

NIRECO CORP. (6863)

Material for FY2019 Financial Results

May 22, 2020

Cautionary Statement

This document includes forward-looking statements that reflect management's current assumptions and expectations of future events, and accordingly, they are inherently susceptible to uncertainties and changes in circumstances and are not guarantees of future performance. Actual results may differ materially, for a wide range of possible reasons, including general industry and market conditions and general international economic conditions.

Trends in the Performance

FY18

FY19

FY20(Plan)

Unit: JPY in Millions

| | | | |
|-------------------|--------------------|--------------------|-------------------|
| Orders Received: | 9,325 (+7% YoY) | 8,317 (-11%YoY) | 8,700 (+8%YoY) |
| Net Sales: | 8,441 (+7% YoY) | 8,775 (+4%YoY) | 8,400 (-4%YoY) |
| Operating Profit: | 898 (+27%YoY) | 952 (+6%YoY) | 450 (-53 %YoY) |

Financial Results & Plan

Main objectives

- ◆ Expansion of markets
- ◆ Technological advances
- ◆ Shareholder returns

For Sustainable growth in any circumstances

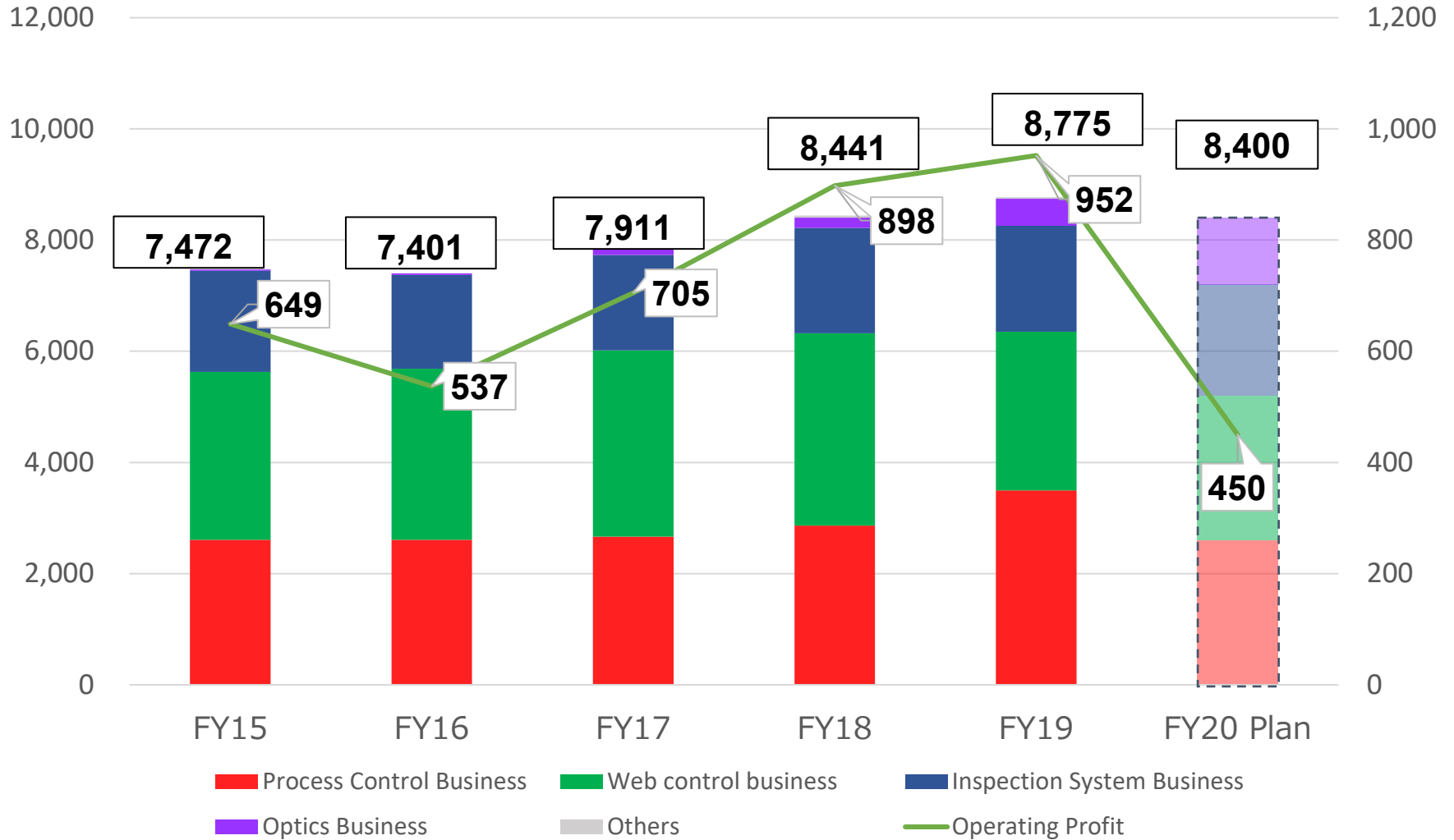
Main efforts of FY2019

- ◆ Expand & enhance business foundations
 - Enhancement of sales and production capability of overseas subsidiaries.
 - Development of new surface inspection system for high-functional film market
- ◆ Seek for higher competitive advantage
 - Expanded new businesses in optical component field

Maintain stable dividend and aim for dividend payout ratio of 35%

Trends in the Performance

(Unit: JPY in Millions)



* The figures for the optics business before the FY18 are based on the conventional "Others" figure.

- 1 . FY2019 Financial Results
- 2 . Plans for FY2020
- 3 . Towards Sustainable Growth

1. FY2019 Financial Results (Apr.2019 – Mar.2020)

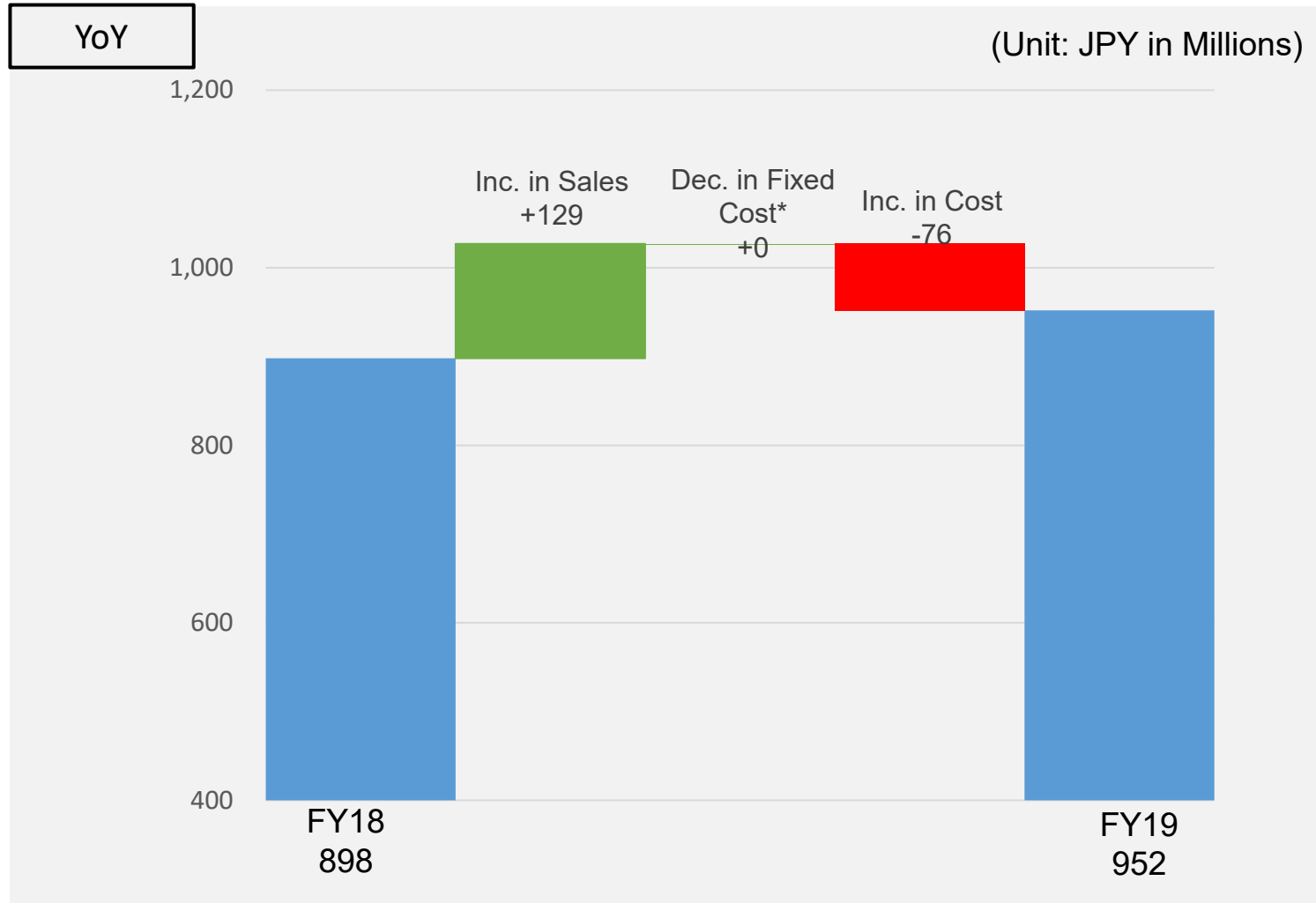
Consolidated Statement

- Operating profit and net profit attributable to owners of parent exceeded the previous year and original plan.
- Orders received decreased due to US-China trade friction and the spread of coronavirus infection.

(Unit: JPY in Millions)

| | FY18 | FY19 | | Rate of change | |
|--|-------|--------------|--------|----------------|------------|
| | | Initial Plan | Result | YoY | Vs to Plan |
| Orders received | 9,325 | 9,300 | 8,317 | -11% | -11% |
| Net sales | 8,441 | 9,000 | 8,775 | +4% | -3% |
| Operating profit | 898 | 950 | 952 | +6% | +0% |
| Operating profit margin | 10.6% | 10.6% | 10.9% | - | - |
| Ordinary profit | 1,011 | 1,050 | 989 | -2% | -6% |
| Ordinary profit margin | 12.0% | 11.7% | 11.3% | - | - |
| Profit attributable to owners of parent | 489 | 730 | 779 | +59% | +7% |
| Profit attributable to owners of parent margin | 5.8% | 8.1% | 8.9% | - | - |
| Earnings per share (JPY) | 66.07 | 98.46 | 106.58 | +61% | +8% |
| Order backlog | 3,824 | 4,124 | 3,367 | -12% | -18% |

Increase/ Decrease Factors in Operating Profit



※Fixed Cost = SG&A Expenses

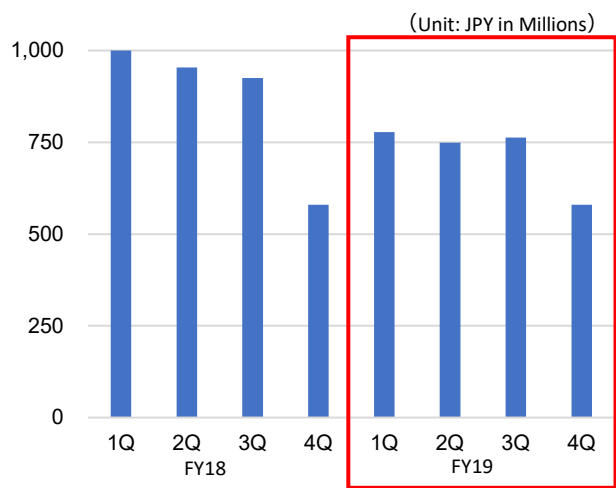
Process Control Business

- FY19 sales and profits increased from FY18, due to the large order backlog at end of FY18
- Orders received decreased due to excessive production equipment in the steel industry

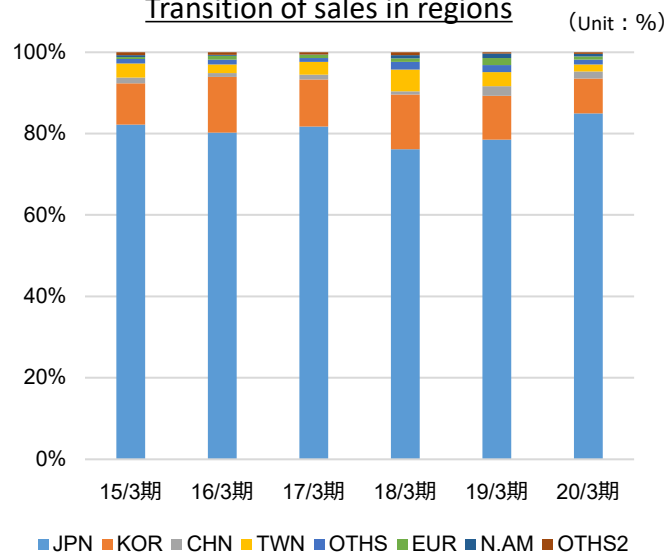
(Unit: JPY in Millions)

| | FY18 | FY19 | | YoY | Res./ Plan |
|-----------------------|--------|--------------|--------|------|------------|
| | Actual | Initial Plan | Actual | | |
| Orders received | 3,535 | 3,500 | 2,870 | -19% | -18% |
| Net sales | 2,862 | 3,300 | 3,497 | 22% | 6% |
| Segment profit | 671 | 750 | 736 | 10% | -2% |
| Segment profit margin | 23.5% | 22.7% | 21.1% | - | - |
| Order backlog | 2,141 | 2,341 | 1,514 | -29% | -35% |

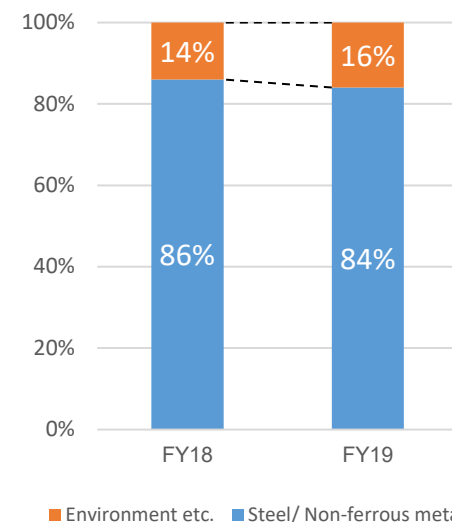
Transition of order received



Transition of sales in regions



Sales composition ratio by industries



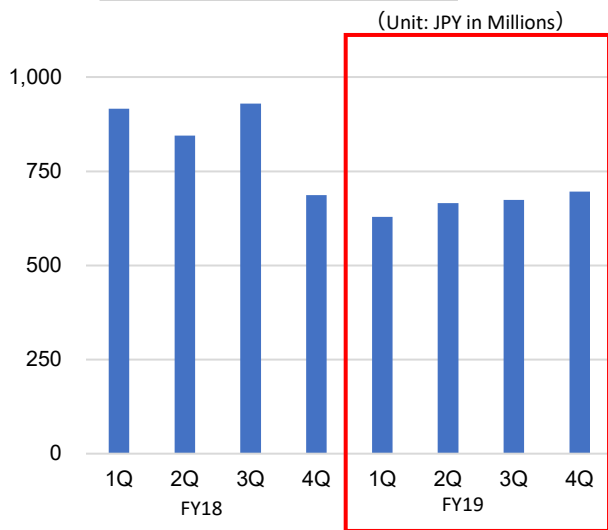
Web Control Business

- Sales and profits decreased YoY due to the slowdown in the Chinese economy and the calming down of capital investment demand for LiB rechargeable batteries and electronic components.

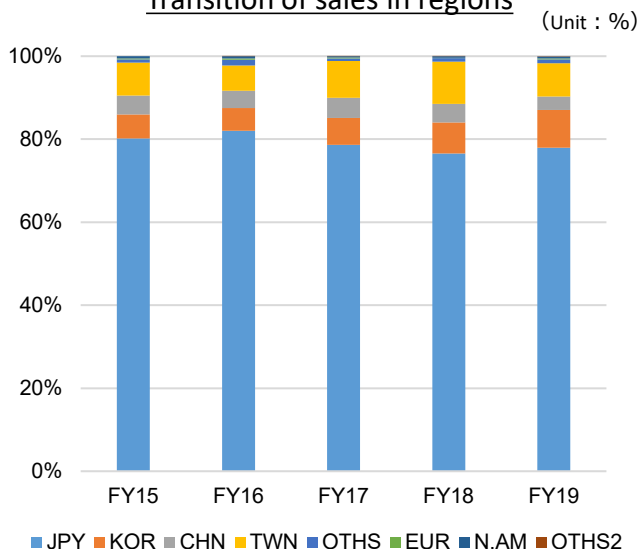
(Unit: JPY in Millions)

| | FY18 | FY19 | | YoY | Res./ Plan |
|-----------------------|--------|--------------|--------|------|------------|
| | Actual | Initial Plan | Actual | | |
| Orders received | 3,376 | 3,400 | 2,664 | -21% | -22% |
| Net sales | 3,463 | 3,400 | 2,853 | -18% | -16% |
| Segment profit | 842 | 800 | 547 | -35% | -32% |
| Segment profit margin | 24.3% | 23.5% | 19.2% | - | - |
| Order backlog | 748 | 748 | 559 | -25% | -25% |

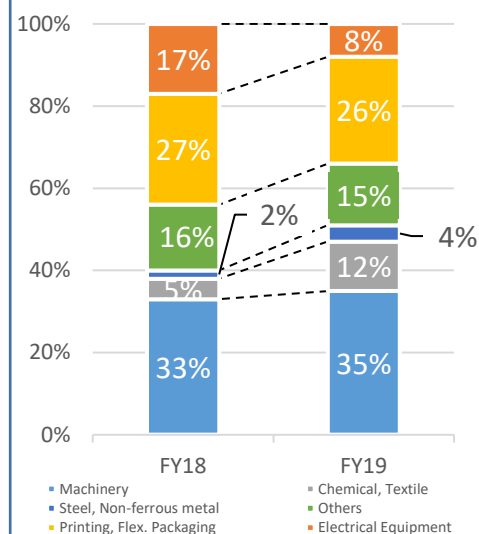
Transition of order received



Transition of sales in regions



Sales composition ratio by industries



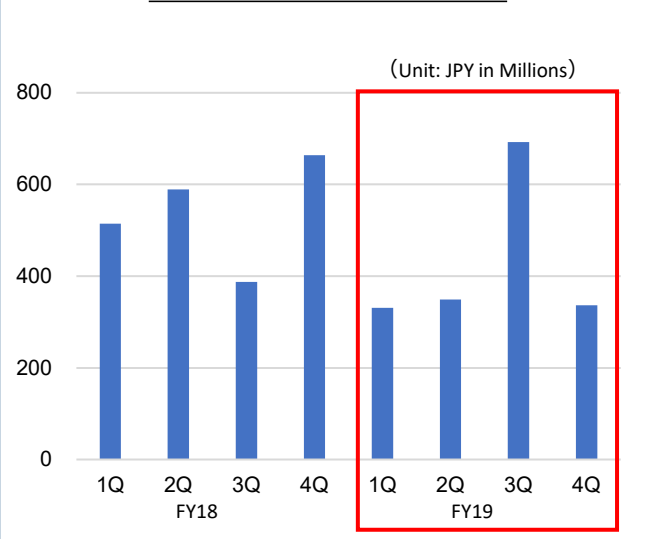
Inspection System Business

- Sales of Surface inspection system surpassed FY18 despite the restraint on capital investment of electronic components market.
- Segment profit was improved

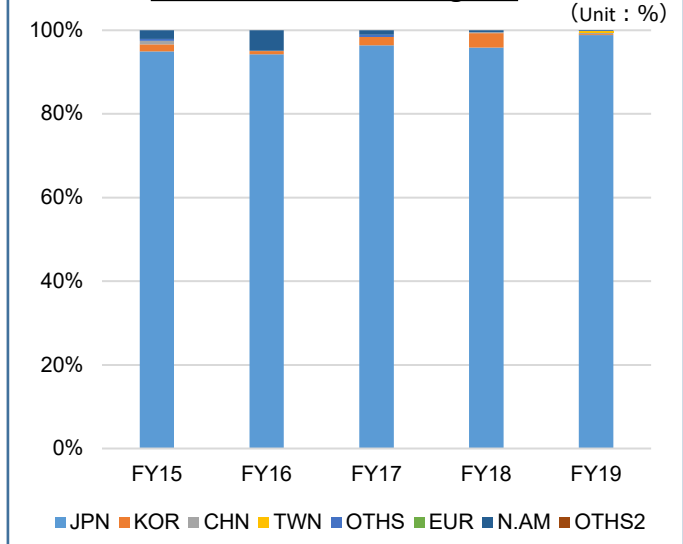
(Unit: JPY in Millions)

| | FY18 | FY19 | | YoY | Res./ Plan |
|-----------------------|--------|--------------|--------|--------|------------|
| | Actual | Initial Plan | Actual | | |
| Orders received | 2,154 | 2,200 | 1,708 | -21% | -22% |
| Net sales | 1,896 | 2,100 | 1,906 | 1% | -9% |
| Segment profit | 72 | 100 | 92 | 28% | -8% |
| Segment profit margin | 3.8% | 4.8% | 4.9% | - | - |
| Order backlog | 910 | 1,010 | 711 | -21.9% | -30% |

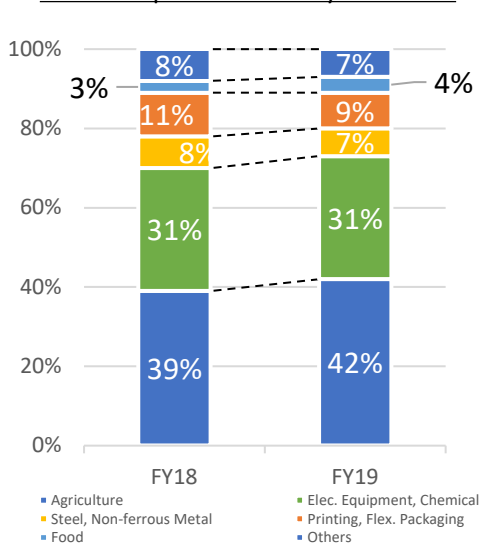
Transition of order received



Transition of sales in regions



Sales composition ratio by industries

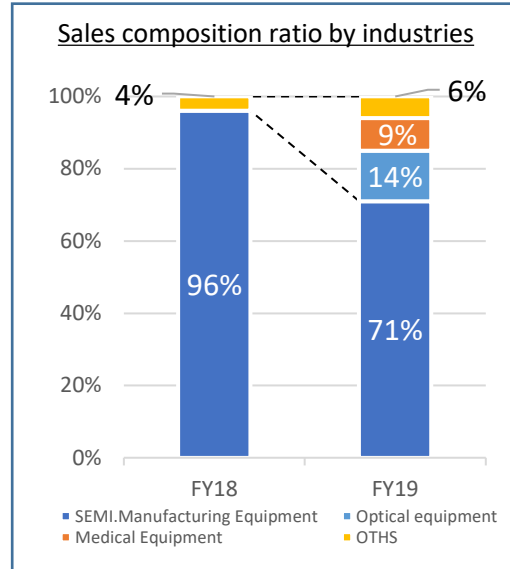
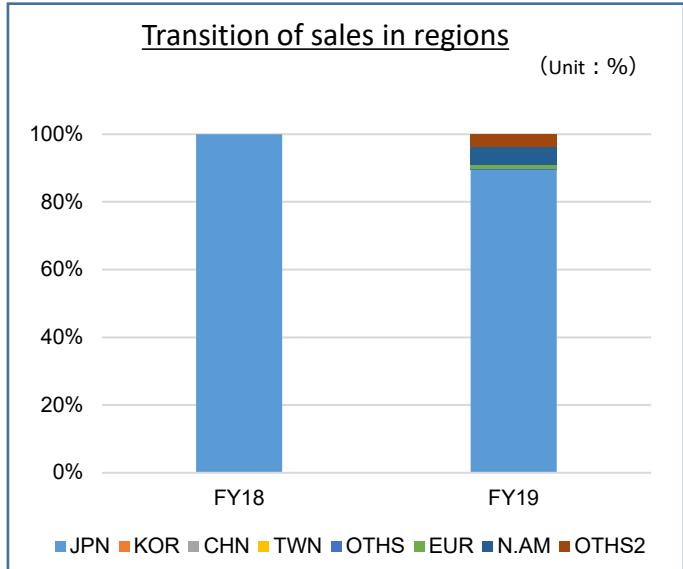
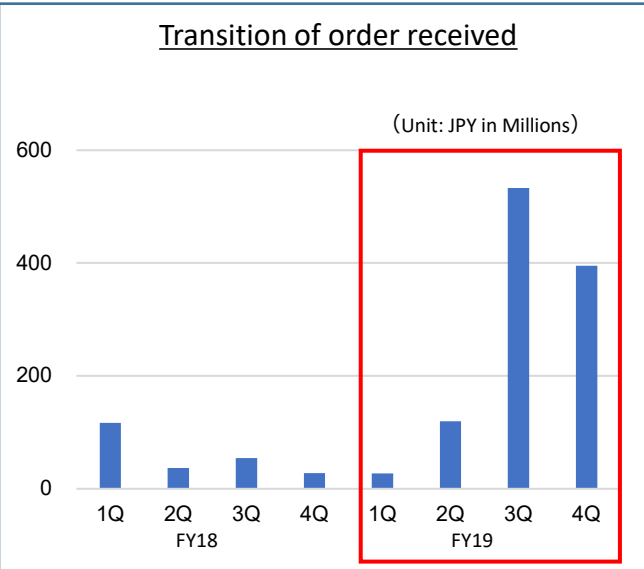


Optics Business

- Nireco acquired Kogakugiken Corp. a leading company for high precision optical components to enlarge the business area to the semiconductor inspection equipment and the medical field.
- Established a new Optics Business segment by integrating new optics component division into existing laser division.

(Unit: JPY in Millions)

| | FY18 Actual | FY19 Actual |
|-----------------------|----------------|----------------|
| Orders received | 235 | 1,046 |
| Net sales | 184 | 486 |
| Segment profit | -106 | 78 |
| Segment profit margin | - | 0 |
| Order backlog | 24 | 578 |



* 1. Since the optics business has been categorized from the FY19, the "Transition of order received" figure is taking conventional "Others" category.
 2. The figure takes that the sales of Kogakugiken are taking from 4Q FY19 and the orders received are taking from 3Q FY19

Balance Sheet

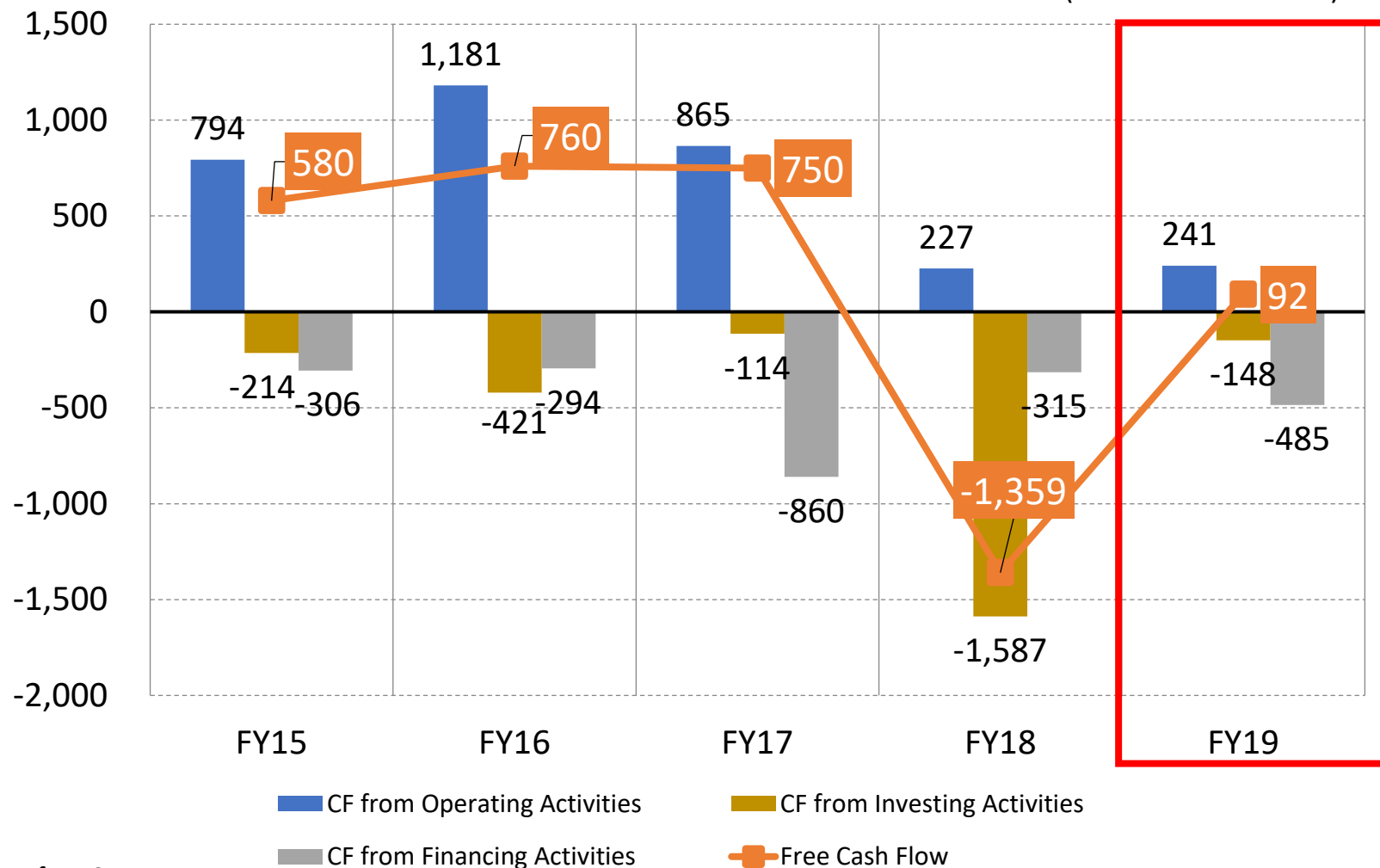
- Fixed assets and fixed liabilities increased from the end of the FY18 due to the acquisition of Kogakugiken Corp.

(Unit: JPY in Millions)

| | End of FY18 (Mar. 31, 2019) | | End of FY19 (Mar. 31, 2020) | | Change |
|---|--------------------------------|---------------|--------------------------------|---------------|--------------|
| Cash and deposits | 4,990 | 35.6% | 4,155 | 27.8% | - 835 |
| Trade receivables | 3,280 | 23.4% | 4,116 | 27.6% | + 836 |
| Inventories | 1,896 | 13.5% | 1,933 | 12.9% | + 37 |
| Other current assets | 338 | 2.4% | 234 | 1.6% | - 104 |
| Current assets | 10,506 | 75.0% | 10,439 | 69.9% | - 67 |
| Property, plant and equipment | 1,919 | 13.7% | 2,854 | 19.1% | + 935 |
| Intangible assets | 133 | 1.0% | 245 | 1.6% | + 112 |
| Investments and other assets | 1,454 | 10.4% | 1,398 | 9.4% | - 56 |
| Non-current assets | 3,506 | 25.0% | 4,498 | 30.1% | + 992 |
| Total assets | 14,012 | 100.0% | 14,937 | 100.0% | + 925 |
| Accounts payable - trade | 392 | 2.8% | 299 | 2.0% | - 93 |
| Other current liabilities | 1,068 | 7.6% | 1,189 | 8.0% | + 121 |
| Current liabilities | 1,460 | 10.4% | 1,488 | 10.0% | + 28 |
| Non-current liabilities | 61 | 0.4% | 567 | 3.8% | + 506 |
| Total liabilities | 1,521 | 10.9% | 2,055 | 13.8% | + 534 |
| Total net assets | 12,490 | 89.1% | 12,882 | 86.2% | + 392 |
| Total liabilities and net assets | 14,012 | 100.0% | 14,937 | 100.0% | + 925 |

Cash Flows

(Unit: JPY in Millions)



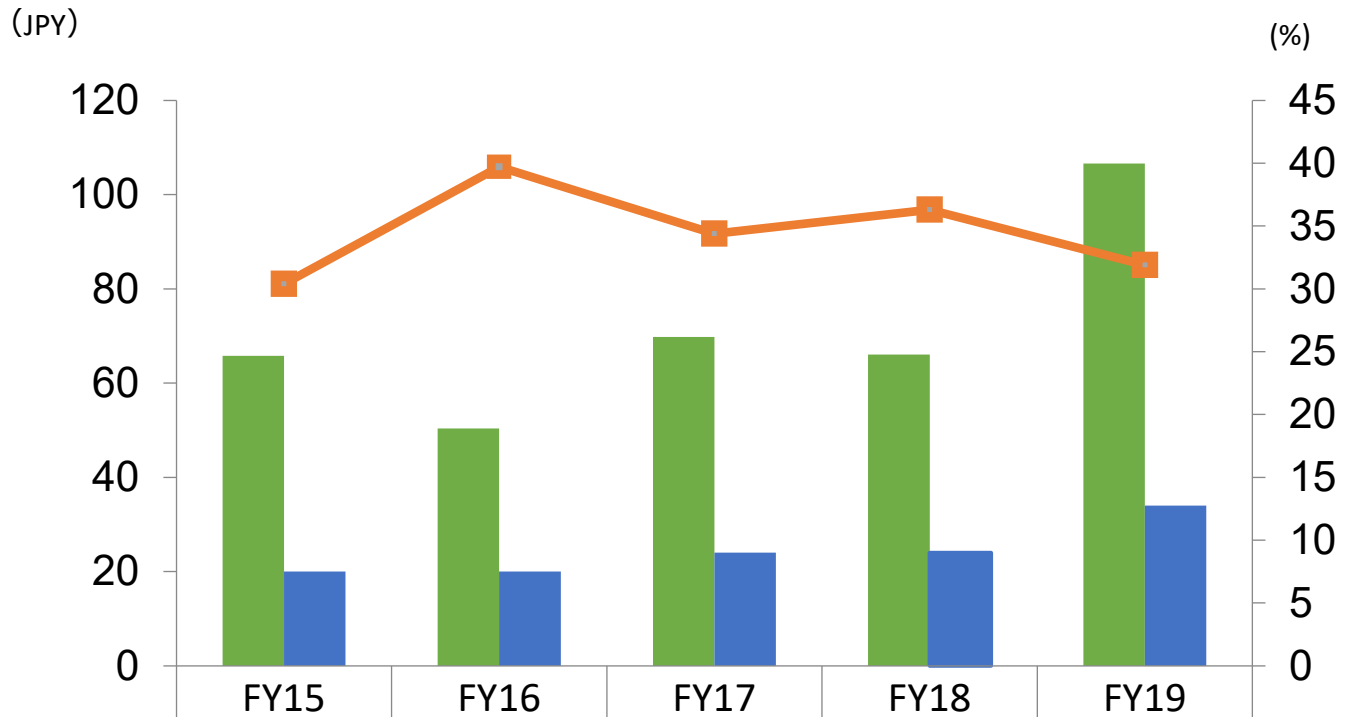
Overview of FY19

Cash flows from operating activities: Income before income taxes (1,030 million yen), increase in trade receivables (-705 million yen)

Cash flows from investing activities: Deposits and withdrawals of fixed deposit (447 million yen), acquisition of subsidiary shares (-400 million yen), fixed assets acquisition (-168 million yen)

Shareholders Return

Basic Policy : Maintain stable dividend. Aim for a dividend payout ratio of 35%



| | | | | | |
|------------------------------|------|-------|-------|-------|--------|
| ■ Net profit per share (JPY) | 65.8 | 50.39 | 69.79 | 66.07 | 106.58 |
| ■ Dividends (JPY) | 20 | 20 | 24 | 24 | 34 |
| ■ Dividend Payout Ratio (%) | 30.4 | 39.7 | 34.4 | 36.3 | 31.9 |

Increase in annual dividend by JPY 10 YoY in FY19

2 . Plans for FY2020 (Apr.2020 – Mar.2021)

Business Plan

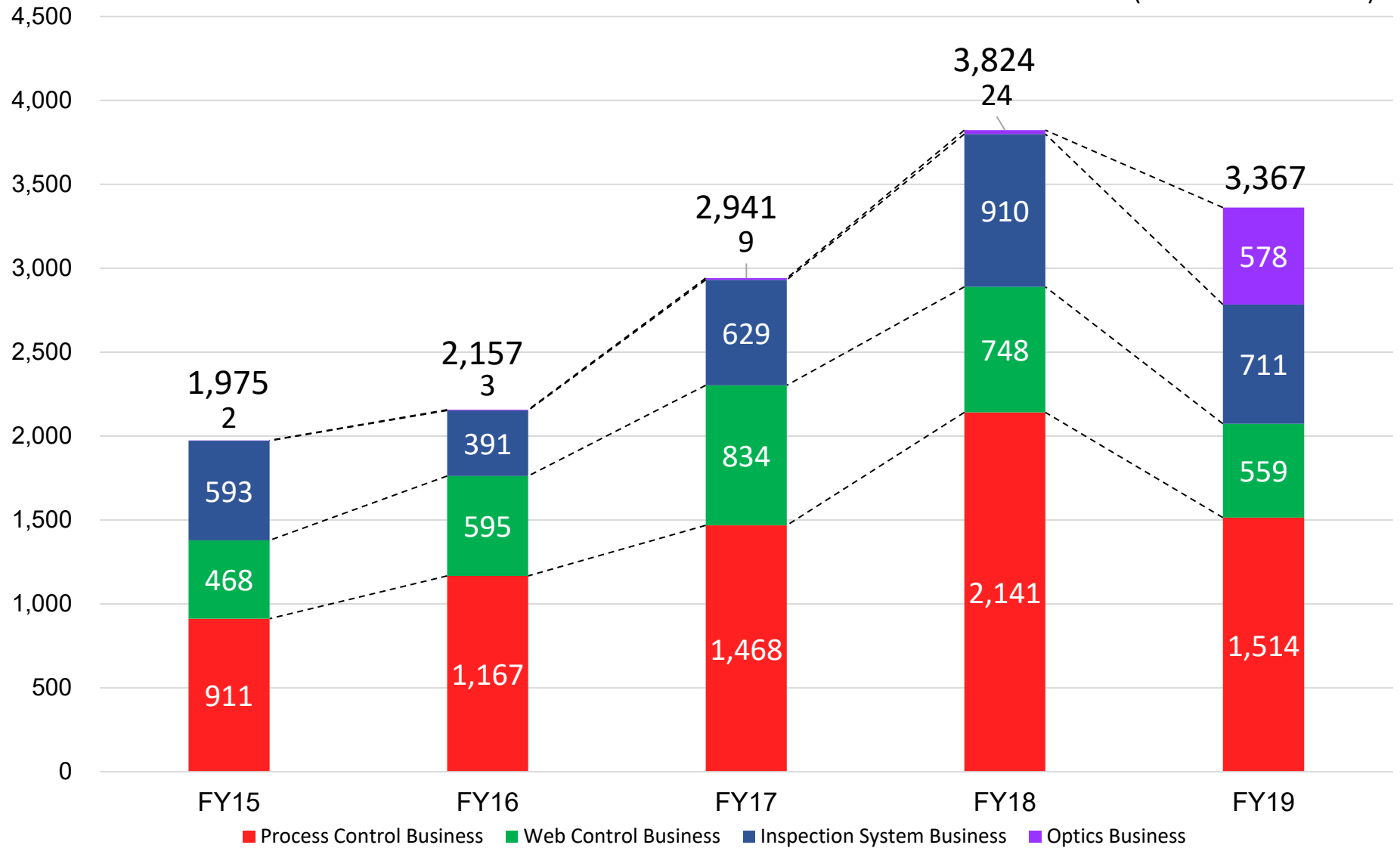
➤ Expect severe business circumstances due to the spread of new coronavirus infection

(Unit: JPY in Millions)

| | FY19 | FY20 Plan | YoY |
|--|--------|-----------|------|
| Orders received | 8,317 | 8,700 | +5% |
| Net sales | 8,775 | 8,400 | -4% |
| Operating profit | 952 | 450 | -53% |
| Operating profit margin | 10.9% | 5.4% | - |
| Ordinary profit | 989 | 490 | -50% |
| Ordinary profit margin | 11.3% | 5.8% | - |
| Profit attributable to owners of parent | 779 | 340 | -56% |
| Profit attributable to owners of parent margin | 8.9% | 4.0% | - |
| Earnings per share (JPY) | 106.58 | 46.54 | -56% |
| Order backlog | 3,367 | 3,667 | +9% |

Transition of Order Backlog

(Unit: JPY in Millions)



* Since the optics business was categorized from FY19, the order backlog shows the "Other" category before the FY18. The order backlog of "Others" is not included in the FY19.

Market Conditions & Measures: Process Control Business

Domestic Steel Market

- Steelmakers' equipment consolidation limits its incentive for capital investment.



- Focus on quality improvement, productivity improvement and cost reduction at customers.

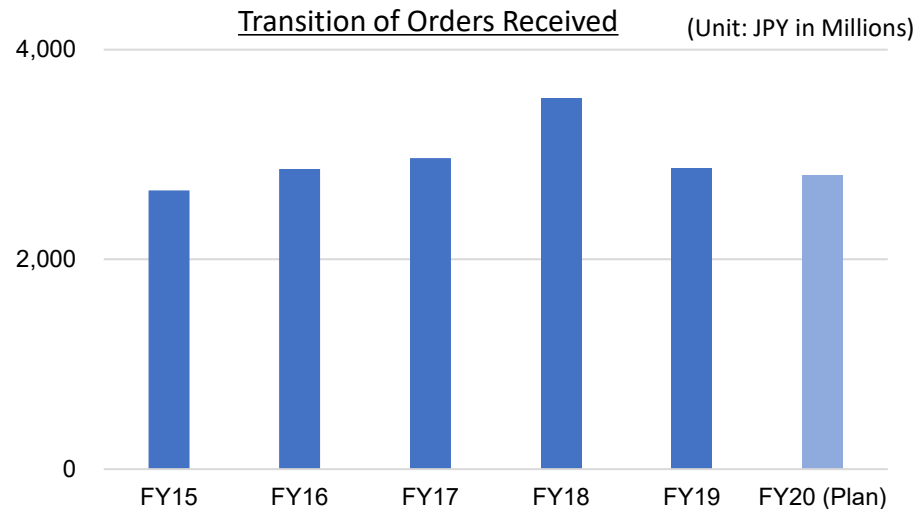
Overseas Steel Market

- Expecting market recovery mainly in China from the stagnating



- Strengthening the organization of overseas group companies and building a cooperation with local companies for penetrating the China market
- Develop a new product to meet market needs

| | FY19 | FY20 Plan |
|-----------------------|-------|-----------|
| Orders received | 2,870 | 2,800 |
| Net sales | 3,497 | 2,600 |
| Segment profit | 736 | 350 |
| Segment profit margin | 21.1% | 13.5% |



Market Conditions & Measures: Web Control Business

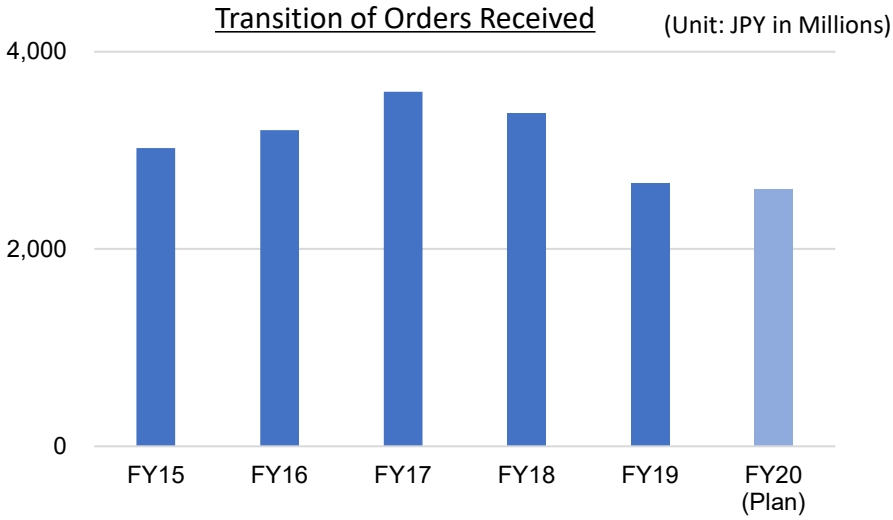
Domestic Market

- Demand for LiB rechargeable batteries and electronic parts are temporarily slowed down.
 - Capital investments accelerate for innovating technologies, such as 5G, etc.
- ↓
- The company plans to tackle that take the market needs from electronic component manufacturers
 - Expand the range of product applications

Overseas Market

- Demand for LiB rechargeable batteries and electronic components in China, Korea, and Taiwan remain stable.
- ↓
- Strengthen manufacturing and sales structure for prospective growing fields.

| | FY19 | FY20 Plan |
|-----------------------|-------|-----------|
| Orders received | 2,664 | 2,600 |
| Net sales | 2,853 | 2,600 |
| Segment profit | 547 | 350 |
| Segment profit margin | 19.2% | 13.5% |



Market Conditions & Measures: Inspection System Business

High Functional Film Market

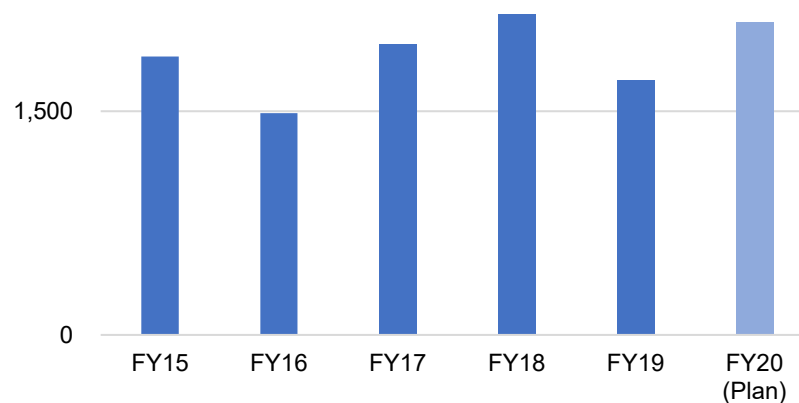
- Delay in capital investment for LiB rechargeable batteries and electronic components
 - Diversification of needs
- ↓
- Explore the further expansion of the market share of the defect inspection system for plain surfaces
 - Launch a new inspection device products

Food Related Market

- Although in a temporary stagnation period, needs for inspection of processed foods are expanding for labor-saving and productivity improvement.
- ↓
- Capture the rising inspection needs for processed food
 - Develop a new overseas market for fruit/vegetable sorting systems

| | FY19 | FY20 Plan |
|-----------------------|-------|-----------|
| Orders received | 1,708 | 2,000 |
| Net sales | 1,906 | 2,000 |
| Segment profit | 92 | 100 |
| Segment profit margin | 4.9% | 5.0% |

Transition of Orders Received (Unit: JPY in Millions)



Market Conditions & Measures: Optics Business

Optical Component Market

- Due to the demand for technical sophistication, such as higher circuit density of semiconductors, demand for inspection equipment is strong.
 - Optical device makers request high precision optical components
- ↓
- Expand production capability to capture the demand for optical components
 - Develop new applications by utilizing the strengths of crystal processing technology

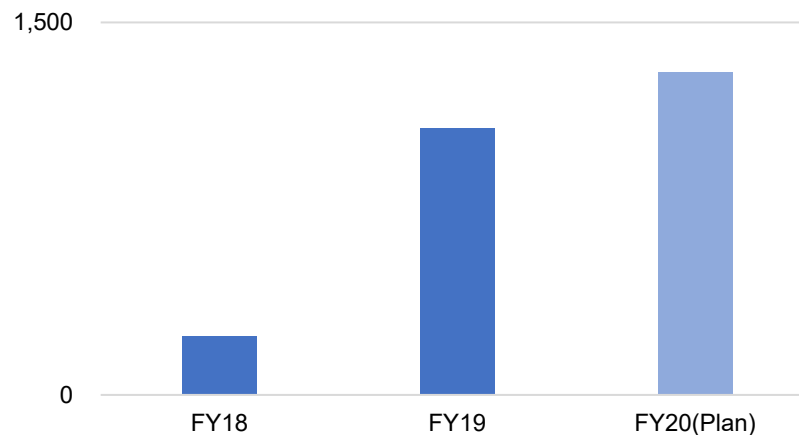
Laser-related products

- Demand in a wide range of fields such as semiconductors and medical
- ↓
- Develop the new products and early launch
 - Develop the new application that takes advantage of product features

| | FY19 | FY20 Plan |
|-----------------------|-------|-----------|
| Orders received | 1,046 | 1,300 |
| Net sales | 486 | 1,200 |
| Segment profit | 78 | 200 |
| Segment profit margin | 16.2% | 16.7% |

* Kogakugiken Corp. became a group company of the Nireco group in FY19, it consolidated to P/L from the 4Q. As a result, the importance of the optical-related business increased. Therefore, Kogakugiken business and previously classified as "Other", combined to "Optics business". The optics business has been categorized from the FY19. Therefore, there is large figure differences between the sales results for the FY19 and the sales plan for the FY20.

Transition of Orders Received (Unit: JPY in Millions)



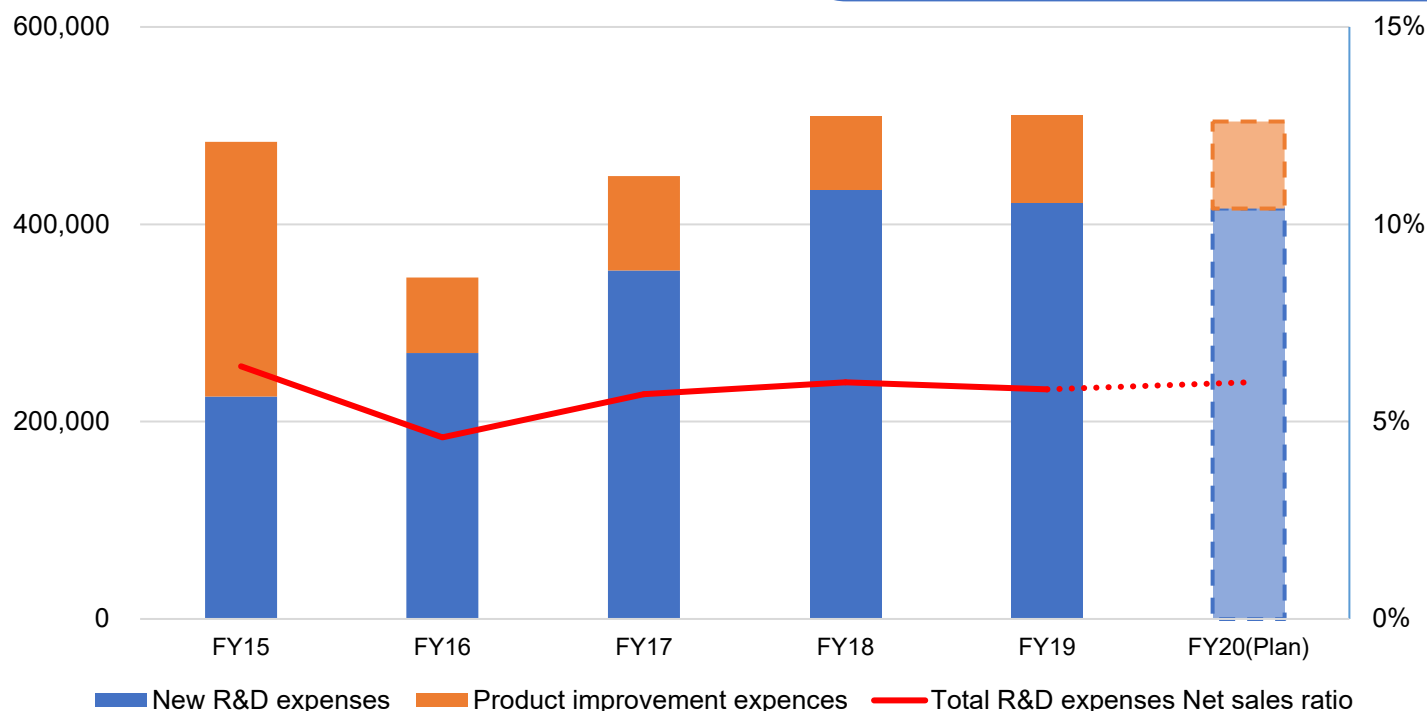
R&D

- Aiming to generate a new revenue stream, accelerate development projects by utilizing technologies with strength.

Main development Theme

- Development of next-generation inspection system and measuring devices
- Development of new product utilizing laser technology
- Development of new product utilizing magnetic field & microwave technology

(Unit: JPY in Thousands)



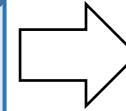
3. Towards sustainable growth

Main objectives for sustainable growth

Strengthen our organization that can grow & develop in any circumstances

Expansion of market

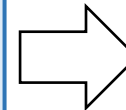
- Drive overseas expansion
- Strengthen Inspection system business and Optics business
- Exploit new fields of business through new-product development



**Expand & enhance
business foundations**

Technological advances

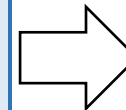
- By enhancing image analysis technology
- By optical technology
- By magnetic field and microwave technology



**Enhance
competitive advantage**

Reinforce organizational capability

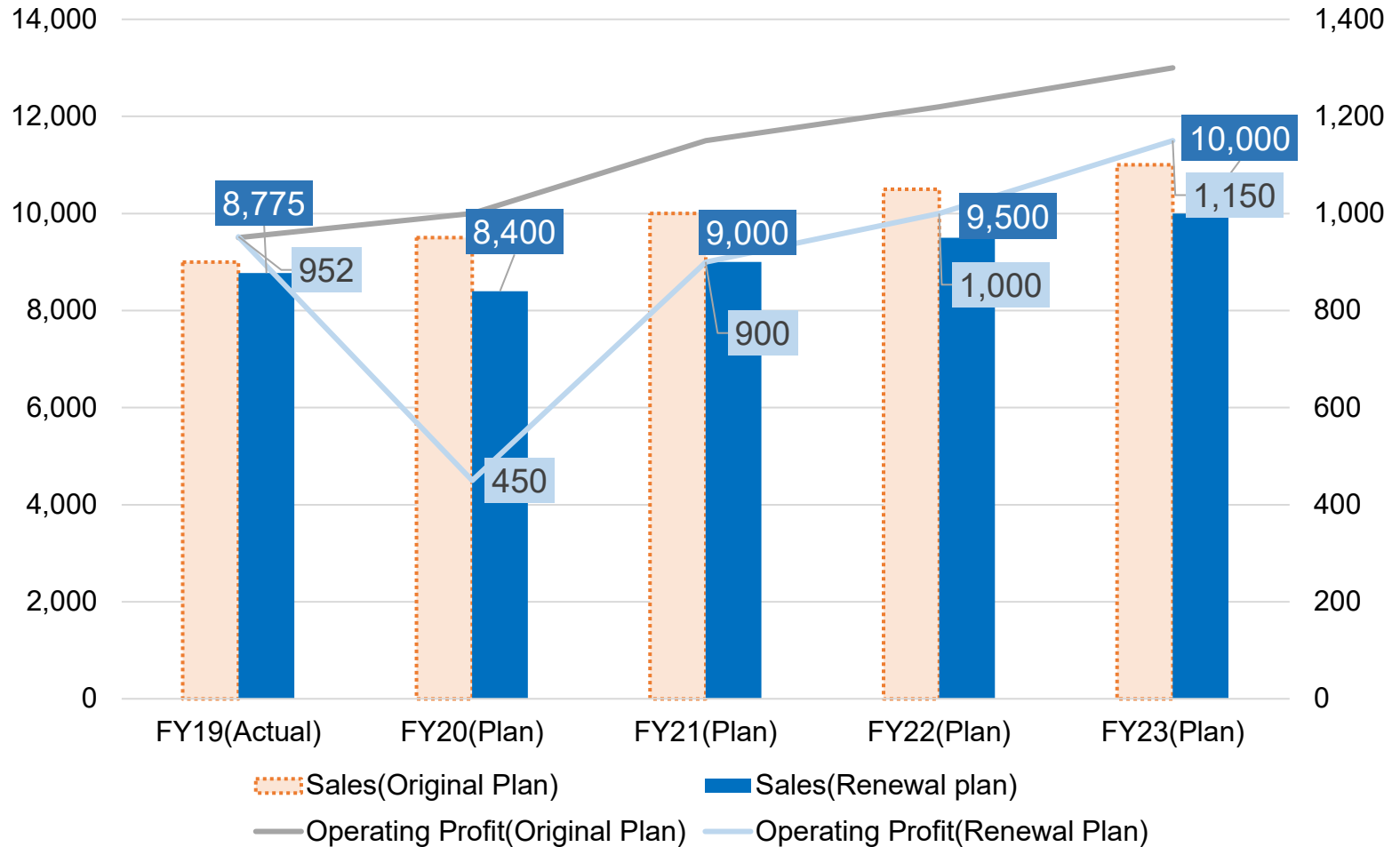
- Improving profitability of existing businesses
- Maximize synergy by strengthening group collaboration
- Invest in human resources and infrastructure to strengthen competitiveness



**Reinforce
organizational capability**

5-year plan

(Unit: JPY in Millions)

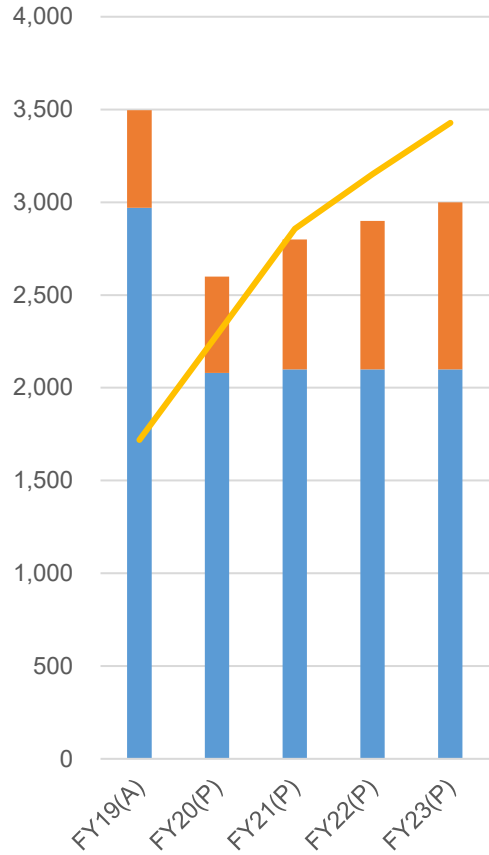


Renewed 5-year plan, in response to economic condition change

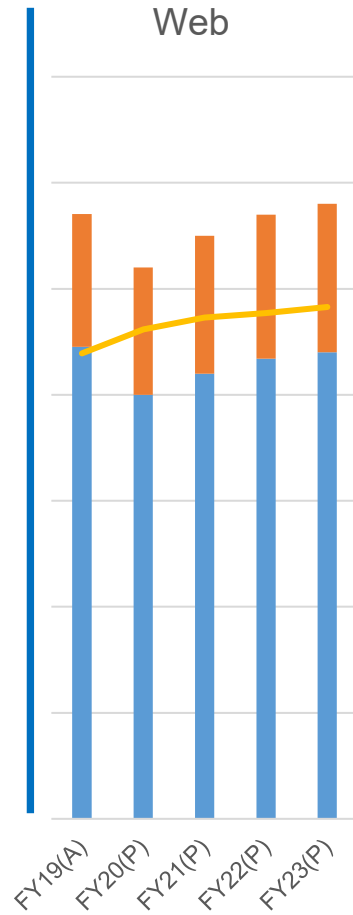
5-year plan (breakdown for Japan and overseas sales by business segments)

(Unit: JPY in Millions)

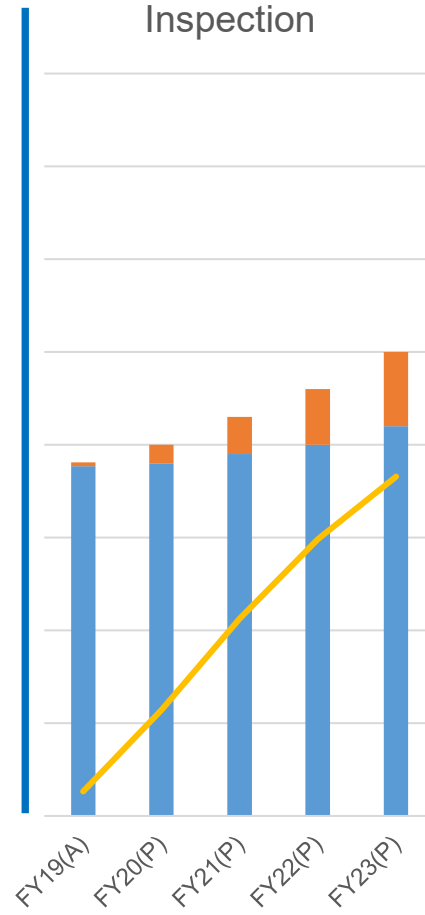
Process



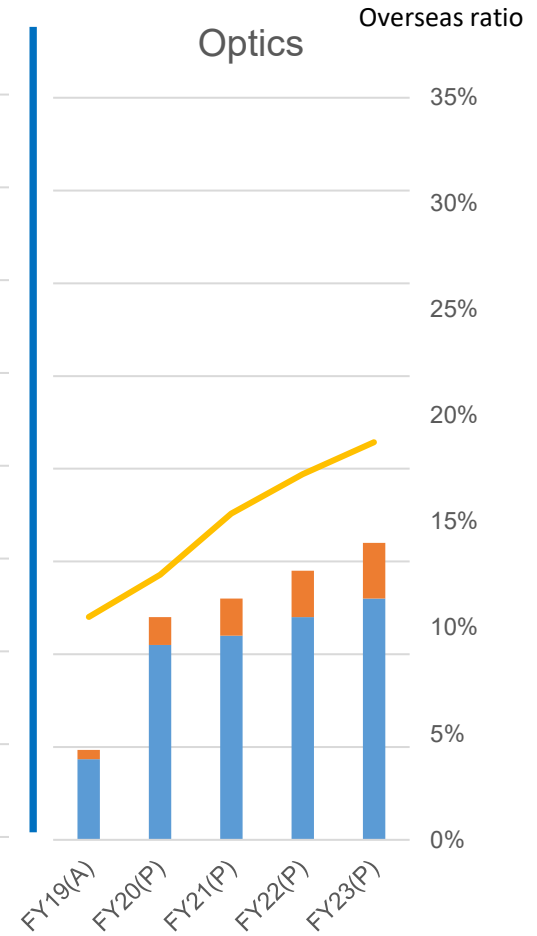
Web



Inspection



Optics



■ Japan
 ■ Overseas
 — Overseas ratio

Overseas ratio

35%
30%
25%
20%
15%
10%
5%
0%

Reference Data

Company Profile

| | |
|--------------------------|---|
| Company name | NIRECO Corporation |
| President & CEO | Toshiharu Kubota |
| Head office | 2951-4 Ishikawa-machi, Hachioji, Tokyo, Japan |
| Established | November 1950 |
| Stock exchange listing | TSE JASDAQ (Standard) |
| Paid-in capital | 3,072 Million Japanese Yen* |
| Number of employees | 415* |
| Net sales (Consolidated) | 8,775 Million Japanese Yen (FY2019) |

*As of March 31, 2020

History

- 1950: Nihon Regulator Co., Ltd. established in Chuo-ku, Tokyo
- 1979: Head office relocated to Hachioji, Tokyo
- 1984: Company name changed to NIRECO Corporation
- 1989: Registered on the OTC share market with the Japan Securities Dealers Association
- 1990: Acquired Miyota Seimitsu Co., Ltd.
- 1998: Acquired Nireco Taiwan Corporation following application for capital increase
- 2003: Nireco Automatic Controller (Shanghai) Co., Ltd. established in Shanghai, China
- 2004: Listed stocks on the JASDAQ Securities Exchange
- 2014: Nireco Process Korea Co., Ltd. (NPK) established in Korea
- 2017: Acquired Megaopto Co., Ltd.
- 2018: NPK acquired the land and building to establish production system
- 2019: Nireco International GmbH established in Germany
- Merged of Megaopto Co., Ltd.
- Acquired Kogakugiken Corp.

Management philosophy

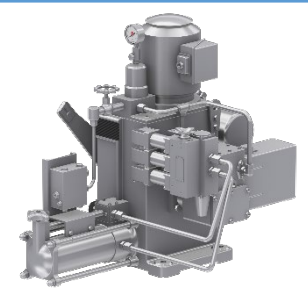
‘TECHNOLOGY & TRUST’

Providing products taking advantages of the advanced control/measurement/inspection technology and services precisely responding to their needs, NIRECO will grow together with customers as a good partner and continue gaining their trust.

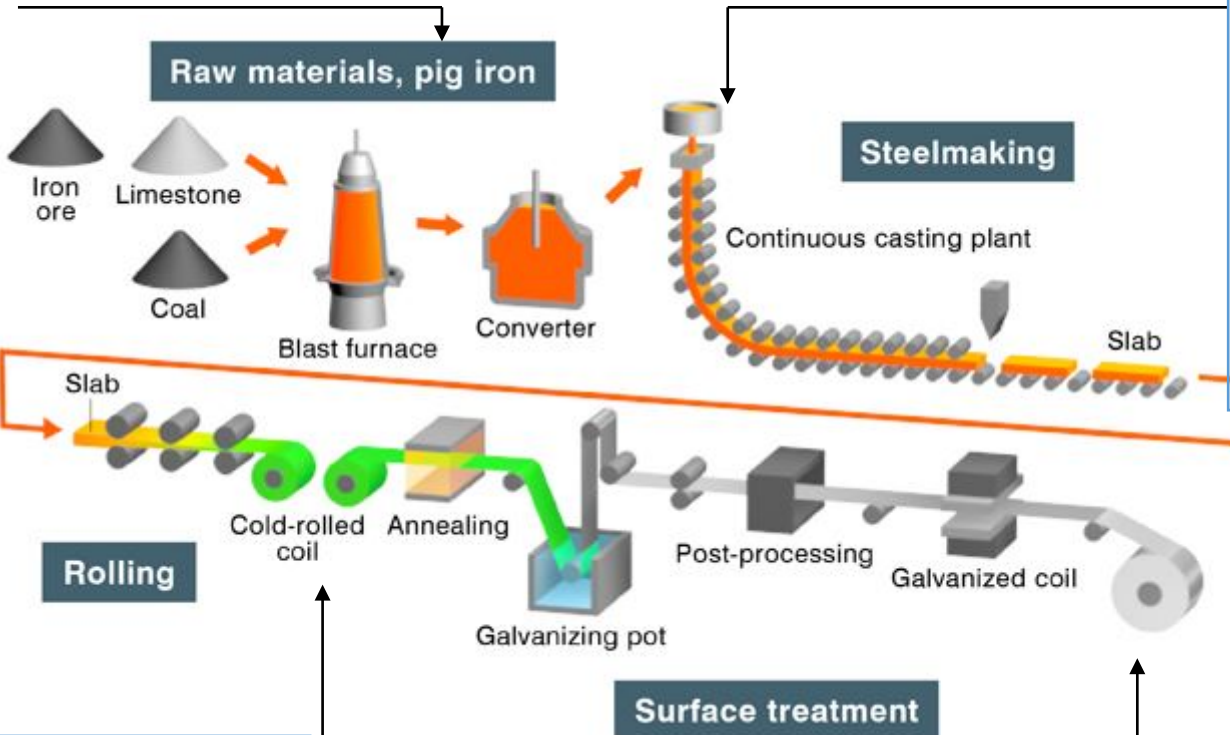
Furthermore, the products that we produce through this partnership will broadly impress and please the people who use them. This is what we as Nireco Corporation want to achieve.

Process Control Business

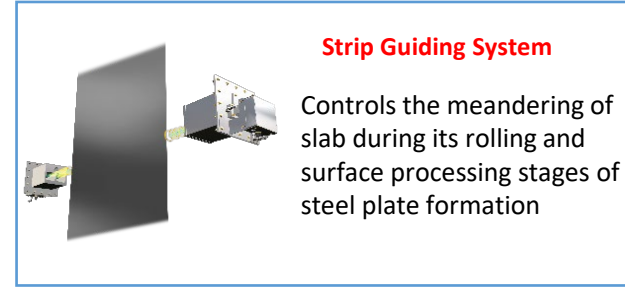
Markets automatic control equipment in several industries such as steel, metal, gas, chemical etc.



Process Control System
Controls pressure, flow rate and temperature inside blast furnace



Eddy Current Molten Steel Level Meter
Measures the position of the surface of the molten steel in the continuous casting process



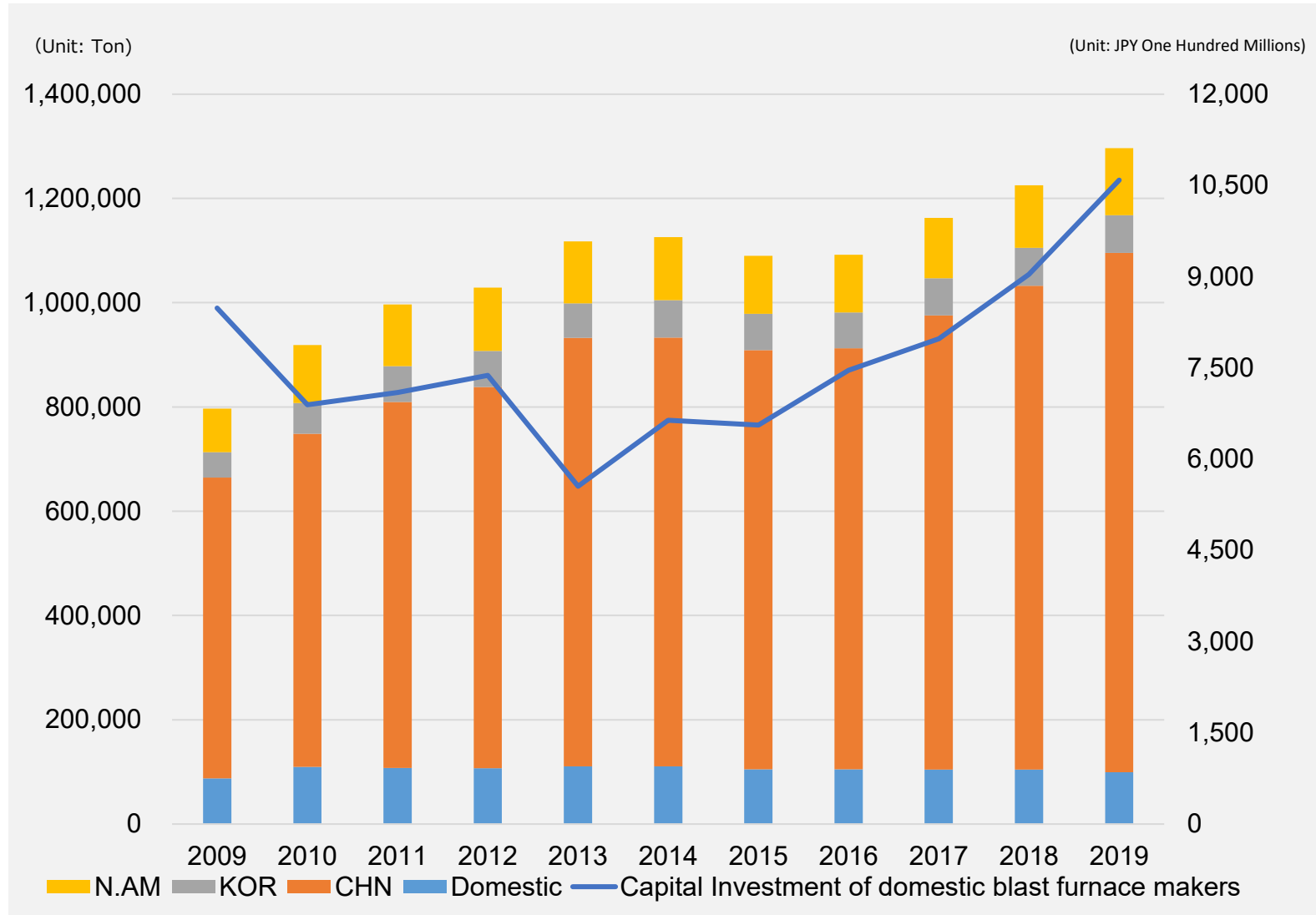
Strip Guiding System
Controls the meandering of slab during its rolling and surface processing stages of steel plate formation



Automatic Marking System
Prints information onto steel products

Process Control Business

Trends of regional crude steel production & capital investment of major domestic blast furnace makers



Source: The Japan Iron and Steel Federation

Web Control Business

Markets position control equipment etc. for thin-sheet materials so-called 'Web', such as paper, film and foil



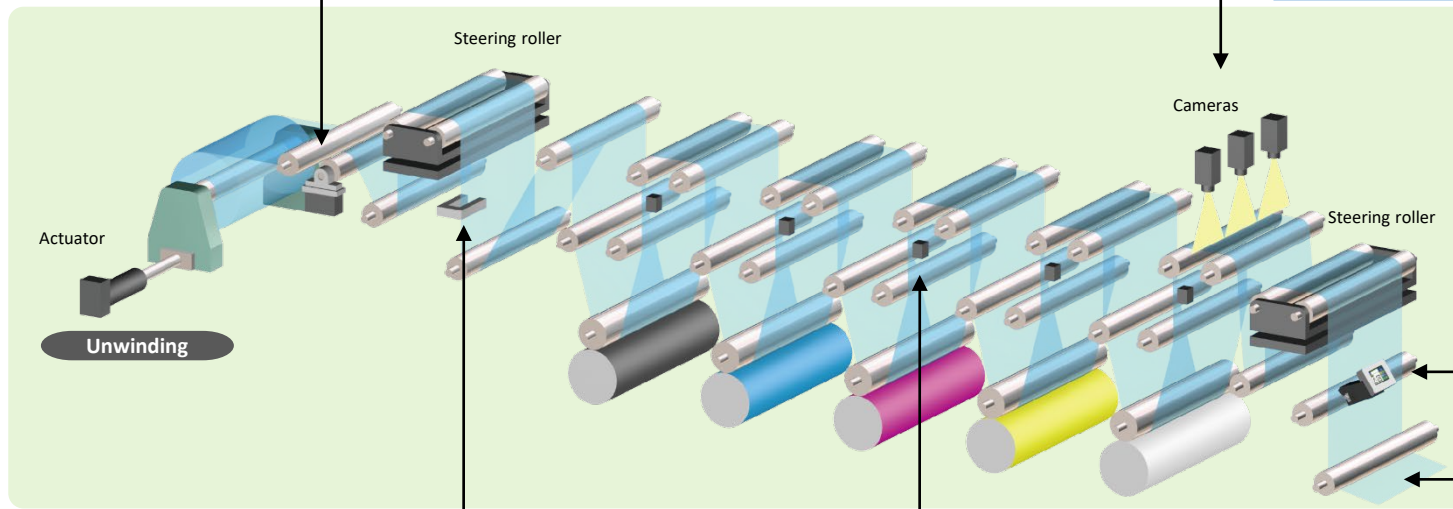

Tension Control System
Maintains web tension at a constant level to prevent wrinkles and sags of the web.



Print Quality Inspection System
Detects every type of defects on printing line




Web Position Control System
Keeps web in a constant position and prevents meandering based on captured image.

Web Position Control System
Keeps web in a constant position and prevents meandering based on its edge.



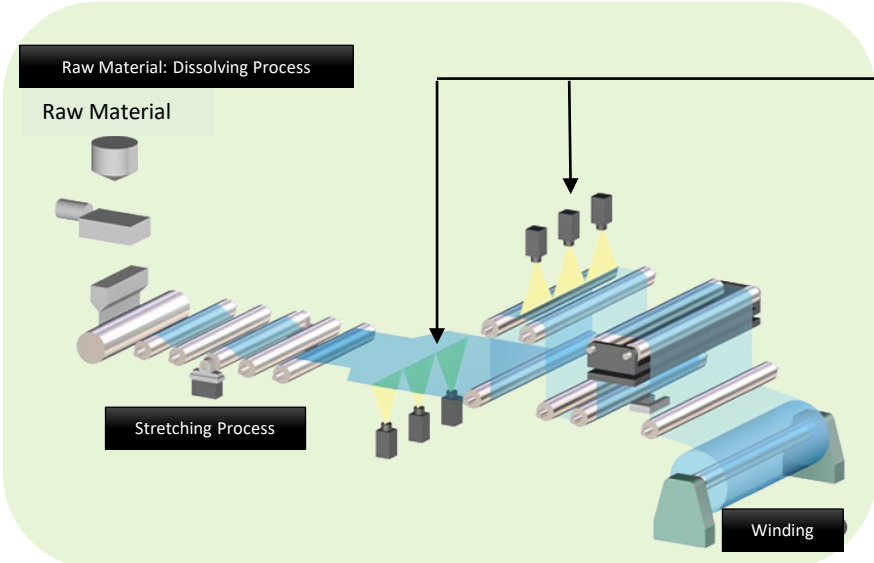
Automatic Register Control System
Controls color registration in circumferential and lateral directions



Gluing Control System
Applies glue in various patterns. Checks applied glue using camera or electromagnetic wave.

Inspection System Business

Market quality inspection systems for a wide range of products from agriproduct to electronic components, developed based on image processing technology cultivated over many years

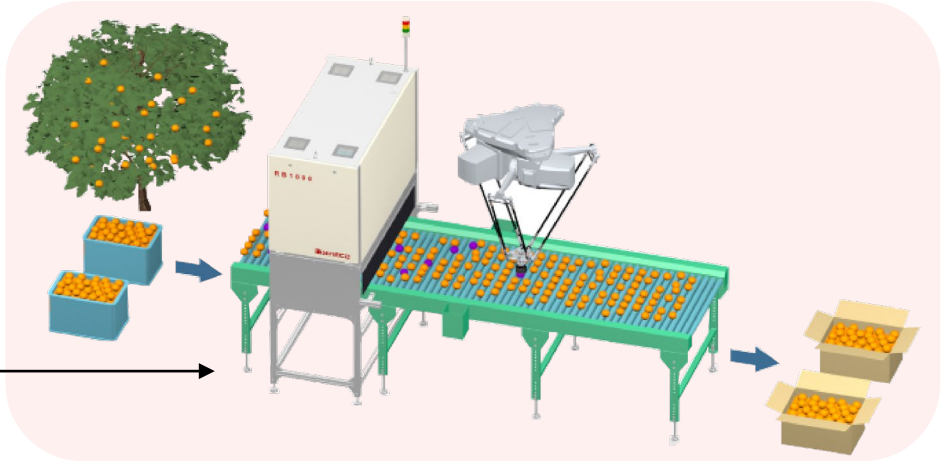


Defect Inspection System for Plain Surfaces

Inspects defects on the plain surface of the high-performance film, paper, and metal on high-speed transportation, such as scratches, blots, and foreign objects.

Fruit/Vegetable Sorting System

Performs instantaneous non-destructive quality tests for agricultural products externally (scratches, decay, and sizes) and internally (sugar content and acidity).



Optics Business

Optics business deals with R&D, manufacture, and sales of various advanced laser devices and special optical components.

- Main uses :
 - Semiconductor Inspection Equipment
 - Optical Equipment
 - Medical Equipment

Optical Components



Nonlinear optical crystal

Convert wavelength to the UV light with specific frequency suitable for use in semiconductor inspection equipment.

Polarizers

Offer polarizers to extract specific lights.

Our polarizers have high transmittance and high extinction ratio for DUV.



Lasers



Deep UV fiber laser

Generate 199nm deep ultraviolet fiber laser that suitable for mask inspection.



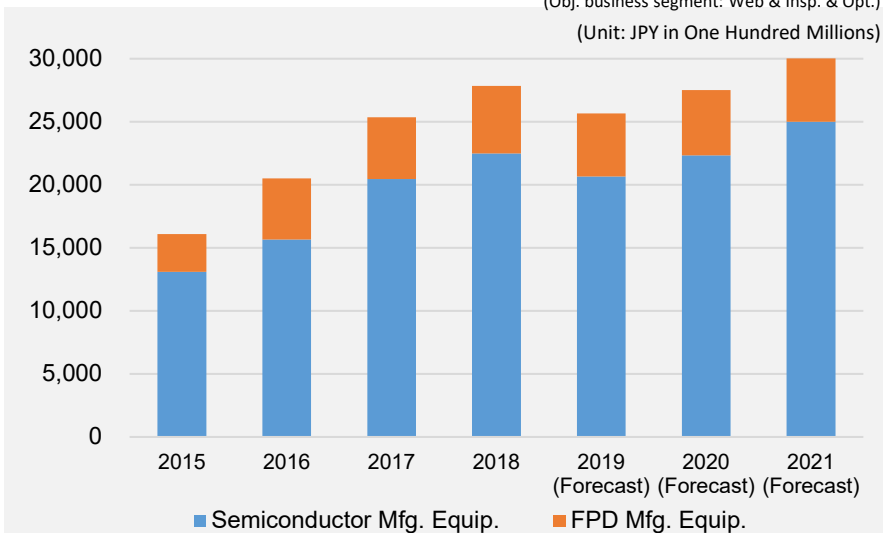
Green Laser device

Generate high output green laser for various purposes such as processing of silicon wafer, metal marking and so on.

Market environment for Web Control Business / Inspection System Business/ Optics Business

Forecast of Demand for Semiconductor & FPD Mfg. Equip.

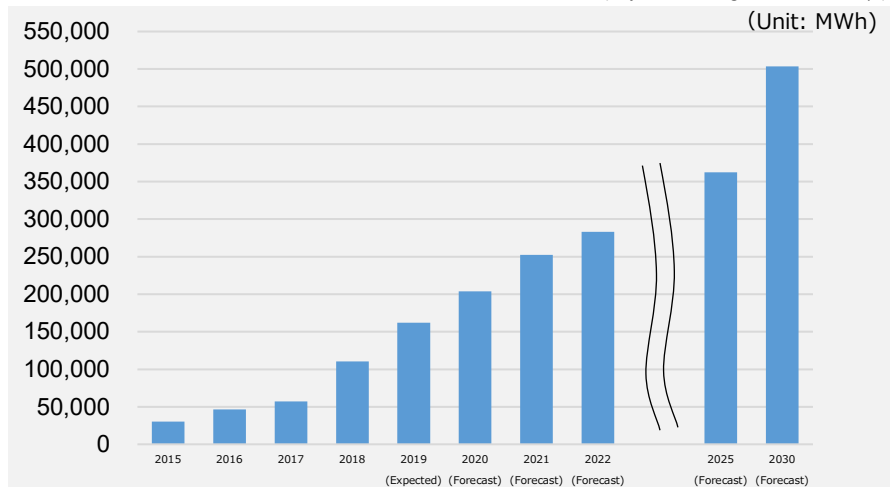
(Obj. business segment: Web & Insp. & Opt.)
(Unit: JPY in One Hundred Millions)



Source: Semiconductor Equipment Association of Japan

Automotive LiB World Market Forecast

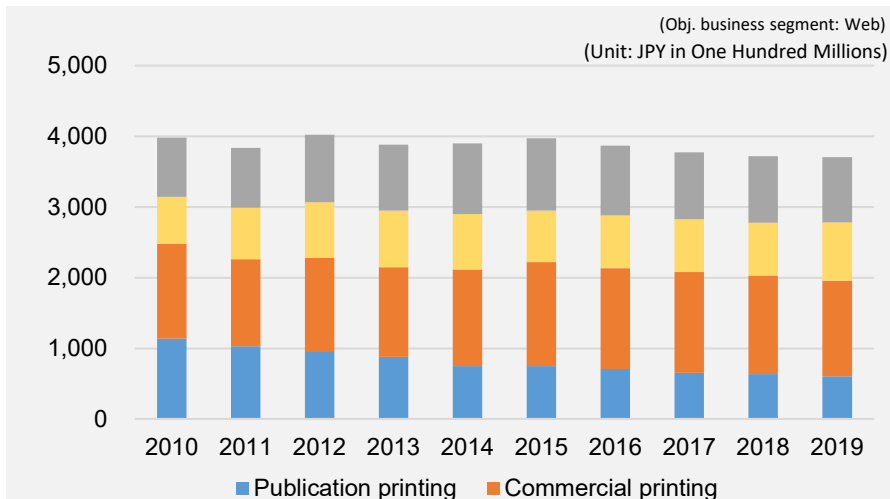
(Obj. business segment: Web & Insp.)
(Unit: MWh)



Source: Yano Research Institute Ltd.

Transition of Printing Market Size

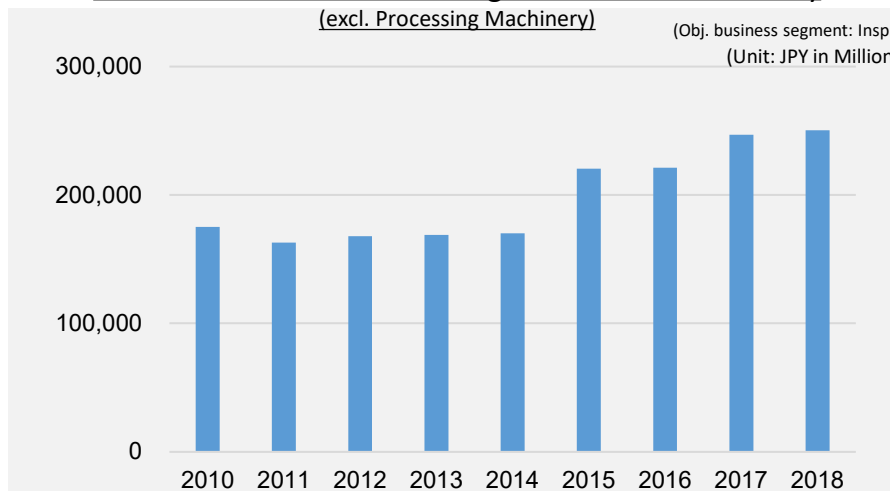
(Obj. business segment: Web)
(Unit: JPY in One Hundred Millions)



Source: Based on industrial & production dynamics statistics

Transition of Domestic Sales Figures for Food Machinery

(excl. Processing Machinery)
(Obj. business segment: Insp.)
(Unit: JPY in Million)



Source: The Japan Food Machinery Manufacturers' Association

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