

*Extracts from the fiscal results briefing for FY2021

Medium-term management plan “Progressive Plan 2025”

Plan Implementation Period FY2022-FY2025

May 25, 2022

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
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- 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.

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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 •Expand revenues in automobile and IoT fields •Expand environmental factor technology •Develop businesses in new fields	•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	•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 •Develop a service menu •Expand the laboratory testing services business	•Enhanced new services harnessing IT •Strengthened laboratory testing equipment, enhanced services	
Global •Marketing Enhancement •Build an optimal worldwide manufacturing system	•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 •Promoting medium-term plan on the environment, contribution to the SDGs •Human Resource Development, diversity •Enhancement of corporate governance	•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	•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”

Basic Policy

Breaking through the inertia and the habits of individuals and workplaces and contributing to the practical application of advanced technologies.

- Aggressive investment in growth fields to provide products and services that contribute to the IoT and next-generation automobile markets.
- Improve the ability to respond to changes for business opportunities and unforeseen circumstances.

Management Strategy

1. Environmental Testing Business Strategy
2. Global Strategy
3. New Business Strategy
4. Monozukuri (Manufacturing) Reform and DX Strategy

5. Organizational Development and Human Resources Development Strategy
6. Management Base Strengthening Strategy (Environment/Society/Governance)

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)

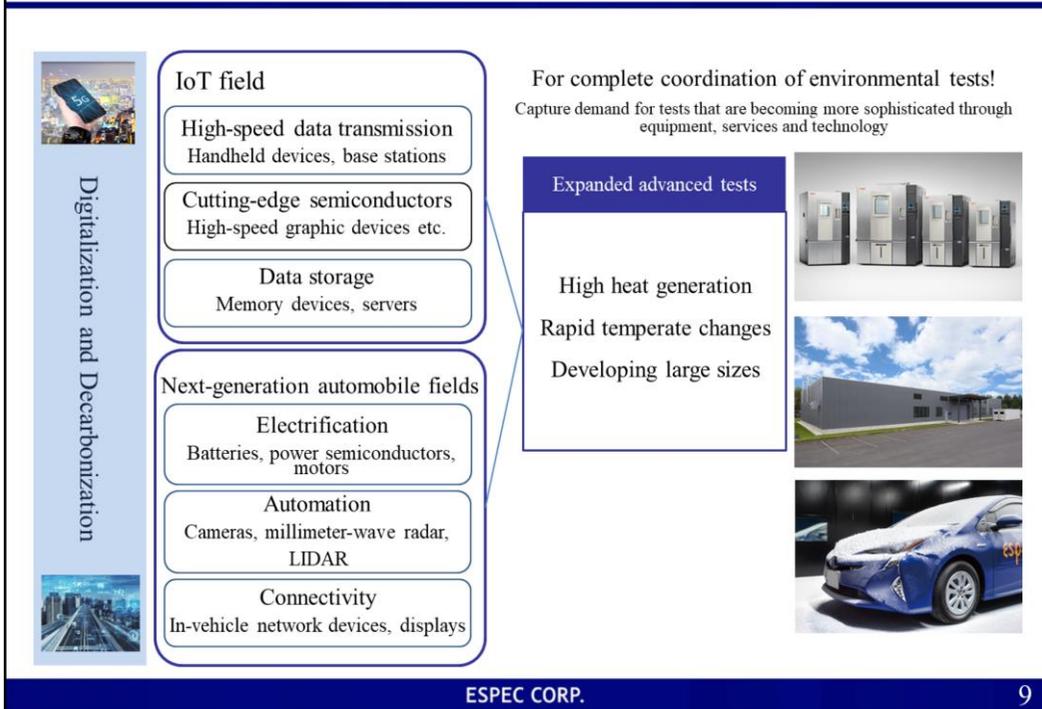
Item	Business Segment	FY2021 Results	FY 2025 Targets	Rate of Increase
Net Sales	Equipment Business	34,518	45,900	+30%
	Service Business	6,407	7,700	+20%
	Other Business	1,188	1,800	+50%
	Elimination	-261	-400	-
	Total	41,852	55,000	+30%
Operating Profit Profit Ratio(%)	Equipment Business	1,370 4.0%	5,950 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!

- 1 Expand product lineup in core cutting-edge technology fields (IoT, next-generation automobiles)
- 2 Strengthen competitiveness in customized products globally and develop new markets
- 3 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 Profit Ratio(%)	1,370 4.0%	5,950 13.0%	+330%

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%

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.

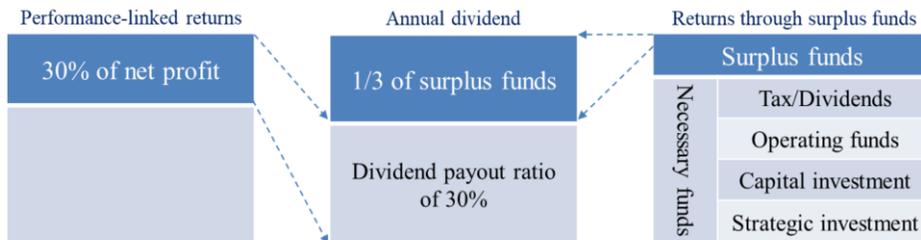
As strategies to strengthen the business foundation, we will enhance initiatives aimed at stable procurement, and work to strengthen governance. Afterwards, I will explain our initiatives toward the environment.

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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