

Fiscal Year Ending March 2023 Financial Results Briefing

Friday, June 9, 2023
PIOLAX, INC.
(Code: 5988)
Yukihiko Shimazu, President

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III. Promotion of ESG Management

I. Medium-Term Management Plan (FY23 to FY25)

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

■ **Delayed recovery** in global car production

Forecast of global car production (Unit: 1 million cars)

2023	2024	2025	2030
92 85	97 89	92	105

■ **Accelerate shift to EVs**

Strengthen R&D capabilities.
Acquire orders for CASE-compliant products.

■ **Investment in growth foundations**

Improve productivity by IoT and DX.
Relocate global production.
Develop domestic infrastructure.
Strengthen EU market entry.

■ **Discovery of new businesses**

■ **Execute profit structure reforms to ensure a growth path.**

■ **Reinforce human assets development.**

Risk factors

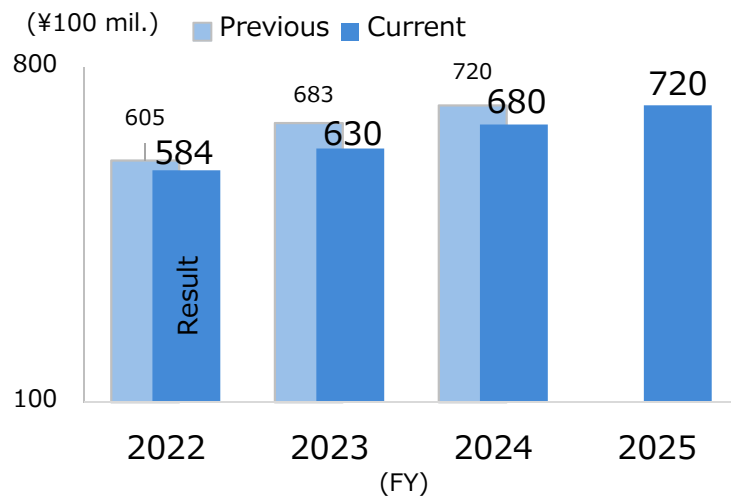
Red letters: Modifications from the previous version

- Reduced production of major customers
- Decreased orders for existing Piolax products due to the shift to EVs
- Possible re-spread of corona infection
- **Accelerating Inflation**
- Material supply issues (Difficulties in procurement, soaring purchase costs)
- Rising labor costs
- Global logistics disruption and soaring logistics costs
- U.S-China trade friction, Ukraine conflict, **and Taiwan Incident**
- Foreign exchange fluctuations
- Rising energy costs
- Cyber attacks
- **Securing of human assets**

Management Indicators - 1

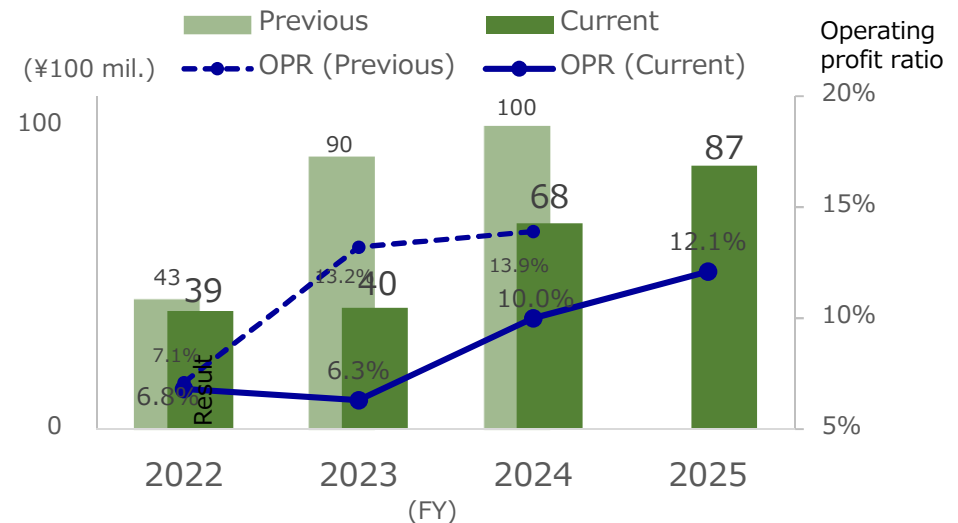
Medium-term management plan (FY23 to FY25) and review of previous plan (FY22 to FY24)

Sales

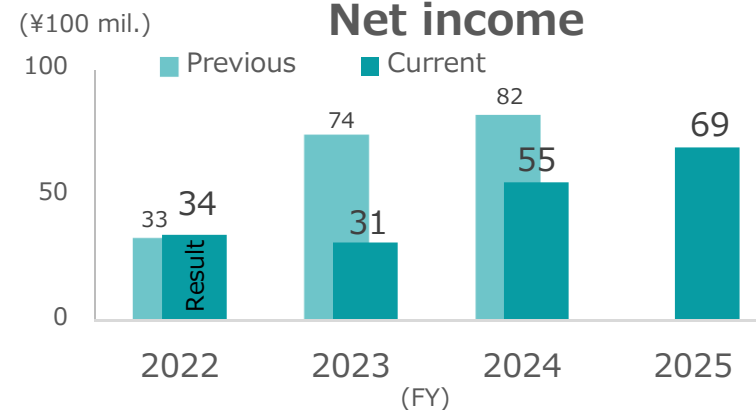


In FY22, sales and profits were down from the plan due to automobile production cutbacks and rising costs in materials, energy and others, and the achievement of 70 billion yen in sales will be postponed for another year. We will undertake "profit structure reform" for three years for growth.

Operating profit



Net income



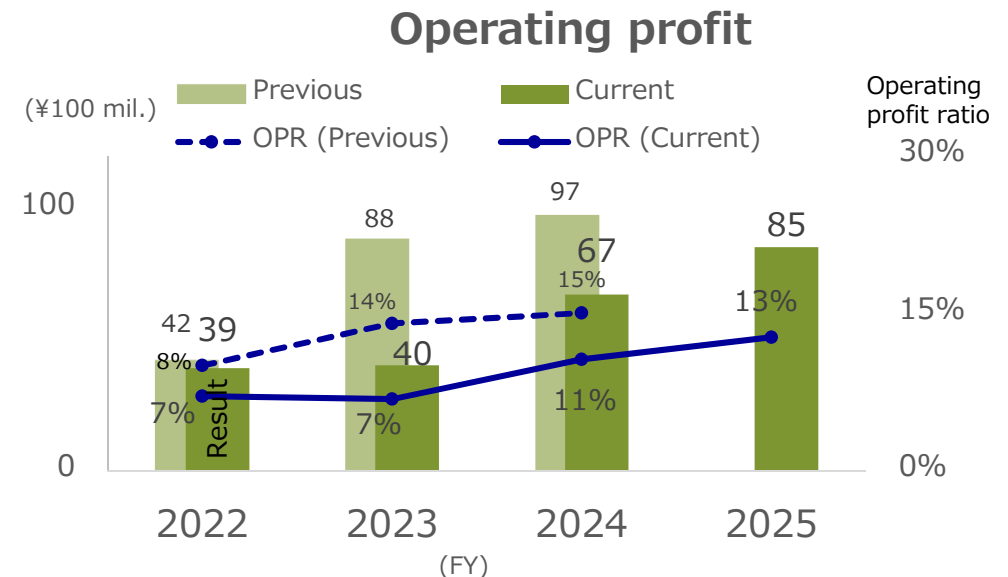
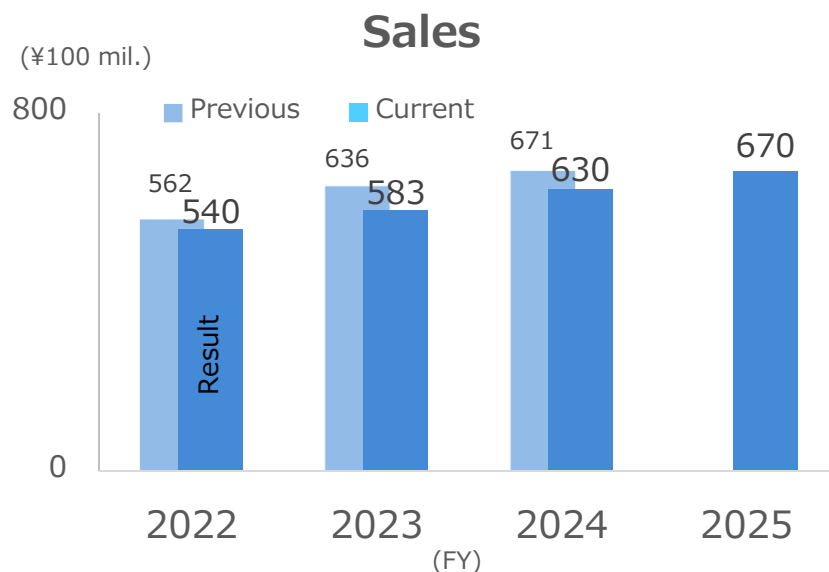
Management Indicators - 2: by Segment

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

Assumptions for FY25 sales plan (¥67 billion)

- Recovery of **global car production** to the FY19 level will be in FY25 or after.
- Increase **per-car sales** by 10% for each new model.
- Exchange rate: 1 USD = 130 JPY

Sales are sluggish, and earnings remain under pressure due to lower marginal profit and higher costs. Aim to secure earnings through **profit structure reform**.



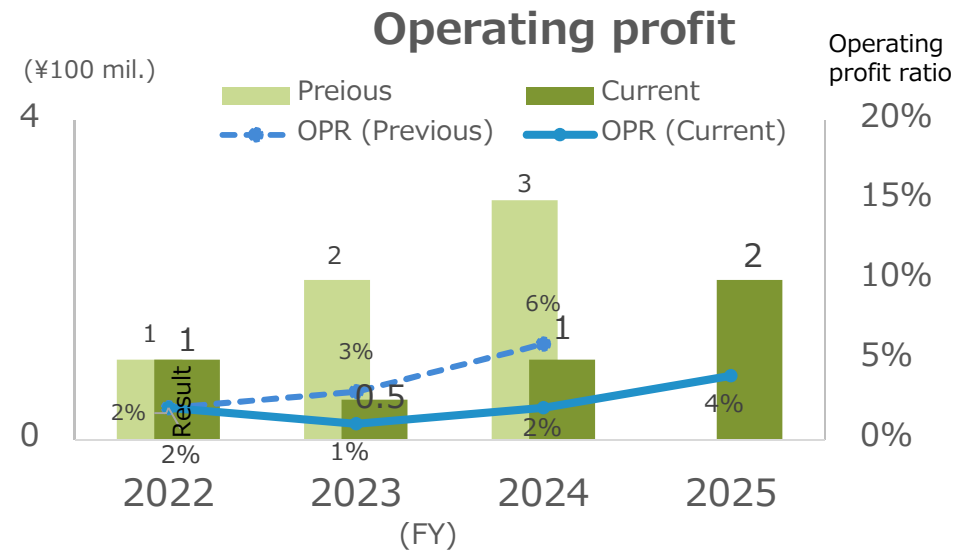
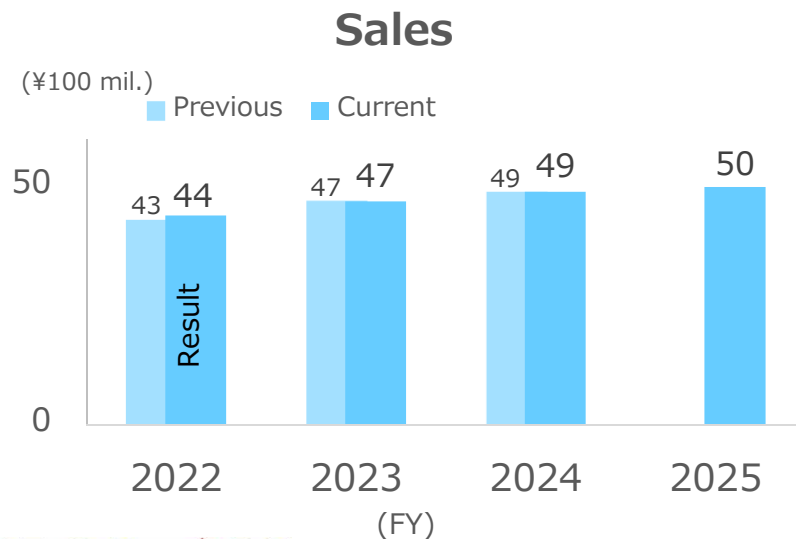
Management Indicators - 2: by Segment

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

Assumptions for FY25 sales plan (¥50 billion)

- Launch and sales increase of new products (micro catheter, gastrointestinal endoscopy guidewire, etc.)
- Customer management and sales support system by introducing Salesforce, and multifaceted marketing and sales activities by introducing marketing automation.

Operating profit deteriorated due to the impact of parts procurement risk on product supply and increased costs of materials, energy and logistics.



I-1. Growth Strategy (Automotive Business)

Progress of Management Strategy: Automotive - 1

Management strategy and priority issues	Specific measures (FY22 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 	Launch e-Products Development Dept. specific for CASE parts to expand sales.	Accelerate response to CASE. → Separately explained
	Non-Japanese OEM sales ratio: 13%	FY25: 17%
	Increase per-car sales for new models. Major models: +48% (from former ones)	FY25: Major models +10% or more (from former ones)
	Start new QA system.	Improve quality through the new QA system.
2. Business strategy <ul style="list-style-type: none"> • Discover new businesses • Reform profit structure 	Start MIRAI Business Dept. to discover a third business.	Discover new businesses not confined to the existing automotive and medical devise businesses.
	Initiate profit structure reform.	<ul style="list-style-type: none"> • Select and invest in growth areas. • Reduce fixed costs at Piolax Japan by 1 billion yen over 3 years.
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 N.A. (U.S. and Mexico) and China. Overseas sales ratio N.A.: 37%. China: 32%.	FY25 N.A./China: 35% each
	Expand sales to European OEMs by German Representative Office.	New strategies for Continental Europe Expand sales to non-Japanese (German) OEMs.
	Strong performance of Piolax India and Indonesia 10% operating profit ratio in ASEAN and India	Improve profitability in ASEAN and India. FY25 operating profit ratio: 15%

Progress of Management Strategy: Automotive - 2

Management strategy and priority issues	Specific measures (FY22 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 .	FY23: Complete Phase 1 construction and start operation. FY24: Start Phase 2 construction. FY25: Complete Phase 2 construction and start operation.
	Strengthen investment in CASE/new businesses. R&D costs to sales: 1.2%	Strengthen investment in CASE/new businesses. Increase R&D costs mainly for CASE parts. R&D costs to sales in FY25: 1.5%
5. Management capital strategy <ul style="list-style-type: none"> • Pursue capital efficiency • Return profits to shareholders • Promote ESG management 	Review capital policy and shareholder return. 100% dividend payout ratio from FY22 to FY24	FY25: Continue 100% dividend payout ratio
	Promote ESG management. <ul style="list-style-type: none"> • Update and disclose information based on the TCFD recommendations. • Introduce renewable energy at domestic plants from FY23. • Revise executive compensation system (add performance-linked factors) from FY23. 	Promote ESG targets <ul style="list-style-type: none"> • Promote measures toward carbon neutrality. • Improve TCFD disclosure. • Reinforce human capital initiatives. • Enhance governance.

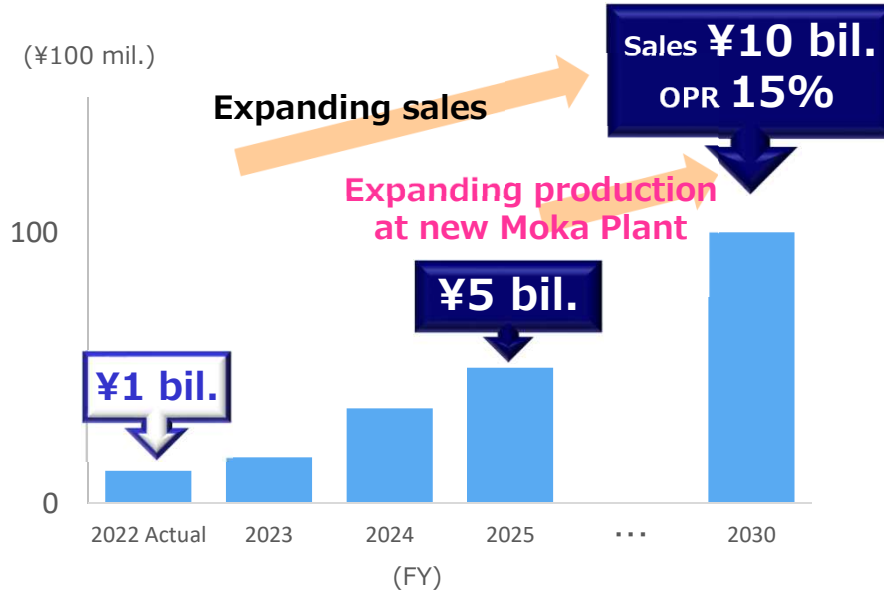
Sales expansion of CASE products

Respond to diverse needs
through combined technologies of plastics and metals

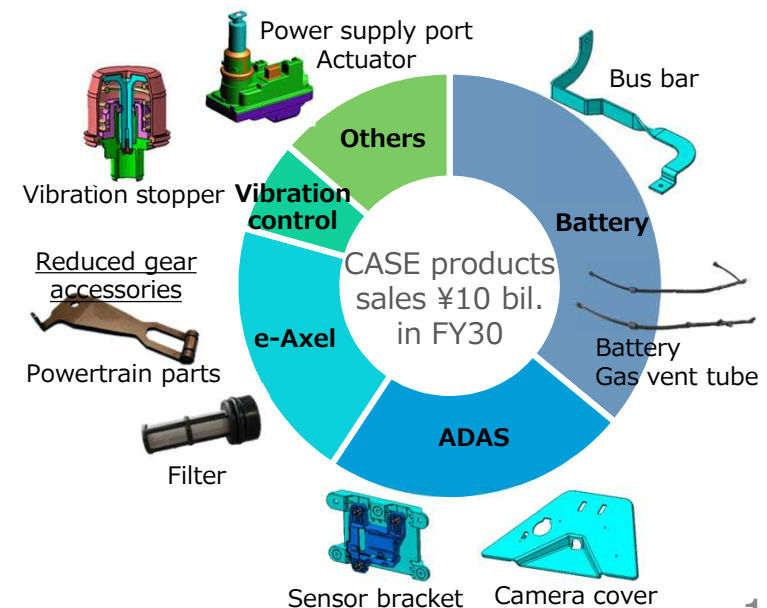
【Actions in FY23】

- Accelerate order taking. Focus on development and production of products that combine performance and cost competitiveness.
- Launch e-Products Development Dept. specific for CASE products in April 2022.
- Plan production of CASE products at the new Moka Plant.

Sales expansion plan of CASE products



Target products



Diversification of Customers/Products

Targets for FY25

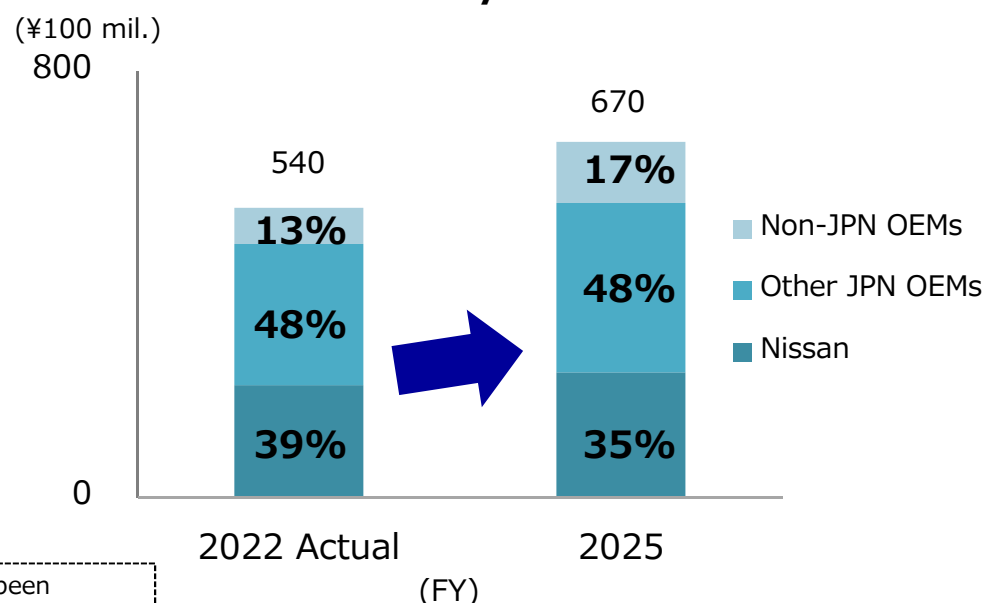
- Sales ratio of non-Japanese OEMs: 17%
- Per-car sales for new models: +10% or more (from former models)

Per-car sales increase of major new models of Japanese OEMs (Japan) in FY22

	Growth rate
Model A	+53%
Model B	+15%
Model C	△16%
Model D	+17%
Model E	+25%
Model F	+80%
Model G	+37%
Total *	+48%

* The calculation method for the total of per-car sales growth rate has been revised starting this fiscal year.
The total, calculated by the formula "(Per-car sales of a new model – per-car sales of its former model) x number of cars a year," is regarded as sales increase, and the total for 7 models are divided by the sales of their former models.

Sales by OEMs



Initiatives by Overseas Bases

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

Europe (U.K. and Germany)

- Enhance sales to German OEMs using German representative office.
- **Consider production relocation in Europe.**

ASEAN and India

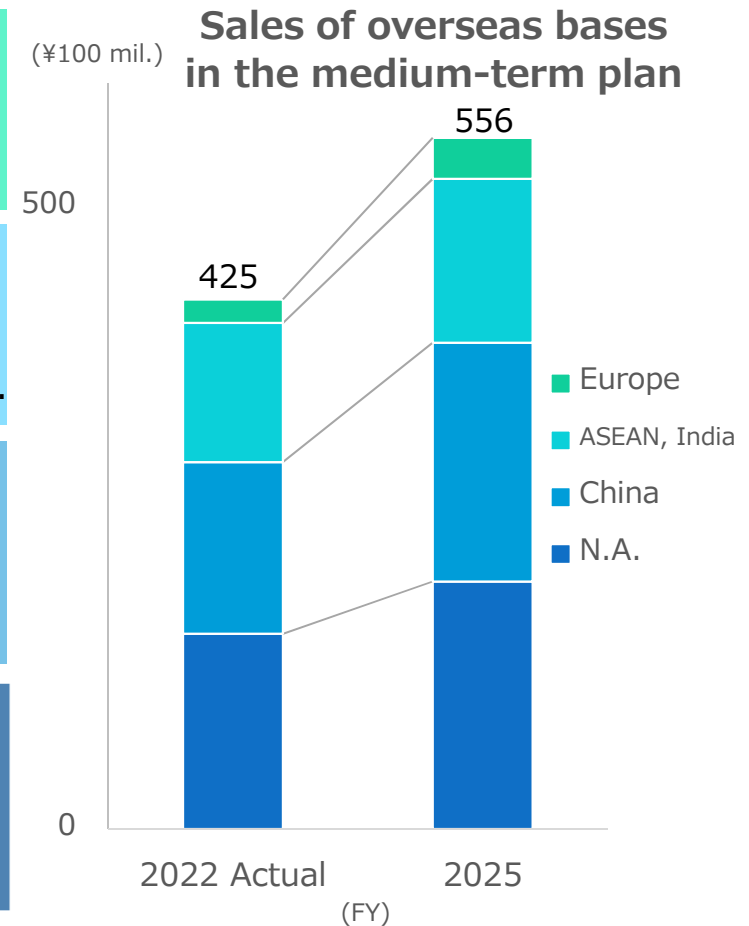
- India: **plant expansion, increase sales to Indian OEMs, response to EV shift**
- Strengthen collaboration among Thailand, India and Indonesia.

China

- Enhance sales to **Chinese OEMs**.
- Enhance sales to **start-up EV makers**: get orders for existing parts (fasteners, etc.) and develop business to EV parts.

North American (U.S. and Mexico)

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



* Consolidated sorting (internal transactions) are included.

Initiatives by Piolax China

Enhance sales to Chinese OEMs

Increase sales to Chinese start-up EV makers

Expand sales channels by existing parts (fasteners, O/C parts, etc.).



CASE products

Battery peripherals (heat management parts)



Gas vent tube



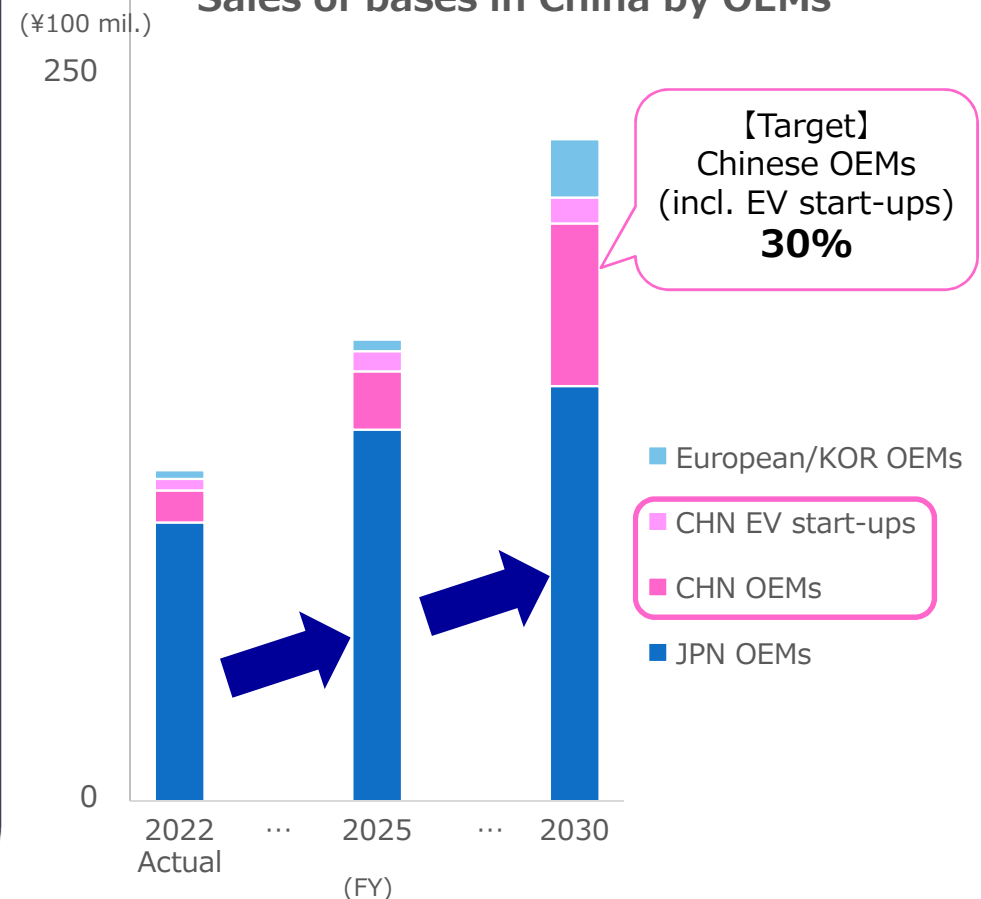
Bus bar

ADAS brackets

(Brackets for camera, radar, sonar, etc.)



Sales of bases in China by OEMs



Initiatives by Piolax India

Expansion of the plant

[Plant expansion plan]

Start of construction: June 2023

Completion: February 2024

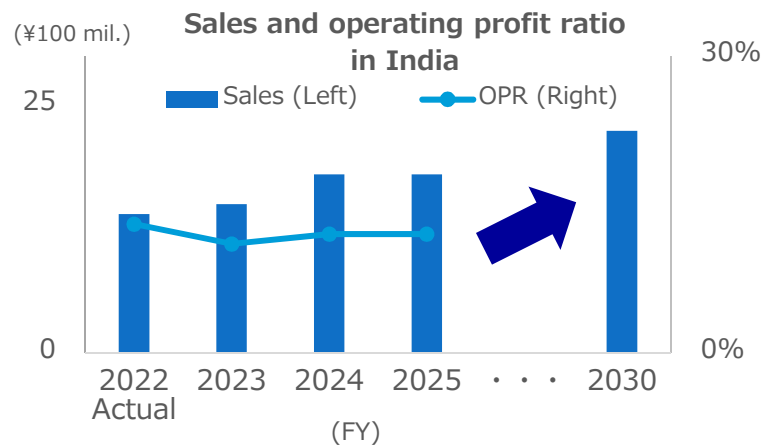
Area: 2,255 m²

Purpose: Production of new ordered parts.

Space for future production increase.

Total costs: 120 mil. rupees (¥190 mil.)

Toward OPR of 12% or more



Plant in India (Chennai)

Enhance sales

A sales office is opened in Pune to increase sales to Indian OEMs (Mahindra, Tata).

Increase orders for future

To prepare for the expanding Indian automotive industry, a space is secured for the future increase in orders and production.

- Estimated car production volume
FY23: 5.5 mil. cars → FY30: 6.5 to 7.5 mil. cars
- EV policy of the Indian government
30% for 4 wheels and 80% for 2 or 3 wheels in 2030

Infrastructure Development in Japan - 1

Infrastructure development for future growth

1. New Moka Plant

Construction in Phases 1 and 2

- Full-scale operation for Phase 1 area: 2nd half of FY23
- Investment: ¥10.1 billion (FY23 to FY25) – increased due to facility expansion and soaring material prices
- Total floor space: About 28,700 m² (at the completion of Phase 2 construction)
- Future plan: Start of Phase 2 construction in FY24 for full-scale operation in FY25

2. Yokohama area renewal project

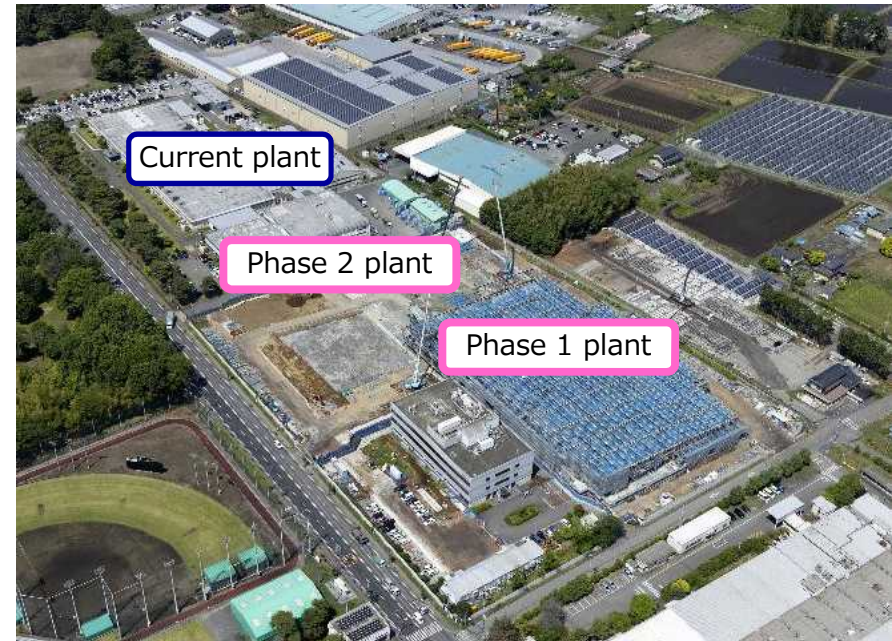
- Infrastructure development of Yokohama area (Head Office, YTC)
- Head Office relocated in FY22 due to the aged building which has been demolished in the 1st half of FY22
- Construction of the new Head Office starts in FY23
- Aim to improve productivity of indirect departments through infrastructure development in view of consolidation of departments and work style reforms

Infrastructure Development in Japan - 2

Construction of new Moka Plant

<Next-generation, global mother plant>

- Next-generation equipment and molding lines
- Automated lines with the use of AI/IoT
- Efficient production by DX
- **200% productivity improvement** by 2030
- Efforts for **carbon neutrality**
- Increase in production capacity for **CASE products** (battery-related parts, ADAS brackets)



Capital Investment for Sustainable Growth

Capital investment for future growth centered on infrastructure development in Japan

FY23 to FY25

■ Infrastructure development in Japan

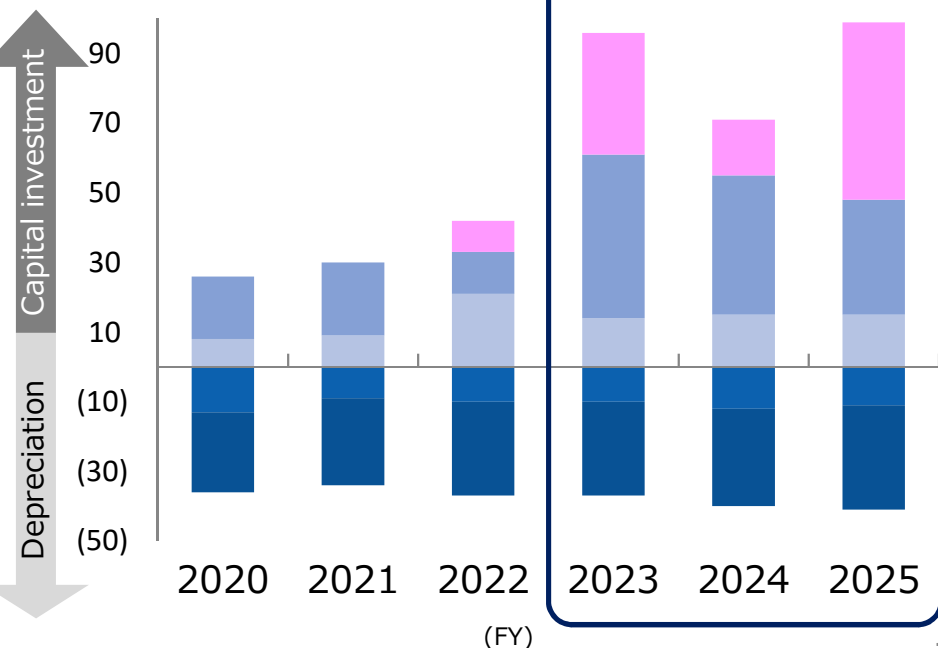
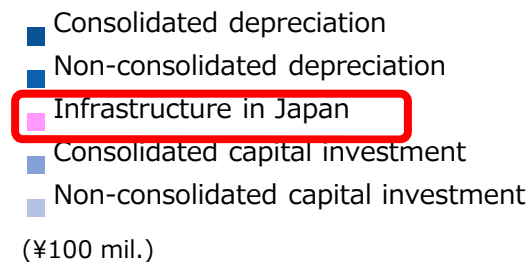
- Construction and operation of new Moka Plant (Increased costs due to additional equipment and soaring material prices)
- Yokohama area renewal plan

■ Expansion of overseas plants

- Expansion of plant in India
- Expansion plan of plants in China (Wuhan) and Korea
- Renovation of plant in the U.S. to make CASE products.

■ Capital investment for environmental response

Capital investment and depreciation



Profit Structure Reform (Non-consolidated)

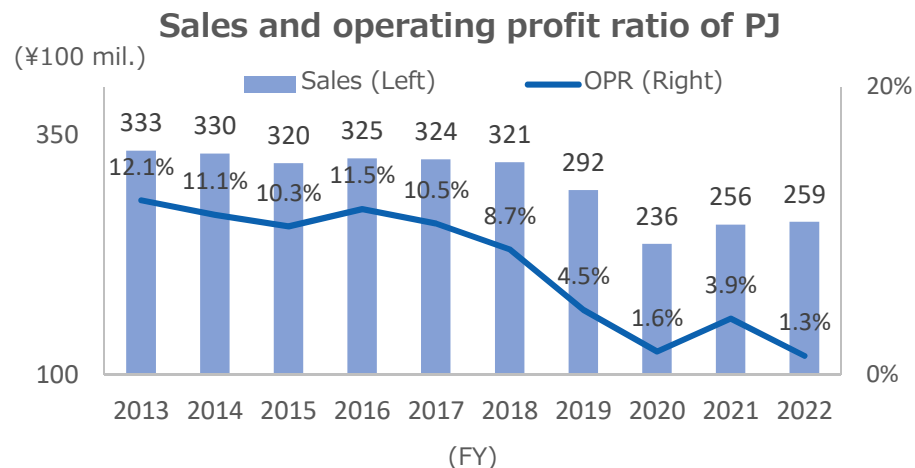
Structural Reforms for Profitable Growth

Building a lean profit structure

FY23-FY25 (Non-consolidated)

- Reduce fixed costs of ¥1 billion.
- Secure double-digit operating profit ratio.

Reducing profitability of Piolax Japan



Selection and concentration of investments for growth

■ Reducing orders for existing parts due to the shift to EVs →

CASE response, R&D for environmental measures, capital investment

■ Construction of new Moka Plant, Yokohama area infrastructure

■ Active investment in human assets

■ Investment to improve efficiency (Digitalization, DX, IoT)

I-1. Growth Strategy (Medical Device Business)

Progress of Management Strategy: Medical Device Business

Management strategy and priority issues	Specific measures (FY22 actual)	Medium-term management plan initiatives
1. Product and customer strategy	■ Launch differentiated products to specific markets Planning and development of products focused on specific areas of minimally invasive treatment	Medium-term launch plan (Strategic new products) ■ Expand the market share in Japan of digestive endoscopy Digestive endoscopy guidewire (Market size: ¥6.3 bil.) FY23: 33% → FY25: 36%*
	■ Speed up the introduction and lineup of new products Contracts have already been signed with domestic collaborators for endovascular devices. → 2 products to be launched in FY23	■ Launch new products Sales plan: ¥1 bil. (FY23 to FY25) <div> New products (for biliopancreatic treatment) ① Digestive endoscopy guidewires (2 in-house sales products + 1 OEM product) </div>
2. Regional strategy	■ Strengthen overseas expansion • New sales of devices for liver cancer catheter treatment in China Sales: ¥130 mil.	② Anticancer drug admixture device for liver cancer catheter treatment for Asia: only one product in the world
3. Growth investment strategy	• Plan the development of cerebral endovascular devices that apply technologies for abdominal endovascular devices (microcatheters).	

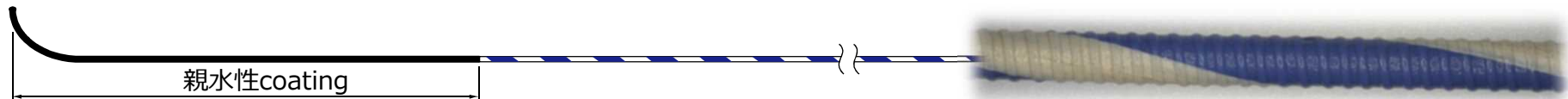
* Ref.: In-house estimates based on the data of R&D Co., Ltd. for FY21

New Medical Device “VENTY”

Expand market share with newly launched guidewire (GW)
for digestive endoscope in FY23

Trinity concept - selectivity, support, and safety
High-spec GW satisfying required factors

Release in Japan
since April 2023



Medium-term sales plan (FY25)

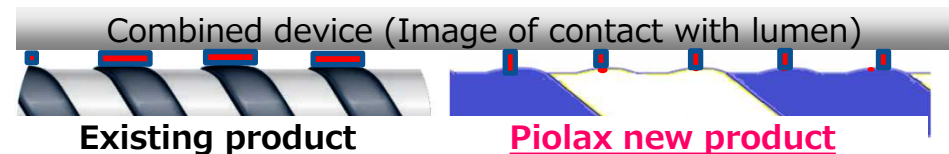
■ New GW “VENTY”

- Sales: ¥250 mil.

Aim **36%** share of digestive endoscope guidewires in Japan.

Appeal point

*  Image of contact area



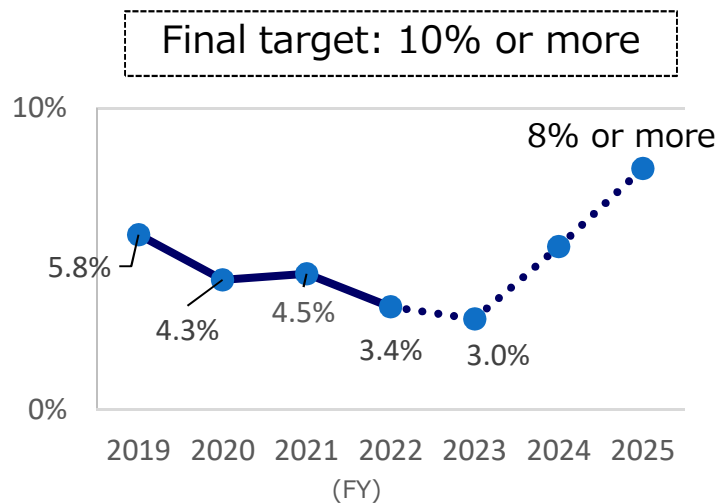
1. Our surface treatment technologies reduce contact area (point contact): low friction resistance and **high slipping property**.
2. Low friction resistance **improves torque performance** so that GW control by a surgeon is transmitted directly to the tip.
3. The core wire rigidity is improved by 15%, **meeting a wide range of user needs**.

II. Capital Policy

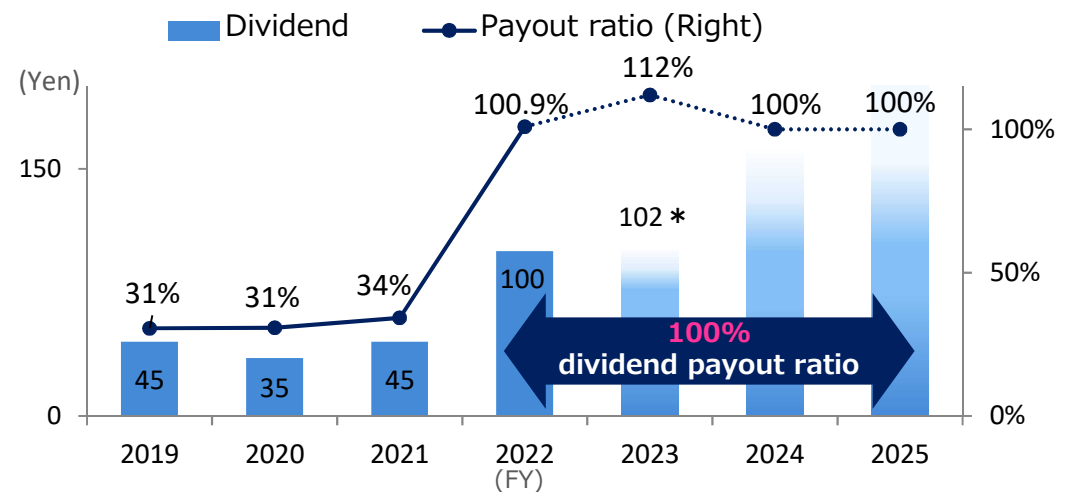
Capital Policy - 1

	FY22-FY24 management indicators (Former medium-term plan)	FY23-FY25 management indicators
ROE	8% or more Final target: 10% or more EVA spread +	8% or more (continuing) Final target: 10% or more EVA spread +
Dividend payout ratio	100%	100% (continuing)

ROE trend



Dividend and payout ratio



* The interim dividend for FY2023 includes commemorative dividend of 10.00 yen (forecast) for the 90th anniversary of the Company's founding.

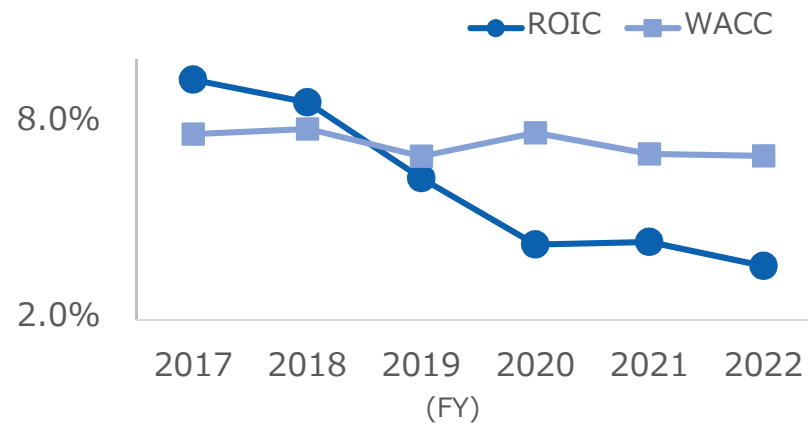
Capital Policy - 2

Toward PBR 1x

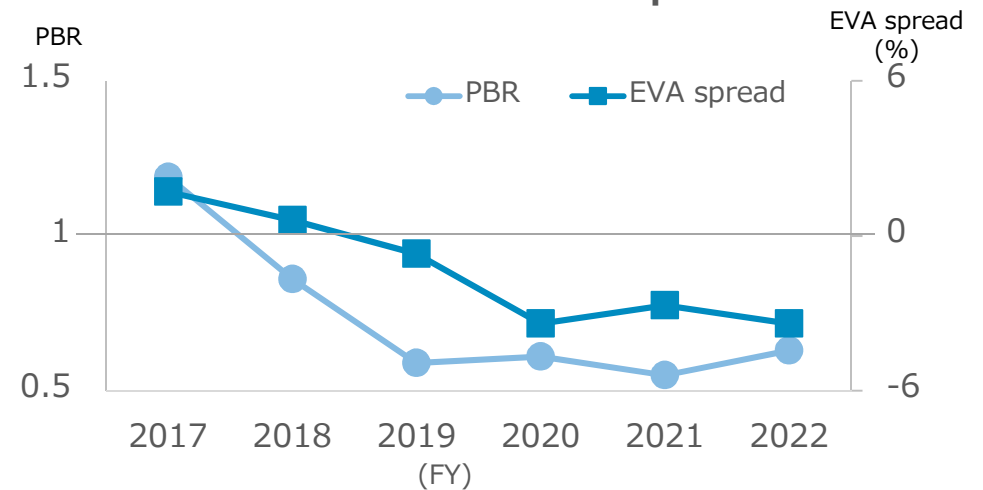
3-year capital policy (FY23 to FY25)

- Curb the buildup of equity capital
- **100% dividend payout ratio**
- Agile share repurchase/retirement

Trend of ROIC and WACC



Trend of PBR and EVA spread



* Starting this year, some of the calculation methods for graph indices are revised for unification.

III. Promote ESG Management

E

Efforts for Carbon Neutrality

Introduction of renewable energy

Moka Plant (Tochigi prefecture) and Fuji Plant (Shizuoka prefecture) have started to use renewable energy **100%** since April 2023.

Information disclosure based on the TCFD recommendations

We analyzed risks and opportunities based on climate change of our bases in the U.S. and China in FY22 and disclosed in March 2023.

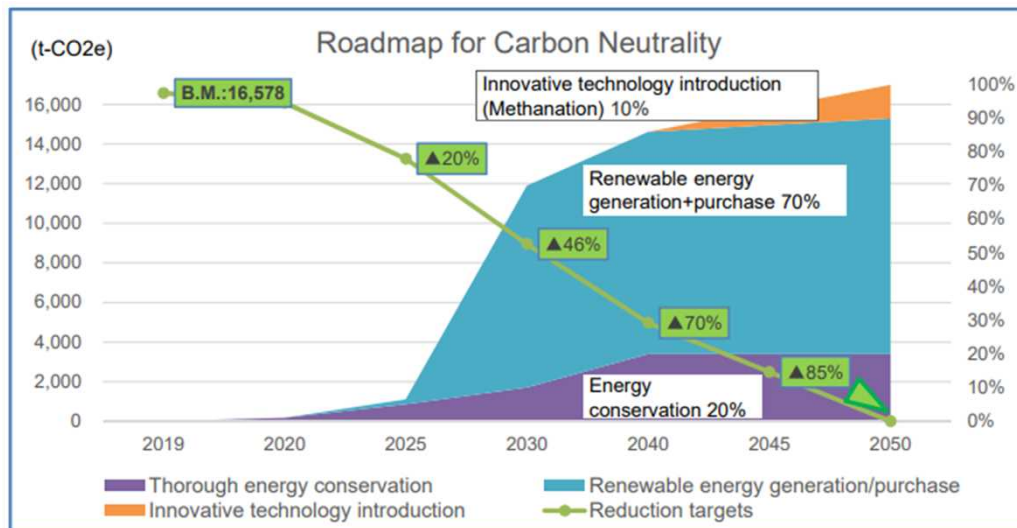
Plan to install solar panels

Promote self-efficiency of renewable energy.



Solar panels at the new Moka Plant (Image)

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.

Efforts for Human Assets Development, Diversity, Internal Environment

Formulate human assets development plan

- Formulate human assets development plan for future senior management.
- Actively introduce measures like career planning support and 360-degree evaluation.

Survey employee satisfaction

- Conduct employee satisfaction survey since FY22.
- Strengthen the development of human assets who have high engagement and can contribute to increasing corporate value.

Reinforce training for new employees

- Resume plant training for new employees which had been halted due to COVID-19.
- Extend the period from 2 weeks to 6 months (max.) to emphasize on-site learning.

Provide inflation allowance and revise employee stock ownership plan incentive

- In response to recent price hikes, a uniform inflation allowance of 50,000 yen were paid to all employees of the Group (in Japan) in January 2023.
- 3% of employee stock ownership plan incentive is raised to 10% from FY23.
- Promote a safe and secure work environment for employees.

Certification of the highest ranking (3rd stage) of "Eruboshi" as an outstanding company

We will continue our efforts to increase 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 group in 2023" (large corporate division)

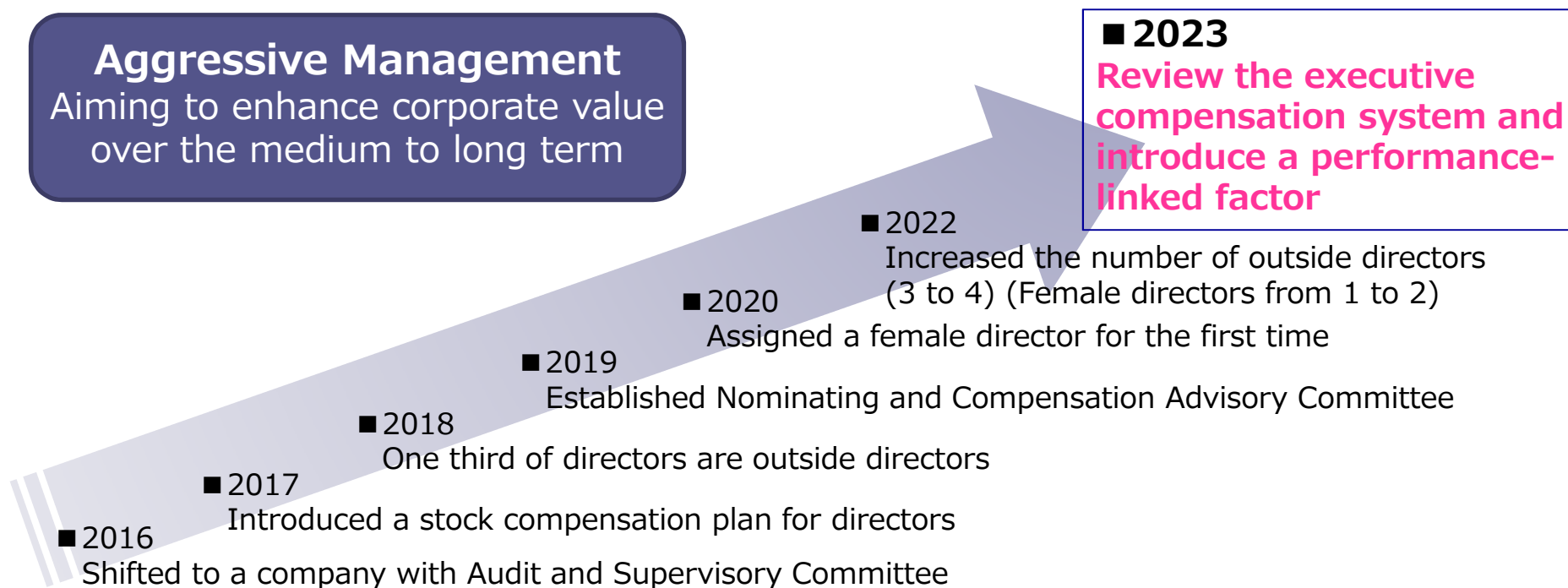
We will continue our support to promote mental and physical health and realize work-life balance of all employees, which is one of the most important management objectives.



Strengthening Governance

Aggressive Management

Aiming to enhance corporate value over the medium to long term



Board of Directors

- ① Female directors: 20%
(2 people among 10)
- ② Outside directors: 40%
(4 people among 10)

Assessment of Board Effectiveness

In order to enhance the objectivity of the evaluation, external (third-party) advice is obtained once every three years from revising the survey content to creating an action plan.

In FY22, the effectiveness of Audit and Supervisory Committee was also assessed voluntarily.

G

Revision of Stock Compensation Plan for Directors

Introduce a performance-linked factor in line with the extension of the existing stock compensation plan using a trust.

KPI: Net income and ROE as set forth in the Medium-Term Management Plan

*Officially determined upon approval at the General Meeting of Shareholders.

- Compensation for executive directors subject to the plan will consist of base compensation, monetary bonus as short-term incentive, and performance-linked stock compensation as long-term incentive, in order to further achieve performance targets and sustainable increase in corporate value.
- Introduce a stock compensation system for **employee executive officers**, too, using the same trust as for directors to provide incentives to enhance business performance.

**<Current> Base salary + bonus + stock compensation
(100% fixed by position)**



**<New> Base salary + bonus + stock compensation
(50% fixed by position + **50% fluctuated by position**)**

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.

