



# Financial Results for the 1<sup>st</sup> Quarter of Fiscal Year Ending March 31, 2021



**NS TOOL CO., LTD.**

July 31, 2020  
(Securities Code: 6157)

# Contents

## 1. Consolidated Financial Results for 1Q FY3/21

P. 3	• • •	Financial Results Summary for 1Q FY3/21
P. 4	• • •	Factors for Decrease in Operating Profit
P. 5	• • •	Summary of Statement of Income
P. 6	• • •	Summary of Balance Sheet
P. 7	• • •	Quarterly Business Performance

---

## 2. Consolidated Financial Forecasts for FY3/21

P. 14	• • •	Financial Forecasts
P. 15	• • •	Progress in 1Q FY3/21
P. 16	• • •	Dividend Forecasts

---

# **Consolidated Financial Results for 1Q FY3/21**



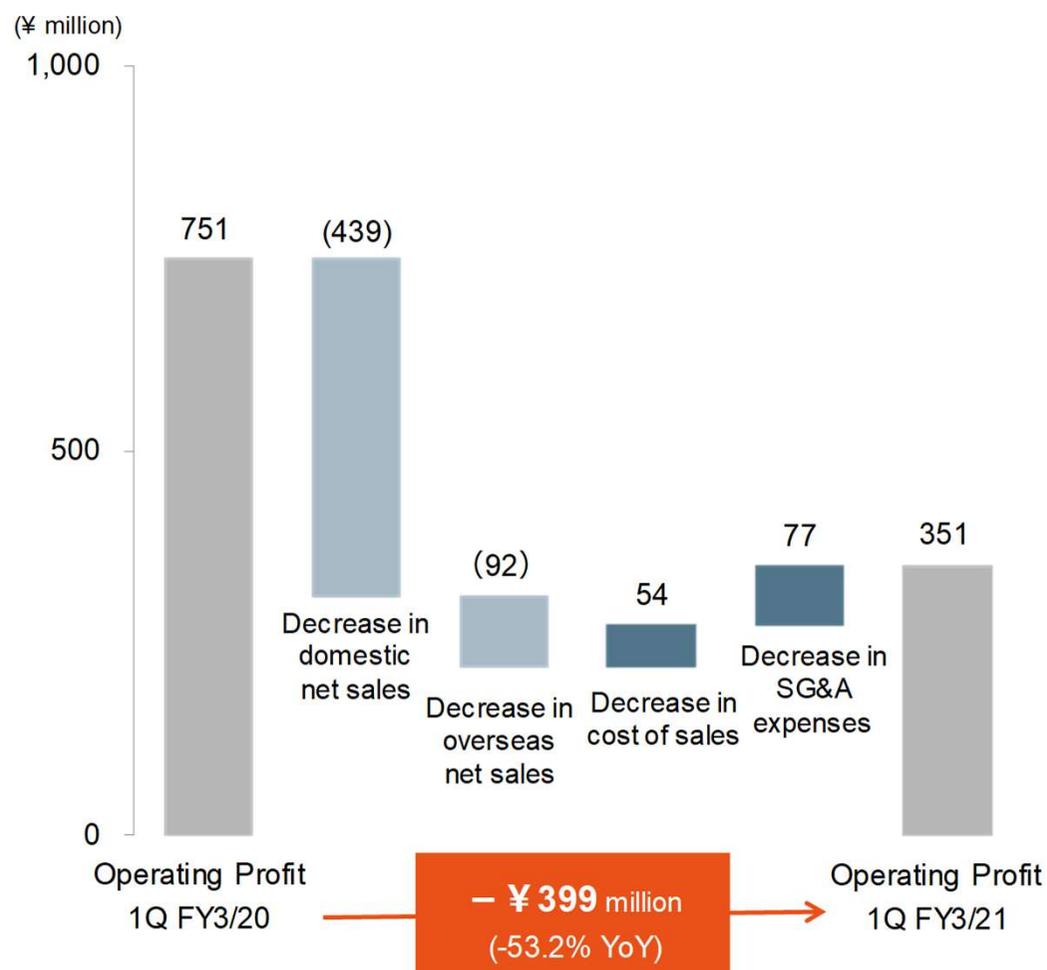
# Financial Results Summary for 1Q FY3/21

Significant decrease in net sales and profits due to the impact of COVID-19

(Unit: ¥ million)	1Q FY3/20 Actual	1Q FY3/21 Actual	1H FY3/21 Forecasts	Progress Rate
<b>Net Sales</b>	2,466	1,934	3,600	53.7%
YoY changes	-8.2%	-21.6%	-27.0%	
<b>Operating profit</b>	751	351	280	125.7%
YoY changes	-3.4%	-53.2%	-77.8%	
<b>Ordinary profit</b>	752	353	285	124.1%
YoY changes	-3.4%	-53.0%	-77.5%	
<b>Profit attributable to owners of parent</b>	481	232	163	142.6%
YoY changes	-1.2%	-51.7%	-80.4%	

- Due to the global spread of the COVID-19, many manufacturing industries were badly affected in terms of both supply and demand, and demand for tools declined sharply. Consolidated net sales for 1Q FY3/21 were ¥1,934 million, a decrease of 21.6% YoY.
- Consolidated ordinary profit was ¥353 million, a decrease of 53.0% YoY.
- Ordinary profit margin was 18.3%, down by 12.2pp.
- 1Q progress ratio to 1H financial forecasts announced on 31 July, 2020 were net sales 53.7% and ordinary profit 124.1%, exceeding 1H forecast which projects an ordinary loss in 2Q.

# Factors for Decrease in Operating Profit



- Domestic net sales declined by ¥439 million, a decrease of 24.7% YoY, and overseas net sales declined by ¥92 million, a decrease of 13.5% YoY, with overall net sales down by ¥531 million, a decrease of 21.6% YoY.
- While variable costs such as material costs and outsourcing expenses decreased by roughly 30% due to production cutback, labor costs decreased only by 7%, and production expenses decreased only by 3%, and the cost of products manufactured decreased by 18.9%. Also, the consolidation of NS TOOL Hong Kong Ltd. resulted in the large addition of Jan.-Mar. cost of sales, so cost of sales only declined by ¥54 million, a decrease of only 5.5%.
- SG&A expenses declined by ¥77 million, a decrease of 10.9% due to decreases in personnel expenses and exhibition costs, while there were increased expenses such as additional depreciation associated with inauguration of the new R&D center and real estate acquisition tax.
- As a result, operating profit was ¥351 million, declining by ¥399 million, a decrease of 53.2% YoY, with operating profit margin of 18.2%, down by 12.3pp.

# Summary of Statement of Income

(Unit: ¥ million)	1Q FY3/20 Actual	1Q FY3/21 Actual	YoY Changes
<b>Net Sales</b>	2,466	1,934	-21.6%
<b>Gross profit</b>	1,466	988	-32.6%
Ratio to net sales	59.4%	51.1%	
<b>SG&amp;A expenses</b>	714	636	-10.9%
Ratio to net sales	29.0%	32.9%	
<b>Operating profit</b>	751	351	-53.2%
Ratio to net sales	30.5%	18.2%	
<b>Ordinary profit</b>	752	353	-53.0%
Ratio to net sales	30.5%	18.3%	
<b>Profit attributable to owners of parent</b>	481	232	-51.7%
Ratio to net sales	19.5%	12.0%	
<b>Capital investment</b>	743	118	-84.1%
<b>Depreciation</b>	166	175	+5.5%
<b>No. of employees (persons)</b>	343	345	+0.6%

- Net sales were ¥1,934 million, a decrease of 21.6% YoY. Due to the impact of the COVID-19, production declined for many manufacturers such as automobile-related, having a negative impact on demand for tools.
- As a result of the decline in net sales and increase in cost of sales ratio, gross profit was ¥988 million, a decrease of 32.6% YoY, and the gross profit margin was 51.1%, down by 8.3pp.
- While there were increased expenses including additional depreciation associated with inauguration of the new R&D center and real estate acquisition tax, decreases in personnel expenses and exhibition costs resulted in a decrease of SG&A expenses of 10.9%. The SG&A expenses ratio was 32.9%, an increase of 3.9%.
- As a result, operating profit was ¥351 million, a decrease of 53.2%, with operating profit margin of 18.2%, down by 12.3pp.
- Due to lack of constructions expenditure on the new R&D center and others, capital investment was ¥118 million, a decrease of 84.1% YoY. Depreciation was ¥175 million, an increase of 5.5%, with the inauguration of depreciation associated with the new R&D center.

# Summary of Balance Sheet

(Unit: ¥ million)	FY3/20-End	Composition Ratio	1Q FY3/21-End	Composition Ratio	VS FY3/20-End
<b>(Assets)</b>					
I Current assets	9,555	59.7%	9,182	59.3%	-3.9%
Cash and deposits	5,784	36.1%	5,749	37.1%	-0.6%
Notes and accounts receivable - trade	1,366	8.5%	1,077	7.0%	-21.1%
Inventories	2,201	13.7%	2,266	14.6%	+3.0%
II Non-current assets	6,462	40.3%	6,305	40.7%	-2.4%
Property, plant and equipment	5,748	35.9%	5,598	36.1%	-2.6%
Intangible assets	52	0.3%	45	0.3%	-13.8%
Investments and other assets	661	4.1%	661	4.3%	+0.1%
<b>Total assets</b>	16,017	100.0%	15,488	100.0%	-3.3%
<b>(Liabilities)</b>					
I Current liabilities	1,265	7.9%	815	5.3%	-35.5%
Accounts payable - trade	208	1.3%	212	1.4%	+2.0%
II Non-current liabilities	254	1.6%	254	1.6%	-0.2%
<b>Total liabilities</b>	1,519	9.5%	1,069	6.9%	-29.6%
<b>(Net assets)</b>					
<b>Total equity</b>	14,374	89.7%	14,297	92.3%	-0.5%
<b>Total net assets</b>	14,498	90.5%	14,418	93.1%	-0.5%
<b>Total liabilities and net assets</b>	16,017	100.0%	15,488	100.0%	-3.3%

## Current assets

Decreased by 3.9% from the end of the previous fiscal year due to the decline in net sales and associated decrease in accounts receivable – trade.

## Non-current assets

Decreased by 2.4% due to lack of major capital investment and increase in depreciation.

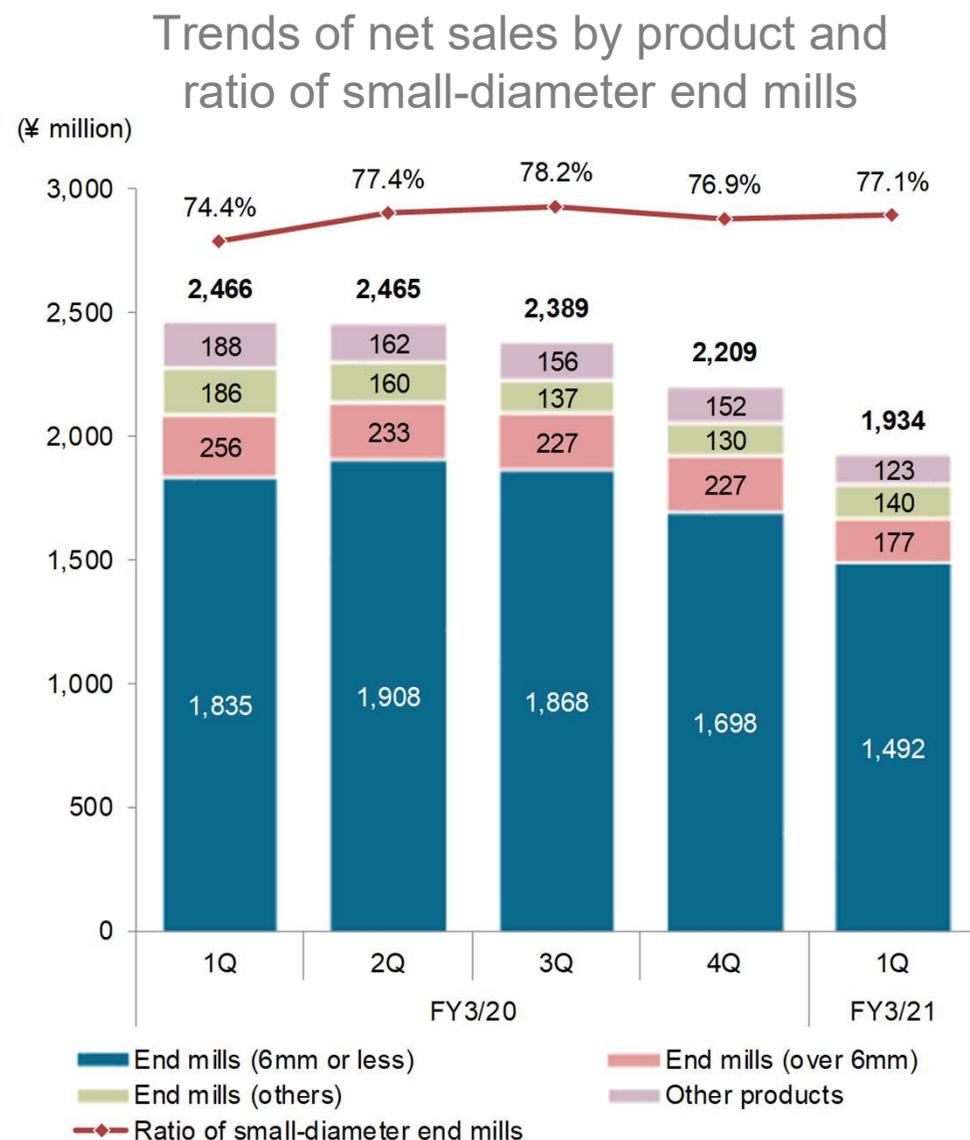
## Liabilities

Decreased by 29.6% due to decrease in income taxes payable and provision for bonuses for directors and senior officers.

## Net assets

Decreased by 0.5% due to the increase in retained earnings and payment of dividends, however the equity ratio increased by 2.6pp to 92.3% due to the decline in liabilities.

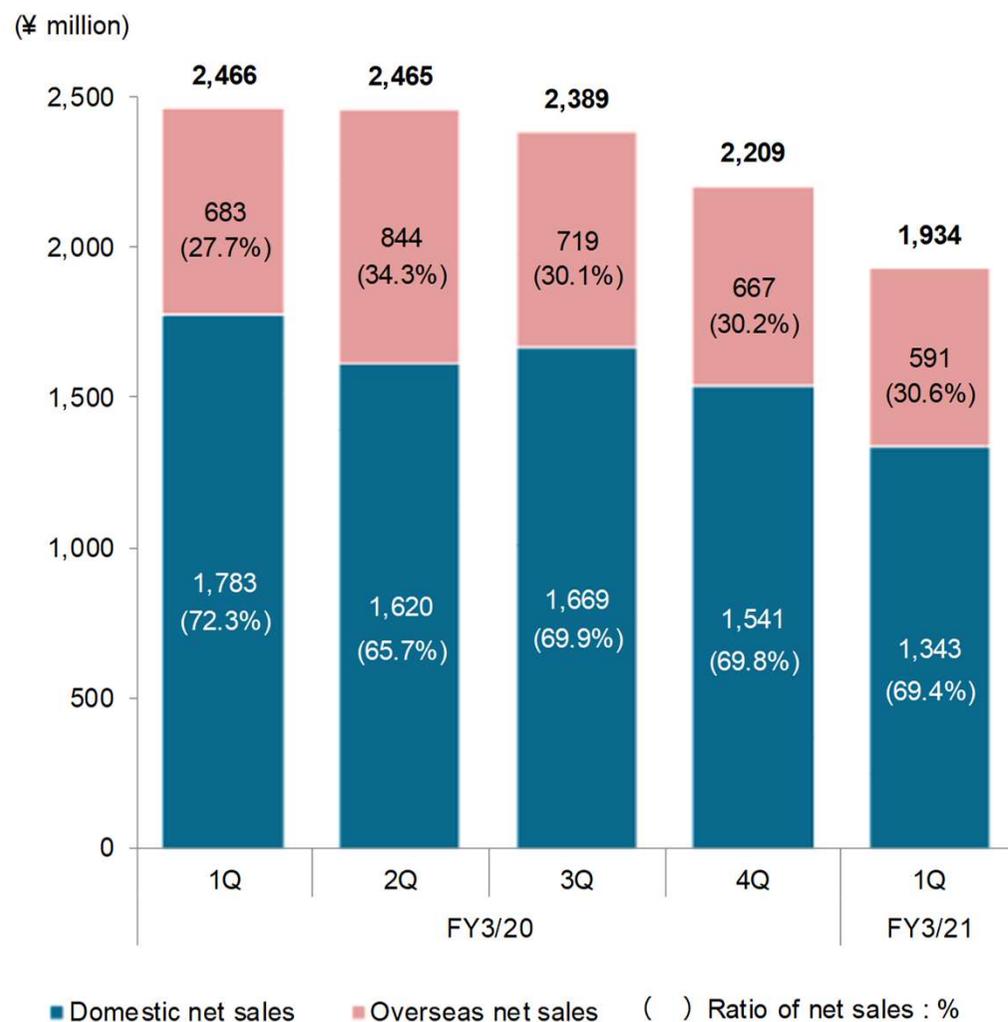
# Business Performance (Trends of net sales (1) By product)



- Due to the impact of the COVID-19, the number of automobiles produced in Japan fell by over 60% in Apr.-May, while the demand for electronic parts and devices also slowed due to the undershoot on smartphone sales and delayed start of mass production for new models. As a result, demand for small diameter tools declined sharply. Consolidated 1Q net sales were ¥1,934 million, a decrease of 21.6% YoY, and a decrease of 12.4% QoQ.
- By product, in addition to mainstay end mills (diameter 6mm or less) posting a decrease of 18.7% YoY due to deterioration of the business environment, end mills (diameter over 6mm) decreased by 30.9% YoY. Also, end mills (others), most of which are special tools made unique to each user, decreased by 24.4% YoY. Other products such as tool cases decreased by 34.4%, posting the biggest decline. Since categories of end mills other than (diameter 6mm or less) posted relatively larger declines, ratio of small-diameter end mills by 2.7pp to 77.1%.

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

## Trends of domestic and overseas net sales



- Domestic net sales of ¥1,343 million declined by ¥439 million, a decrease of 24.7% YoY, while overseas net sales of ¥591 million declined by ¥92 million, a decrease of 13.5% YoY.
- While net sales in domestic and overseas both posted YoY declines, the ratio of overseas net sales rose by 2.9pp to 30.6% due to larger decline in domestic net sales.

# Business Performance (Trends of Net Sales (3) By overseas region)

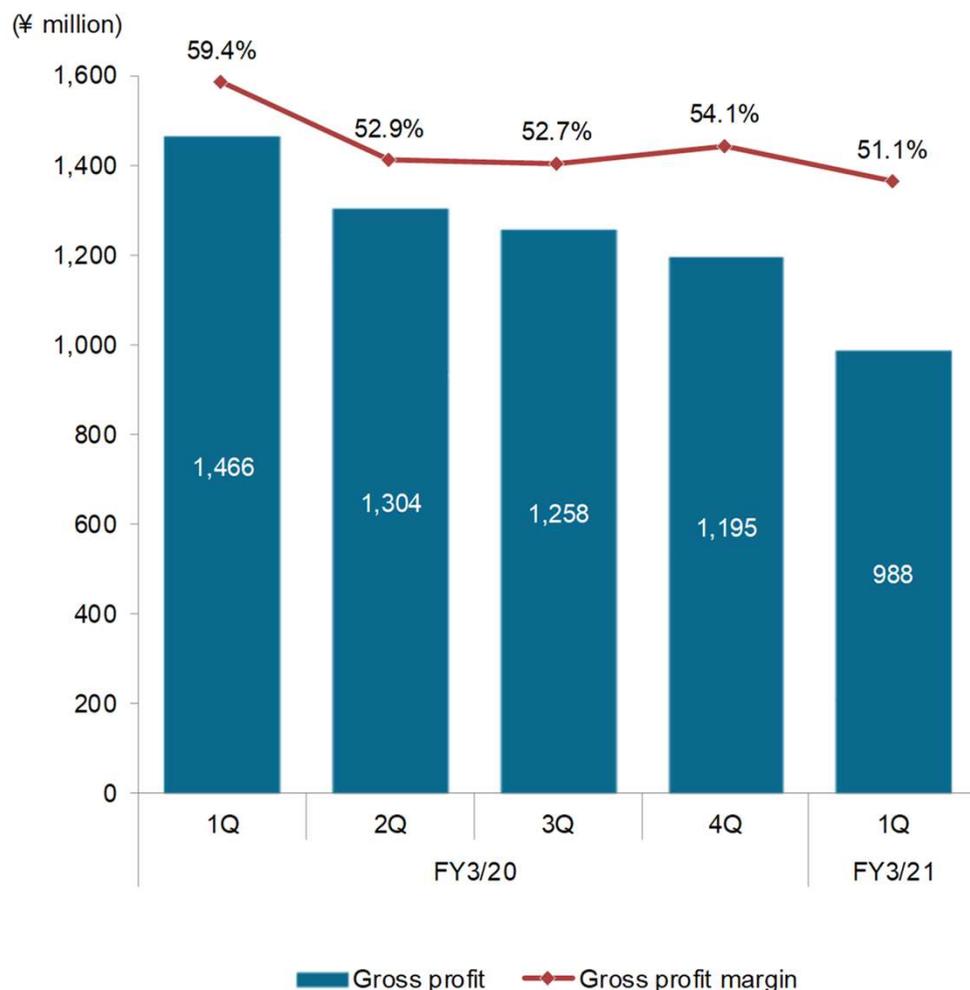
Trends of net sales by overseas region



- In China, Hong Kong and Taiwan, combined net sales increased by 14.2% YoY. In the account consolidation of NS TOOL Hong Kong Ltd., into 1Q results, figures for Jan.-Mar. are combined, which is seasonally weak results due to Chinese New Year. For this year, although there was negative impact from Chinese New Year and urban lockdowns due to the COVID-19 in February, in March there was purchase for inventory building in anticipation of some catch-up production and preparation for possible tool supply stoppage, which resulted in moderately decent sales.
- Other Asia decreased by 37.0%, a region which has high exposure to automobile-related, resulting in a relatively larger decline than other regions.
- Europe also has high exposure to automobile and machinery-related, posting a decrease of 28.2%.
- The decline in the U.S. and Others was only a decrease of 8.7%, but the absolute amount is small to begin with.

# Business Performance (Trend of gross profit)

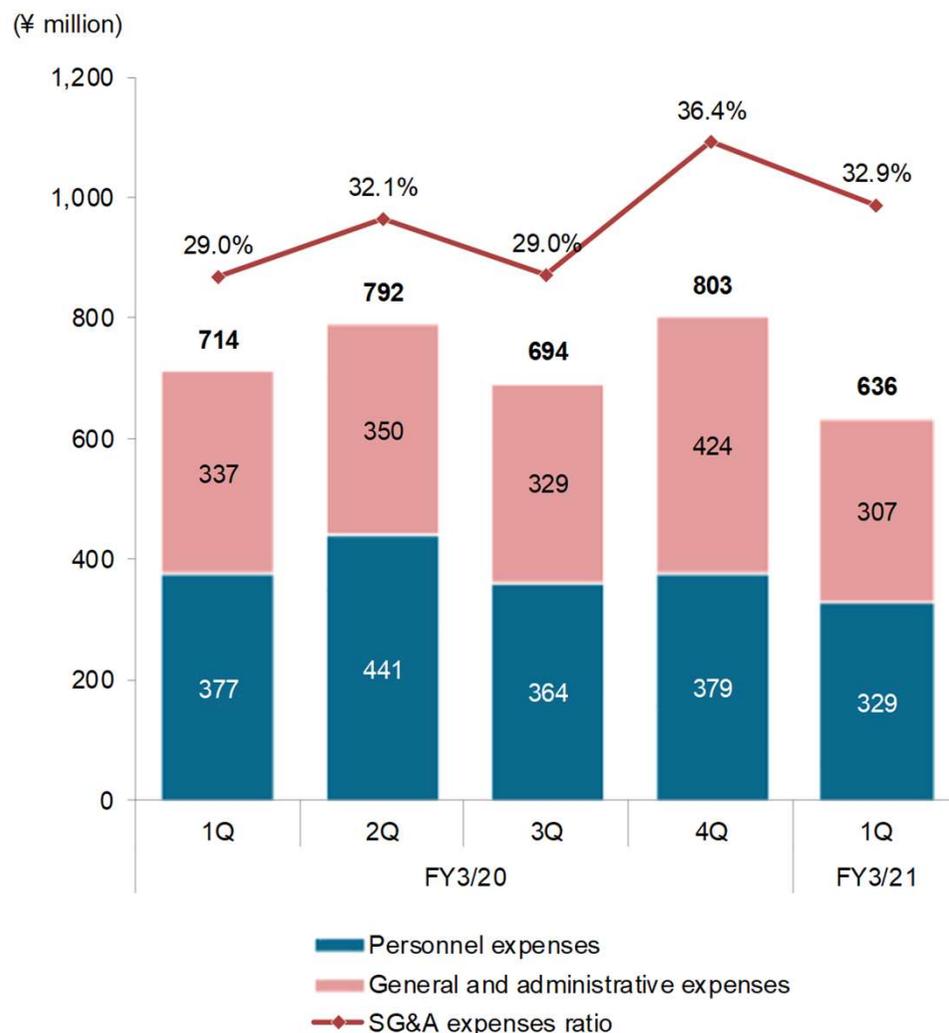
Trends of gross profit and gross profit margin



- Production volume was held down due to the decline in sales. As a result, variable costs declined, including materials costs reduced by 34.2% YoY, and outsourcing expenses reduced by 30.1%. However, labor costs reduced only by 7%, and manufacturing costs reduced only by 3%. In total, the cost of products manufactured decreased by 18.9%. In addition, cost of sales was pushed up due to the shift in the consolidation period for NS TOOL Hong Kong Ltd. and figures reduced only by 5.5% YoY, a small decline compared to the decline in net sales (-21.6%).
- As a result, gross profit decreased by 32.6% YoY to ¥988 million, and the gross profit margin declined by 8.3pp to 51.1%.
- It is worth noting that we assume Jul.-Sep. net sales for NS TOOL Hong Kong Ltd. will be the same level as in Apr.-Jun., and impact from the shift in the consolidation period is expected to be small for the 2Q.

# Business Performance (Trend of SG&A expenses)

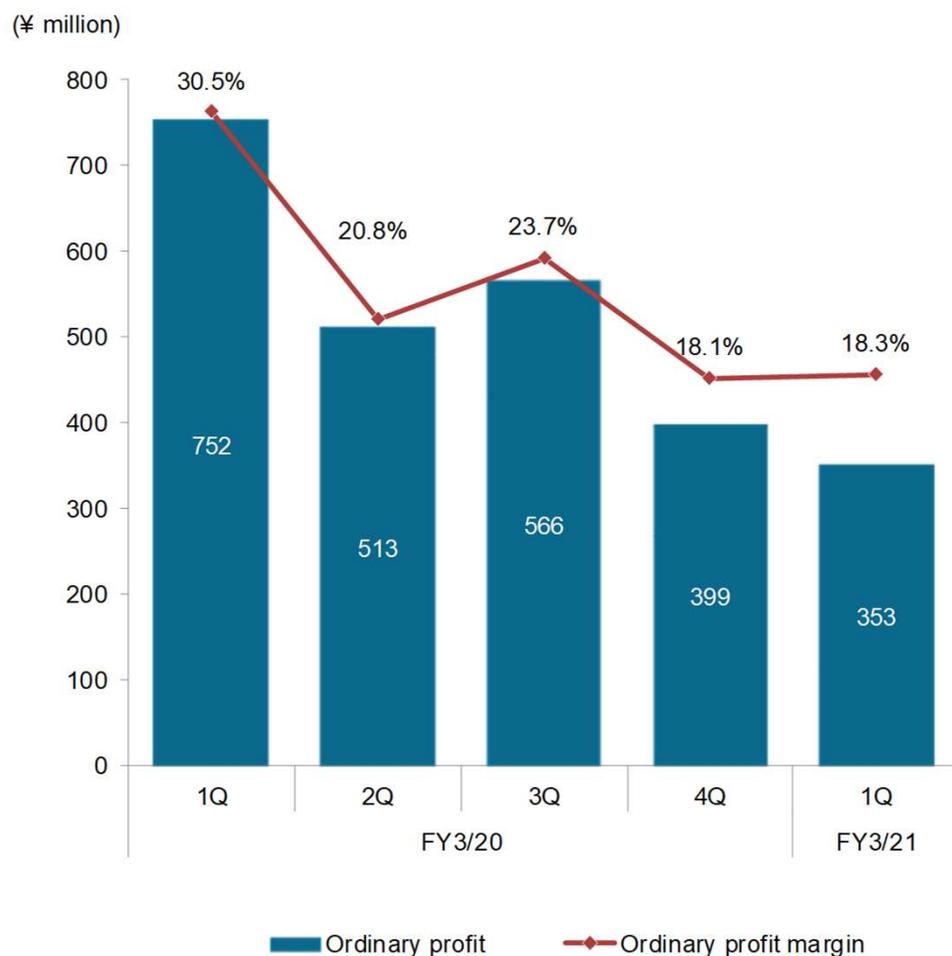
Trends of SG&A expenses and SG&A expenses ratio



- While general expenses among SG&A expenses increased due to increased depreciation from inauguration of the new R&D center as well as real estate acquisition tax associated with the R&D center. Exhibition costs, travel expenses and entertainment expenses decreased due to cancelled exhibitions, and self-restraint on business trips and marketing activities, declining by 8.9% YoY to ¥307 million.
- For personnel expenses, while employee salaries increased due to provisional support payments to employees related to the COVID-19 pandemic, provision for bonuses for directors and senior officers was not booked due to poor performance, and provision for bonuses declined, resulting in personnel expenses declining 12.7% YoY to ¥329 million.
- Overall SG&A expenses declined by 10.9% to ¥636 million, however, due to the significant decline in net sales, SG&A expenses rose by 3.9pp to 32.9% against net sales.
- It is worth noting that retirement benefits for directors and senior officers have been terminated, and stock options compensation plan has been introduced, and this year's compensation will be paid in the 2Q.

# Business Performance (Trend of ordinary profit)

Trends of ordinary profit and ordinary profit margin



- In addition to the 21.6% YoY decrease in net sales, the increase of both the cost of sales ratio and SG&A expenses ratio resulted in operating profit of ¥351 million, a decrease of 53.2% YoY, down sharply.
- Since non-operating income exceeded non-operating expenses by just under ¥2 million, ordinary profit was ¥353 million, a decrease of 53.0% YoY.
- The ordinary profit margin ended at 18.3%, which is fractionally higher than the previous quarter when SG&A expenses were pushed up by the NS Private Show in January 2020, but sharply declined by 12.2pp YoY basis, because the previous year's level was extremely high.

# **Consolidated Financial Forecasts for FY3/21**



# Financial Forecasts

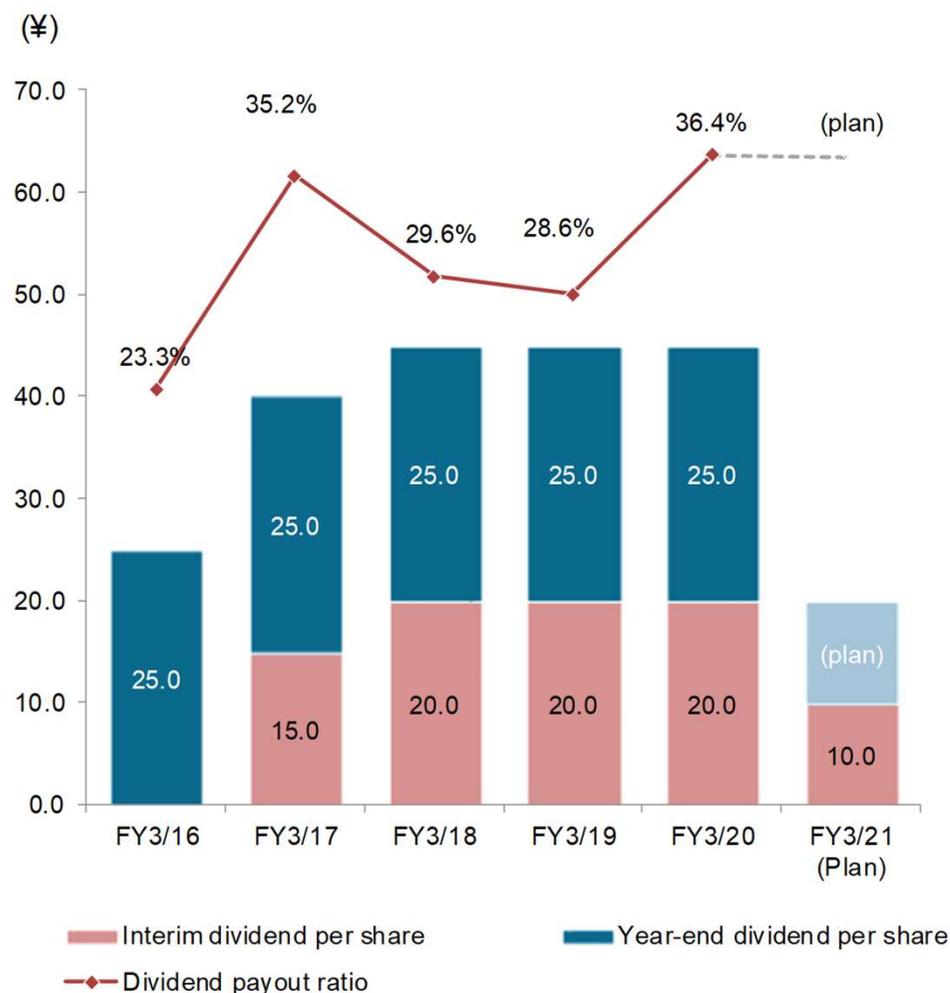
(Unit: ¥ million)	FY3/20 Actual	FY3/21 Forecasts	YoY Changes
Net Sales	9,531	—	—
Operating profit	2,219	—	—
Ordinary profit	2,231	—	—
Profit attributable to owners of parent	1,545	—	—
Capital investment	1,755	613	-65.0%
Depreciation	698	723	+3.5%
EPS (¥)	123.62	—	—
Dividend per share (¥)	45.00	—	—

- With the COVID-19 infections once again spreading in Japan and other countries, the economic situation is expected to remain difficult for the time being, and many manufacturing industries, including automobile-related, will continue to hold down production, and demand for tools is expected to remain sluggish. In order to control our own production volume, we plan to undertake further production cut measures including leave for factory workers, which will boost the cost of sales ratio, so the situation for profits will be worse than for net sales. We plan to announce full-year forecasts when it is possible to make reasonable forecasts based on when there is an outlook for the COVID-19 pandemic coming to an end, and at least to a certain extent we are able to make judgments about social and economic conditions going forward.
- Capital investment is mainly focused on introducing machinery and equipment for automation, improving product quality and raising production efficiency. The amount was high in FY3/20 associated with completion of the new R&D center, however, it is expected to return to the level in normal years in FY3/21.
- Interim DPS is forecasted at ¥10, compared with ¥20 last year, due to earnings deterioration. Since it is currently not possible to disclose reasonable full-year forecasts, the year-end dividend amount is undecided.

# Progress in 1Q FY3/21

(Unit: ¥ million)	FY3/21				
	1Q Actual	1H Forecasts	Progress Rate	Full-year Forecasts	Progress Rate
<b>Net Sales</b>	1,934	3,600		—	
YoY Changes	-21.6%	-27.0%	53.7%	—	—
<b>Operating profit</b>	351	280		—	
YoY Changes	-53.2%	-77.8%	125.7%	—	—
<b>Ordinary profit</b>	353	285		—	
YoY Changes	-53.0%	-77.5%	124.1%	—	—
<b>Profit attributable to owners of parent</b>	232	163		—	
YoY Changes	-51.7%	-80.4%	142.6%	—	—

# 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: 36.4%
- Interim dividend per share for FY3/21 is planned to be ¥10.0. Year-end dividend per share for FY3/21 is undecided since it is currently not possible to disclose reasonable full-year forecasts.
- 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

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.