

# NIRECO CORP. (6863)

## Material for FY2018 Financial Results

May 17, 2019

### 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



Unit: JPY in Millions

**Reviews On  
Financial Results  
&  
Plan**

	FY2017	FY2018	FY2019 (plan)
Orders Received:	<b>8,695</b> (+15% YoY)	<b>9,325</b> (+7% YoY)	<b>9,300</b> (▲0% YoY)
Net Sales:	<b>7,911</b> (+7% YoY)	<b>8,441</b> (+7% YoY)	<b>9,000</b> (+7% YoY)
Operating Profit:	<b>705</b> (+31% YoY)	<b>898</b> (+27% YoY)	<b>950</b> (+6% YoY)

Main goals

- ◆ Expansion of markets
- ◆ Advance in technology
- ◆ Shareholder returns

Sustainable growth in any circumstances

- ◆ Expand & enhance business foundations
- ◆ Enhance competitive advantage

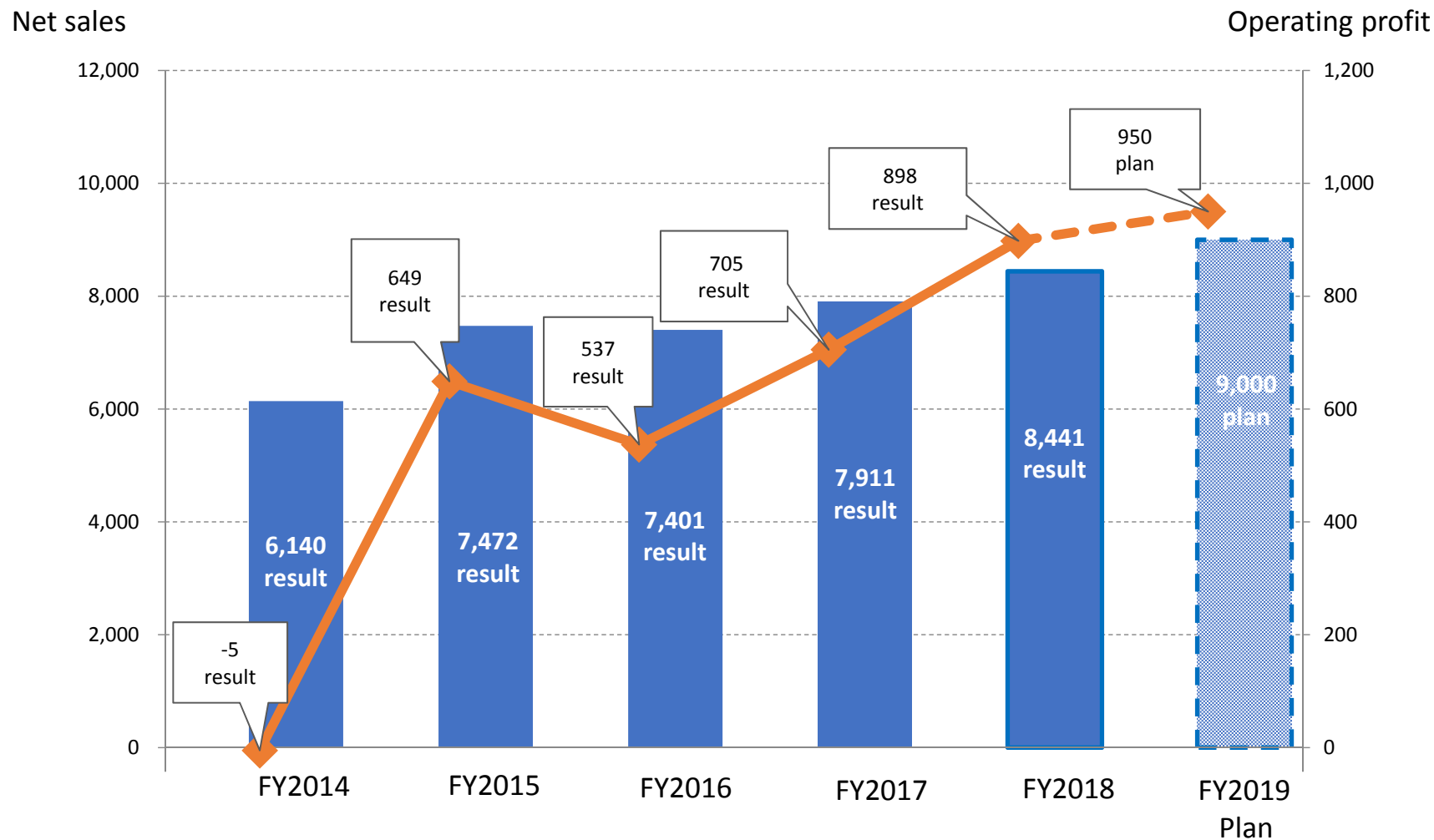
Main efforts of FY2018

- Expansion of facilities and human resources in our Korean & Chinese subsidiaries.
- Development of inspection business for electronic components market
- Development of next-generation image processing platform

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

## Trends in the performance

(Unit: JPY in Millions)



Bar chart: Net sales

Line chart: Operating profit

1. FY2018 Financial Results
2. Plans for FY2019
3. Towards sustainable growth

# 1. FY2018 Financial Results (APR.2018 - MAR.2019)

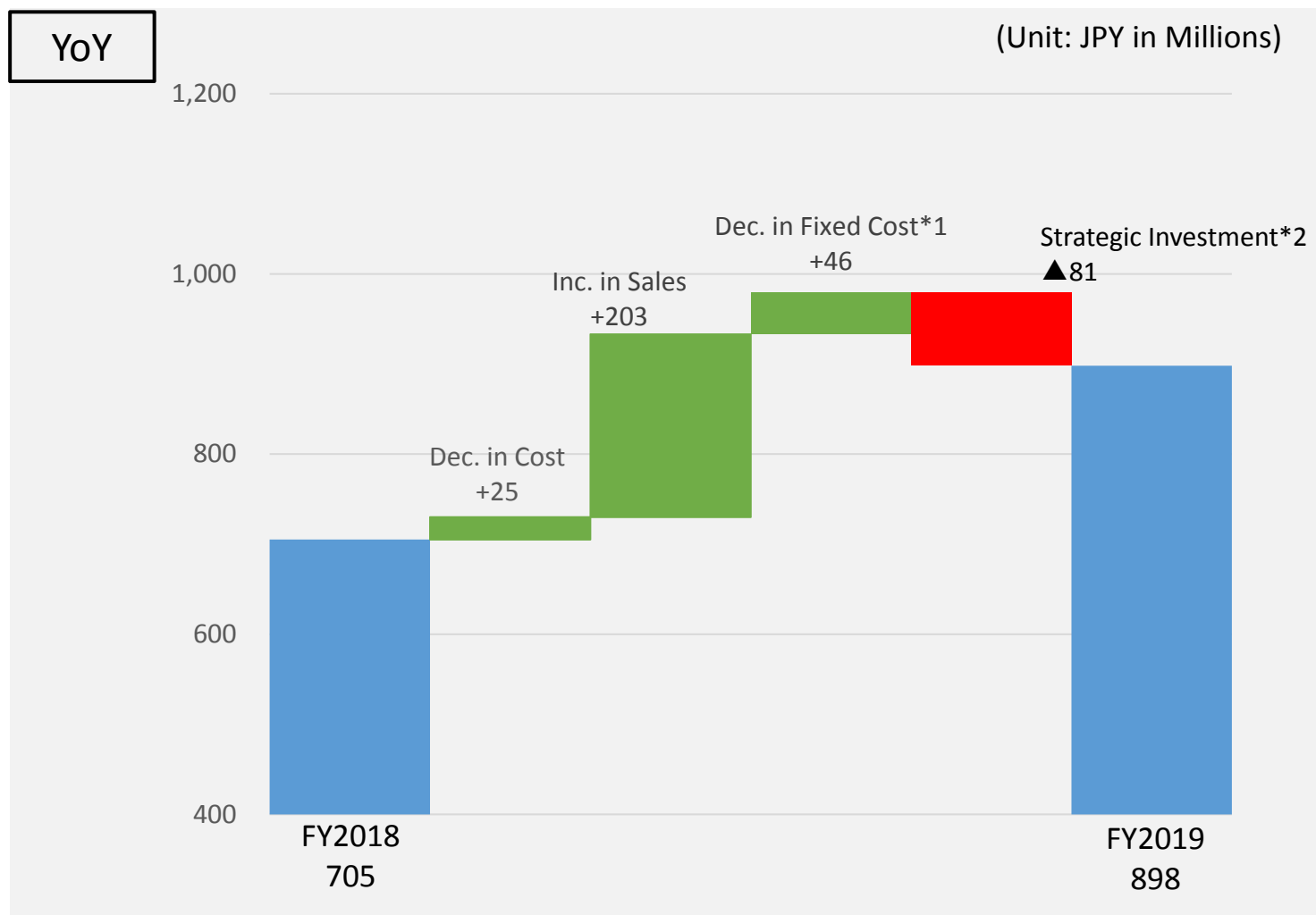
## Consolidated Statement

- Orders received, operating and ordinary profit exceeded those of FY2017 and the initial plan.

(Unit: JPY in Millions)

	FY2017	FY2018		Inc-Dec Rate	
	Result	Plan	Result	YoY	Res./Plan
Orders Received	8,695	9,000	9,325	+7%	+4%
Net Sales	7,911	8,600	8,441	+7%	▲ 2%
Operating Profit	705	810	898	+27%	+11%
Operating Profit Margin Ratio	8.9%	9.4%	10.6%	-	-
Ordinary Profit	784	860	1,011	+29%	+18%
Ordinary Profit Margin Ratio	9.9%	10.0%	12.0%	-	-
Net Profit	516	560	489	▲ 5%	▲ 13%
Net Profit Margin Ratio	6.5%	6.5%	5.8%	-	-
Net Profit Per Share (JPY)	69.79	75.51	66.07	▲ 5%	▲ 13%
Order Backlog	2,941	3,341	3,824	+30%	+14%

## Increase/Decrease Factors in Operating Profit



\*1: Fixed Cost = SG&A Expenses (excl. R&D Expenses)

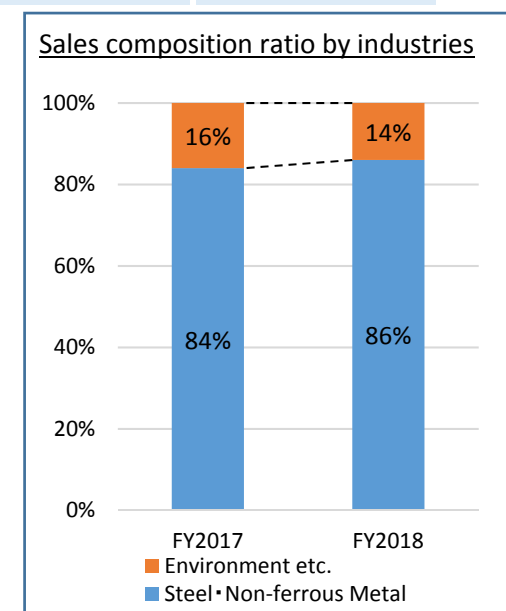
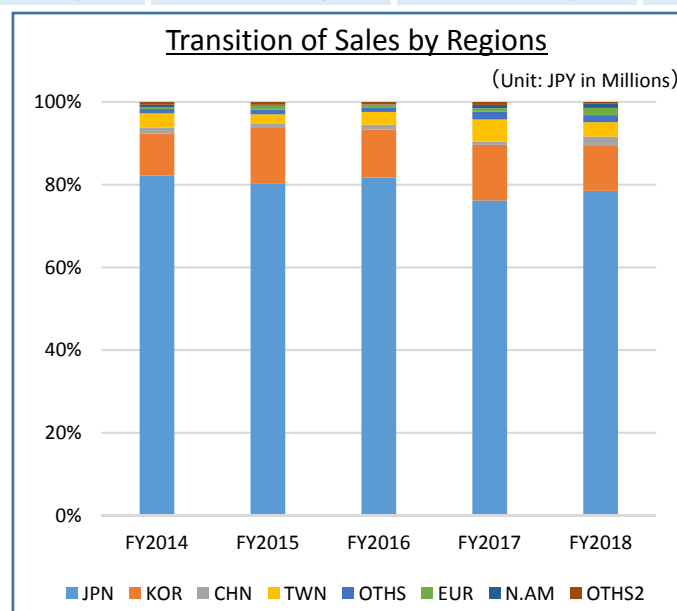
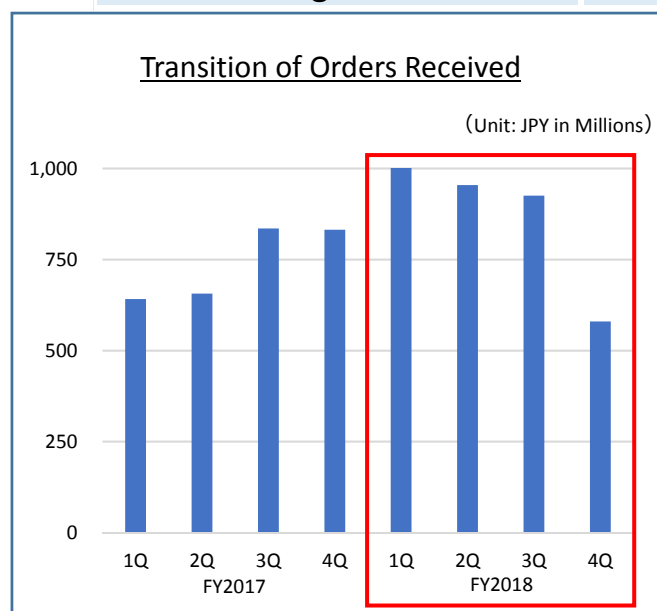
\*2: Strategic Investment = R&D Expenses

## Process Control Business

- Orders received, net sales and segment profit exceeded those of FY2017
- Orders for focused products, the position control & measuring equipment, increased

(Unit: JPY in Millions)

	FY2017	FY2018		Inc-Dec Rate	
	Result	Plan	Result	YoY	Res./Plan
Orders Received	2,964	3,050	3,535	+19%	+16%
Net Sales	2,663	3,000	2,862	+7%	▲ 5%
Segment Profit	539	600	671	+24%	+12%
Segment Profit Margin Ratio	20.3%	20.0%	23.5%	-	-
Order Backlog	1,468	1,518	2,141	+46%	+41%



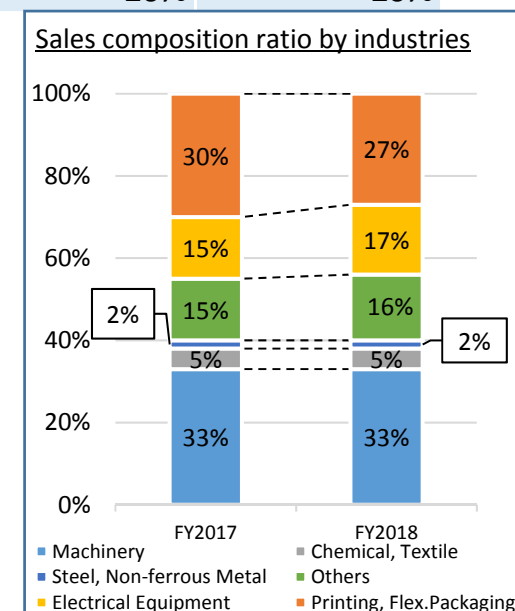
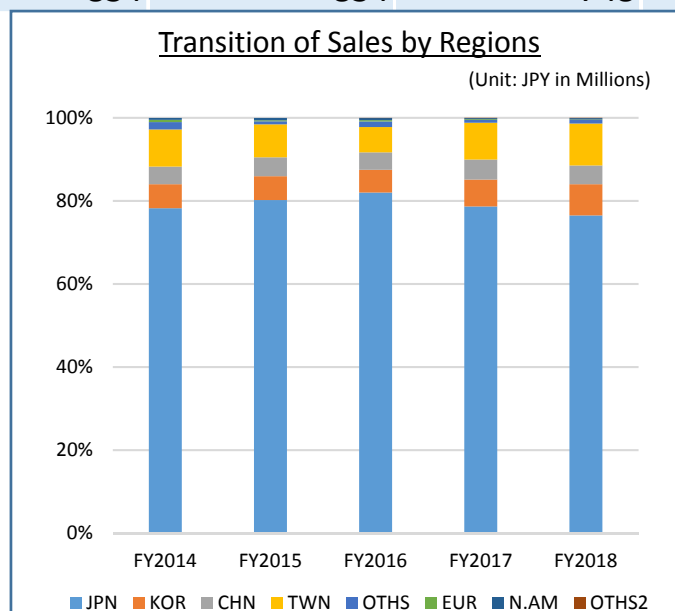
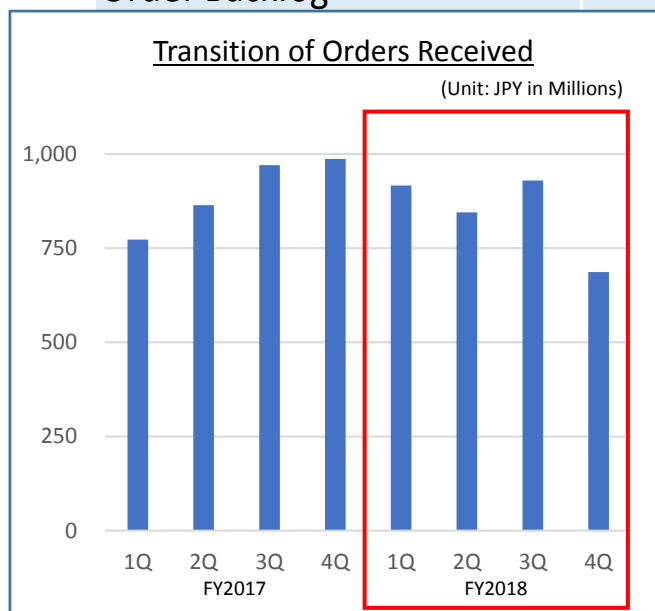


## Web Control Business

- Net Sales and segment profit exceeded those of FY2017
- Sales of position control equipment for LiB rechargeable battery and electronic parts production lines remained steady

(Unit: JPY in Millions)

	FY2017	FY2018		Inc-Dec Rate	
	Result	Plan	Result	YoY	Res./Plan
Orders Received	3,593	3,400	3,376	▲6%	▲1%
Net Sales	3,354	3,400	3,463	+3%	+2%
Segment Profit	786	800	842	+7%	+5%
Segment Profit Margin Ratio	23.4%	23.5%	24.3%	-	-
Order Backlog	834	834	748	▲10%	▲10%

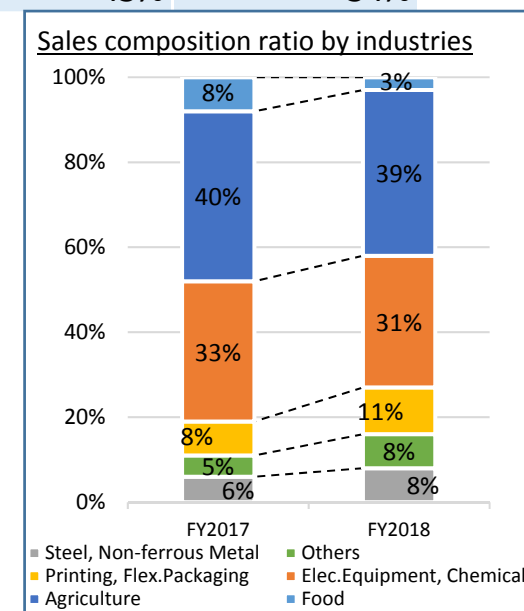
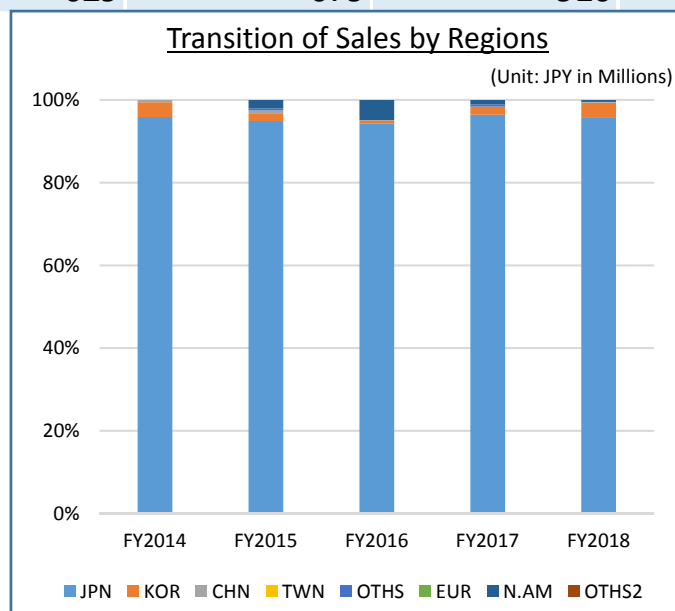
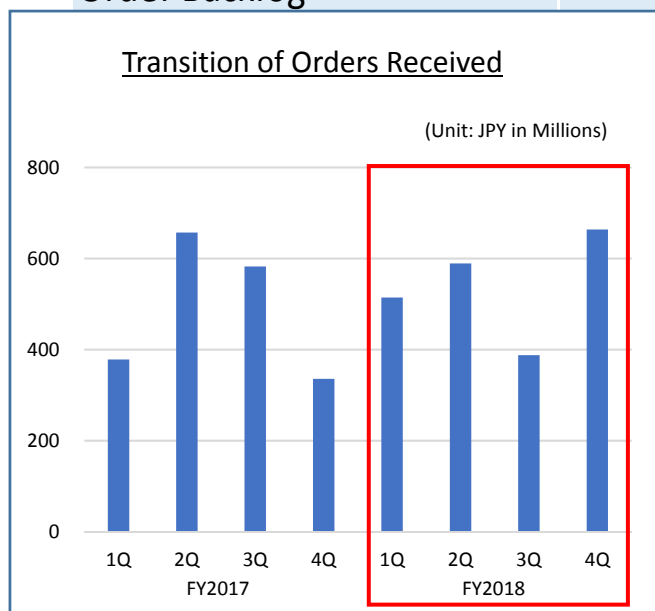


## Inspection System Business

- The amount of orders received and net sales for plain surface inspection systems exceeded those of FY2017  
However, the increase in costs associated with aggressive investment resulted in less profitability
- The cyclical demand for fruit/vegetable sorting systems slowed down
- Growing numbers of inquiries for inspection systems for processed food

(Unit: JPY in Millions)

	FY2017	FY2018		Inc-Dec rate	
	Result	Plan	Result	YoY	Res./Plan
Orders Received	1,952	1,950	2,154	+10%	+10%
Net Sales	1,714	1,900	1,896	+11%	▲0%
Segment Profit	156	160	72	▲54%	▲55%
Segment Profit Margin Ratio	9.1%	8.4%	3.8%	-	-
Order Backlog	629	679	910	+45%	+34%

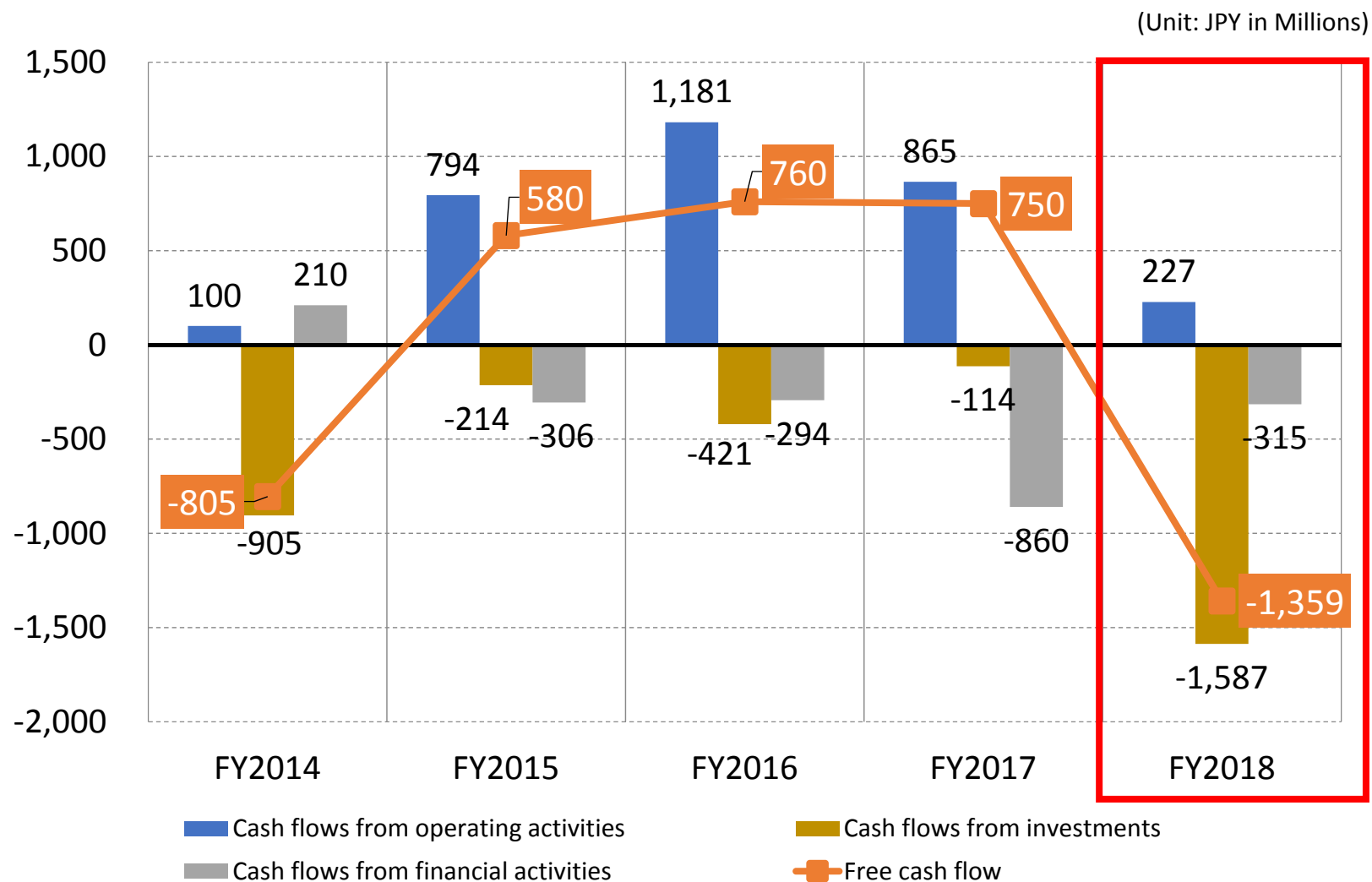


## Balance Sheet

(Unit: JPY in Millions)

	FY2017		FY2018		YoY
	Amount	Composition R.	Amount	Composition R.	Inc-Dec Amount
Cash and deposits	5,180	36.5%	4,990	35.6%	▲ 190
Notes and accounts receivable-trade	3,066	21.6%	3,280	23.4%	+ 214
Inventories	1,626	11.4%	1,896	13.5%	+ 270
Other current assets	115	0.8%	338	2.4%	+ 223
<b>Current assets</b>	<b>9,988</b>	<b>70.3%</b>	<b>10,506</b>	<b>75.0%</b>	<b>+ 518</b>
Tangible fixed assets	2,002	14.1%	1,919	13.7%	▲ 83
Intangible fixed Assets	372	2.6%	133	1.0%	▲ 239
Investment and other assets	1,848	13.0%	1,454	10.4%	▲ 394
<b>Fixed assets</b>	<b>4,223</b>	<b>29.7%</b>	<b>3,506</b>	<b>25.0%</b>	<b>▲ 717</b>
<b>Total assets</b>	<b>14,211</b>	<b>100.0%</b>	<b>14,012</b>	<b>100.0%</b>	<b>▲ 199</b>
Notes and accounts payable-trade	405	2.9%	392	2.8%	▲ 13
Other current liabilities	1,066	7.5%	1,068	7.6%	+ 2
<b>Current liabilities</b>	<b>1,471</b>	<b>10.4%</b>	<b>1,460</b>	<b>10.4%</b>	<b>▲ 11</b>
Fixed liabilities	142	1.0%	61	0.4%	▲ 81
<b>Total liabilities</b>	<b>1,614</b>	<b>11.4%</b>	<b>1,521</b>	<b>10.9%</b>	<b>▲ 93</b>
<b>Total net assets</b>	<b>12,597</b>	<b>88.6%</b>	<b>12,490</b>	<b>89.1%</b>	<b>▲ 107</b>
<b>Total liabilities &amp; net assets</b>	<b>14,211</b>	<b>100.0%</b>	<b>14,012</b>	<b>100.0%</b>	<b>▲ 199</b>

## Cash Flows



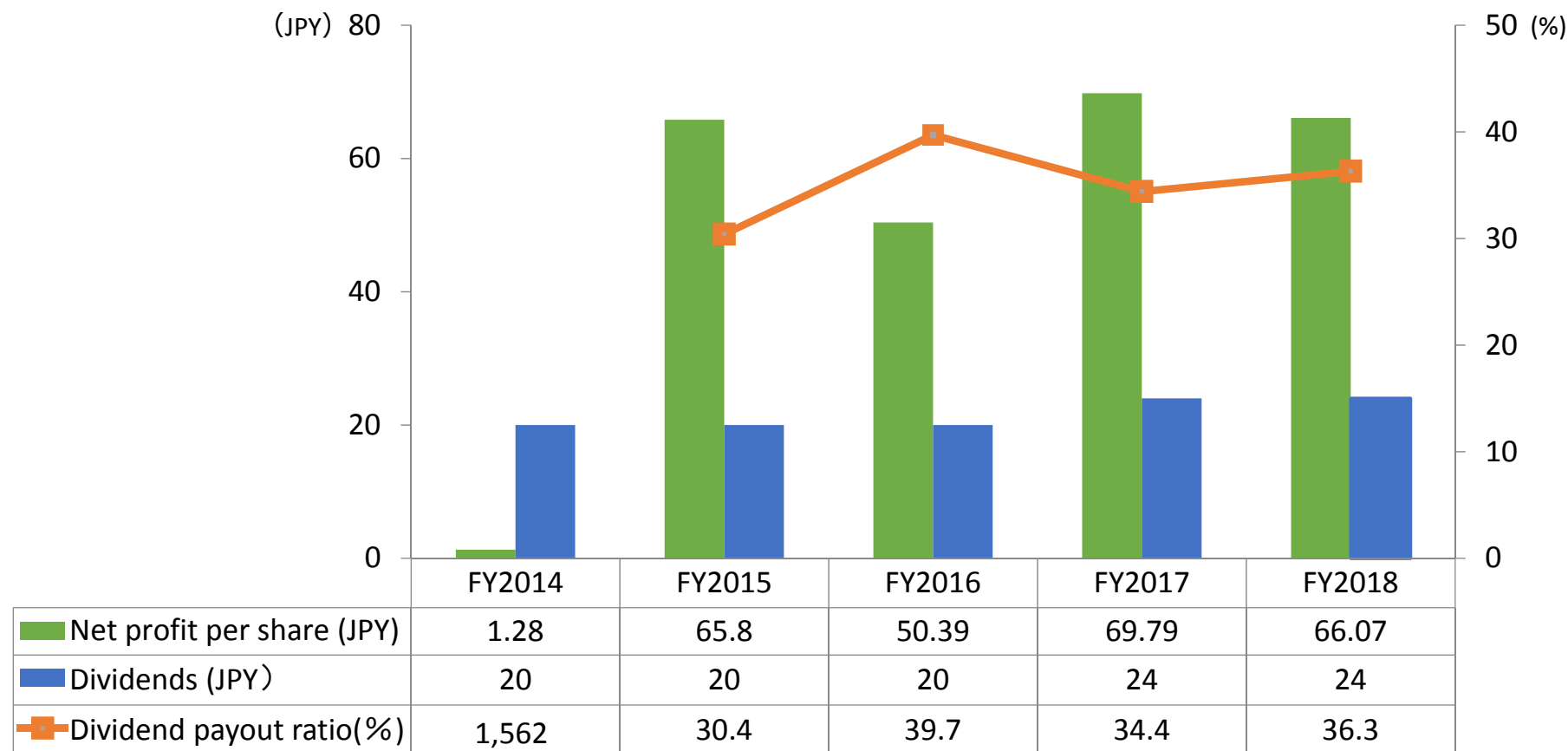
### FY2018 review

Cash flows from operating activities : Increase in trade receivables, inventories and other current assets (- JPY736 Millions)

Cash flows from investments : Put in fixed deposit (- JPY2,516 Millions)

## Shareholders return

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



- Resolve the buyback of Max. 110,000 shares for the total purchase price of max. 100 million Japanese yen in Feb. 2019 (Purchase completed in May)
- Continue to promote flexible and prompt shareholders return plans in the future

## 2. Plans for FY2019 (APR.2019 - MAR.2020)

## Business plan

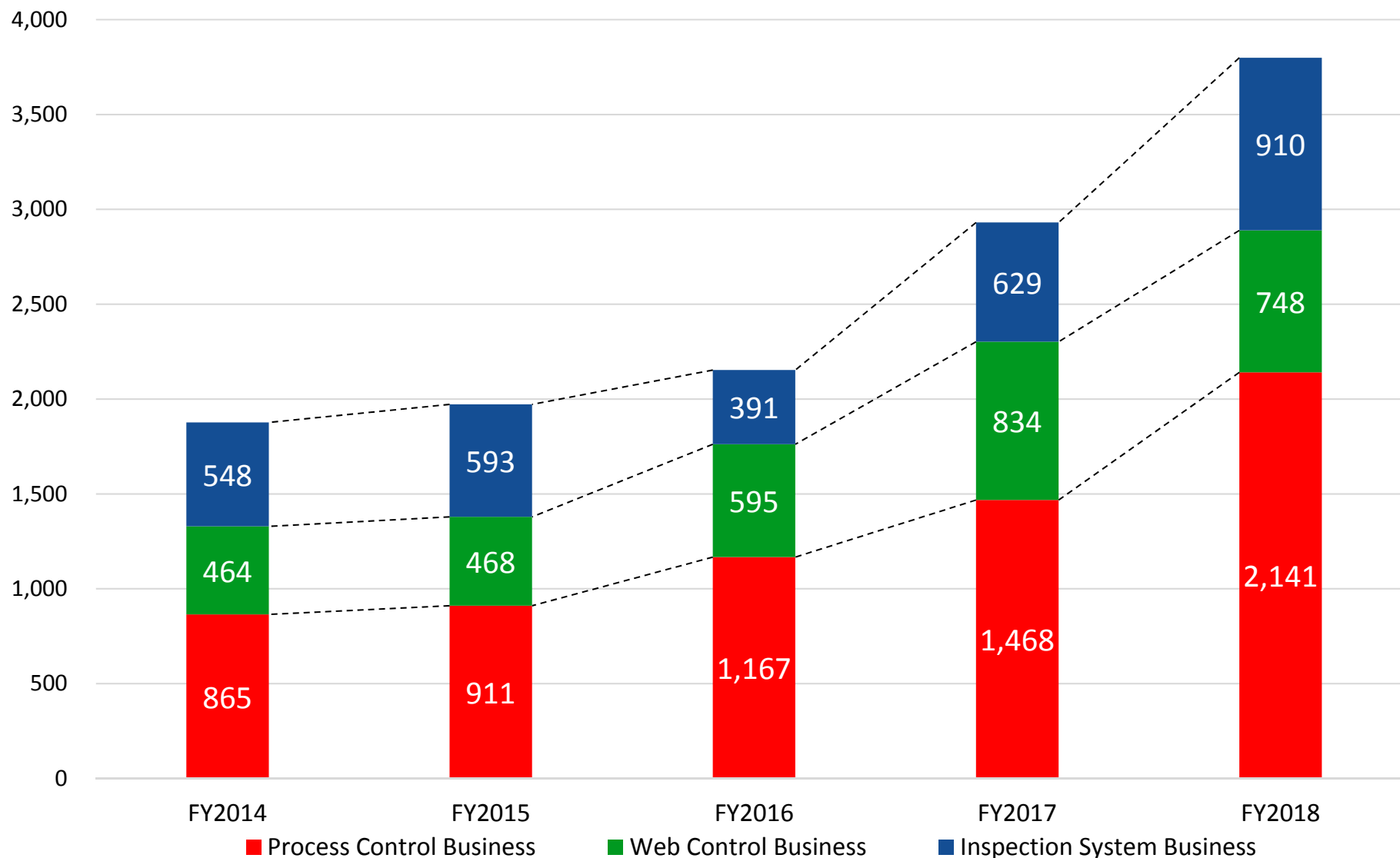
- Keeps high level of order backlog
- Ordinary profit margin of more than 11 %

(Unit: JPY in Millions)

	FY2018 Result	FY2019 Plan	Inc-Dec Rate Compared w/ FY2018 Result
Amount of Orders Received	9,825	9,300	+0%
Net Sales	8,441	9,000	+7%
Operating Profit	898	950	+6%
Operating Profit Margin Ratio	10.6%	10.6%	-
Ordinary Profit	1,011	1,050	+4%
Ordinary Profit Margin Ratio	12.0%	11.7%	-
Net Profit	489	730	+49%
Net Profit Margin Ratio	5.8%	8.1%	-
Net Profit Per Share (JPY)	66.07	98.46	+49%
Order Backlog	3,824	4,124	+8%

## Transition of order backlog

(Unit: JPY in Millions)





## Market conditions & measures: Process Control Business

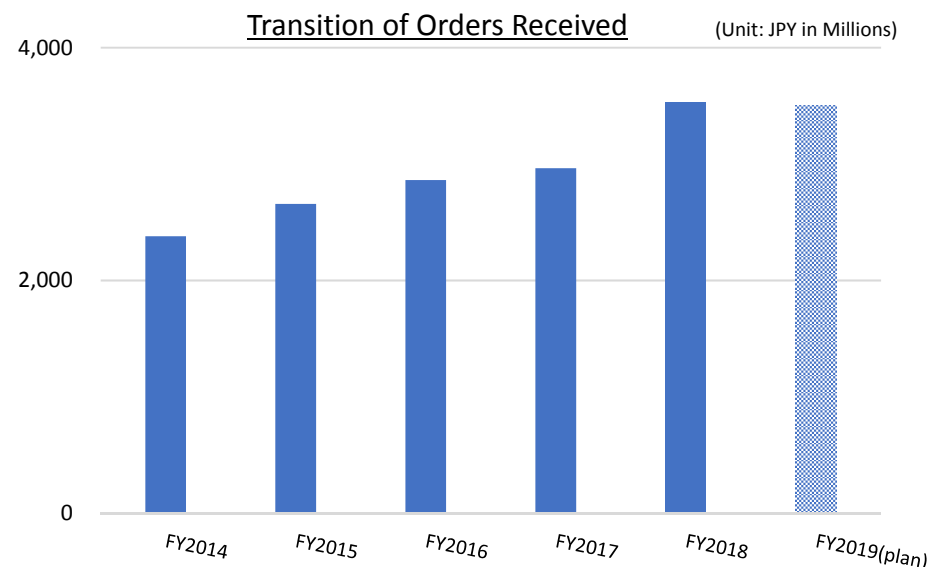
### Domestic steel market

- Steel makers focus on capital investment to enhance competitiveness
- ↓
- Focus on marketing products that would contribute to the improvement of their quality and productivity
  - Expand orders for the measuring system aiming at new business developments

	FY2018 Result	FY2019 Plan
Orders Received	3,535	3,500
Net Sales	2,862	3,300
Segment Profit	671	750
Segment Profit Margin Ratio	23.5%	22.7%

### Overseas steel market

- While seeing uncertainties, continuous demands for the renewal of outdated production facilities can be expected in Chinese, North American and Korean steel makers
- ↓
- Focus on expanding the shares in the Chinese, North American and Korean market utilizing overseas subsidiaries and local representatives
  - Focus on developing products for overseas market



## Market conditions & measures: Web Control Business

### Domestic market

- Expect certain level of continuous demands for LiB rechargeable battery and electronic components production lines
- Solid capital investment by machine manufacturers for high-functional film market



- In order to cope with the demands from machine manufacturers, rebuild the structure to speed up the designing & production process

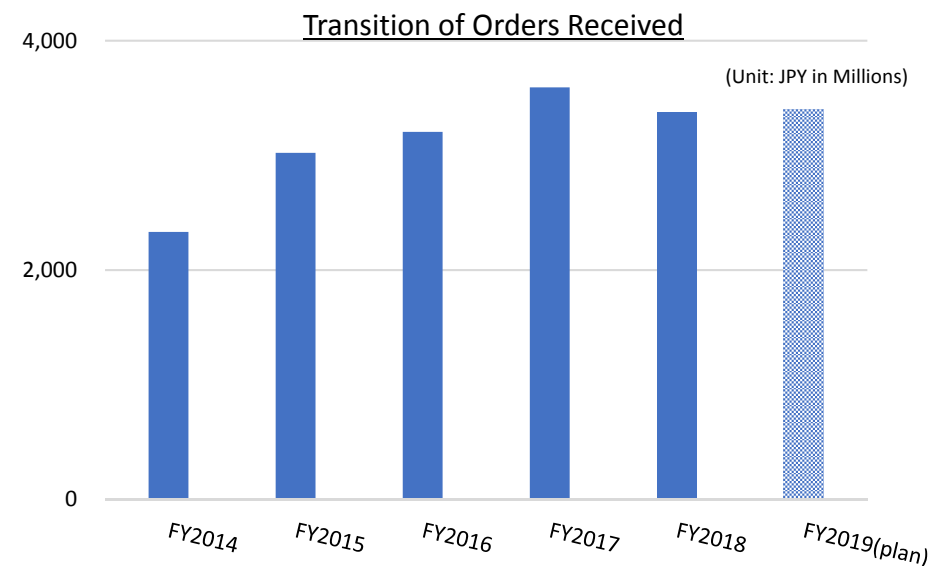
### Overseas market

- Expect certain level of continuous demands for LiB rechargeable battery and electronic components production lines in China, Korea and Taiwan



- Strengthen cooperation between subsidiaries in Taiwan & China and Korean agency in order to expand sales in Southeast Asia.

	FY2018 Result	FY2019 Plan
Orders Received	3,376	3,400
Net Sales	3,463	3,400
Segment Profit	842	800
Segment Profit Margin Ratio	24.3%	23.5%



## Market conditions & measures: Inspection System Business

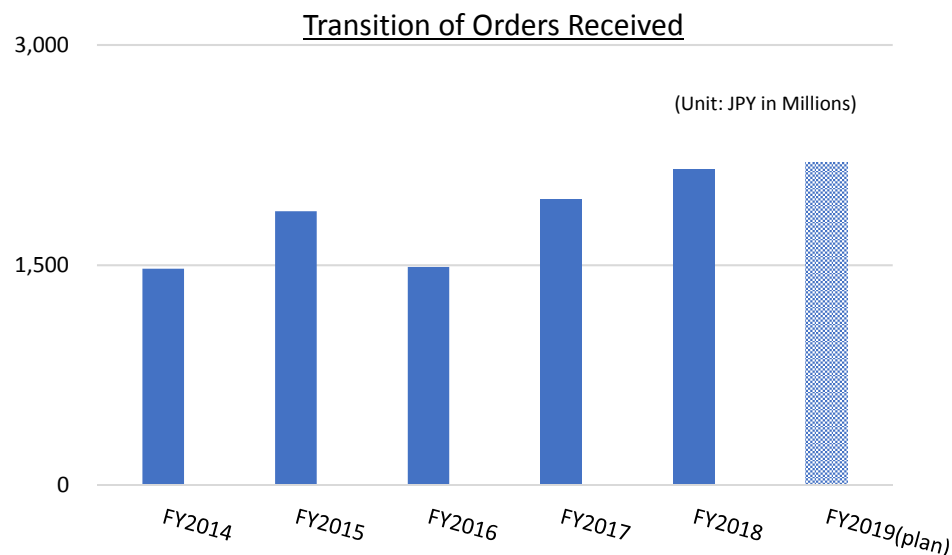
### High functional film market

- Solid capital investment in facilities for LiB rechargeable battery and electronic components production lines
  - Diversified needs
- ↓
- Expand the market for inspection systems for plain surface
  - Launch next-generation inspection system within this fiscal year

### Food related market

- Increase in inspection needs for processed food due to (1) the change of eating style, e.g. food sold in single servings, and (2) consumers' increasing awareness of food safety
- ↓
- Strengthen measures for new inspection needs for processed food
  - Launch a marketing research for developing overseas market for fruit/vegetable sorting systems

	FY2018 Result	FY2019 Plan
Orders Received	2,154	2,200
Net Sales	1,896	2,100
Segment Profit	72	100
Segment Profit Margin Ratio	3.8%	4.8%



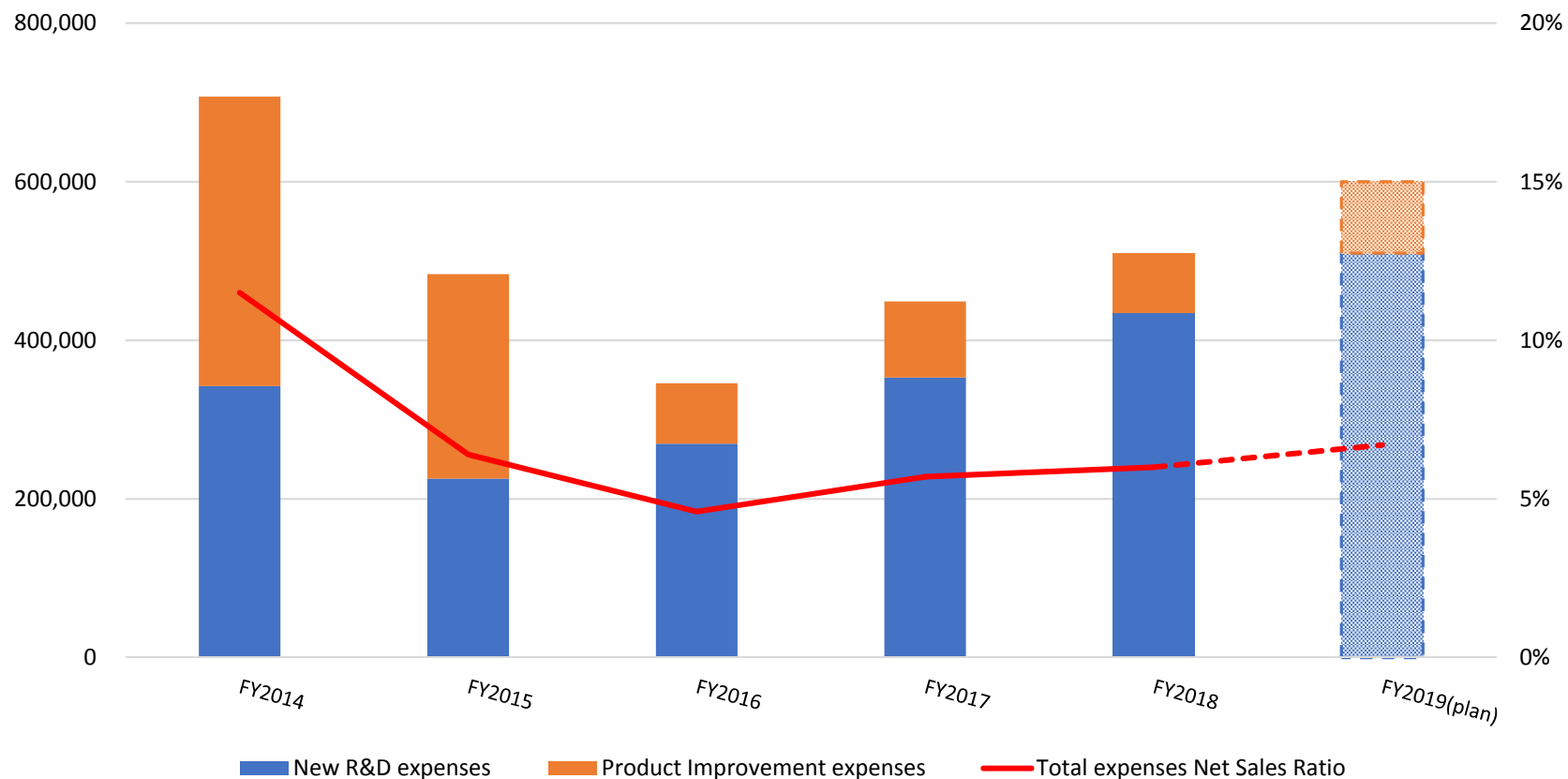
## R&D

- Continue engaging in greater efforts on new development projects aimed at generating new revenue stream

### Main Development Theme

- Development of next-generation inspection system
- Development utilizing laser technology
- Development utilizing magnetic field & microwave technology

(Unit: JPY in Thousands)



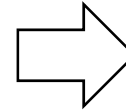
# 3. Towards sustainable growth

## Main goals for sustainable growth

Strengthen our organization that can grow & develop in any circumstances

### Expansion of market

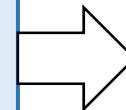
- Drive overseas expansion
- Strengthen inspection system business
- Exploit new fields of business through new-product development



**Expand & enhance  
business foundations**

### Advance in technology

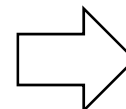
- Develop new products by use of magnetic field and microwave technology
- Develop new products by use of optical technology
- Develop new products by use of image analysis technology



**Enhance  
competitive advantage**

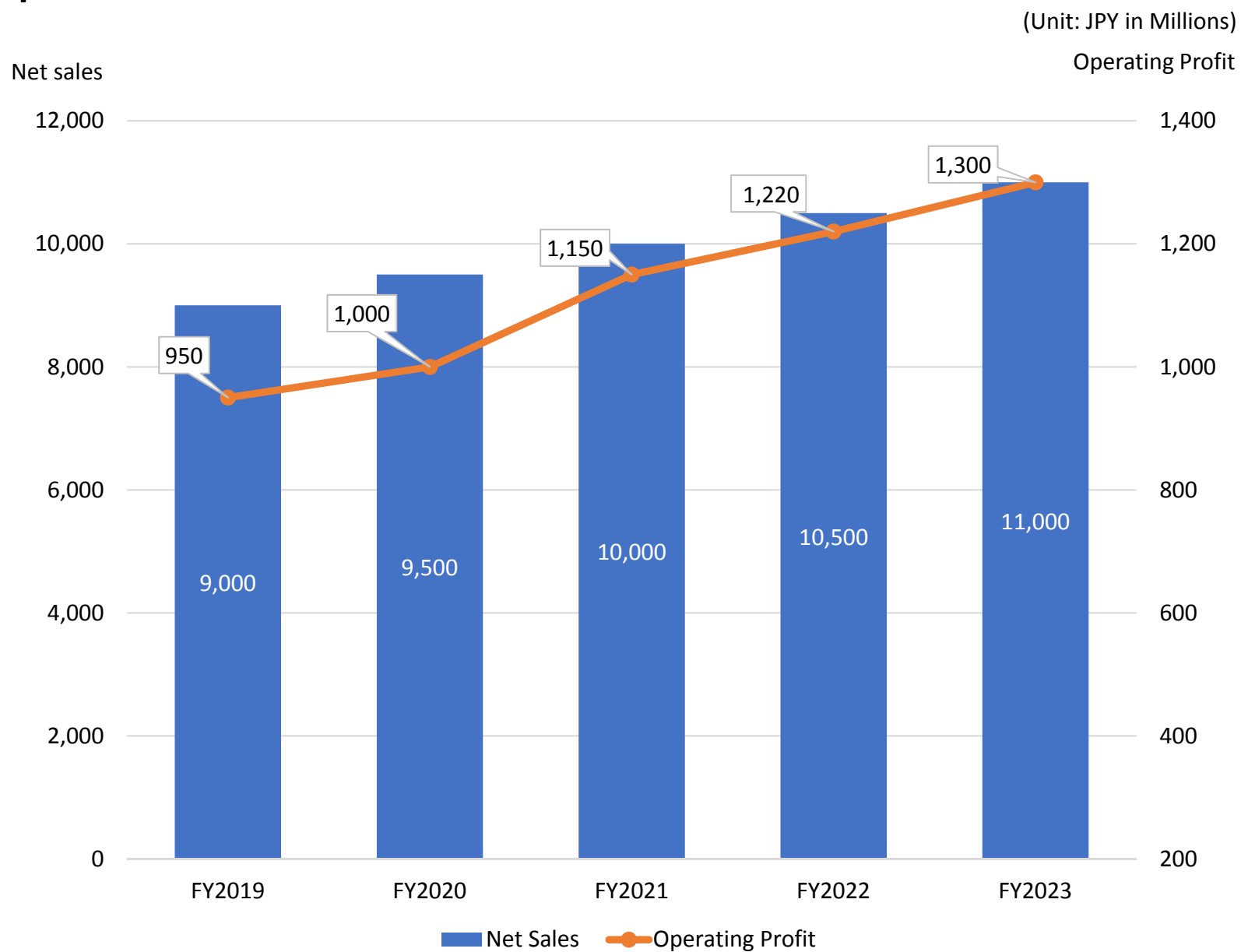
### Reinforce organizational capability

- Complement insufficient resources by growth investment
- Maximize synergy by strengthening group collaboration
- Invest in human resources and infrastructure to strengthen competitiveness



**Reinforce  
organizational capability**

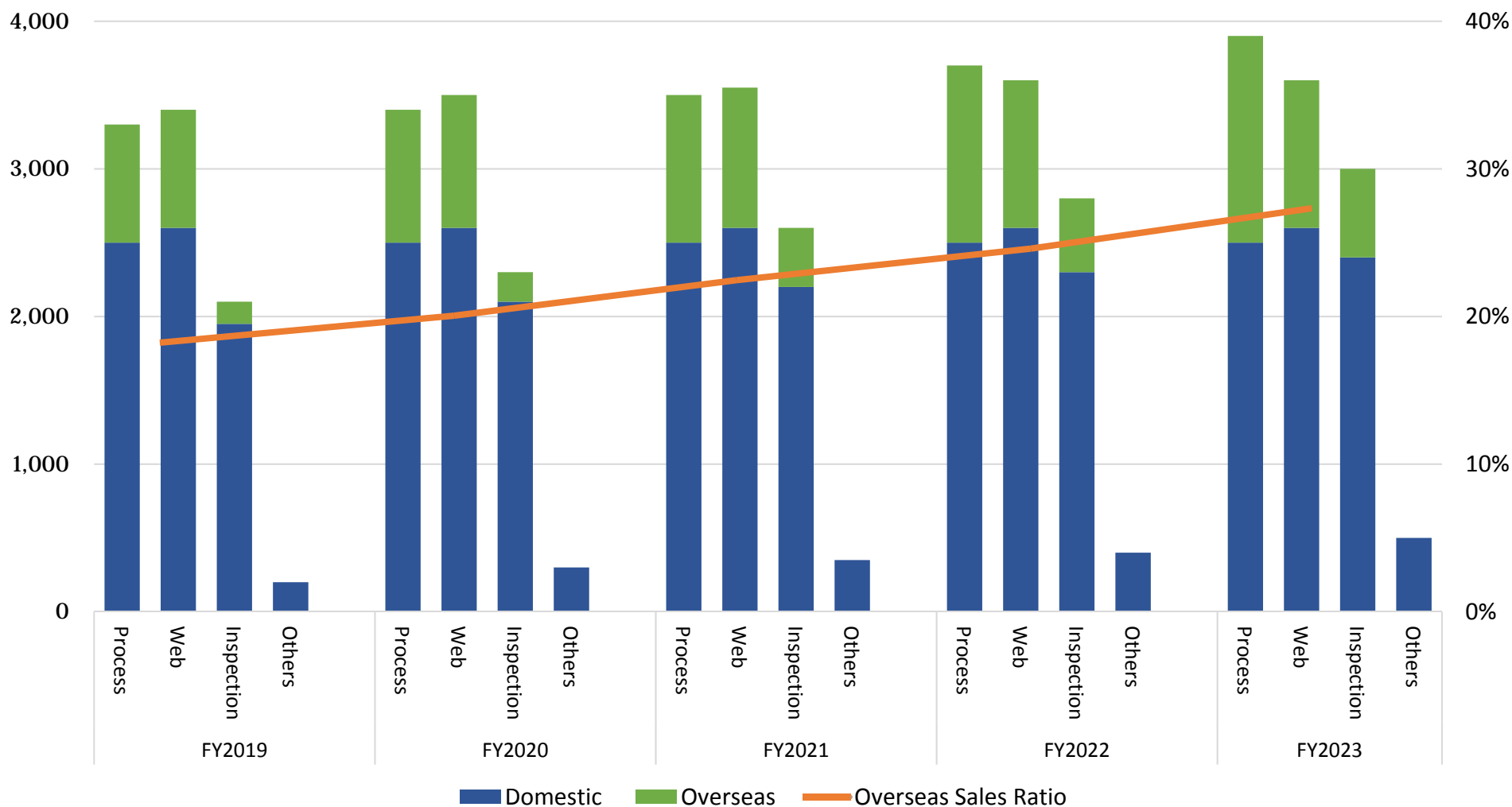
## 5-year plan



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

(Unit: JPY in Millions)

Net sales





# 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	355*
Consolidated sales	8,441 Million Japanese Yen*

\*FY2019 consolidated basis

## 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

## Management philosophy

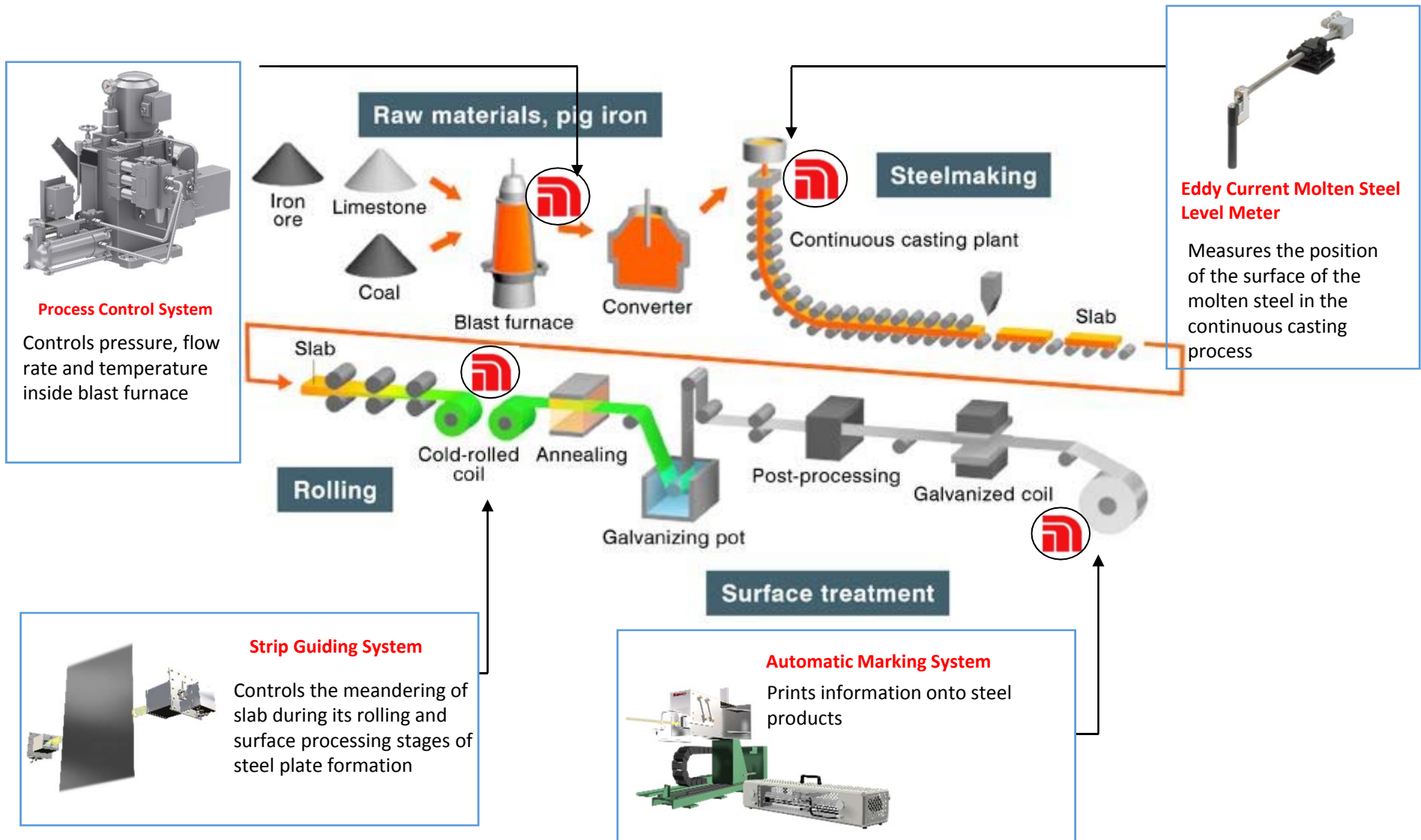
### **‘TECHNOLOGY & TRUST’**

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.

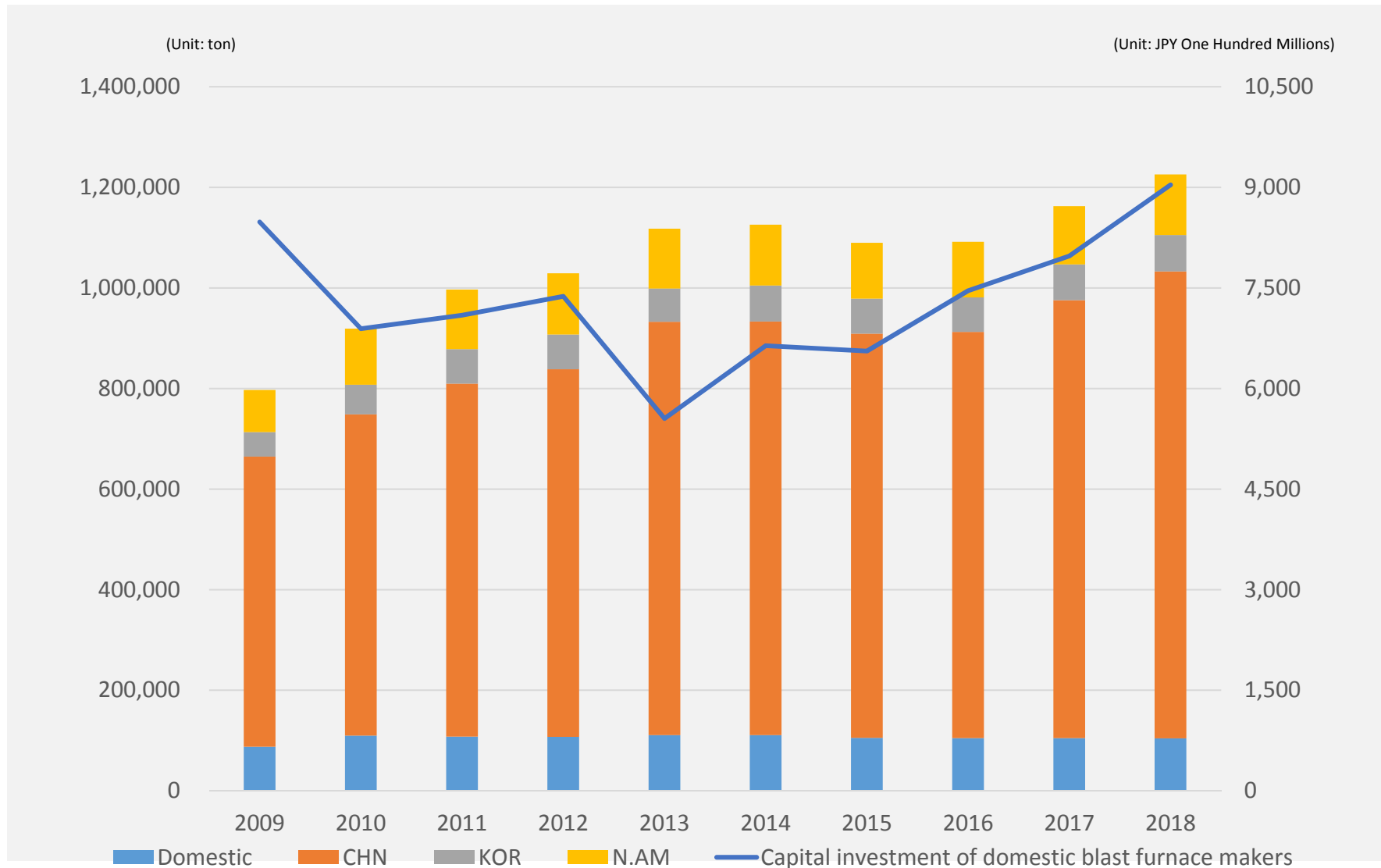
## Process Control Business

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



## Process Control Business

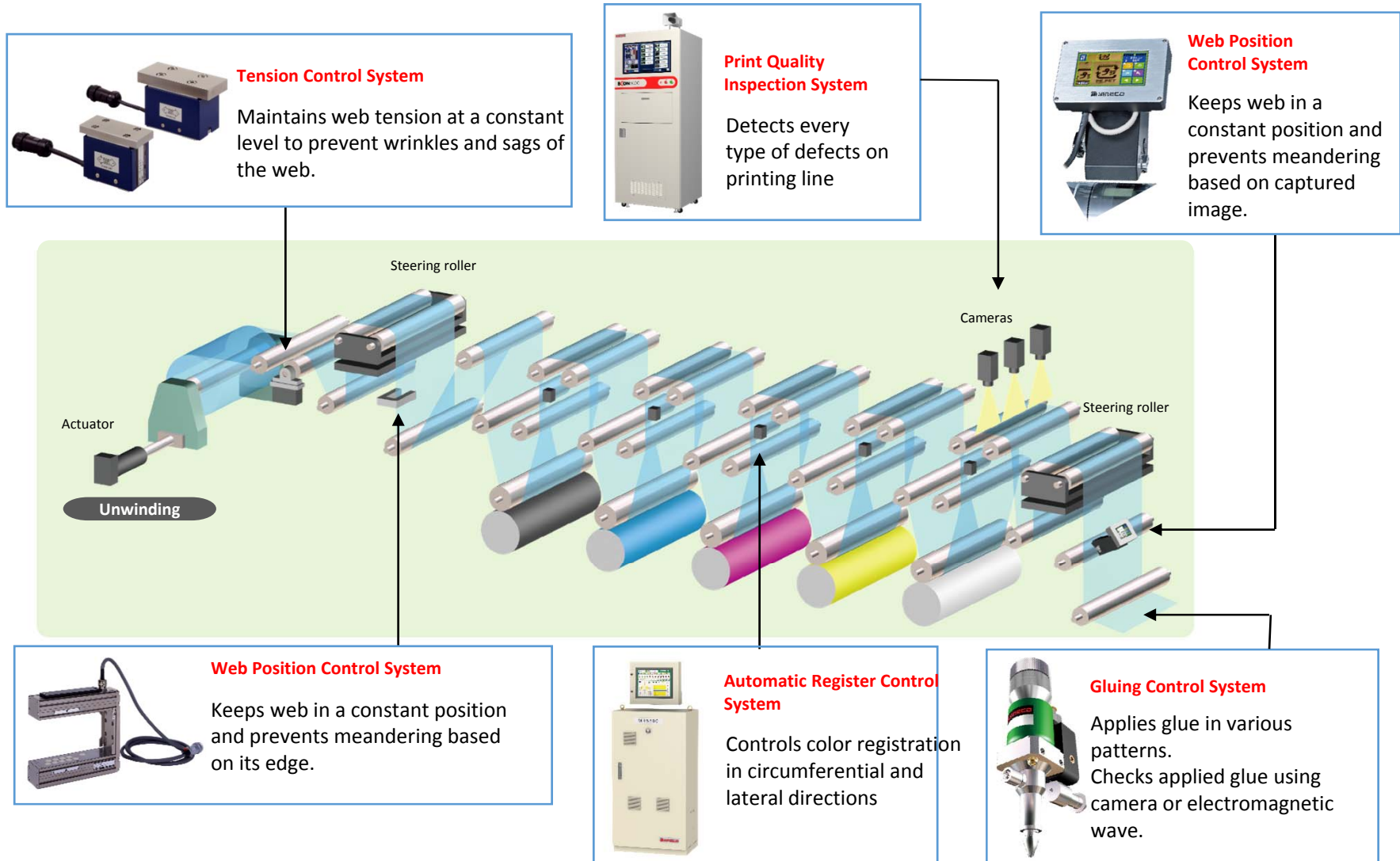
Trends of regional crude steel production & capital investment of major domestic blast furnace makers



Source: The Japan Iron and Steel Federation

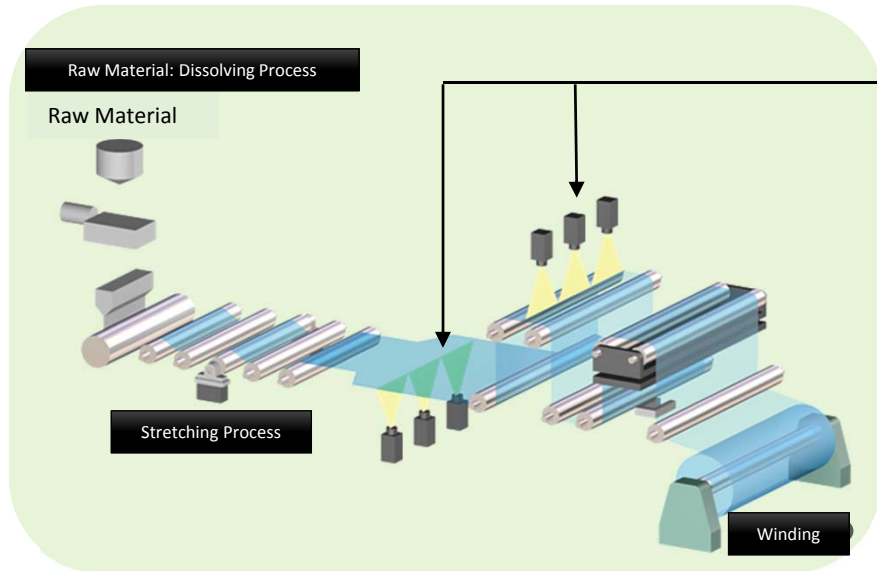
# Web Control Business

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



## 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**

System that inspects quickly moving plain surface of high-performance film, paper and metal for defects such as scratches, blots and foreign objects.

**Fruit/Vegetable Sorting System**

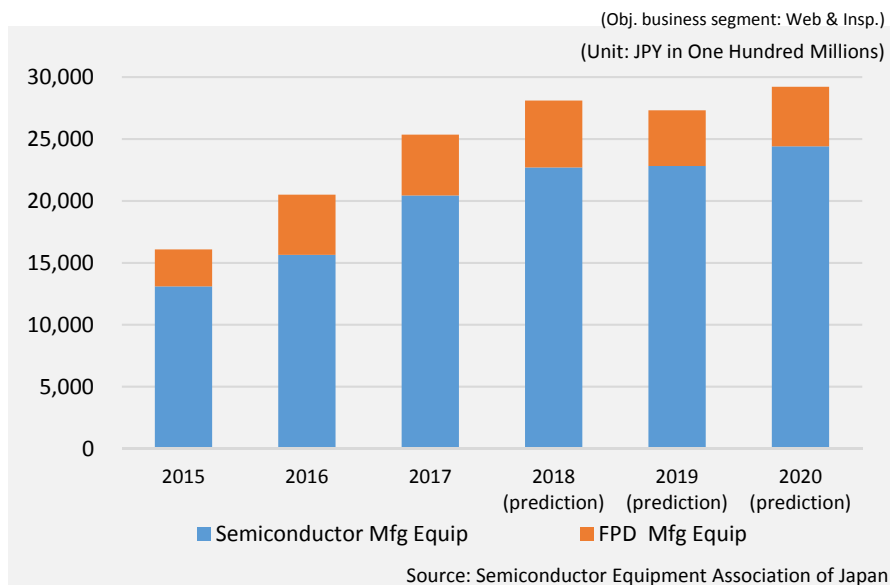
System that instantly performs non-destructive test of quality of agricultural products in terms of external (scratches, decay, and sizes) or internal (sugar content and acidity) factors.



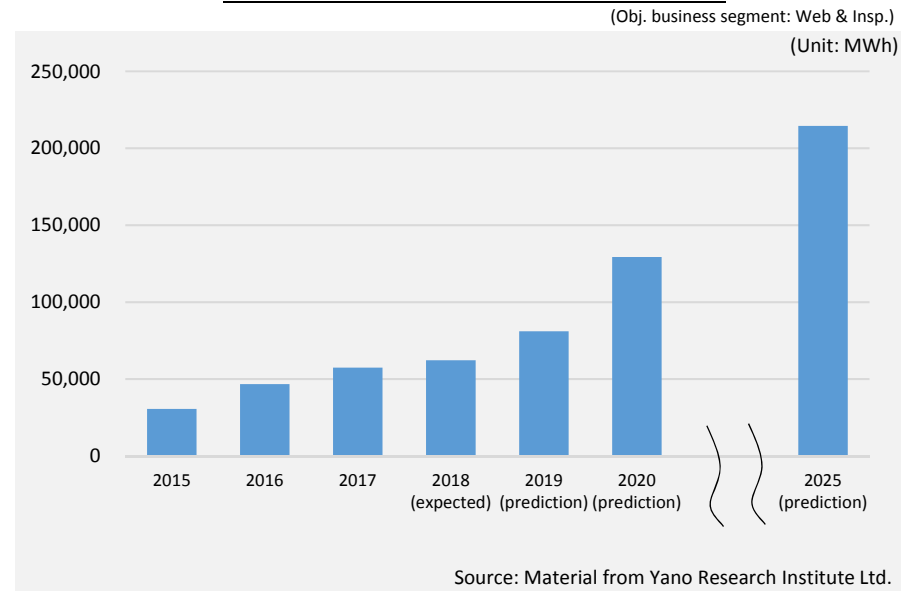


## Web Control Business / Inspection System Business

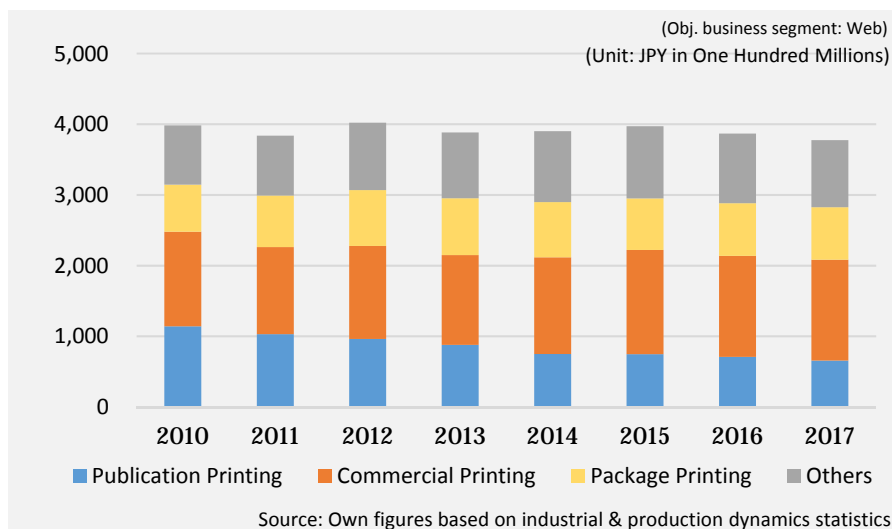
Forecast of Demand for Semiconductor & FPD Mfg. Equip.



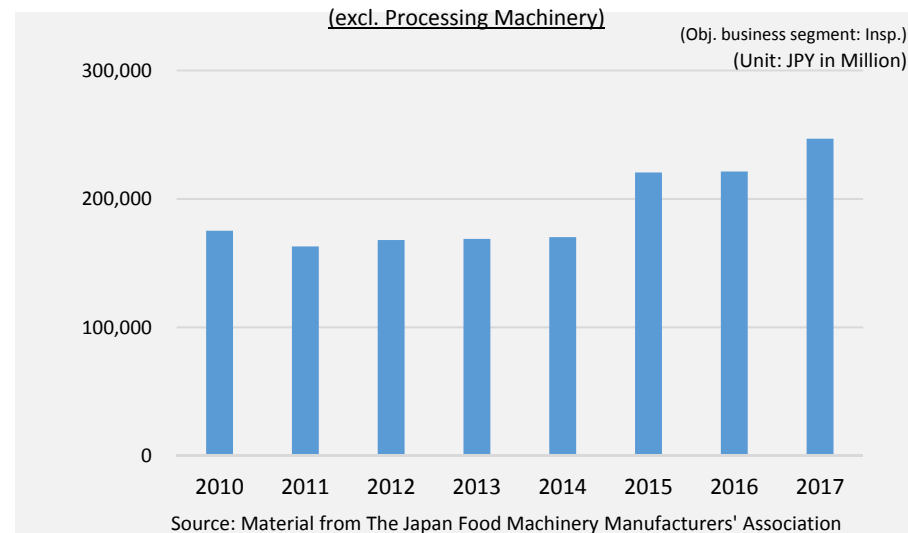
Automotive LiB World Market Forecast



Transition of Printing Market Size



Transition of Domestic Sales Figures for Food Machinery



**E N D**