COMPANY RESEARCH AND ANALYSIS REPORT

FUTABA INDUSTRIAL CO., LTD.

7241

Tokyo Stock Exchange Prime Market / Nagoya Stock Exchange Premier Market

18-Aug.-2025

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Summary

In FY3/25, both revenue and profits were down, but over these three years, the Company has improved its financial position and changed its dividend policy. Marking 80 years since its founding, the Company will pivot to growth investment under its new Medium-Term Management Plan starting in FY3/26

FUTABA INDUSTRIAL CO., LTD. <7241> (hereafter, also the "Company") is a leading company that manufactures and sells automotive parts, the largest manufacturer and seller of automotive mufflers in Japan and one of the top three in the world. Using advanced press and welding technologies, its main business is manufacturing and selling automobile and other vehicle parts, including body/interior parts, exhaust system/fuel system parts, and undercarriage parts. It also manufactures and sells large assembly welding equipment and agricultural equipment. Including Japan, it has 27 production sites in 8 countries, and although it is an affiliate of Toyota <7203>, it also has a number of domestic and overseas automakers as its customers in addition to the Toyota Group.

1. Overview of FY3/25 results

The Company's consolidated results for FY3/25 are as follows. Net sales*1 declined 11.1% YoY to ¥707.1bn, operating profit decreased 21.0% to ¥15.1bn, ordinary profit fell 28.2% to ¥13.2bn, and profit attributable to owners of parent declined 51.6% to ¥6.2bn, so both revenue and profits declined. Although initial forecasts were revised downward during the fiscal year as orders received declined due to a decrease in the number of automobiles produced by customers, net sales and operating profit exceeded the revised January forecasts by ¥7.1bn and ¥0.1bn respectively. At the same time, in non-operating income, the Company recorded foreign exchange losses of ¥1.8bn, which led ordinary profit to fall short of the forecast by ¥1.7bn. Regarding profit attributable to owners of parent, the Company recorded extraordinary income from the sale of cross-shareholdings, but business restructuring losses in the Tianjin area of China exceeded expectations, and due to this and other factors profit attributable to owners of parent fell short of forecasts by ¥0.7bn. Net sales declined by double-digits, but net sales excluding paid-in goods supplied by customers (excluding supplied goods) declined by just 1.6% to ¥442.2bn. By segment, decreased revenue in Japan, Europe, and China was partially offset by revenue increases in North America and Asia. In terms of profit and loss, increased material, labor, and administrative costs caused by inflation were absorbed by price adjustments and streamlining improvements, but lower profit from lower revenue could not be offset, and operating profit fell by double-digits. In extraordinary income, the Company recorded business restructuring loss of ¥2.6bn related to the decision to consolidate production sites in the Tianjin area of China and impairment losses of ¥2.5bn at sites in Guangzhou, China, but with financial strength remaining, it could be said that the Company took bold measures to address the trend of decreasing orders in the future caused by the shift to BEVs*2 in China and intensifying price competition.

*1 Net sales including paid-in goods supplied are recorded simply as "net sales" and net sales excluding paid-in goods supplied are listed as "net sales (excluding supplied goods)." Supplied goods are catalysts and other parts supplied by customers for a fee, and sales of products that contain supplied goods include the price of the supplied goods as it is, and there is no effect on profit.

*2 BEV stands for battery electric vehicle. Unlike hybrid vehicles, these vehicles do not use an engine and are powered solely by electricity. They are distinguished from HEVs, PHEVs and FCEVs.
HEV is a hybrid electric vehicle. They combine an internal combustion engine and electric motor (external charging is not possible).
PHEV is a plug-in hybrid electric vehicle. A hybrid vehicle for which external charging is possible.
FCEV is a fuel cell electric vehicle. A vehicle that uses hydrogen as its energy source.

2. FY3/26 forecasts

For its FY3/26 consolidated results, the Company is forecasting net sales to decline by 3.8% YoY to ¥680.0bn, operating profit to increase 5.4% to ¥16.0bn, ordinary profit to go up 20.5% to ¥16.0bn, and profit attributable to owners of parent to increase 93.3% to ¥12.0bn, so it is expecting higher profits on lower revenue. Net sales (excluding supplied goods) are expected to decrease 5.0% to ¥420.0bn, falling short of the previous fiscal year by ¥22.2bn. By segment, net sales (excluding supplied goods) in China are expected to underperform the previous fiscal year by ¥16.1bn, while Japan and Europe are also expected to decline slightly. As for profits, increases in material, labor, and administrative costs will be covered by appropriately adjusting prices, and, additionally, by streamlining and improving production, operating profit will improve from the previous fiscal year by ¥0.8bn and ordinary profit, by ¥2.7bn. The Company's global sites are increasingly producing locally for local consumption, and there are not so many exports from Japan to the U.S., so the impact of U.S. tariffs is marginal. However, the impact of tariffs on the import and export of parts and other products between the U.S. and Canada is difficult to predict, so this has not been incorporated into results forecasts.

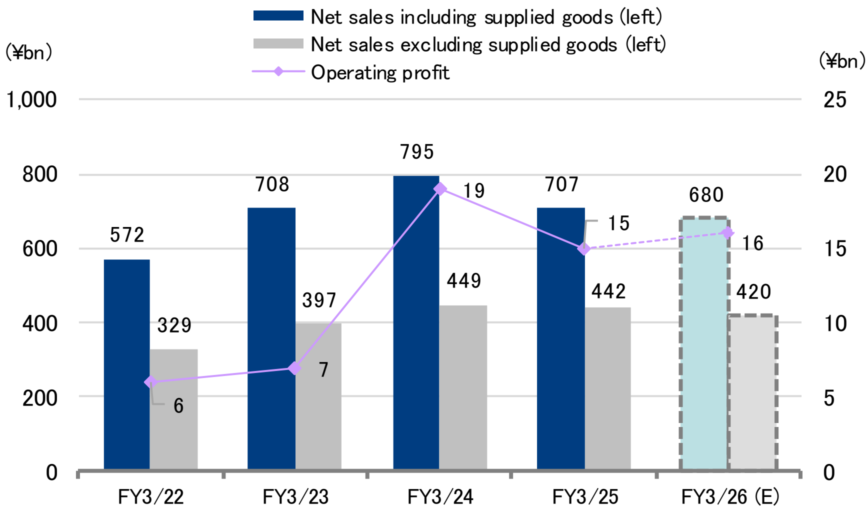
3. Overview of the new Medium-Term Management Plan (2025-2027)

The Company announced its new three-year Medium-Term Management Plan for the future in May 2025. In the three years of the previous Medium-Term Management Plan (2022-2024), the Company raised its operating margin, which had stagnated during the pandemic down to 1.9%, up to an average of 3.3% and generated free cash flow of ¥22.7bn on average. As a result, the Company paid back ¥41.4bn in interest-bearing debt during the three years and raised its equity ratio by 10.3 percentage points (pp) over the three years to achieve financial soundness. In the new Medium-Term Management Plan, it set targets of ROE of 10.0% or higher and an operating margin of 5.0% (FY2027) to quickly achieve a PBR of 1 time. To this end, the Company plans to further raise profitability by streamlining production and taking other measures and to allocate the cash flow it generates to the growth of the existing auto parts business, which is positioned as a growth strategy, the commercialization of new business, growth investment that contributes to the growth of the Indian business, and shareholder returns. Regarding shareholder returns, the Company changed its dividend policy as of FY3/25 to a progressive dividend with a minimum dividend on equity ratio (DOE) of 3.5% based on the maintenance of a stable dividend. The annual per-share dividend in FY2024 was ¥38.0, an ordinary dividend of ¥35.0, the same as the previous fiscal year, plus a ¥3.0 dividend commemorating the 80th year of the Company's founding in November 2025, and in FY2025, the Company plans to raise the dividend by ¥2.0 for an ordinary dividend of ¥40.0.

Key Points

- In FY3/25, lower revenues and profits due to the impact of a decline in automobile production volume at customers in Japan, China, and elsewhere
- In FY3/26, lower revenue is expected due to the slump in China, but higher profits are projected as a result of production streamlining
- The Company has few trade transactions, and the impact of U.S tariffs will be minor and limited and are not incorporated into full-year forecasts
- Under the new Medium-Term Management Plan (2025-2027), the Company will strengthen profitability and allocate cash flow to existing and new businesses, growth investment in strategic areas, such as the growth of the Indian business, and shareholder returns

Results trends



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

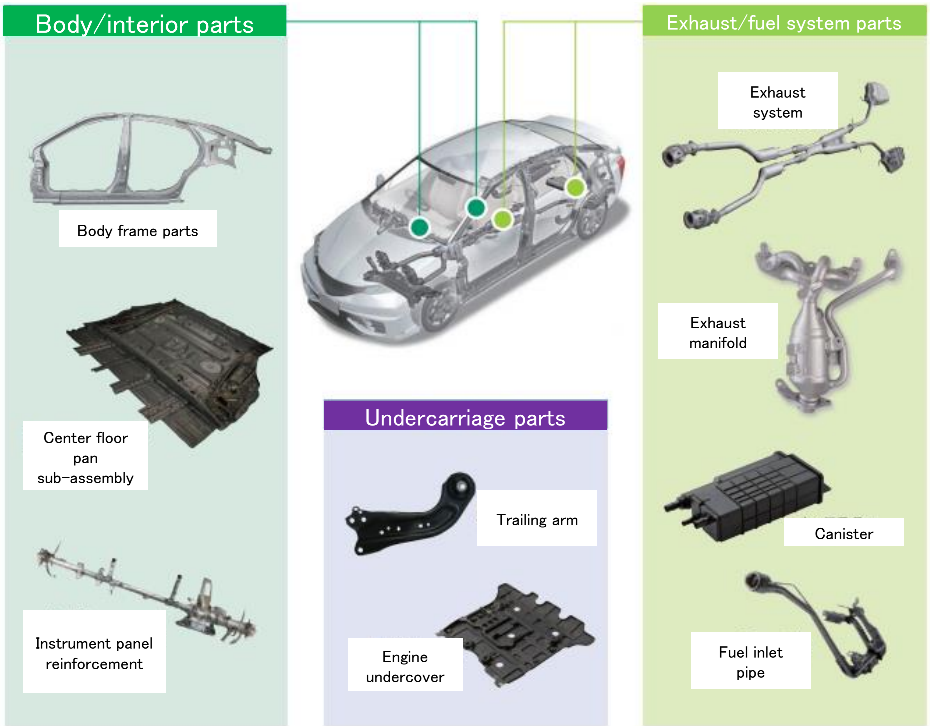
Company profile

A leading manufacturer and distributor of automotive and other vehicle parts with global operations. The leader in automotive mufflers in Japan and among the top 3 in the world

1. Company profile

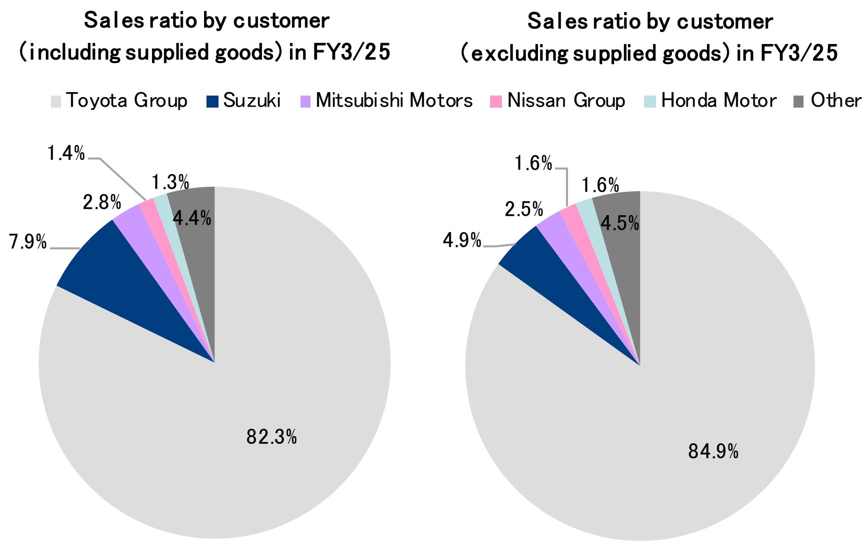
The Company is one of Japan's leading major manufacturers of automotive parts. It has the top market share of automotive mufflers in Japan and is among the top 3 in overseas markets. The Company and its affiliates make up a Group with four companies in Japan and 18 overseas (4 in the U.S., 1 in Canada, 1 in the U.K., 1 in the Czech Republic, 6 in China, 1 in Taiwan, 2 in India, and 2 in Indonesia). It carries out global operations with 12 sites in Japan and 15 sites in 7 countries. Over 90% of its net sales comes from the automotive parts business, which manufactures and sells parts for automobiles and other vehicles, and utilizing leveraging its metal forming and welding technologies, the core of the Company's technology, the Company manufactures and sells body/interior parts and exhaust system parts such as mufflers and exhaust manifold. In addition, the Company designs and manufactures large equipment for assembling and welding body frames and delivers them to complete vehicle manufacturers in the outside sales equipment business, and manufactures and sells CO_2 storage and supply equipment for greenhouse cultivation in the agricultural business, which together account for less than 10% of net sales.

Business overview



Source: Notice of Convocation of the 111th Ordinary General Meeting of Shareholders

The Company is an affiliate of Toyota, which owns 31% of its shares, and sales to the Toyota Group account for over 80% of net sales, but in addition to the Toyota Group, the Company has many domestic and overseas automakers as customers. At the same time, having the Toyota Group as a major customer is also a strength. During the pandemic, with automakers seeing declining sales volumes due in part to the shortage of semiconductors caused by production stoppages at overseas plants and logistics disruptions, Toyota's margin of decline was less than that of other companies, and although sales declined in 2020, sales volume was tops in the world, and in 2021 and 2022, as Toyota was able to exceed the previous year's results, the Company's sales also declined by 2.0% YoY in FY3/21, but rapidly recovered, growing 22.6% in FY3/22.

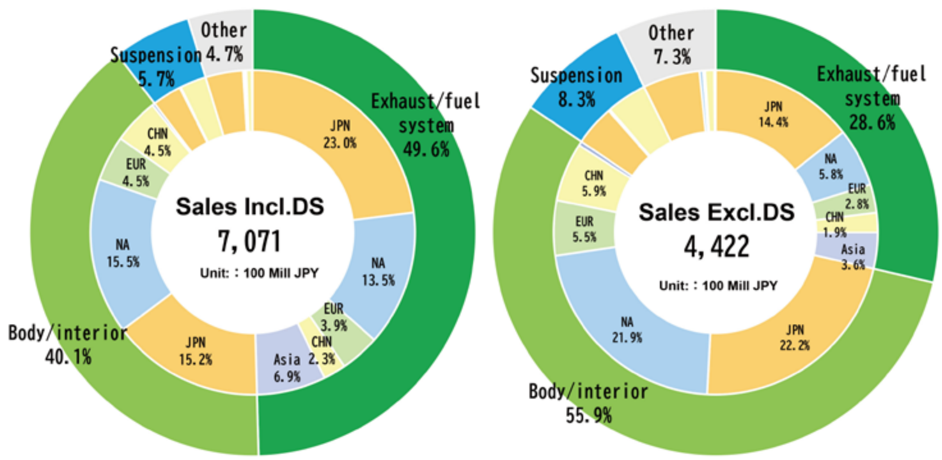


Source: Prepared by FISCO from the Company's financial results

In terms of sales share by product in FY3/25, exhaust/fuel system parts accounted for 49.6% of net sales, body/interior parts, for 40.1%, undercarriage parts, for 5.7%, and other products (outside sales equipment, agricultural products), for 4.7%. This is the share of net sales that includes in the selling price the amount of catalysts and other supplies provided by customers for a fee and used inside mufflers. In net sales excluding this amount of supplied goods (excluding supplied goods), the share of exhaust/fuel system parts goes down to 28.6% while the share of body/interior parts rises to 55.9%, undercarriage to 8.3% and other to 7.3%.

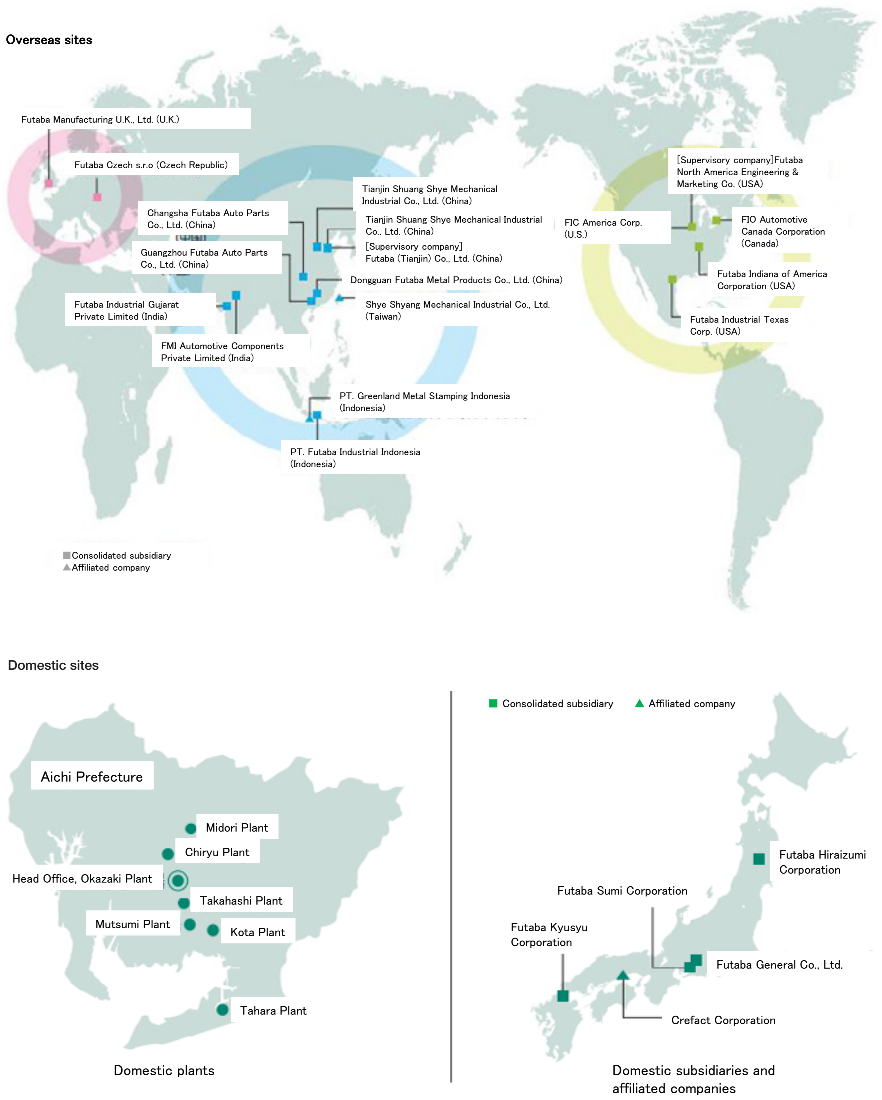
The Company's segments are divided by market, Japan, North America (U.S. and Canada), China, Europe (U.K. and Czech Republic) and Asia (India and Indonesia), and 55.1% of sales came from overseas. North America accounted for 29.2%, China for 10.0%, Europe for 8.7%, and Asia (excluding Japan) for 7.3%. In net sales (excluding supplied goods), 52.3% of sales came from overseas, with North America accounting for 27.3%, China, for 12.4%, Europe for 8.5%, and Asia for 4.1%.

Sales ratios by product and by segment (FY3/25)



Source: The Company's results briefing materials

Group sites



Note: Sites as of the end of March 2025. Futaba Sumi Co., Ltd. integrated on April 1, 2025
Source: Notice of Convocation of the 111th Ordinary General Meeting of Shareholders

2. History

The Company was founded as Futaba Industrial in November 1945 in Okazaki, Aichi Prefecture by several engineers from Dengensha Manufacturing (now DENGENSHA TOA CO., LTD.) and Takashi Nakamura and others from the Nagoya Aircraft Manufacturing Plant of Mitsui Heavy Industries <7011>. The name comes from a Japanese proverb meaning "genius displays itself even in childhood." The Company started out manufacturing fish netting machines and pipe-fabricated furniture sets. Shiro Mashiko of Dengensha was appointed the company's first president. The Company subsequently used its pipe bending, molding, and joining technologies in auto parts, and in 1948 began producing exhaust pipe for automobiles. The business steadily expanded in line with the development of the auto industry, and by the 1960's, the Company had built new plants and relocated its head office, expanding its domestic production sites. In 1968, it listed on the Second Section of the Nagoya Stock Exchange, and in 1970, it received the Toyota Quality Control Award. Thereafter, it expanded its lineup of mainstay products to include exhaust system parts, chassis parts, and body reinforcement parts. In 1980, it commercialized the world's first pipe-fabricated benders and in the same year listed on the Second Section of the Tokyo Stock Exchange. In 1986, it was reassigned to the First Section of both the Tokyo and Nagoya Stock Exchanges, and around that same time, made Apics Corp. into subsidiary to strengthen its production system.

Starting in the 1990's, the Company ramped up its overseas expansion, and in 1994 established its first overseas site in the U.S. state of Illinois, followed by local affiliates in the U.K., China, and other countries. In the 2000's, it established production sites in Canada, the Czech Republic, and other parts of the world, establishing a position as a global supplier. The Company also actively engaged in technology innovation, and in the 2000's developed and began mass production of diesel particulate filters (DPFs) and the exhaust heat recovery unit POWEREV®. In 2015, it introduced the hot stamping method and achieved production of lightweight, high-strength parts. The Company worked to further expand its business domain, and in 2017, entered the agricultural sector and began providing CO_2 storage and supply systems. Under the value-creating philosophy since its founding of "Clean & Green, Peace of Mind, and Quality of Life," Futaba Industrial continues to strive for sustainable growth and social contribution and in November 2025 will celebrate 80 years in business. Currently, following reorganization of the Tokyo Stock Exchange, the Company is listed on the Prime Market (and the Premier Market of the Nagoya Stock Exchange).

Business overview

Accommodating changes in the management environment by deepening technological capability on a core of technology development and production capabilities

1. Management environment

The auto industry, which is the Company's clientele, is said to be undergoing a once-in-a-century transformation. CASE* is progressing due to industrial policy, fuel efficiency regulations, and the changing role of automobiles as mobility in various countries. In particular, the Company's business will be greatly affected by the electrification of vehicles to reduce CO_2 emissions, which is a must as a countermeasure to global warming, which is growing increasingly serious. The Paris Agreement, adopted at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) in 2015, set a goal of limiting global average temperature increase to "well below 2°C, preferably 1.5°C" compared to pre-industrial levels. In addition, the Glasgow Climate Accord at COP26 in 2021 confirmed the need to reduce global CO_2 emissions to "45% below 2010 levels by 2030" and "virtually zero (carbon neutral) by 2050" in order to limit emissions to "+1.5°C." Major developed countries are working to make achievement of carbon neutrality by 2050 a legal requirement, among other actions.

* CASE is an acronym that stands for connected, autonomous/automated, shared & services, and electric. It is a keyword for the future direction of the auto industry.

The percentage of BEVs in new vehicle sales worldwide was 13% in FY2024, and the Company believes this figure will increase to 33% in FY2030 and 50% in FY2035 (based on global data sales volume forecasts by MarkLines <3901>). As of FY2024, the percentage of BEVs among the models for which the Company supplies parts is under 10%, but the Company forecasts that sales (excluding supplied goods) will decline by about 10%, or nearly ¥40.0bn, in FY2030 compared to FY2024, at the current rate, due to the rapid global shift to BEVs, as well as the impact of struggling Japanese-affiliated vehicles in China. Exhaust and fuel system parts, which account for around 30% of the Company's net sales (excluding supplied goods), are expected to decline by around 6% due to the shift to BEVs, while sales of body and undercarriage parts, which account for around 70% of sales, are expected to decline by around 4% due to the struggles of Japanese cars in China.

Amid such changes in the management environment, the Company recognizes the necessity of all employees being active, with employees and the Group united in their efforts, in order to provide value in the areas of "Clean & Green," "Peace of Mind," and "Quality of Life," and in 2024 the Company redefined its previous corporate credo and management philosophy into a Purpose, Mission, and Values. The Company's Purpose is "Producing environmentally-friendly products, we will help create a comfortable society for all people" by evolving its technologies based on the plastic working and joining technologies for iron and stainless steel it has cultivated while incorporating new information and manufacturing technologies it has not yet experienced. The Company's Mission is defined as "Clean & Green, Peace of Mind, and Quality of Life." The Company will deliver goods and services that realize its Mission, envisioning "Clean & Green" as friendly to people and the earth through the manufacture of exhaust system parts that have protected the earth from air pollution and noise, envisioning the endless pursuit and safety of movement in comfort sought by people and the "Peace of Mind" brought about by a quiet space through the manufacture of body frame parts that have continued to protect people's lives, and envisioning "Quality of Life" through the combination of manufacturing technologies that have been cultivated and the challenge of various businesses. The Values are defined as "'Create Beyond' / Better Forever All Together / FUTABA WAY." When manufacturing, improving, planning, and proposing products, does this value exceed the customer's expectations? With a motto of "Create beyond the customer's expectations," all members of the Company will create without simply emulating past or similar jobs ("Better"); the Company will not give up even after failing, and will not quit until it succeeds ("Forever"); and the Company will work ("All Together") while envisioning Futaba as a global corporation and transforming its weaknesses. This is the Company's slogan. In conjunction with establishing this management system, the Corporate Charter, Charter of Conduct, and Futaba Action Guidelines used up to now have been newly redefined as the Charter of Corporate Conduct and Futaba Action Guidelines in line with changes in the times and environment. Roles and actions have been added that need to be undertaken in addressing environmental and social issues associated with the changing times (e.g., achieving a sustainable society, respecting human rights, and addressing climate change).

2. Business overview

(1) The Company's strengths

In the 80 years since its founding, the Company has continued to deepen its strengths in technology development capabilities and manufacturing capability that it has cultivated by boldly taking on the challenge of new technologies that become the source of its competitiveness, while developing an integrated production system from product planning, design and development to production preparation and production on a global scale. Its technology development capabilities are backed by production planning and proposal capabilities and a development and evaluation system. As for product planning, the Company has a system that enables it to make structural proposals from the planning and SE*1 phase for automobile manufacturers. Based on information about the body structure, the Company verifies the strength and combination of parts and proposes a high-quality, high-performance parts structure. The Company can also offer zone development proposals that combine body parts and interior parts by taking advantage of our strength in the outside sales equipment business, which manufactures assembly and welding equipment. For powertrain components, in addition to proposing exhaust systems that are subject to stricter regulations, the Company also proposes electrification-related components that meet the various needs of electrified vehicles (larger batteries, safety, etc.). As for the development and evaluation system, the Company is engaged in body shell analysis*2 and technology for predicting weld rupture in the event of a collision, and is strengthening its analysis technology. For exhaust system components, it is possible to evaluate and analyze not only the strength of the structure, but also the reduction of sound and vibration, and the transfer of heat, to realize a compact and lightweight muffler, and to utilize exhaust gas heat for engine warming and interior heating.

*1 SE stands for simultaneous engineering, activities in which production engineering and manufacturing divisions participate in design from the early stages of development.
*2 Bodyshell analysis: To check the state of deformation of the car body frame.

Manufacturing capabilities are backed by this production technology and a global production system. The Company's strengths lie in its molding and joining technologies, which have been cultivated since the Company's founding, as well as in the bending and squeezing of steel and stainless steel, the cold press processing of ultra-high strength steel sheets (ultra-high strength materials), which are difficult to mold, and hot stamping*1, which enables high strength and complex shapes, and which was introduced ahead of competitors to make it a strength. In particular, the 1470MPa cold-worked super high-tensile strength material processed by the Company has extremely high strength compared to ordinary steel sheets and sufficient strength can be ensured even when the sheets are made thinner and lighter, but they are difficult to form because they do not stretch easily, and because the springback phenomenon (the force of the material trying to return to its original shape) after forming is significant, making it difficult to ensure dimensional accuracy. In welding technology, the company has the technology and know-how to use fiber laser welding, which allows for highly efficient energy use and produces excellent welding quality. In addition, the Company utilizes the latest digital twin*2 technology in the design stage of exterior equipment to reproduce robot operation programs, electrical control programs, etc. on CAD, making it possible to build equipment even without the actual product. The Company has 27 production sites around the world and is building a global production system to improve productivity while sharing information globally. The Company's production sites are located close to automobile manufacturers, and using the Toyota Production System (TPS), the Company localizes production methods in line with the region and optimizes logistics between plants to ensure a stable supply of products.

*1 Hot stamping: Technology to increase the strength of steel sheets by press forming steel sheets heated to a high temperature and then holding them in a die for rapid cooling.
*2 Digital twin technology: Technology that uses IoT and other technologies to reproduce real facilities/products or facilities/products to be created in a virtual space (digitally).

(2) Business by product

The Company's segments are classified by global markets, but looking by product, the Company's business includes the manufacture and sale of automotive and other vehicle parts, outside sales equipment, and agricultural products. Further, vehicle parts can be broadly divided into body/interior parts, exhaust/fuel system parts, and undercarriage parts.

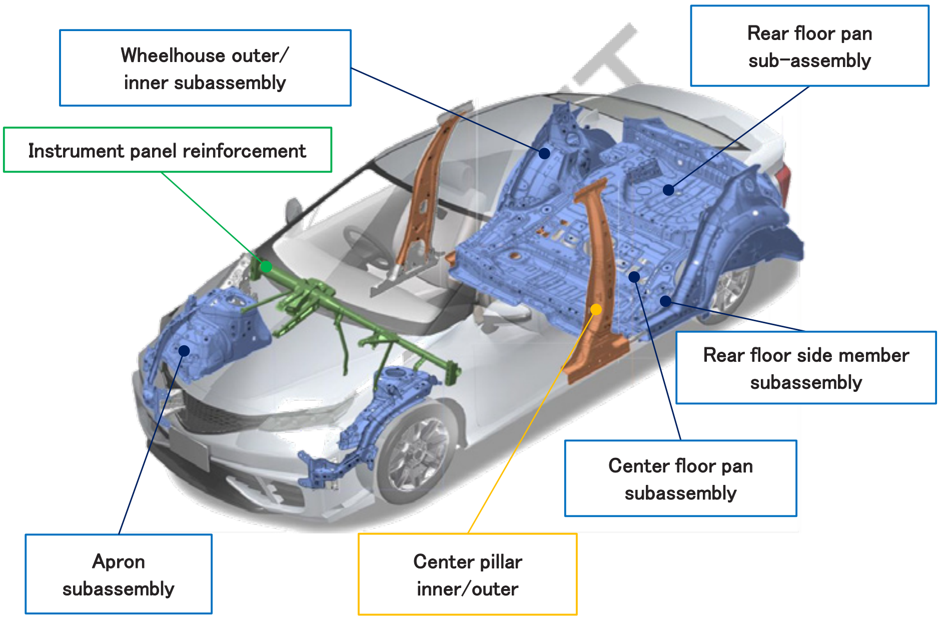
(a) Automotive and other vehicle parts business

(Body/interior parts)

The Company produces and supplies mainly body frame parts. It has improved the accuracy of stress analysis in products and mold formability simulation by improving its molding CAE technology. In addition, the Company's strength lies in the fact that it has established mold structures and joining technologies that are compatible with ultra-high strength materials. It proposes structures that combine vehicle performance and manufacturing from the planning and conceptual stages of vehicle development. The front pillar upper outer of the previous generation Prius was made of hot stamped material, but the new model is made of 1470MPa cold-worked ultra-high strength material, which contributes to reducing CO_2 emissions and costs. For Toyota, medium-sized assembly parts such as rear floor pan subassemblies were used in the bZ4X in 2022, Crown (Sport) in 2023, and Land Cruiser "250" in 2024, and are already in mass production. Going forward, the Company plans to further improve its plastic working technology, joining technology, and body analysis capabilities, as well as develop and propose larger and more integrated parts.

Products used in the new Crown (Sport)

◇Conceptual diagram
＊Blue: Mid-size assembly parts



Source: The Company's press releases

The Company also produces and supplies interior components such as instrument panel reinforcements, which are located inside the instrument panel (dashboard) and support the steering wheel, instrument panel, audio system, etc., while also protecting passengers in the event of a collision. By using laser welding, which has low thermal distortion and does not melt down, the Company is not only able to process thin sheets that arc welding cannot handle, but also to propose overall optimal structural design and production of the body and instrument panel reinforcement, etc., rather than individual parts, by utilizing its strength and rigidity design technology.

Exhaust/fuel system parts

As for exhaust system parts, the Company develops, produces, and supplies entire exhaust system*1, which are made up of the exhaust manifold*2, catalyst, center muffler, rear muffler and the exhaust pipe between them, as well as individual parts. Along with playing a role in reducing exhaust gas temperature and noise and removing harmful components, exhaust system are the most important component that greatly affects the quietness and dynamic performance of automobiles. They are the Company's main product and boast the top share of the domestic market. The Company provides a compact and lightweight exhaust system that combines purification and silencing performance in line with the shift to BEVs and vehicle weight reduction. The Company also produces diesel exhaust gas aftertreatment systems, including diesel particulate filters (DPF), which are filter systems that remove particulate matter (PM) from the exhaust gas from diesel engines, and urea SCR (selective catalytic reduction), which are catalytic systems that remove nitrogen oxides (NOx) from the exhaust gas. SCR is used not only in automobiles but also in agricultural machinery, construction equipment, industrial engines, and various other vehicles, and it complies with EURO6 exhaust gas regulations. The Company is highly regarded as a systems supplier capable of undertaking all processes from the development conception stage onward. In 2023, the Company began mass production of exhaust system for the Land Cruiser "70" (a model reintroduced in Japan) and exhaust manifold for the LEXUS GX and LBX for Toyota.

*1 Exhaust system: Multifunctional components that improve dynamic performance by reducing engine noise, purifying combustion gases, and optimizing exhaust pressure.
*2 Exhaust manifold: Serves to feed hot exhaust gas from the engine to the exhaust system (catalyst). Complex pipe bending and superior welding technology contribute to improved fuel economy by dividing the exhaust path.

As for fuel system parts, the Company develops, produces, and supplies fuel system functional parts around fuel tanks, such as canister*1 and fuel inlet pipe*2. In each region, evaporative gas emission limits are being strengthened and ORVR*3 installations are progressing. The Company offers canister with simple structures as well as canister with multi-layer structures that incorporate the Company's unique know-how and comply with environmental regulations. In addition, with an awareness of carbon neutrality, the Company is developing canister that adopt recycled resin materials.

*1 Canister: A product made of a resin container filled with activated carbon, which absorbs harmful components through the product when volatile gasoline is released by adjusting the pressure inside the fuel tank, and releases it into the atmosphere as clean air. The Company develops and supplies highly functional products that meet the needs of each region where environmental regulations are being tightened.
*2 Fuel inlet pipe: Pipe structure component that leads fuel smoothly from the fuel supply port to the fuel tank. The materials used are steel and stainless steel, and the Company supplies products with high corrosion resistance through its proprietary technology of electrodeposition coating on stainless steel in particular.
*3 ORVR stands for onboard refueling vapor recovery.

Suspension parts

The Company develops, produces, and supplies front suspension sub-frames that maintain high strength and rigidity to withstand large impacts from various directions in the event of a collision, the engine undercover mounted on the underside of the engine to protect the engine from flying rocks from the ground, and trailing arm that support front and rear forces and absorb impacts from acceleration, deceleration, and road surface irregularities.

(b) Equipment for external sales business

Utilizing the accumulation of new technologies and methods to improve the maintainability and productivity of its own equipment, the Company designs, manufactures, and delivers large equipment for assembling and welding body frameworks such as side bodies and under bodies to the plants of finished car manufacturers in Japan and overseas. By applying the advanced know-how cultivated since the Company's founding and making full use of 3D CAD/CAE, the Company has established an integrated ordering system from process planning to product assurance, including strength analysis, robot application considerations, simulations, and robot off-line teaching. The Company designs and manufactures general-purpose, specialized, and common-use lines that meet the needs of its customers from the user's perspective.

(c) Agricultural business

The Company produces and sells the agleaf® CO_2 System for agricultural greenhouse cultivation, which collects and purifies exhaust gas from combustion heaters used at night, stores CO_2, and reuses it during the daytime to promote photosynthesis. This is done by applying core technologies (exhaust gas purification, gas adsorption, and thermal management) developed in the automotive industry. The Company is also applying this technology to develop a system for separating and recovering CO_2 emitted from logistics trucks, which are considered difficult to electrify. Partnering with universities in material development and logistics companies in actual vehicle verification, in February 2024, the Company conducted a public road test run jointly with a logistics company and confirmed travel of around 10 km with zero CO_2 emissions. In addition, to apply this system to construction equipment (hydraulic excavators), the Company is working with a construction equipment manufacturer to conduct experiments and development.

Results trends

In FY3/25, revenue and profit declined due to struggles in Japan and China. Despite recording losses on restructuring sites in China, the Company has financial strength

1. Overview of FY3/25 results

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FY3/25 results

(¥bn)

		FY3/23 Results	FY3/24		FY3/25		YoY		vs. forecast
			Results	vs. net sales	Results	vs. net sales	Change amount	% change	
Net sales	Including supplied goods	708.0	795.8	-	707.1	-	-88.6	-11.1%	1.0%
	Excluding supplied goods	397.2	449.6	100.0%	442.2	100.0%	-7.3	-1.6%	-
Gross profit		33.0	47.5	10.6%	45.7	10.4%	-1.7	-3.7%	-
SG&A expenses		25.3	28.3	6.3%	30.6	6.9%	2.2	8.1%	-
Operating profit		7.6	19.2	4.3%	15.1	3.4%	-4.0	-21.0%	1.2%
Ordinary profit		7.7	18.4	4.1%	13.2	3.0%	-5.2	-28.2%	-11.5%
Profit attributable to owners of parent		10.5	12.8	2.9%	6.2	1.4%	-6.6	-51.6%	-11.3%
Foreign exchange rate (1 USD)		¥135.5	¥144.6		¥152.6		¥8.0		

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

In net sales (excluding supplied goods) by segment, China decreased by 12.4% YoY, so a double-digit decline. The order environment is worsening with the progressive shift to BEVs, struggling sales of Japanese cars, and intensifying price competition. In addition, Japan and Europe decreased 3.9% and 6.7% respectively due to lower sales volumes by customers. At the same time, in North America, due in part to the yen weakening, sales increased 11.6%, while in Asia, sales increased 10.9% supported by growth in India, for double-digit increases in both regions.

Net sales by segment

(¥bn)

	FY3/24		FY3/25		YoY	
	Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales (excluding supplied goods)	449.6	100.0%	442.2	100.0%	-7.3	-1.6%
Japan	225.5	49.2%	216.7	47.7%	-8.8	-3.9%
North America	111.1	24.3%	124.0	27.3%	12.8	11.6%
Europe	41.2	9.0%	38.4	8.5%	-2.7	-6.7%
China	64.1	14.0%	56.1	12.4%	-7.9	-12.4%
Asia	16.6	3.6%	18.4	4.1%	1.8	10.9%
Eliminations	-9.1	-	-11.6	-	-	-

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

Operating profit increased ¥14.7bn due to factors such as ¥5.6bn in production rationalization improvements (break-even point improvement activities, best practice activities consisting of global horizontal deployment of initiatives at sites with the best production indices, and cost reductions through improved utilization rates by stopping and shifting lines to two-shift operations) and a decrease of ¥4.3bn in depreciation and amortization expenses, but profit decreased by ¥4.0bn from the previous year, due to factors such as a ¥9.0bn increase in material, labor, and administrative costs and a ¥6.8bn decrease in profit due to a decline in production volume, which contributed to a decrease in profit of ¥18.7bn. Ordinary profit decreased by ¥5.2bn from the previous year due to non-operating expenses of ¥4.6bn, including foreign exchange losses of ¥1.8bn on loans to overseas subsidiaries and voluntary retirement benefits of ¥0.7bn for overseas subsidiaries as business structure improvement expenses, despite the recording of ¥2.7bn in non-operating income, including ¥0.7bn in gain on valuation of derivatives. In extraordinary gains and losses, there was a business restructuring loss of ¥2.6bn from the decision to consolidate production sites in the Tianjin area of China and a ¥2.5bn impairment loss from a site in Guangzhou, China, but it can be said that the Company retains financial strength and was able to take measures without hesitation against the future trend of declining orders due to the shift to BEVs in China and intensifying competition. The consolidation of production sites in the Tianjin area of China involves Tianjin Shuang Shye Mechanical Industrial Co., Ltd. (Tianjin Shuang Shye, 335 employes (as of March 31, 2024), body and undercarriage parts) and Tianjin Futaba Shye Chan Mechanical Co., Ltd. (Tianjin Futaba Shye Chan, 569 employees (as of March 31, 2024), body, undercarriage, and exhaust system parts), which each own one factory, and is an initiative to optimize production sites and consolidate management resources by stopping production at Tianjin Shuang Shye as of August 2025 and transferring production from Tianjin Shuang Shye to Tianjin Futaba Shye Chan.

By segment, Japan and North America saw profits decline by ¥3.8bn and ¥0.7bn, respectively, due to lower profits from lower sales in the parts business and large increases in material, labor, and administrative costs, which could not be covered by price adjustments and rationalization improvements. In China, sales declined in the parts business and the decline in sales from price fluctuations was significant, but at the same time, material costs, labor costs, and administrative expenses declined, and streamlining improvements were also significant, resulting in profit that broke even. In Europe and Asia, increases in material costs, labor costs, and administrative expenses were small, and the effects of streamlining improvements also contributed to profit increases of ¥0.3bn and ¥0.4bn, respectively.

Factors of increase/decrease in profit by segment

(¥bn)

		Japan	North America	Europe	China	Asia	Eliminations	Total
FY3/24 operating profit		9.8	3.4	2.0	2.2	1.4	0.1	19.2
Factors of increase/ decrease	Parts business sales decline/price fluctuations	-3.6	-1.4	-0.8	-2.5	0.2	-	-8.1
	Increase in material, labor, and administrative costs	-6.6	-2.7	-0.1	0.8	-0.5	-	-9.0
	Decrease in profit from non-parts businesses, such as mold recovery costs	-1.3	0.2	0.2	-1.0	0.6	-0.2	-1.6
	Price adjustments	3.6	0.6	0.6	-	-	-	4.8
	Streamlining improvements	1.3	1.9	0.4	1.8	0.2	-	5.6
	Decrease in depreciation and amortization	2.7	0.7	0.1	0.9	-0.0	-0.0	4.3
FY3/25 operating profit		5.9	2.7	2.4	2.2	1.8	-0.0	15.1
Change compared to FY3/24		-3.8	-0.7	0.3	0.0	0.4	-0.2	-4.0

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

2. Financial position and management indicators

Total assets at the end of FY3/25 decreased ¥20.8bn compared to the end of the previous fiscal year to ¥313.9bn. Current assets declined ¥7.0bn to ¥146.4bn. Cash and deposits decreased ¥11.3bn while trade receivables increased ¥0.6bn and inventories went up ¥1.1bn. Non-current assets declined ¥13.7bn to ¥167.4bn. Property, plant and equipment declined ¥4.7bn while investments and other assets declined ¥9.1bn due to the sale of investment securities, a decline in valuation gains, and a decline in assets related to retirement benefits affected by stock prices, among other factors. At the same time, total liabilities decreased ¥13.1bn due to repayments of long-term borrowings of ¥11.9bn and a decrease in deferred tax liability of ¥2.2bn. Net assets decreased ¥7.7bn to ¥123.1bn. Retained earnings increased ¥2.8bn, but due to fluctuations in stock markets and foreign exchange markets, accumulated other comprehensive income declined ¥9.6bn and non-controlling interests also decreased ¥0.9bn. The equity ratio was 37.5%, up 0.3pp from the end of the previous fiscal year, as cash flow was used to repay ¥6.6bn of interest-bearing debt on a net basis, significantly reducing debt. The debt-to-equity ratio (DE ratio) was 0.4 times down from 0.5 times at the end of the previous period, indicating that the Company is ready to expand investment for growth under its new Medium-Term Management Plan.

Net cash provided by operating activities was ¥24.7bn, but net cash used in investing activities was ¥23.1bn due to an increase in outlays to acquire facilities, so free cash flow as ¥1.5bn. Net cash used in financing activities was ¥10.3bn due to ¥5.9bn in repayment of long-term borrowings and ¥3.3bn used to pay dividends. The balance of cash and cash equivalents at the end of the fiscal year was ¥13.2bn, a decrease of ¥10.9bn from the end of the previous fiscal year.

Consolidated balance sheets

(¥bn)

	End of FY3/24	End of FY3/25	Change
Current assets	153.5	146.4	-7.0
Cash and deposits	25.0	13.7	-11.3
Notes and accounts receivable - trade	89.5	90.2	0.6
Finished goods	6.7	5.5	-1.1
Work in process	15.0	17.2	2.2
Raw materials and supplies	7.3	7.3	-0.0
Non-current assets	181.2	167.4	-13.7
Property, plant and equipment	136.1	131.4	-4.7
Intangible assets	1.8	1.9	0.0
Investments and other assets	43.1	34.0	-9.1
Total assets	334.7	313.9	-20.8
Current liabilities	137.9	138.0	0.1
Notes and accounts payable - trade	86.1	84.7	-1.3
Electronically recorded obligations - operating	3.7	2.8	-0.9
Short-term borrowings	1.1	6.8	5.7
Current portion of long-term borrowings	11.7	13.5	1.7
Other	14.3	9.3	-5.0
Non-current liabilities	65.9	52.6	-13.2
Bonds payable	6.0	6.0	-
Long-term borrowings	41.1	27.5	-13.6
Retirement benefit liability	5.0	6.7	1.7
Total liabilities	203.8	190.7	-13.1
Net assets	130.9	123.1	-7.7
Share capital	16.8	16.8	-
Capital surplus	9.1	9.1	0.0
Retained earnings	58.8	61.7	2.8
Total accumulated other comprehensive income	39.5	29.8	-9.6
Equity ratio	37.2%	37.5%	0.3pp

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

Consolidated cash flows

(¥bn)

	FY3/24	FY3/25
Cash flows from operating activities	57.3	24.7
Cash flows from investing activities	-16.2	-23.1
Cash flows from financing activities	-27.7	-10.3
Net increase/decrease in cash and cash equivalents	12.9	-10.9
Cash and cash equivalents at end of period	24.2	13.2

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

Outlook

In FY3/26, sales are expected to decrease due to severe sales conditions in China, but profit is expected to increase due to streamlining improvements throughout the Company

● FY3/26 forecasts

In its forecasts for consolidated results in FY3/26, the Company is projecting net sales to decrease 3.8% YoY to ¥680.0bn, operating profit to increase 5.4% to ¥16.0bn, ordinary profit to increase 20.5% to ¥16.0bn, and profit attributable to owners of parent to increase 93.3% to ¥12.0bn, so the Company is expecting sales to decrease and profits to increase. Net sales (excluding supplied goods) are expected to decrease 5.0% to ¥420.0bn, ¥22.2bn lower than the previous fiscal year. The exchange rate is projected to be ¥145.0 to the U.S. dollar, which represents yen appreciation of ¥7.6 to the U.S. dollar. Since sales (excluding supplied goods) for the previous year, taking into account the exchange rate, were about ¥430.0bn, actual sales are about ¥10.0bn below the previous year's level. Toyota, the Company's main customer, expects sales volume to increase 4.7% globally, 4.0% in Japan, and 8.8% in the U.S. Based on past experience, including the risk of not meeting forecasts, the Company is generally conservative in its sales estimates. The Company's global sites are highly localized and do not export much from Japan to the U.S., so the impact of U.S. tariffs is negligible. Also, this is difficult to forecast for the full year, and it has not been factored in.

FY3/26 forecasts

(¥bn)

		FY3/25		FY3/26		YoY	
		Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales	Including supplied goods	707.1	-	680.0	-	-27.1	-3.8%
	Excluding supplied goods	442.2	100.0%	420.0	100.0%	-22.2	-5.0%
Operating profit		15.1	3.4%	16.0	3.8%	0.8	5.4%
Ordinary profit		13.2	3.0%	16.0	3.8%	2.7	20.5%
Profit attributable to owners of parent		6.2	1.4%	12.0	2.9%	5.7	93.3%
Exchange rate (1 USD)		¥152.6		¥145.0		¥-7.6	

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

By segment, the sales environment in China is expected to become more difficult, and the Company forecasts net sales (excluding supplied goods) to be ¥16.1bn lower than the previous year. In Japan and Europe, sales are expected to be down ¥5.7bn and ¥1.4bn respectively. In North America, the forecast is ¥3.9bn above the previous year's level because the impact of suspended production (from late June to late October 2024) of Toyota's Grand Highlander airbags, for which parts are supplied, due to the risk of non-compliance with safety standards, will be removed. In Asia, sales are expected to exceed the previous year by ¥0.5bn due in part to growth in the Indian business.

Net sales forecast by segment

(¥bn)

	FY3/25		FY3/26		YoY	
	Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales (excluding supplied goods)	442.2	100.0%	420.0	100.0%	-22.2	-5.0%
Japan	216.7	47.7%	211.0	50.2%	-5.7	-2.6%
North America	124.0	27.3%	128.0	30.5%	3.9	3.2%
Europe	38.4	8.5%	37.0	8.8%	-1.4	-3.8%
China	56.1	12.4%	40.0	9.5%	-16.1	-28.8%
Asia	18.4	4.1%	19.0	4.5%	0.5	2.7%

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

In terms of profit and loss, operating profit is expected to decrease by a total of ¥16.3bn, including loss factors of a ¥4.2bn decrease from lower sales and price changes, an ¥8.1bn decrease from higher material, labor and administrative costs due to inflation, and a ¥4.0 decrease in other income, such as mold recovery costs. At the same time, operating profit is expected to increase by a total of ¥17.1bn from a ¥9.8bn increase due to appropriate price adjustments, a ¥6.1bn increase from production streamlining improvements, and a ¥1.2bn increase from lower depreciation and amortization, for a total ¥0.8bn increase in operating profit. Ordinary profit is projected to increase ¥2.7bn due to the absence of foreign exchange losses and business restructuring costs incurred in the previous fiscal year. By segment, Japan and North American are expected to see profit increases of ¥0.8bn and ¥3.9bn, respectively, due to significant price adjustments beyond the increases in material, labor, and administrative costs as well as substantial streamlining improvements. At the same time, in China, the Company expects profit increases of ¥2.6bn due to streamlining improvements and lower depreciation expense from the integration of production sites and impairment losses incurred on equipment the previous fiscal year, but due to a major decline in sales, in total, profit is expected to decline by ¥2.0bn. In addition, in Europe and Asia, profits are expected to decline ¥1.0bn each as the Company does not expect to be able to adequately adjust prices.

Factors of increase/decrease in profit by segment

(¥bn)

		Japan	North America	Europe	China	Asia	Eliminations	Total
FY3/25 operating profit		5.9	2.7	2.4	2.2	1.8	-0.0	15.1
Factors of increase/decrease	Parts business sales decline/price fluctuations	0.3	0.3	-0.5	-4.1	-0.2	-	-4.2
	Increase in material, labor, and administrative costs	-6.0	-1.5	-1.1	0.7	-0.2	-	-8.1
	Decrease in profit from non-parts businesses, such as mold recovery costs	-2.0	0.1	-0.4	-1.3	-0.7	0.3	-4.0
	Price adjustments	7.3	2.3	0.2	-	-	-	9.8
	Streamlining improvements	1.6	2.2	0.6	1.5	0.2	-	6.1
	Decrease in depreciation expense	-0.3	0.5	0.0	1.1	-0.1	-	1.2
FY3/26 operating profit		6.7	6.6	1.4	0.2	0.8	0.3	16.0
Change vs. FY3/25		0.8	3.9	-1.0	-2.0	-1.0	0.3	0.8

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

Medium- to long-term growth strategy

Further strengthen earnings capacity and allocate cash flow to the Indian business and other growth investments

1. Overview of the new Medium-Term Management Plan (2025-2027)

The Company announced its new Medium-Term Management Plan for the next three years in May 2025. In the three years of the previous Medium-Term Management Plan (2022-2024), the operating margin, which had slumped to 1.9% during the pandemic, was raised to 3.3% on average, and ¥22.7bn in free cash flow was generated on average. As a result, the Company paid back ¥41.4bn in interest-bearing debt over the three years, reducing the balance of ¥98.1bn at the end of FY2021 to ¥56.7bn at the end of FY2024. The equity ratio also increased by 10.3pp over the three years, rising from 27.2% at the end of FY2021 to 37.5% at the end of FY2024, as the Company achieved financial soundness.

Under its new Medium-Term Management Plan, the Company is targeting ROE of 10.0% or higher and an operating margin of 5.0% (FY2027) to quickly achieve a PBR of 1 time. To this end, it will further strengthen profitability through rationalization and streamlining of production, and the cash it generates will be allocated to growth investment and shareholder returns, including growth of the existing auto parts business, commercialization of new businesses, and growth of the India business. Net sales (excluding supplied goods) were ¥442.2bn in FY2024 with an actual exchange rate of ¥152.6 = 1 USD, and starting with net sales (excluding supplied goods) of ¥430.0bn based on an exchange rate of ¥145.0 = 1 USD, the assumed rate in FY2025 forecasts, sales are expected to be flat from FY2025 to ¥420.0bn in FY2027. With the struggle for sales in China and the shift to BEVs, as mentioned above, to offset the expected decline to ¥410.0bn with all else equal, the Company is planning to add ¥10.0bn by expanding sales in existing businesses. By solidifying adoption in new models during this period, the Company aims to expand sales when new models begin to be produced in two to three years. In FY2030, net sales are expected to drop to ¥400.0bn with all else equal, but the Company is aiming for ¥450.0bn by adding on ¥46.0bn from expanded sales in existing businesses and ¥4.0bn from new business. Sales figures appear to be somewhat conservative, but it is necessary to take into account that it is difficult to increase sales in a short period of time because it takes two to three years to prepare for mass production of parts after they are adopted for new car production or vehicle body modification. Regarding ROE, to secure a figure of 10.0% or higher, the Company plans to achieve an operating margin of 5.0% through each business strategy and production efficiency improvement, and will increase the total asset turnover ratio by optimizing the allocation of sites (facilities and personnel) through regional portfolio management, including the integration of production sites in China, as well as by improving the utilization ratio by integrating production lines and promoting the change to a two-shift production system. The Company also intends to maintain financial soundness and financial leverage by controlling capital while investing in growth and enhancing shareholder returns. It will secure operating cash flow of ¥118.0bn over the three years and allocate ¥11.0bn to shareholder returns (¥6.9bn under the previous Medium-Term Management Plan), ¥77.0bn to ordinary capital investment (¥65.9bn), and ¥30.0bn to growth capital investment (repayment of ¥41.4bn in interest-bearing debt under the previous plan), and ¥22.0bn to research and development expenditure (¥15.0bn under the previous plan).

2. Business strategy under the new Medium-Term Management Plan

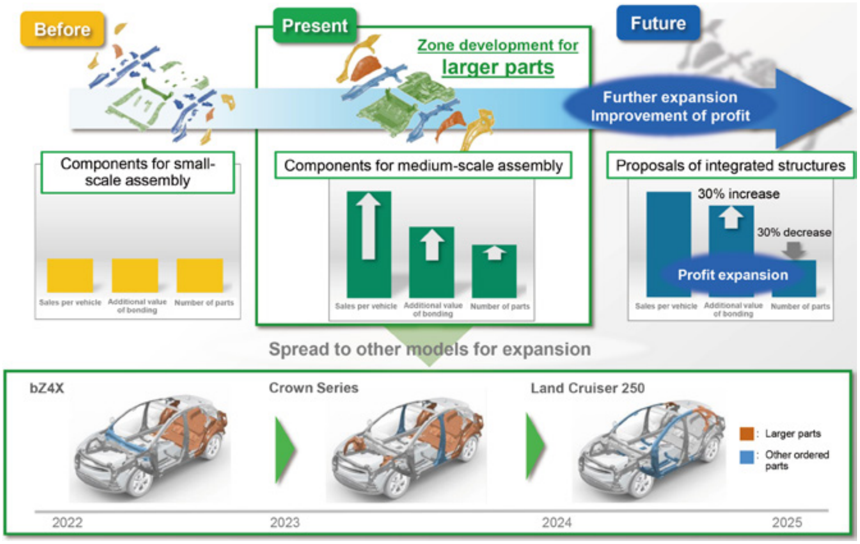
To expand sales, the Company has put forth the business strategies of growth in existing businesses (products) and commercialization of new business, growth in existing businesses (regions), and strengthening the management base. In growth in existing businesses (products) and commercialization of new business, the Company has indicated three strategies: develop and raise capacity to expand sales in the body parts (body/interior parts) business, develop new systems in the exhaust parts business in line with electrification needs, and accelerate new business development and early commercialization. It plans to continue to carry out three strategies promoted as a response to the spread of BEVs: Expand sales of body parts and increase added value, increase market share in engine-powered vehicles, and initiatives for new business. For growth in existing businesses (regions), the Company will expand and grow the India business. To strengthen the management base, it will further raise earnings capacity, continue to invest in human resources, and aim to achieve new carbon neutral targets.

(1) Growth in existing businesses (products) and commercialization of new business

(a) Expand sales in the body parts business

The Company has developed a die structure and bonding technology for cold-working ultra-high strength steel by analyzing stress and calculating the optimum shape of the die through improved CAE technology. In addition to manufacturing capabilities that utilize this, the Company has the strength to propose zone development that combines body and interior parts from the planning/conceptualization stage of vehicle development. Gigacast aluminum die-casting (a technology for integrally molding automobile body parts in aluminum) has become a hot topic amid the demand for larger and lighter components due to the shift to BEVs, but the Company has pushed back against this and taken on the challenge of making parts larger through zone development using steel and stainless steel. In 2022, Toyota's first BEV vehicle, the bZ4X, adopted the rear floor pan subassembly, a medium-sized assembly component located at the bottom and rear of the vehicle, and in 2023, the Crown (Sport) adopted the rear floor pan subassembly and the apron subassembly, a medium-sized assembly component located on the lower and front side of the vehicle. In 2024, the roof side inner subassembly, which is the upper rear portion of the vehicle, was adopted for the Land Cruiser 250. Compared to small-sized assembly components, medium-sized assembly components contribute significantly to sales expansion and higher profits, with 3 times the sales per vehicle, 2 times the joint added value (profit), and 1.5 times the number of parts, so the Company plans to actively promote their use in new vehicles. In addition, in the future, by proposing an integrated structure, the Company will aim to reduce the number of parts by 30% and increase joint added value (profit increase) by 30% compared to medium-sized assembly components.

Initiatives for larger and more integrated parts



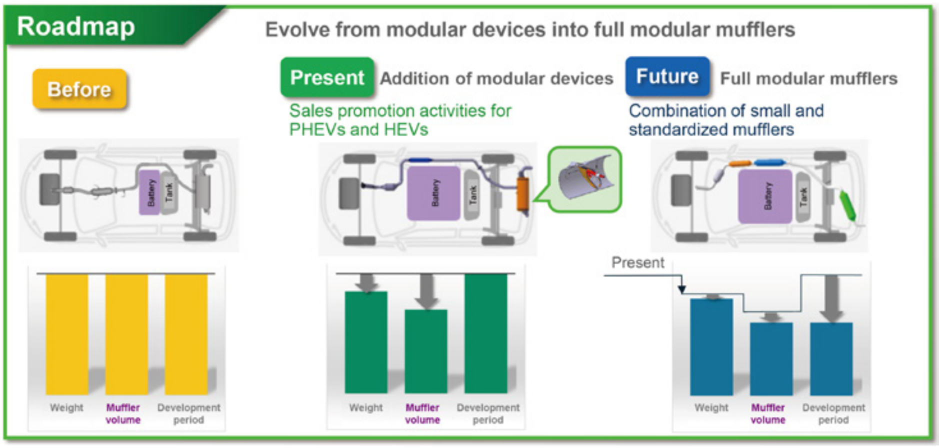
Source: The Company's results briefing materials

In addition, medium-sized assembly components are produced in sequence and delivered in sequence to enable high-mix, low-volume production. In the past, each small-size assembly component was delivered to the automaker, which then performed medium-sized assembly and passed it on to vehicle assembly, but through the outsourcing of medium-sized assembly, the Company has a adopted a production and delivery method in which it produces and delivers medium-size assembly components in the same order in which automobile manufacturers assemble their vehicles. This production and delivery method is expected to help automakers reduce their inventories and contribute to investment and lead-time reductions through the generalization and sharing of production lines. And, in the future, the Company aims to provide high value-added parts in collaboration with automakers by participating in vehicle planning and conception. Sales of body parts are expected to drop from a starting point of ¥270.0bn in FY2024 to ¥257.0bn with all else equal, but the Company is planning sales of ¥264.0bn by adding on ¥7.0bn from expanded parts sales. With all else equal, in FY2030 sales are expected to be ¥255.0bn, but by adding on ¥35.0 in expanded sales of parts the Company is aiming for sales of ¥290.0bn.

(b) Development of new systems in the exhaust system parts business in line with electrification needs

The Company is targeting the development of new exhaust system to meet the needs of BEVs, based on the strength of its technological and developmental capabilities as the leader in the domestic market share of automotive mufflers. Specifically, the Company plans to develop and produce a full modular muffler that combines several types of function-specific mufflers that have been downsized and modularized (standardized) by dividing the purification and sound deadening functions conventionally incorporated into a single muffler into different functions. Modularization allows for space-saving placement in the undercarriage of PHEVs and HEVs, which are equipped with large batteries, and enables the optimal combination of function-specific mufflers for each vehicle model. This would significantly reduce weights and deaden sound and would significantly shorten development/production preparation time, including design time, and reduce muffler types and production equipment. Currently, the Company is in the process of expanding its sales activities to PHEVs and HEVs. Sales of exhaust system parts are expected to drop from a starting point of ¥130.0bn in FY2024 to ¥125.0bn in FY2027 with all else equal, but through expanded sales of parts the Company is planning to add on ¥2.0bn to bring the figure to ¥127.0bn. Sales in FY20230 are projected to be ¥117.0bn with all else equal, but the Company will add on ¥8.0bn from expanded sales of parts to aim for ¥125.0bn.

Roadmap to a full modular muffler



Source: The Company's results briefing materials

(c) Commercialization of new business

In the agricultural business, the Company will improve the CO_2 recovery efficiency of the currently marketed agleaf® CO_2 System, diversify heating equipment fuels such as biomass fuel, develop an energy recycling system using agricultural residues, and accelerate the development of laser weeding robots that utilize the Company's AI image recognition and laser irradiation technologies. The energy recycling system separates agricultural residues into solid and liquid, the solid is burned to extract heat and CO_2, and the liquid is mixed with ash after combustion and converted into fertilizer for self-production and self-consumption. In the auto parts business, the Company will utilize its technology to develop new products such as battery cell cases and battery cooling plates for BEVs and other electric vehicles. In addition, the Company plans to accelerate the development of ultra-compact SOFC (solid oxide fuel cell) fuel cells that can operate for long hours using biofuel, and a system that separates and recovers CO_2 from the exhaust gas of construction equipment and trucks, which it is already developing in collaboration with construction equipment and logistics companies. The Company is targeting sales from all new businesses of ¥4.0bn in FY2030.

(2) Growth of existing businesses (regions)

The Company will aim for business growth in India, a fast-growing market. It has already released the establishment of a new branch plant of a local affiliate, FMI Automotive Components Private Limited, with an investment of approximately ¥4.5bn in Kharkhoda, Haryana, India, and is planning to begin production of exhaust system parts in March 2027. According to plans, it is also considering further increasing sites in response to automaker growth in India, particularly Suzuki <7269>. The Company established a new India business headquarters in April 2025, and preparations are underway. It is targeting net sales (excluding supplied goods) of ¥60.0bn in FY2035, up from the current level of around ¥14.0bn. To this end, the Company is planning to make additional investments of ¥30.0bn, adding to the cumulative ¥10.0bn it has invested thus far.

(3) Strengthening the management base

Strategies to be strengthened to build a strong management base to improve the operating margin and ROE include lead-time reduction/reduced investment using 3D data, quality improvement through break QA and the QA network, labor saving/unmanned operations, and smart factories that aim to be clean factories. The strategy that will not change is to increase flexibility in production capacity by integrating production sites in China, building plants in India, and other measures to adjust personnel and equipment capacity to market trends, and integrating production lines and increasing the ratio of two-shift operations. In terms of lead-time reduction and investment reduction, the Company is moving forward with a transformation from the conventional baton-pass type development of each process to an agile development process that progresses simultaneously in a digital space through 3D production preparation using 3D data for product data, processes, machine drawings, jig concepts, equipment concepts, and factory layouts. Ultimately, it will reduce trial-and-error on the actual machine to zero. With regard to quality assurance (QA) for press breaks as well, the Company will create a break QA hazard map that consolidates break risks with CAE and actual material evaluations and share this in its QA network to improve yields by improving quality and reducing waste due to non-compliance. As for smart factories, the Company has completed a digital platform for production management by linking a real-time production information collection system and a shipment management system, and is developing automation technologies for each process. Through labor savings and unmanned operations, the Company aims to reduce its workforce by a cumulative total of 280 people (including 153 in Japan) over the three years of its Medium-Term Management Plan.

Through these efforts, the Company plans to reduce the amount of materials used, which accounts for 60% of costs, by improving yields, reduce defective products, improve productivity, and improve the worksite by utilizing digital technology such as for manpower saving and unmanned operations. In addition, the Company plans to improve profitability and earning power on a global scale by streamlining indirect operations, reducing processes, and manufacturing parts that are easier to make, which can reduce defects.

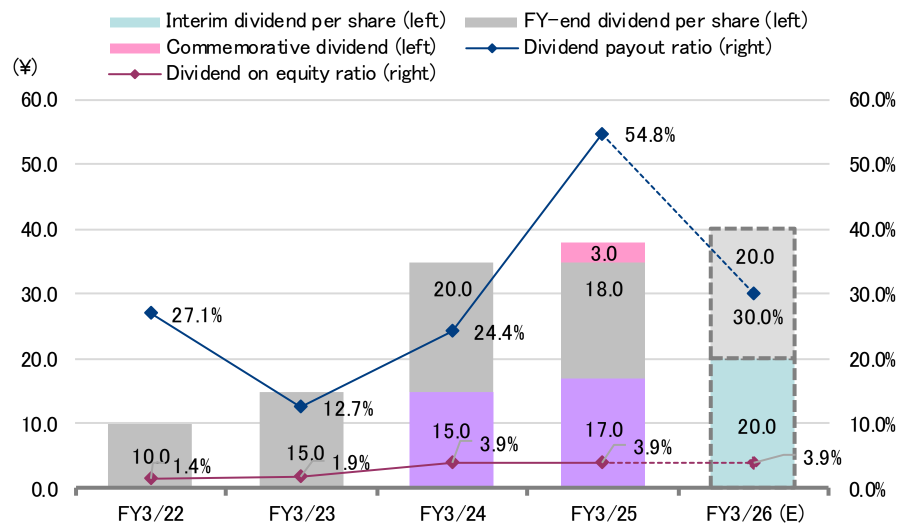
In addition, the Company will continue to invest in human resources to strengthen its management base. The goal is to create a foundation that enables people to act independently and promote change by promoting human resource management reforms to recruit, train, and, assign diverse human resources and personnel system reforms to reform the systems and corporate culture, and by supporting job satisfaction and individual growth. In addition, with regard to carbon neutrality efforts, the Company had previously set the goal of reducing CO_2 emissions by 50% from FY2013 levels by FY2030, but has since set a new goal of reducing CO_2 emissions by 50% from FY2019 levels. With this new target, the annual CO_2 reduction rate has accelerated from 3% to 4.6% per year. However, the Company, on a non-consolidated basis, is already on track to achieve 40% of the 50% reduction, and Group companies are already on track to achieve 60% of the 50% reduction.

Shareholder return policy

Changed dividend policy and adopted a progressive dividend with a minimum DOE of 3.5%

The Company considers increasing shareholder returns to be one of its most important management issues and has made it a basic policy to maintain stable dividends. The Company has been striving to maintain or increase the amount of dividends paid to shareholders while considering operating results, the dividend payout ratio, and other factors. In line with the increase in retained earnings, the Company has paid both an interim and year-end dividend since FY3/24. The dividend payout ratio has been specifically targeted at 30%, but in April 2025, the Company decided to pay a progressive dividend with a minimum dividend on equity ratio (DOE = annual dividend / average shareholders' equity during the period) of 3.5%, based on maintaining a stable dividend. This has been applied starting with the year-end dividend for FY3/25. In FY3/25, the Company paid an interim per-share dividend of ¥17.0 and a year-end dividend of ¥18.0 for a total dividend of ¥38.0, the same amount as the previous fiscal year, but the Company added a ¥3.0 commemorative year-end dividend to mark its 80th anniversary, for a total dividend of ¥38.0, an increase of ¥3.0. Net income declined 51.6% YoY due to recording extraordinary losses, so the payout ratio was 54.8%, an increase of 30.4pp. DOE, as an indicator, was 3.9%, the same level as the previous fiscal year. For FY3/26, the Company expects net income per share to about double and expects to pay an ordinary dividend of ¥20.0 at the end of the interim period and ¥20.0 at the end of the fiscal year, for a total dividend of ¥40.0 per share.

Dividend per share and dividend payout ratio



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

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