COMPANY RESEARCH AND ANALYSIS REPORT

NIHON DENGI CO., LTD.

1723

Tokyo Stock Exchange Standard Market

17-Jan.-2025

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Contents

Summary

In a favorable business environment, targets were revised upward for the full-year and for the medium- to long-term also

1. Developing air conditioning instrumentation and industrial systems leveraging strengths in instrumentation engineering technologies

NIHON DENGI CO., LTD. <1723> (hereafter, also the "Company") specializes in instrumentation engineering. Instrumentation refers to the control of equipment and machinery in buildings and factories, including air conditioning and production lines by means of measurement, monitoring and control. In the mainstay Air Conditioning Instrumentation-Related Business, the Company supports the energy efficiency of non-residential buildings such as office buildings through the automated control of air conditioning facilities. The Company has extensive experience and high-level technology capabilities as the largest distributor for Azbil Corporation <6845>, a major manufacturer of automated control equipment, and as a pioneer in the industry. In the Industrial Systems-Related Business, where growth is expected, the Company provides services that support optimization and labor savings through the conversion of factories to smart factories and is engaged in the automation of production and conveyance lines in factories and robot deployment and operation, among other operations.

2. 1H FY3/25 saw improved profitability under a favorable order environment, resulting in a substantial increase in operating income

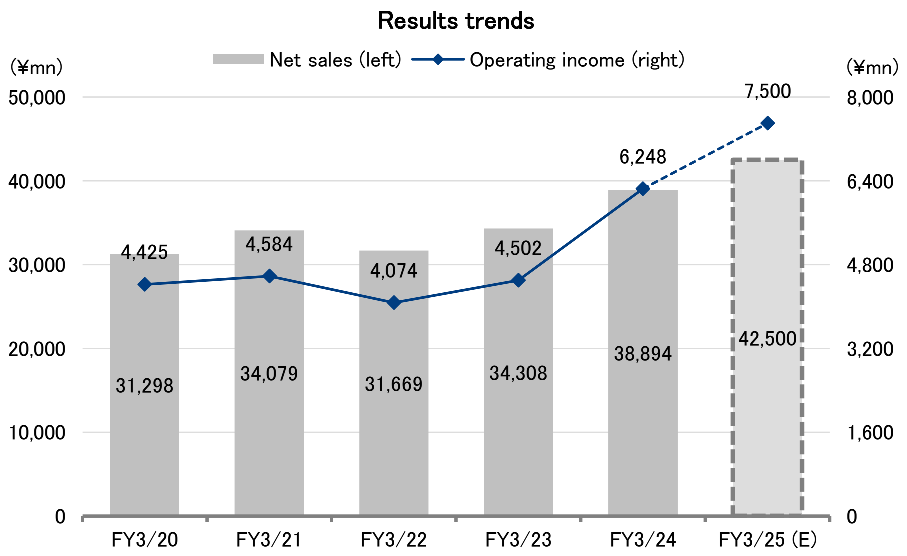
The Company reported 1H FY3/25 results of ¥25,417mn in construction orders received (+12.6% YoY), ¥14,987mn (-3.8%) in net sales, and ¥2,318mn in operating income (+32.6%). Looking at orders received, new site work saw favorable conditions continue for factories, such as semiconductor factories, urban redevelopment projects saw an increase in orders in regional areas, and existing site work saw solid orders for renovations for saving energy and obtaining CO_2 emissions reduction effects, while the size of projects is also increasing. Net sales decreased, reflecting the completion of multiple large-scale Tokyo metro redevelopment projects in the same period of the previous fiscal year; however, operating income increased substantially, reflecting a significant improvement in profitability due to progress on selecting orders and an increase in highly profitable projects, despite a soaring prices of raw materials and increases in labor costs, outsourcing expenses, and personnel expenses, mainly due to improvements in working conditions. In the Industrial Systems-Related Business, a temporary improvement in the profit mix contributed to a slight increase in profits.

3. Strong financial results due to a favorable business environment resulted in upward revision of short-, medium-, and long-term targets

In its outlook for FY3/25, the Company is forecasting net sales of ¥42,500mn (+9.3%) and operating income of ¥7,500mn (+20.0%). The forecasts have been revised upward, by ¥1,000mn for net sales due to favorable results in 1H FY3/25 and the expected completion of major projects toward the end of the fiscal year, and by ¥1,300mn for operating income as the Company expects profitability to remain high. Furthermore, due to a favorable background business environment, the Company has revised the financial targets for FY3/28—"Phase 2," which started in FY3/25—upward, revising the targets for ROE from 10% or higher to 12.5%, net sales from ¥42.0bn to ¥45.0bn, and operating income from ¥6.5bn to ¥8.0bn. Moreover, in keeping with the upward revision of the "Phase 2" targets, the targets for FY3/31—"Phase 3"— have also been revised upward, revising the targets for ROE upward from 10% or higher to 12.5%, net sales from ¥45.0bn to ¥52.5bn, and operating income from ¥6.0bn to ¥9.0bn.

Key Points

- Air conditioning instrumentation orders increased based on the Company's strengths in instrumentation engineering, as the Company entered the industrial systems field
- 1H FY3/25 saw improved profitability under due to favorable results in orders received, resulting in a substantial increase in operating income
- Due to the favorable background business environment, both FY3/25 results forecasts and medium- to long-term targets have been revised upward



Note: Since FY3/21, disclosure has changed from non-consolidated to consolidated results, but results have been compared side-by-side for convenience.
Source: Prepared by FISCO from the Company's financial results

Company profile

An industry pioneer with strengths in instrumentation engineering

1. Company profile

The Company conducts business in the field of air conditioning instrumentation for automated control of air conditioning equipment in large non-residential buildings such as offices, hotels, hospitals and factories, and in the field of industrial systems to automate production and conveyance lines in factories. In the mainstay Air Conditioning Instrumentation-Related Business, the Company has extensive experience and know-how as the largest distributor for Azbil, a major manufacturer of automated control equipment, and as a pioneer in the industry. In addition, in the air conditioning instrumentation market, a majority of which is controlled by the Azbil Group, which includes the Company, the Company has strength as the only engineering company that handles everything from design to construction and maintenance. In the Industrial Systems-Related Business, where growth is expected, the Company is carrying out high-value-added businesses, including supporting the conversion of factories and production lines to smart facilities through optimization and labor savings based on its know-how in air conditioning instrumentation and engineering as well as the production control systems of subsidiary Jupiter Advanced Systems Co., Ltd. Instrumentation engineering technologies not only help to create high-quality spaces and increase production efficiency, but they can also cut CO_2 emissions from buildings and factories. As a result, these technologies contribute to decarbonization and, by extension, the realization of a sustainable society.

Development of mainstay air conditioning instrumentation and promising industrial systems

2. Business description

The Company's business is broadly divided into the mainstay Air Conditioning Instrumentation-Related Business and the promising Industrial Systems-Related Business. These two businesses had net sales composition ratio of around 9 to 1 in FY3/24, respectively.

(1) Air Conditioning Instrumentation-Related Business

The Air Conditioning Instrumentation-Related Business involves the comprehensive management of automated air conditioning control systems for non-residential buildings through heat source control, air conditioning control, power control, central monitoring equipment, and other functions. By creating comfortable spaces through optimal automated control systems, and also by proposing equipment/machine upgrades, assisting with building energy management, proposing ways to save energy, and providing other related services, the Company helps customers preserve their building assets and reduce lifecycle costs. The Company's Air Conditioning Instrumentation-Related Business is divided into new site work and existing site work. New site work is the Company's mainstay business and provides one-stop services for the air conditioning systems installed in buildings when they are built, from system design to installation, pre-handover test operations and adjustments, and usage guidance at the time of handover. In addition, in the area of heat supply equipment (district heating and cooling), the Company builds systems for the automated control of equipment and devices used to supply energy. In existing site work, the Company is involved in maintenance and upkeep of air conditioning systems and system upgrades after buildings are completed. It also assists in energy savings and reducing costs through improving energy efficiency and system operations.

(2) Industrial Systems-Related Business

In the Industrial Systems-Related Business, the main business area is automation and labor savings for the entire factory. Backed by instrumentation engineering technologies, the Industrial Systems-Related Business supports the building of automated control systems by setting up measurement devices, robots and other equipment for production processing and conveyance lines for small- to large-scale factories. Specifically, the Company supports the optimization of customers' value chains by addressing various issues faced by production sites, primarily in the labor-intensive food and pharmaceutical sectors, through measures such as 1) automation and labor savings through electrical instrumentation work and the installation of utility equipment (cold/hot water, steam, compressed air, etc.) that meets special specifications; 2) support for ensuring safety, and improving the precision and efficiency of sorting work; 3) use of robots in labor-intensive processes such as box filling, inspection, assembly and cargo handling to improve productivity; and 4) ensuring safety and security (food defense) through the absence of human intervention. Essentially, this could be called the conversion of factories into smart factories, and the market has just started to expand significantly. In order to capture such markets, the Company is actively pursuing the utilization of cutting-edge technologies such as AI, IoT, and cloud systems.

Results trends

Due to an upturn in the business environment, new site work for air conditioning instrumentation continues to perform favorably

1. Business environment

The economic situation appears to have returned to the situation prior to the spread of the novel coronavirus disease (hereafter, the "COVID-19 pandemic"), now that the post-COVID era has arrived, with the classification of COVID-19 as a Class 5 disease under the Act on the Prevention of Infectious Diseases and Medical Care for Patients with Infectious Diseases in May 2023. This has driven a short-term improvement in the business environment for new site work in the Air Conditioning Instrumentation-Related Business. In addition, the Company expects projects to become longer and larger over the long-term, as favorable trends continue. These include public sector projects, which are seeing strong demand; urban redevelopment, which is seeing a nationwide spread over the medium term; semiconductor factories, driven by a shift toward domestic production; and data centers, which are seeing expanding demand for use in AI and cloud systems. In existing site work, the Company renovation demand that was expected for the medium to long term has begun to emerge, and renovation projects are increasing in line with needs for energy-saving to realize a decarbonized society. In the Industrial Systems-Related Business, also, needs are expanding in the Company's target areas of automation associated with personnel shortages in food and pharmaceutical factories and manufacturing equipment modification and systems updates for realizing smart factories. However, in existing site work and the Industrial Systems-Related Business, the Company's activity has fallen short not kept up with demand, as it has been providing personnel support for new site work on air conditioning instrumentation, which was more favorable than expected.

Significant improvement in profitability centered on new site work for air conditioning instrumentation

2. 1H FY3/25 results trends

The Company reported 1H FY3/25 results of ¥25,417mn in construction orders received (+12.6% YoY), ¥14,987mn (-3.8%) in net sales, ¥2,318mn in operating income (+32.6%), ¥2,409mn in ordinary income (+32.1%) and ¥1,646mn in net profit attributable to owners of parent (+33.3%). The net sales result was due to the completion of multiple large-scale Tokyo metro redevelopment projects in the same period of the previous fiscal year in new site works, while the operating income result reflects greater-than-expected growth supported by profitability improvement.

1H FY3/25 results trends

(¥mn)

	1H FY3/24		1H FY3/25		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Orders received	22,571	-	25,417	-	12.6%
Net sales	15,584	100.0%	14,987	100.0%	-3.8%
Gross profit	5,100	32.7%	6,022	40.2%	18.1%
SG&A expenses	3,352	21.5%	3,703	24.7%	10.5%
Operating income	1,748	11.2%	2,318	15.5%	32.6%
Ordinary income	1,824	11.7%	2,409	16.1%	32.1%
Net profit attributable to owners of parent	1,234	7.9%	1,646	11.0%	33.3%

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

Japan's economy has been following a gradual recovery path as economic and social activity has normalized after the COVID-19 pandemic, although the economic outlook remains uncertain, mainly due to slowdowns in overseas economies caused by inflation and the tightening of monetary policy worldwide. In the construction industry, firm public investment activity continues, partly due to the execution of a related budget. Private-sector capital investment also shows significant recovery activity, particularly in investment related to semiconductor factories, IT investment, and environmental investments for decarbonization, among others.

Looking at the Company's order flow, orders received for new site work remained strong for semiconductor factories and others, while urban redevelopment projects also saw vigorous orders for large-scale projects, including those in regional areas. Additionally, existing site work has seen firm orders for renovation to improve energy efficiency and reduce CO_2 emissions and projects have grown in size. In this environment, a limited pool of operators who are able to undertake large-scale site work, including the Company, means that the Company is able to strategically select and accept orders for new site work that will lead to existing site work, thereby providing sources of recurring revenue that enables accumulation of earnings over the long term. On the other hand, in human resource management, although the Company has already finished addressing the so-called "2024 problem,"* in new site work, even receiving personnel support from existing site work and the industrial system-related business, a conservative estimate is that the Company will be operating at full capacity after the application of overtime work regulations. As a countermeasure for this situation, the Company has established a DX Promotion Office and is promoting efforts to improve operating efficiency and productivity, as well as starting further countermeasures to address personnel shortages.

* Under the Act on the Arrangement of Related Acts to Promote Work Style Reform, efforts are being made to improve the working environment, such as long working hours that have become normalized for various types of work. However, there is an issue of concerns regarding labor shortages over the medium to long term.

In this extremely busy situation, although the Company steadily accumulated orders mainly in new work sites for the Air Conditioning Instrumentation-Related Business, net sales decreased due to the completion of multiple large-scale Tokyo metro redevelopment projects in the same period of the previous fiscal year. On the profit front, the gross profit margin in particular improved substantially due to progress on selective acceptance of orders and an increase in highly profitable projects, despite a soaring prices of raw materials and increases in labor costs, outsourcing expenses, and personnel expenses, mainly due to improvements in working conditions. Under the current business environment, the Company has all but eliminated unprofitable or low-profit construction work, which used to occur frequently, and this situation of high profitability is expected to continue for some time. In SG&A expenses, the Company made progress on streamlining operations, for example by deploying DX and utilizing on-site offices (satellite offices); however, personnel expenses increased due to measures to improve employment conditions, such as increasing base pay as a countermeasure for labor shortages, and increasing personnel, including new graduate hiring. Operating income grew dramatically, more than expected, as the gross profit margin improved, despite the decrease in net sales and increase in SG&A expenses.

Increasing orders received for new site work as well as for existing site work and industrial systems

3. Status by business

Looking at business results by segment, the numbers give a strong sense of inconsistency; however, this can be attributed to the concentration of management resources in new site work in the Air Conditioning Instrumentation-Related Business. Moreover, the sense of inconsistency in net sales and segment profit in the Air Conditioning Instrumentation-Related Business is likely due to seasonal fluctuations as capacity utilization increases and net sales grow due to a cluster of handovers of completed construction work in 4Q, as well as a reactionary decline due to the completion of multiple large-scale projects in the same period of the previous fiscal year. In fact, demand for the Company's businesses and construction work has been stronger than would be expected from the business environment.

Results by segment in 1H FY3/25

(¥mn)

Net sales	1H FY3/24		1H FY3/25		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Air Conditioning Instrumentation-Related Business	13,956	89.6%	13,507	90.1%	-3.2%
New site work	7,049	45.2%	6,302	42.0%	-10.6%
Existing site work	6,906	44.3%	7,205	48.1%	4.3%
Industrial Systems-Related Business	1,628	10.4%	1,480	9.9%	-9.1%

Segment profit before adjustment	1H FY3/24		1H FY3/25		Change rate
	Results	Profit margin	Results	Profit margin	
Air Conditioning Instrumentation-Related Business	3,134	22.5%	4,019	29.8%	28.2%
Industrial Systems-Related Business	95	5.8%	132	8.9%	39.2%

Orders received	1H FY3/24		1H FY3/25		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Air Conditioning Instrumentation-Related Business	20,864	-	23,457	-	12.4%
New site work	6,757	-	8,843	-	30.9%
Existing site work	14,107	-	14,613	-	3.6%
Industrial Systems-Related Business	1,707	-	1,960	-	14.9%

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

In the Air Conditioning Instrumentation-Related Business, net sales were ¥13.507mn (-3.2% YoY), but orders received performed favorably at ¥23,457mn (+12.4%) and segment profit at ¥4,019mn (+28.2%). Orders received comprised ¥8,843mn (+30.9%) for new site work and ¥14,613mn (+3.6%) for existing site work. New site work included urban redevelopment in the Tokyo metropolitan areas and Osaka, as well as in Sapporo and Nagoya, in addition to strong activity in semiconductor-related factories, amid efforts to bolster domestic production, as well as datacenters, supported by growing demand for AI and cloud systems. The characteristics of new site work included the emergence of large-scale projects in regional areas as well, an increase in the unit price of orders due to an increase in project scale, and an increase in profitability due to selective acceptance of orders. In existing site work, the Company appears to be gradually picking up orders for large-scale renovation projects, such as factories. Net sales were ¥6,302mn (-10.6%) in new site work and ¥7,205mn (+4.3%) in existing site work. The decrease in sales of new site work reflected a reactionary decrease following the completion of large-scale projects in the same period of the previous fiscal year, in areas such as Toranomon, Azabudai, and Yokohama Minato Mirai; but it is progressing as expected given the seasonal fluctuation of the Company's results. The results for existing site work reflect an increase in projects for research facilities and medical institutions, among others. Segment profit exceeded forecasts, which had been somewhat conservative in anticipation of the impact of cost increases and the "2024 problem," as the Company was able to selectively accept orders amid a large number of inquiries, and enjoyed easy acceptance of its estimates due to the limited pool of operators able to undertake projects, including the Company.

In the Industrial Systems-Related Business, order received were ¥1,960mn (+14.9% YoY), due to accepting large-scale electrical work orders for pharmaceutical factories and food factories. Net sales were ¥1,480mn (-9.1%), reflecting a reactionary decline following multiple large-scale electrical work projects for pharmaceutical factories in the same period of the previous fiscal year. Segment profit was ¥132mn (+39.2%), due to an improvement in the profit mix due to the occurrence of highly profitable spot sales for maintenance and software. The Industrial Systems-Related Business has only just launched as a business division, and is also contributing personnel to the Air Conditioning Instrumentation-Related Business, giving the impression that it has not yet reached its full activity potential; however, the level of demand can be seen in its orders received.

Upward revision of full-year forecasts, reflecting favorable 1H results, and other factors

4. FY3/25 outlook

In its outlook for FY3/25, the Company is forecasting net sales of ¥42,500mn (+9.3% YoY), operating income of ¥7,500mn (+20.0%), ordinary income of ¥7,600mn (+20.2%), and net profit attributable to owners of parent of ¥5,300mn (+13.4%). Partly due to strong results for 1H, the Company has revised its forecasts upward by ¥1,000mn for net sales, ¥1,300mn for operating income, ¥1,300mn for ordinary income, and ¥1,000mn for net profit attributable to owners of parent. The forecast for operating income is based on the Company's expectation of achieving substantial growth in an environment of continued strong profitability, despite human resource investments for securing and development human resources, and business investments such as establishing a partner company structure. Furthermore, while the forecast for the Industrial Systems-Related Business appears to require a certain degree of effort, the forecast for the Air Conditioning Instrumentation-Related Business appears to have been somewhat conservative with respect to existing site work and profit margins, and can be expected to see further upward revision towards the end of the fiscal year, as in previous years.

FY3/25 outlook

(¥mn)

	FY3/24		FY3/25		Change rate
	Results	% vs. net sales	Results	% vs. net sales	
Net sales	38,894	100.0%	42,500	100.0%	9.3%
Gross profit	14,536	37.4%	-	-	-
SG&A expenses	8,288	21.3%	-	-	-
Operating income	6,248	16.1%	7,500	17.6%	20.0%
Ordinary income	6,324	16.3%	7,600	17.9%	20.2%
Net profit attributable to owners of parent	4,672	12.0%	5,300	12.5%	13.4%

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

Regarding the Company's business strategy for the Air Conditioning Instrumentation-Related Business, for new site work, the Company's policy is to work on strengthening business from a medium- to long-term perspective based on the theme of "medium- to long-term Company-wide optimization." For existing site work, the Company aims to strengthen its business foundation in coordination with the new site work division, but in the short term, large-scale projects appear to be increasing. In the Industrial Systems-Related Business, in addition to strengthening the foundation of existing business, the Company intends to establish new businesses through smart factory proposals and expand business in a well-balanced manner through strengthening sales to existing plant manufacturers. For the Company overall, the Company will continue responding to personnel shortages, while promoting DX to increase operational efficiency in both sales and engineering, aiming to increase business profitability.

With regard to orders received, the amount of construction work in hand has reached new record highs, and the Company is still in a position where it is obliged to selectively accept orders giving consideration to its execution capacity, which is expected to continue driving profitability increases. However, the Company appears to be exercising restraint. With regard to net sales, in new site work in the Air Conditioning Instrumentation-Related Business, heading into 2H the Company expects to complete large-scale redevelopment projects in Tokyo metro and Osaka, as well as semiconductor factories. As a result, the Company has revised the forecast upward, and has a strong forecast for 2H net sales compared to 1H of an 18.0% YoY increase. Due to the characteristics of the business model, it is possible to predict the net sales with a certain degree of accuracy up to about two years into the future. Moreover, since the forecasts are more accurate at shorter range, the forecast is considered to be generally appropriate. We at FISCO consider it possible that small- to medium-sized projects may make a further addition to net sales. On the profit front, the 2H gross profit margin is expected to decrease YoY, but there do not appear to be any factors supporting this in the business environment, and it could be considered a continuation of the Company's conservative forecast setting. However, it is also possible that initially forecasted growth investment may absorb ¥1.0bn in expenses, and based on the current situation, the final result is expected to be in line with the upwardly revised full-year forecast.

Medium-term management plan

"ND for the Next 2030" Phase 1 progressing well

1. Long-term management guidelines "ND for the Next 2030"

The era of continuous construction of new buildings has ended due to background factors such as future population decline. Therefore, the current favorable trend in new site work for the Air Conditioning Instrumentation-Related Business is not expected to grow significantly beyond the current level over the long term. On the other hand, in existing site work, as buildings age, the number of large buildings approaching time for renovation is expected to increase. Furthermore, due to Japan's energy policies*1, the environmental business market is projected to expand steadily towards realization of a decarbonized society. In the construction industry especially, initiatives are in progress for achieving the ultimate in energy saving, ZEB*2, mainly for buildings. This is expected to drive increasing demand for the Company's instrumentation engineering technologies to realize energy and labor savings. In the Industrial Systems-Related Business, the market is expected to expand significantly over the medium to long term, driven by the digitalization of factories (conversion to smart factories) using DX, including AI, IoT, and ICT. In particular, the demand is expected to increase for factory equipment updates, such as process automation and factory automation, and construction of production management systems.

*1 Japan aims to achieve carbon neutrality by 2050, with a 46% reduction in greenhouse gas emissions from FY2013 levels by 2030.
*2 Net Zero Emissions Building

In FY3/22 the Company formulated the long-term management guidelines "ND for the Next 2030," with FY3/31 as the final fiscal year, in which it has positioned the Air Conditioning Instrumentation-Related Business as a stable revenue source supporting the Company and the Industrial Systems-Related Business as a growth driver. Furthermore, the Company has divided "ND for the Next 2030" into Phase 1 (FY3/22-FY3/24) for building a growth foundation, Phase 2 (FY3/25-FY3/28) for expansion of foundation for growth and improvement of productivity, and Phase 3 (FY3/29-FY3/31) for endeavoring to take another major leap forward. Within the strongly performing Air Conditioning Instrumentation-Related Business, the Company aims to expand revenue with new site work that leads to existing site work, and accumulated revenue in existing site work. Meanwhile, having promoted the independence of the Industrial Systems-Related Business, the Company will accelerate its growth by investing management resources in the industrial system field, which has huge potential for development. The Company made good progress in Phase 1, which finished in FY3/24, and is to be highly commended for steadily implementing countermeasures ahead of the "2024 problem."

Upward revision of Phase 2 and Phase 3 supported by improvement in the business environment and other factors

2. New medium-term management plan "Phase 2"

Phase 2 started in April 2024. In this phase, the Company aims to expand the foundation for growth and improve productivity. Accordingly, it will strategically strengthen human capital through measures such as securing, developing, and utilizing human resources and strengthening the structure for partner companies. It will also execute proactive investments for promoting DX to help increase productivity. In particular, the Company's policy is to proactively to address the medium- to long-term issue of personnel shortages. To address the "2024 problem," including the start of application of limits on overtime, the Company shifted its focus to selective acceptance of orders, giving consideration to construction capacity, profitability, and the potential for post-construction maintenance contracts. Looking ahead, the Company will look to secure and develop human resources and increase productivity through DX promotion. With regard to human resource development, the Company established the Dengi Academy as a dedicated department for human resource training in April 2024. New recruits were previously put through on-the-job training on site after a one-month training program, but due to the extreme business of the front lines, the Company will now train them intensively over one year at the Dengi Academy in head office. This will enable efficient improvement of work quality of new graduate recruits and eventually the junior employees, enabling even faster attainment of full operational capability while preventing attrition. In addition, utilization of the Dengi Academy for human resource development and foundation strengthening of partner companies will support the medium- to long-term growth of the Company.

Despite increasing productivity in this way, the Company expects to increase personnel expenses due to background factors including an increase in personnel and base salary. However, due to improvement of initially envisaged conditions, such as the business environment, the Company has upwardly revised its targets for Phase 2 and Phase 3, despite being in the first year of Phase 2. The reason for the revision of Phase 2 is that the order environment continues to be favorable due to the increase in length and size of urban redevelopment projects, and their spread to regional areas, as well as expected improvement in profitability due to a continued situation where it is obliged to be selective in acceptance of orders. Naturally, once the increase in personnel for new site work in the Air Conditioning Instrumentation-Related Business has run its course, the Company will be able to actively address stronger-than-expected demand in existing site work and the Industrial Systems-Related Business. Accordingly, the Company has revised the financial targets for FY3/28 upward, revising the targets for ROE from 10% or higher to 12.5%, net sales from ¥42.0bn to ¥45.0bn, and operating income from ¥6.5bn to ¥8.0bn. Moreover, in keeping with the upward revision of the "Phase 2" targets, the targets for FY3/31—"Phase 3"— have also been revised upward, revising the targets for ROE upward from 10% or higher to 12.5%, net sales from ¥45.0bn to ¥52.5bn, and operating income from ¥6.0bn to ¥9.0bn. In the long-term scenario, the Air Conditioning Instrumentation-Related Business is expected to see new site work remain level with upside potential, while existing site work is expected to increase significantly, including projects for climate change response in the lead up to 2030. The Industrial Systems-Related Business is also expected to ramp up activity soon, with the Company also considering M&As if an opportunity is present. For FY3/26, the Company's performance is expected to remain level due to a reactionary effect from a cluster of large-scale project completions in 2H FY3/25. However, we at FISCO consider that the Company should be able to secure increases in sales and profits if it maintains its current momentum.

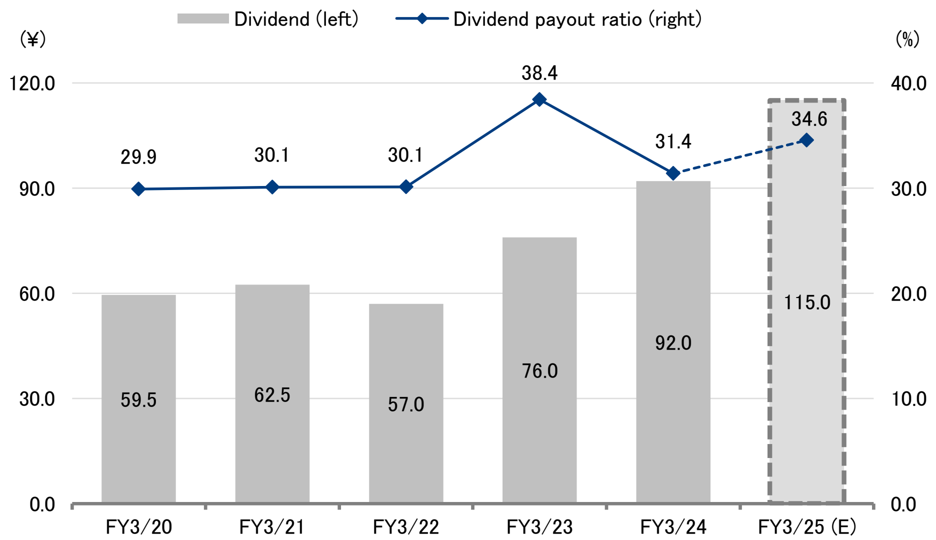
Shareholder return policy

Increase in dividend policy to DOE of 5%, with stock split also planned

The Company has a basic policy of paying a dividend on retained earnings twice a year, an interim dividend and a year-end dividend. The body that determines these dividends is the Board of Directors for the interim dividend and the General Meeting of Shareholders for the year-end dividend. In terms of the Company's capital policy, its target management indicator is consolidated ROE, with the goal of increasing medium- and long-term corporate value. The Company is implementing a capital policy that balances growth investments, shareholder returns, and financial soundness. Since the Company has recently increased its target for consolidated ROE from 10% or higher to 12.5%, it has also increased its dividend policy from a progressive dividend based on a standard Dividend on Equity (DOE) of 4% to a progressive dividend based on a standard DOE of 5%. In addition, the Company also announced a two-for-one stock split of its common stock, which will take place on January 1, 2025, for the purpose of increasing liquidity and so forth. The Company's policy of flexibly buying back shares remains unchanged. In light of the above, the Company plans to pay a dividend per share for FY3/25* of ¥115.0 (interim dividend ¥41.0, year-end dividend ¥74.0), an increase of ¥27.0 from the initial forecast.

* Retrospectively adjusted dividend per share to reflect the stock split on January 1, 2025

Trends in dividend and dividend payout ratio



Note: The breakdown of the dividend for FY3/24 is an interim dividend of ¥38.0, a year-end dividend of ¥44.0, and commemorative dividend of ¥10.0. Dividends have been retrospectively revised to reflect a stock split on January 1, 2025.
Source: Prepared by FISCO from the Company's financial results

FISCO

Disclaimer

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