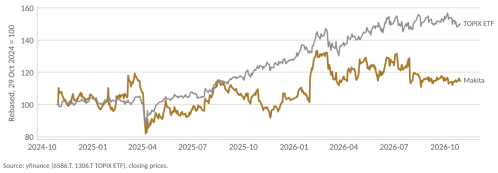
Great franchise, fairly priced: the recovery is done, the yen did the rest

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We initiate on Makita with a HOLD and a 12-month target price of JPY 5,850 (11.4% upside; 14.5% total return including dividends). Makita has repaired its margins after the FY2022-23 inventory crisis, but recent growth has come from a weak yen rather than volume, and the shares already price a sustained 13-14% operating margin.

Rating	HOLD
12-month target price	**JPY 5,850**
Price (29 Oct 2026)	JPY 5,253
Upside / total return	11.4% / 14.5%
Market cap	JPY 1,353.5bn
EV (incl. leases)	JPY 1,098.6bn
52-week range	JPY 4,203-6,106
Shares outstanding	257.7m
Avg daily value traded (3m)	JPY 4.7bn
WACC / cost of equity	8.8% / 8.9%
Reporting	IFRS, JPY, FY ends 31 Mar

Two-year share price vs TOPIX: Makita has lagged the market



Source: yfinance (6586.T, 1306.T TOPIX ETF), closing prices.

Investment thesis

1. **The margin recovery is complete; the next leg needs cost discipline.** Gross margin is back to 36.5% (FY2018: 36.9%), but SG&A has risen from 20.0% to 23.1% of sales. The 15% operating-margin target needs operating leverage that the current sales-force build-out works against.

2. **Growth is currency, not volume.** FY2026 revenue rose 3.2% in yen while Europe (50% of sales) fell about 1.5% in local currency; 1Q FY2027 was +10.7% in yen and flat in local currency. North America has run near break-even for nine years while TTI's Milwaukee grew 7.9% in 2025.

3. **The balance sheet is the lever, and it limits the downside.** Net cash plus investments of about JPY 310.5bn is 23% of the market value. ROE of 8.3% against an 11% target makes buybacks the most likely re-rating trigger. The stock trades on 7.8x LTM EV/EBITDA against a FY2019-26 median of 9.8x.

Valuation. Our TP averages a DCF with Gordon-growth terminal value (JPY 5,488) and one with an exit multiple (JPY 5,561), rolled forward 12 months at the 8.9% cost of equity, less dividends. WACC is 8.8%. Peers trade on higher multiples (median 13.0x EV/EBITDA) but grow faster and earn more.

Rating rule. BUY if upside exceeds +15%, SELL below -10%, otherwise HOLD. Scenarios: Bull JPY 7,600 (45%), Bear JPY 4,400 (-16%).

Key metrics (A = actual, E = our Base case; multiples at the current price and EV)

JPY bn / FY Mar	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E
Revenue	741.4	753.1	777.6	808.3	824.0	849.3
Operating profit	66.2	107.0	104.7	110.7	111.2	116.4
Operating margin	8.9%	14.2%	13.5%	13.7%	13.5%	13.7%
EPS (JPY)	162	295	300	325	328	344
DPS (JPY)	57	110	150	162	164	172
P/E (x)	32.4	17.8	17.5	16.2	16.0	15.3
EV/EBITDA (x)	11.6	8.0	8.1	7.7	7.7	7.4
ROE	5.3%	8.8%	8.3%	8.2%	8.0%	8.0%
Net cash	172.1	260.5	268.7	299.1	339.3	379.7

Source: Makita earnings releases (IFRS), yfinance, student model. FY = year to 31 March.

Scenarios (switch in the model: Assumptions!D4)

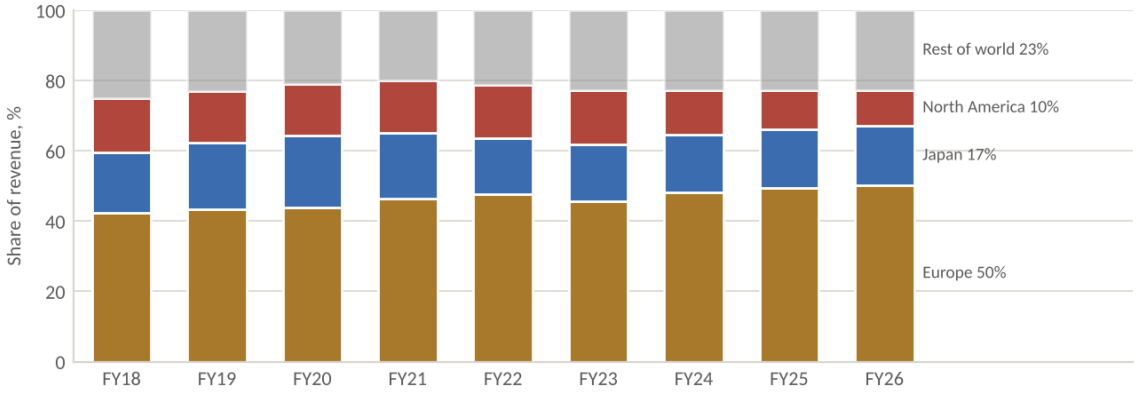
Scenario	12m TP (JPY)	Upside	Rating	FY2031E OP margin	FY2027-31 revenue CAGR	What has to happen
Bull	7,600	44.7%	BUY	16.5%	5.6%	Europe recovers, 40Vmax mix lifts gross margin to 38%, yen 5% weaker
Base	**5,850**	**11.4%**	**HOLD**	**14.0%**	**3.0%**	Flat Europe in FY2027, ~3% growth after; margins edge up to 14%
Bear	4,400	-16.2%	SELL	11.5%	-0.7%	Second inventory cycle, gross margin 34-35%, yen 10% stronger

1. Business overview

Makita designs, makes and sells cordless and corded power tools and outdoor power equipment (OPE) for professional users in construction, building maintenance, landscaping, agriculture and forestry. Its core asset is a battery platform: 18V LXT and the newer, higher-power 40Vmax XGT. A user who owns Makita batteries can run hundreds of tools on them, so each battery sold raises the cost of switching brands. The group reports geographic segments because the Board manages a single business (audited FS FY3/2026, segment note).

Mix. Europe is 50% of revenue, Japan 17%, North America 10% and the rest of the world 23%. Parts, repairs and accessories reached 22.8% of revenue in FY2026, up from 16.4% in FY2018, a sign of a growing installed base. 92.5% of units are made outside Japan; China's share fell from about 70% (FYE2017) to 51.5% (FYE2026) as Romania (18.6%), Thailand and Brazil grew (Makita Report 2026, p.23).

Europe is now half of revenue; North America has shrunk to 10%



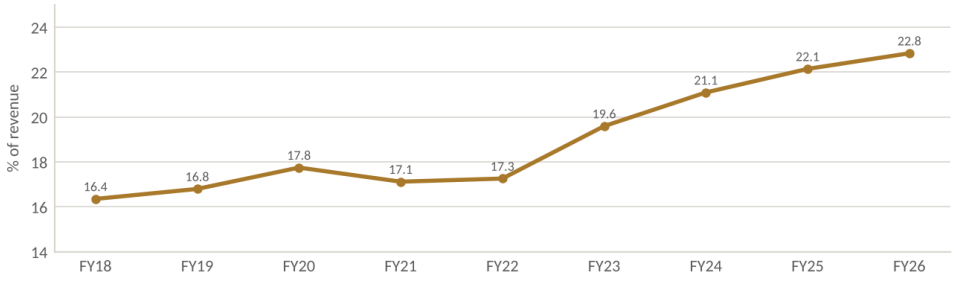
Source: Makita Corporation earnings releases (IFRS), student analysis.

Industry. Makita estimates the power-tool market at US$30-40bn and OPE at US$40-50bn (Makita Report 2026, p.22); third-party estimates range from US$30bn to US$47bn for power tools. The professional end is an oligopoly: Techtronic (US$15.3bn sales in 2025), Stanley Black & Decker (US$15.1bn), Hilti (CHF 6.3bn), Bosch Power Tools (about EUR 5bn) and Makita (about US$5.2bn). Cordless is about 62% of power-tool sales, and regulation favours it: California requires zero-emission small off-road engines from model year 2024. OPE is still engine-led, which is Makita's main growth opening; cordless is already over 90% of Makita's own OPE sales.

Five forces and moat. We rate the moat **narrow**: platform lock-in is real, but margins have proved cyclical and Makita has no pricing power over TTI.

Force	Rating	Why
Rivalry	High	Five global leaders; TTI is outgrowing the field
New entrants	Low-moderate	Battery platforms and service networks are costly; Chinese OEMs enter at the DIY end
Buyer power	Moderate	Dealers and home centres have leverage; professionals are locked into platforms
Supplier power	Moderate	Few lithium-ion cell suppliers; Makita designs its own packs and motors
Substitutes	Low	Corded and engine tools are losing share to cordless

Parts, repairs and accessories: a rising, steadier share of sales

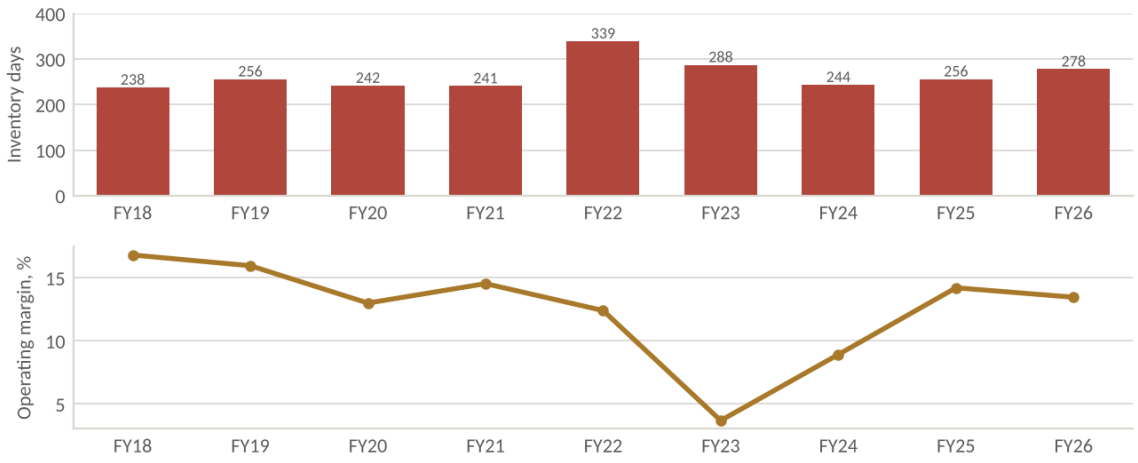


Source: Makita Corporation earnings releases (IFRS), student analysis.

2. Investment thesis in the numbers

The FY2023 collapse was an inventory problem. Revenue grew in FY2023, but inventory had reached 339 days of cost of sales at FY2022 and gross margin fell to 24.7% as Makita cleared stock. Inventory days are rising again, to 278 in FY2026 from 244 in FY2024. That is not yet a warning, but it is the metric to watch.

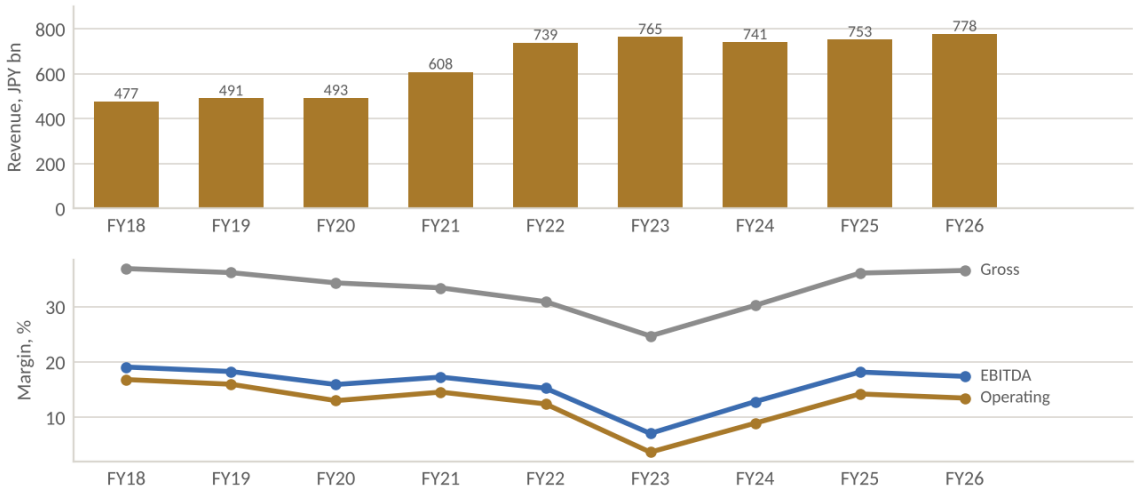
Margins collapsed after the FY2022 inventory build; days are rising again



Source: Makita Corporation earnings releases (IFRS), student analysis.

Margins: the gap is overhead. Operating margin is 13.5% against 16.8% in FY2018, with gross margin almost fully recovered. All of the shortfall is SG&A (20.0% to 23.1%).

Revenue grew 6.3% a year; operating margin is still below the FY2018 peak



Source: Makita Corporation earnings releases (IFRS), student analysis.

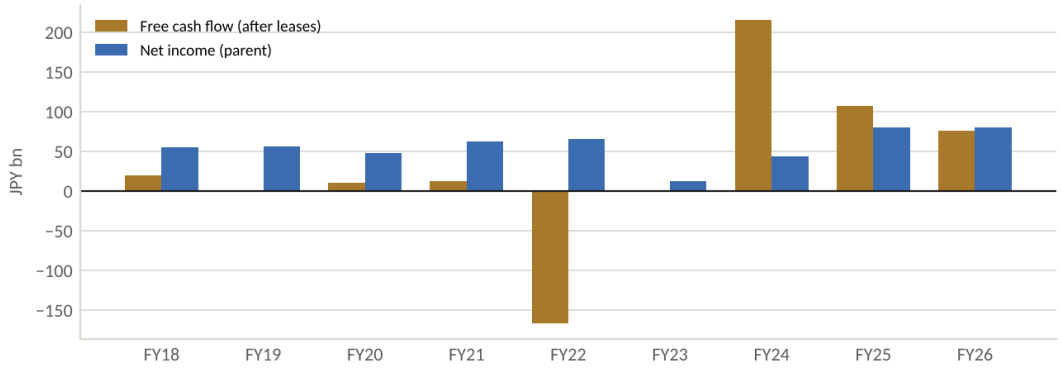
3. Financial analysis

	FY18A	FY20A	FY22A	FY23A	FY24A	FY25A	FY26A
Revenue growth	n/a	0.4%	21.5%	3.4%	-3.0%	1.6%	3.2%
Gross margin	36.9%	34.3%	30.9%	24.7%	30.2%	36.0%	36.5%
SG&A / revenue	20.0%	21.3%	18.5%	21.0%	21.3%	21.8%	23.1%
Operating margin	16.8%	13.0%	12.4%	3.7%	8.9%	14.2%	13.5%
ROE	10.4%	8.3%	9.2%	1.5%	5.3%	8.8%	8.3%
Net margin	11.5%	9.7%	8.8%	1.5%	5.9%	10.5%	10.2%
Asset turnover (x)	0.76	0.73	0.81	0.73	0.69	0.70	0.68
Equity multiplier (x)	1.19	1.18	1.30	1.39	1.32	1.21	1.19
ROIC (operating)	18.4%	12.6%	10.7%	1.8%	6.3%	12.2%	11.7%
Inventory days	238	242	339	288	244	256	278
Cash conversion cycle (days)	256	254	349	314	266	266	294
FCF / net income (x)	0.35	0.22	-2.58	0.08	4.92	1.34	0.95
Capex / revenue	3.2%	9.0%	8.1%	5.1%	2.4%	2.3%	2.8%
Net cash (JPY bn)	191.4	148.3	-27.2	-39.0	172.1	260.5	268.7
Equity ratio	84.6%	84.7%	74.1%	70.0%	82.2%	83.7%	84.4%

DuPont on average parent equity (reconciles exactly). ROIC = NOPAT / (operating NWC + PP&E + intangibles). FCF = CFO + capex + lease repayments. IFRS 16 applies from FY2020.

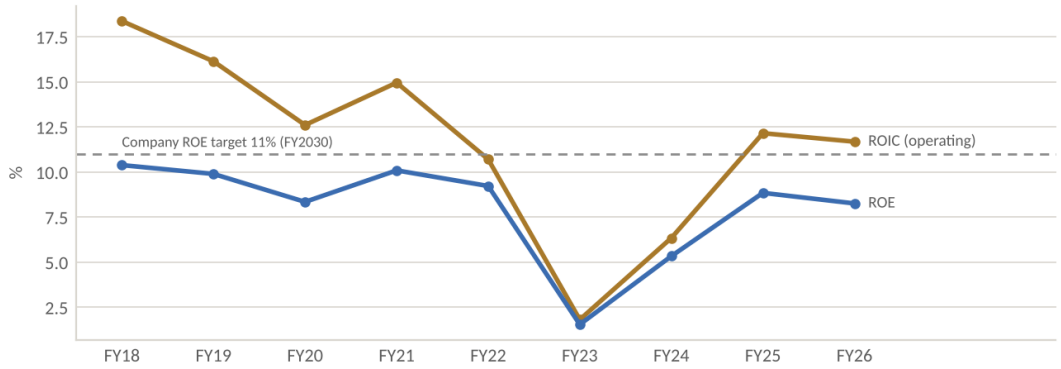
What a casual reader would miss. (1) Over FY2018-26 Makita turned only 54% of net income into free cash flow (JPY 271.6bn against JPY 499.4bn), because inventory absorbed JPY 179bn and capex ran at 3.4-3.7x depreciation in FY2020-22. (2) ROE is capped by the balance sheet: ROIC is 11.7% but the equity multiplier is only 1.19x, with net cash at 27% of equity. (3) Capex has fallen below depreciation (0.9x in FY2026), which flatters recent FCF; the company guides JPY 30bn for FY2027.

Cash conversion swings with inventory: FCF -167bn in FY2022, +215bn in FY2024



Source: Makita Corporation earnings releases (IFRS), student analysis.

Returns on operating capital are high; ROE is diluted by surplus equity



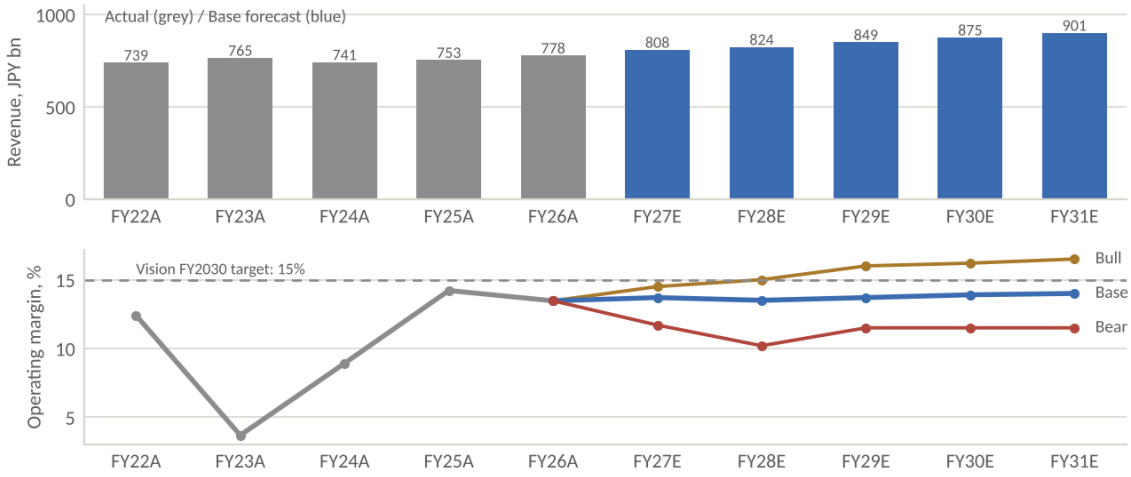
Source: Makita Corporation earnings releases (IFRS), student analysis.

4. Forecasts

Revenue is built by customer region as local-currency growth times FX, so currency moves flow through the model. Margins are driven by gross margin and SG&A ratios; working capital by receivable, inventory and payable days; capex as a share of revenue; depreciation from the PP&E roll-forward. Every assumption has a one-line justification in the Assumptions sheet of the model, with a Base / Bull / Bear switch.

Base case	FY27E	FY28E	FY29E	FY30E	FY31E	Justification
Europe LC growth	0.0%	2.5%	3.0%	3.0%	3.0%	FY2026 LC -1.5%; recovery from FY2028
Japan LC growth	2.5%	2.0%	2.0%	2.0%	1.5%	FY2026 +3.9%; housing starts falling
North America LC growth	3.0%	3.0%	3.0%	3.0%	3.0%	Rebound after tariff disruption; no share gain
USD/JPY	158.3	157.8	157.8	157.8	157.8	1Q actual + spot, then spot held
EUR/JPY	178.4	176.0	176.0	176.0	176.0	1Q actual + spot, then spot held
Gross margin	37.0%	36.5%	36.5%	36.5%	36.5%	1Q tariff refund one-off; FY2026 36.5%
SG&A / revenue	23.3%	23.0%	22.8%	22.6%	22.5%	Modest operating leverage
Inventory days	275	268	262	258	255	Normalising toward 249 average
Capex / revenue	3.6%	3.4%	3.2%	3.2%	3.2%	JPY 30bn FY2027 guidance

Base case: ~3% revenue growth, operating margin edging up to 14%



Source: Makita filings, yfinance, MoF, Damodaran; student model (model/Makita_6586_model.xlsx).

Against guidance. Our Base revenue is below the company's JPY 820bn because we assume flat European local-currency sales; operating profit is close to guidance because 1Q margins benefited from the tariff refund (JPY bn).

	FY2027E revenue	FY2027E OP	OP margin
Company guidance (28 Apr 2026, reaffirmed 29 Jul)	820.0	110.0	13.4%
Our Base	808.3	110.7	13.7%
Our Bull	824.5	119.5	14.5%
Our Bear	764.8	89.5	11.7%

5. Valuation

Cost of capital	Value	Source
Risk-free rate (10Y JGB, 28 Oct 2026)	2.87%	Ministry of Finance Japan
Mature-market ERP	4.23%	Damodaran, implied, start 2026
Country risk premium	1.20%	Damodaran regional CRPs x Makita revenue mix
Unlevered beta (Japan Machinery)	1.11	Damodaran; regression vs TOPIX 1.08 (5y weekly)
Relevered beta (D/E 1.6%)	1.12	Hamada
Cost of equity	8.94%	CAPM; no size premium
After-tax Kd / debt weight	2.64% / 1.6%	rf + 0.75%; market weights
WACC	8.84%	

DCF (JPY m unless stated)	Gordon	Exit multiple
PV of FCF, Jul 2026-Mar 2031	316,516	316,516
PV of terminal value	786,988	805,868
Enterprise value	1,103,504	1,122,383
+ Net cash, investments, less NCI and interim	310,456	310,456
Value per share (JPY)	5,488	5,561
Terminal assumption	g 2.0%, RONIC 12%	7.5x EBITDA
Cross-check	implies 7.3x	implies g 2.4%

Method. Free cash flow runs from 1 July 2026 (after the last balance sheet) and is discounted mid-period to the valuation date. Lease payments are deducted in FCF, so leases are not deducted again in the bridge. The Gordon terminal value uses the value-driver formula NOPAT x (1+g) x (1 - g/RONIC), so growth is paid for with reinvestment. We set the exit multiple within 0.5x of the Gordon-implied multiple so the two methods agree; Makita's FY2019-26 median of 9.8x would assume a re-rating. Terminal value is 71% of EV. Fair value today is JPY 5,524; rolling forward at the cost of equity and deducting JPY 165 of dividends gives the JPY 5,850 TP.

DCF (Gordon) value per share: WACC vs terminal growth

WACC \ g	1.0%	1.5%	2.0%	2.5%	3.0%
7.84%	5,921	6,042	6,182	6,347	6,543
8.34%	5,608	5,702	5,808	5,930	6,074
8.84%	5,336	5,407	5,488	5,579	5,685
9.34%	5,096	5,151	5,212	5,280	5,357
9.84%	4,884	4,925	4,971	5,021	5,078

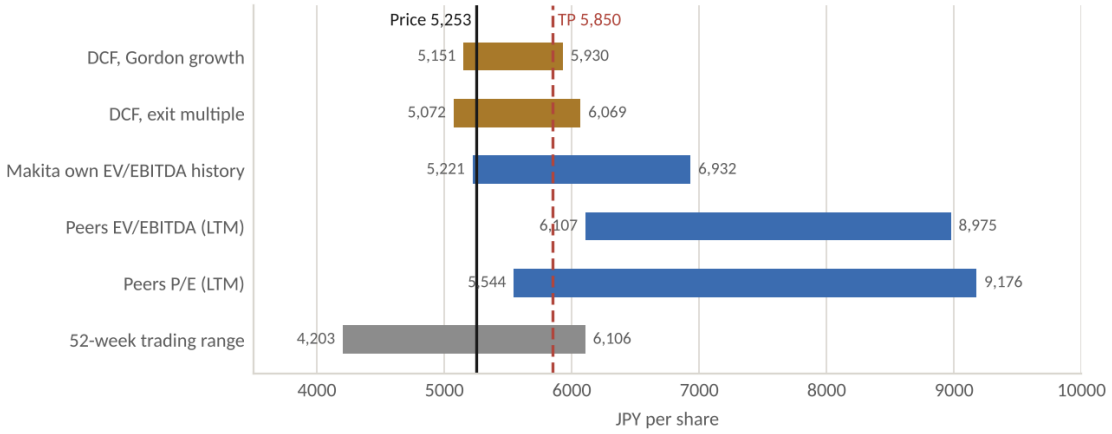
Value per share: growth uplift vs steady-state OP margin

Growth +/- \ OP margin	11.0%	12.5%	14.0%	15.5%	17.0%
-2pp	4,280	4,712	5,145	5,578	6,010
-1pp	4,421	4,873	5,325	5,777	6,229
+0pp	4,567	5,039	5,512	5,984	6,457
+1pp	4,718	5,212	5,706	6,199	6,693
+2pp	4,876	5,391	5,907	6,422	6,938

Peer (last FY, JPY bn)	Mkt cap	EV/Sales	EV/EBITDA	P/E	EBITDA mgn
Techtronic Industries (0669.HK)	4,807.5	2.00x	14.8x	25.4x	13.5%
Stanley Black & Decker (SWK)	2,425.2	1.39x	14.6x	38.2x	9.6%
Chervon (2285.HK)	340.4	1.26x	11.6x	22.1x	10.9%
Husqvarna (HUSQ-B.ST)	236.6	0.55x	4.4x	8.4x	12.6%
Max Co. (6454.T)	328.6	2.88x	13.0x	23.7x	22.1%
Yamabiko (6250.T)	178.0	1.02x	7.2x	12.3x	14.2%
Toro (TTC)	1,574.1	2.37x	18.4x	31.6x	12.9%
Peer median		**1.39x**	**13.0x**	**23.7x**	**12.9%**
Makita (LTM Jun 2026)	**1,353.5**	**1.38x**	**7.8x**	**16.3x**	**17.6%**

Peers: last reported fiscal year from yfinance, converted to JPY at 29 Oct 2026 FX; multiples recomputed (yfinance ratios mix currencies for HK listings). SWK and Toro verified against SEC 10-K data. SWK P/E is inflated by restructuring charges; Husqvarna's low multiples reflect depressed earnings.

Valuation range: DCF sits below peer multiples, inside Makita's own history



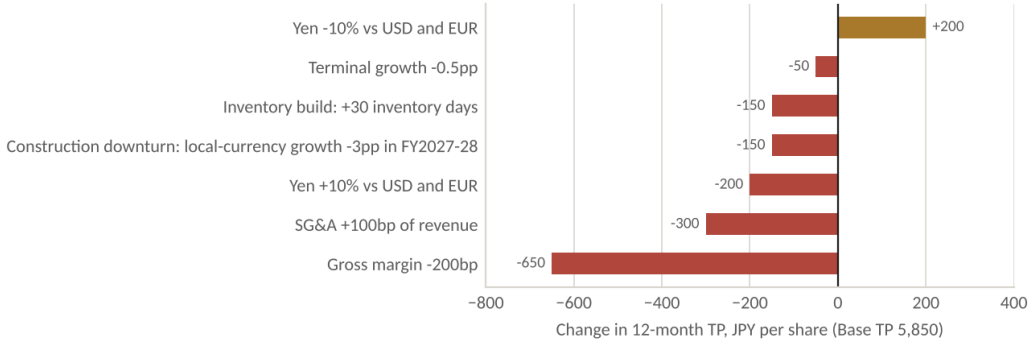
Source: Makita filings, yfinance, MoF, Damodaran; student model (model/Makita_6586_model.xlsx).

6. Risks, catalysts and what would make us wrong

Risk (one shock, rest Base)	FY28E EPS	TP (JPY)	Rating
Yen +10% vs USD and EUR	-6.9%	5,650 (-200)	HOLD
Yen -10% vs USD and EUR	7.6%	6,050 (+200)	BUY
Gross margin -200bp (all years)	-14.5%	5,200 (-650)	HOLD
Construction downturn: local-currency growth -3pp in FY2027-28	-5.4%	5,700 (-150)	HOLD
SG&A +100bp of revenue (all years)	-7.2%	5,550 (-300)	HOLD
Inventory build: +30 inventory days (all years)	-0.7%	5,700 (-150)	HOLD
US tariff: 25% on China-made goods sold in North America, 50% passed on (estimate outside the model)	-3.1%	n/a	n/a

Each shock re-runs the full Excel model (src/risks.py). FX is modelled as translation with constant margins; yen-denominated fixed costs would make the true FX effect larger.

Margins matter more than the yen



Source: Makita filings, yfinance, MoF, Damodaran; student model (model/Makita_6586_model.xlsx).

Catalysts. Dates follow last year's pattern (2Q FY2026 results on 31 Oct 2025; FY results on 28 Apr 2026).

When (approx.)	Catalyst	What to watch
Late Oct / early Nov 2026	2Q FY3/2027 results	Europe LC growth; gross margin ex tariff refund; inventory days; guidance
Dec 2026	JPY 79 interim dividend paid	Step-up under the 50% payout policy
Early Feb 2027	3Q FY3/2027 results	Inventory into the spring season
Through 2026-27	BoJ policy meetings	Yen path, the largest macro risk
Late Apr 2027	FY3/2027 results, FY3/2028 guidance	Progress to 15% OP margin; buybacks
Jun 2027	AGM, Makita Report 2027	40Vmax mix, OPE and Vision FY2030 progress

What would make us wrong. BUY needs a TP above JPY 6,041; SELL one below JPY 4,728. We would turn positive if operating margin moves toward the 15% target without sacrificing growth (a steady 15.5% margin is worth about JPY 5,980 today, a TP near JPY 6,350), if the yen weakens another 10% (TP JPY 6,050), or if Makita announces large buybacks that lift ROE toward 11%. We would turn negative on a second inventory cycle: inventory days above 300 or European local-currency sales falling more than 3%, which is our Bear case (TP JPY 4,400).

Appendix: model summary (Base case, JPY bn)

	FY24A	FY25A	FY26A	FY27E	FY28E	FY29E	FY30E	FY31E
Revenue	741.4	753.1	777.6	808.3	824.0	849.3	875.4	900.5
growth	-3.0%	1.6%	3.2%	3.9%	1.9%	3.1%	3.1%	2.9%
Gross profit	223.9	271.4	284.0	299.1	300.8	310.0	319.5	328.7
Operating profit	66.2	107.0	104.7	110.7	111.2	116.4	121.7	126.1
margin	8.9%	14.2%	13.5%	13.7%	13.5%	13.7%	13.9%	14.0%
EBITDA (IFRS 16)	95.1	136.8	135.2	142.1	143.0	148.5	154.0	158.8
Net income (parent)	43.7	79.3	79.4	83.7	84.5	88.7	93.1	96.9
EPS (JPY)	162	295	300	325	328	344	361	376
DPS (JPY)	57	110	150	162	164	172	181	188
Cash from operations	237.1	129.9	102.3	106.8	116.1	117.7	119.5	122.7
Capex	-17.9	-17.6	-21.5	-29.1	-28.0	-27.2	-28.0	-28.8
Free cash flow	215.0	106.7	75.7	72.2	82.5	84.7	85.5	87.8
Inventories	345.5	338.1	375.8	383.7	384.2	387.1	392.9	399.5
Net working capital	358.9	341.4	385.4	393.7	393.9	397.2	403.3	410.2
Net cash	172.1	260.5	268.7	299.1	339.3	379.7	418.6	458.0
Parent equity	868.2	926.0	997.3	1,039.2	1,081.4	1,125.8	1,172.4	1,220.8
ROE	5.3%	8.8%	8.3%	8.2%	8.0%	8.0%	8.1%	8.1%

Unlevered FCF (JPY bn)	**FY27E**	**FY28E**	**FY29E**	**FY30E**	**FY31E**
NOPAT	80.8	81.2	84.9	88.8	92.0
+ Depreciation ex ROU	25.9	26.2	26.3	26.4	26.6
- Capex	-29.1	-28.0	-27.2	-28.0	-28.8
- Increase in NWC	-8.3	-0.2	-3.2	-6.1	-6.9
UFCF	**69.3**	**79.1**	**80.9**	**81.1**	**82.9**
Fraction of year included	0.751	1.000	1.000	1.000	1.000
Discount factor	0.996	0.925	0.850	0.781	0.717
Present value	**51.8**	**73.2**	**68.7**	**63.3**	**59.5**

The Excel model (model/Makita_6586_model.xlsx) has live formulas across Assumptions, Drivers, IS, BS, CF, DCF, Comps, Sensitivity, Football and Checks; all checks pass in all three scenarios (balance sheet balances, cash ties, DCF inputs tie to the statements, terminal-value methods consistent). Data pipeline, sources and retrieval dates: see the GitHub repository README and SOURCES.md.

Disclosures

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