

**HIRANO TECSEED CO., LTD. (6245 JP)**

THE NEW MEDIUM-TERM PLAN SUGGESTS LESS SALES FROM THE SECONDARY LiB BATTERY BUSINESS

**FY23 RESULTS**

Hirano Tecseed (hereafter HT) reported FY23 OP of ¥3,236mil (+4.6% YoY) on sales of ¥46,946mil (+10.7% YoY). Both FY23 sales and OP overshoot the company guidance by 14.5% and 10.8%, respectively.

FY23 orders in the Coating and Laminating Machinery [C&LM] segment slumped -47.9% YoY to ¥24,222mil as customers (1) had front-loaded orders since FY21, on expectations of high growth in the EV market. However, (2) they have since, pending orders due to changes in their production locations and updates in machine specifications. Consequently, deliveries have been delayed, and (3) HT's customers are now more cautious on the outlook for the EV market.

Sales landed above guidance, thanks to converting C&LM] order backlogs to sales. The segment reported record sales of ¥37,374mil (+19.9% YoY) in FY23 and order backlogs, though down -19.1% YoY to ¥55,760mil, the absolute level remain approx. 1.5x FY23 sales due to long lead times on the back of change in specifications by HT's LiB electrode coating machine customers.

Hirano Tecseed (6245 JP): Earnings Summary and Guidance							
¥mil	FY22		FY23				
	1H	FY	1H	FY	FY CE	YoY (%)	vs CE (%)
Sales	18,270	42,423	22,346	46,946	41,000	10.7	14.5
GP	3,012	6,679	3,030	7,511	N/A	12.5	N/A
GPM (%)	16.5	15.7	13.6	16.0	N/A	+0.3ppt	N/A
SG&A	1,515	3,585	2,260	4,275	N/A	19.2	N/A
SG&A/Sales (%)	8.3	8.5	10.1	9.1	N/A	+0.6ppt	N/A
OP	1,496	3,093	769	3,236	2,920	4.6	10.8
OPM (%)	8.2	7.3	3.4	6.9	7.1	-0.4ppt	-0.2ppt
RP	1,557	3,219	814	3,394	3,000	5.4	13.1
RPM (%)	8.5	7.6	3.6	7.2	7.3	-0.4ppt	-0.4ppt
NP*	1,078	2,243	564	2,438	2,100	8.7	16.1
EPS (¥)	71.59	148.87	37.42	161.69	139.34	8.6	16.0

Source: Nippon-IBR based on Hirano Tecseed's results presentation material  
\* NP attributed to the parent's shareholders

Despite the surge in raw material costs, C&LM production levels recovered +16.7% YoY. This resulted in a +0.3ppt YoY gain in HT's full year FY23 gross profit margin to 16.0%, which was supported by some success in price negotiations and production cost reductions.

HT's FY23 full year OP expanded just +4.6% YoY / ¥142mil, as price negotiations and improvement in production efficiency did not offset surge in costs of raw materials and labour. As a result, OPM deteriorated -0.4ppt YoY 6.9%.

FY23 C&LM segment SG&A rose ¥449mil YoY (negative for the segment OP) but was ¥147mil YoY lower for the Industrial Machinery segment, taking the full year SG&A to +¥690mil / +19.2% YoY. The largest single increase came from a +7.6% YoY / ¥335mil rise in sales commissions to distributors in the C&LM segment as LiB coating machinery sales expanded.

**EXECUTIVE SUMMARY**

- Hirano Tecseed (hereafter HT) reported FY23 OP of ¥3,236mil (+4.6% YoY) on sales of ¥46,946mil (+10.7% YoY). Both FY23 sales and OP overshoot the company guidance by 14.5% and 10.8%, respectively.
- Coating and Laminating Machinery [C&LM] segment sales hit a record of ¥37,374mil (+19.9% YoY) and a high absolute level of order backlogs, (¥55,760mil -19.1% YoY), due to longer lead times for specifications changes from Hirano's LiB electrode coating machine customers.
- HT is guiding for FY24 1H OP of ¥1,200mil (+55.9% YoY) on sales of ¥22,600mil (+1.1% YoY), and FY24 OP of ¥2,900mil (-10.4% YoY) on sales of ¥44,000mil (-6.3% YoY). Guidance for the C&LM segment assumes a decline in growth for both sales and OP as customers' sentiment for CAPEX is more cautious given the uncertainty surrounding global EV markets.
- While HT aims to become a global leader in C&L machinery and is targeting FY27 sales of ¥60,000mil and ROE of 10%, the medium-term plan (FY24~27) is regarded a period during which HT will focus on establishing foundations for growth so as to improve corporate value.
- HT announced its revised capital allocation policy under the new medium-term plan. The estimated total capital of ¥8,000mil which is comprised of operating cash flow, debt and cash surplus will be allocated to the following areas:
  - Growth investment ¥3,000mil+,
  - Strategic alliance, or shareholder return ¥3,000mil+,
  - Higher of DOE of 3.5% or dividend pay-out ratio of 60%
  - Maintenance CAPEX ¥2,000mil, Working capital.

The performance by segment is as follows:

- **C&LM Segment:** The segment GP rose +¥1,633mil along with increase in sales by consuming order backlog, which offset the surge in prices of industrial materials, cost increases associated with change in machine specifications to meet shipping locations, and delays in manufacturing period, and resulted in improvement in FY23 segment OP by ¥1,183mil. However, the improvement in GP was well offset by higher SG&A (¥449mil) including sales commission paid to LiB electrode coating machinery distributors as sales increased (¥335mil).
- **Industrial Machinery segment:** Sales declined -19% YoY and saw a deterioration in product mix (-¥959mil YoY), which resulted in the segment OP declining -39.2% YoY / -¥812mil YoY. This was partially offset by a reduction in segment SG&A by ¥147mil.

Hirano Tecseed (6245): Sales, Production, Order and Order Backlog Breakdown												
(¥mil)		FY22					FY23					
		Q1	Q2	Q3	Q4	FY	Q1	Q2	Q3	Q4	FY	YoY (%)
Coating and Laminating Machinery	Sales	6,657	6,163	8,495	9,862	31,179	10,441	7,785	9,771	9,376	37,374	19.9
	Production	5,783	5,493	7,672	8,402	27,352	9,050	6,939	7,667	8,257	31,915	16.7
	Order Received	24,449	15,308	1,270	5,474	46,503	849	2,730	9,070	11,572	24,222	-47.9
	Order Backlog	71,430	80,525	73,300	68,912	68,912	59,319	54,265	53,564	55,760	55,760	-19.1
Industrial Machinery	Sales	2,262	2,533	3,035	1,942	9,774	1,720	1,540	2,268	2,321	7,850	-19.7
	Production	1,729	1,751	2,104	1,611	7,196	1,364	1,247	1,814	1,804	6,232	-13.4
	Order Received	715	1,462	910	1,668	4,757	626	1,620	1,128	773	4,149	-12.8
	Order Backlog	13,221	12,150	10,024	9,750	9,750	8,657	8,737	7,597	6,049	6,049	-38.0
Others	Sales	306	346	427	389	1,470	422	434	325	538	1,720	17.0
	Production	235	264	342	352	1,195	354	360	67	505	1,287	7.7
	Order Received	623	356	926	327	2,233	337	530	343	265	1,476	-33.9
	Order Backlog	796	807	1,304	1,242	1,242	1,157	1,253	1,272	998	998	-19.6
Total	Sales	9,226	9,044	11,958	12,194	42,423	12,584	9,761	12,363	12,236	46,946	10.7
	Production	7,748	7,509	10,120	10,366	35,744	10,769	8,547	9,549	10,568	39,434	10.3
	Order Received	25,838	17,079	3,105	7,471	53,494	1,812	1,767	13,657	12,611	29,848	-44.2
	Order Backlog	85,448	93,483	84,629	79,908	79,906	69,134	64,256	62,433	62,808	62,808	-21.4

Source: Nippon-IBR based on Hirano Tecseed's FY22 and FY23 Tanshin

As of FY23-end, the C&LM segment order backlog fell -19.1% YoY to ¥55,760mil – a sharp contraction from the FY22 Q2 peak of ¥80,525mil, as sales increased.

HT had procured materials and components upfront during the COVID pandemic when costs were much higher due to supply shortages. To tackle these cost issues and improve profitability, the firm aims to improve sales by:

- Reviewing its supply contracts when a change in specifications is required when customers alter the shipment location.
- Pass on cost increases associated with the required upgrades/ changes in specifications.
- Improve production systems, including those of its subcontractors, by preparing for potential change in specifications, and increase production capacity to monetise order backlogs so as to gain new orders.

At the same time, HT aimed to reduce COGS and SG&A by the following measures:

- Reduce production costs by using standardised designs and specifications across product models.
- Raise the in-house production of core components.
- Increase monitoring of production costs.
- Review distributor contracts to negotiate less punitive commission rates.
- Improve productivity firm-wide by promoting digital transformation.

## PERFORMANCE BY SEGMENT

HT has three business segments, of which two – the C&LM segment and the Industrial Machinery segment – combined generate 96.3% of total consolidated sales and almost all of consolidated OP. Consolidated sales can also be divided into the following applications.

### C&LM Segment:

The largest component of this segment is electrode coating equipment for secondary LiBs. FY23 segment OP improved +59.6% YoY to ¥3,168mil on sales of ¥37,374mil (+19.9% YoY) – comprising domestic sales of ¥1,217mil (-47.7% YoY) and export sales of ¥36,157mil (+25.3% YoY).

The segment OPM continued to deteriorate until FY23 1H – FY22 1H 6.6% / FY22 6.4% / FY23 1H 5.0% – but then recovered to 8.5% in FY23. In 2H alone, the segment produced OP of ¥2,250mil (+96.7% YoY / + 2.4x HoH) on sales of ¥19,147mil (+4.3% YoY / +5.0% HoH), generating an OPM of 11.8%. Although there was a recovery in the segment OPM during 2H, the firm does not think that this is a sustainable figure.

C&LM sales are recognised based on the percentage of completion method. Delays in revenue recognition were extended to as much as 12 months due to changes in specifications as customers changed the location to receive their coating machine orders. As a result, any delays to the production process will be reflected in the order backlog and contract assets on the BS.

Despite significant sales growth (3-year CAGR +34.1%), the C&LM segment OPM has worsened due to:

- The rapid surge in material and energy costs over the past year has not been reflected in the order backlogs,
- Production delays caused by customers changing machine specification to ensure they are fit for purpose at new shipment locations increase HT's production cost, and
- While HT's customers are pending sales, HT pays its suppliers and subcontractors within 30 days of placing orders.

Management acknowledges the earnings risk associated with the existing order contracts and have therefore started negotiating a payment cycle as well as implementing price hikes. Sales are currently recognised when the machinery is loaded on a container ship. HT is willing to modify the payment method to include upfront advanced payments and thereafter royalty-based payments. However, it is still premature to fully reflect such changes on the existing order backlog. Although the FY23 segment order backlog declined by -19.1% YoY to ¥55,760mil on the back of improved levels of production, it is still as much as 1.5x above FY23 segment sales.

### Industrial Machinery Segment:

FY23 segment OP fell -39.2% YoY to ¥1,257mil on sales of ¥7,850mil (-19.7% YoY) – comprising domestic sales of ¥4,072mil (+21.1% YoY) and exports of ¥3,778mil (-41.1% YoY). Deposition equipment mainly used in electronic materials applications, such as MLCCs and forming polyimide films, saw increasing interest from customers both in Japan and in China. The Chinese market was rather sluggish on the back of the region's economic climate and led to FY23 segment orders falling -12.8% YoY to ¥4,149mil, and the order backlog declining -38.0% YoY to ¥6,049mil. However, CAPEX by electronics components makers remained solid.

The Industrial Machinery segment FY23 OPM deteriorated by -5.1ppts YoY to 16.0%, due to changes in product mix. Sales of deposition equipment still remains the core growth driver for the segment, however, sales declined.

Sales by Application										
¥mil	FY22					FY23				
	Q1	Q2	Q3	Q4	FY Total	Q1	Q2	Q3	Q4	FY Total
Display - related	662	1,144	1,223	783	3,815	661	291	528	724	2,205
Electronic materials-related	2,123	2,005	2,495	1,579	8,203	1,257	1,654	2,002	1,701	6,615
Household product-related	256	108	168	157	690	95	79	52	84	311
Energy- related	5,036	4,517	6,861	8,633	25,048	9,481	7,201	9,327	9,057	35,067
Other	1,147	1,268	1,208	1,041	4,666	1,089	535	452	668	2,746
<b>Total</b>	<b>9,226</b>	<b>9,044</b>	<b>11,958</b>	<b>12,194</b>	<b>42,423</b>	<b>12,584</b>	<b>9,761</b>	<b>12,363</b>	<b>12,236</b>	<b>46,946</b>

Source: Hirano Tecseed Co., Ltd.

Hirano Tecseed (6245): Segment Financial Summary									
¥mil		FY21	FY22		FY23				
		FY	1H	FY	1H	YoY (%)	FY	YoY (%)	
Coating and Laminating Machinery	Sales	26,533	12,821	31,179	18,227	42.2	37,374	19.9	
	Operating Profit	2,796	841	1,985	918	9.2	3,168	59.6	
	OPM (%)	10.5	6.6	6.4	5.0	-1.4ppt	8.5	+2.1ppt	
Industrial Machinery	Sales	9,998	4,796	9,774	3,261	-32.0	7,850	-19.7	
	Operating Profit	1,946	1,107	2,069	504	-54.5	1,257	-39.2	
	OPM (%)	19.5	23.1	21.1	15.5	-5.6ppt	16.0	-5.1ppt	
Others	Sales	1,334	653	1,470	857	31.2	1,720	17.0	
	Operating Profit	204	63	82	47	-25.4	269	227.7	
	OPM (%)	15.3	9.7	5.6	5.5	-0.1ppt	15.7	+10.1ppt	

Source: Nippon-IBR based on Hirano Tecseed's FY21, FY22 and FY23 Tanshin

## FY24 OUTLOOK

HT is guiding for FY24 1H OP of ¥1,200mil (+55.9% YoY) on sales of ¥22,600mil (+1.1% YoY), and full year FY24 OP of ¥2,900mil (-10.4% YoY) on sales of ¥44,000mil (-6.3% YoY). Management expects the C&LM segment will see declines in both sales and OP due to customers' sentiments on CAPEX is waning given the uncertainty surrounding the global EV markets.

Hirano Tecseed (6245 JP): Earnings Summary and Guidance						
¥mil	FY23		FY24			
	1H	FY	1H CE	YoY (%)	FYCE	YoY (%)
Sales	22,346	46,946	22,600	1.1	44,000	-6.3
GP	3,030	7,511	N/A	N/A	N/A	N/A
GPM (%)	13.6	16.0	N/A	N/A	N/A	N/A
SG&A	2,260	4,275	N/A	N/A	N/A	N/A
SG&A/Sales (%)	10.1	9.1	N/A	N/A	N/A	N/A
OP	769	3,236	1,200	55.9	2,900	-10.4
OPM (%)	3.4	6.9	5.3	+1.9ppt	6.6	-0.3ppt
RP	814	3,394	1,300	59.7	3,000	-11.6
RPM (%)	3.6	7.2	5.8	+2.2ppt	6.8	-0.4ppt
NP*	564	2,438	910	61.3	2,100	-13.9
EPS (¥)	37.42	161.69	60.34	61.3	139.25	-13.9

Source: Nippon-IBR based on Hirano Tecseed's results presentation material  
\* NP attributed to the parent's shareholders

Although production levels have recovered as issues with the supply of materials have eased, shipment delays due to changes in machine specifications likely continue. Therefore, the firm remains conservative in its sales guidance and is basing the FY24 performance on order backlogs that are highly likely to be completed. Consequently, HT is forecasting

full-year sales to decline -6.3% YoY due to ongoing equipment specifications adjustments – such as changes in delivery location which result in different requirements – which will likely lead to delivery delays.

Management is also guiding for the FY24 OPM to contract to 6.6% from 6.9% in FY23. HT continues to engage in price negotiation to pass on cost increases and costs associated with updating and upgrading machine specifications to customers. While the firm had some success in FY23 2H, HT thinks it would be premature to reflect potential pricing changes to the company's current estimates.

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## NEW OPPORTUNITIES

As well as aiming to promote further delivery management and productivity improvements, while also keeping a close eye on customers' CAPEX trends, HT is looking to capture new market demand to ensure growth over the medium to long term, especially in the US.

The company set up a subsidiary in the US to gain turnkey contracts, rather than just selling coating machinery, and has established a service and maintenance businesses. However, HT's lack of production capacity remains an issue. Although HT's LiB electrode coating equipment is highly rated by global battery makers, a shortage of production capacity can cause delays in shipments.

With the order backlog at record levels, the average lead time from order receipt to the equipment delivery (installation) currently takes between 2~2.5 years. Some 80% of the current order backlog comprises orders received before FY22. Currently, HT is in a position not to drastically increase orders without risking longer delivery cycle.

Since orders for LiB electrode coating equipment rapidly surged in FY21, the firm's requirement for working capital to meet production levels hit ¥10,100mil. However, due to changes in specifications of LiB electrode coating equipment, some of the current order backlogs have become less profitable – though not unprofitable. Consequently, as noted above, HT is considering renegotiating prices in some cases.

In the case of cancellations, the firm has already realised revenue based on the percentage of completion basis, hence will unlikely report impairment losses. To enhance negotiation capabilities, HT changed its sales and marketing director whose responsibility includes exchanging contracts that works better with projects with longer lead time.

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## LONG-TERM VISION 2030 AND NEW MEDIUM-TERM PLAN

### Vision and Target – Recap

Hirano Tecseed announced its Long-Term Vision 2030 plan in May 2023, during which the firm's aim is to become a global leader in coating machines. HT is looking to enhance corporate value by establishing a stable revenue base based on the following three goals:

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

HT will continue to focus on expanding growth in 1) energy-related applications, including LiB electrode coating equipment and also extending to next generation batteries, such as solid-state batteries and fuel cells, and 2) electronic materials applications, including coating equipment for capacitors loaded in EVs, and for electronic materials used in 5G high-frequency wave.

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

### Capital Allocation Policy to optimise shareholder equity.

With the 1H results announcement, HT outlined its capital allocation plan for its surplus cash, which is estimated at ¥7,000mil+, during the medium-term management plan. Capital will be allocated to capture growth as well as directed to improve shareholder equity so as to improve ROE and PBR.

HT plans to allocate capital into the following five areas:

**1. Growth investment ¥3,000mil+**

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

**2. Strategic Alliance ¥3,000mil+ or allocated to shareholders return if not spent**

HT plans to allocate funds to build strategic alliances to solidify its procurement capability of core components. If strategic alliances are not realised during the medium-term plan, the excess funds will be allocated to either growth investments, or to shareholder return including share buyback.

**3. Dividend Payments**

As for shareholder returns, management commits to pay higher of dividend on equity [DOE] of 3.5% or dividend yield of 60%. Dividends will be regularly reviewed to optimise shareholder equity which will subsequently improve PBR and ROE.

**4. Maintenance CAPEX ¥2,000mil**

HT plans to allocate ¥2,000mil on updating existing factories.

**5. Working Capital**

This will be equivalent to three-month sales.

**Medium-term Plan FY24~FY27**

During the previous medium-term plan, HT achieved constant growth of C&LM segment although piling order backlog remained as an issue. Still earnings heavily rely on the segment as the size of the LiB secondary battery market is far bigger compared to that for MLCCs and electronics components. Although the segment achieved +34.1% sales CAGR over the past three years, the OPM deteriorated because shipments were delayed by customers changing specifications, combined with the fact that HT pays its subcontractors within 30 days of an order being placed.

In addition to achieving record sales in C&LM, HT has also drastically altered its shareholder return policy after reviewing the strength of its balance sheet and will either pay out 3.5% DOE from retained earnings or 60% of the year's NP, whichever higher.

Hirano Tecseed (6245 JP): Previous Medium-term Plans (FY21~23)					
	Base Year	MT FY21~FY23			
	FY20	FY21	FY22	FY23	3-yr CAGR (%)
Total Sales (¥mil)	25,800	37,866	42,423	46,946	22.1
Coating and Laminating Equipment (¥mil)	15,485	26,533	31,179	37,374	34.1
OPM (%)	9.9	10.5	7.3	6.9	N/A
ROE (%)	5.9	9.5	6.4	6.5	N/A

*Source: Hirano Tecseed Medium-term Management Plan Presentation FY24-FY27*

While HT aims to become a global leading company in coating and laminating equipment and to realise sales of ¥60,000mil and ROE of 10% by the end of its medium-term plan (FY24~27), management sees this period as a time to establish a foundation for future growth in order to further enhance corporate value. Given one of the key issues for investors has been how HT can shorten the lead time and solve the order backlog issues, HT will focus on the following three main issues:

1. Diversify revenue streams
2. Expand supply capabilities
3. Improve organisational capabilities.

Details of the plan can be found on HT's website below:

([https://www.hirano-tec.co.jp/en/mt\\_asset/Medium-Term%20Management%20Plan%20FY2024-FY2027.pdf](https://www.hirano-tec.co.jp/en/mt_asset/Medium-Term%20Management%20Plan%20FY2024-FY2027.pdf)).



Medium-term Target and Revenue Breakdown by Segment			
(¥mil)	FY23	FY27	4-year CAGR
Coating and Laminating	35,100	27,500	-5.9
Industrial Machinery	6,600	9,000	8.1
Optical Film etc.	3,600	9,000	25.7
After Services	1,600	3,500	21.6
Others	0	2,000	N/A
Total Sales	46,946	51,000	2.1
OP	3,236	4,100	6.1
OPM (%)	6.9	8.0	N/A
ROE (%)	6.5	7.5	N/A

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

### Medium-term Outlook by Segment

**Coating and Laminating:** HT expects FY27 sales of ¥27,500mil (4-yr CAGR -5.9%) based on 1) shipment delays over FY24~FY25 as the outlook for the global EV market and the corresponding unwillingness of its customers to further spend on CAPEX, and 2) lack of profit growth in FY24 for FY24 sales do not include final shipment of LiB electrode coating machine.

Although the firm is expecting the current weak outlook for the EV market to be a short-term factor, it is still seeing solid demand in LiB. To capture the medium- to long-term demand, the firm plans to undertake orders on a turnkey contract basis. HT also aims to establish business for the next generation batteries.

**Industrial Machinery:** This segment can be split to two businesses, (1) machinery for electronics components with FY27 revenue guided to reach ¥9,000mil (4-yr CAGR +8.1%), and (2) FY27 optical film coating equipment with revenues expected to enjoy 4-yr CAGR of +25.7% to ¥9,000mil. The firm aims to realise growth by diversifying the segment's revenue stream by capturing both domestic and overseas demands.

**Service and Maintenance:** HT is keen to establish a service and maintenance business as it leads to capturing replacement demand. The firm is guiding for FY27 segment sales of ¥3,500mil (4-yr +21.6%). Moreover, given this segment is expected to enjoy higher margins, it will help stabilise segment earnings.

**Others (incl. new businesses):** HT plans to make some seed investments on newly developed high value-added businesses and M&A with offers long-term growth opportunities. HT guides for FY27 segment sales of ¥2,000mil from no sales in FY23.

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