

Maezawa Kyuso Industries Co., Ltd.

6485

Tokyo Stock Exchange Prime Market

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■ Index

■ Summary	01
1. Outline of results for FY3/23	01
2. FY3/24 forecasts	01
3. Medium-term management plan	01
■ Company profile	02
1. Company profile	02
2. History	03
■ Business overview	05
1. Business overview	05
2. Company's strengths	06
■ Results trends	07
1. Outline of results for FY3/23	07
2. Financial condition and business indicators	09
■ Outlook	10
■ Medium- to long-term growth strategy	11
1. Medium-term management plan	11
2. Trends by business	12
3. Realizing sustainable management	13
■ Shareholder return policy	14

Summary

Aiming for sustainable growth by increasing stable earnings in the water supply equipment business and by expanding into adjacent business areas

Maezawa Kyuso Industries Co., Ltd. <6485> (hereinafter, “the Company”) is a comprehensive manufacturer of water supply equipment headquartered in Tokyo’s Meguro Ward that engages in the design, manufacture, and sale of products including corporation stops with saddles, stop valves, and pipe fittings. Its mission and raison d’être as a company is to contribute to the realization of a prosperous society by providing clean, safe, and good-tasting water and comfortable living spaces. The Company has grown as a leading manufacturer of water supply equipment that brings valuable water to people’s lives and in recent years, it has expanded its business to include the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems.

1. Outline of results for FY3/23

In the Company’s consolidated results for FY3/23, net sales increased by 7.7% YoY to ¥31,008mn, operating profit increased by 2.1% to ¥2,184mn, ordinary profit declined 0.9% to ¥2,267mn, and profit attributable to owners of parent declined 4.4% to ¥1,433mn. New housing starts marked time, but both the water supply equipment and housing and construction equipment segments grew steadily, and net sales set a record high for the second consecutive fiscal year. On the profit front, operating profit was affected by increases in material prices and energy costs and other factors, but these were offset by higher sales and price increases in certain areas. Operating profit declined due to recording foreign exchange losses of ¥84mn (compared to foreign exchange gain of ¥5mn in FY3/22).

2. FY3/24 forecasts

For FY3/24 consolidated financial results, the Company is forecasting net sales of ¥31,500mn, up 1.6% YoY, operating profit of ¥2,250mn, up 3.0%, ordinary profit of ¥2,350mn, up 3.6%, and profit attributable to owners of parent of ¥1,580mn, up 10.2%. With new housing starts stagnating and economic trends uncertain, there are concerns that the situation will continue to be unstable going forward. Amid these conditions, in order to stop profit from declining due to rising costs, since FY3/23 the Company has been working to reduce costs by renegotiating sales prices and increasing operational efficiency, and starting with shipments made on August 1, 2023 it plans to increase the price of water supply equipment products by at least 12% in order to secure higher revenues and higher profits for the year.

3. Medium-term management plan

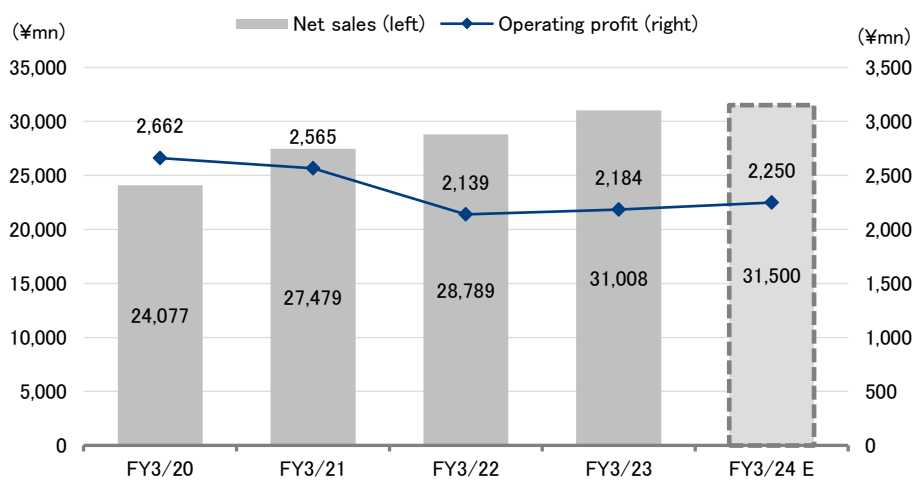
After transferring its listing to the Prime Market of the Tokyo Stock Exchange (TSE), in May 2022 it formulated Medium-term Management Plan 2024, which has FY3/25 as its final year. The Company is aiming for a higher level of earnings by further developing its water supply equipment and housing and construction equipment segments and expanding its range of high-function products. Further, in housing and construction equipment business, the Company has stated it will expand its business domain, promote greater efficiency within the Group, and create new businesses in fields adjacent to its two segments. Under the plan, for FY3/25, the Company is targeting net sales of ¥30.5bn and operating profit of ¥2.6bn.

Summary

Key Points

- A leading comprehensive manufacturer of water supply equipment that is expanding its business by supporting the stable supply of water, an invaluable resource for daily life
- In FY3/23, net sales increased 7.7% and operating profit rose 2.1%; net sales set a new record high and operating profit grew despite higher costs
- In its medium-term management plan, the Company aims to achieve net sales of ¥30.5bn and operating profit of ¥2.6bn in FY3/25

Results trends



Source: Prepared by FISCO from the Company's financial results

Company profile

A leading comprehensive manufacturer of water supply equipment that is expanding its business by supporting the stable supply of water, an invaluable resource for daily life

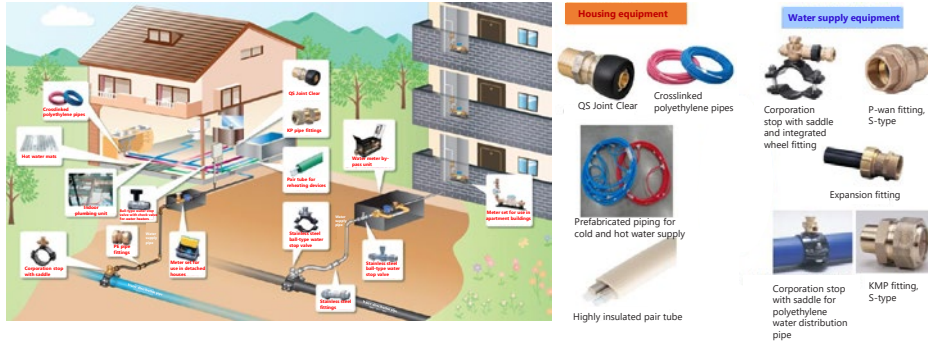
1. Company profile

The Company is a comprehensive manufacturer of water supply equipment headquartered in Tokyo's Meguro Ward that engages in the design, manufacture, and sale of products including corporation stops with saddles, stop valves, and pipe fittings. Based on its guiding principle of Quality, Safety & Originality (QSO), defined as "quality is personality, safety is cooperation, and originality is reform," and under its mission of providing clean, safe, and good-tasting water and comfortable living spaces, the Company has grown as a leading manufacturer of water supply equipment that brings valuable water to people's lives. In recent years, it has expanded its water-related business to include the manufacture and sale of indoor cold and hot water supply plumbing components and components for floor heating systems, helped to provide comfortable living spaces by commencing sales of air conditioning products, and is working to develop new products that meet customers' needs. In FY3/23, it achieved net sales of ¥31,008mn, which set a new record high for the second consecutive fiscal year.

We encourage readers to review our complete legal statement on "Disclaimer" page.

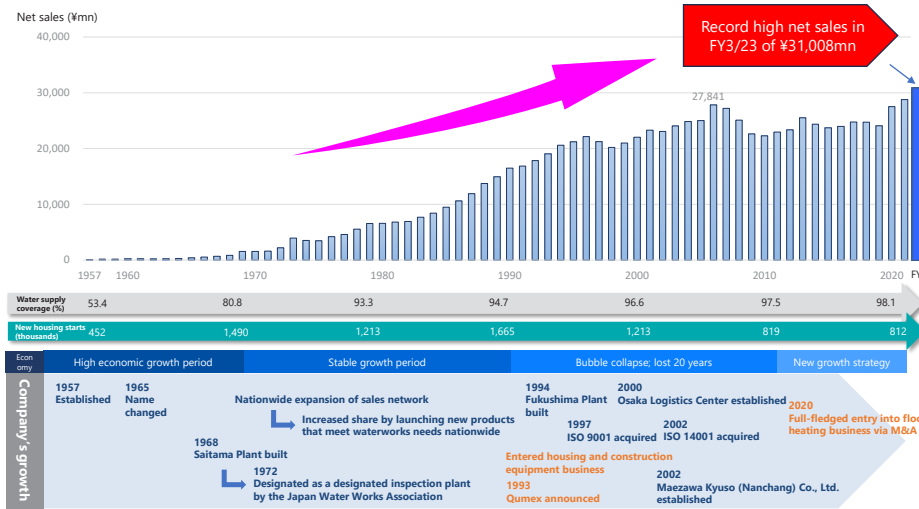
Company profile

Example Applications of the Company's Products



Source: The Company's financial statement briefing materials and shareholder communications

History of growth



Source: The Company's financial statement briefing materials

2. History

Showa Seisakusyo Corporation (the Company's predecessor) was founded in Chuo Ward, Tokyo in 1937 by Keiji Maezawa and sold various machinery and fittings for water supply and sewage equipment. After World War II, it was reorganized and incorporated as Maezawa Valve Industries, Inc. (currently Maezawa Industries, Inc. <6489>). Subdividing the company's business in order to address growing demand for waterworks infrastructure, the Company and Maezawa Kasei Industries Co., Ltd. <7925> were subsequently split off, and the Company, which mainly handled water supply equipment for water and sewage terminals, was established as an independent company, Tokyo Suido Industries Co., Ltd., in 1957. Its name was subsequently changed to Maezawa Kyuso Industries Co., Ltd. in 1965. The field of plastic waterworks products (PVC products) for sewage and wastewater was handled by Koshitsu PVC Industries Co., Ltd. , which was established in 1954 as an independent company and is today's Maezawa Kasei Industries.

Company profile

Following this, the Company expanded nationwide by actively engaging in building plants and opening logistics centers and other functions. In 1991, it registered with the Japan Securities Dealers Association as an over-the-counter stock and then listed on the TSE Second Section in 1998, before moving to the First Section in 2005. In April 2022, it transferred to the TSE Prime Market following the restructuring of the exchange. In the housing and construction equipment segment, which the Company positions as a growth driver, the Company acquired the floor heating business of Sumisho Metalex Corporation in March 2020 (Maezawa Living Solutions Co., Ltd.), which was subsequently merged with the Company in April 2023 to strengthen the earnings base by increasing efficiency within the Group.

History

Date	Outline
1937	Founded as Showa Seisakusyo Corporation
January 1957	Tokyo Suido Industries Co., Ltd. established in Meguro Ward, Tokyo
October 1965	Name changed to Maezawa Kyuso Industries Co., Ltd.
October 1968	Saitama Plant established in Satte (now Satte City), Kita-Katsushika District, Saitama Prefecture
April 1972	Saitama Plant designated as a designated inspection plant by the Japan Water Works Association
October 1991	Registered as an over-the-counter stock with the Japan Securities Dealers Association
March 1994	Fukushima Plant established in Shirasawa (now Motomiya City), Adachi District, Fukushima Prefecture
March 1996	An extension is added to the Fukushima Plant and manufacture of crosslinked polyethylene pipes begins
March 1997	Toshin Shoji Co., Ltd. (now QSO INDUSTRIAL INC.) acquired and made into a consolidated subsidiary
November 1997	Fukushima Plant acquires ISO 9001 international quality assurance standard
February 1998	Listed on the TSE Second Section
July 1999	Fukushima Plant acquires JIS quality assurance certification
June 2000	Osaka Logistics Centre established in Osaka City, Osaka Prefecture, and Osaka Branch moved
July 2001	Kyushu Logistics Centre established
January 2002	ISO 14001 international environmental management standard acquired (Head Office, Tokyo Sales Office, Saitama Plant, and Fukushima Plant) Maezawa Kyuso (Nanchang) Co., Ltd. established (now a consolidated subsidiary)
March 2004	Saitama Plant integrated into Fukushima Plant
September 2005	Listing moved to the TSE First Section
September 2015	Head Office moved to Meguro Ward, Tokyo
March 2020	Maezawa Living Solutions Co., Ltd. made into a subsidiary
February 2021	Established a voluntary Remuneration Committee as an advisory body to the Board of Directors
December 2021	Established a Nominating Committee
April 2022	Transferred to the TSE Prime Market following the restructuring of the exchange
April 2023	Merged Maezawa Living Solutions Co., Ltd.

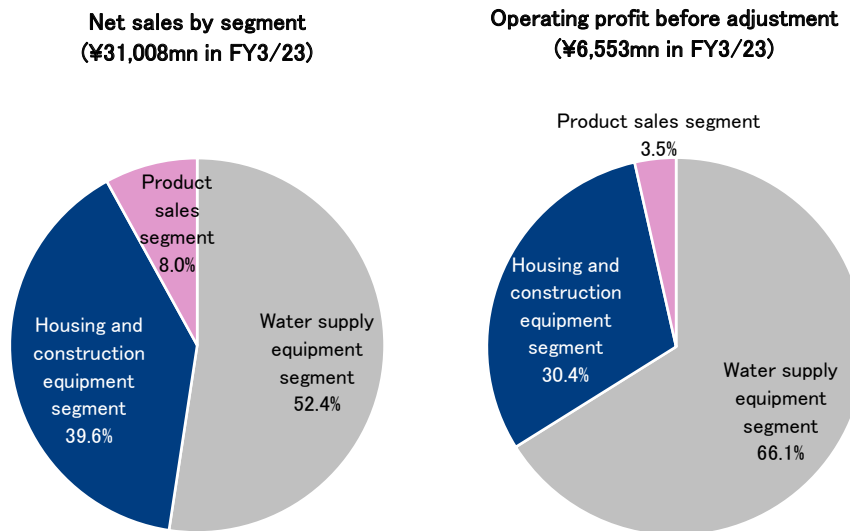
Source: Prepared by FISCO from the Company's securities report and press releases.

Business overview

Providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. Strengths in an ability to meet customers, needs and brand power built on relationships of trust with customers

1. Business overview

The Company is a leading manufacturer of water supply equipment, providing products that form a lifeline for people, from water supply equipment to indoor cold and hot water supply plumbing components and floor heating and air conditioning components. In terms of business segments, it comprises a water supply equipment segment (manufacture and sale of water supply equipment), a housing and construction equipment segment (manufacture and sale of housing equipment), and a product sales segment. In FY3/23, the water supply equipment segment had a 52.4% share of net sales and a 66.1% share of operating profit before adjustment, the housing and construction equipment segment had shares of 39.6% and 30.4%, and the product sales segment had shares of 8.0% and 3.5%, so water supply equipment accounted for a majority.



Source: Prepared by FISCO from the Company's financial results

Business overview

(1) Water supply equipment segment

The Company manufactures and sells corporation stops with saddles, stop valves, and various pipe fittings, which are water supply equipment for waterworks that bring water from water distribution pipe laid in roads into houses. Regarding the market environment, the market has matured as water and sewage infrastructure development has run its course, and sales of products for new houses have been decreasing as the population has declined in recent years. However, there has been stable demand for upgrade products due to the aging of water distribution pipe (water mains) laid during the period of high economic growth and for products with high earthquake-resistance for disaster preparedness. The Company's market share since FY3/21 (including some sales included in the product sales segment) is high at around 40%. The Company's competitors are Tabuchi Corp. of Osaka prefecture and Nippo Valve Co., Ltd. of Nagano prefecture, and together the three companies have a market share of 85%. Copper is the main material used in water supply equipment, but some municipalities use stainless steel products, whose makers include Kitz Corporation <6498>.

(2) Housing and construction equipment segment

Drawing on the sales base and manufacturing technologies of the water supply equipment segment, the Company has moved into the indoor plumbing field. In this segment, it manufactures and sells indoor cold and hot water supply plumbing components and hot and cold water supply plumbing systems that consolidate these components. In addition, the floor heating business was added in March 2020, and sales increased sharply. Currently, around 40% of the segment's sales come from hot water floor heating systems. Since FY3/21, the Company has been second in the industry behind Mitsubishi Chemical Infratec Co., Ltd., and it has also started selling products for air conditioning equipment as it work to expand into the market for non-residential properties. Most recently, it expects business expansion going forward from such products as O2 cut pipe for large buildings, a product for air conditioning equipment.

(3) Product sales segment

The Company also sells purchased goods related to the above two business segments. Some of the goods it handles are from Group companies, including Maezawa Kasei Industries and Maezawa Industries, but the amounts are not large. Profitability in this segment is not at all high. It plays a supportive role for the other two businesses.

2. Company's strengths

The Company's strengths are 1) a wealth of exclusive expertise related to manufacturing, 2) a proprietary production management system, 3) brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan, and 4) an ability to meet the needs of customers through a combination of production and sales.

(1) A wealth of exclusive expertise related to manufacturing

At its production sites, the Company uses an integrated in-house production system that covers from casting and processing to assembly, inspection, shipping and the molds used on production lines and conducts quality management on this basis. It has derived a wealth of exclusive expertise related to manufacturing from the experience and data accumulated through each of these processes over many years, and this enhances the competitiveness of the products it develops.

(2) A proprietary production management system

Although the performance required of water supply equipment can differ due to factors such as usage environment and usage conditions, the Company's products are used by water supply businesses throughout Japan, amounting to many thousands of units. In addition, under a flexible plant operation system that allows for low-volume production of a large variety of products, it is able to stably supply products based on demand forecasts.

Business overview

(3) Brand power built on relationships of trust with water supply businesses, pipe material suppliers, and waterworks contractors across Japan

To date, the Company has developed water supply equipment that pursues safety, convenience, and workability and it has consistently provided a stable supply of required products, winning it a long-held reputation for reliability among stakeholders in the water supply industry. This brand power built on strong relationships of trust has become an important foundation of the Company's business.

(4) An ability to meet the needs of customers through a combination of production and sales

The Company has established 27 business locations across Japan providing a network that enables it to accurately identify the needs of customers and respond promptly, from product development through to manufacture and supply. In the water supply equipment segment, it has acquired the top market share in multiple regions.

Results trends

In FY3/23, net sales increased 7.7% and operating profit rose 2.1%. Sales increased on solid housing demand while operating profit stagnated due to higher costs

1. Outline of results for FY3/23

In the Company's consolidated results for FY3/23, net sales increased by 7.7% YoY to ¥31,008mn, operating profit increased by 2.1% to ¥2,184mn, ordinary profit declined 0.9% to ¥2,267mn, and profit attributable to owners of parent declined 4.4% to ¥1,433mn. With new housing starts marking time, the water supply equipment and housing and construction equipment segments grew steadily, and net sales set a record high for the second consecutive fiscal year.

Operating profit stagnated under the impact of surging material prices, though revising sales prices for some products had an effect. Incidentally, the quoted price of copper, which is a key material of the Company, peaked at ¥1,336,000 per ton in April 2022 and fell to ¥1,178,000 per ton in October, though it remains at a high level. The domestic naphtha price had also been falling, but it is holding steady at the same level as the end of the previous fiscal year.

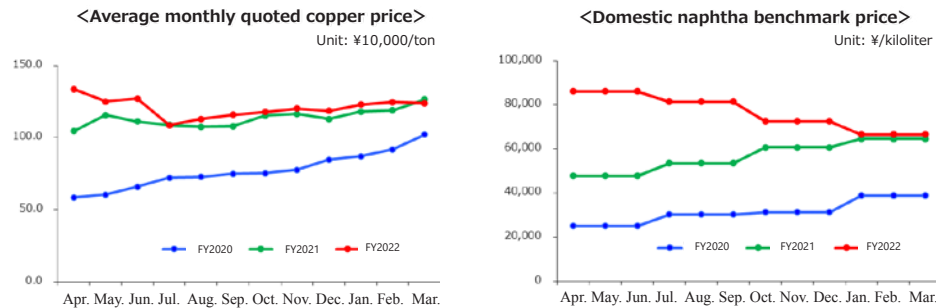
Consolidated results for FY3/23

	FY3/22		FY3/23		Change %
	Results	% of total	Results	% of total	
Net sales	28,789	100.0%	31,008	100.0%	7.7%
Gross profit	8,223	28.6%	8,605	27.8%	4.6%
SG&A expenses	6,083	21.1%	6,421	20.7%	5.6%
Operating profit	2,139	7.4%	2,184	7.0%	2.1%
Ordinary profit	2,287	7.9%	2,267	7.3%	-0.9%
Profit attributable to owners of parent	1,498	5.2%	1,433	4.6%	-4.4%

Source: Prepared by FISCO from the Company's financial results

Results trends

Trends in key materials



Source: The Company's financial statement briefing materials

(1) Water supply equipment segment

Net sales for the segment rose 5.2% YoY to ¥16,250mn while segment operating profit edged up 1.7% to ¥4,331mn. The increase in net sales was the result of the Company continuing to make shipments for water distribution pipe replacement work, supported in part by firm demand for such work and by housing demand. It also promoted sales activities that proposed products with exceptional earthquake-resistance and workability and made moderate price revisions. By region, sales increased in every region except Hokkaido. With regard to profit, while there were sharp increases in copper prices, the Company worked to make production activities more efficient, which led to the profit gain.

(2) Housing and construction equipment segment

Net sales for the segment rose 12.8% YoY to ¥12,273mn, and segment operating profit increased 9.0% to ¥1,990mn, so results were solid. With housing starts nearly flat, the Company successfully increased revenue by strengthening existing businesses and also by bolstering sales in the air conditioning-related business. By region, there was major growth in the key Kanto region. On the profit front, there was improvement in the profit margin as well from adjusting sales of low-profit products and other items.

(3) Product sales segment

Net sales for the segment rose 1.3% YoY to ¥2,484mn and segment operating profit declined 4.0% to ¥231mn. Sales of resin products increased, but operating profit declined because of sharp increases in purchase prices.

FY3/23 results by segment

	FY3/22		FY3/23		YoY	
	Results	% of total	Results	% of total	Change	Change %
Net sales	28,789	100.0%	31,008	100.0%	2,219	7.7%
Water supply equipment segment	15,453	53.7%	16,250	52.4%	796	5.2%
Housing and construction equipment segment	10,882	37.8%	12,273	39.6%	1,390	12.8%
Product sales segment	2,452	8.5%	2,484	8.0%	31	1.3%
Operating profit	2,139	7.4%	2,184	7.0%	44	2.1%
Water supply equipment segment	4,258	27.6%	4,331	26.7%	73	1.7%
Housing and construction equipment segment	1,825	16.8%	1,990	16.2%	164	9.0%
Product sales segment	241	9.8%	231	9.3%	-9	-4.0%
Adjustment	-4,185	-	-4,369	-	-184	-

Source: Prepared by FISCO from the Company's financial results

Results trends

2. Financial condition and business indicators

Total assets as of the end of FY3/23 were ¥44,643mn, a decrease of ¥976mn from the end of FY3/22. Within this, current assets decreased ¥1,130mn to ¥30,675mn. The main factors behind this were a decrease of ¥3,065mn in cash and deposits due to revision of supply chain measures and an increase of ¥1,053mn in merchandise and finished goods. The equity ratio was 85.6% (82.5% at the end of FY3/22), so a high level continues to be maintained. The current ratio was 547.6% (446.7%), also remaining at a high level.

Looking at cash flow at the end of FY3/23, cash from operating activities was an outflow of ¥1,272mn. This was primarily attributable to a decrease of ¥1,136mn from an increase in trade receivables and a decrease in trade payables and to a decrease of ¥1,307mn in inventories, although the Company recorded ¥2,154mn in profit before income taxes. Cash flow from investing activities was an outflow of ¥731mn, an increase from the end of FY3/22 that was due to increased spending from greater capital investment and other factors. As a result, free cash flow turned from positive to negative, decreasing ¥2,003mn, but total cash and cash equivalents at the end of FY3/23 was ¥10,498mn, so an ample amount was maintained.

Consolidated balance sheet and business indicators

	(¥mn)		
	End of FY3/22	End of FY3/23	Change
Current assets	31,806	30,675	-1,130
Cash and deposits	14,301	11,236	-3,065
Non-current assets	13,813	13,967	154
Total Assets	45,619	44,643	-976
Current liabilities	7,121	5,602	-1,519
Non-current liabilities	867	816	-51
Total liabilities	7,989	6,418	-1,570
Total net assets	37,630	38,225	594
<Financial security>			
Current ratio	446.7%	547.6%	100.9pt
Equity ratio	82.5%	85.6%	3.1pt

Source: Prepared by FISCO from the Company's financial results

Consolidated cash flow statement

	(¥mn)	
	FY3/22	FY3/23
Cash flow from operating activities	1,061	-1,272
Cash flow from investing activities	-207	-731
Cash flow from financing activities	-708	-982
Cash and cash equivalents at the end of the period	13,546	10,498
Free cash flow	853	-2,003
	FY3/22	FY3/23
Capital investment	572	1,124
Depreciation	618	631
R&D expenses	272	280

Source: Prepared by FISCO from the Company's financial results and Fact Book

■ Outlook

For FY3/24, net sales expected to increase 1.6% from price revisions on the assumption of flat volume and operating profit to rise 3.0%. Net sales forecast to set new record high for the third consecutive year

For the FY3/24 consolidated results, the Company is forecasting net sales to increase 1.6% YoY to ¥31,500mn, operating profit to increase 3.0% to ¥2,250mn, ordinary profit to increase 3.6% to ¥2,350mn, and profit attributable to owners of parent to increase 10.2% to ¥1,580mn.

Monthly new housing starts were negative YoY from February 2023 onward, reversing a trend, and a double-digit decline was recorded in April. Given the uncertainty in economic trends, there are concerns that the situation will continue to be unstable going forward. Amid these conditions, in order to stop profit from declining due to rising costs, since FY3/23 the Company has been working to reduce costs by renegotiating sales prices and increasing operational efficiency, and starting with shipments made on August 1, 2023 it plans to increase the price of water supply equipment products by at least 12%. Volume growth is not expected in FY3/24, but the Company intends to secure higher revenues and higher profits by revising prices in the water supply equipment segment and is projecting record-high net sales for the third consecutive year.

Consolidate outlook for FY3/24

	(¥mn)					
	FY3/23		FY3/24		YoY	
	Results	% of net sales	Forecast	% of net sales	Amount	Percentage
Net sales	31,008	100.0%	31,500	100.0%	492	1.6%
Water supply equipment segment	16,250	52.4%	16,690	53.0%	440	2.7%
Housing and construction equipment segment	12,273	39.6%	12,320	39.1%	46	0.4%
Product sales segment	2,484	8.0%	2,490	7.9%	6	0.2%
Operating profit	2,184	7.0%	2,250	7.1%	66	3.0%
Ordinary profit	2,267	7.3%	2,350	7.5%	83	3.6%
Profit attributable to owners of parent	1,433	4.6%	1,580	5.0%	147	10.2%

Source: Prepared by FISCO from the Company's financial results

Medium- to long-term growth strategy

Formulated Medium-term Management Plan 2024 to achieve sustainable growth. Targeting net sales of ¥30.5bn and operating profit of ¥2.6bn in FY3/25

1. Medium-term management plan

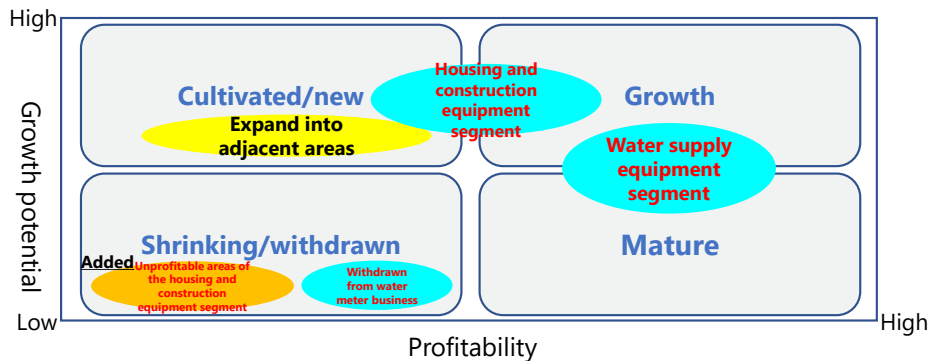
After transferring its listing to the TSE Prime Market, in May 2022 the Company formulated Medium-term Management Plan 2024, which has FY3/25 as its final year. The three basic policies of the plan are 1) advance business portfolio management, 2) realize sustainable management, and 3) strengthen efforts to ensure shareholders benefit from profits. As for numerical targets, in FY3/25 it aims to achieve net sales of ¥30,500mn, operating profit of ¥2,600mn, an operating margin of 8.5%, and ROE of at least 5%. Its plan for achieving its net sales target is to reflect rising materials prices in sales prices while also expanding in growth areas. In order to achieve its target for operating profit, it will respond to rising materials costs by reflecting them in sales prices while also making operations more efficient. The Company intends to strengthen its business portfolio through its water supply equipment segment, where demand is stable, and housing and construction equipment segment, an area it has entered utilizing water supply equipment technology, and by expanding its business domain through M&A.

Numerical targets of Medium-term Management Plan 2024

	FY3/23		FY3/24		FY3/25
	Initial forecast	Results	Initial forecast	Forecast	Forecast
Net sales	29,300	31,008	30,000	31,500	30,500
Operating profit	1,800	2,184	2,200	2,250	2,600
Operating margin	6.1%	7.0%	7.3%	7.1%	8.5%
ROE		3.8%			At least 5%

Source: Prepared by FISCO from the Company's financial results and medium-term management plan materials

Business portfolio management



Source: The Company's financial statement briefing materials

Medium- to long-term growth strategy

2. Trends by segment

a) Water supply equipment segment, the Company's core business

The water supply equipment segment is a core business of the Company that has a large share of the market. The Company plans to utilize its strengths to further differentiate itself and pursue a competitive advantage in order to increase earnings in a stable manner. Specifically, it will steadily capture demand associated with replacement of aging pipelines and meet needs for earthquake-resistant products for disaster preparedness as it seeks to stably grow the segment centering on water distribution pipe.

According to "Recent trends in waterworks administration" (March 23, 2023) put out by the Water Supply Division of the Pharmaceutical Safety and Environmental Health Bureau at the Ministry of Health, Labour and Welfare, spending nationwide on upgrading and repairing waterworks equipment is estimated to be around ¥1,300.0bn on average over the past ten years. Compared to this, spending in the future on simple upgrades alone, primarily to replace aging equipment, is estimated at ¥1,800.0bn on average. Moreover, of this, pipelines account for over 70% of the market, so the Company believes the market will continue to see stable demand. With regard to trends in maintenance costs for waterworks facilities, according to the same document, spending is estimated at ¥74.2bn in fiscal 2023, of which, financial support for facilities maintenance projects that contribute to earthquake-proofing waterworks facilities and consolidating small, local water supply authorities into a regional entity is put at ¥54.7bn, accounting for over 70%. A large amount of funds have been committed to address aging pipelines and earthquake-proofing continues to make progress, but, in actuality, upgrading has tended to lag behind.





Water pipelines have a statutory useful life of 40 years, and while upgrading is being conducted on facilities originally built during Japan's period of high economic growth, investment in upgrading is insufficient, the percentage of aging pipelines is increasing, and the percentage of pipelines that are upgraded is decreasing year by year. As of fiscal 2021, 41.2% of trunk pipeline has been earthquake-proofed, which is not necessarily a high percentage. Moreover, whereas 48.0% of transmission mains, conveyance pipe and water distribution mains, which are types of trunk pipeline, are earthquake-compliant as of the end of fiscal 2020, only 28.3% of water distribution pipe, which the Company primarily handles, is compliant, so upgrading is lagging far behind. Considering the recent spate of water lines rupturing and frequent occurrence of sudden heavy rainfall caused by climate change, there is likely to be increasing demand for higher earthquake-proof compliance rate.

In response to this situation, the Company is conducting precise product development and steadily increasing sales associated with investment in aging pipelines. This specifically includes pipe fittings that bolster earthquake-resistance and pipe fittings that can handle ground movements. Also, because water supply amounts are decreasing as the population declines, pipelines are being downsized when they are replaced due to aging. In response to this, the Company is increasingly launching products that accommodate downsizing.

In Kanto, the region with the largest share of the Company's sales, the Tokyo Metropolitan Government began using stainless steel pipe, which has excellent anti-corrosion properties and earthquake-resistance, for water supply branch pipe, and by the end of fiscal 2002 it had almost entirely completed replacing the lead water supply pipe in public roads with stainless steel pipe. However, when stainless steel pipe connects to bronze materials for water supply equipment, corrosion occurs in the bronze materials due to different metals coming into contact. The government is therefore planning to use stainless steel for all water supply equipment materials used in roads as a way of permanently preventing corrosion. The Company has a full lineup of stainless steel compatible products, from water distribution pipe branches to first stop valves and connectors for meter stop valves, and expects orders to increase in the Tokyo area.

Medium- to long-term growth strategy

Examples of downsizing-compatible products in the water supply equipment segment

Examples of downsizing-compatible products	
<p>Corporation stop with saddle 40 x 20 for PE3-type, 2-layer pipe</p> 	<p>Corporation stop with saddle 50 x 30 for PE1-type, 2-layer pipe</p> 
<p>Corporation stop with saddle 50 x 40 for ductile iron pipe</p> 	<p>Corporation stop with saddle 50 x 50 for ductile iron pipe</p> 

Source: The Company's financial statement briefing materials

b) Housing and construction equipment segment works to expand adjacent business fields as a growth driver

The Company plans to expand adjacent business fields with this segment as a growth driver and has launched products for air conditioning equipment and other applications. Air conditioning is an area where the Company is able to utilize its existing technologies. When air conditioning setups for large facilities use a system that circulates cold and hot water, for example, they use the same resin valves and other components as water supply systems. Air conditioning appears to have accounted for sales of around ¥100mn in FY3/23, and the Company expects further expansion as its products are used as air conditioning components for large facilities. The distribution pipe components the Company handles have a broad scope of application that is not limited to gas and air conditioning equipment, so FISCO believes the Company has options for further business expansion by seeking to diversify in related fields, and sales can be expected to steadily increase going forward even as new housing starts to stagnate.

3. Realizing sustainable management

The Company is actively engaging in CSR activities. This is addressed in its Medium-term Management Plan 2024 through a new sustainability policy which aims to realize sustainability under a vision of coexistence with society, harmony with the environment, respect for human resources, and responsible behavior.

Medium- to long-term growth strategy

To achieve coexistence with society, the Company is committed to the stable supply of its products, as a company that is responsible for an important lifeline, with the aim of realizing a comfortable society in which people can live safely and with peace of mind. Regarding harmony with the environment, the Company aims to reduce the environmental impact of its business by promoting reduction of CO₂ emissions and industrial waste and developing environmentally conscious products. Regarding respect for human resources, it plans to raise employee engagement (comprehension, empathy and willingness to act) by promoting health and productivity management (occupational health and safety) and realizing workplaces that provide satisfaction and a sense of security. It is also working to make operations more efficient through digitalization which will lead to work environments that facilitate a healthy work-life balance. The Company will practice responsible behavior by implementing initiatives to increase the effectiveness of the Board of Directors in accordance with the Corporate Governance Code and by making management more transparent, in order to establish a governance framework. It will also strive to ensure the continuing soundness of management through thorough compliance.

Important issues (materiality)

Materiality	Examples of initiatives	SDGs goals
1. Coexistence with society (Realize a safe, secure and comfortable society)	<ul style="list-style-type: none"> ● Create a foundation for sustainable living ● Stably supply safe and secure products 	
2. Harmony with the environment (Reduce environment impact through business activities)	<ul style="list-style-type: none"> ● Reduce CO₂ emissions ● Reduce waste ● Develop environmentally conscious products 	
3. Respect for human resources (Promote health and productivity management and realize a reassuring and rewarding workplace)	<ul style="list-style-type: none"> ● Health and productivity management (thoroughgoing occupational health and safety) ● Develop a rewarding workplace environment ● Develop diverse human resources 	
4. Responsible behavior (Establish a governance system that is trusted by stakeholders)	<ul style="list-style-type: none"> ● Strengthen governance ● Ensure rigorous compliance 	

Source: The Company's financial statement briefing materials

Shareholder return policy

In FY3/23, increased dividend by ¥3.0 to ¥33.0 and bought back shares

The Company's policy is to return profits to shareholders and contribute to diverse stakeholders through business growth and performance improvement. Under its Medium-term Management Plan 2024, it targets a consolidated dividend payout ratio of 50% and also flexibly buys back shares with consideration given to stability and continuity.

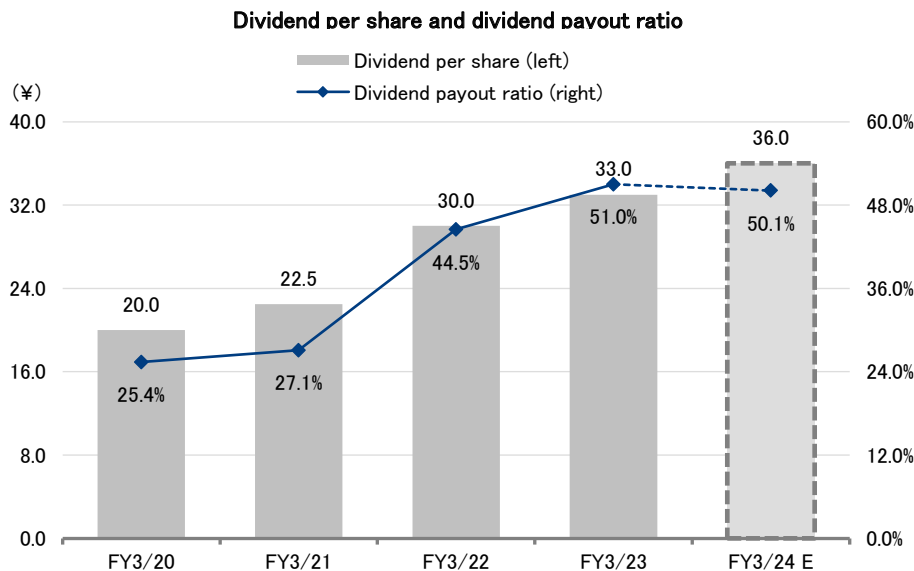
In FY3/23, the Company increased its per-share dividend by ¥3.0 YoY to pay an annual dividend of ¥33.0. Initially, it planned to continue the ¥30.0 dividend paid in FY3/22 and was initially forecasting a payout ratio of 50.4% against an EPS of ¥59.47, but in FY3/23 its EPS was ¥64.76, which is why, FISCO surmises, it increased the dividend to ¥33.0 for a payout ratio of 51.0%. For FY3/24, the Company is projecting a payout ratio of 50.1% against an EPS of ¥71.80 and further expecting to increase the dividend by ¥3.0 to ¥36.0.

We encourage readers to review our complete legal statement on "Disclaimer" page.

Shareholder return policy

With regard to buying back shares, it announced on September 22, 2022 it would be buying back up to 250,000 shares (¥200mn) between October 3, 2022 and January 31, 2023, and it acquired 214,200 shares (¥199mn) by January 13, 2023. Thereafter, on May 12, 2023, it announced that it plans to acquire up to 1,400,000 shares (6.36% of total shares outstanding, excluding treasury stock) between May 15, 2023 and March 22, 2024 for an acquisition value of up to ¥1,000mn. As of May 31, 2023, it had bought back 93,400 shares with an acquisition value of ¥109mn.

The Company provides a shareholder benefit scheme to increase the appeal of investing in the Company to shareholders. It partially changed the program in February 2023 and made enhancements to it. A QUO card worth ¥1,000 is given to all shareholders with at least 100 shares (one share unit) regardless of how long they have consecutively held the shares. Shareholders with between 200 and 1,999 shares are given a three-kilogram bag of newly harvested Koshihikari rice grown in Uonuma, Niigata Prefecture and shareholders with 2,000 or more shares are given a five-kilogram bag of the same product.



Note: Values have been retroactively adjusted to reflect a 1-to-2 stock split conducted on April 1, 2021.
 Source: Prepared by FISCO from the Company's financial results

Shareholder benefit scheme

Shares held	Length of continuous holding	Benefit	Delivery period
100+	N/A	¥1,000 QUO Card	Scheduled for June each year
200-1,999	At least one year	3 kg of new Koshihikari rice from Uonuma, Niigata Prefecture	Scheduled for November each year
2,000+	At least one year	5 kg of new Koshihikari rice from Uonuma, Niigata Prefecture	

Note: Length of continuous holding of at least one year refers to shareholders who have been entered into the shareholder register at least three consecutive times. These entries are made on the final days of March and September each year.
 Source: Prepared by FISCO from IR news and the Company's website.

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