COMPANY RESEARCH AND ANALYSIS REPORT

TODA KOGYO CORP.

4100

Tokyo Stock Exchange Standard Market

3-Sep.-2026

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Summary

Carried out earnings structure reforms and achieved operating profit. Capturing AI demand and entering a renewed growth phase

TODA KOGYO CORP. <4100> (hereafter, also "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 coloring 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)*1 widely used in smartphones, as well as materials for lithium-ion batteries (LIB)*2 used in electric vehicles (EVs) and other applications. Currently, the Company is engaged in two segments: the Electronic Materials Segment (including magnet materials, dielectric materials, soft magnetic materials, LIB materials, and hydrotalcite) and the Functional Pigments Segment (coloring pigment materials, toner materials, catalysts, etc., and environmental related materials).

*1 An electronic component mounted in all kinds of electronic devices, such as smartphones, automobiles, PCs, and servers, helping stabilize power supply and filter electrical noise. MLCC stands for Multilayer Ceramic Capacitor.
*2 A rechargeable battery widely used in EVs, smartphones, notebook PCs, and other devices. LIB stands for Lithium Ion Battery.

1. Overview of FY3/26 results

In the FY3/26 results, net sales were ¥28,041mn (down 11.4% year on year (YoY)), but operating profit was ¥862mn (operating loss of ¥648mn in the previous fiscal year), achieving a return to profitability. Earnings structure reforms through measures such as product pricing optimization action, cost reductions, and reductions in overhead and SG&A expenses, in addition to business portfolio reform including the liquidation of unprofitable businesses, proved successful. By business, dielectric materials reached a record high in net sales on the back of expanded demand for MLCCs for AI servers accompanying the spread of generative AI, and magnet materials also improved profitability through cost reductions and yield improvements. In addition, demand for recording materials for LTO backup tapes* also expanded against the backdrop of increased AI-related data volumes. On the other hand, a share of loss of entities accounted for using equity method associated with the sluggish performance of BASF TODA Battery Materials LLC (BTBM) on the back of the slowdown in EV market growth, as well as a provision for loss on transfer of ¥3,016mn associated with the decision to transfer the equity interest in BTBM, was recorded as an extraordinary loss, resulting in a loss attributable to owners of parent of ¥3,455mn. However, operating cash flow secured a positive balance of over ¥3.0bn for two consecutive fiscal years, indicating that the improvement in the profitability of the core business is steadily progressing.

* A magnetic tape-type recording medium for storing large amounts of data for a long period of time. LTO stands for Linear Tape-Open.

2. FY3/27 forecasts

For the FY3/27 results, the Company is forecasting net sales of ¥29,000mn (up 3.4% YoY), operating profit of ¥1,000mn (up 16.0%), ordinary profit of ¥1,100mn (ordinary loss of ¥77mn in the previous fiscal year), and profit attributable to owners of parent of ¥500mn (loss of ¥3,455mn in the previous fiscal year). This will be the first full year following the implementation of earnings structure reforms, and the Company plans to return to profitability up to the final profit level. The growth driver is dielectric materials, and net sales are expected to reach a record high due to expanded demand for MLCCs backed by the higher performance of AI servers and smartphones. Magnet materials are also expected to remain steady due to expanded demand for automotive motors and water pumps. For soft magnetic materials, which struggled in the previous fiscal year, the Company expects to improve profitability through an improved competitive environment in the Chinese market and the launch of new materials. On the other hand, the Company will reduce and balance the LIB-related business and concentrate management resources on growth areas. Although the operating margin is 3.4%, which is still below the management targets (KPIs) of the medium-term management plan, earning structure improvements are steadily progressing.

3. Medium-term management plan

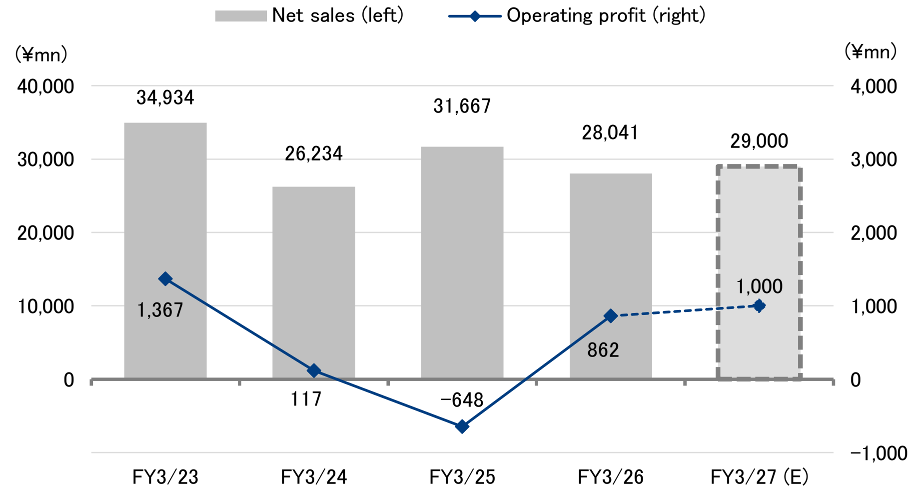
In its Medium-term Management Plan Vision2026, the Company has positioned the strengthening of business portfolio management at the core of its growth strategy. The biggest achievement is that it decided on the dissolution and liquidation of Toda Advanced Materials Inc. (TAM), which was an unprofitable business, and the transfer of its equity interest in BTBM, reallocating management resources to growth areas. Going forward, the Company will aim for growth centered on dielectric materials, magnet materials, and recording materials. There are high expectations for dielectric materials in particular as a field that will directly benefit from the expanded demand for MLCCs for AI servers accompanying the spread of generative AI. In magnet materials, the Company will strive for stable growth with its strengths in thermal management applications for EVs and its global supply system. Furthermore, for soft magnetic materials, which are currently struggling, the Company aims for a comeback through the expansion of low-loss materials for AI servers and automotive applications. In addition, the Company plans to develop recording materials for LTO backup tapes and environmental related materials associated with CCUS* as medium- to long-term growth themes, aiming to improve corporate value through improvements in profitability and capital efficiency.

* A technology that captures CO_2 emitted from factories, power plants, etc., and either utilizes it effectively or stores it. CCUS stands for Carbon Capture, Utilization and Storage.

Key Points

- A chemical materials manufacturer with 200 years in business
- Carried out structure reforms of the business portfolio and achieved operating profit, with operating cash flow exceeding ¥3.0bn for two consecutive fiscal years
- Expansion of the Company's business opportunities due to demand for MLCCs and LTO backup tapes accompanying the increase in AI servers, etc.
- Expected to achieve profitability at all levels in FY3/27

Results trends



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

Company profile

A chemical materials manufacturer with 200 years in business

1. Company profile

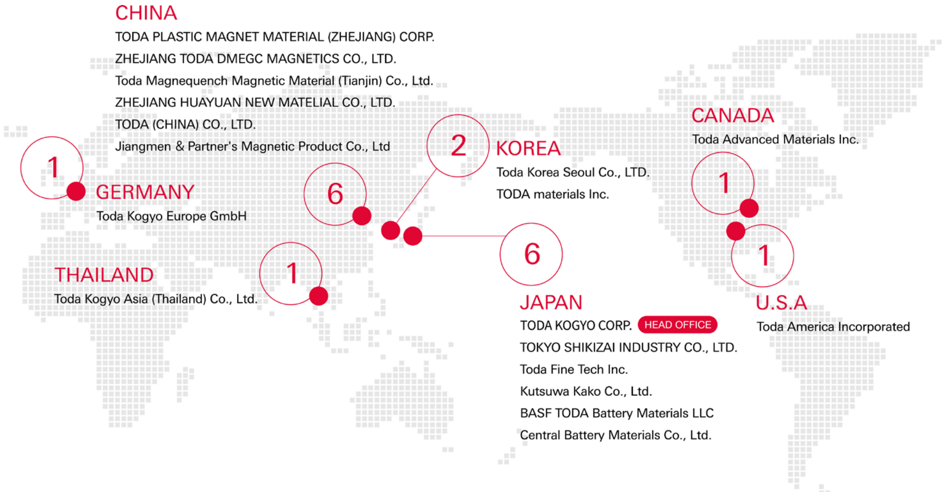
The Company was founded in 1823 (Bunsei Year 6) by Shozo Toda in Okayama Prefecture to manufacture Bengala (a compound of iron and oxygen), a pigment used in applications such as wood paints for buildings, undercoats for indigo dyeing, lacquerware, the coloring of paper umbrellas, and ceramics (glazes for red overglaze decoration). The Company is a long-established chemical materials manufacturer that celebrated the 200th anniversary of its founding in 2023. The Company provides cutting-edge materials, including magnetic iron oxides, magnet materials, dielectric materials, and LIB materials, by improving its fine particle synthesis technology cultivated with iron oxides.

The Company's corporate philosophy is as follows: "Our group will further improve the fine particle synthesis technology we have developed with iron oxides and will always continue lively growth and development. We will work on a foundation built on sincerity and trust and we will bring together our creativity and manufacturing strength to make a contribution to society in general with attractive new materials and solutions that are full of originality." As its management policy, it has set out the following four points.

- We will establish a management foundation as a "Manufacturing Company" that can contribute to society and will continue to grow and develop even 100 years after its establishment.
- We will refine our only-one technologies and continue to offer products and solutions that have high added value.
- We will become a company that is essential on a global level and increase the corporate value of the group.
- We will seek the happiness of our employees and their families and will be a company that is constantly trusted by our stakeholders.

The Group comprises the Company, 15 consolidated subsidiaries (before the dissolution of TAM), 4 affiliates, and 1 other affiliated company. As of the end of FY3/26, there were 1,037 employees on a consolidated basis.

Major bases



Source: The Company's website

2. History

The main turning points in the Company's history to date are as follows.

(1) Establishment of wet synthesis method and response to pollution problems (1960s)
In order to solve the pollution problem caused by the dry method that had been used since its founding, the Company collaborated with Kyoto University to establish a "wet synthesis method" that performs chemical reactions in an aqueous solution. This not only overcame pollution but also enabled precise control of particles, which became the technological foundation for the subsequent development of high-performance materials.

(2) Application of wet synthesis method (magnetic recording materials, late 1960s onwards)
Applying the wet synthesis method, the Company significantly expanded its business from coloring pigments to the manufacture of magnetic recording materials (magnetic powder for audiotapes and videotapes, etc.). This became a turning point in transforming from a pigment manufacturer to an electronic materials manufacturer, and for a long time thereafter, it drove growth as the Company's core business.

(3) Transition from analog to digital and diversification (1990s–2000s)
Anticipating the shrinking of the analog market and the shift to digital, the Company promoted diversification by deploying its cultivated technologies to inorganic materials other than iron oxides. It began developing materials such as materials for LIBs, which became a new business, and dielectric materials (for MLCCs, etc.), which are its current growth areas, and fostered next-generation revenue sources.

(4) Strengthen business portfolio management (present)

In its Medium-term Management Plan Vision2026, the Company set out "strengthening business portfolio management" and began business management in four categories: growth businesses, revenue base businesses, next-generation businesses, and revitalization/reorganization businesses. While concentrating investments in growth areas (such as dielectric materials) that are growing for AI servers and other applications, it clearly indicated the liquidation of and withdrawal from unprofitable businesses (TAM, BTBM, etc.). Currently, profitability has significantly improved due to structure reforms, and the Company is setting its sights on returning to profitability and renewed growth.

History

Month year	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 (TSE)
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 Incorporated 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 MAGNETICS 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, etc. 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 TSE First Section to the Prime Market in conjunction with the TSE'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 MATERIAL CO., LTD. in December 2024) and Zhejiang Union Pigment Co., Ltd.
October 2023	Transferred to the TSE Standard Market 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 Marked 200th anniversary of the Company's foundation. The brand logo was 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, 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) (TAM), a consolidated subsidiary that manufactures precursors for lithium-ion batteries
February 2026	Decided to transfer equity interest in BASF TODA Battery Materials LLC (BTBM), which is responsible for the cathode materials business for LIBs

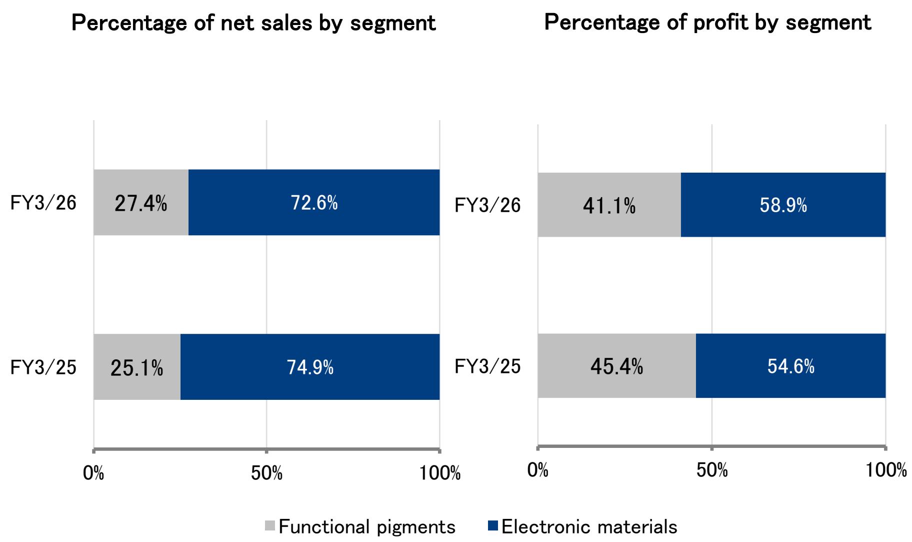
Source: Prepared by FISCO from the Company's annual securities report and press releases

Business overview

Develops eight materials across two segments: the Electronic Materials Segment and the Functional Pigments Segment

1. Overview of business portfolio

Currently, the Group is engaged in two businesses: the Electronic Materials Segment (magnet materials, dielectric materials, soft magnetic materials, LIB materials, and hydrotalcite) and the Functional Pigments Segment (coloring pigment materials, toner materials, catalysts, etc., and environmental related materials). In FY3/26, the Electronic Materials Segment accounted for 72.6% of consolidated net sales and the Functional Pigments Segment accounted for 27.4%. For segment profit, the Electronic Materials Segment had a 58.9% share and the Functional Pigments Segment a 41.1% share of the total.



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

2. Major segments and businesses

The Company's major segments are electronic materials and functional pigments. In addition, in its Medium-term Management Plan Vision2026, the Company classifies its businesses into four types from the perspective of strengthening business portfolio management: growth businesses, revenue base businesses, next-generation businesses, and revitalization/reorganization businesses.

(1) Electronic materials

a) Magnet materials (growth business)

The business handles everything from powders to compounds and molded products (magnets). Its 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). Furthermore, it enables the combination of high magnetic properties with good moldability (especially for injection molding materials). In addition, it has 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), polyphenylene sulfide (PPS), and ethylene-ethyl acrylate copolymer (EEA). 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 has a lineup of materials that significantly reduce 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 electrified vehicles (xEVs).

b) Dielectric materials (growth business)

The Company's dielectric materials are used not only as MLCC dielectric main materials but also as MLCC co-materials, and are supplied especially as materials for MLCCs 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 barium titanate ($BaTiO_3$) is used, and it contributes to electric field uniformity and reliability improvement. In the manufacturing process of $BaTiO_3$, the main raw material of MLCC, there are solid phase method, oxalate method, hydrothermal synthesis method, etc. The Company directly synthesizes $BaTiO_3$ 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 $BaTiO_3$ with sharp particle size distribution and uniform shape of 30 to 150 nm in diameter, focusing on high-performance, high-value-added products. In recent years, the number of installed MLCCs has been increasing due to expanded demand for AI servers accompanying the spread of generative AI, and the higher functionality of smartphones and automobiles. In addition, with the progress of miniaturization, multi-layering, and lower profiles, demand is also growing for high-performance dielectric materials using finer, more uniform particles. Under these circumstances, demand for the Company's dielectric materials for MLCCs is expanding, and it is a growth field that can directly enjoy the benefits of expanding AI-related demand.

c) Soft magnetic materials (next-generation business)

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.

d) LIB precursors (revitalization/reorganization business)

In the business of manufacturing and selling precursors (intermediates) for LIB cathode materials, TAM has played the central role. As it was affected by fluctuations in demand for the EV market, the Company positioned it as a revitalization/reorganization business and is proceeding to reduce losses and review its business portfolio through the dissolution and liquidation of TAM, among other measures. On the other hand, in the field of battery materials, the use of iron in lithium iron phosphate (LFP) cathode materials has a high affinity with the Company's technological domain, which may provide new growth opportunities. The Company is also continuing R&D on materials for sodium-ion batteries, anticipating future market growth.

e) Hydrotalcite (revitalization/reorganization business)

Hydrotalcite had previously focused on applications such as vinyl chloride stabilizers and agricultural film insulators, but the vinyl chloride stabilizer applications became a red ocean market, and the Company positioned the business as a revitalization/reorganization business. In May 2024, the Company announced the dissolution of its collaboration with Sakai Chemical Industry <4078>. While maintaining the potential for expansion into environmental related applications such as environmental purification, the Company is proceeding with profitability improvement and portfolio reorganization.

(2) Functional pigments

a) Coloring pigment and toner materials (revitalization/reorganization business)

The Company develops and commercializes electronic printing materials such as magnetic iron oxides and spherical resin carriers for coloring materials for synthetic resins, paints, roads, building materials, etc., and toners for copiers and laser printers. In response to the shift to paperless operations and a decline in demand, the Company aims to improve profitability through measures such as product pricing optimization action, cost reductions, and facility rationalization.

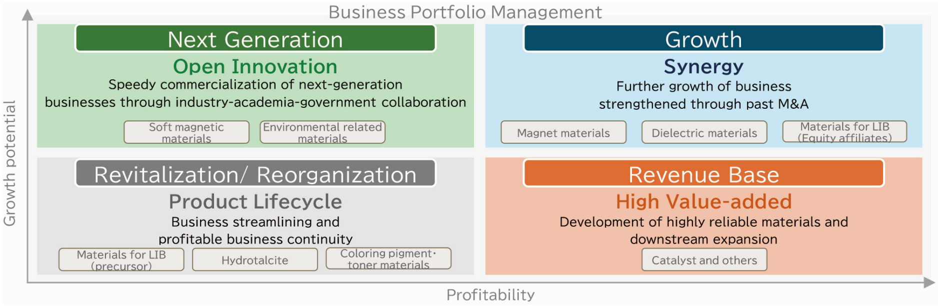
b) Catalysts, etc. (revenue base business)

Its main application is a catalyst for styrene monomer, which is a raw material for plastics and rubber, and it is used in the dehydrogenation reaction of ethylbenzene, which is the mainstream of styrene monomer production. It has a unique composition utilizing iron-based wet synthesis technology, and is characterized by high reaction efficiency and high conversion efficiency to styrene. The products are sold to companies with top market shares, 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 stable revenues. Furthermore, recording materials for LTO backup tapes are positioned in this field, and the Company anticipates demand expansion over the medium to long term.

c) Environmental related materials (next-generation business)

For environmental related materials, which the Company positions as a next-generation business, it is promoting the development of new materials that contribute to reducing environmental impact, such as CO_2 separation and capture materials, and is focusing management resources on early commercialization.

Strengthen business portfolio management



Source: The Company's business briefing documents

Results trends

Returned to operating profit due to the effects of earnings structure reforms, with operating cash flow exceeding ¥3.0bn for two consecutive fiscal years

1. Overview of FY3/26 results

In the FY3/26 results, net sales were ¥28,041mn (down 11.4% YoY), operating profit was ¥862mn (operating loss of ¥648mn in the previous fiscal year), ordinary loss was ¥77mn (ordinary loss of ¥1,411mn in the previous fiscal year), and loss attributable to owners of parent was ¥3,455mn (loss attributable to owners of parent of ¥3,563mn in the previous fiscal year). In addition to eliminating the loss of the unprofitable Canadian battery materials business (TAM), profitability improvement measures such as reductions in overhead expenses, product pricing optimization action, and cost reductions proved successful, and operating profit/loss returned to profitability. Swift decisions to withdraw and reorganize based on business portfolio management also contributed to the improvement in profitability. On the other hand, the loss attributable to owners of parent continued due to the share of loss of entities accounted for using equity method affected by the slowdown in EV market growth and the recording of a provision associated with the decision to transfer the equity interest in BTBM.

In the Electronic Materials Segment, net sales were ¥20,726mn (down 14.1% YoY) and segment profit was ¥2,151mn (up 77.5%). In dielectric materials, demand for MLCCs increased against the backdrop of expanding AI server demand accompanying the spread of generative AI and higher performance of smartphones, reaching a record high in net sales. MLCCs are electronic components that help stabilize power supply and filter electrical noise, and the number of installed units is increasing along with the higher performance of AI servers. In addition, as electronic devices such as smartphones become smaller and thinner, there is a demand for multi-layering and lower profiles in MLCCs. The Company has hydrothermal synthesis technology capable of manufacturing fine, uniform particles, and has captured the benefits of market expansion by responding to the advanced material needs of MLCC manufacturers. On the other hand, although magnet materials saw a decrease in sales due to the slowdown in the automotive market, etc., profit margins improved due to the effects of cost reductions, yield improvements, and the introduction of new manufacturing methods. Soft magnetic materials struggled due to the impact of intensified price competition in the Chinese market. Furthermore, net sales also decreased due to the decision to dissolve and liquidate TAM and the dissolution of cooperative activities in the hydrotalcite business. However, in addition to sales expansion activities, the Company proceeded with cost reductions and overhead cost reductions, and a decrease in TAM's expenses and inventory sales also contributed, resulting in a significant improvement in profits.

In the Functional Pigments Segment, net sales were ¥7,815mn (down 3.2% YoY) and segment profit was ¥1,498mn (up 48.5%). In toner materials, although affected by inventory adjustments by some customers, demand for recording materials such as iron oxides for LTO backup tapes increased against the backdrop of expanding data demand accompanying the spread of AI. In recent years, while the amount of data has been increasing rapidly along with the spread of generative AI, saving all data on HDDs or SSDs is inefficient in terms of cost and power consumption, so LTO backup tapes are being re-evaluated for long-term storage applications. The Company's founding business of coloring materials also recovered. In addition, profitability improved significantly due to the effects of cost reductions, overhead cost reductions, and product pricing optimization action.

FY3/26 results

(¥mn)

	FY3/25		FY3/26		YoY	
	Results	Percentage/ margin	Results	Percentage/ margin	Change	YoY change
Net sales	31,667	-	28,041	-	-3,626	-11.4%
Functional pigments	8,071	25.5%	7,815	27.9%	-256	-3.2%
Electronic materials	24,121	76.2%	20,726	73.9%	-3,395	-14.1%
Adjustment amount	-525	-	-500	-	-	-
SG&A	6,283	19.8%	5,878	21.0%	-405	-6.4%
Operating profit	-648	-	862	3.1%	1,510	-
Functional pigments	1,009	12.5%	1,498	19.2%	489	48.5%
Electronic materials	1,212	5.0%	2,151	10.4%	939	77.5%
Adjustment amount	-2,870	-	-2,787	-	-	-
Ordinary profit	-1,411	-	-77	-	1,334	-
Profit attributable to owners of parent	-3,563	-	-3,455	-	108	-

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

2. Financial position and management indicators

Total assets at the end of FY3/26 were ¥47,887mn, a decrease of ¥2,785mn from the end of the previous fiscal year. Current assets decreased by ¥3,410mn. The main factors were a ¥1,177mn decrease in trade receivables and a ¥796mn decrease in cash and deposits. On the other hand, non-current assets increased by ¥625mn due to an increase in property, plant and equipment, etc. Total liabilities were ¥38,069mn, a decrease of ¥825mn. Short-term borrowings remained almost flat, but long-term borrowings decreased by ¥2,621mn, resulting in a ¥2,695mn decrease in interest-bearing debt to ¥25,069mn. Net assets decreased by ¥1,960mn to ¥9,817mn due to the recording of a net loss, etc., and the equity ratio declined by 2.8 percentage points (pp) to 18.9%.

Consolidated balance sheet and key management indicator

(¥mn)

	FY3/25-end	FY3/26-end	Change from previous fiscal year-end
Current assets	25,807	22,397	-3,410
Cash and deposits	8,078	7,282	-796
Notes and accounts receivable - trade	8,295	7,118	-1,177
Non-current assets	24,864	25,489	625
Property, plant and equipment	10,465	10,903	438
Goodwill	2,708	2,361	-347
Investments and other assets	11,634	11,942	308
Total assets	50,672	47,887	-2,785
Current liabilities	20,179	22,013	1,834
Short-term borrowings (including current portion of long-term borrowings)	13,224	13,150	-74
Non-current liabilities	18,715	16,056	-2,659
Long-term borrowings	14,540	11,919	-2,621
Total liabilities	38,894	38,069	-825
Interest-bearing debt	27,764	25,069	-2,695
Total net assets	11,777	9,817	-1,960
Equity ratio	21.7%	18.9%	-2.8pp

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

At first glance, some may have concerns about the Company's financial position, as it has recorded large net losses for two consecutive fiscal years in FY3/25 and FY3/26. However, upon closer examination, this was largely affected by the recording of accounting losses that did not involve cash outlays, such as losses associated with the dissolution and liquidation of TAM and the recording of a provision associated with the decision to transfer the equity interest in BTBM. In fact, net cash provided by operating activities secured a stable positive balance for two consecutive fiscal years, at ¥3,820mn in FY3/25 and ¥3,323mn in FY3/26, showing no major problems in the cash generation capability of the core business.

In addition, net cash used in investing activities was ¥994mn in FY3/26, but this was kept within the scope of net cash provided by operating activities, and free cash flow was a positive ¥2,329mn. This represents an improvement of ¥399mn from ¥1,930mn in the previous fiscal year, indicating that cash generation capability has actually improved. Furthermore, net cash used in financing activities was a negative ¥3,175mn, and interest-bearing debt decreased by ¥2,695mn. This can be evaluated as the result of allocating generated cash to the repayment of borrowings and advancing improvements in the financial structure.

Based on the above, the Company's financial condition is considered to be steadily moving towards soundness. Looking ahead, the focus will be on whether the results of the business portfolio reform can be reflected in profits, realizing a return to profitability in profit attributable to owners of parent and a recovery of equity.

Status of cash flows

(¥mn)

Item	FY3/25	FY3/26
Cash flows from operating activities	3,820	3,323
Cash flows from investing activities	-1,890	-994
Cash flows from financing activities	-2,131	-3,175
Free cash flow	1,930	2,329
Cash and cash equivalents at end of period	7,837	7,234

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

Outlook

FY3/27 will be the first financial results following the implementation of structure reforms, and the Company expects to achieve profitability up to the final profit level

● FY3/27 forecasts

For the FY3/27 results outlook, the Company is forecasting net sales of ¥29,000mn (up 3.4% YoY), operating profit of ¥1,000mn (up 16.0%), ordinary profit of ¥1,100mn (loss of ¥77mn in the previous fiscal year), and profit attributable to owners of parent of ¥500mn (loss of ¥3,455mn in the previous fiscal year). Against the backdrop of expanded demand centered on the mobility and AI fields, the Company expects expanded sales of dielectric materials and soft magnetic materials, and the earnings structure reforms resulting from the withdrawal from unprofitable businesses will also contribute, planning for a return to profitability in ordinary profit and profit attributable to owners of parent. The operating margin is expected to improve to 3.4% from 3.1% in the previous fiscal year. Furthermore, the situation in the Middle East has not been factored into the earnings forecasts because a reasonable estimate is difficult at this time.

Forecast for FY3/27

(¥mn)

	FY3/26		FY3/27		YoY change
	Results	% of net sales	Forecast	% of net sales	
Net sales	28,041	-	29,000	-	3.4%
Operating profit	862	3.1%	1,000	3.4%	16.0%
Ordinary profit	-77	-	1,100	3.8%	-
Profit attributable to owners of parent	-3,455	-	500	1.7%	-
Earnings per share (¥)	-	-	86.44	-	-

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

The outlook for net sales and operating profit by business and segment is as follows:

(1) Electronic materials

a) Magnet materials (growth business)

For magnet materials, the Company expects net sales of ¥11.6bn (up ¥0.3bn YoY) and operating profit of ¥1.3bn (flat YoY). In addition to anticipating solid demand centered on automotive motors and sensors, the Company also expects an expansion in demand for water pumps, which are used for thermal management applications in EVs. Along with creating synergies with the molded product manufacturer acquired in China, the Company will aim to expand sales by utilizing a system capable of supplying everything from powders to compounds and molded products in an integrated manner. Furthermore, the Company has established a supply system across multiple bases in Japan, China, and Thailand, making its ability to respond to geopolitical risks a strength. In terms of profits, the effects of cost reductions and yield improvements implemented in the previous fiscal year will continue, and high profitability is expected to be maintained.

b) Dielectric materials (growth business)

The forecast for dielectric materials is net sales of ¥2.1bn (up ¥0.2bn YoY) and operating profit of ¥0bn (up ¥0.1bn). Net sales are expected to reach a record high following the previous fiscal year. In addition to the expansion of demand for AI servers, demand for MLCCs is increasing against the backdrop of the higher functionality of smartphones. In AI servers, the number of installed MLCCs is increasing accompanying their higher performance, and the need for high-performance dielectric materials is also growing due to the progress of miniaturization, multi-layering, and lower profiles. The Company has strength in manufacturing fine and uniform particles using hydrothermal synthesis technology, and will capture the benefits of this market expansion. On the other hand, since the Company is continuing to develop high value-added products such as dispersions and enhance capacity, profits factor in the burden of upfront investments.

c) Soft magnetic materials (next-generation business)

The soft magnetic materials are forecast to achieve net sales of ¥6.4bn (up ¥0.4bn YoY) and operating loss of ¥0.2bn (operating loss of ¥0.7bn in the previous fiscal year). Although the Korean subsidiary TODA materials Inc. (TDMI) was affected by intensified price competition in the Chinese market in the previous fiscal year, it is expected to enter a phase of profitability improvement in FY3/27. In addition to anticipating expanded demand for low-loss metal materials for AI servers and electromagnetic noise suppression materials for automotive electronic equipment, the Company aims to improve profitability by launching new businesses and advancing cost reductions at TDMI. Management positions these materials as an important growth area and is accelerating efforts toward a comeback.

d) LIB precursors (revitalization/reorganization business)

For LIB precursors, the Company forecasts net sales of ¥0.2bn (down ¥0.2bn YoY) and operating profit of ¥0bn (down ¥0.1bn). Following the decision to dissolve and liquidate TAM, the business scale is expected to shrink. The Company is proceeding with a review of its business portfolio for the LIB-related business, shifting management resources to growth areas such as magnet materials, dielectric materials, and soft magnetic materials.

e) Hydrotalcite (revitalization/reorganization business)

For hydrotalcite, the Company forecasts net sales of ¥0.5bn (flat YoY) and operating loss of ¥0.1bn (flat YoY). The business is currently in the stage of continued restructuring following the dissolution of cooperative activities, and no significant sales growth is expected. On the other hand, the Company aims to reduce losses by advancing the efficiency of personnel allocation and facility operations.

(2) Functional pigments

a) Coloring pigment and toner materials (revitalization/reorganization business)

The forecast for coloring pigments and toner materials is ¥6.4bn in net sales (up ¥0.1bn YoY) and operating loss of ¥0.2bn (operating profit of ¥0.1bn in the previous fiscal year). Although the market for copiers and printers has matured, the Company will continue to advance cost reductions and review its product mix. In the previous fiscal year, it achieved a return to profitability through product pricing optimization action and cost reductions, but for FY3/27, it has set a conservative profit plan factoring in changes in the product mix, etc.

b) Catalysts, etc. (revenue base business)

For catalysts, etc., the Company forecasts net sales of ¥1.8bn (up ¥0.2bn YoY) and operating profit of ¥0.3bn (up ¥0.1bn). In addition to expanding sales of the mainstay catalysts for styrene monomers, the expansion of demand for recording materials for data centers is also expected to be a tailwind. Against the backdrop of increased data volume accompanying the spread of AI, demand for recording materials for LTO backup tapes continues to expand, and the Company plans for this to generate stable profits as a revenue base business.

Breakdown by segment and business

(¥bn)

Revenue by business segment	Business	Business portfolio	FY3/26 (Results)			FY3/27 (E)			YoY		
			Net sales	Operating profit/loss	Operating margin	Net sales	Operating profit/loss	Operating margin	Net sales	Operating profit/loss	Operating margin
Electronic materials	Magnet materials	Growth	11.4	1.3	11%	11.6	1.3	11%	0.3	-0.0	-0pp
	Dielectric materials	Growth	1.9	-0.0	-1%	2.1	0.0	2%	0.2	0.1	3pp
	Soft magnetic materials	Next-generation	6.0	-0.7	-12%	6.4	-0.2	-4%	0.4	0.4	8pp
	LIB precursors	Revitalization/ reorganization	0.5	0.1	24%	0.2	0.0	23%	-0.2	-0.1	-1pp
	Hydrotalcite	Revitalization/ reorganization	0.5	-0.2	-32%	0.5	-0.1	-29%	-0.0	0.0	3pp
Functional pigments	Coloring pigment and toner	Revitalization/ reorganization	6.2	0.1	2%	6.4	-0.2	-3%	0.1	-0.3	-5pp
	Catalysts, etc.	Revenue base	1.6	0.2	12%	1.8	0.3	14%	0.2	0.1	2pp
	Environmental related materials	Next-generation	-	-	-	-	-	-	-	-	-
Total			28.0	0.9	3%	29.0	1.0	3%	0.9	0.2	0pp

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

Medium- to long-term growth strategy

Capturing AI demand for products such as MLCCs and LTO backup tapes to move to the next growth stage

● Medium-term management plan and progress

(1) Progress of Medium-term Management Plan Vision2026

The Company formulated its Medium-term Management Plan Vision2026 in May 2024 and is promoting earnings structure reforms centered on strengthening business portfolio management. For FY3/27, the final year of the plan, it has set KPIs such as an operating margin of 5.0%, an ROE of 11%, and an equity ratio of 29%, but at present, there are remaining issues to achieve these.

However, the point to note is not whether the numerical targets have been achieved, but rather that the business portfolio reform is steadily beginning to function. Management cites the permeation of business portfolio management as the greatest achievement of the medium-term plan. The dissolution and liquidation of the unprofitable TAM and the withdrawal from BTBM can be said to be symbolic examples of this. The prompt decision to withdraw from the LIB-related business, which had previously been expected to be a growth business, and the reallocation of management resources to growth areas are commendable.

In addition, initiatives to improve capital efficiency, such as inventory reduction and CCC improvement, are also progressing. In FY3/26, the Company achieved operating profit, which can be evaluated as the stage where the business portfolio reform has begun to manifest as a profitability improvement.

Quantitative financial targets of the medium-term management plan

	FY3/27		FY3/31 Targets
	Vision2026 KPI	Forecast	
Operating margin	5.0%	3.4%	8% or more
ROE	11%	6%	10% or more
Equity ratio	29%	20%	40% or more

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

(2) Dielectric materials are the biggest growth driver

One of the most promising businesses going forward is dielectric materials.

Dielectric materials are used as the main materials for MLCCs. MLCCs are installed in all kinds of electronic devices such as smartphones, automobiles, and servers, and in recent years, the expanded demand for AI servers accompanying the spread of generative AI has become a new tailwind.

According to the Company, net sales of the business in FY3/26 reached a record high. Compared to FY3/24, they have expanded by about 1.9 times. In AI servers, the number of installed MLCCs is increasing accompanying their higher performance, and smartphones are also becoming more highly functional. In addition, MLCCs themselves are becoming smaller, more multi-layered, and lower profile, and finer and more uniform particles are in demand.

The Company's strength lies in manufacturing fine particles using hydrothermal synthesis technology, and it holds high competitiveness in this field. As one of the few materials manufacturers that can directly enjoy the benefits of expanded AI-related demand, the Company has significant room for medium- to long-term growth.

(3) Magnet materials are expected to continue stable growth

The magnet materials business is the Company's largest business, with net sales of ¥11.4bn in FY3/26.

A characteristic of the Company is that it can supply not only magnetic powder but also compounds and molded products in an integrated manner. By acquiring a molded product manufacturer in China in 2021, the Company expanded its business area from a materials manufacturer to an area close to a components manufacturer.

Going forward, thermal management applications for EVs are expected to be a growth driver. The Company expects an expansion in demand particularly for water pumps. In addition, the Company has established a supply system with multiple bases in China, Japan, and Thailand, making it capable of responding to customers' needs to reduce reliance on China.

Although it is currently being affected by the slowdown in the Chinese market, in the previous fiscal year, it achieved an improvement in its profit margin through cost reductions and yield improvements. Going forward, it is expected to continue growing as the Company's stable revenue source.

(4) Soft magnetic materials are the biggest challenge and the biggest upside

On the other hand, soft magnetic materials are what management recognizes as its biggest challenge.

The business was significantly affected by intensified price competition in the Chinese market. According to the Company, excessive price competition ("involution") has emerged in the Chinese market, and sales through its Korean subsidiary, TDMI, were also affected.

However, management has set out the "comeback" of soft magnetic materials as an important theme. Growth markets still exist, such as low-loss metal materials for AI servers and electromagnetic noise suppression materials for automotive applications. In addition, a new materials business is also beginning to launch.

For FY3/27, the plan is for the operating loss to be significantly reduced, and there is significant room for future profitability improvement. We at FISCO think this business holds the key to medium- to long-term profit growth.

(5) Recording materials are a promising field that will benefit from the AI era

Due to the spread of generative AI, data volumes are rapidly increasing worldwide. On the other hand, storing all data on HDDs or SSDs is inefficient in terms of cost and power consumption. For this reason, LTO backup tapes are being re-evaluated for long-term storage applications.

In the recording materials business, the Company supplies iron oxide materials for LTO backup tapes. There are limited market players, and there are high barriers to entry. According to the Company, orders are significantly increasing.

While attention tends to gather on dielectric materials when talking about the expansion of AI server demand, recording materials are similarly attracting attention as a business that will enjoy the growth benefits of the AI era.

(6) Environmental related materials are a long-term growth theme for 2030

In environmental related materials, the Company is advancing the commercialization of CCUS and DMR (CO_2-free hydrogen production) technologies. CCUS is a field that is attracting global attention toward the realization of a decarbonized society, and it is also one of the priority themes of GX policy in Japan. The Company is advancing the development of CO_2 separation and capture materials by applying its iron oxide technology and is aiming for the practical application of a capture technology using inexpensive sodium and iron. It is also advancing technological development for the effective utilization of captured CO_2.

Regarding DMR, it is developing a technology to generate turquoise hydrogen and carbon nanotubes from methane. Demonstration tests are also progressing in Toyotomi Town, Hokkaido.

Although the contribution to earnings is currently limited, the Company aims for net sales of ¥1.0bn and operating profit of ¥0.1bn in FY3/31. When commercialization is realized, there is a possibility that it will become a new revenue pillar for the Company.

We at FISCO think that the essence of the Company's medium- to long-term strategy lies in the concentration of management resources in growth areas. If the profitability recovery of soft magnetic materials and the commercialization of environmental related materials progress, in addition to the profitable growth areas of dielectric materials, magnet materials, and recording materials, there will be significant room for improvement in profitability and capital efficiency.

Shareholder return policy

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

● Shareholder return policy

Since the Company paid a dividend of ¥40.0 in FY3/19, it has continued to pay no dividend, partly due to weak performance. The Company continued to pay no dividend in FY3/26 and expects to pay no dividend in FY3/27 as well. 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 is expected to take more time to resume dividend payments.

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