

# NIRECO CORP. (6863)

## Material for 1H-FY2019 Financial Results

November 15, 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

1H-FY18

1H-FY19

FY19 (Plan)

Unit: JPY in Millions

### Reviews On Financial Results & Plan

Orders Received: **5,048**  
(+24% YoY)

Net Sales: **3,975**  
(+12% YoY)

Operating Profit: **386**  
(+88% YoY)

Orders Received: **3,647**  
(-28% YoY)

Net Sales: **4,121**  
(+4% YoY)

Operating Profit: **486**  
(+26% YoY)

Orders Received: **8,800**  
(-6% YoY)

Net Sales: **9,000**  
(+7% YoY)

Operating Profit: **950**  
(+6% YoY)

### Main goals

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

### Sustainable growth in any circumstances

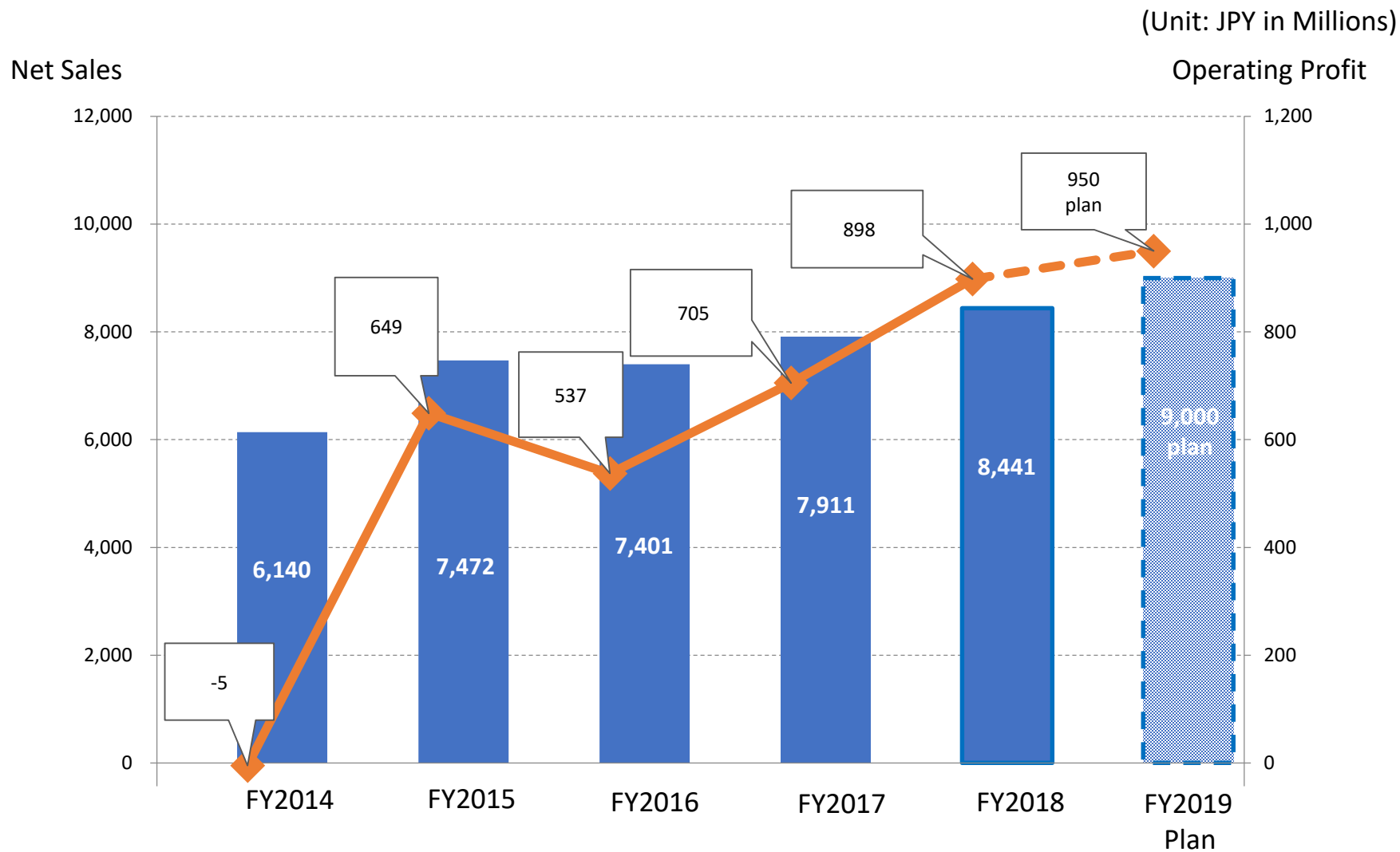
- ◆ Expand & enhance business foundations
- ◆ Enhance competitive advantage

#### Main efforts of 1H-FY2019

- Establishment of a subsidiary in Germany.
- Development of new surface inspection system for high-functional film market
- Expanded new businesses in optical component field

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

# Trends in the Performance



Bar chart: Net Sales

Line chart: Operating Profit

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

# 1. 1H-FY2019 Financial Results (Apr.2019 - Sep.2019)

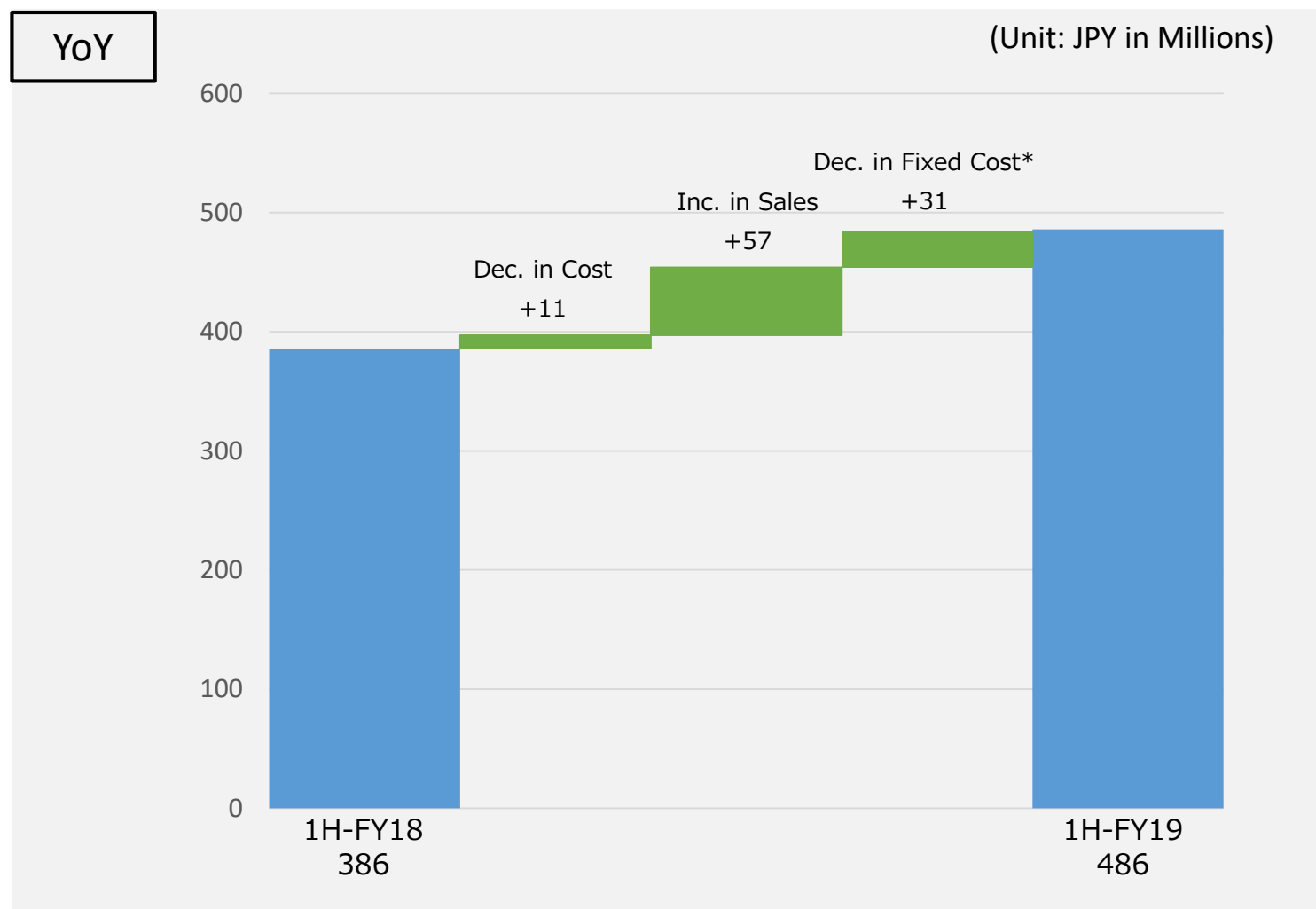
## Consolidated Statement

- Net Sales and each profit items increased compared to 1H-FY2018, and each profit items were in line with the plan.

(Unit: JPY in Millions)

	FY18	FY19		Rate of change	
	1H	1H Plan	1H Result	YoY	Vs to Plan
Orders Received	5,048	4,500	3,647	-28%	-19%
Net Sales	3,975	4,400	4,121	+4%	-6%
Operating Profit	386	450	486	+26%	+8%
Operating Profit Margin	10%	10%	12%	-	-
Ordinary Profit	423	500	506	+20%	+1%
Ordinary Profit Margin	10.7%	11.4%	12.3%	-	-
Profit Attributable to Owners of Parent	244	350	311	+27%	-11%
Profit Attributable to Owners of Parent margin	6.1%	8.0%	7.5%	-	-
Earnings Per Share (JPY)	33	47	43	+29%	-10%
Order Backlog	4,014	3,924	3,350	-17%	-15%

# Increase/ Decrease Factors in Operating Profit



※Fixed Cost = SG&A Expenses

## Process Control Business

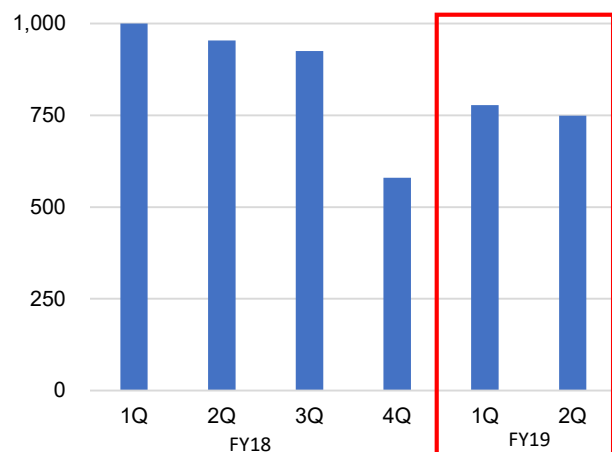
- 1H-FY19 net sales and segment profit exceeded 1H-FY18, however, orders received decreased compared to 1H-FY18

(Unit: JPY in Millions)

	FY18	FY19		FY19 plan	
	1H	1H	YoY	Full year	Progress rate
Orders Received	2,031	1,527	-25%	3,350	46%
Net Sales	1,320	1,745	+32%	3,500	50%
Segment Profit	334	436	+30%	800	55%
Segment Profit Margin	25.3%	25.0%	-	22.9%	-

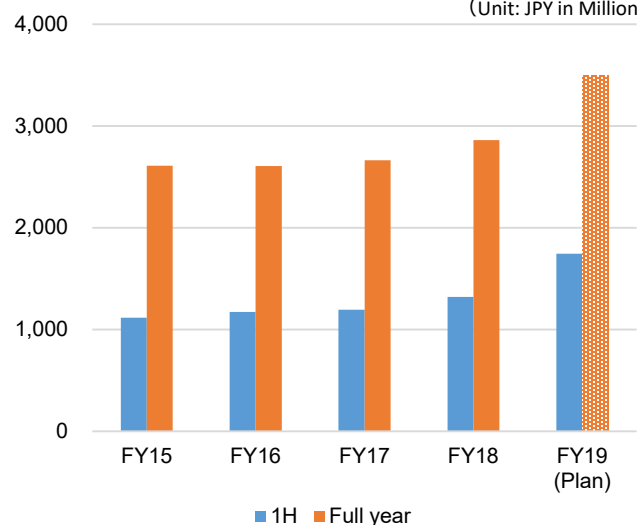
Transition of Orders Received

(Unit: JPY in Millions)

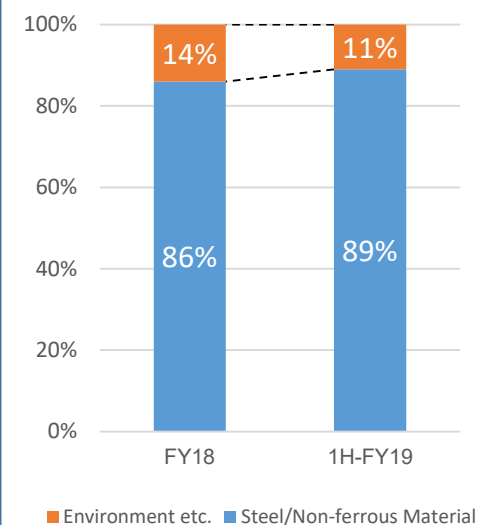


Transition of Sales

(Unit: JPY in Millions)



Sales composition ratio by industries





# Web Control Business

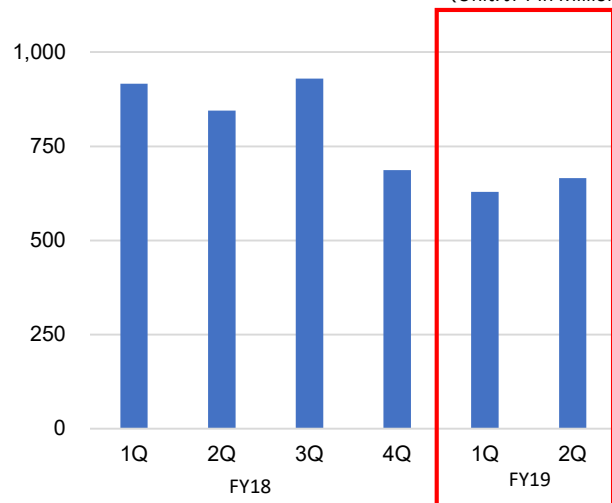
- 1H-FY19 orders received, net sales, segment profit decreased compared to 1H-FY18
- Sales of position control equipment for overseas customers were sluggish

(Unit: JPY in Millions)

	FY18	FY19		FY19 plan	
	1H	1H	YoY	Full year	Progress rate
Orders Received	1,761	1,294	-27%	2,950	44%
Net Sales	1,721	1,484	-14%	3,000	49%
Segment Profit	428	296	-31%	550	54%
Segment Profit Margin	24.9%	20.0%	-	18.3%	-

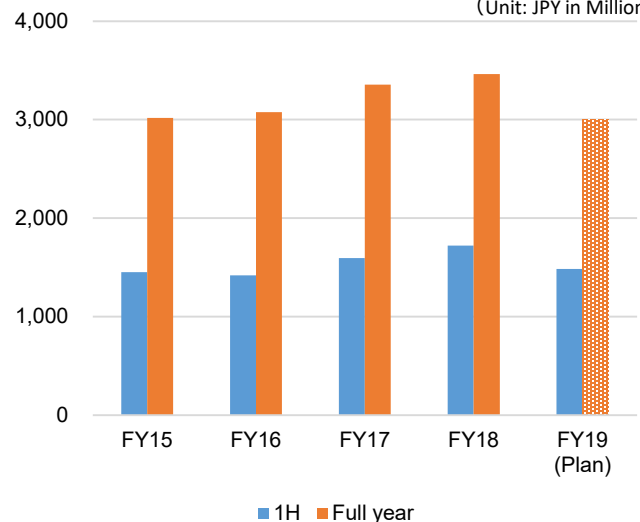
Transition of Orders Received

(Unit: JPY in Millions)

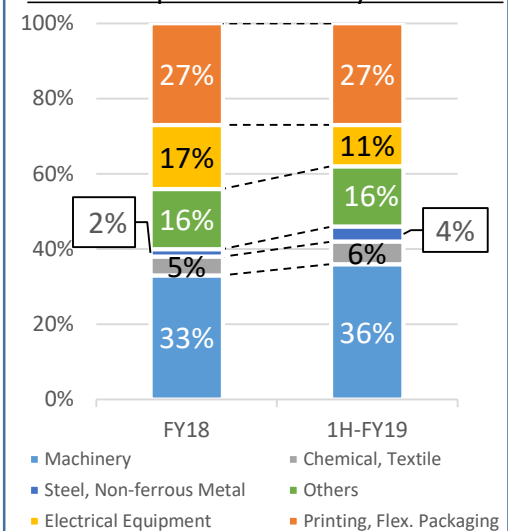


Transition of Sales

(Unit: JPY in Millions)



Sales composition ratio by industries



## Inspection System Business

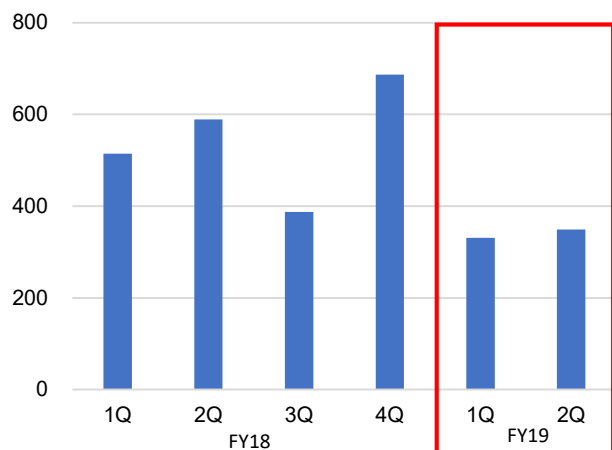
- 1H-FY19 net sales of defect inspection system for plain surfaces exceeded 1H-FY18
- Orders received and net sales for fruit/vegetable sorting systems decreased due to the slow down of cyclical renewal demand

(Unit: JPY in Millions)

	FY18	FY19		FY19 plan	
	1H	1H	YoY	Full year	Progress rate
Orders Received	1,103	679	-38%	2,000	34%
Net Sales	871	796	-9%	2,000	40%
Segment Profit	-5	-28	-	150	-
Segment Profit Margin	-	-	-	7.5%	-

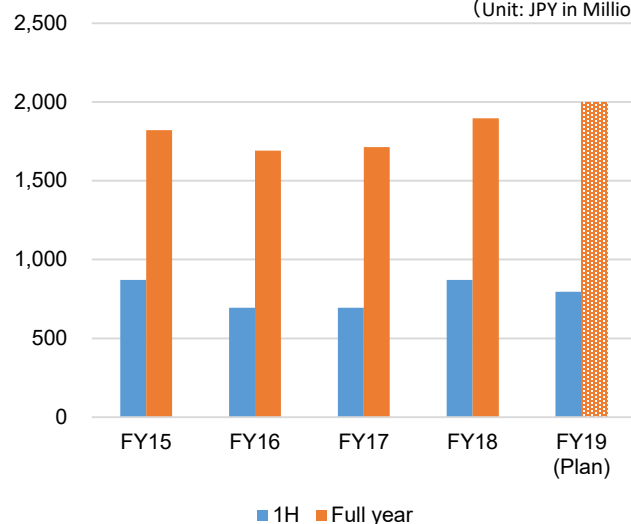
Transition of Orders Received

(Unit: JPY in Millions)

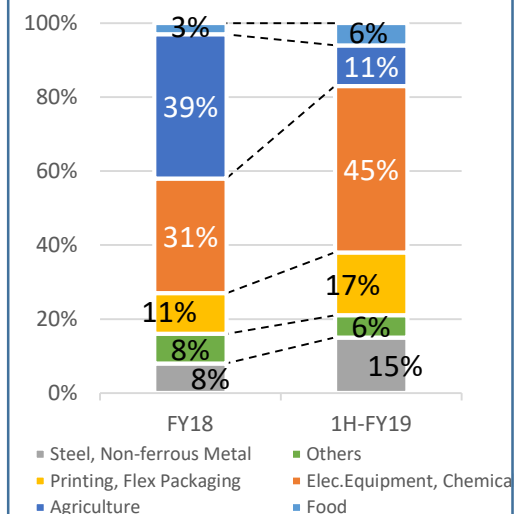


Transition of Sales

(Unit: JPY in Millions)



Sales composition ratio by industries



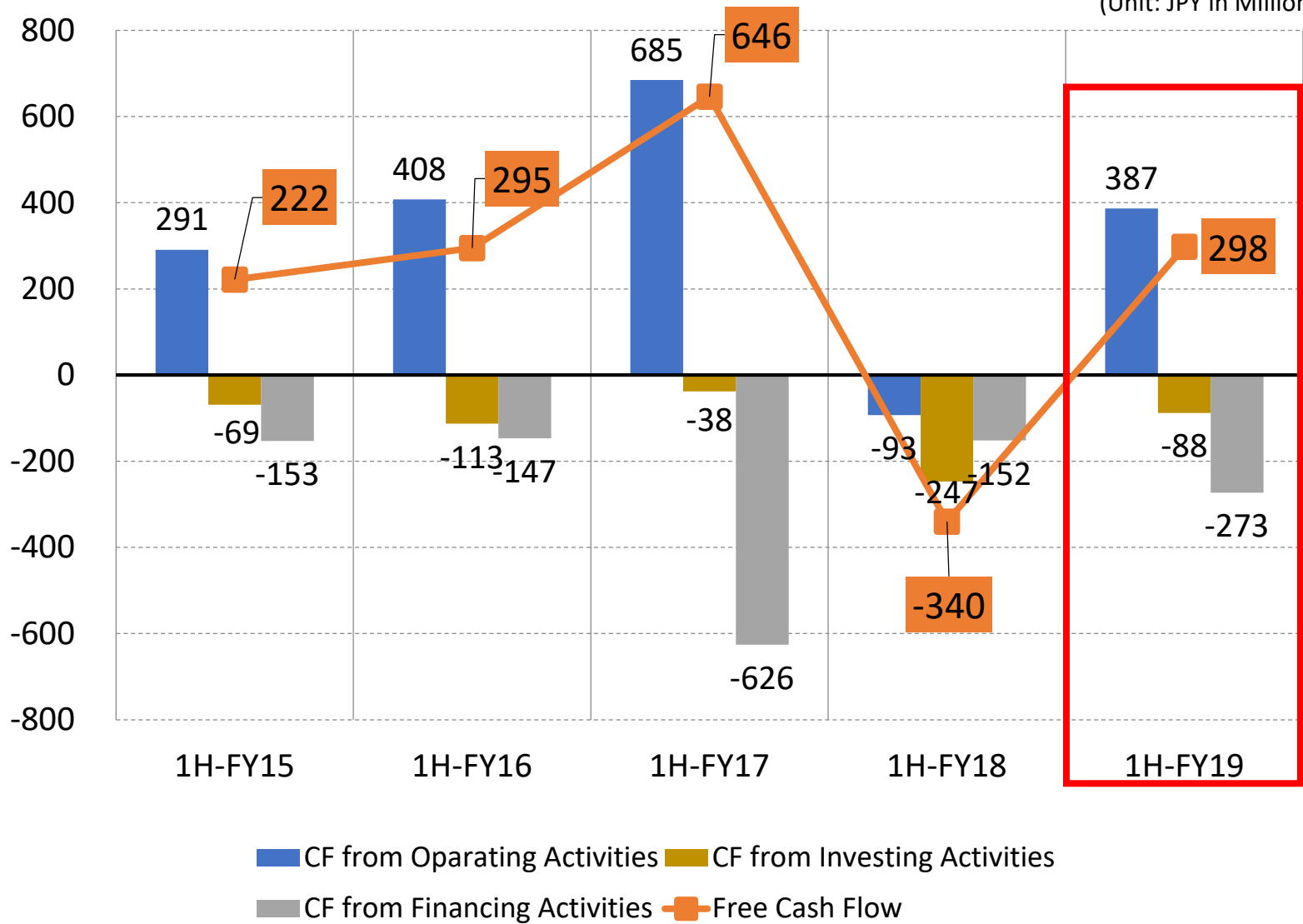
## Balance Sheet

(Unit: JPY in Millions)

	End of FY18 (Mar. 31, 2019)		End of 1H-FY19 (Sep. 30, 2019)		Change
Cash and Deposits	4,990	35.6%	4,970	35.5%	- 19
Trade Receivables	3,280	23.4%	3,195	22.8%	- 85
Inventories	1,896	13.5%	2,013	14.4%	+ 117
Other Current Assets	338	2.4%	309	2.2%	- 29
<b>Current assets</b>	<b>10,506</b>	<b>75.0%</b>	<b>10,489</b>	<b>74.9%</b>	<b>- 16</b>
Property, Plant and Equipment	1,919	13.7%	1,885	13.5%	- 34
Intangible Assets	133	1.0%	182	1.3%	+ 49
Investments and Other Assets	1,454	10.4%	1,441	10.3%	- 12
<b>Non-current Assets</b>	<b>3,506</b>	<b>25.0%</b>	<b>3,509</b>	<b>25.1%</b>	<b>+ 2</b>
<b>Total Assets</b>	<b>14,012</b>	<b>100.0%</b>	<b>13,999</b>	<b>100.0%</b>	<b>- 13</b>
Accounts Payable – trade	392	2.8%	378	2.7%	- 14
Other Current Liabilities	1,068	7.6%	940	6.7%	- 127
<b>Current Liabilities</b>	<b>1,460</b>	<b>10.4%</b>	<b>1,318</b>	<b>9.4%</b>	<b>- 142</b>
<b>Non-current Liabilities</b>	<b>61</b>	<b>0.4%</b>	<b>55</b>	<b>0.4%</b>	<b>- 5</b>
<b>Total Liabilities</b>	<b>1,521</b>	<b>10.9%</b>	<b>1,374</b>	<b>9.8%</b>	<b>- 147</b>
<b>Total Net Assets</b>	<b>12,490</b>	<b>89.1%</b>	<b>12,624</b>	<b>90.2%</b>	<b>+ 134</b>
<b>Total Liabilities and Net Assets</b>	<b>14,012</b>	<b>100.0%</b>	<b>13,999</b>	<b>100.0%</b>	<b>- 13</b>

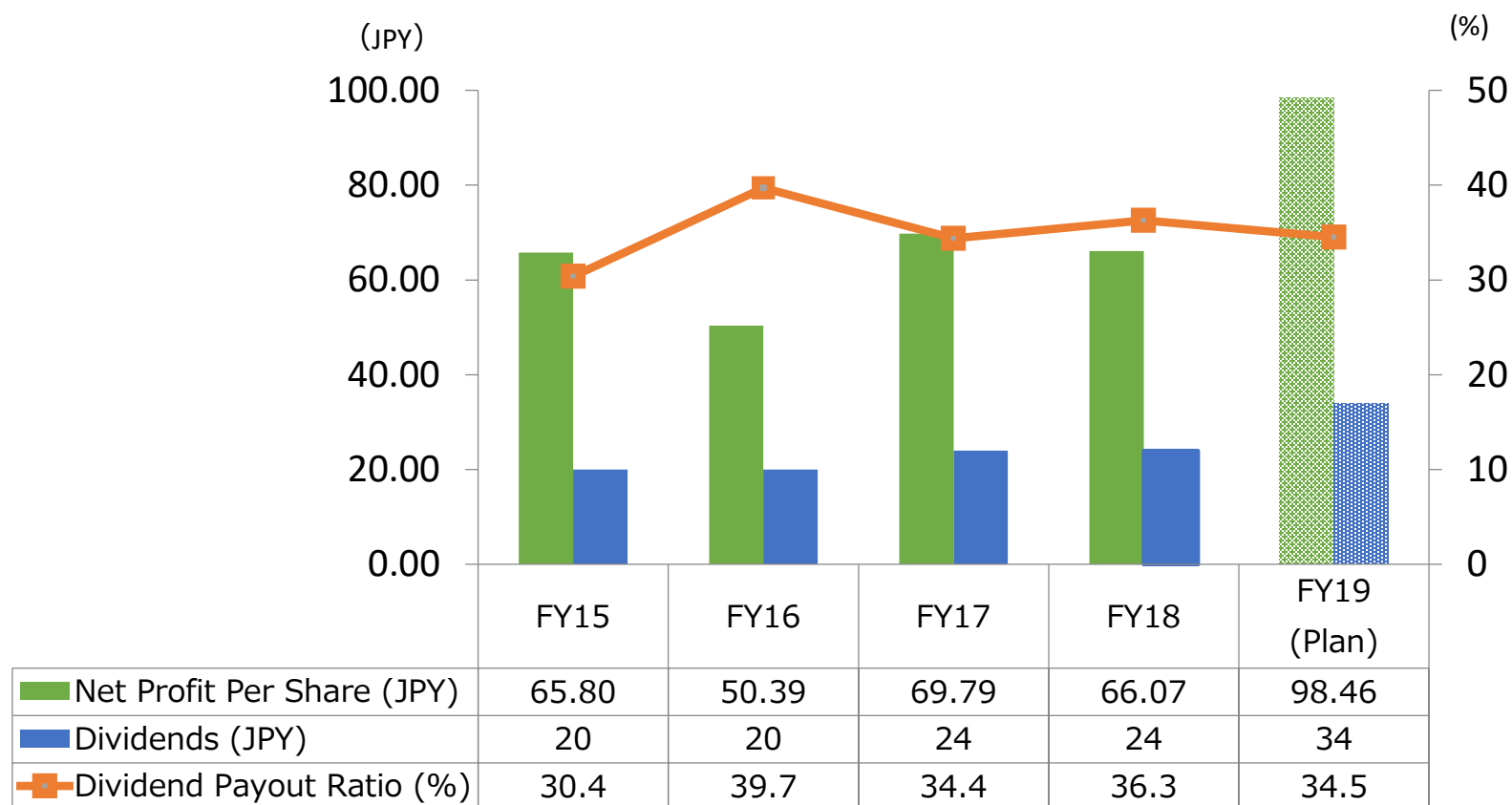
# Cash Flows

(Unit: JPY in Millions)



# Shareholders Return

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



Based on above policy, the company plans to pay 14 yen per share for FY19 interim dividends, that is increased by 4 yen compared to FY18 interim dividends.

FY19 total dividends are planning 34 yen per share, that is increased by 10 yen compared to FY18.

## 2 . Plans for FY2019 (Apr.2019 – Mar.2020)

## Business Plan

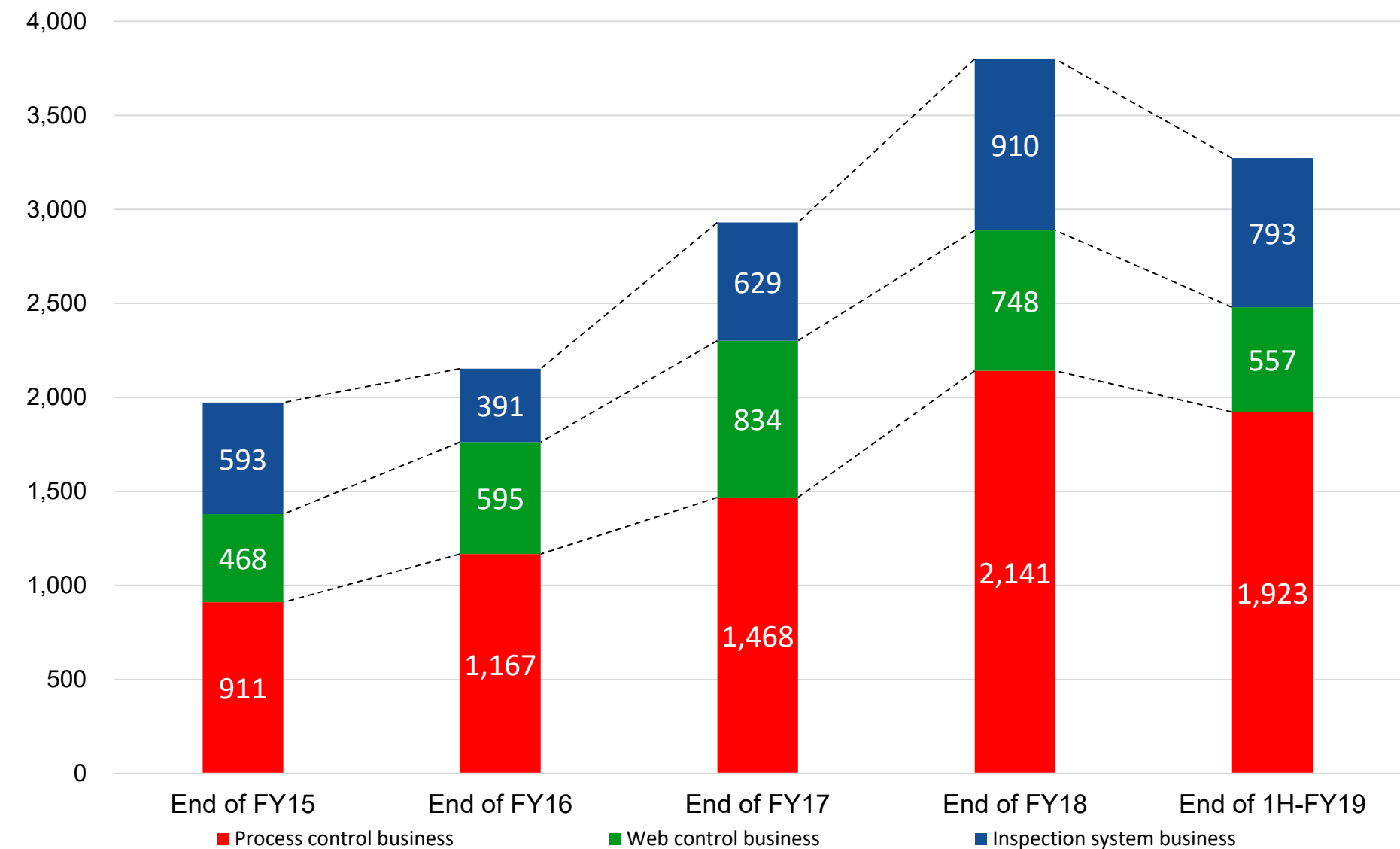
- Targeted net sales and each profit items remain unchanged from the initial plan. The company aims at 11% level ordinary profit

(Unit: JPY in Millions)

	FY18	FY19 Plan	YoY
Orders Received	9,325	8,800	-6%
Net Sales	8,441	9,000	+7%
Operating Profit	898	950	+6%
Operating Profit Margin	10.6%	10.6%	-
Ordinary Profit	1,011	1,050	+4%
Ordinary Profit Margin	12.0%	11.7%	-
Profit Attributable to Owners of Parent	489	730	+49%
Profit Attributable to Owners of Parent Margin	5.8%	8.1%	-
Earnings Per Share (JPY)	66.07	98.46	+49%
Order Backlog	3,824	3,624	-5%

# Transition of Order Backlog

(Unit: JPY in Millions)





## Market Conditions & Measures: Process Control Business

### Domestic Steel Market

- Steel makers are still focus on capital investment to enhance competitiveness
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- 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

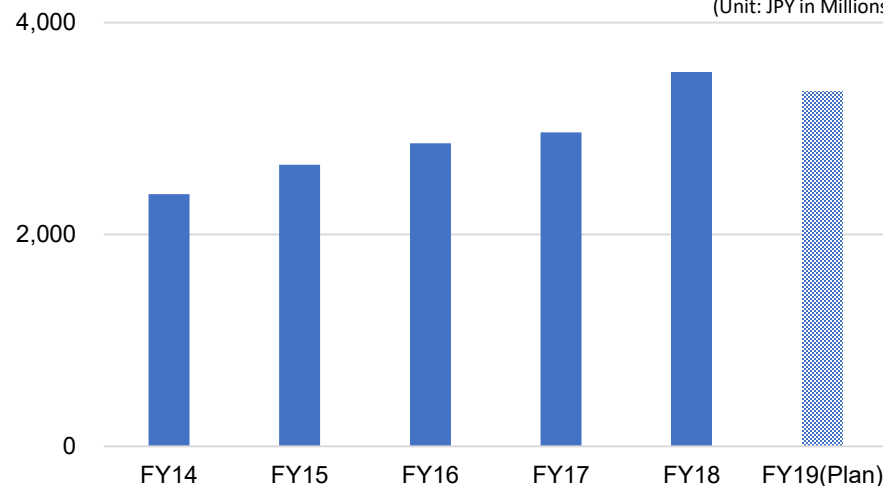
### Overseas Steel Market

- 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

	FY18	FY19 Plan
Orders Received	3,535	3,350
Net Sales	2,862	3,500
Segment Profit	671	800
Segment Profit Margin	23.5%	22.9%

Transition of Orders Received

(Unit: JPY in Millions)



## Market Conditions & Measures: Web Control Business

### Domestic Market

- In spite of fluctuate overseas market demands, the customers planning certain levels of continuous investments for high-functional film.



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

### Overseas Market

- Demands slow down for LiB rechargeable battery and electronic components production lines in China, Korea and Taiwan

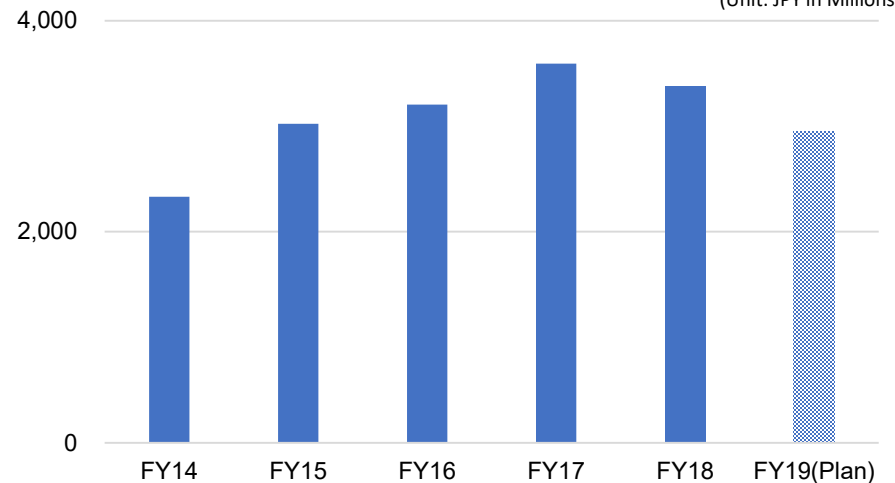


- Strengthen cooperation between subsidiaries in Taiwan & China and Korean agency in order to expand sales in Southeast Asia.

	FY18	FY19 Plan
Orders Received	3,376	2,950
Net Sales	3,463	3,000
Segment Profit	842	550
Segment Profit Margin	24.3%	18.3%

Transition of Orders Received

(Unit: JPY in Millions)



## 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

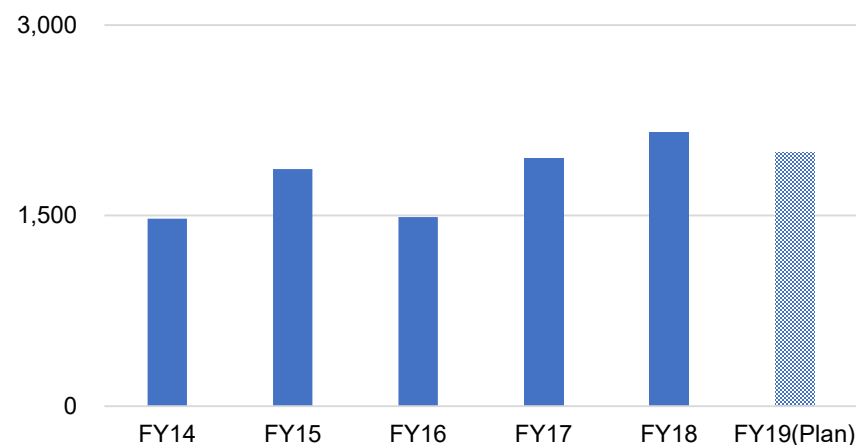


- Strengthen measures for new inspection needs for processed food
- Launch a marketing research for developing overseas market for fruit/vegetable sorting systems

### Transition of Orders Received

(Unit: JPY in Millions)

	FY18	FY19 Plan
Orders Received	2,177	2,000
Net Sales	1,896	2,000
Segment Profit	72	150
Segment Profit Margin	3.8%	7.5%



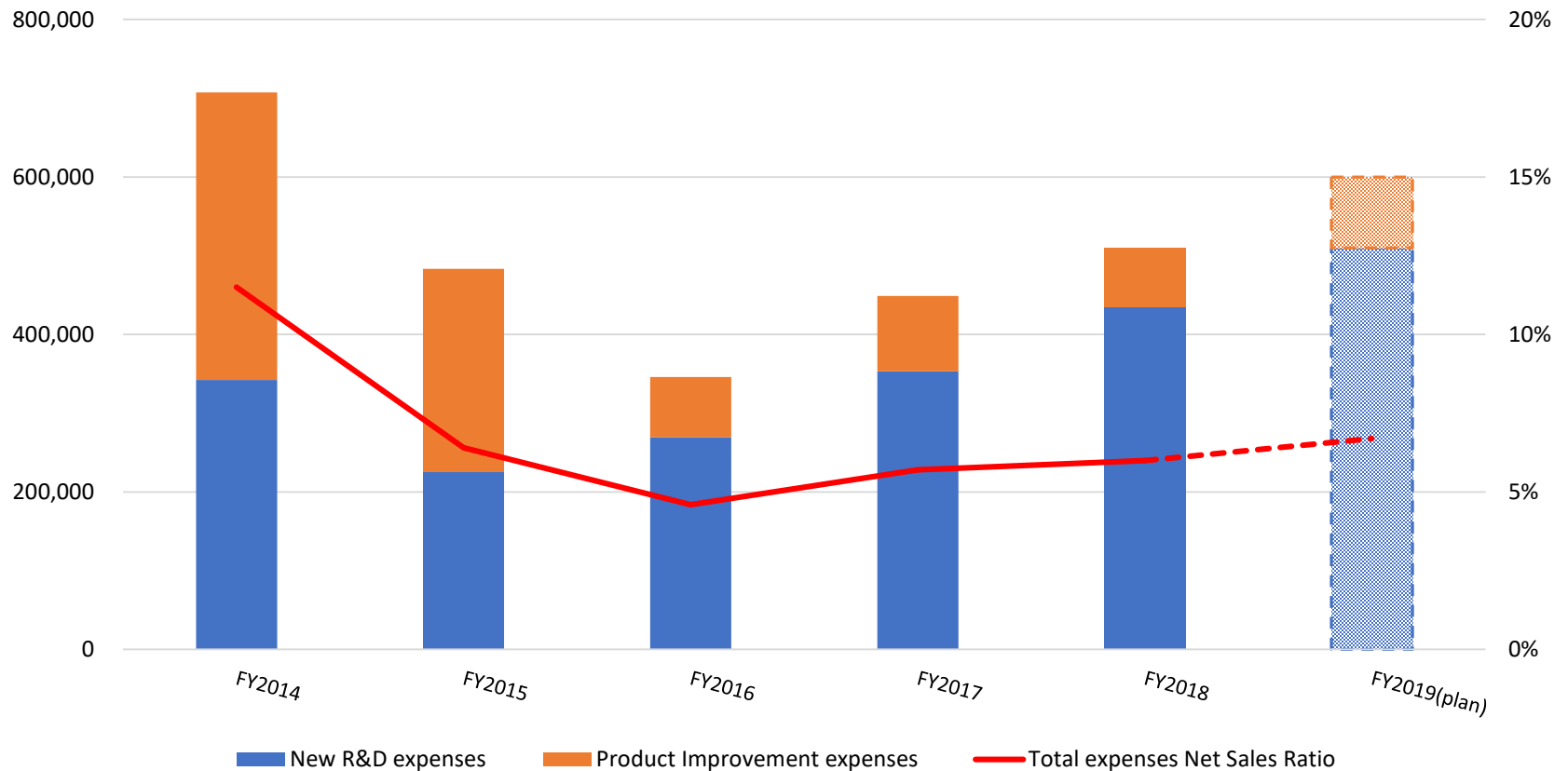
## R&D

- 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)



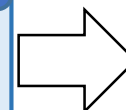
# 3. Towards Sustainable Growth

## Main Goals for Sustainable Growth

Strengthen our organization that can grow & develop in any circumstances

### Expansion of market

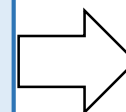
- Drive overseas expansion
- Strengthen inspection system business
- Exploit new fields of business through new-product development



**Expand & enhance  
business foundations**

### Advance in technology

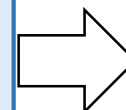
- Develop new products by use of magnetic field and microwave technology
- Develop new products by use of optical technology
- Develop new products by use of image analysis technology



**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**

## New Subsidiary - Nireco International GmbH

Aim of establishment:

Partnership development with local original equipment manufactures and component suppliers, development new business in global market



- Location : Essen, Germany
- Business overview: Development, manufacturing, sales and maintenance service of Control, Inspection system equipment for process control business
- Employees: 5 (As of end of Sep. 2019)

## New Subsidiary - Kogakugiken Corp.

Aims of acquisition : Growth of the business of Kogakugiken Corp., enhancement of Nireco group's technological strength, product competitiveness and new business development

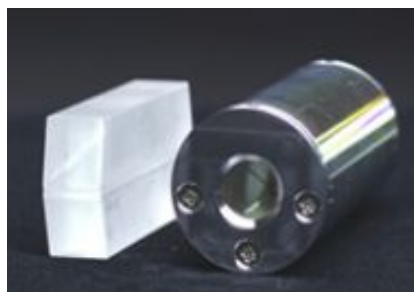


- Location: Atsugi, Kanagawa prefecture
- Business overview: Development, production and sales of optical components, prototype processing of optical crystal elements and glass components
- Main products:

Waveplate/ phaser



Polarizer



Nonlinear Optical Crystal



Optical isolator





# 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*
Net sales (Consolidated)	8,441 Million Japanese Yen (FY2018)

\*As of March 31, 2019

## 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.

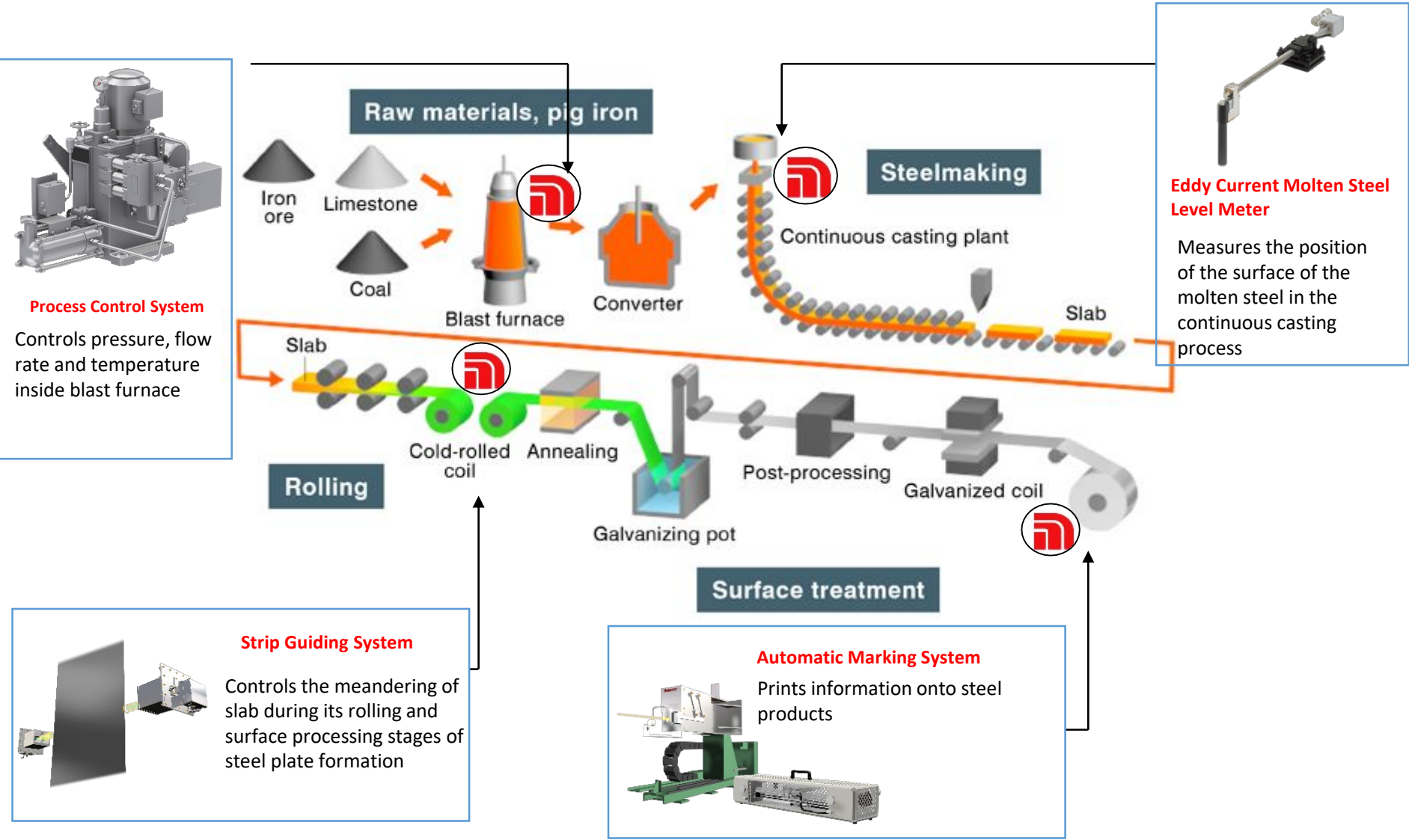
### **‘TECHNOLOGY & TRUST’**

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.

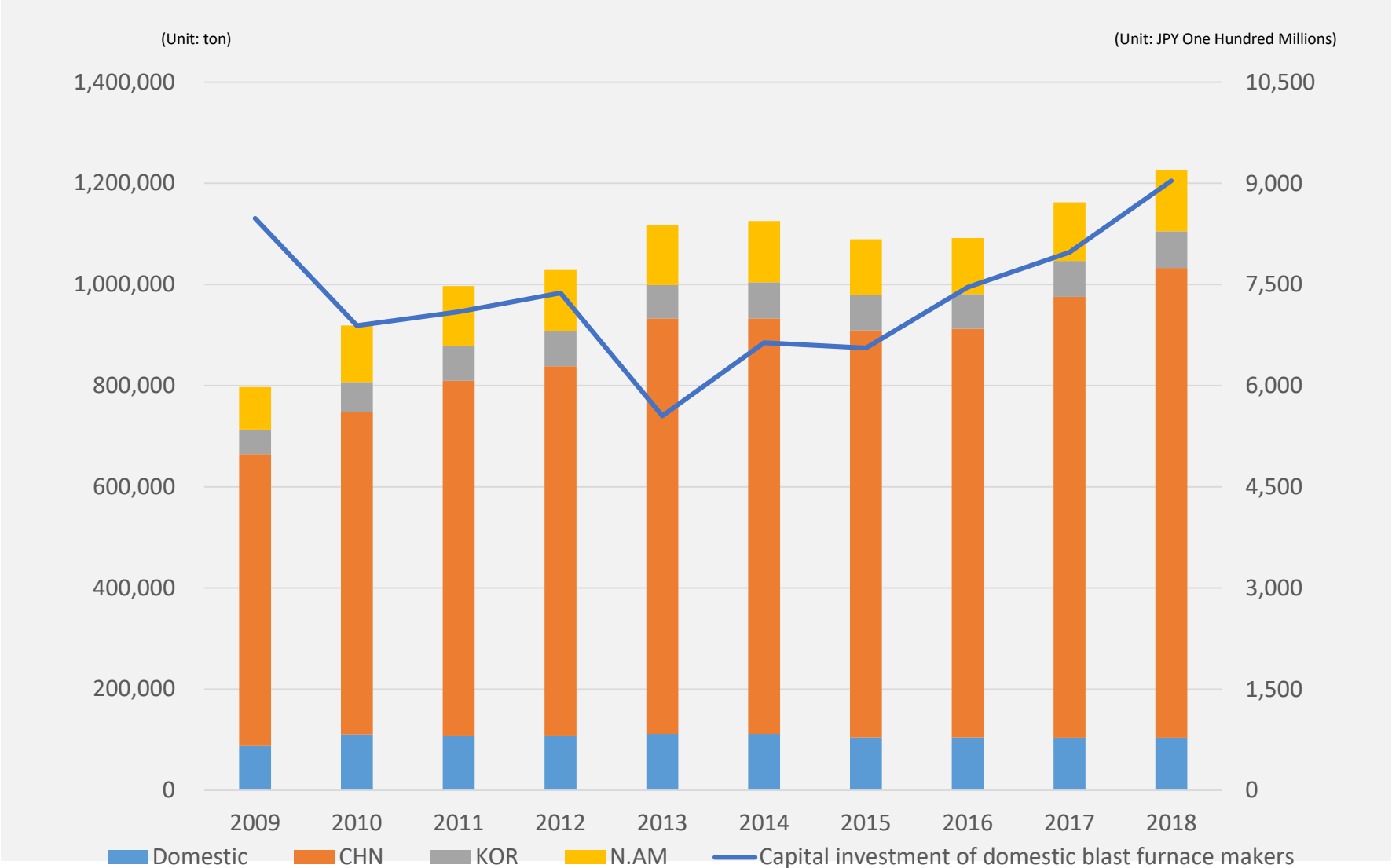
## Process Control Business

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



# Process Control Business

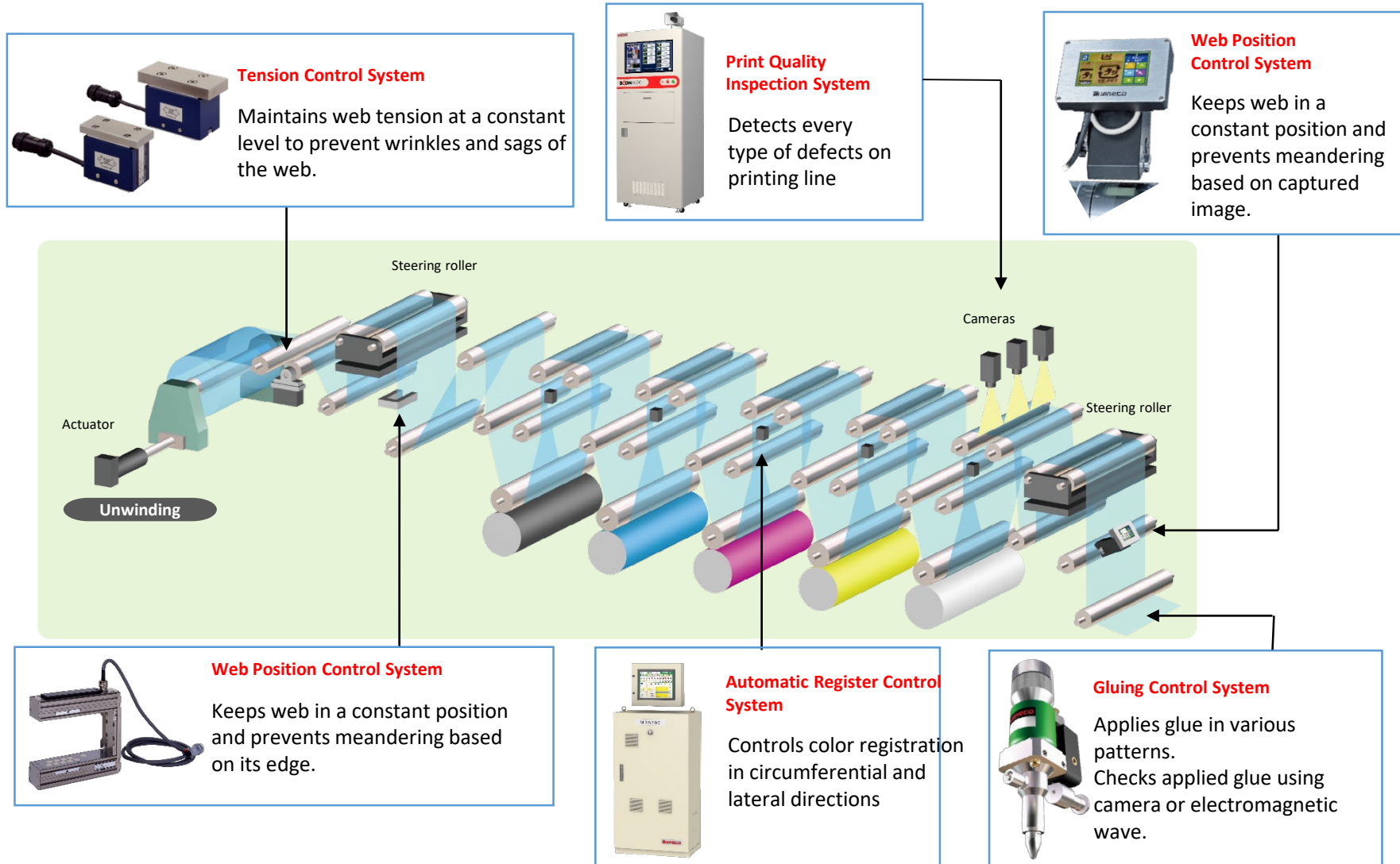
Trends of regional crude steel production & capital investment of major domestic blast furnace makers



Source: The Japan Iron and Steel Federation

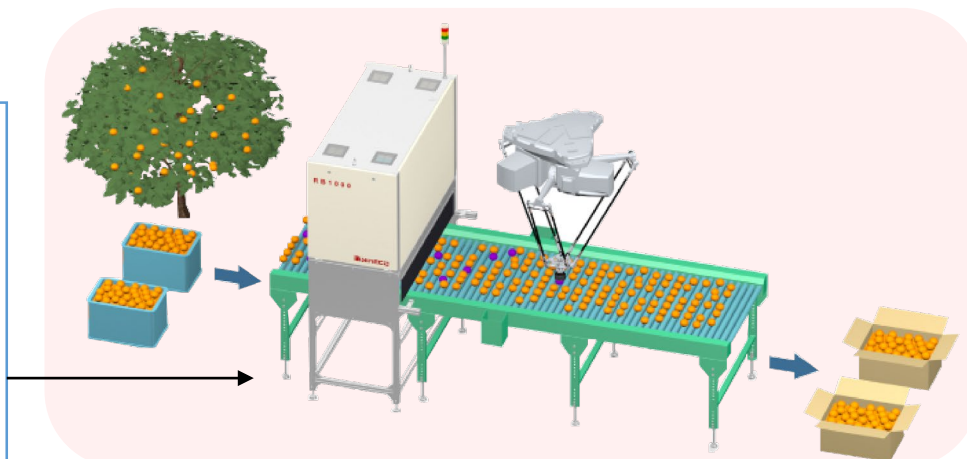
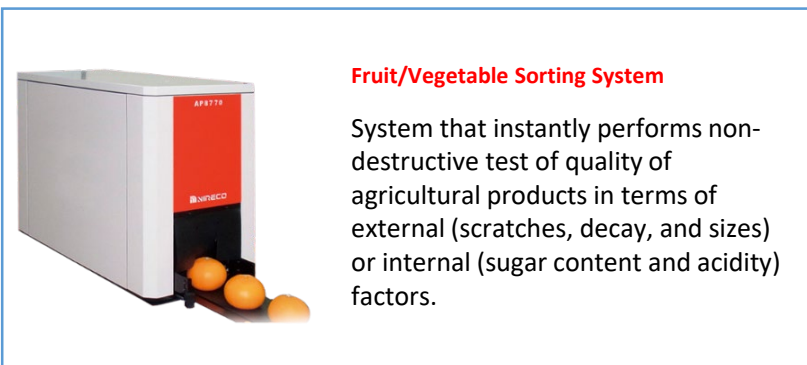
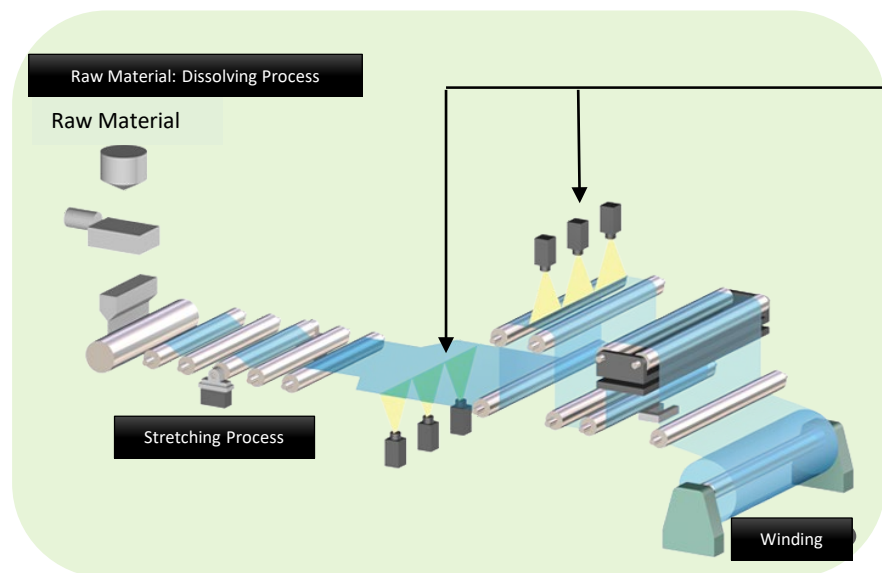
## Web Control Business

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

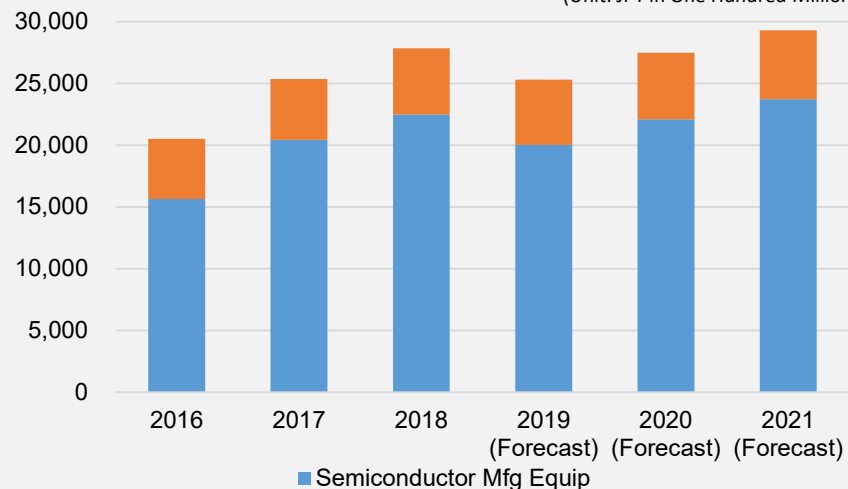




# Web Control Business / Inspection System Business

Forecast of Demand for Semiconductor & FPD Mfg. Equip.

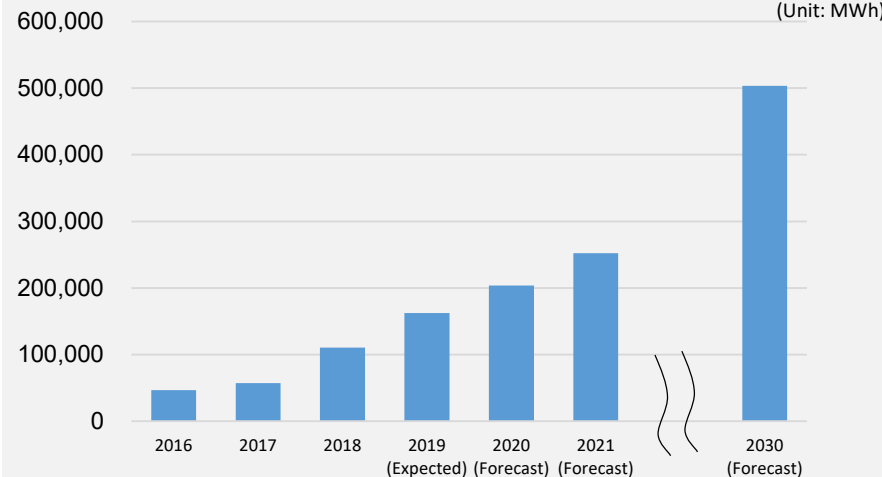
(Obj. business segment: Web & Insp.)  
(Unit: JPY in One Hundred Millions)



Source: Semiconductor Equipment Association of Japan

Automotive LiB World Market Forecast

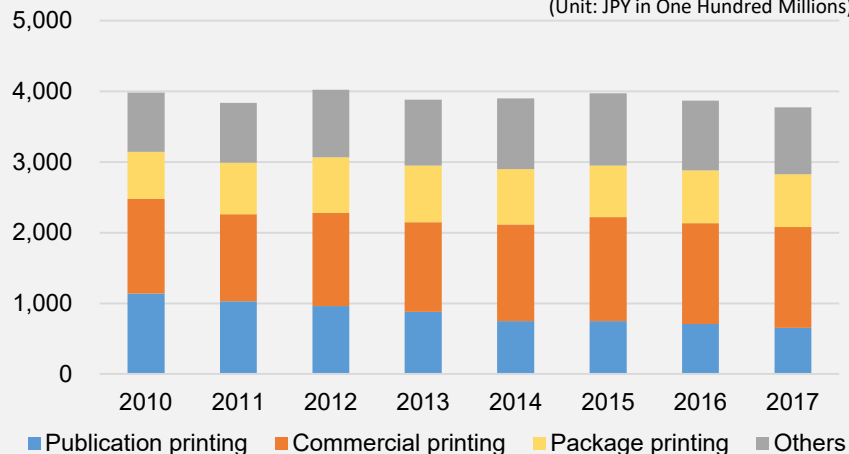
(Obj. business segment: Web & Insp.)  
(Unit: MWh)



Source: Yano Research Institute Ltd.

Transition of Printing Market Size

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

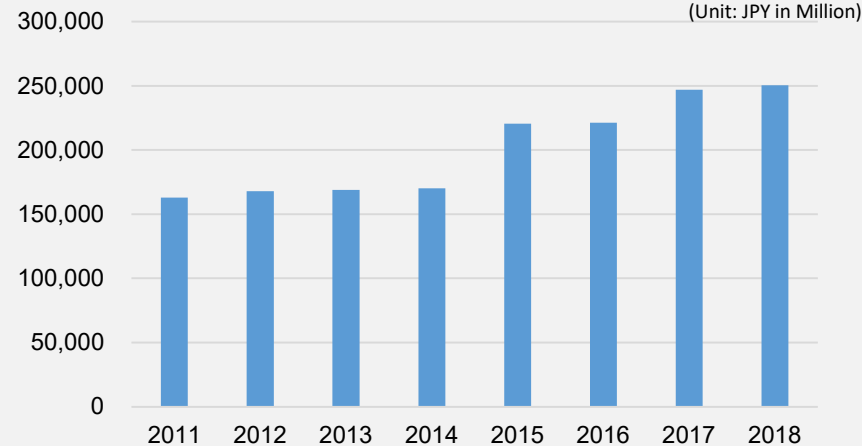


Source: Based on industrial & production dynamics statistics

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

