

NIHON DENGI CO., LTD.

1723

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Summary

Redevelopment projects fronting central Tokyo stations and plant digitalization show a path to medium-term growth

1. Expanding instrumentation business from air conditioning into industry backed by extensive experience and technology

Nihon Dengi Co., Ltd. <1723> (the “Company”) specializes in “Instrumentation engineering.” Instrumentation refers to the organic functioning of equipment and machinery in buildings and factories, including air conditioning and production lines by means of measurement, monitoring and control. Targeting non-residential buildings such as office buildings and hotels, the Company engages in the field of air conditioning instrumentation (building automation) for automated control of air conditioning. The Company has extensive experience and technology as the largest distributor for Azbil Corporation <6845>, a major manufacturer of automated control equipment, and as a pioneer in the industry. It has also entered the field of industrial instrumentation (industrial automation) that automates production and conveyance lines in factories, and develops its industrial systems-related business, which involves everything from line design to system development, construction and maintenance.

2. Demonstrating a strength in “Instrumentation engineering” in both the air conditioning and industrial fields

The Company’s strength lies in having both instrumentation and engineering technology. In the air conditioning instrumentation-related business, orders are accumulating for redevelopment projects fronting central Tokyo stations, and large-scale renovation projects are on the rise. This is because the Company’s engineering technology, unique among Azbil’s distributors, becomes essential when handling Azbil’s new products. In addition, manufacturers that supply production equipment to plants also perform instrumentation work as part of the delivery process, and this is another area in which “Instrumentation engineering” can demonstrate its strengths. As a result, the Company will introduce a divisional system to strengthen the foundation of its industrial systems-related business to proactively meet the growing need for plant automation and labor-savings. Furthermore, the Company is working toward providing even greater added value with the addition of its ability to develop production and management systems for food plants through its subsidiary.

3. Despite a sluggish performance preceding rising momentum for redevelopment projects fronting central Tokyo stations, there is room for upward revision of full-year performance

The Company reported 1H FY3/21 results of ¥18,913mn in orders received (-8.5% YoY), ¥12,195mn in net sales (+0.7%), and ¥926mn in operating income (+18.7%). While new site work in the air conditioning instrumentation-related business struggled in a sluggish performance preceding rising momentum for redevelopment projects fronting central Tokyo stations, performance was strong as existing site work on large-scale properties entered the repair phase. Sales in the industrial systems-related business fell as work related to district heating and cooling equipment was completed, among other factors. In its forecast for FY3/22, the Company expects orders received of ¥31,000mn (-10.0% YoY), net sales of ¥32,000mn (-6.1%) and operating income of ¥4,050mn (-11.7%). While 2H is likely to perform similarly to 1H, given that the Company’s outlook is as conservative as usual, and that it expects an increase in profitable existing site work and an increase due to accounting changes, there seems to be room for an upward revision to its full-year forecast.

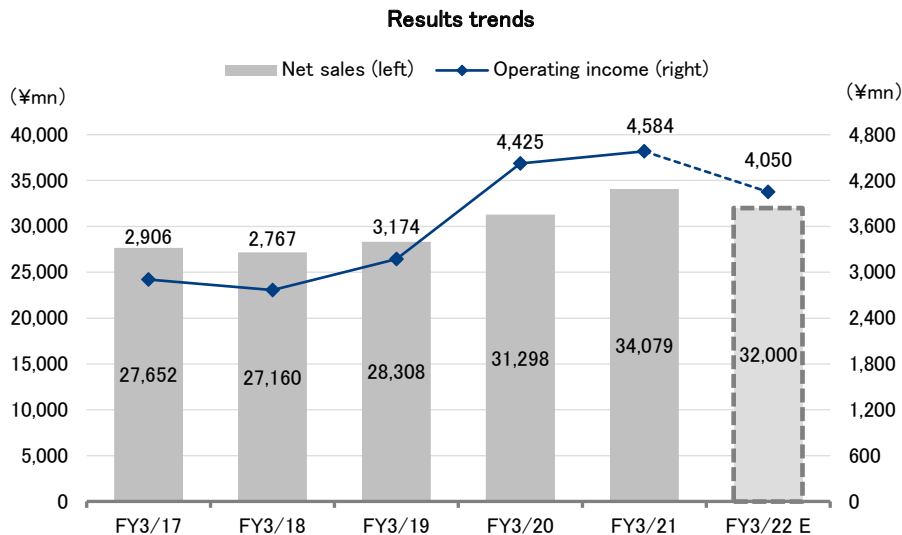
Summary

4. The air conditioning and industrial businesses are both expected to see business grow during the medium-term management plan period

In response to a changing management environment, including accelerated technological innovation spurred by shifting social structures and digitalization, the Company has established “ND for the Next 2030,” its long-term management guidelines. As part of this, it has also formulated a medium-term management plan targeting FY3/24, with priority growth strategies that include strengthening existing businesses, executing growth strategies, and growing the ND corporate culture; the plan aims for ¥35,000mn in orders received, ¥34,000mn in net sales, and ¥4,500mn in operating income, with an ROE of 10% or more. During the period of the medium-term management plan, the air conditioning instrumentation-related business is expected to see a boost in new site work with redevelopment projects fronting central Tokyo stations, with an increase in completed construction toward FY3/24, while existing site work is expected to continue to receive orders for large-scale repairs that take advantage of the Company’s engineering capabilities. Additionally, the industrial systems-related business is expected to begin driving the Company’s profit growth as the move toward a divisional system, delayed due to the COVID-19 pandemic, begins in earnest.

Key Points

- The Company has extensive experience and technology in air conditioning instrumentation, and is expanding into the new field of industrial systems
- Both air conditioning and industrial instrumentation demonstrate the Company’s strength in “Instrumentation engineering”
- The Company is aiming for medium-term profit growth backed by redevelopment projects fronting central Tokyo stations and plant digitalization



Note: Non-consolidated changed to consolidated in FY3/21, but they have been compared side-by-side for convenience
 Source: Prepared by FISCO from the Company’s results briefing materials

■ Company profile

“Instrumentation engineering” company handling building air conditioning and plant automation

1. Company profile

The Company’s business areas include air conditioning instrumentation for automated control of air conditioning equipment in large non-residential buildings such as offices, hotels, hospitals and factories, and the field of industrial systems to automate production and conveyance lines in factories. In the mainstay air conditioning instrumentation business, the Company has extensive experience and know-how as the largest distributor for Azbil, and as a pioneer in the industry. In addition, the Company has strength as an engineering company, and is the only major player in the industry that handles everything from design to construction and maintenance. Incidentally, the group that includes Azbil—a major manufacturer of automated control equipment—and the Company holds the majority of the air conditioning instrumentation market. Meanwhile, in the industrial systems-related business, where there is major room for growth, the Company is moving to bring high added value to its business through the addition of production control systems development from its subsidiary Jupiter Advanced Systems Co., Ltd. to “Instrumentation engineering” based on its know-how in both air conditioning instrumentation and engineering. The Company’s business inherently excels from a sustainability standpoint, because support for building comfort and production efficiency through “Instrumentation engineering” contributes to achieving a decarbonized society via energy savings.

Strength in having both “instrumentation” and “engineering” capabilities

2. “Instrumentation engineering”

“Instrumentation” involves technology to automate and control the various equipment and machinery including air conditioning and production lines in buildings and factories through measurement, monitoring, and control techniques, and is designed to achieve a greater comfort, improve efficiency, and save labor and energy. 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, monitoring the measured data, then controlling the building’s entire air conditioning system while controlling individual machines 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 its use as the core technology for district heating and cooling. Meanwhile, “engineering” refers to the technological ability to optimize entire systems of equipment and machinery that tend to be only partially optimized for users.

Few companies have both “instrumentation” and “engineering” capabilities, and thus the Company’s strength is in its “Instrumentation engineering” itself. As a result, the Company is said to stand out among Azbil distributors in terms of its ability to respond to Azbil’s increasingly sophisticated new products. In plant automation, meanwhile, manufacturers delivering production line equipment often handle the set up and maintenance of the equipment they deliver, and small and medium-sized plants in particular require support in automating and optimizing their entire plants. In that sense, production lines in the food industry, which face these kinds of issues, are a field in which the Company can easily leverage its “Instrumentation engineering” technology.

■ Business description

A mainstay in air conditioning instrumentation, with industrial systems as a driver of growth

1. Business description

The Company's business includes the air conditioning instrumentation-related business and the industrial systems-related business, which accounted for 88.2% and 11.8% of net sales in 1H FY3/22, respectively. The air conditioning instrumentation-related business can be divided into new site work that handles air conditioning instrumentation work during building construction, and existing site work for maintenance and renovation at existing buildings. While new site installation business largely receives orders from subcontractors, existing site work involves a direct contract with the building owner or others in which the Company itself is the main contractor (thus more profitable). The industrial systems-related business has widened its scope from instrumentation that connects production and conveyance lines at plants to the sale and control of industrial robots. The Company is also boosting its system development capabilities in the industrial systems-related business, and by diligently incorporating the latest AI, IoT and cloud computing technologies, it aims to provide new, high added-value services as an "Instrumentation engineering" company.

Note that the market for air conditioning instrumentation is not expected to expand significantly as we away from an era where new buildings were put up one after another, and competition is intensifying. Meanwhile, the market for industrial systems is predicted to see major growth boosted by the shift to digital technology. With such expansive room for development in industrial systems, the Company has introduced a divisional system and is attempting to spur growth by developing its own business.

Production of automated control system of building air conditioning facilities

2. Air conditioning instrumentation-related business

Air conditioning instrumentation-related business involves totally managing an automated control system of air conditioning for non-residential buildings through, among other things, heat source control, air conditioning control, power control, and central monitoring equipment. By realizing a comfortable space with an optimal 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-related business is divided into the building systems business and the solutions business. The building systems business is the Company's mainstay business, and provides one-stop service from system design, installation, pre-handover test operations and adjustments to usage guidance at the time of handover for the air conditioning and plumbing equipment, etc. installed during building construction. 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. The solutions business seeks to resolve various issues such as energy savings using instrumentation technology through direct transactions and contracts with facility owners and others in the air conditioning instrumentation-related business (at existing sites).

A unique strategy for accelerating growth in an expanding market

3. Industrial systems-related business

The industrial systems-related business provides systems for automated control of production processes, transport and overall plant operations for small-scale through to large-scale plants, backed by “Instrumentation engineering” technology. Specifically, this involves support for automation and energy savings through electrical instrumentation work and the installation of utility equipment (cold/hot water, steam, compressed air, etc.) that meets special specifications, as well as ensuring safety, improving the precision of sorting work and boosting efficiency; reduction of environmental impact, energy savings and lower operating costs through the effective use of waste hot water and waste heat discharged from factories, etc.; use of robots in labor-intensive processes such as box filling, inspection, assembly and cargo handling to improve productivity and alleviate human resource shortages; and ensuring safety and security (food defense) through the absence of human intervention. In short, by addressing the various issues faced by food and drug production sites, the Company is working to optimize the customer value chain. To accelerate growth in an expanding market, the industrial systems-related business has introduced a divisional system, and is following up by strengthening development of its own unique strategy, including the establishment of brand sites and individual division exhibits at trade shows.

■ Results trends

Securing a double-digit profit increase amid a challenging industry environment

1. 1H FY3/22 results trends

The Company reported 1H FY3/22 results of ¥18,913mn in orders received (-8.5% YoY), ¥12,195mn in net sales (+0.7%), ¥926mn in operating income (+18.7%), ¥978mn in ordinary income (+17.1%) and ¥860mn in Net profit attributable to owners of the parent (+51.6%). There are seasonal fluctuations and completion and delivery of projects is concentrated in 4Q, and accordingly due to improved operating rates, net sales and profits are not as high in 2Q. In addition, the Company began applying the Accounting Standard for Revenue Recognition from the beginning of 1Q FY3/22. While application differs depending on the project, in simple terms the change from a completed contract method to a percentage of completion method resulted in a ¥291mn increase in retained earnings at the beginning of 1Q, and in 1H net sales increased ¥1,893mn, and operating income, ordinary income, and net profit before income taxes increased ¥622mn, respectively. While presumably profits for 1H were initially expected to decline, the application of revenue recognition standards, etc. are thought to have turned this into an increase.

Results trends

1H FY3/22 results

	1H FY3/21		1H FY3/22		Change rate
	Results	% of sales	Results	% of sales	
Net sales	12,113	100.0%	12,195	100.0%	0.7%
Gross profit	3,499	28.9%	3,906	32.0%	11.6%
SG&A expenses	2,718	22.4%	2,979	24.4%	9.6%
Operating income	780	6.4%	926	7.6%	18.7%
Ordinary income	835	6.9%	978	8.0%	17.1%
Net profit attributable to owners of the parent	567	4.7%	860	7.1%	51.7%

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

While the domestic economy has continued to face difficulties due to the impact of the COVID-19 pandemic, it has gradually begun moving toward a recovery with progress in the spread of vaccines. In the construction industry, despite a steady trend toward redevelopment fronting railway stations and a shift toward information technology, primarily in the Tokyo metropolitan area, orders were sluggish, especially from hotels, commercial facilities and other industries affected by the pandemic. In terms of completed construction, the situation remains challenging due to a sluggish transition in demand for the Tokyo Olympics and Paralympics to demand for redevelopment projects fronting central Tokyo stations. Under these circumstances, the Company developed its business under separate policies for each of its businesses, calling for "rigorous implementation of a Company-wide optimization policy and receipt of orders for properties that lead to existing site work" in new site work in the air conditioning instrumentation-related business, in existing site work in the air conditioning instrumentation-related business, for "business development that balances proposal-based business aligned with energy issues and the maintenance business;" and in the industrial systems-related business, for "business expansion in unison with Group companies and creation of a business structure to make that possible."

As a result, orders for new construction based on long-term plans, such as redevelopment projects fronting central Tokyo stations remain unchanged, but after more than a year of the COVID-19 pandemic, prospects for customers have improved, and projects that had been pending have begun to move forward, including the resumption of repair work at existing food and pharmaceutical plants, where even entry had not been allowed in the same period of the previous year. That said, in the midst of the COVID-19 pandemic, various risks have become apparent on a global scale, including container shortages and restrictions on movement. As for the Company, the shortage of semiconductors is a concern because they are used in the measurement equipment needed for instrumentation. Currently, equipment deliveries seem to be moving ahead without delay, but there are concerns that if the semiconductor shortage continues it will have an impact into the next fiscal year and beyond, though some believe the situation will be resolved quickly. It seems conditions are such that even Azbil has been unable to forecast future prospects.

Existing site work in air conditioning instrumentation is in part making up for a drop in new site work

2. Status by business

In this environment, the air conditioning instrumentation-related business reported orders received of ¥17,082mn (-6.0% YoY) and net sales of ¥10,752mn (+7.0%). The industrial systems-related business reported ¥1,830mn in orders received (-26.3%) and ¥1,443mn in net sales (-30.2%).

In the air conditioning instrumentation-related business, construction orders received totaled ¥16,960mn (-6.0% YoY). The breakdown includes ¥4,749mn (-30.9%) in new site work as work for research facilities, offices and other properties declined, and ¥12,211mn (+9.4%) in existing site work as projects increased for plants, research facilities and other properties. Meanwhile, the value of completed work was ¥10,631mn (+7.4%). New site work amounted to ¥3,864mn (-25.4%) due to a decrease in office and plant work in a rebound from the large-scale projects recorded in the previous period, including the area around the Takanawa Gateway Station and the new Yokohama city hall. Existing site work amounted to ¥6,766mn (+43.4%) as demand for large-scale replacement of air conditioning systems that were refurbished around the time of the 2008 global financial crisis finally picked up following delays caused by the Tokyo Olympics and Paralympics, and demand for offices and research facilities increased. And in new site work, demand for redevelopment projects fronting central Tokyo stations was sluggish in transitioning from demand generated by the Tokyo Olympics and Paralympics. As if to compensate for that sluggish performance, however, large-scale existing site work got off the ground, which seems to have made up for a certain level of profits. Net sales and orders received for control equipment were ¥121mn (-16.5%).

In the industrial systems-related business, orders received fell to ¥1,698mn (-26.2% YoY) due to a decline in electrical and other work, while completed projects amounted to ¥1,310mn (-30.5%) with a decline in work related to instrumentation for district heating and cooling equipment. Due to the one-off nature of district heating and cooling equipment projects, there was a major rebound from the previous year's projects in Okinawa and Shinagawa. In addition, while the business got off to a new start with the introduction of a divisional system, the impact of the COVID-19 pandemic prevented sales from taking off as planned, which we believe to have been a major factor in the decline in orders. Net sales and orders received of control equipment were ¥132mn (-27.1%).

In terms of profits, the air conditioning instrumentation-related business saw an improvement in its category mix due to an increase in the completion of profitable existing site work, and the gross profit margin increased 3.1 points to 32.0%. Meanwhile, the ratio of SG&A expenses to sales rose 2.0 points, to 24.4%, due to higher depreciation costs as the core system in which the Company had invested since April 2021 went on line, and due to higher personnel costs as operations were normalized. As a result, operating income margin improved by 1.2 points, and the Company secured a double-digit increase in operating income.

Results trends

Project performance in 1H FY3/22

Business / Project name	Project content	Location	Date
Air conditioning instrumentation-related business / Building systems business			
TOKYO Factory, RIKEN VITAMIN Co., Ltd.	Air conditioning automated control	Tokyo	May 2021
Sagami Operation Center, TOKYO OHKA KOGYO CO., LTD.	Air conditioning automated control	Kanagawa Prefecture	May 2021
Kitayama Plant, Fuji Capsule Co., Ltd.	Air conditioning automated control	Shizuoka Prefecture	September 2021
Moriguchi Police Station, Osaka Prefecture	Air conditioning automated control	Osaka Prefecture	May 2021
THE OUTLETS HIROSHIMA	Air conditioning automated control	Hiroshima Prefecture	June 2021
Air conditioning instrumentation-related business / Solutions business			
Sumida Building, Japan Tobacco Inc.	Replacement project for central monitoring facilities	Tokyo	September 2021
MinatoMirai Grand Central Tower	Medium- to long-term planned maintenance project	Kanagawa Prefecture	September 2021
MIYAKO RESORT OKUSHIMA AQUA FOREST	Medium- to long-term planned maintenance project	Mie Prefecture	September 2021
Tottori Plant, Japan Display Inc.	Monitoring equipment installation work for central monitoring facilities	Tottori Prefecture	July 2021
Hiroshima University Hospital, National University Corporation	Automated control work	Hiroshima Prefecture	July 2021
Industrial systems-related business			
Hokkaido Plant, Takanashi Milk Products Co., Ltd.	Electrical instrumentation work	Hokkaido	June 2021
Kanto Plant, FUJI OIL CO., LTD.	Robot installation work	Ibaraki Prefecture	July 2021
Fujisawa Plant, Mercian Corporation	Equipment installation work	Kanagawa Prefecture	September 2021
Kyoto Plant, Meiji Co., Ltd.	Software design and creation	Kyoto Prefecture	April 2021
Kobe Sanda Plant, DOVER LTD.	Equipment plumbing work	Hyogo Prefecture	April 2021

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

2H to follow similar trend as 1H, with a change in accounting standard for revenue recognition boosting income

3. FY3/22 outlook

In its outlook for FY3/22, the Company anticipates orders received of ¥31,000mn (-10.0% YoY), net sales of ¥32,000mn (-6.1%), operating income of ¥4,050mn (-11.7%), ordinary income of ¥4,100mn (-12.0%), and net profit attributable to owners of the parent of ¥2,830mn (-14.9%). In the air conditioning instrumentation-related business, the Company expects the environment for orders for new site work to continue deteriorating due to the sluggish transition in demand for redevelopment projects fronting central Tokyo stations following demand from the Tokyo Olympics and Paralympics, as well as in industries affected by the COVID-19 pandemic, including hotels and various commercial facilities. In the industrial systems-related business, trends in capital investment are gradually improving following the uncertainty caused by the COVID-19 pandemic, though on the other hand some are moving more cautiously and are less optimistic, so we assume that the environment for orders will be as challenging in 2H as it was in 1H.

Results trends

FY3/22 outlook

	FY3/21		FY3/22 E		Change rate
	Results	% of sales	Results	% of sales	
Net sales	34,079	100.0%	32,000	100.0%	-6.1%
Gross profit	11,302	33.2%	-	-	-
SG&A expenses	6,717	19.7%	-	-	-
Operating income	4,584	13.5%	4,050	12.7%	-11.7%
Ordinary income	4,660	13.7%	4,100	12.8%	-12.0%
Net profit attributable to owners of the parent	3,324	9.8%	2,830	8.8%	-14.9%

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

While new site work in the air conditioning instrumentation-related business faces a challenging situation, the number of large-scale projects for existing site work continues to increase, including the corporate offices of the Nippon Television Network Corporation, the Nippon Life Marunouchi Garden Tower and others, which are expected to make up for a certain level of profits in 2H and beyond. A large number of these existing site work projects remain, and since many involve the installation of new products from Azbil, the Company, with its engineering capabilities, is expected to increase the number of orders received (Azbil has its own engineering capability, but it is thought to be already experiencing bottlenecks). This seems to have made it difficult for price competition to occur. In the industrial systems-related business, a significant reactionary decline in district heating and cooling equipment is expected, as was the case in 1H. In addition, while projects will increase backed by the move toward plant digitalization, projects themselves are growing larger in scale given the wide-ranging nature of labor-saving efforts. While the value of orders grows, construction periods also tend to be longer, and it is possible that their contribution to short-term profit will be small in terms of completed projects. As in 1H, gross profit margins are expected to increase in 2H due to the category mix, while SG&A expenses are expected to increase due to the normalization of operations. Operating income is expected to decrease for the full year, which as usual is a conservative forecast, but it is likely to be revised upward due to the application of accounting standards for revenue recognition and other factors.

Medium-term management plan

Aiming for ¥4,500mn in operating income in FY3/24

1. Medium-term management plan

In response to a changing management environment, including accelerated technological innovation spurred by shifting social structures and digitalization, the Company has established “ND for the Next 2030,” its long-term management guidelines. Through its comprehensive strengths in “instrumentation”—representing the technologies and assets the Company has accumulated to date—the Company will demonstrate its growth capability while working toward sustainable growth by solving issues surrounding sustainability; its goal is for net sales of ¥45,000mn and operating income of ¥6,000mn in FY3/31. The 10 years prior to that are divided into Stage 1 building a foundation for growth, Stage 2 achieving growth and working to improve business quality, and Stage 3 taking on even greater growth and challenges, which will lead to solid growth with the formulation of medium-term management plans for each. The Company will work on Stage 1 in FY3/22, and in FY3/24 aims to reach ¥35,000mn in orders received, ¥34,000mn in net sales, ¥4,500mn in operating income and an ROE of 10% or more.

A growth strategy built on strengthening existing foundations, executing an expansion strategy, and growing the ND corporate culture

2. Stage 1 growth strategy

(1) Strengthening existing foundations

In the air conditioning instrumentation-related business in particular, the Company expects to face a difficult environment for orders received going forward due to a declining population and other factors. The Company thus intends to invest management resources for the purpose of Company-wide optimization and to build a solid position as a provider of building operation solutions. Specifically, it will shift management emphasis from its conventional regional block optimization to Company-wide optimization, focusing management resources on metropolitan Tokyo, where new site work is concentrated. In addition, the Company intends to ensure it secures earnings by winning orders for new site work that emphasizes stock maintenance (renovation of existing structures) and by tying those orders to existing site work. In existing site work, the Company will promote improved customer satisfaction in major areas nationwide and work to differentiate itself from local companies as a provider of building operation solutions. It will do this by providing solutions that respond precisely to customer building operation issues, by providing new instrumentation systems that offer high added value and additional services, and through its comprehensive strengths, including strengthened energy-saving proposals based on goals for a decarbonized society.

(2) Executing an expansion strategy

The Company will concentrate management resources on the industrial systems-related business, where high growth potential is expected, and aims to grow the business into a core business through organizational restructuring and expansion of business domains. While some of these measures are already underway in the near term, specifically the Company will engage in proactive business development while investing in building a business foundation by introducing a divisional system; securing specialized human resources through mid-career hiring; expanding sales tools, including the creation of divisional websites; and exhibiting at trade shows that can be highly effective in selling to food manufacturers, makers of food manufacturing machinery and others. While Stage 1 is still in the seed-sowing phase, by incorporating the management resources and knowledge of Jupiter Advanced Systems Co., Ltd. in production management systems and so forth, the Company plans to maximize synergies as a business in areas such as offering higher added value and developing new sales channels, thus strengthening its competitiveness. By doing so, the Company intends to promote the profitability of the industrial systems-related business and the expansion of its business domains, and to drive growth along with the air conditioning instrumentation-related business.

Medium-term management plan

(3) Growing the ND corporate culture

The Company will advance efforts to enhance human capital, promote work style reforms and implement rigorous governance, with the goal of improving medium- to long-term corporate value. In the area of enhancing human capital, the Company will promote efforts to quickly ensure mid-career and junior employees become effective members of the workforce, develop human resources including management personnel, and strengthen recruiting to secure personnel in terms of both quantity and quality. In advancing work style reforms, the Company will promote employee engagement through work-life balance, diversification of human resources and work styles, and by promoting health and productivity management. In the area of ensuring rigorous governance, the Company will work to ensure the effectiveness of the Board of Directors, utilize independent outside directors, ensure management transparency and enhance information disclosure to facilitate constructive dialogue with shareholders. As it works toward achieving its vision for 2030, the Company will also begin efforts to address sustainability management. As a counterpart to its financial targets, the Company has established a number of non-financial goals as being material to the Group, taking into account the ESG perspective. These include environmental goals, such as the realization of a decarbonized society and challenging the potential of Instrumentation engineering; social goals, including promoting employee engagement and diversity; and governance goals, such as enhancing corporate value and contributing to local communities and society over the medium to long term. Through sustainability management, the Company intends to create business opportunities, change employee awareness, and establish efforts to grow its corporate culture and fulfill the responsibilities expected of it as a company.

Returning from a sluggish performance to growth in the medium term

3. Short- and medium-term outlook

In the coming FY3/23, positioned in the middle of Stage 1, the air conditioning instrumentation-related business is expected to see growing momentum in new site work for redevelopment projects fronting central Tokyo stations, with completed construction increasing going into the final year of Stage 1. Existing site work is expected to see orders continue for large-scale repairs leveraging the Company's engineering capabilities. That said, a workforce shortage among partner companies in the existing site work business has become an issue, and the Company intends to support its multiple nationwide partner companies in building their workforces through investments and other means. The industrial systems-related business will see a full-scale move to a divisional system, which was delayed by the COVID-19 pandemic, and an increasing number of orders for new projects is expected to lead to more completed construction against the backdrop of a need for plant digitalization, which is also highly profitable. In addition, it is probably time to begin looking at synergies with Jupiter Advanced Systems, though the Company plans to strengthen those synergies at the right time so that they do not become a burden. In terms of new M&A, the Company will prioritize the creation of synergies with Jupiter Advanced Systems, with an emphasis on building its near-term track record. In FY3/24, the air conditioning instrumentation-related business is expected to emerge from its sluggish performance because of growth in new site work due to redevelopment fronting central Tokyo stations and continued strong performance in existing site work. The industrial systems-related business, meanwhile, is expected to begin contributing to profit growth against the backdrop of a growing need for plant digitalization.

■ Shareholder return policy

Policy is to maintain a constant dividend payout ratio while linking dividends to business performance

The Company's policy is to take a proactive approach to returning profits to shareholders. Specifically, as long as there are no events or new capital investment plans that have a significant impact on business results, the Company's policy is to maintain a consistent payout ratio and return profits to shareholders through dividends commensurate with profit growth. The Company's basic policy is to pay dividends from retained earnings twice a year, an interim dividend and a year-end dividend. The decision-making bodies for these dividends are the Board of Directors, for the interim dividend, and the General Meeting of Shareholders for the year-end dividend. As necessary, internal reserves are used for investments in people, to develop and secure human resources, and to fund expansion of the Company's business domains. Based on the above policies, the Company plans a full-year dividend for FY3/22 of ¥106 per share (an interim dividend of ¥10 and a year-end dividend of ¥96).



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