

Briefing Material

for 2nd quarter ended June 30, 2022

August 19, 2022

NAKANISHI INC.

Disclaimer

The information presented in these materials contains forward-looking statements about future business performance. These statements by definition involve risks and uncertainties and are not intended to guarantee future performance. Actual results in the future may differ from expectations and the projections presented in these materials due to changes in the global economy and fluctuations in foreign currency exchange rates and so on.

Key changes

1. "Surgical Business" was separated from the previous reporting segment "Dental Products" and individually established
2. Abolition of the previous reporting segment "Others (mainly included repair services)", which will be included in each new reporting segments

Previous reporting segments

Dental Products

Industrial Products

Others

New reporting segments

* Starting from FY2022 Q1

Rename

Dental Business

Development, production and sales of wide range of dental equipment, which cover such as restorative dentistry, periodontics, mobile dental care, oral surgery etc.

Separate

Surgical Business

Development, production and sales of bone grinding and cutting drills which can be used in areas of neurosurgery, spine surgery and orthopedic surgery.

Rename

Industrial Business

Development, production and sales of motors and spindles which can be used in high-precision processes in wide range of industrial areas such as automobile, aircraft, precision parts industries.

Abolition

Dental business

Ti-Max Z Series (Dental hand piece)



Surgic Pro2 (Oral surgery System)



iClave mini2 (Autoclave)

END-MATE DT2 (Endodontic micromotor)



NLZ (Clinical micromotor)

Varios Combi Pro (Oral hygiene system)



VIVAace (Mobile-dentistry unit)

Surgical business

Primado2 series (Total surgical system)



Attachment



Bur

Industrial business

E4000 series (Motor & spindle)



Emax EVOLution (Micro grinder)



E3000 series (Motor & spindle)



Sheenus ZERO (Ultrasonic polisher)

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Consolidated financial result for FY2022Q2

- **The depreciation of the yen against major trading currencies boosted sales and profits. Topline has been quite flat on YOY and local currency basis.**
- **To keep our production level, we have been focusing on direct parts-purchasing from market (not from suppliers) and accelerating design changes as counter-measures to parts shortage. Forecast of parts procurement remains unstable.**
- **We are taking intensive actions to expand production capacity to cover strong global demand. New factory "A1+" is scheduled to start operation on September 5th.**

M of JPY

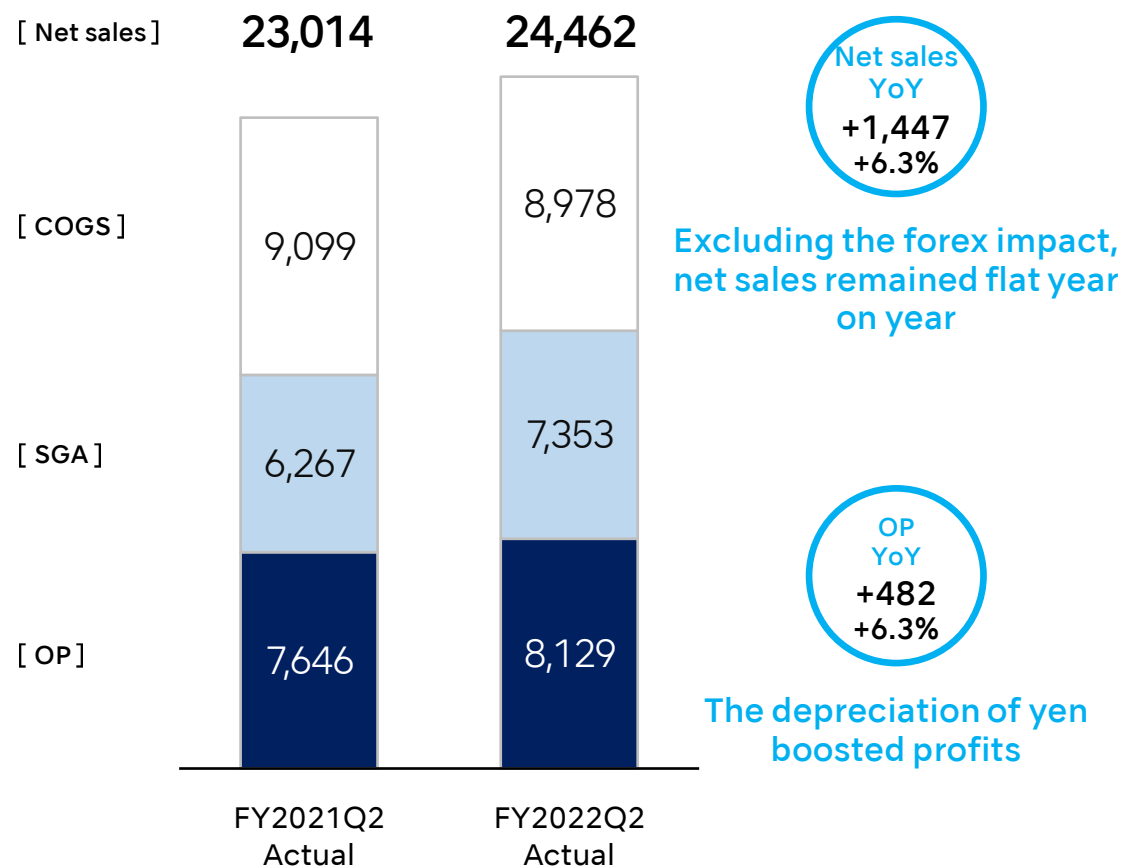
	FY2022Q2 Actual	FY2021Q2 Actual	YoY Comparison	FY2022Q2 Forecast	vs. FCST
Net sales	24,462	23,014	+ 6.3 %	23,026	+ 6.2 %
Gross profit	15,483	13,914	+ 11.3 %	13,917	+ 11.3 %
Ratio to net sales	63.3 %	60.5 %	+ 2.8 pt	60.4 %	+ 2.9 pt
Operating profit	8,129	7,646	+ 6.3 %	6,546	+ 24.2 %
Ratio to net sales	33.2 %	33.2 %	+ 0.0 pt	28.4 %	+ 4.8 pt
Ordinary profit	9,490	7,423	+ 27.8 %	7,095	+ 33.7 %
Ratio to net sales	38.8 %	32.3 %	+ 6.5 pt	30.8 %	+ 8.0 pt
Profit attributable to owners of parent	6,750	5,366	+ 25.8 %	5,062	+ 33.4 %
Ratio to net sales	27.6 %	23.3 %	+ 4.3 pt	22.0 %	+ 5.6 pt
EPS (JPY)	78.52	61.93	—	58.75	—
Currency rate					
- Against the US dollar (JPY)	123.16	107.74	+ 15.42	124.00	- 0.84
- Against the EURO (JPY)	134.50	129.96	+ 4.54	131.00	+ 3.50

▪ **Forex impact:** Net sales +1,290M of JPY (vs FY2021Q2 Actual), +232M of JPY (vs FY2022Q2Forecast)

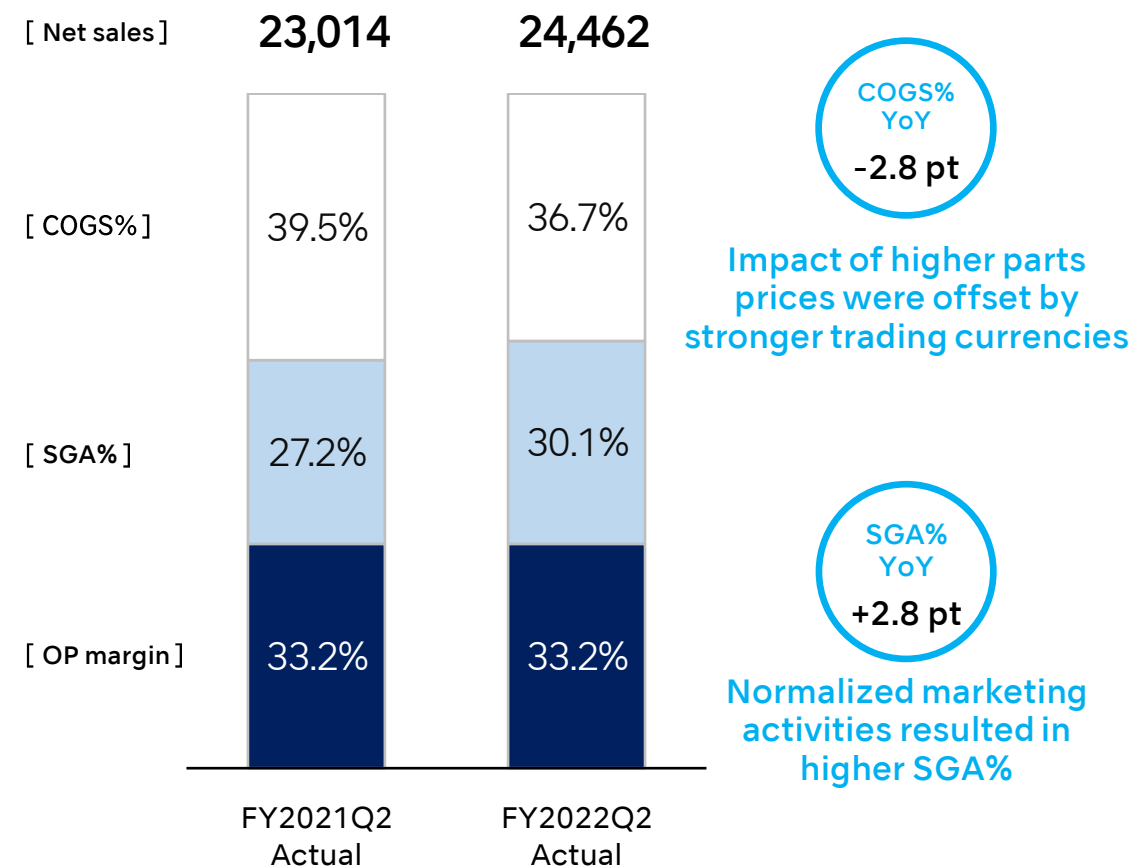
▪ **Forex sensitivity :** Fluctuation in annual net sales due to the depreciation of the yen (per one yen)
 Against USD: Increase of 86M of JPY Against EURO: Increase of 78M of JPY

M of JPY

Amount

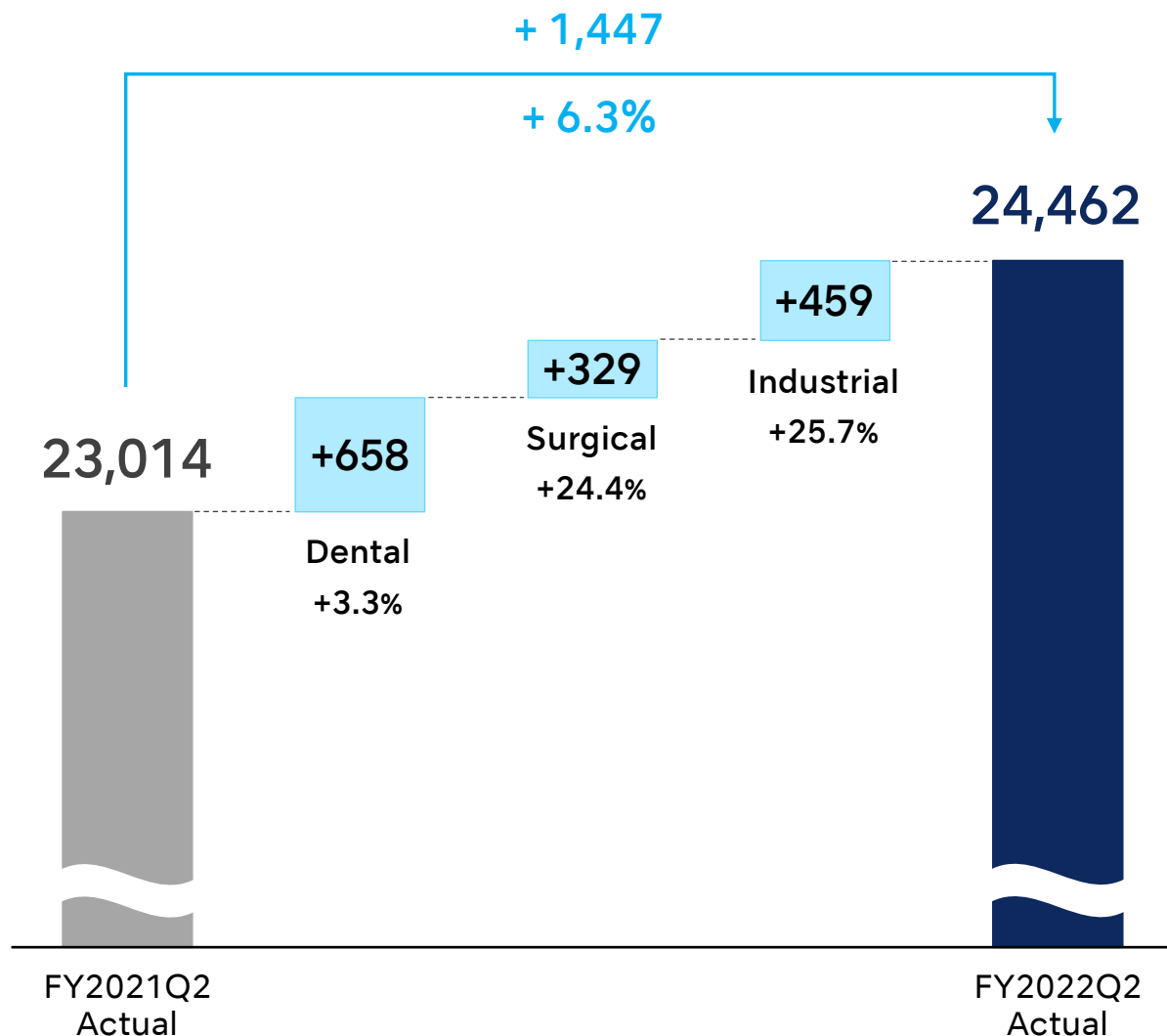


Composition ratio



Change in net sales by business segment

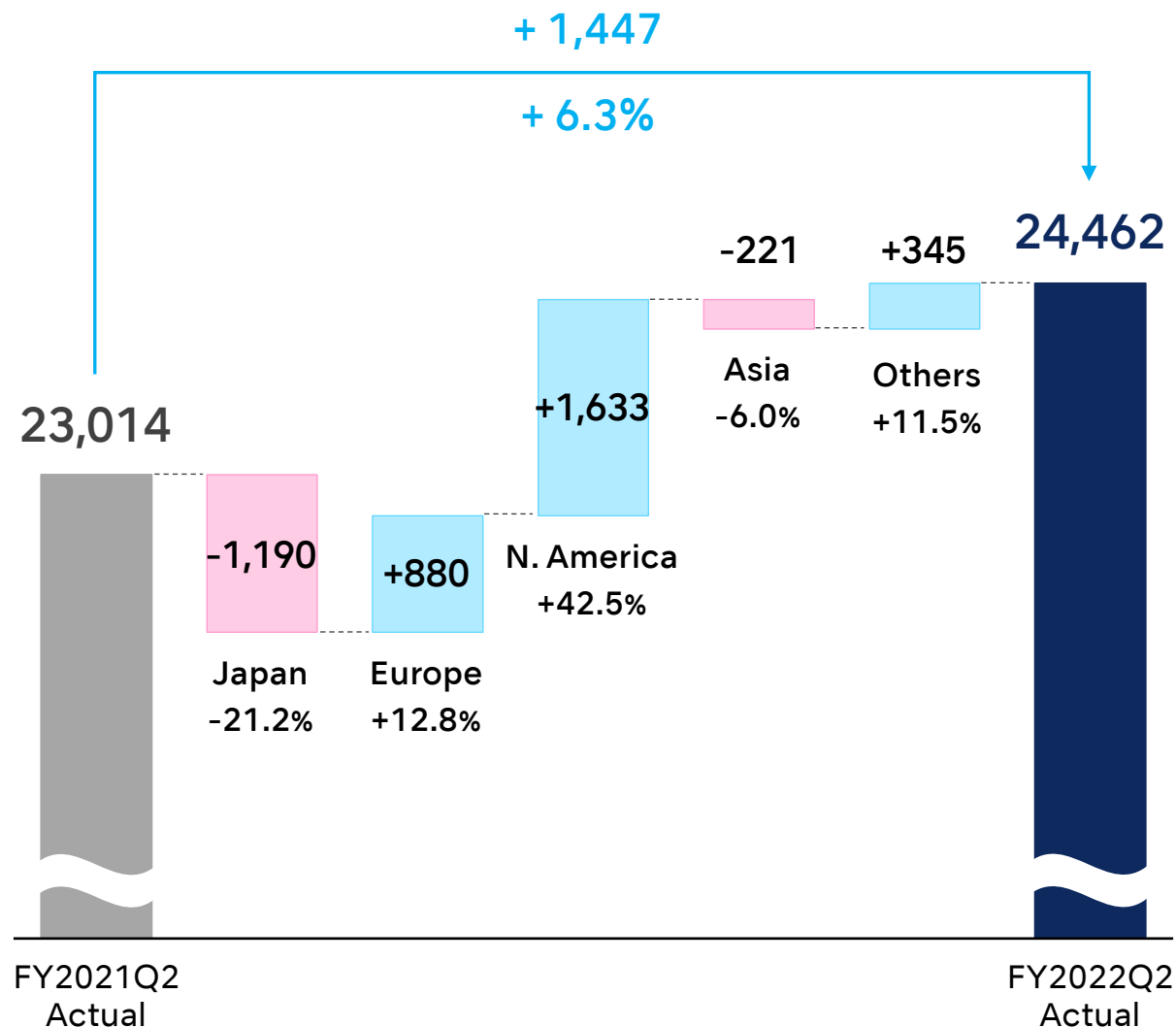
M of JPY



	FY2021Q2 Actual	FY2022Q2 Actual	Change
Dental	19,872	20,530	+3.3%
Surgical	1,351	1,681	+24.4%
Industrial	1,790	2,250	+25.7%
Total	23,014	24,462	+6.3%

Forex impact +1,290M of JPY (+5.6%)

M of JPY

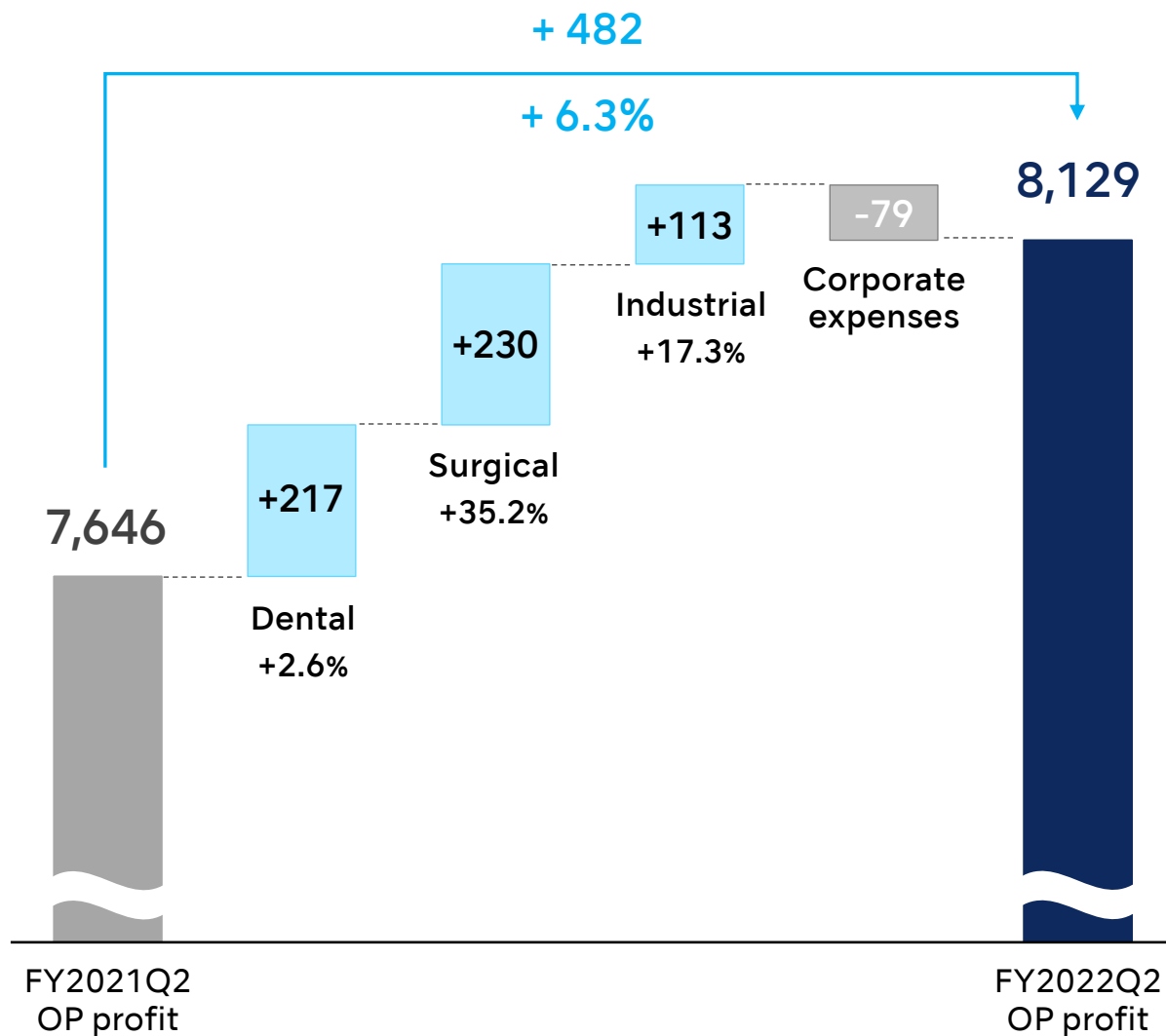


	FY2021Q2 Actual	FY2022Q2 Actual	Change
Japan	5,606	4,416	-21.2%
Europe	6,859	7,740	+12.8%
N. America	3,839	5,473	+42.5%
Asia	3,697	3,475	-6.0%
Others	3,010	3,355	+11.5%
Total	23,014	24,462	+6.3%

Forex impact +1,290M of JPY (+5.6%)

Change in operating profit by segment

M of JPY



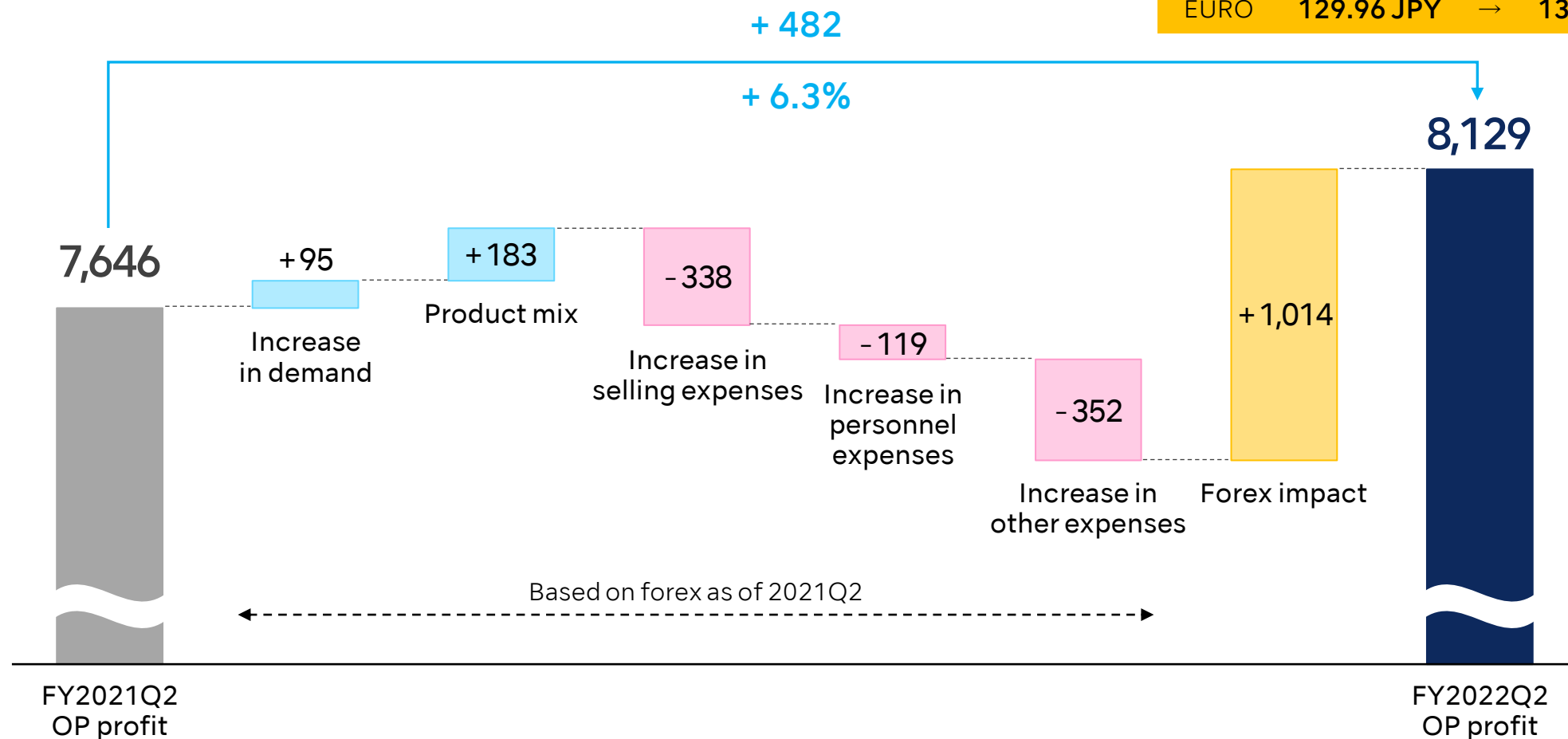
	FY2021Q2 Actual	FY2022Q2 Actual	Change
Dental	8,452	8,669	+2.6%
Surgical	654	885	+35.2%
Industrial	660	774	+17.3%
Corporate expenses	-2,120	-2,199	—
Total	7,646	8,129	+6.3%

Forex impact +1,290M of JPY (+5.6%)

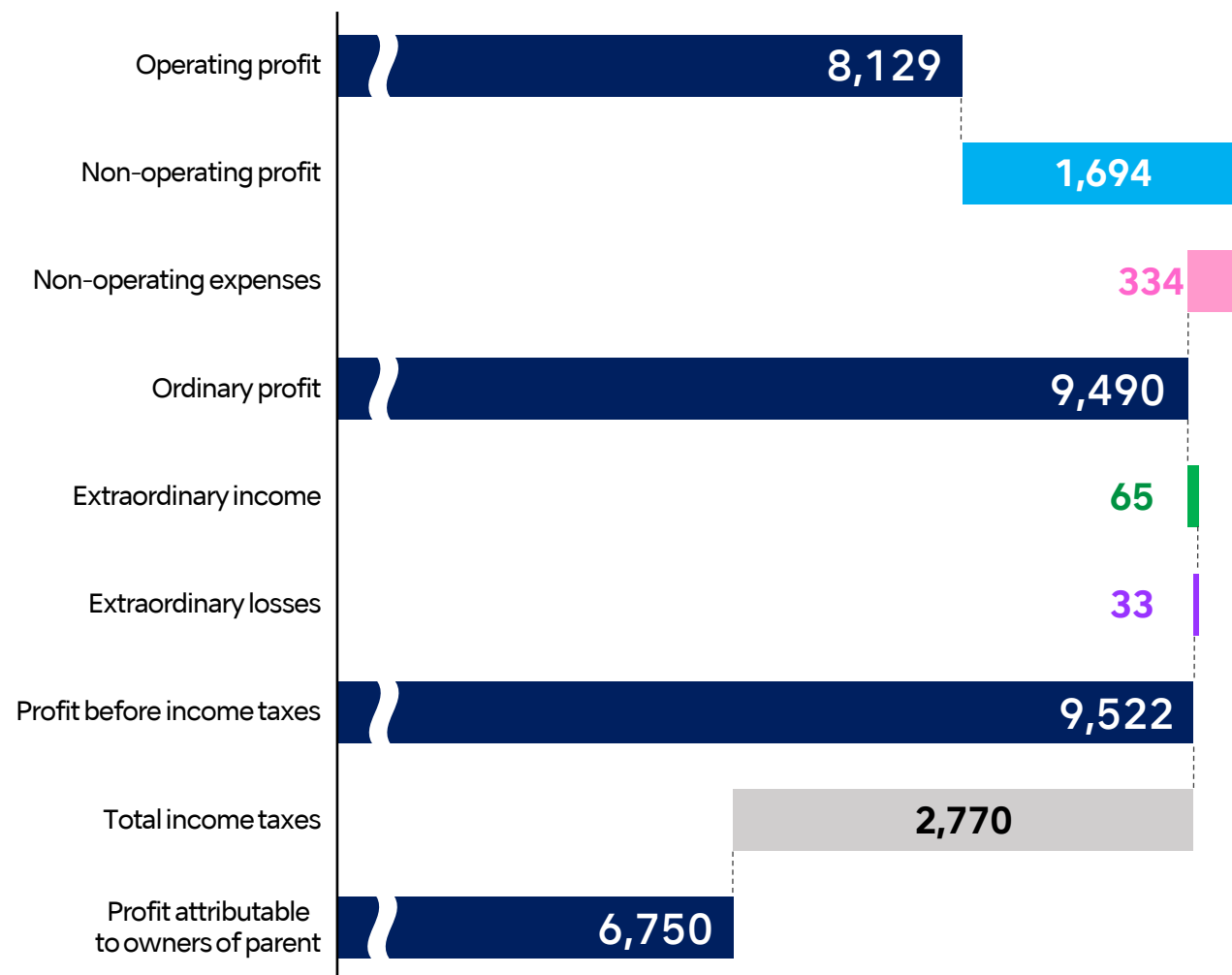
M of JPY

Exchange rate

	2021/06 Average		2022/06 Average
USD	107.74 JPY	→	123.16 JPY
EURO	129.96 JPY	→	134.50 JPY



M of JPY



Non-operating profit

· Foreign exchange gain 1480

Non-operating expenses

· Loss on investments in money held in trust 248

Extraordinary income

· Gain on sales of non-current assets 65

Extraordinary losses

· Loss on sales of non-current assets 31

Consolidated balance sheet

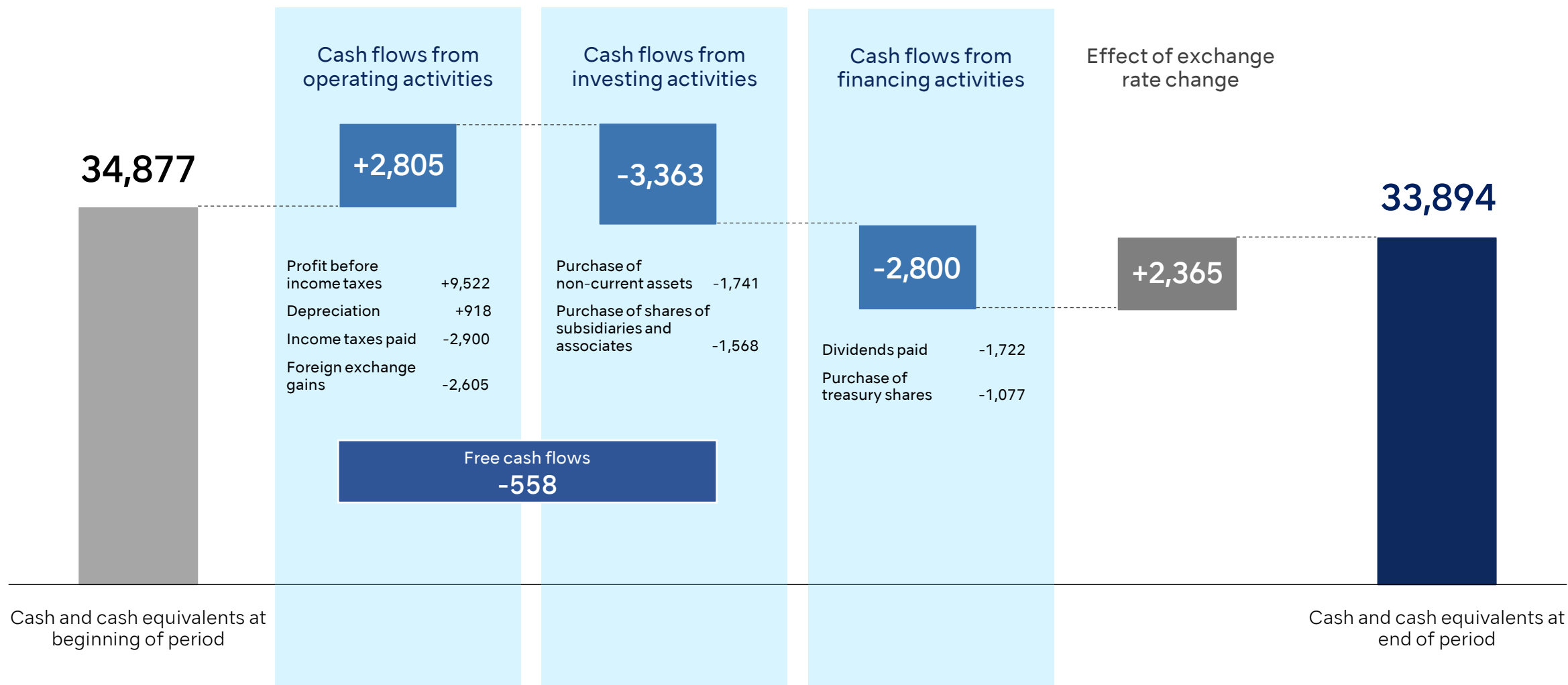
M of JPY

	As of June 30, 2022	As of Dec. 31, 2021	Change	Note
Total assets	98,914	94,460	+4,453	<ul style="list-style-type: none"> · Cash and deposits -15 · Construction in progress +844
- Notes and accounts receivable - trade	6,284	5,348	+936	
- Inventories	13,232	11,733	+1,499	<ul style="list-style-type: none"> · Merchandise and finished goods +95 · Work in process +476 · Raw materials and supplies +926
Liabilities	9,748	11,541	-1,792	<ul style="list-style-type: none"> · Account payable - trade +403 · Provision for bonuses -471 · Other current liabilities -1,747
- Loans payable	100	100	—	
Net assets	89,165	82,919	+6,245	
- Retained earnings	89,792	84,765	+5,027	
Return on equity (ROE)	11.2 %	12.7 %	-1.5 pt	
Return on assets (ROA)	13.9 %	15.8 %	-1.9 pt	

* ROE and ROA are calculated based on the FY2022 forecast..

	FY2022Q2 Actual	FY2021Q2 Actual	Change	Note
Capital investments	1,701	575	+1,126	<ul style="list-style-type: none"> · New factory "A1+" 625 · Information system 239
Depreciation expenses	918	853	+65	

M of JPY



Consolidated financial forecast and dividend forecast for FY2022

M of JPY

	FY2021 Actual	FY2022 Forecast	YoY Comparison		Note
			Amount	Ratio	
Net sales	44,857	45,788	+931	+2.1 %	
Gross profit	27,295	27,723	+428	+1.6 %	
Ratio to net sales	60.8 %	60.5 %	-0.3 pt	—	
Operating profit	13,750	12,606	-1,143	-8.3 %	
Ratio to net sales	30.7 %	27.5 %	-3.1 pt	—	
Ordinary profit	13,951	13,587	-364	-2.6 %	
Ratio to net sales	31.1 %	29.7 %	-1.4 pt	—	
Profit attributable to owners of parent	10,102	9,621	-481	-4.8 %	
Ratio to net sales	22.5 %	21.0 %	-1.5 pt	—	
EPS (JPY)	116.73	111.66	—	—	
Currency rate					
- Against the US dollar (JPY)	109.84	124.00	+14.16	—	
- Against the EURO (JPY)	130.08	131.00	+0.92	—	

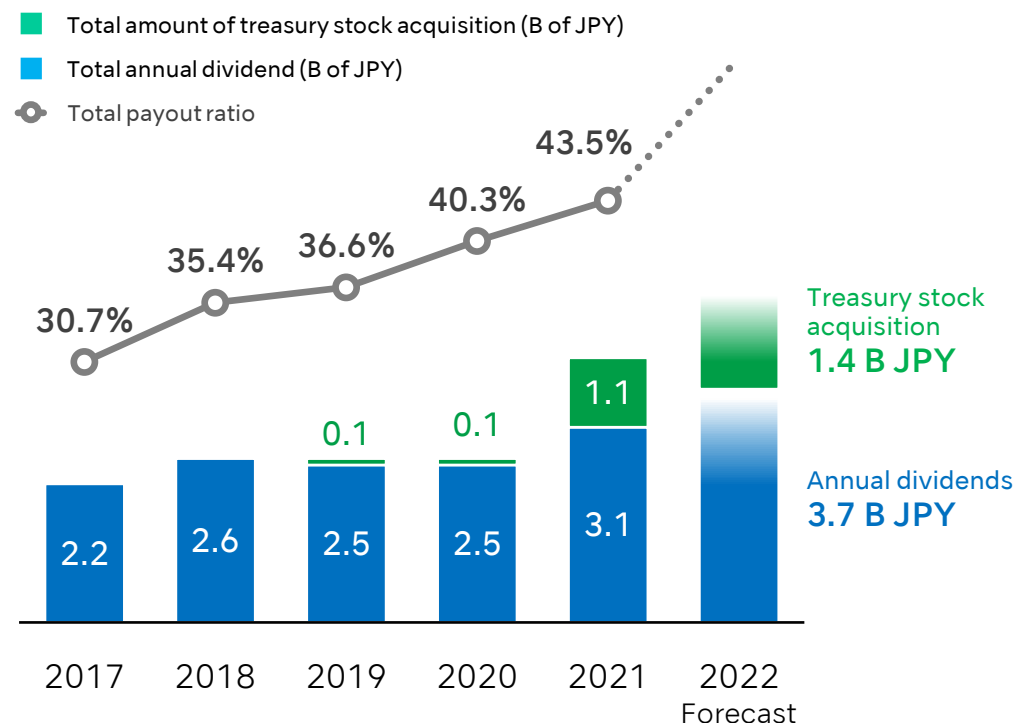
Payout policy

We believe the return of profits to our shareholders as one of the important management issues. Key issue is the balance to enhance business structure, promote investment in growth areas properly and to return profits to shareholders.

Our policy is to keep stable and continuous growth in dividend and buy back shares flexibly. We will realize total payout ratio 50% in this mid-term plan through the policy in parallel to keep necessary retained earnings for future growth.

Transition of shareholder return

* 3-for-1 stock split in April 2018



		2017 Actual	2018 Actual	2019 Actual	2020 Actual	2021 Actual	2022 Forecast
Annual dividends	JPY	26.00	31.00	30.00	30.00	37.00	44.00
Payout ratio	%	30.7	35.4	36.6	40.3	31.7	39.2
Total payout ratio	%	30.7	35.4	36.6	40.3	43.5	-

<Reference> Recent acquisition of treasury stock

		Feb.2022 Actual	Mar.2022 Actual	May2022 Actual	Jun.2022 Actual	Jul.2022 Actual
Total number of shares repurchased	Shares	87,900	153,700	92,200	145,500	92,200
Repurchase costs	M JPY	179	320	213	363	222

Mid Term Management Plan Rolling Plan

NV2025+

Global share increasing further since the COVID-19 outbreak

▶ **Latest performance results are above plans**

Yen weakening against almost all transaction currencies

▶ **Significant changes to performance target assumptions**



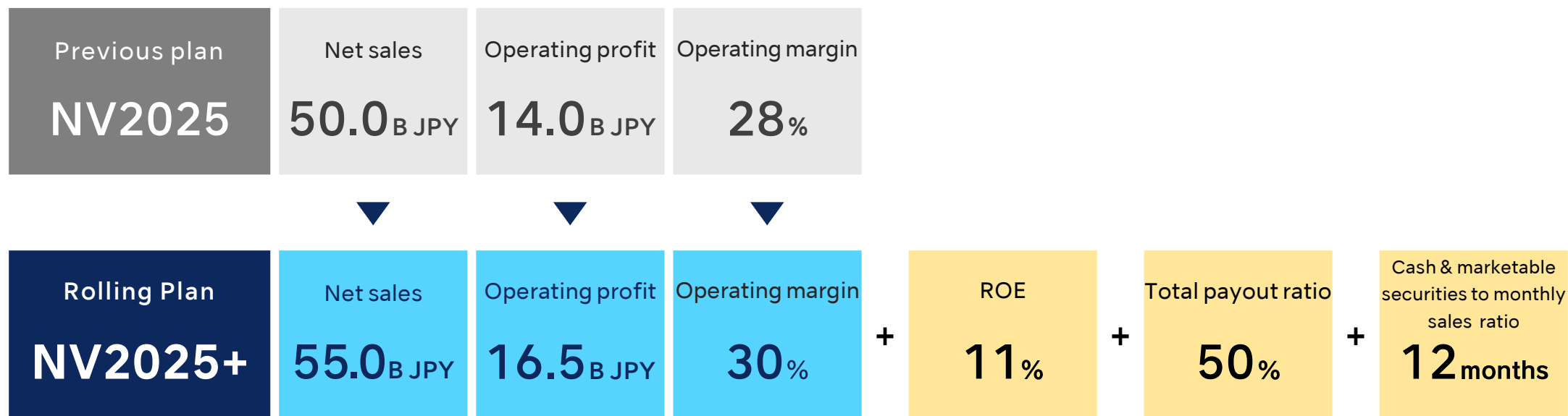
Mid Term Management Plan Rolling Plan

NV2025+

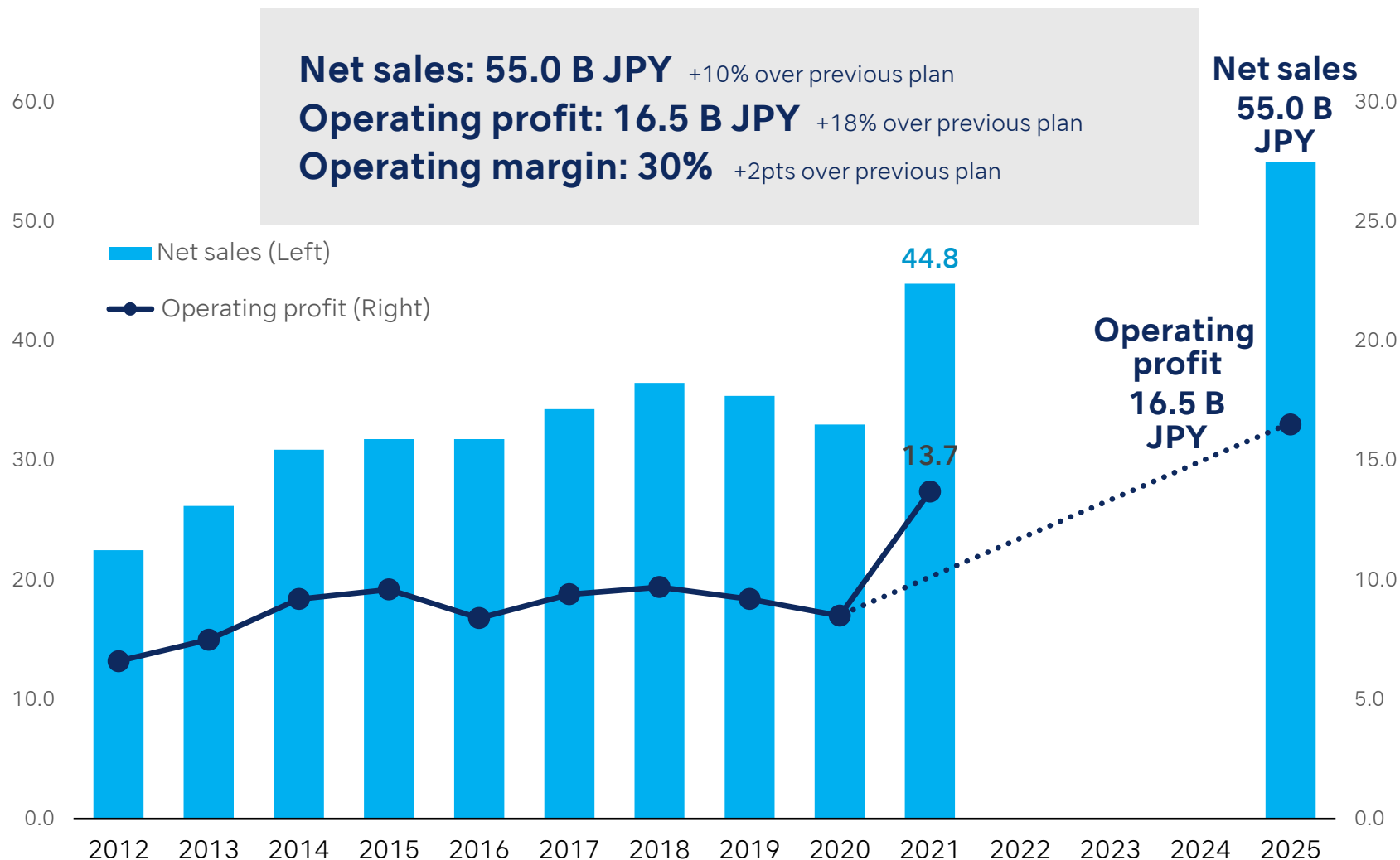
1. No changes to the policy and strategy set out in the previous plan NV2025
2. Sales and profit targets updated based on latest performance results and exchange rates
3. Established new KPIs such as ROE and cash allocation

In Rolling Plan NV2025+, in addition to updating the sales and profit target sets in the previous plan NV2025, we have added a “capital efficiency indicator” and a “cash allocation indicator” to make our PL, BS, and CFS management policy clearer

- ▶ **Evolve from PL-oriented management to one that also prioritizes capital efficiency at the same time**
- ▶ **Allocate cash by considering the balance of growth investments, shareholder returns, and resilience to risk**



NV2025+ Sales and Profit Target

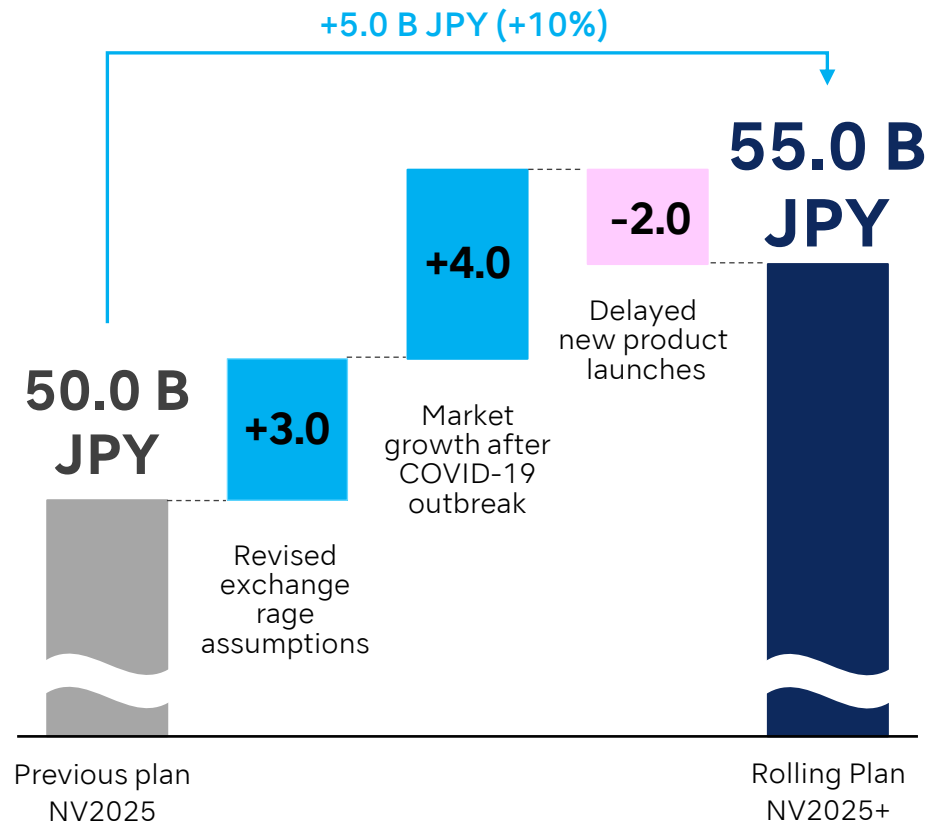


Assumed exchange rates for 2022 to 2025: 1USD=124JPY; 1EURO=131JPY

Changes to Top Line

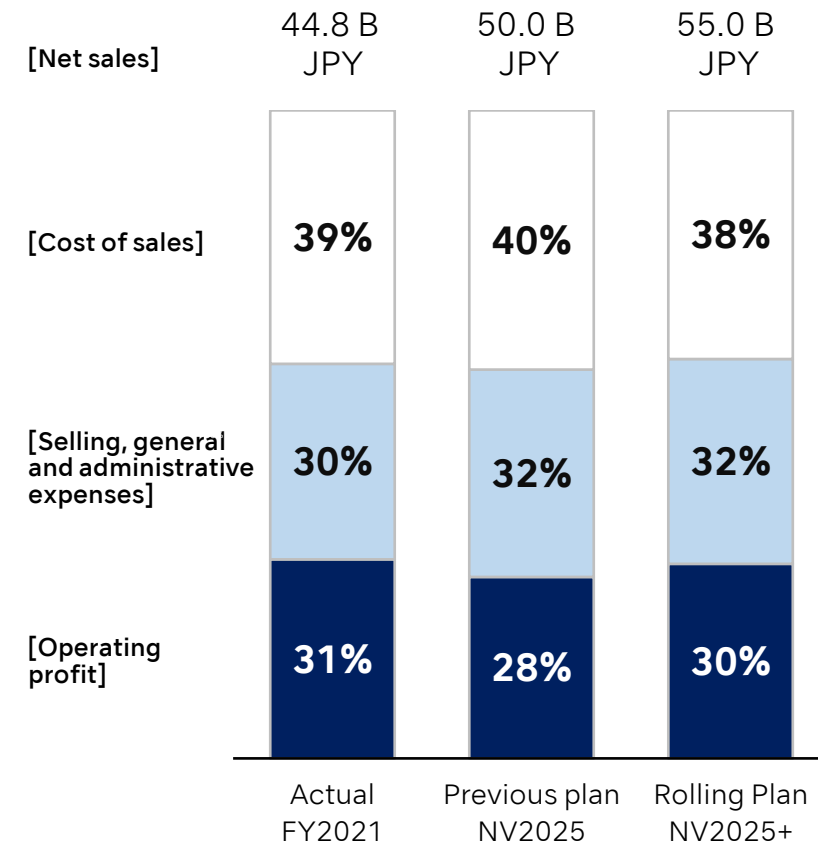
- Revised exchange rate assumptions on which to base sales target
- Reflected market growth realized after the COVID-19 outbreak
- Reflected the effects of delays in new product development

* As we have prioritized measures to meet Medical Device Regulations (MDR) as well as design changes and other initiatives to prevent production disruptions due to parts supply shortages, new product development has been delayed.



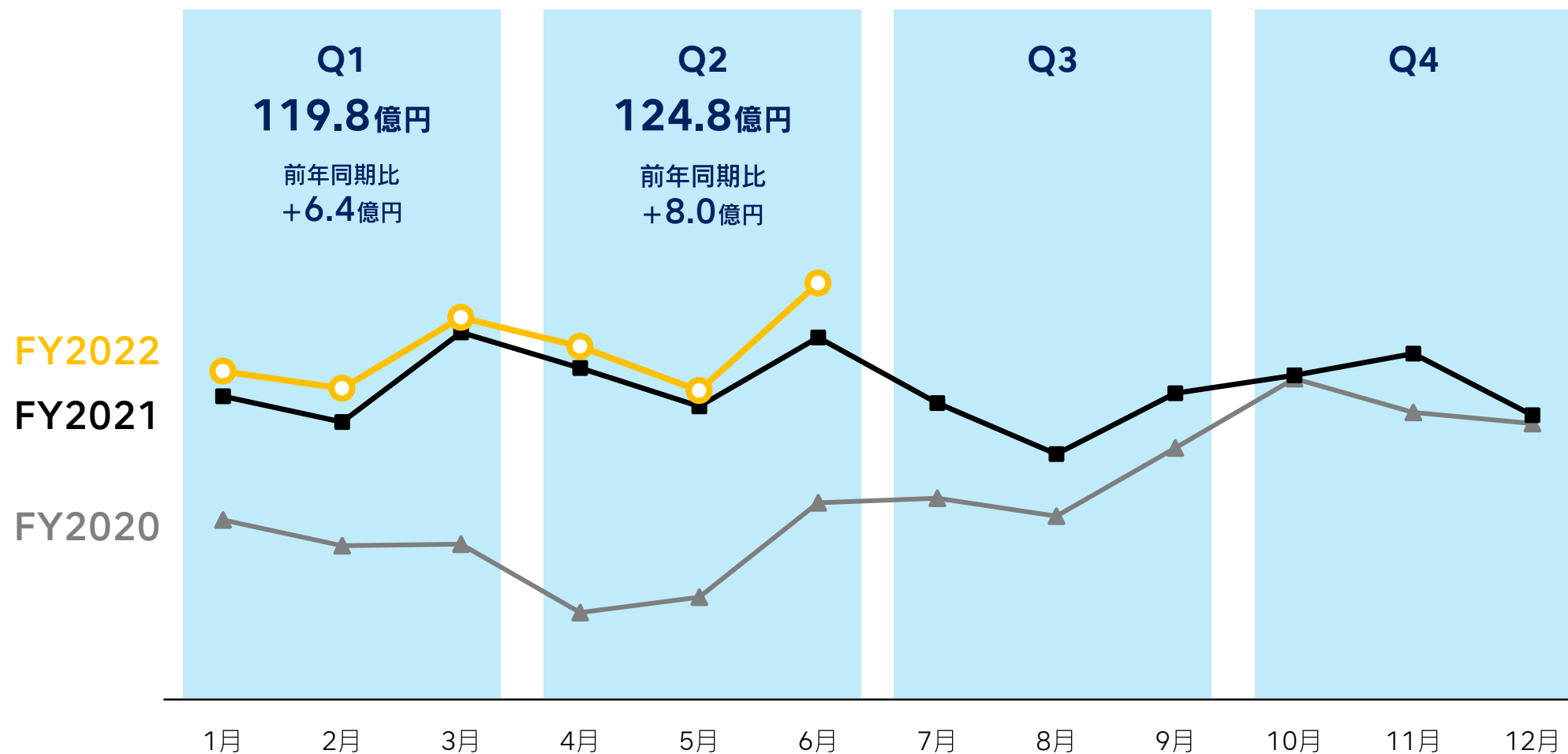
Changes to Profit Structure

- No significant changes to profit structure (composition)
- Reflected the effects of sales increases and weaker yen



Overviews of Each Segment and Future Initiatives

Net sales has been flat on YOY basis without FOREX impact.





Europe **7.7 B JPY**

YoY +0.8 B JPY (+12.8%)

Dental↗ Surgical↗ Industrial↗

N. America **5.4 B JPY**

YoY +1.6 B JPY (+42.5%)

Dental↗ Surgical↗ Industrial↗

Japan **4.4 B JPY**

YoY -1.1 B JPY (-21.2%)

Dental↘ Surgical↗ Industrial↗

Asia **3.4 B JPY**

YoY -0.2 B JPY (-6.0%)

Dental↘ Surgical↘ Industrial→

South America, Russia, Middle East, Australia, etc.

Others **3.3 B JPY**

YoY +0.3 B JPY (+11.5%)

Dental↗ Surgical→ Industrial↘

Formulated Mid Term Management Plan Rolling Plan based on latest performance results and exchange rate trends



Turn the COVID-19 pandemic into an opportunity to expand business scale.
Promote initiatives to increase production.



A1+

New parts processing plant

To transform production operations to ones able to effectively meet globally growing product demand, aim to increase "parts processing" capacity that was previously a bottleneck

- Location: 990 Fukahodo, Kanuma, Tochigi
(on the premises of the A1 plant)
- Total floor area: Approx. 5,500 m²
- Investment: Approx. 1.8 billion yen

Completion on September 5 (Scheduled)



M1

New assembly plant
and parts and finished goods warehouse

Determined to construct a new plant to increase capacity for the "assembly process" following the parts processing process that we are working to expand, and secure warehouse space to respond to production scale expansion

- Location: 700 Shimohinata, Kanuma, Tochigi
(in the premises of Headquarters)
- Total floor area: Approx. 17,500 m²
- Investment: Approx. 6.2 billion yen
- Operation Start: First phase: March 2024 (scheduled);
Second phase: December 2024 (scheduled)

Forecast of market trends in 2022

- Demand -

Global demand continues to increase since the COVID-19 outbreak

- Supply -

Continued challenges in procuring semiconductors, electronic components, etc.



Basic Strategy for 2022 (Revised)

Maximize production to capture strong global demand to the fullest extent possible

- ▶ Avoid production cutbacks through flexible parts procurement and design changes
- ▶ Aim for early launch of construction of new factory "A1+"

Overview of 1 st half		Outlook for 2 nd half	
Europe	Sales trend  YoY	<ul style="list-style-type: none"> Steady sales of our main products, handpieces and implant motors. Ongoing strong sales in the U.K., where we have attracted some dental colleges. NSK Dental Nordic, our base in Nordic area, is making a good start in business. 	Sales outlook  YoY <ul style="list-style-type: none"> Expand sales of handpieces and implant motors. Start full-fledged sales activities for NSK Dental Nordic, aiming for a large increase in sales.
	Sales trend  YoY	<ul style="list-style-type: none"> With the termination of government subsidies in March last year, demand peaked out and sales declined sharply. OEM business remained strong. 	Sales outlook  YoY <ul style="list-style-type: none"> Recovery in sales is expected after exiting the phase of reactionary decline in demand. Expand sales of handpieces and implant motors.

Overview of 1 st half		Outlook for 2 nd half
North America	<p>Sales trend</p> <p>YoY</p>	<ul style="list-style-type: none"> Sales increased significantly due to growth in our main products, handpieces and micromotors. Steady OEM sales also contributed to increase in sales.
	<p>Sales outlook</p> <p>YoY</p>	<ul style="list-style-type: none"> Despite concerns about economic recession, expand sales of contra angles and micromotors, in which we have a strong product advantage. Continue approaches to dental colleges and DSO.
Asia	<p>Sales trend</p> <p>YoY</p>	<ul style="list-style-type: none"> In China, sales declined due to a lockdown that halted product shipments for about 2.5 months. Sales to South Korea were on a par with the same period of the previous year. Sales to Southeast Asian countries recovered.
	<p>Sales outlook</p> <p>YoY</p>	<ul style="list-style-type: none"> Demand in China returns to normal following the lifting of lockdown. Aim to catch up in performance. Start to respond to Buy China policy. Sales to South Korea and Southeast Asian countries are expected to decline slightly.

	Overview of 1 st half		Outlook for 2 nd half	
Middle East	Sales trend  YoY	<ul style="list-style-type: none"> Sales growth by steadily capturing rebound demand from the COVID-19 pandemic. 	Sales outlook  YoY	<ul style="list-style-type: none"> Continue to respond to increasingly active bidding for governmental hospitals, university hospitals, etc.
South America	Sales trend  YoY	<ul style="list-style-type: none"> Strong sales due partly to competitors' withdrawal from business in South America. Market share expanded. 	Sales outlook  YoY	<ul style="list-style-type: none"> Expand sales of our main products, handpieces and implant motors.
Russia	Sales trend  YoY	<ul style="list-style-type: none"> Sales to Russia and CIS counties dropped sharply due to the invasion of Ukraine. 	Sales outlook  YoY	<ul style="list-style-type: none"> Assume that logistics delays and other disruptions continue for the time being due to the prolonged invasion of Ukraine.
Australia	Sales trend  YoY	<ul style="list-style-type: none"> Sales to Australia and Oceania remained strong. 	Sales outlook  YoY	<ul style="list-style-type: none"> Expand sales of handpieces and implant motors under the assumption of leveling demand.

Exhibiting at Dental Trade Show around the world



2022/01/27~
Yankee Dental Congress
 (U.S.)



2022/03/17~
ADX Sydney
 (Australia)







2022/02/01~
AEEDC Dubai
 (UAE)



2022/05/19~
Expodental Meeting Rimini
 (Italy)





Overview of 1st half

Sales grew due to successful sales activities and sales promotion campaigns in line with the period that demand was recovering

YoY 	Japan	Sales grew due to successful sales activities to spine surgery in addition to the existing neurosurgery.
YoY 	Europe	Sales grew as a result of steadily winning renewal projects from existing customers and large-scale projects from major hospitals in the region.
YoY 	North America	Our product "Primado2" is highly evaluated, and together with alliances with partners, achieved a significant increase in sales.
YoY 	Asia	Despite a smooth start at the beginning of the period, sales declined due to the impact of the lockdown in China.

Outlook for 2nd half

**Launch and expand the sales of our new product "P300AT" in North America on a full scale.
Promote measures to expand sales channels.**

YoY 	Japan	Accelerate sales promotion activities in the otology field to further enhance the customer base.
YoY 	Europe	Continue sales approach to major hospitals and focus on winning contracts for large-scale inquiries.
YoY 	North America	Expand sales of our new product "P300AT" and focus on expanding sales channels leveraging an alliance with partners.
YoY 	Asia	Accelerate sales promotion activities in response to the lifting of the lockdown in China and the lifting of movement restrictions in Asian countries.

Enhance customer contact through resumed conferences and hands-on courses both in Japan and abroad



Hands-on course at the 42nd Annual Meeting of the Japanese Congress of Neurological Surgeons



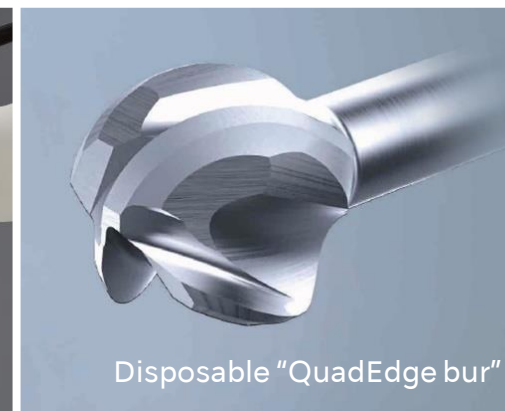
Console

Primado2

Electric bone cutting drill that can be used in neuro, orthopedic, and spine surgeries, etc.



Attachment "P300AT"



Disposable "QuadEdge bur"

"Primado2" series products

Overview of 1st half

Achieved a significant increase in sales as a result of fulfilling orders received which we captured to the maximum extent possible against a backdrop of growing global demand

YoY ↗	Japan	Steady sales of spindles for high-precision processing field such as deburring, drilling, and substrate partitioning.
YoY ↗	Europe	Sales increased due to fulfillment of orders received from the previous year. Inquiries at the resumed exhibitions were also brisk.
YoY ↗	North America	Capital investment motivation remained strong, and sales, especially of spindles, grew substantially.
YoY →	Asia	Despite brisk demand, sales remained flat as controller production could not keep up with demand due to component shortages.

Outlook for 2nd half

Continue production efforts to ensure delivery of orders while capturing firm capital investment demand to the fullest extent possible

YoY →	Japan	Field many inquiries from a wide range of industries. Focus on acquiring new projects, including those through an alliance with partners.
YoY →	Europe	There are signs of a lull in demand. Aim to uncover potential demand by appealing application case studies.
YoY ↗	North America	To establish a strong business foundation, strengthen the sales structure of local subsidiaries and expand the dealer network.
YoY ↗	Asia	Continue to develop the dealer network while steadily winning capital investment projects, an area seeing high demand.

June 22 to 24, 2022 at Tokyo Big Sight

Participated in Manufacturing World Japan 2022



Participated in a large-scale exhibition for the first time in three years.
Enhanced presence by exhibiting in a booth facing the main aisle.



We have issued "Sustainability Report 2022".
Please refer to our ESG initiatives.

https://en.nakanishi-inc.jp/sustainability_report/

NSK