COMPANY RESEARCH AND ANALYSIS REPORT

Ainavo Holdings Co., Ltd.

7539

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Index

Summary

Despite an increase in sales in FY9/23, operating income decreased due to an increase in prices for some materials

Ainavo Holdings Co., Ltd. <7539> (hereafter, also "the Company") is a pure holding company with seven consolidated subsidiaries and six non-consolidated subsidiaries. Its main businesses are exterior wall installations of tile, siding, and other exterior materials, installations of built-in kitchens, various water-related equipment and other home equipment, sales of building materials, and sales of home equipment. The Company is unique in its handling of both installation and wholesale of building materials and home equipment. While the Company primarily supplies these services to smaller general contractors and building firms, it also receives installation orders from major general contractors. Strict fund collection management and project progress management have enabled the Company to accumulate abundant net cash (cash and deposits - long-term and short-term loans payable) totaling ¥9,783mn (as of the end of FY9/23) and cultivate a robust balance sheet.

1. FY9/23 results

In consolidated results for FY9/24, the Company reported ¥86,085mn in net sales (up 8.8% YoY), ¥1,770mn in operating profit (down 6.8%), ¥2,068mn in recurring profit (down 4.6%), and ¥1,274mn in profit attributable to owners of parent (down 22.7%). The reason for the significant decrease in profit attributable to owners of parent is that the Company recorded an extraordinary gain of ¥328mn on negative goodwill in conjunction with a new consolidated subsidiary in the previous fiscal year. By segment, sales increased in the standalone homes business, mainly due to a recovery in demand for renovations, but profits decreased as an increase in the price of some materials was not passed through to sales prices. The large properties business saw increases in both sales and incomes, mainly due to the receipt of orders for highly profitable properties as well as a spring back from a downturn in the previous fiscal year. The gross profit ratio was 13.8% (14.2% in the previous fiscal year), down 0.4 of a percentage point (ppt) YoY, mainly reflecting the rise in prices of certain materials without an attendant increase in sales prices. On the other hand, operating profit decreased year on year as SG&A expenses increased 8.3% YoY, mainly due to increases in logistics costs and the payment amount of inflation allowance and bonuses, as well as provision of SG&A expenses corresponding to part of costs.

2. FY9/24 results outlook

For FY9/24, the Company forecasts net sales of ¥92,000mn (up 6.9% YoY), operating profit of ¥2,100mn (up 18.6%), recurring profit of ¥2,300mn (up 11.2%) and profit attributable to owners of parent of ¥1,450mn (up 13.8%). The outlook for the housing market remains uncertain, but the Company aims to grow sales and profits in its mainstay standalone homes business by building up a base of new customers and through other efforts. On the other hand, the large properties business is also expected to see increases in sales and profits from the previous fiscal year, given that its current orders are firm. Although the Company expects sales and profits to increase overall, due in part to a sense of uncertainty over the future of the housing market, the outlook is by no means certain. It will be necessary to monitor trends going forward.

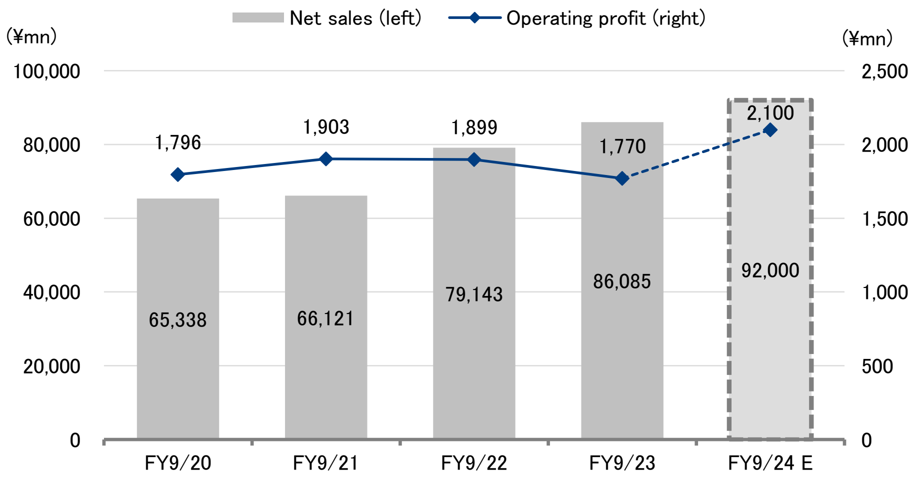
3. New medium-term management plan

The Company has announced its fourth medium-term management plan, ending in FY9/25. The main strategies under the plan are "transformation of the business model," "rebuilding of the profit structure," "promotion of DX," "securing and development of human resources," and "capital policy." In terms of quantitative targets, the Company is aiming for FY9/25 net sales of ¥97,000mn, an operating margin of 2.6% (ensuring operating profit of ¥2,500mn), and ROE of 8.0%. For shareholder returns, the Company is aiming for a dividend payout ratio of 30%, and for FY9/23 it is forecasting a dividend of ¥44.0 (forecast dividend payout ratio of 35.1%). However, depending on financial results, there is also the potential for a dividend increase.

Key Points

- Main businesses are exterior wall and home equipment installations and sales of building materials; possesses a sturdy financial base thanks to reinforced management
- Forecasting an increase in operating profit of 18.6% for FY9/24 despite an uncertain outlook for the housing market
- Medium-term management plan targets for FY9/25 are for an 18.6% YoY increase in operating profit

Results trends



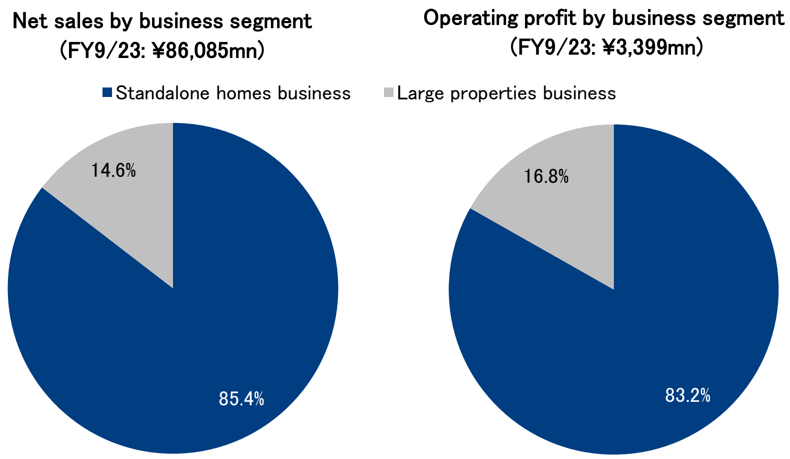
Source: Prepared by FISCO from the Company's financial results

Business overview

Mainly installs tile, siding, and other exterior wall materials and home equipment. Possesses a sturdy financial base thanks to reinforced management

1. Description of business

Ainavo Holdings, a pure holding company, has seven consolidated subsidiaries and six non-consolidated subsidiaries in its group as of the end of FY9/23. The Company's business segments are standalone homes business and large properties business, separated by the size of customers (in terms of order value). The actual content of their business activities is nearly the same. The former primarily covers installations for ordinary homes with orders received from smaller general contractors and ordinary building firms, while the latter mainly reflects orders from large general contractors and other major customers. Net sales by segment (FY9/23) were ¥73,545mn for the standalone homes business (85.4% of sales) and ¥12,540mn for the large properties business (14.6%). Operating profit was ¥2,830mn and ¥569mn, respectively, for the two segments.



Note: Segment operating profit prior to Companywide adjustments
Source: Prepared by FISCO from the Company's financial results

The standalone homes business breaks down further into the sub-segments of exterior wall installations, home equipment installations, building materials sales, and home equipment sales, and the large properties business consists of tile sales and installations and home equipment sales and installations. Sub-segment shares of overall sales (FY9/23) are 20.0% for exterior wall installations, 25.4% for home equipment installations, 18.8% for building materials sales, and 21.2% for home equipment sales under the standalone homes business and 4.2% for tile sales and installations and 10.4% for home equipment sales and installations under the large properties business.

2. Overview of segments and sub-segments

(1) Standalone homes business

These orders primarily come from local smaller general contractors and building firms and home manufacturers and other builders*. The Company does not receive many orders directly from the party conducting the project.

* Sales of tile materials and home equipment related to installation projects are booked under the respective installation segments.

a) Exterior wall installations

This business handles installations of interior and exterior tiles, floor tiles, and exteriors for ordinary homes, small condominiums, and stores. It supports not only tile, but also siding and other materials.

b) Home equipment installations

This business mainly covers renovation installations (including built-in kitchens as well as bath, toilet, and other water-related systems) and solar power generation system installations. While orders are fundamentally separate from exterior wall installations, they are received jointly in some cases. The Company is one of the industry's largest firms for bathroom installations with roughly 20,000 projects per year.

c) Building materials sales

This sub-segment handles wholesale transactions for various building materials used in ordinary homes, smaller condominiums, and stores. Tile building material sales volume is relatively large. Its primary sources of sales are building firms and local homebuilders, and Ainavo does not sell to secondary wholesale firms.

d) Home equipment sales

Similarly to building materials sales, the Company sells home equipment to building firms and local homebuilders.

(2) Large properties business

Business content is almost the same as the standalone homes business, but the Company books installations at large properties (buildings, condominiums, and others) for major general contractors in this segment. It receives a relatively large number of orders from Obayashi Corporation <1802>, Konoike Construction Co., Ltd., and HASEKO Corporation <1808>.

a) Tile sales and installations

Interior and exterior tiles, floor tiles, stone material sales and installations.

b) Home equipment sales and installations

Built-in kitchens and other home equipment and air-conditioning equipment sales and installations mainly for buildings and condominium buildings.

3. Main procurement and sales destinations

The Company has roughly 7,000 customers, including major general contractors. Management of accounts receivable is a key point in business operations, because these customers are not always active and value per project varies significantly from a few million yen to over ¥100mn.

LIXIL Corporation <5938> is the primary procurement source for building materials and home equipment, and the Company also purchases extensively from TOTO LTD. <5332>, Rinnai Corporation <5947>, Cleanup Corporation <7955>, and DAIKEN CORPORATION <7905>.

While the Company has about 2,000 subcontractors (large and small) handling projects, roughly half of the subcontractors work exclusively with the Company.

4. Competition, features, and strengths

Many companies are involved in exterior wall installations or selling building materials and home equipment, and the Company faces numerous rivals in its various areas of business. While it is not easy to find a clear rival in terms of an overall business, the most likely competitors are KOIZUMI Co., Ltd. and Watanabe Pipe Co., Ltd. However, rivals are decreasing for exterior wall installations due to the downward trend in the number of contractors in recent years. The Company promotes differentiation with rivals in the current environment leveraging the following features.

One of the Company's unique features is the comprehensive skills training center where it provides training in highly specialized skills for its numerous subcontractors. The Company's training enables it to support a variety of project types. The skills center also unfailingly conducts half-yearly checks at each site to ensure projects are progressing as planned, which reduces variations in finished work due to individual differences.

Another feature is that it has its own insurance program. Here, the Company collects part of subcontractors' turnover and pools the funds in a cooperative association for use to cover income for one week if a subcontractor (worker) is unable to work due to an accident. This program strengthens the trust relationship between the Company and subcontractors and also boosts the retention rate for skilled workers and precision of finished work.

While it is normal for companies to implement management of sales, costs, and project progress, the Company also thoroughly conducts management of billing, money received, and accounts receivable. Specifically, it manages procurement and sales for each project on a line-by-line basis, even with small amounts, and manages (checks) not only the income statement, but also the balance sheet. The ability to execute this type of balance sheet management while monitoring project progress is important and not simple. There have been numerous cases in recent years of other firms in the business of selling building materials entering the installations business, though many rivals later exit the installations business due to the difficulty of accounts receivable management. In one sense, this aspect serves as a "hidden barrier to entry," and it can be said that the Company's ability to manage it is an important strength. As a result, the Company accumulates abundant net cash (cash and deposits - long-term and short-term loans payable) totaling ¥9,783mn (as of the end of FY9/23) and cultivates a robust balance sheet.

Results trends

FY9/23 sales increased 8.8% YoY, while operating profit decreased 6.8%, mainly due to increased raw material cost

1. FY9/23 results

(1) Status of profit and loss

In the FY9/23 consolidated financial results, the Company reported ¥86,085mn in net sales (up 8.8% YoY), ¥1,770mn in operating profit (down 6.8%), ¥2,068mn in recurring profit (down 4.6%), and ¥1,274mn in profit attributable to owners of parent (down 22.7%). The reason for the significant decrease in profit attributable to owners of parent is that the Company recorded an extraordinary gain of ¥328mn on negative goodwill in the previous fiscal year.

By segment, sales increased in the standalone homes business, mainly due to a recovery in demand for renovations, but profits decreased as an increase in the price of some materials was not passed through to sales prices. The large properties business saw increases in both sales and incomes, mainly due to the receipt of orders for highly profitable properties as well as a spring back from poor performance in the previous fiscal year.

The gross profit ratio was 13.8% (14.2% in the previous fiscal year), down 0.4 ppt YoY, mainly reflecting the rise in prices of certain materials without an attendant increase in sales prices. On the other hand, operating profit decreased year on year as SG&A expenses increased 8.3% YoY, mainly due to increases in logistics costs and the payment amount of inflation allowance and bonuses, as well as provision of SG&A expenses corresponding to part of costs.

Looking at the change in operating profit, factors increasing profit included an increase of ¥1,109mn due to higher sales; while factors decreasing profit were a decrease of ¥461mn due to a decline in the gross profit margin (down 0.4 ppt YoY) and a decrease of ¥776mn due to the increase in SG&A expenses. As a result, operating profit decreased by ¥129mn YoY.

Overview of FY9/23 results

(¥mn)

	FY9/22		FY9/23			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	79,143	100.0%	86,085	100.0%	6,942	8.8%
Gross profit	11,261	14.2%	11,909	13.8%	648	5.8%
SG&A expenses	9,361	11.8%	10,139	11.8%	778	8.3%
Operating profit	1,899	2.4%	1,770	2.1%	-129	-6.8%
Recurring profit	2,167	2.7%	2,068	2.4%	-99	-4.6%
Profit attributable to owners of parent	1,647	2.1%	1,274	1.5%	-373	-22.7%

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

(2) Status by business segment

a) Standalone homes business

The standalone homes business posted ¥73,545mn in net sales (up 8.6% YoY) and ¥2,830mn in segment profit (down 0.5%). Sub-segment sales were exterior wall installations at ¥17,216mn (up 9.5% YoY), home equipment installations at ¥21,893mn (up 9.3%), building materials sales at ¥16,156mn (up 11.1%), and home equipment sales at ¥18,278mn (up 4.8%).

While the housing market itself is not necessarily on a recovery track, the Company secured an increase in sales as a result of an increase in demand for renovations and as supplies of home equipment, etc., which had at one time been in short supply, began catching up. In home equipment installations, sales of prefabricated bathrooms and built-in kitchens have been strong, while in the exterior wall installations, siding and sashes performed favorably. In building material sales, sales of tiles were comparatively strong.

b) Large properties business

The large properties business posted net sales of ¥12,540mn (up 9.9% YoY) and segment profit of ¥569mn (up 45.2%). By sub-segment, net sales for tile sales and installations were ¥3,603mn (up 7.7%) and home equipment sales and installations were ¥8,937mn (up 10.8%). The increase in home equipment sales and installations includes the business of purchasing condominiums. Segment income also gradually increased as demand is gradually returned after a fallback (decrease) following the Tokyo Olympic and Paralympic Games, while the Company was also able to secure deals with relatively high profit margins.

Results by segment

(¥mn)

	FY9/22		FY9/23			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	79,143	100.0%	86,085	100.0%	6,942	8.8%
Standalone homes business	67,734	85.6%	73,545	85.4%	5,811	8.6%
Exterior wall installations	15,723	19.9%	17,216	20.0%	1,493	9.5%
Home equipment installations	20,026	25.3%	21,893	25.4%	1,867	9.3%
Building materials sales	14,538	18.4%	16,156	18.8%	1,618	11.1%
Home equipment sales	17,446	22.0%	18,278	21.2%	831	4.8%
Large properties business	11,409	14.4%	12,540	14.6%	1,131	9.9%
Tile installations and sales	3,346	4.2%	3,603	4.2%	256	7.7%
Home equipment installations and sales	8,062	10.2%	8,937	10.4%	874	10.8%
Operating profit	1,899	2.4%	1,770	2.1%	-129	-6.8%
Standalone homes business	2,843	-	2,830	-	-13	-0.5%
Large properties business	392	-	569	-	177	45.2%
(Adjustments)	-1,336	-	-1,629	-	-	-

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

By business company, Avelco performed strongly, while OnchoGiken experienced a downturn

(3) Results by business company

Regarding results by business company, Avelco Co., Ltd., recorded net sales of ¥59,043mn (up 7.9% YoY) and operating profit of ¥1,819mn (up 6.2%), INTELGROW CORPORATION recorded net sales of ¥12,583mn (up 9.5%) and operating profit of ¥179mn (down 13.5%), OnchoGiken Co., Ltd. recorded net sales of ¥1,883mn (down 2.1%) and operating profit of ¥47mn (down 74.7%), Imamura Co., Ltd. recorded net sales of ¥3,180mn (up 1.3%) and operating profit of ¥16mn (down 5.9%), Artis Co., Ltd. recorded net sales of ¥451mn (up 17.8%) and operating loss of ¥57mn (loss of ¥87mn in the previous fiscal year), and MANIX Co., Ltd. recorded net sales of ¥9,166mn (up 9.8%) and operating profit of ¥91mn (down 3.2%). Furthermore, Maristo Co., Ltd., which became a new subsidiary from FY9/23, recorded net sales of ¥1,370mn (no YoY comparison available) and operating profit of ¥9mn (no YoY comparison available).

Results by business company

(¥mn)

	Avelco		INTELGROW		OnchoGiken		Imamura	
	FY9/22	FY9/23	FY9/22	FY9/23	FY9/22	FY9/23	FY9/22	FY9/23
Net sales	54,713	59,043	11,494	12,583	1,923	1,883	3,139	3,180
Operating profit	1,713	1,819	207	179	186	47	17	16
Operating profit ratio	3.1%	3.1%	1.8%	1.4%	9.7%	2.5%	0.6%	0.5%
Recurring profit	1,816	1,932	292	270	186	47	49	46
Recurring profit ratio	3.3%	3.3%	2.5%	2.2%	9.7%	2.5%	1.6%	1.5%
Net profit	1,084	1,273	203	150	121	30	32	25

	Artis		MANIX		Maristo
	FY9/22	FY9/23	FY9/22	FY9/23	FY9/23
Net sales	383	451	8,348	9,166	1,370
Operating profit	-87	-57	94	91	9
Operating profit ratio	-22.8%	-12.9%	1.1%	1.0%	0.7%
Recurring profit	68	62	140	135	12
Recurring profit ratio	18.0%	13.8%	1.7%	1.5%	0.9%
Net profit	68	61	126	78	12

Source: Prepared by FISCO from the Company's results briefing materials

(4) Progress with priority issues

Progress in areas that the Company has earmarked as "priority issues" was as follows. Siding net sales were ¥3,781mn (up 10.5% YoY), and pre-cut siding projects came in at 884 (up 5.7%). The Company has made progress on securing outside customers with steady results. Non-housing* net sales expanded steadily to ¥2,770mn (up18.9%). In sashes, combined net sales for condominiums and standalone houses totaled ¥3,500mn (up 22.6%), with net sales for standalone houses alone performing steadily at ¥2,407mn (up 24.8%). As the Company is working to bring assembly and planning for the sash business in-house, the profit margin is improving.

* Added to priority issues from FY9/21, this segment handles non-housing facilities and properties for stores.

In the brand business, net sales of Altis (unit bathrooms) were ¥451mn (up 17.8% YoY), which was an adequate result. Maristo (tiles), which had been handled by Avelco to date, became a subsidiary from FY9/23, and recorded strong net sales of ¥1,370mn (up 11.5%). Maristo has a high profit margin, although the amount is small, and it has a significant impact on the overall profit margin. In terms of new customer development, the Company recorded 696 new customers (up 0.7%), and net sales also grew steadily in line with the plan at ¥1,994mn (up 22.6%).

Progress with priority issues I

(¥mn)

	Siding	Siding pre-cut (projects)	Non-housing	Sashes	
				Condominiums + Standalone houses	Standalone houses alone
FY9/22	3,781	884	2,770	3,500	2,407
FY9/23	3,421	836	2,330	2,855	1,929
YoY change	10.5%	5.7%	18.9%	22.6%	24.8%

Source: Prepared by FISCO from the Company's results briefing materials

Progress with priority issues II

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Number of projects	Value
FY9/22	1,370	451	696	1,994
FY9/23	1,229	383	691	1,627
YoY change	11.5%	17.8%	0.7%	22.6

Source: Prepared by FISCO from the Company's results briefing materials

Stable financial base; surplus net cash of ¥9,700mn

2. Financial condition

Looking at financial conditions at the end of FY9/23, current assets totaled ¥30,167mn (down ¥1,478mn from the end of FY9/22). The key items were cash and deposits down ¥1,949mn, notes receivables and finished project unpaid funds up ¥346mn, and unfinished project down ¥25mn. Non-current assets totaled ¥13,835mn (up ¥2,840mn), including property, plant and equipment at ¥6,606mn (up ¥7mn), intangible fixed assets at ¥217mn (down ¥70mn, including ¥45mn in goodwill), and investments and other assets at ¥7,010mn (up ¥2,904mn). As a result, total assets increased ¥1,362mn to ¥44,002mn.

Current liabilities totaled ¥18,271mn (up ¥402mn from the end of FY9/22). The main factors behind this increase were a ¥67mn increase in notes payable and unpaid amounts, a ¥136mn decrease in short-term loans payable, and a ¥728mn increase in other current liabilities. Non-current liabilities totaled ¥1,551mn (down ¥10mn), mainly due to a decrease of ¥62mn in long-term loans payable. As a result, total liabilities were ¥19,823mn (up ¥392mn). Net assets amounted to ¥24,179mn (up ¥970mn), mainly on a ¥707mn gain in retained earnings from booking profit attributable to owners of parent.

The Company possesses a sturdy financial base with extensive surplus net cash (cash and deposits - long-term and short-term loans payable) at ¥10,246mn as of the end of FY9/23 with ¥9,786mn in cash and deposits versus ¥462mn in total long- and short-term loans payable.

Consolidated balance sheet

(¥mn)

	End of FY9/22	End of FY9/23	Change in value
Cash and deposits	12,195	10,246	-1,949
Notes receivables and finished project unpaid funds	14,036	14,383	346
Unfinished project spending	2,895	2,960	-25
Total current assets	31,645	30,167	-1,478
Tangible fixed assets	6,599	6,606	7
Intangible fixed assets	288	217	-70
Goodwill	136	90	-45
Investments and other assets	4,106	7,010	2,904
Total fixed assets	10,994	13,835	2,840
Total assets	42,640	44,002	1,362
Notes payables and unpaid amounts	9,033	9,100	67
Short-term borrowings	427	290	-136
Other liabilities	2,044	2,773	728
Total current liabilities	17,868	18,271	402
Long-term borrowings	233	171	-62
Total fixed liabilities	1,562	1,551	-10
Total liabilities	19,430	19,823	392
Net assets	23,209	24,179	970

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

3. Cash flow situation

Looking at the cash flow of FY9/23, net cash provided by operating activities was ¥1,677mn. Main income sources were ¥2,049mn in profit before income taxes, a ¥224mn decrease in inventories, and a ¥77mn increase in accounts payables, while the main outflows were a ¥500mn increase in accounts receivables. Net cash used in investing activities was ¥2,876mn. The main outflows were ¥83mn in purchase of property, plant and equipment, ¥706mn in purchase of investment securities, and ¥1,638mn in purchase of shares of unconsolidated subsidiaries. Net cash used in financing activities was ¥811mn. The main outflows were ¥228mn in repayment of long-term and short-term loans payable and ¥563mn in dividend payments. As a result, cash and cash equivalents decreased by ¥1,947mn to ¥10,166mn at the end of the period.

Consolidated cash flow statement

(¥mn)

	FY9/22	FY9/23
Cash flow from operating activities	395	1,677
Profit before income taxes	2,447	2,049
Decrease (increase) in accounts receivables	-1,047	-500
Decrease (increase) in inventories	-1,632	224
Increase (decrease) in accounts payables	1,752	77
Cash flows from investing activities	388	-2,876
Purchase of tangible fixed assets (net)	-71	-83
Payment for purchase of investment securities	-81	-706
Payment of purchase of shares of unconsolidated subsidiaries	-80	-1,638
Cash flows from financing activities	-1,457	-811
Increase in long-term and short-term loans payable (net)	-993	-228
Dividend payments	-415	-563
Net increase (decrease) in cash and cash equivalents	-672	-1,947
Cash and cash equivalents at the end of peri	12,113	10,166

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

Business outlook

FY9/23 sales increased 6.9% YoY, while operating profit decreased 18.6%, mainly due to increased raw material cost

1. Earnings forecast

For FY9/24, the Company is forecasting net sales of ¥92,000mn (up 6.9% YoY), operating profit of ¥2,100mn (up 18.6%), recurring profit of ¥2,300mn (up 11.2%) and profit attributable to owners of parent of ¥1,450mn (up 13.8%).

The Company aims to grow sales and profits in its mainstay standalone homes business by building up a base of new customers and through other efforts. On the other hand, the large properties business is also expected to see increases in sales and profits from the previous fiscal year, given that its current orders are firm. However, due in part to a sense of uncertainty over the future of the housing market, the outlook is by no means certain. It will be necessary to monitor trends going forward.

Overview of FY9/24 forecasts

(¥mn)

	FY3/23		FY3/24 E		
	Results	% of sales	Results	% of sales	YoY change
Net sales	86,085	100.0%	92,000	100.0%	6.9%
Operating profit	1,770	2.1%	2,100	2.3%	18.6%
Recurring profit	2,068	2.4%	2,300	2.5%	11.2%
Profit attributable to owners of parent	1,274	1.5%	1,450	1.6%	13.8%

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

Regarding results by subsidiary, the Company is expecting Avelco to achieve net sales of ¥62,000mn (up 5.0% YoY) and operating profit of ¥2,002mn (+up10.1%), INTELGROW to achieve net sales of ¥13,100mn (up 4.1%) and operating profit of ¥239mn (up 33.5%), OnchoGiken to achieve net sales of ¥2,550mn (up 35.4%) and operating profit of ¥144mn (up 206.4%), Imamura to achieve net sales of ¥3,696mn (up 16.2%) and operating profit of ¥50mn (up 212.5%), Artis to achieve net sales of ¥442mn (down 2.0%) and operating loss of ¥57mn (loss of ¥57mn in the previous fiscal year), MANIX to achieve net sales of ¥9,350mn (up 2.0%) and operating profit of ¥113mn (up 24.2%), Maristo to achieve net sales of ¥1,400mn (up 2.2%) and operating profit of ¥15mn (up 66.7%), and MIC Co., Ltd. to achieve net sales of ¥1,250mn (no YoY comparison available) and operating profit of ¥31mn (no YoY comparison available). Mainstays Avelco and INTELGROW are expected to continue performing strongly, while OnchoGiken is expected to recover after a downturn in the previous fiscal year. Other subsidiaries are not yet expected to contribute significantly to consolidated results, as they are expected to recover also, but at a low level.

Full-year earnings forecast by business company

(¥mn)

	Avelco			INTELGROW			OnchoGiken			Imamura		
	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/23 Results	FY9/24 Forecasts	YoY change
Net sales	59,043	62,000	5.0%	12,583	13,100	4.1%	1,883	2,550	35.4%	3,180	3,696	16.2%
Operating profit	1,819	2,002	10.1%	179	239	33.5%	47	144	206.4%	16	50	212.5%
Operating profit ratio	3.1%	3.2%	-	1.4%	1.8%	-	2.5%	5.7%	-	0.5%	1.4%	-
Recurring profit	1,932	1,395	-27.8%	270	222	-17.8%	47	69	46.8%	46	83	80.4%
Recurring profit ratio	3.3%	2.3%	-	2.2%	1.7%	-	2.5%	2.7%	-	1.5%	2.3%	-
Net profit	1,273	977	-23.3%	150	155	3.3%	30	48	60.0%	25	58	132.0%

	Artis			MANI			Maristo			MIC (New)
	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/23 Results	FY9/24 Forecasts	YoY change	FY9/24 Forecasts
Net sales	451	442	-2.0%	9,166	9,350	2.0%	1,370	1,400	2.2%	1,250
Operating profit	-57	-57	-	91	113	24.2%	9	15	66.7%	31
Operating profit ratio	-12.9%	-13.0%	-	1.0%	1.2%	-	0.7%	1.1%	-	2.5%
Recurring profit	62	62	-	135	113	-16.3%	12	15	25.0%	31
Recurring profit ratio	13.8%	14.1%	-	1.5%	1.2%	-	0.9%	1.1%	-	2.5%
Net profit	61	62	-	78	79	1.3%	12	10	-16.7%	22

Source: Prepared by FISCO from the Company's results briefing materials

The target values for "priority issues" ¥5,300mn in net sales for siding (up 40.2% YoY), 1,000 buildings for siding pre-cut (up 116 projects), ¥3,500mn in net sales for non-housing (up 26.4%), ¥5,500mn in net sales for sashes (condominiums + standalone houses; up 57.1%), and ¥4,500mn in net sales for sashes (standalone houses only; up 87.0%), ¥1,400mn in net sales for Maristo (up 2.2%), ¥442mn in net sales for Artis (down 2.0%), and for new customer development, ¥2,700mn for the monetary value (up 35.4%) and 760 for the number of projects (up 64 projects).

Non-housing is a field the Company will focus on in the future and has been included in the priority issues since FY9/21. Although the target value is high, progress is being made on new customer development with aims to achieve it. Sashes are also a field to focus on alongside non-housing, so a high target has been set. For Maristo, the Company is expecting a slight increase in sales given the current market environment and other factors. The target value for Artis is the sales target for Artis, the subsidiary that operates the Artis business, and is expected to remain about level.

The Company is also continuing to focus on new customer development. The Company did not reach the target of 710 projects for FY9/23, but came close to the 700 mark with 696 projects, and it aims to continue adding a significant number in FY9/24 as well. The target value for projects with new customers includes the new consolidated subsidiary MIC.

Target values for priority issues I

(¥mn)

	Siding	Siding pre-cut	Non-housing	Sashes	
				Condominiums + Standalone houses	Standalone houses alone
FY9/23	3,781	884	2,770	3,500	2,407
FY9/24 (targets)	5,300	1,000	3,500	5,500	4,500

Source: Prepared by FISCO from the Company's results briefing materials

Target values for priority issues II

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Number of projects	Net sales
FY9/23	1,370	451	696	1,994
FY9/24 (targets)	1,400	442	760	2,700

Source: Prepared by FISCO from the Company's results briefing materials

2. New Group companies

The Company added one new Company to the Group (MIC) in FY9/23 and two new companies (RESTAGE CO., LTD. and ACCESS CO., LTD.) in FY9/24.

(1) MIC

MIC joined the Group as a non-consolidated subsidiary in October 2022. The company conducts design and installation of architectural stone materials and interior decoration. The addition of the company is intended to strengthen the Company's stone materials construction, while generating synergies between the Group's existing strengths in tile installation and stone material installation, while expanding the Company's foundation as an installation company providing superior technologies.

(2) RESTAGE

RESTAGE joined the Group as a non-consolidated subsidiary in May 2023. The company specializes in buying and re-selling condominium (units) in the area of the 23 wards of Tokyo (Johoku area). The company will strengthen the Group's overall buying and reselling operations.

(3) ACCESS

ACCESS joined the Group as a non-consolidated subsidiary in February 2023. It is a transportation company that mainly conducts a relocation business and construction materials delivery centered in Kanagawa Prefecture and will now provide delivery services for Group companies. By promoting streamlining of the Group's logistics system and building a sustainable logistics system, the Company will strive to enhance customer satisfaction. From December 2023, the Company plans to change its name to AINAVO LOGISTICS CO., LTD.

Medium- to long-term growth strategy

Aiming for FY9/25 net sales of ¥97.0bn, operating margin of 2.6%, and ROE of 8.0%

With the end of its third medium-term management plan in FY9/22, the Company newly announced its fourth medium-term management plan, (FY9/23 to FY9/25). Under the plan, the Company is aiming for FY9/25 net sales of ¥97,000mn, an operating margin of 2.6% (ensuring operating profit of ¥2,500mn), and ROE of 8.0%. The main strategies are "transformation of the business model," "rebuilding of the profit structure," "promotion of DX," "securing and development of human resources," and "capital policy." Specifically, the Company plans to conduct the following measures.

(1) Transformation of the business model

- Conduct M&As in accordance with the area strategy and business strategy of each Group company
- Revise the logistics system and rebuild the logistics network (Tokyo, Chubu, Kansai)

(2) Rebuilding of the profit structure

- In preparation for mandatory enforcement of ZEH, strengthen initiatives for energy-saving products (thermal insulation exterior cladding, water-heaters, etc.) and products that create and store energy (solar power generation, storage batteries)
- Strive to introduce multiple functions and digital tools to sales and installation work in order to drive productivity increases

(3) Promotion of DX

- Rebuild the Group's overall communication network
- Migrate hardware onto cloud services and establish a simple, robust company infrastructure through zero-trust construction

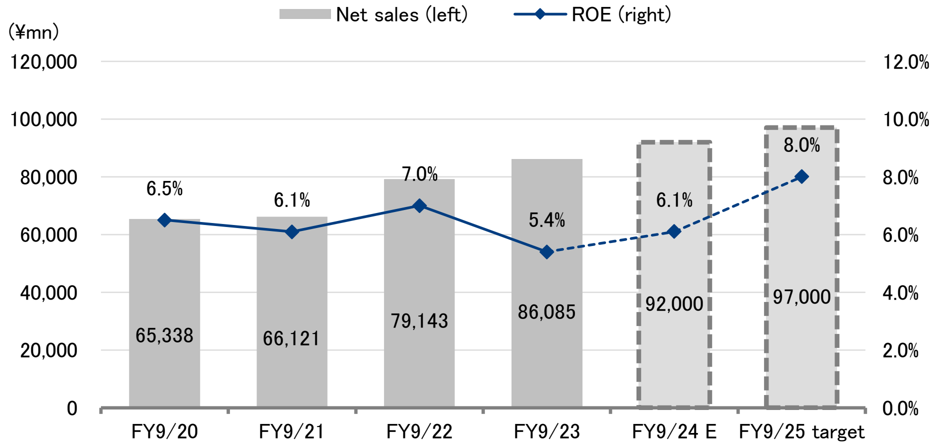
(4) Securing and development of human resources

- Conduct continuous new graduate recruitment and aggressive mid-career hiring of young employees
- Appoint diverse human resources, including non-Japanese, women, elderly employees, and people with disabilities

(5) Capital strategy

- With an ROE target of 8%, aim for shareholder returns with a dividend payout ratio of 30% and dividend on equity (DOE) of 2%

Target values for net sales and ROE



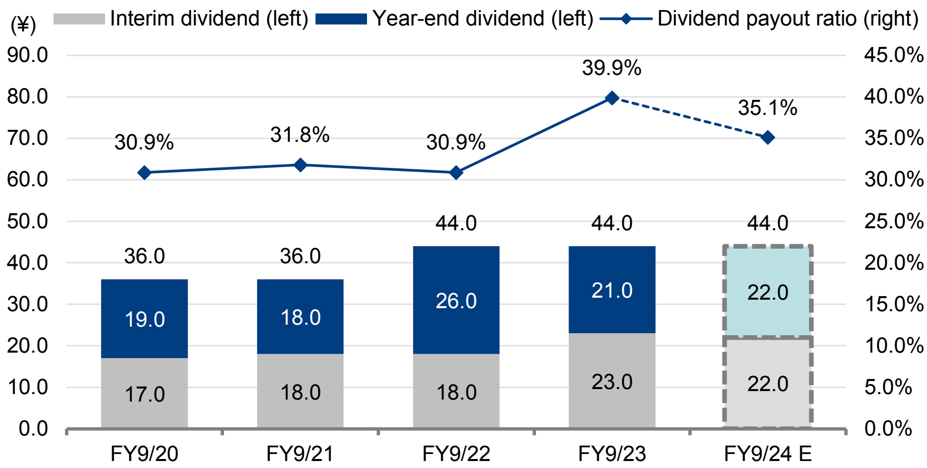
Source: Prepared by FISCO from the Company's results briefing materials

Shareholder return policy

Sustaining a stable dividend with a payout ratio target of 30%

The Company fundamentally aims for a 30% dividend payout ratio as its shareholder return policy. Based on this policy, the Company has paid annual dividends of ¥36.0 for FY9/19 to FY9/21, ¥44.0 for FY9/22, and ¥44.0 for FY9/23 (dividend payout ratio 39.9%). For FY9/24 also, the Company plans to pay an annual dividend of ¥44.0 (35.1%); however, depending on financial results, there is also the potential for a dividend increase.

Dividend per share and dividend payout ratio



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

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