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Harmonic Drive Systems Inc.

Financial Results for the Fiscal Year Ended March 31, 2020

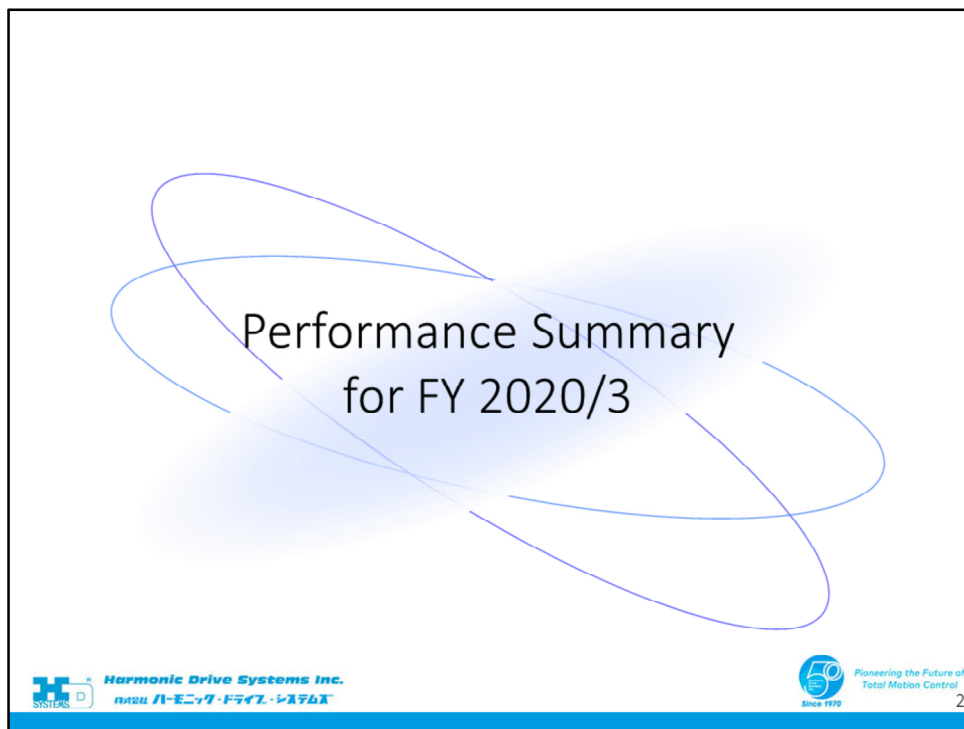
May 22, 2020

This presentation contains forward-looking statements relating to expected future performance as of May 22, 2020. Such statements are based on the views and assumptions of company management and involve risks and uncertainties such as changes in the business environment that may cause the actual results to differ materially from expectations.



To prevent the spread of the novel coronavirus infection, the Company is not holding a results briefing to present its business results for the fiscal year ended March 31, 2020, to analysts.

We therefore respectfully request that, in addition to the financial results summary, you accept this results presentation document (with explanatory notes) as an alternative to the briefing session.



Following is an explanation of the Company's results for the fiscal year ended March 31, 2020.

Consolidated results for FY 2020/3 (versus original forecasts)

(millions of yen)

	Forecast (announced Nov 12, 2019)		FY2020/3 (actual)		Vs. original forecasts	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	36,700	100.0	37,487	100.0	787	2.1
Operating income	▲1,500	—	67	0.2	1,567	—
Ordinary income	▲1,300	—	499	1.3	1,799	—
Net income	▲1,500	—	▲832	▲2.2	667	—
EPS (yen)	▲15.58	—	▲8.65	—	6.93	—

Net income refers to net income attributable to owners of parent.



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This table compares the results for the fiscal year ended March 31, 2020 with the revised forecast announced on November 12, 2019.

- Sales and profit exceeded targets.

(1) Reasons for the difference in sales

Company sales (non-consolidated basis) came in above the forecast level owing to orders exceeding the revised forecast's assumptions.

The reason for the greater-than-expected orders (non-consolidated basis) and the actual orders by application are presented in a separate slide.

While fourth quarter (Oct.-Dec.) results in China were below forecast, the results at our European and North American businesses were largely as expected.

(2) Reasons for the difference in operating income


As sales of group companies in Japan, especially the parent company (non-consolidated basis) exceeded expectations, the increase in capacity utilization largely boosted profitability beyond forecast.

Consolidated results for FY 2020/3 (year-on-year change)

(millions of yen)

	FY2019/3		FY2020/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	67,809	100.0	37,487	100.0	▲30,321	▲44.7
Operating income	16,903	24.9	67	0.2	▲16,836	▲99.6
Ordinary income	17,464	25.8	499	1.3	▲16,965	▲97.1
Net income	11,601	17.1	▲832	▲2.2	▲12,434	—
EPS (yen)	120.52	—	▲8.65	—	▲129.17	—
Capital investment	23,876	—	7,892	—	▲15,983	▲66.9
Depreciation costs	6,247	—	7,467	—	1,220	19.5
R&D costs	2,476	—	2,195	—	▲280	▲11.3

Net income refers to net income attributable to owners of parent.
Depreciation costs include depreciation cost of tangible assets and amortization cost of intangible assets and goodwill.


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This table compares full-year results on a year-on-year basis.

- As expected at the start of the fiscal year, sales and profit declined sharply from the historic highs recorded in the previous fiscal year.
 - Reasons for decline in sales
Large decline in sales (-44.7% YoY) was due to lower demand for automation and for labor-saving investments, especially in China, because of worsening US-China trade frictions. Sales also were negatively affected by customers and distributors adjusting their inventories of HDS products.
 - Reasons for decline in operating income
Responding to the severe operating environment, we endeavored to cut costs, especially fixed costs, by suspending some capital investments, conducting thorough reviews of all expenditures, and reducing personnel expenses by adjusting staff levels and reducing compensation. Despite these efforts, operating income fell sharply owing to the impact from lower sales and an increase in depreciation expenses owing to capital investment in the previous fiscal year.
 - Reasons for decline in net income
We unfortunately had to report a net loss, largely owing to posting of an impairment loss on idle assets as an extraordinary loss and to the impact of reversing deferred tax assets.

Performance of main group companies in FY2020/3					
(millions of yen)					
	Equity stake	Net sales		Net income	
		Amount	Year-on-year change (%)	Amount	Year-on-year change (%)
Harmonic Drive Systems Inc.	—	19,788	▲59.8	▲160	—
*2 *5 HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (51%)	6,258	▲8.7	364	▲26.2
Harmonic AD, Inc.	100%	1,779	▲47.2	14	▲96.0
*3 Harmonic Drive Systems (Shanghai) Co., Ltd.	100%	3,330	▲17.7	199	2.6
*4 *6 Harmonic Drive SE (Germany)	74.7%	12,744	▲20.1	441	▲81.1

*1 For overseas subsidiaries, the fiscal year ends December 31.
 *2 Exchange rates: FY18/12 1USD = 110.43yen, FY19/12 1USD = 109.05yen
 *3 Exchange rates: FY18/12 1CNY = 16.72yen, FY19/12 1CNY = 15.78yen
 *4 Exchange rates: FY18/12 1EUR = 130.42yen, FY19/12 1EUR = 122.07yen
 *5 Net income of US subsidiaries (consolidated) is after excluding non-controlling interests.
 *6 The figures for Harmonic Drive SE are on a consolidated basis, including results of its subsidiaries; net income is before excluding non-controlling interests.


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This table shows the results of main group companies.

(1) US: HD Systems and Harmonic Drive L.L.C.

(subsidiaries with R&D, production, and sales functions)

The sales decline was milder than in Japan and Europe as the companies' customers include a relatively smaller number of industrial robot manufacturers and sales to medical device and aerospace industry customers remained relatively strong. Nonetheless, we could not avoid declines in sales and profits.

(2) Japan: Harmonic AD

(subsidiary involved in manufacture of planetary-gear speed reducers)

Sales and profits decreased due to sharp decline in sales to makers of semiconductor manufacturing equipment (a main application for planetary-gear speed reducers), as well as sales declines of gearheads to motor manufacturers, and products for industrial-robot application.

(3) China: Harmonic Drive Systems (Shanghai) (China sales company)

A slowdown in the Chinese FA market and inventory adjustments reduced sales to foreign capital and domestic robot manufacturers.


(4) Germany: Harmonic Drive SE


Sales fell due to the slowdown in the European economy and, more specifically, to inventory adjustments at robot manufacturers. Profits declined owing to increases in fixed costs, such as depreciation and personnel expenses.

Non-consolidated results for FY2020/3 (year-on-year change)

(millions of yen)

	FY2019/3		FY2020/3		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	49,249	100.0	19,788	100.0	▲29,461	▲59.8
Operating income	13,798	28.0	380	1.9	▲13,418	▲97.2
Ordinary income	14,213	28.9	848	4.3	▲13,365	▲94.0
Net income	10,413	21.1	▲173	▲0.9	▲10,587	—
EPS (yen)	108.18	—	▲1.8	—	▲109.98	—
Capital investment	15,945	—	5,022	—	▲10,922	▲68.5
Depreciation costs	2,458	—	3,289	—	830	33.8
R&D costs	1,629	—	1,572	—	▲56	▲3.5


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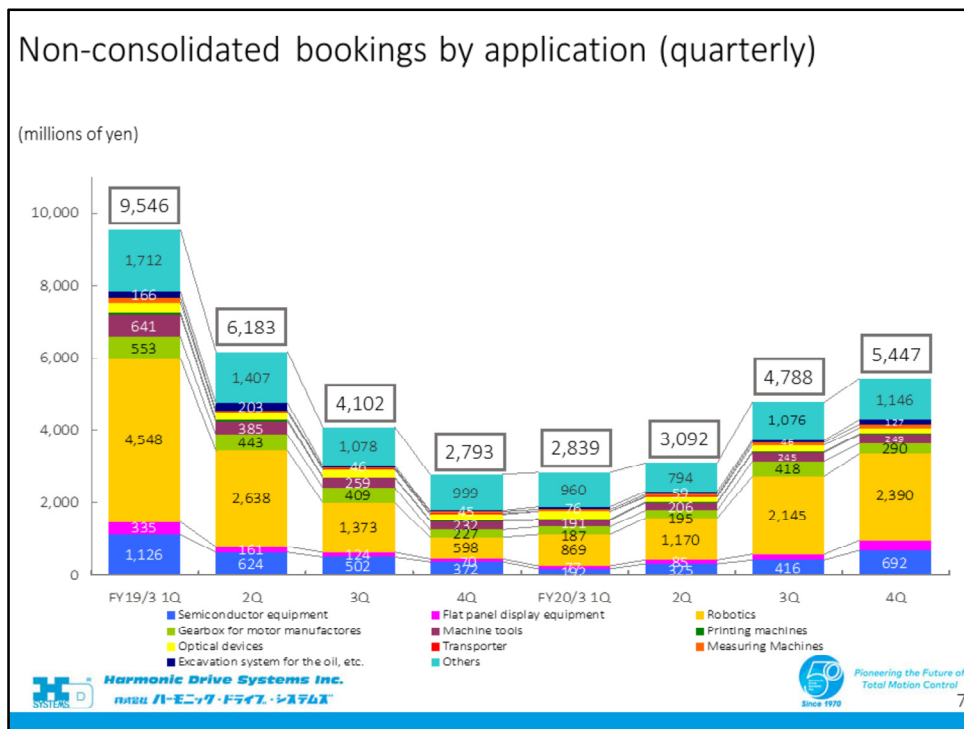

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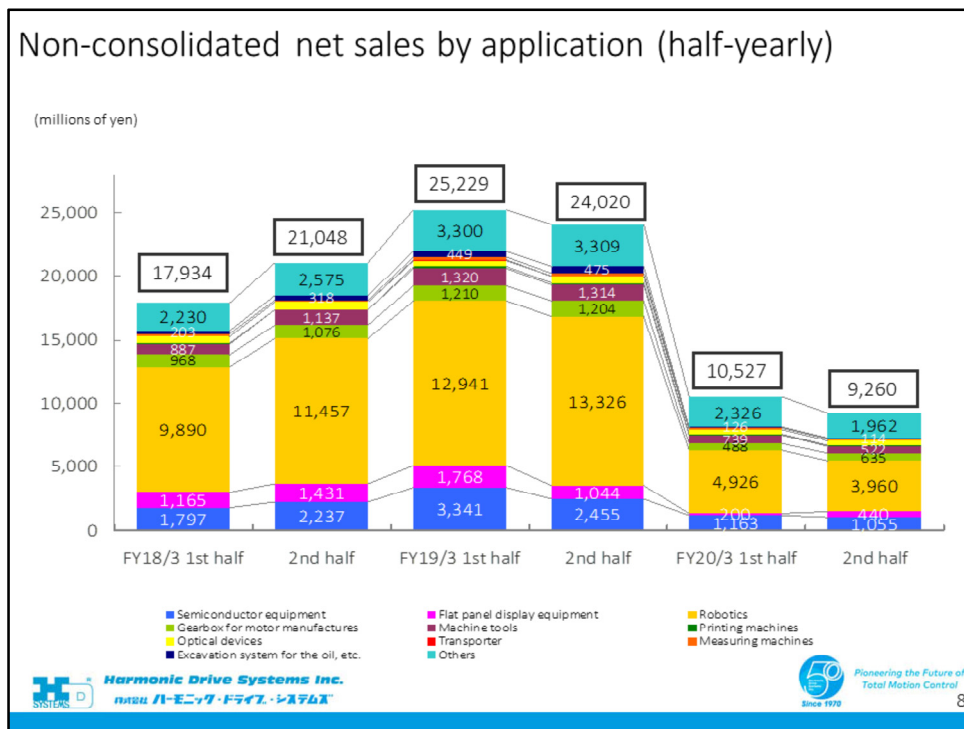
This table compares the parent company's non-consolidated results on a year-on-year basis.

- Non-consolidated sales fell nearly 60%, much larger than the decrease in consolidated sales. The YoY decline reflects the adverse comparison with the high level of sales recorded in the previous fiscal year.



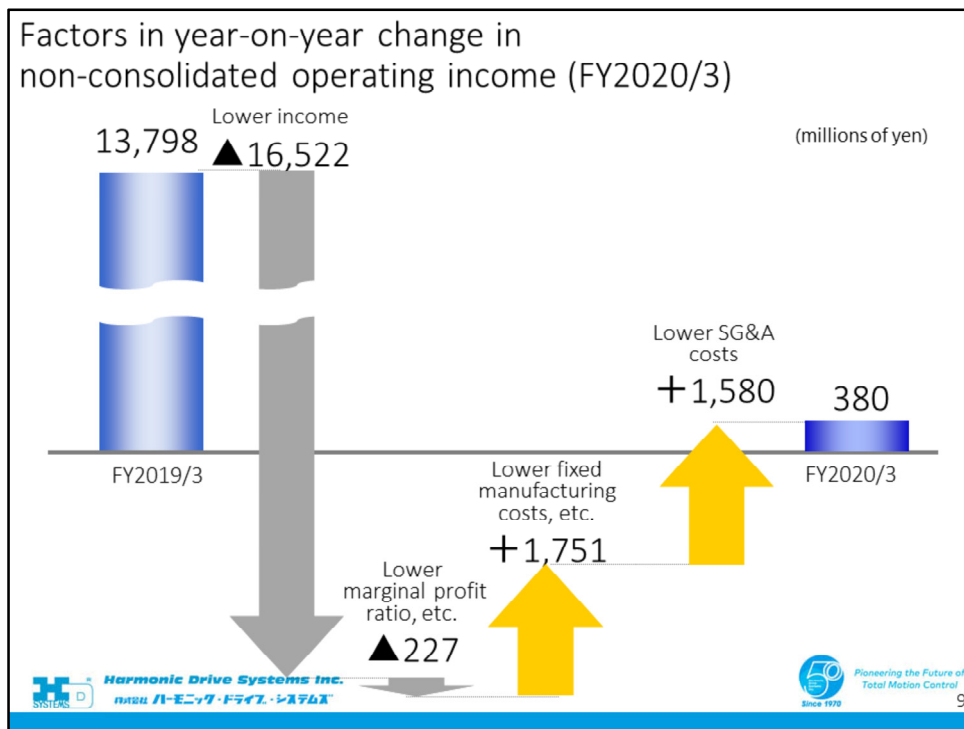
This graph shows the quarterly trend in orders by application (non-consolidated basis).

- Although overall volume was weak in the fiscal year ended March 31, 2020, orders increased quarter-on-quarter for four consecutive periods. In particular, figures from the third quarter onward have confirmed that orders have bottomed out.
- We believe the bottoming out reflects increasing demand from makers of semiconductor manufacturing equipment amid a resurgence of investment in the semiconductor industry since last autumn, as well as the progress in inventory adjustments at our distributors and customers, especially industrial robot manufacturers.
- Although we understand that customer and distributor inventories were near appropriate levels as of March 2020, the adjustments continue and it will probably be awhile before all customers and distributors complete their adjustments.
- The impact of the novel coronavirus pandemic on non-consolidated orders through March 2020 was minimal. However, we cannot be optimistic about the future trend, as uncertainties abound. We therefore will keep a close eye on the orders trend.



This graph shows the half-year trend in non-consolidated sales by application.

- In the fiscal year ended March 31, 2020, first-half sales fell sharply YoY owing to the decline in orders from the previous fiscal year.
- In the second half, orders began to improve and sales returned to an upward trend in the fourth quarter, but second-half sales dropped further versus the first half.
- By application, the fall in sales to industrial robot makers, especially major Japanese manufacturers, had the biggest downside impact on sales.
- As a result, non-consolidated sales were weak throughout the fiscal year.



This slide shows the factors behind the year-on-year change in operating income.

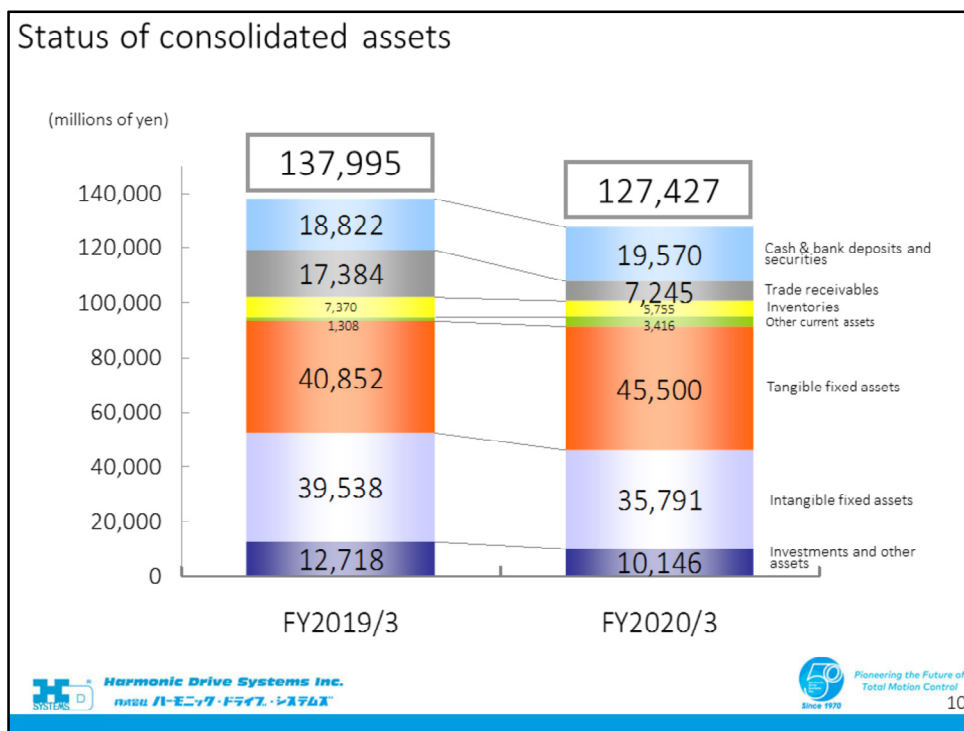
(1) Negative factors

- Lower sales reduced operating income by ¥16,522 million
- A decline in the marginal profit ratio and inventory adjustments shaved another ¥277 million from operating income. The fall in the marginal profit ratio was not due to price cuts caused by changes in the competitive environment or to soaring prices of raw materials and higher costs for outsourced processing. Rather, it was due to a change in the sales mix of products.

(2) Positive factors

- Reduced manufacturing-related fixed costs boosted operating income by ¥1,751 million. The reduction was achieved despite an increase in the depreciation charge, as we were able to reduce personnel expenses by adjusting staff levels and reducing compensation of executives and employees. We also made significant cuts to general expenses.
- Lower SG&A expenses boosted operating income by ¥1,580 million. As was the case with fixed manufacturing costs, the reduction in SG&A expenses was achieved by reducing personnel expenses and exerting thorough controls on all other general expenses.

While the unprecedented 60% fall in sales caused a big drop in profitability, company-wide management was switched to crisis mode, and the fixed cost cuts we made lowered the sales break-even point enough that we managed to generate a profit at the operating income level.



Next, let's look at assets on our consolidated balance sheet.

(1) Total assets

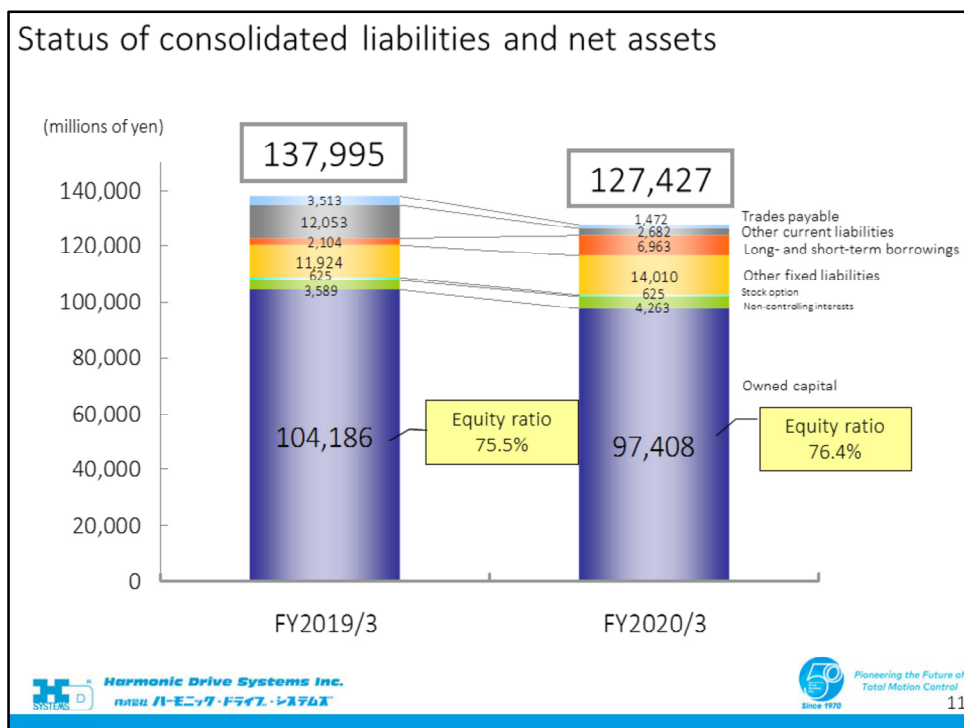
Total assets as of March 31, 2020 came to ¥127,427 million, ¥10,568 million less than a year earlier.

(2) Current assets

Current assets decreased by ¥8,897 million, primarily owing to the decrease in trade receivables caused by lower sales. Cash, deposits and marketable securities increased slightly to ¥19,570 million. We thus have secured enough cash assets to support business operations for the foreseeable future.

(3) Fixed assets

Tangible fixed assets increased by ¥4,647 million. The increase reflects the construction of a new wing at our Ariake Factory (Azumino, Nagano Prefecture) in anticipation of the need for increased production capacity in the near future. A change in accounting standards that led to the posting of previously off-balance sheet lease assets of overseas subsidiaries also added to the increase in on-balance sheet fixed assets. On the other hand, intangible fixed assets decreased by ¥3,747 million owing to the impact of regular depreciation and the forex impact on the conversion of foreign currency denominated assets.



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Status of consolidated cash flows

(millions of yen)	FY2019/3	FY2020/3
Cash flow from operating activities	15,121	9,769
Cash flow from investing activities	▲22,399	▲11,357
Cash flow from financing activities	▲3,271	2,362
Effect of exchange rate changes on cash and cash equivalents	▲171	▲33
Net increase (decrease) in cash and cash equivalents	▲10,720	742
Cash and cash equivalents at end of year	17,600	18,342

Consolidated cash flows were as shown in this slide.

Status of Initiatives Outlined in Medium-term Management Plan FY2018–FY2020



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Next, we will report on the status of initiatives being taken under our current medium-term plan.

Basic policies of medium-term management plan spanning
FY2018 to FY2020



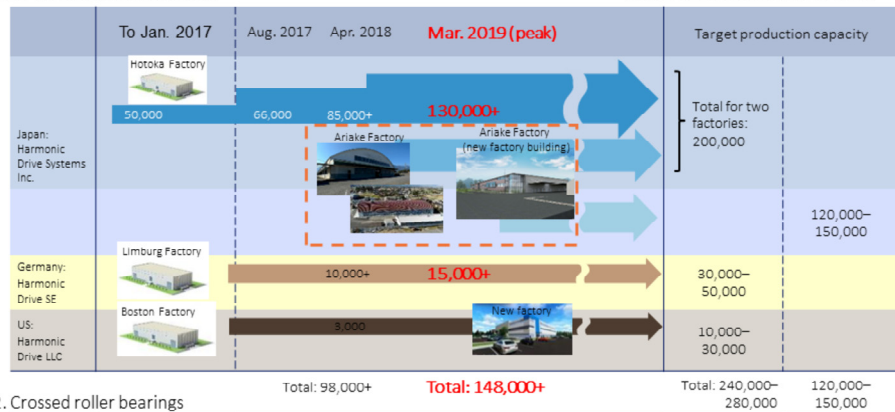
- The Company's operating environment has been complicated by an increasingly cautious stance toward capital investment in China and countries around the world owing to the prolonged US-China trade frictions that emerged in early 2018.
- The orders environment showed signs of recovery in the latter half of FY2019, especially in Japan and other Asian markets, but the outbreak of the novel coronavirus infections near the end of the fiscal year has led to an unprecedented heightening of uncertainty about the outlook for the global economy. In this operating environment, we must regretfully admit that achieving the targets for the final year of the current medium-term plan will be difficult.
- Despite the challenges presented by our operating environment, we have been flexibly and steadily implementing each of the initiatives set forth in the basic policies of the current medium-term management plan.

(1) Significantly increase global production capacity

(2) Raise capabilities of Group companies

1. Strain wave gearing devices

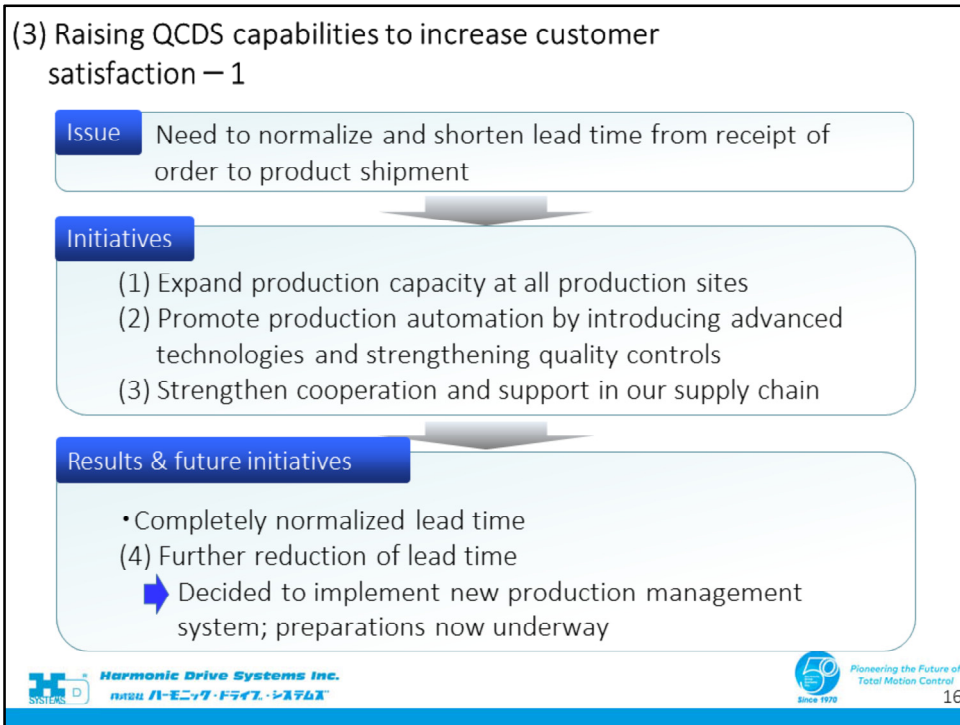
(Numbers indicate units produced per month)



2. Crossed roller bearings



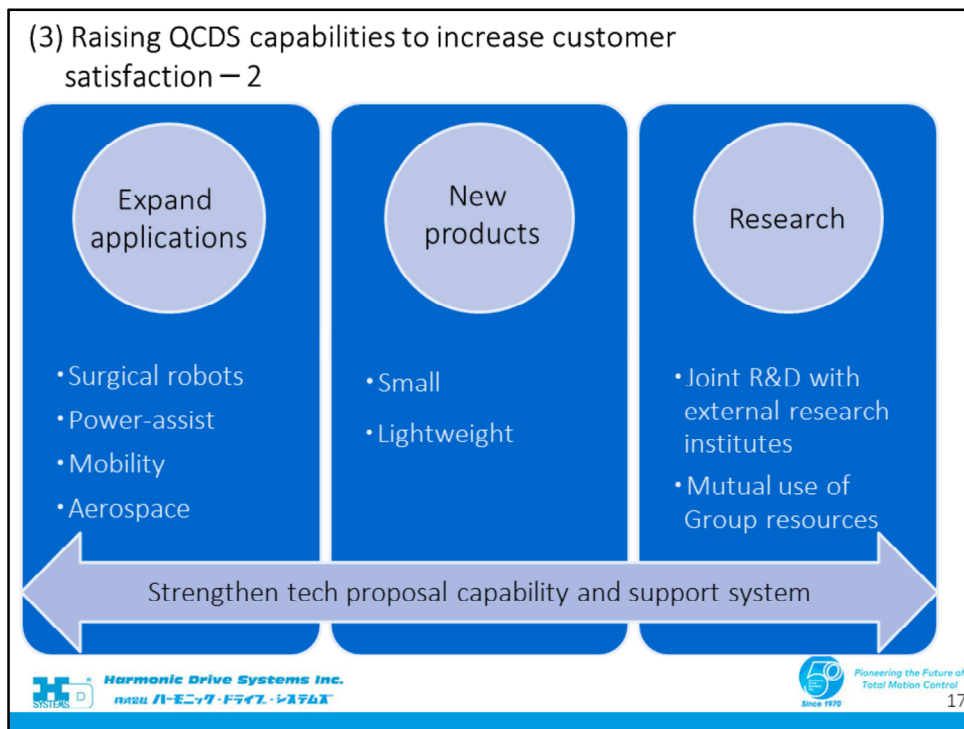
- To expand global production capacity, we have completed investments in plant construction at three key production bases (Japan, Germany, and the United States).
- Considering the orders trend seen since last year, we have postponed some of our plans for investing in production facilities. However, we expect demand to expand over the longer term and will carry out future capex flexibly in line with changes in demand trends.



- The increase in orders received from FY2017 stretched out our production lead time to nearly one year, causing great inconvenience for our customers. Accordingly, the medium-term management plan includes four key measures for raising QCDS capabilities in order to increase customer satisfaction.
 - (1) Expand production capacity ⇒ We have built factories and invested in production equipment at each of our production sites around the world.
 - (2) Promote automation by introducing advanced production technologies and strengthening quality controls ⇒ We seek to further reduce costs by improving productivity.
 - (3) By strengthening cooperation and support in the supply chain, we have achieved more solid relationships and structures.

The above measures enabled us to restore more normal production lead times.

- To further shorten lead times,
 - (4) We decided to implement a new production management system and have started preparing for its startup.



With robot technologies evolving in various application fields, we have strengthened our proposal capability to better satisfy customers' increasingly sophisticated and diversified expectations.

- We have strengthened the cooperation between product development and sales and have established a support system capable of quicker responses. As a result, the development of products for new applications such as advanced medical care (surgical robots), power-assist, mobility, and aerospace is progressing.
- With the demand for increasingly small and lightweight devices only expected to increase in the future, we are developing and expanding our lineup of small and lightweight products that will be compatible with and contribute to the increasingly small size and light weight of these devices.
- In addition, to promote new technologies and elemental research, we are conducting joint research projects with external research institutes and encouraging mutual use of the Group's research resources. We will continue to promote advanced R&D in order to create new value.

(4) Strengthen management foundation to support future growth

Initiatives for a work environment that prioritizes safety and security

- Greatest consideration for worksites that support manufacturing
- Put in place a telework environment

Maintain stable production system

- Demonstrate true value and power of technology and skills accumulated over many years
- Create a system that can withstand demand fluctuations
- Tangible and intangible support for partner companies

Strive for sound cash flows

- Halt unnecessary investments and thoroughly review expenses
- Sign contract for ¥8.5 billion commitment line



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We have strengthened our management base in order to respond flexibly to the rapidly changing business environment.

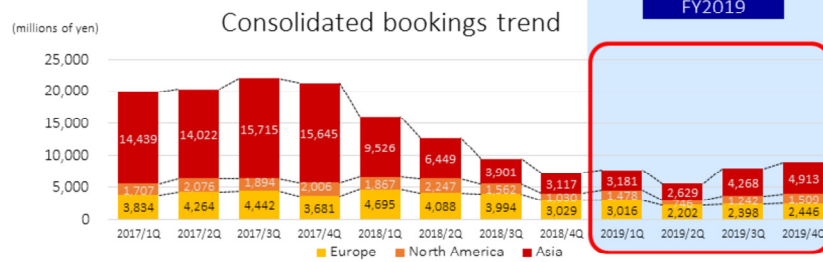
- Since the novel coronavirus outbreak, we have created work environments at production sites that prioritize "safety" and "security" by rethinking commuting methods, eliminating the 3 Cs (closed and crowded spaces and close contact) in our offices, and establishing telework systems.
- We have extended the mandatory retirement age for our employees to 70 and are creating paths that support transfer of skills and securing skilled human resources.
- We also have provided various types of support to our partner companies that have seen a sharp drop in orders.
- To ensure sound cash flows, we have halted unnecessary and nonurgent investments and are thoroughly curtailing expenses. In preparation for future funding needs, in March 2020, we secured a commitment line of ¥8.5 billion.



Next, we will explain our understanding of the operating environment upon which we are basing our earnings guidance for the fiscal year ending March 31, 2021.

Our operating environment

Consolidated bookings gradually recovering



Coronavirus impact negligible as of end-FY2019

(1) Supply chain in good shape

(2) Labor-saving investment related demand is firm

FY2020

(3) Managing business with awareness of possible sudden sharp reductions in demand



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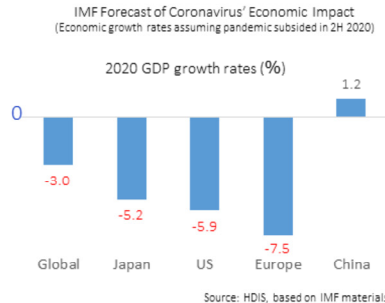
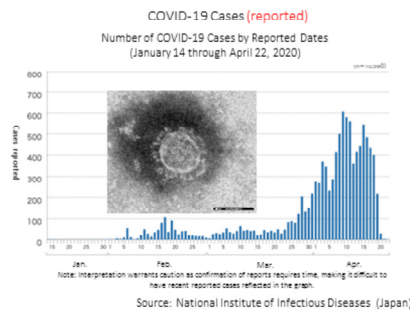
Consolidated orders received have been on a moderate recovery trend, after bottoming in the second quarter of the previous fiscal year, as customers' inventory adjustments progress.

- To date, the direct impact of the novel coronavirus pandemic on our business has been negligible.
 - All our production bases in Japan, Germany, and the United States are operating normally, and our supply chain, including partner companies, is in good shape.
 - If anything, the demand for robots, a core application for our products, is expected to increase as robot makers push forward with labor-saving and production reforms designed to eliminate "3 C" conditions at production sites worldwide.
 - Demand from the semiconductor sector is also robust, as ongoing 5G-related investments are being supplemented by increasing PCs-related demand and for greater data center capacity in response to the increase in telework and so-called "nest consumption," which refers to the online shopping by people staying at home during the coronavirus pandemic.
- Meanwhile, faced with an unpredictable global economic environment, we will manage our business keeping a close eye on unexpected reductions in orders.

General social conditions

We expect the “corona shock” to subside but assume prolongation of severe social conditions

1. Unprecedented economic turmoil (concerns that global economic indicators will suffer biggest drops since the Great Depression)
2. Worldwide concerns about employment (fears of unemployment rates in excess of 10% in developed countries) could cause stagnation in consumer activities (middle class’ concerns about future could prompt them to postpone or forego purchases)
3. Growing concern that rekindling of US-China trade friction could fragment the global economy
4. Uncertain post-coronavirus social structure



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We will now offer our view on the general situation facing society today.

- The novel coronavirus pandemic is expected to subside, and some economic activity is now resuming.
- That said, the pandemic’s end remains uncertain, and it is assumed that the social situation will remain severe for a long time to come.

(1) Unprecedented economic turmoil

Economic indicators are expected to show biggest decline since the Great Depression, and the IMF forecasts that developed countries’ 2020 economic growth rates will plunge even if the pandemic ends in the second half of the year.

(2) Worldwide concerns about employment

Concerns that unemployment rates of more than 10% in developed countries will cause stagnation in consumer activities (middle class’ concerns about future could prompt them to postpone or forego purchases).

(3) Growing concern that rekindling of US-China trade friction could fragment the global economy

Rekindling of US-China trade friction and global economic fragmentation caused by nationalistic policies are likely to exacerbate economic turmoil.

(4) Uncertain post-coronavirus social structure

“Corona shock” may shake the conventional understanding of economy and lifestyle, leading to changes in values and behavior.

Basic policy in response to the “corona shock”

Safety and security of employees and stakeholders is No. 1 priority


- Above all else, protect lives and health
- Prioritize safety and business continuity over immediate efficiency
- Promote teleworking and dispersion in onsite work environments

Steadfast maintenance of production system


- Effectively use assets, such as new factory wing, to promote social distancing and ensure safety
- Maintain fundamental production system to meet expected increase in demand after the coronavirus subsides
- Protect our supply chain

Secure funding to support long-term management

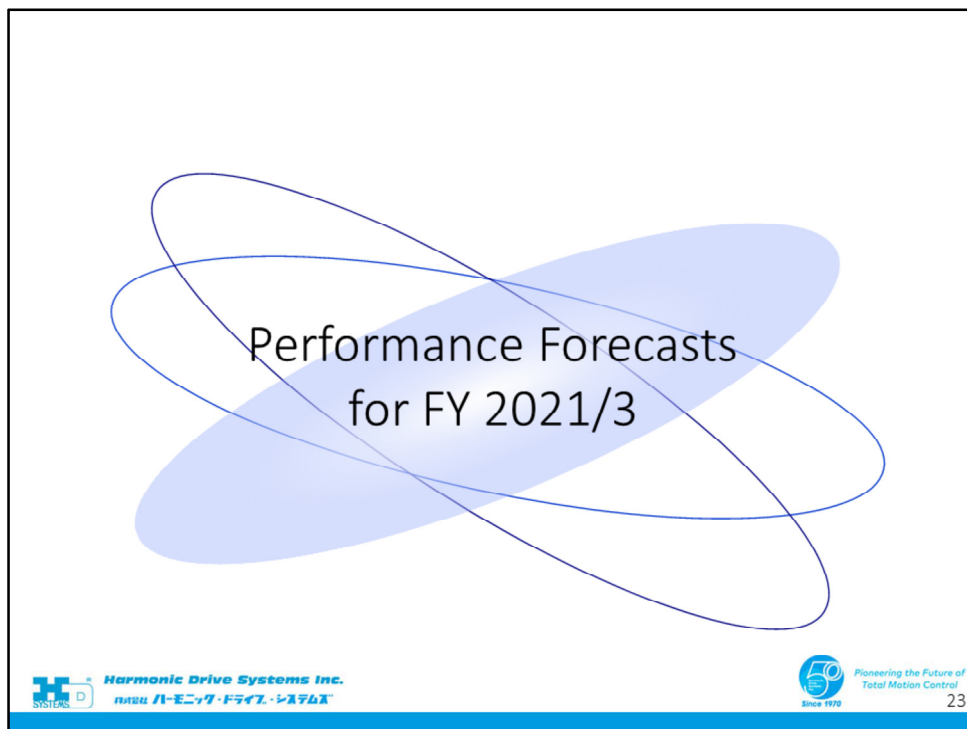
- Secure additional commitment lines of credit
- Halt unnecessary investments and thoroughly review expenses
- Strengthen fund procurement system to ensure ability to secure needed capital



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- Using this “corona shock” as an opportunity, we will establish an unwavering basic policy and implement various reforms.
- First and foremost, we will place our highest priority on the safety and security of our employees and other stakeholders in order to protect their lives and health. We will strive to achieve maximum operational efficiency by creating the infrastructure needed for teleworking, decentralizing our sales bases (introduction of a hub system, etc.) and adapting to society’s “new normal”.
- Further, we plan to expand such efforts into work-style reforms that improve employees’ quality of life (QoL).
- We recognize this as a major challenge that will require new approaches and methods for employee training and human resource development.
- We will maintain the production systems that enable us to fulfill our responsibility of supplying our customers with needed products. To ensure the safety of everyone working at our factories, the Company will enforce social distancing practices, continue to attentively monitor and check the health of our employees, and move toward a more advanced production system (labor saving, etc.) in order to meet the expected rise in demand after the coronavirus pandemic.
- Given the outlook for an economic crisis, we will endeavor to secure the cash flow essential to the Company’s survival. We have already secured a commitment line of credit for ¥8.5 billion, and we plan to add to that in the future. We will continue to strengthen our fund procurement system to ensure our ability to secure necessary operating capital going forward.



Performance Forecast for Fiscal Year Ending March 31, 2021

Next, we will explain our performance forecast for the fiscal year ending March 31, 2021.

Consolidated performance forecasts for 1st-quarter FY 2021/3

(millions of yen)

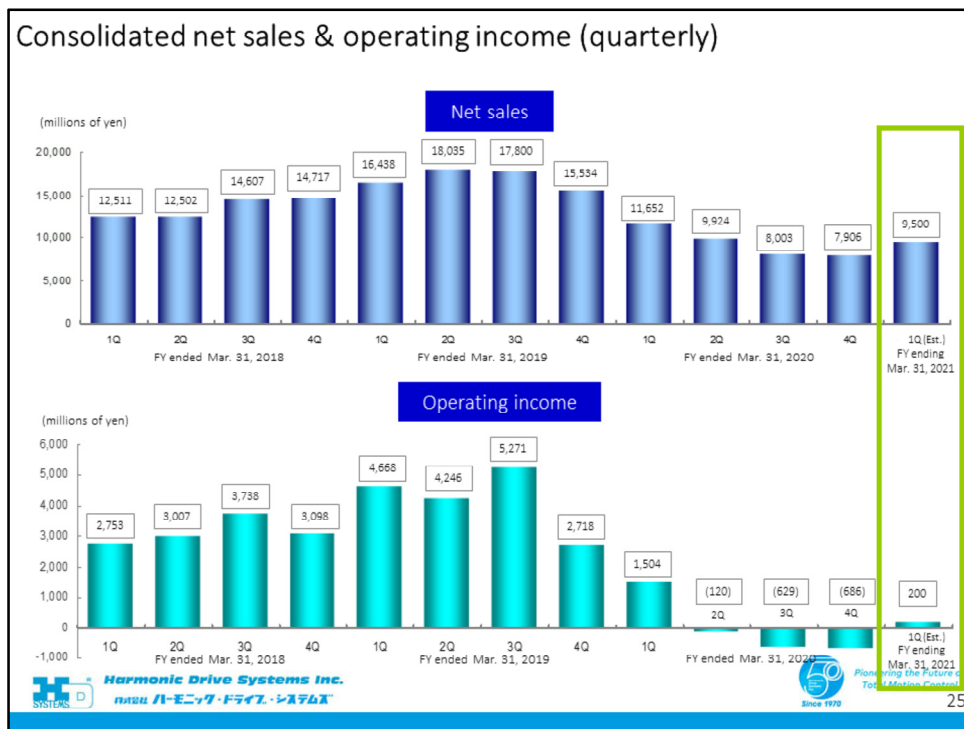
	1st-quarter FY ending Mar.31,2020		1st-quarter FY ending Mar.31,2021		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	11,652	100.0	9,500	100.0	▲2,152	▲18.5
Operating income	1,504	12.9	200	2.1	▲1,304	▲86.7
Ordinary income	1,498	12.8	200	2.1	▲1,298	▲86.7
Net income	382	3.3	50	0.5	▲332	▲86.9
EPS (yen)	3.98	—	0.52	—	▲3.46	▲86.9

Assumed exchange rate for 1st-quarter FY21/3 forecasts 1USD = ¥105.00 1EUR = ¥115.00 1CNY = ¥15.00
 Net income refers to net income attributable to owners of parent.

This table shows our forecast for consolidated results in the first quarter of the fiscal year ending March 31, 2021.

- The Group's operating environment has been showing signs of recovery since last autumn, with demand for semiconductor manufacturing equipment rebounding and inventory adjustments making progress at our distributors and customers, especially industrial robot manufacturers.
- Meanwhile, although the novel coronavirus pandemic has had no significant impact on our business to date, a reasonable estimation of its impact on the Group's future business results is difficult to make at this time. We therefore are limiting our forecast to the first quarter, with projections for the rest of the year undecided at this time.
- Our forecast for the first quarter (with year-on-year changes) is as shown in the table.
 - We forecast consolidated net sales of ¥9,500 million. In the first quarter of the fiscal year ended March 31, 2020, the orders environment was extremely severe and orders booked were few, but our order backlog at the start of the period was higher than it is now. We were therefore able to post first quarter sales of ¥11,652 million. Given the current business environment and the smaller order backlog, we forecast consolidated net sales in the first quarter of the fiscal year ending March 31, 2021 to be ¥2,152 million less than a year earlier.
 - Turning to our profit forecast, we expect consolidated operating income to fall ¥1,304 million year-on-year to ¥200 million, mainly owing to the projected decline in sales. After a challenging previous fiscal year that resulted in large decreases in sales and profits, the business environment for the fiscal year ending March 31, 2021 also looks likely to be difficult with little or no room for optimism. We therefore will continue our efforts to thoroughly control costs.

Our forecast for consolidated capex, depreciation, and R&D expenditures in the fiscal year ending March 31, 2021 are ¥2,300 million, ¥7,000 million, and ¥2,700 million, respectively.



This graphs shows the quarterly trends for consolidated net sales and operating income over the past three years plus our forecast for the first quarter of this fiscal year.

(1) Net sales

- Since peaking in the second quarter of the fiscal year ended March 31, 2019, net sales has declined for six consecutive quarters.
- This downtrend has been fueled by the global deterioration in capex sentiment brought about by intensifying US-China trade frictions, which has come on top of a strong negative impact from inventory adjustments for our products by our customers and distributors.
- Our sales forecast for the first quarter of the fiscal year ending March 31, 2021 anticipates the first quarter-on-quarter increase in sales in seven quarters, as we expect inventory adjustments to progress and demand for semiconductor manufacturing equipment to increase.

(2) Operating income

- Operating income peaked in the third quarter of the fiscal year ended March 31, 2019 and has since followed the downward trend set by net sales, and we have most unfortunately posted operating losses for three straight quarters since the second quarter of the previous fiscal year.
- In the first quarter of the fiscal year ending March 31, 2021, we look forward to posting our first operating profit in three quarters.

Accordingly, while we expect first quarter sales and profits to fall year-on-year, as noted on the previous slide, we look for both to increase quarter-on-quarter, with operating income moving back into the black.

Non-consolidated performance forecasts for 1st-Quarter FY 2021/3

(millions of yen)

	1st-quarter FY ending Mar.31,2020		1st-quarter FY ending Mar.31,2021		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	6,014	100.0	5,300	100.0	▲714	▲11.9
Operating income	501	8.3	350	3.7	▲151	▲30.3
Ordinary income	554	9.2	380	4.0	▲174	▲31.4
Net income	54	0.9	200	2.1	145	267.5
EPS (yen)	0.57	—	2.08	—	1.51	267.5

Assumed exchange rate for 1st-quarter FY21/3 forecasts 1USD = ¥105.00 1EUR = ¥115.00 1CNY = ¥15.00

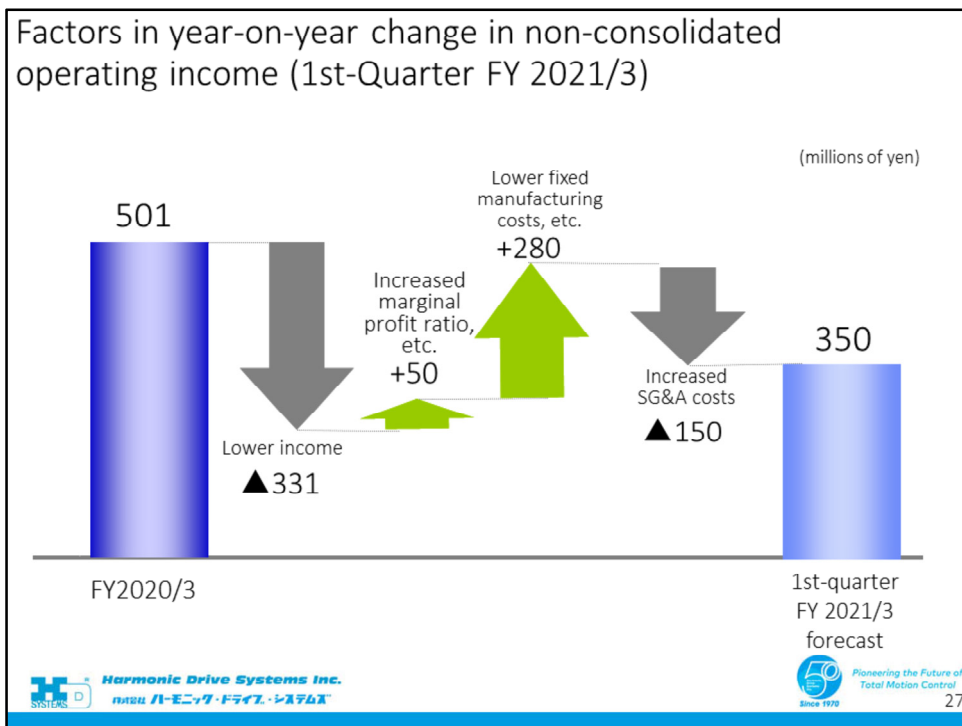
This table shows our forecast for non-consolidated results in the first quarter of the fiscal year ending March 31, 2021.

(1) Sales

- Our forecast for first quarter non-consolidated sales assumes that orders volume will be about the same as in the first quarter of the previous fiscal year.
- As a result, we expect net sales to fall 11.9% year-on-year to ¥5,300 million.

(2) Operating income

- Please refer to the next slide.



This slide provides a factor analysis of the year-on-year change in the Company's non-consolidated operating income.

(1) Negative factors

- The decline in sales is expected to depress operating income by ¥331 million.
- In terms of SG&A expenses, we expect R&D expenditures, depreciation, etc. to increase by ¥150 million.

(2) Positive factors

- Changes in the marginal profit ratio and inventories are expected to boost profit by ¥50 million, mostly reflecting changes in the sales mix of products.
- Lower manufacturing fixed costs and other cost reductions are expected to make a ¥280 million positive contribution to operating income. Use of the declining balance method to depreciate machinery and equipment is expected to reduce depreciation from the previous fiscal year's level. Lower personnel expenses and the absence of the production line transfer costs posted in the first quarter a year earlier is expected to support operating income.

Considering the above factors, we forecast non-consolidated operating income to reach ¥350 million.



This concludes the presentation of our performance results for the fiscal year ended March 31, 2020.