COMPANY RESEARCH AND ANALYSIS REPORT

MARUKA FURUSATO Corporation

7128

Tokyo Stock Exchange Prime Market

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Contents

Summary

In FY12/24, demand expected to pick up from 2H

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.

1. Strong solutions capabilities in the manufacturing market

The Company has four segments: Machinery & Tools, Construction Products, Construction Machinery, and IoT Solution. Also, its UNISOL (a word combining "unique" and "solutions") brand covers the services and products of the Group overall. Machinery & Tools operations extend beyond simply purchasing and wholesaling to bringing light to and proposing solutions for issues at the production sites of customers in domestic and overseas manufacturing markets. Its solutions capability is a strength. Construction Products handles the manufacturing and sale of building products and piping products, mainly for the domestic steel frame construction and factory piping markets. The Company has a high market share for items such as full braces, a product manufactured in-house used in the framework of steel frame construction for warehouses, factories, and so forth. Construction Machinery handles the rental and sale of elevating work vehicles, hydraulic shovels, and other construction machinery. Its features include renting out aerial work platforms with an operator. IoT Solution involves sales and deployment of security systems and equipment including security/surveillance cameras, which is playing an important role in the smart factory business, which is a focus of the Group.

2. Operating and ordinary profit declined in 1H FY12/24, impacted by lower demand

In consolidated results for 1H FY12/24, net sales decreased 7.4% year on year (YoY) to ¥78,845mn, operating profit decreased 46.4% to ¥1,706mn, ordinary profit declined 40.5% to ¥2,160mn, and profit attributable to owners of parent increased 10.2% to ¥2,862mn. Although profit attributable to owners of parent rose as a gain on sale of investment securities was recorded under extraordinary income, operating and ordinary income declined due to higher operating, personnel, and general expenses, in addition to impact from lower sales in mainstay Machinery & Tools and Construction Products. Operating profit declined ¥1,479mn due to drags of ¥1,006mn from lower net sales, ¥25mn from profit margin fluctuation, ¥64mn from higher operating expenses, ¥210mn from higher personnel expenses, and ¥174mn from higher general expenses. The gross margin held basically steady YoY, owing to price revisions aligned with purchase price fluctuation.

3. Company revised down FY12/24 forecast to sales and profit decline, but expects demand to pick up from 2H

On July 26, 2024, the Company revised down its FY12/24 consolidated results forecast. It expects net sales to decline 5.7% YoY to ¥163,200mn, operating profit to decrease 33.4% to ¥3,800mn, ordinary profit to decline 30.9% to ¥4,600mn, and profit attributable to owners of parent to decline 3.2% to ¥4,550mn. The Company is now forecasting wider declines in operating profit and ordinary profit than initially, owing mainly to weak demand for Machinery & Tools and Construction Products in 1H. Looking at the outlook by fiscal half, however, the Company expects demand to pick up from 2H and operating and ordinary profit to turn to growth in 2H vs. 1H. It is forecasting growth in 2H vs. 1H for net sales of 7.0%, operating profit of 22.7%, and ordinary profit of 12.9%. It expects profit attributable to owners of parent to decline in 2H vs. 1H since a gain on sale of investment securities was recorded in 2Q.

4. Accelerating growth in second stage of 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. In the Medium-Term Management Plan "UNISOL" (FY12/22 to FY12/26), 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 goals for the final year of the plan, FY12/26, are net sales of ¥200.0bn, operating profit of ¥10.0bn, an operating profit margin of 5.0%, adjusted EBITDA (=operating profit + depreciation + goodwill amortization + other temporary revenue and expenses) of ¥11.5bn, and ROE of 8.5%. As for the effects of maximizing synergies, progress was generally good in the first stage, and the Company plans in the second stage to accelerate growth to achieve the targets for the final year of the plan by expanding into new business fields, making a leap forward in the global market, and strengthening recurring revenue business.

5. Strengthening shareholder returns

On April 15, 2024, the Company announced changes to its shareholder returns policy. Its revised basic policy for ordinary dividends is to continuously increase dividends (progressive dividends), with a medium- to long-term shareholder return target of DOE (dividend on equity ratio) of at least 3.5%. It is to raise DOE in stages starting from FY12/24, aiming to achieve DOE of 3.5% during the period of the next Medium-Term Management Plan (FY12/27-FY12/29). In addition to ordinary dividends, it will utilize special dividends and treasury share repurchases to flexibly provide additional returns to shareholders according to profit levels and financial conditions.

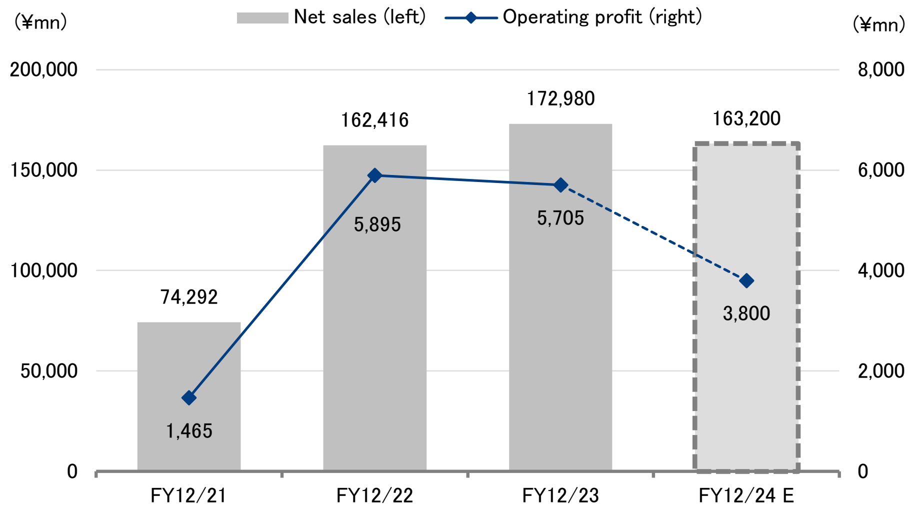
6. Spotlighting priority strategy progress in second stage of Medium-Term Management Plan

The Company's strengths include proposal, design, and construction capabilities that save labor and energy as well as enhance efficiency on customer production lines in the manufacturing market, and especially its solutions capabilities for bringing to light and proposing solutions to issues at customer manufacturing sites. It aims to enhance Group synergies and be a unique solutions company offering unique solutions found nowhere else. The Company revised down its FY12/24 forecast to wider declines in operating profit and ordinary profit. However, FISCO believes 1H FY12/24 could well mark a bottom for results for the foreseeable future, considering the currently strengthening recovery in orders for Machinery & Tools. Also, FISCO is spotlighting the progress of priority strategies to raise profit margins over the medium- to long-term in the second stage of the Medium-Term Management Plan "UNISOL."

Key Points

- Technology trading company mainly focused on Machinery & Tools and Construction Products
- Strength in solution capabilities in the manufacturing market
- Operating and ordinary profit declined in 1H FY12/24, impacted by lower demand
- Company revised down FY12/24 forecast to sales and profit decline, but expects demand to pick up from 2H
- Accelerating growth in second stage of Medium-Term Management Plan "UNISOL"
- Strengthening shareholder returns
- Spotlighting priority strategy progress in second stage of Medium-Term Management Plan

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 1H FY12/24, 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 non-equity-method affiliates, for a total of 31 companies. The main consolidated subsidiaries, 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 1H FY12/24, the Company had total assets of ¥119,761mn, net assets of ¥72,717mn, capital of ¥68,869mn, an equity ratio of 59.9%, and 25,174,214 shares outstanding (including 1,128,958 treasury shares).

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 (TSE). 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 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 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 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 Miyazawa Co., Ltd. (Company name changed to ArPlus Corporation in April 2023) 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	Transferred 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
May 2024	G-NET invested in ARUM Inc.

Source: Prepared by FISCO from the Company's materials

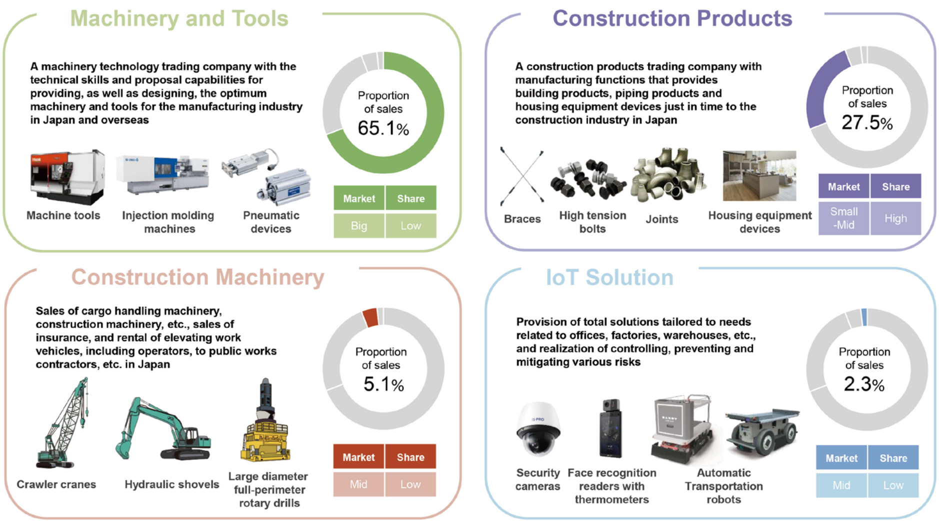
Business overview

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

1. Business overview, features and strengths

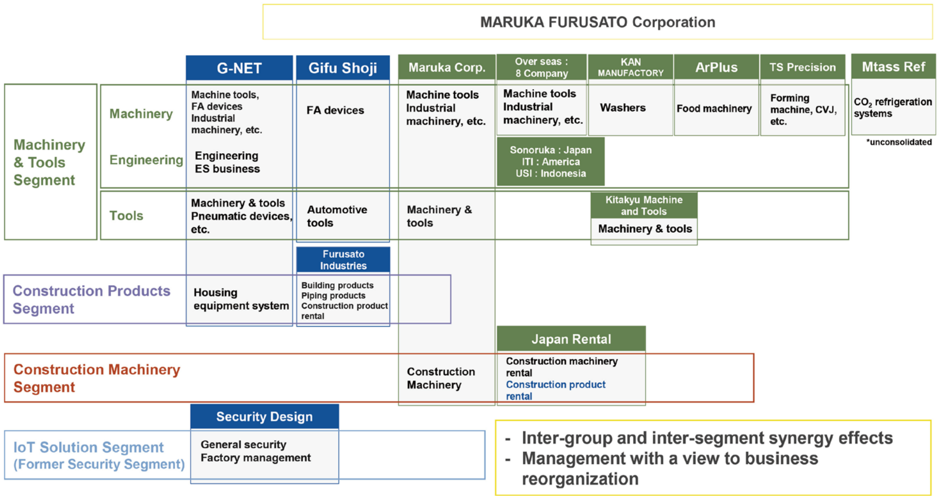
The Company has four segments: Machinery & Tools, Construction Products, Construction Machinery, and IoT Solution (name changed from Security as of FY12/23). It aims to be a unique solutions company that generates solutions found nowhere else. Its overall brand for its products is UNISOL, a word combining "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 (some products and parts are manufactured in-house) 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. (Kanazawa City, Ishikawa Prefecture) 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 addition, G-NET invested in ARUM in May 2024.

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, in September 2023, 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 (Kagoshima City, Kagoshima Prefecture).

2. Trends by business segment

Results trends by business segment (post-integration period of FY12/22 to FY12/23 and 1H FY12/24) are as follows. Looking at the breakdown of net sales, Machinery & Tools accounts for 60-70% and Construction Products nearly 30%. Looking at the breakdown of operating profit, Machinery & Tools accounts for around 50% and Construction Products about 40%. Machinery & Tools and Construction Products are the Company's mainstays. Also, the operating profit margin declined in 1H FY12/24 for Machinery & Tools due to impact from lower sales, and for Construction Products due to impact from competition. IoT Solution recorded an operating loss in FY12/22, owing to extraordinary demand for thermal cameras related to the COVID-19 pandemic dropping off. However, IoT Solution returned to an operating profit in FY12/23 as the impact from that demand dropping off ran its course and cost management was bolstered. In addition, the segment's operating profit margin rose a notch in 1H FY12/24, buoyed by a contribution from large-scale projects.

Trends by business segment

Net sales (sales to external customers) (¥mn)

	FY12/22	FY12/23	1H FY12/24
Machinery & Tools	107,077	117,128	51,226
Construction Products	43,787	45,241	21,780
Construction Machinery	8,839	7,605	4,036
IoT Solution	2,711	3,004	1,802
Consolidated net sales	162,416	172,980	78,845

Net sales composition (%)

	FY12/22	FY12/23	1H FY12/24
Machinery & Tools	65.9	67.7	65.0
Construction Products	27.0	26.2	27.6
Construction Machinery	5.4	4.4	5.1
IoT Solution	1.7	1.7	2.3
Consolidated net sales	100.0	100.0	100.0

Operating profit (¥mn)

	FY12/22	FY12/23	1H FY12/24
Machinery & Tools	3,235	3,758	843
Construction Products	2,606	1,987	745
Construction Machinery	142	81	77
IoT Solution	-57	38	124
Total	5,928	5,865	1,790
Adjustment	-32	-160	-83
Consolidated operating profit	5,895	5,705	1,706

Composition of operating profit before adjustments (%)

	FY12/22	FY12/23	1H FY12/24
Machinery & Tools	54.6	64.1	47.1
Construction Products	44.0	33.9	41.6
Construction Machinery	2.4	1.4	4.3
IoT Solution	-1.0	0.6	6.9
Total	100.0	100.0	100.0

Operating profit margin (%)

	FY12/22	FY12/23	1H FY12/24
Machinery & Tools	3.0	3.2	1.6
Construction Products	6.0	4.4	3.4
Construction Machinery	1.6	1.1	1.9
IoT Solution	-2.1	1.3	6.9
Operating profit margin before adjustments	3.6	3.4	2.3
Adjustment	-	-	-
Consolidated operating profit margin	3.6	3.3	2.2

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

Differentiation with unique solutions

3. Risk factors, feature of earnings, issues 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

In 1H FY12/24, operating and ordinary profit declined due mainly to lower demand

1. Overview of 1H FY12/24 consolidated results

In consolidated results for 1H FY12/24, net sales decreased 7.4% to ¥78,845mn, operating profit decreased 46.4% to ¥1,706mn, ordinary profit declined 40.5% to ¥2,160mn, and profit attributable to owners of parent increased 10.2% to ¥2,862mn. Profit attributable to owners of parent increased due to recording of gain on sale of investment securities of ¥2,265mn under extraordinary income. However, operating and ordinary income declined due to higher operating, personnel, and general expenses, in addition to impact from lower sales in mainstay Machinery & Tools and Construction Products.

Gross profit decreased by 7.6% YoY, while the gross margin was steady at 15.9%. SG&A expenses increased by 4.3%, and the SG&A expense ratio rose 1.5 percentage points to 13.7%. As a result, the operating profit margin decreased 1.5 percentage points to 2.2%. Operating profit declined ¥1,479mn due to drags of ¥1,006mn from lower net sales, ¥25mn from profit margin fluctuation, ¥64mn from higher operating expenses, ¥210mn from higher personnel expenses, and ¥174mn from higher general expenses. The gross margin held basically steady YoY, owing to price revisions aligned with purchase price fluctuation. Regarding SG&A expenses, operating expenses increased by 6.7%, personnel expenses rose by 3.1%, and general expenses increased by 5.4%.

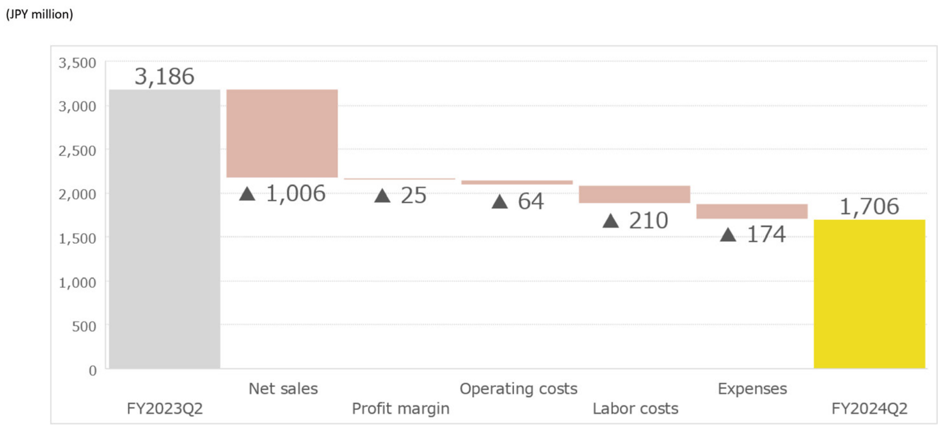
Overview of 1H FY12/24 consolidated results

(¥mn)

	1H FY12/23		1H FY12/24		YoY		Initial forecast Amount	vs initial forecast	
	Results	vs net sales	Results	vs net sales	Change	% change		Difference	% achievement
Net sales	85,159	100.0%	78,845	100.0%	-6,314	-7.4%	83,500	-4,655	94.4%
Gross profit	13,570	15.9%	12,539	15.9%	-1,031	-7.6%	-	-	-
SG&A expenses	10,384	12.2%	10,832	13.7%	448	4.3%	-	-	-
Operating profit	3,186	3.7%	1,706	2.2%	-1,479	-46.4%	2,300	-594	74.2%
Ordinary profit	3,631	4.3%	2,160	2.7%	-1,470	-40.5%	2,700	-540	80.0%
Profit attributable to owners of parent	2,598	3.1%	2,862	3.6%	264	10.2%	1,800	1,062	159.0%

Note: Initial forecasts announced on February 13, 2024
Source: Prepared by FISCO from the Company's financial results

Factors behind change in operating profit (YoY)



Source: The Company's results briefing materials

Compared with the Company's initial forecasts (announced February 13, 2024 for net sales of ¥83,500mn, operating profit of ¥2,300mn, ordinary profit of ¥2,700mn, and profit attributable to owners of parent of ¥1,800mn), there were shortfalls in net sales of ¥4,655mn, operating profit of ¥594mn, and ordinary profit of ¥540mn, whereas profit attributable to owners of parent came in ¥1,062mn above plan. As for 1H results forecast revisions, the Company raised its forecast on April 23, 2024 for profit attributable to owners of parent due to the posting of a gain on sale of investment securities. On July 26, 2024, it lowered its 1H forecasts for net sales, operating profit, and ordinary profit, and slightly raised its forecast for profit attributable to owners of parent.

Machinery & Tools sales and profit declined sharply

2. Trends by business segment

In Machinery & Tools, net sales decreased 12.2% YoY to ¥51,226mn and operating profit (before adjustments for corporate expenses, etc.) decreased 62.3% to ¥843mn. Sales and profit declined significantly and were below the initial forecasts, owing to weak demand. Domestic machinery sales declined 18.9% YoY. In automobile-related sectors, suspensions of capital investment projects in connection with certification test data falsification issues continued. In semiconductor-related sectors, a wait-and-see approach to capital investment continued. In addition, SMEs' capital investment generally continued to hinge on the adoption of policy subsidies. Overseas machinery sales decreased 35.4% YoY, and, notably, declined 28.6% in the key area of North America. In addition to customers holding off on purchases due to high interest rates, sales were affected by new investment being postponed in automotive areas due to the unclear outlook for EVs. In China, sales fell 75.8% YoY, owing to a pullback from large-scale projects in the same period of the previous fiscal year, and delayed recovery in Japanese automakers' capital investments. Overseas sales were ¥11,291mn, and the overseas sales ratio declined 6.2 percentage points YoY to 14.3%. Domestic tool sales declined 1.5% YoY, impacted by automobile production suspensions associated with certification test data falsification issues, and weak business conditions related to semiconductors.

In Construction Products, net sales declined 1.6% YoY to ¥21,780mn and operating profit decreased 26.0% to ¥745mn, both declining and falling short of initial forecasts. In building products, sales increased 0.5% YoY as temporary demand arose and prices were raised to previous levels. However, demand for steel-framed buildings trailed the initial forecast because of projects being delayed and postponed due partly to higher construction costs, and competition increased in products for large-scale projects, so the gross margin declined. In piping products, sales decreased 11.4% YoY. There was impact from weak demand for use in plants and construction facilities, and lower market prices for stainless steel products. In housing equipment, sales rose by 3.6% as last year's water heater shortage was resolved and there was an uptrend in projects including installation as well as projects involving direct demand.

In Construction Machinery, net sales increased 24.2% YoY to ¥4,036mn and operating profit came to ¥77mn (¥9mn operating loss in the same period of the previous fiscal year). Amid a downtrend in inquiries about prospective new vehicle purchases due to construction machinery manufacturers' price revisions, the Company concentrated on sales of second-hand vehicles. As a result, net sales rose and the segment turned to positive operating profit, surpassing initial forecasts.

In IoT Solution, net sales increased 23.9% YoY to ¥1,802mn and operating profit rose 527.6% to ¥124mn, both rising and exceeding initial forecasts. Demand for security equipment was solid, and orders for large-scale projects including access control systems secured by bolstering sales activities (sales posted in 1Q) contributed. There was also an uptrend in inquiries about automated transportation robots.

Overview of 1H FY12/24 by segment

(¥mn)

	1H FY12/23		1H FY12/24		YoY		Initial forecast	vs initial forecast	
	Results	vs net sales	Results	vs net sales	Change	% change	Amount	Achievement	% achievement
Net sales									
Machinery & Tools	58,326	68.5%	51,226	65.0%	-7,099	-12.2%	55,200	-3,974	92.8%
Construction Products	22,130	26.0%	21,780	27.6%	-349	-1.6%	22,700	-920	95.9%
Construction Machinery	3,248	3.8%	4,036	5.1%	787	24.2%	4,000	36	100.9%
IoT Solution	1,454	1.7%	1,802	2.3%	347	23.9%	1,600	202	112.6%
Consolidated net sales	85,159	100.0%	78,845	100.0%	-6,314	-7.4%	83,500	-4,655	94.4%
Operating profit									
Machinery & Tools	2,236	3.8%	843	1.6%	-1,393	-62.3%	1,190	-347	70.8%
Construction Products	1,007	4.6%	745	3.4%	-261	-26.0%	1,000	-255	74.5%
Construction Machinery	-9	-0.3%	77	1.9%	87	-	60	17	128.3%
IoT Solution	19	1.3%	124	6.9%	104	527.6%	50	74	248.0%
Total	3,254	3.8%	1,790	2.3%	-1,464	-45.0%	2,300	-510	77.8%
Adjustment	-68	-	-83	-	-	-	-	-	-
Consolidated operating profit	3,186	3.7%	1,706	2.2%	-1,479	-46.4%	2,300	-594	74.2%

Note 1: Initial forecasts announced on February 13, 2024
Note 2: Operating profit vs net sales 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

Strong financial health

3. Financial condition

On the financial front, total assets were ¥119,761mn at the end of 1H FY12/24, down ¥580mn from the end of FY12/23. This is mainly because cash and deposits increased by ¥4,874mn and property, plant and equipment increased by ¥937mn, whereas notes and accounts receivable-trade declined by ¥5,324mn and investment securities declined by ¥1,665mn. Total liabilities were ¥47,044mn, down ¥578mn. This is mainly because contract liabilities increased by ¥1,556mn, whereas notes and accounts payable-trade decreased by ¥1,590mn. In addition, interest-bearing debt (total of long-term and short-term borrowings) decreased by ¥468mn to ¥926mn. Total net assets decreased by ¥2mn to ¥72,717mn. Retained earnings increased by ¥1,487mn and treasury shares (subtraction) increased by ¥743mn, whereas valuation difference on available-for-sale securities decreased by ¥853mn. As a result, the equity ratio increased 0.2 percentage points to 59.9%.

At the Board of Directors meeting on March 28, 2024, the Company resolved to reduce policy shareholdings. This applies to shareholdings in roughly 40 companies for which its total balance sheet carrying value is about ¥647mn (as of the end of December 2023). The Company plans to proceed with sales of such shareholdings after careful dialogue with investee companies. FISCO believes the Company's financial health is strong, with nothing of concern in particular as a whole, including the status of cash flows.

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

(¥mn)

	End-FY12/22	End-FY12/23	End-1H FY12/24	Change
Total assets	122,914	120,342	119,761	-580
Current assets	92,077	84,207	84,542	335
Non-current assets	30,837	36,134	35,219	-915
Total liabilities	50,775	47,623	47,044	-578
Current liabilities	49,016	45,105	44,987	-118
Non-current liabilities	1,759	2,517	2,057	-460
Net assets	72,139	72,719	72,717	-2
Shareholder's equity	68,712	68,132	68,869	737
Equity ratio (%)	58.0%	59.7%	59.9%	0.2pp

	FY12/22	FY12/23	1H FY12/24
Cash flows from operating activities	3,795	6,031	6,421
Cash flows from financing activities	-2,286	-4,670	885
Cash flows from investing activities	-495	-5,370	-2,657
Cash and cash equivalents at end of period	24,132	20,174	24,852

Source: Prepared by FISCO from the Company's financial results and Semiannual Securities Report

Outlook

Company revised down FY12/24 forecast to sales and profit decline, but expects demand to pick up from 2H

1. Overview of FY12/24 consolidated forecast

For consolidated results in FY12/24, the Company is forecasting net sales to decrease 5.7% YoY to ¥163,200mn, operating profit to decline 33.4% to ¥3,800mn, ordinary profit to decline 30.9% to ¥4,600mn, and profit attributable to owners of parent to decline 3.2% to ¥4,550mn. Compared with its initial forecasts (net sales of ¥174,000mn, operating profit of ¥5,500mn, ordinary profit of ¥6,300mn, and profit attributable to owners of parent of ¥4,200mn), the Company revised up its forecast on April 23, 2024 by ¥1,070mn for profit attributable to owners of parent due to the posting of a gain on sale of investment securities, and revised down its forecast on July 26, 2024 by ¥10,800mn for net sales, by ¥1,700mn for operating profit, by ¥1,700mn for ordinary profit, and by ¥720mn for profit attributable to owners of parent due to weak demand in 1H.

The Company is now forecasting wider declines in operating profit and ordinary profit than initially, owing mainly to weak demand for Machinery & Tools and Construction Products as well as increases in operating, personnel, and general expenses. Looking at the outlook by fiscal half, however, the Company expects operating and ordinary profit to turn to growth in 2H vs. 1H as demand picks up from 2H and gross margin improvement overseas contributes. For 2H, the Company is forecasting growth vs. 1H in net sales of 7.0% to ¥84,354mn, operating profit of 22.7% to ¥2,093mn, ordinary profit of 12.9% to ¥2,439mn. 1H results were ¥78,845mn, ¥1,706mn, and ¥2,160mn, respectively. It expects profit attributable to owners of parent to decline in 2H vs. 1H since a gain on sale of investment securities was recorded in 2Q.

Overview of FY12/24 consolidated forecast

(¥mn)

	FY12/23				FY12/24					
	Full-year		1H results	2H results	Full-year		YoY		1H results	2H forecast
	Results	vs net sales			Forecast	vs net sales	Change	% Change		
Net sales	172,980	100.0%	85,159	87,820	163,200	100.0%	-9,780	-5.7%	78,845	84,354
Gross profit	26,994	15.6%	13,570	13,424	-	-	-	-	12,539	-
SG&A expenses	21,289	12.3%	10,384	10,905	-	-	-	-	10,832	-
Operating profit	5,705	3.3%	3,186	2,519	3,800	2.3%	-1,905	-33.4%	1,706	2,093
Ordinary profit	6,652	3.8%	3,631	3,021	4,600	2.8%	-2,052	-30.9%	2,160	2,439
Profit attributable to owners of parent	4,698	2.7%	2,598	2,100	4,550	2.8%	-148	-3.2%	2,862	1,687

Note: Full-year FY12/24 forecasts revised on July 26, 2024
Source: Prepared by FISCO from the Company's financial results and results briefing materials

2. Trends by business segment

For Machinery & Tools, the Company is forecasting net sales to decline 9.5% YoY to ¥105,980mn and operating profit to decline 51.8% to ¥1,810mn, envisioning lower sales and profit for the full year due to impact from weak demand. Looking at the outlook by fiscal half, however, the Company expects net sales of ¥54,753mn and operating profit of ¥966mn in 2H, growth vs. 1H results (net sales of ¥51,226mn, operating profit of ¥843mn).

For Construction Products, the Company is forecasting net sales to rise 0.7% to ¥45,540mn but operating profit to fall 13.4% to ¥1,720mn. While the full year outlook is for lower profit, looking at the outlook by fiscal half, the Company expects net sales of ¥23,759mn and operating profit of ¥974mn in 2H, growth vs. 1H results (net sales of ¥21,780mn, operating profit of ¥745mn).

For Construction Machinery, the Company is forecasting net sales to rise 6.0% to ¥8,060mn and operating profit to grow 58.8% to ¥130mn. It envisions higher sales and profit driven by ongoing concentration on second-hand vehicle sales. Looking at the outlook by fiscal half, the Company expects net sales of ¥4,023mn and operating profit of ¥52mn in 2H, which looks somewhat conservative vs. 1H results (net sales of ¥4,036mn, operating profit of ¥77mn).

For IoT Solution, the Company is forecasting net sales to rise 20.5% to ¥3,620mn and operating profit to increase 266.6% to ¥140mn. On a full-year basis, it envisions sales and profit growth underpinned by strong demand, mainly for security equipment. Looking at the outlook by fiscal half, it expects net sales of ¥1,817mn and operating profit of ¥15mn in 2H, which looks somewhat conservative compared with results in 1H (net sales of ¥1,802mn, operating profit of ¥124mn) when large-scale projects contributed.

Overview of FY12/24 outlook by segment

(¥mn)

	FY12/23				FY12/24					
	Full-year		1H results	2H results	Full-year		YoY		1H results	2H forecast
	Results	vs net sales			Forecast	vs net sales	Change	% change		
Net sales										
Machinery & Tools	117,128	67.7%	58,326	58,802	105,980	64.9%	-11,148	-9.5%	51,226	54,753
Construction Products	45,241	26.2%	22,130	23,111	45,540	27.9%	298	0.7%	21,780	23,759
Construction Machinery	7,605	4.4%	3,248	4,356	8,060	4.9%	454	6.0%	4,036	4,023
IoT Solution	3,004	1.7%	1,454	1,550	3,620	2.2%	615	20.5%	1,802	1,817
Consolidated net sales	172,980	100.0%	85,159	87,820	163,200	100.0%	-9,780	-5.7%	78,845	84,354
Operating profit										
Machinery & Tools	3,758	3.2%	2,236	1,522	1,810	1.7%	-1,948	-51.8%	843	966
Construction Products	1,987	4.4%	1,007	979	1,720	3.8%	-267	-13.4%	745	974
Construction Machinery	81	1.1%	-9	91	130	1.6%	48	58.8%	77	52
IoT Solution	38	1.3%	19	18	140	3.9%	101	266.6%	124	15
Total	5,865	3.4%	3,254	2,611	3,800	2.3%	-2,066	-35.2%	1,790	2,007
Adjustment	-160	-	-68	-92	-	-	160	-	-83	83
Consolidated operating profit	5,705	3.3%	3,186	2,519	3,800	2.3%	-1,905	-33.4%	1,706	2,093

Note 1: Full-year FY12/24 forecasts revised on July 26, 2024
Note 2: Operating profit vs net sales 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

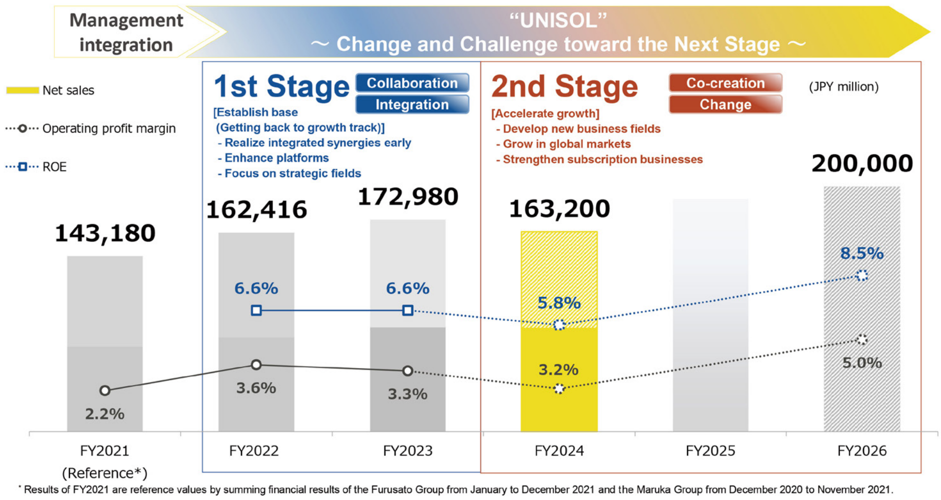
Growth strategy

Medium-Term Management Plan "UNISOL"

1. Medium-Term Management Plan "UNISOL"

As far as its vision for 10 years into the future, the Company has set targets of net sales of around ¥400.0bn, operating profit of at least ¥20.0bn, and a market capitalization of ¥150.0bn. The Medium-Term Management Plan "UNISOL" (FY12/22 to FY12/26) is aimed at achieving these long-term targets. As a roadmap, the plan's first two years (FY12/22 to FY12/23) is positioned as the first stage for establishing a base (getting back on a growth track), and its last three years (FY12/24 to FY12/26) as the second stage for accelerating growth. Targets for the plan's final year, FY12/26, are net sales of ¥200.0bn, operating profit of ¥10.0bn, an operating profit margin of 5.0%, adjusted EBITDA of ¥11.5bn, and ROE 8.5%.

Medium-Term Management Plan "UNISOL"



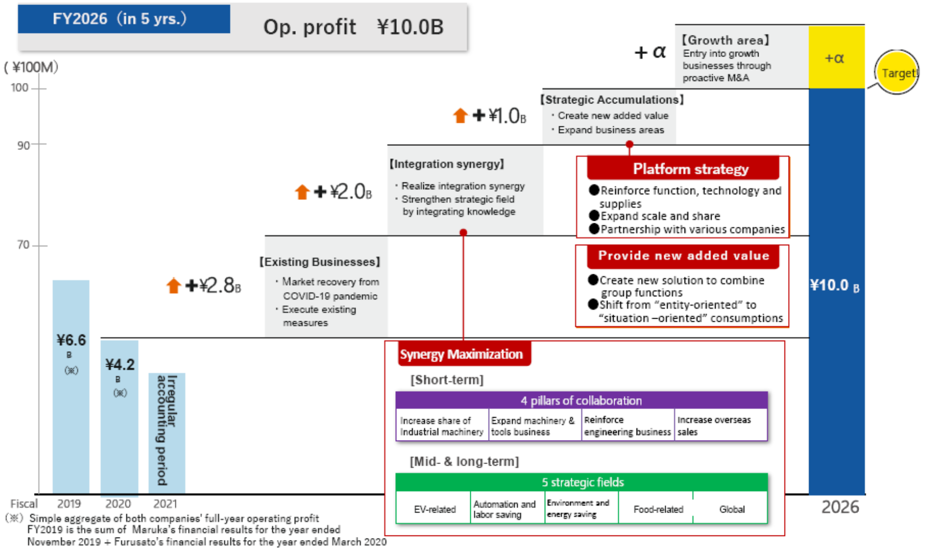
Source: The Company's results briefing materials

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.

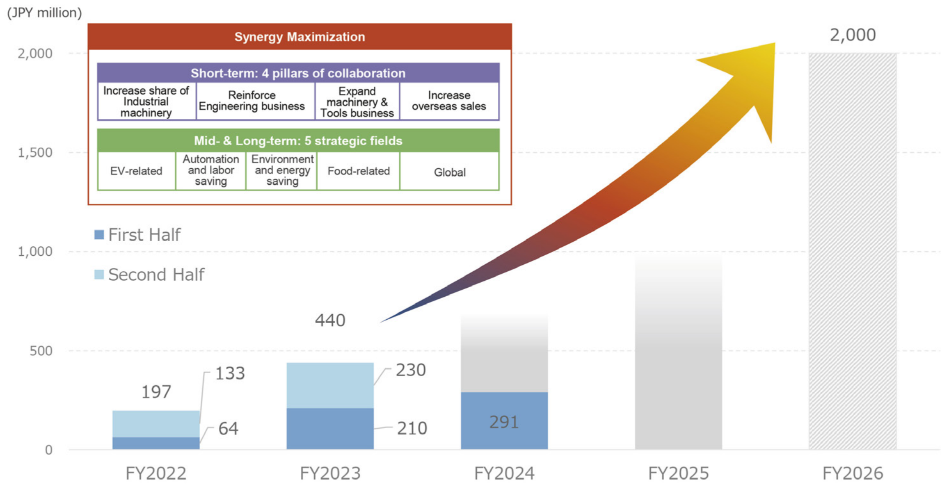
As for progress through the end of 1H FY12/24, the Company revised down its FY12/24 results forecast due to impact from demand decelerating, but generated ¥197mn in FY12/22, ¥440mn in FY12/23, and ¥291mn in 1H FY12/24 as a result of maximizing synergies, marking generally solid headway in the first stage of the plan. In the second stage, the Company plans to accelerate growth to achieve the targets for the final year of the plan by developing new business fields, growing in global markets, and strengthening recurring revenue business.

Roadmap to achievement of earnings targets



Source: The Company's medium-term management plan briefing materials

Roadmap to achievement of earnings targets: synergy progress



Source: The Company's results briefing materials

In addition, the Company announced measures for realizing cost-of-capital and share price-conscious management to continuously improve its corporate value on March 28, 2024. Although ROE (return on equity ratio) is on an improvement track at 6.6% as of FY12/23, the level is below the expected cost of shareholders' equity of about 7.0% (calculated based on the Company's standards). Also, the Company recognizes that the ROE target of 8.5% in the Medium-Term Management Plan "UNISOL" is inadequate as a desirable ROE level for the medium- to long-term. Moreover, the market values the Company at a PBR (price to book value ratio) below 1x, which the Company attributes to its efforts to realize synergies not being recognized by the market.

Based on its analysis of the current situation, the Company has set maintaining a PBR above 1 and a minimum ROE of 10% as targets for economic indicators to improve market valuation. Along with that, it put forth concrete measures to strengthen initiatives such as making growth investments of around ¥20.0bn using financial leverage, bolstering shareholder returns through flexible repurchasing of treasury shares, and invigorating trading in its stock by appealing to new individual investors.

For shareholder returns, targets DOE of 3.5% (targeted achievement in 2027-2029)

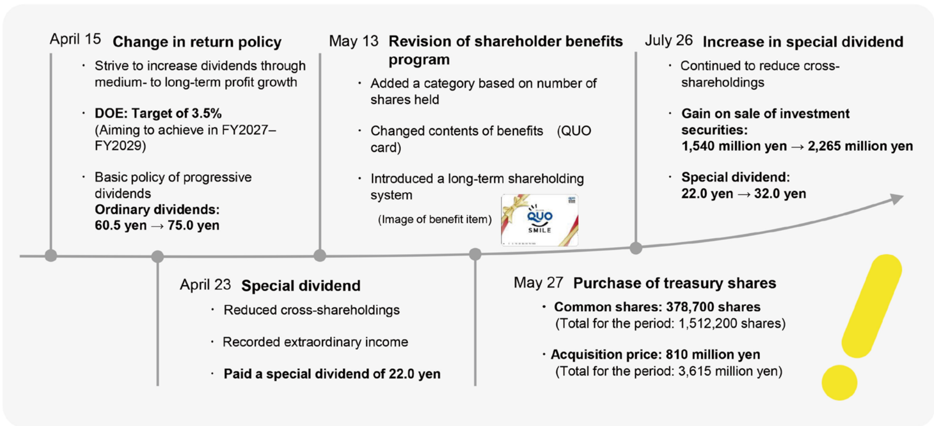
2. Shareholder return policy

On April 15, 2024, the Company announced changes to its shareholder returns policy. Previously, it strived to provide a stable minimum annual dividend of ¥15.00 per share based on a consolidated payout ratio of about 35%. Following the changes, its basic policy for ordinary dividends is to continuously increase dividends (progressive dividends), with a medium- to long-term shareholder return target of DOE (dividend on equity ratio) of at least 3.5%. The Company plans to raise DOE in stages starting from FY12/24, aiming to achieve DOE of 3.5% during the period of the next Medium-Term Management Plan (FY12/27-FY12/29). In addition to ordinary dividends, it will utilize special dividends and treasury share repurchases to flexibly provide additional returns to shareholders according to profit levels and financial conditions.

Based on this basic policy, the Company raised its dividend forecast for FY12/24 by ¥14.50 on April 15, 2024 (and revised the balance of dividend payments that had been weighted towards the fiscal year-end, revising up the dividend for the end of 1H by ¥20.00 and down by ¥5.50 for the year-end dividend). The Company raised its forecast for the year-end dividend by another ¥22.00 (by adding a special dividend of ¥22.00) on April 23, 2024, and by another ¥10.00 (by increasing the special dividend to ¥32.00) on July 26, 2024. It therefore plans to raise dividends by ¥41.00 from FY12/23 to ¥107.00 in FY12/24 (¥30.00 at the end of 1H, ¥77.00 at year-end = ordinary dividend of ¥45.00 + special dividend of ¥32.00). Regarding treasury share acquisition and retirement, the Company retired 389,600 treasury shares on September 29, 2023, and acquired 1,512,200 treasury shares (acquisition amount ¥3,615mn) from August 22, 2023 to May 28, 2024.

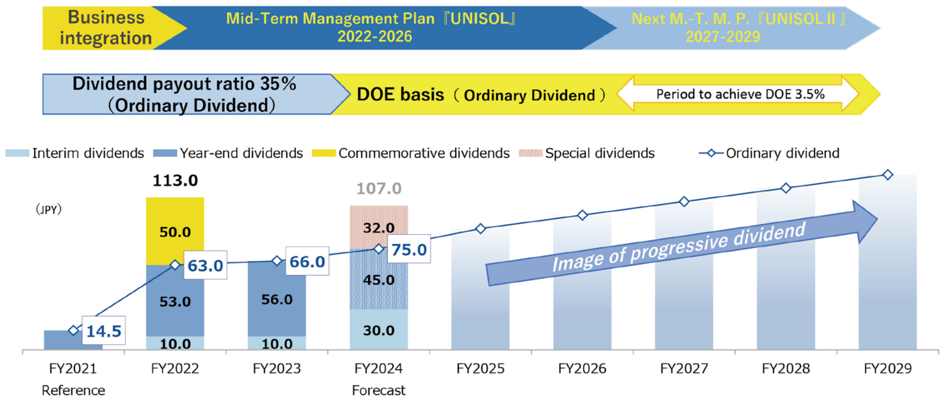
Also, the Company announced revisions to its shareholder benefits program (revisions to benefit content and preferential treatment for long-term holdings) on May 13, 2024. The Company previously gave shareholders food gifts according to two categories based on the number of shares held, whereas the revised program sets three categories based on the number of shares held and provides QUO cards of different values according the period of continuous shareholding. The program will be implemented from December 31, 2024 for shareholders who own at least one unit of shares as of the record date of December 31 of each year.

Financial and capital strategy



Source: The Company's results briefing materials

Shareholder return policy



Source: The Company's results briefing materials

Revision of shareholder benefits program

Before revision

No. of shares held	Benefit content
100 to 499 shares	Food gift (assortment of Western sweets worth ¥1,000)
500 shares or more	Food catalog gift (catalog for choosing a food gift worth ¥3,500)

After revision

No. of shares held	Benefit content	
	Shares held continuously for less than three years	Shares held continuously for at least three years*
100 to 199 shares	QUO card worth ¥500	QUO card worth ¥1,000
200 to 499 shares	QUO card worth ¥1,000	QUO card worth ¥3,000
500 shares or more	QUO card worth ¥5,000	QUO card worth ¥10,000

* Listed consecutively for at least seven times in the shareholder registry at the end of June and end of December under the same shareholder number

Source: Prepared by FISCO from the Company's press releases

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. In February 2024, the Company decided to introduce an Employee Stock Ownership Plan (ESOP) Trust as part of investment in human capital. In June 2024, the Company participated in the “Decarbonization EKIDEN 365” project, a government and private initiative led by Osaka Prefecture and STUDIO SPOBY Inc.

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

Spotlighting priority strategy progress in second stage of Medium-Term Management Plan

4. FISCO analyst's view

The Company's strengths include proposal, design, and construction capabilities that save labor and energy as well as enhance efficiency on customer production lines in the manufacturing market, and especially its solutions capabilities for bringing to light and proposing solutions to issues at customer manufacturing sites. It aims to enhance Group synergies and be a unique solutions company offering unique solutions found nowhere else. The Company revised down its FY12/24 forecast to wider declines in operating profit and ordinary profit. However, FISCO believes 1H FY12/24 could well mark a bottom for results for the foreseeable future, considering the currently strengthening recovery in orders for Machinery & Tools. Also, FISCO thinks the focus should be on the progress of priority strategies to raise profit margins over the medium- to long-term in the second stage of the Medium-Term Management Plan "UNISOL."

Disclaimer

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