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Summary of Business Results for the Second Quarter Ended September 30, 2022 [Japan GAAP] (Consolidated)

October 31, 2022

Company **NS TOOL CO., LTD.** Listed on the TSE
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 Expected date of filing of quarterly report: November 11, 2022
 Expected starting date of dividend payment: December 1, 2022
 Preparation of quarterly supplementary financial document: Yes
 Quarterly results briefing: Yes

(Rounded down to million yen)

1. Consolidated business results for the six months ended September 2022 (April 1, 2022 through September 30, 2022)

(1) Consolidated results of operations (% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sept. 2022	4,768	-1.1	960	-13.8	955	-15.5	620	-19.6
Six months ended Sept. 2021	4,821	32.6	1,114	175.7	1,130	154.6	770	180.2

(Note) Comprehensive income:

Six months ended September 2022: 677 million yen (-13.9%)

Six months ended September 2021: 787 million yen (189.7%)

	Basic earnings per share		Diluted earnings per share	
	Yen	Yen	Yen	Yen
Six months ended Sept. 2022	24.88	24.67	24.67	24.67
Six months ended Sept. 2021	30.81	30.55	30.55	30.55

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sept. 2022	18,136	16,592	90.3	656.40
As of Mar. 2022	17,874	16,165	89.2	640.58

(Reference) Equity:

As of September 2022: 16,376 million yen

As of March 2022: 15,950 million yen

2. Dividends

	Annual dividend				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended Mar. 2022	-	10.00	-	12.50	22.50
Year ending Mar. 2023	-	10.00	-	-	-
Year ending Mar. 2023 (forecast)	-	-	-	12.50	22.50

(Note) Revisions to dividend forecast for the current quarter: None

3. Forecast of consolidated business results for the fiscal year ending March 2023**(April 1, 2022 through March 31, 2023)**

(% change from the previous corresponding period)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Year ending Mar. 2023	9,370	-1.6	1,790	-15.2	1,790	-17.0	1,210	-20.5	48.56

(Note) Revisions to business forecast for the current quarter: Yes

***Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

(2) Application of accounting procedures specific to preparation of the quarterly consolidated financial statements: Yes

(Note) Application of accounting procedures specific to preparation of the quarterly consolidated financial statements. For more details, please refer to "Application of accounting procedures specific to preparation of the quarterly consolidated financial statements" on page 8 of the attached material.

(3) Changes in accounting policies, accounting estimates and restatement

- ① Changes in accounting policies associated with revision of accounting standards: : Yes
 ② Changes in accounting policies other than ① : None
 ③ Changes in accounting estimates : None
 ④ Restatement : None

(Note) For more details, please refer to "(3) Notes to Quarterly Consolidated Financial Statements, (Changes in accounting policies)" of "2. Quarterly Consolidated Financial Statements and Significant Notes Thereto" on page 8 of the attached material.

(4) Shares outstanding (common stock)

- ① Number of shares outstanding at the end of period (treasury stock included)
 As of September 2022 25,035,034 shares
 As of March 2022 25,035,034 shares
- ② Treasury stock at the end of period:
 As of September 2022 85,766 shares
 As of March 2022 135,138 shares
- ③ Average number of stock during period (quarterly cumulative period)
 Six months ended September 2022 24,919,576 shares
 Six months ended September 2021 25,023,211 shares

*** Quarterly financial summary is not subject to the quarterly review procedures by certified public accountants or auditing firms***** Explanation regarding appropriate use of business forecasts and other special instructions**

Above forecasts are based on information currently available to the company and certain assumptions that the company deems to be reasonable at the time this report was prepared. Actual results may differ significantly from the forecasts due to various factors.

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1. Qualitative Information Regarding Results for the First Six Months

(1) Explanation of Operating Results

During the six months ended September 30, 2022, the Japanese economy was back on a slow recovery track centered around consumer spending, due to the easing of COVID-19 related movement restrictions. However, the parts shortage and supply restrictions brought about by changes in the international situation, such as the Russian invasion of Ukraine, caused a delay in the recovery of production activities in the manufacturing sector. In addition, raw materials and energy costs have risen sharply, in line with the ongoing depreciation of the yen and rising prices, triggered by restrictive monetary policies conducted by various foreign countries to control inflation. Consequently, prospects are now unclear.

As for the situation of the major consumers for the products of the Company group (the “Group”), the automotive industry continued to experience weak demand due to continued production cutbacks following the impact of the parts shortage and supply restrictions. On the other hand, the market of semiconductor and electronic components and devices slowed down, as within the semiconductor market, which had been brisk, demand for smartphones and PCs showed signs of stabilization.

Amid such an environment, the Group strived to cultivate new users with tools proposals which met various needs, through displays at the increasing in-person exhibitions, in line with the easing of movement restrictions. In September, we were present at IMTS2022 in Chicago in the United States. The event is one of the three biggest machine tools exhibitions in the world and was held for the first time in four years. We attracted customers with our promotional initiatives using social media and were able to approach a wide range of industries such as the automotive, medical and space industries. In addition, we proactively conducted PR activities with regard to our subsidiary NS TOOL USA, the North-American sales base that we established last year.

On the product front, the MUGEN COATING PREMIUM Plus 4-Flute/6-Flute Square End Mill for Hardened Steel “MHDSH445” and “MHDSH645,” which have a long tool life even when used on hardened steels, were launched in September.

In terms of production, the Group continues to promote “Orange FC Activities,” which are “NS TOOL Group improvement activities that take on challenges for the future,” and worked to improve optimization and cost reductions. Furthermore, our performance in reducing our green-house gas emissions during the fiscal year 2021, via the saving of resources including energy, was evaluated and we received the “Environmental Special Award” from the Japan Cutting & Wear-resistant Tool Association.

As a result, net sales for the six months ended September 30, 2022 were ¥4,768 million (down 1.1% year on year), operating profit was ¥960 million (down 13.8% year on year), ordinary profit was ¥955 million (down 15.5% year on year), and profit attributable to owners of parent was ¥620 million (down 19.6% year on year).

By product category, sales of “End mills (diameter 6 mm or less)” were ¥3,707 million (down 1.8% year on year), sales of “End mills (diameter over 6 mm)” were ¥431 million (down 4.7% year on year), sales of “End mills (other)” were ¥265 million (up 6.4% year on year), and sales of “Other” were ¥364 million (up 6.5% year on year).

(Note) Since there is only one reportable segment, the information is presented by product category. The “Other” business segment is included in “Other” by product category.

(2) Explanation of Financial Position

As for the consolidated financial position as of September 30, 2022, total assets increased by ¥261 million compared to the end of the previous fiscal year to ¥18,136 million. This was mainly due to an increase in inventories stemming from the planned production, among other factors.

Furthermore, liabilities decreased by ¥164 million compared to the end of the previous fiscal year to ¥1,543 million. This was mainly due to payment of income taxes payable and a decrease in provision for bonuses.

Net assets increased by ¥426 million compared to the end of the previous fiscal year to ¥16,592 million due to an increase in retained earnings, etc. Equity-to-asset ratio as of September 30, 2022 amounted to 90.3%.

(3) Explanation of Consolidated Business Results Forecast and Other Forward-looking Statements

Due to the restrictive monetary policies implemented in various foreign countries, and with the expected deceleration of the global economy from 2023 onward, there are concerns about a downturn in foreign demand. From the third quarter onward, we do not anticipate large changes in the situation of the major consumers for the products of the Group, and we expect the demand for tools to remain dull.

In addition, we have decided to raise prices on some products for orders received in and after November, but the effect is expected to materialize starting from the fourth quarter. Upcoming cost increases are also inevitable. For these reasons, we have chosen to lower our forecast of business results for the full year compared to our previous announcement (May 16, 2022).

For details on the revisions, please refer to the “Notice of Revisions to the Forecast of Business Results” announced today (October 31, 2022).

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	8,543,254	8,537,815
Notes and accounts receivable - trade	1,322,918	1,439,527
Merchandise and finished goods	1,191,205	1,298,508
Work in process	304,224	246,043
Raw materials and supplies	345,547	481,728
Other	100,391	78,916
Total current assets	11,807,542	12,082,540
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	2,674,457	2,612,270
Machinery, equipment and vehicles, net	1,716,992	1,563,676
Land	800,483	800,483
Construction in progress	66,367	324,379
Other, net	176,813	153,477
Total property, plant and equipment	5,435,114	5,454,288
Intangible assets	32,663	29,740
Investments and other assets		
Investment securities	50,765	29,925
Deferred tax assets	412,829	406,098
Other	135,271	133,412
Total investments and other assets	598,865	569,435
Total non-current assets	6,066,644	6,053,464
Total assets	17,874,187	18,136,004

(Thousands of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	249,230	261,760
Income taxes payable	445,948	302,953
Provision for bonuses	241,481	218,220
Provision for bonuses for directors (and other officers)	102,034	44,316
Other	444,576	491,589
Total current liabilities	1,483,270	1,318,838
Non-current liabilities		
Long-term accounts payable - other	224,952	224,952
Total non-current liabilities	224,952	224,952
Total liabilities	1,708,222	1,543,790
Net assets		
Shareholders' equity		
Share capital	455,330	455,330
Capital surplus	418,223	418,223
Retained earnings	15,271,863	15,566,890
Treasury shares	(200,791)	(127,424)
Total shareholders' equity	15,944,625	16,313,019
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,532	5,946
Foreign currency translation adjustment	2,171	57,613
Total accumulated other comprehensive income	5,704	63,560
Share acquisition rights	215,634	215,634
Total net assets	16,165,964	16,592,213
Total liabilities and net assets	17,874,187	18,136,004

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly Consolidated Statement of Income (Cumulative)**

(Thousands of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	4,821,243	4,768,806
Cost of sales	2,310,096	2,285,721
Gross profit	2,511,147	2,483,085
Selling, general and administrative expenses	1,396,741	1,522,976
Operating profit	1,114,405	960,108
Non-operating income		
Interest income	24	26
Dividend income	353	493
Subsidy income	60	1,004
Gain on sale of scraps	7,930	9,070
Surrender value of insurance policies	13,430	–
Other	1,887	5,543
Total non-operating income	23,686	16,138
Non-operating expenses		
Rental expenses	–	4,227
Foreign exchange losses	6,541	16,056
Other	718	31
Total non-operating expenses	7,260	20,315
Ordinary profit	1,130,831	955,931
Extraordinary income		
Gain on sale of non-current assets	253	1,131
Total extraordinary income	253	1,131
Extraordinary losses		
Loss on sale of non-current assets	2,083	–
Loss on retirement of non-current assets	632	31
Loss on valuation of investment securities	–	24,289
Total extraordinary losses	2,715	24,321
Profit before income taxes	1,128,369	932,741
Income taxes	357,509	312,683
Profit	770,859	620,057
Profit attributable to non-controlling interests	–	–
Profit attributable to owners of parent	770,859	620,057

Quarterly Consolidated Statement of Comprehensive Income (Cumulative)

(Thousands of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	770,859	620,057
Other comprehensive income		
Valuation difference on available-for-sale securities	440	2,413
Foreign currency translation adjustment	15,905	55,442
Total other comprehensive income	16,345	57,855
Comprehensive income	787,205	677,913
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	787,205	677,913
Comprehensive income attributable to non-controlling interests	–	–

(3) Notes to Quarterly Consolidated Financial Statements

Notes on uncertainties of entity's ability to continue as going concern

Not applicable.

Notes when there are significant changes in amounts of shareholders' equity

Not applicable.

Application of accounting procedures specific to preparation of the quarterly consolidated financial statements

With regard to the Company and certain subsidiaries, tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the second quarter of the current fiscal year.

Changes in accounting policies

Application of Guidance on Accounting Standard for Measurement of Fair Value

“Guidance on Accounting Standard for Measurement of Fair Value” (ASBJ Guidance No. 31, June 17, 2021; hereinafter “Guidance on Accounting Standard for Measurement of Fair Value”) is applied from the beginning of the first quarter of the current fiscal year, and the new accounting policy prescribed by the Guidance will be applied prospectively in accordance with the transitional treatment prescribed in Section 27-2 of Guidance on Accounting Standard for Measurement of Fair Value. There is no impact on the quarterly consolidated financial statements.