

NPR-RIKEN CORPORATION

6209

Tokyo Stock Exchange Prime Market

20-Aug.-2024

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<https://www.fisco.co.jp>

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Summary

Holding company that integrates the managements of RIKEN and Nippon Piston Ring. In FY3/24, finished with effectively large gains in sales and profit

NPR-RIKEN CORPORATION <6209> (the “Company”) is a holding company established through a management merger on October 2, 2023 between major piston ring companies RIKEN CORPORATION and Nippon Piston Ring Co., Ltd. (hereinafter “NPR”). The Company will pursue synergies under an integrated governance while leveraging the long-cultivated brands 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 (thermal engineering business, electro-magnetic compatibility (EMC) business, and products sales). Mainstay products in the Automobile and Industrial Machinery Parts Business are piston rings and valve seat inserts, which are engine parts, along with various engineered plastic products, casting components, and precision components. They are developed for automobiles, ships, and industrial machinery. Mainstay products in the Piping Products Business are pipefittings and other piping components. In May 2023, the major pipefitting company 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 heating equipment 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 CO., LTD. was made a subsidiary to expand RIKEN’s thermal engineering business and business for the semiconductor industry.

2. In FY3/24, effectively large gains in sales and profit

In its consolidated results based on its financial summary for FY3/24, the Company reported net sales of ¥138,586mn, operating profit of ¥8,764mn, ordinary profit of ¥11,635mn, and profit attributable to owners of parent of ¥26,324mn. As for extraordinary profit, gain on bargain purchase of ¥19,182mn was recorded for acquisition of stock in NIPPON PIPE FITTING and from the NPR-RIKEN merger. From a corporate merger accounting perspective, RIKEN was the acquiring company, so the figures on the financial summary for FY3/24 do not reflect six months of results, from April to September 2023, for NPR. For this reason, comparing with totaled figures that reflect 12 months of both RIKEN and NPR, net sales increased 16% to ¥168.6bn, operating profit increased 51% to ¥10.6bn, ordinary profit increased 35% to ¥13.7bn, profit attributable to owners of parent went up 355% to ¥27.9bn, and profit attributable to owners of parent excluding the gain on bargain purchase rose 42% to ¥8.7bn, so there were large gains in both sales and profits. Contributing factors included a recovery in automobile production volume, the effect of yen depreciation on foreign exchange markets, new consolidation of NIPPON PIPE FITTING, which was made a subsidiary by RIKEN in May 2023, and other factors that led to higher sales, plus product prices being adjusted based on material and energy prices, and further streamlining measures.

Summary

3. For FY3/25, expects small decline in profit, but it may exceed the forecast

The Company's consolidated results forecasts are 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 taken into account and in extraordinary income, the gain on bargain purchase recorded in the previous fiscal year will drop. 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 excluding the gain on bargain purchase recorded last term down 8%. The assumed exchange rates are ¥145 = \$1 and ¥155 = €1 (last year's results were ¥140 = \$1 and ¥152 = €1). Sales will increase as a result of consolidating SHINWA VANES, which became a subsidiary in February 2024, but with automobile production volume uncertain and strategic investment in growth fields, a small decline in profit is expected. Considering that based on current exchange rates, the yen is weaker than the Company's assumption, there is the strong sense that the Company's forecasts are conservative, and we at FISCO believe that results could exceed them.

4. Aiming for ROE above shareholder capital costs

The Company formulated its 1st midterm management plan (fiscal 2024 to fiscal 2026) in February 2024, and its 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. The Company is aiming for ROE in excess of shareholder capital costs by reforming the business portfolio, including business integration (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, casting components and precision components for automobiles and industrial machinery, and piping products for construction and industrial machinery) 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 Company is targeting a payout ratio of 40% or higher (currently around 30%), and a total payout ratio of 70% or higher on a three-year average (currently around 30%), which includes acquiring treasury shares. It plans to buy back ¥10.0bn of its own shares over three years to increase the level of returns to shareholders. For FY3/27, it is expecting a dividend on equity ratio (DOE) ratio of around 3%.

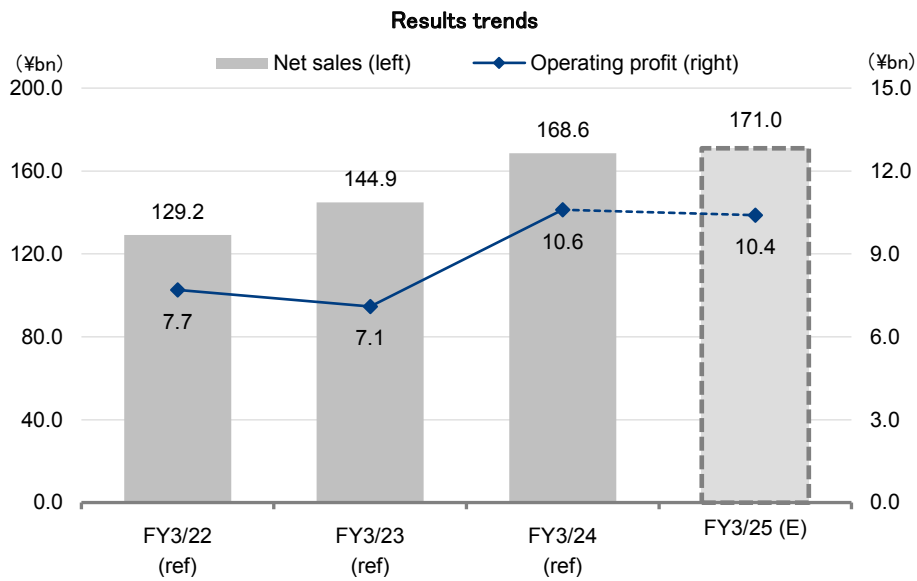
5. Expect full-fledged synergies

The market surrounding engine components for automobiles has become difficult because of the trend toward electric vehicles, but the Company assumes that an immediate push to electrification is quite unlikely. In addition to the potential for slowing in electric vehicles, it also assumes a scenario in which internal combustion engines (ICEs) survive. In addition, in the Company's automobile and industrial machinery component-related business, which is led by piston rings, it is thought that through an appropriate business strategy the Company can survive and acquire a good level of stable earnings. Considering this point, we at FISCO believe that investors in general are somewhat pessimistic about the market for automobile engine components. Going forward, the synergies from the management merger can be expected to become full-fledged, so the progress on its 1st midterm management plan will be watched.

Summary

Key Points

- RIKEN and NPR merge to form a holding company
- In FY3/24, effectively large gains in sales and profits
- For FY3/25, expects small decline in profit, but it may exceed the forecast
- Aiming for ROE above shareholder capital costs
- Expecting full-fledged synergies from the merger



Note: Figures prior to FY3/24 reflect 12 months of results from RIKEN and NPR. Figures are rounded to the nearest 100 million.
 Source: Prepared by FISCO from the Company's results briefing supplementary materials

Company overview

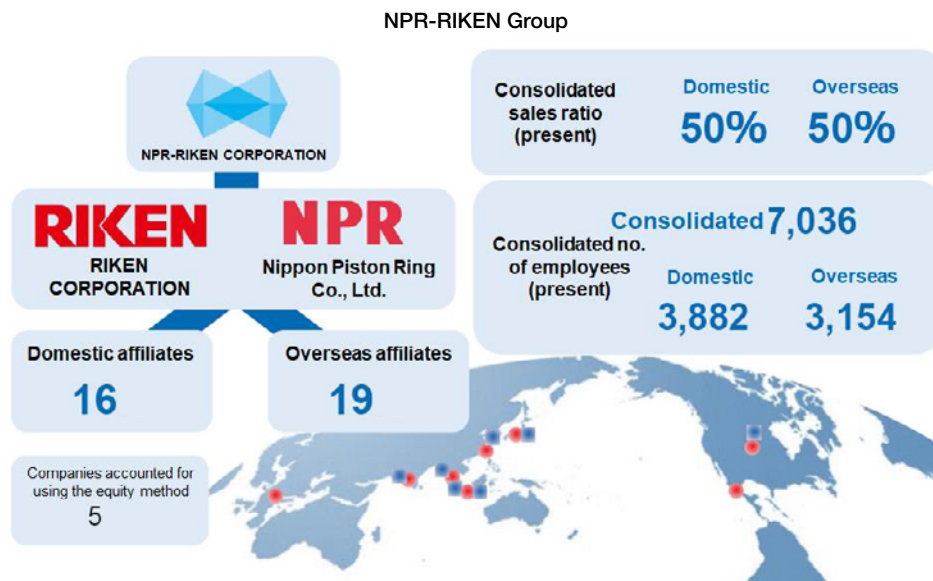
A major manufacturer of piston rings

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 brands of both companies, aiming for sustained growth and to raise corporate value.

Company overview

As of the end FY3/24, 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 (Saitama City, Saitama). The Company's total assets are ¥218,580mn, its net assets are ¥149,166mn, its equity ratio is 64.2%, its number of shares outstanding is 28,141,360 (including 3,159 shares of treasury stock), and its number of consolidated employees is 7,036 (3,882 domestic, 3,154 overseas). The Company's Group includes the Company, which is the holding company, the operating companies RIKEN and NPR, 16 domestic affiliates, 19 overseas affiliates and 5 equity-method affiliates, and it develops production and sales sites globally.



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 Kashiwazaki Piston Ring Industries Co. (renamed Riken Piston Ring Industries Co. in 1950) and Riken Kumagaya Cast Iron Co. (renamed as Kumagaya Cast Iron Co. in 1951). In 1952, its shares were listed on the Tokyo Stock Exchange (TSE) 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.

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Company overview

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 TSE 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, the 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 technology of marine engine on his own opened Suzuki Seisakusyo.
1931	Suzuki completed prototypes of piston rings, and changed the company name into 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 components-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 industrial machinery parts and parts for marine engines centering on sintered products, engineered plastic products, and casting components related to automobile engines, transmissions, drive, and the chassis.

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 CO., LTD., which has strength in small and mid-size heater units in the low temperature domain for semiconductor manufacturing equipment, was made a subsidiary to expand RIKEN's thermal engineering business.

Sales shares for FY3/24 (based on the financial results) are 76.5% Automobile and Industrial Machinery Parts Business, 12% Piping Products Business and 11.2% Other Business. Looking at segment trends prior to the merger between RIKEN and NPR shows that both companies are focused on automobile parts related areas such as piston rings.

Business summary

Segment trends prior to the merger

RIKEN	(¥mn)			
	FY3/20	FY3/21	FY3/22	FY3/23
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
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
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
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 companies' financial results

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.

Business summary

Domestic and overseas business partners of the Automobile and Industrial Machinery Parts Business



Source: Reprinted from the Company's results briefing materials

3. Risk factors and measures

A risk factor is that the number of vehicles produced may decrease due to changes in demand and the impact of infectious diseases, disasters, etc. However, 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 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.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Results trends

In FY3/24, effectively large gains in sales and profit

1. Outline of results for FY3/24

In its consolidated results based on its financial summary for FY3/24, the Company reported net sales of ¥138,586mn, operating profit of ¥8,764mn, ordinary profit of ¥11,635mn, and profit attributable to owners of parent of ¥26,324mn. As for non-operating income, interest and dividend income was ¥873mn, share of profit of entities accounted for by equity method was ¥1,465mn, and foreign exchange gains were ¥348mn. In extraordinary income, a gain on bargain purchase of ¥19,182mn associated with acquisition of stock in NIPPON PIPE FITTING and from the merger of RIKEN and NPR was recorded. Regarding extraordinary losses, there were impairment losses of ¥933mn. Compared to forecasts (revised on February 14, 2024; net sales of ¥137,000mn, operating profit of ¥8,000mn, ordinary profit of ¥10,500mn and profit attributable to owners of parent of ¥30,000mn), profit attributable to owners of parent was below the forecast because gain on bargain purchase decreased from the estimate (around ¥21,000mn), but net sales, operating profit and ordinary profit all came in above forecasts.

From a corporate merger accounting perspective, RIKEN was the acquiring company, so the figures on the financial summary for FY3/24 do not reflect six months of results, from April to September 2023, for NPR. For this reason, comparing totals that reflect the full 12 months of results from both RIKEN and NPR, net sales for FY3/24 increased 16% YoY to ¥168.6bn, operating profit was up 51% to ¥10.6bn, ordinary profit gained 35% to ¥13.7bn, and profit attributable to owners of parent increased 355% to ¥27.9bn. Excluding gain on bargain purchase, profit attributable to owners of parent increased 42% to ¥8.7bn, so there were large increases in both sales and profits. Along with a recovery in automobile production volume, the effects of yen depreciation, and newly consolidating NIPPON PIPE FITTING, which was made a subsidiary by RIKEN in May 2023, all of which boosted sales, adjusting prices based on material and energy prices and progress in streamlining also made a contribution.

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Results trends

Outline of results for FY3/24

(¥bn)

	FY3/23		FY3/24									
	Totals of both companies		Financial statements basis					Combined rate of both companies				
	Results	% of net sales	Forecast	Results	% of net sales	Forecast		Results	% of net sales	YoY		
					Amount	%			Amount	%		
Net sales	144.9	100.0%	137.0	138.6	100.0%	1.6	101.1%	168.6	100.0%	23.7	16%	
Operating profit	7.1	4.9%	8.0	8.8	6.3%	0.8	109.6%	10.6	6.3%	3.6	51%	
Ordinary profit	10.1	7.0%	10.5	11.6	8.4%	1.1	110.8%	13.7	8.1%	3.5	35%	
Profit attributable to owners of parent	6.1	4.2%	30.0	26.3	19.0%	-3.7	87.7%	27.9	16.5%	21.7	355%	
Profit attributable to owners of parent excluding gain on bargain purchase	6.1	4.2%	6.3	7.1	5.2%	0.8	113.4%	8.7	5.2%	2.6	42%	
By segment												
Net sales												
Automobile and Industrial Machinery Parts Business	125.0	84.7%	-	108.1	76.5%	-	-	135.4	79.0%	10.4	8%	
Piping Products Business	4.6	3.1%	-	17.4	12.3%	-	-	17.4	10.2%	12.8	275%	
Other	17.9	12.1%	-	15.8	11.2%	-	-	18.5	10.8%	0.6	4%	
Operating profit												
Automobile and Industrial Machinery Parts Business	5.8	4.6%	-	6.5	6.0%	-	-	8.6	6.4%	2.8	48%	
Piping Products Business	0.2	4.3%	-	0.6	3.2%	-	-	0.6	3.4%	0.3	131%	
Other	1.5	8.4%	-	1.2	7.7%	-	-	1.2	6.5%	-0.3	-17%	

Notes: Figures of financial statement basis for FY3/24 are reference figures because they exclude NPR's results from April to September 2023
 FY3/24 forecasts are the figures revised on February 14, 2024

The percentage for operating profit by segment shows the ratio compared to the net sales of each segment. Figures are rounded down to the nearest 100mn.

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

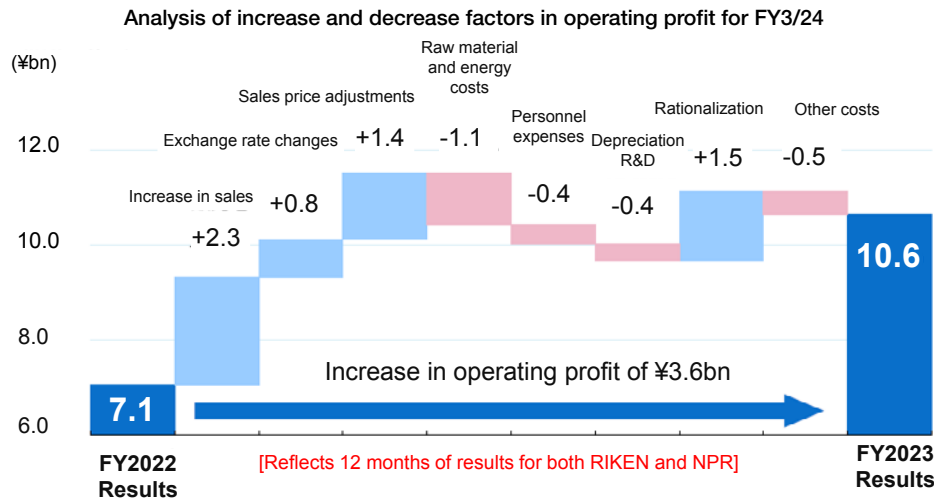
Regarding net sales by region*, in Japan, net sales increased 23% YoY to ¥84.2bn (50% share of total net sales), partially as a result of newly consolidating NIPPON PIPE FITTING. In China, net sales decreased by 1% to ¥10.4bn (6%) on the impact of sluggish sales of Japanese automakers. In other parts of Asia, demand was firm as net sales grew by 3% to ¥27.4bn (16%). In North America, orders recovered as the semiconductor shortage dissipated and net sales grew by 16% to ¥23.6bn (14%). And, in Europe, demand was firm, with sales growing by 11% to ¥13.6bn (8%). In other regions, sales were up 38% to ¥9.4bn (6%).

* Figures reflect 12 months of results for both RIKEN and NPR

Analyzing the increase and decrease factors in operating profit*, the sales increase boosted profit by ¥2.3bn, exchange rate changes, by ¥0.8bn, and sale price adjustments, by ¥1.4bn. Increases in raw material and energy costs lowered operating profit by ¥1.1bn, increases in personnel expenses, by ¥0.4bn, increases in depreciation and R&D expenses, by ¥0.4bn. Rationalization measures increased profit by ¥1.5bn and increases in administration expenses, etc. lowered it by ¥0.5bn.

* Figures reflect 12 months of results for both RIKEN and NPR

Results trends



Source: Reprinted from the Company's results briefing materials

By segment*, in the Automobile and Industrial Machinery Parts Business, net sales increased 8% YoY to ¥1,354mn, operating profit (before adjustments for corporate expenses; the same hereafter) increased 48% to ¥8.6bn. Sales increased from a recovery in automobile production volume and the yen depreciating on exchange markets, while sale price adjustments and ongoing rationalization measures also had a positive impact. In the Piping Products Business, as a result of newly consolidating NIPPON PIPE FITTING, net sales increased 275% to ¥17.4bn and operating profit went up by 131% to ¥0.6bn. In the Other Business category, net sales increased by 4% to ¥18.5bn and operating profit fell by 17% to ¥1.2bn.

* Figures reflect 12 months of results for both RIKEN and NPR

Company's finances are sound

2. Financial condition

Total assets at the end of FY3/24 increased by ¥26,009mn YoY* to ¥218,580mn in connection with M&A (NIPPON PIPE FITTING and SHINWA VANES became subsidiaries). Total liabilities increased ¥9,943mn to ¥69,413mn. This was mainly due to an increase in other liabilities. Interest-bearing debt (long- and short-term borrowings) decreased by ¥3,320mn to ¥19,785mn as a result of utilizing cash and deposits within the Group. Net assets increased by ¥16,066mn to ¥149,166mn. As a result, the equity ratio dipped 0.5 percentage points (pt) to 64.2%. A slight drop in the equity ratio is not at the level that would cause concern, and looking at the cash flow situation, in FISCO's view the Company's finances are sound.

* Simple sum of RIKEN and NPR

Results trends

Financial statements (simplified)

	FY3/23 Both companies combined	FY3/24 (¥mn)	
		Results	Change
Total assets	192,571	218,580	26,009
(Current assets)	98,975	104,348	5,373
(Non-current assets)	93,594	114,232	20,638
Total liabilities	59,470	69,413	9,943
(Current liabilities)	41,479	44,668	3,189
(Non-current liabilities)	17,990	24,745	6,755
Net assets	133,100	149,166	16,066
(Shareholders' equity)	111,971	120,530	8,559
Equity ratio	64.7%	64.2%	-0.5pt

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

Cash flow statements (simplified)

	(¥mn) FY3/24
Cash flows from operating activities	18,496
Cash flows from investing activities	-13,548
Cash flows from financing activities	-8,615
Cash and cash equivalents at end of period	22,261

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

■ Outlook

For FY3/25, expects small decline in profit, but it may exceed the forecast

● FY3/25 consolidated results outlook

In its consolidated results forecasts for FY3/25, the Company is predicting 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 taken into account and in extraordinary income, the gain on bargain purchase recorded in the previous fiscal year will drop. 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 excluding the gain on bargain purchase recorded last term down 8%. The assumed exchange rates are ¥145 = \$1 and ¥155 = €1 (last year's results were ¥140 = \$1 and ¥152 = €1).

Outlook

FY3/25 consolidated results outlook

(¥bn)

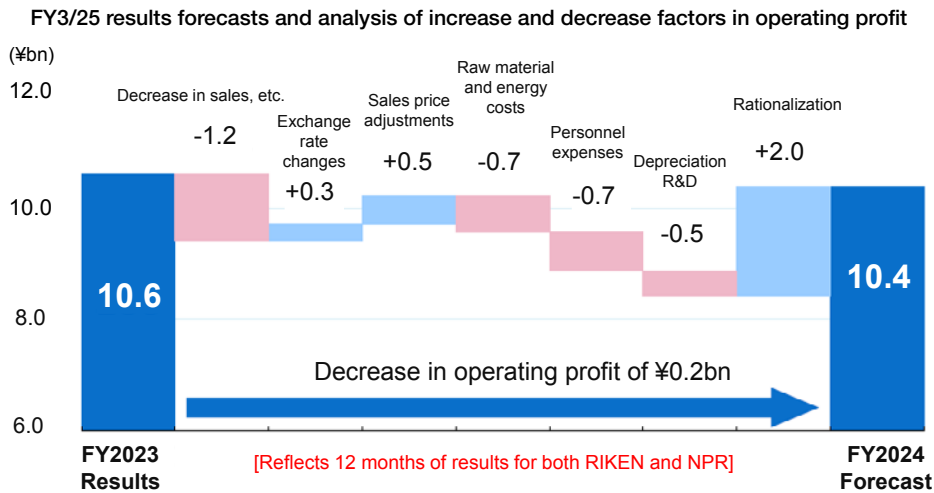
	FY3/24				FY3/25		Compared to both companies combined	
	Financial statements basis		Both companies combined		Forecast	% of net sales	Change %	Change %
	Results	% of net sales	Results	% of net sales				
Net sales	138.6	100.0%	168.6	100.0%	171.0	100.0%	2.4	1%
Operating profit	8.8	6.3%	10.6	6.3%	10.4	6.1%	-0.2	-2%
Ordinary profit	11.6	8.4%	13.7	8.1%	12.7	7.4%	-1.0	-7%
Profit attributable to owners of parent	7.1	5.2%	8.7	5.2%	8.0	4.7%	-0.7	-8%
Exchange rate								
US\$/¥	140	-	140	-	145	-	5	-
Euro/¥	152	-	152	-	155	-	3	-

Note: Profit attributable to owners of parent for FY3/24 excludes gain on bargain purchase. Figures are rounded to the nearest 100 million.
 Source: Prepared by FISCO from the Company's results briefing materials

SHINWA VANES became a subsidiary in February 2024, which resulted in increased sales on a consolidated basis, but considering the uncertainty in automobile production volume and strategic investment in growth fields, the forecast for profit is a small decrease. 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 engines, development for converting engines to run on hydrogen, and new products and new business development. Considering the fact that in current foreign exchange the yen is weaker than the Company's assumptions, the Company's forecast leaves a strong conservative impression, and we at FISCO believe that results could exceed the forecast.

* FY3/24 figures reflect 12 months of results from both RIKEN and NPR.

Outlook



Growth strategy

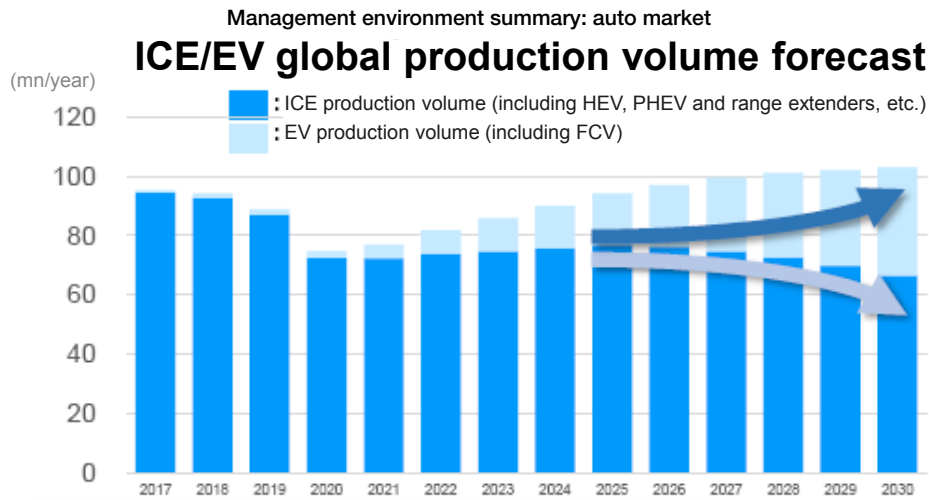
Despite market environment changes, current engines are expected to survive

1. Market environment

The global auto market is expected to see demand growth 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 that run on synthetic fuel made from hydrogen produced using renewable energy. Comparing the CO₂ 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, even more recently, in March 2023, the European Union changed its previous policy that would have banned new car sales of cars with gasoline engines in 2035. They will now be tolerated past 2035 if the engines use synthetic fuel made from CO₂ 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.

Growth strategy



Source: Reprinted from 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

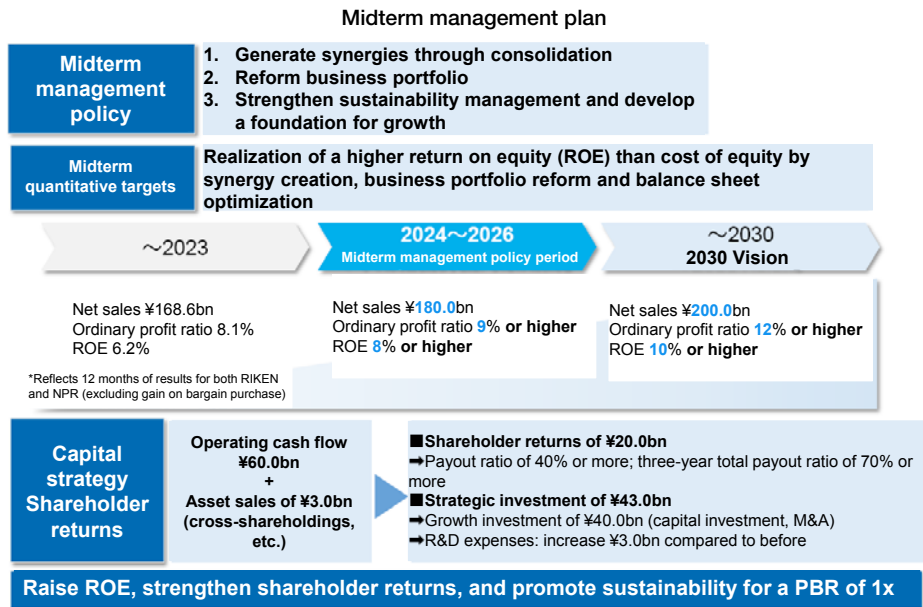
2. 1st midterm management plan (FY2024 to FY2026)

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. Numerical 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 midterm quantitative targets, the Company will engage in business portfolio reform, including business integration (scheduled to be completed in April 2026), synergy creation and balance sheet optimization with the aim of achieving an ROE above shareholder capital costs. As for management 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 three 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.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Growth strategy



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 in 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.

(1) Piston ring business

In the piston ring business, the Company's FY3/27 targets are net sales of ¥67.5bn, an operating profit margin of 10% or higher (FY3/24 forecasts as of announcement of the plan are net sales of ¥64.9bn and an operating profit margin of 7%). 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.

Growth strategy

(2) Fundamental businesses

For fundamental businesses, the Company's FY3/27 targets are net sales of ¥80.0bn, an operating profit margin of 7% or higher (FY3/24 forecasts as of announcement of the plan are net sales of ¥79.0bn and an operating profit ratio of 5%). By expanding share in fields of proficiency, the Company will make up for the decline in engine production, and through streamlining and revising the product mix, the Company will promote improvements to the profit ratio. 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 margin of 10% or higher (FY3/24 forecasts as of announcement of the plan are net sales of ¥5.8bn and an operating profit margin of 4%). The Company will expand business in growth areas (semiconductors, electric drives, carbon neutral measures) and will promote business development with a sense of speed by strengthening 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.

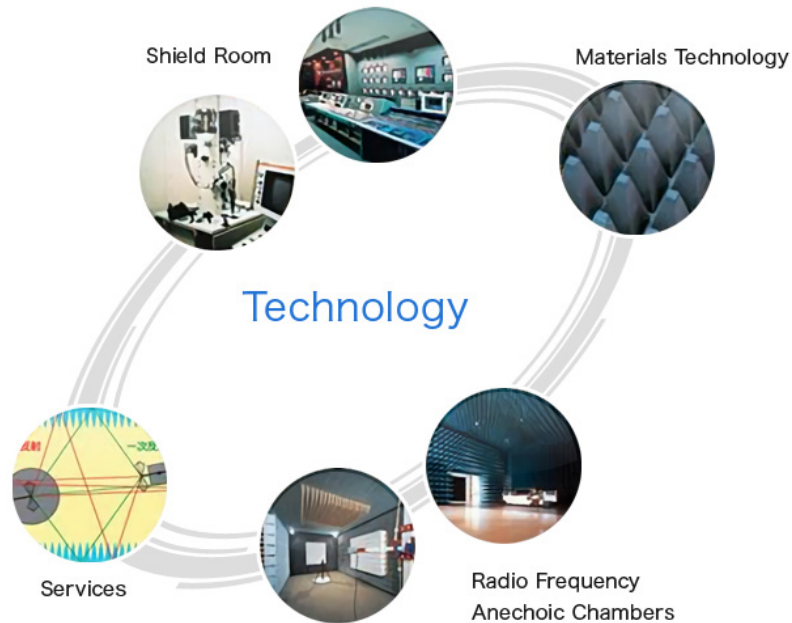
*² CASE is an acronym for Connected, Autonomous, Shared & Services, Electric.

Growth strategy

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 counter-measure 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, the Company commercialized plastic gears for which a metal part was insert-molded. Mass production was started for motor-assist bicycles.

Support for progressive electronic device companies using advanced EMC technologies



Source: Reprinted from NPR-RIKEN's website

Growth strategy

In 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 the previous fiscal year, 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, the Company aims to contribute to local energy production and consumption and to realizing a carbon neutral society.

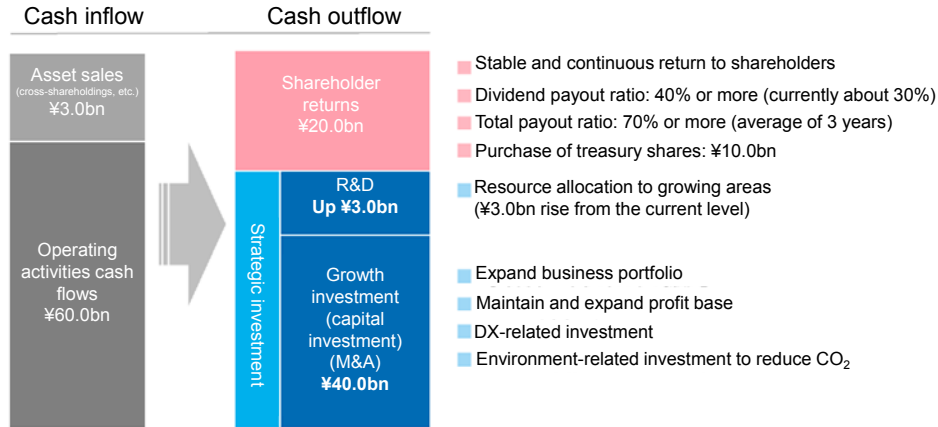
Raising shareholder returns, targeting a three-year average total return ratio of 70% or higher during 1st midterm management plan period

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 three years, including treasury stock acquisition, of 70% or higher (currently around 30%). The Company is aiming to buy back its stock over three 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.

Growth strategy

Cash allocation

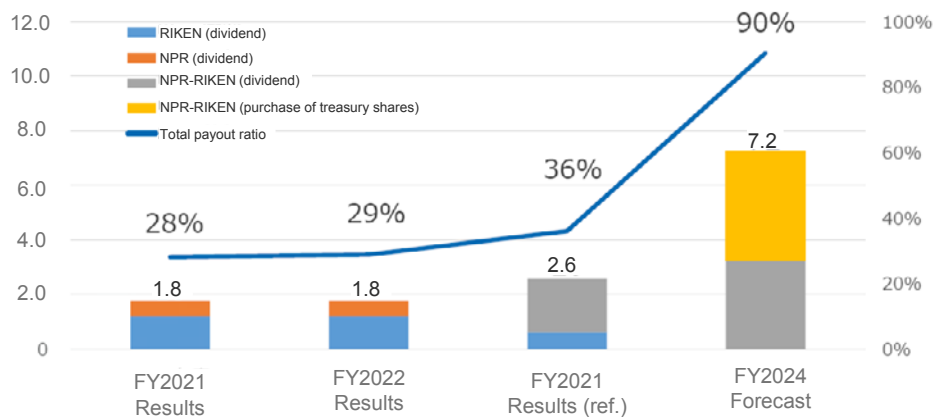


Planned for midterm management plan period: FY2024 to FY2026

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

The dividend for FY3/24 included a regular dividend of ¥45.00 and a commemorative dividend of ¥25.00 for a total dividend (lump-sum payment at the end of the fiscal year) of ¥70.00. The payout ratio was 6.4%, but a gain from bargain purchase boosted profit attributable to owners of parent, so this was an irregular figure. RIKEN paid an interim dividend of ¥21.00 for a total of ¥91.00. The effective payout ratio calculated based on profit attributable to owners of parent excluding the gain on bargain purchase would be 36.0%. The dividend forecast for FY3/25 is ¥115.00 for the full year (¥45.00 at the end of 1H, and ¥70.00 at fiscal year-end) for a planned payout ratio of 40.4%. In May 2024, 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%.

Trends in total payout ratio



Reference: Reference figures including RIKEN's FY2023 interim dividend in line with net profit stated on the financial summary
Source: Reprinted from the Company's results briefing materials

Growth strategy

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 workplace), and is promoting sustainability management on this basis.



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 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 market surrounding automotive engine parts has become extremely challenging 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, there are ICE survival scenarios that can be assumed. In addition, it is believed that the Company's Automobile and Industrial Machinery Parts Business, starting with piston rings, will enable it to beat out the competition through appropriate business strategy and be able to acquire stable earnings for a long period of time. Considering such points, we at FISCO believe that the stance of investors toward the market surrounding automotive engine parts is somewhat pessimistic. Full-fledged synergies from the merger can be expected going forward, so focus will be on the Company's progress on its 1st midterm management plan.



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