Financial Results for the 2nd Quarter of Fiscal Year Ending March 31, 2023

NS TOOL CO., LTD.

October 31, 2022

(Securities Code: 6157)

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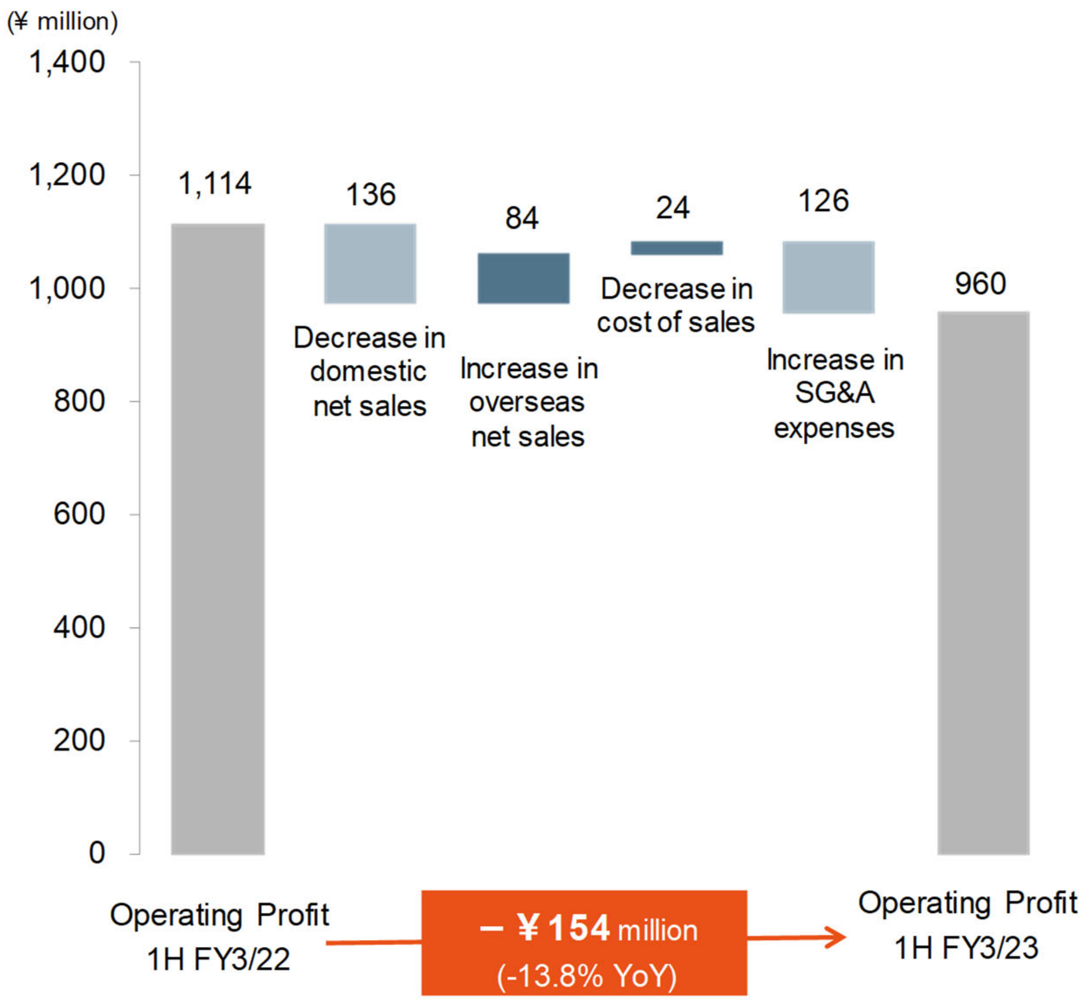
Financial Results Summary for 1H FY3/23

Decreased in net sales and profits year on year
Full-year financial forecasts were revised downward

(Unit: ¥ million)	1H FY3/22 Actual	1H FY3/23 Actual	Full-year Forecasts	Progress Rate
Net Sales	4,821	4,768	9,370	50.9%
YoY changes	+32.6%	-1.1%	-1.6%	
Operating profit	1,114	960	1,790	53.6%
YoY changes	+175.7%	-13.8%	-15.2%	
Ordinary profit	1,130	955	1,790	53.4%
YoY changes	+154.6%	-15.5%	-17.0%	
Profit attributable to owners of parent	770	620	1,210	51.2%
YoY changes	+180.2%	-19.6%	-20.5%	

- The automotive industry continued to experience weak demand due to continued production cutbacks following the impact of some parts shortages and supply restrictions. The market of semiconductor and electronic components and devices, which had been brisk, slowed down as demand for smartphones and PCs showed signs of stabilization.
- Consolidated net sales were ¥4,768 million, down 1.1% YoY.
- Consolidated ordinary profit was ¥955 million, down 15.5% YoY. Ordinary profit margin was 20.0%, down 3.5 pp YoY.
- Due to concerns about an economic recession toward the 2H FY3/23 and the expected cost increases, the full-year financial forecasts were revised downward in October. (Please see p.14)

Factors for Decrease in Operating Profit



- Domestic net sales decreased by ¥136 million, down 4.1% YoY, while overseas net sales increased by ¥84 million, up 5.6% YoY. Overall net sales decreased by ¥52 million, down 1.1% YoY.
- Cost of sales decreased by ¥24 million, down 1.1% YoY, decreasing rate was about the same as net sales.
- SG&A expenses increased by ¥126 million, up 9.0% YoY. Selling expenses, including exhibition costs and advertising expenses, increased by 55.4% YoY due to the three large-scale exhibitions held in 1H FY3/23 and displays at the increasing in-person exhibitions.
- As a result, operating profit decreased by ¥154 million, down 13.8% YoY, to ¥960 million, and operating profit margin was 20.1%, down 3.0 pp YoY.

Summary of Statement of Income

(Unit: ¥ million)	1H FY3/22 Actual	1H FY3/23 Actual	YoY Changes
Net Sales	4,821	4,768	-1.1%
Gross profit	2,511	2,483	-1.1%
Ratio to net sales	52.1%	52.1%	
SG&A expenses	1,396	1,522	+9.0%
Ratio to net sales	29.0%	31.9%	
Operating profit	1,114	960	-13.8%
Ratio to net sales	23.1%	20.1%	
Ordinary profit	1,130	955	-15.5%
Ratio to net sales	23.5%	20.0%	
Profit attributable to owners of parent	770	620	-19.6%
Ratio to net sales	16.0%	13.0%	
Capital investment	173	313	+81.1%
Depreciation	332	328	-1.1%
No. of employees (persons)	349	353	+1.1%

- Net sales were ¥4,768 million, down 1.1% YoY.
- Gross profit was ¥2,483 million, down 1.1% YoY. Cost of sales decreased by 1.1% YoY due to increased product inventories, and gross profit margin was 52.1%, remained flat YoY.
- SG&A expenses increased by 9.0% YoY in line with the rise in selling expenses, and SG&A expenses ratio was 31.9%, up 2.9 pp YoY.
- As a result, operating profit decreased by 13.8% YoY to ¥960 million, and operating profit margin was 20.1%, down 3.0 pp YoY.
- Capital expenditures were ¥313 million, up 81.1% YoY due to the expansion of production facilities based on the initial forecast. Depreciation decreased by 1.1% YoY due to most of the equipment installed in 1H FY3/23 is scheduled to start operations in 2H FY3/23.

Summary of Balance Sheet

(Unit: ¥ million)	FY3/22-End	Composition Ratio	1H FY3/23-End	Composition Ratio	VS FY3/22-End
(Assets)					
Ⅰ Current assets	11,807	66.1%	12,082	66.6%	+2.3%
Cash and deposits	8,543	47.8%	8,537	47.1%	-0.1%
Notes and accounts receivable - trade	1,322	7.4%	1,439	7.9%	+8.8%
Inventories	1,840	10.3%	2,026	11.2%	+10.1%
Ⅱ Non-current assets	6,066	33.9%	6,053	33.4%	-0.2%
Property, plant and equipment	5,435	30.4%	5,454	30.1%	+0.4%
Intangible assets	32	0.2%	29	0.2%	-8.9%
Investments and other assets	598	3.4%	569	3.1%	-4.9%
Total assets	17,874	100.0%	18,136	100.0%	+1.5%
(Liabilities)					
Ⅰ Current liabilities	1,483	8.3%	1,318	7.3%	-11.1%
Accounts payable - trade	249	1.4%	261	1.4%	+5.0%
Ⅱ Non-current liabilities	224	1.3%	224	1.2%	—
Total liabilities	1,708	9.6%	1,543	8.5%	-9.6%
(Net assets)					
Total equity	15,950	89.2%	16,376	90.3%	+2.7%
Total net assets	16,165	90.4%	16,592	91.5%	+2.6%
Total liabilities and net assets	17,874	100.0%	18,136	100.0%	+1.5%

Current assets

Increased by 2.3% 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 0.2% 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

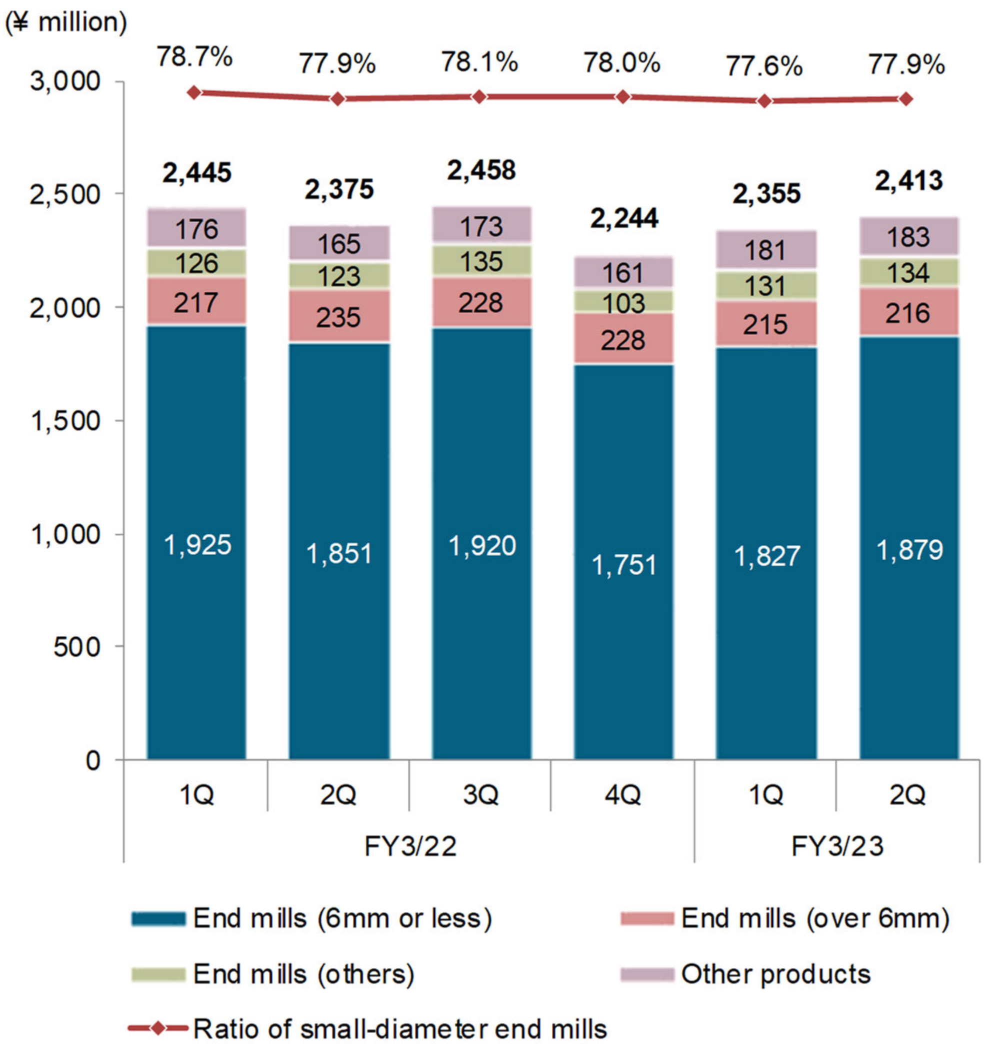
Decreased by 9.6% from the end of previous fiscal year due to decreases in income taxes payable and provision for bonuses.

Net assets

Increased by 2.6% from the end of previous fiscal year due to an increase in retained earnings, etc. Equity ratio was 90.3%, up 1.1 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

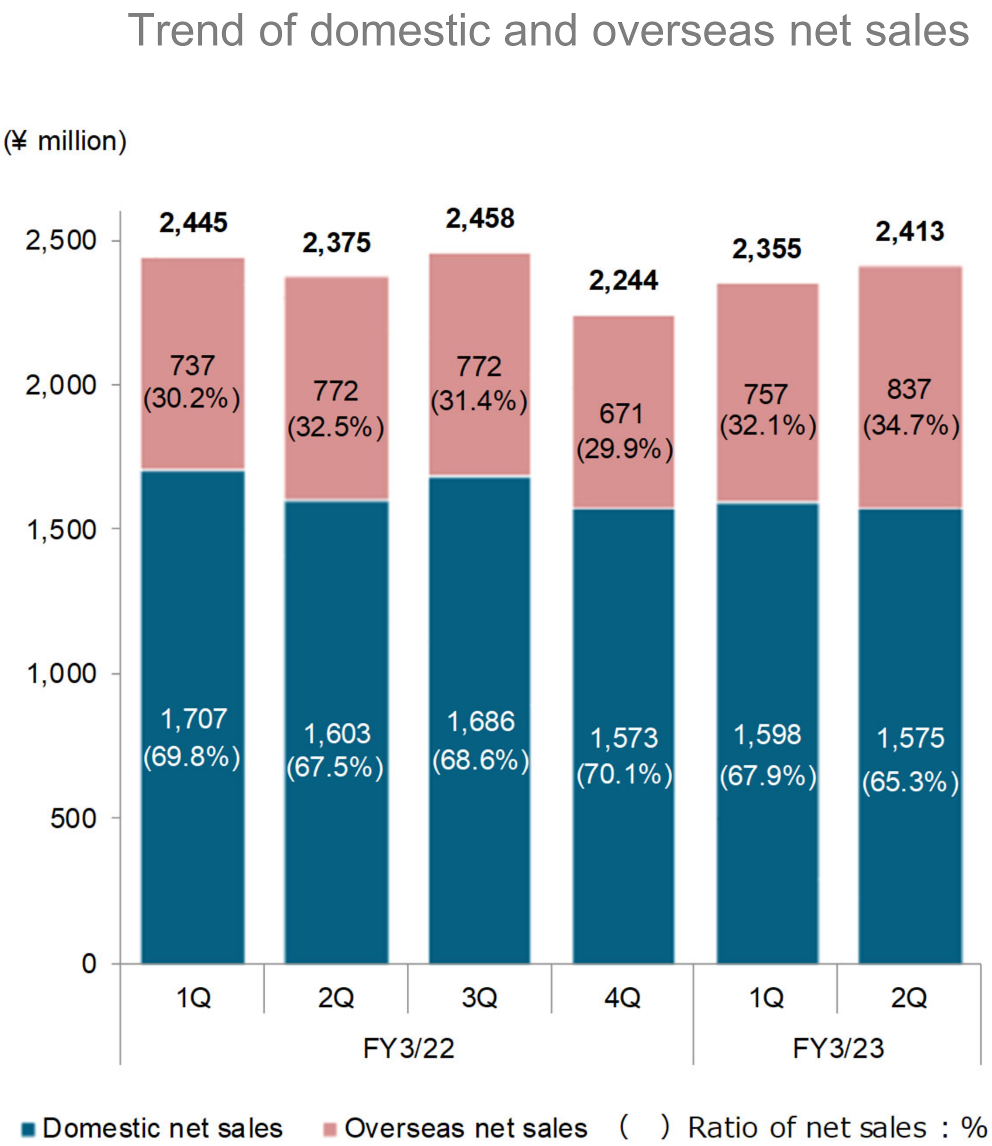


- In the automotive industry, the production volume of major automakers was sluggish due to some parts supply shortage. Demand for tools decreased due to excessive inventories at parts manufacturers that had been continuing production. In the market of semiconductor and electronic components and devices, sales of smartphones slowed down and PC demand for remote work peaked out.

- Net sales in 2Q(July-September) were ¥2,413 million, up 1.6% YoY. It also increased by 2.4% compared to 1Q(April-June) QoQ.

- By product, net sales for mainstay end mills (diameter 6mm or less) increased 1.5% YoY, and end mills (diameter over 6mm) decreased by 8.1% YoY. End mills (other), mainly special products custom-made to users, increased by 8.9% YoY, other products such as tool cases also increased by 10.7% YoY. The ratio of small-diameter end mills remained flat at 77.9%.

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



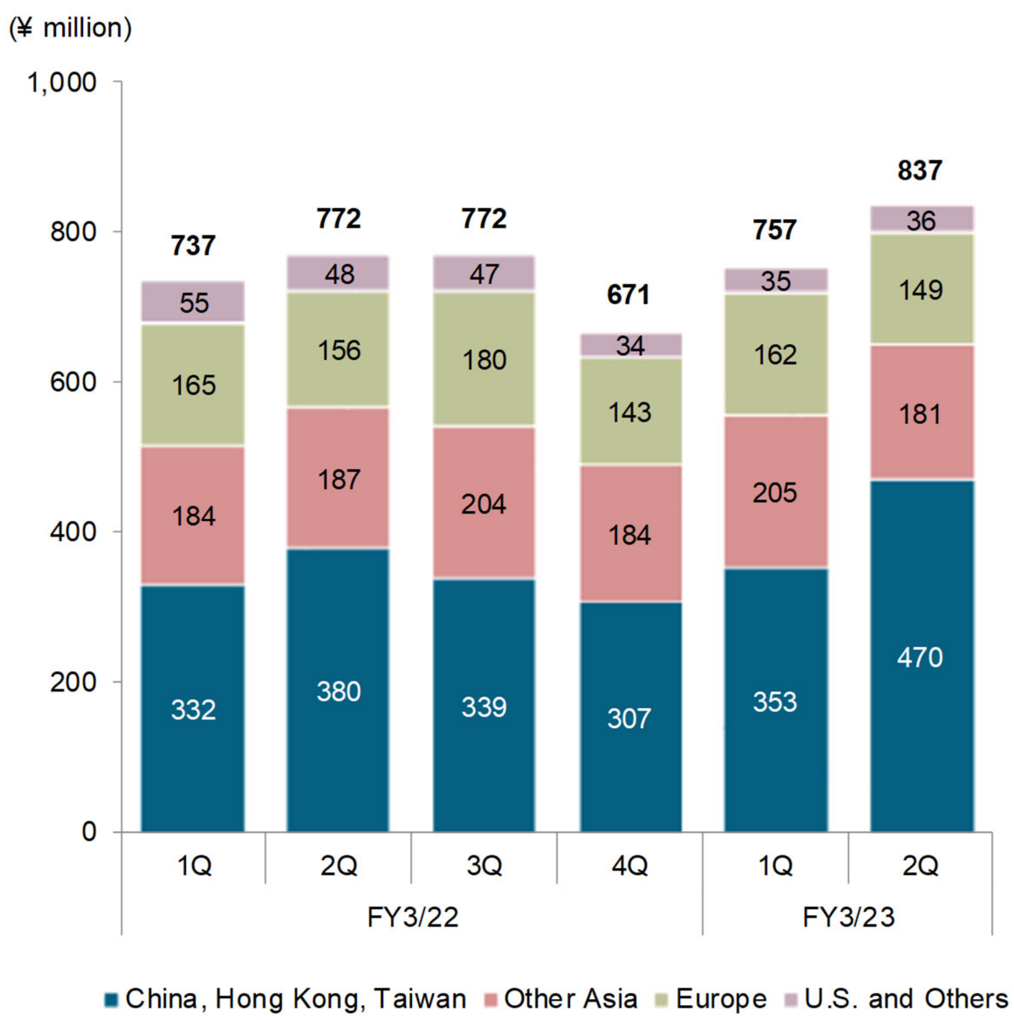
- Domestic net sales decreased by ¥27 million, down 1.7% YoY, to ¥1,575 million. On the other hand, overseas net sales increased by ¥65 million, up 8.4% YoY, to ¥837 million.

- Overseas net sales increased in Greater China. In account consolidation of NS TOOL Hong Kong Ltd. into 2Q results, figures for April-June are combined. In addition to the period when demand for smartphones usually increases, the ongoing depreciation of the yen was a positive factor in the current period.

- The overseas net sales ratio rose by 2.2 pp YoY to 34.7%.

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

Trend of net sales by overseas region



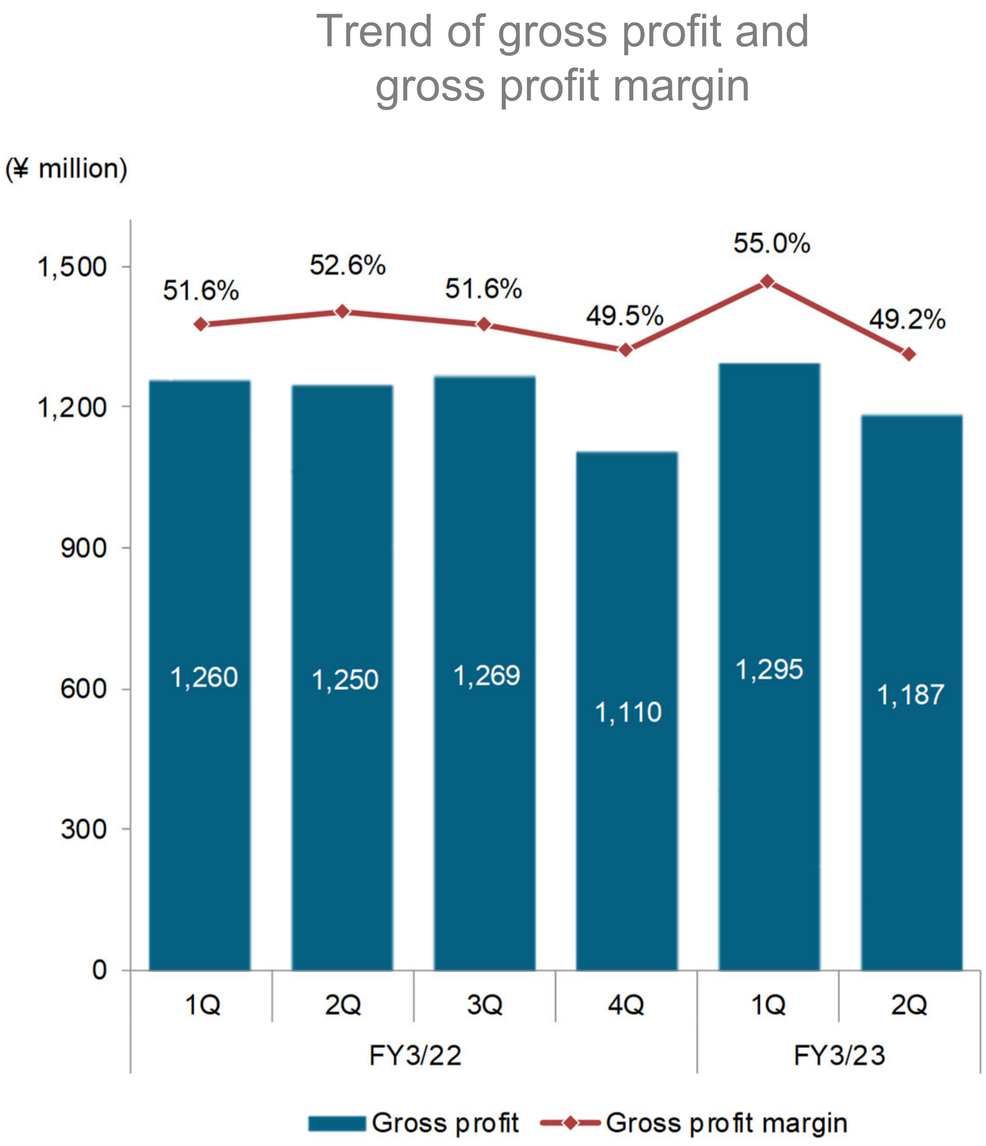
- Combined net sales of China, Hong Kong and Taiwan increased by 23.5% YoY, and quarterly net sales reached a record high of ¥470 million. There was an increase in demand for smartphones and moves by users to secure inventories on hand. In addition, optical lens-related products, for which new demand is increasing, such as VR equipment and autonomous cars, performed well.

- Other Asia decreased by 3.1% YoY to ¥181 million. Affected by the production cutbacks by users due to the parts supply shortage.

- In Europe, demand for automotive industry has not recovered. In addition, due to the impact of soaring energy prices on the industry, net sales decreased by 4.3% to ¥149 million.

- U.S. and Others decreased by 25.1% to ¥36 million, due to sluggish sales of automotive industry, despite robust sales of medical-related. In September 2022, we participated in at the biggest machine tool exhibition "IMTS" in the U.S. and will proactively conduct PR activities with regard to NS TOOL USA, INC., we established in 2021, with the aim of expanding sales in the future.

Business Performance (Trend of gross profit)

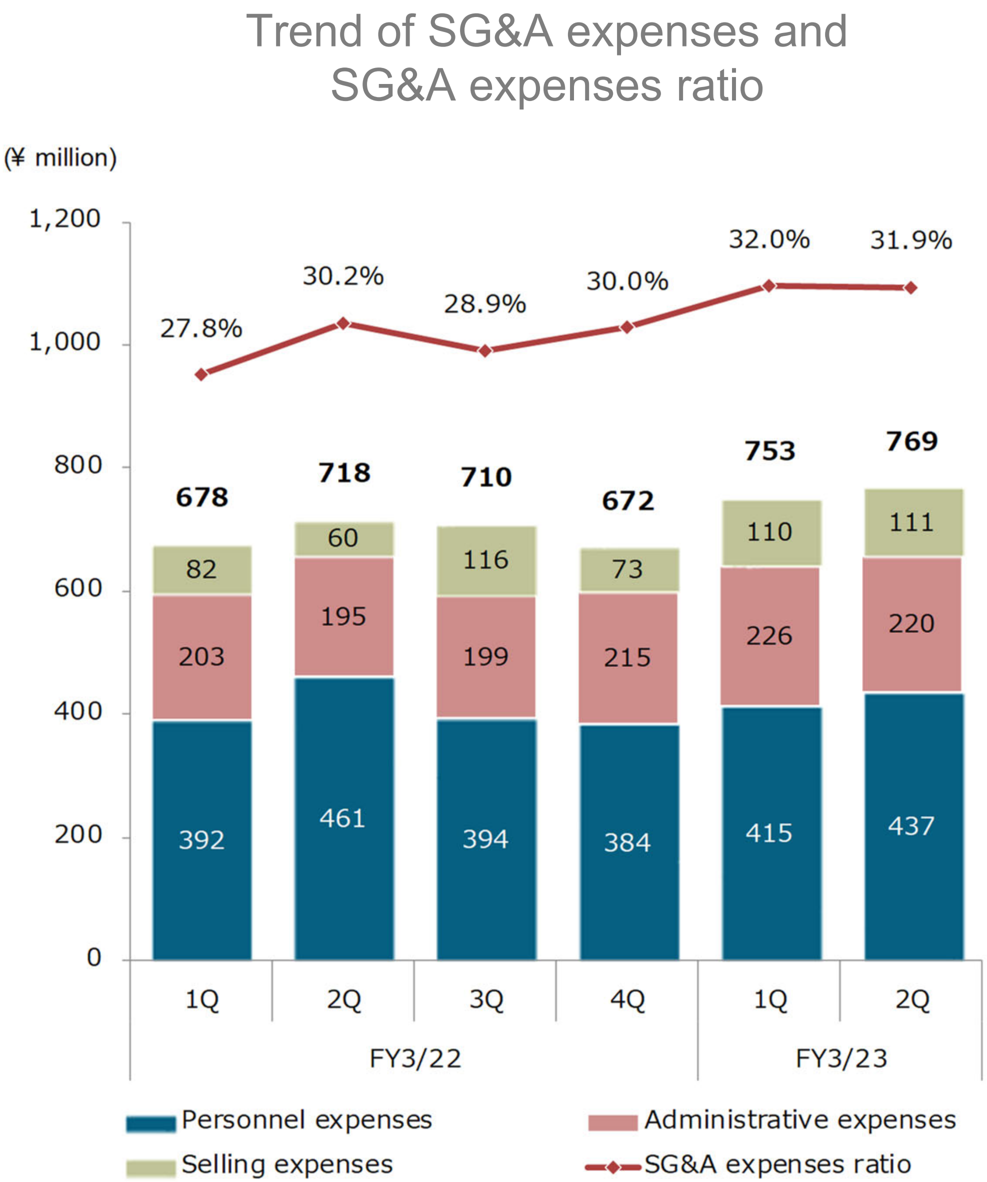


- As production volume declined in response to sluggish sales growth, material costs decreased by 8.8% YoY and outsourcing expenses decreased by 2.8% YoY. However, raw material prices have been rising gradually, due to the price increases of raw materials from April. Labor costs decreased by 3.6% YoY, but manufacturing expenses, mainly repair cost and electricity cost, increased by 11.2% YoY, increased by about 20 to 30% YoY.

- Cost of sales increased by 8.9% YoY due to the addition of cost of sales to China for the April-June period in light of the consolidation of NS TOOL Hong Kong Ltd.

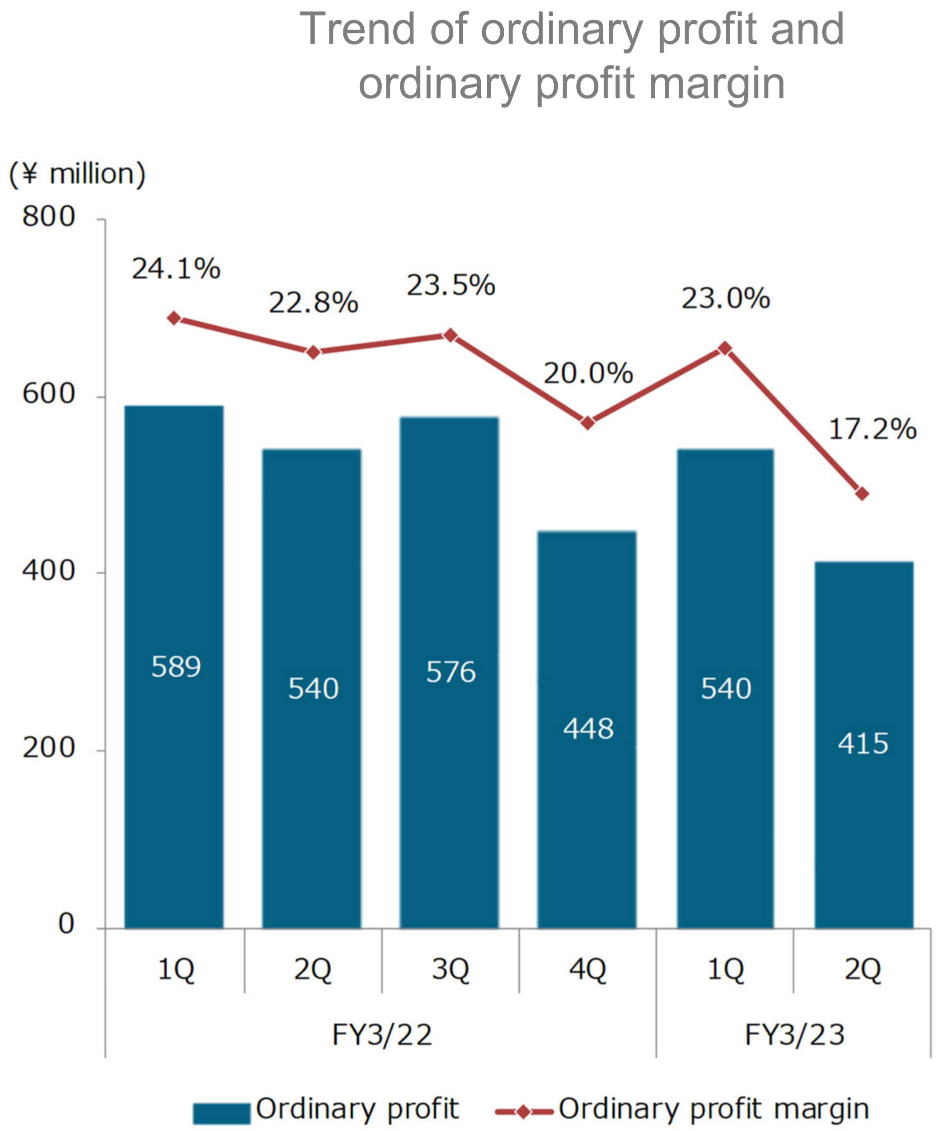
- As a result, gross profit decreased by 5.0% YoY to ¥1,187 million, and the gross profit margin was 49.2%, down 3.4 pp YoY.

Business Performance (Trend of SG&A expenses)

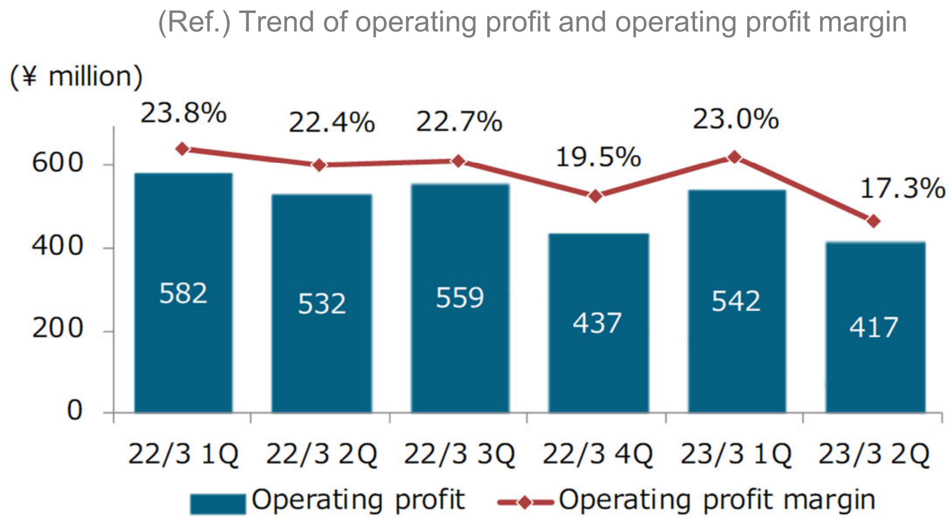


- Selling expenses increased by 83.2% YoY to ¥111 million due to an increase in exhibition expenses for large scale exhibitions such as IMTS in the U.S. and INTERMOLD in Nagoya, as well as increased advertising expenses due to the production of catalogues and pamphlets.
- Personnel expenses decreased by 5.2% to ¥437 million due to a decrease in provision for bonuses.
- Overall SG&A expenses increased by 7.2% YoY to ¥769 million, while SG&A expenses ratio rose by 1.7 pp to 31.9%.

Business Performance (Trend of ordinary profit)



- Operating profit decreased by 21.5% YoY to ¥417 million due to an increase in cost of sales and SG&A expenses.
- Ordinary profit decreased by 23.2% to ¥415 million, partly due to foreign exchange losses of ¥6 million in non-operating income and expenses.
- Ordinary profit margin was 17.2%, declined by 5.6 pp YoY and below 20%.



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	–

*The impact of the share split on April 1, 2021 was considered.

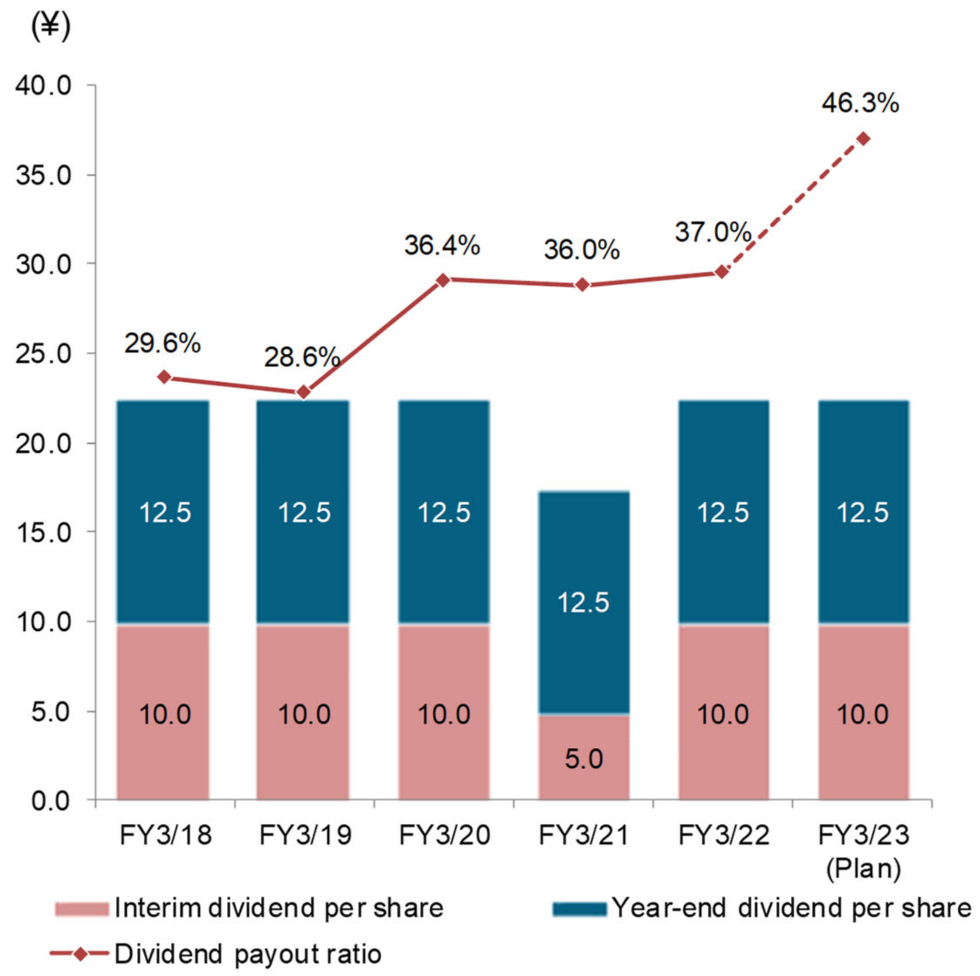
- Concerns about a downturn in external demand rise as global economy is expected to decelerate from 2023 onward due to restrictive monetary policies conducted by various foreign countries. In the automotive industry, production cutbacks are expected to continue, and in the semiconductor-related, demand for tools is expected to remain sluggish due to a decline in demand. Costs are expected to increase further, particularly for raw materials and manufacturing power costs due to the high resource prices and the ongoing depreciation of the yen.

- In response to the cost increases, we will raise prices on some products for orders received in and after November, but the effect is expected to materialize from the fourth quarter.

- 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. Profits are expected to decrease more than net sales because both manufacturing costs and SG&A expenses are expected to increase.

- 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.

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.

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.