

MIMAKI ENGINEERING CO., LTD.

6638

Tokyo Stock Exchange Prime Market

30-Jan.-2024

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

■ Index

■ Summary	01
1. Development-driven company providing integrated services through manufacturing and sales of industrial inkjet printers and other products	01
2. Strength lies in complex technological base, including chemical products such as ink	01
3. Recorded double-digit profit growth in 1H FY3/24, driven by price revisions and brisk sales of new models. Revised up full-year forecast	01
4. Medium- to long-term strategy Mimaki V10 making good progress ahead of Company's target	02
■ Company overview	03
1. Company overview	03
2. History	03
3. Features of main products	05
■ Business summary	06
1. Business description	06
2. Global expansion	09
3. Strengths	10
■ Results trends	12
1. 1H FY3/24 results	12
2. Results overview by market and area	13
3. FY3/24 results outlook	14
■ Medium- to long-term growth strategy	16
1. Medium- to long-term growth strategy Mimaki V10	16
2. Progress of Mimaki V10	16
■ Returns to shareholders	18

Summary

“Print on anything other than water and air”

1. Development-driven company providing integrated services through manufacturing and sales of industrial inkjet printers and other products

MIMAKI ENGINEERING CO., LTD. <6638> (hereafter, also “the Company”) is a development-driven, integrated manufacturing and sales company whose main products are industrial inkjet printers, cutting plotters, and inks and other printer consumables. The Company engages in three main markets; Sign Graphics (SG; manufacture of billboards and signs), Industrial Products (IP; decoration of industrial products and small consumer items), and Textile and Apparel (TA; printing and coloring of fabrics and ready-to-wear clothing). The Company has a globalized business, with an overseas sales share of around 70%. The replacement cycle in each market is 4–5 years, which means the Company has an earnings structure whereby it can increase net sales every year by releasing new products in rotation. In the industrial printing market, although the share of digital printing is growing in the SG market, it is only 5–10% in other markets, offering considerable scope for growth.

2. Strength lies in complex technological base, including chemical products such as ink

The Company’s strength lies in its complex technological base, including chemical fields. It develops its own ink products with the aspiration of creating inks that “print on anything other than water and air.” These high-performance inks capable of printing on diverse materials are a point of difference when selling inkjet printers in a broad range of markets. In addition, they provide stable revenue as a consumables business. The Company’s strength is not limited to the inks. It boasts sophisticated control technologies for positioning on X- and Y-axes and for the printhead which discharges the ink. Moreover, the printers enable make-to-order production through a digital on-demand printing method. It can also provide one-stop solutions for high-mix low-volume product needs. Its Factory Automation (FA) technologies help factories to improve as smart factories. Both local and global sales capabilities underpin the Company as well. We note that the Company does not manufacture its own printheads, but this has proved to be a strength, because it enables optimal procurement from the market according to changing needs.

3. Recorded double-digit profit growth in 1H FY3/24, driven by price revisions and brisk sales of new models. Revised up full-year forecast

In 1H FY3/24, sales and profit were robust, with net sales increasing 4.3% year on year (YoY) to ¥35,437mn and operating profit increasing 23.7% to ¥2,331mn. Profit surpassed the Company’s initial forecast. The result reflected price revisions and brisk sales of new models introduced in the Textile and Apparel (TA) market, with an additional lift from yen depreciation. In light of these results, the Company revised its full-year forecast, downward for net sales and upward for profit. The revised full-year forecast calls for net sales of ¥76,800mn (up 8.8% YoY) and operating profit of ¥4,840mn (up 14.1%). In 2H, the Company looks for continued strong sales of new products in the TA market and plans to introduce more new products and strengthen overseas sales activities, although a decline in demand associated with a global economic slowdown remains a concern.

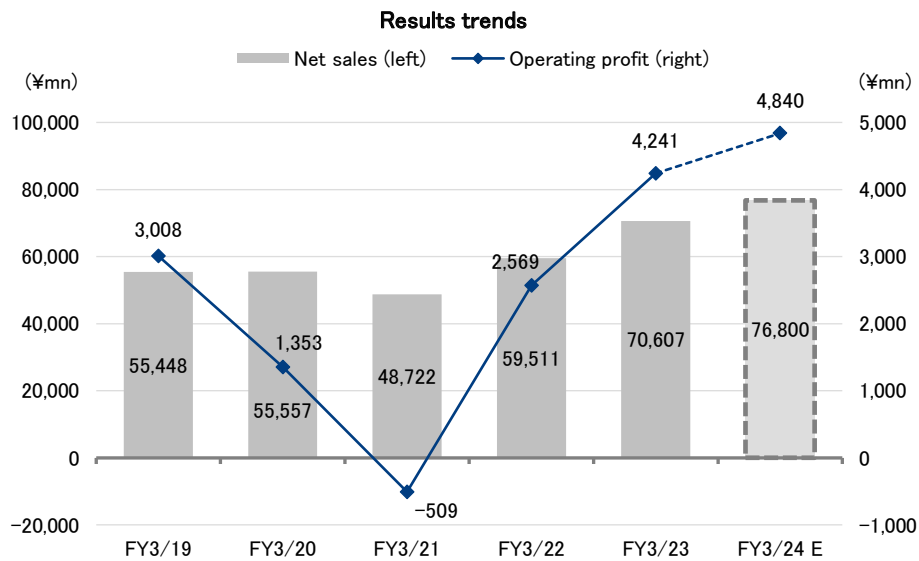
Summary

4. Medium- to long-term strategy Mimaki V10 making good progress ahead of Company's target

MIMAKI ENGINEERING formulated its medium- to long-term strategy Mimaki V10 in December 2020. As stated in the strategy, the Company has achieved a V-shaped recovery after a slump caused by the novel coronavirus pandemic (COVID-19). Furthermore, it has strived to continue innovation, focus on growth driven by profitability, and build a firm financial foundation. Specifically, the Company has worked to improve ink quality for increased profitability. Providing the digital on-demand printing solutions has underpinned the growth. It has also been improving the financial foundation by tightening inventory control. Through these initiatives, the Company aims to achieve the targets for FY3/26 of operating profit margin of 10% and 10% CAGR of net sales. We at FISCO can say that Mimaki V10 is progressing well, because the operating profit margin and growth rate of net sales are ahead of target. In the TA market in particular, environmental damage caused by analog textile printing has become a major sustainability issue. The Company plans to solve this problem by the digitization of textile printing through its digital on-demand printing technologies.

Key Points

- Development-driven company that manufactures and sells proprietary industrial inkjet printers and inks
- Strengths include a complex technological base with high-performance inks and plotter technologies, as well as sales and development capabilities
- Revised up FY3/24 profit forecast amid brisk sales of new models. Medium- to long-term growth strategy progressing well



■ Company overview

Leading manufacturer of industrial inkjet printers

1. Company overview

The Company provides an integrated service from development and manufacturing to sales and maintenance of industrial inkjet printers, cutting plotters, 3D printers, and items such as inks and software used with those products. It is a development-driven company whose ultimate goal in development is to create products that “print on anything other than water and air,” constantly looking for new features that make a difference to bring cutting-edge, unique products with high added value to the market. Its three main markets are Sign Graphics (SG), which supports manufacturers of billboards and signs, Industrial Products (IP), used for the decoration of industrial products and small consumer items, and Textile and Apparel (TA), used for printing and coloring of fabrics and ready-to-wear clothing. The Company has a globalized business, with an overseas sales share of around 70%.

Continues to evolve by harnessing pen plotter technologies

2. History

MIMAKI ENGINEERING was founded in August 1975 in Nagano Prefecture to assemble crystal oscillators for clocks and watches. It developed its own A2-size flatbed pen plotter in 1983 and launched under the Hokusai trademark pen plotters acclaimed for numerically controlled drawing of beautiful circular arcs. Moving into manufacture and sales of large plotters with the brand, the Company made the shift from manufacturing electronic parts to the development and manufacture of products harnessing pen plotter technologies. It released a cutting plotter using the eccentric cutting method in 1987 and, in 1996, an inkjet printer using water-based pigment inks—both world firsts. The Company continued to develop products with high added value, established a nationwide sales network, and expanded overseas. Accordingly, it continued to grow at a steady pace, but growth stalled during the COVID-19 pandemic. The Company has since staged a V-shaped recovery by implementing its medium- to long-term strategy Mimaki V10 and entered a new growth phase.

Company overview

History

Date	History
August 1975	MIMAKI ENGINEERING founded in Kitamimakimura, Kitasaku District (now Tomi City), Nagano Prefecture as a private limited company
October 1976	Began assembly of precision parts of crystal oscillators for watches and clocks
March 1979	Opened Tokyo Sales Office
May 1981	Reorganized into a stock company MIMAKI ENGINEERING CO., LTD.
December 1983	Started development of the A2 flatbed pen plotter (RY-1003) for OEMs
February 1985	Started sales of the A2 flat pen plotter under the Hokusai trademark
March 1986	Started operation of the Kazawa Factory
June 1986	Opened the Osaka Sales Office (subsequently opened sales offices throughout Japan)
March 1987	Started sales of the world's first cutting plotter using the eccentric cutting method
April 1989	Withdrew from precision parts business
July 1995	Founded MIMAKI ENGINEERING (TAIWAN) Co., Ltd. in Shengang District, Taichung City, Taiwan (thereafter began establishment of subsidiaries around the world)
October 1996	Started sales of the world's first inkjet printer using water-based pigment ink
October 1998	Started sales of the world's first piezoelectric textile inkjet printer
September 2002	Started sales of the world's first high-resolution, low-priced eco-solvent inkjet printer
October 2003	Opened the Nagano Development Center in Nagano City, Nagano Prefecture
March 2004	Started sales of the world's first inkjet printer with UV-curable white ink
April 2004	Founded MIMAKI PRECISION Co., Ltd., splitting off part processing business
June 2004	Made WIZTEC Co., Ltd. a subsidiary
September 2004	Acquired Bokuya Factory in Tomi City, Nagano Prefecture
April 2005	Opened the Technical Call Center providing comprehensive support for users in Japan
April 2006	Made GRAPHIC CREATION Co., Ltd. a subsidiary
March 2007	Listed on JASDAQ Securities Exchange
February 2010	Started sales of world's first low-cost, desktop UV LED curable inkjet printer
March 2015	Listing change to Tokyo Stock Exchange First Section
May 2015	Opened the Hachioji Development Center in Hachioji City, Tokyo
July 2015	Started sales of world's first sublimation inkjet printer with high-gap printhead Absorption-type merger with WIZTEC Co., Ltd.
July 2016	Opened the JP Demonstration Center in Shinagawa-ku, Tokyo and TA Lab Center at headquarters at Tomi City, Nagano Prefecture
August 2016	Opened IP Lab Center at headquarters at Tomi City, Nagano Prefecture
November 2017	Started sales of the world's first UV LED 3D inkjet printer capable of full-color modeling using more than 10 million colors
October 2018	Made ALPHA DESIGN CO., LTD. a subsidiary
November 2018	Made LUCK'A Inc. a subsidiary
May 2019	Started sales of large flatbed UV LED curable inkjet printer
March 2020	Started sales of roll-fed UV-curable inkjet printer
November 2020	Started sales of compact full color UV inkjet 3D printer
December 2020	Started sales of roll-to-roll inkjet printer
February 2021	Started sales of sublimation transfer inkjet printer
September 2021	Started sales of UV LED curable inkjet printer/high-performance model
February 2022	Started sales of flagship eco-solvent inkjet printer
March 2022	Made Microtech corp. a subsidiary
April 2022	Listing change to the Tokyo Stock Exchange Prime Market
April 2023	Started sales of new type of large flatbed UV LED curable inkjet printer

Source: Prepared by FISCO from the Company's website and other data

Contributed toward digitization of various printing methods

3. Features of main products

(1) Cutting plotters

Cutting plotters are machines that can cut film and other materials in any shape designed on a computer using a knife attached to a plotter*. They are used for making stickers, posters, and signs. Cutting plotters are an evolution in sign production from the traditional method of characters hand-drawn by artisans, reducing the process to cutting and sticking, and played a big role in the digitization of sign-making. Not only do they replace skilled artisans, but they also make outdoor signs far more durable. Film does not fade for several years, unlike paint, which starts to fade after a year.

* Pen plotters are used in the drawing and design of structures and machinery using X/Y data. Plotters with tools other than a pen attached are called penless plotters, and those with a knife attached to cut film and other materials are called cutting plotters.

The cutting plotter that the Company started selling in 1987 was the first in the world to adopt the eccentric cutting method. It was well received, because it could cut complex Chinese characters quickly without moving the cutter up and down, helping to raise the profile of the Company's products on the sign-making floor. Even today, when graphical signs using inkjet printers have become mainstream, the Company's cutting plotters continue to operate as essential equipment in factories around the world for processes such as cutting rubber sheets for heat transfer used in printing T-shirts. There are two categories of cutting plotters—roll type and flatbed type. The roll type cuts rolled sheets, while the flatbed type places the material on a bed to cut. The flatbed type can cut materials that are too thick or rigid to roll up.

CG-AR series (roll type)



Cutting plotters

CF22-1225 (flatbed type)



Source: Company website

(2) Industrial inkjet printers

Industrial inkjet printers function in the same way as home-use printers, printing by discharging dots of ink onto a material, but are used for different purposes. Home-use printers print text and photos onto paper, whereas industrial printers print on a diverse range of materials from plastic and glass to wood and fabrics. There is also a difference in size—home-use printers mainly print on small, A4 size paper, but industrial printers can print on large boards up to approximately 7.3m² and three-dimensional fixtures. Accordingly, industrial printers are more expensive with a big price range (approximately ¥1mn to ¥15mn) depending on print speed and size, type of ink used, etc., while home-use printer prices are in five figures. Home-use printers use water-based ink, but industrial printers use a wide variety of inks depending on the material. Industrial inks are mainly high-performance inks resistant to chemicals, water, sunlight, and abrasion. Their durability is proven as they do not fade in outdoor conditions, run in water, or rub off when scrubbed.

Company overview

Analog printing is time-consuming and entails inventory risk and platemaking costs. Industrial printing is now mainly digital on-demand printing (print only what you need, when you need it) as a result of digitization, because industrial inkjet printers do not require printing plates. Digital on-demand printing is a popular solution to diversifying needs in many industries. Unlike traditional analog printing that assumes large-volume production, sales, and consumption, it can respond to high-mix low-volume orders with short lead times at low cost. Further, industrial inkjet printers are more environment-friendly than analog printers (which require wastewater treatment after the plate cleaning process). The industrial inkjet printers discharge ink only on the design portion, which means they require a small amount of ink to print as well as produce minimal effluent. They are thus considered a promising ecological production method that fulfills contemporary needs. Industrial inkjet printers also come in two categories—roll type and flatbed type.

Industrial inkjet printers

UJV100-160 Plus (roll type)



JFX600-2513 (flatbed type)



Source: Company website

Business summary

Engages in global SG, IP, and TA markets

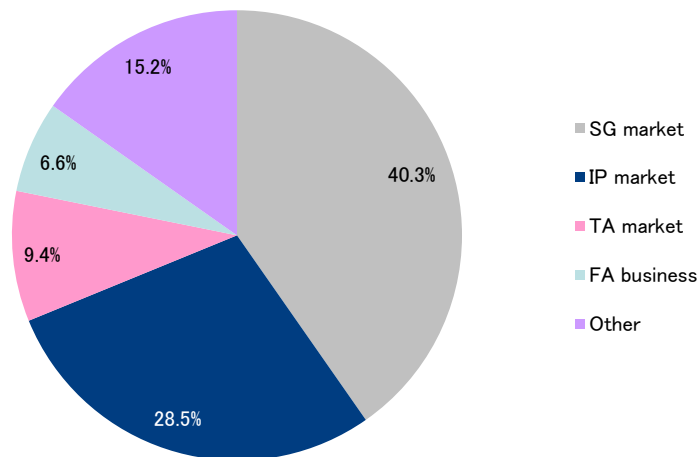
1. Business description

The Company's businesses are segmented by product and market (industries in which the products are sold). There are three main markets: Sign Graphics (SG), which supports the manufacture of billboards and signs; Industrial Products (IP), used for the decoration of industrial products and small consumer items; and Textile and Apparel (TA), used for printing and coloring of fabrics and ready-to-wear clothing. Products that benefit from the Company's technologies are all around us, because many final products are familiar consumer items such as printed matter, signs, smartphone cases, electric appliances, and clothing. The Company is quick to identify needs in each market and supply new products with a specific target. The replacement cycle in each market is approximately 4–5 years, which means the Company has an earnings structure whereby it can increase net sales every year by releasing new products in rotation.

Business summary

Digitization is progressing in industrial printing, but although digital printing has a large weighting in some areas such as display graphics (including signs), many other large markets still mainly employ analog printing, such as textiles, furniture, interiors, and package labels. Thus, digital printing’s average share of all industrial printing is a mere 5–10%, which suggests that industrial inkjet printers have huge growth potential. There is also further scope for expansion, such as the introduction of factory automation (FA) systems and contributing toward smart factories. Competitors are US manufacturers and domestic manufacturers of printer peripherals. Although some Chinese manufacturers also appear to be producing industrial inkjet printers, the Company has excluded them in market share estimates because of the shortage of industry data, the small scale of most Chinese competitors, and inferior ink quality. In this context, the Company’s net sales are increasing sharply in the IP and TA markets, where volume production and low-added-value analog printing had been the norm, because high-added-value, digital on-demand printing has spread in response to the growing need for high-mix low volume manufacturing in these industries. We can say that the IP and TA markets are continuing to grow as the second and third earnings pillars for the Company alongside the SG market. We note that the Company has a globalized business, with an overseas sales share of around 70%.

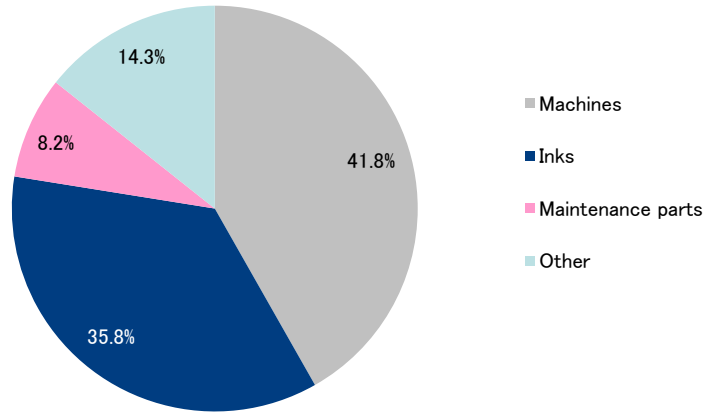
FY3/23 net sales breakdown by market



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

Business summary

FY3/23 net sales breakdown by product



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

(1) Sign Graphics (SG) market

In the SG market, the Company's mainstay products are used for printing on billboards, window graphics, car wrapping, and soft signage. It prints on materials such as PVC sheets, banner sheets, and window films. MIMAKI ENGINEERING has the world's second-largest share of the large inkjet printer (up to 160cm) market at 27.2% in 2022. In areas where digitization is relatively advanced, the three top companies, including MIMAKI ENGINEERING, have roughly 80% market share.

(2) Industrial Products (IP) market

In the IP market, the Company's products harness the properties of UV-curable inks, which can print on various materials including plastics, acrylics, glass, metal, and wood for use on industrial products like automobile instrument panels and remote controls for home appliances, and smaller items such as smartphone cases, toys, and novelty items. In 2010, a time when the average price of these printers exceeded ¥10mn, the Company released a new product with a much lower price of ¥3.3mn, which helped to increase its market share. As a result, the Company had top world market share in desktop UV flatbed printers at 63.9% in 2022. Although its competitors also use UV-curable inks because of their strength in enabling progress of digitization without needing to choose materials, MIMAKI ENGINEERING's commercialization of its UV-curable inks differentiates itself with expertise to respond to market needs (including knowledge of the chemical field) fostered over 20 years.

(3) Textile and Apparel (TA) market

Products for the TA market are used to print on textiles (fabrics before sewing) such as polyester, rayon, cotton, and silk as well as ready-to-wear clothing. Final products include fashion apparel, sportswear, sneaker uppers, interiors, and fabrics. According to the Company, it developed the world's fastest sublimation transfer inkjet printer in 2012, which was adopted by major fashion brands worldwide. This spurred sales growth, and today, the Company has the second-largest world market share (19.4% in 2022) in sublimation transfer inkjet printers. They contribute to space saving and cleanliness in working environments at low cost.

Business summary

(4) Other businesses

As well as industrial inkjet printers and cutting plotters, the Company engages in the 3D printer and FA businesses. It manufactures 3D printers with full-color modeling of over 10 million colors and very large-size modeling of up to 1.8m for product designs, figures, and three-dimensional signs. The FA business is based on vector and mechatronics technologies, automating production processes for printing (loading in, printing, coating, and loading out) with an on-demand type digital coating machine.

(5) Opportunities in the IP and TA markets

Although volume production had been the mainstay of production floors in the IP and TA markets, the shift to manufacturing multiple product items and shorter product cycles has led to a growing need for high-mix low-volume production. Digital on-demand printing using the Company's products does not require printing plates, and prints only what you need, when you need it. This enables high-mix low-volume production with short lead times at low cost. Digital on-demand printing also helps to differentiate products and make them more profitable by adding value such as character, creativity, and seasonal features. In addition, they ensure a space-saving and clean working environment, which means production is possible near major cities closer to where consumers live, thereby reducing the time and cost of distribution. These productivity and environmental advantages of digital printing are not limited to specific markets such as IP and TA, and will likely spread across many industries.

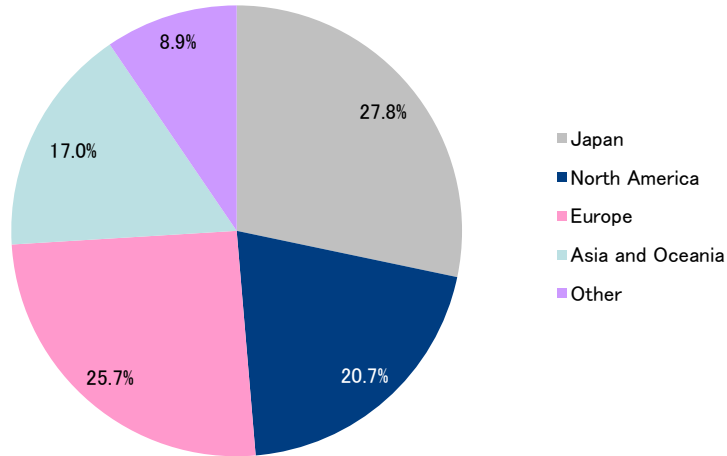
Business growing fast in overseas regions

2. Global expansion

MIMAKI ENGINEERING is proactively opening subsidiaries in emerging economies like China and Brazil as well as developed economies in Europe and North America. Today, the Company provides products and services in the SG, IP, and TA markets in 150 countries worldwide. It has also taken the lead in establishing sales and maintenance networks rooted in each local area, which allows it to obtain concentrated customer information in real time so that it can reflect various needs quickly in product development. The Company holds its own private mini-exhibitions around the world, which are hands-on promotional events where participants can see, touch, and experience its products. It actively uses these events as opportunities to gather information on customer needs and move on to making specific proposals. As a result of these measures, the Company has a very high overseas sales share of around 70%, which continues to increase fast.

Business summary

FY3/23 net sales breakdown by area



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

Strengths in high-performance inks and printhead control technologies

3. Strengths

As well as production technologies for cutting plotters and industrial inkjet printers, the Company excels in its complex technological base, including chemical technologies for developing various inks according to the material, and printhead control technologies for stable discharge of specialty high-performance inks for excellent printing output.

In particular, the Company develops its own inks according to customers' applications, with the aspiration of creating inks that "print on anything other than water and air." Its extensive range of original inks include solvent ink and water-based pigment ink for the SG market, UV-curable inks (hard inks, soft and flexible inks) for the IP market, and water-based sublimation, acid-dye, reactive-dye, textile pigment, disperse-dye, and heat transfer (direct-to-film only) inks for the TA market.

The most promising of these products are UV-curable and water-based sublimation inks. UV-curable inks immediately harden and set when exposed to ultraviolet rays. Since the ink hardens immediately after discharge, lead times can be much shorter. The Company's extensive lineup of UV-curable inks can be used for diverse applications and media, from the decoration of small items to building and industrial design. These inks can print on non-absorbent surfaces such as resins, glass, and metal as well. Some of the Company's UV-curable inks have obtained GREENGUARD Gold certification from UL, a U.S. third-party safety science organization. Water-based sublimation ink has revolutionized the quality of printing on polyester materials, because it instantly sublimates and attaches to the medium under high temperature. The Company offers a wide range of black colors with subtle tones as well. It also offers low-cost, direct sublimation printing with reduced environmental impact by combining sublimation transfer printing, which excels in vivid and beautiful coloring and image quality, with machine technologies. Some of its water-based sublimation inks have obtained ECO PASSPORT certification from OEKO-TEX®, an international community of research and test institutes headquartered in Switzerland.

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6638 Tokyo Stock Exchange Prime Market

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Business summary

The Company's range of high-performance inks that can print on diverse materials makes a point of difference by adding value to the main printer unit when selling inkjet printers in various markets such as SG, IP, and TA. Ink sales are generated only in markets where printers are sold, but as a consumable business, ink provides stable revenue. Inks account for over 35% of the Company's net sales with the same gross profit margin as for printers (we think the operating profit margin is slightly higher considering operating expenses for promotion, etc.). The Company seeks a stable, long-term business instead of selling low-priced printers and then earning a large profit quickly from sales of consumables with a high profit margin as is the case with home-use printers.

The Company does not manufacture its own printheads, which discharge the ink onto the material, because it believes it makes more sense to procure the most suitable heads from the market to achieve stable discharge of high-performance ink that fulfills customer needs and beautiful print output. Moreover, this can lead to development of new products through a market-in approach. Here, the control technologies for various printheads are critical for development. The Company has developed its proprietary control technologies and accumulated the know-how that now lies as the foundation. Leveraging its complex technological base as outlined above, the Company has devised a printer manufacturing process flow as follows. 1) Develops various, original high-performance inks to fulfill customer needs. 2) Selects the most suitable printhead for each high-performance ink. 3) Achieves high image quality and productivity using its technologies to control the printhead and ink. 4) Grows with its customer by releasing the optimal printers for each market.

The Company has grown by applying the know-how and production flow expertise gained in the SG market to the IP and TA markets. Further, it applied know-how fostered in the SG and IP markets to the 3D printer business. The knowledge covers UV printing that features various advantages. UV printing is capable of printing white, which presents coloring challenges. UV inks can be eco-friendly, printed on most materials, and adapted to high mix low volume production. 3D printers have entered a new stage after full-color modeling of over 10 million colors became possible and color 3D data has become easier to obtain. It is a promising business that is expected to grow fast amid the proliferation of 3D software and peripheral equipment, especially in genres that harness augmented reality (AR) and virtual reality (VR). The Company also plans to maximize the advantage of its FA business to progress the automation of printing processes in the SG, IP, and TA markets to provide digital on-demand printing solutions.

Other strengths include make-to-order using digital on-demand printing facilities, one-stop solutions for high-mix low-volume needs, factory automation (FA) technologies for smart factories, and both local and global sales capabilities (including mini-exhibitions). The Company's development structure is also a strength, being efficient as well as effective. It acquired top positions in global niche markets by selling products at an early stage in relatively small markets with strong growth potential, which are not easy for large companies to move into. This is the result of efforts to reduce development cost by the use of platforms and shorten lead times (from development to release). Whereas its major competitors invest substantial amounts in development to create a large market, the Company's approach is to invest 7–8% of net sales in a number of smaller markets to increase the probability of success. It is also a development-driven company, with over 30% of employees engaged in development.

Results trends

Double-digit operating profit growth amid uncertain world economic outlook

1. 1H FY3/24 results

In 1H FY3/24, sales and profit were robust, with net sales increasing 4.3% YoY to ¥35,437mn, operating profit increasing 23.7% to ¥2,331mn, ordinary profit up 17.9% to ¥2,014mn, and profit attributable to owners of parent up 9.0% to ¥1,412mn. Net sales fell ¥1,762mn short of the initial Company forecast, but operating profit, ordinary profit, and profit attributable to owners of parent exceeded the Company forecast by ¥481mn, ¥424mn, and ¥312mn, respectively. Exchange rates (average for April–September 2023) were ¥141.00 per U.S. dollar (¥133.98 in April–September 2022) and ¥153.38 per euro (¥138.72).

1H FY3/24 results

	1H FY3/23		1H FY3/24		Change %
	Results	Ratio to net sales	Results	Ratio to net sales	
Net sales	33,980	100.0%	35,437	100.0%	4.3%
Gross profit	13,600	40.0%	15,127	42.7%	11.2%
SG&A expenses	11,715	34.5%	12,795	36.1%	9.2%
Operating profit	1,885	5.5%	2,331	6.6%	23.7%
Ordinary profit	1,709	5.0%	2,014	5.7%	17.9%
Profit attributable to owners of parent	1,296	3.8%	1,412	4.0%	9.0%

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

The world economic outlook remained generally clouded amid continuing high levels of inflation and impact of monetary policies of central banks and governments. Whereas the economy has mainly been strong in North America, driven by consumer spending, Europe's economic slowdown continued due to the protracted Russia-Ukraine crisis. The Japanese economy remained upbeat, underpinned by a recovery in consumer spending and capital investment. It has also received a boost from the return of inbound demand and increased export demand.

Against this backdrop, the Company continued efforts based on priority initiatives of its medium- to long-term growth strategy Mimaki V10, bringing new products to the market and expanding sales, running its business while anticipating sudden changes in market environment and customer needs, and building a foundation to improve profitability. It also ensured that it implemented strategies for future sales growth. The Company conducted simultaneous global product announcements for new products for the SG market—entry-level UV printer UJV100-160Plus, with improvements such as low power consumption and 3 additional functions, and the UCJV330 series of UV printers that offers versatile printing on diverse materials, which is expected to become the earnings driver of the SG market. As well, it opened its 17th domestic sales office (Okinawa Sales Office) and exhibited its “Neo-Chromato Process” (technology for decoloring dyed textiles for reuse) for the first time at Decarbonization EXPO, a specialist exhibition held in Japan for companies aiming for decarbonization management.

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Results trends

Taking into account the overall negative impact from the economic slowdown as well as the lesson from 1Q, namely its tardy sales activities, the Company proactively organized mini-exhibitions around the world in 2Q, ensuring that it engaged in talks with individual companies and closed deals. This resulted in net sales growth, somewhat inflated by yen depreciation, but also adjusted for this impact. By market, net sales grew sharply in the TA market, boosted by the direct-to-film (DTF) model TxF150-75, which was new to the product range. In the SG market, main unit sales turned down, but ink sales were brisk, while sales were flat YoY in the IP market, whose sales grew sharply a year earlier due to the release of new product. In contrast, net sales turned down YoY in the FA market, because demand was at a high level a year ago. By area, net sales were flat in North America, Europe, and Asia and Oceania, which were impacted by economic downturns, while net sales increased in Japan, where demand grew amid economic recovery.

In terms of profit, the cost of sales ratio improved despite ongoing sales of products that use high-cost parts procured in FY3/23 such as semiconductors, because transport costs declined as the global logistics disruptions came to an end and the Company revised prices to reflect ongoing inflation. The amount of SG&A expenses increased, because the Company invested in R&D to develop new products and technologies, proactively exhibited at trade shows worldwide, and increased personnel expenses to accelerate sales activities. However, the rise in the SG&A expenses ratio was kept to a minimum. Net sales fell short of the initial Company forecast despite the Japan segment overshooting. The economic recovery was slow in Europe due to the Russia-Ukraine crisis. In North America, investment declined amid high interest rates in 1Q. Additionally, the improvement of the parts shortage has settled down and led the business confidence in China and Australia to downturn. However, operating profit exceeded the Company forecast, thanks to the effect of yen depreciation, lower transport costs (although the cost of parts stayed high), and acceptance of the timely price revisions implemented in all countries in 2022.

TA market and Japan segment performed strongly

2. Results overview by market and area

By market, net sales in the SG market came to ¥14,251mn (up 4.0% YoY). Sales of existing models turned down. However, the increased sales of flagship and entry-level models, brisk ink sales, and effect of a favorable exchange rate contributed to the net sales increase. Net sales in the IP market totaled ¥9,484mn (up 0.8% YoY), little changed from a year earlier when new products (mainly small flatbed models) drove sales growth, thanks to increased ink sales and positive exchange rate impact. Net sales in the TA market grew a steep 22.5% YoY to ¥4,097mn. This growth was driven by strong sales mainly in developed countries of the new DTF model TxF150-75, which went on the market in FY3/24, and brisk ink sales. Net sales came to ¥2,135mn (down 4.8% YoY) in the FA business on lower sales of PCB inspection equipment and semiconductor production equipment after a year-ago spike in demand, and a decline in FA systems, even though sales increased for PCB mounting equipment and metal processing.

Results trends

1H FY3/24 net sales breakdown by segment

	1H FY3/23		1H FY3/24		Change %
	Results	%	Results	%	
(¥mn)					
By market					
SG market	13,707	40.3%	14,251	40.2%	4.0%
IP market	9,407	27.7%	9,484	26.8%	0.8%
TA market	3,345	9.8%	4,097	11.6%	22.5%
FA business	2,243	6.6%	2,135	6.0%	-4.8%
Other	5,276	15.5%	5,469	15.4%	3.6%
By product					
Machines	13,855	40.8%	14,016	39.6%	1.2%
Inks	12,413	36.5%	13,451	38.0%	8.4%
Spare parts	2,842	8.4%	2,919	8.2%	2.7%
Other	4,868	14.3%	5,050	14.3%	3.7%
By area					
Japan	9,181	27.0%	10,068	28.4%	9.7%
North America	7,110	20.9%	7,106	20.1%	-0.1%
Europe	8,518	25.1%	8,471	23.9%	-0.6%
Asia and Oceania	5,950	17.5%	5,870	16.6%	-1.3%
Other	3,218	9.5%	3,920	11.1%	21.8%

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

By area, net sales in Japan were robust at ¥10,068mn (up 9.7% YoY). Sales were brisk in the SG market, as well as in the IP market due to the strong performance of large and small flatbed products, and in the TA market driven by new and existing products, including inks. The FA business also performed well. Net sales in North America were down 0.1% YoY to ¥7,106mn. In the U.S., sales slowed in 1Q amid an economic downturn, but grew sharply in the TA market in 2Q as the economy picked up driven by consumer spending, thanks to the exchange rate effect and stepping up sales activities, although sales were down in the IP market. With a steady recovery in sales in the SG market, net sales were flat YoY overall. Sales increased in many countries in Latin America.

In Europe, net sales were down 0.6% YoY to ¥8,471mn. Despite the impact of the prolonged Russia-Ukraine crisis, sales in the TA market grew sharply with a boost from new products, while sales were flat in the SG market and down in the IP market. By country, Portugal, France, and Poland performed well. Sales turned down in Italy and the U.K., and net sales overall declined slightly YoY, shored up by yen depreciation. Net sales in Asia and Oceania were down 1.3% YoY to ¥5,870mn, declining slightly overall due to lower sales in Australia and Thailand and a downturn in FA sales in Taiwan, which performed strongly in 1H FY3/23, although China saw a post-pandemic demand recovery and sales grew in the SG and TA markets in India amid economic growth.

Lowered full-year net sales forecast, but revised up profit forecast

3. FY3/24 results outlook

For the FY3/24 consolidated results, the Company forecasts net sales of ¥76,800mn (up 8.8% YoY), operating profit of ¥4,840mn (up 14.1%), ordinary profit of ¥4,280mn (up 12.9%), and profit attributable to owners of parent of ¥3,160mn (up 12.6%). The initial net sales forecast was lowered by ¥1,200mn, but revised up by ¥440mn for operating profit, ¥420mn for ordinary profit, and ¥310mn for profit attributable to owners of parent. The assumed exchange rates are ¥140.00 per U.S. dollar and ¥145.00 per euro.

Results trends

FY3/24 outlook

	FY3/23		FY3/24		Change %
	Results	Ratio to net sales	Results	Ratio to net sales	
Net sales	70,607	100.0%	76,800	100.0%	8.8%
Operating profit	4,241	6.0%	4,840	6.3%	14.1%
Ordinary profit	3,789	5.4%	4,280	5.6%	12.9%
Profit attributable to owners of parent	2,807	4.0%	3,160	4.1%	12.6%

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

The Company expects a severe operating environment to continue through 2H FY3/24, with ongoing inflation and high interest rates amid growing concern about global economic slowdown. The Company plans to compensate for this with measures to regain ground lost in 1H and catch up with its initial forecast. Specifically, it works to maintain the brisk sales of new products in the TA market, introduce new products in the SG and TA markets, and strengthen sales activities such as mini-exhibitions. In terms of profit, the Company expects the gross profit margin to be flat YoY despite the lingering effects of the high cost of parts procured in FY3/23, due to lower transport costs and effect of price revisions. SG&A expenses are anticipated to escalate as a result of accelerating sales activities. It also revised its exchange rate assumption in favor of yen depreciation, but made little change to its initial 2H results forecast because of many uncertainties, simply reflecting progress through 1H in the full-year forecast.

Breakdown of consolidated net sales outlook by segment

	FY3/23		FY3/24		Change %
	Results	%	Forecast	%	
By market					
SG market	28,451	40.3%	29,993	39.1%	5.4%
IP market	20,132	28.5%	20,941	27.3%	4.0%
TA market	6,611	9.4%	10,175	13.2%	53.9%
FA business	4,650	6.6%	5,221	6.8%	12.3%
Other	10,760	15.2%	10,468	13.6%	-2.7%
By area					
Japan	19,602	27.8%	21,728	28.3%	10.8%
North America	14,590	20.7%	15,638	20.4%	7.2%
Europe	18,174	25.7%	19,490	25.4%	7.2%
Asia and Oceania	11,983	17.0%	12,633	16.4%	5.4%
Other	6,255	8.9%	7,309	9.5%	16.8%

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

The Company's forecasts by segment are also initial forecasts with 1H results factored in. However, its full-year forecast by market also reflects overall economic weakness—revised down for the SG market, unchanged for the IP market, and revised up for the TA market, because the impact of new products was stronger than expected. The Company slightly lowered its forecast for the FA business due to weak performance of the existing business, although it acquired a company with the know-how to build FA lines. By area, the Company raised its full-year forecast for Japan, which is performing well, left the initial forecast unchanged for the US, which showed signs of recovery in 2Q, and lowered forecasts for Europe and Asia and Oceania, where business confidence remains weak.

■ Medium- to long-term growth strategy

Aimed to resume growth after V-shaped recovery from impact of COVID-19 pandemic

1. Medium- to long-term growth strategy Mimaki V10

The Company formulated its medium- to long-term growth strategy Mimaki V10 in December 2020, when its earnings slumped amid the pandemic. With the basic statement: “By providing solutions unique to Mimaki through the combined systems that integrate pre-processing, printing (print x cut x coat), and post-processing, we will drive the shift to digital on-demand printing for industry,” the Company seeks to stay true to its challenging spirit and continue to innovate in product development. Simultaneously, it has strove to achieve growth mindful of profitability and strengthen its financial base for V-shaped recovery from the pandemic slump and further advancement. To attain these goals, for profitability, the Company will become more cost-efficient by improving ink quality, reducing fixed costs, and progressing reforms of its production and sales structures. For growth potential, the Company plans to build up an S-shaped curve in existing markets with new products, expand the FA and 3D printer businesses, and provide digital on-demand printing solutions. For strengthening its financial base, the Company will implement measures such as tightening inventory control. FY3/26 targets are an operating profit margin of 10%, ordinary profit margin of 8%, and CAGR of net sales of 10%.

Steady progress of Mimaki V10 despite some changes in external environment

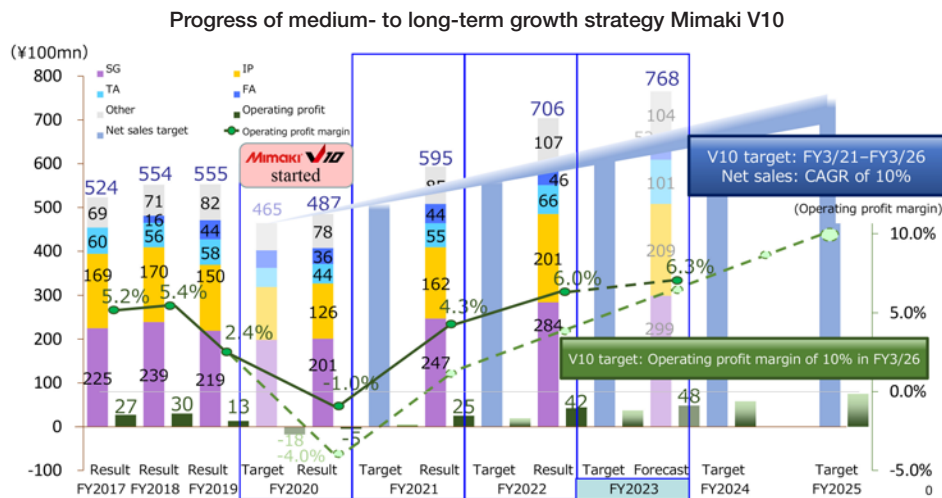
2. Progress of Mimaki V10

The Company has made good progress with Mimaki V10 so far, trending ahead of target for operating profit margin and net sales CAGR. It will continue with strategies in the SG and IP markets, whose sales are on track. Performance of the TA market is also solid, but the situation has changed somewhat since the COVID-19 pandemic. The challenges faced by the TA market have drawn attention from a sustainability perspective, because the industry has a heavy environmental impact. These challenges include volume production, large inventories, mass consumption and waste of a business that seeks economies of scale through analog textile printing, long supply chain (planning, production, transport, inventory, sales, use, waste disposal/incineration), and very low recycling and reuse rates (three-quarters of world production is disposed of as waste or incinerated). Some say that the TA industry is second only to the oil industry in greenhouse gas emissions and water consumption.

Medium- to long-term growth strategy

For this reason, the Company plans to support the TA market’s transition to upcycling (shift from volume production to optimal production/waste disposal/incineration and further to recycling and reuse) through digital on-demand printing. For example, its high-speed sublimation transfer inkjet printer Tiger600-1800TS stands out for its high productivity and stable operation, being capable of optimal production by digital on-demand printing, as well as reducing environmental impact, because there is no wastewater from plate cleaning. The Company’s first DTF printer, which went on sale in April 2023, combines stable operation and labor saving by resolving the problems of previous DTF printers of ink discharge issues and white ink clogging. Even when a problem occurs with a nozzle, users can resume printing without waiting for repairs, making it easier to maintain stable operation. The “Neo-Chromato Process” developed by the Company uses novel chemicals to de-color polyester fabric dyed by sublimation transfer so that they can be reused by reprinting. This makes it possible to reuse of fabrics for outdoor banners, which were previously thrown out after one event or season. Upcycling textiles in this way reduces 95% of CO₂ emissions from the production process of fabrics while it almost eliminates industrial wastewater. The Company expects this technology to help make the TA market a more sustainable industry.

Challenges such as high raw material prices due to the Russia-Ukraine crisis and yen depreciation are likely to remain in FY3/25. The Company plans to address them by passing cost increases onto sales prices and ensuring a markup when releasing new products. Although it is taking a cautious view of business confidence, we think the Company will make solid progress with Mimaki V10 in FY3/25 onward, given stable growth of the SG and IP markets, full contribution of three models released in 2H FY2/24, positive feedback at European trade fairs for the “Neo-Chromato Process,” which enables reuse of outdoor ads (including banners), and plans to expand into China, with its large (if somewhat weakened) economy.

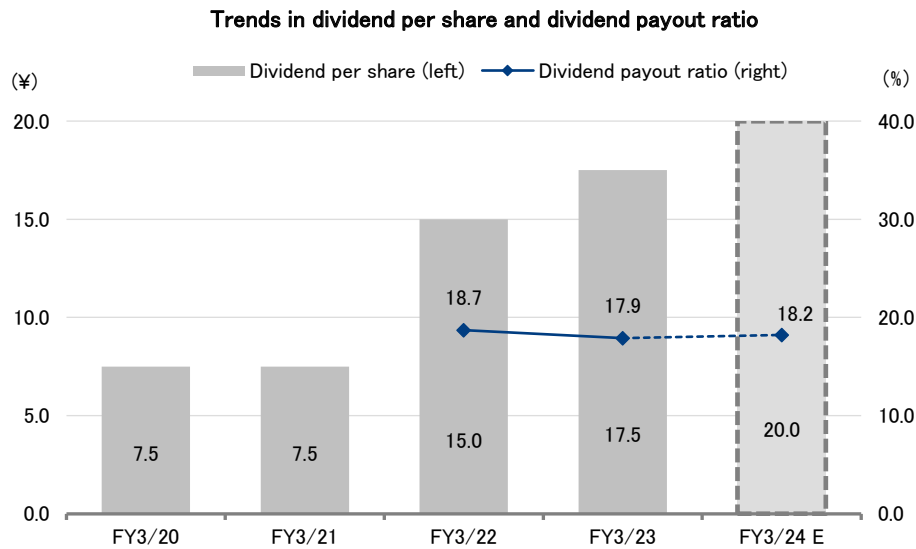


Source: Prepared by FISCO from the Company’s results briefing materials

Returns to shareholders

Dividend increase three years in a row

The Company has positioned shareholder returns as an important management policy. Its basic policy on shareholder returns is to pay stable and continuing dividends on its profits in proportion to earnings growth. In FY3/24, therefore, the Company plans to pay a dividend of ¥20.0 per share (interim dividend of ¥10.0, period-end dividend of ¥10.0), an increase of ¥2.5 from FY3/23 after comprehensively considering its business outlook and shareholder returns policy of stable and continuing dividends.



* No dividend payout ratio is calculated for FY3/20 and FY3/21 because of negative EPS.
Source: Prepared by FISCO from the Company's financial results

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