

Fiscal Year Ending March 2022 Financial Results Briefing

Thursday, June 9, 2022

PIOLAX, INC.

(Code: 5988)

Yukihiko Shimazu, President



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- Business Environment
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I. Medium-Term Management Plan

Vision, Basic Policies, And Management Strategies

Vision

As a pioneer creating elasticity, widely contribute to industries and society.

Basic Policies

1. Reform existing businesses.
2. Take on the challenge of new/next-generation businesses.
3. Strength the management foundation.
4. Actively invest for the future.
5. Promote ESG management.

Management Strategies

1. Product and customer strategy
2. Business strategy
3. Regional strategy
4. Growth investment strategy
5. Management capital strategy

Business Environment

Growth factors

■ Continued increase in global automobile production

Global automobile production forecast (Unit: 1 million cars)

2021	2022	2023	2024	2030
84 77	86 83	92	97	105

■ Accelerated shift to EVs

- Strengthen R&D capabilities responding to rapid market expansion.
- Acquire orders for CASE-compliant products.
(A dedicated department is established.)

■ Investment in growth foundations

- Improve productivity through IoT and DX.
- Relocate global production.
- Develop domestic infrastructure.
- Open a base in the EU (German office).

■ Discovery of new businesses

(A dedicated department is established.)

Risk factors

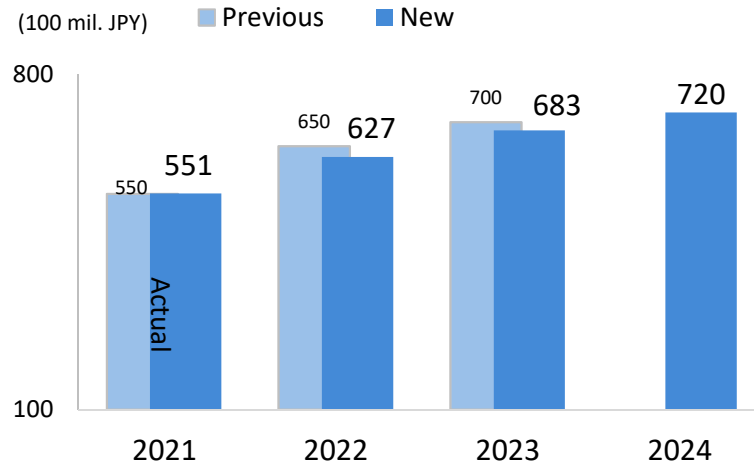
Red letters: Modified from the previous version

- Reduced production of major customers
- Decreased orders for existing Piolax products due to the shift to EVs
- Global economic downturn due to the COVID-19 crisis
- Material supply issues (Difficulties of procurement and soaring purchase costs)
- Rising labor costs
- Turmoil in global logistics
- Trade conflicts between the U.S. and China, and conflicts in Ukraine
- Foreign exchange fluctuation (Sharp yen depreciation)
- Impact of lockdown in Shanghai
- Rising energy costs
- Cyber attacks

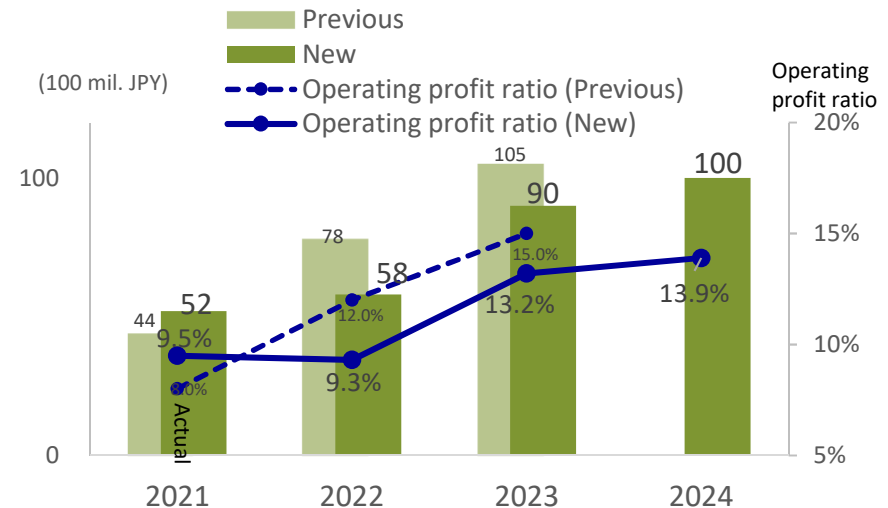
Management Indicators - 1

Medium-term management plan (FY22-FY24) and review of previous plan (FY21-FY23)

Sales



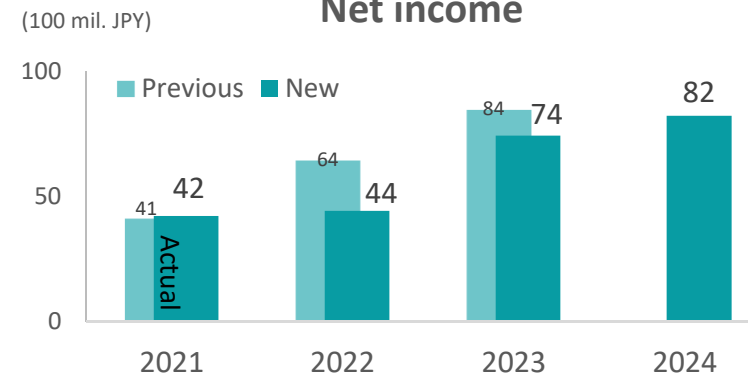
Operating profit



The targets for FY21 were achieved, but the plan has been revised downward for FY22 and FY23 due to delayed recovery in automobile production and pressure on profits by higher material and logistics costs.

Achieving sales of ¥70 billion will be postponed one year to FY24, but the company is planning a **path of steady growth**.

Net income



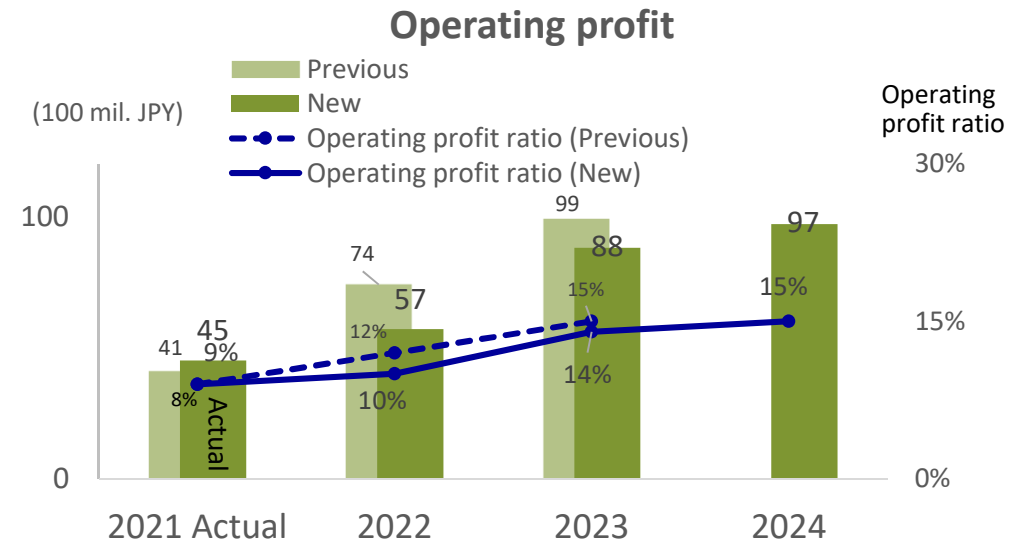
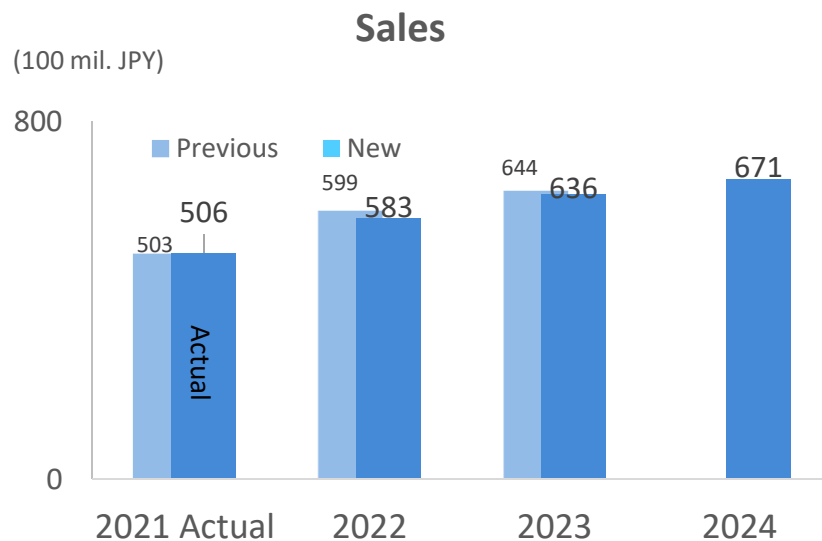
Management Indicators - 2: by Segment

Medium-term management plan for **automobile-related business**

Assumptions for FY24 sales plan (72 billion yen)

- Recovery of **global car production** by OEMs to the FY19 level
- **Increase in sales per car** by 10% for each new model
- **Exchange rate:** 1 USD = 120 JPY

Operating profit in the medium-term plan will be secured by the increase in marginal profit due to higher sales and streamlining.

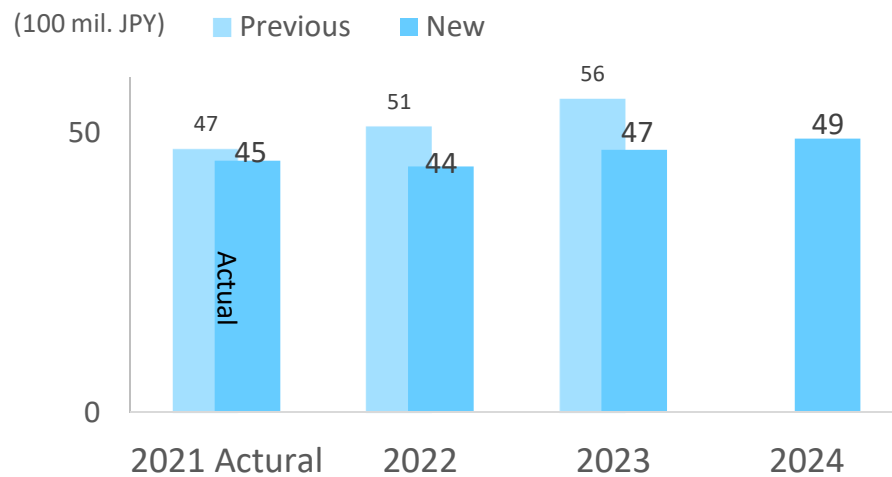


Management Indicators - 2: by Segment

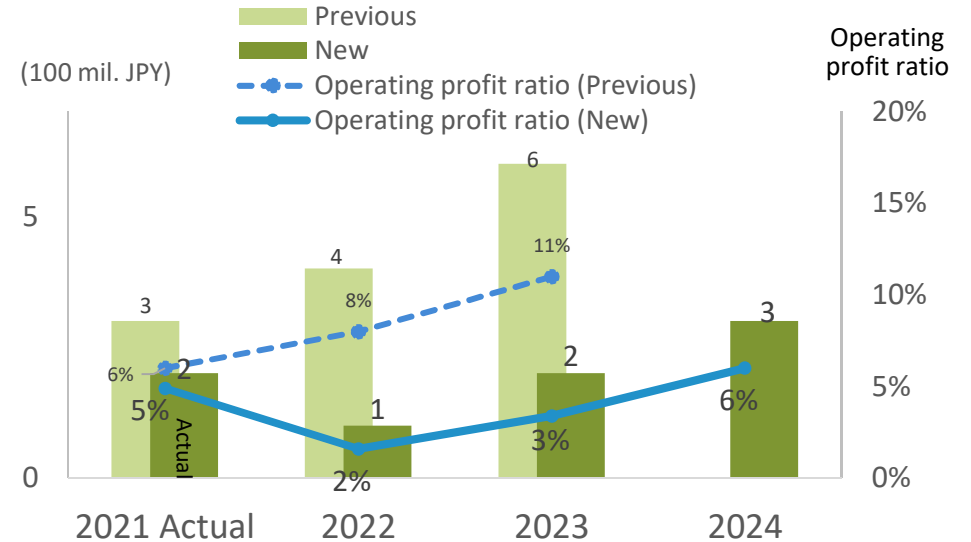
Medium-term management plan for **medical device business**

- Factors for downward revision: uncertainty about product supply due to component procurement risks, delayed launch of new products due to voluntary recall of in-house and imported products
- Impact of voluntary recall was reflected in FY21.
- **Accelerate the introduction of new products** from FY22 for early profit recovery.

Sales



Operating profit



I-1. Growth Strategy (Automotive Business)

Progress of Management Strategy: Automotive - 1

Management strategy and priority issues	Specific measures (FY21 actual)	Medium-term management plan initiatives
1.Product and customer strategy <ul style="list-style-type: none"> ▪ Develop CASE parts and receive orders ▪ Diversify customers and products ▪ Maximize profit margin for each product ▪ Achieve global high quality 	Establish e-Products Development Dept. to respond to CASE	Accelerate response to CASE → Separate explanation
	Non-Japanese OEM sales ratio: 14%	FY24: 16%
	Improve sales per car for new model Mainstay models: +20% (from FY18)	FY24: +10% (from FY21)
	Build new quality assurance system	Improve quality through the new QA system
2.Business strategy <ul style="list-style-type: none"> ▪ Discover new businesses 	Establish MIRAI Business Dept. to discover a third business	Discover new businesses other than the existing automotive and medical devise businesses
3.Regional strategy <ul style="list-style-type: none"> ▪ Expand sales in North America and China ▪ Expand profitability in ASEAN ▪ Make strategies for Continental Europe ▪ Strengthen regional management functions 	Expand sales in North America (U.S. and Mexico) and China Overseas sales ratio N.A. and China: 35% each	FY24 Maintain the current 35% in N.A. and China
	Open a representative office in Germany	New strategies for Continental Europe Further expand sales from non-Japanese (German) OEMs
	Achieve profitability in Indonesia Operating profit ratio in ASEAN and India: 11%	Improve profitability in ASEAN and India FY24 Operating profit ratio: 15%

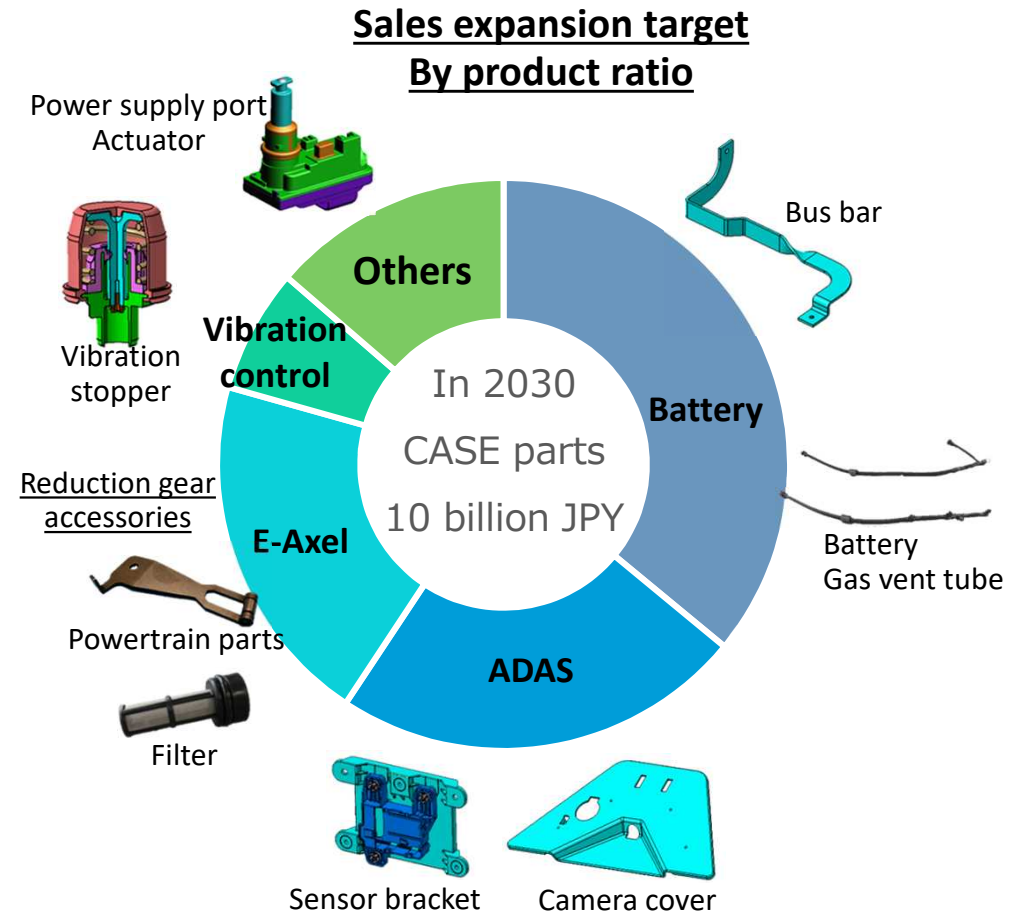
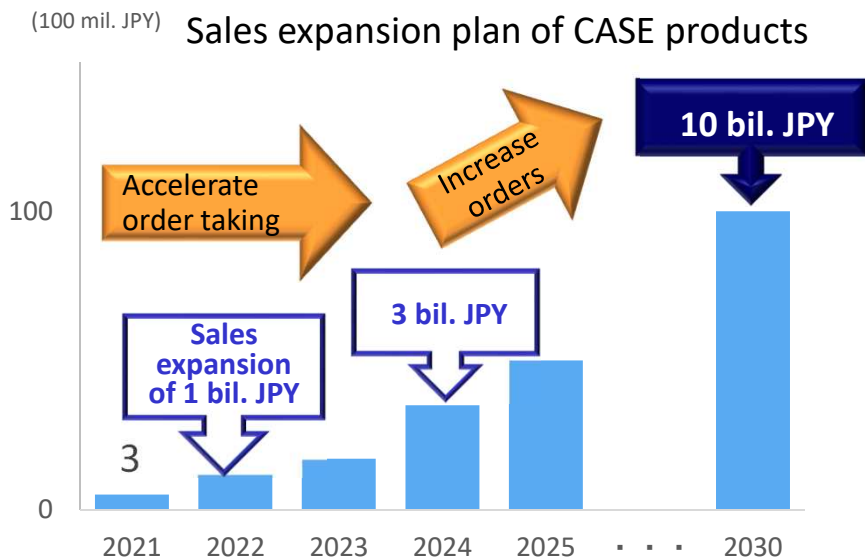
Progress of Management Strategy: Automotive - 2

Management strategy and priority issues	Specific measures (FY21 actual)	Medium-term management plan initiatives
4. Growth investment strategy <ul style="list-style-type: none"> Develop infrastructure in Japan Strengthen R&D investment Promote DX 	Start construction of new Moka Plant at full scale	FY23: Complete the phase 1 construction and start operation FY24: Start the phase 2 construction
	Strengthen investing in CASE/ new businesses Ratio of R&D costs to sales: 1.2%	Strengthen investing in CASE/ new businesses FY24 :1.5%
5. Management capital strategy <ul style="list-style-type: none"> Pursuit capital efficiency Return profits to shareholders Promote ESG management. 	Review capital policy and shareholder return	FY22 to FY-24 100% dividend payout ratio
	Promote ESG management. <ul style="list-style-type: none"> Set up Sustainability Committee Endorse TCFD and disclose information Disclose the target of carbon neutrality in 2050 Comply with the revised corporate governance code. 	Promote ESG targets <ul style="list-style-type: none"> Promote measures toward carbon neutrality Improve TCFD disclosure Promote diversity Enhance governance

Expand sales of CASE-compliant products

Respond to diverse needs through combined technologies of plastics and metals

- [Actions in FY22]**
- Shift focus from development to order taking
 - **Launch e-Products Development Dept. in April 2022 to respond to CASE** consisting of members from sales, development, and production engineering



Initiatives by Overseas Sites

Diversify products and customers (Enhance sales from non-Japanese OEMs)

Europe (U.K. and Germany)

- Enhance sales from German OEMs using the representative office in Germany
- Consider production relocation in Europe

ASEAN and India

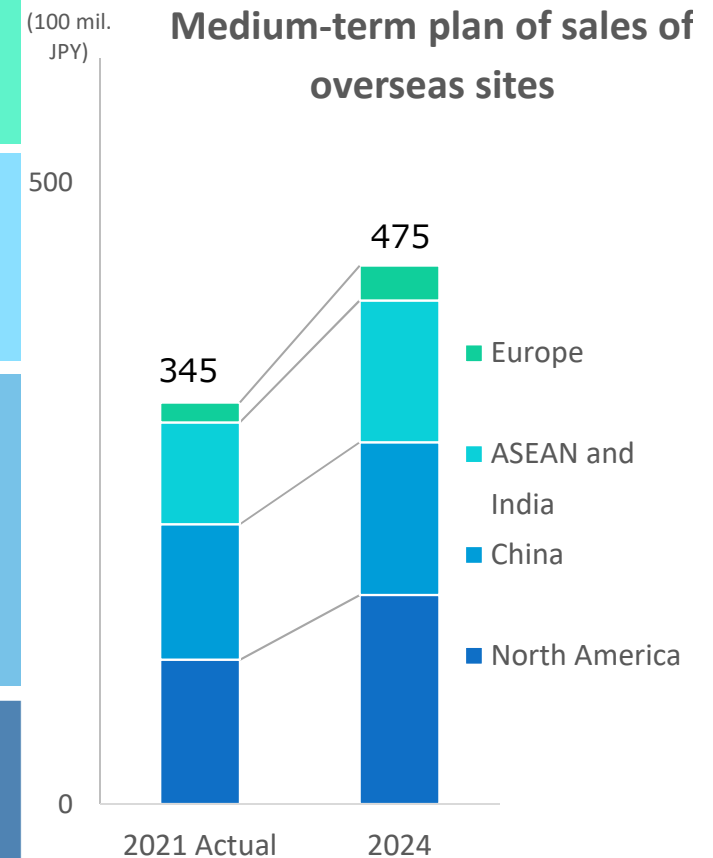
- India: Pune sales office opened in 2021 to enhance sales from Indian OEMs
- Strengthen collaboration among sites in Thailand, India, and Indonesia

China

- Enhance sales from Chinese OEMs
- Production of ADAS sensor bracket has started for Guangzhou Automobile Group
- Enhance sales from developing EV manufacturers
- Expand fastener business with Didi to EV parts business

North American (U.S. and Mexico)

- Expand production capacity of the U.S. and Mexico plants
- Enhance sales from Big 3
- Enhance sales from VW and Hyundai



*Consolidated journal entries (internal transactions) are included in the numbers.

Infrastructure Development in Japan

Infrastructure development for future growth

1. New Moka Plant

Construction of phases 1 and 2

- Start of construction: Second half of FY22
- Full-scale operation: FY23
- Investment amount: 5.9 bil. JPY (FY22-FY24)
- Future Plan
 - FY24: Start of phase 2 construction
 - FY25: Start of operation (2nd stage)
 - FY30: Start of operation (3rd stage)

<Next-generation plant> Global Mother Plant

- Introduction of next-generation equipment and injection molding machines
- Automated lines through AI and IOT technologies
- Efficient production through DX
- Target: **200% increase in productivity** in FY30
- **Initiatives for carbon neutrality**

2. Yokohama area renewal project

- Replan infrastructure development for the entire Yokohama area (Head Office and Yokohama Technical Center)
- Head office relocated in March 2022 due to aging of the building which is to be demolished in FY22
- Aim to improve productivity of indirect departments by establishing infrastructure based on work style reforms

Image of New Moka Plant - 1

Global Mother Plant which will publish the Piolax brand worldwide

- Respond to a wide variety of demands in the automotive industry through advanced production equipment and systems
- **Establish a highly profitable production system: 200% productivity**
- Cutting-edge plant that is people-and environment-friendly



Image of New Moka Plant - 2

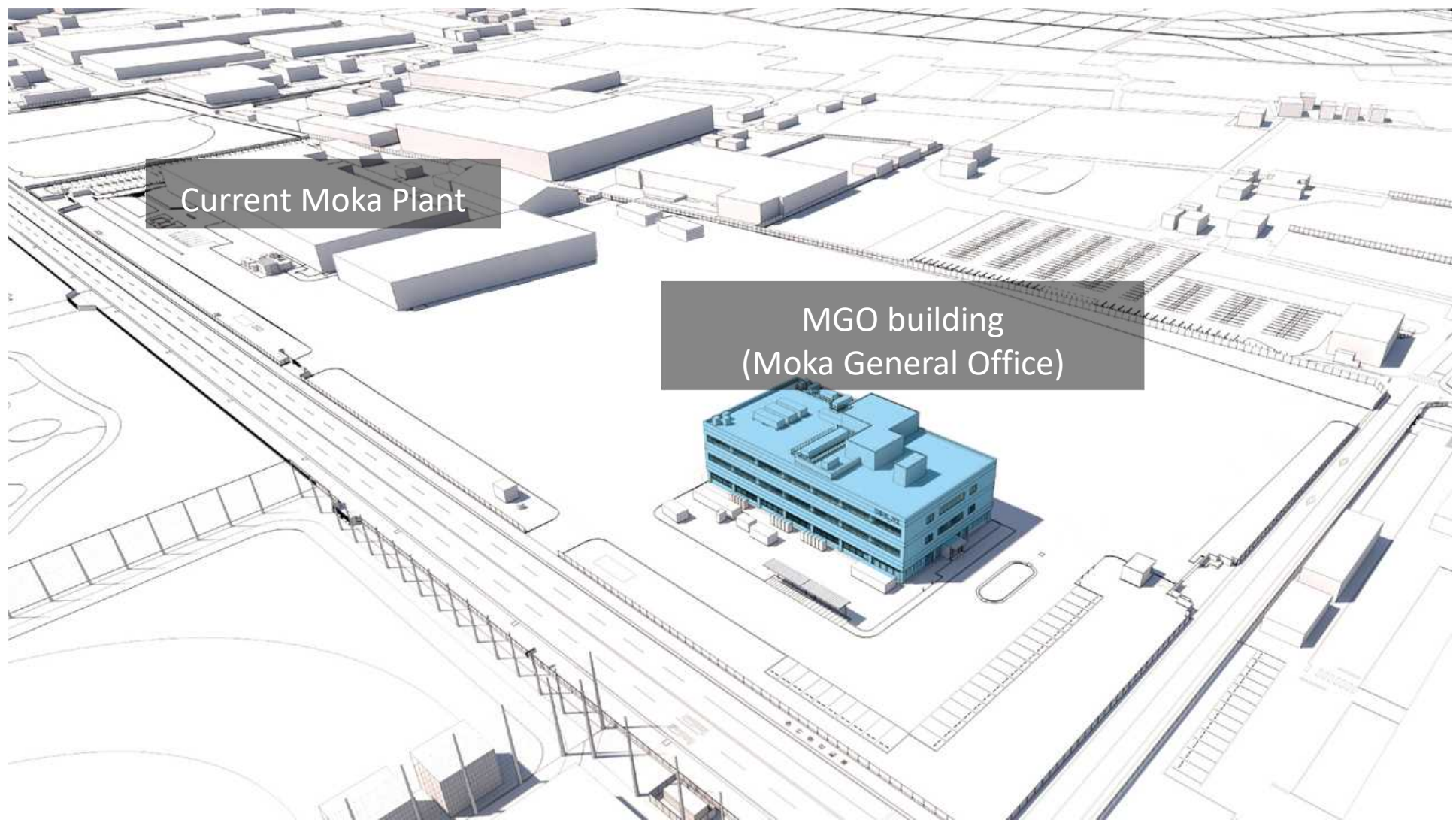


Image of New Moka Plant - 3

Phase 1
construction

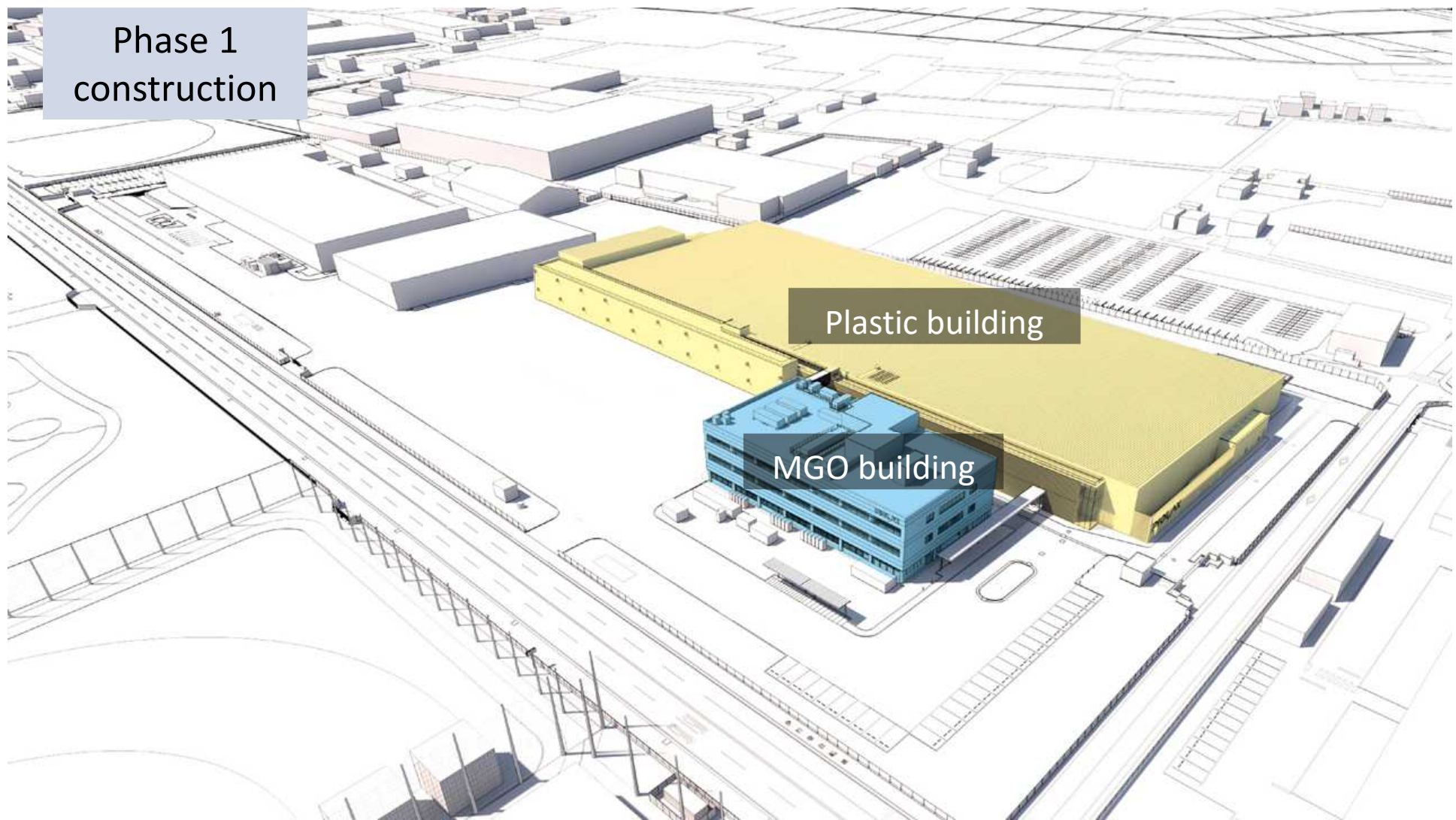


Image of New Moka Plant - 4

Phase 2
construction



Metal building

Plastic building

MGO building

Image of New Moka Plant - 5



Capital Investment for Sustainable Growth

Capital investment for future growth centered on infrastructure development in Japan

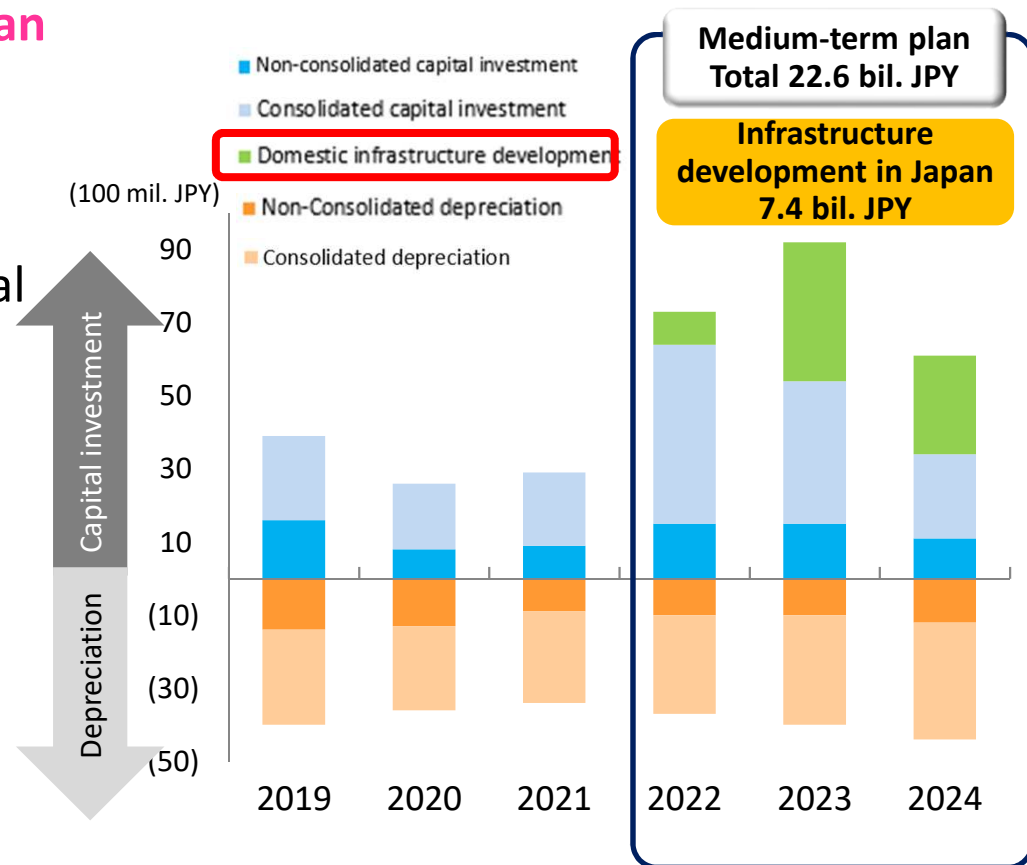
FY22-24

- **Infrastructure development in Japan**
 - New Moka Plant
 - Yokohama area renewal plan
- **Expansion of overseas plants**
- Capital investment in environmental measures

<Capital investment in environmental measures>
Promote energy self-sufficiency through renewable energy by solar panels



Capital investment and depreciation



I-2. Growth Strategy (Medical Device Business)

Progress of Management Strategy: Medical Device Business

Management strategy and priority issues	Specific measures (FY21 actual)	Medium-term management plan initiatives
1. Product and customer strategy	<ul style="list-style-type: none"> ■ Launch differentiated products to specific markets <ul style="list-style-type: none"> ▪ Minimally-invasive treatment such as “catheter for liver cancer” ▪ Strengthen development and launch of products that satisfy unmet needs 	<p>Medium-term launch plan (Strategic new products)</p> <ul style="list-style-type: none"> ■ Expand the market share in Japan of endoscope business FY21: 33% → FY24: 36% ■ Launch new products <ul style="list-style-type: none"> ▪ Sales plan 1 billion JPY (FY22-FY24) ▪ Products to be launched <ol style="list-style-type: none"> 1) New endoscope products 2) Guide wires for digestive endoscope (Domestic OEM Business) 3) Catheter for liver cancer in Asia ■ Continue measures for FY21
2. Business strategy	<ul style="list-style-type: none"> ■ Accelerate development and lineup of new products ■ Strengthen sales network in Japan 	
3. Regional strategy	<ul style="list-style-type: none"> ■ Strengthen overseas expansion (Catheter for liver cancer, guide wire for digestive endoscope) <ul style="list-style-type: none"> ▪ Asia: Develop Piolax brand ▪ U.S. and Europe: Expand OEM 	
4. Growth investment strategy	<ul style="list-style-type: none"> ■ Strengthen quality improvement initiatives ■ Digital shift Promotion utilizing marketing automation. 	

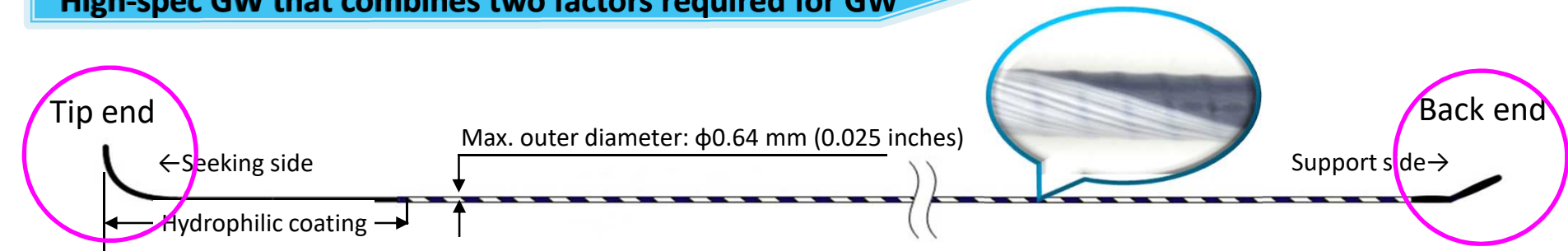
Introduction of New Medical Device

Expand market share with newly launched guide wire for digestive endoscope

2 in 1 guide wire (GW)

High-spec GW that combines two factors required for GW

To be launched in
October 2022 in Japan



Medium-term sales plan (FY24)

■ Sales of 200 million JPY from this new GW

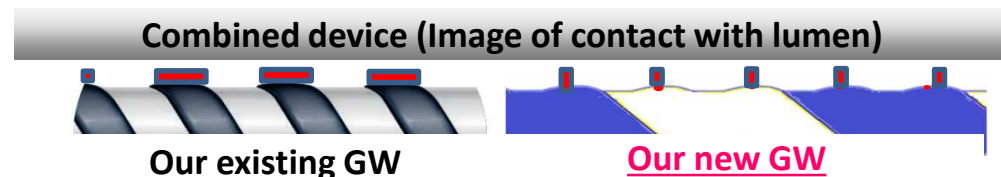
■ Increase Piolax share of sales in digestive endoscope

Current: Approx. 33%* → FY24: 36%

* Ref.: In-house estimate based on date of R&D Co., Ltd. for FY20

Appeal points

■: Image of contact areas



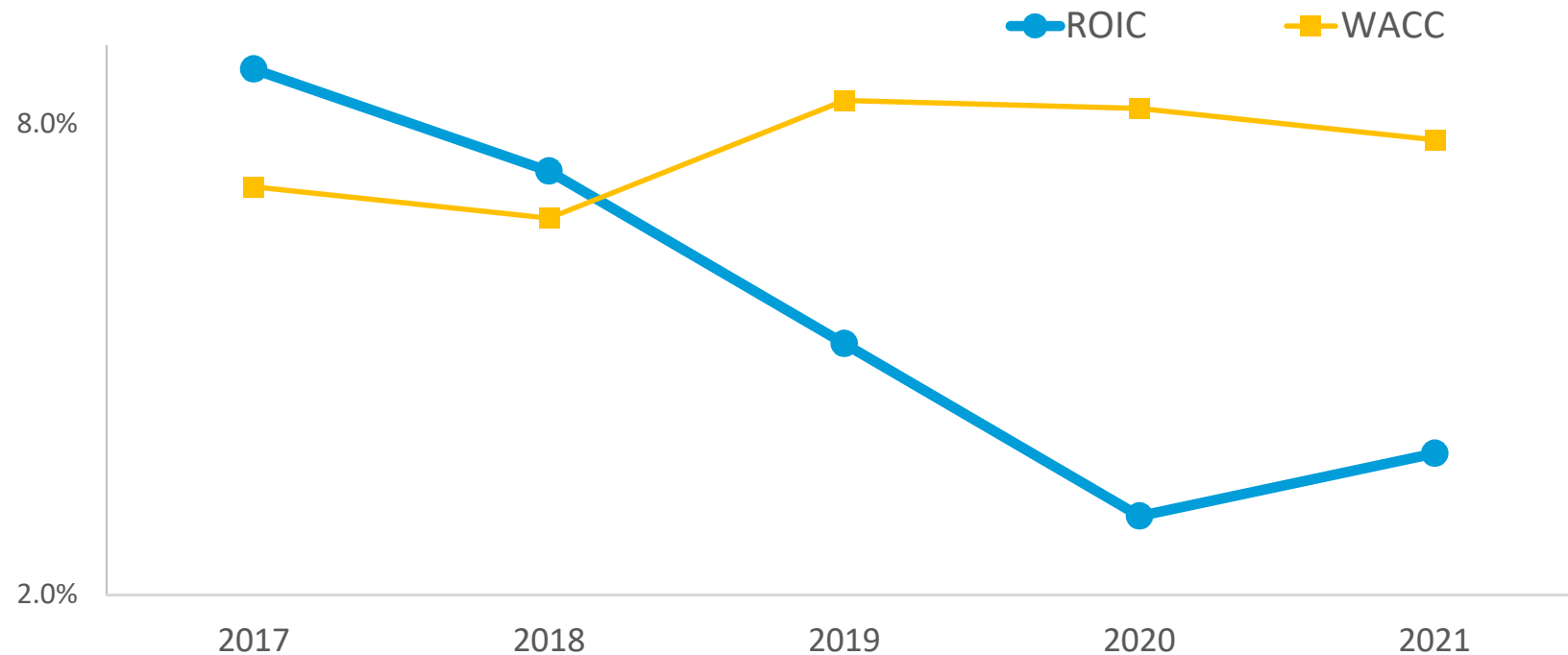
1. Our surface treatment technologies reduce contact surface (point contact): low friction resistance and **high slipperiness**.
2. Low friction resistance **improves torque performance** so that GW control by a surgeon is transmitted directly to the tip.
3. Different rigidities and shapes between the ends can **reduce operation time and costs** even in case of difficult choices of pile duct branches.

II. Review of Capital Policy

For Creating Corporate Value - 1

Trends of ROIC and WACC

EVA spread remained negative for three consecutive years since 2019

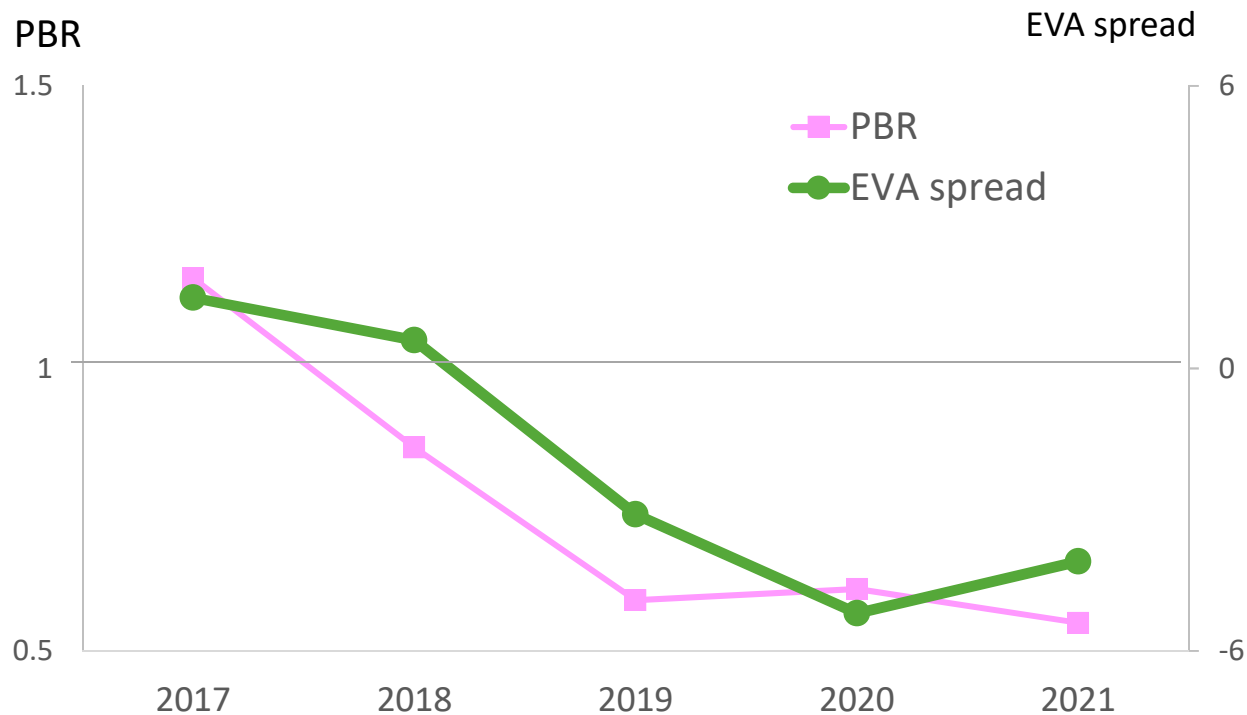


For Creating Corporate Value - 2

Trends of PBR and EVA

PBR also declined significantly since 2019 when EVA spread turned negative

Aim for positive EVA spread and PBR greater than 1



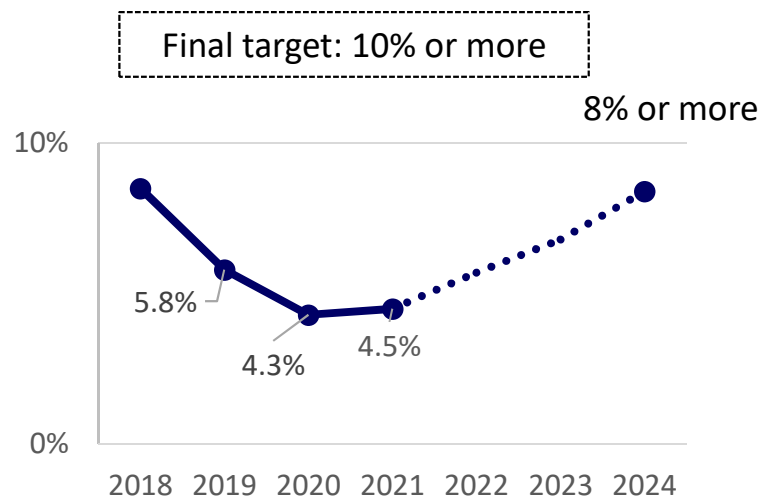
Measures to turn EVA spread positive

- Strengthen shareholder returns and pursue capital efficiency
- Introduce balance sheet management
- Enhance cash management in the Piolax Group

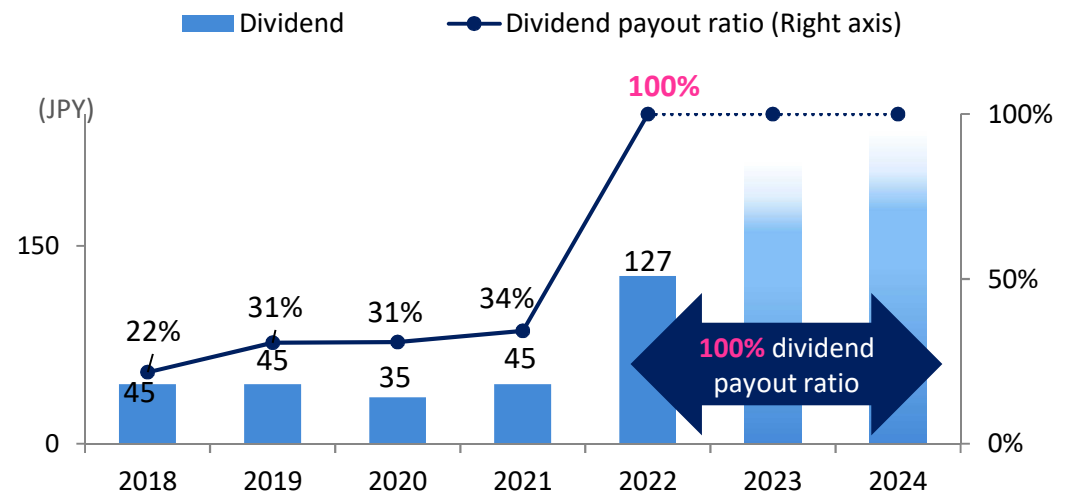
Review of Capital Policy

	FY23 management indicators (Previous)	FY24 management indicators (Revised)
ROE	8% or more (Final target: 10% or more)	8% or more Final target: 10% or more, positive EVA spread
Consolidated dividend payout ratio	30% or more	100%

ROE trend



Dividends and Dividend Payout Ratio

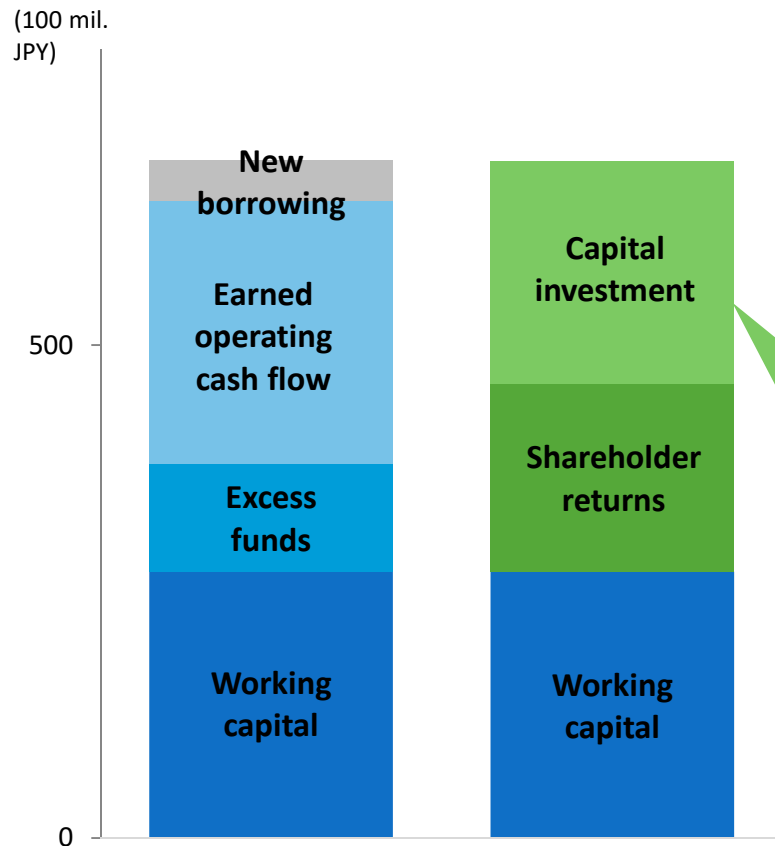


Note: Dividends have been adjusted to the value after the stock split (3-for-1 split of common stock) with Apr. 1, 2017 as the effective date.

Financial Planning and Capital Policy

Cash allocation

Cash allocation image for three years
from FY22 to FY24



Three-year capital policy from FT22 to FY24













- Control the increase in equity capital
- 100% dividend payout ratio
- Flexible purchase/retirement of treasury stock

Capital investment for growth

- Construction of a new Moka Plant
- Yokohama area renewal plan
- Expansion of overseas plants
- Capital investment related to environmental response

III. Promote ESG Management

Promote ESG Management -1

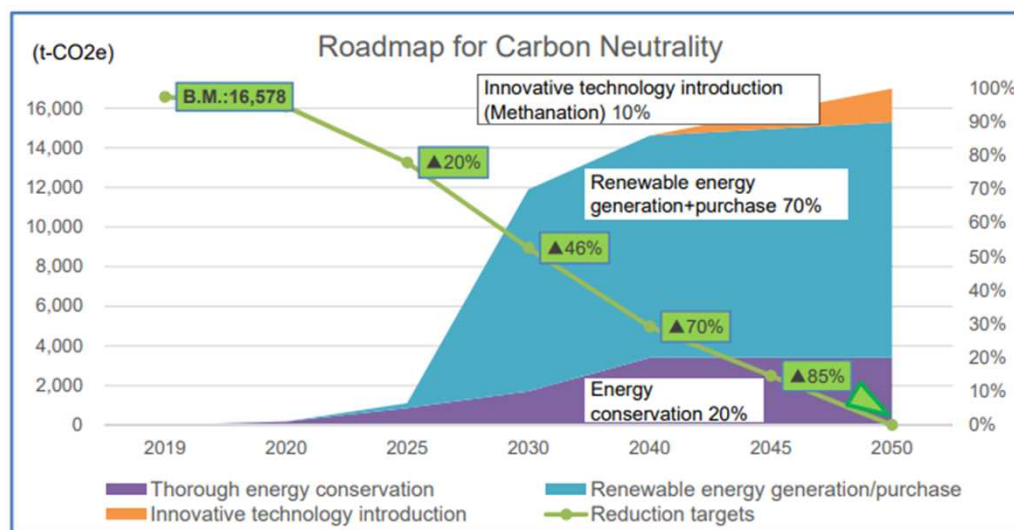
Applicable major SDGs	Materiality	Piolax ESG Vision 2030	Major initiatives
E    	<ul style="list-style-type: none"> • Energy • Emission into the air • Waste 	Corporate activities aiming for a carbon-free society and a recycling-oriented society	<ul style="list-style-type: none"> ▪ Activities toward carbon neutral: reduction of greenhouse gas and energy consumption, etc.
S    	<ul style="list-style-type: none"> • Employment • Occupational health and safety • Diversity, equal opportunity 	Creation of a vibrant workplace where employees can work with a sense of security	<ul style="list-style-type: none"> ▪ Promotion of work style reform ▪ Promotion of diversity ▪ Respect for human rights
G    	<ul style="list-style-type: none"> • Compliance enhancement • Governance enhancement 	<ul style="list-style-type: none"> ▪ Fair and equitable transactions and improved trustworthy relationships ▪ Stable organizational management by enhanced governance 	<ul style="list-style-type: none"> ▪ Compliance with modified corporate governance ▪ Enhanced compliance with risk management

Initiatives for climate change

Disclosing information based on TCFD recommendations

In March 2022, we announced our endorsement of the TCFD recommendations and disclosed information on our initiatives based on the TCFD recommendations. We will further strengthen our activities to enhance information disclosure.

Roadmap for carbon neutrality (CN)



Year 2030: 46% reduction

Year 2050: 100% reduction

- * We aim for carbon neutrality by 2050 for Scopes 1 and 2.
- * Subject: Piolax and its domestic group companies
- * We will continue to analyze overseas group companies and further study in the whole group.

Please refer to our website for details.

Disclosure Based on the TCFD Recommendations: https://www.piolax.co.jp/resources/pdf/csr/PIOLAX_TCFD.pdf

Promoting diversity and health management

We regard the promotion of diversity as an important management issue. We will strive to create a comfortable working environment by improving our education system and reforming work styles so that human resources with diverse backgrounds can fully demonstrate their abilities and individuality.

In order to secure and utilize diverse human resources, we will consider initiatives to raise the ratio of female managers to 30% and actively recruit foreign and mid-career employees.

Certification of the highest ranking (third stage) of "Eruboshi" as an outstanding company

We will continue to make efforts to “expand the number of female managers” and “develop a workplace environment where anyone can work comfortably and play an active role”.



Certification as an “excellent health management corporation in 2022” (large corporate division)

The source of vitality that supports our business environment is our “human assets or our employees and their families. As one of the most important management objectives, we will continue our support to promote mental and physical health and realize work-life balance of all employees.



G

Promote ESG Management - 4

Governance system: increasing the diversity of the Board of Directors

The Board of Directors is approved at our General Meeting of Shareholders on June 24, 2022
 9 directors in FY21 → 10 directors in FY22

<New system>

1) Increase of female directors (+1)

1 female (among 9 members) → 2 (among 10)
 Ratio of female directors: 20%

2) Increase of outside directors (+1)

3 members → 4 (one retired, two newly appointed)
 Ratio of outside directors: 40%

3) Increase of directors with skills relating to ESG/ sustainability (+2)

2 members → 4

4) Increase of directors with skills relating to DX/IT (+1)

2 members → 3

<Director skill matrix>

Position at the Company (Planned)	Name	Corporate management	Sales/marketing	Technology/development	Manufacturing/quality	Finance/accounting	Legal/risk management	Global business	ESG/sustainability	DX/IT	Innovation/new business
President and Representative Director	Yukihiko Shimazu	●	●					●	●		●
Senior Managing Director	Michio Nagamine	●				●			●	●	
Director	Toru Suzuki	●	●		●			●			
Director	Shigeru Masuda			●	●					●	
Director	Masaaki Kaji	●				●		●		●	④
External Director	Hiroyuki Ochiai	●			●			●	●	●	③
External Director	Makiko Akabane	●						●	●		
Director	Genichi Ishikawa	●				●		●			
Full-time Audit and Supervisory Committee Member	Kenichi Asano						●				
External Director	Sakae Komiyama					●					

G

Promote ESG Management - 5

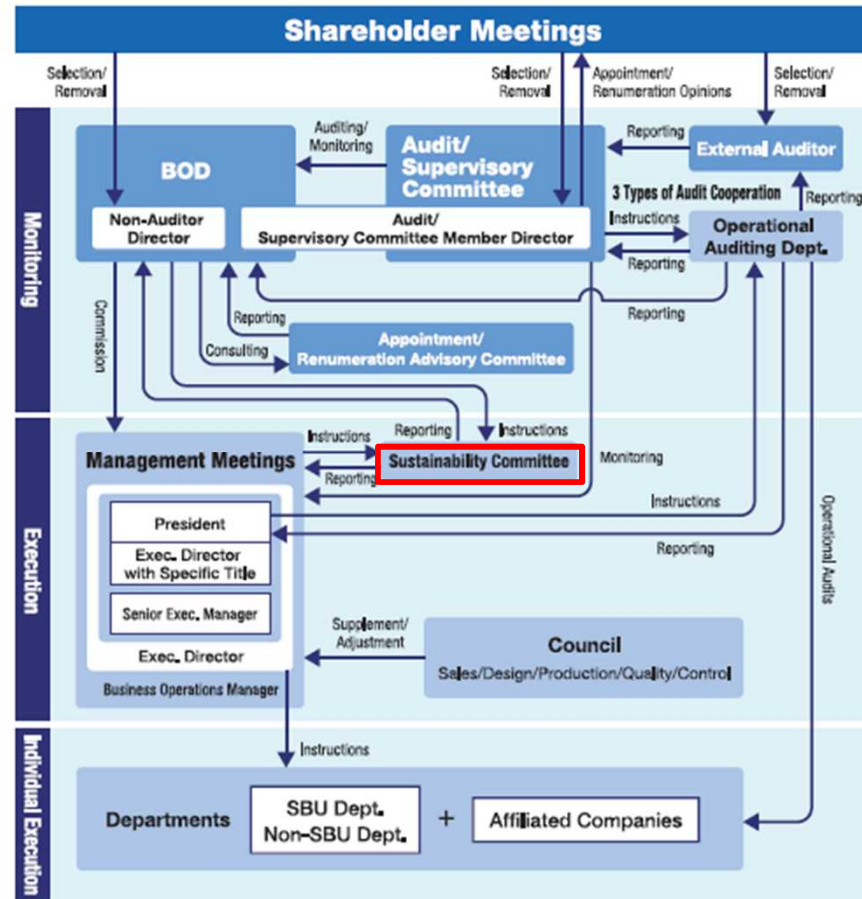
Governance system: establishment of Sustainability Committee

December 2021
 Setup of Sustainability Committee
 Establishment of Sustainability Policy

Outline of Sustainability Committee

Members	Chairperson: President Members: Persons elected from the Board of Directors and assigned by the Chairperson
Secretariat	Management & Planning Group, Corporate Planning Group
Frequency of meetings	Meeting: 4 times a year (held as needed) Report to the Board of Directors: twice a year
Main topics	- Formulation of policies and materiality related to sustainability and ESG management - Setting of targets and monitoring of progress - Disclosure based on the TCFD Discussions in the committee are regularly reported to the Management Committee and the Board of Directors.

Corporate Governance System Chart



Notes on Handling This Document

The forward-looking statements contained in this document are based on information available to us at the time of publication. Please note that such statements are future projections at this time and contain risks and uncertainties and that actual results may significantly differ from the projections.

