Quarterly Report 2Q for the fiscal year ending December 2024

Aug 8th, 2024
NITTOSEIKO CO., LTD.
(Issue code: Tokyo Stock Exchange Prime 5957)

Summary of Financial Results

Unit: Million yen / %	2023/12 2Q		2024/12 2Q		YoY	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount change	% Change
Net sales	22,447	100.0	**22,394**	100.0	52	0.2
Gross profit	5,117	22.8	5,358	23.9	241	4.7
Selling, general and administrative expenses	3,818	17.0	3,864	17.3	45	1.2
Operating income	1,298	5.8	**1,494**	6.7	195	15.1
Ordinary income	1,476	6.6	**1,610**	7.2	133	9.0
Net income for current period before income taxes	1,494	6.7	1,597	7.1	102	6.8
Net income attributed to shareholders of the parent company	833	3.7	**1,007**	4.5	173	20.8
Net income per share (yen)	22.57		27.56			

Main points

Net Sales

- Strong sales of analytical and measuring instruments for energy-related applications in the control system segment, as well as the establishment of a European base in April 2023, combined with the effect of price pass-through, are being reflected in the results. However, overall net sales was down 0.2% YoY, with lower sales of products for game consoles in the fastener segment due to a slowdown in stay-at-home demand, and lower demand for screw fastening machines for automotive applications in the U.S. and Thailand in the assembly machine segment.

Operating Income

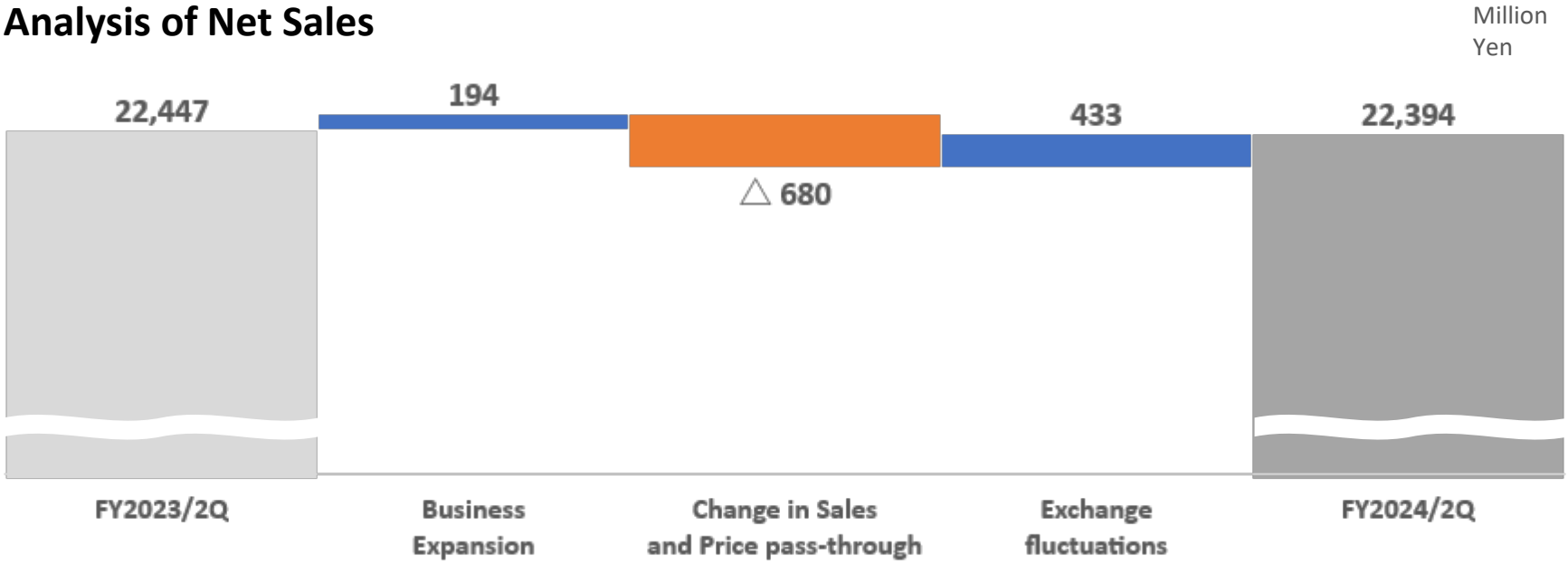
- Profit increased 15.1% YoY due to progress in price pass-through, especially for automatic screw fastening machines, and shipments of high value-added analytical instruments.

Overseas

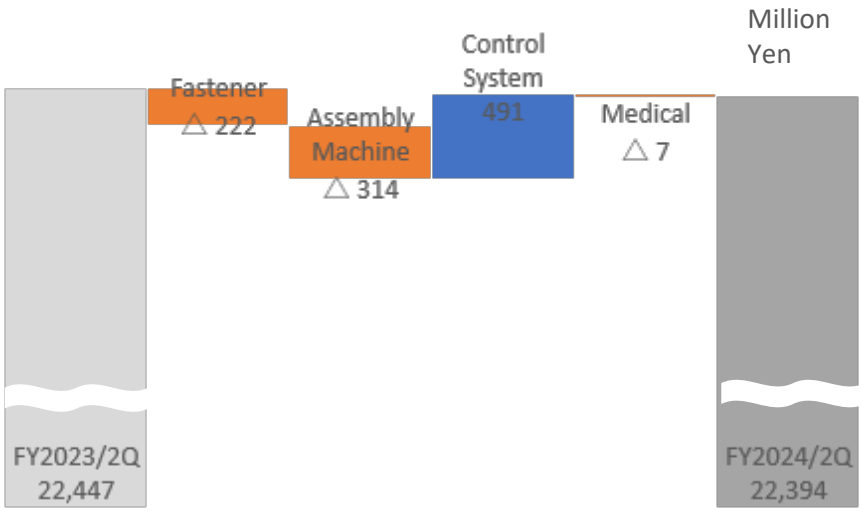
- Overseas net sales increased due to firm sales of fastener products for the automobile industry in China, as well as strong sales of analytical instruments at the European base.

Summary of Financial Results - Net Sales

Analysis of Net Sales



Change in net sales by segment



Business Expansion

Nittoseiko Analytech Europe GmbH, established in 2023, contributed to the business.

Change in Sales

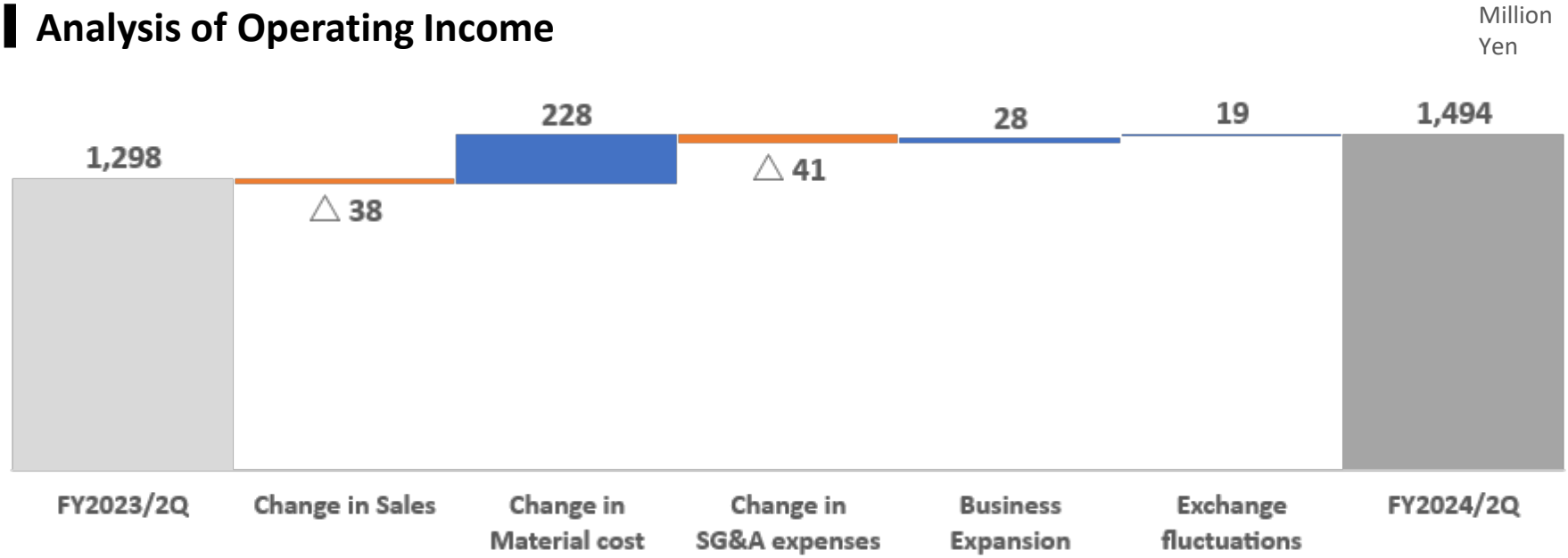
Although analytical and measuring instruments performed well, sales declined due to a drop in capital investment in the U.S. and Thailand and a decrease in products for game consoles due to a slowdown in stay-at-home demand.

Price Pass-through

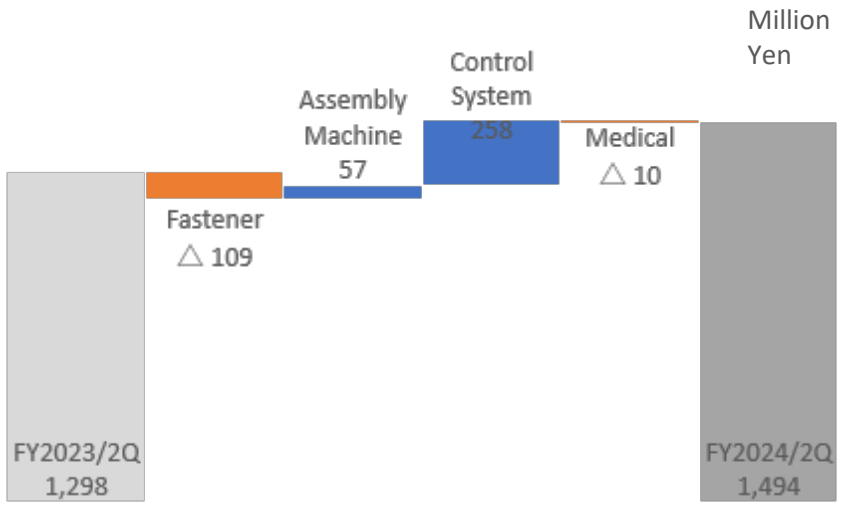
Price pass-through of screw fastening machine-related products has progressed. Negotiations continue for other items.

Summary of Financial Results - Operating Income

Analysis of Operating Income



Change in Operating Income by segment



Factors Affecting Cost Ratio Variance

The cost ratio improved due to the price pass-through related to screw fastening machines. In addition, progress in shipments of high value-added analytical instruments also contributed.

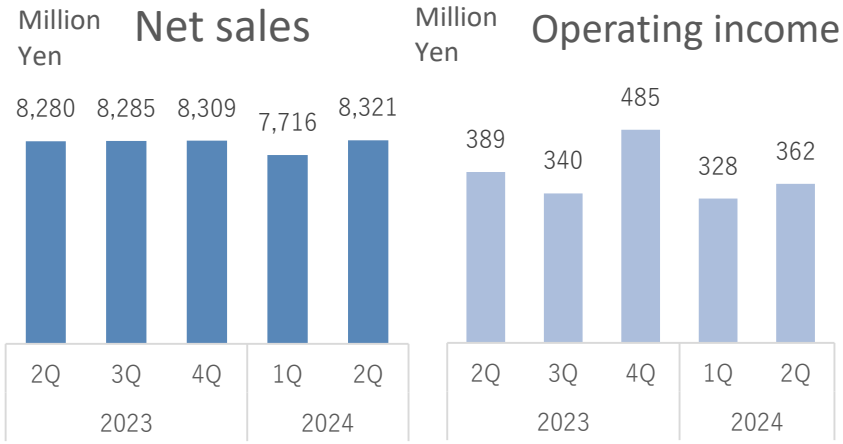
SG&A Variables

Labor costs increased by about 3.3% (approx. 57 M yen) from the previous year due to wage increases.

Business Expansion

Contribution from the establishment of Nitto Seiko Analytech Europe GmbH.

Overview of Results by Segment - Fastener Segment



Unit: Mil yen/ %	2023/12 2Q	2024/12 2Q	YoY	
	Amount	Amount	Amount	% Change
Net Sales	16,260	16,038	222	1.4
Automobile	6,146	6,356	209	3.4
Housing and construction	3,690	3,525	165	4.5
Electrical and electronic parts	2,386	2,324	62	2.6
Household goods	1,243	882	360	29.0
IT and digital equipment	626	776	149	23.8
Precision equipment	535	583	48	9.0
Medical	142	153	11	7.7
Others	1,488	1,436	52	3.5
Operating Income	800	690	109	13.7

Outlook

- Net sales decreased YoY due to sluggish demand in the game console market and slow growth in new starts in the construction industry due to labor shortages and soaring material prices, despite strong sales in the mainstay automobile business.
- Operating income declined YoY as material and energy costs were not fully reflected in selling prices despite efforts to pass them on.
- Promoting efficiency and cost reduction through consolidation of manufacturing plants.

Industry Comments

◆Automobile

- Despite the aftermath of inventory adjustments from the COVID-19 pandemic by customers mainly in SE Asia, sales are strong for our original anti-loosening screws “GIZATITE,” screws with built-in washers “ASFA,” screws that prevent scattering of fastening dust “CP GRIP,” and “precision press products” for CASE and EV applications.

◆Housing and construction

- Despite domestic demand, construction starts were sluggish and down YoY due to the industry's shortage of labor and soaring material prices. A new product, “CUP BOLT,” that replaces bolts with built-in spring washers and flat washers, was launched in February and is currently expanding sales.

◆Electrical and electronic parts

- Sales remained weak due to sluggish consumption in Europe and China, and weak sales of Japanese home appliance manufacturers in SE Asia.

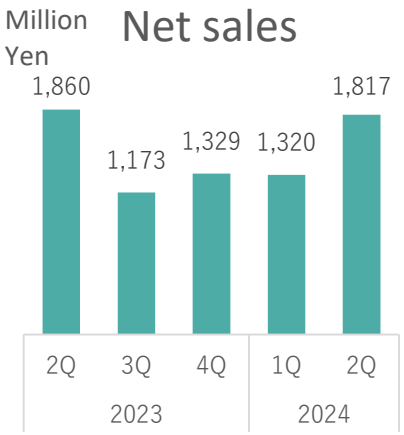
◆Household goods

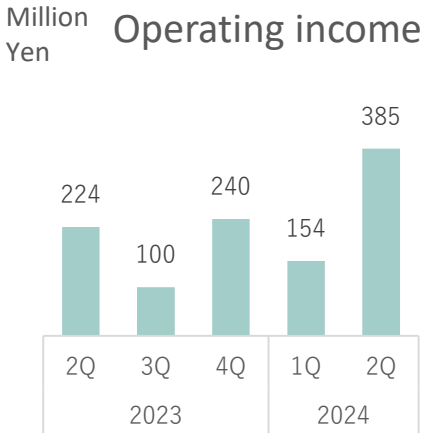
- Sales for precision screws declined amid a slowdown in the game console market, which had been boosted by stay-at-home demand.

◆IT and digital equipment

- Sales for OA equipment increased in China and Malaysia.

Overview of Results by Segment – Assembly Machine Segment





Unit: Mil yen/ %	2023/12 2Q	2024/12 2Q	YoY	
	Amount	Amount	Amount	% Change
Net Sales	3,453	3,138	314	9.1
Automobile	1,825	1,477	348	19.1
Electrical and electronic parts	711	499	211	29.7
Energy sector	99	135	36	36.3
Amusement machine	206	110	95	46.0
IT and digital equipment	139	83	55	39.5
Housing and construction	103	83	20	19.2
Household goods	10	61	50	488.9
Others	356	686	329	92.2
Operating Income	481	539	57	12.0

Outlook

- Net sales decreased YoY due to economic slowdown in the U.S. and Thailand and stagnant capital investment appetites due to political factors, despite growing momentum for automation against a backdrop of demand for electrification and labor shortages.
- Operating income increased YoY due to an improvement in the cost ratio as a result of progress in price pass-through in screw fastening machines.

Industry Comments

◆Automobile

- Orders for CASE-related screw fastening machines and equipment used in new vehicle models are on the rise, but capital investment appetites remain sluggish in the U.S. and Thailand, resulting in weak sales.

◆Electrical and electronic parts

- Sales were down YoY due to a rebound from last year's large orders for substrate surface treatment equipment and standard screw fastening machines for home appliances.

◆Energy sector

- Sales increased due to demand for renewal of equipment for smart meters and electricity meters.

◆Amusement machine

- Decreased in response to last year's large equipment orders.

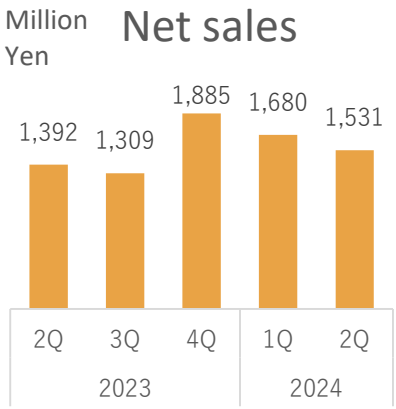
◆IT and digital equipment

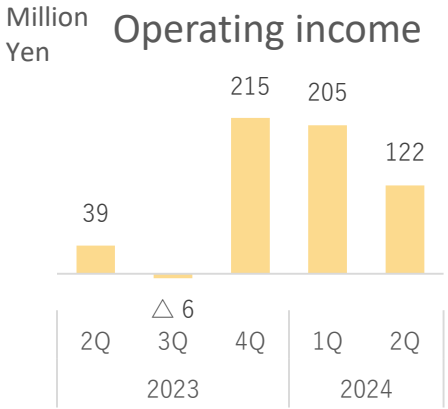
- Decreased in response to last year's orders for cell phones in Korea.

◆Others

- Sales increased due to orders for large projects related to equipment for general-purpose engines, industrial pumps, and furniture assembly.

Overview of Results by Segment – Control System Segment





Unit: Mil yen/ %	2023/12 2Q	2024/12 2Q	YoY	
	Amount	Amount	Amount	% Change
Net Sales	2,720	3,212	491	18.1
Energy sector	439	682	243	55.4
Chemical and pharmaceuticals	632	637	5	0.8
Environment	106	348	242	228.7
Automobile	143	228	84	59.0
Electrical and electronic parts	170	188	17	10.6
Ship building	164	178	14	8.9
Housing and construction	256	162	93	36.5
Medical	67	60	6	9.9
Food	31	60	28	89.0
Others	708	663	45	6.4
Operating Income	69	328	258	369.6

Outlook

- Analytical instruments performed well, mainly for energy-related applications. Sales at the new base in Europe was also strong, resulting in YoY increases in both sales and profit.
- In addition to new product development, the Company will focus on cost visualization, in-house production of machined parts, efficient assembly production, and sales price revisions.

Industry Comments

◆Energy sector

- Sales increased due to large orders for sulfur analyzers in 1Q. Demand for oil refinery equipment was also strong.

◆Chemical and pharmaceuticals

- Sales of analyzers at the new European base remained strong. After reviewing the commercial distribution system, the Company started sales through its subsidiary in China and is currently expanding its sales channels.

◆Environment

- Sales of the new “Automatic Quick Furnace AOF/AQF-5000H,” launched in March, increased significantly in response to demand for analysis of organic fluorine due to the European PFAS regulation. Inquiries about microbubbles are increasing due to interest in environmentally friendly products.

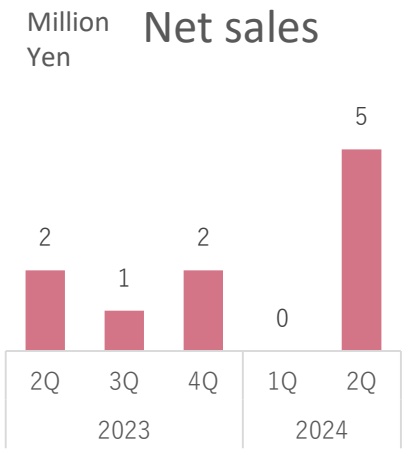
◆Automobile

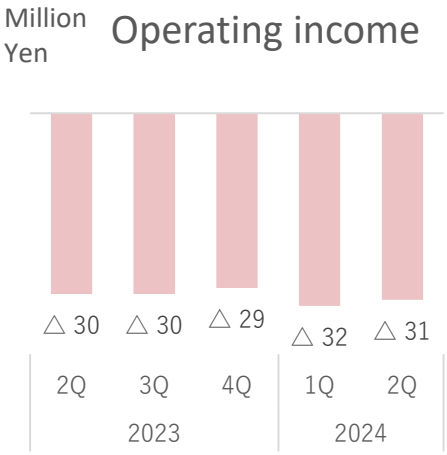
- Demand increased significantly, including large orders for "MISTOL" parts inspection systems. Additionally, demand for resistivity meters for battery materials etc. increased.

◆Housing and construction

- Sales of the ground investigation equipment “GEOKARTE IV” remained sluggish due to a lack of growth in the number of detached housing starts.

Overview of Results by Segment – Medical Segment





Unit: Mil yen/ %	2023/12 2Q	2024/12 2Q	YoY	
	Amount	Amount	Amount	% Change
Net Sales	13	5	7	55.4
Medical	13	5	7	55.4
Others	—	—	—	—
Operating Income	52	63	10	—

Outlook

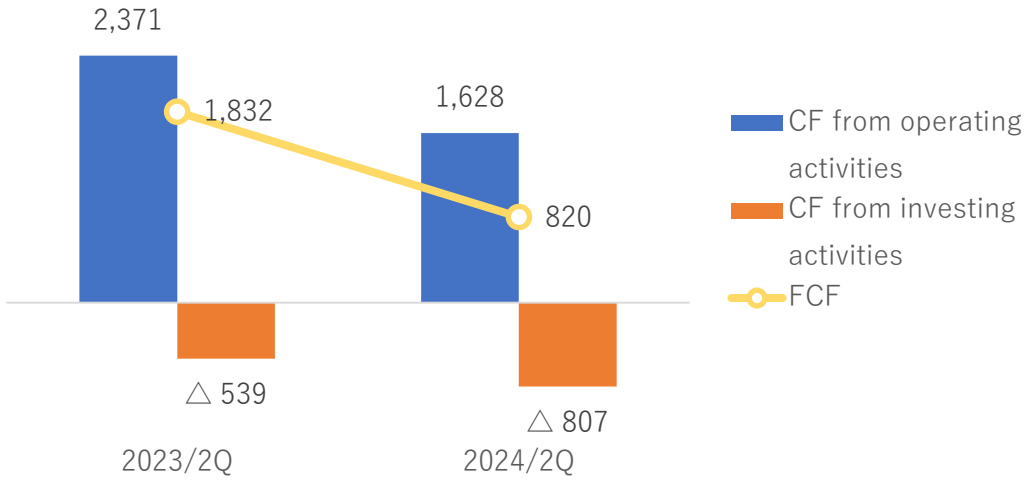
- The medical illuminator “FREELED” did not achieve full adoption despite efforts to collect market needs and make proposals while reducing costs, a high customer demand after the COVID-19 pandemic. Going forward, the Company will focus on strengthening PR through sales companies, aiming for full adoption of the product.
- Sales of oxygen concentrators for medical equipment slumped with the end of the COVID-19 pandemic. The Company plans to expand and meet market needs outside of the existing medical industry, such as for healthcare applications.
- Following the patent in Japan in 2023, a U.S. patent for "High purity bio-soluble magnesium for medical use " was granted in July 2024. Patents already filed in six other major countries are scheduled to be granted sequentially. The Company is trying to bring the product to market by preparing integrated manufacturing facilities, producing samples for non-clinical studies, conducting performance tests, as well as preparing to obtain a license for sales of medical products and establishing a quality control system. The Company will also gather information on the applicability of this material.
- New projects utilizing the Company’s existing technologies have been initiated and are ongoing. Plan to expand medical equipment.

Balance Sheet (Consolidated)

Unit : Million yen/%	Year ended Dec 2023		Year ending Dec 2024/2Q		YoY	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount change	% Change
Assets						
Total current assets	33,822	63.4	35,292	64.5	1,470	4.3
Cash and deposits	8,849	16.6	9,615	17.6	766	8.7
Notes and accounts receivable – trade Electronically recorded monetary claims - operating	12,794	24.0	12,914	23.6	120	0.9
inventory	11,023	20.7	11,435	20.9	411	3.7
Total non-current assets	19,521	36.6	19,409	35.5	111	0.6
Non-current assets	14,129	26.5	14,225	26.0	95	0.7
Intangible assets	999	1.9	940	1.7	59	6.0
Investments and other assets	4,391	8.2	4,244	7.8	147	3.4
Total assets	**53,344**	**100.0**	**54,702**	**100.0**	**1,358**	**2.5**
Liabilities						
Total current liabilities	12,901	24.2	13,082	23.9	180	1.4
Notes and accounts payable - trade Electronically recorded obligations – operating	8,615	16.2	8,474	15.5	141	1.6
Short-term borrowings	1,574	3.0	1,530	2.8	43	2.8
Total non-current liabilities	4,040	7.6	3,749	6.9	290	7.2
Total liabilities	**16,941**	**31.8**	**16,831**	**30.8**	**110**	**0.7**
Net assets						
Share capital	3,522	6.6	3,522	6.4	-	-
Capital surplus／Retained earnings	29,400	55.1	30,072	55.0	671	2.3
Treasury shares	1,562	2.9	1,562	2.8	0	-
Total net assets	**36,402**	**68.2**	**37,871**	**69.2**	**1,468**	**4.0**

Cash Flow Statement (Consolidated)

Unit: Million yen / %	FY2023/2Q	FY2024/2Q		
	Amount	Amount	Amount change	% Change
CF from operating activities ※①	2,371	1,628	743	31.4
CF from investing activities ※②	539	807	267	-
（Free CF） ※①＋②	1,832	820	1,011	55.2
CF from financing activities	1,105	482	622	-
Net increase (decrease) in cash and cash equivalents	556	557	0	0.1
Cash and cash equivalents at beginning of period	8,305	8,027	278	3.4
Cash and cash equivalents at end of period	8,862	8,584	278	3.1



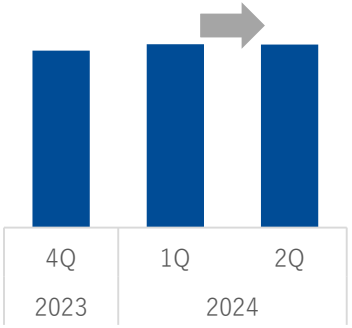
2. Forecast for the Fiscal Year Ending Dec 31, 2024

The future projections in this document, including earnings forecasts, are based on information currently available to the company and certain assumptions that the company considers reasonable and actual results may differ from these forecasts due to a variety of factors.

Forecast for FY2024 (Consolidated)

Unit : Million yen/%	2023/12 Full Year		2024/12 Full Year (Forecast)		YoY	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount Change	% Change
Net sales	44,744	100.0	48,200	100.0	3,455	7.7
Operating profit	2,614	5.8	3,300	6.8	685	26.2
Ordinary profit	2,835	6.3	3,500	7.3	664	23.4
Net income attributed to shareholders of the parent company	1,734	3.9	2,100	4.4	365	21.1
Net income per share (yen)	46.95		57.46			

Changes in the balance of order backlog



Main points

Net Sales

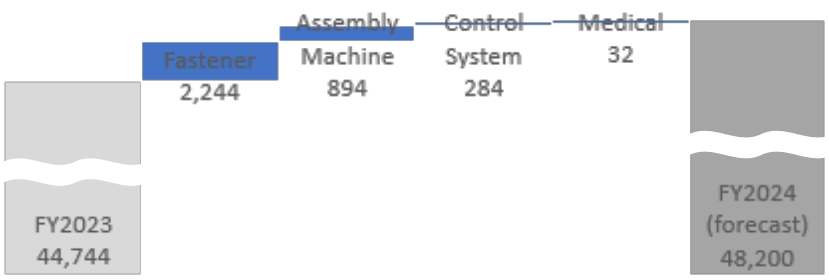
- In the first half of this fiscal year, inventory adjustments, slowing economic growth in major countries, and geopolitical risks caused order growth to be sluggish, but the excess inventory has been slightly resolved and the price pass-through, which had been difficult up to now, is gradually progressing. The appetite for capital investment is also recovering, particularly in the automobile industry, and a group-wide recovery is expected to begin in the second half of this fiscal year. In particular, demand is expected from the automobile, household goods, and energy-related industries.

Operating Income

- The Company expects to see the effects of the price pass-through for screw fastening machine-related products. In addition, the Company is continuing to improve profitability by consolidating its fastener plants, continuing negotiations on products for which price pass-through has not yet been completed, reviewing parts and materials, and producing processed parts in-house.

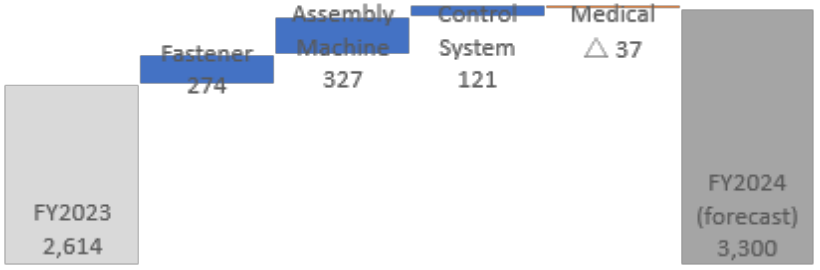
(Million Yen)

Change in net sales by segment

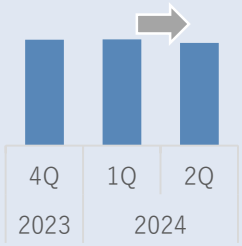
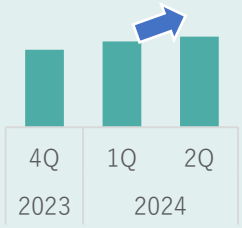
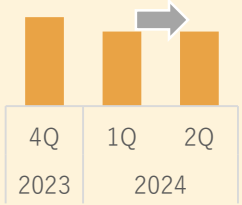


(Million Yen)

Change in Operating Income by segment



Market trend and initiatives by segment

		Major market trend	Initiatives for this fiscal year	Changes in the balance of order backlog
Fastener	**Automobile**	Increasing demand for lightweight and thinner sheet metal for EVs has led to an increase in inquiries. On the other hand, orders did not grow as projected at the beginning of the fiscal year due to quality problems of manufacturers.	Promote sales of “AKROSE” and “JOISTUD” series for automotive applications, and the new “CUP BOLT,” which does not require a washer, for housing and construction applications. In response to rising material costs, the Company is in the process of raising product prices. In addition, efforts will be made to reduce manufacturing costs through restructuring of plants, etc.	
	Housing and construction	The industry is experiencing shortages of labor and materials, but there is demand for large-scale construction projects in Japan.		
	Household goods	Expect a rise in the game console market, which was showing a stable trend.		
Assembly Machine	**Automobile**	Orders for CASE-related screw fastening machines and equipment for new vehicle models are on track for recovery.	Alongside the stable orders for standard machines, the backlog of orders for special machines increased. To secure production capacity for wattmeter special machines, a field with a strong track record outside of the automobile industry, the Company is also developing new partner plants. In addition to the development of new products, The Company will also focus on cost reduction by reviewing parts and packaging materials and visualizing procurement prices.	
	Electrical and electronic parts	Domestic production returns due to China risk and yen depreciation. Orders for semiconductor inspection equipment, an area of strength, are on track for recovery due to the semiconductor industry's upturn.		
	Energy sector	Installation of new wattmeter equipment and smart meter equipment is expected to increase.		
Control System	**Energy sector**	While demand is expected to decrease due to decarbonization, demand for renewable fuels such as SAF and synthetic fuels is expected to increase.	Expand sales of the new “Automatic Quick Furnace AOF/AQF-5000H” for electronic materials and PFAS-related demand. Develop new products related to inspection equipment to meet the needs for labor saving and automation. In addition, the Company will focus on cost visualization, in-house production of machined parts, efficient assembly production, and sales price revisions.	
	Chemical and pharmaceutical	Expect demand for next generation battery materials including LIBs.		
	Environment	Demand for analyzers in Europe and the U.S. is expected due to PFAS regulations.		
Medical	**Development plan**	Starting with the U.S. patent in July, plan to obtain overseas patents for “High-purity bio-soluble magnesium for medical use" in due course. In addition to preparing manufacturing facilities and conducting non-clinical studies for this product, the Company will also prepare for clinical studies. Expand sales of medical device products and develop new products.		