# Sodick (6143)

## From turnaround to transformation towards growth

Share price: ¥743 Market cap: ¥40.7bn

## Deep-dive review

28 April 2025

- **Period of renewal to improve quality of earnings** – It has been an active 12 months for Sodick as it delivered a strong turnaround in FY12/24 driven by structural reform, appointed new President and CEO Yuji Akutsu, and affirmed growth prospects on both the Food Machinery segment and new products such as laser processing machines, metal 3D printers, and ultra-high-precision machining centers. Ongoing structural reforms focus on reducing reliance on China, enhancing profitability through business and product selection based on market dynamics, and rebuilding global production and sales systems to adapt to yen depreciation and evolving customer demand. Overseas expansion and providing “turnkey” solutions remain high priorities to build sustainable growth.

## New CEO appointment

- **Appointment of new CEO and President** – Yuji Akutsu was appointed CEO, President, and Representative Director in 2025. He previously served as Chief Operating Officer (COO) from 2022. With a proven track record in operational turnaround, his leadership is expected to strengthen execution across the group.
- **ESG** – We continue to score the company as ‘**Amber**’ under our Astris-Sustainability model scorecard.
- **Valuations** – The shares are trading on an estimated PER FY12/25 of 12.9x (on a normalized EPS growth of 92.5% YoY), PBR 0.5x, and a 4.0% dividend yield (based on a 52.1% total payout ratio). Its EV/EBITDA multiple of 3.1x is at a significant discount versus its domestic peers at 7.6x and international peers at 11.0x. We believe that successfully executing the company’s medium-term plan will enhance the quality of earnings, resulting in a re-rating in valuations and an expansion in multiples.

| Year-end | 12/23 | 12/24 | 12/25E | 12/26E | 12/27E |
|---|---|---|---|---|---|
| Sales (¥bn) | 67.17 | 73.67 | 76.29 | 81.25 | 86.55 |
| OP (¥bn) | (2.82) | 2.23 | 4.35 | 4.58 | 4.91 |
| NI (¥bn) | (4.60) | 4.12 | 2.92 | 3.03 | 3.28 |
| EPS (¥) | (90.29) | 81.06 | 57.54 | 59.77 | 64.62 |
| DPS (¥) | 29.00 | 29.00 | 30.00 | 31.00 | 32.00 |
| Sales growth YoY (%) | -16.5 | +9.7 | +3.6 | +6.5 | +6.5 |
| OP growth YoY (%) | N/A | N/A | +95.1 | +5.3 | +7.2 |
| NP growth YoY (%) | N/A | N/A | -29.0 | +3.9 | +8.1 |
| EPS growth YoY (%) | N/A | N/A | -29.0 | +3.9 | +8.1 |
| PER (x) | N/A | 9.2 | 12.9 | 12.4 | 11.5 |
| EV/EBITDA (x) | N/A | 6.4 | 3.8 | 3.6 | 3.3 |
| EV/Sales (x) | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| PBR (x) | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 |
| ROE (%) | (5.8) | 5.1 | 3.4 | 3.3 | 3.3 |
| ROCE (%) | (2.7) | 2.0 | 3.7 | 3.7 | 3.8 |
| FCF yield (%) | (13.1) | 16.8 | 16.2 | 11.6 | 12.7 |
| Dividend yield (%) | 3.9 | 3.9 | 4.0 | 4.2 | 4.3 |
| Total shareholder returns (%) | 3.9 | 3.9 | 4.0 | 4.2 | 4.3 |

Source: Company, Astris Advisory (estimates)


Source: Bloomberg

### Price Performance

| | YTD | 1M | 3M | 12M |
|---|---|---|---|---|
| Abs (%) | +1.0 | -14.8 | -9.5 | +3.9 |
| Rel (%) | +6.1 | -11.4 | -5.9 | +5.3 |

### Company sector

Electronic Components - Miscellaneous Machinery

### Stock data

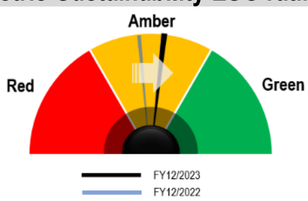
| | |
|---|---|
| Price (¥) | 743 |
| Mkt cap (¥bn) | 40.7 |
| Mkt cap ($m) | 283.1 |
| 52-week range (¥) | 597-963 |
| Shares O/S (m) | 55 |
| Average daily value ($m) | 1.1 |
| Free float (%) | 79.9 |
| Foreign shareholding (%) | 17.1 |
| Ticker | 6143 |
| Exchange | Tokyo Prime |
| Net Debt/Equity (x) | N/A |
| FFO leverage (x) | 9.2 |
| BBG BUY\|HOLD\|SELL | 1\|1\|0 |

Source: Bloomberg

### Business Overview

Sodick is a machine tool company and the global market leader in electronic discharge machines (EDMs). It develops and manufactures metal 3D printers, injection molding machines, and food processing equipment.

### Astris-Sustainability ESG rating




| Reference Ratings | |
|---|---|
| MSCI | N/A |
| Sustainalytics | 32.7 |
| Refinitiv | N/A |
| S&P Global | 39.0 |
| Bloomberg | 2.51 |

### Next events

Q1 FY12/2025 results May 2025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**This report has been commissioned and paid for by the company**

# Contents

# Summary

Sodick provides manufacturing solutions to customers worldwide and is a market leader in electronic discharge machines (EDMs) used in precision machining. Its core products include EDMs, precision machining centers, 3D metal printers, laser processing systems, injection molding machines, and food processing equipment.

**Business turnaround in FY12/24, new CEO appointment and focus on new products and Food Machinery to drive growth**

Significant developments have occurred over the last 12 months. Sodick delivered a strong turnaround in FY12/24, rebounding from a loss in the previous year through structural reforms and cost reduction initiatives. The company returned to profitability, driven by improved operational efficiency and increased demand in Machine Tools and Industrial Machinery, particularly from the data center and telecom sectors. FY12/25 guidance points to continued sales recovery and margin expansion across all segments. In March 2025, Yuji Akutsu was appointed CEO, President, and Representative Director. Known for successfully turning around an unprofitable U.S. subsidiary, his leadership is expected to strengthen the company's operational execution.

Looking ahead, Sodick is focusing on scaling its Food Machinery segment and expanding overseas. The company also aims to diversify earnings through new growth drivers, including laser processing machines, metal 3D printers, and ultra-high-precision machining centers. Execution will be key to realizing this growth potential.

**Astris Advisory believes** that Sodick's earnings outlook will improve via the following factors:

- **Improving quality of earnings** – pursuing structural reforms focused on three key areas: reducing reliance on China; enhancing profitability through business and product selection based on market dynamics; and rebuilding global production and sales systems to adapt to yen depreciation and evolving demand.
- **Focus on growth from new products and Food Machinery** – there are growth opportunities domestically and in Asia for Food Machinery, particularly for aseptic packaged cooked rice manufacturing equipment.

**Discount valuations – PBR 0.4x, 4.2% dividend yield, EV/EBITDA 3.1x**

The shares are trading on an estimated PER FY12/25 of 12.9x (on a normalized EPS growth of 92.5% YoY), PBR 0.5x, and a 4.0% dividend yield (based on a 52.1% total payout ratio). Its EV/EBITDA multiple of 3.8x is at a significant discount versus its domestic peers at 7.6x and international peers at 11.0x.

# Review of the last 12 months

## Key events and milestones

We highlight the following key instances over the last 12 months:

### Positive turnaround in FY12/24

Following a loss in FY12/23, the company implemented structural reforms that led to a strong recovery in FY12/24, with better-than-expected results and a return to profitability. Growth was driven by cost reductions and increased demand in Machine Tools and Industrial Machinery, particularly in the data center and telecom sectors. FY12/25 guidance suggests continued sales growth and operating margin improvement across all segments.

### Appointment of new CEO and President

Yuji Akutsu was appointed CEO, President, and Representative Director in March 2025. Previously acting as COO, Executive Vice President, and Director, Mr. Akutsu was chosen because of his track record in turning around an unprofitable US subsidiary by strengthening the after-sales business.

### Growth focus on key products

The Food Machinery segment continues to scale, with opportunities for overseas expansion and domestic demand. Sodick has also identified three new products to diversify its earnings streams and drive growth (laser processing machines, metal 3D printers, and ultra-high-precision machining centers). While success ultimately depends on execution, effective performance in these areas can enhance growth prospects and contribute to the diversification of the company's earnings.

### Transition to a company with an Audit and Supervisory Committee

In 2025, Sodick transitioned to a company with an Audit and Supervisory Committee from the previous Audit and Supervisory Board. We believe this is a positive development that enhances the transparency and objectivity of management and strengthens the supervisory function of the Board of Directors.

# Company description

## Overview

Market leader in electronic discharge machines (EDMs)

Established in 1976 by founder Toshihiko Furukawa, Sodick is a **pioneer and global leader in electronic discharge machines (EDMs)**. EDMs are machining tools used for mold manufacturing and component machining, driven by the demand for precision parts and miniaturization in sectors such as automotive, smartphone, aerospace, and healthcare. EDM is a non-traditional machining process that utilizes thermal energy instead of mechanical force to remove material from a workpiece. Engineers often turn to EDM when machining processes, such as milling and turning, cannot produce the desired cut for certain materials, including those with sharp internal corners or particularly deep cavities.

With precision machining centers, metal 3D printers, and laser processing machines, Sodick's core products include injection molding machines and food processing equipment. The company was listed on the Tokyo Stock Exchange in 1986. Its global network is primarily focused on the Asia region, with its production centers in Japan, China, and Thailand.

Focus on sustainable growth and corporate value

Change to a business-aligned organization

With **a strong tradition of creativity and engineering prowess** in resolving customers' manufacturing issues, Sodick is renowned for its differentiated and value-added solutions rather than competing as a price leader. However, management identified that **a wide-encompassing business transformation was required to generate sustainable growth and enhance medium to long-term corporate value**. Under the current Chairperson, Kenichi Furukawa, an office for 'transformation preparations' was established in October 2020. This resultant objective was **to create a 'business-aligned' organization, away from the previous 'function-aligned' format**.

Aiming for customer success

This transformation involved **establishing product divisions from an existing functional-optimal structure**, bringing the total value chain of planning, sales, service, and engineering under core product divisions (for Machine Tool and Injection Molding Manufacturing). To compete successfully, it was deemed necessary to shift from a mindset of 'selling sets of equipment' to a customer-centric 'issue resolution model' that contributes **to customer success**. This two-year effort was challenging, but began functioning in January 2022.

In February 2024, **a long-term vision for 2033** was developed to **1) optimize the business portfolio, 2) strengthen global management, and 3) deepen management for sustainability. A new medium-term plan** covering FY12/24 to FY12/26 was also introduced to focus on achieving structural reforms to build a firm foundation as follows:

- **Reducing dependence on China** – reorganize manufacturing operations and expand production items in Japan by consolidating manufacturing in China.
- **Selection and concentration** – improve profitability by reorganizing business segments and products based on market trends and the competitive environment.
- **Restructuring of production and sales systems** – to rebuild production and sales systems globally in response to yen depreciation and changes in demand.
- **Balance sheet improvement** – enhance the cash conversion cycle and reduce long-term inventory to improve cash flows by reducing inefficiencies.

### Timeline summary

| Key dates | Details |
|---|---|
| August 1976 | Founder Toshihiko Furukawa established the company. |
| **February 1986** | **Listed on the Second section of the Tokyo Stock Exchange** |
| December 1994 | Established a manufacturing facility in Suzhou, mainland China. |
| March 2007 | Diversified into the food machinery business. |
| **March 2015** | **Listed on the First section of the Tokyo Stock Exchange** |
| **October 2020** | **Establish an office for 'transformation preparations'** |
| **January 2022** | **The Machine Tool Business Division was established in line with corporate reform.** |
| April 2022 | Transferred to the Prime section of the Tokyo Stock Exchange. |
| April 2024 | Formed a capital and business alliance with Prima Additive, an Italian metal 3D printer company. |

Source: Company

## Business segment data

Sodick has four core business segments, offering the following products and services.

**Machine Tool segment is the core activity**

### Business segment details

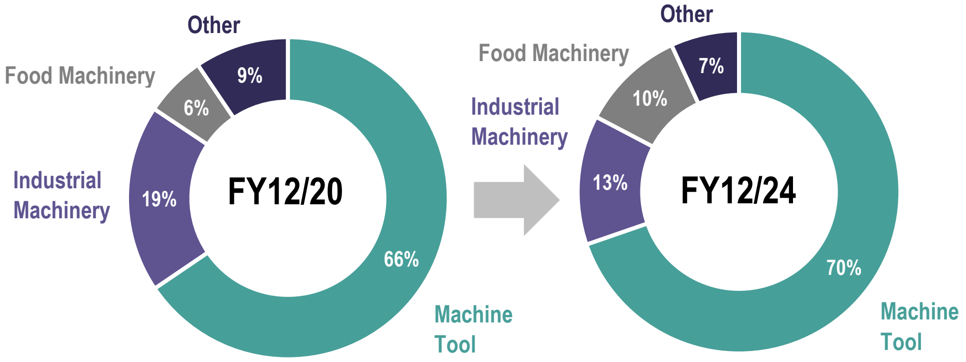
| Business Segment | Main application/product | Main customer sectors | Core products |
|---|---|---|---|
| **Machine Tool** | • Mold manufacturing<br>• Component machining | Autos<br>IT<br>Smartphones<br>Electricals/electronic parts<br>Aerospace<br>Medical equipment | • Die-sinker EDMs<br>• Wire-cut EDMs<br>• Small-hole drilling EDMs<br>• Metal 3D printers<br>• Precision machining centers<br>• CAD-CAM<br>• Laser processing machines |
| **Industrial Machinery** | • Manufacturing plastic components and other difficult-to-machine materials<br>• Manufacturing special materials<br>• Manufacturing light metal components | Autos<br>IT<br>Smartphones<br>Electricals/electronic parts<br>Connectors<br>Medical equipment | • Horizontal injection molding machines<br>• Vertical injection molding machines<br>• Light metal alloy injection molding machines<br>• Injection molding production automation systems<br>• Quality and production management software |
| **Food Machinery** | • Uncooked noodles (e.g., udon, soba, Chinese noodles)<br>• Frozen noodles<br>• Long shelf-life noodles<br>• Sterile-packed cooked rice<br>• Confectionary<br>• Precooked side dishes | Food manufacturers<br>Restaurant chains<br>Frozen food manufacturers<br>Confectionary manufacturers | • Noodle-making machines<br>• Automatic noodle boiling/steaming/sterilizing systems<br>• Sterile-packed cooked rice production systems<br>• Confectionery-related equipment |
| **Other** | • Design and manufacture of molds<br>• Production of plastic molded parts<br>• Development, manufacturing, and sale of products using linear motors and control devices<br>• Ceramic products<br>• LED lighting | Various | • Precision molds and precision-molded parts<br>• Ceramics<br>• Linear motors<br>• LED lighting |

Source: Company

In terms of sales mix, whilst Machine Tools continue to make up the significant majority, the company has made progress in scaling the Food Machinery segment, which made up 10% of total FY12/24 sales. We view this as a positive development, with increasing exposure to a non-cyclical market sector.

## Food Machinery is beginning to make an impact on the sales mix

### Sales mix by Business Segment – FY12/20 vs FY12/24

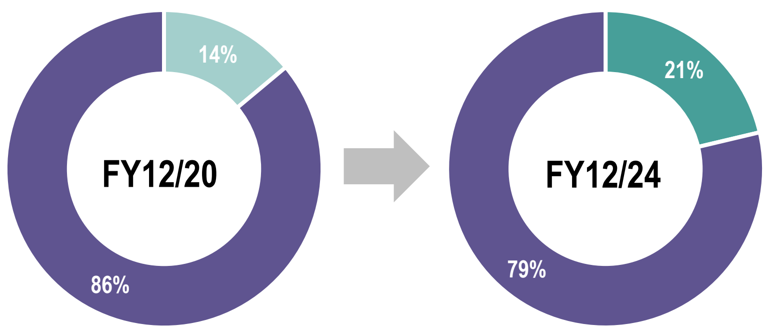



Source: Company

The company continues to strengthen after-sales activities, driving growth in recurring revenues to improve the quality of earnings.

## Increasing proportion of after-sales activities

### Sales mix – Machine sales versus maintenance services and consumables

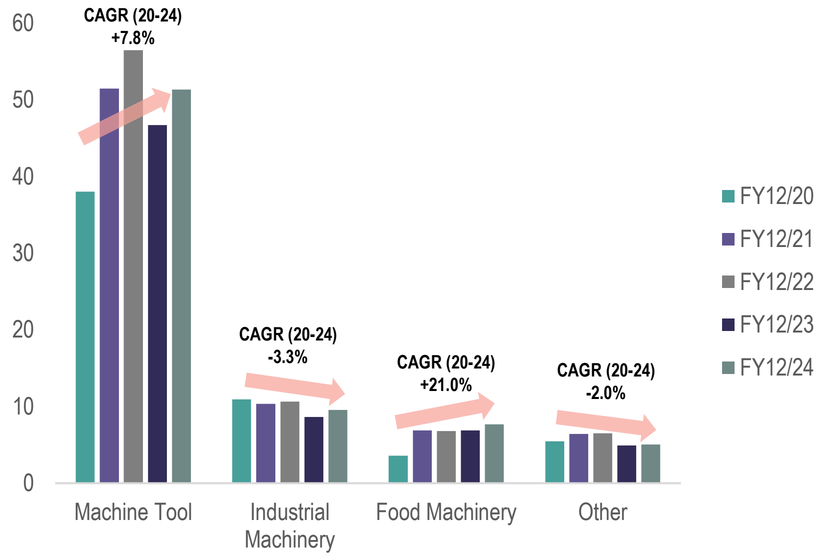



Source: Company

Annual sales by business segment show that Food Machinery has grown over the last five years. Sales trends elsewhere are more volatile, particularly in Machine Tool and Industrial Machinery.

## Food Machinery demonstrating the strongest sales growth

### Annual Sales Trend by Business Segment

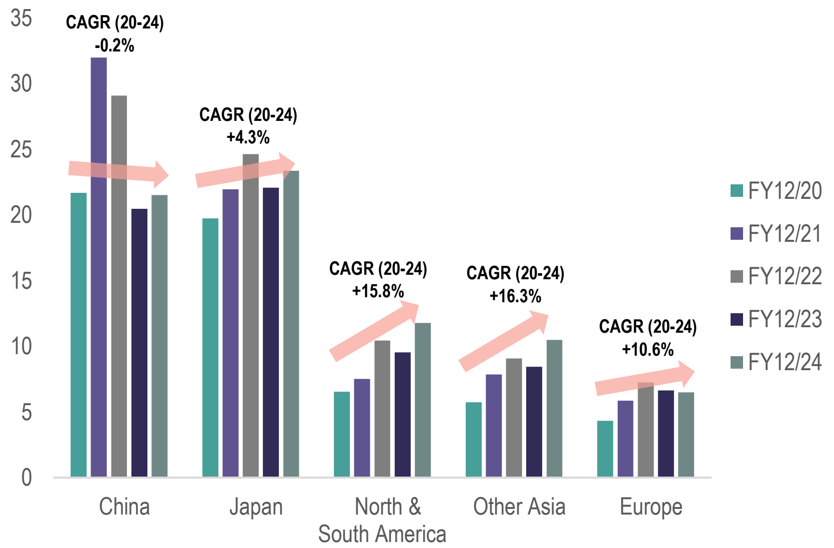



Source: Company

**China has been Sodick's largest geographic market**, making up 37% of total FY12/2020 sales. However, the company's medium-term objective of reducing dependence on China is being executed, with Japan sales overtaking China in FY12/23. The company has grown sales globally, particularly in North and South America and Other Asia, assisted by an FX tailwind.

## China sales peaked in FY12/21

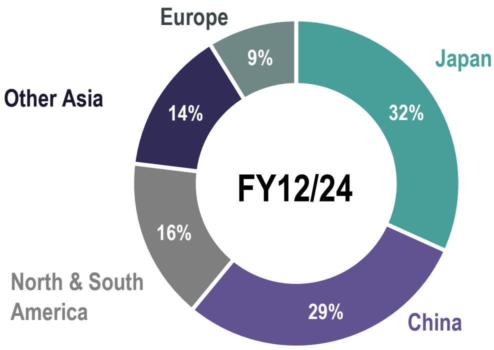
### Annual sales trend by geography




Source: Company

## Japan made up 32% of FY12/24 sales versus China at 29%

### FY12/24 sales split by geography

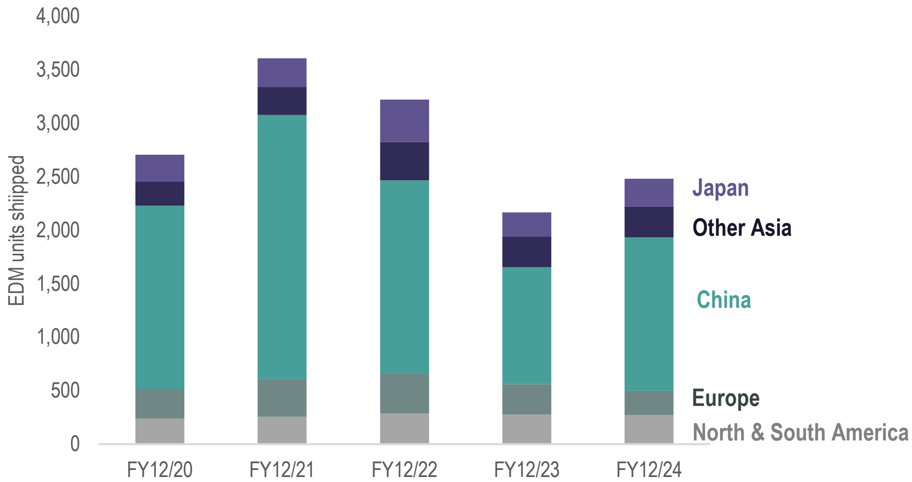



Source: Company

The falling reliance on China is also seen in the falling trend in EDM units shipped, although there was a recovery YoY for FY12/24 as demand was driven by demand for AI data centers with MT connectors.

## EDM units shipped to China showed a recovery YoY in FY12/24

### Annual EDM units shipped per geography (FY12/20-FY12/24)




Source: Company

## Recent trends in profitability

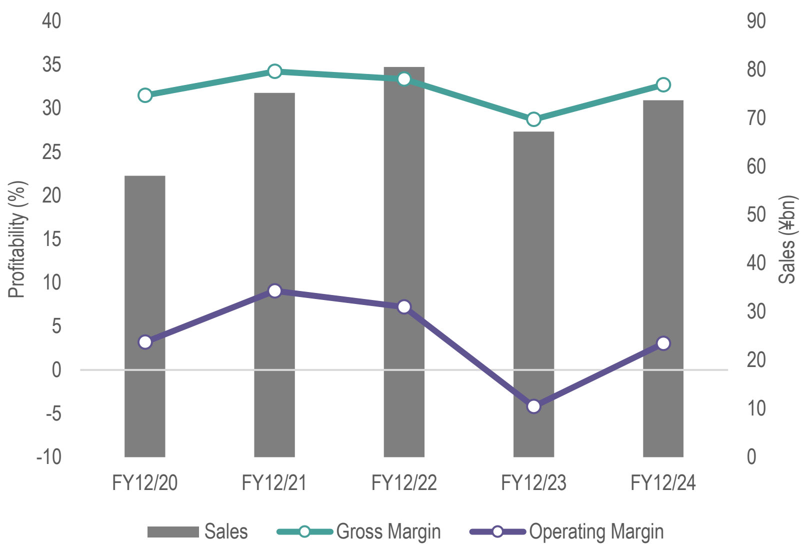
Over the last five FY periods, gross margins have been relatively stable and range-bound, with greater fluctuations in operating margins. **Profitability is driven primarily by sales volume**, although FY12/23 saw operating losses due to:

- **Greater-than-anticipated deceleration in Chinese demand** and the overall drop in unit sales volume of the mature electronic discharge machine market.
- **Cost increases** from inflationary pressure (both raw materials and operating costs).
- **Intensified price competition** with Japanese competitors due to the weakening yen (with approximately 90% of its electronic discharge machine units manufactured overseas) and elevated manufacturing costs at overseas factories, leading to lower competitiveness.

**FY12/24 results demonstrated a major turnaround YoY**, driven by recovering Machine Tool sales YoY in China and successfully executing structural reforms to reduce fixed costs. Cost reductions centered on streamlining overseas staff and internalizing previously outsourced parts production.

### Margin recovery in FY12/24

#### Annual GPM and OPM trend, with annual sales volume




Source: Company

## Key changes in segmental profit profile

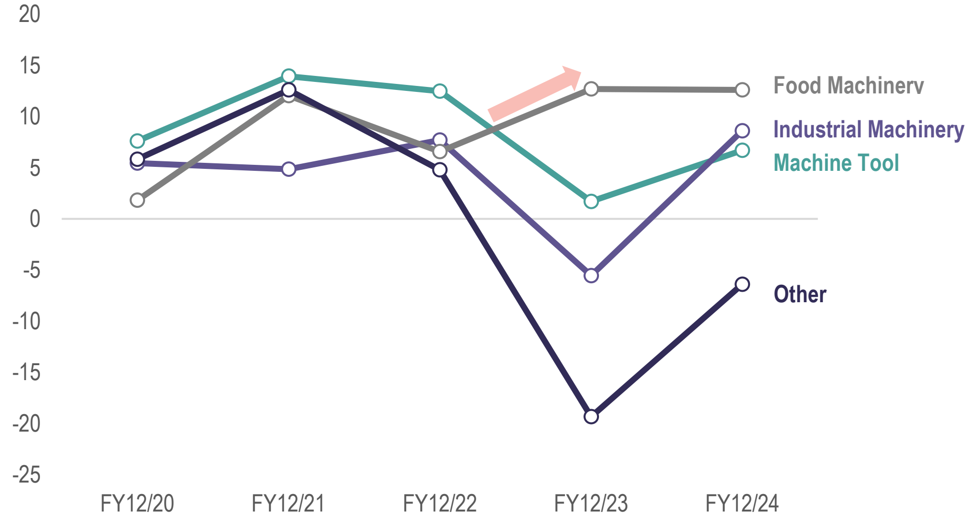
The company has undergone the following structural reforms to improve profitability:

- Consolidate two China-based manufacturing operations into the Amoy factory and conduct staff cuts at overseas factories and the head office.
- Streamline the product portfolio to improve the sales mix.
- Implement strategic price increases, avoid price-based competition, and secure positive returns.

We observe that segmental profit margins can be volatile; returns at Food Machinery have steadily risen, driven by sales increases through product development. We believe this is a positive indication that 1) Food Machinery has the potential to transform into a major earnings pillar, and 2) Sodick's engineering expertise is transferable for cross-industry expansion.

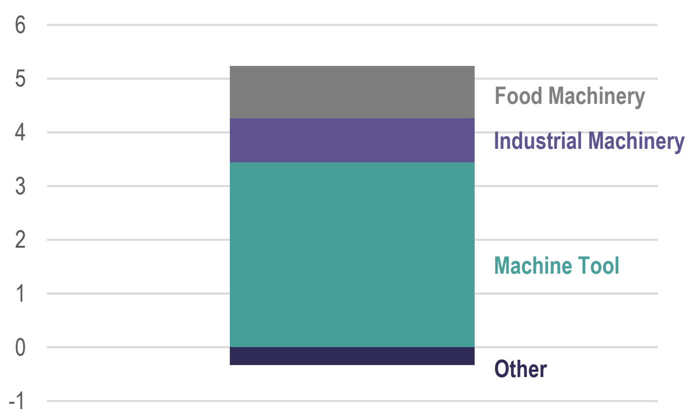
## The highest segment margin returns are now at Food Machinery

### Annual segment profit margins (pre-elimination)




Source: Company

### FY12/24 segment profit split (pre-elimination) (¥bn)




Source: Company

To grow and sustain high operating margins, we believe the company faces the following challenges:

**Profitability drivers – sales volume and potential mix improvement**

- **Continuous improvement in the quality of earnings** – raising recurring earnings with maintenance services and consumables, Food Machinery sales with its defensive nature, and lowering exposure to China.
- **Develop new earnings drivers** – the company has three key product lines earmarked for longer-term growth in Japan as well as overseas:
    - Laser processing machines – high-end precision machining equipment designed for fine micro-processing hard-to-machine materials, targeting markets such as semiconductors.
    - Metal 3D printers – aiming for full-scale market development in Europe and the United States, with a capital and business alliance with Italian metal 3D printer manufacturer Prima Additive.
    - Ultra high-precision machining centers – for high-speed manufacturing with high stability.

# Outlook for growth

## Longer-term trends to sustainably drive demand

Regardless of short-term economic cycles, we believe there are the following structural trends that will sustainably drive demand for Sodick:

- **Turnkey solutions** – due to a shortage of skilled labor in the manufacturing sector, customers are increasingly required to produce highly complex and competitive products with limited human resources. This drives the demand for "turnkey solutions," which involve the comprehensive design and development of the entire manufacturing process, including work-holding systems, machinery, and measurement procedures. Providing such solutions is positive for Sodick as 1) it strengthens customer relationships, 2) provides competitive differentiation, and 3) increases switching costs.
- **Overseas expansion** – the company has identified geographic markets with potential for expansion. These include 1) Europe for industrial machinery and metal 3D printers, 2) the United States for metal 3D printers, and 3) the Indian and Mexican markets, where market penetration has been relatively low.
- **Food Machinery** – production capacity has been increased in China and Japan. While Sodick's food machinery processes noodles, rice, and side dishes, the increasing demand for pre-cooked, packaged rice is a key growth area. Sales channels are expanding overseas, and existing products are being improved in terms of energy efficiency, productivity, miniaturization, and multi-functionality.
- **New products** – Sodick has identified three new products to diversify its earnings streams and drive growth (new laser processing machines, metal 3D printers, and ultra-high-precision machining centers). While success ultimately depends on

execution, effective performance in these areas can enhance growth prospects and contribute to the diversification of the company's earnings.

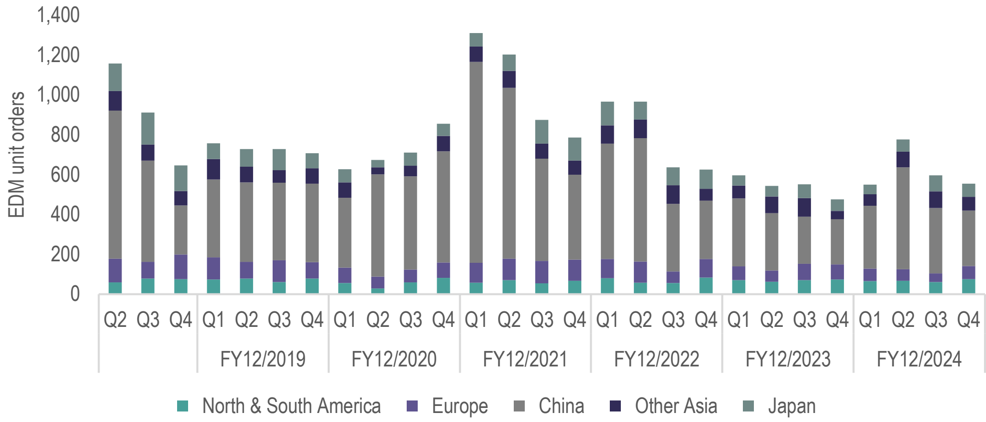
## Outlook for EDM demand

**Leading EDM market share – we estimate at 35%**

We estimate Sodick has a **leading 35% share** in the global EDM market (excluding budget-end manufacturers), followed by Mitsubishi Electric (6503 JP) and Georg Fischer (GF SW) with around 30% each. In a relatively mature market, we believe it will be challenging for the company to demonstrate high growth. Quarterly order levels are volatile; the Chinese market remains the volume's key swing factor. At this current juncture, it is challenging to pinpoint a secular growth theme. However, there is potential for Sodick **to drive after-service sales and provide market-centric solutions** to cement its market leader status.

## Orders have stabilized

### Quarterly trend in EDM order units




Source: Company

## Additional comments for Food Machinery

We believe that Food Machinery will continue to experience growth, driven by demand from the following factors:

- **Changing lifestyles** – busy and dual-income households in developed countries demand ready-to-eat and convenience foods, which require efficient, hygienic, and high-speed processing equipment. In Asia, urbanization and rising incomes are shifting consumption from traditional cooking to processed and packaged foods.

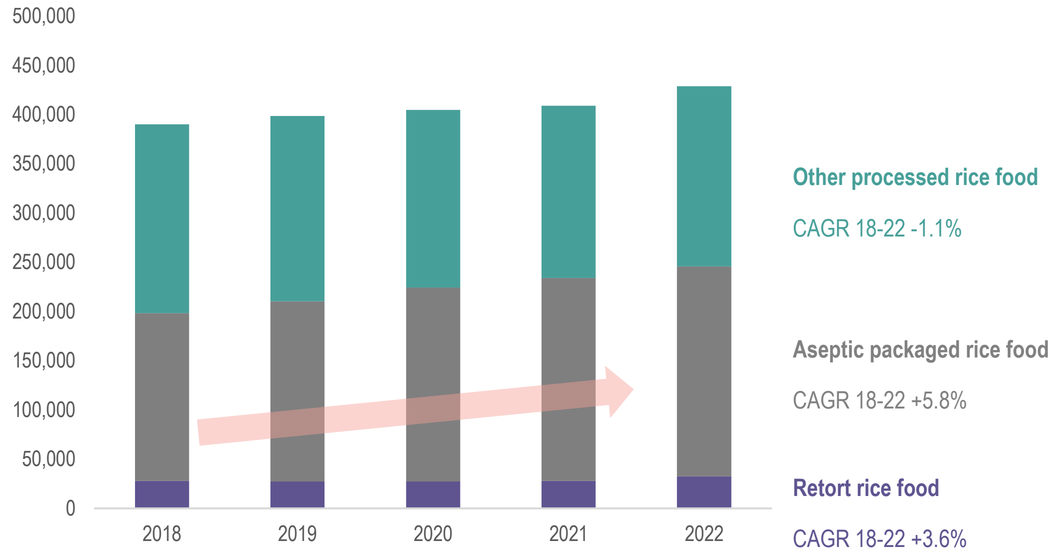
- **Labor shortages and cost pressures** – labor shortages in developed countries and parts of Asia, especially in food manufacturing, are pushing companies to automate and mechanize operations. Automation helps maintain productivity and manage costs amid workforce constraints.

- **Innovation in food products** – growth in demand for plant-based, functional, and personalized nutrition products. These trends require flexible, specialized machinery to handle new ingredients and production processes.

There has been a sustained demand for processed rice in the domestic market, illustrating changes in consumer behaviour.

## Sustained growth in aseptic packaged rice food production

### Domestic production of processed rice (tonnes)

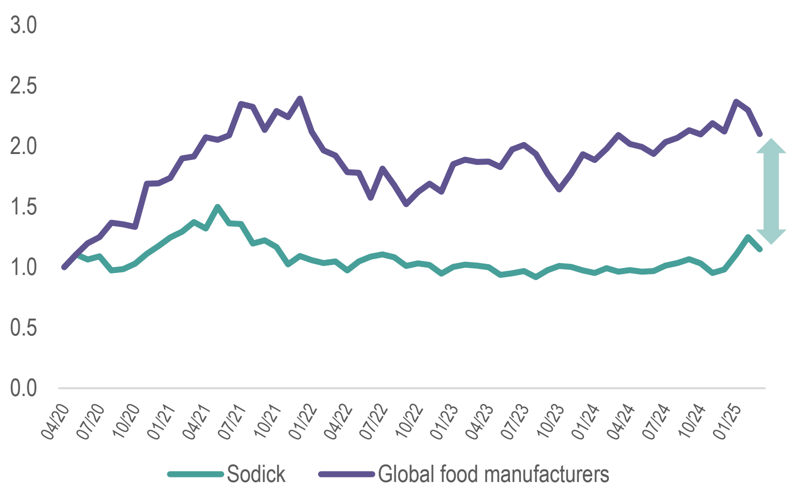



Source: "Food Industry Change Survey" by the Food Security Office, Policy Planning Division, Minister's Secretariat of MAFF (January 2024).

Increasing exposure to the food sector will make Sodick's business more resilient and less impacted by the capital goods cycle. As a simple illustration, we have taken Sodick's month-end share price for the last five years and compared this to an index of listed overseas food machinery manufacturers (Alfa Laval, Middleby, JBT Marel, and Rational under local currency prices) on a relative basis. The global peer index has outperformed Sodick by a considerable margin of over 80%.

## Simple illustration of the defensive nature of food machinery

### Relative 5-year share price performance – Sodick versus select global food machinery peer index




Source: Bloomberg

## Group companies

Sodick comprises 19 consolidated subsidiaries, primarily based overseas, and 1 equity affiliate (Plustech Inc. in the US).

### Group Companies

| Subsidiary | Group company status | Stake | Activities |
|---|---|---|---|
| Sodick F.T | Consolidated | 100% | Development, manufacturing, and sales of fine ceramics.<br>Manufacture and sale of precision molds and precision molded products.<br>Development, manufacturing, and sales of LED lighting. |
| Sodick, Inc. | Consolidated | 100% | Sales and after-service for North and South America. |
| Sodick America Corporation | Consolidated | 100% | Development of hardware and software for Machine Tool. |
| Sodick Singapore Pte., Ltd | Consolidated | 100% | Sales and after-service for SE Asia. |
| Shanghai Sodick Software Co., Ltd | Consolidated | 82.0% | Software development. |
| Sodick Electromechanical (Shanghai) Co., Ltd. | Consolidated | 100% | Sales and after-service for China. |
| Suzhou Sodick Special Equipment Co., Ltd. | Consolidated | 100% | Manufacturing of EDMs and other machinery. |
| Sodick (H.K.) Co., Ltd. | Consolidated | 100% | Sales and after-service for Hong Kong. |
| Sodick (Taiwan) Co., Ltd. | Consolidated | 100% | Sales and after-service for Taiwan. |
| Sodick (Thailand) Co., Ltd. | Consolidated | 100% | Manufacturing of EDMs, injection molding machines and various machinery.<br>Sales and after-service for Thailand. |
| Sodick Europe Ltd. | Consolidated | 100% | Sales and after-service for Europe. |
| Sodick Deutschland GmbH | Consolidated | 100% | Sales and after-service for Europe. |
| Sodick Holding Corporation | Consolidated | 100% | Business management company in North and South America. |
| Sodick Europe Holdings Ltd. | Consolidated | 100% | Business management company in Europe. |
| Sodick Korea Co., Ltd | Consolidated | 100% | Sales and after-service for Korea. |
| Sodick Amoy Co., Ltd. | Consolidated | 100% | Manufacturing of EDMs and other machinery.<br>Manufacturing and sales of Food Machinery. |
| Sodick International Trading (Shenzhen) Co.,Ltd. | Consolidated | 100% | Sales and after-service for China. |
| Sodick Technology (M) Sdn.Bhd. | Consolidated | 100% | Sales and after-service for SE Asia. |
| Sodick Vietnam Co.,Ltd. | Consolidated | 100% | Sales and after-service for Vietnam. |
| | | | |
| Plustech Inc. | Equity affiliate | 49% | Sales and after-service of injection molding machines for North and South America. |

Source: Company

## R&D

**5-year average R&D spending - 4.6% of sales**

Sodick spent 4.1% of sales on R&D in FY12/24, lower than the 5-year average of 4.6%. However, on a 5-year basis, we note Sodick invested more in R&D than similar peers such as Makino Milling (6135 JP) at 4.4% and Okuma Corp. (6103 JP) at 1.7%, but lower than DMG MORI (6141 JP) at 5.7%. The company's R&D centers are in the Yokohama Head Office, Shanghai, and Silicon Valley in California.

As an R&D-oriented company, R&D budgeting is not tied to sales volume and is focused on sustained research efforts. The key policy is to invest proactively in technological development that looks 10 to 20 years into the future, strengthen expertise in areas where growth is anticipated, such as metal 3D printers, machining centers, laser processing machines, injection molding machines, and food machinery, and develop environmentally friendly products that reduce greenhouse gas emissions and waste materials.

# Strategy and Medium-term Plan

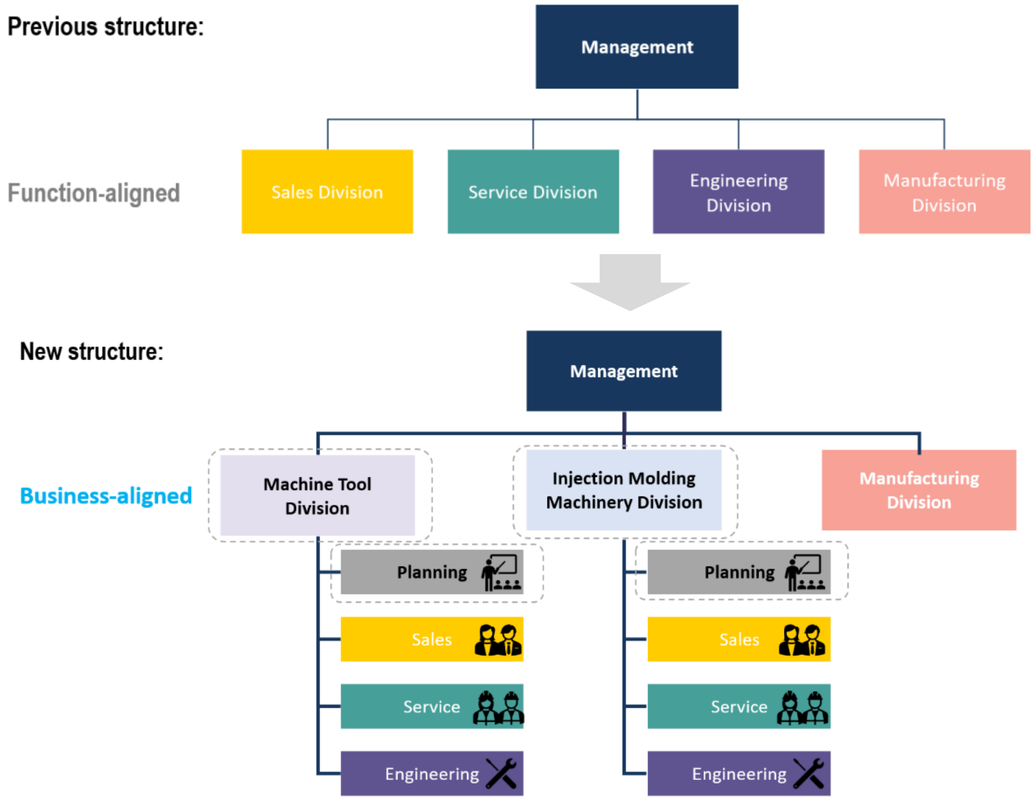
## Internal transformation - from function to business alignment

Former CEO Furukawa's initiative to conduct a major internal transformation commenced in 2020, creating a business-aligned organization from the previous function-aligned structure. The transformation took two years to complete, and the new organization commenced in January 2022.

Applied to the Machine Tool and Injection Molding machine divisions, the objectives of this transformation are:

- **To align the company** to provide customers with a manufacturing solution.
- **Coordinate the value chain effectively (from planning to after-service) to create customer value and achieve customer success.**
- **To prevent inconsistencies in strategic execution.**

Corporate transformation to achieve a long-term plan for divisional responsibility




Source: Company

## Our commentary on a business-aligned organizational structure

Sodick's previous functional structure supported efficient operations in its early, single-product stage but is no longer well-suited to the complexities of a diversified, global business. Transitioning to a product-divisional structure will improve market focus, accountability, and customer outcomes. While this shift may raise operational costs and risks siloed thinking, it aligns better with Sodick's long-term strategic goals.

The transformation has gone beyond structural changes, with authority now delegated to executive officers. While cultural change is evolving, each business division is responsible for its strategic and financial planning. Executives are expected to manage their divisions with a strong focus on cost, return, and performance metrics such as ROIC. The Board of Directors is shifting its role toward oversight and governance, aiming to establish a clearer, more effective separation of responsibilities between directors and executives.

## Medium-term Management Plan

After initially unveiling its Medium-term Management Plan covering FY12/24 to FY12/26 in February 2024 and spearheading structural reforms, financial targets were revised in February 2025, with the period now covering FY12/25 to FY12/27. A key aim is to reach record-high sales after FY12/26, the company's 50th anniversary.

While numerical targets for FY12/25 and FY12/26 have been lowered from initial levels, the direction of travel remains positive, with sustained single-digit sales growth and continuing margin expansion. However, we note that the Machine Tool segment is expected to remain the major earnings contributor; this is expected with less reliance on China and the EDM market as a whole, together with success in geographic expansion (Mexico and India for Machine Tools, Europe for Industrial Machinery, and ASEAN for Food Machinery) and product diversification centered on metal 3D printers, laser processing machines,ultra-high-precision machining centers and  food machinery.

The four key policies in the plan are:

- **Reducing dependence on China** – reorganize manufacturing operations and expand production items in Japan by consolidating manufacturing in China.
- **Selection and concentration** – improve profitability by reorganizing business segments and products based on market trends and the competitive environment.
- **Restructuring of production and sales systems** – to rebuild production and sales systems globally in response to yen depreciation and changes in demand.
- **Balance sheet improvement** – enhance the cash conversion cycle and reduce long-term inventory to improve cash flows by reducing inefficiencies.

## Steady sales growth and normalizing OPM in the medium-term

Medium-term financial targets

| (¥bn) | FY12/24 (initial) | FY12/24 (actual) | FY12/25 (initial) | FY12/25 (revised) | FY12/26 (initial) | FY12/26 (revised) | FY12/27 (new) |
|---|---|---|---|---|---|---|---|
| **Sales** | | | | | | | |
| Machine Tool | 49.40 | 51.36 | 56.50 | 53.00 | 61.00 | 55.60 | 59.90 |
| Industrial Machinery | 9.00 | 9.56 | 10.10 | 10.80 | 11.50 | 11.70 | 12.40 |
| Food Machinery | 8.10 | 7.70 | 9.30 | 7.90 | 11.00 | 8.60 | 10.00 |
| Others | 5.70 | 5.06 | 6.60 | 5.70 | 7.20 | 5.60 | 6.20 |
| **Total sales** | **72.20** | **73.67** | **82.50** | **77.40** | **90.70** | **81.50** | **88.50** |
| ***Growth YoY (%)*** | ***+7.5*** | ***+9.7*** | ***+13.9*** | ***+5.1*** | ***+9.9*** | ***+5.3*** | ***+8.6*** |
| **Segmental profit/(loss)** | | | | | | | |
| Machine Tool | 2.80 | 3.45 | 5.70 | 5.00 | 7.50 | 5.60 | 7.10 |
| Industrial Machinery | 0.10 | 0.82 | 0.50 | 0.80 | 1.00 | 0.90 | 1.00 |
| Food Machinery | 1.00 | 0.97 | 1.10 | 0.90 | 1.30 | 1.00 | 1.10 |
| Others | 0.00 | (0.32) | 0.20 | 0.30 | 0.40 | 0.60 | 0.80 |
| Intercompany balance | (2.80) | (2.69) | (2.90) | (2.70) | (2.90) | (2.80) | (3.00) |
| **Operating profit** | **1.10** | **2.23** | **4.60** | **4.30** | **7.30** | **5.30** | **7.00** |
| ***OPM (%)*** | ***1.5*** | ***3.0*** | ***5.6*** | ***5.6*** | ***8.0*** | ***6.5*** | ***7.9*** |
| ***Growth YoY (%)*** | ***N/A*** | ***N/A*** | ***+318.1*** | ***+92.7*** | ***+58.7*** | ***+23.3*** | ***+32.1*** |
| **Segmental profit margins (%)** | | | | | | | |
| Machine Tool | 5.7 | 9.4 | 10.1 | 9.4 | 12.3 | 10.1 | 11.9 |
| Industrial Machinery | 1.1 | 7.4 | 5.0 | 7.4 | 8.7 | 7.7 | 8.1 |
| Food Machinery | 12.3 | 11.4 | 11.8 | 11.4 | 11.8 | 11.6 | 11.0 |
| Others | - | 5.3 | 3.0 | 5.3 | 5.6 | 10.7 | 12.9 |
| **Recurring profit** | **1.10** | **3.63** | **4.60** | **3.80** | **7.30** | **5.30** | **7.10** |
| **Net income attributable to the parent** | **0.70** | **4.12** | **3.50** | **2.90** | **5.50** | **4.00** | **5.40** |

Source: Company
Note: Revised FX assumptions are as follows: USD/JPY 150.0 (previously 140.0), EUR/JPY 165.0 (157.0), CNH/JPY 21.0 (20.0). THB/JPY 4.5 (4.1)

# M&A

The company has no official strategy regarding M&A. Management’s focus is on business transformation and internal engineering prowess for business development rather than growing the business via M&A.

# Financial Policy

Management’s financial policy aims to:

- Increase awareness of capital efficiency and invest in the business for sustainable growth.
- Maintain financial soundness while providing stable and flexible shareholder returns.

The company has also disclosed targets for the financial metrics:

- **ROE above 8% (based on a 5-year average).**
- **Equity ratio of above 50%.**

- **For shareholder returns, to have a DOE of 2% or above and a total return ratio of 40% or above.**

**We believe these targets are realistic and indicate that the company is becoming more disciplined.**

## Long-term vision

The company has disclosed a long-term vision for 2033, highlighting the following for continued advancement from establishing a foundation from the medium-term plan:

- Optimize the business portfolio.
- Strengthen global management.
- Deepen the sustainability management.

There are currently no financial targets disclosed with this vision.

# Business model

## Key concepts and unique selling points

Typically, industrial machinery firms drive revenue and earnings by the following means:

- Providing competitive manufacturing solutions to customers with high return on investment (ROI) while expanding their installed base to drive demand for services and consumables.
- Diversifying into new products and penetrating new market sectors and geographies.

Sodick's value chain demonstrates its competitive strengths to create corporate value :

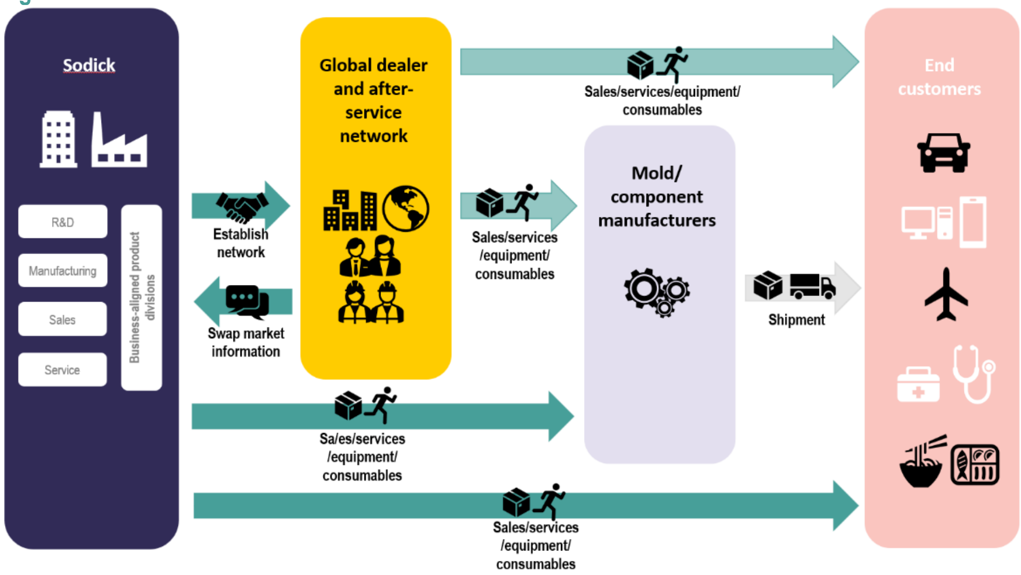
- **Human capital** – developing human resources is a key goal in Sodick's corporate transformation process. With overseas employees accounting for over 70% of the total, this will contribute to globalization and strengthen local business activities.
- **Global presence** – the company generates sales in over 51 countries, and approximately 60% of total sales are outside Japan. It has a global sales and after-service network.
- **Financial soundness** – has low leverage, high liquidity, and is sufficiently capitalized.
- **Intellectual Property** – high importance is placed on sustained research and development.
- **Manufacturing capacity** – the company continually invests in increasing and improving production capacity.

Despite the volume-driven and cyclical nature of the business, **Sodick is transforming to become more market-centric, focusing on customer success, and managing its business portfolio to establish a more stable earnings base.**

### Workflow

Sodick utilizes a global network of dealerships as sales channels and after-service providers and as a means of gathering market intelligence. The company provides manufacturing solutions to mold, component, and end-product manufacturers.

High-level workflow overview




Source: Company

## Manufacturing

Under structural reforms, Sodick has shifted and optimized the Chinese production of Machine Tool EDMs from the Suzhou plant to the Xiamen plant in Amoy.

A tripolar production system is being created by strengthening domestic production and transitioning to a system adapted to movements in the foreign exchange environment (Kaga in Japan, Thailand, and China). With the depreciation of the Japanese yen in recent years, the company has been facing price competition from Japanese competitors, with approximately 90% of its electronic discharge machine units manufactured overseas, and elevated manufacturing costs at overseas factories leading to lower price competitiveness.

## Revenue recognition

Revenues are recognized on inspection and acceptance in Machine Tools and Industrial Machinery products. For Food Machinery, revenue is recognized as a percentage of the completion method on large projects or production line work.

# Competitive advantages

An established business with leading market share in core products

We believe Sodick's key competitive advantages are as follows:

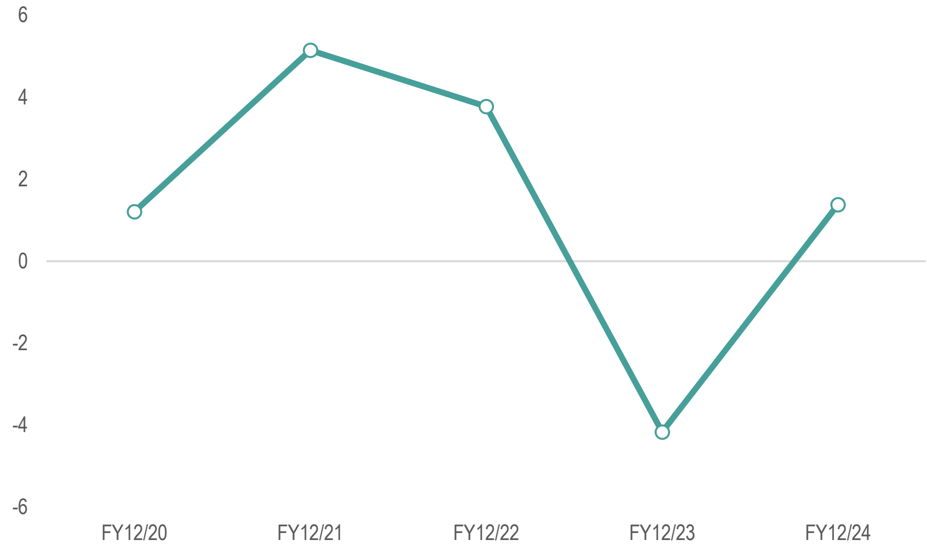
- Engineering expertise and track record of innovation.
- Established dealership, customer, and supplier relationships.
- A solid financial base with high liquidity enables effective customer support.
- An extensive global network.

## ROIC

ROIC is a key indicator of a company's ability to generate value. Over the last 5 years, the average ROIC has been 1.5%.

As part of the company's efforts to transform into a business with sustainable growth, **ROIC has been identified as a key metric to enhance governance, and study sessions have been conducted to raise awareness of its importance and associated** capital costs.

Trend in ROIC (%)




Source: Bloomberg

# Peer group analysis

Sodick's shares are trading on PBR 0.5x, despite a healthy balance sheet and a company aiming for growth via business transformation. **We have assessed the company relative to its peers regarding profitability, 5-year historic track record, and valuation.**

We have selected primarily **Machine tool companies** as peers – we have primarily chosen EDM, machine tool, and injection molding companies from Japan and overseas. We have included **bellwethers for the sector Fanuc and Mitsubishi Electric** as references despite their larger scale and diversified businesses. We have also included domestic specialist food machinery companies in the mix.

### Domestic EDM, machine tool, injection molding, and food machinery companies

| Company | Description |
|---|---|
| Okuma Corp. | Manufacturer of machining centers, CNC lathes, and grinders |
| DMG MORI CO., LTD. | Manufacturer of machine tools, automation systems, and measuring devices. |
| Shibaura Machine Co., Ltd. | Specialist in injection molding, die-casting machines, machine tools, and robotics. |
| Rheon Automatic Machinery Co., Ltd. | Manufacturer of food processing machines for confectionery and bread making. |
| Suzumo Machinery Co., Ltd. | Manufacturer of sushi and rice-serving robots |
| Nissei Plastic Industrial Co., Ltd. | Manufacturer of injection molding machines. |
| Toyo Machinery & Metal Co., Ltd. | Develops and manufactures plastics injection molding machines, optical disc molding machines, and die-casting machines |
| Nissei ASB Machine Co,. Ltd. | Manufacturer of plastic bottle production machines. |
| Fanuc Corporation | Provides automation products and services such as robotics and computer numerical control wireless systems. |
| Mitsubishi Electric Corp. | A diversified industrial company with a competitive EDM offering (in the top 3) |
| Hisaka Works Ltd. | Manufacturer of heat exchanges, valves, and process engineering which include food sterilizers. |

Source: Companies, Bloomberg

### Overseas EDM, machine tool, injection molding, and food machinery companies

| Company | Description |
|---|---|
| Georg Fischer AG | Industrial business spanning piping systems, casting solutions, and machining including EDMs (in the top 3)s |
| SFS Group AG | Leading supplier of precision components and assemblies, mechanical fastening systems, quality tools, and logistics solutions. |
| Maschinenfabrik Berthold Hermle AG | Manufacturer of high-performance, highly innovative machining centers. |
| Yizumi Holdings Co., Ltd. Class A | Industrial molding equipment system and service provider |
| Hillenbrand, Inc. | Highly engineered, mission-critical processing equipment and systems. |
| Alfa Laval | Provider of products in heat transfer, separation, and fluid handling. |
| Middleby | Developer of advanced innovation and solutions for commercial, residential, and industrial food service. |
| JBT Marel | Global technology solutions provider to high-value segments of the food and beverage industry. |
| Rational | Leader for innovative cooking systems in commercial food preparation. |

Source: Companies, Bloomberg

Sodick trades at a discount to its peer group due to 1) being a lower return business and 2) the business model having fundamental issues regarding high reliance on China and EDM demand and 3) with a high overseas production ratio, the company is more susceptible to price competition with other Japanese firms due to exchange rate fluctuations caused by yen depreciation.

We believe that successfully executing the company's medium-term plan—reducing exposure to China, driving sustainable growth through new products, and expanding the

Food Machinery segment—will enhance the quality of earnings. As a result, we expect a re-rating in valuations and an expansion in multiples.

We believe there are three core findings:

- **Profitability**—with a 10-year average operating margin of 6.2%, compared to 10.3% for domestic peers and 14.8% for overseas peers, Sodick operates a business with relatively low returns. ROE (LTM) of 5.1% highlights the company's relative weakness in generating profits efficiently, and low ROIC (LTM) of 3.3% also denotes difficulties with value creation.

- **5-year track record** – Sodick's 5-year sales CAGR of +1.7% is relatively low compared to peers, highlighting the weakness in the company's business model to grow sustainably. However, Sodick has been making progress in terms of margin enhancement and earnings growth over the period, although FY12/20 was a low-hurdle year. With post-structural reforms, the company has the potential to develop a positive track record.

- **Valuations –** with inferior metrics to peers, the market values Sodick's shares at a major discount on a PBR basis (0.5x versus 1.0x domestic peers) and EV/EBITDA (3.8x versus 7.6x domestic and 11.0x overseas peers). We point out the following factors that may challenge this view:

    - Management aims to drive corporate value.

    - Positive business transformation, which should result in improving returns in the long term.

## Peer analysis of key profitability and valuation metrics

| Ticker | Company/Index | Mkt Cap US$ (m) | Profitability OPM LTM (%) | OPM 10-yr average (%) | ROE LTM (%) | ROIC LTM (%) | Valuation EV/EBITDA 12M Fwd (x) | EV/Sales 12M Fwd (x) | Div yield 12M Fwd (%) | FCF yield 12M Fwd (%) | PER 12M Fwd (x) | PBR (x) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **6143 JP** | **Sodick Co., Ltd.** | **250** | **3.0** | **6.2** | **5.1** | **3.3** | **3.8** | **0.4** | **4.0** | **16.2** | **12.9** | **0.5** |
| *Domestic machine tool companies* | | | | | | | | | | | | |
| 6103 JP | Okuma Corporation | 1,268 | 8.2 | 9.8 | 6.1 | 7.9 | 5.6 | 0.7 | 3.3 | 12.4 | 14.7 | 0.8 |
| 6141 JP | DMG MORI CO., LTD. | 2,290 | 12.4 | 9.3 | 11.5 | 6.0 | 7.5 | 1.1 | 4.5 | 9.5 | 13.0 | 1.6 |
| 6104 JP | Shibaura Machine Co., Ltd. | 551 | 9.3 | 3.9 | 12.8 | 2.3 | 2.8 | 0.3 | 4.3 | 11.9 | 9.6 | 0.7 |
| 6272 JP | Rheon Automatic Machinery Co., Ltd. | 201 | 12.7 | 9.9 | 9.3 | 8.0 | 2.9 | 0.4 | 4.7 | 9.5 | 6.6 | 0.8 |
| 6405 JP | Suzumo Machinery Co., Ltd. | 179 | 14.1 | 11.8 | 11.5 | 7.1 | 6.3 | 1.1 | 1.9 | 7.8 | 14.3 | 1.7 |
| 6293 JP | Nissei Plastic Industrial Co., Ltd. | 105 | 2.0 | 5.5 | -0.1 | 4.0 | 12.8 | 0.8 | 4.4 | 0.1 | 17.6 | 0.4 |
| 6210 JP | TOYO INNOVEX Co. Ltd. | 78 | -1.3 | 4.6 | -7.7 | 4.7 | 19.0 | 0.4 | 6.3 | 2.2 | 18.8 | 0.7 |
| 6284 JP | Nissei ASB Machine Co,. Ltd. | 454 | 21.8 | 19.1 | 12.5 | 10.3 | 3.8 | 1.0 | 4.1 | 8.4 | 9.2 | 1.2 |
| 6954 JP | Fanuc Corporation | 22,022 | 18.5 | 26.4 | 8.1 | 9.4 | 11.2 | 3.1 | 3.1 | 5.5 | 19.4 | 1.9 |
| 6503 JP | Mitsubishi Electric Corp. | 37,530 | 6.7 | 6.2 | 9.1 | 8.0 | 7.5 | 0.9 | 2.3 | 6.5 | 15.8 | 1.4 |
| 6247 JP | Hisaka Works,Ltd. | 171 | 7.9 | 6.3 | 5.0 | 2.4 | 4.5 | 0.6 | 4.6 | 1.0 | 11.8 | 0.4 |
| **Simple average** | | | **10.2** | **10.3** | **7.1** | **6.4** | **7.6** | **0.9** | **4.0** | **6.8** | **13.7** | **1.0** |
| *Overseas machine tool companies* | | | | | | | | | | | | |
| GF SW | Georg Fischer AG | 5,700 | 8.7 | 7.5 | 550.8 | 11.2 | 11.6 | 1.6 | 2.5 | 10.0 | 16.8 | 42.6 |
| SFSN SW | SFS Group AG | 4,816 | 10.7 | 11.9 | 16.6 | 12.5 | 8.3 | 1.3 | 2.8 | 5.9 | 13.6 | 2.5 |
| MBH3 GR | Maschinenfabrik Berthold Hermle AG | 947 | 20.4 | 22.3 | 21.0 | 27.9 | 9.4 | 1.5 | 4.2 | 7.2 | 17.9 | 2.1 |
| 300415 CH | Yizumi Holdings Co., Ltd. Class A | 1,242 | 12.3 | 10.9 | 21.5 | 12.3 | 11.8 | 1.8 | 2.6 | 3.5 | 11.3 | 3.2 |
| HI US | Hillenbrand, Inc. | 1,501 | 9.9 | 13.0 | -14.8 | 7.7 | 8.3 | 1.3 | 4.2 | 8.7 | 8.2 | 1.1 |
| ALFA SS | Alfa Laval AB | 16,023 | 16.8 | 15.7 | 18.2 | 10.7 | 11.0 | 2.2 | 2.5 | 4.2 | 17.4 | 3.8 |
| MIDD US | Middleby Corporation | 7,091 | 18.3 | 17.6 | 12.3 | 9.6 | 9.7 | 2.2 | 0.0 | 8.3 | 12.9 | 2.0 |
| JBTM US | JBT Marel Corporation | 4,985 | 10.2 | 9.5 | 5.6 | 11.3 | 8.3 | 1.5 | 0.4 | 5.2 | 15.6 | 2.0 |
| RAA GY | Rational Aktiengesellschaft | 9,121 | 26.9 | 24.8 | 30.3 | 31.4 | 20.1 | 5.8 | 2.3 | 3.0 | 30.6 | 9.4 |
| **Simple average** | | | **14.9** | **14.8** | ***13.8** | **14.9** | **11.0** | **2.2** | **2.4** | **6.2** | **16.1** | ***3.3** |

Source: FactSet, Bloomberg, Astris Advisory

Note: *have ignored outlier Georg Fischer AG – equity reduced due to goodwill offset

## Peer analysis of track record – growth (5-year CAGR) and change (FY2020-2024)

| Stock | Name | Sales | EBIT | Net Income | EPS | BPS | Total assets growth | Chg. in GPM | Chg. in FCF margin | Chg. in ROE | Chg. in ROA |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Growth 5-year CAGR | | | | | | Change over the last 5 years | | | |
| **6143 JP** | **Sodick Co., Ltd.** | **1.7** | **9.0** | **15.5** | **13.7** | **6.0** | **4.9** | **2.0** | **5.4** | **4.2** | **2.4** |
| **Domestic** | | | | | | | | | | | |
| 6103 JP | Okuma Corporation | 1.5 | -0.4 | 0.9 | 1.7 | 7.9 | 4.6 | 1.9 | -0.6 | -0.5 | -0.1 |
| 6141 JP | DMG MORI CO., LTD. | 2.2 | 3.6 | 4.5 | -20.7 | 18.8 | 8.7 | 6.9 | -1.0 | -5.7 | 0.6 |
| 6104 JP | Shibaura Machine Co., Ltd. | 6.5 | 34.4 | 34.4 | 34.4 | 6.0 | 10.9 | 3.2 | 0.0 | 4.2 | 1.6 |
| 6272 JP | Rheon Automatic Machinery | 5.8 | 7.3 | 8.3 | 8.2 | 8.4 | 6.7 | -1.3 | 11.7 | 1.2 | 1.2 |
| 6405 JP | Suzumo Machinery Co., Ltd. | 12.1 | 17.5 | 19.5 | 19.5 | 4.9 | 6.3 | 2.6 | 5.2 | 8.7 | 6.8 |
| 6293 JP | Nissei Plastic Industrial | 1.3 | -13.0 | -32.0 | -31.5 | 4.5 | 8.8 | 4.2 | -9.5 | -2.0 | -1.1 |
| 6210 JP | TOYO INNOVEX Co. Ltd. | -1.9 | - | - | - | -0.1 | 0.3 | -2.8 | -0.3 | -12.8 | -7.6 |
| 6284 JP | Nissei ASB Machine Co,. Ltd. | 7.1 | 13.1 | 12.9 | 12.9 | 12.9 | 9.7 | -0.1 | 22.3 | -0.7 | 0.9 |
| 6954 JP | Fanuc Corporation | 4.6 | -2.7 | -2.9 | -2.5 | 4.0 | 3.5 | 0.1 | 1.4 | 2.9 | 2.5 |
| 6503 JP | Mitsubishi Electric Corp. | 3.1 | 1.6 | 4.7 | 5.1 | 9.9 | 7.2 | 1.6 | 1.6 | -0.1 | 0.5 |
| 6247 JP | Hisaka Works,Ltd. | 2.0 | 7.8 | 8.7 | 9.9 | 4.2 | 5.4 | 3.4 | -12.8 | 1.0 | 0.3 |
| **Average** | | **4.0** | **6.9** | **5.9** | **3.7** | **7.4** | **6.6** | **1.8** | **1.6** | **-0.4** | **0.5** |
| **Overseas** | | | | | | | | | | | |
| GF SW | Georg Fischer AG | 0.9 | 7.7 | 0.7 | 4.3 | -40.0 | 5.0 | 7.6 | 1.0 | 538.3 | -0.8 |
| SFSN SW | SFS Group AG | 11.2 | 7.8 | 3.3 | 2.5 | 4.0 | 9.8 | -2.5 | -1.4 | -0.4 | -3.2 |
| MBH3 GR | Maschinenfabrik Berthold Hermle AG | 3.3 | 0.3 | -- | -- | 7.9 | 6.7 | -1.4 | -1.0 | -12.0 | -7.9 |
| 300415CH | Yizumi Holdings Co., Ltd. | 15.3 | 19.0 | 22.2 | 20.0 | 15.6 | 18.6 | 3.6 | -2.5 | 11.2 | 5.0 |
| HI US | Hillenbrand, Inc. | 12.0 | - | - | - | 11.0 | 18.6 | 1.5 | -2.6 | -12.3 | -3.5 |
| ALFA SS | Alfa Laval AB | 7.6 | 6.9 | 6.1 | 6.5 | 9.0 | 6.7 | -0.7 | 4.1 | -1.9 | 0.2 |
| MIDD US | Middleby Corporation | 5.5 | 5.0 | 4.0 | 4.5 | 14.4 | 7.8 | 2.3 | 3.5 | -7.4 | -1.1 |
| JBTM US | JBT Marel Corporation | -2.4 | -7.9 | -8.1 | -8.0 | 21.9 | 12.3 | 5.8 | 7.2 | -20.9 | -5.4 |
| RAA GY | Rational Aktiengesellschaft | 7.2 | 7.7 | 7.9 | 7.9 | 10.6 | 9.6 | 0.9 | 8.2 | 0.8 | 0.7 |
| **Average** | | **6.7** | **5.8** | **4.5** | **4.7** | **6.1** | **10.6** | **1.9** | **1.8** | **55.0** | **-1.8** |

Source: FactSet, Bloomberg

# Balance sheet

Our peer group analysis highlighted Sodick's discount valuations for PBR and EV-based multiples. By looking at the balance sheet, we see the following:

- Domestic peers are **liquid and not over-leveraged**, and Sodick (on net debt to equity -0.1x) is no exception.
- **Capital efficiency is in line with domestic peers,** although lagging behind overseas peers on asset and inventory turnover.
- **There are no major concerns with the balance sheet that would indicate a requirement for deep discount valuations.**

### Liquidity, leverage, and capital efficiency

| Company | Liquidity<br>Current ratio (x) | Quick ratio (x) | Leverage<br>Net debt to equity (x) | Net debt to EBITDA (x) | Interest cover (x) | Total debt to capital (%) | Equity ratio (%) | Efficiency<br>Asset turnover (x) | Inventory turnover (x) | Inventory days | Cash cycle (days) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Sodick Co., Ltd.** | **2.7** | **1.7** | **-0.1** | **-0.5** | **31.8** | **27.9** | **58.5** | **0.6** | **1.7** | **210.1** | **220.6** |
| | | | | | | | | | | | |
| *Domestic peers* | | | | | | | | | | | |
| Okuma Corporation | 4.3 | 2.2 | -0.2 | -1.6 | 359.3 | 4.2 | 76.7 | 0.8 | 1.9 | 193.2 | 188.9 |
| DMG MORI CO., LTD. | 0.8 | 0.3 | 1.2 | 2.5 | 11.8 | 58.5 | 25.5 | 0.7 | 1.2 | 292.2 | 274.5 |
| Shibaura Machine Co., Ltd. | 2.0 | 1.1 | -0.4 | -2.2 | 89.1 | 8.2 | 56.3 | 0.7 | 1.2 | 303.8 | 274.4 |
| Rheon Automatic Machinery | 3.5 | 2.3 | -0.3 | -2.1 | 554.9 | 4.5 | 79.3 | 0.9 | 2.8 | 129.1 | 139.5 |
| Suzumo Machinery Co., Ltd. | 4.6 | 3.4 | -0.3 | -1.9 | 587.1 | 1.1 | 79.1 | 0.8 | 2.9 | 126.9 | 145.7 |
| Nissei Plastic Industrial Co., Ltd. | 1.8 | 0.7 | 0.5 | 8.1 | 10.0 | 42.8 | 45.0 | 0.6 | 0.9 | 411.2 | 385.1 |
| TOYO INNOVEX Co. Ltd. | 2.4 | 1.4 | -0.1 | -3.2 | 19.5 | 15.7 | 57.4 | 0.9 | 3.2 | 115.3 | 137.4 |
| Nissei ASB Machine Co,. Ltd. | 4.3 | 2.8 | -0.4 | -2.1 | 284.0 | 11.7 | 72.0 | 0.5 | 1.1 | 345.4 | 375.8 |
| Fanuc Corporation | 6.6 | 4.6 | -0.3 | -3.0 | - | 0.5 | 88.1 | 0.4 | 1.5 | 246.0 | 284.8 |
| Mitsubishi Electric Corp. | 2.1 | 1.3 | -0.1 | -0.6 | 15.5 | 9.0 | 62.7 | 0.9 | 2.8 | 128.8 | 160.7 |
| Hisaka Works,Ltd. | 2.7 | 1.6 | -0.1 | -1.4 | 97.7 | 7.8 | 72.0 | 0.4 | 2.4 | 154.7 | 198.8 |
| **Average** | **3.2** | **2.0** | **0.0** | **-0.7** | **202.9** | **14.9** | **64.9** | **0.7** | **2.0** | **222.4** | **233.3** |
| | | | | | | | | | | | |
| *Overseas peers* | | | | | | | | | | | |
| Georg Fischer AG | 1.9 | 1.2 | 17.4 | 3.8 | 5.2 | 95.9 | 2.5 | 0.9 | 2.9 | 126.4 | 140.3 |
| SFS Group AG | 2.1 | 1.2 | 0.2 | 0.7 | 24.2 | 26.6 | 59.0 | 1.2 | 3.9 | 92.8 | 128.4 |
| Maschinenfabrik Berthold Hermle AG Pref | 2.9 | - | -0.4 | -1.4 | 605.2 | 0.3 | 73.5 | 1.1 | 3.0 | 119.9 | 175.1 |
| Yizumi Holdings Co., Ltd | 1.7 | 1.0 | 0.6 | 2.6 | 17.3 | 41.5 | 43.3 | 0.7 | 1.9 | 190.7 | 248.6 |
| Hillenbrand, Inc. | 1.3 | 0.9 | 1.4 | 4.2 | 4.0 | 61.1 | 27.3 | 0.6 | 4.0 | 92.1 | 91.1 |
| Alfa Laval AB | 1.3 | 0.8 | 0.1 | 0.4 | 27.8 | 24.1 | 47.0 | 0.8 | 2.9 | 124.6 | 177.7 |
| Middleby Corporation | 2.8 | 1.8 | 0.5 | 2.2 | 7.0 | 40.9 | 50.0 | 0.5 | 2.7 | 134.5 | 166.3 |
| JBT Marel Corporation | 3.5 | 3.0 | 0.0 | 0.1 | 8.8 | 45.0 | 45.2 | 0.6 | 4.6 | 79.1 | 100.5 |
| Rational Aktiengesellschaft | 4.0 | 3.5 | -0.6 | -1.3 | 213.7 | 3.4 | 76.7 | 1.1 | 4.5 | 80.5 | 113.7 |
| **Average** | **2.4** | **1.7** | **2.1** | **1.3** | **101.4** | **37.6** | **47.2** | **0.8** | **3.4** | **115.6** | **149.1** |

Source: Refinitiv, FactSet

The company held ¥6.65 billion of investment securities in FY12/24, making up approximately 10% of market capitalization. The positions of specific investment securities (from the FY12/24 filing) were as follows.

### Specific investment securities

| Company | Stake held (%) | Value (¥bn) | Details | Cross-shareholding status (yes/no) |
|---|---|---|---|---|
| Press Kogyo Co Ltd (7246) | 1.07 | 0.60 | Strengthen and maintain a positive business relationship. | Yes |
| Sumitomo Mitsui Financial Group (8316) | 0.00 | 0.38 | Stable and continuous financial and cooperative relationships with key financial institutions. | No |
| Mitsubishi Pencil Co Ltd (7976) | 0.24 | 0.35 | Strengthen and maintain a positive business relationship. | Yes |
| Sakata Seed Corp (1377) | 0.20 | 0.33 | Strengthen and maintain a positive business relationship. | Yes |
| Hokuhoku Financial Group Inc (8377) | 0.11 | 0.27 | As a main financial institution, to establish a stable and sustainable relationship. | No |
| Hokkoku Financial Holdings Inc (7381) | 0.07 | 0.11 | As a main financial institution, to establish a stable and sustainable relationship. | Yes |
| Dai-Ichi Life Holdings (8750) | 0.00 | 0.05 | It is held for the purpose of maintaining and strengthening cooperative relationships. | No |
| Mitsubishi UFJ Financial Group (8306) | 0.00 | 0.04 | As a main financial institution, to establish a stable and sustainable relationship. | No |
| NS Tool Co Ltd (6157) | 0.19 | 0.04 | Strengthen and maintain a positive business relationship. | No |
| Tomita Co Ltd (8147) | 0.40 | 0.04 | As a main sales dealership, to strengthen and maintain a positive business relationship. | Yes |
| Yamazen Corp (8051) | 0.02 | 0.03 | As a main sales dealership, to strengthen and maintain a positive business relationship. | No |
| Yuasa Trading Co Ltd (8074) | 0.03 | 0.03 | As a main sales dealership, to strengthen and maintain a positive business relationship. | No |
| JAFCO Group (8595) | 0.01 | 0.01 | Maintaining and strengthening cooperative relationships. | No |
| NKK Switches Co Ltd (6943) | 0.24 | 0.01 | Strengthen and maintain a positive business relationship. | Yes |

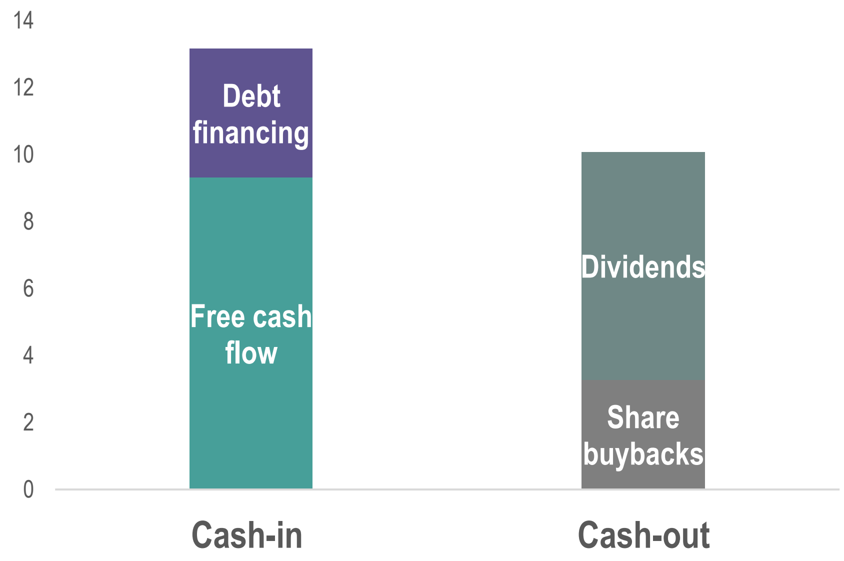
Source: Company, Refinitiv

# Capital allocation

Over the last five financial years, Sodick has the following track record of cumulative capital allocation:

- **Positive free cash flow generation** – the company has been free cash flow positive for three of the last five years (apart from FY12/22 due to working capital needs and a rise in capex and FY12/23 when there were operating losses).
- **Financing activities** – the company has raised long-term debt in FY12/23 to secure capital to execute structural reforms and growth strategies.
- **Capital allocation focus on shareholder returns and debt repayment** – management has prioritized capital allocation to dividend payments with an average payout ratio of 41.9% (excluding FY12/23). There was also ¥3.28 billion spent on buybacks, with ¥1.43 billion carried out in FY12/22 and ¥1.20 billion in FY12/23.

5-year cumulative capital generation and allocation (FY12/20 – FY12/25) (¥bn)




Source: Company

We conclude that the company is well-capitalized to continue investing in the business.

# Recent results

## Q1-4 FY12/24 results

### Returned to profitability through sales recovery and cost reduction

Key financials

| (¥bn) | Q1-4 FY12/23 | Q1-4 FY12/24 | YoY (%) |
|---|---|---|---|
| **Sales** | **67.17** | **73.67** | **+9.7** |
| Gross profit/(loss) | 19.28 | 24.07 | +24.8 |
| ***Gross margin (%)*** | ***28.7*** | ***32.7*** | |
| **Operating profit/(loss)** | **(2.82)** | **2.23** | **N/A** |
| ***Operating margin (%)*** | ***-4.2*** | ***3.0*** | |
| Recurring profit | (1.26) | 3.63 | N/A |
| Net income attributable to the parent | (4.60) | 4.12 | N/A |
| | | | |
| *Average FX rates:* | | | |
| USD/JPY | 140.67 | 151.69 | +7.8 |
| EUR/JPY | 152.11 | 164.05 | +7.8 |
| CNH/JPY | 19.81 | 21.01 | +6.1 |
| THB/JPY | 4.04 | 4.3 | +6.4 |

Source: Company

### Margin recovery and expansion are evident in key business segments

Per business segment (pre-elimination)

| (¥bn) | Q1-4 FY12/23 | Q1-4 FY12/24 | YoY (%) |
|---|---|---|---|
| **Sales** | | | |
| Machine Tool | 46.71 | 51.36 | +10.0 |
| Industrial Machinery | 8.63 | 9.56 | +10.8 |
| Food Machinery | 6.90 | 7.70 | +11.5 |
| Others | 4.93 | 5.06 | +2.5 |
| **Segment profit/(loss)** | | | |
| Machine Tool | 0.80 | 3.45 | +332.0 |
| Industrial Machinery | (0.48) | 0.82 | N/A |
| Food Machinery | 0.88 | 0.97 | +10.6 |
| Others | (0.95) | (0.32) | N/A |
| **Segment profit margin (%)** | | | |
| Machine Tool | 1.7 | 6.7 | |
| Industrial Machinery | -5.5 | 8.6 | |
| Food Machinery | 12.7 | 12.6 | |
| Others | -19.3 | -6.4 | |

Source: Company

## Key highlights

**FY12/24 results were significantly ahead of company guidance and demonstrated a major turnaround YoY driven by recovering Machine Tool sales YoY in China and successful execution of structural reforms to reduce fixed costs.** Cost reductions were centered around streamlining overseas staff and internalizing parts production that were previously outsourced. After two years of burning cash, the company generated ¥6.84bn in positive free cash flow.

Sales in the key Machine Tools business recovered +10.0% YoY, and the segmental margin improved from 1.7% to 6.7%. China demand saw a spike in demand driven by demand for

Electronic Discharge Machines to manufacture dies for MT (mechanical transfer) connectors used in high-density fiber optic connections, driven by growing data center and telecommunications demand; connector-related demand was also experienced in Korea and North & South America. Demand remained positive for electronic components, aerospace, and healthcare by market sector. A negative environment remains in the auto sector, although in Asia, demand is robust for autos in Korea and for 2 and 4-wheeler demand in India. Segment margins improved by consolidating production in China.

**Industrial Machinery** experienced an upturn in Q4 FY12/24, experiencing a similar trend as the Machine Tools segment, with demand driven from connectors used in high-density fiber optic connections. FY sales grew +10.8% YoY, and segmental margins improved significantly due to structural reforms, upselling higher margin products, and increased factory utilization.

**Food Machinery** saw an end-loaded year, with Q4 FY12/24 experiencing a peak in sales and segment profit. Demand for noodle-making equipment and aseptic packaging rice manufacturing equipment was strong domestically and overseas, with renewal demand continuing in Japan.

**Electronic discharge machines saw +14.4% order growth YoY**. While demand remains reliant on China with +31.3% order growth YoY, Japan and Other Asia saw growth YoY, but North & South America was down slightly YoY; and Europe saw orders decline significantly at -20.0% YoY. Overall, we believe orders have bottomed.

## FY12/25 company guidance

With continuing structural reforms, company guidance for FY12/25 points to the continuing recovery trend. FY12/25 sales growth of +5.1% YoY is expected to be driven across all segments, as well as OPM to increase to 5.6% from 3.0%:

- **Machine Tools** – +3.2% sales growth YoY; Electronic Discharge Machine demand expected from all geographies, sales of metal 3D printers and laser processing machines, and maintenance services and consumables sales are set to expand.
- **Industrial Machinery** – +13.0% sales growth YoY; sales are expected to increase due to Japan's demand for electronic parts.
- **Food Machinery** – +2.7% sales growth YoY to increase sales due to continued demand for rice cooking equipment in overseas markets.

From a profitability perspective, the company expects to see continuing operational leverage from the Machine Tools business, with the largest increase in segment margin. Industrial Machinery is expected to book increasing costs from attending exhibitions, and Food Machinery is expecting a modest decline YoY but is continuing to establish itself as a new earnings pillar as the company aims to diversify its earnings streams.

# Astris earnings estimates

We are relatively in line with guidance for FY12/25. However, compared to the company's medium-term plan, our estimates for FY12/26 and FY12/27 are more conservative, as we have estimated flattish OPM due to a history of margin variability.

### Company FY12/25 guidance and Astris Advisory earnings estimates

| Year-end | FY12/25CE | FY12/25E | FY12/26E | FY12/27E |
|---|---|---|---|---|
| **Sales** | | | | |
| Machine Tool | 53.00 | 52.90 | 56.60 | 60.56 |
| *Growth YoY (%)* | *+3.2* | *+3.0* | *+7.0* | *+7.0* |
| Industrial Machinery | 10.80 | 10.04 | 10.54 | 11.07 |
| *Growth YoY (%)* | *+13.0* | *+5.0* | *+5.0* | *+5.0* |
| Food Machinery | 7.90 | 8.20 | 8.85 | 9.56 |
| *Growth YoY (%)* | *+2.7* | *+7.0* | *+8.0* | *+8.0* |
| Others | 5.70 | 5.16 | 5.26 | 5.37 |
| *Growth YoY (%)* | *+12.7* | *+2.0* | *+2.0* | *+2.0* |
| **Total sales (¥bn)** | **77.40** | **76.29** | **81.25** | **86.55** |
| *Growth YoY (%)* | *+5.1* | *+4.2* | *+6.5* | *+6.5* |
| **OP (¥bn)** | **4.30** | **4.35** | **4.66** | **4.99** |
| OPM (%) | 5.6 | 5.7 | 5.7 | 5.8 |
| *Growth YoY (%)* | *+92.7* | *+95.1* | *+7.1* | *+7.1* |
| **EBITDA (¥bn)** | - | **8.09** | **8.64** | **9.23** |
| EBITDA margin (%) | - | 10.6 | 10.6 | 10.7 |
| **RP (¥bn)** | **3.80** | **3.74** | **3.96** | **4.34** |
| *Growth YoY (%)* | *+4.8* | *+3.0* | *+6.1* | *+9.5* |
| **NP (¥bn)** | **2.90** | **2.92** | **3.10** | **3.35** |
| *Growth YoY (%)* | *-29.5* | *-29.0* | *+6.0* | *+8.0* |
| | | | | |
| **FCF (¥bn)** | - | **6.31** | **4.71** | **7.95** |
| FCF margin (%) | - | 8.3 | 5.8 | 9.2 |
| FCF conversion (%) | - | 168.9 | 121.3 | 109.7 |
| **FCF yield (%)** | - | **16.2** | **11.6** | **12.7** |
| FX rates: | | | | |
| USD/JPY | 150.0 | | | |
| Growth YoY (%) | -1.1 | | | |
| EUR/JPY | 165.0 | | | |
| Growth YoY (%) | +0.6 | | | |
| CNH/JPY | 21.0 | | | |
| Growth YoY (%) | - | | | |
| THB/JPY | 4.5 | | | |
| Growth YoY (%) | +4.7 | | | |

Source: Company, Astris Advisory
Note: FCF conversion is FCF/Pre-tax Profit

### Company medium-term plan targets versus Astris Advisory estimates

| Year-end | FY12/25 CE | FY12/25E | FY12/26 CE | FY12/26E | FY12/27 CE | FY12/27E |
|---|---|---|---|---|---|---|
| **Sales (¥bn)** | **77.40** | **76.29** | **81.50** | **81.25** | **88.50** | **86.55** |
| **OP (¥bn)** | **4.30** | **4.35** | **5.30** | **4.66** | **7.00** | **4.99** |
| *OPM (%)* | *5.6* | *5.7* | *6.5* | *5.7* | *7.9* | *5.8* |
| | | | | | | |
| RP (¥bn) | 3.80 | 3.74 | 5.30 | 3.96 | 7.10 | 4.34 |
| Net Income (¥bn) | 2.90 | 2.92 | 4.00 | 3.10 | 5.40 | 3.35 |

Source: Company, Astris Advisory

## Total shareholder returns

Company guidance for dividends remains flat YoY at ¥29 per share (¥14 interim, ¥15 final), with a 50.6% payout ratio and a resultant 3.1% dividend yield.

# Company information

## Management (12 members, 25% female ratio, 58% outside directors)

## Senior management profile

### Kenichi Furukawa – Chairman and Representative Director

Mr. Furukawa joined the company in 1999. He served as President and Representative Director from 2018 and was appointed Chairman and Representative Director in 2025. He has no board or outside directorships at other listed companies and owns 854,557 shares, representing a 1.51% holding.

### Yuji Akutsu – CEO, President and Representative Director

Mr. Akutsu joined the company in 1987. He served as Chief Operating Officer (COO) from 2022 and was appointed CEO, President, and Representative Director in 2024. He has no board or outside directorships at other listed companies and owns 51,300 shares, representing a 0.10% holding.

### Hideki Tsukamoto – Director, Senior Managing Executive Officer

Mr. Tsukamoto joined the company in 1985. He has served as Senior Executive Managing Director since 2020. He has no board or outside directorships at other listed companies and owns 68,816 shares, representing a 0.13% holding.

### Masato Takagi – Director, Managing Executive Officer

Mr. Takagi joined the company in 1987. He was appointed Director and Managing Executive Officer in 2025. He has no board or outside directorships at other listed companies and owns 20,255 shares, representing a 0.04% holding.

### Kazunao Kudo – External Director

Mr. Kudo was appointed External Director in 2018. He previously worked at Sumitomo Electric Industries, Ltd., and affiliated companies based in China. He is a current Outside Director at Shibaura Electronic (6957). He does not own any shares.

### Kenzo Nonami – External Director

Mr. Nonami was appointed External Director in 2020. He previously worked at the National Aeronautics and Space Administration (NASA), Chiba University, and Autonomous Control Systems Laboratory Ltd. He is the current Chairman of the Japan Drone Consortium, Professor Emeritus at Chiba University, Chairman of the Board of the Advanced Robotics Foundation, Representative Director and CEO of Autonomy Holdings, Inc., and Head of Robotics at the Fukushima Institute for Research, Education, and Innovation. He has no board or outside directorships at other listed companies and does not own any shares.

## Yoshikazu Goto – External Director

Mr. Goto was appointed External Director in 2022. He previously worked at the Ministry of International Trade and Industry (now the Ministry of Economy, Trade, and Industry), the University of Tokyo, and the Japan Society for the Promotion of Machine Industry. He is a current Outside Director at Paramount Bed (7817). He owns 5,660 shares.

## Ayako Sano – External Director

Ms. Sano was appointed External Director in 2024. She previously worked at Goldman Sachs, Tokyo Nishi Law Office (now TNLAW Legal Professional Corporation), as a Civil Conciliator at the Tokyo District Court, and as the Head of Aya Law Office (her current post). She is a current External Director at Skylark Holdings (3197), Metaps (delisted), and Clas Inc. (unlisted), and an Auditor at the Research Institute of Economy, Trade, and Industry. Additionally, she is an External Audit and Supervisory Board Member of AIN Holdings (9627). She does not own any shares.

## Tetsuro Kawahara – Director, Audit & Supervisory Committee Member

Mr. Kawahara joined the company in 1981 and was appointed Director, Audit & Supervisory Committee Member in 2025. He has no board or outside directorships at other listed companies and owns 104,900 shares, representing a 0.20% holding.

## Mari Otaki – External Director Audit & Supervisory Committee Member

Ms. Otaki was appointed as an External Director and Audit & Supervisory Board Member in 2021 and an External Director and Audit & Supervisory Committee Member in 2025. She previously worked at OKABE (5959) and Wilson Learning Worldwide Inc. She has no board or outside directorships at other listed companies and does not own any shares.

## Haruchika Gohara – External Director Audit & Supervisory Committee Member

Mr. Gohara was appointed as an External Director in 2023 and as an External Director of the Audit & Supervisory Committee in 2025. He previously worked at Chuo Aoyama Audit Corporation, Tohmatsu & Co. (now Deloitte Touche Tohmatsu LLC), and established the Gohara Accounting Firm, where he serves as President. He has no board or outside directorships at other listed companies and does not own any shares.

## Yukiko Omura – External Director Audit & Supervisory Committee Member

Ms. Omura was appointed as an External Director in 2024 and External Director of the Audit & Supervisory Committee in 2025. She previously worked at Toyota Motor Corporation and Nagashima Ohno Tsunematsu Law Office, was seconded to the Financial Services Agency, and is currently at Miura & Partners. She is a current External Director at halmek holdings (7119). She has no board or outside directorships at other listed companies and does not own any shares.

## Contact details

| Address |
|---|
| 3-12-1, Nakamachidai, Tsuzuki-ku, Yokohama<br>Kanagawa, 224-8522<br>Japan |
| IR Contact:<br>Tel: +81 (0)45 942 3111 |

Source: Company

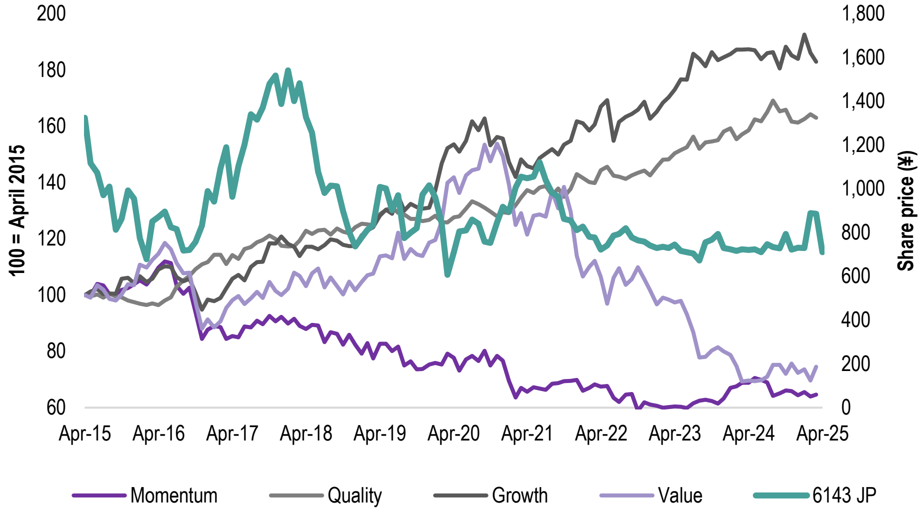
## Shareholder details (as of December 2024)

| Major shareholders | Stake (%) |
|---|---|
| The Master Trust Bank of Japan, Ltd (trust account) | 13.08 |
| Sodick | 7.71 |
| Custody Bank of Japan, Ltd. (trust account) | 4.97 |
| Kiyoshi Morita | 2.17 |
| Sodick Kyoei Shareholding Association | 1.81 |
| Sodick Employee Shareholding Association | 1.70 |
| T.F. Ltd. | 1.63 |
| Sumitomo Mitsui Banking Corporation | 1.55 |
| Kenichi Furukawa | 1.53 |
| Hiroko Furukawa | 1.46 |

Source: Company

# Astris Quant Sheet (updated)

### Share price chart and factor analysis (from April 2015)




Source: FactSet

| Factors | 1 Year Corr | 3 Year Corr | 10 Year Corr |
|---|---|---|---|
| Momentum: 12 Month - 1 Month Performance | -0.09 | -0.11 | 0.00 |
| Quality: Free Cash Flow Yield | 0.32 | 0.17 | 0.10 |
| Growth: Operating Profit Growth | -0.04 | -0.14 | -0.01 |
| Value: Book to Market | -0.44 | -0.10 | -0.02 |

Source: FactSet

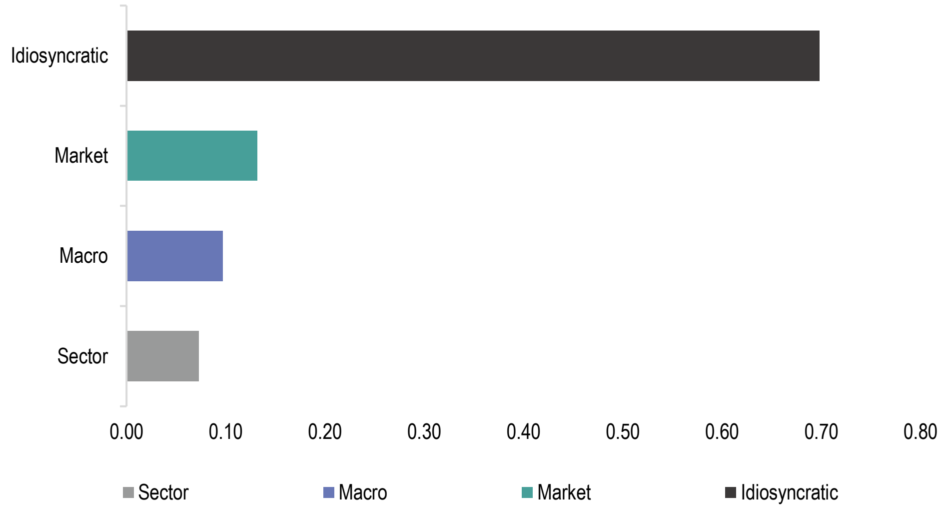
Sodick does not correlate particularly strongly with any factor over the long term, reflecting volatility in its growth and profitability levels. Over the last year, it has had a correlation of 0.32 with the Quality factor, reflective of its high free cash flow yield.

## Calculation method and definition of factors in the time series

| | |
|---|---|
| **Universe** | |
| TOPIX500 | |
| **Factor return calculation** | |
| Quartile Range Analysis: Calculate the element return by subtracting the average performance of the lower quartile from the average performance of the upper quartile for each element forecasted for one month. This analysis is repeated monthly without considering transaction costs. | |
| **Factor** | |
| **Momentum** | |
| 1-month return | |
| 12-month return | Subtracting the most recent 1 month |
| **Quality** | |
| FCF yield (estimate) | |
| **Growth** | |
| Operating profit growth (estimate) | |
| **Value** | |
| Book-to-Market ratio (actual) | |

Source: FactSet

Drivers of stock price performance and multiple regression analysis (since April 2015)




Source: FactSet

Sodick's share price is driven by various factors, with market, macroeconomic, and sector-level drivers each accounting for over 10% of price movements and collectively one-third of share price movements. Among macro factors, machine tool orders exhibit the largest impact.

## Calculation method for multiple regression analysis

| Multiple regression analysis |
|---|
| Perform regression analysis including all drivers, and conduct individual regression analysis by excluding one driver at a time. To quantify the specific impact of each driver, calculate the partial coefficient of determination (partial R-squared value) using the formula: (Residual Sum of Squares from regression analysis including all drivers - Residual Sum of Squares from regression analysis excluding one driver) / Residual Sum of Squares from regression analysis excluding one driver. |

Source: FactSet

Multiple regression analysis results

| Factors | 1 Year Corr | 3 Year Corr | 10 Year Corr |
|---|---|---|---|
| **Market** | | | |
| Topix Prime | -0.27 | 0.01 | 0.55 |
| Topix Machinery Index | -0.38 | -0.04 | 0.54 |
| Topix Small Cap Index | -0.31 | 0.00 | 0.58 |
| MSCI Japan | -0.23 | 0.02 | 0.53 |
| MSCI Japan Industrials | -0.37 | -0.05 | 0.50 |
| MSCI Japan Commercial Services & Supplies | -0.37 | -0.24 | 0.33 |
| **Macro** | | | |
| 10Y JGB | -0.05 | -0.11 | -0.06 |
| JPYUSD | 0.30 | 0.08 | -0.16 |
| Industrial Production | 0.16 | 0.22 | -0.09 |
| JP Machine Tool Orders: Total | -0.45 | -0.27 | 0.00 |
| Eco Watchers Expectations | 0.45 | 0.13 | 0.26 |
| CPI Nationwide | -0.18 | 0.04 | 0.05 |

Source: FactSet

Sodick has a consistent correlation with the broad and sector-specific equity indices over the long term. However, in the short term, the correlation has turned negative with increased price volatility. Among macroeconomic indicators, the Economy Watchers Expectations has a positive correlation with Sodick's share price, with the short-term correlation reaching 0.45.

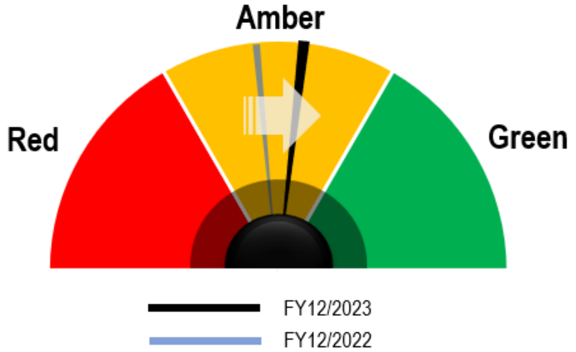
# Astris-Sustainability ESG assessment (updated)

## Ratings and scorecard

Our in-house Astris-Sustainability ESG model rates Sodick with a score of **52.7%**, placing it in the 'Amber' rating of our assessment in FY12/2023; this is an improvement YoY.

Our in-house methodology* takes what we have selected as core measurable ESG factors, ranking their performance versus their domestic GICS Industry-Machinery sector peers with a market capitalization of ¥25bn to ¥75bn (total 41 companies).

**Astris-Sustainability ESG model rating for Sodick**




Source: Astris Advisory (*Note – for details of our in-house rating system, please contact Astris Corporate Advisory)

### ESG scorecards

| | FY12/22 | FY12/23 |
|---|---|---|
| Environmental (10 factors from a selected peer group) | | |
| Astris Environmental score | 9.5 | 30.4 |
| Social (12 factors from a selected peer group) | | |
| Astris Social score | 52.4 | 59.3 |
| Governance (37 factors from a selected peer group) | | |
| Astris Governance score | 58.1 | 56.6 |
| TOTAL SCORE (Out of a total of 51 factors) | 46.6 | 52.7 |

Source: Company, FactSet, Astris Corporate Advisory

Our methodology has highlighted the following key topics:

### Environmental

The scoring in the Environmental category has improved significantly YoY, although this has been the case for the overall peer group. The company has the following key environmental initiatives in place:

- Greenhouse Gas emission reduction targets – 1) 46% reduction by 2030 (versus 2017 levels) and 2) achieve carbon neutrality by 2050.
- Improve the energy consumption index to achieve at least a 3% improvement over the three-year period (2024–2026).

- Management of chemical substances that affect the environment – in addition to releasing Green Procurement Standards and lists of hazardous chemicals, the company developed a proprietary ERP-linked system for controlling harmful chemical substances.

## Social

Improvement in scoring YoY has been attributed to increased women's active participation, with 3.1% of women holding management positions (versus 2.9% in FY12/22).

The company continues to promote Health and Productivity Management, which was established in January 2022. Key areas highlighted for focus in FY12/25 include:

- Improve employee engagement.
- Revitalize internal communication.
- Expand support system for balancing childcare/nursing care and working
- Contribute to the local community..

## Governance

A key change has been the transition to a company with an Audit and Supervisory Committee from the previous Audit and Supervisory Board. We believe this is a positive development that enhances the transparency and objectivity of management and strengthens the supervisory function of the Board of Directors.

The corporate governance system at Sodick is a mix of internal and outside directors with in-depth business management experience, comprising a total of 12 board members:

- **Board of Directors** – The Board comprises 12 directors who oversee and make key management decisions. They include five internal directors and seven external directors. The board meets regularly once a month and convenes extraordinary meetings when necessary.

- **Audit and Supervisory Committee** – The Audit and Supervisory Committee consists of four members, three of whom are external directors. Its function is to supervise management from an external perspective.

- **Advisory Committee on Personnel** - This committee formulates appointment criteria and policies regarding personnel matters involving directors, Audit and Supervisory Board Members, and executive officers; selects candidates for those positions, and determines the standards for dismissal. The Advisory Committee on Personnel comprises five directors, three of whom are external directors.

- **Committee on Compensation** – This committee formulates policy on compensation for directors and executive officers, deliberates, and decides on compensation standards, appraisals, and the monetary amount. It is comprised of five directors, three of whom are external directors.

## Controversies

We have been unable to find major controversies that may have significant financial or reputational repercussions for the company and its shareholders.

# Areas of discussion

## Highlighting key topics for investors

We believe the following will be key areas for discussion with investors:

1. Medium-term Management Plan
    a. Machine Tool segment:
        i. What are your assumptions for EDM demand?
        ii. When do you forecast material earnings from product diversification (metal 3D printers, laser processing machines, and ultra-high-precision machining centers)?
    b. Food Machinery:
        i. What are the bottlenecks to a more accelerated growth profile?
        ii. Will recurring revenues here be limited versus the Machine Tool segment?
    c. Will the three-year horizon be updated annually?
2. Long-term vision
    a. Will there be any financial targets disclosed for 2033?
    b. Are there concrete plans to address your PBR multiple?
3. Sustainable growth and driving corporate value
    a. What are the key areas of interest to bolster future growth opportunities and business expansion?
    b. Is organic growth the optimal way to drive sustainable growth?

ASTRIS CORPORATE ADVISORY JAPAN

## JGAAP Financial Summary

| (¥bn) | FY 12/23 | FY 12/24 | FY 12/25E | FY 12/26E | FY 12/27E |
|---|---|---|---|---|---|
| **Sales** | **67.17** | **73.67** | **76.29** | **81.25** | **86.55** |
| COGS | 47.89 | 49.60 | 51.26 | 54.44 | 57.99 |
| **Gross profit** | **19.28** | **24.07** | **25.02** | **26.81** | **28.56** |
| Gross profit margin (%) | 28.7 | 32.7 | 32.8 | 33.0 | 33.0 |
| **Operating profit** | **(2.82)** | **2.23** | **4.35** | **4.58** | **4.91** |
| OP margin (%) | (4.2) | 3.0 | 5.7 | 5.6 | 5.7 |
| Non-operating income | 2.01 | 2.18 | - | - | - |
| Non-operating expenses | (0.45) | (0.78) | (0.61) | (0.70) | (0.66) |
| **Recurring profit** | **(1.26)** | **3.63** | **3.74** | **3.88** | **4.25** |
| **Pre-tax profit** | **(2.43)** | **5.02** | **3.74** | **3.88** | **4.25** |
| Tax | (2.18) | (0.92) | (0.82) | (0.85) | (0.98) |
| Effective tax rate (%) | (173) | 25.2 | 22.0 | 22.0 | 23.0 |
| **Net income** | (4.61) | 4.11 | 2.91 | 3.03 | 3.27 |
| Non-controlling NI | (0.01) | (0.01) | (0.01) | (0.01) | (0.01) |
| **Parent attributable NI** | (4.60) | 4.12 | 2.92 | 3.03 | 3.28 |
| | | | | | |
| Sales growth YoY (%) | -16.5 | +9.7 | +3.6 | +6.5 | +6.5 |
| OP growth YoY (%) | -148.5 | N/A | +95.1 | +5.3 | +7.2 |
| RP growth YoY (%) | -115.2 | N/A | +3.0 | +3.9 | +9.5 |
| Pre-tax profit YoY (%) | -130.1 | N/A | -25.6 | +3.9 | +9.5 |
| NI growth YoY (%) | -176.5 | N/A | -29.0 | +3.9 | +8.1 |

| Cash flow statement (¥bn) | FY 12/23 | FY 12/24 | FY 12/25E | FY 12/26E | FY 12/27E |
|---|---|---|---|---|---|
| **Profit before tax** | **(2.43)** | **5.02** | **3.74** | **3.88** | **4.25** |
| Depreciation/amortization | 3.94 | 3.71 | 3.74 | 3.98 | 4.24 |
| Changes in working capital | 0.94 | 2.78 | 3.22 | 1.44 | 1.63 |
| Other non-cash items | (0.53) | (0.48) | (0.50) | (0.49) | (0.50) |
| Tax paid | (1.93) | (1.07) | (0.82) | (0.85) | (0.98) |
| **Cash from Operating Activities** | **(0.01)** | **9.97** | **9.36** | **7.96** | **8.65** |
| Capex | (5.33) | (3.13) | (3.05) | (3.25) | (3.46) |
| Acquisition of business | (0.47) | (0.23) | (0.23) | (0.23) | (0.23) |
| Other investing cash flow | 3.04 | 1.72 | 2.38 | 2.05 | 2.22 |
| **Cash from Investing Activities** | **(2.76)** | **(1.63)** | **(0.90)** | **(1.43)** | **(1.48)** |
| Total cash dividends paid | (1.44) | (1.47) | (1.47) | (1.52) | (1.57) |
| Debt issuance/(retirement) | 4.07 | 0.82 | 0.82 | 0.82 | 0.82 |
| Equity financing | (1.20) | (0.18) | - | - | 1.00 |
| Other | (0.00) | (0.21) | (0.21) | (0.21) | (0.21) |
| **Cash from Financing Activities** | **1.42** | **(1.04)** | **(0.86)** | **(0.92)** | **0.03** |
| FX impact | 1.50 | 1.97 | 1.73 | 1.85 | 1.79 |
| Net cash flow | 0.14 | 9.25 | 9.33 | 7.47 | 9.00 |
| | | | | | |
| **Free cash flow** | **(5.34)** | **6.84** | **6.31** | **4.71** | **5.18** |
| **EBITDA** | **(0.09)** | **4.73** | **8.09** | **8.56** | **9.15** |
| | | | | | |
| EBITDA margin (%) | -0.1 | 6.4 | 10.6 | 10.5 | 10.6 |
| Free cash flow margin (%) | -7.9 | 9.3 | 8.3 | 5.8 | 6.0 |
| Free cash flow conversion (%) | N/A | 136.2 | 168.9 | 121.3 | 121.9 |
| Capex/sales (%) | 7.9 | 4.2 | 4.0 | 4.0 | 4.0 |
| Capex/depreciation (%) | 135.0 | 84.3 | 81.6 | 81.6 | 81.6 |
| CFO margin (%) | -0.0 | 13.5 | 12.3 | 9.8 | 10.0 |

| Balance sheet (¥bn) | FY 12/23 | FY 12/24 | FY 12/25E | FY 12/26E | FY 12/27E |
|---|---|---|---|---|---|
| Cash & equivalents | 34.62 | 47.76 | 57.09 | 64.56 | 73.56 |
| Marketable securities | - | - | - | - | - |
| Accounts receivables | 16.00 | 19.19 | 17.27 | 17.27 | 17.27 |
| Inventory | 32.40 | 31.62 | 32.05 | 32.05 | 32.05 |
| Other | 3.15 | 2.95 | 3.27 | 3.27 | 3.27 |
| **Current assets** | **86.17** | **101.52** | 109.68 | 117.15 | 126.14 |
| Tangible assets | 32.94 | 32.24 | 32.44 | 32.65 | 32.87 |
| Goodwill | 0.80 | 0.71 | 0.71 | 0.71 | 0.71 |
| Intangible assets | 1.86 | 1.51 | 1.37 | 1.22 | 1.07 |
| Long term investments | 5.48 | 6.66 | 6.66 | 6.66 | 6.66 |
| Other | 6.82 | 2.36 | 2.36 | 2.36 | 2.36 |
| **Fixed assets** | **47.90** | **43.47** | 43.53 | 43.60 | 43.67 |
| **Total assets** | **134.07** | **144.99** | **153.21** | **160.74** | **169.81** |
| Short term borrowing | 12.35 | 13.03 | 13.03 | 13.03 | 13.03 |
| Trade payables | 9.15 | 11.61 | 11.80 | 12.53 | 13.34 |
| Other | 9.31 | 9.80 | 11.65 | 12.37 | 13.18 |
| **Current liabilities** | **30.81** | **34.44** | **36.48** | **37.92** | **39.55** |
| Long term borrowing | 24.13 | 24.12 | 24.94 | 25.77 | 26.59 |
| Other LT liabilities | 2.00 | 2.00 | 2.00 | 2.00 | 2.00 |
| **Long term liabilities** | **26.13** | **26.13** | **26.95** | **27.77** | **28.59** |
| **Shareholder's equity** | **77.08** | **84.38** | **89.73** | **95.00** | **101.62** |
| Non-controlling interests | 0.05 | 0.05 | 0.05 | 0.05 | 0.05 |
| **Total net assets** | **77.13** | **84.43** | **89.78** | **95.05** | **101.67** |
| **Total liabilities & net assets** | **134.07** | **144.99** | **153.21** | **160.74** | **169.81** |

| Key metrics | FY 12/23 | FY 12/24 | FY 12/25E | FY 12/26E | FY 12/27E |
|---|---|---|---|---|---|
| **Profitability** | | | | | |
| Gross margin (%) | 28.7 | 32.7 | 32.8 | 33.0 | 33.0 |
| Operating margin (%) | (4.2) | 3.0 | 5.7 | 5.6 | 5.7 |
| Net margin (%) | (6.9) | 5.6 | 3.8 | 3.7 | 3.8 |
| ROA (%) | (3.4) | 2.9 | 2.0 | 1.9 | 2.0 |
| ROE (%) | (5.8) | 5.1 | 3.4 | 3.3 | 3.3 |
| ROCE (%) | (2.7) | 2.0 | 3.7 | 3.7 | 3.8 |
| ROIC (%) | (6.8) | 1.4 | 2.7 | 2.7 | 2.7 |
| **Liquidity** | | | | | |
| Current ratio (x) | 2.8 | 2.9 | 3.0 | 3.1 | 3.2 |
| Quick ratio (x) | 1.7 | 2.0 | 2.1 | 2.2 | 2.4 |
| **Leverage** | | | | | |
| Debt/Equity ratio (x) | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| Net Debt/Equity ratio (x) | 0.0 | net cash | net cash | net cash | net cash |
| Equity ratio (x) | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Interest cover (x) | -6.8 | 5.4 | 11.5 | 5.9 | 4.1 |
| Net Debt/EBITDA (x) | -21.8 | N/A | N/A | N/A | N/A |
| **Valuation** | | | | | |
| EPS reported (¥) | (90.29) | 81.06 | 57.54 | 59.77 | 64.62 |
| **PER (x)** | **N/A** | **9.2** | **12.9** | **12.4** | **11.5** |
| **Diluted PER (x)** | **N/A** | **9.2** | **12.9** | **12.4** | **11.5** |
| DPS (¥) | 29.0 | 29.0 | 30.0 | 31.0 | 32.0 |
| Dividend payout ratio (%) | (32.1) | 35.8 | 52.1 | 51.9 | 49.5 |
| **Dividend yield (%)** | **3.9** | **3.9** | **4.0** | **4.2** | **4.3** |
| **Total shareholder return (%)** | **3.9** | **3.9** | **4.0** | **4.2** | **4.3** |
| **Free cash flow yield (%)** | **(13.1)** | **16.8** | **16.2** | **11.6** | **12.7** |
| **Diluted FCF yield (%)** | **(13.1)** | **16.8** | **16.2** | **11.6** | **12.7** |
| **PBR (x)** | **0.5** | **0.5** | **0.5** | **0.4** | **0.4** |
| EV/sales (x) | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 |
| EV/EBITDA (x) | (358.3) | 6.4 | 3.8 | 3.6 | 3.3 |
| EV/EBIT (x) | (10.8) | 13.7 | 7.0 | 6.7 | 6.2 |
| EV/FCF (x) | N/A | 4.5 | 4.6 | 6.5 | 5.9 |

Source: Company, Astris Advisory (estimates)

***Our earnings model for this company is available to download on our corporate research portal.**

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