COMPANY RESEARCH AND ANALYSIS REPORT

Ainavo Holdings

7539

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Index

Summary

Mid-sized home equipment and exterior wall installation company; working toward growth through M&A

Ainavo Holdings <7539> (hereafter, also "the Company") is a pure holding company with six consolidated subsidiaries and three non-consolidated subsidiaries. Its main businesses are exterior wall installations of tile, siding, and other exterior materials, installations of kitchens, various water-related equipment and other home equipment, sales of building materials, and sales of home equipment. The company is unique in its handling of both installation and wholesale of building materials and home equipment. While the Company primarily supplies these services to smaller general contractors and building firms, it also receives installation orders from major general contractors. Strict fund collection management and project progress management have enabled the Company to accumulate abundant net cash (cash and deposits - long-term and short-term loans payable) totaling ¥11,534mn (as of the end of FY9/22) and cultivate a robust balance sheet.

1. FY9/22 results

In consolidated results for FY9/22, the Company reported ¥79,143mn in net sales (+19.7% YoY), ¥1,899mn in operating profit (-0.2%), ¥2,167mn in recurring profit (+2.2%), and ¥1,647mn in profit attributable to owners of parent (+25.8%). Profit attributable to owners of parent increased significantly due to an extraordinary gain of ¥328mn recorded on negative goodwill in MANIX Co., Ltd., a new consolidated subsidiary. By segment, sales and profits increased in the standalone homes business due to a recovery in demand for renovations, the supply of parts and materials catching up with demand, and other factors. The large properties business secured higher sales, but segment profit declined due to lower profits at OnchoGiken Co., Ltd., which performed strongly up until the previous fiscal year but faced intensifying competition. The gross profit ratio was 14.2% (14.4% in the previous fiscal year), down 0.2 percentage points (ppt) compared to the previous fiscal year, but with an increase in sales, gross profit rose to ¥11,261mn (+17.9%). Meanwhile, SG&A expenses rose 22.5% YoY due to a rise in logistics costs, an increase in inflation allowances and bonus payments, and other factors. As a result, operating profit remained nearly unchanged from the previous fiscal year.

2. FY9/23 results outlook

For FY9/23, the Company forecasts net sales of ¥83,500mn (+5.5% YoY), operating profit of ¥2,080mn (+9.5%), recurring profit of ¥2,410mn (+11.2%) and profit attributable to owners of parent of ¥1,650mn (+0.2%). The outlook for the housing market remains uncertain, but the Company plans to grow its mainstay standalone homes business by building up a base of new customers and through other efforts. On the other hand, the large properties business is expected to remain flat from the previous fiscal year, given that current orders are not necessarily firm. Overall, the Company is forecasting an increase in both sales and profits, but we are taking a harder look at the large properties business, and while we believe projections are solid, future trends should be monitored closely.

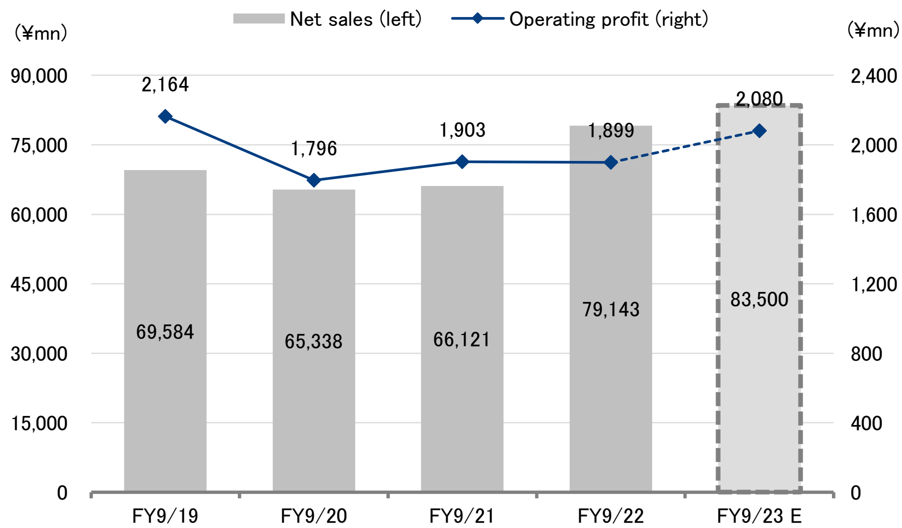
3. Plans to announce a new medium-term management plan

The Company had announced a medium-term management plan (net sales of ¥80bn, operating profit of ¥2.2bn), the final year of which was FY9/22, but fell short of those targets. The Company has said that "We are currently formulating a new medium-term plan, and expect to release it when we announce our 1Q results." In shareholder returns, it is targeting a dividend payout ratio of 30%, and in FY9/22 it paid out an annual dividend of ¥44 yen per share (for a payout ratio of 30.9%). For FY9/23, an annual dividend of ¥46 per share is planned (31.9%), but the possibility remains that this amount could increase depending on results.

Key Points

- Main businesses are exterior wall and home equipment installations and sales of building materials; possesses a sturdy financial base thanks to reinforced management
- While the outlook for the ongoing FY9/23 remains unclear, forecasting operating profit will increase 9.5% YoY
- Currently formulating a new medium-term plan, and expect to release it when announcing 1Q results

Results trends



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

Business overview

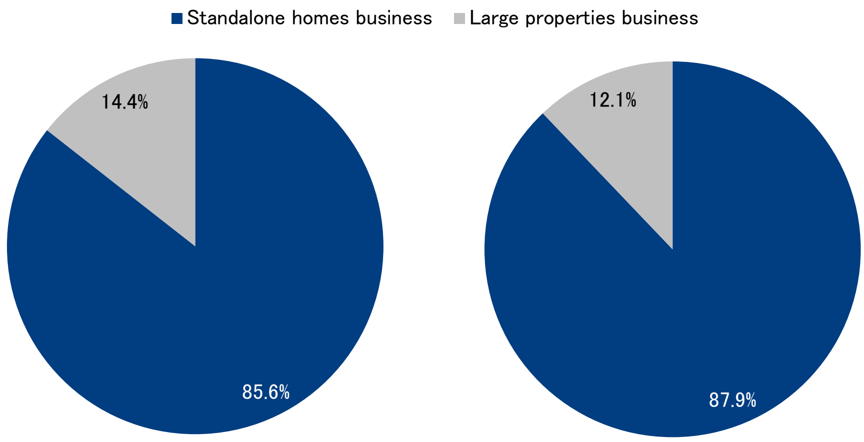
Mainly installs tile, siding, and other exterior wall materials and home equipment. Possesses a sturdy financial base thanks to reinforced management

1. Description of business

Ainavo Holdings, a pure holding company, has six consolidated subsidiaries and three non-consolidated subsidiaries in its group as of the end of FY9/22. The Company's business segments are standalone homes business and large properties business, separated by the size of customers (in terms of order value). The actual content of their business activities is nearly the same. The former primarily covers installations for ordinary homes with orders received from smaller general contractors and ordinary building firms, while the latter mainly reflects orders from large general contractors and other major customers. Net sales by segment (FY9/22) were ¥67,734mn for the standalone homes business (85.6% of sales) and ¥11,409mn for the large properties business (14.4%). Operating profit was ¥2,843mn and ¥392mn, respectively, for the two segments.

Net sales by business segment (FY9/22: ¥79,143mn)

Operating profit by business segment (FY9/22: ¥3,236mn)



Note: Segment operating profit prior to companywide adjustments
Source: Prepared by FISCO from the Company's financial results

The standalone homes business breaks down further into the sub-segments of exterior wall installations, home equipment installations, building materials sales, and home equipment sales, and the large properties business consists of tile sales and installations and home equipment sales and installations. Sub-segment shares of overall sales (FY9/22) are 19.9% for exterior wall installations, 25.3% for home equipment installations, 18.4% for building materials sales, and 22.0% for home equipment sales under the standalone homes business and 4.2% for tile sales and installations and 10.2% for home equipment sales and installations under the large properties business.

2. Overview of segments and sub-segments

(1) Standalone homes business

These orders primarily come from local smaller general contractors and building firms and home manufacturers and other builders*. The Company does not receive many orders directly from the party conducting the project.

* Sales of tile materials and home equipment related to installation projects are booked under the respective installation segments.

a) Exterior wall installations

This business handles installations of interior and exterior tiles, floor tiles, and exteriors for ordinary homes, small condominiums, and stores. It supports not only tile, but also siding and other materials.

b) Home equipment installations

This business mainly covers renovation installations (including kitchens as well as bath, toilet, and other water-related systems) and solar power generation system installations. While orders are fundamentally separate from exterior wall installations, they are received jointly in some cases. The Company is one of the industry's largest firms for bathroom installations with roughly 20,000 projects per year.

c) Building materials sales

This sub-segment handles wholesale transactions for various building materials used in ordinary homes, stores, and smaller condominiums. Tile building material sales volume is relatively large. Its primary sources of sales are building firms and local homebuilders, and Ainavo does not sell to secondary wholesale firms.

d) Home equipment sales

Similarly to building materials sales, the Company sells home equipment to building firms and local homebuilders.

(2) Large properties business

Business content is almost the same as the standalone homes business, but the Company books installations at large properties (buildings, condominiums, and others) for major general contractors in this segment. It receives a relatively large number of orders from Obayashi <1802>, Konoike, and Haseko Corporation <1808>.

a) Tile sales and installations

Interior and exterior tiles, floor tiles, stone material sales and installations.

b) Home equipment sales and installations

Kitchen and other home equipment and air-conditioning equipment sales and installations mainly for buildings and condominium buildings.

3. Main procurement and sales destinations

The Company has roughly 7,000 customers, including major general contractors. Collection of accounts receivables is a key point in business operations, because these customers are not always active and value per project varies significantly from a few million yen to over ¥100mn.

LIXIL Corporation <5938> is the primary procurement source for building materials and home equipment, and the Company also purchases extensively from TOTO LTD. <5332>, Rinnai Corporation <5947>, Cleanup Corporation <7955>, and DAIKEN CORPORATION <7905>.

While the Company has about 2,000 subcontractors (large and small) handling projects, roughly half of the sub-contractors work exclusively with the Company and the two sides sustain longstanding trust relationships thanks to support from the insurance framework described below.

4. Competition, features, and strengths

Many companies are involved in exterior wall installations or selling building materials and home equipment, and the Company faces numerous rivals in its various areas of business. While it is not easy to find a clear rival in terms of an overall business, the most likely competitors are KOIZUMI Co., Ltd. and Watanabe Pipe Co., Ltd. However, rivals are decreasing for exterior wall installations due to the downward trend in the number of contractors in recent years. The Company promotes differentiation with rivals in the current environment leveraging the following features.

One of the Company's unique features is the comprehensive skills training center where it provides training in highly specialized skills for its numerous subcontractors. The Company's training enables it to support a variety of project types. The skills center also unfailingly conducts half-yearly checks at each site to ensure projects are progressing as planned, which reduces variations in finished work due to individual differences.

Another feature is that it has its own insurance program. The Company collects part of subcontractors' turnover and pools the funds in a cooperative association for use to cover income for one week if a subcontractor (worker) is unable to work due to an accident. This program strengthens the trust relationship between the Company and subcontractors and also boosts the retention rate for skilled workers and precision of finished work.

While it is normal for companies to implement management of sales, costs, and project progress, the Company also thoroughly conducts management of billing, money received, and uncollected bills. Specifically, it manages procurement and sales for each project on a line-by-line basis, even with small amounts, and manages (checks) to not only the income statement, but also the balance sheet. The ability to execute this type of balance sheet management while monitoring project progress is important and not simple. There have been numerous cases in recent years of other firms in the business of selling building materials entering the installations business, though many rivals later exit the installations business due to the difficulty (inefficiency) of uncollected bill management. In one sense, this aspect serves as a "hidden barrier to entry," and it can be said that the Company's ability to manage it is an important strength. As a result, the Company accumulates abundant net cash (cash and deposits - long-term and short-term loans payable) totaling ¥11,534mn (as of the end of FY9/22) and cultivates a robust balance sheet.

Results trends

In FY9/22, operating profit decreased by 0.2%. The gross profit ratio was 14.2%, a decrease of 0.2 ppts YoY

1. FY9/22 results

(1) Status of profit and loss

In the FY9/22 consolidated financial results, the Company reported ¥79,143mn in net sales (+19.7% YoY), ¥1,899mn in operating profit (-0.2%), ¥2,167mn in recurring profit (+2.2%), and ¥1,647mn in profit attributable to owners of parent (+25.8%).

New consolidated subsidiary MANIX contributed to results with net sales of ¥8,348mn and operating profit of ¥94mn. Excluding these figures, sales increased 7.1% YoY, while operating profit fell 5.1%. In addition, profit attributable to owners of parent increased significantly due to an extraordinary gain of ¥328mn recorded on negative goodwill in MANIX. By segment, sales and profits increased in the standalone homes business due to a recovery in demand for renovations, the supply of parts and materials catching up with demand, and other factors. However, the large properties business saw segment profit decline due to lower profits at OnchoGiken Co., Ltd., which performed strongly up until the previous fiscal year but faced intensifying competition.

The gross profit ratio was 14.2% (14.4% in the previous fiscal year, down 0.2 ppts YoY, but this was primarily due to changes in product mix. That said, an increase in sales saw gross profits increase 17.9% YoY to ¥11,261mn. Meanwhile, in addition to an increase to account for MANIX, higher logistics costs, inflation allowances to reward employees for their labor and increased bonuses resulted in a 22.5% YoY increase in SG&A expenses. As a result, operating profit fell slightly compared to the previous fiscal year.

An analysis of changes in operating profit shows that factors behind an increase in profit included a ¥717mn increase in operating profit due to higher sales, an increase in profit of ¥94mn from new consolidations. Factors behind a decrease include a decrease in profit of ¥475mn due to increased SG&A expenses, and a profit decrease of ¥340mn due to a decline in gross profit margin (-0.2% YoY). As a result, operating profit fell ¥3mn compared to the previous fiscal year.

Overview of FY9/22 results

(¥mn)

	FY9/21		FY9/22			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	66,121	100.0%	79,143	100.0%	13,021	19.7%
Gross profit	9,548	14.4%	11,261	14.2%	1,712	17.9%
SG&A expenses	7,644	11.6%	9,361	11.8%	1,716	22.5%
Operating profit	1,903	2.9%	1,899	2.4%	-3	-0.2%
Recurring profit	2,121	3.2%	2,167	2.7%	46	2.2%
Profit attributable to owners of parent	1,309	2.0%	1,647	2.1%	337	25.8%

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

(2) Status by business segment

Below, we review trends by segment and sub-segment.

a) Standalone homes business

The standalone homes business posted ¥67,734mn in net sales (+19.9% YoY) and ¥2,843mn in segment profit (+22.3%). Sub-segment sales were exterior wall installations at ¥15,723mn (+9.4% YoY), home equipment installations at ¥20,026mn (+17.1%), building materials sales at ¥14,538mn (+10.6%), and home equipment sales at ¥17,446mn (+47.1%). The high growth rates for home equipment installations and home equipment sales were due to the influence of MANIX.

While the housing market itself is not necessarily on a recovery track, the Company secured an increase in sales as a result of an increase in demand for renovations with the recovery from the novel coronavirus pandemic (hereafter, "COVID-19"), and supplies of home equipment, etc., which had at one time been in short supply, began catching up. The current order backlog is solid, and the Company has made steady progress in developing new customers, promising efforts for the future.

b) Large properties business

The large properties business posted net sales of ¥11,409mn (+18.3% YoY) and segment profit of ¥392mn (-52.6%). By sub-segment, net sales for tile sales and installations were ¥3,346mn (-2.4%) and home equipment sales and installations were ¥8,062mn (+29.8%). The increase in home equipment sales and installations includes the business of purchasing condominiums. While the segment secured an increase in sales, segment profit fell significantly due to underperformance in large properties by key subsidiary Avelco Co., Ltd., as well as a decline in profit at OnchoGiken, which until then had been driver of profit but which faced intensifying competition. Note that sales in the real estate purchase and resale business, which the Company has been focusing on since FY9/21, totaled (for two fiscal years) ¥1,450mn (51 units), a significant increase from ¥400mn (10 units) in the first year.

Results by segment

(¥mn)

	FY9/21		FY9/22			
	Results	% of sales	Results	% of sales	Change in value	YoY change
Net sales	66,121	100.0%	79,143	100.0%	13,021	19.7%
Standalone homes business	56,480	85.4%	67,734	85.6%	11,253	19.9%
Exterior wall installations	14,373	21.7%	15,723	19.9%	1,349	9.4%
Home equipment installations	17,107	25.9%	20,026	25.3%	2,918	17.1%
Building materials sales	13,142	19.9%	14,538	18.4%	1,396	10.6%
Home equipment sales	11,858	17.9%	17,446	22.0%	5,588	47.1%
Large properties business	9,641	14.6%	11,409	14.4%	1,768	18.3%
Tile installations and sales	3,427	5.2%	3,346	4.2%	-81	-2.4%
Home equipment installations and sales	6,213	9.4%	8,062	10.2%	1,849	29.8%
Operating profit	1,903	2.9%	1,899	2.4%	-3	-0.2%
Standalone homes business	2,325	-	2,843	-	517	22.3%
Large properties business	827	-	392	-	-435	-52.6%
(Adjustments)	-1,250	-	-1,336	-	-	-

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

(3) Results by business company

Regarding results by business company, Avelco recorded net sales of ¥54,713mn (+8.2% YoY), and operating profit of ¥1,713mn (+7.1%). INTELGROW CORPORATION recorded net sales of ¥11,494mn (+9.0%) and operating profit of ¥207mn (+14.4%), and OnchoGiken recorded net sales of ¥1,923mn (-8.3%) and operating profit of ¥186mn (-40.0%). Imamura Co., Ltd. recorded net sales of ¥3,139mn (+0.4%) and operating profit of ¥17mn (-51.4%). As a relatively high proportion of Imamura's sales are related to tiles, it was impacted heavily by the slump in tile sales. Net sales of Artis Co., Ltd. were ¥383mn (+42.9%) with an operating loss of ¥87mn (versus a loss of ¥93mn in the previous fiscal year); net sales of MANIX, a new subsidiary, were ¥8,348mn (no YoY data) with operating profit of ¥94mn.

Results by business company

(¥mn)

	Avelco			INTELGROW			OnchoGiken			Imamura			Artis			MANIX	
	FY9/21	FY9/22	YoY change	FY9/21	FY9/22	YoY change	FY9/21	FY9/22	YoY change	FY9/21	FY9/22	YoY change	FY9/21	FY9/22	YoY change	FY9/21	FY9/22
Net sales	50,548	54,713	8.2%	10,543	11,494	9.0%	2,096	1,923	-8.3%	3,126	3,139	0.4%	268	383	42.9%	-	8,348
Operating profit	1,600	1,713	7.1%	181	207	14.4%	310	186	-40.0%	35	17	-51.4%	-93	-87	-	-	94
Operating profit ratio	3.2%	3.1%	-	1.7%	1.8%	-	14.8%	9.7%	-	1.1%	0.6%	-	-34.8%	-22.8%	-	-	1.1%
Recurring profit	1,672	1,816	8.6%	264	292	10.6%	311	186	-40.2%	69	49	-29.0%	26	68	161.5%	-	140
Recurring profit ratio	3.3%	3.3%	-	2.5%	2.5%	-	14.9%	9.7%	-	2.2%	1.6%	-	9.8%	18.0%	-	-	1.7%
Net profit	1,030	1,084	5.2%	164	203	23.8%	216	121	-44.0%	67	32	-52.2%	25	68	172.0%	-	126

Note: Figures shown are those prior to intercompany eliminations
Source: Prepared by FISCO from the Company's results briefing materials

(4) Progress with priority issues

Progress in areas that the Company has earmarked as "priority issues" was as follows. Siding net sales were ¥3,421mn (+17.2% YoY), and pre-cut siding projects came in at 836 (+5.3%). Growth struggled in the previous fiscal year due to the inability to secure subcontractors for installations due to the impact of COVID-19, but the problem is gradually being solved. Non-housing net sales were ¥2,330mn (+43.5%), reflecting steady growth. In the focused sash-related business, net sales for condominiums and standalone houses were ¥2,855mn (+1.9%), and for standalone houses alone ¥1,929mn (+17.9%), both solid results. In the sash business, the Company continues to sift assembly work and the preparation of drawings in-house, which has been improving profit margins.

In the brand business, net sales of Altis, which became a subsidiary were decent at ¥383mn (+42.4%). Net sales of Maristo (tiles) handled by Avelco were also strong, at ¥1,229mn (+22.5%). While the monetary value of Maristo is small, it delivers a high profit margin, thus giving it an outsized impact on overall profit margins. Note that Maristo is scheduled to become a subsidiary from FY9/23, with Maristo Co., Ltd. as the preparatory company for the corporate split. In terms of new customer development, one indicator the company is most focused on, there were 691 new customers (-6.5%), but net sales grew steadily to ¥1,627mn (+10.0%), as planned. In particular, INTELGROW, which is based in the Chubu region, is steadily accumulating new customers, and future performance is expected to be promising.

Progress with priority issues I

(¥mn)

	Siding	Siding pre-cut (projects)	Non-housing	Sashes	
				Condominiums + Standalone Houses	Standalone houses alone
FY9/22	3,421	836	2,330	2,855	1,929
FY9/21	2,919	794	1,623	2,802	1,635
YoY change	17.2%	5.3%	43.5%	1.9%	17.9%

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

Progress with priority issues II

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Number of projects	Value
FY9/22	1,229	383	691	1,627
FY9/21	1,003	269	739	1,480
YoY change	22.5%	42.4%	-6.5%	10.0%

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

Stable financial base; surplus net cash of ¥11,534mn

2. Financial condition

Looking at financial conditions at the end of FY9/22, current assets totaled ¥31,645mn (+¥4,499mn from the end of FY9/21). Key item were cash and deposits down ¥584mn, notes receivables and finished project unpaid funds up ¥3,000mn, and unfinished project spending up ¥1,511mn. Fixed assets totaled ¥10,994mn (+¥1,218mn), including tangible fixed assets at ¥6,599mn (+¥1,012mn), intangible fixed assets at ¥288mn (-¥155mn, including ¥45mn in goodwill), and investments and other assets at ¥4,106mn (+¥361mn). As a result, total assets increased ¥5,718mn to ¥42,640mn.

Current liabilities totaled ¥17,868mn (+¥4,537mn from the end of FY9/21). The main factors behind this increase were increases of ¥2,384mn in notes payables and unpaid amounts and ¥1,070mn in unpaid factoring. Fixed liabilities increased ¥171mn to ¥1,562mn. As a result, total liabilities were ¥19,430mn (+¥4,708mn). Net assets amounted to ¥23,209mn (+¥1,009mn), mainly on a ¥1,224mn gain in retained earnings from booking profit attributable to owners of parent.

The Company possesses a sturdy financial base with extensive surplus net cash (cash and deposits - long-term and short-term loans payable) at ¥11,534mn as of the end of FY9/22 with ¥12,195mn in cash and deposits versus ¥661mn in total long- and short-term loans payable.

Consolidated balance sheet

(¥mn)

	End of FY9/21	End of FY9/22	Change in value
Cash and deposits	12,780	12,195	-584
Notes receivables and finished project unpaid funds	11,036	14,036	3,000
Unfinished project spending	2,167	3,678	1,511
Total current assets	27,146	31,645	4,499
Tangible fixed assets	5,586	6,599	1,012
Intangible fixed assets	443	288	-155
Goodwill	181	136	-45
Investments and other assets	3,745	4,106	361
Total fixed assets	9,775	10,994	1,218
Total assets	36,921	42,640	5,718
Notes payables and unpaid amounts	6,649	9,033	2,384
Unpaid factoring	3,265	4,336	1,070
short-term borrowings	215	427	212
Total current liabilities	13,330	17,868	4,537
long-term borrowings	161	233	72
Total fixed liabilities	1,391	1,562	171
Total liabilities	14,722	19,430	4,708
Net assets	22,199	23,209	1,009

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

3. Cash flow situation

Looking at the cash flow of FY9/22, net cash provided by operating activities was ¥395mn. Main income sources were ¥2,447mn in profit before income taxes and a ¥1,752mn increase in accounts payables, while the main outflows were a ¥1,047mn increase in accounts receivables and a ¥1,632mn increase in inventories. Net cash provided by investing activities was ¥388mn. The main outflow was ¥71mn in purchase of tangible fixed assets and the main inflow was ¥426mn in acquisition of shares of subsidiaries resulting in a change in the scope of consolidation. Net cash used in financing activities was ¥1,457mn. The main outflows were a ¥993mn repayment of long-term and short-term loans payable and dividend payments of ¥415mn. As a result, cash and cash equivalents decreased by ¥666mn to ¥12,113mn at the end of period.

Consolidated cash flow statement

(¥mn)

	FY9/21	FY9/22
Cash flow from operating activities	1,941	395
Profit before income taxes	2,142	2,447
Decrease (increase) in accounts receivables	-520	-1,047
Decrease (increase) in inventories	-225	-1,632
Increase (decrease) in accounts payables	680	1,752
Cash flows from investing activities	-364	388
Purchase of tangible fixed assets (net)	-25	-71
Cash flows from financing activities	-256	-1,457
Increase in long-term and short-term loans payable (net)	185	-993
Dividend payments	-426	-415
Net increase (decrease) in cash and cash equivalents	1,320	-672
Cash and cash equivalents at the end of period	12,780	12,113

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

Business outlook

Forecasting 5.5% sales growth and 9.5% operating profit growth due to an uncertain outlook

For FY9/23, the Company is forecasting net sales of ¥83,500mn (+5.5% YoY), operating profit of ¥2,080mn (+9.5%), recurring profit of ¥2,410mn (+11.2%) and profit attributable to owners of parent of ¥1,650mn (+0.2%).

In the outlook for the housing market, there may be some negative factors, including a curbing of investment due to concerns about rising interest rates, in addition to suppression of wage increases even as prices soar. At the same time, positive factors may include the wider adoption of measures for living with the coronavirus and a recovery in inbound demand. In this environment, the Company plans to achieve its targets by advancing the following measures.

- Strategic decision-making to increase the speed of the Group's growth
- Transform the business model to prepare for changes in market conditions, and achieve Group synergies as quickly as possible
- Strategic use of human resources

Overview of FY9/23 forecasts

(¥mn)

	FY9/22		FY9/23 E		
	Results	% of sales	Results	% of sales	YoY change
Net sales	79,143	100.0%	83,500	100.0%	5.5%
Operating profit	1,899	2.4%	2,080	2.5%	9.5%
Recurring profit	2,167	2.7%	2,410	2.9%	11.2%
Profit attributable to owners of parent	1,647	2.1%	1,650	2.0%	0.2%

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

Operating profit targets by subsidiary include for mainstay Avelco ¥1,931mn (+12.7% YoY), INTELGROW ¥200mn (-3.4%), OnchoGiken ¥105mn (-43.5%), Imamura ¥84mn (+394.1%), Artis an operating loss of ¥121mn (versus an operating loss of ¥87mn in the previous fiscal year), MANIX ¥85mn (-9.6%) and Maristo, which will become a consolidated subsidiary beginning in FY9/23, ¥23mn (no YoY data). While mainstay subsidiary Avelco is expected to perform well, the outlook for INTELGROW and OnchoGiken, which performed relatively strongly in FY9/22, is more severe.

Full-year results forecasts by subsidiary

(¥mn)

	Avelco			INTELGROW			OnchoGiken			Imamura			Artis			MANIX			Maristo*
	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/22 Results	FY9/23 Forecasts	YoY change	FY9/23 Forecasts
Net sales	54,713	58,000	6.0%	11,494	12,000	4.4%	1,923	2,400	24.8%	3,139	3,564	13.5%	383	391	2.1%	8,348	8,450	1.2%	1,256
Operating profit	1,713	1,931	12.7%	207	200	-3.4%	186	105	-43.5%	17	84	394.1%	-87	-121	-	94	85	-9.6%	23
Operating profit ratio	3.1%	3.3%	-	1.8%	1.7%	-	9.7%	4.4%	-	0.6%	2.4%	-	-22.8%	-30.9%	-	1.1%	1.0%	-	1.8%
Recurring profit	1,816	2,010	10.7%	292	279	-4.5%	186	105	-43.5%	49	105	114.3%	68	0	-100.0%	140	85	-39.3%	23
Recurring profit ratio	3.3%	3.5%	-	2.5%	2.3%	-	9.7%	4.4%	-	1.6%	2.9%	-	18.0%	-	-	1.7%	1.0%	-	1.8%
Net profit	1,084	1,407	29.8%	203	196	-3.4%	121	74	-38.8%	32	73	128.1%	68	0	-100.0%	126	59	-53.2%	16

* New consolidated subsidiary
Note: Figures shown are those prior to intercompany eliminations
Source: Prepared by FISCO from the Company's results briefing materials

The target values for the "priority issues" are ¥5,200mn for siding (+¥1,779mn YoY), 1,000 buildings for siding pre-cut (+164), ¥3,000mn for non-housing (stores, commercial facilities, etc.; +¥670mn), ¥5,200mn for sashes (condominiums + standalone houses;+2,345mn), ¥4,000mn for sashes excluding branch stores (+¥2,071mn), ¥1,420mn for Maristo (+¥191mn), ¥390mn for Artis (+¥7mn), and for new customer development, ¥2,200mn for the monetary value (+¥573mn) and 710 for the number of projects (+19 projects). Non-housing is a field the Company will focus on in the future and has been included in the priority issues since FY9/21. Although the target value is high, progress is being made on new customer development with aims to achieve it. Sashes are also a field to focus on alongside non-housing, so a high target has been set. Maristo will be made a subsidiary in FY9/23 and aims for a significant increase in sales. The target value for Artis is the sales target for Artis, the subsidiary that operates the Artis business.

The Company is also continuing to focus on new customer development. In the previous fiscal year, there were 691 projects with new customers and the Company is aiming for 710 in FY9/23. The target value for projects with new customers includes the new consolidated subsidiary MANIX.

Target values for priority issues I

(¥mn)

	Siding	Siding pre-cut (projects)	Non-housing	Sashes	
				Condominiums + Standalone Houses	Standalone houses alone
FY9/22	3,421	836	2,330	2,855	1,929
FY9/23 (targets)	5,200	1,000	3,000	5,200	4,000

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

Target values for priority issues

(¥mn)

	Brand business		New customer development	
	Maristo (tiles)	Artis (unit bathrooms)	Net sales	Number of projects
FY9/22	1,229	383	1,627	691
FY9/23 (targets)	1,420	390	2,200	710

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

Medium- to long-term growth strategy

Formulating a new medium-term management plan

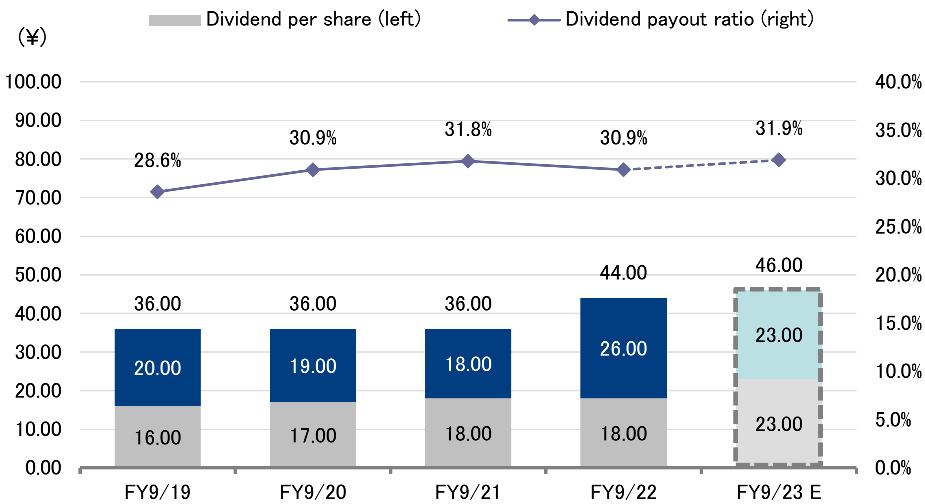
The Company had announced a medium-term plan (net sales of ¥80bn, operating profit of ¥2.2bn), the final year of which was FY9/22, but fell short of those targets. The Company has said that "We are currently formulating a new medium-term plan, and expect to release it when we announce our 1Q results." Attention will be on what their priority measures will be and what level of quantitative targets will be established.

Shareholder return policy

Sustaining a stable dividend with a payout ratio target of 30%, with increased dividend possible depending on operating results

The Company fundamentally aims for a 30% dividend payout ratio as its shareholder return policy. The annual dividend was ¥30 per share in FY9/18, while from FY9/19 to FY9/21 it was ¥36, and for FY9/22 it was ¥44 (for a dividend payout ratio of 30.9%). For FY9/23, the Company plans an annual dividend of ¥46 (which would be a dividend payout ratio of 31.9%). If results are strong, there remains the possibility that the Company may increase the dividend.

Dividend per share and dividend payout ratio



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

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