

## President's Message

We will take advantage of automation technology to further accelerate efforts toward the new era, contributing to the automation of customers both in Japan and abroad.



*Kazunori Kajimoto*

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President

CKD formulated a long-term management vision called the “10-Year VISION” in 2016, and is now strengthening initiatives with an eye on 2025. As a pioneer in fluid control and automation, our aim is to become a Total FA Worldwide Supplier while achieving automation for our customers in Japan and overseas. As we head into a new era characterized by DX, post-pandemic changes, and other major shifts, we plan to accelerate our realization of 10-Year Vision and open up the future. At the same time, we will contribute to the creation of an affluent society, meet the expectations of our shareholders, and create happiness for our employees and their families. We will continue to grow as a “people-friendly company” and make efforts to contribute to society through our business, with the aim of achieving a sustainable society.

## Our Response to the COVID-19 Pandemic and Our Condolences to Anyone Affected by It

All of us at CKD would like to express our sympathies to those affected by the COVID-19 pandemic, their families, and all concerned parties, and to offer our deepest condolences to those who have lost someone in their lives. We also extend our heartfelt gratitude to everyone engaged in treatment and prevention of this infectious disease around the world, and to those cooperating with these efforts.

To overcome this adversity, CKD established a crisis management committee in April 2020 and is enforcing contagion prevention measures that include work from home, staggered working hours, and social distancing inside company facilities. To prevent coronavirus contagion, we are making every effort to continue our business and meet the many requests for cooperation we have received from customers engaged in the development and production of pharmaceuticals and medical devices. As we continue to place our highest priority on the safety and health of our customers, business partners, cooperating companies, global employees, their families, and other related parties, we will strive to maintain our production activities and carry out our social responsibility to support the automation of manufacturing.

Digitalization is moving forward under the COVID-19 pandemic, and the era of a new normal is expected to arrive. We will work hand-in-hand with our stakeholders to get through this drastically changing business environment.

## Fiscal 2019 Results

Our consolidated financial results for fiscal 2019 include net sales of ¥100.7 billion (down 12.9% year on year), operating income of ¥5.2 billion (down 23.0% year on year), ordinary income ratio of 5.2% (up 0.5 points year on year), and ROE of 4.5% (down 1.5 points year on year).

Harsh conditions continued from the beginning of fiscal 2019, against the slowing of the Chinese economy due to the US-China trade friction, postponement of semiconductor capital investment, and restrained investment due to drug price reductions. The second half of the year saw brighter signs as the electronic industry undertook capital investments aimed at the proliferation of next-generation communications. Coronavirus infections spread from around February 2020, however, affecting production and sales in China and constraining capital investment in countries including Thailand and Indonesia, primarily in the automobile industry.

In fiscal 2020, economic activity is making an early restart in China, with normalization of production activities progressing throughout the country's manufacturing industries. Capital investment in semiconductors has remained firm in Taiwan and South Korea. In Japan, a cautious stance continues toward automobile-related capital investments, but the proliferation of 5G combined with telework-related demand have resulted in the expansion of semiconductor capital investment. In addition, the effects of our company-wide productivity improvements and cost reduction activities have made contributions to enhancing our profitability.

## Looking back on past Medium-Term Management Plans

	First Medium-Term Management Plan Fiscal 2010–2012	Second Medium-Term Management Plan Fiscal 2013–2015	Third Medium-Term Management Plan Fiscal 2016–2018
<b>Title</b>	<b>NEW CKD 2012</b>	<b>GLOBAL CKD 2015</b>	<b>Challenge CKD 2018</b>
<b>Target numbers for the final fiscal year</b>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥85.0 billion</li> <li>Operating income ¥9.0 billion</li> <li>Ordinary income ratio: 10.6%</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥85.0 billion</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥100.0 billion</li> <li>Operating income: ¥10.0 billion</li> <li>Ordinary income ratio: 10.0%</li> </ul>
<b>Business performance in final fiscal year</b>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥65.0 billion</li> <li>Operating income: ¥3.2 billion</li> <li>Ordinary income ratio: 5.0%</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥85.1 billion</li> <li>Operating income: ¥8.0 billion</li> <li>Ordinary income ratio: 9.4%</li> </ul>	<ul style="list-style-type: none"> <li>Consolidated net sales: ¥115.7 billion</li> <li>Operating income: ¥5.4 billion</li> <li>Ordinary income ratio: 4.7%</li> </ul>
<b>Basic Policy</b>	<ul style="list-style-type: none"> <li>Improvement of overseas and domestic sites</li> <li>Continued strengthening of profit structure</li> <li>Strengthening of products for growth markets</li> <li>Development of new businesses based on fluid control and automation</li> </ul>	<ul style="list-style-type: none"> <li>Globalization of products, sales, and production</li> </ul>	<ul style="list-style-type: none"> <li>Evolve best-in-Japan products to be the best in the world</li> <li>Challenge new business activities and markets</li> <li>Strengthen our business foundations</li> </ul>
<b>Review</b>	<ul style="list-style-type: none"> <li>We focused on business expansion in growth markets and economic growth in China and other Asian emerging economies, and engaged in actions to expand business in overseas markets.</li> <li>In our overseas businesses, we increased our overseas sales bases to 56 bases in 12 countries, and expanded fiscal 2012 overseas sales to 1.7 times fiscal 2009 sales to ¥13.5 billion.</li> </ul>	<ul style="list-style-type: none"> <li>We worked to expand bases in Japan and overseas, with overseas production in 5 countries and 74 sales bases in 15 countries.</li> <li>We expanded fiscal 2015 overseas sales to 1.7 times fiscal 2012 sales to ¥23.2 billion.</li> </ul>	<ul style="list-style-type: none"> <li>Cumulative net sales for the three years from fiscal 2016 to fiscal 2018 were ¥325.4 billion, an increase of 34% from the results of the Second Medium-Term Management Plan.</li> <li>Three-year cumulative net sales of components increased 41% from the previous Medium-Term Management Plan. Sales of components for semiconductor manufacturing equipment increased significantly, partly due to support from the market.</li> <li>Three-year cumulative net sales of automatic machinery increased 6% from the previous Medium-Term Management Plan. Overseas sales increased 28%, making up for a decline in domestic medical product investment.</li> </ul>
<b>Results</b>	<p><b>Automatic machinery</b></p> <ul style="list-style-type: none"> <li>Expansion of sales of pharmaceutical product packaging machines</li> <li>Start of production of 3D solder paste printing inspection machines in China</li> <li>Establishment of a service company for pharmaceutical product packaging machines</li> </ul> <p><b>Component products</b></p> <ul style="list-style-type: none"> <li>Expansion of sales of medical-related products</li> <li>Transformation to a business unit structure</li> <li>Launch of products with optimal quality for the Chinese market</li> </ul> <p><b>Business foundations</b></p> <ul style="list-style-type: none"> <li>Introduction of overseas trainee system</li> <li>Introduction of lifetime employment program</li> <li>Expansion of systems at overseas bases</li> <li>Start of construction of a new plant in China</li> <li>Construction of the ERP software system (automatic machinery)</li> </ul>	<p><b>Automatic machinery</b></p> <ul style="list-style-type: none"> <li>Development of pharmaceutical product packaging machines for the Chinese market, and receipt of orders</li> <li>Roll-out of new-model food packaging machinery in domestic and Asian markets</li> <li>Strengthening of service and support structure</li> <li>Response to increased demand for 3D solder paste printing inspection machines for vehicle circuit board inspection, and launch of new-model high-precision machinery</li> </ul> <p><b>Component products</b></p> <ul style="list-style-type: none"> <li>Development of valves for medical analytical equipment</li> <li>Launch of 52 models in the FP Series for the food industry</li> <li>Development of products to support state-of-the-art miniaturization in the semiconductor industry</li> <li>Pneumatic valve model change-over</li> <li>Strengthening of commercialized pneumatic valve variations at the Chinese plant</li> <li>Progress in converting the Yokkaichi Plant into a mother plant for components</li> </ul> <p><b>Business foundations</b></p> <ul style="list-style-type: none"> <li>Completion of new plant in China</li> <li>Start of operation of production plant in Indonesia</li> <li>Completion of a new building for the assembly of pharmaceutical product packaging machines at the Komaki Plant</li> </ul>	<p><b>Automatic machinery</b></p> <ul style="list-style-type: none"> <li>Strengthening of the production and sales structure for pharmaceutical product packaging machines in China</li> <li>Launch of pharmaceutical packaging sheet inspection machines to support reduction of labor</li> <li>Development of monitoring system</li> <li>Start of preventive maintenance service</li> <li>Establishment of new forms of packaging such as V-Pack</li> <li>Expansion of sales of 3D solder paste printing inspection machines</li> </ul> <p><b>Component products</b></p> <ul style="list-style-type: none"> <li>Integration of business with CKD Nikki Denso Co., Ltd.</li> <li>Strengthening of electric motion products in collaboration with alliance partners</li> <li>Strengthening of network support for pneumatic valves</li> <li>Launch of IO-Link-equipped products</li> <li>Launch of products that help resolve social issues, including assistive devices, components for the food industry, and nitrogen gas extraction units</li> <li>Establishment of a technology development base in Silicon Valley, where cutting-edge industries are concentrated</li> </ul> <p><b>Business foundations</b></p> <ul style="list-style-type: none"> <li>Establishment of overseas subsidiaries in India and Europe</li> <li>Completion of Tohoku Plant and new production building in China</li> <li>Introduction of the new ERP software system (component products)</li> <li>Opening of a day-care center at the Head Office/Komaki Plant</li> </ul>
<b>Issues</b>	<p><b>Automatic machinery</b></p> <ul style="list-style-type: none"> <li>Construction of sales, production, and service infrastructure to improve profitability and develop overseas business</li> </ul> <p><b>Component products</b></p> <ul style="list-style-type: none"> <li>Further expansion of overseas sales, pursuit of emerging economy pricing, and strengthening of initiatives in growth markets</li> </ul>	<ul style="list-style-type: none"> <li>Construction of a system adapted to globalization</li> <li>Initiatives aimed at the US and Europe, where demand for components is high</li> <li>Strengthening of product development and new business development aimed at new growth markets</li> </ul>	<ul style="list-style-type: none"> <li>Expansion of the electric motion product business and new businesses</li> <li>Expansion of overseas sales</li> <li>Strengthening of global-oriented business foundations</li> <li>Human resource development</li> </ul>

## Long-Term Management Vision

10-Year Vision Title

**GO CKD**

Aspiration

**Total FA Worldwide Supplier**

**Contributing to  
an affluent  
society**

**Meeting the  
expectations of  
shareholders**

**Caring for  
employees and  
their families**

## Medium-Term Management Plan

**Build-up CKD 2021**

### Basic Policy

**Evolve products from being best in Japan to becoming globally recognized products**

**Challenge new business activities and markets**

**Strengthen our business foundations**

### Basic Requirement

**Human resource development**

## Looking Back on Past Medium-Term Management Plans

Although CKD achieved sales of ¥104.2 billion in fiscal 2006, a record at the time, the Company was hit sharply by the global financial crisis, resulting in a severe management environment in which fiscal 2009 sales halved from fiscal 2006 sales to ¥50 billion. At the time, the Company set management plans every term but did not formulate medium- to long-term management plans. We also faced issues of needing to undertake innovative initiatives and improvement of our corporate structure more dynamically and from a medium- to long-term perspective. At the same time, expectations for growth from the effects of policy measures and an upturn in the economic environment existed inside and outside the Company. Confirming that the decline in our business had halted, we deemed the time for action to be at hand and put forth our first Medium-Term Management Plan, called NEW CKD 2012, in April 2010. This plan did not reach its targets however, as Japan-China relations deteriorated over the Senkaku Islands dispute and economic activity stagnated. Our second and third Medium-Term Management Plans advanced globalization and our business foundations and steadily grew sales.

## Progress and Future Development of the Fourth Medium-Term Management Plan: Build-up CKD 2021

Build-up CKD 2021, our fourth Medium-Term Management Plan, was launched in April 2019 as a three-year period for strong growth and laying foundations for the future, to achieve the 10-Year Vision. We are engaged in the plan under three basic policies, with fiscal 2021 sales of ¥143.0 billion, operating income of ¥14.3 billion, and an ordinary income ratio of 10% as management targets. An explanation of our progress and future development of Build-up CKD 2021 follows, broken down by Basic Policy.

Basic Policy 1, “Evolve products from being best in Japan to becoming globally recognized products,” sets an aim of maintaining a high share in Japan and rolling out distinctive products in overseas markets to become No. 1 globally. In the automatic machinery business, we leveraged our China Plant to the fullest to achieve Japanese quality locally and launched the automatic pharmaceutical packaging machine FBP-300W for the Chinese market. In addition, our VP9000 3D solder paste inspection machine has been well-received in Europe and the United States for its design and operability, resulting in many orders since its launch in

June 2019. In the component products business, we increased production capacity through full operation of our automated, state-of-the-art Tohoku Plant. In North America, we made effective use of the CKD-USA Technical Center to strengthen relationships with new customers. In China, we began  $\tau$ DISC production at CKD Nikki Denso Co., Ltd. in a new production building, and organized a system to provide high-performance products demanded by the Chinese market in a timely manner. In the future, we will improve development functions and management capabilities in local markets and strengthen local responsiveness to accelerate globalization and further expand overseas net sales. Building optimal supply chain management and enhancing global competitiveness are also becoming vital issues. We recognize these as management challenges and will address them.

In our Basic Policy 2, “Challenge new business activities and markets,” we will take on a number of challenges aimed at the launch of new businesses and the opening of new markets. In the electric motion product business, we accelerated our growth strategy for the business by simultaneously launching five models of electric actuators and one model of a controller, by developing integrated products together with CKD Nikki Denso and by strengthening systems for cooperation between the sales departments of both companies. In pneumatic components, we released the HP Series of high durability components that contribute to the reduction of waste by increasing customers’ productivity and reducing the number of maintenance work. With strengths in developing and selling both electric motion products and pneumatic components, CKD will develop the best mix of proposals to meet the demands of our customers. In new businesses, we released Facilea, an easy-to-use visual programming tool that applies image processing technology cultivated over 20 years of automating inspection processes that require specialized knowledge. We also have added a new series to our popular PowerArm, offering environments for comfortable work to people around the world. We will also broaden our service business, centered on the automatic machinery business of CKD Field Engineering Corporation, and develop it into a foundation for the future.

In Basic Policy 3, “Strengthen our business foundations,” we are strengthening the foundations of our production and sales. In North America, we plan to launch operation at a production plant in the US state of Texas around the autumn of 2021. The purpose of the plant is to

strengthen our production system to meet growing demand in the fluid control components field. We are constructing a new production plant in India and forming alliances with local partners in Europe, moving ahead with preparations despite the COVID-19 pandemic. We can now also use our new ERP software system strategically to carry out activities that lead to improvements in productivity and profitability. Viewing the utilization of digital technology as critical in establishing a sustainable business foundation, we will achieve aggressive digitalization that offers proposals to customers and defensive digitalization that enhances productivity at our production sites. Moreover, we will strengthen our approach to corporate social responsibility through our environmental and business activities, so that we can become a highly sustainable company.

## Approach to Management Issues and Initiatives Aimed at ESG (Environment, Society, Governance)

CKD engages in activities that connect to the Sustainable Development Goals (SDGs), seeking the resolution of social issues and the development of society through our business. Toward that end, we will establish sustainable business foundations and co-create social contribution-oriented businesses and products with an eye toward the SDGs, to provide new corporate value to our stakeholders. With regard to the environment, we will strive to reduce energy usage in our infrastructure and production processes, and to develop and expand sales of low environmental load products. With regard to society, we will make employee engagement our most important issue and strengthen our human resource development to let diverse human resources maximize their abilities. With regard to governance, we will achieve sound and efficient management with enhanced transparency, so that we can remain a respected and trusted company.

All of CKD’s employees will work as one to resolve social issues and improve our corporate value. We ask all of our stakeholders for their continued support.