COMPANY RESEARCH AND ANALYSIS REPORT

NPR-RIKEN CORPORATION

6209

Tokyo Stock Exchange Prime Market

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Contents

Summary

Aims to pursue synergy and raise corporate value through management integration

NPR-RIKEN CORPORATION <6209> (the "Company") is a holding company established through a management merger on October 2, 2023 between major piston ring manufacturers RIKEN CORPORATION and Nippon Piston Ring Co., Ltd. (hereafter, "NPR"). The Company will pursue synergies under an integrated governance while leveraging the long-cultivated brand power of both companies, aiming for sustained growth and to raise corporate value.

1. Developing the Automobile and Industrial Machinery Parts Business and Piping Products Business

The Company's segments are the Automobile and Industrial Machinery Parts Business, Piping Products Business, and Other Business. Mainstay products in the Automobile and Industrial Machinery Parts Business are piston rings and valve seat inserts, which are engine parts. The Company also develops items such as sintered products, engineered plastic components, and casting components related to automobile engines, transmissions, drive, and the chassis, as well as industrial machinery parts, and parts for marine engines. Mainstay products in the Piping Products Business are pipefittings and other piping components. In May 2023, NIPPON PIPE FITTING CORPORATION (formerly JFE Pipe Fitting Mfg. Co., Ltd.) was made a subsidiary to make the Company the top pipefitting company in the domestic industry. In Other Business, the Company group develops, manufactures, and sells PYROMAX™, a metallic heating element, and PYROMAX-SUPER™, a ceramic heating element, which are developed proprietarily, for the thermal engineering business. This business is involved in heat units, industrial furnaces and other thermal processes that utilize these products. It also develops the EMC (Electro-Magnetic Compatibility) business, which is involved in the manufacture and sale of anechoic chambers and other products. In February 2024, SHINWA VANES CO., LTD. was made a subsidiary to expand RIKEN's thermal engineering business for the semiconductor industry.

2. Operating and ordinary profit increased substantially in 1H FY3/25

In its consolidated results for 1H FY3/25, the Company reported net sales of ¥84,650mn, operating profit of ¥5,444mn, ordinary profit of ¥6,719mn, and profit attributable to owners of parent of ¥3,934mn. Because 1H FY3/24, the same period of the previous year, was before the merger, comparisons of results are based on totaled figures for RIKEN and NPR's results for 1H FY3/24 (net sales ¥81,791mn, operating profit ¥3,801mn, ordinary profit ¥5,667mn, profit attributable to owners of parent ¥7,017mn). On this basis, net sales rose 3.5%, operating profit increased 43.2%, and ordinary profit rose 18.6%, while profit attributable to owners of parent decreased 43.9%. Sales volume of automobile-related parts was sluggish due to factors including a decrease in ICE vehicle production in China as a result of growth in EVs in the country, and a decline in automobile production volume in Japan mainly due to the impact of the fraudulent certification issue at certain Japanese automakers. However, these negative impacts were absorbed by positive factors such as the effects of yen depreciation, increased revenue from the consolidation of SHINWA VANES, sales price adjustments for surging material, labor, and other costs, and rationalization, resulting in substantial increases in operating and ordinary profit. Profit attributable to owners of parent decreased significantly as the gain on bargain purchase recorded in the previous fiscal year dropped away.

3. Initial forecasts for FY3/25 remain unchanged, with upside potential although operating and ordinary profit is forecast to decrease slightly

The Company's consolidated results forecasts for FY3/25 remain unchanged with net sales of ¥171,000mn, operating profit of ¥10,400mn, ordinary profit of ¥12,700mn, and profit attributable to owners of parent of ¥8,000mn. In extraordinary income, the gain on bargain purchase recorded in the previous fiscal year will drop away. Comparing totaled figures for FY3/24 that reflect 12 months of results for both RIKEN and NPR, net sales is expected to be up 1% YoY, operating profit down 2%, ordinary profit down 7% and profit attributable to owners of parent down 71%, (down 8%, excluding the gain on bargain purchase recorded last term). The assumed exchange rates are ¥145 = $1 and ¥155 = €1. Sales will increase slightly as a result of factors such as consolidating SHINWA VANES, but with automobile production volume uncertain and higher costs due to strategic investment in growth fields, small declines in operating and ordinary profit are expected. We at FISCO believe there is likely to be upside potential to the Company's forecasts, given the steady progress rate for 1H results relative to full-year forecasts, the current exchange rate level showing a weaker yen than the Company's assumptions, and signs that surging raw material costs are stabilizing.

4. Aiming for ROE above shareholder capital costs

The Company formulated its 1st midterm management plan (FY2024 to FY2026) in February 2024, and its quantitative targets for the final year of the plan, FY3/27, are net sales of ¥180.0bn, ordinary profit ratio of 9% or higher and ROE of 8% or higher. Further, regarding the targets for 2030 Vision, for FY3/31, the Company is targeting net sales of ¥200.0bn, an ordinary profit ratio of 12% or higher and ROE of 10% or higher. As its growth strategy, the Company is aiming for ROE in excess of shareholder capital costs by reforming the business portfolio, including integration of operating subsidiaries (scheduled to be completed in April 2026), creating synergies, and optimizing the balance sheet. As for business strategy, toward business portfolio reform, the Company categorized its business into the piston ring business, which seeks to strengthen profitability, fundamental business (sintered products, engineered plastic products, and precision components for automobiles and industrial machinery, and piping products for construction industry) and the next core business (existing businesses in growth fields, new products, new businesses), which aims to expand sales scope and become a core business, and will promote business strategies for each of these categories. Regarding shareholder returns, the 1st midterm management plan calls for a payout ratio of 40% or higher, and a total payout ratio of 70% or higher on a 3-year average, which includes acquiring treasury shares. It plans to buy back ¥10.0bn of its own shares over 3 years to increase the level of returns to shareholders.

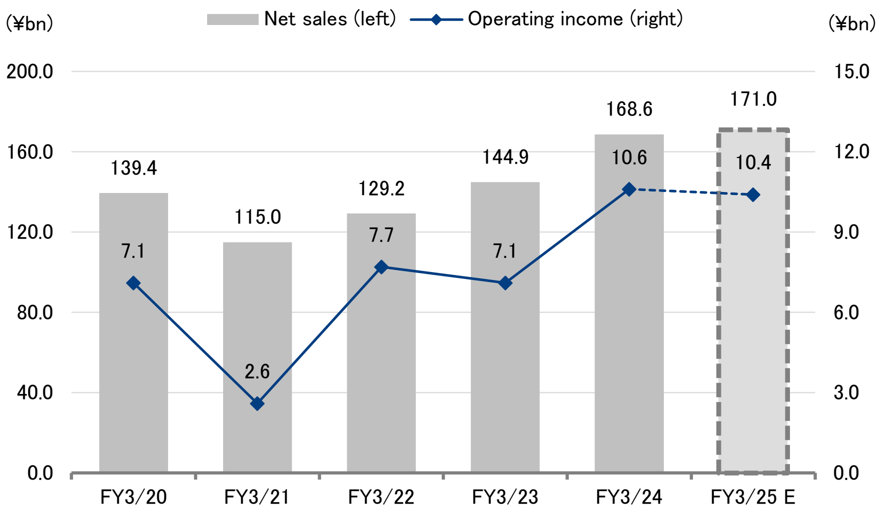
5. Expecting full-fledged synergies from the merger

The challenging business environment surrounding the automobile engine parts-related industry has raised concerns due to the trend toward electric vehicles, but there is only a small possibility that electrification will proceed all at once. Along with the possibility that the shift to electric vehicles will slow, given that survival scenarios for internal combustion engines (ICEs) can be assumed, it is believed that the Company's Automobile and Industrial Machinery Parts Business, starting with piston rings, may continue to generate stable earnings through an appropriate business strategy. Considering such points, we at FISCO believe that investors in general are perhaps somewhat too pessimistic about the automobile engine parts-related industry. In the future, full-fledged synergies are expected to emerge from the merger, including efficient operation of the corporate divisions and the businesses common to both companies, such as piston ring business. For this reason, we at FISCO would like to focus on the Company's steady progress on the 1st midterm management plan.

Key Points

- RIKEN and Nippon Piston Ring (NPR) merge to form a holding company
- Operating and ordinary profit increased substantially in 1H FY3/25
- Upside potential in FY3/25 despite expectations of small declines in operating and ordinary profit
- Aiming for ROE above shareholder capital costs
- Expecting full-fledged synergies from the merger

Results trends



Note: From a business combination accounting perspective RIKEN was the acquirer in the merger, so the figures presented in the financial summary for FY3/24 do not reflect 6 months of results, from April to September 2023, for Nippon Piston Ring. Therefore, the net sales and operating profit presented in the financial results briefing materials for FY3/24 (as of June 13, 2024) are shown as figures for FY3/24 (totaled figures that reflect 12 months of results for both RIKEN and Nippon Piston Ring) (unit: ¥bn). Following this approach, the simple sum of figures for the two companies' results (unit: ¥bn) have also been calculated and shown as figures for FY3/23 and prior fiscal years.
Source: Prepared by FISCO from the Company's financial results

Company overview

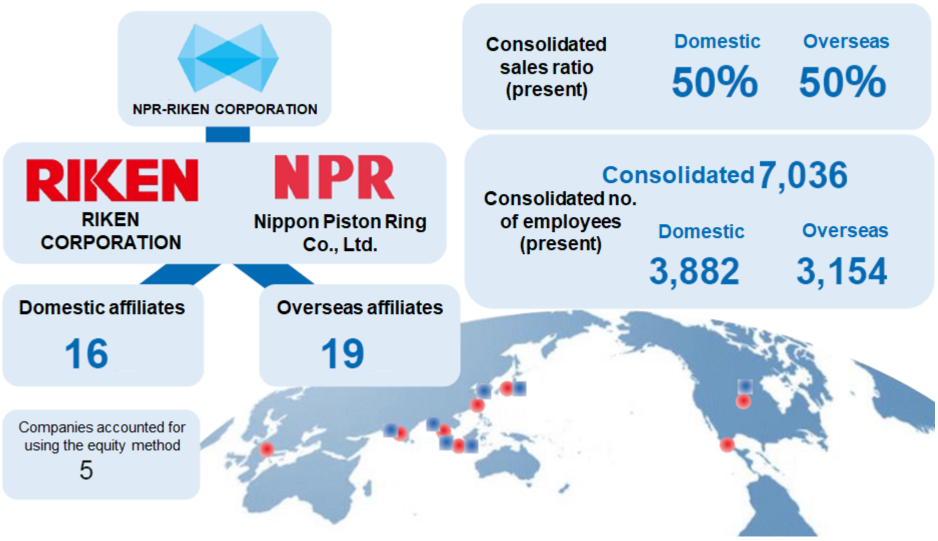
Holding company that integrates the managements of RIKEN and Nippon Piston Ring

1. Company overview

The Company is a holding company (established by way of a joint stock transfer) for RIKEN and NPR, major manufacturers of piston rings, which merged on October 2, 2023. The Company will pursue synergies under an integrated governance while leveraging the long-cultivated brand power of both companies, aiming for sustained growth and to raise corporate value.

As of the end of 1H FY3/25, the head office is located in Chiyoda-ku, Tokyo and head office functions are split between the Tokyo head office (Chiyoda-ku, Tokyo) and the Saitama head office (Chuo-ku, Saitama). The Company's total assets are ¥215,659mn, its net assets are ¥150,840mn, its equity ratio is 65.8%, its number of shares outstanding is 28,247,910 (including 1,377,169 shares of treasury stock). The Company's Group includes the Company, which is the holding company, 37 consolidated subsidiaries (including RIKEN and NPR), and 5 equity-method affiliates, and it develops production and sales sites globally.

NPR-RIKEN Group



Source: Reprinted from the Company's results briefing materials

2. History

RIKEN's history started with the invention of a manufacturing method for piston rings in 1926 (patents acquired in various countries) by Dr. Keikichi Ebihara of the Okochi Research Laboratory of the Institute of Physical and Chemical Research. In 1927, to commercialize the invention, Rikagaku Kogyo was established and started mass production of piston rings for the first time in Japan. After name changes, splits and mergers, in 1941 RIKEN Industries Co. was founded. Next, following reorganization after the war, in 1949 the company was relaunched as Riken Kumagaya Cast Iron Co. (renamed as Kumagaya Cast Iron Co. in 1951). In 1952, its shares were listed on the Tokyo Stock Exchange and in 1979 it changed its name to RIKEN CORPORATION. It carried out overseas expansion starting in the 1960s and supplies a broad range of products to major automakers around the world.

NPR's history began with the establishment of Suzuki Seisakusyo in 1912 by Tomonori Suzuki, who studied the technologies of marine engines on his own. He started to design and make hot bulb marine engines, rice polishing machines and other products. Suzuki keenly sensed the need for domestic production of piston rings and devoted himself to their manufacture. He completed prototypes of piston rings in 1931 and changed the name of the company to Nippon Piston Ring Seisakusyo. In 1934 the company was publicly listed and it opened a factory in Kawaguchi City in Saitama Prefecture. An air raid in 1945 destroyed the head office building and the factory closed temporarily at the end of the war. It relisted its shares on the TSE in 1949. In the 1970s, it began strengthening overseas expansion and now supplies products to major automakers around the world.

Both companies, since their establishment as piston ring manufacturers, have contributed to the development of the global automobile industry for many years, but amid what's been called a once in a century restructuring of the auto industry, to tackle the various issues facing both companies, the pursuit of synergies under an integrated governance while utilizing the brands of both companies built up over many years would be the optimal choice for realizing the sustained growth of both companies and increasing their corporate value. Based on this understanding, the companies merged their managements on October 2, 2023 and established a holding company that listed its shares on the Tokyo Stock Exchange Prime Market (RIKEN and NPR, which became wholly owned subsidiaries, delisted on September 28, 2023).

History

RIKEN

Date	Event
1926	Dr. Keikichi Ebihara of the Okochi Research Laboratory of the Institute of Physical and Chemical Research invented a manufacturing method for piston rings. (Acquired patents in various countries.)
1927	Established Rikagaku Kogyo to commercialize the inventions of the Institute of Physical and Chemical Research. Succeeded in mass production of piston rings for the first time in Japan.
1941	Established Riken Industries Co. after renaming, corporate split-up, merger with other companies and so on.
1949	After the post-war reorganization, Riken Industries Co. was relaunched as Riken Kashiwazaki Piston Ring Industries Co. (renamed as Riken Piston Ring Industries Co. in 1950) and Riken Kumagaya Cast Iron Co. (renamed as Kumagaya Cast Iron Co. in 1951). This marked the founding of RIKEN CORPORATION.
1952	Listed on Tokyo Stock Exchange.
1979	Changed the corporate name to RIKEN CORPORATION.
2023	Acquired shares of NIPPON PIPE FITTING CORPORATION to make it a subsidiary. Delisting of RIKEN CORPORATION due to consolidation with Nippon Piston Ring Co., Ltd. through the establishment of a joint holding company.

Nippon Piston Ring (NPR)

Date	Event
1912	Tomonori Suzuki who learned marine engine technology on his own opened Suzuki Seisakusyo.
1931	Suzuki completed prototypes of piston rings, and changed the company name to Nippon Piston Ring Seisakusyo. (Became a public company in 1934.)
1949	Listed on the Tokyo Stock Exchange.
2014	Acquired the business of metal injection molding from Sumitomo Metal Mining Co., Ltd. Acquired the business of dental implant from ISHIFUKU Metal Industry Co., Ltd.
2022	Acquired all shares of Normeca Asia Co., Ltd., making it a subsidiary.
2023	Delisting of Nippon Piston Ring Co., Ltd. due to consolidation with RIKEN CORPORATION through the establishment of a joint holding company.

NPR-RIKEN CORPORATION

Date	Event
2023	RIKEN CORPORATION and Nippon Piston Ring Co., Ltd. established NPR-RIKEN CORPORATION by means of share transfer and listed its shares on the Tokyo Stock Exchange Prime Market.
2024	RIKEN CORPORATION acquired the shares of SHINWA VANES CO., LTD. Formulated the 1st midterm management plan.

Source: Prepared by FISCO from the Company's website and securities report.

Business summary

Mainstay products are automobile engine parts-related

1. Business summary

The segment categories post-merger are the Automobile and Industrial Machinery Parts Business, Piping Products Business, and Other Business (thermal engineering business, EMC business, and products sales).

The mainstay products in the Automobile and Industrial Machinery Parts Business are piston rings and valve seat inserts, etc., which are engine components. The Company also develops items such as sintered products, engineered plastic components, and casting components related to automobile engines, transmissions, drive, and the chassis, as well as industrial machinery parts, and parts for marine engines.

Mainstay products in the Piping Products Business are pipefittings and other piping components. In May 2023, RIKEN made the major pipefitting company NIPPON PIPE FITTING a subsidiary and became the top pipefitting company in the domestic industry.

In Other Business, the Company group develops, manufactures, and sells PYROMAX™, a metallic heating element, and PYROMAX-SUPER™, a ceramic heating element, which are developed proprietarily for the thermal engineering business. This business is involved in heater units, industrial furnaces and other thermal processes that utilize these products. It also develops the EMC business, which is involved in the manufacture and sale of anechoic chambers and other products. In February 2024, SHINWA VANES, which has strength in small and mid-size heater units in the low temperature domain, was made a subsidiary to expand RIKEN's thermal engineering business for semiconductor manufacturing equipment.

Sales shares for 1H FY3/25 (shares relative to total sales before elimination of intersegment transactions) are 77% for the Automobile and Industrial Machinery Parts Business, 11% for the Piping Products Business and 13% for the Other Business. Looking at segment trends prior to the merger between RIKEN and NPR shows that both companies are focused on automobile engine parts-related areas such as piston rings.

Segment trends prior to the merger

RIKEN (¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23
Consolidated net sales	84,530	69,720	78,372	86,382
Automobile and Industrial Machinery Parts Business	71,509	57,599	65,487	72,904
Others	16,055	14,202	15,488	16,089
Adjustment	-3,034	-2,081	-2,602	-2,611
Consolidated operating profit	5,234	2,728	5,122	4,676
Automobile and Industrial Machinery Parts Business	3,831	1,726	3,570	3,023
Others	1,416	1,049	1,856	1,618
Adjustment	-13	-47	-304	34

NPR (¥mn)

	FY3/20	FY3/21	FY3/22	FY3/23
Consolidated net sales	54,881	45,276	50,783	58,524
Products for automobiles business	47,340	38,773	43,883	49,853
Products for marine engines and other products business	2,247	2,168	2,356	2,241
Others	5,293	4,333	4,543	6,429
Consolidated operating profit	1,829	-165	2,627	2,385
Products for automobiles business	2,487	-24	2,632	2,515
Products for marine engines and other products business	-213	137	371	298
Others	132	146	177	87
Adjustment	-577	-424	-553	-516

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

The Company's strengths include its precision processing, surface treatment, materials and metals powder metallurgy technologies

2. Characteristics and strengths

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°C, and perform important functions 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 RIKEN and NPR, which are able to provide high-quality piston rings. Special technical capabilities are required, including lowering friction, raising abrasion resistance, high-performance, high-quality materials, and surface processing, but both companies have strength in advanced precision processing, surface treatment, and materials technology. In addition, the Company has unique strengths in powder metallurgy technologies and engineered plastics technologies. Its main customers are the world's major automakers, starting with Toyota Motor Corporation <7203> and Honda Motor Co., Ltd. <7267>, and it supplies a wide variety of products.

Domestic business partners of the Automobile and Industrial Machinery Parts Business

Source: The Company's materials

Overseas business partners of the Automobile and Industrial Machinery Parts Business

Source: The Company's materials

Advancing business portfolio reform in response to changes in the business environment

3. Risk factors and measures

One 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, the global automobile market will grow slowly, 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, support for cleaner engines, spread of EV, etc.) driven by the global movement toward decarbonization. The Company intends to promote technology development as engines evolve, including better fuel economy gasoline engines and next-generation engines like hydrogen and alternative fuels and intends to reform its business portfolio with a focus also on expanding business in non-ICE fields based on trends in vehicle electrification.

Results trends

Operating and ordinary profit increased substantially in 1H FY3/25

1. Outline of results for 1H FY3/25

In its consolidated results for 1H FY3/25, the Company reported net sales of ¥84,650mn, operating profit of ¥5,444mn, ordinary profit of ¥6,719mn, and profit attributable to owners of parent of ¥3,934mn. Because 1H FY3/24, the same period of the previous year, was before the merger, comparisons of results are based on totaled figures for the two companies for 1H FY3/24 (net sales ¥81,791mn, operating profit ¥3,801mn, ordinary profit ¥5,667mn, profit attributable to owners of parent ¥7,017mn). On this basis, net sales rose 3.5%, operating profit increased 43.2%, and ordinary profit rose 18.6%, while profit attributable to owners of parent decreased 43.9%. Sales volume of automobile-related parts was sluggish due to factors including a decrease in ICE vehicle production in China as a result of growth in EVs in the country, and a decline in automobile production volume in Japan mainly due to the impact of the fraudulent certification issue at certain Japanese automakers. However, these negative impacts were absorbed by positive factors such as the effects of yen depreciation, increased revenue from the newly consolidation of SHINWA VANES in February 2024, sales price adjustments for surging material, labor, and other costs, and rationalization, resulting in substantial increases in operating and ordinary profit.

Outline of results for 1H FY3/25

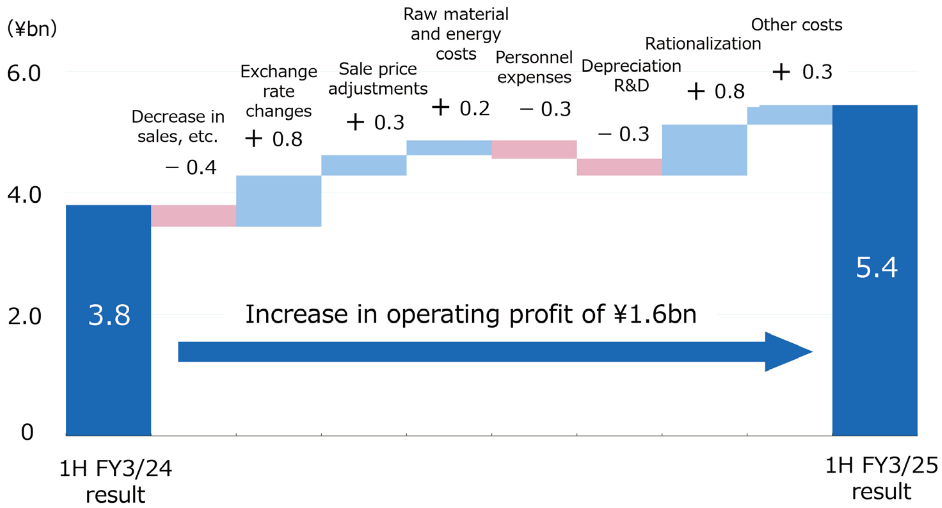
(¥mn)

	1H FY3/25 After integration		1H FY3/24 Both companies combined		Compared to both companies combined	
	Results	% of net sales	Results	% of net sales	Change	Change %
Net sales	84,650	100.0%	81,791	100.0%	2,859	3.5%
Operating profit	5,444	6.4%	3,801	4.6%	1,643	43.2%
Ordinary profit	6,719	7.9%	5,667	6.9%	1,051	18.6%
Profit attributable to owners of parent	3,934	4.6%	7,017	8.6%	-3,083	-43.9%

Note: Year-on-year comparisons are made using the combined figures of both companies for 1H FY3/24, as that period was before the merger.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Analyzing the increase and decrease factors behind the ¥1.6bn increase in operating profit, decreased sales volume and related factors lowered profit by ¥0.4bn, while exchange rate effects increased profit by ¥0.8bn, the effect of sales price adjustments increased it by ¥0.3bn, and the stabilization of raw materials and energy costs increased it by ¥0.2bn. Profit was lowered by ¥0.3bn due to an increase in personnel expenses and ¥0.3bn due to increases in depreciation and R&D expenses. The effect of rationalization increased profit by ¥0.8bn and cost containment, etc. increased it by ¥0.3bn. Under non-operating income, the Company recorded interest and dividend income of ¥602mn, and share of profit of entities accounted for using the equity method of ¥1,140mn, while under non-operating expenses it recorded foreign exchange losses of ¥438mn, among other items. Profit attributable to owners of parent decreased significantly as an extraordinary income item recorded in the previous fiscal year dropped away (gain on bargain purchase of ¥2,730mn associated with the conversion of NIPPON PIPE FITTING into a subsidiary).

Analysis of increase and decrease factors in operating profit



Source: The Company's materials

2. Segment trends

By segment (before elimination of intersegment transactions), in the Automobile and Industrial Machinery Parts Business, net sales were ¥65,743mn, and segment profit was ¥4,477mn. In the Piping Products Business, net sales were ¥9,181mn, and segment profit was ¥534mn. In the Other Business, net sales were ¥10,833mn, and segment profit was ¥694mn. In the Automobile and Industrial Machinery Parts Business, overall sales of automobile-related parts showed sluggish growth due to factors including a decrease in ICE vehicle production in China as a result of growth in EVs in the country, and a decline in automobile production volume in Japan mainly due to the impact of the fraudulent certification issue at certain Japanese automakers. However, on the profit front, these negative factors were absorbed by the stabilization of surging raw material prices, along with progress on sales price adjustments and cost reductions. In the Piping Products Business, sales increased owing to firm construction demand in Japan, with some gradual progress on sales price adjustments. In the Other Business, the consolidation of SHINWA VANES contributed to results. Additionally, the thermal engineering business and the EMC business performed steadily.

Segment performance summary for 1H FY3/25

(¥mn)

	1H FY3/25 After integration	
	Amount	% of net sales
Consolidated net sales	84,650	-
Automobile and Industrial Machinery Parts Business	65,743	76.7%
Piping Products Business	9,181	10.7%
Other Business	10,833	12.6%
Total	85,758	100.0%
Adjustment	-1,108	-
Consolidated operating profit	5,444	6.4%
Automobile and Industrial Machinery Parts Business	4,477	6.8%
Piping Products Business	534	5.8%
Other Business	694	6.4%
Total	5,706	6.7%
Adjustment	-262	-

Notes 1. Percentage of sales for consolidated net sales represents the ratio relative to total sales before elimination of intersegment transactions.
2. Percentage of sales for consolidated operating profit represents the ratio relative to the net sales of each segment.
Source: Prepared by FISCO from the Company's financial results

The Company's finances are sound

3. Financial condition

Looking at the Company's financial position, total assets at the end of 1H FY3/25 decreased ¥2,920mn from the end of FY3/24 to ¥215,659mn. This decrease mainly reflected decreases of ¥4,973mn in investment securities and ¥1,058mn in notes and accounts receivable – trade, and contract assets, while there were increases of ¥2,178mn in property, plant and equipment and ¥850mn in merchandise and finished goods. Total liabilities decreased ¥4,593mn to ¥64,819mn. This decrease mainly reflected decreases of ¥2,326mn in electronically recorded obligations – operating, ¥1,195mn in deferred tax liabilities, and ¥810mn in short- and long-term borrowings, as well as a decrease of ¥544mn in income taxes payable, while there was an increase of ¥522mn in notes and accounts payable – trade. Total net assets increased ¥1,673mn to ¥150,840mn. This increase reflected increases of ¥5,909mn in foreign currency translation adjustment and ¥1,964mn in retained earnings, while there was a decrease of ¥3,860mn in shareholders' equity due to an increase in treasury shares, and a decrease of ¥2,720mn in valuation difference on available-for-sale securities.

As a result, the equity ratio increased 1.6 percentage points (pp) to 65.8%. On December 9, 2024, Rating and Investment Information, Inc. (R&I) issued a news release on the issuer ratings of the Company and its consolidated subsidiaries. The Company newly acquired an A- rating, and its consolidated subsidiary RIKEN's rating was upgraded from BBB+ to A-. In FISCO's view, the Company's finances are sound, with no notable concerns regarding its cash flow situation.

Financial statements (simplified)

(¥mn)

	End of FY3/23			End of FY3/24	End of 1H FY3/25	
	RIKEN	NPR	Simple sum	NPR-RIKEN	NPR-RIKEN	Change
Total assets	123,728	68,843	192,571	218,580	215,659	-2,920
Current assets	66,321	32,654	98,975	104,348	104,126	-222
Non-current assets	57,406	36,188	93,594	114,232	111,533	-2,699
Total liabilities	28,745	30,725	59,470	69,413	64,819	-4,593
Current liabilities	19,063	22,416	41,479	44,668	42,202	-2,466
Non-current liabilities	9,681	8,309	17,990	24,745	22,617	-2,128
Total net assets	94,983	38,117	133,100	149,166	150,840	1,673
Shareholders' equity	80,554	31,417	111,971	120,530	118,884	-1,646
Equity ratio (%)	71.5	52.4	64.7	64.2	65.8	1.6

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

Cash flow statements (simplified)

(¥mn)

	FY3/23			FY3/24	1H FY3/25
	RIKEN	NPR	Simple sum	NPR-RIKEN	NPR-RIKEN
Cash flows from operating activities	10,357	5,155	15,512	18,496	9,116
Cash flows from investing activities	-3,248	-3,132	-6,380	-13,548	-1,897
Cash flows from financing activities	-1,451	-2,965	-4,416	-8,615	-7,925
Cash and cash equivalents at end of period	20,205	5,606	25,811	22,261	23,296

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

Outlook

Initial forecasts for FY3/25 remain unchanged, with upside potential although operating and ordinary profit is forecast to decrease slightly

● FY3/25 consolidated results outlook

In its consolidated results forecasts for FY3/25, the Company's initial forecasts remain unchanged, with net sales of ¥171,000mn, operating profit of ¥10,400mn, ordinary profit of ¥12,700mn, and profit attributable to owners of parent of ¥8,000mn. Foreign exchange gains in non-operating income are not forecast and in extraordinary income, the gain on bargain purchase recorded in the previous fiscal year will drop away. On the Company's financial summary, compared with FY3/24, net sales are forecast to increase 23.4%, operating profit 18.7%, and ordinary income 9.2%, while profit attributable to owners of parent is forecast to decrease 69.6%. However, from a business combination accounting perspective, the results based on the financial summary for FY3/24 do not include NPR's results for April to September 2023. Therefore, comparing totaled figures for FY3/24 that reflect 12 months of results for both RIKEN and NPR (unit: ¥bn), net sales are expected to be up 1%, operating profit down 2%, ordinary profit down 7% and profit attributable to owners of parent down 71% (down 8% excluding the gain on bargain purchase recorded last term). The assumed exchange rates are ¥145 = $1 and ¥155 = €1 (results for FY3/24 were ¥140 = $1 and ¥152 = €1).

FY3/25 consolidated results outlook

(¥bn)

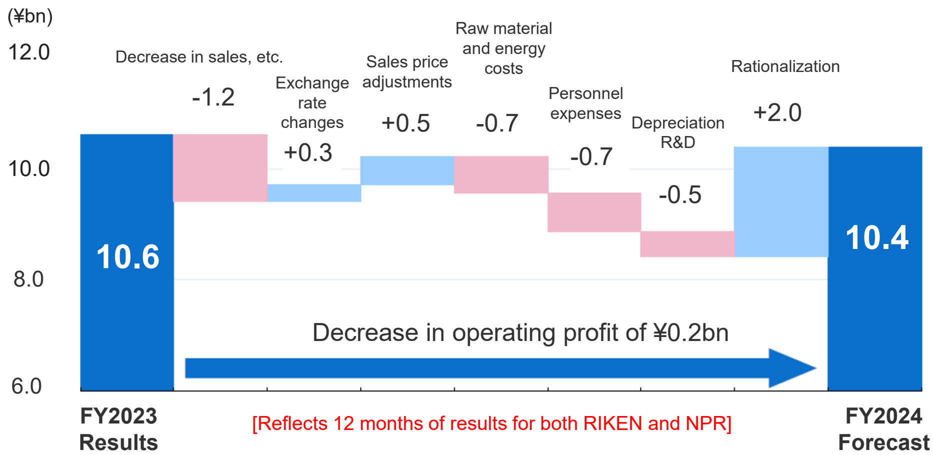
	FY3/24 Based on financial summary		FY3/24 Both companies combined		FY3/25 NPR-RIKEN		Compared to both companies combined in FY3/24		1H progress rate
	Results	% of net sales	Results	% of net sales	Forecast	% of net sales	Change	Change %	
Net sales	138.6	100.0%	168.6	100.0%	171.0	100.0%	2.4	1	49.5%
Operating profit	8.8	6.3%	10.6	6.3%	10.4	6.1%	-0.2	-2	52.3%
Ordinary profit	11.6	8.4%	13.7	8.1%	12.7	7.4%	-1.0	-7	52.9%
Profit attributable to owners of parent	26.3	19.0%	27.9	16.5%	8.0	4.7%	-19.9	-71	49.2%
Profit attributable to owners of parent excluding gain on bargain purchase	7.1	5.1%	8.7	5.2%	8.0	4.7%	-0.7	-8	49.2%
Exchange rate									
US$/¥	140	-	140	-	145	-	5	-	-
Euro/¥	152	-	152	-	155	-	3	-	-

Notes 1. In the financial summary for FY3/24, the results of NPR for April to September are not included, as the merger took place in October 2023, and NPR is considered the acquiree from a business combination accounting perspective.
Notes 2. Figures reflect NPR's full-year results from FY3/25.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Net sales will increase slightly as a result of consolidating SHINWA VANES, but considering the uncertainty in automobile production volume and increased costs due to strategic investment in growth fields, small declines in operating and ordinary profit are expected. Analyzing the increase and decrease factors behind the ¥0.2bn decrease in operating profit, a drop in sales is expected to decrease profit by ¥1.2bn, exchange rate changes to increase it by ¥0.3bn, sale price adjustments to increase it by ¥0.5bn, increases in raw material and energy costs to decrease it by ¥0.7bn, an increase in personnel expenses to decrease it by ¥0.7bn, an increase in depreciation and R&D expenses to lower it by ¥0.5bn, and progress in rationalization measures to raise it by ¥2.0bn. Capital investment is expected to increase by ¥2.3bn YoY to ¥10.0bn, depreciation to increase by ¥0.2bn to ¥9.5bn, and R&D expenses to rise by ¥0.3bn to ¥4.7bn. Capital investment will focus on introducing facilities with an awareness of cost competitiveness, the next core businesses, meaning new products and new businesses in growth fields, and environmental investment related to carbon neutrality. Regarding R&D expenses, the Company intends to commit management resources to better fuel economy technologies to contribute to carbon neutrality, on evaluations of hydrogen fuels, bio-fuels, and e-fuel which is synthetic fuel made from hydrogen produced using renewable energy, development for converting engines to run on hydrogen, and new products and new business development.

The progress rates for 1H relative to the full-year forecasts were steady at 49.5% for net sales, 52.3% for operating profit, 52.9% for ordinary profit, and 49.2% for profit attributable to owners of parent. We at FISCO believe that the Company's forecasts are likely to have upside potential, given the aforementioned steady progress rates for 1H results relative to full-year forecasts, the current exchange rate level showing a weaker yen than the Company's assumptions, and signs that surging raw material costs are stabilizing.

FY3/25 results forecasts and analysis of increase and decrease factors in operating profit



Source: The Company's results briefing materials

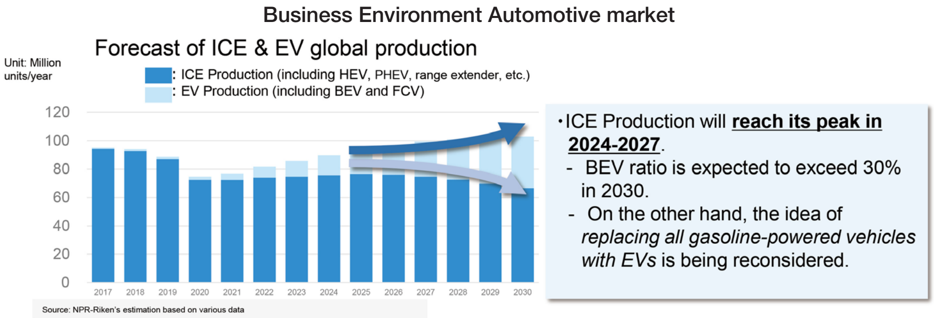
Growth strategy

Despite market environment changes, current engines are expected to survive

1. Market environment

The global auto market is expected to follow a trend of growing demand centering on emerging countries, but to respond to global warming and energy problems, environmental regulations and vehicle electrification are expected to accelerate and internal combustion engines to decline over the medium- to long-term.

At the same time, development is proceeding on hydrogen engines and e-fuel engines. Comparing the CO_2 emissions of EVs and HEVs (Hybrid Electric Vehicles) from well to wheel, it has been shown that HEVs with 50% thermal efficiency engines, on which R&D is underway, are competitive with EVs. This suggests the possibility that HEVs will be an option in next-generation mobility. In addition, in March 2023, the European Union changed its previous policy that would have banned sales of cars with gasoline engines in 2035. They will now be tolerated past 2035 if the engines use synthetic fuel made from CO_2 and hydrogen. Moreover, how to process EV batteries after they are used has become an issue, and the U.S. and EU have raised import tariffs on EVs made in China, so it has been pointed out that vehicle electrification may slow.



Source: The Company's 1st midterm management plan materials

With these as background conditions, the Company will promote technology development aimed at engine evolution, including better fuel economy gasoline engines and responding to next-generation engines that use hydrogen and alternative fuels, will focus on expanding business in non-ICE areas given the trend toward EVs, and move forward on reforming its business portfolio.

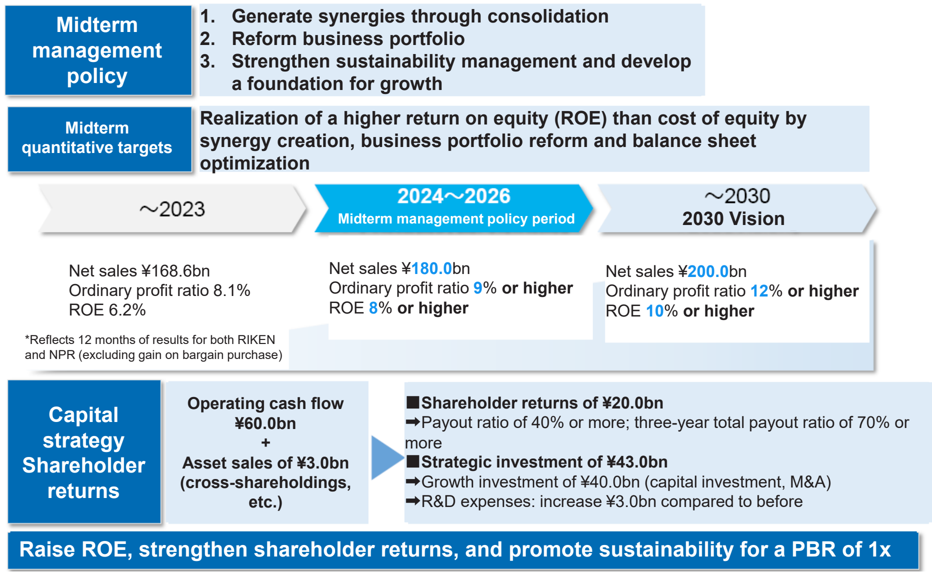
Aiming for ROE above shareholder capital costs

2. 1st midterm management plan (FY2024 to FY2026)

The Company formulated its 1st midterm management plan (FY2024 to FY2026) in February 2024. Its midterm management policies are: 1) Generate synergies through consolidation; 2) Reform business portfolio; and 3) Strengthen sustainability management and develop a foundation for growth. Quantitative targets for the final year of the plan, FY3/27, are net sales of ¥180.0bn, an ordinary profit margin of 9% or higher, and an ROE of 8% or higher. Incidentally, the targets under 2030 Vision for FY3/31 are net sales of ¥200.0bn, an ordinary profit margin of 12% or higher and ROE of 10% or higher.

As for its growth strategy, the Company will engage in business portfolio reform, synergy creation and balance sheet optimization with the aim of achieving an ROE above shareholder capital costs. As for integration synergies, one can cite, in terms of net sales, expanding share of existing business through utilizing each other's brand power and sales networks, and enhancements to the product lineup, providing diverse solutions by establishing technical proposal-based sales systems and responding to hydrogen and other alternative fuels, and creating and commercializing new products. As for cost synergies, the Company is planning ¥3.0bn in FY3/27 (in business divisions, reduced procurement costs through joint purchasing, consolidating logistics sites, optimizing production at domestic and overseas sites to reduce manufacturing costs by ¥1.4bn; in management divisions, corporate function integration, IT infrastructure integration, and other reductions to SG&A expenses for ¥1.6bn). In addition, the Company will promote reductions to shareholder capital costs by steadily carrying out its midterm strategies and enhancing IR activities. Regarding cash allocations, cash of ¥63.0bn to be generated over the 3 years (operating cash flow of ¥60.0bn + sales of assets like cross-held shares of ¥3.0bn) will be appropriately allocated for further growth and shareholder returns. Specifically, the Company is planning cash outflow of ¥20.0bn for shareholder returns, ¥40.0bn for growth investment, including capital investment and M&A, and an increase of ¥3.0bn from previous levels for R&D.

Midterm management plan



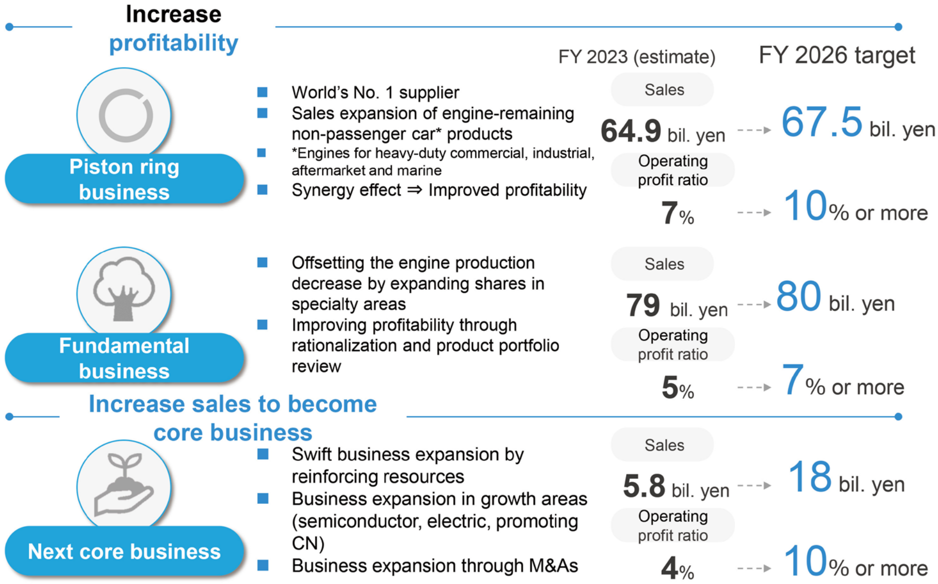
Source: Reprinted from the Company's results briefing materials

Develop next core business into third pillar

3. Business strategy

As for business strategy, toward business portfolio reform, the Company categorized its business into the piston ring business, which seeks to strengthen profitability, fundamental business (sintered products, engineered plastic products, casting components and precision components for automobiles and industrial machinery, and piping products for construction industry) and the next core business (existing businesses in growth fields, new products, new businesses), which aims to expand sales scope and become a core business, and will promote business strategies for each of these categories. Regarding the piston ring business and fundamental businesses, the ICE components market will contract over the long term due to vehicle electrification, but a certain level of medium- to long-term demand is expected when including commercial, industrial, and shipping applications. Also, based on the fact that the repair market (approx. 1.5bn automobiles are owned globally) will trend steadily for a long period of time, and stable earning sources will expand through the business integration effects. Regarding next core businesses, the Company will aim for sales and profit expansion over the medium- to long-term by investing management resources into growth areas.

Business Strategy Numerical target



Source: The Company's 1st midterm management plan materials

(1) Piston ring business

In the piston ring business, the Company's FY3/27 targets are net sales of ¥67.5bn, and an operating profit ratio of 10% or higher. As the global No. 1 supplier of piston rings the Company will reinforce sales expansion in non-passenger vehicles where engines will remain (commercial, industry, repair, and shipping applications), create synergies from the business integration, and fundamentally improve productivity to promote improvement in the profit ratio, and it will promote the development of innovative product technologies for carbon neutrality, including accommodating hydrogen and alternative fuels.

(2) Fundamental businesses

For fundamental businesses, the Company's FY3/27 targets are net sales of ¥80.0bn, and an operating profit ratio of 7% or higher. By expanding share in specialty areas, the Company will make up for the decline in engine production, and through rationalization and revising the product portfolio, the Company will promote improvements to profitability. For precision machined parts for automobiles and industrial machinery (sintered products like valve seat inserts, engineered plastic products for sealing automobile transmissions, precision processed parts like cam shafts, and casting components), the Company will reinforce competitiveness and will identify and dig deeply into competitive market products with the aim of being a top niche supplier globally. In piping products for the construction industry, making NIPPON PIPE FITTING a subsidiary and becoming the top company in the domestic industry for pipefittings, the Company will accommodate increased need for prefabrication and piping components that save labor given the shortage of plumbers and will increase its presence in the construction sector.

(3) Next core businesses

The FY3/27 targets for next core businesses are net sales of ¥18.0bn and an operating profit ratio of 10% or higher. The Company will expand business in growth areas (semiconductors, electric drives, carbon neutral measures) and will promote swift business expansion by reinforcing resources. It will also work to expand the business portfolio bearing the next generation by utilizing M&A and other means. Specific business fields include the thermal engineering business, EMC business, METAMOLD™* business and other new products and new businesses (electric drive unit products, highly functional engineered plastic products, noise countermeasure products, medical device products).

* METAMOLD™ is the registered trademark for NPR's metal injection molding product.

The thermal engineering business manufactures and sells PYROMAX™, a metallic heating element, and PYROMAX SUPER™, a ceramic heating element, which are developed proprietarily. Using these products the Company can handle everything from heater units to industrial furnaces. Through synergies with SHINWA VANES, which RIKEN made a subsidiary in February 2024, the Company will apply products to a wide range of industrial fields. In particular, it will develop heater units for semiconductor manufacturing equipment, create a full lineup, and promote development and production capacity reinforcements to accommodate carbon neutrality.

In the EMC business, the Company provides design, installation management, and after-sales service for anechoic chambers, which are needed for EMC testing*1 by automakers and electronic device manufacturers. Demand for new and renovated anechoic chambers is increasing because of the mounting need for EMC testing against the backdrop of CASE*2 progress and communications technology development. Going forward the Company will promote the development and sale of facilities and products that secure "electromagnetic compatibility," which means neither receiving nor giving off electromagnetic influence in relation to electronic devices and the like. In FY3/24, the Company delivered Japan's first large anechoic chamber compliant with CISPR 16-1-4, the latest international standards.

*1 Testing to confirm that electromagnetic waves given off by an electronic device do not have a negative impact on other devices or that when electromagnetic waves given off by another device are received the device does not malfunction.
*2 CASE is an acronym for Connected, Autonomous, Shared & Services, Electric.

In the METAMOLD™ business, the Company develops metal injection molding (MIM), which is applied to complexly shaped parts used in a wide range of applications, including automobiles, aerospace, and industrial and medical devices, and is promoting expanded sales for industrial equipment, including electric power steering for automobiles and ball screw circulation pieces for SCARA robot. Through metal injection molding, complexly shaped parts with high precision and high strength can be supplied at a low cost, so this competitive advantage will be utilized. The Company also plans to build an efficient, targeted marketing system, greatly strengthen project acquisition capability, and develop for CASE-related parts, robots, sensors, and the medical field.

In other new products and new businesses, the Company is developing products for electric drive units, such as ultra-thin actuators and ultra-light wave reducers that are more compact and lighter for applications in industry, nursing care and medical robots, and to respond to expansion in the next-generation mobility and robot markets, the Company will develop and expand sales of highly functional engineered plastic products that utilize technology to join different materials together, develop and expand sales of magnetic material products that act as a countermeasure to magnetic hindrance utilizing technology cultivated in the EMC business, promote the development of products for medical devices implanted in the body using biocompatible materials, and aims to expand sales and profits over the medium- to long-term and make them core businesses. In highly functional engineered plastic products, in 2024, the Company commercialized plastic gears for which a metal part was insert-molded. Mass production was started for motor-assist bicycles.

In the field of medical equipment, the Company is rolling out NiFreeT™ (registered trademark). This is 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, catheter reinforcements and medical devices centered on orthopedics. In addition, the Company is conducting new product development with Medtronic <MDT>, one of the world's major medical device manufacturers, as a part of its implanted medical device joint development project.

The Company is also promoting the hydrogen related business keyed on hydrogen engines. In FY3/24, the Company augmented its bench room for evaluation of actual hydrogen engines and it now can evaluate everything from small-sized engines to large engines for trucks and construction equipment, and in FY3/25 the plan is to make it possible to evaluate endurance over long periods by augmenting its hydrogen storage facility. Moreover, the Company launched a project to retrofit the small trucks used at the Kashiwazaki plant with hydrogen engines and conduct testing while using them for actual business activities. In addition, there are plans for a hydrogen station to be built in Kashiwazaki, Niigata Prefecture. With hydrogen engine development as a foothold, in the future the Company aims to contribute to local energy production and consumption and collaborate with the Kashiwazaki City Zero Carbon City Strategy, with the aim of achieving regional contributions and a carbon neutral society.

Examples of the products of the next core business

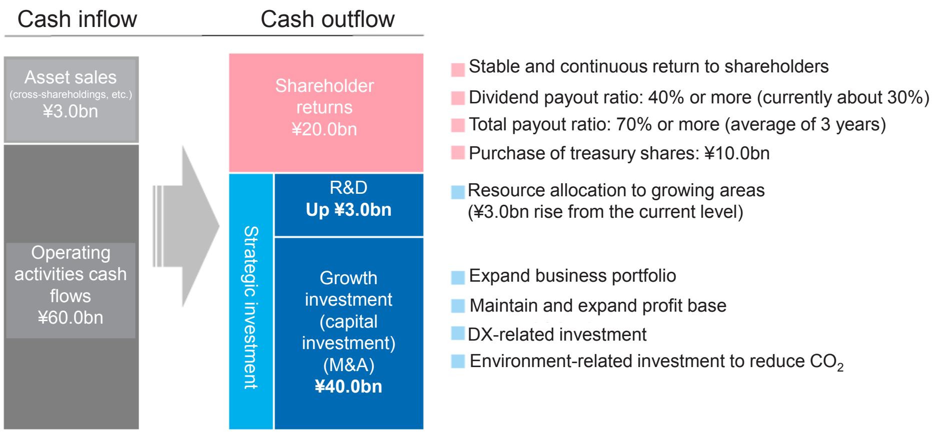
Source: The Company's 1st midterm management plan materials

Targeting a 3-year average total return ratio of 70% or higher during 1st midterm management plan period

4. Shareholder return policy

The Company positions returning profits to shareholders as one of its important management issues and while considering the balance between investment for growth and to raise corporate value and financial soundness, it will continue to pay a stable dividend. The Company will also flexibly acquire treasury stock and conduct shareholder returns with an awareness of capital efficiency and the total payout ratio. This is its basic policy. And based on it, the 1st midterm management plan calls for a payout ratio of 40% or higher (currently around 30%) and a total payout ratio on average over 3 years, including treasury stock acquisition, of 70% or higher (currently around 30%). The Company is aiming to buy back its stock over 3 years targeting ¥10.0bn and will work to lift its level of shareholder returns. This is expected to give the Company a DOE at the 3% level in FY3/27.

Capital/Financial Strategy - Cash allocation

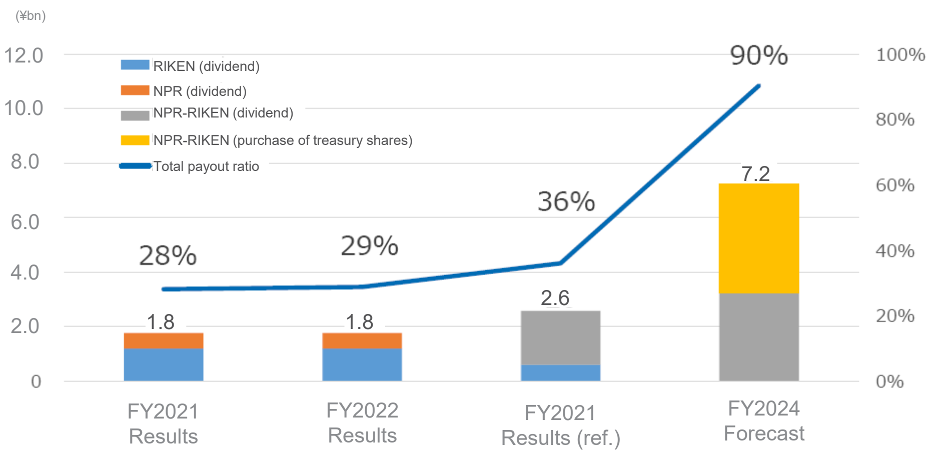


Planned for midterm management plan period: FY2024 to FY2026

Source: The Company's 1st midterm management plan materials

Regarding the dividend forecast for FY3/25, in light of results forecasts and the purchase of treasury shares, the year-end dividend has been raised by ¥5.00 compared to FY3/24 as of November 14, 2024, bringing the total dividend for the full year to ¥120.00 (¥45.00 at the end of 1H and ¥75.00 at the fiscal year-end). The planned payout ratio is 40.3%. In line with the midterm management plan policy, the Company should be commended for its commitment to maintaining a payout ratio of 40% or higher. Additionally, in an off-floor purchase transaction of treasury stock (ToSTNeT-3), the Company acquired 1,368,400 shares (total acquisition price of ¥3,999mn), and including this the total payout ratio for FY3/25 will be 90%. In these and other ways, we at FISCO believe that the Company is actively working to provide shareholder returns.

Trends in total payout ratio



Reference: Reference figures including RIKEN's FY2023 interim dividend in line with net profit stated on the financial summary
* The payout ratio on the Company's financial results is 6%.
Source: From the Company's results briefing materials

Promoting sustainability management

5. Sustainability management

To support the sustainable growth of companies and society, the Company has set forth six major items in its sustainability management (Reinforcement of carbon neutrality initiatives, Promotion of diversity, equity and inclusion, Contribution to local communities, Improvement of corporate governance, Improvement of employee engagement and human resource development strategy, and Creation of safe and secure workplaces), and is promoting sustainability management on this basis.

Six major items for sustainability management

Source: Reprinted from the Company's 1st midterm management plan materials

As for sustainability targets (KPI), for FY3/27, the Company is aiming to reduce GHG emissions by 39% compared to FY3/14 (by 51% by FY3/31), raise the ratio of female managers to 3% or higher domestically and 7% or higher consolidated, raise the ratio of men taking childcare leave to 50% or higher, raise the ratio of employees putting the code of conduct, formulated in FY3/24, into action to 80% or higher, and increase investment in employee human resources development by 30% on a consolidated basis compared to FY3/23. Regarding strengthening initiatives for carbon neutrality, the Company intends to change cupola furnaces to electric furnaces, upgrade to high-efficiency facilities, deploy solar and wind power, develop a compact wind-power generation system, procure renewable energy, purchase green electricity certificates, and utilize J-credits (carbon offset).

Expecting full-fledged synergies from the merger

6. FISCO's view

The challenging business environment surrounding the automobile engine parts-related industry has raised concerns due to the trend toward electric vehicles, but as stated above, there is only a small possibility that electrification will proceed all at once. Along with the possibility that the shift to electric vehicles will slow, given that survival scenarios for ICE can be assumed, it is believed that the Company's Automobile and Industrial Machinery Parts Business, starting with piston rings, may continue to generate stable earnings through an appropriate business strategy. Considering such points, we at FISCO believe that investors in general are perhaps somewhat too pessimistic about the automobile engine parts-related industry. Full-fledged synergies from the merger can be expected going forward, so focus will be on the Company's steady progress on its 1st midterm management plan.

FISCO

Disclaimer

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