COMPANY RESEARCH AND ANALYSIS REPORT

MARUKA FURUSATO Corporation

7128

Tokyo Stock Exchange Prime Market

5-Jul.-2024

FISCO Ltd. Analyst
Masanobu Mizuta

FISCO Ltd.
https://www.fisco.co.jp

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https://www.unisol-gr.com/en/ir

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Summary

Technology trading company primarily focused on Machinery & Tools and Construction Products

MARUKA FURUSATO Corporation <7128> (hereafter also "the Company") is a holding company established by a joint stock transfer in October 2021 by Furusato Industries, Ltd. and Maruka Corporation. As a technology trading company primarily focused on Machinery & Tools and Construction Products, it is raising Group synergies, aiming to be a unique solutions company that generates unique solutions not found elsewhere. Its UNISOL brand (formed by combining "unique" with "solutions") covers the services and products of the Group overall.

1. Strong solutions capabilities in the manufacturing market

The Company has four segments: Machinery & Tools, Construction Products, Construction Machinery and IoT Solution (name changed from security in FY12/23). Machinery & Tools is not simply the purchase and wholesale of machinery and tools; rather, the Company provides a wide range of industrial machinery and tools in manufacturing markets in Japan and overseas, and has the proposal, design and construction capabilities to combine them and achieve labor savings, energy savings and higher efficiency for customer production lines. In particular, it can bring to light issues on the customer's production floor and propose solutions. Its solutions capability is a strength. Moreover, it can also accommodate smart factories that use cutting-edge technologies, like AI, sensing, and clouds, to provide broad support for manufacturing sites. Construction Products is focused on the domestic markets for steel frame construction and factory piping, carrying out manufacturing and sale of building products and piping products. In particular, the Company has a high market share of full braces, etc., a proprietarily manufacturing product used in the framework of steel frame construction for warehouses and factories, etc. Construction Machinery consists of the rental and sale of construction machinery like elevating work vehicles and hydraulic shovels. The Company rents out aerial work platforms with an operator, which is a characteristic. IoT Solution involves sales of security equipment and implementation of systems with security and surveillance cameras. In the past, device sales were central, but the Company promotes total solutions and has expanded into the IoT field with monitoring and sensing, etc., playing an important role in the smart factory business, which is a focus of the Group.

2. In FY12/23, small declines in operating and ordinary profit generally in line with expectations

In consolidated results for FY12/23, net sales increased 6.5% year on year (YoY) to ¥172,980mn, operating profit edged down 3.2% to ¥5,705mn, ordinary profit dipped 5.7% to ¥6,652mn, and profit attributable to owners of parent increased 3.7% to ¥4,698mn, so operating profit and ordinary profit decreased by small margins. Entering 2H, the business environment deteriorated somewhat, so in addition to lower capacity utilization for production of Construction Products, prices went up for supplies and energy and competition intensified, which led to a decline in the gross margin. Furthermore, an increase in personnel expenses from adding personnel and improvement in treatment, an increase in travel and transportation expenses from relaxation of restrictions on movement, and an increase in logistics expenses were among items that had an effect. However, driven by a strong performance from mainstay Machinery & Tools, results generally met forecasts (upwardly revised on August 8, 2023 to net sales of ¥171,000mn, operating profit of ¥6,000mn, ordinary profit of ¥6,830mn, and profit attributable to owners of parent of ¥4,700mn). Analyzing the factors behind the ¥190mn decline YoY in operating profit, net sales increased by ¥1,709mn, the profit margin decline caused a decline of ¥993mn, operating expenses increased ¥25mn, human capital investment (personnel expenses) increased ¥435mn, and general expenses increased by ¥446mn.

3. For FY12/24, profit expected to decline considering the uncertainty, but a recovery trend in 2H

Consolidated results forecasts for FY12/24 are for net sales to increase by 0.6% to ¥174,000mn, operating profit to decline by 3.6% to ¥5,500mn, ordinary profit to decline by 5.3% to ¥6,300mn and profit attributable to owners of parent to decrease 10.6% to ¥4,200mn, as profits are expected to decline on account of uncertainty and higher costs. Looking by half, in 1H, net sales are expected to be ¥83,500mn, operating profit to be ¥2,300mn, ordinary profit to be ¥2,700mn, and profit attributable to owners of parent to be ¥1,800mn. In 2H, net sales are expected to be ¥90,500mn, operating profit, ¥3,200mn, ordinary profit, ¥3,600mn and profit attributable to owners of parent, ¥2,400mn, so results are weighted to 2H. In 1H, the order backlog at the period-start had declined, so given this and other uncertainties, revenue is expected to decline by 1.9% and operating profit, by 27.8%, but in 2H, a moderate recovery trend is expected, which is projected to increase revenue by 3.1% and operating profit by 27.0%. With regard to costs, along with the increase in personnel expenses, operations at a new logistics center and system investment are projected to increase SG&A expenses, including depreciation. The Company's forecasts overall seem very conversative and FISCO believes results could outstrip them.

4. How it aspires to be in 10 years and Medium-Term Management Plan "UNISOL"

As far as how the Company aspires to be in 10 years' time, it has set targets of net sales of around ¥400.0bn, operating profit of at least ¥20.0bn, and a market capitalization of ¥150.0bn. Under the Medium-Term Management Plan "UNISOL" (FY12/22 to FY12/26), which is aimed at achieving these long-term targets, the goals for the final year of the plan, FY12/26, are net sales of ¥200.0bn, operating profit of ¥10.0bn, a ratio of operating profit of 5.0%, adjusted EBITDA (=operating profit + depreciation + goodwill amortization + other temporary revenue and expenses) of ¥11.5bn, and ROE of 8.5%. As a roadmap, the two years of the first half of the plan is positioned as the first stage, to establish base, and the three years in the second half as the second stage, accelerating growth. The basic strategy for establishing a management base that will support sustained growth is "cultivation," to differentiate the Company from others in existing businesses, "challenge," to develop new business fields, and "sustainability," to strengthen SDGs initiatives. Moreover, its priority strategies are to maximize integration synergies, deepen platform strategy, create new solutions through Group function integration, and conduct smart factory initiatives. To maximize integration synergies, the Company is putting forth four pillars of collaboration to make concrete short-term synergies (increase share of industrial machinery, expand machinery and tools business, reinforce engineering business and increase overseas sales) and five strategic fields to pursue medium- to long-term synergies (EV-related, automation and labor saving, environment and energy-saving, food-related, and global).

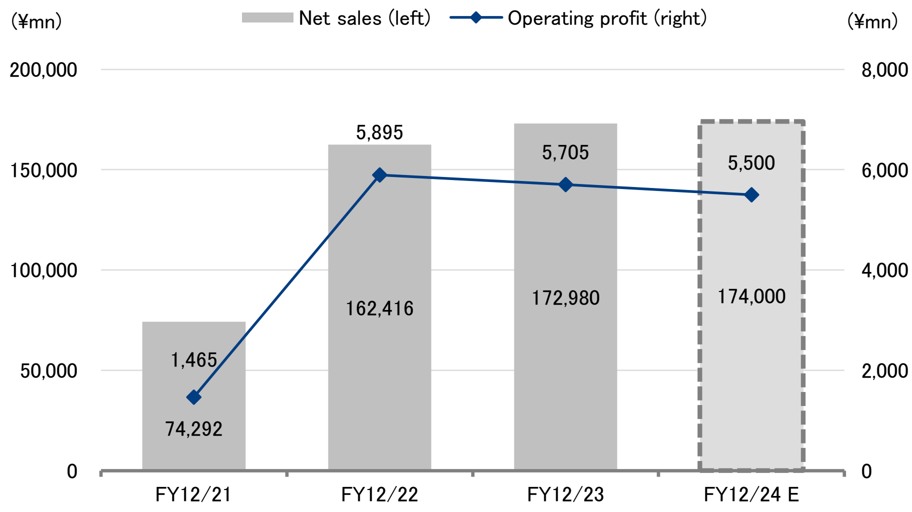
5. Focusing on the progress of strategies for maximizing Group synergies

In the fields of Machinery & Tools and Construction Products, which are the Company's mainstays, not only are they affected by changes in the business environment because they are related to capital investment, profit margins are low because wholesaling predominates. These are factors for why the interest of investors on the stock market is not at all high. However, the Company has strengths in proposal, design and construction capabilities that realize labor savings, energy saving, and greater efficiency for customer production lines on the manufacturing market, and, in particular, solutions capability to bring to light issues at customer manufacturing sites and propose solutions. Further, it is aiming to raise Group synergies and become a unique solutions company that provides unique solutions found nowhere else. Improving the profit margin is an issue, but if by steadily promoting the strategy of maximizing Group synergies stated in the Medium-Term Management Plan "UNISOL," the profit margin rises over the medium to long term, FISCO believes it is possible the interest of investors will increase. Accordingly, for the time being, FISCO thinks the focus should be on the progress of the strategy of maximining Group synergies.

Key Points

- Technology trading company mainly focused on Machinery & Tools and Construction Products
- Strength in solution capabilities in the manufacturing market
- In FY12/23, operating and ordinary profit were down, but generally in line with forecasts
- For FY12/24, profit expected to decrease due to uncertainty, but a recovery trend in 2H
- Promoting maximizing Group synergies under the Medium-Term Management Plan “UNISOL”
- Potential for the profit margin to rise over medium- to long-term; focused on progress of strategy to maximize Group synergies

Results trends



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

Company profile

Holding company established in October 2021 by Furusato Industries and Maruka

1. Company profile

The Company is a holding company established in October 2021 through a joint stock transfer by Furusato Industries and Maruka. As Group principles, the slogan (declaration to society) is, "'Why didn't we think of this?' 'one after another;'" the mission (duties that should be fulfilled) is, "Open up now with impressive proposals;" the vision (the future that should be achieved) is, "'Society filled with the idea' of 'I want to make it happen;'" and the three values put forth are "co-creative spirit," "growth motivation," and "thinking of issues as our own matters." To realize these, as a technology trading company primarily focused on Machinery & Tools and Construction Products, the Company is aiming to raise Group synergies and be a unique solutions company that generates unique solutions found nowhere else.

As of the end of FY12/23, the Company has its head office in Chuo-ku, Osaka, and the Group consists of the Company, 21 consolidated subsidiaries, 7 non-consolidated subsidiaries, and 2 equity-method affiliates, for a total of 31 companies. The main consolidated subsidiaries are, other than Furusato Industries and Maruka, are G-NET Corporation, Gifu Shoji Co., Ltd., Security Design Inc., Sonoruka Engineering Co., Ltd, KAN MANUFACTORY CO., LTD., Kitakyu Machine and Tools Co., Ltd., and ArPlus Corporation. After the management integration, in April 2023, Maruka and Matsuhashi Reinetsu Co., LTD established a joint venture Mtass Ref Corporation (a non-consolidated subsidiary), and in August 2023, Maruka acquired all the stock in TS Precision Co., Ltd., which was a subsidiary of Nabtesco Corporation <6268> and made it a consolidated subsidiary. Overseas, the Company has 28 sites in North America, China, and Southeast Asia primarily.

As of the end of FY3/23, the Company had total assets of ¥120,342mn, net assets of ¥72,719mn, capital of ¥5,000mn, an equity-to-asset ratio of 59.7%, and 25,174,214 shares outstanding (including 786,349 treasury shares). The number of employees on a consolidated basis was 2,005.

2. History

In October 2021, Furusato Industries and Maruka established the holding company MARUKA FURUSATO Corporation through a joint stock transfer and listed the shares on the First Section of the Tokyo Stock Exchange. Thereafter, it was transferred to the Prime Market when the TSE restructured its markets in April 2022.

History

<Reference> History of Furusato Industries, Ltd.

Date	Major Event
May 1959	Established Furusato Tekkosho Ltd. in Fukushima-ku, Osaka
February 1973	Changed name to Furusato Industries, Ltd.
October 1986	Listed on the Second Section of the Osaka Stock Exchange
August 2000	Made G-NET Corporation a subsidiary
November 2004	Listed on the Second Section of the Tokyo Stock Exchange
March 2006	Listed on First Section of Tokyo Stock Exchange and Osaka Securities Exchange
October 2007	Made Gifu Shoji Co., Ltd. a subsidiary
October 2016	Made Security Design Inc. a subsidiary
May 2021	Agreed to management integration of Furusato Industries, Ltd. and Maruka Corporation
September 2021	Delisted shares

<Reference> History of Maruka Corporation

Date	Major Event
December 1946	Established Maruka Co., Ltd. in Higashi-ku, Osaka
February 1970	Changed name to Maruka Machinery Co., Ltd.
February 1974	Established Sonoruka Engineering Co., Ltd.
September 1998	Listed on the Second Section of the Osaka Stock Exchange
October 2005	Listed on the Second Section of the Tokyo Stock Exchange
November 2006	Designated for the First Section of the Tokyo Stock Exchange
April 2016	Made KAN MANUFACTORY CO., LTD. a subsidiary
December 2017	Made Kitakyu Machine and Tools Co., Ltd. a subsidiary
April 2019	Changed name to Maruka Corporation
July 2019	Made (current) ArPlus Corporation a subsidiary
May 2021	Agreed to management integration of Furusato Industries, Ltd. and Maruka Corporation
September 2021	Delisted shares

History of MARUKA FURUSATO Corporation

Date	Major Event
October 2021	Established the holding company MARUKA FURUSATO Corporation through a joint stock transfer by Furusato Industries, Ltd. and Maruka Corporation Listed MARUKA FURUSATO Corporation newly on the First Section of the Tokyo Stock Exchange
April 2022	Moved to the Tokyo Stock Exchange Prime Market following the Tokyo Stock Exchange market reorganization
April 2023	Established a joint venture Mtass Ref Corporation (non-consolidated subsidiary) between Maruka and Matsuhashi Reinetsu
August 2023	Maruka makes TS Precision Co., Ltd. a subsidiary

Source: Prepared by FISCO based on the Company's materials

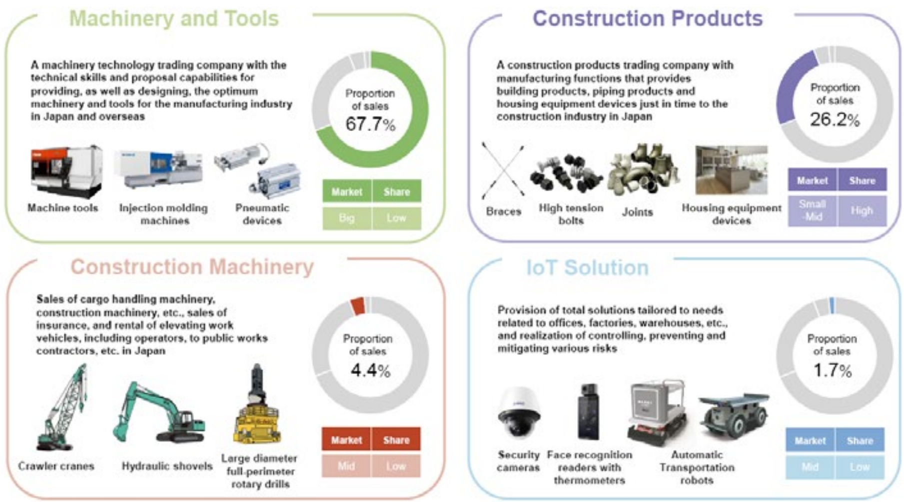
Business overview

Machinery & Tools and Construction Products the mainstays; solutions capability is characteristic and strength

1. Business overview, features and strengths

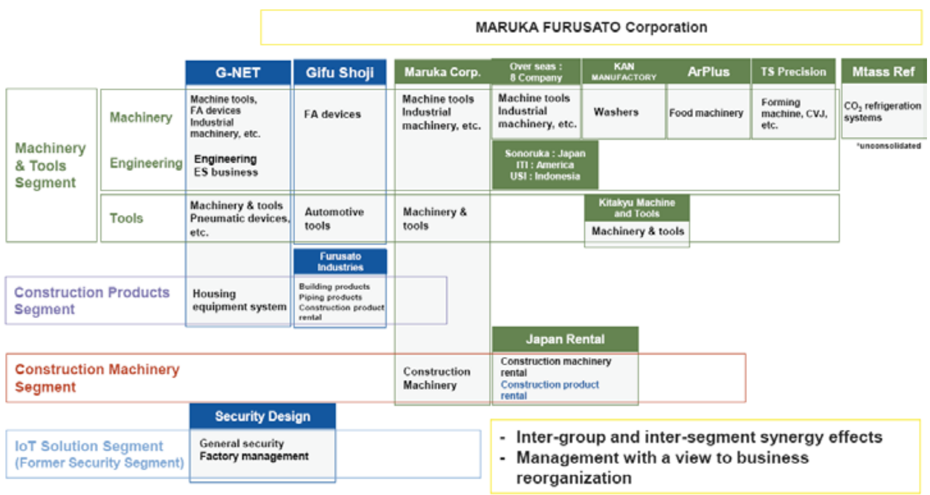
The Company has four segments: Machinery & Tools, Construction Products, Construction Machinery and IoT Solution (name changed from security as of FY12/23). It aims to be a unique solutions company that generates solutions found nowhere else. Its overall brand for its products is UNISOL, a word combining “unique” and “solutions.” On a Company-wide basis, it has a business base of 4,500 suppliers and 16,000 customers.

Segment features



Source: The Company’s results briefing materials

Segment by operating company



Source: The Company’s results briefing materials

In Machinery & Tools, G-NET, Gifu Shoji, Maruka, Kan Manufactory, ArPlus, TS Precision, Mtass Ref (non-consolidated subsidiary), Sonoruka Engineering, Kitakyu Machine and Tools and overseas subsidiaries (in North America, China and Southeast Asia) sell (a portion of the products and parts and made internally) and engineer machine tools, FA devices, industrial machinery, injection molding machines, robots, washers, food machinery, logistics machines, forming machines, CO_2 refrigeration systems, machinery tools, pneumatic devices, cutting tools, and others. Around 20% of the Company's sales are overseas.

The Company does not simply buy and wholesale machinery and tools; rather, it provides a wide range of industrial machinery and tools in manufacturing markets in Japan and overseas, including major automakers and automotive parts manufacturers, and has the proposal, design and construction capabilities to combine them and achieve labor savings, energy savings and higher efficiency for customer production lines. In particular, it can bring to light issues on the customer's production floor and propose solutions. This solutions capability is a strength. Moreover, it can also accommodate smart factories that use cutting-edge technologies, like AI, sensing, and clouds, to provide broad support for manufacturing sites. In March 2003, to strengthen the smart factory field, G-NET signed a business partnership agreement with ARUM Inc. that includes exclusive distribution rights in Japan for a cloud-based subscription service that makes possible the use of the ARUMCODE series and other products.

In Construction Products, Furusato Industries and G-NET manufacture and sell building products and piping products, construction materials, and housing equipment systems, etc., to construction companies (general contractors) primarily in domestic markets for steel frame construction and factory piping. In particular, the Company's full braces, etc., made in-house, boast a high share of the market. The full brace is used in the framework of steel frame construction like warehouses and factories. Around 90% of sales is non-housing related and around 10% is related to housing.

Full brace

Source: The Company's materials

In Construction Machinery, Maruka and Japan Rental Co., Ltd. sell and rent construction machinery like elevating work vehicles and hydraulic shovels and construction products. Aerial work platforms are rented with an operator, which is a characteristic.

In IoT Solution, Security Design operates businesses such as selling security equipment and deploying security systems, including security and surveillance cameras, access control, and biometric authentication to meet the needs of offices, factories and warehouses, etc. Previously, device sales were central, but the Company is promoting total solutions and has expanded into the IoT field with monitoring and sensing, etc., playing an important role in the smart factory business, which is a focus of the Group. In addition, Security Design began sales of UNI-MOW, a system that detects signs of birth labor in cows, as a smart livestock system that uses AI analysis. This was developed via joint research with Kyoto University's Graduate School of Agriculture and with the assistance of Farmers Support Corporation in Kagoshima.

2. Trends by business segment

Looking at trends in results by segment (post-integration FY12/22 to FY12/23), the share of sales was 60-70% for Machinery & Tools and nearly 30% for Construction Products. Looking based on the share of operating profit, Machinery & Tools accounts for around 60% and Construction Products around 40%. Machinery & Tools and Construction Products are the Company's mainstays. In addition, looking at ratios of operating profit, Machinery & Tools is around 3% and Construction Products around 4-6%. Regarding operating profit from IoT Solution, demand for thermal cameras related to the COVID-19 pandemic dropped off and profit was in the red in FY12/22. It returned to black ink in FY12/23 as the impact of the pandemic subsiding ran its course and cost management was bolstered.

Trends by business segment

Net sales (¥mn)

	FY12/22	FY12/23
Machinery & Tools	107,077	117,128
Construction Products	43,787	45,241
Construction Machinery	8,839	7,605
IoT Solution	2,711	3,004
Consolidated net sales	162,416	172,980

Net sales composition (%)

	FY12/22	FY12/23
Machinery & Tools	65.9%	67.7%
Construction Products	27.0%	26.2%
Construction Machinery	5.4%	4.4%
IoT Solution	1.7%	1.7%
Consolidated net sales	100.0%	100.0%

Operating profit (¥mn)

	FY12/22	FY12/23
Machinery & Tools	3,235	3,758
Construction Products	2,606	1,987
Construction Machinery	142	81
IoT Solution	-57	38
Total	5,928	5,865
Adjustment	-32	-160
Consolidated operating profit	5,895	5,705

Composition of operating profit before adjustments (%)

	FY12/22	FY12/23
Machinery & Tools	54.6%	64.1%
Construction Products	44.0%	33.9%
Construction Machinery	2.4%	1.4%
IoT Solution	-1.0%	0.6%
Total	100.0%	100.0%

Ratio of operating profit (%)

	FY12/22	FY12/23
Machinery & Tools	3.0%	3.2%
Construction Products	6.0%	4.4%
Construction Machinery	1.6%	1.1%
IoT Solution	-2.1%	1.3%
Total	3.6%	3.4%
Adjustment	-	-
Ratio of operating profit	3.6%	3.3%

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

Differentiation with unique solutions

3. Risk factors, feature of earnings, and countermeasures

As for general risk factors, they include demand fluctuations caused by the business climate, lower sales and worse profitability caused by intensified competition, currency fluctuations, being slow to adjust prices in light of higher raw material costs, and being slow to accommodate product development and technological innovations.

Mainstay Machinery & Tools is impacted by capital investment, primarily by manufacturers, and Construction Products is impacted by construction investment, so it is possible that demand will fluctuate due to the business climate. For this reason, to analyze results fluctuation risk, the Company is promoting business portfolio management that analyzes multiple businesses with differing business models and sensitivity to the business climate. Regarding competition, there are many similar companies, but the Company is working to differentiate itself through its strength in making unique proposals and providing solutions.

Results trends

FY12/23 saw small decreases in operating and ordinary profit, but generally in line with forecasts

1. Overview of FY12/23 consolidated results

In consolidated results for FY12/23, net sales increased by 6.5% to ¥172,980mn, operating profit decreased 3.2% to ¥5,705mn, ordinary profit declined 5.7% to ¥6,652mn, and profit attributable to owners of parent went down by 3.7% to ¥4,698mn, so there were small margins of decline in operating and ordinary profit. Entering 2H, the business environment deteriorated somewhat, so in addition to lower capacity utilization for production of Construction Products, prices went up for supplies and energy and competition intensified, which led to a decline in the gross margin. Furthermore, an increase in personnel expenses from adding personnel and improving treatment, an increase in travel and transportation expenses from relaxation of restrictions on movement, and an increase in logistics expenses were among items that had an effect. However, driven by a strong performance from mainstay Machinery & Tools, results generally met forecasts (upwardly revised on August 8, 2023 to net sales of ¥171,000mn, operating profit of ¥6,000mn, ordinary profit of ¥6,830mn, and profit attributable to owners of parent of ¥4,700mn).

Gross profit increased by 2.7%, but the gross margin declined by 0.6 percentage points to 15.6%. SG&A expenses increased by 4.4%, but the SG&A expense ratio declined 0.2 percentage points to 12.3%. As a result, the ratio of operating profit declined by 0.3 percentage points to 3.3%. The factors behind the ¥190mn decline in operating profit were an increase in sales of ¥1,709mn, a decrease in the profit margin of ¥993mn, an increase in operating expenses of ¥25mn, human capital investment (personnel expenses) increasing by ¥435mn, and general expenses increasing by ¥446mn.

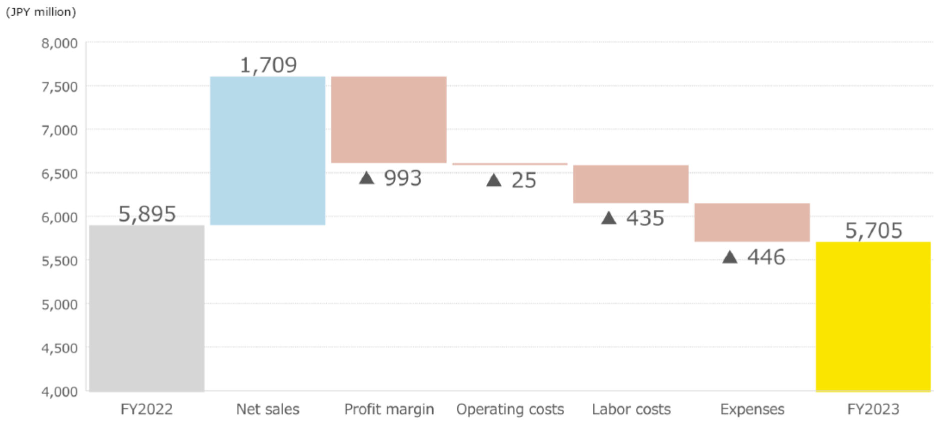
Overview of FY12/23 consolidated results

(¥mn)

	FY12/22		FY12/23		YoY		Previous forecast	vs previous forecast	
	Results	% of total	Results	% of total	Change	% change		Change	% change
Net sales	162,416	100.0%	172,980	100.0%	10,564	6.5%	171,000	1,980	1.2%
Gross profit	26,278	16.2%	26,994	15.6%	716	2.7%	-	-	-
SG&A expenses	20,383	12.5%	21,289	12.3%	906	4.4%	-	-	-
Operating profit	5,895	3.6%	5,705	3.3%	-190	-3.2%	6,000	-295	-4.9%
Ordinary profit	7,055	4.3%	6,652	3.8%	-403	-5.7%	6,830	-178	-2.6%
Profit attributable to owners of parent	4,531	2.8%	4,698	2.7%	167	3.7%	4,700	-2	-0.0%

Note: Previous forecasts revised on August 8, 2023
Source: Prepared by FISCO from the Company's financial results

Factors behind change in operating profit (YoY)



Source: The Company's results briefing materials

2. Trends by business segment

In Machinery & Tools, net sales increased 9.4% YoY to ¥117,128mn and operating profit (before adjustments for corporate expenses, etc.) increased by 16.2% to ¥3,758mn. Overall, capital investment demand in the manufacturing industry was extremely sluggish in Japan and overseas, but automobile-related demand in Japan was solid, and with the Company's solutions capability as a strength, revenue and profit both increased and beat forecasts. Overseas sales went up 6.0% to ¥31,690mn, recovering to pre-pandemic levels. The overseas sales ratio was 18.3%, down 0.1 percentage points. In North America (up 0.1% to ¥16,958mn), injection molding machines decreased substantially, but machine tools increased. In China (up 47.4% to ¥5,292mn), the effects of economic slowing continued, but revenue increased substantially thanks to acquiring large orders.

In Construction Products, net sales increased 3.3% to ¥45,241mn and operating profit declined 23.8% to ¥1,987mn. The reasons revenue increased but profit fell included that although urban redevelopment-related, semiconductor-related, and logistics warehouse-related performed well, there was a decrease in small and medium-sized projects due to rising construction costs and the revision of plans for large projects, which in part caused capacity utilization to decline, and intensified competition also had an impact as the profit margin declined.

In Construction Machinery, net sales decreased by 14.0% to ¥7,605mn and operating income decreased 42.7% to ¥81bn, so both revenue and profit declined by large margins. This was because a mainstay product was impacted by engine orders being suspended because of a quality assurance problem at Hino Motors, Ltd. <7205>.

In IoT Solution, net sales increased 10.8% to ¥3,004mn and operating profit totaled ¥38mn (a loss of ¥57mn the previous term). In addition to the reversal in special demand for thermal cameras related to the pandemic running it course, an increase in projects, promotion of high value-added solutions businesses through collaboration among Group companies, and stronger cost management all played a part in getting operating profit back in blank ink.

Overview of FY12/23 by segment

(¥mn)

	FY12/22		FY12/23		YoY		Previous forecast	vs previous forecast	
	Results	% of total	Results	% of total	Change	% change		Change	% of change
Net sales									
Machinery & Tools	107,077	65.9%	117,128	67.7%	10,051	9.4%	114,000	3,128	2.7%
Construction Products	43,787	27.0%	45,241	26.2%	1,453	3.3%	46,000	-759	-1.7%
Construction Machinery	8,839	5.4%	7,605	4.4%	-1,233	-14.0%	7,800	-195	-2.5%
IoT Solution	2,711	1.7%	3,004	1.7%	293	10.8%	3,000	4	0.1%
Consolidated net sales	162,416	100.0%	172,980	100.0%	10,563	6.5%	171,000	1,980	1.2%
Operating profit									
Machinery & Tools	3,235	3.0%	3,758	3.2%	522	16.2%	3,560	198	5.6%
Construction Products	2,606	6.0%	1,987	4.4%	-619	-23.8%	2,370	-383	-16.2%
Construction Machinery	142	1.6%	81	1.1%	-61	-42.7%	50	31	62.0%
IoT Solution	-57	-2.1%	38	1.3%	95	-	20	18	90.0%
Total	5,928	3.6%	5,865	3.4%	-63	-1.1%	6,000	-135	-2.3%
Adjustment	-32	-	-160	-	-	-	-	-	-
Consolidated operating profit	5,895	3.6%	5,705	3.3%	-190	-3.2%	6,000	-295	-4.9%

Note 1: Previous forecasts were revised on August 8, 2023
Note 2: Percentage of total of operating profit is operating profit as a percentage of the segment's net sales
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Company maintains a good financial condition

3. Financial condition

On the financial front, total assets at the end of FY12/23 declined by ¥2,572mn YoY to ¥120,342mn. Electronically recorded monetary claims – operating increased by ¥2,319mn and investment securities increased by ¥1,142mn, but cash and deposits declined by ¥3,898mn and notes and accounts receivable – trade declined by ¥2,720mn. The decline in cash and deposits was due to acquiring treasury shares, building a logistics center, and M&A. Total liabilities were ¥47,623mn, down ¥3,152mn. Mainly, electronically recorded obligations – operating increased ¥1,198mn and deferred tax liabilities increased ¥453mn, but notes and accounts payable – trade decreased ¥2,473mn and contract liabilities declined by ¥1,971mn. Interest-bearing debt (total of long-term and short-term borrowings) increased by ¥331mn to ¥1,394mn. Total net assets increased by ¥580mn to ¥72,719mn. Capital surplus decreased ¥965mn, treasury shares (subtraction) declined by ¥1,424mn, but retained earnings increased by ¥1,810mn and valuation difference on available-for-sale securities increased by ¥747mn. As a result, the equity-to-asset ratio increased 1.7 percentage points to 59.7%. There are no particular problems and we at FISCO think that the Company is maintaining good financial health.

Consolidated balance sheet and statement of cash flows (summarized version)

(¥mn)

	End-FY12/22	End-FY12/23	Change
Assets	122,914	120,342	-2,572
(Current assets)	92,077	84,207	-7,870
(Non-current assets)	30,837	36,134	5,297
Liabilities	50,775	47,623	-3,152
(Current liabilities)	49,016	45,105	-3,911
(Non-current liabilities)	1,759	2,517	758
Net assets	72,139	72,719	580
(Shareholder's equity)	68,712	68,132	-580
(Share capital)	5,000	5,000	-
Equity-to-asset ratio	58.0%	59.7%	1.7%

	FY12/22	FY12/23
Cash flows from operating activities	3,795	6,031
Cash flows from financing activities	-2,286	-4,898
Cash flows from investing activities	-495	-5,370
Cash and cash equivalents at end of period	24,132	20,174

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

Outlook

For FY12/24, profit decline expected, but a recovery trend in 2H

1. Overview of FY12/24 consolidated forecast

For consolidated results in FY12/24, the Company is forecasting net sales to rise 0.6% to ¥174,000mn, operating profit to decline by 3.6% to ¥5,500mn, ordinary profit to decline by 5.3% to ¥6,300mn and profit attributable to owners of parent to decline by 10.6% to ¥4,200mn. The unclear outlook and rising costs are behind the expected declines in profit. Looking by half, in 1H, net sales are expected at ¥83,500, operating profit at ¥2,300mn, ordinary profit at ¥2,700mn, and profit attributable to owners of parent at ¥1,800mn. In the 2H, the projections are net sales of ¥90,500mn, operating profit of ¥3,200mn, ordinary profit of ¥3,600mn, and profit attributable to owners of parent of ¥2,400, so results are expected to be weighted toward 2H. In 1H, the order backlog at the start of the period was down, and considering that and other uncertainties, revenue is expected to drop 1.9% and operating profit to fall 27.8%, but in 2H, a moderate recovery is expected, so sales are projected to rise 3.1% and operating profit to increase by 27.0%. On the cost front, along with increased personnel expenses, operation of a new logistics center (the new UNISOL L.C. OSAKA was established due to the aging of Furusato Industries' Osaka Distribution Center and G-NET's Osaka Logistics Center) and system investment are expected to increase SG&A expenses, including depreciation. The Company's forecasts are on the whole very conservative, and we at FISCO believe there is room for results to beat them.

Overview of FY12/24 consolidated forecast

(¥mn)

	FY12/23 Results				FY12/24							
					Forecast						YoY	
	1H	2H	Full-year	% of total	1H	Change	2H	% change	Full-year	% of total	Change	% change
Net sales	85,159	87,820	172,980	100.0%	83,500	-1.9%	90,500	3.1%	174,000	100.0%	1,020	0.6%
Gross profit	13,570	13,424	26,994	15.6%	-	-	-	-	-	-	-	-
SG&A expenses	10,384	10,905	21,289	12.3%	-	-	-	-	-	-	-	-
Operating profit	3,186	2,519	5,705	3.3%	2,300	-27.8%	3,200	27.0%	5,500	3.2%	-205	-3.6%
Ordinary profit	3,631	3,021	6,652	3.8%	2,700	-25.6%	3,600	19.2%	6,300	3.6%	-352	-5.3%
Profit attributable to owners of parent	2,598	2,100	4,698	2.7%	1,800	-30.7%	2,400	14.3%	4,200	2.4%	-498	-10.6%

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

2. Trends by business segment

The forecasts for Machinery & Tools is net sales of ¥116,300mn, down 0.7% YoY (down 5.4% in 1H to ¥55,200mn and up 3.9% in 2H to ¥61,100mn) and operating profit of ¥3,170mn, down 15.7% (down 46.8% in 1H to ¥1,190mnm and up 30.1% in 2H to ¥1,980mn). Automobile-related will remain solid and with mounting expectations for increased production from 2Q onward in semiconductors, overall, there is a great deal of opacity in capital investment trends, so these are conservative forecasts.

Forecasts for Construction Products are net sales to rise 1.9% to ¥46,100 (up 2.6% in 1H to ¥22,700mn and up 1.3% in 2H to ¥23,400mn) and operating profit to increase 5.7% to ¥2,100mn (down 0.7% in 1H to ¥1,000mn and up 12.4% in 2H to ¥1,100mn). There will continue to be a great deal of uncertainty, but increased profit is expected due to higher capacity utilization starting in 2H and other factors.

Forecasts for Construction Machinery are net sales to increase 9.1% YoY to ¥8,300mn (up 23.2% in 1H to ¥4,000mn and down 1.3% in 2H to ¥4,300mn) and for operating profit to increase 58.8% to ¥130mn (¥60mn in 1H, ¥70mn in 2H). There are concerns such as increased personnel costs against the backdrop of the 2024 problem, and there is uncertainty in Construction Machinery investment by customers, but compared to last year, the Hino Motors engine problem, etc., will run its course, so higher revenue and profit are expected.

Forecasts in IoT Solution are for net sales to increase 9.8% YoY to ¥3,300mn (up 10.0% in 1H to ¥1,600mn and up 9.7% in 2H to ¥1,700mn), and operating profit to increase by 161.9% to ¥100mn (¥50mn in 1H, ¥50mn in 2H). The Company will promote the high value-added solutions business through collaboration with Group companies in Machinery & Tools and strengthen cost management, so increases in revenue and profit are expected.

Overview of FY12/24 outlook by segment

(¥mn)

	FY12/23 Results				FY12/24							
					Forecast						YoY	
	1H	2H	Full-year	% of total	1H	Change	2H	% change	Full-year	% of total	Change	% change
Net sales												
Machinery & Tools	58,326	58,802	117,128	67.7%	55,200	-5.4%	61,100	3.9%	116,300	66.8%	-828	-0.7%
Construction Products	22,130	23,111	45,241	26.2%	22,700	2.6%	23,400	1.3%	46,100	26.5%	859	1.9%
Construction Machinery	3,248	4,356	7,605	4.4%	4,000	23.2%	4,300	-1.3%	8,300	4.8%	695	9.1%
IoT Solution	1,454	1,550	3,004	1.7%	1,600	10.0%	1,700	9.7%	3,300	1.9%	296	9.8%
Consolidated net sales	85,159	87,820	172,980	100.0%	83,500	-1.9%	90,500	3.1%	174,000	100.0%	1,020	0.6%
Operating profit												
Machinery & Tools	2,236	1,522	3,758	3.2%	1,190	-46.8%	1,980	30.1%	3,170	2.7%	-588	-15.7%
Construction Products	1,007	979	1,987	4.4%	1,000	-0.7%	1,100	12.4%	2,100	4.6%	113	5.7%
Construction Machinery	-9	91	81	1.1%	60	-	70	-23.1%	130	1.6%	49	58.8%
IoT Solution	19	18	38	1.3%	50	163.2%	50	177.8%	100	3.0%	62	161.9%
Total	3,254	2,611	5,865	3.4%	2,300	-29.3%	3,200	22.6%	5,500	3.2%	-365	-6.2%
Adjustment	-68	-92	-160	-	-	-	-	-	-	-	-	-
Consolidated operating profit	3,186	2,519	5,705	3.3%	2,300	-27.8%	3,200	27.0%	5,500	3.2%	-205	-3.6%

Note: Percentage of total of operating profit is operating profit as a percentage of the segment's net sales
Source: Prepared by FISCO from the Company's results briefing materials

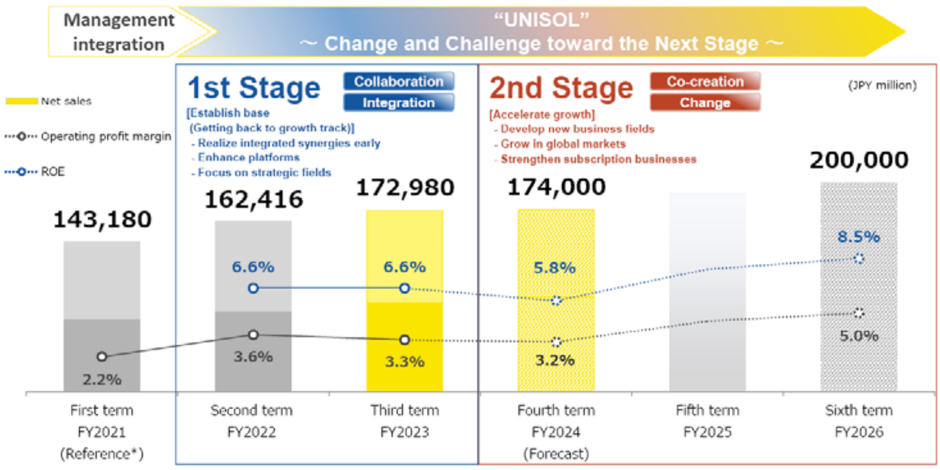
Growth strategy

Medium-Term Management Plan "UNISOL"

1. Medium-Term Management Plan "UNISOL"

As for how the Company aspires to be in 10 years, it has set targets of ¥400.0bn for net sales, at least ¥20.0bn for operating profit and market capitalization of ¥150.0bn. Under the Medium-Term Management Plan "UNISOL" (FY12/22 to FY12/26), which is aimed at achieving these long-term targets, the targets for the final year of the plan, FY12/26, are net sales of ¥200.0bn, operating profit of ¥10.0bn, a ratio of operating profit of 5.0%, adjusted EBITDA (= operating profit + depreciation + goodwill amortization + other temporary revenue and expenses) of ¥11.5bn and ROE of 8.5%.

Medium-Term Management Plan "UNISOL"



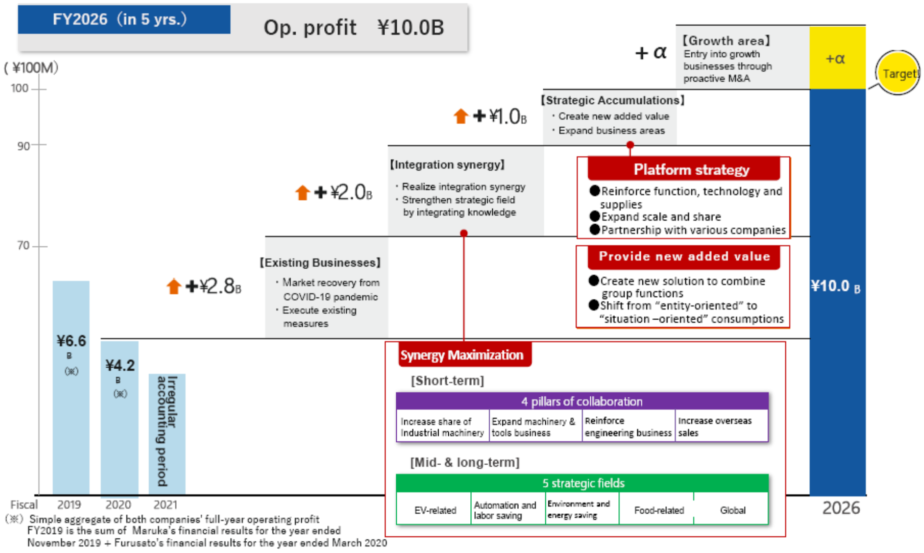
* Results of FY2021 are reference values by summing financial results of the Furusato Group from January to December 2021 and the Maruka Group from December 2020 to November 2021.

Source: The Company's results briefing materials

As a roadmap, the two years of the first half of the plan is positioned as the first stage, to establish base, and the three years in the second half as the second stage, accelerating growth. The basic strategy for establishing a management base that will support sustained growth is "cultivation," to differentiate the Company from others in existing businesses, "challenge," to develop new business fields, and "sustainability," to strengthen SDGs initiatives. Moreover, its priority strategies are to maximize integration synergies, deepen platform strategy, create new solutions through Group function integration, and conduct smart factory initiatives. To maximize integration synergies, the Company is putting forth four pillars of collaboration to make concrete short-term synergies (increase share of industrial machinery, expand machinery and tools business, reinforce engineering business and increase overseas sales) and five strategic fields to pursue medium- to long-term synergies (EV-related, automation and labor saving, environment and energy-saving, food-related, and global).

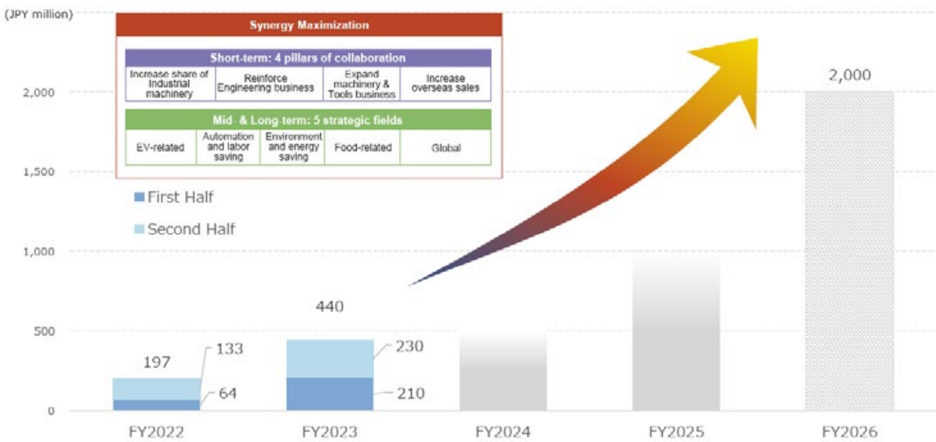
As for a concrete strategy for achieving operating profit of ¥10.0bn, the Company aims to add ¥2.8bn from market recovery and executing existing measures in existing businesses, add ¥2.0bn by making integration synergies concrete and strengthening initiatives for priority fields, and add ¥1.0bn by building a strategy of creating new added value and expanding the business domain, etc. The breakdown of the ¥2.0bn in synergies is ¥0.9bn from the four collaboration pillars and ¥1.1bn in the five strategic areas. Moreover, the Company plans to also build up a certain extra amount through participation in growth businesses via active M&A. As for progress through the end of FY12/23, as a result of maximizing synergies, the Company created ¥197mn in FY12/22 and ¥440mn in FY12/23.

Roadmap to achievement of earnings targets



Source: Reprinted from the Company's medium-term management plan briefing materials

Roadmap to achievement of earnings targets: synergy progress



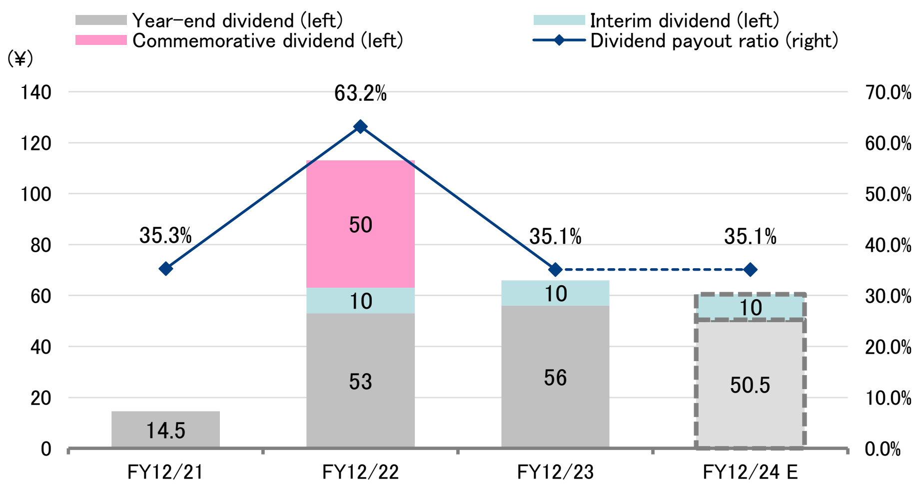
Source: The Company's results briefing materials

Basic policy of a consolidated payout ratio of 35%

2. Shareholder return policy

Regarding shareholder returns, returning profits is positioned as one of the important priorities of management. It has a basic policy of allocating profits based on a consolidated payout ratio of about 35% to allocate the results of financial performance while considering internal reserves. In addition, regardless of financial performance, it aims for a stable dividend of ¥15.0 annually per share. Based on this basic policy, in FY12/23, the Company paid a full-year dividend of ¥66.0 (¥10.0 at the end of 1H and ¥56.0 at year-end). The payout ratio was 35.1%. Compared to FY12/22, that is down ¥47.0, but the ¥113.0 paid in FY12/22 included a ¥50.0 commemorative dividend, so on an ordinary dividend basis, it is up ¥3.0. Regarding the forecast dividend for FY12/24, it is expected to decline by ¥5.5 YoY to a full-year dividend of ¥60.5 (¥10.0 at the end of 2Q and ¥50.5 at year-end). The payout ratio based on this forecast is 35.1%.

Dividend per share and dividend payout ratio



Note: The payout ratio in FY12/21 was the integration period, so the calculation method differs from using average shares outstanding during the period to determine profit per share from which the payout ratio is derived
Source: Prepared by FISCO from the Company's results briefing materials

Bolstering sustainability management initiatives

3. Sustainability management

The Company is also strengthening initiatives for sustainability management. In February 2022, it established the Sustainability Committee and put forth five basic themes: 1) Achieve harmony and coexistence with the global environment (reducing the environmental impact in our business activities), 2) Support sustainability in the manufacturing industry (improving productivity through proposals for automation and saving labor of production equipment and construction sites), 3) Realize a secure, safe and comfortable society (a safe, secure and stable supply system for products and merchandise), 4) Increase job motivation, and promote growth and social contribution (promotion of diversity), and 5) Promote fair and honest corporate activities (strengthen the risk management and crisis management systems).

To realize solutions to social issues through its main business activities, as a policy for improving employee understanding of environmental problems, the Company recommends taking the Certification Test for Environment Specialists (Eco Test) sponsored by the Tokyo Chamber of Commerce and Industry. In FY2023, 240 employees passed the test. The Company is targeting 1,000.

Also, in January 2024, using the corporate version of the hometown tax donation program, it donated ¥10mn to University-Initiated Urban Innovation Kobe, a research subsidy program for young researchers run by the City of Kobe, and received a letter of appreciation.

Sustainability management

	Basic Policy on Sustainability		Materiality
1	Achieve harmony and coexistence with the global environment	We believe that the global environment is a common asset of humankind, and we will strive to respond to climate change issues and conserve resources by visualizing and reducing the environmental load factors in our various business processes.	Reducing the environmental impact in our business activities
2	Support sustainability in the manufacturing industry	We will aim to be the "solution partner" with unique ideas that is chosen first to address the various social issues that manufacturing sites face, such as the declining labor force due to the declining birthrate and aging population, and responding to evolving technologies.	Improving productivity through proposals for automation and saving labor of production equipment and construction sites
3	Realize a secure, safe and comfortable society	We will promote business activities that take into account the safety, security, and comfort of not only our business partners, but also end users, by developing a stable supply system for our products and merchandise and applying cutting-edge technologies such as IoT.	A safe, secure and stable supply system for products and merchandise
4	Increase job motivation, and promote growth and social contribution	We will develop human resources by recognizing the importance of respecting human rights and practicing diversity management that emphasizes the individuality of each employee, so that each employee has motivation to work, grows autonomously and contributes to society.	Promotion of diversity and inclusion
5	Promote fair and honest corporate activities	Guided by our corporate philosophy and as a public instrument for the benefit of society, we will abide by all laws and regulations, our code of conduct, and the spirit thereof, and promote compliance practices with a strong sense of ethics. We will also aim to continuously improve corporate value by undertaking activities to properly manage internal and external business risks.	Strengthening the risk management and crisis management systems

Source: Prepared by FISCO from materials provided by the Company

Focused on the progress of synergy maximization

4. FISCO's view

In the fields of Machinery & Tools and Construction Products, which are the Company's mainstays, not only are they affected by changes in the business environment because they are related to capital investment, profit margins are low because wholesaling predominates, which are factors for why the interest of investors on the stock market is not at all high. However, the Company has strengths in proposal, design and construction capabilities that realize labor savings, energy savings, and greater efficiency for customer production lines in the manufacturing market, and, in particular, solutions capability to bring to light issues at customer manufacturing sites and propose solutions. Further, it is aiming to raise Group synergies and become a unique solutions company that provides unique solutions found nowhere else. Improving the profit margin is an issue, but if by steadily promoting the strategy of maximizing Group synergies stated in the Medium-Term Management Plan "UNISOL" and the profit margin rises over the medium to long term, we at FISCO believe it is possible the interest of investors will increase. Accordingly, for the time being, we at FISCO believe the focus should be on the progress of the strategy of maximining Group synergies.

Disclaimer

■ For inquiries, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp