

Yamashin Paradigm Shift

Business is taking off with an eye on the post-pandemic world.

Full-scale launch of 3rd business portfolio

YAMASHIN-FILTER CORP.
Financial Results for the First Quarter of
the Fiscal Year Ended March 2021

First Section of
Tokyo Stock Exchange

6240

August 4, 2020

Yamashin will strive to achieve reasonable business continuity and improved work-life balance for employees while prioritizing the health and safety of business partners, shareholders, employees and their families with an eye on the post-pandemic world.

Working arrangements: Our flexible working arrangements including telecommuting continue even after the end of the state of emergency on May 25.

Employees who show symptoms or have had contact with a confirmed case are prohibited from going to the office and are to follow medical advice.
Through this we secure employees' health and safety.

(1) Telecommuting now recommended

Telecommuting is recommended for headquarters (Naka-ku, Yokohama-shi), the Yokohama Development Center (Isogo-ku, Yokohama-shi), the Yokosuka Media Lab (Yokosuka-shi), and AQC (Osaka-shi and Chuo-ku, Tokyo).

* Guidance for telecommuting changed from mandatory to recommended as of June 1.

(2) Implementation of staggered commuting

To avoid crowded trains, staggered commuting is implemented. Additionally, teams will work in shifts to avoid crowding at offices.

(3) Flexible working arrangements at overseas affiliates

Adoption of flexible working arrangements following infection prevention measures based on each government's directions

(4) Other

Hand sanitizers are placed at the entrance of every facility of our corporate group in order to ensure thorough disinfection.
Non-essential conferences, meetings, trainings, events, dinners, etc. are prohibited. On-line meeting should be used.
Domestic and overseas business trips are prohibited.

Production system

Based on our BCP, production output has been adjusted at each facility (Cebu, Saga, and Suzhou*, and an alternate production/supply system has been established.

Cebu Factory	As per the government's directions, some production functions have been transferred to the Saga Factory and Suzhou Factory*
Saga Factory	Impact from COVID-19 is minimum, the factory has taken on the additional production due to suspension of production at Cebu Factory.
Suzhou Factory* <small>*Manufacturing outsourced</small>	Located in Suzhou, Jiangsu. Operations resumed on Feb. 17, and the production level has almost returned to normal. It is now taking on the additional production due to the suspension of production at Cebu Factory.

Impact on business performance

Countries are looking for ways to both resume economic activity and to prevent the spread of the virus. The outlook remains uncertain.

Chinese market

Economic activity is resuming. Further growth in the construction machinery market is expected with rising government-led public investments.
[The production plans of major clients continue to expand.](#)

Other markets

While the outlook remains uncertain, with economic activity resuming in stages, production by major clients is expected to recover starting from the second quarter

The market environment, our actions, and business results for FY2020 Q1

Market environment

- **COVID-19 continues to spread. It remains unknown when conditions will completely return to normal.**
- The demand for construction machinery in Japan, North America, Europe, and other Asian countries to decline.
- In China, the world's largest construction machinery market, due to **the growing market share of Chinese construction machinery manufacturers**, the delayed seasonal demand due to extended Chinese New Year holidays, and the implementation of financial incentives and government's economic stimulus measures of the government, new machinery sales grew significantly from the same quarter of the previous year.
- In contrast to other countries still seeking an exit, China has resumed economic activities. Moving forward, demand for new machinery is expected to increase, driven by increased government-led public investment and companies preparing for the fourth phase of environmental regulations.
- Based on forecasted second and third waves of the pandemic, we anticipate **the opportunity to expand our air filter and healthcare business lines.**

Company actions

For details on our initiatives, see page 3

Deliver on ESG initiatives while improving profitability

Construction machinery filters business

- Increase sales volumes and profitability from market share growth in China and North America.
- Expand the high value-added filter product line for increased profitability, lower industrial waste, and stronger protections for the global environment.

Air filter business

- Increase production of air filters made from nanofibers to provide clean air for offices and other working environments for reducing health risks.

Progress in establishing the 3rd business line: Promote the YAMASHIN Nano Filter™

Apparel: Our materials have contributed to improved animal welfare (specifically, eliminating use of down).

Healthcare: Commence online sales of high-performance masks and replaceable mask inner sheets. Expand differentiated product lines; full-scale supply to drug stores, etc. Helping to reduce health risks

Business results for FY2020 Q1

- **Consolidated net sales: 2,858 million yen, up 4.3% year on year**
 - Sales of construction machinery filters **fell to 2,193 million yen, down 20.0% year on year**, due to stagnated economic activity amid the spread of COVID-19 across the world.
 - Sales of air filters stood firm at **664 million yen**. Product range
- Operating income: Due to COVID-19-related supply chain disruptions, temporary costs for air freight and related expenses to meet delivery deadlines increased. Operating income fell to **▲98 million yen, down 215 million yen year on year**

Our initiatives for FY2020 ending March 2021

Develop new business portfolio with an eye on a post-pandemic world

Deliver on ESG while expanding our business portfolio and maximizing profitability

Based on a corporate philosophy captured in the phrase Rokajini Tsukafuru (contribute to society through filtration activities) and focusing on the three themes of Environment, Air, and Health, we're helping to safeguard the global environment while reducing health risks.

Construction machinery business

Improve the rate of product adoption by Chinese construction machinery manufacturers and move into the Chinese service parts market

- We're currently making progress in concluding contracts for the adoption of our products by Chinese construction machinery manufacturers. With government-led public works investments moving forward and the development of new models that comply with fourth-phase environmental regulations, we will seek to further improve adoption rates and boost sales volumes.
- In light of continuing growth in the after-sales market segment of the Chinese construction machinery market, we will begin supplying service parts and continue to build market share.

Expand the share in the North American market

- In addition to return filters, our company's flagship products, progress is being made on new proposals for adoption of our filters for fuel and transmissions.

Expand the high value-added filter product line which utilizes advanced materials and IoT technology

- We actively offer proposals to major clients for filters made from nano-fibers boasting long life, aeration technology and sensor technology.
⇒Boost sales volumes and profitability by providing high value-added products while helping to reduce industrial waste and environmental impact.

Air filter business**Distribute air filters made from nano-fibers**

- Increase deployment of our air filters made from nanofibers, which feature low pressure losses and high filtration rates, in office buildings, factories, train cars, home appliances, and other applications.
⇒Boost profitability through higher added value of products which will reduce electricity consumption and lower health risks.


Establishment of the 3rd business line: Promotion of YAMASHIN Nano Filter™**Apparel business**

- Expand sales channels and supply products to major apparel manufacturers, both domestic and overseas.
⇒Boost sales volumes while helping to eliminate down for use in apparel

Healthcare business

- Launch sales of high-performance masks and replacement inner sheets; fully expand sales channels to major drug stores; and further enhance our higher performance product lines to differentiate our products from those of competitors.
⇒Based on anticipated second and third waves of the pandemic, boost profitability by expanding the supply of high-performance masks and inner sheets while contributing society by helping to reduce health risks

I

 **Business Performance Results for Q1 FY2020 and Full-Year Forecasts for FY2020**

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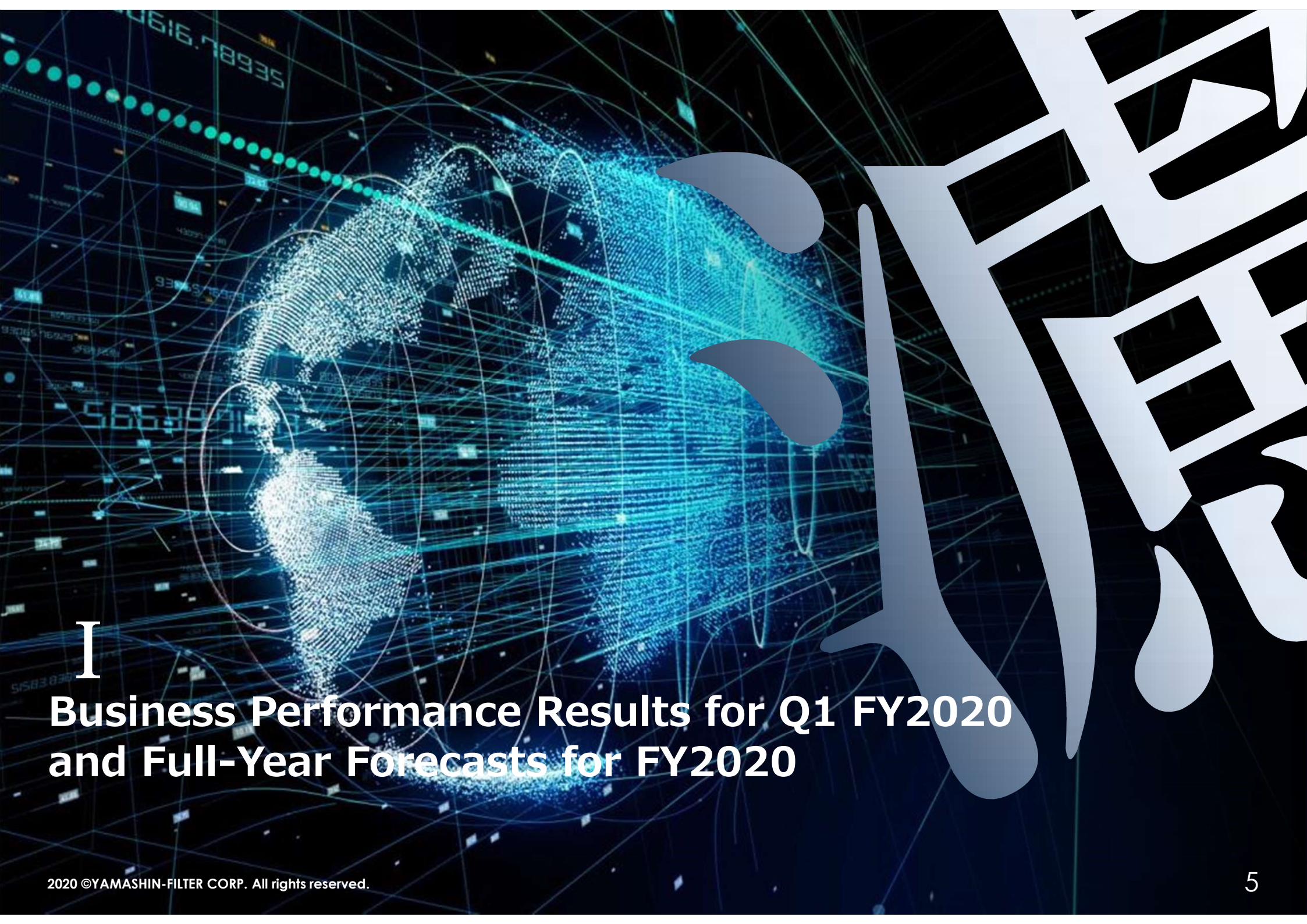
 **Conditions in the Construction Machinery Market**

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 **Future Strategies**

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I Business Performance Results for Q1 FY2020 and Full-Year Forecasts for FY2020

Q1 FY2020 Business Performance (April – June 2020)



(Million yen)	Q1 FY2019 Actual	Q1 FY2020 Actual	YoY change	
	Amount	Amount	Amount	%
Net sales	2,740	2,858	117	4.3%
Construction machinery filters*	2,740	2,194	△546	△19.9%
Air filters	-	663	663	-
Operating income	117	△ 98	△215	△184.0%
Construction machinery filters*	117	△ 144	△261	△223.1%
Air filters	-	45	45	-
Operating income margin	4.3%	△ 3.4%	△7.7Pt	
Ordinary profit	99	△ 101	△201	△202.4%
Ordinary profit margin	3.6%	△ 3.6%	△7.2Pt	
Net income	61	△ 82	△144	△235.3%
Net income margin	2.2%	△ 2.9%	△5.1Pt	
Exchange rates AR* USD	109.9	107.6	△2.3	△2.1%
EUR	123.5	118.5	△5.0	△4.0%

*"Construction machinery filters" here includes industrial filters and process filters in addition to construction machinery filters.

*Average rate for 3 months from April to June

	(Million yen)	Q1 FY2019	Q1 FY2020	YoY change	
		Actual	Actual	Amount	%
		Amount	Amount		
Construction machinery filters		2,388	1,804	△584	△24.5%
Line parts		1,102	821	△281	△25.5%
Service parts		1,286	982	△303	△23.6%
Industrial filters		132	111	△20	△15.7%
Process filters		219	278	59	26.9%
Air filters		0	663	663	-
Total sales		2,740	2,858	117	4.3%

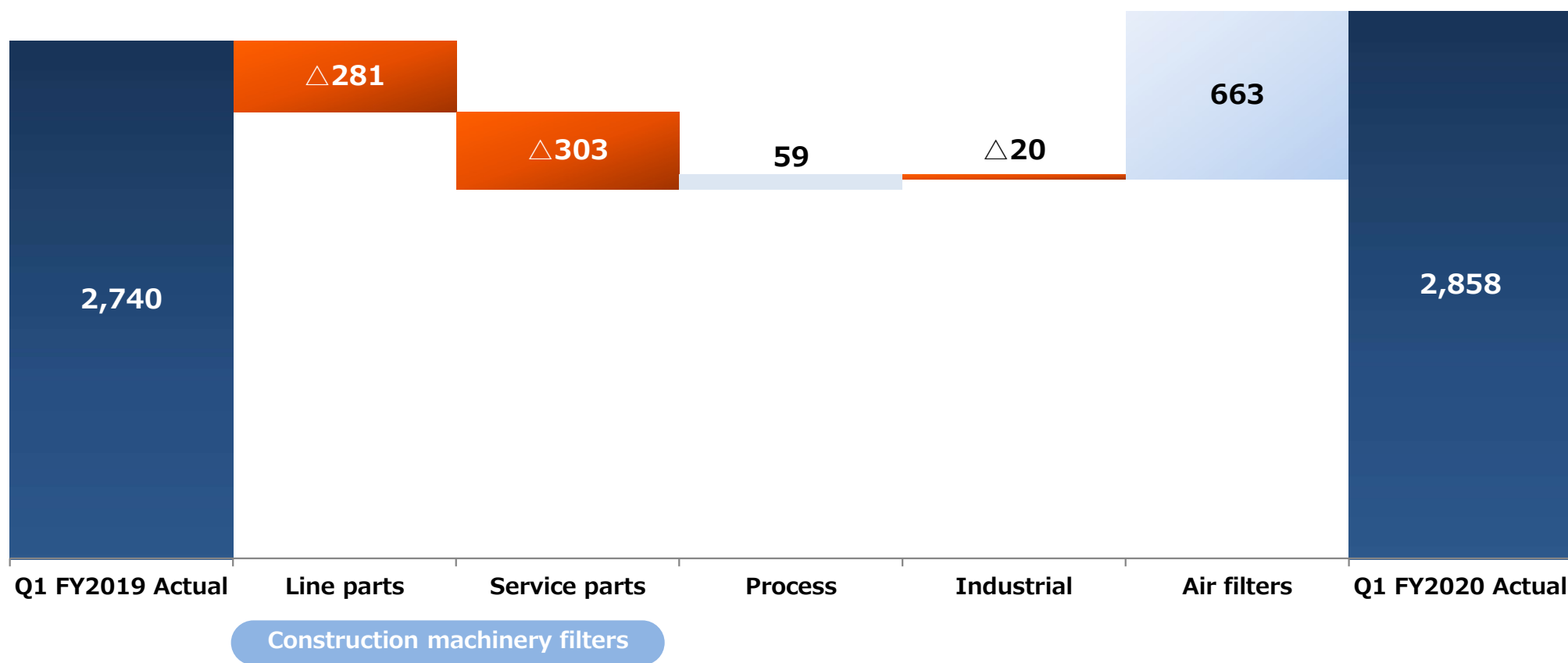
Q1 (Apr - Jun) : Sales by Region

(Million yen)	Q1 FY2019 Actual		Q1 FY2020 Actual		YoY change	
	Amount	Composition rate(%)	Amount	Composition rate(%)	Amount	Composition rate(%)
Construction machinery filters* (domestic)	1,357	49.5%	1,086	38.0%	△271	△20.0%
North America	463	16.9%	295	10.3%	△167	△36.2%
China	329	12.0%	325	11.4%	△3	△1.2%
Other Asian countries	325	11.9%	274	9.6%	△51	△15.8%
Europe	264	9.6%	213	7.5%	△50	△19.3%
Others (Middle East, etc.)	0	0.0%	0	0.0%	0	△63.9%
Construction machinery filters (total)	2,740	100.0%	2,194	76.8%	△546	△19.9%
Air filters (domestic)	-	-	663	23.2%	663	-
Total sales	2,740	100.0%	2,858	100.0%	117	4.3%

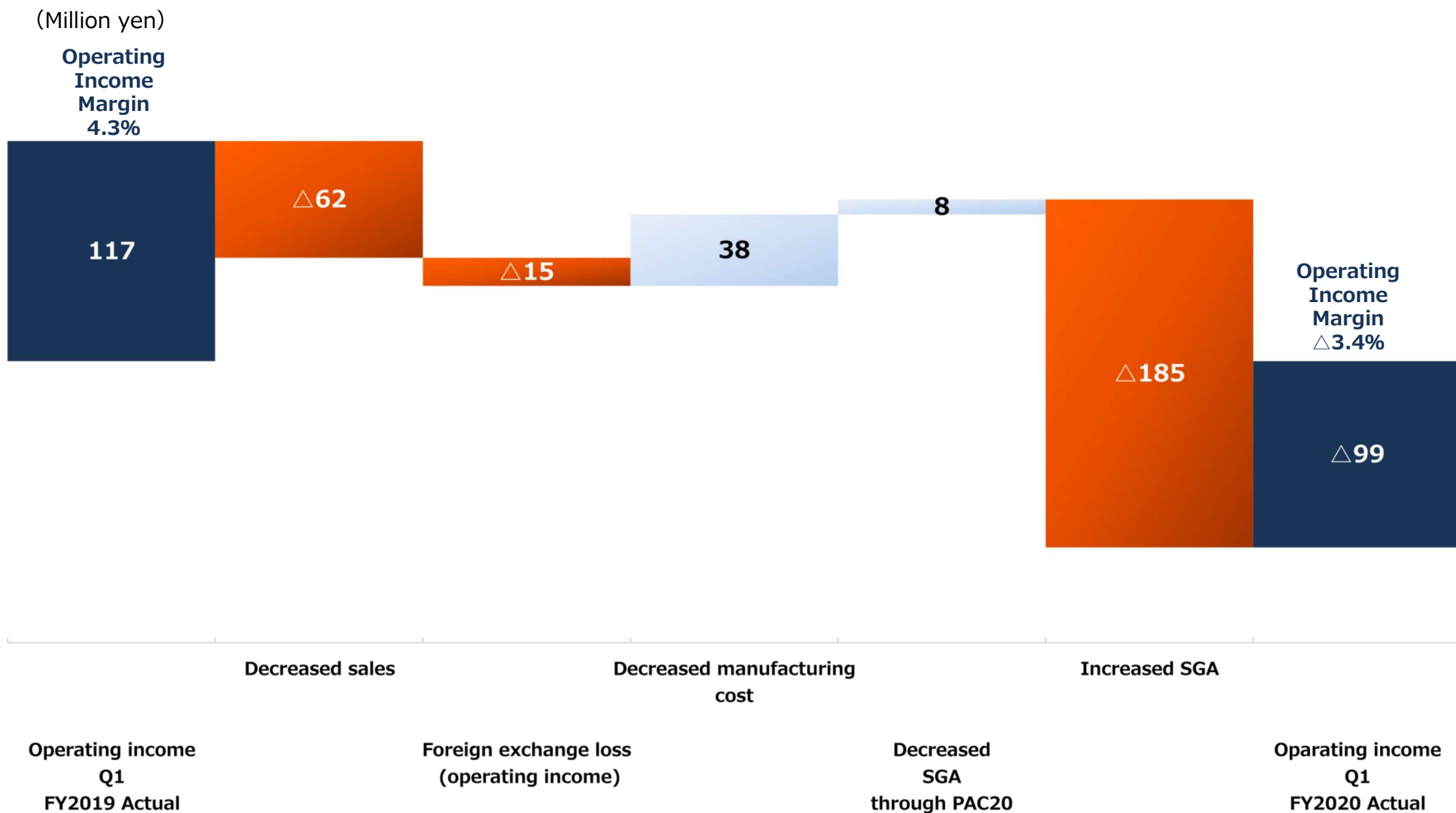
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(Million yen)



Q1 (Apr - Jun) : Changes in Operating Income



*PAC (Promptly Activated Cost reduction): Company-wide cost reduction project

Capital Investment, Depreciation & Amortization, and R&D Expenses

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2020 Q1
(Million yen)	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Actual
Net sales	10,530	10,703	9,458	10,007	13,168	13,811	12,674	15,000	2,858
Capital investment	243	288	207	448	816	2,257	3,150	2,857	716
Composition ratio	2.3%	2.7%	2.2%	4.5%	6.2%	16.3%	24.9%	19.1%	25.1%
Depreciation & Amortization	466	407	393	294	303	414	534	606	151
Composition ratio	4.4%	3.8%	4.2%	2.9%	2.3%	3.0%	4.2%	4.0%	5.3%
R&D expenses	212	254	225	172	250	308	404	507	113
Composition ratio	2.0%	2.4%	2.4%	1.7%	1.9%	2.2%	3.2%	3.4%	4.0%

Net sales and capital investment and depreciation & amortization



Target figures are set at each department (administrative and other operation departments) to achieve the overall company target for MAVYS.

What is **MAVYS**? (ROIC – WACC)

Maximizing
Added
Value of
Yamashin Filter
Spread

The key goal indicator (KGI), based on which each relevant department sets its KPI and KSF, and works on measures to attain targets, with the goal of maximizing return on invested capital.

Meet the expectations of stakeholders by improving MAVYS (key goal indicator).

Assign KPIs to relevant departments who are responsible for target setting and implementing actions for achieving the targets in a company-wide coordinated effort.

MAVY's: The Big Picture and the Department

*KPI figures are based on the following.
Prv : Actual value of FY2019
Cur : Actual value of FY2020 forecast

Key Goal Indicator (KGI)	Key Performance Indicator (KPI)	Key Success Factor (KSF)	Relevant departments	Targets for FY2020 (action plan)	Q1 FY2020 progress
MAVY's Prv: -6.6% Cur: -5.3%	Operating income Prv: 6.1% Cur: 8.2%	Sales growth ratio Prv: -8.2% Cur: 18.4%	Sales / R&D	• Accelerate expansion of our market share in China targeting Chinese construction machinery manufacturers • Enhance product line and sales propositions due to the addition of air filters to our product lineup • Enter the mask-related product market • Enter new business domains	• Increased adoption by Chinese construction machinery manufacturers for use in new machinery. • Progress made on proposals involving hybrid filters • Initiated sales of mask-related products; continued mass production and supply • Continued to supply to apparel industry (specifically, eliminating use of down)
	Gross profit ratio Prv: 43.6% Cur: 46.7%	Sales cost ratio Prv: 56.4% Cur: 53.3%	Production / Procurement	• PAC20, PAC20+ • Reform and improve purchasing methods • Improve production management	• Revised supplier evaluation standards and completed the consolidation process • Reduced procurement costs through joint procurement with AQC • Improved yields through planned service and maintenance, progress in manufacturing cost reduction measures
	SG&A ratio Prv: 37.4% Cur: 38.5%	Depreciation and amortization ratio Prv: 4.4% Cur: 4.5%	Management planning / Finance and accounting	• M&A (for revenue expansion and diversification) • Research potential M&A targets • Acquire nonwoven manufacturing entities (downstream) • Acquire new material development entities (upstream)	• Exploring opportunities and gathering data for M&A (domestic and overseas) • Enhanced communication (through conference calls) with possible M&A target companies • Employed specialist staff members to assist company growth
	ROIC Prv: 3.3% Cur: 4.6%	R&D expense ratio Prv: 3.2% Cur: 3.8%	R&D	• Develop new materials • Actions to achieve IoT • Develop aeration and other technologies • Expand mask product line	• Accelerated the commercialization of nanofiber air filters • Supplied various trial sensor products to clients • Accelerated new materials development through industrial/academic partnerships • Developed high-performance masks and cloth masks
	WACC Prv: 9.9% Cur: 9.9%	Personal expense ratio Prv: 15.9% Cur: 16.4%	HR and General Affairs	• Establish and implement the talent management system	• Efforts to identify the next generation of management talent • Increase R&D staff for production development • Employed specialist staff members to assist company growth
	ROE Prv: 3.3% Cur: 4.3%	AR turnover rate Prv: 3.8 Cur: 4.6	Sales / Finance and accounting	• Further improve AR collection rate	• Streamlined and optimized AR collection for improving working capital
	ROA Prv: 2.9% Cur: 3.6%	Inventory turnover rate Prv: 6.1 Cur: 7.6	Production / Sales	• Reduce company-wide inventory asset	• Determined suitable inventory levels based on pareto analysis; currently implementing inventory reduction plans
	Investment capital turnover rate Prv: 0.7 Cur: 0.8	AP turnover ratio Prv: 5.8 Cur: 6.1	Procurement	• Improve working capital	• Optimized AP turnover rate for improving working capital
	Operating capital turnover rate Prv: 3.0 Cur: 6.9	Tangible FA turnover rate Prv: 2.5 Cur: 1.8	Management planning Administration / Production / R&D	• Optimize investment recovery effect	• Prioritized R&D and capital investments by analyzing the validity of investment return periods
	FA turnover rate Prv: 1.9 Cur: 1.8	Intangible FA turnover rate Prv: 35.5 Cur: 42.3	Management planning/Legal (IP)	• Formulate IP strategies and action plans	• Established strategies, devised action plans, and enhanced training for targeted group • Actively applied for patents in Chinese market
		SG&A ratio Prv: 37.4% Cur: 38.5%	R&D	• Develop new materials • Actions to achieve IoT • Develop aeration and other technologies • Expand mask product line	• Accelerated the commercialization of nanofiber air filters • Supplied various trial sensor products to clients • Accelerated new materials development through industrial/academic partnerships • Developed high-performance masks and cloth masks
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		AP turnover ratio Prv: 5.8 Cur: 6.1	Procurement	• Improve working capital	• Optimized AP turnover rate for improving working capital

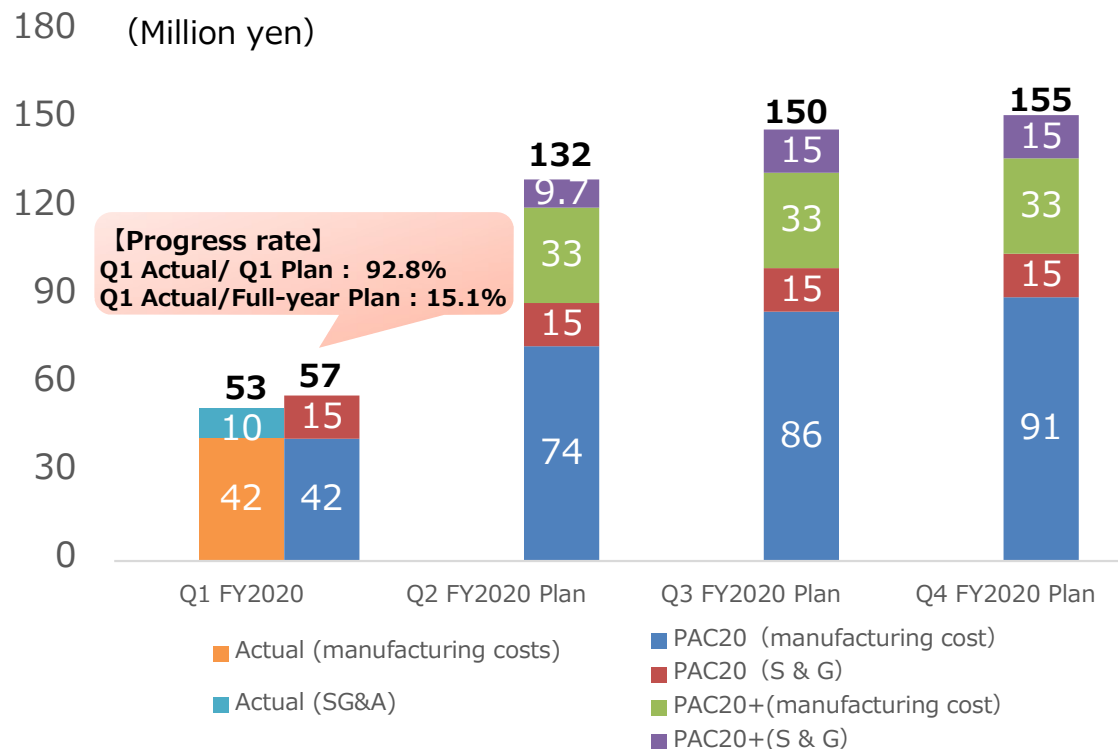
- Implement comprehensive improvements in production technology, operation management and systems to strengthen the profit structure.

PAC20
Promptly **A**ctivated **C**ost reduction 20**20**

Cost of raw materials decreased, through the optimization of the supply chain, the improvement of manufacturing processes, etc.

Based on Q1 results, we will implement further cost reductions (PAC20+) for improved profitability.

PAC20 (initial) and PAC20+ (additional) vs Actual Progress



Annual Reduction Target

	Manu- facturing cost	SG&A	Total
PAC20	293	61	355
PAC20+	100	40	140
Total	393	101	495

Full-year Forecasts for FY2020



Construction machinery Air filter (Existing business line)

Lockdown is ending in phases across the world.

Demand recovery expected due to resumption of production activities by major clients.

Full-year performance forecasts remain unchanged due to steady progress in adoption of our products as standard by Chinese construction machinery manufacturers, particularly return filters.

Healthcare business (New business line)

To accommodate continuing growth in mask demand, we have commercialized masks and replaceable inner sheets by utilizing proprietary filtration technologies and will begin selling new products (premium products *) from September 2020.

As a pioneer in developing a new and clearly differentiated mask market, we will work to expand this business line over the mid-to-long term.

*Featuring 1) filtration efficiency of 95% or higher; 2) mask fit and sealing rate (related to inward leakage) when worn on the face of 90% or better; 3) ease of breathing even when worn for extended periods

Risk management

In order to maintain the health and safety of employees, we have adjusted working arrangements to suit each location (telecommuting and early start and finish times). As a BCP, production and supply systems will be decentralized.

	FY2019 Actual	FY2020 Initial forecasts	FY2020 Revised forecasts	FY2019 Actual vs. Revised forecasts
(Million yen)	Amount	Amount	Amount	Amount
Net sales	12,674	13,000	15,000	2,325
Construction machinery filters*	11,296	10,000	10,000	△1,296
Air filters	1,377	3,000	3,000	1,622
Healthcare	-	0	2,000	2,000
Operating income	777	590	1,230	452
Construction machinery filters*	654	300	300	△354
Air filters	122	290	290	167
Healthcare	-	0	640	640
Operating income margin	6.1%	4.5%	8.2%	2.1Pt
Ordinary income	603	560	640	36
Ordinary income margin	4.8%	4.3%	4.3%	△0.5Pt
Net income	608	340	450	△158
Net income margin	4.8%	2.6%	3.0%	△1.8Pt
Exchange rates AR USD	108.8	108.0	108.0	-
EUR	120.83	121.0	121.0	-

*"Construction machinery filters" here includes industrial filters and process filters in addition to construction machinery filters.

FY2020 Full-year Sales Forecasts (by Business Segment)

	FY2019 Actual		FY2020 Initial Forecasts		FY2020 Revised Forecasts		FY2019 Actual vs. Revised Forecasts	
	Amount (Million yen)	Composition ratio (%)	Amount (Million yen)	Composition ratio (%)	Amount (Million yen)	Composition ratio (%)	Amount (Million yen)	Ratio (%)
Construction machinery filters	9,866	77.8%	8,673	66.7%	8,673	57.8%	△1,193	△12.1%
Line parts	4,129	32.6%	3,665	28.2%	3,665	24.4%	△464	△11.2%
Service parts	5,737	45.3%	5,008	38.5%	5,008	33.4%	△728	△12.7%
Industrial filters	492	3.9%	420	3.2%	420	2.8%	△71	△14.6%
Process filters	937	7.4%	905	7.0%	905	6.0%	△31	△3.4%
Total of existing businesses	11,296	89.1%	10,010	76.9%	10,000	66.7%	△1,296	△11.5%
Air filters	1,377	10.9%	3,000	23.1%	3,000	20.0%	1,622	117.8%
Healthcare	-	-	0	0.0%	2,000	13.3%	2,000	-
Total sales	12,674	100.0%	13,000	100.0%	15,000	100.0%	2,325	18.4%

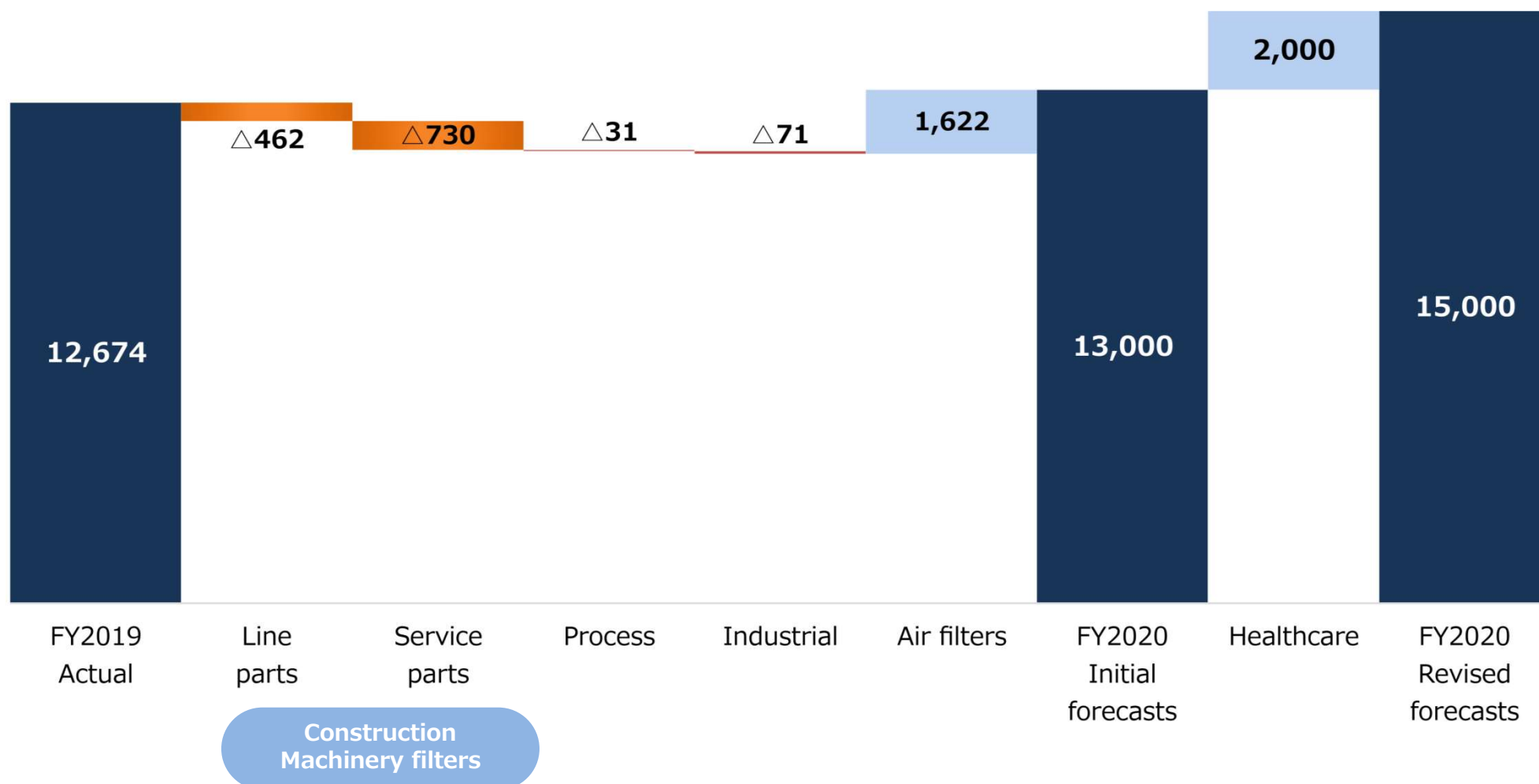
FY2020 Full-year Sales Forecasts (by Region)

	FY2019 Actual		FY2020 Initial Forecasts		FY2020 Revised Forecasts		FY2019 Actual vs. Revised Forecasts	
	Amount (Million yen)	Composition rate(%)	Amount (Million yen)	Composition rate(%)	Amount (Million yen)	Composition rate(%)	Amount (Million yen)	Rate(%)
Construction machinery filters* (domestic)	5,420	42.8%	4,587	35.3%	4,587	30.6%	△833	△15.4%
North America	2,313	18.3%	2,081	16.0%	2,081	13.9%	△231	△10.0%
China	1,173	9.3%	1,212	9.3%	1,212	8.1%	39	3.3%
Other Asian countries	1,319	10.4%	1,250	9.6%	1,250	8.3%	△69	△5.3%
Europe	1,065	8.4%	845	6.5%	845	5.6%	△220	△20.7%
Others (Middle East, etc.)	4	0.0%	23	0.2%	23	0.2%	19	476.8%
Construction machinery filters (total)	11,296	89.1%	10,000	76.9%	10,000	66.7%	△1,296	△11.5%
Air filters (domestic)	1,377	10.9%	3,000	23.1%	3,000	20.0%	1,622	117.8%
Healthcare (domestic)	-	-	0	0.0%	2,000	13.3%	2,000	-
Total sales	12,674	100.0%	13,000	100.0%	15,000	100.0%	2,325	18.4%

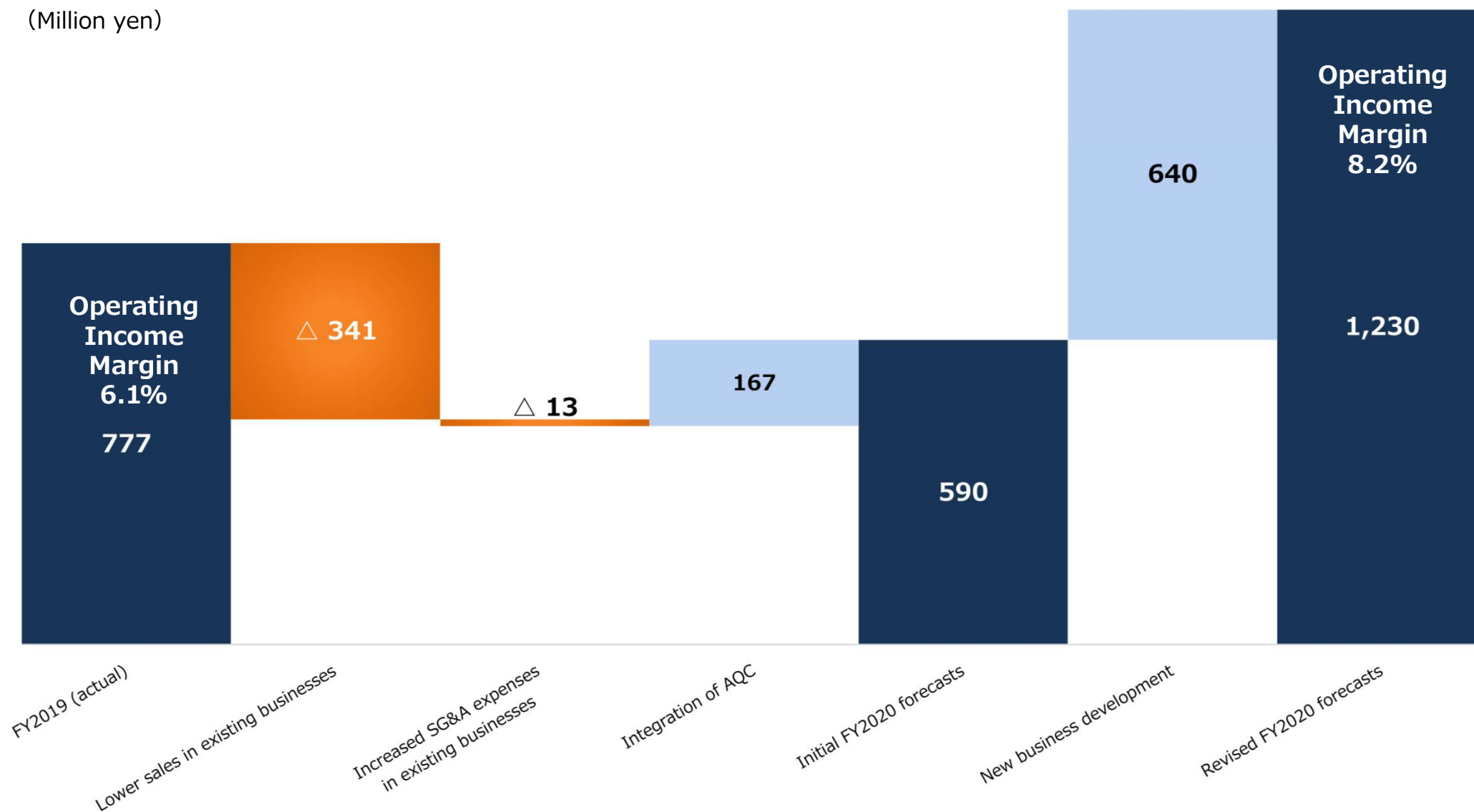
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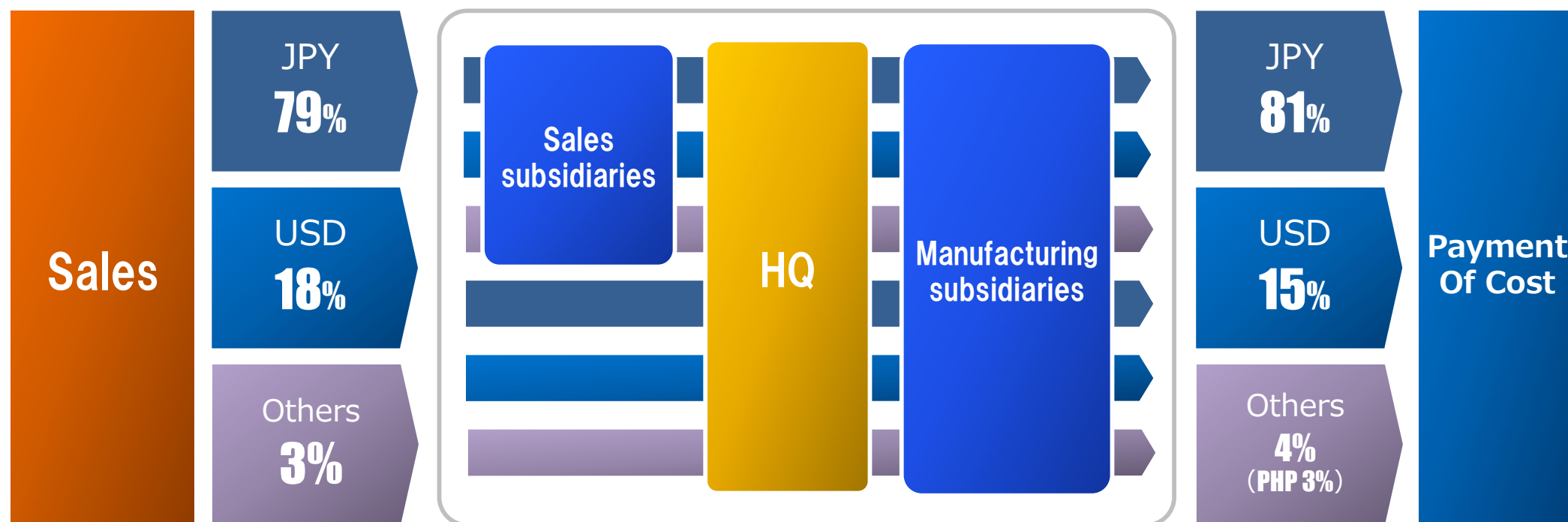
(Million yen)



(Million yen)



Operational hedge “marry and netting” was continuously conducted, achieving a foreign exchange sensitivity of 0.3%.



80% of transaction currency is JPY.

Operational hedge “marry and netting” was conducted for USD

- 1-yen appreciation of the yen would increase operating income about 0 million yen.

The annual dividend, including the interim dividend of 3.0 yen and the year-end dividend of 3.0 yen, will remain unchanged at 6.0 yen per share.

	FY2017	FY2018	FY2019	FY2020 Forecast
Dividend per share	3.6yen* ¹	6.0yen	6.0yen	6.0yen
DOE* ²	1.9%	2.4%	2.3%	2.3%
Total return ratio * ³	21.6%	31.9%	72.3%	57.7%

*1. The Company conducted a 5-for-1 stock split that became effective on December 1, 2017, and the dividend for FY2017 is calculated based on the stock split.

*2. DOE (Dividend on equity) = (Annual dividend ÷ Shareholders' equity) × 100 = (ROE × Dividend payout ratio)

*3 Total return ratio = (Total dividend + Treasury stock acquired + Shareholder benefit) ÷ Net income



II

Conditions in the Construction Machinery Market

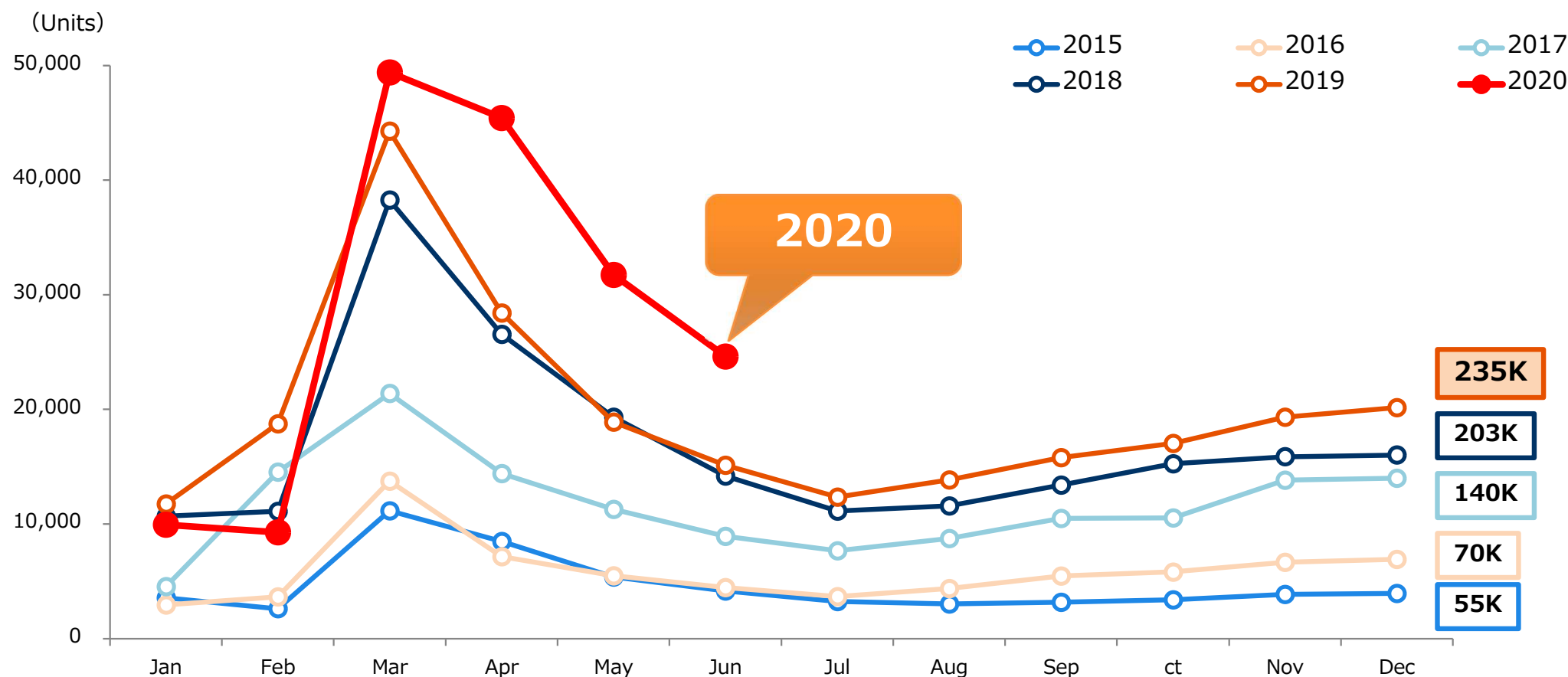
Overview of the External Conditions in the Construction Market

- Due to COVID-19, economic activity in Q1 stagnated. Demand for construction machinery fell across the world.
- In the Chinese market, the world's largest market for construction machinery, plans call for large-scale public works investment. Demand for construction machinery is expected to grow.
- In Japan, the U.S., Europe, and other Asian markets, the outlook is uncertain, but demand is expected to recover through the resumption of economic activities.

	2020/3 Q 4	2021/3 Q 1	Future outlook
China	Amid the spread of COVID-19, Chinese construction machinery manufacturers increased their market shares. The number of new machinery sales hit a record high.	Large-scale government-led public works investments were implemented. Positive new machinery sales year on year.	Large-scale government-led public works investment is expected to continue. New machinery demand is expected to increase in response to Tier 4 environmental regulations.
South-eastern Asia	The demand for construction machinery dropped due to the suspension of economic activities.	The demand for construction machinery dropped due to the suspension of economic activities.	The outlook remains uncertain but demand is expected to recover thanks to infrastructure construction demand, etc.
North America	The demand for construction machinery dropped due to the suspension of economic activities, resulting in significant drop in GDP.	While economic activity resumed gradually, demand for construction machinery declined.	The outlook remains uncertain, but demand is expected to recover.
Japan	The demand for construction machinery dropped due to the suspension of economic activities. Significant impact on the supply chain.	While economic activity resumed gradually, demand for construction machinery declined.	The outlook remains uncertain, but demand is expected to recover.
Europe	The demand for construction machinery dropped due to the suspension of economic activities.	While economic activity resumed gradually, demand for construction machinery declined.	The outlook remains uncertain, but demand is expected to recover.

Strong demand for construction machinery in China underpinned by large-scale public investment

Sales by fiscal year (monthly)

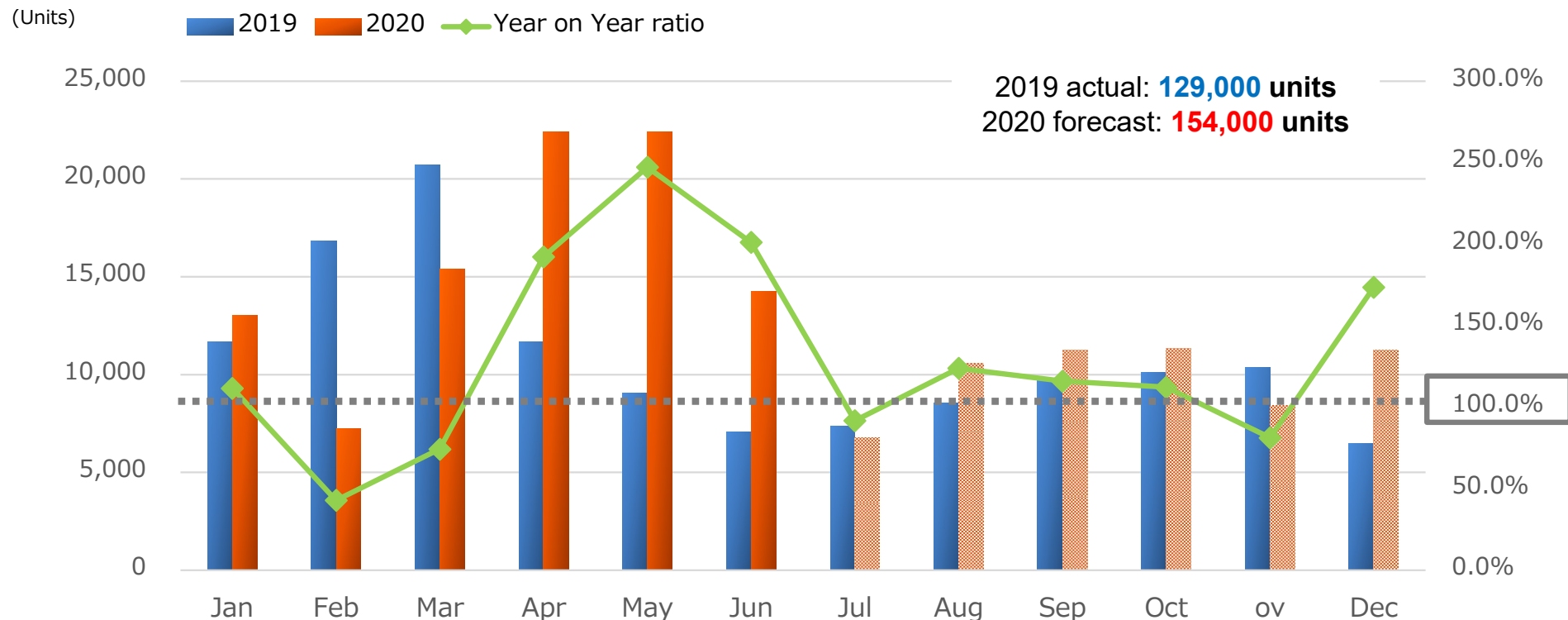


(YAMASHIN's estimates based on the data published by construction machinery manufacturers and industry associations)

Chinese construction machinery manufacturers expected to increase production in 2020.

Trend of production plans of leading Chinese construction machinery manufacturers

- Production was delayed than planned, due to the extension of the Chinese New Year holidays and the spread of the COVID-19.
- In 2020, the production output of Chinese manufacturers is estimated to grow **19%** from 2019.

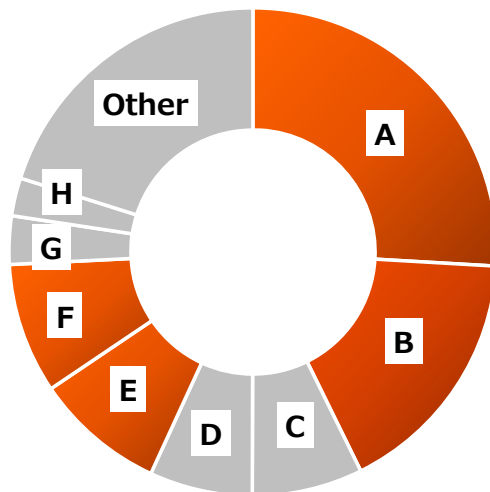


(YAMASHIN's estimates based on the data published by construction machinery manufacturers and industry associations)

Construction machinery operating hours declined substantially due to the extension of the Chinese New Year holidays and COVID-19.

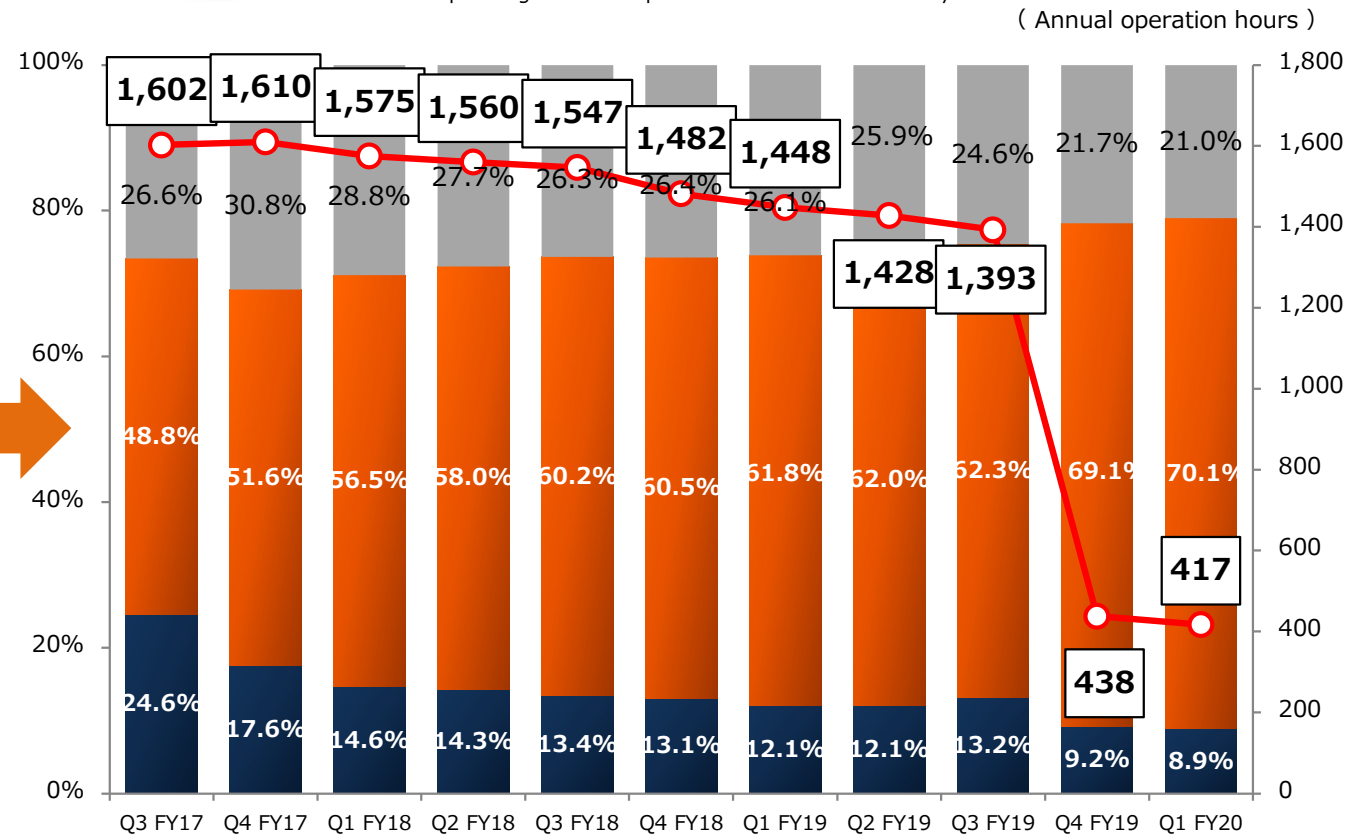
Main construction machinery manufacturers' market share in the Chinese market

A, B, E and F are Chinese manufacturers, the target companies we are approaching



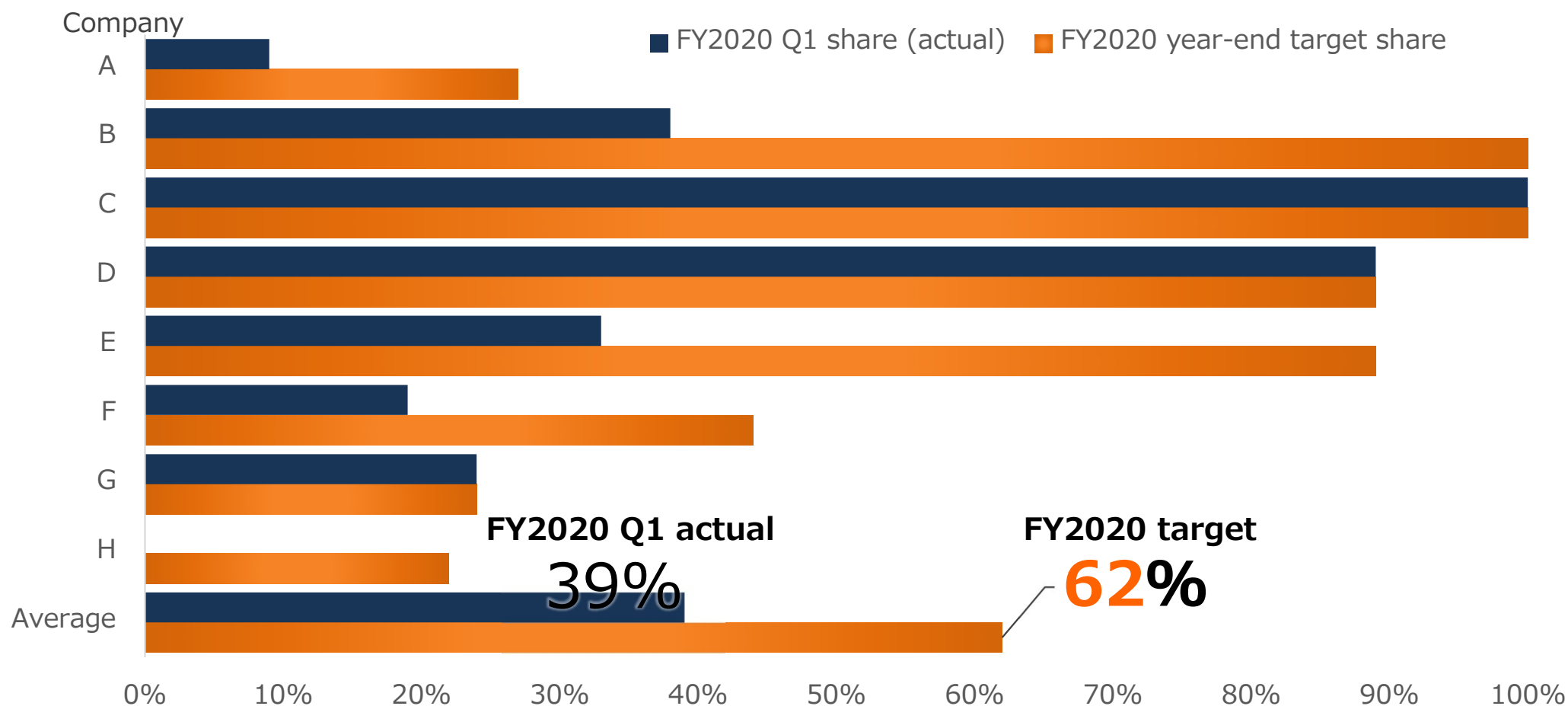
Market share in China

■ Companies of other companies
■ Chinese companies
■ Japanese companies
—●— Our estimation of operating hours of Japanese construction machinery in China



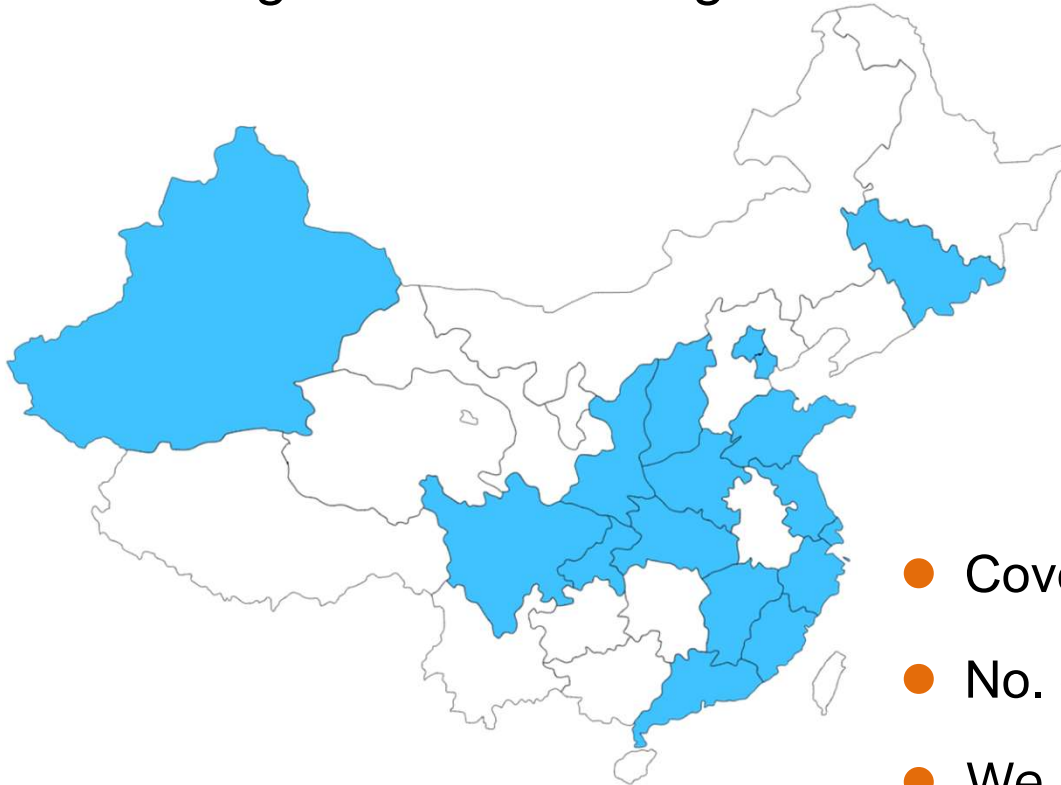
YAMASHIN will conduct marketing and sales activities for our flagship return filters, focusing on our high value-added products (as strategic products), in Chinese and other Asian markets.

Expansion targets of our flagship products, return filters



Alliance with sales partners who are experienced in the construction machinery field has been established.

We will together start selling and distributing service parts from June.



- Covering 16 out of 34 administrative regions
- No. of sales partners: 20
- We plan to add new sales partners and to continue expanding the coverage of our sales area.

Increase proposals to Chinese construction machinery manufacturers to grow market share.

Market environment

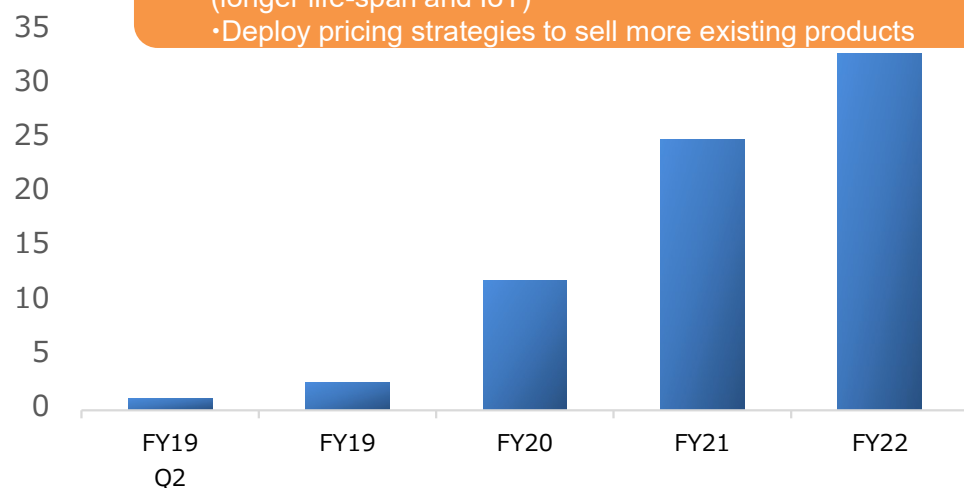
- Trend continues on expanding infrastructure investment by the Chinese government.
- Increased need for our proprietary technologies in conjunction with 4th-phase environmental regulations
- Priorities of end users are changing from price to quality.
- Significant expansion of after-sales market following an increase in the cumulative number of new machines sold
- Increased need for global suppliers as Chinese construction machinery manufacturers are entering overseas market

Plan for expanding sales of line parts

Add more product lines and improve pricing strategy

- Supply products with high added value (longer life-span and IoT)
- Deploy pricing strategies to sell more existing products

(100 millions of yen)

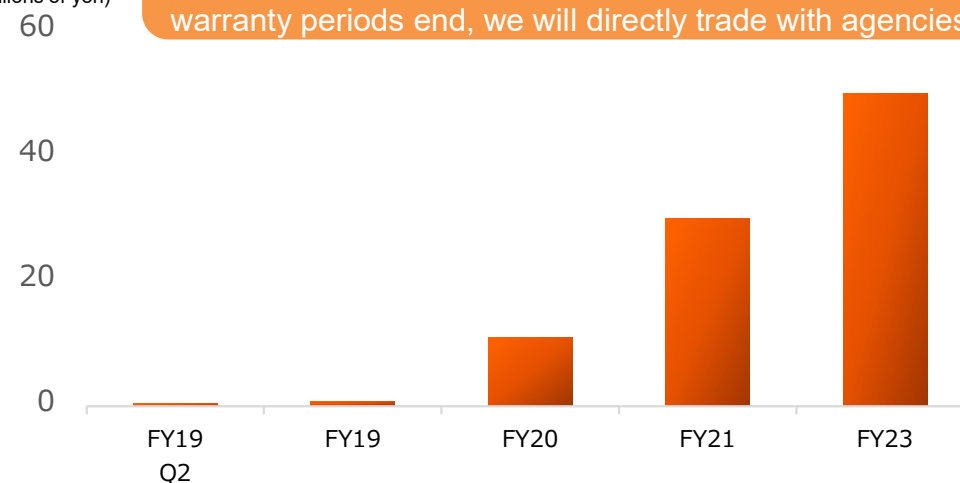


Plan for expanding sales of service parts

Deploy market strategies taking advantage of our brand value

- After the construction machinery manufacturers' warranty periods end, we will directly trade with agencies.

(100 millions of yen)





III Future Strategies

For corporate sustainability

To address environmental and health issues
(considering SDGs), through our filter business activities

Three main themes of our activities



Based on corporate Philosophy:

“Contribute to society through filtration activities”



We aim to create the demand for our products, by developing environmentally friendly products using our new materials and technologies

To increase our share in the construction machinery market

Decrease machinery failures and
lengthen the lifespans of construction
machinery by adding values to our products



Reduction in
environmental impact

**Useful life
increases 3 times**

Hybrid filter

Glass fiber × Nano fiber



YAMASHIN
Nano Filter

Failure prediction with IoT

Cleanliness level sensor

- Measurement of oil and water cleanliness levels
- Low costs
- Compact design

Lifespan sensor

To monitor how much filters are clogged in a stepwise manner

In the Chinese market, we will acquire new clients by providing solutions to address environmental issues

To help reduce CO₂
emissions with high-quality filters

To further meet the demand for new
machinery in preparation for the Tier 4
environmental regulations





To help prevent atmospheric pollution by entering and growing the air filter business and using our filtration technologies to reduce emissions and gases

Business environment

There is a risk of worsening atmospheric pollution, caused by the economic growth in emerging countries.

Estimated per year average growth rate
of the air filter market

The air filter market is expected to keep growing.

3.5% (toward 2050)

Contributions we can make



As a manufacturer specializing in filters, we help to reduce health hazards by highly functional air filters.

We could curtail maintenance costs by extending the life-span of each product.



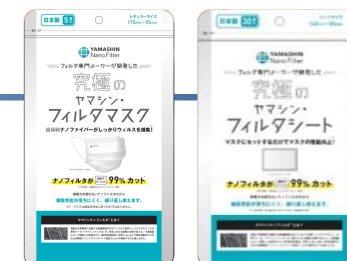
Manufacturing and sale of face masks and mask inner sheets has started

High-performance masks only Yamashin can develop.

[Progress in Sales Channel Expansion]

- May 18 (Mon.) Launched online sales at our own Web store
 - July 22 (Wed.) Began trial sales in phases at a major home improvement store and convenience stores
- *Other achievements include sales at major clothing/fabric retailers and apparel manufacturers

We expect full-scale supply to a major drug store chain and through other channels from Q2.



[Healthcare business starts contributing significantly to results]

Given the potential for the prolonged impact of the COVID-19 pandemic around the world, we will enhance initiatives to boost domestic and overseas supply volumes and to expand product lines. We will also seek to promote the establishment of a mass production and supply system.

We expect the healthcare business to begin making full-fledged contributions to results. We are planning to incorporate this business line into full-year performance forecasts.

[Development of strategies for mask business going forward: expansion of the product line]

Acquire certifications* for our higher-performance masks for medical and other PPE uses

(*certifications in the US, Japan, and Europe*)

In the consumer market, differentiate mask designs through proprietary technologies and continue developing high performance masks.

Achieve undisputable differentiation to surpass competitors in (1) filter performance (N95 equivalent); (2) leakage amount (N95 equivalent); and (3) ease of breathing

We will actively contribute to the creation of a sustainable economy and society.

*National testing regulations in Japan (DS), NIOSH regulations in the US (N95), EN regulations in Europe (FFP)nn

Plan to diversity electricity sources

We plan to diversity electricity sources for our R&D centers and factories to improve renewable energy usage ratio.



Reduce environmental impact (Reduce CO2 emissions)

(Planned installation sites) ➤ August 2020
➤ June 2021
➤ September 2021
➤ February 2022
➤ April 2022

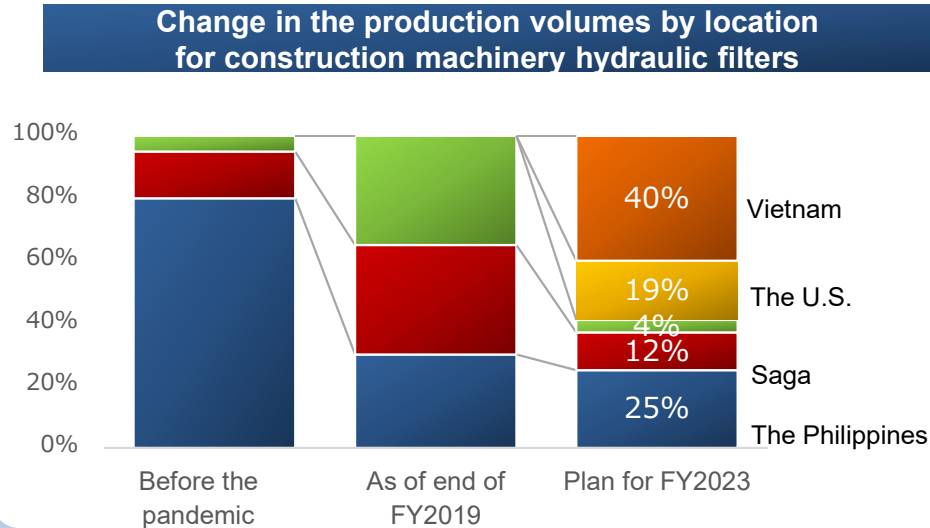
Launch operations at new AQC office building
Launch operations at new factory in Saga
Complete construction of new factory (Yamashin Vietnam)
Open new development center (YRP Nobi)
Launch operations at Yamashin Vietnam

Animal Welfare Initiatives

YAMASHIN NANO FILTER™ will meet demand as a material to replace down.

- Continue the mass production and provision of YAMASHIN Nano Filter™ as a filler material for fall and winter apparel.
- Verify that this material, combined with regular cotton, provides the equivalent heat retention with half the thickness and weight.
- Promote the superiority of the material as light and warm; actively propose our new materials.

Impact on production structure



- The lockdown affected the production in the Philippines.
- Accordingly, a production quota is allocated to each of the other production sites, to maintain stable supply.

Review and restructuring of production system



YAMASHIN has restructured the production system as part of our BCP **to achieve stable, efficient production**

For that end, a new factory will be built in Vietnam in 2021.

For finance, we signed a loan agreement (for 4 billion yen) in Feb. 2020.

Accelerating evolution from our status as the specialist in filters for construction machinery toward a comprehensive multi-field filter manufacturer



Air filters



Construction machinery

YCF
(production)

YAI
(sales, production)

YTL
(sales)

YEB
(sales)

YST
(sales · R&D)

**Nanofiber industrial
Subsidiary materials**

Health
care

Apparel

Home
electronics

Automotive
Interiors

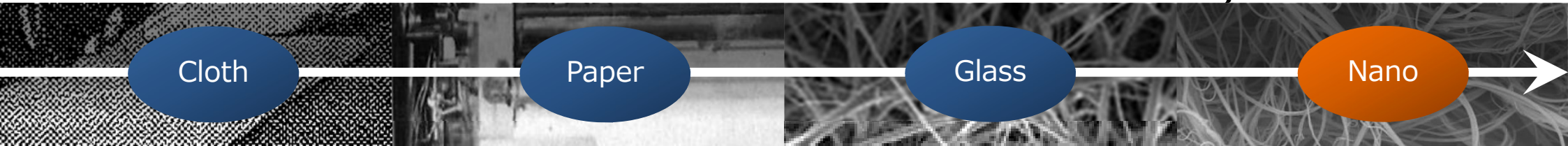
Living
products



Reference Materials

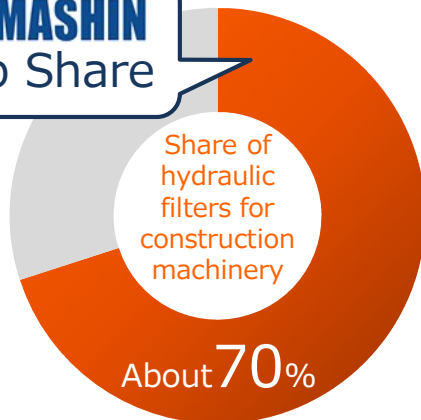
① Basic Company Information

Capability of researching and developing innovative filter media in line with the evolution of construction machinery.



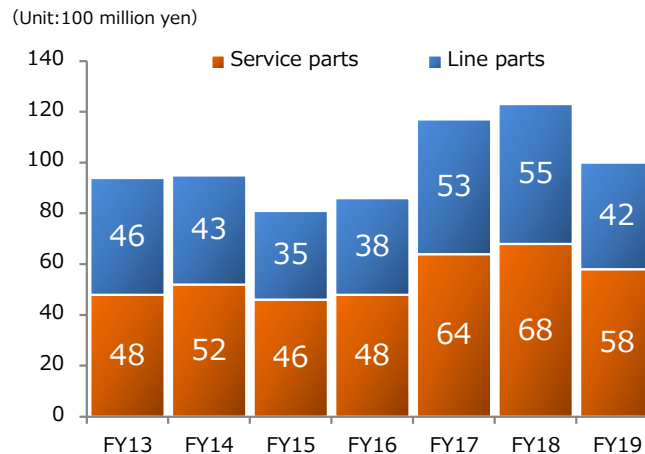
A lion's share in the market of hydraulic filters for construction machinery

YAMASHIN
Top Share

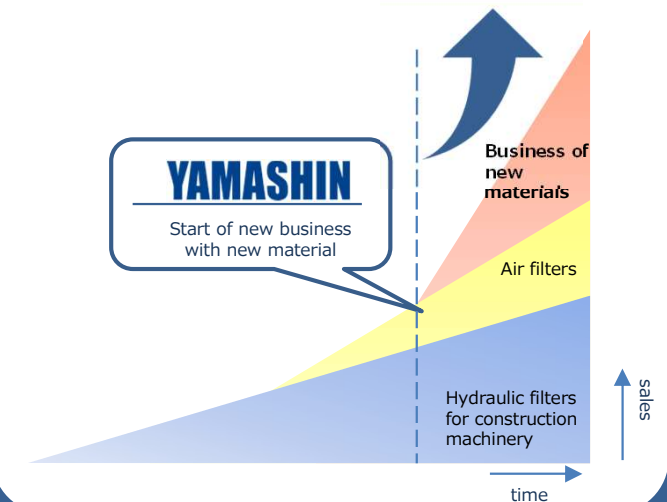


Shares of sales of hydraulic filters for construction machinery in Japan (Fiscal 2012)
Source: Yano Research Institute

Stable revenue structure satisfying the demand for new machines and replacement



Expansion of the business field with newly developed innovative materials



- Our company has contributed to the development of efficient infrastructure.
- As we handle high-quality products and have plenty of experience, many products have been adopted by leading construction machinery manufacturers from Japan, Europe, the U.S., and China, which operate business globally.

Overview of Our Corporate Group

Our Corporate Group has manufactured filters for construction machinery (hydraulic), various industrial fields other than construction machinery (hydraulic), and manufacturing processes (water) by purchasing glass-fiber and non-woven fabrics to produce filter media (the key component of any filter), resin products and processed metal for filter components. Air filters are newly added to our product portfolio.

Filters for construction machinery

A construction machinery filter is used to filter the fluids used in the hydraulic circuits central to the operation of construction machinery.



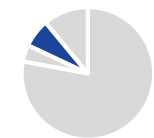
Filters for various industrial fields beyond construction machinery

An industrial filter is a filter used for filtrating operating fluid and lubricants of hydraulic units applied in various industries other than the construction machinery industry. This filter is used in multitudinous kinds of industrial machinery, such as machine tools, refrigerating compressors, agricultural machinery, vessels, railway vehicles, airplanes, and helicopters.



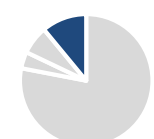
Filters for process lines

A process filter is used for filtration and separation in processes for manufacturing customer products. These filters are used in various industries, including electronic parts, precision parts, liquid crystal displays, and food.



Air filters

Air filters used for dust removal and odor elimination in buildings, hotels and factories.



YAMASHIN provides an extensive product line of filters essential to operating construction machinery.

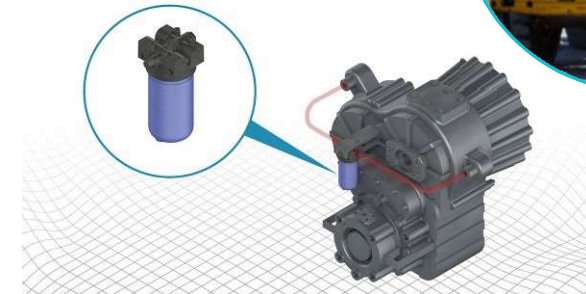
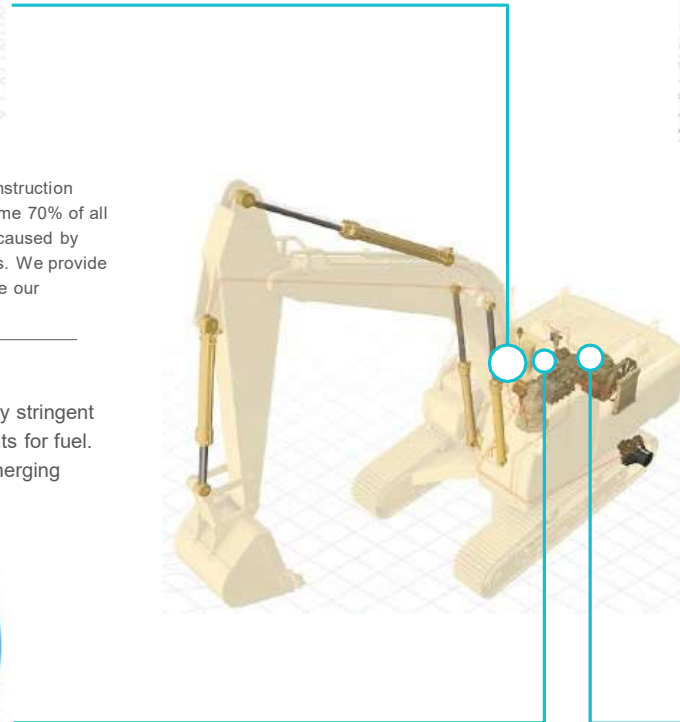
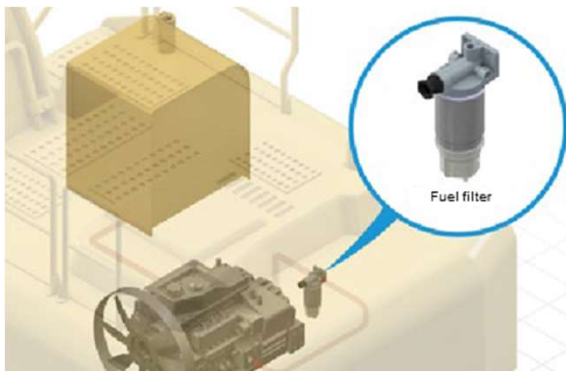


For hydraulic systems

These filters are installed at several locations of each piece of construction machinery to protect hydraulic equipment, including cylinders. Some 70% of all malfunctions affecting construction machinery are believed to be caused by dust in oil, the presence of which leads to mechanical breakdowns. We provide filters ideal for every need based on the know-how cultivated since our founding

For fuel

Fuel filters remove particulates from diesel fuel. Increasingly stringent regulations worldwide have strengthened purity requirements for fuel. Demand for this filter is expected to grow, particularly in emerging nations, where fuel quality tends to be lower..

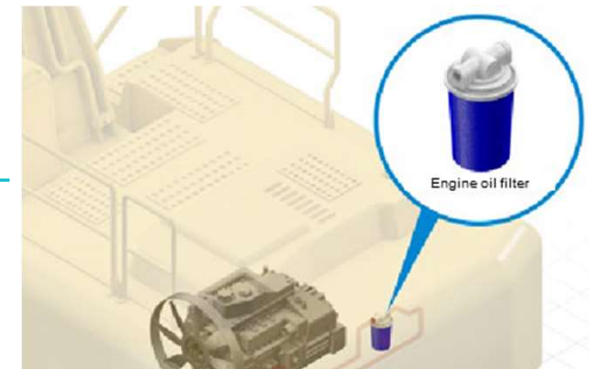


For transmissions

These filters are found in the transmissions of construction machinery. Transmissions are composed of multiple gears. Friction between these gears produces metal powder and particulates. Our company's filters employ proprietary filter elements and materials to remove these particulates and minimize equipment wear.

For engine oil

These filters are in various construction machinery engines. Engines contain pistons and other components moving at high speed that generate power. The engine oil filter removes the metal powders and sludge (sediment), caused by abrasion, that accumulate in engine oil during power generation, mitigating the risk of damage and impaired performance.



Segments and KPI

- Filters for construction machinery are classified as “line parts” or “service parts”
- Line parts refer to filters installed in new construction machines.
The primary indicator is “the number of new construction machines in demand”
- Service parts refer to replacement filters. The primary indicator is “the number of units in operation” × “hours of operation”.

Sales format, Regional trends, and Cost reduction measures

- **Sales format**
Filters for construction machinery are all sold to construction machinery makers (100%). In principle, we do not sell the products directly to end users.
- **Regional trends**
Sales calculations are based on invoice destinations. Our data may differ from the actual regional market trends
- **PAC20 (Promptly Activated Cost reduction 2020)**
Our company-wide cost reduction project

Term	Formula
MAVY's	ROIC - WACC
ROIC	$\text{NOPAT} \div \text{Capital investment}$
Rate of return on capital investment	$(\text{Ordinary income} + \text{Interests paid}) \div \text{Capital investment}$
Turnover rate of working capital	$\text{Net sales} \div (\text{Accounts receivable} + \text{Inventory asset} - \text{Accounts payable})$
Turnover rate of fixed assets	$\text{Net sales} \div \text{Fixed assets}$
Turnover rate of accounts receivable	$\text{Net sales} \div \text{Accounts receivable}$
Turnover rate of inventory asset	$\text{Net sales} \div \text{Inventory asset}$
Turnover rate of accounts payable	$\text{Sales cost} \div \text{Accounts payable}$
Turnover rate of tangible fixed assets	$\text{Net sales} \div \text{Tangible fixed assets}$
Turnover rate of intangible fixed assets	$\text{Net sales} \div \text{Intangible fixed assets}$

*The figures in the balance sheet are the averages of the initial and term-end figures.

STRENGTH

- Overwhelming share of market for construction machinery filters
- **Continuing expansion of market share by utilizing new materials to enhance product performance**
- Advanced R&D capabilities
- Robust business management based on PAC and MAVY's

OPPORTUNITIES

- To increase our share in the growing Chinese market
- To enhance our presence in the markets for process/industrial filters
- **To expand business portfolio and evolve into a "comprehensive multi-field filter manufacturer" (Main focus areas are air filters, YAMASHIN Nano Filter™ markets, healthcare)**

WEAKNESS

- About 80% of net sales are from construction machinery filters
- Concern over the shortage of human resources

Overcome these issues to evolve into a comprehensive multifield filter manufacturer

THREAT

- Decrease in our market share, due to the proliferation of counterfeit filter products for construction machinery
- Changes in the construction machinery market in China
- Sluggish sales growth of process/industrial filters
- **Delays in commercialization of new material products**

Eliminate counterfeits by using The new material to improve performance of our products

New business line to grow

Air filters

New material
Business line

Business area selected as growth target

STRATEGY
MATRIX

Core business (stretch)

Filters for
construction machinery

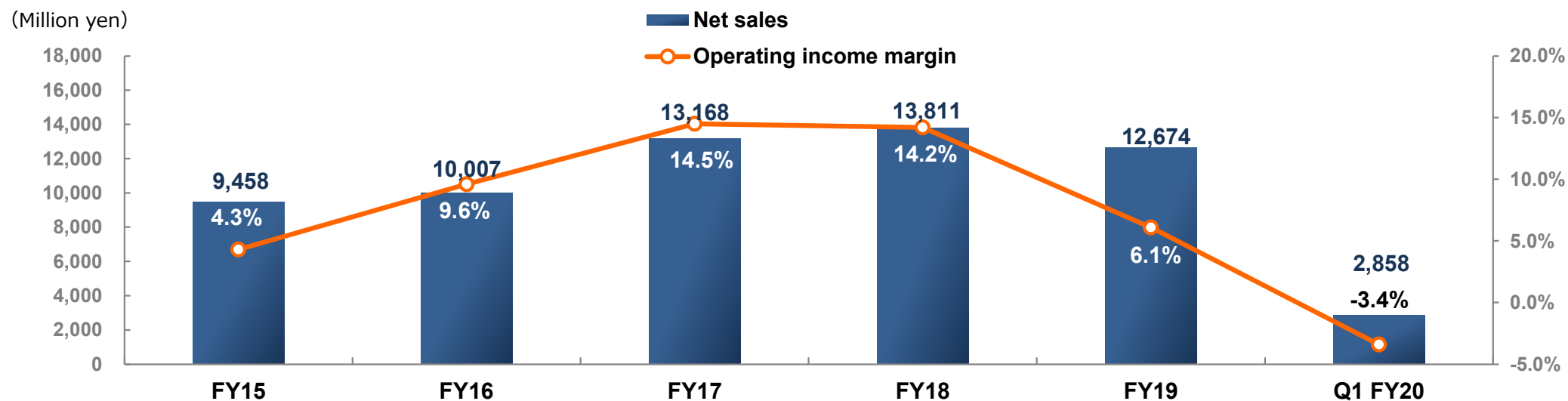
Core business (stable)



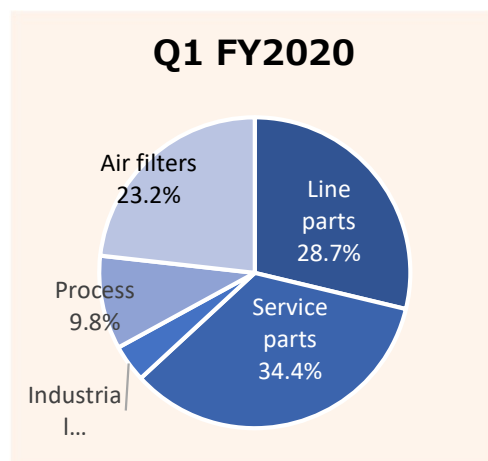
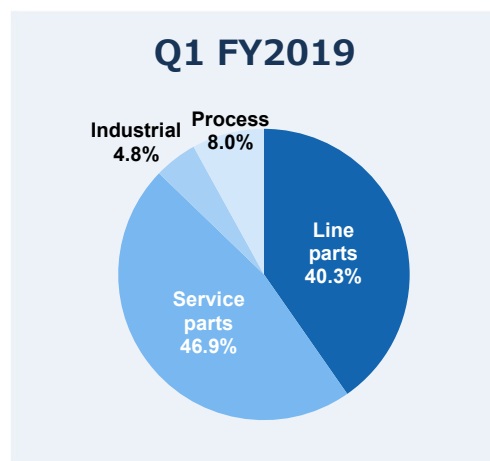
Reference Materials

② Financial Highlights

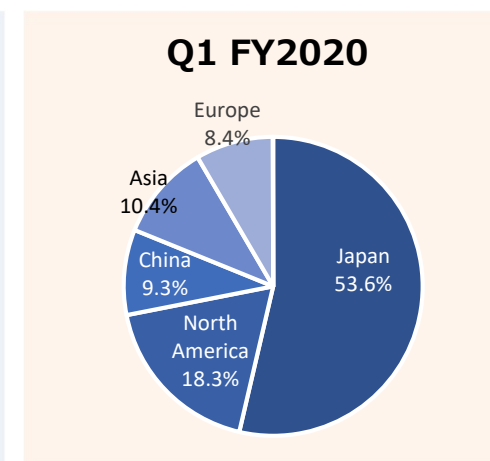
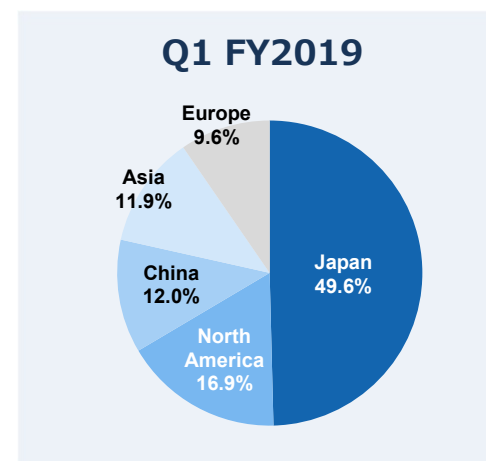
Net sales, Operating income



Sales by product

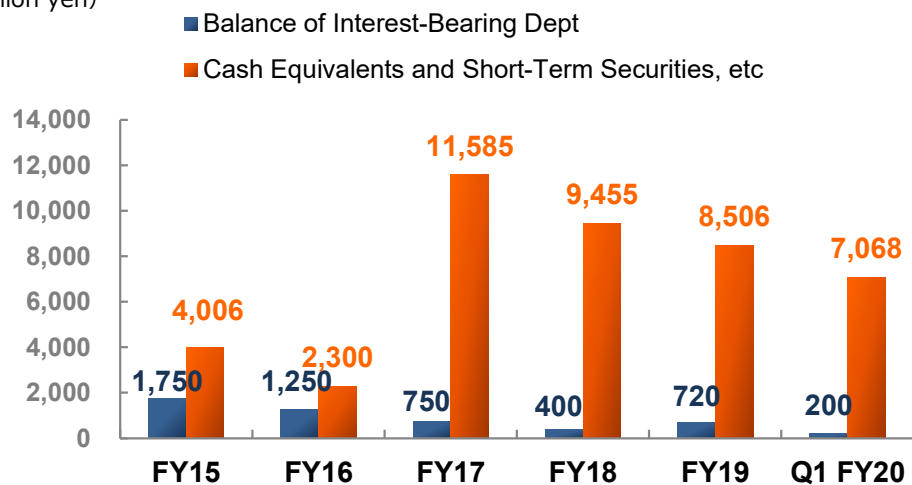


Sales by region

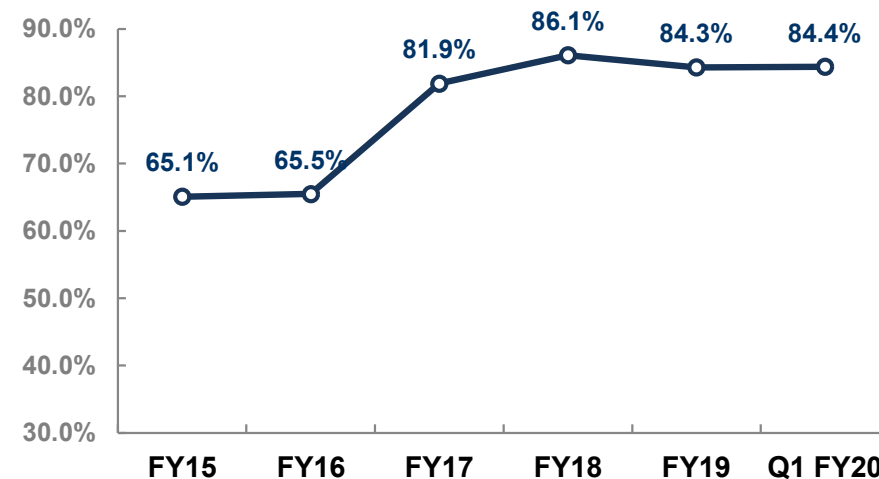


Interest-bearing debt, Cash equivalents, Short-term securities, etc.

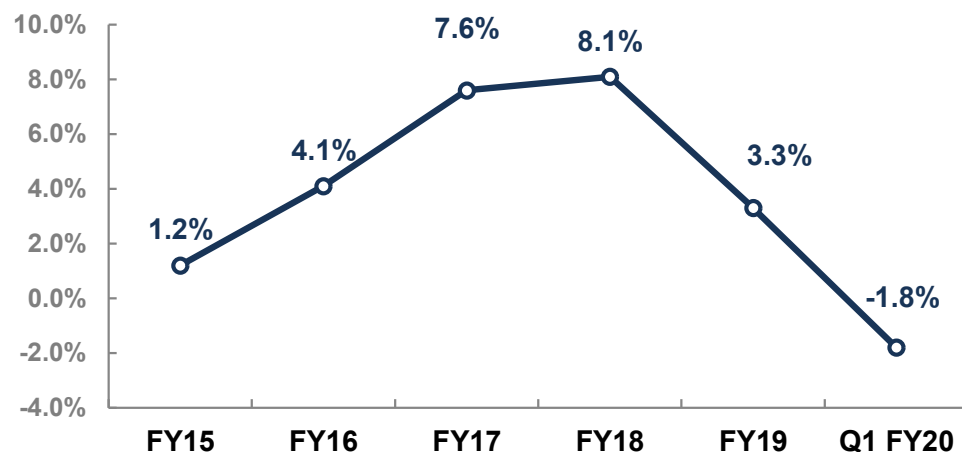
(Million yen)



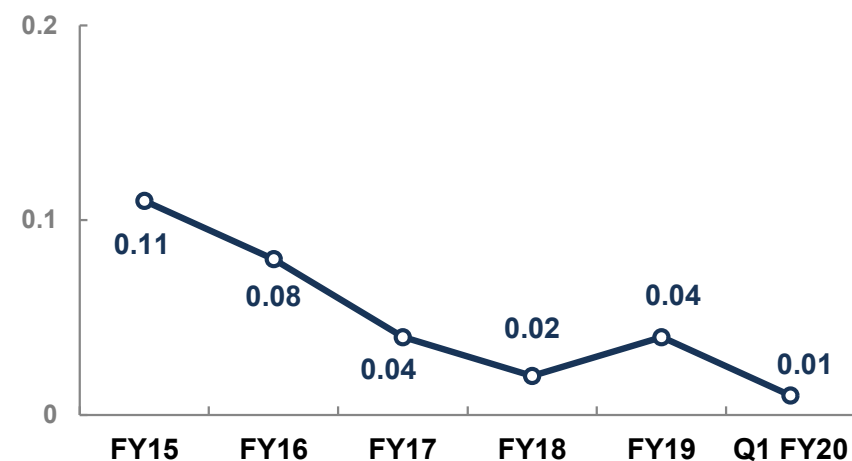
Shareholders' equity ratio



ROE



D/E ratio



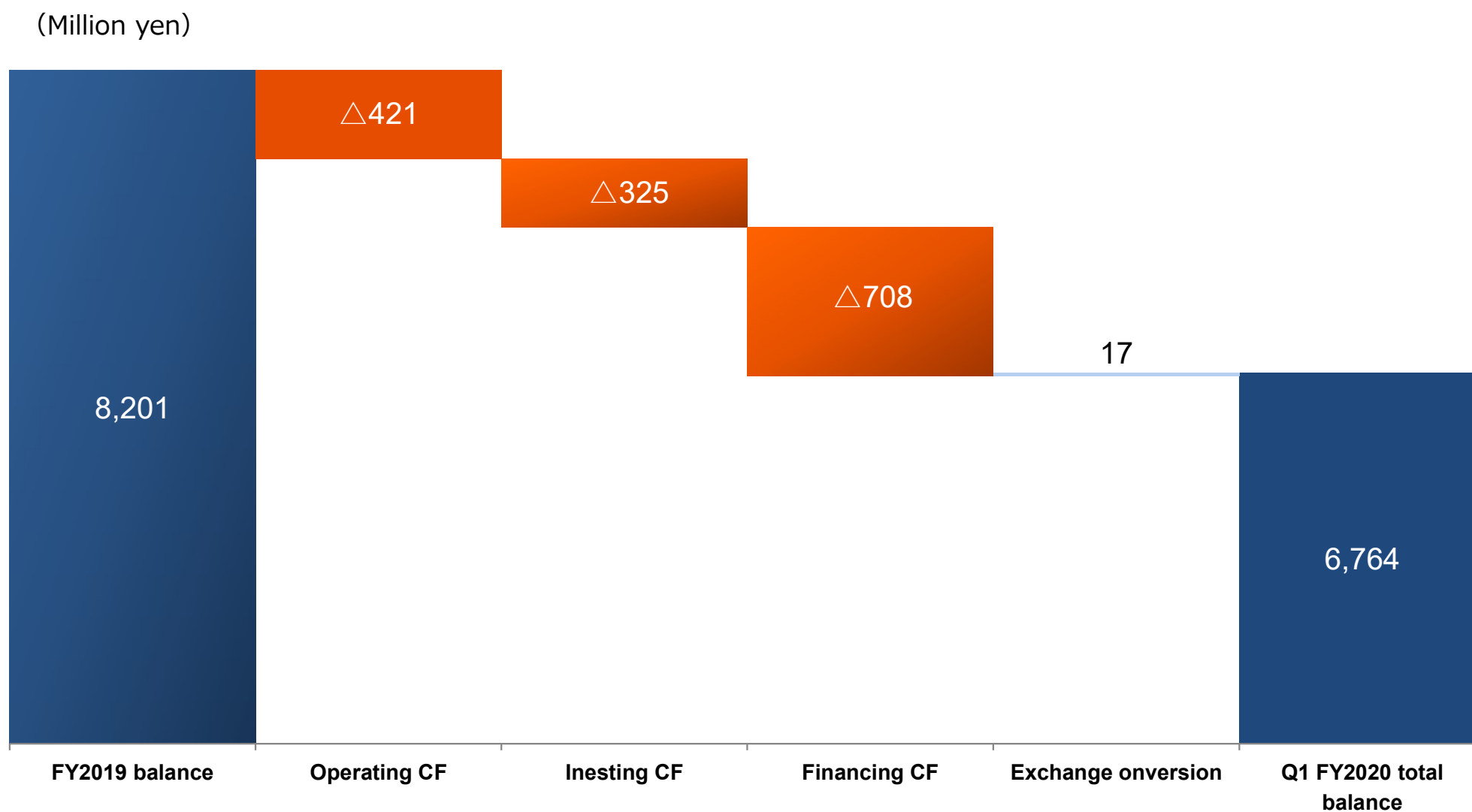
*Calculated based on the assumption that the capital increase through third-party allotment in FY2017 was implemented from the previous fiscal year.

(Million yen)	Q1 FY2019	Q1 FY2020	Change Amount	Change in ratio		Q1 FY2019	Q1 FY2020	Change Amount	Change in ratio
Current assets	15,106	12,653	△2,453	△16.2%	Current liabilities	2,356	2,694	337	14.3%
Cash and deposits	9,743	7,068	△2,674	△27.5%	Notes and accounts payable-trade	1,294	1,481	187	14.5%
Notes and accounts receivable-trade	2,735	3,150	415	15.2%	Short-term loans payable, Current portion of long term loans payable and corporate bonds	200	200	0	0.3%
Merchandise and finished goods, Raw materials and Supplies	2,312	2,176	△136	△5.9%	Other	862	1,012	149	17.4%
Other	315	257	△58	△18.4%	Fixed liabilities	698	613	△84	△12.1%
Fixed assets	5,848	8,578	2,630	46.7%	Corporate bonds	200	0	△200	△100.0%
Tangible fixed assets	3,782	7,615	3,833	101.3%	Net defined benefits Liability	193	201	7	4.0%
Intangible fixed assets	329	339	10	3.1%	Other	304	412	107	35.3%
Investments and other assets	1,736	623	△1,113	△64.1%	Total net assets	17,899	17,923	23	0.1%
Total assets	20,955	21,232	277	1.3%	Total of liabilities and net assets	20,955	21,232	277	1.3%

* Shareholders' equity ratio

85.4%

84.4%



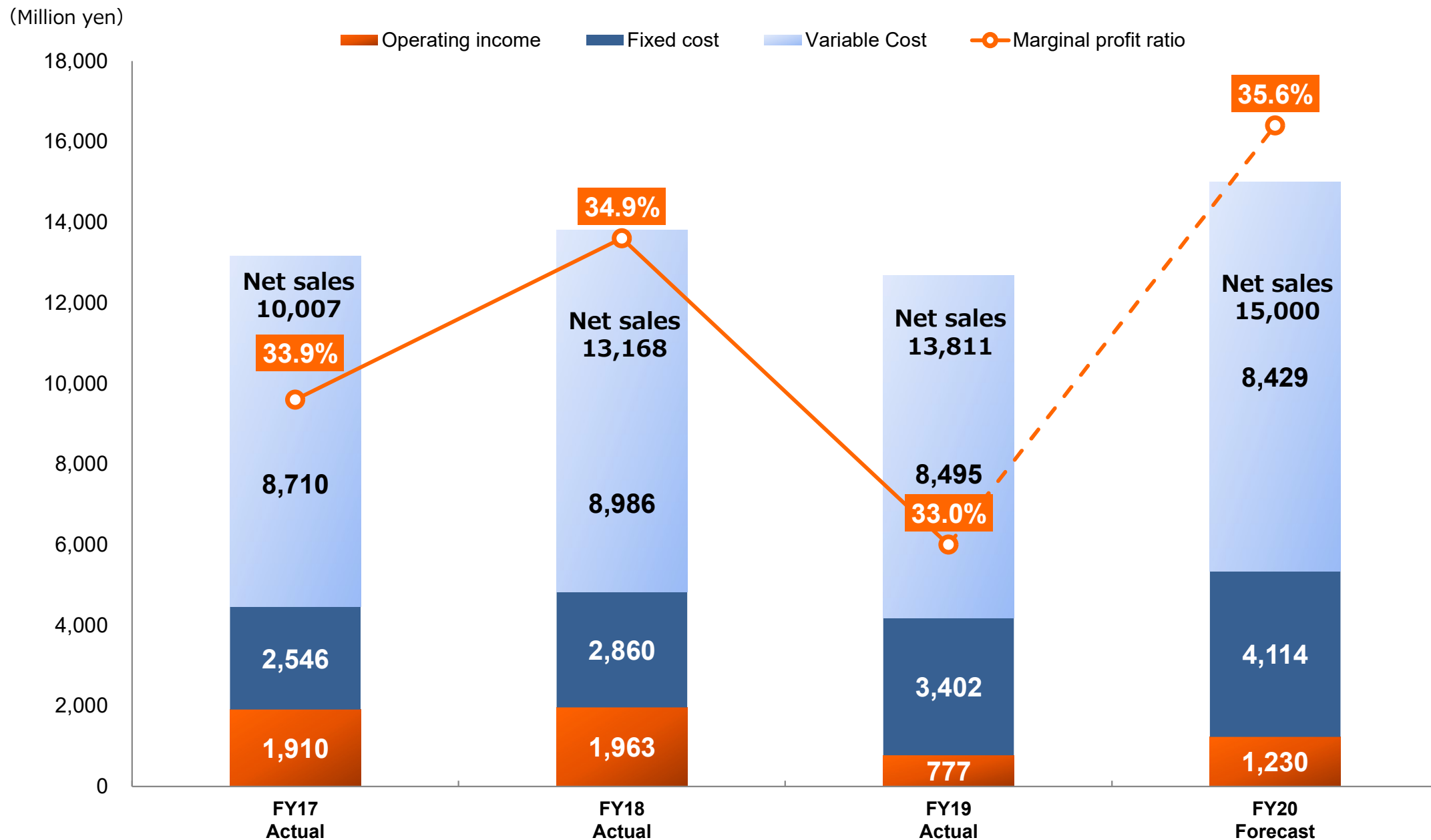
*The cash balance excludes long-term deposits of 304 million yen.

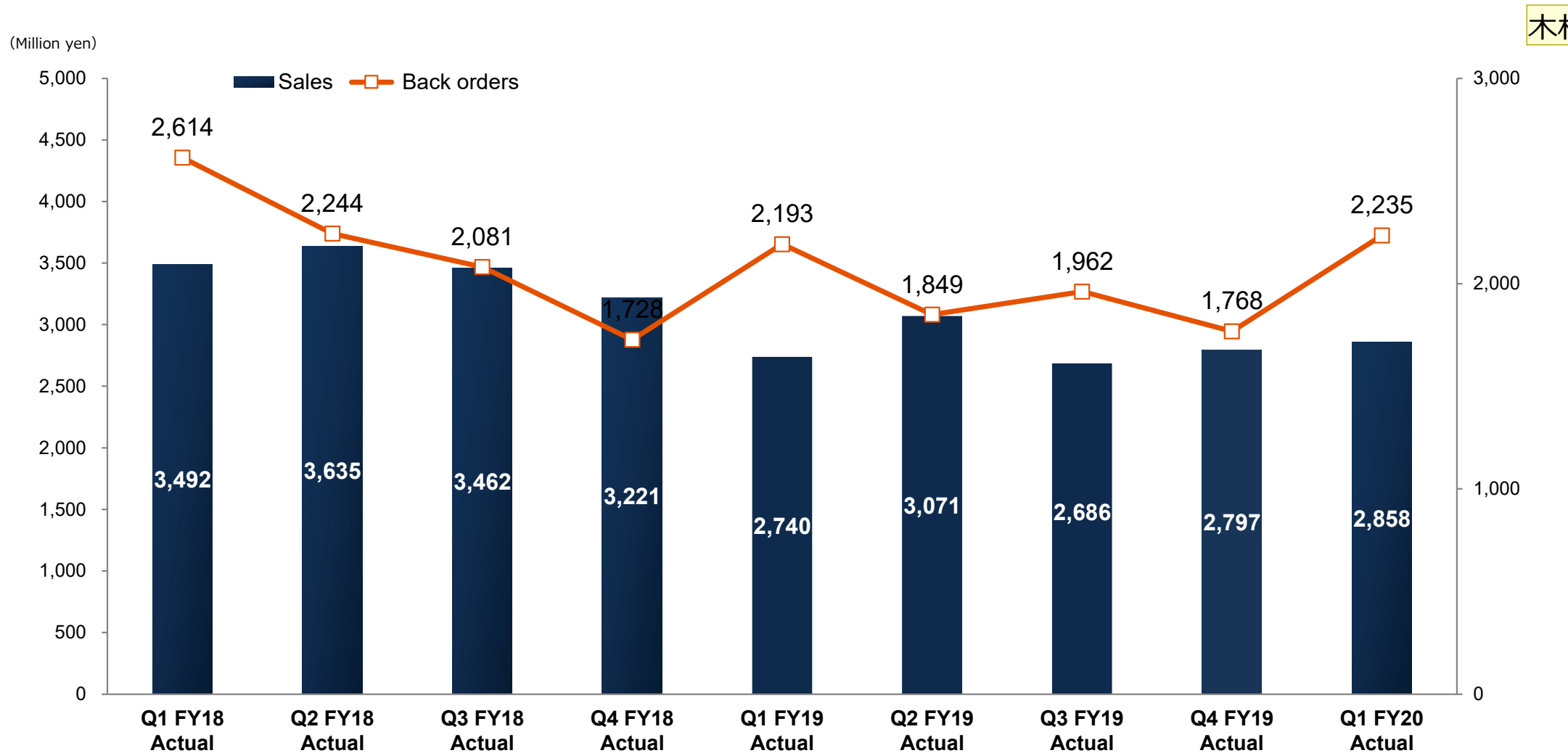
Conditions of Operational Hedge - "Marry and Netting" and foreign exchange sensitivity

(Million yen)

Currency	Incoming		Outgoing		Net	Average rate during the term (JPY)	In case of yen appreciation (10%)			In case of yen depreciation (10%)		
	Each Currency	Composition ratio	Each Currency	Composition ratio			Average rate during the term ▲10% (JPY)	Rate difference	Affected amount (QTD)	Average rate during the term +10% (JPY)	Rate difference	Affected amount (QTD)
JPY	¥3,300.0	79%	¥5,000.0	81%	¥-1,700.0	-	-	-	-	-	-	-
USD	\$7.2	18%	\$8.4	15%	\$-1.2	¥107.6	¥96.86	¥-10.76	¥12.91	¥118.38	¥10.76	¥-12.91
EUR	€ 0.6	2%	€ 0.6	1%	€ 0.0	¥118.5	¥106.63	¥-11.8	¥0.00	¥130.33	¥11.85	¥0.00
PHP	0.0	0%	84.7	3%	-84.7	¥2.1	¥1.93	¥-0.2	¥18.13	¥2.35	¥0.21	¥-18.13
THB	16.2	1%	7.4	0%	8.8	¥3.4	¥3.03	¥-0.3	¥-2.97	¥3.71	¥0.34	¥2.97
Total	-	100%	-	100%	-	-	-	-	¥28.07	-	-	¥-28.07

Variation in Marginal Profit Ratio





スライド 56

木村 麻由美30 order backing-->back orders

木村 麻由美, 2020/08/18

We hold a world-leading share in the construction machinery filter business.

Due to increase in infrastructure investment and our strong position in after-sales market, we expect sustained growth in our construction machinery filter business.

New business is expected to make significant contributions to both sales and profits.

YAMASHIN Nano Filters will drive growth, with use for diverse applications.



Forecasts regarding future performance presented in this material are based on information that was available at the time this material was released.
Actual results may differ from the forecasts due to various factors such as market trends and business conditions etc.

**For any inquiries regarding this material, please contact below:
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