COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Prime Market

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Index

Summary 01

1. 1H FY12/22 results and FY12/22 forecasts 01
2. Rapid expansion of overseas business 01
3. Enhanced consulting capability in renewable energy business through M&A and other means 02

Company profile 03

1. Company profile 03
2. History 04

Business overview 06

1. Environmental equipment business 06
2. Household equipment business 11
3. Renewable energy business 12
4. Other businesses 13

Results trends 14

1. Overview of 1H FY12/22 results 14
2. Financial position and cash flow 16

Outlook 17

Medium- to long-term growth strategy 18

1. Medium-term business plan 18
2. Overseas business development 19
3. ESG management and related SDGs 20

Shareholder return policy 23

Summary

Plans rapid expansion of overseas business on the axis of its businesses related to “water”

Daiki Axis Co., Ltd. <4245> (hereafter, also “the Company”) promotes ESG management that is the embodiment of corporate slogan: “PROTECT×CHANGE Protect the environment. Change the future.” The Company is working specifically to realize six of the United Nations Sustainable Development Goals (SDGs) through its business. The most important SDG is the sixth one, which states “Clean Water and Sanitation: Ensure availability and sustainable management of water and sanitation for all.” Its focus is to rapidly expand its businesses overseas to protect the global environment and create a sustainable society and future, mainly through its businesses related to “water.”

1. 1H FY12/22 results and FY12/22 forecasts

In 1H FY12/22, consolidated net sales increased 5.1% year on year (YoY) to ¥20,091mn and ordinary income declined 18.7% to ¥703mn. The main reason for the profit decline was an increase in expenses, such as personnel and transportation costs, travel expenses, hiring factory workers ahead of the new plant in India starting operations, and expense increase associated with the consolidation of two subsidiaries, including goodwill amortization.

For the FY12/22 consolidated results, the Company maintained its forecast of a 5.8% increase in net sales to ¥40,000mn and 0.1% decrease in ordinary income to ¥1,300 million, near record level.

2. Rapid expansion of overseas business

The current medium-term business plan focuses management resources on the overseas business, especially expanding its business in India. The Company targets an increase in overseas net sales from ¥1,489mn in FY12/21 to ¥4,000mn in FY12/25, and doubling again to ¥8,000mn in FY12/30. Demand for its Johkasou continues to grow despite the novel coronavirus pandemic (hereafter, “the COVID-19 pandemic”). The production capacity of the local manufacturer to which the Company outsources production is 360 units per year. However, supply is still not keeping up with demand, so some units are imported from its own plant in Indonesia. The Company is therefore building its own plant near India’s capital Delhi and plans to begin operation in November 2022. Initially it is expected to have an annual production capacity of 350 units, but ultimately the plan is to increase this to 600 units per year. A second plant in India is scheduled to begin operation in FY12/25. The number of distributers in India increased from 11 companies at the end of FY12/19 to 25 companies at the end of 1H FY12/22. The Company is pioneering the market by combining sales and production in partnership with distributers.

India's population is about 1.4 billion people, 11 times that of Japan, with a land area of 3.28 million km^2, about nine times larger than that of Japan. Its nominal GDP per capita has exceeded US$2,000. India is aggressively building sewerage infrastructure as part of the Clean India project. As of 2017, the sewerage infrastructure penetration rate was under 20% and centralized wastewater treatment facilities are insufficient. Installation of Johkasou has been highly evaluated by the India government as optimum both in terms of cost and speed to prevent the lack of capacity for the treatment of sewerage and household wastewater from impeding the pace of urbanization. The Company's Johkasou was the first on-site wastewater treatment system to obtain recommendation approval from the Indian central government, which means the Company does not have to obtain evaluation in each region. Daiki Axis India acquired Green Product Certification, which is an eco-certification, for its India-manufactured Johkasou. Daiki Axis was the first Japanese company to win the First Prize (Gold Award) in the Innovation in Water Technology Sector in the Federation of Indian Chambers of Commerce and Industry's Water Awards. The Company has also concluded an agreement with the Indian Institute of Technology for a demonstration experiment and joint research related to on-site wastewater treatment methods. The Company is also committed to personnel training in India, creating a role model that can be replicated in other countries and regions.

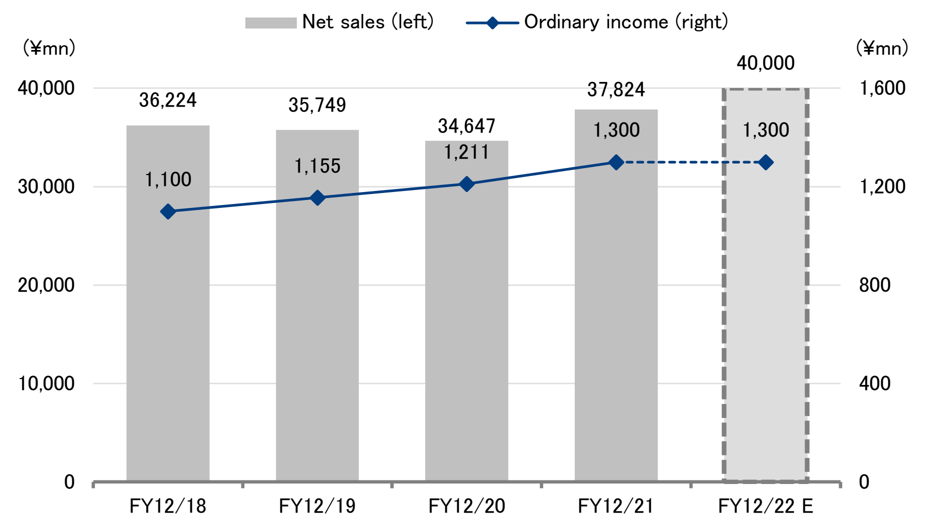
3. Enhanced consulting capability in renewable energy business through M&A and other means

The Japanese government's target for realizing carbon neutrality of net zero emissions by 2050 has evolved from announcing national targets to concrete actions by companies. As a company in the renewable energy-related business, the Company has strengthened group functions through M&A so that it can make proposals to customers that fulfill their needs. The renewable energy business comprises the biodiesel fuel (BDF), solar power, and compact wind power generation businesses. The biodiesel fuel business was launched in 2002. It involves collecting plant-derived edible oil used for frying foods and other purposes, and purifying it to create biodiesel fuel for reuse as alternative fuel, and is therefore a carbon-neutral business. So far, the company has mainly conducted activities in Ehime Prefecture, but is aiming for further developments and is considering entering the Kanto area, which has a large population. The solar power generation facilities are operated through leasing rooftops of home center company DCM Group's stores in 130 locations, which provide a stable source of earnings. In October 2021, the Company acquired all of the shares of Sanei Ecohome Inc., whose main business is the design, construction, sales, and maintenance and management of power generation systems that use renewable energy. This has enabled the Company to make proposals to customers such as low-cost solar carports for retail store parking, and developing a combination of EV charging station and solar power generation system, in addition to selling solar power. The compact wind power generation business acquired IDs with a high-FIT purchase price. The company plans to increase the number of compact wind power generation sites connected to the grid to 24 by the end of FY12/22 and 70 by the end of FY12/25. For the development of compact wind power generation equipment, in the Ministry of the Environment's 2020 Development and Demonstration Project for CO_2 Emissions Reduction Measures and Strengthened Induction-Type Technologies, Zephyr Corporation, RICOH Japan Corp. (a subsidiary of RICOH <7752>), and the Company's subsidiary Daiki Axis Sustainable Power are participating as joint implementers. The three companies are aiming to develop new wind power generation facilities with a 50kW rated output, which is highly socially acceptable.

Key Points

- Built new plant in Delhi, India, which will support a major leap forward
- FY12/22 ordinary income forecast to maintain record level
- Targeting overseas net sales of ¥8.0bn in FY12/30

Result trends



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

Company profile

Centered on its businesses related to "water," Daiki Axis protects the environment and create a sustainable society and future

1. Company profile

Through conducting both "business activities" and "corporate activities," the Company is aiming to contribute to creating a sustainable environment and society, while also aiming to improve people's QOL (Quality of Life). It has been helping create comfortable lives and conducting environmental preservation for half a century on the theme of "water and living," while in recent years, it has been implementing an M&A strategy in order to expand the renewable energy business. Its corporate slogan is "PROTECT×CHANGE," with the concept "protect the environment and change the future."

Breaking down the 1H FY12/22 consolidated net sales of ¥20,091mn, the environmental equipment business, which includes the Johkasou and wastewater treatment systems businesses, provided 52.2%; the household equipment business, such as wholesale to construction customers, provided 40.5%; the renewable energy business, which is mainly the power sales business through solar power facilities, provided 5.6%; and other businesses provided 1.6%. The operating income margin by business segment was 7.8% for the environmental equipment business, 2.8% for the household equipment business, 10.8% for the renewable energy business, and 6.5% for other businesses.

To support the implementation of ESG management, financially, the Company is utilizing the issuance of green bonds and sustainability financing (share acquisition rights and backup loans) to raise funds. At the end of February 2020, the Company issued 10-year green bonds worth ¥3bn. Also, in August 2020, as sustainability financing, which is a method of raising funds to allocate to projects that contribute to the environment and to society, it issued sustainability share acquisition rights and concluded a contract for a sustainability loan of ¥2.1bn. The exercise period is three years, but depending on the share price, the amount of funds raised may not reach the initially anticipated amount of ¥2.1bn. But to ensure that there are no delays to the capital investment plan even in the event of such a situation, it has established a backup loan of ¥2.1bn.

The Company was newly listed on the Chemicals Sector of the Tokyo Stock Exchange (TSE) Second Section in December 2013, and then its listing was upgraded to the TSE First Section in December of the following year. In the new market categories that the TSE transferred to in April 2022, it has been selected for the Prime Market, which is considered to be for companies focused on constructive dialogue with global investors. Its approach is also to actively develop its businesses overseas in order to protect the global environment and to create a sustainable society and future, mainly through its businesses related to "water." Therefore, it is considered that its selection for this market category is appropriate.

2. History

The Company began as Ogame Shoji, which sold tiles and hygienic porcelain, in Matsuyama City, Ehime Prefecture, in 1958. It established predecessor Daiki Co., Ltd. in 1964. It started manufacturing aeration Johkasou in 1969. Daiki, which entered the home improvement center business in 1978, formed business alliances with peers Homac Co., Ltd. and Khama Co., Ltd. and decided to merge in 2003. Ahead of the establishment of the current DCM Holdings Co., Ltd. <3050> in 2006, Daiki transferred non-home improvement center businesses to Daiki Axis, which was founded as the successor company for those businesses. Capital ties between Daiki Axis and Daiki subsequently ended due to the management buyout (MBO) that established the Company's independence from Daiki, though favorable transactions between the two companies are continuing.

Daiki Axis was officially founded in 2005, but has developed, designed, manufactured, installed, sold, and maintained various wastewater treatment systems over about half a century since the Daiki era when it completed the first fiber-reinforced plastic (FRP) Johkasou in 1965. The household equipment business began handling TOTO LTD. <5332> products in 1971. Its business scope is focused on the Kinki, Chugoku, and Shikoku areas, where it has become an important agency for major residential facilities and equipment manufacturers. It also supplies home improvement center retail products to group companies under DCM Holdings and provides comprehensive store management services, including construction and cleaning of home improvement centers. In 2018, it launched the power sales business through solar power facilities that leases the rooftops of the DCM Group's stores. Additionally, the Company embarked on a compact wind power generation business in 2019.

In May of FY12/21, the Company established an environmental equipment business subsidiary in Sri Lanka and included it in the scope of consolidation. Also, in June, it established a Johkasou production company in India, while it acquired all the shares and made subsidiaries of Sanei Ecohome Inc. (Fujisawa City, Kanagawa Prefecture), which conducts the design, construction, sale, and maintenance and management of solar power generation systems, in October and Alumi kobo Hagio Co., Ltd. (Niihama City, Ehime Prefecture), which conducts installation and sales of residential window sashes and exterior-related equipment, in the same month.

As of 1H FY12/22, the Daiki Axis Group is comprised of the Company, 16 consolidated subsidiaries (8 in Japan and 8 overseas), 2 non-consolidated subsidiaries (1 in Japan and 1 overseas) and 2 equity method affiliates (overseas). With M&A as a growth strategy, it has acquired 9 of its consolidated subsidiaries. It has conducted M&A and established subsidiaries to strengthen the environmental equipment business, open up overseas markets, and enter new fields.

Group company

Name	Date	Form	Base	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	October 2005	Business succession	Matsuyama City, Ehime Prefecture	Inspections of Johkasou and drinking water/wastewater facilities, comprehensive building management
Environment Analysis Center Co., Ltd.	October 2005	Business succession	Matsuyama City, Ehime Prefecture	Analysis of water quality, air, soil, etc. as an environmental measurement verification office
TOBU Co., Ltd.	November 2007	Acquisition	Nagoya City, Aichi Prefecture	Design, construction and maintenance inspections of various water treatment facilities, mainly in the Tokai area
[Overseas]				
Daqi Environmental Protection Engineering (Dalian) Co., Ltd.	October 2005	Business succession	China	Design, construction and sales of sewage treatment equipment, greywater and filtration equipment, etc.
PT. DAIKI AXIS INDONESIA	October 2013	Acquisition	Indonesia	Base to enter South East Asia to manufacture Johkasou
Daiki Axis Singapore Pte. Ltd.	August 2016	Establishment	Singapore	Company that supervises overseas subsidiaries
CRYSTAL CLEAR CONTRACTOR Pte. Ltd.	November 2018	Acquisition	Singapore	Pool maintenance work, pool equipment sanitation wastewater construction work
DAIKI AXIS INDIA Pvt. Ltd.	July 2018	Establishment	India	Manufacture and sales of Johkasou in India
Lingzhi Daiki Purification Tank Earth Water Limited Jiangsu Co., Ltd. (equity method affiliate)	March 2018	Establishment	China	Manufacturing base for residential-use Johkasou in China (joint venture)
DAIKI EARTH WATER Pvt. Ltd.	September 2019	Establishment	India	Drinking water and wastewater treatment business
BEIJING JIESHENFUJI Environment Protection Tech Co., Ltd. (equity method affiliate)	January 2018	Acquisition*1	China	Design and R&D of energy-saving environmental conservation equipment and related plant equipment
DAIKI-USAFI LIMITED*2	October 2019	Establishment	Kenya	Wastewater treatment business through BOO
DAIKI AXIS ENVIRONMENT (PVT) LTD.	May 2021	Establishment	Sri Lanka	Manufacture (assembly) and sales of Johkasou in Sri Lanka
DAIKI AXIS ENVIRONMENT PVT. LTD.	June 2021	Establishment	India	Manufacture and sales of Johkasou in India
Household equipment business				
Fujiwara Reiki Co., Ltd.	October 2019	Acquisition	Matsuyama City, Ehime Prefecture	General equipment business (including for HVAC equipment), sales of freezers and refrigerators
Japan Air Solutions Co., Ltd.	October 2019	Acquisition	Matsuyama City, Ehime Prefecture	Installation of HVAC equipment
Alumi kobo Hagio Co., Ltd.	October 2021	Acquisition	Niihama City, Ehime Prefecture	Installation and sales of residential window sash and exterior-related equipment
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.*3	April 2012	Acquisition	Tokyo	Development, sales and installation of compact wind power generation equipment, solar power and compact wind power generation businesses
Sanei Ecohome Inc.	October 2021	Acquisition	Fujisawa City, Kanagawa Prefecture	Design, installation, sales and maintenance and management of solar power generation systems

*1 After DA INVENT (now Daiki Axis Sustainable Power Co., Ltd.) was made a subsidiary, the Company also acquired BEIJING JIESHENFUJI Environment Protection Tech, which is an equity method affiliate of DA INVENT.
*2 As of September 2021, it was not included in the scope of consolidation as its numerical impact is negligible.
*3 Company name changed from Sylphid Co., Ltd. in July 2021
Note: other than above, CAP Co., Ltd., is a non-consolidated subsidiary
Source: Prepared by FISCO from Company materials

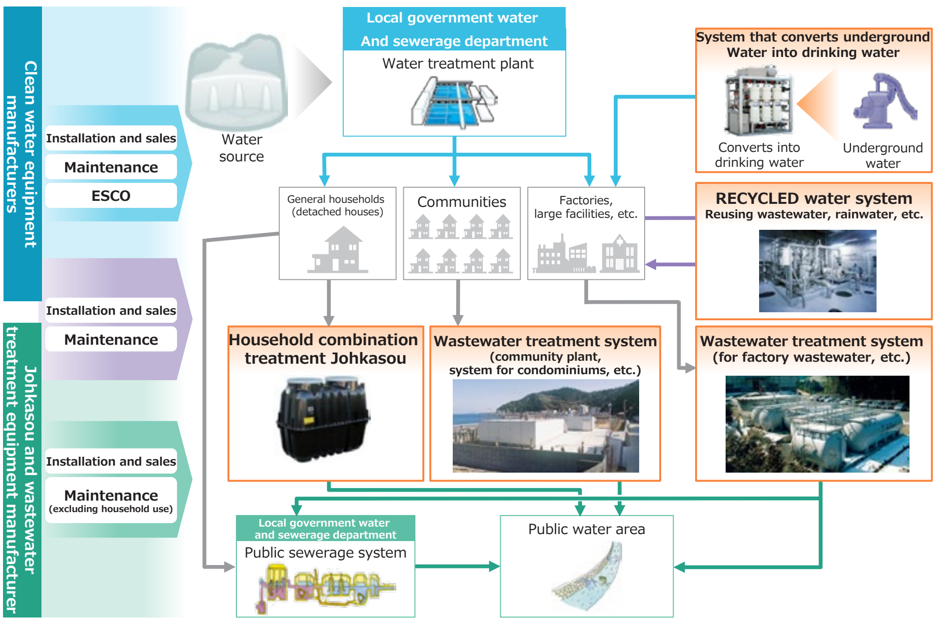
Business overview

Focus on rapid expansion of overseas environmental equipment business; core businesses are environmental equipment, household equipment, and renewable energy

1. Environmental equipment business

The environmental equipment business is able to respond to needs for each of clean water, recycled water, and sewerage. Looking at the composition of net sales in the business in FY12/21, the clean water business that converts underground water into drinking water provided 4.4%, recycled wastewater systems 0.1%, sewerage-related domestic compact-type combination treatment Johkasou 7.2%, wastewater treatment systems 63.2%, and maintenance, etc. 25.0%. Wastewater treatment systems are divided into treatment systems and disposers for household wastewater, such as from condominiums and rural villages, and into organic treatment and inorganic progressing for industrial wastewater treatment. Organic treatment, such as for food processing plants and hospitals, involves biological treatment, while inorganic treatment, including for electrical equipment and plating plants, involves chemical treatment.

Environmental equipment business (Water business overview)



Source: The Company's results briefing materials

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

Built new plant near Delhi, India, which will support a major leap forward

(1) Overseas business

In 1H FY12/22, consolidated net sales of the overseas business increased 129.9% YoY to ¥1,292mn and the overseas net sales share rose from 2.9% a year earlier to 6.4%. The Company completed large projects in Iraq and Indonesia, and sales increased in Sri Lanka.

The water infrastructure business consists of three main businesses: materials, parts, and equipment manufacturing; equipment design, assembly, installation, and operation; and business operation, maintenance, and management (water sales). Overseas water majors cover all these areas. Japanese players, meanwhile, specialize in individual areas, such as water treatment equipment, engineering, and organizer. The Company differs from the water majors because it targets smaller wastewater treatment systems. Having the ability to provide the above-mentioned three main businesses enables the Company to differentiate itself from other Japanese companies. It can handle both household and industrial wastewater treatment, and public water purification. There is the high possibility of obtaining a first-mover advantage with the expansion of the markets for small- and medium-scale wastewater treatment systems in ASEAN, India, and Africa.

a) Trends in India

Under the current medium-term business plan, the Company is aiming for a major breakthrough by concentrating investment in India. The business in India is expected to make a major leap forward in the future. India government started the Clean India project in October 2014, and set the target of installing toilets in homes, elementary and junior high schools, parks, and other locations. In April 2017, throughout India as a whole, the government strengthened regulations for BOD (biochemical oxygen demand), which expresses the pollution status of water quality, from the previous value of BOD 30 to BOD 10 for commercial facilities with a total floor area of more than 18,000m^2 and residences larger than 2,000m^2. Existing septic tanks cannot comply with these strengthened regulations. In India, the sewerage infrastructure penetration rate was 18.1% in 2017 and centralized wastewater treatment facilities are insufficient. Installations of Johkasou have been highly evaluated by the India government as optimum both in terms of costs and speed as a means of preventing the lack of capacity for the treatment of sewage and household wastewater from impeding the speed of urbanization.

The Company has steadily grown this business in stages. In July 2016, it donated Johkasou to the Indian government. Johkasou (which have a treatment capacity of 10m^3/day) were installed at three sites to treat wastewater: a public toilet within a park, a public toilet in a village, and a plastics plant. In July 2018, it established DAIKI AXIS INDIA Pvt. Ltd. (hereafter, DA-India) as a wholly owned subsidiary, and the Johkasou that had been imported from its own plant in Indonesia were replaced with locally produced products. In consideration of reducing both personnel and time, production outsourced to a local plastic products manufacturing company, which is also an agency of the Company. The item being produced is the capsule-type Johkasou that can service 20–50 households. The production capacity was 100 units in the first year, but in September 2021, it was increased to 360 units a month. However, supply is still not keeping up with demand, so some units are being imported from Indonesia.

The Company's own new plant in India, which is being built in the north of the country near to the capital Delhi, is scheduled to start operations in November 2022. Initially it is expected to have an annual production capacity of 350 units, but ultimately the plan is to increase this to 600 units a year. It will produce capsule-type Johkasou and medium-sized cylindrical Johkasou. Furthermore, it is planning a second plant to be operational in 2025.

Johkasou of the same type as those made at the new plant in India

Capsule-type Johkasou

Cylindrical Johkasou

Source: The Company's news releases

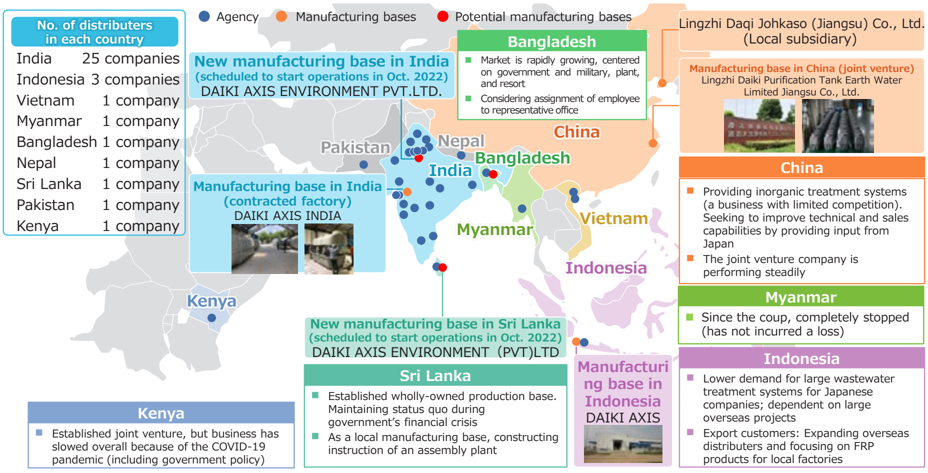
DA-India acquired Green Product Certification, which is an eco-certification, for its India-manufactured Johkasou in October 2020. This was the first eco-certification in the wastewater treatment sector. In November of the same year, the Company's India-manufactured Johkasou obtained recommendation approval from India's Ministry of Water Environment. This was the first recommendation approval by the Indian central government for on-site wastewater treatment. It seems this will enable the Company to reduce the normally lengthy administrative procedure, which includes having to acquire evaluations of Johkasou in each region.

Additionally, it received an offer from the Indian Institute of Technology and concluded an agreement with it for a demonstration experiment and joint research. In India, the on-site wastewater treatment method has not been established, so it will conduct a demonstration experiment to add nitrogen treatment to products from Indian plants and for two advanced treatment models that are used in Japan. They will conduct joint research for improvements that are tailored to the usage environments in India. The Indian Institute of Technology is positioned as a research institute of national importance and is recognized internationally for its high-level research. As with India, it is considered that the demonstration experiment and joint research will also lead to major business development for the Daiki Axis Group in places such as the Middle East, Asian countries, Europe, and the United States in the future.

In February 2021, the Company won the First Prize (Gold Award) in the Innovation in Water Technology Sector in the Federation of Indian Chambers of Commerce and Industry's 8th Water Awards. Winners of these awards are chosen from among several hundred companies recommended by the federation's evaluation committee members and other members throughout India, based on the extent of their contribution to India's water environment and technological completeness, and only one company is chosen for the award in each sector. This was the first time a Japanese company has won the Gold Award.

Alongside the establishment of a business structure in India, the Company has strengthened its sales network at a rapid pace. At the end of FY12/18, its agency network consisted of 5 companies, but this had increased to 11 companies by the end of FY12/19, 16 companies by the end of FY12/20, 23 companies by the end of FY12/21, and 25 companies by the end of 1H FY12/22.

Network of production bases and distributers (35 companies) in various countries in Asia and Africa



Source: The Company's results briefing materials

b) Main trends in other countries

In May 2022, the Sri Lanka defaulted on its debt. It is the first time a government in Asia has defaulted on its debt since Pakistan in 1999. Sri Lanka's foreign debt exceeded US$50 billion at the end of 2021. After change of government, Sri Lanka and the International Monetary Fund (IMF) reached a staff-level agreement to support Sri Lanka's economic reforms (including fiscal austerity and large-scale tax reforms) with an extended fund facility of around US$2.9 billion.

As of 2019, only 2.4% of the country has sewerage infrastructure, limited to the Colombo City area. Of the Johkasou septic tanks in use, 96% do not function properly, and deterioration of water quality to levels far below environmental standards are occurring in many areas of the country. Since 2017, the Company has continuously conducted Johkasou sales activities in Sri Lanka through its local agency, and then in May 2021, it established DAIKI AXIS ENVIRONMENT (PVT) LTD. Economic activity is continuing in Sri Lanka since the government defaulted on its debt, and the company's activities to win orders are also ongoing. The Company initially imported finished products from Japan, because the products for Sri Lanka were smaller than those for Indian market, but the Company began assembly and manufacture at its new plant completed in October 2022, switching to importing parts and materials and assembling locally. This improves transport efficiency and reduces costs.

In October 2019, the Company established the joint venture DAIKI-USAFI LIMITED to conduct a wastewater treatment business in Kenya's capital, Nairobi. The Daiki Axis Group's investment stake is 51% and a Kenyan water business company's stake is 49%. It will develop a wastewater treatment business within Kenya.

In China, the joint venture company established with a local company produces the XE-type compact Johkasou. But the situation is that the spread of Johkasou has been slowed by the increased strictness of China's regulations. Moreover, recently it has been impacted by the aggressive pricing strategies of local companies selling similar products. But the Company still intends to steadily develop this business.

(2) Clean water business

The clean water business, which was launched in 2007, provides stably safe and inexpensive drinking water. This service converts underground water into drinking water and reduces the cost of clean water by 10-30% compared to conventional drinking water. The usage method is exactly the same as clean water from public services with fees charged by usage volume. The Company owns the ESCO clean water facilities. It also installs a remote automated monitoring system that uses IT sensors for 24-hour, 365-day monitoring of facilities operating at customer locations from the headquarters office.

This ESCO service uses a lengthy contract period of 10 years. This is a recurring-income business model in which contracts with existing customers generate stable income over a lengthy period and new contracts steadily add income. The business is profitable from the first fiscal year of beginning supply at the various sites. While annual depreciation value is constant throughout the contract period, the operating income margin rises sharply from the second year because operating expenses are no longer needed. Furthermore, profitability increases dramatically if the contract continues for more than 10 years when the depreciation period finishes. At the end of FY12/21, there were 100 ESCO installations. Broken down by industry, 30 were for hospitals, 17 for welfare facilities, 15 for food processing plants, 12 for large-scale commercial facilities, 11 for sports gyms, 8 for educational facilities, 5 for hotels, 1 for a hot spring bathing facility, and 1 for other.

(3) Maintenance inspection business

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

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

Aiming to convert the household equipment business from the previous “stable” trajectory to a “growth” trajectory

2. Household equipment business

The Company is aiming to convert the household equipment business from the previous “stable” trajectory to a “growth” trajectory. It is progressing an area-capture strategy by strengthening sales for areas it has not yet entered and acquiring business opportunities and handling new products in the remodeling market through e-commerce (EC). It also intends to improve the profit margin by adopting a centralized purchasing system. Breaking down net sales in the household equipment business for 1H FY12/22, construction customers provided 64.2%, home improvement center retail products 11.2%, and housing facilities projects 24.5%. The newly established EC business remained at 0.1% because it is still in its startup period. The commercial areas of conventional wholesale are limited to the Kinki, Chugoku, and Shikoku regions, but EC covered the entire country.

(1) deki × tano EC website

In January 2022, the Company launched the deki × tano EC website. This website offers services that enable customers to request professionals to carry out remodeling of housing equipment, such as a home’s walls, shelves, and toilets, or for DIY products for remodeling by oneself. The website is divided into a page for DIY products and a page for construction work estimate products. The DIY products can be installed by oneself, while the construction work estimate products require requests to the Company for installation work. If conducting remodeling by oneself, the customer can add the Company as a friend on the smartphone app LINE, send photos of required DIY products and installation sites before ordering via LINE, and receive answers as to whether the selected products can be installed or not. If the customer is unable to install the DIY products by themselves, the Company’s support includes after-sales follow-up. Customers can also request assistance from professionals in the middle of an installation.

(2) Specialty products (eco-friendly product)

The Company is focusing on eco-friendly specialty products as products that differentiate it from its competitors. The wooden-structure KES method (a metal-joints method) that enables local general contractors and construction stores to carry out construction work, and the Company provides medium-sized and large wooden structures made from locally produced lumber utilizing this method. These structures offer excellent earthquake resistance and have been adopted for wooden public facilities and kindergarten buildings nationwide. Wooden tanks are tanks manufactured using locally produced lumber. They offer high levels of thermal insulation and heat retention performance, are excellent in terms of design features and maintainability, and have a lifespan of more than 60 years. The environmental pile method is a ground improvement method that incorporates thinning lumber for wooden piles used as a ground reinforcement material. Its environmental load is low compared to ground improvement methods that use cement and iron and it can also contribute to the effective use of thinning lumber. The dehumidification-type radiator heating and cooling system does not produce wind mechanically, and thus realizes heating and cooling that is kinder to the body. By circulating cold water and hot water in a radiator, coolness and warmth can be stably created with natural temperature changes due to radiation and natural convection. It has already been installed into a gymnasium. After it is disassembled, it can be recycled as paper or wood chips.

Has positioned the renewable energy business as a growth business and is actively implementing an M&A strategy

3. Renewable energy business

Breaking down net sales in the renewable energy business for 1H FY12/22, the power sales business through solar power facilities provided 80.4%, biodiesel fuel business 8.2%, and compact wind power generation business 5.0%.

The renewable energy business has been integrated with the business of Daiki Axis Sustainable Power Co., Ltd. Since 2019, it has been consolidated into Daiki Axis Sustainable Power, which develops and manages wind power generation and solar power generation facilities, and in July 2021, the Company's biodiesel fuel business was transferred to it.

(1) Power sales business through solar power facilities

The solar power generation facilities are operated through leasing rooftops of DCM Group stores, and all 130 facilities have been connected to the power grid as planned. Annual net sales are approximately ¥800mn and operating income is around half that, which will become a stable source of earnings in the long term. The depreciation period of solar power generation facilities is 20 years (straight-line method), which is the same as the feed-in-tariff (FIT) fixed-price purchase period. Also, the Company has already prepared a proportionally distributed budget for the costs of removing the facilities after 20 years.

In September 2021, the Company acquired all of the shares of Sanei Ecohome. The main business of Sanei Ecohome, whose head office is in Fujisawa City, Kanagawa Prefecture, is the design, construction, sales, and maintenance and management of power generation systems that use renewable energy, primarily solar power equipment. Going forward, it will generate synergies with the Daiki Axis Group, and they are considering initiatives including installing low-cost solar carports in car parks and developing a combination EV charging stand and solar power generation system.

(2) Biodiesel fuel business

The biodiesel fuel business was launched in 2002. It involves collecting plant-derived edible oil used for frying foods and other purposes generated by general households, food processing plants, and other locations, and purifying it to create biodiesel fuel for reuse as alternative fuel, such as diesel fuel. Using biomass energy with plant-derived edible oil waste as the raw material is considered to be "carbon neutral." The Company is aiming to realize local-production, local-consumption, circulating-type energy, and while looking for local governments as partners, it is progressing the "Yu-More Oil Project" that promotes the recycling of edible oil waste. So far, it has mainly conducted activities in Ehime Prefecture, but it is aiming for further developments and is considering entering the Kanto area, which has a large population.

(3) Compact wind power generation business

The compact wind power generation business was launched in FY12/19. Compact wind power generation of less than 20kW applied for up to FY2017 has the high FIT purchase price of ¥55/kWh. However, as the acquired IDs have an expiration date, it will be necessary to launch a business by July 2022. By the end of FY12/21, Daiki Axis Sustainable Power had connected 12 compact wind power generation sites to the power grid and started FIT power sales. By the end of FY12/22, it plans to start operations at 24 sites and is aiming to have 70 sites operating nationwide by the end of FY12/25. It anticipates that the power-sales revenue per site will be ¥2mn to ¥2.5mn and that the operating income margin will be around 25% to 30%. However, in FY2018, the purchase price in this classification was revised to ¥20/ kWh, which is the same as the 20kWh and above classification, and therefore it intends to respond to the new FIT system with 50kW facilities. Once it obtains approval, it will install 50kW facilities at the less-than-20kW sites. This policy is to take advantage of the fact that although the installation costs are the same, the sales from the 50kW facilities are 2.5 times higher.

For the development of compact wind power generation equipment, in the Ministry of the Environment's 2020 Development and Demonstration Project for CO_2 Emissions Reduction Measures and Strengthened InductionType Technologies, Zephyr Corporation, RICOH JAPAN Corp., and Daiki Axis Sustainable Power are participating as the joint implementers of a Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment. Based on the movement to create local disaster prevention methods and independent grids that utilize self-managed lines and existing distribution grids, and the emergence of a movement to consume self-produced reusable energy within business establishments, they are aiming to newly develop wind power generation facilities with a 50kW rated output, which is highly socially acceptable. Zephyr is responsible for the overall design of the wind turbine, design of the blades, conversion of automotive parts, field testing, and construction of the wind turbine control algorithm, while RICOH Japan will develop a maintenance support tool that utilizes AI. Daiki Axis Sustainable Power is responsible for the supplementary design and production of the blades. The goal is to develop the wind power generation facilities by April 2023.

4. Other businesses

Following the sale of the subsidiary that conducted the civil works business, other businesses now only consist of the residential drinking water business.

Results trends

Net sales increase, but profit down on higher expenses in 1H FY12/12

1. Overview of 1H FY12/22 results

In the 1H FY12/22 consolidated results, net sales increased 5.1% YoY to ¥20,091mn, operating income declined 32.0% to ¥530mn, ordinary income fell 18.7% YoY to ¥703mn, and profit attributable to owners of parent fell 10.6% to ¥393mn. Gross profit rose 3.7% YoY, but SG&A expenses increased 12.3%, resulting in a sharp decline in operating income. Factors contributing to the rise in expenses were the wage hike taking effect from April, hiring factory workers ahead of the new plant in India starting operation, increase in transportation costs (including higher shipping costs), rising prices of raw materials and supplies, higher travel expenses due to an increase in domestic and overseas business trips as restrictions associated with the COVID-19 pandemic eased, and expense increase associated with the consolidation of two subsidiaries, including goodwill amortization.

From a macroeconomic perspective, social and economic activity returned to normal in Japan. Overseas, higher prices and delivery delays of raw materials and supplies persisted after Russia's invasion of Ukraine in late February 2022 and China's severe measures against COVID-19, including the lengthy lockdown in Shanghai. The US prioritized calming inflation and turned to monetary tightening in March 2022, and the Federal Reserve has raised interest rates at a fast pace since then. The world economic outlook faces heightened uncertainty, with Sri Lanka defaulting on its debts in May. That being said, when it comes to actually doing business, the Daiki Axis Group has continued sales activities in Sri Lanka, while orders for Johkasou expanded in India.

1H FY12/22 consolidated results

(¥mn)

	1H FY12/21		1H FY12/22		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	19,117	-	20,091	-	974	5.1%
Gross profit	4,008	21.0%	4,155	20.7%	147	3.7%
SG&A expenses	3,227	16.9%	3,624	18.0%	397	12.3%
Operating income	780	4.1%	530	2.6%	-249	-32.0%
Ordinary income	864	4.5%	703	3.5%	-161	-18.7%
Profit attributable to owners of parent	440	2.3%	393	2.0%	-46	-10.6%

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

1H FY12/22 net sales and operating income by business segment

(¥mn)

	1H FY12/21		1H FY12/22		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	19,117	-	20,091	-	974	5.1%
Environmental equipment business	10,119	52.9%	10,497	52.2%	377	3.7%
Household equipment business	8,200	42.9%	8,144	40.5%	-55	-0.7%
Renewable energy business	467	2.4%	1,134	5.6%	666	142.5%
Other businesses	329	1.7%	315	1.6%	-14	-4.3%
Operating income	780	4.1%	530	2.6%	-249	-32.0%
Environmental equipment business	927	9.2%	823	7.8%	-104	-11.2%
Household equipment business	293	3.6%	225	2.8%	-67	-23.1%
Renewable energy business	76	16.4%	122	10.8%	45	60.0%
Other businesses	63	19.4%	20	6.5%	-43	-67.8%
Adjustment	-579	-	-660	-	-81	-

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

(1) Environmental equipment business

In the Environmental equipment business, net sales increased 3.7% YoY to ¥10,497mn and contributed 52.2% of total net sales. Segment income fell 11.2% to ¥823mn and the ratio of profit to sales dropped 1.4 percentage points (pp) to 7.8%. Within segment net sales, sales of Johkasou and wastewater treatment systems increased 2.8% to ¥10,021mn (95.5% of segment net sales) and sales of the business to convert underground water into drinking water increased 29.5%to ¥475mn (4.5%). Within sales of Johkasou and wastewater treatment systems, net sales in Japan fell 5.0% YoY to ¥8,728mn due to delayed progress of some large-scale projects. Overseas net sales grew a sharp 2.3 times to ¥1,292mn due to the completion of large-scale projects in Iraq and Indonesia and sales expansion in Sri Lanka, providing 12.3% of segment net sales. Maintenance, including overseas, performed steadily, with sales increasing 3.2% to ¥2,748mn and providing 26.2% of segment net sales. Profit was undermined by expense increases, including the rise in transportation costs and prices of raw materials and supplies accompanying the COVID-19 pandemic, and upfront spending to hire factory workers ahead of the new plant in India starting operations.

(2) Household equipment business

In the household equipment business, net sales declined 0.7% YoY to ¥8,144mn and segment income fell 23.1% to ¥225mn. Net sales broke down into construction customers 64.2%, home improvement center retail products 11.2%, EC 0.1%, and housing facilities projects 24.5%. Construction customers' sales fell 6.9%, because demand for contactless toilets (automated opening and closing of the toilet lid, automated cleaning function, etc.) which increased a year earlier, due in part to COVID 19-related subsidies, tailed off. Manufacturers' shipments were also delayed as a result of China's Zero Covid policy. Sales of home improvement center retail products fell 10.3% YoY. In housing facilities projects, sales increased 28.3%, because an order for a DCM store construction project received in 1H FY12/21 was booked in 1H FY12/22. Capital investment in agricultural greenhouses recovered.

(3) Renewable energy business

In the renewable energy business, net sales increased 2.4 times YoY to ¥1,134mn and segment income grew 60.0% to ¥122mn. The core power sales business through solar power facilities provided 80.4% of net sales, increasing 2.3 times to ¥911mn. For other businesses, the biodiesel fuel business contributed 8.2% of net sales and compact wind power generation business 5.0% of net sales. New subsidiary Sanei Ecohome's power sales business contributed to the growth of the power sales business through solar power facilities. The biodiesel fuel business recorded 58.1% growth in net sales YoY on an increase in the number of contracts. The compact wind power generation business increased the number of FIT power sales sites from five to 17.

(4) Other businesses

Other businesses now consists only of the residential drinking water business. Net sales decreased 4.3% YoY to ¥315mn and segment income fell 67.8% to ¥20mn.

2. Financial position and cash flow

(1) Financial position

At the end of 1H FY12/22, total assets had decreased ¥2,429mn compared to the end of the previous period to ¥29,823mn. Current assets decreased ¥2,636mn to ¥17,345mn. Trade receivables decreased, and cash and deposits increased on recovery of receivables associated with a JICA project in Iraq. As well, inventory contracted ¥2,243mn, because work in process–construction decreased as a result of applying the new Accounting Standard for Revenue Recognition (ASBJ Standard No. 29) from the beginning of FY12/22. In liabilities, current liabilities decreased ¥2,769mn to ¥14,070mn, due in part to reduced advances received on uncompleted construction contracts. As a result, the equity ratio increased 3.8pp to 31.2%, because total liabilities contracted ¥2,900mn.

Consolidated balance sheet and financial ratios

(¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21	1H FY12/22	Change
Current assets	18,763	18,906	17,448	19,981	17,345	-2,636
(Cash and deposits)	6,013	7,165	7,896	6,298	6,985	687
(Trade receivables)	9,230	8,562	7,116	9,382	8,278	-1,104
(Inventories)	2,998	2,573	2,063	3,752	1,509	-2,243
Non-current assets	8,272	11,001	10,330	12,270	12,477	207
Property, plant and equipment	6,337	8,362	8,047	9,420	9,674	254
Intangible assets	547	1,032	742	1,207	1,114	-93
Investments and other assets	1,388	1,606	1,540	1,642	1,688	46
Total assets	27,036	29,907	27,778	32,252	29,823	-2,429
Current liabilities	18,863	18,624	15,878	16,839	14,070	-2,769
(Notes and accounts payable—trade)	4,324	3,889	3,528	4,720	3,763	-957
(Loans payable, corporate bonds, etc.)	10,723	10,847	9,575	7,548	7,661	113
Non-current liabilities	1,454	2,079	4,265	6,572	6,442	-130
(Corporate bonds, loans payable, etc.)	286	681	2,979	5,127	5,042	-85
Total liabilities	20,318	20,704	20,144	23,412	20,512	-2,900
(Interest-bearing debt)	11,010	11,529	12,555	12,675	12,703	28
Total net assets	6,717	9,203	7,634	8,839	9,310	471
[Stability]						
Current ratio	99.5%	101.5%	109.9%	118.7%	123.3%	4.6pt
Equity ratio	24.8%	23.9%	27.5%	27.4%	31.2%	3.8pt

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

(2) Cash flow statement

At the end of 1H FY12/22, cash and cash equivalents had increased ¥681mn compared to the end of the previous period to ¥6,931mn. Cash flows provided by operating activities were ¥1,307mn due to the decrease in trade receivables, contract assets, and notes and accounts payable–trade. Cash flows used in investing activities were ¥691mn, so free cash flow was ¥616mn. Cash flows used in financing activities were ¥174mn, mainly due to capital investment in the renewable energy business.

Consolidated statements of cash flows

(¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21	1H FY12/22
Cash flows from operating activities	-105	2,416	2,222	520	1,307
Cash flows from investing activities	-1,402	-2,846	-1,047	-1,505	-691
Cash flows from financing activities	3,030	1,642	-424	-703	-174
Balance of cash and cash equivalents at end of period	5,969	7,124	7,856	6,250	6,931

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

Outlook

To maintain record-level ordinary income in FY12/22

For FY12/22, the Company kept the forecast unchanged, projecting net sales of ¥40,000mn (up 5.8% YoY), operating income of ¥1,150mn (up 2.7%), ordinary income of ¥1,300mn (down 0.1%), and profit attributable to owners of parent of ¥700mn (up 14.6% YoY). The full-year Company forecast assumes it will maintain record-level ordinary income in FY12/22.

Outlook for FY12/22 consolidated results

(¥mn)

	FY12/21		FY12/22		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	37,824	-	40,000	-	2,176	5.8%
Environmental equipment business	20,130	53.2%	19,800	49.5%	-330	-1.6%
(of which, overseas net sales)	1,489	3.9%	1,700	4.3%	210	14.2%
Household equipment business	15,875	42.0%	17,500	43.8%	1,625	10.2%
Renewable energy business	1,141	3.0%	2,100	5.3%	959	84.0%
Other businesses	677	1.8%	600	1.5%	-77	-11.4%
Gross profit	7,860	20.8%	8,558	21.4%	698	8.9%
SG&A expenses	6,741	17.8%	7,380	18.5%	639	9.5%
Operating income	1,119	3.0%	1,150	2.9%	31	2.8%
Environmental equipment business	1,688	8.4%	1,541	7.8%	-147	-8.7%
Household equipment business	370	2.3%	558	3.2%	188	50.7%
Renewable energy business	179	15.7%	271	12.9%	92	51.2%
Other businesses	120	17.8%	19	3.2%	-101	-84.2%
Adjustment	-1,238	-	-1,239	-		
Ordinary income	1,300	3.4%	1,300	3.3%	-0	-0.1%
Profit attributable to owners of parent	610	1.6%	700	1.8%	90	14.6%

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

In the environmental equipment business, the forecasts are for net sales to decrease 1.6% YoY to ¥19,800mn and operating income to decline 8.7% to ¥1,541mn. Earnings from large-scale projects in Japan will decline, so net sales in Japan are expected to fall 3.7%. Overseas net sales are forecast to increase 14.2% to ¥1,700mn. The large-scale project in Iraq that contributed in FY12/21 will continue. The progress of overseas projects has been delayed due to the COVID-19 pandemic, but travel restrictions are gradually being eased. The new plants in India and Sri Lanka starting operation will contribute to consolidated earnings from FY12/23. Once the plants are fully operational, they will help to reduce transportation costs and custom duties, which we think will accelerate the Company's business in both countries.

I In the household equipment business, the forecasts are for net sales to increase 10.2% YoY to ¥17,500mn and segment profit to rise 50.7% to ¥558mn. This segment is mainly wholesale with an operating income margin of 2% to 3%, and so far construction work has been carried out by the subsidiaries of Fujiwara Reiki Co., Ltd., Sanei Ecohome, and Alumi kobo Hagio Co., Ltd. The percentage of total net sales from highly profitable construction work will rise, and this is a factor behind the forecast of a significant increase in profits. Also, sales are expected to be recorded from the completion of DCM store construction work.

In the renewable energy business, the forecasts are for net sales to increase 84.0% YoY to ¥2,100mn and segment profit to rise 51.2% to ¥271mn. Sanei Ecohome, which was acquired in October 2021, will contribute for the full fiscal year in FY12/22, and therefore net sales in the power sales business through solar power facilities are forecast to grow 73.8%. In the biodiesel fuel business, net sales are expected to increase 42.2% to ¥210mn from the progress made in acquiring customers. In the compact wind power generation business, net sales are set to increase significantly, from ¥14mn in the previous period to ¥90mn. The number of sites connected to the power grid is scheduled to increase to 24 sites by the end of the period.

Medium- to long-term growth strategy

Aiming for net sales of ¥45.0bn and operating income of ¥2.0bn in FY12/25

1. Medium-term business plan

The Company extended the current medium-term business plan until FY12/25, in view of long-term and sustainable growth perspectives, making it a four-year plan. There has been no change to the Company's basic policy of aiming to become the embodiment of the "PROTECT x CHANGE" corporate slogan and an ESG company.The numerical targets for FY12/25 are net sales of ¥45,000mn and operating income of ¥2,000mn. Compared to FY12/21, net sales are expected to increase 19.0%, operating income to rise 78.6%, and operating income margin of 4.4% (3.0% in FY12/21). The major contributors to the ¥7,176mn increase in net sales will be the household equipment business (up ¥3,125mn compared to FY12/21), the overseas business of the environmental equipment business (up ¥1,870mn), and the renewable energy business (up ¥1,359mn). Contributions to the increase in income before adjustment of ¥1,493mn are ¥612mn for the environmental equipment business, ¥521mn for the renewable energy business, and ¥330mn for the household equipment business. Target overseas net sales of the environmental equipment business are ¥4,000mn, up ¥2,511mn from FY12/21, with a reduction in upfront investment burden and improved profitability.

Medium-term business plan Numerical targets

(¥mn)

	FY12/21		FY12/25		vs. FY12/21	
	Results	Ratio to sales	Target	Ratio to sales	Change	% change
Net sales	37,824	-	45,000	-	7,176	19.0%
Environmental equipment business	20,130	53.2%	22,000	48.9%	1,870	9.3%
(of which, overseas net sales)	1,489	3.9%	4,000	8.9%	2,511	168.6%
Household equipment business	15,875	42.0%	19,000	42.2%	3,125	19.7%
Renewable energy business	1,141	3.0%	2,500	5.6%	1,359	119.1%
Other businesses	677	1.8%	1,500	3.3%	823	121.4%
Operating income	1,119	3.0%	2,000	4.4%	881	78.6%
Environmental equipment business	1,688	8.4%	2,300	10.5%	612	36.3%
Household equipment business	370	2.3%	700	3.7%	330	89.0%
Renewable energy business	179	15.7%	700	28.0%	521	290.2%
Other businesses	120	17.8%	150	10.0%	30	24.4%
Adjustment	-1,238	-	-1,850	-		

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

The growth strategy is comprised of "acceleration of overseas business development," "renewable energy," "recurring-income business," "progress M&A," "product development," "Transformation from stability to growth," and "promote IT."

By business segment, the growth strategies for the environmental equipment business are 1) establish an organization structure that is highly productive, 2) develop eco-friendly, high-quality products, and 3) improve overseas results. In order to realize carbon neutrality by 2050, the Japanese government has raised-up the bottom value and the volume zone of energy saving performance as the approach for housing and buildings to be aimed for by 2030. The intention is to improve the performance of housing equipment and building materials by strengthening the top runner system. The Company is meeting the requirements of the times through developing eco-friendly products, such as the next compact combination-type Johkasou. In the overseas business as well, instead of simply pursuing net sales, it is placing the emphasis on improving quality and responding diligently to each and every situation.

In the household equipment business, the Company is 1) establishing a remodeling business on the axis on the EC business, 2) utilizing M&A to expand the commercial areas and the products it handles, and 3), in the Kanto and Kansai areas, expanding projects receiving special demand, such as for public facilities and eco-friendly products. In the renewable energy business, the priority measures are 1) build an organization to drive a carbon-free society, 2) discover high-value-added businesses and products for the post-FIT period, and 3) through the Business Development Department, discover new businesses and products that will contribute to measures for climate change.

Target overseas net sales of ¥8.0bn in FY12/30

2. Overseas business development

The Company expects rapid expansion of the overseas business to continue driving growth after the current medium-term business plan ends. It targets overseas net sales of ¥4,000mn and overseas net sales ratio of 8.9% in FY12/25, of which India will contribute half. The Company is progressing the training of personnel in India for sales, production, and maintenance. Its goal is to establish and develop as a role model in India that can be applied to other overseas markets. The Company aims to double overseas net sales again to ¥8,000mn in FY12/30.

Looking back on the history of sewerage infrastructure development in Japan, in the 10 years between circa 1965 (when nominal GDP exceeded US$1,000 per capita) and 1975, when the figure exceeded US$5,000, the sewerage infrastructure penetration rate rose from 8% to 23% nationwide and from 35% to 63% in the 24 Tokyo wards. In the countries targeted by the Company, nominal GDP per capita was US$2,279 in India and US$4,361 in Indonesia in 2021. Data for the sewerage infrastructure penetration rate (in 2017) were 18.1% for India and 1.2% in Indonesia, versus 79.7% in Japan and 76.2% in Malaysia. The median age as of July 2021 was 48.4 in Japan, 27.6 in India, and 29.4 in Indonesia. With younger populations, India and Indonesia can expect robust economic growth, which is the timing for building social capital such as sewerage infrastructure.

Sewerage infrastructure treatment penetration rate, population, and GDP in developing countries in Asia

	Sewerage infrastructure penetration rate in 2017	Population (10,000 people)			Median age (years)	Nominal GDP per capita (US$)			Number of the Company's distributers (companies)
		2017	2021	Annual rate of increase/ decrease	2021	2017	2021	Annual rate of increase/ decrease	
Japan	80%	12,666	12,461	-0.4%	48.4	38,903	39,301	0.3%	
Malaysia	76%	3,197	3,357	1.2%	29.9	9,969	11,407	3.4%	
Thailand	26%	7,089	7,160	0.2%	39.3	6,596	7,232	2.3%	
Target countries									
India	18%	135,419	140,756	1.0%	27.6	1,980	2,279	3.6%	25
Pakistan	21%	21,638	23,140	1.7%	20.2	1,653	1,564	-1.4%	1
Sri Lanka	5%	2,150	2,177	0.3%	32.5	4,401	4,016	-2.3%	1
Philippines	3%	10,673	11,388	1.6%	24.5	3,153	3,576	3.2%	
Bangladesh	3%	16,179	16,935	1.1%	26.3	1,839	2,497	7.9%	1
Vietnam	2%	9,403	9,746	0.9%	32.0	2,957	3,717	5.9%	1
Indonesia	1%	26,449	27,375	0.9%	29.4	3,885	4,361	2.9%	3

Note: Population and median age data are as of July 1, 2022
Source: Prepared by FISCO from the Company's results briefing materials, UN, and IMF

India has the world's second-largest population of 1.4 billion, 11 times that of Japan, and forecast to overtake China in 2027 to become the world's most populous country. It has the seventh-largest land area of 3,280,000 km^2, approximately nine times that of Japan's 370,000m^2 (62nd). The Company has four production bases in Japan in consideration of logistics issues. As well, it has a business alliance with Daiei Industry Co., Ltd., based in Mihama, Aichi Prefecture, which has many production bases, for mutual supply of products using each other's brand names so that shipments can be made from a production base close to the customer to reduce logistics costs. The plant of the Company's contract manufacturer in India is in the West (Mumbai), whereas its first own plant was built in Delhi, in the North. The Company will likely continue to pioneer the market by region with a combination of sales and production.

3. ESG management and related SDGs

The Company's ESG will contribute to the achievement of six of the SDGs. In ESG management, for E (Environment), the aim is to promote environment improvements through the Company's activities, and it covers SDGs numbers 6 (Ensure availability and sustainable management of water and sanitation for all), 7 (Ensure access to affordable, reliable, sustainable, and modern energy for all), 12 (Ensure sustainable consumption and production patterns), and 13 (Take urgent action to combat climate change and its impacts). S (Social) and G (Governance) cover numbers 5 (Achieve gender equality and empower all women and girls) and 8 (Promote sustained, inclusive, and sustainable economic growth, full and productive employment and decent work for all).

(1) SDGs numbers 6 "Ensure availability and sustainable management of water and sanitation for all"

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

Current situation of water pollution in Asia

Source: The Company's results briefing materials

(2) 7 "Ensure access to affordable, reliable, sustainable and modern energy for all" and 13 "Take urgent action to combat climate change and its impacts"

Extreme weather events continued to occur in many countries and regions worldwide in 2022. Floods and water damage resulting from prolonged and torrential rain occurred in some areas, while others experienced drought, food shortages, problems with inland waterway transport, and reduced operation of hydroelectric plants due lack of rainfall, and health problems and power shortages because of high temperatures.

The Japanese government announced a new target for realizing carbon neutrality of reducing emissions of greenhouse gases by 46% compared to FY2013 by 2030 toward actual net zero emissions by 2050. With regards to the disclosure of corporate information, companies listed on the TSE Prime Market are effectively obligated to disclose information on risks due to climate change. The Task Force on Climate-related Financial Disclosures (TCFD) recommends disclosure on the items of “governance,” “risk management,” “strategy,” and “indicators and targets.” For the “indicators and targets” item, as of October 3, 2022, 277 Japanese companies have obtained certification for Science Based Targets (SBT). For the emissions calculations when an individual company aims to realize carbon neutrality, in addition to the fuel consumption of that company’s facilities (scope 1) and the use of electricity and heat purchased by that company’s facilities (scope 2), the scope has been expanded to scope 3 of emissions at the time of manufacturing products by the company’s upstream suppliers and emissions at the time of the use of its products by its downstream customers. Members of the global RE100 initiative for companies to use 100% renewable energy totaled 1,803 companies as of October 2022, of which 293 were in the UK, 277 in Japan, 260 in the US, 101 in Germany, and 94 in France.

The Company has positioned and is progressing the renewable energy business as a growth business. It consists of a business for sales of power generated by solar power and wind power equipment, the development and manufacture of compact wind power generation equipment, and a carbon neutral biodiesel fuel business. The Company delivers RE100 electricity and power generation equipment that fulfill customers’ needs. In the solar power business, the company obtained a stable source of earnings by installing solar panels on rooftops of DCM Group stores to generate electricity connected to the power grid. To prepare for the end of FIT, the Company acquired Sanei Ecohome Inc. and made it a subsidiary to provide support for customers to consume electricity they have generated using solar power at their own facilities. It also provides proposals for solutions to social problems, such as utilizing deteriorated farmland, agribusiness type solar power generation, agricultural production in which disabled workers can participate, and new forms of agribusiness type solar power generation based on collaboration between agriculture and welfare that connects agriculture, welfare, and energy. In the compact wind power generation business, the Company is aiming to increase the number of FIT sites connected to the power grid from 12 at the end of FY12/21 to 70 by the end of FY12/25. The small wind power generation facility being developed by three companies as a Ministry of the Environment demonstration project has potential for independent power supply and smart grid applications.

In the household equipment business, the Company is focused on sales of specialty commercial products that are eco-friendly. The Company is committed to making its whole business the embodiment of its corporate slogan “PROTECT x CHANGE” (“Protect the environment. Change the future.”) and promote ESG management.

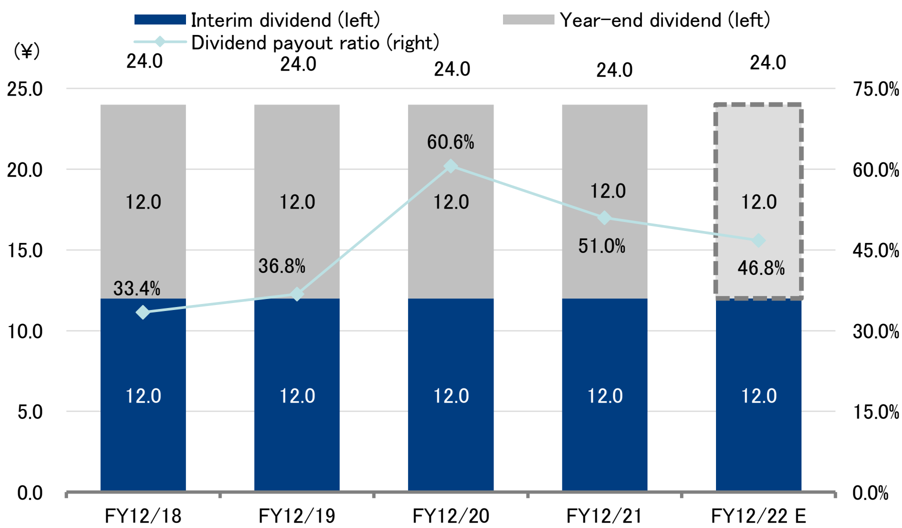
Shareholder return policy

In FY12/22, plans to once again pay an annual dividend of ¥24

The Company's shareholder return policy is premised on a consolidated dividend payout ratio of 30%. Over a period of four fiscal years up to FY12/21, it has continued to pay a dividend of ¥24 per share. In FY12/20, it raised the dividend payout ratio to 60.6% due to factors including the recording of extraordinary loss. In FY12/21, the dividend payout ratio was 51.0%. In FY12/22, it plans to once again pay an annual dividend per share of ¥24 (interim dividend: ¥12, year-end dividend: ¥12) for a dividend payout ratio of 46.8%.

From the record date of the end of December 2020, the Company newly established the Daiki Axis Premium Benefits Club and enhanced returns to shareholders. On this website, shareholders can exchange benefit points and shared shareholder benefit coins, which can be combined with benefit points from other companies that have also introduced premium benefits clubs, for more than 2,000 products, including food, electrical goods, gifts, travel and experiences.

Dividend per share and dividend payout ratio



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

Shareholder benefits program

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

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

Disclaimer

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