COMPANY RESEARCH AND ANALYSIS REPORT

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Prime Market

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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." The Company aims to make a major leap forward in emerging countries to become an industry leader.

1. FY12/22 results and FY12/23 forecasts

In FY12/22, consolidated net sales increased 4.4% year on year (YoY) to ¥39,478mn and ordinary income declined 9.9% to ¥1,172mn. The main reason for the profit decline was an increase in expenses. SGA expenses grew to 9.0%, which exceeded the revenue growth rate, but increases in 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, were among the causes of the increase in expenses.

For the FY12/23 consolidated results, the Company is forecasting net sales of ¥40,000mn (up 1.3% YoY) and ordinary income of ¥900mn (down 23.2%). It looks for higher sales in Japan and lower sales overseas in the environmental equipment business. Although sales growth is forecast in India and Sri Lanka, overseas sales are expected to fall YoY due to the dropout of a major project in Iraq in FY12/22. The household equipment business looks to pass on increased purchase prices to sales prices now that product supply constraints have eased. Sales are forecast to turn down temporarily in the renewable energy business, because the Company is changing the business model of an acquired subsidiary from sales of solar power facilities to power generation using its own facilities.

2. The medium-term business plan's growth strategy

In the Company's current medium-term business plan ending in FY12/25, FY12/22 and FY12/23 are a period for upfront investment and earnings slowdown. However, the Company plans to increase profitability in FY12/24 onward. The plan focuses management resources on the overseas business, especially expanding the business in India. Overseas net sales are forecast to increase from over ¥2,000mn in FY12/23 to ¥4,000mn in FY12/25, with ¥10,000mn in range in FY12/30. Demand for the Company's Johkasou is robust in India. The Company built its second own plant in Delhi, in the North, commencing product shipments in February 2023. Production capacity is initially 350 units, with plans to increase it to 600 units. The Company plans to begin operation at a third plant in 2025 to pioneer markets Central and South India by combining production and sales. It is also committed to personnel training in India related to sales, plant, and maintenance to foster personnel not only to grow the business in India, but also to serve as role models in other emerging countries where the Company pioneers new markets.

In Japan, the Company has positioned the renewable energy business as a growth business. The Tokyo Stock Exchange (TSE) has effectively made it mandatory for companies listed on the Prime Market to disclose risk information related to climate change. Companies participating in RE100 (an international initiative whose goal is for companies to generate 100% of the power they use from renewable sources) totaled 78 as of March 1, 2023, second only to the US among all participating countries. In February 2023, the Daiki-Axis Group acquired MEDEA Co., Ltd., whose main business is design, installation, sales and maintenance of renewable power generation systems, and made it a subsidiary. The Company also acquired Sanei Ecohome Inc. (a similar business) in 2021. Through these deals, the Company built a foundation for a power purchase agreement (PPA)-based business to sell power generated by renewable sources to large-lot users.

The Company is pushing ahead with its biodiesel fuel business (made from used cooking oil) in 2002 in the high-demand Kanto area. Using biomass energy with plant-derived edible oil waste as the raw material is considered to be “carbon neutral.” 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 developing new wind power generation facilities with a 50kW rated output. The prototype began operation in March 2023, with a target date for commercial production in 2025. Daiki Axis Sustainable Power manufactures fiber-reinforced plastic (FRP) wind turbine blades. Wind power has the advantage of generating power day and night if wind conditions are favorable. The Company plans to fulfill diverse needs of customers seeking to reduce CO_2 emissions by offering a varied menu of solar and wind power and biodiesel fuel.

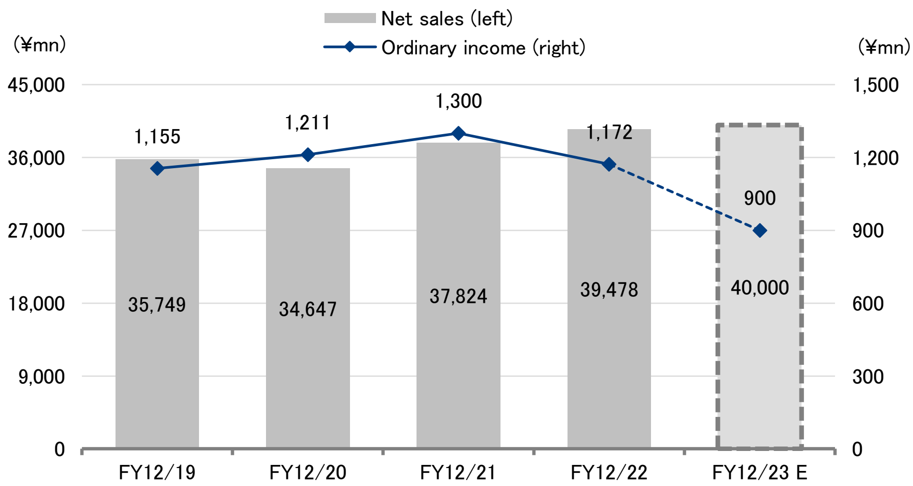
3. Dividend to commemorate 65th anniversary planned

The Company marks the 65th anniversary of its founding in FY12/23. It plans to pay a commemorative dividend of ¥6 per share. This will be added to its ordinary dividend of ¥24 per share for an annual dividend of ¥30 per share (interim dividend: ¥15 per share, year-end dividend: ¥15 per share) for a dividend payout ratio of 74.6%.

Key Points

- Medium-term business plan calls for intensive investment to establish India as a role model
- Targeting overseas net sales of ¥10,000mn in FY12/30
- Dividend to commemorate 65th anniversary planned in FY 12/23

Result trends



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

Company profile and business description

Through awareness of ESG management and contributing to achieving SDGs, Daiki Axis protects the environment and create a sustainable society and future

1. Company profile

The Daiki Axis Group's corporate slogan is "PROTECT×CHANGE Protect the environment. Change the future." By harnessing the know-how it has fostered on the axis of its businesses related to water and the synergies between group businesses, it will continue to evolve as a company that creates and develops the environment, providing solutions that build a future that is kind to people and nature. Its management philosophy is to contribute toward creating a sustainable environment and society, while also aiming to improve people's QOL (quality of life) and social development through conducting both "business activities" and "corporate activities." The Company plans to establish a sound corporate base by promoting ESG management.

The Company's ESG management 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).

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, and in case occurs, a backup loan has been set up.

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, we at FISCO believe that its selection for this market category is appropriate.

The Company’s ESG management and related SDGs

Environment

The Company will work to reduce its environmental impact through environment-friendly business activities with an awareness that protecting the global environment is the common challenge for creating a sustainable society.

○ Provide water-related infrastructure
- As a comprehensive water treatment system manufacturer, the Company supplies household combination treatment Johkasou, industrial and community wastewater treatment systems, and emergency drinking water supplies in Japan and overseas.
- The Company will continue to convert unclean water into clean water through its products and services to promote the improvement of water environments on a global scale.

○ Help reduce greenhouse gas emissions
- By focusing on renewable energy businesses (solar power, compact wind power, and biodiesel), the Company’s mission is to reduce consumption of finite crude oil resources and prevent global warming.

Social

Working with customers, local communities, and governments, the Company seeks to build a future that is kind to nature and people and create a sustainable society.

○ Promote work style reforms and diversity
- The Company will promote work style reforms, whose goal is to improve the QOL of its directors and employees, including the use of IT to streamline operations, setting “no overtime” days, and establishing a team to look after employees’ mental health.
- With an understanding of the importance of a diverse management environment, the Company will also implement measures to promote the advancement of women employees and actively appoint women board members.

Governance

Build a solid corporate base through the execution of business and corporate activities
- Separation of management and performance of duties, establishment of a company with an audit committee, and managerial structure reform including the executive officer system
- Increasing the number of outside directors, risk management of the Audit Committee, etc.
- Holding a company information session, transmitting information about ESG and the SDGs

Source: Prepared by FISCO from the Company’s investors’ notes

2. Business description

Breaking down the FY12/22 consolidated net sales of ¥39,478mn, the environmental equipment business, which includes the Johkasou and wastewater treatment systems businesses, provided 51.9%; the household equipment business, such as wholesale to construction customers, provided 41.6%; the renewable energy business, which is mainly the power sales business through solar power facilities, provided 4.9%; and other businesses provided 1.6%. The operating income margin by business segment before adjustment was 7.3% for the environmental equipment business, 2.0% for the household equipment business, 10.2% for the renewable energy business, and 7.6% for other businesses.

The Company began as Ogame Shoji, which sold tiles and hygienic porcelain, in Matsuyama City, Ehime Prefecture, in 1958, and it is celebrating its 65th anniversary in 2023. It established predecessor Daiki Co., Ltd. in 1964. It started manufacturing aeration Johkasou in the same year. 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 (the Company), 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.

(1) Environmental equipment business (net sales of ¥20,477mn in FY12/22)

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 FRP Johkasou in 1965. The environmental and equipment business covers the full scope of water treatment from drinking water to recycled wastewater and sewerage (household combination treatment Johkasou, community and industrial wastewater treatment) systems.

Looking at the composition of net sales in the business in FY12/22, the clean water business that converts underground water into drinking water provided 4.4%, recycled wastewater systems 0.2%, sewerage-related domestic compact-type combination treatment Johkasou 7.0%, wastewater treatment systems 62.6%, and maintenance, etc. 25.8%.

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

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 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.

Demand for household combination treatment Johkasou is linked to housing starts. The domestic market is therefore saturated, but the Company is maintaining the market share and following up with the latest technologies to grow its overseas business. It is proposing kitchen waste disposers and disposer wastewater treatment systems as a solution for new condominiums in major cities. There are two types of industrial wastewater treatment systems—organic and inorganic. Organic systems for food processing facilities and hospitals use biological treatment, while inorganic systems use chemical treatment.

The Company developed its own technologies to pioneer markets as it seeks to win top market share. Evaporative and distillation-based concentration technologies fulfill customers' need to reduce the volume of wastewater and liquid waste, but they are energy-intensive The Company therefore developed an energy-efficient evaporative concentration system that is both environment-friendly and economical. It sharply improved energy efficiency by using a multi-effect evaporation system (MEES), and by combining it with a water treatment system such as a biological system, made it possible to treat industrial wastewater and liquid waste with high concentration of waste to comply with effluent standards. Food processing facilities produce thick, highly concentrated liquid waste which is difficult to treat with biological methods, requiring expensive outsourced treatment. The Company's evaporative concentration system can reduce the cost of outsourced treatment to 5–10% of the previous cost.

New projects are declining in the domestic market because of Japan's shrinking population and improved water quality. In contrast, water pollution in emerging countries is at a stage where urgent action is required. Therefore, the market for water treatment systems is likely to grow in countries with a low sewerage infrastructure diffusion rate. 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 abovementioned 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.

(2) Household equipment business (net sales of ¥16,421mn in FY12/22)

Breaking down net sales in the household equipment business for FY12/22, construction customers provided 67.3%, home improvement center retail products 12.1%, EC business 0.1%, and housing facilities projects 20.5%.

The Company's founding business was selling tiles and sanitary ware. It has a 50-year history as a sales agent for manufacturers of plumbing equipment, including toilets. The Company supplies all plumbing-related facilities including household combination treatment Johkasou, water heaters, and storage tanks. Its main trade areas are Kinki, Chugoku, and Shikoku. It also supplies home improvement center retail products to DCM Group's stores as well as performing construction work at these stores.

Given adverse business conditions such as a drop in housing starts, growth strategies involve supplying a range of products with demand growth potential, such as environment-friendly and comfortable products, and fulfilling the increasing demand for renovations. The Company is focused on making its new product ranges "on trend" and expanding sales. In 2021, the "Act for Promotion of Use of Wood in Public Buildings, etc." was amended and renamed the "Act on the Promotion of the Use of Wood in Buildings, etc., to Contribute to the Realization of a Decarbonized Society," with "decarbonized" added as an objective. The amended law clarified that central and local governments will support not only the shift to wooden public buildings, but also the increased use of wood in private-sector buildings and in categories such as nonresidential buildings and medium- to high-rise buildings, in which the use of wood has been limited.

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.

(3) Renewable energy business (net sales of ¥1,938mn in FY12/22)

Breaking down net sales in the renewable energy business for FY12/22, the power sales business through solar power facilities provided 79.3%, biodiesel fuel business 10.5%, compact wind power generation business 3.1%, and hydrothermal treatment business 7.1%.

Since 2019, the renewable energy business 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. In January 2023, Sanei Ecohome Inc. merged with Daiki Axis Sustainable Power to integrate their businesses.

(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.

As well as the need to run a sustainable business after the FIT system comes to an end, demand is increasing worldwide for various business models including PPA. After acquiring Sanei Ecohome, in February 2023, the Company acquired all shares in MEDEA, headquartered in Saitama, Saitama Prefecture, and made it a subsidiary. MEDEA's main business is the design, installation and maintenance of solar power generation systems (electrical construction and sale of power generated by its own facilities). The Daiki Axis Group aims to build a structure that responds more quickly to demand from large-lot users by acquiring solar power generation-related management resources by proactive M&A.

(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, restaurants, 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.

(3) Compact wind power generation business

The compact wind power generation business was launched in FY12/19. 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 increase operations at 18 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 Induction Type 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 production of the FRP wind turbine blades.

3. Group companies

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.*1	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.*1	January 2018	Acquisition	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
ADORE SYSTEM Co., Ltd.	February 2023	Acquisition	Hiroshima City, Hiroshima Prefecture	Air-conditioning equipment-related and general construction work
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.	April 2012	Acquisition	Tokyo	Development, sales and installation of compact wind power generation equipment, solar power and compact wind power generation businesses
MEDEA Co., Ltd.	February 2023	Acquisition	Saitama City, Saitama Prefecture	Renewable energy-related business (centered on solar power generation facilities) and electrical construction

*1 Equity-method affiliate
*2 Outside scope of consolidation due to limited numerical impact
Source: Prepared by FISCO from the Company's securities report, results briefing materials, and news releases

Results trends

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

1. Overview of FY12/22 results

In the FY12/22 consolidated results, net sales increased 4.4% YoY to ¥39,478mn, operating income declined 26.2% to ¥826mn, ordinary income fell 9.9% YoY to ¥1,172mn, and profit attributable to owners of parent fell 5.9% to ¥574mn. The gross profit margin was 20.7%, down just 0.1 percentage points (pp). SG&A expenses increased 9.0%, which led to a large decline in operating income. The drop in ordinary income was smaller, because foreign exchange gain under non-operating income increased from ¥19mn in FY12/21 to ¥139mn in FY12/22.

The increase in SG&A expenses was mainly due to investing in human capital for the purpose of sustained increase in corporate value and to expand the scope of corporate information disclosure. Base salaries increased by an average of 6%, including regular pay increases. The Company also booked a provision of around ¥90mn for an inflation allowance paid to employees to help deal with sharply increasing consumer prices. Other negative factors for profit were upfront hiring of personnel for the new plant in India, increased transportation costs such as a rise in shipping freight rates, rising prices of materials and supplies, higher travel expenses due to resuming domestic and overseas business travel amid lifting of COVID 19-related restrictions, and expenses associated with the consolidation of two new subsidiaries (including goodwill amortization).

FY12/22 consolidated results

(¥mn)

	FY12/21		FY12/22		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	37,824	-	39,478	-	1,654	4.4%
Environmental equipment business	20,130	53.2%	20,477	51.9%	347	1.7%
(of which, overseas net sales)	1,489	7.4%	2,247	11.0%	758	50.9%
Household equipment business	15,875	42.0%	16,421	41.6%	545	3.4%
Renewable energy business	1,141	3.0%	1,938	4.9%	796	69.9%
Other businesses	677	1.8%	642	1.6%	-34	-5.2%
Gross profit	7,860	20.8%	8,174	20.7%	314	4.0%
SG&A expenses	6,741	17.8%	7,347	18.6%	606	9.0%
Operating income	1,119	3.0%	826	2.1%	-293	-26.2%
Environmental equipment business	1,688	8.4%	1,497	7.3%	-190	-11.3%
Household equipment business	370	2.3%	321	2.0%	-48	-13.1%
Renewable energy business	179	15.7%	197	10.2%	17	9.8%
Other businesses	120	17.8%	48	7.6%	-71	-59.7%
Adjustment	-1,238	-	-1,237	-	1	-
Ordinary income	1,300	3.4%	1,172	3.0%	-128	-9.9%
Profit attributable to owners of parent	610	1.6%	574	1.5%	-35	-5.9%

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

2. Results by business segment

For the operating results by business segment, operating income declined on higher net sales in the core environmental equipment business and household equipment business. Net sales and operating income increased in the renewable energy business but the segment profit margin fell due to a larger share of sales other than FIT power sales.

(1) Environmental equipment business

In the environmental equipment business, net sales increased 1.7% YoY to ¥20,477mn and contributed 51.9% of total net sales. Segment income fell 11.3% to ¥1,497mn and the ratio of profit to sales dropped 1.1 pp to 7.3%. Segment net sales in Japan fell 2.4% YoY due to the impact of progress of large projects. Maintenance, including overseas, recorded a 4.9% sales increase due to a rise in the number of contracts, and its segment net sales share was 25.8%.

Overseas net sales grew a sharp 50.9% YoY to ¥2,247mn, accounting for 11.0% segment net sales share. Net sales increased despite the impact of the COVID-19 pandemic due to delivery of a Johkasou as part of a JICA project in Iraq, completion of a liquid waste treatment equipment and external liquid waste treatment facility project for a garbage treatment and disposal facility in Indonesia, and sales of medium and large Johkasou (made in Indonesia) and small Johkasou (made in Japan).

(2) Household equipment business

In the household equipment business, net sales declined 3.4% YoY to ¥16,421mn and segment income fell 13.1% to ¥321mn. By user category, sales to construction customers fell 3.1%, sales of home improvement center retail products grew 1.6%, and housing facilities projects were up 34.1%. Sales of the E-commerce (EC) business grew a steep 71.9% because of a small basis for comparison, but its segment net sales share was a mere 0.1%.

Sales to construction customers were down sharply in FY12/22, because demand for contactless products (toilets with automatic lid opening/closing and self-cleaning features) that arose in FY12/21, due in part to COVID 19-related subsidies, petered out. The supply of products was severely delayed as a result of Shanghai going into lockdown in March 2022 as housing equipment manufacturers' shipments were restricted. Manufacturers all sought price increases amid the rise in raw material and transportation costs, but the Company could not pass all cost increases onto construction customers, resulting in lower profit margins. For home improvement center retail products, the supply of main products returned to a normal schedule in December 2022 and prices were also revised. The housing facilities business completed a store construction project for the DCM Group, which operates home improvement centers, and recorded sales from the project. Sales of agricultural greenhouses turned up after a period of weakness due to the pandemic, because investment by customers began to recover. In construction work, passing the increase in purchase prices between the contract date and completion date onto sales prices proved difficult.

(3) Renewable energy business

In the renewable energy business, net sales increased 69.8% YoY to ¥1,938mn and segment income grew 9.8% to ¥197mn. Sales increased across all businesses. Sales of the mainstay power sales business through solar power facilities grew 60.3% YoY to ¥1,535mn due to making a solar power generation affiliate a subsidiary, increasing its segment net sales share to 79.3%. The segment profit margin fell due to a larger share of sales other than FIT power sales. Biodiesel fuel sales grew 38.0% on a rise in the number of B5 biodiesel blend contracts, increasing its segment net sales share to 10.5%. The segment net sales share of the compact wind power generation business was 3.1%, with sales increasing 419.8% YoY. Six new FIT power sales sites were added for a total of 18 sites as of the end of FY12/22. Sales of the hydrothermal treatment business rose 554.6% YoY, providing 7.1% of segment net sales.

(4) Other businesses

In the residential drinking water business, net sales decreased 5.2% YoY to ¥642mn and segment income decline 59.7% to ¥48mn. The number of bottle type water dispenser contracts fell, but the number of contracts for plumbed water dispensers (subscription model) went up. The Company invested upfront to hire personnel to handle the increase in contracts for plumbed water dispensers.

3. Financial position and cash flow

(1) Financial position

At the end of FY12/22, total assets had decreased ¥346mn compared to the end of the previous period to ¥31,905mn. Current assets decreased ¥942mn to ¥19,038mn. Trade receivables decreased, and cash and deposits increased on recovery of receivables associated with a JICA project in Iraq. As well, inventory contracted ¥2,238mn, 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. Noncurrent assets increased ¥596mn to ¥12,867mn. The Company completed a new plant in India and the number of clean water systems that convert underground water into drinking water and solar and compact wind power generation facilities increased. In liabilities, current liabilities decreased ¥705mn to ¥16,134mn, due in part to reduced advances received on uncompleted construction contracts. As a result, the equity ratio increased 2.4pp to 29.8%, because total liabilities contracted ¥1,030mn.

Consolidated balance sheet and financial ratios

(¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	Change
Current assets	18,763	18,906	17,448	19,981	19,038	-942
(Cash and deposits)	6,013	7,165	7,896	6,298	7,268	970
(Trade receivables)	9,230	8,562	7,116	9,382	9,761	379
(Inventories)	2,998	2,573	2,063	3,752	1,514	-2,238
Non-current assets	8,272	11,001	10,330	12,270	12,867	596
Property, plant and equipment	6,337	8,362	8,047	9,420	10,093	673
Intangible assets	547	1,032	742	1,207	1,020	-187
Investments and other assets	1,388	1,606	1,540	1,642	1,753	111
Total assets	27,036	29,907	27,778	32,252	31,905	-346
Current liabilities	18,863	18,624	15,878	16,839	16,134	-705
(Notes and accounts payable—trade)	4,324	3,889	3,528	4,720	4,360	-360
(Loans payable, corporate bonds, etc.)	10,723	10,847	9,525	7,548	8,925	1,377
Non-current liabilities	1,454	2,079	4,265	6,572	6,248	-323
(Corporate bonds, loans payable, etc.)	286	681	2,979	5,127	4,951	-176
Total liabilities	20,318	20,704	20,144	23,412	22,382	-1,030
(Interest-bearing debt)	11,010	11,529	12,555	12,675	13,876	1,201
Total net assets	6,717	9,203	7,634	8,839	9,522	682
[Stability]						
Current ratio	99.5%	101.5%	109.9%	118.7%	118.0%	-0.7pt
Equity ratio	24.8%	23.9%	27.5%	27.4%	29.8%	2.4pt

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

(2) Cash flow statemen

At the end of FY12/22, cash and cash equivalents had increased ¥787mn compared to the end of the previous period to ¥7,038mn. Cash flows provided by operating activities were ¥1,261mn due to the decrease in trade receivables and notes and accounts payable–trade. Cash flows used in investing activities were ¥1,548mn. Free cash flow was negative ¥287mn due to the timing of upfront investments. Cash flows used in financing activities were ¥790mn.

Consolidated statements of cash flows

(¥mn)

	FY12/18	FY12/19	FY12/20	FY12/21	FY12/22	Change
Cash flows from operating activities	-105	2,416	2,358	520	1,261	741
Cash flows from investing activities	-1,402	-2,846	-3,048	-1,505	-1,548	-43
Cash flows from financing activities	3,030	1,642	1,619	-703	790	1,493
Balance of cash and cash equivalents at end of period	5,969	7,124	8,035	6,250	7,038	787

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

Outlook

Minor increase in net sales and lower profit forecast in FY12/23

For the FY12/23 consolidated results, the Company is forecasting net sales of ¥40,000mn (up 1.3% YoY), operating income of ¥800mn (down 3.2%), ordinary income of ¥900mn (down 23.2%), and profit attributable to owners of parent of ¥550mn (down 4.3%). Following the spring 2023 labor-management talks, the Company decided on an average 5% pay increase (including annual pay increase).

In the environmental equipment business, the forecasts are for net sales to increase 0.6% YoY to ¥20,600mn and operating income to rise 0.1% to ¥1,500mn. Overseas net sales are forecast to decrease 8.6% to ¥2,053mn. Sales expansion in India and Sri Lanka will only partly offset the dropout of a large project in Iraq, which had contributed in FY12/22. In Japan, the Company plans to pass the increase in purchase prices onto sales prices.

In the household equipment business, the forecasts are for net sales to increase 4.1% YoY to ¥17,100mn and segment income to rise 57.0% to ¥505mn. With product supply restrictions resolved, the Company aims to pass the increase in purchase prices onto sales prices to improve profitability. It plans to negotiate with household equipment manufacturers regarding a change to a centralized buying system based at its headquarters, whereas the purchase price of the same product tends to vary between regions under the previous system. The Company will also increase sales of specialty products such as environment-friendly and comfortable products.

In the renewable energy business, the forecasts are for net sales to decrease 14.9% YoY to ¥1,650mn and segment income to rise 26.9% to ¥250mn. In January 2023, Sanei Ecohome Inc. merged with Daiki Axis Sustainable Power to integrate their businesses. The business model will change from the sale of solar power generation facilities to FIT power sales using its own facilities.

Outlook for FY12/23 consolidated results

(¥mn)

	FY12/22		FY12/23		YoY	
	Results	Ratio to sales	Results	Ratio to sales	Change	% Change
Net sales	39,478	-	40,000	-	522	1.3%
Environmental equipment business	20,477	51.9%	20,600	51.5%	123	0.6%
(of which, overseas net sales)	2,247	11.0%	2,053	10.0%	-194	-8.6%
Household equipment business	16,421	41.6%	17,100	42.8%	679	4.1%
Renewable energy business	1,938	4.9%	1,650	4.1%	-288	-14.9%
Other businesses	642	1.6%	650	1.6%	8	1.2%
Gross profit	8,174	20.7%	9,000	22.5%	826	10.1%
SG&A expenses	7,347	18.6%	8,200	20.5%	853	11.6%
Operating income	826	2.1%	800	2.0%	-26	-3.2%
Environmental equipment business	1,497	7.3%	1,500	7.3%	3	0.1%
Household equipment business	321	2.0%	505	3.0%	184	57.0%
Renewable energy business	197	10.2%	250	15.2%	53	26.9%
Other businesses	48	7.6%	45	6.9%	-3	-7.4%
Adjustment	-1,237	-	-1,500	-	-263	-
Ordinary income	1,172	3.0%	900	2.2%	-272	-23.2%
Profit attributable to owners of parent	574	1.5%	550	1.4%	-24	-4.3%

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

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 FY12/22, net sales are expected to increase 14.0%, operating income to rise 142.1%, and operating income margin of 4.4% (2.1% in FY12/22). The major contributors to the ¥5,522mn increase in net sales will be the environmental equipment business (up ¥1,523mn compared to FY12/22), the household equipment business (up ¥2,579mn), and the renewable energy business (up ¥562mn). Contributions to the increase in income before adjustment of ¥1,174mn are ¥803mn for the environmental equipment business, ¥379mn for the he household equipment business, and ¥503mn for the renewable energy business. Target overseas net sales of the environmental equipment business are ¥4,000mn, up ¥1,753mn from FY12/22, with a reduction in upfront investment burden and improved profitability.

The growth strategy is comprised of "acceleration of overseas business development," "renewable energy," "expand the recurring-income business," "progress M&A," "technological capabilities and product development capabilities," "transformation from stability to growth," and "promote IT." Of these themes, we discuss in detail below overseas business development, which is expected to drive the Company's growth beyond the current medium-term business plan.

Medium-term business plan Numerical targets

(¥mn)

	FY12/22 Results	FY12/25 Target	FY12/22	
			Change	% Change
Net sales	39,478	45,000	5,522	14.0%
Environmental equipment business	20,477	22,000	1,523	7.4%
(of which, overseas net sales)	2,247	4,000	1,753	15.7%
Household equipment business	16,421	19,000	2,579	29.0%
Renewable energy business	1,938	2,500	562	133.6%
Other businesses	642	1,500	858	78.0%
Operating income	826	2,000	1,174	142.1%
Environmental equipment business	1,497	2,300	803	53.6%
Household equipment business	321	700	379	118.1%
Renewable energy business	197	700	503	255.3%
Other businesses	48	150	102	212.5%
Adjustment	-1,237	-1,850	-613	-

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

The Company targets ¥10,000mn in overseas net sales in FY12/30. The medium-term business plan calls for intensive investment to establish India as a role model

2. Acceleration of overseas business expansion

"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

The Company targets FY12/25 overseas net sales of ¥4,000mn, of which India is expected to provide 50%. India's population is forecast to surpass China's to take the world number one spot in 2023. Its real GDP growth rate exceeded China's at 6.7% in 2022. Its nominal GDP was US$3.38tn (approximately ¥460tn), 80% of Japan's, overtaking the UK at fifth-largest in the world. India's population is about 1.4 billion people, 11 times greater that of Japan, with a land area the seventh-largest in the world at 3.28 million km^2, about nine times that of Japan (370,000 km^2, 62nd in the world). As of July 2021, the median age in India was a young 27.6 versus Japan's 48.4. With such a large population, India can expect continued robust economic growth and is entering a period of establishing its social capital, including sewerage infrastructure.

(1) Production structure and sales target in India

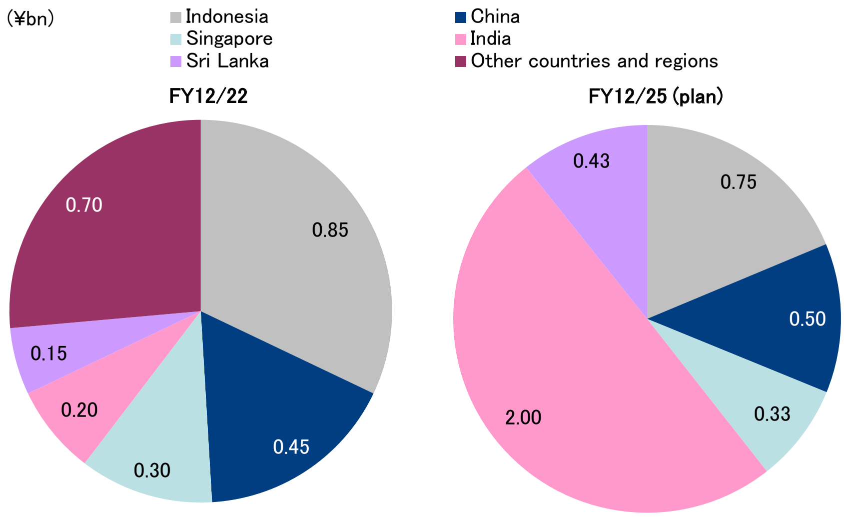
Under the medium-term business plan, the Company will invest intensively in India through FY12/24 to accelerate its business there. It aims to increase net sales in India from over ¥200mn in FY12/22 to ¥2,000mn in FY12/25, when India will account for 50% of total overseas net sales.

Demand is so brisk in India that supply cannot keep up. The Company currently has 23 sales distributors in India. In consideration of reducing both personnel and time, production is outsourced to a local plastic products manufacturing company, which is also an distributor 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 plant of the Company's contract manufacturer in India is in the West (Mumbai), whereas its first own plant (second plant in India) was built in Delhi, in the North, and began product shipments in February 2023. The new plant can also produce capsule-type Johkasou made by the first plant (contract manufacturing plant), but for now it will manufacture the cylindrical Johkasou that it previously imported from Indonesia. The Company targets monthly production of 30 units by the end of 2023 by improving local employees' operational skills, with an ultimate target of 600 units per year.

The Company thinks a third plant will be needed in India in 2025. Reduced transportation costs due to the second plant being operational will lift profitability and cut transportation-related CO_2 emissions, as well as establishing a structure that responds quickly to projects. The Company's sales area has mainly been in the North of India, but it will pioneer markets in Central and South India with a combination of sales and production.

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., 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 Company also plans to improve the efficiency of its logistics in India, with its vast land area, by having multiple production bases.

Overseas net sales targets by country and region



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

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

Capsule-type Johkasou

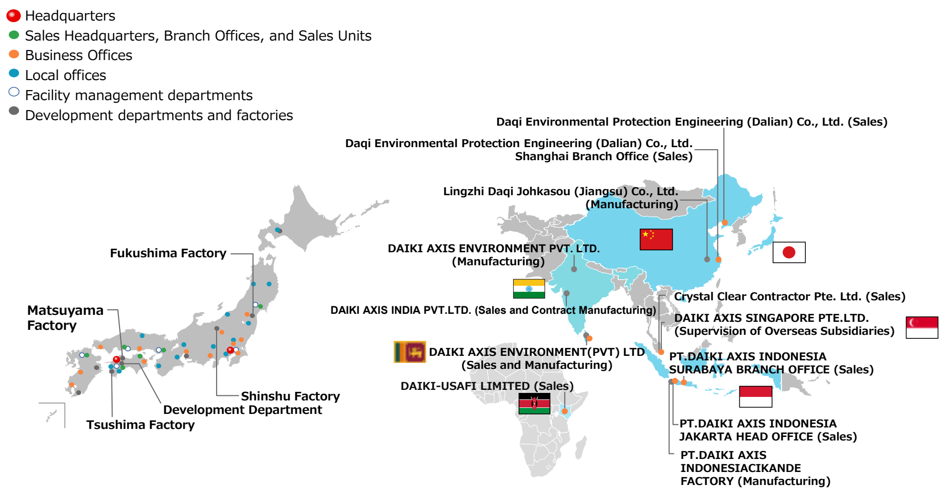
Cylindrical Johkasou

Source: The Company's news releases

Building and manufacturing facilities of the Company's own plant (second plant) in India

Source: The Company's results briefing materials

Network of domestic and overseas businesses in the environmental equipment business



Source: The Company's results briefing materials

(2) India as a role model

Although water quality regulations have been tightened in emerging countries, they have not been rigorously enforced. Common issues are the lack of technologies and equipment to meet water quality control standards, poor awareness of the need to invest in water quality and safety, and absence of structures to ensure water quality inspection is carried out correctly.

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 Indian 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 made solid, step-by-step efforts to pioneer markets. 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. In October 2020, DA-India acquired Green Product Certification, which is an eco-certification, for its India-manufactured Johkasou. 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. This enabled the Company to reduce the normally lengthy administrative procedure, which includes having to acquire evaluations of Johkasou in each region.

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.

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 on two models,one with nitrogen treatment added to products from Indian plants, the other with the advanced treatment used in Japan. They will conduct joint research for improvements that are tailored to the usage environments in India. Joint collaboration in research between industry and academia has had a positive effect on local employment as well. The Company will also collaborate with Shri Vishwakarma Skill University in India to establish a special curriculum for maintenance engineers. The university will offer lectures on maintenance of water treatment systems and Johkasou to train maintenance engineers and instructors. Fostering personnel capable of performing water quality inspections and correct assessment of results will also contribute toward local employment.

The Company is strengthening personnel training in sales, plant, and maintenance in India to establish and grow India as a role model. In sales, the Company is dispatching employees from Japan to teach selling skills, as well as passing on technical knowledge. In manufacturing plants, newly trained local employees played a central role in starting up a new plant. In maintenance, as noted above, the Company is working with local universities to establish an environment to train personnel with installation and maintenance skills given the importance of promoting mandatory water quality inspections.

Whereas labor shortages will worsen in Japan due to a decline in the working-age population, India has a growing population and abundant work force. Training local personnel in sales, plant, and maintenance will reduce dependence on personnel support from Japan in developing the Company's business in India. Given the large Indian populations in Asia, Middle East, and Africa, which are target business areas for the Company, employees trained in India will have an important role in pioneering new markets.

The Company targets overseas net sales of ¥10,000mn in FY12/30 by establishing and developing India as a role model for overseas expansion.

Local employees engaged in manufacturing at own plant in India

Source: The Company's results briefing materials

(3) Measures in priority areas in Asia

In Indonesia, the Company will expand its distributor network and work with government to step up sales targeting local companies to raise capacity utilization rates of its plants, which used to supply the Indian market, because India has switched to local production.

In Sri Lanka, the Company established an environmental equipment subsidiary in May 2021, which was included in the scope of consolidation. In May 2022, the Sri Lanka defaulted on its debt. After change of government, Sri Lanka and the International Monetary Fund (IMF) reached a staff-level agreement to provide financial support for Sri Lanka's bold economic reforms (including fiscal austerity and large-scale tax reforms). Although the economy was heavily impacted by the COVID-19 pandemic, the Company's business in Sri Lanka has performed well. Demand for small Johkasou for detached houses has been brisk. The Company initially imported finished products from Japan, but completed an assembly plant in October 2022 because of substantial expected demand and to reduce transportation costs. Production volume was 39 units in February 2023. The Company will determine production volume depending on inquiry trends and strengthen sales and maintenance to ensure stable operation.

Contributing to attaining RE100 through the Renewable Energy business, a growth business

3. Renewable energy business

In the renewable energy business, the Company is responding to goals 7, "Ensure access to affordable, reliable, sustainable and modern energy for all" and 13, "Take urgent action to combat climate change and its impacts"

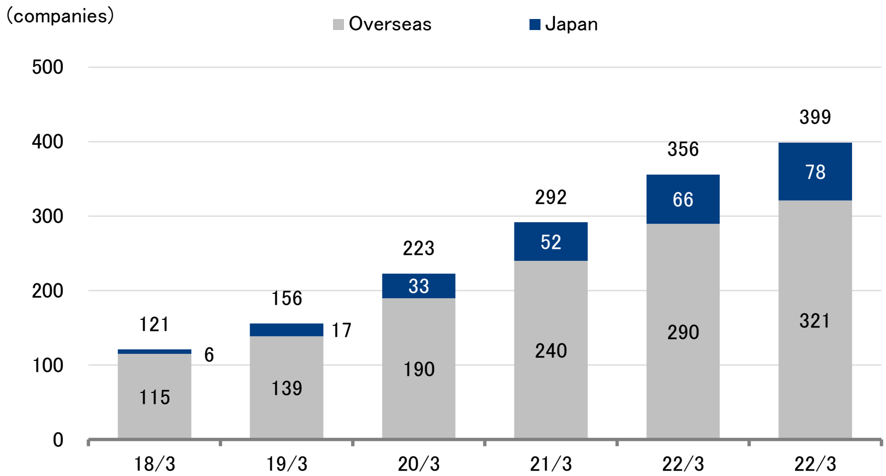
The Japanese government announced a new target for realizing carbon neutrality of reducing emissions of greenhouse gases by 46% compared to FY2013 by 2030 toward actual net zero emissions by 2050. With regards to the disclosure of corporate information, companies listed on the TSE Prime Market are effectively 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 March 1, 2023, 369 Japanese companies have obtained certification for Science Based Targets (SBT). Japan has the second-largest number of companies with certification in the world, with a total of 438 including companies that have committed to acquiring certification within two years.

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 include 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 (scope 3).

Members of the global RE100 initiative for companies to use 100% renewable energy totaled 399 companies in 23 countries as of March 1, 2023, of which 99 were in the US, 78 in Japan, 49 in the UK, 27 in South Korea, 24 in Taiwan, 18 in Australia, and 18 in Germany. Most member companies in Japan are in the construction, food processing, electrical equipment, retail, and real estate sectors. The target dates for achieving RE100 are 30% in 2020, 60% in 2030, 90% in 2040, and 100% in 2050. Member companies must report every year their total electricity and renewable energy consumption.

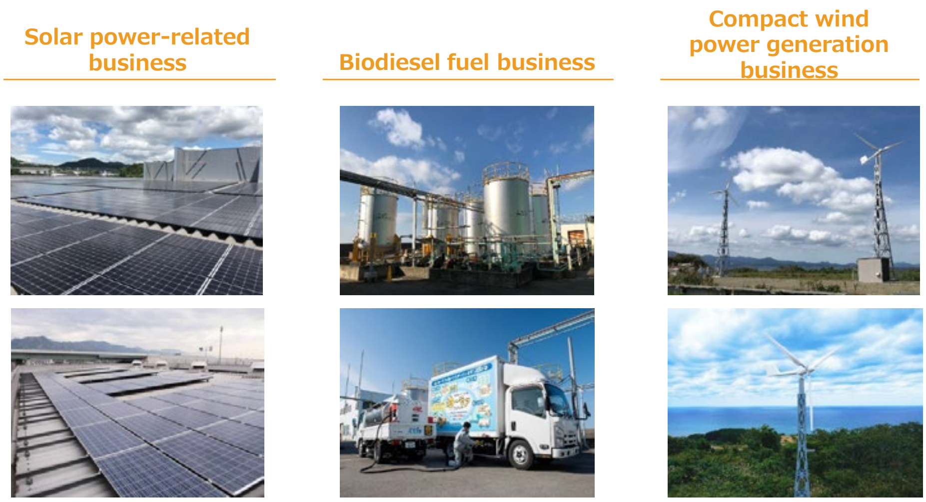
The Company positions the renewable energy business as a growth business. It consists of power sales from renewable sources such as solar and wind power, development and manufacture of compact wind power generation equipment, and carbon-neutral biodiesel fuel business. The Company delivers electricity and power generation equipment that fulfills customers' needs and achieves RE100.

Trends in RE100 member companies



Source: Prepared by FISCO from the Ministry of the Environment, "Number of RE100-participating businesses by country",

Renewable energy business



Source: The Company's results briefing materials

The solar power generation facilities are operated through leasing rooftops of DCM Group stores in 130 locations, which provide a stable source of earnings. In preparing for the end of the FIT scheme, the Company acquired Sanei Ecohome (Fujisawa City, Kanagawa Prefecture), and made it a subsidiary. This provided a support function for customers to consume electricity they have generated using solar power at their own facilities. In February 2023, the Company acquired all shares in MEDEA (Saitama City, Saitama Prefecture) and made it a subsidiary. Founded in 1975, MEDEA is engaged in business and electrical work related to renewable energy, with a focus on solar power generation equipment. In this way, the Daiki Axis Group strengthened its management resources to sell electricity to large-lot users based on PPAs

The Company engages in agribusiness type solar power generation based on collaboration between agriculture and welfare that connects agriculture, welfare, and renewable energy. It provides proposals for solutions to social problems, such as utilizing deteriorated farmland for agribusiness type solar power generation, which enables disabled workers to participate in agriculture.

Agribusiness type solar power generation based on collaboration between agriculture and welfare

Source: The Company's results briefing materials

(2) Biodiesel fuel

Demand for edible oil waste, from which biodiesel fuel is made, has increased amid heightened environmental awareness. Demand is particularly strong in the Kanto area, where the Company decided to build its own facility scheduled to begin production in 2024. After the Kanto production facility begins operation, the Company plans to expand the supply of B100 biodiesel fuel for service vehicles used by airport operators to improve profitability.

(3) Compact wind power generation

The compact wind power generation business targets an increase the number of FIT sites connected to the power grid from 12 at end-FY12/21 to 70 at end-FY12/25.

In the Ministry of the Environment's subsidized project, Technology Development and Demonstration Project for Low-Pressure Wind Power Generation Equipment, Zephyr Corporation, RICOH Japan Corp., and the Company's subsidiary Daiki Axis Sustainable Power are jointly developing compact wind power generation equipment. The prototype began operation in March 2023, with a target date for commercial production in 2025. The Daiki Axis Group harnesses its molding technology to manufacture FRP wind turbine blades. A growing trend among businesses is to install renewable energy power generation equipment at a workplace to consume self-generated power in the interests of RE100, SDGs, and business continuity planning (BCP). Challenges include solar power generation being insufficient to fulfill energy requirements and the need to invest heavily in storage facilities to cope with fluctuations in solar power generation output. Although solar power generation is limited to daylight hours, wind turbines generate power day and night if wind conditions are favorable. As well as FIT power sales, these systems could be used for independent power supply needs and smart grid applications.

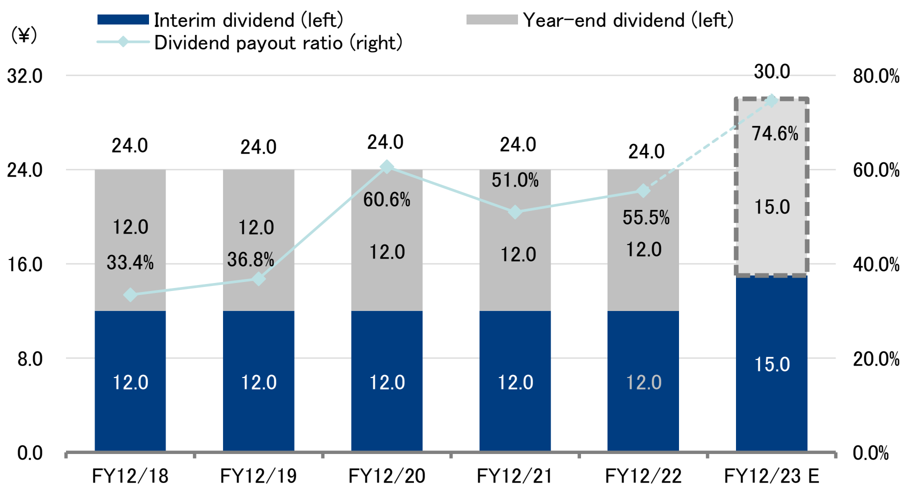
Shareholder return policy

Dividend to commemorate 65th anniversary planned in FY12/23

The Company's shareholder return policy is premised on a consolidated dividend payout ratio of 30%. Over a period of five fiscal years up to FY12/22, it has continued to pay a dividend of ¥24 per share. The dividend payout ratio was 55.5% in FY12/22. The Company marks the 65th anniversary of its founding in FY12/23. It plans to pay a commemorative dividend of ¥6 per share. This will be added to its ordinary dividend of ¥24 per share for an annual dividend of ¥30 per share (interim dividend: ¥15 per share, year-end dividend: ¥15 per share) for a dividend payout ratio of 74.6%.

The Company introduced the Daiki Axis Premium Benefits Club. 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

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Disclaimer

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