

Message from the CFO

Implementing a major investment of over 20 billion yen in fiscal 2023 as the market grows

We are also strategically investing in growth through “One2025” as we celebrate our 100th anniversary in 2024.

Katsuhiko Shukunami

Director, Senior Executive Officer



2022 Demonstrated Our Collective Strength

The previous medium-term management plan, BTvision22, started in fiscal 2020 as COVID-19 began to spread worldwide and the flow of humanity came to a halt. As economic stagnation spread, some companies were forced to shut down operations, but demand for PCs, tablet computers, and other IT products soared. Working in this field as the global demand for semiconductors surged, our business experienced strong growth. We had positioned semiconductors as a growth market prior to the pandemic, and our early capital investment paid off.

Net sales in fiscal 2022, the final year of the previous medium-term management plan, jumped from 29.2 billion yen in fiscal 2019 to 48.7 billion yen, and the figure is now nearly 50 billion yen. Operating income also nearly quadrupled from 3.7 billion yen in fiscal 2019 to 13.8 billion yen, a 3.7-fold increase. In that three-year period of time, we reached an entirely new level as a company.

In fiscal 2022 alone, our electronic equipment business, which makes products primarily for semiconductor manufacturing, performed superbly, achieving record sales, operating income, and net income for the second year in a row. Net sales increased by 8 billion yen, up 19.7% from the previous year; operating income increased by 2.4 billion yen, up 21.5%; and return on equity (ROE) reached a record high of 18.6%. These results exceeded the expectations of our shareholders.

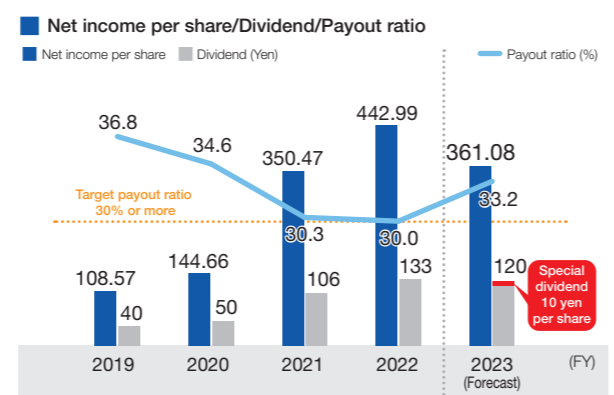
Yet, the achievements didn't come easy. We were plagued by shortages in the supply of fluoro resin and other key raw materials and had to deal with price hikes. The healthy demand for semiconductors led to a backlog in orders, while the raw material shortages exacerbated delays in product delivery. We were also forced to ask our customers to accept some of the burden for the rise in costs.

To cope with these challenges, we came together across the Company and found solutions such as recycling fluoro resin that had been discarded as leftover material, and did research to develop replacement materials. We consulted carefully with customers regarding changes in the specs for the raw materials and after confirming through repeated tests that the quality remained firm, we were able to increase supplies. I also believe that our customers' unshakeable trust in our products allowed us to gain their acceptance to pass on some of the rise in costs.

I feel that 2022 was a year that truly tested our collective strength as a company.

Financial Strategy of the New Medium-Term Management Plan, One2025

As we approach our 100th anniversary in 2024, we will be on the path to new growth and our new medium-term management plan, One2025, will serve as a guidepost for the near term. Of the four “Ones” in the plan, “Day One” is particularly meaningful here. “Day One” means to recall the Company's founding—its pioneering spirit and the sense of challenge and purpose that existed on the very first day. We will take that determination and grit and apply it with a sense of urgency to our efforts going forward.



In fiscal 2023, the semiconductor market is likely to plateau, which will cause a drop in shipments of manufacturing equipment. The market may become stagnant or even fall into negative growth. Under such circumstances, how we proceed will be vital for maintaining growth. We will be working to fulfill a backlog of orders in the electronic equipment business that has accumulated since the previous fiscal year and respond to new demand, as well. Meanwhile, it will be a year of preparation in view of an expected “checkmark” recovery of the semiconductor market in fiscal 2024. I want us to build on the momentum of the strong growth we had over the previous medium-term management plan, and take off even further in 2024, our 100th anniversary year.

Over the three years of One2025, we aim to achieve growth of 10% or more annually, consolidated sales of 66 billion yen, consolidated operating income of 17 billion yen, an operating income margin of 25.7%, and an ROE of 10% or more. Few manufacturers with factories have an operating income margin of 20% or higher, but we have technology that cannot easily be copied by other companies, which is why I believe we can further build our earning power. Shareholder returns will be based on dividends, and our target payout ratio will be 30% or more, matching what it has been.

Continued Investment for Business Growth

The Company has gotten by for a long time without raising major funding, but in fiscal 2023 a demand for funding that will exceed 20 billion yen emerged.

Our products are considered by customers to be key components in semiconductor manufacturing, and to fulfill our supply responsibilities, I believe that we must move ahead with capital investment before much time passes. In the electronic equipment business, in anticipation of strong demand in the semiconductor market, we will make a major investment of over 10 billion yen in Fukuchiyama. As Chief Financial Officer, my focus will be on managing capital costs as we develop an optimum financing strategy, utilizing our leverage judiciously.

We invested approximately 6.6 billion yen in the acquisition of Tanken Seal Seiko as part of our growth strategy in the industrial equipment business. Facing a major turning point, we aim to strengthen this business and get it back on track for growth during the One2025 period. Acquiring Tanken Seal Seiko, which provides high-performance products and services centered on the manufacture, sale, and maintenance of mechanical seals, I feel, will elevate our game and bring synergies to technology, production, and procurement.

In the area of research and development, construction of the Innovation Center at our mother factory, the Sanda Factory will be completed in October 2023. We will concentrate the Company's

intellectual resources at this center to develop original products, while also promoting open innovation through industry-government-academia collaboration.

In the early development of businesses for next-generation growth, we are working on seismic isolation-related products that apply low-friction properties to reduce shaking from earthquakes in buildings and warehouses, an area in which demand is rising. In a different field, we are pursuing research to develop high-frequency substrates that will enable the transmission of greater volumes of data using high-speed 5G and next-generation 6G networks, both on our own and in collaboration with other companies.

In the development of new materials, we are laying groundwork by collecting information and actively building relationships with customers both in Japan and internationally. For example, we have sent engineers to Europe to ask questions and see if our technologies and products can help customers move toward carbon neutrality and meet other environmental challenges.

We are also boosting our investment in human resources, with an increase of 20% per employee in personnel training and development. At the same time, we recognize the importance of bringing about reforms at production sites, which have a direct impact on manufacturing costs. We also aim to improve office productivity, which is why we are redesigning our digital infrastructure. We aim for the new system to go into operation in fiscal 2025, confident it will transform work practices and boost efficiencies.

In fiscal 2022, we reached 100 billion yen in market capitalization, which is a good indicator of our corporate value but is only a brief snapshot in time. The important thing is to continue to grow sustainably, contributing to society by developing products and technologies that the world needs, which aligns with the Company's founding spirit.

