

# Financial Results Briefing for the 1<sup>st</sup> Half of FY2023

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December 8, 2023 (Fri.)

PIOLAX, INC.

(Code: 5988)

Yukihiko Shimazu, President

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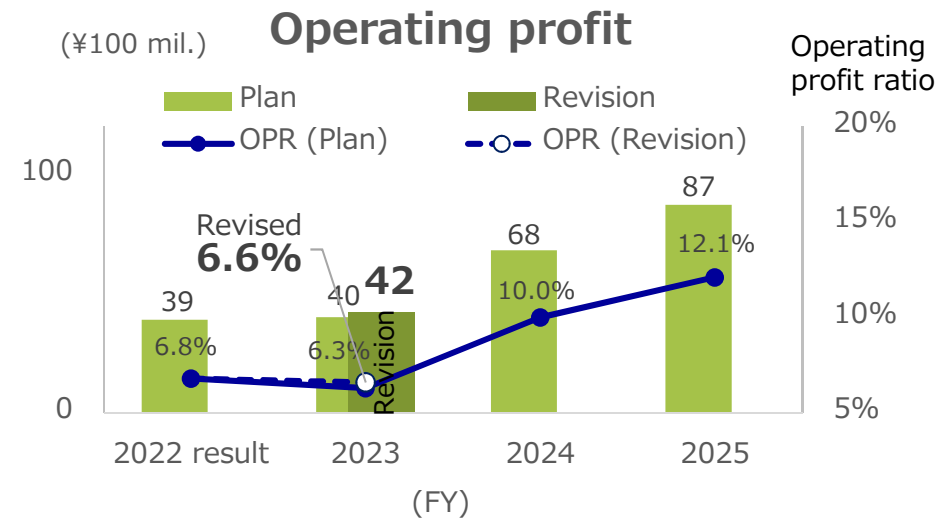
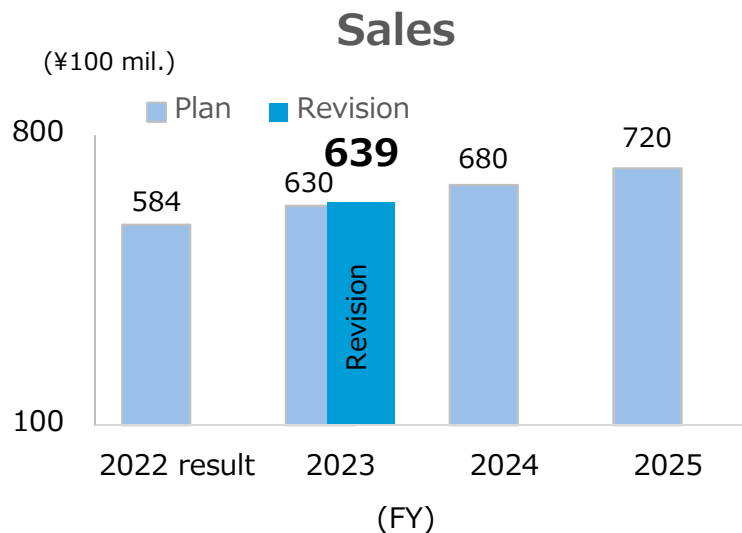
(Automotive Business / Medical Device Business)

## **II. Capital Policy**

## **III. Promotion of ESG Management**

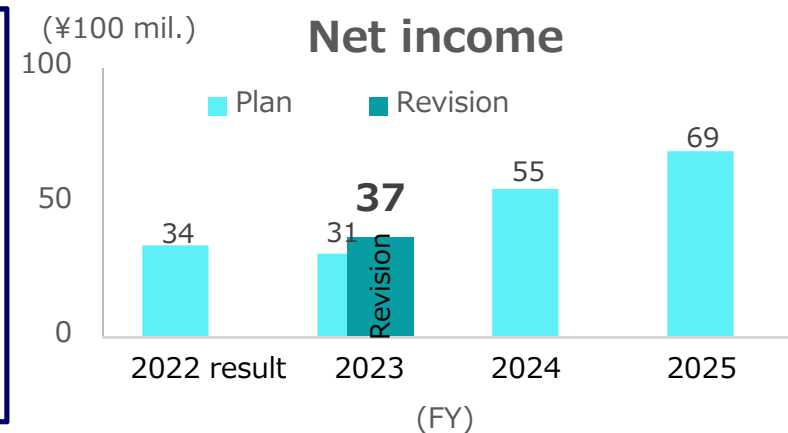
# Management Indicators - 1

## Progress of medium-term management plan (FY23 to FY25)



### Disclosure of revision on Nov. 8, 2023

Sales in Japan and the U.S. offset deteriorated performance in China. With the benefit of foreign exchange gains, the company expects full-year sales and profits to increase compared to the plan and to the previous year.

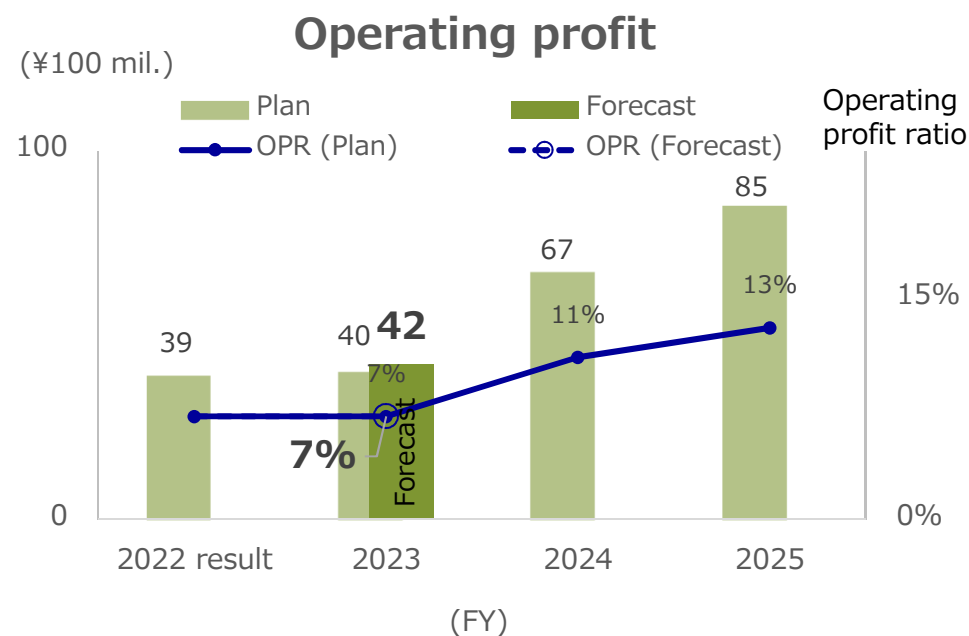
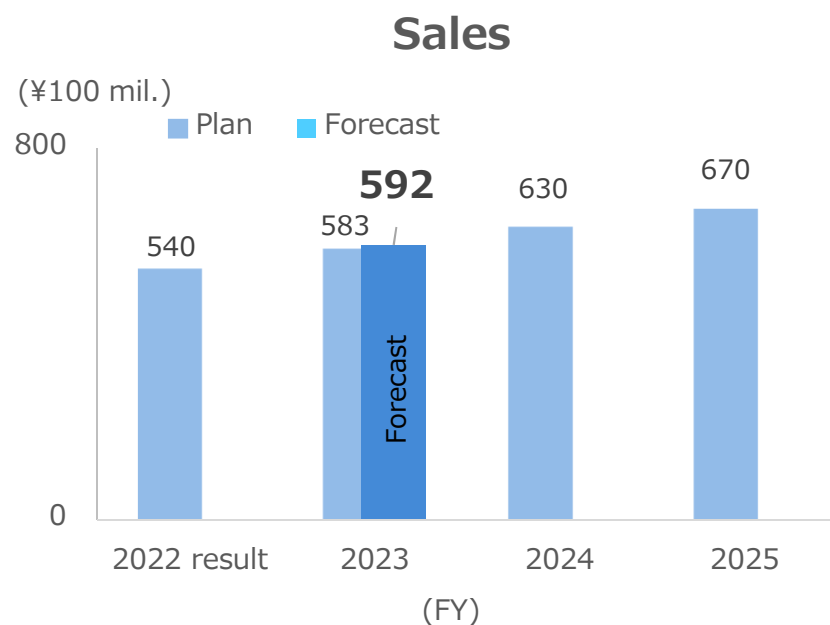


# Management Indicators - 2: by Segment

## Progress of medium-term management plan for automobile-related business

<Upward revision factors> Recovery of automobile production. Strong performance in Japan and the U.S. Positive impact of yen depreciation. Progress in cost recovery.

<2nd half forecast> Continued sluggishness in China will be covered by sales in Japan and the N.A. Increase in material, energy and logistics costs are already considered.

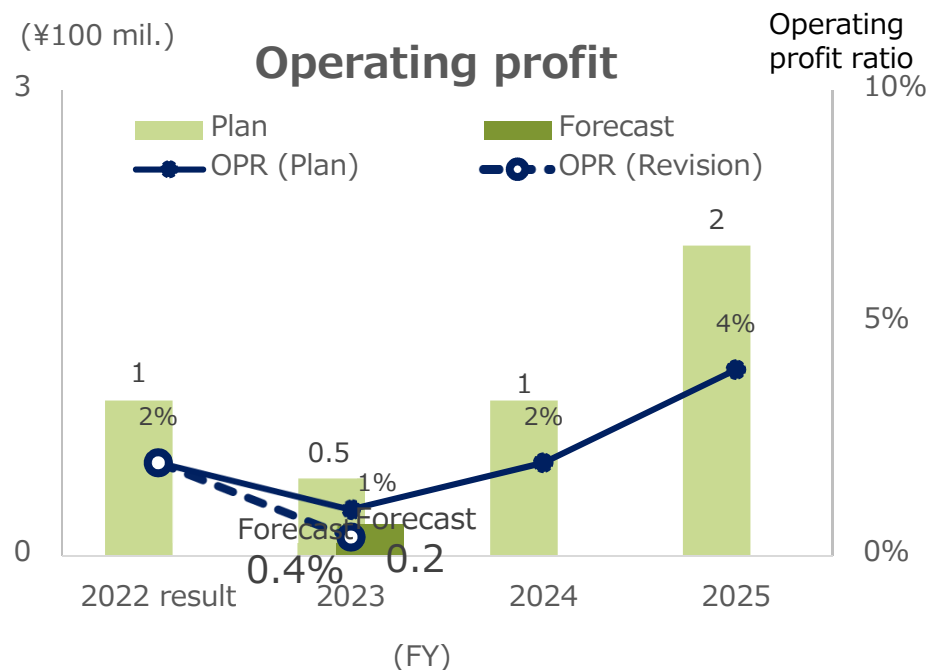
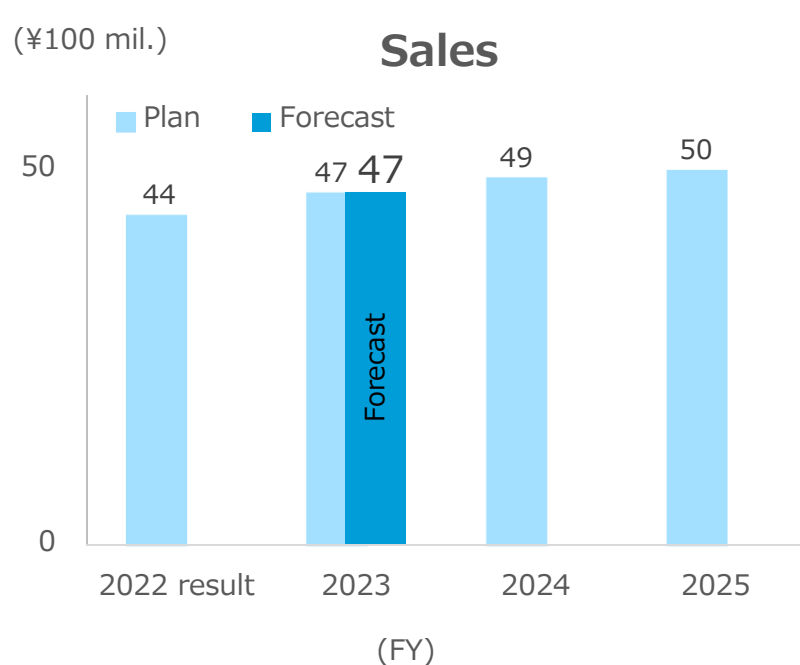


# Management Indicators - 2: by Segment

## Progress of medium-term management plan for medical device business

<Sales> Almost in line with the plan.

<Operating income> Down from the plan mainly due to cost increase caused by soaring raw material prices and inventory disposal.



# **I-2. GROWTH STRATEGY (AUTOMOTIVE BUSINESS)**

# Progress of Management Strategy: Automotive - 1

Management strategy and priority issues	Medium-term management plan	Situations in FY23
<b>1. Product and customer strategy</b> <ul style="list-style-type: none"> <li>• Develop CASE parts and receive orders</li> <li>• Diversify customers and products</li> <li>• Maximize profit margin for each product</li> <li>• Achieve global high quality</li> </ul>	Accelerate response to CASE.	Steady sales activities (Explained later)
	Sales ratio to non-JPN OEMs in FY25: <b>17%</b>	1H: 12%
	Increase per-car sales for new models in FY25: <b>+10%</b> (from former models)	Steady progress for JPN OEMs in Japan
	Improve quality through the new QA system.	Enhancing quality through company-wide quality meetings
<b>2. Business strategy</b> <ul style="list-style-type: none"> <li>• Discover new businesses</li> <li>• Reform profit structure</li> </ul>	Discover new businesses not confined to the existing automotive and medical device businesses.	Continue discovering new business by MIRAI Business Dept.
	Profit structure reform (Invest in growth areas): reduce fixed costs at Piolax Japan by ¥1 bil. over 3 years.	Promote fixed cost cut and identify growth areas to raise profitability of Piolax Japan.
<b>3. Regional strategy</b> <ul style="list-style-type: none"> <li>• Expand sales in North America and China</li> <li>• Expand profitability in ASEAN</li> <li>• Make strategies for Continental Europe</li> <li>• Strengthen regional management functions</li> </ul>	Expand sales in N.A. (U.S. and Mexico) and China. Sales ratio of N.A. and China in FY25: <b>35%</b> each	Sales ratio (FY23 forecast) N.A.: 42%    China: 26% N.A. sales cover slowing China sales.
	New strategies for Continental Europe. Expand sales to <b>non-JPN (German) OEMs</b> .	Establish a sales company in the Netherlands in FY24.
	Improve profitability in ASEAN and India. FY25 operating profit ratio: <b>15%</b>	Operating profit ratio of ASEAN and India (forecast): 11%

# Progress of Management Strategy: Automotive - 2

Management strategy and priority issues	Medium-term management plan	Situations in FY23
<b>4. Growth investment strategy</b> <ul style="list-style-type: none"> <li>• Develop infrastructure in Japan</li> <li>• Strengthen R&amp;D investment</li> <li>• Promote DX</li> </ul>	Build a new Moka Plant. FY23: Complete Phase I construction and start operation. FY24: Start Phase II construction. FY25: Complete Phase II construction and start operation.	Steady progress. Phase I construction completed in Dec. 2023 and partial operation in Jan. 2024.
	Strengthen investment in CASE/new businesses. R&D to sales ratio in FY25: 1.5%	Accelerate development of CASE and eco-friendly products.
<b>5. Management capital strategy</b> <ul style="list-style-type: none"> <li>• Pursue capital efficiency</li> <li>• Return profits to shareholders</li> <li>• Promote ESG management</li> </ul>	<b>100% dividend payout ratio</b> from FY23 to FY25	<b>Dividend increase</b> (disclosed in Nov.) Annual dividend forecast is revised from ¥102 to ¥119 (incl. ¥10 commemorative dividend for the 90th anniversary of founding) in line with upward revision of net income forecast.
	Promote ESG targets. <ul style="list-style-type: none"> <li>• Promote measures toward carbon neutrality (CN).</li> <li>• Improve TCFD disclosure.</li> <li>• Reinforce human capital initiatives.</li> <li>• Enhance governance.</li> </ul>	<ul style="list-style-type: none"> <li>• Promote measures toward CN in the supply chain.</li> <li>• Human capital disclosure.</li> <li>• Promote diversity.</li> </ul>



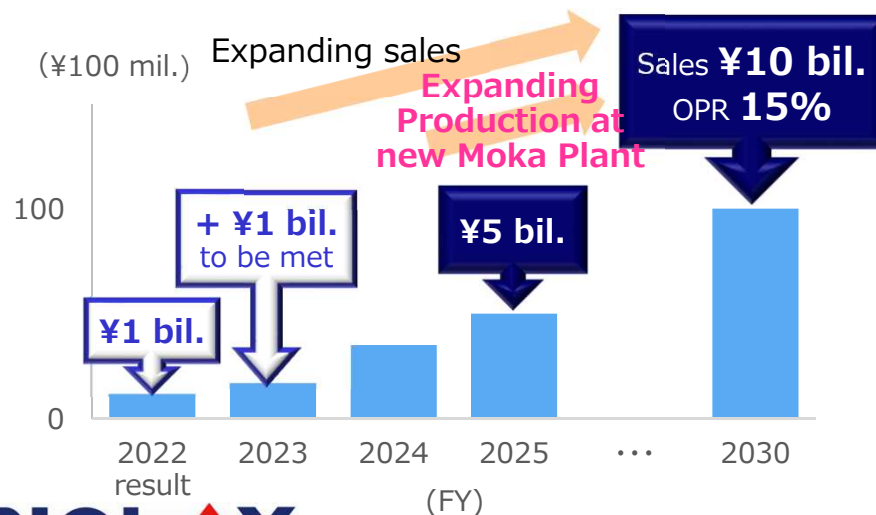
# CASE Products - 1

## Progressing development and sales expansion of CASE products

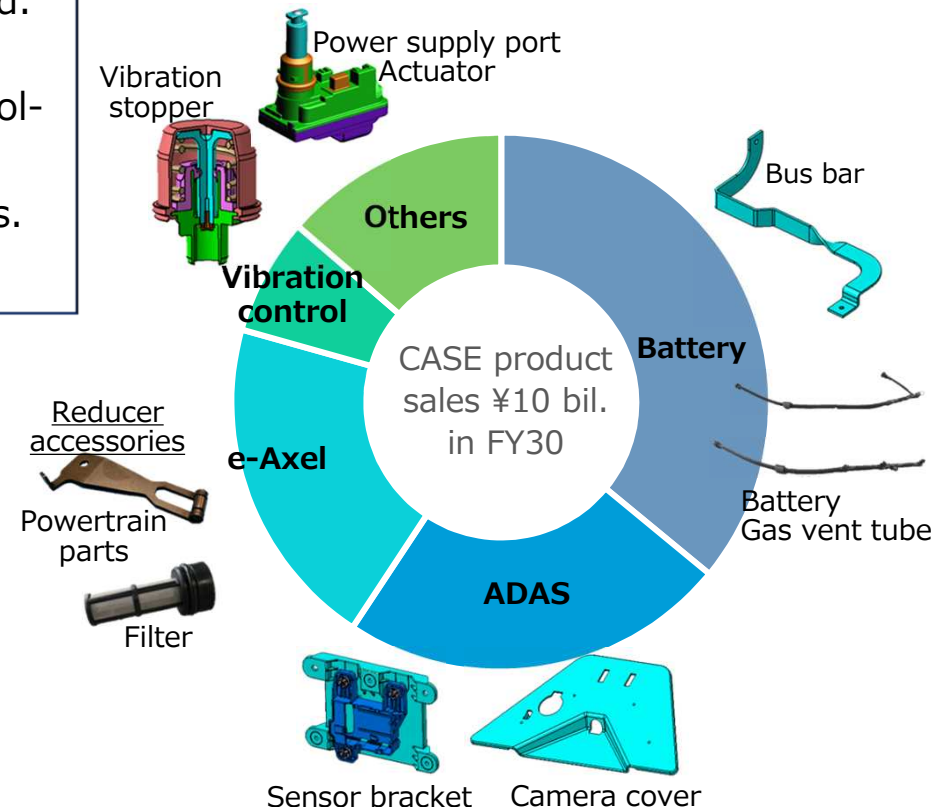
### 【Actions in FY23】

- Orders are increasing. FY23 plan will be achieved.  
Sales expansion target: Battery-related (70%).  
ADAS\*-related (10%). e-Axel-\* and vibration control-related and others (20%).
- Enhance relations with candidate new customers.
- Plan production at the new Moka Plant.

### Sales plan of CASE products



### Target products



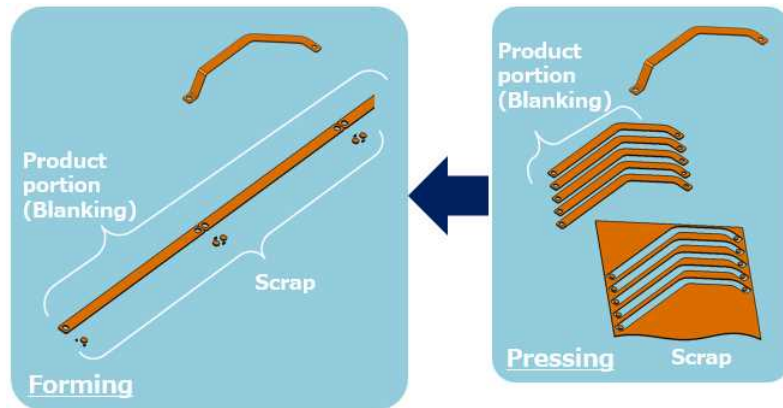
ADAS: Advanced Driver-Assistance Systems  
e-Axel: Drive module for EV including motor, inverter and reducer

# CASE Products - 2

## Development of products that contribute to Reducing vehicle weight and the environment

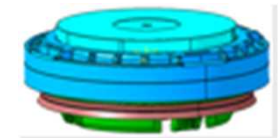
### **Busbar**

Dielectric parts made of copper.  
By changing the production method from pressing to forming, copper scrap is significantly reduced.



### **Degassing valve for EV battery**

Secure battery's functions for a certain period of time in case of its malfunction.  
Light weight and easy assembly without using a bolt.



### **Damping stopper**

Vibration control parts to eliminate muffled sound in the low-frequency band.  
Light weight using vibration control material for stop rubber.



# Business Expansion with New Product Lines

Change the name of “Fuel System Parts SBU”  
to challenge new product lines

➡ **Fluid Controls SBU** (As of December 1, 2023)

- Respond to the changing needs of customers in the trend of EVs.
- Increase customer understanding and awareness of our unique technologies acquired through fuel system parts.
- Apply existing technologies and market experience to fluid piping and other related products.

## Development and order taking of new parts

### New targets

- **Application to fluid control** such as emergency parts for lithium ion battery and piping for brake and washer fluid.
- **Thermal management\*** for CASE products.
- Connector, joint, and degassing piping technologies for multiple fluids.

Apply technologies cultivated to date to wider areas

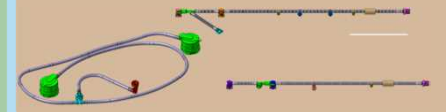
### Quick connector



### Connecting joint



### Tube assy



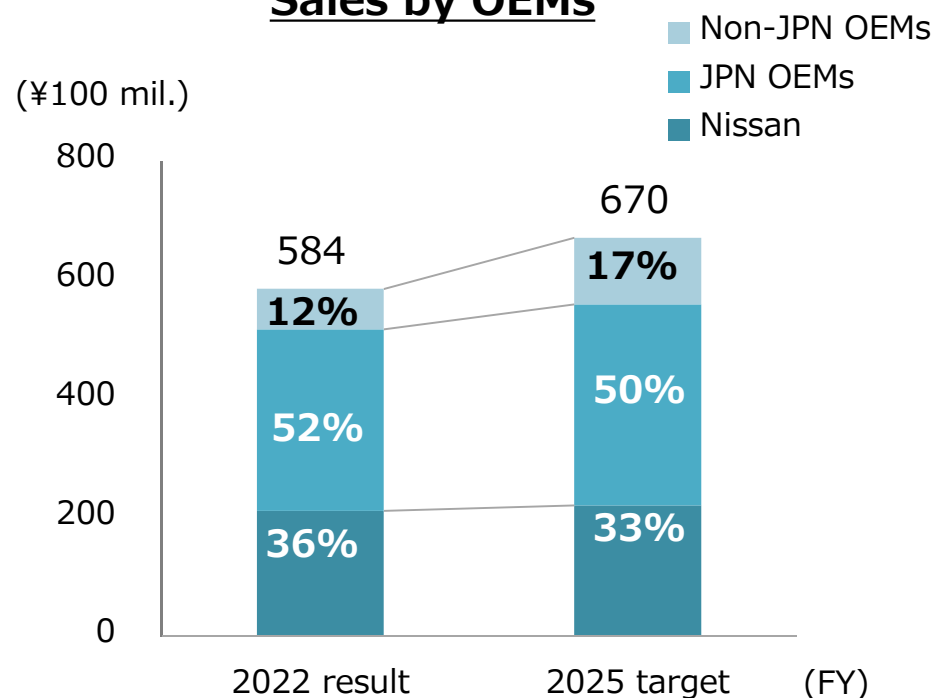
\* Air conditioning for in-vehicle comfort, cooling of batteries, etc.

# Diversification of Customers/Products

## Targets for FY25

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

### Sales by OEMs



### Efforts to increase per-car sales for new models

For our priority models to be sold from FY24 to FY27, we will promote our products for EV, e-Power and ADAS which have high price contribution and increase per-car sales by 10%.

	Priority target
Company A	6 models
Company B	2 models
Others	4 models

# Capital Investment and Depreciation

Capital investment for future leap forward,  
mainly in domestic infrastructure development

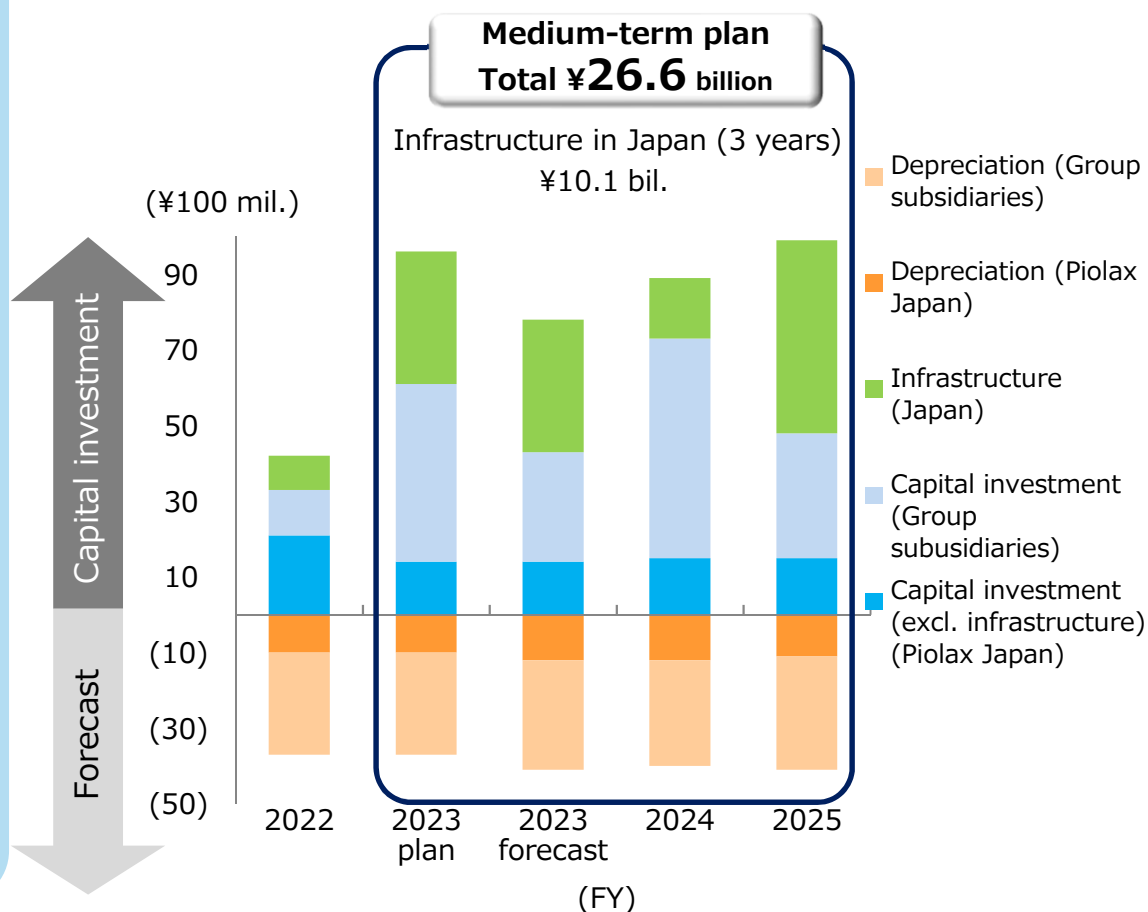
【FY23】

- New Moka Plant: completion in Dec., operation in Jan.
- Postpone capital investment in China and Korea bases to FY24 or later.

【FY24 or later】

- Start Phase II construction of the new Moka Plant.
- Start construction of the new head office.
- Install eco-friendly equipment like solar panels.
- Consider production reallocation in the Group.

## Capital investment and depreciation



# Activities of overseas bases

## Diversification of products /customers (non-JPN OEMs)

### Europe (U.K. and Germany)

- Enhance sales to German OEMs using the German representative office.
- **Establish a sales company in the Netherland in FY24.**
- Consider production relocation in Europe.

### ASEAN and India

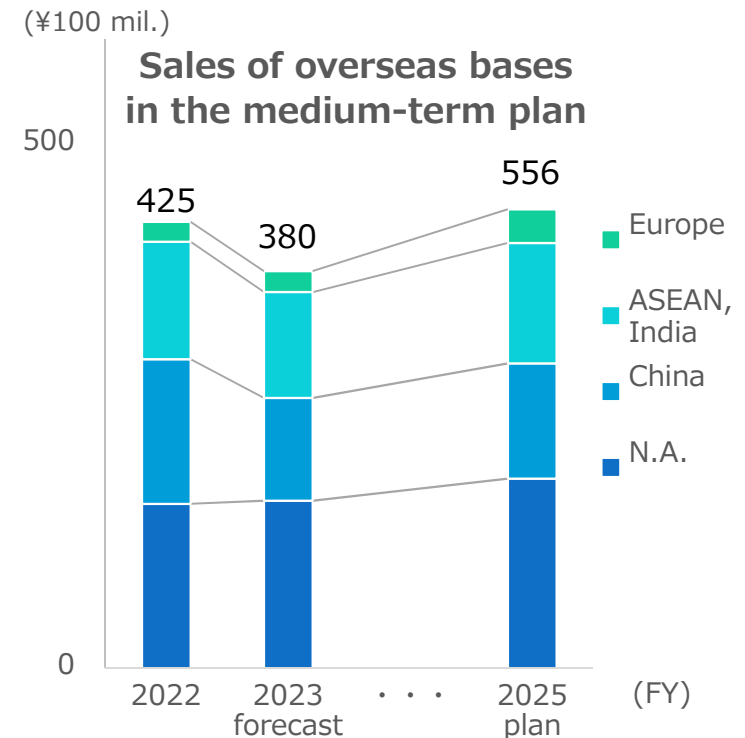
- In India, **expand the plant, increase sales to Indian OEMs, and enhance response to EV shift.**
- Strengthen collaboration among bases in Thailand, India and Indonesia.

### China

- Shift China business strategies due to worsening performance.
- Enhance sales to **Chinese OEMs.**
- Enhance sales to **start-up EV makers.**

### 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 journalizing (internal transactions) is included.

Only figures of FY23 have been revised. Those of FY25 have not been changed since this June. Those of FY24 are being reviewed.

# North America (U.S., Mexico)

## Localization & sales expansion to non-JPN OEMs

### ■ Optimal production

- Promote localization: hose clamps, metal fasteners, fuel system parts.
- Transfer production from the U.S. to Mexico.

### ■ Sales expansion activities for non-JPN OEMs

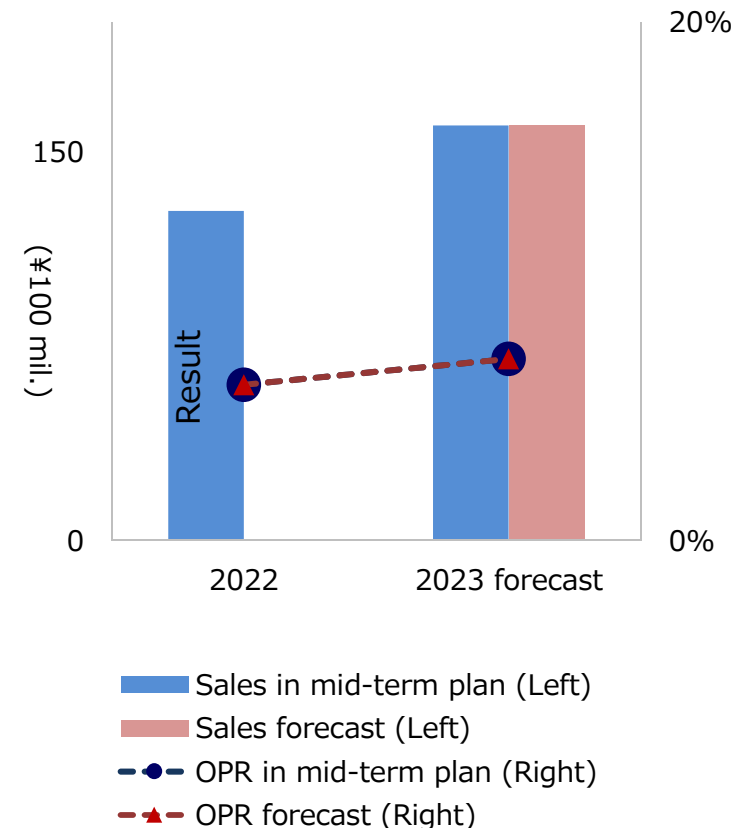
- Big 3 / Hyundai (U.S.) VW (Mexico)

### ■ Lower labor cost by promoting automation and labor saving

Parts to be localized



## Sales & operating profit ratio (U.S. & Mexico)



# China

## Shifting China business strategies

In consideration of accelerating EV shift and sluggish JPN OEMs.

### 1) Change target for sales expansion

- Protect current business + Approach **Chinese OEMs (emerging EV makers)**

### 2) Review development system drastically

- Re-establish speedy development system.

### 3) Revise materials, processes and methods drastically

- Use **low-priced materials** for cost competitiveness.

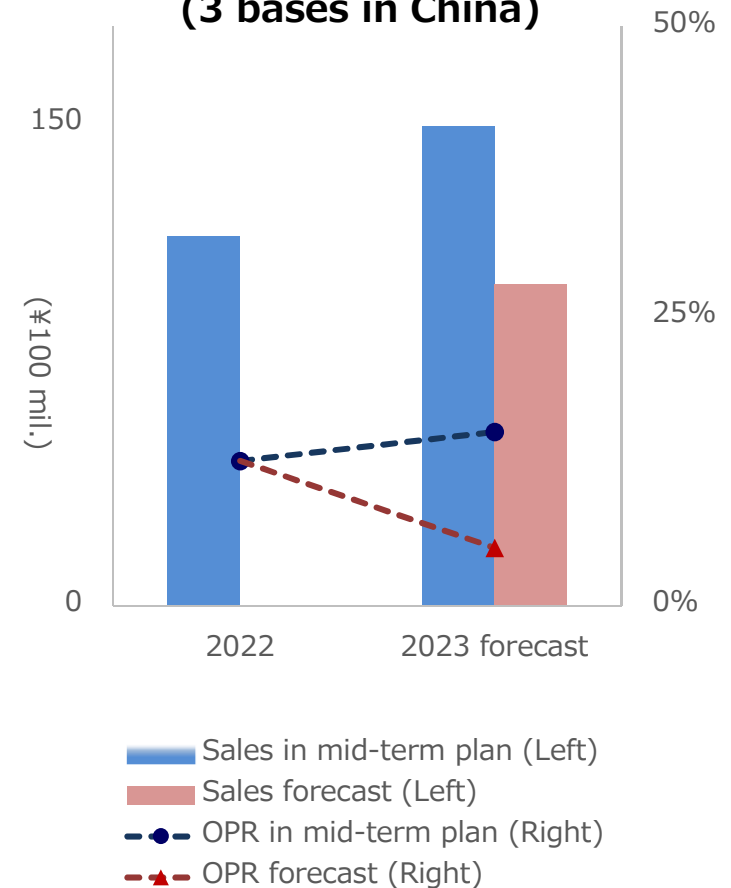
### 4) Further improve productivity and quality

- Consolidate administrative functions in Shanghai office.

### 5) Review production system

- Rebuild production system for cost competitiveness.
- **Promote localization.**

## Sales & operating profit ratio (3 bases in China)





# European Continent

## Sales expansion to German OEMs & Establish production system in Europe

- Establish **a sales company in the Netherland** in 2024.
- Aim to expand business in Europe where CASE and EV shift are advancing.
- Aim to get orders of CASE- and EV-related products in addition to our mainstay interior parts.
- Increase sales from German and other European OEMs. (**Eco-friendly parts are awarded** by a German OEM.)
- Consider production reallocation in Europe.



### Target products Battery-, sensor-, and motor-related



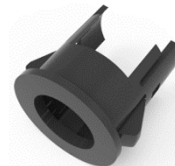
Busbar



Degassing valve



Vibration control part



Sonar bracket



Exhibit at Stuttgart Expo in Germany  
(Dec. 4 to 6, 2023)

# Infrastructure Development in Japan - 1

## Infrastructure development for future growth – New Moka Plant

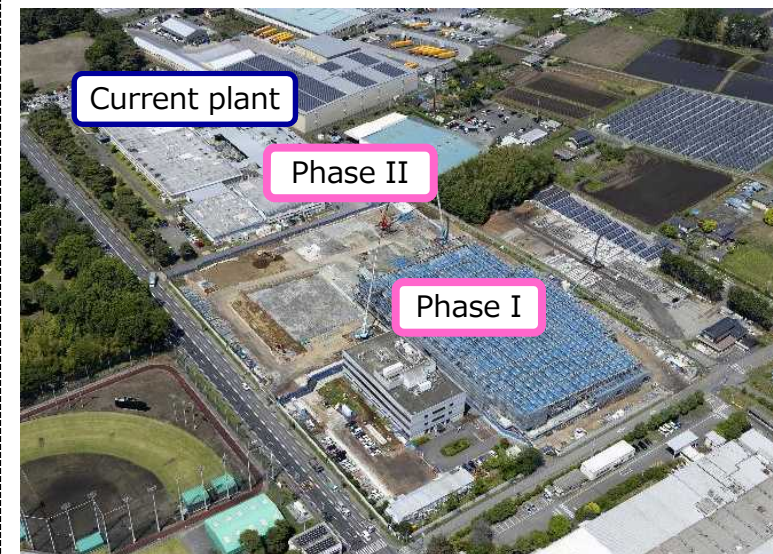
### Construction Phases I and II

- Full-scale operation for Phase I area: January 2024
- Investment: ¥10.1 billion (FY23 to FY25) – increased due to facility expansion and soaring material prices
- Total floor space: About 28,700 m<sup>2</sup> (at the completion of Phase II)
- Future plan: Start of Phase II in FY24 for full-scale operation in FY25

### <Next-generation plant>

#### Global mother plant

- Next-generation equipment and molding lines
- Automated lines with AI and IoT
- Effective production through DX
- **200% productivity** in 2030
- Initiatives for **carbon neutrality**
- Increase in production of battery-, ADAS bracket- and **CASE**-related products



# Infrastructure Development in Japan - 2

## Infrastructure development for future growth – New Head Office

Global Head Office that transmits Piolax corporate brand to the world for a long time – Sustainable office

- Consolidate functions of head office and Yokohama Technical Center.
- Promote workstyle reform through working from home and free address system.
- Raise productivity of indirect sections through infrastructure development.
- Create an office that contributes to employee comfort and job satisfaction.

### Sustainable office

- ZEB Ready\* to be certified
- Fully automatic louvers on windows to control outside light and room temperature.
- EV parking space may provide power in case of disaster.



New Head Office image (Hodogaya, Yokohama)

Start of construction: FY24

Completion: FY25

\* Buildings that comply with a primary energy consumption reduction of 50% or more from the standard primary energy consumption, excluding renewable energy, will be certified.

# **I-2. GROWTH STRATEGY (MEDICAL DEVICE)**

# 1H Result and Full-Year Forecast in FY23

(Unit: ¥1 mil.)

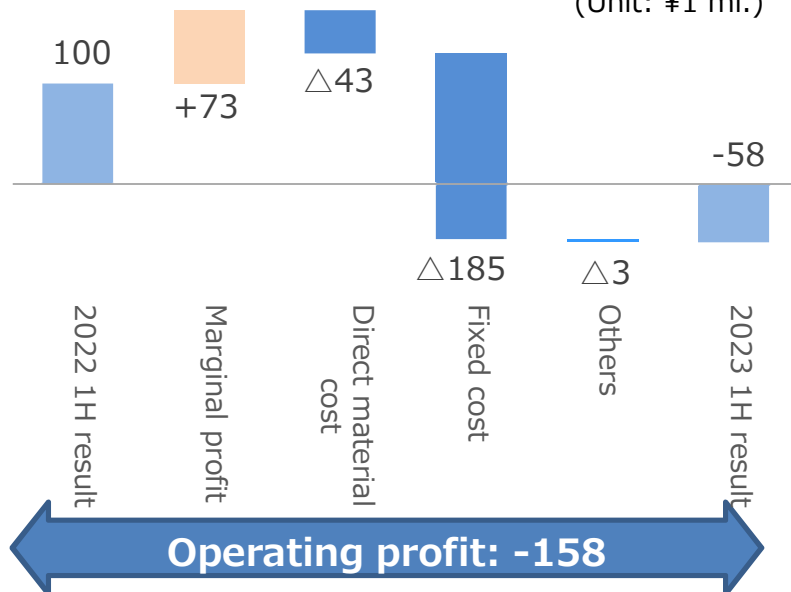
	1H budget	1H result	Achievement	FY22 result	Growth	Full-year budget	Full-year forecast	Difference
Sales	2,213	2,267	102.4%	2,150	5.4%	4,675	4,731	56
Operating profit	△54	△58	-	100	-	50	20	△30

## <Causes of decrease in profit>

- Deteriorated direct material costs due to increased raw material costs
- Temporary increase in labor cost to secure personnel for future growth

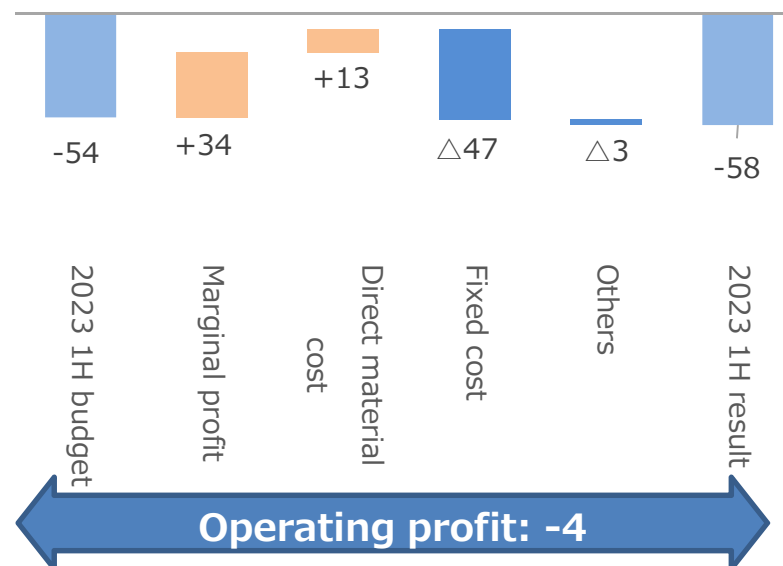
### Analysis of operating profit (y/y)

(Unit: ¥1 mil.)



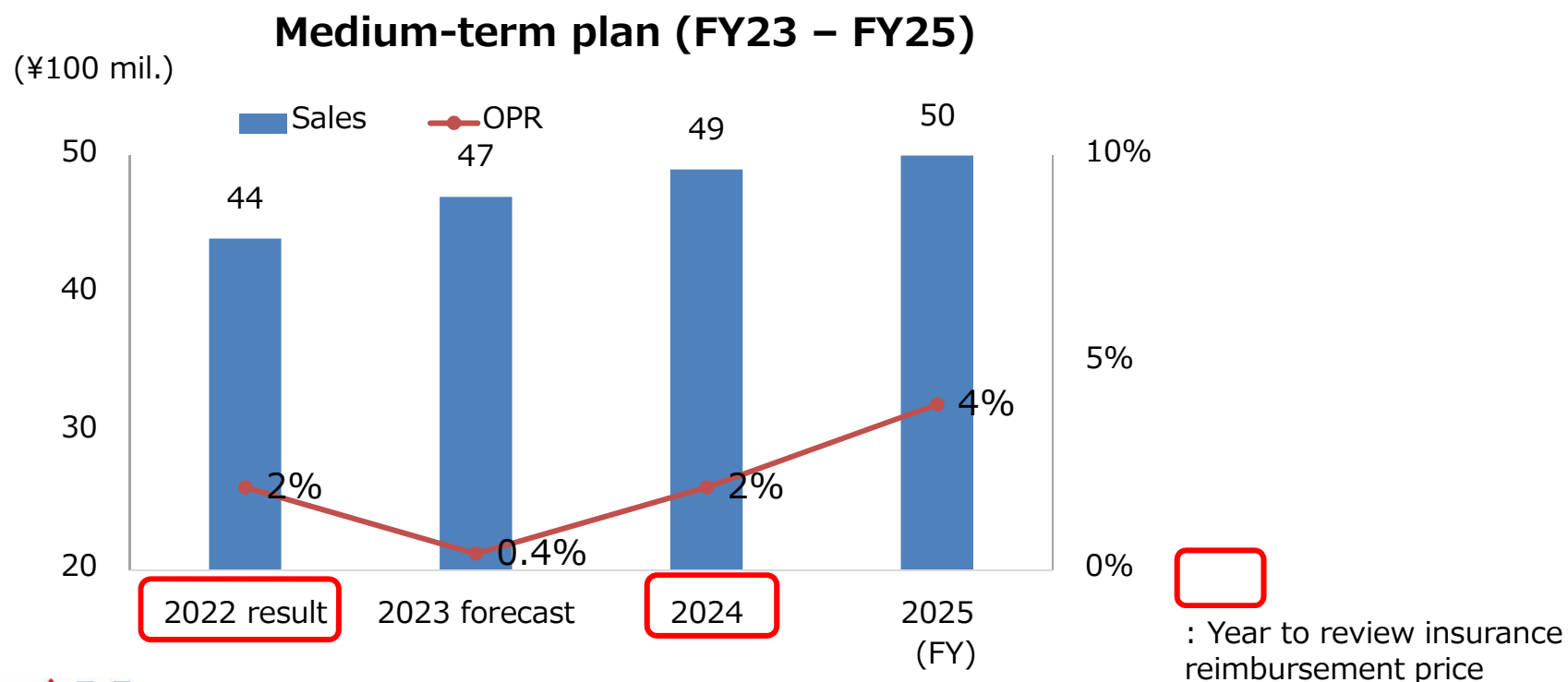
### Analysis of operating profit (vs. budget)

(Unit: ¥1 mil.)



# Medium-Term Plan (FY23 – FY25)

1. Introduce differentiated products to specific markets (Differentiation)
2. Speed up launch and enhance lineup of new products
3. Expand overseas sales channels (Strengthen regulatory compliance in each country)
4. Enhance sales network in Japan
5. Respond to digital shift



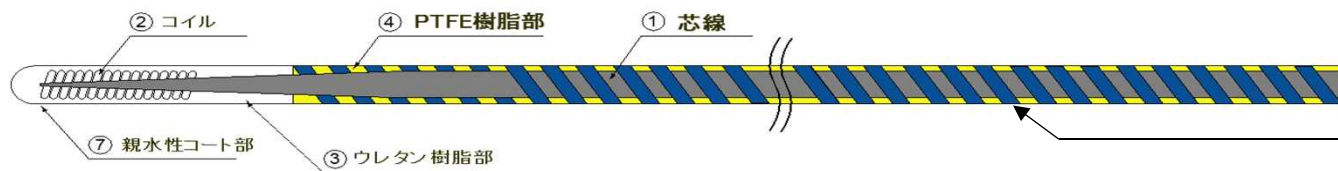


# New Medical Product “SeekMaster25”

Expand share with the new digestive endoscope guidewire

Realize ultimate slipperiness by reducing contact surface with other medical devices used in combination by high-ridge coating technologies

Launch in May 2023  
in Japan



High-Ridge coating

## Medium-term sales plan (FY25)

■ SeekMaster series: ¥440 mil.

【FY25】

Aim for 36% domestic share by full lineup of digestive endoscope GW.

\*Ref: Estimation from FY21 data by R&D co., Ltd.

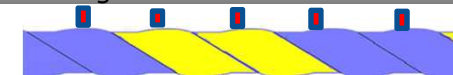
## Appeal points

\*  Contact surface

Combined Device (Luminal contact image with other medical device)



Existing product



Piolax new product

1. PMD unique technology, high-ridge coating, reduces friction resistance with other devices: **high slipperiness**.
2. Low friction resistance **improves torque performance** so that GW control by a surgeon is transmitted directly to the tip.

## II. CAPITAL POLICY



# Capital Policy - 1

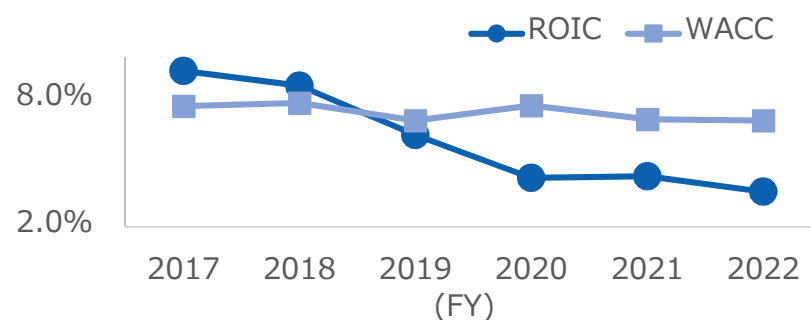
## Realization of management conscious of cost of capital and stock price – toward PBR 1x

- Our capital policy in FY22 was reviewed. Strive to increase corporate value by practicing efficient management with an awareness of cost of capital and stock price, while making investments for growth, with the goal of achieving a positive EVA spread and a PBR 1x.
- continue to consider the purchase and cancellation of its own shares to achieve 8% ROE soon.

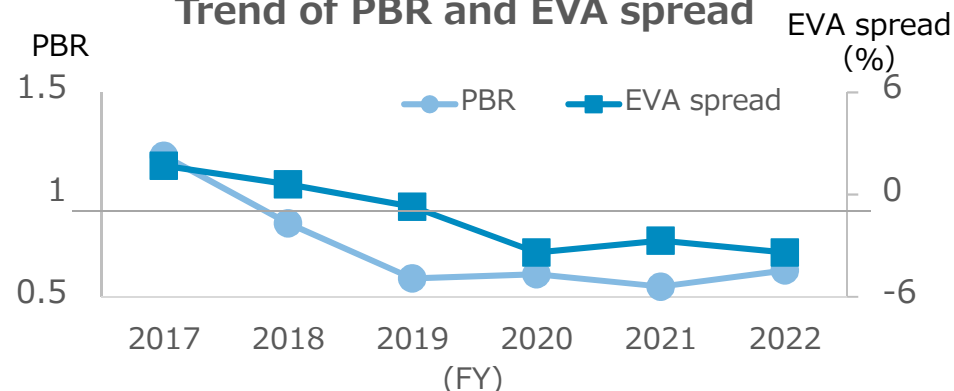
### 3-year capital policy (FY23 to FY25)

- 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



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

# Capital Policy - 2

## To achieve 8% ROE soon

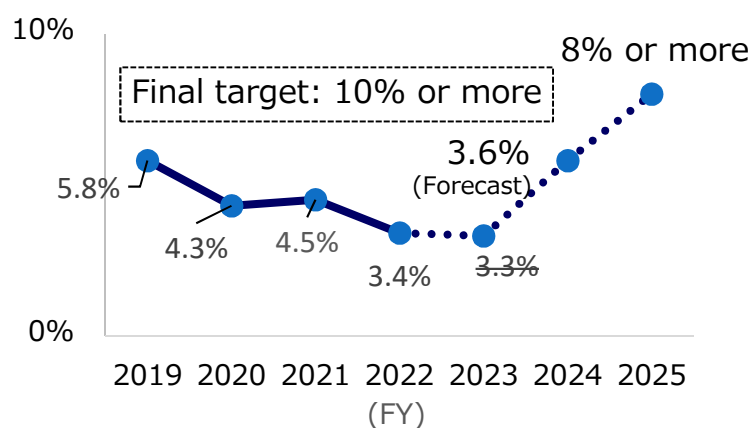
Increase return on capital, enhance shareholder returns, and control equity capital oppressively.

## Dividend

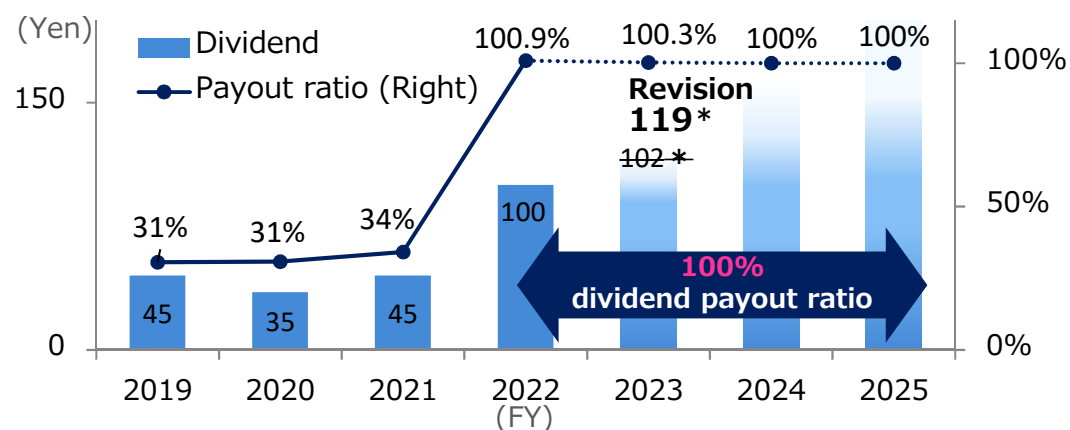
(Unit: yen)

	Previous forecast	Revision in Nov.
Interim	55.00	69.00*
Year-end	47.00	50.00
Annual	102.00	119.00

## ROE trend



## Dividend and payout ratio



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

# III. PROMOTION OF ESG MANAGEMENT

# E

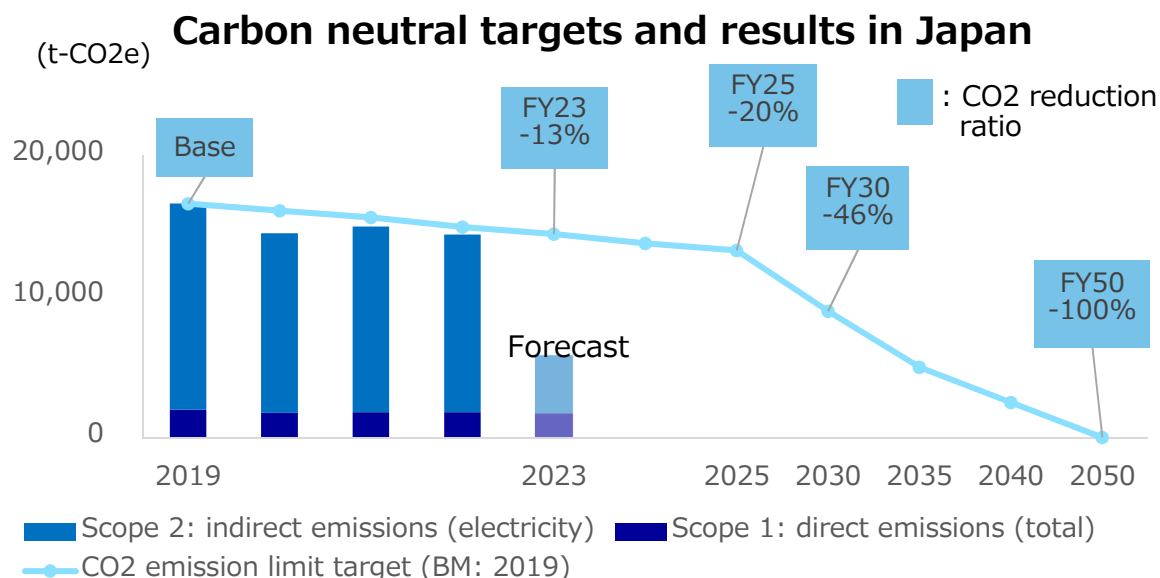
# Efforts for Carbon Neutrality

## Introduction of renewable energy

Moka Plant (Tochigi prefecture) and Fuji Plant (Shizuoka prefecture) have started to use renewable energy **100%** since April 2023, and Piolax Medical Devices has since October 2023.

## Installation of solar panels

The new Moka Plant will use solar panels to promote self-sufficiency in renewable energy. We will develop a supply system that will reduce environmental impact in the area of life cycle assessment (LCA).



**FY30: 46% reduction**  
**FY50: 100% reduction**  
 (from FY19)

- \* We aim for carbon neutrality by 2050 for Scopes 1 and 2.
- \* Subject: Piolax and its domestic group companies
- \* We will analyze overseas group companies for further study as a group.

# Initiatives for Diversity

## Diversity-related data

	FY21	FY22	FY23 targets
Percentage of female managers	3.5%	3.9%	5% or more
Gender wage differential (Regular workers)	—	79.1%*	Decrease from FY22
Percentage of male employees taking maternity leave	18.2%	55.6%	Increase from FY22

\*Gender wage differential: As for managers, 98.3%

### Certification of “Kurumin”

On November 9, 2023, we acquired "Kurumin" certification from the Ministry of Health, Labor and Welfare as a “company supporting child-rearing.” During the period subject to accreditation review, we set the following action goals: (1) encourage male employees to take childcare leave, (2) reduce overtime work, and (3) expand internship and other opportunities. We believe that our achievements in these actions were evaluated and led to our certification.



### Certification of the highest ranking (3<sup>rd</sup> 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)

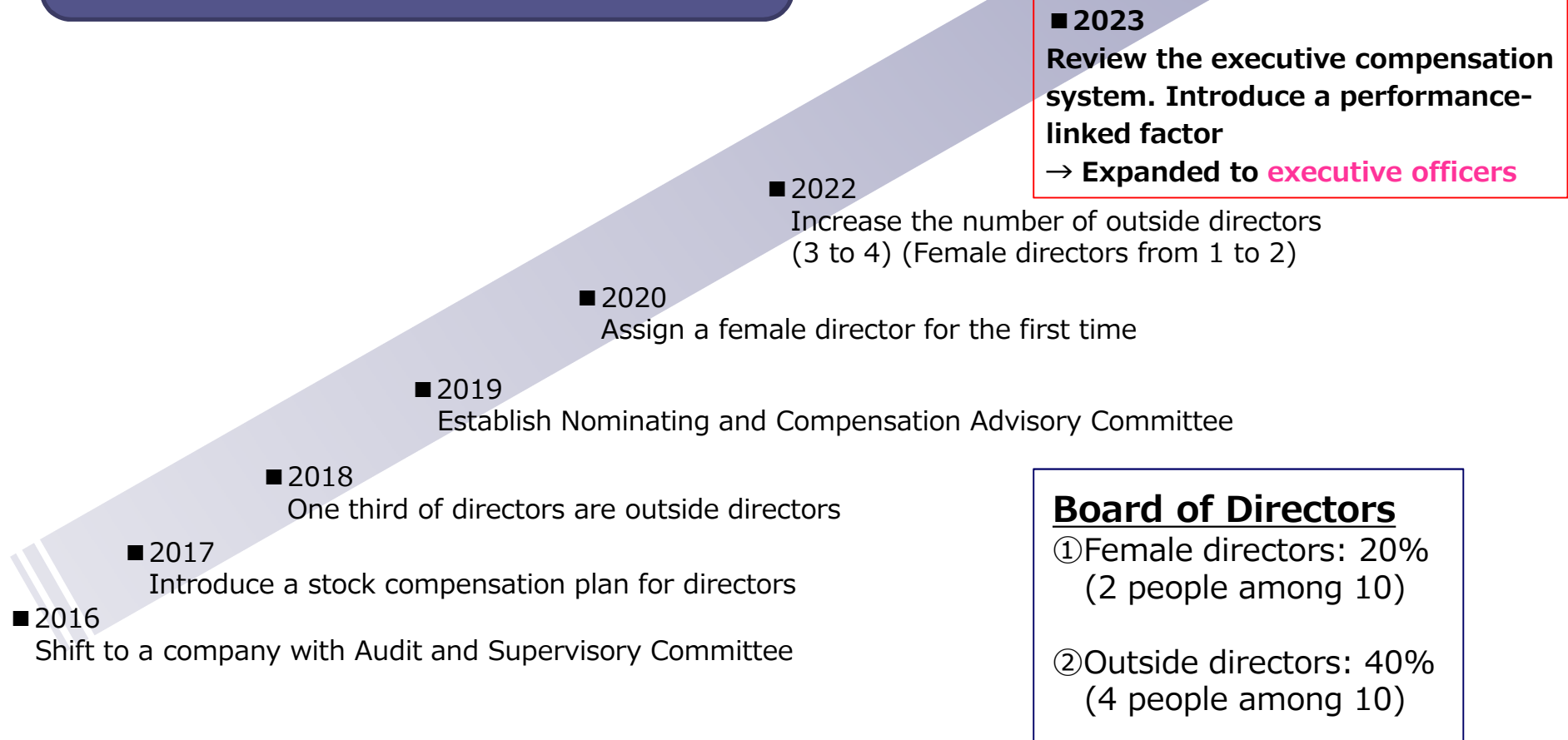
We will continue our support to promote mental And physical health and realize work-life balance of all employees, which is one of the most Important management objectives.



## G

# Strengthening Governance

**Aggressive Management**  
Aiming to enhance corporate value  
over the medium to long term



# END

Forward-looking statements in this document are based on information available to our company in announcing the financial results for the second quarter of FY23 and on certain assumptions deemed reasonable, and their achievements are not intended to be promised by our company. Actual results may differ from these forecasts due to various factors.