

DAIDO STEEL CO., LTD (5471 JP)**NO CHANGE IN FY24 FORECAST. SPE RELATED DEMAND FOR STAINLESS STEEL WILL BE SEEN IN FY25.****EXECUTIVE SUMMARY**

- **FY24 Q3 Earnings:** Daido Steel's cumulative FY24 Q1~Q3 earnings landed in line with the firm's revised forecast, with the 9-month OP [IFRS basis] coming in at ¥34,070mil (-10.6% YoY) on sales of ¥433,961mil (-1.1% YoY). The decline in OP is primarily due to tough comps – in FY23 the firm reported ¥7,200mil from real estate sales gains. Although the 9-month OP has achieved 85% of the full-year guidance, Daido Steel did not change the full-year forecast due to some cost items such as fixed asset tax to be incurred in Q4.
- **What will be the growth driver beyond FY24?**
Daido Steel expects FY25 earnings to expand as (1) the mid-term plan's [MTP] Specialty Steel segment OP guidance is based on the assumption that production reduction in China will likely hit the bottom and there will likely be a recovery in global auto production by the Japanese OEMs, (2) stainless steel sales will likely grow amid a recovery in orders from the SPE sector in FY25 onwards, and (3) steady growth in the open die forging business, though given the planned investments during the current MTP, contributions from the expansion of open die forging sales are not expected to come before FY26, and (4) mid- to long-term growth from the titanium products for medical equipment given investment on VAR for titanium.
- **What are the principal shareholders return and any possibility of additional return?**
Daido Steel commits to a stable dividend pay-out ratio of more than 30%. Under the ongoing MTP, the firm will consider boosting shareholder returns with some variation in capital allocations. On 28 November 2024, Daido Steel announced the completion of share buyback programme, which repurchased total of 7,398,900 shares (3.46% of shares outstanding) at the total cost of ¥8,497mil – the cost of which almost offsets the ¥9,000mil expected gains from the liquidation of strategically held stocks being implemented between December 2024 and March 2025.
- **Daido Steel's PBR is currently 0.61x. What is the firm's plan to achieve a PBR of 1.0x as guided by the TSE?**
The firm aims to achieve a PBR of 1.0x or more by (1) raising ROE to 9.0%+ during the MTP on the back of an increase in high value-added product sales and efficient use of assets, (2) promoting the firm's growth potential through improved disclosure of both financial and non-financial (e.g. ESG policies) information that will ultimately enhance the enterprise value, and (3) maintaining a dividend pay-out ratio of 30% or more along with earnings growth. Extra shareholder returns might be possible depending on capital allocation during the MTP.

Daido Steel (5471): Share Information

Market Cap (¥mil, 25 Feb 2025)		261,250	Market Cap (\$mil, 25 Feb 2025)		1,742		
22-day Average Trading Volume (¥mil)		670	22-day Average Trading Volume (\$mil)		4.5		
Share performance (%)	5471	TOPIX	Earnings Summary (¥mil, %)	FY22	FY23	FY24CE	
Share price (25 Feb 2025)	1,197	2,724.70	Sales	579,013	578,564	580,000	
3mo (from 25 Nov 2024)	+0.3%	+0.3%	OP	50,025	42,250	40,000	
6mo (from 26 Aug 2024)	-14.9%	+2.4%	OPM (%)	8.6	7.3	6.9	
YTD	+0.1%	-1.15%	EBITDA	73,040	68,621	73,100*	
1yr (from 26 February 2024)	-34.7%	+1.8%	EPS (¥)	134.79	109.29	133.07	
5yrs (from 25 February 2020)	+48.3%	+80.3%	Financial Leverage (X)	2.0	1.8	N/A	
Per-share and Valuations		5471	TOPIX	Net D/E Ratio (X)	0.4	0.2	N/A
EPS (¥, FY24 CE)	133.07	184.82	FCF	9,000	17,900	16,900	
DPS (¥, FY24 CE)	47	N/A	Shareholder Return Summary		FY22	FY23	FY24CE
BPS (¥, June-24)	2,150	1956.43	Dividend (¥)	46	46	47	
FCFPS (¥, FY24EST)	77.9	N/A	Dividend Payout (%)	29.5	32.9	33.5	
Forward PER (X)	9.0	14.7	Dividend Yield (% , 19 Feb 2025)	N/A	N/A	3.9	
PBR (x)	0.6	1.4	DOE (%)	2.7	2.3	2.4*	
PCFR (x)	15.4	N/A	Treasury Shares (%)	N/A	N/A	1.6	
EV/EBITDA (X)	8.4	N/A	ROE (%)	9.8	11.6	6.5	

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

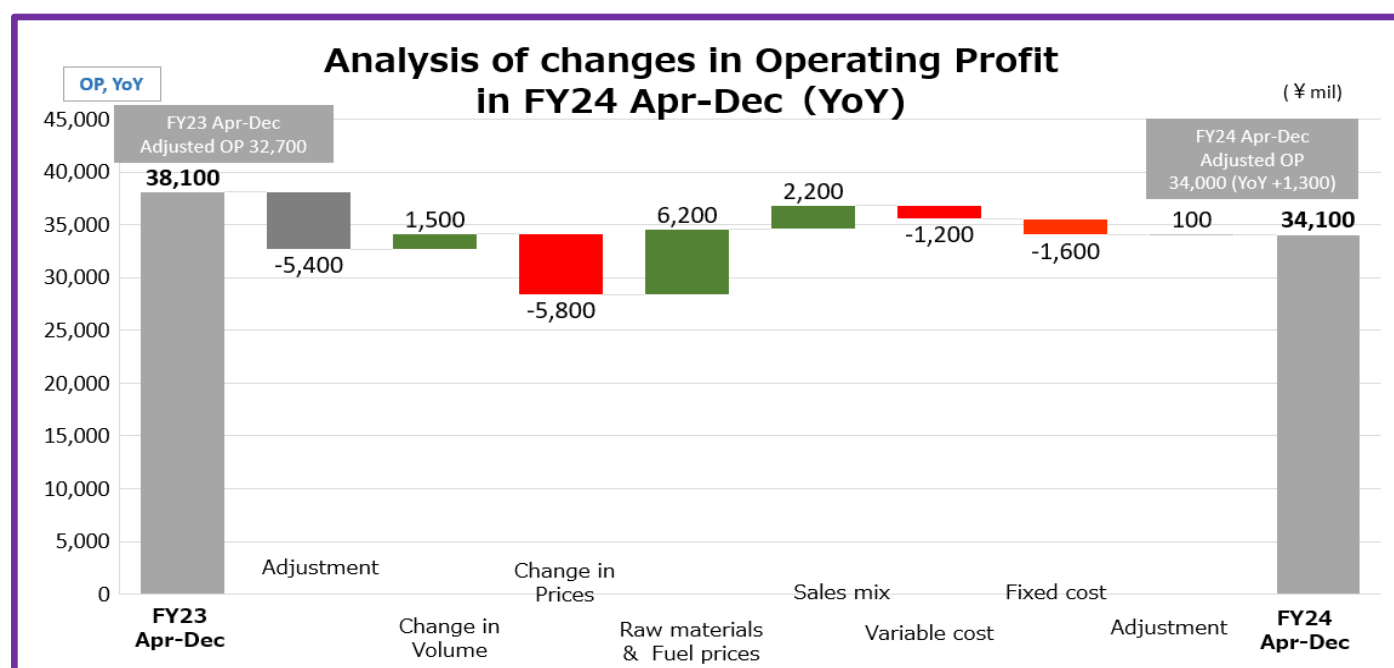
FY24 Q3 RESULTS

Daido Steel (5471 JP) produced FY24 Q3 (March year-end) results which were largely in line with forecast, coming in with cumulative Q1~Q3 OP [IFRS basis] of ¥34,070mil (-10.6% YoY) on sales of ¥433,961mil (-1.1% YoY). The decline in OP is primarily due to tough comps – in FY23 the firm reported ¥7,200mil from real estate sales gains. However, adjusted for non-operating items such as FOREX gains, taxes on fixed assets and inventory revaluation gains (included in IFRS-based OP), and one-off costs, the 9-month OP would have risen +4.0% YoY.

In Q3 alone, the firm reported OP of ¥15,812mil (-22.6% YoY / +93.0% QoQ) on sales of ¥150,522mil (-0.7% YoY / +6.5% QoQ). During Q3, there were several one-off factors that boosted quarterly OP, such as (1) the slide gap on steel scrap (a surcharge reflected on the selling price when steel scrap prices rise), (2) costs were pushed to Q4, and (3) the positive impact on fixed costs during stock piling prior to the seasonal surge in electricity costs in Q4. Adjusted for non-operating items and the aforementioned one-off factors, OP would have come in at ¥10,700mil.

Daido Steel (5471 JP): Earnings Results and Guidance Summary									
¥mil	FY23				FY24				
	Q1	1H	Q3	FY	Q1	1H	Q3	YoY (%)	Progress rate (%)
Steel Products Sales Volume (tonne)	266,000	529,000	815,000	1,072,000	262,000	519,000	782,000	-4.0	75.6
Sales	141,886	287,235	438,769	578,564	142,094	283,439	433,961	-1.1	74.8
COGS	119,605	239,462	361,934	480,618	115,949	231,582	352,064	-2.7	N/A
COGS / Sales (%)	84.3	83.4	82.5	83.1	81.6	81.7	81.1	-1.4ppt	N/A
GP	22,280	47,773	76,834	97,946	26,144	51,856	81,897	6.6	N/A
GPM (%)	15.7	16.6	17.5	16.9	18.4	18.3	18.9	+1.4ppt	N/A
SG&A	14,123	28,423	42,815	59,073	14,855	29,689	45,232	5.6	N/A
SG&A / Sales (%)	10.0	9.9	9.8	10.2	10.5	10.5	10.4	+0.6ppt	N/A
OP	8,739	17,695	38,128	42,250	10,067	18,258	34,070	-10.6	85.2
OPM (%)	6.2	6.2	8.7	7.3	7.1	6.4	7.9	-0.8ppt	N/A
Pretax profit	9,948	18,973	40,584	45,068	11,425	19,608	36,653	-9.7	86.2
Corporation Tax	-2,870	-6,178	-10,324	-12,493	-4,004	-6,410	-11,678	13.1	N/A
NP*	6,528	11,757	28,729	30,555	6,776	12,152	23,170	-19.4	82.8

Source: Nippon-IBR based on Daido Steel's earnings results materials
* NP attributed to the parent's shareholders



Source: Nippon-IBR based on Daido Steel's earnings results material

Adjusted for the aforementioned non-operating items, the overall increase in FY24 Q1~Q3 OP of +¥1,300mil / +4.0% YoY to ¥34,000mil, vs FY23 Q1~Q3's OP of ¥32,700mil, was mainly on the back of lower raw material and energy costs (+¥6,200mil). An improvement in sales mix driven primarily by higher sales of open die forging (+¥2,200mil) and an increase in sales volumes (+¥1,500mil) of stainless-steel products – despite the weakness in the structural steel for auto sector – also boosted OP. Yet, price adjustments to reflect lower raw material (alloys such as Nickel) and energy costs (-¥5,800mil), which includes a positive steel scrap slide gap (+¥1,500mil), weighed on profitability.

FY24 Q3 PERFORMANCE BY SEGMENT

Key factors regarding the performance of Daido Steel's three major segments are discussed below:

1. Specialty Steel Segment

[FY24 Q3 Sales ¥160,423mil (-4.2% YoY) / OP ¥11,229mil (-8.4% YoY) / OPM 7.0% (-0.3ppt YoY)]

The Q1~Q3 performance continued to be negatively affected by a decline in structural steel sales volumes (-¥3,000mil) amid a reduction in auto production by Japanese OEMs. In Q3 alone, the segment reported OP of ¥5,117mil (-14.8% YoY / +83.2% QoQ) on sales of ¥54,945mil (-6.7% YoY / +5.6% QoQ). The QoQ surge in Q3 OP was mainly due to (1) the positive slide gap and (2) a lower fixed cost ratio on the back of an increase in production to stockpile prior to the surge in energy costs during the winter.

2. High-Performance Materials & Magnetic Materials Segment

[FY24 Q3 sales ¥153,084mil (-0.0% YoY) / OP ¥10,596mil (+25.5% YoY) / OPM 6.9% (+1.4ppt YoY)]

Cumulative Q1~Q3 segment sales landed largely in line with the firm's forecast for flat growth due to falling Nickel prices compared to the same period last year. Stainless steel sales volumes recovered as expected at the beginning of FY24 amid rising spot demand for HDDs used in data centres in 1H, which boosted OP growth. While the slide gap in Nickel tends to immediately be reflected in the selling price, due to longer lead time of the high alloy products, changes in the nickel price affects costs in around 9-months' time.

Normalised Q1~Q3 segment OP would have come in at around ¥11,700mil, relatively flat YoY. In Q3 alone, however, the segment generated OP of ¥5,515mil (+59.6% YoY / +160.3% QoQ) on sales of ¥52,968mil (+4.4% YoY / +5.0% QoQ), thanks to a recovery in demand from the industrial machinery and SPE sectors. As for SPE related demand, Q3 demand has gradually recovered to 60% of FY22's level.

3. Parts for Automobiles / Industrial Equipment Segment

[FY24 Q3 sales ¥83,749mil (+6.5% YoY) / OP ¥8,779mil (+61.9% YoY) / OPM 10.5% (+3.6 ppt YoY)]

The substantial +61.9% YoY surge in Q1~Q3 segment OP was due to an improvement in production throughput in open die forging, supported by strong demand from the aircraft, heavy electric and oil and gas industries. Open die forging sales expanded +20% YoY over the 9-month period, boosting the sales mix by approx. +¥4,300mil. Daido Steel's open die forging business so far has not been affected by strike at Boeing (BA US) due to long lead times between orders and sales.

For the oil and gas industry, the firm supplies high alloys used for excavator joints. Here, Daido Steel's sales have been expanding as the firm has received certified supplier status with four companies. Sales of engine valves at a subsidiary also improved, thanks to solid demand in the US.

Daido Steel (5471JP): Sales, OP and OPM by Segment								
(¥mil)		FY23			FY24			
		Q3	FY	Q3	YoY (%)	2HCE	FYCE	YoY (%)
Specialty Steel	Sales	167,498	218,743	160,423	-4.2	108,500	214,000	-2.2
	OP	12,261	13,724	11,229	-8.4	6,400	12,500	-8.9
	OPM (%)	7.3	6.3	7.0	-0.3ppt	5.9	5.8	-0.5ppt
High Performance Materials & Magnetic Materials	Sales	153,087	202,384	153,084	-0.0	103,900	204,000	0.8
	OP	8,444	10,275	10,596	25.5	7,900	13,000	26.5
	OPM (%)	5.5	5.1	6.9	+1.4ppt	7.6	6.4	+1.3ppt
Parts for Automobile and Industrial Equipment	Sales	78,631	104,996	83,749	6.5	58,300	112,000	6.7
	OP	5,421	5,719	8,779	61.9	5,600	10,500	83.6
	OPM (%)	6.9	5.4	10.5	+3.6ppt	9.6	9.4	+4.0ppt
Engineering	Sales	17,105	23,091	16,273	-4.9	11,400	22,000	-4.7
	OP	1,667	2,136	1,296	-22.3	700	1,500	-29.8
	OPM (%)	9.7	9.3	8.0	-1.7ppt	6.1	6.8	-2.5ppt
Trading & Service	Sales	22,446	29,347	20,430	-9.0	14,500	28,000	-4.6
	OP	10,327	10,369	2,190	-78.8	1,100	2,500	-75.9
	OPM (%)	46.0	35.3	10.7	-35.3ppt	7.6	8.9	-26.4ppt
Total	Sales	438,769	578,564	433,961	-1.1	296,600	580,000	0.2
	OP	38,128	42,250	34,070	-10.6	21,700	40,000	-5.3
	OPM (%)	8.7	7.3	7.9	-0.8ppt	7.3	6.9	-0.4ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials
Total numbers are after adjusted for inter-segment trades.

Daido Steel (5471 JP): Quarterly Segment Sales and OP <IFRS>										
(¥mil)		FY23				FY24				
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	YoY (%)	QoQ (%)
Specialty Steel	Sales	55,221	53,405	58,872	51,245	53,427	52,051	54,945	-6.7	5.6
	OP	2,648	3,605	6,008	1,463	3,319	2,793	5,117	-14.8	83.2
	OPM (%)	4.8	6.8	10.2	2.9	6.2	5.4	9.3	-0.9ppt	+3.9ppt
High Performance Materials & Magnetic Materials	Sales	51,169	51,177	50,741	49,297	49,694	50,422	52,968	4.4	5.0
	OP	3,561	1,427	3,456	1,831	2,962	2,119	5,515	59.6	160.3
	OPM (%)	7.0	2.8	6.8	3.7	6.0	4.2	10.4	+3.6ppt	+6.2ppt
Parts for Automobile and Industrial Equipment	Sales	24,115	26,956	27,560	26,365	27,196	26,538	30,015	8.9	13.1
	OP	874	2,335	2,212	298	2,800	2,029	3,950	78.6	94.7
	OPM (%)	3.6	8.7	8.0	1.1	10.3	7.6	13.2	+5.2ppt	+5.6ppt
Engineering	Sales	5,021	5,987	6,097	5,986	4,616	5,971	5,686	-6.7	-4.8
	OP	474	524	669	469	240	569	487	-27.2	-14.4
	OPM (%)	9.4	8.8	11.0	7.8	5.2	9.5	8.6	-2.4ppt	-0.9ppt
Trading & Service	Sales	6,358	7,824	8,264	6,901	7,159	6,363	6,908	-16.4	8.6
	OP	1,176	1,048	8,103	42	754	674	762	-90.6	13.1
	OPM (%)	18.5	13.4	98.1	0.6	10.5	10.6	11.0	-87.1ppt	+0.4ppt
Total	Sales	141,886	145,349	151,534	139,795	142,094	141,345	150,522	-0.7	6.5
	OP	8,739	8,956	20,433	4,122	10,067	8,191	15,812	-22.6	93.0
	OPM (%)	6.2	6.2	13.5	2.9	7.1	5.8	10.5	-3.0ppt	+4.7ppt

Source: Nippon-IBR based on Daido Steel's earnings results materials

FY24 OUTLOOK

Daido Steel has maintained its FY24 forecast which was revised down with the release of the 1H results, guiding for OP of ¥40,000mil (-5.3% YoY) on sales of ¥580,000mil (+0.2% YoY). To achieve the full-year OP target, the firm needs to generate just ¥6,000mil in the Q4. However, the lack of a revision up to the OP forecast is to reflect IFRS rules on reporting fixed asset tax charges which will be booked in Q4.

Daido Steel ensures an annual payout ratio of more than 30% as a benchmark for its shareholder return policy. In FY24, the firm will still pay an annual dividend of ¥47/share despite the revision down (a 1:5 stock split was implemented on 1 January 2024), or a pay-out ratio of 35.8% (or, excluding any one-off extraordinary items, such as from the sale of fixed assets and impairment charges, the dividend payout ratio is estimated at 33.5%).

There are some changes in the environment surrounding the specialty steel segment. Sanyo Special Steel (5481 JP) announced that it has agreed a TOB proposal by parent company, Nippon Steel (5401 JP), which plans to make Sanyo a 100% subsidiary and delist the stock. The impact of this acquisition by Nippon Steel is yet to be known. However, Daido has shifted its medium- to long-term strategy to high-performance products such as stainless steel for SPEs, open die forging for aircraft and oil and gas excavation equipment, and titanium for medical equipment. In these strategic / growth products, the firm competes with overseas peers.

Daido Steel (5471 JP): Earnings Forecast								
¥mil	FY23			FY24				
	Q3	2H	FY	Q3	2HCE	YoY (%)	FY CE	YoY (%)
Steel Products Sales Volume (tonne)	815,000	543,000	1,072,000	782,000	516,000	-5.0	1,035,000	-3.5
Sales	438,769	291,329	578,564	433,961	296,600	1.8	580,000	0.2
OP	38,128	24,555	42,250	34,070	21,700	-11.6	40,000	-5.3
OPM (%)	8.7	8.4	7.3	7.9	7.3	-1.1ppt	6.9	-0.4ppt
Pretax profit	40,584	26,095	45,068	36,653	22,900	-12.2	42,500	-5.7
Corporation Tax	-10,324	-6,315	-12,493	-11,678	N/A	N/A	N/A	N/A
NP*	28,729	18,798	30,555	23,170	15,800	-15.9	28,000	-8.4

Source: Nippon-IBR based on Daido Steel's earnings results materials
* NP attributed to the parent's shareholders

FY24 OUTLOOK BY SEGMENT

The FY24 earnings outlook for Daido Steel's three major segments are as follows:

1. Specialty Steel

[FY24 sales ¥214,000mil (-2.2% YoY), OP ¥12,500mil (-8.9%), OPM 5.8%]

The FY24 segment forecast is for OP of ¥12,500mil (-8.9% YoY) on sales of ¥214,000mil (-2.2% YoY). The full-year steel products sales volumes assumption was revised on 30 October 2024, from 1,080,000 tonnes (+0.7% YoY) to 1,035,000 tonnes (-3.5% YoY), with 516,000 tonnes (-5.0% YoY / -0.6 % HoH) guided for the 2H. The firm revised its forecast for global auto production by Japanese OEM makers in CY24 from 26.2mil units (13.1mil units semi-annually; with domestic production of 4.2mil units and overseas production of 8.9mil units) to 24.6mil units (1H 12.0mil units / 2H 12.6mil units).

2. High-Performance Materials & Magnetic Materials

[FY24 sales ¥204,000mil (+0.8% YoY), OP ¥ 13,000mil (+26.5% YoY), OPM 6.4%]

Here, the firm guides for full-year FY24 segment OP of ¥13,000mil (+26.5% YoY) on sales of ¥204,000mil (+0.8% YoY). Although stainless steel demand for SPE is not expected to fully recover until FY25, there are some signs that orders are gradually recovering. Therefore, Daido Steel aims to be proactive in its production management so as to capture any sudden jump in demand from the SPE sector, such as investment on Vacuum Arch Remelting [VAR] at the Chita second factory in Dec 2024 then in Feb 2025.

The gradual recovery of orders from the industrial machinery sector will also likely continue as management considers FY23 Q4 as the trough. Although demand related to SPE has started gradually recovering, thanks to a surge in demand for high-end semiconductors related to AI, an uptrend for the entire semiconductor market is yet to be seen. Daido

Steel held a business briefing specifically about its SPE products on 15 January. Management stated that their aim is to improve the firm's market share in high-performance stainless-steel bars and wire rods from the current 40% to 50% in FY26. Such products are used as components in chemical vapor deposition [CVD] and etching equipment, such as valve, couplings, mass flow controller [MFC] and gas filter.

3. Parts for Automobile and Industrial Equipment Segment

[FY24 sales ¥112,000mil (+6.7% YoY), OP ¥10,500mil (+83.6% YoY), OPM 9.4%]

The full-year segment guidance is for OP of ¥10,500mil (+83.6% YoY) on sales of ¥112,000mil (+6.7% YoY). Since FY23 Q1, when production throughput issues and cost increases – the firm had to subcontract out orders to meet the demand – weighed on earnings, throughputs have gradually improved.

GROWTH POTENTIAL BEYOND FY24

Although FY24 guidance was revised down with the release of the 1H results due to the prolonged impact from weak auto production by Japanese OEMs and a delay in order recovery in the SPE and industrial machinery sectors, Daido Steel has maintained its medium-term growth assumptions based on the following factors:

- The Specialty Steel segment OP forecast as per the FY24~FY26 MTP (please see below) is based on the assumption that (1) certification issues will be resolved and (2) China recovers, thus leading to an increase in Japanese OEM production volumes. The company aims to lower the segment's break-even point by improving productivity and production yields.
- In the High-Performance Materials & Magnetic Materials segment, Daido Steel expects earnings to pick up as demand from the SPE sector enters into a full-fledged recovery from FY25 onwards.
- The open die forging business, especially high alloys, will likely lead to higher profits in the Parts for Automobile and Industrial Equipment segment. However, further expansion of the open die forging business will be more apparent beyond FY2026, given investment during the current MTP.

Daido Steel (5471JP): Medium-term Target for Segment Sales, OP and OPM by Segment						
(¥mil)		FY23	FY24	FY25	FY26	3-year CAGR
		FY	FYCE	Target	Target	(%)
Specialty Steel	Sales	219,021	214,000	N/A	N/A	N/A
	OP	14,797	12,500	12,500	12,500	-5.5%
	OPM (%)	6.8	5.8	N/A	N/A	N/A
High-Performance Materials & Magnetic Materials	Sales	202,832	204,000	N/A	N/A	N/A
	OP	14,432	13,000	25,000	28,000	24.7%
	OPM (%)	7.1	6.4	N/A	N/A	N/A
Parts for Automobile and Industrial Equipment	Sales	105,633	112,000	N/A	N/A	N/A
	OP	7,539	10,500	13,000	14,500	24.4%
	OPM (%)	7.1	9.4	N/A	N/A	N/A
Engineering	Sales	23,117	22,000	N/A	N/A	N/A
	OP	2,424	1,500	2,000	2,500	1.0%
	OPM (%)	10.5	6.8	N/A	N/A	N/A
Trading & Service	Sales	30,681	28,000	N/A	N/A	N/A
	OP	2,900	2,500	2,500	2,500	-4.8%
	OPM (%)	9.5	8.9	N/A	N/A	N/A
Total	Sales	581,287	580,000	N/A	600,000	1.1%
	OP	42,113	40,000	55,000	60,000	12.5%
	OPM (%)	7.2	6.9	N/A	10.0	N/A

Source: Nippon-IBR based on Daido Steel's earnings results materials
NB: Figures for FY24 onwards are on IFRS basis, therefore, CAGR numbers compared to FY23 are for reference only.

RESPONDING TO TSE'S PBR 1X INITIATIVE

Daido Steel aims to maintain a PBR above 1x (as of 20 February 2025, PBR is 0.6x) by (1) improving ROE to 9.0%+, (2) promoting the firm's growth potential through improved disclosure of both financial and non-financial (e.g. ESG policies) information that will ultimately enhance the enterprise value, and (3) ensuring a dividend pay-out ratio of 30% or more along with earnings growth. Further shareholder returns might be possible depending on capital allocation during the MTP. Management has been implementing the followings:

1. Expanding sales of high value-added products, such as open die forging, high-performance stainless steel, and titanium products.
2. The efficient use of assets by 1) optimal control of inventory, 2) the liquidation of strategically held stocks and real estate.
3. Shareholder returns: Daido Steel commits to a stable dividend pay-out ratio of more than 30%. Under the ongoing MTP, the firm will consider boosting shareholder returns with some variation in capital allocations. On 28 November 2024, Daido Steel announced the completion of share buyback programme, which repurchased total of 7,398,900 shares (3.46% of shares outstanding) at the total cost of ¥8,497mil – the cost of which almost offsets the ¥9,000mil expected gains from the liquidation of strategically held stocks being implemented between December 2024 and March 2025. The Nikkei and JPX Market Innovation and Research [JPX] announced on 7 August 2024 that Daido Steel is one of the new constituents of JPX400, one of the benchmark indices, thanks to the firm's efforts to improve asset efficiency by unwinding strategically held shares.

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