HIRANO TECSEED CO., LTD. (6245 JP)

SUCCESSFUL PASSING THROUGH OF COSTS LED TO 1H UPWARD REVISION. WEAK ORDERS MIGHT AFFECT FUTURE EARNINGS

EXECUTIVE SUMMARY

- **FY25 Q1 results**
  Hirano Tecseed (hereinafter HT) reported FY25 Q1 OP of ¥821mil (+181.1-% YoY) on sales of ¥10,719mil (-11.4% YoY), which resulted in an OPM of 7.7%, a significant improvement from FY24 Q1's OPM of 2.4%. Sales were largely in line with expectation on the back of progress in working through order backlogs, especially in C&LM for secondary LiB.
- **Revised FY25 1H guidance but full-year guidance remains unchanged**
  Given successful passing through of cost increases to customers in the C&LM segment, FY25 1H guidance was revised from OP of ¥750mil (-26.8% YoY) on sales of ¥16,750mil (-31.3% YoY) to OP of ¥1,000mil (-2.4% YoY) on unchanged sales. The full-year FY25 guidance remained unchanged at OP of ¥1,500mil (-10.8% YoY) on sales of ¥33,500mil (-30.7% YoY). HT anticipates FY25 revenues and OP will decline in the C&LM segment due to ongoing uncertainty surrounding US tariff policies and shifts in the global EV markets.
- **Increased operating environment uncertainty**
  HT's key customers in the EV market have postponed their CAPEX plans as the EV market continues to slow and uncertainty persists around US tariffs. Over the longer-term, HT will seek to invest in R&D and develop a more optimal product mix incorporating more higher margin products. While revisions to the MTP will follow in November 2025, the company stands by its current shareholders return policy of the higher of 3.5% DOE or a dividend payout ratio of 60%.

Hirano Tecseed (6245 JP): Share Information

Market Cap (¥mil)		24,800	Market Cap ($mil)			168.7
22-day Average Trading Volume (¥mil)		55	22-day Average Trading Volume ($mil)			0.4
Share performance (%)	**6245**	**TOPIX**	**Earnings Summary (¥mil, %)**	**FY23**	**FY24**	**FY25 CE**
Share price (¥, 28 Aug)	1,611	3,098.78	Sales	46,946	48,355	33,500
3mo (from 28 May)	9.3	11.9	OP	3,236	1,681	1,500
6mo (from 28 Feb)	-5.4	15.5	OPM (%)	6.9	3.5	4.5
YTD (from 6 Jan 2025)	-15.4	12.4	EBITDA	4,020	2,531	2,500*
1yr	-0.1	4.6	EPS (¥)	161.7	59.9	72.75
5yrs	16.7	93.1	Financial Leverage (X)	1.6	1.6	1.6*
Per-share and Valuations	**6245**	**TOPIX**	Net D/E Ratio (X)	-0.2	-0.2	-0.2
EPS (¥, FY25 CE)	72.75	182.48	FCF	5,615	-871	*1,350
DPS (¥, FY25 CE)	84	N/A	**Shareholder Return Summary**	**FY23**	**FY24**	**FY25 CE**
BPS (¥, FY24-end)	2,528	1,875.16	Dividend (¥)	88	90	84
FCFPS (¥, FY25EST*)	87.7	N/A	Dividend Payout (%)	54.4	150.2	115.5
Forward PER (X)	22.1	17.0	Dividend Yield (%)	N/A	N/A	7.2
PBR (x)	0.6	1.7	DOE (%)	3.5	3.6	3.6*
PCFR (x)	18.4	N/A	Treasury Shares (%)	N/A	N/A	N/A
EV/EBITDA (X)	5.3	N/A	ROE (%)	6.2	2.4	2.9

Source: Nippon-IBR based on data on Bloomberg and Toyo Keizai / *Nippon-IBR estimates

FY25 Q1 RESULTS

Hirano Tecseed (hereinafter HT) reported FY25 Q1 OP of ¥821mil (+181.1-% YoY) on sales of ¥10,719mil (-11.4% YoY), which resulted in an OPM of 7.7%, a significant improvement from FY24 Q1's OPM of 2.4%. HT also revised up 1H OP and pre-tax profits together with Q1 results, thanks to revisions on the value of some orders to reflect the surge in costs associated with changes in shipment locations. As a result, 1H OP, RP and NP guidance figures were revised up.

Sales were largely in line with expectation as the firm worked through order backlogs, especially in C&LM for secondary LiBs, in addition to several projects that had been postponed got underway, contributing to Q1 sales. However, the majority of order backlogs that were worked through were still in the early stage for sales recognition on a percentage of completion basis, therefore, the value was nugatory. Furthermore, installation works which contributed to sales growth in FY24 slowed down in Q1.

As HT made good progress working through its order backlog, it fell from ¥57,919mil at FY24 Q1 to ¥40,183mil in FY25 Q1. Order backlog for energy-related, which includes EV LiB coating and laminating machinery [C&LM], declined from ¥44,482mil in FY24 Q1 to ¥23,668mil in FY25 Q1. Total orders received during Q1 was a mere ¥3,343mil (-53.6% YoY / -57.1-QoQ), of which order for energy-related was a mere ¥946mil (-81.8% YoY / -77.3% QoQ), due to (1) lack of large-scale machinery orders and (2) a peak-out of orders for installation works.

A number of factors had a detrimental effect on profitability especially in C&LM segments. HT saw steep rises in various input costs such as raw materials, personnel, and subcontractors. In addition, there was a general slowdown in the EV market along with uncertainty surrounding US trade policy which in turn led key customers to review and postpone their CAPEX plans. There were also further drags on profitability, such as extra storage costs, following customer requests for deferred delivery and additional customisation requests post-order. When HT incurs such additional costs, the company aims to negotiate passing some of them on to customers, but the extent to which this is possible varies case by case. In Q1, the firm managed to reach agreements with some customers to pass on costs as well as continued its efforts to reduce production costs. As a result, OPM improved by +5.3ppt to7.7% in Q1.

Hirano Tecseed (6245 JP): Earnings Summary

(¥mil)	FY23			FY24			FY25		
	Q1	1H	FY	Q1	1H	FY	Q1	YoY (%)	QoQ (%)
Sales	12,584	22,346	46,946	12,099	24,388	48,355	10,719	-11.4	14.2
GP	1,815	3,030	7,511	1,476	3,433	6,522	1,942	31.6	90.9
GPM (%)	14.4	13.6	16.0	12.2	14.1	13.5	18.1	+5.9ppt	+7.3ppt
SG&A	1,186	2,260	4,275	1,184	2,409	4,840	1,121	-5.3	-3.9
SG&A/Sales (%)	9.4	10.1	9.1	9.8	9.9	10.0	10.5	+0.7ppt	-2.0ppt
OP	629	769	3,236	292	1,024	1,681	821	181.1	-653.2
OPM (%)	5.0	3.4	6.9	2.4	4.20	3.5	7.7	+5.3ppt	+9.2ppt
RP	675	814	3,394	427	1,201	1,894	900	110.6	-621.0
RPM (%)	5.4	3.6	7.2	3.5	4.9	3.9	8.4	+4.9ppt	+10.2ppt
NP*	467	564	2,438	328	867	905	641	95.1	-207.2
EPS (¥)	31.05	37.42	161.69	21.75	57.37	59.91	42.40	94.9	N/A

Source: Nippon-IBR based on Hirano Tecseed's Earnings results materials

** NP attributed to the parent's shareholders*

PERFORMANCE BY PRODUCT SEGMENT

HT has three business segments, of which two – C&LM and IM – combined generate 97.1% of total consolidated sales and almost all of consolidated OP. In FY25 Q1, approx. 72.2% of consolidated sales came from North America (-6.6% YoY), 19.6% from Japan (+32.7% YoY), and 5.8% (-69.3% YoY) from East Asia (incl. China, Korea, and Taiwan). Sales from North America are mostly energy-related and include the sale and installation of coating and laminating machinery used in the LiB manufacturing process.

C&LM Segment:

This segment is HT's most important business and accounts for 87.6% of Q1 revenues, of which 86.5% were export sales. The largest component of this segment is electrode coating equipment for secondary LiBs. C&LM OP surged +90.4% YoY in FY25 Q1 to ¥1,112mil on sales of ¥9,392mil (-9.1% YoY). Segment OPM improved +6.2ppt YoY to 11.9%, thanks to a +¥417mil YoY surge in segment gross profit [GP] on the back of improved sales and +¥110mil YoY due to decline in sales commission payments to distributors.

However, HT also recorded a -50.4% YoY decline in Q1 segment orders to ¥2,754mil. The firm has expanded its services here from just shipping the machines to now include installation work for the entire coating line, however, during Q1, sales were recognised mainly from the early-stage production. HT continued to work through its C&LM order backlog, which fell by -33.9% YoY / -16.5% QoQ to ¥33,698mil at FY25 Q1 end.

C&LM sales are recognised based on the percentage of completion method. Delays in revenue recognition due to alterations in specifications, as customers changed where and when they received their coating machines, continued throughout the year, which led to higher costs. HT managed to pass through some of those cost increases, which also led to a significant improvement in Q1 segment OP. It was an issue for the segment that costs of raw materials, logistics, and subcontractors surged compared to when the order was booked.

In light of the current EV market conditions, HT has changed its view of the market's growth trajectory. Given the unclarity on US tariff policies and the impact that has on investment sentiment among HT's customers, the firm plans to promptly update its assumption when it becomes necessary.

Industrial Machinery Segment:

The IM segment makes up 9.5% of total revenues. The segment generated Q1 OP of ¥106mil (from an operating loss of -¥10mil in FY24 Q1 / -5.2% QoQ) on sales of ¥1,020mil (-19.0% YoY / +19.3% QoQ). The primary reason for YoY fall in revenues was sluggish sales in film making systems for electronic materials applications, such as MLCCs and polyimide film. Given customers are evaluating the potential effects of the US tariff policy, CAPEX plans remain limited, consequently, affecting HT's sales.

Segment OP increased +¥116mil YoY thanks to (1) an improved COGS ratio (+¥82mil YoY) and (2) a decline in SG&A (+¥34mil YoY). Despite the YoY decline in sales, HT remains committed to attracting further orders, viewing MLCCs as its target market for its deposition equipment and is looking to further expand its market share. However, HT has not yet seen any substantial change in the segment's order trend.

Hirano Tecseed (6245): Segment Financial Summary (Quarterly)

(¥mil)		FY23				FY24				FY25		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ (%)
Coating and Laminating Machinery	Sales	10,441	7,785	9,771	9,376	10,332	10,297	13,305	8,085	9,392	-9.1	16.2
	OP	650	267	1,674	575	584	780	1,090	87	1,112	90.4	1,168.0
	OPM (%)	6.2	3.4	17.1	6.1	5.7	7.6	8.2	1.1	11.9	+6.2ppt	+10.8ppt
Industrial Machinery	Sales	1,720	1,540	2,268	2,321	1,260	1,681	849	855	1,020	-19.0	19.3
	OP	287	217	346	406	-10	254	-62	112	106	N/A	-5.2
	OPM (%)	16.7	14.1	15.3	17.5	-0.8	15.1	-7.4	13.1	10.4	+11.2ppt	-2.7ppt
Others	Sales	422	435	324	538	506	310	429	442	307	-39.4	-30.6
	OP	20	27	231	-9	67	81	101	21	27	-59.5	26.6
	OPM (%)	4.7	6.3	71.5	-1.7	13.3	26.3	23.6	4.9	8.9	-4.4ppt	+4.0ppt
Total	Sales	12,584	9,761	12,363	12,236	12,099	12,289	14,584	9,382	10,719	-11.4	14.2
	OP	629	140	1,869	597	292	732	805	-149	821	181.1	N/A
	OPM (%)	5.0	1.4	15.1	4.9	2.4	6.0	5.5	-1.6	7.7	+5.3ppt	+9.2ppt

*Source: Nippon-IBR based on Hirano Tecseed's Earnings results materials / *Total OP = Total segment OP deducted by HQ costs*

Hirano Tecseed (6245): Segment Financial Summary (Cumulative)

(¥mil)		FY24					FY25	
		Q1	1H	Q3(cum)	FY	YoY (%)	Q1	YoY (%)
Coating and Laminating Machinery	Sales	10,332	20,629	33,935	42,020	12.4	9,392	-9.1
	Operating Profit	584	1,364	2,455	2,543	-19.7	1,112	90.4
	OPM (%)	5.7	6.6	7.2	6.1	-2.4ppt	11.9	+6.2ppt
Industrial Machinery	Sales	1,260	2,941	3,790	4,645	-40.8	1,020	-19.0
	Operating Profit	-10	244	181	293	-76.7	106	-1,101.5
	OPM (%)	-0.8	8.3	4.8	6.3	-9.7ppt	10.4	+11.2ppt
Others	Sales	506	817	1,246	1,688	-1.9	307	-39.4
	Operating Profit	67	149	250	271	0.8	27	-59.5
	OPM (%)	13.3	18.2	20.1	16.1	+0.4ppt	8.9	-4.4ppt
Total	Sales	12,099	24,388	38,972	48,355	3.0	10,719	-11.4
	Operating Profit[1]	292	1,024	1,830	1,681	-48.0	821	181.1
	OPM (%)	2.4	4.2	4.7	3.5	-3.4ppt	7.7	+5.3ppt

*Source: Nippon-IBR based on Hirano Tecseed's Earnings results materials / *Total OP = Total segment OP deducted by HQ costs*

Hirano Tecseed (6245): Sales, Production, Order and Order Backlog Breakdown

(¥mil)		FY23				FY24				FY25		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	YoY (%)	QoQ(%)
C&LM	Sales	10,441	7,785	9,771	9,376	10,332	10,297	13,305	8,085	9,392	-9.1	16.2
	Production	9,050	6,938	7,667	8,257	9,049	8,806	11,400	7,326	7,691	-15.0	5.0
	Order Received	849	2,731	9,070	11,572	5,555	10,570	4,721	5,749	2,754	-50.4	-52.1
	Order Backlog	59,319	54,265	53,564	55,760	50,983	51,256	42,671	40,335	33,698	-16.5	-16.5
IM	Sales	1,720	1,540	2,268	2,321	1,260	1,681	849	855	1,020	-19.0	19.3
	Production	1,364	1,247	1,814	1,804	1,182	1,332	832	670	860	-27.2	28.3
	Order Received	626	1,620	1,127	773	1,299	420	1,721	1,686	309	-76.2	-81.6
	Order Backlog	8,657	8,737	7,597	6,049	6,088	4,828	5,700	6,531	5,820	-10.9	-10.9
Others	Sales	422	435	324	538	506	310	429	442	307	-39.4	-30.6
	Production	354	360	67	505	391	193	280	367	224	-42.5	-38.9
	Order Received	337	531	342	265	355	365	295	366	279	-21.5	-23.7
	Order Backlog	1,157	1,253	1,272	998	847	902	768	692	664	-4.0	-4.0
Total	Sales	12,584	9,761	12,363	12,236	12,099	12,289	14,584	9,382	10,719	-11.4	14.2
	Production	10,769	8,547	9,549	10,568	10,622	10,331	12,513	8,364	8,776	-17.4	4.9
	Order Received	1,812	4,883	10,540	12,611	7,210	11,356	6,738	7,801	3,343	-53.6	-57.1
	Order Backlog	69,134	64,256	62,433	62,808	57,919	56,987	49,141	47,559	40,183	-15.5	-15.5

Source: Nippon-IBR based on Hirano Tecseed's Earnings results materials

FY25 OUTLOOK

Given the successful passing through of cost increases to customers in the C&LM segment, the FY25 1H guidance was revised from an OP of ¥750mil (-26.8% YoY) on sales of ¥16,750mil (-31.3% YoY) to an OP of ¥1,000mil (-2.4 YoY) on unchanged sales. Full-year guidance remained unchanged at FY25 OP of ¥1,500mil (-10.8% YoY) on sales of ¥33,500mil (-30.7% YoY). HT anticipates FY25 revenues and OP will decline in the C&LM segment due to ongoing uncertainty surrounding US tariffs and shifts in the global EV markets. Momentum in EV manufacturing has slowed in favour of hybrid vehicle production. The significant differences in battery sizes between the two impacts production volumes as well as the kind of machinery required to make the respective batteries. The company has factored in revenues from installation works into its FY25 forecasts, however if sales of coating and laminating machinery used in the LiB manufacturing process decline, there will be a commensurate decline in installation works.

HT is keenly aware of issues concerning profitability which arose in FY24 and as such, while the company anticipates OP to drop in absolute terms, it is aiming to improve OPM from 3.5% to 4.5%.

Given the uncertainty surrounding global EV markets, which may last longer than initially anticipated, management expects earnings in the C&LM segment will remain weak due to low customers sentiment towards CAPEX. Moreover, although production levels have recovered, shipment delays due to changes in machine specifications will likely continue.

HT has taken a conservative view with its FY25 forecasts and will continue to monitor closely any developments regarding US trade policies and developments withing the EV market. Under the medium-term plan ending FY27, Energy-related sales are guided to decline (4-year CAGR -5.9%), mainly due to weak sales of coating equipment for secondary LiB electrodes.

Hirano Tecseed (6245 JP): Earnings Summary and Guidance

(¥mil)	FY23		FY24		FY25			
	1H	FY	1H	FY	NEW 1H CE	YoY (%)	FY CE	YoY (%)
Sales	22,346	46,946	24,388	48,355	16,750	-31.3	33,500	-30.7
GP	3,030	7,511	3,433	6,522	N/A	N/A	N/A	N/A
GPM (%)	13.6	16.0	14.1	13.5	N/A	N/A	N/A	N/A
SG&A	2,260	4,275	2,409	4,840	N/A	N/A	N/A	N/A
SG&A/Sales (%)	10.1	9.1	9.9	10.0	N/A	N/A	N/A	N/A
OP	769	3,236	1,024	1,681	1,000	-2.4	1,500	-10.8
OPM (%)	3.4	6.9	4.20	3.5	6.0	+1.8ppt	4.5	+1.0ppt
RP	814	3,394	1,201	1,894	1,050	-12.6	1,600	-15.6
RPM (%)	3.6	7.2	4.9	3.9	6.3	+1.3ppt	4.8	+0.9ppt
NP*	564	2,438	867	905	720	-17.0	1,100	21.4
EPS (¥)	37.42	161.69	57.37	59.91	47.62	-17.0	72.75	21.4

Source: Nippon-IBR based on Hirano Tecseed's Earnings results materials

** NP attributed to the parent's shareholders*

UPDATE ON LONG-TERM VISION 2030 AND ONGOING MEDIUM-TERM PLAN

Vision and Target – Recap Summary

In May 2025, HT announced it considers amending its both MTP and long-term vision targets due to operating environment changes and recent performance, details of which are likely to be released in November 2025. However, management has stated its commitment to maintain its dividend policy previously announced in tandem with the MTP.

HT initially announced its Long-Term Vision 2030 plan in May 2023, with the aim to become a global leader in coating machines and to enhance corporate value by establishing a stable revenue base. To achieve this, the firm will focus on:

1. Capturing the top market share in coating equipment for energy-related and electronic materials.
2. Expanding its coverage globally from manufacturing to maintenance through enhancing its overseas network.
3. Contributing to industrial development and the global environment through its coating technology.

HT will continue to focus on expanding growth in:

- Energy-related applications, including LiB electrode coating equipment and also extending to next generation batteries, such as solid-state batteries and fuel cells, and Perovskite solar batteries.
- Electronic materials applications, including coating equipment for capacitors loaded in EVs, and for electronic materials used in 5G high-frequency wave.

By expanding its existing businesses, as well as developing cutting-edge technologies, HT was initially targeting an OPM of 12.0% in FY30 vs 7.3% in FY22, on sales of ¥60,000mil (8-yr CAGR +4.4%), and consistently achieving ROE of 10.0% (vs 6.4% in FY22).

Capital Allocation Policy to optimise shareholder equity.

Although uncertainty surrounding the EV market continues, which led to delays in customers' CAPEX and subsequent slower cash inflow to the firm, HT has maintained its capital allocation policy and commits to shareholders return of either the higher of DOE of 3.5% or a dividend pay-out of 60% during the medium-term plan [FY24~FY27]. Capital will be allocated to capture growth as well as to improve shareholder equity, the ROE and PBR.

HT plans to allocate capital into the following five areas:

1. **Growth investment ¥3,000mil+**
   Approx. ¥2,000mil will be dedicated to global production capacity expansion, and the remaining ¥1,000mil will be on digital twin / smart factory technology to improve production efficiency. HT may invest additional capital to expand its service and maintenance business in the US and other investment to enhance enterprise value.

2. **Strategic Alliance ¥3,000mil+ or allocated to shareholders return if not spent.**
   HT plans to allocate funds to build strategic alliances to solidify its procurement capability of core components. If strategic alliances are not realised during the medium-term plan, the excess funds will be allocated to either growth investments, or to shareholder return including share buybacks.

3. **Dividend Payments**
   As for shareholder returns, management commits to paying the higher of either a dividend on equity [DOE] of 3.5% or a dividend pay-out of 60%. Dividends will be regularly reviewed to optimise shareholder equity which will subsequently improve PBR and ROE.

4. **Maintenance CAPEX ¥2,000mil**
   HT plans to allocate ¥2,000mil on updating existing factories.

5. **Working Capital**
   This will be equivalent to three-month sales.

Medium-term Target and Revenue Breakdown by Customers' Industries

¥mil / March year-end	FY23	FY27	4-year CAGR
Energy-related (incl. secondary LiB electrode coating equipment)	35,100	27,500	-5.9
Electronic materials	6,600	9,000	8.1
Optical Film etc.	3,600	9,000	25.7
After Service & Maintenance	1,600	3,500	21.6
Others	0	2,000	N/A
Total Sales	46,946	51,000	2.1
OP	3,236	4,100	6.1
OPM (%)	6.9	8.0	N/A
ROE (%)	6.5	7.5	N/A

Source: Hirano Tecseed Medium-term FY24-27 presentation material

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