

CHINO CORPORATION

6850

Tokyo Stock Exchange First Section

27-Jan.-2022

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FISCO Ltd.

<https://www.fisco.co.jp>

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Summary

Increased sales and profits from expanded capital investment on a recovery in production activity in the automobile and electronic component sectors

Going forward, will actively accommodate increasing demand in growth areas like semiconductors and hydrogen applications and will strengthen its management base, so rising expectations for further performance growth

CHINO CORPORATION <6850> (hereinafter, also “the Company”) is a company that contributes to the development of various industries on the theme of temperature through measurement, control and monitoring. Through its 12 subsidiaries, the Company’s business is divided into three main segments: measurement and control instruments, instrumentation systems, and sensors. It is distinct for offering “loop solutions” consisting of measurement, control and monitoring, and in this regard the Company has no competitors, which is one of its strengths. Its top-ranking customers in terms of sales are in sectors such as electronic components, semiconductors, automobiles and aviation, but temperature is managed in industries like steel and metals, energy, medicine and pharmaceuticals, food products, and agriculture, so the Company’s temperature management solutions are used by customers in these industries as well. The Company is involved in the medical and pharmaceutical sectors, which require particularly strict temperature management, and its systems are used in the transport and storage of vaccines, blood and blood products. It is also involved in hydrogen-related projects for decarbonization, which is attracting international attention, and its product lineup includes fuel cell testing systems and water electrolysis (for manufacturing hydrogen) testing systems. It may be said that the Company’s involvement in such current areas of strong demand is another of its strengths.

1. Summary of 1H FY3/22 results

In 1H FY3/22, orders received increased by 13.0% year on year (YoY) to ¥11,712mn, primarily as a result of increased capital investment on a recovery in production activity in the automobile and electronic component sectors. Net sales increased by 4.3% to ¥9,711mn. Regarding profits, operating profit increased by 290.3% to ¥387mn. The increase was mainly attributable to increased net sales from a recovery in demand for measurement and control instruments and sensors and to improvement in the cost of sales ratio for instrumentation systems. Profit attributable to owners of parent was ¥249mn, a decrease of 53.4% YoY. This was the result of a reactive decline from the same period of the previous fiscal year when gain on bargain purchase of ¥557mn was recorded under extraordinary income in connection with making MEIYO ELECTRIC Co., Ltd. a consolidated subsidiary, so it can be said that the Company’s performance has been stable.

Looking at results by segment, in measurement and control instruments, overseas demand, primarily recorders, grew in Asia, particularly in China, and demand from major customers for controllers and thyristor regulators also recovered. The Company’s enhancements to its product lineups for thermo-hygrometers and loggers in support of HACCP-compliant food safety management was also fruitful.

Summary

2. FY3/22 results forecasts

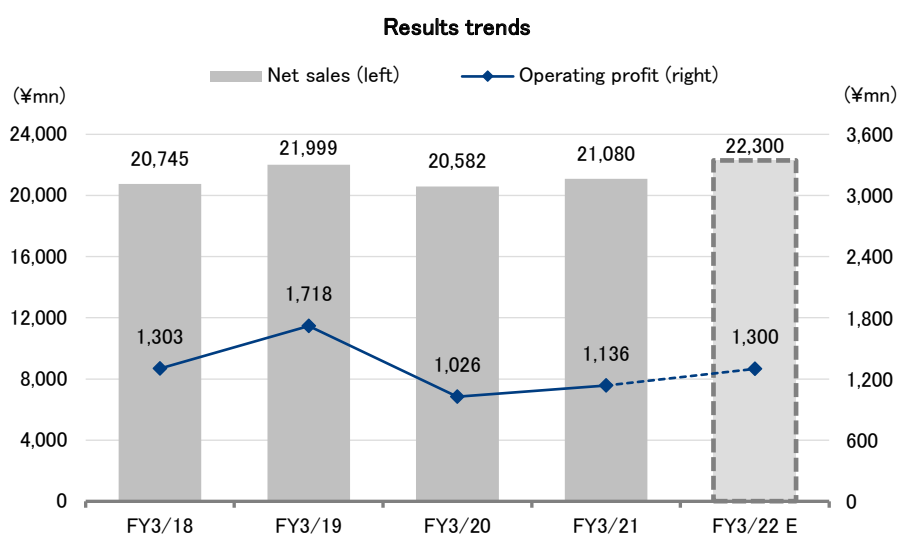
The Company's FY3/22 results forecasts are as follows. Net sales are forecast to increase by 5.8% YoY to ¥22,300mn; operating profit to increase 14.4% to ¥1,300mn; ordinary profit to increase 9.0% to ¥1,400mn, and profit attributable to owners of parent to decrease 34.1% to ¥850mn. EPS is expected to be ¥100.36. These forecasts were upwardly revised on November 10, 2021. While the outlook remains uncertain because of the global semiconductor shortage, surging raw material prices and other factors, as of the end of 1H FY3/22 net sales increased from a recovery in demand for measurement and control instruments and sensors and cost of sales ratio was improved in instrumentation systems. Research and development related to decarbonization and capital investment at operating facilities working to integrate IoT into their processes are also expected, which is the background to projections of steady demand in 3Q FY3/22 and beyond. Regarding the revised forecasts as well, FISCO believes it is highly likely the Company will achieve its targets, in light of its initiatives beginning in 3Q and the validity of its medium-term management plan.

3. Growth strategy, medium-term management plan, and their current status

The Company's medium-term management plan, covering the period to FY3/27 targets net sales of ¥30,000mn, operating profit of ¥2,700mn, ROE of 10%, and ROA of 8%. There is a rising expectation that these targets will be achieved because of the Company's initiatives from 3Q FY3/22, its active investment in growth areas like semiconductors and hydrogen applications, and its efforts to strengthen its management base.

Key Points

- Global expert in management of temperature over a wide range—from -270°C to 3,500°C or higher—using advanced measuring, control and monitoring technologies
- Increased sales and profits from increasing capital investment on a recovery in production activity in automobiles and electronic components and from growth in overseas demand for measurement and control equipment
- Rising expectations for further performance growth from active investment in growth areas like semiconductors and hydrogen and strengthening its management base



Source: Prepared by FISCO from the Company's financial results.

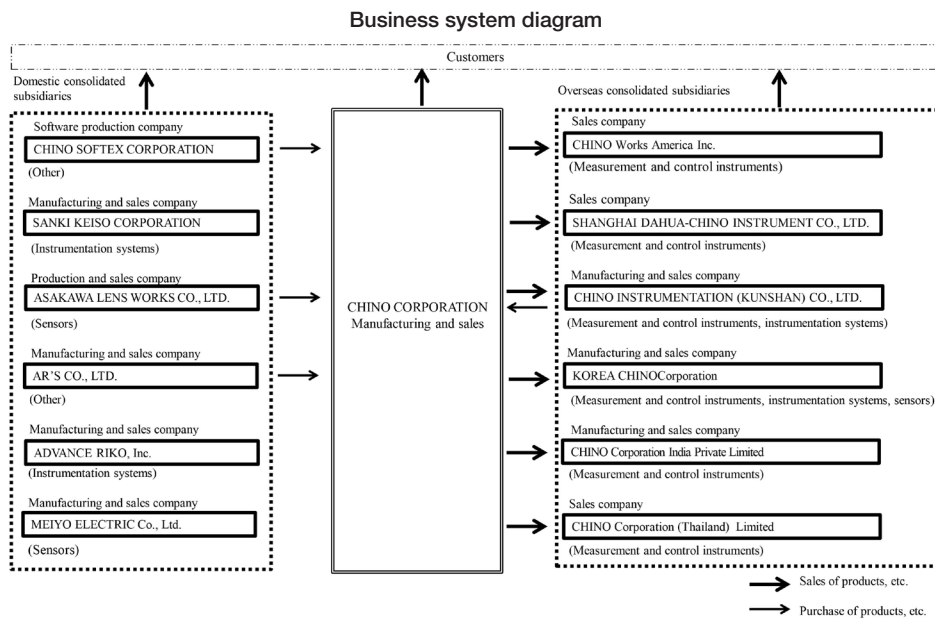
Company profile

Global expert in temperature management, for temperatures from -270°C to 3,500°C or higher, which is essential to the development of every industry

1. Company overview

The Company was founded by Kazuo Chino in Shitaya, Tokyo in 1913. It was incorporated as CHINO Works, Ltd. in 1936 and changed its name to CHINO CORPORATION in 1986 on the 50th anniversary of its establishment. Based on its corporate philosophy, “The Chino Group pushes the limits of measurement, control and monitoring technologies and contributes to industrial development and the realization of a brighter tomorrow,” the Company has contributed to the development of a range of industries through measurement, control and monitoring, primarily of temperature. The Company has established a three-part vision for its 90th anniversary in 2026. It consists of: “Collaborative Creation: Creating new value with stakeholders based on an understanding of changes in the environment,” “Uniqueness: Impressing customers with superior technology solutions,” and “Trust: Strengthening the ‘bond’ of trust to continue growing into the future through passion and teamwork.” Based on this vision, the Company is working to put the entire Chino Group on track for sustainable growth and to enhance its corporate value in the medium to long term.

Including its 12 subsidiaries, the Company’s business is primarily related to temperature and is divided into three segments, 1) measurement and control instruments, 2) instrumentation systems, and 3) sensors. By helping solve social issues through these products and services, contributing to local communities, and earning the trust of stakeholders through compliance, the Company is helping build a more sustainable society.



Source: From the Company's securities report

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<https://www.chino.co.jp/english/financial/>

Company profile

2. History

Based on its corporate philosophy, “The Chino Group pushes the limits of measurement, control and monitoring technologies and contributes to industrial development and the realization of a brighter tomorrow,” the Company has contributed since its establishment to the development of a range of industries through measurement, control and monitoring, primarily of temperature. It has actively developed its business not only in Japan but overseas as well, starting with the U.S. in 1983 and subsequently in China, India, Thailand and South Korea. Most recently, the Company has actively expanded its business in Japan, including by making MEIYO ELECTRIC Co., Ltd. a subsidiary.

History

Date	History
March 1913	CHINO Works established by Kazuo Chino in Shitaya, Tokyo for the manufacture and sale of laboratory instruments and electrical equipment
August 1936	CHINO Works made a stock corporation, its name changed to CHINO Works, Ltd., and its head office established in Itabashimachi (now Kumanochō), Itabashi Ward, Tokyo
April 1962	Listed on Second Section of the Tokyo Stock Exchange
May 1977	Manufacturing subsidiary Senko Corporation established (now CHINO SOFTEX CORPORATION, a consolidated subsidiary)
September 1979	Listed on First Section of the Tokyo Stock Exchange
January 1983	Sales subsidiary CHINO Works America Inc. established in Los Angeles, California, U.S. (now a consolidated subsidiary)
October 1986	Name changed from CHINO Works, Ltd. to CHINO CORPORATION
June 1989	Joint venture KOREA CHINO CORPORATION established in Uiwang, South Korea (now a consolidated subsidiary)
February 1992	YAMAGATA CHINO Corporation established
March 1993	Service subsidiary CHINO Service Corporation established
December 1993	Joint venture SHANGHAI DAHUA-CHINO INSTRUMENT CO., LTD. established (now a consolidated subsidiary) in Shanghai, China
July 1996	Joint venture CHINO-LAXSONS (India) Private Limited established in Daman, India (now CHINO Corporation India Private Limited, a consolidated subsidiary)
November 1998	Acquired 100% stake in SANKI KEISO Co., Ltd. and made it a subsidiary (now a consolidated subsidiary)
August 2003	Joint venture CHINO INSTRUMENTATION (KUNSHAN) CO., LTD. established in Kunshan, Jiangsu Province, China (now a consolidated subsidiary)
September 2006	Acquired 100% stakes in Tokyo Seiko Co., Ltd. and ASAKAWA LENS WORKS CO., LTD. and made them subsidiaries (the latter now a consolidated subsidiary)
January 2009	Acquired additional stake in CHINO-LAXSONS (India) Private Limited and made it a wholly owned subsidiary
February 2010	Acquired stake in AR'S CO., LTD. and made it a subsidiary (now a consolidated subsidiary)
October 2011	Absorbed consolidated subsidiary Tokyo Seiko Co., Ltd.
April 2012	Absorbed consolidated subsidiary Yamagata CHINO Corporation
October 2012	Sales subsidiary CHINO Corporation (Thailand) Limited established in Bangkok, Thailand (now a consolidated subsidiary)
December 2014	Acquired 100% stake in ADVANCE RIKO, Inc. and made it a subsidiary (now a consolidated subsidiary)
January 2015	Absorbed consolidated subsidiary CHINO SERVICE CORPORATION
July 2019	Acquired additional stake in MEIYO ELECTRIC Co., Ltd. and made it an equity-method affiliate
April 2020	Acquired an additional stake in MEIYO ELECTRIC Co., Ltd. and made it a subsidiary (now a consolidated subsidiary)

Source: Prepared by FISCO from the Company's securities report

The Company’s temperature loop solutions with measurement, control and monitoring are used across industries in need of absolute temperature accuracy; they are a major strength of the Company.

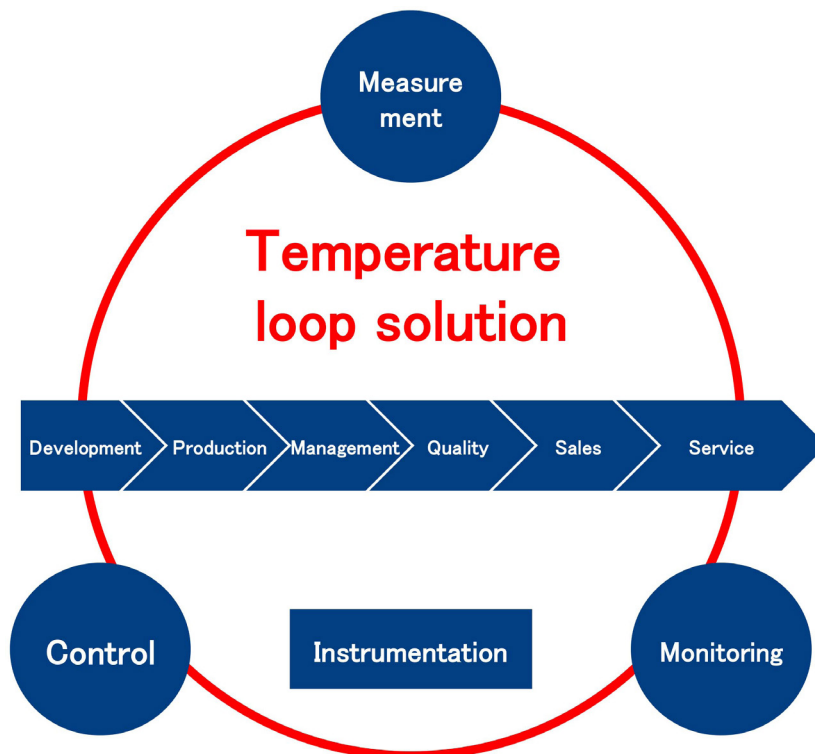
3. Business summary

(1) Temperature loop solutions

Temperature is an indicator that requires absolute accuracy in many industries, including steel, energy, aviation, automobiles, electronic components, semiconductors, medicine and pharmaceuticals, and agriculture. With regard to temperature management, the Company is a top company in its niche globally, being referred to as “Chino, the temperature company.” The Company’s advanced technical prowess is embodied in its temperature loop solutions, which are made possible by its high-level technologies in measurement, control and monitoring and the synergies among them. A temperature loop solution is an optimal set of proposals for all the temperature-related issues faced by a customer and is made by drawing on the Company’s resources in development, production, management, quality control, sales, and service. Temperature loop solutions provided at such high levels is the Company’s strength, and FISCO sees this as distinguishing it from other companies.

In other words, the Company’s business is such that it allows it to fully demonstrate this strength in many industries and sectors involved in temperature in some form, so the Company is expected to continue to enter various industries going forward. In connection with this, demand growth is projected in hydrogen-related applications, for example, and on this point, based on its analysis, FISCO believes high expectations are warranted for the Company’s future growth potential.

Diagram of temperature loop solution



Source: Prepared by FISCO from the Company’s published documents

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Company profile

The following discusses the elements (technologies) that make up a temperature loop solution.

1) Measurement

Temperature is measured by heat being conveyed from an object to a sensor. There are three ways heat is conveyed to a sensor: conduction, radiation, and convection. For example, when measuring body temperature, body heat is conveyed directly to the thermometer’s sensor by way of conduction. The sensor touches the heat directly, so heat is measured using a contact method. But when something very hot, like melted iron, or something out of reach is measured, a contact-type thermometer is unable to get near the object. In such cases, a non-contact thermometer is used that can measure the temperature without directly touching the object. The Company manufactures both contact-type temperature sensors that use conductive heat and non-contact radiation thermometers that use thermal radiation. A very wide range of temperatures can be measured, from -270°C to 3,500°C, which is a very high temperature. The Company is Japan’s top manufacturer of the radiation thermometers capable of this. Moreover, the Company provides thermometers that serve as the standard for all thermometers because of their use of standard platinum resistance thermometers based on the International Temperature Scale of 1990 (ITS-90) to ensure temperature is measured accurately. These thermometers are the Company’s measurement technology, and with its extensive lineup of measuring instruments, the Company meets the wide variety of potential customer needs related to temperature measurement.

Examples of measuring instruments: high-temperature thermocouple (left), solidpak thermocouple (right)



シース熱電対 SC
Sheathed Thermocouples for High Temperature, SC

Source: From the Company’s published documents

2) Control

The objective of control is maintaining a temperature that would otherwise change from moment to moment at an ideal value. An everyday example is how a gas flame is ignited when heating the water in a bathtub and then turned off when the water reaches the appropriate temperature. However, in winter, for example, when the outdoor air temperature is low, water that has been heated cools off immediately. In order to prevent hot water from cooling off, the temperature has to be adjusted while the situation is monitored—such adjustments are what is called “control.” In this case, the hot water temperature is first measured and then the flame is automatically increased or decreased if there is a difference with the ideal temperature in order to maintain the water at the ideal temperature. This is known as automatic temperature control.

With a bathtub, it is relatively easy to control the temperature, but it is under difficult conditions that outstanding control technologies like the Company’s demonstrate their strength. For example, take the case of an open-air bath. When the outdoor air temperature changes between day and night, when it is raining hard, or when one person is already in the bath and five other cold people enter it, in all sorts of conditions, the ideal water temperature must be constantly maintained. There are also cases requiring fine tuning. Many industrial products and pharmaceuticals are rendered unusable if a temperature difference of 0.1°C persists for several seconds during their production. For this issue, the Company provides ideal temperature control technologies for quickly and efficiently maintaining an ideal temperature in 0.1°C increments.

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Company profile

With control subject to such requirements, in order to achieve even more ideal control with an awareness of energy savings, the Company developed a technology that fulfilled the three requirements for control unaffected by the environment, smooth achievement of the set temperature, and increased thermal energy efficiency. That technology is “Z control,” and it uses *Symplocarpus renifolius*, a perennial plant in the Araceae family. This plant has the ability to convert nutrients stored from spring to summer into energy in early spring and maintain its temperature at 20°C. By integrating Z control into its control technologies, the Company improved their robustness with respect to energy savings and load fluctuations compared to conventional control methods. In addition, when temperature control is used in the manufacturing process for industrial products, the Company has succeeded in minimizing the impact caused by the temperature being raised too much or from changes in the surrounding environment and in shortening the time required to reach the ideal temperature. In this way, the Company provides assured control with advanced technologies and an extensive lineup of products for various applications.

DB Series Program Controllers/Setters using Z control
Graphic Program Controller/Setter DP-G Series (left)



デジタル指示調節計 DB600シリーズ
Digital Indicating Controllers, DB600 series

Source: From the Company's published documents

3) Monitoring

Monitoring is to keep watch and leave a record of that watch. For example, in the case of the production process for industrial products, in order to prevent non-conforming products, it is necessary to check that the temperature is being accurately maintained, to keep a record of the measured values, and to issue an alert if the temperature differs from the ideal. This keeping watch of the situation and leaving a record of it is what is known as monitoring. Through monitoring, if trouble occurs, it is possible to confirm with the recorded data whether there was a cause-and-effect relationship in it. Also, compiling records from several days to several years in the past can make it possible to get nearer to the ideal temperature while reducing errors in the future. The Company's monitoring technology is excellent in detecting errors as quickly as possible in temperature management for production processes, in which one small error has the potential to produce a very large one.

The Company provides devices and systems in line with customer requirements, from analog recorders that record on paper and are appropriate for scale monitoring to recorders for small-scale monitoring like paperless recorders that leave a digital record to large-scale monitoring systems that use a data logger and enable data to be monitored on a computer. The Company's monitoring systems for various temperature ranges make it possible to maintain a stable temperature environment.

Company profile

4) Calibration and maintenance

Along with the three areas discussed above, the Company also provides instrument calibration for ensuring the reliability of measured values. Its calibration technologies are assured through its registration with the Japan Calibration Service System (JCSS) for temperature and humidity. The Company leverages its many years of measurement expertise to provide reliable calibration of thermometers and hygrometers. In addition, it has a system by which it can provide maintenance services, so when troubleshooting or repairs become necessary, it can quickly respond, even to sudden incidents, through its network of maintenance sites in Japan and overseas.

4. Segment overview

The Company is divided into the following four segments based on the technologies discussed above and their respective devices and services.

(1) Measurement and control instruments

This segment handles instruments related to measurement, control and monitoring. Measurement and control instruments are manufactured and sold in Japan by the Company. Overseas, they are manufactured in-house, or purchased from the Company, and sold by CHINO Works America Inc. in the U.S., by SHANGHAI DAHUA-CHINO INSTRUMENT CO., LTD. in China, by CHINO Corporation (Thailand) Limited in Thailand, by KOREA CHINO CORPORATION in South Korea, and by CHINO Corporation India Private Limited in India, all of which are consolidated subsidiaries. Also, in China, CHINO INSTRUMENTATION (KUNSHAN) CO., LTD., a consolidated subsidiary, manufactures products in-house and sells them to the Company and SHANGHAI DAHUA-CHINO INSTRUMENT.

(2) Instrumentation systems

This segment handles devices related to instrumentation systems. Instrumentation systems are manufactured and sold in Japan by the Company and two of its consolidated subsidiaries, SANKI KEISO Co., Ltd. and ADVANCE RIKO, Inc. Overseas, they are manufactured and sold by KOREA CHINO CORPORATION in South Korea and CHINO INSTRUMENTATION (KUNSHAN) CO., LTD. in China.

(3) Sensors

This segment handles devices related to sensors. Sensors are manufactured and sold by the Company in Japan. In addition, ASAKAWA LENS WORKS CO., LTD., a consolidated subsidiary, manufactures optical components, sells optical components for sensors to the Company, and conducts direct sales. Also, MEIYO ELECTRIC Co., Ltd., a consolidated subsidiary, sells products that it manufactures itself. Overseas, KOREA CHINO CORPORATION sells products in South Korea that it has purchased from the Company.

(4) Other

The Company provides repair and maintenance services and sells supplies for measurement and control instruments, sensors and other products. Consolidated subsidiary CHINO SOFTEX CORPORATION produces software for the Company's products and sells it to the Company. Also, AR'S CO., LTD. provides contract development services using wireless technologies as well as consulting.

Results trends

Sales and profits increased YoY owing to increased capital investment in the automobile and electronic component sectors in Japan and growth in demand for measurement and control instruments overseas

1. Summary of 1H FY3/22 results

In 1H FY3/22, orders received increased by 13.0%YoY to ¥11,712mn, primarily as a result of increased capital investment on a recovery in production activity in the automobile and electronic component sectors. Net sales increased by 4.3% to ¥9,711mn. Regarding profits, operating profit increased by 290.3%, to ¥387mn. This increase was mainly attributable to increased net sales from a recovery in demand for measurement and control instruments and sensors and to improvement in the cost of sales ratio for instrumentation systems. Profit attributable to owners of parent was ¥249mn, a decrease of 53.4%. This was the result of a reactive decline from the same period of the previous fiscal year when gain on bargain purchase of ¥557mn was stated under extraordinary income in connection with making MEIYO ELECTRIC a consolidated subsidiary, so it can be said that the Company's performance has been stable.

1H FY3/22 consolidated results

	1H FY3/21		1H FY3/22		Change
	Results	% of sales	Results	% of sales	
Net sales	9,314	-	9,711	-	4.3%
Gross profit	2,625	28.2%	3,057	31.5%	16.5%
SG&A expenses	2,525	27.1%	2,669	27.5%	5.7%
Operating profit	99	1.1%	387	4.0%	290.3%
Ordinary profit	160	1.7%	522	5.4%	224.9%
Profit attributable to owners of parent	536	5.8%	249	2.6%	-53.4%
EPS (yen)	63.31	-	29.48	-	-

Source: Prepared by FISCO from the Company's financial results.

2. Main segment results

1) Measurement and control instruments

Net sales of measurement and control instruments were ¥3,725mn, an increase of 15.8% YoY, and segment profit (operating profit) totaled ¥411mn, an increase of 10.0%. In FY3/21, the segment was impacted substantially by customers suspending production activities and postponing capital investment due to the COVID-19 pandemic. However, in 1H FY3/22, overseas demand grew, primarily for recorders in Asia, China in particular, and demand from major customers for controllers and thyristor regulators recovered. In addition, the Company enhanced its product lineups for thermo-hygrometers and loggers in support of HACCP-compliant food safety management and conducted sales activities to acquire orders.

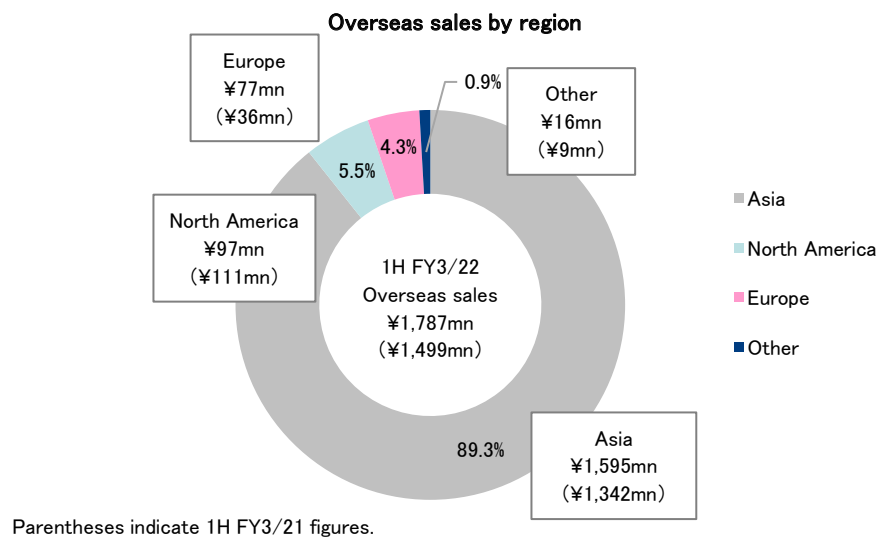
Results trends

2) Instrumentation systems

Nets sales of instrumentation systems were ¥2,499mn, a YoY decline of 5.0%. Segment profit (operating profit) was ¥149mn, an increase of 481.3% that was achieved through rigorous process and cost management for individual projects. Sales for manufacturing equipment applications related to electronic components, an area where demand has been recovering since 2H FY3/21, continued to be steady. With regard to decarbonization-related applications, demand increased for fuel cell testing systems for automotive applications and water electrolysis testing systems for research and development related to hydrogen energy use.

3) Sensors

Net sales of sensors were ¥3,107mn, an increase of 1.3% YoY, and segment profit (operating profit) was ¥572mn, an increase of 45.6%. In the sensor business, there was strong demand overseas for both radiation thermometers and temperature sensors used in semiconductor and electronic component manufacturing equipment, and domestic demand is expected to recover going forward. In addition, there was firm demand for radiation thermometers associated with steel-related facility upgrades and for temperature sensors for biomass applications.



Source: Prepared by FISCO from the Company's results briefing materials

The Company's financial position remains good, and there are no short-term financial concerns

3. Financial position and financial indicators

In 1H FY3/22, total assets declined by ¥292mn from the end of FY3/21 to ¥30,106mn. Current assets declined by ¥239mn to ¥20,059mn. The major changes were an increase in cash and deposits of ¥512mn, an increase in inventories of ¥556mn, and a decrease in trade receivables of ¥1,354mn. Non-current assets declined by ¥52mn to ¥10,047mn.

Total liabilities were ¥10,489mn, a decline of ¥406mn from the end of FY3/21. Current liabilities decreased ¥109mn to ¥7,165mn. The main factor was a decrease in income taxes payable of ¥59mn. Non-current liabilities decreased ¥297mn to ¥3,324mn. Net assets were ¥19,617mn, an increase of ¥114mn.

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Results trends

Regarding the main management indicators, the current ratio was 279.9%, increasing 0.9 percentage points from the end of FY3/21, so in FISCO's analysis, the Company has no short-term financial concerns. Also, its equity ratio increased by 0.7 percentage points from the end of FY3/21. From these indicators, it can be concluded that there are no particular problems with the Company's financial condition.

1H FY3/22 consolidated balance sheets and management indicators

	End-FY3/21	End-1H FY3/22	(¥mn)
			End-1H FY3/22 Change
Current assets	20,299	20,059	-239
(Cash and deposits)	6,991	7,504	512
Non-current assets	10,099	10,047	-52
Total assets	30,398	30,106	-292
Current liabilities	7,274	7,165	-109
Non-current liabilities	3,621	3,324	-297
Total liabilities	10,896	10,489	-406
Total net assets	19,502	19,617	114
Management indicators			
Equity ratio	54.7%	55.4%	0.7pt
Current ratio	279.0%	279.9%	0.9pt

Source: Prepared by FISCO from the Company's financial results

■ Outlook

Rising expectations for further performance growth and achievement of its medium-term management plan through actively meeting increasing demand in growth areas like semiconductors and hydrogen applications and strengthening its management base

1. FY3/22 outlook

The Company's FY3/22 results forecasts are as follows. Net sales are forecast to increase by 5.8% YoY to ¥22,300mn, operating profit to increase 14.4% to ¥1,300mn, ordinary profit to increase 9.0% to ¥1,400mn, and profit attributable to owners of parent to decrease 34.1% to ¥850mn. EPS is expected to be 100.36 yen. These forecasts were upwardly revised on November 10, 2021. While the outlook remains uncertain because of the global semiconductor shortage, surging raw material prices and other factors, as of the end of 1H FY3/22 the Company's net sales increased and its cost of sales ratio for instrumentation systems improved thanks to a recovery in demand for measurement and control instruments and sensors. Research and development related to decarbonization and capital investment at operating facilities working to integrate IoT into their processes are also expected, which is the background to projections of steady demand in 3Q FY3/22 and beyond. Regarding the revised forecasts as well, FISCO believes it is highly likely the Company's achieves its targets, in light of its future initiatives and the validity of its medium-term business plan.

Outlook

2. Summary of Medium-Term Management Plan 2026

The Company has created a plan that covers from FY3/22 to FY3/27. Under the plan, the entire Chino Group will work to build a sustainable growth trajectory and raise corporate value over the medium to long term. The business environment surrounding the Company is marked by accelerating VUCA, including increasing uncertainty in global politics and economics, innovations in digital technologies, global warming and the deepening problem of climate change, a declining birthrate and aging population in Japan, and increasing global population. Operating in this environment, the Company has established a three-part management vision for its 90th anniversary in 2026. It consists of: “Collaborative Creation: Creating new value with stakeholders based on an understanding of changes in the environment,” “Uniqueness: Impressing customers with superior technology solutions,” and “Trust: Strengthening the ‘bond’ of trust to continue growing into the future through passion and teamwork.”

Key goal indicators (KGI) of Medium-Term Management Plan 2026

	FY3/21	FY3/27	
		Goal	Change
			(¥mn)
Net sales	21,080	30,000	8,920
(Overseas sales)	3,518	7,000	3,482
Operating profit	1,136	2,700	1,564
Management indicators			
Operating profit margin	5.4%	9.0%	3.6pt
ROE	8.1%	10.0%	1.9pt
ROA	4.0%	8.0%	4.0pt

Note: ROA is calculated using operating profit as numerator

Source: Prepared by FISCO from the Company's published documents

3. Growth strategy

In order to achieve the key goal indicators (KGI) of its Medium-Term Management Plan 2026 discussed above, the Company has defined four basic strategies: 1) Further development and expansion of growth areas (generate group synergies and accelerate the development and provision of unique solutions for new growth areas); 2) Enhancement of core businesses and value creation (enhance core businesses through the integration of original technologies and services and create new value with customers); 3) Strengthening of foundations and expansion of business overseas (increase group earning potential by strengthening the relationship between domestic and overseas business and deploying regional strategies); 4) Establishment of resilient management base (enhance the resilience of human resources, organizations, ICT, governance and finances to support the creation of corporate value, innovation, and agile management). Based on these four strategies, the Company seeks to build a sustainable growth trajectory, raise medium- to long-term corporate value, and contribute to a decarbonized society.

(1) Further development and expansion of growth areas

This strategy involves capturing opportunities for growth and expansion against a backdrop of structural changes in energy demand, increasingly strict environmental regulations, breakthroughs in information and communications technologies, and increasing needs related to health and longevity. Specifically, the Company plans to generate group synergies and accelerate the development and provision of unique solutions for new growth areas such as hydrogen use for a sustainable society, semiconductors and electronic components, next-generation batteries, new materials, medicine, pharmaceuticals, food product management, and logistics.

Outlook

(2) Enhancement of core businesses and value creation

The Company will further leverage its temperature loop solutions consisting of measurement, control and monitoring by reinforcing its reputation for reliability as “Chino, the temperature company” and strengthening customer-oriented services for its original, distinctive technologies, which include temperature standard and measurement technologies, infrared measurement technologies, humidity and gas measurement technologies, loop solutions, and instrumentation systems. Through this, the Company wants to “engineer customer excitement” (maximize customer satisfaction) by bringing its services to the next stage.

(3) Strengthening of foundations and expansion of business overseas

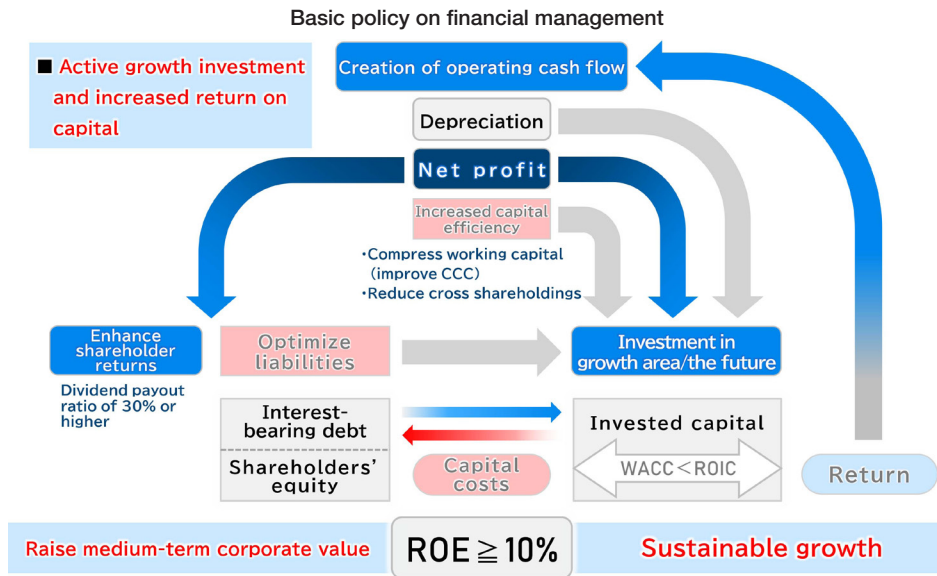
Against the backdrop of global economic stagnation during the COVID-19 pandemic, U.S.-China friction and nationalism, and growth in China, India and ASEAN countries, the Company intends to develop segment strategies differentiated by country and region, strengthen its systems and develop human resources, bolster its global infrastructure using ICT technologies, and further raise its presence in Asian markets in order to pioneer global niches through coordination between domestic and overseas business and between production, sales and development.

(4) Establishment of resilient management base

With regard to the establishment of a resilient management base, the Company believes that its management base must be highly flexible and durable to allow it to accurately identify and quickly respond to the needs and issues of society against a backdrop of fundamental changes in socioeconomic systems. Such changes include acceleration in declining birthrates and aging, diversification of value systems and work styles, the full-fledged arrival of the digital society, the rise of the multistakeholder approach, and the outbreak of COVID-19 and resulting global pandemic. Amid these conditions, the Company will work in line with its vision and business strategies to develop and enhance approaches, functions, and systems pivoting on the establishment of human resources management to raise engagement, ensuring flexibility and efficiency in business execution by promoting digital transformation (DX), further enhancing corporate governance, and carrying out a financial strategy with further emphasis on increasing capital efficiency. It will sensitively and flexibly adapt to VUCA by continuing to create new value while meeting the expectations of stakeholders and will boldly execute a management strategy based on creating shared value (CSV). Through this, the Company plans to establish resiliency in its human resources, organization, ICT, governance, and financial structure in support of corporate value creation, innovation and agile management.

Regarding its financial management policy, the Company strives to maintain financial health through the pursuit of an optimal capital structure, actively invest in growth with an awareness of investment efficiency, and maintain a stable dividend while targeting a payout ratio of 30% or more. By doing so, the Company will carry out a financial strategy that is based on financial soundness and emphasizes growth potential and capital efficiency.

Outlook



Source: From the Company's Medium-Term Management Plan 2026

CSR initiatives

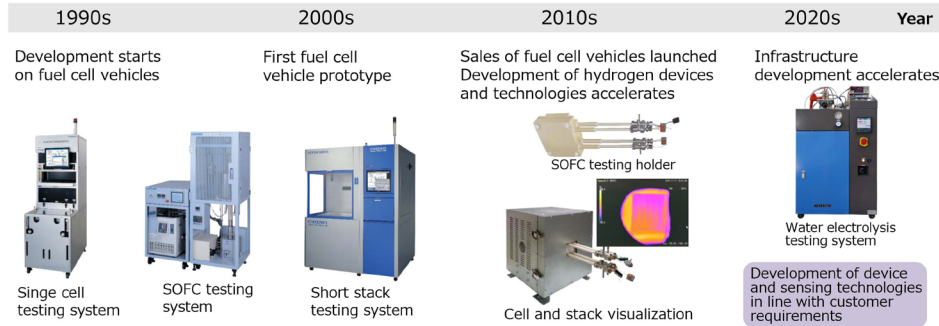
Helping build a hydrogen supply chain utilizing hydrogen energy to achieve a decarbonized society

Because hydrogen is a source of energy that does not give off greenhouse gases, hydrogen supply chains are currently being developed throughout the world. The Company's temperature loop solutions with measurement, control and monitoring also demonstrate their strength in hydrogen-related applications. The Company has supplied fuel cell testing systems for around 30 years since the 1990's, when fuel cell vehicles first started being developed, so it has an extensive track record. It is particularly proficient in fuel gas temperature and humidity control, which has a large impact on the generating properties of fuel cells, and it is capable of providing products with specifications that match customer requirements. Among the products provided by the Company is a sensing process control technology platform. This product has strength in four areas: 1) Process control technology for achieving high-precision control of temperature, humidity, pressure, flow rate, dew point, etc.; 2) Fuel cell testing expertise cultivated over many years and testing system construction technology; 3) Dedicated software technology for integrated control of measurement, control and monitoring; and 4) Sensing technology for a broad range of temperatures, from ultracold to ultrahot temperatures. Installations of the platform can be expected to increase going forward.

The Company is also involved in the development of measurement technologies related to hydrogen. Its MEMS hydrogen sensor jointly developed with Professor Mitsuteru Kimura of Tohoku Gakuin University looks to the future of the hydrogen society when the infrastructure is in place and it becomes a reality and is regarded as one means by which the Company, as "Chino, the sensor company," will help realize a safe, secure and comfortable society.

CSR initiatives

Chino initiatives for a hydrogen society



Source: From the Company's website

In addition, for its measurement, control and monitoring technologies to be utilized for the sake of the future, the Company actively carries out CSR initiatives with consideration for protection of the biological environment. Its projects include the Chino Biotope Forest, which maintains a biotope for the restoration of nature and healthy local woodlands in areas where nature is being lost; a solar power project involving the installation, management and operation of solar power facilities at the Company's Yamagata works in order to generate new business, and a plant cultivation testing house that utilizes measurement technology in agriculture to develop sensors and environmental control systems suited to greenhouse cultivation.

■ Policy on shareholder returns

The Company views shareholder returns as the most important policy of management and actively provides returns to investors, which includes starting a shareholder benefits program

The Company positions shareholder returns as the most important policy of management. It is the Company's basic policy to pay a dividend twice each fiscal year, an interim dividend and a year-end dividend, and with respect to execution of this policy, it determines the matter on each occasion upon consideration of its earnings situation and improvement of the payout ratio. It effectively utilizes internal reserves as investment capital for raising future corporate value, including for development activities, investment in new technologies and products, and new businesses. The Company has announced a policy of flexibly conducting share buybacks in order to raise per-share profit and return on equity.

The Company has made the decision to introduce shareholder benefits program to thank shareholders and to encourage medium- to long-term shareholding and increase the number of shareholders by further enhancing the appeal of investing in the Company's stock. To summarize the program, it applies to shareholders with at least three stock units (300 shares) as of the end of March 2022 (thereafter, as of the end of March each year) and rewards benefit points to shareholders based on the number of shares held. Shareholders can exchange the points for over 4,000 types of products, including food and electronic products, on the website Chino Premium Yutai Club.

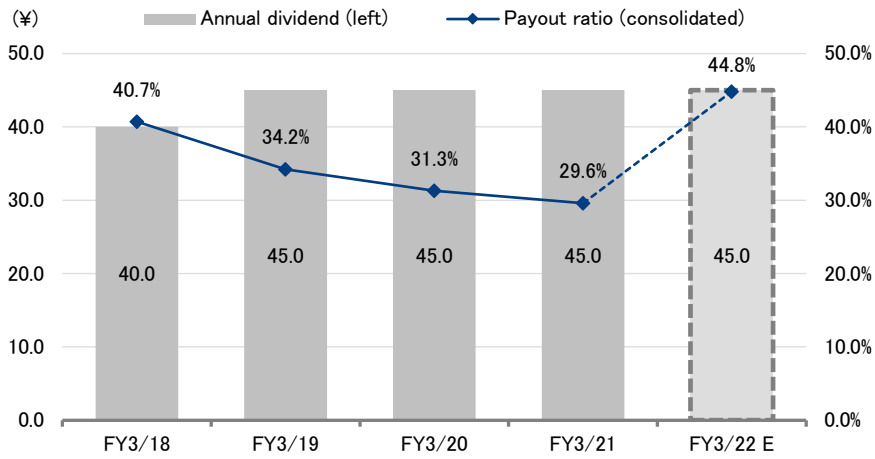
CHINO CORPORATION | 27-Jan.-2022

6850 Tokyo Stock Exchange First Section

<https://www.chino.co.jp/english/financial/>

Policy on shareholder returns

Dividends per share and payout ratio



Source: Prepared by FISCO from the Company's financial results.

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