October 15, 2025

Company:	PILLAR Corporation.
Representative:	Yoshinobu Iwanami, President (Securities code: 6490; Prime Market of the Tokyo Stock Exchange)
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Notice of Issuance of a Sponsored Research Report

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

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

CGRA

Corporate Report

Prime Market - Machinery
September 18, 2025

PILLAR (6490)

Analyst in charge

Shinji Kuroda
Hidehiko Hoshino CMA

Capital Goods Research & Advisory (CGRA)

Investors Focus on PILLAR's Evolving Growth Strategy Toward the Next Medium-Term Management Plan

- **Summary:** PILLAR Corporation (hereinafter, the "Company") is a high-profit, high-growth niche company focused on semiconductors and decarbonization. Furthermore, since its market capitalization first exceeded 100 billion yen, the Company has begun attracting interest from a broad range of investors both domestically and internationally, while its management has also heightened its awareness of stock price performance. Amid a plateauing earnings environment, the dividend per share for the fiscal year ending March 2026 is expected to reach a record high, taking into account the share re-purchase. It is also noteworthy that stock price levels have been newly added as an evaluation criterion for executive performance-based compensation. In May 2026, the Company is scheduled to announce its next medium-term management plan starting in the fiscal year ending March 2027, which is expected to enhance its growth strategies, shareholder returns, and non-financial items. This report features interviews with key executives of the Company about their vision and aspiration for the next medium-term management plan, alongside performance trends using leading indicators, perspectives on stock valuation, shareholder returns, and the progress of ESG management.
- **Business performance:** For the fiscal year ending March 2026, the Company is expected to report sales of 57.5 billion yen, a 0.8% decrease from the previous fiscal year, and operating profit of 10.3 billion yen, a 9.1% decrease (operating profit margin of 17.9%). Sales for 1Q of the fiscal year ending March 2026, announced on August 6, 2025, increased 3.1% year on year to 13.4 billion yen. Operating profit rose 8.4% year on year to 2.7 billion yen (operating profit margin of 20.0%). Progress against full-year forecasts was steady, with sales at 23.4% and operating profit at 26.2% of the full-year targets. 1Q orders secured 14.4 billion yen, an 8.0% increase year on year (BB ratio: 1.1 times), reflecting a robust order environment. This report uses leading performance indicators to explain the reassurance regarding the Company's performance heading into 2H, as well as the contribution to performance from its unique growth strategy and the effects of price revisions. Nevertheless, CGRA believes it is important to note that uncertainty regarding future performance is beginning to emerge among major semiconductor manufacturing equipment manufacturers.
- **ESG Management:** The non-financial targets set in the medium-term management plan "One2025" have generally made steady progress, with the exception of the "at least 5% for the percentage of female managers" target. The Company was rated B in FY2024 CDP assessments for "Climate Change" and "Water Security" (It was rated B only for "Climate Change" in FY2023). Notably, the Company has added a new component to its executive performance-based compensation starting in FY2025: stock price levels relative to the Nikkei average. This move is expected to encourage the Company to adopt a more shareholder-focused management approach.
- **Stock Valuation and Shareholder Returns:** Earnings have plateaued, but the dividend per share, factoring in the share repurchase for FY2025, has reached a record high. In this report, CGRA attempted stock price valuation analysis using three approaches. Compared to three semiconductor companies with similar market capitalizations, the stock market may perceive that the Company's recovery in performance is relatively delayed. On the other hand, the expected stock price calculated using the sum-of-the-parts approach was estimated at approximately 5,700 yen.

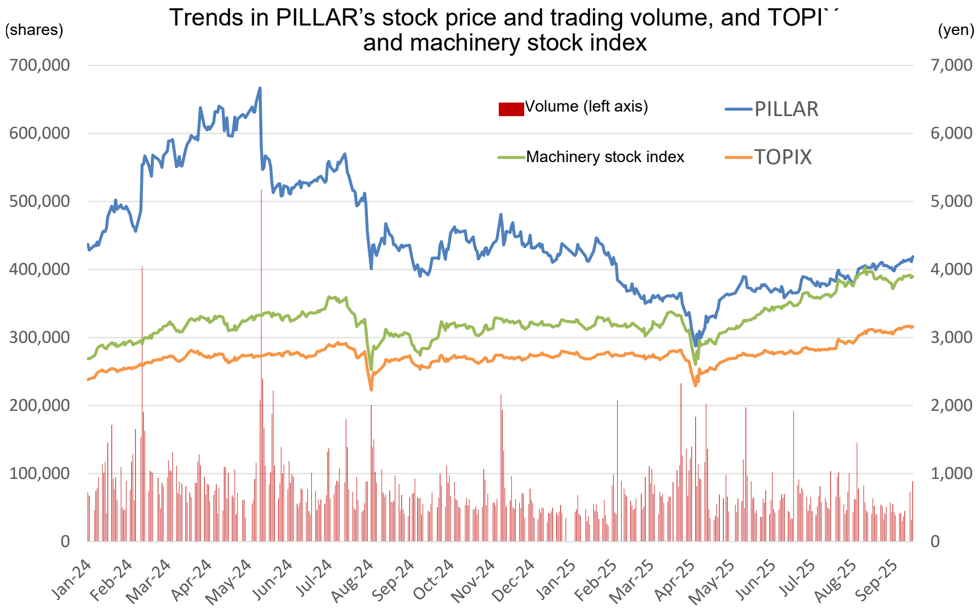
Consolidated financial results and stock market data

Trading data	
Stock price（April/2/2024）	4,190 yen
52-weeks range	4,520~2,810 yen
Market cap	104.9 billion yen
Number of outstanding shares	25.0 million shares
Avarage trading value（20 days）	180 million yen
Company forecast PER	13.5 times
PBR(As of March 2023)	1.3 times
Company forecast DPS	105.0 yen
Company forecast Dividend yield	2.5%
ROIC（March 2023）	9.5%

Performance : Billion yen	21/3	22/3	23/3	24/3	25/3	26/3COE
Sales	30.2	40.6	48.7	58.6	57.9	57.5
Operating profit	4.8	11.3	13.8	14.2	11.3	10.3
Ordinary profit	5.0	11.8	14.1	15.0	11.4	10.3
Net profit	8.2	8.2	10.7	10.7	8.2	7.2
EPS:yen	144.6	350.4	442.9	462.5	355.8	308.6
ROE : %	7.8	16.8	18.6	16.7	11.5	-
DPS : yen	50.0	106.0	133.0	159.0	125.0	105.0
Dividend payout ratio : %	34.6	30.3	30.0	34.4	35.1	34.0
FCF	2.0	10.4	5.5	-10.5	7.3	-
NetCash	11.7	20.8	21.1	5.7	10.0	-

Table of Contents

Figure 1: PILLAR stock price performance



Source: Created by CGRA

Company Overview and Product Introduction

A high-growth, high-profit company driven by semiconductors and decarbonization

Two business segments—electronic equipment and industrial equipment—are delivering high growth and profitability

The Company targets a niche market, but its stable supply of critical sealing products enables a high-growth, high-profit business model

The Company has two business segments: electronic equipment business (67% of sales, 78% of operating profit, and operating profit margin of 22.6%, according to the report for the fiscal year ended March 2025) and industrial equipment business (33%, 22%, and 13.2%, respectively).

The electronic equipment business offers a lineup of several thousand products, including fittings, tubes, piping materials, and bellows pumps made from fluororesin processed for incorporation into semiconductor and LCD cleaning equipment and chemical supply systems for semiconductor plants. In particular, fittings require high chemical resistance, heat resistance, and cleanliness. The electronic equipment business offers these as its core products, and its extensive lineup and proven track record have earned recognition, capturing a 90% global market share and establishing it as the de facto standard.

The industrial equipment business manufactures mechanical seals, gland packings, gaskets, and other components for installation in pumps and valves used in facilities such as thermal and nuclear power plants, oil refineries, and petrochemical plants. These products are critical components that prevent leaks of liquids and gases, contributing to enhanced plant safety and increased output. One characteristic of this business is that repair parts account for approximately 60% of sales revenue, achieving both stable earnings and high profitability. Furthermore, this business includes rotary joints for chemical mechanical polishing (CMP) equipment, a type of semiconductor manufacturing equipment, which has contributed to the recent boost in earnings. Global semiconductor capital expenditures, along with investments in nuclear power generation facilities and hydrogen and ammonia infrastructure aimed at realizing a decarbonized society, are the drivers of the Company's earnings.

Expectations for a gradual recovery in earnings are likely to increase going forward

Historically, earnings declines have lasted for two periods, but tariff impact remains uncertain this time

The Company achieved record-high sales of 58.6 billion yen and record-high operating profit of 14.2 billion yen (operating profit margin of 24.2%) in the fiscal year ended March 2024, driven by expanded semiconductor capital investment, a recovery in private-sector capital investment, and the integration of Tanken Seal Seiko into the group. However, rising costs for raw materials and labor are squeezing profitability, with the operating profit margin of 28.4% in the fiscal year ended March 2023 being the highest on record.

By segment, the average operating profit growth rate over the past five years (the fiscal year ended March 2021 to the fiscal year ended March 2025) was 42.7% for the electronic equipment business and 27.2% for the industrial equipment business, both achieving high growth rates. Following the COVID-19 pandemic, the Company posted consecutive increases in both sales and profit for four years from the fiscal year ended March 2021 to the fiscal year ended March 2024. However, for the fiscal year ended March 2025, revenue decreased by 1.1% year on year to 58 billion yen, and operating profit fell by 20.2% to 11.3 billion yen (operating profit margin of 19.5%). The Company is projected to post its second consecutive period of declining revenue and profits in the fiscal year ending March 2026, but looking back, excluding the COVID-19 pandemic, it has only experienced two periods of declining profits. Consequently, expectations for a gradual recovery in earnings are likely to increase going forward.

Figure 2: Characteristics of the business segments and major products, and customer industries

Results for the fiscal year ended March 2025	Electronic equipment business	Industrial equipment business
Sales: 100 million yen	390	189
Operating profit: 100 million yen	88	25
Operating profit margin: %	22.6	13.2
Record profit: 100 million yen	118 (Mar. 2023)	29 (Mar. 2024)
Average sales growth rate over the past 5 years: %	17.6	13.5
Average profit growth rate over the past 5 years: %	42.7	27.2
Major products	Fittings, bellows pumps, tubes, UNI-TON bearing, etc.	Mechanical seals, gaskets, gland packing
Customers and applications	Used in cleaning and chemical equipment for semiconductor and LCD plants, and semiconductor and LCD manufacturing equipment	CMP manufacturers Petrochemicals, steel, LNG plants, power generation facilities, etc.

Source: Created by CGRA

Three Noteworthy Points of PILLAR Corporation

Point (1): The DOE, a leading indicator for the Company's stock price, is expected to reverse

Shareholder returns are supporting the Company's stock price, but a full-fledged upturn requires reacceleration in earnings accompanied by improved ROE

CGRA places significant emphasis on the dividend on equity ratio (DOE) as a leading indicator for the Company's stock price, viewing the stock as transitioning from a bottoming phase to a reversal period. DOE is calculated as the return on equity (ROE) multiplied by the payout ratio. For the fiscal year ended March 2024, the Company's DOE was 5.7% (ROE 16.7% × payout ratio 34.4%), one of the highest in the machinery sector. This indicates that the Company possesses high capital efficiency (ROE), which represents capital gains driving stock price increases, and also maintains an aggressive dividend payout ratio (shareholder returns), which represents income gains. This underscores the Company management's strong focus on stock price performance. The DOE for the fiscal year ending March 2026 is around 3.4%, calculated by multiplying the expected ROE of 10% by the Company's projected dividend payout ratio of 34.0%. This means that the DOE for this fiscal year is projected to fall below the 4.1% DOE achieved in the fiscal year ended March 2025.

However, factoring in the share repurchase announced on May 14, 2025 (up to 1 million shares, up to 2 billion yen, 4.3% of total outstanding shares), the total payout ratio-based DOE would amount to 6.1%. In the fiscal year ended March 2023 when the Company last conducted a share repurchase, the total payout ratio-based DOE reached 7.3%. This contributed to subsequent earnings growth and the formation of the stock price at its all-time high since listing. Currently, shareholder returns are being prioritized, but the stock price is expected to rebound as performance recovers going forward.

Point (2): The Company's electronic equipment business orders remained steady

Customers' excess inventory issues have largely been resolved, but concerns about future performance deterioration are emerging

For the April-June quarter of 2025, the electronics equipment business secured orders totaling 9.4 billion yen, representing a 14.1% increase year on year and a 0.2% decrease quarter on quarter. The BB ratio, calculated by dividing order received by sales, also improved to 1.1 times from 0.9 times in the previous quarter, providing reassurance about future performance. This is primarily due to factors such as price pass-through, rising demand overseas, particularly in China, and acquiring new customers. Although lacking resilience, a solid order environment continues. The recovery in the Company's order intake is also likely attributable to the fact that the sales-to-inventory ratio at major semiconductor manufacturing equipment manufacturers had risen to 1.7 times by the end of June 2023, which raised concerns about excess inventory, but the ratio declined to 1.1 times by the end of March 2025, diminishing the sense of excess inventory. The ratio, however, had risen to 1.4 times by the end of June 2025 due to a decline in sales. CGRA believes that downward risks to orders should also be considered for the latter half of the year.

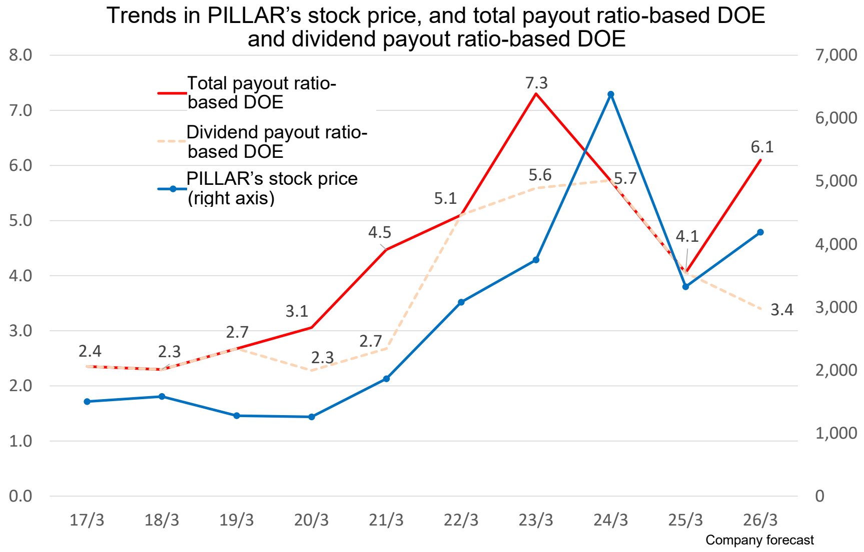
Point (3): The strategy to capitalize on China's push toward domestic semiconductor production has proven successful

The Company's unique China strategy is proving successful and beginning to contribute to its performance

On July 25, 2025, SCREEN Holdings, a major semiconductor manufacturing equipment manufacturer, announced its financial results for the April-June 2025 quarter. Revenue increased 1.2% year on year, but operating profit declined 12.2% year on year. On July 31, Tokyo Electron announced its April-June earnings, reporting a 1.0% decline in revenue and a 12.7% drop in operating profit, while also revising its full-year earnings forecast downward. The slump at both companies stems from the impact of U.S. tariffs, primarily due to leading logic semiconductor manufacturers postponing capital expenditures and a slowdown in demand from China, which had been a key driver of recent performance.

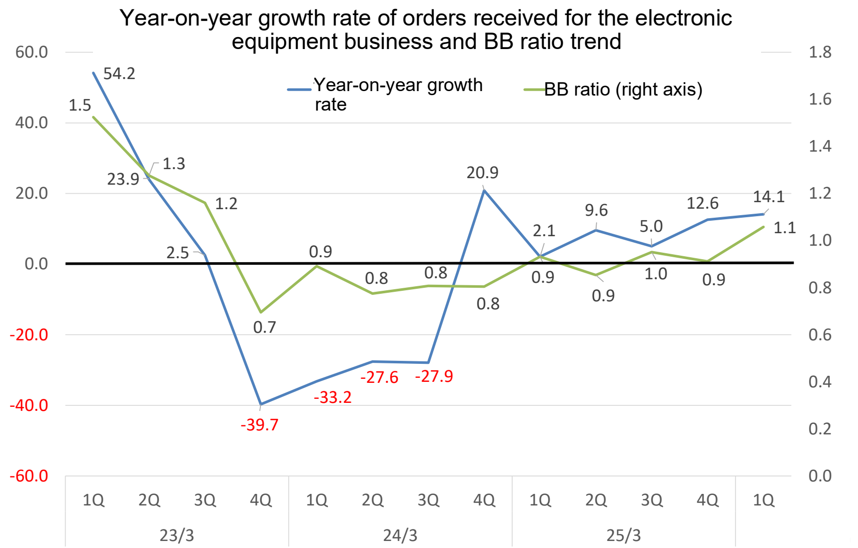
Meanwhile, PILLAR's April-June 2025 earnings showed a 3.1% year-on-year revenue increase and an 8.4% rise in operating profit. This secured a 26.2% progress rate against the full-year operating profit forecast, which was maintained. In this way, the Company showed a different performance trend compared to other manufacturing equipment manufacturers. One reason for this appears to be differing strategies toward Chinese demand. The Company has pursued a unique China strategy, leveraging its production base Pillar Technology in Chuzhou, China, to capture domestic demand for semiconductors and semiconductor manufacturing equipment within China. As a result, sales in Asia, including China, for the April-June quarter reached 2.5 billion yen, a 32.5% increase year on year. The overseas sales ratio reached a record high for 1Q at 31.3% (up 6.6 percentage points year on year).

Figure 3: Total payout ratio-based DOE, a leading indicator of stock prices, has turned upward



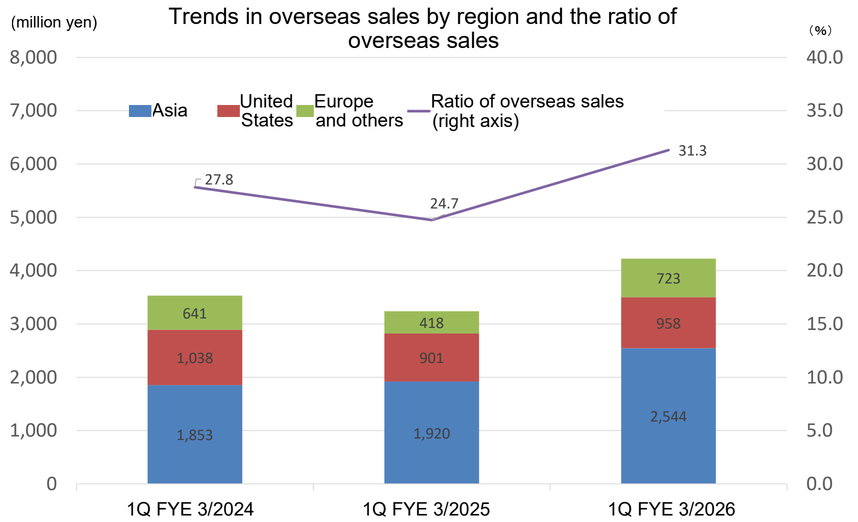
Total payout ratio-based DOE, a highly effective leading indicator for the Company's stock price, has reversed upward

Figure 4: Overall, the robust order environment continues



The overall order environment remains solid, but a full-fledged recovery is still far off

Figure 5: Unique China strategy has proven successful, with overseas sales ratio trending upward



The Company's unique local production for local consumption strategy in China has proven successful, and the upward trend in overseas sales continues

Source: Created by CGRA based on company materials, etc.

Changes from Previous Report

The prolonged period of earnings adjustment continues

Logic and memory-related capital expenditures have been slow to recover for a long time

Delayed recovery in semiconductor capex and prolonged inventory adjustments at customers weigh on earnings

Following the previous follow-up report (issued April 3, 2024), the Company announced its earnings forecast for the fiscal year ended March 2025, with sales of 62 billion yen (up 5.8% year on year) and operating profit of 13 billion yen (down 8.5% year on year). Initially, a recovery in semiconductor demand was anticipated for 2H of the fiscal year and beyond. However, citing prolonged inventory adjustments at customer sites as a reason, the Company revised downward its full-year sales forecast from 62 billion yen to 57 billion yen (a 2.7% decrease year on year) and its operating profit forecast from 13 billion yen to 11 billion yen (a 22.6% decrease year on year) in its earnings results for 3Q of the fiscal year ended March 2025, announced on February 6, 2025. The final results for the fiscal year ended March 2025 showed sales of 58 billion yen and operating profit of 11.3 billion yen, outperforming the Company's revised forecast.

The Company announced its earnings forecast for the fiscal year ending March 2026, projecting sales of 57.5 billion yen (down 0.8% year on year) and operating profit of 10.3 billion yen (down 9.1% year on year). In 1Q results announced on August 6, 2025, it secured sales of 13.4 billion yen (up 3.1% year on year) and operating profit of 2.7 billion yen (up 8.4% year on year). So, the progress rate against the full-year operating profit forecast stands at 26.2%, confirming a solid start.

Recently, semiconductor manufacturing equipment companies have been announcing pessimistic earnings forecasts

Caution over U.S. semiconductor tariff impact leads to postponement of capex decisions

WSTS published its Semiconductor Market Forecast Spring 2025 on June 3, 2025, reporting that the semiconductor market for calendar year 2025 is expected to expand to $700.8 billion, up 11% from the previous year, and is expected to increase to $720.7 billion, up 9% from the previous year, in 2026. The Semiconductor Equipment Association of Japan (SEAJ) announced on July 3, 2025, its Market Forecast Report - Semiconductor and FPD Manufacturing Equipment. It projects that demand for semiconductor manufacturing equipment in FY2025 will reach 4,863.4 billion yen, up 2% from the previous fiscal year, and that demand is expected to accelerate in FY2026, reaching 5,349.8 billion yen, up 10% from the previous fiscal year.

However, amid speculation about how U.S. semiconductor tariffs will impact the market, some logic chip manufacturers are delaying capital expenditures, and memory chip investments also appear highly uncertain. Tokyo Electron announced a downward revision to its full-year earnings forecast for FY2025 alongside its Q1 results for the fiscal year ended March 2025, released on July 31, 2025. This revision was driven by factors including a decline in demand from China, which had previously driven performance in 2024-2025.

Figure 6: Changes from previous report

<table>
<tr><th></th><th></th><th>Previous Report (April 3, 2024)</th><th>This Report</th></tr>
<tr><td colspan="2">Stock price: yen</td><td>6,080</td><td>4,190</td></tr>
<tr><td colspan="2">Expected dividend per share</td><td>149.0</td><td>105.0</td></tr>
<tr><td colspan="2">Dividend yield: %</td><td>2.5</td><td>2.5</td></tr>
<tr><td colspan="2">Forward P/E: times</td><td>14.2</td><td>13.5</td></tr>
<tr><td colspan="2">PBR: times</td><td>2.4</td><td>1.3</td></tr>
<tr><td colspan="2">TOPIX</td><td>2,714</td><td>3,189</td></tr>
<tr><td colspan="2">Expected sales: 100 million yen</td><td>570 (Mar. '24)</td><td>575 (Mar. '26)</td></tr>
<tr><td colspan="2">Expected operating profit: 100 million yen</td><td>136 (Mar. '24)</td><td>103 (Mar. '26)</td></tr>
<tr><td rowspan="3">Semiconductor shipments (CY, 100M USD, %)</td><td>2024</td><td>5,883 (up 13% YoY)</td><td>6,305 (up 20% YoY)</td></tr>
<tr><td>2025E</td><td>-</td><td>7,008 (up 11% YoY)</td></tr>
<tr><td>2026E</td><td>-</td><td>7,207 (up 9% YoY)</td></tr>
<tr><td rowspan="4">Demand forecast for semiconductor manufacturing equipment (FY, 100 million yen, %)</td><td>2024</td><td>40,348 (up 27% YoY)</td><td>47,681 (up 29% YoY)</td></tr>
<tr><td>2025E</td><td>44,383 (up 10% YoY)</td><td>48,634 (up 2% YoY)</td></tr>
<tr><td>2026E</td><td>-</td><td>53,498 (up 10% YoY)</td></tr>
<tr><td>2027E</td><td>-</td><td>55,103 (up 3% YoY)</td></tr>
<tr><td colspan="2">U.S. Dollar: Yen</td><td>151.6</td><td>147.1</td></tr>
</table>

Source: Created by CGRA from various materials. Figures for the semiconductor market are based on WSTS, and those for demand for semiconductor manufacturing equipment are based on SEAJ

Interview with Mr. Katsuhiko Shukunami, Director and Deputy President

The Company's stock price appears to remain relatively low

Q: Tell us about changes in the investor base and management's awareness of stock prices.

Since our market capitalization first reached 100 billion yen in 2023, the number of IR inquiries has been on the rise. In 2024, we met with a total of 200 investors, a 1.3-fold increase from the previous year, with the proportion of foreign investors rising to approximately 19% (up 4 percentage points year on year). President Iwanami also conducted his first overseas investor relations activities last year, visiting institutional investors in London. He plans to visit institutional investors in Singapore this year, in addition to London. President Iwanami and I are striving to manage the Company with greater awareness of stock prices than ever before, including by understanding requests from domestic and international investors and incorporating them into management decisions. Last year we also began holding SR meetings based on our integrated report. We are discussing sustainability initiatives focused on non-financial items with ESG responsible investors.

We will strive to achieve sales of 100 billion yen as soon as possible and aim to further enhance corporate value

Q: Tell us your medium-to-long-term vision.

We would like to increase our sales volume to the 100 billion yen level as soon as possible. While profitability is important, we would like to build a robust corporate structure that enables us to expand our scale, strengthen our business foundation, and introduce unique, differentiated products. We aspire to challenge ourselves to reach the next milestones of 150 billion yen and 200 billion yen. To that end, we are actively fostering a proactive corporate culture that boldly takes on new applications, product development, and even new business ventures. For example, the sales division is holding proposal meetings with President Iwanami in attendance and working on organizational reforms to shift toward proactive proposal-based sales. The development division consolidated some 200 engineers at the Sanda Innovation Center. We are promoting free discussions by job title across segment boundaries to invigorate brainstorming and ensure implementation at the operational level.

Q: How do you analyze the current stock price level?

I feel that the current stock price level (as of August 28, the date of the interview, with a closing price of 4,055 yen) is undervalued. Compared to Japan's leading semiconductor manufacturing equipment manufacturers, I recognize that our Company falls short in terms of market capitalization and trading volume, making it difficult to be valued at the same multiples. However, even when compared to semiconductor-related companies with market capitalizations of 100 billion to 300 billion yen, our P/E ratio seems to remain relatively low. We intend to continue to strengthen our investor relations efforts and enhance our disclosure content, including shareholder returns, in order to broaden our investor base and earn fair market valuation.

In our next medium-term management plan, we will aim to get off to a strong start, focusing on earnings recovery and information disclosure to maximize shareholder value through shareholder returns

Q: Tell us about your business performance trends and your thoughts on the next medium-term management plan.

Our performance for the fiscal year ending March 2026 will likely be largely in line with the performance of our semiconductor-related customers, so we expect a recovery in performance from 2H onwards. Overseas sales have been strong, particularly in China, which reflects the success of our unique growth strategy. As for our performance for the fiscal year ending March 2027, our customers unanimously agree that we will emerge from the current plateau phase and enter a full-fledged recovery phase. Our next medium-term management plan begins in the fiscal year ending March 2027, and we intend to seize this opportunity firmly and get off to a strong start. Through the next medium-term management plan, we aim to enhance financial disclosures, including shareholder returns, enrich non-financial disclosures, and communicate our sustainability activities to all stakeholders.

Q: What are your thoughts on shareholder returns?

We intend to continue enhancing shareholder returns. We have established a policy of a dividend payout ratio of 30% or higher as our shareholder return policy during the current medium-term management plan period, while also conducting share repurchases. The average total payout ratio for the two periods of the fiscal year ended March 2025 results and the fiscal year ending March 2026 forecasts is expected to be 48.5%. In the next medium-term management plan, we also plan to review our shareholder return policy. We hope that investors both in Japan and abroad will feel confident holding our shares, and we also wish for more individual investors to hold them.

Interview with Mr. Masato Wada, Director and Senior Executive Officer

We will pursue R&D that contributes to our financial performance through the development of new applications and products

Q: How do you view business opportunities and the strategies for capturing them?

Our fittings are the de facto standard products boasting a 90% global market share, and we will continue to aim to maintain our share in the domestic market. At the same time, leveraging the strengths of our PILAFLON products, we will advance the development of new products that address customer challenges and meet their needs, thereby expanding applications and target markets. Until now, we have focused primarily on semiconductor front-end processes, but as high cleanliness levels are increasingly required in back-end processes as well, we are considering entering this field. Currently, some 70% of our consolidated sales depend on the semiconductor market. To build resilience against market fluctuations, we plan to diversify our product portfolio and strengthen our expansion into sectors requiring high cleanliness standards, such as the pharmaceutical field.

We will strengthen integrated development activities across the organization and advance the development of applications and products that leverage our strengths

Q: Tell us about your intellectual capital and human resources.

In R&D, we have clearly prioritized initiatives outlined in our mid-term management plan while ensuring sufficient expansion of intellectual capital. We are promoting the development of engineers and career recruitment from a long-term perspective while flexibly responding to concurrent development projects. In particular, with an eye toward future miniaturization and laminating in the semiconductor industry, we are recruiting talent with strengths in material fields such as chemicals and resins. At the newly established Sanda Innovation Center, we are focusing on improving the working environment by prioritizing engineers' workplace comfort and motivation. The center brings together engineers from the electronics and industrial equipment fields to promote technical exchange between the two businesses and advance integrated development activities as a unified organization.

Q: How is R&D linked to financial performance?

Currently, we are pursuing a total of 20 development themes (including five in the semiconductor field), with development progressing according to short-, medium-, and long-term schedules. We basically engage in development jointly with our customers, setting KPIs such as the number of new products to increase the likelihood of commercialization. We are also accelerating development speed through industry-academia collaboration. The ratio of new product sales within five years on a non-consolidated basis is just over 8%, but we recognize that the actual ratio is higher as we have the large number of improved products. Regarding the development timeline, we have established a roadmap targeting 2030, primarily focused on the materials sector. This includes proactively addressing stricter regulations in Europe and the U.S., as well as advancing the development of PFAS-free alternative materials. We have established unique expertise and technologies in corrosion resistance, cleanliness, and high-temperature and high-pressure applications. This enables us to accelerate joint development with customers and material manufacturers while simultaneously securing a competitive advantage through strict confidentiality.

We will pursue organizational management that contributes to financial performance through highly effective R&D carried out on schedule

Q: Tell us about your thoughts on the next medium-term management plan.

Society and industrial structures are changing significantly, so it is important to train engineers who can foresee changes and further strengthen element development. We will strengthen the development of materials with high potential, such as resin and sliding materials, to drive the creation of new products. New demands continue to emerge in the semiconductor sector, while demand for existing products tends to decline in the industrial equipment sector. Meanwhile, we are seeing increased inquiries about next-generation technologies such as all-solid-state batteries and SAF. We will accurately capture these new needs, strengthen our technological capabilities, and leverage our competitive advantages to develop applications and products where we can excel.

Q: How is R&D connected to materiality?

Our sealing products contribute to our customers' energy savings, reduced environmental impact, and maximized output. They help address the materiality issues we prioritize—“Decarbonization and energy conservation,” “Circular economy and resource conservation,” and “Prevention of chemical pollution and conservation of water resources”—while also serving as the foundation for ESG management.

Overview and Progress of the One2025 Medium-Term Management Plan

Aiming for higher corporate value (economic value x social value)

On May 12, 2023, the Company announced its three-year medium-term management plan, "One2025," which ends in the fiscal year ending March 2026. The Company intends to further enhance corporate value (economic value × social value) while laying the groundwork for a leap forward into the next 100 years, based on the five basic company-wide policies: (1) evolvement of core businesses, (2) strengthening of global competitive edge, (3) creation of a new business foundation, (4) development of sustainable management, and (5) financial strategies that support growth.

The current medium-term plan ends in fiscal year ending March 2026, with the next medium-term plan starting in fiscal year ending March 2027

The Company is unlikely to achieve its business goals beyond ROE, dividend payout ratio, and growth investments

The medium-term management plan sets, for its final fiscal year ending March 2026, the business targets of sales of 66.0 billion yen, operating profit of 17.0 billion yen (operating profit margin of 25.7%), and ROE of 10% or higher, a dividend payout ratio of 30% or higher, and cumulative capital expenditures of 25 billion yen over the three-year period (both sales and operating profit are expected to be new record high). By segment, the electronic equipment business plans sales of 48.0 billion yen and operating profit of 14.5 billion yen (operating profit margin of 30.2%), while the industrial equipment business plans sales of 18.0 billion yen and operating profit of 2.5 billion yen (operating profit margin of 13.8%).

However, the Company has publicly announced its earnings forecast for the fiscal year ending March 2026, projecting sales of 57.5 billion yen and operating profit of 10.3 billion yen (operating profit margin of 17.9%). The Company is likely to meet its business targets for ROE, dividend payout ratio, and growth investments, but it appears highly probable that sales and operating profit will fall short.

The Company is generally able to achieve its key non-financial targets

The Company has established the following nine key non-financial targets. Environmental contribution initiatives include: (1) Reducing greenhouse gas emissions by 25% compared with FY2013 (Scope 1 & 2); (2) Abolishing the use of three of the chemical substances specified by the Pollutant Release and Transfer Register (PRTR) Act; (3) Obtaining and maintaining at least CDP score of B. Active human resources / organizational growth initiatives include: (4) Achieving at least 5% for the percentage of female managers; (5) Achieving at least 75% for the percentage of male employees taking childcare leave; (6) Increasing the amount invested in human resource development per person by 20%; (7) Implementing management training related to various types of human resource utilization; (8) Implementing training for mastering the use of practical tools to cultivate human resources for digital transformation (DX); (9) Utilizing digital tools to inherit professional skills and to master advanced skills efficiently. The Company is generally on track to achieve its key non-financial targets.

The Company disclosed non-financial KPIs for the first time for enhanced sustainability

Figure 7: "One2025" numerical targets

Consolidated (Unit: Million Yen)

	BTvision22	One2025		
	FY2022 Results	FY2025 Target	Increase (Decrease)	Change rate
Sales	48,702	66,000	17,298	35.5%
Operating income	13,842	17,000	3,158	22.8%
Operating income ratio	28.4%	25.7%	-2.7 P	–
ROE	18.6%	10% or more	–	–
Payout ratio	30.0%	30% or more	–	–
Growth investment	(3-year cumulative total) 3,715	(3-year cumulative total) 25,000	21,285	672.9%

By segment

	FY2022 Results	FY2025 Target	Increase (Decrease)	Change rate
Electronic equipment business				
Sales	36,819	48,000	11,181	30.3%
Operating income	11,759	14,500	2,741	23.3%
Industrial equipment business				
Sales	11,844	18,000	6,156	51.9%
Operating income	2,059	2,500	441	21.4%

Source: Created by CGRA based on company briefing materials, etc.

Progress Status of Consolidated Results for Fiscal Year Ending March 2026

The initial earnings forecast for the fiscal year ending March 2026 is expected to show a decline in both revenue and profit

While steady performance continues, primarily driven by product price hikes, orders received appear to have reached a plateau

For the fiscal year ending March 2026, the final year of the One2025 medium-term management plan, initial projections indicated sales of 57.5 billion yen (down 0.8% year on year), operating profit of 10.3 billion yen (down 9.1% year on year, with an operating profit margin of 17.9%), and net income per share of 308.68 yen. These figures fell short of the medium-term management plan's business targets.

The 1Q results for the fiscal year ending March 2026 confirmed steady progress in performance

The financial results for 1Q of the fiscal year ending March 2026 (April–June 2025), announced on August 6, 2026, showed sales of 13.4 billion yen, a 3.1% increase year on year, and operating profit of 2.7 billion yen, an 8.4% increase year on year (operating profit margin of 20.0%). Ordinary profit decreased 5.4% year on year to 2.7 billion yen due to recording of foreign exchange losses, while quarterly net income increased 0.7% year on year to 1.9 billion yen. Sales progress against the full-year forecast reached 23.4%, while operating profit progress reached 26.2%. This marks the most favorable progress observed in the 1Q results over the past four years.

The revenue growth effect, including price hikes, drove operating profit

Analysis of changes in operating profit for Q1 of the fiscal year ending March 2026 (2.5 billion yen in Q1 of the fiscal year ended March 2025 to 2.7 billion yen in Q1 of the fiscal year ending March 2026) shows that revenue growth effects including price increases contributed a 0.6 billion yen increase; the impact of yen appreciation reduced profit by 0.15 billion yen; effects from material costs, outsourcing, and product mix reduced profit by 0.04 billion yen; manufacturing expenses decreased by 0.1 billion yen; and selling and administrative expenses decreased by 0.11 billion yen. Excluding the impact of the yen's appreciation, the factors contributing to the decline in profits have been improving since peaking in 4Q of the fiscal year ended March 2025.

The order backlog increased for the first time in four quarters

Orders received for 1Q of the fiscal year ending March 2026 reached 14.4 billion yen, up 8.0% year on year and down 2.4% quarter on quarter, marking the sixth consecutive quarter of year-on-year growth. The BB ratio, calculated by dividing order received by sales, stood at 1.1 times, exceeding 1.0 times for the third consecutive quarter. This result fostered confidence in the Company's future performance outlook. The order backlog at the end of 1Q increased for the first time in four quarters, improving to 13.3 billion yen (equivalent to approximately three months' worth of monthly sales).

Figure 8: The 1Q results for the fiscal year ending March 2026 confirmed steady progress in performance

(million yen, %)	25/3 Full year	26/3 Full-year forecast	YoY	25/3 1Q actual results	26/3 1Q actual results	YoY	Progress rate
Orders received	55,189	-	-	13,375	14,454	8.0	-
Sales	57,988	57,500	-0.8	13,096	13,499	3.1	23.4
Operating profit	11,335	10,300	-9.1	2,496	2,705	8.4	26.2
Operating profit margin	19.5	17.9	-1.6pt	19.0	20.0	+0.9pt	-
Ordinary profit	11,474	10,300	-10.2	2,924	2,765	-5.4	26.8
Net income	8,299	7,200	-13.2	1,962	1,977	0.7	27.4

Figure 9: Quarterly orders received continue to show a steady recovery, albeit moderately

(100 million yen, %, times)		24/3 1Q	24/3 2Q	24/3 3Q	24/3 4Q	25/3 1Q	25/3 2Q	25/3 3Q	25/3 4Q	26/3 1Q
Orders received	Electronic equipment business	81	82	82	84	82	90	86	94	94
	Industrial equipment business	40	43	46	44	50	44	47	53	50
	Total	121	126	129	128	133	135	134	148	144
	YoY, Electronic equipment business	-33.1	-27.6	-27.9	20.8	2.1	9.5	5.0	12.5	14.1
	Industrial equipment business	21.4	41.9	47.1	65.7	27.2	1.9	2.2	20.8	-1.7
	Total	-21.5	-12.9	-11.6	33.3	10.4	6.9	4.0	15.4	8.1
BB ratio	Electronic equipment business	0.9	0.8	0.8	0.8	0.9	0.9	1.0	0.9	1.1
	Industrial equipment business	1.1	0.9	1.1	0.8	1.2	0.9	1.1	1.0	1.1
	Total	1.0	0.8	0.9	0.8	1.0	0.9	1.0	0.9	1.1
Order backlog		225	198	181	151	154	135	133	123	133

Source: Created by CGRA based on company materials, etc.

Overview of the Electronic Equipment Business

The Company's fittings have established a position as the global de facto standard

The electronic equipment business offers PILAFLON products, which are fluororesin based components such as fittings, bellows pumps, and tubes incorporated into semiconductor cleaning equipment and cleaning and chemical processing equipment for semiconductor and LCD plants. The mainstay fittings for semiconductor cleaning equipment have established a position as the global de facto standard.

The Company's fittings are the de facto standard for semiconductor cleaning equipment and chemical supply processes in semiconductor plants

The segment boasts profitability on par with Japan's leading high-profit enterprises

The segment secured an operating profit margin of 22.6% for the fiscal year ended March 2025 (the highest on record being 32.0% for the fiscal year ended March 2022), demonstrating profitability comparable to leading high-margin companies in the machinery sector such as SMC (24.0%) and Fanuc (19.9%). While it falls slightly short of Tokyo Electron (28.7%) and SCREEN Holdings' SPE business (26.4%), CGRA believes this business has further room for improvement. This is due to price revisions and the anticipated effects of increased production going forward, even considering factors such as rising material costs and increased depreciation expenses at the Fukuchiyama Factory No. 2.

High reliability and a diverse lineup, coupled with proprietary mold technology, form the foundation of the strengths

The Company's products address the needs arising from the ongoing miniaturization and laminating of semiconductors. Within semiconductor cleaning equipment and the cleaning and chemical supply processes at semiconductor plants, they prevent chemical leaks, improve yield rates, and enable equipment miniaturization. The Company offers a high-quality lineup of thousands of products and has earned high reliability through its customization capabilities. Furthermore, the segment's strength lies in its differentiated, high-level molding technology, which leverages its proprietary injection molding, mold design, and product design expertise.

Business performance: The progress rate for operating profit in Q1 of the fiscal year ending March 2026 reached 28.8%

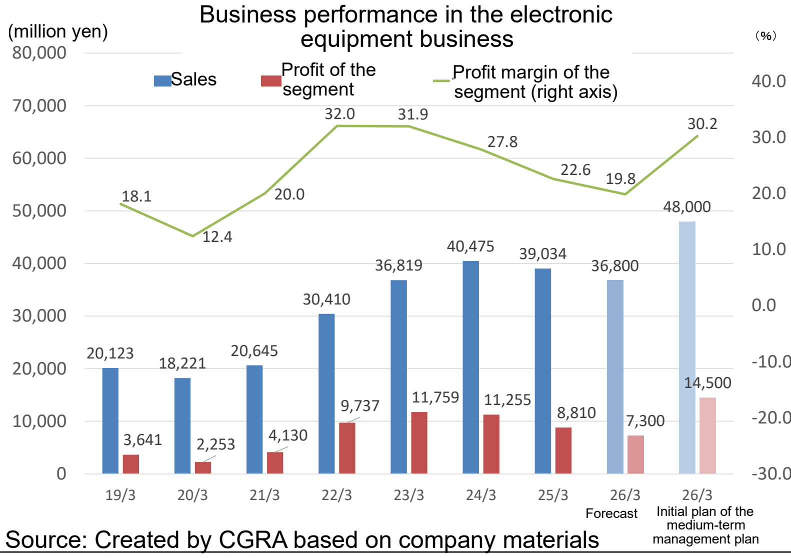
For the fiscal year ending March 2026, the segment is projected to report sales of 36.8 billion yen, down 5.7% from the previous fiscal year, and operating profit of 7.3 billion yen, down 17.1% from the previous fiscal year (operating profit margin of 19.8%). The Q1 earnings saw domestic sales remain sluggish, though this was offset by strong overseas sales. However, due to factors such as rising material costs, sales increased by 0.5% year on year to 8.9 billion yen, and operating profit rose by 1.4% to 2.1 billion yen (operating profit margin of 23.6%), resulting in modest growth in both sales and profit. The operating profit progress rate reached 28.8%, but the full-year forecast remains unchanged.

Performance has progressed steadily, but a full-fledged recovery in quarterly orders is still awaited

Order performance: Progress is somewhat behind schedule, but the robust order environment continues

Orders received for 1Q of the fiscal year ending March 2026 reached 9.4 billion yen, up 14.1% year on year, marking the sixth consecutive quarter of year-on-year growth. This is primarily driven by progress in inventory adjustments among domestic customers, coupled with product price revisions and robust overseas orders, particularly from China. A stronger sense of recovery is expected to emerge in 2H of the year and beyond.

Figure 10: Hopes grow for an early recovery in orders



Source: Created by CGRA based on company materials

External Environment of the Electronic Equipment Business

Tokyo Ohka Kogyo and EBARA expect demand recovery in 2H of this fiscal year

CGRA analyzed the outlook for 2H using Tokyo Ohka Kogyo's sales forecast, which now includes photoresist

CGRA is monitoring Resonac and EBARA, semiconductor-related companies with December fiscal year-ends, as leading indicators for PILLAR's performance. The previous report explained the external environment using sales forecasts for Resonac's semiconductor and electronic materials division and EBARA's component division, which handles vacuum pumps primarily for semiconductors. In this report, CGRA examined trends in the electronics-related business based on the performance outlook for Tokyo Ohka Kogyo's electronics functional materials division, which is strong in semiconductor photoresists.

Tokyo Ohka Kogyo's sales of electronics functional materials for the January-June 2025 period increased by 13.2% year on year, driven by demand for generative AI. Sales of photoresists for semiconductor front-end processes, a key focus area, rose by 10.0% year on year. For the full fiscal year ending December 2025, sales are projected to increase by 11.4% compared to the previous fiscal year, with photoresists for semiconductor front-end processes expected to grow by 10.0% year on year. Meanwhile, orders received by EBARA's component division (a leading indicator for semiconductor capital investment) during the same period increased by 3.8% year on year, with full-year orders projected to rise by 7.9% year on year, indicating a gradual recovery.

Figure 11: Tokyo Ohka Kogyo's sales forecast suggests recovery in 2H and beyond

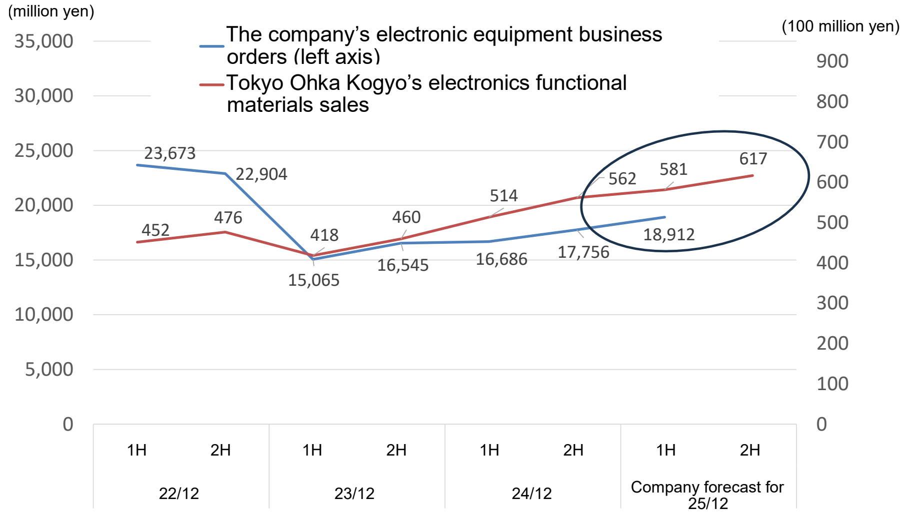
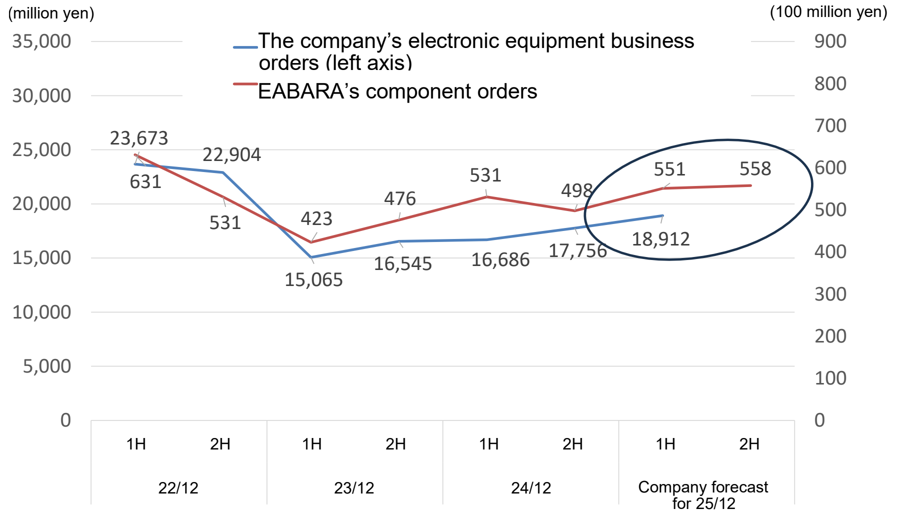


Figure 12: EBARA's component order trends signal the beginning of a gradual recovery phase



Source: Created by CGRA from the companies' financial results materials. The closing period of the Company's order book is adjusted for unification

Electronic Equipment Business: Interview with Mr. Masaru Fujiwara, Managing Executive Officer

We will achieve high profitability and stable growth through our unique growth strategy

Q: Give us a summary of the financial results for 1Q of the fiscal year ending March 2026.

For the fiscal year ending March 2026, we had initially forecast a decline in both sales and profit. The 1Q results were satisfactory and generally progressed as planned. Orders received increased year on year due to the effects of product price revisions, spot projects, and the last-minute demand before tariffs. But, a full recovery remains far off, and the situation continues to plateau. The excess inventory issues at customer sites last year have been largely resolved, but achieving complete optimization will require a little more time. As for sales, our sales strategy focused on local production for local consumption in China proved successful, with strong overseas sales, chiefly in China, offsetting the sluggish domestic sales. As for operating profits, we have been revising our selling prices since last fiscal year, absorbing the impact of the preceding increases in material costs.

The Company intends to achieve a growth rate exceeding semiconductor capital expenditures, as its unique growth strategy proves successful.

Q: What do you see as your medium- to long-term ideal?

In the medium- to long-term, we aim to further enhance profitability, develop new large-scale products beyond fittings, and build a more robust business foundation. For 1Q of the fiscal year ending March 2026, we achieved an operating profit margin of 23.6%, slightly above the 23.4% margin recorded in 1Q of the fiscal year ended March 2025. When the newly established Fukuchiyama Factory No. 2 begins full-scale operations, we expect profitability at or above the record-high operating profit margin of 33.4% achieved in 2Q of the fiscal year ended March 2022. In terms of future growth potential, as semiconductor miniaturization and laminating advance toward the $1 trillion global semiconductor market by 2030, we expect increased cleaning workloads in areas closer to the back-end process. So, we aim to achieve growth exceeding the semiconductor market's growth rate.

Q: What are your expected business opportunities and strategies?

We continue to place significant emphasis on the Chinese market as a key region of focus. As we expand our local production for local consumption initiative centered on the Chuzhou Factory, the number of partner companies is on an upward trend. We take pride in leveraging the superiority of our proprietary molds and injection molding technology to secure an advantage over our competitors. Currently, our sales in China amount to approximately 6 billion yen annually. However, we expect that if China further advances its government-led initiative to increase domestic production of semiconductor manufacturing equipment (currently estimated at 25%), our sales will increase further. We are also actively developing new customers, including local Chinese companies that we had to turn down due to resin shortages. Our sales expansion strategy is gradually gaining traction in the markets in the U.S. and Europe, accompanied by an increase in market share.

The Company will achieve sustained business growth with high profitability through the development of new applications and products.

Q: Tell us about your thoughts on the next medium-term management plan.

Starting in the fiscal year ending March 2027, when the next medium-term management plan commences, we plan to formulate measures after carefully assessing factors such as U.S. semiconductor tariffs. The current medium-term management plan outlines the measures: “strengthening of existing markets and products” and “reinforcement of the foundation to further improve competitiveness improvement.” We believe we are steadily executing these measures and, alongside demand recovery, can achieve profitable business expansion. On the other hand, the measure “creation of new businesses” has not yielded sufficient results and remains a challenge for the next medium-term management plan.

Q: What are your strengths and challenges?

Our strength lies in our unique, differentiated production technology that installs injection molding machines within clean rooms to ensure high cleanliness levels while minimizing contamination issues to the utmost extent. Also, as a comprehensive seal manufacturer, our ability to leverage the expertise cultivated over 100 years to develop new products is another source of our competitive strength. Risk factors include geopolitical uncertainties associated with our focused business in China, as well as the challenge of preventing information leaks related to our proprietary know-how such as mold technology.

Overview of the Industrial Equipment Business

The segment supplies products essential for the safe and optimal operation of various plants

The industrial equipment business handles mechanical seal products that control fluids such as centrifugal pumps, gland packing products used as sealing materials in valves and pumps, and gasket products installed at pipe joints to prevent leaks. These products are incorporated into and used in different equipment and plants, including LNG facilities, oil refining and petrochemical plants, thermal and nuclear power generation facilities, carbon-neutral related equipment such as hydrogen and ammonia plants, and semiconductor manufacturing equipment.

This business segment plays an important role in preventing environmental pollution while ensuring the stable operation of various plants

The segment is expected to achieve stable growth over the medium to long term while maintaining high profitability

The industrial equipment business has maintained solid performance, driven by the acquisition of Tanken Seal Seiko, a long-established mechanical seal manufacturer, as a group company (fiscal year ended March 2024), alongside the recovery of capital investment in sectors such as petroleum and power generation, and the growth of rotary joints for CMP. The business has secured high profitability, with an average operating profit margin of 15.6% over the past four years, thanks to its technological capabilities that support the safe and stable operation of customer equipment and deliver features such as wear resistance, chemical resistance, and high pressure resistance.

Rotary joints for CMP appear to have significant room for continued growth

The segment also manufactures rotary joints for CMP used in semiconductor wet processes, which serve as a pillar of its growth. CMP is experiencing a trend toward improved flattening accuracy and increased polishing workloads due to structural changes, alongside semiconductor miniaturization, laminating, and environmental compliance, as well as the emergence of generative AI. The segment has also been driving the Company's recent earnings growth by acquiring new customers.

Business performance: The business achieved the operating profit target in the medium-term management plan two years ahead of schedule

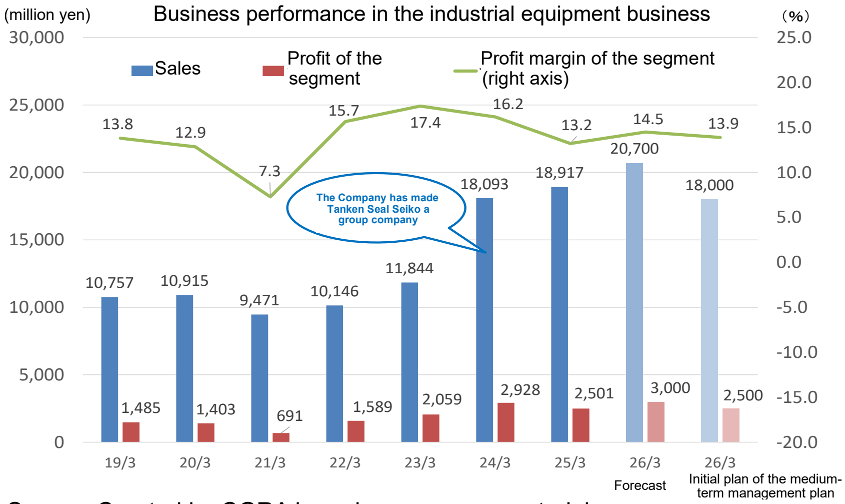
For the fiscal year ending March 2026, the segment is projected to achieve sales of 20.7 billion yen, up 9.4% from the previous fiscal year, and operating profit of 3.0 billion yen, up 20.0% (operating profit margin of 14.4%), as forecasted at the beginning of the period. <u>The segment</u> has already achieved <u>its medium-term management plan targets of 18 billion yen in sales and 2.5 billion yen in operating profit two years ahead of schedule</u>, and further growth is expected for the fiscal year ending March 2026. For 1Q of the fiscal year ending March 2026, the segment recorded sales of 4.5 billion yen, an 8.7% increase year on year, and secured operating profit of 500 million yen, a 44.3% increase year on year (operating profit margin of 12.9%). The operating profit progress rate remained at 19.8%, but since the operating profit progress rate for 1Q is typically 16-17%, it is considered to be progressing steadily.

Business environment continues to be favorable both in Japan and overseas, and the business is on track to achieve the operating profit target in the medium-term management plan two years ahead of schedule

Order performance: Solid order environment continues

Orders received in 1Q of the fiscal year ending March 2026 decreased by 1.7% year on year to 5 billion yen, falling below the previous year's level for the first time in nine quarters. However, this appears to be due to the rebound effect from large-scale projects in the previous year, and the robust order environment, particularly for CMP, seems to be continuing.

Figure 13: Tanken Seal Seiko and others, whose strong performance continues, drive the segment's results



Source: Created by CGRA based on company materials

External Environment Surrounding the Industrial Equipment Business

Sales to existing customers are recovering

Sales to existing customers on a non-consolidated basis, excluding the semiconductor and liquid crystal fields and Tanken Seal Seiko, have remained firm. Sales to the oil, steel, and transportation sectors are steadily expanding, backed by expanding sales of the EDP series of packings featuring high airtightness and high-pressure resistance that comply with U.S. environmental regulations, and increased demand for spare parts for domestic and international oil refineries, and growing demand for marine applications. In the power and energy sector, demand for thermal power generation equipment both domestically and internationally remains robust. Meanwhile, in the chemicals and other sectors, growth has been sluggish due to declining operating rates in the domestic ethylene industry and ongoing industry restructuring. In the medium to long term, however, new capital investment is expected for the energy transition related to hydrogen and ammonia, the restart and construction of nuclear power plants, and hydrogen reduction steelmaking and electric furnaces in the steel industry.

This business also includes rotary joints for CMP. Here, the report presents a graph showing the trend in EBARA's CMP orders received and the order received for the Company's industrial equipment business. For 2H of this fiscal year, the business is expected to see an increase in orders for CMP.

Stable demand growth is expected for CMP, and the medium-to-long-term growth potential centered on "decarbonization" is substantial

Figure 14: Sales to existing customers other than semiconductor and liquid crystal manufacturers show an upward recovery trend

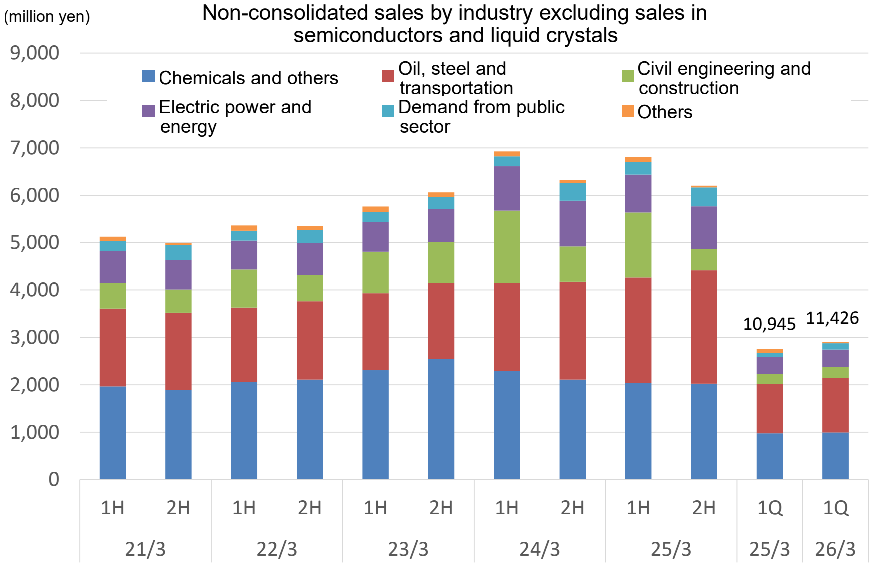
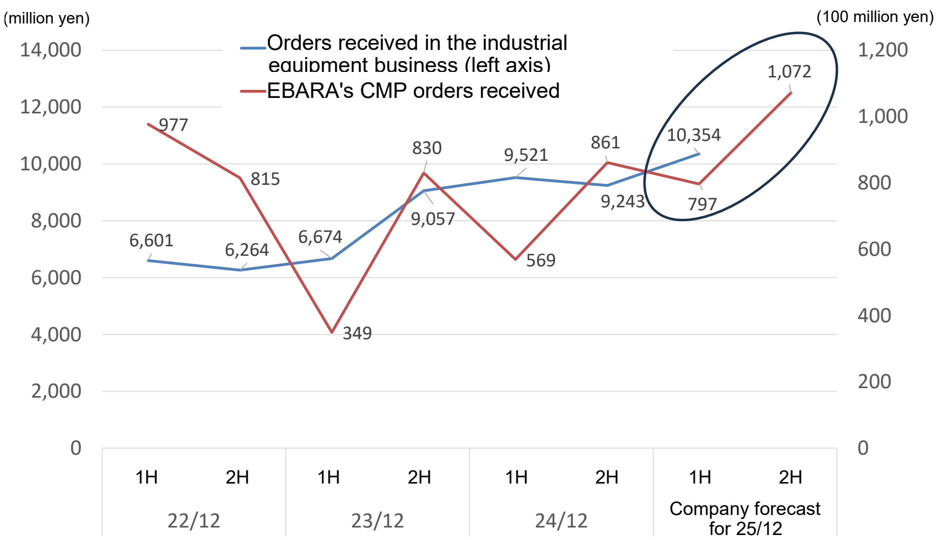


Figure 15: EBARA's CMP orders received serves as a leading indicator for the performance of the industrial equipment business



Source: Created by CGRA from financial results briefing and other materials

Industrial Equipment Business: Interview with Mr. Toyokazu Serita, Managing Executive Officer

We have achieved our current medium-term management plan two years ahead of schedule and will build an aggressive sales organization

Q: Give us a summary of the financial results for 1Q of the fiscal year ending March 2026.

The 1Q results for the fiscal year ending March 2026 exceeded our internal plan. We were able to record sales from profitable large-scale projects overseas, and rotary joints for CMP also performed well compared to the same period last year. Due to the improved flatness due to semiconductor laminating, coupled with a trend toward increased workloads, CMP is expected to continue its steady growth. Operating profit was boosted by increased sales, improved product mix, and the ongoing effects of product price revisions. Amidst the global inflationary environment, conditions are shifting to allow for price pass-through. 1Q orders received decreased by 1.7% compared to the same period last year, but this is the rebound effect from large-scale projects in the previous year and does not indicate a significant change in the trend. However, in North America, where we had high hopes following the change in the U.S. administration, projects have not progressed as much as we had expected.

Having achieved our current mid-term plan two years ahead of schedule, we will now execute an aggressive strategy to realize our ideal

Q: What do you see as your medium- to long-term ideal?

We derive approximately 70% of our consolidated sales from semiconductor capital expenditures, meaning our earnings structure is highly susceptible to fluctuations in semiconductor capital investment. To reduce our dependence on semiconductor capital expenditures for earnings, we are building a robust earnings structure and aiming for stable contributions to our business performance. That is also why we made the consistently profitable Tanken Seal Seiko a group company. We are currently exploring different strategies for further growth, including application development, production technology, materials, and inventory management approaches. For example, as technological innovation advances in production processes, products that were not used in the semiconductor cleaning process may be adopted in new processes. Given this situation, we are exploring entry into the functional components sector where we can leverage the strengths and characteristics of our seal products. This aims to establish a proactive proposal-based sales structure capable of delivering new added value.

Q: What are your expected business opportunities and strategies?

We will combine Tanken Seal Seiko's expertise in carbon technology with PILLAR's expertise in SiC technology to promote new product development and joint purchasing. Through this, we are considering proposal-based sales targeting areas where other companies struggle. Inquiries are coming in for new fields such as hydrogen production electrolysis equipment and small modular reactors (SMRs). In the chemical sector, manufacturers handling semiconductor materials are making steady capital investment. In new energy applications for decarbonization, the hydrogen-related sector is lagging behind and we need to review our strategy, but projects for commercialization are beginning to move forward in areas such as ammonia, CCU, and CCUS. In particular, LNG-related capital investment has been active recently. As part of our new product initiatives, we plan to propose comprehensive maintenance services through subscription plans and commercialize devices that detect pressure, temperature, and vibration to enable predictive maintenance for seal life.

The next medium-term management plan will adopt a policy of implementing strategic, proactive proposal-based sales

Q: Tell us about your thoughts on the next medium-term management plan.

The current medium-term management plan achieved its goals two years ahead of schedule. In August of this year, the working group for the next medium-term management plan kicked off, but the formulation of specific measures is still ahead. Amidst this, we have been holding “technical exchange meetings” with our customers since 2024. We analyze our customers' patents and proprietary technologies there, and through proposal-based sales leveraging our own technologies and know-how, we are working to develop new applications. In April this year, we also established a new sales management division. We have restructured our sales headquarters, shifting focus from traditional management functions to strengthen strategic, proactive proposal-based sales. This involves recruiting external sales talent and integrating with our development division. We consider establishing a framework that can demonstrate improvements in sales quality and earnings contributions as one of the measures in the next medium-term management plan.

Q: What are your strengths and challenges?

The industrial equipment business is a long-standing operation dating back to our Company's founding. The world is currently undergoing an energy transition, and it is crucial for us to demonstrate our potential across all aspects to the market, so we are promoting strategic proposal-based sales by holding technical exchange meetings and actively recruiting talent from outside the Company.

Evolution of ESG Management

"Integrated Report 2025" was issued

On August 29, 2025, the Company's Integrated Report 2025 was issued. This year's report is 84 pages, up from last year's 68 pages, with more pages devoted to management, and provides enhanced content on the Company's strengths and competitive advantages, global strategy, and sustainability initiatives. The report conveys a desire to embrace challenges company-wide while never forgetting the entrepreneurial spirit of the founding days. As for outside directors, however, the report featured only messages from four outside directors, as it did last year. We hope the Company will design a report that conveys opinions of people in the field, such as through roundtable discussions.

The Company appears to be strengthening its non-financial items and showing increased awareness of its stock price

Environment: The Company was rated "B" in CDP for "Climate Change" and "Water Security"

In FY2024, the Company obtained third-party certification for CO_2 emissions based on Scope 1-3 and began preparations for disclosing information on biodiversity (TNFD). The Company achieved its FY2025 sales target of 3.1 billion yen for environmentally friendly products one year ahead of schedule and is expanding sales toward its 2030 target of 6.0 billion yen. The Company was rated B rating only for "Climate Change" in the 2023 CDP assessment, but in the 2024 assessment, it received a B (in management level) for both "Climate Change" and "Water Security." The latest report organizes TCFD risks and countermeasures by temperature and timeline, but going forward, explanations of financial impacts will likely be required.

Human resources strategy and organizational growth: The Company has largely achieved the non-financial targets set forth in the medium-term management plan

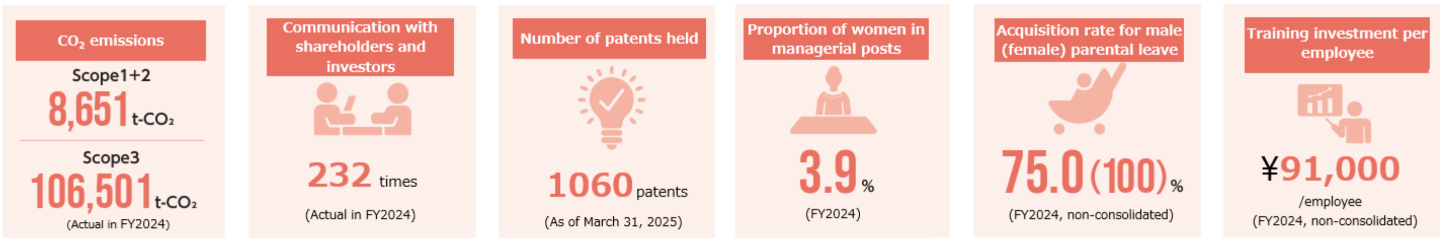
The Company will find it difficult to achieve the numerical targets for the financial aspects of its ongoing medium-term management plan, "One2025." On the other hand, in terms of the six items listed under non-financial metrics for active human resources / organizational growth initiatives, with the exception of "Achieving at least 5% for the percentage of female managers," progress on items such as "the percentage of male employees taking childcare leave" and "amount invested in human resource development per person" appears largely on track. However, the section on human capital primarily explains the mechanisms and initiatives only, so the report would have been better if it had featured content that conveyed how these concepts are being implemented on the ground. In particular, the engagement score, which reflects employees' motivation to contribute, sense of fulfillment, and pride, remained at 61 in FY2023 and 62 in FY2024, compared to 64 in FY2022. CGRA hopes the Company will hold group discussions and develop human resources strategy focusing on engagement scores.

We look forward to the disclosure of human resources strategy content that demonstrates how the strategy permeates the front lines

Executive compensation: Starting in FY2025, stock price has been added as an evaluation criterion for performance-based compensation

The Company is a company with an audit and supervisory committee, and the number of directors (5 internal and 4 outside, including 1 woman; ratio of external members of 44.4%) and their membership have been unchanged. The Company also held only seven board meetings in FY2024, and the director survey revealed opinions calling for more time and substantive deliberations. However, while the fixed portion of executive compensation remains unchanged at 50-60%, it is noteworthy that the stock price level (relative to the Nikkei average) has been added as a KPI to the performance-based compensation evaluation metrics starting in FY2025, alongside the existing ROE and ESG items.

Figure 16: Key non-financial data



Source: The Company's Integrated Report 2025

Approach to Stock Valuation

The stock market suggests the Company's relative lag in performance recovery

CGRA expects the Company to strengthen information disclosure and investor relations, broaden its investor base both domestically and internationally, and increase its recognition

CGRA considered three approaches in calculating the Company's fair value. First, CGRA conducted a simple comparison between the Company and three semiconductor-related companies with similar market capitalizations (TOWA, TOCALO, and Rorze). Compared to the Company's forward P/E ratio of 13.5 times, TOWA stands at 23.0 times, TOCALO at 15.7 times, and Rorze at 14.6 times. The average forward P/E ratio for these three companies is 17.8 times, indicating that the Company is in a relatively low-valuation position. The PBR calculated based on BPS at the end of the fiscal year ended March 2025 is 1.3 times for the Company, 2.6 times for TOWA, 2.2 times for TOCALO, and 2.9 times for Rorze. Accordingly, the expected ROE calculated using the formula PBR = ROE × P/E is 9.8% for the Company, 11.2% for TOWA, 13.7% for TOCALO, and 19.9% for Rorze. This suggests that the stock market views that the Company's relative performance recovery continues to lag amid the continued profit decline trend of these companies through the fiscal year ending March 2026.

Nevertheless, excluding TOWA, which fell into an operating loss, the companies showed steady performance trends: the Company's operating profit progress rate for 1Q of the fiscal year ending March 2026 was 26.3%, TOCALO's was 29.5%, and Rorze's was 27.8%.

The expected stock price calculated using the sum-of-the-parts valuation is about 5,700 yen

As a second approach, CGRA adopted the sum-of-the-parts valuation method. This involves applying the forward P/E ratios for semiconductor-related stocks (the average of the three companies above) and the forward P/E ratio for the machinery industry (IFIS forecast) to the operating profit composition ratio between electronics and industrial machinery segments. The expected P/E calculated by applying the average P/E of 17.8 times for the three companies to the 78% operating profit composition ratio of the electronics business, and the IFIS consensus forecast P/E of 20.6 times for the machinery industry to the 22% composition ratio of the industrial equipment business in the fiscal year ended March 2025, is 18.4 times. From this, an expected stock price of about 5,700 yen is calculated.

Competitor comparisons indicate that these companies are generally valued at similar P/E ratios

The third approach is a comparison with direct competitors Nichias and Eagle Industry. The forward P/E ratios are 13.5 times for the Company, 14.7 times for Nichias, and 12.9 times for Eagle Industry, indicating they are generally valued at similar levels. On the other hand, the PBR calculated based on the BPS as of the end of the fiscal year ended March 2025 is 1.3 times for the Company, 1.8 times for Nichias, and 1.0 times for Eagle Industry. As a result, the expected ROE stands at 9.8% for the Company, 12.1% for Nichias, and 8.1% for Eagle Industry. This difference in expected ROE is considered to be forming Nichias' relatively high PBR.

Figure 17: The Company's stock valuation remains relatively low

	Stock price (yen) Sept. 18, '25	PBR (times) Actual in Mar. '25	ROE (%) Actual in Mar. '25	ROE (%) Expected for Mar. '26	P/E (times) Forecast for Mar. '26	EPS (yen) Forecast for Mar. '26	BPS (yen) Actual in Mar. '25	Dividend per share Forecast for Mar. '26	DOE Actual in Mar. '25	Dividend payout ratio Actual in Mar. '25
PILLAR	4,190	1.3	11.5	9.8	13.5	309	3,166	105	4.1	35.1
Eagle Industry	2,615	1.0	4.2	8.1	12.9	203	2,518	110	3.9	93.0
Nichias	5,942	1.8	15.5	12.1	14.7	404	3,349	152	3.4	22.0
Average of 2 competitors	-	1.4	9.9	10.1	13.8	-	-	-	3.7	57.5
Tokyo Electron	25,455	6.3	30.3	24.1	26.3	969	4,016	485	15.2	50.1
SCREEN Holdings	13,255	3.0	25.1	21.2	14.2	931	4,398	280	7.5	30.1
TOWA	2,100	2.6	13.6	11.2	23.0	91	818	20	2.5	18.5
TOCALO	2,204	2.2	13.9	13.7	15.7	140	1,020	70	7.0	50.2
Rorze	1,946	2.9	22.5	19.9	14.6	133	668	17	2.9	12.7
Average of 3 semiconductor companies	-	2.5	16.7	15.0	17.8	-	-	-	4.1	27.1
Machinery industry	-	-	-	-	20.6	-	-	-	-	-

Source: Created by CGRA based on company materials, etc.

Shareholder Return Policy

Shareholder return policy: Management has a relatively high awareness of stock prices

The Company has management with a relatively high awareness of stock prices. While its consolidated dividend payout ratio is generally 30% or higher, the Company announced on May 14, 2025, the acquisition of up to 1 million shares of treasury stock (up to 2 billion yen), the largest amount to date (The acquisition period is from May 15 to November 30, 2025). For the fiscal year ended March 2025, the Company announced a downward revision to its full-year earnings forecast during its 3Q results. Its stock price subsequently fell to around 3,100 yen, but it gradually strengthened its upward trend and recovered to the 4,000 yen range by August.

We look forward to continued management that focused on stock price performance and the strengthening of ongoing shareholder returns

Dividend policy for the fiscal year ending March 2026: The total payout ratio, including share repurchase, is 61.7%

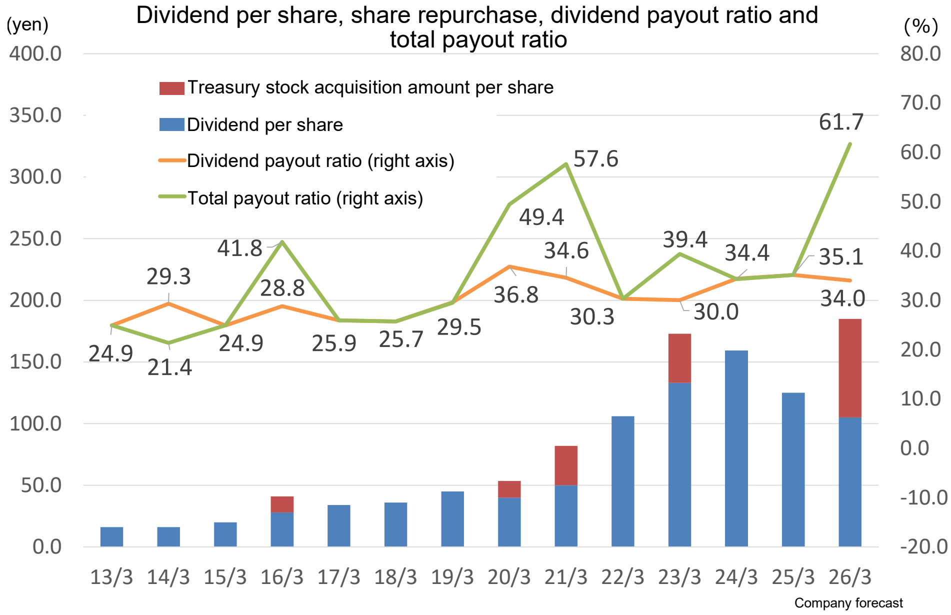
The annual dividend per share for the fiscal year ending March 2026 is expected to be 105 yen (50 yen at the 1H end and 55 yen at the fiscal year end), down 20 yen from the previous fiscal year, at the start of the period. Even so, the total payout ratio, taking into account the aforementioned 2 billion yen in share repurchase, is estimated at 61.7%. As shown in the figure, the forecast dividend per share, taking into account the acquisition of treasury stock, is expected to exceed that of the fiscal year ended March 2023 and set a new record high. The fiscal year ending March 2026 has shown steady progress in performance in the already announced 1Q results. The Company has increased its per-share dividend when its performance exceeded expectations since the fiscal year ended March 2021, and we will pay close attention to future performance trends.

Total shareholder return (TSR): This is expected to turn positive in the fiscal year ending March 2026

The total shareholder return (TSR) as of the end of the fiscal year ended March 2025 shows a positive performance of 106.4% for investors who purchased the Company's stock four years ago, outperforming the dividend-inclusive TOPIX (up 50.2%) and the dividend-inclusive machinery sector (up 46.2%). Unfortunately, the TSR over the past year, however, was down 45.9%, significantly underperforming the dividend-inclusive TOPIX (down 1.5%) and the dividend-inclusive machinery sector (down 4.3%). For the fiscal year ending March 2026, if the stock price maintains around 4,000 yen at the end of the period, the TSR over the most recent year is expected to be up 24%. However, in order to achieve a positive TSR for investors invested two years ago, a stock price level of about 6,150 yen is required. Starting in 2025, stock price was added as an evaluation metric for the Company's executive performance-based compensation. Going forward, we hope the Company will introduce a TSR, which places greater emphasis on stock price returns.

By the end of the fiscal year ending March 2026, the TSR for the past year is expected to turn positive

Figure 18: Dividend per share, including share repurchase, reaches record high



Source: Created by CGRA based on company materials

Financial Data

Figure 19: Consolidated balance sheet and cash flow statement

(Consolidated) (¥ mn, %)	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3	25/3
Current assets	**26,124**	**25,279**	**29,832**	**28,821**	**28,375**	**27,025**	**27,994**	**38,050**	**44,605**	**49,274**	**51,008**
Cash and deposits	13,929	12,451	14,060	13,153	12,912	12,196	11,918	21,165	22,458	17,895	21,883
Receivables	9,602	10,159	12,143	12,785	12,026	11,551	12,701	13,009	16,990	21,256	17,975
Marketable securities	0	0	112	0	0	0	0	0	0	0	0
Inventories	2,162	2,174	2,235	2,612	3,063	2,956	3,024	3,528	4,722	8,171	10,662
Other current assets	431	495	1,282	271	374	322	351	348	435	1,952	488
Fixed assets	**15,342**	**16,884**	**19,514**	**22,717**	**24,597**	**26,165**	**26,955**	**26,941**	**27,886**	**49,561**	**47,046**
Tangible fixed assets	11,510	13,901	15,493	18,107	20,266	21,971	20,669	20,272	21,124	34,384	34,147
Intangible fixed assets	75	94	107	105	173	251	246	222	242	4,782	5,075
Investments and other assets	3,757	2,889	3,914	4,505	4,158	3,942	6,038	6,446	6,520	10,394	7,824
Total assets	**41,466**	**42,164**	**49,347**	**51,933**	**52,972**	**53,190**	**54,949**	**64,991**	**72,492**	**98,835**	**98,055**
Current liabilities	**6,213**	**6,267**	**9,193**	**8,960**	**8,608**	**8,313**	**7,133**	**10,113**	**10,492**	**14,078**	**10,600**
Notes accounts payable - trade	3,239	3,185	3,948	3,137	2,985	2,869	3,006	3,728	3,467	3,028	3,621
Short-term borrowings	516	352	737	727	639	689	254	250	1,250	1,150	1,050
Other current liabilities	2,458	2,730	4,508	5,096	4,984	4,755	3,873	6,135	5,775	9,900	5,929
Long-term liabilities	**2,154**	**1,991**	**3,413**	**3,137**	**2,194**	**1,866**	**2,038**	**2,219**	**2,631**	**14,807**	**13,596**
Long-term borrowing	339	187	1,410	882	443	4	0	100	100	10,975	10,775
Other long term liabilities	1,815	1,804	2,003	2,255	1,751	1,862	2,038	2,119	2,531	3,832	2,821
Total liabilities	**8,367**	**8,259**	**12,607**	**12,098**	**10,802**	**10,180**	**9,172**	**12,333**	**13,124**	**28,886**	24,196
Total shareholders equity	31,162	32,745	35,166	37,657	40,587	41,791	43,502	49,739	55,927	63,516	68,370
Total accumulated other comprehensive income	1,937	1,159	1,573	2,176	1,581	1,218	2,273	2,919	3,441	6,432	5,488
Total net assets	33,099	33,905	36,740	39,834	42,169	43,010	45,776	52,658	59,368	69,949	73,858
Total liabilities and net assets	**41,466**	**42,164**	**49,347**	**51,933**	**52,972**	**53,190**	**54,949**	**64,991**	**72,492**	**98,835**	**98,055**

(¥ mn, %)	15/3	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3	25/3
Operating CF	**2,957**	**3,074**	**3,220**	**3,752**	**5,035**	**4,064**	**5,676**	**11,950**	**6,058**	**5,640**	**14,184**
Profit before income taxes	3,124	3,595	4,609	5,014	5,456	3,653	4,837	11,822	14,587	15,024	11,977
Depreciation	954	940	1,022	1,397	1,718	1,822	2,056	1,991	1,954	2,652	3,338
Trade receivables	-94	-564	-1,989	-635	1,072	455	-1,155	-117	-3,762	-2,592	3,810
Inventories	-337	-22	-71	-374	-346	101	-81	-538	-1,089	-2,367	-2,353
Trade payables	275	-48	759	-844	-496	-98	147	344	-551	-983	245
Income taxes	-1,365	-968	-1,359	-1,739	-1,923	-1,505	-719	-1,775	-4,729	-4,837	-4,155
Others	400	141	249	933	-446	-364	591	223	-352	-1,257	1,322
Cash Flows from investmet activities	**-1,378**	**-3,230**	**-2,363**	**-3,244**	**-3,902**	**-2,950**	**-3,705**	**-1,551**	**-573**	**-16,197**	**-6,807**
Purchase of securities	0	0	0	0	0	0	0	0	0	0	0
Purchase of investment securities	0	-14	-596	-74	-132	-134	-168	-376	-27	0	0
Proceeds from sales of investment securities	35	353	56	0	0	0	0	0	0	163	379
Purchase of property, plant and equipment and intangible assets	-1,298	-3,549	-1,822	-3,207	-4,107	-2,760	-3,163	-1,365	-2,482	-11,465	-7,038
Proceeds from sales of fixed assets	-125	0	0	0	614	18	0	0	0	96	0
Purchase of shares of subsidiaries	0	0	0	0	0	0	0	0	0	-5,143	0
Others	10	-20	0	37	-277	-74	-374	190	1,936	152	-148
FCF	**1,579**	**-156**	**857**	**508**	**1,133**	**1,114**	**1,971**	**10,399**	**5,485**	**-10,557**	**7,377**
Cash flows from financial activities	**-839**	**-1,145**	**813**	**-1,455**	**-1,493**	**-1,862**	**-2,238**	**-1,711**	**-2,790**	**5,323**	**-3,959**
Net increase(decrease) in long term borrowings	-375	-316	1,609	-537	-527	-439	-439	96	0	-825	-300
Net increase(decrease) in short term borrowings	0	0	0	0	0	50	0	0	1,000	-500	0
Divident paid	-444	-495	-781	-904	-952	-1,093	-958	-1,771	-2,715	-3,238	-3,564
Purchase of tresury shares	0	-319	0	0	0	-337	-800	0	0	0	0
Others	-20	-15	-15	-14	-14	-43	-41	-36	-1,075	9,886	-95
Cash and cash equivalents at the end of the period	**12,561**	**11,132**	**12,729**	**11,813**	**11,582**	**10,798**	**10,517**	**19,809**	**22,284**	**17,878**	**21,883**

Source: Created by CGRA based on company materials, etc.

Figure 20: Consolidated profit and loss statement

(Consolidated base) (¥ mn,%)	16/3	17/3	18/3	19/3	20/3	21/3	22/3	23/3	24/3	25/3	26/3COE
Sales	**22,960**	**27,225**	**29,461**	**30,963**	**29,213**	**30,200**	**40,670**	**48,702**	**58,605**	**57,988**	**57,500**
yoy	5.9	18.6	8.2	5.1	-5.7	3.4	34.7	19.7	20.33	-1.05	-0.8
Cost of goods sold	15,287	17,125	18,788	20,214	19,921	19,641	23,156	27,453	34,413	35,563	-
Cost of goods sold/Sales	66.6	62.9	63.8	65.3	68.2	65.0	56.9	56.4	58.7	61.3	-
SG&A	4,204	4,933	5,511	5,622	5,608	5,711	6,121	7,406	9,985	11,089	-
SG&A/Sales	18.3	18.1	18.7	18.2	19.2	18.9	15.1	15.2	17.0	19.1	-
Operating profits	**3,469**	**5,166**	**5,161**	**5,126**	**3,683**	**4,847**	**11,392**	**13,842**	**14,206**	**11,335**	**10,300**
yoy	7.5	48.9	-0.1	-0.7	-28.2	31.6	135.0	21.5	2.63	-20.21	-9.1
OP margin	15.1	19.0	17.5	16.6	12.6	16.0	28.0	28.42	24.24	19.55	17.9
Non-operating balance	25	90	-5	102	41	247	428	294	891	139	0
Non-operating profits	116	111	111	126	120	287	442	332	1,008	364	-
Non-operating losses	91	21	116	24	79	40	14	38	117	225	-
Recurring profits	**3,493**	**5,255**	**5,156**	**5,227**	**3,725**	**5,094**	**11,821**	**14,136**	**15,098**	**11,474**	**10,300**
yoy	1.3	50.4	-1.9	1.4	-28.7	36.8	132.1	19.6	6.8	-24.0	-10.2
RP margin	15.2	19.3	17.5	16.9	12.8	16.9	29.1	29.0	25.8	19.8	17.9
Extraordinary balance	102	-646	-142	229	-72	-257	1	450	-74	502	-
Extraordinary profits	207	30	0	602	27	58	3	631	226	619	-
Extraordinary losses	105	676	142	373	99	315	2	181	300	117	-
Pretax income	3,595	4,609	5,014	5,456	3,653	4,837	11,822	14,587	15,024	11,977	-
Taxes and deferred taxes	1,198	1,405	1,592	1,737	1,017	1,391	3,536	4,159	4,243	3,678	-
Tax ratio	33.3	30.5	31.8	31.8	27.8	28.8	29.9	28.5	28.2	30.7	-
Net profits	**2,397**	**3,204**	**3,422**	**3,719**	**2,635**	**3,445**	**8,285**	**10,428**	**10,780**	**8,299**	**7,200**
yoy	20.7	33.7	6.8	8.7	-29.1	30.7	140.5	25.9	3.4	-23.0	-13.2
NP margin	10.4	11.8	11.6	12.0	9.0	11.4	20.4	21.4	18.4	14.3	12.5
EPS	97.23	131.06	139.98	152.13	108.57	144.66	350.47	442.99	462.57	355.82	308.68
Segment sales											
Industrial equipment businss	10,352	10,680	10,467	10,757	10,915	9,471	10,146	11,844	18,093	18,917	20,700
Electronic equipment business	12,525	16,452	18,911	20,123	18,221	20,645	30,410	36,819	40,475	39,034	36,800
others	83	91	83	82	77	84	114	38	36	35	-
Consolidated sales	22,960	27,225	29,461	30,963	29,213	30,200	40,670	48,702	58,605	57,988	57,500
Segment profit											
Industrial equipment businss	1,527	1,828	1,337	1,485	1,403	691	1,589	2,059	2,928	2,501	3,000
Electronic equipment business	1,919	3,314	3,818	3,641	2,253	4,130	9,737	11,759	11,255	8,810	7,300
others	12	13	29	15	27	26	66	24	23	22	-
Eliminations	10	9	-23	-16	0	0	0	0	0	0	-
Consolidated operating profit	3,469	5,166	5,161	5,126	3,683	4,847	11,392	13,842	14,206	11,335	10,300
Segment profit margin											
Industrial equipment businss	14.8	17.1	12.8	13.8	12.9	7.3	15.7	17.4	16.2	13.2	14.5
Electronic equipment business	15.3	20.1	20.2	18.1	12.4	20.0	32.0	31.9	27.8	22.6	19.8
others	14.5	14.3	34.9	18.3	35.1	31.0	57.9	63.2	63.9	62.9	-
Consolidated operating profit	15.1	19.0	17.5	16.6	12.6	16.0	28.0	28.4	24.2	19.5	17.9
Regional sales											
Japan	19,156	22,416	23,124	23,904	21,427	21,975	28,254	33,537	41,538	40,762	-
Asia	2,565	3,172	4,528	4,345	5,316	5,721	7,411	8,225	10,197	10,869	-
Others	1,238	1,637	1,809	2,713	2,470	2,504	5,005	6,939	6,869	6,365	-
Consolidated sales	22,960	27,225	29,461	30,963	29,213	30,200	40,670	48,702	58,605	57,988	-
Overseas sales	3,803	4,809	6,337	7,058	7,786	8,225	12,416	15,165	17,067	17,225	-

Source: Created by CGRA based on company materials, etc.

Analysts Responsible for this Report

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Kuroda joined Kankaku Research Institute (now Mizuho Securities) in April 1992, assigned to the Industrial Research Department. He then would join Jardine Fleming Securities (now JP Morgan Securities) in September 1999, then Goldman Sachs. Until January 2020, he worked for Credit Suisse Securities. He served as Vice President at Goldman Sachs, and Director at Credit Suisse Securities. In his career, he has been in charge of the machinery, shipbuilding, and heavy machinery sectors. He joined CGRA as a partner in June 2020. Member of the Machinery Industry Disclosure Committee, The Securities Analysts Association of Japan

Hidehiko Hoshino, CMA, Representative Director and Chief Advisor

Hoshino joined Shinko Securities (currently Mizuho Securities) in April 1987, assigned to the Corporate Research Department. He then would join Jardine Fleming Securities (now JP Morgan Securities) in 1997, joining Deutsche Securities in 2000 and UBS Securities in 2006, where he would serve until April 2016. As a sell-side analyst, he has been in charge of the machinery, shipbuilding, heavy machinery, and plant sectors for 28 years. Has served for more than 10 years as Vice Chairman of the Machinery Industry Disclosure Committee, The Securities Analysts Association of Japan. He served as Managing Director from 2003 to 2016. In June 2017, Hoshino established Capital Goods Research & Advisory Co., Ltd. (CGRA), and was appointed as Representative Director. Certified Analyst, The Securities Analysts Association of Japan

Capital Goods Research & Advisory Co., Ltd.

An advisory company specializing in the machinery sector. CGRA's main businesses are (1) support for creating integrated reports offering feedback to management while satisfying the needs of capital markets, (2) advisory services for medium-term plan creation and business strategy, as well as various IR & SR areas, (3) preparation of various materials and English translation, and (4) drafting corporate analysis sponsored reports useful for long-term investors and management.