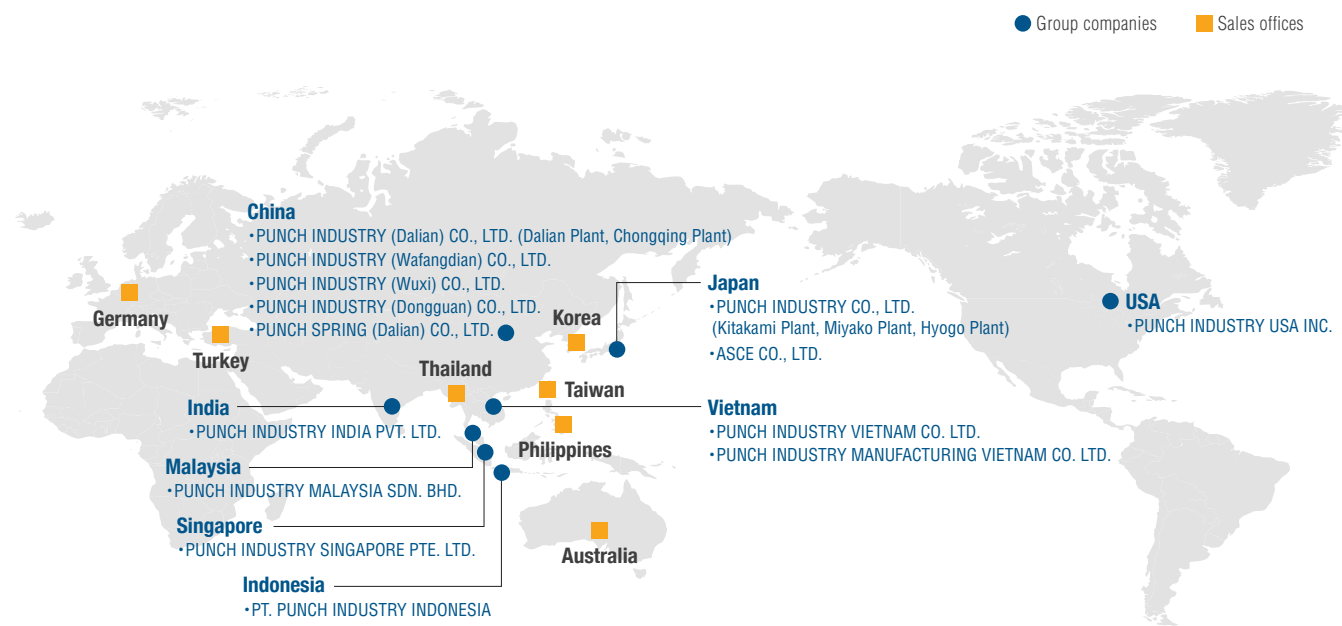


The Punch Industry Group's Network



Introduction to Company Website and IR e-Magazine

<Company Website>



Top page

Investor Relations

The Punch Industry website contains various information, including Company Overview, Business Overview, and Investor Relations information.

<https://www.punch.co.jp/english/>

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Disclaimer Regarding Forward-Looking Statements

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2023 ANNUAL REPORT

SUPPORTING PRODUCT MANUFACTURING
AROUND THE WORLD



CEO MESSAGE

**Record-high sales in fiscal 2022
but sharp slowdown in fiscal 2023**

**Having reviewed our mid-term business plan,
we will implement VC2024 Revival to solidify
our foundation for future sustainable growth.**

Tetsuji Morikubo

Representative Director, President, Chief Executive Officer



Following sharp revenue declines due to the U.S.–China trade friction in 2019 and the COVID-19 pandemic in 2020, the Company posted record-high sales in fiscal 2022. Because of a slowdown in the Chinese market, however, we expect a significant year-on-year decline in fiscal 2023. To ensure solid performances and sustainable growth in the future, it is imperative that we rebuild our business in Japan, evolve into a comprehensive machine parts company in China, and achieve business growth in Southeast Asia, Europe, and the United States.

Performance review

In fiscal 2022, the Group reported year-on-year sales growth in all regions, with consolidated net sales reaching a record-high ¥42.7 billion, up 9% from that of the previous year. Net sales in Japan remained mostly unchanged with 1% growth. Due in part to the weak yen, however, our business recovered from declines caused by the COVID-19 pandemic. Specifically, we posted 12% year-on-year growth in China, 13% growth in Southeast Asia, and 24% growth in Europe, the United States, and other regions. In fiscal 2023, however, factors affecting our business have changed dramatically. At the end of the second quarter, overall sales declined substantially, with net sales in Japan down 7%, net sales in China down 19%, and net sales in Southeast Asia down 1% year on year. Despite 15% growth in Europe, the United States, and other regions, the slowdown in China had a significant impact.

By segment, orders for automobile-related new car molds and dies have been sluggish in both Japan and China. In China, where the shift to EVs has been particularly vigorous, we see intensifying competition and the beginning of a shakeout due to a rapid increase in the number of emerging manufacturers. Meanwhile, the electronic devices and semiconductor segment stagnated due to stalled demand for smartphones, and the consumer electronics market also declined due to the uncertain real estate industry. We expect that China, which had been growing at a high rate, will continue experiencing weak growth for some time.

Transition from VC2024 to VC2024 Revival

Despite these changing market conditions, the Punch Industry Group aims to remain a behind-the-scenes player that supports manufacturing by providing mold and die components to customers in a wide range of industries. We will continue refining the Group's strength in supplying a wide range of both standard (off-the-shelf) and special-order (made-to-order) press die and plastic mold components. To this end, in July 2023, we formulated Value Creation 2024 Revival (VC2024 Revival), covering two years. The basic strategy is to "pursue sustainable profit growth by specializing in the high-value-added, special-order products business."

We substantially rearranged the priority initiatives set forth in VC2024, placing renewed emphasis on "redevelopment of domestic business" and "growth in overseas business" while reforming our business structure.

With respect to "redevelopment of domestic business," we will start by transferring to our Dalian and Vietnam plants the production of many standard products previously manufactured in-house at domestic factories. At the same time, our domestic plants will leverage their respective strengths to specialize in manufacturing new special-order products and improving technology. Our aims for growth are to strengthen our earning power in Japan and improve factory operating rates overseas.

In conjunction with this decision, we closed Pintec Corporation, a domestic consolidated subsidiary, in September 2023, after

determining that maintaining our five-plant system in Japan would be difficult given the status of domestic orders, which is taking time to recover from the COVID-19 pandemic.

Regarding our sales strategy, we aim to expand new and existing businesses through increased sales of special-order products in the factory automation (FA) field. In October 2022, ASCE CO., LTD., which designs and manufactures FA equipment, joined the Group. This is a significant addition, giving us skills that we did not previously enjoy and allowing us to design and propose distinctive solutions to customers' automation needs. We are also making good progress in building a supply system, including the development of partner factories. As a result, orders are steadily increasing. However, to expand our business in the FA field, where we have been specializing in mold and die components, we need to increase our name recognition and our sales activities. That said, we acknowledge that it will take more time for these efforts to benefit our business performance.

With respect to "growth in overseas business," in China, we will expand our business domain to include embedded components for industrial machinery, medical-related equipment, and FA, all of which require high precision, in addition to mold and die components. We also plan to evolve from a mold and die component company to a comprehensive machine parts company. In India, where we have high expectations, we have operated a sales base for 10 years, but we are still perceived as a company that stocks and sells cam units, which are die components for the automotive industry. In response, we will increase the number of Japanese employees, work on raising awareness, and review our product lineup. In the medium to long term, we intend to solidify not only our sales bases but also our production foundation, including by developing local partner factories. In Europe and the United States, where sales are relatively steady, we will continue cultivating customers through exhibitions and sales activities utilizing staff from sales offices or trading companies, paying particular attention to deepening cooperation with sales offices in Europe.

To our stakeholders

From a long-term perspective, we will focus on mold and die components in Japan and plant the seeds for FA and new businesses, while overseas we will expand our mold and die component business by establishing new bases, strengthening our distributor network, and pursuing M&As. At present, however, we recognize the urgent need to rebuild our supply system in Japan, strengthen sales activities and cut costs in China, and grow our businesses in Southeast Asia, Europe, and the United States.

To concentrate our management resources on these activities, we shifted our listing from the Prime Market to the Standard Market of the Tokyo Stock Exchange. The market capitalization hurdle for relisting on the Prime Market suddenly jumped to ¥25 billion, which would require our share price to be around 2.5 times the current price and the price book-value ratio to be more than 1.0. We have already introduced ROIC management and will extend it throughout the

Company, aiming to relist on the Prime Market, but we are not pursuing a revival that barely passes the hurdle. We also emphasize "management that is conscious of cost of capital and stock price." To this end, we are still in the process of extending throughout the Company an awareness of ROIC and WACC, terms that our people are not yet sufficiently aware of when they consider their budgets. With respect to share price, we have reaffirmed the return of profits to shareholders as one of our most important priorities. In January 2023, we disclosed changes to our basic capital policy and shareholder return policy. In these policies, we have established, as indicators for determining dividend amounts, a consolidated dividend payout ratio of 30% or higher and a dividend-on-equity (DOE) ratio of 3% or higher. From a sustainability perspective, in July 2022, we established a Sustainability Committee with the participation of all executive officers and above. We also launched three task forces, on CO₂ reduction, waste reduction, and respect for human rights, respectively. We are now disclosing numerical targets on our corporate website, and we understand the need to produce results against those targets going forward.

In Japan, we implemented a voluntary retirement campaign, resulting in a major change in our workforce, which had declined from 900 to 700 persons by October 2023. While we are making steady progress with management rationalization, it will take some time to temporarily reorganize our production system due to the decrease in personnel, while our supply system is also unstable. Eliminating this problem by the end of fiscal 2023 and bringing the situation back to normal are urgent priorities. By utilizing Group factories and partner factories while supplementing production through DX and productivity improvements, we will fulfill our responsibility to supply customers with products. Fully aware of my role, which is to ensure that management rationalization delivers tangible benefits, I intend to transform the Company. With this in mind, I will lead the way in innovating the sources of the Group's strengths. By steadily pursuing every initiative set forth in VC2024 Revival, we will improve our business performance and achieve medium- to long-term growth.



VC2024 Revival: Updated mid-term business plan aimed at sustainable future growth

Although we posted record-high net sales in fiscal 2022, we are facing a rapidly changing world, with rising geopolitical risks, increasing costs of raw materials and resources, and a slow market recovery in Japan, as well as a significant economic slowdown in China. In response, we updated our mid-term business plan in July 2023, renaming it Value Creation 2024 Revival (VC2024 Revival). The updated plan, which prioritizes corporate streamlining, is aimed at ensuring sustainable future growth and based on two major pillars—“redevelopment of domestic business” and “growth in overseas business.” The word “Revival” signifies our decision to implement difficult reforms, including large-scale reorganization, workforce reductions, and liquidation of a consolidated subsidiary. Specifically, we plan to concentrate on domestic corporate streamlining, including the closure of Pintec Corporation, as well as subsequent business restructuring, to lay the foundation for future growth.

To achieve our goals, we will redevelop our sales system. In addition to reducing our workforce through corporate streamlining, we will restructure our organization to improve the efficiency of order-receiving operations. Internal operations, which used to differ from branch to branch, have been consolidated into a customer center at the Kitakami

Plant in Japan to level out disparities between order-receiving operations. By resolving various issues to shorten the time required to address quotations and give production instructions after order receipt, we plan to increase orders while improving customer service. We will begin this process in limited regions while proceeding with consolidation, including that of branches, in stages.

To redevelop the Group production system, we will transfer manufacturing of standard products to overseas factories. At the same time, we will make our own factories smarter by utilizing factory automation (FA) to address automation and labor-saving needs. Because our factories are not mass-production facilities, setting up production lines is difficult. Nevertheless, the Kitakami Plant is progressively introducing labor-saving equipment that feeds products to machines for processing and collection. Going forward, we will promote automation of manufacturing processes and multi-skilled production systems by increasing the types of processing machines we introduce.

We will also continue developing new technologies and strengthening R&D with the aims of further evolving the Punch Industry Group, driving future revenue and earnings, and improving the Group’s technological capabilities.

Corporate streamlining

In July 2023, the Company announced and undertook corporate streamlining by encouraging voluntary retirement among employees and liquidating a consolidated subsidiary. We expect the resulting decrease in personnel to improve our gross margin and reduce SG&A expenses. We believe this corporate streamlining will result in improvements in operating profit of around ¥700 million in fiscal 2023 and around ¥1.2 billion in fiscal 2024, compared with the situation prior to streamlining.

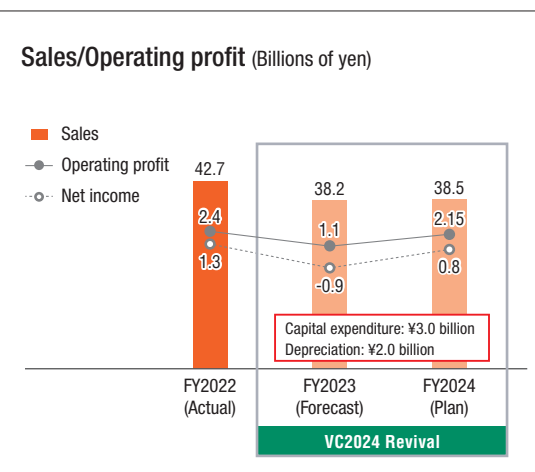
1. Offering voluntary retirement

The offer targeted employees in all divisions in Japan, with early retirement set for September 30, 2023. A total of 205 employees accepted the offer. In addition to the prescribed retirement allowance, we gave those employees a specially calculated allowance, and we also provided outplacement support to those who desired it.

2. Liquidating consolidated subsidiary

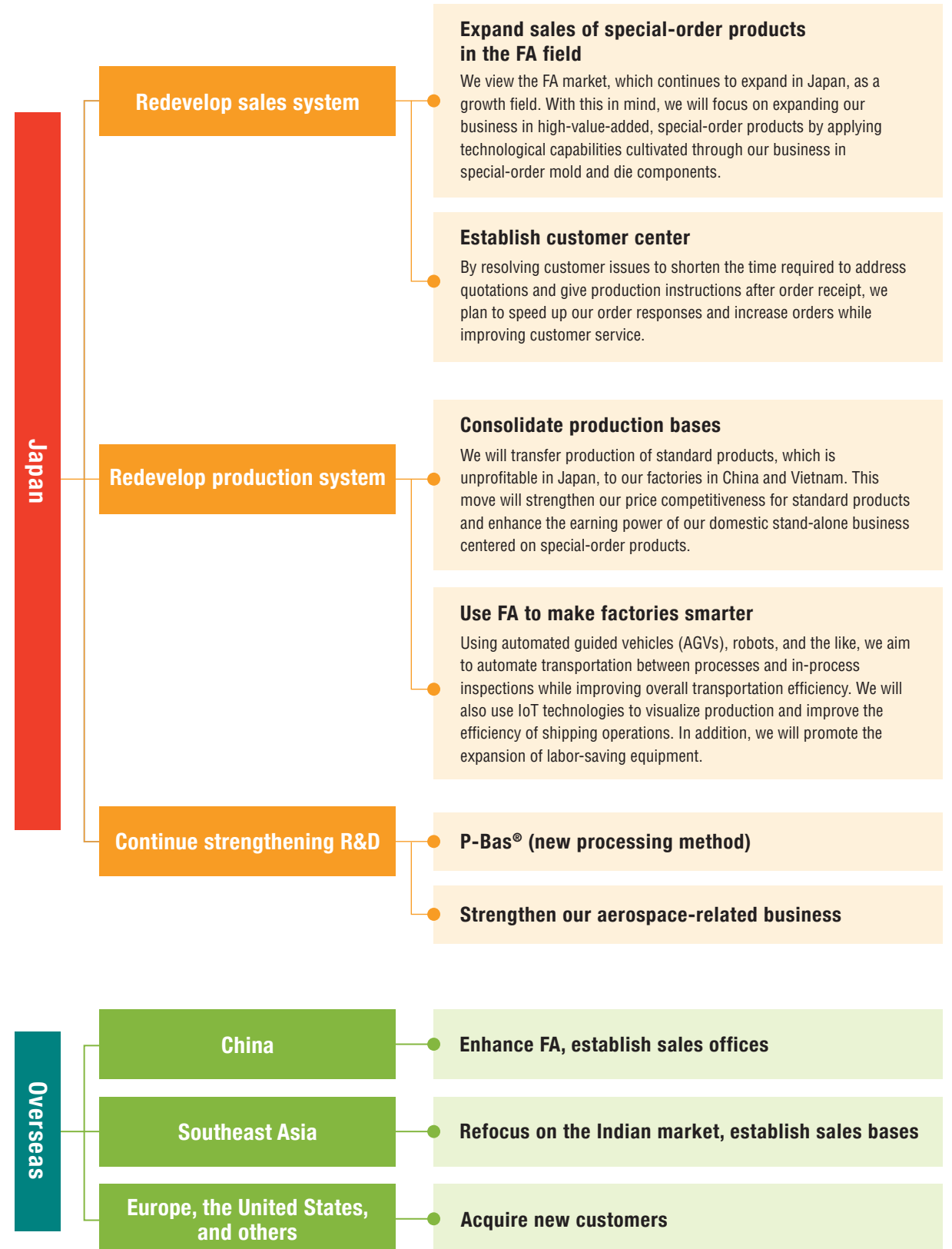
Pintec Corporation, which mainly manufactured and sold PCB mold-related parts, terminated production on September 30, 2023.

Management numerical targets



Our management targets under VC2024 Revival are net sales of ¥38.5 billion or higher, operating profit of ¥2.15 billion or higher, and net income of ¥800 million or higher in fiscal 2024. These figures are significantly lower than the targets set forth in VC2024 (net sales of ¥50 billion, operating profit of ¥5 billion, and net income of ¥4 billion). Nevertheless, we are strongly committed to exceeding all targets at the very minimum. In fiscal 2023, we will report an extraordinary loss associated with our corporate streamlining and the continuation of high prices of raw materials and resources since the previous fiscal year. Accordingly, we forecast a year-on-year decline in revenues and earnings and expect to post a net loss. In fiscal 2024, however, we look forward to solidly improving profitability despite mostly unchanged net sales, forecasting operating profit of ¥2.15 billion or higher and net income of ¥800 million or higher. Although the times call for patience, we plan to make capital expenditures of ¥3 billion over two years (the same level as that of VC2024) as investments for the future.

Key Measures of VC2024 Revival



The Punch Industry Group proactively engages in technology development and R&D, the sources of value creation for a manufacturing company.

R&D and Marketing Creating New Value

The Punch Industry Group's R&D bases in Japan and China work together to develop new manufacturing methods and products. Our business environment is undergoing remarkable changes due to advances in digitalization and electrification, as well as business model innovations. In this context, our aim is to stay close to the market to understand new needs and create new value, as well as new businesses and products for the next generation.

Aerospace-related initiatives

Technical partnership agreement with Dymon Co., Ltd., which is tackling the challenge of lunar exploration

In May 2023, we signed a technical partnership agreement with Dymon Co., Ltd., a robotics and space technology development venture, the first private company in the world to tackle the challenge of lunar exploration. We are participating in Dymon's lunar exploration initiative called Project YAOKI. It will use Punch Industry's 3D Measurement technology to ensure the accuracy between the design of the YAOKI lunar rover and the actual body, and verify the hypothesized clearance (gap) between the rover's storage case and main body during transportation.

The aim of the project is to transport YAOKI, a lunar rover developed by Dymon, to the moon's surface. YAOKI will drive around the lunar surface and obtain close-up image data to secure resources and build a base for human activities, including living quarters. Housed in a special storage case, YAOKI will be transported to the moon by a lunar module, and after landing, it will pop out of the case and start exploring the lunar surface. The role of Punch Industry is to measure the shape of YAOKI to ensure that the clearance (gap) between its storage case and main body is properly packed to enable the rover to withstand vibration during transportation.



YAOKI lunar rover

Joint research agreement with JAXA

In August 2023, we signed a joint research agreement with the Japan Aerospace Exploration Agency (JAXA).

Under the agreement, we will engage in joint research into manufacturing processes using Punch Industry's P-Bas® metal-bonding technology for making parts with complex shapes that are difficult to cut and process, such as those for rocket engines.

Research overview

- Obtain bonding conditions for heat-resistant alloys
We aim to establish optimal conditions for bonding heat-resistant alloys, including heating and pressurization time, temperature, and pressure, and evaluate the bonding strength through tests and other means.
- Study bonding process with minimal distortion
Because P-Bas® has a one-way pressure direction, it is necessary to address the problem of misalignment and distortion caused by pressure. To minimize such distortion, we will make trial joints using several types of bonding fixtures and evaluate the bonded surface by measuring the shape.

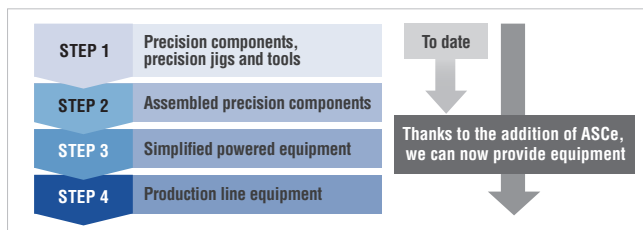
ASCe, which designs and manufactures FA equipment, joins Punch Industry Group

In October 2022, the Company acquired all shares in ASCe CO., LTD., which designs and manufactures FA equipment, and ASCe joined the Group. This addition will enable us to accelerate efforts to expand sales of special-order products in the FA field and use FA to make our own factories smarter, which are key measures in our mid-term business plan.

With respect to expanding sales of special-order products in the FA field, we will increase efforts in four steps (see chart below). To date, we have manufactured precision components, precision jigs and tools, and assembled precision components by applying technological capabilities cultivated through our business in special-order mold and die components and heeding the various requests of customers. With the addition of ASCe, however, we can now offer more complex and sophisticated products that incorporate equipment similar to that used in production lines. To strengthen our system for expanding sales, we launched an FA business promotion project in Japan. We are also promoting the formulation of sales strategies while establishing ties with FA partner factories. To make our factories smarter, we will improve work efficiency by developing, designing, and introducing automated guided vehicles (AGVs), robots, and other equipment to automate transportation between processes and in-process inspections.



Collaborative robot assembled by ASCe



Participation in exhibitions in 2023

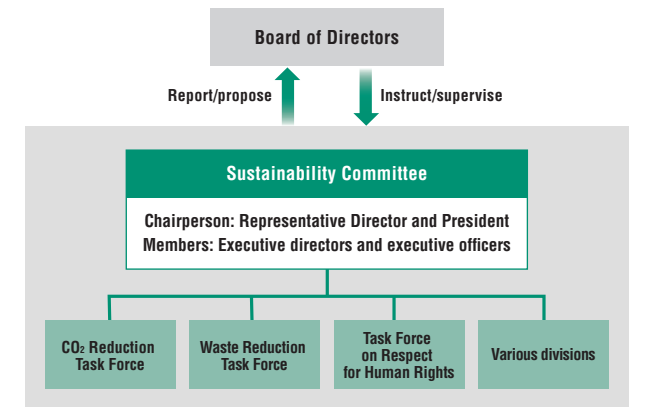
- June 2023: Industrial ODM/EMS Expo (Japan)
- September 2023: FABTECH 2023 (Chicago, U.S.A.)
- October 2023: Fakuma 2023 (International Trade Fair for Plastics Processing) (Germany)



Sustainability Committee established

In July 2022, we established the Sustainability Committee to strengthen our efforts to create a sustainable society. The committee is chaired by the Representative Director and President, and includes executive directors and executive officers. It is charged with formulating basic policies on sustainability, identifying material issues, setting activity plans and targets for all material issues, and managing their progress. It also deliberates matters related to the disclosure of information on its activities, gives operational instructions, and regularly submits reports and proposals to the Board of Directors.

Under the committee are three task forces—domestic and international cross-departmental teams—that focus on CO₂ reduction, waste reduction, and respect for human rights, respectively. They are responsible for managing the progress of all tasks and the practicalities of addressing all material issues.



Family Day

We conduct factory tours for children and families of employees. The purpose of the tours is to let children and their families experience the joys and challenges of work by seeing their mothers and fathers working, which they could not normally do. By helping them learn about their parents' workplace, we hope to increase the number of Punch Industry supporters.



Family Day events (Kitakami Plant, Malaysia Plant)

Culture Reform Committee

We have established a Culture Reform Committee at every site and are developing various initiatives to reform our corporate culture. These committees plan and coordinate various events that contribute to society and revitalize internal communication. For example, they spearhead the Company's in-house recycling activities, including the eco-cap campaign to collect plastic bottle caps and the flowering campaign to decorate workplaces with flowers, as well as food drives, in which food items are collected from employees and donated to local social welfare organizations. We also collect donations for the Red Feather campaign at shopping centers.



Food drives



Red Feather campaign

Solar power panels

In July 2023, we installed solar panels on the roof of our Vietnam Plant. The panels are expected to generate around 30% of the electricity used at that plant and reduce around 415 tons of CO₂ emissions per year.

Prior to the Vietnam Plant, the Group installed solar panels on the roof of its Malaysia Plant in 2018. Those panels have reduced around 130 tons of CO₂ emissions per year and are also used as a source of electricity within the plant, with any surplus power sold to local power companies.



Solar panels (Vietnam Plant)

Certification for promoting childcare and women's participation and advancement

In November 2022, we received Kurumin certification from the Ministry of Health, Labour and Welfare in recognition of our high-level efforts to help employees balance their work and childcare duties. This certification recognizes the Company's efforts to promote understanding at every workplace, as well as its progress in encouraging employees, regardless of gender, to take parental leave and annual paid leave. We also received Eruboshi (Level 3) certification in July 2021.

