COMPANY RESEARCH AND ANALYSIS REPORT

NPR-RIKEN CORPORATION

6209

Tokyo Stock Exchange Prime Market

5-Aug.-2025

FISCO Ltd. Analyst

Masanobu Mizuta

FISCO

FISCO Ltd.

https://www.fisco.co.jp

Contents

Summary — 01

1. Developing the Automobile and Industrial Machinery Parts Business and Piping Products Business — 01
2. Sales and profit increases in FY3/25 exceeded upwardly revised forecasts — 01
3. Decrease in sales and profits forecast in FY3/26 due to factors including changes in US tariff policy — 02
4. Smooth progress on the 1st midterm management plan — 02

Company profile — 03

1. Company profile — 03
2. History — 04

Business overview — 05

1. Business overview — 05
2. Characteristics and strengths — 06
3. Risk factors and measures — 07

Results trends — 07

1. Overview of FY3/25 consolidated results — 07
2. Trends by segment and region — 09
3. Financial condition — 10

Outlook — 11

● FY3/26 consolidated forecasts — 11

Growth strategy — 12

1. Market environment — 12
2. 1st midterm management plan (FY3/25–FY3/27) — 13
3. Business strategy — 14
4. Shareholder return policy — 18
5. Sustainability management — 19
6. FISCO’s view — 20

Summary

Aims to pursue synergy and raise corporate value through management integration. Smooth progress on the 1st midterm management plan

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

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

The Company’s segments are the Automobile and Industrial Machinery Parts Business, Piping Products Business, and Other Business. Mainstay products in the Automobile and Industrial Machinery Parts Business are piston rings and valve seat inserts, which are engine parts. The Company also develops items such as sintered products, engineered plastic components, and casting components related to automobile engines, transmissions, drive, and the chassis, as well as industrial machinery parts, and parts for marine engines. The Piping Products Business focuses on piping components for the construction field, such as pipefittings. In Other Business, the Company 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 Electro-Magnetic Compatibility (EMC) business, which is involved in the manufacture and sale of anechoic chambers and other products.

2. Sales and profit increases in FY3/25 exceeded upwardly revised forecasts

In its consolidated results for FY3/25, the Company reported net sales of ¥170,340mn, operating profit of ¥11,807mn, ordinary profit of ¥14,678mn, and profit attributable to owners of parent of ¥8,756mn. Note that as NPR is considered the acquiree from a business combination accounting perspective, the Company’s financial results for FY3/24 do not include NPR’s results for 1H (April-September 2023). Comparing totaled figures for FY3/24 that reflect 12 months of results for both RIKEN and NPR, net sales increased 1% year on year (YoY), operating profit increased 11%, ordinary profit increased 7% and profit attributable to owners of parent decreased 69%, (increase of 1%, or ¥8.7bn, excluding the ¥19.2bn gain on bargain purchase recorded in FY3/24). This indicates that both sales and profits increased in real terms. Also, the results for each line of profit exceeded the upwardly revised forecasts announced on February 14, 2025. Although the sales volume of automobile-related parts was sluggish, the yen depreciated more than expected, as well as factors such as the reflection of cost increases in sales prices, rationalization including synergies from the business merger, and the effects of the consolidation of SHINWA VANES CO.,LTD. were enough to absorb an increase in costs, particularly labor costs.

3. Decrease in sales and profits forecast in FY3/26 due to factors including the effects of US tariff policy

In its consolidated results for FY3/26, the Company is forecasting net sales to decrease 4.9% YoY to ¥162,000mn, operating profit to decrease 28.0% to ¥8,500mn, ordinary profit to decrease 22.3% to ¥11,400mn, and profit attributable to owners of parent to decrease 16.6% to ¥7,300mn. The assumed exchange rates are ¥140 = $1 and ¥155 = €1 (compared to ¥151 = $1 and ¥164 = €1 in FY3/25). Although the Company is planning to realize synergies from the business merger and advance measures to improve profitability, such as reflecting cost increases in sales prices, its forecast of decreases in sales and profits take into account prospects such as the impact of changes in US tariff policy, yen appreciation, and an increase in costs associated with investment in growth. However, considering factors such as the current level of the yen being lower than anticipated, FISCO believes there is likely to be upside potential to the Company’s forecasts.

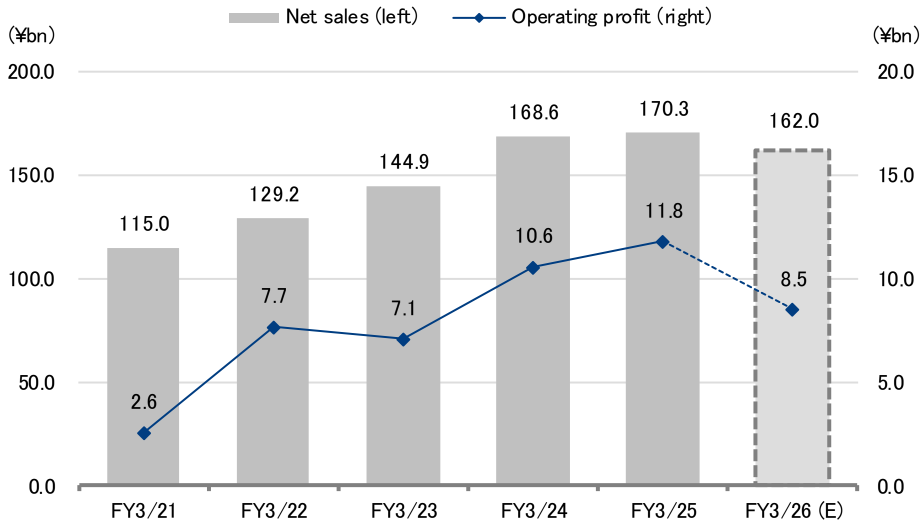
4. Smooth progress on the 1st midterm management plan

The Company formulated its 1st midterm management plan (FY3/25–FY3/27) 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. The quantitative targets for FY3/27, the final year of the plan, are net sales of ¥180.0bn, ordinary profit ratio of 9% or higher, and ROE of 8% or higher. As of the end of FY3/25, progress on achieving these targets has been smooth. In FY3/26, although it is possible that the effects of US tariff policy and foreign exchange rates will put a temporary brake on progress, the Company plans to make up for this by strengthening the creation of synergies, among other measures. In order to level up the synergies created by the merger, it plans to transition into an operating holding company structure with a divisional structure for each strategic business unit in April 2026. Regarding shareholder returns, the 1st midterm management plan calls for a payout ratio of 40% or higher, and a total payout ratio of 70% or higher on a three-year average, 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.

Key Points

- RIKEN and Nippon Piston Ring (NPR) merge to form a holding company
- Achieved an increase in sales and profits in FY3/25
- Decrease in sales and profits forecast in FY3/26 due to factors including changes in US tariff policy
- Smooth progress on the 1st midterm management plan

Results trends



Note: Figures for FY3/24 and prior fiscal years are the simple sum of figures from the individual results of RIKEN and NPR
Source: Prepared by FISCO from the Company's financial results and results briefing materials

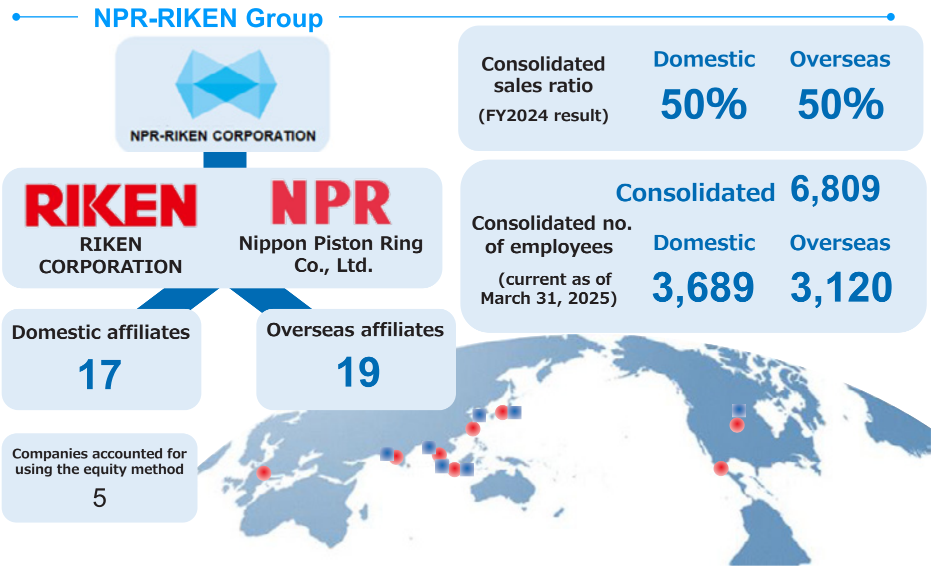
Company profile

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

1. Company profile

The Company is a holding company for RIKEN and NPR, major manufacturers of piston rings, which merged on October 2, 2023. The Company is pursuing synergies under an integrated governance framework while leveraging the long-cultivated brand power of both companies, aiming for sustained growth and increased corporate value. As of the end of FY3/25, the head office is located in Chiyoda-ku, Tokyo and head office functions are split between the Tokyo head office (Chiyoda-ku, Tokyo) and the Saitama head office (Chuo-ku, Saitama City). The Company's Group includes the Company, which is the holding company, 38 consolidated subsidiaries (including RIKEN and NPR), and 5 equity-method affiliates, and it develops production and sales sites globally. The Company's total assets are ¥219,045mn, its net assets are ¥154,669mn, its equity ratio is 66.3%, its number of shares outstanding is 28,247,910 (including 1,379,025 shares of treasury stock) and the total number of Group employees is 6,809 (3,689 in Japan and 3,120 overseas).

Global business structure



Source: The Company's results briefing materials

2. History

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

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

History

RIKEN

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

Nippon Piston Ring (NPR)

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

NPR-RIKEN CORPORATION

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

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

Business overview

Mainstay products are automobile engine parts

1. Business overview

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). Sales shares by segment for FY3/25 (shares relative to total sales before elimination of intersegment transactions) were 74.0% for the Automobile and Industrial Machinery Parts Business, 10.8% for the Piping Products Business and 15.2% for the Other Business. Additionally, sales shares by region for FY3/25 (consolidated) were 50% for Japan, 6% for China, 17% for other Asian countries, 12% for the US, 8% for Europe, and 7% for other countries and regions.

The mainstay products in the Automobile and Industrial Machinery Parts Business are piston rings and valve seat inserts, etc., which are engine components. The Company also develops items such as sintered products, engineered plastic components, and casting components related to automobile engines, transmissions, drive, and the chassis, as well as industrial machinery parts, and parts for marine engines. Within this, following revisions to production structures for camshaft processing, in November 2024, the Company transferred all shares of RIKEN Brother Precision Industry Corporation, a joint venture with BROTHER PRECISION INDUSTRY Co., Ltd., to BROTHER PRECISION INDUSTRY and dissolved the joint venture. The Company will continue to supply camshaft materials.

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 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, was made a subsidiary of RIKEN to expand the Company's thermal engineering business for semiconductor manufacturing equipment.

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

2. Characteristics and strengths

The main roles of piston rings include functions to seal gas leaks in an engine's combustion chamber, control lubricating oil (engine oil), transfer combustion heat that escapes, and minimize piston abrasion. They are used within the combustion chamber in the harsh conditions of a temperature of 300℃, and perform important functions related directly to engine performance. Therefore, there are in fact only five companies in the world (one in the US, 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. 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.

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

3. Risk factors and measures

One risk factor is that the number of vehicles produced may decrease due to changes in demand and the impact of infectious diseases, disasters, etc. However, the global automobile market will grow slowly, due in part to vehicle use expanding in emerging countries. So rather than a change in the number of vehicles produced, a risk factor for the Company at the current time is the impact of medium- to long-term environmental regulations (greater fuel efficiency of engines, declining use of gasoline engines, support for cleaner engines, spread of EV, etc.) driven by the global movement toward decarbonization. The Company is promoting technology development as engines evolve, including better fuel economy gasoline engines and next-generation engines like hydrogen and alternative fuels, and reforming its business portfolio with a focus also on expanding business in non-ICE* fields based on trends in vehicle electrification.

* ICE is an acronym for internal combustion engine (an engine that runs on gasoline).

Results trends

Sales and profit increases in FY3/25 exceeded upwardly revised forecasts

1. Overview of FY3/25 consolidated results

In its consolidated results for FY3/25, the Company reported net sales of ¥170,340mn, operating profit of ¥11,807mn, ordinary profit of ¥14,678mn, and profit attributable to owners of parent of ¥8,756mn. Based on the Company's financial results, net sales rose 22.9% YoY, operating profit increased 34.7%, and ordinary profit rose 26.2%, while profit attributable to owners of parent decreased 66.7%. However, as NPR is considered the acquiree from a business combination accounting perspective, the Company's financial results for FY3/24 do not include NPR's results for 1H (April-September 2023). Comparing totaled figures (unit: ¥bn) for FY3/24 that reflect 12 months of results for both RIKEN and NPR based on the Company's materials, net sales increased 1% YoY, operating profit increased 11%, ordinary profit increased 7%, and profit attributable to owners of parent decreased 69%, (increase of 1%, or ¥8.7bn, excluding the ¥19.2bn gain on bargain purchase recorded in FY3/24). This indicates that both sales and profits increased in real terms. The average exchange rates were ¥151 = $1 and ¥164 = €1 (compared to ¥140 = $1 and ¥152 = €1 in FY3/24).

Also, the results for each line of profit exceeded the upwardly revised forecasts (announced on February 14, 2025, with each of line of profit revised upward: net sales of ¥171,000mn, operating profit of ¥11,500mn, ordinary profit of ¥14,000mn, and profit attributable to owners of parent of ¥8,500mn). Although the sales volume of automobile-related parts was sluggish because of reasons including a decline in the production volumes of Japanese automakers, the yen depreciated more than expected, as well as factors such as the reflection of cost increases in sales prices, rationalization including synergies from the business merger, and the effects of the consolidation of SHINWA VANES, were enough to absorb an increase in costs, particularly labor costs.

Outline of results for FY3/25

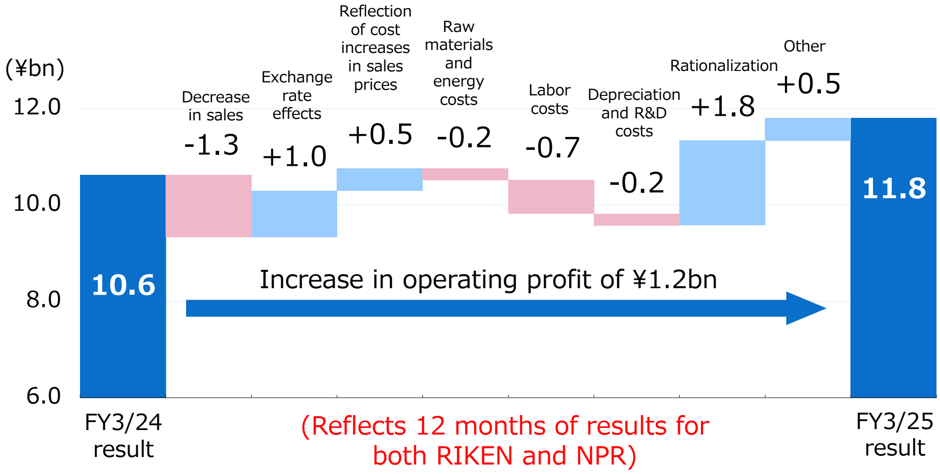
(¥bn)

	FY3/24		FY3/24		FY3/25			
	Financial results		Totaled figures for 12 months of results for both companies		Results	% of net sales	Comparison with totaled figures for 12 months of results for both companies	
	Results	% of net sales	Results	% of net sales			Change	Change %
Net sales	138.6	100.0%	168.6	100.0%	170.3	100.0%	1.8	1%
Operating profit	8.8	6.3%	10.6	6.3%	11.8	6.9%	1.2	11%
Ordinary profit	11.6	8.4%	13.7	8.1%	14.7	8.6%	1.0	7%
Profit attributable to owners of parent	26.3	19.0%	27.9	16.5%	8.8	5.1%	-19.1	-69%
(excluding gain on bargain purchase)	7.1	5.2%	8.7	5.2%	8.8	5.1%	0.1	1%
Exchange rate US$/¥	140		140		151		11	
Euro/¥	152		152		164		12	

Note: Financial results for FY3/24 do not include NPR's results for April to September 2023.
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Analyzing the increase and decrease factors behind the ¥1.2bn YoY increase in operating profit (compared with totaled figures for 12 months of results for both companies), profit was lowered ¥1.3bn by a decrease in sales, increased ¥1.0bn by exchange rate effects, increased ¥0.5bn by the reflection of cost increases in sales prices, decreased ¥0.2bn by the effects of raw materials and energy costs, decreased ¥0.7bn by an increase in labor costs, decreased by ¥0.2bn by an increase in depreciation and R&D costs, increased ¥1.8bn by the effects of rationalization, and increased ¥0.5bn by other factors. In regard to non-operating factors, the share of profit of entities accounted for using the equity method increased ¥805mn (recorded as ¥2,270mn compared to ¥1,465mn in FY3/24) while foreign exchange gains worsened by ¥997mn (recorded as a loss of ¥649mn compared to a gain of ¥348mn in FY3/24). In regard to extraordinary income, the ¥19,182mn gain on bargain purchase recorded in FY3/24 dropped away.

Analysis of increase and decrease factors in operating profit in FY3/25



Source: The Company's results briefing materials

2. Trends by segment and region

By segment (before elimination of intersegment transactions), in the Automobile and Industrial Machinery Parts Business, net sales were ¥127,778mn, and segment profit was ¥9,050mn. In the Piping Products Business, net sales were ¥18,676mn, and segment profit was ¥1,197mn. In the Other Business, net sales were ¥26,278mn, and segment profit was ¥2,056mn. In the Automobile and Industrial Machinery Parts Business, the sales volume of automobile-related parts was sluggish due to a decline in the production volumes of Japanese automakers, but there were positive contributions from yen depreciation, the reflection of cost increases in sales prices, and the effects of rationalization. In the Piping Products Business, sales were steady due to firm construction demand in Japan. In the Other Business, the consolidation of SHINWA VANES contributed to results and the thermal engineering business and EMC business performed steadily. By region, net sales in Japan increased 2% YoY (using figures for 12 months of results for both companies) to ¥85.4bn, net sales in China decreased 7% to ¥9.7bn, net sales in other Asian countries decreased 1% to ¥28.3bn, net sales in the US remained level at ¥20.2bn, net sales in Europe increased 4% to ¥14.2bn, and net sales in other countries and regions increased 2% to ¥12.5bn. In Japan, the consolidation of SHINWA VANES was a contributing factor. Sales in China and other Asian countries were impacted by the decline in the production volumes of Japanese automakers. In the US and Europe, yen depreciation was a contributing factor.

Segment performance summary for FY3/25

(¥mn)

	FY3/25	
	Amount	% of net sales
Consolidated net sales	170,340	-
Automobile and Industrial Machinery Parts Business	127,778	74.0%
Piping Products Business	18,676	10.8%
Other Business	26,278	15.2%
Adjustment	-2,394	-
Consolidated operating profit	11,807	6.9%
Automobile and Industrial Machinery Parts Business	9,050	7.1%
Piping Products Business	1,197	6.4%
Other Business	2,056	7.8%
Adjustment	-497	-

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

FY3/25 net sales by region

(¥bn)

	FY3/24		FY3/25		YoY	
	Amount	% of net sales	Amount	% of net sales	Change	Change %
Consolidated net sales	168.6	100%	170.3	100%	1.8	1%
Japan	83.7	50%	85.4	50%	1.7	2%
China	10.4	6%	9.7	6%	-0.7	-7%
Other Asian countries	28.4	17%	28.3	17%	-0.2	-1%
US	20.2	12%	20.2	12%	0.1	0%
Europe	13.6	8%	14.2	8%	0.6	4%
その他	12.3	7%	12.5	7%	0.2	2%

Note: FY3/24 figures are figures for 12 months of results for both companies
Source: Prepared by FISCO from the Company's results briefing materials

The Company's finances are sound

3. Financial condition

Total assets at the end of FY3/25 decreased ¥1,119mn from the end of FY3/24 to ¥219,045mn. This decrease mainly reflected decreases of ¥1,151mn in notes and accounts receivable – trade, and contract assets, ¥483mn in merchandise and finished goods, ¥519mn in work in process, ¥262mn in raw materials and supplies, and ¥3,291mn in investment securities, while there were increases of ¥3,581mn in cash and deposits and ¥1,426mn in retirement benefit asset. Total liabilities decreased ¥6,370mn to ¥64,375mn. This decrease mainly reflected decreases of ¥4,268mn in electronically recorded obligations – operating, ¥796mn in deferred tax liabilities, and ¥453mn in retirement benefit liability. Total short- and long-term borrowings decreased ¥448mn to ¥19,337mn. Total net assets increased ¥5,251mn to ¥154,669mn. Treasury shares increased ¥3,861mn and valuation difference on available-for-sale securities decreased ¥2,548mn, while retained earnings increased ¥5,577mn and foreign currency translation adjustment increased ¥5,309mn. As a result, the equity ratio increased 2.5 percentage points (pp) to 66.3%. In FISCO's view, the Company's finances, including its cash flow situation, are sound.

On December 9, 2024, the Company newly acquired an A- rating from Rating and Investment Information, Inc. (R&I), and its consolidated subsidiary RIKEN's rating was upgraded from BBB+ to A-. It is also working to shrink cross-held shares and at the end of FY3/25, the ratio of cross-held shares within consolidated net assets had decreased 4.5pp compared to the end of FY3/24 to 19.6%. Furthermore, the Company plans to further shrink this ratio to 15% or lower at the end of FY3/27 and 10% or lower at the end of FY3/30.

Financial statements (simplified)

(¥mn)

	End of FY3/24	End of FY3/25	Change
Total assets	220,164	219,045	-1,119
Current assets	104,348	105,376	1,028
Non-current assets	115,816	113,668	-2,148
Total liabilities	70,745	64,375	-6,370
Current liabilities	44,668	35,726	-8,942
Non-current liabilities	26,077	28,648	2,571
Total net assets	149,418	154,669	5,251
Shareholders' equity	120,530	122,506	1,975
Equity ratio (%)	63.8%	66.3%	2.5pp

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

Cash flow statements (simplified)

(¥mn)

	FY3/24	FY3/25
Cash flows from operating activities	18,496	17,477
Cash flows from investing activities	-13,548	-7,085
Cash flows from financing activities	-8,615	-8,404
Cash and cash equivalents at end of period	22,261	25,760

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

Outlook

Decrease in sales and profits forecast in FY3/26 due to factors including changes in US tariff policy

● **FY3/26 consolidated forecasts**

In its consolidated results for FY3/26, the Company is forecasting net sales to decrease 4.9% YoY to ¥162,000mn, operating profit to decrease 28.0% to ¥8,500mn, ordinary profit to decrease 22.3% to ¥11,400mn, and profit attributable to owners of parent to decrease 16.6% to ¥7,300mn. The assumed exchange rates are ¥140 = $1 and ¥155 = €1 (compared to ¥151 = $1 and ¥164 = €1 in FY3/25). Although the Company is planning to realize synergies from the business merger and advance measures to improve profitability, such as reflecting cost increases in sales prices, its forecast of decreases in sales and profits take into account prospects such as the impact of changes in US tariff policy, yen appreciation, and an increase in costs associated with investment in growth.

FY3/26 consolidated results outlook

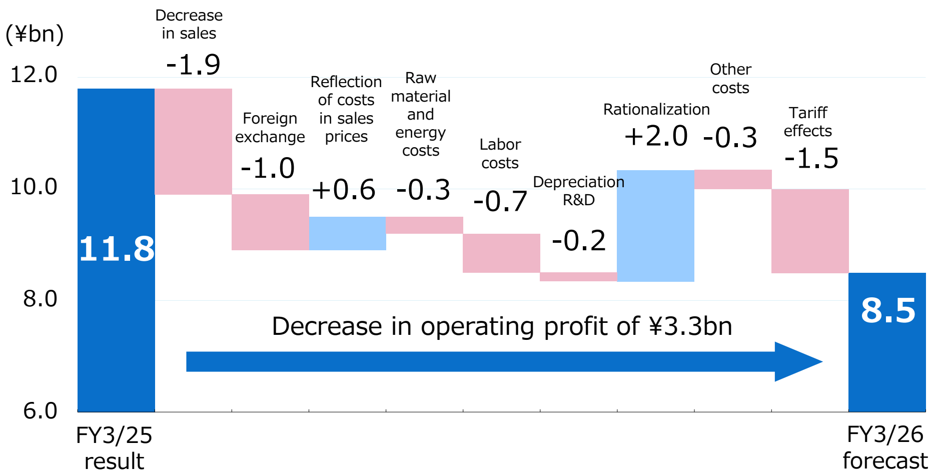
(¥mn)

	FY3/25		FY3/26		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	Change %
Net sales	170,340	100.0%	162,000	100.0%	-8,340	-4.9%
Operating profit	11,807	6.9%	8,500	5.2%	-3,307	-28.0%
Ordinary profit	14,678	8.6%	11,400	7.0%	-3,278	-22.3%
Profit attributable to owners of parent	8,756	5.1%	7,300	4.5%	-1,456	-16.6%
Exchange rate						
US$/¥	151		140		-11	
Euro/¥	164		155		-9	

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

Analyzing the anticipated increase and decrease factors behind the ¥3.3bn YoY decrease forecast for operating profit, profit is expected to be lowered ¥1.9bn by a decrease in sales, decreased ¥1.0bn by exchange rate effects, increased ¥0.6bn by the reflection of cost increases in sales prices, decreased ¥0.3bn by the effects of raw materials and energy prices, decreased by ¥0.7bn by an increase in labor costs, decreased by ¥0.2bn by an increase in depreciation and R&D costs, increased ¥2.0bn by the effects of rationalization, decreased ¥0.3bn by an increase in other costs, and decreased ¥1.5bn by the effects of changes in US tariff policy (risk associated with the Group's direct exports to the US). However, considering factors such as the current level of the yen being lower than anticipated, FISCO believes there is likely to be upside potential to the Company's forecasts.

Analysis of anticipated increase and decrease factors in operating profit in FY3/26



Source: The Company's results briefing materials

Growth strategy

Despite market environment changes, internal combustion engines are expected to survive

1. Market environment

The global auto market is expected to follow a trend of growing demand centering on emerging countries, but to respond to global warming and energy problems, environmental regulations and vehicle electrification are expected to accelerate and internal combustion engines to decline over the medium- to long-term. At the same time, development is proceeding on hydrogen engines and e-fuel engines. Comparing the CO_2 emissions of EVs and Hybrid Electric Vehicles (HEVs) 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, which suggests the possibility that HEVs will be an option in next-generation mobility. In addition, in March 2023, the European Union changed its previous policy that would have banned sales of cars with gasoline engines in 2035. They will now be tolerated past 2035 if the engines use synthetic fuel made from CO_2 and hydrogen. Moreover, how to process EV batteries after they are used has become an issue, the US and EU have raised import tariffs on EVs made in China, and the Trump administration in the US is indicating that it will retract environmental regulations aimed at decarbonization, so it has been pointed out that vehicle electrification may slow.

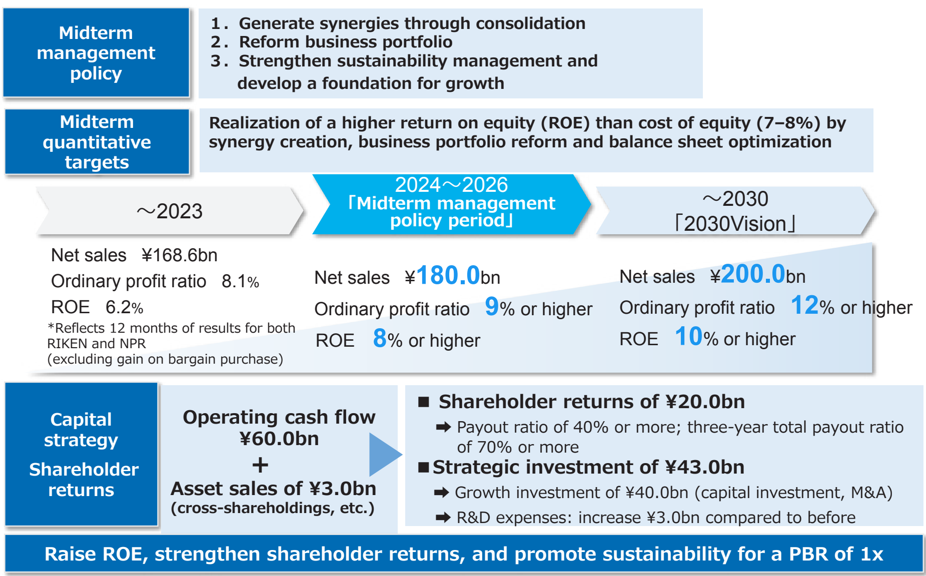
With these as background conditions, the Company is promoting technology development aimed at engine evolution, including better fuel economy gasoline engines and responding to next-generation engines that use hydrogen and alternative fuels, focusing on expanding business in non-ICE areas given the trend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

Smooth progress on the 1st midterm management plan

2. 1st midterm management plan (FY3/25–FY3/27)

The Company formulated its 1st midterm management plan (FY3/25–FY3/27) in February 2024. Its midterm management policies are: 1) Generate synergies through consolidation; 2) Reform business portfolio; and 3) Strengthen sustainability management and develop a foundation for growth. Quantitative targets for the final year of the plan, FY3/27, are net sales of ¥180.0bn, an ordinary profit margin of 9% or higher, and an ROE of 8% or higher. Incidentally, the targets under 2030 Vision for FY3/31 are net sales of ¥200.0bn, an ordinary profit margin of 12% or higher and ROE of 10% or higher. As of the end of FY3/25, progress on achieving these targets has been smooth. In FY3/26, although it is possible that the effects of US tariff policy and foreign exchange rates will put a temporary brake on this progress, the Company plans to make up for this by strengthening the creation of synergies among other measures.

1st midterm management plan overview

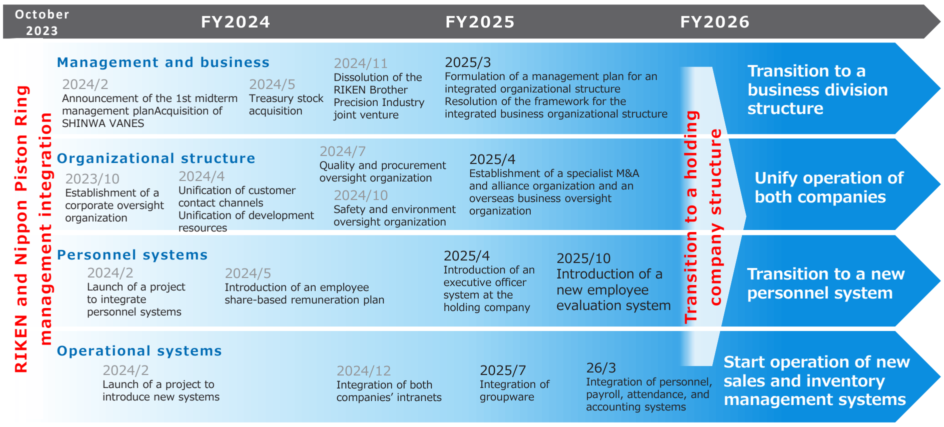


Source: The Company's results briefing materials

As for its growth strategy, the Company will engage in business portfolio reform, synergy creation and balance sheet optimization with the aim of achieving an ROE above shareholder capital costs. As for integration synergies in terms of net sales, the Company will work to expand the share of existing businesses by utilizing the brand power and sales networks of each company and enhancing product lineups, provide diverse solutions by establishing technical proposal-based sales systems and responding to hydrogen and other alternative fuels, and create and commercialize new products. As for cost synergies, the Company is planning ¥3.0bn in FY3/27. Breaking this down, in business divisions, it will reduce procurement costs through joint purchasing, consolidating logistics sites, and optimizing production at domestic and overseas sites to reduce manufacturing costs by ¥1.4bn. In management divisions, it will pursue corporate function integration, IT infrastructure integration, and other reductions to SG&A expenses to save ¥1.6bn.

The Company plans to introduce a new employee evaluation system in October 2025 and transition to a new personnel system in April 2026. In addition to this, in April 2026, it plans to carry out Group restructuring to transition into an operating holding company structure with a divisional structure for each strategic business unit, as well as start the operation a new sales logistics system, unified employee payroll system, and accounting system.

Progress on management and business integration



Source: The Company's results briefing materials

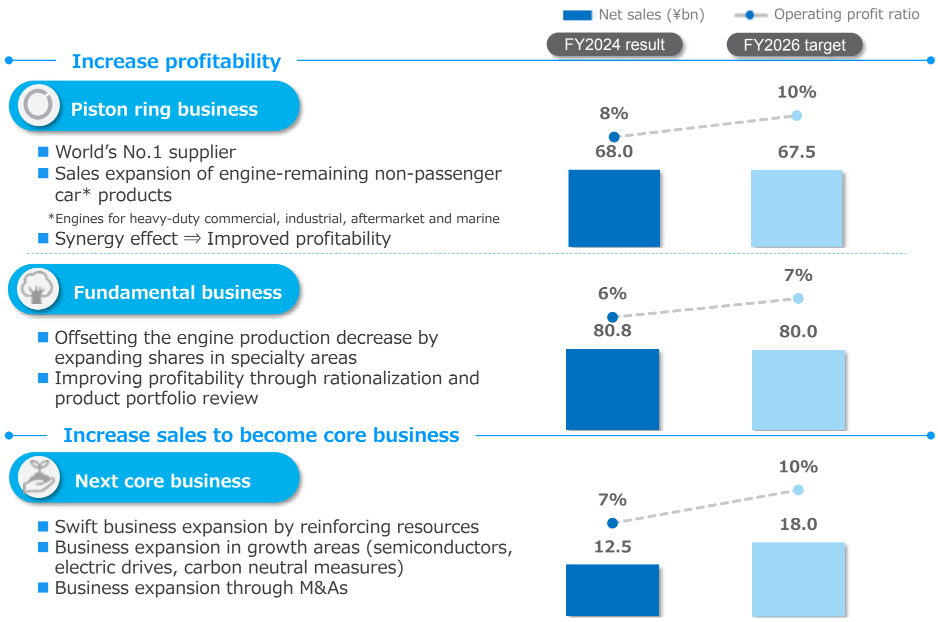
In addition, the Company will promote reductions to shareholder capital costs by steadily carrying out its midterm strategies and enhancing IR activities. Regarding cash allocations, ¥63.0bn of cash to be generated over the three years (operating cash flow of ¥60.0bn + sales of assets like cross-held shares of ¥3.0bn) will be appropriately allocated for further growth and shareholder returns. Specifically, the Company is planning cash outflows of ¥20.0bn on shareholder returns and ¥43.0bn on strategic investments (¥40.0bn on growth investment, including capital investment and M&A, and an increase of ¥3.0bn from previous levels for R&D).

Develop next core business into third pillar

3. Business strategy

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

Business strategy by strategic business unit



Source: The Company's results briefing materials

(1) Piston ring business

In the piston ring business, the Company's FY3/27 targets are net sales of ¥67.5bn, and an operating profit ratio of 10% or higher. As the global No. 1 supplier of piston rings the Company will reinforce sales expansion in non-passenger vehicles where engines will remain (commercial, industry, repair, and shipping applications), create synergies from the business integration, and fundamentally improve productivity to promote improvement in the profit ratio, and it will promote the development of innovative product technologies for carbon neutrality, including accommodating hydrogen and alternative fuels. A recent example of business portfolio reform is the Company's decision to make TAIWAN RIKEN IND. Co., Ltd. into a dedicated sales company and end piston ring production in Taiwan. Also, in the cast iron piston ring business, the Company is considering and working toward consolidating its casting locations in Japan and transferring production to overseas locations.

(2) Fundamental businesses

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

(3) Next core businesses

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

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

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

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

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

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

In other new products and new businesses, the Company is developing products for electric drive units, such as ultra-thin actuators and ultra-light wave reducers that are more compact and lighter for applications in industry, nursing care and medical robots, and to respond to expansion in the next-generation mobility and robot markets, the Company will develop and expand sales of highly functional engineered plastic products that utilize technology to join different materials together, develop and expand sales of magnetic material products that act as a countermeasure to magnetic hindrance utilizing technology cultivated in the EMC business, promote the development of products for medical devices implanted in the body using biocompatible materials, and aims to expand sales and profits over the medium- to long-term and make them core businesses. The Company's thin, high-torque axial gap motor incorporating a pressed powder core has been adopted for use in an agricultural support transport robot. In highly functional engineered plastic products, in 2024, the Company commercialized plastic gears for which a metal part was insert-molded. Mass production was started for motor-assist bicycles, and these are expected to be adopted more widely going forward. In FY3/25, the Company launched an electromagnetic noise suppression sheet, entering the market for such products in the automotive and healthcare industries.

In the field of medical equipment, the Company is rolling out NiFreeT™ (registered trademark). This is a new medical-use material of a titanium-tantalum alloy, is highly biocompatible being nickel-free and non-magnetic. It can also be retained within the body and it is less expensive than the precious metals conventionally used in medical equipment (platinum). NiFreeT was initially developed in-house by the Company for use with piston rings as a shape-memorizing alloy, but it was then re-classified as a medical-use material because it is nickel-free and presents excellent processability. The Company is working to commercialize it as quickly as possible for application in implantable medical devices such as dental screws, guidewires, catheter reinforcements and medical devices centered on orthopedics. In addition, the Company is conducting new product development with Medtronic <MDT>, one of the world's major medical device manufacturers, as a part of its implanted medical device joint development project. Furthermore, recently the Company has launched Epishuttle™ isolation units for transporting patients with highly contagious diseases (manufactured by EpiGuard with the Company's subsidiary Normeca Asia Co., Ltd. holding exclusive sales rights for Japan).

The Company is also promoting the hydrogen related business keyed on hydrogen engines. In FY3/24, the Company augmented its bench room for evaluation of actual hydrogen engines and it now can evaluate everything from small-sized engines to large engines for trucks and construction equipment. In FY3/25, the Company made 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, the Company is also working to contribute to local communities and realize a carbon neutral society. For example, it has plans for a hydrogen station to be built in Kashiwazaki, Niigata Prefecture, in order to use hydrogen engine development as a foothold for contributing to local energy production and consumption through collaboration with the Kashiwazaki City Zero Carbon City Strategy.

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

4. Shareholder return policy

The Company positions returning profits to shareholders as one of its important management issues and while considering the balance between investment for growth and to raise corporate value and financial soundness, it will continue to pay a stable dividend. The Company will also flexibly acquire treasury stock and conduct shareholder returns with an awareness of capital efficiency and the total payout ratio. This is its basic policy. The 1st midterm management plan also calls for a payout ratio of 40% or higher and a total payout ratio on average over three years, including treasury stock acquisition, of 70% or higher. 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.

Under this basic policy, the annual dividend for FY3/25 was ¥130 (interim dividend of ¥45 and fiscal year-end dividend of ¥85), an increase of ¥60 compared to FY3/24. The payout ratio was 40.2%. Additionally, in an off-floor purchase transaction of treasury stock (ToSTNeT-3), the Company acquired 1,368,400 shares (total acquisition price of ¥3,999mn), and including this, the total payout ratio for FY3/25 is 86%. Also, even though the Company is expecting a temporary slump in business results in FY3/26, it plans to keep the annual dividend level with FY3/25 at ¥130 (interim dividend of ¥45 and fiscal year-end dividend of ¥85). The planned payout ratio is 48.2%. Treasury stock acquisitions will be implemented flexibly, taking into account factors such as the Company's profit and financial situations, and capital efficiency.

FY3/26 dividend forecast

(¥bn)	FY2024 result	FY2025 forecast	YoY change
Annual dividend	¥130	¥130	¥0
(Interim dividend)	(¥45)	(¥45)	(¥0)
(Year-end dividend)	(¥85)	(¥85)	(¥0)
Total dividend payout	3.5	3.5	–
Treasury stock acquisition	4.0	To be determined	
Profit ※	8.8	7.3	-1.5
Payout ratio	40%	48%	+8%
Total payout ratio	86%	To be determined	

※ Profit attributable to owners of parent

Source: The Company's results briefing materials

5. Sustainability management

To support the sustainable growth of companies and society, the Company has set forth six major items in its sustainability management (Reinforcement of carbon neutrality initiatives, Promotion of diversity, equity and inclusion, Contribution to local communities, Improvement of corporate governance, Improvement of employee engagement and human resource development strategy, and Creation of safe and secure workplaces), and is promoting sustainability management on this basis. Regarding its key performance indicators (KPI) for FY3/27, the Company is aiming to reduce GHG emissions by 39% compared to FY3/14 (51% by FY3/31), raise the female manager ratio to 3% or higher domestically and 7% or higher consolidated, raise the acquisition rate of paternity leave to 50% or higher, raise the ratio of employees practicing code of conduct (formulated in FY3/24) to 80% or higher, and increase investment in employee human resources development by 30% on a consolidated basis compared to FY3/23. To strengthen initiatives for carbon neutrality, the Company intends to change cupola furnaces to electric furnaces, upgrade to high-efficiency facilities, deploy solar and wind power, develop a compact wind-power generation system, procure renewable energy, purchase green electricity certificates, and utilize J-credits (carbon offset). In January 2025, it concluded an agreement with Tohoku Electric Power Co., Inc. to introduce an offsite PPA service. Electricity generated by wind power generation will be supplied to 15 of the Company's business sites located within Tohoku Electric Power's area of operations. Also, in March 2025, both NPR and RIKEN received certification as a 2025 Health & Productivity Management Outstanding Organization (Large Enterprise Category) under the Certified Health & Productivity Management Outstanding Organization Recognition Program operated by the Ministry of Economy, Trade and Industry and the Nippon Kenko Kaigi.

Progress on sustainability management items

	Item	BM	Midterm management plan FY2026 target	FY3/25 result (*Includes some result forecasts)
Environment	GHG emissions (GHG: Greenhouse Gases)	Compared with FY2013 result	Down 39% (consolidated) (2030: Down 51%)	-47.5%
Social	Female manager ratio	FY2022 results 1.7% (Japan) 5.8% (consolidated)	3% or more (Japan) 7% or more (consolidated)	2.7% (Japan) 8.1% (consolidated)
Social	Acquisition rate of paternity leave	FY2022 result 15.3% (Japan)	50% or more (Japan)	59.4% (Japan)
Governance	Ratio of employees practicing code of conduct		80% or more (consolidated)	89%
Human capital investment	Investment in human resource development for employees	Compared with FY2022 result	+30% (consolidated)	+14.4% (consolidated in Japan)
Human capital investment	Ratio of positive responses in employee engagement surveys	Compared with FY2024 result	+10% (consolidated)	The midterm management plan target for this item was set in 2024.

Source: The Company's results briefing materials

Expecting to accelerate synergies from the merger

6. FISCO's view

The challenging business environment surrounding the automobile engine parts-related industry has raised concerns due to the trend toward electric vehicles, but in addition to a slowdown in the shift to electric vehicles, given that survival scenarios for ICE can be assumed, it is believed that the Company's Automobile and Industrial Machinery Parts Business, starting with the piston rings and fundamental businesses, may continue to generate stable earnings through an appropriate business strategy. Considering such points, FISCO believes that investors in general are perhaps somewhat too pessimistic about the automobile engine parts-related industry. Also, in FY3/25, the first year of the 1st midterm management plan, the Company has been making progress roughly in accordance with the plan. In FY3/26, the second year of the plan, it is possible that changes in US tariff policy and foreign exchange effects will temporarily slow this progress. Even so, the Company is expected to accelerate synergies from the merger going forward, so focus will be on its steady progress on its growth strategies.

Disclaimer

FISCO Ltd. ("FISCO") offers stock price and index information for use under the approval of the Tokyo Stock Exchange, the Osaka Exchange, and Nikkei Inc.

This report is provided solely for the purpose of offering information and is not a solicitation of investment nor any other act or action.

FISCO has prepared and published this report based on information it deems reliable. However, FISCO does not warrant the accuracy, completeness, certainty, nor reliability of the contents of this report or the said information.

The issuers' securities, currencies, commodities, and other financial instruments mentioned in this report may increase or decrease in value or lose their value due to influence from corporate activities, economic policies, world affairs, and other factors. This report does not make any promises regarding any future outcomes. If you use this report or any information mentioned herein, regardless of the purpose therefor, such use shall be based on your judgment and responsibility, and FISCO shall not be liable for any damage incurred by you as a result of such use, irrespective of the reason.

This report was prepared at the request of the subject company, with information provided by the company through telephone interviews and other means, and with compensation from the company. Hypotheses, conclusions and all other content contained in this report are based on FISCO's analysis. The contents of this report are current as of the date of preparation and are subject to change without notice. FISCO is not obligated to update this report.

FISCO and its affiliated companies, as well as the directors, officers, and employees thereof, may currently or in the future trade or hold the financial instruments or the securities of issuers that are mentioned in this report.

Please use the information in this report with an understanding and acceptance of the above points.

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp