Orders, Sales, and Earnings

In fiscal year ended March 31, 2021, the global economy began recovering from the decline caused by the global spread of COVID-19. However, the outlook remains uncertain due to various factors, including the reemergence of COVID-19 variants, conflict between the United States and China, and geopolitical risks.

Orders in the metalforming machinery industry decreased both in Japan and overseas, with the Japan Forming Machinery Association reporting that worldwide orders for press machines fell 26.2% year on year to ¥89.1 billion in the year under review—dipping below ¥100 billion for the first time since the 2008 global financial crisis. However, orders started recovering in the second half.

Under these conditions, the Group recorded total orders of ¥52.7 billion, down 15.4% year on year. Restrictions on sales and service activities caused by the spread of COVID-19 as well as a slowdown in capital investments in the automobile industry caused orders to decline significantly. From the second half of the year when economic activity resumed, however, the market began to recover, albeit gradually, supported by orders related to electric vehicles. Accordingly, the order backlog at fiscal year-end totaled ¥38.7 billion, down 12.2% year on year. Net sales declined 16.0% to ¥58.0 billion, impacted by depressed conditions in the first quarter. However, sales have been recovering steadily since the second quarter with the normalization of operations. Due to the decline in revenue as well as posting allowance for doubtful accounts, operating income fell 39.7% to ¥3.7 billion, and ordinary income declined 41.6% to ¥3.7 billion. Net income attributable to owners of parent dropped 67.3% to ¥1.3 billion, mainly due to an extraordinary loss related to the impairment of assets at a plant in China and the suspension and downsizing of plant operations due to the impact of COVID-19.

Management's basic policy for profit distribution is to maintain consistent dividend payments and a consolidated dividend payout ratio target of 40% while preserving the stability of our business and its financial underpinnings and our internal reserves for strategic investments for future sustainable growth. Despite the significant fall in earnings stemming from the spread of COVID-19, in order to maintain stable dividends we announced an ordinary dividend of ¥20 per share, for a payout ratio of 90.6%.

Results by Business Segment and Geographic Segment

Business Segments

Press Machines

Due to restrictions on sales activities caused by the spread of COVID-19 as well as a slowdown in capital investments in the automobile industry, orders for press machines declined 13.7% to ¥36.2 billion. However, orders recovered gradually in the second half, boosted by steady orders for press machines for producing electric vehicle drive motors and outer panels. Segment sales declined 15.0% to ¥41.2 billion, impacted by depressed conditions in the first quarter. However, sales have been recovering steadily since the second quarter with the normalization of operations.

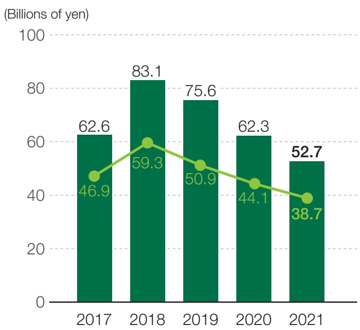
Service (Press-Related)

Due to restrictions on service activities stemming from the spread of COVID-19, orders in this segment fell 19.3% to ¥12.3 billion, and sales declined 17.0% to ¥12.4 billion.

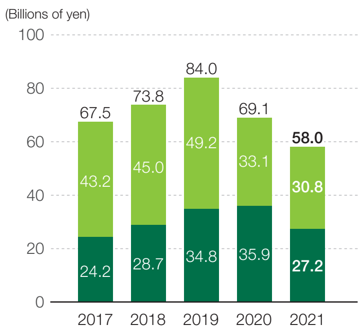
Others

Due to a decrease in orders for control devices and other products for steel and automobile-related applications at REJ Co., Ltd., segment orders declined 17.9% to ¥4.0 billion, and sales fell 21.5% to ¥4.4 billion.

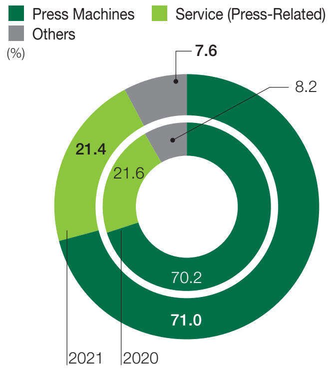
Orders/Order Backlog



Net Sales



Net Sales Ratio by Business Segment



Geographic Segments

Japan

Although sales fell significantly in the first quarter stemming from the spread of COVID-19, our business began recovering from the second quarter. For the year, sales in Japan declined 17.3% to ¥40.2 billion, and segment profit fell 34.7% to ¥3.0 billion, due mainly to the decrease in revenue.

China

Economic activity recovered starting from the first quarter due to the early containment of infections, with sales increasing 10.3% to ¥7.4 billion. This was due mainly to progress in sales of the percentage of completion method and an increase in service sales. However, we reported a segment loss of ¥284 million (compared to a segment profit of ¥240 million in the previous year), due mainly to posting allowance for doubtful accounts.

Asia

Although the impact of the COVID-19 pandemic was minimal from the second quarter onward, sales declined 12.3% to ¥7.2 billion due to sluggish order intake. Segment profit fell 36.6% to ¥673 million due to lower revenue and gross margins.

The Americas

Although sales fell significantly in the first quarter stemming from the spread of COVID-19, our business began recovering in the second quarter. For the year, sales in the Americas declined 11.6% to ¥10.4 billion. Segment profit decreased 5.1% to ¥515 million, benefiting from cost reductions that largely absorbed the impact of lower revenue and gross margins.

Europe

Sales fell sharply in the first quarter due to the spread of COVID-19, but began recovering in the second quarter. For the year, sales in Europe were down 14.3% to ¥9.5 billion. Thanks to cost reductions, the segment loss was reduced to ¥121 million (from ¥243 million in the previous year).

Financial Position

Analysis of Financial Position

As of March 31, 2021, total assets amounted to ¥107.7 billion, up ¥3.6 billion year on year. Primary factors included a ¥2.9 billion increase in cash on hand and at banks, a ¥1.9 billion decrease in trade receivables (such as notes and accounts receivable – trade, electronically recorded monetary claims – operating, and accounts receivable – other), a ¥913 million decrease in property, plant and equipment, and a ¥3.8 billion jump in investment securities.

Total liabilities increased ¥1.0 billion year on year to ¥30.2 billion. Primary factors included a ¥1.6 billion decrease in short-term loans payable, a ¥2.0 billion rise in advances received, and an ¥889 million increase in deferred tax liabilities.

Net assets increased ¥2.6 billion to ¥77.5 billion. Primary factors included a ¥572 million decrease in retained earnings, a ¥2.2 billion increase in net unrealized gains on other securities, and a ¥1.1 billion rise in foreign currency translation adjustments. As a result, the shareholders' equity ratio at fiscal year-end was 71.2%.

Cash Flow

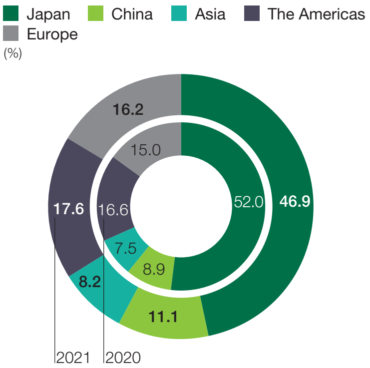
On March 31, 2021, cash and cash equivalents amounted to ¥31.7 billion, up ¥2.9 billion year on year.

The following is a summary of the various cash flows and their main elements.

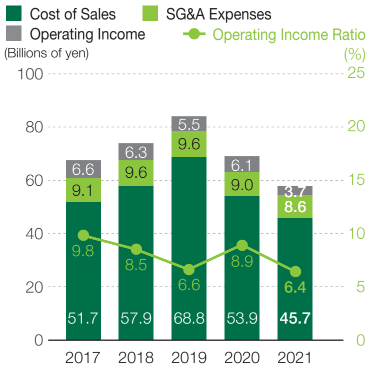
(i) Cash flows from operating activities

Net cash provided by operating activities amounted to ¥7.2 billion, compared to ¥3.9 billion in the previous fiscal year. Major inflows included a ¥4.3 billion decrease in trade receivables, ¥2.8 billion in income before income taxes, and ¥2.0 billion in depreciation and amortization. Major outflows included a ¥667 million decrease in trade payables and ¥1.8 billion in income taxes paid.

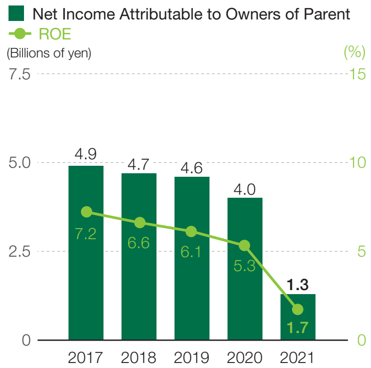
Net Sales Ratio by Geographic Segment (to External Customers)



Cost of Sales/SG&A Expenses/ Operating Income/Operating Income Ratio



Net Income Attributable to Owners of Parent/ROE



(ii) Cash flows from investing activities

Net cash used in investing activities totaled ¥1.9 billion, compared to ¥1.0 billion during the previous year. Primary factors included ¥1.2 billion in payments for purchase of property, plant and equipment and intangible assets.

(iii) Cash flows from financing activities

Net cash used in financing activities was ¥3.7 billion, compared to ¥3.3 billion in the previous year. Primary factors included ¥1.8 billion in cash dividends paid and a ¥1.8 billion decrease in short-term loans payable.

Capital Expenditures

In the year under review, capital expenditures totaled ¥597 million, a decrease from the previous year. This was due mainly to construction delays caused by the spread of COVID-19. Expenditures were allocated mainly for the purchase of equipment and machinery for the Sagami Plant and investments in core systems to strengthen our business foundation.

Research and Development

The Group's R&D activities are spearheaded by the Research & Development Headquarters, which collaborates with the Engineering Headquarters and other divisions guided by the basic policy of strengthening and establishing fundamental technologies, reinforcing core products, and developing environmentally friendly flagship products. In the year under review, the Group recorded ¥996 million in R&D spending, mostly in the Japan segment. During the year, the Company and Taiyo Industry Co., LTD. jointly received the "MF Technology Excellence Award" sponsored by the Japan Forming Machinery Association for using a servo press to "manufacture highly difficult knurled parts using a multi-process press forging methodology." The following are the primary R&D activities in the year under review.

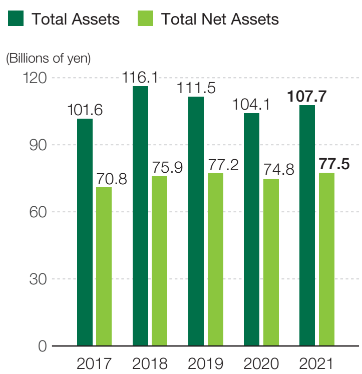
(1) Optimization of dedicated servo press control systems by model
(2) Development of forming systems for forming lightweight materials (high-strength steels, aluminum, carbon fiber, etc.) to meet demand related to the shift towards electric vehicles
(3) Sophistication of large high-speed dual-arm transfers
(4) Development of a new frame design for large servo presses
(5) Development of IoT-based monitoring systems for press machine systems
(6) Development of AI-based failure diagnosis and operational support technologies
(7) Development of preventive maintenance functions using AIDA's AiCARE machine information management system
(8) Expansion of applications that utilize the AIDA Digital Motion System (ADMS), our proprietary 3D simulation software

Capital Resources and Funding Liquidity

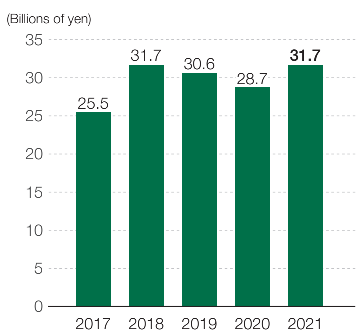
The Group utilizes working capital mainly for manufacturing expenditures, including the purchase of materials and parts and payments for outsourced machining, as well as for selling, general and administrative (SG&A) expenses. Funds for capital expenditures are primarily used to construct internal production systems, and our basic policy is to primarily use our own available funds for these expenditures.

In the fiscal year under review, the Group recorded total capital expenditures of ¥597 million, down ¥342 million year on year, and cash outflows were limited. The year-on-year decline was partly due to the spread of COVID-19. The balance of cash and cash equivalents at fiscal year-end was ¥31.7 billion, up ¥2.9 billion year on year, due mainly to the increase in net cash provided by operating activities, and thus the Group does not have liquidity issues.

Total Assets/Total Net Assets



Cash and Cash Equivalents at the End of the Year



Free Cash Flow/ Capital Expenditures