COMPANY RESEARCH AND ANALYSIS REPORT

TODA KOGYO CORP.

4100

Tokyo Stock Exchange Standard Market

18-Sep.-2025

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Summary

Transform the potential of fine particles into new possibilities for our world by further improving its fine particle synthesis technology cultivated with iron oxides

TODA KOGYO CORP. <4100> (“the Company”) is a long-established chemical materials manufacturer that was founded in 1823 as a manufacturer of Bengala (a pigment essential for ceramics painting glazes and historical buildings). It marked its 200th anniversary in November 2023. The Company has been evolving the potential of fine particles with unique technology and passion cultivated with iron oxides to expand its business in a number of areas. These areas include high-purity iron oxides used in optical lens abrasives, magnetic iron oxides used in products such as audiotape and videotape that have taken the world by storm, materials for toners used in copiers and printers, magnet materials used in motors and sensors for automobiles and home appliances, dielectric materials for multilayer ceramic capacitors (“MLCC”) widely used in smartphones, as well as materials for lithium-ion batteries (“LIB”) used in electric vehicles (“EVs”) and other applications. Currently, the Company is engaged in two businesses: the Functional Pigments Segment (coloring pigment materials, toner materials, and catalysts) and the Electronic Materials Segment (including magnet materials, dielectric materials, soft magnetic materials, LIB materials, and hydrotalcite).

1. Summary of FY3/25 results

In the FY3/25 consolidated results, net sales were ¥31,667mn (up 20.7% year-on-year (YoY)), operating loss was ¥648mn (operating profit of ¥117mn in the previous period), ordinary loss was ¥1,411mn (ordinary profit of ¥1,168mn in the previous period), and the loss attributable to owners of parent was ¥3,563mn (a loss of ¥3,581mn in the previous period), a disappointing outcome. In the Functional Pigments Segment, net sales were ¥8,071mn (down 0.7%) and segment profit was ¥1,009mn (up 20.5%). In sales, catalysts, which are the core business of the Company’s revenue base, performed well, while sales of toner materials and other materials declined, resulting in only a slight increase in sales. Profitability improved as a result of product price adjustments, cost reductions, and overhead cost reductions. In the Electronic Materials Segment, net sales were ¥24,121mn (up 29.9%) and segment profit was ¥1,212mn (down 52.7%). In terms of sales, demand for magnet materials and dielectric materials was strong, and sales increased significantly due to the consolidation of TODA materials Inc., which handles soft magnetic materials. In profits, however, the Canadian subsidiary that handles precursors, Toda Advanced Materials Inc. (“TAM”) was significantly impacted by a ¥1,370mn segment profit decline due to sluggish growth in the EV market, resulting in a large profit decline (if excluding this amount, profits were up 0.9% YoY at ¥2,582mn). The segment profit of the two businesses was ¥2,221mn (down 34.6% and ¥1,177mn) and companywide expenses were ¥2,870mn (down 12.5%). The profit decline from the previous year was limited to ¥765mn despite an operating loss, thanks to cost cutting and other factors. Excluding the Canadian subsidiary, operating profit was ¥722mn, which means that the Company secured an increase in profit excluding one-time expenses. However, non-operating items such as share of losses of entities accounted for using the equity method amounted to ¥427mn (a ¥1,100mn deterioration from the previous year, resulting in a loss), foreign exchange losses amounted to ¥194mn (a ¥641mn decrease from the previous year, resulting in a change to foreign exchange losses). Ordinary losses amounted to ¥1,411mn (a deterioration of ¥2,579mn from the previous year). Extraordinary losses of ¥2,189mn were recorded, including loss on liquidation of subsidiaries and associates, impairment losses, and loss on reduction of non-current assets. Losses attributable to owners of the parent were almost unchanged from the previous year, although extraordinary losses decreased ¥2,745mn from the previous year.

2. Outlook for FY3/26

For the FY3/26 consolidated results, the Company is forecasting net sales of ¥29,000mn (down 8.4% YoY), operating profit of ¥900mn (operating loss of ¥648mn in the previous period), ordinary profit of ¥600mn (ordinary loss of ¥1,411mn in the previous period), and profit attributable to owners of parent of ¥200mn (a loss of ¥3,563mn in the previous period). Net sales are expected to decline due to the loss of precursor sales in Canada and sluggish growth in magnet materials, including business confidence in China, while operating profit is expected to return to profitability due to the elimination of one-time expenses and continued cost reductions. Ordinary profit is expected to bottom out and improve somewhat, although the share of loss (profit) of entities accounted for using the equity method is still seen as lackluster, and there are no significant extraordinary losses. Profit attributable to owners of parent is expected to return to profitability.

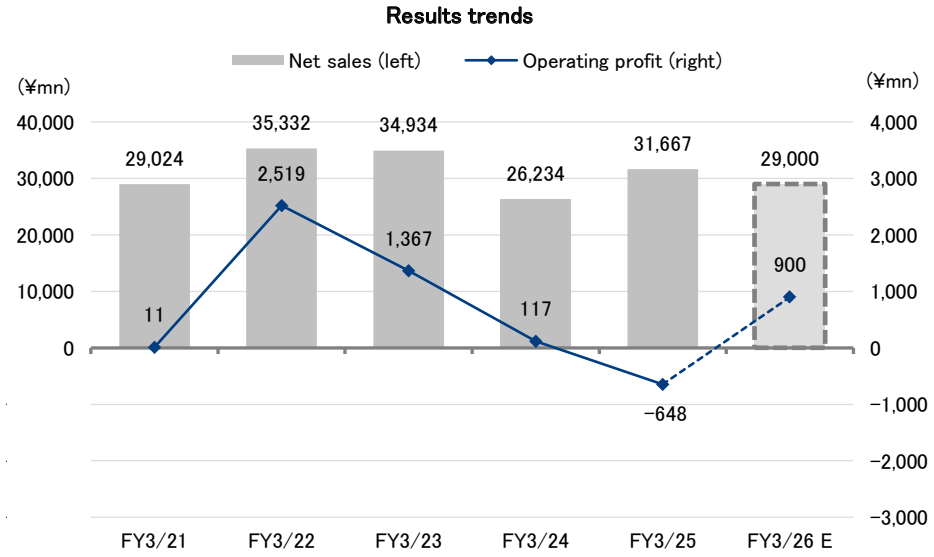
3. Medium- to long-term growth strategy

In June 2024, the Company formulated its Medium-term Management Plan Vision2026 (FY3/25 to FY3/27) in which it describes its Purpose of “We transform the potential of fine particles into new possibilities for our world,” and in order to realize its vision of what it wants to become by FY2030, it announced a policy of strengthening its business portfolio management. Specifically, magnet materials and dielectric materials are positioned as growth businesses and will be expanded. Soft magnetic materials and environmental related materials are positioned as next-generation businesses. In soft magnetic materials, the Company aims to grow together with its overseas consolidated subsidiaries, and in environmental related materials, it aims to commercialize developed products. The Company will maintain high added value by positioning catalyst materials as a revenue base business. On the other hand, LIB precursors, coloring pigments, and toner materials will be positioned as revitalization/reorganization businesses, and rationalization will be promoted to secure profits. In FY3/25, the Company has fallen far short of its earnings forecast in its medium-term plan due to major changes in the external environment, such as the sluggish EV market, and there are concerns that the environment may deteriorate further in the current situation. In this environment, rather than focusing on sales expansion, the Company aims to accurately add value and expand in its growth businesses and maintain profits through cost reductions in its revitalization and conversion businesses. Even if net sales fall far short of the medium-term plan, the Company will aim to achieve one of KPIs in medium-term plan of 5% operating margin as soon as possible.

Key Points

- In FY3/25, sales increased 20.7% YoY, however, operating loss was posted due to one-time expenses such as liquidation of subsidiaries (since impairment losses are extraordinary losses)
- In FY3/26, operating profit is expected to return profitability due to a decrease in one-time expenses, despite an 8.4% YoY sales decline.
- Given concerns that the targets of Vision2026 will be missed due to drastic changes in the external environment an increase in profits through management that emphasizes profitability is expected.

Summary



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

Company profile

A chemical materials manufacturer with 200 years in business

1. Company profile

The Company was founded in 1823 (Bunsei Year 6) by Shozo Toda in Okayama Prefecture as Seikinsha, which made a living by manufacturing wood paints and coatings for buildings, navy blue-dyed bases, and Bengala (a compound binding oxygen and iron) used in items such as lacquerware, umbrella coloring and ceramics (red painting glazes). The Company is a long-established chemical materials manufacturer that will celebrate the 200th anniversary of its founding in 2023. The Company has expanded its business by improving its fine particle synthesis technologies cultivated with iron oxides to provide cutting-edge materials appropriate for the times, including high-purity iron oxides used in optical lens abrasives, magnetic iron oxides used in products such as audiotape and videotape, materials for toners used in copiers and printers, magnet materials used in motors and sensors for automobiles and home appliances, dielectric materials for MLCC, as well LIB materials and other applications.

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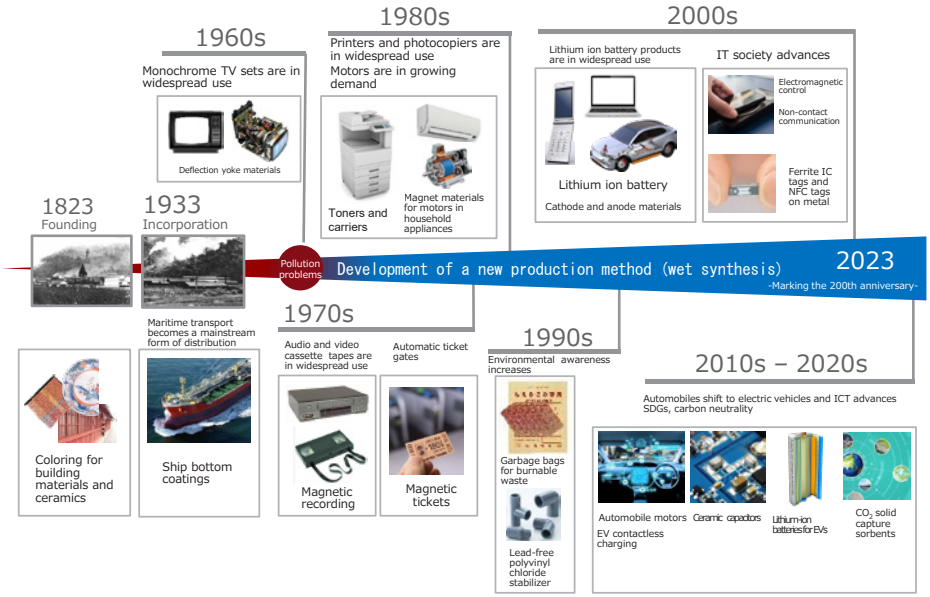
Corporate profile

Business transitions



Source: Reprinted from the Company's "Corporate IR & Individual Investor Support Events"

The Group comprises the Company, 15 consolidated subsidiaries (before the dissolution of its Canadian subsidiary (TAM)), 4 affiliates, and 1 other affiliated company. As of the end of FY3/25, there were 1,067 employees on a consolidated basis.

The Company's major bases

Source: Reprinted from the Company's website

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Corporate profile

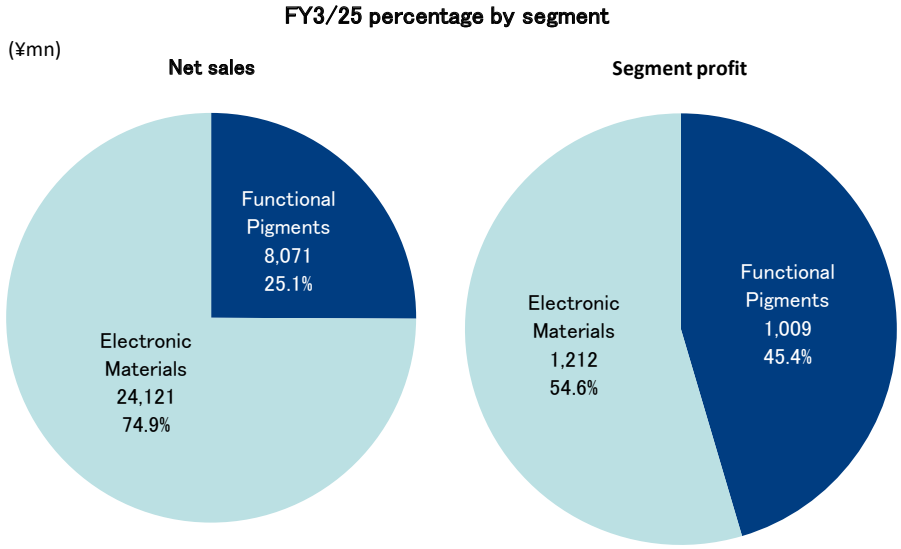
History

November 1933	TODA KOGYO CORP. established with ¥500,000 in capital in Yokogawa, Hiroshima City, for the purpose of producing and selling Bengala.
April 1951	Took over Kutsuwa Bengala Manufacturing Corp. through a merger.
November 1954	Took over Kibi Kogyo Corp. through a merger.
October 1959	Onoda Plant built in Onoda City, Yamaguchi Prefecture.
July 1969	Equipment for production of magnetic powder materials for audiotapes and videotapes added to Onoda Plant.
June 1973	Wet coloration pigment facility added to Onoda Plant.
September 1983	Shares listed on the First Section of the Tokyo Stock Exchange (now Prime Market).
December 1984	Established a plant for producing ferrite materials (Otake Plant) in Otake City, Hiroshima Prefecture.
April 1988	Built dedicated production facility for coloring pigment materials for electronic printing in Onoda Plant.
July 1994	Established Toda Kogyo Europe GmbH in Duesseldorf, Germany.
August 1996	Established Toda America Inc. in Schaumburg, Illinois, USA (has since relocated to Battle Creek, Michigan).
January 2003	Established Toda Plastic Magnet Material (Zhejiang) Corp. in Zhejiang, China.
August 2004	Established Zhejiang Toda DMEGC Magnetic Co., Ltd. in Zhejiang, China.
October 2006	Established TODA Ferrite KOREA Co., Ltd. in Busan, South Korea (has since relocated to Anyang City, Gyeonggi-do) (in February 2022, the company name was changed to Toda Korea Seoul Co., LTD.).
April 2007	Established Toda Magnequench Magnetic Material (Tianjin) Co., Ltd. in Tianjin, China.
August 2007	Established Toda Advanced Materials Inc. in Sarnia, Ontario, Canada.
March 2008	Obtained a patent license relating to the cathode material for lithium-ion batteries from Argonne National Laboratory USA.
April 2008	Established TODA ISU CORPORATION in Wonju City, Gangwon-do, South Korea.
June 2008	Acquired the shares of TOKYO SHIKIZAI INDUSTRY CO., LTD.
February 2015	Established BASF TODA Battery Materials LLC, a joint venture company with BASF Japan Ltd., through an in-kind investment of lithium-ion battery cathode materials production facilities at Onoda Plant and Kitakyushu Plant.
April 2016	Established Toda Kogyo Asia (Thailand) Co., Ltd. in Bangkok, Thailand (has relocated to Ayutthaya). Made Toda Factory Co., Ltd. (in April 2016, company name was changed to Toda Fine Tech Inc.) a consolidated subsidiary.
April 2021	Carried out an absorption merger of Toda Pigment Corp., which had been spun off in 1997, and made it the Company's Okayama Office.
August 2021	Made Jiangmen & Partner's Magnetic Product Co., Ltd. of Guangdong, China, a consolidated subsidiary.
April 2022	Switched listing from the Tokyo Stock Exchange's First Section to the Prime Market in conjunction with the Tokyo Stock Exchange's market recategorization.
December 2022	All equity shares of Toda United Industrial (Zhejiang) Co., Ltd., a consolidated company, were transferred to equity-method affiliate Zhejiang Huayuan Pigment Co., Ltd. (the company name was changed to ZHEJIANG HUAYUAN NEW MATELIAL CO., LTD. in December 2024) and Zhejiang Union Pigment Co., Ltd.
October 2023	Transferred to the Tokyo Stock Exchange (TSE) Standard Market on 20 October following an application for selection to the Standard Market.
November 2023	TODA ISU CORPORATION (South Korea), which was an equity method affiliate, was made a consolidated subsidiary with the aim of expanding soft magnetic components. Marked 200th anniversary of the Company's foundation. The brand logo is updated to a new logo that expresses its commitment to sustainable management and sustainable development.
December 2023	Made TODA ISU CORPORATION (South Korea) (in January 2025, the company name was changed to TODA materials Inc.), a wholly owned subsidiary
December 2024	Transferred MECHEMA TODA CORPORATION (Taiwan), an equity-method affiliate manufacturing nickel sulfate and cobalt sulfate, to MECHEMA CHEMICALS INTERNATIONAL CORP. and signed a business alliance agreement
March 2025	Made decision of dissolution and liquidation of Toda Advanced Materials Inc. (Canada), a consolidated subsidiary that manufactures precursors for lithium-ion batteries.

Source: Prepared by FISCO from the Company's annual securities report and press releases

2. Business description

Currently, the Group is engaged in two businesses: the Functional Pigments Segment (coloring pigment materials, toner materials, environmental related materials, catalysts, etc.) and the Electronic Materials Segment (magnet materials, dielectric materials, soft magnetic materials, LIB materials, hydrotalcite, etc.). In FY3/25, the Functional Pigments Segment accounted for 25.1% of consolidated net sales and the Electronic Materials Segment accounted for 74.9%. For segment profit, the Functional Pigments Segment had a 45.4% share and the Electronic Materials Segment a 54.6% share of the total.



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

Results trends

In FY3/25, net sales increased 20.7% YoY, and operating loss of ¥648mn was posted

1. Summary of FY3/25 results

In the FY3/25 consolidated results, net sales were ¥31,667mn (up 20.7% year-on-year (YoY)), operating loss was ¥648mn (operating profit of ¥117mn in the previous period), ordinary loss was ¥1,411mn (ordinary profit of ¥1,168mn in the previous period), and the loss attributable to owners of parent was ¥3,563mn (a loss of ¥3,581mn in the previous period), a disappointing outcome. For the results by business, in the Functional Pigments Segment, net sales were ¥8,071mn (¥8,124mn in the previous period, down 0.7% YoY) and segment profit was ¥1,009mn (up 20.5%). For sales, catalyst business, which is the revenue base business, performed well, while net sales increased only slightly due to a decline in demand for toner materials and other products. Profitability improved as a result of product price adjustments, cost reductions, and overhead cost reductions. In the Electronic Materials Segment, net sales were ¥24,121mn (up 29.9%) and segment profit was ¥1,212mn (down 52.7%). In terms of sales, demand for magnet materials and dielectric materials was strong, and sales of soft magnetic materials increased significantly due to the consolidation of TODA materials as a subsidiary. On the profit front, however, the sluggish EV market caused a significant ¥1,370mn decline in segment profit due to the poor performance of TAM, which handles precursors, resulting in a significant profit decline (if excluding this amount, segment profit would have increased 0.9% YoY to ¥2,582mn).

As a result, total segment profit was ¥2,221mn (down 34.6% YoY, or ¥1,177mn), but corporate expenses were ¥2,870mn (down 12.5% YoY). An operating loss was recorded; however, the decline from the previous year was limited to ¥765mn, due to cost cutting and other effects. Excluding the Canadian subsidiary, operating profit was ¥722mn, which means that the Company secured an increase in profit excluding one-time expenses. However, ordinary losses amounted to ¥1,411mn (a deterioration of ¥2,579mn from the previous year), reflecting non-operating loss of ¥427mn in share of loss of entities accounted for using equity method (a deterioration of ¥1,100mn from the previous year), foreign exchange losses of ¥194mn (a decrease of ¥641mn from the previous year and a change to foreign exchange losses). Loss attributable to owners of parent was almost unchanged from the previous year, due to extraordinary losses of ¥2,189mn including loss on liquidation of subsidiaries and associates, impairment losses, and reduction of non-current assets, although the loss decreased ¥2,745mn from the previous year.

Against the May 2024 initial plan, net sales decreased ¥333mn, operating profit decreased ¥1,348mn, ordinary profit decreased ¥2,511mn, and profit attributable to owners of parent decreased ¥4,163mn. Against the revised forecasts in November 2024 (announced in December for each material), net sales up ¥2,167mn, operating profit down ¥548mn, ordinary profit down ¥1,011mn, profit attributable to owners of parent down ¥2,263mn.

Overview of results

(¥mn)

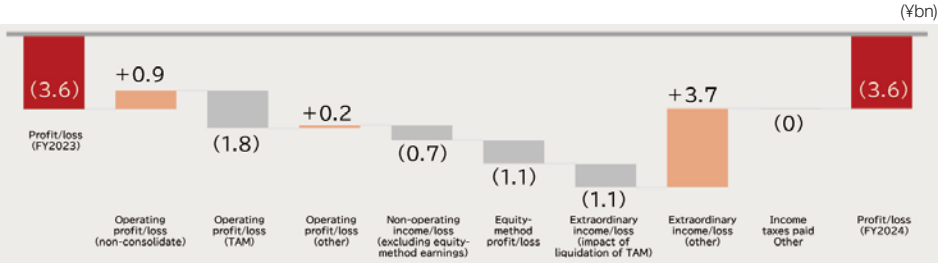
	FY3/24		FY3/25				
	Results	% of net sales	Forecast	Revised forecast	Result	% of net sales	YoY change
Net sales	26,234	100.0%	32,000	29,500	31,667	100.0%	20.7%
Cost of sales	20,368	77.6%			26,032	82.2%	27.8%
SG&A	5,748	21.9%			6,283	19.8%	9.3%
Operating profit	117	0.4%	700	-100	-648	-2.0%	-
Ordinary profit	1,168	4.5%	1,100	-400	-1,411	-4.5%	-
Profit attributable to owners of parent	-3,581	-13.7%	600	-1,300	-3,563	-11.3%	-

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

The factors for the change in loss attributable to owners of parent are as follows. The profit increase factors include a decrease in operating loss of ¥900mn (¥883mn to be precise) on a non-consolidated basis, an improvement in other operating profit of ¥200mn, and a change in extraordinary income of ¥3.7bn (excluding TAM). The profit decrease factors include the negative factors of ¥1.8bn in operating income of TAM, deterioration of non-operating income and expenses excluding equity in earnings of affiliates of ¥700mn (including ¥641mn from exchange rate fluctuations), deterioration of equity in earnings of affiliates of ¥1.1bn, and extraordinary losses of TAM of ¥1.1bn. The overall loss remained at the same level as in FY3/24.

Analysis of changes in profit attributable to owners of parent for FY3/25

(¥bn)



Source: Reprinted from the Company's business briefing documents

2. Revenue by business segment

For the results by business, in the Functional Pigments Segment, net sales were ¥8,071mn (down 0.7% YoY) and segment profit was ¥1,009mn (up 20.5%). Operating loss (after deducting corporate expenses) was ¥300mn. In terms of sales, materials for catalysts performed well, while demand for toner materials was slower than expected, resulting in a slight increase in overall sales. Materials for copiers and printers and materials for paints remained sluggish due to delayed recovery in demand, while operating profit increased due to price correction of toner materials and cost reductions. In the Electronic Materials Segment, net sales were ¥24,121mn (up 29.9% YoY) and segment profit was ¥1,212mn (down 52.7%). Operating loss (after deducting corporate expenses) was ¥400mn (a deterioration of ¥1,200mn, resulting in a loss). Sales of magnet materials and dielectric materials were strong, and with the addition of TODA materials, a soft magnetic materials company that became a consolidated subsidiary, sales increased significantly. On the other hand, TAM's deteriorating performance had a negative impact of ¥1,370mn on profits, resulting in a significant decrease in profits.

(1) Electronic Materials Segment (Change in ¥100mn according to company data, profit margin analysis in increments of 1%)

1) Magnet materials

The magnet materials business posted net sales of ¥12,100mn (¥400mn short of the November revised forecast, up ¥300mn YoY) and operating profit of ¥1,100mn (up 1% from the November revised forecast of 8% operating profit margin, up ¥200mn YoY). The business handles everything from powders to compounds and molded products (magnets). The Company's strength in powders lies in its technology for uniform dispersion of fine particles (characterized by particle size distribution and high filling capacity). The Company has the world's top share of the ferrite-based FEROTOP™ compound market, and its strength lies in its technology for compounding magnetic powders and resins (especially for anisotropic bonded magnets), and its ability to combine high magnetic properties with good moldability (especially for injection molding). In particular, the Company earned a strong reputation for injection molding materials, which are composites of strontium ferrite (SrFe) or rare earth (Nd-Fe-B) magnetic powders and various resins such as polyamide (PA12, PA6/12), polyphenylene sulfide (PPS), ethylene vinyl acetate (EEA), etc. The Company offers both isotropic and anisotropic grades, and can propose the most suitable material according to the magnetic force, heat resistance, and cost required by the customer. It also established a system that significantly reduces the corrosive gases generated during molding, contributing to the long life of molds. In the area of molded products, the Company differentiates itself through its precision molding technology for small and thin magnets (e.g., magnets for motors) and high magnetic properties (maximum energy product (BH) max) of anisotropic bonded magnets. The main users are major European and Japanese electrical equipment manufacturers in the automotive industry, such as those that manufacture water pumps for cooling batteries in electric vehicles. In FY3/25, the growth of molded products for the automotive industry by China's Jiangmen and Partner's Magnetic Product Co., Ltd., which was consolidated in 2021, contributed to its high profitability and improved profit margin. The ferrite compound business, which boasts the largest market share in the industry, is also performing well.

2) Dielectric materials

The dielectric materials business posted net sales of ¥1,500mn (in line with the November revised forecast, up ¥500mn YoY) and operating profit of ¥0mn (breaking even against the November revised forecast of 7% operating profit margin, which improved by ¥100mn YoY to break even). Net sales are at a record high level. The Company's dielectric materials are supplied not as MLCC dielectric main materials but as MLCC co-materials, especially as finished goods that require ultra-fine particles. Incidentally, the co-material is a material mixed in to increase the mechanical bonding between the inner electrode (Ni particles) of MLCC and the dielectric layer and to mitigate the difference in sintering shrinkage. 10-50 nm grade BaTiO3 is used. It contributes to electric field uniformity and reliability improvement. In the manufacturing process of barium titanate, the main raw material of MLCC, there are oxalate method, solid phase method, hydrothermal synthesis method, etc. The Company directly synthesizes BaTiO3 using a reaction in aqueous solution under high temperature and high pressure with its unique hydrothermal technology, which is classified as a wet synthesis method although it belongs to the hydrothermal synthesis method. The Company produces ultra-fine BaTiO3 with sharp particle size distribution and uniform shape of 30 to 150 nm in diameter, focusing on high-performance, high-value-added products. This move is therefore different from the recent deterioration in earnings of major MLCC companies due to the IT recession. However, the reason why the Company's profits have improved but remained at break-even is that it is focusing on R&D with the aim of achieving further growth in the future.

3) Soft magnetic materials

Soft magnetic materials will contribute to the full-year contribution from FY3/25 as next-generation materials due to the acquisition of TODA materials in Korea as a wholly owned subsidiary, and the scale of sales is expanding rapidly. Net sales were ¥6,600mn (up ¥6,100mn YoY, in line with the November revised forecast), and operating profit broke even (operating margin of 0%, in line with the November revised forecast, improved by ¥300mn YoY to break even). Soft magnetic materials are materials that are easily magnetized by a relatively small external magnetic field and almost completely demagnetized when the field is removed. In addition to ferrite, which is mainly composed of iron oxide, there are other magnetic materials such as iron-based alloys. The Company is a one-stop provider of magnetic materials with high permeability, low loss, and high saturation magnetic flux density, from materials to compounds. Major applications include various inductors (electronic components that interact with electricity and magnetism to control current, and are used for power supply applications such as current stabilization, voltage leveling, and AC voltage changes), RFID functions in smartphones, and contactless power supply applications. The core part that passes the magnetic flux generated by the coil and the sheet part that is attached to the coil are used. TODA materials has been engaged in the core business of electromagnetic shield tiles for anechoic chambers, ferrite cores, and wireless power transmission modules for automobiles. The profitability of processed products has not necessarily been good, but in recent years, the materials business such as soft magnetic metal powder for inductors has grown, and through rationalization activities, etc., TODA materials' profitability has improved to break even in FY3/25, with domestic operating losses offset by TODA materials' profit. The Company also aims to achieve further growth by targeting synergies with TODA KOGYO through the acquisition of the company as a wholly owned subsidiary.

4) Hydrotalcite

Hydrotalcite had previously focused on vinyl chloride stabilizers and agricultural film insulators, but the market was a red ocean, and the Company positioned the business as a revitalization/reorganization business. In May 2024, the Company announced the dissolution of its alliance with Sakai Chemical Industry <4078>, with which it had been in partnership. Net sales were ¥900mn (up ¥100mn from the November revised forecast, down ¥200mn YoY), and operating loss was ¥200mn (-27%, down 6 points from the November revised forecast of -21%, but loss improved ¥100mn). Basically, the loss narrowed as the Company is in the process of revitalization/reorganization to high value-added products due to the significant sales decline caused by the dissolution of the alliance, and cost reductions were made amid declining sales.

5) Lithium-ion battery materials

LIB materials posted net sales of ¥2,400mn (up ¥2,200mn from the November revised forecast, down ¥1,200mn YoY) and operating loss of ¥1,300mn (operating loss ratio was 314% of the November revised forecast, down 262 points; operating loss worsened by ¥1,900mn YoY to an operating loss). TAM, which manufactures lithium-ion precursors for battery-related materials, decided to liquidate due to the prolonged slump at its cathode material manufacturer, and sold its inventory, resulting in actual sales of less than ¥2,400mn. Profits were down due to sluggish TAM sales. In terms of non-operating income and expenses, BASF TODA Battery Materials LLC, an equity-method affiliate, also posted a loss on equity in earnings (amount not disclosed) due to deteriorating earnings caused by sluggish EVs.

Sales and operating profit of the Electronic Materials Segment by product

(¥mn)

	FY3/24 Results	FY3/25 November revised forecast	FY3/25 Results
Net sales	18,100	21,000	23,600
Magnet materials	11,800	12,500	12,100
Dielectric materials	1,000	1,500	1,500
Lithium-ion battery materials	3,600	200	2,400
Soft magnetic materials	500	6,000	6,600
Hydrotalcite and other	1,100	800	900

	FY3/24 Results	FY3/25 Results
Operating profit (after deducting corporate expenses)	800	-400
Magnet materials	900	1,100
Dielectric materials	-100	0
Lithium-ion battery materials	600	-1,300
Soft magnetic materials	-300	0
Hydrotalcite and other	-300	-200
Operating margin (after deducting corporate expenses)	4%	-2%
Magnet materials	8%	9%
Dielectric materials	-12%	0%
Lithium-ion battery materials	16%	-52%
Soft magnetic materials	-60%	0%
Hydrotalcite and other	-25%	-27%

Source: Prepared by FISCO from the Company's business briefing documents

(2) Functional Pigments Segment

1) Coloring pigment and toner materials

Net sales of coloring pigments and toner materials were ¥6,600mn (¥200mn short of the November revised forecast, down ¥300mn YoY), and operating loss was ¥400mn (2 percentage points better than the -7% operating profit margin of the November revised forecast, and a ¥300mn smaller loss YoY). The breakdown is half for copiers/printers and half for paints. Toner materials, etc., were slower than expected due to the impact of the paperless office, etc., and paints were also sluggish due to the slump in public works projects, etc. Basically, this is a mature market. However, the profit margin has narrowed as a result of product price adjustments, cost reductions, and overhead cost reductions aimed at improving profitability.

2) Catalysts, etc.

Catalysts posted net sales of ¥1,500mn (unchanged from the November revised forecast, up ¥400mn YoY) and operating profit of ¥100mn (2 percentage points higher than the 6% operating profit margin in the November revised forecast, 8%, unchanged from the previous year). The core of this catalyst is a catalyst for styrene monomer, which is used as a raw material for plastics and rubber. It is used in the dehydrogenation reaction of ethylbenzene, which is the mainstream of styrene monomer production, and is characterized by its unique composition, high reaction efficiency, and high conversion efficiency to styrene by utilizing the wet synthesis technology based on iron. The products are sold to domestic and overseas chemical manufacturers, including the top shareholder, and are highly profitable products. Although sales of the catalyst fluctuate from year to year because it is used not only in newly constructed plants but also in periodic repairs, the gradual growth in global styrene monomer production and the increase in market share have led to an increase in revenues.

Net sales and operating profit by product in the functional pigments business

(¥mn)

	FY3/24 Results	FY3/25 Revised forecast	FY3/25 Results
Net sales	8,100	8,300	8,100
Coloring pigment materials, toner materials	6,900	6,800	6,600
Catalysts	1,100	1,500	1,500

	FY3/24 Results	FY3/25 Results
Operating profit (after deducting corporate expenses)	-600	-300
Coloring pigment materials, toner materials	-700	-400
Catalysts	100	100
Operating margin (after deducting corporate expenses)	-7%	-4%
Coloring pigment materials, toner materials	-10%	-5%
Catalysts	7%	8%

Source: Prepared by FISCO from the Company's business briefing documents

Financial situation deteriorated again due to sluggish earnings, and there is an urgent need to strengthen the financial structure

3. Financial condition

The Company had recorded net losses six times over the past 10 fiscal years up until FY3/22, and its equity ratio had fallen from 46.5% at the end of FY3/15 to 19.5% at the end of FY3/21, but in FY3/22 the Company posted a record-high net profit, helping the equity ratio to improve to 24.2% at the end of FY3/22, and improvement moved ahead to 30.5% in FY3/23. However, it was impacted by the loss attributable to owners of parent ¥3,581mn in FY3/24 and ¥3,563mn in FY3/25 and dropped again to 21.7%.

Results trends

Consolidated balance sheet and key management indicator

(¥mn)

	FY3/22-end	FY3/23-end	FY3/24-end	FY3/25	Change
Current assets	29,381	28,465	30,309	25,807	-4,502
Non-current assets	21,910	23,550	23,404	24,864	1,460
Total assets	51,292	52,016	53,714	50,672	-3,042
Current liabilities	20,276	17,604	21,629	20,179	-1,450
Non-current liabilities	17,056	17,852	17,559	18,715	1,156
Total liabilities	37,333	35,456	39,189	38,894	-295
Net assets	13,958	16,559	14,525	11,777	-2,748
(Soundness)					
Current ratio	144.9%	161.7%	140.1%	127.9%	
Equity ratio	24.2%	30.5%	25.8%	21.7%	

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

In terms of cash flow, net cash provided by operating activities was ¥3,820mn, mainly due to a ¥563mn decrease in trade receivables and a ¥3,951mn decrease in inventories. Net cash used in investing activities was ¥1,890mn, reflecting ¥2,920mn in expenditures for the acquisition of property, plant and equipment. Cash flows used in financing activities were ¥2,131mn, mainly due to the repayment of long-term borrowings of ¥5,235mn, which was offset by the proceeds from long-term borrowings of ¥6,370mn, and the outflow related to other financial liabilities of ¥1,931mn. The balance of interest-bearing debt was ¥27,764mn, up ¥449mn from the end of the previous period. It is expected to take time for the balance sheet to improve under the unfavorable earnings situation.

Cash flow statement

(¥mn)

	FY3/21	FY3/22	FY3/23	FY3/24	FY3/25
Cash flows from operating activities	612	903	833	-645	3,820
Cash flows from investing activities	-1,219	-1,138	-375	-1,429	-1,890
Cash flows from financing activities	1,416	913	187	1,184	-2,131
Cash and cash equivalents at end of period	6,492	7,527	8,476	7,943	7,837
Free cash flow	-607	-235	458	-2,074	1,930
Capital investment	961	722	1,753	1,680	2,936
Depreciation	1,043	687	685	802	499

Source: Prepared by FISCO from the Company's financial results and company data.

Outlook

For FY3/26, the Company will concentrate management resources on growth businesses, aiming to return to profitability with operating profit of ¥900mn despite 8.4% revenue decline due to TAM loss

● Outlook for FY3/26

For the FY3/26 consolidated results, the Company is forecasting net sales of ¥29,000mn (down 8.4% YoY), operating profit of ¥900mn (a loss of ¥648mn in the previous period), ordinary profit of ¥600mn (a loss of ¥1,411mn in the previous period), and profit attributable to owners of parent of ¥200mn (a loss of ¥3,563mn in the previous period).

Outlook

FY3/26 results outlook

(¥mn)

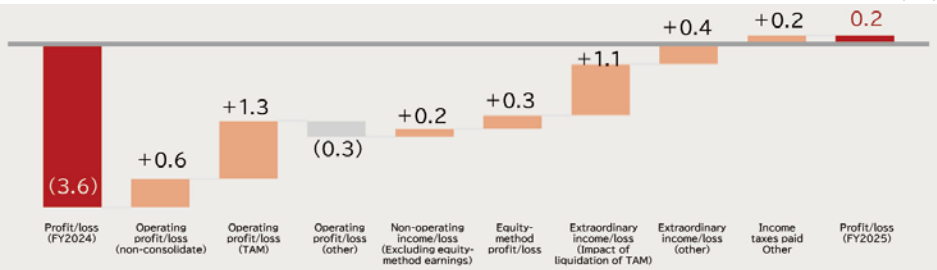
	FY3/25		FY3/26		
	Results	% of net sales	Forecast	% of net sales	YoY change
Net sales	31,667	100.0%	29,000	100.0%	-8.4%
Operating profit	-648	-2.0%	900	3.1%	-
Ordinary profit	-1,411	-4.5%	600	2.1%	-
Profit attributable to owners of parent	-3,563	-11.3%	200	0.7%	-

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

In the analysis of the ¥3,800mn improvement in profit attributable to owners of parent, the impact of TAM on operating profit was eliminated (¥1,300mn), and in effect, operating profit improved by ¥248mn from the previous year. In addition, the Company expects equity in earnings of affiliates to improve by ¥300mn, and extraordinary income to improve by ¥1,100mn from the liquidation of TAM and ¥400mn from other extraordinary losses (income), resulting in a return to profitability.

Analysis of changes in profit attributable to owners of parent for FY3/26

(¥bn)



Source: Reprinted from the Company's business briefing documents

For FY3/26, the Company forecasts net sales of ¥20,700mn (down 12.7% YoY) and operating profit (after deducting corporate expenses) of ¥800mn (an improvement of ¥1,200mn YoY and a return to profitability) in the Electronic Materials Segment. Excluding the ¥2,100mn impact from the liquidation of TAM, sales are expected to decline 3.8%. Operating profit is expected to be essentially flat due to a ¥1,200mn contribution from the liquidation of TAM. For the Functional Pigments Segment, the Company forecasts net sales of ¥8,300mn (+2.4% YoY) and operating profit (after deducting corporate expenses) of ¥100mn (a ¥400mn improvement and a return to profitability). Toner materials, etc. are expected to remain flat, while catalysts are expected to increase. Profits are expected to return to profitability through rationalization of toner materials, etc.

(1) Electronic Materials Segment (Change in ¥100mn according to company data)

1) Magnet materials

For magnet materials, the Company forecasts net sales of ¥11,100mn (down ¥1,000mn YoY) and operating profit of ¥1,100mn (flat YoY). Jiangmen and Partner's Magnetic Product Co., Ltd., a Chinese subsidiary that performed well in the previous fiscal year, is expected to experience sluggish growth due to the slowing Chinese economy, the modulation of the EV market, and the rise of local Chinese manufacturers. The Company plans to keep overall profits flat by improving profitability of high-value-added compounds for rare earth bonded magnets and other products while reducing costs in Japan and other areas.

2) Dielectric materials

The forecast for dielectric materials is net sales of ¥1,700mn (up ¥200mn YoY) and operating loss of ¥100mn (down ¥100mn YoY). Net sales are expected to reach a record high. In line with the needs for higher capacity and performance of MLCCs, demand for co-materials that take advantage of the characteristics of ultrafine particles is expected to grow. In addition to the existing demand, sales are expected to expand as double the number of MLCCs are used in AI servers and other applications compared to conventional products, and double-digit sales growth is expected to continue. However, the Company continues to bear a heavy cost burden in terms of R&D, especially in terms of profits, and is refraining from introducing dispersants, a product under development, which will likely result in a loss.

3) Soft magnetic materials

The soft magnetic materials is forecast to achieve net sales of ¥7,000mn (up ¥400mn YoY) and break even in operating profit (unchanged from the previous year). The Company aims to expand sales of advanced materials, mainly for inductors, and expects to increase sales, which will also benefit from synergies with its Korean subsidiary TODA materials, which has changed its name from TODA ISU CORPORATION. Profitability, however, has been deteriorating somewhat due to sluggish growth in the automotive market, and profits are expected to remain flat despite the increase in sales.

4) Hydrotalcite

The forecast for this material is net sales of ¥400mn (down ¥500mn YoY) and operating loss of ¥200mn (unchanged from the previous year, with a continuing loss). Basically, the impact of the sales decline due to the dissolution of the alliance will continue, and losses are expected to remain despite streamlining in terms of personnel and facilities.

5) Lithium-ion battery materials

The forecast for LIB materials is net sales of ¥400mn (down ¥2,000mn YoY) and operating loss of ¥0mn (an improvement of ¥1,300mn YoY to break even). With the dissolution of TAM, the Company will dispose of its inventory, and the related business in Japan will be reduced and balanced, and net sales are expected to remain at ¥400mn. In terms of profit, the Company expects to achieve an operating profit close to break-even, as a one-time expense of ¥1,200mn associated with the dissolution has been eliminated. In addition, although BASF Toda Battery Materials, an equity-method affiliate, will continue to experience weak earnings due to sluggish EV sales, the share of losses of entities accounted for using the equity method, including BASF Toda Battery Materials, is expected to contract by about ¥300mn (the amount for BASF Toda Battery Materials is not disclosed).

Electronic Materials Segment: Net sales and operating profit forecast by product

(¥mn)

	FY3/24 Results	FY3/25 Results	FY3/26 Forecast
Net sales	18,100	23,600	20,700
Magnet materials	11,800	12,100	11,100
Dielectric materials	1,000	1,500	1,700
Lithium-ion battery materials	3,600	2,400	400
Soft magnetic materials	500	6,600	7,000
Hydrotalcite and other	1,100	900	400

	FY3/24 Results	FY3/25 Results	FY3/26 Forecast
Operating profit (after deducting corporate expenses)	800	-400	800
Magnet materials	900	1,100	1,100
Dielectric materials	-100	0	-100
Lithium-ion battery materials	600	-1,300	-0
Soft magnetic materials	-300	0	0
Hydrotalcite and other	-300	-200	-200
Operating margin (after deducting corporate expenses)	4%	-2%	4%
Magnet materials	8%	9%	10%
Dielectric materials	-12%	0%	-5%
Lithium-ion battery materials	16%	-52%	-12%
Soft magnetic materials	-60%	0%	0%
Hydrotalcite and other	-25%	-27%	-42%

Source: Prepared by FISCO from the Company's business briefing documents

(2) Functional Pigments Segment

1) Coloring pigments and toner materials

The forecast for coloring and toner materials is ¥6,600mn in net sales (unchanged from the previous year) and operating loss of ¥100mn (a ¥300mn loss reduction from the previous year). Overall, the Company aims to return to profitability by continuing to cut costs to secure profits rather than chasing sales for both copiers/printers and paints.

2) Catalysts

For catalysts, the Company forecasts net sales of ¥1,700mn (up ¥200mn YoY) and operating profit of ¥200mn (up ¥100mn YoY). Earnings are expected to increase due to continued market share gains in catalysts for styrene monomers.

Functional Pigments Segment: Net sales and operating profit forecast by product

(¥mn)

	FY3/24 Results	FY3/25 Results	FY3/26 Forecast
Net sales	8,100	8,100	8,300
Coloring pigment materials, toner materials	6,900	6,600	6,600
Catalysts	1,100	1,500	1,700

	FY3/24 Results	FY3/25 Results	FY3/26 Forecast
Operating profit (after deducting corporate expenses)	-600	-300	100
Coloring pigment materials, toner materials	-700	-400	-100
Catalysts	100	100	200
Operating margin (after deducting corporate expenses)	-7%	-4%	1%
Coloring pigment materials, toner materials	-10%	-5%	-2%
Catalysts	7%	8%	11%

Source: Prepared by FISCO from the Company's business briefing documents

Outlook

The above is the outlook for earnings for each material. Currently, there are concerns that material costs will increase due to the Trump tariffs, the sluggish EV market, slow growth in PCs and smartphones, and soaring prices for certain rare metals and other materials. This is an uncertain factor in the forecast for FY3/26, and there is a risk of a downward revision, as it is not necessarily factored into the forecast, but sales are expected to be secured at least in the areas of expected growth. Moreover, cost cutting is being pursued vigorously in the revitalization/reorganization business, mainly in the non-consolidated accounts. As such, the significant declines seen in the previous term are unlikely.

Medium- to long-term growth strategy

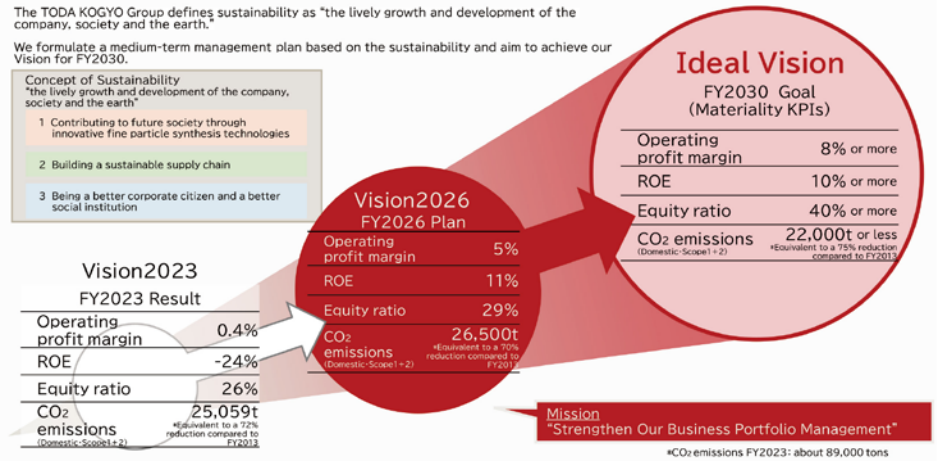
Strengthen business portfolio management

1. Medium-term Management Plan Vision2026

The Company has formulated a medium-term management plan, Vision2026, to promote business growth by strengthening business portfolio management and accelerating selection and concentration in order to realize its vision for FY2030. In this medium-term plan, operating margin, ROE, capital adequacy ratio, and CO_2 emissions are set as KPIs, and the company is working to achieve 5%, 11%, 29%, and 26,500 tons, respectively, in FY3/27, the final year of the medium-term plan. Specifically, the Company has organized the profitability and growth positioning for each business. Magnet materials and dielectric materials are positioned as growth businesses and will be expanded. Soft magnetic materials and environmental related materials were positioned as next-generation businesses. In soft magnetic materials, the Company aims to grow together with its overseas consolidated subsidiaries, and in environmental related materials, it aims to commercialize developed products. The Company will maintain high added value by positioning catalyst materials as a revenue base business. On the other hand, LIB precursors, coloring pigments, and toner materials are positioned as revitalization/reorganization businesses, and rationalization will be promoted with the aim of securing profits. The specific targets were to achieve sales of ¥38.5bn and an operating profit margin of 5% in FY3/27. However, the economic environment surrounding the Company changed drastically, with the toner business shrinking due to paperless and DX developments in the recycling and conversion business, the slowdown in the spread of EVs in the LIB-related business, and the increasing use of ternary lithium-ion batteries in LIBs, mainly for high-end cars, while iron phosphate batteries increased their share in other models due to improved performance. As a result, the Company was forced to face a slump that exceeded its expectations. As a result, net sales are forecasted to be ¥35.5bn, operating profit ¥1.5bn, ordinary profit ¥2.5bn, and profit attributable to owners of parent ¥1.8bn in the medium-term plan for FY3/26. However, the Company expects net sales of ¥6.5bn, operating profit of ¥0.6bn, ordinary profit of ¥1.9bn, and profit attributable to owners of parent of ¥1.6bn less than the medium-term plan. Moreover, there is a risk of a decrease in sales in the forecast for FY3/26 due to the uncertain global economic and political environment, and even if the economy begins to recover in the second half of FY3/26, it is difficult to expect significant growth in the global economy in FY3/27. Therefore, as stated in its KPI, the Company aims to achieve an operating profit margin of 5% of sales as soon as possible by accelerating selection and concentration while thoroughly reducing costs and ensuring financial soundness, rather than simply increasing sales.

Medium- to-long-term growth strategy

The Company's Vision



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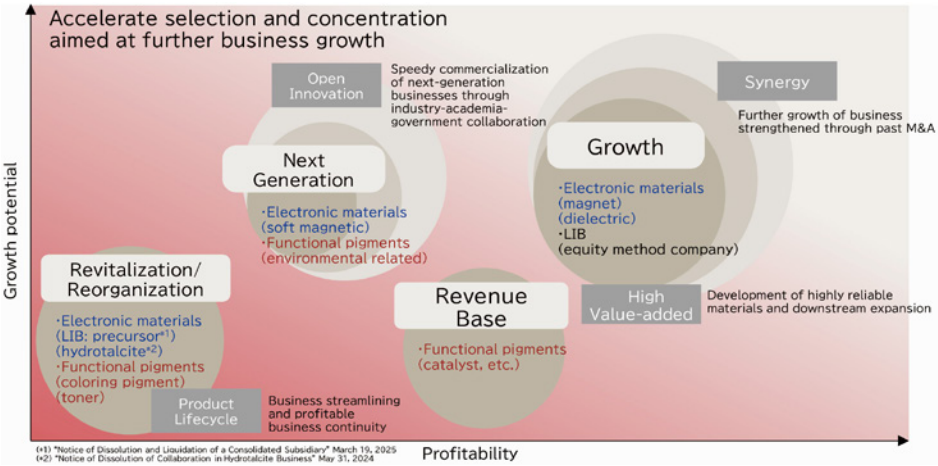
Strengthen business portfolio management



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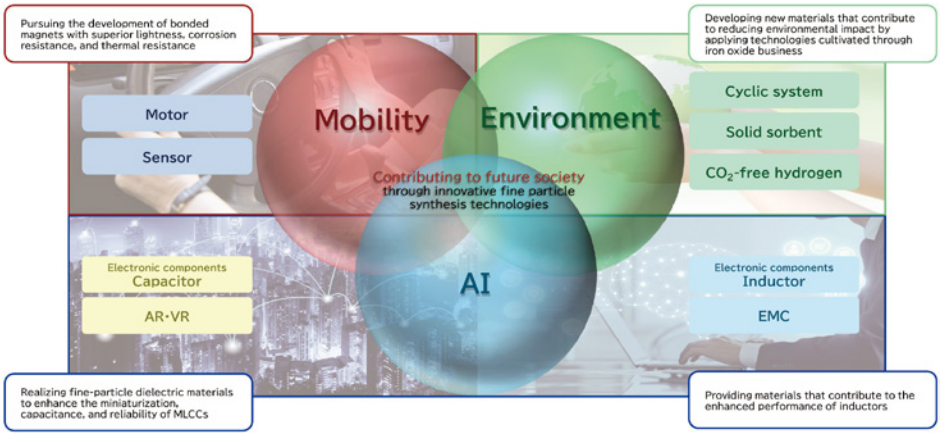
The growth field to which the Company contributes



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2. Electronic Materials Segment

(1) Magnet materials

In magnet materials, the Company will actively develop bonded magnet materials for the motor market. With xEVs now in widespread use, the Company's rare earth bonded magnets are expected to expand for use in electric water pumps (EWP) for xEVs. Unlike internal combustion engines, xEVs require efficient thermal management to maintain system performance, including battery temperature and motor cooling, hot air management, and regulation of heat from the intake intercooler. The EWP, which plays a central role in this process, can control cooling water flow as needed regardless of motor speed. Bonded magnets, which are lightweight and can be molded into shaft inserts, are widely used in EWPs, and demand for high-performance rare-earth bonded magnets is expanding due to increasing requirements for high temperature compatibility, environmental resistance, and high magnetic properties. Rare earth bonded magnets already account for 40% of the Company's total bonded magnet sales, and this percentage is expected to increase further. Sales are expected to increase in the future as Japanese pump makers adopt more pumps due to the expansion of xEVs in Japan.

In addition, the expansion for AI data centers is attracting attention. In recent years, AI data centers have experienced an increase in thermal load due to the higher performance of CPUs, GPUs, and ASICs, and the demand for heat generation countermeasures has become more stringent. Water-cooled systems are expected to become the mainstream cooling system in the near future. Generally, cooling by heat sinks, fans, air conditioning, etc. is not sufficient for CPUs exceeding 300 W. In order for high-power CPUs from 300 W to 1,000 W to maintain normal operation and improve computing efficiency, heat generation must be handled by water cooling systems. This field requires large EWPs, and there are high expectations for further expansion in FY3/27 and beyond, when water- and oil-cooling is expected to expand in earnest.

(2) Dielectric materials

In dielectric materials, the Company will pursue further miniaturization of particles to accommodate the miniaturization and higher functionality of MLCCs, reduce costs, and expand its business as an advanced material. Currently, with the spread of environmentally friendly vehicles and automated driving support, the number of MLCCs used per vehicle has increased from the conventional 1,000 to 3,000 units to 3,000 to 6,000 units per vehicle. In addition, the number of units used in powertrain, xEV, body, driving safety, and infotainment systems are all expected to expand in the future. In the future, it is expected that further thinning of the electrode layer will continue due to higher capacitance, and miniaturization will continue, with Ni particles of 100 nm or less requiring a co-material of 20 nm or less as the electrode material. With the addition of the expansion of the dispersion business, which will be launched during 2026, the Company expects to improve its profitability as well as its revenue growth. Dispersions are used to prevent agglomeration of particles and to form a uniform dielectric layer. Currently, the product is shipped to the user once dried and dispersants are added by the user, but the Company's hydrothermal synthesis method allows the product to be supplied to the user in a solution dispersed state. The Company plans to begin shipping samples of the newly developed dispersion by the end of 2025, and mass production is expected to begin in FY3/27 or later, which will add value to the product.

In addition, attention is also focused here on the growing demand for MLCCs due to increased demand for AI semiconductors and AI servers. AI accelerators (GPUs, TPUs, etc.) achieve performance through massive parallel processing, with billions of transistors (NVIDIA's H100 has 80 billion, GB200 has over 200 billion), but this high-density implementation creates enormous power consumption and heat output, creating a harsh operating environment. The biggest problem here is not merely high average power consumption, but also the instantaneous and large fluctuations in current demand (transient currents) that occur when the processor switches between idle and full load states in nanoseconds. This phenomenon causes a significant voltage drop (droop) and high-frequency noise on the power rails, which can lead to data corruption and system instability. The multilayer structure of MLCCs, which results in their inherent physical characteristics of very low equivalent series resistance (ESR) and equivalent series inductance (ESL), enables extremely rapid charging and discharging, making them effective in filtering high frequency noise and meeting the instantaneous current needs of GPUs and CPUs. There is a marked difference in the number of MLCCs used between conventional servers and AI servers, and AI servers are said to require twice as many MLCCs as conventional servers. Incidentally, the NVIDIA GB200 server requires 3,000 to 4,000 MLCCs on the system main board. Moreover, since AI server boards are ultra-high-density and contain a huge number of components, it is essential to use state-of-the-art small MLCCs such as 0402 (0.4 x 0.2 mm) and 0201 (0.25 x 0.125 mm). At the same time, micro components need to provide extremely high capacitance to serve as effective energy storage, requiring values in microfarads (μF), 1.0 μF for the 0402 size or 100 μF values for the 1608 size. This implies a significant increase in capacitance density. Currently, high-capacity MLCCs (1μF or greater) account for 60% of all NVIDIA GB200 boards, and the need for higher capacities is increasing. With the AI server market expected to grow at more than 40% per year and the demand for ultra-compact, high-performance MLCCs, demand in this field is also expected to increase from FY3/27 onward.

(3) Soft magnetic materials

In the soft magnetic materials business, TODA materials of Korea, which became a wholly owned subsidiary, will be consolidated from FY3/25, and its sales will be the second largest after the magnet business in the electronic materials business. The business aims to expand sales and improve profitability by developing metal-based soft magnetic materials, mainly for inductors for automotive applications. Specifically, in addition to soft magnetic ferrite powder for inductors, the Company will respond to increasing demand for inductors, including soft magnetic metal powder for power inductors. Furthermore, the Company aims to provide a one-stop soft magnetic compounding service for inductors by integrating material and composite technologies. In addition, while TODA materials' manufacturing methods (such as atomization) for metal powders generally produce relatively large particles of several μm to several tens of μm, TODA KOGYO in Japan has an advantage in the technology to produce uniformly fine particles of less than 1 μm by using a wet process. By utilizing these different manufacturing methods, new products such as highly filled resin composite compounds have been introduced, and synergy effects are beginning to emerge.

In addition, there are also factors in this area that will rapidly increase demand for inductors due to the expansion of AI semiconductors and AI servers. The main factors are the explosive increase in power consumption of AI processors (e.g., GPUs) and the resulting need for more sophisticated power supply design. DC-DC converter power circuits are essential to provide a stable supply of low-voltage, high-current power, operating at low voltages (e.g., 1 V or less) for improved performance, while requiring very large currents (several hundred amperes or more). Inductors are key components of DC-DC converters and play an important role in stabilizing current and storing energy. The increased power consumption of AI semiconductors requires more and higher performance inductors, so AI servers can have up to twice as many installed as regular servers. The core (magnetic) material determines the performance of this inductor, and metallic magnetic materials (metal composite materials, etc.) are attracting particular attention for AI applications.

3. Functional Pigments Segment

In Vision2026, the functional pigments business is expected to grow by supplying new materials through open innovation for the decarbonized market as a growth strategy, while streamlining the business and continuing the business with profitability.

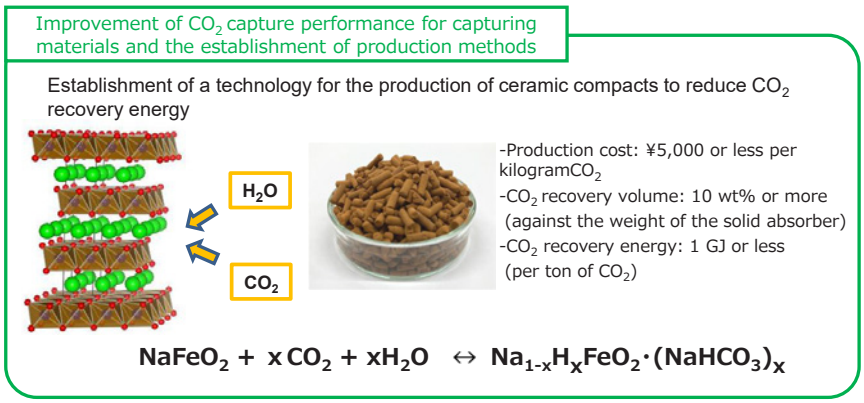
1) Development of CO_2 separation and recovery materials

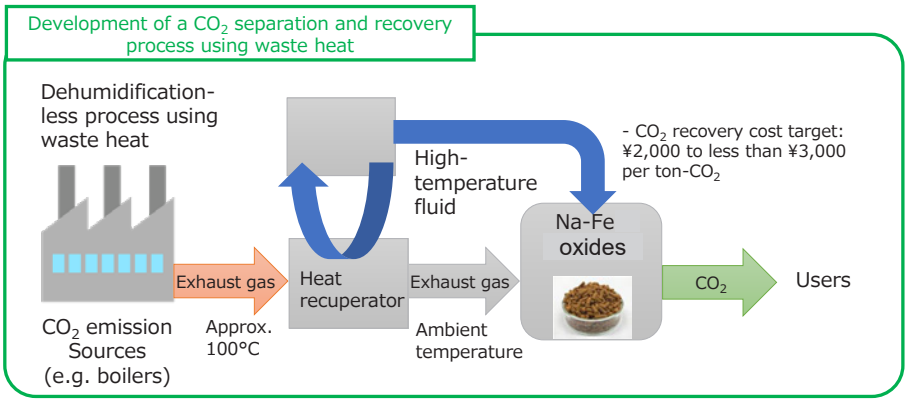
Utilizing the iron oxide technology cultivated in the functional pigments business, the Company is developing materials that separate and recover CO_2 with respect to CCUS (Carbon Capture, Utilization, and Storage). In order for Japan to achieve carbon neutrality by 2050, CCUS is recognized as a means to both maintain industrial activities and reduce greenhouse gas emissions. In March 2023, the Ministry of Economy, Trade and Industry (METI) announced the goal of starting CCS projects in Japan by 2030 to achieve 6-12 million tons of CO_2 storage per year, with a view to establishing a system capable of storing 120-240 million tons of CO_2 per year by 2050. The initial budget for fiscal 2023 includes approximately ¥8bn for CCUS-related projects.

The Company focuses on exhaust gas from boilers as a principal target for its application, given that boilers are used for multiple purposes and installed in high numbers. Using an innovative CO_2-capturing solid, the technology will reduce CO_2 emissions. The new CO_2 solid recovery material Na-Fe oxide developed by the Company and Saitama University has a basic composition of sodium ferrite ($NaFeO_2$), an iron oxide material with the ability to adsorb and desorb CO_2. A layered compound consisting of iron, oxygen, and sodium arranged in layers, it has the ability to selectively chemisorb CO_2 contained in combustion exhaust gas and air, and to separate and recover it by heating to about 100°C. In addition, the product can be used continuously for a long period of time without degradation of characteristics even after repeated adsorption and separation and recovery. In practice, it is a process that efficiently separates and recovers CO_2 emitted from plant boilers, etc., which can be used as CO_2 solid recovery material. Air Water <4088> exhibited at the Green Expo as part of the Future Society Showcase Project at the Kansai Expo, and installed a CO_2 recovery system using the same recovery material. CO_2 is recovered from combustion exhaust gas from the Expo's thermal power supply system, and the recovered CO_2 is used as dry ice for cooling within the venue. As a future initiative, the Company is also working with Air Water to develop small- and medium-scale CO_2 recovery equipment.

Medium- to-long-term growth strategy

Development of innovative CO_2 separation and recovery technology using Na-Fe Oxides





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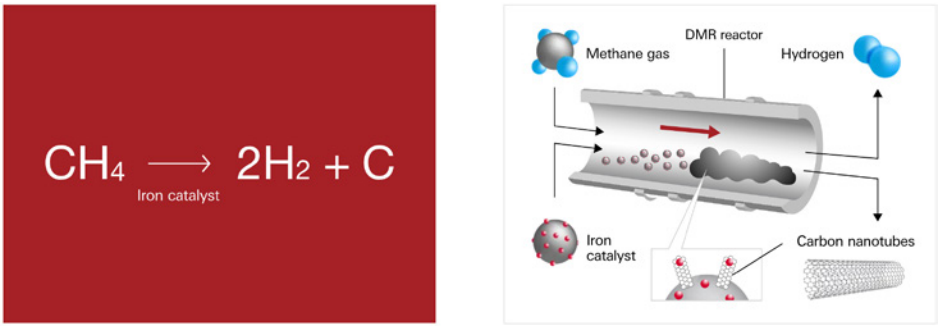
2) Development of CO_2-free hydrogen and CNT production technology

Specifically, the Company is promoting the development of a CO_2-free hydrogen production process and system using the direct methane reforming (DMR) method. In August 2023, the Company and Air Water, through a project commissioned by the New Energy and Industrial Technology Development Organization, will install a commercial-scale hydrogen production plant in Toyotomi Town, Hokkaido, using the DMR method to produce high-purity hydrogen from unused natural gas associated with hot springs, mainly methane, without directly emitting CO_2. At the same time, the hydrogen produced is supplied to neighboring customers to create a locally produced, locally consumed hydrogen supply chain. Furthermore, multi-walled carbon nanotubes (CNTs), a byproduct, have high electrical conductivity and can be used as a carbon material. Going forward, commercial-scale hydrogen and CNT manufacturing technology will be established using the DMR method, utilizing unutilized natural gas that flows naturally in Toyotomi Town. Air Water will establish a hydrogen storage, transportation, and supply system and build a hydrogen supply chain in the region, while the Company will add value to the CNT powder, explore applications for CNTs, and evaluate the performance of CNTs for customers, aiming for early social implementation across the entire system.

Medium- to-long-term growth strategy

Direct methane reforming



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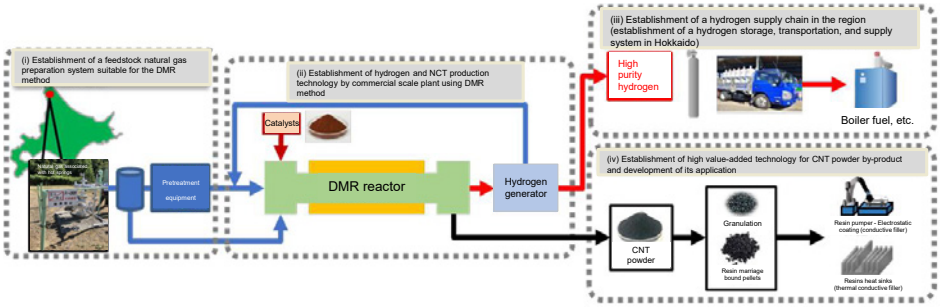
Production process for CO_2-free hydrogen



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Overall, the next-generation technology for functional pigments in Vision2026 is not yet ready for mass production and will take time to contribute to earnings, making it difficult to achieve the current earnings target for FY3/27. However, the Company believes that it will be able to achieve its profitability target of 5% operating profit margin up to 4% by reducing fixed costs. In FY3/28 and beyond, the next-generation businesses mentioned above will begin to make a full-scale contribution to earnings, and an operating profit margin of 8% in FY2030 seems feasible. There are high expectations for the Company's efforts to realize a decarbonized and recycling-oriented society.

Shareholder return policy

Aiming for early resumption of dividends in consideration of consolidated performance trends

Since the Company paid a dividend of ¥40 in FY3/19, it has continued to pay no dividend, partly due to weak performance. The Company paid no dividend in FY3/25 due to deteriorating earnings, and expects to continue to pay no dividend in FY3/26. The Company aims to resume dividend payments as soon as possible while securing the necessary retained earnings for future business development and strengthening the management structure, but it will take more time to resume dividend payments.

FISCO

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