COMPANY RESEARCH AND ANALYSIS REPORT

Nippon Piston Ring Co., Ltd.

6461

Tokyo Stock Exchange Prime Market

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Summary

Business integration with Riken for sustainable growth and higher corporate value

Nippon Piston Ring Co., Ltd. <6461> (hereafter, also “the Company”) is a major manufacturer of piston rings, valve seat inserts and other products primarily used as automobile engine parts. On October 2, 2023 (scheduled), the Company and Riken Corporation <6462> plan to integrate their business (and establish NPR-RIKEN CORPORATION through a mutual stock transfer) and newly list NPR-RIKEN on the TSE Prime Market as of the same date (Nippon Piston Ring and Riken, which will become wholly owned subsidiaries, will delist on September 28, 2023). The business integration is aimed at sustainable growth and higher corporate value.

1. Automobile engine business as mainstay; also accelerating development of non-automobile engine business, including the medical field

The main products of the Company’s automobile engine business include piston rings, valve seat inserts and assembled sintered camshafts. Its piston rings have a top-five share of the global market and its valve seat inserts enjoy the top share of the Japanese automaker market. The Company supplies a wide range of products to the world’s major automobile manufacturers, including Toyota Motor Corporation <7203>, but does not rely on any specific automaker for over 10% of its net sales. A risk factor for the Company at the current time is the impact of medium- to long-term environmental regulations (greater fuel efficiency of engines, declining use of gasoline engines, increased use of new clean fuel engines, spread of electric vehicles (EV), etc.) driven by global movement toward decarbonization. The Company anticipates that the probability that widespread use of EV will quickly increase is low, and, based the core technologies it has cultivated over nearly 90 years since its founding, the Company intends to contribute to better fuel economy for vehicle engines by improving heat and abrasion resistance and to the evolution of technologies for the practical viability of hydrogen and new clean fuel engines. The Company’s main products in its non-automobile engine business are piston rings for marine engines, METAMOLD products (metal powder injection molding parts), medical equipment products, and products for recreational vehicles (RV). In the medical field in particular, the Company is working to quickly commercialize the titanium-tantalum alloy NiFreeT, a new material for medical applications.

2. Record-high net sales in FY3/23, but profit declined on the impact of surging raw material and fuel costs

In the FY3/23 consolidated results, net sales increased 15.2% year on year (YoY) to ¥58,524mn, operating income decreased 9.2% to ¥2,385mn, ordinary income declined 9.9% to ¥2,755mn, and net income attributable to owners of parent decreased 6.3% to ¥1,808mn. Net sales increased by double digits and set a new record high owing to yen deprecation, a moderate recovery in vehicle production volume, making Normeca Asia a subsidiary, and other factors, but profits declined as cost reductions and sale price adjustments could not make up for the impact of sharp increases in raw material and energy prices. The ¥0.2bn decline in operating income was attributable to profit decreases of ¥2.4bn from increased raw material and energy costs and ¥0.6bn from increased personnel, administrative and other expenses, while the profit increases were ¥1.0bn from the effects of increased production, ¥0.8bn from cost reductions, ¥0.8bn from sale price adjustments, and ¥0.2bn from exchange rate changes.

3. Forecasting large profit increase in FY3/24

For the FY3/24 consolidated results, the Company is forecasting net sales to increase 4.2% YoY to ¥61,000mn, operating income to increase 42.5% to ¥3,400mn, ordinary income to increase 16.1% to ¥3,200mn, and net income attributable to owners of parent to increase 16.1% to ¥2,100mn, so it is expecting net sales to increase and profit to rise by a large margin. The assumed exchange rates are ¥130.00 per U.S. dollar and ¥140.00 per euro. The Company believes that the shortage of in-vehicle semiconductors and slowing in parts supply will continue to have an impact on automobile production volumes in the first half, but it expects production to recover to a certain extent in the second half. On the cost front, the Company anticipates costs for raw materials and energy will remain at high levels and increases in personnel, R&D and other expenses, but it plans to absorb these increases through increased production and from such efforts as to reduce costs and adjust sale prices. Regarding the forecasted ¥1.0bn increase in operating income, the Company is expecting profit decreases of ¥0.9bn from higher raw material and energy costs and ¥0.5bn from increases in R&D expenses and personnel expenses and profit increases of ¥1.0bn from increased production, ¥0.8bn from cost reductions, ¥0.5bn from sale price adjustments and ¥0.1bn from decreased depreciation and other factors. These results forecasts are projections for the Company. The consolidated results forecasts for NPR-RIKEN after the business integration are expected to be announced following the integration (scheduled for October 2, 2023).

4. Growth strategy

The Company has formulated The Next NPR 2030 long-term vision in order to respond to the big changes in the business environment surrounding the automobile industry. Its numerical targets are net sales of ¥100bn, an operating income margin of at least 10%, for the non-automobile engine business to provide at least 40% of net sales, and a reduction in the CO_2 emissions volume of 46% (compared to FY3/14) in FY3/31. In May 2021, it also formulated the 8th Medium-term Management Plan (FY3/22 to FY3/24) by backcasting from its ideal vision of the future. The plan has been positioned as a period for building a foundation for achieving the long-term vision and its targets are net sales of at least ¥54bn, an operating income margin of at least 8%, for the non-automobile engine business to provide at least 15% of net sales, ROE of at least 8%, and a reduction of the CO_2 emissions volume of 25% (compared to FY3/14) in FY3/24. The Company's FY3/24 consolidated results forecasts put the operating income margin at 5.6%, which is less than the 8% or higher target of the 8th Medium-term Management Plan, but the margin when excluding the impact of increased market prices for raw materials and energy stands at 9.8%, so steady progress is being made.

5. Business integration with Riken; new joint holding company scheduled for listing on October 2, 2023

Regarding the business integration with Riken announced on July 27, 2022, the Fair Trade Commission has been notified and all screening procedures have been completed as of May 2, 2023, and a final agreement was concluded on May 23, 2023 for a business integration through establishment of a joint holding company. At the annual general meetings of shareholders of both companies held on June 23, 2023, approval was granted for the share transfer plan related to the establishment of the joint holding company NPR-RIKEN through a joint share transfer on October 2, 2023. Regarding share transfer ratios, 1.02 shares of common stock in the joint holding company are to be allocated per share of common stock in the Company and two shares of common stock in the joint holding company are to be allocated per share of common stock in Riken. Shares in the Company and Riken will be delisted on September 28, 2023, and the joint holding company, NPR-RIKEN, is scheduled to be newly listed on the Prime Market on October 2, 2023. The expected synergies from the business integration include the following: (1) Reinforcement of existing businesses through the reallocation of management resources, and early development of products that will form the core of future business, (2) Strengthening of capabilities to respond to an increasingly decarbonizing society, (3) Reduction of costs through shared use of infrastructure and other resources, (4) Reduction of manufacturing costs by enhancing production efficiency through shared product integration, and timely and appropriate fulfillment of supply responsibilities, and (5) Upgrading of interpersonal abilities through exchanges of personnel and technologies.

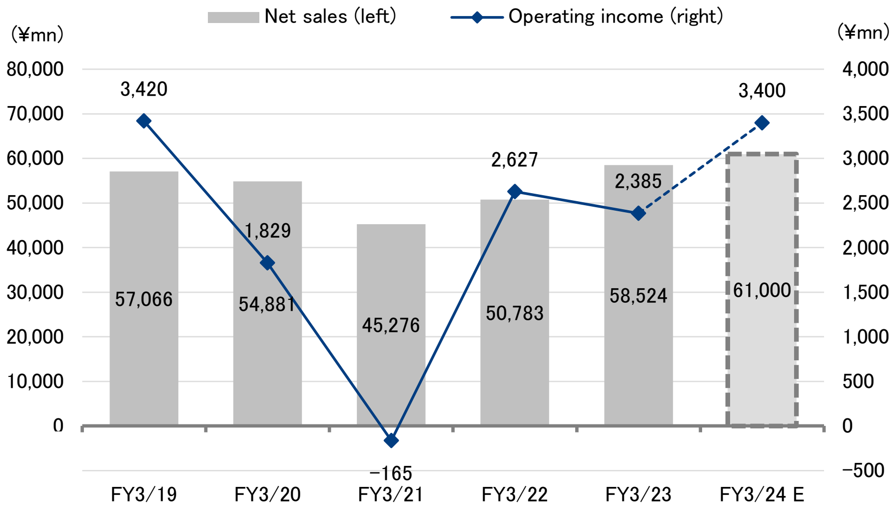
6. FISCO's focus

In the automobile engine parts industry, there are concerns that a severe business environment could develop due to the advance of electrification of vehicles, but electrification will not happen all at once and it is possible to envision a scenario in which engines survive. Through its business integration with Riken, the Company plans not only to contribute technologies for lower fuel consumption in the area of existing engine parts but also to increase efficiency through mutual utilization of the two companies' resources and accelerate development of new products and new businesses. Under the new management policies to be announced after the integration, it is possible that the companies will present an ambitious growth strategy for sustainable growth and higher corporate value, so FISCO's focus will be on the details of these policies.

Key Points

- Is a major manufacturer of automobile engine-use parts including piston rings and valve seat inserts and moving into the medical field
- In FY3/23, net sales set a record high, but profit declined on rising raw material and energy costs
- For FY3/24, forecasting a major increase in profit
- Business integration with Riken (on October 2, 2023) aimed at sustainable growth and higher corporate value

Results trends



Source: Prepared by FISCO from the Company's financial results

Company overview

A major manufacturer of piston rings and valve seat inserts

1. Company overview

The Company is a major manufacturer of products including piston rings and valve seat inserts that are used as vehicle engine parts. Its corporate philosophy is: We pursue every business operation on the principle of placing the No. 1 priority on customers; We respond with flexibility to changes in the environment and secure appropriate levels of profits to reflect our appreciation of our shareholders, suppliers, and business partners; In harmony with society, we contribute to the progress of human beings by securing the position of a global comprehensive parts manufacturer; and, We strive for the prosperity of the corporation and welfare of its employees through perpetual efforts for innovation and improvement in performance.

The Company will integrate its business with Riken (and establish a joint holding company, NPR-RIKEN, through a joint share transfer) on October 2, 2023 (scheduled), and NPR-RIKEN is scheduled to be listed on the TSE Prime Market on the same date (Nippon Piston Ring and Riken, which will become wholly owned subsidiaries, will delist on September 28, 2023). Through synergies provided by the business integration, the companies will work for sustainable growth and to further raise corporate value (details provided in the subsequent section on the Company's growth strategy).

As of the end of FY3/23, the head office was located in Saitama City, Saitama Prefecture, and total assets were ¥68,843mn, net assets were ¥38,117mn, capital was ¥9,839mn, the equity ratio was 52.4%, and the number of outstanding shares was 8,374,157 shares (including 583,728 treasury shares). The Group consists of 14 companies in total—the Company and 13 consolidated subsidiaries. Normeca Asia, a trading company specializing in medical equipment for emergencies and disasters, was made into a subsidiary on January 11, 2022.

2. History

Nippon Piston Ring Co., Ltd. was established in December 1934 in Tamura-cho, Shiba Ward, Tokyo City, at which time it also opened the Kawaguchi Plant. It then opened the Yono Plant in April 1939, and was listed on the Tokyo Stock Exchange (TSE) in May 1949 (transferred to the TSE Prime Market as part of the exchange's restructuring in April 2022). Subsequently, it started overseas business development from the 1970s, providing a wide range of products to the world's leading auto manufacturers. Since the 2000s, it has been accelerating business development for the growth markets of China, ASEAN, and India.

In addition, applying technologies it has cultivated since its founding, the Company will promote sales growth in the non-automobile engine business as a new product business by developing products in the fields of industrial and medical equipment.

History

Date	Event
December 1934	Established Nippon Piston Ring Co., Ltd., in Tamura-cho, Shiba Ward, Tokyo City, and opened the Kawaguchi Plant
April 1939	Opened the Yono Plant
May 1949	Listed on the Tokyo Stock Exchange
June 1964	Established Nippon Ring Service Co., Ltd.
January 1973	Established Schöttle Motorenteile GmbH in West Germany
July 1973	Established NPR of America, Inc. in U.S.A.
April 1974	Established NPR FUKUSHIMA WORKS CO., LTD.
September 1982	Established NPR Kawaguchi Works Co., Ltd., and NPR Distribution Center Co., Ltd.
December 1983	Established NPR Imanishi Works Co., Ltd., (currently NPR Shimane Co., Ltd.)
October 1984	Relocated the Kawaguchi Plant. Opened the Tochigi Plant
June 1989	Opened the Nogi Branch Plant of the Yono Plant (currently the Nogi Branch Plant of the Tochigi Plant)
April 1990	Established NPR IWATE CO., Ltd.
February 1996	Capital participation in IP Rings Ltd., in India
July 1997	Established Siam NPR Co., Ltd. in Thailand as a joint venture with Siam Cement Public Co., Ltd. (currently Cement Thailand Holdings)
May 1998	Transferred the headquarters to Yono City (currently Saitama City), Saitama Prefecture
December 1999	Established NPR of Europe GmbH. in Germany
December 2000	Established PT. Nippon Piston Ring Indonesia (currently PT. NT PISTON RING INDONESIA) in Indonesia
December 2001	Converted Siam NPR Co., Ltd., (Thailand) into a wholly-owned subsidiary
September 2002	Opened the Ichinoseki Plant of NPR IWATE CO., Ltd.
October 2004	Established NPR Manufacturing Michigan, Inc. in U.S.A.
January 2005	Merged Schöttle Motorenteile GmbH. with NPR of Europe GmbH
February 2005	Established NPR Auto Parts Manufacturing (Yizheng) Co., Ltd. in China
March 2005	Established NPR SINGAPORE PTE. LTD. in Singapore
February 2006	Established NPR Trading (Shanghai) Co., Ltd. in China (liquidated in December 2009)
March 2006	Established PT. NPR MANUFACTURING INDONESIA in Indonesia.
April 2006	Established NPR Auto Parts Manufacturing (Zhenjiang) Co., Ltd. in China.
May 2006	Established NPR Manufacturing Kentucky, LLC. in U.S.A. (absorbed and merged in January 2011)
January 2011	Merged the four US subsidiaries, of NPR US Holdings, Inc., NPR of America Inc., NPR Manufacturing Michigan, LLC. and NPR Manufacturing Kentucky, LLC. Changed the company name to NPR of America, Inc.
March 2011	Transferred all stocks held of NPR Shimane Co., Ltd.
December 2011	Established NPR AUTO PARTS MANUFACTURING INDIA PRIVATE LIMITED in India
March 2012	Absorbed and merged NPR Kawaguchi Works Co., Ltd. and NPR Distribution Center Co., Ltd.
July 2012	Conducted an absorption merger of NPR Auto Parts Manufacturing (Yizheng) Co., Ltd., and NPR Auto Parts Manufacturing (Zhenjiang) Co., Ltd.
December 2012	Established NPR Powdered Metals Manufacturing (Yizheng) Co., Ltd. in China.
July 2013	Converted PT. NT PISTON RING INDONESIA into a wholly-owned subsidiary, and it ceased to be a joint venture
October 2013	Transferred shares of NPR Powdered Metals Manufacturing (Yizheng) Co., Ltd. to Yizheng Shuanghuan Piston Ring Co., Ltd. (currently ASIMCO Shuanghuan Piston Ring (Yizheng) Co., Ltd.) and made it a joint venture. Changed the company name to NPR ASIMCO Powdered Metals Manufacturing (Yizheng) Co., Ltd.
May 2014	Acquired the metal injection molding business of Sumitomo Metal Mining Co., Ltd.
October 2014	Acquired the dental implant business of ISHIFUKU Metal Industry Co., Ltd.
October 2015	Established the Dental Implant Medical Device Center in the Tochigi Plant
October 2018	Transferred a part of the equity intertest in NPR of Europe GmbH. to Daido Metal Co., Ltd. <7245>
April 2021	Conducted an absorption merger of Nippon Ring Service Co., Ltd., and NPR Business Services Co., Ltd. Started a technological investigation with Sophia University for NiFreeT, which is a new medical-use material of a titanium-tantalum alloy
June 2021	Stated a joint development program with Medtronic <MDT> for implantable medical devices
August 2021	Developed cobalt-free valve seat inserts
October 2021	Established the Sustainability Promotion Office
January 2022	Made Normeca Asia Co., Ltd., a trading company specializing in medical equipment for emergencies and disasters, into a consolidated subsidiary
April 2022	Transferred to the TSE Prime Market as part of the exchange's restructuring
July 2022	Entered into a memorandum of understanding on business integration through the establishment of a joint holding company (stock transfer) with Riken
September 2022	Succeeded in developing a new medical-use titanium alloy material using the MIM process
May 2023	Concluded final agreement on a business integration with Riken
October 2023	NPR-RIKEN CORPORATION established through a joint share transfer with Riken is scheduled to be listed on the TSE Prime Market (scheduled)

Source: Prepared by FISCO from the Company's securities report and press releases

Business summary

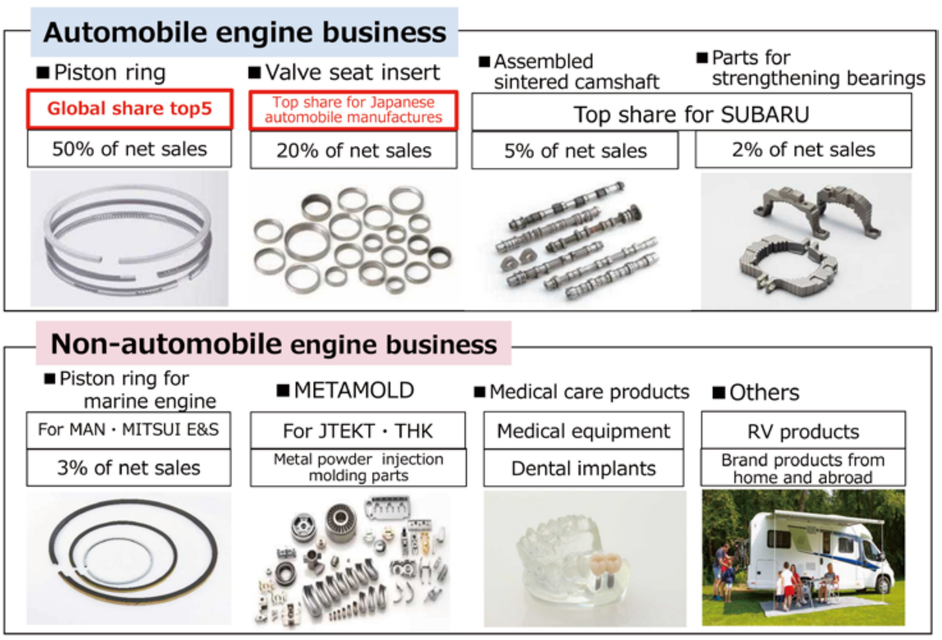
Main products are automobile engine-use piston rings and valve seat inserts

1. Business summary

The business segments are the Products for Automobiles Business, Products for Marine Engines and Other Products Business, and Others (merchandise sales, etc.). Separate to these segments, the Company also classifies its business as automobile engine business (existing business) and non-automobile engine business (new product businesses that utilize core technologies), and it is working to reinforce the earning capabilities of the automobile engine business and cultivate and establish the non-automobile engine business toward achieving the goals of the long-term vision and mid-term management plan.

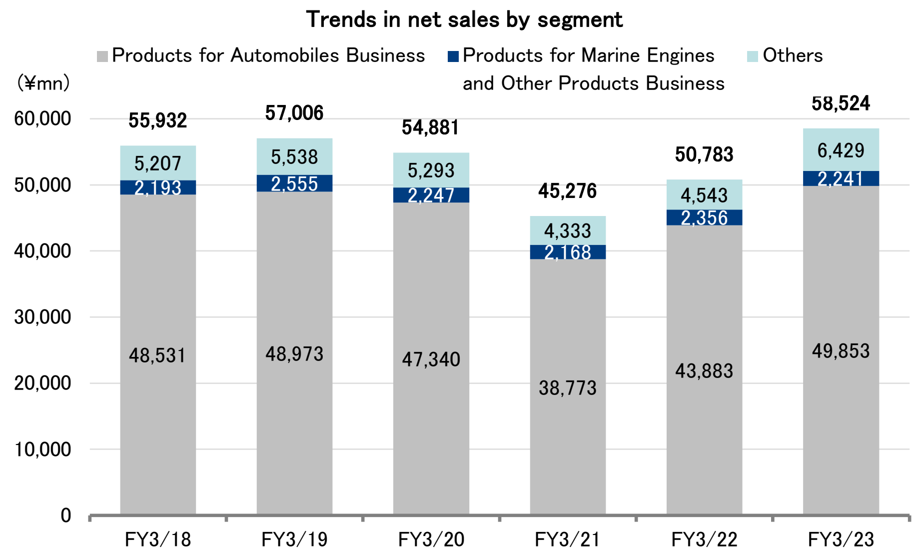
The main products of the automobile engine business include piston rings, valve seat inserts, and assembled sintered camshaft, which are all important functional components of a vehicle's engine, and it holds a top-five share of the global market for piston rings, as well as a leading share of the market for valve seat inserts for Japanese manufacturers. Its main non-automobile engine business products include piston rings for marine engines, and METAMOLD products (metal powder injection molding parts), as well as medical equipment products and recreational vehicle (RV) products.

Products



Source: The Company's results briefing materials

Vehicle production volume declined worldwide in FY3/21 under the impact of the COVID-19 pandemic, so the Company's performance in its Products for Automobiles Business suffered as well, but it has been recovering since FY3/22. In terms of sales share by product, piston rings account for around 50% of sales and valve seat inserts, for around 20%. There has been no major change in this division for the past six fiscal years.



Source: Prepared by FISCO from the Company's financial results

Company's strengths include its precision processing, surface treatment, materials and metals powder metallurgy technologies, and sintered alloy powder blending expertise

2. Characteristics and strengths

The Company's main products of piston rings and valve seat inserts are parts performing important functions related to automobile engine performance.

The main roles of piston rings include functions to seal gas leaks in an engine's combustion chamber, control lubricating oil (engine oil), transfer combustion heat that escapes, and minimize piston abrasion. They are used within the combustion chamber in the harsh conditions of a temperature of 300℃, and are related directly to engine performance. Therefore, in actuality there are only five companies in the world (one in the U.S., one in Germany, and three in Japan), including the Company, that are able to provide high-quality piston rings. In terms of technology, there are requirements such as for lower friction and improved abrasion resistance, high-performance and high-quality materials, and surface treatment. The Company's strengths include its advanced precision processing, surface treatment, and metal materials and powder metallurgy technologies that it has cultivated across its history of about 90 years since its establishment.

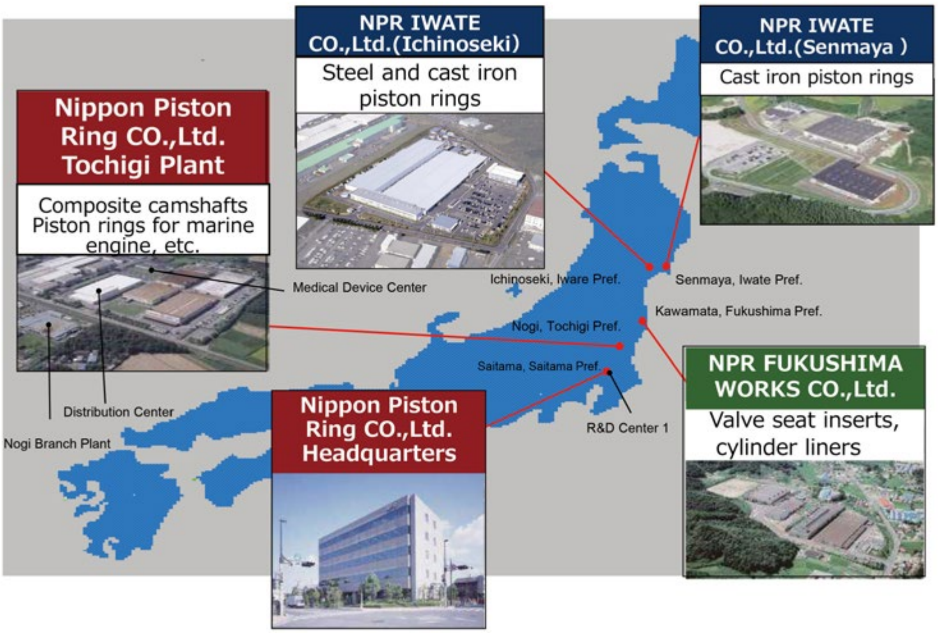
Valve seat inserts are the seats of the valves and exhaust valves and play the role of maintaining the airtightness of the combustion chamber. They are required to have durability that does not deteriorate even when impacted at high temperatures and airtightness that reliably seals in combustion gas. Therefore, sintered alloy is used as a material with high heat resistance and abrasion resistance. One of the Company's strengths is its expertise in sintered alloy powder blending, for which it holds the top share, approximately 40%, for Japanese auto manufacturers.

17 bases overseas in nine countries

3. Bases

The Group's manufacturing bases are the Company's Tochigi Plant (which includes the Medical Device Center and the Nogi Branch Plant), while manufacturing is also conducted within Japan by the manufacturing subsidiaries NPR Fukushima Works Co., Ltd. and NPR IWATE Co., Ltd. (Higashidai, Ichinoseki and Senmaya, Ichinoseki), and overseas by the manufacturing subsidiaries NPR of America, Inc. (NOA, U.S.), NPR Auto Parts Manufacturing (Yizheng) Co., Ltd (NAMY, China), NPR ASIMCO Powdered Metals Manufacturing (Yizheng) Co., Ltd. (NAPM, China), PT.NT Piston Ring Indonesia (NTRI, Indonesia), PT. NPR Manufacturing Indonesia (NPMI, Indonesia), SIAM NPR Co., Ltd. (SNPR, Thailand), and NPR Auto Parts Manufacturing India Pvt. Ltd. (NPRI, India). As the Group's overseas sales bases, it has sales offices for NOA in the U.S., NAMY in China, SNPR in Thailand, and NPRI in India. Furthermore, its sales subsidiaries include NPR of Europe GmbH. (NOE, Germany), NPR Singapore Pte. Ltd. (NPRS, Singapore), E.A. Associates Sdn. Bhd (EAA, Malaysia), and an office in South Korea. Overseas, the Company has 17 bases in nine countries (employing around 1,500 people), and its overseas sales ratio is around 60%.

Bases in Japan



Source: The Company's results briefing materials

Overseas bases

Source: The Company's results briefing materials

Supplies wide range of products to world's leading automobile manufacturers

4. Main customers

As its customers, the Company supplies a wide range of products to the world's leading auto manufacturers, including Toyota Motor, and one of its features is that it does not rely on any specific auto manufacturer for more than 10% of net sales. Moreover, its supply of products to major auto manufacturers in the U.S. and Europe and local auto manufacturers in China is increasing.

Main customers

Source: The Company's results briefing materials

Promotes new product development in the non-automobile engine business

5. New product businesses

In order to increase sales for the non-automobile engines business, the Company is progressing new product businesses centered on the industrial equipment and medical fields.

Regarding the industrial equipment field, the Company is working to grow sales of METAMOLD products for industrial equipment as deflectors for ball screws for vehicles' electric power steering and for SCARA robots. Furthermore, utilizing its superiority in terms of the degree of freedom for shaping and use of materials, the Company's policy is also to develop businesses for CASE*-related parts and the robot, sensor, and medical fields.

* CASE is an acronym for Connected, Autonomous, Shared & Services, Electric.

In the medical field, the Company acquired a dental implant business and obtained approval to conduct medical equipment manufacturing and marketing in October 2014. Utilizing this, it began imports and sales of radiation treatment products in September 2020, started sales of oral scanners in April 2021, and began a technological investigation into a specific project involving titanium-tantalum alloy NiFreeT, a new material for medical applications. NiFreeT is a new nickel-free, non-magnetic medical material with high biocompatibility. It is expected to be applied in dental screws, guidewires, catheter reinforcing material and other implements, and the Company is working to commercialize it as quickly as possible. In addition, in January 2022, it made Normeca Asia, a trading company specializing in medical devices for emergencies and disasters, a subsidiary.

In September 2022, using metal powder injection molding (MIM) process, the Company succeeded in developing a new titanium alloy material (Ti-6Al-4V) for medical uses that conforms with the ASTM-F2885 standard for surgical implants (details provided in the subsequent section on the Company's growth strategy).

6. Issues and measures for risk factors and earning characteristics

A risk factor is that the number of vehicles produced may decrease due to changes in demand and the impact of infectious diseases, disasters, etc. However, in the medium term, the global automobile market will grow, due in part to vehicle use expanding in emerging countries. So rather than a change in the number of vehicles produced, a risk factor for the Company at the current time is the impact of medium- to long-term environmental regulations (greater fuel efficiency of engines, declining use of gasoline engines, increased use of new clean fuel engines, spread of EV, etc.) driven by global movement toward decarbonization. The Company anticipates that the probability that widespread use of EV will quickly increase is low. Its policy is to develop technologies for the evolution of the automobile engine, including responses to the further improved fuel performance of gasoline engines and new clean fuel engines. In addition, based on the trend of the gradual shift to EV, it is also working to expand sales in the new product business.

Results trends

In FY3/23, net sales increased on yen depreciation and a demand recovery, but profit declined due to surging raw material and energy prices

1. Outline of results for FY3/23

In the FY3/23 consolidated results, net sales increased 15.2% year on year (YoY) to ¥58,524mn, operating income decreased 9.2% YoY to ¥2,385mn, ordinary income decreased 9.9% YoY to ¥2,755mn, and net income attributable to owners of parent decreased 6.3% YoY to ¥1,808mn. Net sales increased by double digits and set a new record high owing to yen deprecation, a moderate recovery in vehicle production volume, making Normeca Asia a subsidiary, and other factors, but profits declined as cost reductions and sale price adjustments could not make up for the impact of sharp increases in raw material and energy prices.

Consolidated results for FY3/23

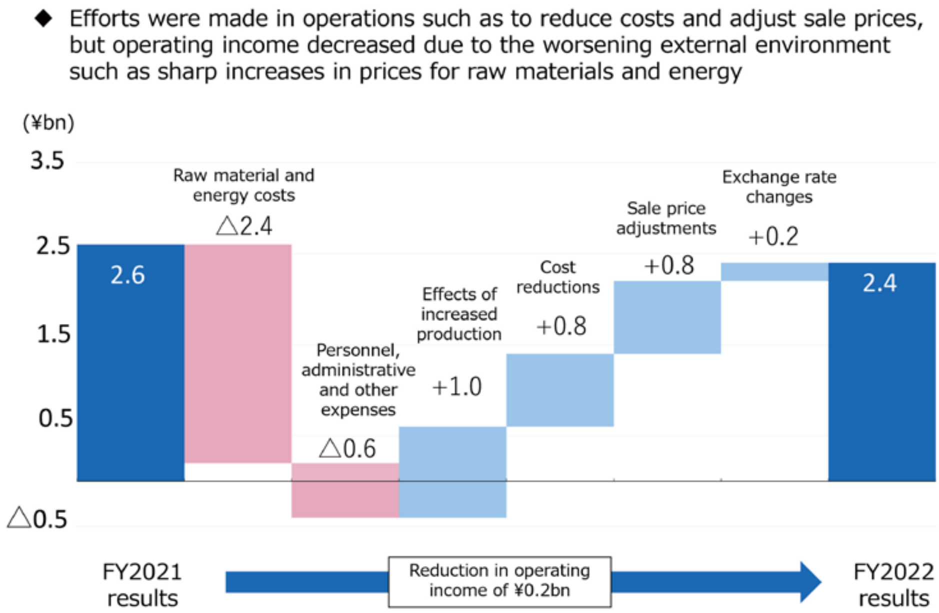
(¥mn)

	FY3/22		FY3/23		
	Results	%	Results	%	YoY
Net sales	50,783	100.0%	58,524	100.0%	15.2%
Products for Automobiles Business	43,883	86.4%	49,853	85.2%	13.6%
Products for Marine Engines and Other Products Business	2,356	4.6%	2,241	3.8%	-4.9%
Others	4,543	8.9%	6,429	11.0%	41.5%
Gross profit	11,558	22.8%	12,252	20.9%	6.0%
SG&A expenses	8,930	17.6%	9,867	16.9%	10.5%
Operating income	2,627	5.2%	2,385	4.1%	-9.2%
Products for Automobiles Business	2,632	6.0%	2,515	5.0%	-4.4%
Products for Marine Engines and Other Products Business	371	15.7%	298	13.3%	-19.6%
Others	177	3.9%	87	1.4%	-50.5%
Adjustment	-553	-	-516	-	-
Ordinary income	3,058	6.0%	2,755	4.7%	-9.9%
Net income (loss) attributable to owners of parent	1,928	3.8%	1,808	3.1%	-6.3%
Exchange rate					
US$/¥	109.90	-	131.62	-	-
Euro/¥	129.91	-	138.14	-	-

Note: The percentage for operating income (loss) by segment shows the ratio compared to the net sales of each segment
Source: Prepared by FISCO from the Company's financial results and results briefing materials

The ¥0.2bn decline in operating income was attributable to profit decreases of ¥2.4bn from increased raw material and energy costs and ¥0.6bn from increased personnel, administrative and other expenses, while the profit increases were ¥1.0bn from the effects of increased production, ¥0.8bn from cost reductions, ¥0.8bn from sale price adjustments, and ¥0.2bn from exchange rate changes. Gross profit increased by 6.0%, but the gross profit margin declined by 1.9 percentage points to 20.9%. SG&A expenses increased 10.5%, but the SG&A expenses ratio dropped 0.7pp to 16.9%. In the Company's case, the impacts of exchange rate changes are primary against the euro. Against the U.S. dollar, the impact of exchange rates is minimal because the Company has worked to localize its operations by establishing overseas bases.

Factors behind change in operating income



Source: The Company's results briefing materials

2. Segment trends

(1) Products for Automobiles Business

Net sales increased 13.6% to ¥49,853mn, and segment profit decreased 4.4% to ¥2,515mn. Vehicle production volume continued to be affected by shortages of in-vehicle semiconductors and stagnation in parts supply, but volume began to recover moderately toward the end of the period, and the yen's depreciation on foreign exchange markets also made a contribution as net sales increased by double digits. On the profit front, the Company worked to reduce costs and adjust sale prices, but profit declined because these efforts could not offset the impact of surging raw material and energy costs.

(2) Products for Marine Engines and Other Products Business

With demand for industrial equipment products decreasing, after temporarily rising in the previous period, net sales decreased 4.9% YoY to ¥2,241mn, and segment profit declined 19.6% to ¥298mn.

(3) Others

Net sales increased 41.5% YoY to ¥6,429mn, helped by a contribution from newly consolidated subsidiary Normeca Asia, while segment profit decreased 50.5% to ¥87mn.

3. Financial condition

Looking at the financial condition, at the end of FY3/23, total assets had increased ¥1,493mn to ¥68,843mn. This was mainly due to increases of ¥2,011mn in inventory assets and of ¥597mn in notes and accounts receivable - trade and investment securities decreasing ¥1,020mn. The increase in inventory assets is a temporary increase due to the strategic increase taking into account the production adjustments by auto manufacturers and supply chain disruptions. Total liabilities decreased ¥1,524mn to ¥30,725mn, which was mainly due to an increase of ¥510mn notes and accounts payable – trade, and an increase of ¥422mn in electronically registered obligations and to decreases in interest bearing debt (long-term borrowings) of ¥1,911mn and deferred tax liabilities of ¥335mn. Interest-bearing debt decreased, lowering the net D/E ratio to 0.21 (compared to 0.27 at the end of the previous fiscal year). Total net liabilities increased ¥3,018mn to ¥38,117mn, primarily because of an increase of ¥2,213mn in foreign currency translation adjustment, an increase of ¥1,243mn in retained earnings, and a decrease of ¥607mn in valuation difference on available-for-sale securities.

As a result, the equity ratio improved by 3.1 percentage points from the end of the previous fiscal year to 52.4%. In addition, free cash flow was ¥2,023mn (¥869mn in FY3/21 and ¥3,419mn in FY3/22), with the Company maintaining a level necessary for stable management. In FISCO's view, financial soundless is being maintained.

Consolidated balance sheet

(¥mn)

	End of FY3/18	End of FY3/19	End of FY3/20	End of FY3/21	End of FY3/22	End of FY3/23	Change
Total assets	66,097	65,793	63,608	61,809	67,349	68,843	1,493
Current assets	27,355	28,489	27,623	26,131	30,166	32,654	2,488
Non-current assets	38,741	37,304	35,985	35,678	37,182	36,188	-994
Total liabilities	33,614	33,298	32,319	31,541	32,250	30,725	-1,524
Current liabilities	21,947	23,001	22,050	19,254	20,959	22,416	1,457
Non-current liabilities	11,666	10,296	10,269	12,287	11,291	8,309	-2,982
Net assets	32,482	32,495	31,289	30,267	35,099	38,117	3,018
Shareholders' equity	28,918	30,189	29,950	28,299	30,105	31,417	1,312
Equity ratio	48.1%	47.4%	46.9%	46.4%	49.3%	52.4%	3.1pt

Source: Prepared by FISCO from the Company's financial results

Consolidated balance sheet

(¥mn)

	FY3/18	FY3/19	FY3/20	FY3/21	FY3/22	FY3/23
Cash flow from operating activities	6,094	5,129	3,669	4,358	6,498	5,155
Cash flow from investing activities	-4,856	-4,604	-3,606	-3,489	-3,079	-3,132
Cash flow from financing activities	-1,104	-845	-919	596	-2,511	-2,965
Cash and cash equivalents at the end of the period	4,911	4,386	3,514	4,766	5,989	5,606

Source: Prepared by FISCO from the Company's financial results

Outlook

Forecasting large profit increase in FY3/24

● FY3/24 consolidated results outlook

For the FY3/24 consolidated results, the Company forecasts increased sales and a significant increase in profits, and is forecasting net sales to increase 4.2% YoY to ¥61,000mn, operating income to increase 42.5% to ¥3,400mn, ordinary income to increase 16.1% to ¥3,200mn, and net income attributable to owners of parent to increase 16.1% to ¥2,100mn. The assumed exchange rates are ¥130.00 per U.S. dollar and ¥140.00 per euro. In the first half, the Company is forecasting net sales to increase 8.0% YoY to ¥30,000, operating income to rise 46.5% to ¥1,400mn, ordinary income to decrease 13.3% to ¥1,200mn and net income attributable to owners of parent to increase 39.4% to ¥800mn. Overall, the second half is expected to have a high share of results. It is anticipated that vehicle production volume will continue to be affected by shortages in in-vehicle semiconductors and stagnation in parts supply, but it is expected to recover to a certain extent in the second half. On the cost front, the Company is expecting raw material and energy costs to remain at high levels and increases in personnel and R&D expenses, but it is also expecting these increases to be absorbed by increased production and by cost reductions and sale price adjustments.

Consolidated outlook for FY3/24

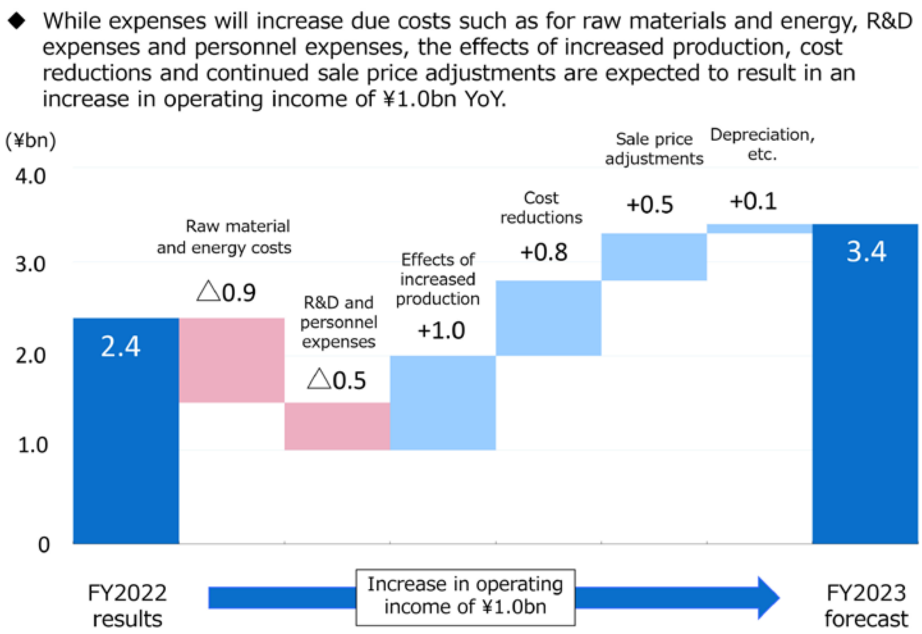
(¥mn)

	FY3/23		FY3/24			(1H)	
	Results	%	Forecast	%	YoY	Forecast	Change %
Net sales	58,524	100.0%	61,000	100.0%	4.2%	30,000	8.0%
Operating income	2,385	4.1%	3,400	5.6%	42.5%	1,400	46.5%
Ordinary income	2,755	4.7%	3,200	5.2%	16.1%	1,200	-13.3%
Net income attributable to owners of parent	1,808	3.1%	2,100	3.4%	16.1%	800	39.4%
Exchange rate							
US$/¥	131.62	-	130.00	-	-	130.0	-
Euro/¥	138.14	-	140.00	-	-	140.0	-

Note: The FY3/24 consolidated results forecasts for NPR-RIKEN are expected to be announced after the business integration.
Source: Prepared by FISCO from the Company's financial results

The ¥1.0bn increase in operating income is expected to be attributable to profit decreases of ¥0.9bn from increased raw material and energy costs and ¥0.5bn from increased R&D and personnel expenses and to profit increases of ¥1.0bn from increased production, ¥0.8bn from cost reductions, ¥0.5bn from sale price adjustments, and ¥0.1bn from decreased depreciation and other factors. Capital investment is expected to increase 40.6% YoY to ¥4.3bn, depreciation to decline 5.8% to ¥4.3bn and R&D expenses to rise 3.8% to ¥1.8bn. Capital investment is expected to increase by a large margin, but this is because during the past three fiscal years (¥2.6bn in FY3/21, ¥2.8bn in FY3/22 and ¥3.1bn in FY3/23) installations of some equipment had been delayed due to the impact of stagnation in parts procurement by facilities manufacturers and production adjustments by automakers affected by the COVID-19 pandemic. It does not follow that the Company is planning large-scale capital investment in FY3/24. The Company will continue to invest in streamlining measures, including automation and labor savings, research and development for the future, and environmental measures for carbon neutrality. R&D investment will prioritize technologies to raise fuel economy and contribute to carbon neutrality, parts for use with hydrogen engines and biofuels, and the development of new product areas.

Factors behind the change in operating income



Source: The Company's results briefing materials

These results forecasts are for the Company. The consolidated FY3/24 results forecasts for NPR-RIKEN after the business integration are expected to be announced following the integration (scheduled for October 2, 2023).

Growth strategy

Long-term vision to accommodate changes in the business environment

1. Long-term vision and 8th Medium-term Management Plan

The Company formulated The Next NPR 2030 long-term vision in order to respond to the major changes to the business environment surrounding the automobile industry, including those related to environmental contribution such as exhaust gas regulations, cost reductions, the spread of EVs, technological solutions such as CASE, and globalization. Its numerical targets for FY3/31 are net sales of ¥100bn, an operating income margin of at least 10%, for non-automobile engine business sales to provide at least 40% of net sales, and a reduction of CO_2 emissions of 46% (compared to FY3/14).

In May 2021, it also formulated the 8th Medium-term Management Plan (FY3/22 to FY3/24) by backcasting from its ideal vision of the future. The plan has been positioned as a period for building a foundation for achieving the long-term vision and its targets are net sales of at least ¥54bn, an operating income margin of at least 8%, for the non-automobile engine business to provide at least 15% of net sales, ROE of at least 8%, and a reduction of the CO_2 emissions volume of 25% (compared to FY3/14) in FY3/24. The above FY3/24 consolidated results forecasts put the operating income margin at 5.6%, which is less than the 8% or higher target of the 8th Medium-term Management Plan, but the margin when excluding the impact of increased market prices for raw materials and energy stands at 9.8%, so steady progress is being made.

Progress of 8th Medium-term Management Plan

➢ There has been some slowing in the progress of profits under the impact of changes in the external environment that have included sharp increases in prices for raw materials and energy and production adjustments caused by semiconductor shortages, but when these special factors are excluded, steady progress is evident.

<Management targets>	FY2021 results	FY2022 results	FY2023 results	FY2023 numerical targets for 8th Medium-term Management Plan
・Consolidated net sales	¥50.8bn	¥58.5bn	¥61.0bn	At least¥54.0bn
・Operating income margin (Excluding the impact of market price spikes)	5.2% (6.3%)	4.1% (7.7%)	5.6% (9.8%)	At least 8%
・Percentage of net sales from non-automobile engine sales	14%	15%	15%	At least 15%
・ROE	6.2%	5.2%	–	At least 8%
<Environmental targets> CO2 emissions (compared to FY3/13)	△37%	△35%	–	△25%

Source: Prepared by FISCO from the Company's results briefing materials

Despite market environment changes, current engines are expected to survive

2. Market environment

In the global automobile market, demand is forecast to grow, especially in emerging countries. However, movements such as the introduction of environmental regulations and a shift to EV are expected to accelerate in response to global warming and energy issues and a decline in the use of internal combustion engines (ICE) will prompt changes in powertrain composition. Furthermore, progress is being made on the development of hydrogen engines and clean e-fuel engines that use renewable energy to create fuel which is expected to lead to the spread of a new generation of mobility options. A comparison of CO_2 emissions generated well-to-wheel by EV and hybrid electric vehicles (HEV) show that a HEV equipped with a 50% fuel efficient engine based on the current stage of research and development performs competitively with an EV, so the possibility of an immediate, complete conversion to EV is forecast to be low and we at FISCO expect current engines to survive and remain in developed countries.

In December 2022, Toyota entered a GR Corolla installed with a clean hydrogen engine in an endurance race in Thailand. It was the first time a hydrogen engine car was entered in an overseas race, and showcases the hydrogen engine as a new clean fuel option for the carbon-neutral era. In addition, in March 2023, the EU changed its policy on banning sales of cars with gasoline engines starting in 2035 to allow for engines that run on synthetic fuels made from CO_2 and hydrogen in 2035 and beyond. The Company has been participating since 2021 in a project to develop a hydrogen engine truck being conducted by iLabo Co., Ltd. It provides piston rings and valve seat inserts modified for the specific characteristics of hydrogen engines and proactively takes part in evaluations of engine performance when burning hydrogen. It is also actively developing products compatible with biofuels and e-fuels.

3. Management strategy

To achieve the targets in the long-term vision and medium-term management plan, and taking into account automobile industry trends, the Company is focusing resources on three priority initiatives: Reinforce earning capabilities in existing businesses (automobile engine business), establish and cultivate new product businesses (non-automobile engine business), and promote sustainability management.

(1) Reinforce earning capabilities in existing businesses (automobile engine business)

The Company plans to reinforce earning capabilities in existing businesses by contributing to engine development by customers through the provision of high-quality ICE parts adapted to environmental regulations. Specifically, it will develop new products that contribute to realizing 50% fuel efficiency through differentiated technology, as well as consider products for achieving carbon neutrality, such as e-fuel and hydrogen fuel. It will also strengthen efforts to leverage its core technologies to grow sales in markets in emerging countries. In emerging countries such as India and many African countries market, the shift to EV has not manifested and the use of ICE vehicles is expected to continue growing for the foreseeable future. Therefore, the Company will aim to increase its market share in these countries, where there is still room for growth. Additionally, the electrification of large commercial vehicles is also facing many challenges and it is expected that diesel engines will continue to be used for the time being, so the Company will aim to expand its share of the market for large-scale commercial vehicles in China market, where it has already successfully acquired many customers. Furthermore, even in markets where new cars tend to be EV, demand for engine maintenance is forecast to remain steady, so it will continue efforts to expand its share of the aftermarket business especially in North America, Central America, and Africa.

(2) Establish and cultivate new product businesses (non-automobile engine business)

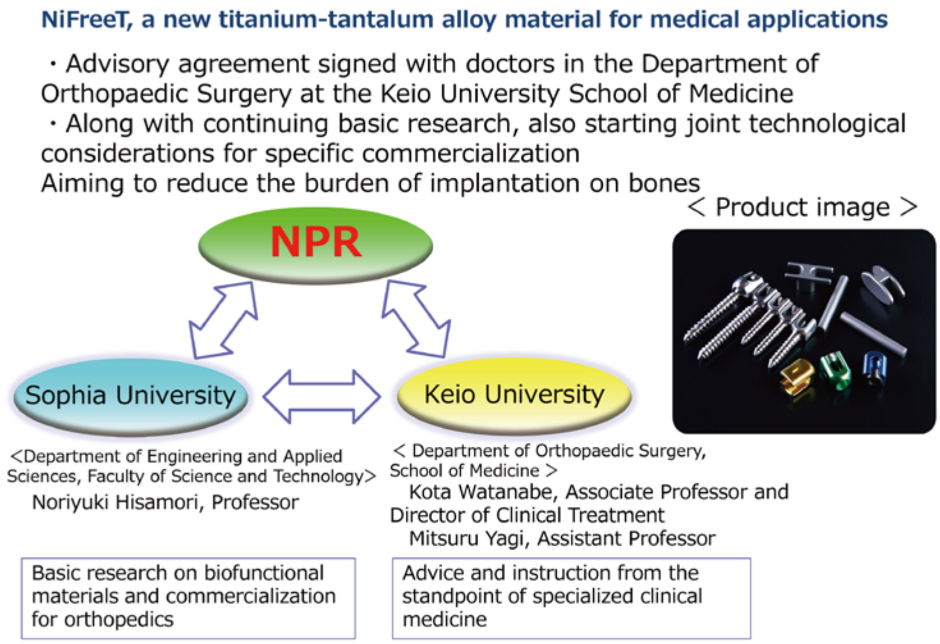
In the non-automobile engine business, the Company is aiming to steadily develop new product businesses in the medical and industrial equipment fields among others, and to use M&A and open innovation to establish business operations swiftly.

a) Medical field

Since FY3/15, the Company has been developing a business in the medical field using the metal materials technology and precision processing expertise it has accumulated in its core business of manufacturing and selling auto engine parts. It is also working with influential medical device manufacturers, universities, and other partners in the medical field, both in Japan and overseas, with a focus on developing “people-friendly medical equipment” that takes the perspectives of both medical professionals and patients into account.

NiFreeT, a new medical-use material of a titanium-tantalum alloy, is highly biocompatible being nickel-free and non-magnetic. It can also be retained within the body and it is less expensive than the precious metals conventionally used in medical equipment (platinum). NiFreeT was initially developed in-house by the Company for use with piston rings as a shape-memorizing alloy, but it was then re-classified as a medical-use material because it is nickel-free and presents excellent processability. The Company is working to commercialize it as quickly as possible for application in implantable medical devices such as dental screws, guidewires and catheter reinforcements. Technological considerations are being made jointly with Professor Noriyuki Hisamori of Sophia University. Toward the material's application in medical devices centering on orthopedics, in May 2023 the Company entered into an advisory agreement with Associate Professor and Director of Clinical Treatment Kota Watanabe and Assistant Professor Mitsuru Yagi of the Department of Orthopaedic Surgery at the Keio University School of Medicine. In addition, in June 2023, at the World Titanium Conference held at the Edinburgh International Conference Centre in the U.K., Dr. Bernard Li of Medtronic plc and the Company's New Product Business Development Department, the co-author, gave a presentation on the results of basic research on the application of NiFreeT to medical devices. Annual sales of implantable medical devices worldwide in 2022 are estimated at around $4.0bn (approx. ¥500.0bn), and the market has ample latitude for further development.

Establishment and cultivation of new product business



Source: Prepared by FISCO from the Company's results briefing materials

Normeca Asia Co., Ltd., a trading company specializing in medical equipment for emergencies and disasters, was made into a consolidated subsidiary in January 2022. Normeca Asia is advocating the immediate introduction of disaster medical care in Japan and has a wealth of knowledge and experience in the disaster and emergency field as the first trading company in Japan to specialize in disaster medical care equipment. In addition to handling medical equipment for emergencies and disasters and products to help prevent the spread of infections, it also provides services such as planning for disaster medical care training drills. The Company aims to grow sales in the non-automobile engine business by realizing Group synergies through the combination of Normeca Asia's broad customer base and ability to develop and deliver solutions and the Company's core technologies, manufacturing and sales capabilities, and organizational adaptability that leverages locations in Japan and overseas.

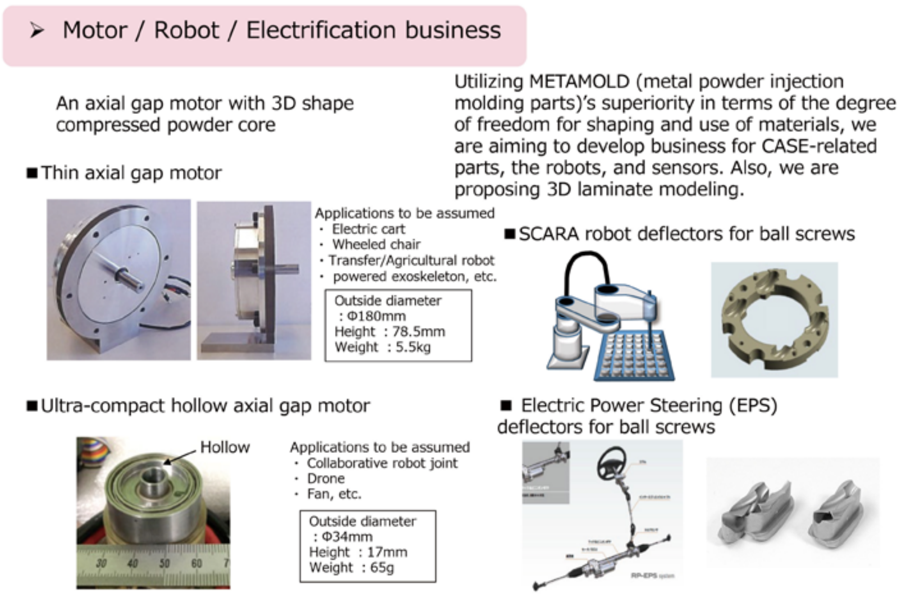
In September 2022, the Company succeeded in developing a new medical-use titanium alloy material (titan 6 aluminum 4 vanadium) in accordance with surgical implants standard ASTM-F2885 using the metal powder injection molding (MIM) process. By reducing impurities, the material has a fatigue strength around 40% stronger than other materials manufactured using the general MIM process and also reduces costs compared to existing manufactured goods. It appears the material has been subject to business inquiries from markets such as surgical plastic implants where strength is required. The Company's policy is to continue developing material and processing technologies to contribute to the progress of medical equipment.

The Company is also advancing new product development through a joint development program for implantable medical devices with Medtronic, a major global medical equipment manufacturer.

b) Industrial equipment field

In the industrial equipment field, the Company will utilize the METAMOLD production method's superiority in terms of the degree of freedom for shaping and use of materials to develop businesses in areas such as CASE-related parts, robots, and sensors. Also, its axial gap motor with 3D shape compressed powder core is perfectly suited for in-wheel motors and it is expected to be used for electric carts, wheelchairs, robot carriers, agricultural robots, and powered exoskeletons.

Establishing and cultivating industrial equipment businesses



Source: The Company's results briefing materials

4. Sustainability management

For its initiatives toward the sustainability management as important issues (materiality) that the Company will tackle as a priority from among the various issues that exist in society, it has specified co-existing with the global environment (contributing to the environment through products and in business activities), co-existing with stakeholders (improving customer satisfaction, employee safety and health, and realizing diversity), and building a foundation for sustainable growth (respecting human rights, corporate governance, and compliance), and centered around the Sustainability Promotion Office established in October 2021, it is conducting activities toward realizing a sustainable society.

Taking a leap forward toward becoming a sustainable company

Source: The Company's results briefing materials

Of the materiality, the Company to address "contributing to the environment in business activities" by aiming to reduce CO_2 emissions by 25% (compared to FY3/14) by FY3/24, by 46% by FY3/31, and to become carbon neutral by around 2050. Initiatives to date have included the introduction of innovative production lines, the reuse of waste heat, switching lighting to LED, and the use of J-credits derived from forests in Iwate and Tochigi Prefecture. In addition, in September 2022, subsidiary NPR IWATE entered into an energy service agreement for the introduction of a power purchase agreement (PPA) model (scheduled to begin in October 2023 with estimated annual CO_2 reductions of 1,000 tons) with SMFL MIRAI Partners Co., Ltd., a member of Sumitomo Mitsui Finance and Leasing Co., Ltd. Group. Also, at the Thai subsidiary SNPR, solar power facilities were installed and began generating power in July 2023 (estimated CO_2 reduction of 294 tons annually).

With regard to improving customer satisfaction, in March 2023 the Company received the Excellence of Quality Control Award from Toyota Motor in recognition for its quality improvement activities for the entire supply chain, including overseas sites and suppliers, and its success in reducing non-conformance rates. The Company was honored in 2022 as well, so this was the second consecutive year of receiving the award.

Regarding employee safety and health, the Company was recognized in the large enterprise category by the 2023 Certified Health & Productivity Management Outstanding Organizations Recognition Program sponsored by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi. It was the fourth consecutive year the Company has been recognized under the program. In addition, as initiatives to cultivate a base for sustainable growth, the Company established a Group policy on human rights and, in May 2023, it formulated and announced its Declaration of Partnership Building upon agreeing with the purport of the Council on Promoting Partnership Building for Cultivating the Future, whose members include related government ministries (Cabinet Office, Ministry of Economy, Trade and Industry, Ministry of Health, Labour and Welfare, Ministry of Land, Infrastructure, Transport and Tourism, and the Deputy Chief Cabinet Secretary), the chairman of the Japan Business Federation, the chairman of the Japan Chamber of Commerce and Industry, and the president of the Japanese Trade Union Confederation.

In recognition of these initiatives, the Company received a Bronze rating in the 2023 Sustainability Survey conducted by EcoVadis of France, an international rating institution related to sustainability.

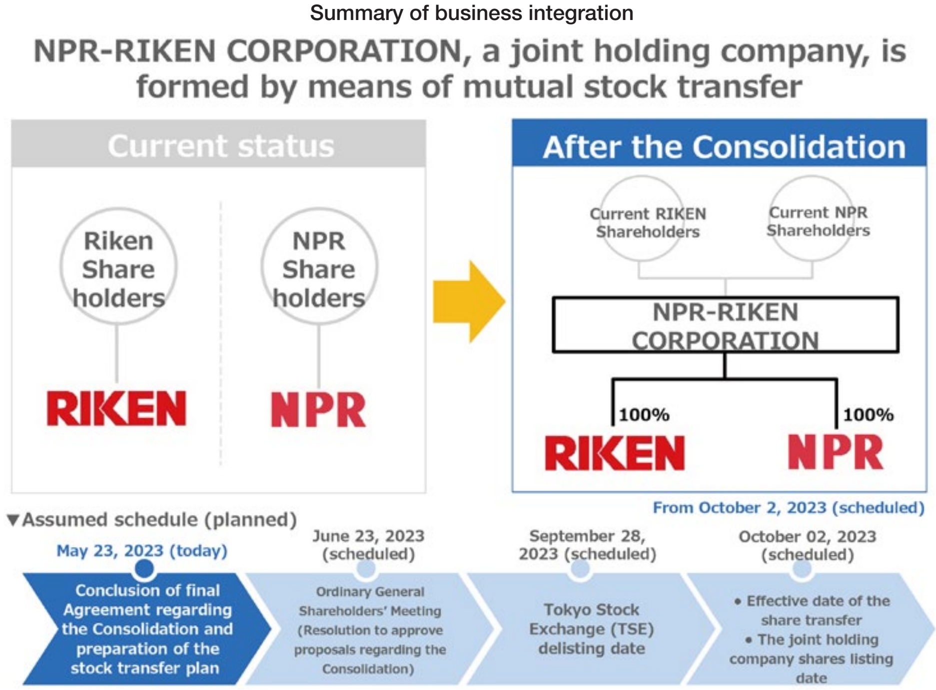
In addition, in June 2023 the Company expressed its support for the declaration of the Task Force on Climate-Related Financial Disclosures (TCFD), and based on the declaration it disclosed information in four categories, governance, strategy, risk management, and metrics and targets, in connection with climate-related risks and opportunities.

Business integration with Riken and establishment of joint holding company on October 2, 2023

5. Business integration with Riken and establishment of joint holding company

Regarding the business integration with Riken announced on July 27, 2022, the Fair Trade Commission has been notified and all screening procedures have been completed as of May 2, 2023, and a final agreement was concluded on May 23, 2023 for a business integration through establishment of a joint holding company. At the annual general meetings of shareholders of both companies held on June 23, 2023, approval was granted for the share transfer plan related to the establishment of NPR-RIKEN through a joint share transfer on October 2, 2023. Regarding share transfer ratios, 1.02 shares of common stock in the joint holding company are to be allocated per share of common stock in the Company and two shares of common stock in the joint holding company are to be allocated per share of common stock in Riken. Shares in the Company and Riken will be delisted on September 28, 2023, and the joint holding company, NPR-RIKEN, is scheduled to be newly listed on the Prime Market on October 2, 2023.

Summary of business integration



Source: The Company's news release announced on May 23, 2023

Situation after business integration

Trade name	NPR-RIKEN CORPORATION
Description of business	Manufacture and sale of automotive-related products; manufacture and sale of shipping-related and other products; etc.
Head Office Address	8-1, Sanbancho, Chiyoda-ku, Tokyo
Locations of main office functions	Tokyo Main Office : 8-1 Sanbancho, Chiyoda-ku, Tokyo Saitama Main Office : 5-12-10 Honmachi Higashi, Chuo-ku, Saitama City ,Saitama
Organization structure and officers	**1. Structure** : The company governed through an audit and supervisory committee **2. Representative Directors** : Chairman and Representative Director, CEO Yasunori Maekawa (To be selected) President and Representative Director, COO Teruo Takahashi (To be selected) **3. Number of Directors** : 13 Yasunori Maekawa Teruo Takahashi Kaoru Itoh Yuji Sakamoto Hidehiro Sakaba Masaaki Fujita Eiji Hirano Masako Kurosawa Kouei Watanabe Hiroto Koeba Osamu Honda Hiroki Kimura Tatsuya Sakuma
Capital	5,000 million yen
Stock Exchange Listing	Tokyo Stock Exchange Prime Market

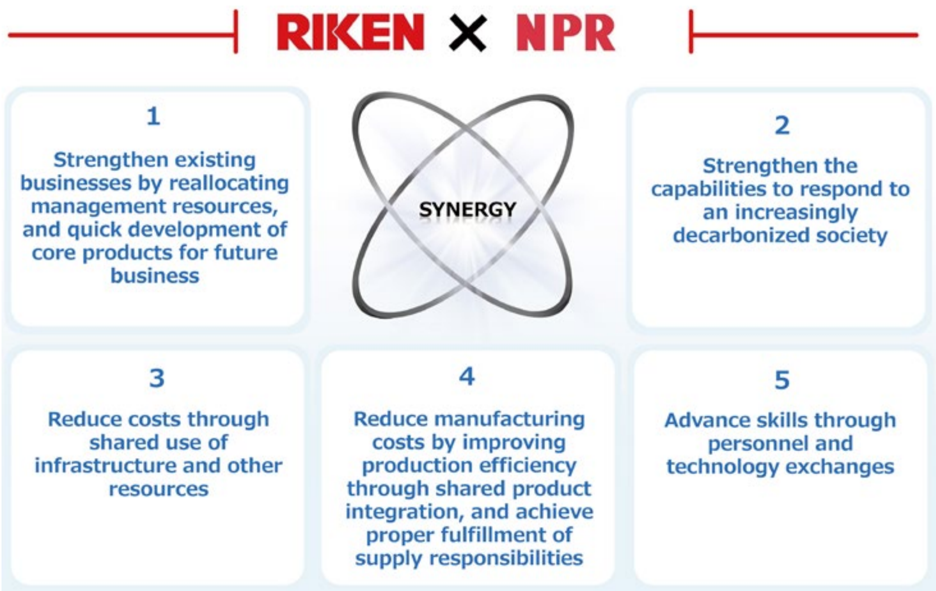
Source: The Company's news release announced on May 23, 2023

The background and purpose of the integration and synergies expected at present are as follows.

Regarding the background and purpose, both companies have primarily developed business centering on piston rings and other ICE parts, contributing to the development of motorization globally. Going forward, developing engine parts that are friendly to the global environment is the mission of both companies, but both also recognize that they need to increase investment in new business fields that take up global trends, the SDGs, ESG and decarbonization, specifically, and not focus exclusively on parts peripheral to internal combustion engines. To this end, as the first step in their development going forward, the companies, through the business integration, will promote management resource allocation and cultivation of their next core business under an integrated governance structure while leveraging the brands of both companies, which have been built up over many years. As a result, it will be possible for the companies to accelerate initiatives for decarbonization while generating major synergies and to pursue sustainable growth and higher corporate value as they evolve into a completely new business entity. The two companies entered into the final agreement for business integration as the best option for their shareholders, employees and all stakeholders.

The expected synergistic effects of the business integration include: (1) Strengthen existing businesses by real-locating management resources, and quickly developing products that will form the core of future business, (2) strengthen the capabilities to respond to an increasingly decarbonizing society, (3) reduce costs through shared use of infrastructure and other resources, (4) reduce manufacturing costs by improving production efficiency through shared product integration, and achieve proper fulfillment of supply responsibilities, and (5) advance skills through personnel and technology exchanges.

Expected synergistic effects



Source: The Company's news release announced on May 23, 2023

(1) Strengthen existing businesses by reallocating management resources, and quickly developing products that will form the core of future business

Both companies will adjust capital investment and promote wide-range product optimization in order to work towards improving business efficiency and deepening development capabilities in existing businesses, strengthening cash flow creation. They will also increase the efficiency of existing business to reallocate management resources to future core businesses and new products to quickly develop new products. Specifically, the Company will seek to cultivate and establish new product businesses (medical equipment, motorization/robot, motor), while Riken will aim to create the shoots of next-generation core products (thermal engineering business, EMC business, hydrogen/new energy business, next-generation new business (non-ICE)).

(2) Strengthen the capbilities to respond to an increasingly decarbonized society

The two companies will bring to the table products and production technologies and resources cultivated to date, and by doing so, will contribute to the creation of a sustainable society by developing the environmental technology field that accelerates product decarbonization and by actively working to reduce CO_2 emissions throughout the entire supply chain. Specifically, the companies will work to contribute to a reduction of ICE fuel consumption (environmental burden) through products with advanced environmental performance, providing high-efficiency power train system solutions, and Riken developing next-generation ICE parts.

(3) Reduce costs through shared use of infrastructure and other resources

The companies aim to improve operational efficiency and cost reductions to secure a competitive advantage by improving productivity through the entire supply chain, reducing external outflow costs by standardizing internal manufacturing processes in both companies; reducing procurement costs through joint purchasing, and increasing efficiency by eliminating duplicated systems and indirect operations.

(4) Reduce manufacturing costs by improving production efficiency through shared product integration, and achieve proper fulfillment of supply responsibilities

The two companies will promote the mutual use of factories beyond previous demarcations and the optimization of production hubs with the goal of significantly improving productivity, expanding the capability of offering high-quality products, and reducing fixed costs. Additionally, by establishing a sustainable production system, we will be able to fulfill our responsibility to supply products to our customers in a timely and appropriate manner.

(5) Advance skills through personnel and technology exchanges

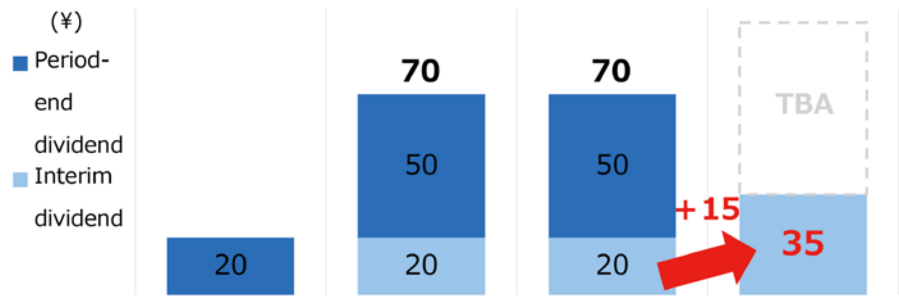
The companies will provide the opportunity for new ideas to be born in various fields and stages through the active exchange of knowledge and technologies. The companies will strive to build a workplace environment that increases employee engagement more than ever before.

6. Shareholder return

The Company considers appropriately and stably returning profits to shareholders to be its one of the important management issues, and it does so after comprehensively considering factors such as results trends and business development in the future. In accordance with this basic policy, For FY3/23, it paid the same annual dividend as the previous fiscal year of ¥70.0 (interim dividend of ¥20.0, period-end dividend of ¥50.0). Dividend payout ratio was 30.1%. For FY3/24, the Company announced an interim dividend of ¥35 and forecasts a dividend increase of ¥15 from the previous fiscal year. The period-end dividend has not been announced as of the present time, and another announcement is planned as NPR-RIKEN, the joint holding company.

Shareholder return (dividend)

- Policy: A stable, continuing dividend based on a target payout ratio of about 30% or higher
- Interim: ¥35 (+¥15 YoY)
- Period-end: TBA (due to planning business integration thorough establishment of joint holding company with Riken)



	FY2020	FY2021	FY2022	FY2023 (interim forecast)
Dividend payout ratio	－%	2 8%	3 0%	3 5%

Source: The Company's results briefing materials

7. FISCO's focus

In the automobile engine parts industry, there are concerns that a severe business environment could develop due to the advance of electrification of vehicles, but electrification will not happen all at once and it is possible to envision a scenario in which engines survive. Through its business integration with Riken, the Company plans not only to contribute technologies for lower fuel consumption in the area of existing engine parts but also to increase efficiency through mutual utilization of the two companies' resources and accelerate development of new products and new businesses. Under the new management policies to be announced after the integration, it is possible that the companies will present an ambitious growth strategy for sustainable growth and higher corporate value, so FISCO's focus will be on the details of these policies.

Disclaimer

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