Nippon Yakin Kogyo | 5480 (TSE Prime)

Company Report
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Strategy Advisors Co., Ltd.
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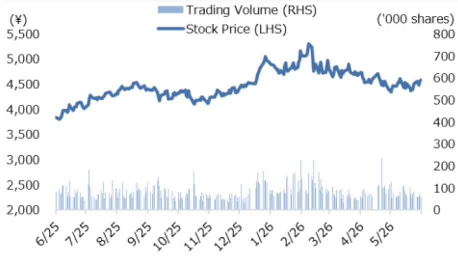
Stability in Stainless Steels and Aggressive Expansion in High Performance Alloys. Driving the Transformation of the Business Portfolio Through Technology & Innovation

Nippon Yakin Kogyo is a materials manufacturer specializing in stainless steel and high performance alloys. Founded in 1925, the company succeeded in domestic production of 18-8 stainless steel in 1935 and has supported Japan's stainless-steel industry ever since. Currently, it is Japan's only integrated stainless steel manufacturer, handling everything from the production of ferronickel as a raw material to the melting, rolling, processing and sales of stainless steel. A key characteristic of the company is that it is shifting toward high performance alloys while continuing to manufacture and sell stainless steels.

Against the backdrop of deteriorating supply-demand conditions in the domestic stainless-steel industry since the 1990s, the competitive landscape has changed significantly, driven by consolidation, plant shutdowns and a clearer division of roles. In addition to a reduction in the number of players due to industry consolidation, the company's performance has improved thanks to financial recovery following its 2002 restructuring plan and its shift toward high performance alloys. Since the industry reorganization following the launch of Nippon Steel Stainless Steel Corp. in 2019, the company has achieved high profit levels.

Strategy Advisors define the company's corporate DNA as "a corporate culture that prioritizes R&D and technology and encourages taking on challenges" and its inimitability as "a rare stainless-steel manufacturer that produces and sells both high-volume stainless steels and high-value-added, high performance alloys on a single production line". The close collaboration between sales, R&D, manufacturing and quality assurance is the source of its inimitability.

Stock Price and Trading Volume (Past 1 Year)



Source: Strategy Advisors

Key Indicators

Stock Price (6/19/26)	4,585
52-Week High (2/27/26)	5,310
52-Week Low (6/23/25)	3,805
All-Time High (4/18/89)	31,800
All-Time Low (11/14/02)	260
Shares on Issue (mn)	15.5
Market Capitalization (¥bn)	71.1
EV (¥bn)	140.5
Equity Ratio (3/26 Actual, %)	46.1
ROE (3/26 Actual, %)	7.3
PER (3/27 CoE, x)	7.9
PBR (3/26 Actual, x)	0.6
Yield (3/27 CoE, %)	4.8

Note: All-time highs and lows are based on comparable data starting in January 1977
Source: Strategy Advisors

In the company's "Medium-Term Management Plan 2026–2028", announced in May 2026, they are implementing strategies to increase the proportion of high performance alloys while maintaining stable earnings from stainless steels, aiming for an EBITDA of ¥30 billion, an ROE of 10%, and a 60% sales ratio of high performance alloys in FY3/29. In addition to monetizing the large-scale investments made under the previous mid-term plan, the pillars of the growth strategy will be additional investments under the new mid-term plan and the strengthening of solution and marketing functions.

The company's equity story is that by expanding profits and cash flow through the shift toward high performance alloys, there will be room for its valuation to rise based on growth expectations. U.S. high performance alloys manufacturers such as ATI and Carpenter Technology are trading at high valuations of 12x PBR. If progress on the Medium-Term Management Plan increases confidence in the shift toward high performance alloys, it is conceivable that the company's stock could be reevaluated.

Japanese GAAP – Consolidated

FY	Sales (¥mn)	YoY (%)	Operating Profit (¥mn)	YoY (%)	Ordinary Profit (¥mn)	YoY (%)	Net Profit (¥mn)	YoY (%)	EPS (¥)	DPS (¥)
3/23	199,324	33.8	29,256	109.5	27,738	116.6	19,703	132.6	1,316.79	200
3/24	180,341	-9.5	20,010	-31.6	19,128	-31.0	13,565	-31.2	933.64	200
3/25	172,097	-4.6	16,967	-15.2	16,200	-15.3	11,579	-14.6	819.46	220
3/26	150,866	-12.3	10,973	-35.3	9,657	-40.4	7,215	-37.7	519.86	220
3/27 CoE	169,000	12.0	13,000	18.5	12,000	24.3	8,000	10.9	577.46	220

Note: Net profit refers to profit attributable to owners of the parent.

Source: Company Data. Compiled by Strategy Advisors.

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Executive Summary

The Only Manufacturer in Japan Engaged in Integrated Production from Raw Materials to Finished Products

Nippon Yakin Kogyo is a materials manufacturer specializing in stainless-steel and high performance alloys. The company was established in 1925 as Chuo Rika Kogyo Co., Ltd., which manufactured and sold kitchenware and processed goods. In 1935, it succeeded in domestic production of 18-8 stainless steel and has supported Japan’s stainless-steel industry ever since. Today, it is Japan’s only integrated stainless steel manufacturer, handling everything from the production of the raw material ferronickel to the melting, rolling, processing and sale of stainless steel. A key characteristic of the company is its ongoing shift toward high performance alloys while continuing to manufacture and sell stainless steels.

The Domestic Stainless-Steel Market Has Shifted to a De Facto Duopoly, Leading to a Significant Improvement in Profitability

Against the backdrop of deteriorating supply-demand conditions since the 1990s, the domestic stainless-steel industry has seen consolidation, plant shutdowns and a clearer division of roles, leading to significant changes in the competitive landscape. In addition to the reduction in the number of domestic players due to industry consolidation, the company’s financial performance has improved thanks to financial restructuring following its 2002 turnaround plan, the strengthening of sales of high performance alloys since the 2000s and the expansion of overseas sales channels beginning around 2004. In particular, since the industry effectively consolidated into 2 companies with the launch of Nippon Steel Stainless Steel Corp. in 2019, the company has achieved higher profit levels than in the past.

Corporate DNA and Inimitability

We believe the company’s corporate DNA lies in “a corporate culture that prioritizes R&D and technology and encourages taking on challenges”. We consider the company’s inimitability to stem from the fact that it is “a rare stainless-steel manufacturer that produces and sells both high-volume stainless steels and high-value-added, high performance alloys on a single production line”. The source of this inimitability lies in the company’s comprehensive capabilities: producing both stainless steels and high performance alloys on the same production line, while sales, R&D, manufacturing and quality assurance work in close coordination to serve customers.

Medium-Term Management Plan 2026–2028

The “Medium-Term Management Plan 2026–2028,” announced in May 2026, outlined a strategy to increase the proportion of high performance alloys while maintaining stable earnings from stainless steels, with targets of ¥30 billion in EBITDA, 10% ROE and a 60% sales ratio for high performance alloys by FY3/29. In addition to monetizing the large-scale investments made during the previous mid-term plan period, the pillars of the growth strategy will be additional investments under the new plan - such as the ESR (slab-type remelting facility) and plate finishing - as well as the strengthening of solution and marketing functions.

Current President Shigemi Urata has extensive experience in systems, planning, overseas sales and expanding sales of high performance alloys. He was involved in formulating the 2002 restructuring plan as a section chief in the Planning Office at the time. He is not only one of the "planners" behind the shift toward high performance alloys, but also someone who subsequently returned to the sales department and "actually sold high performance alloys on the front lines". We look forward to his experience and leadership in driving the shift toward high performance alloys even further.

Equity Story

The company's equity story is that by expanding profits and cash flow through a shift toward high performance alloys, it will create room for valuation growth driven by growth expectations. U.S. manufacturers of high performance alloys such as ATI and Carpenter Technology command very high valuations, with PBR of 12x. This significantly exceeds the average PBR of 5.8x for U.S. stocks and is at a level entirely different from the valuations of U.S. blast furnace and electric arc furnace steelmakers (approximately 1x to 4x). This indicates that within the U.S. steel sector, there are significant differences in valuation based on business model. If confidence in the company's strategy to shift toward high performance alloys increases as its Medium-Term Management Plan progresses, there is a possibility that the company could be reevaluated, moving away from the low valuations typical of the Japanese steel industry as a whole.

1. Company Overview

A Stainless-Steel Manufacturer Founded in 1925

Nippon Yakin Kogyo is a materials manufacturer with stainless steel and high-performance alloys at its core. Founded in 1925, the company succeeded in domestic production of 18-8 stainless steel in 1935 and has supported Japan's stainless-steel industry ever since. Today, it operates as Japan's only integrated stainless steel manufacturer, with its group handling everything from the production of the raw material ferronickel to the melting, rolling, processing, and sales of stainless steel. Leveraging the technical expertise cultivated over its long history and its ability to provide meticulous, customized solutions tailored to each customer's specific applications, the company offers a wide range of products - from stainless steels that support daily life to cutting-edge materials that drive industrial advancement.

Manufacturing Both Stainless Steels & High-Performance Alloys

The company's business is broadly divided into stainless steels and high-performance alloys. Stainless steels are used in everyday life and industrial activities, such as tableware, kitchen equipment, building materials, piping, home appliances, precision instruments and transportation equipment. High performance alloys, on the other hand, offer higher corrosion resistance, heat resistance and strength than general-purpose stainless steels. They are used in fields that require high performance or the ability to withstand harsher operating environments, such as chemical plants, seawater desalination facilities, flue gas desulfurization equipment, semiconductor and electronic materials-related applications, polycrystalline silicon manufacturing equipment and offshore structures.

A key characteristic of the company is that, while it manufactures and sells stainless steels as a traditional stainless-steel manufacturer, it also handles a wide range of high-value-added materials tailored to growth markets. In terms of sales destinations, stainless steels are primarily sold in the domestic market, while high performance alloys are mainly sold overseas markets. The company defines high performance alloys, in principle, as alloys containing 20% or more nickel.

Figure 1. Major Application Areas for Stainless Steels and High-Performance Alloys

Stainless Steels Excellent corrosion resistance, workability, and hygiene across a wide range of applications	High Performance Alloys Used in applications requiring high corrosion resistance, heat resistance, and strength
General applications such as tableware and kitchen equipment	Used in polycrystalline silicon manufacturing plants for solar power generation facilities
Construction materials, such as building materials and piping For the home appliance, precision equipment, and automotive industries	High-nickel corrosion-resistant materials for flue gas desulfurization equipment, seawater desalination plants, and oil and gas facilities
For manufacturing equipment in non-extreme environments, such as food processing plants	High-strength materials for jigs used in semiconductor manufacturing equipment
Applications in the medical and healthcare sectors, as well as office supplies	Heating element materials

Source: Strategy Advisors.

Characterized by an Integrated Production System Starting from Ferronickel

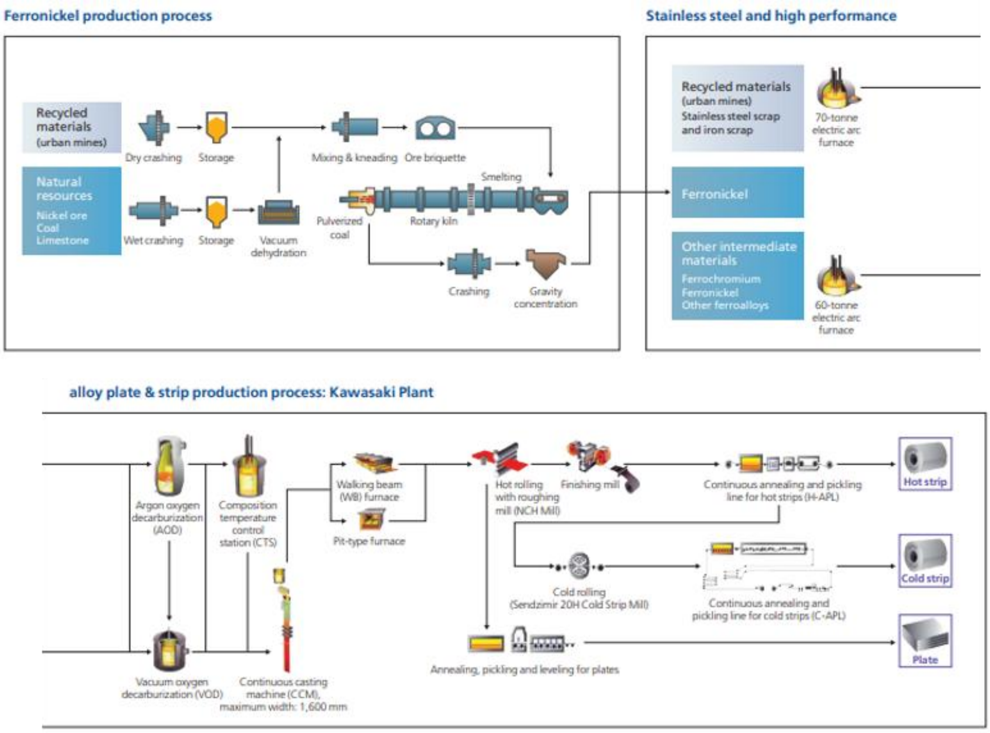
On the manufacturing side, the company operates a system in which ferronickel is smelted at the Oheyama Plant in Kyoto Prefecture, while stainless steel and high performance alloys are melted, rolled, finished and processed at the Kawasaki Plant in Kanagawa Prefecture. This integrated production system facilitates the consistent production of high-quality products and enables the company to easily develop steel grades tailored to customer requests and accommodate high-mix, low-volume production. Particularly in the field of high performance alloys, the company's competitive edge stems not only from supplying materials, but also from its ability to propose the optimal material composition tailored to the specific usage environment and required performance.

In contrast, Nippon Steel's Stainless Steel and Titanium Division - the largest in Japan - transports semi-finished products (slabs) manufactured at the Yamaguchi Steel Plant in Yamaguchi Prefecture to the Kyushu Steel Works' Yahata District in Fukuoka Prefecture to produce hot-rolled coils, which are then transported back to the Yamaguchi Steel Plant for cold rolling and finishing. Additionally, Nippon Steel procures ferronickel by purchasing it from domestic manufacturers such as Taiheiyo Metal and through imports.

Expanding Sales of High-Performance Alloys is the Key to Future Growth

The company currently positions the expansion of sales of high performance alloys as a pillar of its growth. High performance alloys have many points of contact with sectors where demand is expected to grow in the future - such as environmental initiatives, energy transition and semiconductor-related applications - and represent a critical area for enhancing the quality of the company's business.

Figure 2. Integrated Production System at the Oheyama & Kawasaki Plants



Source: Company Materials.

2. History

1) Established in 1925; Established an Integrated Production System Ranging from Nickel Ore to Stainless Steel

Initially Manufactured & Sold Fire Extinguishers, Followed by Explosives

Nippon Yakin Kogyo was established in 1925 as Chuo Rika Kogyo Co., Ltd., a company that manufactured and sold fire extinguishers and pyrotechnic products. Learning from the 1923 Great Kanto Earthquake - which highlighted the importance of early fire suppression - the company developed and patented a gas-generating agent as a substitute for gunpowder and used that technology to market an innovative pistol-type fire extinguisher nationwide. With the support of the Army and Navy, as well as the Imperial University of Tokyo, Dr Joji Sakurai and Dr Umetaro Suzuki of the RIKEN Foundation reportedly joined the research effort.

The Japanese military took notice of the company's advanced technology in producing explosives-like substances and Chuo Rika Kogyo was asked to cooperate, leading it to begin selling explosives. In 1928, the company changed its name to Nippon Kako Co., Ltd., and revised its business objectives to include the sale of explosives and related products. The fire extinguisher division was spun off as Chuo Rika Kogyo, which continues to operate today as a company engaged in firefighting and disaster prevention.

In the 1930S, the Company Established Domestic Production of Ferronickel & Built an Integrated Production System for Stainless Steel

In 1933, to raise funds for capital investment aimed at business expansion, the company joined the Mori Group - a newly emerging zaibatsu - and appointed Mr. Nobuteru Mori as president. He was an industrialist who pioneered the field of electrochemical engineering, often referred to as the "integration of electricity and chemistry" and served as the model for the protagonist in Saburo Shiroyama's novel *Men's Good Days*.

In 1934, construction began on the Kawasaki Works (Now the Kawasaki Plant). Furthermore, President Mori, aiming to achieve domestic production of nickel, discovered a nickel deposit in Oheyama, Kyoto Prefecture and in the same year established Oheyama Nickel Mining Industry Co., Ltd. to begin domestic production of ferronickel.

At the time, the metallurgy industry - the extraction, refining and processing of useful metals from ore and other raw materials - was encouraged by the Japanese government, which was tightening its control over industry. As growth in this sector was anticipated, the company embarked on the development of alloys and produced its first batch of stainless steel in 1935. The company's first product made of 18-8 stainless-steel - containing 18% chromium and 8% nickel - was an "Okame mask". They created a sand mold based on an "Okame mask" purchased from a street vendor near Kawasaki Daishi Temple, poured the first molten batch of 18-8 stainless steel into it, and produced a stainless steel "Okame mask". This is considered the company's first product.

Listed on the Stock Exchange in 1942

In 1936, the company began industrial production of special steels, light alloys and stainless steel. In 1942, it was listed on the Tokyo and Osaka Stock Exchanges, changed its name to Nippon Yakin Kogyo and transferred its explosives and pyrotechnics division to Showa Kayaku Co., Ltd.

That same year, the Iwataki Smelter (Now the Oheyama Plant) was completed. Using nickel ore from Oheyama as raw material and employing the Krupp-Renn process - a rotary kiln - the company succeeded in producing ferronickel (a granular iron-nickel alloy).

2) Establishing a Mass Production System for Stainless Steel After the War

In 1950, the Company Became the First in Japan to Successfully Implement the Oxygen Steelmaking Process

In 1950, the company became the first in Japan to successfully implement the oxygen steelmaking process, which marked the beginning of mass production of stainless steel. This refining method involves blowing oxygen gas into molten steel to rapidly raise its temperature through the heat of oxidation, thereby promoting decarburization (removing carbon from stainless steel to adjust its composition) in a short time while suppressing the oxidation of metallic components. This significantly expanded the range of usable raw materials and mass production led to a substantial reduction in manufacturing costs, making it possible to meet the growing demand for stainless steel.

Introduction of Large Electric Arc Furnaces in the 1960s

In 1959, the company ceased production of alloy steel and carbon steel, shifting its focus to stainless steel sheets. In 1962, it further developed the oxygen steelmaking process and began operating a 30-metric-ton electric arc furnace - the first large-scale electric arc furnace among stainless steel specialty manufacturers at the time. In 1968, to meet growing demand, the company expanded its production capacity and began operating a 60-metric-ton electric arc furnace.

Introduction of a Planetary Mill in 1966

In 1966, the company introduced a planetary mill for special steel - one of only 3 such machines in the world at the time (a rolling mill designed to significantly reduce the thickness of steel sheets in a single pass through the equipment thanks to its innovative rolling structure) - and established an integrated mass production system for stainless steel. As a result, the company's share of Japan's stainless-steel exports temporarily expanded to 24%.

Introduction of an Argon-Oxygen Decarburization Furnace

In 1977, the company began operating an argon-oxygen decarburization (AOD) furnace. Because the AOD can refine raw materials with high carbon content, it allows for the use of inexpensive, low-quality raw materials. The process is also simple and helped reduce both electricity consumption and operating time, thereby contributing significantly to the company's recovery from the financial difficulties it faced following the oil crisis.

Start of Operations for the World's First Combined CAP

In 1989, the company began operations of the Combined CAP, the world's first production line to integrate annealing and pickling functions with the subsequent tempering and straightening processes. This strengthened production capacity in the downstream processes following hot rolling, significantly shortened lead times between processes and greatly improved productivity.

3) Recovery from a Management Crisis

Strengthening High Performance Alloys Through New Equipment

In the 1990s, as overseas stainless-steel manufacturers intensified their offensive, the company's conventional planetary mills were nearing their limits in meeting diversifying customer demands. Judging that improving quality was essential to continuing operations as a specialized stainless-steel manufacturer, the company introduced a new hot rolling mill (NCH) in 1996 capable of producing both coils and plates. This enabled the diversification of its product lineup from stainless steel to high performance alloys, which later provided the company's high performance alloys business with a unique competitive advantage: small-lot, high-variety production.

The Company's Financial Situation Deteriorated & in 2003, it Implemented a Fundamental Restructuring Plan with the Support of Banks

Partly due to the prolonged recession following the bursting of the economic bubble, the company's earnings deteriorated to a critical level after investing funds in the NCH. In FY3/99, the company posted a net loss of ¥13.6 billion and its net D/E ratio worsened from 4.4x at the end of FY3/98 to 8.4x at the end of FY3/99. Consequently, in 1998, the company formulated a Medium-Term Management Plan and embarked on structural reforms.

However, as the competitive environment remained severe and the company's very survival was in jeopardy, it announced a medium-term management restructuring plan in September 2002. Under this plan, in March 2003, the company received support from banks in the form of debt forgiveness and debt-to-equity swaps and obtained certification under the Act on Special Measures for Revitalizing Industrial Vitality. At that time, the company also established management policies to strengthen sales of high-performance alloys - a strategy pursued since the early 2000s - and to expand overseas sales channels, a strategy implemented around 2004.

The current president, Mr. Urata, was serving as a Manager in the Planning Office at the time and was involved in formulating the restructuring plan.

Achieving the Restructuring Plan Through Financial Restructuring, Expanded Sales of High-Performance Alloys, and Industry Consolidation

In 2003, the company opened an office in Shanghai and began developing sales channels in overseas markets. At the time, the overseas market for high performance alloys was almost entirely dominated by European and American manufacturers and the company was a latecomer to the market. Consequently, the company independently visited local firms to develop the market and identify demand for high performance alloys in various regions. The current president, Mr. Urata, was a member of the Export Department at the time and was directly responsible for sales of high performance alloys to overseas markets.

Subsequently, in addition to implementing financial restructuring and a business strategy focused on shifting toward high performance alloys under the restructuring plan, the earnings environment improved due to consolidation within the stainless-steel industry. As a result, the company achieved its Medium-Term Management Plan in 2005 - one year ahead of schedule. While the target ordinary profit for FY3/06 was ¥4.9 billion, the company achieved an ordinary profit of ¥15.1 billion in FY3/05, thereby achieving the goal ahead of schedule and exceeding the target.

4) Shift to High Performance Alloys & Overseas Sales Expansion

Becoming a Globally Competitive Manufacturer of High-Performance Alloys

In 2008, the refining equipment was upgraded to a new AOD system. Previously, high performance alloys - most of which had been produced using VOD (vacuum oxygen decarburization) refining equipment introduced in 1971 - could now be manufactured using AOD (argon oxygen decarburization) furnace. The development of the company's proprietary equipment operation technologies enabled shorter operating times, multi-strand casting, ultra-low sulfur content and low nitrogen content, thereby contributing to enhanced product competitiveness.

Establishing a Sales Expansion Framework for High Performance Alloys Through Overseas Subsidiaries & Joint Ventures

Since 2011, the company has successively established local subsidiaries in the United States, China and Singapore to expand sales of high performance alloys overseas. Additionally, in 2018, it established Nisco Nippon Yakin Kogyo Nanjing Co., Ltd., a joint venture with Nanjing Iron & Steel (a 60% owned consolidated subsidiary). This enabled the company to utilize the wide-width rolling mills owned by Nanjing Iron & Steel, a major Chinese steel manufacture, and commercialize ultra-wide-width plates of various high-performance alloys. Furthermore, in response to growing demand - particularly for large-scale plants within China - the company strengthened sales of high performance alloys by meeting the needs for shorter lead times and wider widths.

Introduction of State-of-the-Art Equipment at the Kawasaki Plant Starting in 2022

In 2022, the company began operating a new electric arc furnace (referred to internally as the "E Furnace") designed to improve energy efficiency and the working environment. This state-of-the-art technology integrates a furnace rotation system - which eliminates uneven melting of scrap and enables highly efficient operation - with an electromagnetic stirring system, which achieves faster melting and uniform temperature and composition through uniform stirring within the furnace.

In 2023, the company installed a new slitter line for cold strip at the Kawasaki Plant Sheet Plant. This high-precision slitter addresses diversifying and increasingly sophisticated market needs, while automation initiatives aimed to reduce the operational workload and increase production capacity. In 2024, the company introduced a new cold rolling mill (referred to by the company as the "4HZR") at the Kawasaki Plant Sheet Plant.

Establishing a Local Subsidiary in India to Capture New Demand for High Performance Alloys

In 2025, the company established a local subsidiary in India. This serves as a sales hub to capture local demand for high performance alloys in the energy and environmental sectors, where growth is anticipated in India and the Middle East. The move also aims to strengthen the global sales structure by consolidating functions previously handled by the Singapore subsidiary.

Figure 3. History of Nippon Yakin Kogyo

1925	Established as Chuo Rika Kogyo Co., Ltd.
1928	Company name changed to Nippon Kako Co., Ltd.
1934	Started construction of Kawasaki Works and established Oheyama Nickel Mining Industry Co., Ltd.
1935	Manufactured first stainless-steel product, began industrial production of special steel and stainless steel in 1936
1942	Listed on the Tokyo and Osaka Stock Exchanges, renamed Nippon Yakin Kogyo Co., Ltd.
1950	First in Japan to successfully refine stainless steel using the oxygen steel-making process as mass production of stainless steel began
1956	Established the Central Research Laboratory (now the Technical Research Laboratory) at the Kawasaki Plant
1960	Started operation of Cold Rolling Mill (20-High Zengimi Mill) in Kawasaki Works
1962	Developed oxygen steel-making technology and began operating a 30-tonne electric arc furnace in Kawasaki Works, the first of its time to be built by a specialized stainless-steel manufacturer
1965	Started operation of Continuous Casting Machine (CCM) in Kawasaki Works
1966	Started operation of hot rolling mill (planetary mill), at the time, only three such machines existed worldwide for special steel
1968	Increased our production capacity and began operating a 60-tonne electric arc furnace to meet further demand
1970	Started operation of Continuous Casting Machine (CCM No. 2, 5-foot width) in Kawasaki Works
1971	Started operation of 60t VOD (Vacuum Oxygen Decarburization) in Kawasaki Works. This contributed to diversification of materials and reduction of electricity usage and operation hours
1977	Started operation of an argon oxygen decarburization (AOD) furnace in Kawasaki Works. This contributed to diversification of materials and reduction of electricity usage and operation hours
1989	Started operation of the world's first combined continuous annealing and pickling line integrating the annealing and pickling function and the skin-pass and leveling function, greatly improving productivity
1996	Started operation of new hot rolling mill that enabled to produce both coils and plates
2002	Announced a mid-term business restructuring plan; in March 2003, received debt forgiveness and support for debt-to-equity swaps from banks to restructure the business
2003	Opening of a representative office in Shanghai
2011	Established Nippon Yakin America Inc., a U.S. subsidiary
2018	Established Nisco Nippon Yakin Kogyo Nanjing Co., Ltd. as a joint venture with Nanjing Iron & Steel Co., Ltd. in China
2022	Started operation of new electric arc furnace
2024	Started operation of new slitter lines at cold rolling shop
2025	Establishment of Nippon Yakin India Private Limited, a local subsidiary in India

Source: Company Data. Compiled by Strategy Advisors.

3. Industry Consolidation and the 2002 Business Restructuring Plan Are the Sources of Today's High Profitability

1) History of Consolidation in the Domestic Stainless-Steel Industry Since the 1990s

Oversupply Caused by Slowing Domestic Demand in the 1990s Spurred Consolidation

As shown in Figure 4, consolidation in the domestic stainless-steel industry has proceeded over a long period against the backdrop of slowing demand and oversupply since the 1990s. After the bursting of the economic bubble, growth in major demand sectors such as construction, home appliances and automobiles slowed, and companies were no longer able to fully utilize the production capacity they had built up during the period of high economic growth.

At That Time, There Were Many Players Competing in the Market

Before the consolidation, multiple players - including blast furnace manufacturers such as Nippon Steel, Sumitomo Metal, Kawasaki Steel, NKK and Nisshin Steel, as well as specialized stainless-steel manufacturers like Nippon Stainless, Nippon Metal Industry, and Nippon Yakin Kogyo - each possessed their own production facilities and sales networks, leading to fierce competition, particularly in the generic products market. Furthermore, the rise of Asian competitors and the influx of imported materials further worsened the supply-demand balance.

Restructuring Began in the Late 1990s

Consequently, from the late 1990s through the early 2000s, rather than maintaining full product lines independently, companies began shifting toward a profit-focused structure through consolidation achieved via partnerships, mergers and plant shutdowns.

Full-Scale Consolidation by Major Blast Furnace Operators Progressed from Around 2003

In 2002, Kawasaki Steel and NKK merged under a holding company (JFE Steel was established in April 2003), and in October 2003, the stainless-steel businesses of Nippon Steel and Sumitomo Metal Industries merged to form Nippon Steel & Sumikin Stainless Steel Corp.. While these moves were part of the restructuring of major blast furnace operators, they also marked the beginning of a full-scale industry restructuring in the stainless-steel sector. In 2004, Nisshin Steel and Nippon Metal Industry announced a production partnership in the hot-rolling process, while JFE Steel decided to withdraw from nickel-based stainless steel sheet production and specialize in chromium-based stainless steel (primarily used in automotive exhaust system components). Domestic companies began to define more clearly than ever before "which steel grades to produce, at which facilities and to whom to sell them".

Restructuring Continued in Stages Throughout the 2010s

The restructuring was not a one-time event but continued in stages throughout the 2010s. Nippon Steel & Sumikin Stainless Steel Corp., following subsequent restructuring of its parent company, evolved into Nippon Steel Stainless Steel Corp. and strengthened its presence as one of Japan's largest stainless-steel manufacturers. Meanwhile, Nisshin Steel was integrated into the Nippon Steel Group.

Consolidation of Product Lines, Locations & Sales Progressed

As a result, the blast-furnace-based stainless steel business was reorganized within a larger framework, and as shown in Figure 4, the domestic supply structure became concentrated among a small number of players. During this process, efforts were made not only to consolidate capital, but also to define the division of labor by product type (such as hot-rolled, cold-rolled, and plates), clarify each plant's areas of expertise and unify sales channels.

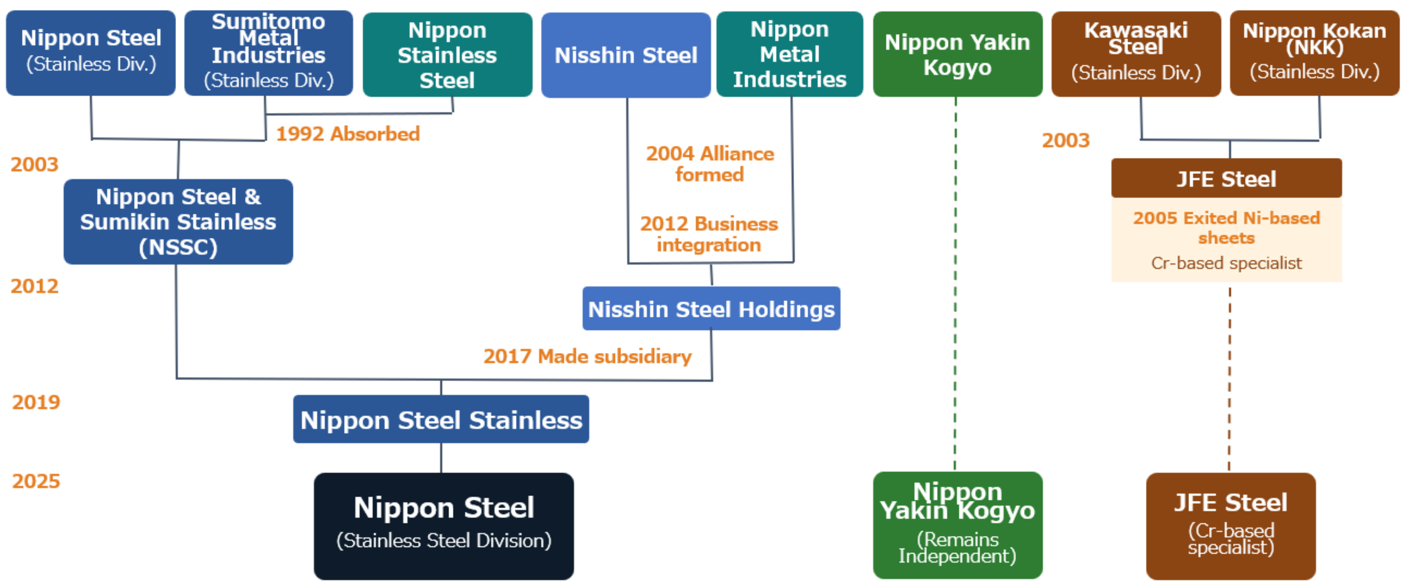
Nippon Yakin Kogyo Maintained its Independence, But Benefited from the Consolidation

Although the company, as a specialized manufacturer, maintained its independence and was not at the center of these consolidations, it was in a position to benefit from the process of restoring balance as the excessive competition across the industry as a whole was corrected by the consolidation of other companies.

This Restructuring Led to the High Profitability Discussed in the Next Section

The industry consolidation that began in the 1990s was largely completed with the launch of Nippon Steel Stainless Steel Corp. in 2019, significantly altering the competitive landscape of the domestic stainless-steel market. The improvement in domestic margins and the high profitability since 2022, discussed in the next section, are built precisely upon the market structure established through this long-standing restructuring.

Figure 4. History of Consolidation in the Domestic Stainless-Steel Industry



Note: Nippon Steel's Stainless-Steel Division was renamed the Stainless-Steel and Titanium Division in April 2026

Source: Strategy Advisors.

2) Trends in Supply-Demand Balance and Earnings

The Supply-Demand Balance Deteriorated in the 1990s & Recovered Temporarily After 2000

The top graph in Figure 5 shows the supply-demand balance for domestic cold-rolled stainless-steel sheets. In the 1990s, as capacity expansion projects planned during previous economic booms were completed, capacity utilization rates remained low because domestic demand growth slowed following the bursting of the economic bubble. In contrast, in the early 2000s, capacity utilization rates recovered significantly due to a combination of business consolidations and the suspension or consolidation of some facilities, coupled with expanding demand from China between 2004 and 2006. The middle and bottom graphs show that during this period, stainless steel margins (market prices for stainless steel minus the raw material costs of nickel, chromium, and scrap iron) rose, and the company's earnings also recovered. Examining the trend in stainless steel margins in the bottom graph reveals that margins tend to widen during periods of improving supply-demand balance and narrow when there is significant excess supply.

It should be noted that approximately 80% of the hot-rolled Cr-Ni stainless steel sheets and strips produced in Japan are classified statistically as "consumption" (which, in statistical terms, refers to input into the next production stage). Consequently, since most final sales of sheet and strip products are considered to be cold-rolled steel sheets, this analysis and discussion of the supply-demand balance and profitability is based on the supply, demand, prices and margins of cold-rolled steel sheets.

Supply-Demand Imbalance Worsens Again After the Lehman Shock

Following the 2008 financial crisis, the supply-demand balance deteriorated once again, leading to a decline in capacity utilization rates and a narrowing of stainless-steel margins, resulting in the company's continued losses.

Profits Have Stabilized Since the Mid-2010s

Throughout the 2010s, there were no significant fluctuations in the industry-wide stainless steel capacity utilization rate, but the company's earnings began to improve gradually around 2015 and profitability has since become established. The stainless-steel margins shown in the lower section have also shown slight improvement since 2015. During this period, it is believed that the company's profitability improved due to a recovery in margins for stainless steels and expanded overseas sales of high performance alloys, in addition to the easing of excessive competition in the industry following the progress of business consolidations.

Stainless Steel Margins Have Remained at High Levels Since 2022

Starting in 2019, domestic production volumes of cold-rolled stainless-steel sheets declined further, with levels consistently falling below 1.5 million metric tons. However, production capacity was also significantly reduced, partly due to the establishment of Nippon Steel Stainless Steel Corp. in 2019. As a result, despite the decline in production volume, the capacity utilization rate was maintained at a level slightly above 75% (an average of 76% for FY21–25).That said, this is not necessarily a high level compared to the past. Nevertheless, stainless steel margins have risen to unprecedented levels since 2022 and the company's profit levels have improved significantly.

The following factors are considered to be behind this trend. First is a shift in the product mix due to an increase in the proportion of high performance alloys. While corrosion resistant alloys and high-nickel alloys do not easily boost the calculated capacity utilization rate on a tonnage basis, they command higher unit prices and profitability, thereby contributing to improved profit margins. Second, there is a discrepancy between nominal capacity and actual supply limits. Due to constraints such as staffing, operating shifts, logistics, energy costs, and environmental compliance, facilities may not necessarily operate at their statistical capacity even if the equipment exists. Consequently, even if the apparent capacity utilization rate is in the 70% range, the actual supply-demand balance may be tighter than the calculated figures suggest. Third, the alloy surcharge system is likely to become established. This system mechanically reflects fluctuations in nickel prices and exchange rates in product prices, making it easier to maintain a certain spread even when raw material prices fluctuate.

Starting in 2019, There Were a Series of Plant Shutdowns

The following developments account for the rapid decline in cold-rolling capacity since 2019.

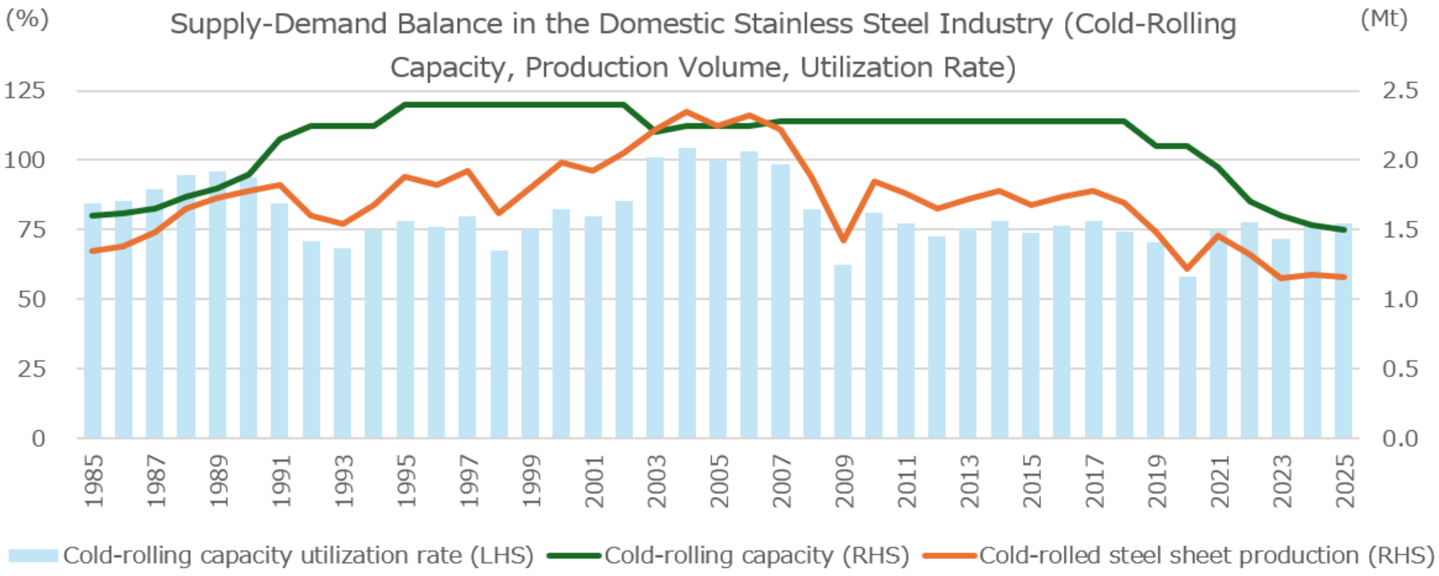
From 2019 to 2020, hot-rolling and bright annealing facilities were shut down at Nippon Steel Stainless Steel Corp.'s Kinuura Plant, resulting in a substantial reduction in cold-rolling capacity. In 2021, multiple plants were idled at the company's Yamaguchi and Kashima plants, resulting in an estimated reduction of over 100,000 metric tons in cold-rolling capacity. Furthermore, in 2022, the Kinuura plant itself was closed, leading to an estimated reduction of more than 200,000 metric tons in cold-rolling capacity. As a result, effective domestic cold-rolling capacity declined consecutively, and the estimated capacity utilization rate recovered to approximately 78% in 2022.

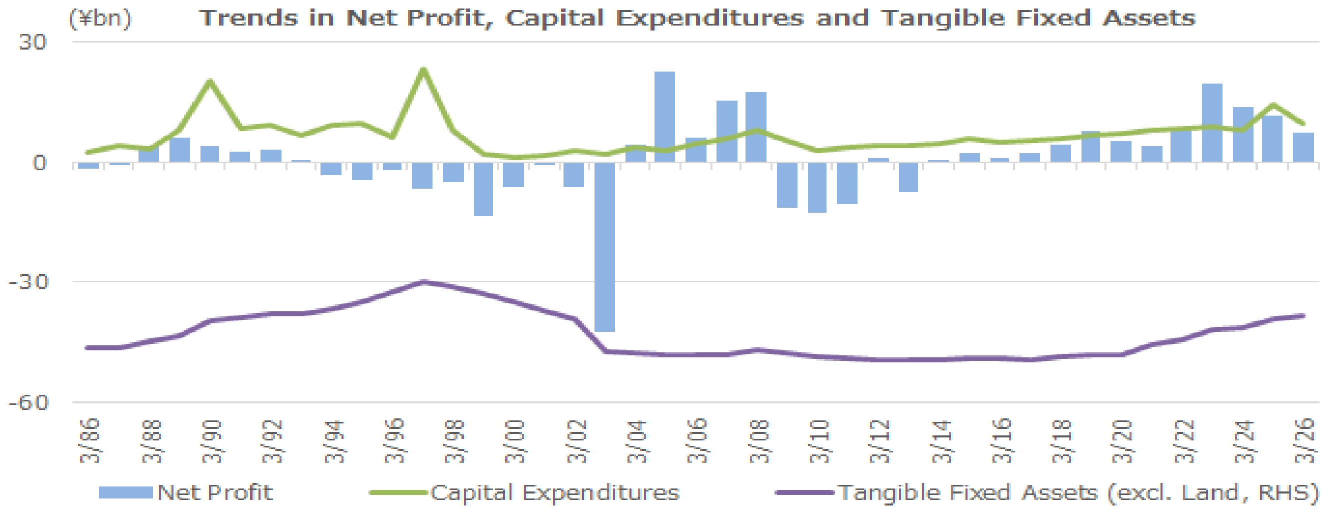
Industry Consolidation & a Shift Toward High Performance Alloys Have Created a Profitable Business Model

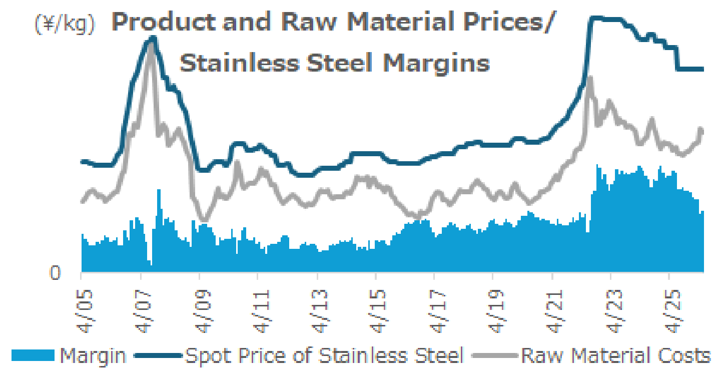
What this shows is that the company's high profitability in the 2020s is not solely attributable to a "volume-driven, full-capacity operation" strategy, as was the case around 2005. The company's current profit levels are supported not only by improved margins on stainless steels resulting from domestic industry consolidation but also by the company's own efforts to increase the proportion of high performance alloys and expand sales of high-value-added products for the energy, environmental and semiconductor sectors. Furthermore, it is important to note that the shift toward high performance alloys has also led to an improvement in the actual supply-demand balance for stainless steels.

The 1990s were an era in which a decline in capacity utilization directly led to a deterioration in profits, while the mid-2000s were an era in which a recovery in capacity utilization brought about a recovery in profits. In contrast, the 2020s can be characterized as an era in which, in addition to improvements in supply and demand resulting from capacity reductions due to industry consolidation, the shift toward high performance alloys has led to a transition to a "profit structure that generates profits even with seemingly low-capacity utilization".

Figure 5. Changes in the Supply-Demand Balance of the Domestic Stainless Steel Industry, Stainless Steel Margins, and Trends in Net Profit of Nippon Yakin Kogyo







Note:
The stainless-steel margin is calculated by subtracting the raw material price from 3-months prior from the product price.
Source: Estimated and Compiled by Strategy Advisors. Based on Various Sources.

4. President Shigemi Urata's "Resume"

Extensive Experience in Planning and International Operations, with a Focus on Sales

Shigemi Urata was born on July 7, 1960, in Fukuoka Prefecture. He graduated from the Department of Law and Economics, Faculty of Humanities, Chiba University in 1984 and joined Nippon Yakin Kogyo. He assumed the position of President and Representative Director in June 2024, becoming the leader steering the company through its 100th-anniversary milestone. A defining feature of his career is his broad range of experience - centered on sales - which extends to information systems, planning and overseas assignments. He reflects on his childhood, saying he "spent all his time playing outside", revealing a personality that values authenticity and a hands-on approach over flashiness.

His Early Days in the Systems Department After Joining the Company

He says his motivation for joining the company stemmed from a vague desire to work for a manufacturer. His first assignment after joining was at the computing center; although he initially had little knowledge of computers, he was involved in COBOL coding and the development of production management systems. Mr. Urata reflects on this period as "the time when I felt I worked the hardest" and it appears that his experience of understanding the mechanisms supporting manufacturing operations from the inside laid the foundation for his subsequent sales and management decisions.

Learning About Market Fluctuations and On-the-Ground Insights During His ASEAN Assignment

After that, he moved through the Sales Operations Department and the Export Sales Department before being stationed in Singapore for about 4-years starting in 1993. As the sole representative at a sales office covering the ASEAN market, he developed new sales channels in his 30s by dealing directly with local business owners who were his clients. This coincided with a difficult period for the company's performance and during a phase of severe price erosion, he even experienced market conditions so dire that headquarters told him, "In that case, it would be better to shut down the factory, so please suspend sales for a while". On the other hand, he also experienced a situation where supply and demand reversed within just 1 or 2 years, learning firsthand the harsh realities of the equipment manufacturing industry and the rapid pace of market changes.

Customer Service Skills Hone Through Expanding into the Chinese Market

After returning to Japan, he was the head of sales for the Hong Kong and China regions, where he capitalized on the growing demand for stainless steel for household goods (such as cookware), primarily in Guangdong Province, to develop new sales channels. While increasing export volumes from a position of limited transaction history, he also faced anti-dumping issues and had to handle customer complaints. He attributes the development of his sales style to his role in relaying customer requests and on-site issues to the factory - an approach that would later prove valuable in his sales of high performance alloys.

Formulated a Business Restructuring Plan During His Tenure as Section Chief

From 2000, he was assigned to the Planning Office (now the Corporate Planning Department), where he was involved in reviewing and reformulating the Medium-Term Management Plan during a period of sluggish performance. At that time, Nippon Yakin Kogyo was under pressure to restructure its operations due to the effects of excess capacity and a sluggish market following the bursting of the economic bubble. According to Mr. Urata, after spending nearly a year drafting a standard mid-term plan, he was told, “This won’t work,” and asked to rewrite it based on a fundamental financial review; he described the experience as effectively drafting the mid-term plan twice. The days he spent working on the restructuring plan within the small Planning Office were a period during which Mr. Urata acquired a company-wide perspective and crisis management skills.

The Shift to High Performance Alloys - Incorporated into the Restructuring Plan -& Putting this into Practice on the Front Lines

A particularly crucial aspect of the restructuring plan was the strategic shift from a business structure centered on general-purpose stainless steel to one focused on high performance alloys. After helping shape that direction in the planning office, Mr. Urata returned to the sales front lines, where he personally took charge of export sales for high performance alloys. Since he was selling new products to new customers - who, in some cases, were unfamiliar with how to use them - problems inevitably arose during the customers’ processing stages, leading to complaints. Each time this happened, the R&D, engineering, and sales teams would work together as one to visit the customer’s site and hold regular meetings at the Kawasaki Plant to drive improvements. The passion and dedication during this period - when the company built everything from application development to market expansion virtually from scratch -can be considered the foundation of Nippon Yakin Kogyo’s high performance alloys business today. Furthermore, these regular meetings reportedly continue to this day.

Building a Track Record in Overseas Sales to Gain Recognition from Management

He was promoted to General Manager of Overseas Sales Department in 2013, Deputy Executive General Manager of Corporate Marketing Division and General Manager of Overseas Sales Department in 2016, Executive Officer in 2017, Managing Executive Officer in 2019, Director and Managing Executive Officer, Executive General Manager of Corporate Marketing Division in 2022, and Director and Senior Managing Executive Officer as well as Executive General Manager of Corporate Marketing Division in 2023. In 2010, he was stationed in Bangkok, where he built the overseas sales business for high performance alloys from the ground up. At first, there were many visits where he would simply leave his business card and return, but he eventually identified the emerging demand in Asia and began to gain a foothold in markets previously dominated by European and American competitors.

Appointed President in 2024

In June 2024, he took over the reins from his predecessor, Hisashi Kubota, and assumed the position of President and Representative Director. At the time of the leadership transition, the company's performance was strong and its financial health had significantly improved. His priorities upon taking office were, he said, to increase market share in niche areas for stainless steels while mitigating the impact of imported materials, and to establish a production system capable of responding to fluctuations in sales of large-scale projects for high performance alloys. Now that major investments - such as a new electric arc furnace and a new cold rolling mill - have been implemented and operational know-how has been accumulated, he aims to translate stable equipment operation into profits.

I Want to Ignite a Fire in Our Employees' Hearts & Instill a Mindset to Seriously Compete with Global Rivals

Mr. Urata has stated that he wants to firmly instill within the company a mindset of seriously competing against and defeating global rival manufacturers. To achieve this, he believes it is necessary to further heighten enthusiasm and a sense of urgency while leveraging the company's gentle corporate culture; he considers igniting a fire in the hearts of employees - who are often perceived as very serious - to be his most important mission as a CEO.

Figure 6. Successive Presidents of Nippon Yakin Kogyo

	Name	Terms as Presidents	Reference Information
1	Jihei Maeda	1925–1925	
2	Kuniyoshi Ishikawa	1925–1927	
3	Yoshinosuke Inoue	1927–1933	
4	Nobuteru Mori	1933–1936	Founder of the Mori Group. Established Showa Denko. Member of the House of Representatives.
5	Toyotaro Murata	1936–1937	
6	Satoru Mori	1939–1946	Eldest son of Nobuteru Mori. President of Showa Denko; Member of the House of Representatives.
7	Kosaku Nakajima	1946–1949	
8	Satoru Mori	1949–1953	(Reappointed)
9	Kiichi Mimura	1953–1954	
10	Satoru Mori	1954–1976	(Reappointed) Served for 22 years
11	Yasuhisa Kano	1976–1979	
12	Yoshito Ishiguro	1979–1992	Formerly of the Industrial Bank of Japan
13	Noriyuki Ougo	1992–1997	Formerly of the Industrial Bank of Japan
14	Goro Higaki	1997–2001	Formerly of the Industrial Bank of Japan
15	Yoichi Saji	2001–2008	Joined the company in 1963
16	Kazuta Sugimori	2008–2012	Joined the company in 1971
17	Hajime Kimura	2012–2019	Formerly of Mizuho Corporate Bank
18	Takashi Kubota	2019–2024	Joined the company in 1978
19	Shigemi Urata	2024–	Joined the company in 1984

Source: Company Data. Compiled by Strategy Advisors.

5. Short-Term Performance Trends

Figure 7. FY3/26 Results & FY3/27 Forecast

(¥bn)	3/25	**3/26 (A)**	YoY	Achievement Rate (A)/(B)	3/26 CoE (B)	YoY	3/27 CoE	YoY
Net Sales	172.1	**150.9**	-12.3%	101.9%	148.0	-14.0%	169.0	12.0%
Operating Profit	17.0	**11.0**	-35.3%	99.8%	11.0	-35.2%	13.0	18.5%
Inventory Valuation Gains/Losses	-2.5	**0.3**	-	-	-0.2	-	1.9	512.8%
Operating Profit (excl. Inventory Valuation Gains/Losses)	19.5	**10.7**	-45.2%	95.5%	11.2	-42.4%	11.1	4.3%
Ordinary Profit	16.2	**9.7**	-40.4%	96.6%	10.0	-38.3%	12.0	24.3%
Profit Attributable to Owners of Parent	11.6	**7.2**	-37.7%	103.1%	7.0	-39.5%	8.0	10.9%

Source: Company Data. Compiled by Strategy Advisors.

1) FY3/26 Results ¥150.86 Billion

FY3/26 Results Showed a Decline in Profit

For FY3/26, consolidated results showed net sales of ¥150.866 billion (-12.3%), operating profit of ¥10.973 billion (-35.3% YoY) ordinary profit of ¥9.657 billion (-40.4% YoY) and profit attributable to owners of parent of ¥7.215 billion (-37.7% YoY). Sales volume for high performance alloys decreased by 9.9% YoY, while that for stainless steels fell by 5%, resulting in an overall decline of 6.8%. Stagnant demand for construction materials and the continued influx of imported materials were the primary factors behind this decline in volume. On the other hand, signs of recovery were evident in semiconductor-related demand, and the demand environment for high performance alloys began to improve toward the latter half of the fiscal year.

Both Volume & Margins Contributed to the Decline in Profit

Operating profit (excl. inventory valuation gains/losses) decreased from ¥19.5 billion in FY3/25 to ¥10.7 billion in FY3/26. As shown in Figure 8, the volume variance resulting from the decline in sales volume contributed to a ¥2.7 billion decrease in profit and price variances also weighed on profits. While sales price factors had a negative impact of ¥7 billion on profit, raw material costs decreased by ¥4.8 billion; therefore, based on a simple calculation, the narrowing of margins accounted for a ¥2.2 billion decrease in profit.

Figure 8. Analysis of Factors Affecting Operating Profit (excl. Inventory Valuation Gains/Losses) for FY3/26

Source: Company Materials.

2) Forecast for FY3/27

Profit Growth Forecast for FY3/27

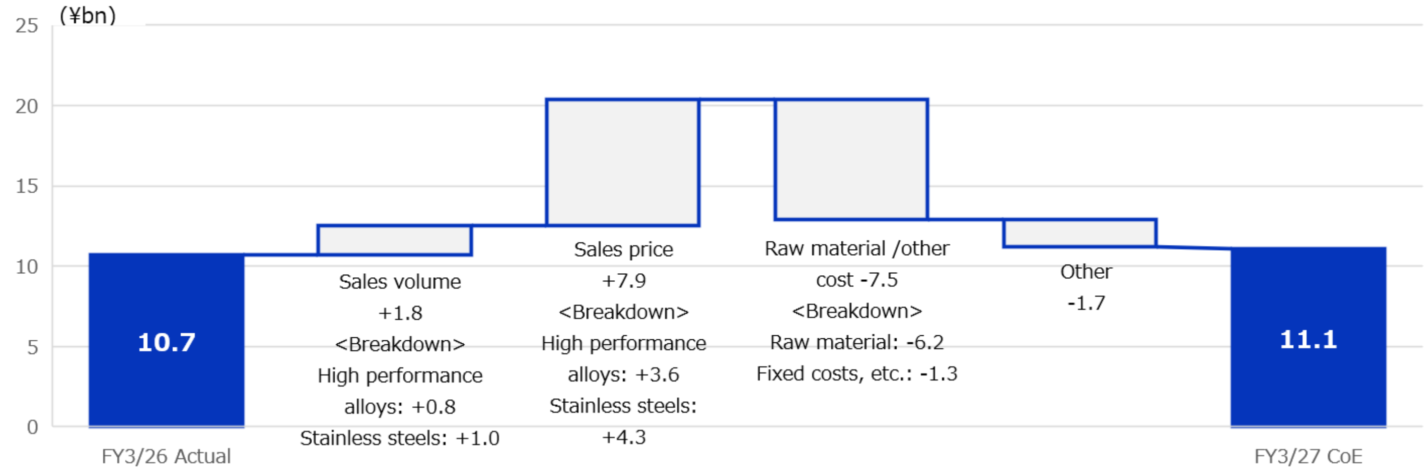
The company's forecast for FY3/27 projects net sales of ¥169 billion (+12% YoY), operating profit of ¥13 billion (+18.5% YoY), ordinary profit of ¥12 billion (+24.3% YoY) and profit attributable to owners of the parent of ¥8 billion (+10.9% YoY). The company anticipates strong demand for semiconductor-related products, coupled with an improvement in orders for stainless steels and expects sales volume to increase for both high performance alloys and stainless steels. The company plans to improve its OP Margin to 7.7% (+0.4ppt YoY).

Volume & Margins Drive Profit Growth

Operating profit (excl. inventory valuation gains/losses) is projected to increase slightly from ¥10.7 billion in FY3/26 to ¥11.1 billion in FY3/27.

The recovery in sales volume is expected to contribute ¥1.8 billion to profit growth. In addition, margins are also expected to have a positive impact. While higher sales prices are projected to contribute ¥7.9 billion to profit growth, the impact of rising raw material prices is expected to be limited to ¥6.2 billion. Therefore, based on a simple calculation, the net effect of margins is expected to be a positive ¥1.7 billion. Although factors such as increased fixed costs are expected to reduce profits, the increase in sales volume and improved margins are expected to largely offset this.

Figure 9. Analysis of Factors Affecting Operating Profit Forecast (excl. Inventory Valuation Gains/Losses) for FY3/27



Source: Company Materials.

Figure 10. Qtly Financial Performance Trends (Unit: ¥mn)

FY	3/25 Q1	Q2	Q3	Q4	3/26 Q1	Q2	Q3	Q4
Net Sales	**46,595**	**42,239**	**42,532**	**40,731**	**39,199**	**36,542**	**36,121**	**39,004**
(YoY)	-4.0%	-6.9%	-3.1%	-4.3%	-15.9%	-13.5%	-15.1%	-4.2%
Cost of Goods Sold	38,388	35,255	34,427	33,378	32,461	30,268	30,233	32,545
Gross Profit	8,206	6,985	8,106	7,352	6,738	6,274	5,889	6,458
(Gross Profit Margin)	17.6%	16.5%	19.1%	18.1%	17.2%	17.2%	16.3%	16.6%
SG&A Expenses	3,333	3,315	3,445	3,589	3,484	3,628	3,441	3,832
Operating Profit	**4,873**	**3,670**	**4,661**	**3,763**	**3,254**	**2,646**	**2,448**	**2,625**
(OP Margin)	10.5%	8.7%	11.0%	9.2%	8.3%	7.2%	6.8%	6.7%
Non-Operating Income and Expenses	325	-571	16	-538	-303	-340	-184	-489
Ordinary Profit	**5,198**	**3,100**	**4,675**	**3,227**	**2,951**	**2,305**	**2,264**	**2,137**
(Ordinary Profit Margin)	11.2%	7.3%	11.0%	7.9%	7.5%	6.3%	6.3%	5.5%
Extraordinary Gains and Losses	-52	-55	-	-1	3	4	146	-226
Profit Before Income Taxes	5,145	3,045	4,676	3,226	2,953	2,310	2,410	1,912
Income Tax, etc.	1,521	814	1,390	742	963	678	556	168
(Effective tax rate)	29.6%	26.7%	29.7%	23.0%	32.6%	29.4%	23.1%	8.8%
Net Profit	3,625	2,230	3,286	2,484	1,991	1,631	1,854	1,743
Net Profit Attributable to Non-controlling Interests	36	12	-3	1	2	-4	-5	11
Profit Attributable to Owners of Parent	**3,588**	**2,219**	**3,288**	**2,484**	**1,988**	**1,637**	**1,858**	**1,732**
(Net Profit Margin)	7.7%	5.3%	7.7%	6.1%	5.1%	4.5%	5.1%	4.4%

Source: Company Data. Compiled by Strategy Advisors.

6. Corporate DNA and Inimitability

1) Positioning Theory

Believed to Be Adopting a Differentiation Strategy

Renowned management scholar Michael E. Porter proposes 3 basic strategies for companies to build competitive advantage: 1) cost leadership, 2) differentiation and 3) focus. Of these, it can be said that Nippon Yakin Kogyo is pursuing a 2) differentiation strategy.

The Leading Domestic Company is Nippon Steel's Stainless Steel & Titanium Division

A cost leadership strategy aims to win in the marketplace and expand market share by achieving a lower cost structure than competitors within the industry. On the other hand, a differentiation strategy seeks to secure a competitive advantage by offering customers value that differs from the products and services of competitors.

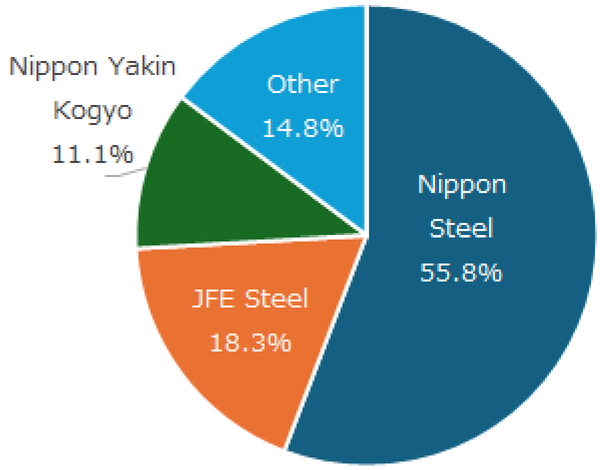
In the stainless-steel industry, Nippon Steel's Stainless Steel and Titanium Division is the leading company in Japan (Figure 11). For this reason, it is difficult for the company, which is smaller in scale, to adopt a cost leadership strategy. However, the company has been shifting toward high performance alloys since its 2003 restructuring plan. Furthermore, even with stainless steels, it is striving to achieve a form of differentiation within that segment by offering a wide variety of products in terms of width, thickness and other specifications. Therefore, from the perspective of positioning theory, the company's strategy can be viewed as a differentiation strategy.

A Differentiation Strategy Based on High Performance Alloys in Overseas Markets as Well

It should be noted that JFE Steel, which ranks second in market share in Figure 11, specializes almost exclusively in chromium-based stainless steel, while the "Others" category (14.8%) consists of special steel manufacturers such as Daido Steel and Aichi Steel. Consequently, it can be said that Nippon Steel and the company are the only two manufacturers producing nickel-based stainless-steel sheets for general applications, and as a result of industry consolidation since around 2000, competition in the domestic market has mainly been between these two companies. In this environment, the company is competing against its giant rival, Nippon Steel, with a differentiation strategy based on high performance alloys and a wide product lineup.

Similarly, in overseas markets, the company's strategy is to compete on equal footing with massive overseas stainless-steel manufacturers - which have more than 10x the production capacity of Nippon Steel and operate on a larger scale than Nippon Steel's stainless-steel business - by selling high performance alloys for various applications.

Figure 11. Domestic Hot-Rolled Stainless Steel Production Share for FY2024



Source: Strategy Advisors. Based on a SPEEDA News Article.

2) Corporate DNA

Business Strategies Leveraging Corporate DNA Are the Key to Success

Corporate DNA refers to the values, philosophy and corporate culture unique to an organization - shaped by the founder's vision and cultivated throughout the company's history - which often serve as the source of its competitive strength. Formulating and executing business strategies that leverage corporate DNA is believed to increase the likelihood of success in a competitive market.

Corporate DNA is often heavily influenced by a company's origins. Generally, the founder's objectives and aspirations at the time of establishment are strongly reflected in it. Additionally, the corporate culture and values may undergo significant changes under the leadership of a figure who revitalizes the company. At Strategy Advisors, we place great importance on corporate DNA, believing that by focusing on it, we can identify the sources of a company's competitiveness and determine whether its strategies and policies are appropriate.

A Corporate Culture That Prioritizes Research & Development Plus Technology & Encourages Taking on Challenges

We view Nippon Yakin Kogyo's corporate DNA as "a corporate culture that prioritizes R&D and technology and encourages taking on challenges". Since its founding, the company has accumulated unique technological expertise while tackling various challenges in the process of establishing an integrated production system spanning from ferronickel smelting to stainless-steel and high performance alloys. The nickel smelting operations at the Oheyama Plant and the production system at the Kawasaki Plant - which processes both stainless steels and high performance alloys in the same production line - are emblematic of this. These characteristics are not merely a result of unique facilities; they are rooted in a long-standing tradition of taking on challenges that other companies avoid.

Close Communication Across All Departments

Furthermore, this DNA is not limited to technological development alone; it is also linked to the company's emphasis on maintaining close relationships with customers, business partners, and employees, as well as providing meticulous service. The close collaboration between the Technical Research Institute, Manufacturing, Quality Assurance and Sales - and the ability to tailor materials to meet the specific specifications and challenges of each customer - has played a crucial role as the company has shifted its focus toward the high performance alloys sector. The decision to shift toward a strategy of producing a wide variety of high performance alloys after 2000 was likely made possible by the company's tradition of prioritizing R&D; a corporate culture that encourages the front lines to take on challenges, and a culture in which the sales department maintains close communication with the production floor.

3) Inimitability

Corporate Evaluations: Focus on Inimitability

The Resource-Based View, proposed by J. B. Barney and others, is an approach that focuses on a company's managerial resources and capabilities. The VRIO framework provides a concrete illustration of this, suggesting that companies should examine Value (economic value), Rarity (scarcity), inimitability (difficulty of imitation) and Organization. At Strategy Advisors, we place particular emphasis on the concept of inimitability.

We view inimitability as a broader concept that encompasses the other elements of the VRIO framework – economic value, rarity and organization – and place great emphasis on it in our corporate evaluations as a factor that underpins a company's sustainable competitiveness and growth potential.

A Rare Manufacturer That Produces & Sells Both Stainless steels & High-Performance Alloys on a Single Production Line

We consider the company's inimitability to stem from the fact that it is "a rare stainless-steel manufacturer that produces and sells both high-volume stainless steels and high-value-added, high performance alloys on a single production line".

Stainless steel products provide stable profitability by securing sales volume, whereas high-performance alloys represent a high-value-added area characterized by a wide product mix, low production volumes, and higher unit prices. However, the company has established a system at its Kawasaki Plant to produce both types – in a wide variety of steel grades – on the same production line and deliver them on schedule. The very nature of its business structure – deliberately "chasing two rabbits" by not leaning entirely toward either major stainless-steel manufacturers or manufacturers of high performance alloys – is the source of the company's inimitability. The fact that the entire process – from melting and refining to cold rolling – is carried out at a single location, the Kawasaki Plant, is one factor enabling this kind of agile response.

A Strategy to Outpace Overseas Competitors by Making Time an Ally

It is important to note that this approach cannot be replicated simply by owning the necessary equipment. It is made possible only by the company's operational capabilities – where the sales team compiles customer specifications and through close information sharing with manufacturing, R&D and quality assurance, they can integrate a diverse range of steel grades into daily operations. The company's early shift toward high performance alloys and the accumulation of sales and production experience – including in overseas markets – have led to its current breadth of product offerings, rapid response to customer complaints and a reputation for on-time delivery. To support this, a "High Performance Alloys and Stainless Steels Sales Expansion Meeting" is held once a month, bringing together representatives from all departments to discuss customer requests, manufacturing processes and raw material procurement around a single table.

Although competition from Chinese companies and others is expected in the high performance alloys market going forward, it will likely take a considerable amount of time for them to reach the same level of capability as the company – just as it took the company time to learn through trial and error. From a resource-based view, this is a barrier to entry known as the "diseconomies of time compression". The company's strategy is to outpace overseas competitors attempting to catch up by shifting to even more advanced high performance alloys while time is on its side.

Creating Barriers to Entry in Stainless steels Through Expertise in Small-Lot, High-Variety Production

Another key point is that, even for stainless steels, securing a certain level of production volume ensures the recovery of fixed costs and supports the company's overall profitability. As a result of industry consolidation over the past 20 years, the domestic Japanese market for general-purpose stainless steels has consolidated to just 2 companies for nickel-based general-purpose stainless steels. While imported materials pose a threat, the company plans to focus on niche products, ultra-thin products, and wide-width products – items where it holds a competitive advantage over imported materials produced on a large scale. The expertise in supplying small-lot, high-variety products that the company has honed alongside its shift toward high performance alloys will likely serve as a barrier to entry against imported materials.

Figure 12. Examples of Products for High Performance Alloys, Incl. Sheet and Strip, for Which Nippon Yakin Kogyo Holds a Leading Global Market Share

Corrosion Resistant Alloys (High-Ni)
825: Oil and gas extraction
— Estimated market share: approx. 10%

Heat Resistant Alloys
800, H840: Sheathed heater
800H, H38X: Polycrystalline silicon manufacturing equipment
— Estimated market share: approx. 15%

Controlled Expansion Alloys
36: Bimetals, Molds for airplane body parts
— Estimated market share: approx. 15%

Corrosion Resistant Pure Nickel
Ni201, Ni202: Caustic soda manufacturing plant, Water electrolysis
— Estimated market share: approx. 30%

Source: Company Materials.

7. The Shift to High Performance Alloys is Key to the Equity Story and Valuation

1) Medium-Term Management Plan 2026–2028

Stabilizing Stainless steels & Aggressively Expanding High Performance Alloys

Nippon Yakin Kogyo announced its “Medium-Term Management Plan 2026–2028” in May 2026. The plan covers the 3-year period from FY3/27 to FY3/29 and sets forth the vision of becoming “a resilient company that continues to evolve and take on new challenges as the leading supplier in the nickel high-alloy and stainless-steel markets”. The company’s strategy is to monetize the large-scale investments made during the previous medium-term plan - such as new electric arc furnaces and cold rolling mills - while maintaining a stable revenue base from stainless steels and enhancing the quality of its business portfolio by increasing the proportion of high performance alloys. A key feature of this strategy is operating stainless steels and high performance alloys as 2 pillars of the business.

Aiming for EBITDA of ¥30 Billion & ROE of 10%

In terms of numerical targets, the company aims for EBITDA of ¥30 billion, ROE of 10%, a dividend payout ratio of 35% or higher and a DOE (Dividend on Equity) of 2.8% or higher for FY3/29. Additionally, the company targets a 60% sales ratio of high performance alloys on a non-consolidated basis (Actual figure for FY3/26 was 54.9%).

Compared to the previous mid-term plan, the company plans to increase capital expenditure by approximately 30% to ¥38.2 billion (based on approved decisions). While the dividend payout ratio of 35% in this new mid-term plan is not particularly high - given the emphasis on growth-oriented investments - the company has clarified its commitment to stable dividends by setting a DOE target.

Although it is considered a reference value, the target net D/E ratio is set at 0.5–0.7x. In the previous mid-term management plan, the reference target range for the net D/E ratio was very broad at 0.5–1x. This time, the range has narrowed, which can be viewed as making the company’s policy easier for the capital markets to understand.

Figure 13. Numerical Targets for the 2026–2028 Medium-Term Management Plan

	FY3/29 Target
Sales ratio of high performance alloys (non-consolidated)	60%
EBITDA	¥30bn
ROE	10%
Total return ratio	35% or above
DOE	2.8% or above
Ref. Net D/E ratio	0.5 – 0.7

Source: Company Materials.

Vision for the Next 10 Years

Looking ahead 10 years, the company aims to maintain a 10% ROE while growing EBITDA to ¥40 billion and achieving a PBR of 1x or higher. The current Medium-Term Management Plan 2026–2028 is not merely a plan for the next 3-years; it is also intended to lay the groundwork during this 3-year period for the company’s future 10 years from now.

Figure 14. Target State and Future Vision

Source: Company Materials.

Capital Expenditures Supporting the Shift to High-Performance Alloys

The company plans to invest a cumulative total of ¥38.2 billion over the 3-year period. Strategic investments include the introduction of an electric slag remelting (ESR) facility, the enhancement of plate finishing equipment, and the expansion of manufacturing facilities for ultra-thin high performance alloys at the Group company, Nas stainless steel strip MFG. By combining these initiatives with the full operation of the new electric arc furnace, new cold rolling mill and slitter lines introduced during the previous medium-term management plan, the company aims to improve the quality of high performance alloys, expand its product range and enhance supply capacity, thereby driving long-term growth.

Figure 15. 3-Year Capital Expenditure Plan

Medium-Term Management Plan 2026–2028 Investment decision basis: 3year cumulative total of ¥38.2 bn

Strategic Investments	Development of new technologies Expansion of sales & strengthening of competitiveness Enhancement of the carbon neutrality (CN) & resource recycling platform	ESR (Electroslag Remelting) Ancillary Facilities for Slab Re-melting [New processes/new alloys] Enhancement of Heavy Plate Finishing Facilities Relocation and Renewal of Reduction Furnace [Environmental initiatives/cost reduction]	¥15.8bn
Platform Enhancement	Investment in R&D facilities information systems Talent acquisition	Revamping of Combustion Furnace for Annealing and Pickling Line for Cold-Rolled Steel Strip Experimental and Analytical Equipment for R&D[New technologies/process development] Systems Infrastructure [DX platform/security] Remote Equipment Monitoring System [Labor saving/workforce optimization]	¥3.1bn
Replacement Investment	Renewal, Upgrading, and Reinforcement	Ancillary Facilities for the Oheyama Kiln Ancillary Facilities for the Hot Rolling Mill Ancillary Facilities for Annealing and Pickling Line for Hot-Rolled Steel Strip	¥11.7bn
Group Companies	High-performance alloys business Strengthening of synergies	NAS STAINLESS STEEL STRIP MFG: Ultra-Thin High-Performance Materials (Rolling/BA) *BA: Bright Annealing NAS TOA: Enhancement of Equipment Functionality	¥7.6bn
Total			¥38.2bn

Source: Company Materials.

Strengthening Marketing Functions

In terms of sales strategy, the company plans to expand sales of high performance alloys, focusing primarily on the semiconductor, energy and environmental, and chemical and food plant sectors, while also working to capture demand in growing regions such as India and the Middle East. For stainless steels, the company's approach is centered on selling differentiated products rather than simply increasing sales volume.

From a sales strategy perspective, solution-based sales are a key component for both stainless steels and high performance alloys. Therefore, the company plans to rename the existing Solution Sales Department to the "Solution Marketing Department" in April 2026 to strengthen its solution and marketing functions. Additionally, the company expanded the staff at its Indian office, which was established in 2025, this past April.

Figure 16. Strengthening Marketing Functions and Sales Offices

Source: Company Materials.

Aiming to Enter the Aerospace & Medical Fields in the Medium to Long Term

As part of its strategy to expand sales of high performance alloys, the company is also aiming to develop new markets in both geographic regions and customer industries. Although these are considered medium to long-term targets, the company plans to strengthen R&D with an eye toward entering the aerospace and medical fields. While these sectors have high barriers to entry - due to the high grade of materials required and the need to obtain quality certifications from customers - they also offer the potential for sustained business once established, as the costs of substitution and switching are high from the customer's perspective. Furthermore, since these are sectors that prioritize safety and functionality, price pressure is expected to be low. These are the customer sectors that U.S. manufacturers of high performance alloys, such as ATI and Carpenter Technology - discussed later - focus on.

Figure 17. Target Sectors for High Performance Alloys

Source: Company Materials.

2) High-Valuation Strategies of Overseas Manufacturers of High-Performance Alloys

It Cannot Be Concluded That a Steelmaker's PBR Will Not Rise

Nippon Yakin Kogyo's current PBR stands at 0.6x, but many domestic steel companies have PBRs below 1x, indicating low valuations. Therefore, the current stock valuation is influenced not only by factors specific to the company, but also by the overall undervaluation of the Japanese steel sector. On the other hand, looking at the situation of U.S. competitors, it cannot be definitively stated that the PBR will not rise simply because domestic peers are undervalued.

Valuations Vary Significantly Among U.S. Companies Within the Steel Sector

Figure 17 shows a list of valuations for global steel, stainless steel, and special steel manufacturers. In the U.S. Cleveland-Cliffs, a blast furnace operator, has a PBR of 1.1x - a valuation relatively close to that of Japanese companies - while Steel Dynamics, an electric arc furnace operator, has a PBR of 4.1x, and Nucor has a PBR of 2.6x, both of which are considerably higher. When it comes to companies producing high performance alloys such as ATI and

Carpenter Technology, PBRs are valued at a high level of 12x. While the average PBR in the U.S. stock market is 5.8x - considerably higher than Japan's 1.8x - the valuations of companies producing high performance alloys are so high that they cannot be explained simply by their status as U.S. companies. The stock market assigns different valuations to steel manufacturers not only based on country or industry, but also according to differences in their actual business portfolios, strategies, profit margins, growth potential and capital efficiency.

High Performance Alloy Manufacturers Command High Valuations

Behind this difference lie the contrasting characteristics of business portfolios centered on commodity products versus those focused on high performance alloys. High performance alloys manufacturers can more easily erect barriers to entry through application certification, quality assurance, specialized processes (including remelting) and customization to meet specific customer specifications. A product mix centered on high performance alloys and strong pricing power tend to lead to improved ROIC. ATI's ROIC stands at 13.8%, while Carpenter Technology's ROIC is 17.6% - both at high levels. These two examples demonstrate that it is not simply because they are U.S. companies that they command high valuations. Rather, companies that have enhanced profitability and capital efficiency through the sale of differentiated products achieve high valuations regardless of their sector.

Nippon Yakin Kogyo: A High-Value-Added, Differentiation Strategy Through a Shift to High Performance Alloys

From this perspective, the shift toward high performance alloys outlined in the company's Medium-Term Management Plan 2026–2028 is not merely a change in net sales mix but has the potential to serve as a differentiating factor in terms of valuation. The company has set targets for FY3/29 of ¥30 billion in EBITDA, 10% ROE and a 60% sales ratio for the high performance alloys, and plans to invest a cumulative total of ¥38.2 billion in capital expenditures over the current 3-year period. In particular, the introduction of ESR and the strengthening of plate finishing are investments aimed at enhancing the quality, product range and supply capacity of high performance alloys. The company is planning measures to shift its business focus from a materials manufacturer reliant on stainless steels to a manufacturer of higher-value-added high performance alloys.

Visualizing Progress Toward Mid-Term Goals is Key

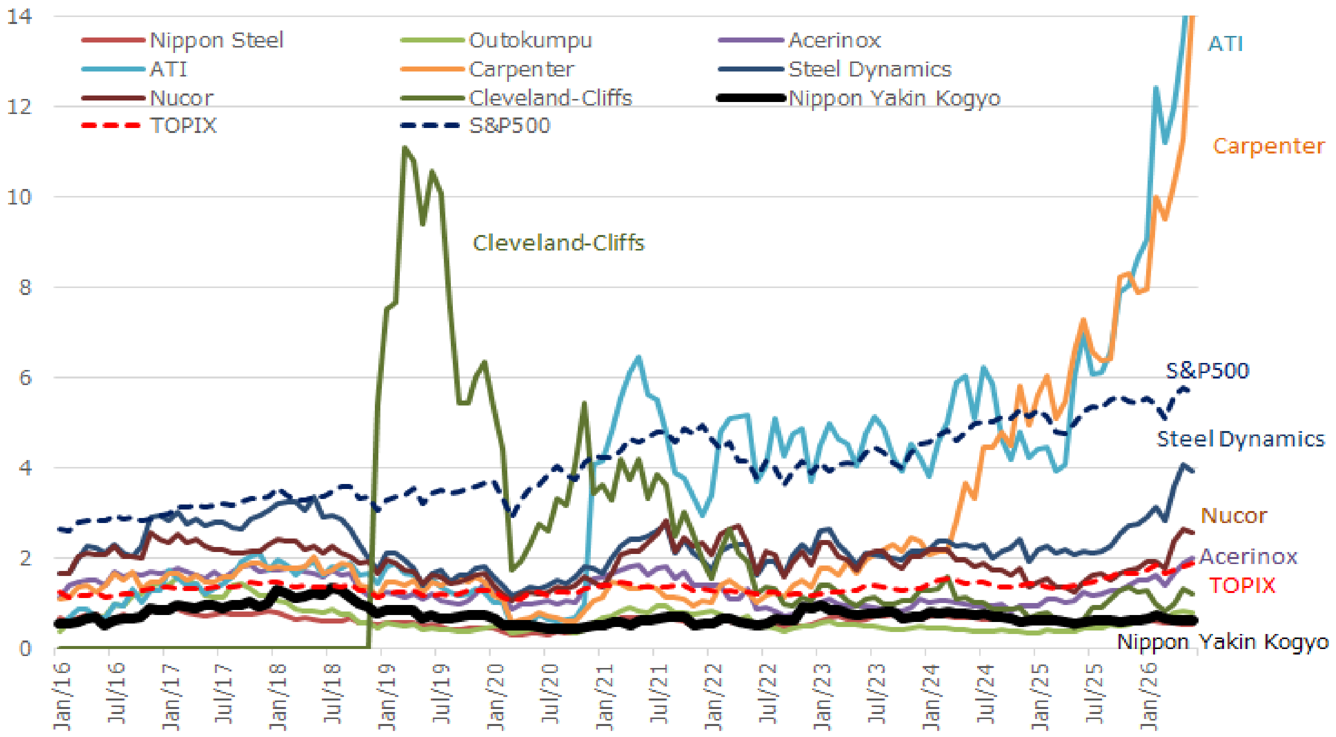
However, simply announcing these plans will not immediately cause the PBR to rise. What the market evaluates is whether the increase in the proportion of high performance alloys will translate into improvements in profit margins, ROE and cash generation - or whether there is sufficient reason to believe this is highly likely. In that sense, key points to monitor going forward include progress toward a 60% sales ratio for the high performance alloys, the monetization of the ¥38.2 billion investment, sales growth in the semiconductor, energy and environmental sectors, and improvements in capital efficiency aimed at achieving a 10% ROE. If these factors become evident, the company could come to be recognized as a "differentiated company driving the shift toward high performance alloys". In that case, even within a sector characterized by low valuations, there would be room for the company to command a relatively higher valuation, similar to that of U.S. high performance alloys manufacturers.

Figure 18. Global Valuations of Steel, Stainless Steel & Special Steel Manufacturers

Company Name	Code	FY	Country	Industry	Price	Market Cap.	EV/ EBITDA	PER	PBR	ROIC	ROE	Net D/E
					Local Curr.		CoE	CoE	Actual	Actual	Actual	Actual
					June 19	¥bn	x	x	x	%	%	x
Nippon Yakin Kogyo	5480	3/26	Japan	Stainless Steel	4,585.0	63.5	6.8	7.9	0.6	4.8	7.3	0.7
Nippon Steel	5401	3/26	Japan	Blast Furnace	559.8	2,925.7	10.0	13.3	0.5	1.2	0.3	0.9
Kobe Steel	5406	3/26	Japan	Blast furnace	1,966.0	777.5	5.2	7.8	0.6	5.0	7.7	0.5
JFE Holdings	5411	3/26	Japan	Blast furnace	1,614.0	1,026.7	7.4	6.8	0.4	2.2	2.7	0.7
MORY INDUSTRIES	5464	3/26	Japan	Stainless Steel Pipe	937.0	35.6	4.1	11.1	0.6	4.9	5.9	-0.2
NIPPON KINZOKU	5491	3/26	Japan	Stainless Steel Processing	874.0	5.6	4.6	11.1	0.2	1.9	0.7	0.3
Daido Steel	5471	3/26	Japan	Special Steel	2,623.5	524.3	9.6	19.1	1.1	4.8	7.2	0.3
AICHI STEEL	5482	3/26	Japan	Special Steel	3,025.0	194.3	6.2	17.1	0.8	3.9	4.8	0.1
Outokumpu Oyj	OUT1V	12/25	Finland	Stainless Steel	5.71	496.9	7.2	24.8	0.8	-2.2	-3.8	0.1
Acerinox SA	ACX	12/25	Spain	Stainless steel	16.77	772.4	9.0	17.4	2.0	-0.1	-1.7	0.6
Jindal Stainless Ltd	532508	3/26	India	Stainless Steel	696.70	987.4	11.1	17.0	2.9	14.9	17.5	0.4
Yieh United Steel Corp	9957	12/25	Taiwan	Stainless Steel	6.02	98.9	na	na	1.3	-9.2	-38.4	2.6
Aperam SA	APAM	12/25	Luxembourg	Stainless Steel	46.98	627.8	8.9	23.2	1.1	1.4	0.3	0.3
Shanxi Taigang Stainless Steel	000825	12/25	China	Stainless Steel	3.77	510.9	na	75.4	0.7	0.4	0.2	0.0
Alleima AB	ALLEI	12/25	Sweden	High-Performance Alloys	94.40	398.1	8.8	20.0	1.4	4.0	4.1	-0.1
POSCO Holdings Inc	005490	12/25	South Korea	Blast furnace	356,500	2,828.0	7.3	14.7	0.5	1.2	1.2	0.4
ATI Inc	ATI	12/25	US	High-Performance Alloys	196.86	4,307.2	27.0	44.8	14.8	13.8	22.1	0.7
Carpenter Technology Corp	CRS	6/25	US	High-Performance Alloys	575.47	4,584.1	34.1	54.4	15.2	17.6	21.4	0.2
Steel Dynamics Inc	STLD	12/25	US	Electric Arc Furnace	270.13	6,245.7	11.7	17.7	4.4	9.9	13.3	0.4
Nucor Corp	NUE	12/25	US	Electric Arc Furnace	252.60	9,223.1	9.9	17.3	2.8	7.3	8.4	0.2
Cleveland-Cliffs Inc	CLF	12/25	US	Blast furnace	12.68	1,159.6	11.7	-	1.2	-6.0	-23.2	1.2

Note: Closing prices as of June 18 for Outokumpu Oyj, Shanxi Taigang Stainless Steel and Alleima AB. EBITDA for Nippon Steel and JFE Holdings are based on the most recent actual results. For overseas companies, use Factset consensus estimates.
Source: SPEEDA Dat & Strategy Advisors.

Figure 19. PBR Trends for Global Steel Manufacturers



Source: SPEEDA Data & Strategy Advisors.

3) Background to ATI Inc.'s Rising Valuation

An Alloy Manufacturer Specializing in High-Performance Materials

As a specialized manufacturer of high performance alloy materials, ATI Inc. focuses primarily on the aerospace and defense sectors while also expanding into applications with stringent performance requirements, such as electronic materials, medical devices and energy. Currently, more than half of its net sales come from the aerospace and defense sectors. The company is recognized in the stock market not merely as a stainless-steel manufacturer, but as a supplier of high performance alloys, including nickel-based alloys (alloys in which nickel is the primary component) and titanium alloys. An analysis of the company's materials reveals that it has transformed its portfolio into a business structure that supplies differentiated products in sectors such as jet engines, aircraft airframes, defense, electronics and medical devices.

Portfolio Began in 2020

The turning point for the portfolio began in 2020. In December of that year, the company announced its withdrawal from the Standard Stainless Sheet business (equivalent to stainless steels), clearly stating its policy to withdraw capital from low-margin commodity products and reallocate it to high-value-added sectors. As of 2019, the affected business generated approximately $445 million in net sales, but its EBITDA margin remained below 1%. As part of this restructuring, ATI closed 5 facilities while making additional investments in its Vandergrift facility to consolidate finishing processes, thereby strengthening its production capacity and competitiveness in high performance alloys. In terms of product segments, the company sought to transition to a high-value-added portfolio centered on aerospace and defense.

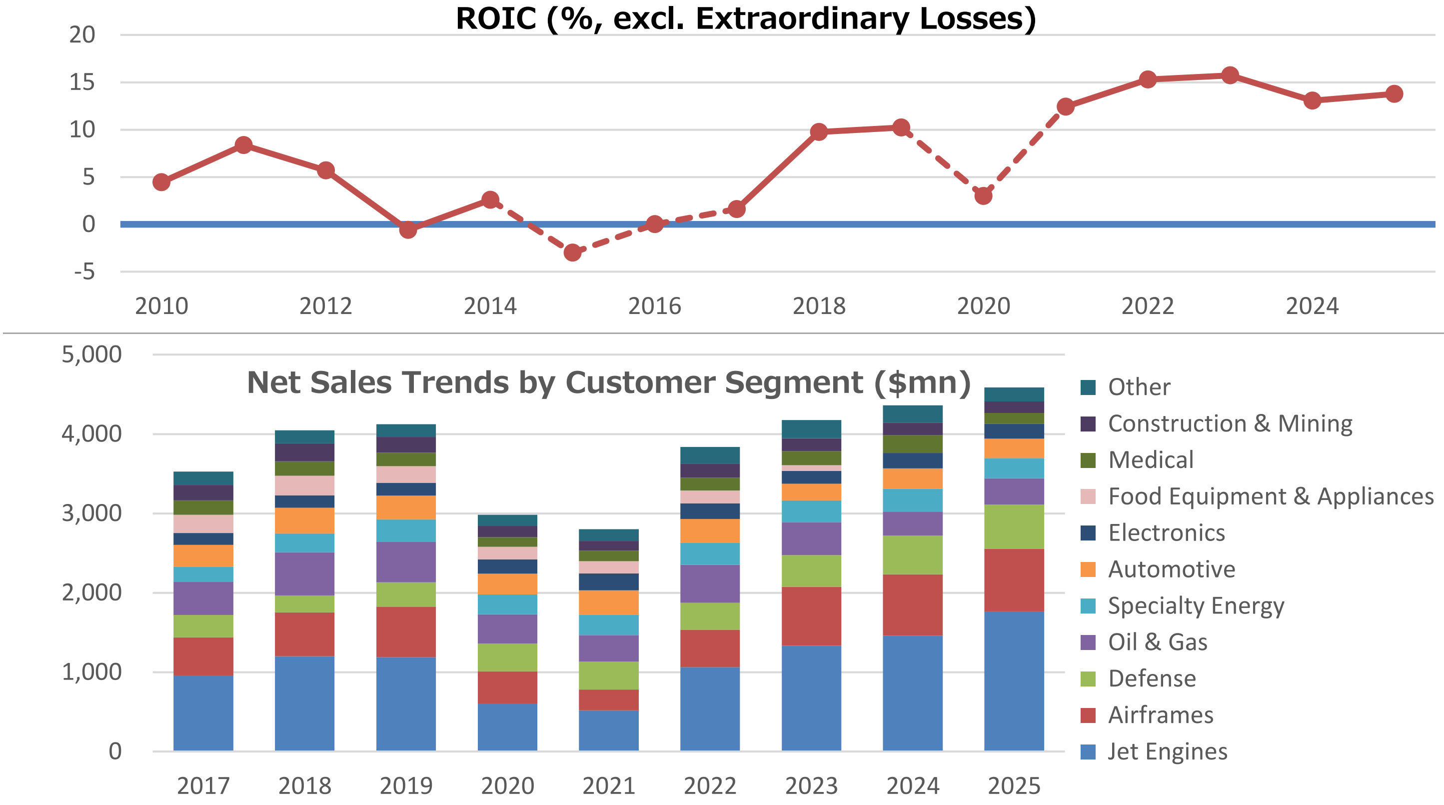
The bar chart in the lower section of Figure 19 shows the trend in net sales by customer segment. For example, it can be seen that the “Food Equipment & Appliances” segment (which consists largely of “Standard Stainless Sheet” products, equivalent to stainless steels) will no longer exist as a separate category by 2024. On the other hand, the 3 segments - Jet Engines, Airframes and Defense - have seen significant growth. This demonstrates that a bold portfolio shift has been implemented.

Valuation Improved Significantly Against the Backdrop of a Recovery in Earnings & Portfolio Restructuring

Looking at subsequent trends, ATI has significantly improved its capital efficiency while continuing to invest in facilities to enhance capacity. Following large-scale impairment charges and business restructuring in 2020, ROIC has been on a recovery trajectory; and as of 2025, ROIC stood at 13.8% and ROE at 22.1%, both reaching levels that place the company among the top performers among global steel, stainless steel and special steel manufacturers. Furthermore, while the company had suspended dividends since 2017 following a decline in performance, it has been conducting share buybacks since 2022 in line with its recovery.

Against the backdrop of improvements in ROIC and ROE resulting from this bold transformation of its business structure, as well as the clarification of its capital policy, ATI’s stock price has surged since 2021, with its most recent PBR at 12.7x and its PER at 38.4x - both at high levels. A PBR of over 12x not only significantly exceeds the average PBR of the S&P 500 (5.8x) but is also notably higher than that of major U.S. electric arc furnace steelmakers such as Steel Dynamics and Nucor, as well as blast furnace-based Cleveland-Cliffs. We believe this serves as a useful example of how a shift toward high performance alloys and improvements in capital efficiency can significantly alter a company’s valuation in the stock market.

Figure 20. Trends in ATI's ROIC and Sales by Customer Segment



Source: Company Data. Compiled by Strategy Advisors & SPEEDA.

4) Background to Carpenter Technology's Rising Valuation

A Manufacturer Specializing in Specialty Alloy Materials

Carpenter Technology is a specialty manufacturer focused on providing high performance specialty alloy materials and their machining processes, with operations centered primarily on the aerospace and defense, medical and energy sectors. Its current business consists of the Specialty Alloys Operations (SAO) division, which manufactures premium alloys and stainless steel and the Performance Engineered Products (PEP) division, which includes titanium, metal powders, additive manufacturing-related products and distribution functions. The aerospace and defense sectors account for over 60% of net sales and the company is recognized in the stock market, not as a general-purpose stainless-steel manufacturer, but as a company that specializes in high performance alloys and serves applications where certification and quality assurance are paramount.

When including the aerospace and defense sectors as well as the medical sector, the company targets markets with stringent product certification and quality requirements; consequently, performance, reliability and supply reliability tend to be prioritized over price. It is presumed that the rising proportion of products in these sectors is driving up profit margins.

Figure 21. The Share of Sales to the Aerospace and Defense Sectors is Increasing Year by Year, Reaching 62% in 2025

Years Ended June 30,

	2025		2024		2023	
($mn)	Dollars	% of Total	Dollars	% of Total	Dollars	% of Total
Aerospace & Defense	1,768.6	62%	1,538.8	56%	1,290.7	51%
Medical	351.2	12%	375.6	14%	301.6	12%
Energy	200.3	7%	185.8	7%	163.3	6%
Transportation	113.3	4%	149.1	5%	185.0	7%
Industrial & Consumer	359.5	12%	415.3	15%	487.2	19%
Distribution	84.2	3%	95.1	3%	122.5	5%
Total Net Sales	2,877.1	100%	2,759.7	100%	2,550.3	100%

Source: Company Data. Compiled by Strategy Advisors.

Certification Requirements and Other Factors Constitute Barriers to Entry

The source of high profitability lies in the combination of a product portfolio that is difficult to substitute and the manufacturing capabilities that support it. Special magnetic materials such as Hiperco, nickel-based superalloys and medical alloys are high performance products that are difficult to substitute, enabling clear differentiation. In terms of capabilities, multiple melting and remelting processes such as VIM, VAR, and ESR, a consistent quality assurance system, and compliance with certifications required in the aerospace and medical fields serve as barriers to entry. Regarding raw material and energy costs, the company publicly discloses and operates a surcharge system tailored to each product; this ability to easily reflect cost fluctuations in selling prices contributes to margin stability.

Figure 22. Factors Contributing to Carpenter Technology's High Profit Margins

Factor Category	Key Points	Specific Examples	Impact on Profit Margin	Supplementary Figures & Characteristics
Product Factors	Portfolio of High-Performance Products That Are Difficult to Replace	Hiperco (soft magnetic), Ni-based superalloys (Inconel 718), medical alloys (BioDur)	Because performance and safety are prioritized, the company is less susceptible to price competition	Many high-unit-price products; clearly differentiated through specialized applications
Market Factors	Focus on high-demand markets such as aerospace and medical	Aerospace and defense account for over 60% of sales; including the medical sector, this figure exceeds 70%	Certification and switching costs are high, making it easier to maintain profitability once adopted	Aerospace and Defense: 62%, Medical: 12%, Average unit price: approx. ¥4.55 million per metric ton
Competitive Advantages	Multi-stage melting, integrated production processes, and quality assurance systems are difficult to replicate	VIM / VAR / ESR, integrated processes including vacuum melting, aerospace quality certification, and specialized process certifications at each facility	Because of consistently supply high-quality, highly reliable products, it is easier to maintain premium prices	Planning a $400 million investment to expand capacity. A strategy to build up scarce production capacity
Pricing Policy	Detailed surcharge system established and publicly disclosed	Apply monthly surcharges based on raw material and energy costs for each alloy	This makes it easier to pass on cost increases, leading to more stable margins	Surcharges set for approximately 240 types of steel products and approximately 400 types of powder products

Source: Strategy Advisors.

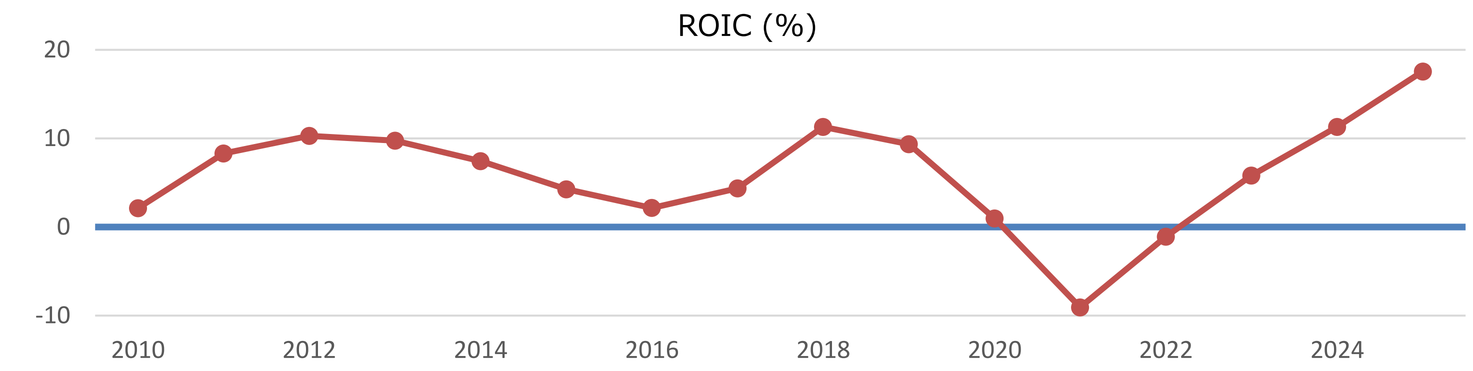
High ROIC

Although Carpenter's profit margins temporarily deteriorated during the COVID-19 pandemic, the company not only recovered its previous ROIC by 2024, but also achieved an even higher level in 2025. Its most recent 2025 ROIC and ROE both rank among the highest among global steel, stainless steel and specialty steel manufacturers, demonstrating that the company has enhanced capital efficiency through its high-value-added business structure. The company is currently investing in expanding its melting and remelting capacity at its Athens, Alabama facility, aiming to secure medium to long-term growth potential by increasing supply capacity in its existing high-margin segments.

Highly Rated by the Stock Market

Against the backdrop of this business structure, high and increasing ROIC & ROE plus investments in capacity expansion, Carpenter is highly valued by the stock market. The current forward PER stands at 42.9x, and the PBR is 12x. Similar to ATI, these figures are significantly higher than the S&P 500's average PBR of 5.8x and those of Cleveland-Cliffs, a major U.S. electric arc furnace and blast furnace operator, indicating that the company is highly valued even when compared to U.S. peers and companies in other industries.

Figure 23. Recovery of Carpenter Technology's ROIC



Source: Speeda Data & Strategy Advisors.

5) Nippon Yakin Kogyo's Equity Story Driven by the Shift to High Performance Alloys

1. Factors Suppressing Valuation

3 Factors Can Be Identified

Nippon Yakin Kogyo's PBR stands at 0.6x. The following3 factors are primarily responsible for this low valuation:

1) Since many Japanese steelmakers have low valuations with PBRs of 1x or less, the company's valuation tends to remain low when compared against its peers.

2) Given that the company has posted significant losses in the past and is susceptible to fluctuations in product and raw material markets, its earnings may be perceived as highly volatile.

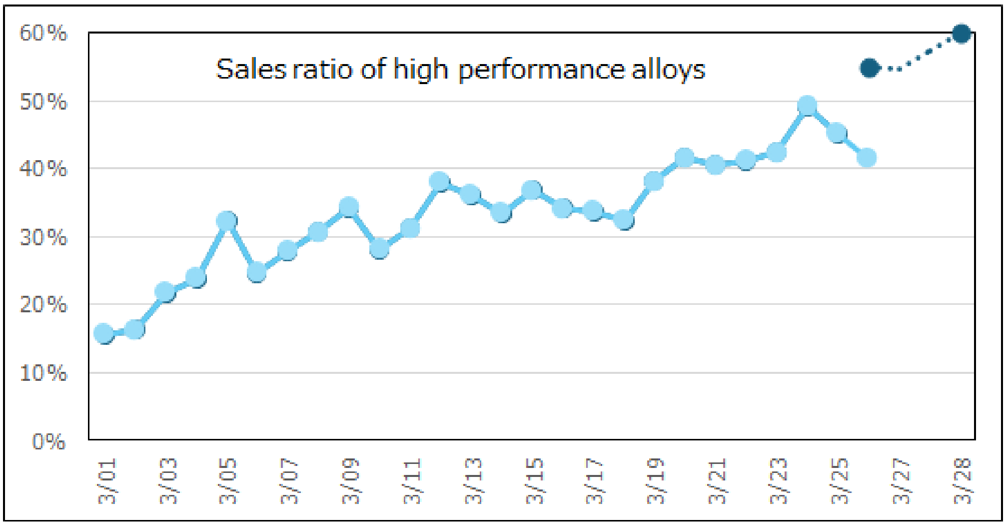
3) There may be concerns regarding the risk of intensifying competition with imported materials in the stainless steels business.

The Equity Story of Shifting Toward High Performance Alloys May Mitigate the Impact of Domestic Peer Group Valuation

Nippon Yakin Kogyo's equity story is based on the inimitability of its technology, which has been cultivated over many years - namely, that it is "a rare stainless-steel manufacturer that produces and sells both high-volume stainless steels and high-value-added, high performance alloys on a single production line". By further advancing the shift toward high performance alloys, the company has room for improvement in both profitability and valuation. As discussed in this report, the company's strength lies in its ability to secure stable earnings from stainless steels while pursuing growth through high performance alloys. In the U.S., manufacturers of high performance alloys are valued at higher PBRs than blast furnace and electric furnace manufacturers. This difference stems from variations in the degree of business portfolio differentiation, profit margins and capital efficiency.

As for Nippon Yakin Kogyo, if the shift toward high performance alloys continues and the changes in its earnings structure become clear, the company may be reevaluated not merely as a stainless-steel manufacturer, but as a differentiated manufacturer of high performance alloys, potentially enabling it to break free from the "domestic herd mentality" mentioned in Concern 1) above.

Figure 24. Plan to Further Increase the Ratio of High-Performance Alloys



Note: Because the company changed its classification of high performance alloys and stainless steels in FY3/26, the ratio appears to have risen discontinuously compared to FY3/26. To ensure comparability, figures for FY3/26 are plotted on the graph using both the old and new classifications.

Source: Company Data. Compiled by Strategy Advisors.

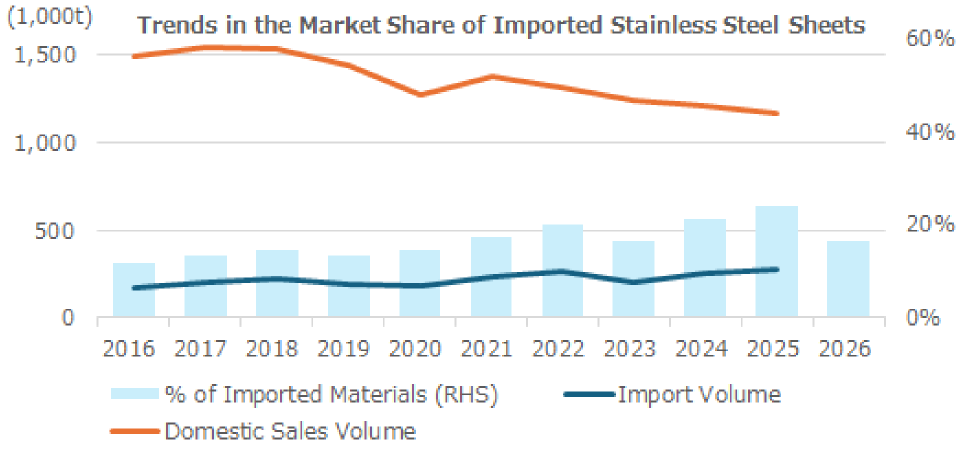
Earnings Volatility Has Improved Relative to the Past

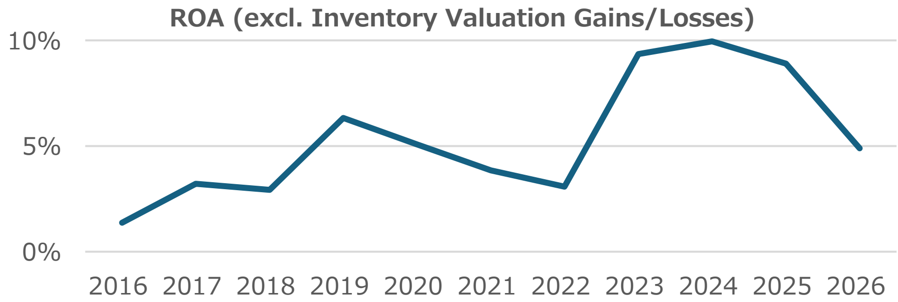
To alleviate the volatility concerns raised in Concern 2), the company must continue to generate a certain level of stable profits. Fortunately, it has consistently secured operating profits of over ¥10 billion since FY3/22. While it is difficult to ensure profits remain completely stable, it can be said that the risk of easily falling into the red, as in the past, has diminished.

Focusing on Differentiated Stainless Steels Products to Counter Imported Materials

Regarding Concern 3 - intensifying competition in the stainless steels - the company's ROA has continued to improve over at least the past 10 years, even as imports of stainless-steel sheets have risen gradually (Figure 25). It is possible that the company's strategy of securing barriers to entry against imported steel by handling differentiated products, such as niche materials, in the stainless steels segment is proving successful.

Figure 25. Maintaining Profitability Even as Imported Steel Sheets Numbers Increase Gradually





Source: Compiled by Strategy Advisors. Based on Trade Statistics, Industry Statistics, and Company Materials.

2. Key Points for Future Strategy

In future stock valuations, progress on the strategy to shift toward high performance alloys is expected to be a key issue. Specifically, we would like to focus on the following 3 points.

Strengthening Solution-Based Sales & Marketing

The first point is the establishment of a solution-based sales framework in terms of organization and structure. The market for high performance alloys is difficult to expand by simply selling standardized products like generic goods; instead, proposals must delve into the customer's usage environment, required performance characteristics such as corrosion resistance, heat resistance, strength, and even processing conditions. The company has long fostered close collaboration between sales, R&D, manufacturing and quality assurance, cultivating the ability to tailor materials to each customer's specifications. Under its mid-term plan, it aims to further strengthen this capability in an organized manner. This is not merely about enhancing sales capabilities, but about creating a system to expand the application areas of high performance alloys by solving customer challenges, marking a further step toward business operations similar to those of overseas high performance alloys manufacturers.

Expanding & Fully Utilizing Facilities

The second key point is execution capability in terms of facilities and manufacturing. While fully utilizing the new electric arc furnace, cold rolling mill and slitter lines introduced during the previous medium-term plan period; the company plans to further advance investments under this medium-term plan (with a cumulative capital expenditure of ¥38.2 billion over 3 years) to enhance the quality, product range and supply capacity of high performance alloys, including the introduction of ESR and the strengthening of plate finishing. Remelting processes such as ESR can significantly influence competitiveness in applications where composition uniformity and purity are critical. Therefore, this investment represents more than a simple expansion of capacity - it broadens the company's potential for entering high-value-added markets. Another key point of focus is whether these capital investments will proceed as planned and whether the facilities will be fully utilized.

Differentiation in Stainless Steels is Also Important

The third point is differentiation in stainless steels. The company's distinctive strategy is a two-pronged approach combining stability in stainless steels with aggressive expansion in high performance alloys. In the stainless steels, the company aims to enhance its competitiveness in areas such as niche materials, ultra-thin materials, wide-width materials and small-lot, high-variety production to build barriers to entry against imported materials. This structure allows the company to secure stable earnings while simultaneously building on that foundation to drive growth in high performance alloys. In the stainless steels - where volume can be scaled to reduce fixed-cost burdens - it is crucial to secure areas where the company can hold its own against imported materials that possess cost competitiveness through large-scale production.

8. Risk Factors

Deterioration of the Stainless Steel Market

In the company's stainless steel business, factors such as excess production capacity among Asian competitors - particularly in China - the influx of imported lumber and stagnant domestic demand are driving price competition to secure sales volume, which could lead to a decline in the company's earnings.

Fluctuations in Demand for High Performance Alloys

High performance alloys, which the company identifies as a medium to long-term growth driver, are used in semiconductors, energy, environmental applications, chemical and food processing plants. However, demand for these materials is highly susceptible to the progress of large-scale projects, customers' willingness to invest in capital equipment, and economic cycles. In fact, there have been instances in the Chinese market where delays in solar power-related projects and economic stagnation have led to a decline in demand. Should similar situations occur in the future, they could contribute to a shortfall in the company's financial performance.

Trade Policy & Geopolitical Risks

The high performance alloys on which the company focuses rely on overseas markets for a significant portion of their net sales and are therefore vulnerable to the effects of tariff hikes, import restrictions, anti-dumping measures, international disputes and political instability. Protectionist policies in various countries, including the US, and rising geopolitical risks could impact export profitability and sales channels.

Fluctuations in Raw Materials & Exchange Rates	The company uses metal materials such as nickel, chromium and molybdenum. The prices and procurement environment for these materials are susceptible to factors such as global supply and demand, policies of resource-rich countries, speculative trading and conflicts. Furthermore, many transactions involving raw material imports and product exports are denominated in foreign currencies, so exchange rate fluctuations affect both procurement costs and selling prices. While surcharges and hedging transactions can mitigate these effects to some extent, sharp market fluctuations can cause profits to fluctuate due to time lags and inventory valuation.
Equipment Accidents & Operational Disruptions	While the company's competitiveness is supported by its integrated production system and its ability to handle a wide variety of products in small quantities, a major accident or disaster involving key equipment could adversely affect its business performance through production stoppages, delivery delays and additional costs.
Delays in Recouping Major Investments	Following the installation of a new electric arc furnace and a new cold rolling mill, the company plans to continue investing in facilities to strengthen its business focused on high performance alloys, such as remelting equipment and plate finishing lines. If the realization of returns on these investments is delayed due to construction delays, operational issues during startup, or demand falling short of projections, depreciation expenses will be incurred upfront, and improvements in profit margins and ROIC may not proceed as anticipated.
Natural Disasters & Concentration of Operations	The company's manufacturing capabilities for its main products are concentrated at the Kawasaki Plant. While this is a strength in terms of efficiency, it also makes the company vulnerable to production stoppages and supply chain disruptions in the event of earthquakes, typhoons, floods or the spread of infectious diseases. Although business continuity planning (BCP) and training are underway, disasters exceeding expectations could result in reduced sales, equipment restoration costs and outsourcing expenses.
Finance & Funding	Although the company's financial position is currently improving, as it continues to make growth investments, rising interest rates and fluctuations in financial markets could increase funding costs and adversely affect its financial condition. Furthermore, its loan agreements include certain financial covenants; if market sentiment regarding the company's financial flexibility becomes more stringent due to deteriorating business performance or sudden changes in market conditions, this could also impact its valuation.
Talent Acquisition & Execution Capability	To simultaneously advance the initiatives outlined in the medium-term plan - expanding sales of high performance alloys, overseas expansion, monetizing capital investments and achieving carbon neutrality - the company will require substantial execution capabilities across technology, sales, manufacturing,

maintenance and human resource development. If the recruitment and development of necessary personnel do not proceed as planned, this could affect the timeline for realizing these strategies.

9. Promotion of Sustainability Management

1) Sustainability

Sustainability Framework

To promote Issues of Materiality as company-wide initiatives, the firm established the Sustainability Promotion Committee in 2021, chaired by the President. The Sustainability Promotion Committee identifies Issues of Materiality and based on these, evaluates the effectiveness of company-wide activities across all departments. Matters discussed by the committee are reported to the Board of Directors; after receiving input from outside directors, the Board makes policy decisions regarding investments, strategies and other matters.

Promoting Sustainability

The company has set the realization of a resilient and adaptable “Resilient Company” as its vision. It is advancing its sustainability initiatives while aiming to build a sustainable society. To achieve this vision, the company has identified the challenges it must address and has pinpointed the following 6 issues as Issues of Materiality.

Issue of Materiality 1: Provision of socially useful products

Issue of Materiality 2: Reduction of Global Environmental Impact through Business Activities

Issue of Materiality 3: Achievement of safe and stable production

Issue of Materiality 4: Creation of workplaces where all employees can work with equality and satisfaction

Issue of Materiality 5: Establishment of Sustainable Partnerships

Issue of Materiality 6: Advancement of Governance Foundation for Adaptation to the Social Environment

Status of Female Managers

The company’s proportion of female managers stands at 0.6% (as of FY3/25). There is one female manage, and no female employees were promoted to managerial positions (April 2024–March 2025). According to a survey by the Japan Productivity Center, the average proportion of female managers among companies listed on the TSE Prime Market is 9.1% (2025), and the company’s level is significantly lower. The company plans to focus first on increasing the proportion of female employees but has not set a specific target for female managers.

The rate of male employees taking parental leave is 43.8%. The gender pays gap stands at 69.8% for all employees, 72.7% for regular employees and 72.4% for non-regular employees. According to a survey by the Japan Productivity Center, the average for companies listed on the TSE Prime Market is 72%, meaning the company's figure is slightly below the average when calculated on a total workforce basis.

Human Capital Strategy

As part of their human capital strategy, the firm is working to create a workplace where every individual - regardless of age or educational background - is respected and can find fulfillment in their work. They are committed to employee development and improving the internal work environment. The promotion of women's participation is a priority and there is focus on increasing the proportion of female employees. Since 2012, when female employees were first hired as executive candidates, they have set annual targets and proceeded with systematic recruitment, resulting in a gradual increase in the number of female employees.

Regarding human capital metrics, the company aims to ensure that women account for at least 20% of new graduate hires for general management positions (actual figure for FY3/25: 20%). Other targets include zero serious workplace accidents (actual figure for FY3/25: 0) and a paid leave utilization rate of at least 70% (actual figure for FY3/25: 78%).

Climate Change Response Framework

At the Sustainability Promotion Committee meetings, reports are presented on climate change, including the previous fiscal year's CO_2 emissions (Scopes 1 and 2), CO_2 emissions across the entire supply chain (Scope 3), and the results of TCFD scenario analyses. These matters are also reported to the Board of Directors as appropriate.

Furthermore, to facilitate the smooth advancement of environmental management, the firm established an Environmental Committee chaired by an executive appointed by the President. The Environmental Committee deliberates on and reports regarding the planning and implementation status of environmental management at each plant, as well as matters related to energy conservation.

TCFD-Based Disclosure

In 2022, the firm expressed their endorsement of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and have been conducting scenario analyses in accordance with the TCFD's recommendations. In their scenario analysis, they use a 4°C scenario (business-as-usual with no climate change measures) and a 1.5°C scenario (limiting the average temperature rise this century to 1.5°C). For each scenario, the firm projects the global outlook for 2030 and identify associated risks and opportunities. While opportunities for new demand are increasing in sectors such as the environment and energy, the Company assesses that rising manufacturing costs due to the additional burden of carbon pricing, as well as increases in electricity and fuel prices, pose significant risks.

Figure 26. Risks and Opportunities Associated with Climate Change and Countermeasures

Scenario	Impact assessment item (Social changes)	Impact assessment* 4°C	Impact assessment* 1.5°C	Risks and opportunities	Countermeasures
Transition risk	Introduction of carbon pricing Policies Laws & Regulations Market	—	▼ Large	Increase in the manufacturing cost due to the additional cost caused by carbon pricing	• Capital investment and operational improvement for energy conservation and carbon neutrality • Fuel conversion to hydrogen, ammonia, synthetic methane and biofuels • Development of carbonless nickel smelting technologies
	Shift to a carbon neutrality-oriented society Technologies Market Reputation	—	▼ Large	• Higher electricity/fuel prices • Higher cost of procuring materials, transportation services, etc.	• Promotion of energy-saving operation (decrease of per unit energy use) • Appropriate product pricing in consideration of the cost
		—	▼	Increase in the amount of capital investment for CO_2 emissions reduction	• Investment decisions in consideration of the environmental impact reduction effect • Appropriate product pricing in consideration of the investment cost
		—	▼	Shrinkage/elimination of demand in fields with large CO_2 emissions (Flue gas desulfurizers for low-efficiency coal-fired thermal power plants, boilers and EGR systems)	• Development of environment-friendly products in response to customers' needs • Sale of solutions to meet new demand for hydrogen, renewable energy sources, electric vehicles (EVs), fuel cell vehicles (FCVs), secondary batteries and CCUS
		—	▲ Large	New demand in the environmentand energy-related fields	
		—	▼	Tight supply of recycled materials	• Diversified use of recycled materials by the introduction of a new electric arc furnace ("E furnace") • Securing of supply sources that offer reasonable prices (Oheyama Plant)
Physical risk	Impact of abnormal weather events on business Acute	▼ Large	▼	More frequent and intense natural disasters (heavy rain, strong winds and storm surges) that cause the suspension of production, fragmentation of the supply chain and the suspension of logistic services	• Examination and implementation of natural disaster countermeasures (inspection and enhancement of equipment, BCP measures, etc.) • Shared use of equipment with other companies through outsourced production and others • Effective use of domestic resources and securing of stable sources for logistics, sales and surveys for the establishment and diversification of the supply chain
	Degradation of the working environment due to rise in temperature Chronic	▼	—	Expanded risks of health damage caused by infectious diseases and heatstroke	• Improvement of the working environment and investment to increase labor productivity • Enhancement of BCPs against infectious diseases and heatstroke

※ ▼: Risks, ▲: Opportunity Large: ¥5 billion or more — : No impact or minor impact

Source: Company Materials.

Climate Change Response Indicators and Targets

In December 2021, the company announced a target to reduce CO_2 emissions (Scopes 1 and 2) by 46% by FY3/31 (compared to FY3/14) and to achieve net-zero emissions by FY3/51. The “46% reduction target for FY3/31” set forth in the “Medium-Term Management Plan 2023” disclosed in May 2023 was achieved ahead of schedule in FY3/26.

CO_2 emissions for FY3/25 totaled 351,000 t-CO_2 for the company (non-consolidated), combining the Kawasaki Plant and Oheyama Plant (a 54% reduction compared to FY3/14), and 383,000 t-CO_2 for the entire Nippon Yakin Kogyo Group (the company and its group companies). In order to track not only the company’s own emissions but also CO_2 emissions across the entire supply chain related to its business activities, the company also calculates Scope 3 emissions.

Roadmap to Carbon Neutrality

The company has formulated a roadmap toward carbon neutrality by FY3/51 and is promoting thorough energy conservation in all aspects of its business activities. At the Kawasaki Plant, in addition to installing inverters for equipment and switching to LED lighting, the company began operating a new, highly efficient electric arc furnace (E-furnace) with excellent energy-saving performance in 2022.

Since FY3/22, the plant has been implementing “demand response” - flexibly adjusting operating patterns in response to fluctuations in electricity supply and demand. Furthermore, starting in FY3/23, the company has established an Internal Carbon Pricing (ICP) system, which sets an internal carbon price for capital investments that result in increases or decreases in CO_2 emissions, thereby virtually converting CO_2 emissions into monetary costs.

The Oheyama Plant has set forth the goal of “Taking on the Challenge of Carbonless Nickel Smelting”. By shifting away from conventional smelting methods that rely primarily on imported nickel ore and coal, and instead utilizing recycled raw materials and renewable energy, the plant aims to reduce its CO_2 emissions per unit of production by 70% by FY3/31 compared to FY3/14.

Medium-Term Management Plan

According to the “Medium-Term Management Plan 2026–2028” announced in May 2026, the company will promote initiatives aimed at achieving the government’s FY35 target of a 60% reduction in CO_2 emissions. Although the 46% CO_2 emissions reduction target set in the previous Medium-Term Management Plan was achieved ahead of schedule in FY3/26, the company notes that this was largely due to a decline in production volume (sales volume). Under the new Medium-Term Management Plan, the company aims to reduce CO_2 emissions per unit of production by 48% (compared to FY3/14) by FY3/29.

As part of efforts to achieve carbon neutrality, the company will further advance carbon-free nickel smelting at the Oheyama Plant and implement even more energy-saving measures. To reduce CO_2 emissions at the Kawasaki Plant, the company will promote energy-saving investments (such as switching the steelmaking process to city gas and improving boiler efficiency).

2) Corporate Governance Structure and Mechanisms

Corporate Governance Structure

The company is organized as a company with an Audit and Supervisory Committee. Of the 14 directors, 7 are outside directors, all of whom meet the independence criteria. The Audit and Supervisory Committee consists of 4 directors who serve on the committee (including 3 outside directors). Principle 4-8 of the Corporate Governance Code requires companies listed on the Prime Market to appoint at least one-third independent outside directors and the company meets this standard. There are 2 female directors, so the proportion of female officers is 14.3%.

Since January 2016, the Company has established a Nomination and Compensation Committee as a voluntary advisory body to the Board of Directors, chaired by the Representative Director and President and comprising four outside directors. The Nomination and Compensation Committee deliberates on matters such as the nomination of candidates for directors and corporate auditors, the removal of directors, the appointment and removal of executive officers and the compensation of directors and executive officers.

Governance Reform

The company is proactive in governance reform. It introduced an executive officer system in June 2012 and has been appointing outside directors since June 2013. In June 2025, to further strengthen corporate governance, the company transitioned from a company with auditors to a company with an Audit and Supervisory Committee.

The Board of Directors has been conducting effectiveness evaluations since April 2016. Each year, the Board evaluates its own effectiveness and publishes a summary of the results. For FY3/26, the evaluation noted that constructive and lively discussions took place during the formulation of the next medium-term management plan, and that appropriate disclosure regarding sustainability was carried out.

The Director Skills Matrix is determined annually by the Board of Directors following the deliberation report and recommendations from the Nomination and Compensation Committee. As shown in the table below, the Board is composed of directors possessing a variety of skills.

Figure 27. Directors' Skills Matrix (As of June 22, 2026)

Name	Title	Skill Category								
		Corporate Management	Sales and marketing	Manufacturing/Equipment/R&D	Finance/accounting	Compliance/risk management	Personnel development	Global issues	IT and DX	Sustainability
Hisashi Kubota	Chairman of Directors	●	●		●	●	●			●
Shigemi Urata	President and Representative Director	●	●			●		●		●
Shingo Kobayashi	Vice President and Representative Director	●			●	●	●			●
Hiroshi Toyoda	Director	●			●	●		●	●	●
Hisashi Yamada	Director	●		●					●	●
Akira Akimoto	Director	●	●							●
Kenji Tani	Outside Director	●	●			●		●		
Taizo Suga	Outside Director	●			●	●		●	●	
Naomi Eto	Outside Director	●				●	●			●
Mariko Ogawa	Outside Director	●			●			●		
Toshihiro Onodera	Director (Audit & Supervisory Committee Member)	●		●		●	●			
Nobuyoshi Okada	Outside Director (Full-time Audit & Supervisory Committee Member)	●			●				●	
Tetsuo Hoshiya	Outside Director (Full-time Audit & Supervisory Committee Member)	●			●	●		●		●
Soichi Wakamatsu	Outside Director (Full-time Audit & Supervisory Committee Member)	●		●	●					

Source: Company Data. Compiled by Strategy Advisors.

Figure 28. Director Skills Matrix (Compiled from Reference Information Regarding Proposals to Be Voted on at the General Meeting of Shareholders on June 25, 2026)

Name	Title	Skill Categories								
		Corporate Management	Sales and marketing	Manufacturing/Equipment/R&D	Finance/accounting	Compliance/risk management	Personnel development	Global issues	IT and DX	Sustainability
Shigemi Urata	President and Representative Director	●	●			●		●		●
Shingo Kobayashi	Vice President and Representative Director	●			●	●	●			●
Hiroshi Toyoda	Director	●			●	●		●	●	●
Hisashi Yamada	Director	●		●					●	●
Akira Akimoto	Director	●	●							●
Nao Hayakawa	Director	●		●						●
Kenji Tani	Outside Director	●	●			●		●		
Taizo Suga	Outside Director	●			●	●		●	●	
Naomi Eto	Outside Director	●				●	●			●
Mariko Ogawa	Outside Director	●			●			●		
Toshihiro Onodera	Director (Audit & Supervisory Committee Member)	●		●		●	●			
Nobuyoshi Okada	Outside Director (Full-time Audit & Supervisory Committee Member)	●			●				●	
Tetsuo Hoshiya	Outside Director (Full-time Audit & Supervisory Committee Member)	●			●	●		●		●
Soichi Wakamatsu	Outside Director (Full-time Audit & Supervisory Committee Member)	●		●	●					

Source: Company Data. Compiled by Strategy Advisors.

Takeover Defense Measures

In 2007, the company introduced a policy regarding large-scale acquisitions. This is a so-called "peacetime" takeover defense measure. If a large-scale acquirer (holding 20% or more of the company's shares) conducts a large-scale acquisition without complying with the large-scale acquisition rules, countermeasures (the gratis allocation of stock acquisition rights to parties other than the large-scale acquirer) will be triggered based on the decision of the Board of Directors or a shareholders' meeting to confirm intent. The measure has a 3-year validity period and has been approved by the General Meeting of Shareholders.

Note that the takeover defense measures, which were updated in 2023, will expire at the 144th Annual General Meeting of Shareholders to be held on June 25, 2026. However, the company has announced that the measures will not be continued beyond June 2026 and will be abolished.

Figure 29. Consolidated Statement of Income (Unit: ¥mn)

FY	3/22	3/23	3/24	3/25	3/26	3/27 CoE
Net Sales	**148,925**	**199,324**	**180,341**	**172,097**	**150,866**	**169,000**
Cost Of Sales	123,013	157,369	146,977	141,448	125,507	
Gross Profit	25,912	41,955	33,364	30,649	25,359	
(Gross Profit Margin)	17.4%	21.0%	18.5%	17.8%	16.8%	
SG&A Expenses	11,946	12,699	13,354	13,682	14,385	
Operating Profit	**13,966**	**29,256**	**20,010**	**16,967**	**10,973**	**13,000**
(OP Margin)	9.4%	14.7%	11.1%	9.9%	7.3%	7.7%
Non-Operating Income	337	416	739	670	541	
Non-Operating Expenses	1,497	1,934	1,621	1,438	1,857	
Ordinary Profit	**12,807**	**27,738**	**19,128**	**16,200**	**9,657**	**12,000**
(Ordinary Profit Margin)	8.6%	13.9%	10.6%	9.4%	6.4%	7.1%
Extraordinary Profit/Losses	-5,749	93	33	-108	-73	
Extraordinary Profit	170	93	33	2	856	
Extraordinary Losses	5,919	-	-	110	929	
Profit Before Income Taxes	7,058	27,831	19,161	16,092	9,585	
(Pre-Tax Profit Margin)	4.7%	14.0%	10.6%	9.4%	6.4%	
Corporate Income Tax, etc.	-1,413	8,129	5,469	4,467	2,365	
(Effective Tax Rate)	-20.0%	29.2%	28.5%	27.8%	24.7%	
Profit	8,471	19,703	13,692	11,625	7,219	
Profit Attributable to Non-controlling Interests	0	0	127	46	4	
Profit Attributable to Owners of Parent	**8,471**	**19,703**	**13,565**	**11,579**	**7,215**	**8,000**
(Net Profit Margin)	5.7%	9.9%	7.5%	6.7%	4.8%	4.7%

Source: Company Data. Compiled by Strategy Advisors.

Figure 30. Consolidated Balance Sheet (Unit: ¥mn)

FY	3/22	3/23	3/24	3/25	3/26
Cash and Deposits	12,646	11,910	17,034	9,516	11,275
Accounts Receivable	26,996	29,829	26,888	26,520	23,774
Inventories	49,649	72,828	64,106	62,708	62,123
Others	2,482	2,934	3,776	2,991	2,077
Current Assets	**91,773**	**117,501**	**111,804**	**101,735**	**99,249**
Land	36,404	36,430	36,432	36,363	36,472
Construction in Progress	2,298	3,942	7,260	1,244	1,559
Other Tangible Fixed Assets	49,593	56,131	54,991	68,440	70,639
Tangible Fixed Assets	**88,295**	**96,503**	**98,683**	**106,047**	**108,670**
Software	2,148	2,689	2,155	2,139	2,195
Others	160	136	123	770	604
Intangible Fixed Assets	**2,308**	**2,825**	**2,278**	**2,909**	**2,799**
Investments and Other Assets	**5,051**	**5,413**	**7,184**	**6,744**	**8,673**
Fixed Assets	**95,654**	**104,741**	**108,146**	**115,700**	**120,142**
Differed Tax Assets	**67**	**53**	**39**	**27**	**19**
Total Assets	**187,494**	**222,294**	**219,988**	**217,461**	**219,411**
Accounts Payable	23,917	21,627	22,883	16,513	11,803
Notes Payable - Facilities	2,847	814	1,137	840	2,072
Short-Term Borrowings	39,519	42,270	42,039	46,031	47,546
Others	9,130	17,077	10,699	10,770	8,732
Current Liabilities	**75,413**	**81,788**	**76,758**	**74,154**	**70,153**
Long-Term Borrowings	22,855	34,194	30,846	24,742	24,983
Bonds Payable	13,000	13,000	8,000	8,000	8,000
Deferred Tax Liabilities	2,594	1,998	2,895	3,196	3,643
Retirement benefit liabilities	10,478	10,472	10,559	9,787	10,312
Others	984	1,223	1,144	977	1,012
Non-Current Liabilities	**49,911**	**60,887**	**53,444**	**46,702**	**47,950**
Total Liabilities	**125,324**	**142,675**	**130,203**	**120,855**	**118,103**
Share capital	24,301	24,301	24,301	24,301	24,301
Capital surplus	9,542	9,542	9,542	9,542	9,552
Treasury Shares	26,093	43,548	53,892	62,436	66,437
Treasury Shares	-950	-1,246	-3,231	-5,058	-5,956
Shareholders' Equity	**58,985**	**76,145**	**84,504**	**91,221**	**94,334**
Accumulated Other Comprehensive Income	3,179	3,469	5,029	5,192	6,774
Stock Acquisition Rights	-	-	-	-	-
Non-Controlling Interests	5	5	252	192	200
Total Net Assets	**62,169**	**79,619**	**89,785**	**96,606**	**101,308**
Total Liabilities and Net Assets	**187,494**	**222,294**	**219,988**	**217,461**	**219,411**

Note: Short-term borrowings include long-term borrowings due within 1-year.
Source: Company Data. Compiled by Strategy Advisors.

Figure 31. Consolidated Statement of Cash Flows (Unit: ¥mn)

FY	3/22	3/23	3/24	3/25	3/26
Profit Before Taxes	7,058	27,831	19,161	16,092	9,585
Depreciation	4,123	5,029	5,595	5,830	6,534
Change in Accounts Receivable	-7,404	-2,833	-64	368	2,746
Change in Inventory	-16,711	-23,179	10,047	1,397	585
Working Capital	7,464	-2,287	2,334	-6,369	-4,710
Others	4,773	-912	-10,249	-6,277	-1,195
Cash Flows from Operating Activities	**-697**	**3,649**	**26,824**	**11,041**	**13,545**
Purchase/Sale of Tangible Assets	-16,028	-13,131	-8,064	-11,291	-8,693
Purchase/Sale of Intangible Assets	23	7	55	22	11
Purchase/Sale of Investment Securities	335	59	-31	-70	115
Others	14	30	121	-50	-816
Cash Flows from Investing Activities	**-15,656**	**-13,035**	**-7,919**	**-11,389**	**-9,383**
Net Increase/Decrease in Short-Term Borrowings	6,075	635	-3,268	4,460	1,340
Net Increase/Decrease in Long-Term Borrowings	10,837	11,015	-5,045	-7,273	657
Issuance of Shares	-	-	-	-	-
Expenditures for Acquisition of Treasury Stock	-271	-324	-2,005	-1,851	-952
Dividends Paid	-1,056	-2,255	-3,417	-3,003	-3,216
Others	-536	-541	-583	273	-562
Cash Flows from Financing Activities	**15,049**	**8,530**	**-14,318**	**-7,394**	**-2,733**
Exchange Differences on Cash and Cash Equivalents	20	109	134	194	237
Net Increase/Decrease in Cash and Cash Equivalents	-1,283	-748	4,721	-7,549	1,665
Cash and Cash Equivalents at Beginning of Period	13,828	12,545	11,797	16,918	9,369
Increase in Cash and Cash Equivalents Resulting from Inclusion of Subsidiaries in Consolidation	-	-	400	-	-
Cash and Cash Equivalents at End of Period	12,545	11,797	16,918	9,369	11,034
Free Cash Flow	**-16,353**	**-9,386**	**18,905**	**-348**	**4,162**

Source: Company Data. Compiled by Strategy Advisors.

Figure 32. Stock Price Indicators, ROE and KPIs

FY	3/22	3/23	3/24	3/25	3/26
EPS (¥)	561.3	1,316.8	933.6	819.5	519.9
BPS (¥)	4,121.1	5,324.8	6,184.8	6,845.7	7,298.2
DPS (¥)	120.0	200.0	200.0	220.0	220.0
Dividend Payout Ratio	21.4%	15.2%	21.4%	26.8%	42.3%
Stock Price (¥)	2,810	4,255	4,795	4,160	4,635
PER (x)	5.0	3.2	5.1	5.1	8.9
PBR (x)	0.7	0.8	0.8	0.6	0.6
# of Shares Outstanding at Year-End ('000)	15,497.3	15,497.3	15,497.3	15,497.3	15,497.3
# of Treasury Shares ('000)	412.9	545.7	1,028.5	1,413.6	1,643.6
# of Shares Outstanding excl. Treasury Shares ('000)	15,084.4	14,951.6	14,468.8	14,083.7	13,853.8
Average # of Shares Outstanding ('000)	15,093.5	14,962.7	14,529.1	14,130.0	13,879.6
Market Cap.	42,387.3	63,619.2	69,377.9	58,588.2	64,212.1
Equity Ratio	33.2%	35.8%	40.7%	44.3%	46.1%
Interest-Bearing Debt (¥mn)	75,374	89,464	80,885	78,773	80,529
Net Interest-Bearing Debt (¥mn)	62,728	77,554	63,851	69,257	69,254
D/E Ratio	1.28	1.17	0.96	0.86	0.85
Net D/E Ratio	1.06	1.02	0.76	0.76	0.73
EV (¥mn)	105,120	141,178	133,481	128,037	133,666
EBITDA (¥mn)	18,089	34,285	25,605	22,797	17,507
EV/EBITDA	5.8	4.1	5.2	5.6	7.6
ROE	14.4%	27.8%	16.0%	12.5%	7.3%
ROIC (Invested Capital)	12.2%	13.7%	8.5%	7.2%	4.8%
# of Employees	2,080	2,091	2,079	2,095	2,093

Note: EBITDA is defined as operating profit plus depreciation and amortization of goodwill. Depreciation and amortization of goodwill are figures included in operating cash flow.
Source: Company Data. Compiled by Strategy Advisors.

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