

NIRECO CORP. (6863)

**Material for 1H-FY2022
Financial Results**

November 14, 2022



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

1 H-FY21

1H-FY22

FY22(Plan)

Unit: JPY Million

Financial Results & Plan

Orders Received:	5,111	5,718	10,500
(YoY)	(+51%)	(+12%)	(+10%)
Net Sales:	4,019	4,004	9,000
(YoY)	(+11%)	(-0%)	(+11%)
Operating Profit:	253	364	800
(YoY)	(-26%)	(+43%)	(+42 %)

Main objectives

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

Achieve sustainable growth in any environment

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

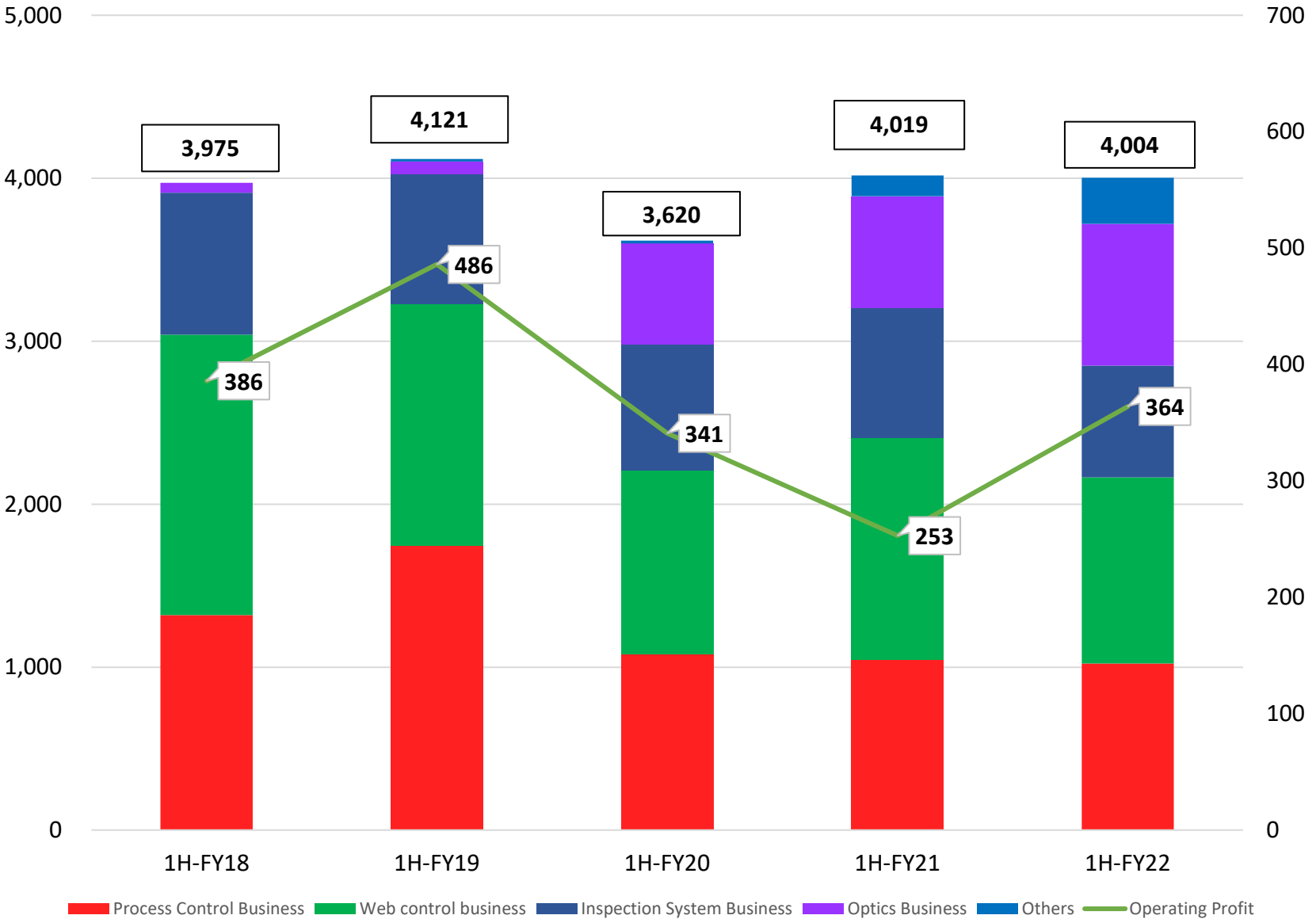
Main efforts of 1H-FY2022

- Strengthened optics business
- Improved procurement by adopting alternative materials and developing procurement routes
- Expansion of product lineup and development/ launch of new products

Consolidated dividend payout ratio of 40% or more and consolidated Dividend On Equity (DOE) capital ratio of 2% or more.

Net sales and operating profit of 1st half

(Unit: JPY Million)



- 1 . 1H-FY2022 Financial Results
& Plans for FY2022
- 2 . Towards Sustainable Growth
- 3 . Topics

1 . 1H-FY2022 Financial Results & Plans for FY2022

Consolidated Statement

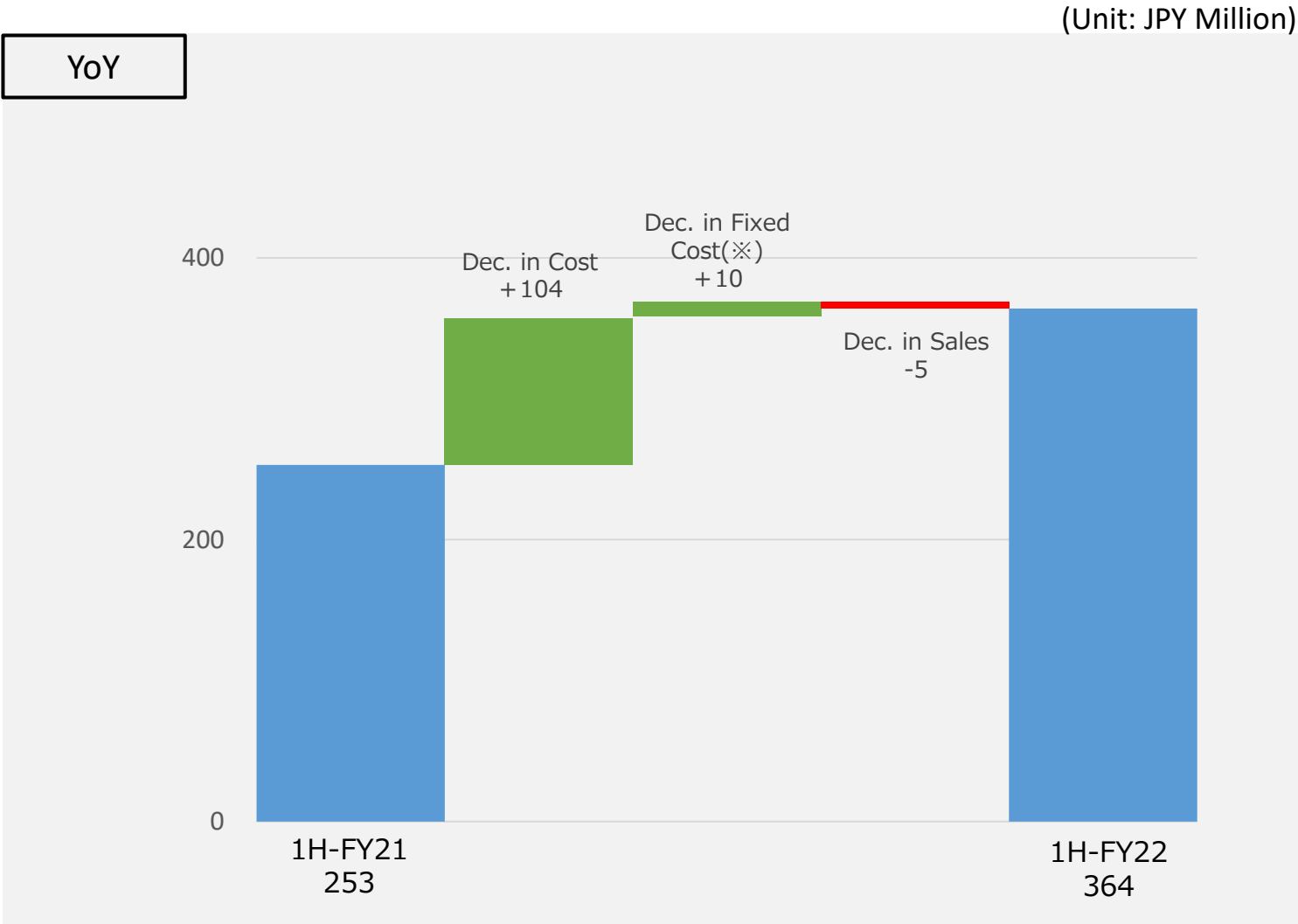
- Net sales fell short of the previous year's results and the initial target due to difficulties in procuring parts and materials, but profits in several businesses were above targets, and all profit types exceeded previous year's results and initial targets.

(Unit: JPY in Millions)

	FY21	FY22		Rate of change	
		1H Initial Plan	1H Result	YoY	Vs to Plan
Orders received	5,111	4,900	5,718	+12%	+17%
Net sales	4,019	4,200	4,004	-0%	-5%
Operating profit	253	150	364	+43%	+143%
Operating profit margin	6.3%	3.6%	9.1%	-	-
Ordinary profit	293	180	410	+40%	+128%
Ordinary profit margin	7.3%	4.3%	10.3%	-	-
Profit attributable to owners of parent	182	120	268	+47%	+123%
Profit attributable to owners of parent margin	4.5%	2.9%	6.7%	-	-
Earnings per share (JPY)	24.90	16.37	36.69	+47%	+124%
Order backlog	4,006	4,706	6,089	+52%	+29%

Increase/ Decrease Factors in Operating Profit

- Sales of many products with a low cost rate led to a reduction in costs.



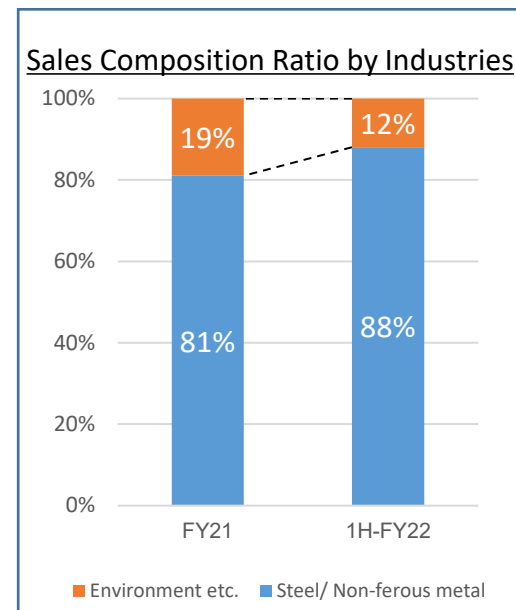
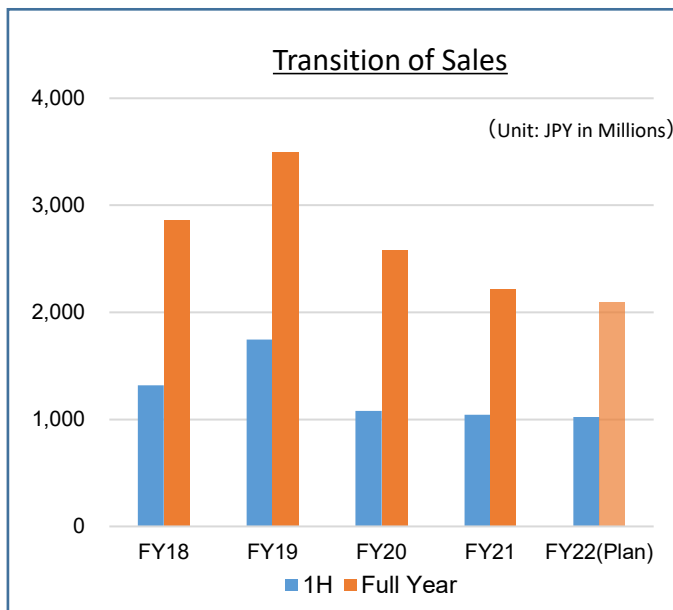
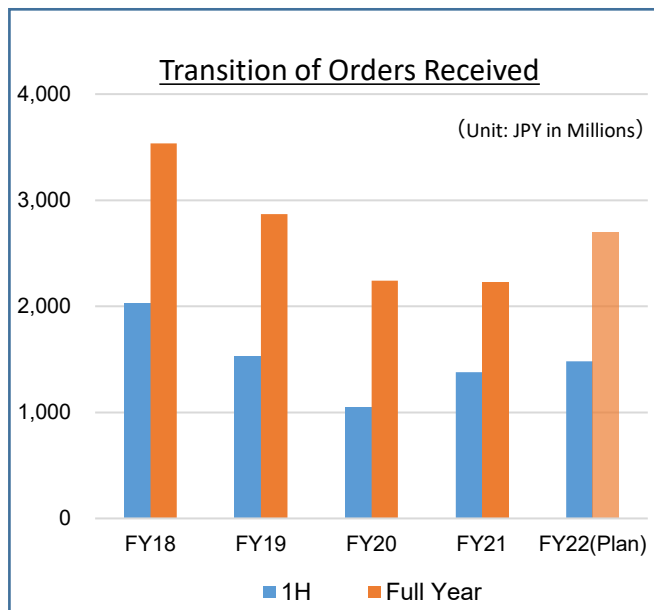
※Fixed Cost = SG&A Expenses

Process Control Business

- Sales in 1H were the same year on year due to a low order backlog at the beginning of the FY and the impact of supply chain disruptions
- Orders are recovering due to a rebound in the steel industry

(Unit: JPY in Millions)

	FY21	FY22		FY22 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	1,378	1,483	+8%	2,700	55%
Net sales	1,045	1,023	-2%	2,100	49%
Segment profit	89	109	+22%	200	55%
Segment profit margin	8.6%	10.7%	-	9.5%	-



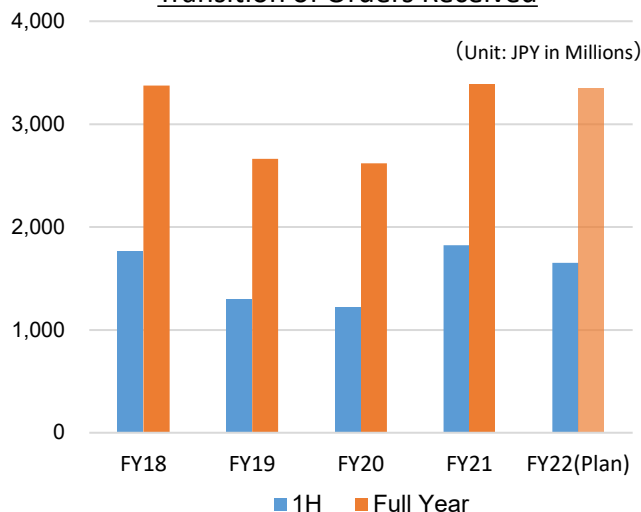
Web Control Business

- Orders were firm, mainly due to demand from the Lithium-Ion Battery (LIB) industry
- Sales and profits declined despite a high level of backlogged orders, as lead times prior to shipment were prolonged in part by difficulties in procuring parts and materials

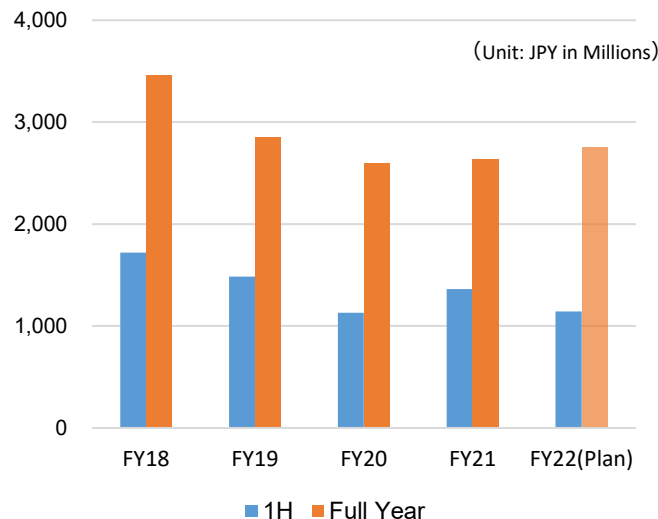
(Unit: JPY in Millions)

	FY21	FY22		FY22 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	1,823	1,652	-9%	3,350	49%
Net sales	1,361	1,142	-16%	2,750	42%
Segment profit	157	142	-10%	330	43%
Segment profit margin	11.6%	12.5%	-	12.0%	-

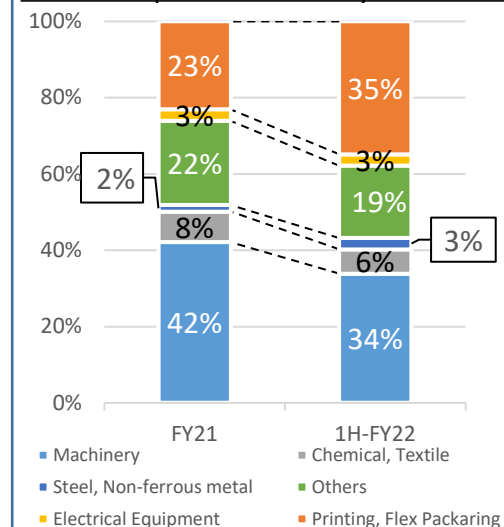
Transition of Orders Received



Transition of Sales



Sales Composition Ratio by Industries



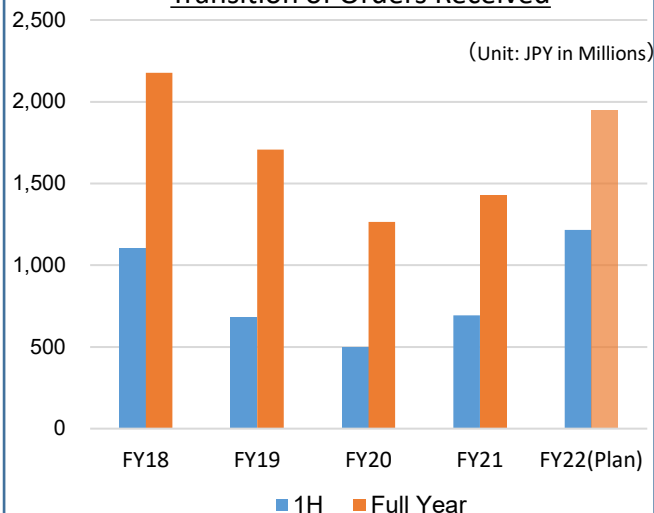
Inspection System Business

- Capital investment by customers in inspection equipment for LIB and other applications is strong
- Our focus is on expanding sales of new Mujiken-RB for electrode sheets and food inspection systems

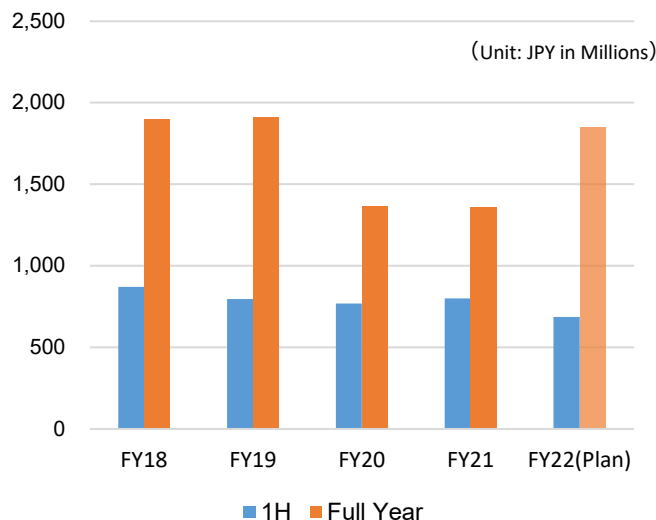
(Unit: JPY in Millions)

	FY21	FY22		FY22 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	693	1,216	+75%	1,950	62%
Net sales	800	686	-14%	1,850	37%
Segment profit	33	1	-96%	160	1%
Segment profit margin	4.1%	0.2%	-	8.6%	-

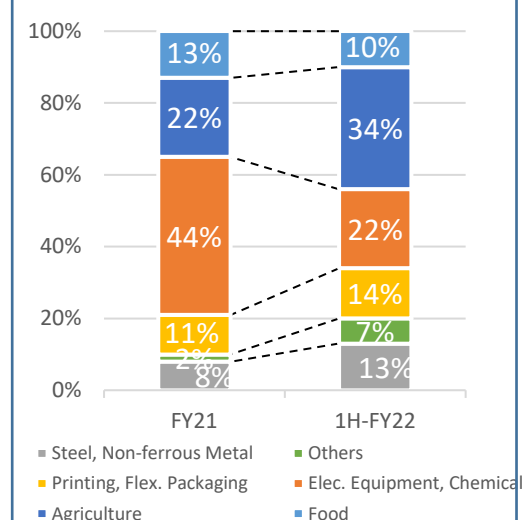
Transition of Orders Received



Transition of Sales



Sales Composition Ratio by Industries

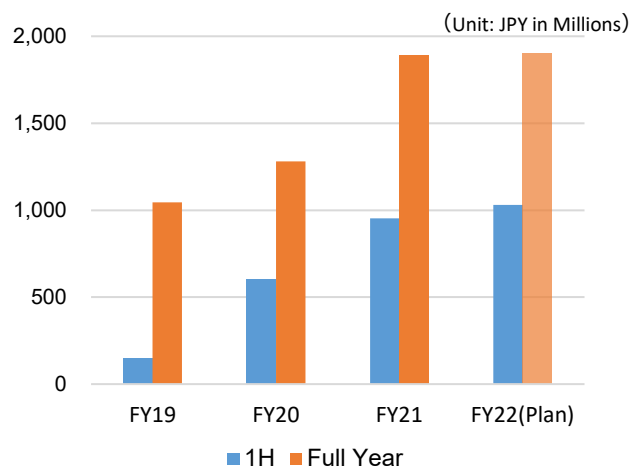


Optics Business

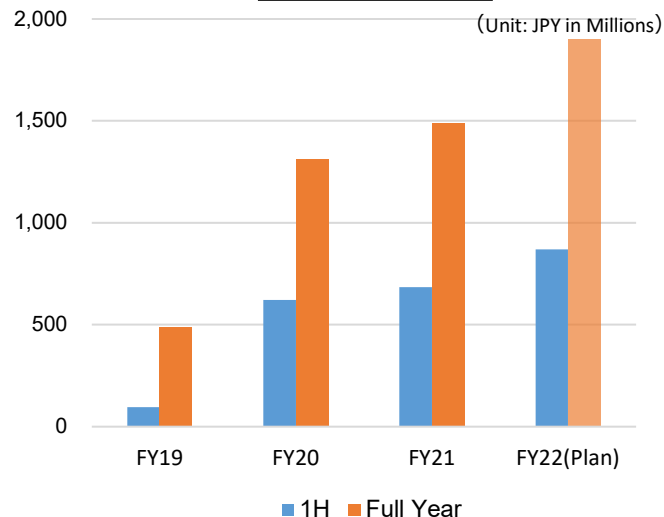
- Orders, including from overseas, were strong for optical components used in semiconductor inspection and other equipment
 - Current orders are firm. Profitability increased due to the improved productivity of optical components
- (Unit: JPY in Millions)

	FY21	FY22		FY22 plan	
	1H	1H	YoY	Full year	Progress rate
Orders received	954	1,031	+8%	1,900	54%
Net sales	684	870	+27%	1,700	51%
Segment profit	182	358	+97%	580	62%
Segment profit margin	26.6%	41.2%	-	34.1%	-

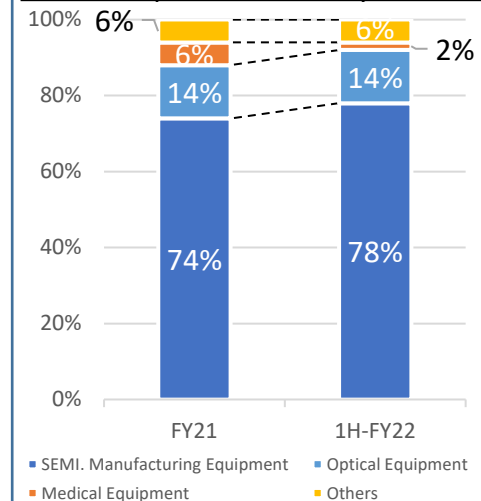
Transition of Orders Received



Transition of Sales



Sales Composition Ratio by Industries



* Since the Optics Business became its own category in FY19, "Orders received" and "Sales" figures from 1H FY19 are stated in the usual "Others" category.

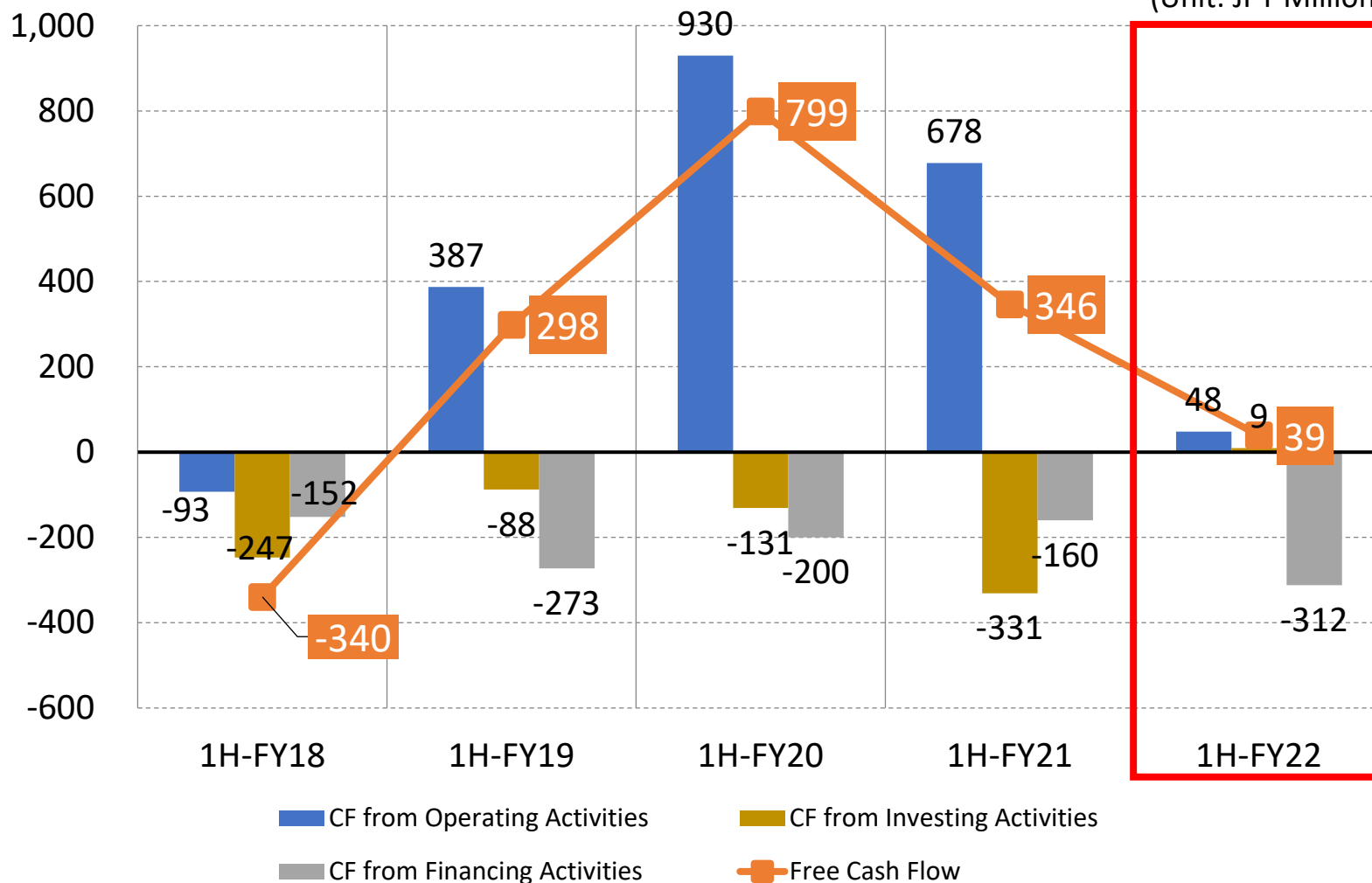
Balance Sheet

(Unit: JPY Million)

	End of FY21 (Mar. 31, 2022)		End of 1H FY22 (Sep. 30, 2022)		Change
Cash and deposits	4,834	29.9%	4,592	28.5%	- 242
Trade receivables	3,415	21.1%	3,229	20.0%	- 186
Inventories	2,507	15.5%	3,017	18.7%	+ 510
Other current assets	136	0.8%	151	0.9%	+ 15
Current assets	10,894	67.4%	10,990	68.2%	+ 96
Property, plant and equipment	3,304	20.5%	3,285	20.4%	- 19
Intangible assets	258	1.6%	247	1.5%	- 11
Investments and other assets	1,695	10.5%	1,585	9.8%	- 110
Non-current assets	5,258	32.6%	5,119	31.8%	- 139
Total assets	16,152	100.0%	16,109	100.0%	- 43
Accounts payable - trade	610	3.8%	473	2.9%	- 137
Other current liabilities	1,157	7.2%	1,154	7.2%	- 3
Current liabilities	1,768	10.9%	1,627	10.1%	- 141
Non-current liabilities	533	3.3%	475	2.9%	- 58
Total liabilities	2,301	14.2%	2,102	13.0%	- 199
Equity capital	13,767	85.2%	13,909	86.3%	+ 142
Total net assets	13,850	85.7%	14,007	87.0%	+ 157
Total liabilities and net assets	16,152	100.0%	16,109	100.0%	- 43

Cash Flows

(Unit: JPY Million)



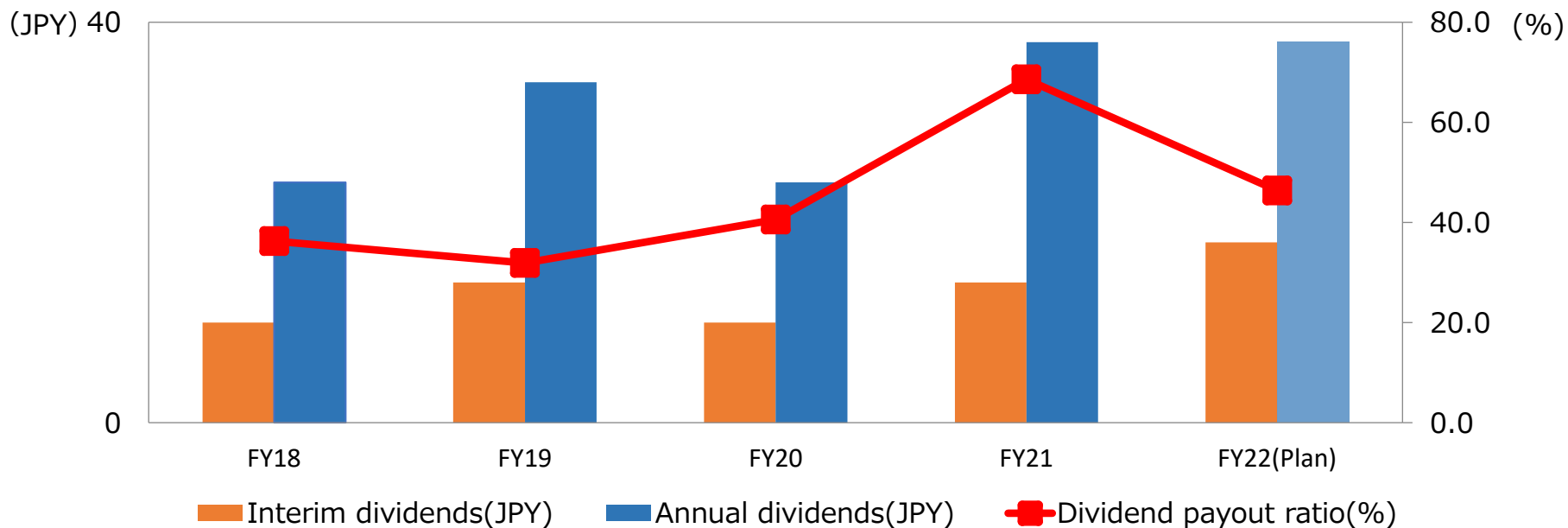
➤ Summary of CF from Operating Activities :

Profit before income taxes + 410, Depreciation + 128

Increase in inventories -478, Decrease in trade payables -144

Return to shareholders

Consolidated dividend payout ratio of 40% or more and consolidated Dividend On Equity (DOE) capital ratio of 2% or more



	FY18	FY19	FY20	FY21	FY22 (Plan)
Interim dividends (JPY)	10	14	10	14	18
Annual dividends (JPY)	24	34	24	38	38
Dividend payout ratio (%)	36.3	31.9	40.6	68.6	46.4
Dividend On Equity capital ratio (%)	1.4	2.0	1.3	2.0	2.0

Business Plan

- Downward revision of the sales forecast and upward revision of the outlook for orders based on 1H results and current conditions

(Unit: JPY Million)

	FY21	FY22 Initial Plan	FY22 Revised Plan	YoY	VS Base Plan
Orders received	9,579	10,000	10,500	+10%	+5%
Net sales	8,117	9,200	9,000	+11%	-2%
Operating profit	563	800	800	+42%	0%
Operating profit margin	6.9%	8.7%	8.9%	-	-
Ordinary profit	650	860	860	+32%	0%
Ordinary profit margin	8.0%	9.3%	9.6%	-	-
Profit attributable to owners of parent	406	600	600	+48%	0%
Profit attributable to owners of parent margin	5.0%	6.5%	6.7%	-	-
Earnings per share (JPY)	55.41	81.86	81.86	+48%	0%
Order backlog	4,376	5,176	5,876	+34%	+14%

2H Business Direction

Process Control Business

- Focusing on sales to manufacturers of high-grade steel and non-ferrous metals for use in EVs
- Strengthen our ability to make product appeals to customers by expanding our product lineup
- Strengthen production and services at overseas subsidiaries

Web Control Business

- Focus on sales of products that have a lower environmental impact, including E+L products
- Focus on such growth areas as the LIB industry to improve profitability
- Develop new products utilizing optical technology

Inspection System Business

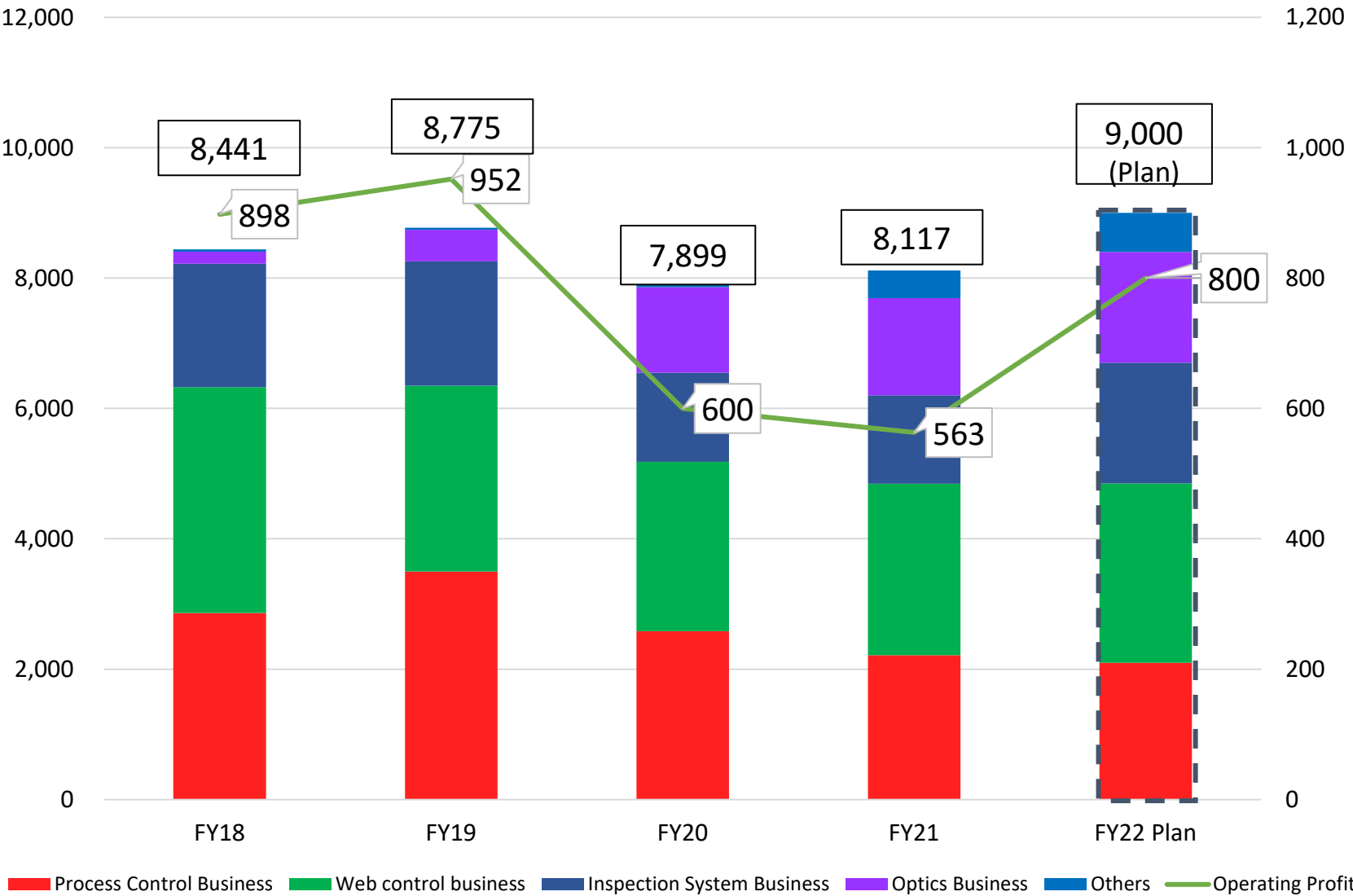
- Expand sales of new products targeting the rechargeable battery industry
- Strengthen overseas expansion by enhancing technical support
- Develop enhanced inspection functions through data utilization and expand the product portfolio

Optics Business

- Expand market share in the semiconductor inspection equipment industry using deep UV
- Create new applications for crystal processing and polishing technologies
- Expand sales of laser products in the medical field

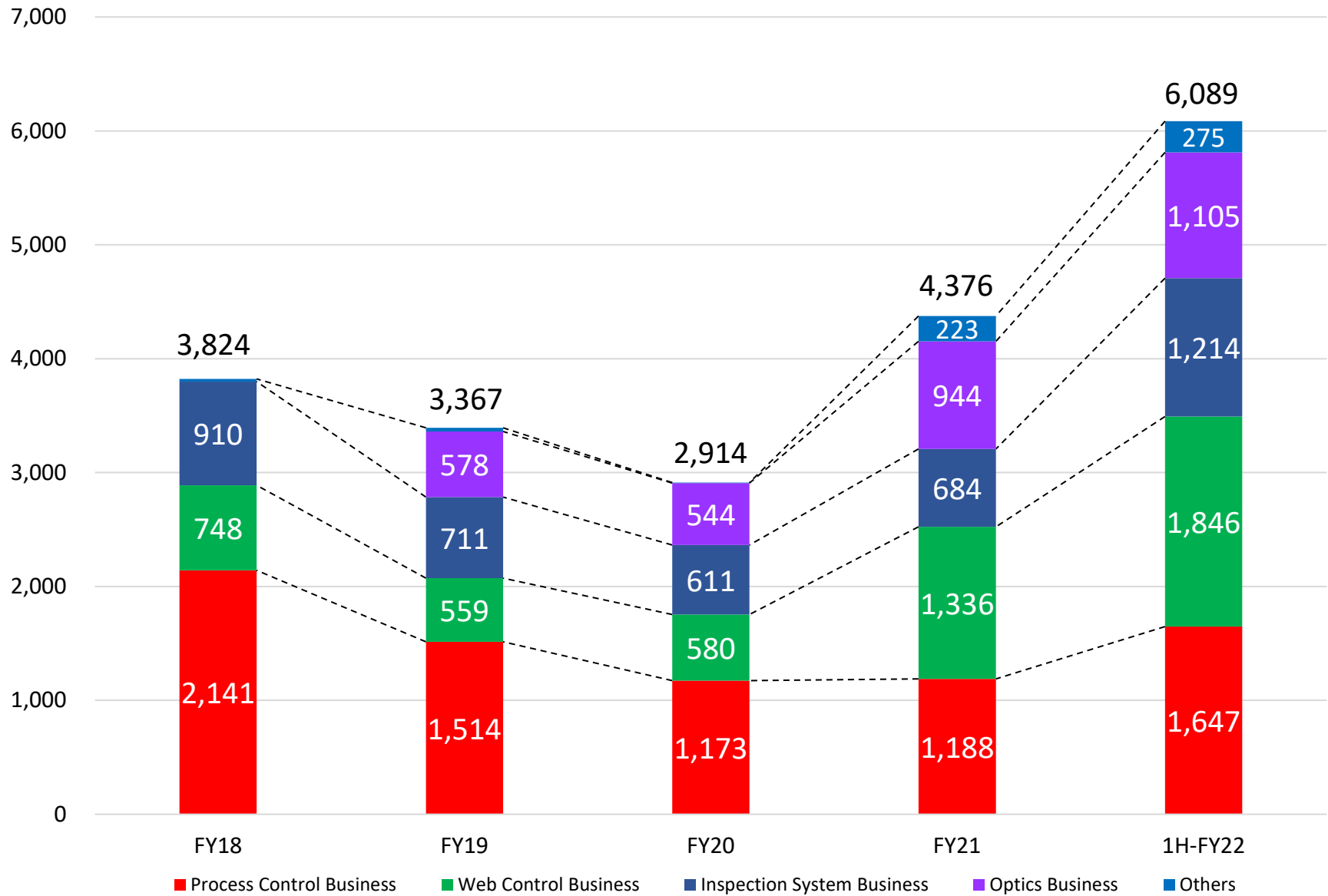
Net sales and operating profit

(Unit: JPY Million)



Transition of Order Backlog

(Unit: JPY Million)



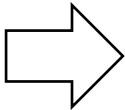
2. Towards sustainable growth

Main objectives for sustainable growth

Strengthen our group to enable growth in any environment

Expand our market presence

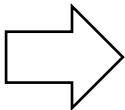
- Drive overseas expansion
- Strengthen Inspection system business and Optics business
- Exploit new fields of business through new-product development



Expand & enhance
business foundations

Technological advances

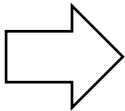
- Enhance image analysis technology for new product development
- Develop new products based on optical applications technology



Enhance
competitive advantage

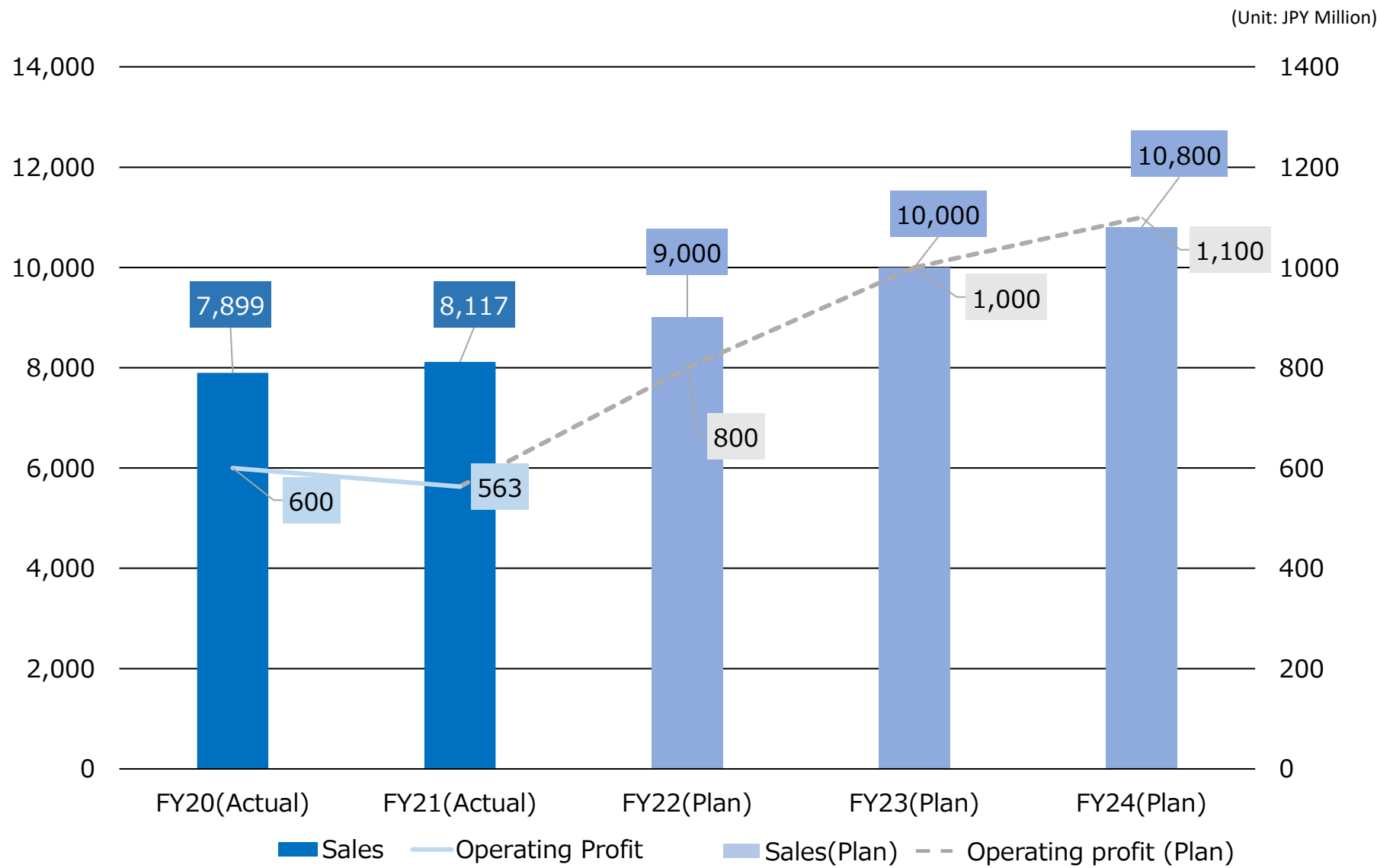
Enhance organizational capabilities

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



Reinforce
organizational base

Mid-term targets



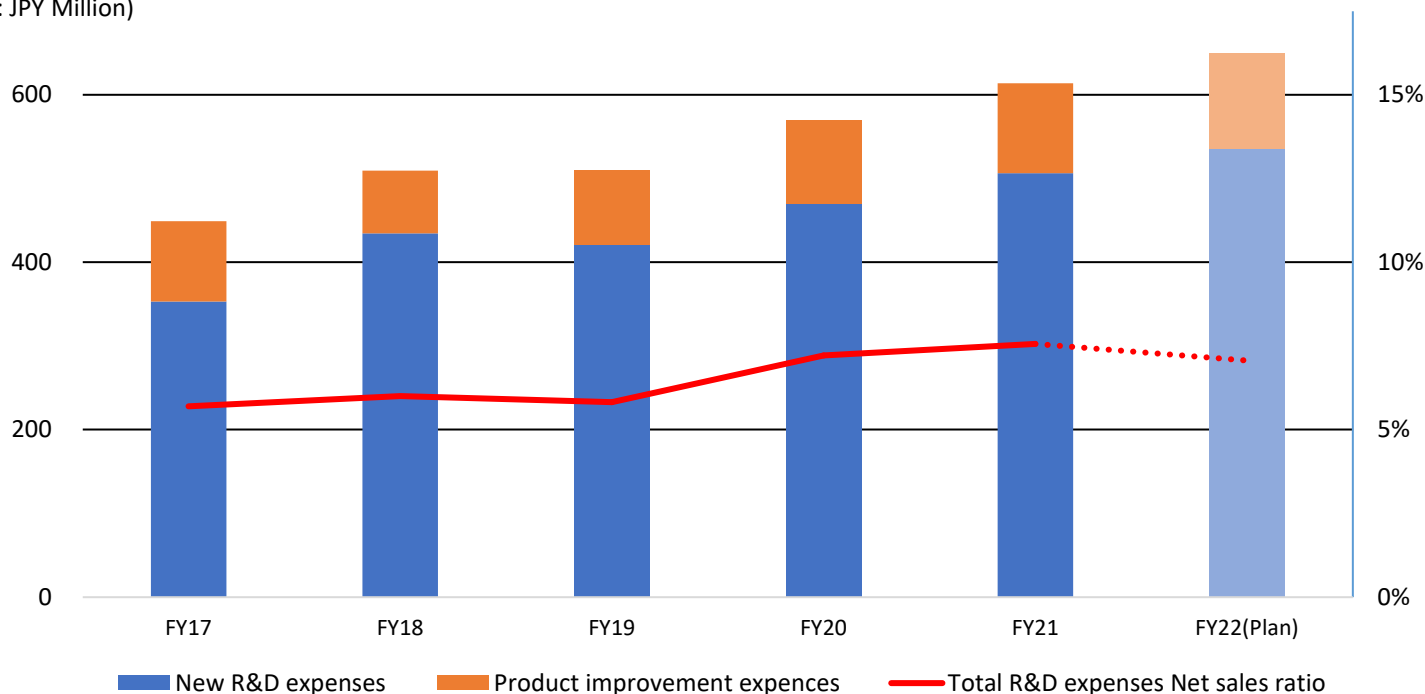
R&D

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

Main development themes

- Development of next-generation image inspection systems
- Development of new products using laser technology
- Development of inspection and measurement equipment applying optic technologies

(Unit: JPY Million)



3. Topics

Topics

Policy on Treasury Stock Holdings

On August 8, 2022, the Company decided a policy regarding its treasury stock holdings. The holding of treasury stock will be capped at about 5% of the total number of outstanding shares and any holding that exceeds that cap will in principle be eliminated within one year.

In accordance with this policy, the Company has cancelled some of its treasury stock holdings.

Summary of Treasury Stock Cancellation

Number of shares cancelled	590,000
Percentage of total number of outstanding shares prior to cancellation	7.10%
Date of treasury stock cancellation	August 31, 2022
Total number of outstanding shares after cancellation	7,715,249
Amount of treasury stock holdings (as of September 30, 2022)	385,637 Ratio of treasury stock to total no. of outstanding shares: 5.00%

Topics

Conclusion of a sole distributor agreement with SciAps, Inc. (U.S.)

SciAps, Inc. manufactures handheld X-ray Fluorescence Analysis (XRF) and Laser-induced Breakdown Spectroscopy (LIBS) analyzers. It provides handheld analyzers for many fields, including steel, nonferrous metals, metal processing, plant manufacturing equipment, scrap metal, mining, rare metal recycling, construction, food, agriculture, pharmaceuticals and academic research.

Based on the conclusion of a sole distributor agreement with SciAps, Nireco will distribute the company's portable elemental analyzers to the steel and non-ferrous metal industries, with which Nireco has deep relationships, and to other industries including metal processing, plant manufacturing equipment, scrap metal, rare metal recycling, construction, food, agriculture and pharmaceuticals.



■ SciAps LIBS Z900 Series



■ SciAps XRF X-500 Series

Topics

Development of new Mujiken-RB electrode sheet inspection system

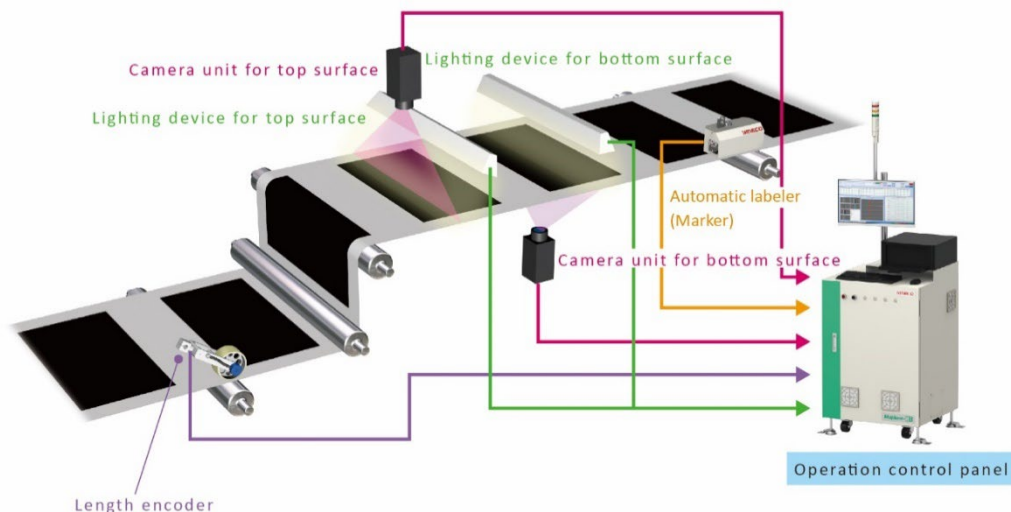
Nireco has developed the Mujiken-RB electrode sheet inspection system to enable production-line inspection and measurement of positive and negative electrode materials for rechargeable batteries.

Demand for rechargeable batteries for electric vehicles and other applications has been dramatically increasing, and continued expansion of production capabilities for these batteries. The Mujiken-RB system was developed to improve inspection efficiency on electrode sheet production lines. The system's proprietary high-speed camera and high-speed image processing engine enable to handle line speeds up to four times faster* than our previous model.

*Compared to standard specifications



Mujiken-RB



Example of Mujiken-RB system configuration

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 Standard
Paid-in capital	3,072 Million Japanese Yen*
Number of employees	453*
Net sales (Consolidated)	8,117 Million Japanese Yen (FY2021)

*As of March 31, 2022

History

- 1950: Nihon Regulator Co., Ltd. established in Chuo-ku, Tokyo
- 1950: 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
- 2013: Transfer listed market to the Tokyo Stock Exchange JASDAQ (standard)
- 2014: Nireco Process Korea Co., Ltd. (NPK) established in Korea
- 2018: NPK acquired the land and buildings to establish a production system
- 2019: Acquired Kogakugiken Corp.
- 2021: Acquired SEIBU Electric Corp.
- 2022: Transfer to TSE Standard market due to restructuring of market tiers in the Tokyo Stock Exchange

Management philosophy

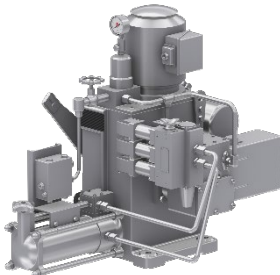
‘TECHNOLOGY & TRUST’

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.

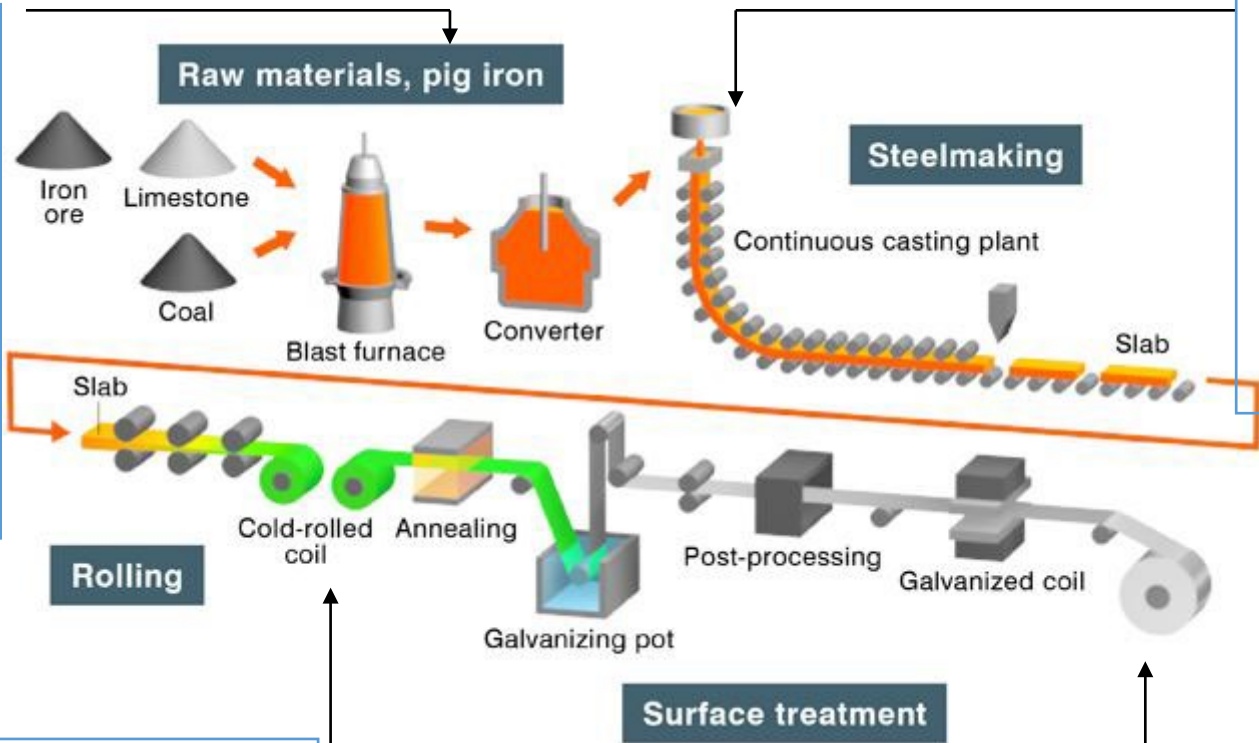
Furthermore, we will contribute to the realization of an affluent and sustainable society by widely applying the value created through our partnerships with society.

Process Control Business

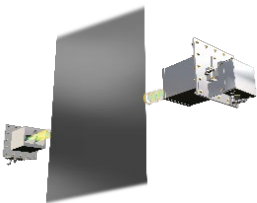
Markets automatic control equipment in several industries such as steel, metal, gas, chemical etc.



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.



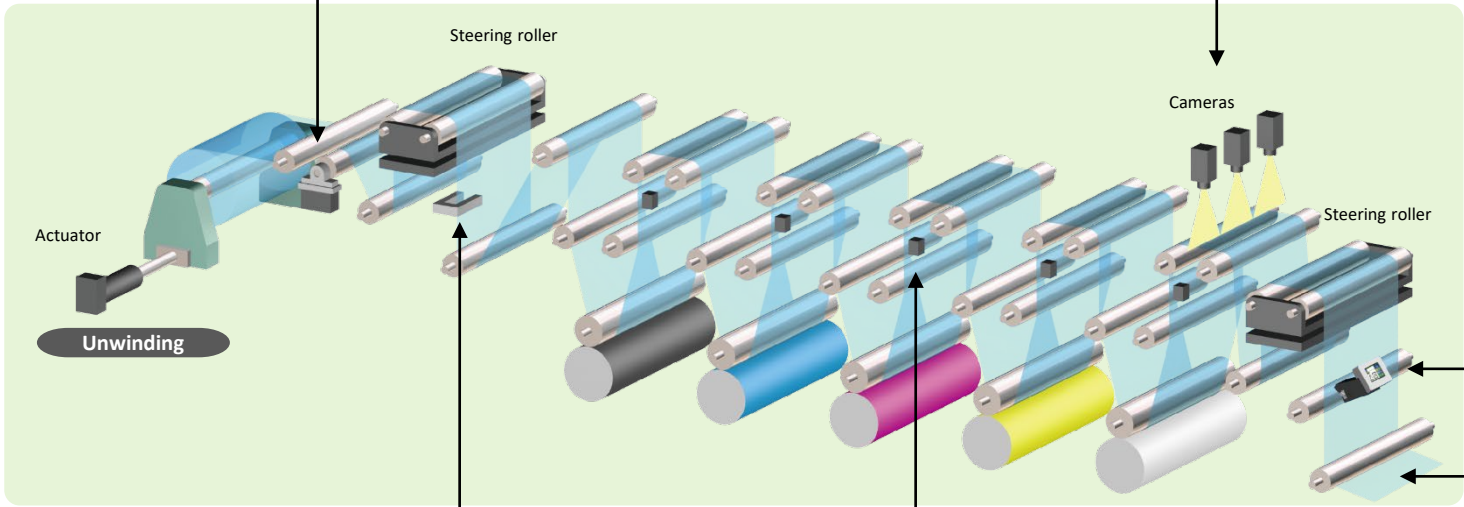
Print Quality Inspection System

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.

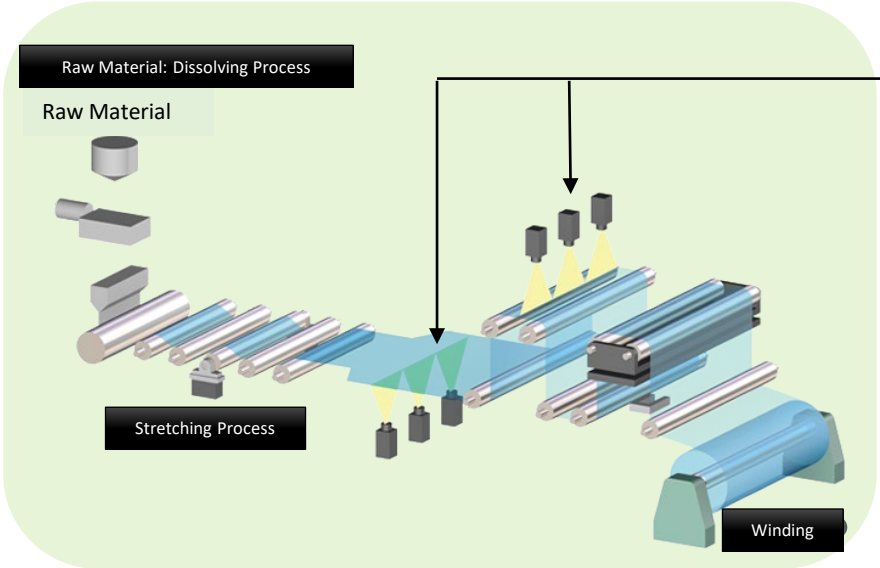


Gluing Control System

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.

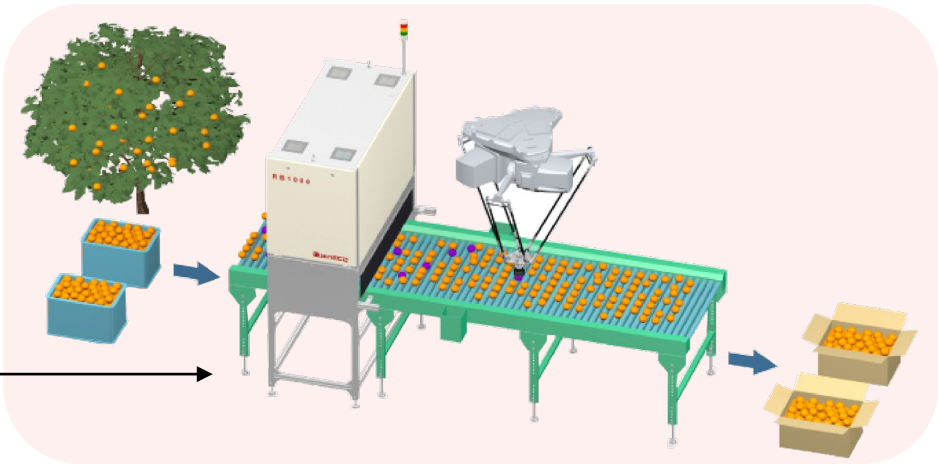


Defect Inspection System for Plain Surfaces

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.

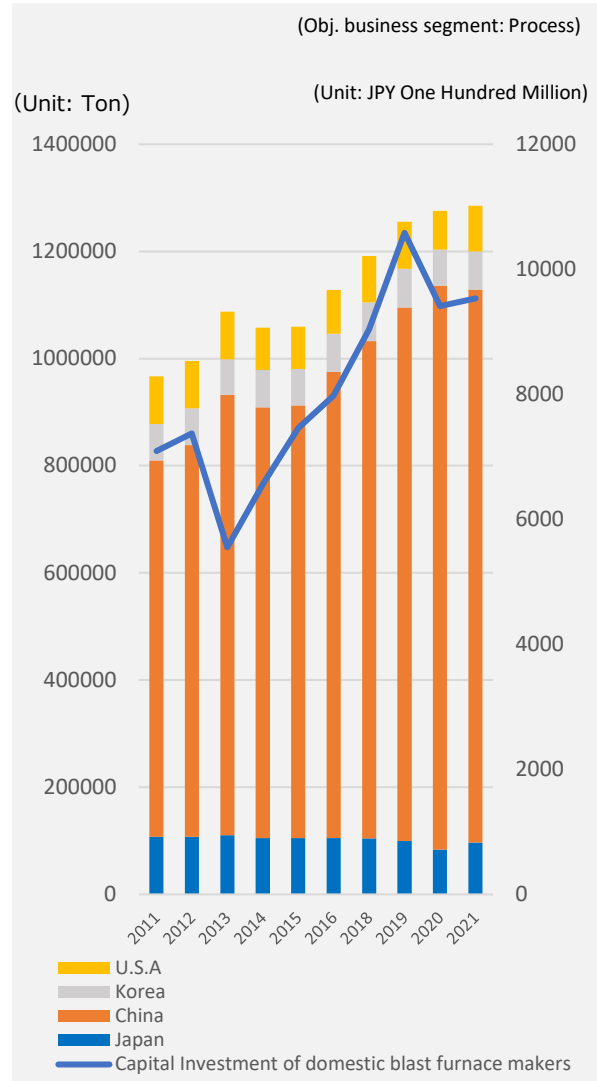


Green Laser device

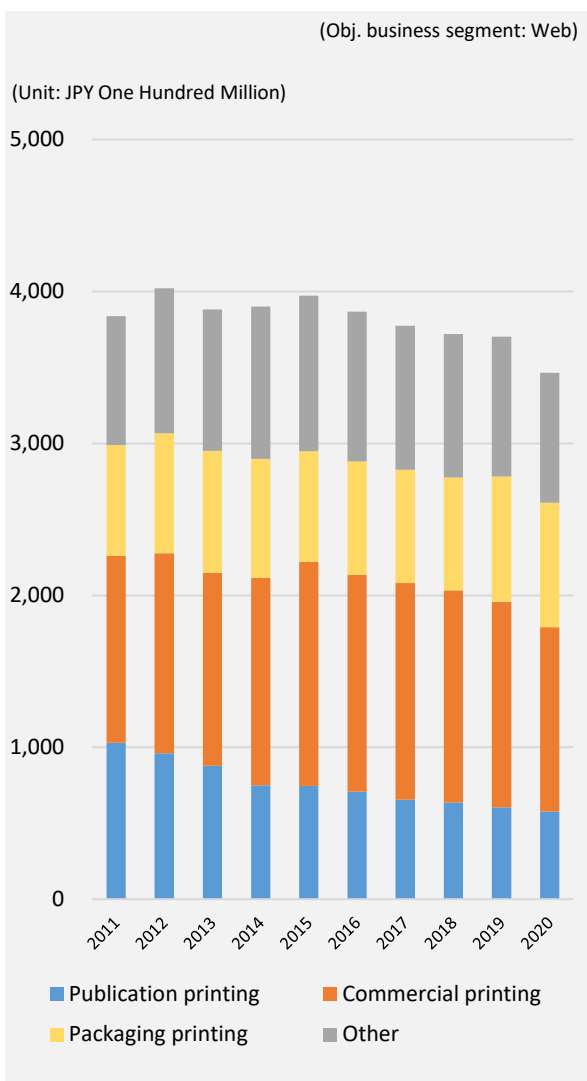
Generate high output green laser for various purposes such as processing of silicon wafer, metal marking and so on.

Market environment

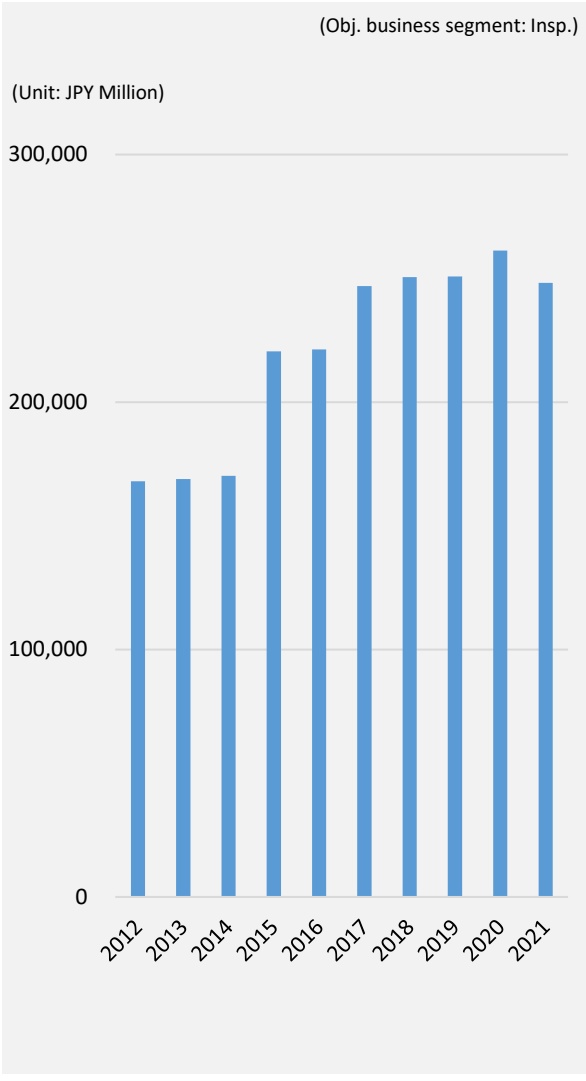
Regional Crude Steel Production & Capital Investment by Major Domestic Blast Furnace Makers



Scale of Japan's Printing Market

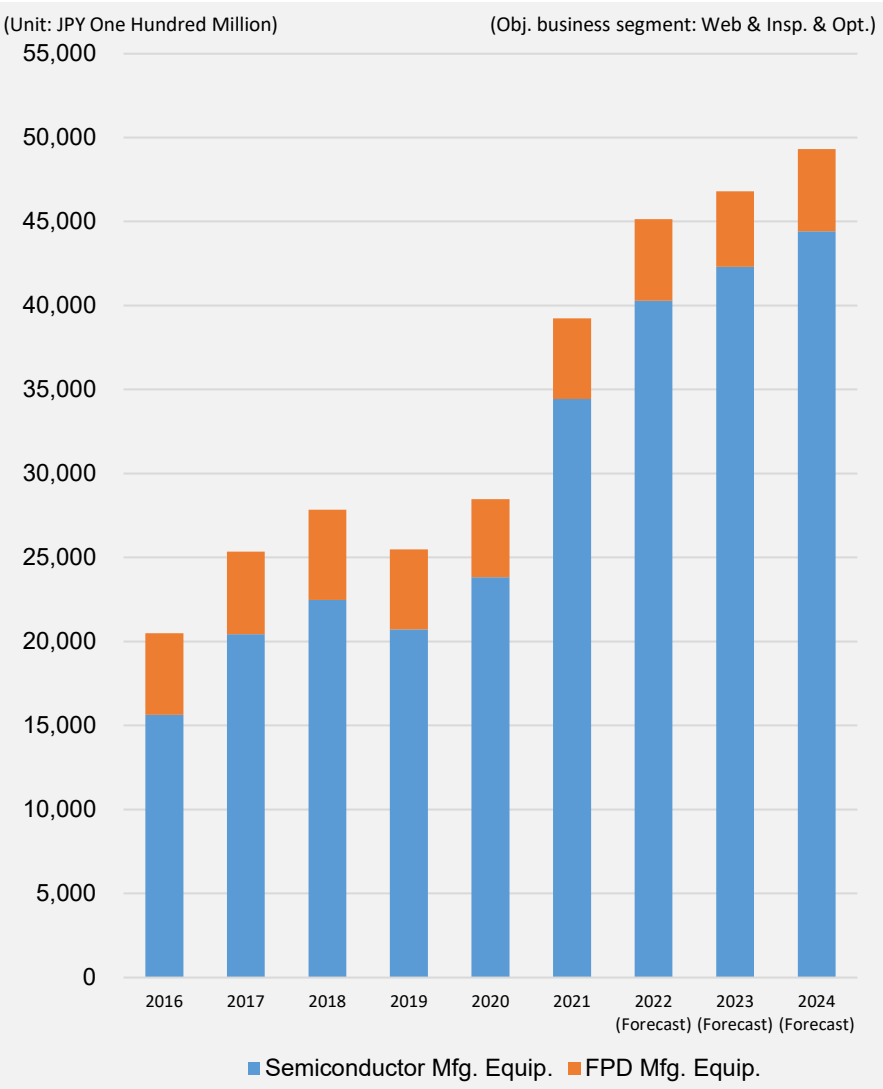


Japan Food Machinery Sales
(excluding processing machinery)



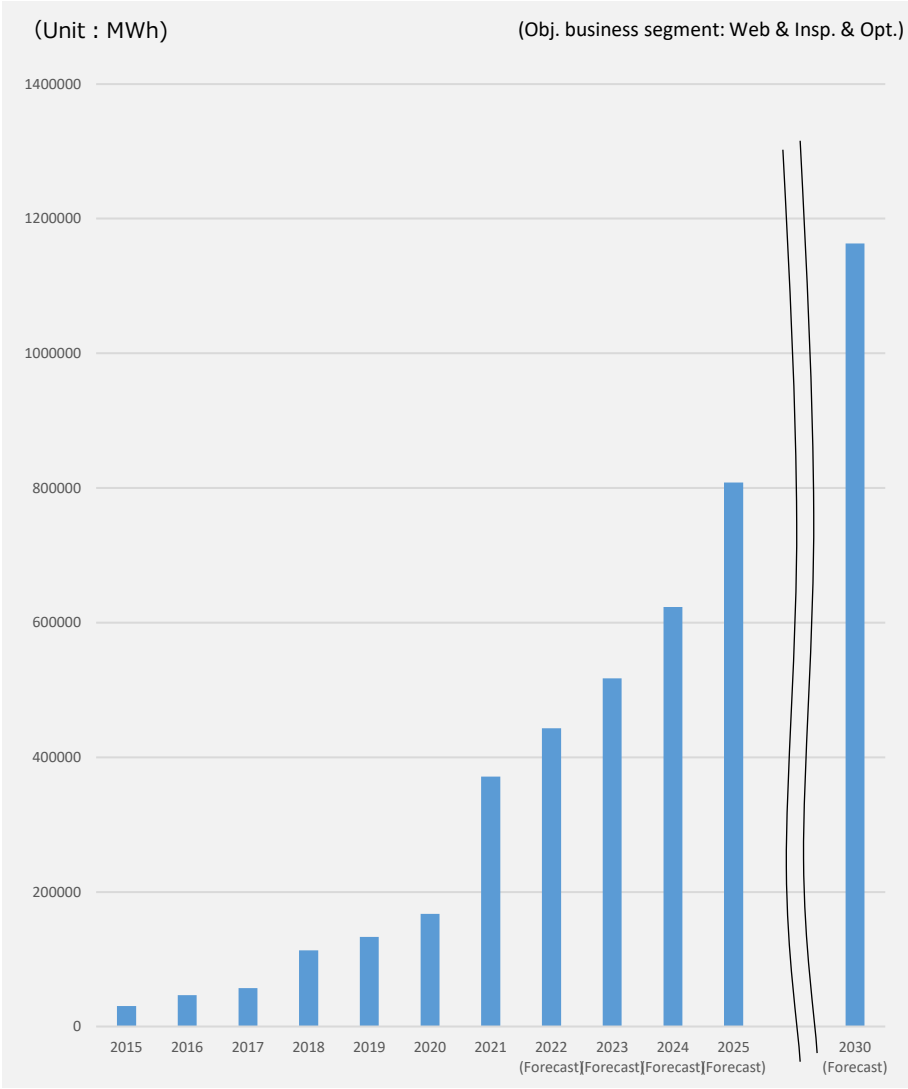
Market environment

Forecast of Demand for Semiconductor & FPD Mfg. Equip.



Source: Semiconductor Equipment Association of Japan

Automotive LiB World Market Forecast



Source: Yano Research Institute Ltd.

Business Segment Data

(Unit: JPY Million)

		1H-FY20	FY20	1H-FY21	FY21	1H-FY22
Sales	Process	1,081	2,584	1,045	2,216	1,023
	Web	1,129	2,599	1,361	2,631	1,142
	Inspection	769	1,365	800	1,356	686
	Optics	621	1,313	684	1,489	870
	Others	18	37	127	423	282
	Total	3,620	7,899	4,019	8,117	4,004
Segment Profit	Process	203	412	89	313	109
	Web	138	291	157	230	142
	Inspection	31	-19	33	35	1
	Optics	206	399	182	401	358
	Others	0	-1	23	39	6
	Adjustment	-238	-480	-232	-456	-253
	Total	341	600	253	563	364
Orders Received	Process	1,054	2,242	1,378	2,232	1,483
	Web	1,221	2,620	1,823	3,387	1,652
	Inspection	498	1,265	693	1,429	1,216
	Optics	604	1,280	954	1,888	1,031
	Others	17	39	261	642	334
	Total	3,397	7,447	5,111	9,579	5,718
Order Backlog	Process	1,487	1,173	1,506	1,188	1,647
	Web	651	580	1,042	1,336	1,846
	Inspection	441	611	505	684	1,214
	Optics	562	544	814	944	1,105
	Others	1	4	138	223	275
	Total	3,144	2,914	4,006	4,376	6,089

The logo for NIRECO, featuring the word "NIRECO" in a bold, red, sans-serif font. The letters are stylized with thick strokes and a slight shadow effect.