COMPANY RESEARCH AND ANALYSIS REPORT

gremz, Inc.

3150

Tokyo Stock Exchange Prime Market

26-Feb.-2024

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Summary

Providing a wide range of energy-related products and services. Aiming for sustainable growth based on expansion of photovoltaic systems for business use

gremz, Inc. <3150> (hereinafter, also referred to as “the Company”) provides a wide range of products and services related to energy that cover all types of electricity, from low to high voltage, to a broad spectrum of customers from ordinary households to plants, offices, and other locations. Obtained through continuation of appropriate consulting that fits customer needs by sales employees who possess extensive proposal capabilities related to energy since the founding, Group strengths are “sales capabilities supported by an abundant customer base,” “robust profitability achieved via differentiation from other companies,” and “market environment and growth opportunities.” Up until FY3/22, the Company had sustained sales and profit gains from steady income in the Energy Cost Solutions Business and Smart House Project Business and growth in the Electricity Retailing Business. However, from FY3/23, the Company’s basic policy has been a growth strategy based on expanding the Energy Cost Solutions Business with photovoltaic systems for business use as the mainstay offering, as they are experiencing favorable sales with expanding demand and market for electricity cost reduction. From April 2022, the Company has been listed on the Tokyo Stock Exchange (TSE)’s Prime Market under the new classification.

1. 1H FY3/24 results overview

In consolidated results for 1H FY3/24, the Company recorded a significant increase in profit, with ¥15,944mn in net sales (+0.1% YoY) and ¥3,197mn in operating profit (+166.5%). Compared with the initial forecast, performance was strong for both sales and profits, achieving new record highs with net sales 0.9% higher and operating profit 26.2% higher. By segment, all businesses achieved new records for 1H operating profit. In the Energy Cost Solutions Business, operating profit exceeded the plan at ¥1,940mn (+42.6% YoY) due to expanded sales of photovoltaic systems for business use as a proposal for self-consumption. In the Smart House Project Business, operating profit exceeded the plan at ¥444mn (+16.8%) due to an expansion in sales of storage batteries following increases in demand for renewable energy and in post-feed-in-tariff (FIT) cases (termination of period for purchase of photovoltaic electricity by power companies at a fixed price). Furthermore, in the Electricity Retailing Business, operating profit exceeded the plan significantly at 1,133mn (operating loss of ¥193mn in the same period of the previous fiscal year) due to stabilization of electricity procurement prices. The capital ratio remained at a high level at 60.1% (up 2.3 ppt from the previous fiscal year-end), significantly higher than the average for the TSE Prime market and sustaining a healthy financial base. Similarly, the Company’s profitability is also extremely high, with FY3/23 ROA and ROE both high significantly higher than the market average. The Company has revised its initial forecast for the interim dividend upward from ¥5.0 to ¥15.0 (+¥10.0 YoY), reflecting its strong financial results.

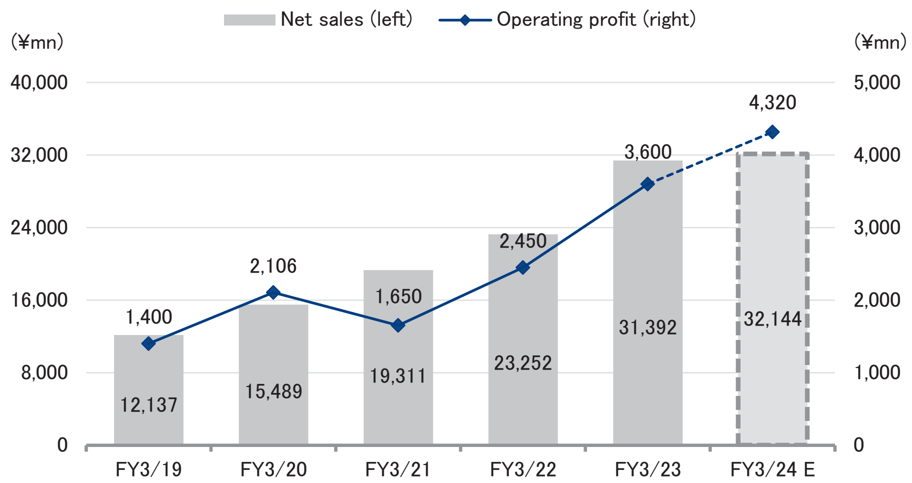
2. FY3/24 forecasts

In its consolidated results for FY3/24, the Company is forecasting increases in sales and profits, with net sales of ¥32,144mn (+2.4% YoY) and operating profit of ¥4,320mn (+20.0%), in line with its initial earnings forecast. The Company aims to achieve new record high net sales for a 19th consecutive period and record high operating profit for a 3rd consecutive period. In the Energy Cost Solutions Business, the Company expects to increase profits by doubling sales of photovoltaic systems for business use. It will also promote sales of various energy-efficient appliances. In the Smart House Project Business, profit is also expected to increase through promotion of storage battery sales to return them to a comfortable pace. In addition, in the Electricity Retailing Business, while the Company aims to secure 1 on 1 individual contract agreements (these are direct transactions with power companies that do not go through the electricity exchange) with considering the profitability and hedge the risk of soaring electricity market prices, it is forecasting a decrease in profits due to the influence of external factors. However, in previous years, there has been a strong tendency for the Company's initial earnings forecasts to be conservative, and since its 1H FY3/24 performance has been favorable, with operating profit reaching 74.0% of the full-year forecast, FISCO believes there is a high probability that full-year results will ultimately exceed the initial forecast. Moreover, the Company has increased the level of the dividend payout ratio to 30% from FY3/24, and with the upward revision of the year-end dividend forecast from the initial ¥17.0 to ¥22.0, it plans to pay an annual dividend of ¥37.0 (¥15.0 YoY). As such, the Company appears to be giving full consideration to shareholder returns. In addition, the Company is actively engaged in sustainability (continuing to maintain economic activity giving consideration to the global environment), and is likely draw attention as an Environmental, Social, and Governance (ESG) investment stock.

Key Points

- Provides a wide range of energy-related products and services under its Energy Cost Solutions Business, Smart House Project Business, and Electricity Retailing Business
- In 1H FY3/24, the Company recorded an increase in profit that significantly surpassed initial forecasts. The Energy Cost Solutions business, Smart House Project Solutions Business, and Electricity Retailing Business all exceeded the plan. Financial soundness and profitability were also at high levels. An increase in the interim dividend reflected this favorable financial result
- FY3/24 forecast is for increases in sales and profits again. 1H operating profit performed strongly, reaching 74.0% of the full-year forecast. The year-end dividend has also been upwardly revised, showing consideration for shareholder returns. The Company is also focused on sustainability

Results trends



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

Company outline

Comprehensive energy solutions company that provides all types of electricity from low to high voltage

1. Company outline

The Company has steadily grown through provision of energy solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost with "energy creation, savings, and storage" as main business areas. It currently operates Energy Cost Solutions Business (ECS Business), Smart House Project Business (SHP Business), and Electricity Retailing Business. As a holding company, it formulates and promotes Group management strategies and oversees management of business companies. The four main Group companies are GR consulting, Inc., which provides consulting on reduction of electricity costs for businesses, gremz power, Inc., which handles electricity retailing, gremz energy, Inc., which conducts sales of photovoltaic systems for business use and other products, and gremz solar, Inc., which sells household photovoltaic systems, storage batteries, and other energy-related products and develops renewable energy. Through these companies, the Group delivers a wide range of products and services related to energy that covers all areas from the low-voltage electricity market that supplies power to ordinary households, small and mid-sized factories, and others (100V, 200V) to the high-voltage electricity market (6,600V –) that supplies power to factories, supermarkets, and buildings.

The Company name has its roots in "blog parts-type environmental contribution service that cultivates seedlings via a blog" that the Company previously operated, and the logo mark adopts a design resembling tree leaves to express the combination of diverse colors via gradation of the Sun that provides energy to all living things on Earth, water that is the source of all life, and trees that are symbols of breathing enabled by the Sun and water. The Group has a management philosophy of "filling the world with inspiration and joy" and aims to realize a group of companies that are always appreciated and given support in a changing environment and are capable of permanently coexisting with society. It strives to remove information disparity, spread high value, and contribute to building a society that facilitates a prosperous and reassuring life.

2. History

Masaomi Tanaka, the Company's current President and Chief Executive Officer, founded the Company on July 4, 2005. While the Company initially started by selling electronic circuit breakers, it began store sales of household photovoltaic systems in April 2010, started selling LED lighting in December 2012, entered energy intermediation and began energy management system sales in December 2013, started solar power plant operations in March 2014, and entered the electricity retailing business in December 2016. It has steadily broadened its business scope mainly around energy-related areas.

The Company switched to a holding company system in April 2011 accompanying business expansion and adopted its current company name. While it initially listed on the JASDAQ Stock Exchange (now, TSE Standard) in March 2009, it shifted to TSE-2 in June 2020 and ascended to TSE-1 in November 2020. Following the change to new market classifications of the TSE in April 2022, the Company shifted to the Prime Market, which is populated by companies of large scale and expected to see active share trading by a large number of institutional investors. It had 273 consolidated employees as of March 31, 2023.

History

Date	Main historical events
July 2005	The Company (former company name: ubiquitous energy, Inc.) was founded with a view towards reducing energy costs as well as environmental load. Started sales of electronic circuit breakers.
July 2007	Started sales of fully electric appliances (EcoCute and induction heating cooking heaters).
March 2009	Listed on the JASDAQ Securities Exchange (later renamed TSE JASDAQ Standard).
April 2010	Started sales of photovoltaic systems.
April 2011	Renamed the company gremz, Inc. and established it as a holding company. Founded gremz solar, Inc. and GR consulting, Inc.
December 2012	Founded GF lightec, Inc. Started sales of LED lighting systems.
December 2013	Concluded a comprehensive contract with ENERES Co., Ltd., which handles electricity management and other services, and started conducting energy intermediation and sales of energy management systems.
March 2014	Started operating a solar power plant as a renewable energy development business.
September 2014	Formed a capital alliance with ENERES Co., Ltd.
May 2015	gremz solar, Inc. began the operation of a solar power plant in Tsumagoi.
February 2016	Renamed GF lightec, Inc. as gremz power, Inc. due to business reorganization.
April 2016	Separated the energy intermediation and energy management system sales business from GR consulting, Inc. and transferred it to gremz power, Inc.
May 2016	gremz solar, Inc. began the operation of a solar power plant in Futokoroyama.
November 2016	Registered gremz power, Inc. as an electricity retailing company.
December 2016	gremz power, Inc. entered the electricity retailing business.
April 2020	Started sales of photovoltaic systems for business use.
June 2020	Changed Stock Market listing to the Second Section of Tokyo Stock Exchange (TSE-2).
November 2020	Ascended to the First Section of Tokyo Stock Exchange (TSE-1).
April 2022	Founded gremz energy, Inc. which conducts sales of photovoltaic systems for business use. Shifted to the new Prime Market classification on the Tokyo Stock Exchange.

Source: Prepared by FISCO from the Company's webpage and securities report

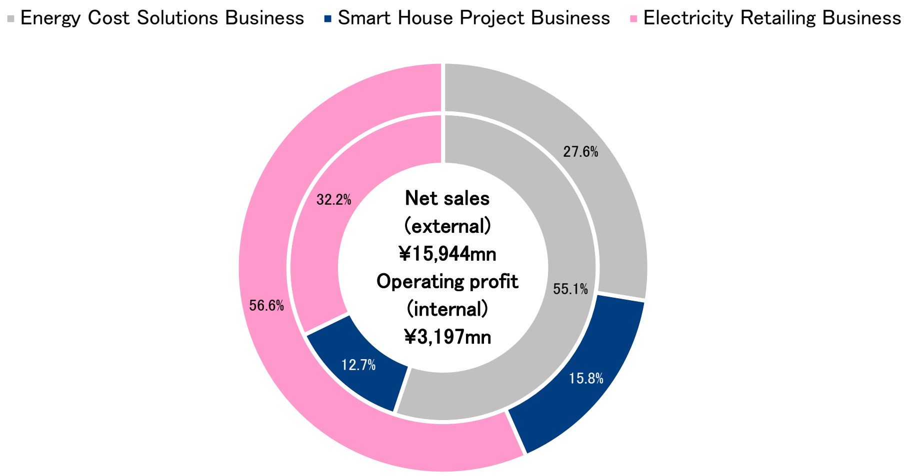
Business description

Conducts business focused on energy-related products and services

The Group has developed businesses focused on energy-related products and services. gremz is a rare comprehensive energy solutions company that provides solutions to customers for improvement of electric power operational efficiency, facilities, and procurement cost covering the full range of electricity from low to high voltage. The Company has four Group companies: GR consulting, Inc., gremz power, Inc., gremz solar, Inc., and gremz energy, Inc.; and three business segments: the Energy Cost Solutions Business, the Smart House Project Business, and the Electricity Retailing Business, according to sales coverage (businesses, general consumers) and sales content (products, electricity).

Business segment results in 1H FY3/24 show Energy Cost Solutions Business, which carries out consultations to reduce electric power costs, had ¥4,390mn in net sales (27.6% of the Company's total) and ¥1,940mn in operating profit (55.1%), Smart House Project Business, which sells storage batteries and household photovoltaic systems, had ¥2,523mn in net sales (15.8%) and ¥444mn in operating profit (12.7%), and Electricity Retailing Business, which engages in retail sales of electricity, had ¥9,030mn in net sales (56.6%) and ¥1,133mn in operating profit (32.2%). The operating margin was highest in the Energy Cost Solutions Business, which is expected to continue acting as a growth driver for the Company.

Net sales and operating income for 1H FY3/24 by segment



Note: Operating profit composition ratios are calculated prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's financial results

1. Energy Cost Solutions Business

In this business, the Company proposes energy cost reductions to businesses mainly through subsidiaries GR consulting and gremz energy. In this business, the Company provides total solutions for improving operations (reduce base electricity fees through revision of electrical equipment operation methods and contract content), improving facilities (lower electricity usage fees by replacing existing facilities with equipment that offers high energy-savings effect), and lowering procurement cost (cheaper procurement of electricity by making adjustments to electricity procurement sources). The Energy Cost Solutions Business has the highest profit margin of the Company's three businesses and is an important pillar of its earnings. The high profit margin is due to the main focus on operations with high profit margins, such as electronic circuit breakers and photovoltaic systems for business use, and the Company's position as a price leader in niche markets targeting small and mid-sized businesses. The business is strongly expected to continue leading the Company's strong earnings going forward.

GR consulting provides consulting on electricity cost reductions and sells various energy-efficient appliances to small and mid-sized businesses and other low-voltage electricity customers. Electricity cost reductions for low-voltage customers realize operational improvement by cutting fixed monthly basic electricity charges while ensuring sufficient electricity supply via proposals to change the electricity contract type and install electronic circuit breakers. GR consulting sells electronic circuit breakers through lease and credit and conducts replacement sales after the leasing period finishes. There is also a rental option for customers who want to rent. Additionally, regarding facility improvement, it sells various energy-efficient appliances, such as LED lighting, commercial air conditioners, and transformers, on top of photovoltaic systems for businesses. It conducts sales activities nationwide from business sites in Tokyo, Osaka, and Nagoya. In addition, from FY3/21, it has also conducted sales of photovoltaic systems for business use.

gremz energy was established in April 2022 as a subsidiary specializing in sales of photovoltaic systems for business use. These systems involve installation of a photovoltaic system on the factory roof or other such location of a small to mid-sized business, where they reduce electricity cost by allowing the customer to consume the generated electricity themselves in the factory. With a backdrop of rising electricity costs and wider use of renewable energy, the sales conditions are extremely favorable. gremz energy focuses primarily on this service, aiming to increase operating efficiency and expand sales. The gremz Group already has expertise in household photovoltaic systems, and as there are no competitors in the market for small and mid-sized businesses, it has positioned this business as a central part of its growth strategy going forward. Moreover, gremz energy (gremz power, Inc. until FY3/23) conducts sales of IoT devices and various energy-efficient appliances to high-voltage electricity customers such as office buildings and large-scale plants. In other words, the Company improves equipment by cross-selling IoT devices for monitoring and automatically controlling electricity usage and various energy-efficient appliances, such as transformers and capacitors.

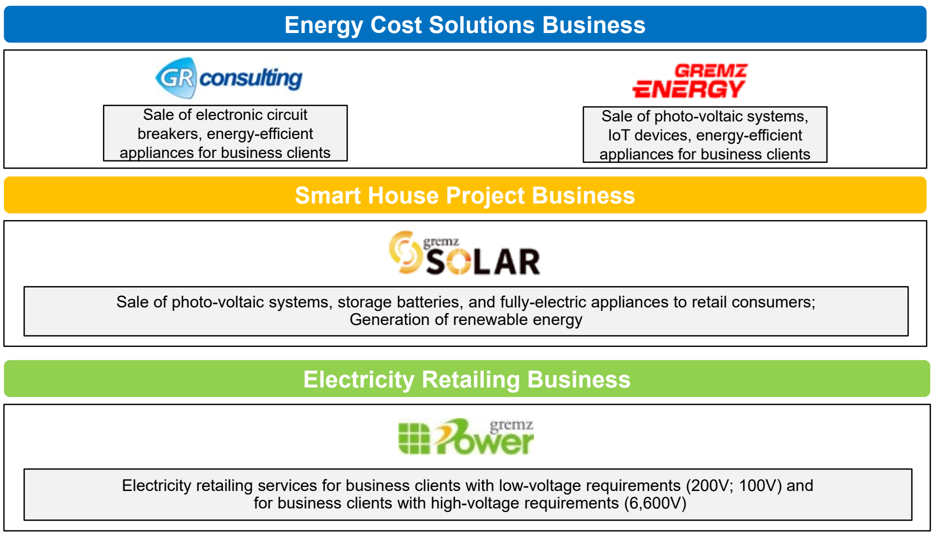
2. Smart House Project Business

This business sells energy-related products, such as household photovoltaic systems and storage batteries, to general consumers and develops renewable energy with subsidiary gremz solar handling sales of a variety of products. The Company displays actual photovoltaic systems, storage batteries and related equipment to customers using the event spaces in shopping centers throughout Japan, where families gather, and offers detailed explanations, later visiting customers who express an interest to provide an estimate of the amount of electricity they could generate and other explanations before making a sale. Furthermore, the Company also makes sales through introductions made by housing manufacturers and other companies that are business partners. In the renewable energy development business, the Company has recurring revenue sources from income generated by selling electricity from solar power plants (mainly megasolar sites owned in Gunma Prefecture and Shizuoka Prefecture). The business is expected to contribute to stable earnings going forward as the market scale is expanding.

3. Electricity Retailing Business

This business started in December 2016 following the registration of gremz power as an electricity retailing business in November of the same year. The Electricity Retailing Business involves selling electricity procured from an electric power exchange that is operated by public interest incorporated organization Japan Electric Power Exchange (JEPX) through outsourcing to intermediary corporations, or electricity procured directly from power generating companies to consumers of low voltage electricity, such as small and mid-size factories, and high voltage electricity, such as factories, supermarkets, and office buildings, and generating revenue from electricity fees obtained from customers every month. As a means of lowering procurement cost, customers can purchase electricity at a price that is comparatively cheaper than purchasing it from a general electric utility. However, the business is impacted by external factors such as electricity market prices, by limiting sales only to customers with a low load factor (percentage of average annual electricity consumed to peak contracted electricity volume), and in low-voltage sales, the Company applies a proprietary cost adjustment system (scheme of reflecting part of the electricity market procurement cost in electricity charges), while in high-voltage sales, it has switched to market linkage plans and started utilizing derivatives transactions in futures trading. Through these and other measures to effectively hedge against the risk of rising electricity procurement prices, the Company aims to make the business a stable base of recurring revenue.

Group businesses and business activities



Source: The Company's website

Business trends

All profit levels recorded record highs for 1H FY3/24. Favorable performance in operating profit for all three businesses, each reaching new record highs

1. 1H FY3/24 results overview

The economic environment for 1H FY3/24 showed a gradual recovery in business sentiment with individual consumption and capital investment recovering as the employment and income environment improved. However, the outlook remained uncertain as before, with factors including concerns of a deterioration in business sentiment overseas, increasing prices driven by the yen's depreciation, and volatility in the financial and capital markets. The gremz Group expanded sales based on growth in photovoltaic systems for business use against a backdrop of rising electricity costs and wider introduction of renewable energy aimed at realizing green transformation (GX). At the same time, in electricity retailing, the Group introduced new plans for low-voltage electricity (Value Plan, Simple Plan) following the regulatory rate revisions of the major electric power companies, while also advancing initiatives to reduce the risk of fluctuation in electricity procurement cost by implementing a proprietary cost adjustment systems (a system for reflecting part of the electricity market procurement cost in electricity charges) for its low voltage customers and promoting market linkage plan contracts for high voltage customers. In products and services related to cost reduction, energy saving, and renewable energy, which have stable demand, the Group received brisk orders for both businesses and ordinary consumers.

As a result of the above, the Company recorded a significant increase in profit in its consolidated financial results for 1H FY3/24, with net sales of ¥15,944mn (+0.1% YoY), gross profit of ¥5,123mn (+71.6%), operating profit of ¥3,197mn (+166.5%), ordinary profit of ¥3,231mn (+165.8%), and profit attributable to owners of parent of ¥2,177mn (+179.1%). Compared to the Company's initial forecast (announced with financial results for the previous fiscal year), the Company's results were favorable, as net sales were +0.9%, gross profit was +13.1%, and each level of profit from operating profit downward was around +30%, with net sales and each profit level reaching new record highs, while the operating margin rose from 7.5% in the same period of the previous fiscal year to 20.1%. The subdued increase in net sales was mainly due to a decrease in sales in the Electricity Retailing Business, while the sharp increase in operating profit primarily reflected a turnaround from loss to profit in the Electricity Retailing Business due to the effects of risk hedging measures and stable trends in the electricity market prices, as well as the recording of a significant increase in profit in the Energy Cost Solutions Business due to brisk sales of photovoltaic systems for business use. The Company has determined gross profit to be key performance indicator, which it emphasizes more than net sales. These favorable financial results show that the Company is able to respond flexibly to changes in the economic environment by changing its focus businesses to ensure stable delivery of high profits.

1H FY3/24 consolidated income statement

(¥mn)

	1H FY3/23		1H FY3/24			YoY		vs. targets	
	Results	% of net sales	Forecast	Results	% of net sales	Change	% change	Change	% change
Net sales	15,927	100.0%	15,798	15,944	100.0%	16	0.1%	146	0.9%
Cost of sales	12,941	81.3%	-	10,821	67.9%	-2,120	-16.4%	-	-
Gross profit	2,986	18.7%	4,531	5,123	32.1%	2,136	71.6%	592	13.1%
SG&A expenses	1,786	11.2%	-	1,925	12.1%	139	7.8%	-	-
Operating profit	1,199	7.5%	2,533	3,197	20.1%	1,997	166.5%	663	26.2%
Ordinary profit	1,215	7.6%	2,546	3,231	20.3%	2,016	165.8%	685	26.9%
Profit attributable to owners of parent	780	4.9%	1,652	2,177	13.7%	1,397	179.1%	524	31.8%

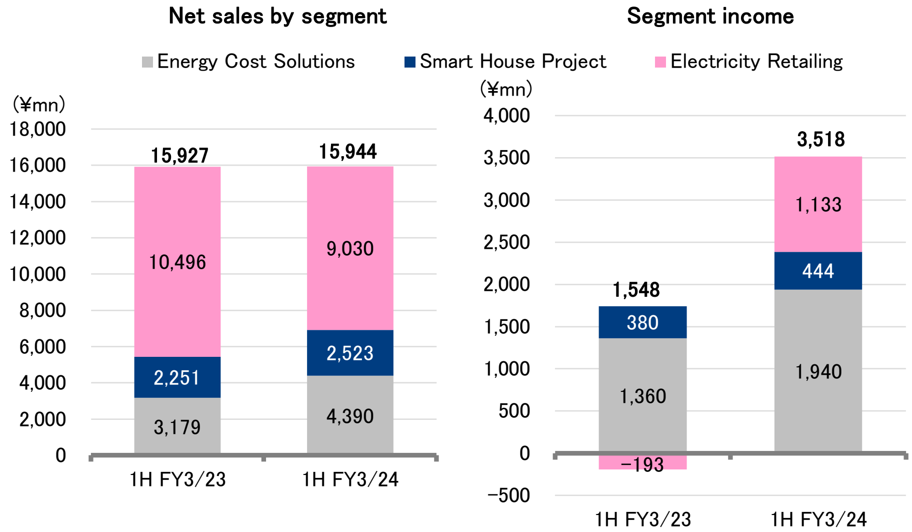
Note: Targets are from initial guidance at the FY3/23 results announcement
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Looking at each segment, all businesses exceeded the plan for operating profit by a large margin to achieve new record highs, contributing to the strong performance of the Company.

In the Energy Cost Solutions Business, the Company engaged in sales of photovoltaic systems for business use for self consumption, consulting to lower electricity base fees, and sales of various energy efficient appliances, such as IoT devices and energy saving commercial air conditioners and transformers, as well as proposing improvements to customers for electricity usage and equipment. As a result, the segment posted ¥4,390mn in net sales (+38.1% YoY) and ¥1,940mn in operating profit (+42.6%). Compared to the initial forecast, net sales overshot by 1.4% and operating profit by 11.9% operating profit was the highest among the three segments, as profitability improved with the expansion of sales of photovoltaic systems for business use and the operating margin increased from 42.8% in the same period of the previous fiscal year to 44.2%, the highest profit margin among the three segments, making this segment a supporting pillar of performance for the Company.

In the Smart House Project Business, the Company aggressively promoted sales of storage batteries in response to strong demand supported by a market environment that included heightened interest in renewable energy due to decarbonization and an increase in photovoltaic power post-FIT cases that have completed application of the 10-year fixed price purchase program, in addition to needs for increasing household energy resilience. As a result, the segment posted net sales of ¥2,523mn (+12.1% YoY) and operating profit of ¥444mn (+16.8%). The segment surpassed the initial forecast by 2.3% in net sales and 11.1% in operating profit. Operating profit was the smallest among the three segments, but the operating margin climbed from 16.9% in the same period of the previous fiscal year to 17.6%.

In the Electricity Retailing Business, net sales decreased following a decrease in fixed price sales to high-voltage customers, but profit increased sharply as procurement prices were controlled by stable prices on the electricity market. As a result, the segment posted net sales of ¥9,030mn (-14.0% YoY) and operating profit of ¥1,133mn (operating loss of ¥193mn in the same period of the previous fiscal year). Compared to the period-start forecast, net sales were 0.3% higher and operating profit 57.3%, surpassing the forecast by a significant margin. Net sales were the highest among the three segments, while operating profit was second only to the Energy Cost Solutions Business. The operating margin improved from -1.8% in the same period of the previous fiscal year to 12.6%.



Note: Segment income values are prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's financial results

Realized high profitability and sound finances

2. Financial condition and cash flow situation

Looking at the financial condition at the end of 1H FY3/24, current assets were up by ¥1,343mn from the previous fiscal year-end to ¥15,511mn, mainly reflecting increases of ¥950mn in cash and deposits and ¥391mn in merchandise. Non-current assets increased by ¥1,211mn to ¥4,261mn, mainly due to an increase of ¥1,196mn in investment securities. As a result of the above, total assets increased by ¥2,554mn to ¥19,772mn. In liabilities, current liabilities increased by ¥1,009mn to ¥5,672mn, mainly due to increases of ¥779mn in notes and accounts payable -trade ¥416mn in income taxes payable. Non-current liabilities decreased by ¥392mn to ¥2,152mn, mainly due to a decrease of ¥429mn in long-term borrowings. As a result of the above, total liabilities increased by ¥616mn to ¥7,825mn. Within these, interest-bearing debt fell by ¥465mn to ¥2,692mn. This reflects scheduled repayment of borrowings procured in the previous fiscal year without making further borrowings, since the Company had sufficient operating cash flow in 1H. The previous fiscal year's borrowings were made to bolster the Company's cash position and enable flexible ordering to secure inventories in response to increased prices caused by factors such as rising electricity costs and the yen's depreciation. Total net assets increased by ¥1,938mn to ¥11,947mn due to an increase in comprehensive profit attributable to owners of parent.

As a result of these trends, the Company's capital ratio at the end of 1H FY3/24 stood at 60.1%, confirming extremely strong financial soundness with the Company maintaining a good financial base. ROA at the end of FY3/23 was 23.9% and ROE 27.6%, exhibiting extremely high profitability. In fact, the Company's results are well above that of companies listed on TSE Prime (all industries) in FY3/23, which were a capital ratio of 31.8%. ROA of 4.1%, and ROE of 9.2%, based on consolidated abbreviated financial statement totals provided by Japan Exchange Group, Inc. <8697>.

Consolidated balance sheet and management indicators

(¥mn)

	FY3/23	1H FY3/24	YoY change
Current assets	14,168	15,511	1,343
(Cash and deposits)	8,224	9,175	950
(Notes and accounts receivable - trade, and contract assets)	4,313	4,406	93
(Merchandise)	1,261	1,652	391
Non-current assets	3,049	4,261	1,211
Tangible assets	1,345	1,308	-36
Intangible assets	250	228	-21
Investments and other assets	1,453	2,723	1,270
Total assets	17,217	19,772	2,554
Current liabilities	4,663	5,672	1,009
Non-current liabilities	2,545	2,152	-392
Total liabilities	7,209	7,825	616
(Interest-bearing debt)	3,157	2,692	-465
Total net assets	10,008	11,947	1,938
Soundness			
Capital ratio	57.8%	60.1%	
Profitability			
ROA (Ordinary profit to total assets ratio)	23.9%	-	
ROE (Return on equity)	27.6%	-	

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

Cash and cash equivalents at the end of 1H FY3/24 stood at ¥9,175mn (¥4,606mn at the previous fiscal year end).

Looking at cash flows for 1H FY3/24, net funds obtained from operating activities was ¥3,083mn (net funds spent of ¥1,343mn in the same period of the previous fiscal year). The main inflow was net income before income taxes of ¥3,229mn, while the main outflows were an increase in inventories of ¥391mn and income taxes paid of ¥629mn.

Net funds spent on investing activities totaled ¥1,355mn (net funds spent of ¥600mn in the same period of the previous fiscal year). The main inflow was proceeds from sale of investment securities of ¥500mn, while the main outflow was purchase of investment securities of ¥1,700mn.

Net funds spent on financing activities totaled ¥778mn (net funds obtained of ¥1,033 in the same period of the previous fiscal year). The main outflows were repayment of long-term borrowings of ¥465mn and dividend payouts of ¥389mn.

Cash flow statement

(¥mn)

	1H FY3/23	1H FY3/24
Cash flow from operating activities	-1,343	3,083
Cash flow from investing activities	-600	-1,355
Cash flow from financing activities	1,033	-778
Cash and cash equivalents at end of period	4,606	9,175

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

Outlook

FY3/24 forecast is for higher sales and profits again. Major contribution from sales expansion of photovoltaic systems for business use

1. FY3/24 forecasts

The gremz Group's business environment is beginning to show signs of a settling of electricity market prices; however, high electricity procurement costs continue to be a risk factor in the Electricity Retailing Business. Meanwhile, the Company seems likely to benefit from continued increases in opportunities to expand sales of energy cost reduction consulting services, energy efficient appliances, photovoltaic systems, and storage batteries due to the firm demand for reducing electricity costs and the trend towards expanding use of renewable energy as society progresses towards decarbonization. Due to the environment of high electricity costs, since FY3/23, the gremz Group has adopted a growth strategy based on expanding the Energy Cost Solutions Business, which mainly provides photovoltaic systems for business use. In FY3/24 also, the Company will expand sales of these systems. Furthermore, in the Electricity Retailing Business, the Company will drive the growth of the entire Group by implementing risk hedging measures against earnings fluctuations to make it a stable source of recurring revenue.

Based on the above assumptions, the Company has maintained its period-start forecast for consolidated results for FY3/24 of higher sales and profits at ¥32,144mn in net sales (+2.4% YoY), ¥8,352mn in gross profit (+11.2%), ¥4,320mn in operating profit (+20.0%), ¥4,350mn in ordinary profit (+18.0%), and ¥2,826mn in profit attributable to owners of parent (+14.7%). The Company aims to achieve new record highs for a 19th consecutive year in net sales and a 3rd consecutive year in operating profit. Furthermore, the profit margins of each profit level are expected to increase. However, as in previous years, the initial forecast relies on conservative assumptions. FISCO believes it highly likely that the Company's financial results will exceed the initial forecast. In fact, 1H FY3/24 results show net sales at 49.6% of the full-year guidance, but gross profit at 61.3%, operating profit at 74.0%, ordinary profit at 74.3%, and profit at 77.0%, indicating a high progress rate on each profit level.

FY3/24 results outlook

(¥mn)

	FY3/23		FY3/24		YoY	
	Results	% of net sales	Forecast	% of net sales	Change	% change
Net sales	31,392	100.0%	32,144	100.0%	752	2.4%
Gross profit	7,508	23.9%	8,352	26.0%	844	11.2%
Operating profit	3,600	11.5%	4,320	13.4%	720	20.0%
Ordinary profit	3,687	11.7%	4,350	13.5%	663	18.0%
Profit attributable to owners of parent	2,465	7.9%	2,826	8.8%	361	14.7%

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

Promoting a growth strategy based on expansion of photovoltaic systems for business use

2. Strategies by business segment

The Company has devised the following growth strategies for each business segment to achieve the forecast for FY3/24.

(1) Energy Cost Solutions Business strategy

The Company began full-scale sales of photovoltaic systems for business use in FY3/21. These mainly involved installing photovoltaic systems on the roofs of small-to mid-sized business's factories so that they can self-consume the electricity generated in the factory as a proposal for keeping electricity costs lower than if the electricity were procured. The gremz Group has many small and mid-sized manufacturers among its customers, and by ascertaining the electricity consumption of customers who buy product such as electrical circuit breakers and LED lighting, it appears that the Company can easily propose specific ways for them to reduce electricity costs. Furthermore, there is little competition in the market for selling photovoltaic systems to small and mid-sized businesses, enabling the Company to realize high profitability as a price leader. The profit margins are high compared to sales of energy-efficient appliances such as commercial air conditioners. Sales of photovoltaic systems for business use are already doubling every year, and have been brisk in FY3/24, but the Company is aiming for even further sales expansion due to the outlook for further expansion in market scale. To achieve this plan, the Company will invest in human resources and actively promote partnerships with other companies. Moreover, the Company also plans to promote sales of electricity basic fee reduction consulting services and various energy-efficient appliances to reduce electricity costs.

The Company has presented the following three reasons for growth in photovoltaic systems for business use.

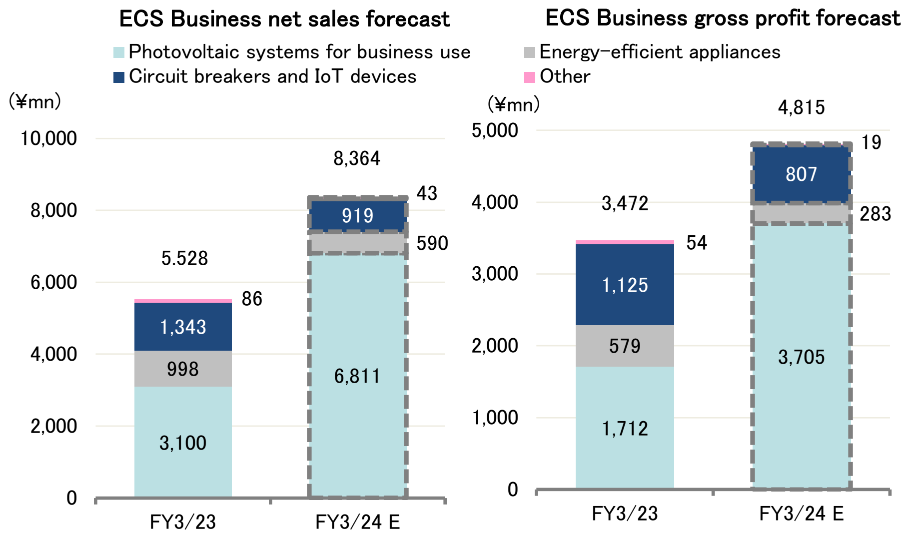
The first is adoption by SMEs. Up until now, large companies have led the introduction of photovoltaic systems for self-consumption for environmental management purposes. However, as the cost of installation has decreased, the systems are expected to spread to small to mid-sized businesses, where they have not been popular so far. The Company is targeting systems in the 10–50 kW zone for small to mid-sized businesses, and since these do not require consultation with electricity companies, the lead time from order to installation is short, enabling the Company to realize profitability rapidly. The Company is the only business operator targeting this zone, and as it has the ability to respond promptly, it is confident of being the leader in the market. Since there are no competitors, the profit margin is also high.

The second reason is greater government support. Subsidies and support systems offered by various government agencies and local governments have been expanding, increasing the economic benefit of installing a photovoltaic system for business use. In addition, the sale of all the electricity in scale of 10–50 kW under the FIT system has been abolished and now it applies only to surplus electricity sales, which is encouraging use of the systems for self-consumption. Furthermore, a new FIT system category for photovoltaic systems with a capacity of 10kW or greater installed on factory roofs will go into effect starting in FY2024, and there is a premium electricity sale price for surplus electricity for installations on factory roofs (higher than the price for installations on the ground). The government's policy measures for decarbonization have provided a tailwind for photovoltaic systems for business use.

The third reason is decreased electricity costs. The total electricity bill is calculated by adding the base electricity fee, the electricity usage fee, and a renewable energy surcharge. However, by installing a photovoltaic system, businesses can reduce their electricity usage fee by the amount of electricity that they self-consume, leading to a reduction in the electricity usage fee and the renewable energy levy, which are calculated based on the amount of electricity received from the grid. Moreover, the Company offers guidance to customers on credit companies in its sales of photovoltaic systems for business use, making proposals in which reduction amount of the electricity fee due to self-consumption exceeds the amount of payment to the credit company. This ability to provide customers with the economic benefit is the largest reason for growth.

In the Energy Cost Solutions Business, the Company plans to continue providing total solutions for the improvement of operation, facilities, and procurement, centered on the sale of photovoltaic systems for business use. In other words, the Company intends to cross-sell other products and services to customers of photovoltaic systems for business use. Specifically, in improving operations, the Company can reduce base electricity fees through revision of electrical equipment operation methods, such as utilization of IoT devices and electronic circuit breakers, as well as revising contract content. In improving facilities, the Company can reduce electricity usage fees by changing existing facilities to facilities with higher energy efficiency, such as photovoltaic systems for business use, LED lighting, commercial air conditioners, transformers, and various energy efficient appliances. In improving procurement, the Company can enable low-cost procurement of electricity itself by proposing the optimal electricity plan from among multiple electricity retailers, intermediating the electricity, and revising the supplier for electricity procurement.

Based on the above, in the Energy Cost Solutions Business in FY3/24, the Company is forecasting significant growth in sales and profits with net sales of ¥8,364mn (+51.3% YoY), gross profit of ¥4,815mn (+38.7%), and operating profit of ¥3,264mn (+57.0%), partly reflecting a spring back from suppressed sales in the previous fiscal year. Specifically, in the previous fiscal year, since the Electricity Retailing Business performed extremely well, the Company carried over the balance of Energy Cost Solutions Business products ordered in 4Q into the next period (as back orders), resulting in a spring back in net sales after they had been held back. In particular, with regard to photovoltaic systems for business use the Company is planning to double net sales to ¥6,811mn (+119.7% YoY) and gross profit to ¥3,705mn (+116.4%), and by concentrating investment of management resources such as personnel, it expects to contribute to earnings growth in the Energy Cost Solutions Business and the Company overall. However, by increasing the weighting of photovoltaic systems for business use, which had a gross profit margin of around 55% in the previous fiscal year, and decreasing the weighting of electronic circuit breakers, which had a gross profit margin of over 80%, the overall gross profit margin for the Energy Cost Solutions Business will be around 57.6% (-5.2 ppt YoY). Nevertheless, the Company will increase productivity in the segment by increasing the weighting of photovoltaic systems for business use with a higher unit sales price and is forecasting an operating margin of 39.0% (+1.4 ppt). In 1H FY3/24, photovoltaic system for business use sales expanded and have been outpacing the initial forecast, with net sales reaching 52.5% of the initial forecast, gross profit 55.4% and operating profit 59.4%.

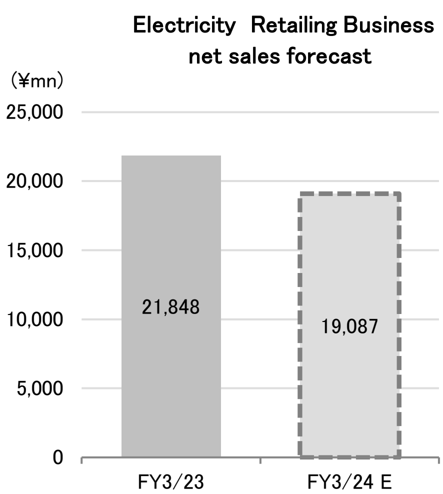


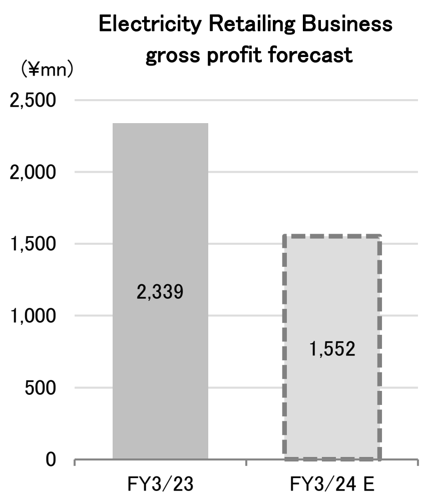
Source: Prepared by FISCO from the Company's results briefing materials

(2) Electricity Retailing Business Strategy

The Electricity Retailing Business sells electricity procured from JEPX and power generating companies at inexpensive pricing to customers and receives electricity charges from customers as the income source. In this segment, the Company mainly sells to low-voltage customers with a low load factor (percentage of average electricity usage to peak contract electricity), so the risk of procurement price fluctuation is relatively low and the proportion of sales made up of basic fees is high, resulting in high profitability. However, since the segment is affected by external factors such as market electricity power prices in procurement of electric power from electricity exchanges, it aims to establish a stable recurring revenue source by setting up adequate risk hedges against high electricity market prices to reduce costs. These include securing 1 on 1 individual contracts giving consideration to profitability, implementing a proprietary cost adjustment system, promoting market linkage plan contracts, and the use of derivatives.

Looking at the Company's sales strategy, for customers with metered lighting (100V), the Company focuses bundled sales of low-voltage electricity (for corporations) to increase sales efficiency. Unlike ordinary households, these customers often use relatively high-priced stage 3 energy amount rates (300kWh and above), so the Company has a competitive advantage of a high unit sales price. Got low-voltage (200V) customers, the Company is targeting the customer base centered on electronic circuit breakers, one of its strengths, and focusing on customer with a low load factor. Since their electricity usage is low compared to contract electricity, the Company's competitive advantage is that the cost of sales does not tend to increase, even if the market price increases. For high voltage and special voltage customers, the Company halted fixed price sales in the previous fiscal year and has changed direction by specializing in market linkage plans, which offer a competitive advantage in that the Company does not bear risk. The Company's earnings forecast for the Electricity Retailing Business for FY3/24 are for net sales of ¥19,087mn (+12.6% YoY), gross profit of ¥1,552mn (-33.6%), operating profit of ¥953mn (-47.1%), a gross profit margin of 8.1% (-2.6 ppt), and an operating margin of 5.0% (-3.2 ppt). However, since the segment is affected by external factors, the Company has made conservative forecasts for net sales and procurement costs. Sales are expected to decrease due to the stabilization of energy prices; however, since costs will also decrease for the same reason, the Company expects to capture stable recurring revenue. For 1H FY3/24, net sales achieved only 47.3% progress against the initial forecast; however, profits steadily exceeded the plan with gross profit standing at 88.5% and operating profit at 118.9%. Although net sales have decreased as the Company halted fixed-price sales for high-voltage customers and switched to market linkage plans contracts, operating profit has increased markedly with the stabilization of electricity procurement prices.





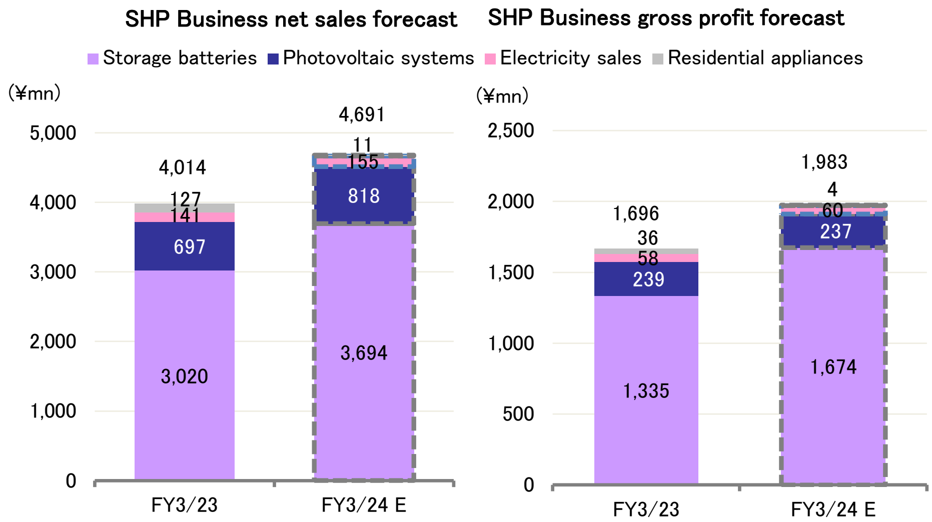
Source: Prepared by FISCO from the Company's results briefing materials

(3) Smart House Project Business strategy

For the Smart House Project Business, the Company will continue to promote sales of storage batteries, expecting to see demand for renewable energy and demand associated with an increase in post-FIT projects. It aims to improve the operating margin by conducting efficient sales.

Since FIT period expirations prevent users from selling power generated by solar power facilities at the high prices received up to now and increases the appeal of consuming self-generated power, demand for storage batteries should rise. Electricity storage batteries have been positioned as an important device for helping to realize the government's target of carbon neutrality in 2050 (balancing of the amount of greenhouse gases emitted with the amount absorbed), and with long-term stable growth in batteries expected from fiscal 2022 onward, the Company aims to achieve stable growth as well.

The FY3/24 forecast for the Smart House Project Business is for higher sales and profits driven by stable sales of storage batteries, with net sales of ¥4,691mn (+16.9% YoY), gross profit of ¥1,983mn (+16.9%) and operating profit of ¥711mn (+43.1%). The gross profit margin is forecast at 42.3% (±0.0 ppt) and the operating margin at 15.2% (+2.8 ppt). The segment's net sales are expected to spring back after being suppressed in the previous fiscal year due to a strong performance in the Electricity Retailing Business, and are expected to return to a comfortable pace from FY3/24. In fact, 1H FY3/24 storage battery performance has been strong and progress against the initial forecast has been net sales at 53.8%, gross profit at 54.4%, and operating profit at 62.5%. However, the profit margin is low compared to the Energy Cost Solutions Business due to the large number of competitors.



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

As explained above, the Group plans to sustain sales and profit increases by obtaining steady profits in the Electricity Retailing Business and Smart House Project Business while significantly expanding income in the Energy Cost Solutions Business. It is not satisfied with just the current situation and is enthusiastically pursuing new growth opportunities. Management deserves credit for its proactive stance in launching new businesses.

The Company previously updated the medium-term management plan every year up until FY3/20 and announced a new plan annually. Since FY3/21, it has not announced an updated plan because of uncertainty related to the COVID-19 pandemic. Meanwhile, despite a large number of companies not disclosing earnings forecasts during the COVID-19 pandemic, the Company should be credited for continuing to announce forecasts. However, FISCO thinks it is meaningful to officially announce a medium-term management plan in order to clarify management policy as a company and share its future vision with investors and employees.

Shareholder return policy

FY3/24 dividend payout ratio target has been lifted to 30%, with a significant increase in dividends planned

The Company pays dividends as a shareholder return measure and has a basic policy related to profit distribution of stably returning profits to shareholders after comprehensive assessment of ensuring sufficient profit retention to bolster the business foundation and enhance enterprise value and allocate earnings to shareholders in accordance with income trends. It implements stock splits too for the purpose of increasing the liquidity of its shares and broadening the investor segment through reduction of the value per investment unit. The Company conducted a 1-to-2 stock split on September 1, 2020 in FY3/21. Furthermore, it has paid interim dividends since introducing them in FY3/18.

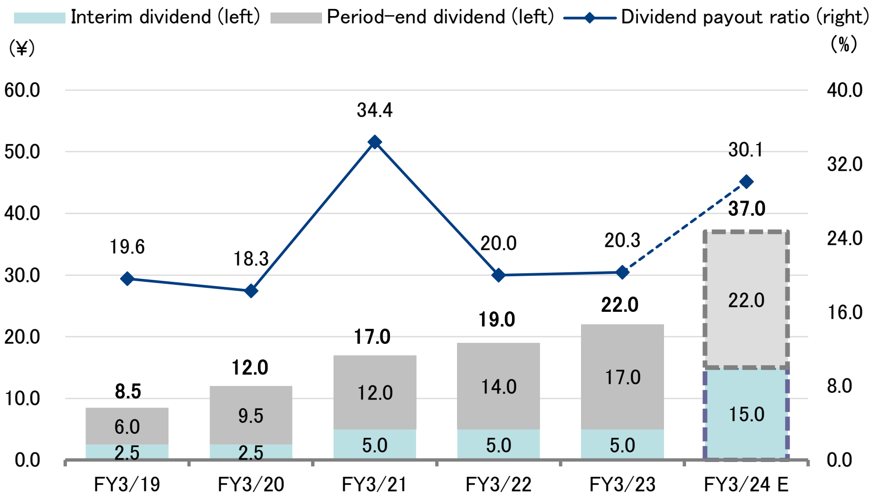
For FY3/23, reflecting its strong financial performance, the Company paid an annual dividend of ¥22.0 (+¥3.0 YoY), for a dividend payout ratio of 20.3%, continuing from the previous fiscal year to achieve the guideline of 20%. For FY3/24, the Company initially forecast a dividend of the same level as the previous fiscal year at ¥22.0, comprising an interim dividend of ¥5.0 and a year-end dividend of ¥17.0. However, to reflect the strong performance for 1H FY3/24, the Company has lifted its dividend payout ratio target to 30%, making reference to the average value for listed companies on the Prime Market. As a result, the Company plans to dramatically increase the dividend to a total of ¥37.0 (+15.0), comprising an interim dividend of ¥15.0 (+¥10.0) and a year-end dividend of ¥22.0 (+¥5.0). This is a commendable effort on shareholder returns, making an eighth consecutive year of dividend increases since FY3/17.

The Company shifted to the TSE Prime Market in April 2022. It was assessed as sufficiently meeting the listing standards defined by the TSE of having market cap (liquidity) suited to selection as an investment by many institutional investors, conducting robust governance and engaging in constructive dialogue with investors, and proactively pursuing sustainable growth and longer-term enhancement of enterprise value.

On the other hand, the Group is actively working on sustainability, which refers to continuing to maintain economic activities in consideration of the global environment. That is to say, the Group will continue to grow by providing environmentally friendly products and services in the business fields of energy-saving, energy-creation, and energy storage, and contribute to the construction and sustainable development of a prosperous and secure society. Specifically, the Group contributes to improved energy efficiency through the sale of high performance energy-saving products. Moreover, the Group contributes to building a carbon-free society through the sale of renewable energy-related products such as photovoltaic systems and electricity storage batteries. Furthermore, by providing products and services that are consciously designed to meet social needs, the Company aims to develop constantly together with society. A growing number of institutional investments are making ESG investments (investing in stocks that emphasize the environment, social, and governance aspects) both globally and in Japan as well in recent years. We think the Company's stock also deserves attention from this perspective.

Shareholder return policy

Dividend per share and dividend payout ratio



Note: Retroactively revised dividends on a post-split basis, taking into account a 1-to-2 stock split conducted in September 2020. The FY3/21 interim dividend includes a ¥2.5 commemorative dividend for the move to TSE-2 and a ¥2.5 commemorative dividend marking the stock's designation as a TSE-1 listing in the period-end dividend.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

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