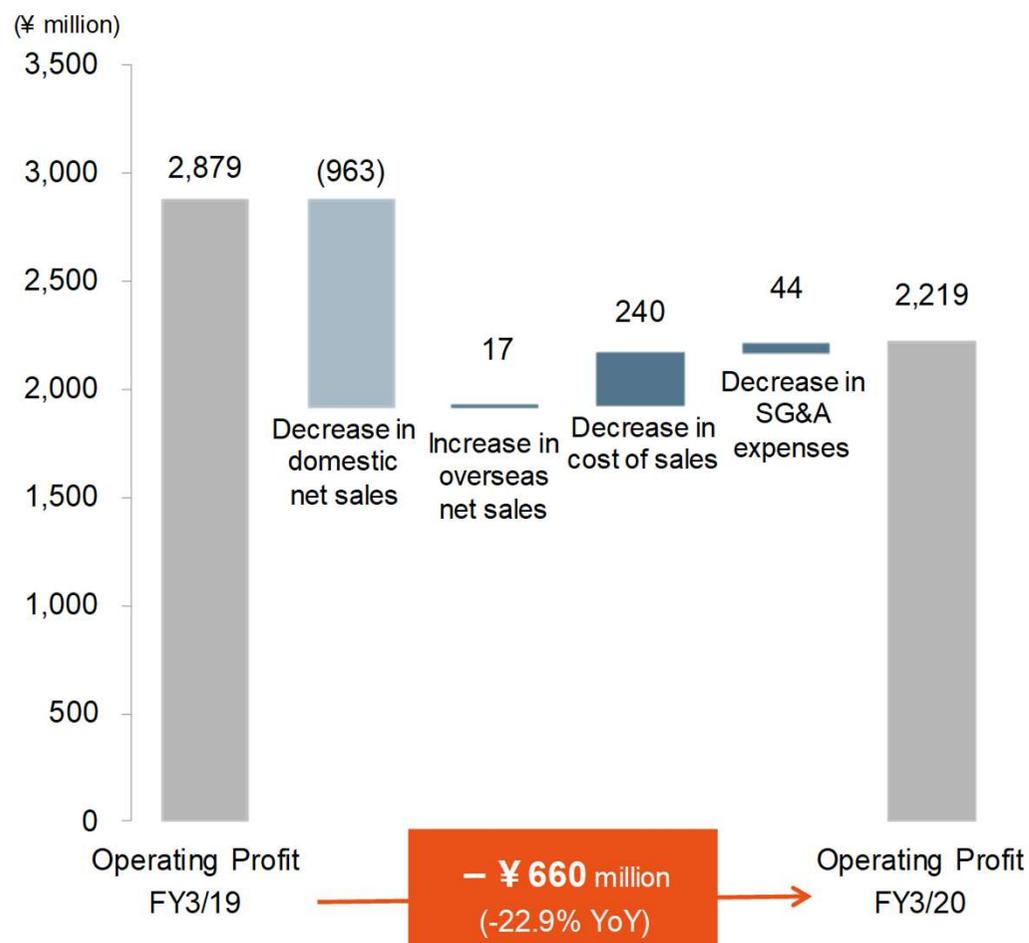
# Financial Results Summary

The results were in line with our financial forecasts revised in October 2019. Due to the decrease in the demand, 9.0% decrease in net sales, and 22.9% decrease in operating profit YoY.

(Unit: ¥ million)	FY3/20 Forecasts	FY3/20 Actual	Changes vs. Forecasts
<b>Net Sales</b>	9,590	9,531	-59
YoY changes	-8.5%	-9.0%	-0.6%
<b>Operating profit</b>	2,150	2,219	69
YoY changes	-25.3%	-22.9%	+3.2%
<b>Ordinary profit</b>	2,160	2,231	71
YoY changes	-25.4%	-22.9%	+3.3%
<b>Profit attributable to owners of parent</b>	1,460	1,545	85
YoY changes	-25.9%	-21.6%	+5.9%

- Demand for automobile-related devices, electronic parts and other devices, using our cutting tools for production, was affected by supply chain disruption associated with the COVID-19 pandemic, in addition to the intensified US-China trade friction and slow global economy. For those reasons, the demand for tools decreased. Consolidated net sales decreased by 9.0% to ¥9,531 million YoY, which were almost as predicted.
- Consolidated ordinary profit was ¥2,231 million, which surpassed our forecast by 3.3%. However, it was 22.9% decrease YoY. Gross profit decreased by 11.9% YoY due to decline in the net sales, but, in the meantime, decline rate of SG&A expenses was only 1.5% YoY because of NS Private Show 2020 in January 2020, in which we intended upfront investment for further market expansion.
- Ordinary profit margin was 23.4%, a decrease of 4.2 points YoY, but it maintained the level below 30%.

# Factors for Decrease in Operating Profit



- Domestic net sales decreased by ¥963 million YoY (12.7% down YoY), while overseas net sales increased by ¥17 million YoY (0.6% up YoY), and total net sales decreased by ¥945 million YoY (9.0% down YoY).
- With regard to the cost of production, variable cost decreased. For example, raw material cost decreased by 13.7% and subcontract processing expenses, by 18.9% YoY both due to production cutback. However, the labor cost decreased only by 3.1% YoY, and, the production expenses rose by 2.6% YoY due to increase in depreciation, etc. As a result, cost of sales decreased only by ¥240 million YoY (5.3% down YoY), and the decline rate was below that of net sales.
- With regard to SG&A, personnel expenses decreased by 2.0% YoY due to provision for bonuses, etc. Selling expenses decreased only by 0.9% YoY because exhibition cost for Private Show increased, though promotion expenses and advertising expenses decreased. In total, it was ¥44 million decrease YoY (1.5% down YoY).
- As a result, operating profit decreased by ¥660 million YoY (22.9% down YoY), while operating profit margin was 23.3%, a decrease of 4.2 points YoY.

# Summary of Statement of Income

(Unit: ¥ million)	FY3/19	FY3/20	YoY Changes
<b>Net Sales</b>	10,476	9,531	-9.0%
<b>Gross profit</b>	5,929	5,224	-11.9%
Ratio to net sales	56.6%	54.8%	
<b>SG&amp;A expenses</b>	3,049	3,005	-1.5%
Ratio to net sales	29.1%	31.5%	
<b>Operating profit</b>	2,879	2,219	-22.9%
Ratio to net sales	27.5%	23.3%	
<b>Ordinary profit</b>	2,894	2,231	-22.9%
Ratio to net sales	27.6%	23.4%	
<b>Profit attributable to owners of parent</b>	1,970	1,545	-21.6%
Ratio to net sales	18.8%	16.2%	
<b>Capital investment</b>	1,268	1,755	+38.4%
<b>Depreciation</b>	629	698	+11.0%
<b>No. of employees</b> (persons)	343	338	-1.5%

- Net sales were ¥9,531 million, a decrease of 9.0% YoY. Slow sales of automobile-related components etc. and electronics- and device-related products had impact on demand for tools.
- Gross profit was ¥5,224 million, a decrease of 11.9% YoY, due to decline in net sales, and gross profit margin was 54.8%, a decrease of 1.8 points YoY.
- In total, SG&A expenses decreased by 1.5% YoY, because personnel expenses decreased by 2.0%, and general and administrative expenses, by 0.9%, YoY. Nevertheless, impact of the decrease in net sales was significant, which raised the SG&A expenses ratio to 31.5%, an increase of 2.4 points.
- As a result, operating profit was ¥2,219 million, a decrease of 22.9% YoY. Operating profit margin was 23.3%, a decrease of 4.2 points.
- Capital investment increased by 38.4% to ¥1,755 million due to completion of the new development center and new plant of a subsidiary. Depreciation increased by 11.0% to ¥698 million due to introduction of the new machinery.

# Summary of Balance Sheet

(Unit: ¥ million)	FY3/19-End	Composition Ratio	FY3/20-End	Composition Ratio	YoY Changes
<b>(Assets)</b>					
I Current assets	9,932	64.6%	9,555	59.7%	-3.8%
Cash and deposits	6,209	40.4%	5,784	36.1%	-6.8%
Notes and accounts receivable - trade	1,531	10.0%	1,366	8.5%	-10.8%
Inventories	2,056	13.4%	2,201	13.7%	+7.1%
II Non-current assets	5,449	35.4%	6,462	40.3%	+18.6%
Property, plant and equipment	4,685	30.5%	5,748	35.9%	+22.7%
Intangible assets	84	0.5%	52	0.3%	-37.7%
Investments and other assets	679	4.4%	661	4.1%	-2.6%
<b>Total assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>16,017</b>	<b>100.0%</b>	<b>+4.1%</b>
<b>(Liabilities)</b>					
I Current liabilities	1,643	10.7%	1,265	7.9%	-23.0%
Accounts payable - trade	277	1.8%	208	1.3%	-25.0%
II Non-current liabilities	275	1.8%	254	1.6%	-7.6%
<b>Total liabilities</b>	<b>1,919</b>	<b>12.5%</b>	<b>1,519</b>	<b>9.5%</b>	<b>-20.8%</b>
<b>(Net assets)</b>					
<b>Total equity</b>	<b>13,397</b>	<b>87.1%</b>	<b>14,374</b>	<b>89.7%</b>	<b>+7.3%</b>
<b>Total net assets</b>	<b>13,461</b>	<b>87.5%</b>	<b>14,498</b>	<b>90.5%</b>	<b>+7.7%</b>
<b>Total liabilities and net assets</b>	<b>15,381</b>	<b>100.0%</b>	<b>16,017</b>	<b>100.0%</b>	<b>+4.1%</b>

## Current assets

A decrease of 3.8% because cash and deposit decreased due to purchase of tangible assets.

## Non-current assets

An increase of 18.6% due to investment on the new development center and new plant of a subsidiary.

## Liabilities

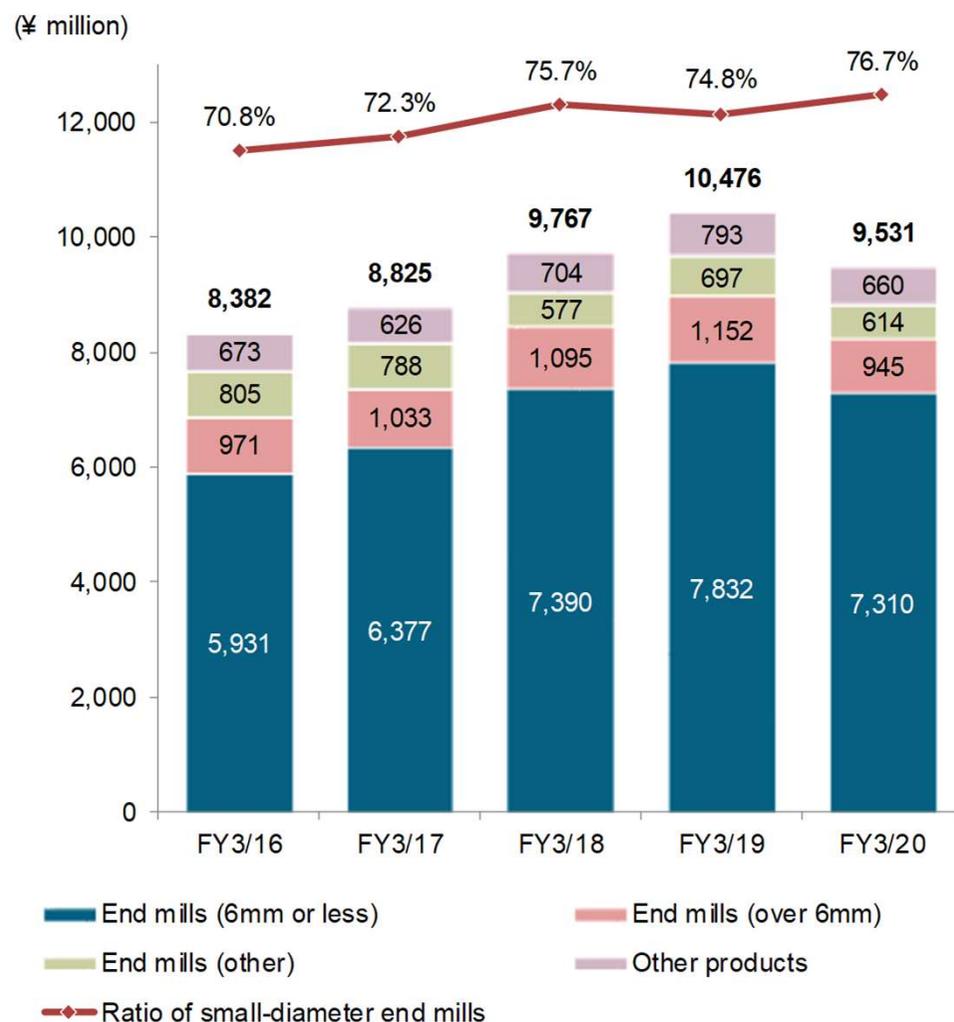
A decrease of 20.8% due to a decline in accounts payable - trade, income taxes payable, and provision for bonuses.

## Net assets

An increase of 7.7% due to increase in retained earnings, etc.; equity ratio increased by 2.6 points to 89.7% partly because of a decline in liabilities.

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

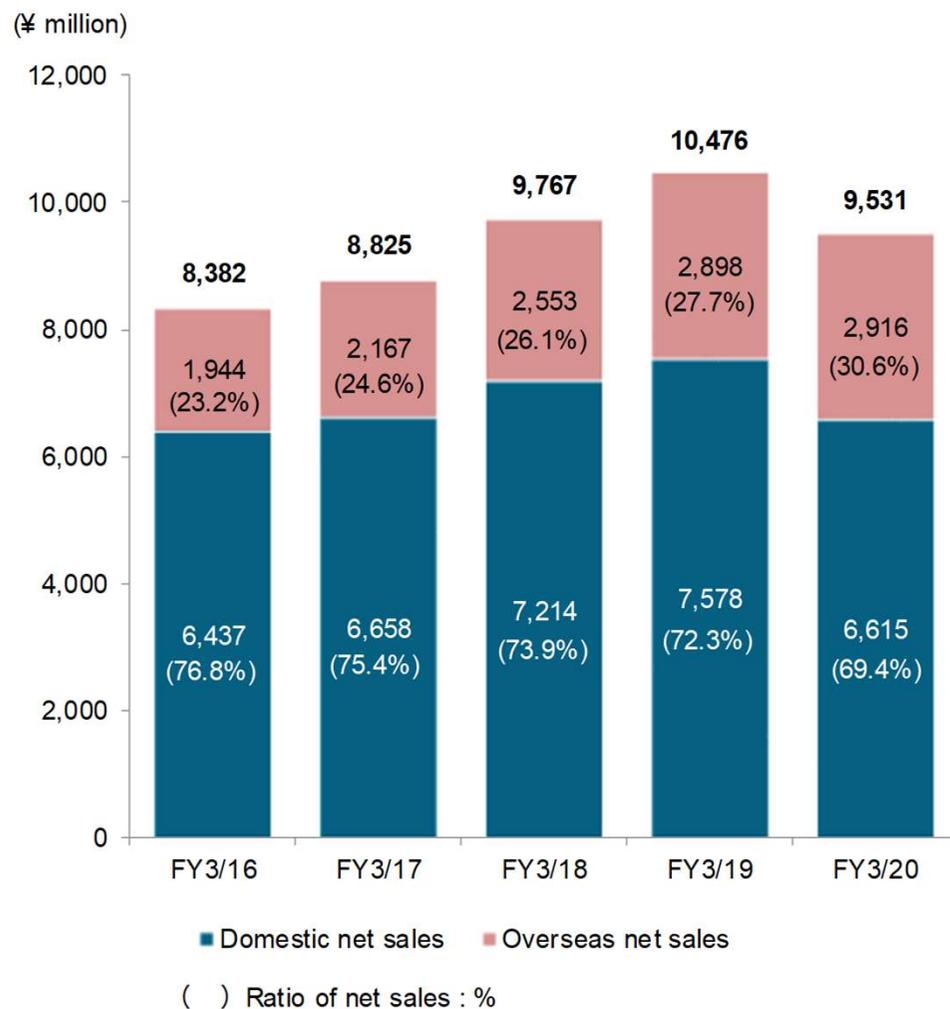
Trends of net sales by product and ratio of small-diameter end mills



- With regard to automobiles-related business, domestic new car sales in 2019 decreased compared to the previous year first time in three years, due to the reverse effect caused by consumption tax hike. In addition, the sales significantly dropped in China, the largest market. Regarding the semiconductor-related business, there was positive demand for some manufacturing equipment in the beginning of fall. However, the sales did not increase so much. As for other electronic components and devices, though there were positive factors like the increase in number of cameras to be loaded onto a smartphone, the sales were slow in general. As a result, demand for tools was also on the decrease. Furthermore, supply chain disruption caused by COVID-19 had a great impact after 2020 started.
- Net sales for the end mills (diameter 6mm or less), which are one of our key products, decreased by 6.7% YoY. However, net sales of end mills (diameter over 6mm) whose price was raised in fall 2018, decreased significantly by 18.0% YoY. Net sales for the end mills (others), most of which are special tools made unique to each user, also decreased by 11.9% YoY, and that for others such as tool cases decreased by 16.8% YoY due to slow demand for tools in general. End mills (diameter over 6mm) and others, in particular, were in the harsh situation. Ratio of small-diameter end mills relatively increased by 1.9 points to 76.7%, because sales of products other than small-diameter decreased further.

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

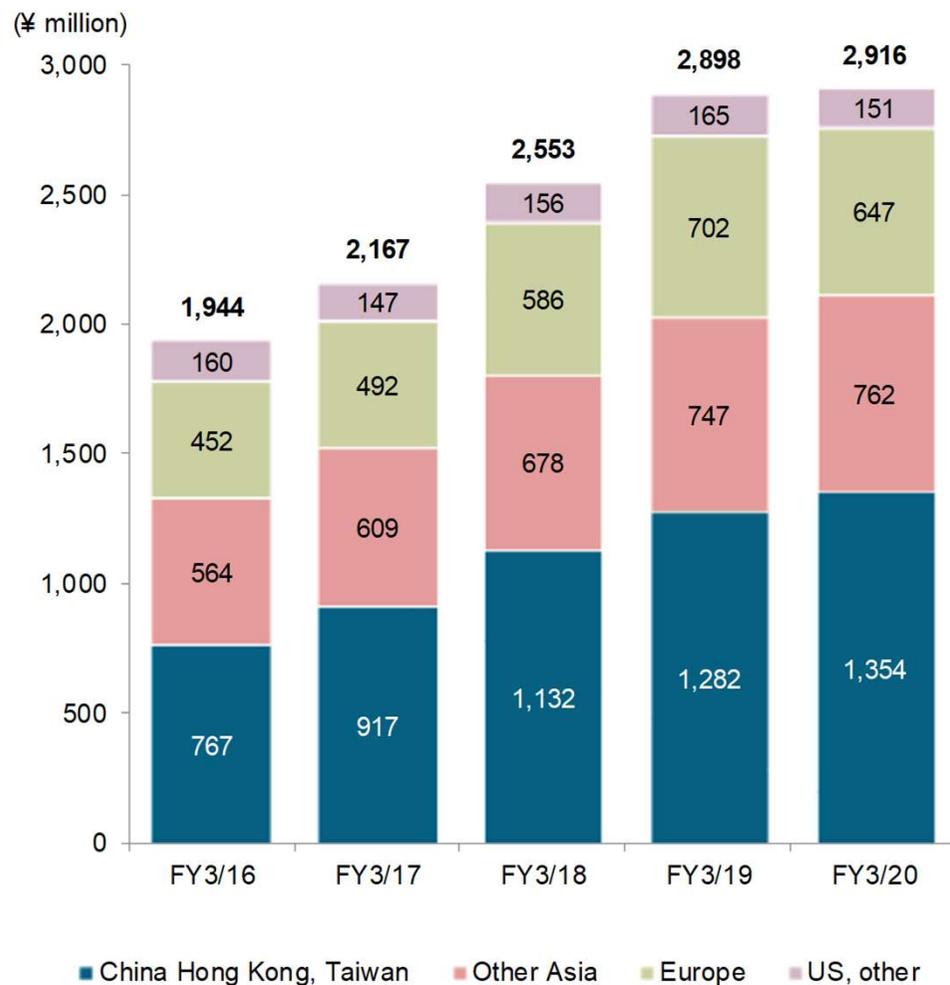
## Trends of domestic and overseas net sales



- Domestic net sales decreased by ¥963 million YoY (12.7% down YoY) to ¥6,615 million, while overseas net sales increased ¥17 million YoY (0.6% up YoY) to ¥2,916 million.
- Overseas net sales set a record high, partly because sales were good in China due to increase in the number of cameras to be loaded onto a smartphone in the first half of the fiscal year. Ratio of overseas net sales increased by 2.9 points to 30.6%, exceeding 30% in the full year for the first time, partly because of a decrease in the domestic net sales.

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

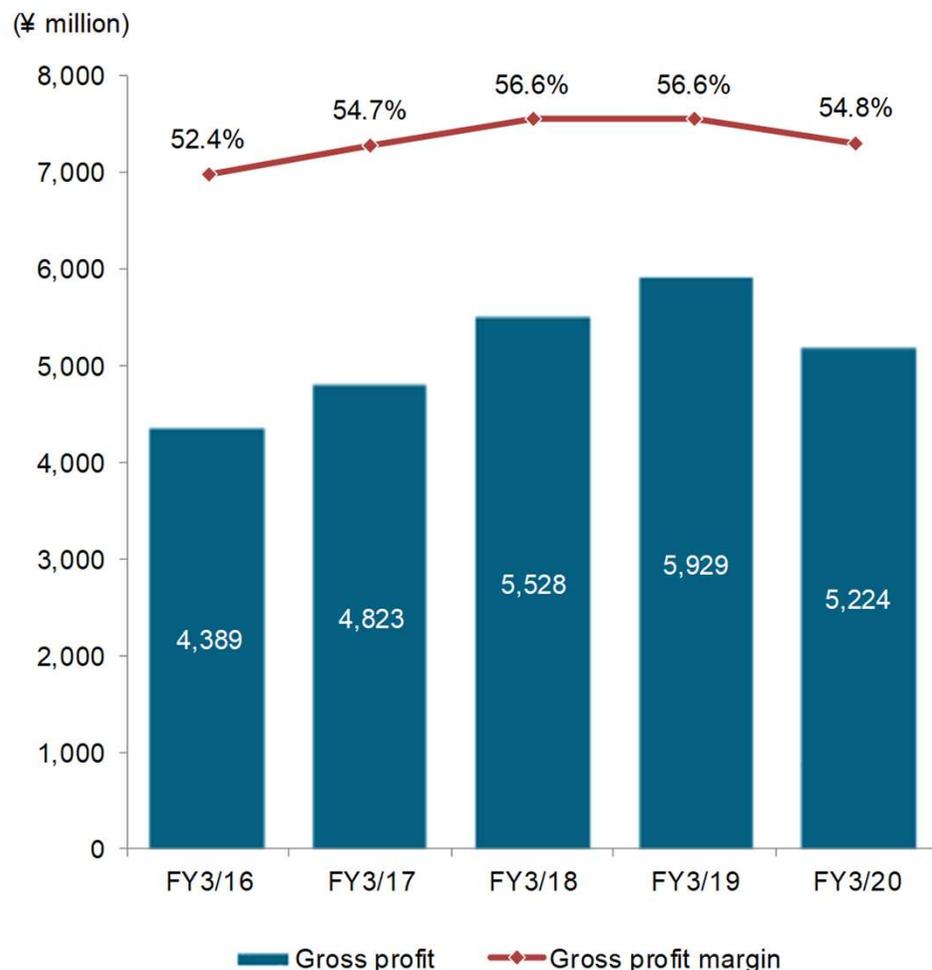
Trends of net sales by overseas region



- In China, Hong Kong, and Taiwan, net combined sales increased by 5.6% to ¥1,354 million YoY. The increase was significant in the second quarter partly because the number of cameras to be loaded onto a smartphone increased. Consolidation period of NS TOOL Hong Kong (the company responsible for sales in China and announcing financial results in December) is from January to December. Therefore, results for China from January to March 2020, which experienced the impact of COVID-19, are not included.
- Net sales in Other Asia increased by 2.0% YoY to ¥762 million. The results set a record high due to the good performance in the first half of the fiscal year, though the fourth quarter resulted in the negative growth YoY.
- In Europe, the net sales decreased by 7.8% to ¥647 million YoY, while in the U.S. and others, only by 8.5% to ¥151 million YoY.
- With regard to the ratio of net sales of each area to overseas net sales, combined sales in China, Hong Kong, and Taiwan increased by 2.1 points to 46.4%, and Other Asia increased by 0.4 points to 26.2% YoY. In the meantime, in Europe net sales decreased by 2.0 points to 22.2%, and in the U.S., to 5.2%, remaining in the low level. Market development does not show much progress.

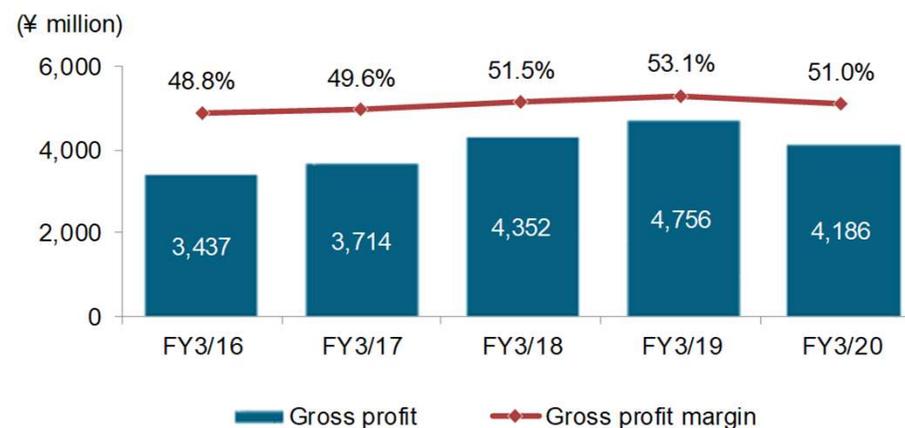
# Business Performance (Trend of gross profit)

## Trends of gross profit and gross profit margin



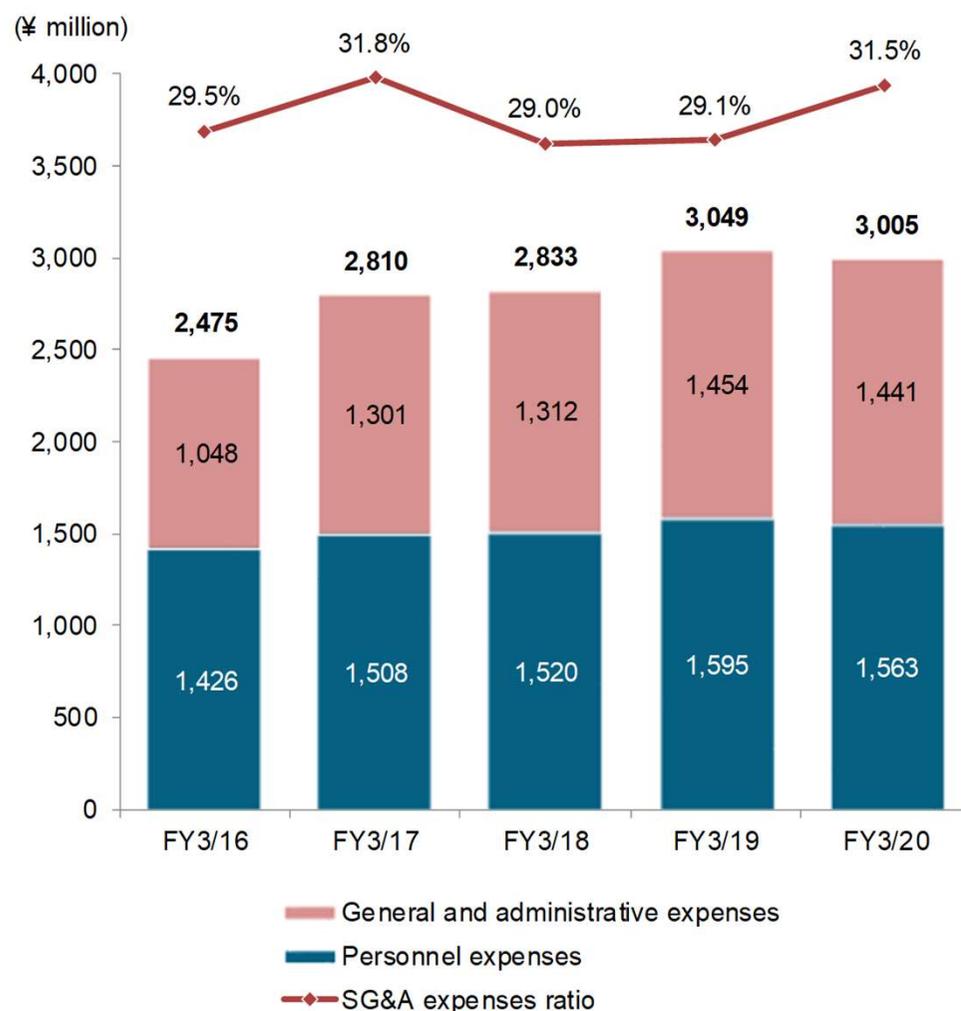
- Variable cost decreased. For example, raw material cost decreased by 13.7% and subcontract processing expenses, by 18.9% YoY, because production volume was reduced compared with the previous year due to decrease in the net sales. However, the labor cost decreased only by 3.1% YoY, and, the production cost rose by 2.6% YoY due to increase in depreciation, etc. As a result, cost of sales decreased only by ¥240 million YoY (5.3% down YoY) to ¥4,306 million.
- Gross profit decreased ¥705 million YoY (11.9% down YoY) to ¥5,224 million, and gross profit margin was 54.8%, a decrease of 1.8 points, accordingly.

## (Reference) Trends of gross profit margin (NS TOOL alone)



# Business Performance (Trend of SG&A expenses)

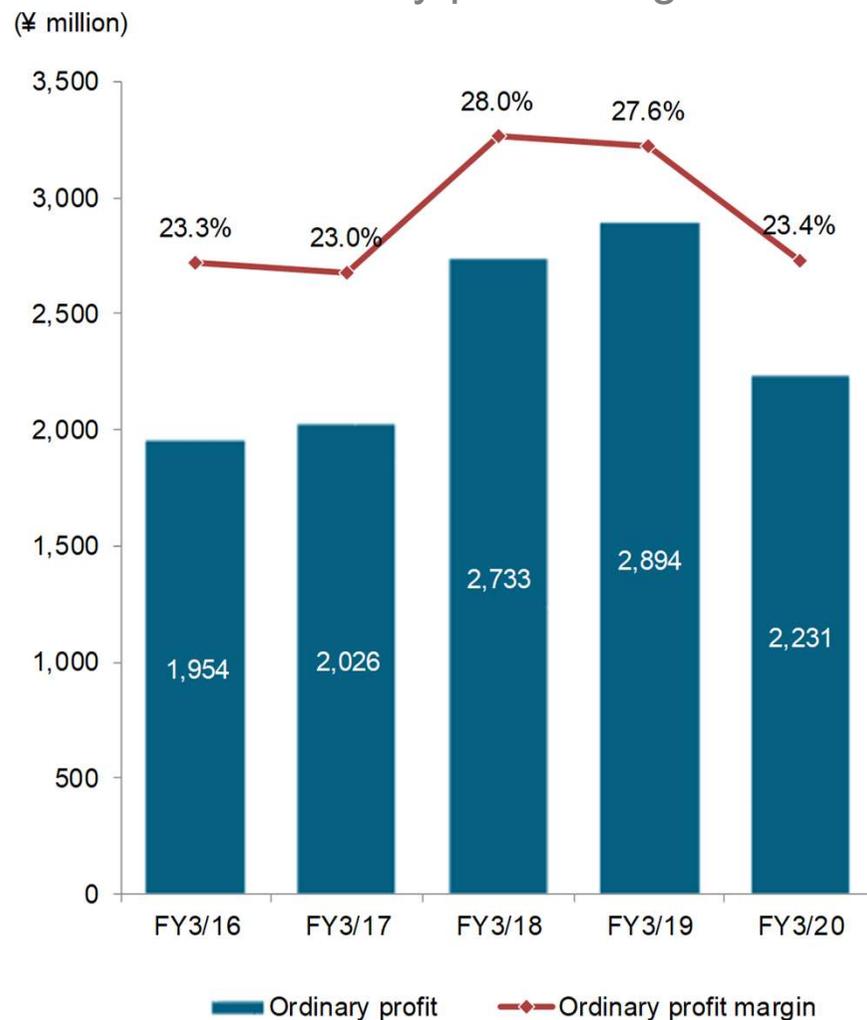
Trends of SG&A expenses and SG&A expenses ratio



- Personnel expenses decreased by 2.0% YoY to ¥1,563 million, because of decrease in bonuses and provision for bonuses accompanied by declining profit.
- General and administrative expenses decreased only by 0.9% YoY, because exhibition costs and rent rose due to NS Private Show, which was held first time in 12 years, and Head Office relocation cost in fall 2018, and research and development expenses increased due to strengthening of the new products, though promotion expenses and advertising expenses decreased due to partial change in the measures for promotion and cutback in branding measures.
- SG&A expenses decreased by 1.5% YoY to ¥3,005 million. SG&A expenses ratio increased by 2.4 points to 31.5%, because SG&A expenses reduction did not meet with the decline of the net sales, which decreased by 9.0% YoY.

# Business Performance (Trend of ordinary profit)

Trends of ordinary profit and ordinary profit margin



- Gross profit decreased by 11.9% YoY because the net sales was decreased by 9.0% YoY and production cutback has an impact. Operating profit decreased by 22.9% to ¥2,219 million because SG&A expenses decreased only by 1.5%.
- Regarding non-operating expenses, there were ¥21 million gain on sale of scrap and dividend income, and ¥8 million foreign exchange losses, resulting in ¥2,231 million of ordinary profit, that is, 22.9% decrease in profit.
- Ordinary profit margin was 23.4%, 4.2 points decrease YoY.

# **Consolidated Financial Forecasts for FY3/21 (To be determined)**



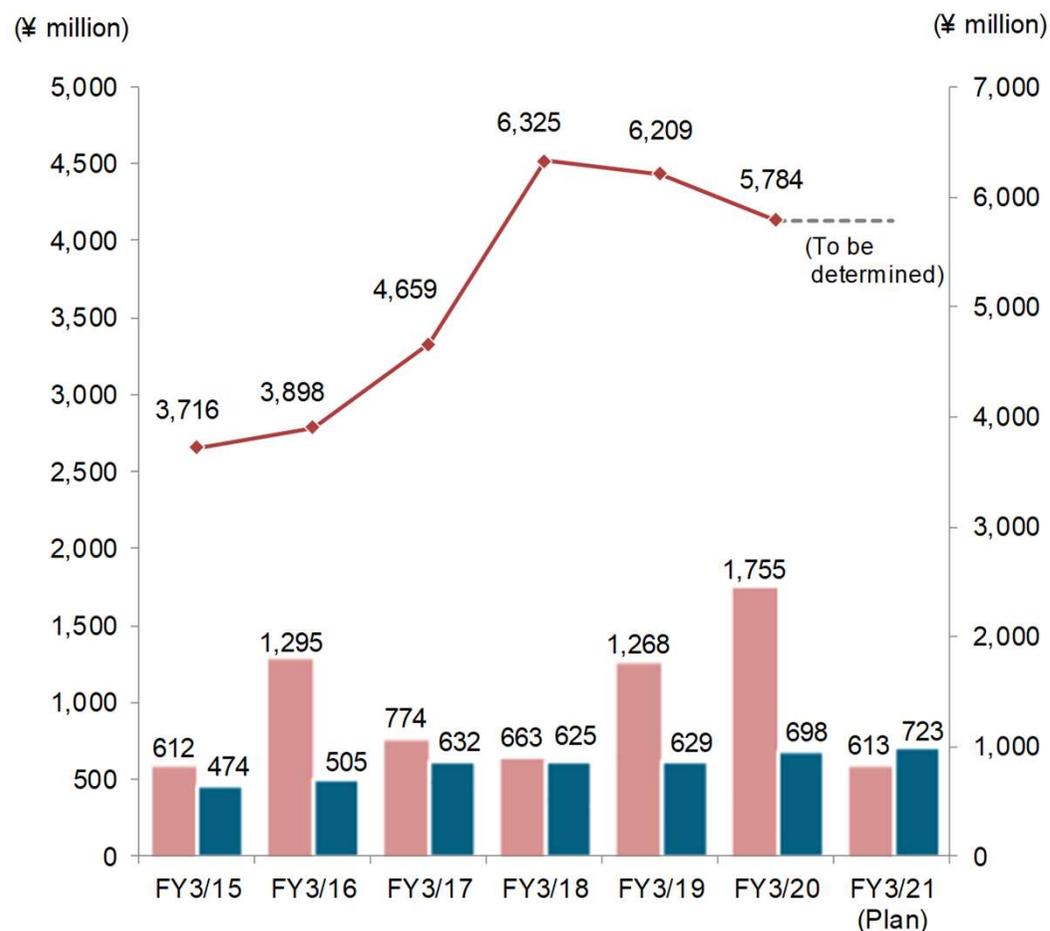
# Financial Forecasts

(Unit: ¥ million)	FY3/20 Actual	FY3/21 Forecasts	YoY Changes
Net Sales	9,531	—	—
Operating profit	2,219	—	—
Ordinary profit	2,231	—	—
Profit attributable to owners of parent	1,545	—	—
Capital investment	1,755	613	-65.0%
Depreciation	698	723	+3.5%
EPS (¥)	123.62	—	—
Dividend per share (¥)	45.00	—	—

- Difficult economic climate is expected to continue due to COVID-19 pandemic. In particular, in the first half of the fiscal year, production of many manufacturers, such as automobile-related companies, is considered to decline drastically. And therefore, it is expected that the demand for tools slows down. At the moment, gradual recovery is expected. However, it is hard to make a rational forecast for the performance, because, at the moment, there is no prospect of the end of the pandemic. So, the financial forecasts have not been determined.
- Capital investment is made mainly for the installation of machinery and equipment intended for enhancing the product quality and production efficiency. In FY3/20, the amount was big because the new development center was completed, etc. However, the level of FY3/21 is expected to be the average. The Company has the solid policy to secure the competitiveness through continuing a certain level of capital investment every year. Therefore, the capital investment that was planned will be made, although the market is in a difficult condition.
- Dividend per share is yet to be determined, because the financial forecasts have not been determined.

# Trend of Capital Investment and Depreciation

Trend of capital investment, depreciation, and cash and deposits balance



Capital investment Depreciation Cash and deposits balance

(Capital investment/Depreciation (LHS), Cash and deposits balance (RHS))

## Factors for increase/decrease

### FY3/18

Capital investment, including machinery and equipment, was ¥663 million, slightly less than planned. Depreciation also slightly decreased.

### FY3/19

Increased due to construction in progress, such as continuous expansion of production facilities and groundbreaking for the new development center.

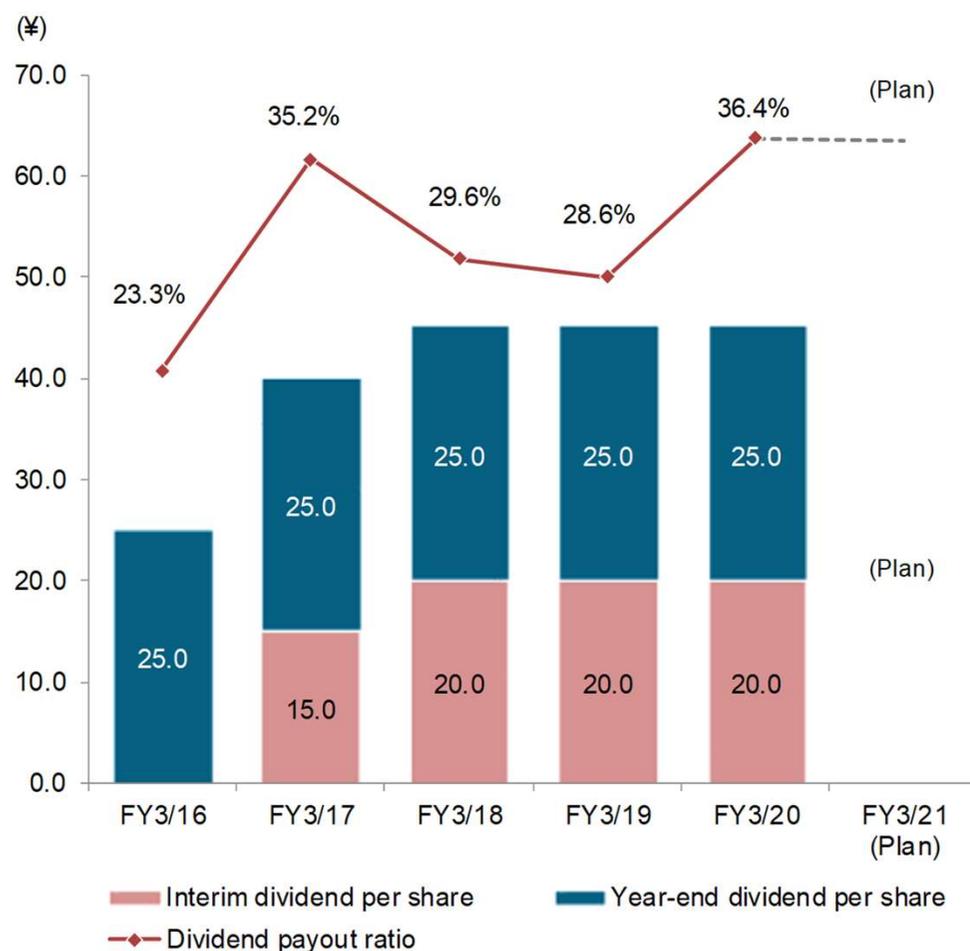
### FY3/20

Capital investment reached a record-setting level, ¥1,755 million, because of construction of the new development center and new building in a subsidiary's plant, and continuous renewal of production facilities.

### FY3/21 (Plan)

No big investment, such as factory building, is planned. Our plan is to continue to expand the production facilities. Forecast for the cash and deposits balance cannot be calculated, because it is difficult to make the profit forecast.

# 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 ¥45.0. Interim dividend: ¥20.0; Year-end dividend: ¥25.0  
Dividend payout ratio for the financial forecasts: 36.4%
- Annual dividend per share for FY3/21 cannot be determined, because we cannot make the profit forecast.
- 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.

**Contact us:**

# **NS TOOL CO., LTD.**

Corporate Planning Office

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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.