

# FY2016 Financial Results Briefing

June 6, 2016



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FY2016

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# I . Introducing the Company



# **Management Philosophy**

**We will contribute to the preservation of our global environment and creation of a wealthy society by creating new value through surface modifications of a great variety of substrates which make the most of limited resources.**



# Overview of the Company

Company name:	Nihon Parkerizing Co., Ltd.
Chairman & C.E.O:	Shun Ono
President & C.O.O:	Kazuichi Satomi
Headquarters:	15-1, 1-chome, Nihonbashi, Chuo-ku, Tokyo
Established:	July 12, 1928
Capital:	4.5 billion yen (as of March 2016)
Sales:	109,000 million yen (FY2016)
Listing:	First Section of Tokyo Stock Exchange, 1967
Other:	JPC Nikkei Index 400 (January 2014) Global Niche Top Company 100 (March 2014)

Founded in 1928, Nihon Parkerizing will celebrate its 90<sup>th</sup> anniversary in 2018. The history of Nihon Parkerizing starts from the company being granted a patent in Japan for the technology developed by Dr. Parker in 1915, for generating a phosphate coating on steel to prevent corrosion. In the beginning, the technology was mostly developed for the Army Ministry, however following the war, business expanded in conjunction with the growth of the automotive industry.

# Stock Market Related Topics

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## ➤ **JPX Nikkei Index 400** (from January 2014)

The JPX Nikkei Index 400 is comprised of 400 stocks selected from among TSE-listed companies (1<sup>st</sup> and 2<sup>nd</sup> sections, Mothers, and JASDAQ) after a scoring process based on;

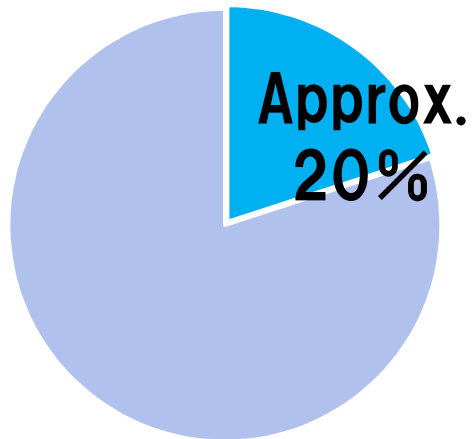
- (1) Screening by eligibility criteria and market liquidity indicators,
- (2) Screening by quantitative indicators (3yr average ROE, 3yr cumulative operating profit, market capitalization) and,
- (3) Screening by qualitative factors (appointment of independent outside directors, adoption of IFRS, disclosure of English earnings information).

## ➤ **Global Niche Top Company Selection 100** (March, 2014)

GNT Companies are companies selected by the Ministry of Economy, Trade and Industry (METI) that have captured a global market share of 20% or over in their niche in at least one of the last three years. In the case of large corporations (in the manufacturing industry, those with capital over 300 million yen and more than 300 employees), the scale of the global market for the niche product or service must be between 10 and 100 billion yen.

# Market Share (Automotive Pre-treatment )

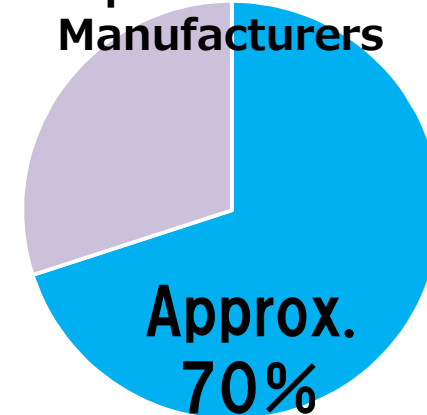
**Global Share**



By maintaining an integrated approach to development from developing initial ideas through to product development, implementing flexible and swift research and development with the goal of expanding product sales both in Japan and overseas, we have been able to achieve a 20% market share in the global market for pre-treatment in the automotive industry.

We have achieved a 70% share of the global pre-treatment business of Japanese auto manufacturers.

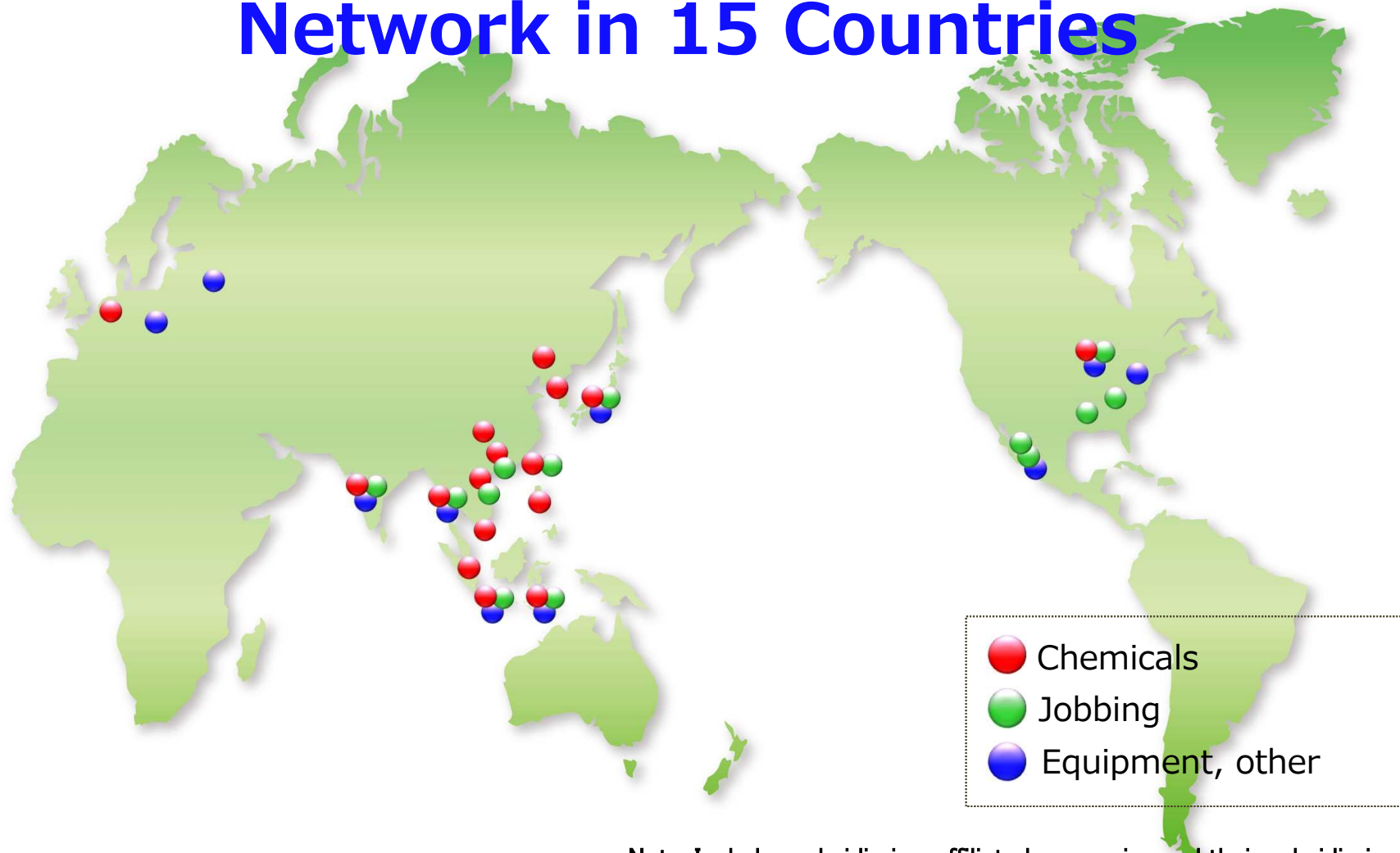
**Share of business at Japanese Auto Manufacturers**



(Based on research by Nihon Parkerizing)

# Global Network

## Network in 15 Countries



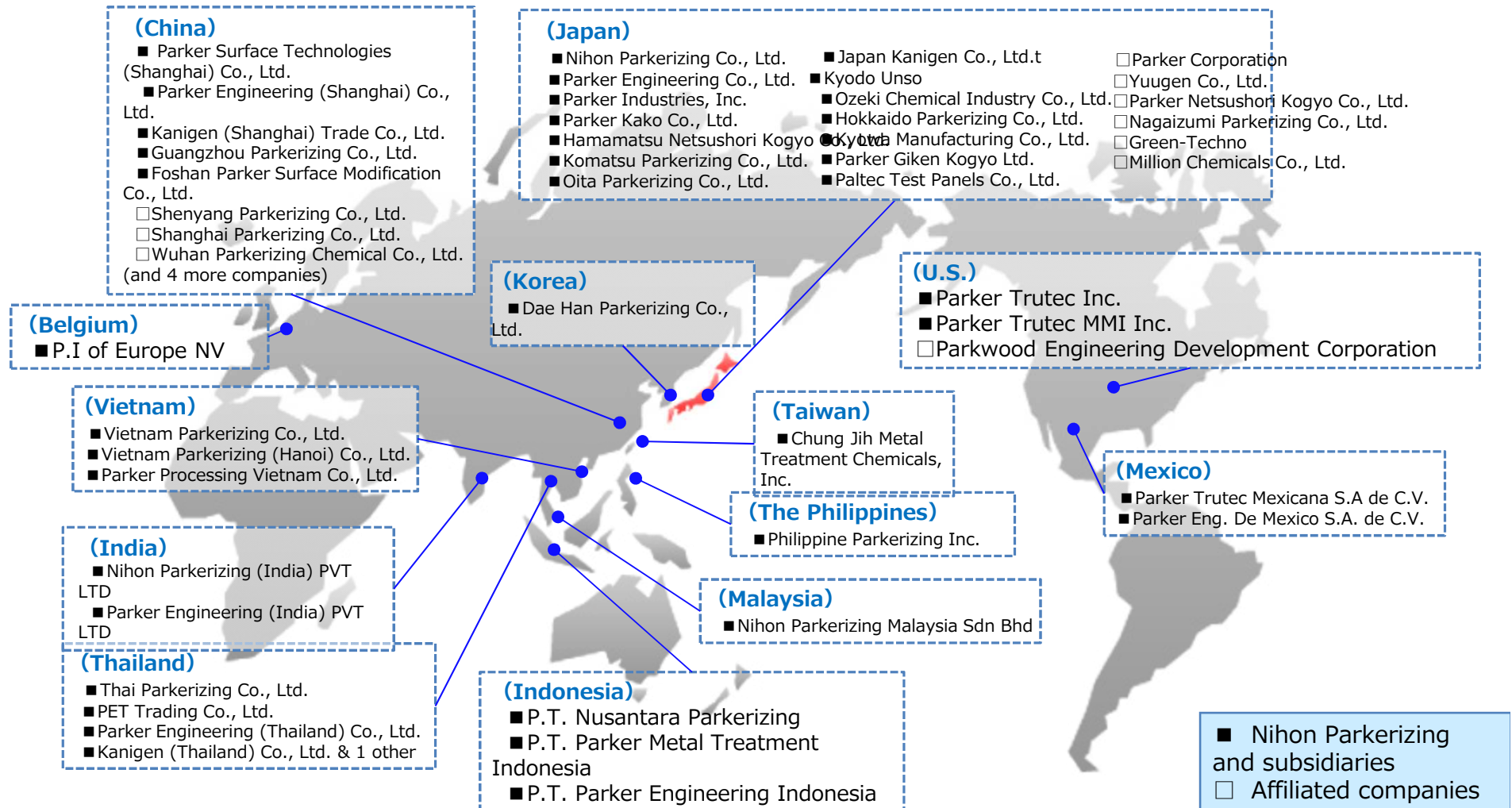
Note: Includes subsidiaries, affiliated companies and their subsidiaries.



# List of Affiliated Companies As of 31<sup>st</sup>

March 2016)

## Network of 43 subsidiaries & 12 Affiliated Companies



# Contributing Through Surface Modification Technology in a Wide Variety of Industries

## Surface Modification Business

Chemicals  
Development

Jobbing Services

Equipment  
Manufacture

Aerospace

Chemicals

Construction  
materials

Autos

Steel  
furniture

Agricultural  
machinery

Brewing

electronics

Batteries

Energy

Steel

Household  
Electric  
appliances

Metals

Beverage  
cans

Glass

Self-  
defense

Electrical  
machinery

Non-steel

Rubber

machinery

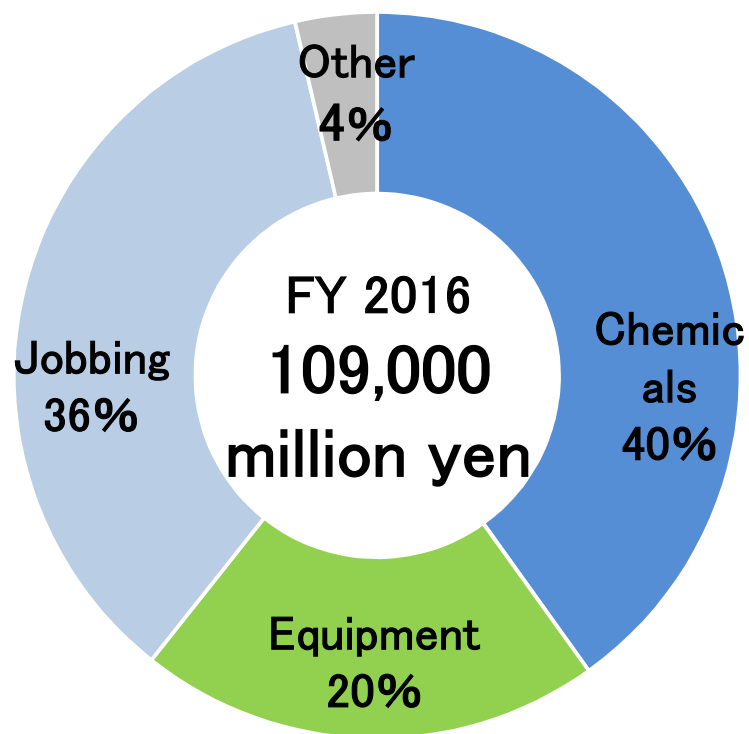
railways

Tools

Food

construction

# Business Areas and Sales Composition Ratios



**Sales by segment**

## Chemicals

Conversion Coating Chemicals  
Rolling oil and lubricants  
Rust proof oil  
Electroless plating solution

## Equipment

Pre-treatment and ED equipment  
Waste water treatment equipment  
Powder coating equipment  
Heat exchangers

## Jobbing

Rust proof jobbing  
Plating  
Heat treatment  
Painting

## Other business

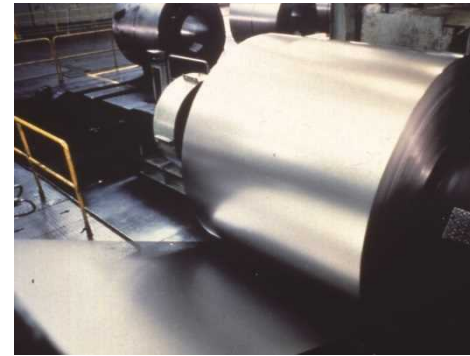
Building maintenance  
Manufacture and sale of metal test pieces  
Manufacture and sale of bolts  
Export of specialty steel products

# Chemicals Business: Supply of Diverse Range of Surface Treatment Chemicals

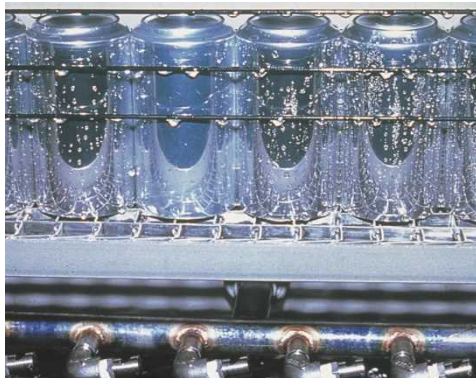
**Auto**



**Steel**



**Beverage cans**



**Aircraft**



**Electronic parts**

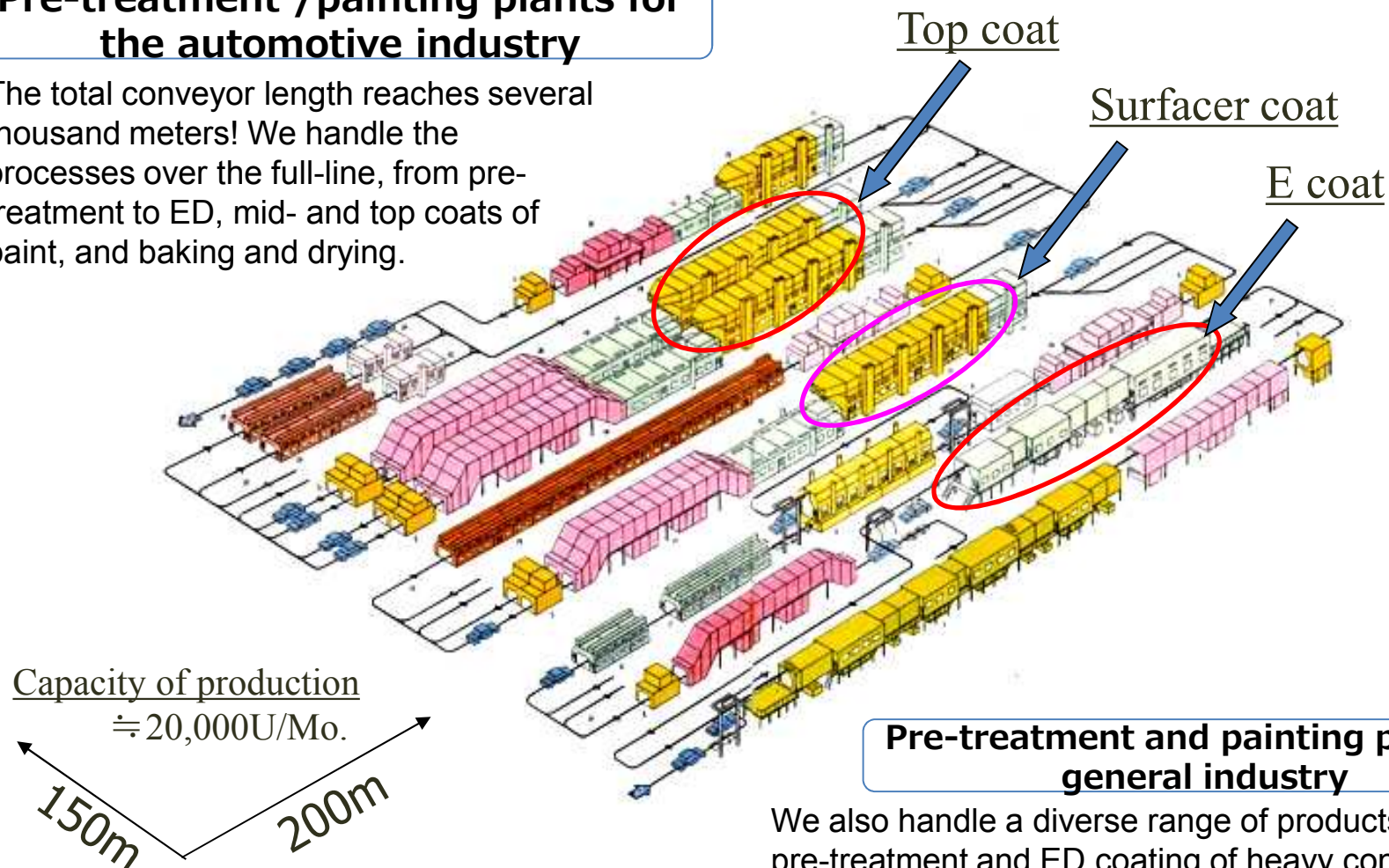


**Realizing new added value with surface modification**

# Equipment Business: Surface Treatment Plants

## Pre-treatment /painting plants for the automotive industry

The total conveyor length reaches several thousand meters! We handle the processes over the full-line, from pre-treatment to ED, mid- and top coats of paint, and baking and drying.



## Pre-treatment and painting plant for general industry

We also handle a diverse range of products such as pre-treatment and ED coating of heavy construction materials, and integrated painting and drying booths for large products in aircraft.



# Equipment Business: Waste Water Treatment, Powder Coating, Heat Exchangers



## Waste water treatment equipment

**Realizing optimal systems according to the components of the waste water, at low running cost.**



## Powder Coating Equipment

**Using electrostatic force to deposit powder paint.**



## H e a t   e x c h a n g e r s

**Enabling efficient heating and cooling with less energy.**

## Jobbing Business: Conversion treatments, plating



## Conversion treatments

# R u s t p r o o f i n g



## Lubricant treatment for plasticity forming

## Solid lubricant treatment



# Electroless nickel plating

# Composite nickel plating

# Jobbing Business: Heat Treatment

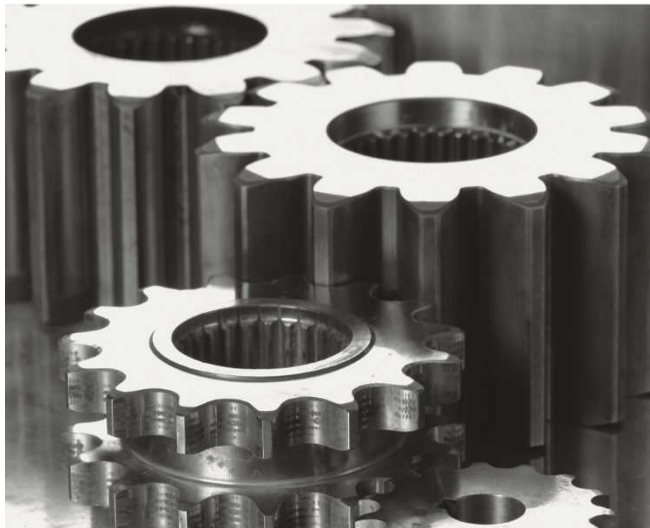


G a s   c a r b u r i z i n g

G a s   s o f t   n i t r i d i n g

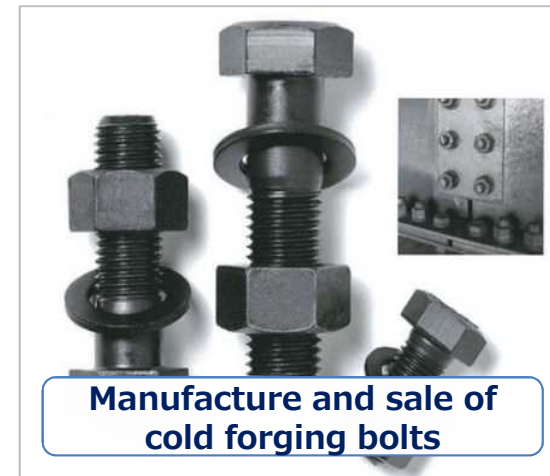
ISONITE® (Salt bath soft nitriding)

P V D / C V D   c o a t i n g s



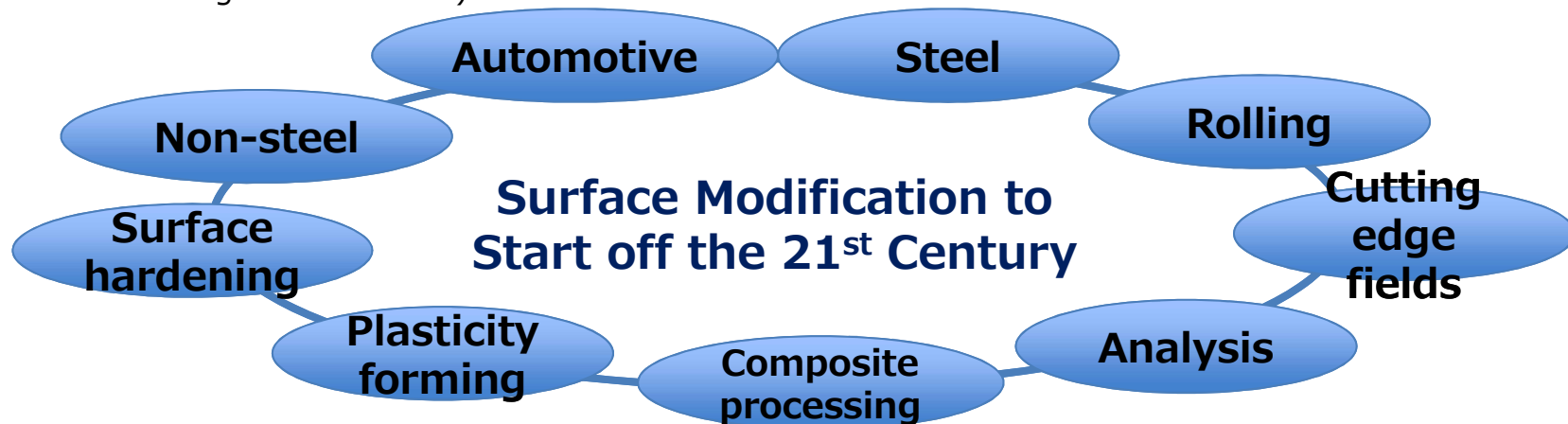


# Other Business



The Central Research Laboratories operates as the nucleus for our fundamental research and development of technology and products, bringing together all of our business areas.

We aim to create an organization capable of flexible and swift research and development with the goal of expanding product sales in both Japan and overseas, through an integrated approach to development from developing initial ideas through to product development.



## Ⅱ. Overview of Consolidated Results for FY2016

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# Key Strategy Initiatives

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## Chemicals Business

Push forward with development of high value added technology that is high quality and low cost, maintaining our lead in the market.

Swiftly put products on the market that meet the needs of our customers overseas.

Renewed license agreement with Henkel (Germany) and concluded an agency agreement in new fields.

# Key Strategy Initiatives

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## Equipment Business

Expand sales in Japan outside the auto industry

Take advantage of expansion of equipment investment by auto manufacturers overseas, particularly in Asia.

Establish company in Mexico

Reducing costs through local procurement and combining components into units, to improve competitiveness and differentiation.

# Key Strategy Initiatives

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## Jobbing Business

Enhance manufacturing equipment particularly in Mexico, China and Thailand, to take advantage of robust overseas demand.

Promote cost reduction and ensure market competitiveness.

# Consolidated Results: Year on Year

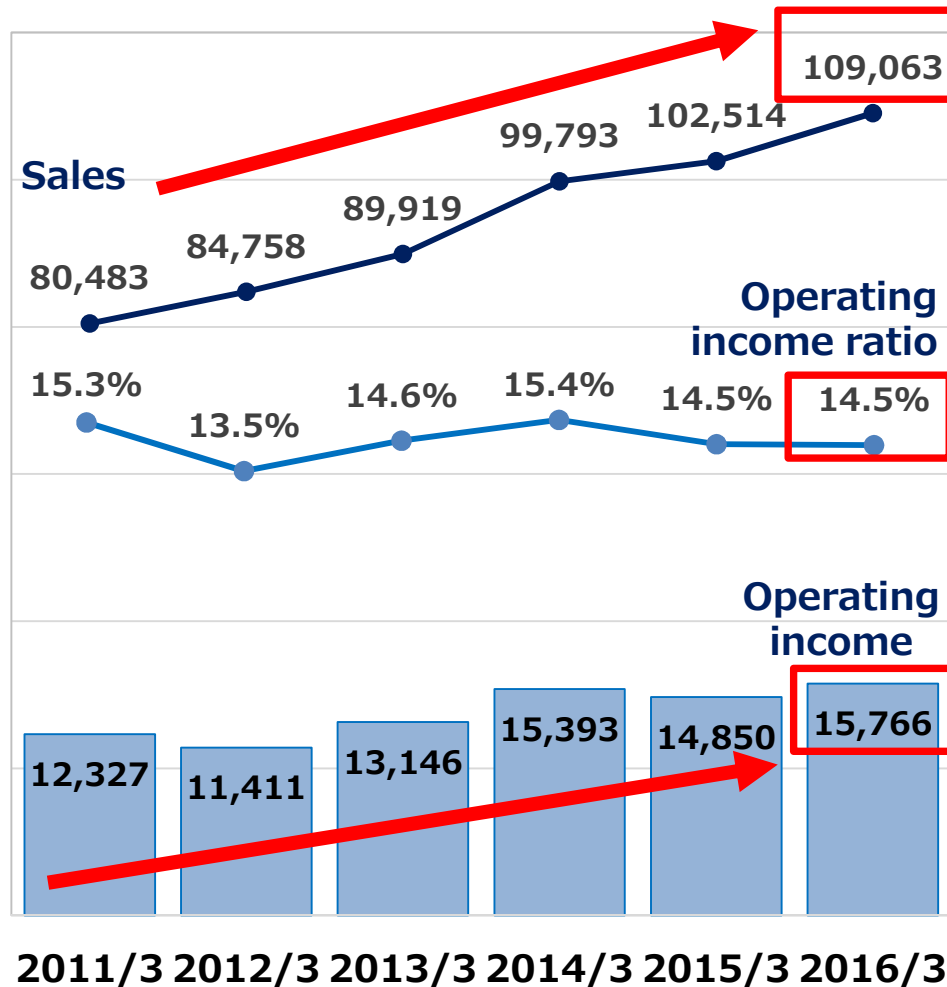
Unit: million yen

Item	2015/3	2016/3	change	% change	
<b>Net Sales</b>	102,514	109,063	+6,549	+6.4%	Renewed our record amount Overseas sales proportion 45.7%
<b>Profit on sales</b>	37,735	40,436	+2,701	+7.2%	
<b>Operating income</b> (Operating income to net sales ratio)	14,850 (14.5%)	15,766 (14.5%)	+915	+6.2%	Renewed our earnings record
<b>Non-operating income</b>	2,602	2,154	△447	△17.2%	Exchange loss 566 million yen
<b>Ordinary income</b> (Ordinary income to net sales ratio)	17,453 (17.0%)	17,921 (16.4%)	+468	+2.7%	
<b>Net income attributable to parent company shareholders</b>	9,975	10,320	+345	+3.5%	Renewed record earnings
<b>ROA</b> (Ratio of ordinary income to total assets)	9.9%	9.5%	△0.4%		Maintained ROA above 8%
<b>Net income per share</b>	80.45yen	83.24yen	+2.79yen		

Effect of yen depreciation: Sales+ approx. 3400 million yen, Operating income+ approx. 500 million yen

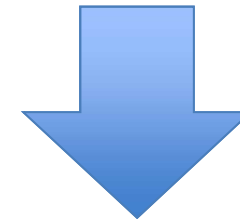
# Changes in Consolidated Results

(Unit: million yen)



Sales consistently on an upward path

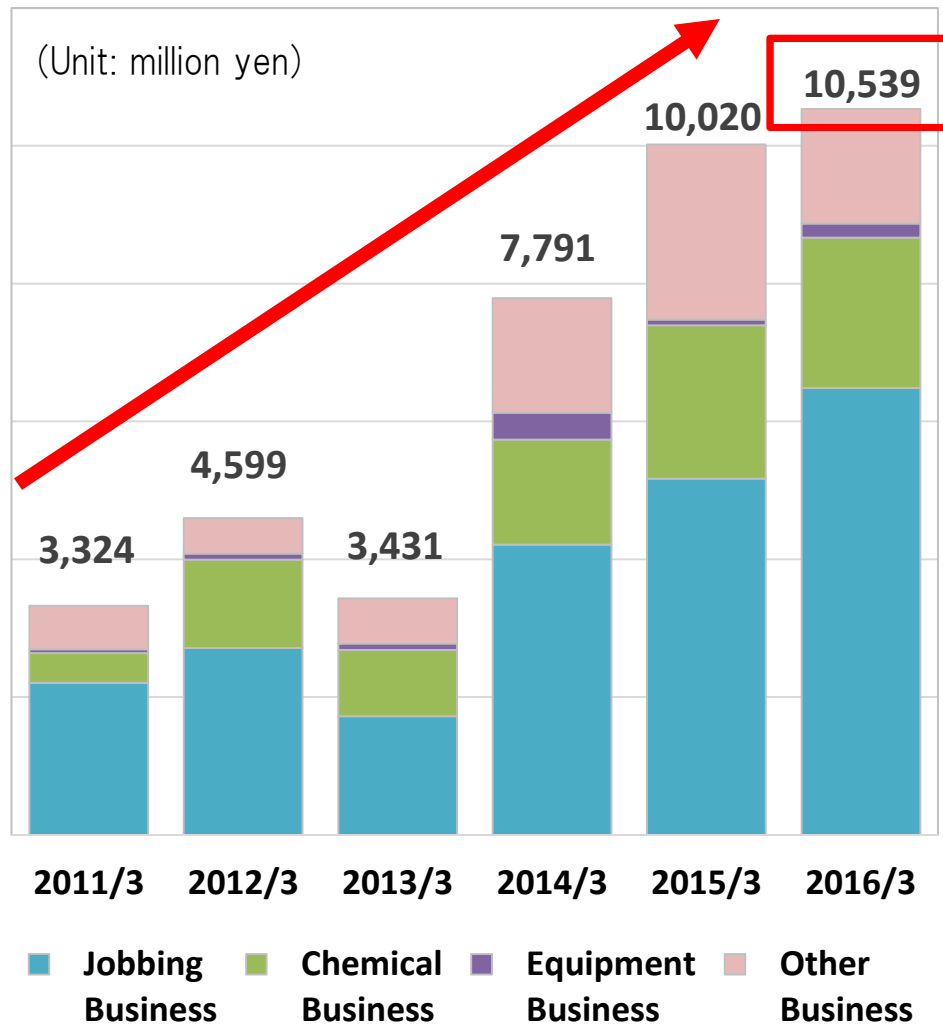
Operating income also on the rise



Operating income ratio maintained at around 14%



# Changes in Equipment Investment



Enhance manufacturing equipment particularly in Mexico, China and Thailand, to take advantage of robust overseas demand.



Significant equipment investment amounts in FY2016

Mexico: 2,247 million yen

Thailand: 1,750 million yen

China: 1,268 million yen

Depreciation cost 4,633 million yen  
(Year on year + 928 million yen)

# Equipment Investment: Mexico



Parker Trutec Mexicana  
(Guanajuato plant)

Gas carburizing  
Gas soft  
nitriding  
ISONITE®



# Equipment Investment: Thailand



Thai Parkerizing

Expansion of  
hydrophilic treatment  
equipment, etc.





# Equipment Investment: China (Foshan)

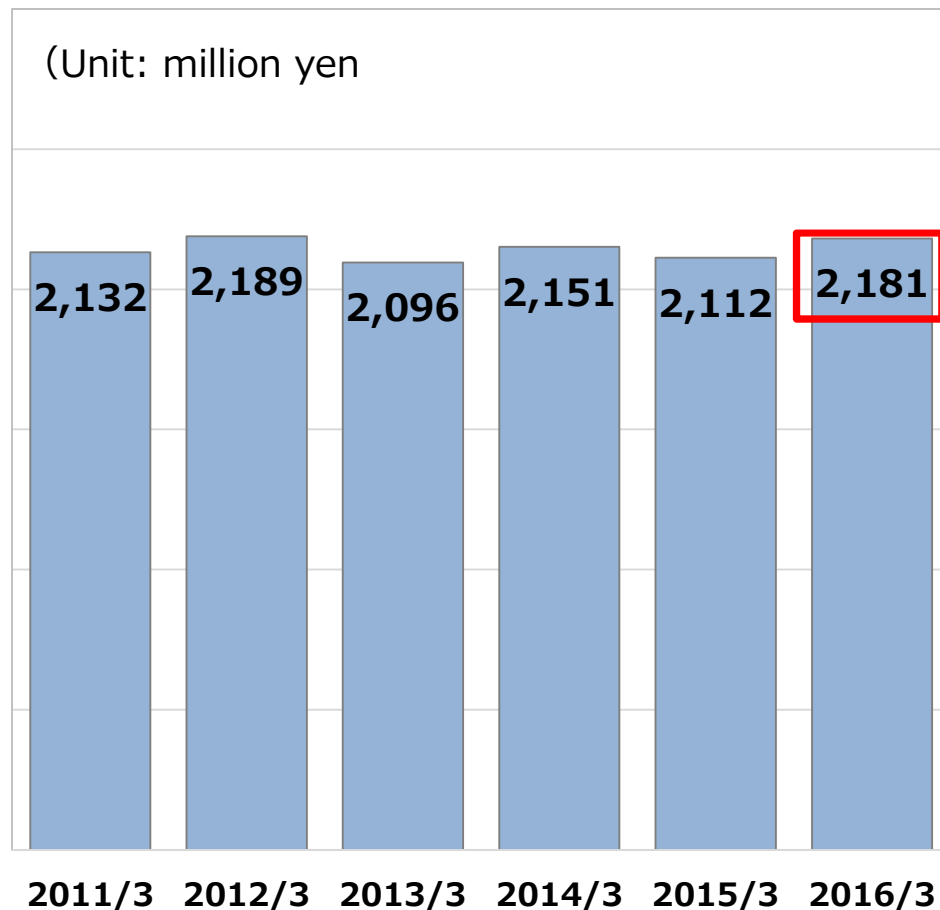


Foshan Parker Surface  
Modification Ltd.  
No. 2 plant

Added a new gas  
carburizing furnace,  
etc.



# Changes in Financial Indicators- R&D Cost



In recent years we have focused our development on “creating new value” by adding not only corrosion resistance but also other functions to the surface of substrates, and our investment in R&D has continuously exceeded 2000 million yen/year.



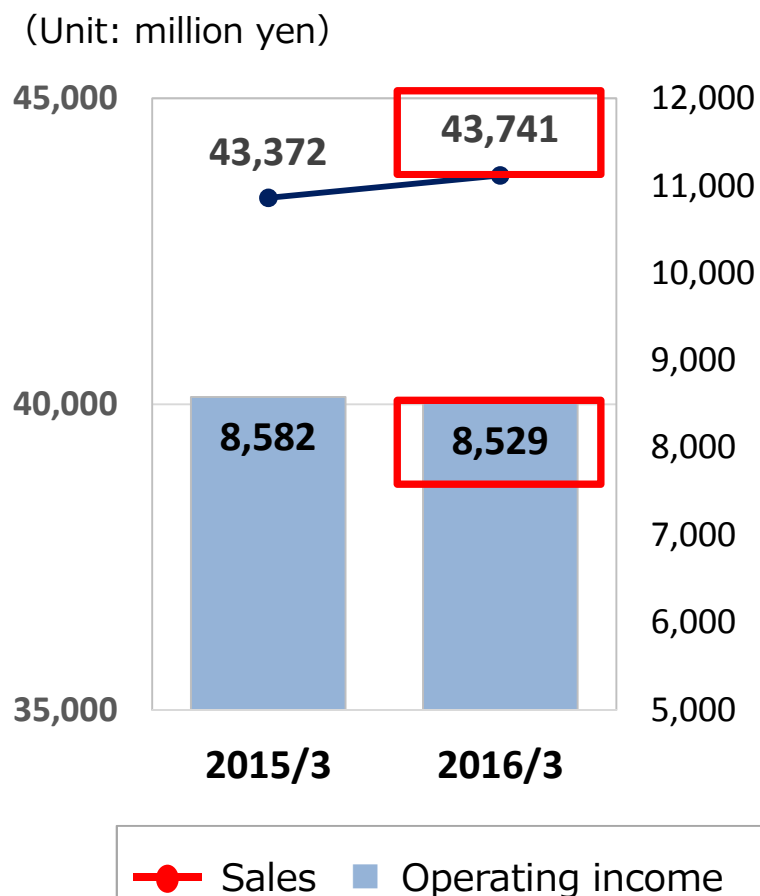
Electron probe micro analyzer

μ-XPS Analysis equipment



We will continue to invest in R&D to develop new surface functions and meet the requirements of next generation vehicles (weight savings, changes in materials, etc.)

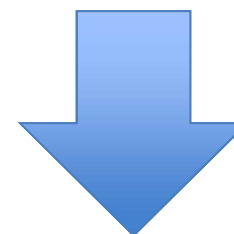
## Results by Segment: Year on Year (Chemicals Business)



Note: Sales figures are for sales to external customers.  
Note: Operating income figures are after changing method of allocating segment costs.

Sales increased 369 million yen (+0.9%) year on year.

Operating income decreased 52 million yen ( $\Delta 0.6\%$ ) year on year.

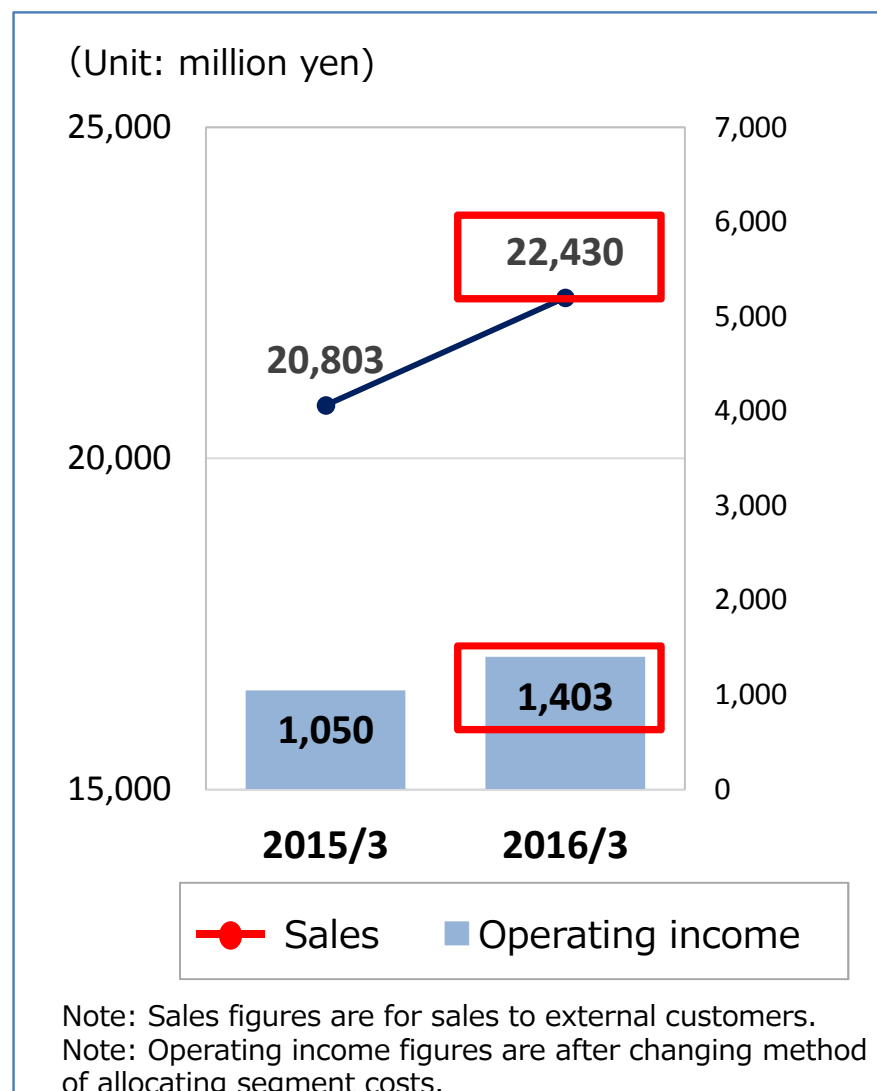


In Japan, sluggish auto output led to decreased revenue.

Overseas, with the additional effect of yen depreciation, business results (after conversion to yen) were comparatively steady.

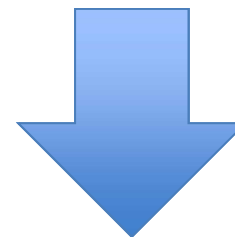
Operating income fell in part due to rising labor costs in Asia.

# Results by Segment: Year on Year (Equipment Business)



Sales increased 1,626 million yen(+7.8%)

Operating income increased 353 million yen(+33.7%)

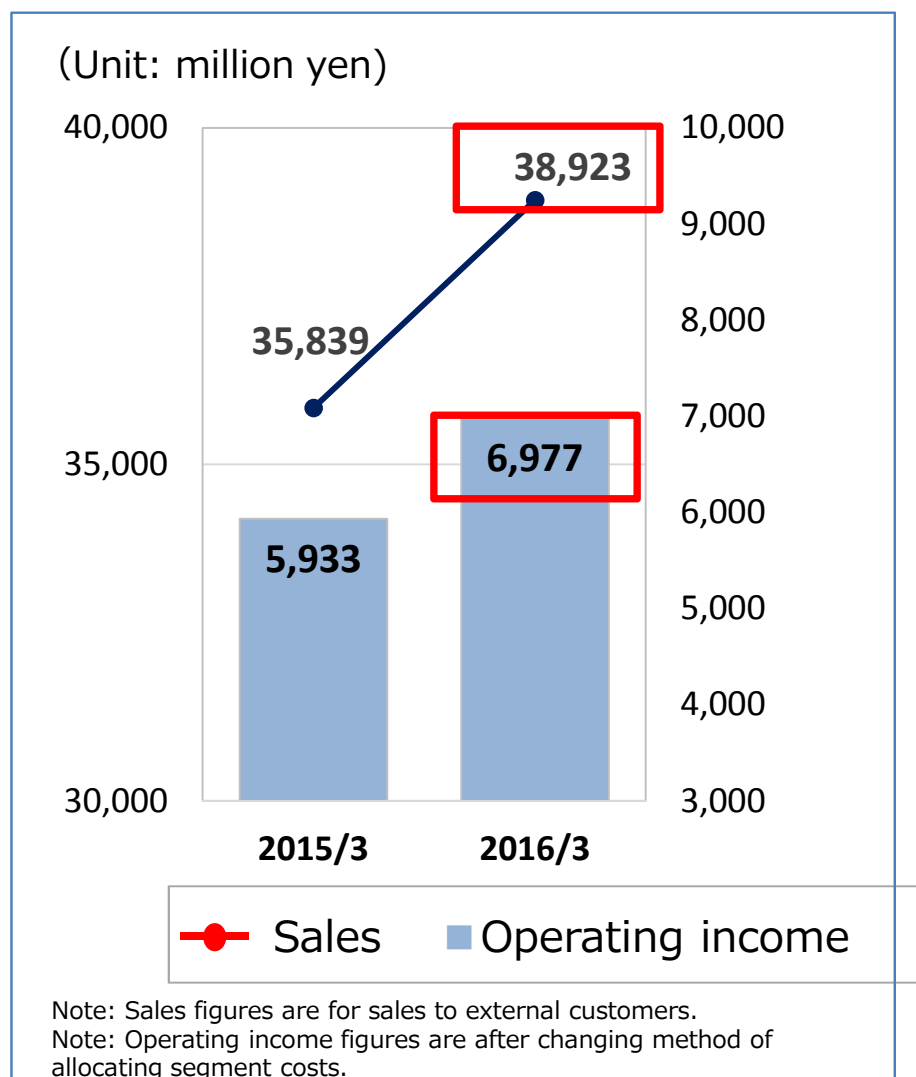


In Japan, revenue fell.

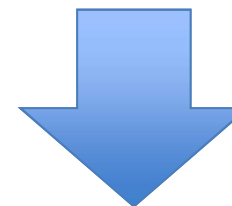
Overseas, sales renewed their record high, on the back of large-scale equipment sales in China and Indonesia.

Operating income also rose.

# Results by Segment: Year on Year (Jobbing Business)



Sales increased 3,084 million yen  
(+8.6%)  
Operating income increased 1,043  
million yen (+17.6%)



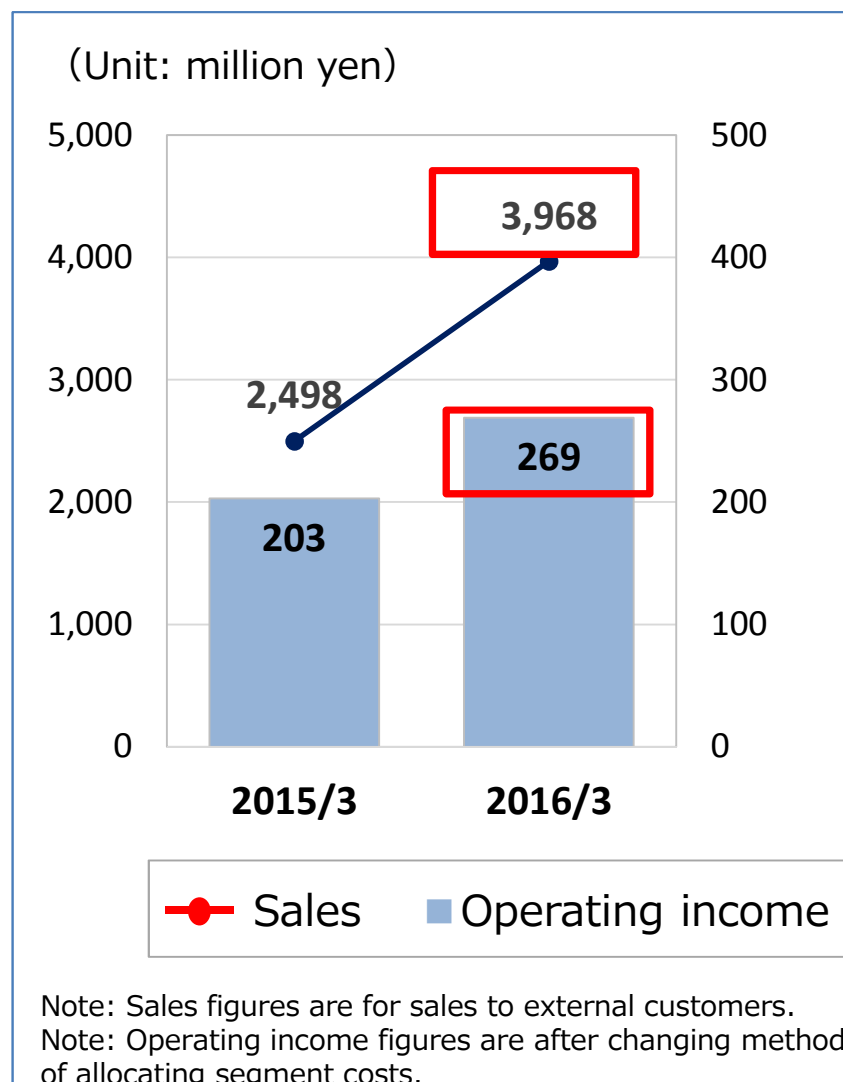
In Japan, the business environment remains tough due to the shift of auto parts manufacturing overseas.

Overseas, heat treatment sales rose significantly in China, and sales were also robust in the U.S. and Vietnam.

In Indonesia, the situation was tough as auto output fell.

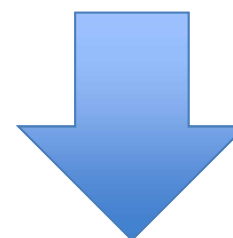


## Results by Segment: Year on Year (Other business)



Sales increased 1,469 million yen(+58.8%)

Operating income increased 65 million yen(+32.4%)



The building maintenance business increased steadily.

One consolidated subsidiary engaged in the manufacture and sales of bolts was added to the Group, and revenue and profits rose.

# Dividend Plan for FY2016

## 【Dividend Plan for FY2016】

End of Q2	Year end	Total	Payout ratio (Consolidated)	Payout ratio (Non-consolidated)
7.5yen	9.0yen	16.5yen	19.8%	33.1%

Note: It is extremely difficult to anticipate the direction of the economy and business results, and the dividend may change due to a number of factors.

FY2016 year end dividend will be increased by  
1.5 yen.

## Ⅲ. Overview of Mid-term Management Plan

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# Mid-term Management Plan- Numerical Targets

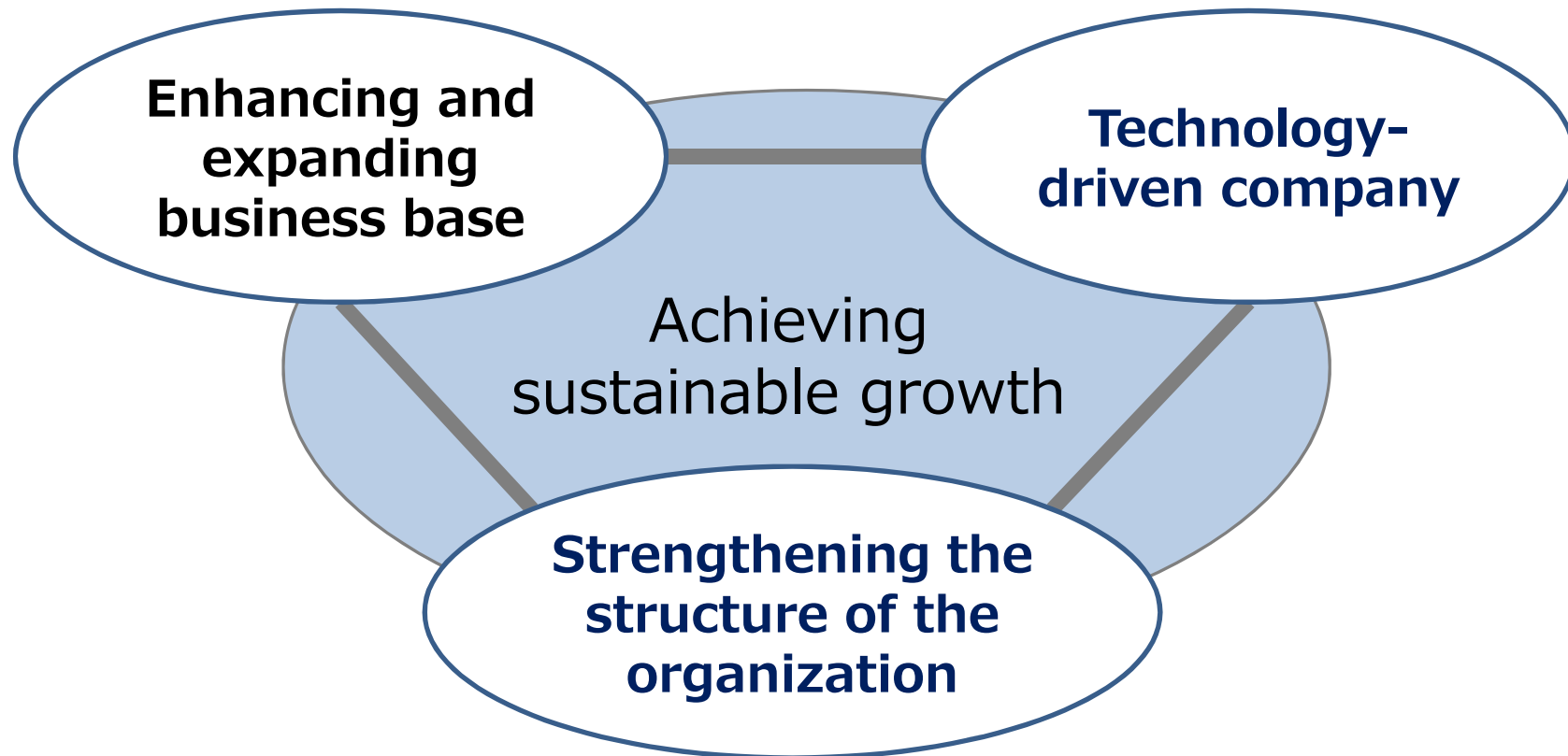
Unit: million yen

Item	2016/3	2019/3	%Change
<b>N e t   S a l e s</b>	109,063	120,000	+10.0%
<b>Operating income</b> (Operating income to net sales ratio)	15,766 (14.5%)	19,000 (15.8%)	+20.5%
<b>Ordinary income</b> (Ordinary income to net sales ratio)	17,921 (16.4%)	21,000 (17.5%)	+17.1%
<b>N e t   i n c o m e</b> attributable to parent company shareholders	10,320	12,000	+16.2%
<b>ROA</b> (Ratio of ordinary income to total assets)	9.5%	Further improvement	
<b>R            O            E</b>	8.9%	Further improvement	

# Mid-term Management Plan- Fundamental Policy

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Our aim is to be THE leading global company in the field of surface modifications, maintaining our technical superiority in the market of surface modifications for a wide array of substrates.



# Enhancing and Expanding Business Base

**Strengthen collaboration between Group companies in Japan and overseas,  
daring to take up challenges in the global market!**

## **Maintaining and expanding existing business**

- Increasing customer satisfaction (CS) through sales activities that foster our relationships with customers.
- Intensify our marketing
- Increase our brand strength

## **Developing new markets**

- Boost our entry into the aircraft and electronic parts industries.
- Create demand through development of applications.

## **Expanding surface modification business**

- Take up challenges in surface modification of a wide variety of substrates.
- Seek introduction of new technologies, tie-ups, investment (equipment, acquisitions) expansion

## **Bolstering overseas business**

- Active investment in equipment
- Expand sales of strategic products
- Gain business at local manufacturers overseas

## **Creating a new business model**

- Actively investigate M&A and alliances
- Take up the challenge of creating a new business model

# Technology-driven Company

**Seek innovative functions for surfaces, and  
contribute to a wide range of industrial fields with innovations  
based on our core technology!**

## **C o r e technology creation**

- Development of products for next generation vehicles
  - Developing functional surface chemicals to meet the needs of weight savings in autos
- Developing products for the aircraft market
  - Meeting changing needs such as material changes and environmental needs (chrome-free, etc.)
- Create demand through development of diverse functions
  - insulation, conductivity, hydrophilicity, anti-finger print, design, etc.
- Development of differentiated technology
  - Reduction of environmental load, development of energy-saving systems (Development of systems that eliminate waste product, shortens treatment processes, and simplify plant layout)
- Enhance fundamental research

## **Efficiency in R & D**

- Select research topics keeping in mind future growth areas
- Pay further attention to the market and customers' needs when planning research ideas.

## **Speeding up product commercialization**

- Speed up the shift to mass production by effective utilization of trial manufacture plants

# Strengthening the Structure of the Organization

## Strengthening corporate structure through the 3G (Global ▪ Group ▪ Governance)

B o o s t q u a l i t y c o n t r o l	<ul style="list-style-type: none"><li>● Boost quality control globally</li></ul>
Cut costs	<ul style="list-style-type: none"><li>● Cost reduction (optimize procurement, manufacturing and supply on global scale)</li><li>● Increase efficiency in indirect operations</li></ul>
D e v e l o p G l o b a l H R	<ul style="list-style-type: none"><li>● Foster personnel who can succeed in the increasingly globalized economic environment.</li><li>● Promote diversity (actively promote non-Japanese and women)</li></ul>
Strengthen G r o u p Collaboration	<ul style="list-style-type: none"><li>● Strengthen collaboration within the Group in all processes in sales, purchasing, production, quality, research and management</li></ul>
E n h a n c e governance	<ul style="list-style-type: none"><li>● Enhance disclosure</li><li>● Strengthen risk management</li><li>● Strengthen internal control and compliance</li></ul>



# Key Strategies by Segment

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## ■ Chemicals business

- Take up the challenge of technology for next generation vehicles
- Expand business in the aircraft market
- Promote development of applications for electronic parts & energy field
- Develop environmentally-friendly and high value added products

## ■ Equipment business

- Increase added value and brand strength through development of differentiated technology
- Improve technical and product strengths through making the most of our business tie-up with Dürr (Germany).
- Develop new markets in Japan and overseas

## ■ Jobbing business

- Expand heat treatment business in Asia, and North and Central America

## IV. Earnings Forecasts for FY2017

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# Earnings Forecasts for FY2017

Unit: million yen

Item	2016/3	2017/3	Change	
Net sales	109,063	106,000	△3,063	△2.8%
Operating income (Operating income to net sales ratio)	15,766 (14.5%)	15,500 (14.6%)	△266	△1.7%
Ordinary income (Ordinary income to net sales ratio)	17,921 (16.4%)	17,500 (16.5%)	△421	△2.4%
Net income attributable to parent company shareholders	10,320	10,200	△120	△1.2%

- Japan: Expected to continue at the same level
- Overseas: Revenue anticipated to increase on local currency base, however, revenue may decrease after yen conversion due to effect of yen appreciation
- Presumed exchange rate: 108 yen/dollar

# March 2017 Dividend Plan

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## ■ Fundamental Policy

- We will place priority on continuous and consistent dividends, determining dividend distribution after comprehensive consideration of trends in achievements and payout ratio.
- We are working to bolster internal reserves to strengthen our corporate financial strength and secure future profits. Internal reserves are utilized for overseas investment and equipment investment to realize quality and cost required by the market and for research and development to meet market needs.
- Based on a target payout ratio of 30% on a non-consolidated basis, we will determine the amount of dividends after giving sufficient consideration to consolidated achievements, future business expansion and earnings.



## ■ March 2017 dividend plan

- March 2017 dividend has yet to be finalized. However we will take into consideration achievements and study the appropriate level of returns to shareholders in accordance with our fundamental policy.

# Other Topics

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## ➤ Award

**Awarded the 24<sup>th</sup> Suga Weathering Technology Foundation “Science and Technology Award”**

### **Achievement title:**

**Development and commercialization of chrome-free surface treatment technology based on weathering technology**

### **About the Suga Weathering Technology Foundation Award:**

Weathering is the aging, that is, the corrosion and fading, of industrial materials by the natural environment.

The Suga Weathering Technology Foundation Award aims to contribute to the promotion of the industrial development of Japan and the wealth of its people and promote technology in this field.

The Foundation awards people of merit who have made outstanding achievements in evaluation of materials life using accelerated testing, elucidation of the aging mechanism and improving resistance to deterioration through surface treatment.

The forward-looking statements such as forecast of financial consolidated results contained in this document are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. Actual results may differ from these forecast due to various factors.

Significant factors which may affect actual results include but are not limited to; a)state of the economy b)fluctuations in exchange rates c)product competitiveness, d)regulations and e)limits of intellectual property protection.

The information in this document is not intended to solicit investment. Please make investment decisions at your own discretion.