

# Creating economic and social value through further development of our products and technologies

We have met our management targets early thanks to the rapid expansion of the semiconductor market, but rather than remain complacent, with keen managerial awareness we aim to improve our agility in the face of change.

President

*Y. Inaumi*

## » Looking Back on Fiscal 2021

In fiscal 2021, despite fluctuations in the energy market due to the spread of COVID-19 and the Russia/Ukraine situation, the semiconductor market saw significant growth, generating strong demand for our products, which called for a major expansion in manufacturing. In conjunction with the worldwide shortage of semiconductors, there emerged a shortage of fluororesin, a key raw material for our Company, but we were able to make internal arrangements and negotiate with suppliers to resolve the problem. Our rapid increase in production led to a labor shortage, but we were able to overcome it with a cross-division loan of personnel. Such efforts brought more unity to the Company and I felt a certain momentum take hold that will lead to growth.

Facing significant changes in society and the marketplace, we worked to handle every issue without delay to achieve growth. A new issue soon became apparent, however, that would have to be overcome before we could reach the next level. To improve our speed now as a larger corporation and encourage a spirit of accepting challenges, I realized that there needs to be a bonding between leadership at the management level and the rest of the Company's employees to build the overall strength of the organization to carry out business.

## » Performance Results —Higher Sales and Profits

Our overall financial results for fiscal 2021 reached record highs in both sales and profits. We hit the 40 billion yen mark in sales and exceeded 10 billion yen in profit. These results reflect the opportunities we had in a rapidly expanding semiconductor market. Although problems arose with our production system and raw materials, we were able to reduce the percent defective, implement measures to reduce costs, and get personnel loaned from other divisions—all of which helped significantly to increase our income and profits.

Looking at individual segments, our electronic equipment business boosted its results thanks to the tailwind I just mentioned (the rapid increase in demand for semiconductors). In the industrial equipment business, amidst great upheaval in the energy market, our strong results were largely due to a rise in both sales and profits of mechanical seals for precision equipment.

In fiscal 2022, even as the shortage of resin worsens, we will work to secure supplies using a range of methods, including continuing to reduce the defective rate in production. To combat rising input costs, we plan to boost our competitiveness by reducing cost price and engaging in improvement activities.

Our aim is to continue increasing our share in the markets we compete in, make our products and technologies even more distinctive, and strengthen our cost competitiveness.

## » An Upward Revision to Our Medium-Term Management Plan, BTvision22

In this final year of our three-year medium-term management plan, we have exceeded our own expectations and have already met our initial targets. This situation is a result of tremendous expansion in the semiconductor market, beyond all early estimates. But we must remain keenly aware of the rapid changes taking place in the market or risk getting engulfed. With the experience from this environment over the past year, we will continue to carry out measures in line with the five basic policies in our plan.

### ► Enhancing business infrastructure

In the electronic equipment business, we were able to begin mass production of new products using new technologies and also began construction of our Fukuchiyama Second Factory. In the industrial equipment business, we have been able to launch new products for the semiconductor market on an ongoing basis and start a joint venture in seal material for the new energy market, with admirable results. We aim to continue creating new business infrastructure going forward without self-limits.

### ► Achieving further globalization

We have just reached the target of 30% of our total sales being outside of Japan. Over the past decade, we expanded our international business bases and built relationships of deep trust with customers locally. Over the past year, we made good additional progress on this front. Going forward, we plan to mass-produce products for semiconductors by expanding our business in China and are looking to expand our range of businesses and extend into new regions.

### ► Creating new businesses

Through tie-ups with venture companies, we have made progress in developing new solutions and new products using original technology. This year we laid the groundwork for growth, starting product development for future markets that include hydrogen, ammonia, and electric vehicles.

### ► Promoting ESG/SDGs management

We established our ESG/SDGs Promotion Committee in April 2021, and have been working to promote an environmental message throughout the Company based on regular meetings of the committee. We are prepared to add new themes every year as we strive to respond quickly to issues and communicate our environmental stance to the world.



► Financial strategy

We just began construction of our Fukuchiyama Second Factory, the first step in a major investment that will improve our manufacturing capabilities and competitiveness going forward. Regarding shareholder returns, we have maintained a minimum dividend payout ratio of 30% and also increased the dividend in line with our profit growth in fiscal 2021, which should be welcomed. We will continue to invest in growth, increase dividends through profit growth, and consider acquiring treasury shares depending on our cash flow.

» Building a Future Based on the Group Code of Conduct “Good to Better, Better to the Best”

Semiconductor demand is expected to continue growing, so we will expand our workforce, including both new graduates and individuals changing jobs mid-career. As this takes place, we will need to get all of our employees on the same page and build strong teamwork. A hodgepodge of individual approaches will diminish our ability to respond with agility. Respect for diversity naturally comes first, but the Company also needs to have set values and action guidelines that cannot be strayed from.

The Group Code of Conduct “Good to Better, Better to the Best” is for all stakeholders. It will help Nippon Pillar to become the best company we can be through step-by-step improvements. There are many things we need to do, but they cannot all be done at once. We must expand the scale of the Company, increase our market capitalization, boost our competitiveness, and create a positive workplace environment. We have expressed our determination to maintain a long-term perspective while working on the individual pieces of the puzzle in the short-term and seeing tasks through to completion. In our 98-year history, we have faced and overcome numerous crises both large and small, and have steadily expanded our business and product domains. For this trajectory we have our predecessors to thank. Our job is keep the momentum going and work to create prosperity and build a better future.

» Writing Our Own Story of Value Creation

Fiscal 2021 was a year in which we took significant advantage of business opportunities. In the electronic equipment business, the semiconductor market grew rapidly, which presented new chances for growth as remote work drove the need for IT devices, and there was rising demand for electric vehicles and products incorporating sensors and robotics. In the industrial equipment business, global society has gotten serious about dealing with environmental issues, especially about reducing carbon emissions, and approaches are changing with regard to the use of energy sources in various processes. New technologies and new products that employ

Contributing to the emergence of a society committed to sustainability by providing high-performance products offering greater added value



our fluid control technologies have strong potential and present a great opportunity. At the same time, risks are also rising. We must urgently expand our workforce and facilities, and obtain raw materials to meet the rapidly growing needs of the semiconductor market.

Within this context, we have identified materiality for the Company. Our key issues involve the contributions we can make through the equipment we sell related to fluid control and the processes related to offering our products and services. We have been carrying out management from an ESG/SDGs perspective, but stipulating actions in writing will help all employees to get on the same page.

As we continue to write the story of our history, we will need a tireless effort in raising corporate value along with firm leadership, rapid responses to issues that may arise, and an enthusiastic effort all around. That is how we will write the latest chapter on value creation.

» To Our Stakeholders

We were able to achieve outstanding performance in fiscal 2021. Our next effort will be to devise the next medium-term management plan. The upcoming three-year period will straddle the Company's 100th anniversary, so we aim to create a plan that further boosts our corporate value. At the same time, I would like to send out a message that clearly expresses the meaning of this centennial milestone and that brings everyone together. Our vision is to be a better company, and I want everyone to be able to feel the changes as we get better, both inside and outside the Company. I would like to see us to contribute to the marketplace through technological advancement, raise employee motivation and performance by becoming an easier place to work at, and be a company that has become indispensable to the world.

We may ask our stakeholders for assistance and advice from time to time. We hope to build on that and live up to your expectations. We truly appreciate your continued support.

► Message from the CFO

Our aims are to grow the Company, fulfill our social responsibility, and earn widespread support.

We will review our financial strategy to improve capital efficiency—including robust investment in facilities and technological development—and boost our corporate value through increasingly global IR.

Director, Senior Executive Officer General Manager  
Katsuhiko Shukunami



» Moving Ahead with a Financial Strategy Review, Aiming to Expand Growth through Large-Scale Investment

Fiscal 2021 was a year of tremendous disruption in both global society and the market environment. Of particular note was the energy market's instability, attributable to the spread of COVID-19 and the Russian invasion of Ukraine, combined with escalating prices and the continued devaluation of the yen. Nevertheless, our sales exceeded the 40 billion yen mark, doubling our operating income to 10 billion yen for unprecedented growth. It was truly a landmark year.

These results were driven by the electronic equipment business, which benefited from a rapid rise in demand for semiconductors, which in turn was stimulated by increased global investment. The industrial equipment business also did well through production, sales, and engineering divisions working together successfully in many areas to improve profitability and achieve a high profit margin.

As we enter the final year of our BTVision22 medium-term management plan, we plan to review our financial strategy. We had intended to invest 10 billion yen in capital expenditures over the three years, but are expected to fall short of that amount. The primary reason for this was a fundamental reappraisal of the construction of our Fukuchiyama Second Factory to meet increased demand in the semiconductor market. We plan to accelerate such investment in the next

medium-term management plan. With regard to investment aimed at further growth, we are considering supplementing corporate funds with a range of other financing methods such as green bonds.

Next, regarding dividends, we will continue aiming for ongoing stability based on a minimum payout ratio of 30% and will consider buying treasury shares while balancing that with company growth investments. In terms of ROE, which represents the efficiency of capital, we were able to achieve a 16.8% return in fiscal 2021, more than double our target of 8%, but I recognize that maintaining this will not be easy. We will continue to take measures to improve return on equity, however, aiming to reach our final year target and attain 10% or higher—the Prime Market level on the TSE.

We are also aware of how ESG/SDGs management can set a company apart in the marketplace. We aim to fulfill our corporate social responsibility in such areas and thereby earn the support of the public. Our engagement includes matters concerning the Task Force on Climate-Related Financial Disclosures (TCFD) and biodiversity, along with many other topics such as human rights due diligence. Since we work with many small and medium-sized suppliers and overseas suppliers in our supply chain, we are conducting surveys and follow-ups regarding these initiatives to further emphasize CSR procurement throughout the supply chain.

Taking these measures, we aim to achieve business growth, accompanied by open innovation at our Technology Development Center, utilizing our strengths in technology and product development to reach a market capitalization of 100 billion yen.

We also plan to develop investor relations to increase our appeal internationally, putting effort into raising our profile and global recognition. Please lend us your continued support as a stakeholder.

