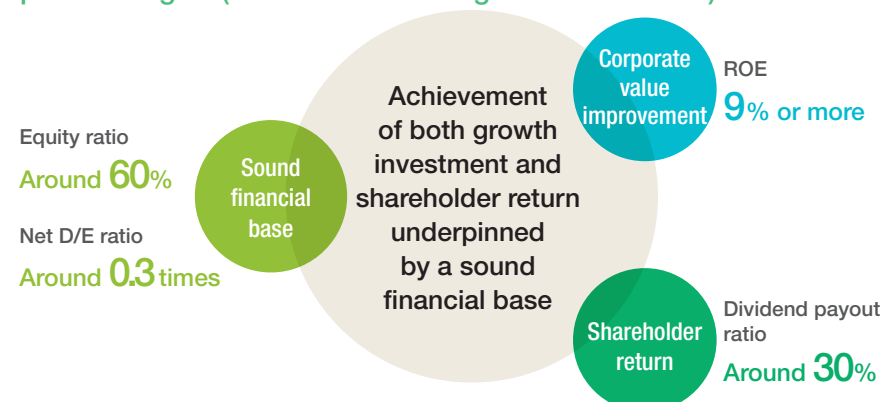


# Financial and Capital Strategies

## Basic policy on financial and capital strategies (Allocation of management resources)

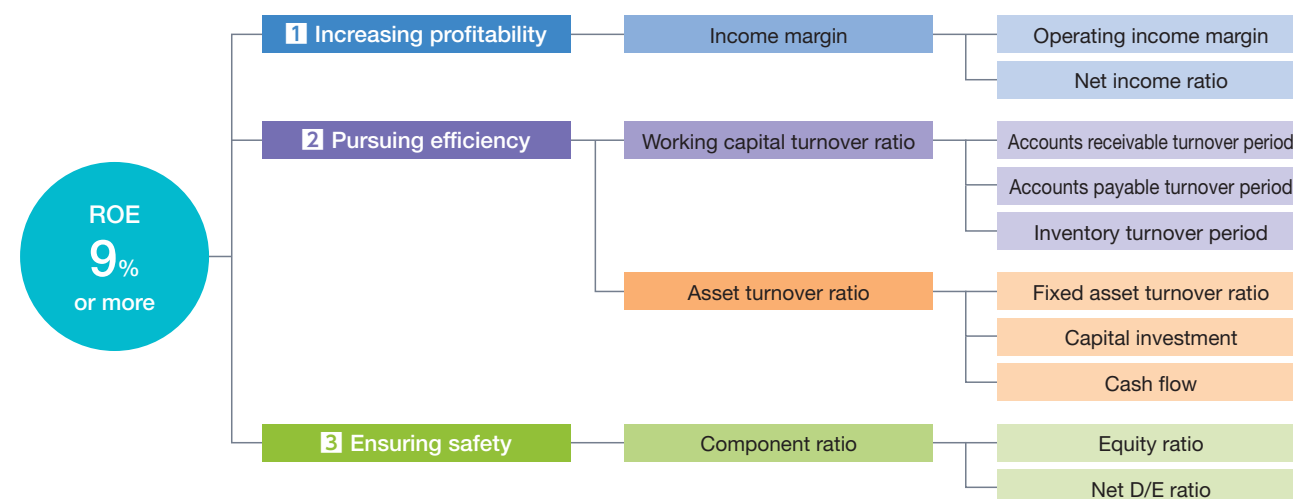
The CKD Group aims to improve corporate value through the achievement of both growth investment and shareholder return underpinned by a sound financial base.



## Improving corporate value

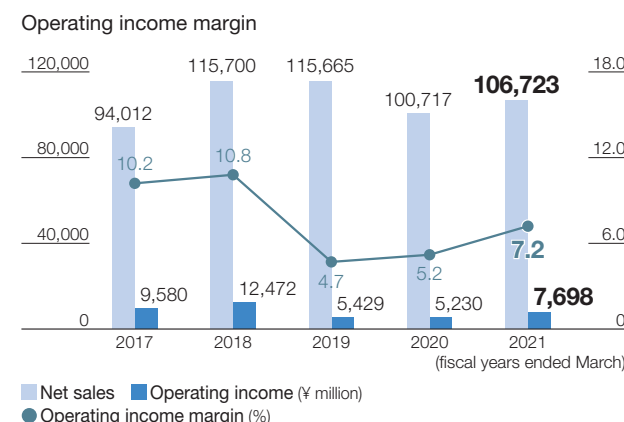
ROE	Target	Fiscal 2020	
	9% or more	5.9%	We will promote strategic investment to achieve the growth strategy in our 10-Year Vision and maintain a stable ROE of 9% or more.

To maintain a stable ROE of 9% or more, we will monitor and improve the three priority items: **1** Increasing profitability, **2** Pursuing efficiency, and **3** Ensuring safety.



## Expanding profitability

To expand profitability, we focus on the operating income margin as the most important success factor. As a manufacturer, we are making particular efforts to reduce manufacturing costs. We use our ERP software system to assign appropriate personnel and reduce manufacturing overhead according to production volume.

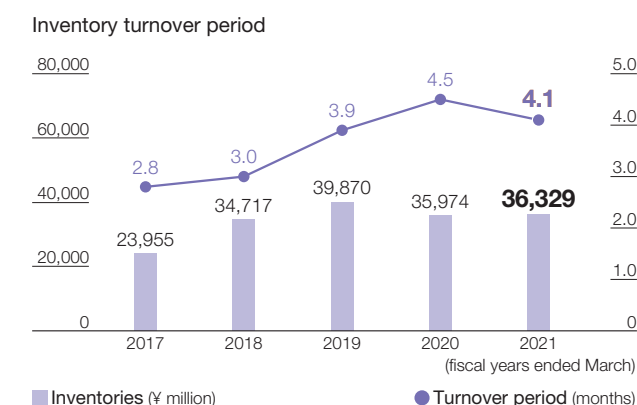


## Pursuing efficiency

### Inventory turnover period

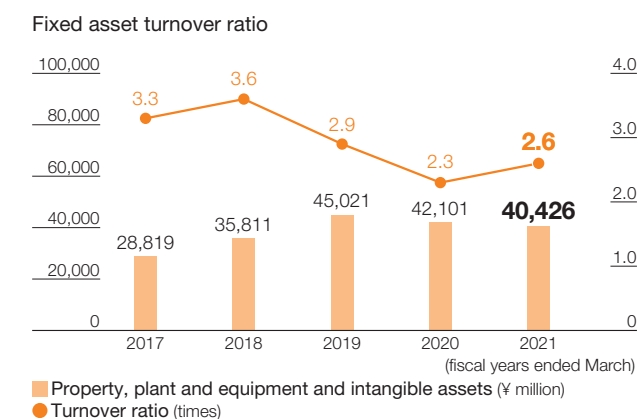
To respond quickly to customer needs, we systematically manage necessary inventories using our ERP software system. At the same time, we respond flexibly according to the volume of orders.

We focus on managing the appropriate amount of inventory and closely monitor its impact on cash flow (CF) from operating activities.



### Fixed asset turnover ratio

We will make efficient and effective use of existing assets, and implement capital investment necessary for the sustained growth of the Company to improve corporate value after considering the optimal financing methods.



## Ensuring safety

We will consider the cost of raising funds from shareholders' equity and interest-bearing debt to achieve an optimal balance of equity and debt in funding that takes into account the need to improve capital efficiency.

Equity ratio	Target	Fiscal 2020	
	Around 60%	63.8%	Since we are an equipment-related company influenced by economic conditions, we have set an equity ratio of around 60% or more as the standard for optimal financial leverage.
Net D/E ratio	Target	Fiscal 2020	
	About 0.3 times	-0.17 times	External borrowing is managed so that the net D/E ratio remains at around 0.3 times to enable financial soundness to be maintained while we work to diversify financing.

## Shareholder return

Dividend payout ratio	Target	Fiscal 2020	
	Around 30%	31.2%	The dividend payout ratio is set at around 30% to allow returns to shareholders after securing sufficient capital for growth investment.

Business Overview and Outlook

Automatic Machinery Business

Yoshiaki Kitahora  
Executive Officer  
General Manager, Automatic Machinery Business Division



**Strategy** We in the Automatic Machinery Business Division welcome change and endeavor to evolve automation technology along a multitude of avenues as an organization that continually offers automatic machinery that satisfies customers around the world. We have made this our 10-Year Vision through which we will differentiate ourselves from competitors. We incorporate the requirements and requests of each customer into our automatic machinery, whether it be equipment that packages pharmaceutical or food products with heat-processed film, 3D solder paste inspection systems that feature image inspection technology, or lithium-ion battery manufacturing machines that perform high-speed wrapping of multiple materials. We strive to satisfy customers by providing quality products that meet their needs for delivery and cost.

Report on fiscal 2020

In fiscal 2020, the industrial machinery field increased sales of lithium-ion battery manufacturing machines, but sales of 3D solder paste inspection systems decreased for both domestic and overseas markets. Although sales of food packaging machines increased, sales of pharmaceutical products packaging machines declined due to the impact of restrained capital investments in the Japanese market. The business division overall recorded net sales and segment income that were both below those of the previous fiscal year.

In the pharmaceutical product packaging field, we promoted activities to expand sales of machine models exclusively for the Chinese market jointly developed by Japan

and China. In the Japanese market, to respond to significant changes in the industrial structure due to the drastic reform of the NHI drug price system and other factors, we have been striving to materialize products and services that lead to productivity improvement and automation using ICT.

In the food packaging field, in addition to expanding sales of individual wrapping and disposable portion packs which are the trend in the market, we are promoting the development and offering of new products and packaging forms that contribute to solving social issues such as eliminating plastics and food loss.

Value provided through business	
Automatic packaging systems	These systems provide safe and secure products with equipment that packages pharmaceutical products (tablets, capsules), medical equipment, and food items.
Inline medical product inspection systems	These systems facilitate the safe and secure supply of pharmaceutical products with high-speed and highly accurate inspections for pill flaws, foreign particle contamination, torn sheets, and other problems.
3D solder paste inspection systems	These machines contribute to enabling quality guarantees and raising productivity in the printed circuit board mounting process through machines that inspect solder paste printing on printed circuit boards using image processing.
Lithium-ion battery manufacturing machines	These are systems that contribute to environmental efforts and the spread of eco-friendly vehicles with machines to manufacture lithium-ion batteries for electric vehicles (EVs), other automotive and lifeline infrastructure use.

In the industrial machinery field, the semiconductor and mobility markets recovered rapidly from a slowdown due to the COVID-19 pandemic. As a result, new products launched in the market in the previous fiscal year, such as 3D solder paste inspection systems, are performing well. In the

Japanese market, we benefited from demand for lithium-ion battery manufacturing machines triggered by the accelerated shift to EVs. We are strengthening cooperation with Chinese companies in China, which is the largest market for automotive batteries.

Future outlook and challenges

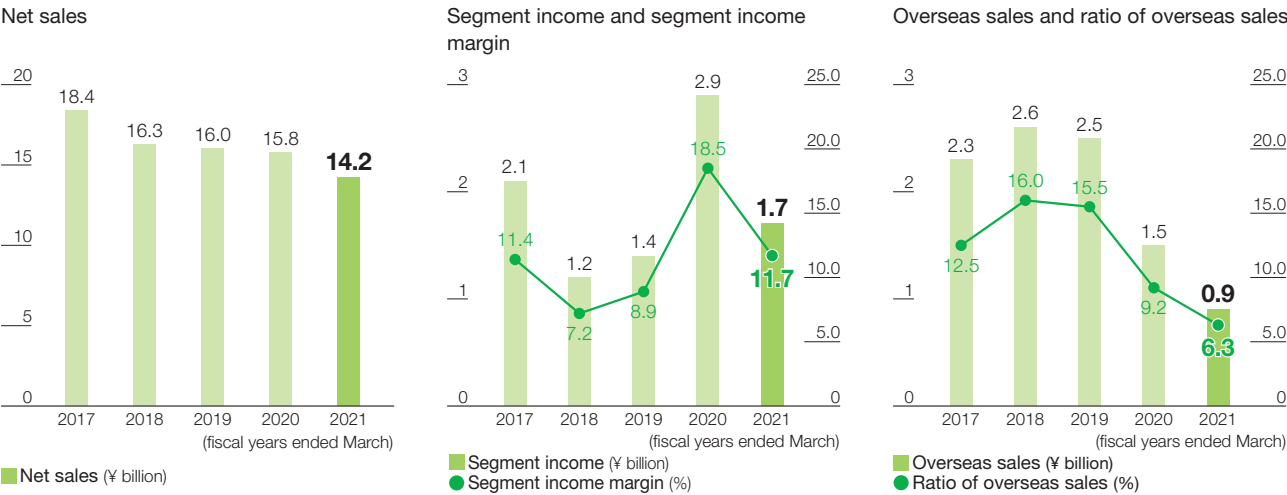
In the pharmaceutical packaging field, our mainstay business, we will further focus on our service businesses, particularly through CKD Field Engineering Corporation, to improve customer productivity in the Japanese market. Global development has been a challenge for us. We will expand sales not only in the Chinese market where we have introduced new models but also in the East Asian and ASEAN markets by strengthening our production and service systems and developing products that meet the needs of each market.

In the industrial machinery field, demand for 3D solder paste inspection systems in semiconductor and mobility markets is robust, rapidly recovering and expanding. To capture this opportunity, we need to strengthen our

procurement and production systems as well as introduce price-compatible machines to the East Asian and ASEAN markets. We will also work with food and packaging manufacturers to strengthen our measures against social issues such as eliminating plastics and food loss.

In the inspection machine field, which is a new business for us, we will expand sales of the transparent object inspection system, launched in March 2021, from the pharmaceutical market to various fields such as food and medical equipment.

We will develop our business by rapidly responding to market changes and customer requests by making the best use of our market-oriented organization that integrates sales and technology.



CLOSE

UP

Transparent object inspection system [IS-UVCL01]

Amid the growing need for more efficient and labor-saving manufacturing sites due to the decline in the working population, the market demands more consistent quality and improved productivity. To respond to the needs, we launched the IS-UVCL01, the industry's first automated inspection system for transparent object defects, for in-line inspection applications where the inspection process is incorporated into manufacturing equipment. This product has made it possible to automate inspection processes that was previously only possible with the naked eye.



Component Products Business

**Katsunori Hayashida**  
Director & Managing Executive Officer  
General Manager, Components Business Division



**Shinji Yuhara**  
Director & Executive Officer  
Deputy General Manager, Components Business Division



Organizational change

Effective on February 1, 2021, the Components Business Division and the Sales and Marketing Division were integrated into the new Components Business Division. The integration will strengthen the cooperation between the field and sales to enable more flexible sales activities.

**Strategy** In the component products segment, our target in the 10-Year Vision is to become a Total FA Worldwide Supplier. We are working to build a broad lineup of FA systems to meet diversifying customer demands that include high speed/high precision, small size/high definition, safety/high quality, and digitalization, and provide new value and creativity. To that end, we will tackle technological innovation, develop products and provide services that are differentiated, strengthen our global production foundation, and offer products to build a business structure that can meet the needs of customers worldwide.

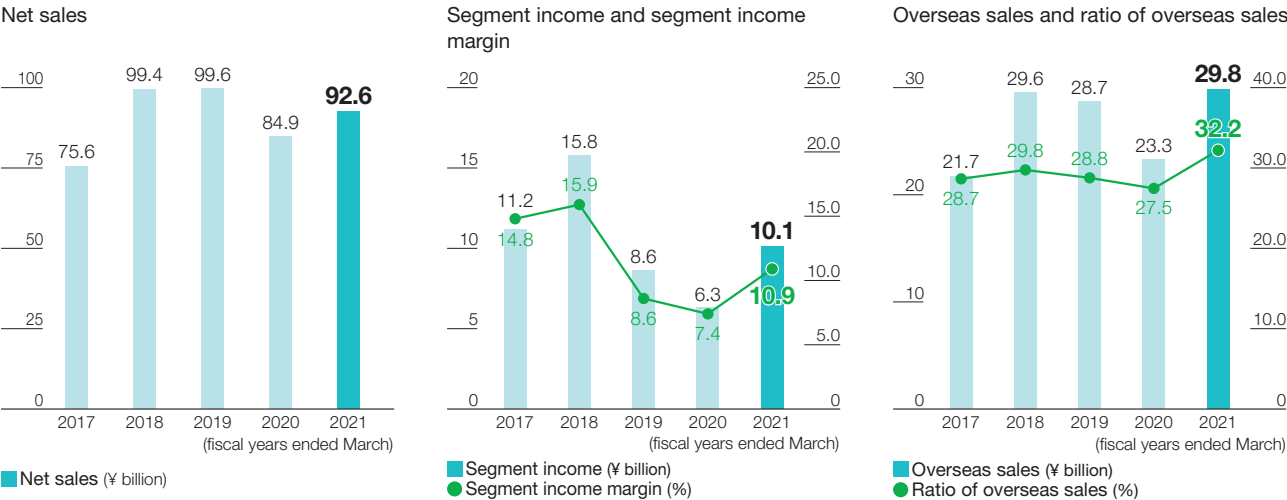
Report on fiscal 2020

Fiscal 2020 started under severe conditions, with sluggish market conditions in Japan and overseas due to the impact of COVID-19. In terms of sales, however, we are working on new modes of sales activities that respond to the new normal by promoting teleworking, providing product information online, and actively communicating with customers through digital transformation (DX) sales methods, such as webinars and virtual factory tours.

In production, we have developed the industry's top-notch clean acid cleansing process with reduced metal elution for the semiconductor industry, where further process shrink and

higher detergency are required. This process ensures cleanliness precision that no other companies can achieve through cleaning, assembly, and cleanliness control.

We are also building and operating smart factories that combine the latest automatic, unmanned operation technology and IoT, such as the introduction of automated assembly lines for small pneumatic valves (4E series) and the operation of multiple processing machines by autonomous guided vehicle (AGV) robots, to increase production efficiency and improve production capacity.



Value provided through business

Pneumatic control components	These devices control the refinement of airflow, pressure adjustments, the driving of a cylinder, and so on. We develop automatic systems and excellent connection responding to a broad range of industrial needs and offer pneumatic technologies considering environmental preservation and energy conservation.
Drive components Electric motion components	As pneumatic cylinders are easily automated, they are used in a wide range of industrial fields. We offer high precision and user-friendly electric actuators, and achieve automation in line with customer needs with control technologies that utilize air and electric motion.
Fluid control components	Using fluid control components, we have a broad range of products under the concept of high quality and wide variation, ranging from various types of valves, product series that meet the needs of medical and pharmaceutical along with food processing as well as environmental equipment such as water treatment systems.
Fine system components	We provide state-of-the-art process control with a broad range of products covering supply systems to exhaust systems of equipment to manufacture semiconductors and flat panel displays. We support the electronic device industry with our fine system components that can be used in clean environments.

In product development, in addition to developing products that meet customer needs, we are working to develop products that contribute to reducing society's environmental impact. The HP Series high durability components contributes to longer equipment maintenance intervals, reduced waste, and reduced production losses due to downtime. The NS Series nitrogen gas extraction unit enables

the long-term preservation of food, and together with the HP Series, won the Golden Award at the 2021 AICHI Environmental Award as products that contribute to reducing food loss, which has become a global issue. We will continue to develop low environmental load products that contribute to achieving the SDGs.

Future outlook and challenges

The COVID-19 pandemic has caused significant changes in social values and markets. In addition, corporate social responsibility is becoming even more important for the realization of carbon neutrality. On the other hand, with the spread of IoT and AI, the manufacturing industry is further accelerating its efforts to enhance product functionality as well as automation and labor saving.

We will continue to be attentive to the changing needs of the external environment and develop products that satisfy customers and impress them. We will also contribute to society by supplying low environmental load products.

Under the slogan of *becoming the company of choice by meeting customer needs*, the new organization will unite the sales and production divisions and domestic and overseas divisions to achieve the 10-Year Vision.

CLOSE  
UP

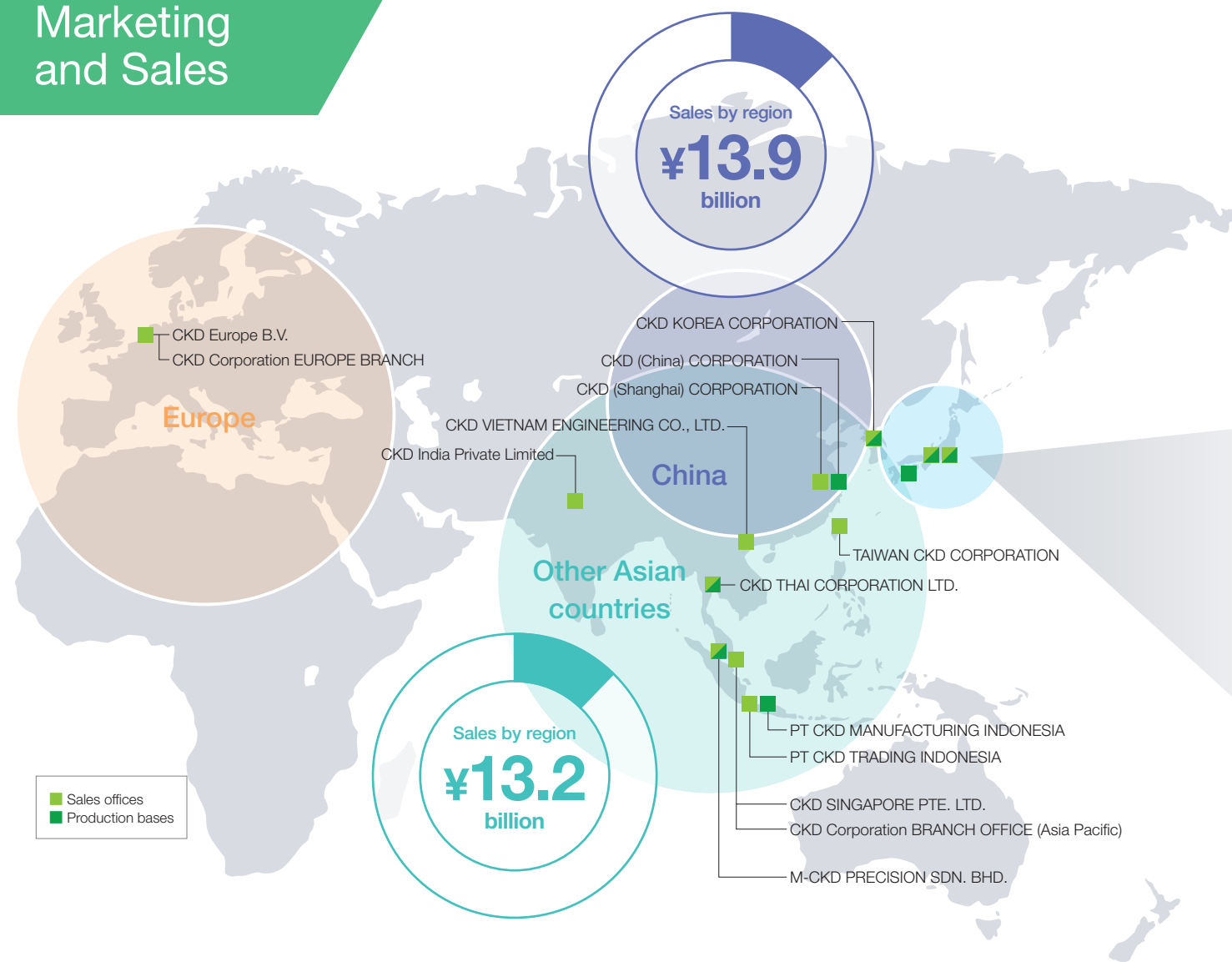
Grippers for collaborative robots [RLSH/RHLF/RCKL Series]

This is a component equipped with a pneumatic gripper and teaching software specifically designed for collaborative robots that can perform various tasks together with humans. It provides strong gripping force with a small amount of air and supports high-load manual labor. By offering it in a package that facilitates introduction to small-scale factories and manufacturing lines, we contribute to improving productivity at all sites.

The product received the Good Design Award 2020 (hosted by the Japan Institute of Design Promotion). Pursuing a focus on design and safety, we have incorporated features such as high human affinity with a 360-degree visible indicator and body cover that ensure the safety and security of workers and consistent ease of mounting, setting, and maintenance so that the components can be removed without tools.



## Marketing and Sales



### Automatic Machinery Business

We have reorganized the existing sales organization by region into a market-oriented organization that integrates sales and technology. As a result, we have established a sales system to respond quickly to the needs of each market for pharmaceutical packaging, food packaging, industrial machinery (3D solder paste inspection systems and lithium-ion battery manufacturing machines), inspection equipment, which is a new business, and the ICT segment.

In the pharmaceutical packaging segment, we will build a new business that not only provides machines and parts, but focuses on services mainly through our sales segment and CKD Field Engineering Corporation, to respond to significant changes in our customers' business environment.

In the food packaging segment, we strive to develop packaging forms and products that will lead to solutions to social issues, such as the elimination of plastics and food loss. We strengthen cooperation with customers, packaging material manufacturers, and peripheral equipment

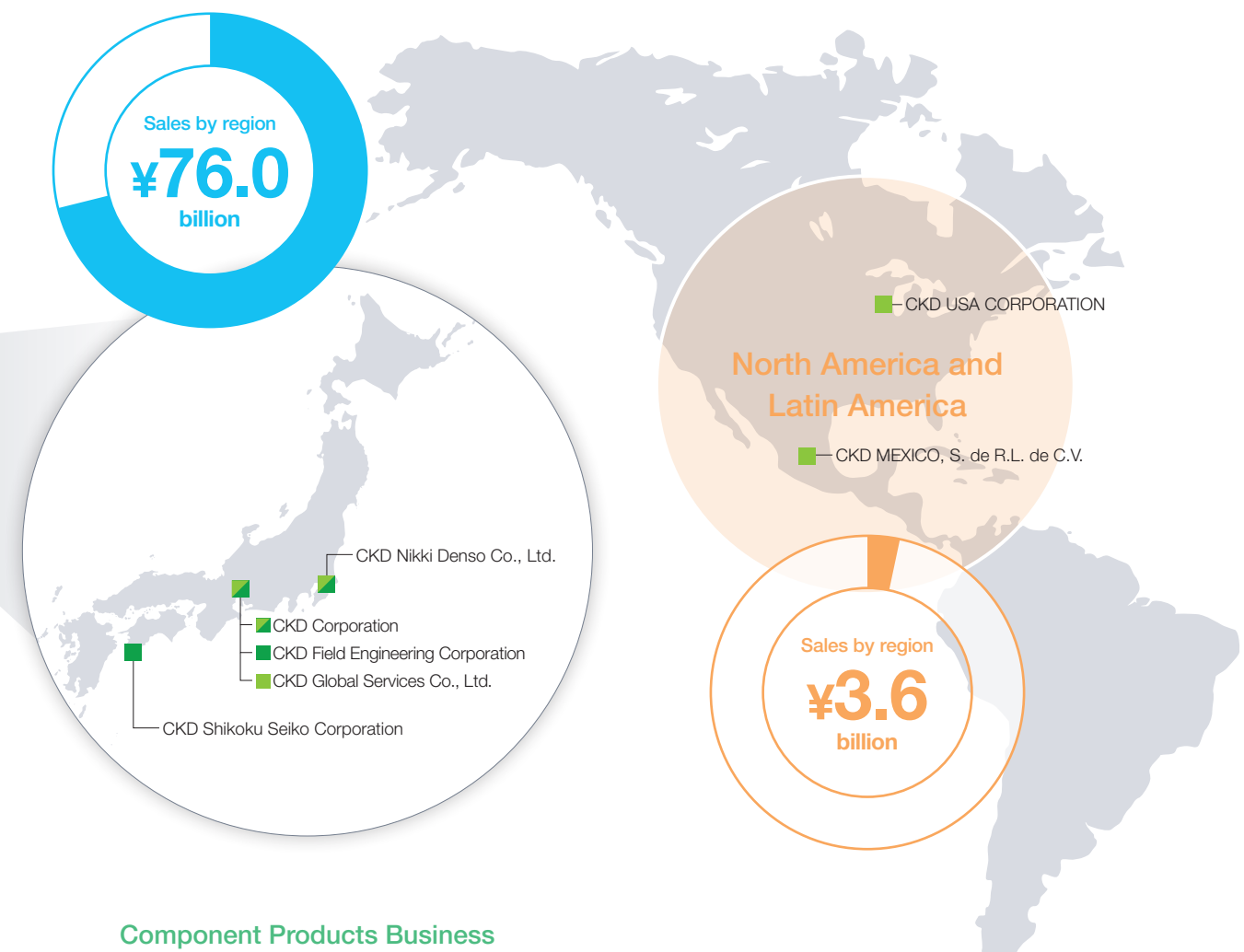
manufacturers to materialize them for planning and offering ahead of competitors.

For 3D solder paste inspection systems, we will offer the most suitable products by formulating sales strategies by region and segment, both in Japan and overseas, and capture the booming demand in the semiconductor, mobility, and other markets. For lithium-ion battery manufacturing machines, we will not only respond to demand from CASE, but also market pre-doping equipment through self-initiated sales activities that will lead to increased added value for batteries.

In the field of inspection machines, which is a new endeavor for us, we will pursue market development and further technological development so that our products will be adopted in a wide range of fields.

Sales and technology divisions will work in unison to listen to the voices of our customers to respond to their expectations by giving shape to market needs as an early bird.

Net sales **¥106.7 billion** **89 bases**



### Component Products Business

Our component product sales activities are conducted globally to become a Total FA Consultant that can offer customers a combination of various products. As a pioneer in fluid control and automation, we apply the wisdom and technology we have cultivated to products and offer optimal combinations of a wide range of products to become a manufacturer that satisfies customers.

We focus on markets where sustainable growth is expected and carry out strategic sales activities. In recent years, there has been an increase in the number of cases in which we provide sales and support across several countries, including in the automobile industry, and cooperation between offices in Japan and overseas is becoming more important. Amid the growing impact of COVID-19, we are actively promoting DX through close coordination both domestically and internationally. Our unique initiatives, including product briefings, webinars, and virtual factory tours, using digital technology, have been well received.

We have been focusing on developing overseas markets for many years. We have 89 bases in three regions: Asia, Europe, and North America and Latin America. In China, which has grown to be the largest market, the lithium-ion battery market is rapidly increasing due to the spread of EVs worldwide, in addition to the electronics manufacturing services (EMS) market. Furthermore, with the acceleration of China's policy of producing semiconductors domestically in recent years, our products, which support cutting-edge processes, are increasingly being adopted in the semiconductor market, driving our overseas business. Our performance is also growing in other regions, particularly in the semiconductor, mobility, medical, and food markets.

To achieve the targets set out in our long-term management policy, 10-Year Vision, we will continue to work together as a company to become a Total FA Worldwide Supplier.