Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Standard Market

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Contents

Summary — 01

1. Overview of 1H FY12/24 results ····· 01
2. Forecasts for FY12/24 results ····· 02
3. Future direction ····· 02

Company profile — 03

1. Company profile ····· 03
2. Business structure ····· 03
3. History ····· 04
4. ESG management ····· 05
5. Group companies ····· 06

Business overview — 07

1. Environmental equipment business ····· 07
2. Household equipment business ····· 11
3. Renewable energy business ····· 11

Result trends — 13

1. Overview of 1H FY12/24 results ····· 13
2. 1H FY12/24 summary ····· 16

Topic — 16

Outlook — 17

1. Forecasts for FY12/24 results ····· 17
2. FISCO's opinion ····· 18

Medium-to-long term direction — 18

1. Overview of the medium-term management plan ····· 18
2. Numerical targets and their assumptions ····· 19
3. Growth strategies and the progress made so far ····· 19
4. Problem awareness and policies toward improving corporate value ····· 21
5. Medium- to long-term focal points ····· 22

Shareholder return policy — 22

Summary

In 1H FY12/24, sales and profits rose as each business steadily grew. Its policy is to accelerate overseas business development to address water environment-related societal issues

Daiki Axis Co., Ltd. <4245> (hereafter “the Company”) has three business pillars; the environmental equipment business that is centered on Johkasou and wastewater treatment systems, the original business of the household equipment business, and the renewable energy business that became a segment in FY12/18. Under its mission of “Protect the environment and change the future.,” it proactively conducts ESG management, and in particular, with “water as the axis,” which is the origin of the Company’s name, it is promoting the water-environment-related SDG, which is to “Ensure availability and sustainable management of water and sanitation for all,” from a global perspective. Going forward, in Asia and Africa, whose markets are developing, it aims to acquire top industry share in the medium-scale water treatment field and intends to make major progress in emerging countries. From January 2024, the Company moved to a co-CEO structure as the former representative director and president Hiroshi Ogame was appointed representative director, chairman, and CEO, while Hiroki Ogame, who had previously led the overseas business, was appointed representative director, president, CEO, and CIO. Under the new regime, the Company will speed up overseas business development and accelerate growth.

1. Overview of 1H FY12/24 results

In the Company’s consolidated results for 1H FY12/24, net sales increased 7.3% year-on-year (YoY) to ¥22,610mn and operating income rose 67.7% to ¥554mn, so both sales and profits grew. Net sales growth was well balanced in the three business segments, including from the effects of the new consolidation of two companies. In the environmental equipment business, growth in repair projects driven by recovery in demand for capital investment, along with an increase in maintenance contracts contributed to sales growth. In addition, there was significant growth in overseas business, which the Company is focusing on. In the household equipment business, sales to construction customers, such as those for metropolitan-area condominiums, were strong. Also, housing sector projects grew sharply due partly to the effects (including synergies) of air-conditioning installation specialist ADORE SYSTEM Co., Ltd.’s consolidation. In the renewable energy business, the solar power generation business (sales of electricity and power generation facilities) steadily expanded, including from the effects of MEDEA Co., Ltd.’s consolidation. Profits rose markedly, reflecting progress passing on increases in purchase prices to sales prices, building up of the recurring-income business, generation of synergies with subsidiaries from M&A in the previous fiscal year, and earnings improvement in overseas business.

2. Forecasts for FY12/24 results

For the FY12/24 consolidated results, the Company maintained its initial forecast, projecting net sales of ¥44,500mn (up 4.3% YoY) and operating income of ¥730mn (up 10.5%), so sales and profits are expected to increase. The outlook indicates that higher net sales will once again be secured in each of the three businesses. In the environmental equipment business, the overseas business will grow greatly, centered on India and Sri Lanka where operations at the new plants will become fully fledged, while in the household equipment business, the response to the expansion of the renovations market as well as growth in housing sector projects will drive growth. In the renewable energy business, in addition to the stable revenue from electricity sales, sales are expected to increase from new developments in the biodiesel fuel business and sales of solar power generation facilities. As for profits, the Company is aiming to improve the operating income margin, with an expected increase driven by higher sales and progress in transferring the rises in purchase prices to sales prices.

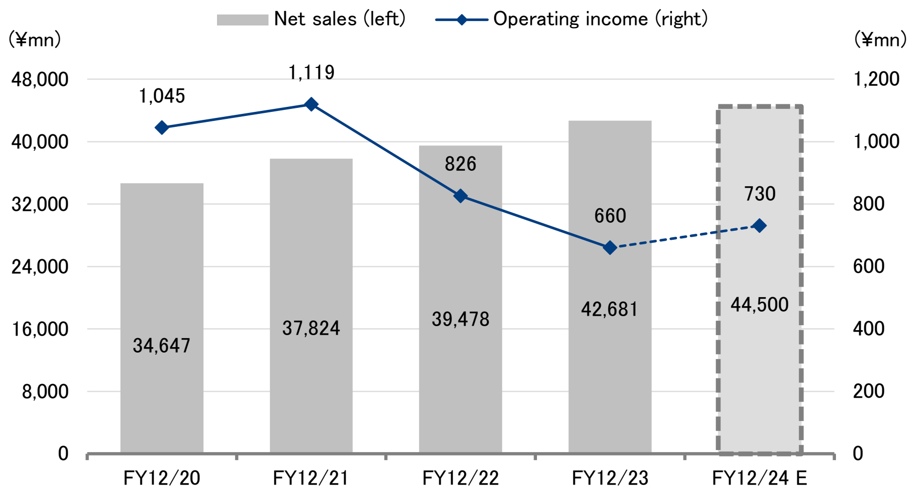
3. Future direction

The Company is progressing its five-year medium-term management plan whose final fiscal year is FY12/25, and it is working on six growth strategies, including for overseas business development and expanding the recurring-income business, while it is also promoting IT that will support the foundation of these strategies. In particular, business development in emerging countries, where water infrastructure is urgently needed, is expected to drive future growth. The Company intends to achieve sustainable growth by contributing to the creation of a sustainable environment and society.

Key Points

- In 1H FY12/24, sales and profits rose with well-balanced growth in the three business segments
- Effects of two companies' new consolidation, overseas business expansion, and passing on of increases in purchase prices to sales prices contributed to earnings growth
- The Company maintained its initial forecasts for FY12/24, and envisions higher sales and profits
- The Company is progressing the medium-term management plan whose final fiscal year is FY12/25. Its policy is to accelerate overseas business development to address water environment-related societal issues

Result trends



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

Company profile

Under its mission of "Protect the environment and change the future.," the Company is working to resolve water environment-related societal issues, including through its Johkasou and wastewater treatment systems

1. Company profile

The Daiki Axis Group is developing businesses in an integrated manner that will protect the global environment and create sustainable societies and the future, including through sales of kitchen and bathroom household equipment and the provision of Johkasou and wastewater treatment systems, on the axis of its water-related businesses.

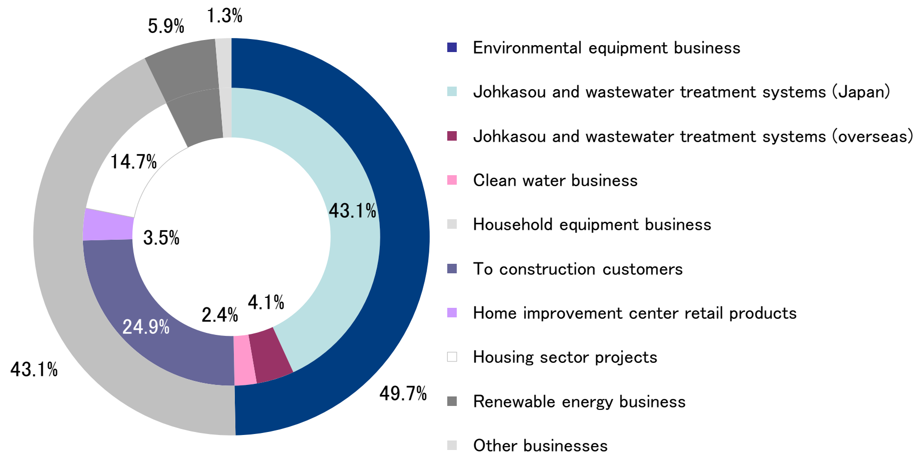
The Company, which celebrated its 65th anniversary in 2023, has established a corporate philosophy and spirit based on its previous corporate slogan of "PROTECT×CHANGE" (signifying protect what should be protected and change what should be changed). Through carrying out the Daiki Axis Group's stated purpose of "Supporting life for people around the world by solving global environmental issues with innovated technology and ideas," it intends to achieve its mission of "Protect the environment and change the future."

In particular, through the environmental equipment business that the Company is focusing on, of the 17 Sustainable Development Goals (SDGs) adopted at the UN Summit, it is deeply involved in the sixth SDG, "Ensure availability and sustainable management of water and sanitation for all." Especially in emerging countries in Asia and Africa, environmental pollution caused by water contamination cannot be overlooked, and both the importance of the Company's role and its business opportunities are expanding globally. The Daiki Axis Group's strengths include that it has an integrated system for every stage from design and manufacturing through to sales, installation, and maintenance for small- to medium-scale water treatment projects, and also its high quality. It is highly likely the Company will leverage these competitive advantages in emerging countries, and is working on the overseas development of the environmental equipment business as part of its growth strategy.

2. Business structure

The Company has three business pillars; the household equipment business and the environmental equipment business that have existed since its foundation, and the renewable energy business that became a segment in FY12/18. Of these, the environmental equipment business, which it is developing domestically and overseas, provides around 50% of net sales and approximately 75% of operating income before adjustments, which deals with water from clean water to sewage (Johkasou, wastewater treatment systems, etc.)

Shares of consolidated net sales (1H FY12/24)



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

3. History

The Company was established in 1958 in Matsuyama, Ehime Prefecture and celebrated its 65th anniversary in 2023. In 1964 its predecessor Daiki Co., Ltd. was established and began producing aeration Johkasou that same year. In 1978, Daiki entered the home improvement center business and in 2003 formed business alliances with Homac Corp., Ltd. (now DCM Holdings Co., Ltd.) and Khama Co., Ltd. (now DCM Co., Ltd.) and then made the decision to merge. In 2006, DCM Holdings <3050> was established, but prior to that Daiki established the Company to engage in businesses other than the home improvement center business and these businesses were transferred to it. Thereafter, due to a management buyout, the Company became independent of Daiki and the two companies' capital relationship ended, but they continue to maintain a good business relationship. The Company has expanded its domain from wholesaling household equipment, its original business, and through M&A and other means has created a management founded on three pillars, the environmental equipment business and renewable energy business adding to the household equipment business. In the overseas business, which the Company is focused on as a growth market, it created a bridgehead to the Southeast Asian market by acquiring a local Indonesian company in 2013. It also established a subsidiary in India in 2018, which has a large latent market.

In December 2013, the Company was listed in the Chemicals sector in the Second Section of the Tokyo Stock Exchange (TSE) and was transferred to the First Section in December 2014. In April 2022, it was moved to the Prime Market when the TSE restructured its market segments. The Company is actively expanding its environmental equipment business overseas, and selected a market classification for companies focused on constructive dialogue with global investors. It established the Sustainability Committee and has issued integrated reports. However, with regard to clearing the market cap standard for liquid stock, there are many uncertainties. If the Company maintains its listing on the Prime Market without meeting the listing criteria, after transitional measures have passed, it possibly faces the risk of being delisted, so to avoid this risk and based on a comprehensive decision related to the management environment and profits for existing shareholders, the Company selected and applied for the Standard Market in May 2023. And its market classification changed to the Standard Market on October 20, 2023. In January 2024, president and CEO Hiroshi Ogame, who had been the president and CEO since the current Company's establishment in 2005, became a representative director and chairman, and Hiroki Ogame was appointed the Company's president and CEO.

4. ESG management

The Group conducts management with an awareness of ESG. It has built a sturdy business foundation and is contributing to the creation of a sustainable environment and society through both business activities and corporate activities as it seeks to improve people's quality of life. For the environment (E), the Company engages in the water-related infrastructure business, biodiesel fuel business, small-scale wind power generation business, and electricity sales related to solar power generation. It has also earned international certification for its environmental management system. For society (S), the Company promotes diversity and the advancement of female employees, engages in work style reforms, and helps people with disabilities become more involved in society. In August 2023, it established the Sustainability Committee. The Company is oriented not only to the pursuit of profit but also to contributing to protecting and preserving the natural environment, contributing to local communities, and maintaining social systems that include active investment in human resources in order to raise corporate value over the medium- to long-term. The Company also takes a proactive approach to information disclosure, having published its first Integrated Report in 2023. Going forward, to further enhance disclosure of non-financial information and promote dialogue with stakeholders, it will enhance its response to the Task Force on Climate-related Financial Disclosures (TCFD recommendations) and to the disclosure of non-financial information, such as the independence of human capital. With regard to governance (G), the Company is a company with an Audit and Supervisory Committee, and to strengthen corporate governance it has established a Nomination and Remuneration Committee. Regarding the makeup of the Board of Directors, outside directors account for half of the members.

Regarding the SDGs the Company is involved in 12 of the 17, and has identified seven key issues (materiality). These are: Initiatives to adapt to or mitigate climate change; Protect Japan's rich water environment; Create beautiful water environments globally; Contribute to sustainable community development and living environments; Build workplace environments for meaningful work; Respect stakeholders; and, Establish effective corporate governance.

Key issues (materiality) identified by the Sustainability Committee

	Materiality item	Related segments	SDGs contribution
Biosphere	Initiatives to adapt to or mitigate climate change	Companywide	7, 13
	Protect Japan's rich water environment	Environmental equipment business (Japan)	6, 14
	Create beautiful water environments globally	Environmental equipment business (Overseas)	6, 9, 14
Social sphere	Contribute to sustainable community development and living environments	Environmental equipment business (Japan) Household equipment business Renewable energy business	7, 11, 12
	Build workplace environments for meaningful work	Companywide	3, 4, 5, 8
	Respect stakeholders	Companywide	17
Economic sphere	Establish effective corporate governance	Companywide	

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

In August 2023, the Company entered into a syndicated Positive Impact Finance agreement with The Iyo Bank, Ltd. and MUFG Bank, Ltd. The composition amount is ¥8.0bn*. In positive impact finance, the impact of corporate activities on the environment, society, and economy (positive impact and negative impact) are comprehensively analyzed and evaluated based on the Principles for Positive Impact Finance and associated guidelines established by the United Nations Environment Programme Finance Initiative (UNEPFI), and finance is provided for the purpose of providing continuing support for activities. The financing is categorized as sustainable finance and interest rates may be lowered depending on the assessment of SDGs and decarbonization. In concluding this contract, the Company's businesses and key issues (materiality) were primarily assessed as activities making a positive impact on achievement of the SDGs goals based on the Positive Impact Finance Framework created jointly by MUFG bank and Mitsubishi UFJ Research and Consulting Co., Ltd. The evaluation has been independently certified by the Japan Credit Rating Agency, Ltd. as being consistent with UNEPFI's Principles for Positive Impact Finance.

* In January 2024, Daiki Axis Sustainable Power CO., LTD. ("DASP") and The Ehime Bank <8541> concluded a Positive Impact Finance agreement (amount financed: ¥3.0bn).

5. Group companies

The Group consists of the Company, 18 consolidated subsidiaries (10 domestic, 8 overseas), 2 non-consolidated subsidiaries (1 domestic, 1 overseas) and 1 affiliated company (1 overseas). The main Group companies include 3 domestic and 9 overseas (including 1 joint venture) in the environmental equipment business, 3 domestic companies in the household equipment business, and 2 domestic companies in the renewable energy business.

The Company is also actively utilizing M&A to strengthen the Group structure (expand its market sphere and product offerings, etc.). Most recently, in February 2023, the Company acquired two companies. ADORE SYSTEM (Hiroshima City, Hiroshima Prefecture) runs an air conditioning installation business primarily in the Sanyo region, starting with Hiroshima Prefecture. MEDEA (Saitama City, Saitama Prefecture) conducts an electrical construction business that primarily consists of designing, installing, maintaining and managing solar power generation facilities, and it also sells electricity produced by solar power facilities that it owns. In the solar power facilities business, the Company purchased Sanei Ecohome Inc. in 2021, which designs, installs, maintains and manages solar power facilities. Thereafter, it was merged with DASP. Intra-Group coordination with MEDEA, which operates the same business, will make it possible to build a system that can more rapidly respond to the requests of large power consumers and make more appropriate proposals to meet customer needs.

Group company

Name	Date	Form	Base	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Inspections of Johkasou and drinking water/wastewater facilities, comprehensive building management
Environment Analysis Center Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Analysis of water quality, air, soil, etc. as an environmental measurement verification office
TOBU Co., Ltd.	2007/11	Acquisition	Nagoya City, Aichi Prefecture	Design and construction of various water treatment facilities, mainly in the Tokai area
[Overseas]				
Daqi Environmental Protection Engineering (Dalian) Co., Ltd.	2005/10	Business succession	China	Design, construction and sales of sewage treatment equipment, greywater and filtration equipment, etc.
PT. DAIKI AXIS INDONESIA	2013/10	Acquisition	Indonesia	Manufacture and sales base of Johkasou
DAIKI AXIS SINGAPORE PTE. LTD.	2016/8	Establishment	Singapore	Company that supervises overseas subsidiaries
CRYSTAL CLEAR CONTRACTOR PTE. LTD.	2018/11	Acquisition	Singapore	Pool maintenance work, pool equipment sanitation wastewater construction work
DAIKI AXIS INDIA PVT. LTD.	2018/7	Establishment	India	Sales of Johkasou in India
DAIKI AXIS ENVIRONMENT PVT. LTD.	2021/6	Establishment	India	Manufacture and sales of Johkasou in India
Lingzhi Daqi Johkaso (Jiangsu) Co., Ltd.*	2018/7	Establishment	China	Manufacturing and sales of residential-use Johkasou in China
DAIKI AXIS ENVIRONMENT (PVT) LTD.	2021/5	Establishment	Sri Lanka	Manufacturing and sales of Johkasou in Sri Lanka
DAIKI AXIS BANGLADESH LTD.*	2024/1	Establishment	Bangladesh	Sales of Johkasou in Bangladesh
Household equipment business				
Fujiwara Reiki Co., Ltd.	2019/10	Acquisition	Matsuyama City, Ehime Prefecture	Installation and sales of HVAC equipment, drinking water/ wastewater equipment, electrical equipment, freezers and refrigerators
Alumi kobo Hagio Co., Ltd.	2021/10	Acquisition	Niihama City, Ehime Prefecture	Installation and sales of residential window sash and exterior-related equipment
ADORE SYSTEM Co., Ltd.	2023/2	Acquisition	Hiroshima City, Hiroshima Prefecture	Installation of HVAC-related equipment
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.	2012/4	Acquisition	Tokyo and other locations	Solar power generation business, small-scale wind power generation business, BDF business, and hydrothermal treatment business
MEDEA Co., Ltd.	2023/2	Acquisition	Saitama City, Saitama Prefecture	Design and installation of solar power generation facilities

* Equity-method affiliate
Source: Prepared by FISCO from the Company's securities report, and financial results briefing materials

Business overview

The Company is comprehensively developing environment-related businesses, with the environmental equipment business, which handles water infrastructure both domestically and overseas, as its core

1. Environmental equipment business

The environmental equipment business is a major business that accounted for 49.7% of net sales and 74.9% of operating income before adjustments in 1H FY12/24.

(1) Domestic business

The Company was founded in 2005, but the first FRP Johkasou was completed in 1964, and starting from the Daiki years, the Company has been involved in the development, design, manufacture, installation, sale and maintenance of wastewater treatment equipment for over a half century. The business handles everything from clean water (groundwater purification system for drinking water), greywater (water system for reusing wastewater, rain water, etc.), and sewage (residential Johkasou, community wastewater treatment systems, and industrial wastewater treatment facilities). Regarding sales shares, the clean water business that converts groundwater to drinking water provided 4.9%, greywater systems provided 0.2%, sewage-related domestic compact-type combination treatment Johkasou provided 6.2%, wastewater treatment systems for condominiums, food processing plants, hospitals, electrical machinery and plating plants provided 60.4% and maintenance accounted for 28.3%. (FY12/23 results)

The domestic business of the environmental equipment business has 27 locations that cover all of Japan's major cities. The Company has manufacturing facilities in four locations (Fukushima, Shinshu, Matsuyama, Tsushima) and is working to increase transport efficiency for customers in remote from its factories by utilizing its network with partner company Daie Industry Co., Ltd.

One of this business's features is integrated operations of wastewater treatment facilities. Provision of maintenance services sustains contact with customers and leads to orders for repairs and expansion projects. Knowledge of customer needs confirmed through on-site interaction is also fed back to R&D activities. Regarding maintenance, the Company has a dedicated division that provides services that meet customer requirements, such as 24-hour monitoring and spot responses.

The Company's growth strategy is to strengthen the recurring-income business that is a stable source of earnings. It handles store Johkasou installations and maintenance and store management tasks (cleaning, fire prevention, electricity and other inspections) at stores in the DCM Group, which shares the same origin as the Company. It has expanded bulk orders of wastewater treatment equipment and Johkasou maintenance at nationwide major convenience store chains and major restaurant chain stores and their central kitchens. For businesses (the Company's customers) that operate many stores, management of legal inspections and inspection records of Johkasou, inspection records of wastewater treatment equipment, etc. is complicated. In contrast to existing service providers that can provide only individual services specific to local areas, the Company seeks to differentiate itself by not only lowering costs, but also by delivering uniform services on a nationwide scale.

The Company, which undertakes these tasks in its maintenance business, has introduced a new IT system to upgrade its legal inspections management system so that it meets the needs of clients. It utilizes an IT system to collect and aggregate daily records relating to maintenance, which not only increases the governance of the chain's headquarters, but also reduces the clerical work burden. Leveraging the competitive advantages of the IT system, it is progressing a strategy of capturing chain headquarters. It is also aiming to improve productivity and profitability through the management of facilities, construction work, and business partners based on data.

Demand for residential combination treatment Johkasou is linked to the number of new housing starts, so the domestic market is saturated. The Company is maintaining its market share and following up on the latest technologies for overseas expansion. Industrial wastewater treatment is divided between organic treatment and inorganic treatment. Food processing centers, for example, use organic biological treatment while inorganic chemical treatment is used at electrical machinery and plating factories.

(2) Overseas business development

New projects are declining in the domestic market because of Japan's shrinking population and improved water quality. In contrast, water pollution in emerging countries is at a stage where urgent action is required. Therefore, the market for water treatment systems is likely to grow in countries with a low sewerage infrastructure diffusion rate. The water infrastructure business consists of three main businesses: materials, parts, and equipment manufacturing; equipment design, assembly, installation, and operation; and business operation, maintenance, and management (water sales). Overseas, major water companies cover all these areas. Japanese players, meanwhile, specialize in individual areas, such as water treatment equipment, engineering, and organizer. The Group differs from the major water companies because it targets smaller wastewater treatment systems. Having the ability to provide the abovementioned three main businesses enables the Company to differentiate itself from other Japanese companies. It can handle both household and industrial wastewater treatment, and public water purification; which has enabled the Company to establish a unique positioning. There is the high possibility of obtaining a first-mover advantage with the expansion of the markets for small- and medium-scale wastewater treatment systems in ASEAN, India, and Africa.

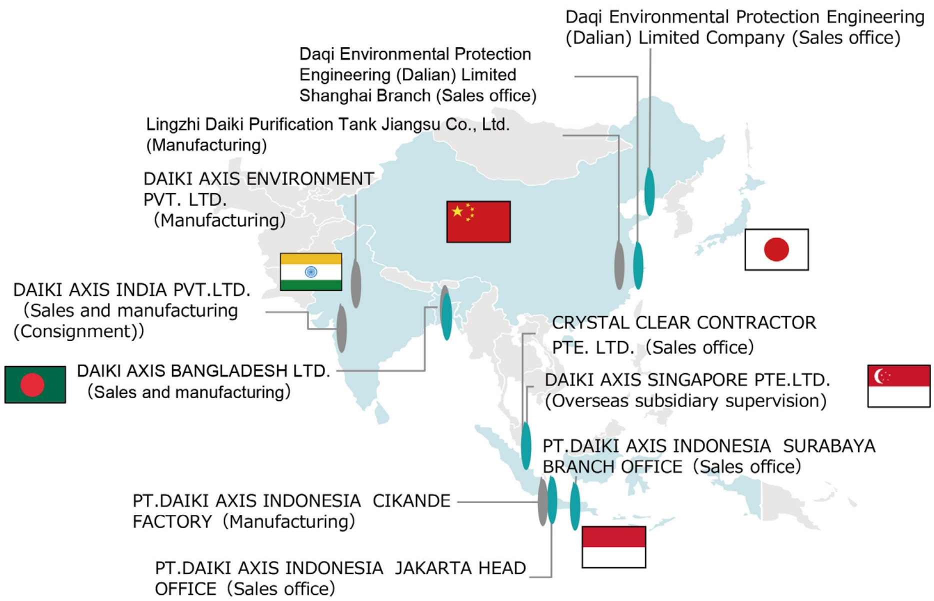
"Accelerate overseas business development," which is the first of the growth strategies, is deeply connected to the sixth SDG, which states "Ensure availability and sustainable management of water and sanitation for all." The situation in emerging countries in Asia and Africa is that environmental pollution due to water pollution cannot be overlooked, so new wastewater treatment standards are being introduced. In the medium- to small-scale wastewater treatment field to which the Company belongs, local companies do not possess the technological level to meet the standards that have been made even stricter. Even overseas companies that possess advanced technological capabilities are unable to provide cost-competitive products suited to local water conditions in markets they have not yet entered. Meanwhile, the Company aims to develop products that are tailored to water businesses in each of these countries and regions, conduct demonstration experiments and is striving to obtain certification proving that its products clear the stricter level of regulations. It conducts local production in production forms that are suited to the development levels of each region and market, including through the establishment of wholly owned subsidiaries, joint ventures, outsourced production, and integrated in-house production in the main markets to realize costs that are locally acceptable.

The Company targets FY12/25 overseas net sales of ¥4,000mn, of which India is expected to provide 50%. India's population surpassed China's to take the world number one spot in 2023. Its real GDP growth rate exceeded China's at 6.7% in 2022. Its nominal GDP was US$3.3800tn (approximately ¥460tn), 80% of Japan's, overtaking the UK at fifth-largest in the world. India's population is about 1.4 billion people, 11 times greater that of Japan, with a land area the seventh-largest in the world at 3.28 million km^2, about nine times that of Japan (370,000 km^2, 62nd in the world). As of July 2021, the median age in India was a young 27.6 versus Japan's 48.4. With such a large population, India is in its demographic bonus stage, can expect continued robust economic growth and is entering a period of establishing its social capital, including sewerage infrastructure.

Also, the Company established a subsidiary in Bangladesh in January 2024. Bangladesh is scheduled to graduate from being a least developed country in 2026 and is one of the Next 11 emerging economic zones, following on from the BRICS countries. Its water environment is severely polluted and it is difficult to extract drinking water from rivers due to water-quality problems, while its sewage infrastructure coverage rate is only 3%. Bangladesh is establishing a legal system that will require all buildings covered by law to have Johkasou and similar appropriate pollution treatment equipment.

The overseas business has three bases in China (two sales bases, one joint manufacturing base), three bases in Indonesia (one manufacturing base and two sales bases), two bases in India (manufacturing and sales), two bases in Singapore (one management base and one sales base), one base in Sri Lanka (sales and manufacturing) and one base in Bangladesh (sales). As for distributors, there are 21 companies in India, 3 companies in Indonesia, and 1 each in Vietnam, Myanmar, Bangladesh, Nepal, Sri Lanka, and Pakistan. Based on local needs, the market's development, and risks, the Company selects the appropriate format for business development, whether full ownership, joint venture, purchase, production consignment, proprietary production, assembly or integrated manufacturing.

Overseas bases



Source: The Company's financial results briefing materials

In the Chinese market, the Indonesian factory supplies products to meet demand for medium- and large-scale Johkasou. Small-scale products are supplied by a joint venture. The Company provides molds and other manufacturing equipment to the joint venture while also offering technical guidance. The factory was built on the site of the joint venture, so initial investment was not high. In Indonesia, Japanese manufacturing methods were deployed after acquiring a local company and building a new plant. In India, local production was started by initially consigning production to a single distributor. The consignment plant is located in the western city of Mumbai. The second self-owned factory in India was built on the outskirts of Delhi in the north. The new factory manufactures capsule types on a consignment production basis and also produces cylindrical types that previously relied on being imported from Indonesia.

Same type of Johkasou made at the second self-owned factory in India

Capsule-type Johkasou

Cylindrical Johkasou

Source: The Company's news releases

2. Household equipment business

Breaking down net sales in the household equipment business in 1H FY12/24, construction customers provided 57.9%, home improvement center retail products 8.1%, and housing sector projects 34.0%.

The predecessor of Daiki began in 1958 as a specialty store of tiles and hygienic porcelain. It has a decades-long track record as a wholesaler of household equipment. It sells system kitchens, toilets, unit baths and other kitchen and bathroom equipment to general contractors, local construction companies, and home builders. Its commercial sphere is primarily Shikoku, where its head office is located, Chugoku facing the Seto Inland Sea, and the Kinki area, and the Company has a strong track record of sales in these areas. It conducts wholesale sales of indoor and outdoor materials for commercial facilities. It also develops new products to meet the needs of the times and is focused on proposals for materials that are environmentally conscious, such as wooden water tanks and the environmental pile method. In addition, it supplies home improvement center retail products to the group companies of DCM Holdings. It also undertakes construction work on home improvement centers. And, it is involved in sale and installation of materials and facilities for hotels, hospitals, and educational institutions. As it is a wholesale-type business model, its profit margin is relatively low at around 1.5% to 2.7%. But the Company is aiming to improve added value and competitiveness by strengthening manufacturer functions, including by building a system to complete all processes in wooden-structure projects in-house.

3. Renewable energy business

The sales shares for 1H FY12/24 in the renewable energy business are as follows. Solar power generation accounts for 89.8%, the biodiesel fuel business accounts for 8.0%, the small-scale wind power generation business accounts for 0.5%, and the hydrothermal treatment business accounts for 1.0%. Development and management of wind power and solar power facilities was consolidated into DASP in 2019, and following the transfer of the Company's biodiesel fuel business in July 2021 and merger of Sanei Ecohome, which had been acquired in January 2023, the business was integrated into DASP.

(1) Solar power generation business

In the solar power generation business, the Company rented and used the roofs of 130 DCM Group stores as of FY12/21 and completed grid connection for the power generation facilities that had been installed. This will be a long-term source of stable income*.

> * The deprecation period for solar power facilities is 20 years (straight-line method), equivalent to the acquisition period under the feed-in tariff scheme. As for the cost to dismantle the facilities in 20 years, the Company is already setting aside a budget proportionally divided throughout the period.

As well as the need to run a sustainable business after the FIT system, demand is increasing worldwide for various business models including PPA*. After acquiring Sanei Ecohome in 2021, in February 2023, the Company acquired all shares in MEDEA, headquartered in Saitama City, Saitama Prefecture, and made it a subsidiary. MEDEA's main business is electrical engineering, particularly design, installation, and maintenance of solar power generation facilities, and sale of power generated by its own facilities. The Daiki Axis Group aims to build a structure that responds more quickly to demand from large-lot users by acquiring solar power generation-related management resources by proactive M&A.

* The Daiki Axis Group installs solar power generation systems free of charge and enters into contracts to operate, maintain, and manage these systems. Power consumers then purchase the electricity generated by these systems and pay an electricity bill for the power they use. Given the growing demand for electricity, primarily among large companies aiming to become carbon neutral, the Company is focusing on this as a post-FIT-system business model.

(2) Biodiesel fuel business

The biodiesel fuel business was launched in 2002. It involves collecting plant-derived waste cooking oil used for frying foods and other purposes generated by general households, restaurants, convenience stores, food processing plants, and other locations, and purifying it to create biodiesel fuel for reuse as an alternative to diesel fuel. Using biomass energy with plant-derived waste cooking oil as the raw material is considered to be "carbon neutral." The Company is aiming to realize local-production, local-consumption, circulating-type energy, and while looking for local governments as partners, it is progressing the "Yu-More Oil Project" that promotes the recycling of waste cooking oil.

As a new development from 2023, DASP started in April to provide D·OiL, a high-quality biodiesel fuel, for airport work vehicles as part of a demonstration experiment run by the Matsuyama Branch of Japan Airlines <9201>. In 2024, DASP also started supplying D·OiL to Japan Airlines' Kochi Airport site in January, its Tokushima Airport site in May, and its Takamatsu Airport site in June. Therefore, DASP now provides D·OiL to sites at the four airports in Shikoku. In addition, DASP supplies D·OiL for biofuel buses that started test operations in August 2023 in the Nikko region, which includes the Okunikko area, selected by the Ministry of the Environment as a decarbonization leading area. With a view to the stable provision of biodiesel fuel in the Kanto region and further business expansion, DASP completed a biodiesel fuel refining plant in Ibaraki Prefecture in April 2024.

(3) Small-scale wind power generation business

The small-scale wind power generation business was launched in FY12/12. By the end of FY12/21, DASP had connected 12 small-scale wind power generation sites to the power grid and started FIT power sales. Currently it operates 26 sites and is aiming to have 70 sites operating nationwide by the end of FY12/25. It anticipates that the power-sales revenue per site will be ¥2mn to ¥2.5mn and that the operating income margin will be around 25% to 30%. However, in FY2018, the purchase price in this classification was revised to ¥20/kWh, which is the same as the 20kWh and above classification, and therefore it intends to respond to the new FIT system with 50kW facilities. Once it obtains approval, it will install 50kW facilities at the less-than-20kW sites. This policy is to take advantage of the fact that although the installation costs are the same, the sales from the 50kW facilities are 2.5 times higher.

For the development of small-scale wind power generation equipment, Sylphid Inc. (now DASP) is working together with Zephyr Corporation, JATCO Ltd., RICOH JAPAN Corporation (Ricoh Company <7752> Group company) to conduct a technology development and demonstration project for low-pressure wind power generation equipment. Based on the movement to create local disaster prevention methods and independent grids that utilize self-managed lines and existing distribution grids, and the emergence of a movement to consume self-produced reusable energy within business establishments, they are aiming to newly develop wind power generation facilities with a 50kW rated output, which is highly socially acceptable. Zephyr is responsible for the overall design of the wind turbine and its blades, field testing, and construction of the wind turbine control algorithm, while JATCO is responsible for development of converting automotive parts into wind power generation equipment and RICOH JAPAN develops a maintenance support tool that utilizes AI. Sylphid (now DASP) is responsible for the production of the wind turbine blades.

Results trends

In 1H FY12/24, sales and profits increased as demand for capital investment recovered and overseas business expanded

1. Overview of 1H FY12/24 results

For the 1H FY12/24 consolidated results, the Company recorded higher sales and profits, with net sales of ¥22,610mn, up 7.3% YoY, operating income of ¥554mn, up 67.7%, ordinary income of ¥628mn, up 52.3%, and profit attributable to owners of parent of ¥266mn, up 5,987.3%. The Company is also making steady progress towards its full-year forecasts.

Net sales growth was well balanced in the three business segments, including from the effects of the new consolidation of two companies (three months' worth of additional sales). In the environmental equipment business, growth in repair projects driven by recovery in demand for capital investment, along with an increase in maintenance contracts contributed to sales growth. In addition, there was significant growth in overseas business, which the Company is focusing on. In the household equipment business, sales to construction customers, such as those for metropolitan-area condominiums, were strong. Also, housing sector projects grew markedly due partly to the effects (including synergies) of air-conditioning installation specialist ADORE SYSTEM's consolidation. In the renewable energy business, the solar power generation business (sales of electricity and power generation facilities) steadily expanded, including from the effects of MEDEA's consolidation.

On the profit front, progress passing on increases in purchase prices to sales prices, building up of the recurring-income business (maintenance, etc.), the generation of synergies with subsidiaries from M&A, and earnings improvement in overseas business contributed to sharp profit growth amid continued high purchase prices, shipping costs, and so forth. The operating income margin also improved to 2.5% (1.6% in the same period of the previous fiscal year). Growth in profit attributable to owners of parent was notably high because temporary expenses (expenses to deal with defective products) that arose in the same period of the previous fiscal year dropped out.

As for financial conditions, non-current assets increased due mainly to the construction of a biodiesel fuel refining plant, while cash and deposits decreased, so total assets came to ¥34,061mn, basically flat from the end of the previous fiscal year. Also, equity capital increased 1.8% to ¥9,698mn due to factors including an increase in retained earnings, so the equity ratio rose slightly to 28.5% (28.0% at the end of the previous fiscal year).

Regarding the status of cash flows, net cash provided by operating activities was ¥1,525mn, net cash used in investing activities was ¥1,104mn, and net cash used in financing activities was ¥433mn. As a result, the balance of cash and cash equivalents was ¥6,706mn, down ¥1,950mn from the end of the previous fiscal year. The net cash outflow from investing activities reflects the construction of a biodiesel fuel refining plant and startup investment in venture capital business.

1H FY12/24 consolidated results

(¥mn)

	1H FY12/23		1H FY12/24		YoY	
	Results	% of sales	Results	% of sales	Change	% Change
Net sales	21,067	-	22,610	-	1,542	7.3%
Environmental equipment business	10,853	51.5%	11,231	49.7%	377	3.5%
(of which, overseas net sales)	673	3.2%	940	4.1%	266	39.5%
Household equipment business	8,817	41.9%	9,747	43.1%	929	10.5%
Renewable energy business	1,095	5.2%	1,334	5.9%	239	21.8%
Other businesses	302	1.4%	298	1.3%	-3	-1.2%
Gross profit	4,333	20.6%	4,901	21.7%	567	13.1%
SG&A expenses	4,003	19.0%	4,347	19.2%	344	8.6%
Operating income	330	1.6%	554	2.5%	223	67.7%
Environmental equipment business	769	7.1%	978	8.7%	209	27.2%
Household equipment business	176	2.0%	258	2.7%	81	46.3%
Renewable energy business	66	6.1%	77	5.8%	11	17.2%
Other businesses	25	8.3%	-8	-	-33	-
Adjustment	-706	-	-751	-	-44	6.3%
Ordinary income	412	2.0%	628	2.8%	215	52.3%
Profit attributable to owners of parent	4	0.0%	266	1.2%	261	5987.3%

Note: Segment profit margins are based on net sales values for the respective businesses
Source: Prepared by FISCO from the Company's financial results and financial results briefing materials

Consolidated balance sheet and management indicators

(¥mn)

	End-FY12/23	End-1H FY12/24	Change	% Change
Current assets	18,871	18,319	-552	-2.9%
Cash and deposits	6,945	7,035	89	1.3%
Trade receivables	9,672	9,418	-254	-2.6%
Inventories	1,688	1,458	-230	-13.6%
Non-current assets	15,199	15,741	542	3.6%
Property, plant and equipment	11,359	11,619	260	2.3%
Intangible assets	1,562	1,384	-178	-11.4%
Investments and other assets	2,277	2,737	460	20.2%
Total assets	34,071	34,061	-9	-0.0%
Current liabilities	16,945	17,380	435	2.6%
Notes and accounts payable-trade	4,611	4,291	-320	-6.9%
Loans payable, corporate bonds, etc.	9,713	10,171	457	4.7%
Non-current liabilities	7,601	6,981	-620	-8.2%
Loans payable, corporate bonds, etc.	6,350	5,708	-642	-10.1%
Total liabilities	24,547	24,361	-185	-0.8%
Interest-bearing debt	16,064	15,880	-184	-1.1%
Total net assets	9,524	9,699	175	1.8%
[Management indicators]				
Equity capital	9,524	9,698	175	1.8%
Equity ratio	28.0%	28.5%	0.5pp	-

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

The results of the main businesses are described below.

(1) Environmental equipment business

Net sales increased 3.5% YoY to ¥11,231mn and segment profit rose 27.2% to ¥978mn. Repair projects for Johkasou and wastewater treatment systems increased with tailwinds from recovery in demand for capital investment. Progress passing on the increase in costs to prices also contributed to sales growth. Sales from the business of converting groundwater to drinking water rose steadily too, owing to growth in post-sales maintenance contracts and new contracts. Additionally, in overseas business, an area of focus, sales rose sharply in India and Sri Lanka accompanying operations at new plants. However, overall segment sales growth was only gradual, apparently due to impact from the basis for recording sales (percentage of completion basis) accompanying bigger projects, and stronger growth in orders than sales. On the profit front, the Company made progress passing on continued high costs including for materials and outsourcing. In addition, improvement in profit margins accompanying bigger projects, expansion of the recurring-income business (maintenance contracts, business of converting groundwater to drinking water, etc.), and narrower losses in overseas business contributed to sharp profit growth. The segment profit margin improved significantly to 8.7% (7.1% in the same period of the previous fiscal year).

(2) Household equipment business

Net sales increased 10.5% YoY to ¥9,747mn and segment profit increased 46.3% to ¥258mn. Projects grew for construction-related companies, which are benefitting from strong market conditions for condominiums in metropolitan areas such as Osaka and Hiroshima. Also, housing sector projects expanded markedly, buoyed by the effects of air conditioning installation specialist ADORE SYSTEM's consolidation (including synergies), and the acquisition of large greenhouse projects. On the profit front, progress passing on increases in purchase prices, shipping costs, and other costs, as well as growth in high-margin housing sector projects drove sharp profit growth, and the segment profit margin improved to 2.7% (2.0% in the same period of the previous fiscal year).

(3) Renewable energy business

Net sales increased 21.8% YoY to ¥1,334mn and segment profit rose 17.2% to ¥77mn. In addition to stable revenue from electricity sales, the consolidation of MEDEA, which sells electricity and power generation facilities, greatly contributed to the higher sales. Biodiesel fuel also grew steadily due to an increase in the number of B5 diesel fuel* contracts. Profit rose as higher revenue from electricity sales and sales of equipment by MEDEA offset upfront costs associated with the construction of a biodiesel fuel refining plant in eastern Japan (Ibaraki Prefecture). The segment profit margin inched down to 5.8% (6.1% in the same period of the previous fiscal year).

* A mixture of 5% D·OiL into diesel fuel, which meets the mandatory standards for diesel fuel specified by the Japanese government. Provision for Japan Airlines' airport work vehicles realized in four prefectures in Shikoku.

2. 1H FY12/24 summary

In 1H FY12/24, performance can be assessed as strong with well-balanced growth in all business segments. Profit growth was especially sharp, and strong progress vs. full-year forecasts is a noteworthy point. At FISCO, we have been following 1) progress on price revisions, 2) strengthening of the sales mix (launches of high-margin products and services), 3) building up of the recurring-income business (growth in maintenance contracts), 4) cost reductions (centralized purchasing, etc.), and 5) overseas business expansion (operation status of new plants, etc.). In our view, a measure of success on each of those initiatives bolstered earnings. Also, in terms of activities looking to the future, the Company was able to provide a sense of direction looking to the next stage on all fronts, from progress on development of overseas business through operations at new plants (India, Sri Lanka) and establishment of a new business base (Bangladesh) to the generation of synergies with subsidiaries from M&A (enhancement of new products and services, etc.), regional expansion of biodiesel fuel sales (eastern Japan) and strengthening of the wooden-structure project business framework (to handle all processes in-house) to raise competitiveness.

Topic

Solid expansion in India and Sri Lanka where new plants have come into full operation

In India, which the Company is focusing on, net sales rose sharply to ¥328mn (¥153mn in the same period of the previous fiscal year) and operating losses narrowed to ¥20mn (losses of ¥90mn), bringing a turn to profit into sight. This is mainly because market conditions were strong, and operations at the new plant have come into full swing, including stabilization of product quality. Similarly, Sri Lanka turned to operating profit of ¥9mn (losses of ¥9mn) with net sales of ¥141mn (¥36mn), driven by assembly plant operations. In Indonesia as well, net sales grew to ¥152mn (¥124mn), while operating losses shrank to ¥20mn (losses of ¥51mn). Orders for large-scale projects were solid but their completion is scheduled for 2H, so a turn to profit for the full-year is anticipated. On the other hand, net sales in China, where Japanese companies' demand for capital investment is on a downturn, declined sharply to ¥66mn (¥164mn) and an operating loss of ¥32mn (profit of ¥46mn) was posted. Based on the above, it appears that business is struggling in China, but has grown in India and Sri Lanka with momentum exceeding that.

As for activities, the Indian Railways "Station Renewal Project"*1 and the Ganges River Purification Project*2 in India, as well as the condominium project received from a major developer in Sri Lanka are going well. In addition, the newly established business base in Bangladesh worked to develop relationships with local government agencies and construction companies*3.

*1 The Company started manufacturing the first lot of Johkasou of those for 10 railway stations around Delhi. Also, it newly received an additional order to supply Johkasou for four railway stations, alongside which it concluded a 10-year maintenance contract.

*2 For the Ganges River Purification Project order received in March 2022, the first section in the first phase of the tributary clean-up project has been completed, and work on the second section is underway (schedule is currently being revised/rebuilt due to impact from the Indian general elections). Further, civil engineering for the second phase of the project has been completed, and preparations are being made to ship products.

*3 This included holding a commemorative ceremony with the aim of building partnerships with local government agencies and construction companies, providing a plant tour and exchange of opinions with Bangladesh's Minister of Housing and Public Works who visited Japan, and delivering a Johkasou for government accommodations, which was its first order as a Bangladesh corporation.

Outlook

Company maintained its results forecasts for FY12/24, also expects higher sales and profits for the full year

1. Forecasts for FY12/24 results

For the FY12/24 results, the Company maintains its initial forecast and envisions higher sales and profits (except for ordinary income), with net sales to increase 4.3% YoY to ¥44,500mn, operating income to grow 10.5% to ¥730mn, ordinary income to decrease 4.5% to ¥800mn, and profit attributable to owners of parent to rise 94.8% to ¥400mn.

The outlook is for higher net sales to once again be secured in each of the three businesses. In the environmental equipment business, the overseas business will grow significantly, centered on the operations of the new plants in India and Sri Lanka becoming fully fledged. In the household equipment business, the continuing elimination of the product-supply problem and the response to the expansion of the renovations market will drive growth, while in the renewable energy business, in addition to the stable revenue from electricity sales, sales are forecast to increase from new developments in the biodiesel fuel business and sales of solar power generation facilities.

Profits will be affected by continued high domestic purchase prices and the increase in costs due to limited output and shortage of materials (cables, etc.) in electricity sales. However, the Company aims to increase operating income through higher revenue generated by increased sales. In particular, it is aiming to improve the operating income margin by advancing the transfer of the increased purchase prices to sales prices.

Outlook for FY12/24 consolidated results

(¥mn)

	FY12/23		FY12/24		YoY	
	Results	% of sales	Forecast	% of sales	Change	% Change
Net sales	42,681	-	44,500	-	1,818	4.3%
Environmental equipment business	21,010	49.2%	21,525	48.4%	514	2.5%
(of which, overseas net sales)	1,492	3.5%	2,347	5.3%	855	57.3%
Household equipment business	18,302	42.9%	19,610	44.1%	1,307	7.1%
Renewable energy business	2,746	6.4%	2,810	6.3%	63	2.3%
Other businesses	622	1.5%	555	1.2%	-67	-10.8%
Gross profit	8,866	20.8%	9,730	21.9%	863	9.7%
SG&A expenses	8,206	19.2%	9,000	20.2%	793	9.7%
Operating income	660	1.5%	730	1.6%	69	10.5%
Environmental equipment business	1,424	6.8%	1,670	7.8%	245	17.3%
Household equipment business	278	1.5%	381	1.9%	102	37.1%
Renewable energy business	259	9.4%	225	8.0%	-34	-13.1%
Other businesses	38	6.2%	-5	-	-43	-113.2%
Adjustment	-1,339	-	-1,541	-	-201	-
Ordinary income	837	2.0%	800	1.8%	-37	-4.5%
Profit attributable to owners of parent	205	0.5%	400	0.9%	194	94.8%

Note: Segment profit margins are based on sales values for the respective businesses
Source: Prepared by FISCO from the Company's financial results briefing materials

2. FISCO's opinion

We at FISCO believe the Company's results forecasts are well within reach, given the external environment (strong demand for capital investment, etc.) and that initiatives in each business segment are making solid headway. Profits are making especially rapid progress, and we think they could surpass the forecasts. What warrants attention is how the Company bolsters its growth foundation looking to FY12/25, the final year of its medium-term management plan, and achievement of its vision for 2030. In addition to the unexpectedly prolonged spread of COVID-19 and supply chain disruptions, and impact from rising prices, delays with the new India plant's launch make achieving the medium-term management plan (profit targets) challenging. However, the seeds for business growth in all directions have now grown, so following business progress with an eye to the next stage will be important.

Medium-to-long term direction

To achieve its vision for 2030, expanding overseas business, strengthening the recurring-income business, and promoting M&A

1. Overview of the medium-term management plan

The Company is progressing PROTECT × CHANGE, its five-year medium-term management plan whose final fiscal year is FY12/25, and three and a half years have passed since the start of the plan. Its vision for 2030 is: 1) Play a role that exceeds all expectations on the global stage; 2) Rise as a company that the world hopes will carry "the future of the environment;" 3) Expand fields of strength and foray into new domains; and 4) Establish a flexible organization adapted to the new normal in the aftermath of COVID-19. Toward realizing this vision, it is progressing six growth strategies and promoting IT that will serve as their foundation.

2. Numerical targets and their assumptions

The numerical targets for FY12/25, the medium-term management plan's final fiscal year, are net sales of ¥45,000mn (5 year CAGR, 5.4%), operating income of ¥2,000mn (13.9%), and an operating income margin of 4.4%.

The contributions to the amount that net sales will increase compared to FY12/23 (¥2,319mn) will be increases of ¥990mn in the environmental equipment business and ¥698mn in the household equipment business, and a decrease of ¥246mn in the renewable energy business. Conversely, the contributions to the increase in operating income amount (¥1,340mn) are expected to be increases of ¥896mn in the environmental equipment business, ¥422mn in the household equipment business, and ¥441mn in the renewable energy business. In particular, in the environmental equipment business, overseas net sales are forecast to grow significantly to ¥4,000mn (up ¥2,508mn compared to FY12/23)* and the Company is aiming to improve profitability through business expansion and easing the burden of upfront expenses.

* Of this amount, the plan is for India to provide half.

The medium-term business plan's numerical targets

(¥mn)

	3rd year		4th year		Final fiscal year	
	FY12/23		FY12/24		FY12/25 Initial target	vs. FY12/23 Change
	Initial target	Results	Initial target	Forecast		
Net sales	39,840	42,681	44,500	44,500	45,000	2,319
Environmental equipment business	20,540	21,010	21,525	21,525	22,000	990
(of which, overseas net sales)	2,210	1,492	2,347	2,347	4,000	2,508
Household equipment business	17,005	18,302	19,610	19,610	19,000	698
Renewable energy business	1,644	2,746	2,810	2,810	2,500	-246
Other businesses	650	622	555	555	1,500	878
Operating income	759	660	730	730	2,000	1,340
Environmental equipment business	1,486	1,424	1,670	1,670	2,320	896
Household equipment business	498	278	381	381	700	422
Renewable energy business	249	259	250	225	700	441
Other businesses	41	38	45	-5	150	112
Adjustment	-1,516	-1,339	-1,616	-1,541	-1,870	-531
Operating income margin	1.9%	1.5%	1.6%	1.6%	4.4%	2.9pp

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

3. Growth strategies and the progress made so far

The six growth strategies that the Company is progressing are: 1) Overseas business expansion (the environmental equipment business); 2) Expand the recurring-income business; 3) Transformation from stability to growth (the household equipment business); 4) Renewable energy business; 5) Improved technological capabilities and product development capabilities; and 6) Progress M&A. It is also working on: 7) Promote IT to prepare a foundation to support the implementation of these strategies. The policies for each strategy, the progress made so far, and their self-evaluation are described below.

(1) Overseas business expansion (Environmental equipment business)

The Company is engaging in: a) Construction of local production systems in high-demand areas; b) Active hiring of overseas human resources; and c) Revision of systems and rules related to overseas business and new establishment. For a), it has constructed new plants in India and Sri Lanka, both of which have enormous potential, and for b) it is continuously recruiting personnel. At the India plant, training manufacturing personnel required some time, but a system is established to respond to the growing demand. Going forward, it is considering working on the third and subsequent plants, including quickly establishing an assembly plant, similar to the one in Sri Lanka. Conversely, the Indonesia plant's exports to India have ended, and it worked on maintaining the plant's operating rate by exploring new local companies. Also, the Company established a subsidiary in Bangladesh in January 2024 and intends to coordinate with the government on legislation. From the above, considering factors such as the somewhat sluggish progress made in training personnel at the India plant, the self-evaluation up to the present time is on the borderline of pass and failure.

(2) Expand the recurring-income business

The Company is working on expanding the recurring-income business, which provides a stable foundation for profit. In the business of converting groundwater to drinking water, it is focusing on repeatedly conducting thorough cost management and sales of equipment not limited to ESCO contracts, and orders are increasing, while wastewater treatment maintenance also trended strongly. Based on the above, the self-evaluation up to the present time is a passing grade.

(3) Transformation from stability to growth (Household equipment business)

The Company plans to transition to a growth trajectory, including by: a) Expanding its market sphere through sales to home improvement centers (nationwide); b) Developing new stores, deploying and selling new materials, and working on new construction projects; c) Taking ongoing steps to reduce purchasing costs through the introduction of a centralized purchasing system; d) Developing human resources (strengthening sales capabilities); and e) Visualizing and standardizing processes, including those for the back office (achieve mutual complementation among employees). Regarding a), the Company is struggling in eastern Japan. As for b), however, new store development is on track and the Company worked on selling new materials including for IoT smart house-related fields and ultra-fine bubble products for home improvement centers. Turning to c), the Company completed establishment of centralized purchasing and made steady progress reducing purchasing costs. Initiatives to d) develop human resources and e) achieve mutual complementation among employees are also going well, and the Company achieved its goal of making the organization younger ahead of the targeted 2025. Based on the above, the Company gives itself a passing grade for its work so far.

(4) Renewable energy business

The Company is working on initiatives including: a) Expanding biodiesel sales volume and waste oil collection areas in collaboration with local government bodies; and b) Trend surveys, collaborations and proposals related to environmentally progressive companies (RE100/RE Action member companies, etc.). Regarding a), the Company is steadily expanding sales and waste oil collection areas, and completed a biodiesel fuel refining plant in eastern Japan (Ibaraki Prefecture) in April 2024. It also made steady progress on b) for which it is enlisting cooperation from existing business partners. Based on the above, the Company gives itself a passing grade for its work so far.

(5) Improved technological capabilities and product development capabilities

The Company is working on: a) Thorough elimination of complaints in the manufacturing process; b) Human resources development (strengthen specialization); c) Continued development and stable operations of wind and solar power generation sites; and d) Further reductions to environmental impact, further evolution of battery storage technologies etc., disaster prevention and preparedness measures and proposals of high value-added business for post FIT that will contribute to local production and consumption. For a), the Company achieved significant improvement through measures addressing human error. Regarding b), the Company advanced development of products to address nitrogen regulations in India and Indonesia. It is also examining development of Jokhasou suitable for cold regions in India, but is slightly behind schedule due partly to delays in developing human resources. As for c), it is steadily advancing ongoing development and stable operation of wind power and solar power generation sites. Turning to d), it made steady progress in developing a business model that combines renewable energy and power plants, building power plants and biodiesel fuel manufacturing facilities. Based on the above and taking into account the status of b), the Company gives itself a borderline grade between pass and fail for its work so far.

(6) Progress M&A

The Company is working to expand its market sphere and handled products by utilizing M&A. It realized two M&A in FY12/23 and was able to expand its business foundations in the household equipment business and the renewable energy business. From the above, the self-evaluation up to the present time is a passing grade.

(7) Promote IT

The Company recognizes that promoting IT is an important measure that will significantly affect its operations, organization, and human resources. It aims for the improvement of the profit margin through providing high-value-added proposals. The Company is currently working to build an environment that will eliminate simple tasks, currently conducted manually by multiple personnel, enabling them to focus on high-value-added work. In addition, it plans to introduce communication tools in order to build a culture that provides a psychological sense of security. However, the results of this are yet to appear, and the self-evaluation up to the present time is on the borderline of pass and failure.

4. Problem awareness and policies toward improving corporate value

The Company is aware that one of its issues is the fact that ROE has decreased due to higher purchase prices and that its upfront investment is placing downward pressure on profits, and that PBR is trending around the 1x level. While continuing to look to growth in the medium-to-long term, it is aiming to expand sales areas and to strengthen its production capacity and competitiveness, and it is also working to manage costs and promote IT to improve the profit margin. The driver to realize business expansion will be accelerating overseas business development (particularly in India) in the environmental equipment business. Also, the points toward strengthening competitiveness include the wood-structure projects in the household equipment business and developing a PPA model and the biodiesel fuel business in the renewable energy business. On the other hand, for cost management, it is considering applying the Sri Lanka model* elsewhere overseas and is working on measures including centralized purchasing and reviewing unprofitable businesses.

* The features of the Sri Lanka model include: 1) Low initial investment as it is an assembly plant; and 2) Achieves savings in transportation costs, customs duties, and tax.

5. Medium- to long-term focal points

In a situation of the maturing domestic economy, the Company's direction is to focus on water-environment issues that are becoming more serious in emerging countries around the world, and to connect solving societal issues to its own growth. We at FISCO evaluate this strategy as being extremely appealing and rational. In particular, there is enormous potential for the Company as it is able to provide high quality goods and services with specifications and costs that are matched to emerging countries, and we think it is fully capable of opening-up these markets that have huge potential. For this, what will decide its success or failure will be whether or not it can coordinate with the various governments and participate independently in creating regulations, and train human resources who can be active globally. The history of the spread of the use of Johkasou in Japan is attracting attention as the model for Asia and Africa in the future. For the Company, which has a long history since the high-growth period, reproducing in Asia and Africa the process of manufacturing and spreading the use of Johkasou in Japan will not only contribute to the environment, but also lead to its own dramatic leap forward. For training human resources as well, if the training it is currently progressing in India (the India model) gets on track, this may quickly become a turning point for its overseas business development, including through the human resources created through this training. Of course, there will likely be difficulties specific to emerging countries, but on this point, we can expect the new president to make use of his experience and management skills. Domestically, we at FISCO are continuing to focus on how the Company is strengthening its business foundation by utilizing M&A. In particular, there are a variety of possible strategic options for the household equipment business that has structural issues and the renewable energy business that is progressing a new business model with an eye to the post-FIT period. But for the Company, which has strengthened its business portfolio through the M&A it has conducted up to the present time, we consider it is highly likely that it will obtain new opportunities in this period of severe environmental changes and industry trends.

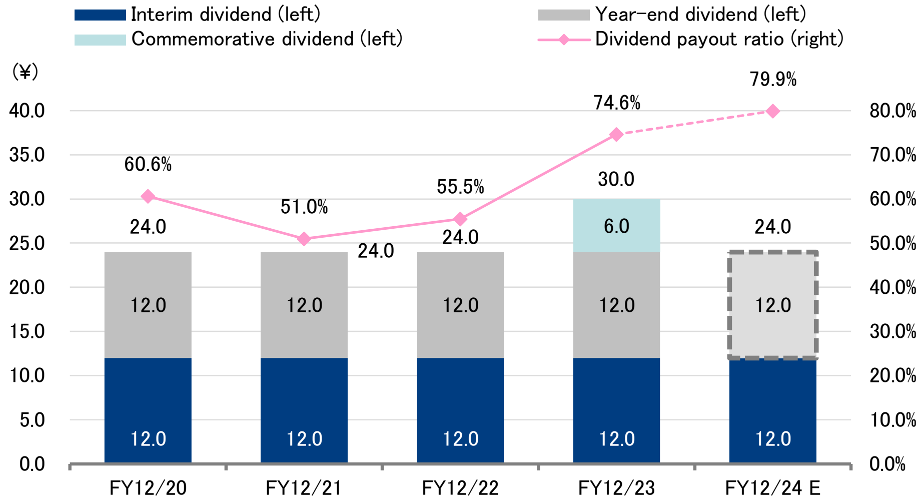
Shareholder return policy

In FY12/24, plans to once again pay an ordinary dividend of ¥24.0

The Company's shareholder return policy is to pay a dividend after comprehensively considering the dividend payout ratio and internal reserves in order to both stably return profits to shareholders and realize sustainable growth. In FY12/23, it paid an ordinary dividend per share of ¥24.0 and also a commemorative dividend (¥6.0 per share) to mark its 65th anniversary. In FY12/24, it plans to once again pay an ordinary dividend per share of ¥24.0 (interim ¥12.0 already paid and year-end ¥12.0).

Shareholder return policy

Dividend per share and dividend payout ratio



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

Also, the Company introduced the Daiki Axis Premium Benefits Club as its shareholder benefits program. On this program, shareholders can exchange benefit points and shared shareholder benefit coins, which can be combined with benefit points from other companies that have also introduced premium benefits clubs, for more than 2,000 products, including food, electrical goods, gifts, travel and experiences. Shareholders holding at least 500 shares receive 3,000 points. It uses a sliding system in which points increase depending on the number of shares held, with points rising to 40,000 for shareholders holding at least 3,000 shares. For long-term share holdings of at least 1 year, the points are multiplied by 1.1.

Shareholder benefits program

Number of shares held	Shareholder benefits
500 to 599 shares	3,000 Premium Benefits Club points (1.1 times if the shares have been held for more than one year. Applies to all below)
600 to 699 shares	4,000 points
700 to 799 shares	5,000 points
800 to 899 shares	6,000 points
900 to 999 shares	7,000 points
1,000 to 1,999 shares	8,000 points
2,000 to 2,999 shares	20,000 points
More than 3,000 shares	40,000 points

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

Disclaimer

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