

NIRECO CORP. (6863)

Material for FY2020 Financial Results

May 26, 2021

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.

Business Performance



Unit: JPY Million

	FY19	FY20	FY21(Plan)
Orders Received:	8,317 (-11% YoY)	7,447 (-10%YoY)	8,800 (+18%YoY)
Net Sales:	8,775 (+4% YoY)	7,899 (-10%YoY)	8,500 (+8%YoY)
Operating Profit:	952 (+6%YoY)	600 (+37%YoY)	650 (+8 %YoY)

Financial Results & Plan

Main objectives

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

Achieve sustainable growth in any environment

- ◆ Expand & enhance business foundations
- ◆ Improve our competitive advantage

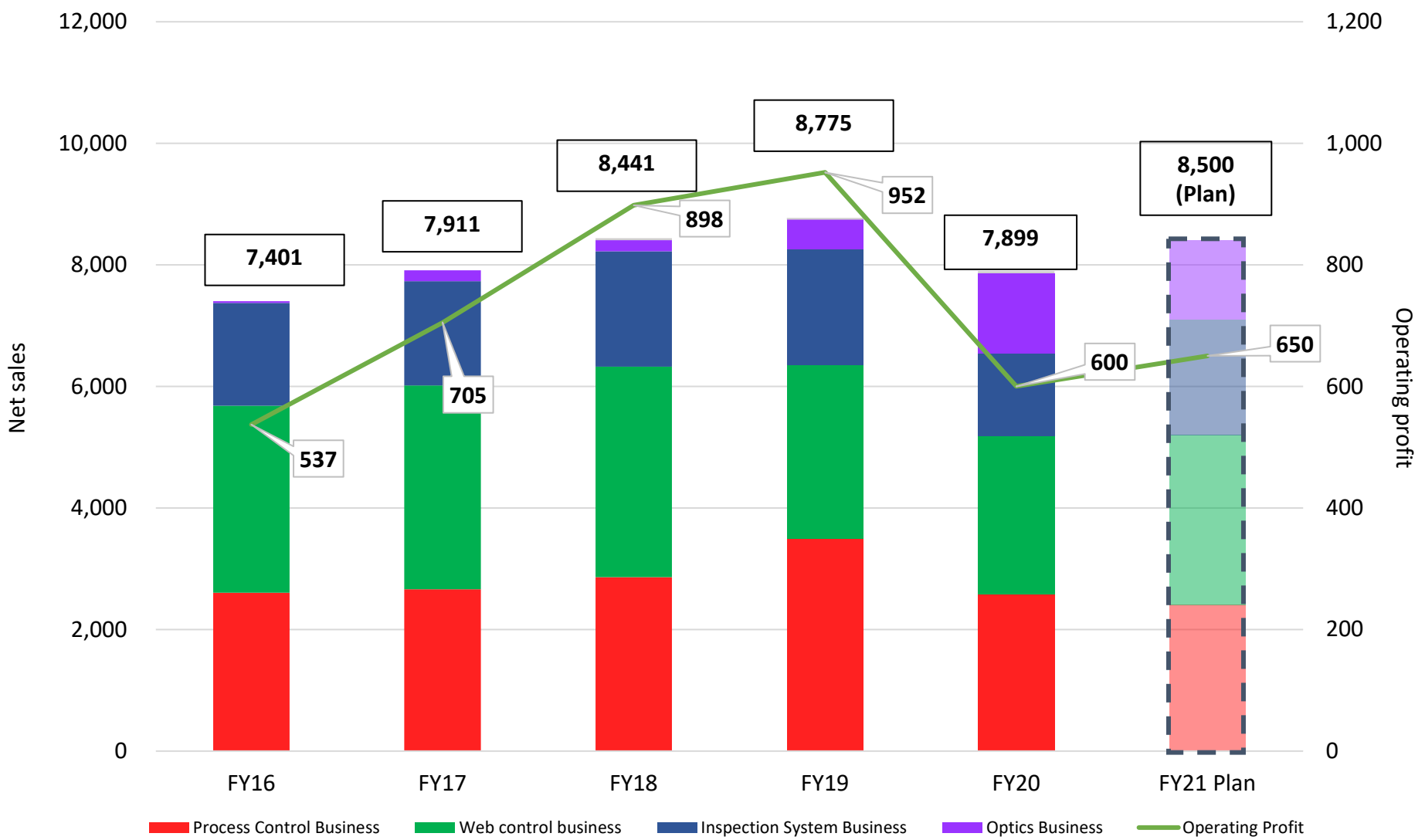
Main efforts of FY2020

- Developed new business in Optics
- Developed and launched new products
- Pursued business efficiency, such as promoting remote work
- Business cooperation Agreement with E+L

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

Net sales and operating profit

(Unit: JPY Million)



* The figures for the Optics business prior to FY18 are based on "Other" business.

- 1 . FY2020 Financial Results
- 2 . Plans for FY2021
- 3 . Towards Sustainable Growth

1. FY2020 Financial Results (Apr.2020 – Mar.2021)

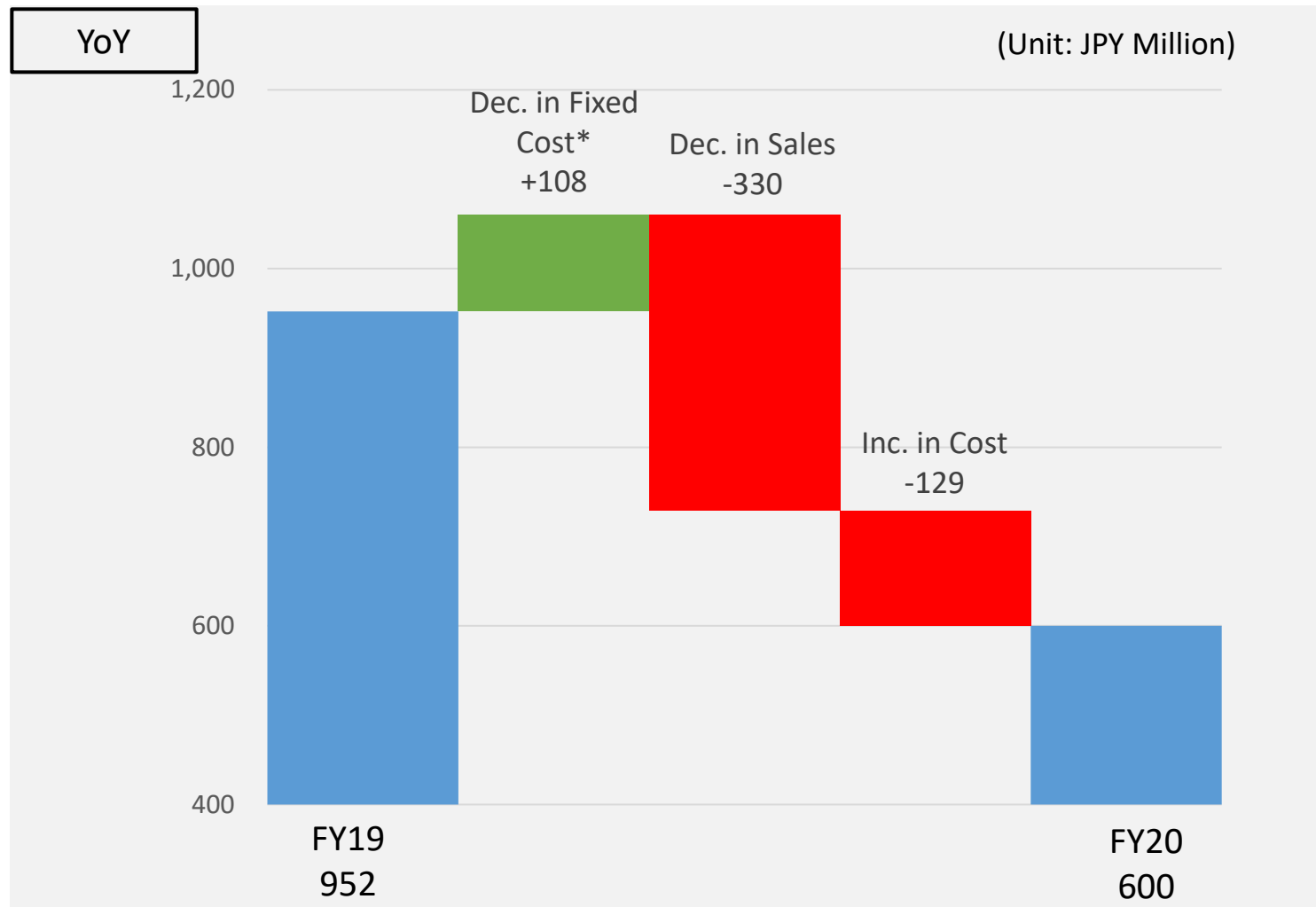
Consolidated Statement

- Due to the COVID-19 pandemic and other factors, capital investment in various industries declined significantly in 1H-FY2020, resulting in lower sales and orders.

(Unit: JPY Million)

	FY19	FY20		Rate of change	
		Initial Plan	Result	YoY	Vs to Plan
Orders received	8,317	8,700	7,447	-10%	-14%
Net sales	8,775	8,400	7,899	-10%	-6%
Operating profit	952	450	600	-37%	+34%
Operating profit margin	10.9%	5.4%	7.6%	-	-
Ordinary profit	989	490	635	-36%	+30%
Ordinary profit margin	11.3%	5.8%	8.0%	-	-
Profit attributable to owners of parent	779	340	432	-44%	+27%
Profit attributable to owners of parent margin	8.9%	4.0%	5.5%	-	-
Earnings per share (JPY)	106.58	46.54	59.06	-45%	+27%
Order backlog	3,367	3,667	2,914	-13%	-21%

Increase/ Decrease Factors in Operating Profit



※Fixed Cost = SG&A Expenses

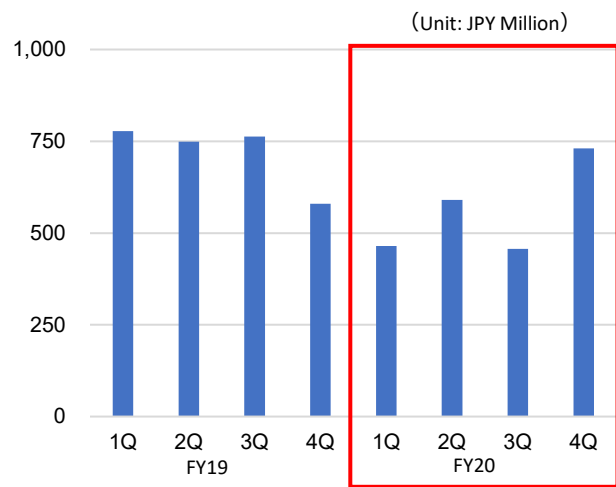
Process Control Business

- Orders received and sales both declined due to saved capital investment in the steel industry.
- Improved capacity utilization rate in the domestic steel industry toward the end of the fiscal year due partly to China's economic recovery.

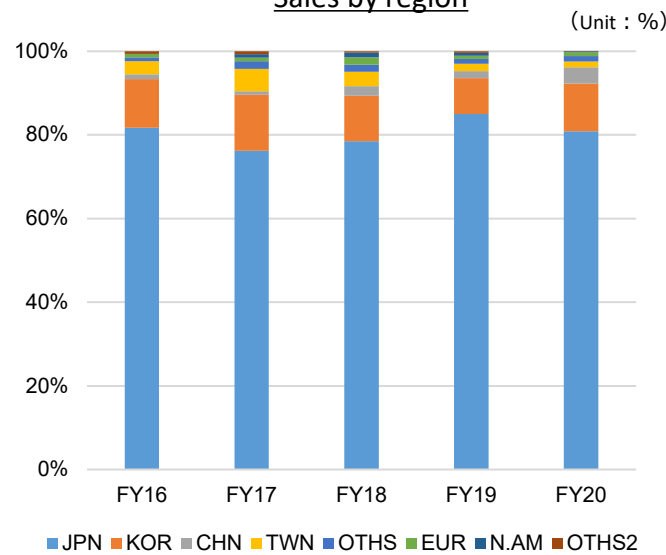
(Unit: JPY Million)

	FY19	FY20		YoY	Res./ Plan
	Actual	Initial Plan	Actual		
Orders received	2,870	2,800	2,242	-22%	-20%
Net sales	3,497	2,600	2,584	-26%	-1%
Segment profit	736	350	412	-44%	18%
Segment profit margin	21.1%	13.5%	15.9%	-	-
Order backlog	1,514	1,714	1,173	-23%	-32%

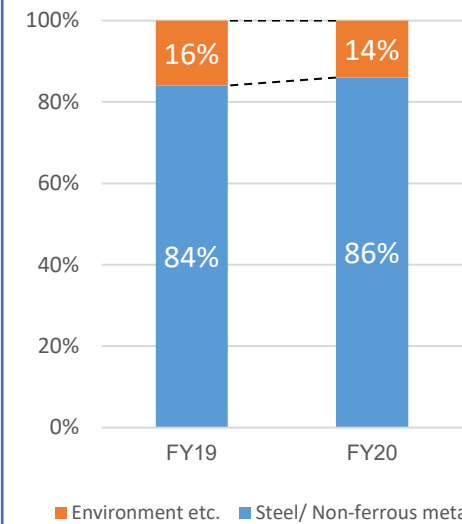
Orders Received



Sales by region



Sales ratio by industry



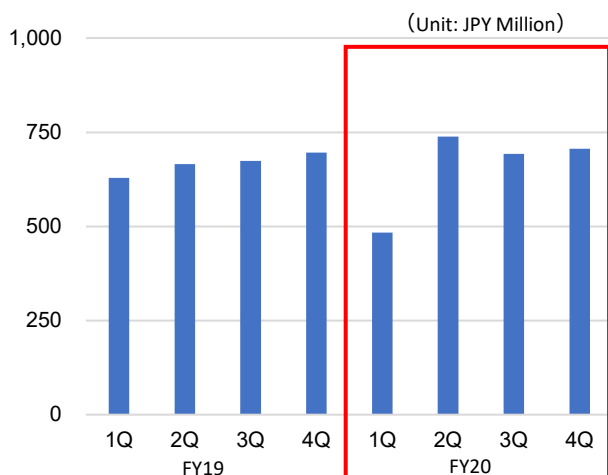
Web Control Business

- Overseas demand for LiB production line was strong, but sales and profits in other businesses decreased from the previous year due to the impact of COVID-19.
- Investment in production lines among customers in various industries recovered from the middle of the FY.

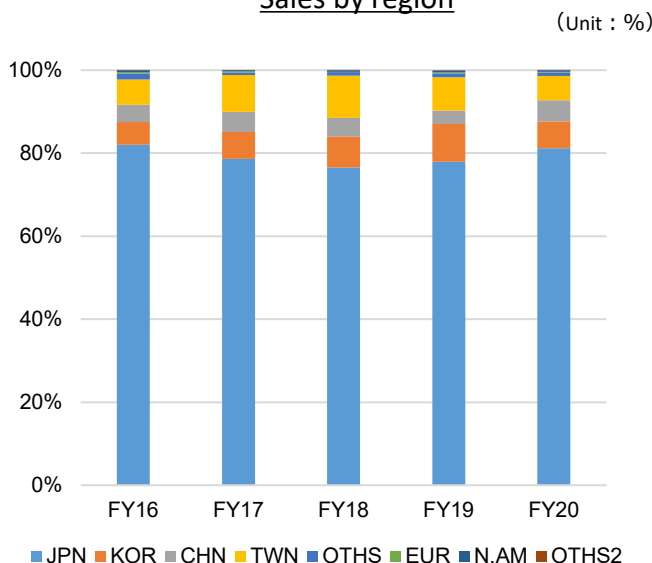
(Unit: JPY Million)

	FY19	FY20		YoY	Res./ Plan
	Actual	Initial Plan	Actual		
Orders received	2,664	2,600	2,620	-2%	1%
Net sales	2,853	2,600	2,599	-9%	0%
Segment profit	547	350	291	-47%	-17%
Segment profit margin	19.2%	13.5%	11.2%	-	-
Order backlog	559	559	580	4%	4%

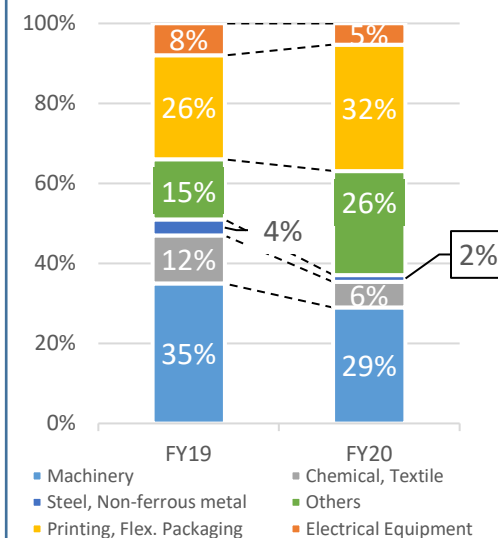
Orders Received



Sales by region



Sales ratio by industry



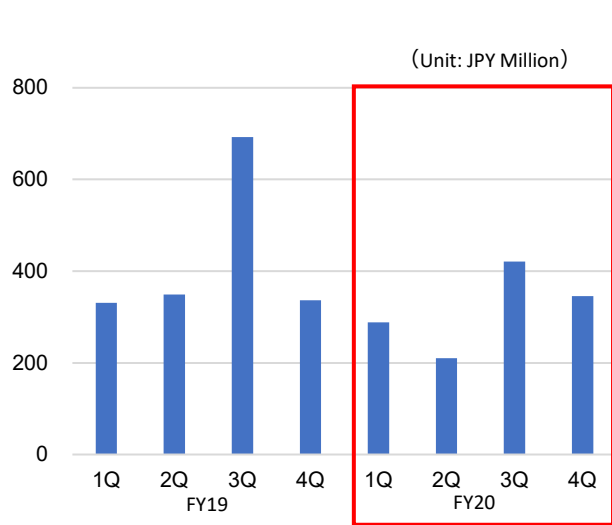
Inspection System Business

- In response to market uncertainty, sales of Surface inspection systems decreased due to multiple postponements of capital investment by industry customers.
- Orders and sales of Fruit/vegetable sorting systems were unchanged versus the previous FY.

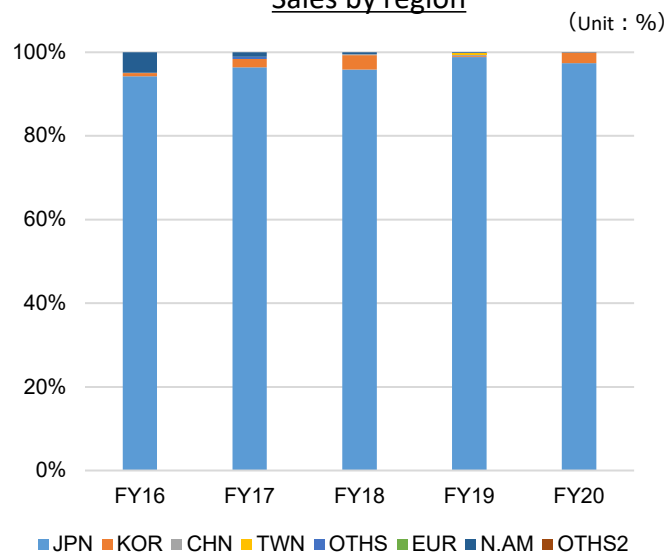
(Unit: JPY Million)

	FY19	FY20		YoY	Res./ Plan
	Actual	Initial Plan	Actual		
Orders received	1,708	2,000	1,265	-26%	-37%
Net sales	1,906	2,000	1,365	-28%	-32%
Segment profit	92	100	-19	-	-
Segment profit margin	4.9%	5.0%	-1.4%	-	-
Order backlog	711	711	611	-14.1%	-14%

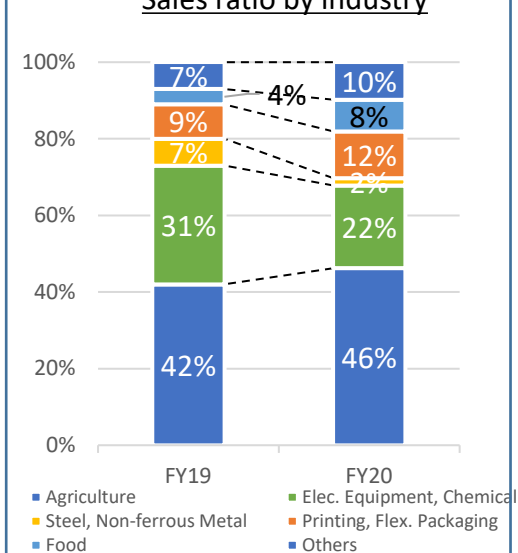
Orders Received



Sales by region



Sales ratio by industry



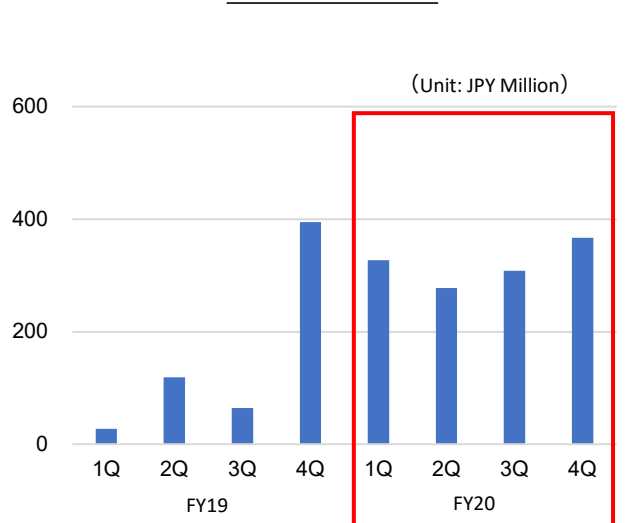
Optics Business

- Capital investment in the semiconductor industry remains strong. Both orders and sales increased.
- New business development in the medical field is making progress.

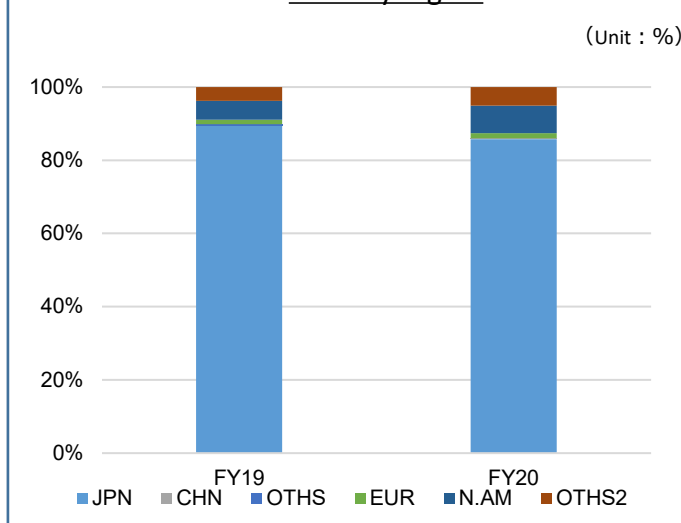
(Unit: JPY Million)

	FY19	FY20		YoY	Res./ Plan
	Actual	Initial Plan	Actual		
Orders received	605	1,300	1,280	112%	-2%
Net sales	486	1,200	1,313	170%	9%
Segment profit	78	200	399	412%	100%
Segment profit margin	16.2%	16.7%	30.4%	-	-
Order backlog	578	678	544	-5.9%	-20%

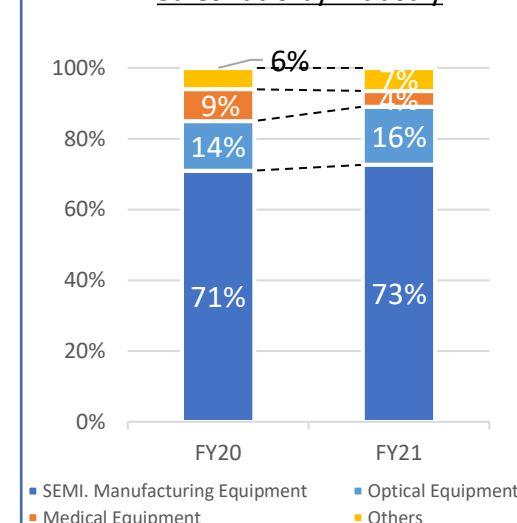
Orders Received



Sales by region



Sales ratio by industry



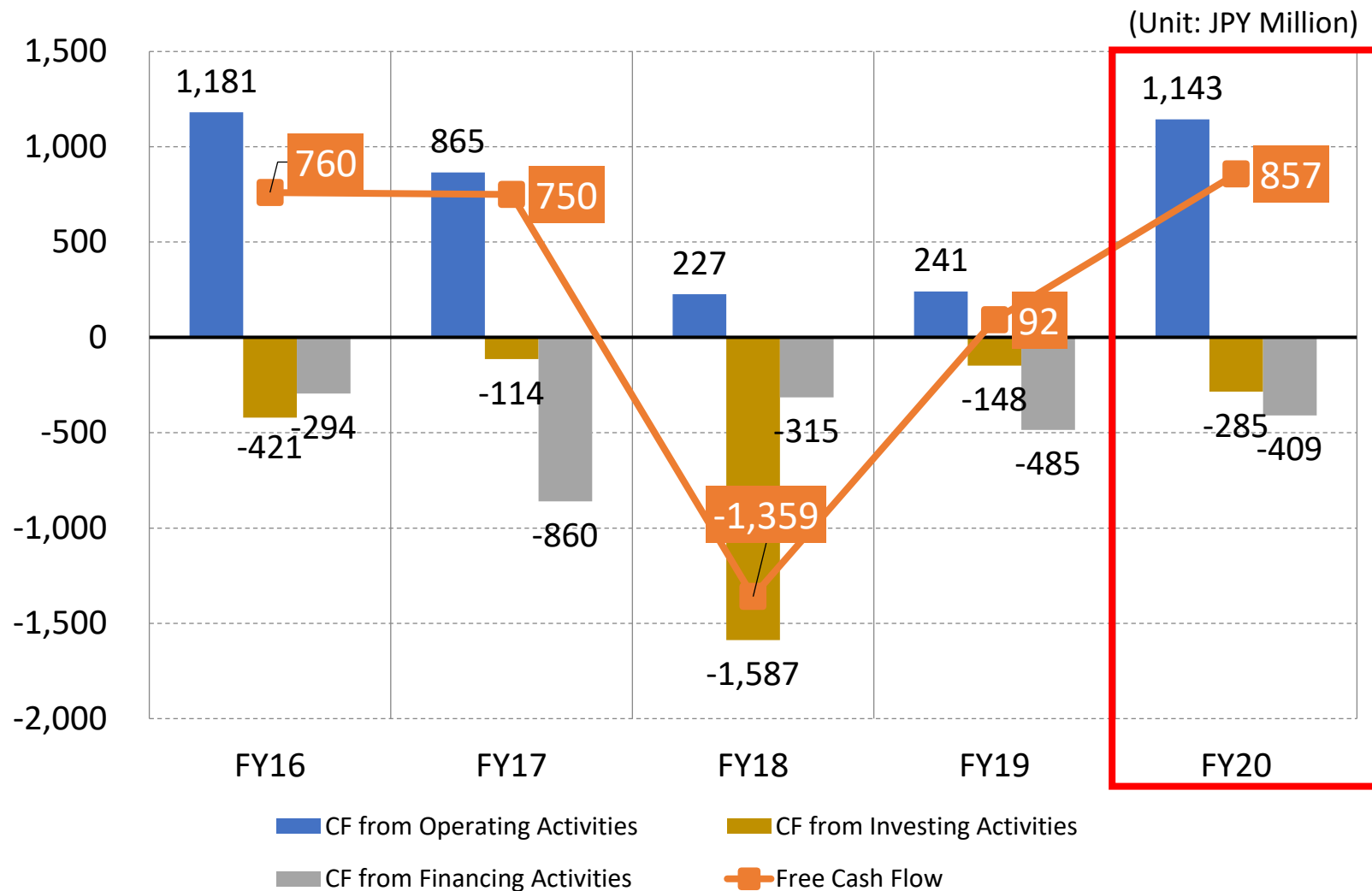
* 1. Since the Optics Business became its own category in FY19, "Orders received" figures from 1Q to 3Q FY19 are stated in the usual "Others" category.
 2. Orders and sales for Kogakugiken are included from 4Q FY19 to facilitate numerical comparisons.

Balance Sheet

(Unit: JPY Million)

	End of FY19 (Mar. 31, 2020)		End of FY20 (Mar. 31, 2021)		Change
Cash and deposits	4,155	27.8%	4,679	30.5%	+ 523
Trade receivables	4,116	27.6%	3,570	23.3%	- 546
Inventories	1,933	12.9%	1,986	13.0%	+ 53
Other current assets	234	1.6%	166	1.1%	- 68
Current assets	10,439	69.9%	10,403	67.9%	- 36
Property, plant and equipment	2,854	19.1%	2,934	19.1%	+ 80
Intangible assets	245	1.6%	207	1.4%	- 37
Investments and other assets	1,398	9.4%	1,779	11.6%	+ 380
Non-current assets	4,498	30.1%	4,921	32.1%	+ 423
Total assets	14,937	100.0%	15,324	100.0%	+ 386
Accounts payable - trade	299	2.0%	351	2.3%	+ 52
Other current liabilities	1,189	8.0%	996	6.5%	- 192
Current liabilities	1,488	10.0%	1,347	8.8%	- 140
Non-current liabilities	567	3.8%	450	2.9%	- 117
Total liabilities	2,055	13.8%	1,797	11.7%	- 258
Total net assets	12,882	86.2%	13,527	88.3%	+ 644
Total liabilities and net assets	14,937	100.0%	15,324	100.0%	+ 386

Cash Flows



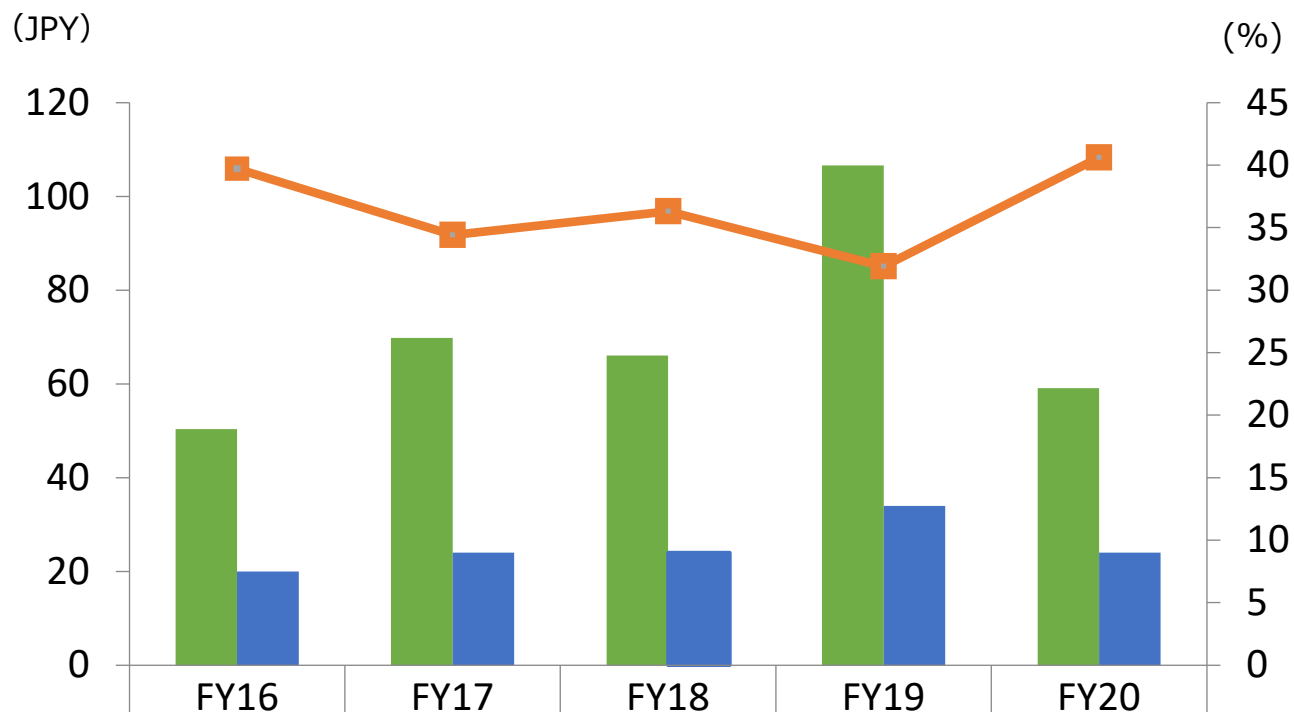
Overview of FY20

Cash flows from operating activities: Income before income taxes (635 million yen), Decrease in trade receivables (549 million yen)

Cash flows from investing activities: Fixed assets acquisition (-218 million yen)

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	59.06
Dividends (JPY)	20	24	24	34	24
Dividend Payout Ratio (%)	39.7	34.4	36.3	31.9	40.6

Nireco decided to pay dividends in excess of dividend payout ratio target in FY20.

2 . Plans for FY2021 (Apr.2021 – Mar.2022)

Business Plan

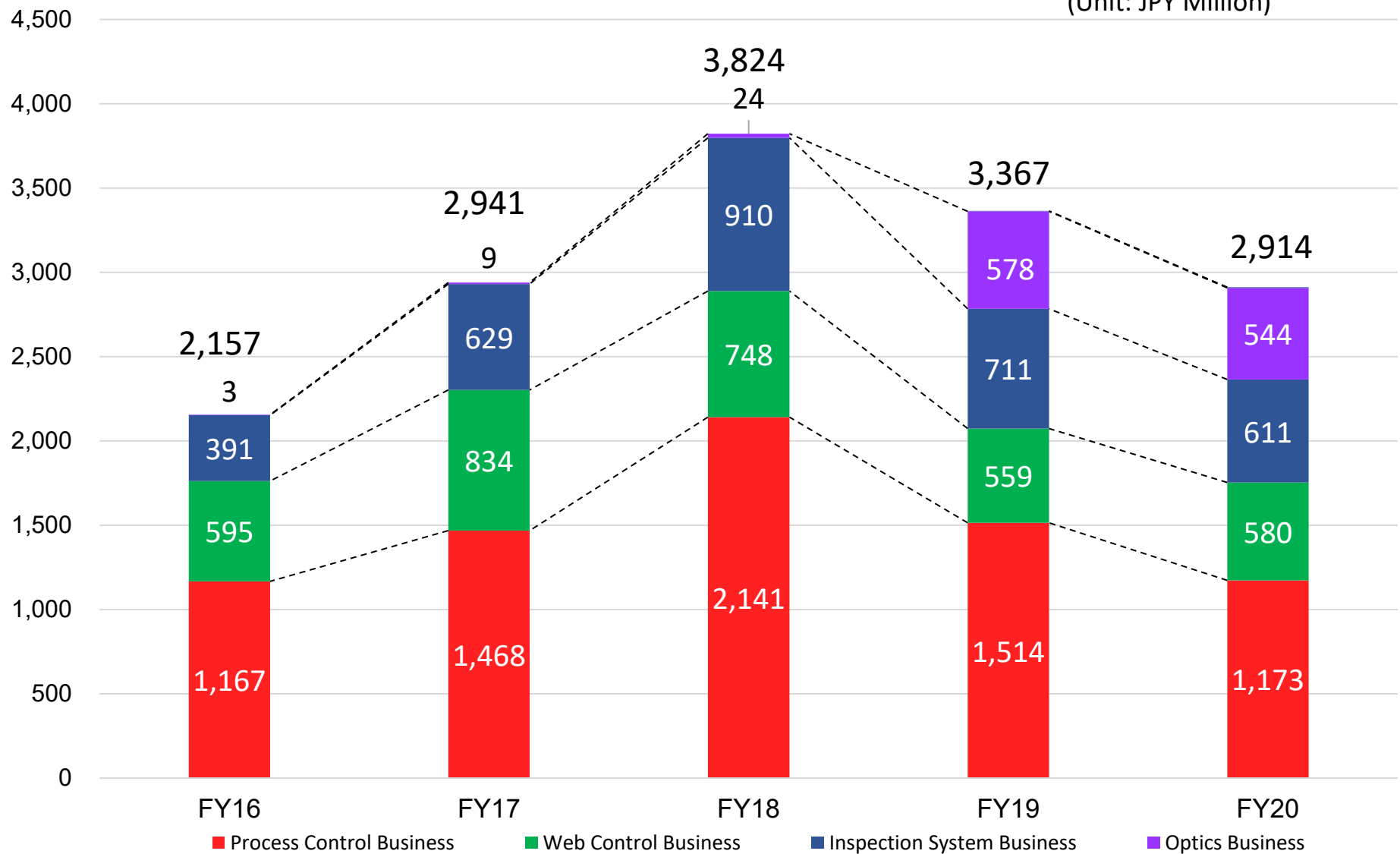
- Global economic recovery due to resumption of economic activity
- Forecast higher sales and profit versus the previous year

(Unit: JPY Million)

	FY20	FY21 Plan	YoY
Orders received	7,447	8,800	+18%
Net sales	7,899	8,500	+8%
Operating profit	600	650	+8%
Operating profit margin	7.6%	7.6%	-
Ordinary profit	635	700	+10%
Ordinary profit margin	8.0%	8.2%	-
Profit attributable to owners of parent	432	500	+16%
Profit attributable to owners of parent margin	5.5%	5.9%	-
Earnings per share (JPY)	59.06	68.22	+16%
Order backlog	2,914	3,214	+10%

Transition of Order Backlog

(Unit: JPY Million)



* 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' capital investment declines due to consolidation of facilities
- Capacity utilization rate rises as economic activity resumes



- Steady orders for renewal and maintenance demand

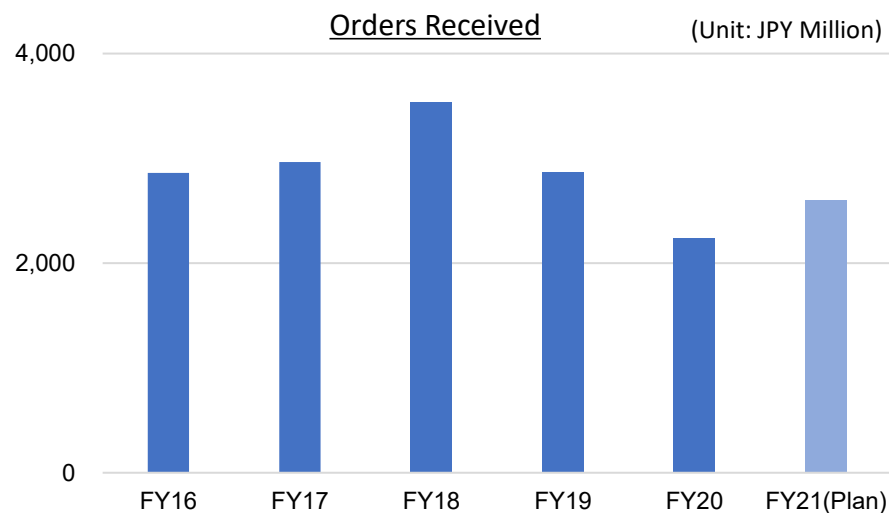
Overseas Steel Market

- Overseas market recovery, especially in China



- Strengthening our overseas market sales team
- Strengthening relationship of overseas group companies, mainly in China
- Strong focus on developing new products for overseas markets

	FY20	FY21 Plan
Orders received	2,242	2,600
Net sales	2,584	2,400
Segment profit	412	350
Segment profit margin	15.9%	14.6%



Market Conditions & Measures: Web Control Business

Electronic parts/ High Functional Film Market

- Investment in LiB rechargeable batteries facilities, esp. in China, Korea, Taiwan and Europe, remains strong.



- Capturing capital investment demand for LiB
- Starting domestic sales of products from E+L, a business partner

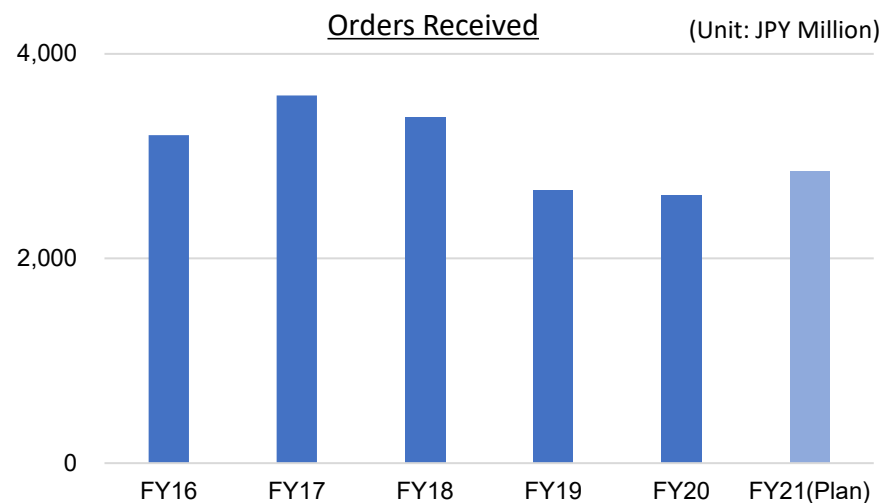
Papers/ Printing/ Soft packaging Market

- The market continues to shrink due to a decrease in demand for paper and printing.
- On the other hand, capital investment by manufacturers is recovering due to the resumption of economic activity in addition to new demand from stay-at-home spending.



- Increasing sales activity related to manufacturers' capital investment and environment-related investment.
- Starting domestic sales of products from E+L, a business partner

	FY20	FY21 Plan
Orders received	2,620	2,850
Net sales	2,599	2,800
Segment profit	291	400
Segment profit margin	11.2%	14.3%



Market Conditions & Measures: Inspection System Business

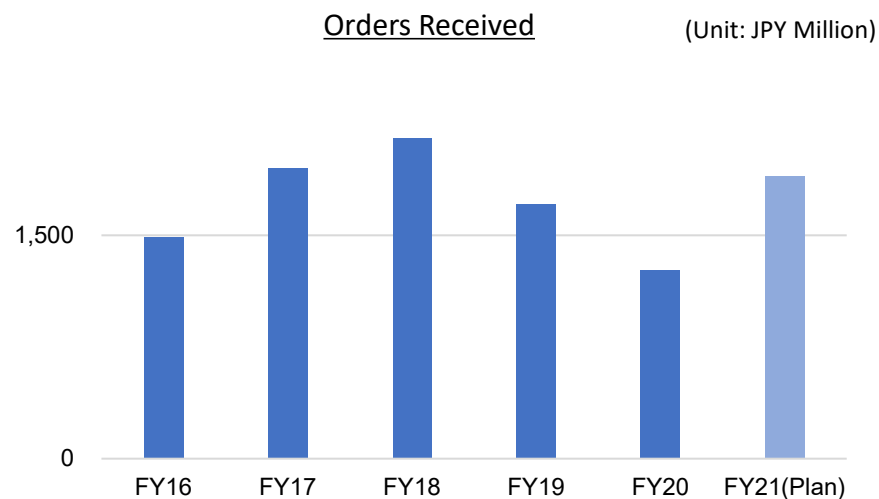
Electronic parts/ High Functional Film Market

- Manufacturers postponed investment in inspection equipment due to the COVID-19 pandemic.
 - Diversification of needs.
- ↓
- Capturing the postponed demand for inspection systems.
 - Expand sales of new surface inspection systems and other products.

Food Related Market

- Steady demand for inspection systems in the agricultural sector.
 - Expanding demand for inspection of processed foods buoyed by labor saving and productivity improvement demands.
- ↓
- Focusing on sales in the agriculture and fisheries sectors.
 - Capturing rising demand for processed food inspection.

	FY20	FY21 Plan
Orders received	1,265	1,900
Net sales	1,365	1,900
Segment profit	-19	150
Segment profit margin	-1.4%	7.9%



Market Conditions & Measures: Optics Business

Optical Component Market

- For the higher circuit density of semiconductors, demand for inspection equipment is strong.
- Demand for laser-related optical components is strong



- Steady intake of demand for optical components
- Develop new applications by utilizing the strengths of crystal processing technology.

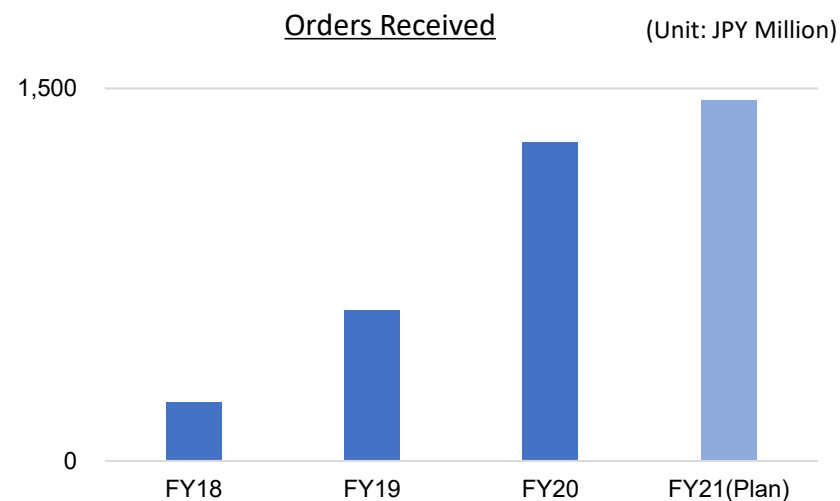
Laser-related products

- Demand is strong such as semiconductors and medical.



- Focus on expanding sales of existing and new products.
- Application development based on product features.
- Development the products for the medical field

	FY20	FY21 Plan
Orders received	1,280	1,450
Net sales	1,313	1,400
Segment profit	399	300
Segment profit margin	30.4%	21.4%



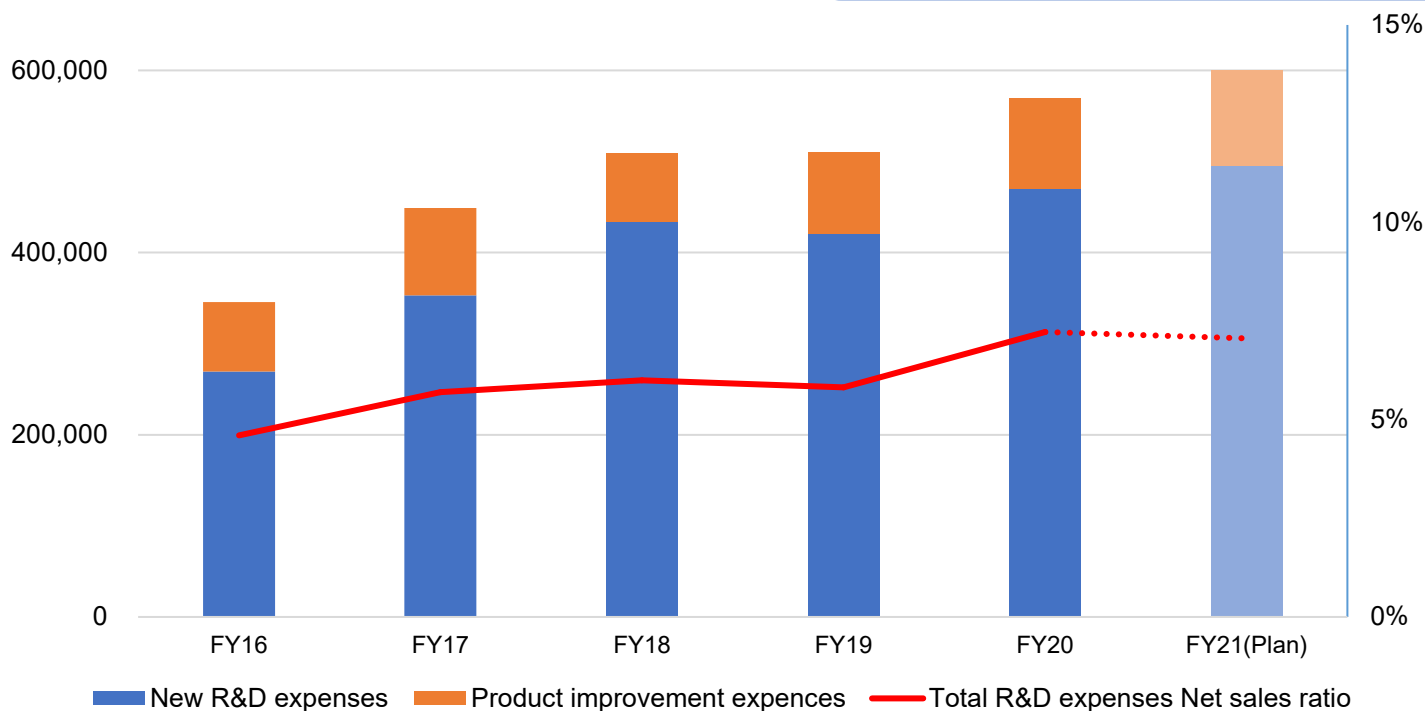
R&D

- Aiming to create a new revenue stream & accelerate development projects using our technology strengths.

Main development themes

- Development of next-generation inspection systems and measuring devices
- Development of new products using laser technology
- Development of new products using magnetic field & microwave technology
- Development of applications for NIR analyzer

(単位 : JPY Thousand)



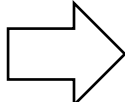
3. Towards sustainable growth

Main objectives for sustainable growth

Strengthen our organization to enable growth in any environment

Expand our market presence

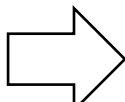
- Drive overseas expansion
- Strengthen Inspection system business and Optics business
- Exploit new fields of business through new-product development



Expand & enhance business foundations

Technological advances

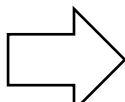
- By enhancing image analysis technology
- Developing products based on optical applications technology



Enhance competitive advantage

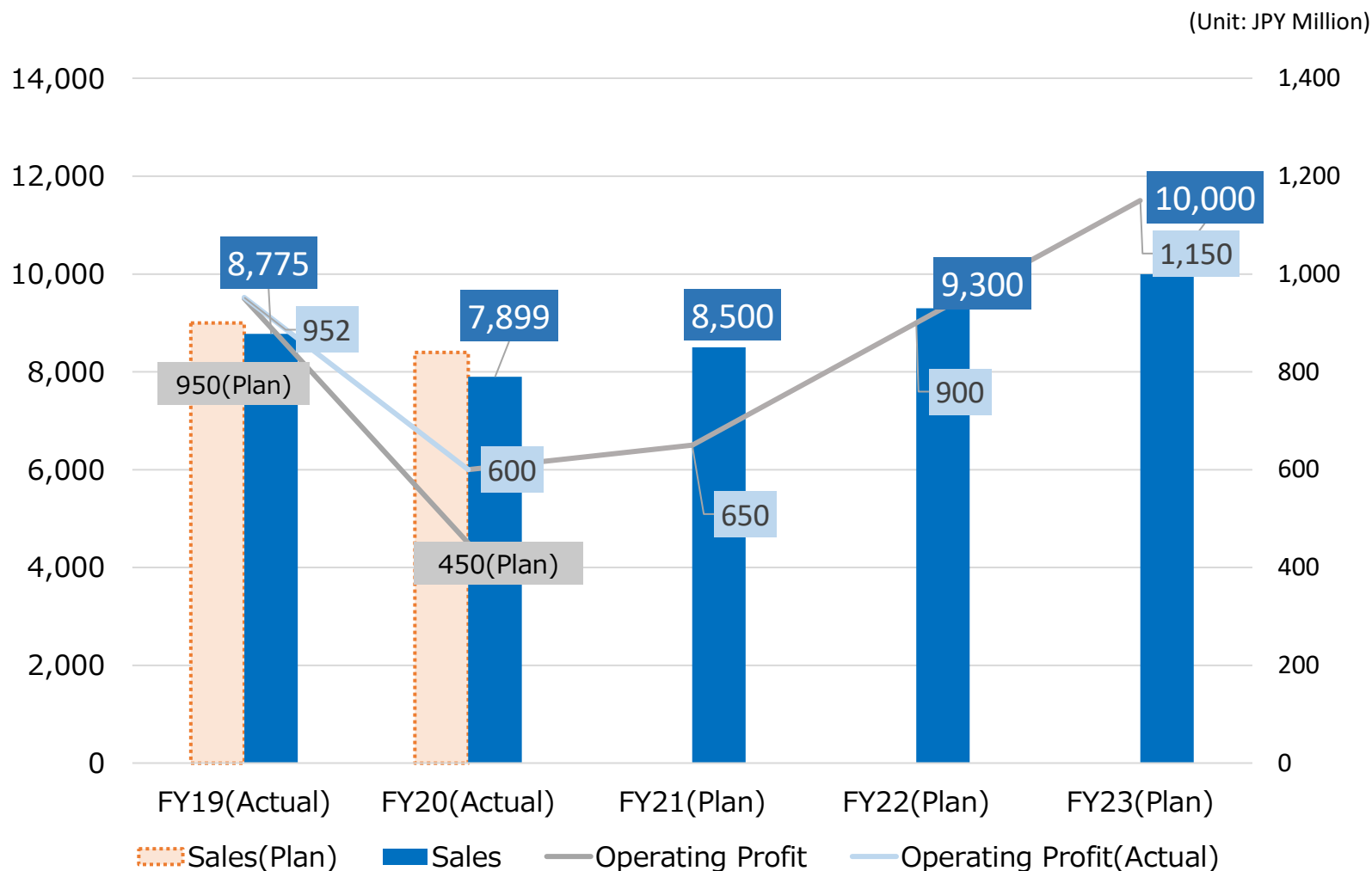
Enhance organizational capabilities

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



Reinforce organizational base

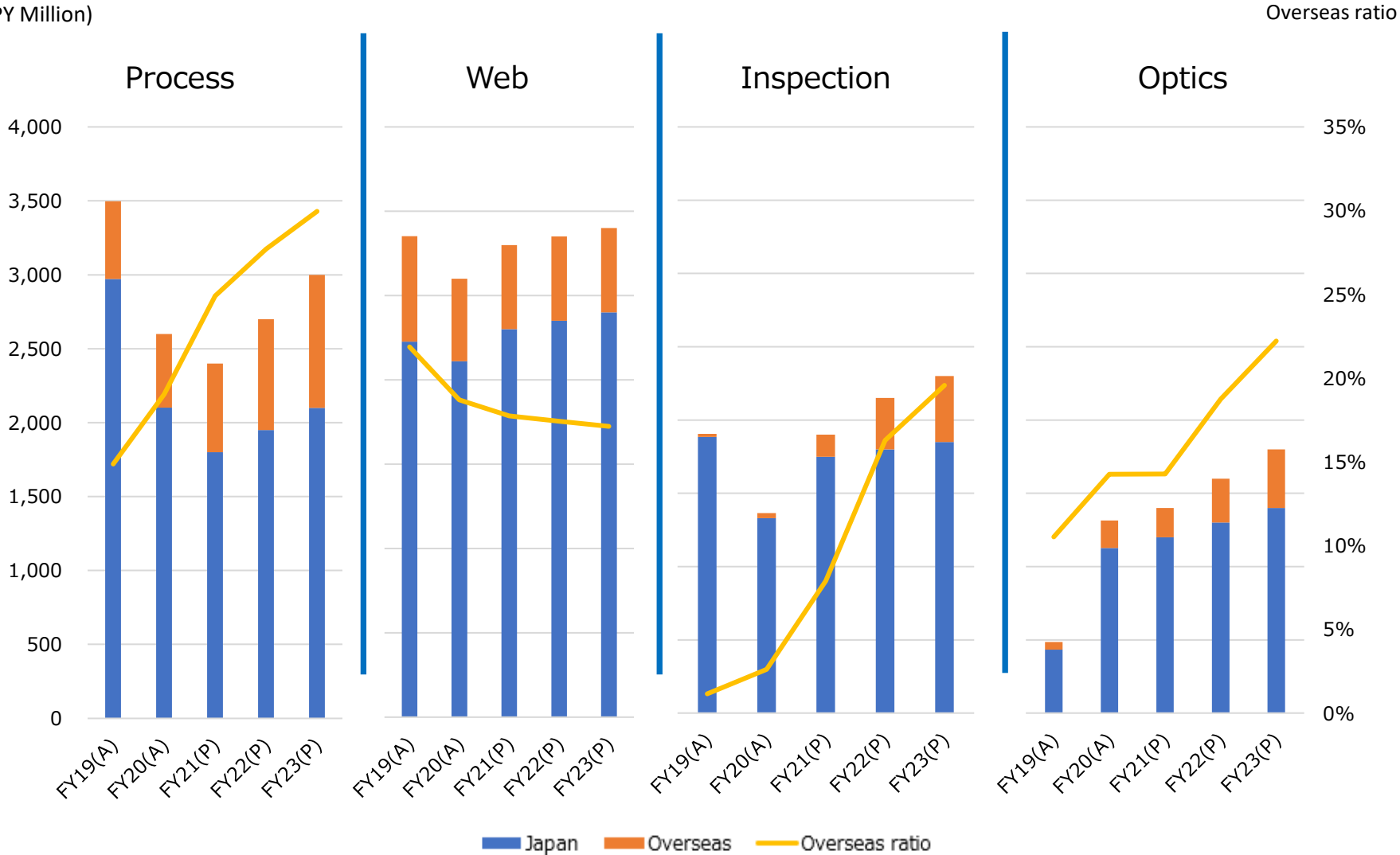
5-year plan



Nireco expects efforts to resume economic activity will pick up speed in countries around the world and that capital investment at customers will start showing a recovery.

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

(Unit: JPY Million)



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	427*
Net sales (Consolidated)	7,899 Million Japanese Yen (FY2020)

*As of March 31, 2021

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 with and absorbed subsidiary Megaopto Co., Ltd.
Acquired Kogakugiken Corp.

Management philosophy

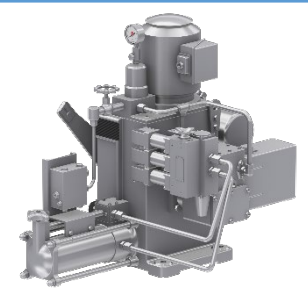
‘TECHNOLOGY & TRUST’

We provide products that utilize our advanced control, measurement and inspection technology and services that precisely match the needs of our customers. NIRECO grows together with its customers as a reliable partner and as a company that wins trust.

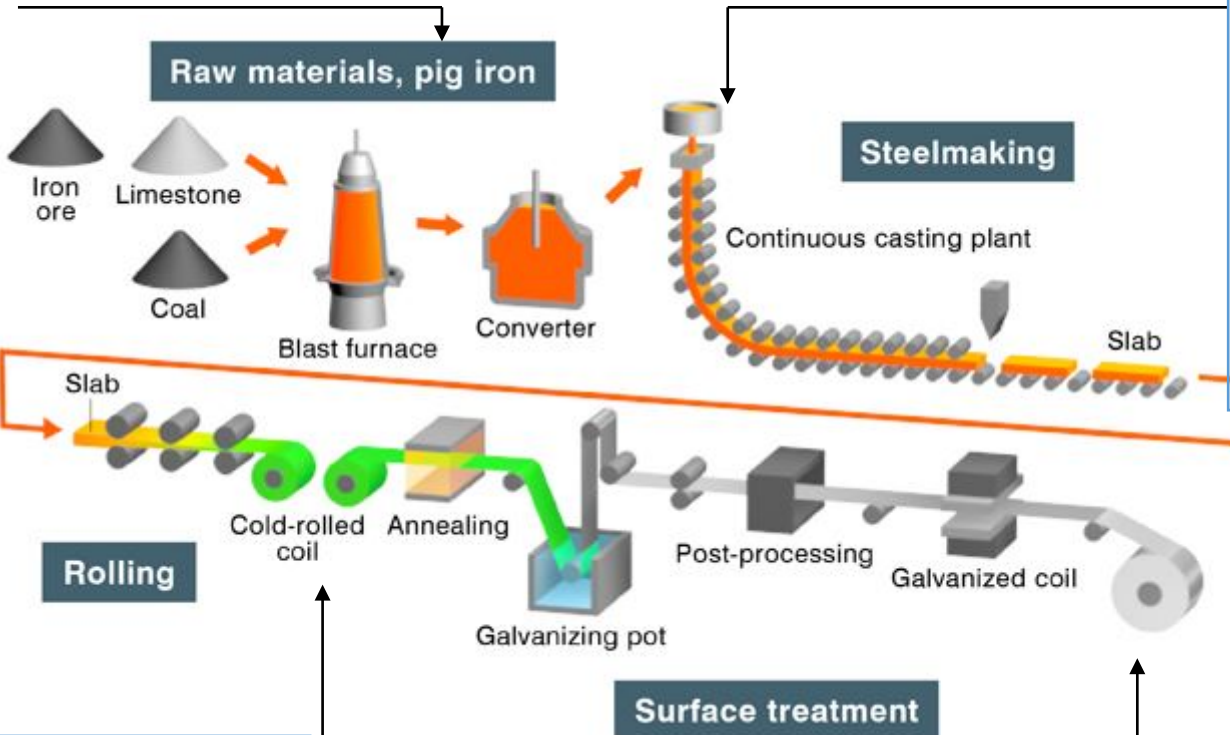
The products that we develop out of this partnership are deeply appreciated by our direct customers and by other end-users located further downstream. NIRECO is proud of achieving this high degree of satisfaction with our work.

Process Control Business

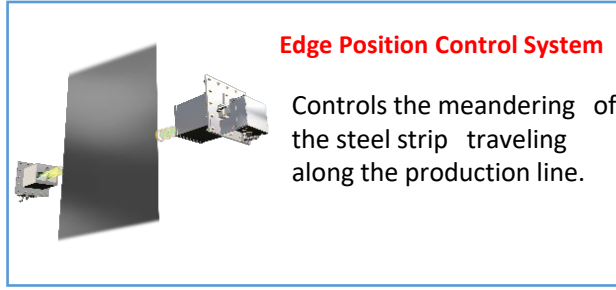
Markets automatic control equipment in several industries such as steel, metal, gas, chemical etc.



Electro-hydraulic Actuator
Controls pressure, flow rate and temperature inside blast furnace



Eddy Current Level Meter
Eddy currents are used to measure the level of molten steel poured into a cast.



Edge Position Control System
Controls the meandering of the steel strip traveling along the production line.



Automatic Marking System
Imprints various information on the finished metal product.

Web Control Business

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



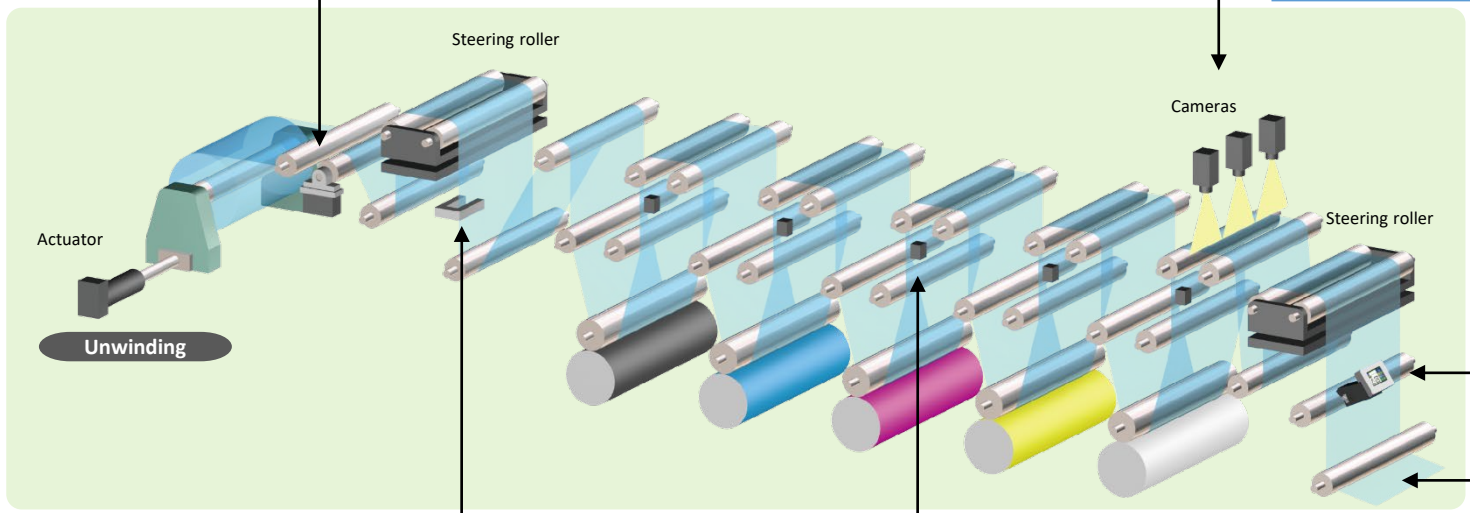

Tension Control System
Keeps the web tension constant and enables stable, high-precision production.




Print Quality Inspection System
Detects blemishes on the surface of printed products.




Web Position Control System (Pattern matching)
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.




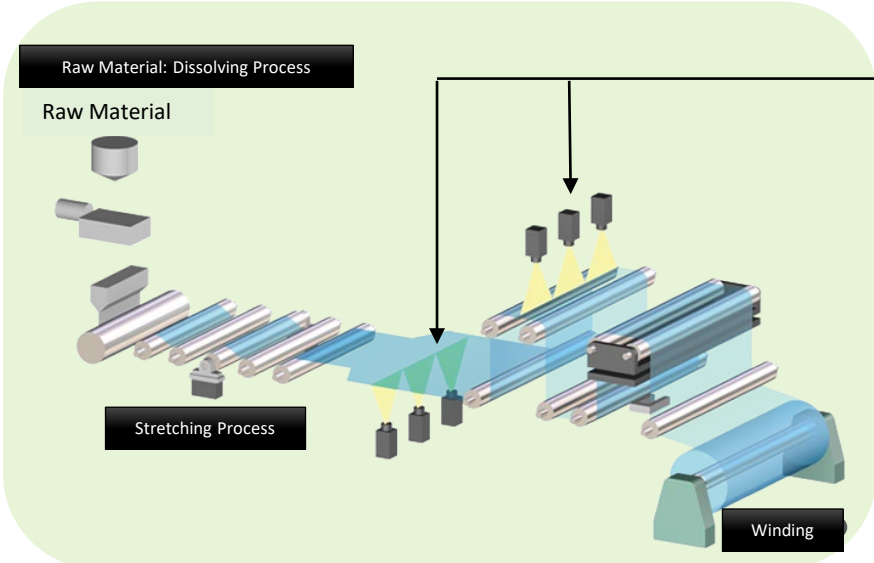
Automatic Register Control System
Controls the color-to-color registration on rotogravure printing laterally and on the circumference.



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

Inspection System Business

Sales of quality inspection systems for a wide range of products from agriproducts to electronic components and custom developed using image processing technology refined over many years.



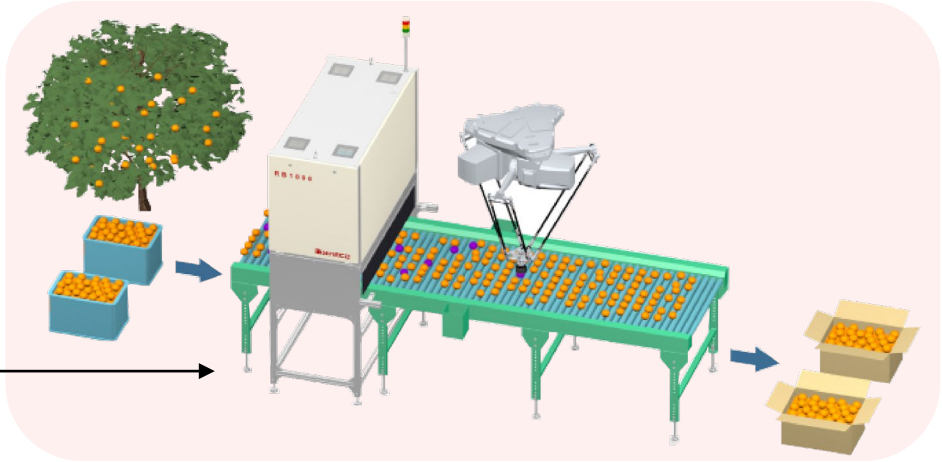
Defect Inspection System for Plain Surfaces

Able to detect multiple kinds of defects even on high-speed production lines.



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

The Optics business engages in the R&D, manufacture and sale of advanced laser devices meticulously developed over many years and highly specialized optical components.

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

Optical Components



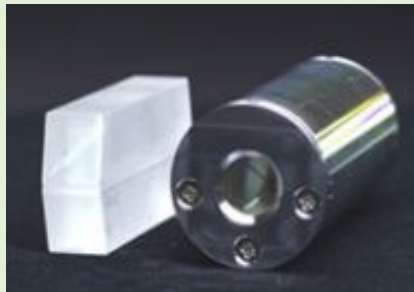
Nonlinear optical crystal

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.

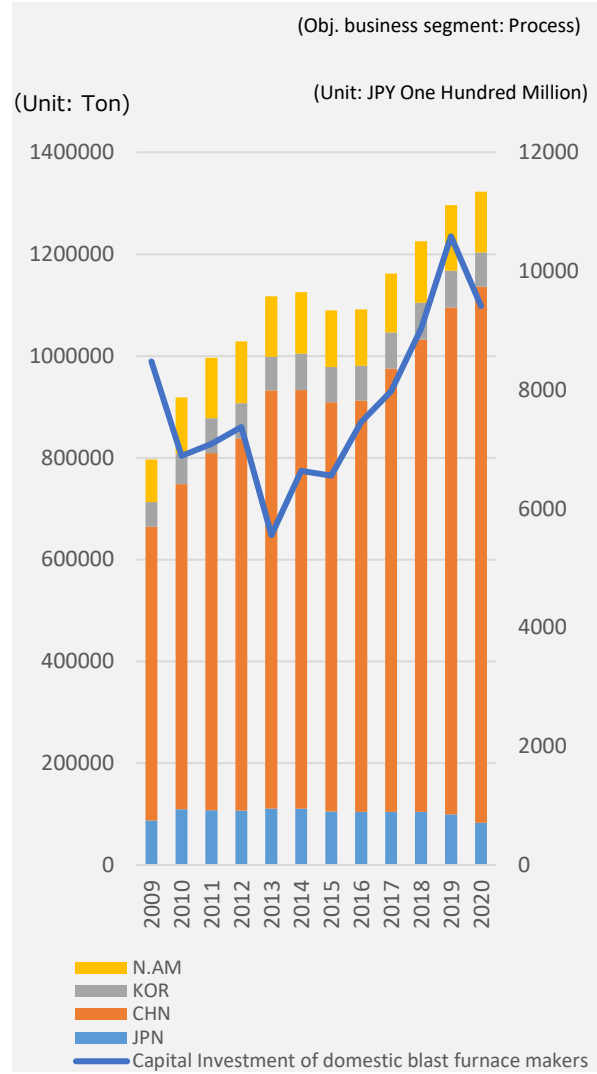


Green Laser device

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

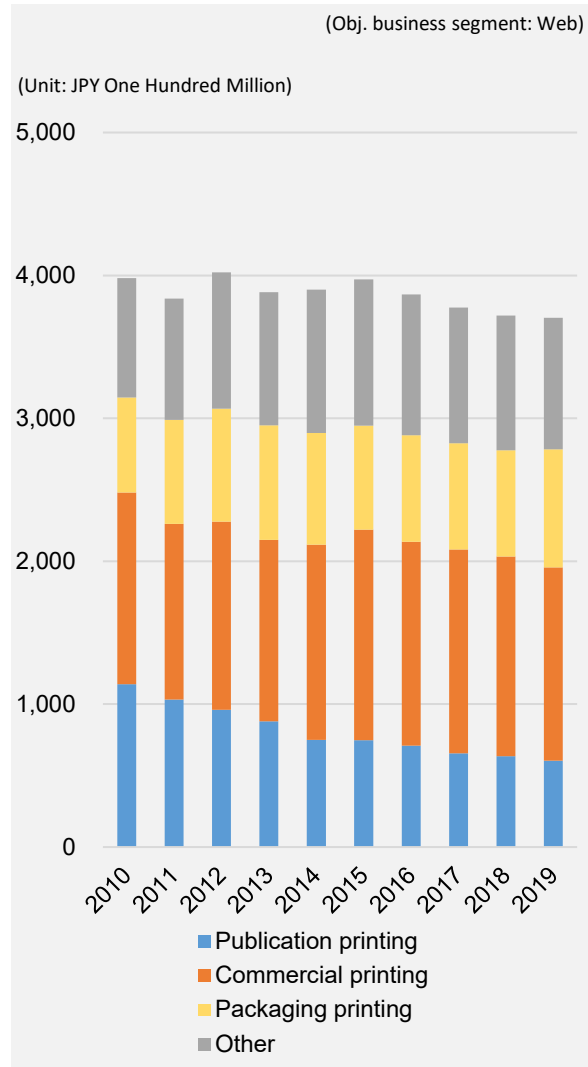
Market environment

Regional Crude Steel Production & Capital Investment by Major Domestic Blast Furnace Makers



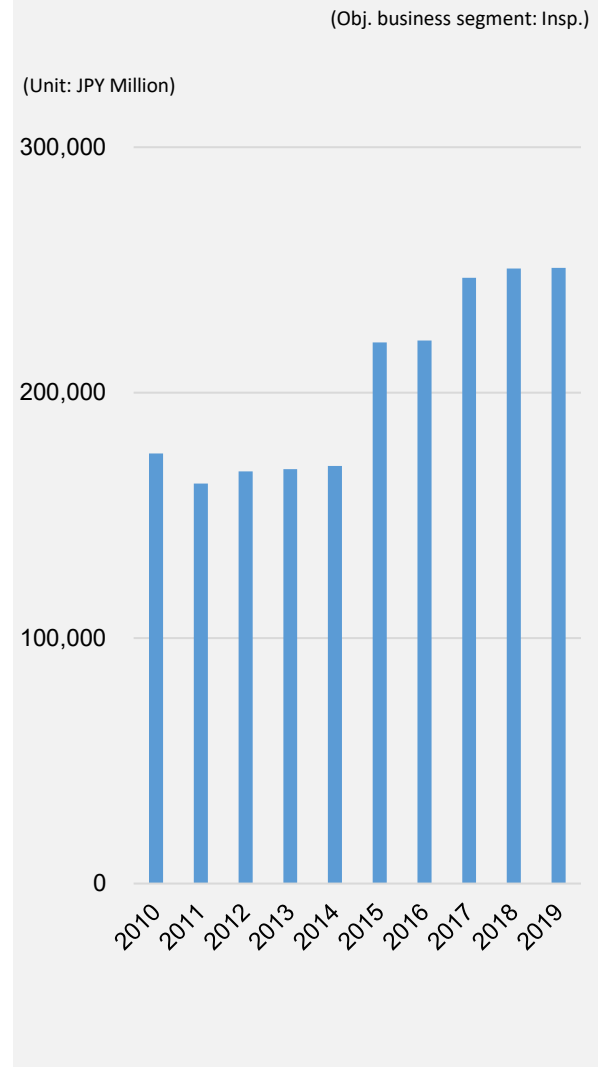
Source: The Japan Iron and Steel Federation

Scale of Japan's Printing Market



Source: Based on industrial & production dynamics statistics

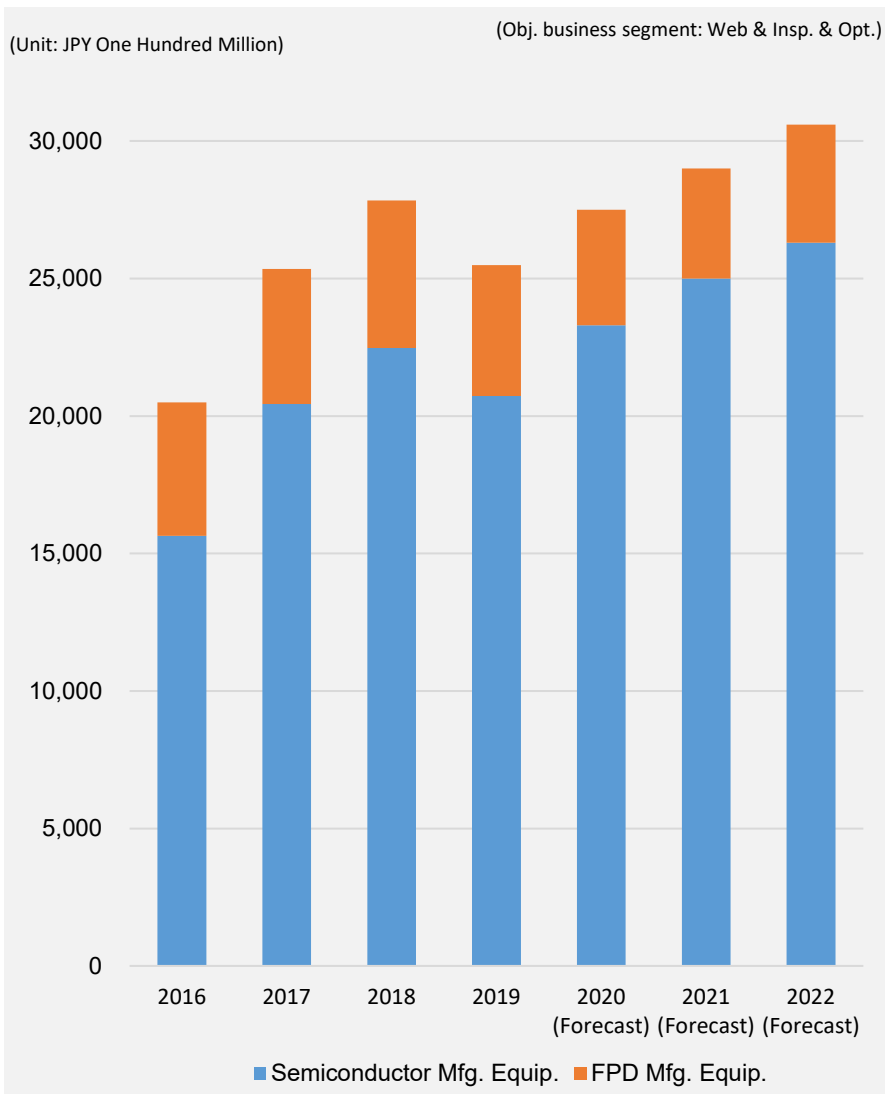
Japan Food Machinery Sales (excluding processing machinery)



Source: The Japan Food Machinery Manufacturers' Association

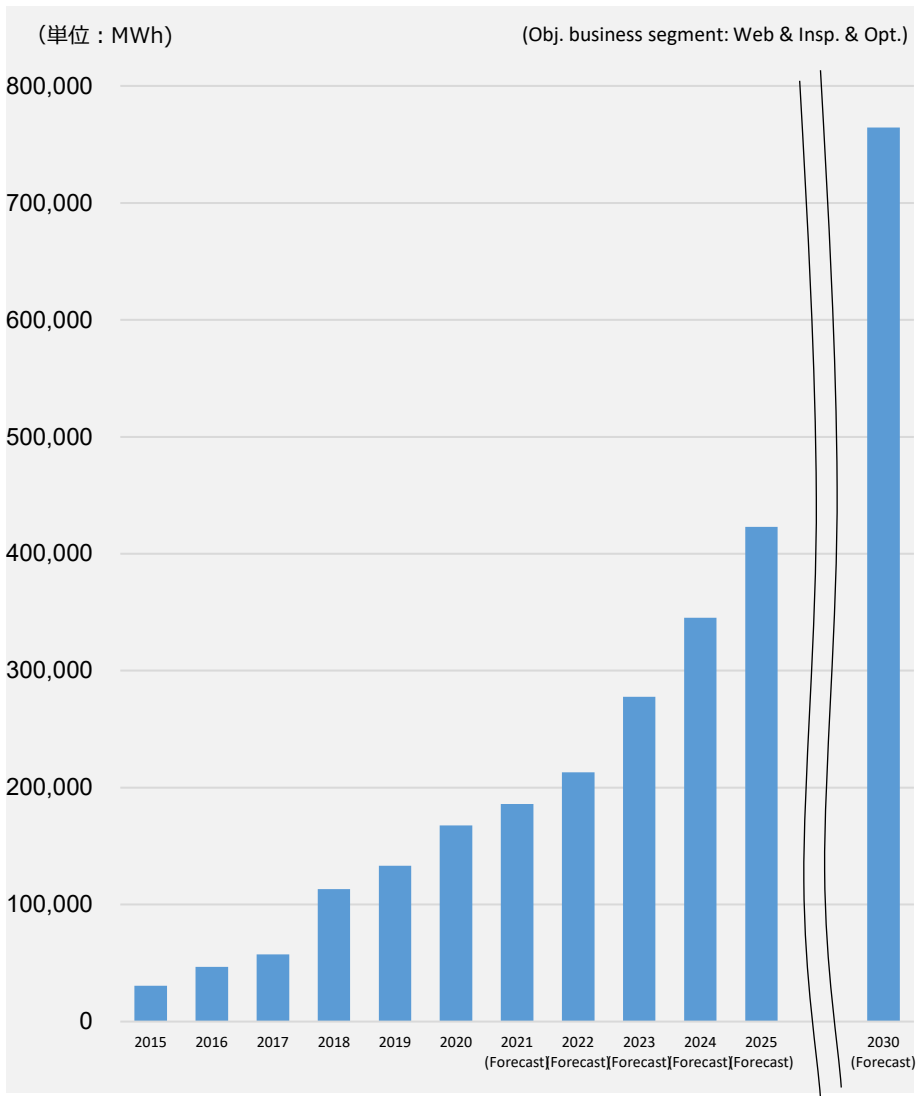
Market environment

Forecast of Demand for Semiconductor & FPD Mfg. Equip.



Source: Semiconductor Equipment Association of Japan

Automotive LiB World Market Forecast



Source: Yano Research Institute Ltd.

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