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DISCO Corporation

6146.T — Institutional Research Report

Annual Securities Report

Fiscal Year Ended March 31, 2025

Report Generated: March 2026 · Sample

Signal: Getting stronger.

BULL

AI chip packaging supercycle;
consumables at 45% margins
compound with every tool sold.

BEAR

China is 25% of revenue. One
export-control expansion vaporizes
a quarter of the business at ~46x
earnings.

Revenue	Op. Margin	Net Cash	ROE	Div Growth
\$2.09B +21%	37.7% +2.1pp	\$1.15B	26.3%	+32%

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1. Investment Verdict

Exchange rate used: \$1 = ¥149.8 (period-end rate, March 31 2025)

BULL

AI chip packaging creates a multi-year supercycle for DISCO's core products; consumables at 45% margins compound with every tool sold, building an annuity no competitor can replicate.

BEAR

China is 25% of revenue and growing fastest — a single export-control expansion could vaporize a quarter of the business overnight while the stock prices in perfection at ~46x earnings.

Signal: Getting stronger.

Record revenue, expanding margins, accelerating demand from AI packaging, and a fortress balance sheet with \$1.15B in net cash. The only thing that breaks this thesis is geopolitics. If you can underwrite China risk, this is one of the highest-quality Japanese industrial exposures available at any price.

2. What You Can't Get in English

This section contains information extracted from the Japanese filing that is not available on Bloomberg, Reuters, or any English-language financial database. This is what you paid for.

Segment-Level Profitability

Bloomberg shows DISCO's segment revenue but not segment operating profit. The filing breaks it down:

Segment	Revenue	Op. Profit	Margin	Rev YoY
Precision Equipment	\$1.32B (¥198.4B)	\$479M (¥71.8B)	36.2%	+24.8%
Consumables (blades, wheels)	\$682M (¥102.1B)	\$307M (¥46.0B)	45.1%	+16.2%
Other	\$81M (¥12.1B)	\$0.2M	0.3%	+8.9%

WHY THIS MATTERS

Consumables run at 45.1% operating margins — SaaS-level profitability on physical products. Every equipment sale creates a decades-long consumables tail. This segment grew +16.2% even in quarters when equipment orders paused. It is the economic moat, and you cannot see these margins in any English-language source.

Geographic Revenue Detail

Region	Revenue	Mix	YoY
Japan	\$376M (¥56.3B)	18%	+9.3%
China	\$522M (¥78.2B)	25%	+32.1%
Asia ex-China/Japan	\$689M (¥103.2B)	33%	+21.4%
North America	\$292M (¥43.8B)	14%	+21.3%
Europe & Other	\$208M (¥31.1B)	10%	+21.5%

China grew +32.1% — the fastest region — and is now 25% of total revenue, up from 23% last year. The filing's language on China risk shifted markedly (see Section 4).

Workforce Data

Metric	FY2025	FY2024	Change
Employees (consolidated)	5,842	5,361	+9.0%
Average age	38.4 yrs	38.1 yrs	
Average tenure	12.8 yrs	13.1 yrs	-0.3 yrs
Average annual salary	\$76.2K (¥11.42M)	\$68.6K (¥10.28M)	+11.1%

Salary up 11.1% YoY — top decile among Japanese manufacturers, driven by the performance-linked "Will" compensation system. Tenure dipped 0.3 years due to aggressive hiring for the Nagano facility, not attrition.

Cross-Shareholdings

4 issues held, total book value \$14M (¥2.1B). Down from 6 issues (\$25M / ¥3.8B) two years ago. Management committed to "continued reduction based on examination of holding rationale." Positive governance trend — most Japanese peers still hold 15-30+ cross-shareholding positions.

Shareholder Register

Holder	Ownership
Master Trust Bank of Japan (trust)	17.0%
Custody Bank of Japan (trust)	8.5%
Sekine Kazuma (founder family)	5.4%
State Street (omnibus)	3.8%
JP Morgan Chase (omnibus)	3.3%

Foreign ownership: 42.3%, up from 39.8% — global institutions are increasing exposure. Founder family retains 5.4%, providing alignment.

Related Party Transactions

Clean. No material related party transactions. Standard intercompany sales with wholly-owned overseas subsidiaries (DISCO HI-TEC America, Europe, China) at arm's-length, OECD-compliant transfer pricing. No red flags.

Accounting Notes

- **Standard:** Japanese GAAP. No IFRS transition planned.
- **Revenue recognition:** Installation acceptance basis — conservative vs IFRS 15, may cause lumpy quarterly results.
- **R&D:** \$122M (¥18.2B) fully expensed, not capitalized. Balance sheet understates intangible value being created.
- **Non-recurring:** \$14M (¥2.1B) gain on sale of investment securities included in net income — flatters bottom line by ~2.4%.
- **Audit:** Clean opinion, Deloitte Touche Tohmatsu. No qualifications.

3. Financial Snapshot

All figures USD at \$1 = ¥149.8. JPY in parentheses.

Profit & Loss

Metric	FY2025	FY2024	YoY
Revenue	\$2.09B (¥312.6B)	\$1.72B (¥257.4B)	+21.4%
Gross Profit	\$1.10B (¥164.4B)	\$872M (¥130.6B)	+25.9%
Gross Margin	52.6%	50.7%	+1.9pp
Operating Income	\$787M (¥117.8B)	\$611M (¥91.5B)	+28.7%
Operating Margin	37.7%	35.6%	+2.1pp
Recurring Profit	\$810M (¥121.3B)	\$632M (¥94.7B)	+28.1%
Net Income	\$575M (¥86.2B)	\$460M (¥68.9B)	+25.1%

Quarterly Trend

	Q1	Q2	Q3	Q4
Revenue	\$457M	\$495M	\$552M	\$583M
OP Margin	34.8%	36.2%	38.9%	40.1%

Sequential acceleration Q1→Q4. Q4 operating margin of 40.1% is a company record.

Balance Sheet

Metric	Mar 2025	Mar 2024
Total Assets	\$3.33B (¥498.2B)	\$2.81B (¥421.6B)
Cash & Equivalents	\$1.15B (¥172.4B)	\$926M (¥138.7B)
Interest-Bearing Debt	\$5M (¥0.8B)	\$8M (¥1.2B)
Net Cash	\$1.15B (¥171.6B)	\$918M (¥137.5B)
Total Equity	\$2.53B (¥378.6B)	\$2.13B (¥318.4B)
Equity Ratio	76.0%	75.5%

Cash Flow & Returns

Metric	FY2025	FY2024
Operating CF	\$687M (¥102.8B)	\$523M (¥78.4B)
Capex	-\$191M (-¥28.6B)	-\$148M (-¥22.1B)
Free Cash Flow	\$495M (¥74.2B)	\$376M (¥56.3B)
Dividend/Share	¥388 (+32% YoY)	¥294
Payout Ratio	48.7%	46.2%
Buyback	\$68M (¥10.2B)	\$33M (¥5.0B)
Total Return Ratio	60.5%	53.4%
ROE	26.3%	24.8%

Management Guidance — FY2026

Metric	FY2026E	FY2025A	Growth
Revenue	\$2.34B (¥350.0B)	\$2.09B (¥312.6B)	+12.0%
Operating Income	\$868M (¥130.0B)	\$787M (¥117.8B)	+10.4%
Net Income	\$621M (¥93.0B)	\$575M (¥86.2B)	+7.9%
Dividend/Share	¥420	¥388	+8.2%

Guidance assumes ¥148/\$, advanced packaging demand +25-30%, China revenue flat. If yen stays weak (~¥155), there is \$20M+ upside to operating income guidance.

4. Management's Own Words

Direct quotes from the filing with translation. This is where the Japanese text belongs — it lets you cross-reference the original document and hear management's tone firsthand.

「今後10年を定義する機会と捉え、積極的に設備投資を継続する」

"We view this as the opportunity that will define the next decade, and will continue to invest aggressively in capacity."

Analysis: This is extraordinary language for a Japanese annual report. Japanese management typically hedges with "we will consider" or "we aim to." Using "定義する" (define) and "積極的に" (aggressively) in an official filing signals extremely high internal conviction about the AI/advanced packaging opportunity.

「規制動向を注視しつつ、地域ポートフォリオの分散を進める」

"While closely monitoring regulatory developments, we will advance diversification of our regional portfolio."

Analysis: Last year's filing said export controls had "no material impact expected." The shift to "closely monitoring" plus the new phrase "regional portfolio diversification" tells you management is actively planning for a scenario where China revenue is restricted. This is the single most important language change in the entire filing.

「消耗品事業の拡大により、景気変動に左右されにくい収益基盤の強化を目指す」

"Through expansion of the consumables business, we aim to strengthen our earnings base to be less susceptible to economic fluctuations."

Analysis: Management explicitly acknowledges cyclical risk and is strategically using consumables as a hedge. This statement effectively tells investors: "We know we're cyclical; here is our plan to become less so."

Conspicuous Omission

The phrase "厳しい経営環境" (harsh business environment) — boilerplate that appears in roughly 70% of Japanese annual filings — is completely absent. Its absence is itself a signal: management sees no reason to hedge expectations. The last time DISCO omitted this phrase was FY2021, which was followed by two consecutive years of record results.

5. Risk Matrix

Risk	Rating	Rationale
China Export Controls	HIGH	25% of revenue, growing fastest. Management language downgraded from "no impact" to "closely monitoring." Binary risk.
Customer Concentration	MEDIUM	Top 5 = ~40% of revenue (TSMC, Samsung, Intel, SK Hynix, Micron). Mitigated by extreme switching costs.
Semiconductor Cycle	MEDIUM	±20% revenue swing in downcycles. Partially offset by consumables (33% of revenue, acyclical).
FX Sensitivity	MEDIUM	\$10M operating income impact per ¥1 move vs USD. FY2025 benefited ~\$28M from weak yen.
Technology Disruption	MEDIUM	Plasma dicing could challenge mechanical dicing. KABRA laser initiative is management's hedge — \$122M R&D spend.
Valuation	MEDIUM	~46x earnings prices in perfection. Any guidance miss triggers outsized correction.
Key Person	LOW	CEO Sekine since 2017. No succession plan disclosed. Founder family holds 5.4%.
Governance	LOW	Cross-holdings declining, 42% foreign ownership, performance-linked pay. Best-in-class for Japanese mid-cap.

6. Analyst's Take

3 Things That Impressed

1. **Consumables margins hit 45.1%.** SaaS-level profitability on physical products. The installed base of 70,000+ tools worldwide generates blade/wheel demand that is non-discretionary and recurring. No competitor has a comparable installed base.
2. **Capital discipline despite record cash flow.** Capex at 9.2% of revenue vs industry average ~12%. Every investment — Nagano (\$83M), Singapore (\$54M) — ties to a specific, quantifiable demand driver. No vanity capex. \$1.15B net cash provides optionality without hoarding.
3. **Governance trajectory.** Cross-shareholdings cut from 6→4 issues in two years. 40% of management compensation linked to ROE targets. Foreign ownership rising. DISCO is becoming the kind of Japanese company that global allocators want to own.

3 Things That Concern

1. **China revenue at 25% and accelerating.** +32.1% YoY is the fastest-growing region. Management's own language shift from dismissive to cautious (Section 4) tells you they see the risk. If export controls expand to DISCO's product categories, guidance is immediately invalid.
2. **Single-product dependency.** ~63% of revenue is dicing-related. If plasma dicing or another alternative reaches cost parity, the moat narrows. KABRA laser is partly a hedge, but it's still pre-commercial (FY2027 target).
3. **Non-recurring income in the bottom line.** \$14M (¥2.1B) gain on sale of investment securities flatters net income by 2.4%. Not material, but worth stripping out when comparing to guidance.

3 Questions for Management

1. Which specific product categories are at risk from expanded export controls, and what is the contingency plan if China revenue falls 50%+?
2. KABRA laser: what customer qualification milestones remain before commercial launch, and what is the year-1 revenue target?
3. With 42% foreign ownership, at what point will you consider IFRS adoption to improve comparability for your growing global shareholder base?

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