

NIRECO CORP. (6863)

Material for 1H-FY2020 Financial Results

November 10, 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

1H-FY19

1H-FY20

FY20(Plan)

Unit: JPY in Millions

Orders Received:	3,647 (-28% YoY)	3,397 (-7%YoY)	8,200 (-1%YoY)
Net Sales:	4,121 (+4% YoY)	3,620 (-12%YoY)	8,400 (-4%YoY)
Operating Profit:	486 (+26%YoY)	341 (-30%YoY)	700 (-27 %YoY)

Financial Results & Plan

Main objectives

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

For Sustainable growth in any circumstances

- ◆ Expand & enhance business foundations
- ◆ Seek for higher competitive advantage

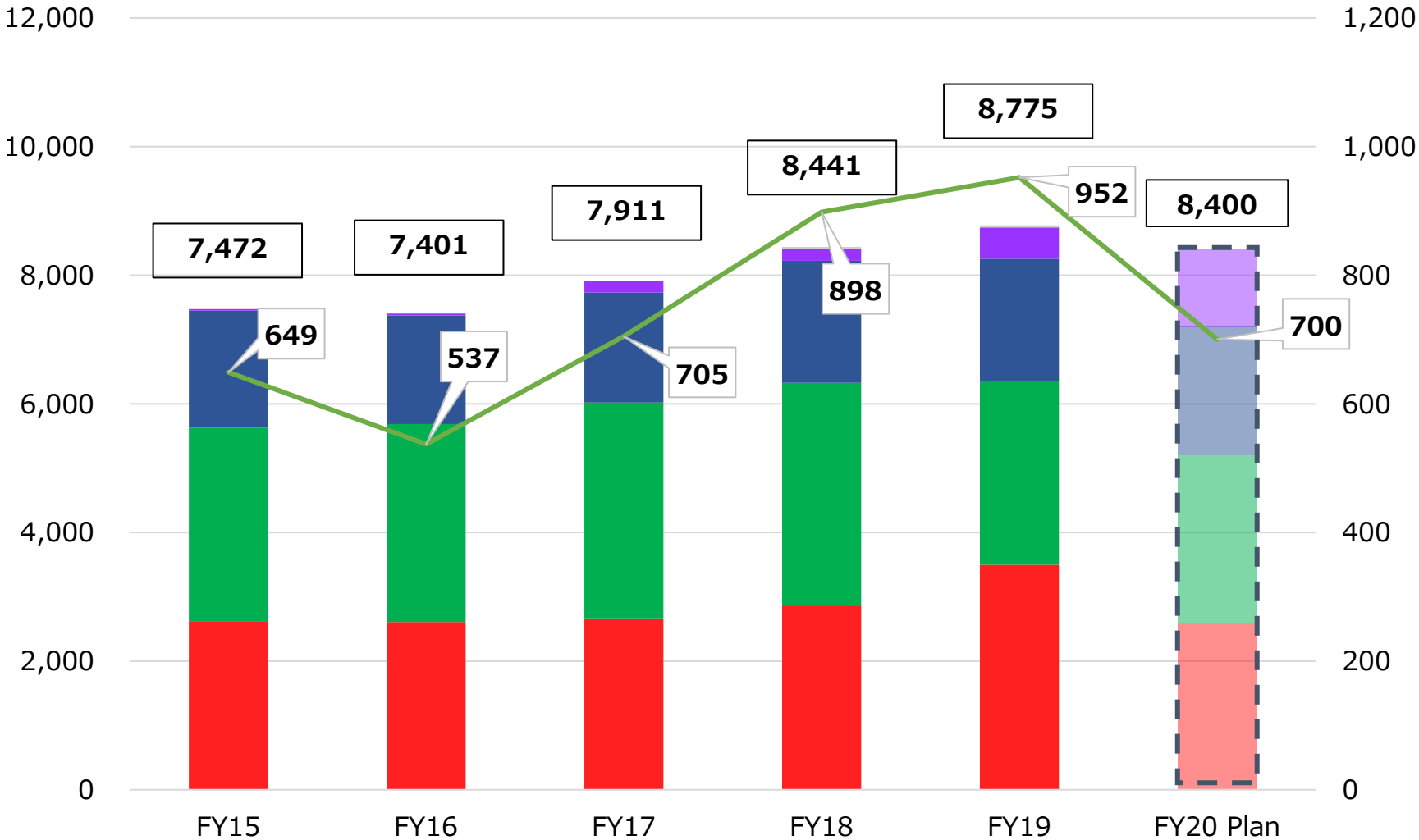
Main efforts of 1H-FY2020

- Expanded new businesses into the optical component field
- Developed and launch new products into the market
- Pursued business efficiency, such as promoting remote work

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

Trends in the Performance

(Unit: JPY in Millions)



Process Control Business Web Control Business Inspection System Business Optics Business Operating Profit

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

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

1. 1H-FY2020 Financial Results (Apr.2020 – Sep.2020)

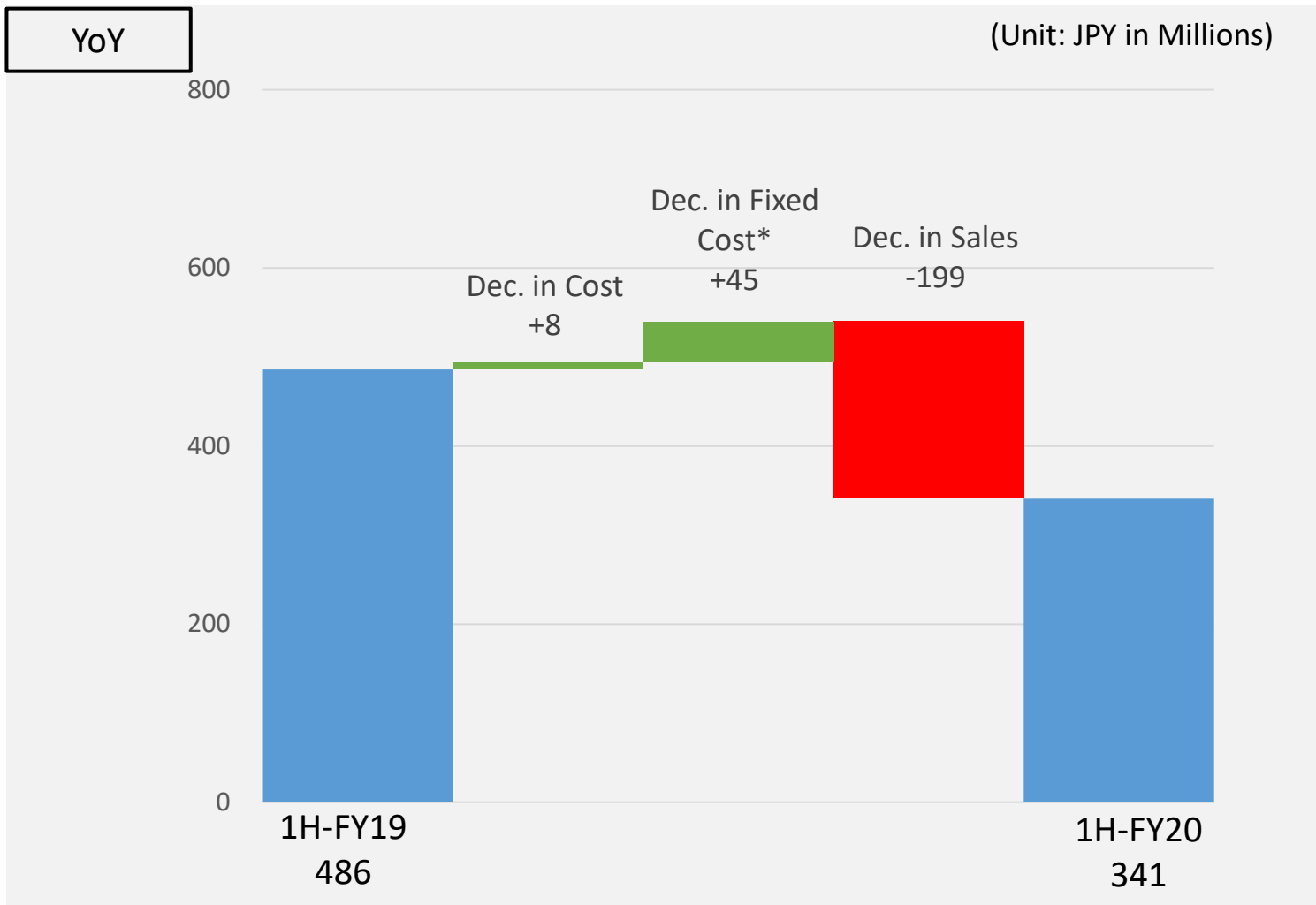
Consolidated Statement

- Sales and profits decreased YoY due to the impact of the COVID-19 infection.
- Profits exceeded the original plan by the effort to improve profitability.

(Unit: JPY in Millions)

	FY19	FY20		Rate of change	
	1H Result	1H Plan	1H Result	YoY	Vs to Plan
Orders received	3,647	3,700	3,397	-7%	-8%
Net sales	4,121	3,900	3,620	-12%	-7%
Operating profit	486	100	341	-30%	+241%
Operating profit margin	12%	3%	9%	-	-
Ordinary profit	506	130	335	-34%	+158%
Ordinary profit margin	12.3%	3.3%	9.3%	-	-
Profit attributable to owners of parent	311	90	212	-32%	+137%
Profit attributable to owners of parent margin	7.5%	2.3%	5.9%	-	-
Earnings per share (JPY)	42.51	12.32	29.10	-32%	+136%
Order backlog	3,350	3,150	3,144	-7%	-0%

Increase/ Decrease Factors in Operating Profit



※Fixed Cost = SG&A Expenses

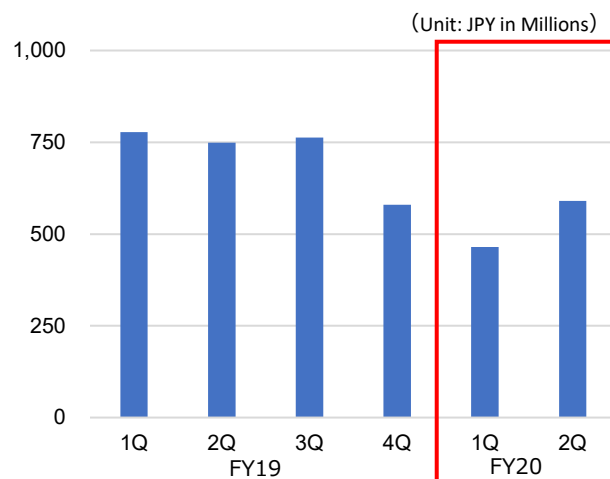
Process Control Business

- Decline in sales by restrained capital investment in the steel industry corresponding to the global economic recession.
- Early recovery in China from impact of COVID-19.

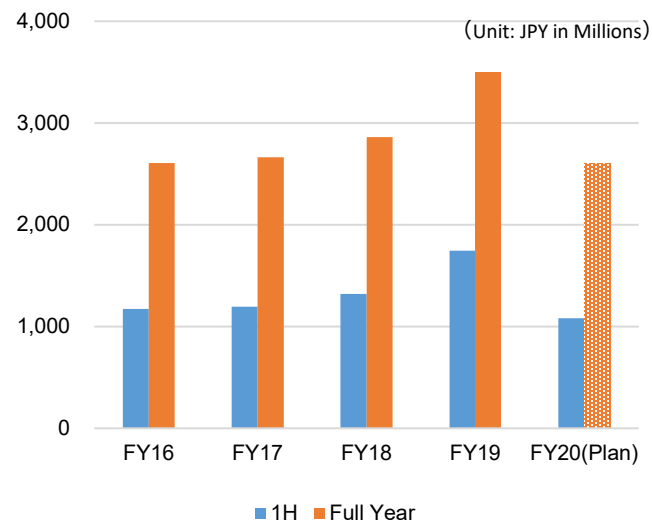
(Unit: JPY in Millions)

	FY19	FY20		FY20 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	1,527	1,054	-31%	2,500	42%
Net sales	1,745	1,081	-38%	2,600	42%
Segment profit	436	203	-53%	450	45%
Segment profit margin	25.0%	18.8%	-	17.3%	-

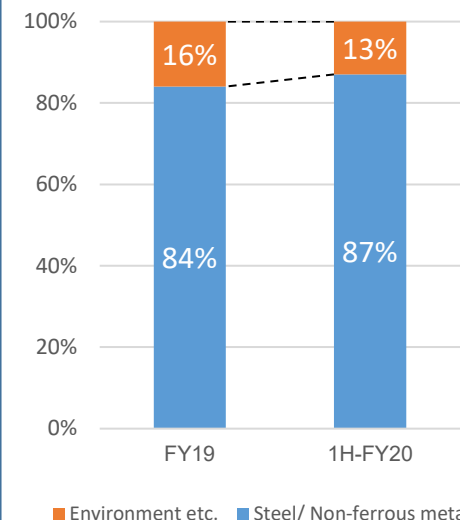
Transition of Order Received



Transition of Sales



Sales Composition Ratio by Industries



Web Control Business

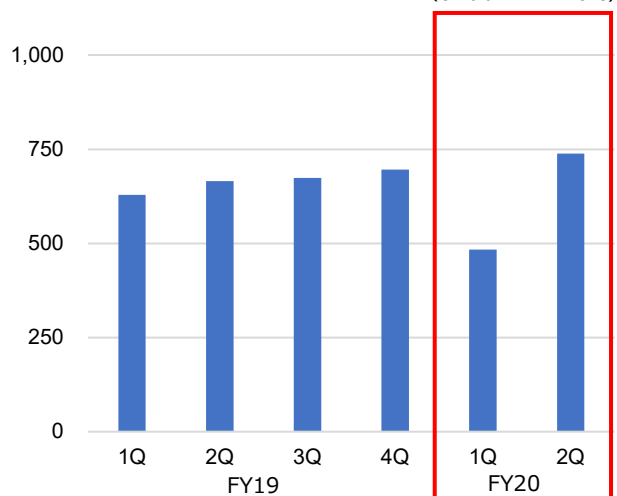
- Sales and profits declined YoY due to a temporary suspension of capital investment by customers for the impact of COVID-19.
- Forecast bottomed out of the market condition and gradual recovery by the resumption of the logistics and human movement.

(Unit: JPY in Millions)

	FY19	FY20		FY20 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	1,294	1,221	-6%	2,600	47%
Net sales	1,484	1,129	-24%	2,600	43%
Segment profit	296	138	-53%	300	46%
Segment profit margin	20.0%	12.3%	-	11.5%	-

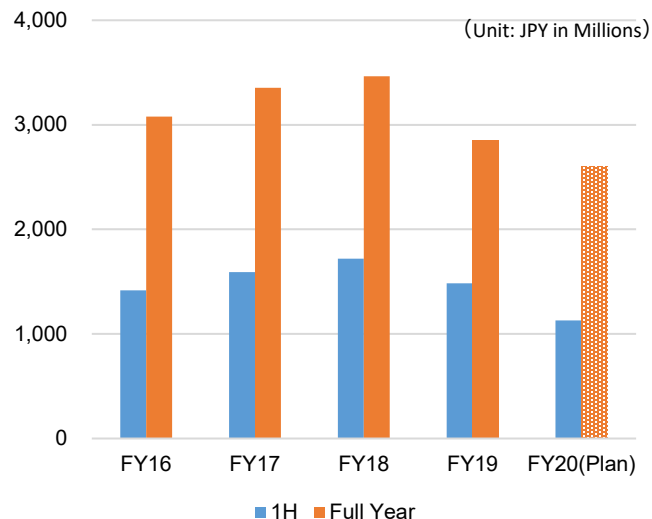
Transition of order received

(Unit: JPY in Millions)

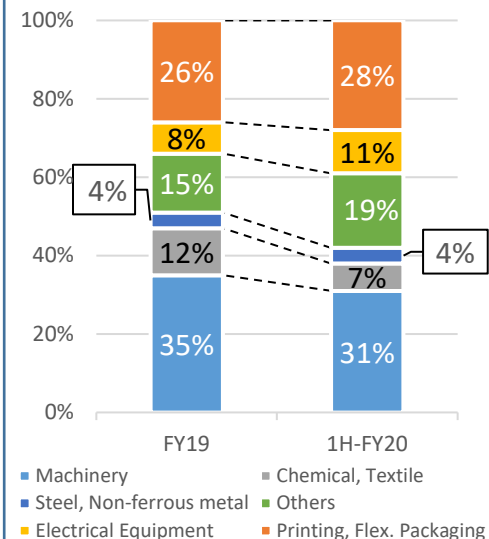


Transition of Sales

(Unit: JPY in Millions)



Sales Composition Ratio by Industries



Inspection System Business

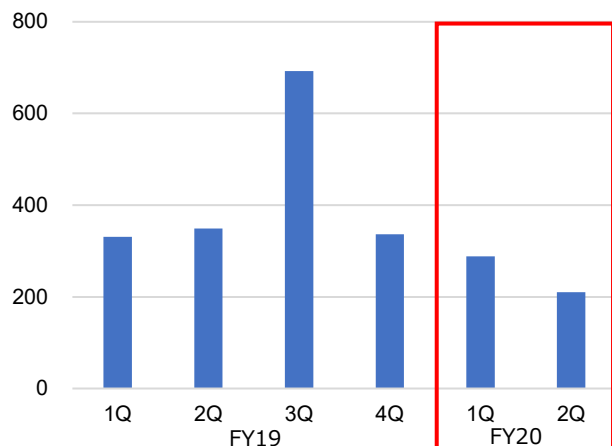
- Customers in the Electronics industry were cautious about investing in inspection equipment, including Surface inspection systems, due to the impact of COVID-19.
- The impact of COVID-19 on fruit/vegetable sorting systems sales were limited. Sales increased YoY.

(Unit: JPY in Millions)

	FY19	FY20		FY20 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	679	498	-27%	1,750	28%
Net sales	796	769	-3%	2,000	38%
Segment profit	-28	31	-	150	21%
Segment profit margin	-	4.1%	-	5.0%	-

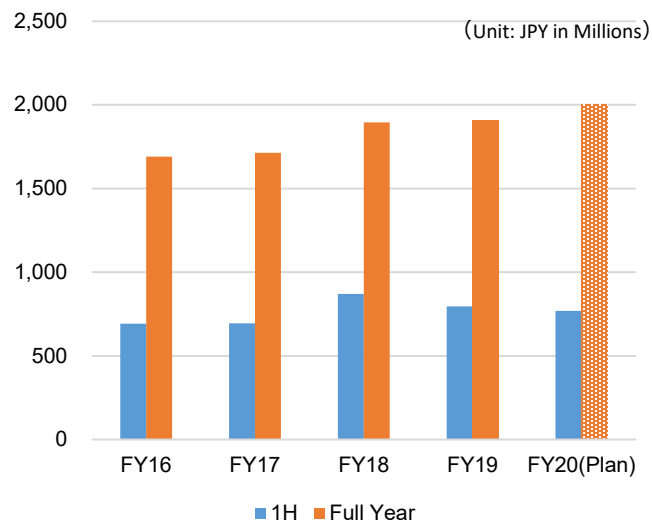
Transition of order received

(Unit: JPY in Millions)

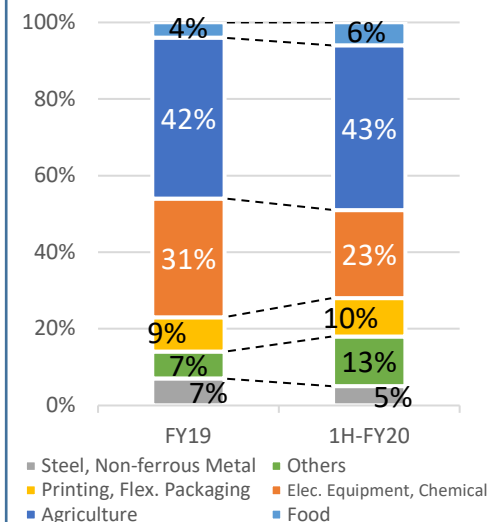


Transition of Sales

(Unit: JPY in Millions)



Sales Composition Ratio by Industries



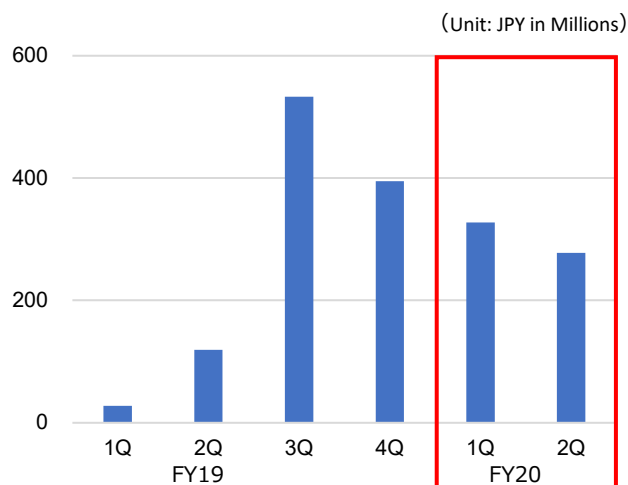
Optics Business

- Demand for the optical device for Semiconductor inspection equipment is vital.
- Released a Green Laser Marking Unit as a new product in 1H-FY2020.

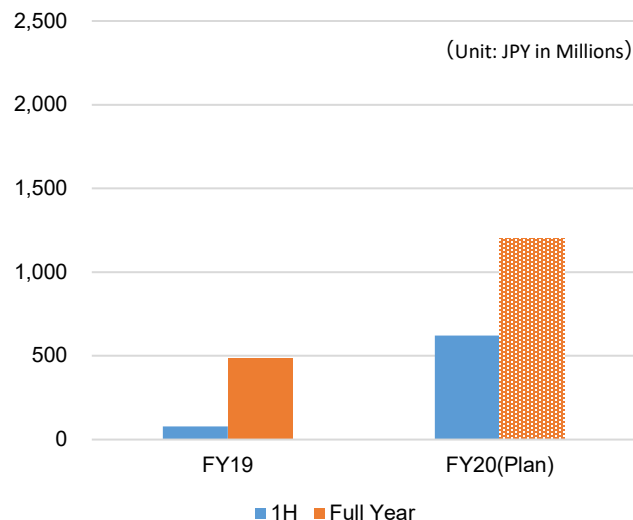
(Unit: JPY in Millions)

	FY19	FY20		FY20 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	131	604	359%	1,350	45%
Net sales	78	621	688%	1,200	52%
Segment profit	6	206	2912%	300	69%
Segment profit margin	8.7%	33.3%	-	25.0%	-

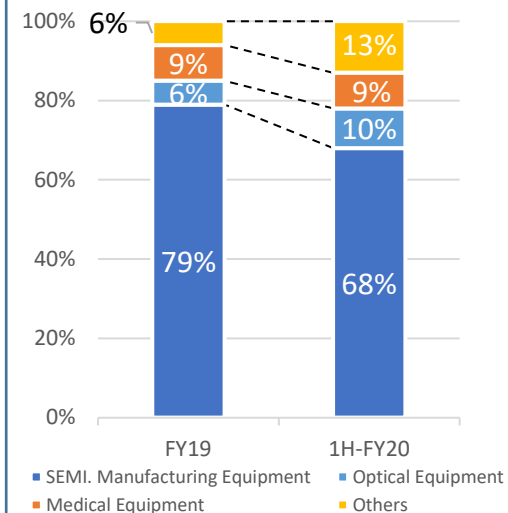
Transition of order received



Transition of Sales



Sales Composition Ratio by Industries



* 1. Since the optics business has been categorized from the FY19, the "Transition of order received" figures of 1Q,2Q FY19 are 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

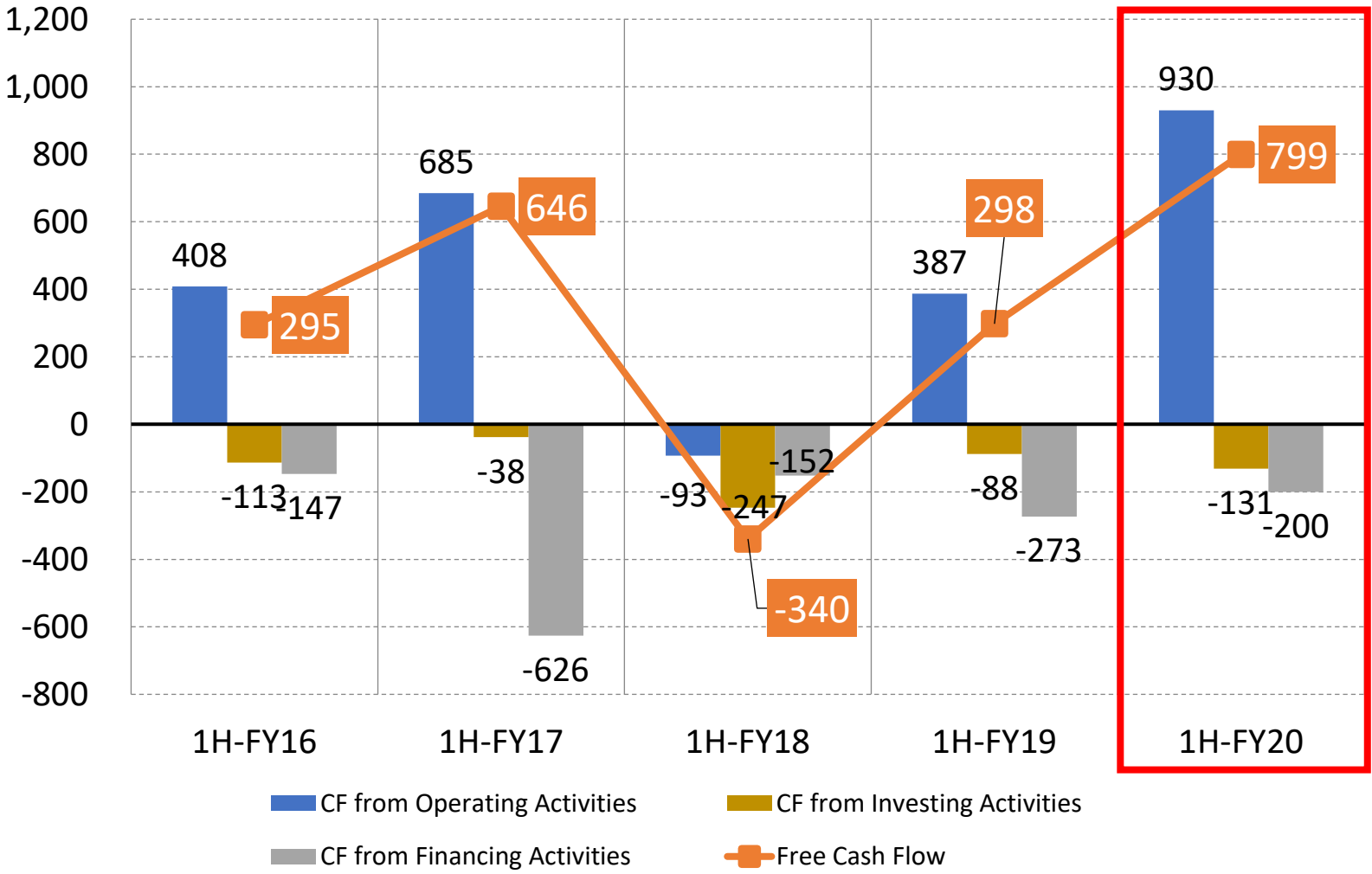
Balance Sheet

(Unit: JPY in Millions)

	End of FY19 (Mar. 31, 2020)		End of 1H-FY20 (Sep. 30, 2020)		Change
Cash and deposits	4,155	27.8%	4,814	32.3%	+ 658
Trade receivables	4,116	27.6%	3,041	20.4%	- 1,075
Inventories	1,933	12.9%	2,202	14.8%	+ 269
Other current assets	234	1.6%	246	1.7%	+ 12
Current assets	10,439	69.9%	10,304	69.1%	- 134
Property, plant and equipment	2,854	19.1%	2,823	18.9%	- 31
Intangible assets	245	1.6%	229	1.5%	- 15
Investments and other assets	1,398	9.4%	1,546	10.4%	+ 148
Non-current assets	4,498	30.1%	4,599	30.9%	+ 101
Total assets	14,937	100.0%	14,904	100.0%	- 33
Accounts payable - trade	299	2.0%	268	1.8%	- 30
Other current liabilities	1,189	8.0%	998	6.7%	- 190
Current liabilities	1,488	10.0%	1,266	8.5%	- 221
Non-current liabilities	567	3.8%	539	3.6%	- 28
Total liabilities	2,055	13.8%	1,805	12.1%	- 249
Total net assets	12,882	86.2%	13,098	87.9%	+ 216
Total liabilities and net assets	14,937	100.0%	14,904	100.0%	- 33

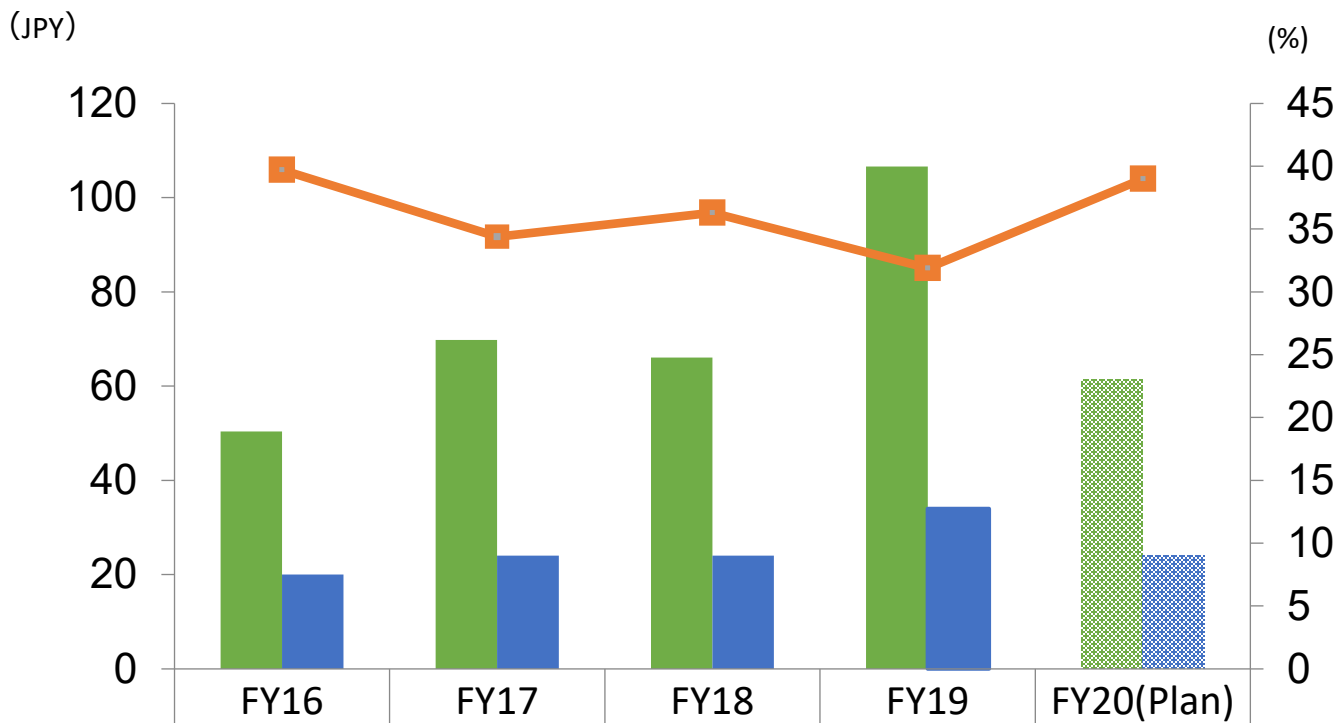
Cash Flows

(Unit: JPY in Millions)



Shareholders Return

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



Net profit per share (JPY)	50.39	69.79	66.07	106.58	61.49
Dividends (JPY)	20	24	24	34	24
Dividend Payout Ratio (%)	39.7	34.4	36.3	31.9	39.00

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

Business Plan

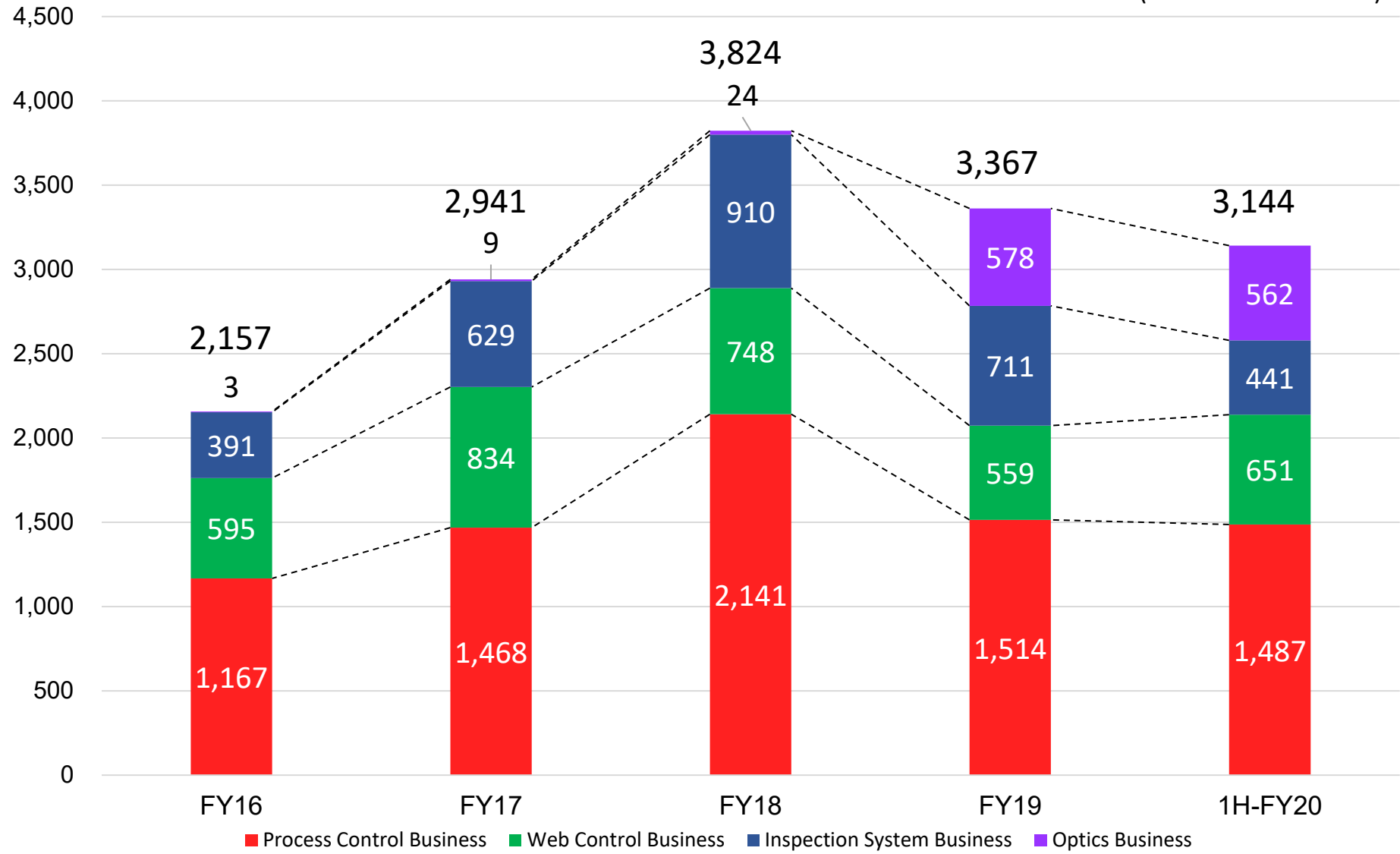
- The company estimates the improvement of the business environment from 2H-FY20 and plans to promote the orders' recovery.

(Unit: JPY in Millions)

	FY19	FY20 Plan	YoY
Orders received	8,317	8,200	-1%
Net sales	8,775	8,400	-4%
Operating profit	952	700	-27%
Operating profit margin	10.9%	8.3%	-
Ordinary profit	989	700	-29%
Ordinary profit margin	11.3%	8.3%	-
Profit attributable to owners of parent	779	450	-42%
Profit attributable to owners of parent margin	8.9%	5.4%	-
Earnings per share (JPY)	106.58	61.49	-42%
Order backlog	3,367	3,167	-6%

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

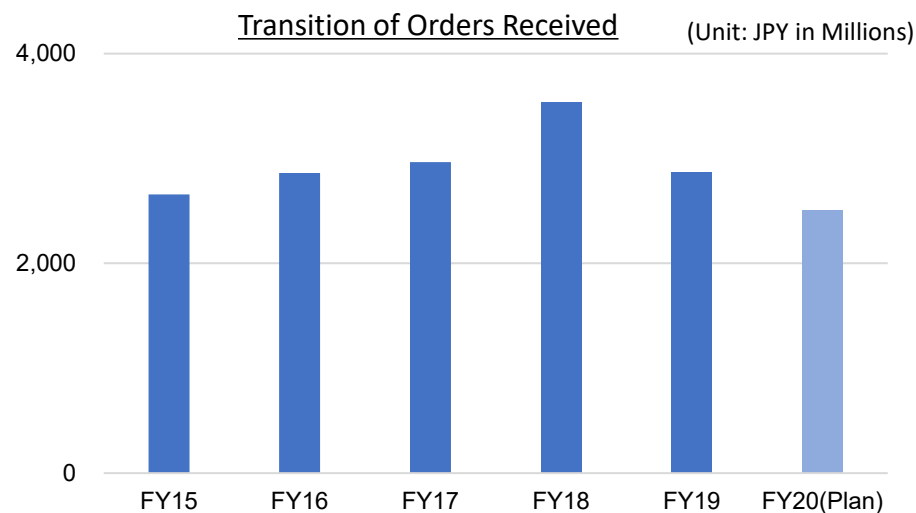
Domestic Steel Market

- Limited Steelmakers' incentive for capital investment by facility consolidation.
- ↓
- Focus on quality improvement, productivity improvement and cost reduction at customers.
 - Strengthen sales activities to the existing user's needs.

Overseas Steel Market

- Expecting market recovery mainly in China from the stagnating.
- ↓
- Strengthen the organization of overseas group companies and building cooperation for penetrating the China market.
 - Conduct remote education and training to localize services.

	FY19	FY20 Plan
Orders received	2,870	2,500
Net sales	3,497	2,600
Segment profit	736	450
Segment profit margin	21.1%	17.3%



Market Conditions & Measures: Web Control Business

Domestic Market

- Received inquiries for LiB rechargeable batteries and electronic parts, but orders received were delayed due to the COVID-19 pandemic effect.



- Strengthen sales engineering activities by the resumption of customer visits.
- Expand the range of product applications, and enhancement the development of new products.

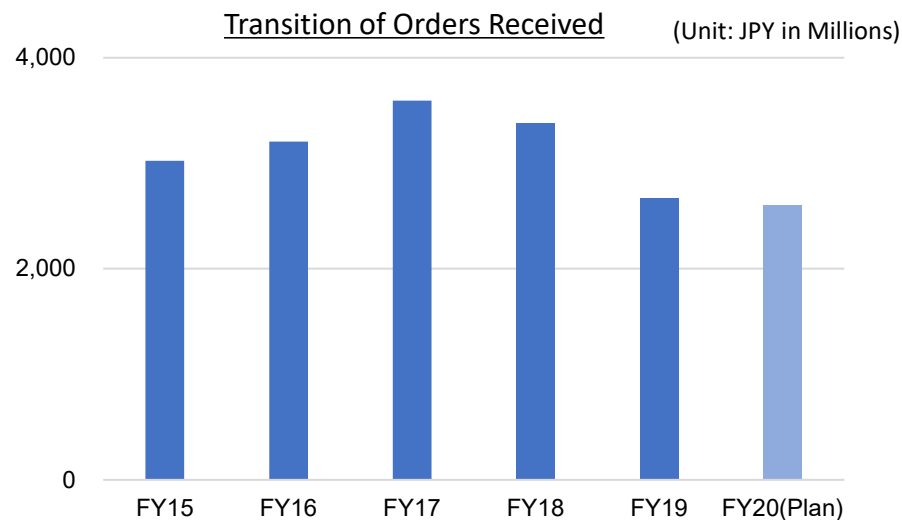
Overseas Market

- Demand for LiB rechargeable batteries facilities in China, Korea, and Taiwan remain stable.



- With the resumption of economic activities, strengthen group sales activities in cooperation.

	FY19	FY20 Plan
Orders received	2,664	2,600
Net sales	2,853	2,600
Segment profit	547	300
Segment profit margin	19.2%	11.5%



Market Conditions & Measures: Inspection System Business

High Functional Film Market

- Higher resolution and speed is required for the inspection of LiB rechargeable batteries and electronic components.



- Launch a new surface inspection product to explore further market share by higher performance.

Food Related Market

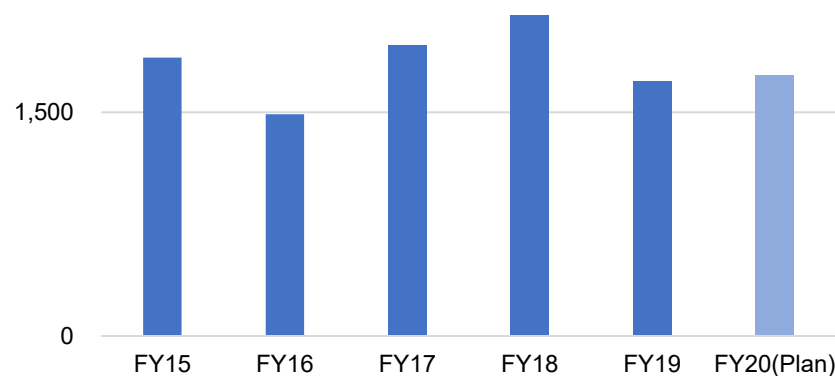
- Increased demand for inspection on the processed food for labor savings, productivity improvements, and food branding needs.



- Capture the rising inspection needs for processed food.
- Expand Marketing & Sales activities for the diversification of food inspection needs.

	FY19	FY20 Plan
Orders received	1,708	1,750
Net sales	1,906	2,000
Segment profit	92	150
Segment profit margin	4.9%	7.5%

Transition of Orders Received (Unit: JPY in Millions)



Market Conditions & Measures: Optics Business

Optical Component Market

- For the 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.

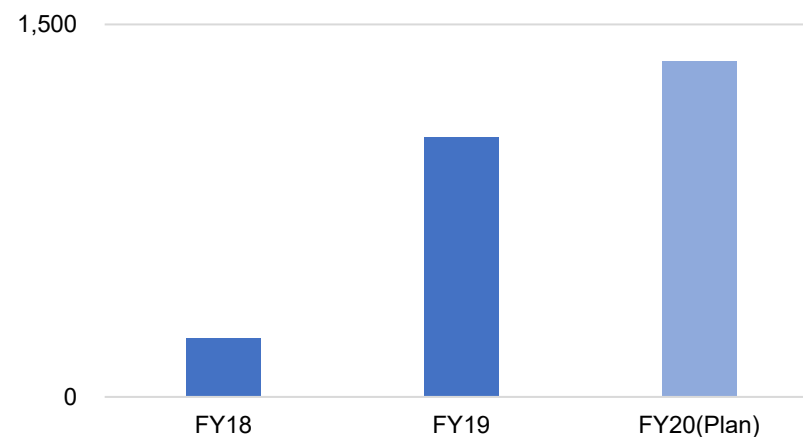
Laser-related products

- Demand is strong such as semiconductors and medical.
- ↓
- Focus on expanding sales of existing and new products.
 - Application development based on product features.

	FY19	FY20 Plan
Orders received	1,046	1,350
Net sales	486	1,200
Segment profit	78	300
Segment profit margin	16.2%	25.0%

* 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)



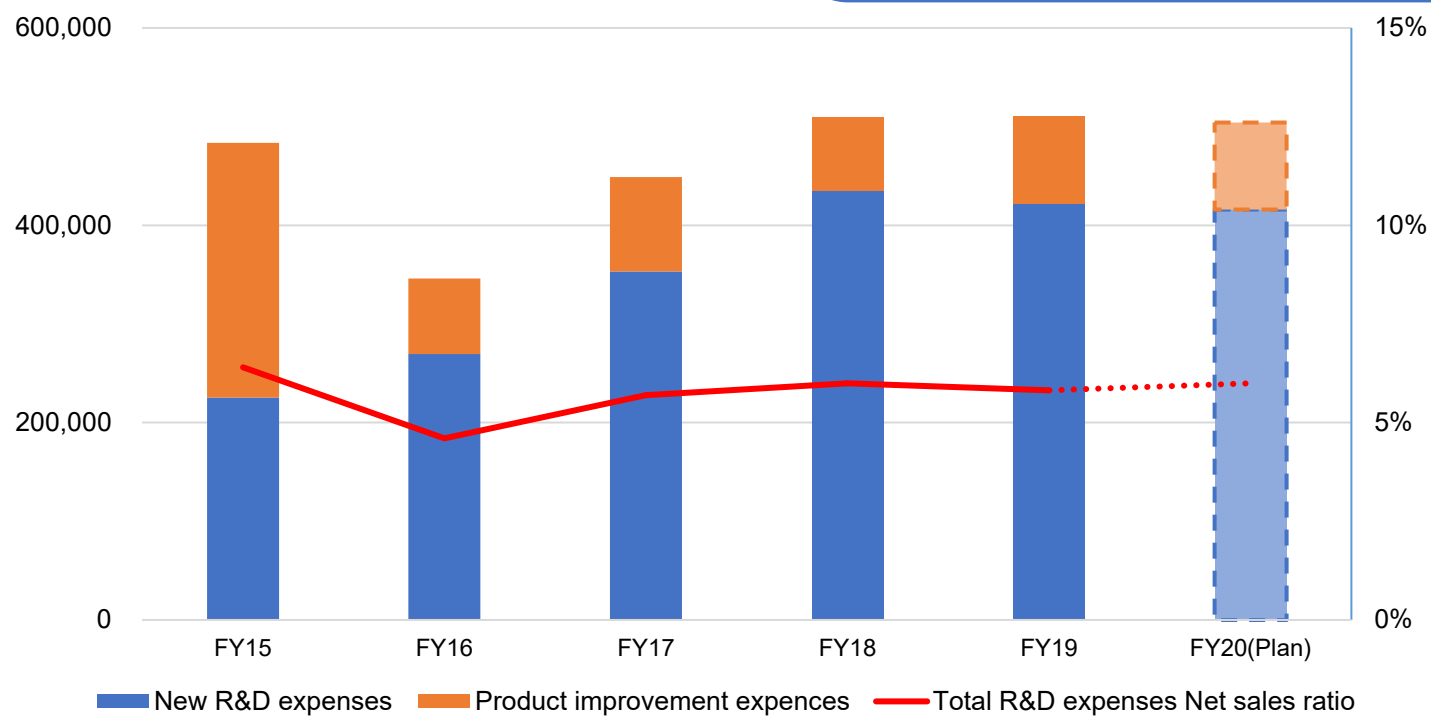
R&D

- 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)



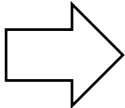
3. Towards sustainable growth

Main objectives for sustainable growth

Strengthen our organization that can grow & develop in any circumstances

Expansion of market

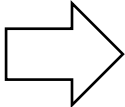
- Drive overseas expansion
- Strengthen Inspection system business and Optics business
- Exploit new fields of business through new-product development



Expand & enhance business foundations

Technological advances

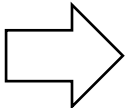
- By enhancing image analysis technology
- By optical technology
- By magnetic field and microwave technology



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

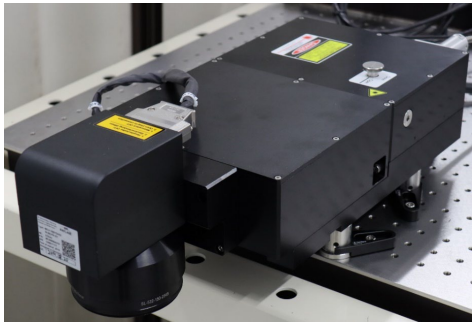
New Products

Option for Green Laser HR-G10 "Marking scanner unit"

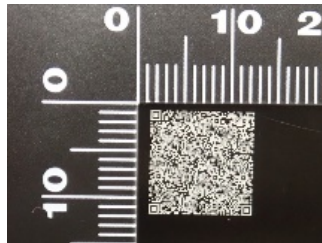
Compact head size with high power 10W class green laser

Applications

Marking for Metal materials that are difficult to print on and Resin. High-speed micro-processing for Wafers, etc.



"Marking scanner unit "
for Green Laser HR-G10



2D barcode



Processing on silicon wafers

Desktop-type A8850 Near Infrared Spectrometer

Nireco original developed near-infrared spectrometer

Covering a wide range of wavelengths for various Non-destructive inspection use

Applications

- Agriculture and food industry, pharmaceuticals and chemical plants, etc.



A8850
Near Infrared Spectrometer

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

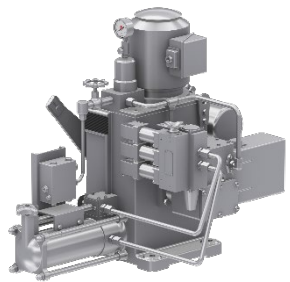
‘TECHNOLOGY & TRUST’

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.

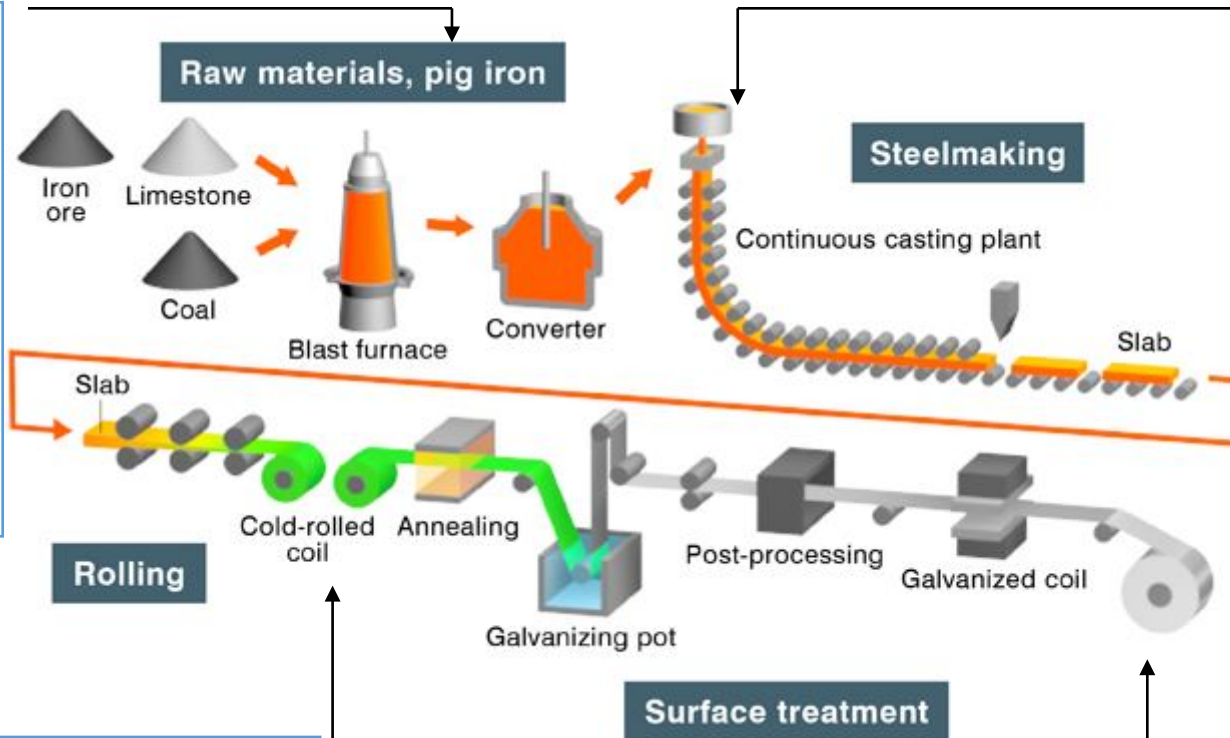
Process Control Business

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



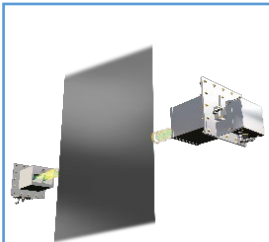
Process Control System

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

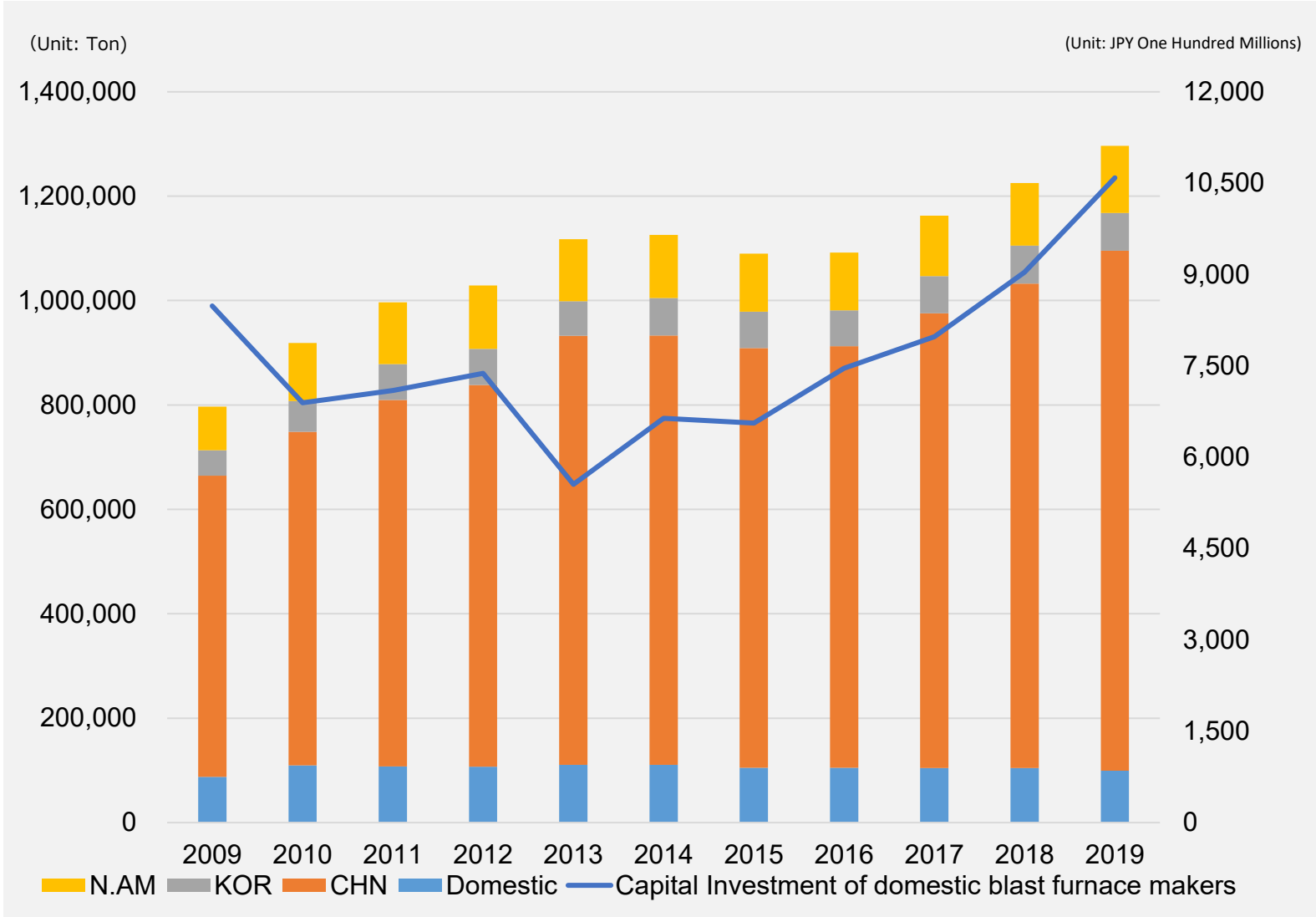


Automatic Marking System

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



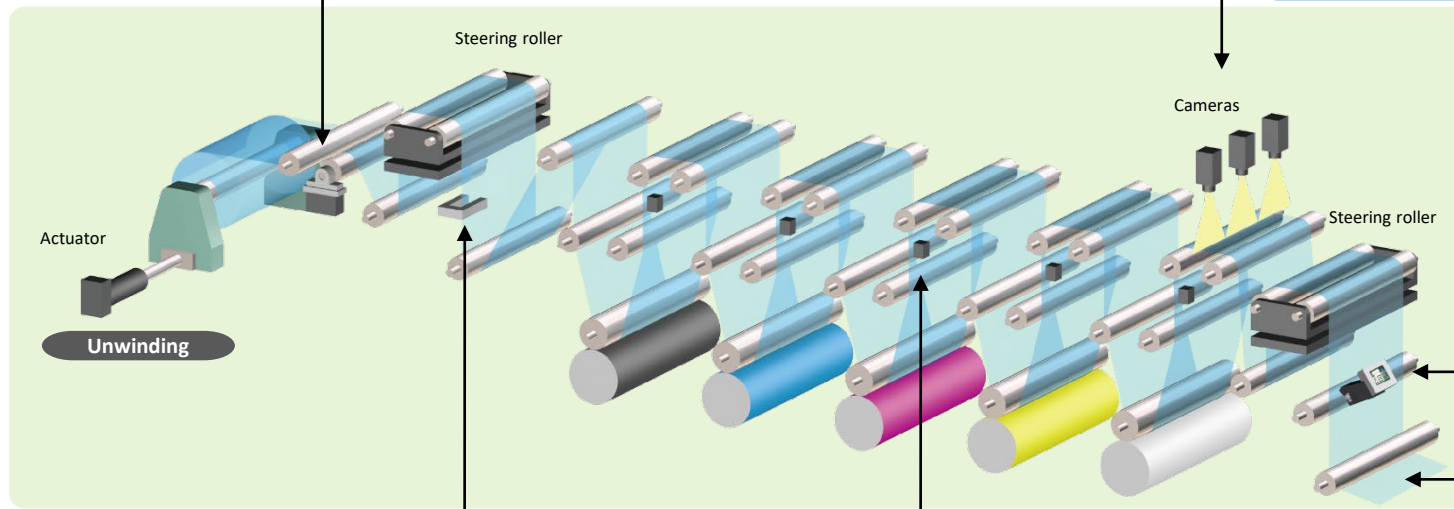

Tension Control System
Maintains web tension at a constant level to prevent wrinkles and sags of the web.



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.



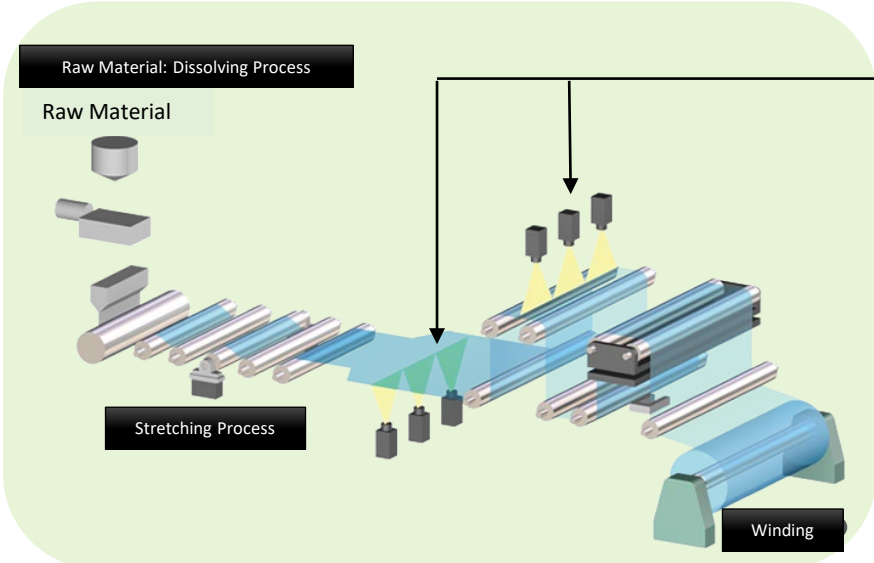
Automatic Register Control System
Controls color registration in circumferential and lateral directions



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

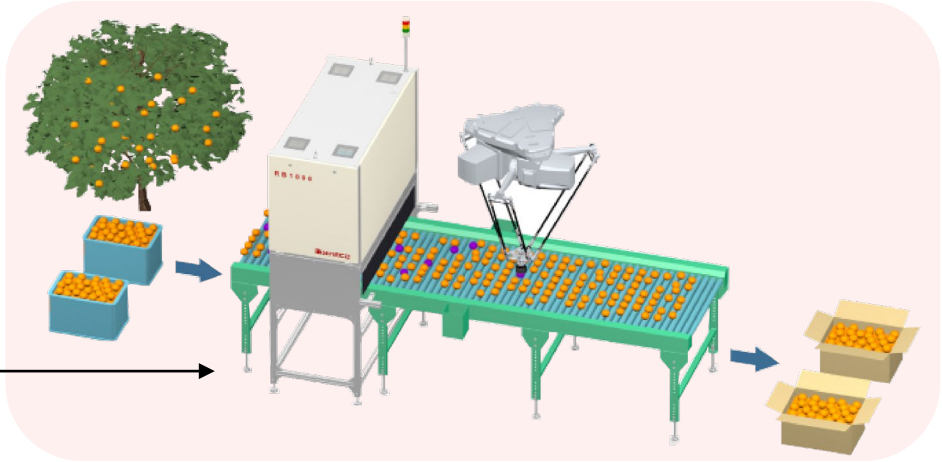


Defect Inspection System for Plain Surfaces

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.



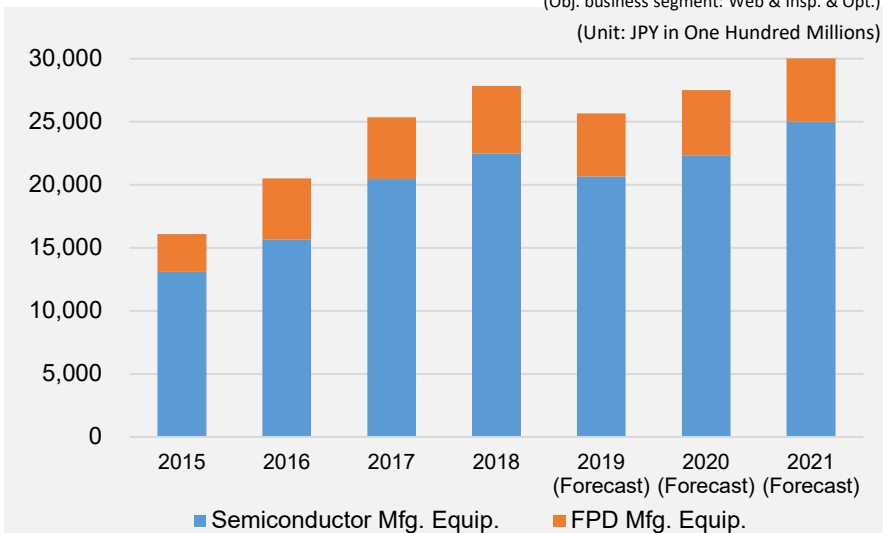
Green Laser device

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.

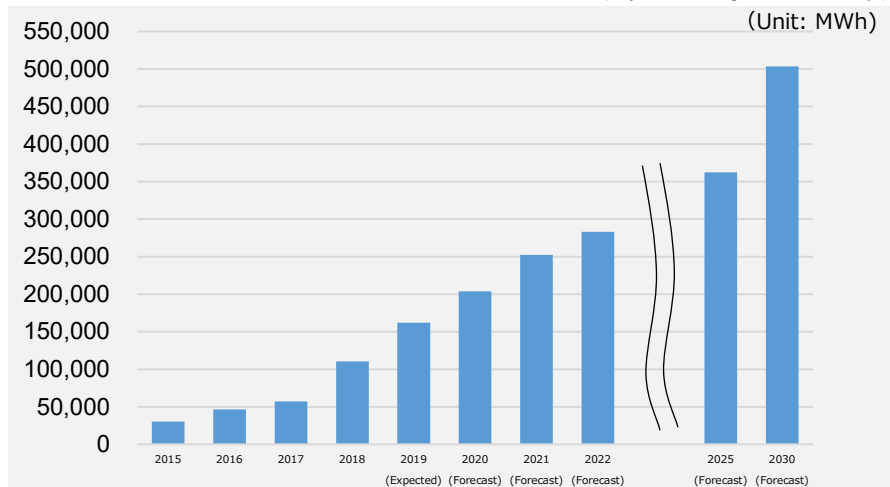
(Obj. business segment: Web & Insp. & Opt.)
(Unit: JPY in One Hundred Millions)



Source: Semiconductor Equipment Association of Japan

Automotive LiB World Market Forecast

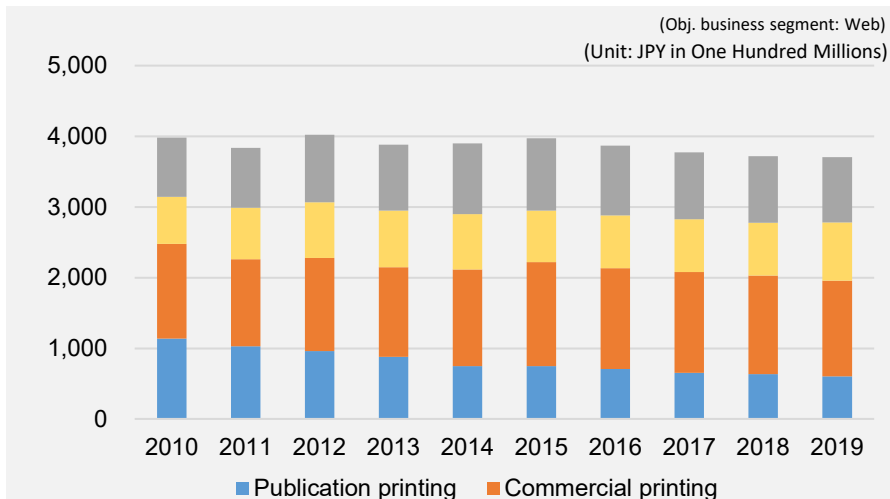
(Obj. business segment: Web & Insp.)
(Unit: MWh)



Source: Yano Research Institute Ltd.

Transition of Printing Market Size

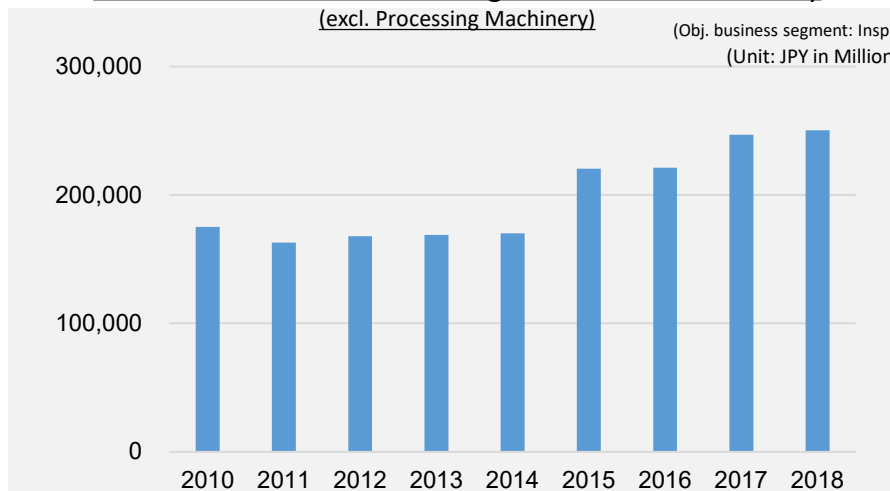
(Obj. business segment: Web)
(Unit: JPY in One Hundred Millions)



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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