

# Acquisition of stock in AQC Corporation

**YAMASHIN FILTER CORP.**  
**First Section of Tokyo Stock Exchange**

**6240**

**August 19, 2019**

# 1. Executive summary

- ✓ In an extraordinary meeting held August 19, 2019, the Board of Directors resolved to acquire stock in AQC Corporation (“AQC” hereinafter), making AQC a wholly owned subsidiary. On the same date, the Company concluded an agreement on transfer of stock with each of AQC’s shareholders, making AQC a wholly owned subsidiary.
- ✓ The forecasts already announced of consolidated business results for the period ending March 2020 (April 1, 2019 – March 31, 2020) do not include profit contributions due to this stock acquisition. The impact on consolidated business results is currently under careful review.
- ✓ Plans call for a deemed acquisition date of September 30, 2019 to reflect the acquisition in consolidated business results from Q3 of FY2020.



- The world’s leading market share in filters for use in construction machinery
- Strong business foundations through PAC and MAVY’s
- Strong R&D capabilities
- **Deploying new YAMASHIN Nano Filter™ materials to further expand market share**

- Has steadily expanded business related to air filter manufacturing since its foundation.
- Holds one of the leading shares both in the Japanese dust and medium-/high-performance filter markets.
- Has developed a built-to-order production system that allows it to meet customer needs through small-lot production of diverse products with short lead times.

## Anticipated consolidation results

- The new business portfolio will strengthen business foundations.
- The consolidation will enable the horizontal deployment of AQC air filters to our customers.
- The consolidation will expand the AQC air filter product lineup and increase the added value of existing products, based on the deployment of new YAMASHIN Nano Filter™ materials.
- Adding AQC to the YAMASHIN Group (the Group hereinafter) will help establish a structure for the mass production and sales of new air filter products based on the new YAMASHIN Nano Filter™ materials.

## 2. About AQC Corporation

### AQC Corporation

- ✓ AQC manufactures and sells air filters, chiefly in Tokyo and Osaka.
- ✓ AQC has established a solid position in the air filter industry and currently holds the second-highest share of the dust filter market in Japan.
- ✓ AQC has developed a made-to-order structure under which it internally handles everything from planning and development through manufacture, sale, and after-sales service.
- ✓ AQC brings stable financial foundations, with strong business results over the last five years.

#### AQC Corporation: Overview

Name	<b>AQC Corporation</b>
Lines of business	Manufacture and sale of air conditioner filters
Established	December 1968 (founded 1962)
Head office	Hirabayashiminami, Suminoe-ku, Osaka
Representative	Asataro Nishikawa, Representative Director
Capital	50 million yen
Board members	Representative Director: Asataro Nishikawa Directors: Sayoko Nishikawa, Ken Watanabe
Net sales	2,752 million yen (FY2017 results)
Affiliate	Nishikawa Filter Development Co., Ltd.

#### AQC Corporation: Financial highlights

	FY2015	FY2016	FY2017
(Unit: million yen)			
Net sales	2,684	2,755	2,752
Operating income	254	215	188
Ordinary income	263	225	200
Total assets	3,395	3,538	3,666
Net assets	2,906	3,051	3,187
Cash and deposits	917	1,075	1,308
Equity ratio (%)	85.6%	86.2%	86.9%

※The fiscal year ends in September

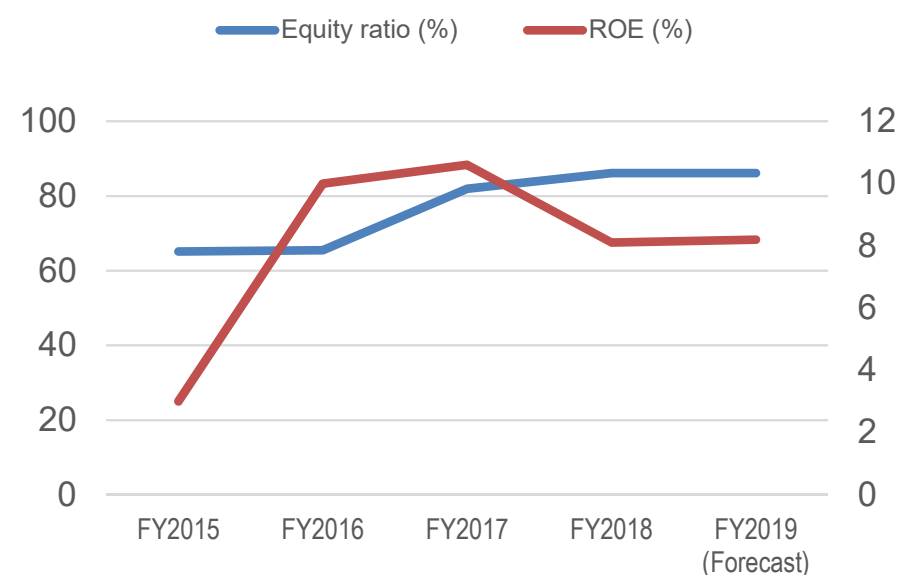
### 3. Impact of acquisition of stock on financial results

- ✓ After consolidation of the accounts, an equity ratio of 86.1% and ROE of 8.2% are expected as of the end of FY2020.
- ✓ No amortization burdens will arise on the Consolidated PL Statement following the acquisition.
- ✓ Plans call for making AQC a consolidated subsidiary (wholly owned subsidiary) of YAMASHIN FILTER as of August 23, 2019.
- ✓ Planned deemed acquisition date: September 30, 2019
- ✓ Plans call for inclusion in consolidated business results from H2 FY2020. (Impact on financial results is currently under careful review.)

Overview of acquisition of shares

Purchase price	Not disclosed due to nondisclosure obligations
Percentage of shares to be transferred	100%
Shares to be acquired from	70.7%: Asataro Nishikawa 3.0%: Nishikawa Filter Development Co., Ltd. 26.3%: Four individuals <small>*Not disclosed due to nondisclosure obligations</small>
Financing	Funds raised through fourth third-party private allocation of stock options.
Date of Company Board of Directors meeting to pass resolution on Acquisition	August 19, 2019 (Monday)
Date contract concluded	August 19, 2019 (Monday)
Planned date of stock transfer	August 23, 2019 (Friday)
Planned deemed date of acquisition	September 30, 2019 (Monday)

Consolidated financial forecasts

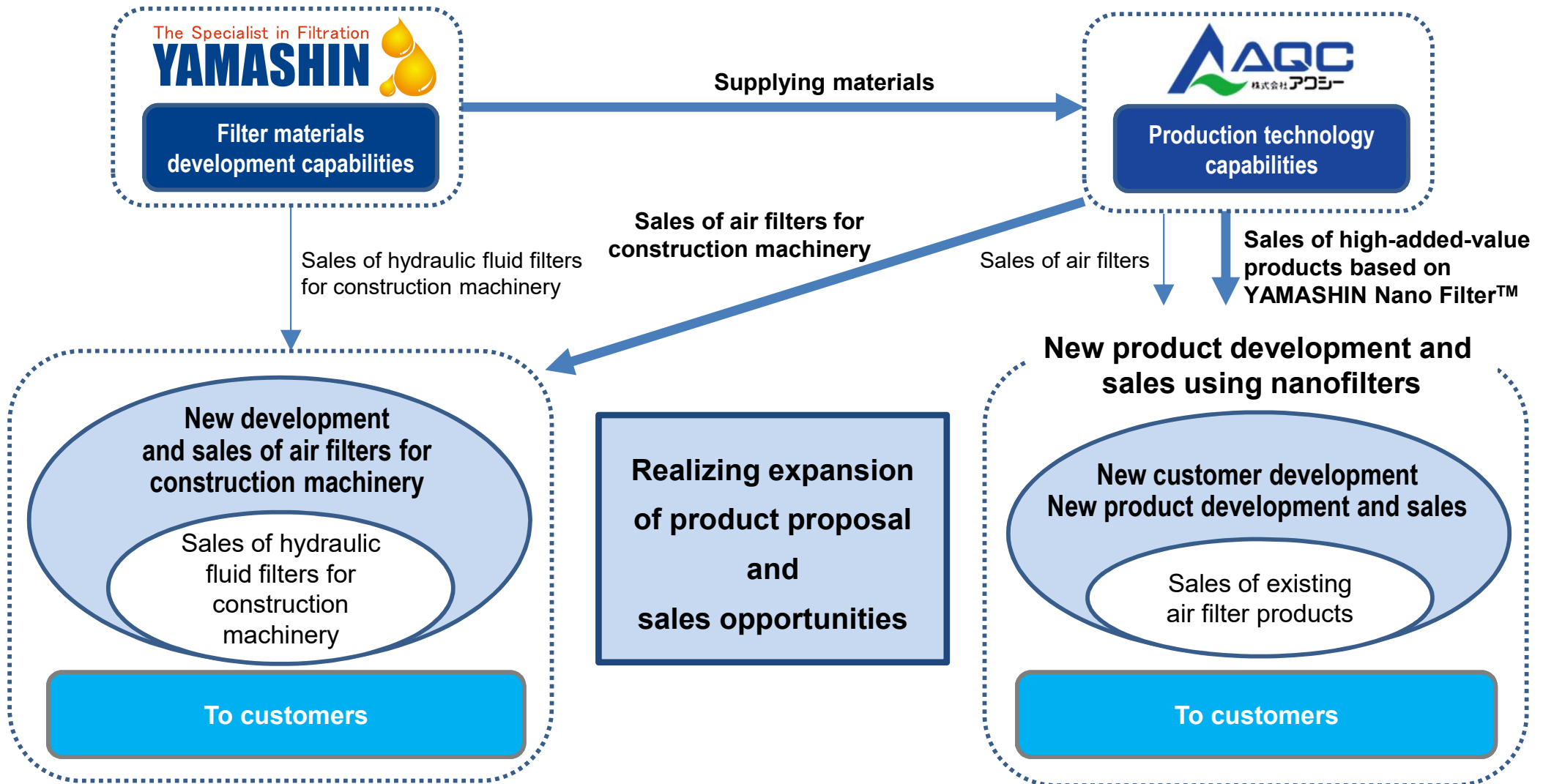




#### 4. Business development synergies to be realized through this stock acquisition

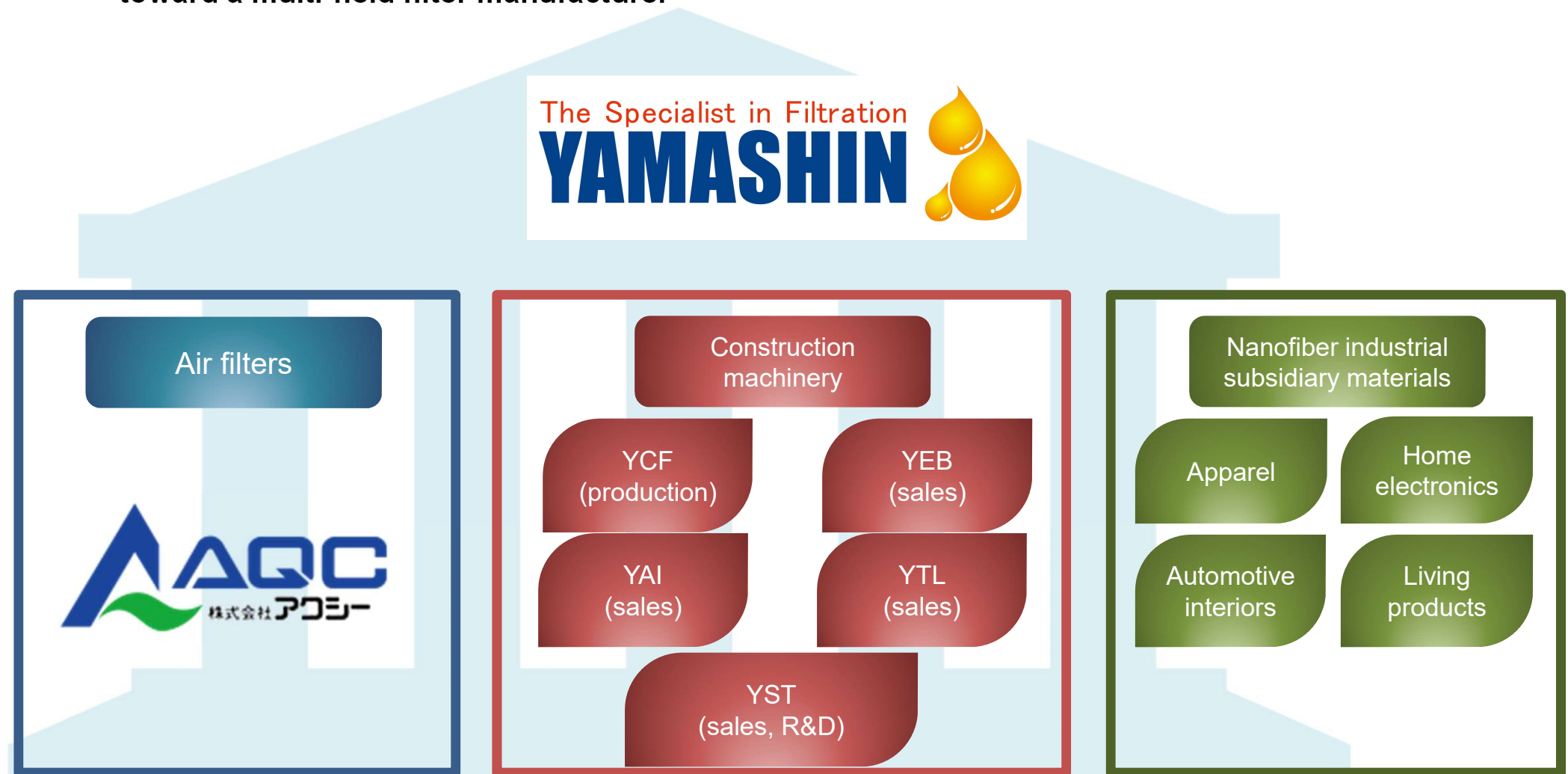
- ✓ Accelerating Group growth through evolution from a manufacturer of specialist filters for construction machinery toward a **multi-field filter manufacturer**
- ✓ Promoting further **development of new products and market expansion** based on shared technologies, manufacturing, and sales channels

← Previous structure  
← Synergies to be realized



## 5. Vision of the Group after this stock acquisition

- ✓ Creating a second business pillar through inclusion of the air filter domain
- ✓ Increasing profitability and strengthening the Group structure through the two companies' synergies
- ✓ Accelerating evolution from our status as the specialist in filters for construction machinery toward a multi-field filter manufacturer



## 6. FY2020/3 full-year forecasts of business results

- ✓ The full-year forecasts of business results announced on May 15, 2019 do not take the effects of this transaction into account because the transaction had not been finalized at that time.
- ✓ The consolidation effects of this acquisition of AQC stock and its impact on existing businesses are currently under careful review. Any matters warranting disclosure will be announced promptly.

(Reference) FY2020/3 full-year forecasts of business results

	FY2018/3 results	FY2019/3 results	FY2020/3 forecasts	FY2020/3 1Q results	FY2019/3 results vs. FY2020/3 forecasts
(Unit: million yen)	Amount	Amount	Amount	Amount	Amount
Net sales	13,168	13,811	13,000	2,740	-811
Gross profit	6,074	6,479	6,300	1,234	-179
<b>Gross profit margin</b>	<b>46.1%</b>	<b>46.9%</b>	<b>48.5%</b>	<b>45.0%</b>	<b>1.6Pt</b>
SG&A expenses	4,163	4,515	4,650	1,117	134
<b>SG&amp;A ratio</b>	<b>31.6%</b>	<b>32.7%</b>	<b>35.8%</b>	<b>40.8%</b>	<b>3.1Pt</b>
Operating income	1,910	1,963	1,650	117	-313
<b>Operating profit margin</b>	<b>14.5%</b>	<b>14.2%</b>	<b>12.7%</b>	<b>4.3%</b>	<b>-1.5Pt</b>
Ordinary income	1,824	1,915	1,600	99	-315
<b>Ordinary profit margin</b>	<b>13.9%</b>	<b>13.9%</b>	<b>12.3%</b>	<b>3.6%</b>	<b>-1.6Pt</b>
Net income	1,249	1,413	1,100	61	-313
<b>Net profit margin</b>	<b>9.5%</b>	<b>10.2%</b>	<b>8.5%</b>	<b>2.2%</b>	<b>-1.7Pt</b>
Exchange rate: AR USD	110.9	110.9	108.0	109.9	-2.9
EUR	129.7	128.4	130.0	123.5	1.6



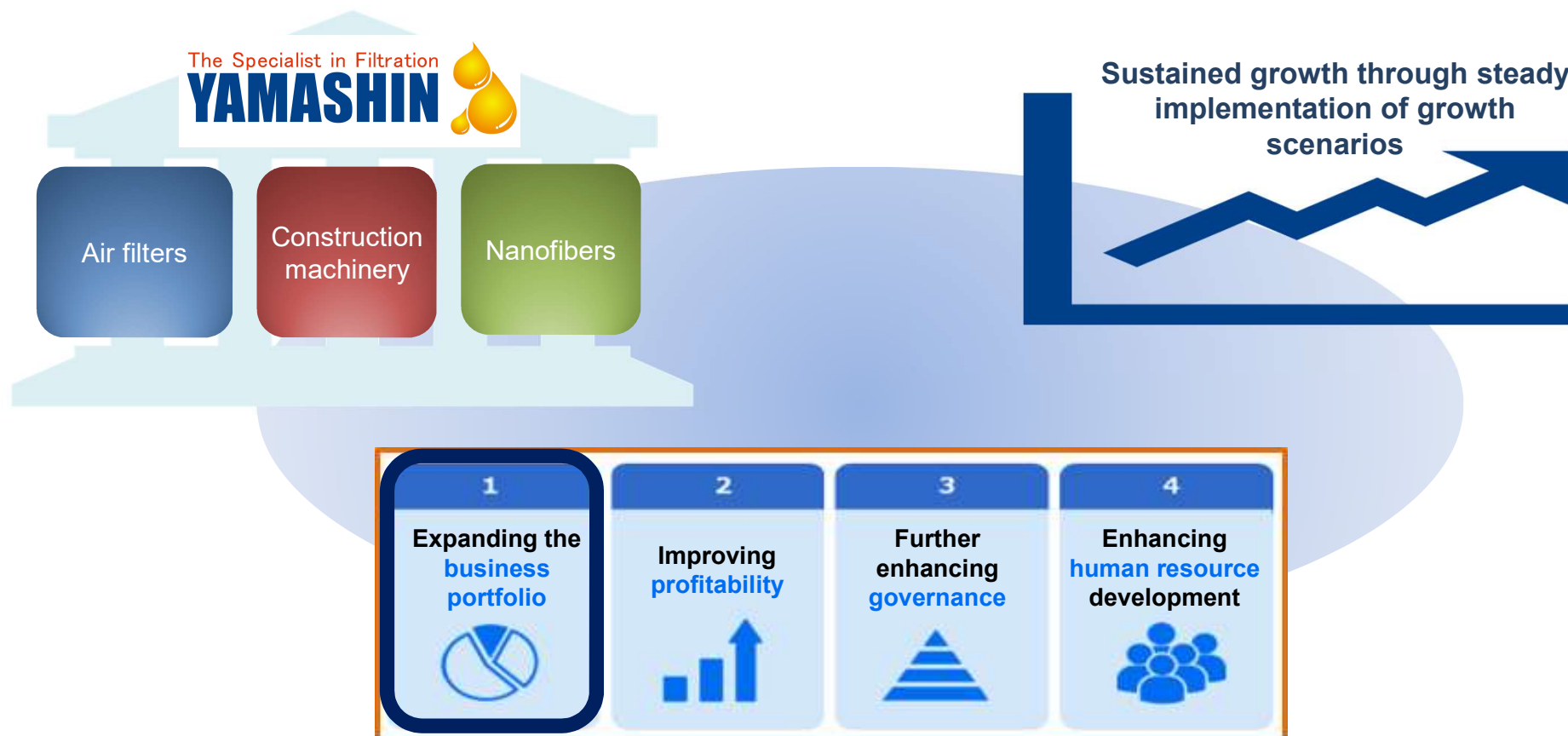


# REFERENCE MATERIALS



# The significance of this stock acquisition: Sustained growth of the Group

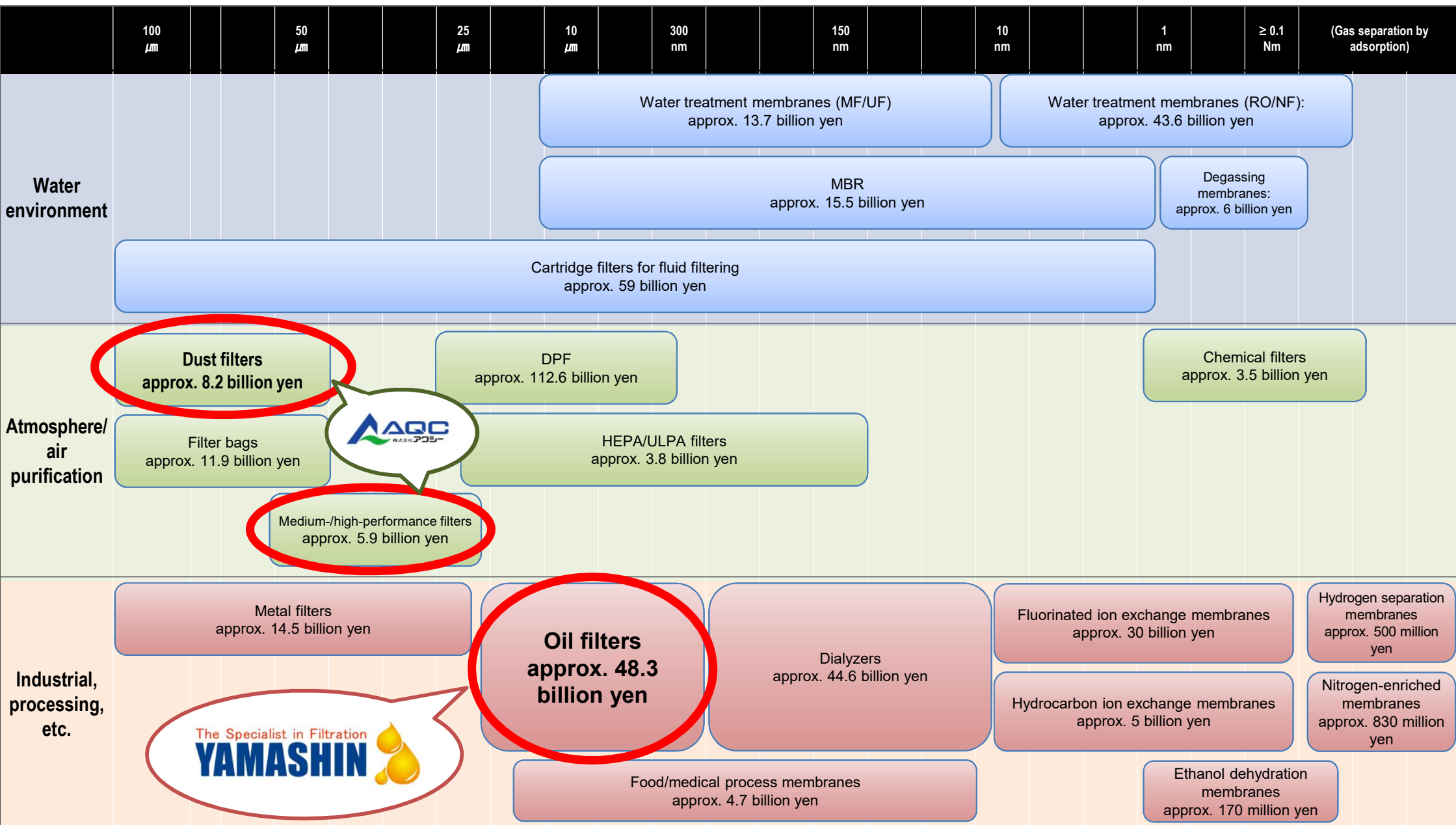
- ✓ Expanding business domains to evolve into a multi-field filter manufacturer by adding the air filter business to business domains based on the existing hydraulic fluid filter business
- ✓ Seeking to build a new business portfolio by moving forward with the development and supply of products and materials based on the new YAMASHIN Nano Filter™ materials
- ✓ Striving for even greater strengths in corporate competitiveness and corporate value by winning growing trust from society through continual ESG initiatives



# YAMASHIN and AQC business segments

Business domain	Segment	Product portfolio				
<div>The Specialist in Filtration <b>YAMASHIN</b></div>	Fluids	Filters for use in construction machinery				
		Industrial filters	 Aircraft, railroad, etc.	 Compressors for cooling equipment	 Machine tools	
		Process filters				
<div><b>AQC</b> 株式会社 アキュー</div>	Air	Panel filters				
		Medium-/high-performance filters				
		Other filters				

# Overview of the filter market in Japan



Source: Overview and future outlook for technologies and markets related to high-performance separation membranes/filters (Fuji Keizai Co., Ltd.)



### The strengths of the built-to-order system

- AQC has developed a built-to-order production system based on small-lot production of diverse products with short lead times.
- Integrated in-house deployment to handle all tasks, ranging from project interviews through design, using its proprietary Axis system

### R&D strengths

- Presents results of research to and obtains feedback from the Japan Air Cleaning Association.
- Engages in joint research with Kanazawa University.

### Strengths of integrated production

- Integrated production system adapts flexibly to customer needs ranging from frames through folding, separating, and forming filter materials and sealing materials

### Customer service strengths

- To respond to customers on an individual basis, AQC handles the following tasks through its proprietary Axis system:  
Integrated administration from order acceptance through delivery to after-sales services (Managing orders receiving, preventing shipping errors, learning from complaints, communicating shipping status, etc.)

### Strengths in improvement efforts

- Implements improvements for dimensional tolerances.
- Reduces problems during shipping by affixing corner pads to heavy items during shipping and printing care labels on boxes.



Forward-looking statements such as forecasts of business results contained in this document are based on information available at the time this document was prepared. Actual results may vary due to various factors such as market trends and business conditions.

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