COMPANY RESEARCH AND ANALYSIS REPORT

FUTABA INDUSTRIAL CO., LTD.

7241

Tokyo Stock Exchange Prime Market / Nagoya Stock Exchange Premier Market

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Summary

Profit grew considerably in 1H FY3/26. ROE is on track for recovery to the 10% level over the full year

FUTABA INDUSTRIAL CO., LTD. <7241> (hereafter, also the "Company") is a leading company that manufactures and sells automotive parts. It is the largest manufacturer and seller of automotive mufflers in Japan and one of the top three in the world. Possessing advanced press and welding technologies, its main business is manufacturing and selling automobile and other vehicle parts, such as 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 operates 27 production sites in 9 countries. While it is an affiliate of Toyota <7203>, it also has a wide range of domestic and overseas automakers as customers in addition to the Toyota Group.

1. Overview of 1H FY3/26 results

The Company's consolidated results for 1H FY3/26 were as follows: net sales* of ¥329.4bn (down 5.7% year on year [YoY]), operating profit of ¥8.6bn (up 58.1%), ordinary profit of ¥8.7bn (up 146.4%), and profit attributable to owners of parent of ¥6.3bn (up 302.4%). Net sales decreased YoY due to the impact of the yen's appreciation and decreases in material prices and the price of paid-in goods supplied such as catalysts, but net sales (excluding supplied goods), which shows the Company's actual capabilities, increased to ¥218.9bn (up 1.3%), supported by the recovery in automobile sales at customers in Japan and North America. Operating profit grew around 1.6 times due to factors such as higher sales and streamlining improvements. By segment, profits improved by over three times in North America, where orders from customers recovered, driving the substantial profit growth. Furthermore, the large non-operating expenses recorded in 1H FY3/25 did not occur, and ordinary profit grew 2.5 times while profit attributable to owners of parent grew 4 times.

* In this report, 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 are included in the price of the supplied goods, but there is no effect on profit.

2. FY3/26 forecasts

For its FY3/26 consolidated results, the Company is forecasting net sales to decline by 8.1% YoY to ¥650.0bn, 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. However, sales (excluding supplied goods) are exceeding the initial forecasts in China and Europe, and the forecasts have been revised upward by ¥10.0bn. As for profit or loss, operating profit is expected to improve as cost increases associated with inflation will be covered by price adjustments and the Company will pursue streamlining improvements, especially in North America, China, and Japan. Furthermore, in response to the expense processing implemented to strengthen the management base in the previous fiscal year, improvement in non-operating profit/loss and extraordinary profit/loss is expected. Both ordinary profit and profit attributable to owners of parent are therefore forecast to increase significantly. ROE is on track to achieve the target in the new Medium-Term Management Plan (10% or higher).

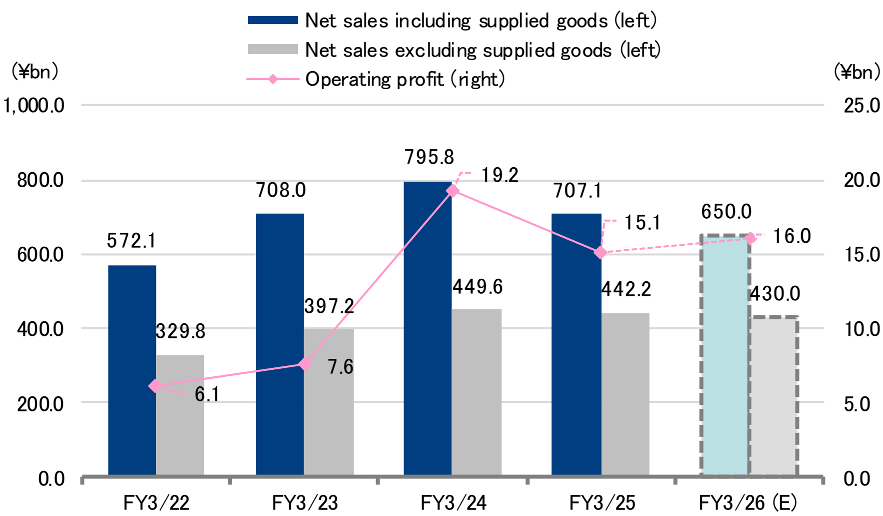
3. Overview of new Medium-Term Management Plan

The Company announced its new three-year Medium-Term Management Plan (FY2025–2027) in May 2025. It set targets of ROE of 10.0% or higher and an operating margin of 5.0% in the plan's final year to quickly achieve a PBR of 1 time. To this end, the Company plans to further raise profitability through streamlining production and 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 aimed at growing the Indian business, and shareholder returns. Regarding shareholder returns, the Company changed its dividend policy as of the end of FY3/25 to a progressive dividend with a minimum dividend on equity ratio (DOE) of 3.5%. In FY3/26, the Company plans to raise the dividend by ¥2 for an ordinary dividend of ¥40.0.

Key Points

- Profit grew considerably in 1H FY3/26, driven by higher profit in North America. There was substantial sales and profit growth due to recovery of automobile sales at customers
- In FY3/26, increased profit is expected as streamlining improvements progress, especially in North America. Profit attributable to owners of parent will grow around 1.9 times, while ROE is on track to recover to 10%
- The new Medium-Term Management Plan has set ROE of 10% or higher and operating margin of 5.0% as targets for FY2027. 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

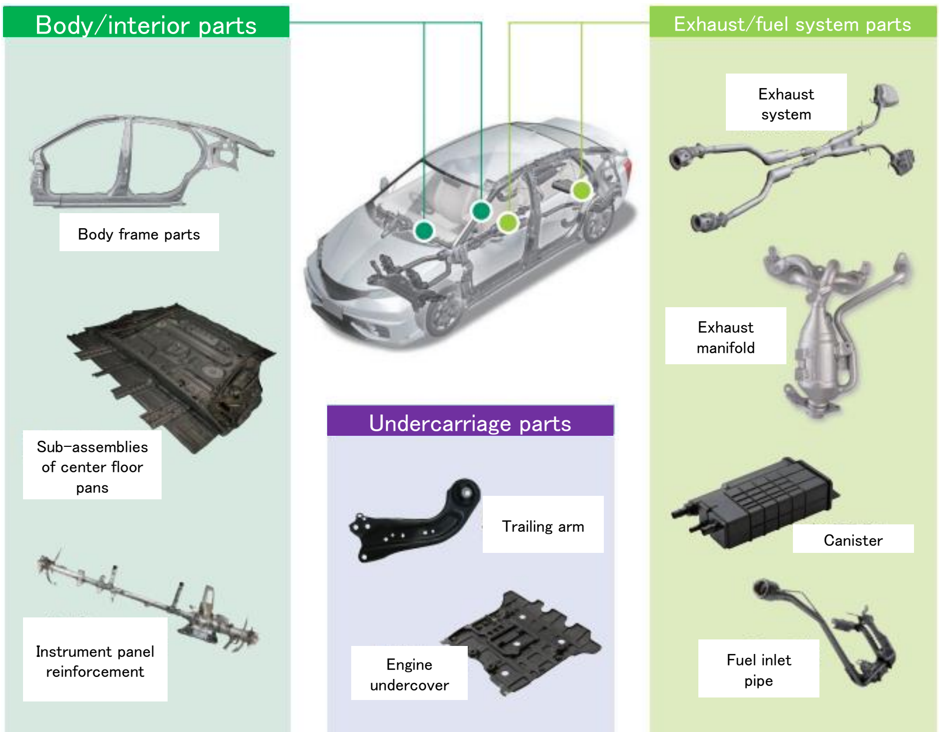
Company profile

A leading automobile parts manufacturer in Japan whose share of the automotive muffler market is among the top three in the world

1. Company profile

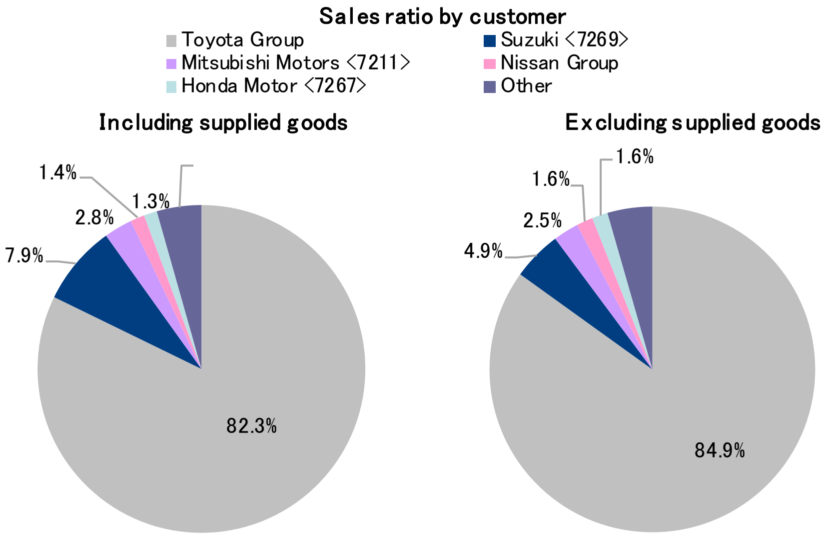
The Company is one of Japan's leading manufacturers of automotive parts. It has the top share of the automotive muffler market in Japan and is among the top three in overseas markets. Along with its affiliates, the Company makes up a Group with 5 companies in Japan and 18 overseas (4 in the US, 1 in Canada, 1 in the UK, 1 in the Czech Republic, 5 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 8 other countries. Over 90% of its net sales comes from the automotive parts business, whose mainstays are body/interior parts and exhaust system parts (mufflers, exhaust manifolds, etc.) that leverage the Company's core metal forming and welding technologies. In addition, the Company designs and manufactures large equipment for assembling and welding body frames for 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. During the pandemic, while automakers saw declining sales volumes, Toyota's margin of decline was less than that of other companies. In 2021 and 2022, it exceeded the previous year's results. Therefore, the Company's net sales also declined by less than 2.0% YoY in FY3/21, then rapidly recovered, growing 22.6% in FY3/22. Besides the Toyota Group, the Company also has a wide range of domestic and overseas automakers as customers.

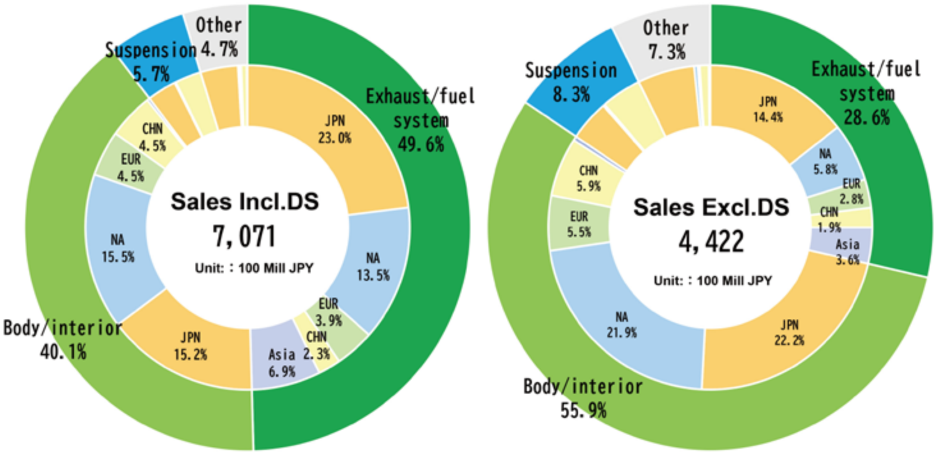


Note: The Toyota Group includes Daihatsu, Hino Motors, and others. The Nissan Group includes Nissan Shatai.
Source: Prepared by FISCO from the Company's financial results

In terms of sales ratios 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%. For net sales (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 parts to 8.3%, and other products to 7.3%.

The Company's segments are divided by market, Japan, North America (US and Canada), China, Europe (UK 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

2. History

The Company was founded in Okazaki, Aichi Prefecture, in November 1945. It started out manufacturing fish netting machines and pipe-fabricated furniture sets, but in 1948, it began producing exhaust pipe for automobiles using its pipe molding technology, which was a turning point for the business.

In 1968, it listed on the Second Section of the Nagoya Stock Exchange (NSE), and in 1980, it also listed on the Second Section of the Tokyo Stock Exchange (TSE). In 1986, it was then reassigned to the First Section of both the TSE and NSE, solidifying its position as a listed company. Furthermore, it has pursued technological innovations such as commercializing the world's first pipe-fabricated benders and expanded its lineup of mainstay products to include exhaust system parts and chassis parts.

Starting in the 1990s, the Company ramped up its overseas expansion, and in 1994, it established its first overseas production site in the US. This was followed by others in the UK, China, Canada, the Czech Republic, and other countries around the world, establishing its position as a global supplier. In the 2000s, it also developed and began mass production of diesel particulate filters (DPFs) for diesel-powered vehicles and the exhaust heat recovery unit POWEREV®, as well as introducing the hot stamping method. Furthermore, in 2017, it expanded its business domain by entering the agricultural sector.

The Company celebrated the 80th anniversary of its founding in November 2025 and is currently listed on the Tokyo Stock Exchange (TSE) Prime Market.

Business overview

Accommodating changes in the management environment by deepening technological capability on a core of technology development and manufacturing 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 changes in 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. Based on the Paris Agreement and Glasgow Climate Accord, 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 projects that this figure will rise to 33% in FY2030 and 50% in FY2035. As of FY2024, the percentage of BEVs among the models for which the Company supplies parts was less than 10%. However, it expects that compared to FY2024, net sales (excluding supplied goods) will decline by about 10% (approx. ¥40.0bn) in FY2030, all else being equal. This is due to the rapid shift toward BEVs and the impact of struggling Japanese-affiliated vehicles in China. In terms of the breakdown, it expects sales of exhaust and fuel system parts to decrease by around 6% and sales of body and undercarriage parts by around 4%.

* BEV (Battery Electric Vehicle): Unlike hybrid vehicles, these are vehicles that do not use an engine and are powered solely by electricity. They are distinguished from HEVs (hybrid electric vehicles), PHEVs (plug-in hybrid electric vehicles), and FCEVs (fuel cell electric vehicles).

2. The Company's strengths

The Company's strengths are its integrated global production system, which covers everything from product planning to design, development, production preparation, and production, and the technology development capabilities and manufacturing capabilities that it has cultivated by actively developing new technologies.

(1) Technology development capabilities

Its technology development capabilities have been cultivated based on its production planning and proposal capabilities and development and evaluation system.

i) Production planning and proposal capabilities

The Company has developed a system that enables it to make structural proposals from the planning and SE* phase for automobile manufacturers. Based on this, it is able to verify the strength and combination of parts, propose a part structure leading to reduced weight and improved cost efficiency, and offer zone development proposals that combine body parts and interior parts. For powertrain components, in addition to proposals for exhaust systems, which are subject to stricter regulations, it proposes electrification-related components that meet various needs of electrified vehicles (larger batteries, safety, etc.).

* SE stands for simultaneous engineering, activities in which production engineering and manufacturing divisions participate in design from the early stages of development.

ii) Development and evaluation system

The Company is strengthening its analysis technology through body shell analysis* and technology for predicting weld rupture in the event of a collision. For exhaust system components, it is possible to evaluate and analyze not only the strength but also the reduction of sound and vibration and the transfer of heat. This contributes to the realization of compact, lightweight mufflers and circulating exhaust gas heat for use in engine warming and interior heating.

* Bodyshell analysis: To check the state of deformation of the car body frame.

(2) Manufacturing capabilities

The Company's manufacturing capabilities are backed by its production technology capabilities and global production system.

i) Production technology capabilities

Molding and joining technologies are the Company's core technologies. In addition to technologies for bending and squeezing steel and stainless steel, the Company has enhanced its competitiveness with technologies for processing ultra-high-strength steel sheets (ultra-high-strength materials), which are difficult to mold, with cold processing and the hot stamping method* enabling production of high-strength, complex shapes, which it introduced ahead of its competitors.

* 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.

In recent years, the Company has established a die structure and bonding technology for cold-worked ultra-high-strength materials by analyzing stress and calculating the optimal shape for dies through improved CAE technology. By overcoming issues in the processing of these materials and achieving production of high-strength, lightweight automotive parts, it has improved fuel costs and safety for automakers. Furthermore, in welding technology, the Company has established optimal welding methods suited to the characteristics of ultra-high-strength materials (spot welding, laser welding, adhesive bonding, etc.).

The Company is also using the latest digital twin technology* for outside sales equipment. Reproducing robot operation programs, electrical control programs, etc. required for equipment on CAD makes it possible to build high-precision equipment and realize equipment design without using physical prototypes.

* 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).

ii) Global production system

The Company has 27 production sites around the world and pursues productivity improvements while sharing information globally. Each production site is located close an automobile manufacturer, and using the Toyota Production System (TPS), the Company localizes production methods and optimizes logistics between plants to ensure a stable supply of products.

Develops, produces, and supplies automotive and other vehicle parts, as well as developing outside sales equipment and agricultural business

3. Business description by product

The Company manufactures and sells automotive and other vehicle parts, outside sales equipment, and agricultural products. Vehicle parts can be further divided into body/interior parts, exhaust/fuel system parts, and undercarriage parts.

(1) Automotive and other vehicle parts business

i) Body/interior parts

The Company produces and supplies body frame parts and interior parts such as instrument panel reinforcements.

The Company has improved the accuracy of stress analysis of products and mold forecasting technology by using molding CAE technology and proposes structures that combine vehicle performance and manufacturing from the planning and conceptual stages of vehicle development. As part of its proposal activities, it achieved reduction of CO_2 emissions and costs for Prius cars. The front pillar upper outer of the previous-generation Prius was made of hot stamped materials, but for the current model, it was changed to 1470MPa cold-worked ultra-high-strength material.

For Toyota, medium-sized assembly parts such as rear floor pan subassemblies were adopted for the bZ4X in 2022, Crown (Sport) in 2023, and Land Cruiser 250 in 2024 and are in mass production.

Interior parts such as instrument panel reinforcements support the steering wheel, instrument panel, audio system, etc. while also protecting passengers in the event of a collision. The Company is able to process thin sheets that cannot be handled with arc welding and proposes overall optimal structural design and production for the body, instrument panel reinforcements, etc.

ii) Exhaust/fuel system parts

The Company develops, produces, and supplies fuel system parts such as exhaust systems*1, for which it has the highest share of the market in Japan, canisters*2 located near fuel tanks, and fuel inlet pipes*3.

*1 Exhaust system: Multifunctional components that improve dynamic performance by reducing engine noise, purifying combustion gases, and optimizing exhaust pressure.

*2 Canister: A product made of a resin container filled with activated carbon, which absorbs harmful components when volatile gasoline is released inside the fuel tank, then releases them into the atmosphere as clean air. The Company develops and supplies highly functional products that meet the needs of various regions where environmental regulations are being tightened.

*3 Fuel inlet pipe: A part that leads fuel smoothly from the fuel supply port to the fuel tank. The Company notably supplies products with high corrosion resistance through its propriety technology of electrodeposition coating on stainless steel.

An exhaust system is made up of an exhaust manifold*, catalyst, muffler, exhaust pipe, and other parts. It is an essential part that plays a role in reducing exhaust gas temperature and noise and removing harmful components and greatly affects the quietness and dynamic performance of automobiles. It is one of the Company's mainstay products.

* Exhaust manifold: Its role is to feed hot exhaust gas from the engine to the exhaust system (catalyst). The exhaust path is divided using a complex pipe bending process and welding technology, which helps improve fuel economy.

In recent years, the Company has supplied a compact, lightweight exhaust system in line with the shift to BEVs and vehicle weight reduction. Furthermore, it also produces diesel exhaust gas aftertreatment systems which are compliant with Euro 6 exhaust gas regulations.

In 2023, the Company mass produced exhaust systems for the Land Cruiser 70 (a model reintroduced in Japan) and exhaust manifolds for the Lexus GX and LBX for Toyota.

In terms of fuel system parts, as evaporative gas emission limits are being tightened and ORVR* installations are progressing in various regions, the Company supplies both canisters with simple structures and canisters with multi-layer structures that incorporate its unique expertise. Furthermore, it is pursuing canister development with the aim of adopting recycled resin materials.

* ORVR stands for onboard refueling vapor recovery.

iii) Suspension parts

The Company develops, produces, and supplies undercarriage parts such as front suspension sub-frames*1, engine undercovers*2, and trailing arms*3.

*1 Front suspension sub-frame: A part that absorbs large impacts from various directions in the event of a collision
*2 Engine undercover: A part mounted on the underside of the engine that protects it from rocks flying up from the ground
*3 Trailing arm: A part that supports front and rear forces and absorbs impacts from acceleration, deceleration, and road surface irregularities

(2) Equipment for external sales business

Applying 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. Using 3D CAD/CAE, it has established an integrated system from process planning to product assurance.

(3) 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 currently improving its CO_2 recovery efficiency and diversifying HVAC equipment fuels, such as using biomass fuel.

In partnership with universities and logistics companies, the Company is also applying this technology to develop a system for separating and recovering CO_2 emitted by logistics trucks, which are considered difficult to electrify. In February 2024, it conducted a public road test run, in which the vehicle successfully traveled around 10km with zero CO_2 emissions. Furthermore, to apply this system to construction equipment (hydraulic excavators), the Company is working with a construction equipment manufacturer to conduct experiments and pursue development.

Results trends

Profit grew considerably in 1H FY3/26, driven by higher profit in North America

1. Overview of 1H FY3/26 results

The Company's consolidated results for 1H FY3/26 were as follows: net sales of ¥329.4bn (down 5.7% year on year), operating profit of ¥8.6bn (up 58.1%), ordinary profit of ¥8.7bn (up 146.4%), and profit attributable to owners of parent of ¥6.3bn (up 302.4%).

Net sales (excluding supplied goods) were ¥218.9bn (up 1.3% YoY), an increase of ¥2.7bn YoY. If one excludes the ¥7.2bn decrease in net sales attributable to material price fluctuations (which does not affect profit), for which purchasing prices and selling prices fluctuate by the same amount, and the ¥4.9bn decrease in net sales attributable to fluctuations in the exchange rate for foreign subsidiaries (yen appreciation) from net sales (excluding supplied goods), actual net sales increased ¥14.8bn to ¥231.0bn (up 6.8%).

Although net sales decreased YoY due to the impact of the yen's appreciation and decreases in material prices and the price of paid-in goods supplied such as catalysts, net sales (excluding supplied goods), which shows the Company's actual capabilities, increased. This was supported by the recovery in automobile sales at customers in Japan and North America.

1H FY3/26 results

(¥bn)

		1H FY3/25		1H FY3/26		YoY	
		Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales	Including supplied goods	349.3	-	329.4	-	-19.8	-5.7%
	Excluding supplied goods	216.2	100.0%	218.9	100.0%	2.7	1.3%
Gross profit		20.4	9.4%	23.8	10.9%	3.4	17.0%
SG&A expenses		14.9	6.9%	15.2	7.0%	0.3	2.0%
Operating profit		5.4	2.5%	8.6	3.9%	3.1	58.1%
Ordinary profit		3.5	1.6%	8.7	4.0%	5.2	146.4%
Profit attributable to owners of parent		1.5	0.7%	6.3	2.9%	4.8	302.4%
Foreign exchange rate (1USD)		¥152.6		¥146.0		¥-6.6	

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

2. Results by segment

In North America, production of Toyota's Grand Highlander for the North American market was suspended in 1H FY3/25 due to defective airbags, but the problem has been resolved and automobile sales have recovered. As a result of this and other factors, net sales increased 8.7% YoY in 1H FY3/26.

In Japan, net sales decreased by just 0.9% YoY. The temporary negative impact of issues that occurred in 1H FY3/25, such as product recalls and fraudulent type approval applications and certifications by major automobile manufacturers, was removed. Furthermore, sales in the mainstay parts business performed strongly. In China, the order environment for Japanese-affiliated vehicles continued to worsen due to the shift to BEVs and intensifying price competition. However, net sales did not fall as much as expected, dropping only 5.5%. In Asia, they declined 8.6% as sales in the India parts business slowed. In Europe, they increased 0.5%.

Net sales by segment

(¥bn)

	1H FY3/25		1H FY3/26		YoY	
	Results	vs. net sales	Results	vs. net sales	Change amount	% change
Net sales (excluding supplied goods)	216.2	100.0%	218.9	100.0%	2.7	1.3%
Japan	103.8	46.8%	102.8	46.0%	-0.9	-0.9%
North America	62.3	28.1%	67.8	30.3%	5.4	8.7%
Europe	18.6	8.4%	18.7	8.4%	0. 0	0.5%
China	27.3	12.3%	25.8	11.5%	-1.4	-5.5%
Asia	9.4	4.3%	8.6	3.9%	-0.8	-8.6%
Eliminations	-5.4	-	-4.9	-	0.4	-

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

3. Analysis of factors in profit increase/decrease

Operating profit was ¥8.6bn (up 58.1% YoY), which was ¥3.1bn more than in 1H FY3/25. The main reasons for the increase were higher sales in the parts business and production streamlining improvements. Profits rose ¥2.5bn due to increased sales in the parts business and ¥1.3bn due to production streamlining improvements. The Company achieved the latter by implementing break-even point improvement activities, best practice activities, and cost reductions through improved utilization rates by consolidating lines and switching to two-shift operations.

In terms of factors that decreased profit, there was a ¥5.7bn increase in material, labor, and administrative costs associated with global inflation, but this was covered by appropriate adjustments in prices for customers. Furthermore, the depreciation and amortization burden, especially for molding equipment, decreased ¥3.0bn. However, at the same time, profit in non-parts businesses, such as mold recovery fees, decreased ¥2.6bn, offsetting the decrease in mold depreciation. As a result, the changes in profit more or less canceled each other out.

By segment, profit increased ¥2.0bn YoY in North America due to recovery of automobile production at customers. In Japan, there was a significant rise in material, labor, and administrative costs, but this was offset by higher sales in the parts business, price adjustments, and streamlining improvements, leading to a profit increase of ¥0.8bn. In China, profit increased ¥0.7bn due to a reduction in labor and administrative costs associated with the consolidation of production sites, improved material yield, and other factors.

Initially, there was concern about US tariffs, but since the Company is increasingly producing locally for local consumption at its global sites, it has few trade transactions. The impact of US tariffs on profit was therefore limited to around ¥0.4bn in 1H.

Ordinary profit increased ¥5.2bn to ¥8.7bn (up 146.4% YoY) as a result of a ¥2.0bn improvement in non-operating profit/loss. This was mainly because in 1H FY3/25, it recorded foreign exchange losses of ¥2.2bn on loans to overseas subsidiaries and business structure improvement expenses of ¥0.5bn for voluntary retirement benefits at overseas subsidiaries, etc. as non-operating expenses. Furthermore, as a result of recording a ¥0.5bn gain on liquidation for Changsha Futaba Auto Parts Co., Ltd., which was shut down in October 2023, in extraordinary income, profit attributable to owners of parent increased ¥4.8bn to ¥6.3bn (up 302.4%).

Factors of increase/decrease in profit by segment

(¥bn)

		Japan	North America	Europe	China	Asia	Eliminations	Total
1H FY3/25 Operating profit (actual)		2.3	0.9	0.5	0.7	0.8	0.0	5.4
Factors of increase/decrease	Parts business sales increase	0.8	1.5	0.1	0.2	-0.1	-	2.5
	Price fluctuations	-0.3	-0.3	-0.2	-0.3	-	-	-1.1
	Increase in material, labor, and administrative costs	-4.2	-1.5	-0.3	0.5	-0.2	-	-5.7
	Price adjustments	3.9	1.6	0.3	0.0	0.0	-	5.8
	Streamlining improvements	0.4	0.4	0.1	0.4	0.0	-	1.3
	Decrease in depreciation and amortization	1.9	0.4	-0.0	0.7	0.0	-0.0	3.0
	Decrease in profit from non-parts businesses, such as mold recovery costs	-1.7	-0.1	0.0	-0.6	-0.2	0.0	-2.6
1H FY3/26 Operating profit (actual)		3.1	2.9	0.6	1.5	0.3	-0.0	8.6
YoY Change		0.8	2.0	0.0	0.7	-0.5	-0.0	3.1

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

The equity ratio was 40.2%, up 2.7pp from the end of the previous fiscal year

4. Financial position and management indicators

Total assets at the end of 1H FY3/26 decreased ¥6.9bn from the end of the previous fiscal year to ¥307.0bn. Current assets declined ¥10.7bn to ¥135.6bn. Cash and deposits increased ¥1.3bn, while trade receivables decreased ¥11.1bn. Non-current assets rose ¥3.8bn to ¥171.3bn. Property, plant and equipment increased ¥2.4bn due to factors such as investment in production equipment for vehicles whose models will change in 2H and beyond, while investments and other assets were up ¥1.5bn due to an increase in gain on valuation of investment securities, an increase in assets related to retirement benefits affected by stock prices, and other factors.

At the same time, total liabilities decreased ¥13.4bn due to a ¥13.0bn decrease in accounts payable, repayment of long-term borrowings of ¥1.6bn, and other factors. Net assets increased ¥6.5bn to ¥129.7bn. Retained earnings rose ¥4.5bn, and due to fluctuations in stock markets and foreign exchange markets, accumulated other comprehensive income grew ¥1.2bn while non-controlling interests increased ¥0.7bn.

The equity ratio was 40.2%, up 2.7 percentage points (pp) from the end of the previous fiscal year. While liabilities decreased significantly due to the decrease in accounts payable and repayment of interest-bearing debt, net assets increased.

Consolidated balance sheets

(¥bn)

	End of FY3/25	End of 1H FY3/26	Change
Current assets	146.4	135.6	-10.7
Cash and deposits	13.7	15.1	1.3
Non-current assets	167.4	171.3	3.8
Total assets	313.9	307.0	-6.9
Current liabilities	138.0	135.6	-2.3
Non-current liabilities	52.6	41.5	-11.0
Total liabilities	190.7	177.2	-13.4
Total net assets	123.1	129.7	6.5
Equity ratio	37.5%	40.2%	2.7pp

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

Outlook

In FY3/26, profit is expected to increase due to streamlining improvements, especially in North America

1. FY3/26 forecasts

In its forecasts for consolidated results in FY3/26, the Company is projecting net sales to decrease 8.1% YoY to ¥650.0bn, 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. Profit attributable to owners of parent is expected to grow around 1.9 times.

Net sales in FY3/26 were initially forecast to be around ¥680.0bn, but due to fluctuation in the prices of paid-in goods supplied from customers in the North America segment, the forecast was revised downward by ¥30.0bn to ¥650.0bn in October 2025 (down 8.1% YoY). With regard to net sales (excluding supplied goods), sales in China and Europe are expected to exceed the initial forecasts based on the current situation, and the forecast was therefore revised upward by ¥10.0bn to ¥430.0bn (down 2.8%).

Based on the 1Q results, the forecast for each profit line was revised downward by ¥0.5bn in July 2025. However, in light of the 1H results and the projected marginal impact of US tariffs, the forecast for each profit line was revised upward again by ¥0.5bn in October, bringing them back to the original level. The dollar-yen exchange rate is projected to stay the same as initially forecast, at ¥145.0 to one US dollar, which is an increase of ¥7.6 per dollar compared to the previous fiscal year. Toyota, the Company's main customer, expects sales volume to increase 4.7% globally, 4.5% in Japan, and 9.5% in North America. However, based on past experience, including the risk of not meeting forecasts, the Company is generally conservative in its sales estimates.

The impact of US tariffs is forecast to be minimal for the full year. Tariff impacts on the import and export of parts between Canada and the US are also expected to be limited, as refunds are available under the USMCA framework, including refunds from the Canadian government, and refunds from the US government are also anticipated.

FY3/26 forecasts

(¥bn)

		FY3/25		FY3/26				YoY	
		Results	vs. net sales	Initial forecast	Revised forecast	vs. net sales	vs. initial forecast	Change amount	% change
Net sales	Including supplied goods	707.1	-	680.0	650.0	-	-30.0	-57.1	-8.1%
	Excluding supplied goods	442.2	100.0%	420.0	430.0	100.0%	10.0	-12.2	-2.8%
Operating profit		15.1	3.4%	16.0	16.0	3.7%	-	0.8	5.4%
Ordinary profit		13.2	3.0%	16.0	16.0	3.7%	-	2.7	20.5%
Profit attributable to owners of parent		6.2	1.4%	12.0	12.0	2.8%	-	5.7	93.3%
Foreign exchange rate (1USD)		¥152.6		¥145.0	¥145.0		-	¥-7.6	

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

2. Forecasts by segment

By segment, the sales environment in China is expected to remain difficult, but for now, the Company has revised the initial forecast upward by ¥6.0bn and expects sales to decrease ¥10.1bn YoY. In Japan, the initial forecast was also revised upward by ¥1.0bn and sales are expected to be down ¥6.7bn. In Europe, the initial forecast was revised upward by ¥3.0bn and sales are forecast to be ¥1.5bn higher. In Asia, on the other hand, sales in India are lower than expected, and the initial forecast was revised downward ¥2.0bn, with sales expected to decline ¥1.4bn. In North America, meanwhile, the Company is maintaining its forecast that sales will rise ¥3.9bn due to recovery of sales volumes at its customer Toyota.

Net sales forecast by segment

(¥bn)

	FY3/25		FY3/26				YoY	
	Results	vs. net sales	Initial forecast	Revised forecast	vs. net sales	vs. initial forecast	Change amount	% change
Net sales (excluding supplied goods)	442.2	100.0%	420.0	430.0	100.0%	10.0	-12.2	-2.8%
Japan	216.7	47.7%	211.0	210.0	47.6%	-1.0	-6.7	-3.1%
North America	124.0	27.3%	128.0	128.0	29.0%	-	3.9	3.2%
Europe	38.4	8.5%	37.0	40.0	9.1%	3.0	1.5	4.0%
China	56.1	12.4%	40.0	46.0	10.4%	6.0	-10.1	-18.1%
Asia	18.4	4.1%	19.0	17.0	3.9%	-2.0	-1.4	-8.1%
Eliminations	-11.6	-	-	-11.0	-	4.0	0.6	-

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

3. Analysis of factors in profit increase/decrease

Operating profit is expected to increase ¥0.8bn YoY. This is mainly due to production streamlining improvements. In 1H, there was a ¥1.3bn increase in profit due to streamlining improvements, with a ¥5.1bn increase projected for the full year. In North America in particular, the Company expects a ¥1.6bn profit increase in 2H (¥2.0bn for the full year) through productivity improvements, such as rolling out best practice activities and enhancing utilization rates by consolidating lines and switching to two-shift operations. Furthermore, it also forecasts a profit increase of ¥1.1bn in 2H (¥1.5bn for the full year) in China due to the consolidation of production sites.

In 1H, higher sales in the parts business contributed to the increase in operating profit, but in 2H, it is expected that there will be a temporary dip in sales volume associated with model changes for some vehicles in Japan, North America, and China. As a result, the Company expects a ¥2.6bn profit decrease for the full year due to the drop in parts business sales. Material, labor, and administrative costs are also expected to keep rising, with a ¥9.4bn increase for the full year, but it is expected that this will be absorbed through ¥11.1bn in price adjustments for customers. Furthermore, the depreciation and amortization burden, especially for molding equipment, will decrease ¥3.9bn, while at the same time, profit in non-parts businesses will decrease ¥3.6bn, offsetting the decrease in mold depreciation. As a result, the changes in profit are expected to more or less cancel each other out.

Ordinary profit is expected to increase ¥2.7bn since the foreign exchange losses and business structure improvement expenses recorded in the previous fiscal year are not anticipated this year. Profit attributable to owners of parent is also forecast to rise ¥5.7bn since the extraordinary income (e.g., gain on sale of investment securities) and extraordinary losses (e.g., ¥2.6bn business restructuring loss in the Tianjin area of China, ¥2.5bn impairment loss on non-current assets at sites in Guangzhou, China) recorded in the previous fiscal year are not expected this year. As a result, ROE is on track to recover to 10% or higher.

Factors of increase/decrease in profit by segment

(¥bn)

		Japan	North America	Europe	China	Asia	Eliminations	Total
FY3/25 operating profit (Results)		5.9	2.7	2.4	2.2	1.8	-0.0	15.1
Factors of increase/ decrease	Profit decrease due to lower sales	-0.8	0.1	-0.4	-1.0	-0.5	-	-2.6
	price fluctuations	-0.9	-0.3	-0.1	-0.8	-0.6	-	-2.7
	Increase in material, labor, and administrative costs	-6.8	-2.5	-1.0	0.8	0.1	-	-9.4
	Price adjustments	8.0	2.9	0.2	0.0	0.0	-	11.1
	Streamlining improvements	1.0	2.0	0.4	1.5	0.2	-	5.1
	Decrease in depreciation and amortization	2.2	0.5	0.0	1.2	0.0	0.0	3.9
	Decrease in profit from non-parts businesses/Other	-2.6	0.1	0.0	-1.4	-0.5	0.0	-4.5
FY3/26 operating profit (E)		6.0	5.5	1.5	2.5	0.5	0.0	16.0
YoY change		0.1	2.8	-0.9	0.3	-1.3	0.0	0.8

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

Medium- to long-term growth strategy

Targeting ROE of 10% or higher and operating margin of 5.0% (FY2027)

1. Overview of new Medium-Term Management Plan

In May 2025, the Company announced its new Medium-Term Management Plan for the three-year period from FY2025 to FY2027 (FY3/26–FY3/28). The new plan has set targets of ROE of 10% or higher and an operating margin of 5.0% (FY2027) to quickly achieve a PBR of 1 time. To reach these targets, the Company plans to further raise profitability by streamlining and increasing the efficiency of production and to allocate cash flow to the growth of the existing auto parts business, commercialization of new businesses, investment contributing to the growth of the India business, and shareholder returns.

Net sales (excluding supplied goods) were ¥442.2bn in FY2024, based on the actual exchange rate (¥152.6 = 1USD). Starting with net sales (excluding supplied goods) of ¥430.0bn, obtained by converting the FY2024 result based on the assumed exchange rate (¥145.0 = 1USD) in FY2025 forecasts, sales are expected to remain flat from FY2025 and be ¥420.0bn in FY2027. With the struggle for sales in China and the shift to BEVs to offset the expected decrease 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. Net sales figures appear to be somewhat conservative, but this is 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.

To secure an ROE of 10% or higher, the Company aims to achieve an operating margin of 5.0% through each business strategy and increased production efficiency. It also plans to enhance the total asset turnover ratio by optimizing allocation to sites (facilities and personnel) through regional portfolio management, including the integration of production sites in China, and improving the utilization ratio by consolidating (integrating) production lines and promoting a two-shift production system. In September 2025, it announced the integration of its production sites in the UK. It plans to cease production at the Derby plant of its consolidated subsidiary Futaba Manufacturing U.K. Ltd. at the end of December 2026, transferring production to sites such as the Burnley plant.

The Company also intends to maintain financial soundness and use financial leverage by controlling capital while investing in growth and enhancing Shareholder return policy. It will secure operating cash flow of ¥118.0bn over the three years and plans to allocate ¥11.0bn to shareholder returns (¥6.9bn under the previous Medium-Term Management Plan), ¥77.0bn to ordinary capital investment (¥65.9bn), ¥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).

Pursuing expanded parts sales and investment in growth of India business

2. Business strategy in new Medium-Term Management Plan

To expand sales, the Company is putting forth the business strategies of growth in existing businesses (products), commercialization of new business, growth in existing businesses (regions), and strengthening the management base.

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

The Company will continue the strategies indicated in the previous Medium-Term Management Plan: responding to the spread of BEVs (expanding sales of body parts, increasing added value), increasing market share in engine-powered vehicles, and initiatives for new business. Based on these ongoing strategies, it will pursue three measures: improving development and capacity to expand sales in the body parts business (body/interior parts), developing new systems in line with electrification needs in the exhaust parts business, and accelerating new business development and early commercialization.

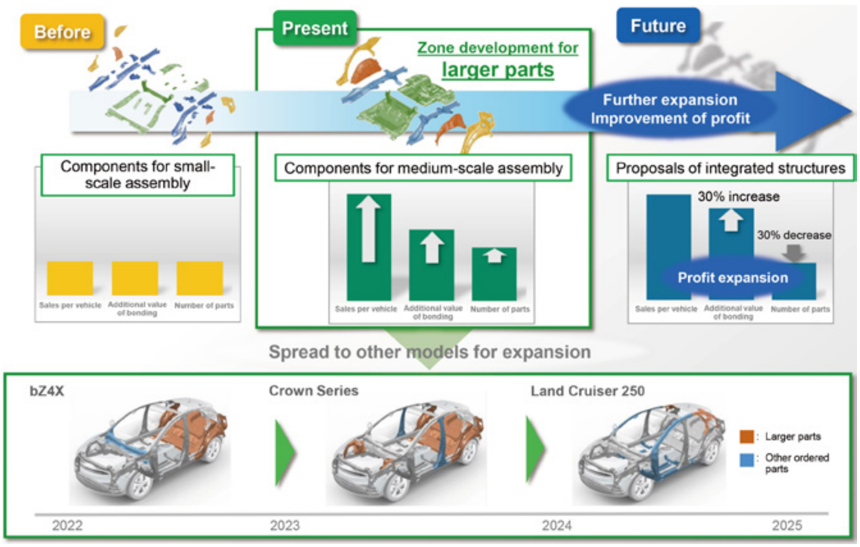
a) Expand sales in the body parts business

Starting from ¥270.0bn in FY2024, net sales of body parts are expected to decrease to ¥257.0bn in FY2027, all else being equal, but expanded part sales will add on ¥7.0bn, and the Company forecasts net sales of ¥264.0bn. By FY2030, the figure is forecast to decline to ¥255.0bn, all else being equal, but the Company is aiming for ¥290.0bn through a ¥35.0bn contribution from expanded parts sales.

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 the future, it will promote an integrated structure by getting involved in vehicle planning conception in collaboration with automakers. The Company aims to reduce the number of parts by 30% and increase joint added value (profit increase) compared to medium-sized assembly components, thereby further increasing profit.

Underlying this shift to medium-sized assembly components and integration strategy is the market environment, which is demanding larger and lighter components due to the shift to BEVs, while new technologies such as Gigacast, which integrally molds automobile body parts in aluminum, are being introduced. In response to this, the Company is working on making parts larger through zone development using steel and stainless steel processing technology which enables production with lower costs than Gigacast while maintaining the same strength. This technology has been adopted for Toyota's bZ4X BEV vehicle, Crown series, and others.

Initiatives for larger and more integrated parts



Source: The Company's results briefing materials

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

Sales of exhaust system parts are expected to decrease 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 plans to add on ¥2.0bn to bring the figure to ¥127.0bn. In FY2030, sales 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.

The Company is pursuing the development of a new exhaust system to meet the needs of BEVs. Specifically, its full modular muffler combines several types of function-specific mufflers that have been downsized and modularized (standardized) by dividing the purification and sound deadening functions that were previously integrated. As well as significantly reducing weight and deadening sound, this is expected to significantly shorten development and production preparation time and reduce muffler types and production equipment. Currently, the Company is expanding its sales activities to PHEVs and HEVs.

c) Commercialization of new business

The Company is leveraging the technologies that it has cultivated in automotive parts manufacturing, including molding technology in press processing, laser welding, and heat management, to pursue product development aimed at creating new businesses. By FY2030, it is targeting net sales of ¥4.0bn in new businesses.

In the agricultural business, the Company is pursuing development of an energy recycling system using agricultural residues and development of laser weeding robots that utilize its AI image recognition and laser irradiation technologies. In the auto parts business, it is pursuing development of new products such as battery cell cases and battery cooling plates for electrified vehicles, mainly for BEVs. In addition, the Company is developing ultra-compact solid oxide fuel cells (SOFCs) that can operate for long hours using biofuel and a system that separates and recovers CO_2 from the exhaust gas of construction equipment, etc., which it is already developing in collaboration with construction and logistics companies.

(2) Growth in existing businesses (regions)

In the India market, where high growth is continuing, the Company established a new India business headquarters in April 2025, which is engaged in expanding and growing the business. 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.

Based on this investment plan, it already decided to establish a branch plant of a local affiliate, FMI Automotive Components Private Limited, in December 2024 (investment of approximately ¥4.5bn). Manufacturing of exhaust system parts is scheduled to begin in March 2027. According to the plans, it is also considering further increasing sites in response to automaker growth in India, particularly Suzuki <7269>.

(3) Strengthening the management base

The Company is strengthening its management base based on three pillars: improving earning power, investing in human resources, and carbon neutrality efforts.

i) Improving earning power

The Company has indicated that it will use 3D data, improve quality, and switch to smart factories. Based on this, it plans to improve profitability and earning power on a global scale.

Through 3D production preparation, which uses 3D data for everything from product data to factory layouts, makes it equipment design without physical prototypes possible. Based on this, the Company aims to shorten lead times and reduce investment. In terms of improving quality, activities such as sharing break QA hazard maps created using CAE with its QA network will improve yields by enhancing quality and reducing waste due to non-compliance. As for smart factories, the Company has completed a digital platform and is automating processes, with the aim of reducing its workforce by a cumulative total of 280 people over the three years of the Medium-Term Management Plan.

ii) Investing in human resources

The Company will continue to invest in human resources as the foundation for improving earning power. The goal is to create a foundation that enables the promotion of change by pursuing human resource management and personnel system reforms. As part of this, to commemorate the 80th anniversary of its founding, it introduced a stock incentive plan for the employee stock ownership association in October 2025.

iii) Carbon neutrality efforts

Carbon neutrality efforts are positioned as a strategy supporting improved earning power. The Company increased its CO_2 emission reduction target to 50% from FY2019 levels (accelerating the annual reduction rate from 3% to 4.6% per year). As measures for implementing this, it is reducing energy costs through consolidating production lines and so forth, as well as pursuing reduction of CO_2 emissions (Scope 3) while vehicles are in operation by using ultra-high-strength materials to make parts lighter. The Company is on track to achieve a 40% reduction in CO_2 emissions on a non-consolidated basis, while Group companies are already on track to achieve a 60% reduction.

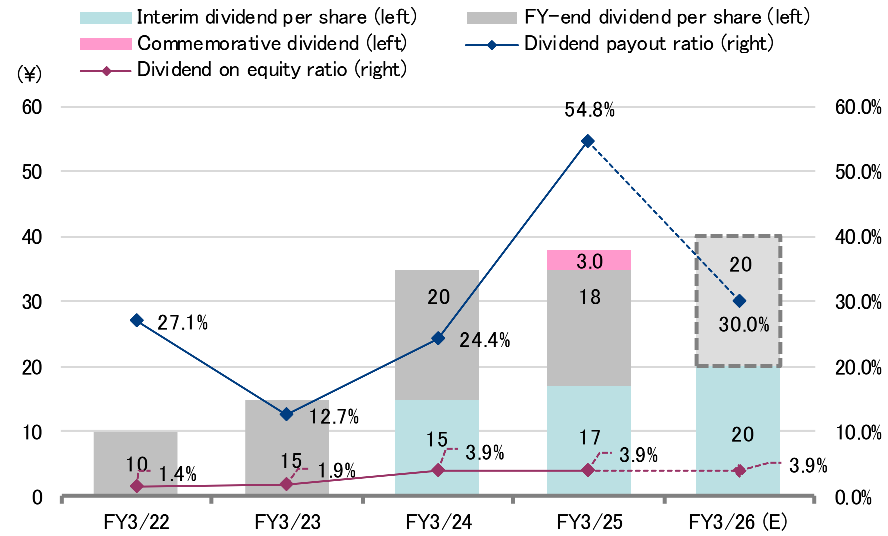
Shareholder return policy

Introduced progressive dividend policy with a minimum DOE of 3.5% and plans to increase dividend by ¥2 in FY3/26

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. While aiming to maintain or increase the amount of dividends paid to shareholders, the Company has paid both an interim and year-end dividend since FY3/24 in line with the increase in retained earnings. It specifically targeted a dividend payout ratio of 30%, but in April 2025, it decided to introduce 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 FY3/26, net income per share is expected to recover to around 1.9 times, and the Company has decided to pay an interim dividend of ¥20 as an ordinary dividend and plans to pay a year-end dividend of ¥20, for a total of ¥40. The dividend payout ratio is expected to be 30.0% and the DOE 3.9%.

Dividend per share and dividend payout ratio



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

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