

Securities ID code:6859

**Results Briefing for the First Quarter
of Fiscal 2020 Ending March 2021
and Full-Year Financial Forecasts**

ESPEC CORP.
August 25, 2020

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Financial Result for the First Quarter of Fiscal Ending March 2021

FY 2020 Full-Year Financial Forecasts

Reference

Financial Result for the First Quarter of Fiscal Ending March 2021

*** From fiscal 2020, ESPEC EUROPE GmbH (Germany) and ESPEC ENGINEERING (THAILAND) CO., LTD. have been included in the scope of consolidation.**

Financial Result for the First Quarter of Fiscal Ending March 2021

In the first quarter of fiscal 2020, sales and profits both decreased year on year, reflecting the impact of stagnant global economic conditions caused by the COVID-19 pandemic.

	Year on Year	
■ Orders-Received	×	Decreased due to a decline in orders-received primarily in the Equipment Business. This decline mainly reflected reviews and postponements of investment plans by customers and stagnant business negotiations
■ Net sales	×	Decreased due to declines in the Equipment Business (environmental test chambers and energy device equipment) and Service Business
■ Operating income	×	Recorded an operating loss due mainly to the decline in net sales
■ Ordinary income, Net income*	×	Recorded an ordinary loss and net loss due to the operating loss

*Profit attributable to owners of parent

Summary of Profits and Losses

(millions of yen)

	FY 2019 1Q Results	FY 2020 1Q Results	Year on Year
Orders–Received	10,393	8,231	–20.8%
Net sales	8,031	6,877	–14.4%
Cost of Net Sales (Cost of sales ratio)	5,170 (64.4%)	4,589 (66.7%)	–11.2% (2.3pt deterioration)
Gross profit	2,860	2,288	–20.0%
SG&A	2,582	2,448	–5.2%
Operating income	278	–159	—
Ordinary income	397	–87	—
Profit attributable to owners of parent	240	–173	—

Performance by Segment

(millions of yen)

Segment		FY 2019 1Q Results	FY 2020 1Q Results	Year on Year
Equipment Business	Orders-Received	8,599	6,534	-24.0%
	Net Sales	6,543	5,449	-16.7%
	Operating Income	286	-22	—
Service Business	Orders-Received	1,591	1,470	-7.6%
	Net Sales	1,387	1,062	-23.4%
	Operating Income	46	-125	—
Other Business	Orders-Received	260	281	8.1%
	Net Sales	151	422	178.7%
	Operating Income	-55	-12	—
Elimination	Orders-Received	-57	-54	—
	Net Sales	-51	-56	—
	Operating Income	0	0	—
Total	Orders-Received	10,393	8,231	-20.8%
	Net Sales	8,031	6,877	-14.4%
	Operating Income	278	-159	—

Equipment Business

Environmental Test Chambers

- In Japan, versatile standardized products and customized products both declined across the entire automobile and electronics sectors, as business negotiations stagnated due to constraints on sales activities and customers tended to curtail investment.
- Overseas, net sales in China were mostly on par with the same quarter a year earlier owing to progress on the normalization of economic activity in the country, while net sales in other areas decreased as economic activity stagnated.

Energy Device Equipment

- Orders and net sales both decreased, reflecting sluggish trends both in evaluation systems for secondary batteries and evaluation systems for fuel cells, as customers continued to review and postpone their investment plans in the automotive market.

Semiconductor Equipment

- Orders-received decreased year on year, but net sales increased as sales of burn-in system and chambers from the previous fiscal year were recorded.

Equipment Business

(millions of yen)

	FY 2019 1Q Results	FY 2020 1Q Results	Year on Year
Orders-Received	8,599	6,534	-24.0%
Net Sales	6,543	5,449	-16.7%
Operating Income [Profit ratio (%)]	286 [4.4%]	-22 [-0.4%]	—

Service Business

(millions of yen)

	FY 2019 1Q Results	FY 2020 1Q Results	Year on Year
Orders-Received	1,591	1,470	-7.6%
Net Sales	1,387	1,062	-23.4%
Operating Income [Profit ratio (%)]	46 [3.4%]	-125 [-11.8%]	—

After-sales Service and Engineering

■ Orders-received were mostly unchanged year on year, but net sales decreased due to constraints on business activity.

Commissioned Tests and Facility Rentals

■ Orders-received and net sales both decreased, because commissioned tests were lackluster as customers tended to curtail investment.

Other Business

(millions of yen)

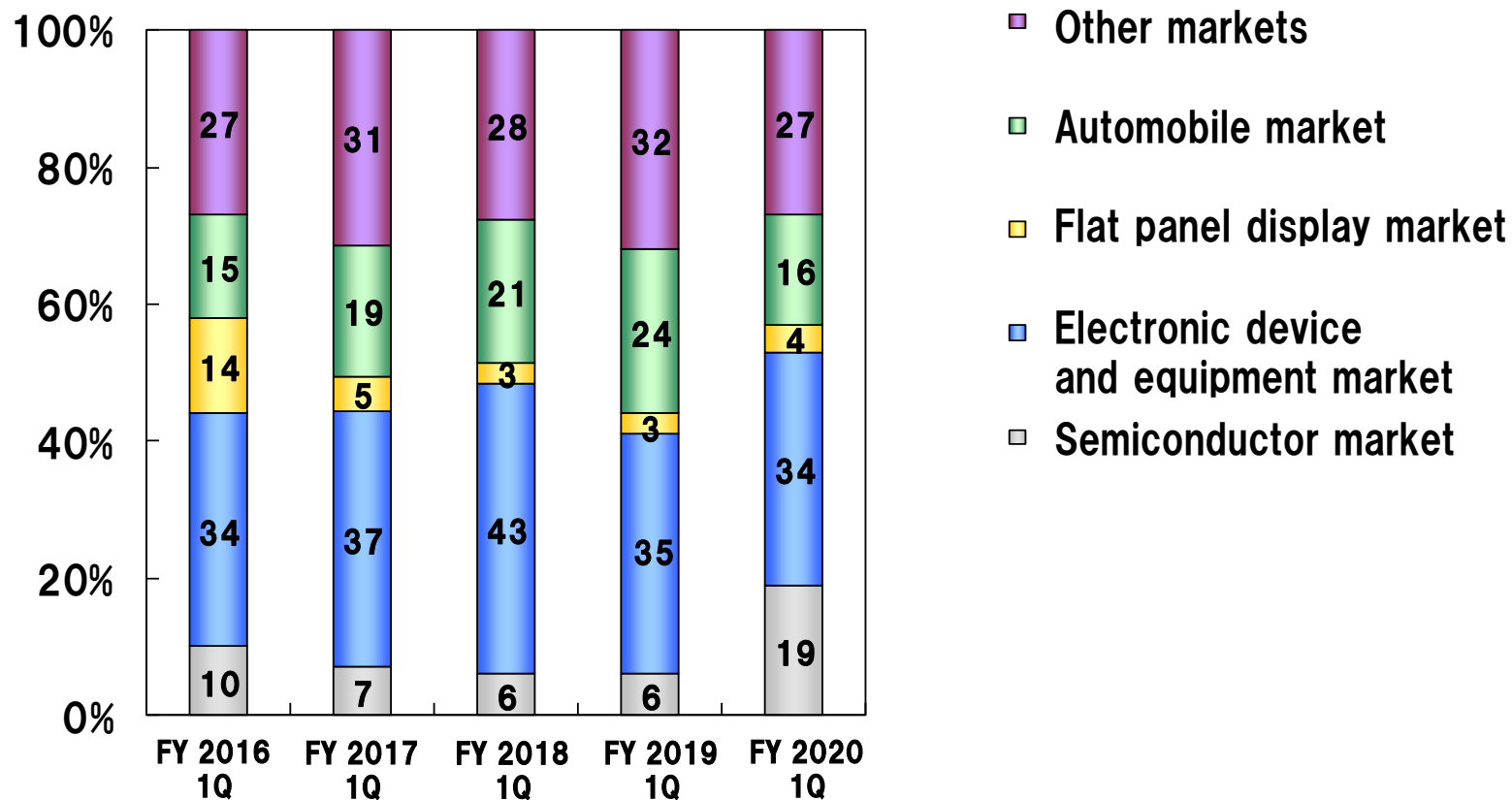
	FY 2019 1Q Results	FY 2020 1Q Results	Year on Year
Orders-Received	260	281	8.1%
Net Sales	151	422	178.7%
Operating Income [Profit ratio (%)]	-55 [-36.7%]	-12 [-3.0%]	—

Environmental Preservation, Plant Production Systems

- Both orders-received and net sales increased year on year owing to the plant factory business performing firmly.

Breakdown of Sales by Market

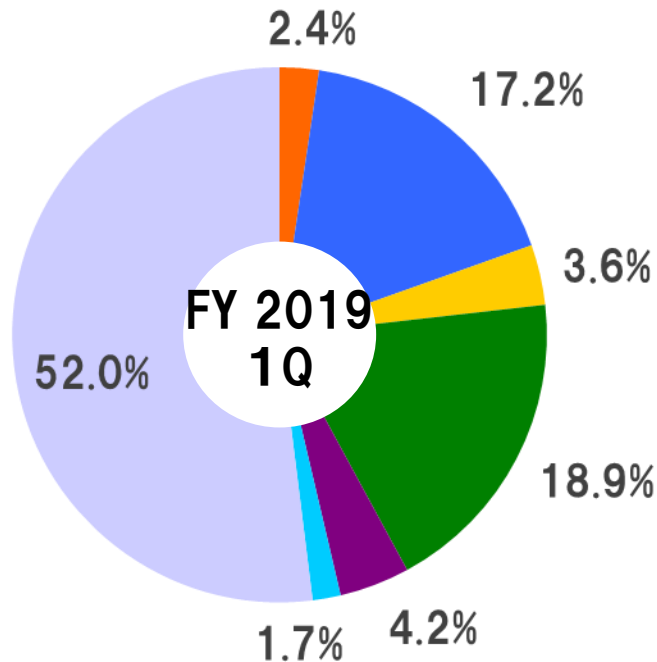
Non-consolidated (Equipment business)



Breakdown of Sales by Region

FY 2019 1Q

Overseas sales ratio : 48. 0%

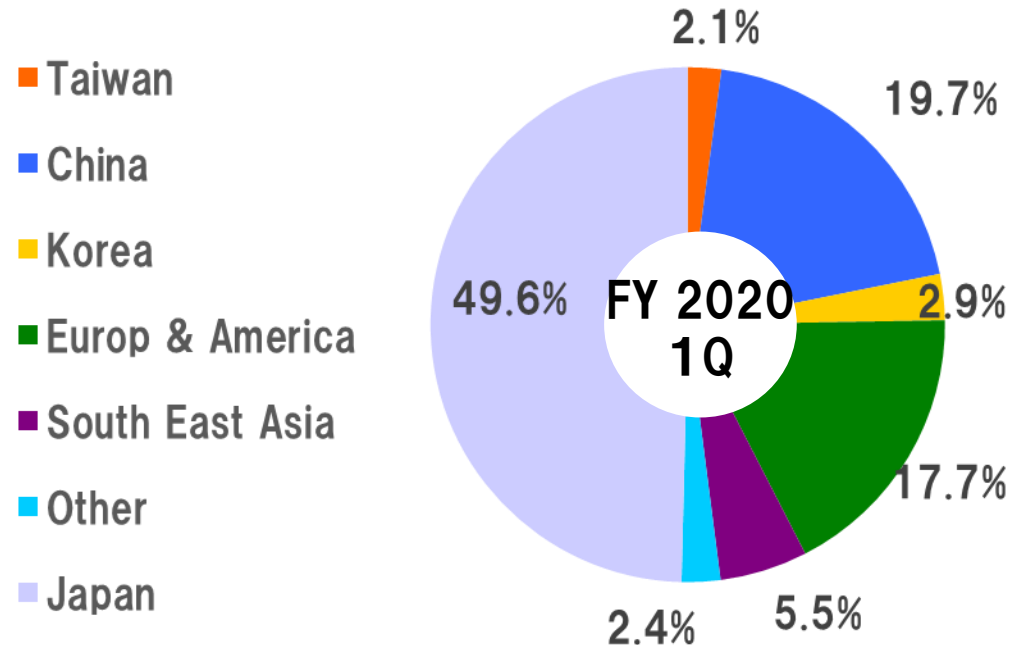


Total: 8,031 million yen

(Overseas sales: 3,858 million yen)

FY 2020 1Q

Overseas sales ratio : 50. 4%



Total: 6,877 million yen

(Overseas sales: 3,466 million yen)

Full-Year Forecasts for Fiscal 2020 Ending March 2021

Full-Year Forecasts for Fiscal 2020

(Republished from Results Briefing for Fiscal 2019 Ended March 2020)

Basic Views

For FY2020, we envisage a significant decrease in orders-received, but we will continue to execute strategies in growth fields

- Control fixed costs and improve the cost ratio
- Strengthen initiatives in growth fields
5G and IoT are becoming increasingly necessary.
Moreover, customers' investments in automation and electrification of automobiles will be recovered quickly.
- We will execute strategic investments, making use of our sound financial position

In preparation for even fiercer competition, we will make every effort to prevail by achieving our top priority-winning orders.

We will strengthen activities in 5G and IoT-related fields as we execute strategic investments as planned.

Full-Year Forecasts for Fiscal 2020

(millions of yen)

	FY 2019	FY 2020 Forecast			
	Full Year	First half	Second half	Full Year	Year on Year
Orders-received	43,571	16,500	18,500	35,000	-19.7%
Net Sales	42,443	17,500	19,500	37,000	-12.8%
Gross profit [Profit ratio (%)]	14,719 [34.7%]	5,630 [32.2%]	6,470 [33.2%]	12,100 [32.7%]	-17.8% [-2.0pt]
SG&A [SG&A ratio (%)]	10,976 [25.9%]	5,230 [29.9%]	5,470 [28.1%]	10,700 [28.9%]	-2.5% [3.0pt]
Operating income [Profit ratio (%)]	3,742 [8.8%]	400 [2.3%]	1,000 [5.1%]	1,400 [3.8%]	-62.6%
Ordinary income [Profit ratio (%)]	3,933 [9.3%]	450 [2.6%]	1,050 [5.4%]	1,500 [4.1%]	-61.9%
Profit attributable to owners of parent [Profit ratio (%)]	2,818 [6.6%]	250 [1.4%]	750 [3.8%]	1,000 [2.7%]	-64.5%
Capital expenditures	2,671	700	600	1,300	-51.3%
Depreciation expenses	891	500	500	1,000	12.2%
R&D expenditures	1,169	650	450	1,100	-5.9%
Earnings Per Share (yen)	123.26	10.93	32.80	43.73	-64.5%

FY 2020 Assumed Exchange Rate

■ Assumed exchange rate

	FY 2018	FY 2019		FY 2020
	Results	First half Results	Results	Assumed
US\$(yen)	110.40	108.60	108.72	105

Reference. FY 2020 Exchange rate sensitivity

(for every appreciation of ¥1 against the U.S. dollar)

Net Sales A decrease of ¥131 million

Operating Income A decrease of ¥22 million

Full-Year Outlook for the Business Environment

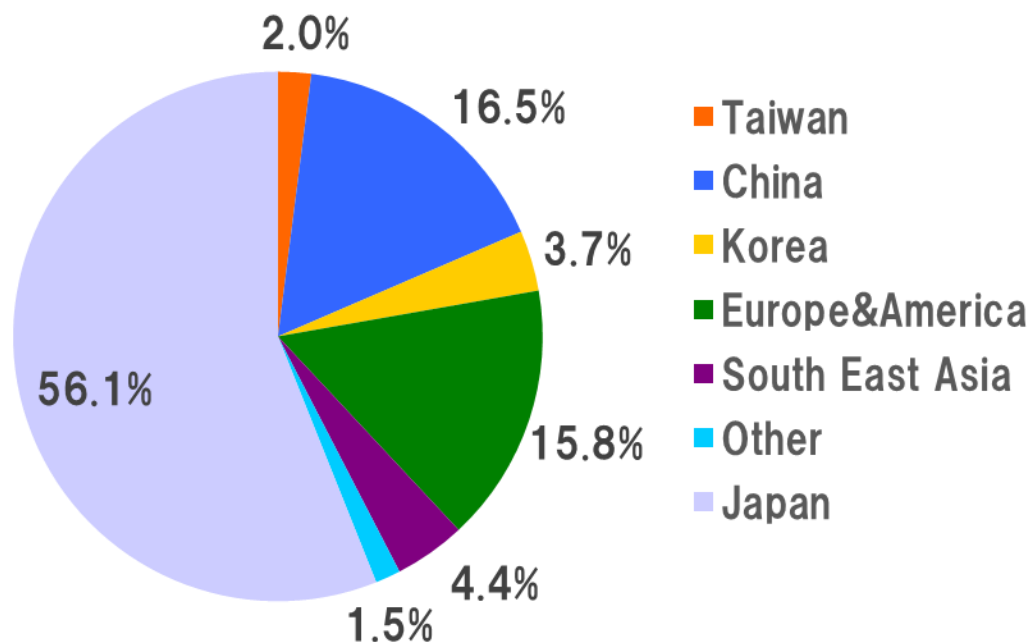
- China is likely to follow a recovery path, but other areas are expected to face persistently difficult conditions.
- Cutting-edge technology fields, such as 5G, IoT and automated driving, are expected to gradually recover from the third quarter, although the economic slowdown will continue to have an impact.

Equipment Business	Environmental Test Chambers	<p>Japan :Cutting-edge technology fields are likely to head toward recovery from the third quarter, but a recovery in other fields is expected to take time.</p> <p>China :Conditions are expected to return to the previous year's level, primarily in 5G and IoT-related fields, despite significant uncertainties about factors including the impact of U.S.-China tensions and the recovery in external demand.</p> <p>ASEAN :Conditions are expected to head toward recovery from the third quarter.</p> <p>America :Although conditions remain challenging, a gradual recovery is expected from the fourth quarter.</p> <p>Europe :The automotive market is expected to start moving toward recovery within the current fiscal year.</p>
	Energy Device Equipment	Evaluation systems for secondary batteries and evaluation systems for fuel cells are both expected to recover from fiscal 2021.
	Semiconductor Equipment	It is difficult to forecast conditions in equipment for the automotive sector due to uncertainty, although demand is expected to grow in 5G and IoT-related fields. Orders are forecast to decrease year on year.
Service Business	After-sales Service and Engineering, Commissioned Tests and Facility Rentals	<p>After-sales Service and Engineering :Orders are expected to be slightly sluggish in the first half due to restrictions on activities, but are forecast to rebound from the second half and return to the previous year's level.</p> <p>Commissioned Tests:Cutting-edge technology fields are likely to head toward recovery from the third quarter, but a recovery in other fields is expected to take time.</p>
Other Business	Environmental Preservation, Plant Production Systems	No major changes in the business environment from the previous year are expected.

<Reference> Breakdown of Sales by Region (Assumption)

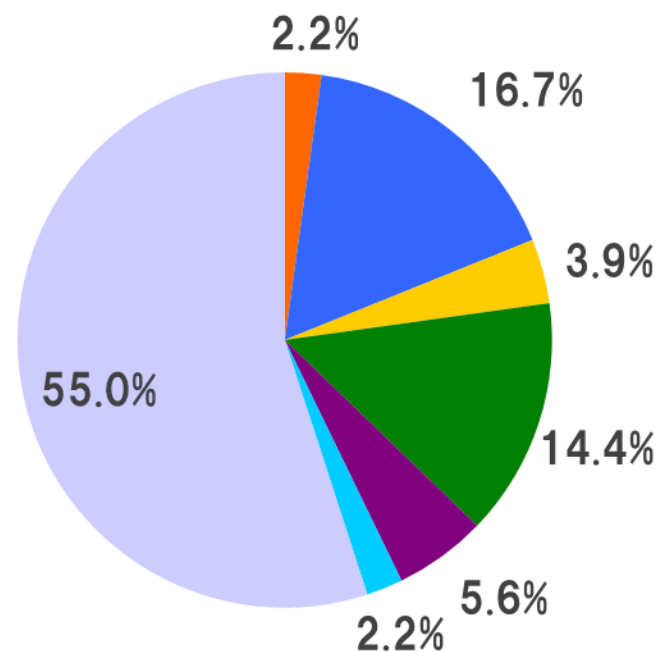
FY 2019 Results

Consolidated Sales : 424 million yen



FY 2020 Forecast

Consolidated Sales : 370 million yen
(Forecast)

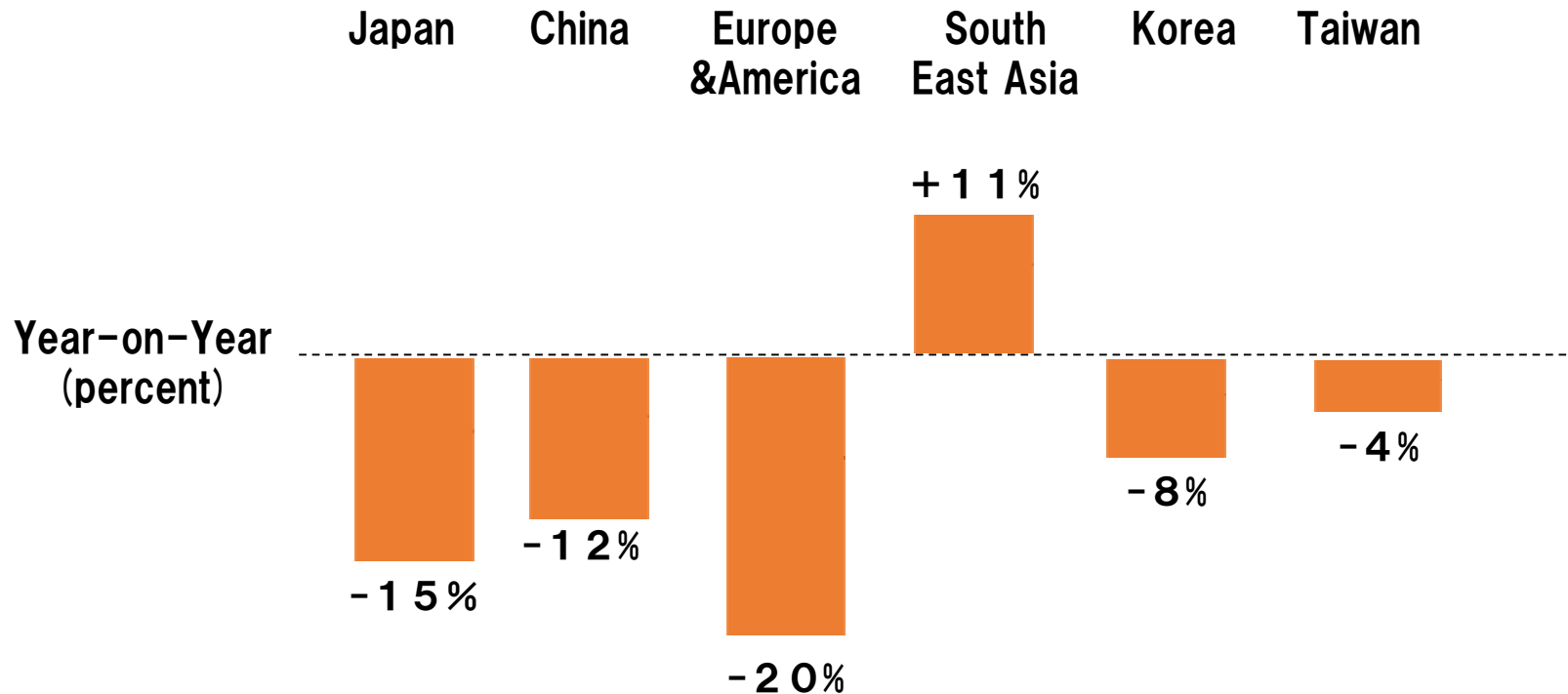


* This illustration of year-on-year was prepared based on information currently available, in order to facilitate understanding of the financial forecasts for the current fiscal year. It does not guarantee the achievement of the forecasts.

<Reference> Regional Sales Forecasts for Fiscal 2020

(Assumption of Year-on-Year)

Consolidated Sales



* This illustration of year-on-year was prepared based on information currently available, in order to facilitate understanding of the financial forecasts for the current fiscal year. It does not guarantee the achievement of the forecasts.

Segment Financial Forecasts

(millions of yen)

Segment		FY 2019 Results	FY 2020 Forecast			
			First half	Second half	Full Year	Year on Year
Equipment Business	Orders-Received	34,682	13,100	14,600	27,700	-20.1%
	Net Sales	34,361	14,000	15,200	29,200	-15.0%
	Operating Income	3,041	450	600	1,050	-65.5%
Service Business	Orders-Received	6,378	2,900	3,100	6,000	-5.9%
	Net Sales	6,459	2,600	3,400	6,000	-7.1%
	Operating Income	646	-50	400	350	-45.8%
Other Business	Orders-Received	2,715	600	900	1,500	-44.8%
	Net Sales	1,831	1,000	1,000	2,000	9.2%
	Operating Income	49	0	0	0	—
Elimination	Orders-Received	-203	-100	-100	-200	—
	Net Sales	-208	-100	-100	-200	—
	Operating Income	4	0	0	0	—
Total	Orders-Received	43,571	16,500	18,500	35,000	-19.7%
	Net Sales	42,443	17,500	19,500	37,000	-12.8%
	Operating Income	3,742	400	1,000	1,400	-62.6%

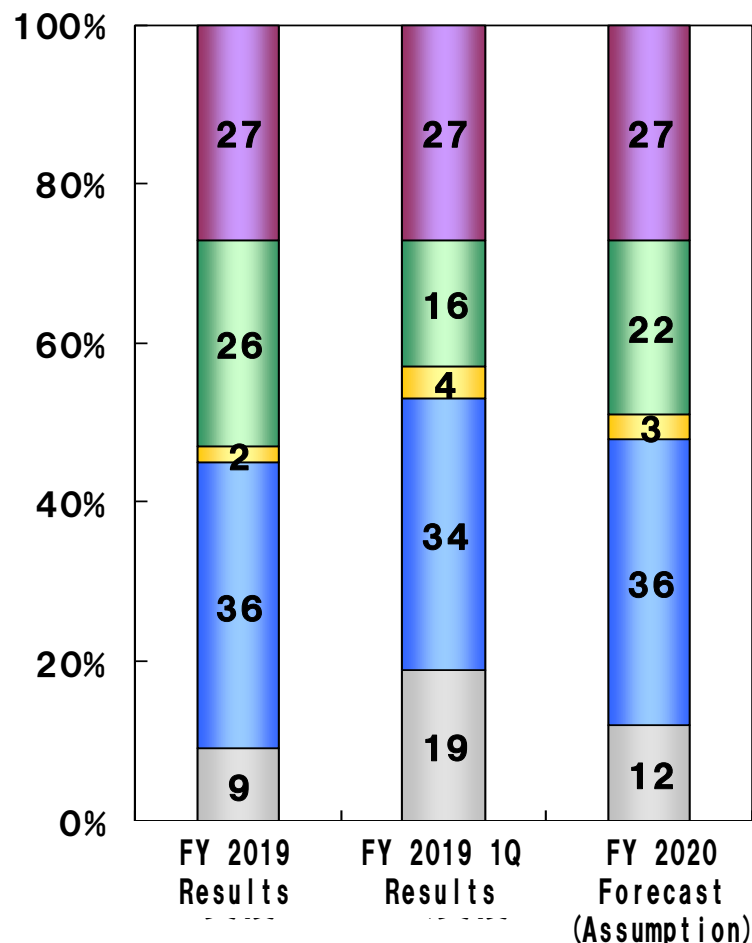
Equipment Business

(millions of yen)

	FY 2019	FY 2020			
	Results	Forecast			
		First half	Second half	Full Year	Year on Year
Orders-received	34,682	13,100	14,600	27,700	-20.1%
Net sales	34,361	14,000	15,200	29,200	-15.0%
Operating income [Profit ratio (%)]	3,041 [8.9%]	450 [3.2%]	600 [3.9%]	1,050 [3.6%]	-65.5%

<Reference> Breakdown of Sales by Market (Assumption)

Non-consolidated (Equipment business)



- Other markets
- Automobile market
- Flat panel display market
- Electronic device and equipment market
- Semiconductor market

* This illustration of breakdown by market was prepared based on information currently available, in order to facilitate understanding of the financial forecasts for the current fiscal year. It does not guarantee the achievement of the forecasts.

Service Business

(millions of yen)

	FY 2019	FY 2020			
	Results	Forecast			
		First half	Second half	Full Year	Year on Year
Orders-received	6,378	2,900	3,100	6,000	-5.9%
Net sales	6,459	2,600	3,400	6,000	-7.1%
Operating income [Profit ratio (%)]	646 [10.0%]	-50 [-1.9%]	400 [11.8%]	350 [5.8%]	-45.8%

Other Business

(millions of yen)

	FY 2019	FY 2020			
	Results	Forecast			
		First half	Second half	Full Year	Year on Year
Orders-received	2,715	600	900	1,500	-44.8%
Net sales	1,831	1,000	1,000	2,000	9.2%
Operating income [Profit ratio (%)]	49 [2.7%]	0 [0.0%]	0 [0.0%]	0 [0.0%]	—

Action Items for FY 2020 (1)

(Republished from Results Briefing for Fiscal 2019 Ended March 2020)

Cultivation of 5G-related markets

- Expand the digital infrastructure field (mobile phone base stations, data centers, etc.) , as well as custom products for handsets and devices, etc.
- Global marketing and sales expansion through cooperation with Group companies

Strengthen Chinese business

- Strengthen marketing with local sales subsidiaries
- Bolster competitive strength by enhancing design and production capability

Strengthen European business

- Develop new users through online sales
- Acquire orders by strengthening design functions
- Strengthen product capabilities for European markets

Action Items for FY 2020 (2)

(Republished from Results Briefing for Fiscal 2019 Ended March 2020)

Strengthen response to new needs in the commissioned testing business

- Expand the scope of compliance with various international standards
- Respond to needs for developmental testing of stationary batteries and air-transport testing for vehicle batteries
- Respond to international standard testing needs for medical equipment (reagents and surgical equipment)
- Launch home-based online services for commissioned testing

Promote new business

- Develop the fields of biopharmaceuticals and medical devices
- Develop the materials field
- Develop new customers through model change of low-pressure, low-temperature cookers (food machinery field)
- Start new businesses through the development of new environmental factors



For medical field
Transportation Evaluation
System
(Released in March 2020)



For material field
Thermal Air Test System
(Released in December 2019)

Investment plan

Strategic investment	5 billion yen
Ordinary investment	8 billion yen
Total	13 billion yen

R&D expenditures	11 billion yen
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■ Main Capital Investments

- Installation of all-weather laboratory
(large-scale multipurpose environmental testing equipment)
- Conversion to smart production of customized products
- Development of a new service menu for after-sales service operations

■ Main research and development

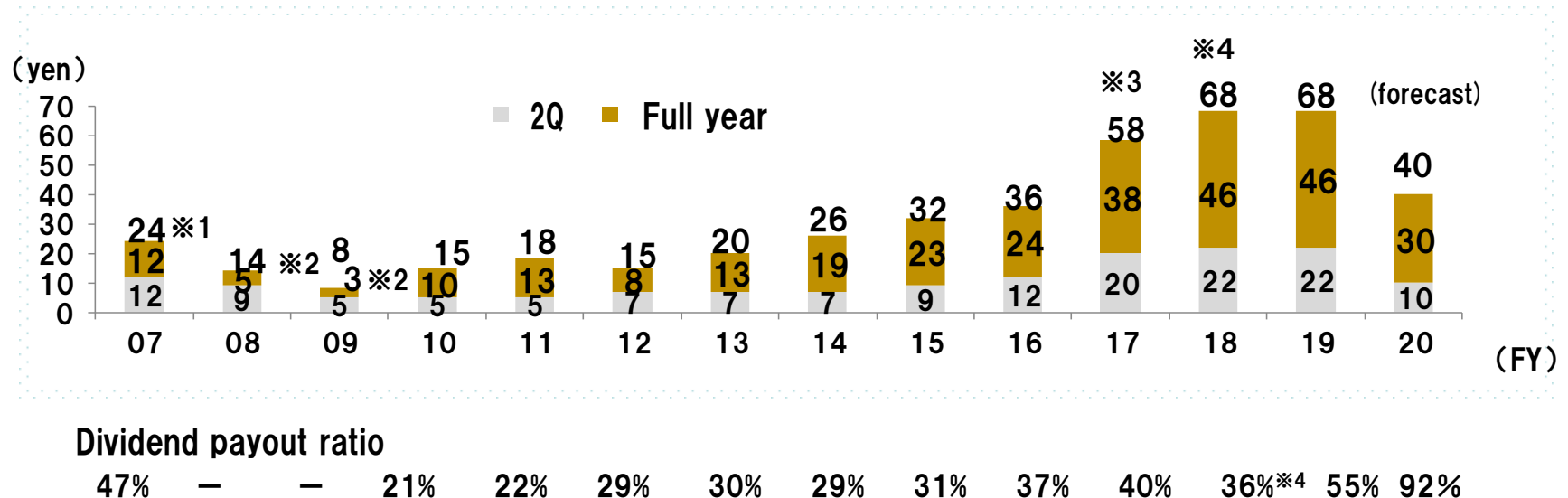
- Development of 5G-related equipment
- Enhancement of large-scale testing equipment
- Development of products for new field

FY 2020 Dividend Forecast

Basic policy on profit distribution

We recognize that passing on profits to our shareholders is a key priority and that raising corporate value on a lasting basis is fundamental to raising shareholder value. Dividends are decided taking into account sustainability and the dividend payout ratio.

Dividend per share and dividend payout ratio



※1.The dividend per share for FY2007 included a commemorative dividend of ¥2 per share to mark the Company's 60th founding anniversary.

※2.Dividends were implemented in FY2008 and FY2009, despite posting a net loss.

※3.The dividend per share for FY2017 includes a commemorative dividend of ¥2 per share to mark the Company's 70th founding anniversary (an interim dividend of ¥1 per share and a year-end dividend of ¥1 per share).

※4.FY2018 was an irregular 15-month fiscal period for overseas consolidated subsidiaries. The dividend payout ratio for a 12-month period is 39% (reference)

Strengthen Management Foundation and Promote ESG

(Republished from Results Briefing for Fiscal 2019 Ended March 2020)

**Under the corporate philosophy, THE ESPEC MIND,
the Company is aiming for sustainable growth**

E (Environmental)

- (1) 7th Mid-term Plan on the Environment**
- (2) Contribute to reducing the environmental load through products**
- (3) Promote biodiversity and natural environment preservation activities**

S (Social)

- (1) Support human resource development and growth**
- (2) Promote working style reform**

G (Governance)

- (1) Maintain headquarters functions, strengthen governance**
- (2) Facilitate good communication with stakeholders**

(June, 2020)

Ministry of Economy, Trade and Industry (METI)
Global Niche Top Companies Selection 100 for Fiscal 2020
ESPEC was selected as a winner for the second time, following on from fiscal 2013.

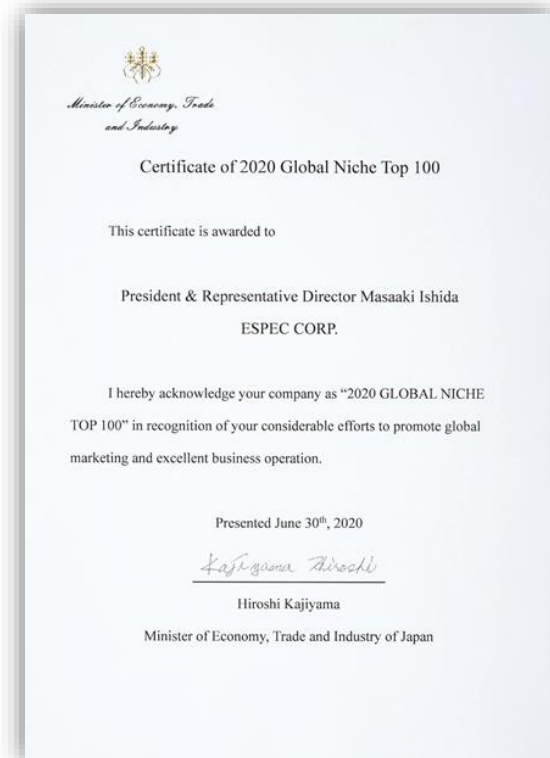
With Global Niche Top Companies Selection 100 (set up in fiscal 2013), METI recognizes companies that have a high market share in niche sectors and excellent international competitiveness.

In the second program held in fiscal 2020, METI selected 113 companies that have prevailed in niche sectors amid a challenging business environment and shifting international conditions.

ESPEC was once again selected as a winner, following on from its selection in FY2013. (There were a total of 13 companies selected as consecutive winners.)

Main selection criteria

- Compatibly achieve global share and profits
- Possess unique and independent technologies
- Play an important part in supply chains



TOPICS

(August, 2020)

Expanded Environmental Stress Chamber AR Series Lineup

Launched four new models as rapid-rate temperature cycle type products, bringing the total lineup to 32 models across the series

- Supports the need for rapid temperature change testing in the automotive market
- Compliant with IEC International Standards and German Automotive industry test standard
- Can perform temperature (humidity) cycle testing with samples



Environmental Stress Chamber AR Series
Rapid-Rate Temperature Cycle Type

(Left: 10K/min (1100L), Right: 15K/min (680L))

(June, 2020)

Installed large-scale testing equipment in the Battery Safety Certification Center

Installed one of Japan's largest temperature cycle testing equipment units on site

Supports testing needs for large-vehicle batteries

- Can perform temperature cycle testing of 2 m-plus large-scale battery pack systems
- Supports testing prescribed by United Nations regulations and international standards such as ISO 12405
- Added a medium-sized constant temperature and constant humidity chamber to strengthen support for China's GB standards



Large temperature cycle testing equipment units

Quality is more than a word

ESPEC

These materials contain forward-looking statements, including the Company's present plans and forecasts of performance, that reflect the Company's plans and forecasts based on the information presently available. These forward-looking statements are not guarantees of future performance, and plans, forecasts, and performance are subject to change depending on future conditions and various other factors.

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