February 2, 2023

Company:	Nippon Pillar Packing Co., Ltd.
Representative:	Yoshinobu Iwanami, President (Securities code: 6490; Prime Market of the Tokyo Stock Exchange)
Contact	Katsuhiko Shukunami, Director and Senior Executive Officer (Telephone: +81-6-7166-8281)

Notice of Issuance of a Sponsored Research Report

Nippon Pillar Packing Co., Ltd. (the “Company”) is pleased to announce that the Company has released a sponsored research report in order to facilitate communication with our shareholders and investors, and to help deepen their understanding of the Company.

The research report was written by Capital Goods Research & Advisory Co., Ltd. The report does not carry any investment recommendation – it is solely prepared to provide an easy-to-understand explanation of the Company's business model, industry trends, performance trends, long-term business strategy, and other information that has already been made public. For details, please refer to the attached document.

Corporate Report

Prime Market—Machinery

January 10, 2023

Analyst in charge

Shinji Kuroda
Hidehiko Hoshino CMA
Capital Goods Research & Advisory

Nippon Pillar Packing (6490)

Interview with President Iwanami: Aiming for a market capitalization of 100 billion yen

- Nippon Pillar Packing (hereinafter, the Company) has been mainly engaged in the electronic equipment business, which is centered on the fittings used in the cleaning process of semiconductors and LCD s and has a 90% share of the world market, and the industrial equipment business, which deals with mechanical seals, gland packing, gaskets, etc. for pumps and valves installed in various industrial plants.
- Segment profit in the electronic equipment business has tripled in the past 5 years, and segment profit margin in the fiscal year ended March 2022 reached about 32%, which is as high as that of Tokyo Electron and SMC, which represent companies in Japan. In the industrial equipment business, in addition to higher orders for environmentally friendly products, there are expectations of increased demand due to the restart operation of nuclear power plants and long-term growth potential under the theme of "decarbonization." Although it is a high-growth, high-profit, niche semiconductor company with a high market share, it is noteworthy that President Iwanami played a key role in deepening ESG management.
- DRAM prices and the semiconductor market, leading indicators of stock prices and performance, have been declining since their peak in March 2022. Semiconductor Memory companies have already announced plans to drastically cut capital investment for the fiscal year ending March 2024, and some semiconductor manufacturing equipment manufacturers have announced downward revisions to their earnings forecasts for the fiscal year ending March 2023 due to U.S. regulations on China. The consensus in the stock market is that the leading indicators will bottom out in January–June 2023 while taking into account profit decline guidance in the fiscal year ending March 2024. On the other hand, the global semiconductor market is expected to reach 1 trillion U.S. dollars in 2030, double the 2020 level, due to the increase in data traffic caused by EV, IoT, post-5G, etc., and this market forecast remains unchanged. For this reason, all involved companies have been actively investing in long-term strategic investments, although they are concerned about short-term downside risks.
- The Company plans to announce its next three-year medium-term business plan in May 2023, and attention is focused on the new medium-term plan that EBARA, which has similar end customers, will announce on February 14, 2023. In the Integrated Report 2022, it was clearly stated that the Company aims for a market capitalization of 100 billion yen. The Company will celebrate its 100th anniversary in 2024. Capital Goods Research & Advisory (CGRA) expects that shareholder returns will be boosted and that its stock valuation, which has remained low, will be corrected.

Consolidated financial results and stock market data of Nippon Pillar Packing: 100 million yen, JPY, %

Trading data	
Stock price (January/6/2023)	JPY 2,766
52-weeks range	JPY 2,258~3,850
Market cap	JPY 69.3 billion
Number of outstanding shares	25.0 million shares
Avarage trading value(20 days)	JPY 240 million
Company forecast PER	7.9 times
PBR(As of March 2022)	1.2 times
Company forecast DPS	JPY 108
Company forecast Dividend yield	3.9%
ROIC (March 2022)	15.9%

Performance	18/3	19/3	20/3	21/3	22/3	23/3COE
Sales	295	310	292	302	407	440
Operating profit	52	51	37	48	114	118
Ordinary profit	52	52	37	51	118	118
Net profit	34	37	26	34	83	83
EPS	140.0	152.1	108.6	144.7	350.5	351.1
ROE	8.9	9.1	6.2	7.8	16.8	-
DPS	36.0	45.0	40.0	50.0	106.0	108.0
Dividend payout ratio	25.7	29.6	36.8	34.6	30.3	30.8
FCF	5	11	11	20	104	-
NetCash	115	118	115	117	209	-

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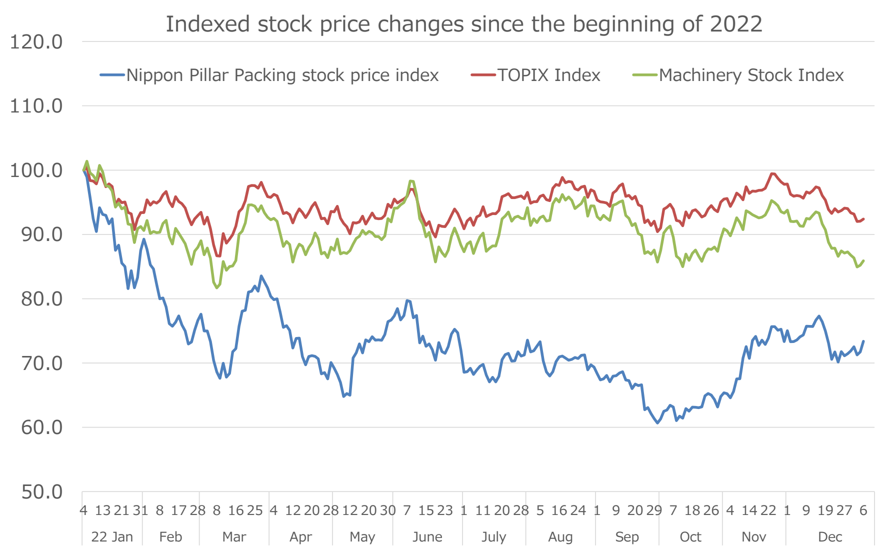
Figure 1: The stock price has been showing an outperforming trend since November 2022



Source: Created by CGRA

Three Noteworthy Points Regarding Nippon Pillar Packing

Point 1: The semiconductor market is likely to bottom out in 2023

The long-term growth story of semiconductors remains unchanged, but an adjustment phase will arrive in 2023.

DRAM prices, which are drawing attention as a leading indicator in the semiconductor industry, have been declining since their peak in March 2022. Subsequently, a major U.S. Semiconductor memory company raised concerns about a future earnings deterioration in its quarterly results announced in June, leading to a more cautious view of semiconductor-related business in general. In addition, in response to the tightening of U.S. export regulations on China (which banned the export of manufacturing equipment to advanced semiconductor manufacturers of devices less than 14 nanometers in China), semiconductor manufacturing equipment manufacturers in Japan and overseas lowered their earnings forecasts when they announced their earnings in November 2022. As a result, the stock prices of related companies, including the Company, are considered to have strengthened their downward trend.

Looking at the semiconductor market, closely linked to the Company's stock price, the market value peaked in March 2022, and the year-on-year growth rate has been turned negative since July. Profit decline guidance in the fiscal year ending March 2024 by the related companies has already become a consensus in the stock market. The stock price is considered to have taken into account a considerable negative factor. The long-term growth story of the semiconductor market remains unchanged, and the semiconductor market is expected to bottom out in earnest between January and June 2023. The year 2023 will likely bring a phase of bottoming out and recovery in the semiconductor market.

Point 2: A new medium-term business plan is scheduled to be announced in May 2023

EBARA's next three-year medium-term plan to be announced in February 2023 is a hot event in the near term.

On November 10, 2022, the Company announced that in the first half of the fiscal year ending March 2023, sales increased 18% year on year to 22.7 billion yen, and operating profit grew 29% year on year to 6.8 billion yen, securing double-digit sales and profit increase. Despite concerns over a decline in demand for semiconductor memory, demand for logic and foundries has remained firm, and new customers contribution and product price hikes have become apparent. The rate of progress versus the full-year forecast of 44 billion yen in sales is 52%, and the rate of progress versus the operating profit of 11.8 billion yen is 58%. An upward revision of the earnings forecast is also expected. As for events to be watched in the future, attention will be paid to the next three-year medium-term business plan that the Company plans to announce in May 2023, in addition to the new medium-term business plan that EBARA, a major CMP company whose end customers are similar to the Company and one of the leading earnings indicators, plans to announce on February 14, 2023.

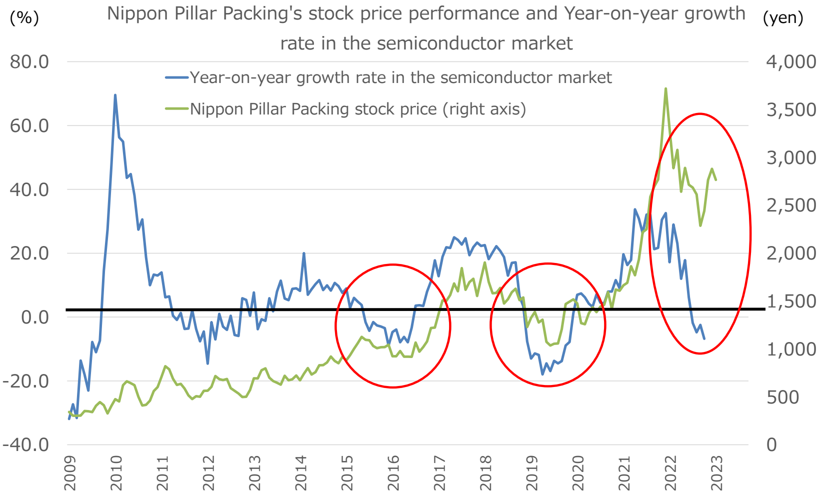
Point 3: Boost in shareholder returns expected ahead of the 100th anniversary

Continuous improvement in shareholder returns is considered to be possible in the future.

The Company has increased shareholder returns, including stock repurchases, for six consecutive years from the fiscal year ended March 2018 to the fiscal year ending March 2023. Looking back, the Company implemented stock repurchases in the fiscal year ended March 2016, ended March 2020, ended March 2021, and ending March 2023. The dividend per share for the fiscal year ended March 2012 was 16 yen, but against the backdrop of profit growth, the dividend for the past 10 years increased approximately seven times, and the dividend per share for the fiscal year ended March 2022 reached 106 yen. Although net profit for the fiscal year ended March 2020, when the COVID-19 crisis hit, turned in a 29% decline from the previous year, the total payout ratio rose to 49.5% due to the dividend of 40 yen per share and stock repurchases. In "BTvision22" (FY ended March 2021 to FY ending March 2023), the current three-year medium-term business plan launched in April 2020, shareholders return target of a dividend payout ratio of 30% or more was presented for the first time. The expected dividend per share for the fiscal year ending March 2023 is 108 yen (dividend payout ratio of 30.8%, dividend yield of 3.9%), but the total capitalization rate, including stock repurchases (1 billion yen, 500,000 shares) is estimated to be 5.4% (total payout ratio of 42.8%).

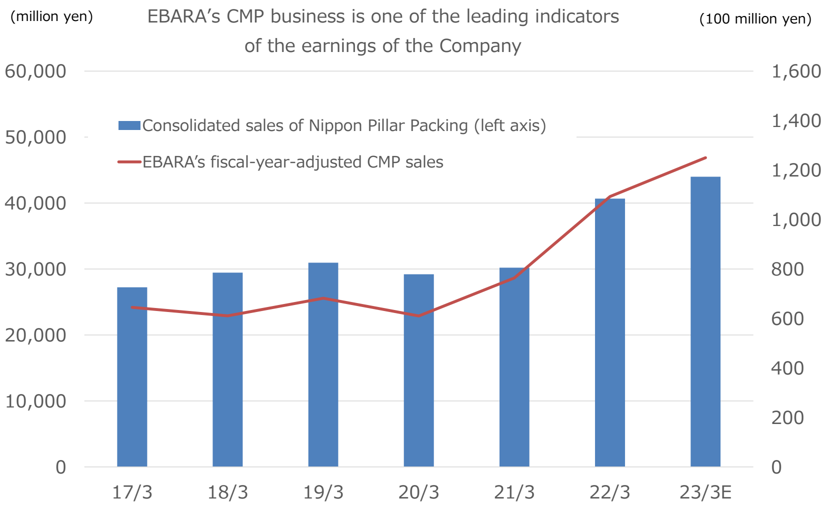
The Company plans to announce its new medium-term business plan in May 2023 and will celebrate its 100th anniversary in May 2024. In addition to further strengthening shareholder returns, commemorative dividends can be expected.

Figure 2: The Company's stock price has been adjusted to reflect the slowdown in the semiconductor market



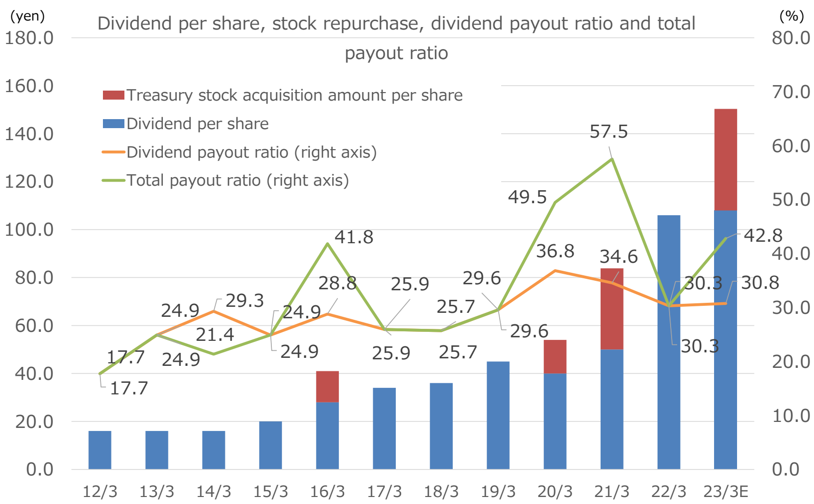
The Company's stock price will enter a phase where the semiconductor market is expected to bottom out.

Figure 3: We would like to pay attention to EBARA's new medium-term plan, which is also a leading indicator of the Company's performance



EBARA's next three-year medium-term business plan to be announced draws attention in the near term.

Figure 4: Continuous improvement in shareholder returns expected



Expectations are placed on continuous increase in shareholder returns including stock repurchases.

Source: Created by CGRA based on company materials

Company Overview and Product Introduction

Highly profitable and high-growth company that is deepening ESG management

Niche stock related to semiconductor manufacturing equipment with a high market share

The electronic equipment business (75% of sales and 86% of operating profit) and the industrial equipment business (25% and 14%, respectively) are the two main segments of the Company. The electronic equipment business consists of a group of PILAFLON products using processed fluororesin. The main business is fittings, tubes and pumps that are incorporated into cleaning equipment and chemical supply equipment in the manufacturing process of semiconductors and LCDs. Among PILAFLON products, fittings are the driving force behind the Company's performance, with a 90% global market share for semiconductor manufacturing equipment. The industrial equipment business deals with mechanical seals, gland packing, gaskets, etc., for pumps and valves installed in various industrial plants.

High-quality niche products for semiconductor-related products hold the key to high growth and profitability.

Sales in the electronic equipment business have nearly doubled over the past 5 years (segment profit nearly tripled), and segment profit margin hit a record high of about 32% in the fiscal year ended March 2022. The Company is a high-growth, highly profitable semiconductor-related niche stock.

"Decarbonization" is the next growth theme for the industrial equipment business

In the industrial equipment business in recent years, rotary joints for CMP (Chemical Mechanical Polishing), one type of semiconductor manufacturing equipment, have grown rapidly and account for about 20% of the business's sales. In the industrial equipment business, the segment profit margin in the fiscal year ended March 2022 improved 8.4 points from the previous term to 15.7%, but the rotary joint contributed to the improvement in the profit margin.

Capital investment in global decarbonization is one of the long-term growth themes.

On the other hand, demand for mechanical seals and gaskets, our existing mainstay products, is expected to increase in the near term due to the restart of nuclear power plant operations. In addition, we expect that the energy transition at thermal power plants, etc., under the theme of "decarbonization" (change of fuel from coal to ammonia and hydrogen), will create new demand for seals for cryogenic and high-pressure applications for hydrogen. This is a long-term growth theme, and demand is expected to materialize around 2025.

Focus on deepening ESG management, aiming for a market capitalization of 100 billion yen

In April 2021, the Company established the ESG/SDGs Promotion Committee chaired by President Iwanami. In 2022, the Company identified Materiality (key issues), expressed its support for TCFD, and worked to deepen ESG management. The Company plans to announce its new three years medium-term business plan in May 2023 and will celebrate its 100th anniversary in May 2024. The Company aims to achieve a market capitalization of 100 billion yen through creating and improving economic and social value.

Improve long-term sustainability by deepening ESG management.

Figure 5: Characteristics of each segment and major products and customer industries

Results for the FY ended March 2022	Electronic equipment business	Industrial equipment business
Sales: 100 million yen	304	102
Profit of the segment: 100 million yen	97	16
Profit margin of the segment: %	31.9	15.7
Average sales growth rate over the past 5 years: %	14.5	-0.8
Average profit growth rate over the past 5 years: %	38.3	11.6
Major products	Fitting Bellows pump Tube, UNI-TON bearing, etc.	Mechanical seal Gasket, gland packing
Customer industries	Semiconductor and LCD manufacturers Semiconductor and LCD manufacturing equipment	Petroleum refining plant, LNG plant Chemical plant, various power plants, etc.

Source: Created by CGRA

Changes from Previous Report

A phase awaiting exhaustion of bad news

Since the summer of 2022, the semiconductor-related market has experienced a rapid slowdown

According to a follow-up report issued on June 20, 2022, while the business environment continued to be favorable for both semiconductor and semiconductor manufacturing equipment manufacturers, which are customers of the company, their stock prices fell ahead of others. This was due to stagflation in the United States, lockdowns in China, and the Russian-Ukrainian issue, and the valuation of all related companies declined. Subsequently, in addition to a U.S. interest rate hike, another lockdown in China, U.S. export restrictions on China, and concerns about an economic slowdown in the European region, deteriorating fundamentals have become apparent, such as a slowdown in sales of smartphones and other products, a slowdown in the semiconductor market centered on DRAM, and downward revisions to earnings forecasts by semiconductor manufacturing equipment companies.

The companies' stock prices seem to have incorporated considerable amounts of negative factors.

Long-term growth scenario unchanged, and many forecast that adjustment phase will continue until January to June 2023

As the adage "the higher the mountain, the deeper the valley" goes, capital investment in 2023 is considered riskier than expected. The stock market consensus seems to be that capital investment in semiconductors in 2023 has already been factored into the stock prices of each company, with a decrease of about 20% from the previous year (a semiconductor memory-related capital investment decrease of 40% from the previous year, and a logic-related decrease of 5% from the previous year). However, the consensus is that DRAM prices and the semiconductor market will bottom out in the January–June period of 2023 against a backdrop of increased data traffic and other factors and then begin a gradual recovery. The next recovery in semiconductor capital investment is expected after 2024. In the next expansion cycle, not only quantitative investments but also cutting-edge investments with qualitative improvements, such as 2-nanometer investments, will be added, and semiconductor capital investment is expected to reach a record high in 2025 or thereabouts. The long-term growth scenario of the global semiconductor market reaching 1 trillion U.S. dollars in 2030 remains unchanged, and it appears that the companies involved are accelerating their long-term investment and product development efforts.

The scenario that the semiconductor market will reach 1 trillion yen in 2030 remains unchanged.

Figure 6: Changes from previous report

		Previous Report (June 20, 2022)	This time
Stock price: yen		2,717	2,766
Expected dividend per share: yen		108	108
Dividend yield: %		4.0	3.9
Share repurchases		No	Yes (1 billion yen, 500,000 shares)
Expected PER: times		7.7	7.9
PBR: times		1.2	1.2
TOPIX		1,835.9	1,876
Expected sales: 100 million yen		440	440
Expected operating profit: 100 million yen		118	118
Semiconductor market compared with the same month last year: %		6.2	-6.8
Semiconductor market prospects	2022	6,015	5,801
(100 million dollars)	2023E	6,797	5,565
Capital investment in semiconductors	2022	1,900	1,850
(100 million dollars)	2023E	-	1,500
U.S. policy rate: %		1.75	4.50
U.S. Dollar: Yen		135.0	131.5

Source: Created by CGRA from various materials. The semiconductor market is based on WSTS

Interview with President Iwanami

Sensed his strong will to "have the company grow"

Intends to target a market capitalization of 100 billion yen, which is expected to expand the investor base.

On December 16, 2022, we interviewed Yoshinobu Iwanami, president of the company, and would like to report on the content of the interview.

Q: Your company has similar profitability and growth potential to highly profitable, high-growth companies such as Tokyo Electron Ltd. ("TEL") and SMC. However, Nippon Pillar Packing's stock price valuation remains relatively low. What do you think is the reason?

The stock price is a barometer of a company's ability, but I think it has not attracted much attention, partly due to our lack of emphasizing our strengths. In essence, a company's future prospects and growth potential are essential components of its stock price. I believe that TEL and SMC are valued for their high-growth technologies and the fact that they are introducing many products to markets where technological innovation is occurring.

The Company's expected PER is only about 8 times, compared with Tokyo Electron's expected PER of 16 times and SMC's 17 times.

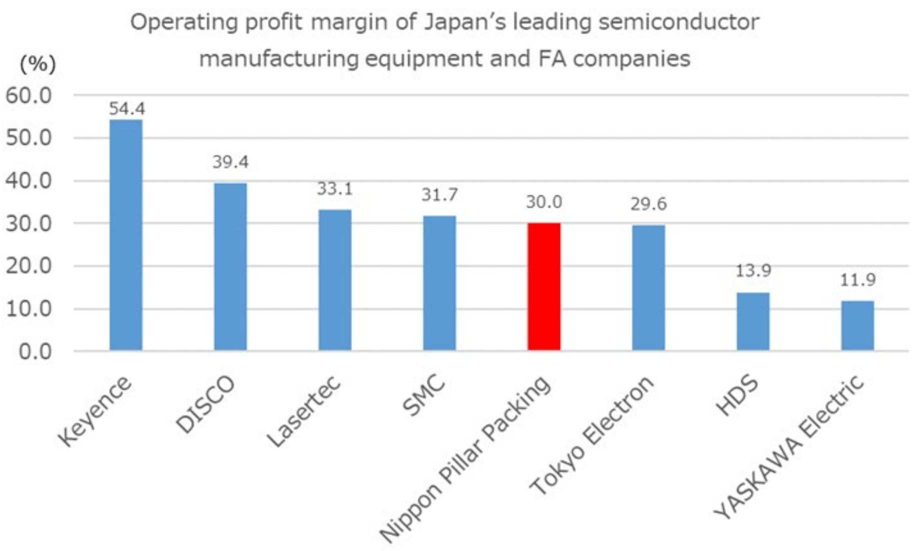
Like the above companies, we are highly profitable and continue to grow at a high rate. In particular, our fittings, which boast a 90% share of the global market for fittings used in semiconductor manufacturing equipment, are the leading products driving our performance. However, the stock market seems to think that there are few qualitative growth factors. TEL and SMC have done the process correctly, from sowing to reaping in growing markets, and have achieved results. We, too, have planted various seeds for growth, but since they are not end products, they are difficult to showcase externally and may not be visible to investors.

Q: Why is it possible to secure an operating profit margin of over 30% in the electronic equipment business, as TEL and SMC do?

In the past, the semiconductor market was very tough, with large fluctuations in the silicon cycle. As a result, various companies were eliminated, such as manufacturing equipment manufacturers, chip manufacturers, and companies in the fittings market we participate in. Our survival in this challenging market has led to the expansion of our current sales volume and market share. In addition, the recent increase in the semiconductor market size and the rising proportion of injection-molded products, which are more effective in mass production than cutting processed products, have also contributed to the improvement of our profit margin. Additionally, as we supply many differentiated products, our high selling prices also contribute to our strong profitability.

Stable supply of differentiated products leads to high profitability.

Figure 7: The Company's operating profit margin is on a par with major similar companies



Source: Created by CGRA from various materials. Lasertec's 1Q results, other companies' 1H results. HDS stands for Harmonic Drive Systems

Q: Lasertec is a manufacturer that supplies EUV mask defect inspection equipment for semiconductor miniaturization and yield improvement. It is recognized for benefiting from investments in quality improvement of semiconductors. Will your fitting products also benefit from the investment in improving the quality of semiconductors?

Although it may seem like just a fitting, the semiconductor cleaning process requires a high level of cleanliness and uses hazardous chemical liquids such as sulfuric acid and hydrofluoric acid. So, we are required to have leak-proof sealing performance, high mass production quality, and extensive experience. In addition, we are highly evaluated by our customers for our short lead time, lineup of thousands of products, differentiated product offerings, and so on. Additionally, due to the recent advances in miniaturization and multilayering, customers are increasingly concerned about particle problems and demand cleanliness. With these technological advances, the number of processes and pieces of cleaning equipment tends to increase. As a result, there is a strong need for smaller equipment, and new business opportunities are also growing for our fittings, as products that contribute to space saving are expected.

The Company can also benefit from investments to improve the quality of semiconductors.

Q: The current medium-term business plan has five basic policies while achieving numerical targets one year ahead of schedule. In Integrated Report 2022, you explain the progress of the five basic policies. Please talk about the creation of new businesses and the deepening of globalization.

We believe that new business is a result of extending new technology and new products and is an essential element for continuous growth. Since assuming the position of President, I have been working with the Technology Division and R&D staffs to promote the development business, and we have seen positive results. Typical achievements during the current medium-term plan period include new rotary joints and next-generation plumbing systems that realize space-saving and pressure loss reduction. Our customers have highly evaluated these products, and mass production and delivery have already begun, contributing to our business performance. Our policy is to continue focusing on creating numerous new technologies and products. To achieve this, it is essential to have good human resources and a strong organization. We are pushing forward with reforms, such as changing our education system, to build an organization. In the next medium-term plan, we would like to bring out many novel technologies and new products, and we would like to achieve results by all means.

The entire company will continue to focus on the development of new technologies and products for continuous growth.

Concerning globalization, I think it was good that we moved ahead with establishing global offices before the COVID-19 disaster made overseas travel difficult. On the other hand, I regret that many of our bases concentrated on the business at hand due to travel restrictions caused by the pandemic. After all, web conferencing has limitations in developing customers and discovering the seeds of new businesses. In the next medium-term plan, we would like to develop a growth strategy utilizing our global bases. As for our Chinese bases, it was good that we opened a new base in Chuzhou, where we have about twice the site area, because our base in Suzhou became too small. Although various risks are emerging in the Chinese market, it is the country with the second-largest GDP in the world and has excellent potential. I hope to contribute to developing the local semiconductor industry from a long-term perspective.

Q: Can you tell us what, if anything, President Iwanami would like to focus on in the next medium-term business plan to be announced in May 2023?

Since we are a manufacturer, we need new technologies and novel products for continued growth. In the next three years of our medium-term business plan, we would like to launch more new products than the plan currently underway. We also want to add improvements to the various processes of our business activities, both quantitatively and qualitatively. We want to change our corporate culture through deepening ESG management and other measures. I believe that by changing the way all employees think and act, we will be able to expand our business opportunities. In 2024, we will celebrate the 100th anniversary of our founding, and I would like to push forward with reforms without being bound by the past. Of course, we cannot change everything in the three years of the next medium-term business plan, but I would like to change the company from a long-term perspective beyond the next medium-term business plan and the next 100 years beyond that.

Aiming for further growth in the next 100 years by continuing reforms.

Q: The order environment continues to be firm, but we are beginning to see signs of a peak-out in orders on a quarterly basis. What are your thoughts on this?

I am honestly confused because different clients have very different views. Pessimistic views suggest that orders in 2023 will be flat or slightly lower than the previous year, while optimistic views suggest they will increase by about 30%. Considering our performance in the fiscal year ending March 2024, we believe that orders will remain flat or grow slightly, and that we will be able to secure an increase in revenues considering filling back orders of 23.1 billion yen at the end of September.

We believe we will be able to secure an increase in sales in the fiscal year ending March 2024.

Semiconductor capital investment will enter a leveling-off phase in 2023 but will begin to recover in 2024. Many believe that the scale of investment will be larger than before due to the addition of qualitative investments such as miniaturization and multilayering. We have started construction of the Fukuchiyama Second Factory, which will be completed in September 2023 and mass production is scheduled to begin in October. We hope to accelerate the speed of growth in the next phase of demand expansion.

Q: You have reorganized the sales structure of the industrial equipment business. What has been the effect and progress since then?

In November 2021, we announced the reorganization of our domestic sales subsidiaries involved in the industrial equipment business, and new organizational management began in April. This reorganization aims to strengthen our ability to capture demand for highly profitable maintenance services. We have changed from a dual-employee structure to a full-time structure with a clear responsibility and reporting structure. As less than a year has passed since the new organization was established, quantitative evaluation is not possible, but we have high expectations for the future.

Q: With regard to risks and business opportunities, can you comment on the electronic equipment business and the industrial equipment business separately?

Risks in the electronic equipment business include tight raw material supplies and geopolitical risks. Due to the impact of the U.S. Chips Act (export restrictions to China), starting with U.S. companies, TEL has revised its earnings forecasts downward in Japan as well. Other potential risks from now on include the Chinese government's imposition of export restrictions on fluorite, a raw material for fluororesin. On the other hand, business opportunities include long-term semiconductor market growth and expansion of the domain through new product development.

Risks in the foreseeable future, but long-term growth potential is likely to be large.

With regard to the industrial equipment business, as electric vehicles become more prevalent, there is concern that demand from oil refinery plants will decline as oil and gas consumption declines. Electricity will replace oil and gas, but if that power supply shifts to renewable energy, such as solar power, there will be fewer points where seal products are used, resulting in the deterioration of our business performance. On the other hand, energy transitions to hydrogen and ammonia and the restart of thermal and nuclear power plants are expected to have positive earnings effects.

Q: Lastly, please send a message to shareholders and investors.

I was once told by some investor that the attention from the stock market changes when the market capitalization exceeds 100 billion yen. I think he meant that many foreign investors set the minimum market capitalization of stocks in which they invest at 1 billion U.S. dollars. Although our company has high profitability and high growth potential comparable to blue-chip companies such as TEL, our stock price valuation remains low. This may be due to the fact that our market capitalization is too small to be recognized in the stock market. Fortunately, we have many growth opportunities and are strengthening our organization to grow quantitatively and qualitatively. While achieving results, we would like to aim to achieve a market capitalization of 100 billion yen as soon as possible as one of the first milestones.

Intends to target a market capitalization of 100 billion yen, which is expected to expand the investor base.

Current Medium-Term Management Plan and Outlook for the FY Ending March 2023

Current medium-term plan, BTvision22, will significantly outperform the original plan

The current three-year medium-term plan, "BTvision22," sets five basic policies for the three years from fiscal 2020 (fiscal year ended March 2021) to fiscal 2022 (fiscal year ending March 2023), "Expansion of business base," "Deepening globalization," "Creation of new businesses," "Promotion of ESG/SDGs management," and "Financial strategy." The company started the three years with the following numerical targets in fiscal 2022 (fiscal year ending March 2023): consolidated sales of 32.5 billion yen, operating profit of 5.1 billion yen (operating profit margin of 15.7%), ROE of 8.0% or higher, and dividend payout ratio of 30% or higher.

The current medium-term plan has substantially met its numerical targets in its second year.

However, since the announcement was made during the COVID-19 disaster, the content itself was relatively conservative. In addition, supported by strong semiconductor capital investment, the company largely cleared its targets in the fiscal year 2021, the plan's second year. Sales, operating profit, operating profit margin, and ROE, all reached record highs. In this regard, capital investment is expected to fall short of the medium-term business plan due to a review of investments related to the Technology Development Center in the Sanda Factory. Although the industrial equipment business is expected to post the highest sales and operating profit in the fiscal year ending March 2023, during the current medium-term plan period, it will not reach the pre-COVID-19 level and is expected to grow over the long term under the theme of "decarbonization."

Record-high earnings are expected again for the fiscal year ending March 2023

The Company's business forecast for the fiscal year ending March 2023, the final year of the current medium-term business plan, is that sales will increase by 8% from the previous term to 44 billion yen, operating profit will grow 4% from the previous term to 11.8 billion yen (operating profit margin will be 26.8%), ordinary profit will slightly decrease from the previous year to 11.8 billion yen, and profit of the term will slightly increase from the previous year to 8.3 billion yen (EPS will be 351.09 yen). Although the Company has already announced favorable first-half results, the forecast presented on May 12 remains unchanged.

Record-high earnings are expected again for the fiscal year ending March 2023.

By segment, sales in the electronic equipment business are expected to increase 9% from the previous term to 33.2 billion yen, with operating profit up 3% to 10 billion yen (operating profit margin of 30.1%). Sales in the industrial equipment business are expected to increase 6% from the previous term to 10.8 billion yen, with operating profit up 13% from the previous term to 1.8 billion yen (operating profit margin of 16.7%).

Figure 8: Progress of the medium-term management plan and forecasts for the FY ending March 2023

	BTvision19	BTvision22	Progress of the current medium-term plan BTvision22		
	FY2019 Actual	FY2022 Initial plan	FY2020 Actual	FY2021 Actual	FY2022 Outlook
Sales: million yen	29,213	**32,500**	30,200	40,670	**44,000**
Operating profit: million yen	3,683	**5,100**	4,847	11,392	**11,800**
Operating profit margin: %	12.6	**15.7**	16.1	28.0	**26.8**
ROE:%	6.2	**8.0 or more**	7.8	16.8	**8.0 or more**
Dividend payout ratio: %	36.8	**30.0 or more**	34.6	30.3	**30.0 or more**
Capital investment	3,531	**-**	972	992	**2,000**
	Three-year cumulative total 11,649	**Three-year cumulative total 10,000**	Three-year cumulative total 3,964		

By segment Electronic equipment business	FY2019 Actual	FY2022 Initial plan	FY2020 Actual	FY2021 Actual	FY2022 Outlook
Sales: million yen	18,221	**22,100**	20,645	30,410	**33,200**
Operating profit: million yen	2,253	**4,000**	4,130	9,737	**10,000**
Operating profit margin: %	12.4	**18.1**	20.0	32.0	**30.1**
Industrial equipment business					
Sales: million yen	10,915	**10,400**	9,471	10,146	**10,800**
Operating profit: million yen	1,404	**1,100**	691	1,589	**1,800**
Operating profit margin: %	12.9	**10.6**	7.3	15.7	**16.7**

Source: Created by CGRA from company briefing materials, etc.

FY Ending March 2023 1H Earnings and Analysis of Changes

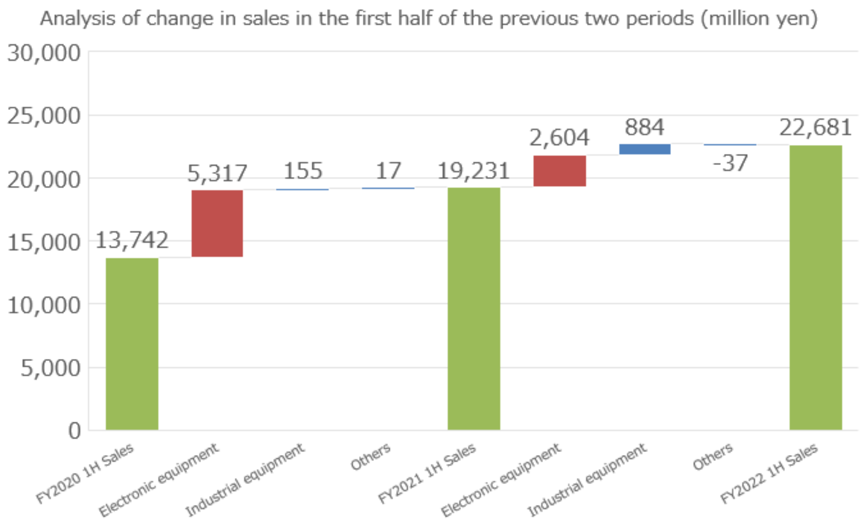
In the FY Ending March 2023 1H Earnings, contrary to concerns, secured good progress

Financial results for the first half of the fiscal year ending March 2023, announced by the Company on November 10, are that sales increased 18% from the previous term to 22.7 billion yen, operating profit grew 29% from the previous term to 6.8 billion yen (operating profit margin of 30.0%), ordinary profit increased by 36% from the previous term to 7.3 billion yen, and profit of the term was up 44% from the previous term to 5.4 billion yen. Despite concerns about downward revisions to earnings by some semiconductor manufacturing equipment manufacturers and supply constraints on fluororesin and other materials at the Company, the results were favorable. The percentage of progress versus the full-year forecast is 52% for sales, 58% for operating profit, 62% for ordinary profit, and 65% for profit of the term. An upward revision of the full-year earnings forecast is also expected.

Based on favorable 1H results, an upward swing in full-year results for the FY ending March 2023 can be expected.

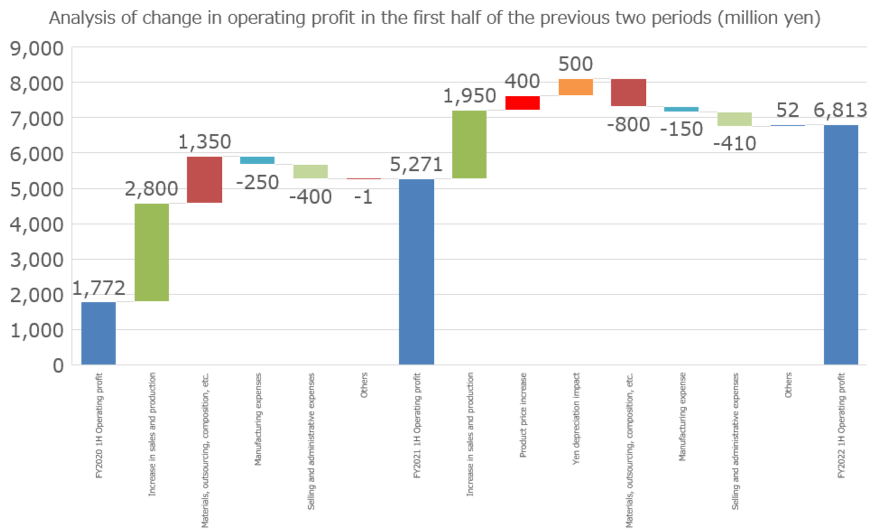
Figures 9 and 10 show analysis of changes in sales and operating profit on a first-half basis in the past two periods. In the first half of the fiscal year ending March 2023, the environmentally friendly ground packing and maintenance for overseas in the industrial equipment business also contributed to an increase in sales. Additionally, the effects of revenue growth, the weaker yen effect of 500 million yen and the product price hike effect of 400 million yen contributed to the increase in operating profit.

Figure 9: In the FY ending March 2023 1H, the industrial equipment business also led sales



In the first half of the fiscal year ending March 2023, the effect of product price increases became apparent. The effect of continuous product price increases will also be expected in the second half.

Figure 10: In the FY ending March 2023 1H, operating profit was boosted by product price increase effect



Source: Created by CGRA based on company materials

Quarterly Results and Order Trends

FY ending March 2023 Q2 (July–September) earnings record high

In the second quarter (July–September) of the fiscal year ending March 2023, sales were 12 billion yen, up 19% year-on-year (up 12% from the first quarter). Operating profit was 3.8 billion yen, up 30% year-on-year (up 29% from the first quarter), and the operating profit margin reached 32.0%, both reached record highs. The Company's operating profit margin is less than Keyence's 55.0% but more than the operating margin of 31.2% of SMC, the world's largest pneumatic equipment manufacturer.

The Company is as profitable as SMC, a major factory automation company, and Tokyo Electron, a major semiconductor manufacturing equipment manufacturer.

The order backlog at the end of September reached 23.1 billion yen which equivalent to 6.3 months of sales

Looking at quarterly orders by segment, orders received in the electronics business in the second quarter of the fiscal year ending March 2023 rose 24% year- on year to 11.4 billion yen but fell 6% from the first quarter. While some orders were intentionally selective due to restrictions on fluororesin procurement, U.S. export restrictions on China and other factors appear to have had an impact. The BB ratio, calculated by dividing orders by sales, remains high at 1.3, and the balance of orders at the end of September stood at 19.9 billion yen. In the industrial equipment business, orders received in the second quarter of the fiscal year ending March 2023 rose 22% to 3.1 billion yen. They decreased by 7% compared with the first quarter, which was lower than the previous quarter for the second consecutive quarter.

Figure 11: The FY ending March 2023 Q2 earnings record high

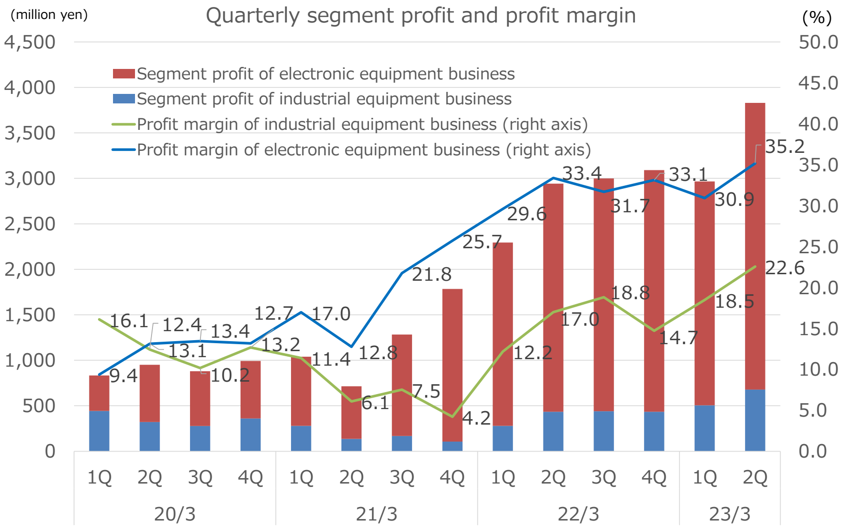
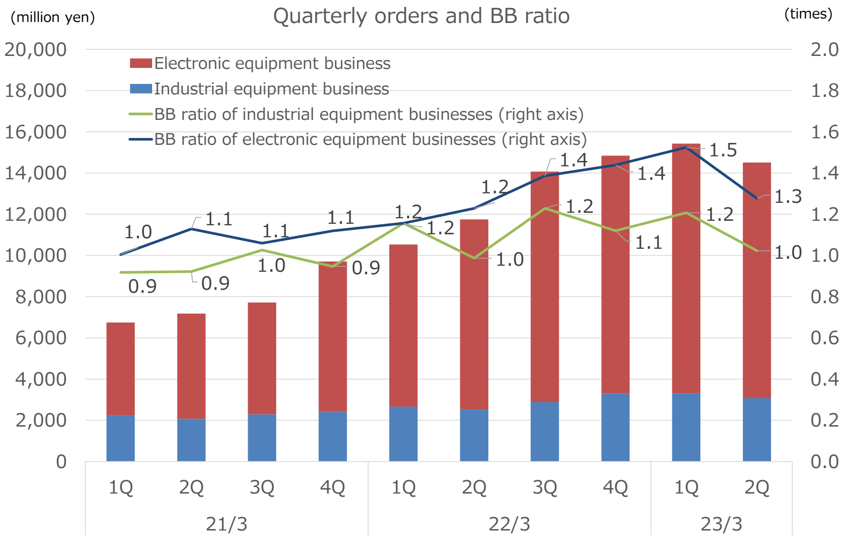


Figure 12: Sense of peak-out emerging in quarterly orders

See the president's interview on page 9 for order trends.



Source: Created by CGRA based on company materials

Electronic Equipment Business

Social value created by electronic equipment businesses and business strategy

The Company manufactures PILAFLON products made of fluororesin, such as fittings, pumps, tubes, and seismic isolation devices in the electronic equipment business. The Company's mainstay fittings for semiconductor cleaning equipment have become the de facto standard, boasting a 90% share of the global market. Chemical liquids used in the cleaning process have high risks of strong acids and alkalis, and contamination problems and cleanliness are considered essential. The Company's fittings, pumps, and tubes, incorporated into semiconductor manufacturing equipment and chemical supply processes in semiconductor plants, contribute to ensuring safety and maximizing yields in semiconductor production.

The Company's fitting is a de facto standard for cleaning equipment and cleaning processes.

The following success factors have driven the recent expansion of the Company's business performance: acquiring new customers especially overseas; expanding business with existing customers by strengthening the product lineup through new product launches; and taking measures to maximize output through improved production efficiency in the face of rising fluororesin prices and supply constraints.

In the first half of the fiscal year ending March 2023, we secured steady progress despite prolonged material procurement problems.

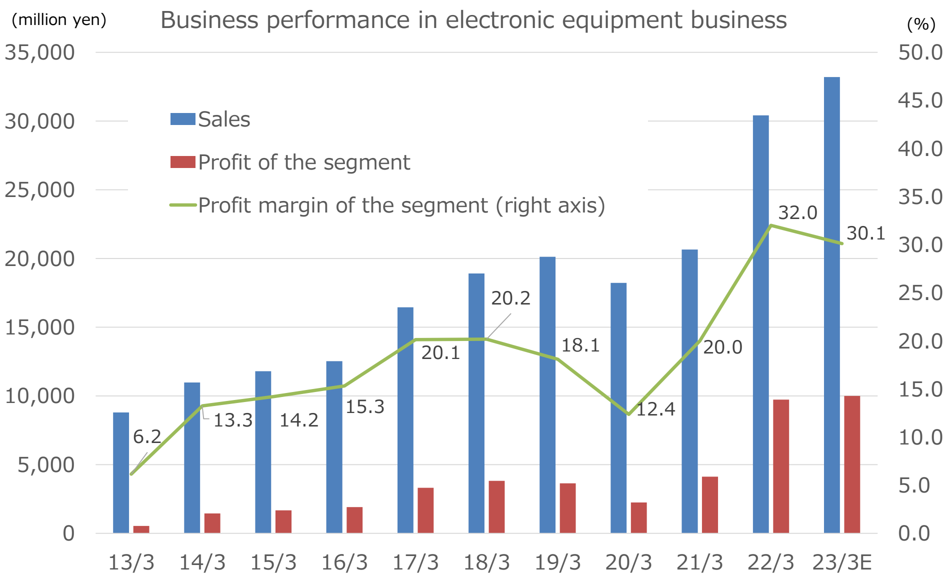
In the electronic equipment business, in the first half (April–September) of the fiscal year ending March 2023, sales were 16.9 billion yen, up 18% year-on-year. Operating profit was 5.6 billion yen, up 24% year-on-year, and the operating profit margin secured 33.2%, both reached record highs. The rate of progress versus the full-year forecasts of 33.2 billion yen in sales and 10.0 billion yen in operating profit are 51% and 56%. We would say they are going well.

Although already factored into the stock price, the FY ending March 2024 results are likely to enter an adjustment phase.

In addition to continued price increase for fluororesin, a key raw material, procurement restrictions appear to be ongoing problems. Despite efforts to improve costs, some shipments have been delayed mainly due to material shortages. The backlog of orders is also building up, and if material shortages can be resolved, further earnings can be expected.

The business environment surrounding the electronic equipment business is deteriorating. While some of this is due to the Company's intentional selectivity of orders, a sense of peak-out has emerged in quarterly orders. Although it is considered that this has already been factored into the stock price, there are still concerns that the Company's performance in the fiscal year ending March 2024 will stagnate.

Figure 13: The FY ending March 2024 results contain stagnation risk



Source: Created by CGRA based on company materials

External Environment Surrounding the Electronic Equipment Business

Semiconductor market and capital investment will decline in 2023 for the first time in 4 years

Due to declining memory demand, semiconductor memory companies in the U.S. and South Korea have already announced drastic cuts in their capital investment plans for 2023. In its fall semiconductor market forecast released on November 29, 2022, WSTS also lowered its 2022 forecast from 646.5 billion U.S. dollars in June to 580.1 billion U.S. dollars, a 4% decrease from the previous year. In addition, WSTS lowered its 2023 forecast to 556.5 billion U.S. dollars (679.7 billion U.S. dollars in June), a 4% decrease from the previous year and the first negative forecast in four years. As for semiconductor capital investment, the stock market consensus is for a 20% year-on-year decline in 2023. On the other hand, semiconductor manufacturing equipment manufacturers are increasing their R&D and strategic investments in next-generation technologies to prepare for long-term growth and the advancement of miniaturization. The mainstream view is that capital investment in memory will begin to recover in the second half of 2023 against the backdrop of increased data traffic and other factors.

The semiconductor market and semiconductor capital investment decline in 2023 is already the consensus in the stock market.

Figure 14: WSTS forecasts a decline in the semiconductor market in 2023

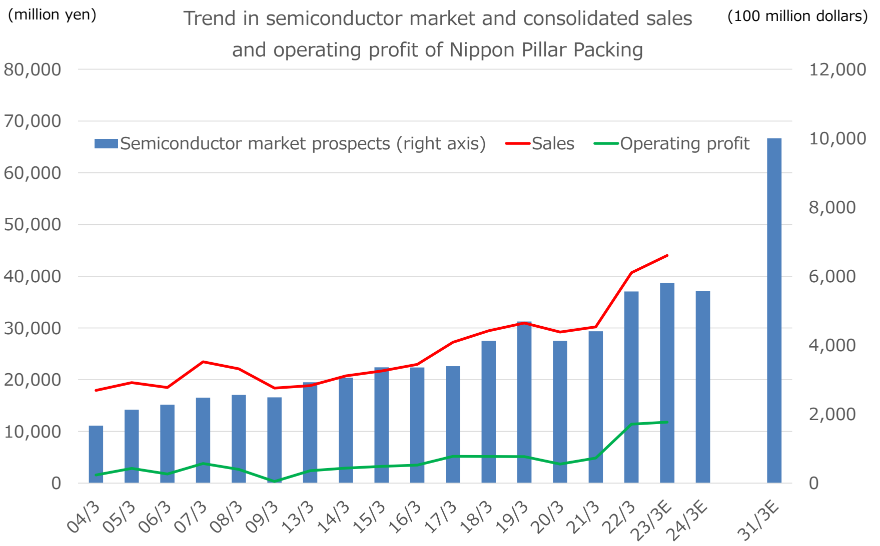
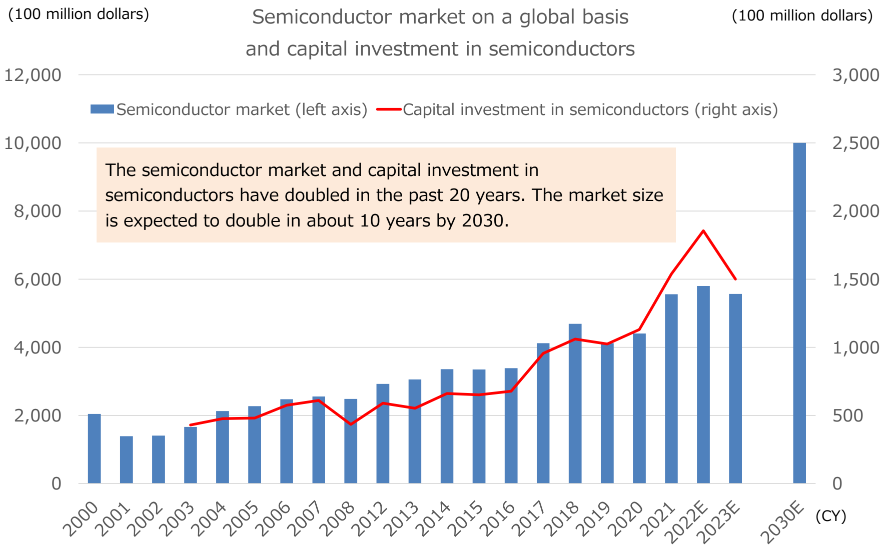


Figure 15: Semiconductor capital investment likely to decline in 2023



Market consensus is for a 20% YoY decline in semiconductor capital investment in 2023.

Source: Created by CGRA from WSTS and other materials Both semiconductor market and capital investment are based on CY

Industrial Equipment Business

Social value created by industrial equipment businesses and business strategy

The industrial equipment business deals with equipment to control leakage of liquids, gases, powders, etc., such as mechanical seals, gland packing, and gaskets. They are incorporated into pumps, valves, agitators, compressors, turbines, etc., of various pieces of equipment in places such as oil and petrochemical plants, power generation facilities, and water purification facilities. They are used in harsh environments such as under high pressure, high temperature, and very low temperature. The Company's equipment helps to prevent environmental pollution caused by the leakage of corrosive liquids, prevent air pollution caused by the outflow of combustible and toxic gases, and ensure the safe operation of plants. In addition, it has differentiating technologies such as an automatic clearance adjustment function and non-contact sliding surfaces, contributing to downsizing and energy saving of various pieces of equipment.

This business deals with products that play an important role in preventing leaks at various plants.

The growth in business performance in recent years has been driven by acquiring new customers in the area of rotary joints for CMP, where sales have been increasing. As for existing products, we see the energy transition toward decarbonization as a business opportunity. In addition to hydrogen- and ammonia-related plants and transport ships, the Company is strengthening the development of new products, such as hydrogen stations for electric and fuel cell vehicles. The restart of nuclear power plants is also a boost.

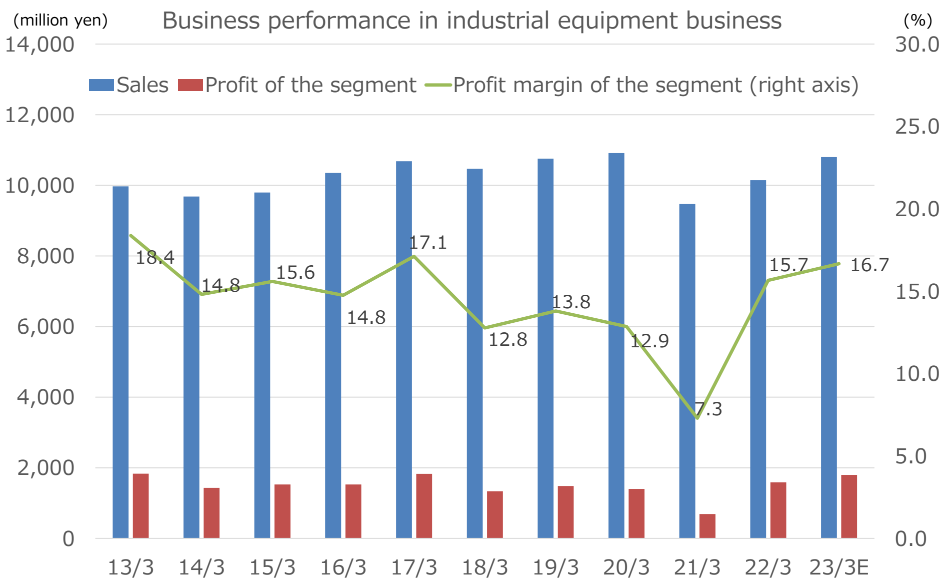
The 1H of the FY ending March 2023 results continued to be favorable

In the industrial equipment business, in the first half (April–September) of the fiscal year ending March 2023, sales were 5.7 billion yen, up 18% year-on-year. Operating profit was 1.2 billion yen, up 66% year-on-year, and the operating profit margin secured 20.6%. The rate of progress versus the full-year forecasts of 10.8 billion yen in sales and 1.8 billion yen in operating profit are 53% and 67%, respectively. This can be said to be even more favorable than the electronics equipment business.

Demand for existing products also shows steady movement.

Rotary joints for CMP, which account for about 20% of sales and are highly profitable, boosted sales and operating profit. In addition, existing products, such as environmentally friendly packing for overseas markets, as well as maintenance for power plants grew, sustaining a stable business environment.

Figure 16: Segment profit margin continues to improve



Source: Created by CGRA based on company materials

External Environment Surrounding the Industrial Equipment Business

Sales to existing customers are gradually recovering

Demand for existing industries is beginning to show steady improvement.

Figure 17 shows the Company's non-consolidated historical sales by industry, excluding sales for semiconductor and LCD industries, on a half-year basis. Most of the electronic equipment business is for semiconductors and LCDs. Therefore, the trend of sales to existing industries in the industrial equipment business, excluding rotary joints for CMP, can be understood.

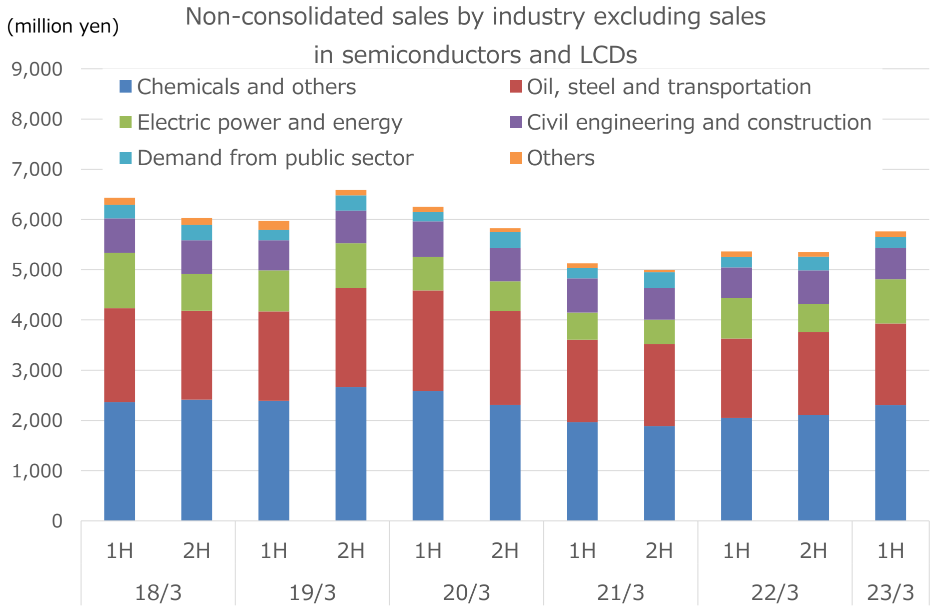
Sales to existing customers bottomed out in the second half of the fiscal year ended March 2021 and are on a moderate recovery trend. First, sales to the chemical and other industries are recovering due to a recovery in demand from various chemical plants, as well as robust demand for maintenance services in Japan and overseas. In the petroleum, steel, and transportation sectors, the EDP series of environmentally friendly packing for overseas markets continued to perform well, in addition to projects for periodic repairs at petroleum refinery plants.

The acquisition of public works, redevelopment projects in central Tokyo, and other businesses contribute to the civil engineering and construction sector business. The acquisition of orders for periodic repair of domestic thermal power plants, repair parts projects for overseas electric power companies, and other projects contribute to the power and energy sector business. With regard to demand from the public sector, spot projects and maintenance demand related to infrastructure seem to be increasing.

Business opportunities in the restart of seven additional nuclear power plants

Currently, 10 nuclear reactors at six nuclear plants have been restarted out of the 36 nuclear power plants. The Japanese government intends to restart an additional seven reactors after the summer of 2023. According to the electric power companies' plans based on this policy, three reactors, No. 1 and No. 2 at the Takahama Nuclear Power Plant and No. 2 at the Shimane Nuclear Power Plant, are expected to restart operations by the end of 2023. If the resumption of operations proceeds as planned in the Basic Energy Plan, about 20 reactors are expected to be restarted by 2030. The Company has extensive experience in seals for nuclear power plants and expects to receive more orders.

Figure 17: Sales to existing customers other than for semiconductors and LCDs show a recovery trend



Source: Created by CGRA from financial results briefing materials

Augmentation of ESG Management

Materiality (key issues) have been identified and disclosed

The Company embarked on ESG management relatively early, establishing the ESG/SDGs Promotion Committee chaired by President Iwanami in April 2021, accelerating the incorporation of ESG/SDGs into management and spreading them throughout the company. Under the objective of creating "a future that supports society," 21 new materiality have been identified for 2022. However, the next medium-term plan is expected to be announced in May 2023. We are awaiting the establishment of KPIs and disclosure of measures for achievement as we aim to resolve materiality to achieve the numerical targets of the medium-term business plan and enhance social value. In addition, we would like to see a more detailed explanation of the linkage between the value the company creates and its quantitatively high profitability.

Further promotion of ESG management is planned under the chairmanship of President Iwanami.

Steady progress in improving the Board of Directors

While the composition of the Board of Directors remains unchanged, the ratio of fixed remuneration is relatively low, in the range of 50-60% of monetary remuneration. The weight of performance-linked remuneration, which is linked to short-term (sales, operating profit, and ROE) and medium- to long-term performance (the four indicators outlined in the medium-term plan), is high. As a result, the compensation system enhances the effectiveness of management. In addition, the effectiveness of the Board of Directors has been improved by adding the objective analysis and evaluation of external organizations to the conventional self-evaluation method by directors based on questionnaires. However, the number of meetings of the Board of Directors during the fiscal year ending March 2022 was only seven a year, and the effectiveness of the Board of Directors' meetings, including proposals, should be clearly disclosed.

We have strong hopes that the effectiveness of the Board of Directors will be improved in the future.

Preparations for Scope 3 disclosure started

With regard to the Environment (E), in addition to the disclosure of Scope 1 and 2 based on the previous TCFD recommendations, efforts toward the disclosure of Scope 3 are now in full swing. As for Society (S), the Company is highly evaluated by customers as shown in various commendations. In addition, while revising and adhering to the PILLAR CSR Procurement Guidelines, the Group's procurement policy that includes human rights, the Company is strengthening its relationships with suppliers by conducting CSR surveys on its suppliers. For employees, the Company formulated a "Health Management Declaration" in April 2022 and is working to strengthen employee engagement. It is hoped that the Company will conduct and disclose employee satisfaction surveys in the future. With regard to its relationship with the local community, the Company supports Paralym Art (art business models for people with disabilities in Japan), participates in the Technical College Women's Forum in Kansai, and supports and sponsors traditional culture and arts to revitalize the city of Osaka, where its head office is located.

Enhanced disclosure of non-financial information is in progress.

Figure 18: Key non-financial data

Source: Website of the Company

Comparison of ESG Management with Competitors

The Company is ahead of domestic competitors in ESG management

The integrated report content shows the level of seriousness about ESG management.

With regard to the integrated report, which is an information disclosure tool for ESG management, the Company published its first report in 2020 (38 pages). In 2022, the number of pages was 50, and non-financial information disclosure is progressing. Regarding other companies, Nichias and Eagle Industry issued their first integrated reports in 2022. Valqua continues to issue sustainability reports while changing its committee's name from the CSR Promotion Committee to the Sustainability Committee. However, the Company and Eagle Industry are the only companies where the president is the chair of the Sustainability Committee.

In terms of Environmental (E) items, three companies, excluding Valqua, have declared carbon neutrality by 2050 (FY2050 for the Company). In addition to establishing an environmentally friendly internal structure, the company and Nichias disclose sales of environmentally friendly products.

As for Society (S), the Company's disclosure of foreign national employees, and other disclosures, seems to be ahead of other companies. However, each company appears to have a proactive approach to human resources as well as human rights. However, each company still faces challenges disclosing the gender wage gap and employee satisfaction surveys.

With regard to Governance (G), the Company's integrated report includes a tripartite discussion between President Iwanami and outside directors. In this way, the Company is ahead of its competitors in proactively promoting the strengthening of governance and the effectiveness of its board of directors. However, while each company is establishing its own system, there are still many inadequacies in the effectiveness of the Board of Directors, the disclosure of proposals, and the disclosure of succession plans.

Figure 19: Comparison of competitors' non-financial disclosure

		Nippon Pillar Packing	Nichias	Eagle Industry	Valqua
Issuance of an integrated report		Published in 2020 (50 pages in 2022)	Published in 2022 (19 pages)	Published in 2022 (47 pages)	Sustainability report (19 pages)
Sustainability Committee		○ (President chairs the committee)	×	○ (President chairs the committee)	○ (Managing Executive Officer chairs the committee)
	Main items disclosed				
Environmental (E)	Support for the TCFD Recommendations	○	×	△	○
	Scope 1 + 2 disclosure	○ (12,897 tons)	○	○ (76,500 tons)	○
	Scope 3 disclosure	Started activities	Started calculation	Disclose domestic figures	○
	Scenario by temperature	1.5–2°C and 3–4°C scenarios	×	2°C and 4°C scenarios	×
	Risks and Opportunities	○	×	○	×
	Recycling rate	73.3%	No disclosure	93.7%	No disclosure
	Disclosure of sales of products contributing to environmental improvement	○	○	×	×
	Carbon neutral target	Effectively zero in FY2050	Zero in FY2050	Zero in FY2050	×
Society (S)	Ratio of female employees (non-consolidated basis)	19.8%	19.6%	23.3% (with KPIs)	No disclosure
	Ratio of female managers (non-consolidated basis)	2.2% (with KPIs)	No disclosure	3.3% (with KPIs)	11.3% (with KPIs)
	Ratio of foreign national employees	0.4%	No disclosure	No disclosure	No disclosure
	Paid annual leave usage rate	65.0%	63.9%	82.0%	No disclosure
	Childcare leave usage rate among female employees	100%	No disclosure	Disclose number of applicants by gender	No disclosure
	Childcare leave usage rate among male employees	0.0%	No disclosure	9 persons	No disclosure
	Average length of service (years)	15.6 years	14.9 years	16.5 years	18.3 years
	Ratio of employees with disabilities	2.6%	2.3%	2.9%	2.4%
Governance (G)	Separation of supervision and execution	Company with Audit and Supervisory Committee	Company with Auditors	Company with Auditors	Company with Auditors
	Director (outside director)	Nine directors (including four outside directors)	Nine directors (including three outside directors)	Eight directors (including three outside directors)	Seven directors (including three outside directors)
	Advisory Committee	Nomination and Remuneration Advisory Committee	Nomination and Remuneration Advisory Committee	Nomination and Remuneration Advisory Committee	-
	Number of female directors	1	1	0	2
	Average years of service as an outside director	2.9	5.9	4.9	4.3
	Average number of companies where outside directors hold concurrent positions	3	2	3	4
	Officer skill matrix and reasons for dedication	○	○	○	△
External evaluation	-	S&P/JPX Carbon Efficient Index	S&P/JPX Carbon Efficient Index	-	S&P/JPX Carbon Efficient Index
	-	ESG/SDGs Evaluation Loan (Sumitomo Mitsui)	-	-	-
	-	CDP:B-	-	-	-
	-	FTSE Blosson Japan Sector Relative Index	-	FTSE Blosson Japan Sector Relative Index	-

Source: Created by CGRA based on materials of the companies

Risks and Opportunities

Short-term (1–2 years) risks and opportunities

One of short-term risk is the U.S. government's restrictions on exporting manufacturing equipment that produces advanced semiconductors of 14 nanometers or less to four major Chinese semiconductor manufacturers. In addition to major semiconductor manufacturing equipment manufacturers in the U.S., the Netherlands, and Japan, the U.S. government has already notified major U.S. semiconductor manufacturers that it will impose a permit system for exports to China. As a result, major manufacturing equipment companies have announced downward revisions to their earnings forecasts to reflect the impact. For the Company, sales of repair parts to the four Chinese semiconductor companies are minimal, so the direct impact on earnings in the near term is limited. However, if the regulations are strengthened, and their impact spreads to all semiconductor manufacturing equipment manufacturers, there may be concerns that the effect on earnings will become apparent.

In the near term, attention will be focused on U.S. export restrictions on China.

On the other hand, as for business opportunities, the expansion of semiconductor production in the U.S., considering the risk of a Taiwan contingency, is attracting attention. Taiwan's TSMC, the world's largest foundry, already announced on December 6 that it would invest 40 billion U.S. dollars to build a second plant in Arizona, the U.S. In the industrial equipment business, the restart of nuclear power plants and increased demand for environmentally friendly products are also cited.

Medium to long-term (3–10 years) risks and opportunities

One medium to long-term risk is a shortage of supply capacity relative to demand. However, the Company has already begun constructing the Fukuchiyama Second Factory, so this should not be a problem. However, competition from overseas and fluororesin procurement risks will likely remain. In the industrial business, fossil-fuel-related divestments are a concern.

Intel of the U.S. and Samsung of South Korea have also announced plans to build new semiconductor plants in the U.S.

On the other hand, business opportunities include the semiconductor market's growth, driven by the increasing volume of data traffic for EVs, IoT, and post-5G, as well as the progress of demand-area production and miniaturization of semiconductors. In fact, U.S. semiconductor giant Micron Technology has announced plans to invest 100 billion U.S. dollars over the next 20 years (40 billion U.S. dollars by the end of the 20s). The Company expects to expand its market share by designing more compact products and strengthening its product lineup. In the industrial equipment business, we have high hopes for entry into the hydrogen and ammonia markets for decarbonization, the restart of nuclear power plants, and demand for new LNG thermal power plants.

Figure 20: Short-term and medium to long-term risks and opportunities

		Business opportunities	Risks
Short term : 1-2years	Electronic equipment business	Expansion of semiconductor equipment investment in the United States Expansion of demand-area production investment of semiconductors Product price increase Increase in new customers and transaction volume	U.S. restrictions on China Slowdown in semiconductor capital investment, especially in memory Material procurement issues and soaring prices
	Industrial equipment business	increase in new customers Restart of nuclear power plants Increased demand due to stricter environmental regulations	Adjustment of rotary joint demand for CMP Decline in customer plant utilization due to the economic slowdown
Medium to long term : 3 to 10 years	Electronic equipment business	Growth of the semiconductor market against a backdrop of increasing data traffic Expansion of demand-area production of semiconductors Progress in semiconductor miniaturization Expansion of product lineup and applications	Ability to meet demand Rise of foreign competitors
	Industrial equipment business	Construction of new LNG thermal power plants Restart of nuclear power plants Expansion of investment in hydrogen and ammonia for decarbonization Launch of new products to the market	Increased demand for rotary joints Fossil-fuel-related divestments

Source: Created by CGRA

Stock valuation

Relatively low stock valuations continue

PBR = ROE × PER is the most orthodox formula for stock price valuation. ROE is a factor that can be relatively easily manipulated by the company concerned through its capital policy. PER, on the other hand, is a valuation that shows how many times the stock is valued at its expected earnings per share or how many years of expected earnings per share growth potential (sustainability) is factored in. In other words, companies with high ROE tend to have a relatively high PBR, and companies with high profitability, such as operating profit margins, tend to have a high PER because they are regarded as highly sustainable. Figure 21 below shows the relationship between operating profit margin and expected PER, and Figure 22 shows the relationship between expected ROE and PBR. The Company's valuation is relatively low compared with other companies.

The Company's small market capitalization, low liquidity, and lack of recognition are considered to keep the company's stock price valuation low.

Figure 21: Despite high profitability, expected PER remains low

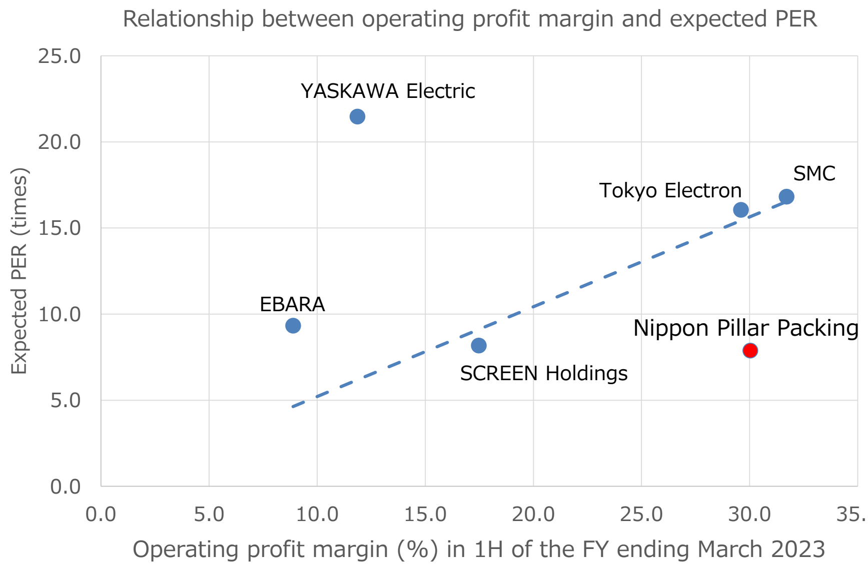
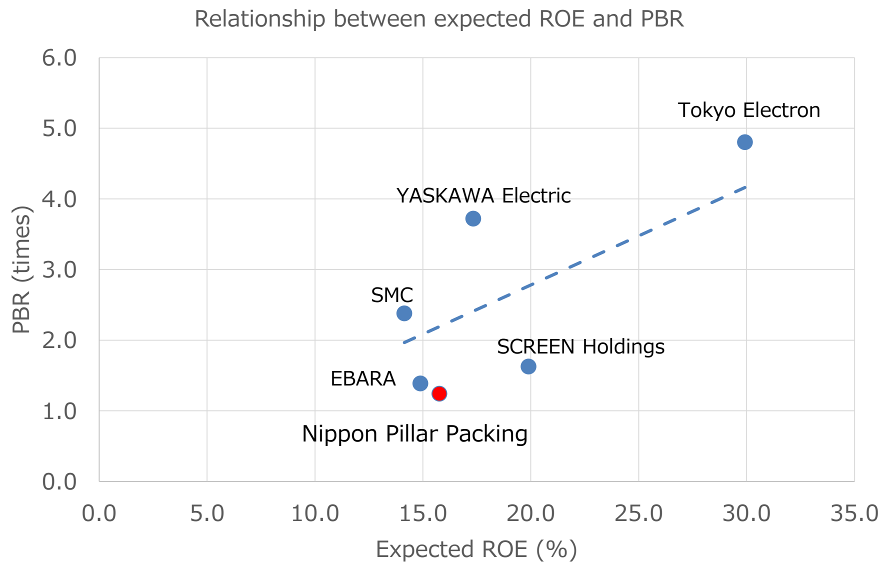


Figure 22: PBR remains relatively low relative to expected ROE



Source: Created by CGRA based on company materials EBARA's financial results for the FY ended December, YASKAWA Electric's financial results for the FY ended February

Shareholder Return

In the FY ending March 2023, the Company will conduct proactive shareholder returns, taking into account cash holdings.

The Company has a target dividend payout ratio of 30% or more and ROE of 8% or more. It determines dividend amounts based on performance. In addition, even though the Company expects to achieve its target dividend payout ratio and ROE, it has been repurchasing its own shares in consideration of its cash on hand (cash and deposits on B/S at the end of September amounted to 22.6 billion yen, representing 32% of total assets).

In fact, although the Company's expected annual dividend per share for the fiscal year ending March 2023 is 108 yen, up 2 yen from the previous year (expected dividend payout ratio of 30.8%), and expected ROE is 14.7%, it announced stock repurchases (1 billion yen, 500,000 shares) on November 10, 2022. The Company's total payout ratio, which is the sum of total dividends and stock repurchases, for the fiscal year ending March 2023 is expected to be 42.8%.

Looking ahead, we expect continuous strengthening of shareholder returns amid increasing capital investment.

Continuous improvement in shareholder returns is considered to be possible in the future.

As for future cash allocation, the Company has already announced major investments in the Technology Development Center and the Fukuchiyama Second Factory. We expect the Company to strengthen shareholder returns, including stock repurchases, while maintaining a balance between investment in growth. Before determining more details, we will wait for the next medium-term plan.

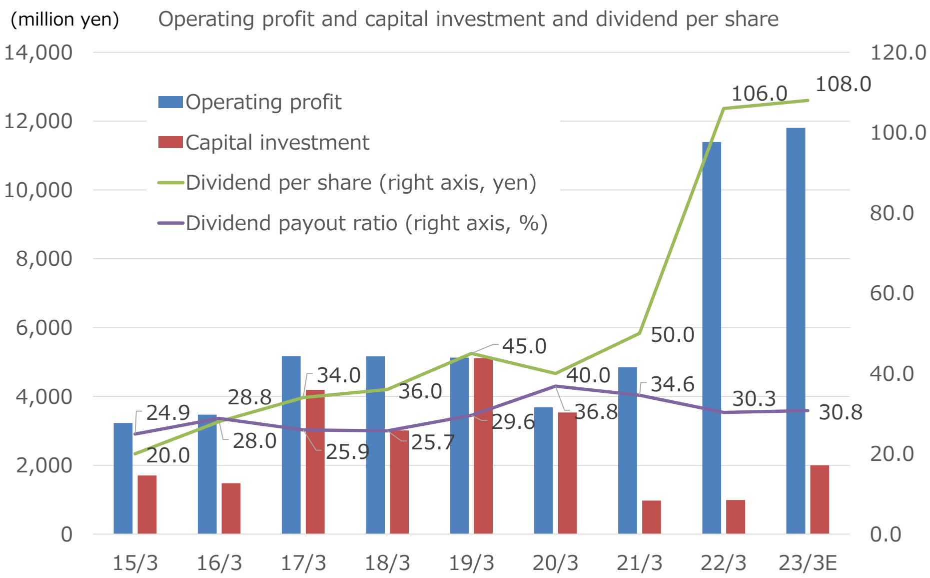
Looking back at the past, a high level of capital investment (15.8 billion yen in total over four years) was also made in the fiscal years ending March 2017 to March 2020. Although the Company's earnings performance was almost flat during that period, the dividend per share increased to 40 yen from 34 yen, the dividend payout ratio rose to 36.8% from 25.9%, and the Company also implemented stock repurchases in the fiscal year ending March 2020. Continuous improvement in shareholder returns is considered to be possible in the future.

Figure 23: Total Shareholder Return (TSR) performance based on the end of the FY ending March 2022

	1 year ago	2 years ago	3 years ago	5 years ago	7 years ago	10 years ago
Nippon Pillar Packing	+70.9	+157.2	+156.5	+123.7	+241.6	+383.4
TOPIX	+2.0	+45.0	+31.2	+44.3	+47.6	+183.3
Machinery index	-3.8	+53.9	+36.7	+40.8	+49.3	+183.7

Source: Created by CGRA Total shareholder return is the stock price return after taking into account the cumulative dividend

Figure 24: Expect to strengthen shareholder returns while maintaining a balance between investment in growth



Source: Created by CGRA based on company materials

Financial Data

Figure 25: Consolidated Balance Sheet and Cash Flow Statement

(Consolidated) (¥ mn, %)	12/3	13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Current assets	**22,334**	**21,867**	**24,805**	**26,124**	**25,279**	**29,832**	**28,821**	**28,375**	**27,025**	**27,994**	**38,050**
Cash and deposits	9,259	10,763	13,093	13,929	12,451	14,060	13,153	12,912	12,196	11,918	21,165
Receivables	10,428	8,481	9,401	9,602	10,159	12,143	12,785	12,026	11,551	12,701	13,009
Marketable securities	0	94	0	0	0	112	0	0	0	0	0
Inventories	2,173	2,128	1,790	2,162	2,174	2,235	2,612	3,063	2,956	3,024	2,626
Other current assets	474	401	521	431	495	1,282	271	374	322	351	1,250
Fixed assets	**14,256**	**13,863**	**14,180**	**15,342**	**16,884**	**19,514**	**22,717**	**24,597**	**26,165**	**26,955**	**26,941**
Tangible fixed assets	11,770	11,304	11,254	11,510	13,901	15,493	18,107	20,266	21,971	20,669	20,272
Intangible fixed assets	56	78	75	75	94	107	105	173	251	246	222
Investments and other assets	2,430	2,481	2,851	3,757	2,889	3,914	4,505	4,158	3,942	6,038	6,446
Total assets	**36,590**	**35,731**	**38,986**	**41,466**	**42,164**	**49,347**	**51,933**	**52,972**	**53,190**	**54,949**	**64,991**
Current liabilities	**6,790**	**5,024**	**6,052**	**6,213**	**6,267**	**9,193**	**8,960**	**8,608**	**8,313**	**7,133**	**10,113**
Notes accounts payable - trade	3,116	2,534	2,929	3,239	3,185	3,948	3,137	2,985	2,869	3,006	3,728
Short-term borrowings	868	776	575	516	352	737	727	639	689	254	250
Other current liabilities	2,806	1,714	2,548	2,458	2,730	4,508	5,096	4,984	4,755	3,873	6,135
Long-term liabilities	**2,665**	**2,077**	**2,348**	**2,154**	**1,991**	**3,413**	**3,137**	**2,194**	**1,866**	**2,038**	**2,219**
Long-term borrowing	1,119	543	656	339	187	1,410	882	443	4	0	0
Other long term liabilities	1,546	1,534	1,692	1,815	1,804	2,003	2,255	1,751	1,862	2,038	2,219
Total liabilities	**9,455**	**7,101**	**8,400**	**8,367**	**8,259**	**12,607**	**12,098**	**10,802**	**10,180**	**9,172**	**12,333**
Total shareholders equity	26,870	28,063	29,518	31,162	32,745	35,166	37,657	40,587	41,791	43,502	49,739
Total accumulated other comprehensive income	264	566	1,067	1,937	1,159	1,573	2,176	1,581	1,218	2,273	2,919
Total net assets	27,135	28,629	30,585	33,099	33,905	36,740	39,834	42,169	43,010	45,776	52,658
Total liabilities and net assets	**36,590**	**35,731**	**38,986**	**41,466**	**42,164**	**49,347**	**51,933**	**52,972**	**53,190**	**54,949**	**64,991**

(¥ mn, %)	12/3	13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3
Operating CF	**3,671**	**2,930**	**3,429**	**2,957**	**3,074**	**3,220**	**3,752**	**5,035**	**4,064**	**5,676**	**11,950**
Profit before income taxes	3,833	2,522	3,031	3,124	3,595	4,609	5,014	5,456	3,653	4,837	11,822
Depreciation	1,170	967	924	954	940	1,022	1,397	1,718	1,822	2,056	1,991
Trade receivables	11	1,970	-877	-94	-564	-1,989	-635	1,072	455	-1,155	-117
Inventories	-74	69	375	-337	-22	-71	-374	-346	101	-81	-538
Trade payables	84	-602	354	275	-48	759	-844	-496	-98	147	344
Income taxes	-1,483	-1,704	-532	-1,365	-968	-1,359	-1,739	-1,923	-1,505	-719	-1,775
Others	130	-292	154	400	141	249	933	-446	-364	591	223
Cash Flows from investmet activities	**-624**	**-494**	**-927**	**-1,378**	**-3,230**	**-2,363**	**-3,244**	**-3,902**	**-2,950**	**-3,705**	**-1,551**
Purchase of securities	0	0	0	0	0	0	0	0	0	0	0
Purchase of investment securities	-5	-5	-115	0	-14	-596	-74	-132	-134	-168	-376
Proceeds from sales of investment securities	0	0	0	35	353	56	0	0	0	0	0
Purchase of property, plant and equipment and intangible assets	-412	-480	-839	-1,298	-3,549	-1,822	-3,207	-4,107	-2,760	-3,163	-1,365
Proceeds from sales of fixed assets	0	0	0	-125	0	0	0	614	18	0	0
Others	-207	-7	28	10	-20	0	37	-277	-74	-374	190
FCF	**3,047**	**2,436**	**2,502**	**1,579**	**-156**	**857**	**508**	**1,133**	**1,114**	**1,971**	**10,399**
Cash flows from financial activities	**-1,168**	**-1,088**	**-505**	**-839**	**-1,145**	**813**	**-1,455**	**-1,493**	**-1,862**	**-2,238**	**-1,711**
Net increase(decrease) in long term borrowings	-655	-668	-88	-375	-316	1,609	-537	-527	-439	-439	96
Net increase(decrease) in short term borrowings	0	0	0	0	0	0	0	0	50	0	0
Divident paid	-493	-396	-395	-444	-495	-781	-904	-952	-1,093	-958	-1,771
Purchase of tresury shares	0	0	0	0	-319	0	0	0	-337	-800	0
Others	-20	-24	-22	-20	-15	-15	-14	-14	-43	-41	-36
Cash and cash equivalents at the end of the period	**7,869**	**9,409**	**11,631**	**12,561**	**11,132**	**12,729**	**11,813**	**11,582**	**10,798**	**10,517**	**19,809**

Figure 26: Consolidated Profit and Loss Statement

(Consolidated base) (¥ mn,%)	13/3	14/3	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3COE
Sales	**18,831**	**20,720**	**21,675**	**22,960**	**27,225**	**29,461**	**30,963**	**29,213**	**30,200**	**40,670**	**44,000**
yoy	-14.7	10.0	4.6	5.9	18.6	8.2	5.1	-5.7	3.4	34.7	8.2
Cost of goods sold	12,692	13,955	14,457	15,287	17,125	18,788	20,214	19,921	19,641	23,156	-
Cost of goods sold/Sales	67.4	67.4	66.7	66.6	62.9	63.8	65.3	68.2	65.0	56.9	-
SG&A	3,745	3,856	3,991	4,204	4,933	5,511	5,622	5,608	5,711	6,121	-
SG&A/Sales	19.9	18.6	18.4	18.3	18.1	18.7	18.2	19.2	18.9	15.1	-
Operating profits	**2,393**	**2,908**	**3,226**	**3,469**	**5,166**	**5,161**	**5,126**	**3,683**	**4,847**	**11,392**	**11,800**
yoy	-37.1	21.5	10.9	7.5	48.9	-0.1	-0.7	-28.2	31.6	135.0	3.6
OP margin	12.7	14.0	14.9	15.1	19.0	17.5	16.6	12.6	16.0	28.0	26.8
Non-operating balance	129	122	221	25	90	-5	102	41	247	428	-
Non-operating profits	169	152	237	116	111	111	126	120	287	442	-
Non-operating losses	40	30	16	91	21	116	24	79	40	14	-
Recurring profits	**2,522**	**3,031**	**3,447**	**3,493**	**5,255**	**5,156**	**5,227**	**3,725**	**5,094**	**11,821**	**11,800**
yoy	-34.0	20.2	13.7	1.3	50.4	-1.9	1.4	-28.7	36.8	132.1	-0.2
RP margin	13.4	14.6	15.9	15.2	19.3	17.5	16.9	12.8	16.9	29.1	26.8
Extraordinary balance	0	0	-323	102	-646	-142	229	-72	-257	1	-
Extraordinary profits	0	0	14	207	30	0	602	27	58	3	-
Extraordinary losses	0	0	337	105	676	142	373	99	315	2	-
Pretax income	2,522	3,031	3,124	3,595	4,609	5,014	5,456	3,653	4,837	11,822	-
Taxes and deferred taxes	932	1,176	1,137	1,198	1,405	1,592	1,737	1,017	1,391	3,536	-
Tax ratio	37.0	38.8	36.4	33.3	30.5	31.8	31.8	27.8	28.8	29.9	-
Net profits	**1,589**	**1,854**	**1,986**	**2,397**	**3,204**	**3,422**	**3,719**	**2,635**	**3,445**	**8,285**	**8,300**
yoy	-28.8	16.7	7.1	20.7	33.7	6.8	8.7	-29.1	30.7	140.5	0.2
NP margin	8.4	8.9	9.2	10.4	11.8	11.6	12.0	9.0	11.4	20.4	18.9
EPS	64.23	54.58	80.29	97.23	131.06	139.98	152.13	108.57	144.66	350.47	351.09
Segment sales											
Industrial equipment businss	9,970	9,683	9,797	10,352	10,680	10,467	10,757	10,915	9,471	10,146	10,800
Electronic equipment business	8,802	10,983	11,803	12,525	16,452	18,911	20,123	18,221	20,645	30,410	33,200
others	58	53	74	83	91	83	82	77	84	114	0
Consolidated sales	18,831	20,720	21,675	22,960	27,225	29,461	30,963	29,213	30,200	40,670	44,000
Segment profit											
Industrial equipment businss	1,833	1,434	1,528	1,527	1,828	1,337	1,485	1,403	691	1,589	1,800
Electronic equipment business	542	1,456	1,677	1,919	3,314	3,818	3,641	2,253	4,130	9,737	10,000
others	15	14	14	12	13	29	15	27	26	66	0
Eliminations	2	3	5	10	9	-23	-16	0	0	0	0
Consolidated operating profit	2,393	2,908	3,226	3,469	5,166	5,161	5,126	3,683	4,847	11,392	11,800
Segment profit margin											
Industrial equipment businss	18.4	14.8	15.6	14.8	17.1	12.8	13.8	12.9	7.3	15.7	16.7
Electronic equipment business	6.2	13.3	14.2	15.3	20.1	20.2	18.1	12.4	20.0	32.0	30.1
others	25.9	26.4	18.9	14.5	14.3	34.9	18.3	35.1	31.0	57.9	na
Consolidated operating profit	12.7	14.0	14.9	15.1	19.0	17.5	16.6	12.6	16.0	28.0	26.8
Regional sales											
Japan	16,707	17,565	17,647	19,156	22,416	23,124	23,904	21,427	21,975	28,254	-
Asia	1,458	2,095	2,862	2,565	3,172	4,528	4,345	5,316	5,721	7,411	-
Others	664	1,059	1,165	1,238	1,637	1,809	2,713	2,470	2,504	5,005	-
Consolidated sales	18,831	20,720	21,675	22,960	27,225	29,461	30,963	29,213	30,200	40,670	-
Overseas sales	2,122	3,154	4,027	3,803	4,809	6,337	7,058	7,786	8,225	12,416	-
YoY growth rate											
Japan	-12.5	5.1	0.5	8.6	17.0	3.2	3.4	-10.4	2.6	28.6	-
Asia	-34.2	43.7	36.6	-10.4	23.7	42.7	-4.0	22.3	7.6	29.5	-
Others	-15.1	59.5	10.0	6.3	32.2	10.5	50.0	-9.0	1.4	99.9	-
Consolidated sales	-14.7	10.0	4.6	5.9	18.6	8.2	5.1	-5.7	3.4	34.7	-
Overseas sales	-29.2	48.6	27.7	-5.6	26.5	31.8	11.4	10.3	5.6	51.0	-
Overseas sales ratio	88.7	84.8	81.4	83.4	82.3	78.5	77.2	73.3	72.8	69.5	-
Domestic sales ratio	11.3	15.2	18.6	16.6	17.7	21.5	22.8	26.7	27.2	30.5	-

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