COMPANY RESEARCH AND ANALYSIS REPORT

gremz, Inc.

3150

Tokyo Stock Exchange Prime Market

18-Sep.-2024

FISCO Ltd. Analyst

Nozomu Kunishige

This report was translated from the
Japanese original as of 29-Jul.-2024.

FISCO

FISCO Ltd.

https://www.fisco.co.jp

Contents

Summary

As the leading company in sales of photovoltaic systems for business use, aiming for sustained profit growth and to raise corporate value

gremz, Inc. <3150> (hereinafter, also referred to as "the Company") has been listed on the Tokyo Stock Exchange (TSE)'s Prime Market and 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." In the Energy Cost Solutions Business, the Company has achieved a high growth, high earnings model, and in the Electricity Retailing Business, it works to expand its scale as a stable recurring revenue source to continue high profit growth and pursue higher corporate value.

1. FY3/24 results overview

In consolidated results for FY3/24, the Company recorded a significant increase in profit, with ¥29,908mn in net sales (-4.7% YoY), ¥5,217mn in operating profit (+44.9%), ¥5,268mn in ordinary profit (+42.9%) and ¥3,540mn in profit attributable to owners of parent (+43.6%). Compared to initial forecasts, net sales were down by 7.0% due to lower electricity market prices, but operating profit exceeded the forecast by 20.8%, setting an all-time high, so performance was good. By segment, in the Energy Cost Solutions Business, sales of photovoltaic systems for business use that propose self-consumption of electricity expanded, which drove the strong performance. Also, in the Electricity Retailing Business as well, profit rose well above forecasts thanks to rigorous risk hedging and lower electricity market prices, which contributed to strong results. The capital ratio was 59.7% (1.9 pp improvement YoY), maintaining a high level. The Company is maintaining a good financial foundation that is well above the market averages of the TSE Prime Market. Similarly, ROA and ROE both were well above the Prime Market average, so profitability is extremely high. It raised its target payout ratio from its previous 20% in FY3/24 to 30%, and since the announcement, it raised its per-share annual dividend from the initial forecast of ¥22 to ¥47 (+¥25 YoY), showing that it also gives adequate consideration to returning profits to shareholders.

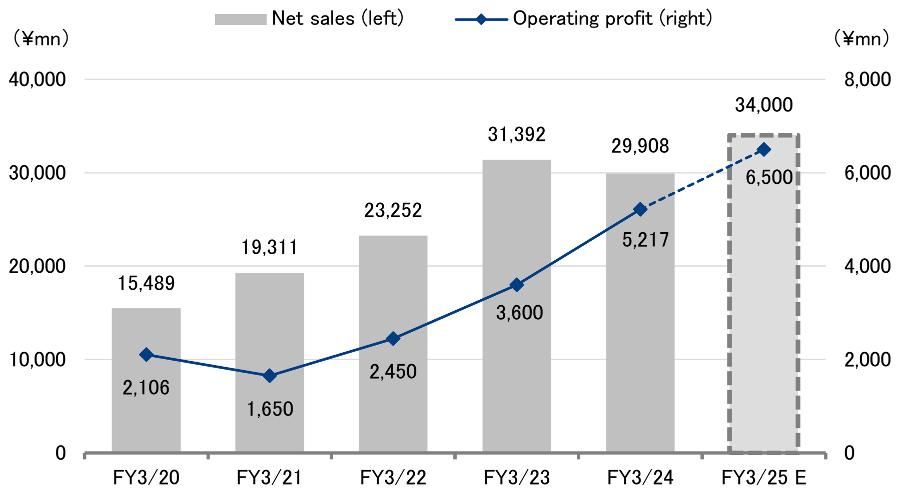
2. FY3/25 forecasts

In its consolidated results for FY3/25, the Company is forecasting increases in sales and profits, with net sales of ¥34,000mn (+13.7% YoY), operating profit of ¥6,500mn (+24.6%), ¥6,570mn in ordinary profit (+24.7%) and ¥4,320mn in profit attributable to owners of parent (+22.0%), targeting a record high operating profit. In the Energy Cost Solutions Business, the Company promotes sales of photovoltaic systems for business use, and with small and medium-sized businesses that use low-voltage power as its main target, it differentiates itself from other companies. In the Smart House Project Business, the Company promotes sales of storage batteries and works to sustain stable business results. In the Electricity Retailing Business, it has established a business model where stable earnings can be expected though rigorous risk hedging, so going forward it will work for stable growth by increasing the number of contracts. However, its initial results forecasts tended to be very conservative, so it is believed that there is a strong possibility that full-year results will ultimately outstrip initial forecasts. In addition, the Company is planning a per-share annual dividend of ¥57 (+¥10 YoY), so it can be commended for continuing to give adequate consideration to shareholder returns. Further, the Group is actively involved in sustainability (continuing to maintain economic activities while considering the global environment) and is likely to 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 FY3/24, the Company recorded an increase in profits that significantly surpassed initial forecasts. The main reasons were increased profits in the Energy Cost Solutions Business and Electricity Retailing Business. Financial condition is sound and profitability is high. The Company is raising its dividend by a large margin and giving adequate consideration to shareholder returns
- In FY3/25 as well, high profit is expected, but the initial results forecasts are conservative. The Company is planning to pay a total dividend of ¥57 as it continues to give consideration to shareholder returns. Sustainability is a focus as well

Results trends



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

Company outline

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

1. Company outline

The Group 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 the 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. and gremz energy, Inc., which sell photovoltaic systems for business use as their mainstay product and provide consulting on reduction of electricity costs for businesses, gremz power, Inc., which handles electricity retailing, 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 Group 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 Group'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 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 high-growth 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 Group 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 284 consolidated employees as of March 31, 2024.

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 household 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

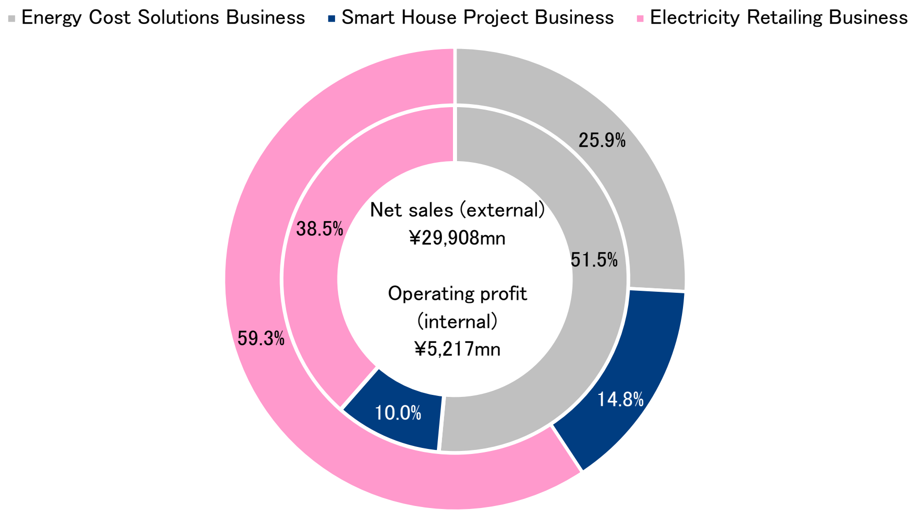
Business description

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 FY3/24 show the Energy Cost Solutions Business, which carries out consultations to reduce electric power costs, had ¥7,734mn in net sales (25.9% of the Company's total) and ¥3,030mn in operating profit (51.5%), the Smart House Project Business, which sells storage batteries and household photovoltaic systems, had ¥4,440mn in net sales (14.8%) and ¥587mn in operating profit (10.0%), and the Electricity Retailing Business, which engages in retail sales of electricity, had ¥17,733mn in net sales (59.3%) and ¥2,267mn in operating profit (38.5%). 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 profit for 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 Group's three businesses and is an important pillar of its earnings. The high profit margin is due to the main focus on products with high profit margins, such as 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 Group's strong earnings going forward.

GR consulting sells photovoltaic systems for business use, 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 base electricity fees 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. It conducts sales activities nationwide from business sites in Tokyo, Osaka, and Nagoya.

gremz energy was established in April 2022 as a subsidiary selling 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. The 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 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.

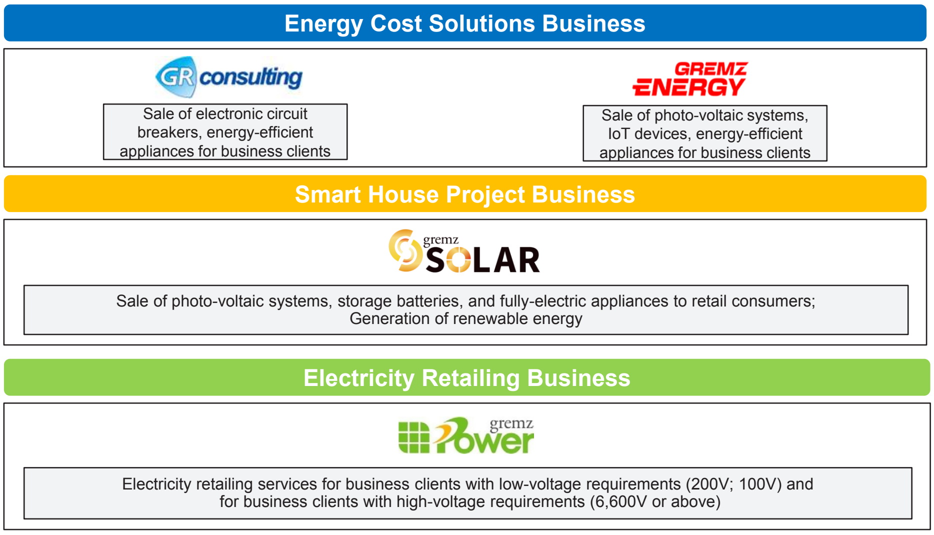
2. Smart House Project Business

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 homebuilders 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 storage battery market scale is expanding.

3. Electricity Retailing Business

This business started in December 2016 following the registration of the subsidiary 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 low load factors (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), secures 1-on-1 individual contract agreements, and utilizes derivatives transactions, while in high-voltage sales, it has switched to market linkage plans. Through these and other measures to effectively hedge against the risk of rising electricity procurement prices, the Company has established the business as a stable base of recurring revenue.

Group businesses and business activities



Source: The Company's business description materials

Business trends

In FY3/24, good results for an all-time high in operating profit

1. FY3/24 results overview

The economic environment for FY3/24 showed a gradual recovery in business sentiment with employment, income environment, and corporate earnings improving and capital investment recovering. However, the outlook remained uncertain as before, with factors including increasing prices driven by the yen's depreciation and an apparent slowdown in the recovery of individual consumption. The 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 prices by implementing a proprietary cost adjustment system 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 FY3/24, with net sales of ¥29,908mn (-4.7% YoY), gross profit of ¥9,257mn (+23.3%), operating profit of ¥5,217mn (+44.9%), ordinary profit of ¥5,268mn (+42.9%), and profit attributable to owners of parent of ¥3,540mn (+43.6%). Compared to the Company's initial forecast, net sales were -7.0%, but operating profit was +20.8%, setting a new record high, so results were favorable. The operating margin rose significantly from 11.5% the previous term to 17.4%. Net sales declined due to the Electricity Retailing Business's sales decreasing as a result of lower market prices (unit sales price). On the profit front, profit increased in all three businesses, but in the Energy Cost Solutions Business in particular, sales of photovoltaic systems for business use that propose self-consumption of electricity increased, and in the Electricity Retailing Business, profit increased well above forecasts due to rigorous risk hedging, as both contributed to the good results. In the Electricity Retailing Business, conservative forecasts were set for electricity procurement prices, but electricity market prices were far below these plans, so gross profit and operating profit both increased substantially. In 4Q, the strength of the Electricity Retailing Business became clear, so backorders* in the Energy Cost Solutions Business and Smart House Project Business were pushed back to the next term. These favorable financial results show that the Group is able to respond flexibly to changes in the economic environment by changing its focus businesses to ensure stable delivery of high profits.

* Revenue not recognized; backorders not yet posted as sales

FY3/24 consolidated income statement

(¥mn)

	FY3/23		FY3/24			YoY		vs. targets	
	Results	% of sales	Forecast	Results	% of sales	YoY change	% change	YoY change	% change
Net sales	31,392	100.0%	32,144	29,908	100.0%	-1,483	-4.7%	-2,235	-7.0%
Cost of sales	23,883	76.1%	-	20,650	69.0%	-3,232	-13.5%	-	-
Gross profit	7,508	23.9%	8,352	9,257	31.0%	1,749	23.3%	905	10.8%
SG&A expenses	3,907	12.4%	-	4,040	13.5%	132	3.4%	-	-
Operating profit	3,600	11.5%	4,320	5,217	17.4%	1,616	44.9%	897	20.8%
Ordinary profit	3,687	11.7%	4,350	5,268	17.6%	1,581	42.9%	918	21.1%
Profit attributable to owners of parent	2,465	7.9%	2,826	3,540	11.8%	1,075	43.6%	713	25.3%

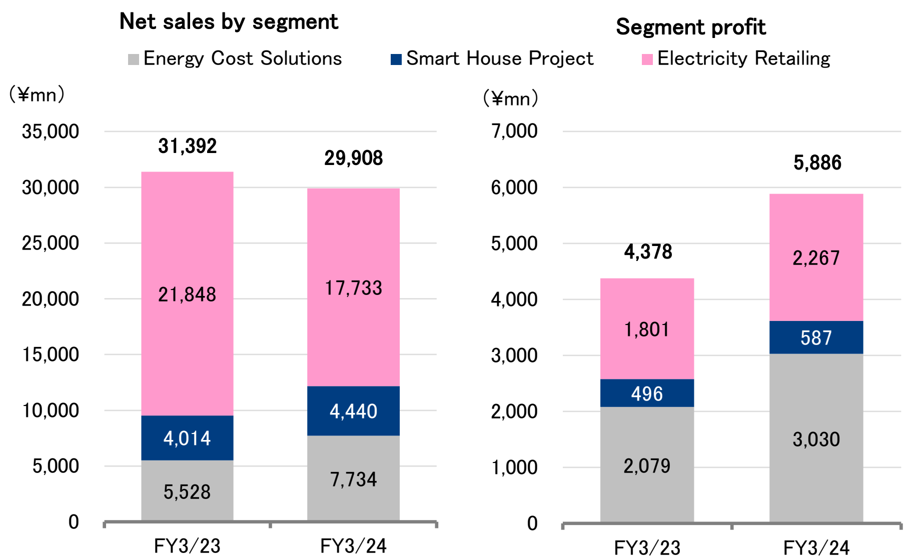
Note: Forecasts are from initial guidance at the FY3/23 results announcement
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Performance trends by segment

In the Energy Cost Solutions Business, the Company engaged in sales of its mainstay 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 electricity usage and equipment. As a result, the segment posted ¥7,734mn in net sales (+39.9% YoY) and ¥3,030mn in operating profit (+45.7%). Compared to the initial forecast, net sales fell short by 7.5% and operating profit by 7.2%. This was due to backorders in the Energy Cost Solutions Business being pushed back to the next term due to the strong performance of the Electricity Retailing Business becoming clear in 4Q. Operating profit was the highest among the three businesses, as profitability improved with the expansion of sales of photovoltaic systems for business use, and operating profit margin increased from 37.6% in the same period of the previous fiscal year to 39.2%, the highest profit margin among the three segments, making this segment a supporting pillar of earnings for the Group.

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 ¥4,440mn (+10.6% YoY) and operating profit of ¥587mn (+18.3%). The segment fell short of the initial forecast by 5.4% in net sales and 17.3% in operating profit. This was due to backorders in the Smart House Project Business being pushed back to the next term due to the strong performance of the Electricity Retailing Business becoming clear in 4Q. Segment profit was lowest among the three businesses, but due in part to reining in event sales, the segment profit margin rose from 12.4% the previous term to 13.3%.

In the Electricity Retailing Business, with electricity market prices coming down due to fuel (LNG) prices and electricity demand settling down, unit sales price declined and net sales decreased. At the same time, along with risk hedging measures, electricity market prices stabilized at a low level, which allowed procurement prices to be kept down, resulting in a large increase in profit. Net sales in this business were ¥17,733mn (-18.8% YoY) and segment profit was ¥2,267mn (+25.9%). Compared to the initial forecast, net sales were down 7.1% while segment profit was up substantially, by 137.9%. Net sales were the highest among the three businesses, and segment profit was second behind the Energy Cost Solutions Business. The segment profit margin improved from 8.2% the previous term to 12.8%.



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

Continued to secure high profitability and sound finances

3. Financial condition and cash flow situation

Regarding the Company's financial condition at the end of FY3/24, cash and deposits rose ¥2,249mn, and merchandise increased ¥1,215mn, while notes and accounts receivable - trade, and contract assets decreased by ¥678mn, which resulted in current assets increasing ¥2,745mn YoY to ¥16,913mn. The main factor behind the change in merchandise was an increase in backorders for photovoltaic systems for business use. However, in actuality, construction has been completed and the systems are already in use by customers, and the final schedule for phone confirmation by the credit company is next term, so the systems will be recorded as net sales of the Energy Cost Solutions Business in the next term. Non-current assets increased by ¥1,649mn to ¥4,698mn, mainly due to an increase of ¥1,600mn in investment securities for asset management. As a result of the above, total assets increased by ¥4,394mn to ¥21,612mn. In liabilities, short-term borrowings increased by ¥100mn, the current portion of long-term borrowings increased by ¥283mn, income taxes payable increased by ¥412mn, and accrued consumption taxes rose by ¥146mn, which resulted in current liabilities rising ¥1,147mm to ¥5,810mn. In addition, long-term borrowings increased by ¥224mn, resulting in non-current assets increasing by ¥264mn to ¥2,810mn. Total liabilities increased by ¥1,411mn to ¥8,620mn. Of this, interest-bearing debt, which is the total of short- and long-term borrowings, rose ¥607mn to ¥3,764mn. Total net assets rose by ¥2,982mn to ¥12,991mn as a result of comprehensive income attributable to owners of parent rising ¥3,608mn, but net assets declined by ¥736mn due to dividends of surplus. The balance of cash and cash equivalents for FY3/24 was ¥10,474mn (¥8,224mn at the end of the previous fiscal year).

As a result of these trends, the Company's capital ratio for FY3/24 was 59.7% (1.9 pp improvement YoY), a high level, confirming extremely strong financial soundness with the Company maintaining a good financial base. ROA was 27.1% (+3.2 pp) and ROE 31.0% (+3.4 pp), exhibiting extremely high profitability. In fact, according to the latest data compiled from consolidated financial summaries of listed corporations by Japan Exchange Group, Inc. <8697>, the Group's figures were well above the capital ratio of 31.7%, ROA of 4.1%, and ROE of 9.1% of listed companies on the Prime Market (all industries) for FY3/24 settlement.

Consolidated balance sheet and management indicators

(¥mn)

	End-FY3/23	End-FY3/24	% change
Current assets	14,168	16,913	2,745
(Cash and deposits)	8,224	10,474	2,249
(Notes and accounts receivable - trade, and contract assets)	4,313	3,635	-678
(Merchandise)	1,261	2,476	1,215
Fixed assets	3,049	4,698	1,649
Tangible fixed assets	1,345	1,350	4
Intangible fixed assets	250	208	-42
Investments and other assets	1,453	3,140	1,686
Total assets	17,217	21,612	4,394
Current liabilities	4,663	5,810	1,147
Non-current liabilities	2,545	2,810	264
Total liabilities	7,209	8,620	1,411
(Interest-bearing debt)	3,157	3,764	607
Total net assets	10,008	12,991	2,982
Soundness			
Capital ratio	57.8%	59.7%	1.9 pp
Profitability			
ROA (Ordinary profit to total assets ratio)	23.9%	27.1%	3.2 pp
ROE (Return on equity)	27.6%	31.0%	3.4 pp

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

Looking at cash flows for FY3/24, net cash provided by operating activities was ¥4,089mn (¥1,464mn provided in the same period of the previous fiscal year). The main inflow was net income before income taxes of ¥5,218mn, while the main outflows were increases in inventories of ¥1,215mn and income taxes paid of ¥1,368mn. It is noteworthy that cash flow increased significantly in the period under review.

Net cash used in investment activities totaled ¥1,787mn (¥80mn provided in the same period of the previous fiscal year). The main inflow was proceeds sale of investment securities of ¥600mn, while the main outflow was purchase of investment securities of ¥2,200mn.

Net cash used in financing activities totaled ¥52mn ¥1,162mn provided in the same period of the previous fiscal year). This was due to outflows including repayment of long-term borrowings of ¥992mn and dividend payouts of ¥735mn, which exceeded the inflows of ¥1,500mn in proceeds from long-term borrowings.

As a result of the above, cash and cash equivalents increased by ¥2,249mn compared to the end of the previous year. In addition, free cash flow, which is cash that can be freely used by the Group to expand business, pay back borrowings, or pay dividends to shareholders, etc., increased from ¥1,545mn in the previous fiscal year to ¥2,301mn.

Cash flow statement

(¥mn)

	FY3/23	FY3/24
Cash flows from operating activities (a)	1,464	4,089
Cash flows from investing activities (b)	80	-1,787
Cash flows from financing activities	1,162	-52
Free cash flow (a) + (b)	1,545	2,301
Cash and cash equivalents at end of period	8,224	10,474

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

Future Outlook

For FY3/25, the Company is predicting higher sales and profits and a new record high in operating profit

1. FY3/25 forecasts

Based on the current economic environment, marked by surging electricity costs and building a decarbonized society, the Group proposes utilizing renewable energy, and making improvements to electricity operations, facilities and procurement to lower electricity costs in an effort to enhance lifetime value (for customers). Since FY3/23, photovoltaic systems for business use have been a mainstay product and the Company's growth strategy has pivoted on expanding its Energy Cost Solutions Business. Against a backdrop of continued strong orders, in FY3/25 as well, it plans to further expand sales of photovoltaic systems for business use. In addition, regarding the Electricity Retailing Business, a stable recurring revenue stream has been established by taking measures to hedge risk related to results fluctuations, which is expected to lead to growth for the Group overall.

Based on the above assumptions, in consolidated results for FY3/25, net sales are expected to be ¥34,000mn (+13.7% YoY), operating profit to be ¥6,500mn (+24.6%), ordinary profit to be ¥6,570mn (+24.7%), and profit attributable to owners of parent to be ¥4,320mn (+22.0%), so the Company is expecting higher sales and profits. It is expecting to set an all-time high for operating profit this term as well by proactively investing in human resources to expand the Energy Cost Solutions Business and steadily grow the Electricity Retailing Business. As usual, the Company's initial results forecasts tend to be conservative, so FISCO believes there is a strong possibility that when results are announced, they will exceed the initial forecasts.

FY3/25 consolidated results outlook

(¥mn)

	FY3/24		FY3/25		YoY	
	Results	% of sales	Forecast	% of sales	YoY change	% change
Net sales	29,908	100.0%	34,000	100.0%	4,091	13.7%
Gross profit	9,257	31.0%	11,200	32.9%	1,942	21.0%
Operating profit	5,217	17.4%	6,500	19.1%	1,282	24.6%
Ordinary profit	5,268	17.6%	6,570	19.3%	1,301	24.7%
Profit attributable to owners of parent	3,540	11.8%	4,320	12.7%	779	22.0%

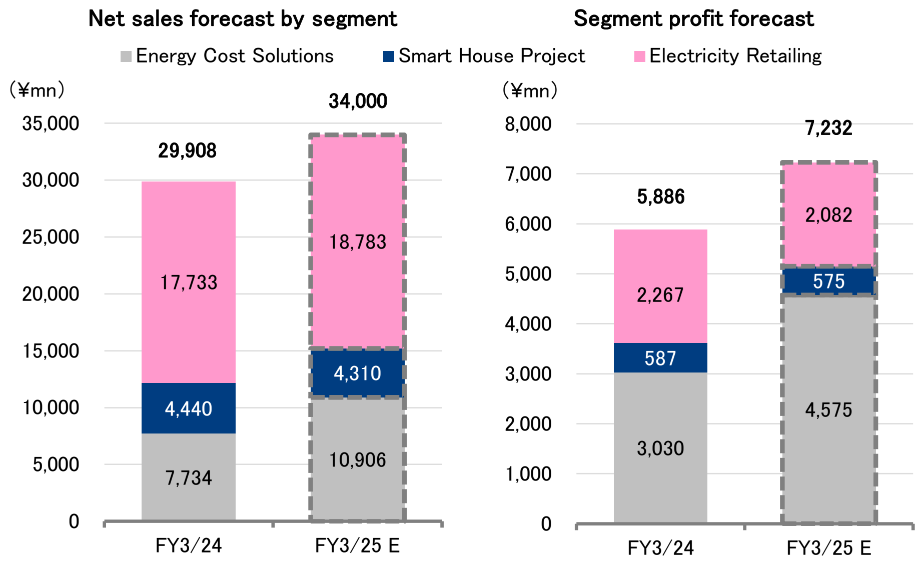
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Results forecast by segment

In the Energy Cost Solutions Business, net sales for FY3/25 are expected to be ¥10,906mn (+41.0% YoY), gross profit to be ¥6,654mn (+43.2%), and segment profit to be ¥4,575mn (+51.0%) as major increases in sales and profits are expected by making photovoltaic system for business use the mainstay of sales. In this term, regarding photovoltaic systems for business use, net sales are expected to be ¥10.0bn (¥6.1bn the previous term) and gross profit is expected to be ¥6.0bn (¥3.4bn the previous term), so major increases are planned. Through the focused commitment of management resources, including personnel, the system is expected to contribute to the Energy Cost Solutions Business and to expanding results for the Group as a whole. The plan is ambitious, but recent monthly construction volume is trending at a gross profit of ¥0.5bn or higher, and the aim is to expand further toward the end of the term. Backorders pushed back have built up significantly, so the accuracy of the plan is fairly high. Productivity will increase as more weight is put on photovoltaic systems for business use, which have a high unit sales price, so the segment profit ratio is projected to be 42.0% (+2.8 pp YoY). In the Energy Cost Solutions Business, there is follow-up revenue taken as compensation for the sale, but the market is big and there are no competitors, so by committing sales resources, the business is expected to contribute to expanding company-wide profit in a way that is close to a recurring-revenue business as compensation continues to be received.

In the Smart House Project Business, net sales are expected to be ¥4,310mn (-2.9% YoY), gross profit is projected at ¥1,803mn (-2.3%) and segment profit is expected to be ¥575mn (-2.0%) as results are generally expected to mark time. The Company is expecting a gross profit margin of 41.8% (+0.2 pp) and a segment profit margin of 13.4% (+0.2 pp). Last term's results and the FY3/25 forecast are at cruising speed. There are many competitors, so compared to the Energy Cost Solutions Business profit margins are lower.

Regarding the Electricity Retailing Business, net sales are expected to be ¥18,783mn (+5.9% YoY), gross profit to be ¥2,742mn (-0.8%), and segment profit to be ¥2,082mn (-8.2%). The gross profit margin is projected at 14.6% (-1.0pp) and the segment profit margin at 11.1% (-1.7pp). The capacity market begins in FY3/25, so the burden of capacity market contributions will increase, and electricity market prices are expected to go up compared to last term, whereas 1-on-1 individual contract agreement prices are expected to go down. In addition, unit sales prices are planned conservatively. A capacity market, incidentally, is a market created to secure stable power supply for consumers by having power providers promise stable supply in order to ensure adequate supply capacity during peak demand. The necessary supply capacity nationwide is set by the Organization for Cross-regional Coordination of Transmission Operators (OCCTO) and contract prices are determined based on bid prices.



Note: Segment profit values are calculated prior to deducting Companywide costs
Source: Prepared by FISCO from the Company's financial results and results briefing materials

Energy Cost Solutions Business driving results expansion while the Electricity Retailing Business returns to a growth strategy

3. Growth strategy

The Group is planning the following growth strategy.

(1) Energy Cost Solutions Business

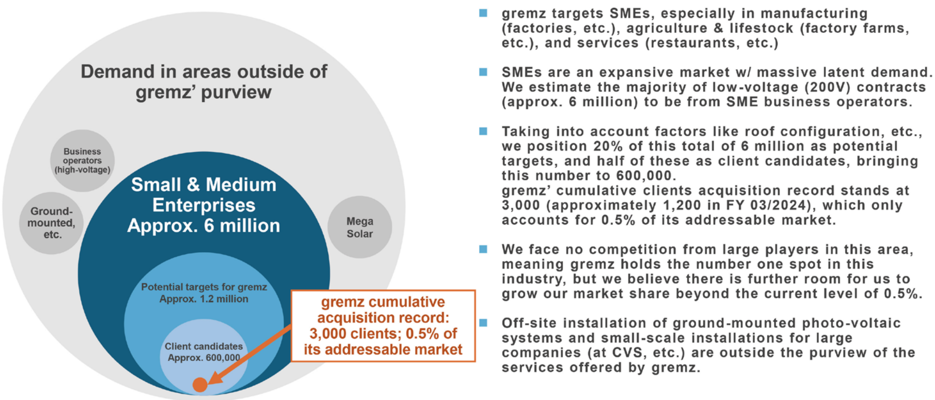
In the Energy Cost Solutions Business, the Company will work for sustained growth primarily by selling photovoltaic systems for business use. Mainly, this involves installing photovoltaic power systems on the roofs of the plants of small and medium-sized customers and having the electricity used that is produced at the plants (self-consumption). The proposal lowers the cost compared to purchasing electricity. The Group distinguishes itself by making SMEs its main target, which is an area of strength and aims for stable orders and high profitability. In addition, it will commit human resources and actively promote coordination with other companies. Moreover, going forward, it plans to promote sales of the systems together with storage batteries in order to make effective use of surplus electricity.

In this way, the background to promoting the Energy Cost Solutions Business is the continuing spiking of electricity prices since the Great East Japan Earthquake and the steadily expanding economic benefits for customers of deploying solar power. The Group has established a business model that produces high customer satisfaction by procuring the equipment, providing integrated installation management of equipment procurement and construction orders, conducting sales on its own and also bolstering sales through customer referrals from alliance partners, and offering financing utilizing credit companies. Through its alliance partners, the Group has a network of over 200,000 SMEs and aims to expand this going forward. The scheme is to pay a contract commission to alliance partners when a customer referral leads to a contract.

The photovoltaic system for business use, which significantly reduces electricity costs for SMEs, is expected to drive the Group's results expansion over the long term. At the same time, customers who deploy photovoltaic systems for business use enjoy reductions to electricity charges by large margins. So such self-consumption-type solar power generation is expected to expand substantially going forward. The Group's target is SMEs and it plans to uniquely realize growth in the low-voltage market. There seem to be few companies like the Group that have knowledge of solar, a strong track record, and are proficient in sales to SMEs. In the background to its differentiation from other companies, as a business practice in Japan, an agency system is used; major companies do not directly conduct retail sales. The Group plans to increase customers by promoting alliances with companies that have SME customer bases and business groups, etc.

Regarding the latent market in the Energy Cost Solutions Business, the Group thinks as follows. The Group's target is SMEs mainly in manufacturing (plants, etc.), agriculture and livestock (breeding buildings, etc.), and the service sector (restaurants, etc.), but the scope of SMEs is large and latent demand is enormous. Low-voltage (200V) electric power contracts primarily contracted by business operators total approximately 6 million, and nearly all of these are estimated to be SMEs. Assuming based on the roof shape and other factors that around 20% of these 6 million contracts are selection eligible and further assuming that half of these are customer candidates, the total is approx. 600,000 contracts. The Group currently has contracted around 3,000 companies (FY3/24, around 1,200), and the market development ratio remains at just 0.5% of customer candidates. There is no competition from major companies, and although the Group is considered to be the market leader, there is a great deal of room to expand its share. Based on the above, the Energy Cost Solutions Business is expected to drive the Group's results over the long term.

Positioning & latent markets for the Energy Cost Solutions Business



Source: The Company's results briefing materials

(2) Smart House Project Business

Regarding the Smart House Project Business, expanded demand for renewable energy is expected at households whose FiT system period has expired, so the Company will continue to promote sales of storage batteries, but for the time being the plan is to work for stable trends in results.

Due to the expiration of the FiT system period, users will no longer be able to sell electricity generated with solar power at high prices as before, and the advantages of self-consumption are significant, so demand for storage batteries is expected to increase. To realize the government's goal of carbon neutrality by 2050 (greenhouse gas emissions and absorption in balance), storage batteries are positioned as a key device, and analysis suggests that the market scale for domestic storage systems will grow by 158% on a volume basis from fiscal 2024 to fiscal 2030. Since the solar bubble, there have been competitors who have terminated the business or transferred businesses, while the Group will strengthen sales through events at large-scale commercial facilities. In addition, for former homebuilder customers (latent customers who have built houses) the Company has partnered with homebuilder-related companies to sell storage batteries to former FiT customers. The Company is planning stable growth over the long term by acquiring profit from these holdover customers.

Smart House Project Business growth strategy

Source: The Company's results briefing materials

(3) Electricity Retailing Business

In an environment marked by the start of the capacity market, the Electricity Retailing Business will work to reduce procurement price fluctuation risk by continuing to possess a customer base of low-voltage consumers with a low load factor. By securing 1-on-1 individual contract agreements giving consideration to profitability, implementing a proprietary cost adjustment system, and the use of derivatives, the Company will rigorously hedge the risk of spikes in electricity market prices and aim for stable results growth.

Up until the last term, for low voltage, risk hedging measures were conducted over three stages, while for high voltage, the Company focused exclusively on market linkage plans, establishing a business model that enables stable recurring revenue. Along with establishing a business model that anticipates stable revenue by avoiding negative spread risk, the power source procurement environment has taken a turn for the better, so beginning in FY3/25, the Company plans to return the business to a growth strategy by increasing contract numbers and plans to increase the number of contracts from 58,000 to 63,000.

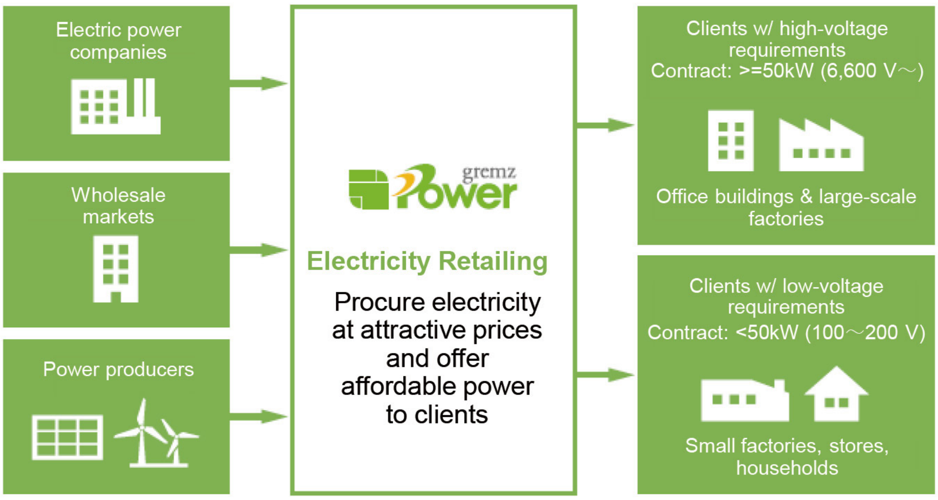
Under the Group's sales strategy, for customers with metered lighting (100V), the Company focuses on bundled sales of low-voltage electricity (for corporations) to increase sales efficiency. Unlike ordinary households, these customers often use relatively high-priced stage 3 energy amount rates (300kWh and above), so a high unit sales price is a characteristic. For low-voltage (200V) customers, the Group is targeting the customer base centered on electronic circuit breakers, one of its strengths, and focusing on customers with low load factors. Since their electricity usage is low compared to contract electricity, the cost of sales does not tend to increase, even if the market price increases. This is the first-stage risk hedge. Further, as the second-stage risk hedge, when market prices spike, a proprietary cost adjustment system goes into operation that passes off some of the costs onto customers. For the third-stage hedge, regarding the portion not covered by the proprietary cost adjustment system, procurement prices are fixed using 1-on-1 individual contract agreements. For high-voltage and ultra-high-voltage customers, fixed price sales were suspended two terms ago, and the Company switched to a policy of focusing exclusively on market linkage plan contracts. The Group has built a system that is not at risk of changes in procurement prices.

Framework generating stable recurring revenue

Low-voltage (Metered lighting • Low-voltage power)	Strengths	Sales targeting the existing client base, e.g., clients who use the Company's electronic circuit breakers and photo-voltaic systems for business use, allowing the Company to sustain a high ratio of orders to sales approaches.
	Sales strategy	Targeting mainly clients with low load factors (base electricity fees accounting for a large share of the overall electric bill, and with a higher unit sales price) so this allows the Company to secure high levels of profitability in excess of the industry average.
	Hedge risk	Adopted a proprietary cost adjustment system (allowing for partial cost pass-throughs of procurement costs from JEPX) starting from FY3/23; Additionally, the Company offset risk through 1-on-1 individual contract agreements.
High-voltage	Strengths	Retailing the electricity by itself and through referrals from partners allows the Company to increase sales opportunities and improve productivity.
	Sales strategy	Starting in August 2022, gremz now focuses exclusively on market-linkage plans. The previous fee structure included profit in the base electricity fee. In March 2024, the Company released a fee structure including profit in the amount of electricity used and a zero CO_2 emissions plan*
	Hedge risk	Since these are market-linkage plans, gremz is insulated from potential risks resulting from a spike in the market price of electricity. The Company also thoroughly manages credit risk. Accounts for approximately 1/3 of all electricity sold.

* Plan offering environmental benefits in the form of zero CO_2 emissions, achieved by using 100% Non-FIT Non-Fossil certified energy without specifying the energy source.
Source: Prepared by FISCO from the Company's results briefing materials

Electricity Retailing Business growth strategy



Source: The Company's financial results and results briefing materials

As stated above, the Group plans to continue high earnings and high growth on the two axes of greatly increasing results in the Energy Cost Solutions Business and of expanding the scale of the Electricity Retailing Business as a stable recurring revenue source. The Group 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 Group 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 of the Group.

Sustainability

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 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 Group's stock also deserves attention from this perspective.

Shareholder return policy

In FY3/24, dividend payout ratio target raised to 30% and the dividend was increased.
For FY3/25, the Company plans to raise its dividend for the ninth consecutive term

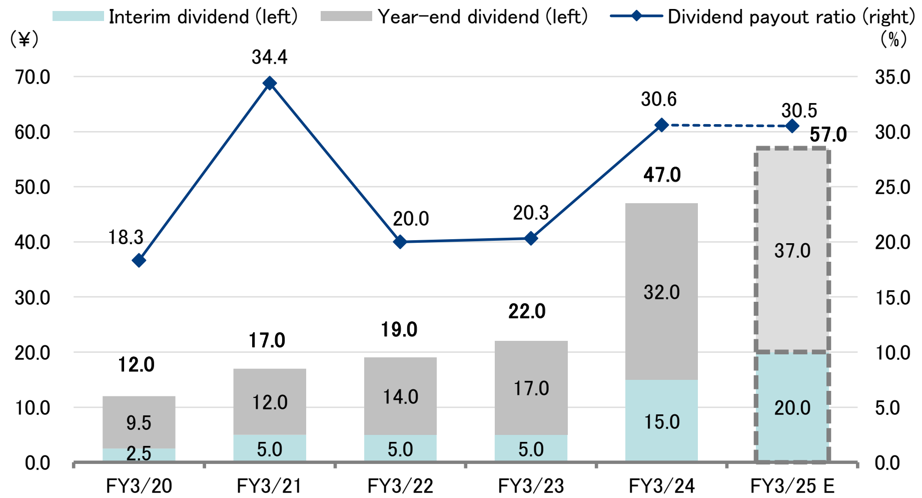
The Company shifted to the TSE Prime Market in April 2022. It was assessed as sufficiently meeting the listing standards defined by the TSE of having market cap (liquidity) suited to selection as an investment by many institutional investors, conducting robust governance and engaging in constructive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

The Group 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 Group 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 FY3/24, the Company planned the same level as last year, an interim dividend of ¥5 and year-end dividend of ¥17 for a total dividend of ¥22, but to enhance shareholder returns, making reference to the average value for listed companies on the Prime Market, the Company raised its target payout ratio for the full year from the previous mark of 20% to 30% and announced the change. As a result, it paid an interim dividend of ¥15 and a year-end dividend of ¥32 for a total dividend of ¥47 (+¥25 YoY). For FY3/25 as well, the Company is planning an interim dividend of ¥20 and a year-end dividend of ¥37 for a total dividend of ¥57 (+¥10). If realized, this is a commendable effort on shareholder returns, making a ninth consecutive year of dividend increases since FY3/17. The Group can be commended for giving adequate consideration to shareholder returns. In addition, the target payout ratio of 30% is the average of Prime Market listed companies, but the Company is seeking to expand results in a sustained manner, so going forward as well dividend increases can be expected each term.

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 year-end dividend.
Source: Prepared by FISCO from the Company's financial results

FISCO

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