COMPANY RESEARCH AND ANALYSIS REPORT

Kurabo Industries Ltd.

3106

Tokyo Stock Exchange Prime Market

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Summary

Despite a decline in FY3/26 results, sales and profit are expected to increase in the next fiscal year, helped by a recovery in the semiconductor market

1. Business description

Kurabo Industries Ltd. <3106> (hereafter, also "the Company") is a long-established major textile company founded in 1888. From its early days, the Company has constantly looked ahead and sought to create new value. Today, its business areas cover a broad range, from those that underpin daily life such as textiles, automobiles, housing, biomedical, and foods, to those that support industry including electronics, semiconductors, and environmental plant engineering. The Company has a tradition of proactive community service since it was founded. Going forward, it will conduct its business activities with sustainability in mind and pursue the development of products and technologies based on themes such as health, comfort, and environmental awareness to contribute to a better future. Under the medium-term management plan Accelerate'27, which was launched in the previous fiscal year, the Company plans to concentrate management resources on priority businesses in which growth may be expected and further accelerate business portfolio reform.

2. Value creation process

The Company's value creation process is about creating value by deploying its management resources such as its accumulated technologies and expertise and human resources to solve social problems and supply growth markets. Looking back at its history, its current businesses are all derived from its founding Textiles Business. These businesses include the Chemical Products Business, where the increasing uses of its resin processing technologies now include automotive materials and housing construction materials, and the electronics business (Advanced Technology Business), which automates color control in the dyeing process and has expanded to color management and inspection and measurement. The stable earnings in the Real Estate Business and R&D structure centered on the Technical Research Laboratory also support value creation. At present, the Company has crafted a value creation story that combines solving social problems and sustained growth by concentrating its management resources on markets that are highly profitable and have strong growth potential, including the semiconductor production-related market, the life science-related domain (which encompasses automation and control systems, medical devices, food-related markets, etc.), high-performance films, and robot vision systems.

3. Overview of FY3/26 results

In the FY3/26 consolidated results, net sales were ¥143,758mn, down 4.6% year on year (YoY), and operating profit was ¥9,182mn, down 11.0%. While both sales and profit decreased, the profit level was higher than forecast. Net sales decreased in the Chemical Products Business as sales of high-performance plastic products remained sluggish due to a slump in the non-AI-related semiconductor market. They also slumped in the Textiles Business, which is undergoing structural reforms, due to the casual wear field's struggles. On the other hand, in the Advanced Technology Business, there was strong growth in net sales for factory automation (FA) equipment, inspection systems for the railway industry, wafer cleaning systems, etc. The Food and Services Business and Real Estate Business also performed steadily overall. Profit decreased due to factors such as slower sales of high-performance plastic products in the Chemical Products Business and structural reform costs in the Textiles Business. However, the Company was able to secure a profit level that exceeded the forecast following the second upward revision, mainly due to growth in the highly profitable Advanced Technology Business and a recovery in sales of high-performance plastic products from the fourth quarter onward. Furthermore, profit attributable to owners of parent reached a record high due to recording gains on the sale of cross-shareholdings (approximately ¥6.4bn).

4. FY3/27 forecasts

For the FY3/27 results, the Company expects net sales to increase 7.1% YoY to ¥154.0bn and operating profit to increase 22.0% to ¥11.2bn. Net sales are expected to increase in each of the three core businesses, namely the Chemical Products Business, Textiles Business, and Advanced Technology Business. In the Chemical Products Business, growth in high-performance plastic products, particularly against the backdrop of a recovery and expansion in the semiconductor market, is expected to make a significant contribution to the increase in sales. In the Textiles Business, a recovery in the casual wear field is expected, while in the Advanced Technology Business, a recovery in sales of agitation and defoaming equipment and increased sales of robot vision systems are anticipated. Profit is also expected to increase substantially, driven by growth in highly profitable high-performance plastic products and the effects of structural reforms in the Textiles Business, which are expected to return the business to profitability. The Company plans an annual dividend of ¥331 per share (before taking into account the stock split*), an increase of ¥24 from FY3/26.

* A stock split at a ratio of five-for-one is scheduled for October 1, 2026.

5. Basic policy of medium-term management plan Accelerate'27

The new medium-term management plan Accelerate'27 (FY3/26–FY3/28) marks the third stage of the Long-term Vision 2030* (FY3/20–FY3/31). Under the basic policy of accelerating growth in high-profit businesses and increasing corporate value through efficient use of management resources, the Company aims to further accelerate business portfolio reform by positioning the semiconductor production-related and life science-related domains as priority businesses and move toward completing the final stage of the vision. For the final year of the plan (FY3/28), the Company is targeting consolidated net sales of ¥165.0bn and operating profit of ¥13.0bn, with the operating profit ratio improving to 7.9% (up 1.1 percentage points (pp) from FY3/25). In addition, by allocating resources and implementing financial and capital policies with an emphasis on capital efficiency, it aims to raise ROIC to at least 7.9% (up 2.4pp) and ROE to at least 10.0% (up 2.4pp). It has also set a dividend on equity (DOE) target of 4% and aims to repurchase ¥20.0bn in shares over three years.

* The Company's vision for 2030 is to become "a strong corporate group that generates innovation and high profit."

Key Points

- While sales and profit both decreased in FY3/26, the Company secured a profit level higher than forecast, and profit attributable to owners of parent reached a record high due to gains on the sale of cross-shareholdings
- For FY3/27, substantial increases in sales and profit are expected, driven by growth in high-performance plastic products for the semiconductor production-related market
- The medium-term management plan will further accelerate business portfolio reform and drive improvements in profit margins and capital efficiency
- In terms of shareholder returns, the Company is targeting a dividend on equity (DOE) of 4% by FY3/28 and aims to repurchase ¥20.0bn in shares over the three-year period

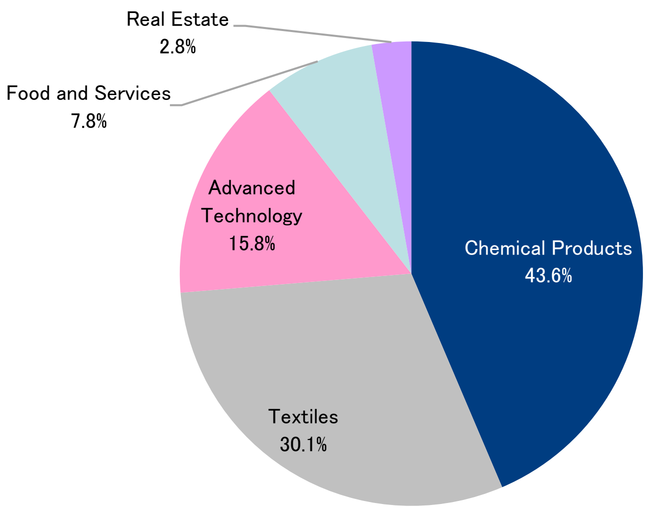
Business description

Operates in broad business areas that support daily life and industry

The Company is a major textile company founded in 1888. Its management philosophy states: "the Kurabo Group contributes to a better future through the creation of new value." From its early days, the Company has constantly looked ahead and sought to create new value. Today, its business areas range widely from textiles, automobiles, housing, biomedical, and foods, which underpin daily life, to electronics, semiconductors, and environmental plant engineering, which support industry.

The Company has five business segments. The Textiles Business is its founding business. The other four segments are the Chemical Products Business, Advanced Technology Business, Food and Services Business, and Real Estate Business. In descending order, net sales in FY3/26 broke down into 43.6% for Chemical Products, 30.1% for Textiles, 15.8% for Advanced Technology, 7.8% for Food and Services, and 2.8% for Real Estate.

Net sales breakdown by business segment (FY3/26)



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

1. Chemical Products Business

Harnessing proprietary resin compounding and molding technology, the Chemical Products Business supplies a diverse range of products from "high-performance plastic products for semiconductor manufacturing equipment" to "functional films," "automobile interior materials and housing construction materials and heat-insulating materials," and "nonwoven fabric used as industrial materials." The Company regards high-performance plastic products for semiconductor manufacturing equipment and functional films as priority products and is pushing ahead with expanding the scope of these businesses to supply growth markets. It is also actively engaged in R&D, focusing on development of new products in each business area. In housing construction materials, the Company is developing environmental-friendly products such as laminated wood using recycled wood plastic. In functional films, it is developing new functions and production technologies for semiconductor, automotive, energy, and electronic component applications. It is also improving production technologies and product performance of high-performance plastic products for semiconductor manufacturing equipment and developing production, forming, and processing technologies for Kura Power Sheet, CFRTP materials in the high-performance composite materials business.

2. Textiles Business

The mainstay products of the Textiles Business are casual clothing materials, uniform materials, and yarn materials for towels, socks, and underwear. A new business is work environment support tools. By making the most of its unique, advanced technologies in spinning, weaving, dyeing and processing, and sewing, the Company has developed many highly functional and refined textile products based on the natural fiber cotton. It has also established a leading position in heavy fabrics for uniforms, casual wear, and denim. The Textiles Business continues to face headwinds amid a decline in domestic casual wear demand and intensifying price competition with overseas products. However, the Company is transforming to a business model that delivers new value by initiatives such as smart factories that harness AI and IoT and sustainable resource recycling of textiles, and development of new products and services that utilize its proprietary technologies. Focus products include NaTech*1, which adds various functions to natural fibers used as materials for towels, socks, and underwear; L∞PLUS*2, an upcycling system for textile cutting waste in casual wear materials; flame-retardant fabrics BREVANO and PROBAN used as uniform materials; and work environment support tool product Smartfit for Work*3, an on-site risk management system.

*1 Made using Kurabo's proprietary technologies, NaTech can give functionality to natural fibers. It provides warmth, deodorization, and moisture absorption and desorption, effects that continue even after repeated washings.
*2 L∞PLUS is a material born from a recycling project, as well as the name for Kurabo's sustainable system of upcycling textile cutting waste and creating new clothing and fashion accessories with it, and the products made by the system.
*3 The tool analyzes and assesses data obtained by wearable devices such as workers' biological signs and local weather information, providing real-time notifications of the risk of working in severe heat and changes in physical condition to support risk management.

3. Advanced Technology Business

The Advanced Technology Business comprises the life science-related, electronics, and engineering businesses, among other operations. The life science-related business includes the biomedical business, which provides research reagents, equipment, and services for drug discovery, cosmetics development, and preclinical studies. It also handles robot vision systems (industrial robot sensing devices)* and automation and control systems. By combining core technologies in biomedical and vision sensors, the Company is working to generate synergies. The electronics business provides products based on its color sensing technologies such as inspection, measurement, and control systems for various industries including semiconductor printed circuit boards and films, helping to improve the quality of manufacturing. It also conducts R&D and product development in future growth areas such as infrastructure inspection systems that harness image processing and information processing technologies, as well as film thickness measurement systems that apply optical measuring technologies. The engineering business engages in environmental plant engineering such as wastewater and exhaust gas treatment, as well as wafer cleaning systems and chemical supply systems for the semiconductor industry, and also handles biomass power generation.

* The Company has developed technologies that enable robots to “see” (instantly determine the position of the objects they are picking up so that they can handle moving objects and soft materials that change shape) and accurately perceive objects by the use of AI. The robot industry is an area with considerable growth potential, because it is commercializing robots to perform hazardous tasks and to save labor in elderly care and healthcare settings, which suffer labor shortages.

4. Food and Services Business

The Food and Services Business manufactures and sells freeze-dried food and operates a hotel and other facilities. In the food business, Group company Japan Jiffy Foods, Inc. is the first company in Japan to manufacture freeze-dried food on a commercial basis, contributing to the improvement of people’s health and dietary culture through the supply of safe, high-quality products. Going forward, synergistic effects with the Advanced Technology Business may also be expected in the life science-related business area. In the services business, the Company operates Kurashiki Ivy Square (hotel, restaurant, banquet hall, and other facilities), a cultural complex converted from the Company’s original head office spinning mill, and Kurabo Driving School, which contributes to the development and safety of the local community. With a distinctive red brick facade covered in ivy, Kurashiki Ivy Square in Kurashiki Bikan Historical Area is a consistently popular cultural facility that also offers accommodation. It is a landmark in the Company’s birthplace of Kurashiki and is a meaningful business whose significance cannot be measured by financial results.

5. Real Estate Business

In the Real Estate Business, the Company operates a real estate rental business, aiming for long-term, stable revenue by making effective use of idle land in the Textiles Business, such as former factory sites, through the development of offices, commercial facilities, mega-solar installations, and other properties. It is highly profitable, generating stable operating profit of over ¥2.0bn with limited costs even in times of recession, underpinning the Company’s earnings as a source of revenue supporting the growth of the entire Group.

Value creation process

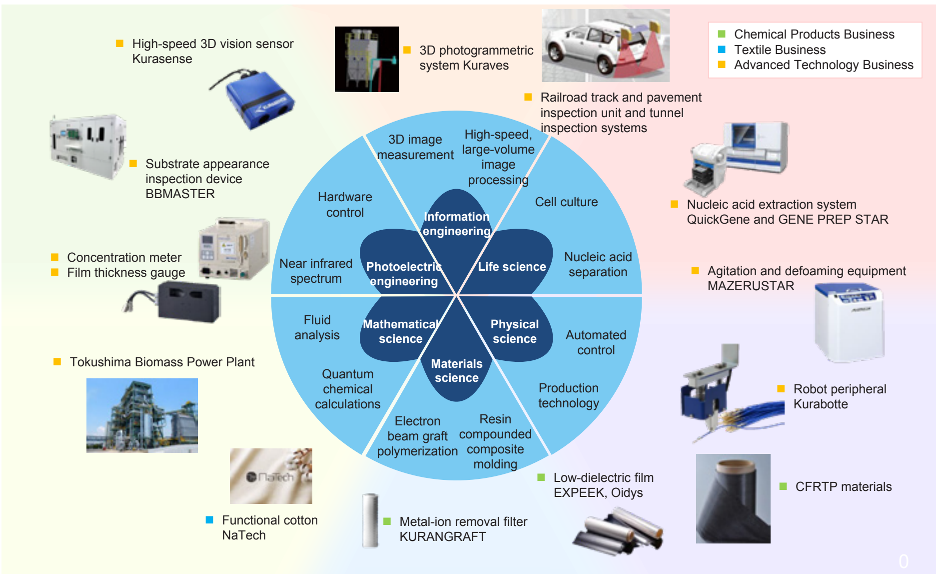
Creates new value in growing markets by leveraging technology and expertise to solve social issues

The Company's value creation process is about creating new value by deploying its management resources such as its accumulated technologies, expertise and human resources to solve social problems and expand into growth markets. Its history shows that many of its current businesses originated as offshoots of the Company's founding Textiles Business. They include: 1) the Chemical Products Business, which was the result of applying its resin processing technologies to automobiles, housing construction materials and the semiconductor production-related domain; 2) the electronics business, which developed from applying automated control of color in the dyeing process to testing and measurement; 3) the engineering business, which applied the exhaust gas and wastewater treatment technologies of its own factories to environmental plant equipment; and 4) the life science-related business, which evolved from the development work of the Technical Research Laboratory such as the development of filtration type particulate filters with antibacterial action, automated nucleic acid isolation systems, and robot vision sensing. The Real Estate Business, which utilizes former factory sites, is a stable source of earnings, and the Company's R&D structure* centered on the Technical Research Laboratory also supports value creation.

* Consists of the core technology group, which cultivates core technologies, and the applied development group, which develops products. The six core technologies are mathematical science, physical science, photoelectric engineering, information engineering, materials science, and life science. It also develops new businesses based on key R&D themes related to robots (robot sensing), semiconductor chemical liquid measurement systems (chemical concentration meters), life science (gene extraction and analysis), and new materials (super engineering plastic film and fiber reinforced composites).

The Company has crafted a value creation story that combines solving social problems and sustained growth by concentrating its management resources on markets that are highly profitable and have strong growth potential, including the semiconductor production-related market and the life science-related domain (which comprises markets such as automation and control systems, and medical devices).

Products and services generated from six core technologies



Source: The Company's IR briefing materials

Results overview

While sales and profit decreased in FY3/26 due to factors such as a delayed recovery in the semiconductor market, the profit level was higher than forecast

1. Overview of FY3/26 results

In the FY3/26 consolidated results, net sales were ¥143,758mn (down 4.6% YoY), operating profit was ¥9,182mn (down 11.0%), ordinary profit was ¥11,071mn (down 6.1%), and profit attributable to owners of parent (net profit) was ¥12,876mn (up 42.8%). Sales and profit (except for net profit) therefore declined, but the profit level exceeded the forecast.

Net sales decreased in the Chemical Products Business as its core high-performance plastic products remained sluggish due to factors such as the delayed recovery in the non-AI-related semiconductor market. They also slumped in the Textiles Business, which is undergoing structural reforms, due to the casual wear field's struggles. On the other hand, in the Advanced Technology Business, there was strong growth in net sales for factory automation (FA) equipment, inspection systems for the railway industry, wafer cleaning systems, etc. The Food and Services Business and Real Estate Business also performed steadily overall.

Profit decreased due to factors such as slower sales of high-performance plastic products in the Chemical Products Business and structural reform costs in the Textiles Business. However, the Company was able to achieve a profit level significantly exceeding the forecast following the second upward revision mainly due to growth of the highly profitable Advanced Technology Business, improvement in the Food and Services Business and Real Estate Business, and a recovery in high-performance plastic products from the fourth quarter onward. Furthermore, net profit increased substantially due to recording gains on the sale of cross-shareholdings (approximately ¥6.4bn), resulting in a new record high.

With regard to cash flows, cash flow from operating activities was significantly positive (¥14,586mn) due to high levels of profit and a decrease in working capital. Cash flow from investing activities was also positive (¥1,366mn), as sales of cross-shareholdings (positive) exceeded capital investment, etc. (negative). Cash flow from financing activities was significantly negative (-¥15,806mn) due to repayment of borrowings, repurchasing shares, and paying dividends. Based on the above, the balance of cash and cash equivalents increased ¥341mn from the end of the previous fiscal year to ¥15,499mn.

With regard to the Company's financial condition, total assets increased 5.9% from the end of the previous fiscal year to ¥201,844mn, mainly due to an increase in investment securities. Investment securities increased despite pursuing the sale of cross-shareholdings due to the impact of higher share prices (evaluation at market price). Meanwhile, shareholders' equity increased 10.3% from the end of the previous fiscal year to ¥132,193mn, as the enhancement of valuation difference on available-for-sale securities (unrealized gain on investment securities) in association with higher share prices and the increase in retained earnings exceeded outflows (repurchasing of shares and payment of dividends). As a result, the equity ratio rose to 65.5% (62.9% at end of previous fiscal year). Meanwhile, ROE, which indicates capital efficiency, also improved to 10.2% (7.6% in the previous fiscal year) due to the accumulation of profits, including gains on the sale of cross-shareholdings.

Results overview for FY3/26

(¥mn)

	FY3/25		FY3/26		YoY		FY3/26			
	Results	Composition ratio / Profit margin	Results	Composition ratio / Profit margin	Change amount	% change	Initial forecast	Composition ratio / Profit margin	Revised forecast*	Composition ratio
Net sales	150,660	-	143,758	-	-6,901	-4.6%	144,000	-	144,000	-
Chemical Products Business	66,002	43.8%	62,654	43.6%	-3,347	-5.1%	64,000	44.4%	-	-
Textiles Business	48,532	32.2%	43,276	30.1%	-5,255	-10.8%	43,500	30.2%	-	-
Advanced Technology Business	21,943	14.6%	22,716	15.8%	773	3.5%	22,200	15.4%	-	-
Food and Services Business	10,458	6.9%	11,145	7.8%	686	6.6%	10,500	7.3%	-	-
Real Estate Business	3,723	2.5%	3,965	2.8%	241	6.5%	3,800	2.6%	-	-
Gross profit	31,658	21.0%	30,876	21.5%	-782	-2.5%	-	-	-	-
SG&A expenses	21,346	14.2%	21,694	15.1%	347	1.6%	-	-	-	-
Operating profit	10,311	6.8%	9,182	6.4%	-1,129	-11.0%	8,000	5.6%	8,500	5.9%
Chemical Products Business	5,030	7.6%	4,154	6.6%	-875	-17.4%	3,900	6.1%	-	-
Textiles Business	75	0.2%	-897	-2.1%	-973	-	-700	-1.6%	-	-
Advanced Technology Business	3,341	15.2%	3,867	17.0%	526	15.7%	3,000	13.5%	-	-
Food and Services Business	724	6.9%	885	7.9%	160	22.1%	700	6.7%	-	-
Real Estate Business	2,243	60.3%	2,299	58.0%	55	2.5%	2,200	57.9%	-	-
Ordinary profit	11,784	7.8%	11,071	7.7%	-712	-6.1%	9,500	6.6%	10,000	6.9%
Profit attributable to owners of parent	9,014	6.0%	12,876	9.0%	3,861	42.8%	9,500	6.6%	11,500	8.0%

* Revised forecast announced on February 9, 2026.
Source: Prepared by FISCO from the Company's financial results and IR briefing materials

Results by business are summarized below.

(1) Chemical Products Business

Sales and profit both decreased, with net sales declining 5.1% YoY to ¥62,654mn and segment profit dropping 17.4% to ¥4,154mn. Sales decreased as high-performance plastic products remained sluggish due to the slump in the non-AI-related semiconductor market that continued through the third quarter, as well as the impact of the transfer of a Chinese subsidiary in the previous fiscal year. However, high-performance plastic products have been showing signs of recovery since the fourth quarter, while functional films for solar cells performed steadily and the adoption of functional films in the semiconductor production-related domain is also steadily growing. In industrial materials, excluding the impact of the transfer of the Chinese subsidiary, there was also strong growth in orders for nonwoven fabrics and heat-insulating materials for automobile filters, with positive developments seen in various areas. On the profit front, although the Company engaged in structural reforms and productivity improvement for industrial materials and achieved certain results, the segment margin fell to 6.6% (7.6% in FY3/25) due to the slump in high-performance plastic products, which are highly profitable.

(2) Textiles Business

Sales and profit both decreased, with net sales declining 10.8% YoY to ¥43,276mn and a segment loss of ¥897mn (profit of ¥75mn in FY3/25). The decrease in sales was mainly due to a significant decline in casual wear both domestically and overseas due to a decrease in orders from major customers. On the other hand, although the yarn business struggled at the Brazilian subsidiary due to production problems, differentiated yarn such as NaTech, a high-performance cotton yarn made using material modification technology, performed steadily. In uniforms, products for uniform apparel using Smartfit also performed well. Profit decreased substantially (recorded segment loss) due to downward pressure on earnings from lower sales as well as the occurrence of temporary structural reform costs (expenses associated with the closure of the Anjo Mill). The closure of the Anjo Mill was completed at the end of July 2025.

(3) Advanced Technology Business

Both sales and profit increased, with net sales rising 3.5% YoY to ¥22,716mn and segment profit jumping 15.7% to ¥3,867mn. Sales of products such as chemical concentration meters for the semiconductor production-related domain and wafer and filter cleaning systems performed strongly, while electronics and engineering boosted results, although sales of agitation and defoaming equipment in life science and technology slowed due to factors such as the impact of U.S. tariff policies. Profit increased substantially due to higher sales boosting earnings and the contributions of projects with high profit margins. The segment margin therefore improved significantly to 17.0% (15.2% in FY3/25).

(4) Food and Services Business

Net sales rose 6.6% YoY to ¥11,145mn and segment profit increased 22.1% to ¥885mn, resulting in higher sales and profit. In food, there was strong growth in sales of instant noodles ingredients. In service, accommodation and restaurant sales in hotel-related business grew strongly on the back of robust inbound tourism demand, while banquet demand also showed a recovery trend. On the profit front, due to the effect of reduced fixed costs associated with higher sales, the segment margin improved to 7.9% (6.9% in FY3/25).

(5) Real Estate Business

Sales and profit both increased, with net sales rising 6.5% YoY to ¥3,965mn and segment profit up 2.5% to ¥2,299mn. The opening of new leased properties contributed to the improved performance. The segment margin remained at the high level of 58.0% (60.3% in FY3/25).

2. Summary of FY3/26 results

Sales and profit decreased in FY3/26. However, in terms of the context for this lull in results, cyclical developments in the semiconductor market (slow recovery) and strategic initiatives (structural reform costs) had a major impact, and there is no sign of a decline in the Company's inherent growth potential and profitability. The fact that its core high-performance plastic products have been firmly capturing demand since the fourth quarter, when the recovery and expansion trend in the semiconductor market became more pronounced, can be said to be the clearest evidence of this. Meanwhile, there is some variation in results by product group, but each business performed steadily relative to the forecasts, and the Company's ability to accumulate profits exceeding the plan once again confirmed the strength of its diversified earnings structure. Furthermore, in terms of activities, while it completed the closure of the Anjo Mill, it was also able to demonstrate notable achievements aimed at business portfolio reform and supply chain restructuring, such as the start of operations at a new building at the Kumamoto Innovation Center and the expansion of the area of the Neyagawa Plant (Osaka Prefecture). In addition, beyond high-performance plastic products, the Company's functional films are steadily expanding their presence in semiconductor production processes (back-end processes), where growth may be expected, while meeting highly demanding performance requirements. The Company's establishment of increased production capacity for metal ion removal filters for semiconductor photoresist processing using its proprietary material modification technology can also be regarded as a positive factor for the future.

Topics

Strengthening the business foundation for expanding the semiconductor production-related domain

1. Strengthening production and development systems

The Company provides a wide range of products for wafer and semiconductor production processes, where market expansion is expected. Specifically, its product lineup includes wafer cleaning systems and chemical supply systems for wafer production processes; high-performance plastic products and chemical concentration meters for semiconductor production processes (front-end processes); and functional films for semiconductor production processes (back-end processes). Among these, high-performance plastic products used for components of various front-end production equipment are the Company's mainstay products and make a significant contribution to its results. A key feature of the Company's high-performance plastic products business is its business development covering the entire supply chain, from material molding and plastic processing to cleaning and inspection, before fluororesin materials are incorporated into semiconductor production equipment. Rather than simply supplying components, the Company is involved from the design and development stages according to the application and process, and builds relationships of trust with customers by providing stable, integrated supply and added value encompassing processing and peripheral processes. Although the business struggled to grow in FY3/26 due to the slump in the semiconductor market, the Company constructed a new building at the Kumamoto Innovation Center and more than doubled its production and development capacity in preparation for the future recovery and expansion of the market. At the Neyagawa Plant, the Company also began production of fluororesin materials, thereby seeking to achieve both stable supply and improved profitability, and is considering expanding the area for cleaning and inspection processes going forward. Kumamoto is currently the Company's main base, but by rolling out the development, production, and quality control know-how established at the Kumamoto Innovation Center to the Neyagawa Plant and affiliated companies, the Company aims to strengthen its ability to respond in various regions throughout Japan and capture customer demand through geographical expansion.

In addition to high-performance plastic products, the Company's functional films are also showing steady growth in semiconductor production processes (back-end processes), including for AI-related applications, where demand is expanding. The need for these in semiconductor back-end processing is increasing in light of the limits on miniaturization in front-end processing. In particular, the market is being driven by a shift toward advanced packaging in application areas such as AI, data centers, and autonomous driving, and the Company's functional films are well-positioned to capture this growth area. Specifically, products such as functional films for dicing process tape and Oidys® package release film are being adopted in semiconductor production processes. They are valued for meeting high performance requirements and their excellent cost effectiveness.

2. Outcomes of R&D activities

In materials science, one of its six core technologies, the Company has enhanced production capacity for KURANGRAFT, a metal ion removal filter that leverages electron beam graft polymerization technology*. KURANGRAFT is a filter that removes or reduces trace metal ions contained in chemicals used in semiconductor photoresist processing. The Company is aiming for annual sales of ¥0.5bn in the semiconductor production market. It also intends to explore development in other fields.

* Electron beam graft polymerization technology is being jointly developed with the Takasaki Institute for Advanced Quantum Science of the National Institutes for Quantum Science and Technology (QST). It is a modification technology that adds new functions to polymer materials such as natural fiber by irradiating them with an electron beam (radiation). Functions such as moisture wicking and heat generating and deodorizing are added to NaTech functional cotton by applying this technology to natural fibers such as raw cotton.

Outlook

FY3/27: The semiconductor market is expected to provide a tailwind, with high-performance plastic products expected to contribute to higher sales and profit

1. FY3/27 forecasts

For FY3/27, the Company expects net sales to increase 7.1% YoY to ¥154.0bn, operating profit to rise 22.0% to ¥11.2bn, ordinary profit to increase 12.9% to ¥12.5bn, and profit attributable to owners of parent to increase 1.0% to ¥13.0bn, resulting in higher sales and profit. Each profit level is expected to reach a record high for the first time in two fiscal years, with the Company expected to shift into the “growth phase” toward achieving the targets of its medium-term management plan.

Net sales are expected to increase in each of the three core businesses: the Chemical Products Business, Textiles Business, and Advanced Technology Business. In the Chemical Products Business, in particular, growth in high-performance plastic products, driven by the recovery and expansion of the semiconductor market, is expected to make a significant contribution to higher sales. In addition, the Textiles Business is expected to recover in the casual wear field, while the Advanced Technology Business is expected to benefit from a recovery in agitation and defoaming equipment and increased sales of robot vision systems.

On the profit front, substantial profit growth is also expected due to growth in highly profitable high-performance plastic products and the effects of structural reforms in the Textiles Business (return to profitability). The operating profit margin is also expected to improve to 7.3% (6.4% in FY3/26).

FY3/27 forecasts

(¥mn)

	FY3/26		FY3/27		YoY	
	Results	Composition ratio / Profit margin	Forecast	Composition ratio / Profit margin	Change amount	% change
Net sales	143,758	-	154,000	-	10,242	7.1%
Chemical Products Business	62,654	43.6%	68,000	44.2%	5,346	8.5%
Textiles Business	43,276	30.1%	45,600	29.6%	2,324	5.4%
Advanced Technology Business	22,716	15.8%	25,000	16.2%	2,284	10.1%
Food and Services Business	11,145	7.8%	11,500	7.5%	355	3.2%
Real Estate Business	3,965	2.8%	3,900	2.5%	-65	-1.6%
Operating profit	9,182	6.4%	11,200	7.3%	2,018	22.0%
Chemical Products Business	4,154	6.6%	5,500	8.1%	1,346	32.4%
Textiles Business	-897	-2.1%	400	0.9%	1,297	-
Advanced Technology Business	3,867	17.0%	3,400	13.6%	-467	-12.1%
Food and Services Business	885	7.9%	900	7.8%	15	1.7%
Real Estate Business	2,299	58.0%	2,200	56.4%	-99	-4.3%
Ordinary profit	11,071	7.7%	12,500	8.1%	1,429	12.9%
Profit attributable to owners of parent	12,876	9.0%	13,000	8.4%	124	1.0%

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

2. FISCO's view

While it is necessary to monitor the impact of the uncertain situation in the Middle East, trade issues, and other factors, the Company's forecasts can be considered sufficiently reasonable in light of the favorable semiconductor market, supported not only by robust investment in AI and data centers and a sharp rise in memory prices, but also by the effects of structural reforms in the Textiles Business and product groups that have received high evaluations in various areas and are performing steadily. Above all, attention should be paid to the growth of high-performance plastic products, and how well the Company can capture demand accompanying the recovery and expansion of the semiconductor market will be key. In this regard, the Company has significant room for expansion, having strengthened its entire supply chain, including its production and development systems at the Kumamoto Innovation Center. Depending on market conditions, results could exceed the forecasts, and we at FISCO will monitor quarterly trends along with developments in the semiconductor market. In addition, it is necessary to recognize gains on the sale of cross-shareholdings, which are being sold in accordance with the plan, as a factor that could cause fluctuations in final profit/loss. As these gains are highly uncertain because they are affected by the stock market, the Company appears to have adopted conservative assumptions in its forecasts. However, depending on stock market conditions and the timing of sales, such gains could, as in the previous fiscal year, become an upside factor for final profit/loss and could also affect cash allocation (such as growth investments and share repurchases).

Overview of medium-term management plan Accelerate'27

Aims to further accelerate business portfolio reform by concentrating management resources on priority businesses

The medium-term management plan Accelerate'27 (FY3/26–FY3/28), which was launched in April 2025, marks the third stage in the Company's Long-term Vision 2030, which aims to transform the business structure into one that generates innovation and high profitability. This phase will further accelerate business portfolio reform and serve as the lead-in to the final stage of the vision.

1. Basic policy

Under the basic policy of accelerating growth in high-profit businesses and increasing corporate value through efficient use of management resources, the Company will promote four key initiatives: 1) Developing and accelerating priority businesses in growth markets and strengthening profitability of core businesses; 2) Strengthening R&D activities and creating new businesses to place them on a profitable footing; 3) Contributing to the realization of a sustainable society; and 4) Building a highly engaged organization. In particular, the Company intends to further accelerate business portfolio reform by driving additional growth in priority businesses such as the semiconductor production-related business—which gained traction under the previous medium-term management plan—and advancing structural reforms in core businesses.

2. Numerical targets and first-year progress

For the final year of the plan (FY3/28), the Company is targeting consolidated net sales of ¥165.0bn (three-year average growth rate of 3.1%) and operating profit of ¥13.0bn (8.0%), with the aim of improving the operating profit ratio to 7.9% (up 1.1pp from FY3/25). In addition, the Company plans to raise ROIC to at least 7.9% (up 2.4pp) and ROE to at least 10.0% (up 2.4pp) through improved capital efficiency and appropriate financial and capital policies. In FY3/26, the first year of the plan, the Company made a strong start, with each profit level and financial indicators such as ROIC and ROE exceeding the plan.

Numerical targets of the medium-term management plan and first-year progress

(¥bn)

	Base year FY3/25	FY3/26		FY3/27		Final year FY3/28		
	Results	Plan	Results	Plan	Forecast	Plan	Change amount	CAGR
Net sales	150.6	144.0	143.7	152.0	154.0	165.0	14.3	3.1%
Operating profit	10.3	8.0	9.1	11.2	11.2	13.0	2.6	8.0%
Ordinary profit	11.7	9.5	11.0	12.0	12.5	13.0	1.2	3.3%
Profit attributable to owners of parent	9.0	9.5	12.8	10.0	13.0	11.0	1.9	6.9%
Operating profit ratio	6.8%	5.6%	6.4%	7.4%	7.3%	7.9%	1.1pp	
ROE	7.6%	8.0%	10.2%	9.0%	10.0%	10.0%	2.4pp	
ROA	5.4%	4.3%	4.7%	6.2%	5.6%	7.5%	2.1pp	
ROIC	5.5%	4.4%	4.6%	6.4%	5.6%	7.9%	2.4pp	

Note: Changes represent the differences between the FY3/28 targets and FY3/25 results. CAGR represents the average growth rate from FY3/25 to FY3/28.
Source: Prepared by FISCO from the Company's IR briefing materials

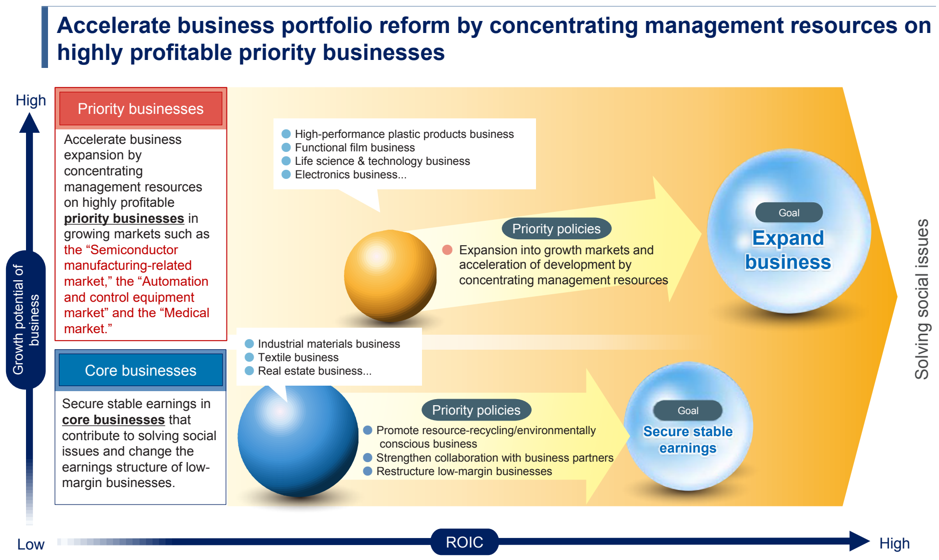
3. Business portfolio strategy

The Company's strategy is to divide its business portfolio into priority businesses and core businesses, and to further accelerate business portfolio reform by concentrating management resources on the highly profitable and high-growth priority businesses. Meanwhile, for core businesses that contribute to solving social issues, the Company will promote resource-circulating and environmentally conscious businesses, strengthen partnerships with business collaborators, and restructure low-profitability businesses. The priority businesses are defined to include areas such as the semiconductor production-related domain*1 (high-performance plastic products, functional films, concentration meters, chemical supply systems, wafer cleaning systems, etc.) and the life science-related domain*2 (agitation and defoaming equipment, gene extraction equipment and contract analysis services, robot vision, automation systems, food-related products, etc.). The Company will provide products and services across segments and business categories.

*1 In response to continued market expansion in wafer and semiconductor manufacturing processes (both front-end and back-end), the Company will offer a wide range of products. In July 2025, the Kumamoto Innovation Center began full-scale operation, strengthening both production capacity and development systems for high-performance plastic products. The sales target for FY3/28 is ¥31.3bn (1.5 times that of FY3/25).

*2 By combining key technologies such as biomedical and vision sensors, the Company aims to address social issues such as health promotion and labor shortages through automation solutions. A recent example includes automating pharmaceutical dispensing operations (a key issue for pharmacies) by combining robot vision (and collaborative robots) with agitation and defoaming equipment. The sales target for FY3/28 is ¥17.1bn (1.2 times that of FY3/25).

Target business portfolio image



Source: The Company's IR briefing materials

Priority domains and corresponding products and services

Priority domain	Business category	Main products and services	Segment
Semiconductor production-related	High-performance plastic products	Processed high-performance plastics (fluororesins, super engineering plastics), fluororesin materials, filters, etc.	Chemical Products
	Functional films	Films for semiconductor processes (release films, dicing films, etc.)	Chemical Products
	Electronics	Concentration meters, etc.	Advanced Technology
	Engineering	Chemical supply systems, wafer cleaning systems, etc.	Advanced Technology
Life science-related	Life science and technology	Agitation and defoaming equipment, gene extraction equipment and contract analysis services, robot vision, automation systems (laboratory/factory automation), etc.	Advanced Technology
	Food	Freeze-dried foods	Food and Services
Other	Functional films	Sealing materials for solar cells, various high-performance films	Chemical Products
	Electronics	Infrastructure inspection systems, film thickness gauges, etc.	Advanced Technology

Source: Prepared by FISCO from the Company's financial statements and new medium-term corporate business plan materials

4. Outlook for each business segment

(1) Chemical Products Business

For FY3/28, the Company is planning net sales of ¥74.0bn (average annual growth rate of 3.9%) and segment profit of ¥6.0bn (6.1%). It will focus management resources on expanding the high-performance products business (high-performance plastic products and functional films) for the semiconductor and energy-related markets, while also developing new businesses and deepening its presence in the industrial materials field for the automotive and housing-related markets. Although a temporary market adjustment is expected in the semiconductor production-related field in FY3/26, the first year of the plan, significant growth is projected thereafter. The operating profit ratio is expected to improve to 8.1% (up 0.5pp from FY3/25), driven by growth in high-profit, high-performance plastic products.

(2) Textiles Business

For FY3/28, the Company is planning net sales of ¥49.0bn (average annual growth rate of 0.3%) and segment profit of ¥1.2bn (152.0%). Amid ongoing challenges in the business environment, including intensified price competition, the Company aims to enhance added value through strengthened development of proprietary technologies and improve competitiveness by investing in facilities at overseas bases, thereby advancing the development and expansion of its global supply chain. Although structural reform expenses are expected in FY3/26, the first year of the plan, the Company aims to boost profitability thereafter through the effects of structural reforms, enhancement of proprietary technology-based products, and expansion of the global supply chain, particularly in Southeast Asia. The operating profit ratio is expected to improve to 2.4% (up 2.2pp from FY3/25).

(3) Advanced Technology Business

For FY3/28, the Company is planning net sales of ¥27.0bn (average annual growth rate of 7.2%) and segment profit of ¥4.0bn (6.2%). It will work to accelerate growth in priority areas such as the semiconductor production-related business and the life science-related business, while also strengthening profitability and developing new markets in areas that contribute to solving social issues, including environmental businesses (wastewater and exhaust gas treatment, biomass, etc.) and infrastructure-related businesses (such as infrastructure inspection). In the life science-related business, performance is expected to be driven by the expansion of the bio field and laboratory automation systems, as well as equipment and device supply to the semiconductor-related field. The operating profit ratio is projected to remain at a high level of 14.8%, albeit down 0.4pp from FY3/25.

(4) Food and Services Business

For FY3/28, the Company is planning net sales of ¥11.2bn (average annual growth rate of 2.3%) and segment profit of ¥0.8bn (3.4%). In the food business, it will work to increase market penetration of existing products, develop differentiated products, and explore new sales channels. Freeze-dried foods will also play a role as part of the priority life science-related business. The services business (hotel business) is expected to continue stable performance through capturing demand from tourism and inbound visitors and enhancing customer satisfaction.

(5) Real Estate Business

For FY3/28, the Company is planning net sales of ¥3.8bn (average annual growth rate of 0.7%) and segment profit of ¥2.2bn (down 0.6%). The business will continue to play an important role in supporting Group operations as a source of long-term stable income through the effective utilization of idle assets such as former factory sites in the Textiles Business. As most lease agreements are long term, the business is expected to continue stable performance.

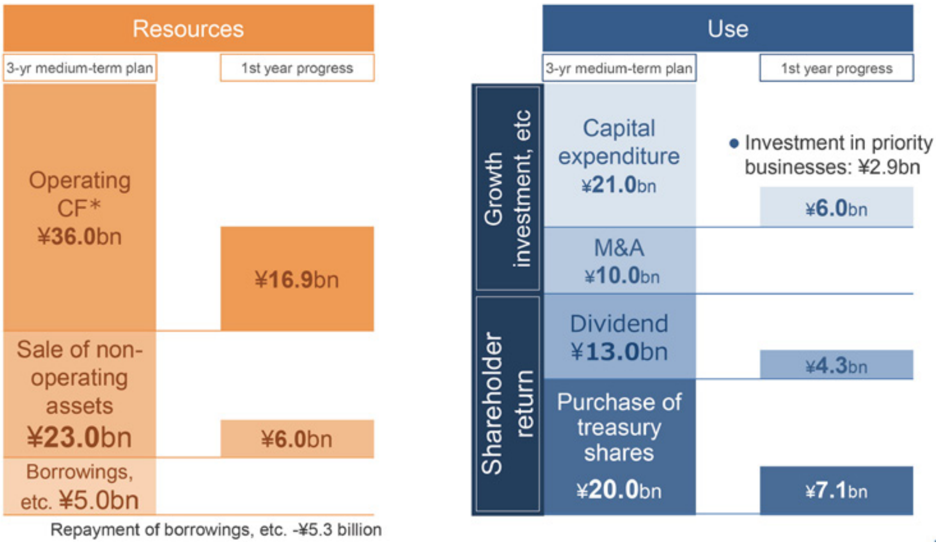
5. Cash allocation and first-year progress

Over the three-year period, the Company plans to invest a total of ¥31.0bn, including ¥21.0bn in capital investment (of which ¥8.7bn will be allocated to priority businesses and ¥2.4bn to environmental initiatives) and ¥10.0bn in M&A. For shareholder returns over the same period, the Company plans a total of ¥33.0bn, consisting of ¥13.0bn in dividends and ¥20.0bn in share buybacks, aiming for a well-balanced allocation between growth investment and shareholder returns. These funds are expected to be sourced from ¥36.0bn in cash flow from operating activities*1, ¥23.0bn from the sale of non-operating assets*2, and ¥5.0bn from borrowings and other means. In the first year, the Company allocated ¥6.0bn to capital investment (of which ¥2.9bn was allocated to priority businesses), ¥4.3bn to dividends, and ¥7.1bn to share buybacks, making progress broadly in line with the plan. Meanwhile, looking at the sources of funds, if the sale of cross-shareholdings proceeds as planned, the increase in their value due to higher share prices will result in approximately ¥10.0bn in additional proceeds from the "sale of non-operating assets" (cash inflow). The Company plans to use the surplus funds generated by the sharp rise in share prices mainly for growth investment, including M&A, in the semiconductor production-related and life science businesses.

*1 After deducting ¥6.0bn in R&D expenses
*2 Including the sale of cross-shareholdings and idle real estate

Overview of medium-term management plan Accelerate'27

Cash allocation



Note: Cash flow from operating activities takes into account the impact of corporate taxes, etc. associated with the sale of non-operating assets.
Source: The Company's IR briefing materials

(1) Shareholder return policy

To provide stable and high-level dividends, the Company has set a target dividend on equity (DOE) of 4% for the duration of the new medium-term management plan. In addition, it plans to repurchase ¥20.0bn in shares over the three-year period. In the first year, ¥7.1bn in share buybacks has already been completed.

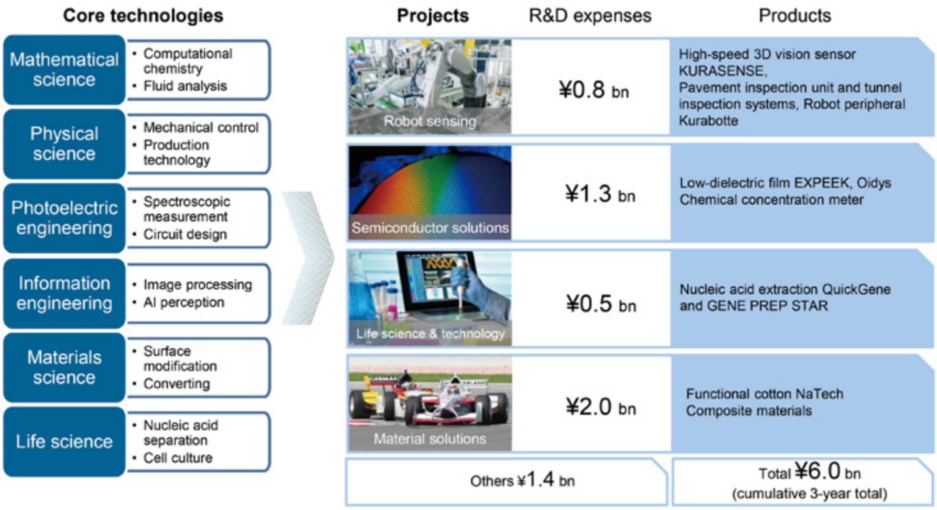
(2) Reduction of cross-shareholdings

The Company plans to gradually reduce cross-shareholdings to below 20% of consolidated net assets by FY3/28, and will allocate the resulting cash to share buybacks and other purposes. In the first year, the Company has already sold ¥7.3bn in cross-shareholdings.

(3) R&D investment (strengthening R&D)

The Company plans to invest ¥6.0bn in R&D over the three-year period. In particular, it will accelerate four key projects being promoted as the main next-generation businesses through collaboration between the Technical Research Laboratory and each business division: robot sensing, semiconductor solutions, life science and technology, and material solutions. In the first year, the Company has already invested ¥1.6bn in R&D.

Breakdown of R&D expenses (priority projects)



Source: The Company's financial statements and new medium-term corporate business plan materials

6. Roadmap to improving capital profitability

According to the Company's estimates, its cost of equity is in the range of 6–7%, but it recognizes that shareholders expect an even higher return. To meet these expectations, the Company aims to raise its PBR—starting with consistently maintaining a level above 1 time—through efforts such as achieving the ROE target of 10% or higher set under the medium-term management plan and enhancing IR activities. In particular, to improve ROE, the Company plans to focus on raising ROIC through business portfolio reform and the reduction of cross-shareholdings, while also enhancing shareholder returns. In the first year, PBR was 1.02x, ROE was 10.2%, and ROIC was 4.6%.

7. Focus points for FISCO in the medium to long term

Given the changes in the environment surrounding the founding Textiles Business, we at FISCO deem the direction of the Long-term Vision 2030 (reforming the business structure to create innovation and high earnings) that the Company has pursued until now to be appealing and convincing. Furthermore, the medium-term management plan Accelerate'27, which was launched in the previous fiscal year, leverages the Company's strengths and positions the semiconductor production-related domain and life science-related domain, which may be expected to have high growth and profitability, as priority businesses. It also lays out a cross-organizational policy of concentrating management resources and finally gives concrete form to the planned business portfolio reforms. The remaining question is how to assess their feasibility, speed of implementation, and potential scope. Notable points in each domain are as follows.

(1) Semiconductor production-related domain

Although orders have been trending upward recently, partly due to the recovery in market conditions and progress in strengthening the business foundation, the key to putting this growth further on track will be how the Company can meet semiconductor production equipment manufacturers’ demand (issues) not only in terms of performance, quality, and cost, but also through a stable supply system and technological development. In this regard, the growth of high-performance plastic products, for which the Company has established a supply system across the entire supply chain, including through the strengthening of its production and development system at the Kumamoto Innovation Center, is likely to drive results going forward. Attention should also be paid to developments in functional films, whose use is steadily growing in semiconductor production processes, including for AI applications, and KURANGRAFT, which leverages the Company’s proprietary technology. If the Company can continue to produce differentiated products like these and capture demand in key growth areas, it will likely be able to achieve profit growth while also switching to an earnings structure that is less susceptible to market conditions.

(2) Life science-related domain

Based on the Company’s vision of creating new value with a focus on addressing social issues, the keys to success will be collaborating with partners and co-creating value with customers facing issues such as labor shortages and lack of productivity. To achieve this, it will be essential to develop channels in industries where there have been a lack of pipelines, such as the nursing care, clinical, and food fields. Accordingly, it will be necessary to keep an eye on future developments in terms of how the Company accesses customers (markets), including the use of external resources through strategic alliances, M&A, etc. While it may be necessary to take a long-term view when it comes to full-scale commercialization in this domain, it has the potential to significantly alter the business model.

Furthermore, key factors in judging future feasibility are the backing provided by intellectual capital and financial capital. Intellectual capital is of course the technology, expertise, and knowledge the Company has accumulated to date, and the key point is how this will be applied and monetized. Meanwhile, when it comes to financial capital, the existence of cross-shareholdings with considerable unrealized gains (investment securities balance of around ¥69.5bn) is a major point. In the past, there was a tendency for investors to view this as a factor that reduces capital efficiency, but going forward, it should instead be seen as a driver of value creation based on its use for growth investments and R&D. The Company has stated that it plans to pursue a gradual approach to sales of cross-shareholdings during the period of the medium-term management plan and allocate the funds raised thereby to growth investments and shareholder returns. This may be viewed as a major period of transition in terms of reforming the business portfolio and improving the balance sheet at the same time. In light of the above, the three key points from a medium- to long-term perspective may be broadly summed up as follows: How will the Company link intellectual capital to earnings? How will it leverage financial capital? And how will it collaborate with external resources, including M&A?

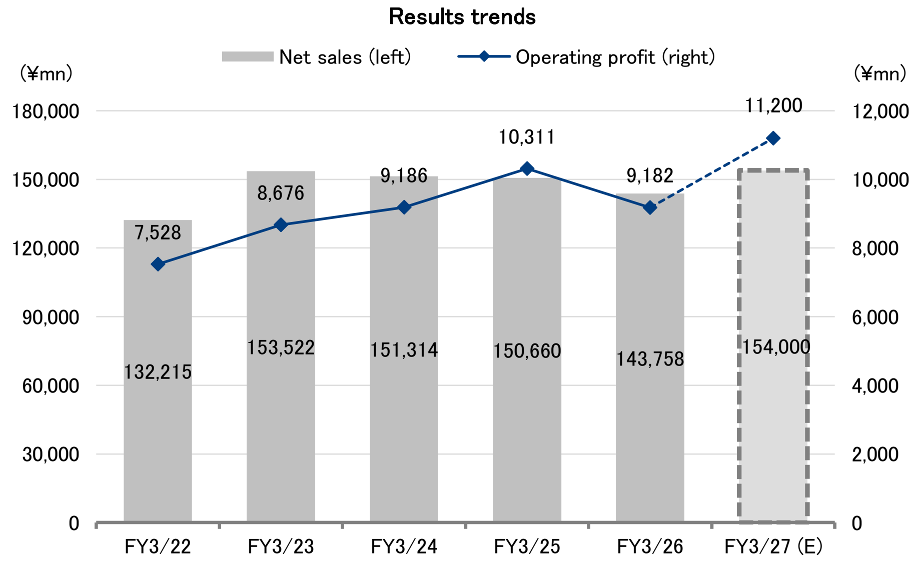
Results trends

Engaging in business structural reforms. Profitability improved due to a focus on semiconductor production-related business

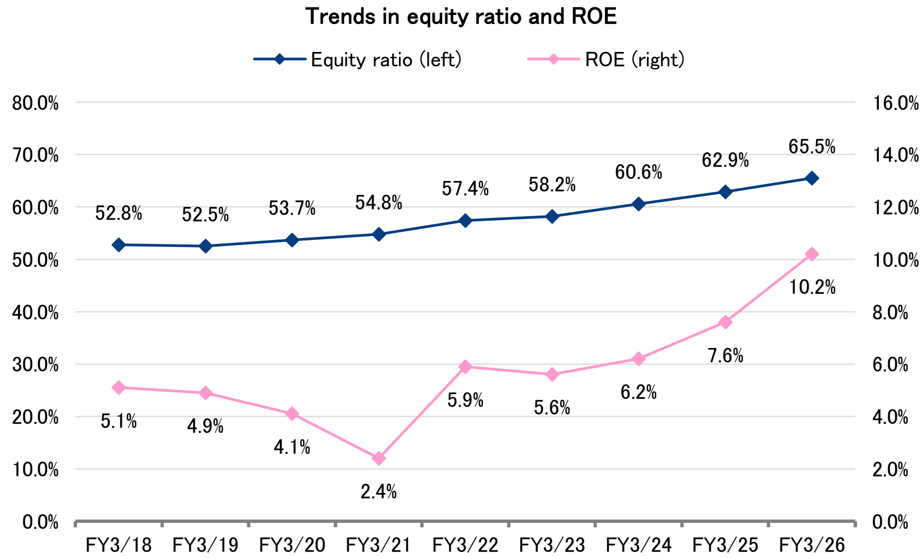
Looking back at earnings trends from FY3/17 onward, net sales mostly trended down through FY3/21 because of changes in the market environment in Japan and overseas and the impact of foreign exchange rates and the COVID-19 pandemic. Net sales were weak for all segments, especially the Textiles Business, which was affected by external factors such as slow casual wear demand in Japan and intensifying price competition with overseas products as well as withdrawing from unprofitable businesses. Net sales recovered from FY3/22 through FY3/23, driven by a bottoming out of the Textiles Business which had undergone structural reforms, and growth in the Chemical Products Business and Advanced Technology Business, supported by strong performance in the semiconductor production-related field. However, in FY3/24 and FY3/25, growth stagnated due to the impact of the transfer of the machine tool business and other factors. In FY3/26, the temporary adjustment in the semiconductor market and structural reforms in the Textiles Business (including the closure of the Anjo Mill) were factors contributing to the decline in net sales. However, net sales are expected to expand from FY3/27 onward as the semiconductor market recovers and expands.

Turning to profit, the operating profit ratio trended mostly in the 3% range through FY3/21. Although the Real Estate Business was a stable source of earnings and added value was increasing in the Advanced Technology Business and others, the Textiles Business remained weak. During the period of medium-term management plan Advance'18 (FY3/17–FY3/19), the Company worked on expanding all businesses with a basic policy of "transforming the business to increase earnings." The policy entailed: 1) expanding and strengthening the overseas business; 2) restructuring the domestic business; 3) transforming into a market-oriented business in anticipation of future markets, and 4) pursuing highly profitable businesses. However, the Company missed plan targets, because the speed of change in the operating environment was faster than expected, and withdrawal from and scaling back unprofitable businesses had a negative impact. It also did not achieve the targets of the medium-term management plan Creation'21 (FY3/20–FY3/22), when the Company focused on earnings expansion through innovation and improving corporate value, because the global COVID-19 pandemic was a drag on the pace of reform. However, under the previous plan, Progress'24 (FY3/23–FY3/25), despite continued struggles in the Textiles Business, earnings were underpinned by expansion of the highly profitable Advanced Technology Business and growth in the semiconductor production-related field, which lifted overall profit levels. As a result, operating profit exceeded ¥10.0bn in FY3/25, marking the fourth consecutive year of profit growth. However, in FY3/26, operating profit temporarily decreased due to the temporary adjustment in the semiconductor market and structural reform costs in the Textiles Business.

Looking at the Company's financial condition, it reduced total assets through structural reforms and reductions in investment securities, while also keeping the increase in shareholders' equity moderate through active shareholder returns, including share buybacks. Nevertheless, the equity ratio rose from the 50% range to the 60% range. ROE (an indicator of capital efficiency) has also improved broadly in line with the operating profit ratio, remaining around 6% for the three years from FY3/22. Furthermore, since FY3/25, ROE has benefited from gains on the sale of cross-shareholdings, and has most recently reached a level exceeding 10%.



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



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

Shareholder return

Targeting a 4% DOE dividend and implementing share buybacks; stock split scheduled for October 2026

In the medium-term management plan launched in April 2025, the Company has set a target dividend on equity (DOE) of 4% to maintain stable, high-level dividends and also plans to repurchase ¥20.0bn in shares over the three-year period.

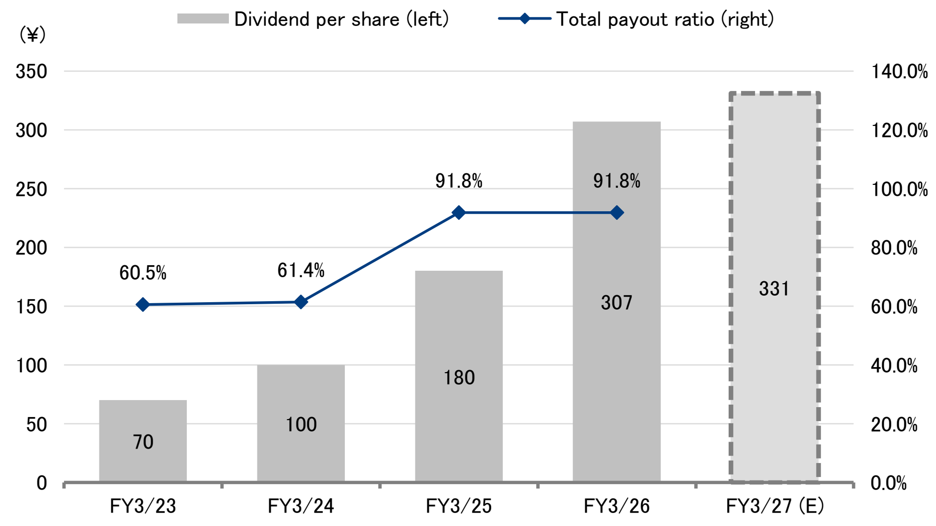
For FY3/26, the Company paid an annual dividend of ¥307 per share, an increase of ¥127 YoY and ¥25 higher than the initial forecast (¥141 interim and ¥166 year-end), resulting in a DOE of 4%. For FY3/27, the Company plans to increase the dividend by ¥24 YoY to ¥331 per share before taking the stock split into account*1 (¥166 interim and ¥165 year-end)*2, in line with the increase in shareholders' equity. If implemented, this will mark the fourth consecutive year of dividend increases.

*1 The Company plans to conduct a stock split at a ratio of five-for-one effective October 1, 2026, for the purpose of enhancing share liquidity and other objectives.
*2 The year-end dividend after the stock split will be ¥33 per share.

In addition, based on a resolution by the Board of Directors on November 7, 2024, the Company implemented share buybacks costing around ¥6.0bn (987,000 shares) during the period from November 8, 2024, to October 31, 2025*1. On November 11, 2025, the Board of Directors also resolved to implement a share buyback program with an upper limit of 1,000,000 shares and ¥7.0bn in total acquisition cost, with an acquisition period from November 12, 2025, to September 30, 2026*2, and had acquired approximately ¥4.2bn (535,000 shares) by March 31, 2026.

*1 This includes around ¥2.5bn (367,000 shares) for shares acquired in FY3/26.
*2 At the same time, it also resolved to cancel 1,000 treasury shares, which was implemented on November 25, 2025.

Trends in dividend per share and total payout ratio



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

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