



## Becoming a company responsive to a changing society

The impact of the COVID-19 pandemic has sparked rapid changes in society. This situation presents an opportunity for improving our corporate value.

President

### Unifying the focus of the Company after carefully accommodating societal change

A year has now passed since I took office as president on June 25. My appointment coincided with the emergence of an unprecedented situation created by the spread of the COVID-19 pandemic; however, thanks to the support of our shareholders and other stakeholders, we were able to focus our efforts on enhancing our corporate value.

During the past year of our business operations, I came to the powerful realization that the pace of societal change has been accelerating dramatically. Our corporate operations have been significantly impacted by the widespread impact of the COVID-19 pandemic. Markets have been disrupted, and we have had no choice but to transform the way we work, adapting practices that we had been taking for granted. I also get the impression that efforts toward implementing a digital transformation, as well as initiatives to reduce carbon emissions, have quite suddenly come to the forefront.

However, even before the emergence of the COVID-19 pandemic, these changes had been expected to occur eventually, and Nippon Pillar Packing has made no changes to its mission nor to the issues for which it is seeking solutions. By recognizing change as an opportunity and responding quickly, we should be able to provide products that meet market expectations and grow our business. The environment in which our Company operates is expected to continue changing, and those involved in corporate management are required to take the lead in showing the way forward.

Currently, we are focused on disseminating our management policies, goals, and the issues we are facing throughout the Company, including to our overseas bases. As president, I have promoted the tagline “CLEAN, SAFETY, FRONTIER” under the slogan “Creating a future that supports society.” This initiative is intended to clearly demonstrate and instill in our consciousness our Group goals and the direction we should take. Management is meaningful only when it communicates and shares its policies and vision, and when all staff both within and outside Japan understand it and take action leading to results. Although the initiative is still in the midst of being implemented, we will continue to share information that will serve as a guideline for the entire Company and establish a system in which all employees of the Pillar Group can work together to advance the business.

### We will never miss an opportunity to grow our market. The trend toward reduced carbon emissions promises to transform our electronic equipment and industrial equipment segments.

Our overall financial results for fiscal 2020 exceeded our results for the preceding fiscal year. Looking at individual segments, our electronic equipment business posted record highs in terms of both sales and profits. On the other hand, our other flagship segment, the industrial equipment business, registered a decline in both sales and profits.

In our electronic equipment business, which accounts for

about 70% of consolidated sales, we are now addressing two pressing issues: technological innovation and semiconductor supply. Semiconductors now offer significantly higher functionality and greater added value than ever before. In anticipation of technological advances, we intend to focus our research and development on fluid leak prevention and control equipment, which benefits from our expertise in seal technology as well as our unique technologies derived from materials. In light of higher density of semiconductors as a result of technological innovations such as multilayered memory and use of logic ICs, the demand for advanced equipment is also high, so we must develop the capability to respond properly.

With the growing global demand for semiconductors, chip makers are rushing to invest capital for increased production, but we believe that the supply shortage will continue for some time yet. We remain committed to improving the quality of our products, maintaining our cost advantage, and securing a supply sufficient to meet demand so that we do not miss this opportunity to expand our market.

Our industrial equipment business provides high-performance mechanical seals and gaskets to industries as diverse as the electric power, petroleum refining, petrochemicals, and automotive sectors. However, the COVID-19 pandemic has led to sluggish demand for oil, natural gas, and other fossil fuels, which has also affected our business performance. We expect that the tendency to focus on environmental considerations and lower carbon emissions will continue to accelerate, leading to greater progress in the conversion to wind power, solar power, and other forms of

renewable energy as well as new sources of clean energy such as hydrogen and ammonia.

However, even as our energy sources are transformed, the role and significance of our products and technologies in preventing and repairing releases of greenhouse gases and environmentally hazardous substances will remain unchanged. At the same time, we intend to contribute to the market and to society at large by developing seal products that accommodate the transition to new forms of energy. We also believe we can further drive the trend away from fossil fuels by providing resin products that contribute to weight reduction for electric vehicles and existing vehicles with internal-combustion engines, thus resulting in reduced consumption of gasoline and other fuels.

### Achieving steady progress in five areas through our medium-term management plan, “BTvision22”

We are currently in the second year of “BTvision22,” our medium-term management plan scheduled to conclude in fiscal 2022. In light of the development of the digital transformation and 5G technology, we have made an upward revision of our target for the final fiscal year as a result of growing semiconductor demand. The five basic policies of this management plan are as follows: (1) Enhancing business infrastructure; (2) Achieving further globalization; (3) Creating new businesses; (4) Promoting ESG/SDGs management principles; and (5) Financial strategy. I expand on these five policies below.

**(1) Enhancing business infrastructure**

To grow our business foundation, it is essential that we develop more advanced solutions for our markets and for our customers. Toward that end, we believe it would be most effective to develop products incorporating our core strengths of sealing technology and material technology. On the other hand, we must dedicate ourselves to developing and providing products focused on clean energy, electric vehicles, and fuel cell vehicles, where technological innovation continues to make progress. In our semiconductor-related businesses, our goal is to identify the supply status of chip makers and respond appropriately to customer needs.

**(2) Achieving further globalization**

The launch of our "BTvision22" management plan coincided with the emergence of the COVID-19 pandemic. As a result, we have become used to communicating with our business locations and customers outside Japan through online conferencing technology. Online meetings also allow for the minimum amount of dialogue required, but much more can be learned from actually visiting the local area.

Despite this situation, we are promoting measures to expand our overseas locations. For example, in China, we established offices in Suzhou, but since the Chinese market has grown in terms of both quantity and quality, these facilities have become cramped. We thus established a production base on a site in Chuzhou that is about double the size. On the other hand, we have decided to withdraw from the market in India, as the business environment has been deeply impacted by the spread of the COVID-19 pandemic, which has not subsided. As for our other businesses outside Japan, risk and return are two sides of the same coin. So, we will take action to maximize returns within the range of acceptable risks.

**(3) Creating new businesses**

The technology possessed by Nippon Pillar Packing is embodied within a wide range of products that serve all customers across many markets. We intend to realize our full potential by adding third and fourth flagship segments to bolster our existing twin segments of electronic equipment and industrial equipment. Specifically, we are continuing our research and development on candidate technologies in 5G-related fields such as communication antenna

substrates utilizing the characteristics of fluororesins, electric vehicles, and clean energy fields such as hydrogen utilizing our fluid leak prevention and control technology.

**(4) Promoting ESG/SDGs management**

By offering sealing products such as fittings and gaskets providing high performance and safety without leaking fluid, we are contributing to protection of the atmosphere and the rest of the environment while safeguarding human health and maintaining quality of life. Viewing the situation from an ESG/SDG perspective, we must raise awareness of our initiatives and future efforts both inside and outside the company in order to contribute to the emergence of a society committed to sustainability and prosperity. We established our ESG/SDGs Promotion Committee in April 2021 to promote sustainable management, and I have taken the lead as chairman.

**(5) Financial strategy**

Our BTvision22 includes a basic policy of providing a minimum dividend payout ratio of 30% and is focused on responding to the demands of investors. We will also acquire treasury shares in a timely manner while maintaining a balance of growth investments. We intend to focus our investor relations activities so that shareholders and other stakeholders gain an accurate understanding of our business strategy and corporate value.

**Becoming a better company through repeated testing of hypotheses**

Our goal, which is encompassed within BTvision22, our medium-term management plan, is to become a better company, though admittedly this is a rather abstract objective. In order to achieve this goal, it is essential that we make progress by achieving our objectives one step at a time. However, because we are unable to respond to sudden changes if we are caught up looking only at what is in front of our eyes, we must cultivate a "compound-eye" field of view capable of viewing the foreground and the horizon at the same time. In other words, we must securely implement both single-year and medium-term management plans. I trust all our employees remain aware of the need to always observe society and markets and test their hypotheses to confirm their validity. By repeatedly testing our hypotheses, we can foresee changes and respond to the needs of a changing society, thus meeting our goal of becoming a better company.

At the same time, we will strive to provide shareholders with appropriate and easy-to-understand information by disclosing the initiatives and business activities we are pursuing in order to increase our corporate value.

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



**Establishing a firm foundation for the next 100 years**

Through innovative products and ESG-focused management, we aim to become a company valued worldwide.

Director, Senior Executive Officer General Manager, Administration Headquarters General Manager, Corporate Planning Department General Manager

**Katsuhiko Shukunami**



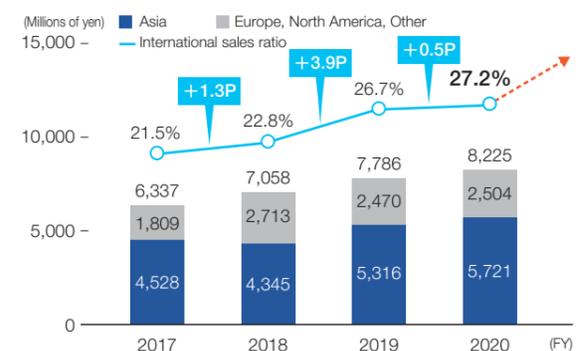
**Demonstrating our full potential in next-generation markets**

In fiscal 2020, our electronic equipment business posted record sales due to a significant increase in product orders arising from the recovery of the semiconductor market. Due to the COVID-19 pandemic, demand for PCs and tablets surged worldwide, leading to a shortage of semiconductors and active capital investment by many companies. At the same time, the COVID-19 pandemic triggered a decline in sales and profits in our industrial equipment business.

Looking to our financial strategy, we undertook our largest share buyback on record. We also announced a minimum numerical target of 30% for our payout ratio, and we increased our annual dividend forecast from 45 yen to 50 yen. We also forecast record sales and profits for fiscal 2021, and we thus expect to further increase our annual dividend to 70 yen. We are committed to maintaining a stable and sustainably high level of shareholder return.

During the preceding three years, we have significantly improved our productivity in manufacturing products for semiconductor equipment. Our great strength is our confident ability to manufacture one-of-a-kind products on a timely basis and at the volume and quality required by our customers. We have also

**Sales trend outside Japan**



achieved a significant improvement in our defective product rate, which testifies to our growing expertise in manufacturing. Under our current medium-term management plan, we plan to invest 10 billion yen in growth over three years of the plan. As of March 2020, our new Sanda Factory became fully operational, providing both greater automation and a reduction in labor requirements. In addition, we have started construction of our technology development center, which will help us develop unique products that will continue to be the first choice of our customers while supporting open innovation as a collaboration of industry, government, and academia so that we can establish a stronger foundation for our next 100 years. At the same time, we are setting the stage for the next generation of products for our electronic equipment businesses.

As for expansion outside Japan, we expect to invest in expanded production. We have already established facilities in the U.S.A. and China, and we plan to install and operate equipment to accommodate market conditions. We also intend to further increase our international sales ratio from its current 27.2% share for fiscal 2020. Along with the expansion of our business outside Japan, we intend to strengthen our internal controls as well as the human resource development capabilities of our local subsidiaries. In the future, we will examine the development of a system for promoting more local staff to management positions.

Finally, I would like to introduce ESG management principles. We are engaged in the business of stopping leaks, and being very environmentally aware, we are proud to have pioneered many advances in energy efficiency and resource conservation. We will continue to disclose our environmental policy, procurement policy, and group action policy in the year ahead, and we remain dedicated to further expanding the disclosure of non-financial information in the belief that evaluations by our stakeholders will lead to enhanced corporate value.

We remain committed to providing products and pursuing ESG management principles as we grow to become a valued company on which people around the world depend.