

Memo: Analyst Briefing for Nippon Light Metal Holdings Co., Ltd.

FY2023-2025 Medium-term Management Plan (2023 Medium-term Plan)

• Date: 2-3pm, May 29, 2023 (Monday)

• Briefers:

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Q 1. What were the factors behind the changes in ordinary profit in fiscal 2022 to fiscal 2025?

A 1. About half of the 18.5 billion yen increase attributable to changes in sales volume will be due to a recovery in auto-related products (extruded products and secondary alloy field) and truck bodies, which experienced a sharp drop in demand in fiscal 2021 and 2022. In addition, we also expect to capture demand in growth fields, and expect that auto parts will begin generating profit from the final year of the 2023 Medium-term Plan (fiscal 2025). We also expect ongoing demand for thermal insulation panels during the duration of the 2023 Medium-term Plan. The 4.5 billion yen increase attributable to new products includes new auto parts. The needs met by auto parts have changed over these two years, and our customers (auto manufacturers) are also going through a process of trial and error, so we think that we can capture the demand of customers looking for parts with a specific feature, not just with our techniques and processing technology. Price changes are expected to increase ordinary profit by 14 billion yen, and much of this will come from making up for the steep rise in material costs faced by Nippon Fruehauf, which has been slow to see the effect of sales price revisions. In addition, we plan to reflect the increase in added metals and distribution costs in sales prices, with the understanding of our customers.

Q 2. What were the factors behind changes in ordinary profit in purchased products and other?

A 2. In addition to the loss of profits from Toyo Aluminium due to the shares transfer and split (Toyo Aluminium profits are priced into the 2023 Medium-term Plan through fiscal 2023), the main factors are the increase in fixed costs due to capital investment and the increase in labor costs.

Q 3. What effect can be expected from the synergies achieved through the Nikkeikin ALMO consolidation? The net sales figure in the briefing materials factors in these integration synergies in the first half of fiscal 2030, but to what extent have you factored in these synergies for the period prior to 2030?

A 3. Auto manufacturers and auto parts manufacturers are asking for shorter development periods and larger-scale business talks, but since it takes one to two years from the time an order comes in to the start of production, products that are currently in development would generate profits in the final year of the 2023 Medium-term Plan (fiscal 2025). We not only feel that we can take on orders for products that customers did not request previously, but we are also considering the speed of vehicle electrification and growth in demand by region, so we can probably expect a slightly higher growth rate. Accordingly, we want to aim for net sales of 100 billion yen as soon as possible. However, realistically, we think that it will take some time as we grow. Moreover, we will first consider the adverse effects of rushing too much to reap the benefits of this integration, and then assess indirect personnel and other issues.

Q 4. What are the specific integration synergies?

A 4. Up until this point, our approach has been to provide customers with products made through the methods of each business division—heat exchange, extrusion and forging—so our scope was limited to individual products from these business divisions. However, by consolidating these business divisions and methods in Nikkeikin ALMO, customer information and needs are centralized and the scope of our business and products will expand. This is the main difference between now and before. By providing the complex products that only Nikkeikin ALMO is capable of, we can meet customers' wide-ranging and deep needs more than ever.

Q 5. The capital investment plans in the 2023 Medium-term Plan maps out investments on a scale that exceeds depreciation. How is improved asset efficiency reflected in the 2023 Medium-term Plan?

A 5. The capital investment plan reflects the expectation that capital investment in the new products and businesses that will generate revenue in the future in markets that change rapidly will result in steady profitability as well as attracting customers. We are certainly not neglecting investment discipline or sacrificing profitability. The 2023 Medium-term Plan does not come with the message of major changes in our policy on asset efficiency, but instead, in order to improve the P/B ratio, we plan to first improve

ROE by steadily generating revenue during the 2023 Medium-term Plan duration and, generate business profitability. In addition, not only from the perspective of the business profit rate, we can also expect significant improvements in asset efficiency if the Group's business structure changes significantly due to our pursuit of the management reforms outlined in "Initiatives for New Team Nippon Light Metal," the first basic policy of the 2023 Medium-term Plan.

Q 6. What are the assumptions for the plans for Nippon Fruehauf, the fabricated product and other segments?

A 6. The two main factors behind the drop in Nippon Fruehauf's earnings in fiscal 2022 are (1) a sharp decrease in the number of units sold due to a shortage in the chassis supply from truck manufacturers, and (2) the inability of sales price revisions (implemented from March 2022) to absorb the rapid spike in material costs. The main factors behind the recovery from this are the current major improvement in the supply of truck chassis for (1) and customers' understanding of significant parts of plans to revise sales prices (from March 2023) for (2), so we expect these effects to materialize in a major way in fiscal 2023.

Q 7. In the auto parts business, what new cutting-edge products will be released in fiscal 2025, the final year of 2023 Medium-term Plan?

A 7. One will be structural materials for car batteries, and sales will increase relative to the increase in eco-friendly cars such as PHEV and EV. Another will be cooling parts for heat control required in the power conductors used in the power controls of electric vehicles. Going forward, we expect significant growth primarily from these two.

Q 8. The Group business is wide-ranging and I get the sense that managing the Group companies is difficult. Other than the measures already announced, do you have plans on ways to narrow down the Group's business further?

A 8. The 2023 Medium-term Plan was devised on the premise that compliance, including quality, must be at the base of everything. Rather than narrowing down the Group's business, I think the Group is better suited to efficiently and broadly bringing together similar business divisions based on customers and market divisions to strengthen the quality assurance system laid out in the initiatives to prevent reoccurrence, after confirming that the Group's strength is its diverse methods and processing technologies.

- Q 9. With plans for overseas sales growth and capital investment, what are the competitive advantages and strengths of the overseas business?
- A 9. The Group's basic approach in its overseas business is "local production, local consumption," but in the auto parts business, we need to have a global supply system so that we can bring in orders from Japanese auto manufacturers, our customers, for both new and existing products. This means that we have to be in Japan, China and the US. In part due to this context, the 2023 Medium-term Plan prices-in overseas sales growth and an increase in capital investments. Also, the 2023 Medium-term Plan puts an emphasis on capital investment in the US, but we have not changed the two concepts we have held to thus far: "local production, local consumption" and "start small and grow big."
- Q10. Previously, you noted that a D/E ratio of 1 or less was a key target. What are your thoughts on the current financial D/E ratio?
- A10. Since the timing of the transfer of our shares in Toyo Aluminium is undecided, we have not been able to fully reflect future financial trends in the 2023 Medium-term Plan's financial strategies. However, in order to improve the P/B ratio and raise ROE, we think that balance is important, so we will use appropriate debt leverage to some extent for our capital investments and at the same time work to improve ROE. Since the D/E ratio is currently stable at about 0.5-1, we haven't set a specific target. Thank you for your understanding.