

Securities ID code:6859

Results Briefing for the Fiscal Year Ended March 31, 2022

ESPEC CORP.

Representative Director and President

Satoshi Arata

May 25, 2022

ESPEC CORP.

My name is Satoshi Arata.

I was appointed President in this current fiscal year.

Thank you for watching today.

Financial Result for the Fiscal Year Ended March 31, 2022

Orders received were strong mainly in electronics-related products and reached record highs.

Net sales failed to grow due to an electronic component shortage, and profit decreased due to procurement costs and selling, general and administrative expenses.

	Year on Year	Comparison with Forecasts (Revised in February, 2022)
■ Orders Received	○ Increased substantially in the Equipment Business (mainly environmental test chambers)	○ Continued strong performance in the Equipment Business (mainly environmental test chambers)
■ Net Sales	○ Increased in the Equipment Business (mainly environmental test chambers) and Service Business	○ Equipment Business fell slightly short, but was in line with forecast
■ Operating Profit	× Decreased due to a rise in procurement costs and an increase in selling, general and administrative expenses in line with an increase of orders received	× Below forecast due to a deterioration in the cost-of-sales ratio and an increase in selling, general and administrative expenses.
■ Ordinary Profit, Profit Attributable to Owners of Parent	× Decreased due to the decrease in operating profit	○ In line with forecast through gain on sale of investment securities, etc.
■ Looking at the dividend per share, the annual dividend forecast is ¥60, with an interim dividend of ¥18 and a year-end dividend of ¥42, as initially planned.		
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In summary of the financial results for the fiscal year ended March 31, 2022, Orders received were strong mainly in electronics-related products and reached record highs, but net sales failed to grow due to the impact of the electronic component shortage, and profit decreased due to procurement costs and an increase in selling, general and administrative expenses.

Environmental test chambers in Equipment Business led to a substantial increase in orders received.

In terms of area, China led results, with increases also in Japan, North America, Europe, and Southeast Asia.

However, on the manufacturing front, although we undertook initiatives such as procuring alternatives and making design changes, product delivery times continued to be prolonged. In addition, the cost-of-sales ratio worsened due in part to surging prices of electronic components, while personnel expenses and activity expenses increased in conjunction with an increase of orders received, and logistics costs surged as well, causing profit to decrease year on year.

In comparison to the financial results forecast that was revised and announced in February, orders received and net sales were in line with the forecast. However, operating profit fell short due to a worsening of the cost-of-sales ratio that was more than anticipated and an increase in selling, general and administrative expenses.

With regard to dividends, as initially planned, the year-end dividend is forecast at ¥42 yen, and the annual dividend is forecast at ¥60 yen.

Summary of Profits and Losses

(Millions of yen)					
	FY 2020 Results	FY2021 Forecast (February, 2022)	FY 2021 Results	Year on Year	Against forecast
Orders Received	37,580	50,800	51,303	+36.5%	+1.0%
Net Sales	38,668	42,200	41,852	+8.2%	-0.8%
Cost of Net Sales	25,255	27,900	27,849	+10.3%	-0.2%
Cost Ratio	65.3%	66.1%	66.5%	1.2pt deterioration	0.4pt deterioration
Gross Profit	13,412	14,300	14,003	+4.4%	-2.1%
SG&A	10,839	11,900	12,034	+11.0%	+1.1%
Operating Profit	2,572	2,400	1,968	-23.5%	-18.0%
Ordinary Profit	2,840	2,600	2,322	-18.2%	-10.7%
Profit Attributable to Owners of Parent	1,961	1,900	1,905	-2.8%	+0.3%
From July 2021, ESPEC THERMAL TECH SYSTEM CORP. has been included in the scope of consolidation.					
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Here is the summary of profits and losses. Although orders received largely increased year on year by +36.5%, net sales only increased by 8.2%.

The cost-of-sales ratio worsened by 1.2 points. Year on year, selling, general and administrative expenses increased by approximately ¥1.2 billion, and operating profit decreased by 23.5%.

Furthermore, profit only decreased by 2.8% year on year. The decrease was lessened by gain on sale of investment securities in conjunction with a reduction of cross-shareholdings.

From July 2021, ESPEC THERMAL TECH SYSYEM CORP. has been included in the scope of consolidation.

Performance by Segment

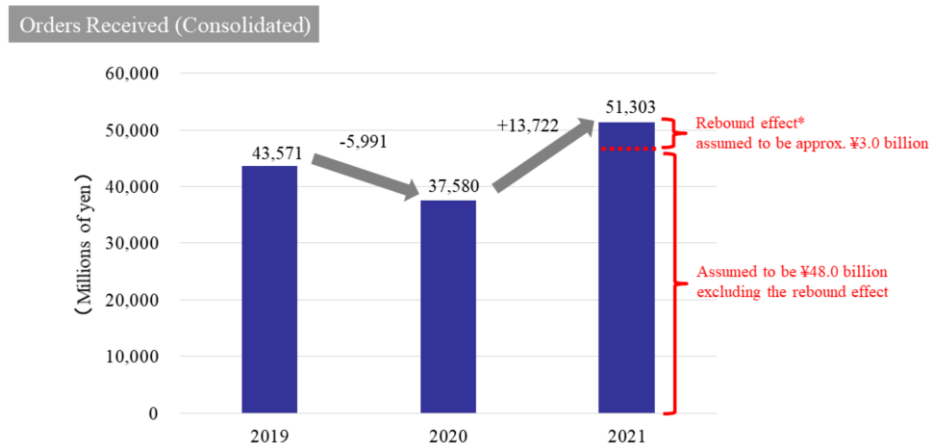
(Millions of yen)						
Segment		FY 2020 Results	FY2021 Forecast (February, 2022)	FY 2021 Results	Year on Year	Against forecast
Equipment Business	Orders Received	30,755	43,450	43,535	+41.6%	+0.2%
	Net Sales	30,669	35,000	34,518	+12.6%	-1.4%
	Operating Profit	2,062	1,920	1,370	-33.5%	-28.6%
Service Business	Orders Received	6,153	6,450	6,771	+10.0%	+5.0%
	Net Sales	6,063	6,400	6,407	+5.7%	+0.1%
	Operating Profit	446	550	618	+38.5%	+12.4%
Other Business	Orders Received	976	1,200	1,265	+29.6%	+5.4%
	Net Sales	2,241	1,100	1,188	-47.0%	+8.0%
	Operating profit	60	-70	-23	-	-
Elimination	Orders Received	-304	-300	-269	-	-
	Net Sales	-305	-300	-261	-	-
	Operating Profit	3	0	2	-	-
Total	Orders Received	37,580	50,800	51,303	+36.5%	+1.0%
	Net Sales	38,668	42,200	41,852	+8.2%	-0.8%
	Operating Profit	2,572	2,400	1,968	-23.5%	-18.0%

From July 2021, ESPEC THERMAL TECH SYSTEM CORP. has been included in the scope of consolidation.

Performance by segment can be seen here.

<Investigation> Orders Received in FY2021

■ Orders received reached record highs partly because of a rebound effect from FY2020



*Rebound effect
The amount assuming that investments planned in FY2020 were implemented in FY2021

Financial results in FY2021 were unique as a result of sudden changes in the business environment. I will explain the situation again.

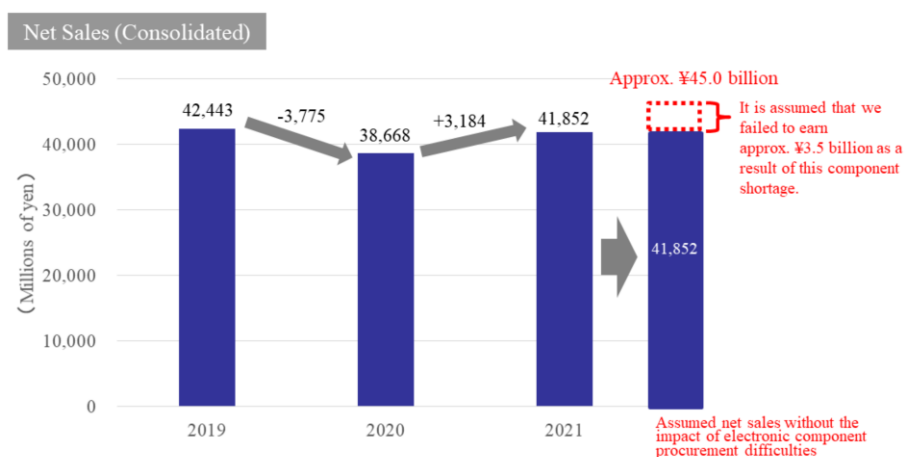
Orders received reached record highs of approximately ¥51.3 billion. However, we believe that this includes the rebound effect of investments that had been postponed due to COVID-19 in FY2020.

We assume this rebound effect to be approximately ¥3.0 billion, and believe that actual orders received would be approximately ¥48.0 billion excluding the rebound effect. This is the same level as orders received in FY2018, which was a record high.

<Investigation> Net Sales in FY2021

■ Prolonging of production lead times due to electronic component procurement difficulties.

Due to a global shortage of semiconductors and electronic components, production could not be completed. ESPEC strengthened its procurement capabilities, selected alternatives, and made design changes, but its efforts were not enough to overcome the component shortage.



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Next, with regard to net sales, procurement difficulties continued in FY2021 due to the global shortage of semiconductors and electronic components.

As countermeasures, ESPEC strengthened its procurement capabilities, selected alternatives, and made design changes, but was caught up in a component shortage that it could not overcome, prolonging production lead times.

It is assumed that we failed to earn approximately ¥3.5 billion as a result of this component shortage. We believe that, without the impact of procurement, net sales would have been around ¥45.0 billion.

Additionally, order backlogs built up due to procurement difficulties. In an average year, these backlogs would be around ¥10.0 billion, but they reached a record high of ¥20.7 billion at the end of FY2021.

Operating Profit in FY 2021

■ Reasons why operating profit decreased greatly despite an increase in sales

Surging prices
of procured materials

Surging prices of electronic components and component materials, costs of making design changes to alternatives

Decline in productivity

Changed production processes to shorten production lead times

Increase in selling, general
and administrative expenses

Increases in quotations and activity expenses due to booming orders received

Surging logistics costs

■ Reasons why operating profit decreased greatly compared to figures announced in February

- Sales on a consolidated basis was unable to record due to logistical delays in the Chinese business
- Material costs surged higher than expected in the North American business

Operating profit decreased greatly year on year despite an increase in sales for the three reasons seen here.

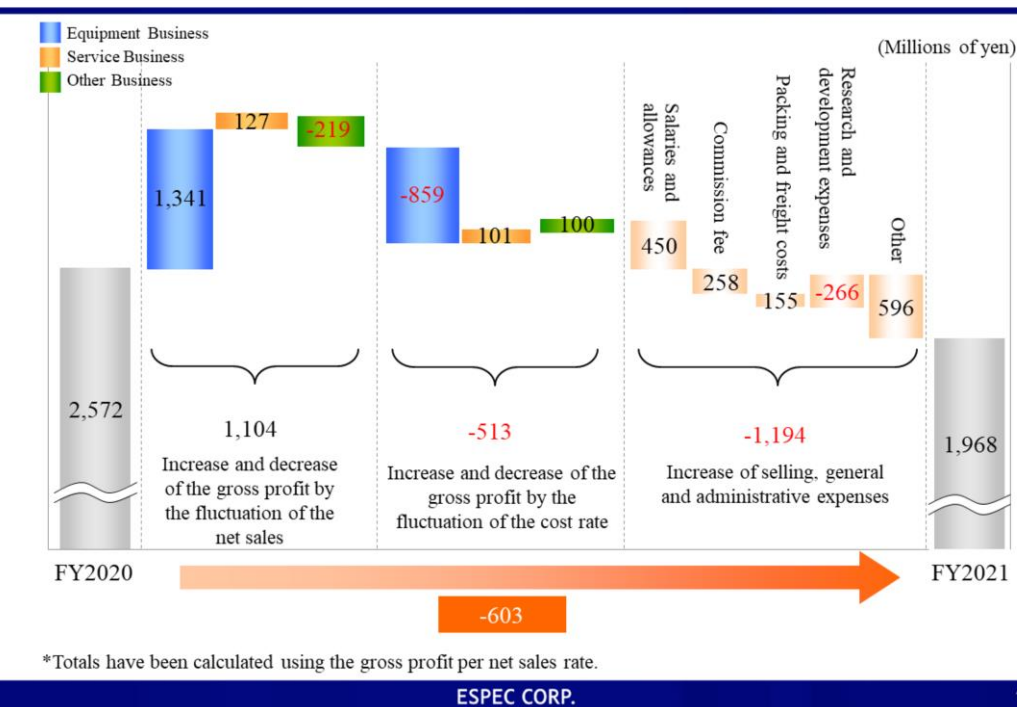
The first reason is the occurrence of surging prices of component materials and costs of making design changes to alternatives. The second is a decline in productivity resulting from changes to production processes, and the third is an increase in selling, general and administrative expenses resulting from increases in activity expenses due to booming orders received and surging logistics costs.

On top of this, there are two reasons why operating profit decreased greatly compared to the figures announced in February.

The first reason is because we were unable to record sales on a consolidated basis due to logistical delays in the Chinese business.

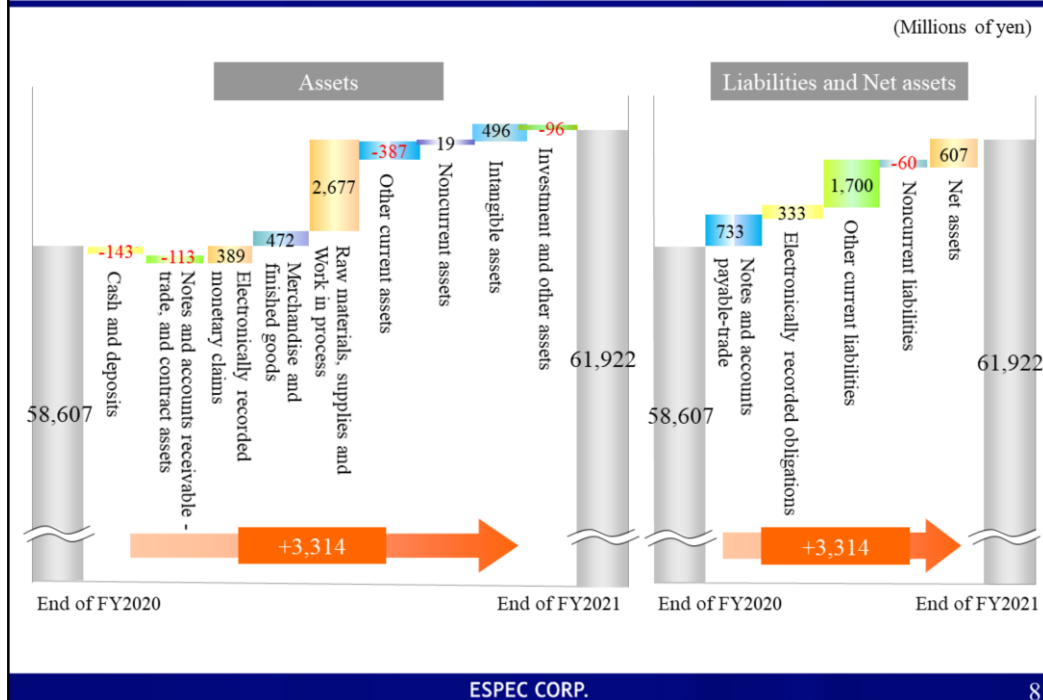
The second is that the surge of material costs in the North American business was greater than anticipated.

Analysis of Operating Profit Increase and Decrease Factor

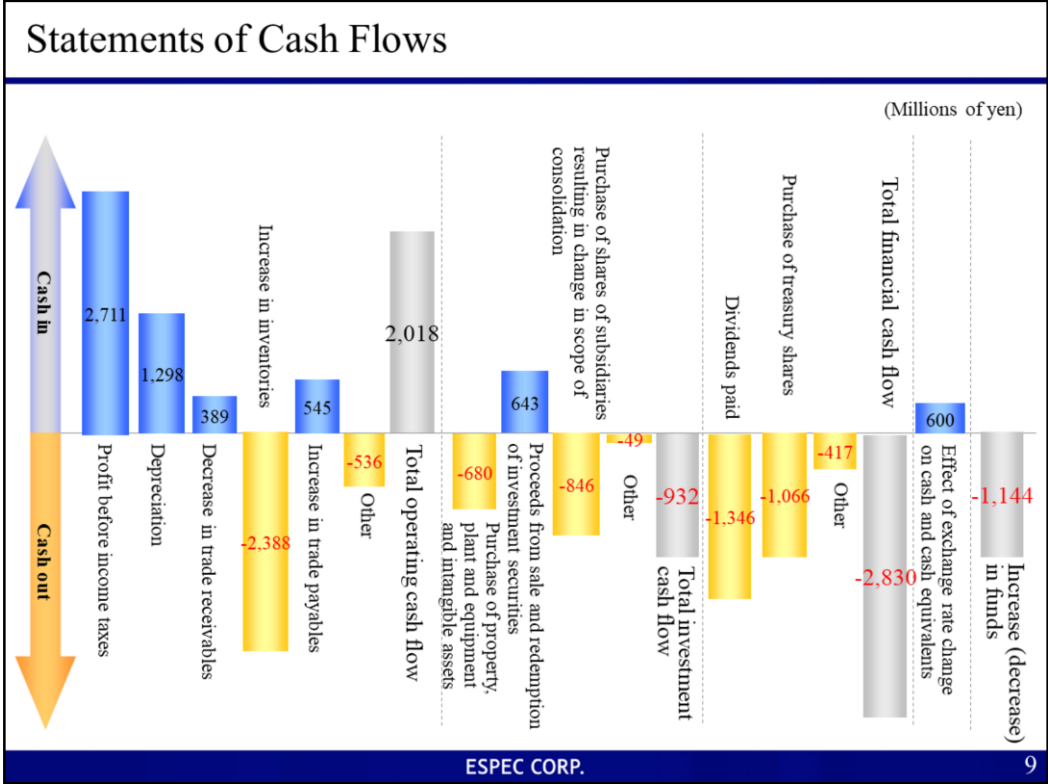


Next is an analysis of operating profit increase and decreases factors year on year. As seen here, operating profit decreased mainly due to a worsening of the cost-of-sales ratio in Equipment Business, and an increase in selling, general and administrative expenses.

Statement of Assets and Liabilities



Next is the Statement of Assets and Liabilities. Inventories increased, leading assets to increase by approximately ¥3.3 billion. This was mainly due to increases in raw materials from securing components, production delays due to component shortages, and shipment delays caused by COVID-19.



Next are the Statements of Cash Flows. As seen here, capital decreased by approximately ¥1.1 billion.

Equipment Business

	FY 2020 results	FY2021 Forecast (February, 2022)	FY 2021 Results	Year on Year	(Millions of yen) Against forecast
Orders Received	30,755	43,450	43,535	+41.6%	+0.2%
Net Sales	30,669	35,000	34,518	+12.6%	-1.4%
Operating Profit	2,062	1,920	1,370	-33.5%	-28.6%
Profit Ratio(%)	6.7%	5.5%	4.0%		

Environmental Test Chambers

- In Japan, both highly versatile standardized products and customized products, mainly in electronics, were strong. Orders received increased year on year, and net sales were on par with the previous year.
- Overseas, both orders received and net sales increased year on year as the segment performed well, mainly focused on electronics and automobiles. Increases were particularly notable in China, North America, and Europe.

Energy Device Equipment

- Orders received and net sales both increased year on year and orders were acquired for evaluation systems for secondary batteries due to recovery in automotive-related investment.

Semiconductor Equipment

- Orders received increased while investment related to memory and automobiles continued and net sales decreased year on year.

Next, I will talk about the analysis by segment.

In the Equipment Business segment, year on year, orders received increased 41.6%, net sales were up 12.6%, and operating profit decreased 33.5%.

In contrast to the forecast, orders received and net sales were in line with the forecast, but operating profit fell short by 28.6%.

The status of each product group can be seen here.

Service Business

(Millions of yen)

	FY 2020 results	FY2021 Forecast (February, 2022)	FY 2021 Results	Year on Year	Against forecast
Orders Received	6,153	6,450	6,771	+10.0%	+5.0%
Net Sales	6,063	6,400	6,407	+5.7%	+0.1%
Operating Profit Profit Ratio(%)	446 7.4%	550 8.6%	618 9.7%	+38.5%	+12.4%

After-Sales Service and Engineering

- Both orders received and net sales increased year on year due to a strong performance in preventive maintenance services, such as maintenance agreements.

Laboratory Testing Services and Facility Rentals

- Both orders received and net sales increased year on year, as laboratory testing services performed well.

Next is Service Business.

Year on year, orders received increased 10.0%, net sales increased 5.7%, and operating profit was up 38.5% through an increase in sales.

In contrast to the forecast, both orders received and net sales were in line with the forecast, while operating profit increased 12.4% as a result of improvements to the cost-of-sales ratio and a decrease in selling, general and administrative expenses.

The status of services can be seen here.

Other Business

	(Millions of yen)				
	FY 2020 results	FY2021 Forecast (February, 2022)	FY 2021 Results	Year on Year	Against forecast
Orders Received	976	1,200	1,265	+29.6%	+5.4%
Net Sales	2,241	1,100	1,188	-47.0%	+8.0%
Operating Profit	60	-70	-23	-	-
Profit Ratio(%)	2.7%	-6.4%	-2.0%	-	-

Environmental Preservation, Plant Production Systems

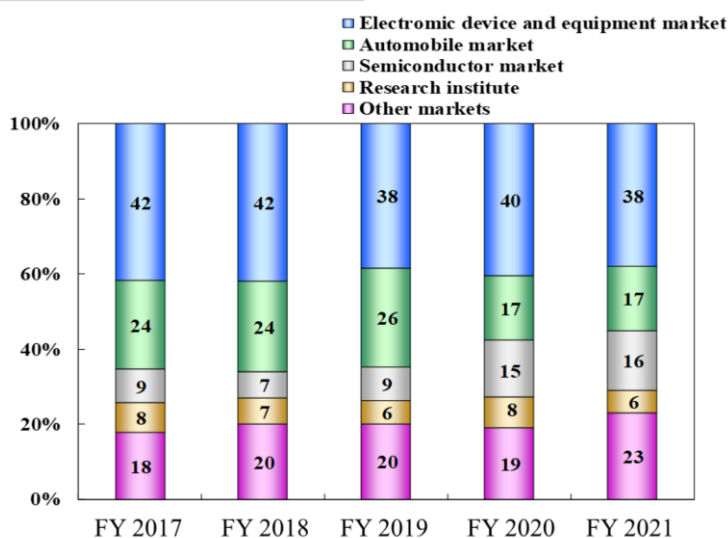
■ Orders received increased for forest and waterside creation, and plant factories.

Net sales decreased because there was a large plant factory project in the same period of the previous fiscal year.

In Other Business, orders received increased 29.6% year on year as orders increased for forest and waterside creation, and plant factories increased. However, net sales declined 47% due to the recording of sales of a large-scale plant factory project in the previous year, resulting in an operating loss on the profit front.

Sales by Market

Non-consolidated (Equipment business)



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Here is the breakdown of sales by market for ESPEC alone.

First of all, in the electronic device and equipment market, which is our business' central market, and is displayed in blue, orders received were strong, mainly focused on advanced fields such as 5G and IoT, but net sales decreased, as did the percentage of this business among sales.

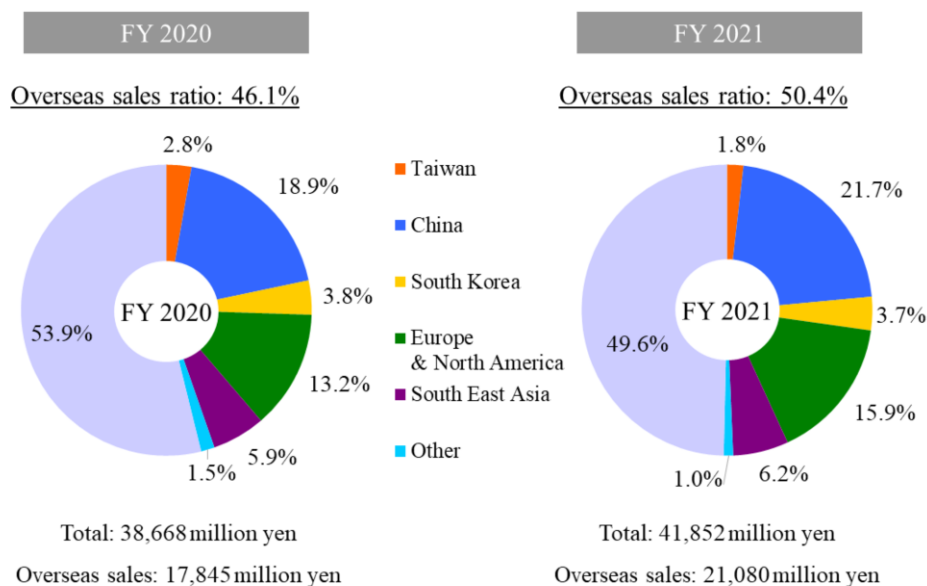
In the automobile market, displayed in green, investment recovered, mainly for automated driving and electrification of automobiles, but net sales were on par with the previous year, as was the percentage of this business among sales.

In the semiconductor market, displayed in gray, the percentage of this business among sales increased by one point as environmental test chambers increased year on year despite a decrease in sales of semiconductor equipment.

Research facilities, displayed in orange, refer to private or national and public research facilities, and were originally included in "Other markets." This market makes up between 6-8% of sales in an average year.

"Other markets" at the very bottom includes various kinds of industries such as chemistry, construction materials, food products, and cosmetics. Recovery has been observed in various industries, and the percentage of this market among sales has increased.

Sales by Region



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Next, I will explain net sales by region.

Overseas sales increased, leading the overseas sales ratio to increase significantly by 50.4% and by 4.3 points.

By region, China's percentage increased significantly as sales were strong mainly in semiconductors and electronic component-related products.

North America's and Europe's percentages rose tremendously due to strong sales of products related to EV and semiconductors in North America and EV and automated driving-related products in Europe.

Japan was largely impacted by the component shortage, despite a recovery in investments, resulting in net sales on par with the previous year and a decrease in its percentage among sales.

FY2022 Plan

Although the business environment will remain uncertain and difficult to predict, we will make a full commitment to normalizing product delivery times, and achieve profitability of strong orders received.

Next, I will explain the plan for FY2022.

As a policy for FY2022, although the business environment will remain uncertain and difficult to predict, we will make a full commitment to normalizing product delivery times, and believe it is critical to achieve profitability of strong orders received.

Forecasts for Fiscal 2022

	FY 2021	FY 2022			
	Full Year Results	First half forecasts	Second half forecasts	Full year forecasts	Year on Year
Orders-received	51,303	24,000	26,000	50,000	-2.5%
Net sales	41,852	23,500	26,500	50,000	+19.5%
Gross profit	14,003	8,350	9,650	18,000	+28.5%
Profit ratio (%)	33.5%	35.5%	36.4%	36.0%	
SG&A	12,034	6,400	6,600	13,000	+8.0%
SG&A ratio (%)	28.8%	27.2%	24.9%	26.0%	
Operating profit	1,968	1,950	3,050	5,000	+153.9%
Profit ratio(%)	4.7%	8.3%	11.5%	10.0%	
Ordinary profit	2,322	2,000	3,100	5,100	+119.6%
Profit ratio(%)	5.5%	8.5%	11.7%	10.2%	
Profit attributable to owners of parent	1,905	1,300	2,300	3,600	+88.9%
Profit ratio (%)	4.6%	5.5%	8.7%	7.2%	
Capital expenditures	910	1,200	640	1,840	+102.2%
Depreciation expenses	1,253	670	710	1,380	+10.1%
R&D expenditures	1,035	730	600	1,330	+28.5%
Basic earnings per share(yen)	84.89	58.11	102.81	160.92	+89.6%

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In terms of our full-year results forecast for FY2022, we forecast orders received of ¥50.0 billion. As I just explained, in the previous fiscal year, orders received increased rapidly as a result of the rebound effect of curtailment on investments due to COVID-19.

In the current fiscal year, this rebound effect will settle down, but it is our view that appetite for investment will continue in the fields of electronics and automobiles.

In addition, we forecast major increases in sales and profit, with net sales of ¥50.0 billion, operating profit of ¥5.0 billion, and profit attributable to owners of parent of ¥3.6 billion.

We started the current fiscal year with a record-high order backlog of ¥20.7 billion. We will make a full commitment to the normalization of component procurement and production, and increasing production capacity, and link these efforts to earnings.

Recognition of the Operating Environment		
<ul style="list-style-type: none"> • Predicts that orders will continue to be strong, mainly in cutting-edge technology fields like IoT and next-generation automobiles. • Electronic component shortages and the prolonging of lockdowns in China are a cause for concern. 		
Equipment Business	Environmental Test Chambers	Japan: Investment is active, mainly in electronic components and semiconductor procurement. Orders related to EV and automated driving continuing toward recovery. China: Investment is active, mainly in semiconductors, electronic components and EV procurement. The impact from the prolonging of lockdowns is a cause for concern. ASEAN: Expect gradual recovery mainly in semiconductors. North America: Investment is active, mainly in EV and semiconductor procurement. Europe: Investment is active, mainly in automated driving and EV procurement.
	Energy Device Equipment	Forecasts recovery primarily in products for secondary batteries.
	Semiconductor Equipment	Investment will continue, mainly for IoT-oriented products.
Service Business	After-sales Service and Engineering, Laboratory Testing Services and Facility Rentals	After-sales Service and Engineering: Expect similar level of demand as in the previous fiscal year. Laboratory Testing Services: Testing demand continuing in advanced cutting-edge technology fields.
Other Business	Environmental Preservation, Plant Production Systems	Forecasts recovery in both the environmental preservation and plant factory businesses.
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Here is our recognition of the operating environment.

We expect that orders will continue to be strong, mainly in cutting-edge technology fields like IoT and next-generation automobiles. On the other hand, electronic component shortages and the prolonging of lockdowns in China are a cause for concern.

With regard to environmental test chambers, in Japan, our view is that orders will be strong, mainly those related to electronic components and semiconductors, and orders related to EV and automated driving will continue toward recovery.

In China, the impact from the prolonging of the lockdowns is a cause for concern, but it is our view is that orders will continue to be strong, mainly those related to semiconductors, electronic components, and EV.

In the ASEAN region, we expect gradual recovery mainly in semiconductors.

In North America, we project investment in the semiconductor market in addition to EV.

In Europe, we believe that active investment will continue, mainly in automobiles.

For energy device equipment, we expect recovery, mainly in products for secondary batteries.

As for semiconductor equipment, it is our view that investment will continue, mainly focused on the IoT market.

After-sales services and engineering are projected to reach the same levels as the previous fiscal year. As for laboratory testing services, it is our view that testing demand in cutting-edge technology fields will continue.

Segment Financial Forecasts

(Millions of yen)

		FY 2021	FY 2022			
		Full Year Results	First half forecasts	Second half forecasts	Full year forecasts	Year on Year
Equipment Business	Orders-Received	43,535	20,200	21,700	41,900	-3.8%
	Net sales	34,518	20,000	22,100	42,100	+22.0%
	Operating profit	1,370	1,850	2,770	4,620	+237.0%
Service Business	Orders-Received	6,771	3,200	3,400	6,600	-2.5%
	Net sales	6,407	3,100	3,400	6,500	+1.4%
	Operating profit	618	150	200	350	-43.4%
Other Business	Orders-Received	1,265	750	1,050	1,800	+42.2%
	Net sales	1,188	550	1,150	1,700	+43.1%
	Operating profit	-23	-50	80	30	-
Elimination	Orders-Received	-269	-150	-150	-300	-
	Net sales	-261	-150	-150	-300	-
	Operating profit	2	0	0	0	-
Total	Orders-Received	51,303	24,000	26,000	50,000	-2.5%
	Net sales	41,852	23,500	26,500	50,000	+19.5%
	Operating profit	1,968	1,950	3,050	5,000	+153.9%

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Based on our understanding of the operating environment above, we have established results forecasts for each segment.

In Equipment Business, it is our view that orders received will decrease slightly year on year because the rebound effect will weaken, but we project a significant increase in sales and profit.

In Service Business, it is our view that both orders received and net sales will be on par with the previous fiscal year. However, operating profit is forecasted to decline as we expect surges in electrical fees in the laboratory testing business and expenses associated with system overhaul of after-sale services, etc.

In Other Business, we expect recovery in orders received and net sales, and on the profit front, forecast a turn to profitability.

Main Initiatives in FY2022

Equipment Business

- Enhance product lineup to address testing demand in cutting-edge technology fields
- Globally develop customized products through overseas market launch of large-scale products
- Launch products for the European market
- Strengthen sales with a focus on global customers

Service Business

After-sales Service and Engineering: Expand preventative maintenance services through “super support service plan,” a new service

Laboratory Testing Services: Enhance testing services for cutting-edge technology fields

New Business

Strengthen initiatives toward market permeation in the pharmaceutical cold chain business or food machinery business

As main initiatives in FY2022, in Equipment Business, we will work on enhancing our product lineup, while working to globally develop customized products through the overseas market launch of large-scale products.

In after-sale services in Service Business, we will work to expand preventative maintenance services through “super support service plan,” a new service.

In laboratory testing, we will enhance testing services for cutting-edge technology fields.

In new businesses, we will strengthen initiatives toward market permeation in the pharmaceutical cold chain business or food machinery business.

Main Initiatives for ESG in FY2022

■ E (Environment)

- Promote the 8th Medium-term Plan on the Environment (FY2022-2025)
- Global warming countermeasure: Change to low-GWP refrigerant
Reduce CO₂ emissions in business activities such as manufacturing
- Biodiversity conservation activities: Contributions through ESPEC MIC Corp.'s business
Promote conservation activities through company-managed forests

■ S (Society)

- Expand opportunities for employees (managers and general employees) to re-learn
- Promote active roles for diverse human resources including training female managers

■ G (Governance)

- April 1, 2022: Launched a new system to replace company presidents
- June 23, 2022: Scheduled to transition to a Company with Audit & Supervisory Committee
Objectives: Further enhance deliberation by the Board of Directors and enhance the company's audit functions

As an initiative toward ESG, we will promote the 8th Mid-term Plan on the Environment, which corresponds to the E in ESG.

For society, which corresponds to the S, we will promote expanding opportunities for employees to re-learn, and promote active roles for diverse human resources including training female managers.

For governance, which corresponds to the G, we launched a new system to replace company presidents on April 1 this year, and will transition to a Company with Audit & Supervisory Committee in June. We will strive to further enhance deliberation by the Board of Directors and enhance the company's audit functions.

Investment Plans in FY2022

Strategic investment	340 million yen	R&D expenditures	1,330 million yen
Ordinary investment	1,500 million yen		
Total	1,840 million yen		

Main investments

- Increasing production capacity and further efficiency
- Expanding laboratory testing equipment
- System overhaul of after-sales services

etc.

In terms of our investment plan, we are planning for ¥0.34 billion as strategic investment and ¥1.5 billion as standard investment for a total of ¥1.84 billion.

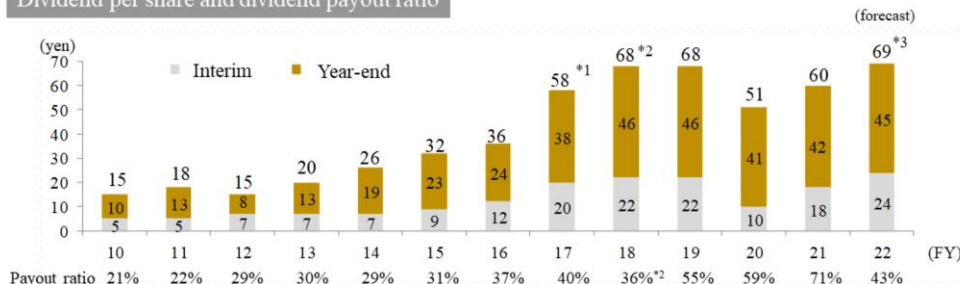
FY 2022 Dividend Forecast

Basic policy on profit distribution

Our basic policy is to determine dividends taking into account sustainability and the dividend payout ratio, and we revised our basic dividend policy as below at the Board of Directors meeting on May 13, 2022.

- In addition to a dividend payout ratio of 30%, we will add dividends with 1/3 of the excess amount of scheduled necessary funds as a baseline.
- We will maintain stable dividends of ¥20 per year regardless of profit levels, but will conduct a reevaluation in the event that we record a loss for two consecutive periods.
- While taking into account a necessary level of internal reserves, we flexibly implement acquisition of treasury shares.

Dividend per share and dividend payout ratio



*1. Includes a dividend of ¥2 (interim dividend of ¥1 and year-end dividend of ¥1) to commemorate the 70th anniversary of our foundation in FY2017.

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

*3. Includes a dividend of ¥4 (interim dividend of ¥2 and year-end dividend of ¥2) to commemorate the 75th anniversary of our foundation in FY2022.

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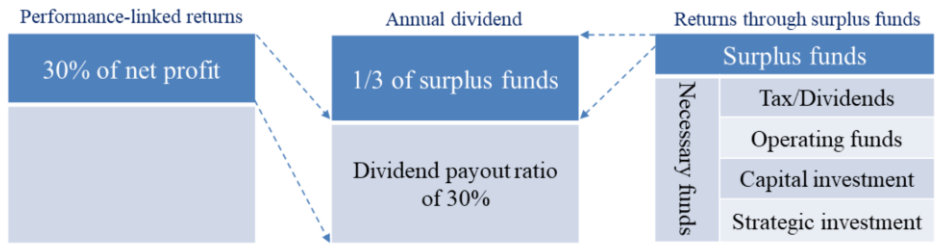
Here is our dividend forecast for FY2022.

We revised our basic dividend policy at the Board of Directors meeting held in May.

Combined with a dividend of ¥4 per share to commemorate the 75th anniversary of our foundation in FY2022, the interim dividend is forecast at ¥24, the year-end dividend is forecast at ¥45 and the annual dividend at ¥69.

Basic Dividend Policy

Our basic policy is to determine dividends taking into account sustainability and the dividend payout ratio. In addition to a dividend payout ratio of 30%, we will add dividends with 1/3 of the excess amount of scheduled necessary funds as a baseline. While taking into account a necessary level of internal reserves, we flexibly implement acquisition of treasury shares.



*We will maintain stable dividends of ¥20 per year regardless of profit levels, but will conduct a reevaluation in the event that we record a loss for two consecutive periods.

Dividends are decided taking into account sustainability and the dividend payout ratio.

In addition to a dividend payout ratio of 30%, we will add dividends with 1/3 of the excess amount of scheduled necessary funds as a baseline.

Necessary funds refer to tax, dividends, operating funds, capital investment and strategic investment.

We will maintain stable dividends of ¥20 per year regardless of profit levels, but will conduct a reevaluation in the event that we record a loss for two consecutive periods.

While taking into account a necessary level of internal reserves, we are considering acquiring treasury shares.

Medium-term management plan “Progressive Plan 2025”

Plan Implementation Period FY2022-FY2025

Moving along, I will now talk about our medium-term management plan “Progressive Plan 2025,” which began in the current fiscal year.

Looking Back on “Progressive Plan 2021”

Basic Policy

Stable sustainable growth through strategic investment
and steady "improvement of quality"

- Promotion of globalization targeting growth areas and improvement of customization capabilities
- Lessening of fluctuations in business performance and development of businesses in new fields to achieve next-generation growth

- In FY2018, achieved record-high results and reached our operating profit target
- In FY2019 and FY2020, the operating environment worsened because of frictions between the U.S. and China and COVID-19.
- From the latter half of FY2020, orders received recovered, and reached record highs in FY2021, but did not result in earnings due to component procurement difficulties.

First of all, looking on the previous medium-term management plan, in FY2018, which is the first year of the plan, we achieved record-high results and reached our operating profit target of ¥5.2 billion.

However, in FY2019 and FY2020, the operating environment worsened because of frictions between the U.S. and China and COVID-19.

From the latter half of FY2020, orders received recovered, and reached record highs in FY2021, but did not result in earnings due to component procurement difficulties, and we were unable to reach our initial net sales target of ¥52.0 billion.

Management Targets and Actual Results in “Progressive Plan 2021”

(Millions of yen)						
	Medium-term management plan 2017	Medium-term management plan 2021				
	FY 2017 Results	FY 2018 Results	FY 2019 Results	FY 2020 Results	FY 2021 Results	FY 2021 Initial Target
Net sales	44,069	50,580 47,060*	42,443	38,668	41,852	52,000
Operating profit	4,602	5,827 5,470*	3,742	2,572	1,968	5,200
Operating profit ratio	10.4%	11.5% 11.6%*	8.8%	6.7%	4.7%	10.0%
ROE	8.6%	10.5% 9.9%*	6.6%	4.5%	4.2%	8.5%
Overseas sales ratio	44.2%	51.0% 47.5%*	43.9%	46.1%	50.4%	50%
Reference: Exchange rate (U.S. dollars)	112 yen	110 yen	108 yen	106 yen	112 yen	110 yen (assumption)

*FY2018 was an irregular 15-month fiscal period for overseas consolidated subsidiaries. Reference figures showing a 12-month period have also been included.

Here are the management targets and actual results of the previous medium-term management plan.

Overseas business expanded, and the overseas sales ratio surpassed the initial target by 50%, but the other targets were not achieved.

Results and Management Issues in “Progressive Plan 2021”

In the target market of cutting-edge technology fields, we increased orders received and net sales, and were able to build a business foundation on which to grow toward digitalization and a decarbonized society. One issue was strengthening our responsiveness amid rapid changes in the business environment.

Key Strategies	Results	Management Issues
Equipment Business <ul style="list-style-type: none"> •Expand revenues in automobile and IoT fields •Expand environmental factor technology •Develop businesses in new fields 	<ul style="list-style-type: none"> •Increased orders received in IoT field •Improved earnings of customized products •Promoted open innovation •Acquired fluid control technology through M&A •Launched products for vaccine cold chain 	<ul style="list-style-type: none"> •Taking initiative to seize demand in cutting-edge technology fields, and commercialization •Further promotion of globalization •Increasing sales of energy device equipment and semiconductor equipment •Making new businesses profitable •Stable procurement
Service Business <ul style="list-style-type: none"> •Develop a service menu •Expand the laboratory testing services business 	<ul style="list-style-type: none"> •Enhanced new services harnessing IT •Strengthened laboratory testing equipment, enhanced services 	
Global <ul style="list-style-type: none"> •Marketing Enhancement •Build an optimal worldwide manufacturing system 	<ul style="list-style-type: none"> •Expanded the Chinese business •Developed the European market •Strengthened systems for technological support in Southeast Asia •Increased production capacity (Japan, U.S.) 	
Management Base Strengthening •ESG <ul style="list-style-type: none"> •Promoting medium-term plan on the environment, contribution to the SDGs •Human Resource Development, diversity •Enhancement of corporate governance 	<ul style="list-style-type: none"> •Formulated a sustainability policy and identified important issues •Strengthened climate change countermeasures, and obtained a B score from the CDP •Strengthened educational systems, and promoted active roles for senior employees •Compatibility with the Corporate Governance Code 	<ul style="list-style-type: none"> •Promotion of sustainable management •Organizational activity and human resource training •Strengthening the Group’s governance

The actual results and management issues of the previous medium-term management plan can be seen here.

We believe we were able to build a business foundation on which to grow toward digitalization and a decarbonized society. However, we feel that one issue was strengthening our responsiveness amid rapid changes in the business environment.

Positioning of “Progressive Plan 2025”

In order to achieve “ESPEC Vision 2025,” we have formulated and implemented medium-term management plans in cycles of four years for Stage I-III

The new medium-term management plan that begins in FY2022 is the final stage.
We will steadily implement strategies and aim to achieve our vision.



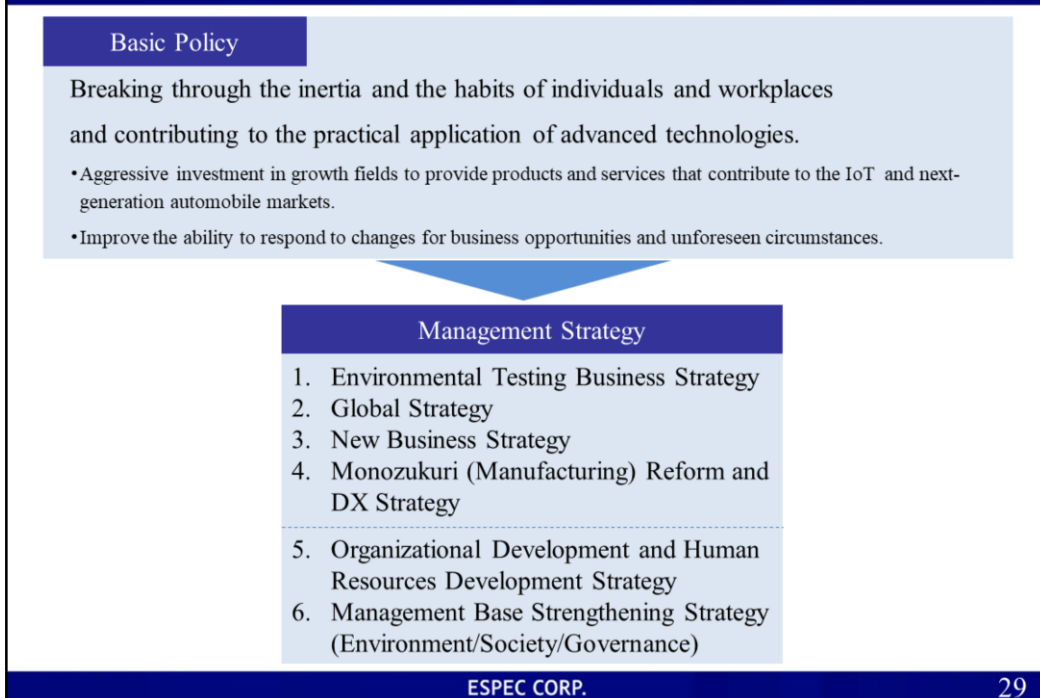
Next, I will explain the new medium-term management plan.

In order to achieve “ESPEC Vision 2025,” we have formulated and implemented medium-term management plans in cycles of four years for Stage I-III

The new medium-term management plan “Progressive Plan 2025,” which begins in FY2022, is the final stage to achieve our long-term vision.

We will steadily implement strategies and aim to achieve our vision.

Overall Structure of “Progressive Plan 2025”



Here is the overall structure of the new medium-term management plan “Progressive Plan 2025.”

We have established our basic policy as “Breaking through the inertia and the habits of individuals and workplaces and contributing to the practical application of advanced technologies. ” We will concentrate efforts on proactive growth investment aimed at providing products and services that contribute to IoT and the next-generation automobile market, and on heightening our responsiveness to business opportunities and unpredictable events.

I will explain our management strategy after this.

Management Targets in “Progressive Plan 2025”

	FY 2021 Results	FY 2025 Targets	Rate of Increase
Net sales	41.8 billion yen	55 billion yen	+30%
Operating Profit	1.9 billion yen	7 billion yen	+260%
Operating Profit Ratio	4.7%	12.7%	+8pt
ROE	4.2%	10%	+5.8pt

Reference

Exchange rate (USD) Actual FY2021 rate: ¥112, Assumed FY2025 rate: ¥115

As management targets, in FY2025, we will aim for net sales of ¥55 billion, operating profit of ¥7 billion, an operating profit margin of 12.7%, and ROE of 10%.

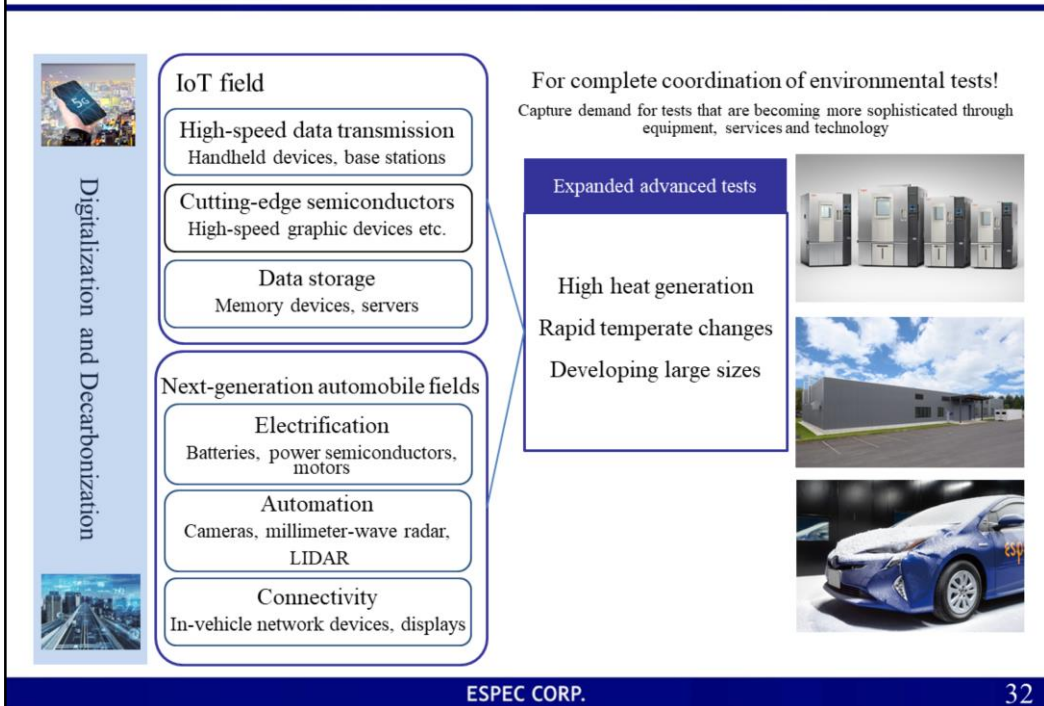
We will focus on quality improvement, and aim to improve profit margins.

Management Targets by Business Segment

(Millions of yen)				
Item	Business Segment	FY2021 Results	FY 2025 Targets	Rate of Increase
Net Sales	Equipment Business	34,518	45,900	+30%
	Service Business	6,407	7,700	+20%
	Other Business	1,188	1,800	+50%
	Elimination	-261	-400	-
	Total	41,852	55,000	+30%
Operating Profit Profit Ratio(%)	Equipment Business	1,370 4.0%	5,950 13.0%	+330%
	Service Business	618 9.7%	1,000 13.0%	+60%
	Other Business	-23 -2.0%	50 2.8%	-
	Elimination	2	0	-
	Total	1,968 4.7%	7,000 12.7%	+260%
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The management issues by business segment can be seen here.

Key Markets (Cutting-Edge Technology Fields)



With regard to key markets, we have positioned the IoT field and next-generation automobile field in particular as core cutting-edge technology fields.

In anticipation of the digitalization of society and decarbonization, in the IoT field, we see further advances in the development of high-speed data transmission, cutting-edge semiconductors, and devices and equipment related to data storage.

Additionally, in the next-generation automobile field, we see further advances in development toward electrification, automation, and connectivity.

In these types of cutting-edge technology fields, testing is becoming more advanced in order to solve technological issues such as high heat generation, rapid temperature changes, and developing large-sized versions of test products.

We will address the demand for tests that are becoming more sophisticated through our company's equipment, services and technology.

1. Environmental Testing Business Strategy Equipment Business Segment			
Equipment Business			
An essential presence for global cutting-edge technologies!			
<div>1</div> Expand product lineup in core cutting-edge technology fields (IoT, next-generation automobiles)			
<div>2</div> Strengthen competitiveness in customized products globally and develop new markets			
<div>3</div> Expand new environmental factor technologies through the promotion of open innovation			
Medium-Term Management Targets (Millions of yen)			
	FY2021 Results	FY2025 Targets	Rate of Increase
Net Sales	34,518	45,900	+30%
Operating Profit	1,370	5,950	+330%
Profit Ratio(%)	4.0%	13.0%	
ESPEC CORP.			33

For Equipment Business in the environmental test business strategy, we will aim to be “an essential presence for global cutting-edge technologies.”

As main initiatives, we will work on expanding our product lineup for IoT and next-generation automobiles, including rapid temperature changing chambers and thermal shock equipment.

With regard to customized products, we will strengthen our competitiveness globally by developing and launching products matched to overseas demands.

In addition, we will take on the challenge of entering new markets by leveraging our company’s technology such as inspection equipment for a production line of ECU or sensors for automated driving, which requires a high degree of reliability.

We will also expand new environmental factor technologies by utilizing the All Weather Simulation Chamber that opened last year in Kobe and through the promotion of open innovation.

1. Environmental Testing Business Strategy Service Business Segment

Service Business

Helping to relieve customers' troubles!

- 1 Transition to a full technical support business that solves customers' concerns
- 2 Expansion of tests for cutting-edge technology fields and sophistication of test technology

Medium-Term Management Targets

(Millions of yen)

	FY2021 Results	FY2025 Targets	Rate of Increase
Net Sales	6,407	7,700	+20%
Operating Profit Profit Ratio(%)	618 9.7%	1,000 13.0%	+60%

ESPEC CORP.

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In Service Business, customers' operating environments are changing due to the diversification of tests brought on by globalization, personnel shortages, and the establishment of remote work.

ESPEC will solve customers' troubles and concerns so that they can focus on their original test or development operations.

In after-service sales, we will move ahead from maintenance to handle issues after malfunctions to a predictive maintenance service that uses IT to predict malfunctions and conduct maintenance at the appropriate time.

In laboratory testing services, as quality and certification operations continue to move toward outsourcing, we will work on expanding tests for cutting-edge technology fields such as automobiles and batteries, and making test technology more sophisticated.

2. Global Strategy

Global Business

Contribute to the development of the world's cutting-edge technology fields!

- 1 Enhance marketing in China, South Korea, and Europe

	FY2021 Results	FY2025 Rate of Increase Targets
China	9 billion yen	+50%
South Korea	1.5 billion yen	+100%
Europe	1.8 billion yen	+50%

On a global scale, we will further enhance marketing in China, where high-speed growth can be expected, in Europe, where there are not many technological development bases related to not only automobiles but IoT, and South Korea, where there are many global customers.

As targets for sales growth rate in FY2025, we will aim for a 50% increase in China, 100% in South Korea, and 50% in Europe compared to FY2021.

3. New Business Strategy

New Business

Establish new business pillars!

- 1 Establish a foundation for new business and venture into new fields

**Pharmaceutical cold
chain business**

**Food machinery
business**

**Thermal solutions
business**

Biodiversity business

As a strategy for new businesses, we will work on establishing a business foundation in the four fields shown here.

4. Monozukuri (Manufacturing) Reform and DX Strategy

Monozukuri (Manufacturing) Reform

Manufacturing that will capture new demand before competitors!

- 1 Cutting-edge, customized manufacturing through digital technology

DX Strategy

Transformation of business models!

- 1 Strengthening customer connection points and accumulating and sharing internal information by utilizing data
- 2 Renewing business styles through digital technology

In terms of revolutionizing manufacturing, we will achieve advanced manufacturing and be resistant to changes through digital technology.

Through the expansion of base models and promotion of modulation, we will aim for manufacturing that combines standard products with customized ones.

As DX strategies, we will move ahead to strengthen customer connection points and accumulate and share internal information by utilizing data, and heighten our ability to propose products and tests to customers.

We will also work on expanding promotions and business discussions utilizing the internet, and renew business styles.

5. Organizational Development and Human Resources Development Strategy
6. Management Base Strengthening Strategy

Organizational Development and Human Resources Development

Becoming a growth company overflowing with creativity and vitality!

- 1 Promote the corporate philosophy internally and create an organization that develops autonomous employees
- 2 Promote leadership reforms and re-learning
- 3 DX, develop global human resources and promote activity of diverse employees

Management Base Strengthening

Creating a foundation to support sustainable growth!

- 1 Increase the level of and quality systems and stable procurement
- 2 Corporate governance to support sustainable, sound growth
- 3 Achieve the goals of the 8th Medium-Term Plan on the Environment

For strategies to develop organizations and human resources, we will aim for achieve an organization where each individual employee can act autonomously and grow, and will work on reforming leadership while promoting re-learning.

In addition to developing human resources for DX and global human resources, we will work on training female managers and promoting active roles for diverse human resources including mid-career recruits, senior employees, and foreigners.

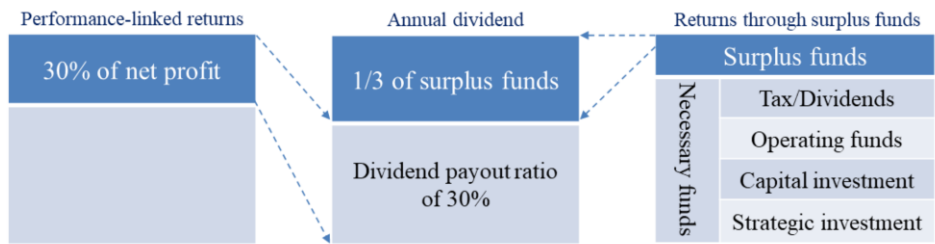
As strategies to strengthen the business foundation, we will enhance initiatives aimed at stable procurement, and work to strengthen governance. Afterwards, I will explain our initiatives toward the environment.

Financial Strategy and Shareholder Returns

- We will strive to improve profitability and efficiency, and actively conduct growth investments (including M&A) aimed at sustainable growth
- Aim to improve the stability of the financial base and capital efficiency
Target: ROE of 10%
- While taking into account a necessary level of internal reserves, we flexibly implement acquisition of treasury shares

Basic Dividend Policy:

In addition to a dividend payout ratio of 30%, we will add dividends with 1/3 of the excess amount of scheduled necessary funds as a baseline.



*We will maintain stable dividends of ¥20 per year regardless of profit levels, but will conduct a reevaluation in the event that we record a loss for two consecutive periods.

With regard to our financial strategy and shareholder returns, we will strive to improve profitability and efficiency, and make it a standard to actively conduct growth investments aimed at sustainable growth.

On top of this, we will aim to improve the stability of the financial base and capital efficiency. In the medium-term management plan, we have set a target ROE at 10%.

Furthermore, while taking into account a necessary level of internal reserves, we are considering acquiring treasury shares.

I explained our basic dividend policy earlier.

The 8th Mid-Term Plan on the Environment (FY2022-FY2025)

Basic Policy

Make contributions through business to customers who are developing green technology

Strengthen initiatives mainly through global warming countermeasures and biodiversity conservation activities

FY2025 Targets:

- SCOPE3 Reduce CO₂ emissions by 10% compared to FY2019
- SCOPE1+2 Reduce CO₂ emissions by 55% compared to FY2019
- ESPEC MIC Corp. will contribute 95t (total) of carbon fixation through 50,000 trees planted
- Biodiversity conservation activities through a Corporate Forest in Sanda City, Hyogo Prefecture

I will briefly explain our initiatives toward the environment.

In the 8th Mid-Term Plan on the Environment, under our basic policy of “make contributions through business to customers who are developing green technology,” we will strengthen initiatives mainly through global warming countermeasures and biodiversity conservation activities.

Our targets for FY2025 are as follows.

SCOPE 3 Reduce CO₂ emissions by 10% compared to FY2019

SCOPE 1+2 Reduce CO₂ emissions by 55% compared to FY2019

In addition, we will contribute 95t of carbon fixation through 50,000 trees planted from the environmental conservation business of ESPEC MIC Corp.

We will also undertake biodiversity conservation activities through a Corporate Forest in Sanda City, Hyogo Prefecture.

Investment Plan

	FY2018-2021 Results	FY2022-2025 Targets	Rate of increase
Strategic investment	4.35 billion yen	6.0-6.5 billion yen	+40-50%
Ordinary investment	1.8 billion yen	3.0-3.5 billion yen	+70-90%
Total	6.15 billion yen	9-10 billion yen	+50-60%
R&D expenditures	4.8 billion yen	6 billion yen	+25%
Investment in human resources	280 million yen	480 million yen	+70%

Main investment content

Increasing production capacity and further efficiency,
expanding laboratory testing equipment, expanding new services, M&A, etc.

For our investment plan, we have assumed an amount between ¥9 billion and ¥10 billion, which will be 1.5 times the amount of the previous medium-term management plan, and will proactively conduct investment within this budget.

In terms of investment content, we are considering increasing production capacity both in Japan and overseas and further efficiency, and expanding laboratory testing equipment.

For R&D expenses, we have assumed a level that exceeds the previous medium-term management plan.

In the current medium-term management plan, we intend to develop organizations and human resources, and have significantly expanded the budget for human resource investment. We will aim to become a continually growing company through employees who overflow with creativity and activity.

This concludes my explanation.

Thank you.

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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