

# **NIHON DENGI CO., LTD.**

**1723**

Tokyo Stock Exchange JASDAQ

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FISCO Ltd.

<http://www.fisco.co.jp>

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## Summary

### Strong results capturing the rush in office building construction

Nihon Dengi Co., Ltd. <1723> (the “Company”) specializes in instrumentation\* engineering. Targeting non-residential buildings such as office buildings, hotels, hospitals and factories, the Company engages in design, installation, and maintenance in the field of air conditioning instrumentation (building automation) for automated control of air conditioning equipment, and engages in design, installation and maintenance of industrial instrumentation (industry automation) that automates the assembly process in factories. Particularly in the air conditioning instrumentation market, which is said to be around ¥200bn in size, the Company has abundant experience and know-how as the largest distributor for Azbil <6845>, a major manufacturer of automated control equipment, and as a pioneer in the industry. Furthermore, taking advantage of its status as the only engineering specialist company in the industry, the Company has demonstrated its strength as an “instrumentation engineering specialist.”

\* Instrumentation: Making various air conditioning and production line equipment and machinery in buildings and factories function organically using measurement, monitoring, and control techniques.

In the air conditioning instrumentation segment, the Company is usually involved in air conditioning instrumentation for large non-residential buildings such as office buildings, factories, hospitals, and clean rooms, but currently the Company is capturing the demand from office buildings accompanying construction rush ahead of the Tokyo 2020 Olympic and Paralympic Games. In the industrial instrumentation segment, the Company handles instrumentation for production lines and transport lines, mainly in food and pharmaceutical factories. The air conditioning instrumentation segment accounts for 86.7% of net sales, while the industrial instrumentation segment accounts for 13.3% of sales (FY3/19). Going forward, the Company will take advantage of its strength as an “instrumentation engineering specialist” to capture demand for air conditioning instrumentation accompanying urban redevelopment projects, mainly in central Tokyo, while in industrial instrumentation the Company will develop systems that centrally control instrumentation technology and production/information management, and support the shift to smart factories for small and medium-sized food factories that have problems such as labor shortages and delays in automation.

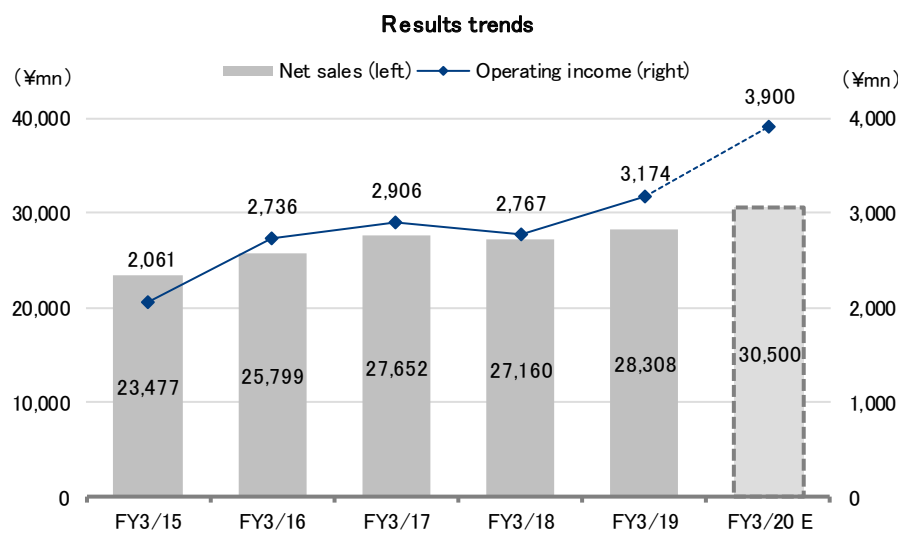
In FY3/20 1H, the Company posted very strong results, with net sales of ¥10,873mn (+44.9% year on year (YoY)), and operating income of ¥851mn (versus an operating loss of ¥398mn in FY3/19 1H), thereby becoming profitable in 1H. We believe the strong results were due to the Company capturing the demand from the rush in office building construction as well as the fact that the effects of the Company’s key medium-term strategies have led to increased profitability. The Company has upwardly revised its initial FY3/20 guidance, and expects to maintain strong earnings, with net sales of ¥30,500mn (+7.7% YoY), and operating income of ¥3,900mn (+22.8%). In addition to the good results in 1H, the upward revision to full year guidance reflects the strong desire to renovate existing buildings inspired by the building construction rush, and the strong flow of orders, which had previously been expected to peak out after the Tokyo 2020 Olympic and Paralympic Games.

Summary

In its medium-term management plan, the Company is aiming for net sales of ¥30,000mn and operating income of ¥3,500mn in FY3/21. However, the upwardly revised operating income forecast for FY3/20 is already higher than the target set forth in the medium-term management plan. This is due to the steady progress made on key measures to achieve the medium-term management plan, the increase in orders based on desire to renovate existing office buildings, and the strong performance in the industrial instrumentation segment. Other external factors include the fact that there are few competitors in the air conditioning instrumentation field, and that energy savings through instrumentation technology is a part of companies' ESG (environment, society, and governance) initiatives. Both seem to be structural factors, but it appears that there has been an increase in inquiries from entities involved in urban redevelopment projects. Given this situation, the Company's medium- to long-term growth prospects may become stronger than expected.

**Key Points**

- Showing strength as an “instrumentation engineering specialist”
- FY3/20 operating income forecast upwardly revised to ¥3,900mn
- With the positive internal and external environment, the Company is expected to grow even more over the medium to long term



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

## ■ Company Profile

### Instrumentation engineering specialist

#### 1. Company Profile

The Company is an instrumentation engineering specialist, and engages in design, construction, and maintenance in the field of air conditioning instrumentation (building automation) for automated control of air conditioning equipment targeting non-residential buildings such as office buildings, hotels, hospitals and factories, and industrial instrumentation (industry automation) to automate assembly processes in factories. In the mainstay air conditioning instrumentation segment, the Company has abundant experience and know-how as the largest distributor for Azbil, a major manufacturer of automated control equipment, and as a pioneer in the industry. Furthermore, being the only engineering specialist in the industry has become a special feature of the Company, and the Company is showing its strength as an instrumentation engineering specialist. The Company also contributes to the environment by supporting the comfort of buildings and improving production efficiency, including controlling the air conditioning of buildings and factories through instrumentation engineering to achieve energy savings. In this way, the Company has also been highly regarded from the standpoint of ESG.

### Instrumentation and engineering are the Company's strengths

#### 2. Strength and special characteristics

“Instrumentation” involves making the various equipment and machinery in office buildings and factories, such as for air conditioning and production lines, work together and function organically through measurement, monitoring, and control techniques. For example, office building air conditioning instrumentation is positioned as a technology that provides a comfortable environment with the least amount of energy. Specifically, it involves measuring temperature, humidity, pressure and other variables, and monitoring the measured data, then controlling the entire system while controlling individual machines, in order to maintain a certain environment, thereby achieving comfort and saving energy. In recent years, instrumentation technology has attracted attention and continued to evolve as an essential technology for saving energy, including the development of measurement and monitoring systems utilizing the latest IT technology, and being used as the core technology for district heating and cooling. Meanwhile, “engineering” refers to the technological ability of users to optimize entire systems of equipment and utilities that tend to be only partially optimized. Few companies have both “instrumentation” and “engineering” capabilities, thus the Company's strength is its technological capability of “instrumentation engineering” itself.

Company Profile

Building air conditioning, one of the instrumentation technologies, can be divided into individual air conditioning and central air conditioning. Individual air conditioning is a method of controlling conditions by installing an air conditioning unit in each room, as is often the case in multi-tenant, multi-use buildings. The main players in this field include manufacturers such as Daikin Industries <6367> and Hitachi, Ltd. <6501>. Central air conditioning is a method for centrally controlling the air conditioning of an entire building from specific locations in the building (centralized control). The main players in this area are the Company and other air conditioning instrumentation companies. Individual air conditioning works best in relatively small office buildings and hotels, while central air conditioning works best in large spaces such as medium- to large-size buildings and lobbies. The air conditioning instrumentation market is said to be approximately ¥200bn in size, and Azbil and its distributors, including the Company, account for 80% of this market. As a result, Azbil equipment has effectively become the industry standard for air conditioning instrumentation. Also, among Azbil distributors, the Company is the only company with an engineering division. Industrial instrumentation is often handled by factories themselves or the manufacturers that deliver production line equipment. Since the Company has fully commercialized production line automation, depending on what ideas emerge, further growth can be expected by focusing on particular fields such as food factories.

## ■ Business overview

### Both air conditioning instrumentation and industrial instrumentation as driving forces

#### 1. Business Description

The Company's business is broadly divided into the air conditioning instrumentation segment and the industrial instrumentation segment. The air conditioning instrumentation segment mainly engages in instrumentation related to air conditioning, targeting large non-residential buildings such as office buildings, factories, hospitals, and clean rooms. This business can be further broken down into new work in which air conditioning instrumentation work is performed when a building is constructed, and existing equipment work when maintenance work or renovation work is done on an existing building. New work for air conditioning instrumentation is often received from subcontractors\*1, while orders for work on existing equipment are often received directly from building owners, etc. Meanwhile, the industrial instrumentation segment is expanding its scope of business from instrumentation connecting factory production lines and transport lines to industrial robot control and district heating and cooling. In the industrial instrumentation segment, the Company usually receives orders directly from manufacturers (factories), both for new work and work on existing equipment. Naturally, direct orders are more profitable than indirect orders. In FY3/19\*2, the air conditioning instrumentation segment accounted for 86.7% of net sales, while the industrial instrumentation segment accounted for 13.3% of net sales.

\*1 Subcontractors: Companies that specialize in a certain type of work, such as air conditioning, electrical, or sanitation-related equipment, and receive work orders from general contractors that manage overall construction projects for large buildings.

\*2 Figures for the full FY3/19 are noted due to the fact that there are seasonal fluctuations, including the concentration of construction completions and handovers in 4Q.

Business overview

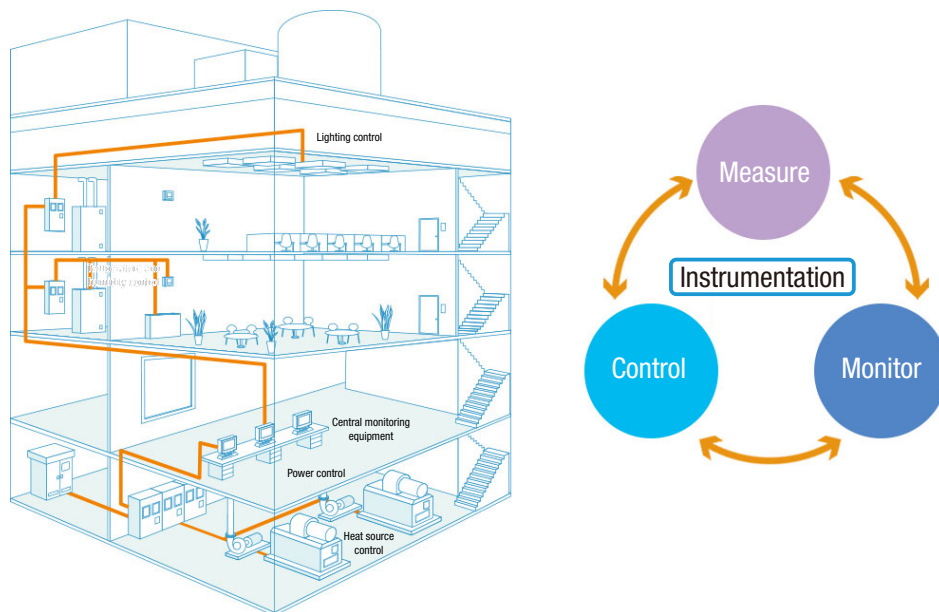
For new air conditioning instrumentation work, the Company receives orders for air conditioning instrumentation work from subcontractors (equipment companies) that handle the detailed design and construction of equipment, and sales are booked when the work is completed. For large properties with long work periods and high contract values, sales are sometimes booked separately during the work period. After the building has been completed, the Company receives orders for repair and renovation work directly from the end user (building owner, etc.)

## Overall management of air conditioning automated control

### 2. Air conditioning instrumentation segment

Air conditioning instrumentation involves comprehensively managing an automated control system for a building through, among other things, heat source control, air conditioning control, power control, and central monitoring equipment. By realizing a comfortable building space with an optimal building automated control system, and by proposing equipment/machine upgrades, assisting with building energy management, and proposing ways to save energy, among other services, the Company helps customers preserve their building assets and reduce lifecycle costs. The Company's air conditioning instrumentation segment is divided into the building systems business and the solutions business. The building systems segment is the Company's mainstay business, and in this business the Company provides system design, installation management, pre-handover test operations and adjustments, and usage instructions at the time of handover for the air conditioning and plumbing equipment, etc. installed when the building is constructed. Even after the building has been completed, by being involved in the maintenance of the delivered equipment/machinery, the Company manages and analyzes energy usage, proposes repairs and upgrades to save energy, and otherwise provides ongoing support. In the solutions business, the Company works directly with owners and end users to propose energy-saving and other types of solutions using instrumentation technology, as it relates to the air conditioning instrumentation segment (existing equipment).

Overview of Air Conditioning Instrumentation



Source: Reprinted from the Company's website

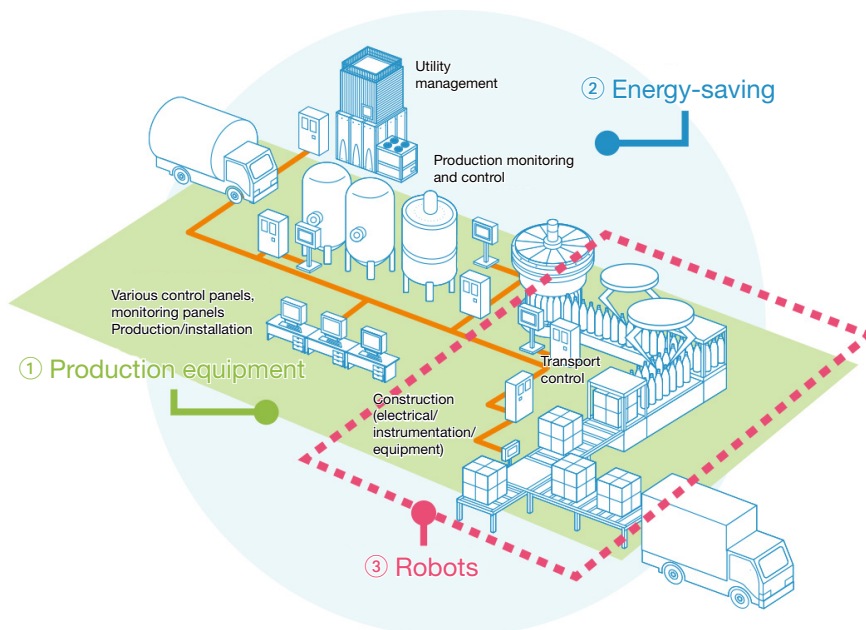
## Automated control of entire factories, including coordination among lines

### 3. Industrial instrumentation segment

Industrial instrumentation responds to all site needs such as product management, quality maintenance, productivity improvement, cost saving, environmental considerations, and so on, and performs transport and automated control of the entire factory, with the aim of enhancing the customer's value chain. In particular, the Company's ability to completely handle projects, backed by its instrumentation engineering technology, from control systems design to the manufacturing, construction, and maintenance of control panels, has a strong reputation. The Company helps customers ensure safety, improve the accuracy of sorting work, and improve efficiency, such as electrical instrumentation work and the design and construction of utility equipment (cold/hot water, steam, compressed air, etc.) meeting special specifications, mainly at food and pharmaceutical manufacturing sites. In addition, the Company helps customers effectively use waste heat, including collecting and reusing unnecessary waste hot water and atmospheric heat emitted at factories and other facilities, reduce environmental impacts and save energy and reduce operating costs at factories and plants.

Furthermore, the Company uses picking robots for packing, inspecting, assembling, and handling containers in the food industry and other sectors to address various needs such as improving productivity, eliminating personnel shortages, and ensuring safety and security (food defense) without human intervention.

Overview of Industrial Instrumentation



Source: Reprinted from the Company's website

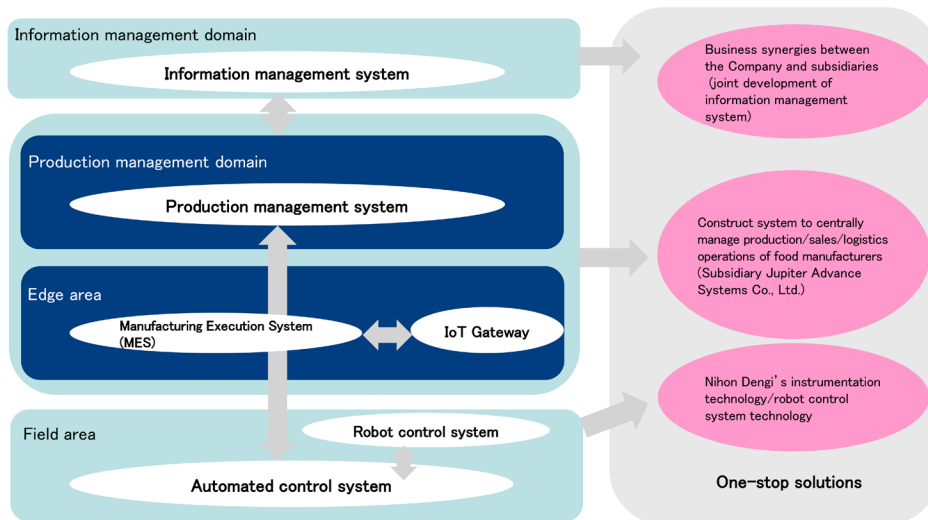


## Focusing on growing the industrial instrumentation segment

### 4. New initiatives

As a new initiative, the Company is aiming to go beyond automated control and expand into industrial instrumentation's Total Industrial Solution (TIS) technology domain by providing solutions for the entire process, including information management and production management. To this end, in September 2019, the Company established a subsidiary, Jupiter Advanced Systems Co., Ltd., and announced that this company will take over the entire business, including the construction of systems to centrally manage production, sales, and logistics operations in the food manufacturing industry, from Jupiter Co., Ltd. (the transfer date is scheduled for April 1, 2020). The Company plans to merge its own robotics and other automation technology with Jupiter Co., Ltd.'s production and information management technology, and jointly develop an information management system capable of providing centralized control, and help small- and medium-sized food factories which face many challenges, including the labor shortage and delay in automation, become smart factories. Recently, district heating and cooling is becoming a big topic. District heating and cooling is a system that supplies cooling water, hot water, and steam as a heat medium, from a heat supply facility (district heating/cooling plant) to buildings in a certain area through a district conduit to provide air conditioning, heat, and hot water supply. In recent years, comprehensive energy networks are being formed in individual districts, and urban planning for efficiently using energy is expanding. The Company is providing not only systems related to the automated control of district heating and cooling plants (heat supply equipment), but also added services such as formulating demand forecasts and operational plans, monitoring optimal operations and the status of operations, detecting abnormalities, and recording actual supply data by using AI and IoT technologies.

The TIS (Total Industrial Solution) the Company is Aiming for



Source: Prepared by FISCO from the Company's materials

## Results trends

### Favorable business environment and strong inquiries

#### 1. FY3/20 1H results trends

In FY3/20 1H, the Company posted ¥18,334mn in orders received (+3.2% YoY), net sales of ¥10,873mn (+44.9%), operating income of ¥851mn (operating loss of ¥398mn in the previous 1H), ordinary income of ¥892mn (versus an ordinary loss of ¥370mn in FY3/19 1H), and net profit of ¥608mn (versus a net loss of ¥265mn in FY3/19 1H). These results were extremely positive, including becoming profitable in 1H which is usually a loss-producing period. The strong results were due to the fact that sales were extremely strong because of solid digestion of orders received, and the effects of medium-term priority measures, such as the introduction of a block system to oversee and manage several branches in each region as blocks.

#### FY3/20 1H results

	(¥mn)				
	FY3/19 1H	% of sales	FY3/20 1H	% of sales	Change rate
Net sales	7,502	100.0%	10,873	100.0%	44.9%
Gross profit	2,320	30.9%	3,560	32.7%	53.4%
SG&A expenses	2,719	36.2%	2,709	24.9%	-0.4%
Operating income	-398	-5.3%	851	7.8%	-
Ordinary income	-370	-4.9%	892	8.2%	-
Net profit	-265	-3.5%	608	5.6%	-

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

Both segments performed well. The air conditioning instrumentation segment posted ¥16,060mn in orders received (+3.2% YoY) and net sales of ¥9,562mn (+46.3%), while the industrial instrumentation segment recorded ¥2,273mn in orders received (+3.1%) and net sales of ¥1,311mn (+35.6%).

#### Orders received and net sales in FY3/20 1H

	(¥mn)				
	FY3/19 1H	% of sales	FY3/20 1H	% of sales	Change rate
Air conditioning instrumentation segment	6,534	87.1%	9,562	87.9%	46.3%
Air conditioning instrumentation work	6,386	85.1%	9,420	86.6%	47.5%
New construction work	2,005	26.7%	3,781	34.8%	88.6%
Existing equipment work	4,381	58.4%	5,639	51.9%	28.7%
Control equipment sales	148	2.0%	141	1.3%	-4.7%
Industrial instrumentation segment	967	12.9%	1,311	12.1%	35.6%
Industrial instrumentation work	793	10.6%	1,133	10.4%	42.9%
Control equipment sales	173	2.3%	178	1.6%	2.9%
Net sales (total)	7,502	100.0%	10,873	100.0%	44.9%
Orders received (total)	17,764	-	18,334	-	3.2%

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

Results trends

In the air conditioning instrumentation segment, orders received increased for existing equipment work for factories, medical facilities, and public facilities, but declined for new construction work for offices and factories. The increase in orders received seems a little strange considering the fact that demand ahead of the Tokyo 2020 Olympic and Paralympic Games is in the process of running its course. More than already receiving orders for urban redevelopment projects (discussed below) for which there are high expectations following the Olympics, the increase in orders appears to have been due to strong momentum for renovations of existing buildings triggered by the rush in office building construction. In terms of net sales, sales increased for new construction work for factories, commercial facilities, and public facilities, while sales increased for existing equipment work for factories and research facilities. We think this indicates that the orders received through the previous fiscal period steadily led to completed projects. Moreover, considering the fact that the Company normally posts a loss in 1H given that most projects are completed in 4Q, both orders received and net sales in 1H can be seen as irregularly strong.

In the industrial instrumentation segment, orders received were driven by an increase in electrical work and transport equipment work, and net sales were driven by an increase in completed work such as electrical work and industrial robot-related work. Performance was strong as in the air conditioning instrumentation segment, but in the industrial instrumentation segment the impact of the Tokyo 2020 Olympic and Paralympic Games is believed to be small. Therefore, the strong performance is the result of factors unique to the industrial instrumentation. Such factors include strong capital investment for production lines in the manufacturing sector, the positive effect of the block system, demand for industrial robots and the like at small- and medium-sized food factories, and the Company's ability to engage in the industrial instrumentation business nationwide. Due to structural factors, this strong performance is expected to continue for the time being.

**Project performance in FY3/20 1H**

Segment/Project Name	Location	Date
<b>Air conditioning instrumentation segment / Building systems business</b>		
Daihatsu Motor Co., Ltd., Ikeda Plant District 1, New PT building	Air conditioning automated control	Osaka Prefecture May 2019
Mitsui Shopping Park LaLaport Numazu	Air conditioning automated control	Shizuoka Prefecture September 2019
Ajinomoto Field Nishigaoka / Ajinomoto National Training Center	Air conditioning automated control	Tokyo July 2019
Astellas Pharma Inc., Tsukuba Biotechnology Research Center	Air conditioning automated control	Ibaraki Prefecture June 2019
Hamamatsu Photonics K.K., Head Office Plant	Air conditioning automated control	Shizuoka Prefecture July 2019
<b>Air conditioning instrumentation segment / Solutions business</b>		
Osaka Research Institute of Industrial Science and Technology	Automated control equipment	Osaka Prefecture July 2019
Hotel New Otani Makuhari	Central monitoring equipment upgrade	Chiba Prefecture September 2019
The Museum of Modern Art, Kamakura & Hayama, Kamakura Annex	Central monitoring equipment upgrade	Kanagawa Prefecture August 2019
Suntory Products Development Center	Central monitoring equipment upgrade	Kanagawa Prefecture May 2019
FANCL Research Institute	Central monitoring equipment upgrade	Kanagawa Prefecture May 2019
<b>Industrial instrumentation segment</b>		
Sanritsu Confectionery Co., Ltd., Shiratori Factory	Robot introduction	Shizuoka Prefecture September 2019
Nishi-Ikebukuro Heat Supply Co., Ltd., Center Plant	Heat wave equipment peripheral instrumentation work	Tokyo Metropolitan Government July 2019
Mercian Corporation, Fujisawa Factory	Electrical instrumentation work	Kanagawa Prefecture July 2019
J&T Recycling Corporation, Chiba Biogas Center	Electrical instrumentation work	Chiba prefecture May 2019
Meiji Co., Ltd., Tokachi Factory	Electrical instrumentation work	Hokkaido September 2019

Note: Property names are the names used internally by the Company, and may differ from official building names  
 Source: Prepared by FISCO from the Company's materials

## Results trends

## Strong 1H results led to significant upward revisions to full fiscal year guidance

### 2. FY3/20 outlook

For FY3/20, the Company expects to maintain its strong performance, and is forecasting net sales of ¥30,500mn (+7.7% YoY), operating income of ¥3,900mn (+22.8%), ordinary income of ¥3,950mn (+22.1%), and net income of ¥2,730mn (+22.3%). Not only are these results strong, but based on the solid results and strong orders received in 1H, all of these income lines have been revised significantly upward, by 3.4%, 20.0%, 19.7%, and 20.8% versus the guidance provided at the beginning of the fiscal year. In the air conditioning instrumentation segment, the strong orders and net sales will likely continue based on the fact that the peak in completed work accompanying the office building construction rush prior to the Tokyo 2020 Olympic and Paralympic Games will continue through 2020, there is widespread interest in renovating existing buildings triggered by the office building construction rush, and because the strong performance in the industrial instrumentation segment is seen as being the result of structural factors. Meanwhile, the operating margin is expected to improve significantly due to the fact that demand is robust which will allow the Company to selectively receive highly-profitable orders, and because of the introduction of a block system to provide personnel support between branches to provide some relief for the shortage of personnel. As long as the orders received remain robust, the Company should be able to maintain a high level of profitability.

#### FY3/20 outlook

	FY3/19	% of sales	FY3/20 E	% of sales	Change rate
<b>Net sales</b>	28,308	100.0%	30,500	100.0%	7.7%
<b>Operating income</b>	3,174	11.2%	3,900	12.8%	22.9%
<b>Ordinary income</b>	3,233	11.4%	3,950	13.0%	22.2%
<b>Net income</b>	2,232	7.9%	2,730	9.0%	22.3%

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

## Conservative medium-term management plan

### 3. Medium-term Management Plan

For FY3/21, the Company is aiming for ¥31,000mn in orders received (¥26,000mn in the air conditioning instrumentation segment; ¥5,000mn in the industrial instrumentation segment), ¥30,000mn in net sales (¥26,000mn in the air conditioning instrumentation segment; ¥4,000mn in the industrial instrumentation segment), and ¥3,500mn in operating income. In order to achieve the medium-term management plan, the Company has established five key strategies: business development emphasizing efficiency, strengthening relationships with customers, ensuring that orders are received strategically, bolstering technological capabilities addressing needs and expanding domains, and dealing with work style reforms. However, although sales are expected to continue to increase due to the high level of carried-over work, it is difficult for the Company to accept new orders due to its construction work system and capacity. Through FY3/21, orders received are forecast to be revised and respective income lines to increase slightly. After that, however, the Company plans to grow again by capturing orders for redevelopment in central urban areas which is expected through FY2024.

## Rising medium- to long-term growth prospects

### 4. Medium- to long-term growth

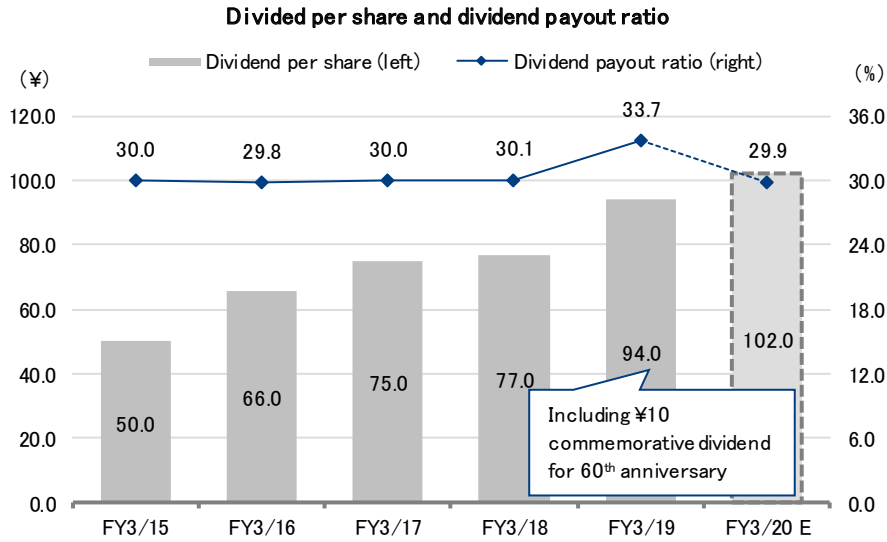
The Company has set a target of ¥5,000mn in orders received in the industrial instrumentation segment in the final year (FY3/21) of the medium-term management plan, and is focusing on growth in industrial instrumentation. The announcement during FY3/20 of the establishment of subsidiary Jupiter Advance Systems Co., Ltd., and having this company assume the entire business of Jupiter Co., Ltd. (transfer date planned for April 1, 2020) was done with the above target in mind. On top of the Company's core air conditioning instrumentation segment, the growth strategy of increasing the weight of the industrial instrumentation segment will likely lead to future expansion of the Group's business. In the air conditioning instrumentation segment, the surge in infrastructure investment and office investment is expected to run its course after the Tokyo 2020 Olympic and Paralympic Games, but there is growing desire for renovation work by existing buildings to compete with new buildings, and air conditioning instrumentation that uses energy efficiently is in line with ESG that forms the basis of sustainable management. In industrial instrumentation, which the Company is focusing on, synergies with subsidiaries are being demonstrated, and if the Company expands into the TIS technology field and develops the business, growth is expected for the entire Group. Given these circumstances and assuming future conditions, the Company's medium- to long-term growth could be stronger than previously thought.

## Shareholder return policy

### Maintaining a dividend payout ratio of approximately 30%

With regard to the distribution of profits to shareholders, as long as there are no events or new capital investment plans that significantly impact business results, the Company's policy is to maintain a consistent payout ratio and return profits to shareholders through dividends commensurate with profit growth. Accordingly, the dividend for FY3/19 was ¥84 yen per share, but a ¥10 commemorative dividend for the Company's 60th anniversary on September 26, 2019, was added to this, making the dividend ¥94 yen (resulting in a dividend payout ratio of 33.7%). For FY3/20 (in which there will be no special circumstances), the Company initially expected the dividend to drop to ¥85 per share as the Company planned to keep the dividend payout ratio at the benchmark 30%. However, because FY3/20 1H results were upwardly revised, the expected dividend was increased to ¥102 per share.

Shareholder return policy



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

## Information security measures

The Company firmly recognizes the social importance of protecting personal information, and has established a privacy policy. Under this policy, the Company complies with the Act on the Protection of Personal Information and all other related laws, ordinances, and guidelines, and works to appropriately handle and manage personal information. Since customers are operating companies, information security-related risk is considered to be smaller than that of consumer goods manufacturers and companies in the retail services sector.



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