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6165

Punch Industry

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Executive summary

Business overview

Punch Industry Co., Ltd. (TSE Prime: 6165) is a manufacturer of ejector pins, punches, and dies used in plastic molds and press dies (it does not manufacture molds or dies itself). The company's technicians, who have acquired manufacturing skills over many years in areas such as heat treatment, surface treatment, and grinding, process steel and cemented carbide materials to make both standard and special-order products. The company focuses on making products to order based on customer specifications (accounting for roughly 60% of revenue from mold and die components) using its cutting, grinding, and other precision processing technology. Customers are companies in the automotive, electronic devices and semiconductors, and other manufacturing sectors. Punch Industry operates globally, generating about two-thirds of revenue overseas, with China alone accounting for half of revenue.

Most mass-produced metal and plastic products are made using molds and dies. They are used to make a wide range of products, including components and products for automobiles, electrical appliances (household and industrial appliances), toys, daily necessities, and miscellaneous goods. Customers use the company's mold and die components in various applications, such as ejector pins that push products out of molds and punches and dies used in material processing (punches apply pressure and dies receive pressure).

Founded in 1975 by Yuji Morikubo, the company in 1982 was first in the world to succeed in mass-producing high-speed steel ejector pins for plastic molds (its heat treatment technology ensured their hardness and toughness). Subsequently, Punch Industry grew its market share by achieving higher accuracy and durability than conventional products. In 1989, it moved into the production of press die components. In 1990, the company was one of the first Japanese manufacturers to make inroads into the Chinese market, in pursuit of lower labor costs. The ensuing collapse of Japan's bubble economy and the 2008 global financial crisis pushed down the production value of molds and dies in Japan, but the company continued to grow by expanding its manufacturing and sales operations in China and elsewhere in Asia, Europe, and the US.

Revenue for FY03/22 was JPY39.4bn and operating profit was JPY3.0bn. By industry, the automotive sector accounted for 41.8% of revenue, electronic devices and semiconductors accounted for 20.4%, consumer electronics and precision equipment accounted for 10.7%, and other industries (e.g., industrial machinery, telecommunications, healthcare, food, trading companies) accounted for 27.1%. Products break down into standard products (roughly 40% of revenue) and special-order products (roughly 60%). The company has an abundant lineup of highly versatile standard products needed for various molds and dies, mainly plastic molds and metal press dies, which it sells through catalogs.

The company focuses in particular on special-order products. Since molds and dies are made for different end products, they all have unique shapes and sizes. Many are unable to be completed using standard products alone (in many cases their shapes, size, dimensions, materials, and other specifications are unsuited to standard products). If a customer wants to customize a standard product but the required processing is technically out of reach or manufacturing costs cut into its profitability, it will special-order the product from the company. In manufacturing special-order products according to customer design drawings, the company's skilled technicians have to perform minute processing in increments of 0.01mm or 0.001mm using machinery and equipment.

In the company's manufacturing, technicians with years of technical expertise carry out production in-house. The company also outsources production through a network of about 300 partner plants that it has built up. About 70% of employees (around 2,800 people in FY03/22) work in the manufacturing division. Under the production framework the company has put in place, they draw on more than 2,000 machine tools and measuring and inspection equipment to carry out all stages of production, from pre- to post-process. Technicians are divided according to process. Because technicians are in charge of processing using specific machinery and equipment over a long period of time, each acquires highly specialized processing skills, such as manual polishing and circular processing.

In terms of sales, the company receives about 70% of orders for standard products online (the rest are via in-person sales calls, email, fax, etc.). For special-order products, sales staff personally visit customers to take orders. They listen carefully to customers' technical issues and formulate proposals to meet their needs, including the most appropriate product, customization (i.e., hardness, materials used, processing method, surface treatment, etc.), total cost, and delivery timeframe. For this reason, sales staff also receive training to learn about actual processing and to gain knowledge about industries and technologies. Technicians also go along on sales calls. This sales approach builds trust with customers and leads to further orders for special-order products. In Japan, the company does business with about 6,000 companies through a network of 11 sales offices nationwide. It was also one of the first Japanese companies in its field to expand abroad, establishing a manufacturing subsidiary in China in 1990, and now does business with about 8,000 customers there.

Shipment volume is linked to how many molds and dies are used by customers across a wide range of manufacturing sectors, including automobiles, electrical appliances (household and industrial appliances), toys, daily necessities, and miscellaneous goods. Revenue is shipment volume multiplied by product unit price. Unit prices of standard products range from JPY100 to several JPY'000, and range from JPY1,000 to JPY0'000 for special-order products. Order quantities can range from a single item to several hundred items or more. Customers renew orders when a component wears out. The company derives about a third of its revenue from plastic mold components, slightly over half from press die components, and the remainder from factory automation products. Cost of revenue consists of the cost of materials used in manufacturing (around 10%), personnel costs (around 30%), and the cost of procuring external products (around 40%). On the profit front, special-order products carry a relatively high gross profit margin, while margins for standard products are low. However, since the company receives most standard product orders online and operating expenses are low, the difference in operating margins between standard and special-order products turns out to be minimal.

Company data estimates that Punch Industry has about a 6% share of the global mold and die components market, ranking second. The same data also estimates the company has the second-largest market share in Japan, at about 18%, and the top market share in China, at about 10%. Misumi Group (TSE Prime: 9962) holds the top global market share for mold and die components, but essentially only sells standard products. Punch Industry says it has the top market share for special-order products in both Japan and China, and that there are no other large-scale players in this area. (In some cases, mold and die manufacturers and users of their products make products by customizing existing standard products. Since there are no aggregate statistics for special-order products alone, it is impossible to accurately estimate market share.)

The company estimates the global market for mold and die components at around JPY596.0bn. Production value of press dies in Japan declined from JPY576.2bn in 2004 to JPY464.0bn in 2020 (CAGR of -1.3%). Production value of plastic molds also decreased over the same period, from JPY619.3bn to JPY382.8bn in 2020 (-3.0%). The downtrend in domestic production value reflects factors such as shift offshore of manufacturing bases by manufacturers, the growing trend toward eliminating of plastics, economic deterioration, and a drop-off in production due to the pandemic. Meanwhile, global mold and die production value rose from USD91.6bn in 2008 to USD125.4bn in 2016 (CAGR of 4.0%). Growth was most marked in China and other Asian countries, to which companies transferred production in pursuit of cheaper labor. The company has mitigated the impact of the shrinking mold and die components market in Japan by expanding revenues abroad, mainly in China.

Earnings trends

In FY03/23, the company recorded revenue of JPY42.8bn (+8.7% YoY), operating profit of JPY2.4bn (-19.9% YoY), recurring profit of JPY2.4bn (-20.4% YoY), and net income attributable to owners of the parent of JPY1.4bn (-31.9% YoY). Revenue was up YoY across all regions, reflecting a rebound from the COVID-19 pandemic.

For FY03/23, the company forecasts revenue of JPY42.0bn (-1.9% YoY), operating profit of JPY2.2bn (-11.8% YoY), recurring profit of JPY2.1bn (-12.3% YoY), and net income attributable to owners of the parent of JPY800mn (-42.5% YoY). The company expects a deterioration in the mold and die components market due to heightened global geopolitical risks, surging raw material and resource prices, and component shortages.

The company announced a medium-term business plan, Value Creation 2024, targeting revenue of JPY50.0bn in FY03/25, operating profit of JPY5.0bn, and net income attributable to owners of the parent of JPY4.0bn. Key management issues in the plan include (1) expanding new and existing businesses (expanding sales of special-order products in the factory automation area, enhancing customer services in the ordering framework, expanding the sales network outside Japan and China); (2) strengthening the production framework (global procurement, ramping up the group production framework, boosting productivity through automation and labor-saving technology); and (3) strengthening R&D (new P-Bas processing method, manufacture and sales of products other than mold and die components, augmenting the aerospace businesses).

Strengths and weaknesses

Shared Research believes the company has the following three strengths.

- The company has established the top spot in the global special-order product market through its precision processing technology and production framework, supported by a corps of highly skilled technicians operating a large pool of machinery and equipment, and a network of sales offices from which staff personally visit customers.

- Through a training framework that includes the in-house training facility Punch Academy, the company can pass on skills to younger technicians, give hands-on training to sales staff on customer molds and dies and its own mold and die components, and provide ongoing education to other employees.

- Having been first off the mark to enter the Chinese market and having subsequently expanded its manufacturing and sales network there, the company now boasts the number one share of the growing Chinese market, serving 8,000 customers.

Shared Research believes the company has the following three weaknesses.

- Training up skilled technicians takes a significant amount of time, and the company's tardiness in rolling out state-of-the-art machine tools, robotics, and automated machinery has slowed the growth of the business.
- The company was slow to expand into online sales of standard products, thus ceding market share to early-bird competitors.
- The company lags significantly behind competitors in the factory automation business, which it has positioned as a growth area in the current medium-term business plan.

Key financial data

Income statement	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23	FY03/24
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Consolidated forecast
Revenue	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**	**42,800**	**42,000**
YoY	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%	8.7%	-1.9%
Gross profit	**7,661**	**9,362**	**10,178**	**10,192**	**11,658**	**11,472**	**9,187**	**9,087**	**11,445**	**11,631**	
YoY	24.9%	22.2%	8.7%	0.1%	14.4%	-1.6%	-19.9%	-1.1%	26.0%	1.6%	
Gross profit margin	26.0%	27.2%	27.7%	27.8%	28.4%	28.0%	26.0%	28.0%	29.1%	27.2%	
Operating profit	**1,162**	**1,724**	**1,987**	**1,991**	**2,844**	**2,579**	**836**	**1,613**	**3,042**	**2,437**	**2,150**
YoY	64.1%	48.4%	15.2%	0.2%	42.8%	-9.3%	-67.6%	93.0%	88.5%	-19.9%	-11.8%
Operating profit margin	3.9%	5.0%	5.4%	5.4%	6.9%	6.3%	2.4%	5.0%	7.7%	5.7%	5.1%
Recurring profit	**1,047**	**1,617**	**1,667**	**1,874**	**2,732**	**2,547**	**713**	**1,677**	**3,008**	**2,394**	**2,100**
YoY	27.3%	54.4%	3.1%	12.5%	45.7%	-6.8%	-72.0%	135.1%	79.4%	-20.4%	-12.3%
Recurring profit margin	3.6%	4.7%	4.5%	5.1%	6.7%	6.2%	2.0%	5.2%	7.6%	5.6%	5.0%
Net income	**721**	**1,188**	**1,249**	**1,376**	**1,789**	**960**	**-3,486**	**478**	**2,041**	**1,390**	**800**
YoY	238.0%	64.9%	5.1%	10.1%	30.0%	-46.3%	-	-	327.2%	-31.9%	-42.5%
Net margin	2.4%	3.5%	3.4%	3.8%	4.4%	2.3%	-	1.5%	5.2%	3.2%	1.9%
Per-share data											
Shares issued at year-end ('000)	17,922	22,122	22,122	22,122	22,122	22,122	22,122	22,122	22,332	24,622	
Treasury shares ('000)	-	-	-	100	200	380	313	303	276	191	
EPS (JPY)	49.8	65.5	56.5	62.5	81.6	43.9	-160.0	21.9	93.4	60.6	32.8
EPS (fully diluted; JPY)	-	-	-	62.4	81.4	43.7	-	21.8	84.4	60.2	
Dividend per share (JPY)	10.0	12.5	12.5	13.0	16.8	16.8	2.0	2.0	13.0	19.5	20.3
Book value per share (JPY)	522	642	632	646	737	721	537	568	737	778	
Balance sheet(JPYmn)											
Cash and cash equivalents	1,528	3,303	3,236	3,280	3,771	3,580	3,390	4,092	4,816	5,213	
Total current assets	**14,668**	**19,370**	**17,876**	**19,150**	**20,842**	**19,559**	**17,792**	**18,061**	**21,280**	**22,078**	
Tangible fixed assets	7,612	8,169	7,697	8,669	9,939	9,972	7,135	6,195	7,013	7,315	
Intangible assets	1,799	1,790	1,322	1,243	1,158	1,002	345	175	178	695	
Investments and other assets	392	296	443	390	621	622	305	272	304	368	
Total fixed assets	**9,803**	**10,254**	**9,462**	**10,302**	**11,718**	**11,596**	**7,784**	**6,642**	**7,494**	**8,378**	
Total assets	**24,471**	**29,624**	**27,338**	**29,452**	**32,561**	**31,155**	**25,577**	**24,703**	**28,774**	**30,456**	
Short-term debt	5,304	4,849	3,551	4,346	3,730	4,326	3,149	3,325	2,486	2,039	
Total current liabilities	**11,372**	**12,312**	**10,451**	**11,725**	**12,650**	**11,531**	**9,280**	**9,455**	**10,001**	**9,181**	
Long-term debt	2,440	2,307	1,794	2,461	2,152	2,342	2,927	1,252	908	676	
Total fixed liabilities	**3,736**	**3,106**	**2,887**	**3,551**	**3,736**	**3,890**	**4,549**	**2,811**	**2,466**	**2,223**	
Total liabilities	**15,108**	**15,418**	**13,338**	**15,276**	**16,386**	**15,421**	**13,829**	**12,266**	**12,467**	**11,403**	
Shareholders' equity	9,354	14,200	13,988	14,167	16,149	15,687	11,704	12,399	16,265	19,008	
Total net assets	**9,363**	**14,205**	**13,999**	**14,176**	**16,175**	**15,734**	**11,747**	**12,436**	**16,307**	**19,053**	
Total interest-bearing debt	7,744	7,156	5,345	6,807	5,882	6,668	6,076	4,576	3,394	2,715	
Cash flow statement(JPYmn)											
Cash flows from operating activities	1,195	1,805	3,187	1,785	3,394	3,185	2,490	2,943	2,941	2,560	
Cash flows from investing activities	-1,252	-1,180	-1,159	-2,770	-2,336	-3,253	-1,789	-670	-1,100	-1,547	
Cash flows from financing activities	-370	1,014	-1,902	1,200	-739	74	-772	-1,685	-1,601	-756	
Financial ratios											
ROA (RP-based)	4.6%	6.0%	5.9%	6.6%	8.8%	8.0%	2.5%	6.7%	11.2%	8.1%	
ROE	9.6%	10.1%	8.9%	9.8%	11.8%	6.0%	-25.5%	4.0%	14.2%	7.9%	

Source: Shared Research based on company data

Notes: Figures may differ from company materials due to differences in rounding methods.

Net income is net income attributable to owners of the parent.

Results by segment

By region	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	FY03/23
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**	**42,800**
YoY	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%	8.7%
Japan	14,387	15,211	15,637	15,904	17,154	16,777	14,566	12,338	14,020	14,104
YoY	5.2%	5.7%	2.8%	1.7%	7.9%	-2.2%	-13.2%	-15.3%	13.6%	0.6%
% of revenue	48.9%	44.2%	42.5%	43.4%	41.8%	41.0%	41.2%	38.0%	35.6%	33.0%
China	12,989	16,208	17,807	17,428	20,103	19,899	16,837	16,889	20,956	23,451
YoY	29.9%	24.8%	9.9%	-2.1%	15.3%	-1.0%	-15.4%	0.3%	24.1%	11.9%
% of revenue	44.1%	47.1%	48.4%	47.6%	49.0%	48.6%	47.6%	52.0%	53.2%	54.8%
Other	2,062	2,973	3,312	3,317	3,769	4,259	3,946	3,235	4,382	5,244
YoY	51.3%	44.2%	11.4%	0.2%	13.6%	13.0%	-7.3%	-18.0%	35.5%	19.7%
% of revenue	7.0%	8.6%	9.0%	9.1%	9.2%	10.4%	11.2%	10.0%	11.1%	12.3%
Southeast Asia							1,535	1,376	1,740	
YoY							-	-10.4%	26.5%	
% of revenue							4.3%	4.2%	4.4%	
Europe, the US, and other regions							2,410	1,858	2,641	
YoY							-	-22.9%	42.1%	
% of revenue							6.8%	5.7%	6.7%	
By industry	**FY03/14**	**FY03/15**	**FY03/16**	**FY03/17**	**FY03/18**	**FY03/19**	**FY03/20**	**FY03/21**	**FY03/22**	**FY03/23**
(JPYmn)	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**	**Cons.**
Revenue	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**	**42,800**
YoY	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%	8.7%
Automotive	13,210	15,540	17,060	16,780	18,370	17,877	15,370	13,682	16,442	18,082
YoY	27.0%	17.6%	9.8%	-1.6%	9.5%	-2.7%	-14.0%	-11.0%	20.2%	10.0%
% of revenue	44.9%	45.2%	46.4%	45.8%	44.8%	43.7%	43.5%	42.1%	41.8%	42.2%
Electronic devices & semiconductors	5,190	6,540	6,550	7,000	7,880	7,558	6,113	6,315	8,043	7,866
YoY	-0.8%	26.0%	0.2%	6.9%	12.6%	-4.1%	-19.1%	3.3%	27.4%	-2.2%
% of revenue	17.6%	19.0%	17.8%	19.1%	19.2%	18.5%	17.3%	19.5%	20.4%	18.4%
Consumer electronics & precision equipment	3,520	4,510	4,800	4,480	4,780	4,837	4,298	3,888	4,192	4,312
YoY	6.7%	28.1%	6.4%	-6.7%	6.7%	1.2%	-11.1%	-9.5%	7.8%	2.9%
% of revenue	12.0%	13.1%	13.1%	12.2%	11.7%	11.8%	12.2%	12.0%	10.7%	10.1%
Other	7,510	7,800	8,300	8,400	9,940	10,662	9,566	8,574	10,679	12,538
YoY	22.9%	3.9%	6.4%	1.2%	18.3%	7.3%	-10.3%	-10.4%	24.6%	17.4%
% of revenue	25.5%	22.7%	22.6%	22.9%	24.2%	26.0%	27.1%	26.4%	27.1%	29.3%
(FA revenue)									2,740	
YoY									-	-
% of revenue									7.0%	-

Source: Shared Research based on company data

Recent updates

Earninings forecast revision

2023-08-09

Punch Industry Co., Ltd. revised its 1H and full-year FY03/24 forecasts.

Revised 1H FY03/24 forecast

- Revenue: JPY19.3bn (previous forecast: JPY20.3bn)
- Operating profit: JPY330mn (JPY810mn)
- Recurring profit: JPY620mn (JPY800mn)
- Net income attributable to owners of the parent: JPY120mn (unchanged)

Revised full-year FY03/24 forecast

- Revenue: JPY37.6bn (previous forecast: JPY42.0bn)
- Operating profit: JPY750mn (JPY2.2bn)
- Recurring profit: JPY1.0bn (JPY2.1bn)
- Net income attributable to owners of the parent: JPY100mn (JPY800mn)

Reason for revision

In Q1 FY03/24, revenue declined YoY in Japan and China. Amid global inventory adjustments and a downtrend in the market, soaring prices of raw materials and resources, parts shortages, rising procurement costs, and higher utilities expenses continued to affect earnings. In China, while service demand recovered following the lifting of the zero-COVID policy, sluggish demand for durable goods such as automobiles and smartphones and a deterioration in the real estate market slowed the economic recovery. As a result, in China, revenue from all main sectors (automotive, electronic devices and semiconductors, consumer electronics and precision equipment) dropped YoY.

Amid the increasingly harsh operating environment, Q2 revenue has not recovered in Japan and China. The company reported sluggish orders for mold and die components for new automobiles from the automotive sector and slow demand for products for smartphones in the electronic devices and semiconductors industry. The company initially expected the economy to recover from Q3 in China. As such, it decided to make a significant downward revision to its revenue target. In addition, the company is seeing a greater-than-expected impact of rising procurement costs. It will work to improve profitability by revising selling prices from Q3. However, the company expects this move will not fully offset the impact of a profit decline resulting from lower revenue and increased procurement costs. Accordingly, the company revised its 1H and full-year FY03/24 forecasts.

Under its medium-term business plan, Value Creation 2024 Revival (out July 5, 2023), the company aims to achieve sustainable growth in profit by focusing on the high-value-added special-order product business. Among the key initiatives outlined in the Value Creation 2024 Revival plan is the realignment of domestic businesses. The company is working to consolidate production and sales bases, and solicit voluntary retirement and dissolve a consolidated subsidiary to streamline operations. It intends to swiftly rebuild the business structure to improve its earnings. Expenses for special retirement allowances and outplacement services in line with management optimization have not been factored into the revised forecasts. The number of voluntary retirees following the consolidation of production and sales bases is not finalized yet. The company intends to disclose the information as soon as it becomes available.

Updates to medium-term business plan, voluntary retirement program, dissolution of consolidated subsidiary

2023-07-05

Punch Industry Co., Ltd. announced updates to its medium-term business plan, Value Creation 2024, and its plan to streamline operations by soliciting voluntary retirement and dissolving a consolidated subsidiary. It also announced that its executives would return a portion of their remuneration.

Reasons for updating the medium-term plan and streamlining operations

The business environment has become increasingly harsh due to global factors such as rising geopolitical risks, soaring prices of raw materials and other resources, and parts supply shortages. As a result, the company's progress in executing its medium-term plan, Value Creation 2024, was significantly behind, and in addition to making up for the delays, the company has decided it needs to update the plan, including adding new growth strategies for the future. In May 2023, the company announced a change in listing from the TSE Prime Market to the Standard Market. It plans to concentrate management resources on executing various initiatives set forth in the updated plan, Value Creation 2024 Revival.

Among the key initiatives outlined in the Value Creation 2024 Revival plan is the realignment of domestic businesses. The company decided to consolidate production and sales bases, and solicit voluntary retirement and dissolve a consolidated subsidiary to streamline operations.

Medium-term business plan Value Creation 2024 Revival

The company will work on structural reforms under the basic policy of aiming for sustainable growth in profit by focusing on the high-value-added special-order product business.

In terms of production, the company plans to dissolve its consolidated subsidiary, Pintec Corporation, and reorganize its group production system by transferring production functions of the Kitakami, Miyako, and Hyogo plants to the Vietnam plant. In terms of sales, the company intends to establish a customer center to streamline the ordering process. It will also solicit applicants for voluntary retirement in line with the alignment of production and sales bases.

Overseas, the company will continue to work on its growth strategy of acquiring new sales bases and distributors, expanding sales of special-order factory automation products, and redirecting focus to the Indian market.

- The company is still reviewing its earnings forecasts and KPI targets for FY03/24 (the second year of the medium-term plan) and FY03/25 (the final year) as the number of voluntary retirees following the consolidation of production and sales bases is not finalized yet. It intends to disclose the information as soon as it becomes available.

Voluntary retirement program

Eligible employees: Employees of all departments

Expected number of applicants: Approximately 200

Application period: From August 7 to August 25, 2023

Retirement date: September 30, 2023

Special consideration: In addition to regular retirement allowances, special retirement allowances and outplacement services will be offered.

Subsidiary to be dissolved (Pintec)

Trade name: Pintec Corporation

Business: Manufacturing and sales of mold and die components for flexible printed circuit boards and printed circuit boards, and components for plastic molds

Major shareholder and shareholding ratio: Punch Industry (100%)

Operating results: Revenue of JPY633mn, operating loss of JPY24mn, and net loss attributable to owners of the parent of JPY23mn in FY03/23

Retirees upon dissolution: All 73 employees to retire on September 30, 2023

Schedule for end of production and liquidation: Pintec will withdraw from domestic production after completing production at end-September 2023. The subsidiary will hold an extraordinary meeting of shareholders to resolve its dissolution. Liquidation is expected to be completed by end-FY2024.

Return of executive remuneration (details and duration)

President and CEO: 50% of fixed monthly remuneration (12 months), 100% of performance-based remuneration

Director and senior executive officer: 30% of fixed monthly remuneration (12 months), 100% of performance-based remuneration

Executive officer: 100% of performance-based remuneration

Outlook

The company is examining the impact of the voluntary retirement program and the dissolution of the consolidated subsidiary on its consolidated earnings for FY03/24, and will disclose the information when it is confirmed. It also plans to announce KPI targets for the new medium-term business plan, Value Creation 2024 Revival, once expenses associated with special retirement allowances and outplacement support are determined.

Trends and outlook

Quarterly trends and results

Earnings (cumulative)	FY03/21				FY03/22				FY03/23				FY03/23	
(JPYmn)	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	Q1	Q1-Q2	Q1-Q3	Q1-Q4	% of forecast	FY forecast
Revenue	7,169	15,412	23,658	32,462	9,279	19,524	29,373	39,359	10,234	21,666	32,694	42,800	99.3%	43,100
YoY	-15.8%	-14.3%	-11.4%	-8.2%	29.4%	26.7%	24.2%	21.2%	10.3%	11.0%	11.3%	8.7%		9.5%
Gross profit	1,853	3,999	6,452	9,087	2,757	5,864	8,759	11,445	2,891	6,049	9,028	11,631		
YoY	-13.7%	-9.4%	-2.9%	-1.1%	48.7%	46.6%	35.8%	26.0%	4.9%	3.1%	3.1%	1.6%		
Gross profit margin	25.9%	25.9%	27.3%	28.0%	29.7%	30.0%	29.8%	29.1%	28.3%	27.9%	27.6%	27.2%		
SG&A expenses	1,828	3,686	5,519	7,474	1,960	4,096	6,188	8,403	2,185	4,512	6,945	9,194		
YoY	-16.0%	-14.9%	-13.8%	-10.5%	7.2%	11.1%	12.1%	12.4%	11.5%	10.2%	12.2%	9.4%		
SG&A ratio	25.5%	23.9%	23.3%	23.0%	21.1%	21.0%	21.1%	21.4%	21.4%	20.8%	21.2%	21.5%		
Operating profit	25	313	933	1,613	797	1,769	2,571	3,042	706	1,537	2,083	2,437	103.7%	2,350
YoY	-	290.5%	286.0%	93.0%	-	464.7%	175.5%	88.5%	-11.4%	-13.1%	-19.0%	-19.9%		-22.7%
Operating profit margin	0.3%	2.0%	3.9%	5.0%	8.6%	9.1%	8.8%	7.7%	6.9%	7.1%	6.4%	5.7%		5.5%
Recurring profit	6	373	1,005	1,677	762	1,736	2,544	3,008	698	1,525	1,983	2,394	104.1%	2,300
YoY	-	-	443.5%	135.1%	-	365.7%	153.0%	79.4%	-8.3%	-12.2%	-22.0%	-20.4%		-23.5%
Recurring profit margin	0.1%	2.4%	4.2%	5.2%	8.2%	8.9%	8.7%	7.6%	6.8%	7.0%	6.1%	5.6%		5.3%
Net income	-76	-544	-81	478	526	1,259	1,778	2,041	428	906	1,094	1,390	123.0%	1,130
YoY	-	-	-	-	-	-	-	327.2%	-18.7%	-28.0%	-38.5%	-31.9%		-44.6%
Net margin	-	-	-	1.5%	5.7%	6.4%	6.1%	5.2%	4.2%	4.2%	3.3%	3.2%		2.6%

Earnings (quarterly)	FY03/21				FY03/22				FY03/23			
(JPYmn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	7,169	8,243	8,246	8,804	9,279	10,245	9,849	9,986	10,234	11,432	11,029	10,105
YoY	-15.8%	-13.1%	-5.4%	1.9%	29.4%	24.3%	19.4%	13.4%	10.3%	11.6%	12.0%	1.2%
Gross profit	1,853	2,146	2,453	2,635	2,757	3,107	2,895	2,686	2,891	3,158	2,979	2,603
YoY	-13.7%	-5.3%	10.0%	3.6%	48.7%	44.8%	18.0%	1.9%	4.9%	1.6%	2.9%	-3.1%
Gross profit margin	25.9%	26.0%	29.7%	29.9%	29.7%	30.3%	29.4%	26.9%	28.3%	27.6%	27.0%	25.8%
SG&A expenses	1,828	1,858	1,833	1,954	1,960	2,135	2,093	2,215	2,185	2,326	2,433	2,250
YoY	-16.0%	-13.8%	-11.4%	0.3%	7.2%	15.0%	14.2%	13.3%	11.5%	8.9%	16.3%	1.6%
SG&A ratio	25.5%	22.5%	22.2%	22.2%	21.1%	20.8%	21.2%	22.2%	21.4%	20.3%	22.1%	22.3%
Operating profit	25	288	620	680	797	972	802	471	706	831	546	353
YoY	-	163.1%	283.8%	14.5%	-	237.2%	29.4%	-30.7%	-11.4%	-14.4%	-31.9%	-25.0%
Operating profit margin	0.3%	3.5%	7.5%	7.7%	8.6%	9.5%	8.1%	4.7%	6.9%	7.3%	5.0%	3.5%
Recurring profit	6	367	633	671	762	974	808	464	698	827	459	411
YoY	-	293.8%	247.3%	27.1%	-	165.7%	27.7%	-30.9%	-8.3%	-15.2%	-43.2%	-11.5%
Recurring profit margin	0.1%	4.4%	7.7%	7.6%	8.2%	9.5%	8.2%	4.6%	6.8%	7.2%	4.2%	4.1%
Net income	-76	-468	464	558	526	732	519	262	428	478	188	296
YoY	-	-	-	-	-	-	12.0%	-53.0%	-18.7%	-34.7%	-63.8%	12.8%
Net margin	-	-	5.6%	6.3%	5.7%	7.1%	5.3%	2.6%	4.2%	4.2%	1.7%	2.9%

Source: Shared Research based on company data

Full-year FY03/23 results

Summary

- Revenue: JPY42.8bn (+8.7% YoY)
- Operating profit: JPY2.4bn (-19.9% YoY)
- Recurring profit: JPY2.4bn (-20.4% YoY)
- Net income attributable to owners of the parent: JPY1.4bn (-31.9% YoY)

- Revenue was JPY42.8bn (+8.7% YoY). With COVID-19 under control, economic activities resumed. Revenue also benefited from forex gains due to the yen's depreciation, growing YoY in all regions.

- Gross profit was up 1.6% YoY to JPY11.6bn but the gross profit margin was down 1.9pp to 27.2%. Although the company raised selling prices, purchasing costs increased by a wider margin, causing the cost ratio to deteriorate.

- SG&A expenses were up 9.4% YoY to JPY9.2bn.

Achievement versus full-year company forecast

The achievement rate versus the full-year FY03/23 forecast was 99.3% for revenue, 103.7% for operating profit, 104.1% for recurring profit, and 123.0% for net income attributable to owners of the parent.

Business environment

The economic activity showed signs of recovery with COVID-19 under control. However, the business environment has become increasingly harsh due to geopolitical risks and sharp growth in prices of raw materials, energy, and other resources.

The outlook remains clouded by global parts shortages and financial instability in the US and Europe stemming from failures of US-based banks.

Revenue by region, industry

Revenue was JPY14.1bn in Japan (+0.6% YoY), JPY23.5bn in China (+11.9% YoY), and JPY5.2bn in other regions (+19.7% YoY).

By industry, the automotive sector accounted for JPY18.1bn of revenue (+10.0% YoY), electronic devices and semiconductors accounted for JPY7.9bn (-2.2% YoY), consumer electronics and precision equipment accounted for JPY4.3bn (+2.9% YoY), and other sectors accounted for JPY12.5bn (+17.4% YoY).

Application for listing on the Standard Market

On May 12, 2023, the company decided to select and apply for listing on the Standard Market of the Tokyo Stock Exchange (TSE). The decision was made following a change in TSE regulations (effective April 1, 2023) that enabled the reselection of market segments.

- The Prime Market's listing maintenance criteria require market capitalization of tradable shares of JPY10.0bn. The company had not satisfied the criterion, with its market capitalization of tradable shares at JPY7.9bn as of end-March 2023. It had, however, met all other criteria.
- The company has seen a significant delay in the progress of its current medium-term business plan. In addition to recovering from this delay, the company recognizes the need to update its medium-term business plan to include its new growth strategy. Accordingly, it has decided to focus its management resources on updating its medium-term plan and implementing initiatives under the plan, rather than on meeting the listing maintenance criteria for the Prime Market. The company has satisfied all criteria for listing on the Standard Market.

Full-year company forecast

	FY03/22			FY03/23			FY03/24		
(JPYmn)	1H results	2H results	FY results	1H results	2H results	FY results	1H forecast	2H forecast	FY forecast
Revenue	**19,524**	**19,835**	**39,359**	**21,666**	**21,134**	**42,800**	**20,300**	**21,700**	**42,000**
YoY	26.7%	16.3%	21.2%	11.0%	6.5%	8.7%	-6.3%	2.7%	-1.9%
Cost of revenue	13,660	14,254	27,914	15,617	15,552	31,169	-	-	-
YoY	19.7%	19.2%	19.4%	14.3%	9.1%	11.7%	-	-	-
Gross profit	**5,864**	**5,581**	**11,445**	**6,049**	**5,582**	**11,631**	**-**	**-**	**-**
YoY	46.6%	9.7%	26.0%	3.1%	0.0%	1.6%	-	-	-
Gross profit margin	30.0%	28.1%	29.1%	27.9%	26.4%	27.2%	-	-	-
SG&A expenses	4,096	4,308	8,403	4,512	4,683	9,194	-	-	-
YoY	11.1%	13.7%	12.4%	10.2%	8.7%	9.4%	-	-	-
SG&A ratio	21.0%	21.7%	21.4%	20.8%	22.2%	21.5%	-	-	-
Operating profit	**1,769**	**1,273**	**3,042**	**1,537**	**899**	**2,437**	**810**	**1,340**	**2,150**
YoY	464.7%	-2.1%	88.5%	-13.1%	-29.4%	-19.9%	-47.3%	49.0%	-11.8%
Operating profit margin	9.1%	6.4%	7.7%	7.1%	4.3%	5.7%	4.0%	6.2%	5.1%
Recurring profit	**1,736**	**1,272**	**3,008**	**1,525**	**869**	**2,394**	**800**	**1,300**	**2,100**
YoY	365.7%	-2.5%	79.4%	-12.2%	-31.7%	-20.4%	-47.5%	49.6%	-12.3%
Recurring profit margin	8.9%	6.4%	7.6%	7.0%	4.1%	5.6%	3.9%	6.0%	5.0%
Net income	**1,259**	**782**	**2,041**	**906**	**484**	**1,390**	**120**	**680**	**800**
YoY	-	-23.5%	327.2%	-28.0%	-38.1%	-31.9%	-86.8%	40.4%	-42.5%
Net margin	6.4%	3.9%	5.2%	4.2%	2.3%	3.2%	0.6%	3.1%	1.9%

Source: Shared Research based on company data

Initial full-year forecast (out May 2023)

The company forecasts revenue of JPY42.0bn (-1.9% YoY) in FY03/24, operating profit of JPY2.2bn (-11.8% YoY), recurring profit of JPY2.1bn (-12.3% YoY), and net income attributable to owners of the parent of JPY800mn (-42.5% YoY). The company plans to pay a full-year dividend of JPY20.3 per share (+JPY0.8 YoY).

Outlook

Punch Industry recognizes the mold and die components market is trending downward due to heightened global geopolitical risks, soaring prices for raw materials and resources, component shortages, and other factors. The company does not expect an upturn in the economy anytime soon. It has seen a significant delay in the progress of its medium-term business plan Value Creation 2024 due to an ongoing rise in procurement costs and utilities expenses. It also expects to record an impairment loss through its Japan business.

In addition to recovering from the aforementioned progress delay, the company recognizes the need to update its medium-term business plan to include its new growth strategy. It says it will work to achieve a swift recovery in earnings by focusing its

management resources on updating its medium-term plan and implementing initiatives under the plan. The company intends to promptly disclose its revised plan once it has been finalized.

Medium-term outlook

Medium-term business plan Value Creation 2024 (FY03/23–FY03/25)

The company announced its medium-term business plan, Value Creation 2024, in March 2022. The plan positions growing demand for automation and labor saving as a new driver of growth. The plan set out three strategies: (1) responding to growing demand for automation and labor saving at manufacturing sites with special-order products in the factory automation area; (2) establishing a solid presence in the mold and die components business through the ongoing development of new technologies and services; and (3) enhancing corporate value by pursuing the SDGs and ESG solutions to social issues.

Priority initiatives

Expanding new and existing businesses	Expanding sales of special-order products in the factory automation area, enhancing customer services in the ordering framework, expanding the sales network outside Japan and China
Strengthening the production framework	Global procurement, ramping up the group production framework, boosting productivity through automation and labor-saving technology
Strengthening R&D	New P-Bas processing method, manufacture and sales of products other than mold and die components, augmenting the aerospace businesses

Source: Shared Research based on company data

Expanding new and existing businesses

The company cites data from the New Energy and Industrial Technology Development Organization in projecting that the robotics market in Japan will expand from JPY2.85tn in 2020 to JPY9.7tn by 2035. To capture this demand, it will expand sales of special-order products in the factory automation area through its Japan and China businesses, including taking advantage of business alliances. The company targets an increase in revenue from the factory automation business from JPY2.7bn in FY03/22 to JPY5.0bn in FY03/25. It plans to expand the business in four steps: (1) precision components and precision jigs and tools; (2) assembled precision components; (3) simplified, powered equipment; and (4) production line equipment. The company says it has progressed up to step (2), and is selling the special-order products listed. Punch Industry had planned to expand equipment sales through tie-ups and acquisitions, but the October 2022 consolidation of ASCe, a developer and manufacturer of automated machinery, has enabled the company to expand its sales targets to include advanced equipment (such as those specified in steps [3] and [4]).

The company is working to enhance customer services in the ordering process, such as upgrading the current online ordering system, Punch-Net, to improve customer convenience and reinforce the customer follow-up framework, aiming to elevate the proportion of online orders from 39% in FY03/22 to 48% in FY03/25. Another focus is 3D Measurement Partners, a new service launched in January 2022 for measuring product shapes, processing and analyzing data, investigating the causes of defects, and proposing improvement measures.

In terms of expanding the sales network outside Japan and China, the company will further reinforce the "five-pole" sales framework set out in the previous medium-term plan. In Southeast Asia, the company will strengthen sales in the electronic devices and semiconductors business and step up local sales efforts capitalizing on the Vietnam plant, targeting an increase in revenue from the region from JPY1.7bn in FY03/22 to JPY2.6bn in FY03/25. In Europe, the US, and other regions, the company will strengthen sales of products for the US healthcare sector and reinforce relationships with distributors in Europe, targeting an increase in revenue from these regions from JPY2.6bn in FY03/22 to JPY4.0bn in FY03/25.

Strengthening the production framework

In terms of global procurement, the company will capitalize on the production capacity of its own plants and partner plants overseas and further upgrade the production lineup at the Vietnam plant, where it aims for sustainable growth. The company plans to raise revenue from the Vietnam plant by 35% in FY03/25 versus FY03/22. In addition, the company's procurement department in Japan will step up its overseas procurement volume, aiming for a 35% increase in FY03/25 versus FY03/22.

In ramping up the group production framework, the company will invest in improving the production capacity, technology, and quality of its overseas plants and boost production volume at its plants in Japan. The company earmarks a total of JPY3.0bn by FY03/25 for investment in overseas plants. It will transfer production and make capital outlays at four plants in

Japan (including plants of group companies) to enhance production efficiency. The company aims to grow revenue from in-house production in Japan by 25% in FY03/25 versus FY03/22.

In terms of automation and labor-saving technology, the company will enhance production efficiency through the use of IT tools at all 12 group plants. Specifically, the company will automate in-plant operations, pare down failure costs (spoilage costs), invest in upgrading production capacity, seek to capture more orders by enhancing its quality and technical capabilities, and lock in orders by responding more quickly to requests for quotations. It seeks to enhance production efficiency by 10% in FY03/25 versus FY03/22.

Strengthening R&D

The company will continue to develop new technologies aimed at further business growth. One focus is its new P-Bas (short for Punch bonding and sintering) bonding and materials development technologies for creating ideal cooling circuits by joining multiple, separately processed components. With regard to the manufacture and sales of products other than mold and die components, the company will launch special-order products in the factory automation area and initiate marketing to lay the groundwork for these products down the road. The company will also work on aerospace products that require ultra-precision processing.

Other

To strengthen its management foundation, the company will construct new IT tool-based services, reform operations by overhauling its in-house IT infrastructure, and cultivate staff to spearhead digital transformation initiatives. Among these initiatives, the company in particular plans to pursue the AI-based management of design drawings, visualization of processing progress, customer management using sales data, and the consolidation of processing status data. The company's financial strategy is to seek to optimize the capital structure in a way that is attentive to the cost of capital, boosting earning power through management stressing ROIC, and improving the soundness of its financial position. In terms of sustainability, the company will draw down carbon emissions, reinforce corporate governance, cultivate human resources, and reform working styles. For its ROIC-centered management, the company aims to enhance corporate value by maintaining ROIC of at least 10%, which exceeds the cost of capital.

Targets

The company targets revenue of JPY50.0bn in FY03/25 (JPY39.4bn in FY03/22), operating profit of JPY5.0bn (JPY3.0bn), and net income attributable to owners of the parent of JPY4.0bn (JPY2.0bn). It is earmarking cumulative capital investment over the three-year period of JPY5.0bn (over half of which is for plants in China and JPY2.0bn of which is for facility overhauls in Japan). It expects depreciation of JPY3.0bn. By region, the company targets revenue in FY03/25 of JPY17.9bn (JPY14.0bn) in Japan, JPY25.5bn in China (JPY21.0bn), JPY2.6bn in Southeast Asia (JPY1.7bn), and JPY4.0bn in Europe, the US, and other regions (JPY2.6bn). By industry, the company targets revenue of JPY20.4bn (JPY16.4bn) from the automotive sector, JPY10.1bn (JPY8.0bn) from electronic devices and semiconductors, JPY5.5bn (JPY4.2bn) from consumer electronics and precision equipment, and JPY14.0bn (JPY10.7bn) from other sectors.

Previous medium-term business plans

Targets and results

		Value Creation 2015			Value Creation 2020					Value Creation 2020 Plus	
	(JPYmn)	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/21 (revised)	FY03/22
Revenue	Targets	28,000	28,900	30,500	37,000	39,000	42,000	44,500	47,000	33,100	36,100
	Results	29,437	34,393	36,756	36,649	41,025	40,936	35,349	32,462	32,462	39,359
	Difference	1,437	5,493	6,256	-351	2,025	-1,064	-9,151	-14,538	-638	3,259
Operating profit	Targets	1,050	1,330	2,000	2,000	2,200	2,500	2,800	3,300	1,200	1,800
	Results	1,162	1,724	1,987	1,991	2,844	2,579	836	1,613	1,613	3,042
	Difference	112	394	-13	-9	644	79	-1,964	-1,687	413	1,242

Source: Shared Research based on company data
Note: Unless otherwise noted, all medium-term target values are as initially announced.

In previous medium-term business plans, revenue came in above initial target in five out of nine years, as did operating profit.

Value Creation 2015 (FY03/14–FY03/16)

Value Creation 2015, the medium-term business plan announced in November 2013, set out three challenges: (1) global expansion (making inroads into markets in India, Southeast Asia, and Europe and the US); (2) making inroads into new markets (forays into new or underdeveloped areas); and (3) transitioning to a highly profitable business model (reforming the profitability of businesses in Japan and China).

In terms of (1) global expansion, the company formed a new global business division and put in place a sales framework based on personal visits by sales staff, pursuing the following objectives.

Europe and the US	Establishing a special-order product business centered on automotive products
Asia (outside China)	Establishing a business presence in Singapore, Vietnam, Indonesia, and India, positioning Malaysia as the core
Japan	Multiregional support from the global business division (strategizing)

Source: Shared Research based on company data

Regarding (2) making inroads into new markets, the company sought to enter into new areas and markets by harnessing its advanced technological capabilities, pursuing the following objectives.

China	Targeting the western China market with Chongqing as a strategic base
Asia (outside China)	Solidifying a staging ground for the horizontal development of strategies in Japan and China
Japan	Multiregional response from the global business division (marketing), making inroads into healthcare, food, and other new markets

Source: Shared Research based on company data

In (3) transitioning to a highly profitable business model, the company aimed to grow sales of high value-added products drawing on its comprehensive production framework and advanced technological capabilities, pursuing the following objectives.

China	Expanding the strategic product lineup
Asia (outside China)	Augmenting the cemented carbide business (making it more aggressive and more resilient)
Japan	Completing reforms to the earnings structure, establishing group-wide R&D framework centered on the R&D division

Source: Shared Research based on company data

Targets for the final year of the plan (FY03/16) were revenue of JPY30.5bn (JPY25.0bn in FY03/13), operating profit of JPY2.0bn (JPY708mn), recurring profit of JPY1.9bn (JPY823mn), net income attributable to owners of the parent of JPY1.2bn (JPY213mn), and ROE of 16.0%. By region, the company targeted revenue of JPY14.3bn in Japan (JPY13.7bn), JPY13.7bn in China (JPY10.0bn), and JPY2.5bn in Asia (outside China) and other regions (JPY1.4bn). By industry, the company targeted revenue of JPY13.0bn (JPY10.4bn) from the automotive sector, JPY5.6bn (JPY5.2bn) from electronic devices and semiconductors, JPY3.6bn (JPY3.3bn) from consumer electronics and precision equipment, and JPY8.3bn (JPY6.1bn) from other sectors.

Review of Value Creation 2015

In terms of (1) global expansion, the company made acquisitions, acquired production capacity and markets in Southeast Asia, secured sales channels in Europe, and established a business foundation in India. In terms of (2) making inroads into new markets, the company acquired AS 9100 certification, carried out marketing in underdeveloped areas, and clarified targets in new areas. In terms of (3) transitioning to a highly profitable business model, the company established an R&D framework, boosted sales of high value-added products in Japan, expanded the lineup of strategic products in China, and augmented the cemented carbide products business in Southeast Asia. Revenue for FY03/16 was JPY36.8bn against the target of JPY30.5bn. The positive impact of forex translations helped the company reach its target. Operating profit came in at JPY1,987mn, falling just shy of the JPY2.0bn target.

Value Creation 2020 (FY03/17–FY03/21)

Value Creation 2020, the medium-term business plan the company announced in March 2016, set out four challenges: (1) establishing a "five-pole" sales framework (establishing a sales framework in Europe and the US, becoming a global company operating on five sales poles); (2) enhancing customer services (becoming a company that customers support, honing technical capabilities); (3) promoting highly profitable businesses, augmenting R&D (expanding the lineup of high value-added products, reforms to lower the cost of manufacturing); and (4) working style reforms (greater work efficiency, work-life balance, diversity). The plan also called for a return to the spirit of the founder ("Punch Spirit").

Regarding (1) establishing a "five-pole" sales framework, the company aimed to establish a sales framework in Europe and the US rather than focusing solely on Asia. In terms of (2) enhancing customer services, Punch Industry sought to boost customer satisfaction through optimal global procurement. It also sought to use reverse engineering to address the problem of customers in the mold and die and component manufacturing sector losing their design drawings due to mergers and consolidation.

In terms of (3) promoting highly profitable businesses, the company looked to optimize the group production framework, starting with its Vietnam plant, positioning the three years through FY03/19 as a run-up investment period. The plan was to

start operations at the Vietnam plant, streamline costs at its production sites in Japan, and shift production between its Chinese production sites. From FY03/20, eyeing the full-fledged rollout of the group production framework, the company moved to upgrade production capacity at its Vietnam plant, transfer production between production sites in Japan, and step up the production of special-order products at production sites in Japan. In terms of augmenting R&D, the company sought to boost transactions with customers in the food, healthcare, and aerospace sectors, promising growth areas that are less susceptible to economic fluctuations.

Targets for the final year of the plan (FY03/21) were revenue of JPY47.0bn (JPY36.8bn in FY03/16), operating profit of JPY3.3bn (JPY2.0bn), net income attributable to owners of the parent of JPY2.3bn (JPY1.2bn), and ROE of 11.0%. By region, the company targeted revenue of JPY18.7bn in Japan (JPY15.6bn), JPY22.4bn in China (JPY17.8bn), and JPY5.9bn in Asia (outside China) and other regions (JPY3.3bn). By industry, the company targeted revenue of JPY20.6bn (JPY17.1bn) from the automotive sector, JPY8.4bn (JPY6.6bn) from electronic devices and semiconductors, JPY6.6bn (JPY4.8bn) from consumer electronics and precision equipment, and JPY11.5bn (JPY8.3bn) from other sectors.

In terms of dividends, the company targeted a consolidated payout ratio of 30%.

Review of Value Creation 2020

The company recorded JPY35.3bn in revenue in FY03/20, far short of the JPY44.5bn target, reflecting the breakout of US–China trade friction in FY03/19. In the company's focus regions outside Japan and China, orders for special-order products grew in Vietnam and Indonesia. The company established a local subsidiary in the US, but US–China trade friction hampered the pace of expansion there. In Europe, the company made use of both direct sales and distributors, but revenue was down in line with a downturn in the economy. Operating profit came in at JPY836mn, falling far short of the target of JPY2.8bn. This result was due in large part to a decline in revenue amid deteriorating market conditions, a higher cost ratio stemming from lower plant utilization, and a negative forex impact (a strong yen). The company recorded a net loss attributable to owners of the parent of JPY3.5bn in FY03/20, the first time it posted a net loss since going public. The main reason was the recording of impairment losses on a plant in Japan. The global COVID-19 outbreak in 2020 increased the likelihood of a further slowdown in performance going forward.

Consequently, the company in May 2020 announced a revised medium-term plan, Value Creation 2020 Plus, which included a revised forecast for FY03/21.

Value Creation 2020 Plus (FY03/21–FY03/22)

Like the plan it replaced, Value Creation 2020 Plus, the medium-term business plan the company announced in May 2020, set out four challenges: (1) establishing a "five-pole" sales framework (extending sales channels to Southeast Asia, and Europe and the US); (2) reinforcing sales capabilities stressing a customer-centric perspective (cultivating a sales force with abundant processing knowledge through relocation and staff development); (3) optimizing the global production framework and reinforcing R&D (production frameworks that harness the characteristics of each plant, reducing man-hours and implementing new construction methods through R&D); (4) working style reforms and HR development (empowering women in the workforce, work-life balance, global HR development).

The first challenge, (1) establishing a "five-pole" sales framework, was unchanged from Value Creation 2020. In terms of (2) reinforcing sales capabilities stressing a customer-centric perspective, the plan called for reassigning staff from manufacturing divisions with a firm understanding of design drawings who can propose processing methods to the sales force, to capture more orders for special-order products. It also called the company to enhance staff training, such as holding mold and die study sessions and manufacturing training for sales staff as well. Improvements to the ordering system focused on facilitating the more seamless ordering of standard products. Another thrust was a satellite office concept to reinforce the company's sales approach of being in close contact with local communities.

In terms of (3) optimizing the global production framework, in Japan, the company sought to implement production frameworks that take advantage of the characteristics of each plant, improve manufacturing methods and streamline costs, exchange technology with customers, and develop new businesses. The focus in China was on stepping up sales of non-automotive products, establishing new production lines with faster turnaround, and expanding sales of strategic products. From its base in Malaysia, the company sought to boost orders in the Southeast Asian region, collaborate with the development divisions in Japan and China, and expand sales of special-order products. In Vietnam, the company aimed to stabilize production of standard products, boost production efficiency and lower costs, and achieve profitability at an early stage.

Targets for the final year of the plan (FY03/22) were revenue of JPY36.1bn (JPY35.3bn in FY03/20), operating profit of JPY1.8bn (JPY836mn), net income attributable to owners of the parent of JPY1.1bn (net loss of JPY3.5bn), and ROE of 9.0%. By

region, the company targeted revenue of JPY15.4bn in Japan (JPY14.6bn), JPY17.1bn in China (JPY16.8bn), JPY1.6bn in Southeast Asia (JPY1.5bn), and JPY2.0bn in Europe, the US, and other regions (JPY2.4bn). By industry, the company targeted revenue of JPY15.6bn (JPY15.4bn) from the automotive sector, JPY6.5bn (JPY6.1bn) from electronic devices and semiconductors, JPY4.3bn (JPY4.3bn) from consumer electronics and precision equipment, and JPY9.7bn (JPY9.6bn) from other sectors.

Review of Value Creation 2020 Plus

As the manufacturing sector bounced back from the pandemic in FY03/22, revenue was JPY39.4bn, exceeding the target of JPY36.1bn. Thanks primarily to revenue that exceeded expectations, operating profit came in at JPY3.0bn, also exceeding the target of JPY1.8bn and reaching its highest level since the company went public.

As for measures outlined in the plan, the "five-pole" sales network saw higher revenue in China, Southeast Asia, Europe, the US, and other regions, buoyed by post-pandemic recovery. The company continued to struggle in Japan but was on the road to recovery. In reinforcing sales capabilities stressing a customer-centric perspective, the company transferred staff from manufacturing to sales, but still struggled to gain access to customers, many of which turned down requests for sales calls due to lingering COVID-19 concerns. The company expanded revenue in healthcare and mask-related mold and die component areas. In terms of optimizing the global production framework and reinforcing R&D, the company stabilized production by transferring production of finished products to its Vietnam plant. R&D projects progressed smoothly. In terms of working style reforms and HR development, the company promoted working remotely as one avenue to more diverse working styles, and also took steps to empower women in the workforce and improve employee engagement.

Business

Business description

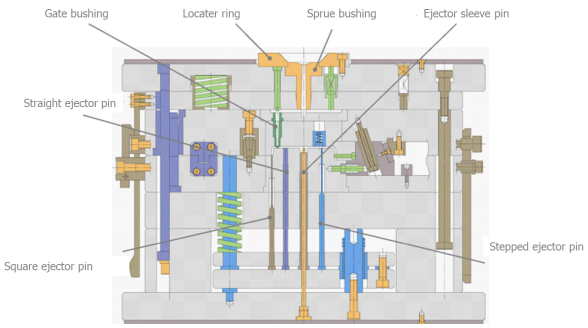
The company mainly engages in the manufacture and sale of plastic mold and press die components.

> Molds and dies are used to mass-produce metal or plastic industrial products of the same shape by means of, for example, press forming and other deformation processing or injection molding, in which materials are melted and formed in a mold.

The company derives about a third of its revenue from plastic mold components, slightly over half from press die components, and the remainder from factory automation products. It manufactures both standard and special-order products, with the latter accounting for about 60% of total revenue. The company has a rich lineup of standard products offering the high versatility and quality required for various molds, mainly plastic molds and metal press dies, which it sells via catalog. Standard product orders are made mostly through catalogs and websites. Special-order products target customers needing products with shapes and sizes that deviate from the catalog specifications. Sales staff personally visit customers to take orders, allowing the company to carefully tailor special-order products to customer demands.

Plastic mold components

Plastic molds are used to make numerous plastic products, such as mobile phone and digital camera casings. Molten plastic resin is injected into a mold mounted in an injection molding machine and then allowed to cool and harden. The company's product lineup includes the mold attachment components below.



Source: Company data

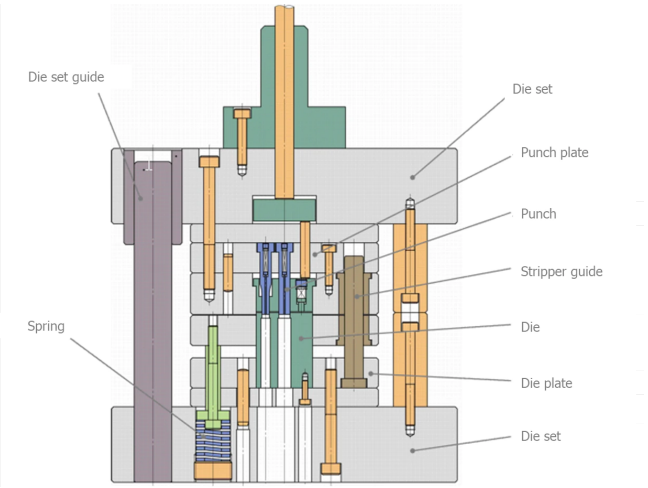
Mainstay standard plastic mold component products are as follows.

Sprue bushings	Components for pouring molten plastic from the injection nozzle of an injection molding machine into the mold
Gate bushings	Components through which plastic flows from the sprue bushing into the product part of the mold. After molding, when the mold is opened, the product part is separated from this component.
Ejector pins	Components that separate and eject molded products from the mold

There are straight, stepped, and square ejector pins. Other components include ejector sleeves, center pins, straight and stepped core pins, ejector pins and core pins for die casting molds, components related to date stamps and stoppers for cavity inserts, angular pins and locking blocks, slide cores and guard rails, runner and gate components, die opening controllers, cooling and heating items, coil springs, and screws and other hardware.

Press die components

With a press die, materials (steel plates) are placed between upper and lower dies attached to a press machine, and the press machine applies pressure to them. The company's press die components attach to such dies.



Source: Company data

Mainstay standard press die component products are as follows.

Die set guides	Components used to maintain proper alignment between upper and lower dies
Punches	Tools pressed against a material, usually paired with a die, to impress a shape
Stripper guides	Components used to align the punch-die with the die set guide and maintain proper clearance

Punches include simple punches, jector punches, small diameter punches, two-step punches, thick plate punches, dowel hole punches, tapped punches, punches with key grooves, flange stoppers, shank cuts, straight punches, mini punches, and punch blanks. Other components include block and pilot punches, button and block dies, punch guide bushings, punches and dies for molding processing, irregularly shaped punches and dies, retainers, precision and carbide punches, screws and other hardware, guide lifter components, misfeed sensor components, coil springs, guide post components, hook components for die storage, components for automotive dies, and transfer die components.

Special-order products

Unlike standard products, special-order products are made to customer requirements. The company is focusing on this product group, which accounts for about 60% of revenue from mold and die components. It makes special-order products to customer specifications drawing on its cutting, grinding, and other precision processing technology. The company can customize any of its wide range of standard products, but the bulk of orders are for ejector pins and core pins in terms of plastic mold components, and punches and dies in terms of press die components.

Since molds and dies are made for different end products, they all have unique shapes and sizes. Many are unable to be completed using standard products alone (in many cases their shapes, size, dimensions, materials, and other specifications are unsuited to standard products). If a customer wants to customize a standard product but the required processing is technically out of reach or manufacturing costs cut into its profitability, it will special-order the product from the company. The company has built a comprehensive service framework spanning material procurement, heat treatment, processing, surface treatment, inspection, and measurement.

The company handles a wide range of materials, including plastic mold steel, cold and hot mold steel, carbon steel, alloy or carbon tool steel, stainless steel, cemented carbide, chromium molybdenum steel, copper alloy, spring steel, high carbon chromium bearing steel, high-density polymer alloy, and aluminum alloy. It can also offer various secondary processing such as surface treatment and heat treatment to meet functional needs like high strength, wear resistance, and sliding performance. The company also accepts computer-aided design (CAD) data-based orders. Average lead times for manufacturing are 8–10 days. Each month, the company carries over a certain amount of order backlog into the following month but says the gap between monthly orders and revenue is small.

- Unlike products mass-produced on a line, special-order products require technicians to perform minute processing in increments of 0.01mm or 0.001mm according to design drawings obtained from customers. As a result, filling orders from a large number of customers requires a large corps of technicians operating a large pool of machine tools and measuring and inspection equipment.

Customers submit a design drawing along with their order, based on which the company generates a spot quote, informing the customer about delivery date and price. Order quantity can be as small as a single unit. Typical special-order items are as follows.

Range of special-order product customization (plastic mold ejector pin)

Hardness	59–61 Rockwell hardness
Diameter	0.2mm–12mm. Tolerance: 0.002mm
Length	Maximum: 350mm. Tolerance: 0.005mm
Roundness	0.0015mm
Surface treatment	Hard chrome plating, titanium nitride, titanium carbon nitride
Materials	Molybdenum high-speed tool steel, martensitic stainless steel, die steel, die steel + nitridization
Processing	Tip boss processing, tip shape processing, large outer radius processing, outer and inner radius processing, double slope processing, undercut processing, double taper processing, diameter cut processing, rib processing, gas venting + concave engraving, slope processing + convex engraving

Source: Shared Research based on product catalog on company website.

- The company's policy is not to expand the lineup of standard products but rather to extend the range of processing, enhance quality, and boost competitiveness in terms of prices and delivery times for its special-order products. The company also says that an upcoming upgrade to its online site will enable online orders for special-order products.

- The company carefully tailors special-order products to customer demands. Sales staff personally visit customers to take orders. Meeting special-order requests fosters trust, which often feeds into orders for standard products as well. Conversely, the company is attuned to the needs of customers who have started using its standard products for different sizes and surface treatments, which sometimes generates orders for special-order products.

Sales and manufacturing

The company pursues a business approach that integrates its manufacturing division, backed by fully equipped production capabilities, with its customer-centric sales division, enabling it to handle a wide range of products, from standard products to products tailored to customer specifications.

Sales

The company has 11 sales offices in Japan and 40 offices overseas, from which its own sales staff personally visit customers to take orders. In Japan, the company has branches in Miyagi, Iwate, Tochigi, Saitama, Kanagawa, Nagano, Aichi, Ishikawa, Osaka, Hiroshima, and Fukuoka prefectures. Overseas, its Chinese subsidiary Punch Industry (Dalian) operates 34 sales offices in Shanghai, Beijing, and Guangzhou. In Southeast Asia, the company conducts sales through local subsidiaries in India, Malaysia, Singapore, and Vietnam, through joint ventures in Indonesia, and through distributors in Thailand, South Korea, Taiwan, Australia, Turkey, and the Philippines. Elsewhere, sales are the purview of a sales subsidiary in the US and distributors in Germany and the UK.

For special-order products, sales staff personally visit customers to take orders. They listen carefully to customers' technical issues and formulate proposals to meet their needs. Because they have to formulate such proposals, which include the most appropriate product, customization (i.e., size, length, hardness, surface treatment, materials used, processing method), and total cost, the company's sales staff also receive hands-on training at the plant before taking on their sales assignment. Training makes use of the Punch Academy in-house training facility (see below). In many cases, after the company delivers a product to a customer, it makes repeated follow-up visits to deliver supplies.

- If a problem occurs, the company works with the customer to identify a solution, determining whether the problem is with the product or the customer's processing, or whether the product needs to be customized. In recent years, the company has expanded opportunities for its manufacturing technicians to accompany sales staff on calls to explore customer needs more deeply. This hands-on sales approach helps earn customer trust, which feeds into new orders for special-order products when customers approach the company with new product needs or want to improve the functionality of existing products.

The company operated an online sales site, called Punch-Net, which allowed users to browse products in a web catalog, get estimates, and order products. In January 2023, the company relaunched the site as PunchCoco, with expanded functionality.

The new site gives users access to convenient functions such as product search and shopping cart functions, personalized menus, and chatbot support. Roughly 70% of standard product sales come in through the site.

- As the company's lineup includes a large number of products and variations, the number of catalogs and page count per catalog has kept growing, often making the search for new products time-consuming for customers. Also, the former online site lacked sufficient search functionality. The relaunch in 2023 vastly improved customer convenience, allowing customers to easily search for and compare products. The company says it expects higher traffic from new customers who would previously have dropped out at the search stage due to a lack of product knowledge. Future upgrades to the online site will include inventory and special-order functions, as well as Chinese language support.

Manufacturing

The company has built a production framework that integrates all processes by making full use of the precision processing technical expertise it has cultivated since its founding as well as its 2,000 machine tools and nearly 1,000 pieces of measuring and inspection equipment. The company is marked by having a large corps of technicians with years of technical expertise in areas such as heat treatment, surface treatment, and grinding for steel and cemented carbide materials.

In manufacturing special-order products according to customer design drawings—a strategic focus for the company—technicians have to perform minute processing in increments of 0.01mm or 0.001mm. This requires a large corps of technicians operating a large pool of machine tools and measuring and inspection equipment. Technicians are divided according to process. Often more than 10 people will be involved in a single product. Because they are in charge of processing using specific machinery and equipment over a long period of time, each technician acquires highly specialized processing skills. This specialization is the backbone of the company's precision manufacturing (the flip side is that it takes time to train up technicians).

Approximately 70% of the company's workforce (about 2,800 people) belongs to the manufacturing division. The volume of products manufactured per person per day can be in the thousands range for mass-produced standard products, but varies for special-order products depending on the product. Because the company inspects products in-house for manufacturing defects, it says its rate of failures resulting in complaints is less than 1%.

- The most difficult aspect of manufacturing is determining which process will create the special-order product that best meets the customer's request based on the design drawing received. However, the company says other companies cannot emulate the expertise it has built up in this area.

The company's pool of machinery and equipment includes 650 cutting machines, 1,200 grinding machines, 210 electric discharge machines, 90 pieces of heat treatment equipment, 10 pieces of surface treatment equipment, and 920 inspection and measuring devices.

The company manufactures globally through a network of four bases in Japan and eight overseas. Plants in Japan are the Kitakami plant in Iwate Prefecture, the Miyako plant in Iwate Prefecture, the Hyogo plant in Hyogo Prefecture, and Pintech, a former partner plant making punches and pins that the company acquired and made a subsidiary in 2006. Overseas, the company has manufacturing plants in six locations in China (including Dalian, Wafangdian, Wuxi, and Dongguan) and also in Malaysia and Vietnam.

The company has built a manufacturing framework that encompasses roughly 300 partner plants (outsourced products generate about half of total revenue). To sell a product as its own requires the company to identify partner plants that can guarantee certain level of quality. Cultivating a new partner plant takes time, and the company says it can only bring a few companies on board each year.

HR development: The company established Punch Academy in April 2017 on the grounds of the Kitakami plant. The staff training facility is equipped with facilities for the hands-on training of new hires, ongoing training based on job position, training to instill new skills, and staff development and technical training for sales representatives. The company brings in as lecturers veteran technicians who are at the age of stepping back from the front lines. As instructors, these veterans develop the younger generation of workers, passing on the manufacturing skills cultivated over many years that are the company's chief strength.
Working style reforms: The company's medium-term business plan calls for the empowerment of women, a better work-life balance, and the development of global talent. Specific measures include diversity training; new and stronger support measures to balance work with childcare and long-term care; Punch Family Salon, an online gathering for both male and female employees who are on maternity or childcare leave; and encouraging male employees to take childcare leave. The company has also launched a personal job planning system. As part of giving back to the community and developing personnel who will take responsibility for the future of the regions in which it operates, the company also gives guidance for certification programs at local high schools.

Revenue by customer, industry, and region

The company serves customers across a broad range of industries, including the automotive and home appliance sectors. The customer base includes 15,000 companies (6,000 in Japan, 8,000 in China, and 1,000 elsewhere). The company estimates that about 12,000 of these are makers of products other than molds and dies—in other words, mold and die users—with the other 3,000 specializing in mold and die manufacturing. Even the top revenue-generating customers account for only 1%–2% of total revenue at most. The company says it has no large customers of note.

Revenue by industry

By industry	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	**23,802**	**25,041**	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**
YoY	-	5.2%	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%
Automotive	9,170	10,400	13,210	15,540	17,060	16,780	18,370	17,877	15,370	13,682	16,442
YoY	-	13.4%	27.0%	17.6%	9.8%	-1.6%	9.5%	-2.7%	-14.0%	-11.0%	20.2%
% of revenue	38.5%	41.5%	44.9%	45.2%	46.4%	45.8%	44.8%	43.7%	43.5%	42.1%	41.8%
Electronic devices & semiconductors	5,510	5,230	5,190	6,540	6,550	7,000	7,880	7,558	6,113	6,315	8,043
YoY	-	-5.1%	-0.8%	26.0%	0.2%	6.9%	12.6%	-4.1%	-19.1%	3.3%	27.4%
% of revenue	23.1%	20.9%	17.6%	19.0%	17.8%	19.1%	19.2%	18.5%	17.3%	19.5%	20.4%
Consumer electronics & precision equipment	3,480	3,300	3,520	4,510	4,800	4,480	4,780	4,837	4,298	3,888	4,192
YoY	-	-5.2%	6.7%	28.1%	6.4%	-6.7%	6.7%	1.2%	-11.1%	-9.5%	7.8%
% of revenue	14.6%	13.2%	12.0%	13.1%	13.1%	12.2%	11.7%	11.8%	12.2%	12.0%	10.7%
Other	5,630	6,110	7,510	7,800	8,300	8,400	9,940	10,662	9,566	8,574	10,679
YoY	-	8.5%	22.9%	3.9%	6.4%	1.2%	18.3%	7.3%	-10.3%	-10.4%	24.6%
% of revenue	23.7%	24.4%	25.5%	22.7%	22.6%	22.9%	24.2%	26.0%	27.1%	26.4%	27.1%

Source: Shared Research based on company data
Note: End user basis.

Revenue generated by the automotive sector, which accounts for the largest percentage of total revenue, climbed from JPY9.2bn in FY03/12 to JPY18.4bn in FY03/18, but then declined to JPY16.4bn in FY03/22 (to account for 41.8% of revenue). Revenue from the electronic devices and semiconductors business increased from JPY5.5bn in FY03/12 to JPY8.0bn in FY03/22. Revenue from the consumer electronics and precision equipment business increased from JPY3.5bn in FY03/12 to JPY4.8bn in FY03/19, but then declined to JPY4.2bn in FY03/22. Revenue from other sectors (including industrial machinery, telecommunications, healthcare, food, and trading companies) increased from JPY5.6bn in FY03/12 to JPY10.7bn in FY03/22.

- The company reports that profit margins by customer industry are somewhat low for the automotive sector, slightly higher for electronic devices and semiconductors, and remain stable at a certain level for consumer electronics and precision equipment and other sectors. The tendency toward lower margins in the automotive sector reflects the common practice among automakers to pressure suppliers to keep costs down. However, the company says the selling prices for its automotive products are already relatively low, so it is not under as much pressure to cut prices as the manufacturers of the molds and dies themselves, and that its margins tend to stay relatively flat. With regard to automobile electrification, the company notes that demand is waning for engine products, which are mostly forged parts, but since its lineup includes few products for forged parts, it foresees no major impact from this.

- Many consumer electronics and precision equipment products require strict precision. This is an area where the company can leverage its strengths in high-precision components and enjoy relatively high margins. In the semiconductor area, the company mostly supplies stamped ejector pins to makers of post-process bonding equipment and has a virtual

- monopoly in this market. As with consumer electronics and precision equipment, customers make numerous demands, and the different specifications required by each customer means more special-order products. Special-order volume is thus growing along with expansion in the market.

- The healthcare and beverage areas are another focus for the company, and revenue here is gradually increasing. The company recently saw a spike in demand for test tube molds used in COVID-19 PCR testing. Demand in the beverage sector is growing for replacement components for preform plastic bottle molds.

Revenue by region

By region	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	**23,802**	**25,041**	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**
YoY	-	5.2%	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%
Japan	13,351	13,677	14,387	15,211	15,637	15,904	17,154	16,777	14,566	12,338	14,020
YoY	-	2.4%	5.2%	5.7%	2.8%	1.7%	7.9%	-2.2%	-13.2%	-15.3%	13.6%
% of revenue	56.1%	54.6%	48.9%	44.2%	42.5%	43.4%	41.8%	41.0%	41.2%	38.0%	35.6%
China	9,230	10,002	12,989	16,208	17,807	17,428	20,103	19,899	16,837	16,889	20,956
YoY	-	8.4%	29.9%	24.8%	9.9%	-2.1%	15.3%	-1.0%	-15.4%	0.3%	24.1%
% of revenue	38.8%	39.9%	44.1%	47.1%	48.4%	47.6%	49.0%	48.6%	47.6%	52.0%	53.2%
Other	1,221	1,362	2,062	2,973	3,312	3,317	3,769	4,259	3,946	3,235	4,382
YoY	-	11.6%	51.3%	44.2%	11.4%	0.2%	13.6%	13.0%	-7.3%	-18.0%	35.5%
% of revenue	5.1%	5.4%	7.0%	8.6%	9.0%	9.1%	9.2%	10.4%	11.2%	10.0%	11.1%
Southeast Asia									1,535	1,376	1,740
YoY	-	-	-	-	-	-	-	-	-	-10.4%	26.5%
% of revenue	-	-	-	-	-	-	-	-	4.3%	4.2%	4.4%
Europe, the US, and other regions									2,410	1,858	2,641
YoY	-	-	-	-	-	-	-	-	-	-22.9%	42.1%
% of revenue	-	-	-	-	-	-	-	-	6.8%	5.7%	6.7%

Source: Shared Research based on company data

By region, revenue from China expanded from JPY9.2bn in FY03/12 to JPY21.0bn in FY03/22, due in large part to the high growth rate of the Chinese mold and die market and expansion of the company's manufacturing and sales network there. Revenue from Japan increased from JPY13.4bn in FY03/12 to JPY17.2bn in FY03/18, but declined to JPY14.0bn in FY03/22. This reflects factors such as the offshore shift of manufacturing bases and contraction in the number of mold and die manufacturers in Japan. Revenue from Southeast Asia is on the increase. In order of scale, the company generates the largest share of its revenue in Vietnam, followed by Singapore, Thailand, Indonesia, Malaysia, India, and the Philippines. In Europe, the US, and other regions, Europe accounts for about two-thirds of revenue with the remainder coming from the US and other regions.

- In China, which generates more than half of total revenue, sales activities were liberalized around 2000 in line with rapid growth of the economy and China's accession to the WTO. Since then, the company has increased its sales and manufacturing network in that country and, as in Japan, has adopted an integrated production and sales approach and established a framework to sell directly to manufacturers. This positioned the company to expand revenue in line with China's economic growth.

- The company says there is room for improvement in the frequency of its contact with customers, citing the lack of manpower at its sales offices, and says there are many potential customers in each region that it has yet not been able to reach.

Suppliers

Steel and cemented carbide are the chief raw materials for the company, which it mostly procures from specific specialized trading companies, steel manufacturers, and steel companies. The company uses a network of about 300 partner plants in Japan for its manufacturing.

New business areas and services

Factory automation business

The special-order factory automation components the company currently sells include jig bushings, shafts and shaft holders, locator devices, guide and spring-related components, screws, nut-related components, and other special-order components for various equipment.

The company entered the factory automation component business after building its Chiba plant in 1996. It later withdrew from the standard product aspect of this business in Japan in 2011 after struggling with fierce price competition. Since then, the company has sold special-order precision components and precision jigs and tools, and assembled precision components

for factory automation equipment. Revenue from the factory automation business was JPY2.7bn in FY03/22, mainly from precision components and precision jigs and tools. The company has expanded its sales channels by making sales proposals for precision parts for factory automation equipment and precision jigs and tools to customers in its main businesses.

In October 2022, the company acquired a 100% stake in manufacturer ASCe, which has strengths in the in-house development of factory automation equipment for sectors including food processing, automotive components, electronic devices, and healthcare, and made the company a subsidiary. The cost of the acquisition was JPY550mn, and the deal generated goodwill of JPY491mn (provisional). ASCe's revenue is still in the JPY'000mn range. ASCe designs and manufactures factory automation equipment, production equipment, and various jigs that realize labor saving and automation. To meet demand from a broad range of customers in the above-mentioned industries, the company only carries out special-order design, assembly, adjustment, and software debugging in-house. This means the benefit of shorter delivery times for customers.

ASCe's production track record includes needle-less liquid seasoning injectors, inspection devices, press-fitting machines, leak testers, laser markers, robot handling devices, stamp inspection machines, washing conveyor belts, product sorting conveyor belts, and sponge slicers. ASCe's (patented) needle-less seasoning injector is a device like a squirt gun that sprays and injects seasoning liquid at high pressure into foods such as meat and fish, reducing the time it takes to marinate. Also, since there are no needles to pierce the food, there is no risk of contamination, and it takes less time to clean the equipment.

Value Creation 2024, the company's medium-term business plan, calls for expanding the factory automation business to 10% of consolidated revenue (revenue of around JPY5.0bn) through the sale of special-order factory automation products. Armed with the capability to develop and manufacture factory automation-related equipment stemming from the consolidation of ASCe, Punch Industry has launched a project to promote this business and is working to plan and implement sales strategies and upgrade and cultivate new factory automation partner plants. The Punch group will leverage ASCe's advanced design and technical capabilities for factory automation equipment. ASCe will benefit from access to the company's sales network serving 15,000 companies worldwide and its network of partner plants and other procurement resources. Both the company and ASCe will benefit from technology exchanges. The company also says it will pursue automation and labor-saving initiatives in its own plants.

P-Bas bonding technology

The company announced in November 2022 that it had trademarked P-Bas, a metal uniting technology. Short for "Punch bonding and sintering," P-Bas involves both bonding and sintering technologies for uniting objects by using special equipment to press and heat multiple components and materials that have been processed separately. The company is currently using its bonding technology to manufacture mold components and using its sintering technology in new material development.

The bonding technology makes possible the manufacture of components that are difficult to machine—such as components made using metal 3D printers that contain complex-shaped cooling circuits—by manufacturing and machining the components separately before joining them. P-Bas offers several advantages over metal 3D printer manufacturing, such as fewer manufacturing man-hours, lower materials costs, more choices of materials, and higher product strength. The company is aiming to steal a share of the market for components currently made with metal 3D printers, stressing its ability to boost productivity and reduce costs for customers.

The company's sintering technology is a bonding process to sinter materials and make them denser using mechanical pressure and heating. The material used in this process is key. Specialty steel manufacturers mainly produce the materials frequently used in mold and die components. Because these manufacturers mass-produce material in large furnaces and design alloys with mass production in mind, they may not necessarily be capable of offering the optimal material for customer applications. In particular, compared to press dies, the combination of characteristics of the materials used in plastic molds varies widely depending on the product being molded, such as in terms of wear resistance, high thermal conductivity, polishing and non-magnetic properties, rust resistance, and amenability to surface treatment. To develop new materials that can meet these challenges, the company entered into a joint research agreement with the Hakodate Regional Industrial Promotion Foundation, which manages the Hokkaido Industrial Technology Center, to explore the development of high-performance powder alloys for plastic molds.

3D Measurement Partners

The company started full-fledged operation of a new service in January 2022, 3D Measurement Partners, which uses 3D scanner-based measurement technology to measure shapes that defy accurate measurement with conventional techniques or that take a long time to measure. The company analyzes and processes the 3D scan data created in the measuring process,

packages it with technology and certain conditions, and proposes a solution to customer issues. Customers benefit from shorter development lead times and more robust quality. Since 2016, the company had been engaging in a reverse engineering business that replicates components by converting actual objects into 3D data without design drawings. The background to the new service was the customers' need to verify quality.

Customers can use the service in the development and design stages to clarify shape changes, allowing them to verify their development strategy and put the proper technology in place, which means higher design quality and shorter development times. In the pre-production stage as well, 3D scan data analysis and processing is useful in improving and streamlining the manufacturing process and production specifications, ensuring product perfection, and raising the quality level. At the mass production stage, if there is a product defect, the service makes it possible to locate the problem and identify its cause and formulate concrete response measures.

Distribution business

In November 2022, the company entered into a distribution agreement with Trusco Nakayama (TSE Prime: 9830). As the first stage in the business on the Japan side, the company began taking online orders for 11 items in seven product categories, including Trusco Nakayama parts and brake cleaners and nitrile gloves. Down the road, on the China side, the company plans to launch sales of all Trusco Nakayama maintenance, repair, and operation products, and increase the lineup of products handled in Japan as well. The company says it plans to expand its distribution business to sell products other than mold and die components to more than 10,000 customers in Japan and China.

Earnings structure

Revenue

- Shipment volume is linked to how many molds and dies are used by customers across a wide range of manufacturing sectors. By industry, the automotive, electronic devices and semiconductors, and consumer electronics and precision equipment sectors together account for about 70% of revenue, which closely tracks production volume in these industries as a whole. Revenue is shipment volume multiplied by product unit price. Although unit prices vary greatly depending on the product, standard products generally range from JPY100 to several JPY'000 and special-order products range from JPY1,000 to JPY0'000. Order quantities can range from a single item to several hundred items or more. Customers renew orders when a component wears out. (The product life of a typical punch is about 300,000 shots.) The company began raising unit prices on some standard products in October 2022 (by 10%–20%) in response to climbing raw materials prices and other changes in the environment. This was the company's first price hike in a long time, but competitors tended to follow suit.

- The company says the proportion of standard to special-order products is about 40:60 in terms of revenue. It generates about 60% of revenue on products made in-house and the other 40% or so on products outsourced to partner plants.

- Among its three product groups—plastic mold components, press die components, and factory automation products—press die components account for the largest slice of revenue, albeit just slightly more than plastic mold components. The proportion of revenue from factory automation products is still in the single digits.

Cost of revenue

- Of the JPY11.1bn in cost of revenue on the parent income statement, product manufacturing costs were JPY5.1bn. This further breaks down into labor costs of JPY3.3bn, other expenses of JPY1.0bn, and cost of materials of JPY817mn. The company does not disclose details on its consolidated cost of revenue, but reports that about 10% is cost of materials, about 30% is personnel costs, and about 40% is costs incurred to purchase outsourced products from partner plants. The cost of materials accounts for a relatively small portion of cost of revenue; the bulk is personnel costs and product purchases from group companies and partner plants. The largest cost of materials is iron (supplied by specialist trading companies), which the company uses in its in-house production and which is linked to iron scrap prices. However, most of the company's products are small and do not use a large volume of iron. Other expenses consist of tool replacements, utilities, and depreciation.

- In terms of procurement within the group, the company's procurement department in Japan buys around JPY2.0bn of goods from overseas subsidiaries, or around 40% of total procurement. The current medium-term business plan calls for the procurement department in Japan to step up purchases from overseas subsidiaries, aiming for a 35% increase in FY03/25 compared to FY03/22 (it expects this to yield a benefit of around JPY100mn in consolidated gross profit).

- On the profit front, the gross profit margin is slightly higher for special-order products and slightly lower for standard products. However, the company says that, since it receives most orders for standard products online and operating expenses are low, the difference in operating margins between standard and special-order products is minimal. (The company sees its lineup of standard products to be necessary in building up the customer base.)

SG&A expenses

SG&A expenses	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent	Parent
SG&A expenses	5,425	6,499	7,638	8,191	8,201	8,815	8,893	8,352	7,474	8,403
Salaries and allowances	1,656	1,861	2,073	2,277	2,286	2,515	2,518	2,540	2,491	2,710
Provision for bonuses	105	129	162	162	178	181	171	101	100	156
Provision for directors' bonuses	-	-	-	-	-	15	2	-	-	17
Retirement benefit expenses	47	52	107	86	131	141	127	83	87	84
Packing and transportation costs	738	936	1,072	1,087	1,061	1,123	1,066	975	903	1,099
Provision for doubtful accounts	16	61	-10	56	51	-86	44	3	-11	-5

Source: Shared Research based on company data

Major components of SG&A expenses are personnel costs and product packing, transportation, and other logistics costs.

- The company puts the ratio of variable costs at around 30% for in-house products and around 70% for outsourced products. Given the ratio of in-house to outsourced products at 45%–55%, this puts the marginal profit ratio at around 50%.

Profitability and financial indicators

Profit margins	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
Gross profit margin	24.5%	26.0%	27.2%	27.7%	27.8%	28.4%	28.0%	26.0%	28.0%	29.1%
Operating profit margin	2.8%	3.9%	5.0%	5.4%	5.4%	6.9%	6.3%	2.4%	5.0%	7.7%
EBITDA margin	7.1%	8.1%	9.1%	9.5%	9.5%	11.0%	10.7%	7.3%	8.0%	10.2%
Financial ratios	**FY03/13**	**FY03/14**	**FY03/15**	**FY03/16**	**FY03/17**	**FY03/18**	**FY03/19**	**FY03/20**	**FY03/21**	**FY03/22**
ROA (based on recurring profit)	4.2%	4.6%	6.0%	5.9%	6.6%	8.8%	8.0%	2.5%	6.7%	11.2%
ROA (based on net income)	-	3.2%	4.4%	4.4%	4.8%	5.8%	3.0%	-12.3%	1.9%	7.6%
ROE	4.3%	9.6%	10.1%	8.9%	9.8%	11.8%	6.0%	-25.5%	4.0%	14.2%
Free cash flow yield	-	-13.33%	-6.76%	18.98%	-3.26%	-4.91%	-2.28%	-17.34%	9.45%	-0.66%
Total asset turnover	121.7%	130.7%	127.2%	129.1%	129.1%	132.3%	128.5%	124.6%	129.1%	147.2%
Current ratio	0.84	0.97	1.26	1.34	1.25	1.27	1.27	1.29	1.47	1.71
Quick ratio	0.76	0.96	1.21	1.33	1.26	1.25	1.26	1.44	1.45	1.60
Equity ratio	27.8%	38.3%	48.0%	51.2%	48.1%	49.7%	50.5%	45.9%	50.3%	56.7%

Source: Shared Research based on company data

Market and value chain

Mold and die market overview

Production value by demand sector

(%)	Automotive	Motorcycles	Electronic devices(appliances)	Precision instruments	Industrial machinery	Office equipment	Telecommunications devices	Toys, daily necessities, miscellaneous goods	Healthcare	Other
Demand sector	73.5	1.9	3.8	2.1	3.2	1.8	1.9	3.7	1.5	6.6

Source: Shared Research based on Japan Die & Mold Industry Association's "Japanese Mold and Die Industry at a Glance (2023)."

The automotive sector (including motorcycles) is the largest mold and die demand sector in Japan, accounting for about three-fourths of production value. Other sectors include electrical appliances (household and industrial appliances), toys, daily necessities, miscellaneous goods, industrial machinery, precision equipment, and telecommunications, office, and healthcare equipment.

Mold and die market size

Mold and die production value in Japan

(JPYmn)	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Mold and die production value	865,121	1,012,718	1,121,367	1,361,310	1,304,201	1,241,744	1,376,448	1,531,580	1,798,507	1,957,542	1,729,943
(JPYmn)	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Mold and die production value	1,542,599	1,387,429	1,517,884	1,682,028	1,828,817	1,895,446	1,637,307	1,686,419	1,570,572	1,463,165	1,557,705
(JPYmn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Mold and die production value	1,624,023	1,712,650	1,787,459	1,701,469	1,697,984	1,159,035	1,087,388	1,162,867	1,250,599	1,257,499	1,342,439
(JPYmn)	2015	2016	2017	2018	2019	2020	2021				
Mold and die production value	1,376,759	1,440,944	1,525,782	1,475,268	1,360,230	1,543,858	1,483,670				

Source: Shared Research based on industrial statistics and economic census data from the Ministry of Economy, Trade and Industry

Mold and die production value peaked at JPY1.96tn in 1991, fluctuating in line with the economy during subsequent recessions, including the bursting of the bubble economy around 1992, the recession that began around 1999, and the global financial crisis around 2008. In 2010, after this last crisis, production value had fallen to JPY1.09tn, but has since been on a recovery trend, reaching JPY1.48tn in 2021.

Number of mold and die manufacturers

(JPYmn)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Mold and die manufacturers	12,200	11,656	12,885	12,148	13,115	12,815	12,254	12,912	12,227	12,455	12,038
(JPYmn)	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Mold and die manufacturers	11,965	12,953	11,994	12,125	11,330	11,352	10,686	10,483	9,984	10,360	10,234
(JPYmn)	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Mold and die manufacturers	9,741	9,680	9,221	7,588	8,344	8,048	7,820	6,535	7,292	7,074	6,883
(JPYmn)	2019	2020									
Mold and die manufacturers	6,696	4,327									

Source: Shared Research based on industrial statistics and economic census data from the Ministry of Economy, Trade and Industry

The number of mold and die manufacturers peaked at 13,115 in 1990, subsequently following a long-term downtrend, falling to 6,696 in 2019 and further to 4,327 in 2020 when the pandemic hit. In particular, the number of small and medium-sized businesses is shrinking. Industrial statistics and economic census data from the Ministry of Economy, Trade and Industry (METI) showed that manufacturers with 10 or fewer employees accounted for 79.1% of the total in 1986, but this had shrunk to 61.1% in 2020. The background to this contraction is as follows.

- Many small and medium-sized mold and die manufacturers operate out of tiny factories based in towns, and are vulnerable to the impact of an aging population, labor shortages, the lack of successors, and economic deterioration.
- Because there were many mold and die manufacturers, competing on the basis of price against the estimates of several other companies became the norm, rendering many transactions unprofitable. This put smaller manufacturers less able to compete on prices at a relative disadvantage.
- Japanese manufacturing customers for molds and dies have also shifted production offshore in pursuit of cheaper labor, particularly to China and elsewhere in Asia. Smaller manufacturers lagged behind in their overseas expansion.

The production value of large companies has not seen a similar decrease—according to the above METI data, production value of manufacturers with 100 or more employees stood at JPY325.6bn in 2002, rising to JPY388.9bn in 2019 and JPY691.5bn in 2020.

- Small and medium-sized mold and die manufacturers tend to special-order products they are unable to make in-house, while larger manufacturers are more willing to attempt to make products in-house when the market shrinks, by leveraging spare manpower. While Punch Industry has many customers among the larger manufacturers, the shrinking pool of smaller manufacturers could mean fewer special-order customers for the company. Still, overall production volume for molds and dies are projected to increase globally (especially in China), while fewer smaller customers in Japan implies higher operating efficiency, which could have a positive impact on earnings. As a result, the company says it can continue to grow.

Mold and die production value by product type

(JPYmn)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Press dies	576,174	588,447	619,299	588,478	579,971	416,934	357,865	358,677	418,756	473,316
Plastic molds	619,313	642,056	653,393	618,234	589,661	420,827	371,680	375,053	374,748	374,211
Forged dies	53,738	55,609	53,719	57,290	63,150	38,134	42,907	46,245	50,174	47,212
Die casting molds	107,483	121,271	128,588	117,965	114,527	71,960	70,962	80,947	95,078	97,872
Rubber, glass molds	49,565	51,387	52,165	48,456	48,556	38,287	34,435	40,196	41,510	38,745
Other mold components, accessories	241,738	238,399	254,173	259,353	253,893	179,825	184,881	207,565	206,879	197,127
Total	1,648,011	1,697,169	1,761,337	1,689,776	1,649,758	1,165,967	1,062,730	1,108,683	1,187,145	1,228,483
(%)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Press dies	35.0%	34.7%	35.2%	34.8%	35.2%	35.8%	33.7%	32.4%	35.3%	38.5%
Plastic molds	37.6%	37.8%	37.1%	36.6%	35.7%	36.1%	35.0%	33.8%	31.6%	30.5%
Forged dies	3.3%	3.3%	3.0%	3.4%	3.8%	3.3%	4.0%	4.2%	4.2%	3.8%
Die casting molds	6.5%	7.1%	7.3%	7.0%	6.9%	6.2%	6.7%	7.3%	8.0%	8.0%
Rubber, glass molds	3.0%	3.0%	3.0%	2.9%	2.9%	3.3%	3.2%	3.6%	3.5%	3.2%
Other mold components, accessories	14.7%	14.0%	14.4%	15.3%	15.4%	15.4%	17.4%	18.7%	17.4%	16.0%
(JPYmn)	2014	2015	2016	2017	2018	2019	2020			
Press dies	474,327	509,354	498,979	510,997	513,059	510,924	463,990			
Plastic molds	401,828	442,340	463,865	460,638	432,699	410,829	382,899			
Forged dies	48,765	50,748	48,009	47,179	51,012	49,266	53,955			
Die casting molds	101,268	120,809	118,793	117,401	123,174	111,907	95,195			
Rubber, glass molds	42,942	41,510	43,315	45,396	44,242	44,103	36,998			
Other mold components, accessories	208,377	232,954	241,110	275,292	277,164	255,457	200,483			
Total	1,277,507	1,397,715	1,414,071	1,456,903	1,441,350	1,382,486	1,233,520			
(%)	2014	2015	2016	2017	2018	2019	2020			
Press dies	37.1%	36.4%	35.3%	35.1%	35.6%	37.0%	37.6%			
Plastic molds	31.5%	31.6%	32.8%	31.6%	30.0%	29.7%	31.0%			
Forged dies	3.8%	3.6%	3.4%	3.2%	3.5%	3.6%	4.4%			
Die casting molds	7.9%	8.6%	8.4%	8.1%	8.5%	8.1%	7.7%			
Rubber, glass molds	3.4%	3.0%	3.1%	3.1%	3.1%	3.2%	3.0%			
Other mold components, accessories	16.3%	16.7%	17.1%	18.9%	19.2%	18.5%	16.3%			

Source: Shared Research based on industrial statistics and economic census data from the Ministry of Economy, Trade and Industry.

In Japan, the production value of press dies, a mainstay product for the company, fell from JPY576.2bn in 2004 (35.0% of total production value) to JPY464.0bn in 2020 (37.6%). Production value of plastic molds, another mainstay product for Punch Industry, decreased from JPY619.3bn (37.6%) in 2004 to JPY382.9bn (31.0%) in 2020. At least four factors are likely behind the decrease in mold and die production value: (1) the offshore transfer of manufacturing bases; (2) the global trend toward environmental protection, spurring the elimination of plastics in various products; (3) the massive impact of economic downturns on small and medium-sized businesses; and (4) the COVID-19 outbreak in 2020, causing production cuts across a wide range of manufacturing sectors.

Global mold and die market

Global mold and die output

(JPYbn)	China	US	Japan	South Korea	Germany	Other	Total
Global mold and die output	5,052.6	1,636.7	1,543.8	803.7	580.7	1,106.0	10,723.5

Source: Shared Research based on Japan Die & Mold Industry Association's "Japanese Mold and Die Industry at a Glance (2023)."
Note: Figures are for 2019.

According to a 2023 survey by the Japan Die & Mold Industry Association, global mold and die production represented JPY9.9tn in 2019. China was the largest producer, representing roughly JPY5.0tn, followed by the US at roughly JPY1.6tn and Japan at roughly JPY1.5tn.

Scale of global mold and die market

(USDmn)	2008	2009	2010	2011	2012	2013	2014	2015	2016
Scale of mold and die market	91,608	83,405	88,865	97,897	107,449	108,211	117,919	125,240	125,380

Source: Shared Research based on a collection of data related to the Vision 3.0 of Die & Mold Industry publication from the Japan Die & Mold Industry Association

The global mold and die market stood at USD91.6bn in 2008, expanding to USD125.4bn in 2016 (at a CAGR of 4.0%). In recent years, China and other countries in Asia have seen high growth rates, whereas growth in Japan has been flat and production value in the US and Europe moved into contraction in 2020 due to the pandemic, and recovery has been lackluster.

Global market share

Company data suggests that Punch Industry holds the second largest share of the global mold and die components market, at around 6%. The same data shows that its market share is about 18% in Japan, ranking the company second, and about 10% in China, ranking the company first there. The company reports its share of the global market has been flat at around 6% for the past decade. The picture is different for special-order mold and die components, a strategic focus for the company. Misumi Group (TSE Prime: 9962) holds the top global market share for mold and die components, but essentially only sells standard products. Punch Industry claims top market share for special-order products in Japan and China, its chief business regions, given that no other competitors have expanded their special-order business on a similar scale. (Since there are no aggregate statistics for special-order products alone, it is impossible to accurately estimate market share.)

Competitors

Main global competitor: Misumi Group (TSE Prime: 9962)

Misumi Group has three business segments: the die components business, which manufactures the same press die and plastic mold components as Punch Industry does (20.5% of revenue in FY03/22), the factory automation business, which sells components and equipment (32.6%), and the distribution (VONA) business, which sells third-party manufactured components, tools, and supplies (46.9%). It posted revenue of JPY366.2bn in FY03/22 and operating profit of JPY52.2bn. Misumi Group got its start in the die components business, later expanding into the factory automation and distribution businesses. Like Punch Industry, Misumi Group is globally active, having made inroads into countries worldwide, mainly in Asia, the US, and Europe, based on a three-pronged structure of sales offices, distribution centers, and production sites. Its network includes 22 overseas manufacturing bases, 62 sales offices, and 18 distribution hubs. Misumi Group operates under a model that stresses quality, low cost, and short delivery times (QCT) and targets a standard domestic delivery time of two days or less, with an on-time delivery rate of 99% or higher.

- Revenue from Misumi Group's die components business was JPY75.1bn in FY03/22. It boasts the top market share among global mold and die component manufacturers (at roughly 12%; company estimates). Because it essentially only sells standard die components, Misumi Group competes with Punch Industry in the area of standard products but not special-order products. Misumi Group's plastic mold component lineup includes ejector pins, sprue bushings, parting lock sets, and taper pins. Its press die component lineup includes punches, button dies, guide pins, and gas springs. It lists its standardized components in catalogs, from which customers can place orders simply by selecting dimensions and specifications of components. In 2012, Misumi Group acquired US-based mold and die components manufacturers (Dayton Progress and Anchor Lamina America, the components business arm of Anchor Danly).

- Misumi Group's factory automation business generated revenue of JPY119.3bn in FY03/22. Here, it manufactures standardized components for automation machinery used in factory automation and other production systems. Its factory automation standardized mechanical components include shafts, timing pulleys, linear bushings, and flat belt conveyors. Other products in the segment include automatic stage units, actuators, optical measurement devices, and optical waveguide alignment devices.

- Revenue from the VONA (third-party product distribution) business was JPY171.8bn. The product offerings in this business include sensors and switches, couplings, screws, bolts, nuts, castors, connectors, cables, transformers, end mills, wrenches, milling chips, calipers, carts, work gloves, and parts cleaners. It sells a wide range of its own and third-party products related to plants and manufacturing. According to company data, Misumi Group sells the products of over 3,000 manufacturers in Japan, making it the largest domestic player. It has built online platforms rooted in each region worldwide, with sites in 12 languages serving 16 countries.

- Misumi Group generated 52.1% of revenue overseas in FY03/22. By region, it generated JPY75.0bn of revenue in China, JPY53.9bn in Asia outside China, JPY33.9bn in the US, JPY20.8bn in Europe, and JPY7.1bn in other regions. By setting up local subsidiaries, the company entered the Taiwan market in 1987, followed by the US in 1988, Singapore in 1994, Hong Kong in 1995, Thailand in 1997, South Korea in 1999, Germany in 2003, China in 2003, Malaysia in 2006, Vietnam in 2006 (through a sales office), India in 2009, and Italy in 2010.

- Misumi Group is aggressively investing in growth and actively promoting a shift to digitalization (making IT-related outlays of JPY10.9bn in FY03/22). One of the strengths of the company's online sites is the ability to search 80 sextillion (80bn x 1tn) product variations via its online catalogs. Its website notes that Misumi Group receives more than 90% of orders online. It launched a service in 2016, called meviy, that offers immediate quotations and as fast as one-day shipment by simply uploading product design data (3D-CAD data). Company data reports that revenue from the meviy platform grew to about JPY3.5bn in Q4 FY03/22. Misumi Group also offers RAPiD Design, a 3D-CAD data library software package for

- components used in production and automation facilities and equipment, as well as MiSUMi FRAMES, a software platform that allows users to intuitively design and order aluminum casings with simple mouse operations.

Comparison of Punch Industry and Misumi Group's die components business

		FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22	CAGR/Average
Punch Industry	Revenue	25,041	29,437	34,393	36,756	36,649	41,025	40,936	35,349	32,462	39,359	5.2%
	Operating profit	708	1,162	1,724	1,987	1,991	2,844	2,579	836	1,613	3,042	17.6%
	Operating profit margin	2.8%	3.9%	5.0%	5.4%	5.4%	6.9%	6.3%	2.4%	5.0%	7.7%	5.1%
Misumi Group's die components business	Revenue	37,020	56,309	64,737	69,732	69,797	76,523	76,443	72,413	66,871	75,108	8.2%
	Operating profit	2,501	3,288	4,279	3,464	3,097	5,869	6,109	5,009	4,930	9,542	16.0%
	Operating profit margin	6.8%	5.8%	6.6%	5.0%	4.4%	7.7%	8.0%	6.9%	7.4%	12.7%	7.1%

Source: Shared Research based on company data

- The CAGR for revenue during FY03/13–FY03/22 is 5.2% for Punch Industry and 8.2% for Misumi Group. In 2012, Misumi Group acquired US-based mold and die components manufacturers (Dayton Progress and Anchor Lamina America, the components business arm of Anchor Danly). This accounts for the spike in revenue in FY03/14. Over the same period, the CAGR for operating profit is 17.6% for Punch Industry and 16.0% for Misumi Group, while average OPM is 5.1% for Punch Industry and 7.1% for Misumi Group. Since it specializes in standard products and online sales, Misumi Group's higher OPM reflects lower manufacturing and sales costs.

- Comparing the mold and die business, prices of Punch Industry's standard products are on a par with or slightly lower than that of Misumi Group, while there is no difference in terms of quality or delivery times. Misumi Group also handles about 90% of the lineup of standard products that Punch Industry handles. The companies used to compete on prices, but neither is currently engaged in fierce price competition. In terms of sales, Misumi Group specializes in standard products and in-person visits to customers are rare. Punch Industry is distinct in that its sales staff personally visit customers to take orders. There is no competition between the companies in the special-order products business. The company dominates the field here, with its ability to gauge customer needs that standard products cannot meet and offer the original products that customers demand.

Other competitors in Japan include Honeston (unlisted, FY2019 revenue of around JPY3.8bn), Takano (unlisted), and Champion (unlisted, FY2017 revenue of around JPY2.0bn). In the area of special-order products, larger mold- and die-related companies and small and medium-sized plants based in regional towns sometimes make the components they need in-house or take small-lot orders from customers, in which case they compete with one another. (In some cases, they produce only a single product, which makes accurate estimates of the degree of competition difficult.)

Competitors in China include Jouder Precision Industry (SZSE: 300549; FY12/21 revenue of CNY390.1mn), Beijing Shimao Machinery Electronics & Technology (unlisted), and BYTE CCM (unlisted). The company considers that there are few large-scale competitors. Competitors in other regions include Husky Injection Molding Systems (unlisted) in Canada, Lung Kee Bermuda Holdings (HKEX: 255, FY12/21 revenue of HKD2.3bn) in Hong Kong, and HASCO Hasenclever (unlisted) in Germany.

Results of listed mold- and die-related companies

Name	Ticker	Fiscal year	Revenue	Operating profit	Operating profit margin	ROE	Equity ratio	Overview
			(JPYmn)	(JPYmn)	(%)	(%)	(%)	
Misumi Group	TSE Prime: 9962	FY03/22	366,160	52,210	14.3%	14.8%	79.8%	Manufactures factory automation and die components (standard products only); distribution of factory automation and die components. Die components generate about 20% of total revenue
		FY03/21	310,719	27,199	8.8%	7.8%	80.0%	
		FY03/20	313,337	23,640	7.5%	8.0%	79.2%	
Fuji Die	TSE Prime: 6167	FY09/22	16,874	1,113	6.6%	4.1%	76.1%	Manufactures and sells dies, plugs, tools, and molds using cemented carbide. Mold and die products account for about 25% of revenue
		FY09/21	14,247	96	0.7%	2.5%	79.4%	
		FY09/20	17,426	875	5.0%	3.3%	76.4%	
Sanko Gosei	TSE Prime: 7888	FY05/22	65,661	2,543	3.9%	8.4%	39.1%	Manufactures and sells plastic molded products and molds and dies used in automobiles, home appliances, telecommunications equipment, etc. Mold and die products account for about 20% of revenue
		FY05/21	55,145	2,411	4.4%	6.8%	35.8%	
		FY05/20	50,716	694	1.4%	-2.2%	37.8%	
TOWA	TSE Prime: 6315	FY03/22	50,666	11,505	22.7%	22.6%	57.1%	Manufactures and sells precision molds for semiconductor manufacturing and molding equipment. Mold products account for about 20% of revenue
		FY03/21	29,706	3,618	12.2%	9.2%	60.2%	
		FY03/20	25,255	812	3.2%	1.4%	62.4%	
Punch Industry	TSE Prime: 6165	FY03/22	39,358	3,041	7.7%	14.2%	56.5%	
		FY03/21	32,462	1,613	5.0%	4.0%	50.2%	
		FY03/20	35,348	835	2.4%	-25.5%	45.8%	

Source: Shared Research based on respective company data and Bloomberg data

Compared to the 7.5% average OPM of the four other mold- and die-related companies over the past three years, Punch Industry's OPM is slightly lower, at 5.0%. The disparity reflects the higher weight of the other companies in higher-margin business segments outside the mold and die business, such as Misumi Group's factory automation business and TOWA's

semiconductor equipment and fine plastic mold businesses. Average ROE for the past three years is 7.2% for the four companies, but a negative 2.4% for Punch Industry (mainly due to impairment losses in FY03/20).

Other listed companies in Japan that manufacturer molds and dies and their components but generate less than 20% of total revenue in these areas are as follows.

Mitsui High-tec (TSE Prime: 6966), Press Kogyo (TSE Prime: 7246), Aichi Steel (TSE Prime: 5482), Tazmo (TSE Prime: 6266), Enomoto (TSE Prime: 6928), Nifco (TSE Prime: 7988), J-MAX (TSE Standard: 3422), Pegasus (TSE Prime: 6262), and Rhythm (TSE Prime: 7769).

Barriers to entry

Barriers to entry into the mold and die components business include the need for expensive equipment and the need to secure highly skilled processing technicians. This does not apply to small-lot production, however, which can be handled by a smaller group of technicians and less equipment and so does not make entry very difficult (thus the proliferation of small and medium-sized businesses). In this context, Punch Industry is working to enhance customer convenience for its standard products, including by developing new products that meet customer needs, enabling online ordering, and responding flexibly to delivery deadlines. The company is also actively working to pare down manufacturing costs in an effort to heighten its competitiveness. In terms of special-order products, the company's competitive edge lies in its ability to support detailed custom specifications for a large number of items and its mass-production capabilities. The company aims to further set itself apart by strengthening its comprehensive production framework backed by advanced technological capabilities and its hands-on sales approach.

Alternatives

In some cases, companies in manufacturing sectors and mold and die manufacturers have shifted to the in-house production of mold and die components. In particular, small and medium-sized mold and die manufacturers in Japan have seen long-term contraction in their work loads, and there was a growing tendency for companies to bring mold and die component production in-house to maintain utilization levels at their facilities. However, the size of molds and dies and the size of their components is fundamentally different, making in-house component production inefficient due to losses at the time of repurposing their facilities. Moreover, even if a company starts making mold and die components in-house, when production volume for its molds and dies resumes, it will often pull out of component manufacturing. Punch Industry says the full-fledged entry of new competitors is thus not expanding. Furthermore, one of the company's strengths is in the processing of round products. Despite requiring a great deal of specialized equipment, round components make up a small proportion of the entire range of mold and die components. This makes the in-house production of round products challenging, and even if other companies seek to do so, they often buy the company's products as blanks. For these reasons, many companies do not attempt to produce components entirely in-house.

Strengths and weaknesses

Strengths

The company has established the top spot in the global special-order product market through its precision processing technology and production framework, supported by a corps of highly skilled technicians operating a large pool of machinery and equipment, and a network of sales offices from which staff personally visit customers.

Since molds and dies are made for different end products, they all have unique shapes and sizes. Many are unable to be completed using standard products alone (in many cases their shapes, size, dimensions, materials, and other specifications are unsuited to standard products). Thus, even if a customer tries to customize a standard product, if the required processing is technically out of reach or manufacturing costs cut into its profitability, it faces the need to special-order the product.

Unlike products that are mass-produced on a line, manufacturing special-order products according to customer design drawings requires minute processing in increments of 0.01mm or 0.001mm. This requires a large corps of highly skilled technicians operating a large pool of machine tools and measuring and inspection equipment. Shared Research considers Punch Industry to have no competitors of similar size with a comparable corps of technicians (2,800) or comparable

machinery and equipment (2,000 units). The company also has 11 sales offices in Japan and 40 offices overseas, from which its global sales staff personally visit customers to identify and address their special-order product needs. They listen carefully to customers' technical issues and formulate proposals to meet their needs, including the most appropriate product, customization (i.e., size, length, hardness, surface treatment, materials used, processing method), and total cost. The company's sales staff thus have a high level of technical knowledge about molds and dies.

Furthermore, outside Japan, Punch Industry has capitalized on its group technical capabilities and capital strength as a leading mold and die components manufacturer to provide training for locally hired staff. The technical level of overseas technicians and sales staff is now on a par with personnel in Japan (the level is especially high in China). The company's main competitor, Misumi Group, specializes in the online sales of standard products, and there are no other companies of comparable scale that make in-person sales calls for special-order products. The trust Punch Industry gains through this hands-on sales approach has the further benefit of feeding into orders for its standard products. The company has established far and away the dominant position in the special-order product market. Shared Research believes this position is underpinned by the company's advanced precision processing technology supported by its large corps of technicians and large pool of machinery and equipment, as well as the global network of sales offices pursuing this hands-on sales outreach.

Through a training framework that includes the in-house training facility Punch Academy, the company can pass on skills to younger technicians, give hands-on training to sales staff on customer molds and dies and its own mold and die components, and provide ongoing education to other employees.

The company established Punch Academy as a staff training facility, equipped with facilities for the hands-on training of new hires, ongoing training based on job position, training to instill new skills, and staff development and technical training for sales representatives. Veteran employees who are at the age of stepping back from the front lines serve as instructors, training the next generation of workers. This enables the company to pass down the precision manufacturing skills that form the core of its skills base to subsequent generations. Also, in taking orders, the company's sales representatives have to put together complex proposals, listening to customers' technical issues and determining the most appropriate product to address the issues (type of product and material used), consider customization (i.e., of size, hardness, treatment, processing method), and estimate total cost. For this reason, sales staff receive hands-on training in processing using actual machinery and equipment at the plant before taking on their sales assignment, acquiring specialized knowledge on the structure of molds and dies, the role of the company's products, and the various kinds of customization available, among other things.

In addition to education for new hires, the company conducts ongoing production and quality education based on job position. Punch Academy offers more than 40 courses annually. The company also shares information on educational methods and curriculum with overseas subsidiaries and other group companies, seeking to raise the level of education group-wide. China has been a particular focus. When the company first entered the market there, it put in place a program to bring Chinese technicians over to Japan every year, training them for one year and sending them back. This has raised the overall technical capabilities of local staff in China.

Competitor Misumi Group does not engage in the manufacture of special-order products, and its die components business accounts for only about 20% of revenue. It also focuses its education on areas such as automation equipment and new digital technologies, and Shared Research recognizes that Misumi Group does not offer the same level of specialized mold and die component education as Punch Industry does. Shared Research also understands that many of the other competitors are smaller companies, and none of them maintains a comparable educational framework. Shared Research sees the company's educational framework—which enables highly skilled technicians to pass down its distinctive mold and die component-related manufacturing technology cultivated over many years to younger technicians while also being able to retrain other employees—as a major strength for the company.

Having been first off the mark to enter the Chinese market and having subsequently expanded its manufacturing and sales network there, the company now boasts the number one share of the growing Chinese market, serving 8,000 customers.

China has achieved rapid economic growth since around 2000 and established itself as the manufacturing center of the world. In terms of global production value, China is currently the world's largest mold and die producer (generating about 40% of global mold and die output in 2019). In 1990, Punch Industry was one of the first Japanese manufacturers to go into China and establish a local subsidiary (Misumi Group entered the Chinese market in 2003). Initially, the company positioned the subsidiary as a manufacturing base, and every year brought several dozen technician trainees over to Japan to acquire advanced technical skills and hone their technical capabilities. China's joining of WTO in 2001 made it possible for companies with foreign capital to sell molds and dies there. The company took advantage of this to reinforce both its

manufacturing and sales network. Customers in China tend to opt for customized products, which they use to make products with the potential to tap into new markets. Honing technical capabilities and capturing demand for special-order products from Chinese customers became the source of the company's growth in China.

As of March 2022, the company has established six manufacturing bases in China, including in Dalian, Wafangdian, Wuxi, and Dongguan, and 34 sales bases, including in Shanghai, Beijing, and Guangzhou. The company now boasts the number one (about 10%) share of the Chinese mold and die components market, serving 8,000 customers. Outside of China, in Southeast Asia, the company established local subsidiaries in India in 2010 and in Malaysia, Singapore, and Vietnam in 2013, followed by a joint venture in Indonesia in 2013 and a sales subsidiary in the US in 2016. Currently, the company generates 64% of revenue overseas. China accounts for 53% of total revenue and other regions account for 11%.

As companies in Japan have increasingly shifted manufacturing offshore, and under the impact of an aging population, labor shortages, the lack of successors, and economic deterioration, the number of small and medium-sized mold and die manufacturers in Japan is shrinking. Mold and die production value in Japan has been in long-term decline as a result, falling from JPY1.96tn in 1991 to JPY1.48tn in 2021. Punch Industry was out in front of other companies in shifting the focus of its growth to China. By harnessing its robust capital strength relative to other mold- and die-related manufacturers and pursuing ongoing technology transfers between Japan and China, the company has established a solid base for manufacturing, sales, and customer outreach in China, and now boasts the top share of the market there. Shared Research believes this overseas business base, centered on China, is a strength for the company.

Weaknesses

Training up skilled technicians takes a significant amount of time, and the company's tardiness in rolling out state-of-the-art machine tools, robotics, and automated machinery has slowed the growth of the business.

In the company's manufacturing, each technician is in charge of a given facet of processing for decades, and the sense of craftsmanship acquired through the continued use of specific machinery and equipment underpins the kind of processing that requires precision in fractions of millimeters. This lies behind the company's focus on passing down skills, such as through the Punch Academy. However, it takes years to train a new employee into a highly skilled technician (the company says about five years of experience.) Punch Industry hires 10–20 new employees each year. However, many of its plants are located in regional areas, and the shrinking population of young people in those areas hinders increased hiring. The company also loses a certain number of employees every year as they retire, and headcount has trended downward since FY03/18, from 4,298 to 3,979 in FY03/22. Shared Research thinks the slow pace of the company's business development stems from difficulty in recruiting new employees and the time it takes to train them, which prevents it from covering the decline in technician headcount due to retirement.

Moreover, although advances in tools and tool materials have driven advances in mechanical techniques for cutting and polishing, since the company has stressed the manual work skills of technicians, it lags behind somewhat in capitalizing on the latest machinery and equipment (especially for cutting). The company says it also plans to use robotics and automated machines in its manufacturing process, and to this end plans to capitalize on the factory automation capabilities of ASCe, which is why it acquired this subsidiary.

Competitor Misumi Group, which specializes in standard products that allow efficient manufacturing, has a CAGR for revenue in its die components business of 8.2% since FY03/13, compared to 5.2% for the company (note that Misumi Group has also scaled up this business through acquisitions). Shared Research believes that constraints on technician headcount and delays in the use of automation and state-of-the-art machinery are hindering the pace of the company's business development.

The company was slow to expand into online sales of standard products, thus ceding market share to early-bird competitors.

Misumi Group, which competes with Punch Industry in the area of mold and die components, is aggressively promoting a shift to digitalization (making IT-related outlays of JPY10.9bn in FY03/22). Its online sites allow users to search 80 sextillion (80bn x 1tn) product variations and generate more than 90% of its orders. It has built online platforms rooted in each region worldwide, with sites in 12 languages serving 16 countries. It also launched a service called meviy that offers immediate quotations and as fast as one-day shipment by simply uploading product design data (3D-CAD data). Revenue from the meviy platform had grown to about JPY3.5bn in Q4 FY03/22.

Punch Industry generates about 60% of revenue from special-order products, which entail an in-person sales process. The remaining 40% comes from standard products. Since about 70% of orders for standard products come in through the online platform, this suggests that online orders generate about 30% of total revenue. In China, which accounts for more than half of total revenue, the company's migration to an online platform has been slow, and online orders still only represent around 20% of the total there. The company only added standard essential functions like a product search and a shopping cart to its online sites in January 2023. Furthermore, the upgrade of the Chinese platform is still down the road.

Revenue from the die components business of Misumi Group, which has the top share of this market, had grown to JPY75.1bn in FY03/22, nearly double that of Punch Industry. There is no difference between the two companies in terms of the quality of standard products, and Punch Industry's prices tend to be slightly lower. Shared Research thus believes that Misumi Group's success in gaining market share lies in part in its development of an online platform, supported by extensive IT outlays, which has given it a significant leg up in terms of functionality, product variation, and global access. Furthermore, down the road, the use of AI and augmented reality and automated machines may enable the selection of molds and dies and precision processing without human intervention. In such a future, Shared Research believes the expansion of online sales of standard products could have a constraining effect on the company's growth.

The company lags behind competitors in the factory automation business, which it has positioned as a growth area in the current medium-term business plan.

The company entered the factory automation component business after building its Chiba plant in 1996 to make standard components for factory automation applications. It later withdrew from the standard product aspect of this business in 2011 after struggling with fierce price competition in Japan, choosing instead to focus on special-order components for factory automation, an area in which it could better leverage its strengths. However, the current medium-term business plan projects continued growth going forward in the factory automation sector, and the company has again made this business a strategic focus. It aims to expand revenue from the factory automation business from JPY2.7bn in FY03/22 to JPY5.0bn in FY03/25. (The focus of growth will be Punch Industry's own special-order factory automation products and the products of ASCe, the company Punch Industry acquired, which mainly designs and manufactures factory automation equipment).

Competitor Misumi Group started out in the same plastic mold and press die components field as the company and later expanded into the factory automation business (mainly standard products), which generated revenue of JPY119.3bn in FY03/22. Misumi Group offers a wealth of standardized mechanical components for factory automation as well as locator devices and measurement equipment. It also provides 3D-CAD data library software for factory automation designers.

At present, the factory automation business represents only a fraction of Punch Industry's total revenue, but the factory automation market itself is growing, fueled by the need to address labor shortages, achieve labor saving, boost productivity, and deal with rising personnel costs. The factory automation market is poised for continued worldwide growth. Having withdrawn early on from manufacturing standard products, the company's revenue in the factory automation business has been sluggish, while its closest competitor has achieved significant growth in this area. Shared Research sees the company's lagging behind in the growing factory automation market, even as a competitor that started out in the same business has been expanding revenue here, as a weakness. (Punch Industry is seeking to build market share in special-order factory automation products, an area that Misumi Group is not focused on.)

Financial statements

Income statement

Income statement	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Revenue	**25,041**	**29,437**	**34,393**	**36,756**	**36,649**	**41,025**	**40,936**	**35,349**	**32,462**	**39,359**
YoY	5.2%	17.6%	16.8%	6.9%	-0.3%	11.9%	-0.2%	-13.6%	-8.2%	21.2%
Cost of revenue	18,909	21,776	25,031	26,578	26,457	29,367	29,464	26,161	23,375	27,914
YoY	-	15.2%	14.9%	6.2%	-0.5%	11.0%	0.3%	-11.2%	-10.6%	19.4%
Cost ratio	75.5%	74.0%	72.8%	72.3%	72.2%	71.6%	72.0%	74.0%	72.0%	70.9%
Gross profit	**6,133**	**7,661**	**9,362**	**10,178**	**10,192**	**11,658**	**11,472**	**9,187**	**9,087**	**11,445**
YoY	1.6%	24.9%	22.2%	8.7%	0.1%	14.4%	-1.6%	-19.9%	-1.1%	26.0%
Gross profit margin	24.5%	26.0%	27.2%	27.7%	27.8%	28.4%	28.0%	26.0%	28.0%	29.1%
SG&A expenses	5,425	6,499	7,638	8,191	8,201	8,815	8,893	8,352	7,474	8,403
YoY	-	19.8%	17.5%	7.3%	0.1%	7.5%	0.9%	-6.1%	-10.5%	12.4%
SG&A ratio	21.7%	22.1%	22.2%	22.3%	22.4%	21.5%	21.7%	23.6%	23.0%	21.4%
Operating profit	**708**	**1,162**	**1,724**	**1,987**	**1,991**	**2,844**	**2,579**	**836**	**1,613**	**3,042**
YoY	-25.2%	64.1%	48.4%	15.2%	0.2%	42.8%	-9.3%	-67.6%	93.0%	88.5%
Operating profit margin	2.8%	3.9%	5.0%	5.4%	5.4%	6.9%	6.3%	2.4%	5.0%	7.7%
Non-operating income	347	143	105	124	150	136	140	121	294	130
Non-operating expenses	232	258	213	444	267	248	172	243	231	164
Recurring profit	**823**	**1,047**	**1,617**	**1,667**	**1,874**	**2,732**	**2,547**	**713**	**1,677**	**3,008**
YoY	2.1%	27.3%	54.4%	3.1%	12.5%	45.7%	-6.8%	-72.0%	135.1%	79.4%
Recurring profit margin	3.3%	3.6%	4.7%	4.5%	5.1%	6.7%	6.2%	2.0%	5.2%	7.6%
Extraordinary gains	1	13	8	7	3	6	4	5	83	6
Extraordinary losses	27	63	13	18	47	221	901	3,337	745	166
Income taxes	583	277	429	411	460	726	687	866	536	802
Implied tax rate	73.2%	27.8%	26.6%	24.8%	25.1%	28.8%	41.6%	-33.1%	52.8%	28.2%
Net income attributable to non-controlling interests	-	-1	-4	-4	-6	2	3	0	1	5
Net income attributable to owners of the parent	**213**	**721**	**1,188**	**1,249**	**1,376**	**1,789**	**960**	**-3,486**	**478**	**2,041**
YoY	-45.9%	238.0%	64.9%	5.1%	10.1%	30.0%	-46.3%	-	-	327.2%
Net margin	0.9%	2.4%	3.5%	3.4%	3.8%	4.4%	2.3%	-	1.5%	5.2%

Source: Shared Research based on company data

In terms of forex impact, the company generates significant revenue from its Chinese business, and if the yuan appreciates, profits from Chinese subsidiaries increase on a yen basis. However, the company says the forex impact on operating profit is not significant, as margins on products exported from China deteriorate to the same degree.

Balance sheet

Balance sheet	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Assets										
Cash and deposits	1,741	1,528	3,303	3,236	3,280	3,771	3,580	3,390	4,092	4,816
Notes and accounts receivable	7,270	9,433	11,614	10,615	11,468	12,096	10,989	9,943	9,630	11,235
Inventories	2,676	3,341	3,992	3,721	3,787	4,426	4,664	4,229	3,965	4,791
Deferred tax assets	160	308	326	251	297	-	-	-	-	-
Other	681	173	239	217	409	606	407	298	429	485
Allowance for doubtful accounts	-65	-115	-105	-164	-92	-57	-79	-68	-55	-48
Total current assets	**12,463**	**14,668**	**19,370**	**17,876**	**19,150**	**20,842**	**19,559**	**17,792**	**18,061**	**21,280**
Buildings and structures	1,919	2,095	2,079	1,942	2,075	1,979	2,302	1,729	1,521	1,765
Machinery, equipment, and vehicles	3,697	3,930	4,744	4,457	5,320	5,624	5,891	3,835	3,254	3,607
Tools, furniture, and fixtures	220	298	374	361	393	531	562	509	410	433
Land	818	832	836	825	821	825	822	777	775	779
Construction in progress	1	33	133	110	54	976	385	231	61	168
Other	-	424	3	2	6	4	10	54	173	261
Total tangible fixed assets	**6,654**	**7,612**	**8,169**	**7,697**	**8,669**	**9,939**	**9,972**	**7,135**	**6,195**	**7,013**
Goodwill	-	914	880	602	482	437	342			
Other	264	886	910	720	761	721	659	345	175	178
Total intangible assets	**264**	**1,799**	**1,790**	**1,322**	**1,243**	**1,158**	**1,002**	**345**	**175**	**178**
Deferred tax assets	274	210	120	192	196	410	391	116	111	119
Other	918	182	175	251	194	212	231	189	161	185
Investments and other assets	**1,192**	**392**	**296**	**443**	**390**	**621**	**622**	**305**	**272**	**304**
Total fixed assets	**8,110**	**9,803**	**10,254**	**9,462**	**10,302**	**11,718**	**11,596**	**7,784**	**6,642**	**7,494**
Total assets	**20,574**	**24,471**	**29,624**	**27,338**	**29,452**	**32,561**	**31,155**	**25,577**	**24,703**	**28,774**
Liabilities										
Notes and accounts payable	2,967	3,426	4,099	3,860	4,288	3,625	2,914	2,640	2,343	2,739
Electronically recorded obligations						972	1,235	1,020	955	1,078
Short-term debt	7,134	5,304	4,849	3,551	4,346	3,730	4,326	3,149	3,325	2,486
Income taxes payable	178	145	238	210	232	220	204	249	271	384
Other	1,619	2,497	3,126	2,831	2,859	4,102	2,852	2,223	2,562	3,315
Total current liabilities	**11,897**	**11,372**	**12,312**	**10,451**	**11,725**	**12,650**	**11,531**	**9,280**	**9,455**	**10,001**
Long-term debt	1,820	2,440	2,307	1,794	2,461	2,152	2,342	2,927	1,252	908
Long-term borrowings	1,820	2,440	2,307	1,794	2,461	2,152	2,342	2,927	1,252	908
Retirement benefit liability	–	738	523	859	909	966	979	1,080	1,084	1,145
Other	1,130	558	276	234	181	618	569	542	476	413
Total fixed liabilities	**2,950**	**3,736**	**3,106**	**2,887**	**3,551**	**3,736**	**3,890**	**4,549**	**2,811**	**2,466**
Total liabilities	**14,847**	**15,108**	**15,418**	**13,338**	**15,276**	**16,386**	**15,421**	**13,829**	**12,266**	**12,467**
Net assets										
Capital stock	674	1,572	2,898	2,898	2,898	2,898	2,898	2,898	2,898	2,945
Capital surplus	403	1,301	2,627	2,627	2,627	2,627	2,627	2,631	2,591	2,512
Retained earnings	4,572	5,096	6,155	7,062	8,156	9,655	10,167	6,539	7,017	9,058
Treasury stock	-	-	-	-	-83	-83	-192	-155	-150	-136
Accumulated other comprehensive income	77	1,386	2,520	1,402	569	1,052	186	-210	44	1,886
Share subscription rights	-	-	-	-	4	18	38	33	27	26
Non-controlling interests	-	9	5	11	6	8	9	10	10	17
Total net assets	**5,726**	**9,363**	**14,205**	**13,999**	**14,176**	**16,175**	**15,734**	**11,747**	**12,436**	**16,307**
Working capital	6,980	9,348	11,508	10,476	10,968	11,924	11,503	10,512	10,297	12,209
Total interest-bearing debt	8,953	7,744	7,156	5,345	6,807	5,882	6,668	6,076	4,576	3,394
Net cash	-7,212	-6,216	-3,853	-2,109	-3,527	-2,111	-3,089	-2,686	-484	1,423

Source: Shared Research based on company data

Assets

Notes and accounts receivable make up half of current assets. This reflects the fact that the company's average collection sights (payment deadlines) are somewhat long, two months in Japan and four months in China. (Many mold and die manufacturers are small and medium-sized businesses, and sights tend to be somewhat long.) Since lead times are short, the company does not keep a great deal of product inventory and manages its own credit. Therefore, it has almost no bad debt. Tangible fixed assets consist mainly of plant structures, equipment, and tools. Asset impairment losses in recent years include JPY848mn on fixed assets for the Vietnam plant in FY03/19, and in FY03/20, impairment losses totaling JPY3.3bn on fixed assets at the Kitakami and Miyako plants in Japan and the plant in Vietnam and on goodwill at the Malaysian subsidiary. These impairment losses have caused roughly a JPY800mn decrease in depreciation starting in FY03/21 versus the previous level. The company holds few investment securities. When starting up operations in a new region or a new business, Punch Industry has a corporate culture of creating a company on the ground with its own capital rather than investing in a joint venture or making use of venture capital.

Liabilities

Interest-bearing debt decreased from JPY9.0bn in FY03/13 to JPY3.4bn in FY03/22, reflecting improvement in the financial position. This is what prompted the company to set new payout ratio and dividend on equity ratio targets in January 2023.

Shareholders' equity

The company targets an equity ratio of 60%. It issued JPY1.7bn in new shares in March 2014 and JPY2.7bn in March 2015. The company also issues stock acquisition rights other than its stock option system, with the latest issue being in January 2022. (This was the fourth such issue, which raised JPY1.3bn. The rights exercise was completed in January 2023.) The

company bought back JPY36mn of its own shares in November 2016 and JPY117mn in November 2018 (to ensure a flexible capital policy and for use in covering stock option compensation).

Cash flow statement

Cash flow statement	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
(JPYmn)	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.	Cons.
Cash flows from operating activities (1)	**1,690**	**1,195**	**1,805**	**3,187**	**1,785**	**3,394**	**3,185**	**2,490**	**2,943**	**2,941**
Pre-tax profit	796	997	1,612	1,656	1,830	2,516	1,650	-2,619	1,014	2,848
Depreciation	1,073	1,170	1,316	1,433	1,407	1,597	1,730	1,675	969	972
Amortization of goodwill	-	46	97	89	76	75	78	75	-	-
Impairment losses	4	-	-	-	-	-	849	3,314	730	160
Change in retirement benefit liability	-	6	13	11	103	87	76	77	56	61
Change in provision for bonuses	-244	52	81	6	32	18	-25	-201	3	128
Change in provision for doubtful accounts	-50	22	-25	18	25	-101	15	-16	-35	-17
Interest and dividend income	-50	-21	-22	-34	-35	-46	-33	-44	-43	-53
Interest expenses	137	141	111	92	89	105	133	163	107	54
Foreign exchange losses (gains)	305	-45	431	338	230	-195	113	47	-43	1
Change in trade receivables	-155	-313	-1,143	463	-1,671	-212	440	777	434	-287
Change in inventories	85	-150	-357	109	-279	-538	-444	343	277	-417
Change in trade payables	24	-167	182	46	616	205	-299	-296	-251	26
Change in accounts payable - other, and accrued expenses	-	-	680	-441	251	365	-393	-236	281	168
Subsidies for employment adjustment	-	-	-	-	-	-	-	-5	-180	-21
Other	-192	-594	-916	-612	-932	-713	-734	-583	-297	-682
Cash flows from investing activities (2)	**-1,773**	**-1,252**	**-1,180**	**-1,159**	**-2,770**	**-2,336**	**-3,253**	**-1,789**	**-670**	**-1,100**
Net change in time deposits	-	-17	21	-	-10	-71	18	39	-106	-17
Purchase of tangible fixed assets	-968	-461	-1,129	-1,001	-2,519	-2,165	-3,071	-1,770	-503	-999
Proceeds from sale of property, plant and equipment	29	360	14	15	11	10	32	7	10	11
Purchase of intangible assets	-65	-113	-110	-126	-306	-113	-218	-83	-81	-73
Other	-770	-1,021	24	-47	55	4	-14	18	10	-21
Free cash flow (1+2)	**-83**	**-58**	**625**	**2,028**	**-985**	**1,058**	**-68**	**702**	**2,273**	**1,842**
Cash flows from financing activities	**-42**	**-370**	**1,014**	**-1,902**	**1,200**	**-739**	**74**	**-772**	**-1,685**	**-1,601**
Net change in short-term borrowings	1,085	-1,846	-744	-922	556	-308	586	-1,405	-338	-740
Proceeds from long-term borrowings	-	1,500	900	13	1,550	429	659	1,500	50	-
Repayments of long-term borrowings	-1,695	-1,550	-1,342	-688	-542	-848	-636	-594	-1,220	-653
Proceeds from issuance of shares	585	1,784	2,640	-	-	-	-	-	-	94
Dividends paid	-59	-197	-202	-304	-281	-290	-444	-141	-44	-131
Other	42	-61	-239	-1	-83	279	-91	-133	-133	-170
Depreciation and amortization of goodwill(A)	1,073	1,216	1,414	1,522	1,483	1,672	1,808	1,750	969	972
Capital expenditures(B)	-1,033	-574	-1,239	-1,127	-2,826	-2,279	-3,289	-1,853	-584	-1,073
Change in working capital(C)	725	2,368	2,160	-1,032	492	1,928	-158	-1,206	-279	2,035
Simple FCF(NI+A+B-C)	**-472**	**-1,006**	**-797**	**2,676**	**-459**	**-746**	**-363**	**-2,383**	**1,142**	**-95**

Source: Shared Research based on company data

Cash flows from operating activities

With the exception of FY03/20, the company generally records stable cash flows from operating activities due to its generally stable pre-tax profit and depreciation. The company incurred sizeable asset impairment losses in FY03/20, resulting in a pre-tax loss. However, the impairment losses did not involve cash outlays, and were added back into operating cash flow.

Cash flows from investing activities

The company continues to use cash for investing activities at a level of JPY1.0bn–JPY3.0bn, for ongoing investments in plant facilities and machinery. It has not spent cash to acquire investment securities.

Cash flows from financing activities

The company continues to use cash for financing activities in line with its decrease in borrowings, as it has continued to draw down interest-bearing debt.

Historical earnings

Cumulative Q3 FY03/23 results

Summary

- Revenue: JPY32.7bn (+11.3% YoY)
- Operating profit: JPY2.1bn (-19.0% YoY)
- Recurring profit: JPY2.0bn (-22.0% YoY)
- Net income attributable to owners of the parent: JPY1.1bn (-38.5% YoY)

Revenue was JPY32.7bn (+11.3% YoY). In addition to a general recovery trend from the pandemic, revenue benefited from forex gains due to the yen's depreciation. Revenue grew YoY in all regions.

Gross profit was up 3.1% YoY to JPY9.0bn but the gross profit margin was down 2.2pp to 27.6%. Although the company raised selling prices for standard products, purchasing costs increased by a wider margin, causing the cost ratio to deteriorate.

SG&A expenses were up 12.2% YoY to JPY6.9bn, increasing in line with revenue growth. Costs were largely in line with forecast.

Progress toward full-year company forecast

Progress in cumulative Q3 versus the full-year FY03/23 forecast was 75.9% for revenue, 88.7% for operating profit, 86.2% for recurring profit, and 96.8% for net income attributable to owners of the parent. Results were roughly in line with the forecast as revised downward in December 2022.

Business environment

Restrictions on movement under the pandemic eased, and economic activity showed signs of a recovery. However, the outlook remains clouded by rising geopolitical risks, soaring prices of raw materials and energy and other resources, global shortages of components and materials, and the yen's historic depreciation.

Revenue by region, industry

Revenue was JPY10.6bn in Japan (+1.8% YoY), JPY18.1bn in China (+15.3% YoY), JPY1.5bn in Southeast Asia (+15.2% YoY), and JPY2.5bn in Europe, the US, and other regions (+27.4% YoY). In Japan, overall sales volume was down following the company's October 2022 price hikes (higher unit prices fueled revenue growth but put downward pressure on sales volume). The company says customer reaction to the January 2023 renewal of its online site has been favorable. It says orders in China started to slow down in 2H amid lockdowns in Shanghai.

By industry, the automotive sector accounted for JPY13.7bn of revenue (+11.8% YoY), electronic devices and semiconductors accounted for JPY6.1bn (+0.1% YoY), consumer electronics and precision equipment accounted for JPY3.3bn (+6.1% YoY), and other sectors accounted for JPY9.6bn (+21.2% YoY). Revenue from the factory automation business was JPY1.8bn (-14.1% YoY). Lackluster smartphone production dampened recovery in electronic devices and semiconductors. The company says the automotive business in China is brisk but recovery in Japan is slow.

Other

Punch Industry says the appreciation of the Chinese yuan boosted revenue by JPY3.1bn and operating profit by JPY100mn. The company recorded an impairment loss of JPY122mn in Q3 as an extraordinary loss (for cumulative Q3 impairment losses of JPY223mn), mainly for the plant and equipment it holds. The company left its full-year FY03/23 forecast unchanged.

1H FY03/23 results

- Revenue: JPY21.7bn (+11.0% YoY)
- Operating profit: JPY1.5bn (-13.1% YoY)
- Recurring profit: JPY1.5bn (-12.2% YoY)
- Net income: JPY906mn (-28.0% YoY)

- Revenue in 1H was JPY21.7bn (+11.0% YoY). In addition to recovery from the pandemic, the yen's depreciation had a positive forex impact and revenue in all regions was up YoY. In particular, products for the automotive sector in China remained brisk and contributed to higher revenue.

- Gross profit was JPY6.0bn (+3.1% YoY). The gross profit margin was 27.9% (-2.1pp YoY). The decline reflects deterioration in the cost ratio due to the increase in purchasing costs over and above the price increases the company passed on to its products, as well as deterioration in the profitability of group companies in China due to the yuan's appreciation.

- SG&A expenses were JPY4.5bn (+10.2% YoY). The SG&A ratio was 20.8% (-0.2pp YoY). The increase in SG&A expenses reflects both higher revenue and the inflation of SG&A expenses at overseas subsidiaries due to exchange rate fluctuations.

- Higher revenue boosted operating profit by JPY643mn, while a higher cost ratio depressed profit by JPY458mn. An increase in SG&A expenses also reduced operating profit by JPY415mn.

Progress toward full-year company forecast

Progress in 1H versus the full-year FY03/23 forecast was 48.9% for revenue (49.6% versus the full-year result in 1H FY03/22), 49.6% for operating profit (58.1 %), 49.7% for recurring profit (57.7%) and 49.0% for net income attributable to owners of the parent (61.7%).

Revenue by region

In addition to the trend of recovery from the pandemic, the weaker yen generated a positive forex impact and revenue was up YoY in all regions. Revenue was JPY7.0bn in Japan (+1.2% YoY), JPY12.1bn in China (+ 16.0% YoY), JPY986mn in Southeast Asia (+17.2% YoY), and JPY1.6bn in Europe, the US, and other regions (+18.7% YoY). In Japan, higher revenue from precision equipment and food and healthcare products made up for the slump in revenue from the automotive sector, causing the slight overall increase. In China, the automotive business remained brisk, generating higher revenue. Singapore, Thailand, Vietnam, and Malaysia were the drivers of revenue growth in Southeast Asia. In Europe, the US, and other regions, brisk revenue from healthcare products were behind the higher revenue.

Revenue by industry

The automotive sector accounted for revenue of JPY9.1bn (+12.4% YoY), electronic devices and semiconductors for JPY4.1bn (-0.3% YoY), consumer electronics and precision equipment for JPY2.2bn (+7.4% YoY), and other sectors for JPY6.2bn (+19.2% YoY). In the automotive sector, revenue in Japan was sluggish but remained brisk in China, which caused the overall increase. Performance in the electronic devices and semiconductors business was sluggish as semiconductor shortages caused a slowdown in the production of components, which led to the decrease in revenue. The consumer electronics and precision equipment business saw higher revenue on the back of continued solid demand for precision equipment. In other sectors, revenue from the food and healthcare sectors rallied, causing the increase.

Other

In October 2022, the company announced it would acquire a 100% stake in manufacturer ASCe and make this company a subsidiary. ASCe has strengths in the in-house development of factory automation equipment for sectors including food processing, automotive components, electronic devices, and healthcare. The company says the acquisition will generate synergies through the effective utilization of both companies' sales channels and technology exchanges.

In November 2022, the company entered into a distribution agreement with Trusco Nakayama (TSE Prime: 9830). As the first stage in the business on the Japan side, the company began taking online orders for 11 items in seven product categories, including Trusco Nakayama parts and brake cleaners and nitrile gloves. On the China side, the company will launch sales of all Trusco Nakayama maintenance, repair, and operation products, and will sell products other than mold and die components to more than 10,000 customers in Japan and China.

Q1 FY03/23 results

- Revenue: JPY10.2bn (+10.3% YoY)
- Operating profit: JPY706mn (-11.4% YoY)
- Recurring profit: JPY698mn (-8.3% YoY)
- Net income: JPY428mn (-18.7% YoY)

- Revenue was JPY10.2bn (+10.3% YoY). Revenue in all regions was up YoY buoyed by the recovery trend from the pandemic. In particular, performance of products for the automotive sector in China remained brisk, contributing to revenue growth.

- Gross profit was JPY2.9bn (+4.9% YoY). The gross profit margin was 28.3% (-1.4pp YoY). The lower gross profit margin reflected deterioration in the cost ratio due to the increase in purchasing costs over and above the price hikes the company passed on to its products, as well as deterioration in the profitability of group companies in China due to the yuan's appreciation.

- SG&A expenses were JPY2.2bn (+11.5% YoY). The SG&A ratio was 21.4% (+0.3pp YoY). The higher SG&A ratio reflects both higher revenue and the inflation of SG&A expenses at overseas subsidiaries due to exchange rate fluctuations.

- Higher revenue boosted operating profit by JPY283mn, while a higher cost ratio depressed profit by JPY149mn. An increase in SG&A expenses also reduced operating profit by JPY225mn.

Progress toward full-year company forecast

Progress in Q1 versus the full-year FY03/23 forecast was 23.1% for revenue (24.2% versus the full-year result in Q1 FY03/22), 22.8% for operating profit (26.2%), 22.8% for recurring profit (25.3%), and 23.1% for net income attributable to owners of the parent (25.8%).

Revenue by region

The recovery trend from the pandemic drove a YoY increase in revenue across all regions. Revenue was JPY3.5bn in Japan (+1.2% YoY), JPY5.5bn in China (+14.0% YoY), JPY471mn in Southeast Asia (+19.6% YoY), and JPY717mn in Europe, the US, and other regions (+28.9% YoY). In Japan, higher revenue from precision equipment made up for sluggish revenue in other sectors, driving the overall increase. In China, the automotive business remained brisk, generating higher revenue. Singapore, Thailand, and Malaysia were the drivers of revenue growth in Southeast Asia. Exports of products to the healthcare sector in Europe, the US, and other regions also remained brisk, pushing up revenue.

Revenue by industry

The automotive sector accounted for revenue of JPY4.4bn (+13.0% YoY), electronic devices and semiconductors for JPY1.9bn (-1.0% YoY), consumer electronics and precision equipment for JPY1.1bn (+6.8% YoY), and other sectors for JPY2.8bn (+16.6% YoY). In the automotive sector, revenue in Japan was sluggish but remained brisk in China, which caused the overall increase. Revenue from the semiconductor sector remained solid, but semiconductor shortages caused a slowdown in the production of electronic components, putting a drag on revenue. Solid performance in the precision equipment sector drove higher revenue for the consumer electronics and precision equipment business. In other sectors, revenue from the food sector rallied, fueling the increase.

Revised full-year forecast

Q1 FY03/23, the company revised its 1H and full-year forecasts. The revised 1H forecast calls for revenue of JPY21.7bn (+JPY200mn from the previous forecast), operating profit of JPY1.5bn (-JPY130mn), recurring profit of JPY1.5bn (-JPY120mn), and net income attributable to owners of the parent of JPY850mn (-JPY220mn). The revised full-year forecast calls for revenue of JPY44.3bn (+JPY800mn), operating profit of JPY3.1bn (-JPY200mn), recurring profit of JPY3.1bn (-JPY200mn), and net income attributable to owners of the parent of JPY1.9bn (-JPY250mn).

Q1 results saw a dramatic rise in costs of raw materials and resources, coupled with higher SG&A expenses on the back of revenue growth and deterioration in the export margins of overseas subsidiaries due to forex fluctuations. These factors combined to push down profit. The company also expects greater impairment losses from Q2, amid deterioration in the cost ratio stemming from procurement costs that rise higher than initially factored in. These factors lie behind the downward revision of all levels of profit.

Full-year 03/22 results

- Revenue: JPY39.4bn (+21.2% YoY)
- Operating profit: JPY3.0bn (+88.5% YoY)
- Recurring profit: JPY3.0bn (+79.4% YoY)
- Net income: JPY2.0bn (+327.2% YoY)

The company began applying a new ASBJ accounting standard for revenue recognition in FY03/23, but this has no impact on income.

- The company recorded revenue of JPY39.4bn in FY03/22 (+21.2% YoY). In line with the Value Creation 2020 Plus medium-term business plan, the company worked to rebuild its management foundation, which had eroded under prolonged US–China trade friction and the impact of COVID-19 in FY03/21. The company achieved a solid turnaround in performance as a result.

- Gross profit was JPY11.4bn (+26.0% YoY). The gross profit margin was 29.1% (+1.1pp YoY), reflecting higher revenue and an improved cost ratio due to improved plant utilization rates.

- SG&A expenses were JPY8.4bn (+12.4% YoY). The SG&A ratio was 21.4% (-1.6pp YoY). The increase in SG&A expenses is attributable in part to outlays that the company had held in check across the group through FY03/21. Expenses also rose in tandem with revenue growth. The SG&A ratio was down due to lower depreciation in the wake of impairment losses the company recorded in FY03/21.

- Higher revenue boosted operating profit by JPY1.9bn. An improved cost ratio also pushed up operating profit by JPY427mn, while higher SG&A expenses depressed profit by JPY929mn.

Net income attributable to owners of the parent was up 327.2% YoY in the absence of JPY730mn in impairment losses that the company incurred in FY03/21.

Achievement against full-year company forecast

Versus the full-year FY03/22 forecast, revenue was 100.9% (101.4% versus the full-year result in FY03/21), operating profit was 106.7% (116.9%), recurring profit was 107.8% (117.2%), and net income attributable to owners of the parent was 114.0% (281.0%).

Revenue by region

Revenue was up YoY in all regions due to the recovery trend from the pandemic. Revenue was JPY14.0bn in Japan (+13.6% YoY), JPY21.0bn in China (+24.1% YoY), JPY1.7bn in Southeast Asia (+26.4% YoY), and JPY2.6bn in Europe, the US, and other regions (+42.2% YoY). In Japan, performance in the automotive sector was sluggish, but revenue from the electronic devices and semiconductors business was brisk, driving the overall increase. In China, revenue from the electronic devices and semiconductors business was solid, while forex impact also fed into higher revenue. Singapore, Malaysia, and Vietnam were the drivers of revenue growth in Southeast Asia. In Europe, the US, and other regions, ongoing brisk exports of healthcare products to Europe and the US were behind the higher revenue.

Revenue by industry

Results were up YoY across all industries. The automotive sector accounted for revenue of JPY16.4bn (+20.2% YoY), electronic devices and semiconductors for JPY8.0bn (+27.4% YoY), consumer electronics and precision equipment for JPY4.2bn (+7.8% YoY), and other sectors for JPY10.7bn (+24.5% YoY). Revenue from the automotive sector was sluggish in Japan but remained brisk in China, driving the overall increase. Revenue from the electronic devices and semiconductors business was up on the back of a turnaround in production among customers that had struggled with semiconductor component shortages in FY03/21. The consumer electronics and precision equipment business also posted higher revenue, despite weak demand for customer products amid a slowdown in stay-at-home demand. Revenue from the food sector rallied, while revenue from the healthcare sector continued to perform well, resulting in higher revenue from other sectors.

Quarterly trends

Q1 (April–June 2021): Revenue was JPY9.3bn (+29.4% YoY) and operating profit was JPY797mn (+3,095.0% YoY). Deterioration in performance in Q1 FY03/21 due to the COVID-19 outbreak turned around.

Q2 (July–September 2021): Revenue was JPY10.2bn (+24.3% YoY) and operating profit was JPY972mn (+237.2% YoY). Revenue in all regions was up YoY amid a recovery trend from the pandemic.

Q3 (October–December 2021): Revenue was JPY9.8bn (+19.4% YoY) and operating profit was JPY802mn (+29.4% YoY). The recovery trend continued and revenue continued to rise YoY across all regions.

Q4 (January–March 2022): Revenue was JPY10.0bn (+13.4% YoY) and operating profit was JPY471mn (-30.7% YoY). Operating profit came in below Q4 FY03/21 results due to higher SG&A expenses linked to revenue growth.

New medium-term business plan

In March 2022, the company announced its new medium-term business plan, Value Creation 2024. The plan lays out a vision for the company to always be the first choice of customers, which it will strive to achieve by turning demand for automation and labor saving in manufacturing into a new driver of growth. The plan raised three key management issues: expanding new and existing businesses, strengthening the production framework, and strengthening R&D. The plan called for pursuing digital transformation, financial strategies, and sustainability initiatives to strengthen the management foundation in support of the three management issues.

Other information

History

Date	Event
March 1975	Company established as Kamba Shokai in Shinagawa-ku, Tokyo
August 1977	Company name changed to Punch Industry
August 1982	Succeeded in mass production of high-speed steel ejector pins for plastic molds
November 1983	Established Kitakami plant in Kitakami, Iwate Prefecture
December 1983	Launched nationwide sales of mold and die components
May 1989	Established group company Miyako Punch Industry in Miyako, Iwate Prefecture (now Miyako plant)
October 1990	Established Punch Industry (Dalian) in Dalian, China
October 1996	Established the Chiba plant in Iioka, Chiba Prefecture (moved to Asahi, Chiba Prefecture in December 2001)
March 2006	Acquired 100% stake in Pintec, made a wholly owned subsidiary
September 2010	Established Punch Industry India in Chennai, India
January 2011	Established Hyogo plant in Kasai, Hyogo Prefecture
August 2012	Entered into capital and business alliance with Panther Precision Tools in Malaysia
December 2012	Listed on the Second Section of the Tokyo Stock Exchange (TSE)
August 2013	Made Panther Precision Tools a wholly owned subsidiary
November 2013	Established Punch Industry Indonesia in Jakarta
March 2014	Relisted stocks on the TSE First Section
December 2015	Established Punch Industry Manufacturing Vietnam in Binh Duong
November 2016	Established Punch Industry USA in Illinois
April 2022	Relisted shares on the TSE Prime Market

Source: Shared Research based on company data

Company history

Yuji Morikubo founded the company in 1975 under the name Kamba Shokai. At the outset, the company sold high-speed steel print pins, which are mold components used in printed circuit boards, for which it outsourced manufacturing. In 1977, the company changed its name to Punch Industry and began in-house manufacturing, as it was unable to fully meet customer needs through contract manufacturing alone. Initially, the company's production facilities were located in a part of the house of Morikubo's parents, with seven or eight technicians carrying out production. At that time, the company had a strong presence among customers in the consumer electronics industry, and production volume continued to grow as this sector flourished.

A major turning point in the company's business expansion was its development of high-speed steel ejector pins for plastic molds in 1982. At the time, makers of electronic and electrical products were using SCM3 ejector pins made of chromium molybdenum steel, but these had problems with accuracy and durability, and there was demand for better quality. Morikubo poured his efforts into the development of an ejector pin using high-speed steel, which was not yet technically feasible, going through a period of trial and error, as development hit several snags. Deciding what kind of heat treatment to apply to make the high-speed steel tough enough to bend was particularly difficult. For this reason, the company enlisted the aid of a university research institute with expertise in metals and incorporated its knowledge of metals and heat treatment technology into its production. As a result, the company succeeded in standardizing and mass-producing the world's first high-speed steel ejector pin by combining outside metal knowledge and technology with its own technology and expertise gained by making high-speed steel print pins.

Compared to the 0.02mm accuracy of conventional SCM3 ejector pins, the company's high-speed steel ejector pins achieved a dimensional accuracy of 0.01mm. In addition, compared with chromium molybdenum steel, its pins had high toughness and were hard to break. Offering improved accuracy and durability, the company's high-speed steel ejector pins replaced chromium-molybdenum steel pins in markets for plastic mold components requiring high accuracy, such as plastic TV casings and mechanical computer components.

The company subsequently opened sales offices in various locations nationwide, building the Kitakami plant in 1983 and the Miyako plant in 1989. (At the time, Miyako Punch Industry started making press die components for the first time). In 1991, the company published a comprehensive catalog for its plastic mold and press die components and worked to expand its production scale and framework. In 1990, seeking lower production costs, Punch Industry was one of the first Japanese manufacturers to enter China and establish a local subsidiary. (At that time, the company mainly manufactured semi-finished products in China). The company then began expanding its production network in China, while simultaneously working to raise the level of technological capabilities in China by training local employees. The outcome was the ability to manufacture finished products in China. Around 2000, during a period of rapid growth in the Chinese economy and China's entry into the WTO, sales within China were deregulated, which fed into growth in the company's sales there. The company further expanded into India in 2010, Malaysia, Singapore, Vietnam, and Indonesia in 2013, and the US in 2016.

Major shareholders (as of September 2022)

Major shareholders	Shares held	Shareholding ratio(%)
MT Kosan Co., Ltd.	3,804,900	16.75
CACEIS BANK S. A., GERMANY BRANCH - CUSTOMER ACCOUNT (standing proxy: The Hongkong and Shanghai Banking Corporation Limited)	2,432,900	10.71
The Master Trust Bank of Japan, Ltd.(trust account)	1,780,100	7.83
Punch Industry Employees' Stock Ownership Scheme	854,371	3.76
Custody Bank of Japan, Ltd.(trust account)	712,700	3.14
Yuji Morikubo	663,000	2.92
Tetsuji Morikubo	663,000	2.92
Michiko Kamba	431,000	1.9
Nomura Securities Co., Ltd.	385,200	1.7
ASG Japan Co., Ltd.	295,800	1.3
Total	12,022,971	52.92

Source: Shared Research based on company data

The largest shareholder, MT Kosan, is an asset management company, all of whose shares are owned by founder Yuji Morikubo and his relatives.

Corporate governance (as of June 2022)

Form of organization and capital structure	
Form of organization	Company with Audit & Supervisory Committee
Controlling shareholders	None
Directors	
Number of directors per Articles of Incorporation	15
Number of directors	10
Directors' terms per Articles of Incorporation	1 year
Chairperson of the Board of Directors	Outside directors
Number of outside directors	4
Number of independent outside directors	4
Number of members of Audit & Supervisory Committee	3
Number of outside members of Audit & Supervisory Committee	2
Number of independent outside members of Audit & Supervisory Committee	2
Other	
Implementation of measures regarding director incentives	Performance-linked remuneration, Other
Eligible for stock options	-
Participation in electronic voting platform	Yes
Providing convocation notice in English	Yes
Disclosure of directors' compensation	No individual disclosure
Policy to determine amount and calculation method of remuneration	Yes
Corporate takeover defenses	Yes

Source: Shared Research based on company data

SDGs

The company has established a sustainability policy.

> The policy states that the company will seek to achieve continuous growth and enhance corporate value through its support of manufacturing worldwide. In this way, Punch Industry aims to be a company that helps protect the natural environment and both the lifestyles of its employees and all individuals involved in its supply chain.

In July 2022, the company established a Sustainability Committee to step up initiatives to help bring about a sustainable society. Chaired by the president and CEO, the committee sets basic policy on sustainability. It also identifies material issues, forms action plans and targets for each issue, oversees their progress, deliberates on matters related to disclosure, and gives business directives, regularly reporting and making proposals to the board of directors. Under the aegis of the Sustainability Committee, the company has formed cross-divisional teams in three areas—carbon reduction, waste reduction, and human rights—to manage progress in each task and speed up initiatives for each material issue.

Punch Industry's social initiatives include accepting members of community for workplace training, cleanup activities, tree planting, a campaign in Japan to collect and recycle plastic bottle caps, collecting special product stamps to subsidize school budgets under the Bellmark Campaign, and collecting and donating used stamps to charity.

Top management

President and CEO Tetsuji Morikubo is the eldest son of founder and honorary chairman Yuji Morikubo.

Profile

May 2003	Joined the company
February 2005	Worked at Punch Industry (Dalian)
November 2012	General manager of Value Creation Office
April 2013	General manager of Corporate Planning Office
December 2015	Assigned to Punch Industry Malaysia
December 2016	Executive officer
June 2018	Director, senior executive officer, head of Corporate Strategy
April 2019	Chief strategy officer, head of Group Business Management
June 2019	Representative director (current position), executive vice president
November 2019	President and CEO, head of Group Management (current position)

Source: Shared Research based on company data

Employees

		FY03/10	FY03/11	FY03/12	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
Cons.	Number of employees		3,420	3,514	3,553	3,761	3,833	3,836	3,959	4,298	4,282	4,020	4,006	3,979
	Japan				977	985	993	1,004	1,024	1,047	1,062	1,062	1,029	1,002
	Overseas				2,576	2,776	2,840	2,832	2,935	3,251	3,220	2,958	2,977	2,977
Parent	Number of employees	790	864	898	902	911	917	927	945	968	982	985	954	927

Source: Shared Research based on company data

About 70% of employees (around 2,800 in FY03/22) work in the manufacturing division, with the remainder working in the sales and management divisions. The company employs roughly 3,000 people overseas, around three-quarters of total headcount. Every year, the company hires about 20 new graduates in Japan at most, turning to mid-career hires to fill positions made vacant when employees retire. The company says labor shortages are making it harder to recruit new graduates, a problem compounded by the shrinking population of technical high school students in rural areas.

Shareholder returns

Dividends

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
Dividends	10.0	10.0	12.5	12.5	13.0	16.8	16.8	2.0	2.0	13.0
Payout ratio	58.3%	20.1%	19.1%	22.1%	20.8%	20.5%	38.1%	-1.2%	9.1%	13.9%

Source: Shared Research based on company data

The company's policy is to pay stable, ongoing dividends while securing the internal reserves needed for future business development and to shore up the management structure. It pays dividends after comprehensively assessing consolidated business performance, its financial position, profit levels, the payout ratio, and other factors.

In January 2023, the company revised its capital and shareholder return policies, setting a new consolidated payout ratio of at least 30% and a dividend on equity ratio of at least 3%. The change reflected the fact that, until FY03/22, the parent company held relatively few retained earnings, but began receiving more dividends from group companies in FY03/23. Given the surplus in retained earnings, the company decided to enhance returns. The company says its financial position has been improving in recent years, with the equity ratio trending upward. Consequently, the company says that if it exceeds its target equity ratio of 60%, it may consider enhancing returns and pursuing share buybacks to further strengthen shareholder returns and capital efficiency.

ROE, ROIC

	FY03/13	FY03/14	FY03/15	FY03/16	FY03/17	FY03/18	FY03/19	FY03/20	FY03/21	FY03/22
ROE	4.3%	9.6%	10.1%	8.9%	9.8%	11.8%	6.0%	-25.5%	4.0%	14.2%
Net margin	0.9%	2.4%	3.5%	3.4%	3.8%	4.4%	2.3%	-	1.5%	5.2%
Financial leverage (equity multiplier)	-	3.0	2.3	2.0	2.0	2.0	2.0	2.1	2.1	1.9
Total asset turnover	-	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.3	1.5

Source: Shared Research based on company data

ROE tends to fluctuate in line with the unstable net income margin. Financial leverage and overall asset turnover are relatively stable.

Management that emphasizes ROIC

The current medium-term business plan calls for management that emphasizes ROIC, with the aim of enhancing corporate value by targeting ROIC of at least 10%, in excess of capital spending. In the ROIC tree, as a measure to improve net operating profit after taxes, the company's goal is to boost revenue by capturing more orders, cultivating new customers, and expanding overseas sales, while cutting costs through global procurement, more efficient production, lower failure costs, and greater operational efficiency. In terms of improving working capital turnover, the goal is to improve the cash conversion cycle by collecting receivables at an early stage, paring down inventories, and setting appropriate payment dates. Another goal is to improve both tangible fixed asset turnover (through pre-investment screening and post-investment monitoring) and intangible asset turnover (through IT-driven business reforms). With regard to ROIC management, the first thrust is to improve asset turnover and screen investments in fixed assets, but the company says this has just gotten underway and efforts to implement this across the group are ongoing.

Other information

Company name, logo

Source: Company website

The name Punch Industry signifies the company's original printed circuit board hole punch product as well as the sense of being a company overflowing with power and vitality. The company's website says that the clenched fist in the logo represents its molding punch and pin products and its growing power, while the slanted line represents a streak of lightning, expressing the company's eagerness to bring innovation to the industry. The company has also summed up its corporate identity with the phrase "Punch Spirit: Returning to the Spirit of the Founder," which encapsulates the key ideas of challenge, ingenuity, and open-mindedness.

Profile

Company Name

Punch Industry Co., Ltd.

Phone

81-3-3474-8007

Established

1975-03-29

Head Office

6-22-7 Minami-oi Shinagawa-ku, Tokyo 140-0013

Listed On

Tokyo Stock Exchange, Prime Market

Exchange Listing

2012-12-20

Fiscal Year-End

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We offer corporate clients comprehensive report coverage, a service that allows them to better inform investors and other stakeholders by presenting a continuously updated third-party view of business fundamentals, independent of investment biases. Shared Research can be found on the web at https://sharedresearch.jp.

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