COMPANY RESEARCH AND ANALYSIS REPORT

Fuji Die Co., Ltd.

6167

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Contents

Summary

Contributing to society by creating new value in serving as a company essential for manufacturing through powder metallurgy and ultra-precision processing technologies

Fuji Die Co., Ltd. <6167> (hereafter, also "the Company") has maintained a long-term top market share of at least 30% in the carbide wear-resistant tool industry since its founding in 1949. It has furthermore continued profitable operations since its founding and had a high equity ratio of 80.2% at the end of 1H FY3/25.

In 1H FY3/25 results, net sales increased 0.8% year on year (YoY) to ¥8,277mn, operating profit decreased 34.0% to ¥291mn, ordinary profit declined 21.3% to ¥394mn and profit attributable to owners of parent was down 34.2% to ¥250mn. Sales languished and remained nearly unchanged amid effects of inventory adjustments undertaken by some customers, and despite robust performance with respect to can manufacturing tools, molds for next-generation automotive parts, and products for semiconductor production equipment. On the profit front, the Company experienced positive effects from productivity improvements but suffered a substantial decline due to escalating costs, largely attributable to surging raw material prices and investments in IT and human resources.

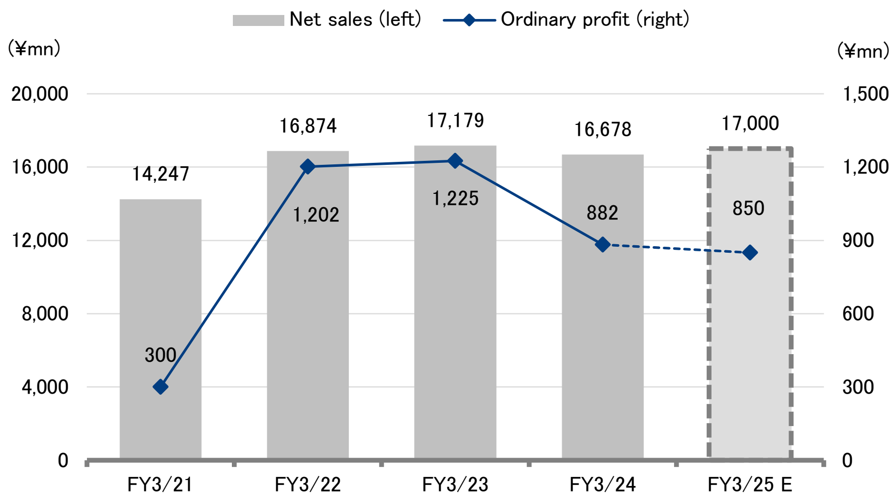
For FY3/25, the Company revised its full-year forecasts downward as a result of it having fallen short of its earnings targets for 1H and also due to persisting effects of ongoing inventory adjustments to be carried out by its customers in 2H. The Company forecasts net sales of ¥17,000mn (up 1.9% YoY), operating profit of ¥680mn (down 16.0%), ordinary profit of ¥850mn (down 3.6%), and profit attributable to owners of parent of ¥590mn (down 16.8%).

The Company has embarked on its Medium-Term Management Plan 2026 (FY3/25–FY3/27). The plan targets net sales of ¥20.0bn and operating profit of ¥2.0bn for FY3/27. The Company accordingly aims to achieve targets of its new medium-term management plan by increasing sales and improving profit margins, underpinned by efforts to address dramatic social transformation that entails strengthening the management foundation, increasing productivity and improving business efficiency, leaping forward in overseas business, contributing to a zero-carbon / recycling-based society, and development of new business.

Key Points

- Net sales increased but profit decreased in 1H FY3/25. Operating profit decreased 34.0% due to some delays in inventory adjustments and higher costs
- Forecasts project higher net sales but lower profits for FY3/25. Inventory adjustments are likely to persist into 2H. Forecast projects 16.0% decrease in operating profit amid delayed recovery
- Launched Medium-Term Management Plan 2026, aiming for net sales of ¥20.0bn and operating profit of ¥2.0bn in FY3/27

Results trends



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

Company profile

Top specialty manufacturer of cemented carbide tools and molds (wear-resistant tools)

1. Company profile

The Company primarily manufactures and sells high-precision wear-resistant tools and molds that use cemented carbide and has held the leading market share for many years as a specialty supplier of carbide wear-resistant tools.

A defining feature of the Company is its approach to designing tools and molds optimized for materials and applications specific to its products, utilizing its integrated production system covering everything from pulverizing, mixing, and granulating raw material powders to sintering, machining, and product inspection, all provided directly to its customers. The Company has strength in low-volume, high-mix production and secures profitability from the sales of high value-added products, which sell at high unit prices. This strategy distinguishes the Company from its industry competitors that mostly sell materials.

2. Business description

The Company specializes in the manufacture of tools and molds (wear-resistant tools) centering on cemented carbide products, and it mainly handles four types of products. Its sales mix in 1H FY3/25 was 24.8% carbide tools, 24.8% carbide molds, 26.2% other carbide products, and 24.2% non-carbide products.

Results trends

Net sales increased but profit decreased in 1H FY3/25. Operating profit decreased 34.0% due to inventory adjustments among some customers and higher costs

1. 1H FY3/25 consolidated results overview

In 1H FY3/25 results, net sales increased 0.8% YoY to ¥8,277mn, operating profit decreased 34.0% to ¥291mn, ordinary profit declined 21.3% to ¥394mn and profit attributable to owners of parent decreased 34.2% to ¥250mn. Despite robust performance with respect to can manufacturing tools, molds for next-generation automotive parts, and products for semiconductor production equipment, net sales underperformed the forecast of ¥8,800mn for 1H FY3/25 due to languishing sales attributable to a pullback in sales of grooving rolls for overseas markets as well as prolonged inventory adjustments among customers. On the profit front, the Company had positive effects from productivity gains but suffered a substantial decrease in operating profit as it was unable to offset increased burdens from surging raw material prices and higher investments in IT and human resources.

1H FY3/25 results

(¥mn)

	1H FY3/24			1H FY3/25		
	Result	Sales ratio	YoY	Result	Sales ratio	YoY
Net sales	8,210	100.0%	-1.9%	8,277	100.0%	0.8%
Gross profit	2,099	25.6%	-2.3%	2,086	25.2%	-0.6%
SG&A expenses	1,658	20.2%	5.5%	1,794	21.7%	8.2%
Operating profit	441	5.4%	-23.6%	291	3.5%	-34.0%
Ordinary profit	501	6.1%	-24.1%	394	4.8%	-21.3%
Profit attributable to owners of parent	380	4.6%	-16.4%	250	3.0%	-34.2%

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

2. Conditions by customer industry category

Looking at trends in net sales by product category, net sales of carbide tools decreased 12.8% YoY to ¥2,053mn. Previously strong sales of grooving rolls for overseas markets significantly dropped due to inventory adjustments among customers. Sales of hot rolling mill rolls for overseas markets remained steady but could not offset the decrease in sales of grooving rolls for overseas markets. Net sales of carbide molds increased 8.4% YoY to ¥2,053mn, driven by strong performance in can manufacturing tools and molds for next-generation automotive parts. Net sales of other carbide products climbed 10.6% to ¥2,165mn. Sales of products for semiconductor production equipment performed well, and sales of carbide materials for overseas markets turned to growth, achieving double-digit increases. Net sales of non-carbide products remained stable, increasing 0.1% to ¥2,005mn, as continued weak sales of kneading tools were offset by strong performance in tools and molds for certain steel automotive parts.

An analysis of operating profit factors shows positive contributions of ¥67mn from higher sales and ¥78mn from improved productivity. However, significant cost increases included ¥90mn due to surging raw material prices, ¥75mn from higher personnel expenses related to human capital enhancement, and ¥114mn in IT investments. Regarding the ¥470mn operating profit forecast for 1H FY3/25, the shortfall was primarily due to inventory adjustments by automotive parts manufacturers and a slowdown in the Chinese economy, resulting in a ¥523mn decline. Positive factors partially offset this decline, including ¥79mn from improved productivity, ¥106mn from reduced raw material costs linked to lower sales, and ¥127mn from lower personnel expenses due to fewer employees than expected. Nevertheless, these positive factors were insufficient to fully offset the negative impacts, leading to the forecast shortfall.

3. Financial condition and management indicators

The Company has continued profitable operations since its founding. The equity ratio has held to a high level of 77.7% as of the end of FY3/23, 79.0% as of the end of FY3/24, and 80.2% as of the end of 1H FY3/25. The Company has maintained a strong financial structure even in a difficult earnings environment with abundant cash on hand and free cash flow amounting to an inflow of ¥592mn (an inflow of ¥491mn as of the end of 1H FY3/24).

Consolidated balance sheet and key management indicators

(¥mn)

	End-FY3/23	End-FY3/24	End-1H FY3/25	Change
Current assets	15,724	15,024	14,596	-428
Non-current assets	10,528	11,114	10,902	-212
Total assets	26,253	26,138	25,498	-640
Current liabilities	4,197	3,871	3,444	-426
Non-current liabilities	1,662	1,619	1,602	-17
Total liabilities	5,860	5,491	5,046	-445
Net assets	20,392	20,647	20,451	-195
(Safety)				
Current ratio	374.6%	388.1%	423.8%	35.7pp
Equity ratio	77.7%	79.0%	80.2%	1.2pp

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

Outlook

Higher net sales but lower profits projected for FY3/25. Inventory adjustments are likely to persist into 2H. Forecast projects 16.0% decrease in operating profit amid delayed recovery

The Company has revised its FY3/25 consolidated results forecasts downward and now projects net sales of ¥17,000mn, an increase of 1.9% YoY, operating profit of ¥680mn, a decrease of 16.0%, ordinary profit of ¥850mn, a decrease of 3.6%, and profit attributable to owners of parent of ¥590mn, a decrease of 16.8%. The revision is due to the underperformance of 1H FY3/25 results compared to the initial forecast and lingering effects of inventory adjustments by customers in 2H.

FY3/25 results outlook

(¥mn)

	FY3/24		FY3/25		
	Result	Sales ratio	Forecast	Sales ratio	YoY
Net sales	16,678	100.0%	17,000	100.0%	1.9%
Cost of sales	12,440	74.6%			
SG&A expenses	3,429	20.6%			
Operating profit	809	4.9%	680	4.0%	-16.0%
Ordinary profit	882	5.3%	850	5.0%	-3.6%
Profit attributable to owners of parent	709	4.3%	590	3.5%	-16.8%

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

The Company has also revised its initial sales forecasts for FY3/25 by major industry category on a non-consolidated basis. The Company projects sales of ¥2,900mn (up 3.9% YoY) in the transportation machinery category, its greatest source of demand. This is attributable to anticipation of rising demand for EV motor core products and products for next-generation automobiles, against a prediction that sales in 2H FY3/25 will stagnate at around the same level as those of 2H FY3/24 amid persisting inventory adjustments by automotive parts manufacturers. The Company forecasts sales of ¥2,680mn (down 5.3%) in the iron and steel category. While sales of hot rolling mill rolls for overseas markets continue to perform well, results are unlikely to recover from 1H downturn due to expected sluggish automotive production trends in 2H. Sales of ¥2,010mn are projected in the non-ferrous & metallic products category, for a decrease of 14.1%, amid ongoing sluggish sales of grooving rolls for overseas markets. Sales in the electrical and electronic components category are poised to decrease 2.1% to ¥1,410mn. This is because the expected increase in sales in 2H is unlikely to offset the drop in 1H sales, even though sales in 2H FY3/25 are forecasted to exceed those of 2H FY3/24. This growth is driven by higher sales of products for new-model EV cylindrical lithium-ion batteries in 2H, new demand for rectangular lithium-ion batteries, and recovery in semiconductor-related products. Sales in the production and commercial machinery category are projected at ¥2,210mn (up 8.3%), with robust performance expected for products for semiconductor production equipment and optical elements. The Company forecasts sales of materials for mold parts and tools amounting to ¥2,460mn (up 7.4%), as growth in materials for semiconductor applications is expected to contribute to 2H results.

Medium- to long-term growth strategy

Increase operational efficiency, develop new products in growth fields, and promote global expansion

1. Transforming the company structure to adapt business resilience

The Company formulated and has been implementing its Medium-Term Management Plan 2026 under its new president, Yoshikazu Haruta, appointed in January 2024. The plan introduces the new concept of "transforming the company structure to adapt business resilience," considering that it fell short of its targets in the final fiscal year of its previous medium-term management plan due to higher resource prices, stagnation in the Chinese market, and delayed recovery in the automotive parts industry. The strategy centers on "strengthening the management foundation" to advance growth initiatives. Additionally, the Company continues to promote initiatives from its previous medium-term management plan, including "increasing productivity and improving business efficiency," and "leaping forward in overseas business," The Company aims to contribute to a "zero-carbon / recycling-based society," addressing the needs of new users. It will promote the development of environmentally friendly products and work toward commercializing new business opportunities, with the goal of becoming a 100-year corporation.

The quantitative targets on a consolidated basis for FY3/27, the final fiscal year of the plan, are net sales of ¥20.0bn, operating profit of ¥2.0bn, ordinary profit margin of 10.5%, and ROE of 7.0%. Although the Company revised its forecasts downward in FY3/25, it apparently aims to achieve its targets from FY3/26 onward through efforts such as launching aggressive new product campaigns and fast-tracking global expansion.

The immediate point of focus is whether the Company will achieve a record operating profit of ¥1,500mn in FY3/26, surpassing the ¥1,465mn achieved in FY3/18. In the next-generation automobile sector, the Company is seeing enterprises take a cautious approach to investments in rechargeable battery and EV motor facilities as they reassess their EV development initiatives. Although a full recovery in products like motor cores and rechargeable battery molds is expected with new cylindrical designs, there are concerns that overall growth will remain slow. Achieving the targets of the Company's new medium-term management plan is expected to require further customer development and business expansion through M&As and other measures.

2. Core themes of the new medium-term management plan

The core themes of the new medium-term management plan consist of: "strengthening the management foundation," "increasing productivity and improving business efficiency," "leaping forward in overseas business," "contributing to a zero-carbon / recycling-based society," and "development of new business." Under its theme of "strengthening the management foundation," the Company has been promoting digitalization since October 2024 by overhauling its core systems and strengthening its IT capabilities. Under the theme of "increasing productivity and improving business efficiency," the Company plans to reduce the production cost ratio by 3.0 percentage points (pp) and increase material department productivity by 15% by FY3/27 compared to FY3/24. To achieve these goals, the Company is evaluating and implementing automation processes, drawing on the automation introduced at its Koriyama and Kumamoto manufacturing plants until 1H FY3/25. Under the theme of "development of new business," the Company aims to fast-track commercialization of new business opportunities by establishing a dedicated organization, with the goal of becoming a 100-year corporation.

3. Contributing to a zero-carbon / recycling-based society

We at FISCO believe the Company has outstanding technology and manufacturing methods overall but appears to have missed out on opportunities for business expansion due to not effectively identifying customer needs thus far. We believe that the key to the Company's success going forward will depend on how effectively it can accelerate business expansion by tapping into customer needs in Japan and abroad and expanding sales channels leveraging M&As and alliances. Under the theme of "contributing to a zero-carbon / recycling-based society," the Company has plans to actively develop and launch products in the four fields of next-generation energy, next-generation automobiles, resource savings, and recycling. The Company seems to be particularly focusing on next-generation automobiles. However, given that many projects will bloom significantly after FY3/27, their contribution to the targets of the new medium-term management plan appears to be limited.

(1) Next-generation automobiles

In the next-generation automobile sector, the Company has completed the development of Fujilloy VG48 material for motor core molds, which the Company aims to sell on a full-scale basis, and Fujilloy VG51, a recently announced new material. The Company's V series products are distinguished by their exceptional balance of wear resistance and fracture toughness, thereby combining the durability and precision required of motor core molds. The Company's V series products are currently used across multiple applications and account for nearly 20% of its overall sales.

Fujilloy VG51 is a product designed for extended-duration water-based wire electrical discharge machining utilizing water as the machining fluid in wire cut electrical discharge machines. Given that it features superior corrosion resistance and toughness in comparison with general-purpose materials, Fujilloy VG51 curbs severe corrosion that occurs on a localized basis with general-purpose materials even in settings involving prolonged electrical discharge machining with water as the machining fluid. This reduces machining time compared to using oil as the machining fluid for prevent corrosion, thereby reducing mold production costs. Fujilloy VG51 is expected to drive sales growth as a differentiated product, given its suitability for prolonged machining of molds requiring precise and complex processing in wire cut electrical discharge machining.

The Company anticipates customer trends in forging ahead with early-stage development of stamping die materials capable of facilitating the development of high-performance motors using amorphous metal rather than electromagnetic steel sheets. Motor output is proportional to the product of torque and rotation speed, and a motor's maximum torque determines its size. Therefore, increasing rotation speed enables the creation of smaller and lighter motors with the same output. However, the challenge with increasing rotation speed is that it generates more eddy currents, leading to increased iron loss and ultimately greater motor power loss. To address this challenge, the Company has developed its Fujilloy FS06 nano grade cemented carbide, which achieves a balance of both exceptional hardness and flexural strength, and is made by reducing the size of tungsten carbide (WC) particles down to the nano-scale to enable stamping of thin steel sheets used for such motors. The Company has been encountering an increasing number of inquiries for products such as its Fujilloy FS06 nano grade cemented carbide, which is already in production and available for sale.

The Company anticipates that adding such new products will further prompt sales momentum of products for motor core applications. At this point in time, the Company's net sales of products for next-generation automobiles have apparently increased from a reference baseline of 100 in FY3/20 to the 120–130 level in FY3/24. The Company's competitors include unlisted companies such as Kyoritsu Gokin Co., Ltd., Sanalloy Industry Co., Ltd., and Silver Alloy Co., Ltd., all based in Hyogo Prefecture, as well as Tokaloy Holdings of Okayama Prefecture. Meanwhile, major cemented carbide product manufacturers such as Sumitomo Electric Industries, Ltd. <5802> and Mitsubishi Materials Corporation <5711> have not entered the market. Therefore, the motor core molds for transportation machinery and related products, which currently account for around 17% of the Company's net sales, are expected to comprise a growing share of its sales in the next-generation automobile sector. Moreover, the Company is strengthening sales of these cemented carbide materials for motor core molds in the Chinese market, in addition to its existing sales in the Japanese market. Growth in sales in the Chinese market through the Company's new sales office in Dongguan is expected to drive growth in sales of materials for mold parts and tools, which account for about 14% of overall sales. This growth will be supported by the full-scale expansion of next-generation automobile production in Japan and sales of motor core base materials for the luxury EV market overseas.

The Company's molds for high thermal expansion lenses (TR alloy) are now experiencing significant growth. Specifically, there has been an increase in demand for sensor lenses, driven by advancements in automated driving technology. These sensor lens applications require molds with high thermal expansion coefficients, wear resistance, and machining precision to match the thermal expansion properties of lens material being formed. The Company has developed its TR series of hard alloy for molds, new materials that meet these requirements. Manufacturers are increasingly adopting TR05 and other TR series products to improve productivity, as the series features thermal expansion coefficients closely aligned with that of glass. Since sensors for automated driving use infrared transmissive lenses to enable highly precise environmental recognition, molding precision of these lenses directly affects performance of automated driving technologies. Adoption of TR05 is expected to enhance sensor performance.

The Company has been taking steps to expand its sales in the Chinese market where adoption of automated driving has been gaining momentum. Specifically, BYD Company Limited (BYD) of China, the global leader in EV/PHEV sales volume, installs six LiDAR three-dimensional sensors in its HanEV luxury EV, with three in the front and three in the rear. In China, level 4 fully automated driving taxis started service in 2023, and operations are gradually beginning for ordinary vehicles as well. Other countries have also been conducting real-world tests, thereby giving rise to expectations for full-fledged expansion of production. Notably, TR05 is used for automotive applications and is also employed in molds for infrared lenses used in security surveillance cameras. It is furthermore used in microchannel molds and for shaping specialized optical elements, creating potential applications across various sectors. Having launched sales in 2024, the Company aims to achieve ¥100mn in net sales of TR05 in FY3/25. The prospect of full-scale expansion of TR05 from FY3/26 onward warrants attention.

(2) Resource savings

Tungsten- and cobalt-saving alloys have been attracting attention with respect to prospects for resource savings and reducing environmental loads. The Company aims to deploy the alloy in the rotary tools field (rotary crushers, hammers), where using cemented carbide has been challenging due to its high specific gravity. Recognizing the potential to reduce power consumption by reducing motor loads and to improve productivity through higher rotation speeds, the Company is considering expanding the alloy's product lineup to meet market needs. On August 15, 2024, the Chinese government announced that it would tighten export controls on rare metals with the addition of antimony to the list of controlled rare metals along with germanium, effective from September 15. Escalation in supply risks related to rare metals such as tungsten and cobalt may create an environment where the Company's ability to ensure its business continuity is strengthened through the use of tungsten- and cobalt-saving alloys.

(3) Next-generation energy

In its next-generation energy sector, the Company has been developing catalysts using ultra-high pressure synthesis technologies utilizing tools for ultra high pressure generator that are used in producing synthetic diamonds and other such substances. The Company has also been developing various products using powder metallurgy technologies in seeking to practically apply such catalysts. Customers are currently evaluating these products.

The Company developed a hydrogen generation catalyst leveraging its ultra-high pressure synthesis technologies. Using this catalyst, the Company also succeeded in incorporating the catalyst into nickel using its powder metallurgy technology to create powder metallurgy electrodes (PMEs). Since conventional noble metal oxide catalysts were expensive, there has been demand for alternative catalysts with good cost performance. However, adoption of such catalysts had been limited largely due to inefficiencies. Through the use of A-site ordered perovskite oxide, the Company succeeded in developing a highly cost-effective hydrogen generation catalyst that maintains catalytic performance on par with or superior to conventional noble metal oxide catalysts, while also exhibiting high stability under catalytic reaction conditions over an extended service life.

The Company has developed this catalyst and has also successfully mixed the catalyst into nickel using its powder metallurgy technology and produced a commercial electrode that is actually integrated into hydrogen generation equipment. This electrode has a number of distinctive features. While conventional electrodes use porous alloys or sponge-like metal carriers to increase surface area, these were not efficient enough and often peeled off when a catalytic layer was formed on the metal carrier, presenting a significant challenge. This electrode, however, utilizes the Company's technology for compressing and forming metal powder to achieve a substantial surface area, and with the catalyst dispersed within the metal carrier, it prevents degradation caused by peeling. Furthermore, whereas electrodes are normally made through a process of press forming followed by sintering, the Company came up with an approach characterized by elevated electrochemical performance by either performing compressed powder formation without sintering or performing thermal processing at lower temperatures than is the case with conventional methods. This has enabled applications not only in water electrolysis hydrogen generators but also in metal-air rechargeable batteries. Going forward, the Company will proceed with efforts further upscaling and composite formation with respect to PMEs, thereby seeking to achieve commercial viability by the year 2027. The hydrogen strategy released by Japan's Agency for Natural Resources and Energy in September 2024 cites the prediction of the International Energy Agency (IEA) that global demand for hydrogen and other such substances will increase approximately five-fold by 2050, which has given rise to expectations with respect to commercialization opportunities.

(4) Recycling

The Company has identified 10 priority issues (materialities) that are to be addressed under its Basic Sustainability Policy to enhance its corporate value and facilitate the development of a sustainable society. The Company has listed initiatives for saving resources under the environmentally friendly category as one of the priority issues. Specifically, these objectives include increasing the recycling rate of carbide raw materials, developing markets for new rare metal-saving materials, reducing waste, managing environmentally hazardous substances (chemical substances registered in PRTR), and improving the recycling rate. In practice, the Company strives daily to extend product longevity and conserve resources, driven by its goal of reducing waste and saving materials. Some of its products have been certified as “ECO PRODUCT” in accordance with standards set by the Japan Cutting & Wear-resistant Tool Association. The Company has also been taking steps to reduce its use of rare metals by promoting sales of tungsten- and cobalt-saving alloy. Moreover, the Company has also been considering options for commercial opportunities with its sights set on the launch of a recycling business.

4. Leaping forward in overseas business

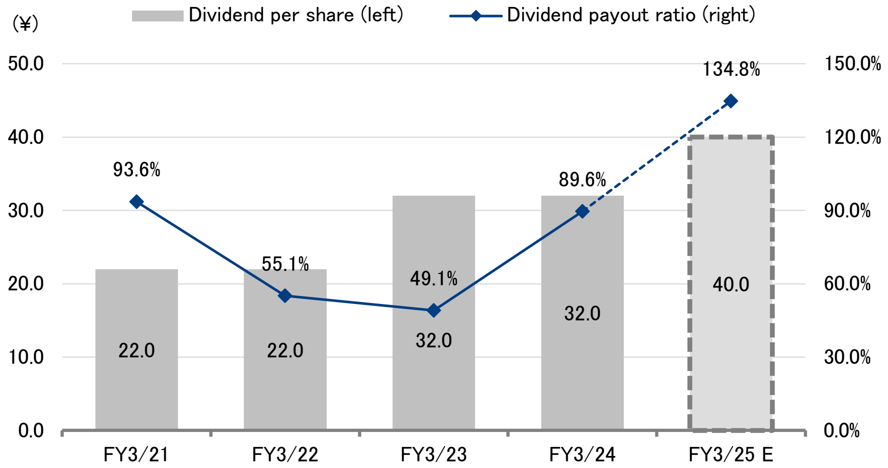
Although the Company has been citing the aim of strengthening its overseas business as a priority measure thus far, those efforts have not proceeded as planned, in that its overseas business has fallen short of the goal of achieving a sales ratio of 20%. Having positioned overseas business as a driver of growth under its new medium-term management plan, the Company revised the overseas business sales ratio target to 25% or more by FY3/27. Meanwhile, the Company established a sales office in Dongguan, China in March 2024, and is also moving forward with plans for reopening its Indian office and also looking at establishing a site in the U.S. with an eye to expanding into battery and motor core mold markets.

Policy on shareholder returns

Dividend standard changed to DOE under the new medium-term management plan, and ¥40.0 ordinary dividend forecast for FY3/25

In the new medium-term management plan through FY3/27, the Company changes the dividend standard for its dividend policy from a 50% dividend payout ratio to dividend on equity (DOE) and adopts a 4.0% DOE goal. Therefore, it intends to pay a ¥40.0 ordinary dividend in FY3/25, an increase of ¥8.0 per share YoY. This aims to comprehensively enhance the Company's corporate value by actively conducting shareholder returns, taking into account the situation where the PBR has traditionally been less than 1x.

Dividend per share and dividend payout ratio



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

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