

Daiki Axis Co., Ltd.

4245

Tokyo Stock Exchange Standard Market

17-Jun.-2024

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FISCO Ltd.

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

■ Index

■ Summary	01
1. Overview of FY12/23 results	01
2. Forecasts for FY12/24 results	02
3. Future direction	02
■ Company profile	03
1. Company profile	03
2. Business structure	03
3. History	04
4. ESG management	05
5. Group companies	06
■ Business overview	08
1. Environmental equipment business	08
2. Household equipment business	11
3. Renewable energy business	11
■ Result trends	13
1. Overview of FY12/23 results	13
2. FY12/23 summary	16
■ Outlook	16
1. FY12/24 forecasts	16
2. FISCO's opinion	17
■ Medium-to-long term direction	18
1. Overview of the medium-term management plan	18
2. Numerical targets and their assumptions	18
3. Growth strategies and the progress made so far	19
4. Problem awareness and policies toward improving corporate value	21
5. Key points noted by FISCO	21
■ Shareholder return policy	22

■ Summary

In FY12/23, although sales increased, profits decreased due to upfront expenses and other factors for the future. The Company is accelerating overseas business development to address water environment-related societal issues

Daiki Axis Co., Ltd. <4245> (hereafter “the Company”) has three business pillars; the environmental equipment business that is centered on Johkasou and wastewater treatment systems, the original business of the household equipment business, and the renewable energy business that became a segment in FY12/18. Under its mission of “Protect the environment. Change the future.,” it proactively conducts ESG management, and in particular, with “water as the axis,” which is the origin of the Company’s name, it is promoting the water-environment-related SDG, which is to “Ensure availability and sustainable management of water and sanitation for all,” from a global perspective. Going forward, in Asia and Africa, whose markets are developing, it aims to acquire top industry share in the medium-scale water treatment field and intends to make major progress in emerging countries. In January 2024, the Company appointed Hiroki Ogame, who had previously led the overseas business, as the new president and CEO*. It seems the aim is to accelerate growth by promoting generational change and speeding up overseas business development.

* Former president and CEO Hiroshi Ogame was appointed representative director and chairman and the Company moved to a joint representative system.

1. Overview of FY12/23 results

In the Company’s consolidated results for FY12/24, net sales increased 8.1% year on year (YoY) to ¥42,681mn and operating income declined 20.1% to ¥660mn, so while sales increased, profits decreased. Net sales grew, for reasons including the addition of sales from two M&A. In the mainstay environmental equipment business, repair projects increased because of the recovery of capital investment demand, while the increase in maintenance contracts also contributed. In the household equipment business, sales for construction companies recovered significantly due to the lifting of shipping restrictions caused by difficulties in procuring overseas parts, while sales of housing sector projects also grew following the consolidation of ADORE SYSTEM Co., Ltd., which runs an air conditioning installation business. In the renewable energy business, the solar power generation business (sales of electricity and power generation facilities) grew due to the consolidation of MEDEA Co., Ltd. However, the reasons profits declined included that the higher sales could not fully absorb the increases in purchase prices and outsourcing expenses due to the time lag in passing on these increases to sales prices, and also the increases in other expenses, such as personnel expenses to raise the salary base and upfront expenses for the future. Overseas net sales in the environmental equipment business, which the Company is focusing on, temporarily declined, primarily due to the completion of a large-scale project. However, a system is now in place for future business expansion, including the operations of the new plants in India and Sri Lanka.

Summary

2. Forecasts for FY12/24 results

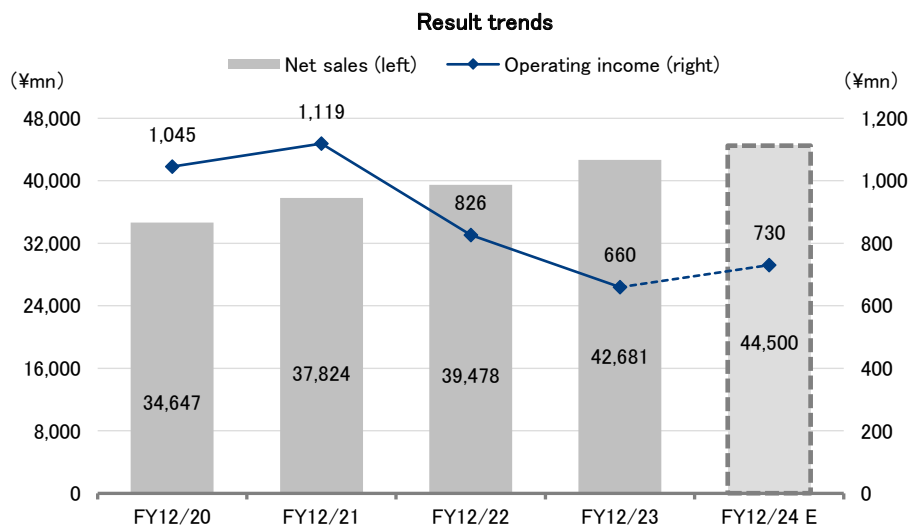
For the FY12/24 consolidated results, the Company is forecasting net sales of ¥44,500mn (up 4.3% YoY) and operating income of ¥730mn (up 10.6%), so sales and profits are expected to increase. The outlook indicates that higher net sales will once again be secured in each of the three businesses. In the environmental equipment business, the overseas business will grow greatly, centred on India and Sri Lanka where operations at the new plants will become fully fledged, while in the household equipment business, results are forecast to continue to increase on the elimination of the product-supply problem and the response to the growth of the renovations market. In the renewable energy business, in addition to the stable revenue from electricity sales, sales are expected to increase from new developments in the biodiesel fuel business and sales of solar power generation facilities. As for profits, the Company is aiming to improve the operating income margin, with an expected increase driven by higher sales and progress in transferring the rises in purchasing prices to sales prices.

3. Future direction

The Company is progressing its five-year medium-term management plan whose final fiscal year is FY12/25, and it is working on six growth strategies, including for overseas business development and the recurring-income business, while it is also promoting IT that will support the foundation of these strategies. In particular, business development in emerging countries, where water infrastructure is urgently needed, is expected to drive future growth. The Company intends to achieve sustainable growth by contributing to the creation of a sustainable environment and society.

Key Points

- In FY12/23, although sales increased, profits decreased partly due to the time lag in transferring the rise in purchase prices to sales prices, and upfront investments
- To establish a structure for future business growth, the Company is undertaking initiatives that include two M&A, and the operation of new plants in India and Sri Lanka
- In FY12/24, sales and profits are forecast to increase due to the expansion of the overseas business and other factors
- The Company is progressing the medium-term management plan whose final fiscal year is FY12/25. Its policy is to accelerate overseas business development to address water environment-related societal issues



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

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■ Company profile

Under its mission of “Protect the environment. Change the future.” the Company is working to resolve water environment-related societal issues, including through its Johkasou and wastewater treatment systems

1. Company profile

The Daiki Axis Group is developing businesses in an integrated manner that will protect the global environment and create sustainable societies and the future, including through sales of kitchen and bathroom household equipment and the provision of Johkasou and industrial wastewater treatment systems, on the axis of its water-related businesses.

The Company, which recently celebrated its 65th anniversary, has established a corporate philosophy and spirit based on its previous corporate slogan of “PROTECT×CHANGE” (signifying protect what should be protected and change what should be changed). Through carrying out the Daiki Axis Group’s stated purpose of “Supporting life for people around the world by solving global environmental issues with innovated technology and ideas,” it intends to achieve its mission of “Protect the environment. Change the future.”

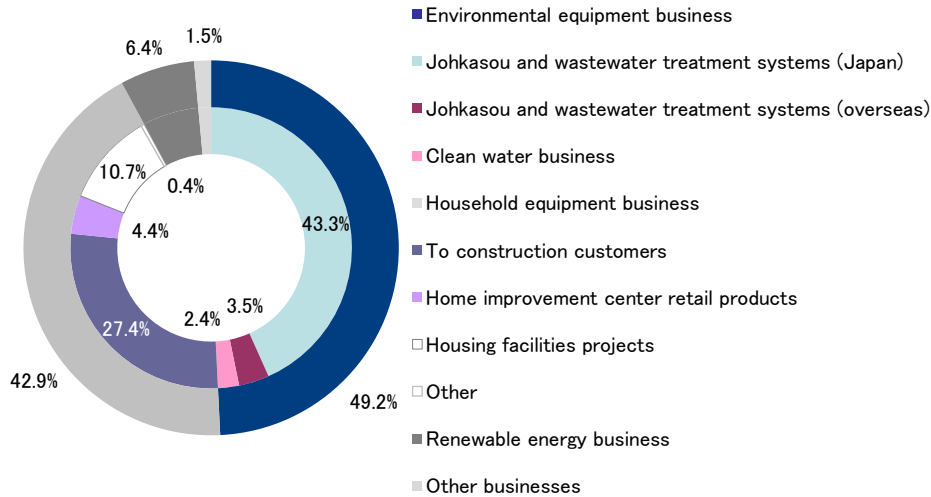
In particular, through the environmental equipment business that the Company is focusing on, of the 17 Sustainable Development Goals (SDGs) adopted at the UN Summit, it is deeply involved in the sixth SDG, “Ensure availability and sustainable management of water and sanitation for all.” Especially in emerging countries in Asia and Africa, environmental pollution caused by water contamination cannot be overlooked, and both the importance of the Company’s role and its business opportunities are expanding globally. The Daiki Axis Group’s strengths include that it has an integrated system for every stage from design and manufacturing through to sales, installation, and maintenance for small- to medium-scale water treatment projects, and also its high quality. It is highly likely the Company will leverage these competitive advantages in emerging countries, and is working on the overseas development of the environmental equipment business as part of its growth strategy.

2. Business structure

The Company has three business pillars; the household equipment business and the environmental equipment business that have existed since its foundation, and the renewable energy business that became a segment in FY12/18. Of these, the environmental equipment business, which it is developing domestically and overseas, provides around 50% of net sales and approximately 70% of operating income before adjustments, which deals with water from clean water to sewage (Johkasou, wastewater treatment systems, etc.)

Company profile

**Shares of consolidated net sales
(FY12/23: ¥42,681mn)**



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

3. History

The Company was established in 1958 in Matsuyama, Ehime Prefecture and celebrated its 65th anniversary in 2023. In 1964 its predecessor Daiki Co., Ltd. was established and began producing aeration Johkasou that same year. In 1978, Daiki entered the home improvement center business and in 2003 formed business alliances with Homac Co., Ltd. and Khama Co., Ltd. and then made the decision to merge. In 2006, DCM Holdings <3050> was established, but prior to that Daiki established the Company to engage in businesses other than the home improvement center business and these businesses were transferred to it. Thereafter, due to a management buyout, the Company became independent of Daiki and the two companies' capital relationship ended, but they continue to maintain a good business relationship. The Company has expanded its domain from wholesaling household equipment, its original business, and through M&A and other means has created a management founded on three pillars, the environmental equipment business and renewable energy business adding to the household equipment business. In the overseas business, which the Company is focused on as a growth market, it created a bridgehead to the Southeast Asian market by acquiring a local Indonesian company in 2013. It also established a subsidiary in India in 2018, which has a large latent market.

In December 2013, the Company was listed in the Chemicals sector in the 2nd Section of the Tokyo Stock Exchange (TSE) and was transferred to the 1st Section in December 2014. In April 2022, it was moved to the Prime Market when the TSE restructured its market segments. The Company is actively expanding its environmental equipment business overseas, and selected a market classification for companies focused on constructive dialogue with global investors. It established the Sustainability Committee and has issued integrated reports. However, with regard to clearing the market cap standard for liquid stock, there are many uncertainties. If the Company maintains its listing on the Prime Market without meeting the listing criteria, after transitional measures have passed, it possibly faces the risk of being delisted, so to avoid this risk and based on a comprehensive decision related to the management environment and profits for existing shareholders, the Company selected and applied for the Standard Market in May 2023. And its market classification changed to the Standard Market on October 20, 2023. In January 2024, president and CEO Hiroshi Ogame, who had been the president and CEO since the current Company's establishment in 2005, became a representative director and chairman, and Hiroki Ogame, who had been a senior managing director, was appointed the Company's president and CEO.

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Daiki Axis Co., Ltd. | 17-Jun.-2024
4245 Tokyo Stock Exchange Standard Market | <https://www.daiki-axis.com/en/>

Company profile

4. ESG management

The Group conducts management with an awareness of ESG. It has built a sturdy business foundation and is contributing to the creation of a sustainable environment and society through both business activities and corporate activities as it seeks to improve people's quality of life. For the environment (E), the Company engages in the water-related infrastructure business, biodiesel fuel business, compact wind power generation business, and electricity sales related to solar power generation. It has also earned international certification for its management system. For society (S), the Company promotes diversity and the advancement of female employees, engages in work style reforms, and helps people with disabilities become more involved in society. In August 2023, it established the Sustainability Committee. The Company is oriented not only to the pursuit of profit but also to contributing to protecting and preserving the natural environment, contributing to local communities, and maintaining social systems that include active investment in human resources in order to raise corporate value over the medium- to long-term. The Company published its first Integrated Report in 2023. Going forward, to further enhance disclosure of non-financial information and promote dialogue with stakeholders, it will enhance its response to the Task Force on Climate-related Financial Disclosures (TCFD recommendations) and to the disclosure of non-financial information, such as the independence of human capital. With regard to governance (G), the Company is a company with an Audit and Supervisory Committee, and to strengthen corporate governance it has established a Nomination and Remuneration Committee. Regarding the makeup of the Board of Directors, independent outside directors account for half of the members.

Regarding the SDGs the Company is involved in 12 of the 17, and has identified seven key issues (materiality). These are: Initiatives to adapt to or mitigate climate change; Protect Japan's rich water environment; Create beautiful water environments globally; Contribute to sustainable community development and living environments; Build workplace environments for meaningful work; Respect stakeholders; and, Establish effective corporate governance.

Key Issues (Materiality) Identified by the Sustainability Committee

	Materiality item	Related segment(s)	SDGs contribution
Biosphere	Initiatives to adapt to or mitigate climate change	Companywide	
	Protect Japan's rich water environment	Environmental equipment business (Japan)	
	Create beautiful water environments globally	Environmental equipment business (Overseas)	
Social sphere	Contribute to sustainable community development and living environments	Environmental equipment business (Japan) Household equipment business Renewable energy business	
	Build workplace environments for meaningful work	Companywide	
	Respect stakeholders	Companywide	
Economic sphere	Establish effective corporate governance	Companywide	

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

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Company profile

In August 2023, the Company entered into a syndicated Positive Impact Finance agreement with The Iyo Bank, Ltd. and MUFG Bank, Ltd. The composition amount is ¥8 billion. In positive impact finance, the impact of corporate activities on the environment, society, and economy (positive impact and negative impact) are comprehensively analyzed and evaluated based on the Principles for Positive Impact Finance and associated guidelines established by the United Nations Environment Programme Finance Initiative (UNEPFI), and finance is provided for the purpose of providing continuing support for activities. The financing is categorized as sustainable finance and interest rates may be lowered depending on the assessment of SDGs and decarbonization. In concluding this contract, the Company's businesses and key issues (materiality) were primarily assessed as activities making a positive impact on achievement of the SDGs goals based on the Positive Impact Finance Framework created jointly by MUFG bank and Mitsubishi UFJ Research and Consulting. The evaluation has been independently certified by the Japan Credit Rating Agency, Ltd. as being consistent with UNEPFI's Principles for Positive Impact Finance.

5. Group companies

The Group consists of the Company, 18 consolidated subsidiaries (10 domestic, eight overseas*), two non-consolidated subsidiaries (one domestic, one overseas) and two affiliated companies (two overseas). The main Group companies include three domestic and nine overseas (including one joint venture) in the environmental equipment business, three domestic companies in the household equipment business, and two domestic companies and one overseas company (including one joint venture) in the renewable energy business.

* Includes the Bangladesh subsidiary established in January 2024.

In February 2023, the Company acquired two companies. ADORE SYSTEM Co., Ltd. (Hiroshima City, Hiroshima Prefecture) runs an air conditioning installation business primarily in the Sanyo region, starting with Hiroshima Prefecture. MEDEA Co., Ltd. (Saitama City, Saitama Prefecture) conducts an electrical construction business that primarily consists of designing, installing, maintaining and managing solar power facilities, and it also sells electricity produced by solar power facilities that it owns. In the solar power facilities business, the Company purchased Sanei Ecohome Inc. in 2021, which designs, installs, maintains and manages solar power facilities. Thereafter, it was merged with Daiki Axis Sustainable Power Co., Ltd. (DASP). Intra-Group coordination with MEDEA, which operates the same business, will make it possible to build a system that can more rapidly respond to the requests of large power consumers and make more appropriate proposals to meet customer needs.

Daiki Axis Co., Ltd. | 17-Jun.-2024
 4245 Tokyo Stock Exchange Standard Market | <https://www.daiki-axis.com/en/>

Company profile

Group companies

Name	Date	Form	Base	Business description
Environmental equipment business				
[Japan]				
DAITEC Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Inspections of Johkasou and drinking water/wastewater facilities, comprehensive building management
Environment Analysis Center Co., Ltd.	2005/10	Business succession	Matsuyama City, Ehime Prefecture	Analysis of water quality, air, soil, etc. as an environmental measurement verification office
TOBU Co., Ltd.	2007/11	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.	2005/10	Business succession	China	Design, construction and sales of sewage treatment equipment, greywater and filtration equipment, etc.
PT. DAIKI AXIS INDONESIA	2013/10	Acquisition	Indonesia	Base to enter South East Asia to manufacture Johkasou
DAIKI AXIS SINGAPORE PTE. LTD.	2016/8	Establishment	Singapore	Company that supervises overseas subsidiaries
Crystal Clear Contractor Pte. Ltd.	2018/11	Acquisition	Singapore	Pool maintenance work, pool equipment sanitation wastewater construction work
DAIKI AXIS INDIA Pvt. Ltd.	2018/7	Establishment	India	Manufacture and sales base of Johkasou in India
DAIKI AXIS ENVIRONMENT PVT. LTD.	2021/6	Establishment	India	Manufacture base of Johkasou in India
Lingzhi Daiki Purification Tank Earth Water Limited Jiangsu Co., Ltd.*1	2018/3	Establishment	China	Manufacturing base for residential-use Johkasou in China (joint venture)
DAIKI AXIS ENVIRONMENT (PVT) LTD.	2021/5	Establishment	Sri Lanka	Manufacture (assembly) and sales base of Johkasou in Sri Lanka
DAIKI AXIS BANGLADESH LTD.	2024/1	Establishment	Bangladesh	Manufacture and sales base of Johkasou in Bangladesh
Household equipment business				
Fujiwara Reiki Co., Ltd.	2019/10	Acquisition	Matsuyama City, Ehime Prefecture	General equipment business (including for HVAC equipment), sales of freezers and refrigerators
Alumi kobo Hagio Co., Ltd.	2021/10	Acquisition	Niihama City, Ehime Prefecture	Installation and sales of residential window sash and exterior-related equipment
ADORE SYSTEM Co., Ltd.*2	2023/2	Acquisition	Hiroshima City, Hiroshima Prefecture	Design and installation of air conditioning facilities
Renewable energy business				
Daiki Axis Sustainable Power Co., Ltd.	2012/4	Acquisition	Tokyo	Solar power facility design, installation, management and electricity sales, BDF manufacture and sale, sale of BDF refinement plants, small-scale wind power facility R&D, manufacture, sale, installation, and electricity sales, and water treatment facility development, design, manufacture, sale, and maintenance
BEIJING JIESHENFUJI Environment Protection Tech Co., Ltd.*1	2013/8	Establishment	China	Design and R&D of energy-saving environmental conservation equipment and related plant equipment
MEDEA Co., Ltd.*3	2023/2	Acquisition	Saitama City, Saitama Prefecture	Renewable energy-related business (centered on solar power generation facilities) and electrical construction

*1 Equity-method affiliate

*2 Acquired FY12/23

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

Business overview

The Company is comprehensively developing environment-related businesses, with the environmental equipment business, which handles water infrastructure both domestically and overseas, as its core

1. Environmental equipment business

The environmental equipment business is a major business that accounted for 49.2% of net sales and 71.2% of operating income before adjustments in FY12/23.

(1) Domestic business

The Company was founded in 2005, but the first FRP Johkasou was completed in 1964, and starting from the Daiki years, the Company has been involved in the development, design, manufacture, installation, sale and maintenance of wastewater treatment equipment for over a half century. The business handles everything from clean water, greywater (water system for reusing wastewater, rain water, etc.), and sewage (residential Johkasou, community wastewater treatment systems, and industrial wastewater treatment facilities). Regarding shares of the environmental equipment business in FY12/23, the clean water business that converts groundwater to drinking water provided 4.9%, greywater systems provided 0.2%, sewage-related domestic compact-type combination treatment Johkasou provided 6.2%, wastewater treatment systems for condominiums, food processing plants, hospitals, electrical machinery and plating plants provided 60.4% and maintenance accounted for 28.3%.

The domestic business of the environmental equipment business has 29 locations that cover all of Japan's major cities. The Company has manufacturing facilities in four locations (Fukushima, Shinshu, Matsuyama, Tsushima) and is working to increase transport efficiency for customers in locations remote from its factories by utilizing its network with partner company Daie Industry Co., Ltd.

One of this business's features is integrated operations 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 stores in the DCM Group, which shares the same origin as the Company. 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. For businesses (the Company's customers) that operate many stores, management of legal inspections and inspection records of Johkasou, inspection records of wastewater treatment equipment, etc. is complicated. 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.

Business overview

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 residential combination treatment Johkasou is linked to the number of new housing starts, so the domestic market is saturated. The Company is maintaining its market share and following up on the latest technologies for overseas expansion. Industrial wastewater treatment is divided between organic treatment and inorganic treatment. Food processing centers and hospitals, for example, use organic biological treatment while inorganic chemical treatment is used at electrical machinery and plating factories.

(2) Overseas business development

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 Group 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; which has enabled the Company to establish a unique positioning. 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.

"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 overseas companies that possess advanced technological capabilities 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, as well as 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.

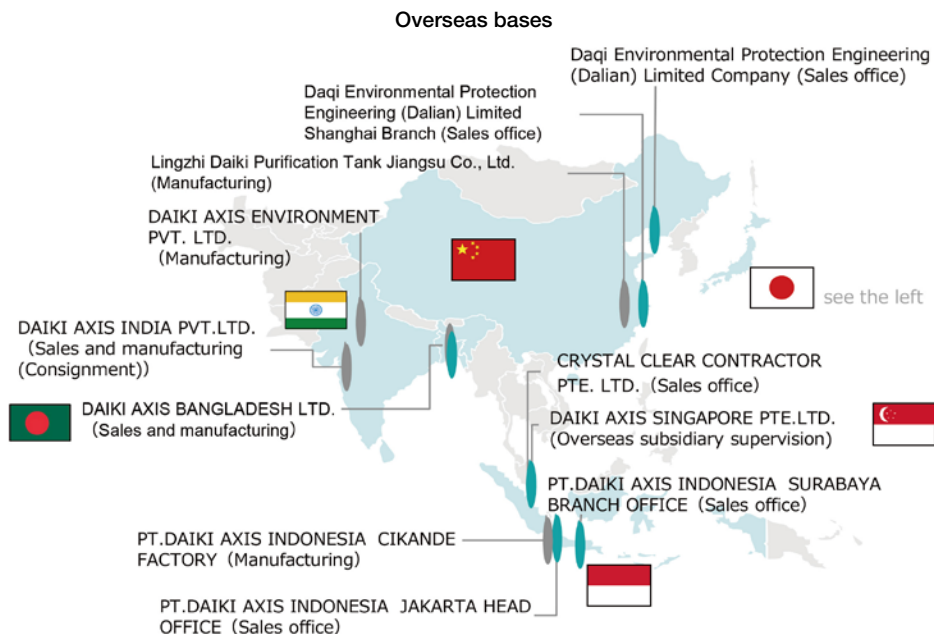
Daiki Axis Co., Ltd. | 17-Jun.-2024
 4245 Tokyo Stock Exchange Standard Market | <https://www.daiki-axis.com/en/>

Business overview

The Company targets FY12/25 overseas net sales of ¥4,000mn, of which India is expected to provide 50%. India's population surpassed 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 than that of Japan, with a land area the seventh-largest in the world at 3.28 million km², about nine times that of Japan (370,000 km², 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 is in its demographic bonus stage, can expect continued robust economic growth and is entering a period of establishing its social capital, including sewerage infrastructure.

Also, the Company established a subsidiary in Bangladesh in January 2024. Bangladesh is scheduled to graduate from being a least developed country in 2026 and is one of the Next 11 emerging economic zones, following on from the BRICS countries. Its water environment is severely polluted and it is difficult to extract drinking water from rivers due to water-quality problems, while its sewage infrastructure coverage rate is only 3%. Bangladesh is establishing a legal system that will require all buildings covered by law to have Johkasou and similar appropriate pollution treatment equipment.

The overseas business has three bases in China (two sales bases, one joint manufacturing base), three bases in Indonesia (one manufacturing base and two sales bases), two bases in India (manufacturing and sales), two bases in Singapore (one management base and one sales base), one base in Sri Lanka (sales and manufacturing) and one base in Bangladesh (sales and manufacturing). As for distributors, there are 21 companies in India, three companies in Indonesia, and one each in Vietnam, Myanmar, Bangladesh, Nepal, Sri Lanka and Pakistan. Based on local needs, the market's development, and risks, the Company selects the appropriate format for business development, whether full ownership, joint venture, purchase, production consignment, proprietary production, assembly or integrated manufacturing.



Source: The Company's results briefing materials

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Business overview

(1) Power sales business through solar power facilities

In the solar power generation business, the Company rented and used the roofs of 130 DCM Group stores as of FY12/21 and completed grid connection for the power generation facilities that had been installed. This will be a long-term source of stable income.*

* The depreciation period for solar power facilities is 20 years (straight-line method), equivalent to the acquisition period under the feed-in tariff scheme. As for the cost to dismantle the facilities in 20 years, the Company is already setting aside a budget proportionally divided throughout the period.

As well as the need to run a sustainable business after the FIT system, demand is increasing worldwide for various business models including PPA*. After acquiring Sanei Ecohome in 2021, in February 2023, the Company acquired all shares in MEDEA, headquartered in Saitama City, Saitama Prefecture, and made it a subsidiary. MEDEA's main business is electrical engineering, particularly design, installation, and maintenance of solar power generation facilities, 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.

* The Daiki Axis Group installs solar power generation systems free of charge and enters into contracts to operate, maintain, and manage these systems. Power consumers then purchase the electricity generated by these systems and pay an electricity bill for the power they use. Given the growing demand for electricity, primarily among large companies aiming to become carbon neutral, the Company is focusing on this as a post-FIT-system business model.

(2) Biodiesel fuel business

The biodiesel fuel business was launched in 2002. It involves collecting cooking 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 an alternative to diesel fuel. Using biomass energy with waste cooking oil 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 waste cooking oil.

A new development occurred in 2023. In April, DASP began providing D-OiL, a high-quality biodiesel fuel, to airport work vehicles as a part of a demonstration experiment run by the Matsuyama Branch of Japan Airlines <9201>. In addition, it is providing D-OiL to biofuel buses that started test operations in August in the Nikko region, which includes the Okunikko area, selected by the Ministry of the Environment as a decarbonization leading area. Upon entering 2024, in January, it started providing D-OiL for Japan Airlines' Kochi Airport site. In the Kanto region, it completed a biodiesel fuel manufacturing facility in April and is scheduled to start manufacturing in June.

(3) Compact wind power generation business

The compact wind power generation business was launched in FY12/19. By the end of FY12/21, DASP had connected 12 compact wind power generation sites to the power grid and started FIT power sales. Currently it operates 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.

Business overview

For the development of compact wind power generation equipment, in the Ministry of the Environment's 2020 Development and Demonstration Project for CO₂ Emissions Reduction Measures and Strengthened Induction Type Technologies, Zephyr Corporation, RICOH JAPAN Corp. (The Ricoh Company Ltd. <7752> Group company), and DASP 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 and its 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. DASP is responsible for the production of the FRP wind turbine blades.

Results trends

In FY12/23, sales increased, including from the effects of the M&A, but profits declined, mainly due to the time lag to transfer higher purchasing prices to sales prices and the upfront investment

1. Overview of FY12/23 results

In consolidated results for FY12/23, net sales increased by 8.1% YoY to ¥42,681mn, operating income declined 20.1% to ¥660mn, ordinary income fell 28.6% to ¥837 million, and profit attributable to owners of parent decreased 64.3% to ¥205mn, so sales increased but there were decreases in profits. Compared to the revised forecasts announced in August 2023, both net sales and profits (operating income and ordinary income) were higher than forecast.

Net sales grew, including from the additional sales from the two M&A. In the mainstay environmental equipment business, overseas sales fell temporarily due to the conclusion of a temporary project*, but domestically, repair projects increased following the recovery of capital investment demand, while the increase in maintenance contracts also contributed to the higher sales. In the household equipment business, sales for construction companies recovered significantly due to the lifting of shipping restrictions by manufacturers caused by difficulties in procuring overseas parts, and sales for construction companies, such as for metropolitan-area condominiums, recovered significantly. And housing sector projects grew following the consolidation of ADORE SYSTEM, which specializes in air conditioning installations. In the renewable energy business, the solar power generation business (sales of electricity and power generation facilities) grew steadily following the consolidation of MEDEA.

* The completion of a JICA support project (a large-scale project) in Iraq. However, this was as expected.

Results trends

In profits, operating income decreased as the higher sales could not fully absorb the higher purchase prices and outsourcing expenses due to the time lag in passing on these higher costs onto sales prices, and also because of the higher SG&A expenses, including the increases in personnel expenses to raise the salary base and upfront expenses for the future (such as to introduce IT tools and for M&A-related expenses). The operating income margin also declined to 1.5% (2.1% in the previous fiscal year). The main reason why profit attributable to owners of parent was below the revised forecast was the recording of an impairment loss on some fixed assets (¥195mn)*.

* Expenses to deal with defective products announced in August 2023 (an extraordinary loss of ¥198mn) have been almost completely recovered through the reimbursement received from the developer company (extraordinary profit of ¥179mn).

Regarding the financial condition, the Company's total assets increased by 6.8% compared to the end of the previous fiscal year to ¥34,071mn due to factors including the strengthening of equipment at the India plant in the environmental equipment business, strengthening of equipment (acquisitions of FIT equipment, and machinery and land for starting the PPA model business) in the renewable energy business, as well as an increase in goodwill following the M&A. Meanwhile, the equity ratio fell slightly to 28.0% (29.8% at the end of the previous fiscal year), primarily because equity capital basically unchanged from the end of the previous fiscal year at ¥9,523mn due to dividend payments and other factors. ROE, which indicates capital profitability, declined to 2.2% (6.3% in the previous fiscal year) because of the downward pressure on profits from the upfront investment and other factors.

Regarding cash flows, cash flows provided by operating activities was ¥1,344mn, cash flows used in investing activities was ¥2,452mn, and cash flows provided by financing activities was ¥574mn. As a result, the balance of cash and cash equivalents decreased to ¥6,670mn (down ¥467mn from the end of the previous fiscal year). The reasons why cash flows from investing activities were negative include the M&A and the investments in the overseas business and the renewable energy business.

FY12/23 consolidated results

	FY12/22		FY12/23		YoY	
	Results	% of sales	Results	% of sales	Change	% change
	(¥mn)					
Net sales	39,478	-	42,681	-	3,202	8.1%
Environmental equipment business	20,477	51.9%	21,010	49.2%	532	2.6%
(of which, overseas net sales)	2,247	5.7%	1,492	3.5%	-754	-33.6%
Household equipment business	16,421	41.6%	18,302	42.9%	1,880	11.5%
Renewable energy business	1,938	4.9%	2,746	6.4%	808	41.7%
Other businesses	642	1.6%	622	1.5%	-19	-3.1%
Gross profit	8,174	20.7%	8,866	20.8%	692	8.5%
SG&A expenses	7,347	18.6%	8,206	19.2%	859	11.7%
Operating income	826	2.1%	660	1.5%	-165	-20.1%
Environmental equipment business	1,497	7.3%	1,424	6.8%	-73	-4.9%
Household equipment business	321	2.0%	278	1.5%	-43	-13.6%
Renewable energy business	197	10.2%	259	9.4%	62	31.6%
Other businesses	48	7.6%	38	6.2%	-10	-20.9%
Adjustment	-1,238	-	-1,339	-	-102	-
Ordinary income	1,172	3.0%	837	2.0%	-334	-28.6%
Profit attributable to owners of parent	574	1.5%	205	0.5%	-369	-64.3%

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

Results trends

Consolidated balance sheet and management indicators

	(¥mn)		
	FY12/22	FY12/23	Change
Current assets	19,038	18,871	-166
(Cash and deposits)	7,268	6,945	-323
(Trade receivables)	9,761	9,672	-89
(Inventories)	1,514	1,686	172
Non-current assets	12,867	15,199	2,332
Property, plant and equipment	10,093	11,359	1,266
Intangible assets	1,020	1,562	542
Investments and other assets	1,753	2,277	524
Total assets	31,905	34,071	2,165
Current liabilities	16,134	16,825	690
(Notes and accounts payable-trade)	4,360	4,611	251
(Loans payable, corporate bonds, etc.)	8,925	9,593	668
Non-current liabilities	6,248	7,721	1,473
(Corporate bonds, loans payable, etc.)	4,951	6,470	1,519
Total liabilities	22,382	24,547	2,165
(Interest-bearing debt)	13,876	16,063	2,187
Total net assets	9,522	9,524	1
[Management indicators]			
Equity capital	9,519	9,523	4
Equity ratio	29.8%	28.0%	-1.8pt
ROE	6.3%	2.2%	-4.1pt

Prepared by FISCO from the Company's financial results

The results of the main businesses are described below.

(1) Environmental equipment business

Net sales increased 2.6% YoY to ¥21,010mn, but segment profit decreased 4.9% to ¥1,424mn. Benefiting from factors such as the recovery of capital investment demand and larger-scale projects, the increased sales can be attributed to an increase in repair projects for Johkasou and wastewater treatment systems, progress on large-scale projects, and growth in maintenance contracts. Additionally, sales from the business to convert groundwater to drinking water increased significantly due to new contracts and post-sales maintenance contracts. However, the reason the overall sales increase rate was modest is that sales fell temporarily in the overseas business due to conclusion of a temporary factor (a JICA project in Iraq) and decreases in large-scale projects in China and Indonesia. Meanwhile, the Company has been steadily building a framework for business expansion* in India and Sri Lanka, which are focus areas. Conversely, profits declined due to a time lag in passing on increased material prices and outsourcing costs to sales prices for some projects, along with increased upfront expenses in the overseas operations.

* It completed a small-type Johkasou assembly plant in Sri Lanka in October 2022 and a medium- to large-type Johkasou manufacturing plant in India (the second plant in India following a consignment production plant) in November 2022. Both plants have started operations. In FY12/23 in India, the number of units ordered was 288 (up 72 units YoY), and the number of shipped units was 235 (up 6 units). Although the number of shipped units has not yet caught up due to the slightly sluggish progress in engineer training, they now appear to be steadily getting on track. In Sri Lanka, the number of units ordered grew to 106 (up 15 units), and the number of units shipped to 117 (up 60 units). However, because the settlement of accounts was delayed by three months, it appears that these figures were not fully reflected in the FY12/23 results.

Results trends

(2) Household equipment business

Net sales increased 11.5% YoY to ¥18,302mn, but segment profit decreased 13.6% to ¥278mn. While there has been a lifting of shipping restrictions imposed by some manufacturers due to difficulties in procuring overseas parts, projects for construction-related companies, which are benefiting from strong market conditions for condominiums and rental properties in metropolitan areas, have shown steady growth. Housing sector projects also grew significantly following the consolidation of ADORE SYSTEM, which specializes in air conditioning installations. However, profits declined because of the time lag in passing on the higher purchase prices and outsourcing expenses onto sales prices.

(3) Renewable energy business

Net sales increased 41.7% YoY to ¥2,746mn and segment profit rose 31.6% to ¥259mn. In addition to stable revenue from electricity sales, the consolidation of MEDEA, which sells electricity and power generation facilities, greatly contributed to the higher sales. Biodiesel fuel also remained strong due to an increase in the number of B5 diesel fuel* contracts. Profit increased, primarily due to higher sales of power generation and sales of power generation facilities by a subsidiary.

* A mixture of 5% D-Oil into diesel fuel, which meets the mandatory standards for diesel fuel specified by the Japanese government.

2. FY12/23 summary

To summarize FY12/23 based on the above, net sales, including the effects of the M&A, exceeded both the initial and revised forecasts, which can be evaluated as a positive outcome. Compared to the target in the medium-term management plan whose final fiscal year is FY12/25, net sales are progressing at a high pace. Conversely, for profits, the point is how to evaluate their decrease. While the time lag in transferring the higher purchase prices to sales prices is a cause for concern, the increase in upfront expenses, including investments in human capital, overseas business and M&A, is aimed at future growth. Therefore, this could be viewed as the Company's manifestation of confidence in its ability to navigate the future. Strategically, it can be said that the Company has achieved a certain level of success for the future, including strengthening its business foundation through M&A, commencing operation of new plants in India and Sri Lanka, and establishing a subsidiary in Bangladesh.

■ Outlook

The outlook for FY12/24 is for higher sales and profits secured through recovery of capital investment demand and growth of the overseas business

1. FY12/24 forecasts

For the FY12/24 results, the Company is forecasting higher sales and profits (except for ordinary income), with net sales to increase 4.3% YoY to ¥44,500mn, operating income to grow 10.6% to ¥730mn, ordinary income to decrease 4.5% to ¥800mn, and profit attributable to owners of parent to rise 94.8% to ¥400mn.

Outlook

The outlook is for higher net sales to once again be secured in each of the three businesses. In the environmental equipment business, the overseas business will grow significantly, centered on the operations of the new plants in India and Sri Lanka becoming fully fledged. In the household equipment business, the continuing elimination of the product-supply problem and the response to the expansion of the renovations market will drive growth, while in the renewable energy business, in addition to the stable revenue from electricity sales, sales are forecast to increase from new developments in the biodiesel fuel business and sales of solar power generation facilities.

Profits will be affected by continued high domestic purchase prices and the increase in costs due to limited output and shortage of materials (cables, etc.) in electricity sales. However, the Company expects to increase operating income through higher revenue generated by increased sales. In particular, it is aiming to improve the operating income margin by advancing the transfer of the increased purchase prices to sales prices.

Outlook for FY12/24 consolidated results

	FY12/23		FY12/24		YoY	
	Results	% of sales	Forecast	% of sales	Change	% change
Net sales	42,681	-	44,500	-	1,818	4.3%
Environmental equipment business	21,010	49.2%	21,525	48.4%	514	2.5%
(of which, overseas net sales)	1,492	3.5%	2,347	5.3%	855	57.3%
Household equipment business	18,302	42.9%	19,610	44.1%	1,307	7.1%
Renewable energy business	2,746	6.4%	2,810	6.3%	63	2.3%
Other businesses	622	1.5%	555	1.2%	-67	-10.8%
Gross profit	8,866	20.8%	9,730	21.9%	863	9.7%
SG&A expenses	8,206	19.2%	9,000	20.2%	793	9.7%
Operating income	660	1.5%	730	1.6%	69	10.6%
Environmental equipment business	1,424	6.8%	1,670	7.8%	245	17.3%
Household equipment business	278	1.5%	381	1.9%	102	37.1%
Renewable energy business	259	9.4%	225	8.0%	-34	-13.1%
Other businesses	38	6.2%	-5	-	-43	-113.2%
Adjustment	-1,339	-	-1,541	-	-201	-
Ordinary income	837	2.0%	800	1.8%	-37	-4.5%
Profit attributable to owners of parent	205	0.5%	400	0.9%	195	94.8%

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. FISCO's opinion

While caution is still required regarding the global trend of rising commodity prices and supply-chain conditions, we at FISCO believe the assumptions for the results forecasts are rational and consider them to be fully achievable. The points for this are: 1) Expansion of the overseas business; and 2) Progress made in transferring higher commodity prices onto sales prices. For 1), there are some concerns, such as the economic recession in China and the withdrawal of Japanese companies from that country, as well as the decline in the plant operating rate (and the decline in exports to India) in Indonesia following the launch of the new plant in India. However, if operations at the new plant in India steadily grow, there is sufficient potential to accelerate future growth. Progress over the next year will be important information for judging the future. For 2), it is necessary to pay attention to whether the expected progress is made in transferring price rises to sales prices, especially in the household equipment business, because this segment is susceptible to the effects of consumer sentiment and demand trends. For upfront expenses, which were a reason for the decline in profits in FY12/23, attention should be paid to whether the Company will act positively on results in the future. Since the Company is targeting significant results growth (particularly for profits) in the final year of the medium-term management plan (FY12/25), it seems an important theme for FY12/24 is the type of preparations it is carrying out toward achieving these targets.

Medium-to-long term direction

Progressing the medium-term management plan up to FY12/25. To achieve its vision for 2030, expanding overseas business, strengthening the recurring-income business, and promoting M&A

1. Overview of the medium-term management plan

The Company is progressing PROTECT × CHANGE, its five-year medium-term management plan whose final fiscal year is FY12/25, and it has completed the plan's third year. Its vision for 2030 is: 1) Play a role that exceeds all expectations on the global stage; 2) Rise as a company that the world hopes will carry "the future of the environment;" 3) Expand fields of strength and foray into new domains; and 4) Establish a flexible organization adapted to the new normal in the aftermath of COVID-19. Toward realizing this vision, it is progressing six growth strategies and promoting IT that will serve as their foundation.

2. Numerical targets and their assumptions

The numerical targets for FY12/25, the medium-term management plan's final fiscal year, are net sales of ¥45,000mn (5 year CAGR, 5.4%), operating income of ¥2,000mn (13.9%), and an operating income margin of 4.4%.

The contributions to the amount that net sales will increase compared to FY12/23 (¥2,319mn) will be increases of ¥990mn in the environmental equipment business and ¥2,508mn in the household equipment business, and a decrease of ¥246mn in the renewable energy business. Conversely, the contributions to the increase in operating income amount (¥1,340mn) are expected to be increases of ¥896mn in the environmental equipment business, ¥422mn in the household equipment business, and ¥441mn in the renewable energy business. In particular, in the environmental equipment business, overseas net sales are forecast to grow significantly to ¥4,000mn (up ¥2,508mn compared to FY12/23)* and the Company is aiming to improve profitability through business expansion and easing the burden of upfront expenses.

* Of this amount, the plan is for India to provide half.

The medium-term business plan's numerical targets

	(¥mn)					
	3rd year FY12/23		4th year FY12/24		Final fiscal year	
	Initial target	Results	Initial target	Forecast	FY12/25 Initial target	vs FY12/23 Change
Net sales	39,840	42,681	44,500	44,500	45,000	2,319
Environmental equipment business	20,540	21,010	21,525	21,525	22,000	990
(of which, overseas net sales)	2,210	1,492	2,347	2,347	4,000	2,508
Household equipment business	17,005	18,302	19,610	19,610	19,000	698
Renewable energy business	1,644	2,746	2,810	2,810	2,500	-246
Other businesses	650	622	555	555	1,500	878
Operating income	759	660	730	730	2,000	1,340
Environmental equipment business	1,486	1,424	1,670	1,670	2,320	896
Household equipment business	498	278	381	381	700	422
Renewable energy business	249	259	250	225	700	441
Other businesses	41	38	45	-5	150	112
Adjustment	-1,516	-1,339	-1,616	-1,541	-1,870	-531
Operating income margin	1.9%	1.5%	1.6%	1.6%	4.4%	2.9pt

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

Medium-to-long term direction

3. Growth strategies and the progress made so far

The six growth strategies that the Company is progressing are: 1) Overseas business expansion (the environmental equipment business); 2) Expand the recurring-income business; 3) Transformation from stability to growth (the household equipment business); 4) Renewable energy business; 5) Improved technological capabilities and product development capabilities; and 6) Progress M&A. It is also working on: 7) Promote IT to prepare a foundation to support the implementation of these strategies. The policies for each strategy, the progress made so far, and their self-evaluation are described below.

(1) Overseas business expansion (the environmental equipment business)

The Company is engaging in: a) Construction of local production systems in high-demand areas; b) Active hiring of overseas human resources; and c) Revision of systems and rules related to overseas business and new establishment. For a), it has constructed new plants in India and Sri Lanka, both of which have enormous potential, and for b) it is continuously recruiting personnel. At the India plant, training manufacturing personnel is requiring some time, but a system is being established to respond to the growing demand. Going forward, it is considering working on the third and subsequent plants, including quickly establishing an assembly plant, similar to the one in Sri Lanka. Conversely, the Indonesia plant's exports to India have ended, and it is working on maintaining the plant's operating rate by exploring new local companies. Also, the Company established a subsidiary in Bangladesh in January 2024 and intends to coordinate with the government on legislation. From the above, considering factors such as the somewhat sluggish progress made in training personnel at the India plant, the self-evaluation up to the present time is on the borderline of pass and failure.

(2) Expand the recurring-income business

The Company is working on expanding the recurring-income business, which provides a stable foundation for profit. In the business of converting groundwater to drinking water, it is focusing on repeatedly conducting thorough cost management and sales of equipment not limited to ESCO contracts, and orders are increasing, while wastewater treatment maintenance is also trending strongly. Based on the above, the self-evaluation up to the present time is a passing grade.

(3) Transformation from stability to growth (the household equipment business)

The Company's policy is to transform to a growth path, including from: a) Market expansion through sales to home improvement centers (nationwide); b) New store development, deployment and sales of new materials, initiatives for new construction projects; c) Human resources development (strengthening of sales capacity); and d) Visualization and standardization of processes, including back office (mutual complementation of employees). For a), it has struggled in eastern Japan to expand the home improvement center market, while for b), it developed new stores according to plan, and it is also making steady progress in reducing purchasing costs through a centralized purchasing system. In addition, product sales by a DCM-related subsidiary are on track and are expected to contribute to profits accordingly. The Company is steadily progressing measures for c) human resources development and d) mutual complementation of employees, and it has achieved ahead of schedule the goal of making the organization younger, which was scheduled for 2025. From the above and while considering the situation for a) and other factors, the self-evaluation up to the present time is on the borderline of pass and failure.

Medium-to-long term direction

(4) Renewable energy business

The Company is working on initiatives including: a) Expansion in biodiesel sales volume and the area for waste oil recovery in collaboration with local government bodies; and b) Trend surveys, collaborations and proposals related to environmentally progressive companies. For a), it is steadily progressing sales of B5 diesel fuel and the expansion of waste oil collection areas, and it is also making steady progress for b), for which it is requesting cooperation from its existing business partners. From the above, the self-evaluation up to the present time is a passing grade.

(5) Improved technological capabilities and product development capabilities

The Company is working on: a) Thorough elimination of complaints in the manufacturing process; b) Human resources development (strengthen specialization); c) Continued development and stable operations of wind and solar power generation sites; and d) Further reductions to environmental impact, further evolution of battery storage technologies etc., disaster prevention and preparedness measures and proposals of high value-added business for post FIT that will contribute to local production and consumption. For a), there remains room for improvement toward elimination of complaints. For b), while there is a shortage of development personnel in the domestic environmental equipment business, it is actively recruiting human resources overseas. Although it is taking some time to train them, at the present time results are steadily starting to appear. For c) it is steadily progressing the continued development and stable operation of wind power and solar power generation sites. For d), it is making steady progress in developing a business model that combines renewable energy and power plants, building power plants, and constructing facilities for biodiesel fuel manufacturing. From the above and on considering the conditions of a) and the slightly sluggish progress made in human resources development in India, the self-evaluation up to the present time is on the borderline of pass and failure.

(6) Progress M&A

The Company is working to expand its market sphere and handled products by utilizing M&A. It realized two M&A in FY12/23 and was able to expand its business foundations in the household equipment business and the renewable energy business. From the above, the self-evaluation up to the present time is a passing grade.

(7) Promote IT

The Company recognizes that promoting IT is an important measure that will significantly affect its operations, organization, and human resources. It aims for the improvement of the profit margin through providing high-value-added proposals. The Company is currently working to build an environment that will eliminate simple tasks, currently conducted manually by multiple personnel, enabling them to focus on high-value-added work. In addition, it plans to introduce communication tools in order to build a culture that provides a psychological sense of security. However, the results of this are yet to appear, and the self-evaluation up to the present time is on the borderline of pass and failure.

Medium-to-long term direction

4. Problem awareness and policies toward improving corporate value

The Company is aware that one of its issues is the fact that ROE has decreased due to the time lag in passing on higher purchase prices to sales prices and that its upfront investment is placing downward pressure on profits, and that PBR is trending around the 1x level. While continuing to look to growth in the medium-to-long term, it is aiming to expand sales areas and to strengthen its production capacity and competitiveness, and it is also working to manage costs and promote IT to improve the profit margin. The driver to realize business expansion will be accelerating overseas business development (particularly in India) in the environmental equipment business. Also, the points toward strengthening competitiveness include the wood-structure projects in the household equipment business and developing a PPA model and the biodiesel fuel business in the renewable energy business. On the other hand, for cost management, it is considering applying the Sri Lanka model* elsewhere overseas and is working on measures including centralized purchasing in the household equipment business and reviewing unprofitable businesses.

* The features of the Sri Lanka model include: 1) Easy to train human resources because it is assembly work; 2) Low initial investment as it is an assembly plant; and 3) Achieves savings in transportation costs, customs duties, and tax.

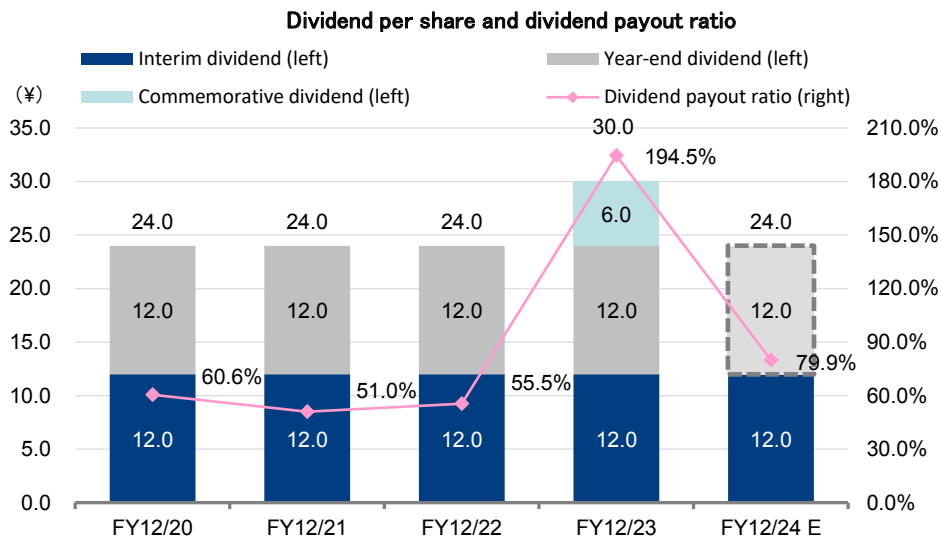
5. Key points noted by FISCO

In a situation of the maturing domestic economy, the Company's direction is to focus on water-environment issues that are becoming more serious in emerging countries around the world, and to connect solving societal issues to its own growth. We at FISCO evaluate this strategy as being extremely appealing and rational. In particular, there is enormous potential for the Company as it is able to provide high quality goods and services with specifications and costs that are matched to emerging countries, and we think it is fully capable of opening-up these markets that have huge potential. For this, what will decide its success or failure will be whether or not it can coordinate with the various governments and participate independently in creating regulations, and train human resources who can be active globally. It is focusing on the history of the spread of the use of Johkasou in Japan as the model for Asia and Africa in the future, and for the Company, which has a long history since the high-growth period, reproducing in Asia and Africa the process of manufacturing and spreading the use of Johkasou in Japan will not only contribute to the environment, but also lead to its own dramatic leap forward. For training human resources as well, if the training it is currently progressing in India (the India model) gets on track, this may quickly become a turning point for its overseas business development, including through the human resources created through this training. Of course, there will likely be difficulties specific to emerging countries, but on this point, we can expect the new president to make use of his experience and management skills. Domestically, we at FISCO are continuing to focus on how the Company is strengthening its business foundation by utilizing M&A. In particular, there are various strategic options for the household equipment business that has structural issues and the renewable energy business that is progressing a new business model with an eye to the post-FIT period. But for the Company, which has strengthened its business portfolio through the M&A it has conducted up to the present time, we consider it is highly likely that it will obtain new opportunities in this period of severe environmental changes and industry trends.

Shareholder return policy

In FY12/23, paid a dividend per share of ¥30, including a commemorative dividend of ¥6. In FY12/24, plans to once again pay an ordinary dividend of ¥24

The Company's shareholder return policy is to pay a dividend after comprehensively considering the dividend payout ratio and internal reserves in order to both stably return profits to shareholders and realize sustainable growth. In FY12/23, it paid an ordinary dividend per share of ¥24 and also a commemorative dividend (¥6 per share) to mark its 65th anniversary. In FY12/24, it plans to once again pay an ordinary dividend per share of ¥24 (interim ¥12 and year-end ¥12).



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

Also, the Company introduced the Daiki Axis Premium Benefits Club as its shareholder benefits program. 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. Shareholders holding at least 500 shares receive 3,000 points. It uses a sliding system in which points increase depending on the number of shares held, with points rising to 40,000 for shareholders holding at least 3,000 shares. For long-term share holdings of at least 1 year, the points are multiplied by 1.1.

Shareholder return policy

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
700 to 799 shares	5,000 points
800 to 899 shares	6,000 points
900 to 999 shares	7,000 points
1,000 to 1,999 shares	8,000 points
2,000 to 2,999 shares	20,000 points
More than 3,000 shares	40,000 points

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



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